



**Insurance Commission
of Western Australia**

Mid-Year Performance Report 2017-18

Insurance Commission
of Western Australia

MID-YEAR PERFORMANCE REPORT

In the first half of the 2017-18 financial year (1 July 2017 to 31 December 2017), the Insurance Commission of Western Australia (Insurance Commission) and RiskCover managed insurance claims valued at over \$3.3 billion, (including payments of \$326.5 million to individuals and agencies on 29,500 active claims, and estimated future claims liabilities of almost \$3 billion).

The Insurance Commission and RiskCover generated \$820 million in revenue and earnings for the period. The Insurance Commission's profit before tax was \$162.2 million, which was \$49.9 million better than budget.

These positive mid-year results were driven by strong investment performance during the first half of the year. The Insurance Commission's main investment fund recorded an investment return of 5.89% or \$265.7 million for the first half of 2017-18, and delivered a 10.94% return in the 2017 calendar year.

Investment income has delivered funds to meet increases over and above the increase claims liabilities born by the Insurance Commission.

The return of some volatility in equity markets in the first half of February has not materially affected the half-year results set out in this report.

The unaudited half-year financial statements are included in this Report.

Contributions to Government

The Board's Dividend Policy and the *Insurance Commission of Western Australia Act 1986* balance the Insurance Commission's objective of delivering efficient and equitable insurance services to Western Australian motorists while providing a basis to deliver a dividend to the WA Government as the Insurance Commission's sole shareholder.

In December 2017, the Insurance Commission paid a final dividend to Government of \$21.9 million for the 2016-17 year. In addition to this, the Insurance Commission also paid a special dividend of \$54.3 million in light of its very strong 2016-17 financial performance.

In January 2018, the Insurance Commission agreed to pay an interim dividend to Government of \$22.7 million for the 2017-18 year. In addition to that dividend, in light of the very strong half-year financial performance, the Insurance Commission agreed in January 2018 to pay an additional special dividend of \$50.4 million.

In the first half of the year, the Insurance Commission paid tax of \$22.6 million and insurance duty of \$42.7 million to the WA Government.

As a result of these dividend and tax payments, in the first half of the year the Insurance Commission contributed \$214.6 million (2016-17 full year: \$316 million) to improving the General Government Net Operating Balance. The Insurance Commission has also contributed a further \$329.3 million (2016-17 full year: \$409.7 million) towards reducing State Net Debt.

In 2017, the Board of the Insurance Commission approved a RiskCover Fund target solvency ratio of 135% (assets against liabilities). The Board also approved reserves within the RiskCover Fund above the 135% solvency level being distributed to the WA Government as the owner of the RiskCover Fund after the end of each financial year. In September 2017, the Insurance Commission paid a return of capital to Government of \$97.7 million. The Treasurer has announced these funds as one of two sources to be used by the Government for Consolidated Account debt repayment.

Motor Injury Insurance

In the first half of the year, the Insurance Commission collected \$384 million in motor injury insurance premiums for over 2.9 million insured vehicles.

Over the same period, the Insurance Commission managed car crash claims expected to cost over \$2.5 billion, consisting of \$205 million in claim payments to people injured in crashes, mostly from prior years, and estimated future claims liabilities of \$2.3 billion.

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 the recently introduced *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 more than 1.8 million motorists 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 and its agents who collect premium payments on behalf of the Insurance Commission.

The combination of CTP and CIS insurance cover is known as motor injury insurance. The cost of motor injury insurance in WA continues to be one of the most affordable in Australia. The annual cost of motor injury insurance for a family car, at \$421 from 1 July 2017 in Western Australia, is substantially cheaper than similar insurance in New South Wales (\$717), Australian Capital Territory (\$591), Northern Territory (\$547), South Australia (\$512) and Victoria (\$510).

The Third Party Insurance Fund (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 half-year underwriting profit of \$11.6 million, close to the budget of \$8.8 million. The TPIF recorded a profit before tax of \$207.3 million, which was \$100.9 million (94.9%) better than budget. This was mainly due to net investment income of \$195.6 million which was \$98.1 million (100.5%) better than budget.

While the half-year results are again positive this year, in the past 21 years we have recorded underwriting losses on 16 occasions for the CTP insurance product. This long-term trend of underwriting losses reflects that motor injury insurance premium revenues have been generally insufficient to meet associated claims and administration costs. The Insurance Commission aims to reduce underwriting losses in its CTP and CIS schemes by ensuring premium revenue is sufficient to meet claims and administration costs, whilst seeking to limit insurance premium increases to match rises in wage inflation.

The MVCIF recorded an underwriting loss of \$55.1 million for the first half of the year. This was significantly worse than the budgeted \$0.4 million underwriting loss. The large underwriting loss is primarily due to the forecast cost of care being higher for scheme participants who have, on average, been more severely injured than was initially actuarially projected.

RiskCover

The RiskCover Fund is the self-insurance arrangement for WA Government public authorities (agencies). RiskCover 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 a half-year profit of \$83.2 million, which was \$47 million (129.8%) better than the budgeted profit of \$36.2 million. This result has been driven by an underwriting profit of \$18.6 million and stronger than anticipated investment income of \$64.6 million. The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of other funds managed by the Insurance Commission.

In the first half of the year, RiskCover received 179 fewer new insurance claims compared to the same period in 2017 (5,921). The lower new claims received were mostly in the short-tail insurance classes with fewer new property claims.

RiskCover fund contributions charged to agencies have largely remained flat since 2012. This in part reflects the efforts of agencies in managing insurable risks. This flows from lower workers' compensation claim costs as agencies improve the management of workplace injuries.

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 \$5.2 billion at 31 December 2017. The total value of assets held by the Insurance Commission at 31 December was over \$5.5 billion.

The Insurance Commission's investment return for its main fund in the first half of 2017-18 of 5.89% outperformed market benchmarks by 0.38%. This has been mainly due to outperformance in Property (up 4.98% against benchmark), Alternative Assets (up 0.99% against benchmark, and Global Equities (up 0.25% against benchmark).

In August 2017, the Insurance Commission finalised the sale of the Westralia Square property. This concluded the property divestment project that the Insurance Commission commenced in 2015.



ROD WHITHEAR
CHIEF EXECUTIVE

ACTUAL PERFORMANCE COMPARED TO BUDGET AS AT 31 DECEMBER 2017 - INSURANCE COMMISSION ONLY

	Actual \$'000	Budget \$'000	Variance* \$'000
Net Premium Revenue	382,213	382,212	1
Net Claims Incurred	(393,614)	(337,735)	(55,879)
Underwriting and Administration Expenses	(33,794)	(39,277)	5,483
Underwriting (Loss)/Profit	(45,195)	5,200	(50,395)
Net Investment Income	271,623	138,826	132,797
Finance Costs - RiskCover Investment Return	(64,589)	(33,025)	(31,564)
Other	314	1,241	(927)
Profit before Tax Equivalent	162,153	112,242	49,911
Income Tax Equivalent Expense	(48,646)	(33,673)	(14,973)
Profit After Tax Equivalent	113,507	78,569	34,938

This comparison excludes the RiskCover Fund.

Total Equity (as per Balance Sheet)

1,229,803

	Actual	Budget	Variance*
Annual Investment Rate of Return (%)	5.7	3.1	2.6
Return on Total Assets ¹ (%)	3.0	4.2	(1.2)
Solvency Level (%)	128.7	130.9	(2.2)
Investment Rolling 7-Year Return (%)	7.8	5.5	2.3
Net Loss Ratio (%)	103.0	88.4	(14.6)
Net Expense Ratio (%)	8.8	10.3	1.5
Net Combined Ratio (%)	111.8	98.7	(13.1)

This comparison excludes the RiskCover Fund.

¹ Calculation based on profit before tax.

ACTUAL PERFORMANCE COMPARED TO BUDGET AS AT 31 DECEMBER 2017

- RISKCOVER

	Actual \$'000	Budget \$'000	Variance* \$'000
Premium Revenue	151,840	150,713	1,127
Reinsurance and Other Adjustments	(13,253)	(8,099)	(5,154)
Net Claims Incurred	(102,695)	(122,348)	19,653
Administration Expenses	(17,315)	(17,095)	(220)
Underwriting Profit	18,577	3,171	15,406
Investment Income	64,589	33,025	31,564
Profit	83,166	36,196	46,970
Total Equity (as per Balance Sheet)	368,400		

	Actual	Budget	Variance*
Solvency Level (%)	151.5	139.7	11.8
Net Loss Ratio (%)	74.1	85.8	11.7
Net Expense Ratio (%)	12.5	12.0	(0.5)
Net Combined Ratio (%)	86.6	97.8	11.2

STATEMENT OF COMPREHENSIVE INCOME

at 31 December 2017

	2018 YTD \$'000	2017 \$'000
Premium Revenue	384,390	686,714
Outwards Reinsurance Premium Expense	(2,743)	(8,421)
Outwards Reinsurance Commission Revenue	566	839
Net Premium Revenue	382,213	679,132
Claims Expense	(403,513)	(706,618)
Reinsurance and Other Recoveries	9,899	21,479
Net Claims Incurred	(393,614)	(685,139)
RiskCover Administration Cost Reimbursement	15,537	27,237
Gross Movement in Unexpired Risk Liability	-	(14,432)
Recoveries on Unexpired Risk Liability	-	3,081
Net Movement in Unexpired Risk	-	(11,351)
Premium Collection Costs	(11,901)	(24,106)
Other Underwriting and Administration Expenses	(37,430)	(67,069)
UNDERWRITING LOSS	(45,195)	(81,296)
Investment Income	283,185	468,430
Investment Expenses	(11,562)	(24,151)
RiskCover Investment Return	(64,589)	(101,788)
Other Income	325	1,814
Other Expenses	(11)	(1)
PROFIT BEFORE TAX EQUIVALENT	162,153	263,008
Income Tax Equivalent Expense	(48,646)	(69,873)
PROFIT AFTER TAX EQUIVALENT	113,507	193,135

BALANCE SHEET

as at 31 December 2017

	2018 YTD \$'000	2017 \$'000
ASSETS		
Current Assets		
Cash and Cash Equivalents	2,112	11,004
Receivables	50,123	55,030
Current Tax Receivable	17,986	-
Investments	4,580,505	4,073,713
Deferred Premium Collection Costs	4,933	4,933
Other Assets	3,865	2,189
Total Current Assets	4,659,524	4,146,869
Non-Current Assets		
Receivables	219,601	213,770
Investments	627,191	619,823
Plant and Equipment	1,876	2,285
Investment Property	-	195,617
Intangibles	4,788	5,318
Total Non-Current Assets	853,456	1,036,813
TOTAL ASSETS	5,512,980	5,183,682
LIABILITIES		
Current Liabilities		
Payables	11,671	36,560
Financial Liabilities - RiskCover Investments	1,155,568	1,066,680
Current Tax Payable	-	4,603
Outstanding Claims	444,989	444,989
Unearned Premium	277,048	285,792
Unexpired Risk Liability	14,432	14,432
Provisions	9,294	8,548
Total Current Liabilities	1,913,002	1,861,604
Non-Current Liabilities		
Outstanding Claims	2,203,817	2,010,944
Provisions	8,355	9,290
Deferred Tax Liabilities	158,003	109,358
Total Non-Current Liabilities	2,370,175	2,129,592
TOTAL LIABILITIES	4,283,177	3,991,196
NET ASSETS	1,229,803	1,192,486
EQUITY		
Compensation (Industrial Diseases) Fund Reserve	22,870	22,088
Retained Earnings	1,206,933	1,170,398
TOTAL EQUITY	1,229,803	1,192,486

FUNDS' FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME at 31 December 2017

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000
Premium Revenue	297,785	580,875	86,549	105,744	56	95	-	-	-	-
Outwards Reinsurance Premium Expense	(1,098)	(4,532)	(1,645)	(3,889)	-	-	-	-	-	-
Outwards Reinsurance Commission Revenue	339	468	227	371	-	-	-	-	-	-
Net Premium Revenue	297,026	576,811	85,131	102,226	56	95	-	-	-	-
Claims Expense	(260,764)	(521,802)	(143,036)	(189,074)	-	232	287	(459)	-	4,485
Other Recoveries Revenue	2,598	14,393	7,473	9,483	(1)	(44)	(173)	752	2	(3,105)
Net Claims Incurred	(258,166)	(507,409)	(135,563)	(179,591)	(1)	188	114	293	2	1,380
RiskCover Administration Cost Reimbursement	-	-	-	-	-	-	-	-	16,367	28,803
Gross Movement in Unexpired Risk Liability	-	-	-	(14,432)	-	-	-	-	-	-
Reinsurance and Other Recoveries on Unexpired Risk Liability	-	-	-	3,081	-	-	-	-	-	-
Net Movement in Unexpired Risk	-	-	-	(11,351)	-	-	-	-	-	-
Premium Collection Costs	(9,334)	(19,801)	(2,567)	(4,305)	-	-	-	-	-	-
Other Underwriting and Administration Expenses	(17,890)	(29,601)	(2,084)	(5,036)	(384)	(1,043)	(190)	(1,576)	(17,712)	(31,379)
UNDERWRITING PROFIT	11,636	20,000	(55,083)	(98,057)	(329)	(760)	(76)	(1,283)	(1,343)	(1,196)
Investment Income	206,872	345,366	6,304	3,860	1,530	2,596	(50)	(90)	68,529	116,698
Investment Expenses	(11,238)	(22,965)	(394)	(162)	(84)	(173)	-	-	154	(851)
RiskCover Investment Return	-	-	-	-	-	-	-	-	(64,589)	(101,788)
Other Income	46	163	12	29	-	-	126	1,373	141	249
Other Expenses	-	-	-	-	-	-	-	-	(11)	(1)
PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT EXPENSE	207,316	342,564	(49,161)	(94,330)	1,117	1,663	-	-	2,881	13,111
Income Tax Equivalent Expense	(62,195)	(93,401)	14,749	27,571	(335)	(439)	-	-	(865)	(3,604)
PROFIT/(LOSS) AFTER INCOME TAX EQUIVALENT EXPENSE	145,121	249,163	(34,412)	(66,759)	782	1,224	-	-	2,016	9,507

FUNDS' FINANCIAL STATEMENTS (continued)
**BALANCE SHEET
at 31 December 2017**

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000
ASSETS										
Current Assets										
Cash and Cash Equivalents	-	-	1,395	5,920	-	-	-	-	44,385	5,084
Receivables	34,983	38,464	4,860	6,072	101	101	3,355	3,229	7,134	9,667
Current Tax Receivable	-	-	21,259	21,259	-	-	-	-	42,441	38,815
Investments	-	-	-	-	-	-	-	-	4,580,505	4,073,713
Deferred Premium Collection Costs	4,933	4,933	-	-	-	-	-	-	-	-
Other Assets	1,097	-	996	-	-	-	-	-	1,772	2,189
Total Current Assets	41,013	43,397	28,510	33,251	101	101	3,355	3,229	4,676,237	4,129,468
Non-Current Assets										
Receivables	129,454	128,179	16,372	8,899	517	569	33,424	35,541	39,834	40,582
Investments	-	-	-	-	-	-	-	-	627,191	619,823
Deferred Tax Assets	-	-	21,061	6,312	-	-	-	-	-	117
Plant and Equipment	-	-	-	-	-	-	-	-	1,876	2,285
Investment Property	-	-	-	-	-	-	-	-	-	195,617
Intangibles	-	-	-	-	-	-	-	-	4,788	5,318
Total Non-Current Assets	129,454	128,179	37,433	15,211	517	569	33,424	35,541	673,689	863,742
Inter-Fund Investments	3,656,326	3,458,417	334,349	245,939	27,616	26,170	(6,780)	(6,730)	(4,011,511)	(3,723,796)
TOTAL ASSETS	3,826,793	3,629,993	400,292	294,401	28,234	26,840	29,999	32,040	1,338,415	1,269,414

FUNDS' FINANCIAL STATEMENTS (continued)

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000	2018 YTD \$'000	2017 \$'000
LIABILITIES										
Current Liabilities										
Bank Overdraft	41,753	-	-	-	1,036	-	879	-	-	-
Payables	7,627	14,867	2,597	3,973	(64)	428	-	86	1,821	19,709
Current Tax Payable	45,523	64,487	-	-	191	191	-	-	-	-
Financial Liabilities - RiskCover Investments	-	-	-	-	-	-	-	-	1,155,568	1,066,680
Outstanding Claims	418,160	418,160	11,215	11,215	536	536	3,228	3,228	11,850	11,850
Unearned Premium	211,391	223,493	65,600	62,199	57	100	-	-	-	-
Unexpired Risk Liability Provisions	-	-	14,432	14,432	-	-	-	-	-	-
	1,437	-	395	-	-	-	-	-	7,462	8,548
Total Current Liabilities	725,891	721,007	94,239	91,819	1,756	1,255	4,107	3,314	1,176,701	1,106,787
Non-Current Liabilities										
Outstanding Claims	1,789,740	1,728,950	311,324	173,442	2,819	3,043	25,892	28,726	74,042	76,783
Provisions	-	-	-	-	-	-	-	-	8,355	9,290
Deferred Tax Liabilities	177,527	115,333	-	-	789	454	-	-	748	-
Total Non-Current Liabilities	1,967,267	1,844,283	311,324	173,442	3,608	3,497	25,892	28,726	83,145	86,073
TOTAL LIABILITIES	2,693,158	2,565,290	405,563	265,261	5,364	4,752	29,999	32,040	1,259,846	1,192,860
NET ASSETS	1,133,635	1,064,703	(5,271)	29,140	22,870	22,088	-	-	78,569	76,554
EQUITY										
Compensation (Industrial Diseases) Fund Reserve	-	-	-	-	22,870	22,088	-	-	-	-
Funds' Retained Earnings	1,133,635	1,064,703	(5,271)	29,140	-	-	-	-	78,569	76,554
TOTAL EQUITY	1,133,635	1,064,703	(5,271)	29,140	22,870	22,088	-	-	78,569	76,554

The Government Insurance Fund forms part of the financial statements of the Insurance Commission. The Government of Western Australia assumed liability for the accumulated deficit in that Fund from 1 July 1997 after Cabinet's decision in June 1996.

The above Balance Sheet for the five Funds is presented before eliminations for inter-fund transactions.

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 at 31 December 2017

	2018 YTD \$'000	2017 \$'000
Premium Revenue	151,840	308,113
Premium Adjustment	(5,257)	(30,059)
Outwards Reinsurance Premium Expense	(8,545)	(16,599)
Outwards Reinsurance Commission Revenue	549	782
Net Premium Revenue	138,587	262,237
Claims Expenses		
Claims Paid	(115,885)	(205,899)
Movement in Outstanding Claims	6,592	26,103
Reinsurance and Other Recoveries Revenue	6,598	1,282
Net Claims Incurred	(102,695)	(178,514)
Administration Expenses	(17,315)	(31,219)
UNDERWRITING PROFIT	18,577	52,504
Investment Income	64,589	101,788
TOTAL COMPREHENSIVE INCOME	83,166	154,292

BALANCE SHEET as at 31 December 2017

ASSETS

Current Assets

Cash and Cash Equivalents	-	15,239
Receivables	9,038	8,856
Investments	1,155,568	1,066,680
Other Assets	8,194	-
Total Current Assets	1,172,800	1,090,775

Non-Current Assets

Receivables	10,927	9,413
Total Non-Current Assets	10,927	9,413
TOTAL ASSETS	1,183,727	1,100,188

LIABILITIES

Current Liabilities

Bank Overdraft	5,916	-
Payables	7,800	59,023
Provision for Return of Capital	-	97,722
Unearned Premium	149,781	-
Outstanding Claims	229,960	231,046
Other Liabilities	213	-
Total Current Liabilities	393,670	387,791

Non-Current Liabilities

Payables	88,951	88,951
Outstanding Claims	332,706	338,212
Total Non-Current Liabilities	421,657	427,163
TOTAL LIABILITIES	815,327	814,954

NET ASSETS

NET ASSETS	368,400	285,234
EQUITY		
Retained Earnings	298,671	215,505
Prudential Reserve	69,729	69,729
TOTAL EQUITY	368,400	285,234



**Insurance Commission
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