

**Insurance Commission  
of Western Australia**

# 2018 End of Year Performance Report

Insurance Commission  
of Western Australia

# END OF YEAR PERFORMANCE REPORT

The Insurance Commission of Western Australia (Insurance Commission) produces this end of year performance report with its unaudited financial information as a transparency initiative to provide its stakeholders with an early indication of its performance for the 2017-18 Financial Year (herein referred to as 2018).

2018 has been another excellent year for the Insurance Commission.

The Insurance Commission, including the RiskCover Fund that it manages on behalf of the Government, received over 32,000 new insurance claims during the year, and managed claims valued at \$3.6 billion (claims paid and future claims liabilities).

The Insurance Commission, including RiskCover generated more than \$1.5 billion in revenue and earnings in 2018.

Our profit before tax result, excluding RiskCover, was \$382.7 million, which was a \$119.7 million improvement on the \$263 million profit before tax result delivered in 2017.

The profit after tax result for 2018 was \$277.7 million for the Insurance Commission.

The Insurance Commission's main investment portfolio (Main Fund) delivered a gross return of 9.4% for 2018. This return comprises investments in the Third Party Insurance Fund, RiskCover Fund, Insurance Commission General Fund, Government Insurance Fund and Compensation (Industrial Diseases) Fund. The total investment return for the Insurance Commission was 9.1% for the year, which is lower than the Main Fund as a higher proportion of cash is held in the Motor Vehicle (Catastrophic Injuries) Fund.

This investment return is an encouraging result as the Insurance Commission has allocated only 40% to equities which is materially lower than the asset allocation to equities of most superannuation funds.

The **unaudited** end of year financial statements are included as part of this Report. The full audited 2018 Annual Report will be tabled in Parliament and published on the Insurance Commission's website later in the year.

## Shareholder Return

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

A total dividend (including interim and special dividend) of \$149.3 million was paid to Government from the Third Party Insurance Fund (TPIF), as a result of the Insurance Commission's strong investment performance.

As a result of our positive 2018 financial results, we are able to return capital of \$162.3 million from the RiskCover Fund to the Consolidated Account of Government. This will be paid in September 2018. This return of capital is provided for in the RiskCover Fund's 2018 financial statements.

The Insurance Commission also paid insurance duty (\$84.8 million) and tax (\$40.7 million) to Government during the year. As a result of these dividend, insurance duty and tax payments, in 2018 the Insurance Commission contributed over \$274 million (2017: \$316 million) to Government.

The Insurance Commission also contributed a further \$498.7 million towards reducing State Net Debt in 2018, as measured by the consolidation of Insurance Commission finances in whole of government financial reporting.

### **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:

- *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. The policy also provides cover for any person catastrophically injured in a crash in WA.

The policy is issued to motorists along with their motor vehicle registration by the Department of Transport and its agents who collect premium payments on behalf of the Insurance Commission.

In 2018, the Insurance Commission received \$769.5 million in revenue in motor injury insurance premium payments for 2.9 million insured vehicles.

Premium revenue in 2018 was \$82.9 million higher than revenue collected in 2017 as 2018 was the first full year that insurance premium was paid for Catastrophic Injuries Support (CIS) cover. Last year, many motorists did not have to pay for the full additional cover they received in the first year of the new cover. The Insurance Commission absorbed that cost in 2017 by making a capital transfer to the CIS scheme Fund, which was possible as the sale of the Forrest Centre in 2016 released a significant asset revaluation reserve held against that building.

Premium revenue is collected to pay the cost of claims made to the Insurance Commission. We made \$391 million in claims payments to people injured in crashes (mostly in prior years), and have booked anticipated future claims expenses of \$2.4 billion. Motor injury insurance claims liabilities increased by \$244.6 million in 2018, reflecting new claims exposure.

The Third Party Insurance Fund (TPIF) is the fund associated with the Compulsory Third Party (CTP) insurance scheme, which represents the majority of motor injury insurance claims and costs for the Insurance Commission.

The TPIF recorded a small underwriting profit of \$26 million. This is equivalent to 4.4% of premium revenue or 1.1% of outstanding claims liabilities.

The TPIF profit before tax was \$331.2 million in 2018 which was \$11.4 million lower than the \$342.6 million result in 2017. The TPIF's strong financial performance was primarily due to net investment income received of \$305 million.

This is an excellent result as it means our core business is financially sustainable, and we have sufficient revenue to continue to pay claims and deliver insurance services.

Prior to 2018, the TPIF had only made an underwriting profit in five of the past 20 years. This reflects that motor injury insurance premium revenues have generally been insufficient to meet the cost of claims payments and management of the scheme.

In the years that underwriting losses have been sustained, investment returns and previously accumulated reserves have delivered sufficient funding to ensure the CTP insurance scheme remained viable.

The CIS scheme and its Motor Vehicle (Catastrophic Injuries) Fund (MVCIF) were introduced on 1 July 2016 to provide lifetime care and support to people catastrophically injured in crashes who were ineligible for CTP cover. The MVCIF recorded an underwriting profit of \$37.6 million in 2018, compared to an underwriting loss of \$98.1 million in its first year. The principal reason for the initial underwriting loss was that premium revenue was not collected from motorists in advance of the CIS start date, which meant many motorists did not have to pay for the full additional cover they received in the first year.

A number of people with catastrophic injuries have experienced improvements in independence and functionality since returning home from hospital and participating in early rehabilitation paid for by the Insurance Commission. The improvement in the health of CIS participants and the resulting actuarial adjustments is the main reason for the MVCIF's positive underwriting result in 2018.

In 2018, the Insurance Commission managed CIS claims valued at \$297.4 million. \$10.2 million was paid for care and support costs to people injured in crashes, and anticipated future claims expenses of \$287.2 million were incurred. Outstanding claims liabilities increased by \$118.1 million in 2018, \$66.6 million lower than the increase in 2017 (\$184.7 million). In 2018, the actuarial valuation provided for improvements in the health of some people catastrophically injured, who were initially assessed as having more significant and high cost injuries following the crash.

The MVCIF delivered a profit before tax of \$52.6 million in 2018. Net investment income received for the Fund in 2018 was \$15 million.

Motorists paid \$99 in additional motor injury insurance premium for broader cover to include lifetime care for catastrophic injuries from a crash from 1 July 2016. The cost of catastrophic insurance cover at 1 July 2018 was \$104, which reflects wage inflation. The overall cost of motor insurance premium at 1 July 2018 was \$431.

Since 1 July 2016, 106 people have been assessed as eligible for treatment, care and support via either the CIS or CTP schemes. 65 of those people were eligible for the CIS scheme as there was no other driver identified at fault in the crash, and 41 people were eligible for the CTP scheme as their injuries were caused by the fault of another driver.

The MVCIF is expected to experience significant volatility in its financial results until a stage when the Fund reaches a relative state of maturity. The CIS scheme was established only two years ago, and in its infancy variations from forecasts for number of claimants and their cost of care can have a material impact on the financial performance of the Fund.

## **RiskCover**

RiskCover is the Division of the Insurance Commission that operates the self-insurance arrangement for WA Government public authorities (agencies). RiskCover provides cover for the majority of the agencies' insurable risk exposures including:

- workers' compensation;
- loss or damage to property;
- legal liability cover for general, professional and medical treatment; and
- personal accidents.

Positive investment results during 2018 drove the RiskCover Fund to a profit of \$159.2 million, which was in line with its profit of \$154.3 million in 2017. RiskCover's profit reflects stronger than anticipated investment income of \$95.7 million (\$31.5 million higher than budget). The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of other funds managed by the Insurance Commission.

The positive underwriting performance for the year of \$63.5 million, was due to net claims incurred being \$65.9 million less than budget, led by better than expected claims experience in the workers' compensation (\$33.6 million) and liability (\$31.4 million) classes.

Agencies insured by the RiskCover Fund paid their lowest aggregate insurance premium in 2018 when compared to the last five years. Gross written premium received from agencies was \$299.8 million in 2018, whereas gross written premium revenue has ranged between \$308.1 million and \$314.1 million since 2013. This is a great outcome for agencies as it means their insurance premiums are at the most affordable levels in five years. We have also been able to deliver that outcome for agencies while increasing the return delivered to our shareholder, the State Government.

As a result of our positive 2018 financial results, we are able to return capital of \$162.3 million from the RiskCover Fund to the Consolidated Account of Government. This will be paid in September 2018. This return of capital is provided for in the RiskCover Fund's 2018 financial statements.

## **Investments**

The total value of the investment funds held by the Insurance Commission to offset insurance liabilities grew from \$4.9 billion at 1 July 2017 to \$5.3 billion at 30 June 2018. The total value of assets held by the Insurance Commission at 30 June was over \$5.6 billion.

The growth in investment assets on the back of several years of strong investment returns has enabled the Insurance Commission to deliver significant dividends to its shareholder.

Our total gross investment return for 2018 was a very positive 9.1% or \$446.7 million. The Main Fund holding most of the investment assets returned 9.4%.

The compound returns for the Main Fund of the organisation in recent times have been very strong:

- 5-year return of 48.8% (or \$1.8 billion); and
- 6-year return of 70.9% (or \$2.2 billion).

This has helped drive long-term growth in the Insurance Commission's investment assets, and reflects the quality of the investment portfolio and the investment strategy.

The Insurance Commission's rolling seven-year return was 8.4%, which was 2.9% above the Consumer Price Index plus 3.5% performance objective.

These are an excellent set of results to deliver. I look forward to reporting in further detail on our 2018 performance when we publish our Annual Report later in the year.

Sincerely

A handwritten signature in black ink, appearing to read 'Rod Whithear', with a stylized, cursive script.

**ROD WHITHEAR**  
**CHIEF EXECUTIVE**

## Actual Performance Compared to Budget (Insurance Commission Only) at 30 June 2018

	Actual \$'000	Budget \$'000	Variance \$'000
Net Premium Revenue	761,915	764,424	(2,509)
Net Claims Incurred	(652,935)	(675,470)	22,535
Net Movement in Unexpired Risk	(5,874)	-	(5,874)
Underwriting and Administration Expenses	(69,277)	(78,484)	9,207
<b>Underwriting Profit</b>	<b>33,829</b>	<b>10,470</b>	<b>23,359</b>
Net Investment Income	425,287	279,894	145,393
RiskCover Investment Return	(95,656)	(64,163)	(31,493)
Other	19,279	2,482	16,797
<b>Profit Before Tax Equivalent</b>	<b>382,739</b>	<b>228,683</b>	<b>154,056</b>
Income Tax Equivalent Expense	(105,050)	(68,605)	(36,445)
<b>Profit After Tax Equivalent</b>	<b>277,689</b>	<b>160,078</b>	<b>117,611</b>
<b>Total Equity (as per Balance Sheet)</b>	<b>1,321,381</b>		

	Actual	Budget	Variance
Annual Investment Rate of Return (%)	9.1	6.2	2.9
Return on Total Assets (%)	7.1	4.2	2.9
Solvency Level (%)	130.7	130.9	(0.2)
Investment Rolling 7-Year Return (%)	8.4	5.5	2.9
Net Loss Ratio (%)	85.7	88.4	2.7
Net Expense Ratio (%)	9.9	10.3	0.4
Net Combined Ratio (%)	95.6	98.7	3.1

## Actual Performance Compared to Budget (RiskCover) at 30 June 2018

	Actual \$'000	Budget \$'000	Variance \$'000
Premium Revenue	299,789	301,427	(1,638)
Reinsurance and Other Adjustments	(24,865)	(16,199)	(8,666)
Net Claims Incurred	(178,759)	(244,699)	65,940
Administration Expenses	(32,664)	(34,110)	1,446
<b>Underwriting Profit</b>	<b>63,501</b>	<b>6,419</b>	<b>57,082</b>
Investment Income	95,656	64,163	31,493
<b>Total Comprehensive Income</b>	<b>159,157</b>	<b>70,582</b>	<b>88,575</b>
<b>Total Equity (as per Balance Sheet)</b>	<b>282,118</b>		

	Actual	Budget	Variance
Solvency Level (%)	135.0 <sup>1</sup>	139.7	(4.7)
Net Loss Ratio (%)	65.0	85.8	20.8
Net Expense Ratio (%)	11.9	12.0	0.1
Net Combined Ratio (%)	76.9	97.8	20.9

<sup>1</sup> The RiskCover Fund's solvency was 169% prior to providing for a Return of Capital amount of \$162.3 million.

## Insurance Commission Financial Statements

### Statement of Comprehensive Income for the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Net Premium Revenue	761,915	679,132
Net Claims Incurred	(652,935)	(685,139)
Net Movement in Unexpired Risk	(5,874)	(11,351)
Other Underwriting and Administration Expenses	(69,277)	(63,938)
<b>Underwriting Profit/(Loss)</b>	<b>33,829</b>	<b>(81,296)</b>
Investment Income	446,741	468,430
Investment Expenses	(21,454)	(24,151)
RiskCover Investment Return	(95,656)	(101,788)
Other	19,279	1,813
<b>Profit Before Tax Equivalent</b>	<b>382,739</b>	<b>263,008</b>
Income Tax Equivalent Expense	(105,050)	(69,873)
<b>Profit After Tax Equivalent</b>	<b>277,689</b>	<b>193,135</b>

### Balance Sheet as at 30 June 2018

	2018 \$'000	2017 \$'000
<b>Assets</b>		
Cash and Cash Equivalents	6,434	11,004
Receivables	277,487	268,800
Investments	5,326,217	4,889,153
Deferred Premium Collection Costs	4,837	4,933
Plant and Equipment	1,959	2,285
Intangibles	4,708	5,318
Other Assets	2,419	2,189
<b>Total Assets</b>	<b>5,624,061</b>	<b>5,183,682</b>
<b>Liabilities</b>		
Payables	33,549	36,560
Financial Liabilities - RiskCover Investments	1,054,785	1,066,680
Current Tax Payable	70,631	4,603
Outstanding Claims	2,707,281	2,455,933
Unearned Premium	291,350	285,792
Unexpired Risk Liability	20,958	14,432
Provisions	16,204	17,838
Deferred Tax Liabilities	107,922	109,358
<b>Total Liabilities</b>	<b>4,302,680</b>	<b>3,991,196</b>
<b>Net Assets</b>	<b>1,321,381</b>	<b>1,192,486</b>
<b>Equity</b>		
Compensation (Industrial Diseases) Fund Reserve	23,192	22,088
Retained Earnings	1,298,189	1,170,398
<b>Total Equity</b>	<b>1,321,381</b>	<b>1,192,486</b>

## Funds' Financial Statements

### Statement of Comprehensive Income for the year ended 30 June 2018

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net Premium Revenue	586,685	576,811	175,107	102,226	123	95	-	-	-	-
Net Claims Incurred	(505,185)	(507,409)	(122,217)	(179,591)	(10)	188	(18,422)	293	(7,101)	1,380
Net Movement in Unexpired Risk	-	-	(5,874)	(11,351)	-	-	-	-	-	-
Underwriting and Administration Expenses	(55,493)	(49,402)	(9,412)	(9,341)	(927)	(1,043)	(380)	(1,576)	(3,065)	(2,576)
<b>Underwriting Profit/(Loss)</b>	<b>26,007</b>	<b>20,000</b>	<b>37,604</b>	<b>(98,057)</b>	<b>(814)</b>	<b>(760)</b>	<b>(18,802)</b>	<b>(1,283)</b>	<b>(10,166)</b>	<b>(1,196)</b>
Investment Income	325,802	345,366	16,063	3,860	2,446	2,596	(106)	(90)	102,536	116,698
Investment Expenses	(20,770)	(22,965)	(1,083)	(162)	(150)	(173)	-	-	549	(851)
RiskCover Investment Return	-	-	-	-	-	-	-	-	(95,656)	(101,788)
Other	116	163	34	29	-	-	18,908	1,373	221	248
<b>Profit Before Tax Equivalent</b>	<b>331,155</b>	<b>342,564</b>	<b>52,618</b>	<b>(94,330)</b>	<b>1,482</b>	<b>1,663</b>	<b>-</b>	<b>-</b>	<b>(2,516)</b>	<b>13,111</b>
Income Tax Equivalent Expense	(90,235)	(93,401)	(15,494)	27,571	(379)	(439)	-	-	1,058	(3,604)
<b>Profit After Tax Equivalent</b>	<b>240,920</b>	<b>249,163</b>	<b>37,124</b>	<b>(66,759)</b>	<b>1,103</b>	<b>1,224</b>	<b>-</b>	<b>-</b>	<b>(1,458)</b>	<b>9,507</b>

### Balance Sheet at 30 June 2018

	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>										
Cash and Cash Equivalents	-	-	5,351	5,920	-	-	-	-	1,083	5,084
Receivables	164,104	166,643	21,454	14,971	555	670	53,989	38,770	39,114	50,249
Current Tax Receivables	-	-	-	21,259	-	-	-	-	1,927	38,815
Investments	3,669,864	3,458,417	448,420	245,939	26,847	26,170	(7,256)	(6,730)	1,188,342	1,165,357
Deferred Tax Assets	-	-	9,474	6,312	-	-	-	-	-	117
Deferred Premium Collection Costs	4,837	4,933	-	-	-	-	-	-	-	-
Plant and Equipment	-	-	-	-	-	-	-	-	1,959	2,285
Intangibles	-	-	-	-	-	-	-	-	4,708	5,318
Other Assets	-	-	-	-	-	-	-	-	2,419	2,189
<b>Total Assets</b>	<b>3,838,805</b>	<b>3,629,993</b>	<b>484,699</b>	<b>294,401</b>	<b>27,402</b>	<b>26,840</b>	<b>46,733</b>	<b>32,040</b>	<b>1,239,552</b>	<b>1,269,414</b>
<b>Liabilities</b>										
Payables	19,433	14,867	4,640	3,973	119	428	4	86	11,083	19,709
Current Tax Payable	52,758	64,487	19,461	-	339	191	-	-	-	-
Financial Liabilities - RiskCover Investments	-	-	-	-	-	-	-	-	1,054,785	1,066,680
Outstanding Claims	2,273,646	2,147,110	302,739	184,657	2,979	3,579	46,729	31,954	81,188	88,633
Unearned Premium	220,712	223,493	70,638	62,199	-	100	-	-	-	-
Unexpired Risk Liability	-	-	20,958	14,432	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	16,204	17,838
Deferred Tax Liabilities	115,896	115,333	-	-	773	454	-	-	727	-
<b>Total Liabilities</b>	<b>2,682,445</b>	<b>2,565,290</b>	<b>418,436</b>	<b>265,261</b>	<b>4,210</b>	<b>4,752</b>	<b>46,733</b>	<b>32,040</b>	<b>1,163,987</b>	<b>1,192,860</b>
<b>Net Assets / Equity</b>	<b>1,156,360</b>	<b>1,064,703</b>	<b>66,263</b>	<b>29,140</b>	<b>23,192</b>	<b>22,088</b>	<b>-</b>	<b>-</b>	<b>75,565</b>	<b>76,554</b>

## RiskCover Fund Financial Statements

The financial statements of the RiskCover Fund are not consolidated as its assets are controlled by the Government of Western Australia and not by the Insurance Commission.

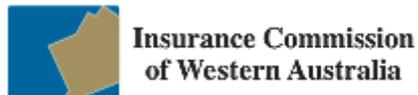
### Statement of Comprehensive Income for the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Premium Revenue	299,789	308,113
Reinsurance and Other Adjustments	(24,865)	(45,876)
Net Claims Incurred	(178,759)	(178,514)
Administration Expenses	(32,664)	(31,219)
<b>Underwriting Profit</b>	<b>63,501</b>	<b>52,504</b>
Investment Income	95,656	101,788
<b>Total Comprehensive Income</b>	<b>159,157</b>	<b>154,292</b>

### Balance Sheet as at 30 June 2018

	2018 \$'000	2017 \$'000
<b>Assets</b>		
Cash and Cash Equivalents	15,637	15,239
Receivables	17,749	18,269
Investments	1,054,785	1,066,680
<b>Total Assets</b>	<b>1,088,171</b>	<b>1,100,188</b>
<b>Liabilities</b>		
Payables <sup>1</sup>	272,945	245,696
Outstanding Claims	533,108	569,258
<b>Total Liabilities</b>	<b>806,053</b>	<b>814,954</b>
<b>Net Assets / Equity</b>	<b>282,118</b>	<b>285,234</b>

<sup>1</sup> Includes provision for Return of Capital amount of \$162.3 million (2017: \$97.7 million).



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## **Insurance Commission of Western Australia**

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