

INQUIRY INTO 2020 REVIEW OF THE WORKERS COMPENSATION SCHEME

Organisation: Insurance & Care NSW (icare)

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19 June 2020

The Hon Wes Fang MLC
Chair, Standing Committee on Law and Justice
NSW Parliament
Macquarie Street
SYDNEY NSW 2000

By email: law@parliament.nsw.gov.au

Dear Mr Fang

2020 REVIEW OF THE NSW WORKERS COMPENSATION SCHEME

Thank you for the opportunity to provide input into the 2020 Review of the NSW Workers Compensation Scheme. Below is an update on the key items of interest to the Committee. We look forward to updating you on these and any other items of interest throughout the review period and beyond.

PIAWE Review and Remediation

icare is focused on ensuring worker payments are made correctly. PIAWE has historically been an issue in the NSW Workers Compensation system and was addressed by the 2019 Government reforms. With the ability to undertake a systemic review of PIAWE, owing to the introduction of a single IT system, we undertook a review of historical claims in 2019. The results showed discrepancies dating back to 2012 in initial PIAWE calculations undertaken by scheme agents.

Though the issue is only identified in older claims – prior to the 2019 PIAWE reforms – since the beginning of 2020 we have been correcting the problem. In March, we commenced recruitment of highly-skilled technical specialists from our scheme agent partners and set up a team of dedicated resources to review the historic claims, including the former WIRO, Mr Kim Garling who is providing quality assurance and technical support on complex matters. We have also:

- Established protocols and processes for undertaking end-to-end thorough reviews of the historic claim files to ensure accuracy and timeliness;
- Initiated a robust quality assurance program and peer review process to assure those that may be affected that the review is done right;
- Consulted with industry stakeholders and experts including unions, business groups, SIRA, WIRO and the WCC to assist with this work; and
- Commenced the first full review and remediation of historic claims. While we are still in the early stages, probing into the history of each claim payment has found that about five per cent of these historic claims are likely to need underpayments corrected.

The focus of the next three months is to recalculate the PIAWE for the 1,000 highest by weekly benefit value claims since October 2012. In addition, 500 claims from the Treasury Managed Fund have also been reviewed, with the results currently being analysed.

icare will not recover overpayments made but will remediate any underpayments and is working closely with SIRA during the process.

Funding Ratio

In its simplest form a funding ratio is the ratio of available assets to estimated liabilities. icare uses the funding ratio as one way to monitor the long-term financial sustainability of the Workers Compensation Scheme. The assets are based on market value and the liabilities are estimated by actuarial valuation, which typically happens twice a year – 31 December and 30 June.

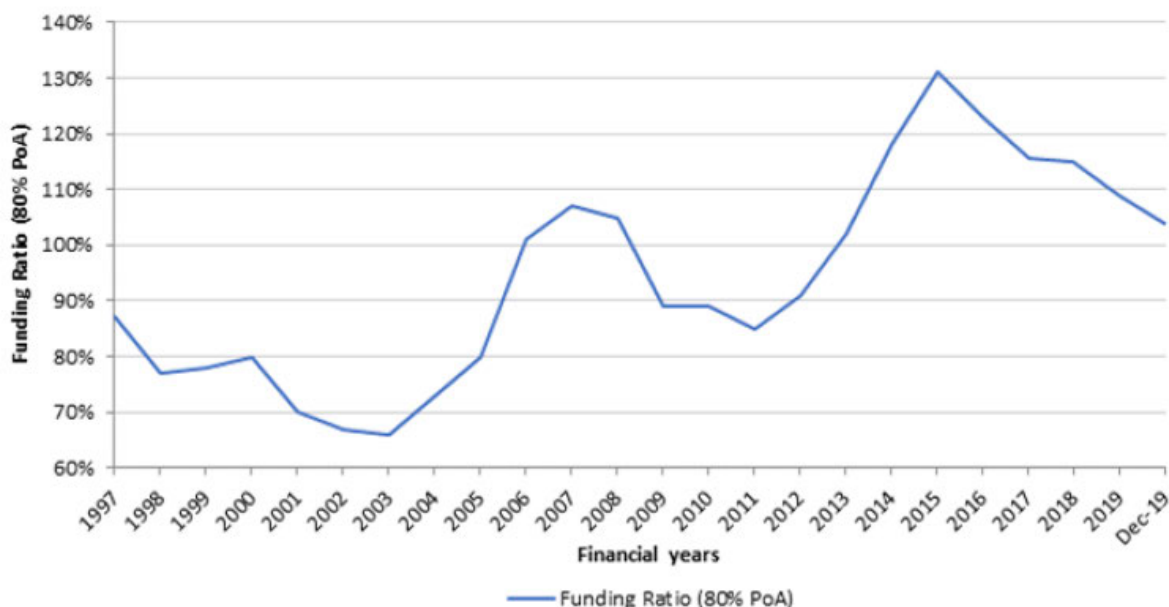
The funding ratio fluctuates up and down as the value of the assets and liabilities move. Volatility occurs from changes in accounting standards or practice, movements in global investment markets, legislative or regulatory changes that impact benefits or costs, long-term views on inflation, or overall investment expectations. Given the long-term nature of the scheme, small changes can lead to large, prolonged impacts on the funding ratio.

As per the last valuation, 31 December 2019, the funding ratio for the Workers Compensation Scheme was 104% at 80% probability of adequacy. This is outside the target funding ratio of 110-130%. At the historical 75% probability of adequacy, the funding ratio would be 107%.

Notably, the December valuation reflects a downward trend as claims liabilities increase. icare is actively working on addressing this via return to work improvements and medical cost containment, premium changes and expense savings to improve the long-term funding ratio position.

Below is the funding ratio from 1997-2019. The main drivers of the change since 2015 include:

- The unwinding of the estimated reduction in claims liability following from the 2012 reforms (over 2016-2018), totalling \$1.4 billion (9.6% of unfavourable impact);
- Additional claims liabilities following the improved 2015 workers benefits (11% of unfavourable impact);
- Economic assumption changes (decrease in interest rates and lower than expected inflation rates); and
- Increase in medical costs.



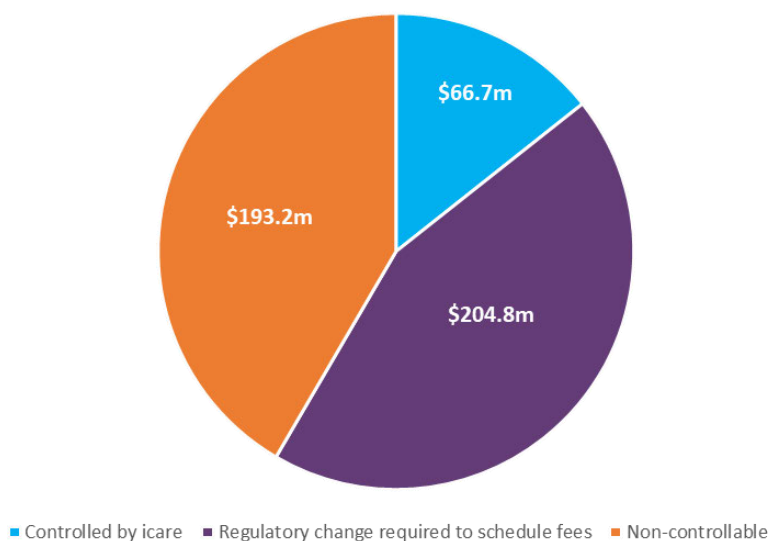
With the advent of the COVID-19 pandemic, premium income is contracting with reduced wages paid by employers. icare continues to proactively contact NSW employers, targeting at risk industries to offer premium deferrals. To date, we have reduced premiums by \$71m for 13,500 customers and placed \$46m in premium payments on hold to assist customers with their financial needs. Claim lodgements have reduced as businesses moved to lockdown and although there has been some movement as the economy reopens, this is still below the pre-COVID-19 levels.

Medical Costs

Support for injured workers so they can be fit for work remains paramount. icare recognises the positive contribution the more than 55,000 medical and allied health service providers in NSW make to the well-being of our community.

However, it is apparent that medical costs, and the utilisation of medical services, remain one of the single biggest expense drivers in the workers compensation system. From FY16-FY19, medical costs across the Treasury Managed Fund and the Nominal Insurer grew by 13.6% per annum from \$246 million to \$773 million.

icare welcomes the review by SIRA into Health Care Arrangements and appreciates the complexity of the issue. Our submission can be found [on our website](#). icare has also engaged Quantum Health Services to undertake an in-depth review of the cost increases. A summary of the findings is detailed in the diagram below.



Further, icare is acting to address the issues within our control including implementing a medical strategy to enhance medical decision-making protocols and ensure there is an evidence base for treatment requests. We are also working with healthcare service providers to ensure the latest evidence better informs the treatment provided to injured workers. Additional reviews of medical cost leakage from poor operational performance, while relatively minor, is also being addressed with Scheme Agents.

Return to Work (RTW)

Helping injured workers get back to work as soon as possible is extremely important, medically, socially and financially. High levels of injured people returning to work is core to delivering our services and has financial benefits through reduced claims costs.

With the initial decline in RTW rates in 2018, icare has been working to improve the performance without sacrificing long term customer wellbeing outcomes, such has been witnessed in some other jurisdictions. The overall steady improvement to RTW rates in late 2019 reflects several initiatives we initiated with our service partners in early 2019, including:

- A targeted review of specific cohorts of claims to ensure accurate decision-making;
- Service improvements including assigning a dedicated case manager for claims expected to go beyond two weeks; and
- Ensuring case conferences take place within seven days of a claim exceeding its expected duration.

This work continues and the results can be seen in our latest data [on our website](#).

Importantly, while it is too early for the impact of COVID-19 to be seen in the RTW rate, there is an anticipated reduction in suitable employment opportunities and other related business disruption which may have an ongoing impact.

It is important to recognise that RTW as an indicator of scheme performance is influenced by factors including legislative and regulatory policy, insurance operations, employers and employees and treating health practitioners.

RTW is also currently measured in different ways by different schemes and insurers, including by SIRA (focussed on the social outcome of RTW) and icare (focussed on the financial outcome). icare notes that while imperfect, NSW's approach to RTW measurement is significantly different to other jurisdictions and there is value in measuring both the financial and social outcomes.

While data discrepancies remain an issue, particularly in the new metric and published data containing contradictory outcomes caused by errors, we welcome the recent SIRA Review. Our submission to the review can be found on our website. To support the opportunity to understand the options that a correct interpretation of the data can provide, icare has engaged the services of actuarial luminary John Trowbridge. Mr Trowbridge submitted his own independent findings to the review and now continues to work with both SIRA and icare to understand the best options the available data provides and to develop credible models that give a complete reflection of outcomes.

21-Point Action Plan

icare remains focused on progress against SIRA's 21 Point Action Plan, with regular and ongoing updates published [on our website](#). icare has already completed four of the nine action items listed as required or recommended and continues to work with SIRA to address the remaining actions.

Further to this, the work of the independent customer advocate - former director of ReturnToWorkSA, Darrin Wright - in speaking at length with those who made a submission to the 2019 Independent Compliance and Performance Review of the Nominal Insurer has provided valuable input into further changes at icare. This includes the evolution of the Authorised Provider model to provide greater choice of claims provider for medium and large businesses and the enhancement of the industry hubs. We are also looking at new roundtable forums to hear regularly from customer groups.

COVID-19 Response

COVID-19 has had a profound impact on NSW businesses and injured workers and we are committed to ensuring that our services continue to support them at this time.

icare has implemented a range of measures to ensure injured workers and employers experience as little disruption as possible. We are also working with SIRA to determine what changes to normal processes may be required to respond to the current situation.

We are providing regular updates for employers and employees on a dedicated website page with FAQs and other support material - [found here](#). This is in addition to outbound contact with identified customers in at risk industries and targeted social media campaigns to raise awareness of available support. Our website page and social media engagement in March is the highest it has been since icare formed.

icare is providing employer customers with the options of:

- Deferring premium payments for up to six months for businesses experiencing financial hardship;
- Reducing wages and coverage to reflect their new circumstances, which may result in a reduced premium or refund; and
- Refunding the unused portion of their premium while keeping their policy active for when they resume business.

As at 5 June more than 2,700 businesses have utilised a three or six-month deferral, valued at \$46m in premiums. More than 13,500 businesses have revised their wages down, valued at \$71m in premiums and more than 7,300 businesses have cancelled their policies, valued at \$18m in premiums.

Owing to the current climate and need to ease cost pressure on businesses, icare is currently considering a range of options to support those businesses more severely impacted. This entails proactive targeted contact with those identified to discuss adjusted wages and/or deferral of upfront premium deposit and/or monthly instalments with increased periodic review.

Despite pressures on the funding ratio, icare has also held the average base tariff premium steady at 1.4% of wages for another year to further support business at this time.

We are also providing toolkits for employers to assist in the new working environment and for returning to the workplace. A Mental Health toolkit is in development and a social media campaign has commenced targeting support for frontline workers to help reduce the incidence of adverse customer behaviour throughout this time. Our Mobile Engagement team continues to operate with 12 events held virtually and over 1,600 attendees in the past two months.

Furthermore, the icare Foundation has partnered with Monash University to undertake a [COVID-19 Work and Health Study](#). This will run over 12 to 24 months to compare two groups of people – those who have lost their jobs and those who have less work but are still employed. The research will identify the industries, employers and workers who are more impacted during and after the pandemic, which is critical for targeting effective intervention strategies. It will also produce insights into people's coping strategies, use of health services and help-seeking for mental health concerns during the pandemic.

With the passing of the Workers Compensation Amendment (COVID-19) Bill 2020, icare is currently working with SIRA to operationalise the changes. While the resourcing requirements are contingent on the number of confirmed cases and subsequent claims in the assigned business categories, this is an important assurance and support for business and workers at this time.

Relationship with SIRA

icare is appreciative and supportive of SIRA's ongoing role in the NSW Workers Compensation system. Despite often reported areas of difference, these are considered natural between any operator and regulator and are possibly magnified by the market share that the Nominal Insurer holds and the differences that arise between a modernisation focus and a compliance focus.

Both agencies remain committed to the best outcomes for customers - NSW businesses and injured workers. icare continues to work collaboratively with SIRA on a range of matters including underlying issues such as medical costs through the existing Health Care Arrangements Review and supports the swift action in the COVID-19 environment to provide access to Telehealth, which will also have long term financial benefits. We have also completed the two actions assigned to both agencies in the 21-point Action Plan.

We are keen to continue the transparency and collaboration with the Committee as well as focus on improving overall customer outcomes.

Yours sincerely

John Nagle
CEO and Managing Director
icare