


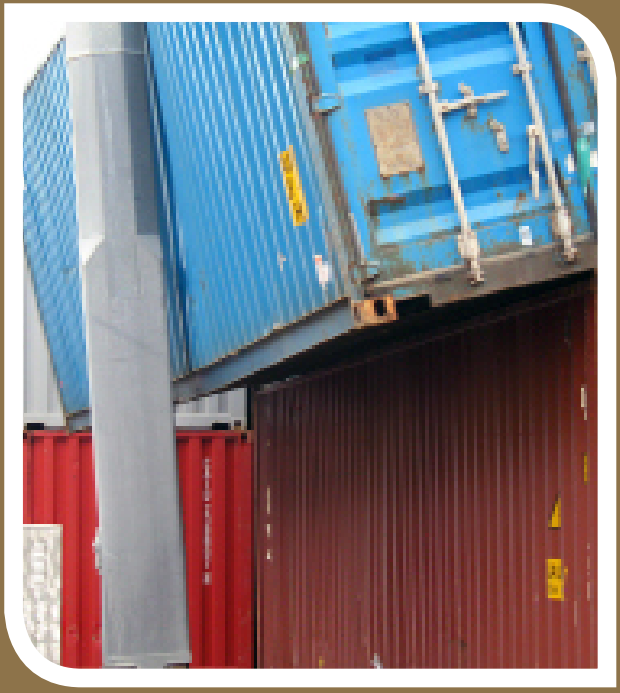

# Annual Report 2012

## Insurance Commission of Western Australia

Insurance Commission
of Western Australia




Please note that in this Annual Report:

References to the year 2013 mean the 2012-2013 financial year ending 30 June 2013.
References to the year 2012 mean the 2011-2012 financial year ending 30 June 2012.
References to the year 2011 mean the 2010-2011 financial year ending 30 June 2011.
References to the year 2010 mean the 2009-2010 financial year ending 30 June 2010.

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## 3.0 SIGNIFICANT ISSUES IMPACTING THE INSURANCE COMMISSION



## 4.0 DISCLOSURES AND LEGAL COMPLIANCE

# Statement of Compliance to the Minister

**TO THE HON TROY BUSWELL MLA**
**TREASURER**

In accordance with Section 63 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Insurance Commission of Western Australia for the financial year ended 30 June 2012.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006* and the *Insurance Commission of Western Australia Act 1986.*

**MICHAEL E WRIGHT**
**CHAIRMAN**
17 September 2012

**ROD C WHITHEAR**
**CHIEF EXECUTIVE**
17 September 2012

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia, passed on 29 August 2012.


# Contact Details

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# SECTION ONE
# OVERVIEW

# 1.1 EXECUTIVE SUMMARY

## 1.1.1 Chairman's Review

The Board of Commissioners presents the Annual Report of the Insurance Commission of Western Australia for 2012. The Report records the financial performance of the Funds administered or (in the case of RiskCover), managed by the Insurance Commission during the 12 months ended on 30 June 2012, together with their financial position as at that date. As a result of a significant increase in claims expenses (particularly provisions for future claims) and lower investment returns than budgeted, the Insurance Commission (excluding RiskCover) reports a total comprehensive loss after tax for 2012 of $102.6 million (2011: after-tax profit of $53.6 million). The RiskCover Fund (managed by the Insurance Commission on behalf of the Department of Treasury) also experienced a material increase in claims expenses (including provisions) and was impacted by lower investment returns. As a consequence, the RiskCover result for the year (which is not tax-effected) was a loss of $27.2 million (2011: loss of $11.4 million).

### Investment Performance

The 2012 year saw significant volatility in investment returns with counter-intuitive risk rewards. The financial turmoil in European markets (led by Greece, Spain and Italy) resulted in flight from Euro-denominated sovereign bonds issued by a number of European countries. The rise in the exchange rate of the Australian dollar against major trading currencies had a detrimental effect on Australian Equities reliant on manufacturing or competing with imported products. Commodity based enterprises returned mixed results despite continued investor faith in the China story. Nevertheless, the Insurance Commission's diversified investment strategy performed creditably in the circumstances and resulted in a positive annual return of 2.9% (before fees) for the year.

### Bell Recoveries

In Annual Reports of recent years, I have commented in the Chairman's Review on the Insurance Commission's ongoing financial support for the Court-appointed Liquidators to the Bell Group of Companies in pursuing their claim against 20 Banks led by Westpac Banking Corporation and Lloyds TSB Bank plc (formerly Lloyds Bank plc) of London. The Bell Group Liquidators' claim against the Banks arose from the Banks taking security over the assets of the Bell Group at a time when the Bell Group was found to be insolvent. The Banks subsequently realised the securities and appropriated the Bell Group assets to the detriment of other Bell Group creditors.

The Bell Group Liquidators commenced legal proceedings against the Banks to recover the value of the Bell Group assets seized and were successful in obtaining judgment at first instance in the Supreme Court of Western Australia for an amount of approximately $1.6 billion. The Banks

appealed that judgment to the Court of Appeal of the Supreme Court of Western Australia and the Bell Group Liquidators cross-appealed. On 17 August 2012, the Court of Appeal handed down its decision, dismissing the Banks' appeal and allowing the Liquidators' cross-appeal in part. As a result of the Court of Appeal decision, the amount repayable by the Banks to the Bell Group Administrations is now calculated to be between $2 billion and $3 billion.

The Judgment of the Court of Appeal may be the subject of a final appeal to the High Court of Australia.

The Insurance Commission continues to provide financial support to the Bell Group Liquidators in their recovery efforts on behalf of all creditors. The Insurance Commission is not a party to the Bell Litigation but manages its exposure to legal issues arising from its role as an indemnifying creditor through its wholly-owned subsidiary, ICWA Law Pty Ltd.

## Management and Executive Committee

The Insurance Commission is well served by a loyal, competent and dedicated staff committed to fulfilling our core values. They are led by an equally professional group of Executives. I extend thanks to all for their commitment and effort. I wish to pay particular tribute to Mr Vic Evans who resigned in May 2012 after serving as Managing Director of the Insurance Commission for 19 years. In total, Vic served with the Insurance Commission and its predecessor entities for 52 years, and provided incomparable leadership and guidance to the organisation through good times and bad. His outstanding contribution will not be readily forgotten and we thank him sincerely and wish him the best for the future.

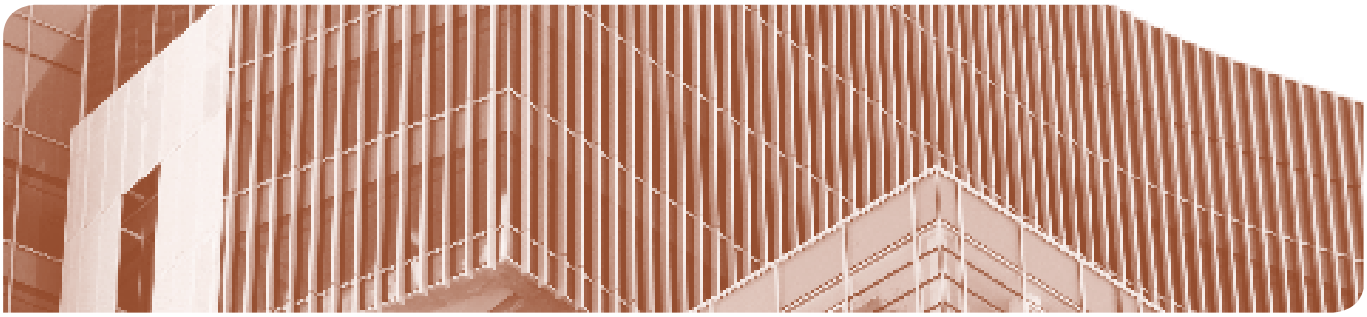
Vic Evans' successor as Chief Executive of the Insurance Commission is Mr Rod Whithear and, on behalf of the Board, I extend a special welcome to Rod and look forward to working with him to further enhance the reputation of the Insurance Commission as a pre-eminent commercial enterprise serving the interests of the people of Western Australia to the best of its ability.

## Acknowledgements

I would like to extend my personal gratitude for the generous support and wise guidance I enjoyed from members of the Board of Commissioners who retired from the Board during the financial year, namely Ms Sharon Brown, Ms Annemie McAuliffe, Ms Judy McGowan and Mr Doug Pascoe. Their contribution is much appreciated.

I also recognise the Hon Troy Buswell MLA, Treasurer; Minister for Transport; Emergency Services who is the Minister with responsibility for the Insurance Commission.

**MICHAEL E WRIGHT**
**CHAIRMAN**



## 1.1.2 Chief Executive's Report

Having joined the Insurance Commission at the end of the financial year, I am looking forward to direct involvement in its future activities and achievements together with the Board and our Minister.

I see that we have some exciting challenges ahead of us this year as we seek to maintain the best financial returns possible in a very difficult investment environment.

We will need to deliver quality services for our clients while managing sustained pressure on our costs, provide sound advice to Government on any potential policy changes in insurance, and importantly, make sure our staff are well supported to ensure that the Insurance Commission delivers against its targets.

I look forward to vigorously addressing these challenges.

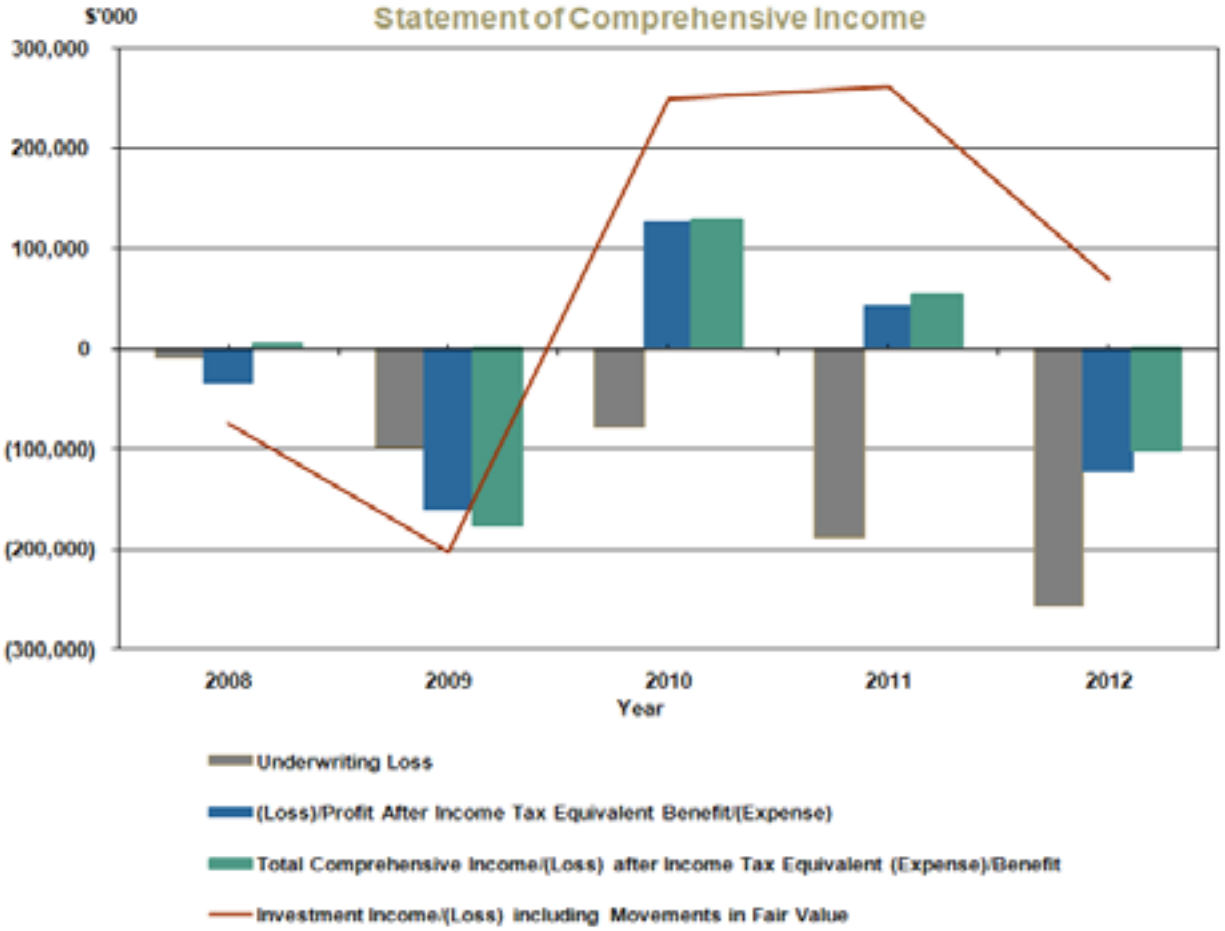
**ROD C WHITHEAR**
**CHIEF EXECUTIVE**

# 1.1.3 Financial Overview - Insurance Commission of Western Australia (Consolidated)

| STATEMENT OF COMPREHENSIVE INCOME | Notes* | 2008 $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 |
|---|---|---|---|---|---|---|
| **Net Premium Revenue** | 2 | 356,865 | 380,518 | 405,505 | 425,627 | 440,454 |
| Claims Expense | 3 | (314,064) | (408,437) | (413,879) | (528,073) | (632,143) |
| Reinsurance and Other Recoveries Revenue | 2 | 1,887 | 3,286 | 12,512 | 11,496 | 25,121 |
| **Net Claims Incurred** | 4 | (312,177) | (405,151) | (401,367) | (516,577) | (607,022) |
| Gross Movement in Unexpired Risk Liability | 17 | 488 | 10,700 | - | - | (26,130) |
| Reinsurance and Other Recoveries on Unexpired Risk Liability | 17 | 700 | (10,700) | - | - | 14,900 |
| **Net Movement in Unexpired Risk Liability** | 3,17 | 1,188 | - | - | - | (11,230) |
| Acquisition Costs | 3,11 | (10,109) | (11,007) | (13,566) | (18,498) | (18,235) |
| Underwriting and Administration Expenses | 3 | (45,812) | (62,127) | (69,555) | (78,276) | (61,685) |
| **Underwriting Loss** | | **(10,045)** | **(97,767)** | **(78,983)** | **(187,724)** | **(257,718)** |
| Investment Income/(Loss) including Movements in Fair Value | 2 | (75,333) | (202,828) | 249,736 | 261,557 | 69,324 |
| Investment Expenses | 3 | (19,918) | (21,540) | (21,960) | (24,271) | (28,536) |
| Finance (Costs)/Recoup | 3 | 15,863 | 42,244 | (35,769) | (37,807) | (7,621) |
| Other Income | 2 | 34,823 | 56,523 | 56,266 | 54,580 | 56,934 |
| Other Expenses | 3 | (12,932) | (16,166) | (15,833) | (17,201) | (17,060) |
| **(Loss)/Profit Before Income Tax Equivalent Benefit/(Expense)** | | **(67,542)** | **(239,534)** | **153,457** | **49,134** | **(184,677)** |
| Income Tax Equivalent Benefit/(Expense) | 5 | 33,432 | 78,697 | (26,607) | (6,385) | 62,705 |
| **(Loss)/Profit After Income Tax Equivalent Benefit/(Expense)** | | **(34,110)** | **(160,837)** | **126,850** | **42,749** | **(121,972)** |
| Fair Value Revaluation of Land and Buildings presented as Plant, Property and Equipment | | 55,648 | (22,247) | 2,267 | 15,433 | 27,690 |
| Related Income Tax Equivalent (Expense)/Benefit | | (16,694) | 6,674 | (681) | (4,630) | (8,307) |
| **Other Comprehensive Income/(Loss) after Income Tax Equivalent (Expense)/Benefit** | | **38,954** | **(15,573)** | **1,586** | **10,803** | **19,383** |
| **Total Comprehensive (Loss)/Income after Income Tax Equivalent Benefit/(Expense) Attributable to the Government of Western Australia** | | **4,844** | **(176,410)** | **128,436** | **53,552** | **(102,589)** |
| **STATEMENT OF FINANCIAL POSITION** | | | | | | |
| Financial Assets at Fair Value through Profit or Loss | 7 | 2,173,371 | 1,922,998 | 2,118,213 | 2,316,539 | 2,352,764 |
| Other Assets | 6,8-12 | 995,474 | 926,941 | 959,891 | 1,037,961 | 1,112,505 |
| **Total Assets** | | **3,168,845** | **2,849,939** | **3,078,104** | **3,354,500** | **3,465,269** |
| Financial Liabilities at Fair Value through Profit or Loss | 14 | 424,015 | 334,431 | 372,855 | 422,247 | 469,994 |
| Outstanding Claims Liability | 15 | 1,459,920 | 1,545,249 | 1,579,728 | 1,715,056 | 1,915,440 |
| Unearned Premium Liability | 16 | 150,231 | 162,085 | 173,927 | 184,522 | 189,470 |
| Other Liabilities | 5,13,18 | 253,932 | 103,837 | 118,838 | 146,367 | 106,646 |
| **Total Liabilities** | | **2,288,098** | **2,145,602** | **2,245,348** | **2,468,192** | **2,681,550** |
| **Net Assets** | | **880,747** | **704,337** | **832,756** | **886,308** | **783,719** |
| Asset Revaluation Surplus | | 119,610 | 104,037 | 104,269 | 115,072 | 134,455 |
| Compensation (Industrial Diseases) Fund Reserve | | 18,093 | 16,505 | 16,979 | 17,876 | 17,484 |
| Retained Earnings | 38 | 743,044 | 583,795 | 711,508 | 753,360 | 631,780 |
| **Total Equity** | | **880,747** | **704,337** | **832,756** | **886,308** | **783,719** |

The Financial Overview excludes the RiskCover Fund.

* For full details, refer Financial Statements section.


$'000
Statement of Comprehensive Income
300,000
200,000
100,000
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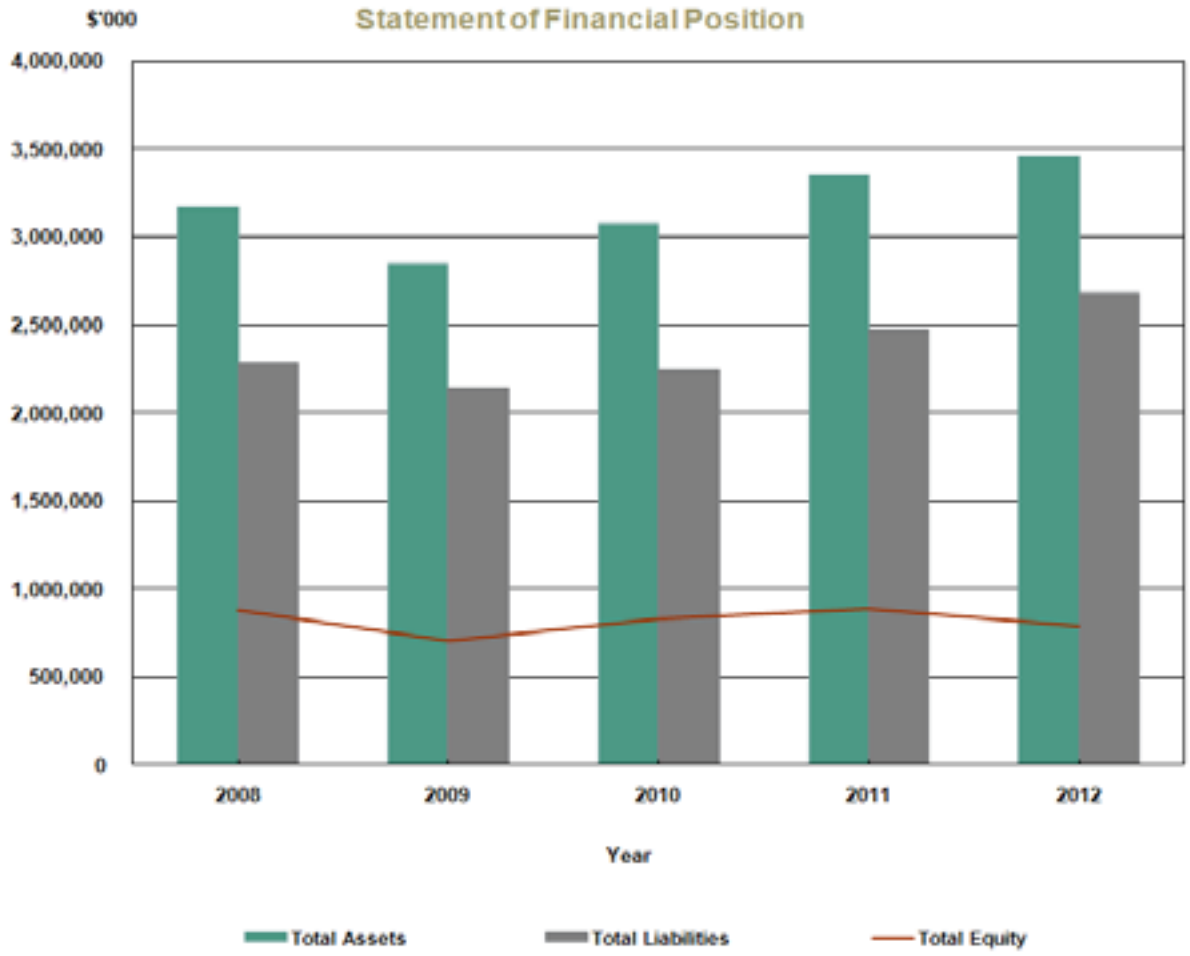
(100,000)
(200,000)
(300,000)
2008
2009
2010
2011
2012
Year
Underwriting Loss
(Loss)/Profit After Income Tax Equivalent Benefit/(Expense)
Total Comprehensive Income/(Loss) after Income Tax Equivalent (Expense)/Benefit
Investment Income/(Loss) including Movements in Fair Value


$'000
Statement of Financial Position
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2008
2009
2010
2011
2012
Year
Total Assets
Total Liabilities
Total Equity

2012

# 1.1.4 At a Glance

## The Insurance Commission

- Consolidated total assets at balance date were $3.5 billion, with consolidated net assets of $783.7 million.
- A consolidated after-tax comprehensive loss of $102.6 million was recorded.
- Net outstanding claims provisions within the Third Party Insurance Fund (TPIF) increased by $182.2 million. This was $119.9 million worse than had been forecast by an independent Actuary, primarily due to reductions in risk free discount rates which follow Treasury bonds.
- Investment gross return for the year was 2.9% (positive 2.5% net of fees and expenses) this was significantly lower than forecast.
- The TPIF solvency ratio (assets divided by liabilities) reduced to 127.2% at 30 June 2012 compared with 137.1% at 30 June 2011.
- Western Australia's Compulsory Third Party Insurance premium for a family motor vehicle remains the lowest in Australia.
- Motor vehicle personal injury claims payments for 2012 amounted to $420.0 million (net of GST) of which approximately $377.4 million was paid for the direct benefit of claimants.

## The RiskCover Fund

- Sustained a Total Comprehensive Loss for 2012 of $27.2 million due to low levels of investment return combined with a strengthening of net outstanding claims provisions driven by a reduction in the risk free discount rate and a significant increase in the duration of workers' compensation claims.
- At 30 June 2012, due to the RiskCover Fund having insufficient Retained Earnings, the Prudential Reserve was reduced to $1.0 million. This is $71.1 million below the amount which would be needed to maintain a 75% likelihood of adequacy with respect to the provision for outstanding claims.
- The RiskCover Fund remains in a marginally fully-funded position, with net assets of $1.0 million.
- RiskCover played a significant role in assisting the Western Australia Police and the Department of the Premier and Cabinet with the risk assessment and planning of the successful Commonwealth Heads of Government Meeting (CHOGM) and Royal Visit held in Perth in October 2011.

# 1.1.5 Financial Budgets - Actual Performance Compared to Budget (Insurance Commission Only)

| | Notes* | 2012 Budget $'000 | 2012 Actual $'000 | 2012 Variation* $'000 |
|---|---|---|---|---|
| Net Premium Revenue | 2,3 | 434,728 | 440,454 | 5,726 |
| Net Claims Incurred | 4 | (458,560) | (607,283) | (148,723) |
| Underwriting and Administration Expenses | 3 | (82,364) | (91,855) | (9,491) |
| **Underwriting Loss** | | **(106,196)** | **(258,684)** | **(152,488)** |
| Net Investment Income | 2,3 | 201,730 | 40,788 | (160,942) |
| Finance Costs | 3 | (37,249) | (8,574) | 28,675 |
| Other | 2,3 | 38,576 | 41,513 | 2,937 |
| **Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit** | | **96,861** | **(184,957)** | **(281,818)** |
| Income Tax Equivalent (Expense)/Benefit | | (29,058) | 62,985 | 92,043 |
| **Profit After Income Tax Equivalent Expense** | | **67,803** | **(121,972)** | **(189,775)** |

This comparison excludes the RiskCover Fund.

* For full details, refer Financial Statements section. Detailed explanation of variations are contained in Note 24 'Explanatory Statement' of the financial statements.

| | $'000 |
|---|---|
| **Total Equity (as per Statement of Financial Position)** | **783,719** |

## KEY PERFORMANCE INDICATORS SUMMARY - ACTUAL PERFORMANCE COMPARED TO BUDGET (INSURANCE COMMISSION ONLY)

| | 2012 Budget | 2012 Actual | 2012 Variation* |
|---|---|---|---|
| Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Net Premium Revenue (%) | 22.3 | (42.0) | (64.3) |
| Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Total Revenue (%) | 13.2 | (30.9) | (44.1) |
| Net Operating Cash Flow ($M) | 93.7 | 109.5 | 15.8 |
| Return on Total Assets (%) | 2.8 | (5.4) | (8.2) |
| Investment Income Rate of Return (%) | 7.8 | 2.9 | (4.9) |
| Net Loss Ratio (%) ** | 105.1 | 136.8 | (31.7) |
| Net Expense Ratio (%) ** | 9.8 | 10.3 | (0.5) |
| Net Investment Ratio (%) ** | 37.3 | 8.4 | (28.9) |

This comparison excludes the RiskCover Fund.

* Detailed explanation of variations are contained in the Key Performance Indicators section.

** Third Party Insurance Fund only.

# 1.2 THE INSURANCE COMMISSION STORY

## 1.2.1 History

### » 15 June 1926

State Government Insurance Office established.

### » 1 July 1949

Motor Vehicle Insurance Trust established.

### » 1 January 1987

State Government Insurance Commission (Insurance Commission) established under the *State Government Insurance Commission Act 1986* following the amalgamation of the State Government Insurance Office and the Motor Vehicle Insurance Trust.

State Government Insurance Corporation (Corporation), trading as SGIO, also established as a subsidiary of the Insurance Commission under the *State Government Insurance Commission Act 1986.*

### » 7 January 1993

SGIO Insurance Limited established under the *SGIO Privatisation Act 1992* and traded selected general insurance products prior to its sale by public float. The Corporation (no longer trading as SGIO Insurance Limited) ceased underwriting the reinsurance and life insurance business, which was not transferred to SGIO Insurance Limited, and existed to run-off its remaining claims liabilities.

### » 31 March 1994

SGIO Insurance Limited sold by public float, ceasing to be a subsidiary of the State Government Insurance Commission.

### » 1 October 1997

The name of the State Government Insurance Commission was changed to the Insurance Commission of Western Australia (Insurance Commission). The title of the relevant statute (*Insurance Commission of Western Australia Act 1986*) was also changed to reflect the new name.

### » 2 May 2011

ICWA Law Pty Ltd, a wholly-owned subsidiary of the Insurance Commission of Western Australia, created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action.

## 1.2.2 About the Insurance Commission

The Insurance Commission is primarily responsible for:

- Administering, underwriting and managing Western Australia's Compulsory Third Party (CTP) Insurance scheme for motor vehicle personal injuries; and
- Managing the Government of Western Australia's self-insurance and risk management enterprise, RiskCover on behalf of the Department of Treasury. RiskCover was established in 1997 as a business division of the Insurance Commission.

The consolidated financial results of the Insurance Commission represent the combined results of the Insurance Commission, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd but exclude the RiskCover Fund.

### Funds

The Insurance Commission underwrites and manages four funds under its enabling legislation:

- The Third Party Insurance Fund;
- The Compensation (Industrial Diseases) Fund;
- The Insurance Commission General Fund; and
- The Government Insurance Fund.

It should be noted that the Government of Western Australia indemnifies the Insurance Commission for any deficit in the Government Insurance Fund (Refer Note 6 of the Financial Statements).

### Administered Fund

The RiskCover Fund managed by the Insurance Commission is underwritten by the Government of Western Australia.

### Subsidiary Companies

The Corporation was a wholly-owned subsidiary of the Insurance Commission. It was a separate legal entity and published its own annual report. The Corporation existed to run-off small lines of Australian and overseas inwards reinsurance business written between 1988 and 1992. The Insurance Commission's RiskCover Division managed the run-off of the Corporation's business.

The Corporation was wound up with effect from 1 July 2012. Its remaining assets and liabilities were transferred to the Insurance Commission.

ICWA Law Pty Ltd is a wholly-owned subsidiary of the Insurance Commission. Its sole purpose is to provide legal services to the Insurance Commission in relation to the Bell Recovery Action.

## 1.2.3 Relationship with the Government of Western Australia

The Insurance Commission is an Agent of the Crown in right of the State and has the status, immunities and privileges of the Crown, except as otherwise prescribed in the *Insurance Commission of Western Australia Act 1986.*

# 1.2.4 Vision, Mission and Core Values

## Vision

Recognised by the community as the leader in the responsible management of risk and the delivery of equitable compensation schemes.

## Mission

To excel in the delivery of high quality insurance and risk management services, specifically:

- Provide insurance for motor vehicle personal injury and industrial diseases compensation;
- Manage and administer self-insurance and risk management services on behalf of Western Australian public authorities and eligible community groups; and
- Provide advice to government on matters relating to insurance and risk management,

in accordance with the *Insurance Commission of Western Australia Act 1986*.

## Core Values

In everything we do our core values are:

**S**implicity

**T**eamwork

**A**ccountability

**I**ntegrity and Openness

**R**espect and Compassion.

# 1.3 OPERATIONAL STRUCTURE

The Insurance Commission has two main insurance business divisions: the Motor Vehicle Personal Injury (MVPI) Division and RiskCover Division, which are supported by various corporate service areas.

The Chief Executive works with the Board of Commissioners and the Executive Committee to oversee strategic planning, and all operational and administrative functions of the organisation.

## 1.3.1 Responsible Minister

The Hon C. Christian Porter MLA, Treasurer; Attorney General was the Minister responsible for the Insurance Commission until 12 June 2012.

From 12 June 2012 the Hon Colin Barnett MLA, Premier; Minister for State Development; Treasurer was the Minister responsible for the Insurance Commission until 7 July 2012.

From 7 July 2012 the Hon Troy Buswell MLA, Treasurer; Minister for Transport; Emergency Services is the Minister responsible for the Insurance Commission.

# 1.3.2 The Leadership Team

## Board of Commissioners

The Board of Commissioners (Board) is the governing body of the Insurance Commission. It has legislative authority to exercise and perform the powers, functions and duties conferred or imposed on the Insurance Commission under the *Insurance Commission of Western Australia Act 1986.*

The Board is responsible for:

- The overall corporate governance of the Insurance Commission;
- Approving goals, strategic directions and budgets;
- Preparation of Strategic Development Plan (SDP) and Statement of Corporate Intent (SCI);
- Ensuring that legal compliance, ethical behaviour and proper risk management processes are in place and operating effectively; and
- With the written approval of the Treasurer, arrange for the appointment of investment managers.

Comprehensive monthly reports are provided to the Board to enable it to monitor performance. Board meetings are generally held monthly.

The structure of the Board is subject to the following parameters:

- The Board must comprise at least three and not more than six persons appointed as Commissioners; and the Chief Executive who is a Commissioner ex-officio;
- Commissioners are appointed by the Governor of Western Australia on the nomination of the Minister;
- The Minister appoints a Chairperson and Deputy Chairperson from the six non-Executive Commissioners; and
- Commissioners are appointed for terms of up to three years and are eligible for re-appointment.

## Code of Conduct

The Board of Commissioner's Code of Conduct requires all Commissioners to act with honesty, fairness and integrity and to display the highest ethical standards at all times.

## Commissioners' and Chief Executive's Remuneration

Remuneration for non-Executive Commissioners is determined by the Minister on the recommendation received from the Public Sector Commissioner.

From 30 May 2012 the remuneration for the Chief Executive is determined by the Salaries and Allowances Tribunal.

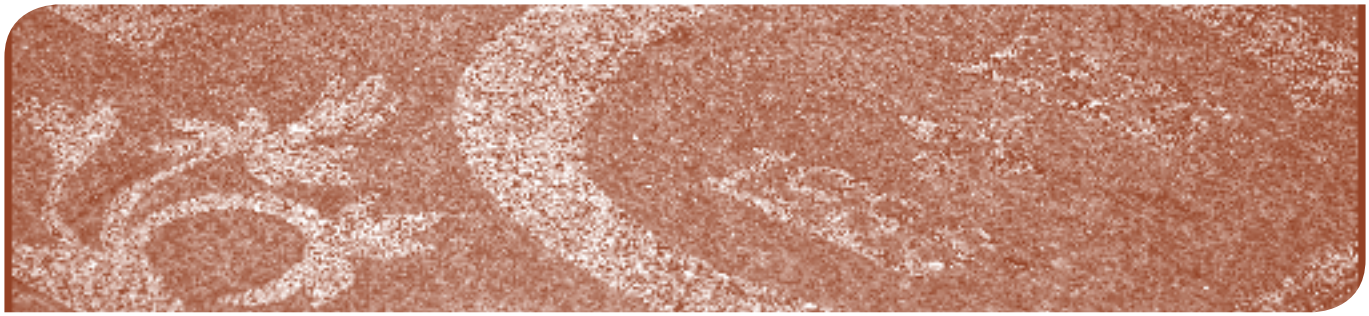
## Board Performance

Board members completed a Board Performance Measurement Questionnaire as part of their annual evaluation process.

## Changes to the Board

There were four changes to the composition of the Board during the year:

Mr Terry Agnew replaced Mr Doug Pascoe on 1 November 2011.
Ms Ainslie van Onselen replaced Ms Annemie McAuliffe on 1 November 2011.
Dr Christopher Kendall replaced Ms Sharon Brown on 1 November 2011.
Mr Stephen Boyle replaced Ms Judy McGowan on 1 November 2011.



## Board of Commissioners' Profiles

At 30 June 2012, the Board of Commissioners comprised:

**Michael Wright FAICD**
Chairman

Mr Wright is a Barrister and Solicitor who has been in legal practice since 1964. He is a former senior partner of law firm Mallesons Stephen Jacques. Mr Wright specialised in banking and finance and corporate commercial and resources law.

Mr Wright is a past National President of the Australian Mining and Petroleum Law Association Limited, past Deputy Chairman of Wesfi Limited Group and a past Director of Markalinga Investments Limited. Mr Wright is Chairman of CCK Financial Solutions Limited and a Director of Wesbeam Holdings Limited Group.

### Committee Membership

Audit and Accounts Committee
Chairman ICWA Law Pty Ltd
First appointed: 7 January 1993, appointed Chairman 27 June 1994
Expiry of present term: 30 November 2012

**Peter Eastwood AM, FAC, FAICD**
Deputy Chairman

Mr Eastwood is a Chartered Accountant who practised in this profession for more than 35 years, and was a partner at Grant Thornton from 1971 to 1997. His experience was principally as a company auditor and his audit experience includes a wide range of industries, including mining, public company audits and assignments for the Office of the Auditor General.

Mr Eastwood is also on the Board of Directors for Unimutual Limited; Unimutual Insurance (NZ) Limited and Unimutual (Isle of Man) Limited.

### Committee Membership

Chairman, Audit and Accounts Committee
Corporate Governance Committee
First appointed: 24 May 1994, appointed Deputy Chairman 19 July 1994
Expiry of present term: 30 November 2012

**Ainslie van Onselen LLB (UWA), GDipAppFin (Finsia), GAICD**
Commissioner

Ms van Onselen has over 17 years legal experience in commercial and corporate litigation spanning the resources, insurance, technology, media and telecommunications sectors. She is admitted to practise law in New South Wales, Queensland, Western Australia, the High Court of Australia and the Federal Courts of Australia.

Ms van Onselen is an Associate Professor of The University of Western Australia and is the independent president of the Migration Institute of Australia. She is a regular contributor to *The Australian* newspaper's Legal Affairs section.

Ms van Onselen has previously served as a board member for the WA Legal Practice Board, the Law Society of Western Australia, WebCentral Group Limited (including as Chair of its Audit and Risk Management Committee), Barking Gecko Theatre Company and Child Australia Inc. In 2006, she was the winner of The University of Western Australia's Graduate School of Management Prize and received a *WA Business News* '40 under 40' Business Awards.

### Committee Membership

Audit and Accounts Committee
Corporate Governance Committee
Director ICWA Law Pty Ltd
First appointed: 1 November 2011
Expiry of present term: 1 November 2014

**Terry Agnew B.E. (Hons 1), M.Sc, MBA, FAICD, FAIM, F Fin (Finsia), MIEAust**
Commissioner

Mr Agnew was appointed Group Chief Executive Officer of RAC (WA) in August 1998. He is a Director of all RAC subsidiary companies (including RAC Holdings, RAC Insurance, RAC Finance, RAC Travel and RAC Security) and St Ives (a retirement village and care business). He is also a Director of Australian Motoring Services and its subsidiaries, and is a Director of the Australian Automobile Association (AAA).

Mr Agnew sits on the board of Edge Employment Solutions and the West Coast Eagles Football Club and is a Councillor (WA) of Australia Business Arts Foundation (ABaf) WA. He is also Chairman of the Curtin Business School Advisory Council.

Before joining RAC, he was Managing Director of SGIC Holdings Ltd (a general insurance and health insurance organisation) in South Australia.

### Committee Membership

Audit and Accounts Committee
Corporate Governance Committee
First appointed: 1 November 2011
Expiry of present term: 1 November 2014

**Stephen Boyle B Juris (UWA), LLB (UWA)**
Commissioner

Mr Boyle has been a partner of national law firm Clayton Utz (previously Robinson Cox) since 1985, and practises in all areas of construction law. He is the head of the Perth Construction and Major Projects section. He is involved in up front engineering and construction work, with a particular emphasis on major infrastructure construction, mining, oil and gas, and processing projects. He acts for owners, financiers and contractors in drafting, negotiating and settling contract and project structuring and documentation.

Mr Boyle also handles construction and engineering disputes of all kinds. As counsel, he has appeared in numerous arbitrations and in court proceedings of all jurisdictions and has acted as instructor and counsel in international arbitrations.

### Committee Membership

Audit and Accounts Committee
Corporate Governance Committee
First appointed: 1 November 2011
Expiry of present term: 1 November 2014

**Dr Christopher Kendall BA (Hons) (Queen's), LLB (Queen's), LLM (Michigan), SJD (Michigan)**
Commissioner

Dr Kendall is a Barrister at John Toohey Chambers, specialising in intellectual property laws. He is also President of the Law Society of Western Australia.

Dr Kendall previously practised law with Maxim Litigation Consultants (Perth) and the Canadian law firm of Torys LLP in Toronto. He was formerly a Law Professor and Dean of Law at Murdoch University, a Commissioner with the Law Reform Commission of Western Australia, Director of the Asia Pacific Intellectual Property Law Institute and National Editor of Intellectual Property Forum.

Dr Kendall has published extensively throughout Australia, Canada and the United States. He most recently co-authored, *Advocacy: An Introduction* (Lexis Nexis). He is also the Co-Editor of *Civil Procedure: Western Australia* (the “Red Book”).

### Committee Membership

Audit and Accounts Committee
Corporate Governance Committee
Director of ICWA Law Pty Ltd (resigned on 8 July 2012)
First appointed: 1 November 2011
Expiry of present term: 1 November 2014

## Board Committees

Committees of the Board that operated during the year were:

### Audit and Accounts Committee

The Audit and Accounts Committee is responsible for making recommendations to the Board on the adequacy of internal audit arrangements, financial statements, financial administration policies and reporting procedures. The Board also monitors recommendations arising from external audits and takes appropriate follow-up actions. This Committee regularly meets with the Internal Auditors and representatives of the Office of the Auditor General. The Committee met 10 times during 2012.

### Corporate Governance Committee

The Corporate Governance Committee assists the Board in discharging its corporate governance responsibilities. The Committee did not meet during 2012.

## Commissioners' Attendance at Meetings

| | Board (11) | Audit and Accounts (10) |
|---|---|---|
| Michael Wright | 9 | 8 |
| Peter Eastwood | 10 | 10 |
| Sharon Brown♦ | 3 | 2 |
| Annemie McAuliffe♦ | 3 | 2 |
| Judy McGowan♦ | 2 | 1 |
| Doug Pascoe♦ | 4 | 3 |
| Vic Evans* | 5 | N/A |
| Lew Watts** | 5 | N/A |
| Ken McAullay** | 1 | N/A |
| | | |
| Ainslie van Onselen• | 7 | 7 |
| Terry Agnew• | 6 | 6 |
| Stephen Boyle• | 7 | 7 |
| Christopher Kendall• | 7 | 7 |

♦ Ceased appointment as Commissioner on 31 October 2011.

• Commenced appointment as Commissioner on 1 November 2011.

*Mr Evans resigned on 24 May 2012.

** Mr Watts attended five Board Meetings in 2012 in his capacity as Acting Managing Director.

** Mr McAullay attended one Board Meeting in 2012 in his capacity as Acting Managing Director.

## Executive Committee

The Insurance Commission's Executive Committee comprises the Chief Executive Officer, two General Managers and seven Divisional Managers.

A profile of each member is provided below.

### Rod Whithear
Chief Executive Officer

Mr Whithear is the Chief Executive Officer/Managing Director and Ex-officio Commissioner of the Insurance Commission of Western Australia. He joined the organisation after 25 years serving Commonwealth and Western Australian governments. Mr Whithear has been an Executive Director of the WA Treasury responsible for State operating expenditure budgets and was a senior executive in the Commonwealth Finance portfolio for many years.

Past positions held by Mr Whithear span sectors such as superannuation, information technology, leasing and corporate finance, and transactions such as the sale of Sydney Airports Corporation Limited. He has implemented significant initiatives in social policy portfolios such as health, social security and employment at Commonwealth and State government level.

### Ken McAullay - Grad Dip Bus, Grad Cert Mgt, Dip Pub Admin
General Manager Corporate Services

Mr McAullay joined the Insurance Commission in 1986. He has more than 40 years experience in corporate services. Prior to being appointed General Manager Corporate Services in 1996, he had been the Manager Human Resources and Corporate Secretary; a role he has performed for the Board over the past 24 years.

As General Manager Corporate Services, Mr McAullay is responsible for the Corporate Services operations of the Insurance Commission (i.e. Finance and Administration, Human Resources, Information Technology and Investments Divisions).

Mr McAullay is also currently a Board member of the Western Australian Sports Centre Trust trading as VenuesWest.

### Lew Watts - Dip Pub Admin, AAII, Grad Cert Bus Admin
General Manager Insurance

Mr Watts commenced work with the then SGIO in 1975 and worked in a diverse range of roles with the Insurance Commission and its predecessor agencies. His senior management experience encompasses six years as the Manager Human Resources followed by a further six years as the Manager Motor Vehicle Personal Injury Division, culminating in his appointment as the General Manager Insurance in December 2002.

Mr Watts is responsible for the insurance operations of the organisation (i.e. Motor Vehicle Personal Injury, RiskCover and Special Investigations Divisions).

Mr Watts has been the Insurance Commission's representative on the Road Safety Council since December 2009.

### Fab Zanuttigh - MBA, Grad Cert Mgt, AIMM
Manager Motor Vehicle Personal Injury

Mr Zanuttigh has worked in the compulsory third party (CTP) insurance industry for the past 28 years and has been the Manager of the Motor Vehicle Personal Injury Division since 2003. In this capacity, he is responsible for managing the operations of Western Australia's CTP Insurance scheme and the administration of the statutory Third Party Insurance Fund.

### Don Williams - Dip Bus Admin, AFAIM
Manager RiskCover

Mr Williams is responsible for the effective management of the RiskCover Division which manages the Western Australian Government's self-insurance managed fund (RiskCover), and a number of smaller insurance funds. He oversees the risk management and self-insurance services RiskCover provides to Western Australian Government agencies, and the risk management services, advice and assistance provided for the whole-of-government.

Mr Williams has more than 40 years experience in all facets of general insurance company operations.

### Jim Milligan - M Crim Just, BSc, Grad Cert Comp. Sec
Manager Special Investigations

Mr Milligan has more than 30 years experience investigating criminal and commercial activities. He served with the Criminal Investigations Branch of the Western Australia Police Service for many years and spent two years attached to the National Crime Authority's Melbourne office investigating organised crime.

Mr Milligan has managed the Insurance Commission's Special Investigations Division since joining the Insurance Commission in 1990. He is responsible for co-ordinating strategies to protect the assets of the Insurance Commission and minimising the incidence of fraud.

### Grant Speight - MHRM, FAHRI, AFAIM
Manager Human Resources

Mr Speight has over 20 years experience in human resource management, and as a Fellow of the Australian Human Resource Institute is active in a number of external human resource and industry advisory committees, including representing the Insurance Commission as a Director of the Personal Injury Education Foundation.

Mr Speight commenced his career in the general insurance areas of the then SGIO in 1977 before moving into a number of senior human resource roles, culminating in his appointment as the Manager Human Resources Division in 1996.

Mr Speight is responsible for developing and implementing human resource strategies that contribute to the achievement of the Insurance Commission's corporate and business objectives.

### Julie O'Neill - Executive MBA, B Econs (Hons), DFP
Manager Investments

Ms O'Neill has over 20 years experience in the management of institutional investment portfolios, including the construction and implementation of multi-manager portfolios and the direct management of Australian Equity, Fixed Interest and Cash portfolios.

Previously as an investment consultant, she advised a number of large Western Australian institutional investors on their investments.

Ms O'Neill is responsible for the effective management of the Insurance Commission's investment portfolio including the development and implementation of investment strategy.

### Ernie Cowell - FCCA, FIPA
Manager Finance and Administration (Chief Finance Officer)

Mr Cowell is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and of the Institute of Public Accountants (Australia). Mr Cowell held senior finance roles in the private sector before joining the Insurance Commission in 1999. His accounting experience, spanning over 40 years, includes strategic business planning, external financial and due diligence auditing, the management of financial system implementations and management and statutory reporting.

As the Chief Finance Officer, Mr Cowell has primary responsibility for:

- the preparation of financial information to facilitate the discharge of statutory and other reporting obligations of the Insurance Commission;
- the provision of advice on the effectiveness of accounting and financial management information systems and financial controls;
- the provision of advice concerning the financial implications of, and financial risks to, the Insurance Commission's current and projected services; and
- the development of strategic options for the future financial management and capability of the agency.

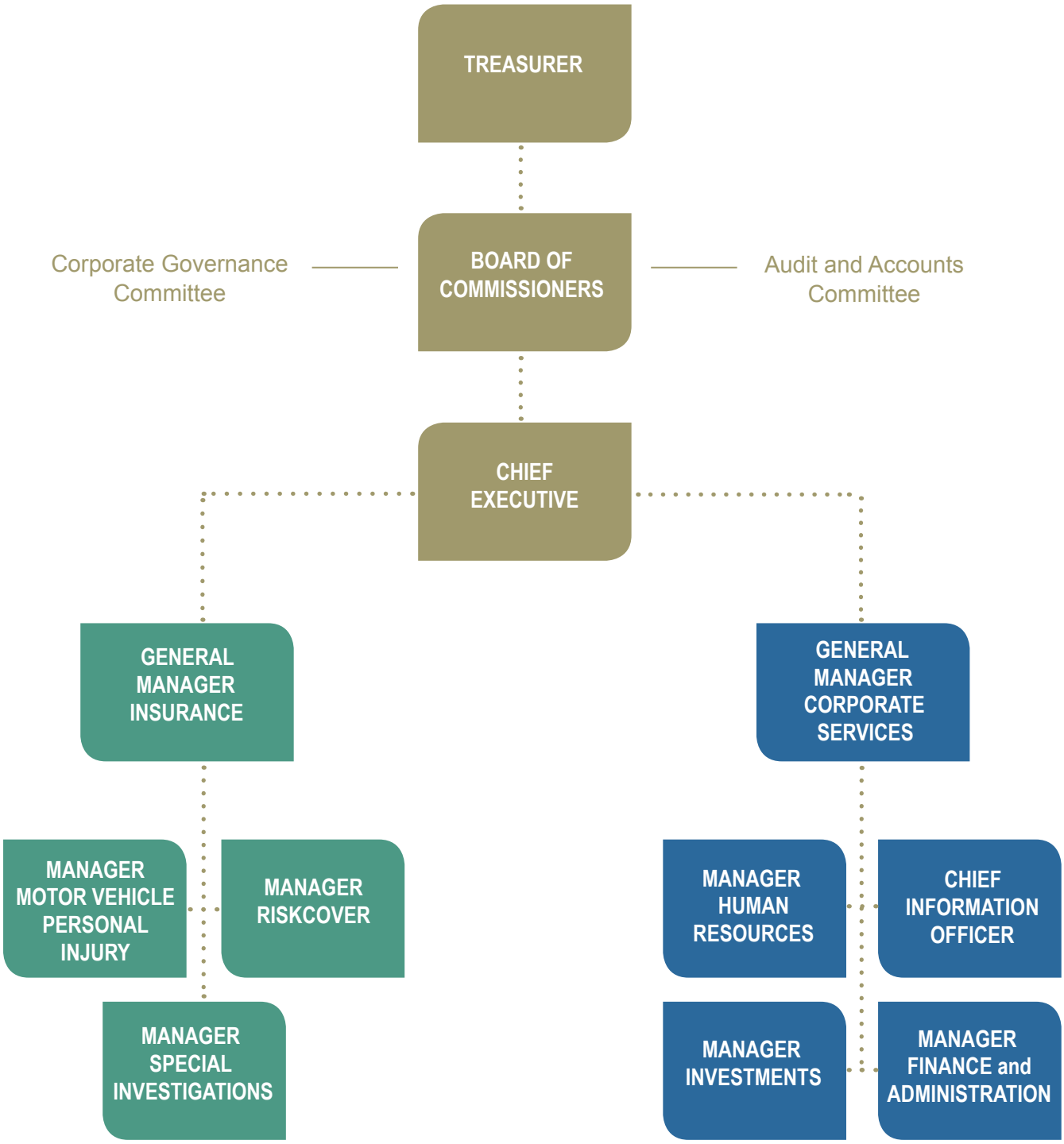
### Glenn Myers - CA (SA)
Chief Information Officer

Mr Myers has more than 20 years experience in information technology management and executive positions. He has worked in a variety of industry sectors including government, national and international organisations operating in the manufacturing and services sectors.

Mr Myers has managed the Insurance Commission's Information Technology Division since joining the organisation in August 2010.

Mr Myers is responsible for the strategy, architecture, planning and operations of the Insurance Commission's information systems. He contributes to the Insurance Commission's strategic and commercial decision making and ensures that the business requirements are enabled via appropriate systems, processes and technology.

# 1.3.3 Organisation Chart



# 1.4 PERFORMANCE MANAGEMENT FRAMEWORK

## 1.4.1 Outcome Based Management Framework

### Relationship to Government Strategic Goals

The Insurance Commission's key outcomes support the current high-level government goals.

#### Outcomes Based Service Delivery:

Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians.

| Insurance Commission Services | Insurance Commission Key Outcomes |
|---|---|
| Timely, equitable and efficient claims management for motor vehicle personal injury claimants. | To provide a claims system that treats claimants fairly and delivers equitable compensation. |
| Provision of affordable premiums to owners of Western Australian registered motor vehicles. | To provide affordable premiums to owners of Western Australian registered motor vehicles. |
| Timely, equitable and efficient claims management for industrial disease claimants. | Minimise the financial hardship of industrial disease claimants. |
| RiskCover claims management and claims analysis. | Meet customer risk management and self-insurance needs. |

#### Financial and Economic Responsibility:

Responsibly managing the State's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector.

| Insurance Commission Services | Insurance Commission Key Outcomes |
|---|---|
| Fund management and investment function. | To ensure the Insurance Commission has sufficient financial resources to meet its commitments. |
| Risk Management Program development and implementation. | Promote and support the growth of risk management practice to minimise the cost of risk to Government. |

## 1.4.2 Shared Responsibilities with Other Agencies

The Insurance Commission does not have any shared responsibilities with other agencies.

# SECTION TWO
# INSURANCE COMMISSION PERFORMANCE

# 2.1 INSURANCE COMMISSION OUTCOMES

## Motor Vehicle Third Party (Personal Injury) Insurance

Motor Vehicle Personal Injury Insurance is compulsory in all States and Territories of Australia. It is commonly referred to as Compulsory Third Party (CTP) Insurance. The Insurance Commission is the sole provider of CTP Insurance in Western Australia.

The Motor Vehicle Personal Injury (MVPI) Division of the Insurance Commission deals with all personal and fatal injury claims resulting from motor vehicle crashes involving Western Australian registered motor vehicles.

The MVPI Division operates in accordance with the provisions of the *Motor Vehicle (Third Party Insurance) Act 1943* and the *Insurance Commission of Western Australia Act 1986*.

All claims for personal bodily injury in Western Australia are claims at common law where, for a claim to succeed, negligence must first be established against the owner or driver of a Western Australian registered motor vehicle.

The most commonly misunderstood aspect of the Western Australian CTP scheme is the extent of cover provided to the policyholder. The CTP policy does not cover drivers for injuries they receive as a result of their own negligence. Rather, the CTP policy provides drivers and owners of Western Australian registered vehicles with unlimited indemnity against claims for personal bodily injury caused to a third party, resulting from the owner or driver's negligence, subject to compliance with the policy warranties and conditions.

The Insurance Commission retains a statutory obligation to compensate an injured third party in circumstances where the CTP policy warranties and conditions have been breached. However, in such instances, the Insurance Commission retains a right to recover all costs incurred in settling the injured party's claim from the negligent driver or owner.

The CTP policy does not provide any cover for damage to vehicles or property.

At 30 June 2012, there were approximately 2.51 million motor vehicles registered in Western Australia (including approximately 500,000 caravans and trailers).

The Department of Transport (DoT) acts as the Insurance Commission's agent for issuing CTP Insurance policies and the collection of premiums and policy data. The CTP policy is combined with the motor vehicle licence issued by DoT and its agents. In exchange for this service, the Insurance Commission pays a fee to DoT based on a 'fee-per-transaction'. For 2012, this fee was $3.80 per transaction. In 2012, total fees paid to DoT were $16.5 million (2011: $15.5 million) excluding GST.

The partnership between the Insurance Commission and DoT delivers the benefit to Western Australian motorists of a 'one-step' process for the renewal of vehicle licences and CTP Insurance in an efficient and cost-effective manner.

**Third Party Insurance Fund Performance**

The Third Party Insurance Fund (TPIF) had a 2012 pre-tax operating loss of $188.3 million. This was comprised of an underwriting loss of $225.1 million and net investment income of $36.8 million.

The TPIF underwriting loss of $225.1 million was $149.8 million worse than budget ($75.3 million loss). This outcome was driven by higher than expected claims payments and a considerable increase in the independent actuarial assessment of the provision for net outstanding claims liabilities.

This provision for net outstanding claims liabilities increased by $182.2 million. Actuarial forecasts at 30 June 2011 had anticipated a $62.4 million increase based primarily on increased rates of inflation and higher average claim costs. In 2012, there was a $119.4 million upward movement resulting from reductions in risk free discount rates, which follow Treasury bond rates. These bond rates reached historic lows during 2012. Other lesser changes to actuarial assumptions also contributed to the movement in the provision.

TPIF net investment income for 2012 of $36.8 million was $125.3 million less than the budget of $162.1 million due to continuing volatility in investment markets. Refer page 37 for further information.

Primarily as a result of the pre-tax losses as explained above, the TPIF received an income tax benefit of $63.9 million in 2012 and this resulted in a TPIF post-tax loss of $124.4 million.

This post-tax loss resulted in the net assets of the TPIF being $548.4 million at 30 June 2012 which was lower than the net assets of $672.7 million at 30 June 2011.

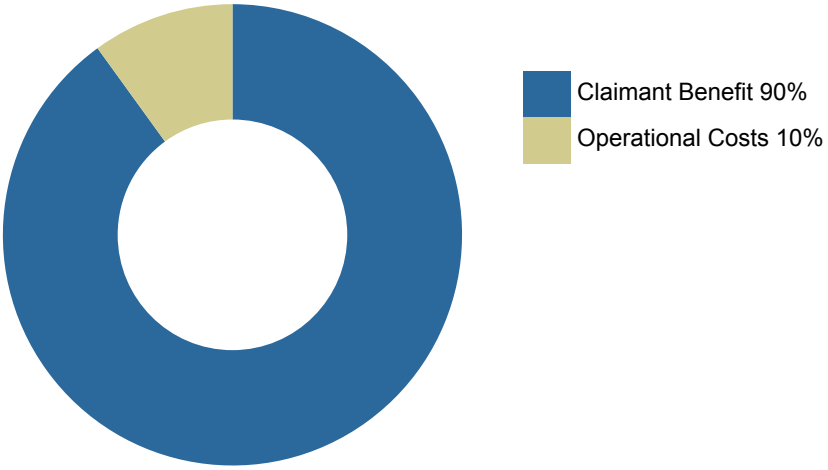
Claims payments (net of GST) of $420 million were substantially higher than forecast ($382 million). This outcome results from a higher than forecast number of claims finalisations and the settlement over the year of a relatively large number of catastrophic injury claims. In 2012, 32 claims involving catastrophic injuries were finalised for approximately $122 million, representing approximately 29% of total claims payments for the year.

Net premium revenue of $440.3 million was $5.7 million more than forecast ($434.6 million).

For 2012, approximately $377.4 million (representing approximately 90% of claims payments) was paid for the direct benefit of claimants in the form of payments for medical and allied health services, economic loss, care and support, general damages, claimant's legal costs and other payments.

The balance of claims payments (10%) relates to costs incurred in administering and managing claims, such as medico-legal reviews, crash and claims enquiries, Insurance Commission's legal costs and ambulance and hospital payments made on a no-fault basis as required by Section 12 of the *Motor Vehicle (Third Party Insurance) Act 1943.*

**Proportion of Total Claims Costs Paid for the Benefit of Claimants in 2012**




Net Claims Incurred (total of claims payments and movement in outstanding claims provisions) for the reporting year was $602.3 million (2011: $512.2 million). This outcome was substantially worse than budget ($457.0 million) and was primarily driven by, as mentioned above, a significant increase in the provision for outstanding claims liabilities over the reporting period, resulting from changes to economic assumptions relating to inflation and future investment returns.

A total of 3,999 claims were finalised during the year (compared to 3,981 expected) and the total number of outstanding active claims reduced from 6,841 at 30 June 2011 to 6,474 at 30 June 2012, a reduction of 367 claims.

**Annual Expenditure by Head of Damage 2012**

| | 2011 (%) | 2012 (%) |
|---|---|---|
| Aids and Appliances | 3.94 | 4.13 |
| Care and Gratuitous Services* | 13.03 | 17.27 |
| Defendant Legal Costs | 3.11 | 3.12 |
| Funeral and Headstone | 0.09 | 0.07 |
| Future Economic Loss | 17.81 | 16.57 |
| Future Medical | 3.29 | 4.19 |
| Home Help and House Modification | 0.25 | 0.34 |
| Interest | 0.09 | 0.10 |
| Investigations | 0.63 | 0.55 |
| Loss of Amenities | 18.47 | 17.47 |
| Medical | 10.75 | 9.75 |
| Operational Costs | 2.02 | 1.88 |
| Plaintiff Legal Costs | 5.61 | 5.98 |
| Past Loss of Earning Capacity/Workers' Compensation | 9.71 | 8.77 |
| Sundries | 0.68 | 0.70 |
| Transport/Hospital | 10.52 | 9.11 |
| **TOTAL** | **100.00** | **100.00** |

*Gratuitous Services refer to those which are provided to a crash victim without payment and include: services of a domestic nature; services relating to nursing; and services that aim to alleviate the consequences of an injury.

The recent substantial increases in care and gratuitous services costs reflect significant changes to industry awards applicable to attendant care workers, implemented over the past 12 months.

The Australian Industrial Relations Commission (AIRC) has undertaken a "modernisation process" in relation to a number of industrial awards, including the Social, Community, Home Care and Disability Services Industry Award. The implementation schedule for the Social, Community, Home Care and Disability Services Industry Award is complex and includes a number of transitional provisions including the "phasing in" of pay rates changes over three years (20% per year) beginning from the first full pay period on or after 1 July 2011 and ending at the first full pay period on or after 1 July 2014, when Modern Award rates apply in full.

The changes have and will invariably result in higher costs for the provision of services such as attendant care in catastrophic injuries claims. Care and support services represent a significant head of damage impacting the average costs of claims.

Average claim costs are estimated to have increased in total by about 8.5% between 2010 and 2011 and by a further 3% during the reporting year (2012). The principal causes are the award rate changes discussed above and increases to trustees costs resulting from legislative changes in 2010.

During the year, 3,632 new claims were received. This is approximately 6.5% lower than the number of new claims received in the previous year (2011: 3,885) and reflects a continuation of the reducing claim frequency trend observed over the past 19 years.

For further information, refer to Claims Trends in Section 3.0, Significant Issues Impacting the Insurance Commission section of this Annual Report.

**Benefits**

The CTP scheme in Western Australia continues to provide:

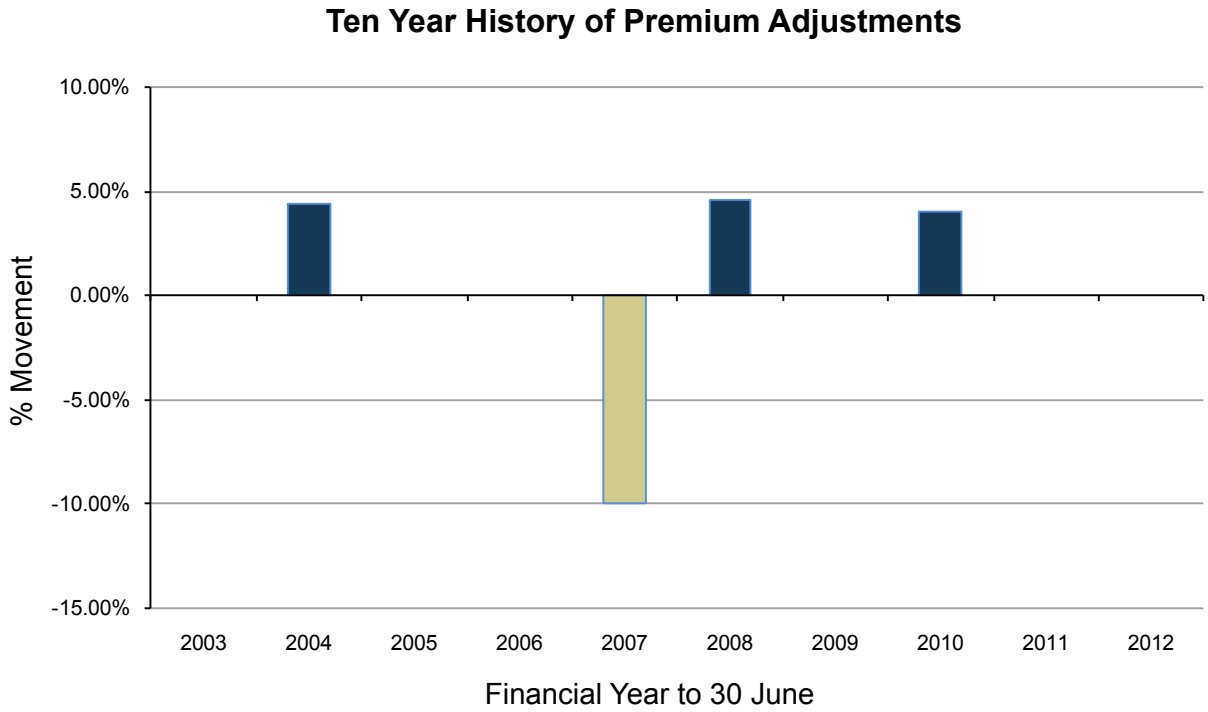
- The lowest premiums in Australia for a family motor vehicle;
- Benefits to claimants equivalent to, or better than, those provided by schemes in the other States and Territories of Australia;
- A cost-efficient administration when compared with schemes in other States and Territories of Australia; and
- A Third Party Insurance Fund which is fully funded.

To view the Pricing Policy of CTP Insurance, refer to Section 4.2.1, Pricing Policies of Services Provided section of this Annual Report.

The MVPI Division monitors and evaluates progress towards achieving its stated objectives by the use of Performance Indicators. The outcomes are reported in the Performance Indicators section of this Annual Report.

## Premiums

For the second financial year in a row, there was no increase in premiums.



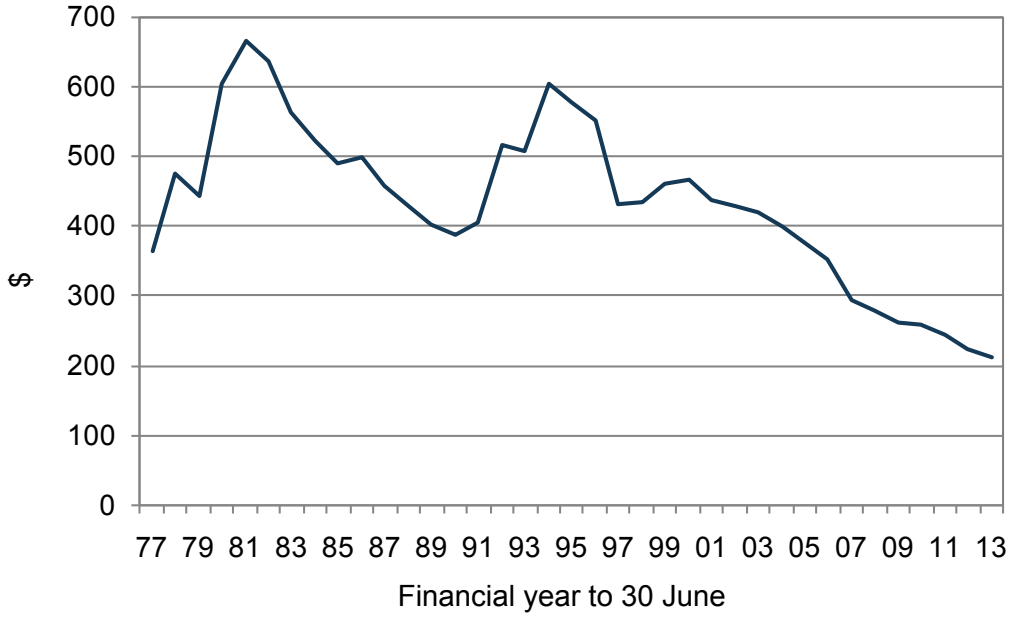

In February 2012, the Board of Commissioners' resolved not to vary the existing scale of premiums for the 2013 financial year, notwithstanding that volatility and uncertainty in the investment markets continues to be a cause for concern.

This decision was based on the independent Actuaries advice that:

- Current premium rates remained marginally profitable; and
- After allowing for investment market volatility, the TPIF's solvency margin was expected to remain at or marginally above the Insurance Commission's 125% long-term funding objective for the next three years before falling below that objective.

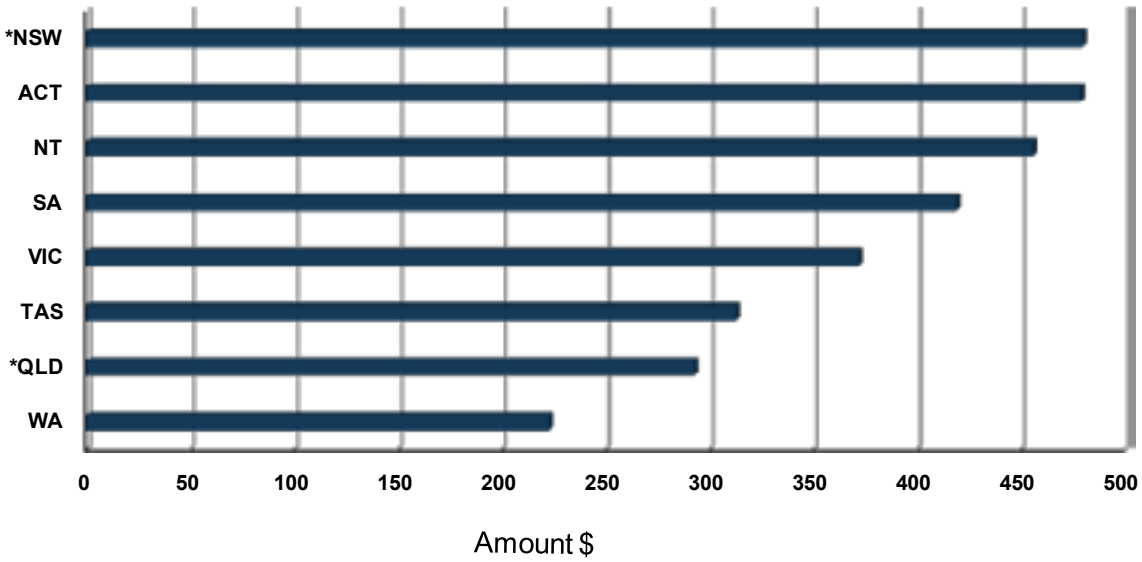
Over the past ten years, Western Australian CTP premiums have been increased on only three occasions and in net present value terms, the current CTP premium for a private family sedan is the lowest it has been at any time in the past 36 years.

**Inflation (AWE) Adjusted WA CTP Premium Rate (Class 1X - Private Family Sedan)**




This reinforces the Insurance Commission's position as the most affordable provider of CTP Insurance cover in Australia.

**Compulsory Third Party Insurance Premium Rates for a Private Motor Car (Excl. GST and Stamp Duty) Australia-wide as at 1 July 2012**




* QLD and *NSW - lowest premium on offer amongst private insurers is shown

## Customers

Management of personal injury claims remains the most important element of the MVPI Division's operations. Particular emphasis is placed on the management of catastrophic spinal cord or acquired brain injury claims. These matters involve claimants with the greatest need for support and assistance.

A dedicated Catastrophic Injury Claims Team established approximately five years ago has allowed the MVPID to adopt a more proactive and consistent approach to the management of these claims, aimed at better meeting the needs of people catastrophically injured and their families.

Through closer liaison with claimants, their families and carers, legal, medical and allied services providers, this Team ensures that the necessary assistance and support is provided where it is most needed and in a timely fashion.

Catastrophic injury claims, particularly when children are involved, can take some years to finalise and generally involve substantial settlement sums to provide the injured person the lifelong care and support they require.

During 2012, 32 catastrophic injuries claims, resulting in severe and permanent disabilities, have been finalised for approximately $122 million, representing in the region of 29% of gross claims payments. Approximately 40% of the $122 million paid was for future nursing and attendant care.

The Division remains focused on efforts to continually improve the delivery and efficiency of our services to all customers, whilst ensuring that the Western Australian CTP scheme continues to provide fair and equitable compensation in a socially and economically responsible manner.

Over the past 24 months, a comprehensive review of all the Insurance Commission's management systems was undertaken, as a first step in a planned major business modernisation project.

In the coming year, the focus will be on gaining funding approval for capital expenditure to fund the necessary program of works.

Upon completion, this program of works would be expected to deliver improved processes and cost saving efficiencies with enhanced customer service whilst contributing to the maintenance of Western Australia's CTP premiums at an affordable level.

## RiskCover

The Western Australian Government adopted a Managed Fund approach to administer all insurable risks of its public authorities which are RiskCover Fund members (agencies) on a self-insurance basis. The RiskCover Fund is underwritten by the Crown and managed by the Insurance Commission on behalf of the Western Australian Government and its participating agencies.

RiskCover's assets are not owned by the Insurance Commission and are therefore not consolidated in its financial results. Monies which are surplus to immediate operational requirements are invested in the investment pool of the Insurance Commission and are represented by a Floating Rate Promissory Note. (Refer Note 39 of the Financial Statements.)

### RiskCover Fund Performance

The RiskCover Fund's result for 2012 of $27.2 million loss (2011: $11.4 million loss) was $30.6 million worse than budget.

This comprised an underwriting loss of $39.7 million, which was partially offset by a $12.6 million investment return.

The underwriting loss was $7.0 million worse than budget, primarily due to a $42.3 million over budget increase in net incurred claims. This is due to a number of factors such as:

- A drop in real rates of investment return;
- An increase in the average cost of workers' compensation claims attributable to an increase in the duration of claims;
- A number of significant individual property claims, including fire and bushfire claims;
- A small number of severe natural weather events; and
- Some large individual liability class claims.

Net premium revenue was $33.3 million better than budget. In addition, fund expenses were $2.0 million less than budget. It should be noted that net premium revenue included $21.4 million by way of a Performance Adjustment.

The Performance Adjustment reflects an increase in the estimated amounts of additional premiums which will need to be charged to certain client agencies in future years. Refer Note 39(b) of the Financial Statements for more detailed information on this year's Performance Adjustment.

Fund Contributions for the Workers' Compensation and Motor Vehicle classes of cover are initially Deposit Fund Contributions which are then adjusted based on actual performance. For workers' compensation, the Performance Adjustment is completed three years after the close of the period of cover, and for motor vehicle, one year after the close of the period of cover.

Due to the fund again not performing as strongly as in prior years, RiskCover was required to call back $21.4 million of Performance Adjustment in respect to workers' compensation and motor classes from agencies with poor claims experience.

Despite the RiskCover Fund remaining fully-funded with net assets of $1.0 million (2011: $28.2 million) it had insufficient Retained Earnings to maintain a 75% likelihood of adequacy with respect to the provision for outstanding claims. Refer Note 39 of the Financial Statements for more detailed information.

RiskCover's net asset position of $1.0 million represents its current Prudential Reserve against an actuarially assessed requirement of $72.1 million.

A Prudential Reserve is designed to protect the RiskCover Managed Fund against the impact of circumstances such as one-off large or catastrophic events, multiple large events in any one cover period, and events covered by the Fund for which reinsurance has not been obtained or is unobtainable. In 2012, the RiskCover Managed Fund retained the first $20 million and $10 million respectively, for Property and Liability losses.

Unfortunately, a Prudential Reserve of only $1.0 million will, for the foreseeable future, severely diminish RiskCover's ability to smooth the financial impact on fund members of one-off large or catastrophic events and multiple large events, in any one cover period, through spreading the cost of claims over a number of years.

**RiskCover Service Delivery Model**

RiskCover achieves its objectives through a collaborative approach that delivers a total coordinated service to its clients. RiskCover's Service Delivery Model comprises the following areas:

### Loss-prevention

- Risk management program development and implementation
- Data-analysis

### Loss-minimisation

- Claims management
- Fund management

All areas are of equal importance to the future success of the RiskCover Division and its clients, and are inter-dependent on the others. This inter-dependency is reflected in the RiskCover Service Delivery Model.

### RiskCover Service Delivery Model

RiskCover's Service Delivery Model is supported by the following Service Delivery Strategies:

- Adoption of a client-centric culture in the development and delivery of services;
- Ensure all services are targeted to client needs;
- Application of consistent business processes to optimise service delivery;
- Assist agencies to achieve self-sufficiency in the management of their risks;
- Manage resources to achieve maximum value for the government and agencies; and
- Manage the RiskCover scheme structure to minimise the cost-of-risk to government.

**Risk Management Services**

With the growing emphasis on good governance practices for all agencies, there is a heightened awareness at all levels in the agencies, of the importance of the key principles that underpin good governance. One key principle is the management of risks, and many agencies are seeing the benefit of taking a structured systematic approach to risk, which is providing them with a higher degree of confidence that they can achieve successful outcomes.

The integration of risk management thinking into planning and management is adding real value to the agencies. The approach adopted by WA Police for last year's Commonwealth Heads of Government Meeting (CHOGM) event, is an example of how this can be integrated into the project management process and provide valuable information to inform decision making. RiskCover played a key role in assisting the Western Australia Police with the planning of this significant event. In addition, RiskCover assisted the Department of the Premier and Cabinet with a risk-based approach to the management of the Royal Visit.

RiskCover continues to support agencies in the delivery of many of the State's major projects and initiatives, including: the Perth City Link Project, the new Perth Major Stadium, the new Young Adults Facility, Port Expansion projects, new Remote Health Clinics, the Ports Governance Transition, health reform, plus numerous agency initiatives and projects. The management of risks is essential to the successful delivery of any project, and the RiskCover service continues to play an important role in helping State agencies to successfully deliver their projects.

The use of the RiskBase web-based risk recording and management tool developed by RiskCover, continues to grow, with 5,500 individuals now accessing and using the system. A key feature of any risk management system is to keep it active and useful, ensuring that it does not just become a compliance exercise where information is gathered, parked and forgotten.

RiskCover has maintained an active training calendar which is aimed at providing government employees with the knowledge and tools to enable them to actively manage risks as part of their managing the delivery of the agencies' services. The training is aimed at building capabilities and capacity within the public sector to enable agencies to better deliver outcomes whilst being innovative and aware of the risks.

The training sessions provided by RiskCover covering most of its activities, including; risk management, claims and injury management, and data analysis, continue to prove very popular with the agencies reflected by high attendance levels and very positive feedback. Over 1,500 people have attended a RiskCover training session this year.

**Data-Analysis Services**

Claims-data-analysis is an integral part of the risk management process. It helps to effectively identify across-government and agency-specific risks to help minimise the cost of these risks.

RiskCover provides claims and data-analysis across all classes of insurance cover types, both for overall Fund analysis and for individual Western Australian Government agencies.

RiskCover's claims-analysis services during 2012, included:

- Creation of agency specific reports to address workers' compensation concerns to allow informed decision-making regarding appropriate Occupational Safety and Health (OSH) procedures;
- Targeted analysis of agencies with increasing workers' compensation costs and the subsequent impact on premiums and the RiskCover Fund as a whole;
- Collaborating with external agencies to build a detailed profile of the causes and costs of motor vehicle accidents; and
- Analysis of property claim trends to assist individual agencies to develop strategies and policies to reduce claim frequency and cost.

**Claims Services**

Workers' compensation and commercial claims management represents the largest part of RiskCover's operations in volume of activity terms. RiskCover is focused on delivering quality, cost-efficient claims management in partnership with our client agencies.

Workers' compensation is the largest of RiskCover's claims management portfolios. Considerable focus is given by RiskCover to providing a service that integrates injury prevention, injury management and claims management. Through proactive claims management and specialist injury management advice and training, RiskCover continues to promote the benefits of injury management to client agencies.

Delivery of training to agencies has been enhanced by RiskCover, with the growth area this year being the delivery of injury management training to line managers. There has been increased focus by agencies on injury management as they recognise the benefits this can bring in reducing Fund Contributions. However, there is still considerable need for agencies to improve their workplace safety and injury management practices and outcomes.

RiskCover also continues to enhance its claims management processes to:

- Better support agencies' injury management systems;
- Improve return-to-work outcomes; and
- Reduce claims costs.

This has included an increased focus on service provider performance.

In addition to working with individual agencies, RiskCover has also contributed to whole-of-government initiatives including:

- The Public Sector Occupational Safety and Health and Injury Management Initiative;
- Provision of data to the Public Sector Commission for Ministerial reporting;
- Development of OSH; and
- Workers' compensation and injury management components for the Foundations of Government Human Resources Program (Certificate IV).

RiskCover also manages a variety of Commercial claims, and claims for specialised schemes/ funds, including:

- Property and business interruption;
- General, professional and medical treatment liability;
- Motor vehicle;
- Personal accident;
- Travel;
- Industrial disease;
- Police (Medical and Other Expenses for Former Officers) scheme;
- Employers' Indemnity (i.e. workers' compensation) Supplementation; and
- WorkCover WA General funds.

Commercial claims management ranges from minor to large loss situations; such as replacing/ repairing damaged property, organising timely and quality repairs, defending and resolving liability actions for treatment liability, employment practices liability, port liability, asbestos liability, and major contractual damages disputes. As part of RiskCover's Commercial claims management service, a whole-of-State insurance response is provided in respect of Western Australian Government risks; to catastrophic losses such as cyclones, bushfires and floods.

RiskCover's claims management service provides agencies with access to a wide range of expert claims management advice and external support, from RiskCover accredited assessing, loss adjusting and legal panels. RiskCover has extensive experience and expertise in managing claims to ensure that equitable and value for money outcomes are achieved by agencies.

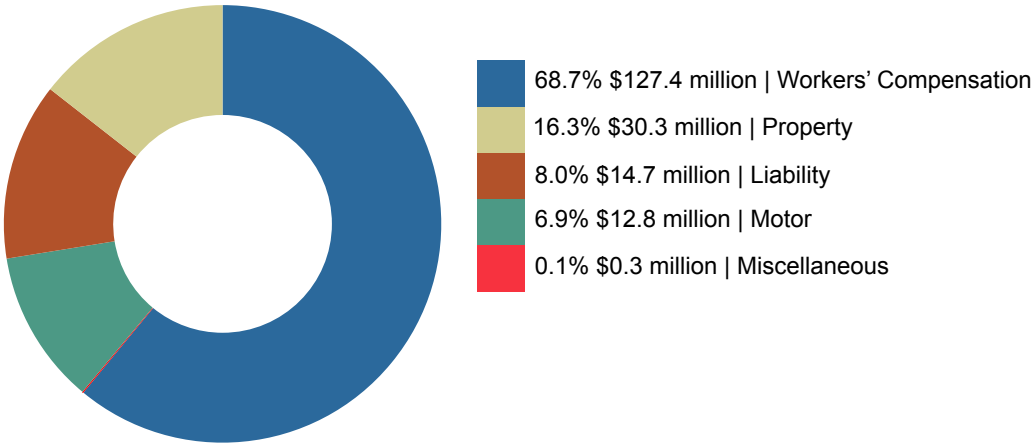
Over the past 2-3 years there has been a blow-out in the claims performance of the Workers' Compensation cover class; however, there have also been lesser increases, in dollar terms, for other cover classes.

The main drivers of the blow-out in the claims performance of the Workers' Compensation cover class are:

- An increase in the duration of claims;
- An increase in the number of new workers' compensation claims lodged by workers against agencies;
- An increase in the average cost of claims caused by an increase in the cost of Lost Time Injury (LTI) claims (i.e. injuries resulting in 1 to 60 days of work time lost) and LTI Severe claims (i.e. injuries resulting in more than 60 days of work time lost);
- An increase in the total wage-roll of agencies which are members of the RiskCover Managed Fund due to a combination of increasing employee numbers and wages increments; and
- The impact of economic factors on the estimation of claims liabilities.

Increases for the Property and Motor Vehicle classes are mainly due to the RiskCover Managed Fund responding to a number of significant individual claims, and a small number of severe natural weather events, and for the Liability classes in particular, the impact of economic factors on the estimation of claims liabilities and some large claims.

## RiskCover Claim Payments by Insurable Risk for 2012

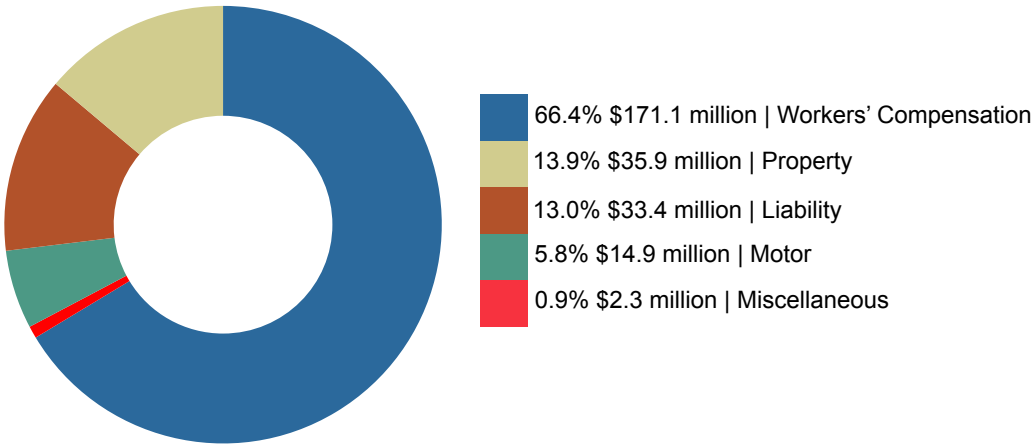



Claims payments for the workers' compensation and liability classes were less than projected, and higher than expected for the property and motor classes.

With respect to workers' compensation, the lower than projected claims payments was largely due to claims remaining open for longer than expected, which in turn has had an adverse impact on outstanding claims provisions.

### Fund Services

## RiskCover Fund Contributions by Insurable Risk for 2012




### Coverage

RiskCover continues to provide extensive cover for the majority of Western Australian Government insurable risks, including:

- Workers' compensation;
- Property and business interruption;
- Liability, including general, professional, medical treatment, directors and officers and employment practices;
- Motor vehicle property damage; and
- Miscellaneous, including travel, personal accident and special covers.

Some of the benefits that the RiskCover Fund provides include:

- Broad coverage for risks;
- Cost-efficient administration in comparison to other funding methods;
- Consistent and systematic approach to risk management across the Western Australian Government;
- Consistency in claims and injury management; and
- Buying power in reinsurance markets.

To view RiskCover's Fund Contributions Pricing Policy, refer to the Pricing Policies of Services Provided section of this Annual Report.

**Other Funds and Business Managed by the RiskCover Division**

### Compensation Industrial Diseases Fund (CIDF)

Industrial Diseases insurance is compulsory for employers engaged in mining. Liability is limited to workers' compensation payments for the respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, all of which may arise from exposure to harmful mineral dust in the course of employment.

The CIDF has been in surplus for many years and it is expected that this situation will continue. Due to its sound financial status, the premium rate was reduced to a flat charge of $100 per three-year policy period from 1 July 2003. Following a review of the financial performance of the Fund and projected future claims, WorkCover WA has decided to maintain this premium rate for a further three years from 1 July 2012.

### Insurance Commission General Fund (ICGF)

The claims paid from the ICGF relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off and no policies have been issued since 31 December 1986. The run-off process has been prolonged because the claims that arise are asbestos-related.

### Employers' Indemnity Supplementation Fund (EISF)

WorkCover WA manages the EISF, however the Insurance Commission has a statutory responsibility to process claims against this Fund which arise when an authorised workers' compensation insurer goes into liquidation. Liabilities under the EISF include asbestos and non-asbestos-related claims. When required, WorkCover WA invokes a levy on ongoing workers' compensation policyholders, to fund EISF liabilities. The majority of current EISF liabilities arose from the collapse of the HIH Group of Companies (HIH) in March 2001.

CGU Insurance Australia, a brand of Insurance Australia Group (IAG), manages all claims in relation to the collapse of HIH on behalf of the Insurance Commission, in consequence of an agreement with the HIH liquidator. In discharging its statutory obligations, the RiskCover Division continues to provide an important supervisory role in the management of ongoing claims and it is expected that this role will continue for some years to come. WorkCover WA reimburses the Insurance Commission for all payments and expenses incurred in respect of the management of EISF claims.

### Government Insurance Fund (GIF)

The GIF is a consolidation of the Western Australian Government's superseded self-insurance arrangements which preceded RiskCover. The Fund is in run-off, and the RiskCover Division manages it on behalf of the Western Australian Government with oversight by the Department of Treasury. The financial aspects of the GIF are reported in the Insurance Commission's Financial Statements; however, the Insurance Commission is indemnified by the Western Australian Government for any liabilities arising in the GIF. The highest component of outstanding claims liabilities arises from asbestos exposure to public sector workers.

## Former Police Officers' Medical Benefit Scheme

The *Police (Former Officers' Medical and Other Expenses) Act 2008* created entitlement to post-separation medical and other expenses benefits for former Police Officers and Aboriginal Liaison Officers who have left the Western Australia Police, who had sustained a work related injury or disease during service.

The Police Commissioner is liable for the medical and other expenses incurred. The Insurance Commission has been reappointed to manage claims on behalf of the Western Australia Police for a period of three years commencing 1 July 2012.

## State Government Insurance Corporation

The RiskCover Division managed the run-off business in relation to the State Government Insurance Corporation which was a wholly-owned subsidiary of the Insurance Commission. The Corporation remained in existence mainly to run-off small lines of Australian and overseas inwards reinsurance business it wrote between 1988 and 1992.

The Corporation was wound up with effect from 1 July 2012, and all remaining assets and liabilities were transferred to the Insurance Commission General Fund.

## Special Investigations

The Special Investigations Division (SID) continued to use proactive analytical and investigation methodologies to improve detection outcomes and investigate suspected fraud. Fraud identification parameters established by the SID's analytical cell have been expanded.

The SID contributes to protection of personnel, information and property assets. Predominantly this involves the detection and investigation of suspected criminal fraud and kindred matters on behalf of the insurance business divisions. Investigations are conducted to trace and locate some parties associated with claims. These investigations facilitate equitable settlements and assist in the recovery of costs from negligent third parties and through breaches of conditions of coverage. Some investigations are undertaken to establish facts assisting in determining liability. Evidence is also assembled supporting defended actions involving the Insurance Commission.

Investigations Service Contracts were established with 15 external providers during December 2011 replacing expiring contracts for these services. The contracts are valued at approximately $4.0 million per annum over a five year term. Contracted investigators provide surveillance services, factual investigation, factual (stress related) investigation and motor vehicle crash investigation services. The Manager, SID chairs the Insurance Commission's Private Investigators Committee.

The Manager, SID also liaises with the Corruption and Crime Commission to notify them of reportable matters falling within the scope of the *Corruption and Crime Commission Act 2003*. The Insurance Commission has two designated Public Interest Disclosure Officers tasked with reporting and monitoring responsibilities in accordance with the *Public Interest Disclosure Act 2003*.

SID analysts were involved in the analysis of 813 matters identified as high risk claims. Of these, investigations were undertaken into 219 RiskCover and Motor Vehicle Personal Injury Division claims.

For the year, a total of $1.2 million in administration expenses was spent to provide fraud management, investigation and asset protection services to the business divisions. Against this expenditure, the SID achieved investigation related claims savings of approximately $1.7 million. Additional potential claims savings are likely to result upon settlement of several investigated claims.

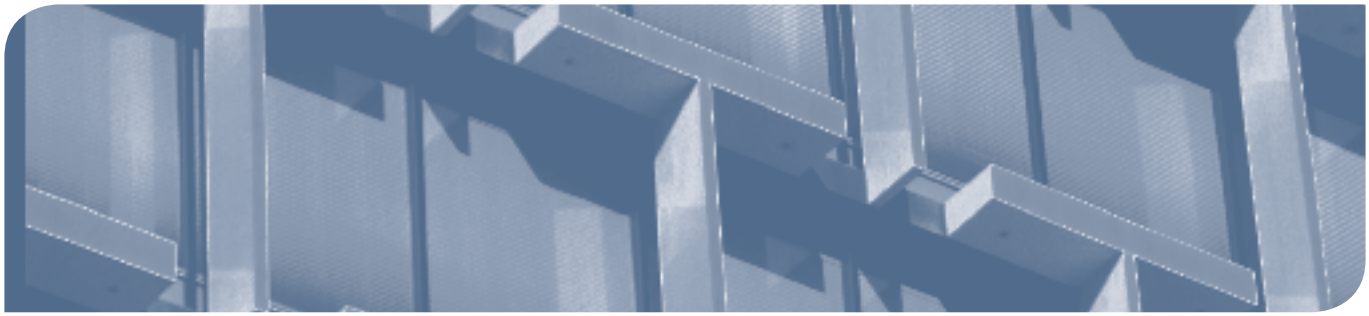
A further 198 investigations were conducted to facilitate debt recoveries from negligent parties arising from RiskCover claims. The total potential value of these matters amounts to $1.3 million. Actual settlements will be determined by negotiations.

During the course of the year, four briefs of evidence for fraud and kindred matters were referred to the Western Australia Police for prosecution. Three matters have resulted in criminal convictions.

A brief of evidence compiled by the SID alleging a suspected fraud involving a $0.9 million motor vehicle personal injury claim has been accepted by the Director of Public Prosecutions. The prosecutorial merit of the evidence is to be determined.

Media reporting of significant fraud convictions draws public attention and serves as a deterrent.

Enabled by negotiations with the Western Australia Police, the SID is in the process of substantially upgrading its radio communications capacity to enhance proactive field based operations.



## Investments

The Insurance Commission's investment strategy is based on the primary need to match its investment assets to the claims liabilities for the two major business funds namely, the Third Party Insurance Fund and the RiskCover Fund. In setting the investment strategy, there is a continued focus on achieving consistent, long-term positive returns that exceed benchmark, balanced with reducing the overall level of volatility of investment returns.

The Insurance Commission's Board determines investment strategy, investment manager appointments and other key investment portfolio construction issues, including strategic and tactical asset allocation. The Board consults with an independent investment consultant, JANA Investment Advisers (JANA), and receives input from the Investments Division.

The Insurance Commission's investment manager configuration is achieved through a combination of external and internal management of assets. The Treasurer of Western Australia approves external investment manager appointments.

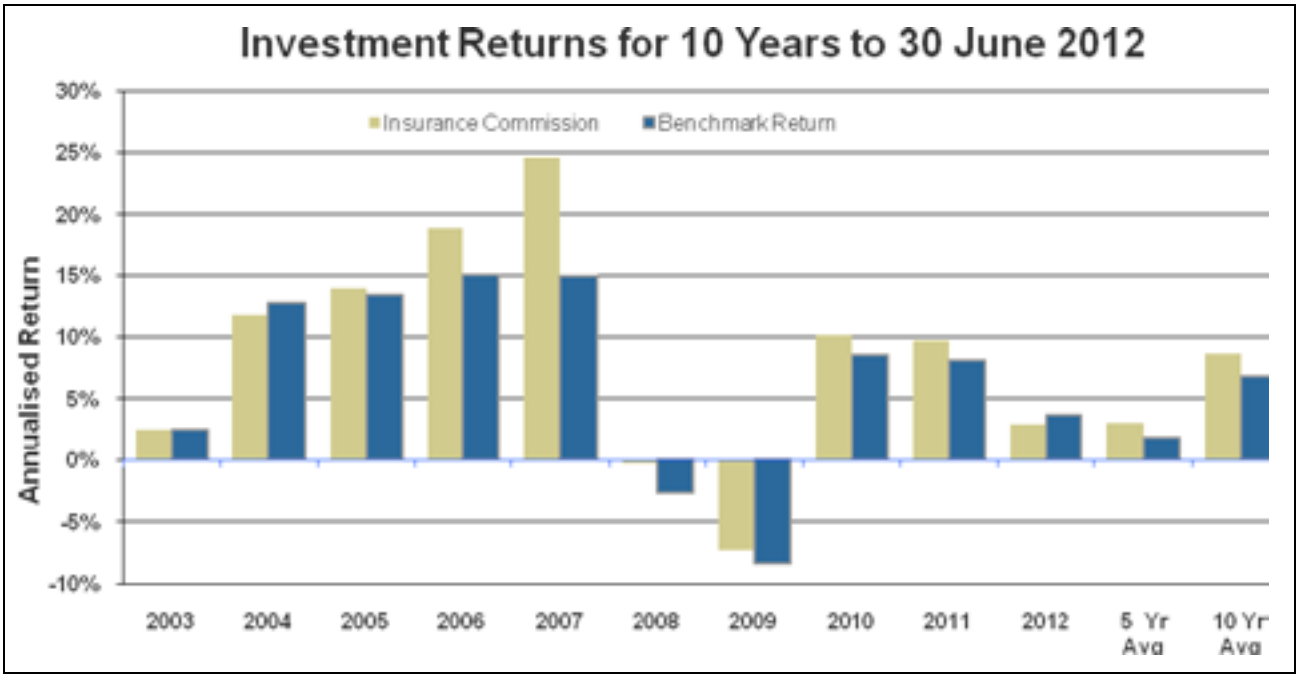
The Prudential Guidelines for Investments (Guidelines) approved by the Treasurer of Western Australia are the guiding principles followed by the Board in managing the Insurance Commission's investment assets. The Guidelines are regularly reviewed and updated and can be viewed on the Insurance Commission's website www.icwa.wa.gov.au.

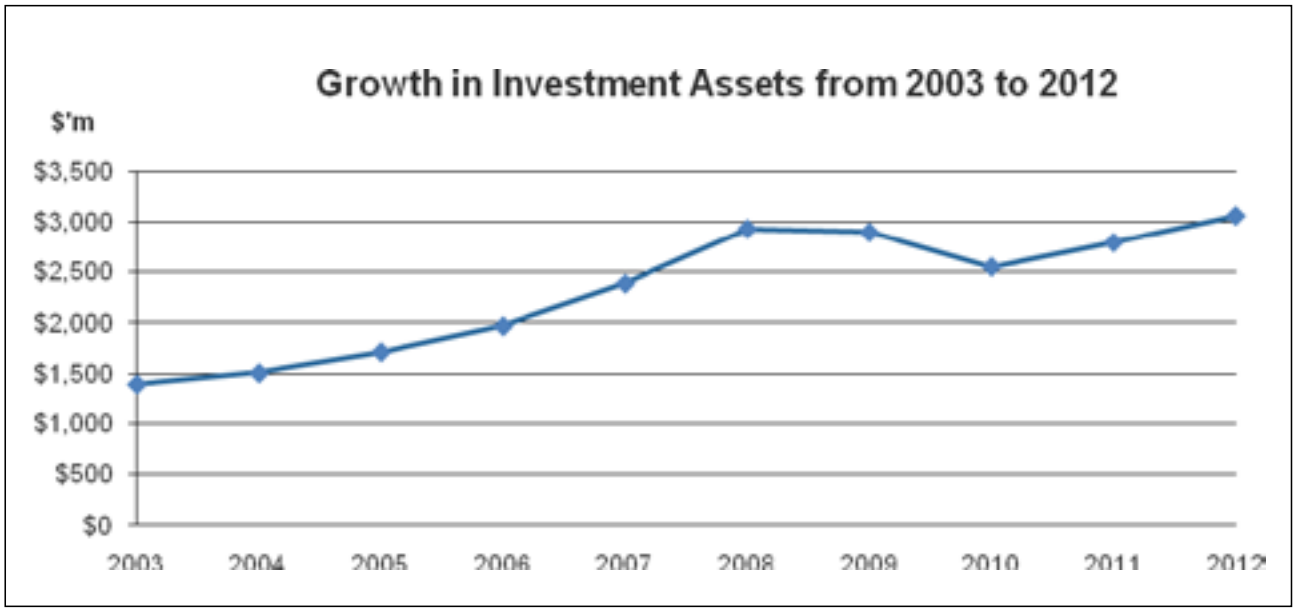
### Financial Market Summary 2012

The 2012 financial year was a difficult one for investment returns, primarily due to the coincidence of a deteriorating macro-economic environment and global political events which caused significant financial market volatility. High levels of government debt dominated financial markets, starting early in the financial year with the US government debt ceiling negotiations and ending with fears of a Greek default and possible Euro bail-out of Spain and Italy. At financial year end, Europe remained in political gridlock, global sovereign bond yields were at record lows and Australian Equities closed 7.0% lower.

### Financial Results (Benchmark: 3.7%; Gross Portfolio Return: 2.9%)

The Insurance Commission's diversified investment Portfolio delivered a gross (before fees and expenses) return of 2.9% for the financial year which equated to under-performance of the total Portfolio benchmark by 0.8%. The return net of fees and expenses for the year was 2.5%. The rolling seven year return was 7.9%, 1.5% ahead of the Insurance Commission's CPI + 3.5% performance target. The achievement of this target, during a period of sustained financial market volatility, confirms that the Insurance Commission's commitment to a long-term focused investment strategy continues to deliver solid results.



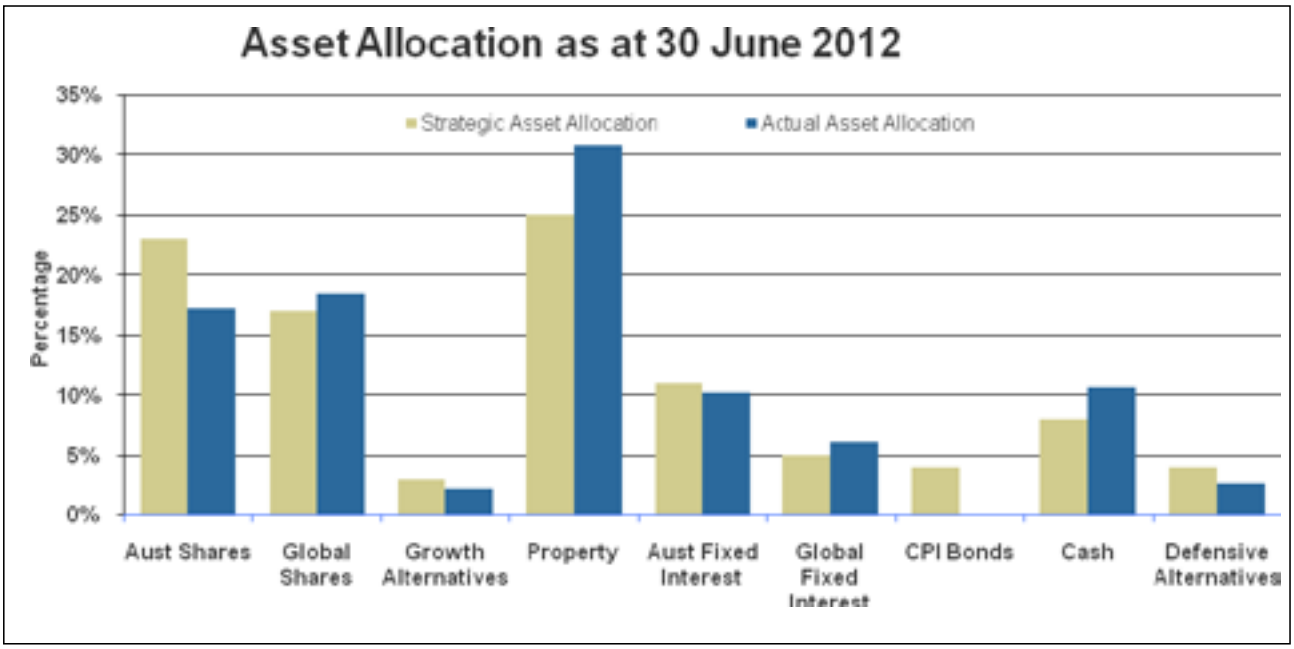




### Currency Hedge for Global Shares

The Insurance Commission's currency hedging policy was amended during the course of the financial year. Following the liquidation of the Global Long/Short Shares Portfolio, the currency hedge now covers assets in the Global Shares Portfolio, excluding emerging markets. Further, with the strength in the Australian dollar it was decided to reduce the hedging level of these assets from 50% to 25%.

### Asset Allocation

There were no major changes to the Strategic Asset Allocation during 2012, although a review by the Investment Consultant early in the financial year did result in a marginal change to the neutral allocations to Growth and Defensive Assets from a 70% Growth/30% Defensive split to a 68% Growth/32% Defensive split. This included an increase in the strategic Cash weighting from 4.0% to 8.0% as a measure to partially reduce potential volatility in the Portfolio.




### Investment Manager Changes

There were several changes to the Investment Manager configuration during the financial year as a result of repositioning in the Global Shares Portfolio and the reduction of all exposures to sovereign bonds.

### Environment, Social and Governance Factors

The Insurance Commission places considerable importance on its Environmental, Social and Governance (ESG) investment responsibilities. To ensure that such responsibilities are being effectively discharged, the Board has in place an ESG monitoring process for its appointed Investment Managers. Bi-annual review meetings conducted over the past year have confirmed that appointed Investment Managers are appropriately dealing with such matters as they arise by assessing key ESG factors when making security purchases and sales. The Board is confident that the Investment Managers have demonstrated sufficient consideration of ESG factors and consequent impact on investment risk and return in making investment decisions.

# 2.2 INSURANCE COMMISSION SUCCESS STORIES


## Online Crash Reporting Facility (OCRF)

The Insurance Commission's OCRF was recognised at the Premier's Awards for Excellence in Public Sector Management, where it was named the winner in the Improving Government Category.

Now in its sixteenth year, the Awards, covering six broad categories, offer an opportunity for WA Government Agencies to promote projects that better serve the community of Western Australia.

The OCRF was developed and funded by the Insurance Commission in collaboration with the Western Australia Police and Main Roads WA.

This initiative delivers to the public a means of reporting motor vehicle crashes on line, with the convenience of 24/7 access.

The OCRF, the only such facility in Australia, is the realisation of the Insurance Commission's long held ambition to create a "one-stop" reporting process for WA motorists in motor vehicle crashes.

## The Shops at Ellenbrook and Livingston Marketplace - Shopping Centre Awards

The Shops at Ellenbrook and Livingston Marketplace (both comprising part of the Insurance Commission's Direct Property Portfolio) were both finalists in the Property Council of Australia 2012 Western Australia Shopping Centre Awards. Over sixty entries were received for the annual awards which recognise excellence in shopping centre marketing and management.

The Shops at Ellenbrook was one of three finalists in the Excellence in Management and Excellence in Branding/Repositioning categories for a centre 30,000 to 50,000 square metres. The Excellence in Brand Repositioning nomination was for the "Shopping Safari" Stage 2 launch campaign, where the centre was repositioned from a neighbourhood centre to a regional centre with a large selection of national retailers.

Livingston Marketplace was one of six finalists for the Excellence in Management Award for a sub-regional centre 10,000 to 30,000 square metres.

# 2.3 COMMUNITY FOCUS

Under the functions of the *Insurance Commission of Western Australia Act 1986*, the Insurance Commission is able to initiate, or participate in, and promote programs and schemes for:

(i) research into the treatment of industrial diseases and personal injury; and

(ii) research into, education for, and promotion of public awareness relating to, the prevention of industrial diseases, personal injury and accidental death.

## 2.3.1 Road Safety Partnerships

The Insurance Commission is fully committed to the Western Australian Road Safety strategy, *Towards Zero*. In partnership with the Office of Road Safety, annual funding towards road safety programs is a key risk management strategy to assist the control of Motor Vehicle Third Party Injury Insurance claim costs.

Mr Lew Watts, General Manager Insurance, is the Insurance Commission's statutory member of the Road Safety Council of WA.

For 2012, the Insurance Commission committed $3.9 million for road safety programs in partnership with the Office of Road Safety, of which $3.8 million was expensed in the year.

Some of the programs funded include:

- A package of media to deliver the important message in relation to restraints (i.e. seatbelts and child restraints particularly in regional and remote Western Australia):

  'Off the Boot' - WIN TV produced a regional football show with 'Belt Up' as the key sponsor.

  Outdoor Cinema - five free movies shown in regional and remote locations between June to October 2011. Restraint community education including the 'Belt Up' logo featured at these events.

  Embrace Life - a licence for this award winning restraint advertisement from the United Kingdom. This advertisement featured in all the above media.

- Strategic Traffic Enforcement Program (STEP) funding provides road policing enforcement above base line road policing levels to increase actual and perceived levels of enforcement and ultimately result in a change in driver behaviour. The funding provides the Western Australia Police with additional opportunities to strategically target local area identified road enforcement programs with an emphasis on reducing the number of serious and fatal crashes.

- An Enhanced Traffic Intelligence Model to capture all data relating to road user complaints and other traffic related information from a variety of sources. Once obtained and collated, this information will be analysed and effectively profiled to target and apprehend errant road users. This Project will promote the safe system road safety approach by improving the effectiveness of enforcement through the use of intelligence when conducting traffic enforcement operations. The collection and extraction of road user behaviour data will provide a strategic framework to traffic enforcement and ensure the effective deployment of resources to key risk areas.

In addition to the Office of Road Safety partnership, in 2012, the Insurance Commission also expensed $150,000 for the Western Australian Country Football League to promote the 'Belt Up' message within the football community throughout regional and remote Western Australia.

## 2.3.2 Medical Research into Mesothelioma

In 2012, $384,702 was committed and expensed to the Sir Charles Gairdner Research Foundation and The University of Western Australia, as part of a three year funding commitment for research into mesothelioma.

Professor Bruce Robinson and his team at the Department of Medicine at Sir Charles Gairdner Hospital undertake this important research. An independent peer review of the research carried out in 2010 confirmed the work being undertaken by Professor Robinson and his team is unique and the core work is both internationally competitive and is not being replicated.

The Insurance Commission received an award from the National Centre for Asbestos Related Diseases for its outstanding support and funding provided to the Tumour Immunology Group at Sir Charles Gairdner Hospital which has enabled essential investigation leading towards the early diagnosis of mesothelioma.

## 2.3.3 Complaints Management

The Insurance Commission is committed to providing the Western Australian community with high quality customer service. In order to achieve this, with the assistance of those who provide feedback, the Insurance Commission aims to provide fair, equitable and timely resolution of complaints.

In 2012, a total of 23 complaints were received through the complaints system. All complaints were dealt with within the timeframes prescribed.

### Complaints Policy

The Insurance Commission's complaints policy establishes procedures for the effective management and resolution of complaints from clients and members of the public.

A copy of the policy is available on the Insurance Commission's website under "Complaints".

### Complaints System

The Insurance Commission has a customised and computerised complaints system to ensure that complaints are captured and dealt with efficiently.

The website provides easy to follow instructions on how an individual can lodge a complaint. Alternatively, complaints can also be made by telephone, in person or in writing.

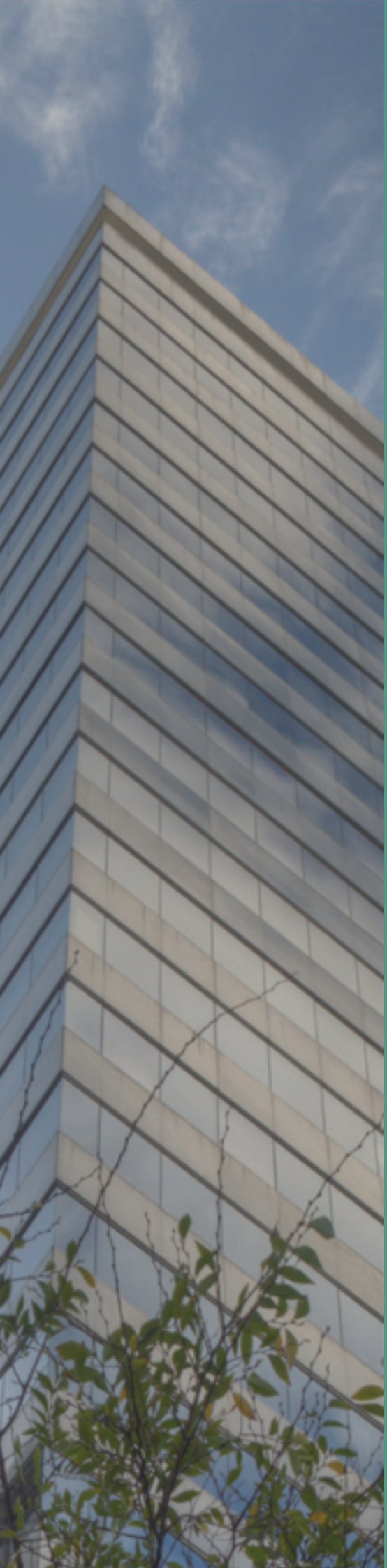
# 2.4 PLANS FOR 2013

## MVPI Division

- Maintain focus on improving motor vehicle personal injury claims management systems and processes to deliver improved efficiencies and better customer service experience for stakeholders. The priority will be to implement technological solutions which take advantage of e-commerce and internet functionalities that enhance accessibility and utilisation of the scheme and promote a positive overall customer experience.
- Continue to work with the independent Actuary to determine how the models for evaluating outstanding claims liabilities might be more responsive to actual claims experience, thereby enabling corrective strategies to be developed in a timely manner.
- Monitor CTP Insurance schemes throughout the world to ensure best practice for all Western Australian motor vehicle owners.
- Support road safety programs aimed at preventing crashes that result in personal injury or death.

## RiskCover Division

- Continued focus on improving RiskCover claims management systems and processes to deliver efficiencies and better customer service for stakeholders.
- The major project is to introduce workflow and document image capture into RiskCover's claims management activities. This involves the implementation of MVPID's existing Image Capture and Document Workflow Management Solution as a phased implementation within the RiskCover Claims Management sections. This will facilitate a number of benefits which will ultimately contribute to financial savings for the WA Government through reduction in the average cost of claims, and thus to reduced RiskCover Fund Contributions paid by WA Government agencies.
- Continue to provide risk consultancy services to agencies, working at strategic, operational and project levels.
- Complete the roll-out to agencies of the web-version of RiskBase, a web-based risk recording and management tool developed by RiskCover, and to support optimisation of its use.



# SECTION THREE
# SIGNIFICANT ISSUES IMPACTING THE INSURANCE COMMISSION

# 3.1 CHANGES IN WRITTEN LAW

There were no changes in written law that affected the Insurance Commission in 2012.

# 3.2 WORKFORCE

The Insurance Commission operated during the majority of 2012 within the Full Time Equivalent (FTE) ceiling of 362.5 established by the Minister. On 18 April 2012, the Minister accepted the Insurance Commission's business case and provided approval for an increase of 10 FTE's in the RiskCover Division to address rising claim numbers and associated claims costs resulting in an approved organisational FTE ceiling of 372.5.

The Insurance Commission's staff are employed under the authority of Section 12 (1) of the *Insurance Commission of Western Australia Act 1986*.

In accordance with Section 12 (2) of the *Insurance Commission of Western Australia Act 1986*, the remuneration and other conditions of service are determined by the Insurance Commission, subject to the *Government Officers (State Government Insurance Commission) Award 1987* and the *Government Officers (Insurance Commission of Western Australia) General Agreement 2011*.

Due to labour market and other constraints, it was not possible to attract and retain sufficient numbers of appropriately qualified staff to meet the full FTE establishment of 372.5 during 2012. Total FTE as at 30 June 2012 was 333.7.

The Insurance Commission's workforce management planning has identified the key workforce challenges and the strategies to mitigate these acknowledged risks including labour demand and supply forecasts for each Division over the next two years.

Total employee turnover increased from 9.5% during the year to 14% in 2012. Turnover of new employees with less than three years experience remained high at 66%, with the majority of total separations leaving the industry all together. The need to attract and retain new employees to the industry will become increasingly important as 18% of the most experienced employees are now beyond the minimum statutory retirement age.

During April 2012, the Insurance Commission engaged Quantum Management Indicators to conduct its annual Employee Perception Survey (EPS). The EPS results reported a decline in levels of employee engagement compared to 2010 and the Finance Sector benchmark and the reasons for this will be addressed during 2013.

The Insurance Commission remains clear about its workforce challenges and the need to implement a range of responses to mitigate these identified risks.

**Goals for 2013**

- Analyse the drivers of the decline in the 2012 EPS results;
- Implement alternative responses to the identified demand and supply risks;
- Revise the Insurance Commission's value proposition to current and prospective employees; and
- Improve Employee Net Engagement levels by 30 June 2013.

## Diversity Profile

| | 2012 Actual (%) | ICWA Target (%) |
|---|---|---|
| Indigenous | 0 | 1 |
| Culturally Diverse | 16 | 14 |
| People with Disabilities | 3 | 3 |
| Youth | 6 | 11 |

### Workforce Development

As a knowledge based organisation, the planned investment in employee learning and development is an appropriate business strategy. Our commitment to this principle is demonstrated with an average training investment per employee of $1,913 in 2012. A strong focus on core business training programs for Claims and Injury Service Officers in the MVPI and RiskCover divisions was maintained.

The Insurance Commission's on-line Performance Management and Development System (PMDS) underpins the formal approach to job performance, learning and career development with 79% of the workforce participating in the PMDS during 2012.

Professional development is promoted with financial and other support for employees to obtain and maintain professional memberships and to obtain academic qualifications relevant to business needs resulting in 202 (54%) of employees possessing a recognised post secondary or professional qualification and a further 12 employees (3%) currently studying.

### Personal Injury Education Foundation (PIEF)

The PIEF was established in 2006 by a consortium of Australian and New Zealand accident compensation regulators, insurers and claims management organisations.

The Insurance Commission directly supports PIEF in its endeavours to create leading education programs and professional initiatives and events to enhance the capacity of those working in the accident compensation industry.

As an executive member of the PIEF, the Insurance Commission also recognises the longer term value of the PIEF in contributing to an increase in the size and quality of the total personal injury management labour pool in which all Australian insurers compete.

### Employee Length of Service Milestones

The loyal service of all employees is valued and in particular Steve Newlands, Bob Puren, Chris McNamara, Ian Pozzi and Sharon Pennefather are formally acknowledged for achieving 30 year service milestones; Sue Curran, Richard Pusey and Marlene Argus for 35 years service; Gary Wenn and Karenne Marshall for 40 years service; Graham Metcalf for 45 years service; Warwick Lake for 50 years service, and Dave Peacock for contributing 55 years service to the Insurance Commission.

### Allegation of Age Discrimination

In April 2012, the Insurance Commission received notification from the Australian Human Rights Commission of a complaint of age discrimination in employment from a former employee.

The Insurance Commission strongly rejected the age discrimination allegation and provided the Australian Human Rights Commission with all of the relevant documentation. On 3 July 2012 the Australian Human Rights Commission determined the complaint was lacking in substance and terminated the complaint.

**Office of the Managing Director**

Section 11 of the *Insurance Commission of Western Australia Act 1986* establishes the Office of Managing Director who is appointed by the Governor on the recommendation of the Minister responsible for the Insurance Commission.

On 21 December 2011, the Public Sector Commissioner repealed the 13 July 1988 Ministerial declaration that the Office of Managing Director was exempt from the Senior Executive Service.

Effective 30 May 2012, the Public Sector Commissioner became the employing authority of the Managing Director and the remuneration is now determined by the Salaries and Allowances Tribunal.

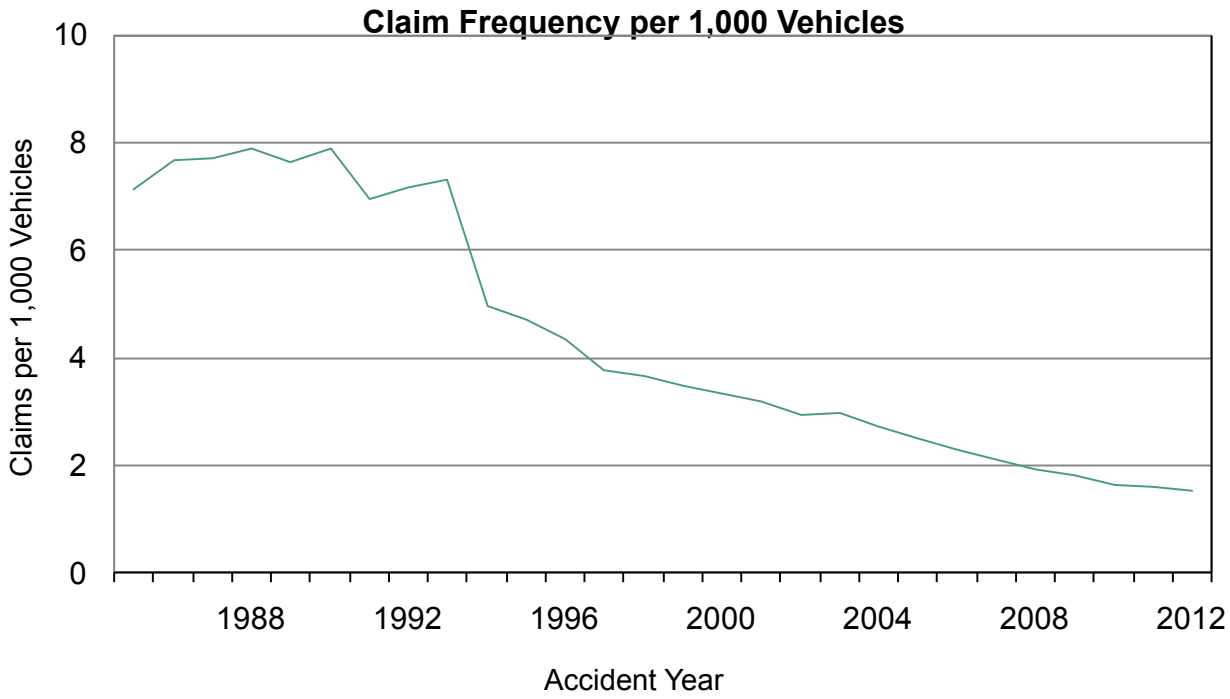
On 12 June 2012, Mr Rod Whithear was appointed by the Public Sector Commissioner as Managing Director and Chief Executive of the Insurance Commission of Western Australia for a five year term.

The person holding the position of Managing Director and Chief Executive is responsible for the statutory operations of the Insurance Commission under the governance of the Board of Commissioners with accountabilities to the Public Sector Commissioner and the Minister.

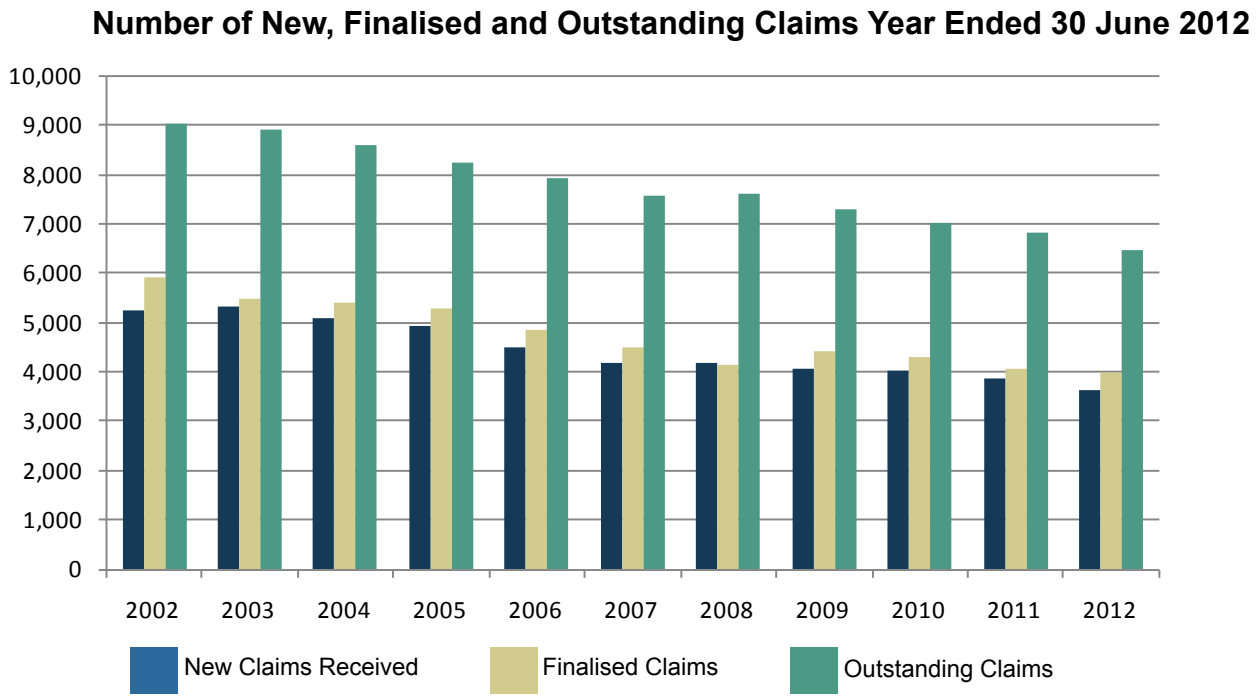
# 3.3 CLAIMS TRENDS

## Motor Vehicle Personal Injury Claims Trends

The graph below presents the history of the estimated claim frequency over almost three decades. The figure shows that claim frequency has declined substantially (70%) over the last 19 years.



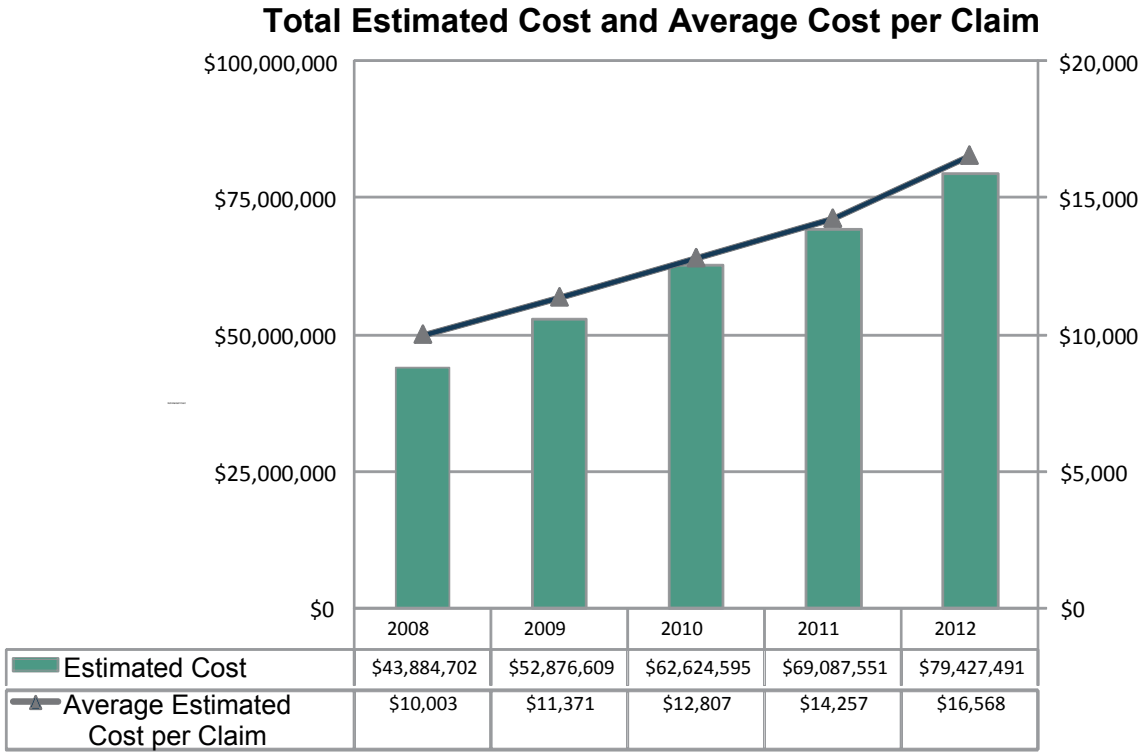

For 2012, a total of 3,632 new claims were received, which is approximately 6.5% less than the number for the preceding year (2011: 3,885). The legislative amendments introduced in 1993, (cappings and thresholds) a continued strong focus on road safety and crash-prevention initiatives, safer cars, and better roads, are some of the recognised factors influencing this positive, long-running, downward trend.



## RiskCover Claim Trends

Global economic factors such as a drop in real rates of investment return, and the claims performance of Western Australian Government agencies which are members of the RiskCover Fund, have caused the cost of claims, including the estimation of future claims liabilities, for almost all classes of cover, to significantly increase over the past 12 months.

For workers' compensation, another main driver of claims cost increases over the past twelve months is an increase in the average cost of claims attributable to an increase in the duration of claims.




This graph is in relation to the Workers' Compensation class of Insurance.

Increases for the Property and Motor Vehicle classes of cover are mainly due to a number of significant individual claims, including fire and bushfire claims, and a small number of severe natural weather events. For Liability class claims, the increase is due to some large individual claims.

It is considered that more can be done by agencies to implement strategies to manage risks including strategic, operational, project and OSH risk, and to implement injury management practices. This is essential to minimising the cost of risk to the Western Australian Government, and in particular, to achieving a turnaround and ongoing reduction in the cost of workplace injury.

RiskCover will continue to work with agencies to assist them in their endeavours by providing services, facilities and advice in respect of risk management program development and implementation, management of claims lodged against them, injury management, and claims data analysis

ICWA LAW

## 3.4 BELL RECOVERY ACTION

Judgment in the Supreme Court Action instituted by the Court-appointed Liquidators to the failed Bond Corporation conglomerate, Bell Group, was handed down on 30 April 2009 with the Liquidators successful in obtaining orders for recovery of in of excess $1.6 billion from a syndicate of 20 banks led by Westpac Banking Corporation and Lloyds TSB Bank plc (formerly Lloyds Bank plc) of London. An appeal by the Banks and cross-appeals by the Liquidators against the judgment in the Bell Recovery Action was heard in the Court of Appeal of the Supreme Court of Western Australia between December 2010 and June 2011. The decision of the Court of Appeal was delivered on 17 August 2012, dismissing the Banks' appeal and allowing the cross-appeals in part. As a result, the amount repayable by the Banks to the Bell Group administrations is now calculated to be between $2 billion and $3 billion. The Judgment of the Court of Appeal may be the subject of a final appeal to the High Court of Australia but only with leave of the High Court.

The Insurance Commission, as an indemnifying creditor, continues to provide financial support to the Bell Group Liquidators in their recovery efforts on behalf of all creditors.

In order to mitigate the financial impact of indemnifying the Bell Group Liquidators if the Banks ultimately succeed in winning the recovery action, an insurance program was put in place prior to the commencement of the Supreme Court trial in relation to some of this exposure. The insurance remains in effect. During the year to 30 June 2012, the Insurance Commission advanced a further $4.1 million (2011: $14.3 million) to fund the prosecution by the Bell Group Liquidators of their claim against the Banks.

# SECTION FOUR
# DISCLOSURES and LEGAL COMPLIANCE

# 4.1 MINISTERIAL DIRECTIVES

Section 10 of the *Insurance Commission of Western Australia Act 1986* empowers the Minister responsible for the Insurance Commission to give directions in writing to the Insurance Commission with respect to its functions, powers and duties, either generally or with respect to a particular matter. The Insurance Commission is then required to give effect to those directions and to include the text of any direction received in its Annual Report.

The Insurance Commission did not receive any ministerial directives during 2012.

# 4.2 OTHER FINANCIAL DISCLOSURES

## 4.2.1 Pricing Policies of Services Provided

### Pricing Policies of CTP Insurance (Motor Vehicle Personal Injuries)

To comply with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission is required to, at least once in each financial year, make an assessment of the extent to which the premium revenue, together with other income expected to be received, will be sufficient to meet the claims, costs and other expenses anticipated to arise or be incurred.

In making this assessment, an independent actuarial report is considered, together with any accumulated surplus or deficit existing in the Third Party Insurance Fund. Following this process, should a change in the Schedule of Premiums be required, the Board of Commissioners makes a recommendation to the Minister responsible for the Insurance Commission (the Schedule of Premiums can be viewed on the Insurance Commission's website: www.icwa.wa.gov.au).

### RiskCover Fund Contributions Pricing Policy

Fund Contributions are set to ensure that funds collected together with investment returns are sufficient to pay for all liabilities. The key outcomes that RiskCover aims to achieve in setting premiums are:

- Equity for all public authorities;
- Transparency in the Fund Contributions setting methodology;
- Minimum cross-subsidisation;
- Protection against major surprises; and
- Incentives for risk management.

As agreed with the Department of Treasury, claims costs used to determine Fund Contributions do not include a prudential margin as the Western Australian Government underwrites the Fund. The RiskCover Fund is also excluded from the National Taxation Equivalent Regime.

## 4.2.2 Capital Works

### Major Capital Projects Completed

The Insurance Commission's ability to recover in the event of a disaster has been significantly enhanced with the completion of the Disaster Recovery Upgrade project. All IT infrastructure used for Disaster Recovery has been upgraded and a base replica of the Insurance Commission's core systems has been established in the Disaster Recovery data centre. Data is now replicated at regular intervals each day which enables a rapid response in the event of a disaster.

A project to further upgrade and enhance RiskCover's RiskBase system has been completed. RiskBase is a risk management system which has been designed and developed for Western Australian Government agencies. Over 130 agencies are currently using the web enabled version of RiskBase to manage risks associated with the services and projects of the agency. The RiskBase system is also being used in the management of some major government projects. The RiskBase system is hosted by the Insurance Commission and is made available to all Western Australian Government agencies.

A comprehensive program of upgrades has been completed for all hardware, operating systems and databases. This has enabled the Insurance Commission to ensure that all IT Infrastructure is current, within vendor support and reliable for business use.

### Major Capital Projects Incomplete

A project to migrate the core insurance systems off the mainframe and onto a contemporary open systems environment commenced at the beginning of the financial year and was completed in July 2012. Referred to as the Mainframe Migration Project, this will enable the Insurance Commission to leverage its core systems for a longer period than was previously envisaged, improve the ability to utilise the new Disaster Recovery capability, make changes and enhancements which were not previously possible to the systems, provide alternative support options and deliver significant financial benefits.

The RiskBase system is being further enhanced to cater for dynamic reporting and data privacy functionality.

The Insurance Commission's Online Crash Reporting Facility (OCRF) is being re-architected to run on a modern Services Oriented Architecture platform, improve the submission of crash reports online and improve reporting and receipt of electronic data.

A project to implement Image Capture and Workflow systems is being implemented to digitise and automate the handling of RiskCover's claims file system. This will deliver significant efficiencies in the RiskCover claims management function.

## 4.2.3 Financial Administration

A Financial Management Manual is maintained in accordance with Section 44 of the *Financial Management Act 2006*. A Financial Delegations and Authorisations Manual, which records the Board's delegation of powers, obligations and duties is also maintained.

### 4.2.4 Independent Professional Advice

*The Insurance Commission of Western Australia Act 1986* empowers the Insurance Commission to engage, under contract, professional and technical services to enable it to carry out its functions. Under these powers, any requests made to the Board to seek independent professional advice would be a matter for them to consider at the time in light of the specific circumstances.

### 4.2.5 Internal Audit

The Insurance Commission's Internal Audit Service is undertaken by an external contractor. This provides the Board with an independent appraisal of the operation and effectiveness of systems and controls, and assists the Board in discharging its responsibilities under the *Financial Management Act 2006* and relevant Treasurer's Instructions.

The Audit assesses financial and administrative control systems and seeks to improve management of, and accountability for, the use of resources. It also aims to address, at a strategic level, key risk areas and corporate governance issues. The results of all audits are reported to the Audit and Accounts Committee and include opinions regarding the adequacy of financial, operational, administrative and systems controls.

During 2012, the Audit and Accounts Committee considered various Internal Audit reports covering all areas of the Insurance Commission's operations.

## 4.3 GOVERNANCE DISCLOSURES

### 4.3.1 Enabling Legislation

The Insurance Commission is a statutory authority under Section 6 of the *Insurance Commission of Western Australia Act 1986* and operates in accordance with this Act.

As an organisation, the Insurance Commission also administers the *Motor Vehicle (Third Party Insurance) Act 1943.*

### 4.3.2 Compliance with other State and Commonwealth Legislation and Regulations

The Insurance Commission ensures that all legislation and regulations which impact upon our activities is adhered to.

## 4.3.3 Disclosure of Interest

Schedule 1, Section 5 of the *Insurance Commission of Western Australia Act 1986* requires Commissioners to disclose any direct and indirect pecuniary interests in a matter being considered, or about to be considered, by the Board. All disclosures are required to be recorded in the Board meeting minutes.

During 2012, there were no disclosures of pecuniary interest by Commissioners.

The Insurance Commission also has an established 'Conflict of Interest' Policy for its employees and Commissioners for identifying, preventing or resolving conflicts of interest. All employees and Commissioners have access to this policy through the Insurance Commission's intranet website. In accordance with the policy, employees and Commissioners must declare any personal activities or involvements which may present a conflict of interest relating to their duties within the Insurance Commission.

## 4.3.4 Shares held by Senior Officers

The Insurance Commission is not a private or publicly listed company with share capital.

# 4.4 OTHER LEGAL REQUIREMENTS

## 4.4.1 Advertising – Statement of Expenditure

The Insurance Commission incurred the following expenditure in advertising, market research, polling, direct mail and media advertising. All amounts are inclusive of GST.

| Expenditure with Advertising Agencies | |
|---|---|
| ABG Pages | $1,700 |
| BizGov | $4,934 |
| Business Industry Education Australia | $4,494 |
| Commerce and Trade Index | $10,980 |
| Construction Media | $3,509 |
| Government Education and Business Directory | $4,998 |
| National Business and Trade | $2,849 |
| Nationwide Business Directory of Australia Pty Ltd | $7,970 |
| Seek Limited | $998 |
| Adcorp Australia Limited | $31,184 |
| | **$73,616** |

| Expenditure with Market Research Agencies | |
|---|---|
| Painted Dog Research | $58,308 |
| Quantum Management Indicators | $905 |
| | **$59,213** |

| Expenditure with Polling Agencies | Nil |
|---|---|

| Expenditure with Direct Mail Agencies | Nil |
|---|---|

| Expenditure with Media Advertising Agencies | Nil |
|---|---|

| **TOTAL EXPENDITURE** | **$132,829** |
|---|---|

## 4.4.2 Disability Access and Inclusion Plan Outcomes

The Insurance Commission's Disability Access and Inclusion Plan (DAIP) continues to guide the implementation of planned activities in and around the organisation.

The DAIP Implementation Plan 2010-2011, endorsed and carried out by the DAIP Committee, has resulted in a number of initiatives being achieved this past year.

Outlined below are some achievements matched against the Government's six disability standards.

### Outcome 1: People with disabilities have the same opportunities as other people to access the Insurance Commission's services and events

- DAIP Committee met regularly to review progress on the implementation of the strategies identified in the DAIP;
- The principles of the DAIP were considered when formulating annual budgets and business plans; and
- Events were planned using the Accessible Events Checklist.

### Outcome 2: People with disabilities have the same opportunities as other people to access the Insurance Commission's buildings and other facilities

- Members of the Committee, in conjunction with building management, continued to explore opportunities to enhance access to the Insurance Commission's offices and make recommendations to the Executive Committee;
- Availability of disability friendly chairs for the reception area to accommodate those who have mobility difficulties;
- Work continued on the upgrade of lift cars in The Forrest Centre; and
- Reviews were conducted of the emergency and evacuation plans.

### Outcome 3: People with disabilities receive information from the Insurance Commission in a format that will enable them to access the information as readily as other people are able to access it

- Regular revision of information available to employees via the intranet on accessibility and interpreters.

### Outcome 4: People with disabilities receive the same level and quality of service from Insurance Commission employees as other people receive

- Provide information on access and inclusion in the employee newsletter and on the intranet.

### Outcome 5: People with disabilities have the same opportunities as other people to make complaints to the Insurance Commission

- Converted Customer Feedback Form to electronic form in addition to hard copy to promote feedback on all areas of the Insurance Commission's facilities and customer service.

### Outcome 6: People with disabilities have the same opportunities as other people to participate in any public consultation the Insurance Commission may carry out

- The Insurance Commission did not undertake any public consultation during the year. The Insurance Commission is committed to ensuring that people with disabilities have the same opportunities as other people to participate in any public consultation that may occur in the future.

## 4.4.3 Compliance with Public Sector Standards and Ethical Codes

*(Public Sector Management Act 1994, Section 31 (1))*

In relation to the Public Sector Standards, WA Public Sector Code of Ethics and the Insurance Commission's Code of Conduct, the Insurance Commission adopted the following actions to monitor and ensure compliance:

- The Code of Conduct is integrated into the Corporate Induction Program and employment practices and is easily accessible on the Insurance Commission's intranet;
- The Insurance Commission has management and operational procedures to ensure Conflicts of Interest are identified and managed in a transparent and accountable manner;
- Policies, guidelines and procedures are in place to ensure compliance including internal and external reviews; and
- Awareness and Training Sessions have been conducted during the year including:
    - Comprehensive induction program on all Policies, Public Sector Standards, Code of Conduct and Code of Ethics; promoting Integrity and Accountability; and
    - Accountable and Ethical Decision Making modular on-line training program provided by the Public Sector Commission was completed by 99% of Insurance Commission employees.

There were no breach claims lodged in respect to the Code of Ethics and Code of Conduct. One Breach of Standard (Grievance Resolution) was lodged and the claim upheld by the Public Sector Commission. The Insurance Commission subsequently resolved the grievance.

## 4.4.4 Recordkeeping Plans

*(State Records Act 2000, Section 61 and State Records Commission Standard 2, Principle 6)*

### Recordkeeping Systems Review

The Insurance Commission's revised Recordkeeping Plan was approved by State Records Commission in December 2009. The Recordkeeping Plan will be reviewed in 2014.

The revised Retention and Disposal Schedule RD 2009045/1 was approved by the State Records Commission in June 2010.

### Recordkeeping Training Program

In 2012, Recordkeeping Awareness Training was delivered on-line for permanent staff and via information sheets for casual and temporary staff.

Seventeen new permanent staff successfully completed the on-line course while eight casual and temporary staff also completed their Recordkeeping Training obligation.

### Effectiveness of Recordkeeping Training

The evaluation of the Insurance Commission's File Plan in the 2009 calendar year indicated that recordkeeping training with the Insurance Commission was effective.

### Induction Program Recordkeeping Awareness

The Insurance Commission's Induction Program addresses employee and contractor roles and responsibilities in regard to their compliance to the organisation's Recordkeeping Plan. The Induction Program includes Recordkeeping Awareness and recordkeeping training specifically tailored to the role of the new staff member within the Insurance Commission.

# 4.5 GOVERNMENT POLICY REQUIREMENTS

## 4.5.1 Occupational Safety and Health

The Insurance Commission seeks to demonstrate leadership to the WA Public Sector in the safety and health of employees and robust risk management.

The Insurance Commission's Occupational Safety and Health (OSH) vision is to ensure a safe and healthy work environment for all employees, contractors and visitors. The OSH Committee is integral to achieving this vision and together with tangible support by the Executive is key to OSH consultation, communication and promotion at the Insurance Commission.

The OSH Committee is comprised of Executive Management Representatives, HR employees and elected OSH Representatives who meet bi-monthly to discuss safety and health issues, performance indicators and track progress against the OSH Business Plan.

The OSH Business Plan outlines OSH objectives for the year and incorporates strategies resulting from the analysis of incidents and hazards reported. The Plan also serves as a tool to audit OSH systems and processes and to identify opportunities for further improvement. In 2012, 85% agreed actions were achieved.

In 2012, five workers' compensation claims were lodged of which only one claim resulted in lost time. Injured employees are supported in their return to work via the Insurance Commission's Injury Management System which exceeds the minimum requirements of the *Workers' Compensation and Injury Management Act 1981* and extends to include return to work programs for employees with non-work related injuries.

Performance against the targets outlined in the *Public Sector Commissioner's Circular 2009/11: Code of Practice: Occupational Safety and Health in the Western Australian Public Sector* is as follows:

| Measure | Actual Results | | | Results against Target |
|---|---|---|---|---|
| | 2010 | 2011 | 2012 | Target (3 Year Trend) |
| Number of fatalities | 0 | 0 | 0 | 0 |
| Lost time injury and/or disease incidence rate | 0.57 | 0.52 | 0.29 | 0 or 10% reduction |
| Lost time injury and/or disease severity rate | 0 | 100 | 0 | 0 or 10% reduction |
| Percentage of injured workers returned to work: | | | | |
| (i) within 13 weeks | 100% | 0% | 100% | Greater than or equal to 80% within 26 weeks |
| (ii) within 26 weeks | n/a | 0% | n/a | |
| Percentage of managers trained in occupational safety, health and injury management responsibilities | 79% | 89% | 89.5% | Greater than or equal to 80% |

## 4.5.2 Substantive Equality

In accordance with the *Public Sector Commissioner's Circular 2009/23: Implementation of the Policy Framework for Substantive Equality*, all departments represented on the Strategic Management Council are required to report on their commitment to implement the Policy Framework for Substantive Equality. The Insurance Commission is not represented on the Strategic Management Council and therefore is not required to report on its commitment to implement the Policy Framework for Substantive Equality.

The Insurance Commission, however, is committed to substantive equality, in particular the objectives of the Policy Framework, which are to achieve sustainable equality by eliminating systemic racial discrimination in the provision of public sector services; and promoting sensitivity to the different needs of client groups.


# FINANCIAL STATEMENTS 2012

# INSURANCE COMMISSION OF WESTERN AUSTRALIA FINANCIAL STATEMENTS 2012 INDEX

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# CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND CHIEF FINANCE OFFICER

## Insurance Commission of Western Australia

The accompanying financial statements of the Insurance Commission of Western Australia and the accompanying consolidated financial statements have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2012 and the financial position at 30 June 2012.

At the date of signing we are not aware of any circumstances, which would render the particulars included in the financial statements misleading or inaccurate.

**MICHAEL E WRIGHT**
**CHAIRMAN**
17 September 2012

**ROD WHITHEAR**
**COMMISSIONER**
17 September 2012

**ERNIE COWELL**
**CHIEF FINANCE OFFICER**
17 September 2012

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 29 August 2012.

Auditor General

**INDEPENDENT AUDITOR'S REPORT**

**To the Parliament of Western Australia**

**INSURANCE COMMISSION OF WESTERN AUSTRALIA**

**Report on the Financial Statements**
I have audited the accounts and financial statements of the Insurance Commission of Western Australia and the consolidated entity.

The financial statements comprise the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the Commission and the consolidated entity for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

*Commission's Responsibility for the Financial Statements*
The Commission is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Commission determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***
In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Insurance Commission of Western Australia and the consolidated entity at 30 June 2012 and their financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.



7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

**Report on Controls**
I have audited the controls exercised by the Insurance Commission of Western Australia during the year ended 30 June 2012.

Controls exercised by the Insurance Commission of Western Australia are those policies and procedures established by the Commission to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

*Commission's Responsibility for Controls*
The Commission is responsible for maintaining an adequate system of internal control to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Insurance Commission of Western Australia based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the adequacy of controls to ensure that the Commission complies with the legislative provisions. The procedures selected depend on the auditor's judgement and include an evaluation of the design and implementation of relevant controls.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***
In my opinion, the controls exercised by the Insurance Commission of Western Australia are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2012.

**Report on the Key Performance Indicators**
I have audited the key performance indicators of the Insurance Commission of Western Australia for the year ended 30 June 2012.

The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide information on outcome achievement and service provision.

*Commission's Responsibility for the Key Performance Indicators*
The Commission is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions and for such controls as the Commission determines necessary to ensure that the key performance indicators fairly represent indicated performance.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the key performance indicators. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments the auditor considers internal control relevant to the Commission's preparation and fair presentation of the key performance indicators in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the relevance and appropriateness of the key performance indicators for measuring the extent of outcome achievement and service provision.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the key performance indicators of the Insurance Commission of Western Australia are relevant and appropriate to assist users to assess the Commission's performance and fairly represent indicated performance for the year ended 30 June 2012.

**Independence**

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing and Assurance Standards, and other relevant ethical requirements.

**Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators**

This auditor's report relates to the financial statements and key performance indicators of Insurance Commission of Western Australia for the year ended 30 June 2012 included on the Commission's website. The Commission's management is responsible for the integrity of the Commission's website. This audit does not provide assurance on the integrity of the Commission's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
18 September 2012

# STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 30 June 2012

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| Premium Revenue | 2 | **445,395** | 430,239 | **445,395** | 430,239 |
| Outwards Reinsurance Premium Expense | 3 | **(5,502)** | (5,110) | **(5,502)** | (5,110) |
| Outwards Reinsurance Commission Revenue | 2 | **561** | 498 | **561** | 498 |
| Net Premium Revenue | | **440,454** | 425,627 | **440,454** | 425,627 |
| Claims Expense | 3 | **(632,143)** | (528,073) | **(632,404)** | (528,912) |
| Reinsurance and Other Recoveries Revenue | 2 | **25,121** | 11,496 | **25,121** | 11,497 |
| Net Claims Incurred | 4 | **(607,022)** | (516,577) | **(607,283)** | (517,415) |
| Gross Movement in Unexpired Risk Liability | 17 | **(26,130)** | - | **(26,130)** | - |
| Reinsurance and Other Recoveries on Unexpired Risk Liability | 17 | **14,900** | - | **14,900** | - |
| Net Movement in Unexpired Risk | 3,17 | **(11,230)** | - | **(11,230)** | - |
| Acquisition Costs | 3,11 | **(18,235)** | (18,498) | **(18,235)** | (18,498) |
| Other Underwriting and Administration Expenses | 3 | **(61,685)** | (78,276) | **(62,390)** | (78,433) |
| **UNDERWRITING LOSS** | | **(257,718)** | (187,724) | **(258,684)** | (188,719) |
| Investment Income including Movements in Fair Value | 2 | **69,324** | 261,557 | **69,324** | 261,557 |
| Investment Expenses | 3 | **(28,536)** | (24,271) | **(28,536)** | (24,271) |
| Finance Costs | 3 | **(7,621)** | (37,807) | **(8,574)** | (38,822) |
| Other Income | 2 | **56,934** | 54,580 | **57,919** | 55,022 |
| Other Expenses | 3 | **(17,060)** | (17,201) | **(16,406)** | (16,103) |
| **(LOSS)/PROFIT BEFORE INCOME TAX EQUIVALENT BENEFIT/(EXPENSE)** | | **(184,677)** | 49,134 | **(184,957)** | 48,664 |
| Income Tax Equivalent Benefit/(Expense) | 5 | **62,705** | (6,385) | **62,985** | (5,915) |
| **(LOSS)/PROFIT AFTER INCOME TAX EQUIVALENT BENEFIT/(EXPENSE) ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA** | | **(121,972)** | 42,749 | **(121,972)** | 42,749 |
| Fair Value Revaluation of Land and Buildings | 8 | **27,690** | 15,433 | **27,690** | 15,433 |
| Related Income Tax Equivalent Expense | 5 | **(8,307)** | (4,630) | **(8,307)** | (4,630) |
| **OTHER COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE** | | **19,383** | 10,803 | **19,383** | 10,803 |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME AFTER INCOME TAX EQUIVALENT BENEFIT/(EXPENSE) ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA** | | **(102,589)** | 53,552 | **(102,589)** | 53,552 |

The Statement of Comprehensive Income should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The Statement of Comprehensive Income for the Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 36.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 39. This fund is excluded from this Statement of Comprehensive Income.

# STATEMENT OF FINANCIAL POSITION

## at 30 June 2012

| | | CONSOLIDATED | | | INSURANCE COMMISSION | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | 30 June 2011 | 1 July 2010 | 2012 | 30 June 2011 | 1 July 2010 |
| | Notes | $'000 | Restated* $'000 | Restated* $'000 | $'000 | Restated* $'000 | Restated* $'000 |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and Cash Equivalents | 21 | **663** | - | 1,934 | **-** | - | - |
| Receivables | 6 | **62,967** | 43,242 | 43,163 | **63,166** | 43,564 | 43,342 |
| Current Tax Receivable | | **-** | 6,232 | 5,283 | **-** | 6,232 | 5,283 |
| Financial Assets at Fair Value Through Profit or Loss | 7 | **1,768,246** | 1,952,836 | 1,756,255 | **1,768,246** | 1,952,836 | 1,756,255 |
| Deferred Acquisition Costs | 11 | **-** | 1,542 | 4,488 | **-** | 1,542 | 4,488 |
| Other Assets | 12 | **4,145** | 3,024 | 4,021 | **4,145** | 3,024 | 4,021 |
| **Total Current Assets** | | **1,836,021** | 2,006,876 | 1,815,144 | **1,835,557** | 2,007,198 | 1,813,389 |
| **Non-Current Assets** | | | | | | | |
| Receivables | 6 | **235,196** | 214,046 | 208,010 | **235,194** | 214,041 | 208,004 |
| Financial Assets at Fair Value Through Profit or Loss | 7 | **584,518** | 363,703 | 361,958 | **606,090** | 384,621 | 381,778 |
| Property, Plant and Equipment | 8 | **284,654** | 261,901 | 252,406 | **284,654** | 261,901 | 252,406 |
| Investment Properties | 9 | **510,486** | 497,658 | 430,873 | **510,486** | 497,658 | 430,873 |
| Intangible Assets | 10 | **12,684** | 8,714 | 8,882 | **12,684** | 8,714 | 8,882 |
| Other Assets | 12 | **1,710** | 1,602 | 831 | **1,710** | 1,602 | 831 |
| **Total Non-Current Assets** | | **1,629,248** | 1,347,624 | 1,262,960 | **1,650,818** | 1,368,537 | 1,282,774 |
| **TOTAL ASSETS** | | **3,465,269** | 3,354,500 | 3,078,104 | **3,486,375** | 3,375,735 | 3,096,163 |
| **LIABILITIES** | | | | | | | |
| **Current Liabilities** | | | | | | | |
| Bank Overdraft | 21 | **-** | 6,796 | - | **21,404** | 28,911 | 1,216 |
| Payables | 13 | **26,994** | 34,724 | 23,383 | **26,980** | 34,341 | 23,374 |
| Financial Liabilities at Fair Value Through Profit or Loss | 14 | **469,994** | 422,247 | 372,855 | **469,994** | 422,247 | 372,855 |
| Outstanding Claims Liability | 15 | **454,434** | 406,484 | 381,348 | **454,380** | 406,228 | 380,827 |
| Unearned Premium Liability | 16 | **189,470** | 184,522 | 173,927 | **189,470** | 184,522 | 173,927 |
| Unexpired Risk Liability | 17 | **26,130** | - | - | **26,130** | - | - |
| Provisions | 18 | **6,861** | 5,891 | 6,467 | **6,861** | 5,891 | 6,467 |
| **Total Current Liabilities** | | **1,173,883** | 1,060,664 | 957,980 | **1,195,219** | 1,082,140 | 958,666 |
| **Non-Current Liabilities** | | | | | | | |
| Payables | | **-** | - | - | **-** | - | 18,451 |
| Outstanding Claims Liability | 15 | **1,461,006** | 1,308,572 | 1,198,380 | **1,460,697** | 1,308,181 | 1,197,028 |
| Provisions | 18 | **12,176** | 10,073 | 11,065 | **12,176** | 10,073 | 11,065 |
| Deferred Tax Liabilities | 5 | **34,485** | 88,883 | 77,923 | **34,564** | 89,033 | 78,197 |
| **Total Non-Current Liabilities** | | **1,507,667** | 1,407,528 | 1,287,368 | **1,507,437** | 1,407,287 | 1,304,741 |
| **TOTAL LIABILITIES** | | **2,681,550** | 2,468,192 | 2,245,348 | **2,702,656** | 2,489,427 | 2,263,407 |
| **NET ASSETS** | | **783,719** | 886,308 | 832,756 | **783,719** | 886,308 | 832,756 |
| **EQUITY** | | | | | | | |
| Asset Revaluation Surplus | | **134,455** | 115,072 | 104,269 | **134,455** | 115,072 | 104,269 |
| Compensation (Industrial Diseases) Fund Reserve | | **17,484** | 17,876 | 16,979 | **17,484** | 17,876 | 16,979 |
| Retained Earnings | 38 | **631,780** | 753,360 | 711,508 | **631,780** | 753,360 | 711,508 |
| **TOTAL EQUITY** | | **783,719** | 886,308 | 832,756 | **783,719** | 886,308 | 832,756 |

* Certain amounts shown here do not correspond to the 2011 Financial Statements and reflect adjustments made as detailed in Notes 1(f), 7 and 14.

The Statement of Financial Position should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The Statement of Financial Position for the Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 37.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 39. This fund is excluded from this Statement of Financial Position.

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 30 June 2012

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| **SUMMARY OF CHANGES IN EQUITY** | | | | | |
| **BALANCE OF EQUITY AT START OF THE YEAR** | | **886,308** | 832,756 | **886,308** | 832,756 |
| (Loss)/Profit after Income Tax Equivalent Benefit/(Expense) | | **(121,972)** | 42,749 | **(121,972)** | 42,749 |
| Fair Value Revaluation of Land and Buildings after Income Tax Equivalent Expense | | **19,383** | 10,803 | **19,383** | 10,803 |
| Total Comprehensive (Loss)/Profit after Income Tax Equivalent Benefit/(Expense) | | **(102,589)** | 53,552 | **(102,589)** | 53,552 |
| **BALANCE OF EQUITY AT END OF THE YEAR** | | **783,719** | 886,308 | **783,719** | 886,308 |
| **RESERVES** | | | | | |
| **Asset Revaluation Surplus** | | | | | |
| Balance at Start of the Year | | **115,072** | 104,269 | **115,072** | 104,269 |
| Fair Value Revaluation of Land and Buildings after Income Tax Equivalent Expense | | **19,383** | 10,803 | **19,383** | 10,803 |
| Balance at End of the Year | | **134,455** | 115,072 | **134,455** | 115,072 |
| **Compensation (Industrial Diseases) Fund Reserve** | | | | | |
| Balance at Start of the Year | | **17,876** | 16,979 | **17,876** | 16,979 |
| Transfer (to)/from Retained Earnings | **38(i)** | **(392)** | 897 | **(392)** | 897 |
| Balance at End of the Year | | **17,484** | 17,876 | **17,484** | 17,876 |
| **RETAINED EARNINGS** | | | | | |
| Balance at Start of the Year | | **753,360** | 711,508 | **753,360** | 711,508 |
| (Loss)/Profit after Income Tax Equivalent Benefit/(Expense) | | **(121,972)** | 42,749 | **(121,972)** | 42,749 |
| Transfer from/(to) Compensation (Industrial Diseases) Fund Reserve | | **392** | (897) | **392** | (897) |
| Balance at End of the Year | **38** | **631,780** | 753,360 | **631,780** | 753,360 |

The Statement of Changes in Equity should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The Statement of Changes in Equity for the Insurance Commission in relation to Retained Earnings represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 38.

The Asset Revaluation Surplus is held within the Insurance Commission General Fund (ICGF).

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 39. This fund is excluded from this Statement of Changes in Equity.

# STATEMENT OF CASH FLOWS

## for the year ended 30 June 2012

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Premiums Received | | **495,304** | 485,100 | **495,304** | 485,100 |
| Stamp Duty Received | | **49,073** | 47,879 | **49,073** | 47,879 |
| Right of Indemnity Receipts - Government Insurance Fund | | **4,047** | 3,383 | **4,047** | 3,383 |
| Right of Indemnity Receipts - WorkCover WA | | **307** | 289 | **307** | 289 |
| Interest Received | | **44,748** | 39,220 | **44,748** | 39,220 |
| Property Income Received | | **91,302** | 74,723 | **91,302** | 74,723 |
| Dividends Received | | **60,729** | 84,004 | **60,729** | 84,004 |
| Reinsurance and Other Recoveries Received | | **2,994** | 4,082 | **2,976** | 4,083 |
| Management Fees Received | | **27,047** | 28,010 | **27,754** | 28,168 |
| Outwards Reinsurance Commission Received | | **617** | 548 | **617** | 548 |
| Other Receipts | | **617** | - | **617** | - |
| Interest Paid to Corporation | | **-** | - | **(953)** | (1,015) |
| Intercompany Debtor Paid | | **-** | - | **-** | (18,451) |
| Claims Paid | | **(457,677)** | (415,505) | **(457,310)** | (415,454) |
| Interest Paid to RiskCover Fund | **39** | **(12,587)** | (39,892) | **(12,587)** | (39,892) |
| Outwards Reinsurance Paid | | **(6,157)** | (5,490) | **(6,157)** | (5,490) |
| Acquisition Costs Paid | | **(18,517)** | (17,402) | **(18,517)** | (17,402) |
| Set-up Costs Paid | | **(3,505)** | (7,839) | **(3,505)** | (7,839) |
| Underwriting and Administration Expenses Paid | | **(53,225)** | (56,021) | **(52,340)** | (53,978) |
| Debt Recovery Costs Paid | | **(4,585)** | (16,360) | **(5,816)** | (18,321) |
| Property Expenses Paid | | **(35,794)** | (20,766) | **(35,794)** | (20,766) |
| Goods and Services Tax Paid | | **(17,348)** | (13,045) | **(17,404)** | (13,038) |
| Stamp Duty Paid | | **(49,336)** | (47,737) | **(49,336)** | (47,737) |
| Other Payments | | **(8,206)** | (7,852) | **(8,206)** | (7,852) |
| **Net Cash Flow from Operating Activities** | **21** | **109,849** | 119,330 | **109,550** | 100,163 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Investment Funds Received from RiskCover Fund | | **47,747** | 49,392 | **47,747** | 49,392 |
| Payments for Purchase of Investments | | **(1,283,485)** | (631,290) | **(1,283,485)** | (631,290) |
| Payments for Purchase/Development of Investment Property | | **(6,725)** | (40,807) | **(6,725)** | (40,807) |
| Proceeds from Sale of Investments | | **1,218,035** | 522,204 | **1,218,035** | 522,204 |
| Payments for Purchase of Property, Plant and Equipment | | **(14,182)** | (8,216) | **(14,182)** | (8,216) |
| Proceeds from Sale of Property, Plant and Equipment | | **488** | 371 | **488** | 371 |
| **Net Cash Flow to Investing Activities** | | **(38,122)** | (108,346) | **(38,122)** | (108,346) |
| **CASH FLOW FROM STATE GOVERNMENT** | | | | | |
| Income Tax Equivalent Received/(Paid) | | **6,232** | (1,004) | **6,579** | (802) |
| **Net Cash Flow from/(to) State Government** | | **6,232** | (1,004) | **6,579** | (802) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **77,959** | 9,979 | **78,007** | (8,986) |
| **CASH AND CASH EQUIVALENTS AT START OF THE YEAR** | | **267,801** | 257,822 | **245,686** | 254,672 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **21** | **345,760** | 267,801 | **323,693** | 245,686 |

The Statement of Cash Flows should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 39. This fund is excluded from this Statement of Cash Flows.

Certain amounts shown here do not correspond to the 2011 Financial Statements and reflect adjustments made as detailed in Note 1(f).

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of the financial statements, presented below are the significant accounting policies adopted by the economic entity comprising the Insurance Commission of Western Australia (Insurance Commission) and its wholly owned subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law), in preparing the financial statements.

On 29 May 2012, the Governor in Executive Council approved a proclamation order which facilitated the closure of the Corporation. From 1 July 2012, the Corporation ceased to exist and all residual assets, rights and liabilities were transferred to the Insurance Commission.

No changes in accounting treatment or policies are required as a result of the 1 July 2012 closure of the Corporation, as the fair value of assets and liabilities adequately reflects the value which will be transferred to the Insurance Commission.

The Insurance Commission and Corporation are Agents of the Crown in the right of the State under section 4(a) and 28(3) respectively of the *Insurance Commission of Western Australia Act 1986.*

#### (a) Statement of Compliance

The financial statements for the year ended 30 June 2012 have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) as modified by Treasurer's Instructions.

In preparing these financial statements the Insurance Commission has adopted where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the AASB.

#### (b) Early Adoption of Standards

The Insurance Commission cannot early adopt an Australian Accounting Standard or an Interpretation unless specifically permitted by *Treasurer's Instruction 1101* (TI 1101), 'Application of Australian Accounting Standards and Other Pronouncements'. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the economic entity for the annual reporting period ended 30 June 2012.

#### (c) General Statement

These financial statements to 30 June 2012 constitute general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. Such modifications are intended to provide certainty and ensure consistency and appropriate reporting across the public sector.

Where modification is required and has a material or significant effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to the financial statements.

The *Financial Management Act 2006* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

#### (d) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which, as detailed in the remainder of this accounting policies note, are measured at fair value.

The financial statements are presented in Australian dollars and in accordance with *Treasurer's Instruction 948*, all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated.

The judgements that have been made in the process of applying the economic entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 32, 'Critical Accounting Judgements and Estimates'.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of outstanding claims liabilities within the next financial year are disclosed at Note 33, 'Actuarial Assumptions and Methods'.

The financial statements have been prepared on the assumption that the consolidated economic entity, with the exception of the Corporation, is a 'going concern', and will continue its business operations in the normal manner and that it will be able to meet its liabilities as and when they fall due.

#### (e) Principles of General Insurance Business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The general insurance activities of the Insurance Commission consist of all transactions arising from writing general insurance contracts.

#### (f) Disclosure of Prior Period Restatement; Changes in Presentation; and Changes in Accounting Policy or Estimates

**Prior Period Restatement**

Statement of Financial Position:
In the prior year the economic entity recognised the Floating Rate Promissory Note (FRPN) as a negative Financial Asset at Fair Value through Profit or Loss. It has been determined that the FRPN meets the definition of a Financial Liability and not a negative Financial Asset. Refer Notes 7 and 14. The prior period Statement of Financial Position has been restated in classification as follows:

As of 1 July 2010:

- Increase in Financial Assets at Fair Value Through Profit or Loss: $372.855 million
- Increase in Financial Liabilities at Fair Value Through Profit or Loss: $372.855 million
- No impact on Net Assets or Profit after Tax

As of 30 June 2011:

- Increase in Financial Assets at Fair Value Through Profit or Loss: $422.247 million
- Increase in Financial Liabilities at Fair Value Through Profit or Loss: $422.247 million
- No impact on Net Assets or Profit after Tax

**Changes in Presentation**

Statement of Cash Flows:
In 2012, the economic entity determined that a change in presentation was required in relation to the Statement of Cash Flows. TI 1101 'Application of Australian Accounting Standards and Other Pronouncements' modifies AASB 107, 'Statement of Cash Flows' to require Cash Flows from State Government to be disclosed where applicable.

As a result of this modification, a change in presentation was made to reclassify *Income Tax Equivalents Paid/Received* from Cash Flow from Operating Activities to Cash Flow from State Government.

The economic entity also determined that a change in presentation was required to disclose *Stamp Duty Received* as a separate line item, rather than include with *Premiums Received*. The economic entity believes this presentation is technically more appropriate and will provide greater transparency for readers.

Changes have been applied retrospectively in accordance with AASB 101, 'Presentation of Financial Statements', resulting in the restatement of prior year financial information in the Statement of Cash Flows. Refer Statement of Cash Flows. This change had no impact on Net Assets or Profit after Tax.

**Changes in Accounting Policy or Estimates**

There are no mandatory or voluntary changes in accounting policies or estimates

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

which impact on the consolidated financial statements of the economic entity.

#### (g) Initial Application of an Australian Accounting Standard

The economic entity has applied the following Australian Accounting Standards and Interpretations effective for the annual reporting period beginning 1 July 2011.

- AASB 2009-12 'Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]'. This Standard changes the term 'after the end of the reporting period' to 'after the reporting period'. There is no financial impact resulting from the application of this Standard.

- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 & 134 and Interpretation 13]'. This Standard amends AASB 7 in relation to the disclosure requirements. There is no financial impact resulting from the application of this Standard.

#### (h) Future Impact of Australian Accounting Standards Not Yet Operative

The economic entity cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by TI 1101, 'Application of Australian Accounting Standards and Other Pronouncements'. TI 1101 has not mandated the early adoption of any Australian Accounting Standards or Interpretations. Consequently, the economic entity has not applied the following Australian Accounting Standards and Interpretations that have been issued but are not yet effective. These will be applied from their application date, where applicable to the economic entity:

- AASB 9 'Financial Instruments'. This Standard includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 to replace AASB 139 'Financial Instruments: Recognition and Measurement'. The Standard improves and simplifies the approach for the classification and measurement of financial assets compared with AASB 139. The economic entity does not expect any financial impact when the Standard is first applied. Disclosures in the notes to the financial statements may change.

- AASB 13 'Fair Value Measurement'. New standard provides a single source of guidance for determining the fair value of assets and liabilities. The economic entity does not expect any financial impact when the Standard is first applied. Additional disclosures in the notes to the financial statements will be required in relation to the Fair Value Hierarchy for both Assets and Liabilities.

- AASB 119 'Employee Benefits'. In relation to defined benefit plans, this standard requires actuarial gains and losses now to be recognised in Other Comprehensive Income. The Insurance Commission will be required to reflect these changes in its Statement of Comprehensive Income. The economic entity does not expect any material financial impact when the Standard is first applied.

- AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]'. The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The economic entity does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes to the financial statements may change.

- AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]'. The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The economic entity does not

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes to the financial statements may change.

- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]'. This Standard removes disclosure requirements relating to individual key management personnel. Disclosure at a total level is still required. Related disclosures in the notes to the financial statements will be reduced. The economic entity does not expect any financial impact when the Standard is first applied.

- AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049'. This Standard provides further guidance around the presentation requirements in the Statement of Comprehensive Income. The economic entity does not expect any financial impact when the Standard is first applied.

The following amendments and interpretations will have no applicability to the economic entity and hence have no impact.

| Reference | Title |
|---|---|
| AASB 10 | Consolidated Financial Statements |
| AASB 11 | Joint Arrangements |
| AASB 12 | Disclosure of Interests in Other Entities |
| AASB 127 | Separate Financial Statements |
| AASB 128 | Investments in Associates and Joint Ventures |
| AASB 1053 | Application of Tiers of Australian Accounting Standards |
| AASB 2010-2 | Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements |
| AASB 2010-8 | Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] |
| AASB 2010-10 | Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-Time Adopters [AASB 2009-11 & 2010-7] |
| AASB 2011-2 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054] |
| AASB 2011-3 | Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049] |
| AASB 2011-6 | Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, 128 & 131] |
| AASB 2011-7 | Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 & Interpretations 5, 9, 16 & 17] |

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

| | |
|---|---|
| AASB 2011-8 | Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7,10, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 & Interpretations 2, 4, 12, 13, 14, 17, 19, 131, & 132] |
| AASB 2011-10 | Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 & Interpretation 14] |
| AASB 2011-11 | Amendments to AASB 119 arising from Reduced Disclosure Requirements |
| AASB 2011-12 | Amendments to Australian Accounting Standards arising from Interpretation 20 [AASB 1] |
| AASB 2011-13 | Amendments to Australian Accounting Standard – Improvements to AASB 1049 |
| AASB 2012-1 | Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements [AASB 3, 7, 13, 140 & 141] |
| Interpretation 20 | Stripping Costs in the Production Phase of a Surface Mine |

#### (i) Basis of Consolidation

The consolidated financial statements of the economic entity combine the financial statements of the Insurance Commission, being the parent entity and the Corporation and ICWA Law, being controlled entities in accordance with AASB 127, 'Consolidated and Separate Financial Statements'.

The financial statements of the Corporation and ICWA Law are prepared for the same reporting period as the parent entity.

Consistent accounting policies have been applied by each entity in the consolidated economic entity and unless otherwise stated are consistent with those adopted in the previous year.

In preparing the consolidated financial statements, all inter-entity balances, transactions and unrealised profits or losses arising within the consolidated entity are eliminated in full.

The financial statements of the RiskCover Fund are not consolidated as its assets are controlled by the State Government and not by the economic entity.

#### (j) Income Tax Effect Accounting

The economic entity operates within the National Tax Equivalent Regime (NTER). All Funds of the economic entity are subject to the NTER, except for the Government Insurance Fund.

The purpose of the NTER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring that they bear similar tax-based imposts.

The calculation of the liability in respect of the income tax equivalent is governed by the NTER guidelines and directions approved by the State Government.

As a consequence of participation in the NTER, the entity is required to comply with AASB 112, 'Income Taxes'.

##### Current Tax

Current tax is calculated by reference to the amount of tax equivalent payable, or recoverable, to or from the Department of Treasury of Western Australia (Department of Treasury) as calculated under the rules of the NTER. These rules (with limited exceptions) follow the Income Tax legislation and utilise tax rates effective at the end of the reporting period.

##### Deferred Tax

Deferred tax is accounted for using a comprehensive Statement of Financial Position liability approach whereby account is taken of temporary differences between

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the carrying amounts in the Statement of Financial Position and their corresponding tax base.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amounts of all deferred income tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of the reporting period and are recognised only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at tax rates expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted at the end of the reporting period.

Income taxes relating to items recognised in other comprehensive income are recognised through the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### Tax Consolidation

On 26 February 2003, the Board of Commissioners of the Insurance Commission and the Board of Directors of the Corporation resolved that the Corporation would join the Insurance Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002.

ICWA Law joined the tax consolidation group with effect from 26 November 2010.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits arising from the subsidiaries are recognised by the Insurance Commission (as head entity of the tax-consolidated group).

Tax equivalent expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax-funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to, or receivable by each member of the group in relation to the tax contribution amounts paid or payable between the Insurance Commission and the subsidiaries in accordance with the arrangement.

The tax equivalent sum, payable to the Department of Treasury in respect of each financial year, is equal to the amount of any income tax for which the tax consolidation parent entity would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

#### (k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST payable to, or recoverable from, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed gross of amounts recoverable from, or payable to, the ATO.

#### (l) Revenue and Income Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the economic entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue and other income is recognised.

- **Premium Revenue**

  Premium revenue comprises premiums from direct business and from reinsurance business.

  Premium revenue includes amounts charged to policyholders or other insurers, including workers' compensation insurance levies but excluding stamp duty, GST and other amounts collected on behalf of third parties.

  Premium revenue, including unclosed business, is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract for direct business and over the period of indemnity for reinsurance business, based on time, which closely approximates the pattern of risks underwritten.

  Premiums for unclosed business are recorded as revenue on the basis of premiums received subsequent to the end of the reporting period in accordance with AASB 1023, 'General Insurance Contracts'. Unclosed business is recorded only for those classes of insurance where it can be reliably measured.

  Premium revenue relating to Inwards Reinsurance relates to adjustment premiums affected by the final cost of certain long-tail claims for losses occurring prior to 1992 when the Corporation ceased writing Inwards Reinsurance business.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Unearned Premium**

  The proportion of premium received or receivable which relates to risks for periods of insurance subsequent to the end of the reporting period and hence not earned in the Statement of Comprehensive Income at the end of the reporting period is recognised in the Statement of Financial Position as an Unearned Premium Liability. This liability is determined by apportioning the premium written in the year on a pro-rata basis.

- **Reinsurance and Other Recoveries Revenue**

  Reinsurance and other recoveries revenue on paid claims, claims reported but not paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries receivable for long-tail classes of insurance are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of inflation and discount rates used are set out in Note 33.

- **Investment Income / Loss Including Movements in Fair Values**

  Gains and losses relating to assets categorised in the Statement of Financial Position as Financial Assets at Fair Value through Profit or Loss, and gains and losses resulting from revaluation of assets categorised as Investment Properties may be realised or unrealised. Realised gains and losses arise from the sale of investment assets (including investment property where applicable) and unrealised gains arise from changes in the fair value of investments and Investment Properties held at the end of the reporting period. These gains and losses are recognised in the Statement of Comprehensive Income.

- **Property Rental Income**

  Income from property rentals is recognised on a receivables basis. Rental income includes a proportional amount arising out of the value of rent-free periods and other agreed lease incentive expenses met by the Insurance Commission, apportioned over the term of the relevant leases.

  Income in respect of Investment Properties is reported as Investment Income.

  Income in respect of Owner-Occupied Properties is reported as Other Income.

- **Dividend Income**

  Dividend income is recognised when the underlying equities become ex-dividend. Distributions from investment trusts are recognised as income on the date they are declared and payable.

- **Interest Revenue**

  Interest revenue is recognised as the interest accrues, based on the effective interest method.

- **Foreign Exchange Income**

  The functional and presentation currency of the economic entity is Australian dollars (AUD).

  Transactions of the economic entity denominated in foreign currencies are converted to AUD at the rates of exchange current at the dates of the transactions.

  Assets and liabilities of the economic entity denominated in foreign currencies at the end of the reporting period are converted to Australian currency using rates of exchange current at that date. Resulting exchange differences are recorded as exchange gains or losses in the Statement of Comprehensive Income in that financial year.

- **Net Gains/Losses from Sale of Property, Plant and Equipment**

  Net gains/losses from the sale of property, plant and equipment are recognised when the significant risks and rewards of ownership control transfer to the purchaser.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Third Party Insurance Fund – Premium Setting

In accordance with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission makes an assessment of the premium revenue which will be necessary to meet claims and administration expense arising in the following financial year. This assessment also takes into account an independent actuarial report and the retained earnings expected to exist in the Fund at the commencement of the next financial year.

The *Motor Vehicle (Third Party Insurance) Act 1943* requires that the Insurance Commission's premium recommendations are considered by the responsible Minister who may approve, refuse or invite the Insurance Commission to review any or all of its recommendations.

#### (n) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities.

#### (o) Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

#### (p) Unexpired Risk Liability

At the end of the reporting period, an assessment is made to determine the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against related unexpired portions of insurance contracts. This assessment is referred to as the Liability Adequacy Test (LAT). Liability adequacy testing is performed at the level of a portfolio of contracts which are subject to broadly similar risks and which are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less any related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Insurance Commission applies a risk margin to achieve the same probability of sufficiency (75%) for future claims as is achieved by the estimate of the outstanding claims liability. Refer Note 15.

The movement in total deficiency (net of reinsurance), if any, is recognised immediately in the Statement of Comprehensive Income. The total deficiency is determined by first writing down any related intangible assets and then any related deferred acquisition costs. The shortfall is recorded in the Statement of Financial Position as an Unexpired Risk Liability (URL). Refer Note 17.

An assessment of the URL at 30 June 2012 has only been made in relation to the Third Party Insurance Fund.

The Compensation (Industrial Diseases) Fund which issues policies covering a three-year period had no unearned premium liability at 30 June 2012 and hence no LAT or URL was required.

The Government Insurance Fund, Insurance Commission General Fund and Corporation (Inwards Reinsurance) are in run-off and hence there is no unearned premium. As a result LATs and URLs are not required.

#### (q) Acquisition Costs

Acquisition costs relate to all costs charged by the Department of Transport for administering the collection of motor vehicle third party insurance premiums. Acquisition costs incurred in obtaining insurance business are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

#### (r) Statutory Charges

Statutory levies and charges, such as Workers' Compensation and Injury Management Commission (WorkCover WA) charges, paid or payable are accounted for on the same basis as the recognition of corresponding premium revenue.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Management Fee

The RiskCover Fund, the Corporation, and ICWA Law are charged management fees in proportion to their usage of the Insurance Commission's services.

#### (t) Assets Backing General Insurance Liabilities

Most assets (including Owner-occupied Land and Buildings, presented under AASB 116 within Property, Plant and Equipment), are held to back general insurance liabilities.

The exceptions are intangible software assets and the remaining items presented within Property, Plant and Equipment and Other Assets. Refer Notes 8 and 12.

Financial assets backing general insurance liabilities include liquid and high-quality investments such as cash and fixed-income securities.

Financial assets held to back general insurance liabilities are valued at fair value in the Statement of Financial Position.

The management of financial assets, general insurance liabilities and policy liabilities are closely monitored to ensure that there is always sufficient liquidity in investments to meet cash flows arising from general insurance liabilities and policy liabilities.

Assets Backing General Insurance Liabilities are discussed in more detail under the relevant Statement of Financial Position headings in this Accounting Policy note.

#### (u) Cash and Cash Equivalents

Cash and cash equivalents are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets approximate to their fair value.

For the purpose of the Statement of Cash Flows, cash includes cash assets on hand and in banks, net of any bank account liability, refer Note 1(dd), together with short-term discount securities and deposits at call, which are investments integral to the economic entity's general insurance activities (all of which are readily convertible to cash and are subject to an insignificant risk of change in value).

#### (v) Receivables

Receivables are reviewed as to their collectability, in regard to their appropriate terms and conditions, on an ongoing basis. Debts which are known to be not collectable are written off. Where objective evidence of impairment exists such as where there is doubt as to whether a debt is collectable, an appropriate provision is made. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence for impairment.

- **Premiums Receivable**

  Premiums receivable mainly relates to Motor Vehicle Third Party Personal Injury insurance due from policyholders for unclosed business. The unclosed business is based upon an assessment of premiums collected in the first 15 days subsequent to the end of the reporting period. Refer Note 1(l).

- **Other Receivables**

  Other receivables are recognised and carried at amortised cost.

#### (w) Financial Assets at Fair Value through Profit or Loss

Investment assets presented as Financial Assets at Fair Value through Profit or Loss are considered to back General Insurance Liabilities of the economic entity. These are initially recognised at cost and subsequently measured at fair value. Refer Note 7.

- **Securities**

  Securities include bonds and short-term securities. Purchases and sales of securities are recognised at trade (transaction) date. There are two types of securities, namely coupon (interest-bearing) securities and discount (non-interest-bearing) securities.

  Purchases of coupon securities are initially recognised at fair value. Interest income for such securities is

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accrued monthly using the coupon rate of interest.

Purchases of discount securities are initially recognised at fair value, being their principal amount with the unearned discount netted against the principal amount to arrive at fair value.

The discount security is amortised in line with the underlying security.

Securities are marked to market at the close of the last business day of the financial year. The securities are valued at quoted bid price or, if such prices are not available, at prices for securities of comparable maturity, quality and type. The costs of coupon securities are adjusted by the marked to market process. The difference between the amortised amount (discount securities) or the cost amount (coupon securities) and the market value is recorded as unrealised revenue.

- **Fixed Interest Term Deposits**

Fixed interest term deposits with a maturity up to 12 months are held at cost plus accrued interest which equates to fair value.

Fixed interest term deposits with a maturity greater than 12 months are measured at fair value using market rate valuation techniques.

- **Equities and Listed Equity Trusts**

Purchases of equities and listed equity trusts are initially recorded at fair value. Equities and listed equity trusts are marked to market using the securities quoted bid price at the end of the reporting period.

- **Units in Unlisted Equity, Fixed Interest and Alternative Assets Trusts**

Fair values of units in unlisted Equity, Fixed Interest and Alternative Assets Trusts are determined using the Net Asset Value (NAV) per unit applicable for redemption on the last day of the financial year. The NAV is calculated by deducting from the value of the unlisted unit trust's gross assets, the value of its liabilities. Unit values denominated in foreign currency are converted to Australian dollars at rates of exchange ruling at the end of the reporting period.

- **Deposits held with Brokers for Margins**

Deposits held with brokers for margins are monetary amounts held by the Insurance Commission to cover the cash obligations of the options held.

Deposits held with brokers for margins are carried at face value of the amounts deposited or drawn. The carrying amounts of these deposits approximate to their fair value.

- **Unlisted Property Trusts**

Unlisted Property Trusts are valued by the Trustee of the Trusts at market values based upon independent valuations of properties held within the trust. A unit price is advised to unit holders, which forms the basis for the calculation of market value at the end of the reporting period which equates to fair value.

- **Derivative Financial Instruments**

Derivative financial instruments are accounted for on a marked to market basis using the most verifiable source of market prices or generally accepted valuation principles, such as discounted future cash flows.

The purpose for which derivative transactions are undertaken is set out in Note 22(a).

- **Forward and Futures Contracts**

Forward and futures contracts are legal agreements for the delayed delivery of financial instruments in which the seller agrees to settle at a specified future date at a specified price or yield. A forward rate agreement is a confirmed agreement between two parties to exchange an interest rate differential on

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a notional principal amount at a given future date.

Futures contracts are used to economically hedge holdings and anticipated purchase commitments to avoid or minimise possible adverse financial effects of movements in exchange rates. Initial margin requirements and daily cash calls are met in cash with a corresponding adjustment to 'investment debtors' or 'investment creditors' until the underlying transaction occurs, at which time any unrealised gain or loss is recorded in the Statement of Comprehensive Income.

The market value of forward foreign currency contracts (forwards) fluctuates with changes in the currency exchange rate. The forward is marked to market daily and the change in market value is recorded as an unrealised foreign exchange gain or loss in the Statement of Comprehensive Income. When the forward is closed, a realised gain or loss, equal to the difference in the value at the time the forward was entered into and the value at the time it was closed is recorded.

The value of bond, bank bill and equity price index futures contracts are marked to market based on the value of the last quoted bid price of the relevant contract traded on a recognised futures exchange. Any gain or loss is recorded in the Statement of Comprehensive Income as a change in the fair value of investments.

- **Options**

Options are contracts that allow the holder of the option the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period.

A call/put option gives the purchaser the right to buy/sell the financial instrument covered by the option at the exercise price at any time up until or at expiry. The opposite would apply if the purchaser were the writer of the option.

Options are priced daily at 'Bid' price. If the option expires on its stipulated expiration date, or if a closing sale transaction is entered into, a gain or loss is realised on disposal and brought to account as a change in the fair value of investments in the Statement of Comprehensive Income.

- **Investments in Subsidiaries**

Investments in subsidiaries are carried at fair value.

#### (x) Deferred Acquisition Costs

At the end of the reporting period, a portion of acquisition costs is deferred in recognition that it represents expense that will give rise to premium revenue that will be recognised in future reporting periods. Deferred Acquisition Costs are amortised over the financial periods expected to benefit from the expenditure, which is generally less than one year. Refer Note 11.

#### (y) Property, Plant and Equipment

**Freehold Land and Buildings**

Freehold Land and Buildings presented within Property, Plant and Equipment are Assets Backing General Insurance Liabilities.

Land and Buildings with a significant degree of owner occupation are required to be accounted for in accordance with AASB 116, 'Property, Plant and Equipment'.

Freehold Land and Buildings are initially measured at cost. Subsequent to initial measurement, Freehold Land and Buildings are revalued annually at the end of the reporting period to fair value by an independent valuer.

Owner-occupied property comprises both Land and Buildings.

Depreciation is applied to owner-occupied buildings only. Following revaluation each year, depreciation is applied to the revised fair value over its remaining useful life.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revaluation of Freehold Land and Buildings

Fair value is determined by reference to market-based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

Any revaluation surplus is credited to the asset revaluation surplus included in the equity section of the Statement of Financial Position unless it reverses a revaluation decrement of the same asset previously recognised in profit or loss.

Any revaluation deficit is recognised in profit or loss unless it directly offsets a previous surplus of the same asset in the asset revaluation surplus.

Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in the carrying amount that is accounted for.

Upon disposal, any revaluation surplus relating to a particular asset being sold will be transferred to retained earnings.

#### Plant and Equipment

Plant and equipment is carried at cost less accumulated depreciation and any impairment in value.

Items of computer hardware with a cost of $300 or over and all other items of plant and equipment costing $1,000 or over are recognised as assets in the year of acquisition. Amounts less than this are expensed directly to the Statement of Comprehensive Income other than where they form a part of a group of similar items which are significant in total.

Amounts relating to software required to operate specific items of hardware are included as part of the hardware asset.

Depreciation is provided on a straight-line basis, applied at rates necessary to write off assets, net of residual values, over the period in which the future economic benefits are expected to be consumed by the economic entity. The rates used are reviewed annually.

The annual depreciation rates used for each class of property, plant and equipment, for the current and previous years, are as follows:

| | 2012 (%) | 2011 (%) |
|---|---|---|
| • Plant and Equipment | 20-25 | 20-25 |
| • Furniture and Fittings | 12 | 12 |
| • Computer Hardware | 33 | 33 |
| • Motor Vehicles | 50 | 50 |
| • Leasehold Improvements | 15 | 15 |
| • Building (Owner-Occupied) | 4.3 | 4.2 |

Plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from their continued use.

Any gain or loss arising on derecognition (calculated as the difference between the net proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

#### Impairment of Plant and Equipment

The varying items of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. External factors such as changes in expected future processes, technology and economic conditions are monitored to assess for indicators of impairment.

If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment risk relates mainly to circumstances where an asset's depreciation is materially understated or where replacement cost is falling. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation /amortisation fairly reflects the level of consumption of the asset's future economic

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

benefits and to re-evaluate any impairment risks.

Impairment losses are recognised in the Statement of Comprehensive Income.

#### (z) Investment Properties

**Freehold Land and Buildings**

Freehold Land and Buildings presented within Investment Property are Assets Backing General Insurance Liabilities.

Following initial recognition at cost, Investment Properties are revalued annually at the end of the reporting period by an independent valuer to fair value, which is based on active market prices.

Fair value is determined by reference to market-based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the end of the reporting period.

Investment Properties are integral to the investment activities of the Insurance Commission and in accordance with AASB 1023, 'General Insurance Contracts', and with AASB 140, 'Investment Property', are not depreciated.

Gains and losses arising from changes in the fair values of Investment Properties are included in profit or loss in the year in which they arise.

**Property under Development or Construction**

Investment Properties under Development or Construction are required to be accounted for in accordance with AASB 140, 'Investment Property'.

Investment Properties under Development or Construction are measured at cost up until the stage when they can be reliably measured at fair value. Management relies on independent valuation advice in order to determine the stage at which fair value can be reliably measured.

#### (aa) Intangible Assets

Intangible Assets are non-monetary assets with no physical substance, that are separately identifiable, controlled by the Insurance Commission and have future economic benefits.

Acquisitions of intangible assets over $1,000 are capitalised. Items less then this are expensed in the Statement of Comprehensive Income other than where they form part of a group of similar items which are significant in total.

Internally generated intangible assets that qualify for recognition are capitalised.

The intangible assets reported primarily relate to computer software which is not of an essential nature required to operate specific items of hardware. Intangible assets include amounts relating to work in progress on designing and implementing computer software.

This software is amortised over four years and tested for impairment whenever there is an indication that the asset may be impaired.

#### (bb) Impairment of Assets

Non-current assets are not carried at an amount above their recoverable amount. Where the carrying value of an asset exceeds the recoverable amount, the asset is written down. The recoverable amount is the higher of fair value, less cost to sell and value in use. In assessing value in use, estimated future net cash flows are, where applicable, discounted to their present value using a market-determined risk-adjusted discount rate.

#### (cc) Non-Current Assets (or Disposal Groups) Classified as Held for Sale

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell and are presented separately from other assets in the Statement of Financial Position. Assets classified as held for sale are not depreciated or amortised.

Non-current assets (or disposal groups) held for sale to be sold within the next financial year are recognised as current assets.

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (dd) Bank Overdraft

Any liability for bank overdraft shown in the Statement of Financial Position represents the general ledger account balance and includes the value of cheques drawn but unpresented on the bank account at the end of the reporting period and equates to fair value.

#### (ee) Payables

Payables, including accruals not yet billed, are carried at cost and recognised when the entity becomes obliged to make future payments as a result of a purchase of assets or services. Current payables are generally settled within 30 days.

#### (ff) Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss relate to a floating rate promissory note, which is measured at fair value. The Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. Refer Notes 14 and 39.

#### (gg) Outstanding Claims

The liability for outstanding claims at the end of the reporting period comprises:

- claims that have been reported but not paid,
- IBNR claims,
- IBNER claims,

together with the anticipated direct and indirect claims' settlement costs.

The liability for outstanding claims is the present value of an adjusted 'central estimate' of future claim payments (including claims management expenses), which is affected by factors arising during the period to settlement such as normal (e.g. wage) inflation and 'superimposed' inflation. Superimposed inflation refers to factors such as trends in court awards and changes in legislation, for example, increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at the end of the reporting period using risk-free discount rates.

Refer Note 33 for details of inflation and discount rates used.

- **Short-tail claims**

  There are a number of short-tail claims relating to the RiskCover Fund, refer Note 39. The RiskCover Fund as previously stated does not form a part of the Consolidated Entity reporting.

  These short-tail claims relate to classes of business where claims are typically settled within one year of the occurrence of the events giving rise to those claims.

  The RiskCover Fund's liability for outstanding claims for the short-tail classes, such as Property and Motor, are internally assessed using a central estimate.

- **Long-tail claims**

  Long-tail claims are typically not settled within one year of the occurrence of the events giving rise to those claims. Protracted legal proceedings may be involved to resolve the issue of negligence or liability and/or to establish the amount of claims' settlement.

  The liability for outstanding claims for the long-tail classes of insurance such as Workers' Compensation, Inwards Reinsurance, Public Liability, Motor Vehicle Third Party Personal Injury and Industrial Diseases are estimated using independent actuarial assessments.

  In determining the liability for outstanding claims, the Board has added a risk margin to the central estimate of the discounted future claims payments for all long-tail classes of insurance (excluding the RiskCover Fund, Refer Note 39), refer Note 15. The risk margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments.

#### (hh) Provisions

Provisions are recognised when the economic entity has a present obligation

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

#### (ii) Employee Benefits

- **Salaries, Long Service Leave and Annual Leave**

  Liabilities in respect of employee entitlements to salaries, long service leave and annual leave, which are expected to be settled within twelve months of the end of the reporting period, are measured at their nominal amounts using the salary rates expected to be paid when the liability is settled.

  Liabilities in respect of employee entitlements to long service leave, which are not expected to be settled within twelve months of the end of the reporting period, are measured at the present value of their future estimated cash outflows. In determining the liability, consideration has been given to future increases in salary rates, experience with staff departures and periods of service.

  In determining the present value of the future estimated cash outflows, the interest rates attaching to Commonwealth Government securities at the end of the reporting period, which most closely match the terms of maturity of the related liabilities, are used.

- **Superannuation**

  Eligible employees contribute to the Pension Scheme, a defined benefit pension scheme closed to new members since 1987, or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme closed to new members since 1995. Both the Pension Scheme and the GSS are administered by the Government Employees Superannuation Board (GESB).

  Employees commencing employment prior to 16 April 2007 who were not members of either the Pension Scheme of the GSS became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both the WSS and GESBS are administered by GESB. From 30 March 2012, existing members of the WSS or GESBS and new employees became able to choose their preferred superannuation fund. The economic entity makes concurrent contributions to GESB or other funds on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish the economic entity's liability for superannuation charges in respect of employees who are not members of the Pension Scheme of GSS.

  The employer's liability to meet members' pensions under the defined benefit Pension Scheme is paid monthly to Department of Treasury.

  The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided for at the end of the reporting period. The liabilities under these schemes have been calculated separately for each scheme annually by actuaries using the projected unit credit method. Movements in actuarial assessments are brought to account through the Statement of Comprehensive Income.

  The expected future payments are discounted to present value using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

  The GSS, WSS, and GESBS where concurrent service superannuation

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

charge is paid to GESB, are defined contribution schemes. The liabilities for current service superannuation charges these schemes are extinguished by the concurrent payment of employer contribution to GESB.

The GSS is a defined benefit scheme for the purpose of employees and whole-of-government reporting. However from the economic entity's perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119 'Employee Benefits'.

- **Superannuation – Fair Value of Plan Assets**

  In relation to the Pension Scheme and the pre-transfer benefits for employees who transferred to the Gold State Superannuation Scheme, the value of any excess of accrued superannuation benefits over the net fair value of assets is recorded as a liability of the Insurance Commission. This liability is brought to account on the basis that there is no pre-funding of the employer's liability for benefits under this Pension Scheme. Refer Note 19.

#### (jj) Other Corporate Information

The Insurance Commission and Corporation are Agents of the Crown in the right of the State under Sections 4(a) and 28(3) of the *Insurance Commission of Western Australia Act 1986*.

ICWA Law is a proprietary company limited by shares, wholly owned by the Insurance Commission. ICWA Law is registered under the *Corporations Act 2001* and is registered in Western Australia.

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# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 2. REVENUE AND INCOME

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| (Loss)/Profit before Income Tax Equivalent Benefit/(Expense) includes the following specific revenue items: | | | | | |
| Premium | | | | | |
| Direct | | **450,342** | 440,834 | **450,342** | 440,834 |
| Movement in Unearned Premium | | | | | |
| Direct | | **(4,947)** | (10,595) | **(4,947)** | (10,595) |
| | | **445,395** | 430,239 | **445,395** | 430,239 |
| Outwards Reinsurance Commission | | **561** | 498 | **561** | 498 |
| Recoveries | | | | | |
| Reinsurance | | **7,429** | 2,423 | **7,429** | 2,424 |
| Other | | **17,692** | 9,073 | **17,692** | 9,073 |
| | | **25,121** | 11,496 | **25,121** | 11,497 |
| Investment Income including Movements in Fair Value | | | | | |
| Investment Property Income | (i) | **57,904** | 42,471 | **57,904** | 42,471 |
| Dividends | | **60,104** | 84,589 | **60,104** | 84,589 |
| Interest | | **45,560** | 43,702 | **45,560** | 43,702 |
| Changes in Fair Values: Unrealised (Loss)/Gain | | **(73,526)** | 64,620 | **(73,526)** | 64,620 |
| Changes in Fair Values: Realised (Loss)/Gain | | **(19,043)** | 31,695 | **(19,043)** | 31,695 |
| Foreign Exchange: Unrealised Gain/(Loss) | | **15,495** | (20,722) | **15,495** | (20,722) |
| Foreign Exchange: Realised (Loss)/Gain | | **(17,700)** | 14,907 | **(17,700)** | 14,907 |
| Other | | **530** | 295 | **530** | 295 |
| | | **69,324** | 261,557 | **69,324** | 261,557 |
| Other Income | | | | | |
| Other Property Income | (ii) | **24,630** | 24,136 | **24,630** | 24,136 |
| Management Fees | (iii) | **26,689** | 28,170 | **27,674** | 28,612 |
| Right of Indemnity - Government Insurance Fund | (iv) | **5,302** | 2,431 | **5,302** | 2,431 |
| Interest | | **225** | 226 | **225** | 226 |
| Sundry | | **88** | (383) | **88** | (383) |
| | | **56,934** | 54,580 | **57,919** | 55,022 |
| **Total Revenue and Income** | | **597,335** | 758,370 | **598,320** | 758,813 |

**(i)** In 2012, an inter-fund elimination of $5.18 million (2011:$5.08 million) in relation to the Insurance Commission's portion of the rentals incurred as owner-occupier was restated from Investment Property Income to Other Property Income to reflect the correct accounting treatment.

**(ii)** Other Property Income relates to rental income derived from Land and Buildings as required by AASB 116, 'Property, Plant and Equipment' to be presented within Property, Plant and Equipment.

**(iii)** Management Fee Income relates to the amount charged to/payable by the Department of Treasury for the costs associated with administering the RiskCover Fund. Refer Note 39.

**(iv)** Income received in accordance with Cabinet's decision of May 1996, whereby the Department of Treasury assumed liability for any accumulated deficit existing in the Government Insurance Fund. Income is not received for movements in outstanding claims provisions on debt recovery costs.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 3. EXPENSES

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| (Loss)/Profit before Income Tax Equivalent Benefit/(Expense) includes the following specific expense items: | | | | | |
| Claims | | | | | |
| Direct | | **632,404** | 528,912 | **632,404** | 528,912 |
| Inwards Reinsurance | | **(261)** | (839) | **-** | - |
| | | **632,143** | 528,073 | **632,404** | 528,912 |
| Outwards Reinsurance Premium | | **5,502** | 5,110 | **5,502** | 5,110 |
| Investment Expenses | | | | | |
| Investment Property Expenses | | **20,381** | 17,130 | **20,381** | 17,130 |
| Investment Management and Custodian Fees | | **6,160** | 5,408 | **6,160** | 5,408 |
| Administration Expenses | | **1,995** | 1,733 | **1,995** | 1,733 |
| | | **28,536** | 24,271 | **28,536** | 24,271 |
| Finance Costs | | | | | |
| Interest Paid to RiskCover Fund | **39,(i)** | **12,587** | 39,892 | **12,587** | 39,892 |
| Interest Paid to Corporation | | **-** | - | **953** | 1,015 |
| Decrease in Discount on Other Receivables: Non-Current | **(ii)** | **(4,966)** | (2,085) | **(4,966)** | (2,085) |
| | | **7,621** | 37,807 | **8,574** | 38,822 |
| Net Movement in Unexpired Risk Liability | **17** | **11,230** | - | **11,230** | - |
| Acquisition Costs | **11** | **18,235** | 18,498 | **18,235** | 18,498 |
| Other Underwriting and Administration Expenses | | | | | |
| Accident Prevention and Research | | **4,165** | 4,405 | **4,165** | 4,405 |
| Levies and Charges | | **55** | 59 | **55** | 59 |
| Movement in Impairment of Receivables | | **51** | 31 | **51** | 31 |
| Remuneration of Auditor | **28** | **342** | 388 | **342** | 388 |
| Board of Commissioners' Fees | | **329** | 329 | **329** | 329 |
| Contractors and Consultants | | **5,371** | 10,749 | **4,869** | 8,950 |
| Debt Recovery Costs | | **2,735** | 17,376 | **3,966** | 19,337 |
| Amortisation Intangible Assets | | **2,299** | 2,001 | **2,299** | 2,001 |
| Impairment Intangible Assets | | **-** | 469 | **-** | 469 |
| Depreciation | | **1,248** | 1,231 | **1,248** | 1,231 |
| Employee Benefits: | | | | | |
| - Annual Leave | | **3,195** | 2,095 | **3,195** | 2,095 |
| - Long Service Leave | | **1,532** | 176 | **1,532** | 176 |
| - Salaries and Employee-Related Costs | | **24,386** | 24,276 | **24,386** | 24,276 |
| - Superannuation | | **5,390** | 3,203 | **5,390** | 3,203 |
| IT Hardware and Software | | **7,135** | 7,261 | **7,135** | 7,261 |
| Other | | **3,452** | 4,227 | **3,428** | 4,222 |
| | | **61,685** | 78,276 | **62,390** | 78,433 |
| Other Expenses | | | | | |
| Other Property Expenses | **(iii)** | **16,958** | 17,118 | **16,958** | 17,118 |
| Net Losses Arising from Disposal of Property, Plant and Equipment | | **102** | 81 | **102** | 81 |
| Plant and Equipment Written-Off | | **-** | 2 | **-** | 2 |
| Increase in Value of Corporation | **7,35** | **-** | - | **(654)** | (1,098) |
| | | **17,060** | 17,201 | **16,406** | 16,103 |
| **Total Expenses** | | **782,012** | 709,236 | **783,277** | 710,149 |

**(i)** Interest paid to RiskCover Fund represents the RiskCover Fund's share of gains of the investment pool of the Insurance Commission. Refer Note 39.

**(ii)** Movement in the value of the Discount on Other Receivables (Non-Current) required by AASB 139, 'Financial Instruments: Recognition and Measurement' to bring to account the present value based on the 'time value of money'. Refer Note 6.

**(iii)** Other Property Expenses relate to Land and Buildings required by AASB 116, 'Property, Plant and Equipment' to be presented within Property, Plant and Equipment.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 4. NET CLAIMS INCURRED

| | CONSOLIDATED | | | INSURANCE COMMISSION | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2012 | | |
| | Current Year (i) $'000 | Prior Years (ii) $'000 | Total $'000 | Current Year (i) $'000 | Prior Years (ii) $'000 | Total $'000 |
| **Current Year** | | | | | | |
| Gross Claims Incurred and Related Expenses - Undiscounted | **523,181** | **(53,650)** | **469,531** | **523,181** | **(53,365)** | **469,816** |
| Reinsurance and Other Recoveries - Undiscounted | **(29,350)** | **20,078** | **(9,272)** | **(29,350)** | **20,074** | **(9,276)** |
| Net Claims Incurred - Undiscounted | **493,831** | **(33,572)** | **460,259** | **493,831** | **(33,291)** | **460,540** |
| Discount and Discount Movement - Gross Claims Incurred | **(42,400)** | **205,010** | **162,610** | **(42,400)** | **204,986** | **162,586** |
| Discount and Discount Movement - Reinsurance and Other Recoveries | **56,060** | **(71,907)** | **(15,847)** | **56,060** | **(71,903)** | **(15,843)** |
| Net Discount Movement | **13,660** | **133,103** | **146,763** | **13,660** | **133,083** | **146,743** |
| **Net Claims Incurred** | **507,491** | **99,531** | **607,022** | **507,491** | **99,792** | **607,283** |

| | 2011 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Current Year (i) $'000 | Prior Years (ii) $'000 | Total $'000 | Current Year (i) $'000 | Prior Years (ii) $'000 | Total $'000 |
| **Previous Year** | | | | | | |
| Gross Claims Incurred and Related Expenses - Undiscounted | 513,758 | 50,805 | 564,563 | 513,758 | 52,007 | 565,765 |
| Reinsurance and Other Recoveries - Undiscounted | (28,350) | 12,836 | (15,514) | (28,350) | 12,835 | (15,515) |
| Net Claims Incurred - Undiscounted | 485,408 | 63,641 | 549,049 | 485,408 | 64,842 | 550,250 |
| Discount and Discount Movement - Gross Claims Incurred | (74,070) | 37,579 | (36,491) | (74,070) | 37,216 | (36,854) |
| Discount and Discount Movement - Reinsurance and Other Recoveries | 52,100 | (48,081) | 4,019 | 52,100 | (48,081) | 4,019 |
| Net Discount Movement | (21,970) | (10,502) | (32,472) | (21,970) | (10,865) | (32,835) |
| **Net Claims Incurred** | 463,438 | 53,139 | 516,577 | 463,438 | 53,977 | 517,415 |

**(i)** **Current Year's** claims relate to risks borne in the current year.

**(ii)** **Prior Years'** claims relate to a re-assessment of the risks borne in all previous years.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 5. INCOME TAX EQUIVALENT

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| **INCOME TAX EQUIVALENT BENEFIT** | | | | |
| **Current Income Tax** | | | | |
| Current Income Tax Equivalent (Benefit)/Expense | **-** | 586 | **(209)** | 240 |
| Adjustments in Respect of Current Income Tax of Previous Years | **5,307** | 56 | **5,307** | 56 |
| **Deferred Income Tax** | | | | |
| Relating to Origination and Reversal of Temporary Differences | **(62,705)** | 6,330 | **(62,776)** | 6,206 |
| Usage of Tax Losses | **(5,307)** | (587) | **(5,307)** | (587) |
| **Income Tax Equivalent (Benefit)/Expense Recognised in the Statement of Comprehensive Income** | **(62,705)** | 6,385 | **(62,985)** | 5,915 |
| **AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME** | | | | |
| Deferred Income Tax Related to Items Recognised in Other Comprehensive Income: | | | | |
| Net Revaluation Increment of Property, Plant and Equipment | **8,307** | 4,630 | **8,307** | 4,630 |
| **Income Tax Equivalent Expense Recognised in Other Comprehensive Income** | **8,307** | 4,630 | **8,307** | 4,630 |
| **RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE** | | | | |
| (Loss)/Profit before Income Tax Equivalent (Benefit)/Expense | **(184,677)** | 49,134 | **(184,957)** | 48,664 |
| Tax at the Statutory Income Tax Rate of 30% (2011: 30%) | **(55,403)** | 14,740 | **(55,487)** | 14,599 |
| Conversion of Excess Imputation Credits into Carry Forward Tax Losses | **(6,415)** | (6,998) | **(6,415)** | (6,998) |
| Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years | **(136)** | (1,045) | **(136)** | (1,045) |
| Current Year - Building Amortisation | **(751)** | (829) | **(751)** | (829) |
| Purchased Goodwill | **-** | 514 | **-** | 514 |
| Subsidiary Indemnity Fluctuation | **-** | - | **(196)** | (329) |
| Miscellaneous Items | **-** | 3 | **-** | 3 |
| **Income Tax Equivalent (Benefit)/Expense** | **(62,705)** | 6,385 | **(62,985)** | 5,915 |

For further details regarding Income Tax Effect Accounting, refer Note 1(j).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 5. INCOME TAX EQUIVALENT (continued)

| | STATEMENT OF FINANCIAL POSITION | | STATEMENT OF COMPREHENSIVE INCOME | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| **DEFERRED INCOME TAX** | | | | |
| Deferred Income Tax at 30 June relates to the following: | | | | |
| **CONSOLIDATED** | | | | |
| **Deferred Tax Liabilities** | | | | |
| Revaluations of Investment Properties to Fair Value | **(58,470)** | (55,138) | **3,332** | 9,955 |
| Revaluations of Property, Plant and Equipment | **(49,658)** | (44,151) | **(2,800)** | (2,751) |
| Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains | **(316)** | (24,262) | **(23,946)** | 6,289 |
| Recoverable Costs - Other | **(17,146)** | (15,656) | **1,490** | 625 |
| Property Receipts - Other | **(8,511)** | (7,686) | **825** | 1,037 |
| Other | **(3)** | (4) | **(1)** | (17) |
| | **(134,104)** | (146,897) | | |
| **Deferred Tax Assets** | | | | |
| Depreciable Property, Plant and Equipment | **1,674** | 1,708 | **34** | (352) |
| Losses Available for Offset Against Future Taxable Income | **63,721** | 29,505 | **(34,216)** | (11,692) |
| Trust Income | **2,201** | 1,040 | **(1,161)** | 3,299 |
| Indirect Claims Settlement Costs | **20,902** | 18,821 | **(2,081)** | 464 |
| Provisions - Various | **11,121** | 5,440 | **(5,681)** | (527) |
| Securities Impairment | **-** | 1,500 | **1,500** | - |
| | **99,619** | 58,014 | | |
| **Net Deferred Income Tax Liability** | **(34,485)** | (88,883) | | |
| **Deferred Income Tax Equivalent (Benefit)/Expense** | | | **(62,705)** | 6,330 |
| **INSURANCE COMMISSION** | | | | |
| **Deferred Tax Liabilities** | | | | |
| Revaluations of Investment Properties to Fair Value | **(58,470)** | (55,138) | **3,332** | 9,955 |
| Revaluations of Property, Plant and Equipment | **(49,658)** | (44,151) | **(2,800)** | (2,751) |
| Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains | **(316)** | (24,262) | **(23,946)** | 6,289 |
| Recoverable Costs - Other | **(17,146)** | (15,656) | **1,490** | 625 |
| Property Receipts - Other | **(8,511)** | (7,686) | **825** | 1,037 |
| Other | **(3)** | (4) | **(1)** | (17) |
| | **(134,104)** | (146,897) | | |
| **Deferred Tax Assets** | | | | |
| Depreciable Property, Plant and Equipment | **1,674** | 1,708 | **34** | (352) |
| Losses Available for Offset Against Future Taxable Income | **63,721** | 29,505 | **(34,216)** | (11,692) |
| Trust Income | **2,201** | 1,040 | **(1,161)** | 3,299 |
| Indirect Claims Settlement Costs | **20,823** | 18,671 | **(2,152)** | 340 |
| Provisions - Various | **11,121** | 5,440 | **(5,681)** | (527) |
| Securities Impairment | **-** | 1,500 | **1,500** | - |
| | **99,540** | 57,864 | | |
| **Net Deferred Income Tax Liability** | **(34,564)** | (89,033) | | |
| **Deferred Income Tax Equivalent (Benefit)/Expense** | | | **(62,776)** | 6,206 |

**Tax Consolidation**

The Insurance Commission and its 100% owned Australian resident subsidiaries, the Corporation and ICWA Law, have formed a tax-consolidated group. The Corporation joined the group with effect from 1 July 2003. ICWA Law joined the group with effect from 26 November 2010. The Insurance Commission is the head entity of the tax-consolidated group.

**Tax-Effect Accounting by Members of the Tax Consolidated Group**

Members of the tax-consolidated group have entered into a Tax-Funding Agreement. Under the terms of the Tax-Funding Agreement the Insurance Commission and its subsidiaries have agreed to pay a tax-equivalent payment to, or from, the head entity based on "separate taxpayer within group" approach. Where appropriate, such amounts are reflected in amounts receivable from, or payable, to the subsidiaries.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 6. RECEIVABLES

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Premiums Receivable | | **3,457** | 3,374 | **3,457** | 3,374 |
| Less: Provision for Impairment | | **(4)** | (3) | **(4)** | (3) |
| | | **3,453** | 3,371 | **3,453** | 3,371 |
| Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable | | **35,237** | 30,450 | **35,227** | 30,425 |
| Less: Provision for Impairment | | **(52)** | (2) | **(52)** | (2) |
| | | **35,185** | 30,448 | **35,175** | 30,423 |
| Expected Future Reinsurance and Other Recoveries on Unexpired Risk Liability | | **14,900** | - | **14,900** | - |
| Right of Indemnity | | | | | |
| Government Insurance Fund | **(i)** | **4,102** | 3,690 | **4,102** | 3,690 |
| WorkCover WA | **(ii)** | **1,536** | 2,050 | **1,536** | 2,050 |
| | | **5,638** | 5,740 | **5,638** | 5,740 |
| Other Receivables | | | | | |
| Sundry Receivables | | **3,791** | 3,683 | **4,000** | 4,030 |
| | | **62,967** | 43,242 | **63,166** | 43,564 |
| **Non-Current** | | | | | |
| Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable | | **123,466** | 106,314 | **123,464** | 106,309 |
| Right of Indemnity | | | | | |
| Government Insurance Fund | **(i)** | **35,468** | 34,625 | **35,468** | 34,625 |
| WorkCover WA | **(ii)** | **17,038** | 18,850 | **17,038** | 18,850 |
| | | **52,506** | 53,475 | **52,506** | 53,475 |
| Other Receivables | **(iii)** | **59,224** | 54,257 | **59,224** | 54,257 |
| | | **235,196** | 214,046 | **235,194** | 214,041 |
| **Movement in Provision for Impairment** | | | | | |
| Balance at Start of the Year | | **5** | 191 | **5** | 191 |
| New Provision Made During the Year | | **53** | 35 | **53** | 35 |
| Impairment Written-Off During the Year | | **-** | (217) | **-** | (217) |
| Impairment Provision No Longer Required | | **(2)** | (4) | **(2)** | (4) |
| **Balance at End of the Year** | **34** | **56** | 5 | **56** | 5 |

**(i)** In accordance with Cabinet's decision of May 1996, the Department of Treasury assumed liability for any accumulated deficit existing in the Government Insurance Fund. Indemnity includes movements in outstanding claims provisions and debt recovery costs.

**(ii)** In accordance with Section 25(2) of the *Employers' Indemnity Supplementation Fund Act 1980*, the Insurance Commission has the right of reimbursement from WorkCover WA for all payments and expenses paid under this Act. Refer Note 15.

**(iii)** Other Receivables (Non-Current) includes $57.2 million (2011: $52.2 million) relating to costs incurred in the Bell Group recovery action and is discounted to bring to account fair value based on the 'time value of money'. Refer Note 3.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | | CONSOLIDATED | | | INSURANCE COMMISSION | | |
|---|---|---|---|---|---|---|---|
| | | 2012 | 30 June 2011 | 1 July 2010 | 2012 | 30 June 2011 | 1 July 2010 |
| | Notes | $'000 | Restated* $'000 | Restated* $'000 | $'000 | Restated* $'000 | Restated* $'000 |
| **Current Investments** | | | | | | | |
| Fixed Interest Bonds | | **915** | 68,469 | 105,421 | **915** | 68,469 | 105,421 |
| Fixed Interest Unit Trusts | | **192,151** | 132,253 | 120,304 | **192,151** | 132,253 | 120,304 |
| Fixed Interest Term Deposits | | **29,054** | 95,167 | 66,000 | **29,054** | 95,167 | 66,000 |
| Indexed Bonds | | **-** | 99,131 | 94,887 | **-** | 99,131 | 94,887 |
| Equities - Listed | | **1,004,590** | 989,650 | 827,925 | **1,004,590** | 989,650 | 827,925 |
| Equity Unit Trusts | | **89,262** | 203,184 | 205,536 | **89,262** | 203,184 | 205,536 |
| Alternative Assets Unit Trusts | | **69,412** | 61,511 | 58,789 | **69,412** | 61,511 | 58,789 |
| Margin Account | | **574** | 618 | 2,347 | **574** | 618 | 2,347 |
| Cash and Cash Equivalent Assets | 21 | **345,097** | 274,597 | 255,888 | **345,097** | 274,597 | 255,888 |
| Receivables | | **36,286** | 26,666 | 28,908 | **36,286** | 26,666 | 28,908 |
| Forward Foreign Exchange Contracts | 22(c) | **905** | 1,590 | (9,750) | **905** | 1,590 | (9,750) |
| | | **1,768,246** | 1,952,836 | 1,756,255 | **1,768,246** | 1,952,836 | 1,756,255 |
| **Non-Current Investments** | | | | | | | |
| Fixed Interest Unit Trusts | | **30,484** | 53,511 | 56,666 | **30,484** | 53,511 | 56,666 |
| Fixed Interest Term Deposits | | **249,426** | 31,369 | 55,000 | **249,426** | 31,369 | 55,000 |
| Alternative Assets Unit Trusts | | **81,460** | 77,710 | 71,857 | **81,460** | 77,710 | 71,857 |
| Property Trust - Unlisted | | **203,019** | 183,328 | 166,147 | **203,019** | 183,328 | 166,147 |
| Receivables | | **20,129** | 17,785 | 12,288 | **20,129** | 17,785 | 12,288 |
| | | **584,518** | 363,703 | 361,958 | **584,518** | 363,703 | 361,958 |
| Original Investment in Subsidiaries | (i) | **-** | - | - | **100,000** | 100,000 | 100,000 |
| Provision for Write Down in Subsidiaries | | **-** | - | - | **(78,428)** | (79,082) | (80,180) |
| Value of Investment in Subsidiaries | | **-** | - | - | **21,572** | 20,918 | 19,820 |
| | | **584,518** | 363,703 | 361,958 | **606,090** | 384,621 | 381,778 |
| | | **2,352,764** | 2,316,539 | 2,118,213 | **2,374,336** | 2,337,457 | 2,138,033 |

**(i)** The Insurance Commission owns 100% of the issued share capital of the Corporation and ICWA Law. The original investment in the Corporation is written down at the end of the reporting period to the extent that the Insurance Commission's original investment exceeds fair value. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of investment in ICWA Law is equal to its original investment, which was a notional amount of $2.

For the key valuation assumptions relating to Financial Assets at Fair Value through Profit or Loss, refer Note 1(w).

* In 2012, it was determined that the Floating Rate Promissory Note (FRPN) met the definition of a financial liability. The comparative information has been restated to reclassify the FRPN as a financial liability as opposed to a negative financial asset.

### (a) Fair Value Hierarchy

The Fair Value Hierarchy assigns rankings to the level of judgement which is applied in deriving inputs for valuation techniques used to measure fair value. The three levels of the Fair Value Hierarchy are as follows:

Level 1 is the preferred input for valuation and reflects unadjusted quoted prices in active markets for identical assets or liabilities which the economic entity can access at the end of the reporting period. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 is the valuation of assets and liabilities either directly or indirectly based upon market observables other than quoted prices. For example: financial assets with fair values based on broker quotes; investments in private equity funds with fair values obtained via fund managers; and assets that are valued using the economic entity's own models whereby the majority of assumptions are market observable.

Level 3 relates to inputs that are unobservable. Unobservable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

### (a) Fair Value Hierarchy (continued)

The following tables detail the valuation of the economic entity's Financial Assets using the Fair Value Hierarchy:

| 2012 | Notes | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Current Investments** | | | | | |
| Fixed Interest Bonds | | - | 915 | - | **915** |
| Fixed Interest Unit Trusts | | - | 192,151 | - | **192,151** |
| Fixed Interest Term Deposits | | - | 29,054 | - | **29,054** |
| Equities - Listed | | 1,004,578 | - | 13 | **1,004,591** |
| Equity Unit Trusts | | - | 89,262 | - | **89,262** |
| Alternative Assets Unit Trusts | | - | 69,412 | - | **69,412** |
| Margin Account | | - | 574 | - | **574** |
| Cash and Cash Equivalent Assets | | - | 345,097 | - | **345,097** |
| Receivables | (i) | - | 31,729 | - | **31,729** |
| Forward Foreign Exchange Contracts | | - | 905 | - | **905** |
| | | **1,004,578** | **759,099** | **13** | **1,763,690** |
| **Non-Current Investments** | | | | | |
| Fixed Interest Unit Trusts | | - | 30,484 | - | **30,484** |
| Fixed Interest Term Deposits | | - | 249,426 | - | **249,426** |
| Alternative Assets Unit Trusts | | - | - | 81,460 | **81,460** |
| Property Trust - Unlisted | | - | - | 203,019 | **203,019** |
| Receivables | (i) | - | - | - | **-** |
| | | **-** | **279,910** | **284,479** | **564,389** |
| | | **1,004,578** | **1,039,009** | **284,492** | **2,328,079** |

| 2011 - Restated* | Notes | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Current Investments** | | | | | |
| Fixed Interest Bonds | | - | 68,469 | - | 68,469 |
| Fixed Interest Unit Trusts | | - | 132,253 | - | 132,253 |
| Fixed Interest Term Deposits | | - | 95,167 | - | 95,167 |
| Indexed Bonds | | - | 99,131 | - | 99,131 |
| Equities - Listed | | 989,637 | - | 13 | 989,650 |
| Equity Unit Trusts | | - | 203,184 | - | 203,184 |
| Alternative Assets Unit Trusts | | - | 61,511 | - | 61,511 |
| Margin Account | | - | 618 | - | 618 |
| Cash and Cash Equivalent Assets | | - | 274,597 | - | 274,597 |
| Receivables | (i) | - | 22,114 | - | 22,114 |
| Forward Foreign Exchange Contracts | | - | 1,590 | - | 1,590 |
| | | 989,637 | 958,634 | 13 | 1,948,284 |
| **Non-Current Investments** | | | | | |
| Fixed Interest Unit Trusts | | - | 53,511 | - | 53,511 |
| Fixed Interest Term Deposits | | - | 31,369 | - | 31,369 |
| Alternative Assets Unit Trusts | | - | - | 77,710 | 77,710 |
| Property Trust - Unlisted | | - | - | 183,328 | 183,328 |
| Receivables | (i) | - | - | - | - |
| | | - | 84,880 | 261,038 | 345,918 |
| | | 989,637 | 1,043,514 | 261,051 | 2,294,202 |

**(i)** Receivables relating to property of $24.7 million (2011: $22.3 million) are excluded from the Fair Value Hierarchy.

There were no significant transfers between Level 1 and Level 2 during the year.

The Fair Value Hierarchy is the same for both Consolidated and the Insurance Commission.

* Refer Note 1(f) and 14 for details of restatement.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

### (a) Fair Value Hierarchy (continued)

The following tables detail the change in value associated with Level 3 Financial Assets:

| 2012 | Opening Balance $'000 | Transfers In/(Out) $'000 | Unrealised Gain/(Loss) $'000 | Realised Gain/(Loss) $'000 | Purchases/ (Sales) $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|---|
| **Current Investments** | | | | | | |
| Equities - Listed | 13 | 11 | - | (11) | - | **13** |
| **Non-Current Investments** | | | | | | |
| Alternative Assets Unit Trusts | 77,710 | - | 3,750 | - | - | **81,460** |
| Property Trust - Unlisted | 183,328 | - | 6,270 | - | 13,421 | **203,019** |
| | 261,038 | - | 10,020 | - | 13,421 | **284,479** |
| | **261,051** | **11** | **10,020** | **(11)** | **13,421** | **284,492** |

Level 3 Financial Assets are the same for both Consolidated and the Insurance Commission.

The table below illustrates the sensitivity of Level 3 fair value to change:

| | Fair Value | | | Fair Value Increase/(Decrease) | |
|---|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | Change % | 2012 $'000 | 2011 $'000 |
| **Current Investments** | | | | | |
| Equities - Listed | **13** | 13 | +20 | **3** | 3 |
| | | | -20 | **(3)** | (3) |
| **Non-Current Investments** | | | | | |
| Alternative Assets Unit Trusts | **81,460** | 77,710 | +20 | **16,292** | 15,542 |
| | | | -20 | **(16,292)** | (15,542) |
| Property Trust - Unlisted | **203,019** | 183,328 | +20 | **40,604** | 36,666 |
| | | | -20 | **(40,604)** | (36,666) |

Level 3 Financial Assets are the same for both Consolidated and the Insurance Commission.

### (b) Other Investments

**The Bell Group Ltd (in Liquidation) (TBGL) and Bell Group Finance Pty Ltd (in Liquidation) (BGF)**

**Convertible Bonds**
The Insurance Commission previously wrote-off $140 million (plus interest) in respect of subordinated convertible bonds (Bell bonds) issued by TBGL and BGF and purchased by the Insurance Commission pursuant to an underwriting agreement dated 29 April 1988.

The Insurance Commission is one of the creditors funding the Liquidators of TBGL, BGF and their subsidiaries pursuant to indemnity agreements with the Liquidators to meet their costs of recovering money from two groups of banks headed by Westpac Banking Corporation and Lloyds TSB Bank plc (formerly Lloyds Bank plc) of London. In April 2009, the Bell Group Liquidators were successful in obtaining Judgment in the Supreme Court of Western Australia requiring the Banks to repay approximately $1.6 billion to the Bell Group Liquidators' administrations. The Banks appealed the judgment and the Bell Group Liquidators cross-appealed. In August 2012, the Court of Appeal of the Supreme Court of Western Australia dismissed the Banks' appeal and allowed in part the Bell Group Liquidators' cross-appeals from the earlier judgment. It is calculated that, as a result of the Court of Appeal decision, the Banks are required to pay an additional amount to the Bell Group Liquidators, resulting in a total judgment sum between $2 billion and $3 billion. The Judgment of the Court of Appeal may be the subject to a final appeal to the High Court of Australia but only with leave of the High Court.

The Board believes that it is appropriate to maintain the carrying value of the Bell bonds at zero, pending the final outcome of the Bell recovery action.

**TBGL Shares and Southern Equities Corporation Ltd (in Liquidation) (SECL) Indemnity**
The Insurance Commission was owed $200.967 million (previously written-off) by SECL (formerly known as Bond Corporation Holdings) pursuant to a Judgment of the Supreme Court of Western Australia dated 21 June 1996. The judgment arose from an indemnity given by SECL in relation to the purchase of shares in TBGL by the Insurance Commission at the time it acquired the Bell bonds.

The Insurance Commission has recovered $58.292 million to date and no carrying amount is attributed to the balance of the Judgment sum.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 8. PROPERTY, PLANT AND EQUIPMENT

| | | CONSOLIDATED 2012 ($'000) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Current Year | Notes | Freehold Land | Freehold Building | Plant and Equipment | Furniture and Fittings | Computer Hardware | Motor Vehicles | Leasehold Improvements | Total |
| **Cost or Valuation** | | | | | | | | | |
| Balance at Start of the Year | | 35,300 | 222,577 | 1,114 | 218 | 8,044 | 1,311 | 4,426 | **272,990** |
| Additions | | - | 4,859 | 11 | - | 993 | 772 | 7 | **6,642** |
| Disposals | | - | - | (26) | - | (1,060) | (709) | - | **(1,795)** |
| Net Revaluation Increase | (i) | 2,660 | 15,261 | - | - | - | - | - | **17,921** |
| **Balance at End of the Year** | | 37,960 | 242,697 | 1,099 | 218 | 7,977 | 1,374 | 4,433 | **295,758** |
| **Accumulated Depreciation** | | | | | | | | | |
| Balance at Start of the Year | | - | - | 869 | 131 | 6,602 | 159 | 3,328 | **11,089** |
| Depreciation Expense for the Year | | - | 9,770 | 107 | 10 | 719 | 155 | 272 | **11,033** |
| Disposals | | - | - | (24) | - | (1,057) | (167) | - | **(1,248)** |
| Net Adjustments from Revaluation | (i) | - | (9,770) | - | - | - | - | - | **(9,770)** |
| **Balance at End of the Year** | | - | - | 952 | 141 | 6,264 | 147 | 3,600 | **11,104** |
| **Carrying Amount at End of the Year** | | **37,960** | **242,697** | **147** | **77** | **1,713** | **1,227** | **833** | **284,654** |

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Building which comprise land and buildings at 219 and 221 St George's Terrace (The Forrest Centre) was valued at the end of the reporting period. Refer Note 1(y). The Independent Valuers used were Mr M Foster-Key AAPI FRICS and Mr James Cox AAPI of Savills (WA) Pty Ltd.

**(i)** Total movement in Asset Revaluation Surplus before tax.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 8. PROPERTY, PLANT AND EQUIPMENT (continued)

| | | CONSOLIDATED 2011 ($'000) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Prior Year | Notes | Freehold Land | Freehold Buildings | Plant and Equipment | Furniture and Fittings | Computer Hardware | Motor Vehicles | Leasehold Improvements | Total |
| **Cost or Valuation** | | | | | | | | | |
| Balance at Start of the Year | | 22,000 | 226,906 | 1,119 | 218 | 7,773 | 1,200 | 3,913 | 263,129 |
| Additions | | - | 3,038 | 113 | 5 | 915 | 644 | 513 | 5,228 |
| Disposals | | - | - | (118) | (5) | (644) | (533) | - | (1,300) |
| Net Revaluation Increase/(Reduction) | (i) | 13,300 | (7,367) | - | - | - | - | - | 5,933 |
| **Balance at End of the Year** | | 35,300 | 222,577 | 1,114 | 218 | 8,044 | 1,311 | 4,426 | 272,990 |
| **Accumulated Depreciation** | | | | | | | | | |
| Balance at Start of the Year | | - | - | 874 | 122 | 6,489 | 128 | 3,110 | 10,723 |
| Depreciation Expense for the Year | | - | 9,500 | 109 | 12 | 757 | 150 | 218 | 10,746 |
| Disposals | | - | - | (114) | (3) | (644) | (119) | - | (880) |
| Net Adjustments from Revaluation | (i) | - | (9,500) | - | - | - | - | - | (9,500) |
| **Balance at End of the Year** | | - | - | 869 | 131 | 6,602 | 159 | 3,328 | 11,089 |
| **Carrying Amount at End of the Year** | | 35,300 | 222,577 | 245 | 87 | 1,442 | 1,152 | 1,098 | 261,901 |

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Building which comprise land and buildings at 219 and 221 St George's Terrace (The Forrest Centre) was valued at the end of the reporting period. Refer Note 1(y). The Independent Valuers used were Mr M Foster-Key AAPI FRICS and Mr James Cox AAPI of Savills (WA) Pty Ltd.

**(i)** Total movement in Asset Revaluation Surplus before tax.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 9. INVESTMENT PROPERTIES

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| Freehold Land and Buildings at Fair Value | | **509,746** | 496,965 | **509,746** | 496,965 |
| Property under Construction at Fair Value | | **-** | - | **-** | - |
| Property under Construction at Cost | | **740** | 693 | **740** | 693 |
| **Balance at End of the Year** | | **510,486** | 497,658 | **510,486** | 497,658 |
| **RECONCILIATION:** | | | | | |
| **Freehold Land and Buildings at Fair Value** | | | | | |
| Balance at Start of the Year | | **496,965** | 345,401 | **496,965** | 345,401 |
| Additions | | **6,067** | 2,196 | **6,067** | 2,196 |
| Net Revaluation Increase | | **6,714** | 22,711 | **6,714** | 22,711 |
| Transfer from Property under Construction at Fair Value | (i) | **-** | 82,273 | **-** | 82,273 |
| Transfer from Property under Construction at Cost | (ii) | **-** | 44,384 | **-** | 44,384 |
| **Balance at End of the Year** | (iii) | **509,746** | 496,965 | **509,746** | 496,965 |
| **Property under Construction at Fair Value** | | | | | |
| Balance at Start of the Year | | **-** | 70,200 | **-** | 70,200 |
| Additions | | **-** | 5,096 | **-** | 5,096 |
| Net Revaluation Increase | | **-** | 6,977 | **-** | 6,977 |
| Transfer to Freehold Land and Buildings | (i) | **-** | (82,273) | **-** | (82,273) |
| **Balance at End of the Year** | | **-** | - | **-** | - |
| **Property under Construction at Cost** | | | | | |
| Balance at Start of the Year | | **693** | 15,272 | **693** | 15,272 |
| Additions | | **57** | 29,805 | **57** | 29,805 |
| Transfer to Freehold Land and Buildings | (ii) | **-** | (44,384) | **-** | (44,384) |
| Transfer to Expense | | **(10)** | - | **(10)** | - |
| **Balance at End of the Year** | | **740** | 693 | **740** | 693 |

Independent valuers were used to assess the fair value of investment properties at the end of the reporting period. The Independent Valuers used were Mr M Foster-Key AAPI FRICS, Mr C Walker AAPI and Mr J Cox AAPI of Savills (WA) Pty Ltd.

For key valuation assumptions of Investment Properties, refer Note 1(z).

**(i)** During 2011, Westralia Plaza at 167 St George's Terrace and the buildings at Ellenbrook were completed and transferred from Property under Construction at Fair Value to Freehold Land and Buildings.

**(ii)** During 2011, Ellenbrook Phase 2 was completed and transferred from Property under Construction at Cost to Freehold Land and Buildings.

**(iii)** At the end of the reporting period, Freehold Land and Buildings measured at fair value comprises the Westralia Square land and buildings at 141 St George's Terrace, Westralia Plaza land and buildings at 167 St George's Terrace, Livingston Market Place Shopping Centre and Ellenbrook Shopping Centre. At the end of the reporting period, the value adopted of $509.75 million reflects independently assessed value of $533.43 million adjusted by incentives of $23.68 million.

**(iv)** At the end of the reporting period, investment properties under construction measured at cost comprise Ellenbrook Phase 3 and the Podium at Westralia Square.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 10. INTANGIBLE ASSETS

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| Software at Cost | | **18,075** | 17,088 | **18,075** | 17,088 |
| Work in Progress | | **5,975** | 693 | **5,975** | 693 |
| Accumulated Amortisation | | **(11,366)** | (9,067) | **(11,366)** | (9,067) |
| **Carrying Amount at End of the Year** | | **12,684** | **8,714** | **12,684** | **8,714** |
| **RECONCILIATION:** | | | | | |
| **Software at Cost** | | | | | |
| Balance at Start of the Year | | **17,088** | 14,619 | **17,088** | 14,619 |
| Additions | | **987** | 2,496 | **987** | 2,496 |
| Transfer | | **-** | (27) | **-** | (27) |
| **Balance at End of the Year** | | **18,075** | 17,088 | **18,075** | 17,088 |
| **Work in Progress** | | | | | |
| Balance at Start of the Year | | **693** | 1,329 | **693** | 1,329 |
| Additions | | **5,286** | 3,282 | **5,286** | 3,282 |
| Completed and Transferred to Intangible Assets at Cost | | **(4)** | (2,246) | **(4)** | (2,246) |
| Impairment | | **-** | (469) | **-** | (469) |
| Transfer to Expense | | **-** | (1,203) | **-** | (1,203) |
| **Balance at End of the Year** | | **5,975** | 693 | **5,975** | 693 |
| **Accumulated Amortisation** | | | | | |
| Balance at Start of the Year | | **(9,067)** | (7,066) | **(9,067)** | (7,066) |
| Amortisation Expense for the Year | | **(2,299)** | (2,001) | **(2,299)** | (2,001) |
| **Balance at End of the Year** | | **(11,366)** | (9,067) | **(11,366)** | (9,067) |

## 11. DEFERRED ACQUISITION COSTS

| | | | | | |
|---|---|---|---|---|---|
| **Balance at Start of the Year** | | **1,542** | 4,488 | **1,542** | 4,488 |
| Acquisition Costs Paid to Department of Transport | | **16,693** | 15,552 | **16,693** | 15,552 |
| Amount recognised as Expense | | **(13,181)** | (15,366) | **(13,181)** | (15,366) |
| Write Down for Premium Deficiency | **17** | **(5,054)** | (3,132) | **(5,054)** | (3,132) |
| **Balance at End of the Year** | | **-** | 1,542 | **-** | 1,542 |

## 12. OTHER ASSETS

| | | | | | |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Prepaid Expenses | | **2,267** | 2,246 | **2,267** | 2,246 |
| Sundry | | **1,878** | 778 | **1,878** | 778 |
| | | **4,145** | 3,024 | **4,145** | 3,024 |
| **Non-Current** | | | | | |
| Sundry | | **1,710** | 1,602 | **1,710** | 1,602 |
| | | **1,710** | 1,602 | **1,710** | 1,602 |

## 13. PAYABLES

| | | | | | |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Trade Creditors | | **18,171** | 20,030 | **18,158** | 19,992 |
| Reinsurance Creditors | | **553** | 1,002 | **552** | 657 |
| Accrued Employee Benefits | **19** | **651** | 510 | **651** | 510 |
| Investment Sundry Payables | | **5,397** | 10,657 | **5,397** | 10,657 |
| Goods and Services Tax Liability | | **2,222** | 2,525 | **2,222** | 2,525 |
| | | **26,994** | 34,724 | **26,980** | 34,341 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

| | | CONSOLIDATED | | | INSURANCE COMMISSION | | |
|---|---|---|---|---|---|---|---|
| | Notes | 2012 $'000 | 30 June 2011 Restated* $'000 | 1 July 2010 Restated* $'000 | 2012 $'000 | 30 June 2011 Restated* $'000 | 1 July 2010 Restated* $'000 |
| **Current** | | | | | | | |
| Floating Rate Promissory Note | (i) | **469,994** | 422,247 | 372,855 | **469,994** | 422,247 | 372,855 |
| | | **469,994** | 422,247 | 372,855 | **469,994** | 422,247 | 372,855 |

**(i)** The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Note 39.

### Fair Value Hierarchy

The Fair Value Hierarchy assigns rankings to the level of judgment which is applied in deriving inputs for valuation techniques used to measure fair value. The three levels of the Fair Value Hierarchy are as follows:

Level 1 is the preferred input for valuation and reflects unadjusted quoted prices in active markets for identical assets or liabilities which the economic entity can access at the end of the reporting period. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 is the valuation of assets and liabilities either directly or indirectly based upon market observables other than quoted prices. For example: financial assets with fair values based on broker quotes; investments in private equity funds with fair values obtained via fund managers; and assets that are valued using the economic entity's own models whereby the majority of assumptions are market observable.

Level 3 relates to inputs that are unobservable. Unobservable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following tables detail the valuation of the economic entity's Financial Liabilities using the Fair Value Hierarchy:

| **2012** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Current Investments** | | | | |
| Floating Rate Promissory Note | - | 469,994 | - | **469,994** |
| | **-** | **469,994** | **-** | **469,994** |

| **2011 - Restated*** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Current Investments** | | | | |
| Floating Rate Promissory Note | - | 422,247 | - | 422,247 |
| | **-** | **422,247** | **-** | **422,247** |

There were no significant transfers between Level 1 and Level 2 during the year.

The Fair Value Hierarchy is the same for both Consolidated and the Insurance Commission.

* In 2012, it was determined that the Floating Rate Promissory Note (FRPN) met the definition of a financial liability. The comparative information has been restated to reclassify the FRPN as a financial liability as opposed to a negative financial asset.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **(a) Outstanding Claims Liability** | $'000 | $'000 | $'000 | $'000 |
| Central Estimate | **1,901,376** | 1,873,269 | **1,901,306** | 1,873,169 |
| Discount to Present Value | **(195,376)** | (348,210) | **(195,365)** | (348,184) |
| | **1,706,000** | 1,525,059 | **1,705,941** | 1,524,985 |
| Claims Management Expenses (discounted) | **73,024** | 66,301 | **72,761** | 65,801 |
| | **1,779,024** | 1,591,360 | **1,778,702** | 1,590,786 |
| Risk Margin | **136,416** | 123,696 | **136,375** | 123,623 |
| Gross Outstanding Claims Liability | **1,915,440** | 1,715,056 | **1,915,077** | 1,714,409 |
| Current | **454,434** | 406,484 | **454,380** | 406,228 |
| Non-Current | **1,461,006** | 1,308,572 | **1,460,697** | 1,308,181 |
| | **1,915,440** | 1,715,056 | **1,915,077** | 1,714,409 |

### (b) Employers' Indemnity Supplementation Fund Act 1980 (EISF Act) Liabilities

The EISF Act was established to fund the payment of certain claims for workers' compensation and for damages, and other incidental purposes, arising from injury to, or death of, a worker. Section 19 of the EISF Act states that a person or employer may make a claim against the Insurance Commission for compensation under the *Workers' Compensation and Injury Management Act 1981* , for damages at common law, if the liability of the employer is covered by an employer's policy and the insurer who issued that policy is dissolved under law, or is unable to provide the indemnity required under that policy. Accordingly, the Insurance Commission is required to take up a liability for the workers' compensation outstanding claims, notwithstanding the fact that these EISF Act liabilities have not arisen as a result of the Insurance Commission's underwriting activities.

In accordance with Section 25(2) of the EISF Act, the Insurance Commission has a right of reimbursement from WorkCover WA for all payments made under the EISF Act. A Right of Indemnity asset, equal to the value of the outstanding claims liability, has therefore been brought to account. Refer Note 6.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (c) Risk Margin

**Process for Determining Risk Margin**

The Insurance Commission and Corporation have adopted a risk margin in accordance with the Australian Prudential Regulation Authority (APRA) guidelines covering private insurers effective from 30 June 2002. Under this regime the central estimate is derived using risk-free rates based on yields from Commonwealth Government fixed interest securities. The total provision is required to achieve a 75% probability of sufficiency based solely on liability risk (including inflation risk), but with no allowance for asset risk, or asset returns above risk-free rates.

The 75% probability of sufficiency is estimated taking into account potential uncertainties relating to various actuarial assumptions and statistical modelling techniques, the underlying data quality, the general insurance and legal environments, and changes in social attitudes.

| **Risk Margin Applied** | **2012 %** | **2011 %** |
|---|---|---|
| Third Party Insurance Fund | **7.0** | 7.0 |
| Compensation (Industrial Diseases) Fund | **18.7** | 18.7 |
| Government Insurance Fund | | |
| - Workers' Compensation | **25.0** | 25.0 |
| - Public Liability | **16.8** | 16.8 |
| Insurance Commission General Fund | | |
| - Workers' Compensation and Liability Insurance | **25.0** | 25.0 |
| - EISF Act: | | |
| Asbestos-Related Diseases | **20.4** | 20.4 |
| Non-Asbestos-Related Diseases | **16.8** | 16.8 |
| Corporation - Inwards Reinsurance | **12.7** | 12.8 |

### (d) Liability for Outstanding Claims (discounted)

The liability for outstanding claims (excluding reinsurance and other recoveries receivable) is set out below by Fund:

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| Insurance Commission General Fund | | | | |
| - Workers' Compensation and Liability Insurance* | **67,447** | 69,185 | **67,447** | 69,185 |
| - EISF Act* | **18,709** | 21,070 | **18,709** | 21,070 |
| | **86,156** | 90,255 | **86,156** | 90,255 |
| Third Party Insurance Fund | **1,786,020** | 1,581,630 | **1,786,020** | 1,581,630 |
| Compensation (Industrial Diseases) Fund | **3,962** | 4,281 | **3,962** | 4,281 |
| Government Insurance Fund* | **38,939** | 38,243 | **38,939** | 38,243 |
| Corporation - Inwards Reinsurance* | **363** | 647 | **-** | - |
| **Total** | **1,915,440** | 1,715,056 | **1,915,077** | 1,714,409 |

* Denotes Funds that are in run-off

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (e) Outstanding Claims Liability by Funds

| Insurance Commission | Notes | Third Party Insurance Fund 2012 $'000 | Third Party Insurance Fund 2011 $'000 | Compensation (Industrial Diseases) Fund 2012 $'000 | Compensation (Industrial Diseases) Fund 2011 $'000 | Government Insurance Fund 2012 $'000 | Government Insurance Fund 2011 $'000 | Insurance Commission General Fund 2012 $'000 | Insurance Commission General Fund 2011 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| The following are the liabilities for outstanding claims for each Fund: | | | | | | | | | |
| Central Estimate | | **1,767,330** | 1,709,600 | **3,204** | 4,188 | **36,855** | 42,772 | **93,917** | 116,609 |
| Discount to Present Value | | **(162,350)** | (288,290) | **(659)** | (1,420) | **(8,155)** | (14,568) | **(24,201)** | (43,906) |
| | | **1,604,980** | 1,421,310 | **2,545** | 2,768 | **28,700** | 28,204 | **69,716** | 72,703 |
| Claims Management Expenses (discounted) | | **64,200** | 56,850 | **891** | 970 | **2,826** | 2,774 | **4,844** | 5,207 |
| | | **1,669,180** | 1,478,160 | **3,436** | 3,738 | **31,526** | 30,978 | **74,560** | 77,910 |
| Risk Margin | | **116,840** | 103,470 | **526** | 543 | **7,413** | 7,265 | **11,596** | 12,345 |
| Gross Outstanding Claims Liability | | **1,786,020** | 1,581,630 | **3,962** | 4,281 | **38,939** | 38,243 | **86,156** | 90,255 |
| Current | 37 | **441,540** | 392,060 | **599** | 401 | **4,355** | 3,952 | **7,886** | 9,815 |
| Non-Current | 37 | **1,344,480** | 1,189,570 | **3,363** | 3,880 | **34,584** | 34,291 | **78,270** | 80,440 |
| | | **1,786,020** | 1,581,630 | **3,962** | 4,281 | **38,939** | 38,243 | **86,156** | 90,255 |

The Insurance Commission General Fund includes the liabilities arising under the EISF Act (refer Note 15(b)) as follows:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Central Estimate | **21,501** | 29,178 |
| Discount to present value | **(6,385)** | (12,323) |
| | **15,116** | 16,855 |
| Claims Management Expenses (discounted) | **476** | 739 |
| | **15,592** | 17,594 |
| Risk Margin | **3,117** | 3,476 |
| Gross Outstanding Claims Liability | **18,709** | 21,070 |
| Current | **1,548** | 2,069 |
| Non-Current | **17,161** | 19,001 |
| | **18,709** | 21,070 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

**Compensation (Industrial Diseases) Fund**

The liability includes an amount of $3.3 million (2011: $3.6 million), representing the estimated liability of asbestos mining-related workers' compensation claims, prior to future recoveries, arising from operations at Wittenoom. A recoverable amount of $0.6 million (2011: $0.8 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 6. This produces a net liability for asbestos mining-related claims of $2.7 million (2011: $2.8 million).

**Insurance Commission General Fund - Workers' Compensation and Public Liability Insurance**

The liability for outstanding claims applicable to classes of insurance conducted by the State Government Insurance Office prior to 1 January 1987 is settled through this Fund, which includes Wittenoom asbestos-related common law liability, as detailed below.

The above liability includes an amount of $46.0 million (2011: $45.4 million) representing the estimated liability, prior to future recoveries, for the Wittenoom asbestos-related common law claims. A recoverable amount of $24.0 million (2011: $23.7 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 6. This produces a net liability relating to the Wittenoom asbestos-related common law claims of $22.0 million (2011: $21.7 million).

**Corporation - Inwards Reinsurance**

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Central Estimate | **70** | 100 |
| Discount to present value | **(11)** | (26) |
| | **59** | 74 |
| Claims Management Expenses | **263** | 500 |
| | **322** | 574 |
| Risk Margin | **41** | 73 |
| Gross Outstanding Claims Liability | **363** | 647 |
| | | |
| Current | **54** | 256 |
| Non-Current | **309** | 391 |
| | **363** | 647 |

Refer Notes 32 and 33 for the methodologies and assumptions used to calculate Outstanding Claims Liability.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (f) Reconciliation of Movement in Discounted Outstanding Claims Liability

| Third Party Insurance Fund | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | 1,581,630 | 107,957 | 1,473,673 |
| Effect of Changes in Assumptions/Experience | 177,660 | 19,390 | 158,270 |
| Increase in Expected Claims Incurred/Recoveries During Year | 474,760 | 30,680 | 444,080 |
| Incurred Claims Recognised in the Statement of Comprehensive Income | 652,420 | 50,070 | 602,350 |
| Claim Payments/Recoveries During Year | (448,030) | (27,900) | (420,130) |
| **Total Outstanding Claims Liability at 30 June 2012** | **1,786,020** | **130,127** | **1,655,893** |

| Compensation (Industrial Diseases) Fund | Gross $'000 | Recoveries $'000 | Net $'000 |
|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | 4,281 | 853 | 3,428 |
| Effect of Changes in Assumptions/Experience | (71) | (151) | 80 |
| Increase in Expected Claims Incurred/Recoveries During Year | - | - | - |
| Incurred Claims Recognised in the Statement of Comprehensive Income | (71) | (151) | 80 |
| Claim Payments/Recoveries During Year | (248) | (61) | (187) |
| **Total Outstanding Claims Liability at 30 June 2012** | **3,962** | **641** | **3,321** |

| Government Insurance Fund<br>Workers' Compensation | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 37,551 | 2,032 | 35,519 |
| Effect of Changes in Assumptions/Experience | | 5,217 | 336 | 4,881 |
| Decrease in Expected Claims Incurred/Recoveries During Year | | (994) | (57) | (937) |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | 4,223 | 279 | 3,944 |
| Claim Payments/Recoveries During Year | | (3,172) | (227) | (2,945) |
| **Outstanding Claims Liability at 30 June 2012** | **(i)** | **38,602** | **2,084** | **36,518** |

| Public Liability | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 692 | 180 | 512 |
| Effect of Changes in Assumptions/Experience | | (38) | (494) | 456 |
| Decrease in Expected Claims Incurred/Recoveries During Year | | (34) | (114) | 80 |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | (72) | (608) | 536 |
| Claim Payments/Recoveries During Year | | (283) | 442 | (725) |
| **Outstanding Claims Liability at 30 June 2012** | **(ii)** | **337** | **14** | **323** |
| **Total Outstanding Claims Liability at 30 June 2012** | **(i)+(ii)** | **38,939** | **2,098** | **36,841** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

| Insurance Commission General Fund<br>Workers' Compensation | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 66,771 | 25,238 | 41,533 |
| Effect of Changes in Assumptions/Experience | | 3,431 | 2,876 | 555 |
| Increase in Expected Claims Incurred/Recoveries During Year | | - | - | - |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | 3,431 | 2,876 | 555 |
| Claim Payments/Recoveries During Year | | (5,460) | (2,689) | (2,771) |
| **Outstanding Claims Liability at 30 June 2012** | **(iii)** | **64,742** | **25,425** | **39,317** |

| Public Liability | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 2,414 | 57 | 2,357 |
| Effect of Changes in Assumptions/Experience | | 290 | 8 | 282 |
| Increase in Expected Claims Incurred/Recoveries During Year | | - | - | - |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | 290 | 8 | 282 |
| Claim Payments/Recoveries During Year | | 1 | - | 1 |
| **Outstanding Claims Liability at 30 June 2012** | **(iv)** | **2,705** | **65** | **2,640** |
| **Total Outstanding Claims Liability at 30 June 2012** | **(iii)+(iv)** | **67,447** | **25,490** | **41,957** |

| EISF Act<br>Asbestos-Related Claims | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 18,670 | 125 | 18,545 |
| Effect of Changes in Assumptions/Experience | | (50) | 2 | (52) |
| Increase in Expected Claims Incurred/Recoveries During Year | | - | - | - |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | (50) | 2 | (52) |
| Claim Payments/Recoveries During Year | | (640) | (6) | (634) |
| | | 17,980 | 121 | 17,859 |
| Timing Difference | | 41 | - | 41 |
| Removal of Claims Management Expenses | | (1,131) | - | (1,131) |
| **Outstanding Claims Liability at 30 June 2012** | **(v)** | **16,890** | **121** | **16,769** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

| EISF Act<br>Non-Asbestos-Related Claims | | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | | 3,559 | 25 | 3,534 |
| Effect of Changes in Assumptions/Experience | | (1,573) | (11) | (1,562) |
| Increase in Expected Claims Incurred/Recoveries During Year | | - | - | - |
| Incurred Claims Recognised in the Statement of Comprehensive Income | | (1,573) | (11) | (1,562) |
| Claim Payments/Recoveries During Year | | 7 | - | 7 |
| | | 1,993 | 14 | 1,979 |
| Timing Difference | | 7 | - | 7 |
| Removal of Claims Management Expenses | | (181) | - | (181) |
| **Outstanding Claims Liability at 30 June 2012** | **(vi)** | **1,819** | **14** | **1,805** |
| **EISF Act Total Outstanding Claims Liability at 30 June 2012** | **(v)+(vi)** | **18,709** | **135** | **18,574** |
| **ICGF Total Outstanding Claims Liability** | **(iii)+(iv)+(v)+(vi)** | **86,156** | **25,625** | **60,531** |

| Corporation Inwards Reinsurance | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|
| Outstanding Claims Liability at 1 July 2011 | 647 | 7 | 640 |
| Effect of Changes in Assumptions/Experience | (28) | - | (28) |
| Decrease in Expected Claims Incurred/Recoveries During Year | (232) | - | (232) |
| Incurred Claims Recognised in the Statement of Comprehensive Income | (260) | - | (260) |
| Claim Payments/Recoveries During Year | (24) | (5) | (19) |
| **Total Outstanding Claims Liability at 30 June 2012** | **363** | **2** | **361** |

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 15. OUTSTANDING CLAIMS LIABILITY (continued)

#### (g) Claims Development Tables

**Third Party Insurance Fund**

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent years:

**Gross Claims Development Table**

| **Accident Year**<br>Estimated Ultimate Gross Claims Cost: | **2003**<br>**$'000** | **2004**<br>**$'000** | **2005**<br>**$'000** | **2006**<br>**$'000** | **2007**<br>**$'000** | **2008**<br>**$'000** | **2009**<br>**$'000** | **2010**<br>**$'000** | **2011**<br>**$'000** | **2012**<br>**$'000** | **Total**<br>**$'000** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At End of Crash Year | 329,489 | 349,864 | 364,043 | 359,544 | 391,336 | 423,400 | 402,900 | 404,768 | 465,178 | 473,855 | |
| One Year Later | 338,860 | 331,040 | 341,742 | 374,159 | 410,204 | 368,186 | 393,621 | 419,377 | 463,545 | | |
| Two Years Later | 314,117 | 322,762 | 347,210 | 370,038 | 363,308 | 359,445 | 421,265 | 421,704 | | | |
| Three Years Later | 312,198 | 342,168 | 343,604 | 334,609 | 350,606 | 365,301 | 426,272 | | | | |
| Four Years Later | 322,713 | 328,902 | 320,029 | 338,250 | 352,575 | 366,870 | | | | | |
| Five Years Later | 328,712 | 319,187 | 322,123 | 343,669 | 362,551 | | | | | | |
| Six Years Later | 325,750 | 316,993 | 342,827 | 355,677 | | | | | | | |
| Seven Years Later | 334,969 | 316,918 | 339,376 | | | | | | | | |
| Eight Years Later | 338,584 | 331,188 | | | | | | | | | |
| Nine Years Later | 346,339 | | | | | | | | | | |
| Current Estimate of Cumulative Claims Costs | 346,339 | 331,188 | 339,376 | 355,677 | 362,551 | 366,870 | 426,272 | 421,704 | 463,545 | 473,855 | 3,887,377 |
| Cumulative Payments | (309,868) | (293,334) | (293,064) | (284,482) | (294,410) | (247,283) | (247,613) | (173,755) | (108,907) | (51,433) | (2,304,149) |
| Outstanding Claims Undiscounted | 36,471 | 37,854 | 46,312 | 71,195 | 68,141 | 119,587 | 178,659 | 247,949 | 354,638 | 422,422 | 1,583,228 |

| | |
|---|---|
| Discount (on Crash Years 2003 and Later) | (149,314) |
| Claims Management Expenses (on Crash Years 2003 and Later) | 61,078 |
| Claims 2002 and Prior (Discounted) | 172,854 |
| Third Party Recoveries (Gross Amounts in Table are Net of Third Party Recoveries) | 1,334 |
| Risk Margin | 116,840 |
| **Gross Outstanding Claims per Funds' Statement of Financial Position (Refer Note 37)** | **1,786,020** |

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 15. OUTSTANDING CLAIMS LIABILITY (continued)

#### (g) Claims Development Tables (continued)

**Third Party Insurance Fund**

**Net Claims Development Table**

| **Accident Year**<br>Estimated Ultimate Net Claims Cost: | **2003**<br>**$'000** | **2004**<br>**$'000** | **2005**<br>**$'000** | **2006**<br>**$'000** | **2007**<br>**$'000** | **2008**<br>**$'000** | **2009**<br>**$'000** | **2010**<br>**$'000** | **2011**<br>**$'000** | **2012**<br>**$'000** | **Total**<br>**$'000** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At End of Crash Year | 300,671 | 325,605 | 342,610 | 338,380 | 362,816 | 397,688 | 378,224 | 379,914 | 435,494 | 443,567 | |
| One Year Later | 309,094 | 299,805 | 321,549 | 351,424 | 379,697 | 345,460 | 369,279 | 392,496 | 428,762 | | |
| Two Years Later | 277,967 | 289,521 | 326,070 | 347,536 | 336,200 | 336,995 | 394,266 | 394,599 | | | |
| Three Years Later | 273,614 | 310,245 | 322,653 | 314,274 | 324,755 | 341,841 | 398,907 | | | | |
| Four Years Later | 286,954 | 306,377 | 300,429 | 317,674 | 326,296 | 343,280 | | | | | |
| Five Years Later | 285,292 | 297,083 | 302,380 | 322,516 | 336,545 | | | | | | |
| Six Years Later | 283,695 | 295,077 | 321,587 | 333,795 | | | | | | | |
| Seven Years Later | 292,270 | 294,848 | 318,376 | | | | | | | | |
| Eight Years Later | 291,016 | 307,891 | | | | | | | | | |
| Nine Years Later | 297,051 | | | | | | | | | | |
| Current Estimate of Cumulative Claims Costs | 297,051 | 307,891 | 318,376 | 333,795 | 336,545 | 343,280 | 398,907 | 394,599 | 428,762 | 443,567 | 3,602,773 |
| Cumulative Payments | (278,551) | (272,700) | (274,927) | (267,002) | (276,163) | (231,360) | (231,701) | (162,546) | (101,946) | (48,226) | (2,145,122) |
| Outstanding Claims Undiscounted | 18,500 | 35,191 | 43,449 | 66,793 | 60,382 | 111,920 | 167,206 | 232,053 | 326,816 | 395,341 | 1,457,651 |
| Discount (on Crash Years 2003 and Later) | | | | | | | | | | | (133,504) |
| Claims Management Expenses (on Crash Years 2003 and Later) | | | | | | | | | | | 57,275 |
| Claims 2002 and Prior (Discounted) | | | | | | | | | | | 166,142 |
| Risk Margin | | | | | | | | | | | 108,329 |
| **Total Outstanding Claims Net of Reinsurance and Other Recoveries** | | | | | | | | | | | **1,655,893** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (g) Claims Development Tables (continued)

**Compensation (Industrial Diseases) Fund**

The long-term nature of the expected term to settlement of these claims, results in claims costs developing many years after the initial policy period. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the table below lists developing claim costs over the past five years.

| Estimated Ultimate Claims Cost at 30 June: | | Gross $'000 | Net $'000 |
|---|---|---|---|
| | **2008** | 33,278 | 22,714 |
| | **2009** | 32,395 | 22,391 |
| | **2010** | 32,319 | 22,167 |
| | **2011** | 31,593 | 21,841 |
| | **2012** | 30,858 | 21,545 |
| Current Estimate of Cumulative Claims Costs | | 30,858 | 21,545 |
| Cumulative Payments | | (27,654) | (19,144) |
| Outstanding Claims Undiscounted | | 3,204 | 2,401 |
| Discount | | (659) | (489) |
| Claims Management Expenses | | 891 | 886 |
| Risk Margin | | 526 | 523 |
| **Outstanding Claims per Funds' Statement of Financial Position (Refer Note 37)** | | **3,962** | **3,321** |

**Government Insurance Fund**

This Fund has now closed and has been in run-off since 1 July 1996. The long-term nature of the expected term to settlement of these claims is also due to the latency period associated with asbestos-related diseases and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the tables below list developing claim costs over the past five years. There are no remaining claims against the fund other than for Workers' Compensation and Liability insurance.

**Workers' Compensation**

| Estimated Ultimate Claims Cost at 30 June: | | Gross $'000 | Net $'000 |
|---|---|---|---|
| | **2008** | 989,930 | 914,927 |
| | **2009** | 988,250 | 913,015 |
| | **2010** | 990,397 | 914,940 |
| | **2011** | 989,142 | 911,142 |
| | **2012** | 986,766 | 908,901 |
| Current Estimate of Cumulative Claims Costs | | 986,766 | 908,901 |
| Cumulative Payments | | (950,208) | (874,909) |
| Outstanding Claims Undiscounted | | 36,558 | 33,992 |
| Discount | | (8,131) | (7,564) |
| Claims Management Expenses | | 2,810 | 2,786 |
| Risk Margin | | 7,365 | 7,304 |
| **Workers' Compensation Outstanding Claims** | | **38,602** | **36,518** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (g) Claims Development Tables (continued)

**Public Liability**

| Estimated Ultimate Claims Cost at 30 June: | | Gross $'000 | Net $'000 |
|---|---|---|---|
| | **2008** | 20,537 | 15,722 |
| | **2009** | 21,220 | 16,352 |
| | **2010** | 21,156 | 15,306 |
| | **2011** | 20,733 | 15,282 |
| | **2012** | 20,646 | 15,807 |
| Current Estimate of Cumulative Claims Costs | | 20,646 | 15,807 |
| Cumulative Payments | | (20,349) | (15,523) |
| Outstanding Claims Undiscounted | | 297 | 284 |
| Discount | | (24) | (23) |
| Claims Management Expenses | | 16 | 16 |
| Risk Margin | | 48 | 46 |
| **Public Liability Outstanding Claims** | | **337** | **323** |
| **Total GIF Outstanding Claims per Funds' Statement of Financial Position (Refer Note 37)** | | **38,939** | **36,841** |

**Insurance Commission General Fund**

This fund is responsible for the administration of two claim portfolios:

- Run-off claims for Workers' Compensation and Public Liability claims prior to 1 January 1986; and
- Workers' Compensation claims to be settled in accordance with the EISF Act specifically relating to the HIH Insurance Group and other failed insurers.

**Run-off Claims**

The long-term nature of the expected term to settlement of these claims is due to the latency period associated with asbestos-related diseases and the nature of public liability insurance. In view of this, it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the tables below list developing claim costs over the past five years.

The claims in run-off include an immaterial number of, and values for, potential Public Liability claims reported as a single class of insurance.

**Workers' Compensation**

| Estimated Ultimate Claims Cost at 30 June: | | | Gross $'000 | Net $'000 |
|---|---|---|---|---|
| | **2008** | | 557,402 | 433,261 |
| | **2009** | | 552,671 | 433,902 |
| | **2010** | | 566,663 | 437,906 |
| | **2011** | | 576,760 | 446,442 |
| | **2012** | | 566,680 | 439,318 |
| Current Estimate of Cumulative Claims Costs | | | 566,680 | 439,318 |
| Cumulative Payments | | | (496,886) | (403,295) |
| Outstanding Claims Undiscounted | | | 69,794 | 36,023 |
| Discount | | | (17,198) | (8,736) |
| Claims Management Expenses | | | 4,208 | 4,167 |
| Risk Margin | | | 7,938 | 7,863 |
| **Workers' Compensation Outstanding Claims** | | **(i)** | **64,742** | **39,317** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (g) Claims Development Tables (continued)

**Public Liability**

| Estimated Ultimate Claims Cost at 30 June: | | Gross $'000 | Net $'000 |
|---|---|---|---|
| **2008** | | 4,224 | 4,151 |
| **2009** | | 3,897 | 3,852 |
| **2010** | | 5,493 | 5,429 |
| **2011** | | 5,563 | 5,498 |
| **2012** | | 5,434 | 5,371 |
| Current Estimate of Cumulative Claims Costs | | 5,434 | 5,371 |
| Cumulative Payments | | (2,811) | (2,811) |
| Outstanding Claims Undiscounted | | 2,623 | 2,560 |
| Discount | | (619) | (607) |
| Claims Management Expenses | | 160 | 159 |
| Risk Margin | | 541 | 528 |
| **Public Liability Outstanding Claims** | **(ii)** | **2,705** | **2,640** |
| **Total Workers' Compensation and Public Liability Outstanding Claims** | **(i)+(ii)** | **67,447** | **41,957** |
| EISF Act Asbestos-Related Claims | | 16,890 | 16,769 |
| EISF Act Non-Asbestos-Related Claims | | 1,819 | 1,805 |
| **Total ICGF Outstanding Claims per Funds' Statement of Financial Position (Refer Note 37)** | | **86,156** | **60,531** |

A claim development table has not been produced for the EISF Act asbestos-related disease claims as:

- all claims are for events occurring more than ten years ago; and
- this asbestos-related disease liability has only been separately assessed since 30 June 2004 and there have been significant data difficulties which have caused the ultimate expected claims cost to vary quite dramatically.

A claim development table for EISF Act non-asbestos-related disease claims is not shown as the limit of the actuarial data claim calculation has been reached and data is now aggregated from all prior accident years.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 15. OUTSTANDING CLAIMS LIABILITY (continued)

### (g) Claims Development Tables (continued)

**Corporation - Inwards Reinsurance**

The Corporation had ceased writing insurance business and had been in run-off since August 1992. The long-term nature of the expected term to settlement of these claims is also due to the latency period associated with reinsurance claims and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the table below lists developing claim costs over the past five years.

| Estimated Ultimate Claims Cost at 30 June: | | Gross $'000 | Net $'000 |
|---|---|---|---|
| | **2008** | 40,157 | 28,919 |
| | **2009** | 39,815 | 28,652 |
| | **2010** | 39,720 | 28,557 |
| | **2011** | 39,483 | 28,320 |
| | **2012** | 39,473 | 28,314 |
| Current Estimate of Cumulative Claims Costs | | 39,473 | 28,314 |
| Cumulative Payments | | (39,403) | (28,247) |
| Outstanding Claims Undiscounted | | 70 | 67 |
| Discount | | (11) | (10) |
| Claims Management Expenses | | 263 | 263 |
| Risk Margin | | 41 | 41 |
| **Total Corporation Outstanding Claims Liability** | | **363** | **361** |

## 16. UNEARNED PREMIUM LIABILITY

| Current Year | CONSOLIDATED 2012 ($'000) Third Party Insurance Fund | Compensation (Industrial Diseases) Fund | Total |
|---|---|---|---|
| Unearned Premium Liability at Start of the Year | (184,442) | (80) | **(184,522)** |
| Earning of Premiums Written in Previous Periods | 184,442 | 80 | **184,522** |
| Premium Written in the Period | (450,311) | (32) | **(450,343)** |
| Earning of Premiums Written in the Period | 260,841 | 32 | **260,873** |
| **Unearned Premium Liability at End of the Year** | **(189,470)** | **-** | **(189,470)** |

| Prior Year | CONSOLIDATED 2011 ($'000) Third Party Insurance Fund | Compensation (Industrial Diseases) Fund | Total |
|---|---|---|---|
| Unearned Premium Liability at Start of the Year | (173,808) | (119) | **(173,927)** |
| Earning of Premiums Written in Previous Periods | 173,808 | 39 | **173,847** |
| Premium Written in the Period | (440,808) | (26) | **(440,834)** |
| Earning of Premiums Written in the Period | 256,366 | 26 | **256,392** |
| **Unearned Premium Liability at End of the Year** | (184,442) | (80) | (184,522) |

The Compensation (Industrial Diseases) Fund issued policies on 1 July 2009 covering a three-year period.

Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 17. UNEXPIRED RISK LIABILITY

| | Notes | Third Party Insurance Fund 2012 $'000 | Third Party Insurance Fund 2011 $'000 | Compensation (Industrial Diseases) Fund 2012 $'000 | Compensation (Industrial Diseases) Fund 2011 $'000 |
|---|---|---|---|---|---|
| **Unexpired Risk Liability** | | | | | |
| Unexpired Risk Liability at Start of the Year | | **-** | - | - | - |
| Recognition of Additional Unexpired Risk Liability in the Period | | **(26,130)** | - | - | - |
| Release of Unexpired Risk Liability Recorded in Previous Periods | | **-** | - | - | - |
| **Unexpired Risk Liability at End of the Year** | | **(26,130)** | - | - | - |
| **Movement in Deficiency Recognised in the Statement of Comprehensive Income** | | | | | |
| Gross increase in Unexpired Risk Liability | | **26,130** | - | - | - |
| Increase in Reinsurance and Other Recoveries on Unexpired Risk Liability | | **(14,900)** | - | - | - |
| **Net Movement in Unexpired Risk** | **(i)** | **11,230** | - | - | - |
| **Write-down of Deferred Acquisition Costs** | **11** | **5,054** | 3,132 | **-** | - |
| **Total Deficiency Recognised in the Statement of Comprehensive Income** | | **16,284** | **3,132** | **-** | **-** |
| **Unearned Premium Liability Adequacy Test** | | | | | |
| Unearned Premium Liability | | **189,470** | 184,442 | **-** | 80 |
| Related Deferred Acquisition Costs | | **(5,054)** | (4,674) | **-** | - |
| | | **184,416** | 179,768 | **-** | 80 |
| Central Estimate of Present Value of Expected Future Cash Flows arising from Future Claims | | **197,600** | 180,000 | **-** | 28 |
| Risk Margin | | **18,000** | 16,400 | **-** | 8 |
| Present Value of Expected Future Cash Inflows Arising from Reinsurance and Other Recoveries on Future Claims | | **(14,900)** | (13,500) | **-** | - |
| | | **200,700** | 182,900 | **-** | 36 |
| **Net Deficiency** | | **(16,284)** | (3,132) | **-** | 44 |
| Less: Reinsurance Element of Present Value of Expected Future Cash Flows for Future Claims | | **(14,900)** | (13,500) | **-** | - |
| **Gross Deficiency** | | **(31,184)** | (16,632) | **-** | 44 |

A Liability Adequacy Test was performed for the Third Party Insurance Fund.

The Third Party Insurance Fund demonstrated a net deficiency (2011: Net Deficiency) which resulted in a $26.13 million Unexpired Risk Liability (2011: $Nil). The risk margin applied to achieve a 75% probability of sufficiency for the unexpired risk liability of the Third Party Insurance Fund is 9.1%. This is more than the 7.0% risk margin applied to the outstanding claims as the unexpired risk liability is considered to exhibit higher uncertainty as it relies to a much greater extent on events yet to occur.

The Compensation (Industrial Diseases) Fund, which issues policies covering a three-year period, had no Unearned Premium Liability at 30 June 2012 and hence no Liability Adequacy Test or Unexpired Risk Liability was required.

The Unexpired Risk Liability is not aggregated due to the different nature of the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund portfolios.

An Unexpired Risk Liability can only occur in those Funds which carry an Unearned Premium Liability at the end of the reporting period. Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation as those Funds are in run-off and not renewing premiums.

**(i)** The Net Movement in Unexpired Risk represents the gross movement in the Unexpired Risk Liability less any related Reinsurance and Other Recoveries.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 18. PROVISIONS

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Employee Benefits | 19 | **4,751** | 4,193 | **4,751** | 4,193 |
| On-Costs Relating to Employee Benefits | (i) | **260** | 222 | **260** | 222 |
| Investments | | **1,738** | 1,374 | **1,738** | 1,374 |
| Sundry | | **112** | 102 | **112** | 102 |
| | | **6,861** | 5,891 | **6,861** | 5,891 |
| **Non-Current** | | | | | |
| Employee Benefits | 19 | **11,983** | 9,927 | **11,983** | 9,927 |
| On-Costs Relating to Employee Benefits | (i) | **193** | 146 | **193** | 146 |
| | | **12,176** | 10,073 | **12,176** | 10,073 |

**(i)** The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation, payroll tax and workers' compensation premiums. The liability for such on-costs is included here. The associated expense is included under Employee Benefits (within Other Underwriting and Administration Expenses). Refer Note 3.

## 19. EMPLOYEE BENEFIT LIABILITIES

| | | | | | |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Provisions | | | | | |
| Annual Leave | | **2,685** | 2,234 | **2,685** | 2,234 |
| Long Service Leave | | **947** | 890 | **947** | 890 |
| Superannuation Contributions | 19(h) | **1,119** | 1,069 | **1,119** | 1,069 |
| | 18 | **4,751** | 4,193 | **4,751** | 4,193 |
| Payables | | | | | |
| Accrued Salaries | | **577** | 452 | **577** | 452 |
| Accrued Payroll Tax | | **32** | 25 | **32** | 25 |
| Accrued Superannuation: | | | | | |
| Gold State – West State – GESB Super | | **42** | 33 | **42** | 33 |
| | 13 | **651** | 510 | **651** | 510 |
| **Total Current** | | **5,402** | 4,703 | **5,402** | 4,703 |
| **Non-Current** | | | | | |
| Provisions | | | | | |
| Long Service Leave | | **2,719** | 2,059 | **2,719** | 2,059 |
| Superannuation Contributions | | **9,264** | 7,868 | **9,264** | 7,868 |
| **Total Non-Current** | 18 | **11,983** | 9,927 | **11,983** | 9,927 |
| **Total Employee Benefit Liabilities** | | **17,385** | 14,630 | **17,385** | 14,630 |

As explained in Note 1(ii), the amounts for Non-Current Long Service Leave and superannuation are measured at their present values. The following assumptions were adopted in measuring present values:

| | | | | |
|---|---|---|---|---|
| **Long Service Leave** | | | | |
| Weighted Average Rates of Increase in Annual Employee Benefits (%) | **4.5** | 4.4 | **4.5** | 4.4 |
| Weighted Average Discount Rates (%) | **2.6** | 4.8 | **2.6** | 4.8 |
| Weighted Average Expected Term to Settlement | **4 yrs 9 mths** | 4 yrs 11 mths | **4 yrs 9 mths** | 4 yrs 11 mths |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 19. EMPLOYEE BENEFIT LIABILITIES (continued)

### Superannuation: Pension Scheme

### Scheme Information

Pension Scheme members receive pension benefits on retirement, death or invalidity. The Fund share of the pension benefit, which is based on the member's contributions plus investment earnings, may be commuted to a lump sum benefit. The Insurance Commission does not bear the cost associated with indexation of any pension arising from the Fund share. The Government of Western Australia share of the pension benefit, which is fully employer-financed, cannot be commuted to a lump sum benefit.

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit the members receive a lump sum benefit on retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

The following disclosures are in respect of the employer-financed benefits only.

Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income in the year in which they occur.

### (a) Reconciliation of the Present Value of Defined Benefit Obligations

| | Pension Scheme | | Pre-transfer Gold State | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| Present Value of Defined Benefit Obligations at Start of the Year | **5,436** | 5,605 | **3,501** | 3,801 |
| Interest Cost | **269** | 290 | **174** | 197 |
| Actuarial Losses/(Gains) | **1,274** | 210 | **745** | (105) |
| Benefits Paid | **(676)** | (669) | **(340)** | (392) |
| **Present Value of Defined Benefit Obligations at End of the Year** | **6,303** | 5,436 | **4,080** | 3,501 |

These defined benefit obligations are wholly unfunded, such that there are no Assets. The employer contributes, as required, to meet the benefits paid.

### (b) Reconciliation of the Fair Value of Scheme Assets

| | | | | |
|---|---|---|---|---|
| Fair Value of Scheme Assets at Start of the Year | **-** | - | **-** | - |
| Employer Contributions | **676** | 669 | **340** | 392 |
| Benefits Paid | **(676)** | (669) | **(340)** | (392) |
| **Fair Value of Scheme Assets at End of the** | **-** | - | **-** | - |

### (c) Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position

| | | | | |
|---|---|---|---|---|
| Defined Benefit Obligations | **6,303** | 5,436 | **4,080** | 3,501 |
| Fair Value Assets | **-** | - | **-** | - |
| Deficit | **6,303** | 5,436 | **4,080** | 3,501 |
| Unrecognised Past Service Cost | **-** | - | **-** | - |
| **Liability** | **6,303** | 5,436 | **4,080** | 3,501 |

### (d) Expense Recognised in Statement of Comprehensive Income

| | | | | |
|---|---|---|---|---|
| Interest cost | **269** | 290 | **174** | 197 |
| Actuarial Losses/(Gains) | **1,274** | 210 | **745** | (105) |
| **Superannuation Expense** | **1,543** | 500 | **919** | 92 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 19. EMPLOYEE BENEFIT LIABILITIES (continued)

### (e) Scheme Assets

There are no assets in the Pension Scheme to support the Government of Western Australia share of the benefit and no assets in the Pension Scheme to support the transferred benefits. Hence, there is:

- No fair value of Scheme assets
- No asset allocation of Scheme assets
- No assets used by the employer
- No expected return of Scheme assets
- No actual return on Scheme assets

### (f) Historical Information

| | 2008 $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| Pension Scheme: | | | | | |
| Present Value of Defined Benefit Obligation | 5,778 | 5,907 | 5,605 | 5,436 | **6,303** |
| Fair value of Scheme Assets | - | - | - | - | **-** |
| Deficit in Scheme | 5,778 | 5,907 | 5,605 | 5,436 | **6,303** |
| Pre-transfer benefit - Gold State: | | | | | |
| Present Value of Defined Benefit Obligation | 3,803 | 4,400 | 3,801 | 3,501 | **4,080** |
| Fair value of Scheme Assets | - | - | - | - | **-** |
| Deficit in Scheme | 3,803 | 4,400 | 3,801 | 3,501 | **4,080** |
| Experience Adjustments Loss/(Gain) - Scheme Liabilities: | | | | | |
| Pension Scheme | 2 | 516 | (62) | 136 | **263** |
| Pre-transfer benefit - Gold State | 156 | 25 | (229) | (149) | **46** |

The experience adjustment for Scheme liabilities represents the actuarial loss/(gain) due to a change in the liabilities arising from the Scheme's experience (e.g. membership movements, unit entitlements) and excludes the effect of the changes in assumptions (e.g. movements in the bond rate and changes in pensioner mortality assumptions).

### (g) Principal Actuarial Assumptions Used

| | 2012 | 2011 |
|---|---|---|
| Discount Rate (Active Members) | **2.84%** | 5.28% |
| Discount Rate (Pensioners) | **2.84%** | 5.28% |
| Expected Salary Increase Rate | **5.50%** | 4.50% |
| Expected Pension Increase Rate | **2.50%** | 2.50% |

The discount rate is based on the 9-year Government Bond rate at the relevant date. The decrement rates used (e.g. mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

### (h) Expected Contributions

| Expected employer contributions for the year ended 30 June 2013: | $'000 |
|---|---|
| Pension Scheme | 690 |
| Pre-transfer Gold State | 429 |
| | **1,119** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 20. CONTINGENT ASSETS AND LIABILITIES

**Bell Recovery Action**

The Insurance Commission agreed to fund, as an indemnifying creditor, the costs of the Liquidators of the Bell Group in the Liquidators' action against 20 Banks. Contingent upon the outcome of this litigation, the Insurance Commission is likely at a future time to either realise an asset or incur a liability.

In August 2012, Judgment was handed down by the Court of Appeal of the Supreme Court of Western Australia in appeals from the decision at first instance of Mr Justice Owen. The Court of Appeal judgment resulted in the amount repayable by the Banks to the Bell Group plaintiffs being increased to between $2 billion and $3 billion plus appeal costs. The Judgment of the Court of Appeal may be the subject of a final appeal by the defendant Banks to the High Court of Australia but only with leave of the High Court. A contingent asset may arise for the amount which the Insurance Commission will receive from the Liquidators if the result of the recovery action against the Banks is sustained after all rights of appeal are exhausted.

A contingent liability may arise for the Insurance Commission's share of any amounts required to be paid in respect of costs ordered by the Court in the event that the Banks seek and are granted leave to appeal to the High Court of Australia and their appeal is successful. To mitigate the consequences of funding the Liquidators if the Banks ultimately succeed in winning the recovery action, an insurance cover program was put in place in relation to some of the exposure to this contingent liability. The insurance remains in effect.

Because the eventual Court outcome and the amounts of any resulting asset or liability are subject to inherent uncertainty, it is not practical to estimate the potential financial effect upon the Insurance Commission at the end of the reporting period.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 21. NOTES TO THE STATEMENT OF CASH FLOWS

| | Notes | CONSOLIDATED 2012 $'000 | CONSOLIDATED 2011 $'000 | INSURANCE COMMISSION 2012 $'000 | INSURANCE COMMISSION 2011 $'000 |
|---|---|---|---|---|---|
| **Reconciliation of (Loss)/Profit after Income Tax Equivalent Benefit/(Expense) to Net Cash Flow from Operating Activities:** | | | | | |
| **(Loss)/Profit after Income Tax Equivalent** | | **(121,972)** | 42,749 | **(121,972)** | 42,749 |
| **Non-Cash Items** | | | | | |
| Depreciation and Amortisation | | **13,317** | 12,732 | **13,317** | 12,732 |
| Impairment of Intangible Assets | | **-** | 469 | **-** | 469 |
| Impairment of Receivables Increase/(Reduction) | | **51** | (186) | **51** | (186) |
| Foreign Exchange Loss: Investments | | **2,205** | 5,815 | **2,205** | 5,815 |
| Decrease/(Increase) in Fair Value of Investments | | **92,569** | (96,315) | **92,569** | (96,315) |
| Indemnity for Corporation's Net Liabilities | | **-** | - | **(654)** | (1,098) |
| Other | | **102** | 81 | **102** | 81 |
| Movement in Income Tax Provisions | | **(54,189)** | 11,362 | **(54,469)** | 10,892 |
| **Amounts Recognised Directly in Equity** | | | | | |
| Provision for Deferred Income Tax on Asset Revaluation | | **(8,307)** | (4,630) | **(8,307)** | (4,630) |
| **Decrease/(Increase) in Assets** | | | | | |
| Current Receivables | | **(18,599)** | (1,466) | **(18,619)** | (1,458) |
| Current Deferred Acquisition Costs | | **1,542** | 2,946 | **1,542** | 2,946 |
| Other Current Assets | | **(1,121)** | 997 | **(1,121)** | 997 |
| Non-Current Receivables | | **(22,869)** | 6,332 | **(22,872)** | (12,120) |
| Other Non-Current Assets | | **(108)** | (771) | **(108)** | (771) |
| **Increase/(Decrease) in Liabilities** | | | | | |
| Current Payables | | **(6,483)** | 11,989 | **(6,109)** | 11,608 |
| Current Outstanding Claims Liability | | **47,950** | 25,136 | **48,152** | 25,401 |
| Current Unearned Premium Liability | | **4,948** | 10,595 | **4,948** | 10,595 |
| Current Unexpired Risk Liability | | **26,130** | - | **26,130** | - |
| Current Provisions | | **606** | (361) | **606** | (361) |
| Current Other Liabilities | | **(459)** | 1,107 | **(459)** | 1,107 |
| Non-Current Payables | | **-** | (18,451) | **-** | (18,451) |
| Non-Current Outstanding Claims Liability | | **152,433** | 110,191 | **152,515** | 111,152 |
| Non-Current Provisions | | **2,103** | (992) | **2,103** | (992) |
| **Net Cash Flow from Operating Activities** | | **109,849** | 119,330 | **109,550** | 100,163 |
| **Reconciliation of Cash** | | | | | |
| Cash and Cash Equivalents at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | | | | |
| Cash and Cash Equivalents | | **663** | - | **-** | - |
| Bank Overdraft | | **-** | (6,796) | **(21,404)** | (28,911) |
| Financial Assets at Fair Value through Profit or Loss | **7** | **345,097** | 274,597 | **345,097** | 274,597 |
| | **(i)** | **345,760** | 267,801 | **323,693** | 245,686 |

**(i)** The Cash detailed above is available to the economic entity without restriction.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 22. FINANCIAL INSTRUMENTS

### (a) Purpose for Which Derivative Transactions are Undertaken

A derivative financial instrument is a contract whose existence is derived from the value of, or changes in the value of, an underlying investment security. The Insurance Commission's external Investment Managers may utilise derivatives in order to gain access to and allow flexibility in financial markets and to manage and structure the investment portfolio in line with the Insurance Commission's investment strategy.

Derivatives are not utilised in a speculative manner, nor are Investment Managers permitted to leverage the investment portfolio. Derivative instruments are used to economically hedge or minimise risk incurred. Therefore, whenever derivative positions are created, cash or the underlying physical security is held to cover any potential liability. The face value of the underlying security, valued at current market values, is utilised to determine the equivalent dollar value of the derivative product. At the end of the reporting period, all of the Insurance Commission's derivative positions were matched by cash or the underlying security.

The experience to date with the external Investment Managers shows that derivatives have generally been used to a minimal extent. They have mainly been used to achieve reduced transaction costs and as an efficient and effective method of implementing asset allocation decisions. The Insurance Commission has appointed an Investment Manager to enter into forward foreign exchange contracts to manage the currency risk associated with overseas equity portfolio exposure. The economic level of the currency hedge varies between 0% and 100% depending on the nature of the underlying equity portfolio.

### (b) Futures

| | CONSOLIDATED | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| At the end of the reporting period, the details of outstanding contracts are: | | |
| Up to 1 year | | |
| **Interest Rate Futures** | | |
| Notional Principal Amount of Asset | **-** | (3) |
| Weighted Average Price | **-** | - |
| **Equity Futures** | | |
| Notional Principal Amount of Asset | **4,514** | 7,130 |

The Notional Principal Amount (effective exposure) of the above interest rate and equity futures is backed by an equal amount of cash. If all futures contracts were exercised at the end of the reporting period, the Insurance Commission could effectively replace the futures with cash holdings. The Notional Principal Amounts shown above are not considered to be materially different to their Fair Value.

All Futures are held within the Insurance Commission General Fund of the Insurance Commission.

### (c) Forward Foreign Exchange Contracts

| | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|
| | **Assets 2012 $'000** | **Liabilities 2012 $'000** | **Notional Amount 2012 $'000** | **Assets 2011 $'000** | **Liabilities 2011 $'000** | **Notional Amount 2011 $'000** |
| Up to 3 months | **103,768** | **(102,863)** | **103,768** | 98,424 | (96,846) | 98,419 |
| 3 to 12 months | **-** | **-** | **-** | 1,016 | (1,004) | 984 |
| **Total** | **103,768** | **(102,863)** | **103,768** | 99,440 | (97,850) | 99,403 |

The above contracts are marked to market by comparing the contractual rate to the current market rate for a contract with the same remaining period to maturity. Any unrealised gain or loss is taken to the Statement of Comprehensive Income immediately. At the end of the reporting period, a net unrealised gain on these contracts amounted to $0.91 million (2011: gain of $1.59 million). Refer Note 7.

All Forward Foreign Exchange Contracts are held within the Insurance Commission General Fund of the Insurance Commission.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 23. EXPENDITURE COMMITMENTS

### (a) Capital Expenditure Commitments

Capital expenditure commitments, being contracted capital expenditure additional to the amounts reported in the financial statements, are payable as follows:

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| Not Later than One Year: | | | | |
| - Investment Property | **593** | 1,244 | **593** | 1,244 |
| - Property under Construction/Development | **19** | - | **19** | - |
| - Other Property | **583** | 4,941 | **583** | 4,941 |
| | **1,195** | 6,185 | **1,195** | 6,185 |
| Between One and Five Years: | | | | |
| - Other Property | **-** | 239 | **-** | 239 |
| **Total Capital Expenditure Commitments** | **1,195** | 6,424 | **1,195** | 6,424 |

### (b) Road Safety Commitments

$5.0 million has been budgeted to provide funding for Road Safety Community Education programs for the 2013 year.

### (c) Medical Research

In 2011, the Board committed to provide funding of $1.1 million between 1 July 2010 and 30 June 2013 to the Foundation for Advanced Medical Research and The University of Western Australia to undertake the 'Markers of Mesothelioma' medical research project, of which $378,000 is budgeted to be spent during the 2013 year.

### (d) Other Commitments

$10.0 million has been budgeted in relation to funding the Liquidators' prosecution of the Bell Group recovery action during the 2013 year.

In 2012, the Board committed to invest $24.6 million in an unlisted property trust. At 30 June 2012, the entire commitment remained.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 24. EXPLANATORY STATEMENT – INSURANCE COMMISSION

| | | ACTUAL | BUDGET | ACTUAL | PROFIT INCREASE/(DECREASE) FROM ACTUAL 2012 TO | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2012 | 2012 | 2011 | BUDGET 2012 | | ACTUAL 2011 | |
| | Notes | $'000 | $'000 | $'000 | $'000 | % | $'000 | % |
| Premium Revenue | 2 | 445,395 | 439,401 | 430,239 | 5,994 | 1.4 | 15,156 | 3.5 |
| Outwards Reinsurance Premium Expense | 3 | (5,502) | (4,800) | (5,110) | (702) | (14.6) | (392) | (7.7) |
| Outwards Reinsurance Commission Revenue | 2 | 561 | 127 | 498 | 434 | 341.7 | 63 | 12.7 |
| Net Premium Revenue | | 440,454 | 434,728 | 425,627 | 5,726 | 1.3 | 14,827 | 3.5 |
| Claims Expense | 3 | (632,404) | (464,060) | (528,912) | (168,344) | (36.3) | (103,492) | (19.6) |
| Reinsurance and Other Recoveries Revenue | 2 | 25,121 | 5,500 | 11,497 | 19,621 | 356.7 | 13,624 | 118.5 |
| Net Claims Incurred | 4 | (607,283) | (458,560) | (517,415) | (148,723) | (32.4) | (89,868) | (17.4) |
| Gross Movement in Unexpired Risk Liability | 17 | (26,130) | - | - | (26,130) | - | (26,130) | - |
| Reinsurance and Other Recoveries on Unexpired Risk Liability | 17 | 14,900 | - | - | 14,900 | - | 14,900 | - |
| Net Movement in Unexpired Risk | 3,17 | (11,230) | - | - | (11,230) | - | (11,230) | - |
| Acquisition Costs | 3,11 | (18,235) | (14,700) | (18,498) | (3,535) | (24.0) | 263 | 1.4 |
| Other Underwriting and Administration Expenses | 3 | (62,390) | (67,664) | (78,433) | 5,274 | 7.8 | 16,043 | 20.5 |
| UNDERWRITING LOSS | | (258,684) | (106,196) | (188,719) | (152,488) | (143.6) | (69,965) | (37.1) |
| Investment Income including Movements in Fair Value | 2 | 69,324 | 231,029 | 261,557 | (161,705) | (70.0) | (192,233) | (73.5) |
| Investment Expenses | 3 | (28,536) | (29,299) | (24,271) | 763 | 2.6 | (4,265) | (17.6) |
| Finance Costs | 3 | (8,574) | (37,249) | (38,822) | 28,675 | 77.0 | 30,248 | 77.9 |
| Other Income | 2 | 57,919 | 54,793 | 55,022 | 3,126 | 5.7 | 2,897 | 5.3 |
| Other Expenses | 3 | (16,406) | (16,217) | (16,103) | (189) | (1.2) | (303) | (1.9) |
| (LOSS)/PROFIT BEFORE INCOME TAX EQUIVALENT BENEFIT/(EXPENSE) | | (184,957) | 96,861 | 48,664 | (281,818) | (291.0) | (233,621) | (480.1) |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 24. EXPLANATORY STATEMENT – INSURANCE COMMISSION (continued)

### COMPARISON OF 2012 ACTUAL RESULTS TO 2012 BUDGET AND 2011 ACTUAL

**Profit before Income Tax Equivalent Expense**

The Loss before Income Tax Equivalent Expense for the Insurance Commission of $185.0 million is $281.8 million worse than the budgeted Profit of $96.9 million. The Loss before Income Tax Equivalent Expense is $233.6 million worse than last year's Profit of $48.7 million. The analysis below highlights the key variances.

**Claims Expense**

Claims expense for the Insurance Commission of $632.4 million is $168.3 million (36.3%) worse than the budget of $464.1 million. This is primarily due to an increase over budget, in the outstanding claims for the Third Party Insurance Fund of $126.9 million (163.8%). This is in addition to claim payments being $38.3 million (10.0%) worse than budget. Claims expense for the Insurance Commission is also $103.5 million (19.6%) worse than last year, again predominantly due to an increase in the outstanding claims of $62.2 million (43.8%) and increased claim payments of $39.2 million (10.3%) in the Third Party Insurance Fund.

The larger than expected increase in outstanding claims at 30 June 2012 follows an actuarial review of the Insurance Commission's outstanding claims liabilities and results primarily from reductions in risk-free discount rates, which follow Treasury bond rates. These bond rates reached historic lows during 2012. This is compounded by a relatively high rate of wage inflation (AWE), and adjustments to actuarial models to reflect actual experience over the past 12 months. In particular, large claims payments experience over the past 12 months has been relatively heavy but offset slightly by fewer than expected number of new claims reported and higher than expected numbers of claims finalisations.

**Reinsurance and Other Recoveries**

Reinsurance and other recoveries revenue is $19.6 million (356.7%) better than budget. This result has been primarily affected by a positive movement in projected recoveries as a result of the flow-on effect from an increase in outstanding claims.

**Acquisition Costs**

Acquisition costs of $18.2 million is $3.5 million (24.0%) worse than budget. This is primarily due to the write-down of $5.0 million deferred acquisition costs due to the unearned premium liability adequacy test.

**Other Underwriting and Administration Expenses**

Other underwriting and administration expenses of $62.4 million are $16.0 million better than last year's expenses of $78.4 million which reflects the impact of a government-imposed efficiency dividend. Debt recovery costs is $15.4 million and contractors and consultants fees is $4.1 million better than last year. This is offset by superannuation which is $2.2 million higher than last year. This large increase is attributable to the Pension scheme where the 2012 liability increased by 16% compared to the 2011 liability primarily due to the decline in the relevant Government bond rate from 5.28% at 31st May 2011 to 2.84% at 31st May 2012.

**Investment Income including Movements in Fair Value**

The Investment Income of $69.3 million is $161.7 million (70.0%) worse than the budgeted Investment Income of $231.0 million and $192.2 million (73.5%) worse than last year's Investment Income of $261.6 million.

The Investment Income rate of return was significantly below the budgeted income due to a deterioration in global financial markets. Alternative Assets (11.3% versus target 9.1%), Property (11.0% versus target 8.0%), Australian Fixed Interest (10.2% versus 5.7%) and Cash (5.8% versus target 5.5%) returns are better than target while all other asset class returns are below target (Global Fixed Interest 4.0% versus target 5.3%, Australian Shares negative 9.8% versus target 7.8%, Global Shares negative 5.1% versus target 9.2%).

**Finance Costs**

Finance Costs of $8.6 million is $28.7 million better than budget of $37.2 million. The RiskCover Fund received an investment return of $12.6 million which is $23.6 million worse than budget of $36.2 million as a result of the Insurance Commission's lower than expected investment return for 2012. Also, there is a $5.0 million change in Discount on Other Receivables in relation to Bell Recovery Costs.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 25. PROPERTY LEASE INCOME

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Less than 1 Year | **63,803** | 53,171 | **63,803** | 53,171 |
| 1 - 5 Years | **196,997** | 191,278 | **196,997** | 191,278 |
| Greater than 5 Years | **149,061** | 168,631 | **149,061** | 168,631 |
| | **409,861** | 413,080 | **409,861** | 413,080 |

The above amounts represent future minimum lease payments receivable under non-cancellable operating leases.

This note shows future minimum lease payments receivable under non-cancellable operating leases for properties owned by the Insurance Commission. The Insurance Commission has numerous operating leases with tenants for its shopping centres and central business district office properties. The average term for commercial leases is 7.9 years and the average term for retail leases is 6.7 years.

## 26. ECONOMIC DEPENDENCY

The normal trading activities of the Insurance Commission depend to a significant extent on the Department of Transport, an agency of the Government of Western Australia.

The Department of Transport is responsible, under the *Motor Vehicle (Third Party Insurance) Act 1943*, for issuing the Insurance Commission's Third Party insurance policies, collecting premiums in relation to those policies and remitting premiums to the Insurance Commission.

Total Premium Revenue recognised for the Third Party Insurance Fund during the 2012 year was $445.3 million (2011: $430.2 million), representing virtually all of the Insurance Commission's premium revenue.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 27. REMUNERATION OF THE BOARD OF COMMISSIONERS AND OTHER KEY MANAGEMENT PERSONNEL

| | CONSOLIDATED | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| Total fees, salaries and fringe benefits (short-term benefits) received or due and receivable for the financial year by: | | |
| - Board of Commissioners (Board) | **856,034** | 702,020 |
| - Other Key Management Personnel | **2,309,362** | 2,177,536 |
| | **3,165,396** | 2,879,556 |
| Total employer's contributions to superannuation (long-term benefits) received or due and receivable for the financial year by: | | |
| - Board of Commissioners (Board) | **67,757** | 66,554 |
| - Other Key Management Personnel | **208,478** | 206,400 |
| | **276,235** | 272,954 |
| | **3,441,631** | 3,152,510 |

These amounts above are based on a total employment cost incorporating fees, salaries, employer's contributions to superannuation and fringe benefits.

The Board consists of six non-executive Commissioners and the Managing Director:

| | |
|---|---|
| - Michael E Wright | Chairman |
| - Peter D Eastwood | Deputy Chairman |
| - Sharon Brown | Commissioner (Ceased 30 October 2011) |
| - Annemie McAuliffe | Commissioner (Ceased 30 October 2011) |
| - Doug Pascoe | Commissioner (Ceased 30 October 2011) |
| - Judy McGowan | Commissioner (Ceased 30 October 2011) |
| - Vic Evans | Commissioner/Managing Director (Resigned 24 May 2012) |
| - Ainslie van Onselen | Commissioner (Appointed 1 November 2011) |
| - Terry Agnew | Commissioner (Appointed 1 November 2011) |
| - Stephen Boyle | Commissioner (Appointed 1 November 2011) |
| - Christopher Kendall | Commissioner (Appointed 1 November 2011) |
| - Rod Whithear | Commissioner/Chief Executive (Appointed 12 June 2012) |

The number of Members of the Board whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of $10,000 are as follows:

| Income Band ($) | No. of Members of the Board | |
|---|---|---|
| | 2012 | 2011 |
| 0 - 10,000 | **1** | - |
| 10,001 - 20,000 | **4** | - |
| 20,001 - 30,000 | **4** | - |
| 40,001 - 50,000 | **-** | 4 |
| 60,001 - 70,000 | **1** | 1 |
| 130,001 - 140,000 | **1** | 1 |
| 400,001 - 410,000 | **-** | 1 |
| 550,001 - 560,000 | **1** | - |

The Other Key Management Personnel of the Insurance Commission consist of:

| | |
|---|---|
| - Ken McAullay | General Manager Corporate Services |
| - Lew Watts | General Manager Insurance |
| - Fab Zanuttigh | Manager Motor Vehicle Personal Injury |
| - Don Williams | Manager RiskCover |
| - Jim Milligan | Manager Special Investigations |
| - Glenn Myers | Chief Information Officer |
| - Grant Speight | Manager Human Resources |
| - Julie O'Neill | Manager Investments |
| - Ernie Cowell | Manager Finance and Administration (Chief Finance Officer) |
| - Bruce Meredith | Legal Practitioner Director |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 27. REMUNERATION OF THE BOARD OF COMMISSIONERS AND OTHER KEY MANAGEMENT PERSONNEL (continued)

The number of Key Management Personnel (excluding members of the Board) whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of $10,000 are as follows:

| Income Band ($) | No. of Other Key Management Personnel | |
|---|---|---|
| | **2012** | **2011** |
| 50,001 - 60,000 | **-** | 1 |
| 170,001 - 180,000 | **-** | 1 |
| 190,001 - 200,000 | **1** | - |
| 200,001 - 210,000 | **-** | 1 |
| 210,001 - 220,000 | **1** | 2 |
| 220,001 - 230,000 | **2** | 1 |
| 230,001 - 240,000 | **-** | 1 |
| 240,001 - 250,000 | **-** | 1 |
| 250,001 - 260,000 | **1** | 1 |
| 260,001 - 270,000 | **3** | - |
| 270,001 - 280,000 | **-** | 1 |
| 280,001 - 290,000 | **-** | 1 |
| 300,001 - 310,000 | **1** | - |
| 310,001 - 320,000 | **1** | - |

At 30 June 2012, no members (2011: Nil) of the Board or Other Key Management Personnel were members of the State Pension Scheme (as originally defined in the repealed *Superannuation and Family Benefits Act 1938*, the provisions of which are now continued in force by Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000).*

## 28. REMUNERATION OF AUDITOR

Remuneration payable to the Auditor General for the financial year is as follows:

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | **2012 $** | **2011 $** | **2012 $** | **2011 $** |
| Auditing the Accounts, Financial Statements and Performance Indicators | **342,000** | 388,000 | **342,000** | 388,000 |

This includes an amount of $12,000 (2011: $13,500) in respect of amounts paid or due and payable to the Auditor General for auditing the financial statements of the Corporation. This amount is included in the management fee charged by the Insurance Commission to the Corporation.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 29. LOSSES THROUGH THEFT, DEFAULT AND OTHER CAUSES

| | | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|---|
| | Notes | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Write-Off of Revenue and Debt | (i) | **23** | 217 | **23** | 217 |
| Recovery of Losses | (ii) | **-** | 2 | **-** | 2 |
| Bad Debts Recovered | (iii) | **1** | 9 | **1** | 9 |
| Gifts | (iv) | **-** | 1 | **-** | 1 |

**(i)** Comprises Investment Debt of $22,750 (2011: Reinsurance Debt - GIF $142,803 and ICGF $74,890).

**(ii)** Insurance claims were lodged in relation to plant and equipment lost or stolen and settlement of $Nil (2011: $1,660) was expected.

**(iii)** Bad Debts Recovered - TPIF of $569 and ICGF of $77 (2011: ICGF $8,834).

**(iv)** Gift for retiring senior staff member of $Nil (2011: $1,157).

**Potential Claims Recoveries Written-Off**

In relation to the Third Party Insurance Fund, the Insurance Commission has a statutory obligation to pay a third party claim. Where the negligent driver of a vehicle was in breach of the warranties of the policy or where the vehicle was uninsured, or where a third party was at fault, the Insurance Commission seeks to recover the costs of the claim from the driver or the third party.

In accordance with AASB 1023 'General Insurance Contracts', potential recoveries receivable are assessed with regard to the ability of the debtors to meet their obligations. These recoveries have not been brought to account as income because the amount to be recovered could not be reliably measured and consequently the write-off of these debts has not been charged as an expense in the Statement of Comprehensive Income. The Third Party Insurance Fund debt write-offs below for the 2012 financial year are shown net of recoveries received from negligent owners or drivers of $206,983 (2011: $208,579). The only loss to the Insurance Commission is the non-payment of Third Party Insurance Fund premiums by uninsured motor vehicle owners, the total of which is estimated at $6,432 for the year (2011: $6,244), which is more than offset by the recoveries received.

In accordance with Section 48(2) of the *Financial Management Act 2006* , potential recoveries were submitted for write-off from the following funds:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Third Party Insurance Fund | **31,107** | 26,638 |
| **Total** | **31,107** | 26,638 |
| | | |
| Amounts Written-Off by the Board | **15,296** | 14,945 |
| Amounts Written-Off by the Responsible Minister | **6,462** | 3,741 |
| Amounts Written-Off by the Governor | **9,349** | 7,952 |
| | **31,107** | 26,638 |

| Number of Individual Recovery Write-Offs with Values between ($): | 2012 No. | 2011 No. |
|---|---|---|
| 100,001 - 250,000 | **29** | 18 |
| 250,001 - 1,000,000 | **12** | 14 |
| 1,000,001 - 3,000,000 | **4** | 4 |
| Greater than 4,000,000 | **2** | 1 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 30. RELATED PARTY DISCLOSURES

The Consolidated Financial Statements include the financial statement of the Insurance Commission and its subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law).

The following table details the Insurance Commission's interest in its subsidiaries:

| Name | Country of Incorporation | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **State Government Insurance Corporation** | Australia | | |
| Equity Interest | | **100%** | 100% |
| Original Cost of Investment | | **100,000** | 100,000 |
| Carrying Value in Investment | | **21,572** | 20,918 |
| | | **$** | $ |
| **ICWA Law Pty Ltd** | Australia | | |
| Equity Interest | | **100%** | 100% |
| Original Cost of Investment | | **2** | 2 |
| Carrying Value in Investment | | **2** | 2 |

ICWA Law is a wholly-owned proprietary company, limited by shares. The Insurance Commission's 100% investment in ICWA Law is at a notional value of $2. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of the investment is equal to its original investment.

The following table provides the amounts of transactions that were entered into with the Corporation and ICWA Law:

| | | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|---|
| | | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| **Subsidiary:** | | | | | |
| **State Government Insurance Corporation** | | | | | |
| Interest Paid to Corporation | **(i)** | **-** | - | **(953)** | (1,015) |
| Management Fees Paid by Corporation | **(ii)** | **-** | - | **278** | 284 |
| **ICWA Law Pty Ltd** | | | | | |
| Management Fees Paid by ICWA Law | **(ii)** | **-** | - | **707** | 158 |
| Legal Fee Income Paid to ICWA Law | **(iii)** | **-** | - | **(1,231)** | (1,961) |

**(i)** The Insurance Commission pays interest earned to the Corporation in proportion to its share of the cash on hand and in banks.

**(ii)** The Insurance Commission charges the Corporation and ICWA Law a management fee in proportion to their usage of the Insurance Commission's services.

**(iii)** ICWA Law charges the Insurance Commission a legal fee income for all expenses it incurs.

**Terms and Conditions of Transactions with Related Parties**

- Transactions with related parties are made on an arm's length basis under normal commercial terms.
- Outstanding balances at year-end are unsecured and settlement occurs in cash.
- There are no guarantees provided to, or received from, the related parties.
- No allowance for impairment is required for amounts owing to, or from, the related parties.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 31. EVENTS OCCURRING AFTER THE REPORTING PERIOD

**Abolition of the State Government Insurance Corporation**

On 1 July 2012, a proclamation order approved by the Governor to pronounce section 6(a), 13, 14, 20-22, 24 and 27 and Schedule 1 item 16 of the *Acts Amendment (ICWA) Act 1996* came into effect. This proclamation facilitated the abolition of the State Government Insurance Corporation (Corporation) and the transfer of all residual assets, rights and liabilities to the Insurance Commission General Fund.

Assets of $22.2 million and liabilities of $0.6 million will be transferred. The results of the Corporation are included in the consolidated entity, thus no impact to the consolidated entity.

**Bell Recovery Action**

Judgment in the Supreme Court Action instituted by the Court-appointed Liquidators to the failed Bond Corporation conglomerate, Bell Group, was handed down on 30 April 2009 with the Liquidators successful in obtaining orders for recovery of approximately $1.6 billion from 20 banks led by Westpac Banking Corporation and Lloyds TSB Bank plc (formerly Lloyds Bank plc) of London. An appeal by the Banks and cross-appeals by the Liquidators against the judgment in the Bell Recovery Action was heard in the Court of Appeal of the Supreme Court of Western Australia between December 2010 and June 2011. The decision of the Court of Appeal was delivered on 17 August 2012, dismissing the Banks' appeal and allowing the cross-appeals in part. As a result, the amount repayable by the Banks to the Bell Group administrations is now calculated to be between $2 billion and $3 billion. The Judgment of the Court of Appeal may be the subject to a final appeal to the High Court of Australia but only with leave of the High Court.

Because the eventual Court outcome and the amounts of any resulting asset or liability are subject to inherent uncertainty, it is not practical to estimate the potential financial effect upon the Insurance Commission at the end of the reporting period.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 32. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Insurance Commission makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below:

### (a) Liabilities Arising Under Insurance Policies

Provisions are made at the year-end for the outstanding claims liability in the Statement of Financial Position. This is the cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not yet reported (IBNR) and claims incurred but not enough reported (IBNER). Estimations are also made in respect of all recoveries, including reinsurance and, where appropriate, tax credits. Those recoveries appear in the Statement of Financial Position as Receivables, refer Note 6, and are discussed at (b) below. Outstanding claims and recoveries take into account factors such as an allowance for future wage increases and superimposed inflation, risk-free investment return, claims administration expenses, and a prudential risk margin.

Whilst all reasonable steps are taken to ensure that adequate information is obtained regarding outstanding claims exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. In particular, the estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of claims already notified, where more information about the claim is usually available. IBNR claims may not be lodged until many years after the events giving rise to the claims have occurred.

The estimate of liability for outstanding claims is based upon an independent actuarial valuation employing a number of actuarial models, which utilise statistical analyses of historical experience, and which assume that the development pattern of the current claims will be consistent with past experience.

Allowances are also made, where appropriate, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of outstanding claims to increase or decrease when compared with the cost of previously settled claims. These include:

- Changes in claims management processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- Changes in the legal environment or social attitudes;
- The effects of inflation, superimposed inflation and discount rates;
- Estimates of Reinsurance Recoveries; and
- An applied Risk Margin.

Refer Note 33 for details of the specific assumptions used in deriving the outstanding claims liability at year-end.

### (b) Assets Arising From Reinsurance Contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Insurance Commission may not receive amounts due to it and these amounts can be reliably measured.

### (c) Property Valuations

Valuations are obtained from independent licensed valuers for each property presented under Property, Plant and Equipment and Investment Properties. These valuations are based inter-alia on projected future income streams of the individual properties and analysis of comparable sales evidence. Note: Investment Properties under construction are measured at cost until the stage when they can be reliably measured at fair value. Refer Note 1(z).

### (d) Superannuation

The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are unfunded and the liability for future payments is provided for at the end of the reporting period. The present value of the liabilities is determined following an independent actuarial assessment on behalf of GESB. Refer Note 19.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 32. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### (e) Unlisted Investments

The Insurance Commission's investment portfolio includes unlisted items. The valuations of these are subject to estimation. Fair values of units in unlisted Equity, Fixed Interest and Alternative Assets Trusts are determined using the Net Asset Value (NAV) per unit applicable for redemption on the last day of the financial year. The NAV is calculated by deducting from the value of unlisted unit trust's gross assets, the value of its liabilities. Unit values denominated in foreign currency are converted to Australian dollars at rates of exchange current at the end of the reporting period. Unlisted Property Trusts are valued by the Trustee of the Trusts at market values based upon independent valuations of properties held within the trust. A unit price is advised to unit holders, which forms the basis for the calculation of market value at the end of the reporting period which equates to fair value.

## 33. ACTUARIAL ASSUMPTIONS AND METHODS

The Insurance Commission underwrites a number of insurance classes through its funds and its subsidiary, the Corporation.

The process of determining the value of the outstanding claims liability of the various classes of insurance underwritten by the Insurance Commission is described below.

The ultimate liability for outstanding claims is estimated by:

- projecting future claim payments in current values using a variety of actuarial models appropriate to each class;
- adjusting the projected claim payments to allow for the effect of future inflation from current values to the date of payment;
- discounting inflated claim payments to allow for an investment return at a risk-free rate;
- deducting the estimated effect of tax credits;
- adding an amount to provide for associated claims management expenses;
- reducing the amount by an allowance for reinsurance and other recoveries; and
- adding an allowance for a prudential risk margin.

**Processes Used To Determine Assumptions**
A description of the factors used to determine these assumptions is provided below:

**Inflation Rates**: based on forecasts of a respected independent third party economics research firm.

**Discount Rates**: risk-free rates derived from the market yields on traded Commonwealth Treasury Bonds on 30 June 2012.

**Claims Management Expenses**: derived from past experience and breakdown of expenses.

**Reinsurance Recoveries**: based on expected recoveries from claims that have exceeded, or are estimated to exceed, the reinsurance retentions.

**Superimposed Inflation:** derived internally from one of the actuarial models based on the long-term average of past experience.

**Risk Margin**: based on benchmark studies. Refer Note 15(c) for more detail.

**Other Factors:** such as Third Party Recoveries, Number of Claims, Average Claim Size, Average Term to Settlement, IBNR, Development of Case Estimates and Projected Case Estimates Payment Factors are based on past experience.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### THIRD PARTY INSURANCE FUND (TPIF)

Outstanding claims estimates (including IBNR and IBNER) for the TPIF are assessed by an independent actuary, based upon a number of actuarial models. Ultimate numbers of claims are projected based upon past monthly data and the model allows for growth in the number of registered vehicles, seasonal variations in monthly experience, trends in claim frequency, and patterns in the delay of reporting. Payments experience is analysed based on past experience and projections of future claims payments. Cash flows are made based upon aggregate, individual and historic case estimate models. Separate predictions are made in respect of each combination of crash year and financial year of payment.

**Actuarial Assumptions**

The following table provides key actuarial assumptions made in determining the outstanding claims liability:

| Third Party Insurance Fund | 2012 | 2011 |
|---|---|---|
| Inflation Rate | Varies from 5.2% for 2013, 4.5% for 2014, 4.1% for 2015 and 3.8% for 2016 and later | Varies from 4.7% for 2012, 5.1% for 2013, 4.8% for 2014 and 4.5% for 2015 and later |
| Discount Rate | Varies from 2.6% for 2013 up to 4.4% for 2022 and later | Varies from 4.8% for 2012 up to 5.8% for 2018 and later |
| Claims Management Expenses | 4.0% of gross claim payments | 4.0% of gross claim payments |
| Reinsurance Recoveries | 1.3% of gross claim payments | 1.0% of gross claim payments |
| Superimposed Inflation | Approximately 3.7% p.a. assumed although this varies according to the different actuarial models | Approximately 5.0% p.a. assumed although this varies according to the different actuarial models |
| Risk Margin | 7.0% of central estimated liability for 75% probability of sufficiency | 7.0% of central estimated liability for 75% probability of sufficiency |
| Third Party Recoveries | 0.08% of gross claim payments | 0.06% of gross claim payments |
| Number of Claims | Approximately 3,700 for accident year | Approximately 3,910 for accident year |
| Average Claim Size | Approximately $113,000 for accident year | Approximately $103,000 for accident year |
| Average Term to Settlement | 3.1 years | 3.1 years |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### INSURANCE COMMISSION GENERAL FUND (ICGF)

The outstanding claims liability of the ICGF incorporates claims on policies in run-off pre-dating 1986, and claims made under the *Employers Indemnity Supplementation Fund Act 1980* (EISF Act).

**RUN-OFF CLAIMS LIABILITIES - PRE-1986**

Outstanding liabilities for claims in run-off for the ICGF are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims within the ICGF fall into, and are assessed in, the categories of Workers' Compensation and Public Liability claims. Workers' Compensation liabilities include those relating to common law risks and asbestos-related lung disease (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system).

**Workers' Compensation - Lung Disease Claims**

Lung disease claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

**Workers' Compensation - Non-Lung Disease Claims**

The majority of these claims are extremely long-tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

**Public Liability**

The majority of these claims are extremely long-tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

**Actuarial Assumptions**

The following table provides key actuarial assumptions made in determining the outstanding claims liabilities:

| Insurance Commission General Fund | 2012 | 2011 |
|---|---|---|
| Inflation Rate | Varies from 5.2% for 2013, 4.5% for 2014, 4.1% for 2015 and then 3.8% for 2016 and later | Varies from 4.7% for 2012, 5.1% for 2013, 4.8% for 2014 and then 4.5% for 2015 and later |
| Discount Rate | Varies from 2.6% for 2013 reducing to 2.4% for 2014 then increasing to 4.4% for 2024 and later | Varies from 4.5% for 2011 up to 5.7% for 2017 and later |
| Claims Management Expenses | 8.0% of gross claim payments | 8.0% of gross claim payments |
| Risk Margin | 25% of net outstanding claims for 75% probability of sufficiency | 25% of net outstanding claims for 75% probability of sufficiency |
| Third Party Recoveries | 46.1% of gross claim payments | 44.7% of gross claim payments |
| Average Term to Settlement | 7.7 years | 7.3 years |

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### INSURANCE COMMISSION GENERAL FUND (continued)

**EISF ACT LIABILITIES**

The outstanding liabilities for claims in run-off under the EISF Act are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims under the EISF Act are assessed under the categories of asbestos-related claims (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system) and non-asbestos-related claims.

**Workers' Compensation - Asbestos-Related Claims**

Asbestos-related claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

**Workers' Compensation - Non-Asbestos-Related Claims**

The majority of these claims are long-tail in nature and the actuarial models rely heavily on the case estimates placed on each claim to determine the total outstanding liabilities.

**Actuarial Assumptions**

The following tables provide key actuarial assumptions made in determining the outstanding claims liabilities:

| EISF Act: Asbestos-Related Claims | 2012 | 2011 |
|---|---|---|
| Inflation Rate | 4.75% for 2013 and later | 5.0% for 2012 and later |
| Discount Rate | Varies from 2.79% for 2013 then up to 4.16% for 2023 and later | Varies from 4.8% for 2012 then up to 5.7% for 2021 and later |
| Claims Management Expenses | 10.5% of claim payments | 10.5% of claim payments |
| Superimposed Inflation | 2.0% for 2012 and later | 2.0% for 2012 and later |
| Risk Margin | 20.4% of estimated gross liability | 20.4% of estimated gross liability |

| EISF Act: Non-Asbestos-Related Claims | 2012 | 2011 |
|---|---|---|
| Inflation Rate | 4.75% for 2013 and later | 5.0% for 2012 and later |
| Discount Rate | Varies from 2.79% for 2013 then up to 4.16% for 2023 and later | Varies from 4.8% for 2012 up to 5.7% for 2021 and later |
| Claims Management Expenses | 10.5% of claim payments | 10.5% of claim payments |
| Superimposed Inflation | 2.0% for 2013 and later | 2.5% - 4.0% for 2012 and later |
| Risk Margin | 16.8% of estimated gross liability | 16.8% of estimated gross liability |

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### GOVERNMENT INSURANCE FUND (GIF)

Outstanding claims estimates including IBNR and IBNER are assessed by an independent actuary based on a number of actuarial models. The ultimate number of claims and their associated costs are projected on past yearly data used to determine trends in the anticipated reporting and payment patterns.

As the GIF has been in a state of run-off since 1997, the remaining outstanding claims on which the Insurance Commission obtains actuarial valuations of outstanding claims are the long-tail classes of Workers' Compensation and Public Liability.

The following tables provide the key actuarial assumptions made in determining the outstanding claims liabilities:

| Government Insurance Fund: Workers' Compensation | 2012 | 2011 |
|---|---|---|
| Inflation Rate | Varies from 5.2% for 2013, falling to 4.5% for 2014, then falling to 4.1% for 2015 and 3.8% for 2016 and later | Varies from 4.7% for 2012 up to 5.1% for 2013, 4.8% for 2014 and 4.5% for 2015 and later |
| Discount Rate | Varies from 2.6% for 2013 and 2.4% for 2014 up to 4.4% for 2024 and later | Varies from 4.8% for 2012 and 2013 up to 5.8% for 2018 and later |
| Claims Management Expenses | 10% of net claim payments | 10% of net claim payments |
| Superimposed Inflation | 3.5% p.a. assumed for payments per claim incurred for education, health and general government components and 2.0% p.a. assumed for payments per claim handled for education component | 4.0% p.a., 3.0% p.a. and 3.0% p.a. assumed for payments per claim incurred for education, health and general government components, respectively |
| Risk Margin | 25% of central estimated liability which is estimated as half the coefficient of variation of the outstanding claims liability | 25% of central estimated liability which is estimated as half the coefficient of variation of the outstanding claims liability |
| Third Party Recoveries | 5.0% of gross claim payments for mesothelioma claims, 10.0% of gross claim payments for lung cancer and other lung disease claims, and 6.9% of net claim payments for other claims | 5.0% of gross claim payments for mesothelioma claims, 10.0% of gross claim payments for lung cancer and other lung disease claims, and 6.7% of net claim payments for other claims |
| Average Term to Settlement | 6.9 years | 6.9 years |

| Government Insurance Fund: Public Liability | 2012 | 2011 |
|---|---|---|
| Inflation Rate | Varies from 5.3% for 2013 and 2014, down to 4.3% for 2016 and later | Varies from 3.8% for 2011, 4.7% for 2012 down to 4.3% for 2014 and later |
| Discount Rate | Varies from 3.5% for 2013 and 2014 rising to 4.5% for 2018 and later | Varies from 4.5% for 2011 and 2012 rising to 5.7% for 2017 and later |
| Claims Management Expenses | 6.0% of gross claim payments | 6.0% of gross claim payments |
| Superimposed Inflation | 4.0% p.a. for public liability | 4.0% p.a. for public liability |
| Risk Margin | 16.8% of central estimated liability for 75% probability of sufficiency | 16.8% of central estimated liability for 75% probability of sufficiency |
| Average Term to Settlement | 3.1 years | 3.3 years |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### COMPENSATION (INDUSTRIAL DISEASES) FUND (CIDF)

As the claims for this fund are limited to those related to pneumoconiosis, lung cancer and mesothelioma resulting from exposure to harmful mineral dust, the models used are similar to those used to determine the lung disease claims for the ICGF Lung Disease claims. This valuation is conducted on the same basis as for ICGF Workers' Compensation Lung Disease models.

The following table provides the key actuarial assumptions made in determining the outstanding claims liability:

| Compensation (Industrial Diseases) Fund | 2012 | 2011 |
|---|---|---|
| Inflation Rate | Varies from 5.2% for 2013 down to 4.5% for 2014, 4.1% for 2015 and reducing to 3.8% for 2016 and later | Varies from 4.7% for 2012 up to 5.1% for 2013, 4.8% for 2014 and then 4.5% for 2015 and later |
| Discount Rate | Varies from 2.6% for 2013, reducing to 5.4% for 2014, then increasing to 4.4% for | Varies from 4.8% for 2012 up to 5.8% for 2018 and later |
| Claims Management Expenses | 35% of gross claim payments | 35% of gross claim payments |
| Risk Margin | 18.7% of net outstanding claims for 75% probability of sufficiency | 18.7% of net outstanding claims for 75% probability of sufficiency |
| Third Party Recoveries | 25% of gross claim payments | 31% of gross claim payments |
| Average Term to Settlement | 6.6 years | 6.9 years |

### STATE GOVERNMENT INSURANCE CORPORATION (Corporation)

The outstanding claims of the Corporation were assessed by an independent actuary. To estimate the claims liability, the portfolio was divided into a number of groups based on the types of risks covered, the nature of the reinsurance treaties and the currency in which the treaties have been denominated.

Actuarial models have been constructed to describe the rate of development of incurred losses. These models were constructed by considering a mix of the insurer's own experience as well as the experience of similar industry portfolios. The models of incurred loss development are applied to losses incurred to the end of the reporting period to give estimates of incurred losses, as they will ultimately stand (ultimate incurred losses) for each underwriting year ending 30 June. This is done separately by line of business, currency and underwriting year. Losses paid to the end of the reporting period are deducted from the ultimate incurred losses, to give the outstanding claims at the end of the reporting period.

Models of the ratio of claims paid to incurred losses are applied to the outstanding claims liability at the end of the reporting period to project gross claim payment cash flows, as they fall due in future years.

The claim payment cash flows were discounted using risk-free rates in anticipation of future investment return to give a discounted estimate of gross outstanding claims at the end of the reporting period. An estimate of outstanding retrocession recoveries was made according to Corporation estimates at the end of the reporting period. These are deducted from the gross outstanding claims liability to yield the net liability for outstanding claims. A prudential risk margin was then added to the net liability for outstanding claims.

Following the commutation of many of the claims, by far the largest component of the outstanding claims liability now relates to administration expenses. Refer Note 15.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

The following table provides the key actuarial assumptions made in determining the outstanding claims liability of the Corporation.

| Corporation | 2012 | 2011 |
|---|---|---|
| Discount Rate | AUD – varies from 2.6% for 2013 up to 4.4% for 2024 and later<br>GBP – varies from 0.3% for 2013 up to 4.2% for 2026 and later<br>USD – varies from 0.2% for 2013 up to 3.7% for 2025 and later | AUD – varies from 4.8% for 2012 up to 5.8% for 2018 and later<br>GBP – varies from 0.7% for 2012 up to 5.4% for 2020 and later<br>USD – varies from 0.2% for 2012 up to 5.6% for 2021 and later |
| Claims Management Expenses | 450% of gross claim payments | 683% of gross claim payments |
| Reinsurance Recoveries | 4.7% of gross claim payments | 11.4% of gross claim payments |
| Risk Margin | 12.7% has been added which is intended to give a 75% probability of sufficiency | 12.8% has been added which is intended to give a 75% probability of sufficiency |
| Average Term to Settlement | 5.4 years | 2.6 years |

**SENSITIVITY ANALYSIS**

The tables below illustrate how changes in key assumptions would impact upon equity and the profit after tax (assumed at a Corporate tax rate of 30%) gross and net of all recoveries except for:

- The GIF is exempt from the National Tax Equivalent Regime and is indemnified by the Department of Treasury via a Right of Indemnity (Refer Note 6), hence changes in the actuarial assumption variables will have no impact at all upon profit. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after-tax profit.

- EISF Act liabilities are indemnified by WorkCover WA via a Right of Indemnity (Refer Note 6), hence changes in the actuarial assumption variables will have no impact at all upon profit after-tax. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after-tax profit.

Note that the impact of change in the variables upon outstanding claim liabilities moves in a direction opposite to the impact upon profits.

**Third Party Insurance Fund**

| Variable | Change in Variable % | Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000 | Profit/(Loss) Increase/(Decrease) Gross $'000 |
|---|---|---|---|
| Inflation | +1 | (36,470) | (37,030) |
| Inflation | -1 | 34,510 | 35,140 |
| Discount | +1 | 34,720 | 35,280 |
| Discount | -1 | (37,380) | (38,010) |
| Superimposed Inflation | +1 | (36,260) | (36,260) |
| Superimposed Inflation | -1 | 34,020 | 34,020 |
| IBNR | +10 | (15,190) | (15,190) |
| IBNR | -10 | 14,420 | 14,420 |
| Development of Case Estimates | +1 | (14,910) | (14,910) |
| Development of Case Estimates | -1 | 13,160 | 13,160 |
| Projected Case Estimates (PCE) Payment Factors | +1 | (1,680) | (1,680) |
| Projected Case Estimates (PCE) Payment Factors | -1 | 1,820 | 1,820 |
| Shorten Projection of PCE Model to 16 years (from 20) | n/a | (10,990) | (10,990) |
| Lengthen Projection of PCE Model to 24 years (from 20) | n/a | 5,320 | 5,320 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Sensitivity Analysis (continued)**

### Compensation (Industrial Diseases) Fund

| Variable | Change in Variable % | Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000 | Profit/(Loss) Increase/(Decrease) Gross $'000 |
|---|---|---|---|
| Inflation | +1 | (140) | (175) |
| Inflation | -1 | 126 | 154 |
| Discount | +1 | 140 | 168 |
| Discount | -1 | (154) | (189) |
| Superimposed Inflation | +2 | (315) | (378) |
| Increasing Base numbers of Mesothelioma Claims by 2 for over-65's and by 1 for under-65's | n/a | (182) | (252) |
| Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year | +5 | (448) | (609) |
| Increasing Base numbers of 'Other' Claims by 2 for over-65's and by 1 for under-65's | n/a | (462) | (532) |
| Increasing Decay Rates in Annual Number of Future 'Other' Cases Reported every Future Year | +5 | (266) | (308) |

### Insurance Commission General Fund: Workers' Compensation

| Variable | Change in Variable % | Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000 | Profit/(Loss) Increase/(Decrease) Gross $'000 |
|---|---|---|---|
| Inflation | +1 | (2,065) | (3,479) |
| Inflation | -1 | 1,841 | 3,094 |
| Discount | +1 | 1,897 | 3,178 |
| Discount | -1 | (2,170) | (3,633) |
| Superimposed Inflation | +2 | (3,570) | (6,608) |
| Increasing Base numbers of Mesothelioma Claims by 2 for over-65's and by 1 for under-65's | n/a | (2,863) | (5,782) |
| Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year | +5 | (6,622) | (13,363) |
| Increasing Decay Rates in Annual Number of Future 'Non-CSR EI Lung' Cases Reported every Future Year | +5 | (4,235) | (4,627) |

### Insurance Commission General Fund: Liability

| Variable | Change in Variable % | Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000 | Profit/(Loss) Increase/(Decrease) Gross $'000 |
|---|---|---|---|
| Inflation | +1 | (147) | (147) |
| Inflation | -1 | 133 | 133 |
| Discount | +1 | 133 | 133 |
| Discount | -1 | (147) | (154) |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Sensitivity Analysis (continued)**

**EISF Act: Asbestos-Related Claims**

| Variable | Change in Variable % | Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000 | Movement in Outstanding Claims Liability: Gross $'000 |
|---|---|---|---|
| Inflation | +1 | 1,726 | 2,830 |
| Inflation | -1 | (1,513) | (2,481) |
| Discount | +1 | (1,595) | (2,615) |
| Discount | -1 | 1,862 | 3,053 |
| Superimposed Inflation | +1 | 1,775 | 2,912 |
| Superimposed Inflation | -1 | (1,551) | (2,544) |
| Number of Claims | +10 | 1,688 | 2,770 |
| Number of Claims | -10 | (1,688) | (2,770) |
| Average Claim Size | +10 | 1,688 | 2,770 |
| Average Claim Size | -10 | (1,688) | (2,770) |
| Claims Management Expenses | +1 | 162 | 261 |
| Claims Management Expenses | -1 | (162) | (261) |

**EISF Act: Non-Asbestos-Related Claims**

| Variable | Change in Variable % | Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000 | Movement in Outstanding Claims Liability: Gross $'000 |
|---|---|---|---|
| Inflation | +1 | 120 | 121 |
| Inflation | -1 | (123) | (124) |
| Discount | +1 | (125) | (126) |
| Discount | -1 | 124 | 126 |
| Superimposed Inflation | +1 | 51 | 52 |
| Superimposed Inflation | -1 | (48) | (49) |
| Claims Reported | +10 | 70 | 71 |
| Claims Reported | -10 | (75) | (75) |
| Claims Management Expenses | +1 | 18 | 18 |
| Claims Management Expenses | -1 | (18) | (19) |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 33. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Sensitivity Analysis (continued)**

### Government Insurance Fund: Workers' Compensation

| Variable | Change in Variable % | Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000 | Movement in Outstanding Claims Liability: Gross $'000 |
|---|---|---|---|
| Inflation | +1 | 2,400 | 2,500 |
| Inflation | -1 | (2,200) | (2,300) |
| Discount | +1 | (2,300) | (2,400) |
| Discount | -1 | 2,600 | 2,800 |
| Increase in Asbestos-Related Claims | +20 | 6,200 | 6,500 |
| Increase in Asbestos-Related Claims | -20 | (6,100) | (6,500) |
| Development of Case Estimates | +10 | 700 | 800 |
| Development of Case Estimates | -10 | (600) | (600) |

### Government Insurance Fund: Liability

| Variable | Change in Variable % | Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000 | Movement in Outstanding Claims Liability: Gross $'000 |
|---|---|---|---|
| Inflation | +1 | 10 | 10 |
| Inflation | -1 | (10) | (10) |
| Discount | +1 | (10) | (10) |
| Discount | -1 | 10 | 10 |
| Development of Case Estimates | +10 | 15 | 16 |
| Development of Case Estimates | -10 | (9) | (9) |

### State Government Insurance Corporation

| Variable | Change in Variable % | Profit/(Loss) Increase/(Decrease): Net of Reinsurance and Other Recoveries $'000 | Profit/(Loss) Increase/(Decrease): Gross $'000 |
|---|---|---|---|
| Discount | +1 | 11 | 11 |
| Discount | -1 | (13) | (13) |
| Claims Management Expenses continue +5 years | n/a | (30) | (30) |
| Expenses remain at Fixed Level | n/a | (168) | (168) |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES

### (a) GOVERNANCE FRAMEWORK

The Insurance Commission and its subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law), strived to achieve 'Best Practice' in the management of all risks that threaten to adversely impact upon the economic entity, its customers, people, assets, finances, functions, objectives, operations and members of the public.

The materiality to the economic entity of the subsidiaries is minimal. Risk management procedures for the subsidiaries are integrated with those of the Insurance Commission.

The economic entity is subject to a number of insurance contract risks and a number of key financial risks which include insurance risk, market risk, liquidity risk, interest rate risk, foreign exchange risk and credit risk.

Management of risk forms a part of operational and line responsibilities and is integrated into the Strategic and Operational Business Planning cycles.

Overall risk management within the Insurance Commission is a Board and Executive responsibility. The Insurance Commission's Executive Committee determines and communicates Risk Policy, Objectives, Procedures and Guidelines and monitors implementation, practice and performance. This information is reported on a regular basis to the Board of Commissioners.

The Risk Policy provides for the retention of external consultants, where required, to advise and assist in the risk management process, or management of specific risks or categories of risk.

Internal Audit, which is provided by an independent external provider, assists in the identification, monitoring and evaluation of risk and gives assurance to the Board of Commissioners in relation to higher risk activities.

### (b) EXTERNAL REGULATORY FRAMEWORKS AND CAPITAL MANAGEMENT

The Insurance Commission is not subject to external regulatory frameworks which would apply to most other general insurers. The *Australian Prudential Regulatory Authority Act 1998* (APRA Act) s3(2) sets out bodies regulated under that Act. This captures all general insurers within the meaning of the *Insurance Act 1973* (Insurance Act). The Insurance Act s5(1), however deems that the Insurance Act does not apply to State insurance.

Reporting by the entity is subject to AASB Standards as amended by Treasurer's Instructions. Refer Note 1 (c). Many of the AASB standards mirror best practice requirements such as those incorporated in APRA guidelines. Where matters relevant to the Insurance Commission relate to APRA guidelines which are not covered by AASB Standards (such as APRA Minimum Capital Requirements), the Board will consider and where appropriate instigate appropriate risk mitigation practices. The Insurance Commission considers its retained earnings and asset revaluation surplus as its core capital. A review of movements in capital is undertaken periodically and submitted to the Board for consideration.

### (c) INSURANCE AND REINSURANCE CONTRACTS

#### (i) Objectives in Managing Risks arising from General Insurance Contracts and Policies for Mitigating those Risks

The Insurance Commission's activities primarily involve the issuing of insurance policies and managing the claims resulting from them together with the management of claims run-off in a number of areas. In addition, it provides risk management services and advice. In doing this, the Insurance Commission seeks to minimise the cost of risk to those it insures and to efficiently manage the claims arising from its statutory funds.

The only funds for which contracts of insurance are still issued by the Insurance Commission are the Third Party Insurance Fund (TPIF) and the Compensation (Industrial Diseases) Fund (CIDF). The Government Insurance Fund (GIF), Insurance Commission General Fund (ICGF) and the Corporation are all in run-off.

The Insurance Commission has a framework for the systematic identification, assessment and management of risks that could prevent it from achieving its goals.

Key processes for the mitigation of risks faced in the operations of the Insurance Commission include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Insurance Commission is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding claims liabilities for the various Funds.
- The mix of assets and Investment Managers in which the Insurance Commission invests is driven by the nature and term of the insurance liabilities. Management monitors assets and liabilities to ensure claim payments can be met when required.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

**State Government Insurance Corporation**

The Corporation remained in existence to run-off small lines of Australian and overseas reinsurance business written by the Corporation between 1988 and 1992.

Key processes for the mitigation of risks faced in the management of the Corporation included:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Corporation is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding liabilities for the various risks.

As the Corporation was in run-off, the emerging payment patterns are highly variable and virtually impossible to predict. For this reason assets used to offset emerging liabilities were held in Australian cash funds.

### (ii) Terms and Conditions of Insurance and Reinsurance Risks

**Third Party Insurance Fund**

The policy of insurance issued by the Insurance Commission provides unlimited indemnity to the owner or driver of a Western Australian registered motor vehicle for all liability for negligence incurred by that owner or driver in respect to the death or bodily injury to any person directly caused by, or by the driving of, the insured motor vehicle in any part of the Commonwealth of Australia. The policy is combined with every motor vehicle licence and the Department of Transport and its agents issue the policies and collect the premiums on behalf of the Insurance Commission on a fee-for-service basis.

The process for pricing the risk is laid out in section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, which requires that, at least once each financial year, the Insurance Commission is to make an assessment of the extent to which the premium income, as estimated on the basis of existing scales of premiums, together with other income expected to be received under and for the purposes of the Act, will be sufficient to meet claims, costs and other expenses anticipated to arise or be incurred under the *Motor Vehicle (Third Party Insurance) Act 1943*. The assessment also takes into account an independent actuarial report and any retained earnings expected to exist at the commencement of the following financial year. Following this process, the Board then makes a recommendation to the Treasurer as Minister responsible for the Insurance Commission.

The TPIF has in place excess of loss treaty reinsurance arrangements, on a “per event” basis, to cover losses in excess of a defined limit for any one event. Reinsurance arrangements are placed through a broker with a number of global reinsurers, each carrying a share of the risk on 12-month contracts. Reinsurers on the program are regularly assessed to determine their effectiveness and only reinsurers with an 'A-' or higher security rating (Standard and Poor's) are considered for inclusion on the program.

**Compensation (Industrial Diseases) Fund**

The Insurance Commission is the only insurer authorised to issue contracts of insurance covering employers against workers’ compensation claims for respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, arising from exposure to harmful mineral dust in the course of employment in the mining industry in Western Australia.

Due to the advent of modern mining techniques and the adoption of preventative occupational health and safety practices within the mining industry, there has been a substantial decline in the incident rate of Industrial Diseases. This has caused the CIDF to be in surplus for many years and it is expected that this situation will continue for the foreseeable future.

The majority of the potential outstanding liability for this Fund results from exposure to asbestos fibre from the mining activities at Wittenoom between 1943 and 1966.

CIDF premiums are set by WorkCover WA in accordance with the *Workers' Compensation and Injury Management Act 1981* s151(a)(iii). Due to the CIDF’s sound financial status, premiums from 1 July 2009 were set at a flat charge of $100 (plus GST) per policy for a three-year period or part thereof ending 30 June 2012. Following a review of the financial performance of the Fund and projected future claims, WorkCover WA has decided to maintain this premium rate for a further three years from 1 July 2012.

Ongoing policies of insurance issued by the CIDF are of a standard format and contain no special terms or conditions that would have a material impact on the financial statements of the Insurance Commission.

**Government Insurance Fund**

This Fund is in run-off. The Insurance Commission is indemnified by the Department of Treasury for deficits arising in the GIF which ceased issuing contracts of insurance on 30 June 1997.

There are no special terms or conditions that would materially impact on the financial statements arising from latent contracts of insurance issued under this Fund as the majority of these covers were issued under a standard form basis.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

**Insurance Commission General Fund**

The claims paid from the Fund which were previously incurred relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off on claims incurred and no policies have been issued since 31 December 1986. There are no special terms or conditions that would materially impact upon the financial statements arising from latent contracts of insurance issued under this Fund as the majority of these insurance covers were issued under a standard form basis.

**Employers' Indemnity Supplementation Fund Act 1980 (EISF Act)**

In response to the collapse of the HIH Group (HIH) in March 2001, the EISF Act was used to fund claims for workers injured in the course of their employment prior to 15 March 2001.

The run-off of claims for policies of insurance issued by HIH is managed externally by CGU Workers' Compensation Claims (an Insurance Australia Group company) on behalf of the Insurance Commission. Under Section 25(2) of the EISF Act, the Insurance Commission has a right of reimbursement for all costs associated with run-off of these liabilities.

As all the contracts of insurance cover under the EISF Act (including those issued by HIH), for which the Insurance Commission has now assumed responsibility, fall under the legislative guidelines governing all workers' compensation policies within Western Australia, they would not contain any terms or conditions that would materially impact on the financial statements of the Insurance Commission. The Insurance Commission has a right of indemnity from WorkCover WA in respect of all EISF claims. Refer Note 15(b).

**Corporation**

The terms and conditions under which inwards reinsurance business was placed through the operation of the Corporation were highly variable and in some cases extremely complex. The key issue being managed with the run-off of the fund is ensuring that all accounts being submitted are in accordance with the original contract terms.

### (iii) Concentration Risk

**Third Party Insurance Fund**

A TPIF policy provides for an unlimited indemnity in respect to the death or bodily injury to any person directly caused by, or by the driving of, a Western Australian registered motor vehicle in any part of the Commonwealth of Australia. Most of the risk, however, is concentrated within the Perth metropolitan area of Western Australia.

**Compensation (Industrial Diseases) Fund**

The CIDF has an exposure to concentration risk as it is restricted to one class of business and operates solely within the confines of Western Australia. This risk is mitigated by the large surplus held by the Fund and the decreased exposure to harmful mineral dust in modern mining operations, resulting in a far lower incidence rate in recent years.

**Government Insurance Fund**

During the years that GIF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at the end of the reporting period arise from risks associated with common law liability and long-tail workers' compensation claims.

The Insurance Commission has secured an indemnification from the Department of Treasury for Fund deficits resulting from the run-off of the GIF.

**Insurance Commission General Fund**

During the years that ICGF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at the end of the reporting period arise from risks associated with common law liability and long-tail workers' compensation claims.

To mitigate the risk contained in the ICGF, the majority of which stems from the common law liability resulting from asbestos mining activities at Wittenoom between 1943 and 1966, a Deed of Agreement has been entered into between the Insurance Commission, CSR Limited and Midalco Pty Ltd providing the Insurance Commission with a reimbursement for a set proportion of losses incurred from these activities.

**Employers' Indemnity Supplementation Fund**

At the end of the reporting period, all claims made against the Insurance Commission under the EISF Act result from contracts of insurance restricted to risks associated with the workers' compensation class of business and hence there is considerable concentration risk. This risk is mitigated by a requirement under the EISF Act that the Insurance Commission has a right of reimbursement from WorkCover WA for all costs associated with the run-off of claims under this Fund.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

**Corporation**

The inwards reinsurance covers issued by the Corporation during its years of operation sought to mitigate concentration risk by the diversification of its portfolio across a number of product lines and geographical regions. As could be expected the majority of the benefit of the diversification has been consumed due to the shorter tail claims being settled some time ago leaving a residual tail of claims originating from a far more concentrated risk base.

### (iv) Development of Outstanding Claims Liability

Given that the majority of insurance contracts under the management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, Claims Development Tables have been provided in Note 15(g) which detail outstanding claims estimates for underwriting years at successive year-ends.

To ensure the adequacy of the outstanding claims provisions, all active claims have estimates placed by a designated Claims Officer, and independent actuaries review the outstanding claims provisions at least twice yearly. Although it is not governed by the APRA guidelines, the Insurance Commission has adopted a prudential margin which is sufficient to achieve a 75% level of adequacy based solely on liability risk (i.e. with no allowance for asset risk, nor asset returns above risk-free rates). The central claims estimate is first discounted to present value using risk-free rates. The prudential margin is then added to this to arrive at the provision for outstanding claims liability.

Nevertheless the provision for outstanding claims liability is subject to significant uncertainty, related to:

- Future trends in claim frequency;
- Future changes in social and judicial attitudes;
- Changes in legislation; and
- Changes in economic conditions (e.g. inflation, investment returns).

**Corporation**

As the majority of insurance contracts under management of the Corporation deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, a table listing the development of claims costs over the past 5 years has been provided in Note 15(g) which details the outstanding claims estimates for underwriting years at successive year-ends.

### (v) Financial Risk

The economic entity is subject to insurance contract risks and a number of key financial risks which include insurance risk, price risk, liquidity risk, interest rate risk, foreign exchange risk and credit risk.

To minimise exposure to these risks, which can affect assets and liabilities backing insurance contracts, the Insurance Commission's investment decisions are undertaken in accordance with Prudential Guidelines for Investments (PGIs) approved by the Treasurer of Western Australia. Refer below.

### (d) FINANCIAL RISK MANAGEMENT

The Insurance Commission's investment portfolio consists of financial instruments which inter-alia include quoted and non-quoted Alternative Assets, Equity, Fixed Interest, Property and Cash investments. These investments are managed in accordance with the PGIs.

The PGIs clearly set out the authorised investments which the Insurance Commission may hold in its investment portfolio along with minimum credit rating requirements for Cash, Fixed Interest and over-the-counter derivative instruments. The 'Preamble' to the PGIs sets out the Insurance Commission's investment powers, asset allocation and manager configuration. The PGIs are regularly reviewed and updated to incorporate changes that are continually evolving within international and Australian investment markets.

The Board of Commissioners, in consultation with its Independent Asset Consultant and input from the Investments Division, determines investment strategy, asset allocation mix, investment manager configuration and investment manager appointments. The allocation of assets between the various types of financial instruments is determined so as to achieve the Insurance Commission's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Manager Investments Division on at least a monthly basis.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The Insurance Commission's investing activities expose it to the following risks from its use of financial instruments:

- Market Risk
- Credit Risk
- Liquidity Risk

The Board of Commissioners has overall responsibility for the establishment and oversight of the Insurance Commission's risks relating to its investment activities.

The Insurance Commission's investment portfolio is professionally managed by a combination of external and internal investment managers. The Investments Division is responsible for managing the Direct Property, Inflation Linked Bonds, a portion of Fixed Interest and Cash portfolios. Managers with discrete portfolios have investment mandates which set out risk parameters restricting their investment activities. Managers of pooled investment vehicles are selected having regard to the risk parameters of each Trust Deed.

Risk reporting is undertaken on a daily basis by the external Custodian. The Custodian reports to the Manager Investments Division on compliance of discrete portfolios with respect to each individual investment mandate. This includes risk measures relating to compliance with authorised investments, limits on allocations relating to the size of individual investments, issuers or sectors and credit rating requirements as set out in the PGIs. Any findings/breaches are immediately confirmed with the external investment manager and the necessary steps taken to rectify a compliance breach. All compliance incidents are reported to the Board on a monthly basis.

External investment managers also provide the Investments Division with a Risk Management Statement (RMS) which sets out their processes and procedures for managing derivatives. These RMSs are reviewed by the Manager Investments Division as received. Derivatives are not used in the internally managed investment portfolios.

Each external investment manager is requested on an annual basis to provide the Investments Division with an audit sign-off relating to adherence with its internal policies and procedures. The Insurance Commission's internal auditors review the policies and procedures relating to internally managed investment portfolios.

All investment managers are required to meet performance targets based on market indices (benchmarks) for their respective asset classes. The Investments Division continually monitors the performance of all managers including its own performance. This monitoring includes both qualitative and quantitative factors.

### (i) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the economic entity's income or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates); interest rate risk (due to fluctuations in market interest rates); and price risk (due to fluctuations in market prices). The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments.

**Currency Risk**

The Insurance Commission is exposed to currency risk in respect of net foreign currency exposures. This currency risk of the investment portfolio is managed as follows:

- A currency overlay is used to passively hedge 25% (2011: 25%) of core Global Equities exposures.
- Where possible, unit trust investments domiciled in Australian dollars are utilised.

The Investments Division is responsible for providing the currency overlay manager with updated portfolio values to be hedged on a monthly basis.

The effectiveness of the currency management processes and the related use of derivatives are actively monitored by the Manager Investments Division and the external Custodian.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of a movement in foreign currency exchange rates against the Australian dollar on our major currency exposures within the investment portfolio at the end of the reporting period. The analysis shows the total currency exposure before the currency hedge overlay has been applied:

| | Exposure | | Change in Variable | | Profit/(Loss) and Equity Increase/(Decrease) | |
|---|---|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 %** | **2011 %** | **2012 $'000** | **2011 $'000** |
| United States Dollars | **224,608** | 211,157 | **+20** | +20 | **31,445** | 29,562 |
| | | | **-20** | -20 | **(31,445)** | (29,562) |
| Great British Pounds | **29,993** | 24,174 | **+20** | +20 | **4,199** | 3,385 |
| | | | **-20** | -20 | **(4,199)** | (3,385) |
| Hong Kong Dollars | **37,025** | 23,259 | **+20** | +20 | **5,184** | 3,256 |
| | | | **-20** | -20 | **(5,184)** | (3,256) |
| Euros | **44,242** | 21,781 | **+20** | +20 | **6,194** | 3,049 |
| | | | **-20** | -20 | **(6,194)** | (3,049) |
| Japanese Yen | **23,717** | 15,865 | **+20** | +20 | **3,320** | 2,221 |
| | | | **-20** | -20 | **(3,320)** | (2,221) |

The Currency Risk Exposure is the same for both Consolidated and the Insurance Commission. These figures are inclusive of RiskCover Fund's share of the investment pool of the economic entity. The RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 14 and 39.

**Interest Rate Risk**

The Insurance Commission invests in short and long-dated fixed interest securities. Approximately 8.0% (2011: 6.2%) of the Insurance Commission's portfolio is invested in investment grade fixed interest securities with maturity longer than one year. Consequently, the Insurance Commission has an exposure to fair value interest rate risk due to fluctuations in the prevailing level of market interest rates. Cash and cash equivalents are invested in short-term securities with a maturity of less than one year.

The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of movements in interest rates in relation to the base value of interest-bearing financial assets:

| | Exposure | | Change in Variable | | Profit/(Loss) and Equity Increase/(Decrease) | |
|---|---|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 %** | **2011 %** | **2012 $'000** | **2011 $'000** |
| Cash and Cash Equivalent | **663** | (6,796) | **+1** | +1 | **5** | (48) |
| | | | **-1** | -1 | **(5)** | 48 |
| **Financial Assets at Fair Value through Profit & Loss - Current** | | | | | | |
| Fixed Interest Bonds | **915** | 68,469 | **+1** | +1 | **(15)** | (1,632) |
| | | | **-1** | -1 | **15** | 1,632 |
| Fixed Interest Unit Trusts | **192,151** | 132,253 | **+1** | +1 | **(148)** | (120) |
| | | | **-1** | -1 | **148** | 120 |
| Fixed Interest Term Deposits | **29,054** | 95,167 | **+1** | +1 | **-** | - |
| | | | **-1** | -1 | **-** | - |
| Indexed Bonds | **-** | 99,131 | **+1** | +1 | **-** | (6,634) |
| | | | **-1** | -1 | **-** | 6,634 |
| Cash and Cash Equivalent | **345,097** | 274,597 | **+1** | +1 | **2,416** | 1,922 |
| | | | **-1** | -1 | **(2,416)** | (1,922) |
| **Financial Assets at Fair Value through Profit & Loss - Non-Current** | | | | | | |
| Fixed Interest Unit Trusts | **30,484** | 53,511 | **+1** | +1 | **214** | 375 |
| | | | **-1** | -1 | **(214)** | (375) |
| Fixed Interest Term Deposits | **249,426** | 31,369 | **+1** | +1 | **(5,307)** | (664) |
| | | | **-1** | -1 | **5,553** | 692 |

The Interest Rate Risk Exposure is the same for both Consolidated and the Insurance Commission with the exception of $22.054 million (2011: $22.076 million) relating to Cash and Cash Equivalent Assets of the Corporation, which is only represented in the Consolidated Accounts. These figures are inclusive of RiskCover Fund's share of the investment pool of the economic entity. RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 14 and 39.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

**Price Risk**

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to the individual investment, its issuer, or other factors broadly affecting all instruments in the market. Since the majority of investments are reported at fair value, a change in market conditions will directly affect Net Investment Income.

Price risk is mitigated by the Insurance Commission holding a diversified investment portfolio. Diversification is achieved across instruments, issuers, asset classes, geographies and investment managers.

At 30 June 2012, 32.0% (2011: 32.2%) of the Insurance Commission's investment assets were listed equities, 14.1% (2011: 16.3%) were unlisted trusts, nil% (2011: 0.9%) were listed trusts and 17.0% (2011: 16.9%) were investment properties. The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of movements in the price of equities listed in significant markets, listed trusts, unlisted trusts and investment properties:

| | Exposure | | Change in Variable | | Profit/(Loss) and Equity Increase/(Decrease) | |
|---|---|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 %** | **2011 %** | **2012 $'000** | **2011 $'000** |
| ASX | **530,013** | 732,731 | **+20** | +20 | **74,202** | 102,582 |
| | | | **-20** | -20 | **(74,202)** | (102,582) |
| Dow Jones | **155,017** | 70,534 | **+20** | +20 | **21,702** | 9,875 |
| | | | **-20** | -20 | **(21,702)** | (9,875) |
| NASDAQ | **59,058** | 25,055 | **+20** | +20 | **8,268** | 3,508 |
| | | | **-20** | -20 | **(8,268)** | (3,508) |
| FTSE | **33,252** | 24,055 | **+20** | +20 | **4,655** | 3,368 |
| | | | **-20** | -20 | **(4,655)** | (3,368) |
| Hong Kong | **36,619** | 23,077 | **+20** | +20 | **5,127** | 3,231 |
| | | | **-20** | -20 | **(5,127)** | (3,231) |
| Nikkei | **23,025** | 15,429 | **+20** | +20 | **3,224** | 2,160 |
| | | | **-20** | -20 | **(3,224)** | (2,160) |
| Listed Trust | **-** | 25,938 | **+20** | +20 | **-** | 3,632 |
| | | | **-20** | -20 | **-** | (3,632) |
| Unlisted Trusts | **443,152** | 499,794 | **+20** | +20 | **62,041** | 69,971 |
| | | | **-20** | -20 | **(62,041)** | (69,971) |
| Investment Properties | **533,430** | 517,410 | **+20** | +20 | **74,680** | 72,437 |
| | | | **-20** | -20 | **(74,680)** | (72,437) |

The Price Risk Exposure is the same for both Consolidated and the Insurance Commission. The figures shown are inclusive of the RiskCover Fund's share of the investment pool of the economic entity. The RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 14 and 39.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

### (ii) Credit Risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in financial loss to the economic entity. The Insurance Commission's credit policy is contained in the PGIs and sets out the minimum credit rating requirements for cash, fixed interest and over-the-counter derivatives. Credit risk in these securities is mitigated by predominantly investing in rated instruments issued by rated counterparties with credit ratings of at least 'A2-' or better as determined by Standard and Poor's for securities up to 12 months maturity and 'A-' for securities more than 12 months to maturity.

The credit ratings of securities in the Australian fixed interest portfolios are monitored on a daily basis by the Custodian and reported to the Manager Investments Division. The average credit rating of holdings within the overseas fixed interest unit trust is monitored on a quarterly basis by the Investments Division. Breaches to the credit rating policy are rectified immediately. All credit rating breaches are incorporated in the monthly Investment Report to the Board.

Emerging market fixed interest securities are restricted to 20% of the total overseas fixed interest exposure and must be securities issued by Sovereign Governments with a credit rating of at least 'BB-' or better as determined by Standard and Poor's or Moody's.

Credit risk arising on transactions with brokers is mitigated by having an authorised list of brokers with whom the investment manager can transact. The investment managers minimise concentration risk by transacting with numerous brokers. Compliance checks confirm that the brokers used in transactions by investment managers are in accordance with the authorised brokers listing.

The economic entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties with similar characteristics, with the exception of having 77% (2011: 81%) of its recognised financial assets in Australia.

The carrying amount of the economic entity's financial assets is the best representation of the maximum credit risk exposure.

The following table relates to the market values of officially rated bonds, short-term discount securities, deposits at call and debtors in respect of unsettled transaction trades as per Standard and Poor's ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade. The table excludes listed and unlisted equities, unit trusts and alternative assets which are subject to market risk rather than credit risk. In addition, this table excludes Reinsurance and Other Recoveries which are shown separately later in this Note. Right of Indemnities (refer Note 6) related to Government Agencies are also excluded from this analysis.

| | CONSOLIDATED | | INSURANCE COMMISSION | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| AAA rating | **619** | 140,232 | **619** | 140,232 |
| AA+ to AA- ratings | **249,426** | 379,013 | **249,426** | 379,013 |
| A+ to A- ratings | **-** | 3,087 | **-** | 3,087 |
| BBB+ to BBB ratings | **-** | - | **-** | - |
| BB+ to BB ratings | **91** | 178 | **91** | 178 |
| Speculative | **180** | 261 | **180** | 261 |
| Not Rated | **24** | - | **24** | - |
| A1 to A2 (short-term) rating | **374,151** | 44,597 | **374,151** | 44,597 |
| **Credit Risk Exposure** | **624,491** | 567,368 | **624,491** | 567,368 |

**Insurance and Reinsurance related Credit Risk**

The economic entity also has exposure to credit risk with regard to the reinsurance and other recovery arrangements in which it enters to offset insurance contract risk. The Insurance Commission reinsures to protect capital and reduce volatility in the event of catastrophic loss. The strategy used in respect of the selection, approval and monitoring of reinsurance arrangements is as follows:

- Reinsurance is approved and placed in accordance with Board delegations and authorisations, which include minimum financial credit ratings for reinsurance counterparties.
- The Department of Treasury agrees on the retention limits for the RiskCover Fund annually.
- Reinsurance arrangements are reviewed annually to monitor their effectiveness and ensure that coverage is appropriate, based on historical losses and the potential for future losses. The financial capacity of the Funds to withstand loss and the cost of reinsurance protection are factors taken into account in determining the level of risk retention.
- The credit quality of current and past reinsurance counterparties is actively monitored.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The following tables provide information about the quality of the consolidated entity's credit risk exposure in respect of reinsurance and other recoveries on claims already paid and on claims which remained outstanding at the end of the reporting period, but not yet "invoiced" or claimed from the relevant party. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating. Ratings that fall outside the range AAA to BBB and those which cannot be reliably rated, such as estimates of unknown third party recoveries, are classified as speculative grade. Input tax credits recoverable from the Australian Taxation Office have all been classified as AAA rating.

| | 2012 ($'000) | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB+ | Speculative Grade | Total |
| **Reinsurance and Other Recoveries** | | | | | | |
| Third Party Insurance Fund | 106,129 | 7,642 | 12,848 | - | 3,508 | **130,127** |
| Compensation (Industrial Diseases) Fund | 23 | - | - | 618 | - | **641** |
| Government Insurance Fund | | | | | | |
| - Workers' Compensation | 367 | - | - | - | 1,717 | **2,084** |
| - Public Liability | 9 | - | - | - | 5 | **14** |
| GIF Total Reinsurance and Other Recoveries | 376 | - | - | - | 1,722 | **2,098** |
| Insurance Commission General Fund | | | | | | |
| - Workers' Compensation | 595 | - | - | 23,837 | 993 | **25,425** |
| - Public Liability | 65 | - | - | - | - | **65** |
| - EISF Act: Asbestos-Related Claims | 121 | - | - | - | - | **121** |
| - EISF Act: Non-Asbestos-Related Claims | 14 | - | - | - | - | **14** |
| ICGF Total Reinsurance and Other Recoveries | 795 | - | - | 23,837 | 993 | **25,625** |
| **Total Insurance Commission Reinsurance and Other Recoveries** | 107,323 | 7,642 | 12,848 | 24,455 | 6,223 | **158,491** |
| Corporation Inwards Reinsurance | - | - | - | - | 2 | **2** |
| **Total Consolidated Reinsurance and Other Recoveries** | **107,323** | **7,642** | **12,848** | **24,455** | **6,225** | **158,493** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

| | 2011 ($'000) | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB | Speculative Grade | Total |
| **Reinsurance and Other Recoveries** | | | | | | |
| Third Party Insurance Fund | 91,851 | 1,138 | 14,015 | - | 953 | 107,957 |
| Compensation (Industrial Diseases) Fund | 26 | - | - | 827 | - | 853 |
| Government Insurance Fund | | | | | | |
| - Workers' Compensation | 360 | - | - | - | 1,672 | 2,032 |
| - Public Liability | 16 | 159 | - | - | 5 | 180 |
| GIF Total Reinsurance and Other Recoveries | 376 | 159 | - | - | 1,677 | 2,212 |
| Insurance Commission General Fund | | | | | | |
| - Workers' Compensation | 617 | - | - | 23,390 | 1,231 | 25,238 |
| - Public Liability | 57 | - | - | - | - | 57 |
| - EISF Act: Asbestos-Related Claims | 139 | - | - | - | - | 139 |
| - EISF Act: Non-Asbestos-Related Claims | 29 | - | - | - | - | 29 |
| ICGF Total Reinsurance and Other Recoveries | 842 | - | - | 23,390 | 1,231 | 25,463 |
| **Total Insurance Commission Reinsurance and Other Recoveries** | 93,095 | 1,297 | 14,015 | 24,217 | 3,861 | 136,485 |
| Corporation Inwards Reinsurance | - | - | - | - | 7 | 7 |
| **Total Consolidated Reinsurance and Other Recoveries** | **93,095** | **1,297** | **14,015** | **24,217** | **3,868** | **136,492** |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The following table provides further information regarding the ageing of amounts "invoiced" and receivable for premium debtors, reinsurance and other recoveries on paid claims at the end of the reporting period. All other Financial Assets are neither past due nor impaired.

| | 2012 ($'000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Past Due but Not Impaired | | | | | |
| | Neither Past Due nor Impaired | 0 to 3 Months | 3 to 6 Months | 6 to 12 Months | Greater than 1 Year | Impaired * | Total |
| Third Party Insurance Fund | - | - | - | - | - | 3 | **3** |
| Compensation (Industrial Diseases) Fund | 1 | 2 | - | - | - | 4 | **7** |
| Government Insurance Fund | - | - | - | - | - | - | **-** |
| Insurance Commission General Fund | 27 | 146 | 31 | 24 | 101 | 49 | **378** |
| **Total Insurance Commission** | **28** | **148** | **31** | **24** | **101** | **56** | **388** |
| Corporation Inwards Reinsurance | - | - | 1 | 2 | 8 | - | **11** |
| **Total Consolidated** | **28** | **148** | **32** | **26** | **109** | **56** | **399** |

* All Third Party Insurance Fund impaired receivables are greater than 1 year past due.
* Compensation (Industrial Diseases) Fund impaired receivables are both less than 1 year overdue ($990) and greater than 1 year past due ($3,080).
* Insurance Commission General Fund impaired receivables are both less than 1 year overdue ($35,696) and greater than 1 year past due ($13,531).

| | 2011 ($'000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Past Due but Not Impaired | | | | | |
| | Neither Past Due nor Impaired | 0 to 3 Months | 3 to 6 Months | 6 to 12 Months | Greater than 1 Year | Impaired * | Total |
| Third Party Insurance Fund | 4 | - | - | - | - | - | 4 |
| Compensation (Industrial Diseases) Fund | 3 | 1 | - | - | - | 3 | 7 |
| Government Insurance Fund | 2 | 6 | - | - | 97 | 2 | 107 |
| Insurance Commission General Fund | 30 | 134 | 110 | 20 | 116 | - | 410 |
| **Total Insurance Commission** | **39** | **141** | **110** | **20** | **213** | **5** | **528** |
| Corporation Inwards Reinsurance | - | - | - | - | 24 | - | 24 |
| **Total Consolidated** | **39** | **141** | **110** | **20** | **237** | **5** | **552** |

* All Government Insurance Fund impaired receivables are greater than 1 year past due.
* All Compensation (Industrial Diseases) Fund impaired receivables are greater than 1 year overdue.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

### (iii) Liquidity Risk

Liquidity risk refers to the risk that the economic entity will not be able to meet its financial obligations as they fall due. The Manager Investments Division is responsible for ensuring that there is always sufficient liquidity to meet the Insurance Commission's liabilities when due.

The Cash Portfolio is managed to meet the day-to-day liquidity requirements of the insurance business. The target cash allocation is 8% of the total portfolio. Cash flows are monitored on a daily basis. Cash requirements are met by redeeming investments with the Insurance Commission's Equity and/or Fixed Interest managers. These securities are considered to be easily realisable. At 30 June 2012, the mean term to maturity of the Cash Portfolio was 153 days (2011: 150 days).

The following tables detail the maturity profile of the economic entity's gross undiscounted outstanding claims liability and certain other key financial liabilities, at the end of the reporting period:

| | CONSOLIDATED 2012 ($'000) | | | | |
|---|---|---|---|---|---|
| | Maturity in | | | | |
| | Less than 1 Year | 1 to 2 Years | 2 to 5 Years | More than 5 Years | Total |
| **Outstanding Claims Liability** | | | | | |
| Third Party Insurance Fund | 449,837 | 409,658 | 700,334 | 406,861 | **1,966,690** |
| Compensation (Industrial Diseases) Fund | 607 | 534 | 971 | 2,876 | **4,988** |
| Government Insurance Fund | | | | | |
| - Workers' Compensation | 4,329 | 4,655 | 11,287 | 29,385 | **49,656** |
| - Public Liability | 82 | 64 | 121 | 100 | **367** |
| GIF Total Outstanding Claims Liability | 4,411 | 4,719 | 11,408 | 29,485 | **50,023** |
| Insurance Commission General Fund | | | | | |
| - Workers' Compensation | 6,165 | 7,287 | 17,108 | 55,309 | **85,869** |
| - Public Liability | 255 | 241 | 640 | 2,405 | **3,541** |
| - EISF Act: Asbestos-Related Claims | 4,140 | 4,193 | 12,691 | 10,886 | **31,910** |
| - EISF Act: Non-Asbestos-Related Claims | 183 | 165 | 450 | 1,446 | **2,244** |
| ICGF Total Outstanding Claims Liability | 10,743 | 11,886 | 30,889 | 70,046 | **123,564** |
| **Total Insurance Commission Outstanding Claims Liability** | **465,598** | **426,797** | **743,602** | **509,268** | **2,145,265** |
| Corporation - Inwards Reinsurance | 55 | 50 | 116 | 203 | **424** |
| **Total Consolidated Outstanding Claims Liability** | **465,653** | **426,847** | **743,718** | **509,471** | **2,145,689** |
| **Other Financial Liabilities** | | | | | |
| Payables | 26,994 | - | - | - | **26,994** |
| Floating Rate Promissory Note (i) | 469,994 | - | - | - | **469,994** |
| **Total** | **962,641** | **426,847** | **743,718** | **509,471** | **2,642,677** |

The Liquidity Risk Exposure for Other Financial Liabilities is the same for both Consolidated and the Insurance Commission.

(i) The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Notes 14 and 39.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

| | CONSOLIDATED 2011 ($'000) | | | | |
|---|---|---|---|---|---|
| | Maturity in | | | | |
| | Less than 1 Year | 1 to 2 Years | 2 to 5 Years | More than 5 Years | Total |
| **Outstanding Claims Liability** | | | | | |
| Third Party Insurance Fund | 405,343 | 374,896 | 665,010 | 457,192 | 1,902,441 |
| Compensation (Industrial Diseases) Fund | 410 | 563 | 1,404 | 4,094 | 6,471 |
| Government Insurance Fund | | | | | |
| - Workers' Compensation | 3,867 | 4,510 | 12,453 | 36,380 | 57,210 |
| - Public Liability | 179 | 141 | 266 | 239 | 825 |
| GIF Total Outstanding Claims Liability | 4,046 | 4,651 | 12,719 | 36,619 | 58,035 |
| Insurance Commission General Fund | | | | | |
| - Workers' Compensation | 7,677 | 7,957 | 19,847 | 69,076 | 104,557 |
| - Public Liability | 254 | 241 | 647 | 2,574 | 3,716 |
| - EISF Act: Asbestos-Related Claims | 1,149 | 1,055 | 3,580 | 27,089 | 32,873 |
| - EISF Act: Non-Asbestos-Related Claims | 992 | 1,017 | 1,098 | 610 | 3,717 |
| ICGF Total Outstanding Claims Liability | 10,072 | 10,270 | 25,172 | 99,349 | 144,863 |
| **Total Insurance Commission Outstanding Claims Liability** | 419,871 | 390,380 | 704,305 | 597,254 | 2,111,810 |
| Corporation - Inwards Reinsurance | 262 | 142 | 197 | 131 | 732 |
| **Total Consolidated Outstanding Claims Liability** | **420,133** | **390,522** | **704,502** | **597,385** | **2,112,542** |
| **Other Financial Liabilities** | | | | | |
| Payables | 34,724 | - | - | - | 34,724 |
| Floating Rate Promissory Note (i) | 422,247 | - | - | - | 422,247 |
| **Total** | **877,104** | **390,522** | **704,502** | **597,385** | **2,569,513** |

The Liquidity Risk Exposure for Other Financial Liabilities is the same for both Consolidated and the Insurance Commission with the exception of $0.692 million relating to creditors of the Corporation.

(i) The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Notes 14 and 39.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 35. GROUP ENTITIES

| Name | Legal Form | Place of Incorporation | Shares Held 2012 % | Shares Held 2011 % | Cost of Investment 2012 $'000 | Cost of Investment 2011 $'000 | Total Changes Recognised in Equity 2012 $'000 | Total Changes Recognised in Equity 2011 $'000 |
|---|---|---|---|---|---|---|---|---|
| **Parent Entity** | | | | | | | | |
| Insurance Commission of Western Australia | Statutory Authority | Western Australia | **-** | - | **-** | - | **(121,972)** | 42,749 |
| Less: Increase in Value of Investment in the Corporation (Refer Note 7) | | | | | | | **(654)** | (1,098) |
| | | | | | | | **(122,626)** | 41,651 |
| **Subsidiary** | | | | | | | | |
| State Government Insurance Corporation | Statutory Authority | Western Australia | **100** | 100 | **100,000** | 100,000 | **654** | 1,098 |
| ICWA Law Pty Ltd | Private Company | Western Australia | **100** | 100 | **-** | - | **-** | - |
| | | | | | **100,000** | 100,000 | **(121,972)** | 42,749 |

The Insurance Commission would indemnify the Corporation in the event that its liabilities exceeded its assets. No such indemnity was required for either 2012 or 2011.

The movement in the value of the investment in the Corporation for the year ended 30 June 2012 of $0.7 million (2011: $1.1 million) has been credited to the Statement of Comprehensive Income. Refer Note 3.

ICWA Law is a wholly-owned proprietary company, limited by shares. The Insurance Commission's 100% investment in ICWA Law is at a notional value of $2. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of investment is always equal to its original investment.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 36. FUNDS' STATEMENT OF COMPREHENSIVE INCOME

| | | Third Party Insurance Fund | | Compensation (Industrial Diseases) Fund | | Government Insurance Fund | | Insurance Commission General Fund | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Premium Revenue | 2 | 445,283 | 430,174 | 112 | 65 | - | - | - | - |
| Outwards Reinsurance Premium Expense | 3 | (5,502) | (5,110) | - | - | - | - | - | - |
| Outwards Reinsurance Commission Revenue | 2 | 561 | 498 | - | - | - | - | - | - |
| Net Premium Revenue | | 440,342 | 425,562 | 112 | 65 | - | - | - | - |
| Claims Expense | 3 | (624,785) | (523,310) | 120 | 829 | (4,171) | 1,114 | (3,568) | (7,545) |
| Reinsurance and Other Recoveries Revenue | 2 | 22,449 | 11,091 | (153) | (281) | 62 | (413) | 2,763 | 1,100 |
| Net Claims Incurred | 4 | (602,336) | (512,219) | (33) | 548 | (4,109) | 701 | (805) | (6,445) |
| Gross Movement in Unexpired Risk Liability | 17 | (26,130) | - | - | - | - | - | - | - |
| Reinsurance and Other Recoveries on Unexpired Risk Liability | 17 | 14,900 | - | - | - | - | - | - | - |
| Net Movement in Unexpired Risk | 3,17 | (11,230) | - | - | - | - | - | - | - |
| Acquisition Costs | 3,11 | (18,235) | (18,498) | - | - | - | - | - | - |
| Other Underwriting and Administration Expenses | 3 | (33,617) | (45,886) | (970) | (1,276) | (1,087) | (3,113) | (33,865) | (35,256) |
| **UNDERWRITING LOSS** | | (225,076) | (151,041) | (891) | (663) | (5,196) | (2,412) | (34,670) | (41,701) |
| Investment Income including Movements in Fair Value | 2 | 77,605 | 227,271 | 669 | 2,100 | (106) | (19) | (8,844) | 32,205 |
| Investment Expenses | 3 | (40,806) | (37,554) | (358) | (344) | - | - | 12,628 | 13,627 |
| Finance Costs | 3 | - | - | - | - | - | - | (8,574) | (38,822) |
| Other Income | 2 | - | (354) | - | - | 5,302 | 2,431 | 59,766 | 60,043 |
| Other Expenses | 3 | - | - | - | - | - | - | (16,406) | (16,103) |
| **(LOSS)/PROFIT BEFORE RELATED INCOME TAX EQUIVALENT BENEFIT/(EXPENSE)** | | (188,277) | 38,322 | (580) | 1,093 | - | - | 3,900 | 9,249 |
| Income Tax Equivalent Benefit/(Expense) | 5 | 63,906 | (4,681) | 188 | (196) | - | - | (1,109) | (1,038) |
| **(LOSS)/PROFIT AFTER INCOME TAX EQUIVALENT BENEFIT/(EXPENSE) ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA** | | (124,371) | 33,641 | (392) | 897 | - | - | 2,791 | 8,211 |
| Fair Value Revaluation of Land and Buildings presented as Plant, Property and Equipment | | - | - | - | - | - | - | 27,690 | 15,433 |
| Related Income Tax Equivalent Expense | | - | - | - | - | - | - | (8,307) | (4,630) |
| **OTHER COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE** | | - | - | - | - | - | - | 19,383 | 10,803 |
| **TOTAL COMPREHENSIVE (LOSS)/PROFIT AFTER INCOME TAX EQUIVALENT BENEFIT/(EXPENSE) ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA** | | (124,371) | 33,641 | (392) | 897 | - | - | 22,174 | 19,014 |

The Note references above relate to the Notes to, and forming part of, the Financial Statements of the economic entity.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 36. FUNDS' STATEMENT OF COMPREHENSIVE INCOME (continued)

The Compensation (Miscellaneous Risks) Fund is not reported in this note as there were no financial transactions for this account during the financial years ended 30 June 2012 and 30 June 2011.

The above Statement of Comprehensive Income for the four Funds is presented without eliminations for inter-fund transactions. The Statement of Comprehensive Income for the Insurance Commission represents an aggregation of the Funds taking into account inter-fund eliminations. The main elimination is:

- Other Income of $5.176 million (2011: $5.084 million) in relation to the Insurance Commission's portion of the rentals incurred as an owner-occupier.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 37. FUNDS' STATEMENT OF FINANCIAL POSITION

| | Notes | Third Party Insurance Fund | | Compensation (Industrial Diseases) Fund | | Government Insurance Fund | | Insurance Commission General Fund | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| **ASSETS** | | | | | | | | | |
| **Current Assets** | | | | | | | | | |
| Cash and Cash Equivalents | 21 | - | - | - | - | - | - | - | - |
| Receivables | 6 | 67,488 | 30,141 | 120 | 102 | 4,355 | 4,056 | 8,203 | 9,456 |
| Current Tax Receivable | | - | - | - | - | - | - | - | 6,232 |
| Financial Assets at Fair Value Through Profit or Loss | 7 | - | - | - | - | - | - | 1,768,246 | 1,952,836 |
| Deferred Acquisition Costs | 11 | - | 1,542 | - | - | - | - | - | - |
| Other Assets | 12 | - | - | - | - | - | - | 4,145 | 3,024 |
| **Total Current Assets** | | 67,488 | 31,683 | 120 | 102 | 4,355 | 4,056 | 1,780,594 | 1,971,548 |
| **Non-Current Assets** | | | | | | | | | |
| Receivables | 6 | 97,950 | 81,190 | 553 | 774 | 37,313 | 36,576 | 99,378 | 95,501 |
| Financial Assets at Fair Value Through Profit or Loss | 7 | - | - | - | - | - | - | 606,090 | 384,621 |
| Deferred Tax Assets | 5 | 19,138 | - | 660 | 266 | - | - | - | - |
| Property, Plant and Equipment | 8 | - | - | - | - | - | - | 284,654 | 261,901 |
| Investment Properties | 9 | - | - | - | - | - | - | 510,486 | 497,658 |
| Intangible Assets | 10 | - | - | - | - | - | - | 12,684 | 8,714 |
| Other Assets | 12 | - | - | - | - | - | - | 1,710 | 1,602 |
| **Total Non-Current Assets** | | 117,088 | 81,190 | 1,213 | 1,040 | 37,313 | 36,576 | 1,515,002 | 1,249,997 |
| Inter-Fund Investments | | 2,382,312 | 2,371,186 | 20,355 | 21,366 | (2,696) | (1,793) | (2,399,971) | (2,390,759) |
| **TOTAL ASSETS** | | 2,566,888 | 2,484,059 | 21,688 | 22,508 | 38,972 | 38,839 | 895,625 | 830,786 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 37. FUNDS' STATEMENT OF FINANCIAL POSITION (continued)

| | Notes | Third Party Insurance Fund 2012 $'000 | Third Party Insurance Fund 2011 $'000 | Compensation (Industrial Diseases) Fund 2012 $'000 | Compensation (Industrial Diseases) Fund 2011 $'000 | Government Insurance Fund 2012 $'000 | Government Insurance Fund 2011 $'000 | Insurance Commission General Fund 2012 $'000 | Insurance Commission General Fund 2011 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | |
| Bank Overdraft | 21 | - | - | - | - | - | - | 21,404 | 28,911 |
| Payables | 13 | 16,913 | 17,464 | 242 | 271 | 33 | 596 | 26,792 | 16,201 |
| Financial Liabilities at Fair Value Through Profit or Loss | 14 | - | - | - | - | - | - | 469,994 | 422,247 |
| Outstanding Claims Liability | 15 | 441,540 | 392,060 | 599 | 401 | 4,355 | 3,952 | 7,886 | 9,815 |
| Unearned Premium Liability | 16 | 189,470 | 184,442 | - | 80 | - | - | - | - |
| Unexpired Risk Liability | 17 | 26,130 | - | - | - | - | - | - | - |
| Provisions | 18 | - | - | - | - | - | - | 6,861 | 5,891 |
| **Total Current Liabilities** | | 674,053 | 593,966 | 841 | 752 | 4,388 | 4,548 | 532,937 | 483,065 |
| **Non-Current Liabilities** | | | | | | | | | |
| Outstanding Claims Liability | 15 | 1,344,480 | 1,189,570 | 3,363 | 3,880 | 34,584 | 34,291 | 78,270 | 80,440 |
| Provisions | 18 | - | - | - | - | - | - | 12,176 | 10,073 |
| Deferred Tax Liabilities | 5 | - | 27,797 | - | - | - | - | 54,362 | 61,502 |
| **Total Non-Current Liabilities** | | 1,344,480 | 1,217,367 | 3,363 | 3,880 | 34,584 | 34,291 | 144,808 | 152,015 |
| **TOTAL LIABILITIES** | | 2,018,533 | 1,811,333 | 4,204 | 4,632 | 38,972 | 38,839 | 677,745 | 635,080 |
| **NET ASSETS** | | 548,355 | 672,726 | 17,484 | 17,876 | - | - | 217,880 | 195,706 |
| **EQUITY** | | | | | | | | | |
| Asset Revaluation Surplus | | - | - | - | - | - | - | 134,455 | 115,072 |
| Compensation (Industrial Diseases) Fund Reserve | | - | - | 17,484 | 17,876 | - | - | - | - |
| Funds' Retained Earnings | 38 | 548,355 | 672,726 | - | - | - | - | 83,425 | 80,634 |
| **TOTAL EQUITY** | | 548,355 | 672,726 | 17,484 | 17,876 | - | - | 217,880 | 195,706 |

The Compensation (Miscellaneous Risks) Fund is not reported in this note as there were no financial transactions or assets and liabilities for this account during the 2012 or 2011 years.

The Government Insurance Fund forms part of the financial statements of the Insurance Commission. In accordance with the Cabinet's decision of May 1996, however, the Department of Treasury has assumed liability for the accumulated deficit in that Fund as from 1 July 1997.

The above Statement of Financial Position for the four Funds is presented before eliminations for inter-fund transactions. The Note references above relate to the Notes to, and forming part of, the Financial Statements of the economic entity.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 38. FUNDS' RETAINED EARNINGS

| | | Third Party Insurance Fund | | Compensation (Industrial Diseases) Fund | | Government Insurance Fund | | Insurance Commission General Fund | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| Balance at Beginning of the Year | | **672,726** | 639,085 | **-** | - | **-** | - | **80,634** | 72,423 |
| (Loss)/Profit after Income Tax Equivalent Benefit/(Expense) | | **(124,371)** | 33,641 | **(392)** | 897 | **-** | - | **2,791** | 8,211 |
| Amount Transferred from/(to) Compensation (Industrial Diseases) Fund Reserve | **(i)** | **-** | - | **392** | (897) | **-** | - | **-** | - |
| **BALANCE AT END OF THE YEAR** | | **548,355** | 672,726 | **-** | - | **-** | - | **83,425** | 80,634 |

**(i)** The Compensation (Industrial Diseases) Fund Reserve results from funds surplus to the actuarial estimate for its outstanding claims liabilities. In accordance with the *Insurance Commission of Western Australia Act 1986,* the Insurance Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Insurance Commission pursuant to the *Mine Workers' Relief Act 1932* and research into the prevention and treatment of industrial diseases. Part of the Reserve has been and will in the future be expended on medical research to find a cure for mesothelioma.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS

The Government of Western Australia has adopted a Managed Fund approach to administer all insurable risks of its participating public authorities on a self-insurance basis. The RiskCover Fund is underwritten by the Government of Western Australia, and is managed by the Insurance Commission on behalf of the State Government and its participating public authorities, under the supervision of the Department of Treasury. On 18 July 2001, the Department of Treasury confirmed the re-appointment of the Insurance Commission to manage the RiskCover Fund on the basis of a rolling three-year notification of termination period.

The Insurance Commission earns a management fee from this activity being a recovery of costs for the proportion of the Insurance Commission's services used by the RiskCover Fund.

Except as stated below, the significant accounting policies adopted in preparing the RiskCover Fund's financial statements are consistent with those used in preparing the economic entity's financial statements. Refer Note 1.

Because the RiskCover Fund is a Government self-insurance vehicle, it is not bound by AASB 1023, 'General Insurance Contracts' or by the requirements of the Australian Prudential Regulatory Authority (APRA).

In its determination of the Outstanding Claims Liability, the RiskCover Fund has instead followed the requirements of AASB 137, 'Provisions, Contingent Liabilities and Contingent Assets'. Like AASB 1023, this standard also requires the use of a risk-free discount factor when determining the Outstanding Claims Liability; however, it differs significantly in that it does not require the inclusion of a prudential margin.

In 2006, the State Government Expenditure Review Committee gave approval for the RiskCover Fund to maintain a separate Prudential Reserve equivalent in value to an APRA Prudential Margin sufficient to achieve a 75% likelihood of adequacy with respect to the provision for outstanding claims.

The RiskCover Fund's assets are not owned by the economic entity and are therefore not consolidated. The investment assets of the RiskCover Fund are, however, included in the investment pool of the economic entity, represented by a Floating Rate Promissory Note. Refer Note 14. The RiskCover Fund earns an investment return or shares investment losses in proportion to its share of the investment pool of the Insurance Commission. Refer Note 3.

Any Retained Earnings in the RiskCover Fund represents an asset of the Government of Western Australia and not of the economic entity.

The RiskCover Fund is not liable to pay Income Tax Equivalents under current arrangements with the Department of Treasury.

| STATEMENT OF COMPREHENSIVE INCOME<br>for the year ended 30 June 2012 | References | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| Premium Revenue | (a) | **255,742** | 222,010 |
| Premium Adjustment | (b) | **21,428** | 3,585 |
| Outwards Reinsurance Premium Expense | | **(15,854)** | (14,273) |
| Outwards Reinsurance Commission Revenue | | **1,340** | 1,306 |
| Net Premium Revenue | | **262,656** | 212,628 |
| Claims Expense | | **(326,828)** | (242,354) |
| Reinsurance and Other Recoveries Revenue | | **54,331** | 9,234 |
| Net Claims Incurred | | **(272,497)** | (233,120) |
| Underwriting and Administration Expenses | | **(29,898)** | (30,792) |
| UNDERWRITING LOSS | | **(39,739)** | (51,284) |
| Investment Income including Movements in Fair Value | | **12,587** | 39,892 |
| TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA | | **(27,152)** | (11,392) |

The Statement of Comprehensive Income should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

| STATEMENT OF FINANCIAL POSITION<br>at 30 June 2012 | References | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | | **1,839** | 4,024 |
| Receivables | | **44,935** | 21,176 |
| Financial Assets at Fair Value Through Profit or Loss | (c) | **469,994** | 422,247 |
| Other Assets | | **1,845** | - |
| **Total Current Assets** | | **518,613** | 447,447 |
| **Non-Current Assets** | | | |
| Receivables | | **130,344** | 83,274 |
| **Total Non-Current Assets** | | **130,344** | 83,274 |
| **TOTAL ASSETS** | | **648,957** | 530,721 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | | **11,959** | 9,699 |
| Unearned Premiums | | **1,845** | - |
| Outstanding Claims Liability | (d) | **195,353** | 180,686 |
| **Total Current Liabilities** | | **209,157** | 190,385 |
| **Non-Current Liabilities** | | | |
| Outstanding Claims Liability | (d) | **438,751** | 312,135 |
| **Total Non-Current Liabilities** | | **438,751** | 312,135 |
| **TOTAL LIABILITIES** | | **647,908** | 502,520 |
| **NET ASSETS** | | **1,049** | 28,201 |
| **EQUITY** | | | |
| Retained Earnings | | **-** | - |
| Prudential Reserve | (i) | **1,049** | 28,201 |
| **TOTAL EQUITY** | | **1,049** | 28,201 |

The Statement of Financial Position should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

**(i)** In 2012, the Prudential Reserve was calculated by an internal assessment to be $72.1 million (2011: $59.8 million). However, because the RiskCover Fund did not have sufficient Retained Earnings to maintain the Prudential Reserve at this level, the Prudential Reserve was reduced to $1.0 million which is $71.1 million below the amount which would be required to achieve a 75% likelihood of adequacy.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

| STATEMENT OF CHANGES IN EQUITY<br>for the year ended 30 June 2012 | References | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| **BALANCE OF EQUITY AT START OF THE YEAR** | | **28,200** | 39,593 |
| **PRUDENTIAL RESERVE** | | | |
| Balance at Start of the Year | | **28,201** | 39,593 |
| Transfer to Retained Earnings | | **(27,152)** | (11,392) |
| Balance at End of the Year | | **1,049** | 28,201 |
| **RETAINED EARNINGS** | | | |
| Balance at Start of the Year | | **-** | - |
| Total Comprehensive Loss for the Year | | **(27,152)** | (11,392) |
| Transfer from Prudential Reserve | | **27,152** | 11,392 |
| Balance at End of the Year | | **-** | - |
| **BALANCE OF EQUITY AT END OF THE YEAR** | | **1,049** | 28,201 |

The Statement of Changes in Equity should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

| STATEMENT OF CASH FLOWS<br>for the year ended 30 June 2012 | | | |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Premium Received | | **280,573** | 244,375 |
| Reinsurance and Other Recoveries Received | | **7,464** | 10,539 |
| Outwards Reinsurance Commission Received | | **1,474** | 1,437 |
| Interest Received | | **12,587** | 39,892 |
| Outwards Reinsurance Paid | | **(19,167)** | (15,700) |
| Claims Paid | | **(188,302)** | (175,828) |
| Underwriting and Administration Expenses Paid | | **(28,103)** | (33,395) |
| Goods and Services Tax Paid | | **(20,964)** | (17,582) |
| **Net Cash Flow from Operating Activities** | **(h)** | **45,562** | 53,738 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investment Funds Paid to the Insurance Commission | | **(47,747)** | (49,392) |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(2,185)** | 4,346 |
| **CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR** | | **4,024** | (322) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **(h)** | **1,839** | 4,024 |

The Statement of Cash Flows should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

### REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS

#### (a) Premium Revenue

When determining the deposit contributions for the Workers' Compensation and Motor Vehicle classes, the RiskCover Fund relies on claims costs, which have been actuarially assessed at the net central estimate. A prudential margin on the outstanding claims cost is not included.

#### (b) Premium Adjustment

Premiums initially charged to client agencies at the beginning of each year for the Workers' Compensation and Motor Vehicle classes represent premium deposits. These premiums are subject to adjustment at a later date (three years after the close of the risk period for Workers' Compensation and one year for Motor Vehicle to take into account the ultimate claims costs, claims administration expenses and associated investment income outcomes as these develop for each cover year. This adjustment process reflects the conceptual design of the funding mechanism for these classes and enables rewards and sanctions to be applied to agency performance.

The Premium Adjustment brought to account at 2012 was a receivable from client agencies of $103.1 million (2011: a receivable of $81.6 million). The $21.4 million Premium Adjustment shown in the Statement of Comprehensive Income consists of an increase in the Workers' Compensation class of $17.3 million and an increase of $4.1 million in the Motor Vehicle class.

#### (c) Financial Assets at Fair Value Through Profit or Loss

Represented by a Floating Rate Promissory Note owed to the RiskCover Fund by the Insurance Commission. Refer Note 14.

#### (d) Outstanding Claims Liability

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Central Estimate | **648,670** | 534,806 |
| Discount to Present Value | **(62,890)** | (79,560) |
| | **585,780** | 455,246 |
| Claims Handling Costs | **48,324** | 37,575 |
| Liability for Outstanding Claims (discounted) | **634,104** | 492,821 |
| Current | **195,353** | 180,686 |
| Non-Current | **438,751** | 312,135 |
| | **634,104** | 492,821 |

| | | |
|---|---|---|
| Weighted Average Expected Term to Settlement: | | |
| Workers' Compensation | **2 yrs 11 mths** | 2 yrs 8 mths |
| Liability Classes | **4 yrs 5 mths** | 4 yrs 6 mths |

In addition to the long-tail classes of Workers' Compensation and Liability, the RiskCover Fund also has short-tail liabilities for Property and Business Interruption, Motor Vehicle and Personal Accident, and Travel risks. These short-tail liabilities are internally assessed and total $39.1 million at the end of the reporting period (2011: $52.3 million).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

### REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

**Inflation and Discount Rates**

The following rates were used in measuring the liability for long-tail outstanding claims, reinsurance and other recoveries at 30 June 2012 for the RiskCover Fund:

| | % Rates Used - 2012 | | % Rates Used - 2011 | |
|---|---|---|---|---|
| | Year Ending 30 June 2013 | Subsequent Years | Year Ending 30 June 2012 | Subsequent Years |
| **Workers' Compensation** | | | | |
| Inflation Rate (Wage) | **5.20** | **4.50** | 4.70 | 5.10 |
| Total Inflation* | **5.20** | **4.50** | 4.70 | 5.10 |
| Discount Rate | **2.60** | **2.40** | 4.80 | 4.80 |
| **Liability** | | | | |
| Inflation Rate (Wage) | **5.30** | **5.30** | 4.70 | 5.10 |
| Superimposed Inflation | **4.00** | **4.00** | 4.00 | 4.00 |
| Total Inflation* | **9.30** | **9.30** | 8.70 | 9.10 |
| Discount Rate | **3.50** | **3.50** | 4.80 | 4.80 |

* The total inflation rate is determined by compounding the wage and superimposed inflation rates.

The actual future discount and wage inflation rates used in the actuarial projections are the same for both long-tail outstanding claims and reinsurance and other recoveries in each of the 2012 and 2011 years. For the 'Subsequent Years' column, a single equivalent discount and wage inflation rate is shown for each class of business in place of the actual rates for each year. The minor variations between the classes arise due to the different weighted average expected terms to settlement for each class.

### (e) Claims Recoveries Written-Off

Recoveries arise from instances where the RiskCover Fund seeks to recover the costs of a claim paid from a third party or the insured.

In accordance with Australian Accounting Standards, recoveries receivable are assessed with regard to the ability of the debtor to meet their obligations. These recoveries have not been brought to account as revenue because the amount to be recovered could not be reliably measured and consequently the write-off of these debts has not been charged as an expense in the Statement of Comprehensive Income.

In 2012, there were $Nil (2011: $111,499) amounts written-off in relation to RiskCover Fund claims.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

### REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

#### (f) Credit Risk

The following tables provide information about the quality of the RiskCover Fund's credit risk exposure in respect of reinsurance and other recoveries on claims already paid and on claims which remained outstanding at the end of the reporting period, but not yet 'invoiced' or claimed from relevant parties. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating. Ratings that fall outside the range AAA to BBB and those which cannot be reliably rated, such as estimates of unknown third party recoveries are classified as speculative grade. Input tax credits recoverable from the Australian Taxation Office have all been classified as AAA rating.

| | 2012 ($'000) | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB | Speculative Grade | Total |
| - Fire and General | 2,171 | 463 | - | 30 | 1,229 | 3,893 |
| - Workers' Compensation | 3,277 | - | - | - | 13,370 | 16,647 |
| - Liability | 4,515 | 6,536 | 36,124 | - | 1,698 | 48,873 |
| **Total Reinsurance and Other Recoveries** | **9,963** | **6,999** | **36,124** | **30** | **16,297** | **69,413** |

| | 2011 ($'000) | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB | Speculative Grade | Total |
| - Fire and General | 2,733 | 358 | 493 | - | 1,362 | 4,946 |
| - Workers' Compensation | 2,749 | - | - | - | 10,329 | 13,078 |
| - Liability | 2,599 | - | - | - | 1,768 | 4,367 |
| **Total Reinsurance and Other Recoveries** | 8,081 | 358 | 493 | - | 13,459 | 22,391 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

### REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

#### (f) Credit Risk (continued)

The following table provides further information regarding the ageing of amounts receivable for premium debtors, reinsurance and other recoveries on paid claims at the end of the reporting period:

| 2012 ($'000) | | | | | | |
|---|---|---|---|---|---|---|
| | Past Due but Not Impaired | | | | | |
| Neither Past Due nor Impaired | 0 to 3 Months | 3 to 6 Months | 6 to 12 Months | Greater than 1 Year | Impaired | Total |
| 2,417 | 2 | - | - | 66 | - | **2,485** |

| 2011 ($'000) | | | | | | |
|---|---|---|---|---|---|---|
| | Past Due but Not Impaired | | | | | |
| Neither Past Due nor Impaired | 0 to 3 Months | 3 to 6 Months | 6 to 12 Months | Greater than 1 Year | Impaired | Total |
| 20 | 25 | - | - | 57 | - | 102 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 39. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

### REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

#### (g) Liquidity Risk

The following tables detail the maturity profile of the RiskCover Fund's gross undiscounted outstanding claims liability at the end of the reporting period:

| | 2012 ($'000) | | | | |
|---|---|---|---|---|---|
| | Maturity in | | | | |
| | Less than 1 Year | 1 to 2 Years | 2 to 5 Years | More than 5 Years | Total |
| **Outstanding Claims Liability** | | | | | |
| - Fire and General | 39,141 | - | - | - | 39,141 |
| - Workers' Compensation | 124,118 | 78,642 | 108,552 | 85,885 | 397,197 |
| - Liability | 34,033 | 35,261 | 93,668 | 103,109 | 266,071 |
| **Total Outstanding Claims Liability** | **197,292** | **113,903** | **202,220** | **188,994** | **702,409** |

| | 2011 ($'000) | | | | |
|---|---|---|---|---|---|
| | Maturity in | | | | |
| | Less than 1 Year | 1 to 2 Years | 2 to 5 Years | More than 5 Years | Total |
| **Outstanding Claims Liability** | | | | | |
| - Fire and General | 52,263 | - | - | - | 52,263 |
| - Workers' Compensation | 110,627 | 70,176 | 98,031 | 73,953 | 352,787 |
| - Liability | 20,663 | 23,406 | 58,248 | 72,135 | 174,452 |
| **Total Outstanding Claims Liability** | 183,553 | 93,582 | 156,279 | 146,088 | 579,502 |

#### (h) Reconciliation of Loss to Net Cash Flow from Operating Activities

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Loss** | **(27,152)** | (11,392) |
| **(Increase)/Decrease in Assets** | | |
| Current Receivables | **(23,759)** | 4,076 |
| Non-Current Receivables | **(47,070)** | (9,680) |
| **Increase in Liabilities** | | |
| Current Payables | **2,260** | 1,003 |
| Current Outstanding Claims Liability | **14,667** | 16,407 |
| Non-Current Outstanding Claims Liability | **126,616** | 53,324 |
| **Net Cash Flow from Operating Activities** | **45,562** | 53,738 |
| **Reconciliation of Cash** | | |
| Cash and Cash Equivalents at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | |
| Cash and Cash Equivalents | **1,839** | 4,024 |


# KEY PERFORMANCE INDICATORS 2012

# CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby certify that the Key Performance Indicators of the Insurance Commission of Western Australia (Insurance Commission) for the financial year ended 30 June 2012:

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Insurance Commission; and
- fairly represent the performance of the Insurance Commission.

MICHAEL E WRIGHT
CHAIRMAN
17 September 2012

ROD WHITHEAR
COMMISSIONER
17 September 2012

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 29 August 2012.

Auditor General

**INDEPENDENT AUDITOR'S REPORT**

**To the Parliament of Western Australia**

**INSURANCE COMMISSION OF WESTERN AUSTRALIA**

**Report on the Financial Statements**
I have audited the accounts and financial statements of the Insurance Commission of Western Australia and the consolidated entity.

The financial statements comprise the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the Commission and the consolidated entity for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

*Commission's Responsibility for the Financial Statements*
The Commission is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Commission determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***
In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Insurance Commission of Western Australia and the consolidated entity at 30 June 2012 and their financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.



7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

**Report on Controls**
I have audited the controls exercised by the Insurance Commission of Western Australia during the year ended 30 June 2012.

Controls exercised by the Insurance Commission of Western Australia are those policies and procedures established by the Commission to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

*Commission's Responsibility for Controls*
The Commission is responsible for maintaining an adequate system of internal control to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Insurance Commission of Western Australia based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the adequacy of controls to ensure that the Commission complies with the legislative provisions. The procedures selected depend on the auditor's judgement and include an evaluation of the design and implementation of relevant controls.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***
In my opinion, the controls exercised by the Insurance Commission of Western Australia are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2012.

**Report on the Key Performance Indicators**
I have audited the key performance indicators of the Insurance Commission of Western Australia for the year ended 30 June 2012.

The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide information on outcome achievement and service provision.

*Commission's Responsibility for the Key Performance Indicators*
The Commission is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions and for such controls as the Commission determines necessary to ensure that the key performance indicators fairly represent indicated performance.

*Auditor's Responsibility*
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the key performance indicators. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments the auditor considers internal control relevant to the Commission's preparation and fair presentation of the key performance indicators in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the relevance and appropriateness of the key performance indicators for measuring the extent of outcome achievement and service provision.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the key performance indicators of the Insurance Commission of Western Australia are relevant and appropriate to assist users to assess the Commission's performance and fairly represent indicated performance for the year ended 30 June 2012.

**Independence**

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing and Assurance Standards, and other relevant ethical requirements.

**Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators**

This auditor's report relates to the financial statements and key performance indicators of Insurance Commission of Western Australia for the year ended 30 June 2012 included on the Commission's website. The Commission's management is responsible for the integrity of the Commission's website. This audit does not provide assurance on the integrity of the Commission's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
18 September 2012

# INSURANCE COMMISSION OF WESTERN AUSTRALIA

The Insurance Commission's **Key Performance Indicators** assist in evaluating its performance in achieving both its stated mission and the achievement against higher level government-specified goals. This report includes our **'Key Outcomes'** which are expressed in the form of key ***Effectiveness*** and ***Efficiency*** **Performance Indicators**. The Performance Indicators are first shown for the Insurance Commission as a whole and then for each business area.

The Insurance Commission's specified desired Key Outcomes are listed in the table below showing the relationship to associated high-level Government Goals.

| Government Goal | Services provided by the Insurance Commission | Insurance Commission Key Outcomes |
|---|---|---|
| **Outcome Based Service Delivery**<br><br>Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians. | Timely, equitable and efficient claims management for motor vehicle personal injury claimants.<br><br>Provision of affordable premiums to owners of Western Australian registered motor vehicles.<br><br>Timely, equitable and efficient claims management for industrial disease claimants.<br><br>RiskCover claims management and claims analysis. | To provide a claims system that treats claimants fairly and delivers equitable compensation.<br><br>To provide affordable premiums to owners of Western Australian vehicles.<br><br>To minimise the financial hardship of Industrial Disease claimants.<br><br>Meet customer risk management and self-insurance needs. |
| **Financial and Economic Responsibility**<br><br>Responsibly managing the State's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector. | Fund management and investment function.<br><br>Risk Management Program development and implementation. | That the Insurance Commission has sufficient financial resources to be able to meet its commitments.<br><br>To promote and support the growth of risk management practice to minimise the cost of risk to Government. |

The Performance Indicators relating to the Insurance Commission's outcomes are audited by the Office of the Auditor General. The Performance Indicators of the Insurance Commission's subsidiary, the State Government Insurance Corporation, are disclosed in its Annual Report. Other important indicators providing a broader perspective of the Insurance Commission's performance are included in the Insurance Commission Performance section of this Annual Report. Where appropriate, figures from previous years have been re-stated in order to enhance comparison with those of the current year.

equal to or better than target

worse than target

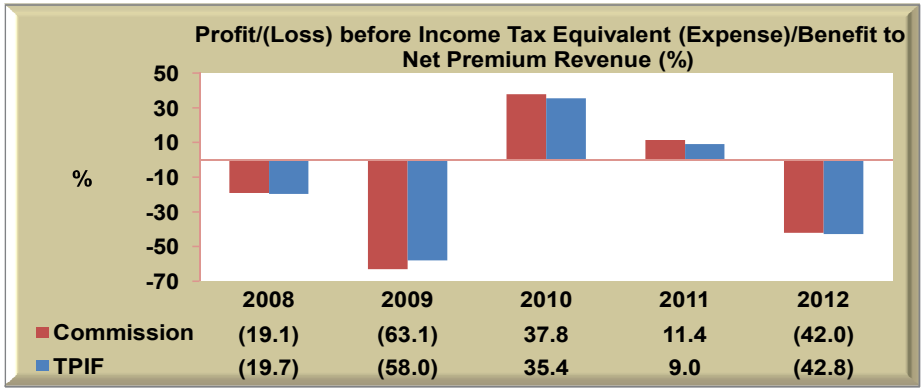
# INSURANCE COMMISSION

## That the Insurance Commission has sufficient financial resources to be able to meet its commitments.

### Effectiveness Performance Indicators

**Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Net Premium Revenue** indicates the return the Insurance Commission has earned on its net premium revenue.

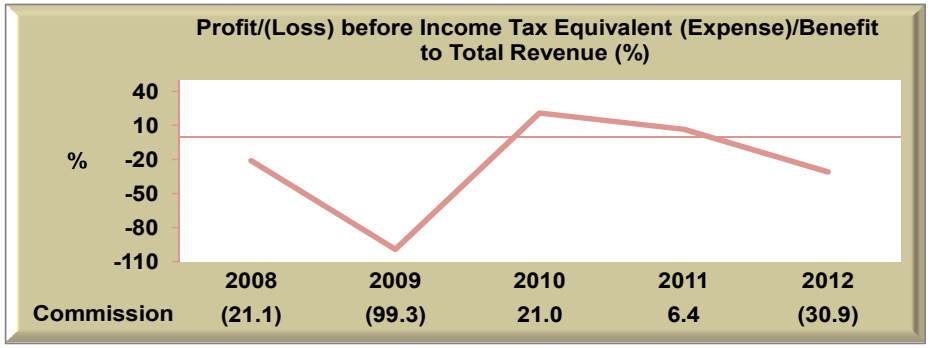
| | 2012 Target | 2012 Actual |
|---|---|---|
| Insurance Commission | 22.3% | -42.0% |
| Third Party Insurance Fund | 20.0% | -42.8% |




***Comments:*** The Insurance Commission indicator is worse than target, due to a loss before income tax of $184.9 million, being $281.8 million (291.0%) worse than the targeted profit of $96.9 million. This was due to net investment income of $40.8 million which is $160.9 million (79.8%) worse than target and net claims incurred which is $148.7 million (32.4%) worse than target. Acquisition costs are also $3.5 million (24.0%) worse than target. This is partially offset by premium revenue which is $6.0 million (1.4%) better than target and finance costs are $28.7 million (77.0%) lower than target. Underwriting and administration expenses are $5.3 million (7.8%) better than target. The *Third Party Insurance Fund* indicator is also worse than target with a loss before Income tax of $188.3 million, being $275.2 million (316.7%) below the targeted profit of $86.9 million. This was due to net investment income being $125.3 million (77.3%) below target and net claims incurred which is $145.3 million (31.8%) worse than target.

**Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Total Revenue** indicates the return the Insurance Commission has earned on its total revenue (including investment revenue).

| | 2012 Target | 2012 Actual |
|---|---|---|
| Insurance Commission | 13.2% | -30.9% |

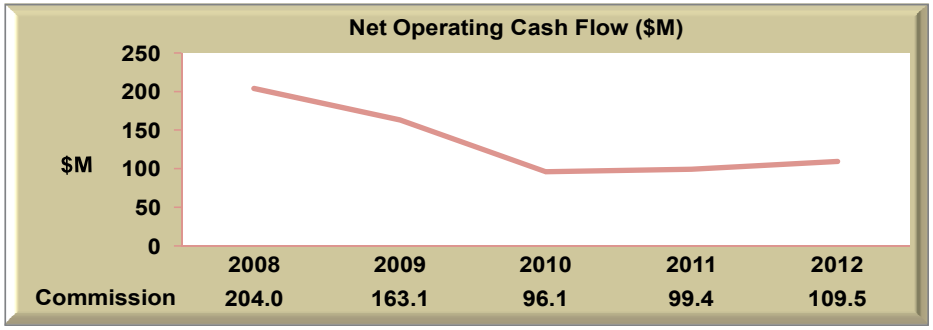



***Comments:*** The Insurance Commission indicator is worse than target, due to a loss before Income tax of $184.9 million, being $281.8 million (291.0%) worse than the targeted profit of $96.9 million. This was due to net investment income of $40.8 million which is $160.9 million (79.8%) worse than target and net claims incurred which is $148.7 million (32.4%) worse than target. Acquisition costs are also $3.5 million (24.0%) worse than target. This is partially offset by premium revenue which is $6.0 million (1.4%) better than target and finance costs are $28.7 million (77.0%) lower than target. Underwriting and administration expenses are $5.3 million (7.8%) better than target. Total revenue of $598.3 million was $134.4 million (18.3%) worse than the target of $732.7 million. This was due to investment revenue (including movements in fair value) being $170.8 million worse than target, recoveries being $30.6 million (558.6%) better than target and premium revenue being $6.0 million (1.4%) better than target.

# INSURANCE COMMISSION

## Effectiveness Performance Indicators (continued)

**Net Operating Cash Flow** equals receipts less payments from the operating activities of the Insurance Commission. It excludes cash flows from investing activities. Refer to the *Statement of Cash Flows - Net Cash Flow from Operating Activities.*

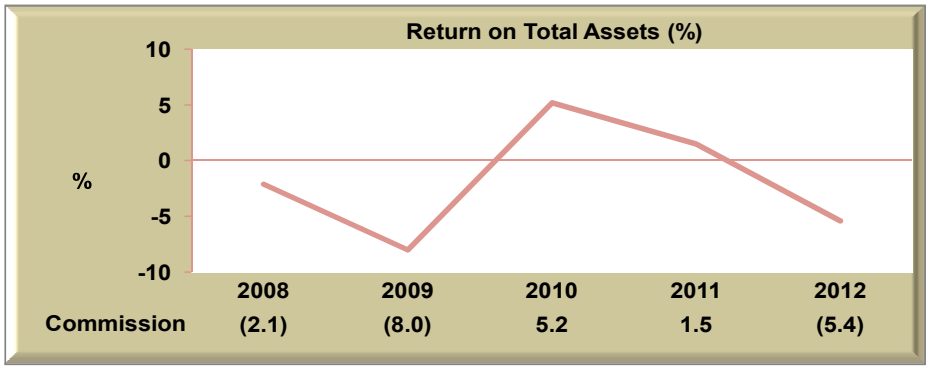



| | 2012 Target | 2012 Actual |
|---|---|---|
| **Insurance Commission ($M)** | 93.7 | 109.5 |

***Comments*:** The **Net Operating Cash Inflow** of $109.5 million is $15.8 million (16.9%) better than the targeted net operating cash inflow of $93.7 million. In respect to receipts, net income from investing activities is $11.9 million (6.4%) better than target. In respect to payments, claims paid is $35.5 million (9.1%) worse than target. Interest paid to RiskCover is $23.6 million (65.2%) better than target resulting from worse than expected investment return by the Insurance Commission. Underwriting and administration expenses are $15.2 million (35.2%) better than target as a result of better than expected debt recovery costs and reduced underwriting and administration expense spending. Income tax equivalent payments of $10.5 million were not required to be paid. Goods and services tax paid exceeded target by $5.9 million (51.6%) and acquisition costs exceeded target by $3.8 million (26.0%).

**Return on Total Assets*** is calculated as the Insurance Commission's profit/(loss) before income tax (expense)/benefit divided by its average total assets and is expressed as a percentage (total average assets excludes the Right of Indemnity asset from WorkCover WA *(Refer Note 6 to the Financial Statements*).

** The results and current year target on this KPI have been re-stated for all years to incorporate the transfer of the floating rate promissory note from current assets to current liabilities.*



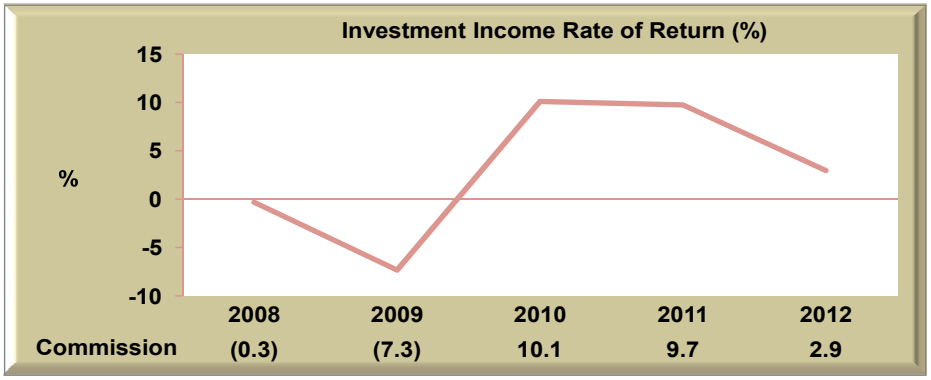

| | 2012 Target | 2012 Actual |
|---|---|---|
| **Insurance Commission** | 2.8% | -5.4% |

***Comments:*** The **Return on Total Assets** is below target due to a loss before Income tax of $184.9 million, being $281.8 million (291.0%) worse than the targeted profit of $96.9 million. This was due to net investment income of $40.8 million which is $160.9 million (79.8%) worse than target and net claims incurred which is $148.7 million (32.4%) worse than target. Acquisition costs are also $3.5 million (24.0%) worse than target. This is partially offset by premium revenue which is $6.0 million (1.4%) better than target and finance costs are $28.7 million (77.0%) lower than target. Underwriting and administration expenses are $5.3 million (7.8%) better than target. There was also an increase in average total assets (excluding the WorkCover WA indemnity) to $3,411.3 million, which is $388.3 million (12.8%) better than the target of $3,023.0 million.

# INSURANCE COMMISSION

## Effectiveness Performance Indicators (continued)

**Investment Income Rate of Return** for the Insurance Commission provides the percentage rate of return (excluding income received from investments previously written-off) on its weighted average investment assets. This calculation includes non-investment property net income.

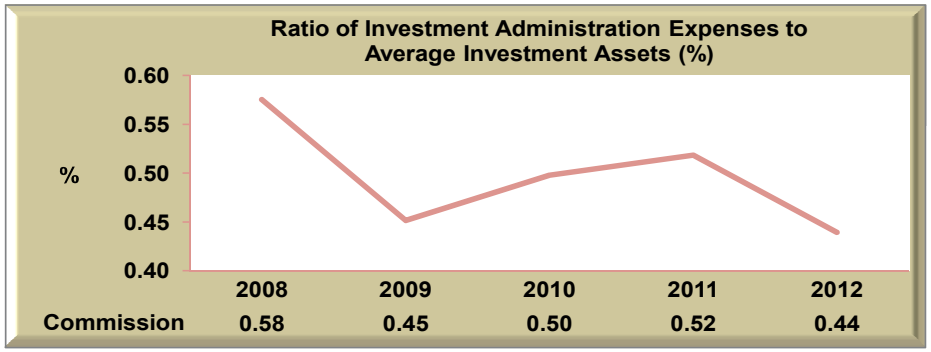



| | 2012 Target | 2012 Actual |
|---|---|---|
| **Insurance Commission** | 7.8% | 2.9% |

***Comments*:** The **Investment Income Rate of Return** for 2012 of 2.9% was significantly below the target of 7.8% due to a deterioration in global financial markets. Alternative assets (11.3% versus target 9.1%), property (11.0% versus target 8.0%), australian fixed interest (10.2% versus target 5.7%) and cash (5.8% versus target 5.5%) returns were better than target while all other asset class returns were below target - global fixed interest (4.0% versus target 5.3%), australian shares (-9.8% versus target 7.8%) and global shares (-5.1% versus target 9.2%).

## Efficiency Performance Indicators

**Ratio of Investment Administration Expenses to Average Investment Assets** is a useful measure of the Insurance Commission's efficiency in managing its investments. Non-investment property assets are included in the calculation.




| | 2012 Target | 2012 Actual |
|---|---|---|
| **Insurance Commission** | 0.42% | 0.44% |

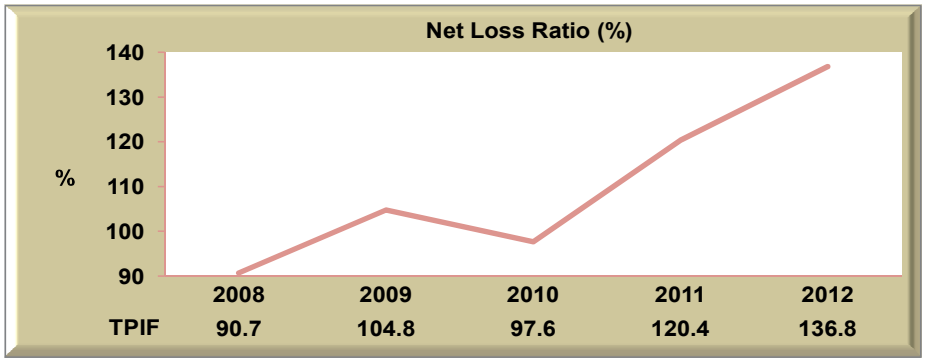
***Comments:*** The **Ratio of Investment Administration Expenses to Average Investment Assets** of 0.44% for the year exceeded the target of 0.42% due mainly to incurring higher than expected performance fees paid to investment managers. Average investment assets of $3,129.2 million were $59.3 (1.9%) worse than the target of $3,188.5 million.

# INSURANCE COMMISSION

## Efficiency Performance Indicators (continued)

**Net Loss Ratio** indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue, the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.

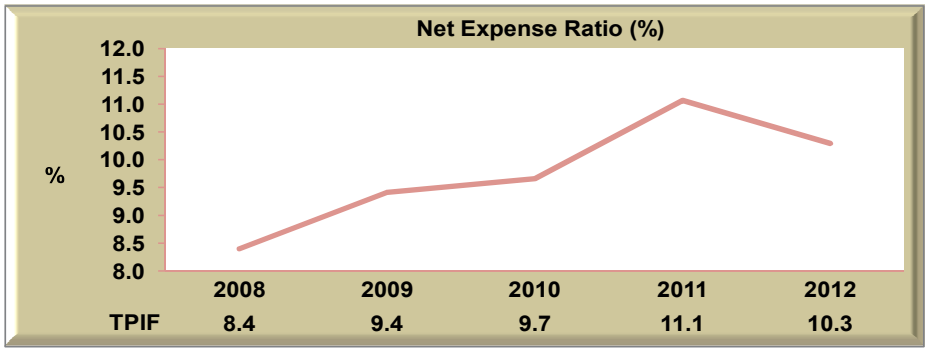
| | 2012 Target | 2012 Actual |
|---|---|---|
| Third Party Insurance Fund | 105.1% | 136.8% |




***Comments:*** The **Net Loss Ratio** is worse than target resulting from a considerably higher than forecast net claims incurred which in turn resulted from a substantial negative movement in the outstanding claims provision of $204.4 million which was $126.9 million (164%) worse than the target ($77.5 million). The substantially higher than forecast movement in outstanding claims provision was driven by reductions in risk-free discount rates, which follow treasury bond rates. These reached historic lows during 2012. In addition significant deterioration in the forward years assumed rate of investment returns, a significantly higher rate of immediate past wage inflation and heavier than expected experience in large loss claims. Net premium revenue was $5.7 million (1.3%) better than target.

**Net Expense Ratio** shows the percentage of underwriting and administration expenses against net premium revenue. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing and corporate overheads, but does not include sponsorship of road-safety-crash prevention or debt recovery costs.

| | 2012 Target | 2012 Actual |
|---|---|---|
| Third Party Insurance Fund | 9.8% | 10.3% |



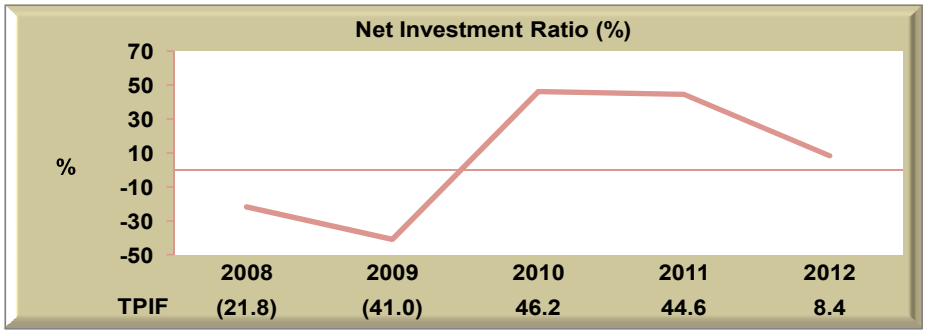

***Comments:*** The **Net Expense Ratio** is marginally worse than target. Acquisition costs are $3.5 million (24.0%) higher than target, offset by direct administration expenses and overheads being $0.2 million (1.5%) and $0.9 million (5.8%) respectively better than target. Net premium revenue is $5.7 million (1.3%) better than target.

# INSURANCE COMMISSION

## Efficiency Performance Indicators (continued)

**Net Investment Ratio** represents net investment income as a percentage of net premium revenue.

| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | 37.3% | 8.4% |




***Comments:*** The **Net Investment Ratio** is significantly lower than target, due to the Insurance Commission's worse than expected investment income rate of return of 2.9% (target 7.8%). Alternative assets (11.3% versus target 9.1%), property (11.0% versus target 8.0%), australian fixed interest (10.2% versus target 5.7%) and cash (5.8% versus target 5.5%) returns were better than target while all other asset class returns were below target - global fixed interest (4.0% versus target 5.3%), australian shares (-9.8% versus target 7.8%) and global shares (-5.1% versus target 9.2%).

# THIRD PARTY INSURANCE FUND

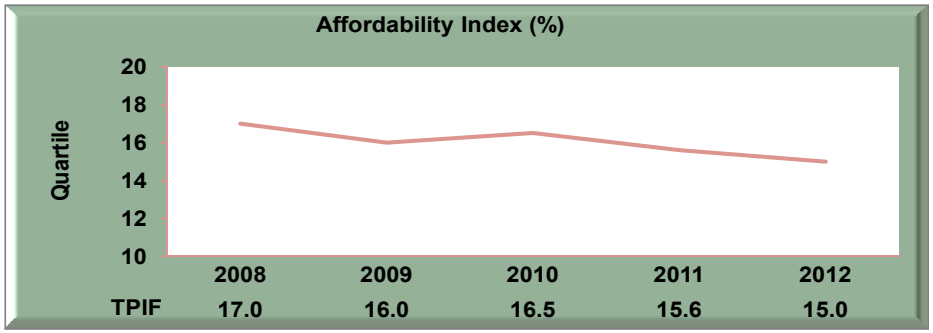
The **Third Party Insurance Fund** issues and undertakes liability under policies of insurance as required by the *Motor Vehicle (Third Party Insurance) Act 1943*. In accordance with this Act, the owners and drivers of over 2.5 million Western Australian registered vehicles (which includes caravans and trailers) are provided with unlimited indemnity against injury claims resulting from motor vehicle accidents under the Compulsory Third Party (Personal Injury) Insurance scheme.

**(a) To ensure the fund is fully funded (refer Insurance Commission Indicators for this outcome).**

**(b) To provide affordable premiums to owners of Western Australian vehicles.**

## Effectiveness Performance Indicators

**Affordability Index (%)** measures the CTP premium for the average family sedan as a percentage of WA's average weekly earnings, with reference to the February quarter Average Weekly Earnings (AWE) year on year published by the Australian Bureau of Statistics in May each year. The target is to have the CTP premium for the average family sedan at or below 25% of WA's AWE.

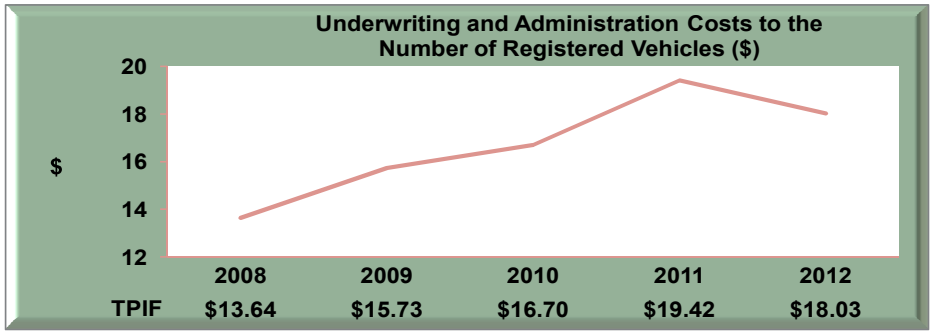



| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | 25.0% | 15.0% |

***Comments:*** This measure is better than target resulting from a Nil increase in CTP premiums notwithstanding increases in average weekly earnings (AWE) over 2012.

## Efficiency Performance Indicators

**Underwriting and Administration Costs to the Number of Registered Vehicles** measures the cost of administering the TPIF per registered vehicle in Western Australia. Accident prevention and debt recovery costs are excluded from this calculation.




| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | $17.09 | $18.03 |

***Comments:*** **Underwriting and Administration Costs to the Number of Registered Vehicles** is unfavourable compared to target, resulting primarily from higher than forecasted acquisition costs (commission payments to the Department of Transport for the collection of CTP premiums were 24.0% higher than target, including $5.1 million of deferred acquisition costs that had to be expensed at 30 June 2012 following an actuarial assessment of unearned premiums compared to unexpired risk liabilities). Direct administration and overhead expenses were 3.9% better than target and the average number of registered vehicles was approximately in line with expectations.

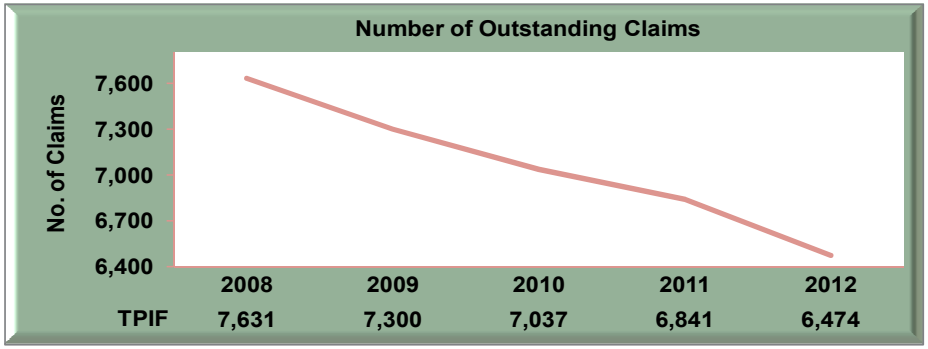
# THIRD PARTY INSURANCE FUND

## (c) To provide a claims system that treats claimants fairly and delivers equitable compensation.

### Effectiveness Performance Indicators

The **Number of Outstanding Claims** as at year-end (accidents from all years).

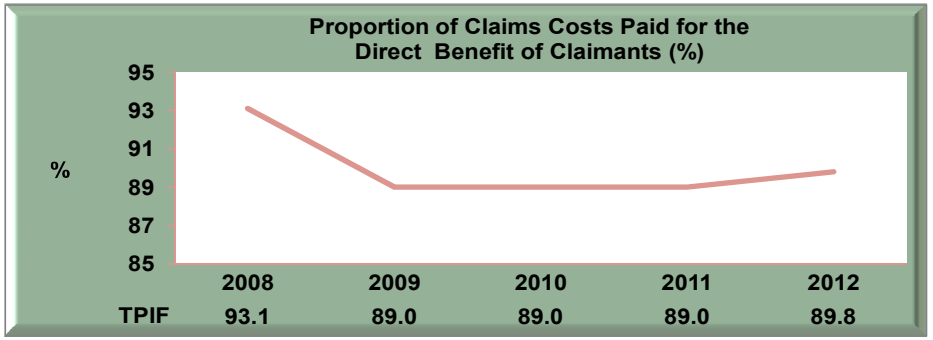
| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | 6,638 | 6,474 |




***Comments:*** The **Number of Outstanding Claims** is better than target with 367 fewer active claims outstanding at 30 June 2012 than at 30 June 2011. This results from a better than expected number of new claims received (3,632 actual compared to a target of 3,813) and only a marginally lower than the targeted number of claims closures (3,999 actual number of claims closed compared to 4,017 forecast).

The **Proportion of Claims Costs Paid for the Direct Benefit of Claimants** reflects the TPIF's effectiveness in minimising the financial hardship of claimants. This measure excludes costs such as legal and investigation costs ordinarily incurred in the management of a claim.

| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | 90.0% | 89.8% |



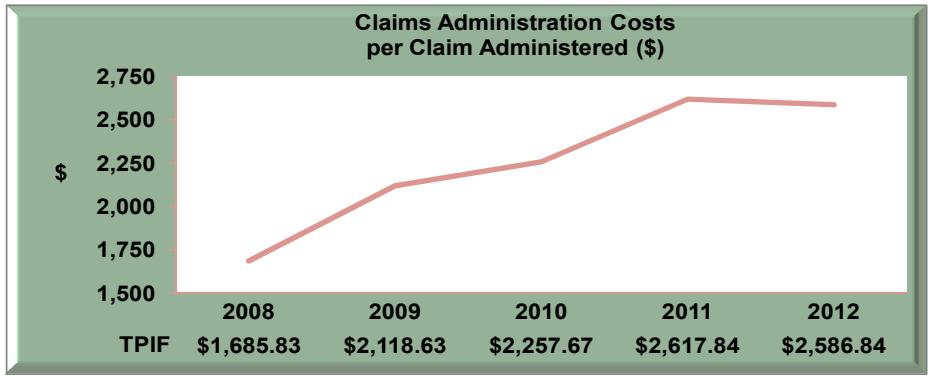

***Comments:*** The **Proportion of Claims Costs Paid for the Direct Benefit of Claimants** is marginally below target. Total claims payments for the year were $420.1 million, of which $377.4 million (89.8%) was paid for the direct benefit of claimants by way of pecuniary and non-pecuniary losses, including $312.4 million (82.7%) for general damages, past and future economic loss, past and future medical expenses and past and future care and services. The balance includes sundry expenses of $19.1 million for ambulance and hospital expenses and $25.1 million in claimants' legal costs.

# THIRD PARTY INSURANCE FUND

## Efficiency Performance Indicators

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total Administration Costs divided by the number of claims administered in the period. Accident prevention and commissions paid for premium collection are excluded from this calculation. Debt recovery costs are also excluded.

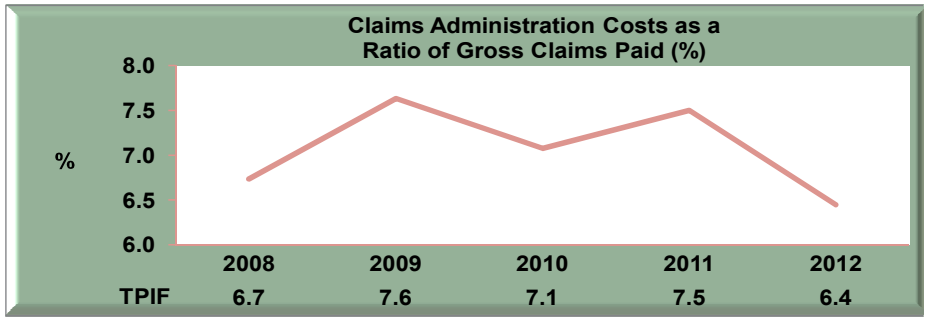
| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | $2,638 | $2,587 |




***Comments:*** **Claims Administration Costs per Claim Administered** is better than target, resulting from better than target (3.6%) claims administration costs whilst the total number of claims administered is only marginally (1.7%) worse than target.

**Claims Administration Costs as a Ratio of Gross Claims Paid** indicates how efficient the TPIF is in administering claims compared to the overall claims cost. Accident prevention and commissions paid for premium collection are excluded from this calculation. Debt recovery costs are also excluded.

| | 2012 Target | 2012 Actual |
|---|---|---|
| **Third Party Insurance Fund** | 7.4% | 6.4% |




***Comments:*** **Claims Administration Costs as a Ratio of Gross Claims Paid** is better than target as a result of lower (3.6%) than forecast claims administration costs whilst gross claims payments were significantly higher (10.0%) than expected.

# RISKCOVER

As from 1 July 1997, the Government of Western Australia adopted a Managed Fund approach to administer all insurable risks of its public authorities on a self-insurance basis. The RiskCover Fund is underwritten by the Crown and is managed by the Insurance Commission on behalf of the State Government and its participating public authorities. The Department of Treasury supervises the activities and performance of the Insurance Commission in the management of the RiskCover Fund. The Insurance Commission earns a management fee from this activity, equivalent to the proportion of the Insurance Commission's services used by RiskCover.

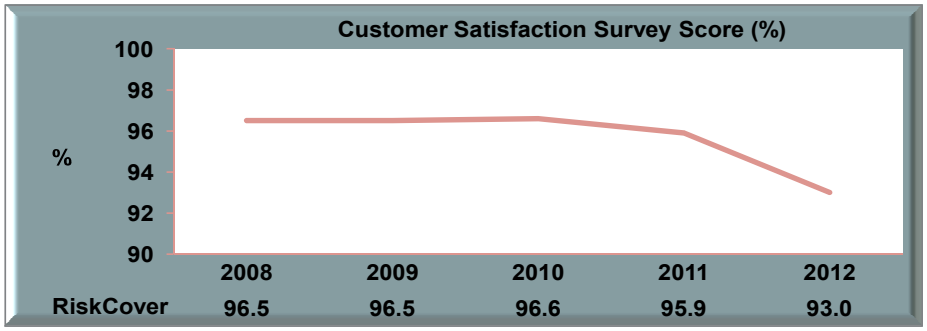
RiskCover's assets are not owned by the Insurance Commission and are therefore not consolidated. Monies which are surplus to immediate operational requirements are invested in the investment pool of the Insurance Commission and are represented by a Floating Rate Promissory Note (Refer Note 14 to the Financial Statements). Any accumulated deficit in RiskCover represents a liability of the Government of Western Australia and not of the Insurance Commission.

## (a) Meet customer risk management and self-insurance needs

### Effectiveness Performance Indicator

Each year RiskCover conducts a survey of its Public Authority customer base. The **Customer Satisfaction Survey Score** is the percentage of those respondents to the survey who rated RiskCover's performance as either good, very good or excellent. This indicator provides the average customer satisfaction result from the survey.

| | 2012 Target | 2012 Actual |
|---|---|---|
| **RiskCover** | 97.5% | 93.0% |



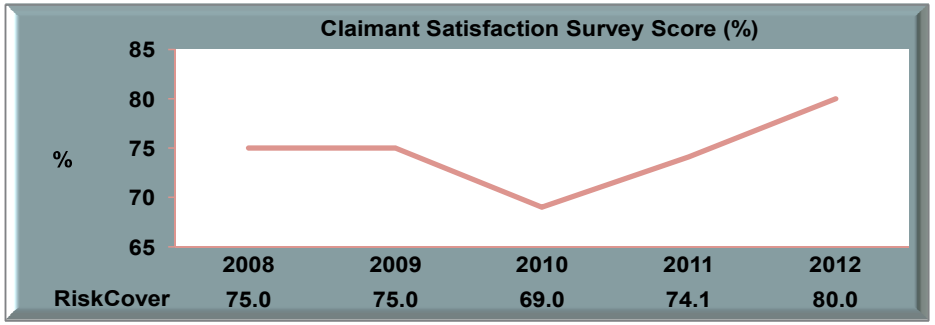

***Comments:*** This indicator is slightly down on target, however the RiskCover division has continued to rate highly in customer satisfaction. Of the agencies that responded, 93% had a 'Good' or better impression of RiskCover.

# RISKCOVER

## Effectiveness Performance Indicator (continued)

RiskCover conducts a survey of claimants who received services from RiskCover. The **Claimant Satisfaction Survey Score** is the proportion of claimants, who dealt directly with RiskCover, that were satisfied or very satisfied with the level of service provided by RiskCover as per the independent survey conducted.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 77.0% | 80.0% |

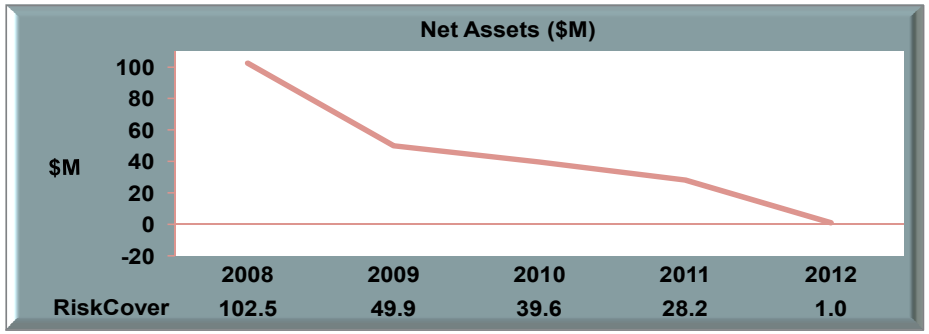



***Comments:*** This year's **Claimant Satisfaction Survey** score was an improvement on 2011, with 80.0% of claimants being satisfied with RiskCover's overall level of service. RiskCover will endeavour to continue to improve on this result by working in partnership with client agencies and using the feedback from the survey, to ensure that claimants continue to receive a high level of service.

## Efficiency Performance Indicators

**Net Assets** reflects the financial position of RiskCover at the end of the period and its ability to maintain a suitable reserve for future use.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover ($M) | 31.6 | 1.0 |

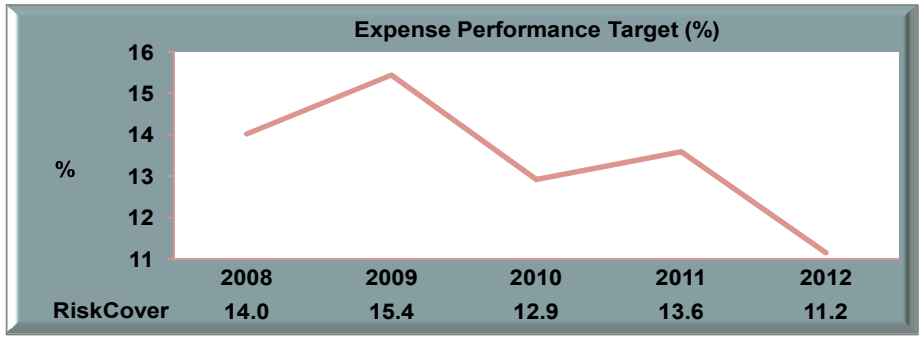



***Comments:*** **Net Assets** are $30.6 million less than target due to a large increase in the outstanding claims, being $102.5 million (264.2%) worse than target. This was predominantly due to the actuarial valuation of outstanding claims liability for the workers' compensation and liability risks, combined with less than anticipated investment return, being $23.6 million (65.2%) less than target.

# RISKCOVER

## Efficiency Performance Indicators (continued)

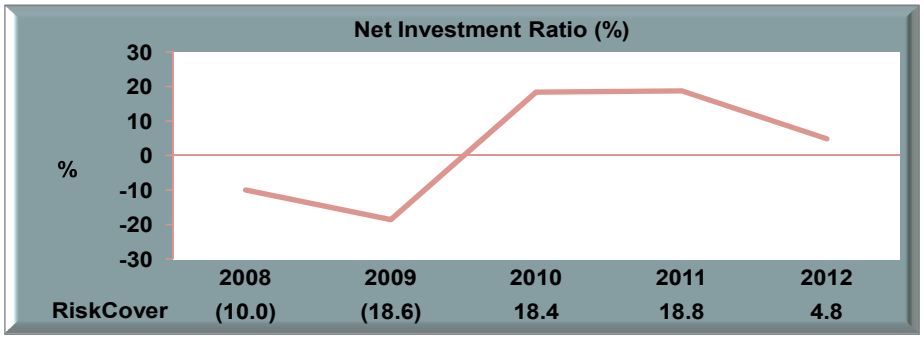
The **Expense Performance Target** compares the total RiskCover Management Fee to that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.




| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 11.9% | 11.2% |

***Comments:*** The **Expense Performance Target** was slightly better than target due to RiskCover's administration expenses being $2.6 million better than target. This is offset slightly by the contributions being $7.7 million less than target.

**Net Investment Ratio** represents net investment income as a percentage of net premium revenue.




| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 15.8% | 4.8% |

***Comments:*** The **Net Investment Ratio** is significantly lower than target, due to the Insurance Commission's worse than expected investment income rate of return of 2.9% (target 7.8%). Alternative assets (11.3% versus target 9.1%), property (11.0% versus target 8.0%), australian fixed interest (10.2% versus target 5.7%) and cash (5.8% versus target 5.5%) returns were better than target while all other asset class returns were below target - global fixed interest (4.0% versus target 5.3%), australian shares (-9.8% versus target 7.8%) and global shares (-5.1% versus target 9.2%). Further, net premium revenue of $262.6 million was $33.3 million (14.5%) better than target of $229.3 million.

# RISKCOVER

## (b) To promote and support the growth of risk management practice to minimise the cost of risk to Government

### Effectiveness Performance Indicator

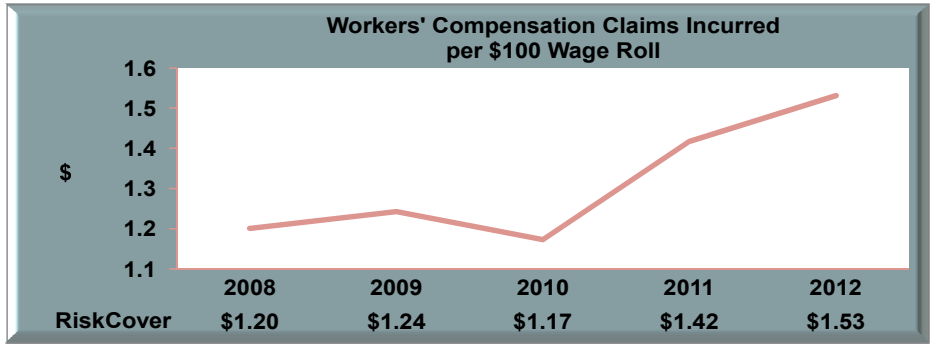
The **Risk Management Performance Score** indicates the average score resulting from the risk management practices survey which is conducted annually. The maximum score achievable is 20.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 15 | 16 |


***Comments:*** An actual result of 16 out of 20 was achieved. RiskCover continues to work extensively with agencies to improve their risk management practices.

The **Workers' Compensation Claims Incurred per $100 Wage Roll** indicator shows how effective the RiskCover Division is in keeping the cost of workers' compensation claims to a minimum. The ratio is expressed as the cost per $100 of wage roll declared by the State Government agencies included in the RiskCover scheme.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | $1.10 | $1.53 |



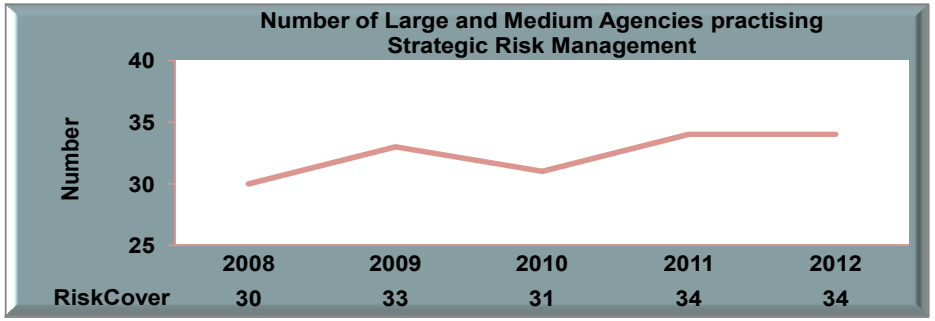

***Comments:*** The 2012 result is worse than target. This was mainly due to a significant increase in the total State Government agency wage roll ($839 million), compared with only a comparatively slight increase from 2011 in claim payments.

# RISKCOVER

## Effectiveness Performance Indicator (continued)

This indicator demonstrates RiskCover's success rate in introducing and implementing the principles and benefits of Strategic Risk Management practices in the larger WA State Government agencies.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 35 | 34 |

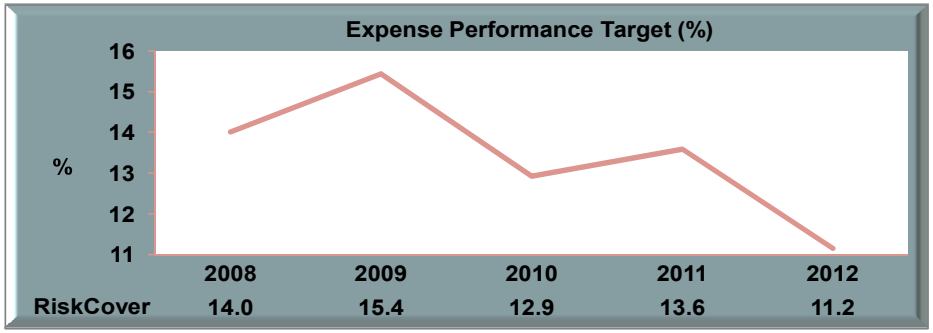



***Comments:*** This is a commendable result for 2012, with 34 large and medium agencies practising strategic risk management. RiskCover is continuing to encourage and assist agencies to integrate risk-thinking into their planning processes which will yield future benefits.

## Efficiency Performance Indicators

The **Expense Performance Target** compares the total RiskCover Management Fee with that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.

| | 2012 Target | 2012 Actual |
|---|---|---|
| RiskCover | 11.9% | 11.2% |




***Comments:*** The **Expense Performance Target** was slightly better than target due to RiskCover's administration expenses which was $2.6 million better than estimated. This is offset slightly by the contributions being $7.7 million worse than target.

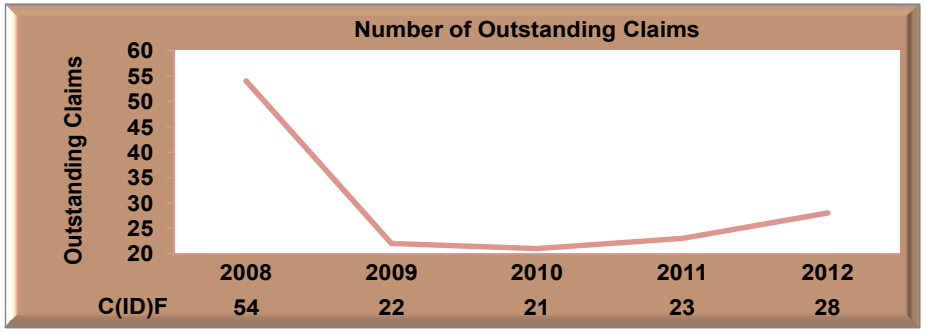
# COMPENSATION (INDUSTRIAL DISEASES) FUND

## To minimise the financial hardship of Industrial Disease claimants

### Effectiveness Performance Indicators

The **Number of Outstanding Claims** as at year-end (accidents from all years).

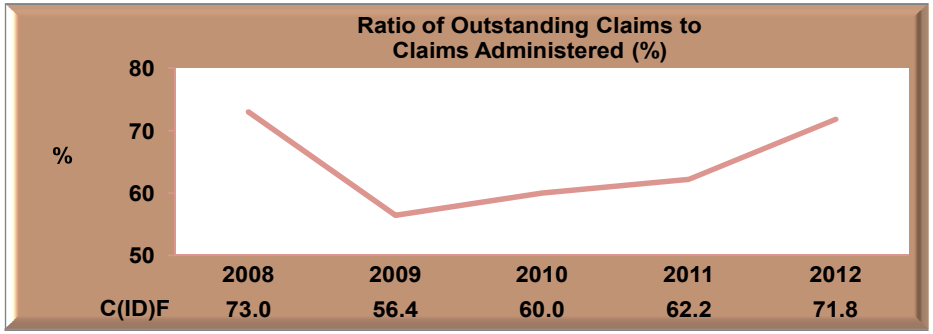
| | 2012 Target | 2012 Actual |
|---|---|---|
| C(ID)F | 20 | 28 |




***Comments:*** As the latency of development of industrial disease claims is over a number of decades and the number of incidents being relatively small, an accurate prediction of the number of outstanding claims at the end of any one year is problematic. The 2012 result is due to more re-opened claims than anticipated combined with fewer claims being finalised than anticipated during the period.

The **Ratio of Outstanding Claims to Claims Administered** shows how effectively claims are managed and finalised for the best outcome for all parties.

| | 2012 Target | 2012 Actual |
|---|---|---|
| C(ID)F | 57.1% | 71.8% |



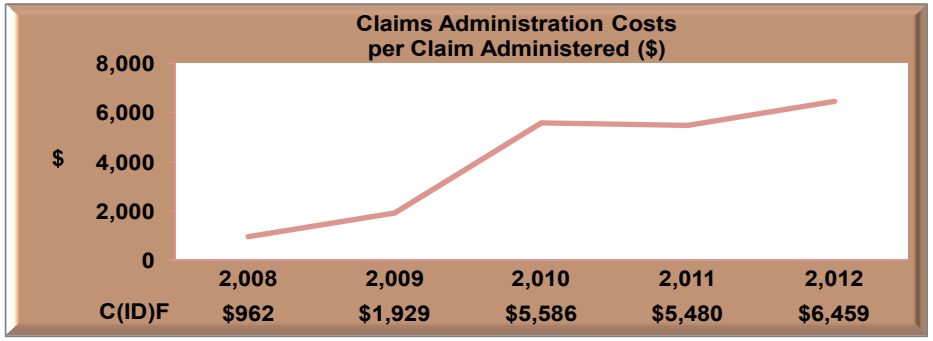

***Comments:*** As the latency of development of industrial disease claims is over a number of decades and the number of incidents being relatively small, an accurate prediction of the number of outstanding claims at the end of any one year is problematic. There has been an increase in 2012 as a result of fewer than anticipated industrial disease claims being closed.

# COMPENSATION (INDUSTRIAL DISEASES) FUND

## Efficiency Performance Indicator

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total administration costs divided by the number of claims administered in the period.

| | 2012 | |
|---|---|---|
| | Target | Actual |
| C(ID)F | $5,983 | $6,459 |




***Comments:*** As the latency of development of industrial disease claims is over a number of decades and the number of incidents being relatively small, an accurate prediction of the number of outstanding claims at the end of any one year is problematic. The increasing trend over the past three years has been due to a combination of increases in administration expenses and fewer new claims being lodged.

# GLOSSARY

The following definitions have been provided to assist readers in gaining a better understanding of this Annual Report and its Financial Statements.

## 1. ACQUISITION COSTS

Acquisition costs relate to all costs charged by the Department of Transport for administering the collection of motor vehicle third party insurance premiums.

## 2. ASSET REVALUATION RESERVE

The asset revaluation reserve represents the surplus in fair value of land and buildings after revaluation.

## 3. BENCHMARK

A benchmark is a standard used to measure the performance of an actual portfolio. The benchmark represents the market performance for similar securities.

## 4. CLAIMS

### Average Term to Settlement

The term from notification of claim to its settlement date.

### Case Estimate

An assessment of the amount outstanding for an individual claim made by the insurer for each claim reported.

### Case Estimate Payment Factors

Used in determining the estimate amount of claims payments, may for example include, size of court awards, and changes in claimant attitudes.

### Central Estimate

The estimate of the liability for outstanding claims based on a 50% level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

### Claims Expense

The amount paid for losses suffered under the terms of an insurance policy/cover, adjusted for:

- claims which have been reported but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER)

together with the anticipated direct and indirect claims settlement costs.

Claims expense also includes direct expenses such as legal and medical costs and assessors' fees.

### Claims Handling/Management Expenses

The costs incurred in relation to the administration and processing of claims.

### Discount Rate

The rate used to adjust expected future payments for the time value of money.

### EISF Act

Employers Indemnity Supplementation Fund Act 1980.

### IBNR and IBNER Claims

Incurred but not reported (IBNR) claims arise from events which have occurred but have not been reported at the end of the reporting period. Incurred but not enough reported (IBNER) claims arise from events which have occurred and been reported as at the end of the reporting period, but the amount reported may be understated.

The liability for outstanding claims in the Statement of Financial Position includes a provision for both IBNR and IBNER claims.

### Inflation Rates

Expected future payments are inflated to take account of increases in the general economy.

### Liability Adequacy Test

An assessment of whether the Unearned Premium Liability (less any deferred acquisition costs) recognised in the Statement of Financial Position, is sufficient to meet the estimated present value of future cashflows, plus an additional risk margin, related to future claims, that arise under current general insurance obligations.

If the Unearned Premium Liability is assessed to be insufficient to meet these future claims costs, then a deficiency is recognised in the Statement of Comprehensive Income and an additional liability presented in the Statement of Financial Position as “Unexpired Risk Liability”.

### Liability for Outstanding Claims

A provision for the future estimated cost of claims outstanding as at the end of the reporting period, including direct and indirect claims’ settlement costs. Outstanding claims incorporate those which have been reported but not paid, IBNRs and IBNERs, gross of any GST that may be paid.

### Long-Tail Claims
Claims which are typically not settled within one year of the occurrence of the events giving rise to those claims.

### Net Claims Incurred
Net Claims Incurred comprises claims paid (including claims' settlement costs) and the movement in the liability for outstanding claims, net of reinsurance and other amounts recoverable.

### Other Recoveries
Other amounts recovered or recoverable (e.g. salvage) in relation to claims.

### Prudential Margin
An amount added to the central estimate of the liability for outstanding claims, to increase the level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

### Reinsurance Recoveries
Amounts recovered or recoverable in respect of reinsurance cover purchased. Reinsurance cover provides some protection against single, large claims or many claims arising out of a single event.

### Short-Tail Claims
Claims which are typically settled within one year of the occurrence of the events giving rise to those claims.

### Superimposed Inflation Rate
In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards.

### Third Party Recoveries
May include amounts recovered from other insurers or private parties.

### Unexpired Risk Liability
Arises as a result of an assessed deficiency in the "Liability Adequacy Test".

## 5. COMPENSATION (INDUSTRIAL DISEASES) FUND RESERVE

The Compensation (Industrial Diseases) Fund Reserve results from funds surplus to the actuarial estimate for its outstanding claims liabilities. In accordance with the *Insurance Commission of Western Australia Act 1986,* the Insurance Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Insurance Commission pursuant to the *Mine Workers' Relief Fund Act 1932* and research into the prevention and treatment of industrial diseases. Part of the reserve has been and will in the future be expended on medical research to find a cure for mesothelioma.

## 6. DAIP

Disability Access and Inclusion Plan

## 7. DEFERRED ACQUISITION COSTS

Acquisition costs are deferred and recognised as assets when they give rise to revenue that will be recognised in future reporting periods.

## 8. ESG

Environmental, Social and Governance.

## 9. FINANCE RECOUP / COSTS

Finance Recoup / Costs includes interest recoup or paid and movements in discounts on receivables.

## 10. FLOATING RATE PROMISSORY NOTE

The Floating Rate Promissory Note represents RiskCover's share of the investment pool of the Insurance Commission. RiskCover earns an investment return or shares in investment losses in proportion to its share of the investment pool of the Insurance Commission.

## 11. ICWA LAW PTY LTD

A proprietary company limited by shares, wholly owned by the Insurance Commission. ICWA Law is registered under the *Corporations Act 2001* and is registered in Western Australia. ICWA Law was created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action. ICWA Law commenced operations on 2 May 2011.

## 12. INSURANCE COMMISSION'S FUNDS

| | | |
|---|---|---|
| **TPIF** | - | Third Party Insurance Fund |
| **C(ID)F** | - | Compensation (Industrial Diseases) Fund |
| **GIF** | - | Government Insurance Fund |
| **ICGF** | - | Insurance Commission General Fund |

## 13. INVESTMENT EXPENSES

Investment expenses relates to costs associated with deriving investment income.

## 14. INVESTMENT INCOME/LOSS INCLUDING MOVEMENTS IN FAIR VALUE

Realised and unrealised gains and losses relating to assets classified on the Statement of Financial Position as Financial Assets at Fair Value through

Profit or Loss and those associated with the revaluation of investment properties.

## 15. MANAGED FUND – RISKCOVER

A self-insurance scheme for the Western Australian Government and its agencies, which provides a pooling mechanism for participating members to fund and pay future financial losses arising from broadly defined 'insurable' events.

## 16. MVPI

Motor Vehicle Personal Injury.

## 17. NET MOVEMENT IN UNEXPIRED RISK LIABILITY

The net movement in Unexpired Risk Liability represents the gross movement less any associated reinsurance or other recoveries.

## 18. OCRF

On-line Crash Reporting Facility.

## 19. PREMIUMS

### Compulsory Third Party Insurance

Premiums received in respect of insurance covering bodily injury to, or death of, third parties as a result of a road accident. All owners of motor vehicles using public roads in Western Australia are required to have compulsory third party cover.

### Net Premium Revenue

Premium revenue plus the outwards reinsurance commission earned less than the outwards reinsurance expense.

### Outwards Reinsurance Expense

Premium paid to a reinsurer in consideration for the insurance liability assumed by the reinsurer, adjusted for any amount prepaid as at the end of the reporting period.

### Premium Revenue

Premium revenue comprises amounts charged to policyholders and in relation to Inwards Reinsurance, amounts charged to other insurers. It includes workers' compensation insurance levies, but excludes stamp duties and other amounts collected on behalf of third parties. Premium revenue is adjusted for unearned premium as at the end of the reporting period.

### Unearned Premium

The portion of premium written, which relates to risks for periods of insurance subsequent to the end of the reporting period.

## 20. REINSURANCE

Cover provided by a general insurer (the reinsurer) to indemnify another general insurer (the reinsured) against all or part of a loss, which the latter may sustain.

## 21. RISKCOVER

RiskCover is a Managed Fund established to administer the self-insurance arrangements of public authorities of the State Government. RiskCover is underwritten by the Government of Western Australia and managed by the Insurance Commission.

## 22. RSC

Road Safety Council.

## 23. SID

Special Investigations Division.

## 24. STATE GOVERNMENT INSURANCE CORPORATION (CORPORATION)

The Corporation is a wholly-owned subsidiary of the Insurance Commission. The Corporation existed to run-off small lines of Australian and overseas inwards reinsurance business written between 1988 and 1992. The Corporation was closed effective 1 July 2012, with all residual assets, rights and liabilities transferred to the Insurance Commission General Fund.

## 25. OTHER

### Run-off

Run-off refers to closed insurance portfolios where the applicable claims' liabilities are being progressively extinguished to their final liquidation. The Government Insurance Fund and the Insurance Commission General Fund are in run-off. The State Government Insurance Corporation was in run-off prior to its 1 July 2012 closure.

# INDEX