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Insurance boss puts dent in WA's debt

Insurance The ICWA has contributed \$1.2 billion to cut debt.

Brad Thompson

There was a business breakfast last month, soon after Ben Wyatt had delivered his first budget since the Labor government's rise to power in Western Australia.

Reflecting on an offering short on sausage (debt reduction) and peppered with the odd broken promise, the Treasurer looked out on the troubled tables in search of a friend.

His eyes settled on a former Howard government insider and someone who, as a public servant, played a leading role in the \$5.6 billion privatisation of Sydney Airports Corporation Limited in 2002.

It is no real surprise Mr Wyatt gave a shout-out to Rod Whithear.

The chief executive of the Insurance Commission of Western Australia is a man serving up golden eggs to the government.

The ICWA has contributed \$1.2 billion to reducing the state's net debt in the past two years.

Over the five years since Mr Whithear took the reins at the ICWA, it has made \$349.6 million in dividend payments to government through investment returns, delivered \$850 million in operating balance improvements and an additional \$2 billion in net debt reductions.

The dividend figure includes a \$116.9 million injection from the Third Party Insurance Fund after another investment return of more than 10 per cent in 2017.

The ICWA also paid about \$200 million in insurance duties and taxes to the government in the 12 months to June 30, in part because of the bold move to sell directly owned office buildings in the heart of the Perth CBD and two suburban shopping centres.

The ICWA had not paid dividends to the government before Mr Whithear's arrival, but the now frequent delivery hasn't stopped it growing total investment assets held to offset insurance liabilities from \$3.5 billion to more than \$5 billion in the five-year period.

ICWA is the statutory corporation responsible for compulsory third-party motor vehicle insurance and RiskCover, the self-insurance provider for the government and its employees.

Mr Whithear's strong view is that if



Under Rod Whithear, the ICWA has made \$349.6 million in dividend payments to WA's government.
 PHOTO: PHILIP GOSTELOW

you have those sort of monopoly privileges as a government trading arm, you should use them to drive returns in the same way a company would for its shareholders.

"Unlike most government agencies we actually think about shareholder return and we measure shareholder return," he said. "It is a measure applied to companies but not a measure applied to many government institutions."

Mr Wyatt acknowledged as much at the post-budget breakfast in suggesting other government agencies should look to the ICWA's example.

The ICWA costs less to run than it did five years ago and premiums for motorists have remained flat apart from a jump associated with the implementation of a new no-fault catastrophic injuries insurance scheme from July 1, 2016.

The returns delivered by ICWA in recent years are built on investment performance, not siphoning money from motorists back to the government. Its overall investment return was

10.4 per cent, or \$468.4 million, in 2017. The ICWA's cumulative five-year investment return totals 47.2 per cent.

The return on its main fund in 2017 was 10.7 per cent, 200 basis points better than the Future Fund's return.

The ICWA paid \$116.9 million in dividends from \$686.7 million in revenue compared to Australia Post's dividend of \$50 million from \$6.8 bil-

Some of the good calls behind the most recent investment return included staying out of bond ownership. "Both offshore and domestic bond markets lost money last year," Mr Whithear said. "At the moment they are not delivering returns. Other institutions have formed the same view as us that bonds are too highly priced."

Mr Whithear conceded the ICWA

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lion in revenue.

The ICWA is relentless in pursuing the best returns and holds monthly reviews of investment fund managers.

"We don't set and forget," Mr Whithear said. "We have done a lot of due diligence over the last couple of years on existing fund managers and which ones we might change out. We changed over quite a few."

was overweight in cash at about 22 per cent and waiting for "better opportunities", a position not dissimilar to that of the Future Fund.

"Equity markets are pretty fully valued and we have roughly our [target] exposure. We will go back into bonds, but we are looking for some better pricing before we do."

The ICWA has increased its alloca-

tion to infrastructure assets, dipped a toe into US bank loans and sold its way out of directly held property. The exit from direct property ownership began in 2015 and saw the ICWA sell three office towers along St Georges Terrace in Perth and shopping centres in Ellenbrook and Canning Vale.

Mr Whithear said owning the properties had been a distraction for an organisation that wanted to focus on investment performance rather than dealing with hundreds of tenants and building maintenance issues.

"We did pretty well out of that [selling out of Perth property] because we saw a dislocation between two markets," he said. "There was a lot of capital around, like us with 22 per cent cash that we would like to find a home for, and at the same time there were no tenants."

Off-loading the properties reduced the government's net debt by \$870 million, largely because fixed assets like buildings are not consolidated into the state accounts in the same way as liquid assets.

Mr Whithear, a chief of staff to Joe Hockey during his time as a minister in the Howard government, is no stranger to making inroads into debt.

He was one of the four senior public servants charged with managing the sale of the Sydney Airports Corporation Limited, which at the time was the biggest Commonwealth government trade sale in Australian history and reduced debt by \$4.2 billion.

That experience saw him become one of a handful of members of a short-lived asset sales taskforce set up by former premier Colin Barnett.

Mr Whithear is also juggling the Bell Group litigation as the ICWA continues to pursue its share of \$1.8 billion held by the liquidators for distribution between creditors.

Mr Wyatt is unlikely to forget his face any time soon.

On top of the ICWA's Third Party Insurance Fund dividend of \$116.9 million in 2017, the RiskCover Fund will return capital of \$97.7 million to the government's consolidated account.

Of the \$97.7 million, \$60.3 million was included in the 2017-18 state budget.