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SUMMER 2025 CLIENT NEWSLETTER

The rising tide of psychological claims: what it means for your business

As mental health issues escalate in Australian workplaces, the impact on workers' compensation claims is increasingly significant. Data shows psychological claims are growing at a much faster rate than physical ones, and have higher costs per claim. This translates to a complex challenge affecting operations and insurance costs for businesses.

Figures from Allianz reveal the average psychological workers' compensation claim cost $42,335 in 2023, up from $32,769 in 2019. Such claims are consistently more expensive than physical injury ones – 2.8 times more costly on average over the past five years. For businesses, this means higher direct costs and significant operational challenges from extended employee absences, with Allianz reporting a 30% increase in the number of days off due to mental health since 2019.

The key drivers of the rise in claims include workplace stress, harassment, bullying and economic pressures such as cost-of-living stress. What is particularly concerning is that these claims are occurring earlier in employees' careers, with the average age dropping from 49 to 46 over the past decade. This suggests traditional workplace mental health approaches may need updating for a changing workforce.

While workers' compensation addresses incidents in the workplace, mental health issues are also influencing life insurance. Permanent disability claims related to mental health have surged 433% over the past decade. This could affect the affordability and accessibility of life insurance for your employees, particularly younger workers whose claims rates are rising fastest.

What businesses can do today:

- Implement a tiered approach to mental health support, starting with basic measures such as flexible work arrangements and clear communication channels, then building up to comprehensive programs as needed.
- Ensure managers are trained to recognise early warning signs of stress and burnout. Key indicators include changes in work quality, increased absenteeism and withdrawal from team interactions.
- Review your insurance coverage regularly with your broker. This rapidly changing claims risk means yesterday's coverage levels may not adequately protect your business today.

By investing in prevention and early intervention, companies can better manage the human and financial costs of mental health workers' compensation claims.

We're here to help you navigate these challenges – contact us to review your risk management strategy and ensure your coverage aligns with today's developing mental health challenges.

Product recalls: make a plan before you need one

Product recalls are on the rise. The Sedgwick Recall Index for Australia revealed that in the first half of this year alone, more than 600 corrective actions were recorded – 2.7% more than in the December half of 2023.

The report covers motor, consumer products, food and drink, medical devices, and the pharmaceutical sector.

As Sedgwick's senior VP of brand protection Chris Harvey points out, supply chains are no longer isolated systems. And as they have become increasingly interconnected, the ripple effects of recalls have amplified.

A quality issue in one market can rapidly cascade across borders, turning a local problem into an international one. This interconnectedness means businesses must think globally, even if they operate locally.

The regulatory landscape is evolving, too, with authorities taking what Mr Harvey calls "a more aggressive approach to enforcing consumer protection laws".

This strengthened regulatory oversight has significant insurance implications. As the threshold for mandatory recalls lowers, businesses face increased exposure, potentially affecting insurance premiums and the scope of coverage needed.

In the food sector, undeclared allergens topped the list of safety concerns, leading to many recalls. In the pharmaceutical sector, documentation issues such as mislabelling triggered as many recalls as quality concerns.

The costs of a recall extend far beyond the immediate expense of removing products from shelves. There are also business interruptions, damage to brand reputation, legal expenses, loss of market share, and the labour and costs of managing the logistics of the recall.

Without adequate coverage, these costs could threaten a company's financial stability.

The best preventative solution is to have well-tested recall and risk management plans in place:

- Identify a core recall response team.
- Establish clear decision-making protocols.
- Maintain detailed product traceability records that can be accessed quickly.
- Regularly test through simulation exercises – much like a fire drill – to reveal gaps in procedures that can be fixed before a real emergency occurs.

The plan should include pre-prepared communication templates for various scenarios and clearly defined roles for every team member involved. Most importantly, a recall plan should be treated as a living protocol that needs regular updates to reflect new risks and changing business conditions. It is not a static compliance document.

Work with your broker to develop risk management strategies before an incident occurs. This can lead to more favourable coverage terms and, crucially, better protection if a recall happens.

Protecting your business when customers can't pay

Australian businesses are facing a challenging reality as insolvency rates hit their highest levels since 2020. Rising operating costs, subdued consumer spending and efforts by the Tax Office to recover tax debts are leaving many companies unable to meet their financial obligations. For businesses extending credit to customers, the risk of unpaid invoices is growing, creating a need to revisit strategies for safeguarding cash flow.

Trade credit insurance is a practical solution for managing this uncertainty. This cover protects your business when a debtor defaults on payment, whether due to insolvency or prolonged delays. With insolvencies now 25% higher than pre-pandemic levels and expected to rise further, trade credit insurance is worth discussing with your broker.

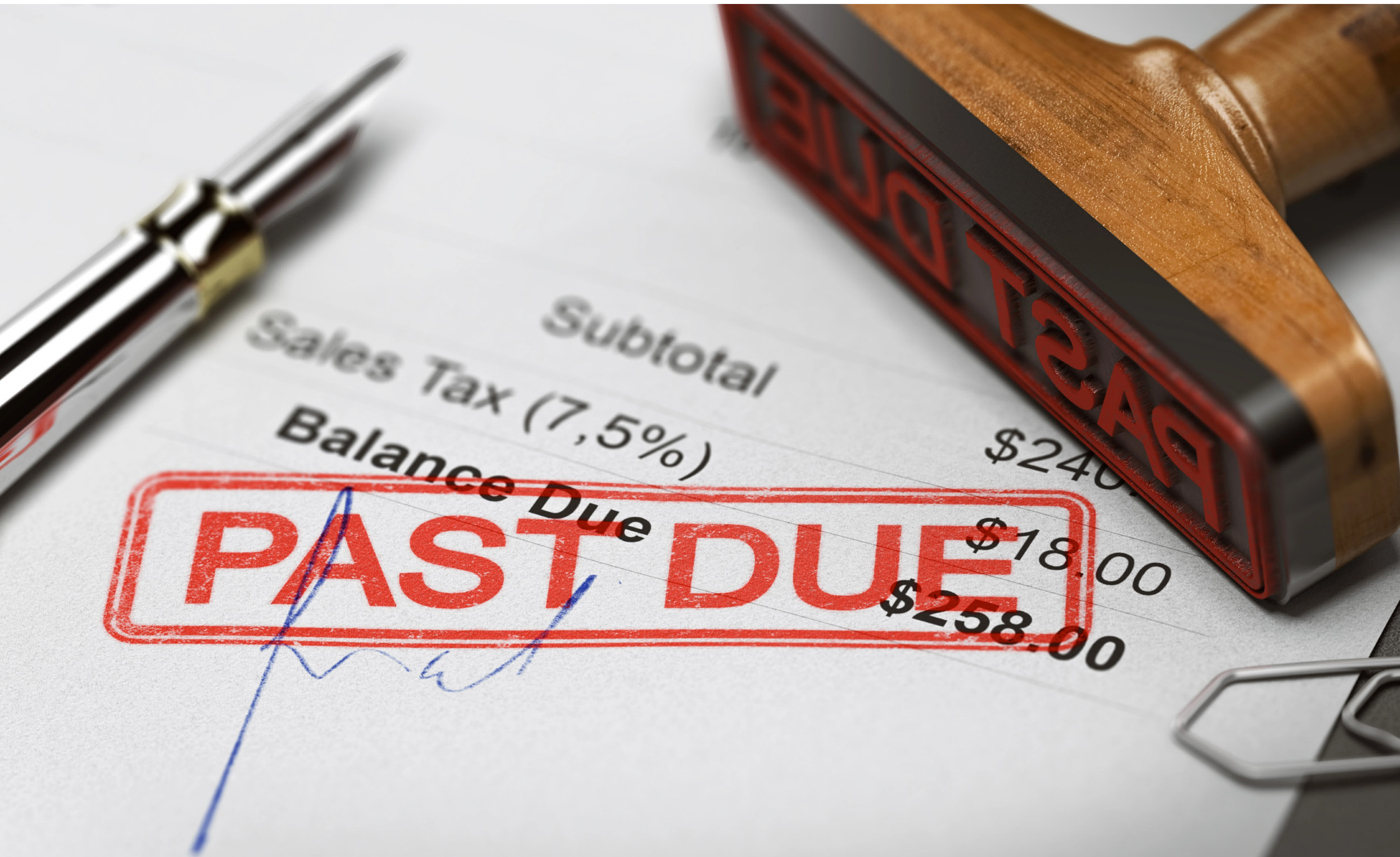
Significant or cumulative payment defaults create a ripple effect that can disrupt supply chains, delay growth and threaten your ability to meet financial commitments. A single unpaid invoice from a major client can leave your cash flow stretched and your resources tied up in collection efforts.

The hospitality and construction sectors in particular are feeling the strain. Hospitality businesses had an average insolvency rate of 8.5% last year, with forecasts predicting a further increase to 9.1%. Construction businesses, already dealing with well-documented cost pressures, are similarly vulnerable. While some industries may seem riskier than others, rising arrears across most sectors indicate no business is immune.

Proactively managing credit risks starts with understanding your exposure. Begin by assessing which customers represent the greatest risk to your cash flow. Look at payment history, financial stability and industry. Credit checks and regular monitoring of key accounts can provide early warning signs of potential issues, giving you time to adjust terms or limit exposure.

Trade credit insurance complements these efforts by stepping in when prevention isn't enough. Policies can be tailored to your business, covering specific customers or your entire receivables ledger. If a covered debtor defaults, the insurer compensates you for the unpaid amount, reducing the financial blow to your business. Some policies even include credit monitoring services, helping you identify risky clients before they become a problem.

Contact your broker to compare policy options, ensure coverage aligns with your business needs, and learn about the claims process so you know what to expect if an issue arises. We can also work with insurers to negotiate terms that reflect your specific risks, such as high exposure to industries with rising insolvencies.



Beat the summer rush

For industries such as hospitality, tourism and retail, summer brings a surge in customers – and with it, an increase in public liability risks. With more people visiting your premises, the likelihood of accidents, property damage and theft grows.

Proactively managing these risks is the best way to prevent claims and keep your operations running smoothly during the busiest time of year.

Slip-and-fall incidents, food-related claims or accidents in outdoor areas such as patios, pools or event spaces are common public liability risks. Theft or vandalism are also possible, particularly if your property isn't secured properly after hours. If these incidents result in claims, the costs can be substantial, and for some sectors, public liability insurance premiums are already a significant expense.

Tailored insurance solutions can help manage these risks and protect your business. Public liability insurance covers legal and compensation costs if someone is injured or their property is damaged while interacting with your business. Additional coverage may be required for outdoor areas or temporary structures to ensure you're fully protected. Business interruption insurance can also be a critical safeguard, compensating you for lost revenue if an incident disrupts your operations.

Beyond insurance, your broker can offer guidance on risk management strategies, such as:

- Regular and thorough safety audits.
- Identifying potential hazards such as uneven flooring, slippery surfaces or inadequate signage, and addressing them promptly.
- Using clear and visible signage to warn of wet floors, uneven ground or restricted access areas.
- Inspecting outdoor areas for stability, cleanliness and any risks posed by weather conditions such as rain or heat.
- Assigning dedicated staff or security to monitor and respond to issues in real time for high-risk areas.
- Installing adequate lighting, security cameras or alarm systems.
- Training staff and equipping your team with the knowledge to spot and address risks.

Even with these measures in place, some risks are unavoidable. Public liability insurance helps to cover legal and compensation costs if an incident does occur.

As summer continues to drive traffic to your business, having the right protection and processes in place can save you from financial stress and reputational damage. A conversation with your broker about your current coverage and potential vulnerabilities could be the best step to safeguard your business and make the most of the busy season.

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