



**Insurance Commission
of Western Australia**

2022 End of Year Performance Report

Insurance Commission
of Western Australia

END-OF-YEAR PERFORMANCE REPORT

The Insurance Commission's end-of-year performance report presents unaudited financial and non-financial information to transparently provide our stakeholders with an early indication of performance for the 2021-22 financial year (herein referred to as 2022).

The Insurance Commission generated more than \$1.4 billion in revenue and earnings in 2022. We received over 37,000 new insurance claims during the financial year and managed claims valued at over \$5.2 billion. This includes payments of \$831.4 million to individuals, service providers and agencies, and estimated future claims liabilities of \$4.4 billion.

The Insurance Commission's core operations (excluding the RiskCover Fund) recorded a profit before tax of \$79.4 million, compared to the \$1.6 billion profit recorded in 2021 (which was driven by very strong investment returns and the receipt of Bell settlement proceeds). The 2022 profit was a result of a strong underwriting profit in the motor injury insurance funds, partly offset by a negative investment return for the year. The after-tax result was a profit of \$63.6 million.

In contrast to the healthy 2021 investment return of 17.7%, our investment portfolio recorded a 3.5% loss in 2022. Significant events including the Russian invasion of Ukraine, both supply and demand driven inflation and a rising interest rate cycle made 2022 a difficult year for investments.

While the Insurance Commission allocates assets in its investment portfolio on the basis that losses should be incurred at a rate of three in every twenty years, we have now seen losses in two of the last three years. The pandemic driven loss of 2.6% in 2020 and the 2022 loss of 3.5% were offset by the 17.7% profit in 2021. However, this has dragged our short term investment performance down in recent years. Taking a longer term view, over the past 10 years the main investment portfolio has delivered an average return of 7.3% per year and a compound return of 102.9%.

The Insurance Commission's core underwriting profit of \$241.4 million was largely due to a significant increase in discount rates during the year which had the effect of reducing the expected value of future claim costs.

The financial performance has resulted in a solvency level of 132.9% for the Insurance Commission at 30 June 2022, with the Third Party Insurance Fund (TPIF) recording a solvency level of 146%. The Insurance Commission's equity (net assets) declined from \$2.3 billion at 1 July 2021 to \$1.7 billion at 30 June 2022, reflecting the negative investment return for the year combined with dividend payments to Government (largely arising from the Bell settlement). Through dividends, tax, and insurance duty, the Insurance Commission contributed \$1 billion to the Government in 2022.

The RiskCover Fund recorded an operating loss of \$115.8 million, following an underwriting loss of \$82.7 million and an investment loss of \$33.1 million for the year.

The unaudited end-of-year financial statements are included as part of this report. The full audited 2022 Annual Report will be tabled in Parliament in September and published on the Insurance Commission's website.

Investments

The investment portfolio did not achieve all of its investment objectives during 2022. The year was marked by continued re-opening of economies post COVID-19 related lockdowns and escalating geopolitical tensions, including the Russian invasion of Ukraine in February 2022. These events combined to exacerbate supply chain issues and further boost global inflation to its highest level in three decades. Central banks responded by significantly increasing official interest rates to dampen inflationary pressures.

Both Equity and Fixed Interest markets recorded sharp declines with Private Equity, Infrastructure and Property the only contributors to positive investment returns over the year. The Insurance Commission's investment portfolio delivered an investment loss of \$214.1 million in 2022, compared to a budgeted income of \$240.4 million.

The total value of investment assets held by the Insurance Commission to offset insurance liabilities has declined from almost \$7 billion at 1 July 2021 to \$6.3 billion at 30 June 2022. This decrease reflects the negative investment return for the year combined with the dividend payments to Government. The total value of assets held by the Insurance Commission at 30 June 2022 was \$6.9 billion.

Motor Injury Insurance

The Insurance Commission is the sole underwriter of motor injury insurance in Western Australia. One motor injury insurance policy is governed by two Acts of Parliament: the *Motor Vehicle (Third Party Insurance) Act 1943* and *Motor Vehicle (Catastrophic Injuries) Act 2016*.

The policy provides owners and drivers of WA registered vehicles with an unlimited indemnity against personal injury claims for injuries they cause to others in motor vehicle crashes, known as Compulsory Third Party (CTP) insurance. The Insurance Commission provides compensation to claimants where the fault of a third party in a crash causing injury can be identified.

The policy also provides no-fault, first party cover to people for catastrophic injuries they may sustain in a car crash, in circumstances where they are unable to find another driver at fault. This is known as Catastrophic Injuries Support (CIS) insurance.

The policy is issued to motorists along with their motor vehicle registration by the Department of Transport who collect premium payments on behalf of the Insurance Commission. The combination of CTP and CIS insurance cover is known as motor injury insurance (MII).

The Insurance Commission received \$891.1 million in MII premium revenue for approximately 3.1 million insured vehicles (including caravans and trailers) in 2022. We managed car crash claims valued at over \$3.6 billion, consisting of \$490.2 million in claim payments to people injured in motor vehicle crashes (mostly from prior years) and \$3.1 billion in anticipated future claims expenses at 30 June 2022.

The TPIF is the fund for the CTP scheme, and the Motor Vehicle (Catastrophic Injuries) Fund (MVCIF) is the fund for the CIS scheme.

The TPIF recorded a strong underwriting profit of \$195.2 million for the financial year, compared to the \$28.4 million profit in 2021. The result was driven by the significant increase in the discount rate (based on Government Bond rates) resulting in lower than expected future claims costs. The TPIF's profit before tax was \$77.4 million, after an investment loss of \$140 million and additional Bell settlement proceeds received of \$41.5 million. The Fund's after-tax result was a profit of \$60.6 million.

The MVCIF recorded an underwriting profit of \$64.2 million, which was broadly in line with the prior year. The result was also largely due to a lower than expected increase in claims liabilities, driven by the increase in the discount rate and fewer new scheme participants with catastrophic injuries than anticipated. The MVCIF delivered a profit before tax of \$21.3 million (\$16.3 million post-tax profit), after an investment loss of \$38.6 million.

RiskCover Fund

The RiskCover Fund is the self-insurance funding arrangement for most WA Government public authorities (agencies). The RiskCover Fund provides cover for most agency insurable risk exposures, including:

- workers' compensation;
- loss or damage to property;

- cyber risk;
- legal liability cover for general, professional and medical treatment; and
- personal accidents.

The RiskCover Fund recorded an underwriting loss of \$82.7m. The underwriting loss was mainly due to higher than expected claims costs in the Liability and Workers' Compensation classes of insurance. The liability class has experienced an increase in the number and size of general and medical treatment liability claims in the past two years. The workers' compensation class has experienced a sustained increase in the proportion of long duration claims associated with increased severity of injury.

This adverse claims experience has resulted in agency premiums (including adjustments) continuing to grow, increasing 17% in 2022 and a further 26% for 2023. If agencies are not successful in reducing the volume and severity of incidents that give rise to claims, our actuary projects premiums for 2024 to rise again by 21%. The Insurance Commission continues to work with agencies to assist them identify and manage incidents that give rise to claims, especially in the workers' compensation and liability classes.

The RiskCover Fund recorded an operating loss of \$115.8 million for the year, after an investment loss of \$33.1 million. The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of most other funds managed by the Insurance Commission. The Fund's solvency level at 30 June 2022 was 108.1%.

Contributions to Government

As a Government Trading Enterprise, the Insurance Commission seeks to deliver a return to its shareholder while delivering efficient and equitable insurance services to Western Australian motorists, claimants, and government agencies.

In December 2021, the Insurance Commission paid a final dividend to Government of \$515.8 million in respect of the 2021 financial year. This large payment was a result of the very strong investment performance and the receipt of the Bell settlement proceeds in the prior financial year.

The Insurance Commission also paid an interim dividend for 2022 of \$56.3 million and transferred \$130.3 million from the TPIF to the Government Insurance Fund to partly fund the unfunded Government liabilities largely associated with historic child sexual abuse claims.

As the RiskCover Fund's solvency level was below the agreed solvency reserve target of 135% at 30 June 2022, no return of capital was payable for 2022.

During the period, the Insurance Commission has also paid \$201.3 million of tax equivalents and \$98.4 million in insurance duty to the WA Government. As a result of these payments and agreed transfer, the Insurance Commission has contributed \$1 billion during 2022 (over \$3.4 billion since 2013) to the State Government.

At 30 June 2022, the Insurance Commission held assets that contribute to a State net debt reduction of \$5 billion.

Sincerely,



ROD WHITHEAR
CHIEF EXECUTIVE

Actual Performance Compared to Budget at 30 June 2022

Insurance Commission

	Actual	Budget	Variance
	\$'000	\$'000	\$'000
Net Premium Revenue	882,133	883,062	(929)
Net Claims Incurred	(599,716)	(839,643)	239,927
Net Movement in Unexpired Risk	14,043	-	14,043
Other Underwriting and Administration Expenses	(55,013)	(65,458)	10,445
Underwriting Profit/(Loss)	241,447	(22,039)	263,486
Investment (Loss)/Income	(214,142)	240,416	(454,558)
Investment Expenses	(28,019)	(25,019)	(3,000)
RiskCover Fund Investment Return	33,113	(40,397)	73,510
Other Income	47,048	136	46,912
Other Expenses	-	(400)	400
Profit Before Tax Equivalent	79,447	152,697	(73,250)
Income Tax Equivalent Expense	(15,876)	(45,809)	29,933
Profit After Tax Equivalent	63,571	106,888	(43,317)
Total Equity (as per Balance Sheet)	1,698,855		

	Actual	Budget	Variance
Investment Rolling 7-Year Return (%) - Main Fund	5.5	4.5	1.0
Annual Investment Rate of Return (%) - Main Fund	(3.5)	4.2	(7.7)
Annual Investment Rate of Return (%) - MVCIF	(3.0)	4.6	(7.6)
Solvency Level (%)	132.9	133.9	(1.0)

Actual Performance Compared to Budget at 30 June 2022

RiskCover Fund

	Actual	Budget	Variance
	\$'000	\$'000	\$'000
Net Premium Revenue	388,957	322,991	65,966
Net Claims Incurred	(438,469)	(306,208)	(132,261)
Other Underwriting and Administration Expenses	(33,196)	(34,259)	1,063
Underwriting Loss	(82,708)	(17,476)	(65,232)
Investment (Loss)/Income	(33,113)	40,397	(73,510)
(Loss)/Profit	(115,821)	22,921	(138,742)
Total Equity (as per Balance Sheet)	79,390		

	Actual	Budget	Variance
Solvency Level (%)	108.1	132.3	(24.2)
Net Loss Ratio (%)	112.7	94.8	(17.9)
Net Expense Ratio (%)	8.5	10.6	2.1
Net Combined Ratio (%)	121.2	105.4	(15.8)

Financial Statements

Statement of Comprehensive Income at 30 June 2022

	Insurance Commission		Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		RiskCover Fund	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net Premium Revenue	882,133	842,849	669,580	639,829	212,435	202,860	388,957	343,380
Net Claims Incurred	(599,716)	(701,913)	(430,911)	(560,532)	(152,721)	(129,913)	(438,469)	(452,079)
Net Movement in Unexpired Risk	14,043	2,089	-	-	14,043	2,089	-	-
Other Underwriting and Administration Expenses	(55,013)	(65,016)	(43,496)	(50,934)	(9,526)	(11,724)	(33,196)	(32,337)
Underwriting Result	241,447	78,009	195,173	28,363	64,231	63,312	(82,708)	(141,036)
Investment (Loss)/Income	(214,142)	1,037,857	(140,007)	712,438	(38,594)	151,213	(33,113)	143,990
Investment Expenses	(28,019)	(27,345)	(19,381)	(18,622)	(4,404)	(3,614)	-	-
RiskCover Fund Investment Return	33,113	(143,990)	-	-	-	-	-	-
Other Income	47,048	666,814	41,604	656,749	30	30	-	-
Other Expenses	-	(11,635)	-	(1,775)	-	-	-	-
Profit/(Loss) Before Tax Equivalent	79,447	1,599,710	77,389	1,377,153	21,263	210,941	(115,821)	2,954
Income Tax Equivalent Expense	(15,876)	(472,100)	(16,823)	(406,695)	(4,958)	(62,127)	-	-
Profit/(Loss) After Tax Equivalent	63,571	1,127,610	60,566	970,458	16,305	148,814	(115,821)	2,954
Other Comprehensive (Expense)/Income after Tax Equivalent	(99)	59	-	-	-	-	-	-
Total Comprehensive Income/(Loss) After Tax Equivalent	63,472	1,127,669	60,566	970,458	16,305	148,814	(115,821)	2,954

Balance Sheet at 30 June 2022

	2022	2021	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets								
Cash and Cash Equivalents	83,100	19,450	-	-	13,992	8,235	6,426	8,163
Receivables	457,300	567,699	195,791	203,743	54,280	53,133	183,071	118,291
Investments	6,271,942	6,979,371	3,989,948	4,829,088	1,184,092	1,065,090	873,755	905,068
Deferred Tax Assets	16,523	-	3,074	-	9,739	-	-	-
Deferred Premium Collection Costs	7,106	236	5,729	236	1,377	-	-	-
Right of Use Lease Assets	11,463	14,524	2,243	2,842	251	329	-	-
Plant and Equipment	1,506	1,905	-	-	-	-	-	-
Intangibles	9,434	4,503	-	-	-	-	-	-
Other Assets	3,469	3,058	-	-	-	-	-	-
Total Assets	6,861,843	7,590,746	4,196,785	5,035,909	1,263,731	1,126,787	1,063,252	1,031,522
Liabilities								
Payables	39,882	42,840	20,463	24,519	4,930	4,915	68,917	48,318
Financial Liabilities - RiskCover Fund Investments	873,755	905,068	-	-	-	-	-	-
Current Tax Payable	100,189	107,324	87,814	100,843	14,541	7,336	-	-
Outstanding Claims	3,767,439	3,651,626	2,499,622	2,548,846	874,217	732,021	914,945	787,994
Unearned Premium	347,060	327,509	262,989	248,150	83,817	79,359	-	-
Unexpired Risk Liability	-	18,151	-	-	-	18,151	-	-
Provisions	20,858	21,612	-	-	-	-	-	-
Lease Liabilities	13,805	17,037	2,706	3,338	305	387	-	-
Deferred Tax Liabilities	-	161,858	-	145,251	-	15,000	-	-
Total Liabilities	5,162,988	5,253,025	2,873,594	3,070,947	977,810	857,169	983,862	836,312
Net Assets / Equity	1,698,855	2,337,721	1,323,191	1,964,962	285,921	269,618	79,390	195,210

These financial results are unaudited and not for further release, publication or distribution in whole or part.



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