



**Insurance Commission  
of Western Australia**

# 2017 End of Year Performance Report

Insurance Commission  
of Western Australia

# END OF YEAR PERFORMANCE REPORT

During the 2016-17 Financial Year (herein referred to as 2017), the Insurance Commission of Western Australia (Insurance Commission), including RiskCover received 30,554 new insurance claims and managed claims to a value of \$2.8 billion for claims paid and future claims liabilities.

The Insurance Commission generated more than \$1.4 billion in revenue and earnings in 2017. The Insurance Commission's profit before tax was \$263 million, which was a \$257.9 million improvement on the \$5.1 million profit before tax result delivered in 2016.

The Insurance Commission, excluding the RiskCover Fund that it manages on behalf of the Government, reports a profit after tax of \$193.1 million for 2017.

These end of year results were driven by a positive investment return of 10.4% or \$468.4 million (before fees and expenses).

The Insurance Commission held its administration expenses to \$57.5 million in 2017, which was lower than our 2011 administration expenses of \$61.2 million, excluding Bell group recovery costs.

The **unaudited** end of year financial statements are available as **Appendix A** to this Report. The full audited 2017 Annual Report will be tabled in Parliament and published on the Insurance Commission's website.

## Contributions to Government

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

A total dividend (including interim and special dividend) of \$116.9 million was paid to Government from the Third Party Insurance Fund (TPIF), as the Insurance Commission's strong investment performance during the year meant that it exceeded its solvency target for the fund.

The Insurance Commission also paid insurance duty (\$79.8 million) and tax (\$119.9 million) to Government. As a result of these dividend, insurance duty and tax payments, in 2017 the Insurance Commission has contributed over \$316 million (2016: \$249 million) to Government. The tax payments have mostly been driven by capital gains tax triggered by the divestment of directly held property assets.

## Motor Injury Insurance

In 2017, we received \$686.6 million in revenue in motor injury insurance premium payments for over 2.9 million insured vehicles.

Premium revenue in 2017 was higher than the \$555 million of revenue collected in 2016 as it included \$105.7 million in insurance premium payments for Catastrophic Injuries Support (CIS) cover, offered to motorists for the first time from 1 July 2016.

The Insurance Commission managed car crash claims to the value of \$2.2 billion in 2017, consisting of \$462 million in claims payments to people injured in crashes, mostly in prior years, and anticipated future claims expenses of \$1.7 billion.

The Insurance Commission is the sole underwriter of motor injury insurance in Western Australia. One motor injury insurance policy is governed by two Acts of Parliament:

- *Motor Vehicle (Third Party Insurance) Act 1943*; and
- *Motor Vehicle (Catastrophic Injuries) Act 2016*.

The policy provides owners and drivers of WA registered vehicles with an unlimited indemnity against personal injury claims for injuries they cause to others in motor vehicle crashes. The policy also provides cover to any person catastrophically injured in a crash in WA.

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

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

In 2017, the TPIF recorded an underwriting profit of \$20 million, compared to an underwriting loss of \$5.2 million in 2016 and an underwriting loss of \$15.1 million in 2015.

Prior to 2017, the TPIF had only made an underwriting profit in four of the past 20 years. This reflects that motor injury insurance premium revenues have generally been insufficient to meet the cost of claims payments and management of the scheme.

In the years that underwriting losses have been sustained, investment markets have generally delivered sufficient returns to ensure the CTP insurance scheme remains viable.

The TPIF profit before tax was \$342.6 million in 2017 which was a \$281.2 million improvement on the \$61.4 million result in 2016. The improvement in financial performance was due to higher investment income of \$345.4 million in 2017 compared to \$101.2 million received in 2016.

The Insurance Commission introduced CIS insurance from 1 July 2016, which provides lifetime care and support to people catastrophically injured in crashes.

The Motor Vehicle (Catastrophic Injuries) Fund (MVCIF) was established on 1 July 2016 as the Fund for the CIS scheme.

The MVCIF recorded an underwriting loss of \$98.1 million in its first year. The principal reason for the underwriting loss is that premium revenue was not collected from motorists in advance of the CIS start date.

The MVCIF delivered a loss before tax of \$94.3 million in 2017. Investment income received for the Fund in 2017 was \$3.9 million.

The Insurance Commission made a \$95.9 million capital transfer to the MVCIF from the Insurance Commission General Fund (ICGF) to fill the shortfall in the MVCIF. This transfer to fully fund the MVCIF for the 2017 year was possible as the sale of the Forrest Centre in 2016 released a significant asset revaluation reserve held against that building.

The aggregate Insurance Commission underwriting result of (\$81.2 million) reflects the net underwriting profit of \$20 million for the TPIF and (\$98 million) of the MVCIF. As identified above, the \$98 million underwriting loss will largely be offset by the \$96 million transferred into the MVCIF.

The number of people assessed as eligible for treatment, care and support via either the CIS scheme or the CTP injury insurance scheme was 48. Of the 48 people catastrophically injured, 28 people were eligible for the CIS scheme as there was no other driver identified at fault in the crash, and 20 people were eligible for the CTP scheme as their injuries were caused by the fault of another driver.

The actual number of people catastrophically injured was less than the estimated number but within the range of variation expected by the Insurance Commission and the actuary. That is a good outcome as fewer people have been catastrophically hurt on our roads.

There are a few reasons why the actual number is lower than annual estimates, including:

- Yearly variation. The actuary estimated that the number of people catastrophically injured in the CIS scheme could vary between 32 and 54 within the first year. As the CIS scheme continues, more experience can be developed to further improve claim estimation.
- A delay in reporting. At 30 June 2017, there were 13 potential catastrophic injury cases requiring an eligibility assessment for the CIS scheme. Some or all of these people will be eligible for CIS as a result of car accidents in the 2017 year. However at 1 July 2016 (CIS scheme commencement), there were no cases requiring assessment as it was a new scheme, and therefore there was no carry forward of cases in the prior year to bring up the numbers to the actuary's estimate.
- More people killed on roads than previous years. In 2017, there were 183 people killed on WA roads, which was higher than the 171 people killed in 2016. There can often be a fine line between a near miss and a crash, or a fatality and a catastrophic injury.

While the numbers of people catastrophically injured were lower, the estimated cost of lifetime treatment, care and support was higher by \$900,000 on average per person (\$4.9 million) compared to forecasts of \$4 million per person. The costs are expected to be higher as peoples' injuries were worse than the average forecast and the age of injured people was lower than forecast, involving high cost care funding over a longer period of time.

The introduction of the CIS scheme was one of the main achievements for the Insurance Commission for 2017. The Project was delivered on time and under budget. The Insurance Commission now runs two motor injury insurance schemes (CIS and CTP schemes) at the same cost we incurred in the past to operate the CTP scheme. It is pleasing to report the Insurance Commission's 2017 administration costs for the CIS and CTP schemes were \$2.3 million lower than budget.

### **RiskCover**

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

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

RiskCover recorded a profit of \$154.3 million, which was \$88 million greater than the 2016 profit of \$66.3 million. This result is due to an underwriting profit of \$52.5 million and stronger than anticipated investment income of \$101.8 million (\$51.5 million greater than budget). The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of other funds managed by the Insurance Commission.

The positive underwriting performance for the year was due to lower net claims incurred at \$75.5 million less than budget, led by the workers' compensation (\$56 million) and property (\$18.1 million) classes.

RiskCover claims payments continue to decrease, reducing from \$233.9 million in 2016 to \$205.9 million in 2017, a difference of \$28 million.

There were 1,733 fewer new insurance claims received in 2017 across RiskCover's insurance classes compared to 2016. The reduction in new claims was led by the short-tail property and motor insurance classes, mostly from public schools who made fewer minor damage and property loss claims.

New workers' compensation claims from public sector agencies increased by 109 claims in 2017 compared to 2016 numbers. Despite this small increase in new claims, the cost of claims paid for workers' compensation claims in 2017 decreased by \$2.9 million.

To further assist public sector workers and agencies, the Insurance Commission rolled out an online submission process for workers' compensation claims in July 2017. The change reduces red tape for staff and agencies by enabling more efficient processing of workers' compensation claims, and reduced paper handling and data entry.

### **Investments**

The Insurance Commission delivered a positive investment return of 10.4% in 2017. This return is comprised of investments for two funds: the Main Fund which had a return of 10.7% and the Motor Vehicle (Catastrophic Injuries) Fund which had a return of 2.2%.

The total value of the investment funds held by the Insurance Commission to offset insurance liabilities grew from \$4.4 billion at 1 July 2016 to \$4.9 billion at 30 June 2017. The total value of assets held by the Insurance Commission at 30 June was \$5.2 billion.

The main investment returns of the Insurance Commission exceeded the market benchmark by 1.7% due to outperformance in Australian Shares (up 3% against benchmark), Global Shares (up 5.6% against benchmark), Alternative Assets (up 7.5% against benchmark), Fixed Interest (up 6.3% against benchmark) and Cash (up 0.5% against benchmark). Property underperformed the benchmark.

The Insurance Commission's rolling seven-year return was 8.4%, which was 2.8% above the Consumer Price Index plus 3.5% performance objective.

In July 2017, the Insurance Commission reopened the sales process for its last remaining direct property asset of Westralia Square in Perth's Central Business District. Prospective bidders are currently undertaking due diligence on the asset in order to make binding offers during August.



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

**ACTUAL PERFORMANCE COMPARED TO BUDGET**  
**(INSURANCE COMMISSION ONLY)**  
**at 30 June 2017**

	<b>Actual \$'000</b>	<b>Budget \$'000</b>	<b>Variance \$'000</b>
Net Premium Revenue	679,132	682,844	(3,712)
Net Claims Incurred	(685,139)	(693,845)	8,706
Net Movement in Unexpired Risk	(11,351)	-	(11,351)
Underwriting and Administration Expenses	(63,938)	(66,520)	2,582
<b>Underwriting Loss</b>	<b>(81,296)</b>	<b>(77,521)</b>	<b>(3,775)</b>
Net Investment Income	444,279	227,238	217,041
Finance Costs - RiskCover Investment Return	(101,788)	(50,276)	(51,512)
Other	1,813	5,393	(3,580)
<b>Profit before Income Tax Equivalent Expense</b>	<b>263,008</b>	<b>104,834</b>	<b>158,174</b>
Income Tax Equivalent Expense	(69,873)	(31,450)	(38,423)
<b>Profit After Income Tax Equivalent Expense</b>	<b>193,135</b>	<b>73,384</b>	<b>119,751</b>
<b>Total Equity (as per Balance Sheet)</b>	<b>1,192,486</b>		

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Annual Investment Rate of Return (%)	10.4	5.5	4.9
Return on Total Assets (%)	5.3	2.2	3.1
Solvency Level (%)	129.9	132.1	(2.2)
Investment Rolling 7-Year Return (%)	8.4	6.0	2.4
Net Loss Ratio (%)	100.9	101.6	0.7
Net Expense Ratio (%)	11.3	10.6	(0.7)
Net Combined Ratio (%)	112.2	112.2	-

## ACTUAL PERFORMANCE COMPARED TO BUDGET

### (RISKCOPER)

at 30 June 2017

	Actual \$'000	Budget \$'000	Variance \$'000
Premium Revenue	308,113	303,650	4,463
Reinsurance and Other Adjustments	(45,876)	(17,031)	(28,845)
Net Claims Incurred	(178,514)	(253,979)	75,465
Administration Expenses	(31,219)	(34,473)	3,254
<b>Underwriting Profit/(Loss)</b>	<b>52,504</b>	<b>(1,833)</b>	<b>54,337</b>
Investment Income	101,788	50,276	51,512
<b>Profit</b>	<b>154,292</b>	<b>48,443</b>	<b>105,849</b>
<b>Total Equity (as per Balance Sheet)</b>	<b>285,234</b>		

	Actual	Budget	Variance*
Solvency Level (%)	135.0	132.2	2.8
Net Loss Ratio (%)	68.1	88.6	20.5
Net Expense Ratio (%)	11.9	12.0	0.1
Net Combined Ratio (%)	80.0	100.6	20.6

## STATEMENT OF COMPREHENSIVE INCOME

### for the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Net Premium Revenue	679,132	550,057
Net Claims Incurred	(685,139)	(510,279)
Net Movement in Unexpired Risk	(11,351)	-
Underwriting and Administration Expenses	(63,938)	(54,662)
<b>UNDERWRITING LOSS</b>	<b>(81,296)</b>	<b>(14,884)</b>
Investment Income	468,430	70,144
Investment Expenses	(24,151)	(31,094)
RiskCover Investment Return	(101,788)	(23,540)
Other	1,813	4,521
<b>PROFIT BEFORE TAX EQUIVALENT</b>	<b>263,008</b>	<b>5,147</b>
Income Tax Equivalent (Expense)/Benefit	(69,873)	6,679
<b>PROFIT AFTER TAX EQUIVALENT</b>	<b>193,135</b>	<b>11,826</b>
<b>OTHER COMPREHENSIVE LOSS AFTER TAX EQUIVALENT</b>	<b>-</b>	<b>(238)</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX EQUIVALENT</b>	<b>193,135</b>	<b>11,588</b>

## BALANCE SHEET

### as at 30 June 2017

	2017 \$'000	2016 \$'000
<b>ASSETS</b>		
Cash and Cash Equivalents	11,004	4,174
Receivables	268,800	256,074
Investments	4,889,153	4,416,078
Deferred Premium Collection Costs	4,933	5,723
Intangibles	5,318	5,872
Plant and Equipment	2,285	2,243
Other Assets	2,189	2,177
<b>TOTAL ASSETS</b>	<b>5,183,682</b>	<b>4,692,341</b>
<b>LIABILITIES</b>		
Payables	36,560	27,940
Financial Liabilities - RiskCover Investments	1,066,680	921,541
Current Tax Payable	4,603	79,076
Outstanding Claims	2,455,933	2,224,837
Unearned Premium	285,792	220,163
Unexpired Risk Liability	14,432	-
Provisions	17,838	17,614
Deferred Tax Liabilities	109,358	84,876
<b>TOTAL LIABILITIES</b>	<b>3,991,196</b>	<b>3,576,047</b>
<b>NET ASSETS</b>	<b>1,192,486</b>	<b>1,116,294</b>
<b>EQUITY</b>		
Compensation (Industrial Diseases) Fund Reserve	22,088	20,865
Retained Earnings	1,170,398	1,095,429
<b>TOTAL EQUITY</b>	<b>1,192,486</b>	<b>1,116,294</b>

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

## FUNDS' FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2017	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net Premium Revenue	576,811	549,977	102,226	-	95	80	-	-	-	-
Net Claims Incurred	(507,409)	(501,329)	(179,591)	-	188	(1,149)	293	(830)	1,380	(6,971)
Net Movement in Unexpired Risk	-	-	(11,351)	-	-	-	-	-	-	-
Underwriting and Administration Expenses	(49,402)	(53,888)	(9,341)	-	(1,043)	(959)	(1,576)	(929)	(2,576)	(1,827)
<b>UNDERWRITING PROFIT/(LOSS)</b>	<b>20,000</b>	<b>(5,240)</b>	<b>(98,057)</b>	<b>-</b>	<b>(760)</b>	<b>(2,028)</b>	<b>(1,283)</b>	<b>(1,759)</b>	<b>(1,196)</b>	<b>(8,798)</b>
Investment Income	345,366	101,201	3,860	-	2,596	767	(90)	(90)	116,698	(31,734)
Investment Expenses	(22,965)	(34,691)	(162)	-	(173)	(269)	-	-	(851)	3,866
RiskCover Investment Return	-	-	-	-	-	-	-	-	(101,788)	(23,540)
Other	163	94	29	-	-	-	1,373	1,849	248	5,519
<b>PROFIT/(LOSS) BEFORE TAX EQUIVALENT</b>	<b>342,564</b>	<b>61,364</b>	<b>(94,330)</b>	<b>-</b>	<b>1,663</b>	<b>(1,530)</b>	<b>-</b>	<b>-</b>	<b>13,111</b>	<b>(59,359)</b>
Income Tax Equivalent (Expense)/Benefit	(93,401)	(11,314)	27,571	-	(439)	514	-	-	(3,604)	17,479
<b>PROFIT/(LOSS) AFTER TAX EQUIVALENT</b>	<b>249,163</b>	<b>50,050</b>	<b>(66,759)</b>	<b>-</b>	<b>1,224</b>	<b>(1,016)</b>	<b>-</b>	<b>-</b>	<b>9,507</b>	<b>(41,880)</b>

## BALANCE SHEET at 30 June 2017

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>										
Cash and Cash Equivalents	-	-	5,920	-	-	-	-	-	5,084	4,174
Receivables	166,643	157,490	14,971	-	670	726	38,770	40,629	50,249	58,433
Current Tax Receivable	-	-	21,259	-	-	-	-	-	38,815	4,321
Investments	3,458,417	3,261,422	245,939	-	26,170	24,853	(6,730)	(4,753)	1,165,357	1,134,556
Deferred Premium Collection Costs	4,933	5,723	-	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-	-	5,318	5,872
Deferred Tax Assets	-	-	6,312	-	-	-	-	-	117	-
Plant and Equipment	-	-	-	-	-	-	-	-	2,285	2,243
Other Assets	-	-	-	-	-	-	-	-	2,189	2,177
<b>TOTAL ASSETS</b>	<b>3,629,993</b>	<b>3,424,635</b>	<b>294,401</b>	<b>-</b>	<b>26,840</b>	<b>25,579</b>	<b>32,040</b>	<b>35,876</b>	<b>1,269,414</b>	<b>1,211,776</b>
<b>LIABILITIES</b>										
Payables	14,867	21,302	3,973	-	428	81	86	31	19,709	7,730
Current Tax Payable	64,487	83,305	-	-	191	92	-	-	-	-
Financial Liabilities - RiskCover Investments	-	-	-	-	-	-	-	-	1,066,680	921,541
Outstanding Claims	2,147,110	2,083,290	184,657	-	3,579	3,872	31,954	35,845	88,633	101,830
Unearned Premium	223,493	219,998	62,199	-	100	165	-	-	-	-
Unexpired Risk Liability	-	-	14,432	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	17,838	17,614
Deferred Tax Liabilities	115,333	84,256	-	-	454	504	-	-	-	116
<b>TOTAL LIABILITIES</b>	<b>2,565,290</b>	<b>2,492,151</b>	<b>265,261</b>	<b>-</b>	<b>4,752</b>	<b>4,714</b>	<b>32,040</b>	<b>35,876</b>	<b>1,192,860</b>	<b>1,048,831</b>
<b>NET ASSETS/EQUITY</b>	<b>1,064,703</b>	<b>932,484</b>	<b>29,140</b>	<b>-</b>	<b>22,088</b>	<b>20,865</b>	<b>-</b>	<b>-</b>	<b>76,554</b>	<b>162,945</b>

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

## RISKCOver FUND FINANCIAL STATEMENTS

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

### STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Premium Revenue	308,113	319,557
Reinsurance and Other Adjustments	(45,876)	(62,449)
Net Claims Incurred	(178,514)	(182,723)
Administration Expenses	(31,219)	(31,585)
<b>UNDERWRITING PROFIT</b>	<b>52,504</b>	42,800
Investment Income	101,788	23,540
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>154,292</b>	66,340

### BALANCE SHEET as at 30 June 2017

#### ASSETS

Cash and Cash Equivalents	15,239	14,942
Receivables	18,269	26,782
Investments	1,066,680	921,541
<b>TOTAL ASSETS</b>	<b>1,100,188</b>	963,265
<b>LIABILITIES</b>		
Payables	245,696	139,240
Outstanding Claims	569,258	595,362
<b>TOTAL LIABILITIES</b>	<b>814,954</b>	734,602
<b>NET ASSETS/EQUITY</b>	<b>285,234</b>	228,663



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## **Insurance Commission of Western Australia**

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