

Insurance Commission of Western Australia



Annual Report
2004



Insurance Commission
of Western Australia



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To the Minister

Statement of Compliance

To the Hon Nick Griffiths LLB MLC
Minister for Government Enterprises

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit to the Minister for Government Enterprises, for information and presentation to Parliament, the Annual Report of the Insurance Commission of Western Australia for the financial year ended 30 June 2004.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and the *Insurance Commission of Western Australia Act 1986*.

Handwritten signature of Michael E Wright in black ink.

MICHAEL E WRIGHT
CHAIRMAN
25 August 2004

Handwritten signature of Vic Evans in black ink.

VIC EVANS
MANAGING DIRECTOR
25 August 2004

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia, passed on 25 August 2004.

ABOUT THE INSURANCE COMMISSION

Structure of the Insurance Commission

The Insurance Commission of Western Australia (the Insurance Commission) was established and operates in accordance with the *Insurance Commission of Western Australia Act 1986* (the Act). The Minister responsible for the Insurance Commission is the Hon Nick Griffiths, LLB, MLC, Minister for Government Enterprises.

The Insurance Commission has two Insurance Divisions :

- The Motor Vehicle Personal Injury Division (MVPI Division)
- The RiskCover Division (RiskCover).

Each Division has dedicated Funds and is supported by six Service Divisions: Investments, Finance, Human Resources, Information Technology, Special Investigations and the Commission Executive.

The Insurance Commission has 302 employees. The organisation chart in this report details the management structure of the Insurance Commission.

Key Functions of the Insurance Commission

Motor Vehicle Personal Injury Division (MVPI Division)

The key function of the Insurance Commission's MVPI Division is to issue, or cause to be issued, and undertake liability under policies of insurance as defined by the Act.

Australia-wide, Motor Vehicle Third Party (Personal Injury) Insurance is compulsory, which is why it is commonly referred to as Compulsory Third Party (CTP) Insurance. The MVPI Division administers and manages the CTP Insurance scheme in Western Australia.

Owners and drivers of Western Australian registered motor vehicles are provided with unlimited protection in the event that their negligent driving of a Western Australian registered motor vehicle causes injury or death to other persons. This means that they are not held personally liable for the costs of any fatal or personal injury claims made against them. Instead, these claims are managed and paid for by the Insurance Commission – provided they have not breached the conditions of the CTP Insurance Policy. The Policy and the warranties and conditions, is printed on the back of all motor vehicle registration invoices. The Division manages the claims lodged by those injured in motor vehicle crashes.

RiskCover Division

The RiskCover Division was created in July 1997 to facilitate the self-insurance arrangements of Western Australian Government Public Authorities and promote risk management throughout government. It also manages the Compensation (Industrial Diseases) Fund (CIDF); Community Insurance Fund (CIF) and the run-off of claims incurred by the former State Government Insurance Office prior to 1 January 1987.

The key functions of the Insurance Commission's RiskCover Division relative to the self insurance facility, as defined by the Act, are:

- to manage and administer insurance and risk management arrangements on behalf of the Western Australian Public Authorities; and
- to provide services, facilities and advice to public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law.

A further function is to issue and undertake liability under policies of insurance for industrial diseases resulting from mining operations as required by Section 163 of the *Workers' Compensation and Rehabilitation Act 1981*. An Industrial Diseases Team provides workers' compensation insurance and a claims management service to the mining industry for claims arising from three specified industrial diseases.

The CIF was established by the Government of Western Australia in January 2003 to assist incorporated, not-for-profit community organisations based in Western Australia, to obtain affordable insurance cover. The CIF is underwritten by the Government of Western Australia and managed by the Insurance Commission. The key function of RiskCover with respect to the CIF as required by the *Insurance Commission of Western Australia Amendment Act 2002* is to manage and administer insurance and risk management arrangements on behalf of eligible community organisations.

Service Divisions

Investments Division

The Investments Division provides investment management and general administrative services to the Insurance Commission's business units. The Insurance Commission's investment portfolio is managed using external Fund Managers for equities and fixed interest, under agreed guidelines approved by the Treasurer of Western Australia.

Investment strategy, investment manager appointments and other key investment portfolio construction issues considered by the Board of Commissioners, are subject to Prudential Guidelines for Investments (Guidelines) issued by the Treasurer of Western Australia. These Guidelines are regularly reviewed and updated and can be viewed on the Insurance Commission's website www.icwa.wa.gov.au.

Finance, Information Technology and Human Resource Divisions

These Divisions provide centralised services to the entire organisation in their respective areas of expertise.

Commission Executive

This Division provides advice and support to the Minister, Managing Director and the Board of Commissioners. It also provides public relations and marketing services for the Insurance Commission.

Special Investigations Division

The Special Investigations Division is responsible for detecting, investigating and preventing fraudulent insurance claims, as well as over-servicing by providers, thereby protecting the assets of the Insurance Commission.

Internal Audit Service

The Internal Audit Service is provided by an external contractor thereby providing the Board of Commissioners with an independent appraisal of the operation and effectiveness of systems and controls. This assists the Board in discharging its responsibilities under the *Financial Administration and Audit Act 1985* and relevant Treasurer's Instructions.

Statutory Memberships

The Insurance Commission, represented by its Managing Director, has statutory membership of the Workers' Compensation and Rehabilitation Commission, the Workers' Compensation Premium Rates Committee and the Road Safety Council of Western Australia.

In addition, the Insurance Commission is represented on, and provides advice to, a number of other working parties and committees, and provides professional advice to the State Government on all matters related to insurance.

History

The Insurance Commission and its predecessor agencies have been providing Western Australians with high quality and reliable insurance services for more than 75 years. During this time, hundreds of thousands of Western Australians have benefited from the insurance services provided by the Insurance Commission and its predecessor agencies. The Insurance Commission's longevity in an industry that in Australia is dominated by a handful of large multi-national private companies bears testimony to its ability to deliver a high standard of service at an affordable cost to the wider community. It demonstrates that we have come a long way in achieving our Vision, Mission and Values and are well placed to meet our new Vision and Mission (refer to The Road Ahead, p53).

- | | |
|----------------|---|
| 15 June 1926 | State Government Insurance Office established. |
| 1 July 1949 | Motor Vehicle Insurance Trust established. |
| 1 January 1987 | State Government Insurance Commission established under the <i>State Government Insurance Commission Act 1986</i> , following the amalgamation of the State Government Insurance Office and the Motor Vehicle Insurance Trust. State Government Insurance Corporation, trading as SGIO, also established as a subsidiary of the State Government Insurance Commission under the <i>State Government Insurance Commission Act 1986</i> . |
| 7 January 1993 | SGIO Insurance Limited established under the <i>SGIO Privatisation Act 1992</i> and provided selective 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 still exists, running 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 Insurance Commission of Western Australia (Insurance Commission). The title of the relevant statute (<i>Insurance Commission of Western Australia Act 1986</i>) was also changed to reflect the new name. |



Our Vision, Mission and Values for 2003–2004

Our Vision

We will be renowned for providing excellence in community insurance and risk management.

Our Mission

To achieve best practice in

- providing insurance for both motor vehicle personal injury and industrial diseases compensation; and
- managing the Western Australian Public Sector's self-insurance arrangements,

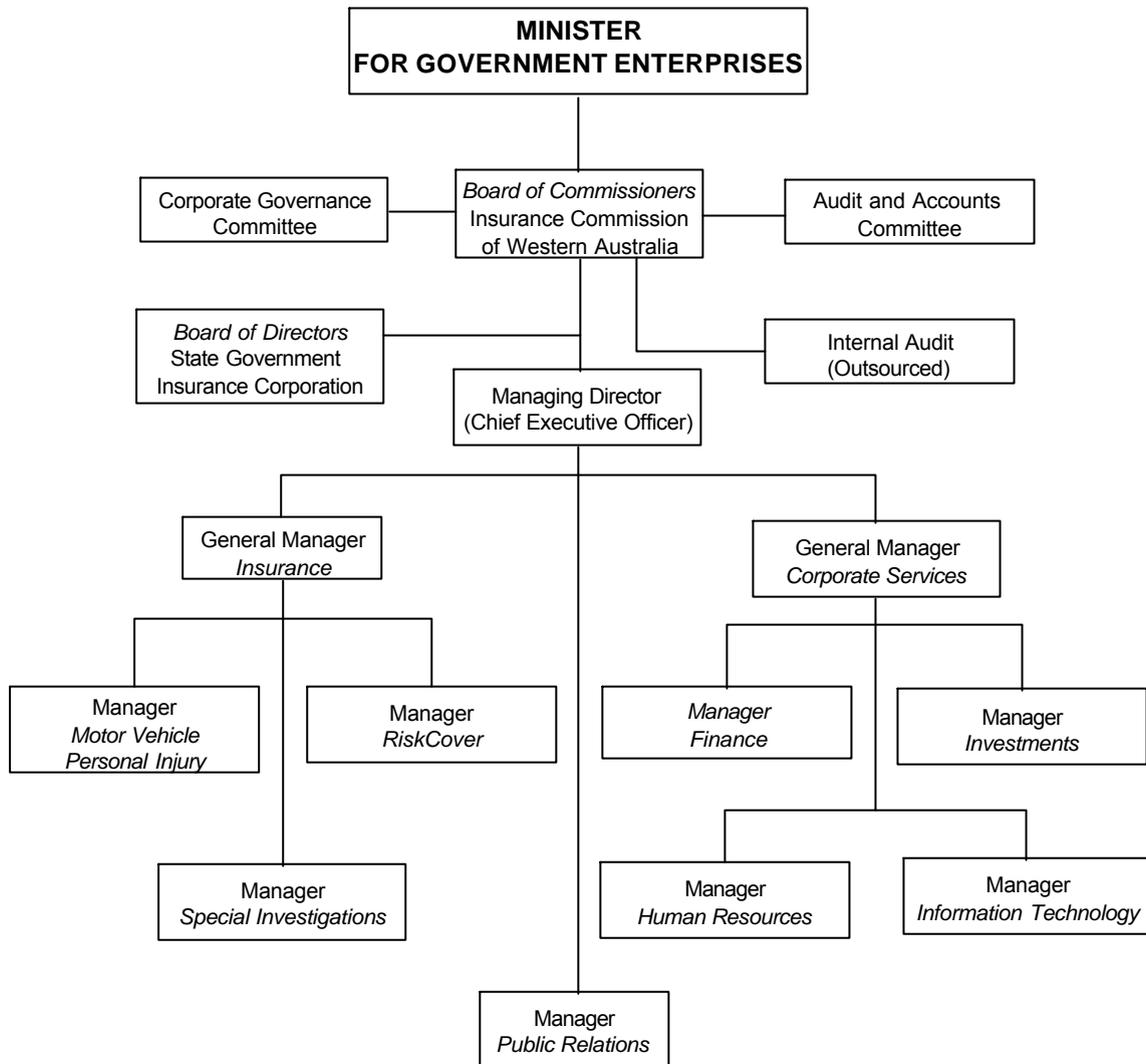
through the promotion of risk management and the commitment and professionalism of our people.

Our Values

We value

- our customers, as the most important aspect of our business.
- employees who demonstrate open communication, a responsive work ethic, respect for the individual, accountability for their actions and a commitment to continuous improvement and learning in all that they do.
- decisive leadership that provides direction and encouragement so that every employee understands how their individual job contributes to the divisional and organisational objectives.
- teamwork that exhibits a constructive and collaborative working environment characterised by diversity and tolerance.
- corporate citizenship through commitment to purposes that are important to the community and uncompromising business ethics.

Organisation Chart



Executive Committee

VIC EVANS Dip Bus Mgt, AFAIM
Managing Director

Vic commenced work with the then Motor Vehicle Insurance Trust in 1960. He has more than 40 years experience in all facets of the insurance industry, including Compulsory Third Party Insurance, general insurance and reinsurance. He has held senior management positions since 1976 and was appointed Managing Director in 1993. He is the permanent head responsible for overseeing the performance of the Insurance Commission's functions and operations. He is also Chairman of the State Government Insurance Corporation.

LEW WATTS Dip Pub Admin, AAI
General Manager Insurance

Lew commenced work with the then SGIO in 1975 and has worked in a diverse range of roles with the Insurance Commission and its predecessor agencies. His senior management experience encompasses six years as Manager Human Resources followed by a further six years as Manager Motor Vehicle Personal Injury Division, culminating in his appointment as General Manager Insurance in December 2002. In this role, Lew is responsible for the Insurance operations of the organisation (i.e. Motor Vehicle Personal Injury, RiskCover and Special Investigations).

KEN McAULLAY Grad Dip Bus, Grad Cert Mgt, Dip Pub Admin
General Manager Corporate Services

Ken joined the Insurance Commission in 1986 and has worked in the corporate services area for 40 years. Ken has been General Manager Corporate Services since 1996. Prior to this he was Manager Human Resources for 10 years. He has held the role of Corporate Secretary to the Board for the past 16 years. As General Manager Corporate Services, Ken is responsible for the Corporate Services operations of the Insurance Commission (i.e. Finance, Human Resources, Information Technology, Investments and Administration).

FAB ZANUTTIGH MBA, Grad Cert Mgt, AIMM
Manager Motor Vehicle Personal Injury Division

Fab has post-graduate qualifications in business and 20 years experience in Compulsory Third Party Insurance. He was appointed Manager of the Motor Vehicle Personal Injury Division in January 2003 and in this position is responsible for ensuring the effective management of the Third Party Insurance Fund in accordance with the relevant legislation.

DON WILLIAMS Dip Bus Admin, AIMM
Manager RiskCover Division

Don commenced work with the then SGIO in December 1968 and has 35 years experience in all facets of general insurance company operations. He is responsible for the effective management of the State Government's self-insurance arrangements and resultant claims, facilitating the implementation of risk management practices within State Government agencies, and managing a number of smaller insurance funds.

JIM MILLIGAN M Crim Just, BSc (Security), Grad Cert Comp Sec
Manager Special Investigations Division

Jim has more than 30 years experience in the criminal and commercial investigations field. He was with the Criminal Investigations Branch of the Western Australian Police Service for many years and also spent two years attached to the National Crime Authority's Melbourne office. Jim has managed the Insurance Commission's Special Investigations Division since joining the Insurance Commission in 1990. He is responsible for coordinating strategies to protect the assets of the Insurance Commission and minimising the incidence of fraud.

RICHARD HASELGROVE CA
Manager Finance Division and Principal Accounting Officer

Richard is a Chartered Accountant who has 22 years experience in accounting. Before joining the Insurance Commission in 1999, he held senior finance roles in the private sector. Richard has experience in strategic and business planning, internal audit, due diligence work for potential acquisitions, financial systems implementations, and detailed management and statutory reporting. Richard is primarily responsible for ensuring that all the Insurance Commission's revenues and expenditures have been brought to account and for ensuring compliance with the *Financial Administration and Audit Act 1985* and the Treasurer's Instructions.

GRAHAM CROFT BBus, GDip App Fin (SIA), Dip in Acctg, FCPA, ASIA,
Manager Investments Division

Graham has been involved in management of Finance and Investment operations of the Insurance Commission for over 30 years and has been Manager Investments Division since 1995. He is experienced in investment portfolio construction and managing one of the largest institutional portfolios in Western Australia. Graham is responsible for the effective management of the Insurance Commission's investment portfolio.

PETER AMOS BSc
Manager Information Technology Division

Peter's 35 years experience in IT Management positions has been gained in government, and in national and international organisations trading in the manufacturing and financial services sectors. For the last 17 years he has overseen the planning, development and operation of the Insurance Commission's information systems. Peter is responsible for ensuring that the Insurance Commission's information systems requirements are met via systems maintenance and systems and technological improvements.

GRANT SPEIGHT M HRM, Grad Dip Bus, Dip Training and Assessment Systems, FAHRI
Manager Human Resources Division

Grant 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 Manager Human Resources Division in 1996. Grant has over 18 year experience in human resource management and as a Fellow of the Australian Human Resource Institute is also active in a number of external human resource and industry advisory committees. Grant is responsible for developing and implementing human resource strategies that contribute to the achievement of the Insurance Commission's corporate objectives.

YEAR IN REVIEW

Chairman and Managing Director's Joint Review

The Insurance Commission of Western Australia is a statutory body constituted under the *Insurance Commission of Western Australia Act 1986* primarily to provide, on behalf of the Western Australian Government, socially oriented insurance products (principally Compulsory Third Party Cover for Motor Vehicle Personal Injury).

The Insurance Commission is governed by a Board of Commissioners, six of whom are non-executive members appointed by the Government. Its Chief Executive Officer is an ex-officio member of the Board and holds the position of Managing Director.

Overall responsibility for the Insurance Commission's performance rests with the Board of Commissioners who closely monitors all major areas of its operations with particular focus on risk management (including re-insurance programmes), investment policies and financial integrity.

The Board maintains a standing Audit and Accounts Committee (consisting of all non-executive Commissioners and chaired by the Board's Deputy Chairman, Mr Peter Eastwood) and a Corporate Governance Committee (consisting of two non-Executive Commissioners and chaired by Commissioner Annemie McAuliffe). More detailed information on corporate governance within the Insurance Commission is provided on pages 43 to 52 of this Annual Report.

During the 2003–2004 financial year, the Board held 12 meetings. Senior executives attended all meetings and amongst other things, reported on the performance of the Third Party Insurance and RiskCover Funds, and investment related matters. Between meetings, a number of sub-committees met and reported their resolutions in writing to the Board.

Consolidated Financial Performance

We are pleased to report that the Insurance Commission achieved a consolidated operating profit after tax of \$89.2 million for the financial year ended 30 June 2004 (2003 - \$22.6 million). At balance date, the Insurance Commission's total consolidated assets were \$1.74 billion (2003 - \$1.55 billion) with net assets of \$205.4 million (2003 - \$116.2 million).

The overall operating profit included an investment return for the year of 11.7% (2003 - 2.5%). This return was 2.2% below the median return for Balanced Superannuation Funds (as measured by Mercers Pooled Fund Survey) primarily due to a high strategic allocation to direct property and a lower weighting to equities. Allocation to direct property (which has a long term investment horizon) includes a component of non-income generating retail development and is not expected to generate an income stream until early 2005. Given these circumstances, the return for the year was pleasing. Furthermore, the three and five year annualised investment returns for the Insurance Commission exceeds the median Balanced Superannuation Fund returns by 0.9% and 0.2% respectively.

Motor Vehicle Third Party (Personal Injury) Insurance

The Third Party Insurance Fund ended the year with an underwriting loss of \$52.8 million (2003 - \$15.5 million profit). Despite this underwriting loss, the Fund achieved an overall operating profit after tax of \$88.9 million (2003 - \$37.5 million), again highlighting the importance of investment returns. Net assets of the Fund at balance date increased to \$277.2 million (2003 - \$188.3 million).

We are again pleased to report that, notwithstanding the 4.4% wage inflation linked premium increase in the Third Party Insurance Fund for 2003–2004 introduced on 1 July 2003, Western Australia continues to enjoy the lowest premiums for a private motor car in Australia by approximately 30%. This enviable position has been maintained for several years.

In December 2003, a market research firm surveyed the Motor Vehicle Personal Injury Division's customers to gauge their level of satisfaction with the service provided by the Division. The majority of respondents expressed satisfaction with the service and information provided by the Division and was highly satisfied in their dealings with Insurance Commission staff. The overall result of the survey was positive and this has established a benchmark to measure future service performance.

Bell Recovery Action

The Insurance Commission continues to support the initiatives of the Bell Group Liquidators to recover further funds for the benefit of Bell creditors. The trial of the Bell Recovery Action commenced in the Supreme Court of Western Australia on 22 July 2003. If the Liquidators' action is successful, the Insurance Commission stands to gain a substantial benefit from any successful recovery.

In the year to 30 June 2004 the Insurance Commission incurred costs of \$24.0 million (2003 - \$19.3 million) to fund the Bell Group Liquidators' \$1.4 billion claim against a syndicate of 20 banks led by Westpac Banking Corporation and Lloyds Bank plc of London. To minimise the profit impact of these costs, the Insurance Commission has utilised both *After the Event* insurance cover (placed with world-wide re-insurers) and \$17.1 million recovered from the related Southern Equities Corporation Ltd Liquidation.

At the time of reporting, and as a cost control mechanism, the monitoring and placement of ongoing re-insurance programmes continues.

RiskCover

The Insurance Commission manages a self-insurance and risk management enterprise under the name RiskCover on behalf of Western Australia's Department of Treasury and Finance. RiskCover commenced operations in 1997 as a Business Division of the Insurance Commission.

In 2003–2004 RiskCover achieved an operating surplus of \$23.8 million (2003 - \$10.4 million). Its underwriting deficit (\$6.4 million) was slightly worse than the expected deficit of \$4.6 million. However, despite this deficit, the RiskCover Fund remains in a surplus position, with net assets of \$24.3 million.

As providers of self-insurance services, we consider risk management one of our core competencies. Risk management is therefore an integrated part of our internal control processes and a core service offered to all agencies within the RiskCover Fund. RiskCover continues to assist agencies identify and manage risk at strategic and business levels. Realisation that risk management is not about eliminating risks, but rather balancing risk and opportunity, has prompted a greater acceptance of the Risk Management process. To this end, we are pleased to report that government agencies have moved beyond the assessment of operational type risks to incorporating formal risk assessments into their strategic and business planning processes.

As well as managing the RiskCover Fund, the RiskCover Division manages a number of other Funds, including the Community Insurance Fund (CIF). The Western Australian Government established the CIF on 2 January 2003 to assist incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. Policies issued under the CIF increased from 10 to 39 over the year. At this stage there is uncertainty regarding the number of community organisations that will be joining the CIF in the future as well as the expected claim numbers. The volume of business and workloads are closely monitored to ensure that there are adequate resources for the various functions.

Investments into Road Safety and Medical Research

During the year the Board continued its funding commitment to the Road Safety Council and other road safety initiatives, and provided \$3.3 million to road safety programs. This funding has contributed to a holistic approach to the implementation of the State's five-year road safety strategy. Market research evaluation, and the sustained reduction in the number of claims received as a percentage of licensed motor vehicles, has shown that these commitments are paying off over the longer term.

Likewise the Board resolved to provide \$298,600 to medical research into mesothelioma, an asbestos-related disease, as part of a long-term funding commitment that commenced in 1990. Professor Bruce Robinson and his team at Sir Charles Gairdner Hospital undertake this research. The Board received a report on the work achieved against the project milestones.

Concluding Remarks

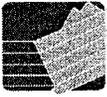
In the context of our investment performance, the 2003–2004 financial year was a successful year for the Insurance Commission. Our overall financial position is much stronger as a result of our investment return, which was helped by the recovery in financial markets. In spite of this, the Board, with the Treasurer's approval, has resolved to modify our investment policy to enable funds to be moved between asset classes. This seeks to spread our risk and take advantage of shorter-term valuations and human skill, by investing in private equity and hedge funds.

We are pleased to be in the position where the Third Party Insurance Fund is fully funded and we are able to offer the cheapest premiums in Australia for private sedans. With regard to the RiskCover Fund we are also pleased to note its strong surplus position.

The Insurance Commission's risk position remains in good stead and our business operations are running smoothly. This is directly attributable to our executive and staff. To all of them, we would like to express our sincere thanks and acknowledge their contribution. Their ongoing dedication, hard work and experience brings leadership, direction and good management to the challenges faced by the Insurance Commission and has once again resulted in continued benefits to all Western Australians. We would also like to thank our fellow Commissioners for their support and the valuable contribution they make to the successful functioning of the Board and the governance of the Insurance Commission.

The Board's ongoing sponsorships in road safety and medical research into industrial diseases are recognised as long-term community investments. The amount of funding provided to Road Safety Council programs has gradually increased each year and is going into very worthwhile, well-researched road safety projects. We take this opportunity to thank all road safety stakeholders in Western Australia for their ongoing dedication and effort.

Finally, we would like to acknowledge the support provided by the Minister, the Hon Nick Griffiths LLB MLC, Minister for Government Enterprises, who has responsibility for the administration of the *Insurance Commission of Western Australia Act 1986*. In our roles as Chairman and Managing Director of the Insurance Commission, we have occasion to meet with the Minister on a regular basis in the nature of a "report to shareholders" and we thank him for his interest, understanding and good counsel.



Looking ahead to 2004–2005, our challenge will be to achieve the goals and projects that have been set out in our updated annual balanced business strategy. Our Vision has been reviewed and updated, to read *“recognised by the community as the leader in the responsible management of risk and the delivery of equitable compensation schemes”*. The strategic business plan uses the Balanced Scorecard approach and has been developed through a process of participation at all levels of the organisation. One of our challenges is the continuing development of our corporate culture.

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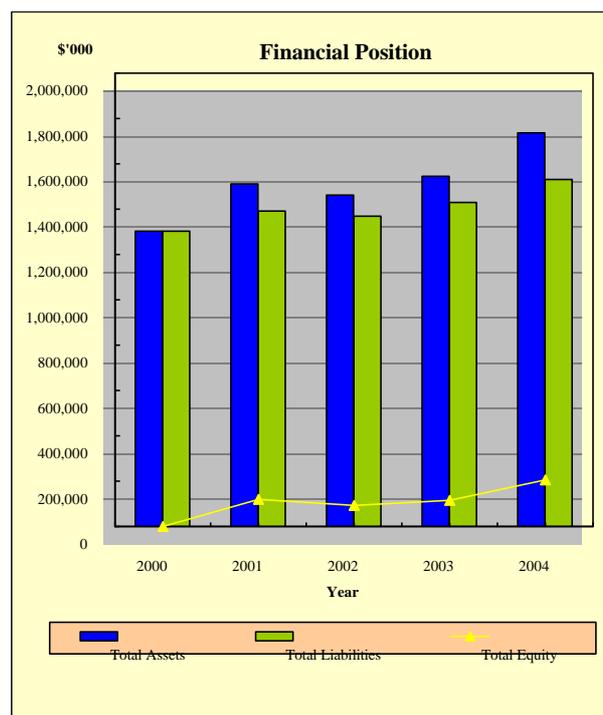
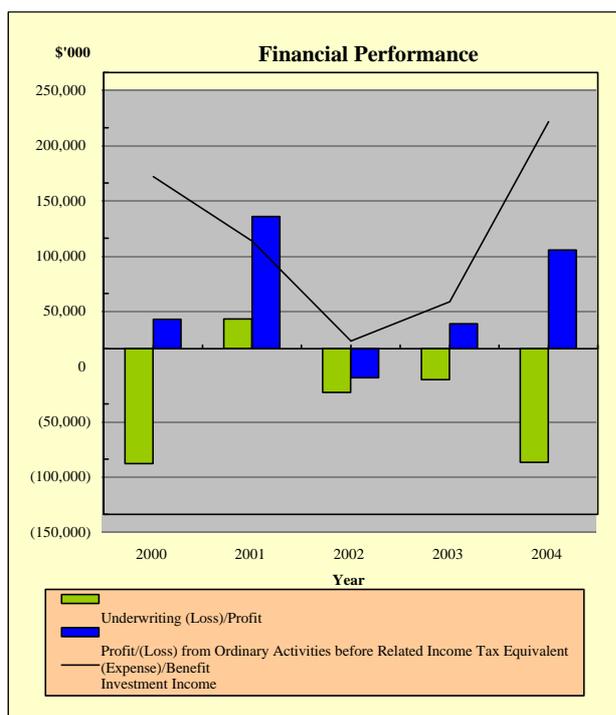
MICHAEL E WRIGHT
CHAIRMAN

A handwritten signature in black ink, appearing to read 'Vic Evans'.

VIC EVANS
MANAGING DIRECTOR

FINANCIAL OVERVIEW - COMMISSION

STATEMENT OF FINANCIAL PERFORMANCE	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Net Earned Premium	323,464	306,815	296,895	289,572	275,211
Claims Incurred	(377,338)	(316,690)	(317,029)	(243,287)	(343,298)
Reinsurance and Other Recoveries Revenue	9,782	22,122	19,448	22,800	1,837
Net Claims Incurred	(367,556)	(294,568)	(297,581)	(220,487)	(341,461)
Underwriting and Administration Expenses	(58,665)	(40,221)	(38,804)	(42,117)	(37,798)
Underwriting (Loss)/Profit	(102,757)	(27,974)	(39,490)	26,968	(104,048)
Investment Income	205,553	42,498	6,988	97,384	155,888
Investment Expense	(44,659)	(19,849)	(8,148)	(25,457)	(27,302)
Other Income	28,908	28,432	12,164	20,926	6,556
Other Expenses	2,163	(504)	2,141	(98)	(4,581)
Profit/(Loss) from Ordinary Activities before Related Income Tax Equivalent (Expense)/Benefit	89,208	22,603	(26,345)	119,723	26,513
STATEMENT OF FINANCIAL POSITION					
Other Financial Assets	1,434,496	1,273,506	1,196,577	1,217,255	1,147,845
Other Assets	302,500	271,616	265,924	294,000	155,201
Total Assets	1,736,996	1,545,122	1,462,501	1,511,255	1,303,046
Outstanding Claims	1,360,466	1,251,006	1,215,914	1,241,838	1,143,667
Unearned Premiums	135,034	126,005	117,857	113,592	117,387
Other Liabilities	36,099	51,921	35,143	35,893	41,783
Total Liabilities	1,531,599	1,428,932	1,368,914	1,391,323	1,302,837
Net Assets	205,397	116,190	93,587	119,932	209
Reserves	11,869	11,540	12,528	12,816	10,535
Accumulated Profit/(Loss)	193,528	104,650	81,059	107,116	(10,326)
Total Equity	205,397	116,190	93,587	119,932	209



Highlights

Customers

Motor Vehicle Personal Injury Division

- The Third Party Insurance Fund finished with an overall operating profit before tax of \$95.8 million as a result of a strong investment return, despite an underwriting loss of \$52.8 million.
- The Third Party Insurance Fund surplus of total assets over total liabilities has improved from \$188.3 million to \$277.2 million, now within the target solvency range set by the Board of between 120% and 125%, in accordance with Australian Prudential Regulation Authority (APRA) standards.
- Western Australia's compulsory Third Party Insurance premium for a family motor vehicle remains the lowest in Australia by approximately 30%, and we have not increased the premium rate for 2004–2005.
- \$250 million (gross) paid on behalf of injured persons in respect of Motor Vehicle Third Party (Personal Injury) Insurance claims.

RiskCover Division

- The RiskCover Fund, underwritten by the Government of Western Australia, ended the year with an operating surplus of \$23.8 million due to its strong investment return, despite an underwriting deficit of \$6.4 million.
- RiskCover's Risk Management Team facilitated 200 agency-specific workshops on various risk-management issues.
- The fifth annual Government Risk-Management Conference was held in September 2003. Approximately 260 delegates attended.
- \$298,600 funding was provided for medical research into mesothelioma on behalf on the Compensation Industrial Diseases Fund.

Community – Road Safety

- \$3.3 million from the Third Party Insurance Fund was contributed to road safety initiatives.
- The Insurance Commission initiated and sponsored a new Aboriginal theatre project about road safety, 'Muttacar Sorry Business', the first of its kind in Australia.

Our People

- A Trainee Claims Officer Recruitment Strategy, combining on-the-job training and nationally recognised academic qualifications, was developed and implemented and provides a pool of suitably skilled employees for our key business units.
- An independent external assessment against the WorkSafe Plan found that the Insurance Commission has a sound Occupational Safety and Health system that is proactive, well accepted by employees, is continuously improved and in some cases has sustained high performance over a long period.
- We achieved a 100% return from parental leave.
- Employee satisfaction levels have increased with the Quality of Working Life, as measured through an Employee Perception Survey, equal to the national average with improvements in every dimension of the survey.

- Our commitment to recognising and rewarding employees for their significant achievement or excellence in customer service continues through the Employee of the Month, Employee of the Year and Team of the Year awards.

Business Processes

- Further work was completed on a long-term major infrastructure migration project that will move the Insurance Commission's technology base from a mainframe proprietary platform to an open systems environment.
- Further enhancements, designed to improve productivity and customer service, were made to the Workflow and Imaging system within the MVPI Division.
- Database analysis by our Special Investigations Division was successfully utilised to prosecute fraudulent activity. A total of 276 counts of fraud were detected, investigated and referred to the Western Australia Police Service for consideration of prosecution. Claims-savings facilitated by investigations conducted by the Special Investigations Division were in excess of \$1 million.

Financial

- An Insurance Commission operating profit, after tax, of \$89.2 million.
- Total assets of the Insurance Commission of \$1,737 million and net assets of \$205.4 million.
- Investment return for the year was 11.7%. The Insurance Commission's five-year average real investment return of 5.7% is 0.3% lower than the performance benchmark.
- Received a Silver award in the 'Financial Sector' for 'Distinguished Achievement in Accountability through Annual Reporting' for its 2003 Annual Report at the W.S. Lonnie Awards held in June 2004. This Award follows Bronze Awards in each of the last four years.

REVIEW OF OPERATIONS

Motor Vehicle Third Party (Personal Injury) Insurance

Key goals:

- *To provide affordable premiums to owners of Western Australian registered motor vehicles*
- *To provide a cost-efficient claims system that treats claimants with respect and provides equitable compensation*
- *To ensure that the Third Party Insurance Fund is fully funded*

The Insurance Commission is the sole provider of Motor Vehicle Third Party (Personal Injury) Insurance in Western Australia. Australia-wide, Motor Vehicle Personal Injury Insurance is compulsory and is commonly known as Compulsory Third Party (CTP) Insurance. This should not be confused with third party property damage insurance, which is neither compulsory nor provided by the Insurance Commission.

The Motor Vehicle Personal Injury Division (MVPI Division) manages all personal injury and fatality claims resulting from motor vehicle crashes that involve Western Australian registered vehicles. Owners and drivers of Western Australian registered vehicles are provided with an unlimited indemnity policy of insurance in the event that their negligent driving of a Western Australian registered motor vehicle causes injury or death to other persons. This means that they are not held personally liable for the costs of any personal injury claims made against them. Instead, these claims are managed and paid for by the Insurance Commission – provided they have not breached the conditions of the CTP insurance policy. This insurance policy is combined with every motor vehicle registration licence, with the premium being collected by the Department for Planning and Infrastructure and its agents. In 2003–2004, there were approximately 1.86 million vehicles registered in Western Australia.

The relevant legislation is the *Motor Vehicle (Third Party Insurance) Act 1943*, with the administration of this Act being the responsibility of the MVPI Division. The most misunderstood aspect of the Third Party system in Western Australia is the type of cover provided to the policyholder. The policy does not cover the driver for injuries received by them as a result of their own negligence. The policy indemnifies the driver/owner of the motor vehicle against liability for personal bodily injury claims made against them. The policy does not cover damage to vehicles or other property. Negligence must be established against the owner or driver of a Western Australian registered motor vehicle, for injury or death claims to be successful.

In delivering the compulsory third party scheme in Western Australia, the Insurance Commission continues to provide:

- the lowest premiums in Australia for a family motor car;
- benefits to claimants equivalent to, or better than, those provided by alternative schemes throughout the other States and Territories of Australia;
- cost-efficient administration when compared to alternative schemes in other States and Territories of Australia; and
- a Third Party Insurance Fund which is fully funded (after applying a commercially prudent 75% level of confidence to the Outstanding Claims Liabilities) in line with APRA solvency guidelines.

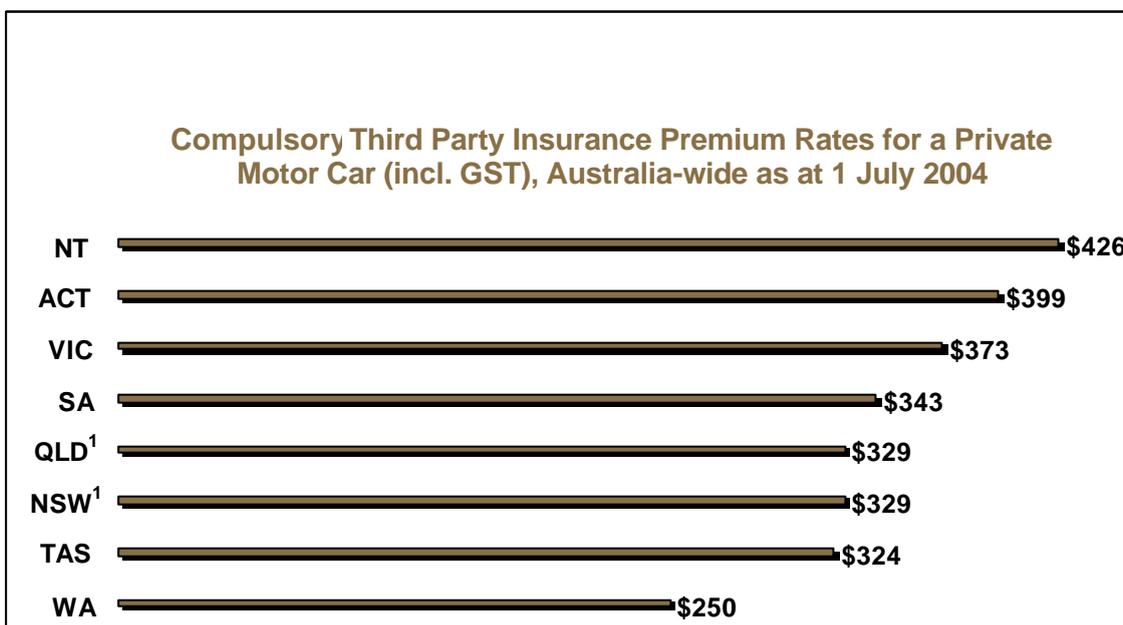
Pricing Policy

To comply with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission assesses the premium income necessary to meet the likely claims and administration costs

expected to arise in the following year. This assessment is made after an independent actuarial report has been considered and takes into account any accumulated surplus or deficit expected to exist at the commencement of the following financial year. Following this process, the Board then makes a recommendation to the Minister for Government Enterprises. (For the Schedule of Premiums refer to the Government Gazette 13 May 2003, reference IZ401 on pages 1671–76.)

Premiums

In April 2004, the Minister noted the Board's resolution not to vary third party insurance premiums for the 2004–2005 financial year. This is the second time in three years that CTP premiums have not been increased and further confirms Western Australia's position as the most affordable provider of third party insurance in Australia.



¹Lowest premium on offer amongst the private insurers operating in these States.

Customers

In keeping with our key goal to continually improve the quality of our customer service, the MVPI Division conducted a survey of its customers and stakeholders. Whilst the Division had been included in organisation-wide customer service surveys in the past, it had not previously conducted its own.

A major aim of this survey was to produce benchmark measures for comparison over time. In particular, the survey sought to:

- determine the customers' rating of the responsiveness and level of service of the MVPI Division, including the service provided by the Crash Reporting Officers and the Claims staff;
- determine the level of customer awareness and understanding of the roles of the MVPI Division and the services and products it provides;
- determine the expectations of the customers and whether the current level of service is meeting these expectations; and
- identify shortcomings in the levels of service and any opportunities for improvements.

This survey provided an initial benchmark against which future improvements can be measured. Whilst overall the results of this survey were positive, some clear areas of improvement have been identified, and

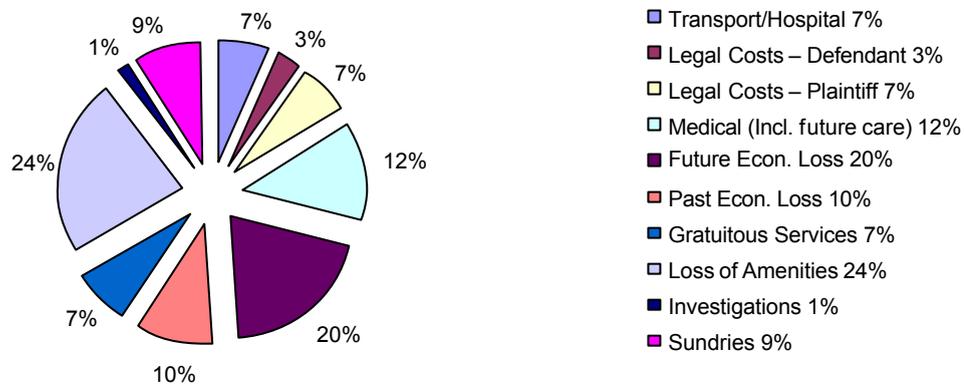
the MVPI Division Balanced Business Plan for 2004–2005 includes a number of initiatives specifically to address these areas.

Third Party Insurance Fund

The net assets of the Third Party Insurance Fund were \$277.2 million as at 30 June 2004, compared to \$188.3 million in the previous year. This increase is substantially due to a positive investment return of 11.7% and sound claims-management practices.

Net incurred claims for the reporting year were budgeted at \$323.9 million, however the actual amount incurred was \$350.4 million (2003 - \$266.6 million). Although the actual amount incurred was higher than budgeted, this was a good outcome because a higher than expected number of settlements were achieved, resulting in outstanding active claims reducing to 8,598, a reduction of 317 on the 30 June 2003 outstanding claims total.

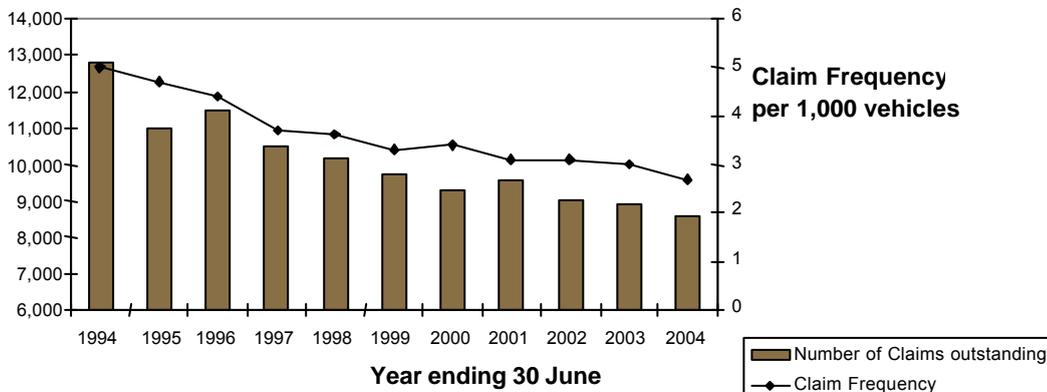
Annual Expenditure by Head of Damage 2003–2004



Furthermore, during the year only 5,075 new claims were received, which is 270 less than in the previous year. This continues the decreasing claim frequency trend experienced over the last 10 years and is pleasing bearing in mind that the number of registered vehicles grew by approximately 3.2% over the year, to a total of 1.86 million vehicles. Legislative changes introduced in 1993 combined with an ever-increasing focus on road safety and crash-prevention initiatives, safer cars and better roads, are considered to be some of the major reasons behind this pleasing trend.

Claims: Frequency and Number Outstanding

Claims Outstanding



The Insurance Commission had been concerned for sometime with the way the *Motor Vehicle (Third Party Insurance) Act 1943* has been interpreted by plaintiff solicitors and Western Australian Courts. In the Insurance Commission's view, this resulted in the Policy needing to respond to claims in instances where the injury did not arise from the driving of a vehicle and/or where the injured person was not a third party.

As a result of an appeal by the Insurance Commission (*Insurance Commission of Western Australia v Containers Handlers Pty Ltd & Ors. [2004] HCA 24*), the High Court of Australia ruled on the meaning to the words "directly caused by the driving of a motor vehicle" as set out in the statutory Policy of insurance. This High Court decision confirms the Insurance Commission's interpretation placed on 'driving'. As a result, it limits the liability of the Insurance Commission and the insured to claims by injured third parties where those injuries are a direct consequence of the physical act of driving a motor vehicle. The judgement goes a long way towards ensuring that the Third Party Insurance Fund (i.e. motorists of Western Australia) is not called upon to meet the cost of injured workers' claims arising from negligence in the workplace, which clearly are matters for the workers' compensation/employers' indemnity insurers to deal with.

Business Systems – Workflow and Imaging

The Insurance Commission continued to enhance its Workflow and Imaging technology, which is the core business system for the MVPI Division. Benefits in terms of improved efficiencies in claims management, customer service and administration costs are beginning to be realised. Efforts will continue to be directed at optimising the system to ensure that functionality and efficiencies are maximised.

Ongoing Projects

During 2004–2005, the MVPI Division will:

- Continue to enhance the Workflow and Imaging Technology in order to improve the claims management process, productivity and customer service.
- Continue efforts, in collaboration with the Department for Planning and Infrastructure to enhance the recently implemented Trelis system, to provide timely and accurate policy details, premium collection and associated statistical data.
- Continue to work with the Actuary to determine how the model for evaluating outstanding claims liabilities might be more responsive to claims experiences, thereby enabling corrective strategies to be developed in a timely manner.
- Amend the *Motor Vehicle (Third Party Insurance) Act 1943*, to ensure an Incorporated Insurance Office as defined by the *Workers' Compensation and Rehabilitation Act* can no longer transfer risk, intended to be insured under a workers' compensation/employer's indemnity policy, to the Third Party Insurance Fund. Furthermore, introduce a cap on economic loss claims, consistent with the outcome of the *Civil Liability Act 2002*.
- Monitor Third Party Personal Injury Insurance schemes, both nationally and internationally, to ensure best practice for all Western Australian motor vehicle owners.
- Continue to support road safety programs aimed at preventing crashes that result in personal injury or death.

RiskCover

Key goal: *To minimise the cost of risk to Government*

The RiskCover Division (RiskCover) is responsible for managing the RiskCover Fund and promoting risk-management practices throughout the State Government. RiskCover assists the State Government to minimise the cost of risk by providing integrated risk management, claims management, risk self-retention and reinsurance services.

The RiskCover Fund is a self-insurance fund established for the Government of Western Australian. The Fund is managed by the RiskCover Division on behalf of the Government of Western Australia, and has been operating successfully since July 1997. The facility provides risk management services and extensive cover for the majority of State Government insurable risks. The five main areas of insurance cover provided under the Fund are:

- Workers' Compensation;
- Property and Business Interruption;
- Liability, including Employment Practices, Professional, and Medical Treatment Liability;
- Motor Vehicle Property Damage; and
- Miscellaneous, including Travel, Personal Accident and Special Covers.

Some of the benefits provided by the RiskCover Fund are:

- extensive coverage;
- cost-efficient administration in comparison to other funding methods;
- consistent and systematic approach to risk management across the State Government;
- consistency in claims and injury management; and
- buying power in reinsurance markets.

Pricing Policy

Fund Contributions are set to ensure that sufficient funds are collected to pay for all liabilities. A prudential margin is not included at the request of the Department of Treasury and Finance. This is supported by the Insurance Commission because the Fund is underwritten by the Government of Western Australia. The key outcomes RiskCover aims to achieve are:

- equity for all agencies;
- transparency in the Fund Contribution setting methodology;
- minimum cross-subsidisation;
- protection against major surprises; and
- incentives for risk management.

Fund Management

Gross fund contributions totalled \$118.4 million (2003 - \$119.3 million), with a breakdown by class shown in the following graph. After contribution adjustments and outwards reinsurance expenses, the net earned

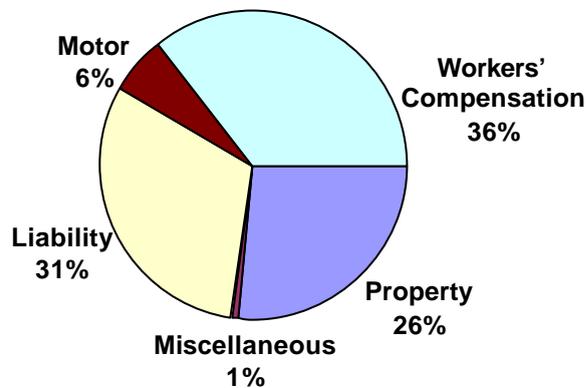
contribution was \$82.1 million (2003 - \$90.5 million). Administration costs, which include risk management services, remained at approximately 11% of gross contributions.

Lower than expected claims payments of \$5.8 million and positive investment returns of \$30.2 million resulted in an operating surplus of \$23.8 million for the year, which compares with an operating surplus of \$10.4 million for 2003. Overall, the Fund has an accumulated surplus with net assets of \$24.3 million. This surplus position, created primarily by the excellent investment return, enables RiskCover to reward Fund members with refund adjustments, offset against future fund contributions.

Last year the Fund set an objective to gradually build sufficient reserves over time to provide for any unexpected large losses up to \$10 million, thereby minimising the prospect of the Fund going into deficit.

This year's excellent result, particularly in respect of investment returns, means that this objective has been achieved much earlier than expected. RiskCover has subsequently been able to increase the reserve for large losses to \$24.3 million.

RiskCover Fund Contributions by Class 2003–2004



To assist agencies to understand and minimise their cost of risk, RiskCover provides them with detailed analyses of claims and risk data that focuses on agency-specific trends and risk exposures.

A Data Warehouse has been developed to further enhance RiskCover's ability to assist agencies to analyse their risks. The potential benefits include improved information-based decision-making, quicker and cheaper reporting processes, improved data quality, and enhanced client-support capabilities particularly in the area of risk management.

Risk Management

RiskCover continues to provide risk management consultancy services to assist agencies to develop and implement risk-management practices which are consistent across government. RiskCover's Risk Management Team provides agencies with training in the risk-management process (identify the risk, analyse the risk, assess the risk, treat the risk and monitor the risk); and assistance with developing and implementing risk-management plans.

RiskCover's aim is to have agencies integrate risk management into all aspects of their business management, moving away from a simple compliance approach. Risk management has filtered through all aspects of the business of agencies by being adopted at all levels in their organisations.

The practice of managing risks is today accepted as a part of business management, and government agencies are becoming better placed to demonstrate their decisions regarding risk acceptance. Risk management is not about eliminating all risks, but actually balancing risk and opportunity, and more agencies are using risk-management tools to assist their decision-making. Agencies have also moved beyond

the operational-type risks to now incorporate formal risk assessments into their strategic and business-planning processes.

To promote and support risk management within the Western Australian Public Sector, RiskCover facilitates and sponsors the Government Risk Management Group (GRMG). The objective is to provide a whole-of-government forum for the discussion of risk management ideas and solutions to common problems and issues. RiskCover supports this group by hosting and maintaining the GRMG website www.grmg.wa.gov.au and organising the annual Government Risk Management Conference.

During 2003–2004, RiskCover continued to support the development of risk-management expertise across the State Government through the following initiatives:

- Approximately 260 delegates attended the annual GRM (Government Risk Management) Conference held in September 2003. This one-day conference featured key-note addresses on “*The Approach of the Law to Risk Taking – The Pendulum Swings*”, “*Implementing Enterprise-wide Risk Management*”, “*Clinical Governance*”, “*Identifying Risks and Benefits*”, and case studies from the Public Transport Authority, Fremantle Ports and Kay Cottee who is the only woman to sail solo around the world. The conference provides information on current risk topics and the opportunity for people in government who are directly involved in managing risks to share and discuss their own experiences in implementing risk management.
- Two editions of the GRM magazine were produced and distributed to all agencies. Every edition features case studies on agencies’ risk-management practices.
- 211 agency representatives attended two Risk-Management Seminars on “*Risk Management – What, Why and How*” and “*Managing Contract Risks*”.
- More than 200 agency-specific risk workshops were facilitated, with the majority of workshops concentrating on operational and specific project risk management.
- The database for “RiskBase” was refined to provide security and tracking features. The take-up by agencies of this tool continues to grow and 110 agencies now have copies of “RiskBase”.
- A “Community RiskBase” tool and associated materials for the not-for-profit sector were developed to assist these organisations with the management of risks. This is available on RiskCover’s website www.riskcover.wa.gov.au.

Client Service

An independent survey conducted each year to measure customer satisfaction, was first conducted in 1997 and RiskCover has consistently achieved high ratings. For 2003–2004, it is pleasing to note that agencies continue to acknowledge a high level of satisfaction with RiskCover’s performance.

The overall rating of RiskCover’s performance for good, very good and excellent was 97% compared to 98% last year. Agencies indicate that RiskCover has improved within this overall rating by acknowledging that the combined excellent and very good ratings have increased from 67% to 73%.

Claims Management

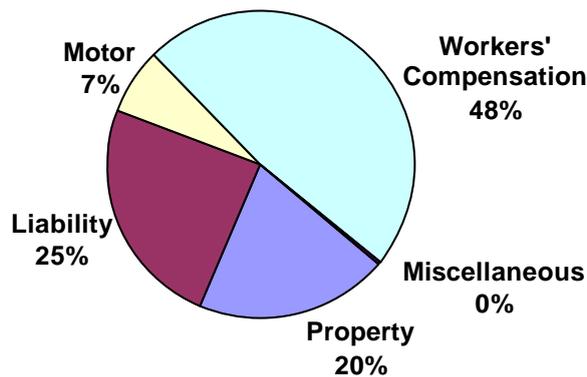
Claims management is the largest part of RiskCover’s business in terms of dedicated resources. Workers’ Compensation claims constitute the major component of RiskCover’s claims-management service which focuses on the integration of injury prevention, injury management, claims management and rehabilitation

strategies. Regular injury-management workshops are conducted to promote this multi-faceted approach to claims management.

In 2003–2004, a number of claims-management workshops were conducted by RiskCover for agency personnel on a range of topics including: medical treatment of common workplace injuries, psychological overlay (sick role) before and after workplace injuries, and various legal aspects of claims utilizing the expertise of solicitors from our legal services panel.

Gross claim payments totalled \$78.9 million (2003 - \$72.0 million), which was 6.9% less than predicted for the year. A breakdown by cover class is provided below.

RiskCover Claim Payments by Class 2003–2004



Claims paid in respect of workers' compensation totalled \$41.7 million (2003 - \$36.1 million), 2.1% less than expected. These outcomes are consistent with the experience of Western Australia's workers' compensation scheme as a whole and reflect the continued impact of the October 1999 legislative changes to the *Workers' Compensation and Rehabilitation Act 1981*.

The General Liability claims' experience for the year was favourable compared to expectations. In particular, net claim payments were significantly less than projected. Medical Treatment Liability claims being the exception where experience was worse than projected as it is a volatile class that is difficult to predict, particularly as it is still maturing within the RiskCover Fund. The overall trend of The Medical Treatment class is showing a steady increase in total claim payments. The Professional Liability claims' experience was substantially better than projected, keeping in mind that it is a very small class compared to the other liability classes.

Ongoing Projects

During 2004–2005, RiskCover will:

- Continue to focus on developing the risk-management practices and claims-management skills of agencies by providing targeted education and consultancy services.
- Complete a review of its Divisional organisation structure to address changes which have significantly impacted upon RiskCover's operations since 1999. Whilst retaining the existing client-centred structure to realign its client allocation in accordance with the State Government's Shared Services Centre agency cluster allocation.
- Complete a review of its business processes from both a strategic and operational perspective. The review will incorporate the change in the Division's focus since it commenced, to a provider of holistic risk-management services, including management of a self-insurance fund to, and for, State Government agencies. This will maintain focus on capturing quality data to support and enhance risk-management practices within agencies.

Other Funds 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 rates were decreased from 1 July 2003 to a flat charge of \$100.00 per three-year policy period. The rate is determined by the Premium Rates Committee, an independent body.

INSURANCE COMMISSION GENERAL FUND (ICGF)

The claims paid from the Fund 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.

EMPLOYERS' INDEMNITY SUPPLEMENTATION FUND (EISF)

The Workers' Compensation and Rehabilitation Commission (WCRC) is responsible for the EISF. In response to the collapse of the HIH Group of Companies (HIH) in March 2001, the WCRC activated by legislation, a levy to fund claims incurred by the HIH as a result of workers being injured in the course of their employment prior to 15 March 2001.

As a result of prior arrangements, all claims in relation to the collapse of HIH are managed externally by CGU Workers' Compensation Claims (an Insurance Australia Group company) on our behalf. In discharging its statutory obligations, RiskCover continues to provide an important supervisory role in the management of these ongoing claims and it is expected this role will continue for at least a further seven years.

GOVERNMENT INSURANCE FUND (GIF)

The GIF is an amalgamation of the State Government's self-insurance arrangements which preceded RiskCover. The Fund is in run-off and is managed by the RiskCover Division on behalf of the Department of Treasury and Finance. The financial aspects of GIF are reported in the Insurance Commission's Financial Statements, however, the Insurance Commission is indemnified by the Department of Treasury and Finance for deficits arising in the GIF.

COMMUNITY INSURANCE FUND (CIF)

The CIF was established by the Government of Western Australia to assist eligible incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. The CIF is underwritten by the Government of Western Australia and managed by the Insurance Commission. The CIF was primarily established as the State Government's response to the public liability insurance issues facing community organisations.

The *Insurance Commission of Western Australia Amendment Act 2002*, which enabled establishment of the CIF, came into effect on 20 November 2002. This action was necessary as public liability insurance for these organisations had become either unavailable or unaffordable within the general insurance marketplace. Business operations for the CIF commenced on 2 January 2003.



Eligible community organisations are defined as:

- an association incorporated under the *Associations Incorporation Act 1987 (WA)*;
- a company limited by guarantee that is registered as a not-for-profit corporation under Section 150 of the Commonwealth's *Corporations Act 2001*; and,
- a company holding a licence that continues in force under Section 151 of that Act.

The eligibility of an incorporated not-for-profit community organisation to participate in the CIF is ultimately determined by the WA State Treasurer.

Social service groups, cultural and arts organisations, environmental bodies and sporting clubs and associations are some examples of community organisations considered for entry into the CIF.

The classes of insurance cover provided include:

- Public Liability
- Professional Liability
- Medical Treatment Liability
- Workers' Compensation
- Property
- Motor Vehicle
- Personal Accident.

As at 30 June 2004, 38 community organizations (including several peak associations that incorporate many smaller clubs throughout the State) had cover with CIF. This was an increase of 28 from the previous year. Gross written premium was \$953,000. There is uncertainty regarding the number of community organisations that will be joining the Fund and the expected claim numbers, therefore the volume of business and workload are closely monitored to ensure adequate resources for the various functions.



Our People

Key goals:

- *To be an employer of choice*
- *Develop our people to achieve their best*
- *Have the right people in the right place at the right time*

Employee Relations

The Insurance Commission has 302 employees (2003 - 284 employees). The number of Insurance Commission employees by Division as at 30 June 2004 is shown in the table below.

Employee turnover rates decreased from 8.4% in 2003 to 8.2% this year, which is better than the National Finance Sector best practice target of 10.4%, indicating continued employee satisfaction.

During the year a number of functions previously performed under labour-hire arrangements were converted into ongoing positions with permanent employees appointed following a merit selection process. Additionally, in accordance with State Government policy, seven fixed-term-contract employees were converted to permanent-employment status. These changes contributed to the increase in employee numbers as illustrated in the table below.

Number of Employees by Division

Division	2004	2003
Executive	5	5
Finance	13	13
Human Resources	9	7
Information Technology	16	14
Investments	17	15
Motor Vehicle Personal Injury	116	105
RiskCover	116	111
Special Investigations	6	6
Officers Attached	1	6
Trainees	3	2
Total	302	284

Trainee Claims Officer Recruitment Strategy

The Trainee Claims Officer Recruitment Strategy was developed in an effort to provide a pool of ready-made recruits for our key business units. The strategy combines on-the-job training with a structured academic program to provide a clear career and academic pathway for Claims Officers. The strategy has proven to be very successful, with eight people being employed as a result of the strategy.

Workplace Relations

The terms and conditions of employment for our employees are contained in the *Government Officers (Insurance Commission of WA) General Agreement 2002*, which expired in December 2003. The Insurance Commission commenced negotiations with the CPSU–CSA for a replacement Agreement which will provide enhanced flexibilities to employees through the ability to achieve a greater work–life balance, especially for those with family responsibilities, whilst continuing to meet core organisational requirements.

Negotiations have yet to be finalised, however, an agreement has been reached that the first applicable salary increase will be effective from the first pay-period after February 2004, ensuring that our employees are not financially disadvantaged.

The State Government and CPSU–CSA have also committed to a process of award modernisation to ensure that all relevant Public Sector Industrial Awards reflect contemporary law and practice. We have reviewed our Award and in consultation with DOCEP and the CPSU–CSA, we are in the process of finalising the terms and conditions that will form our revised Award.

Recognising and Rewarding the Outstanding Achievements of our Employees

The Insurance Commission's Performance Plus program provides opportunities for the recognition and reward of all employees who achieve:

- *Excellence in customer service; and/or*
- *Outstanding achievement in any aspect of their work.*

The criteria for nominating employees has now been expanded to include opportunities for employees to be recognised and rewarded for displaying behaviour that reflects the Insurance Commission's corporate values.

In accordance with our Performance Plus program, the Managing Director's Employee of the Month, the Managing Director's Award for Employee of the Year and the Chairman's Award for Team of the Year were presented to employees nominated by their peers or managers. The winner of the 2003 Employee of the Year was Phil Harper, Claims Officer, MVPI Division. The 2003 Team of the Year was the Human Resources Labour Relations Transition Project Team.

Occupational Safety and Health

The Insurance Commission continued to provide a safe and healthy working environment through a collaborative approach between management, the Occupational Safety and Health Committee and employees.

Key achievements included:

- After completing an external assessment against the WorkSafe Plan, an independent assessor found the Insurance Commission's commitment to Occupation Safety and Health as excellent.
- New policies on the Prevention of Bullying in the Workplace and Contractor Safety.
- Delivery of refresher Occupational Safety and Health training to managers, supervisors and all employees.
- Development of a 2004–2005 Occupational Safety and Health Business Plan.
- The provision of a full day of Defensive Driver Training to employees who use an Insurance Commission vehicle and to all employees under the age of 25 (i.e. the statistically high-risk group for car crashes).

- Continuation of wellness initiatives including healthy heart checks, mole scans, flu vaccinations; and the introduction of a “Weight Watchers at Work” program.

Our average absenteeism level of six days per employee was above the National Finance Sector best practice range (4.6 days) and it represented an improvement on last year (6.3 days). Some 66% of all employee absences were supported by a medical certificate.

Our Lost-Time Injury rate of 0.33% compares favourably with the best practice All Industry rate of 1.09%.

Lost-Time Injuries

Indicator	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
Total Claims	5	3	1	4	3	3	8
Lost-time injuries	1	2	0	1	0	0	2
Lost-time injuries (hours) per million hours worked#	2.19	4.83	0	1.72	0	0	3.9
Workers' compensation premium as a percentage of payroll	0.53	0.44	0.54	0.57	0.69	0.46	0.86
Rehabilitation success rate	100%	100%	No eligible rehab cases				

Note: The WA Incidence Rate for Lost-Time Incidents (Government Administration) is 14.2 per million hours (Incident Rate of 2.4) Source: Worksafe

Knowledge Management

Work continued during the year on establishing a more formal framework for developing, sharing and securing knowledge within the Insurance Commission. Key risk areas were identified and strategies were put in place for knowledge transfer within the Divisions.

Equal Employment Opportunity (EEO) and Diversity

Having an employee profile which reflects the diversity of our customers and the community we serve is fundamental to being acknowledged as an employer of choice (refer to table below). In accordance with our 2001–2004 EEO and Diversity Management Plan, the following initiatives that focus on women, youth and Indigenous people were implemented during the year:

- The “Women in Leadership Program”, delivered by the Australian Institute of Management (AIM), continued into its second year. The program aims to encourage the career development of women across all levels of the organisation and includes contemporary concepts of management and leadership, communication, negotiation and career planning. To date, 47 women (40% of all female employees) have participated in the program. In addition, special presentations from senior women from both the private and public sectors have been provided to enhance networking and knowledge of contemporary career issues for participants of the program.
- Our commitment to work–life balance was illustrated in part by a 100% return from parental leave.
- The continuing commitment to youth and Indigenous employment and training through the offer of two Indigenous and one youth traineeship.

- All supervisors and team leaders participated in a cross-cultural training program as a precursor to the 2004 Indigenous Employment Program.

Target Group	% Community Representation (1996 Census)	% in Public Sector Workforce at 30 June 2003	% at Insurance Commission of WA at 30 June 2004
Women	52	46.5	46
People with disabilities	4	6.7	6.4
Youth	11	8.8	10.4
Indigenous Australians	3	0.7	0.7
People from culturally diverse backgrounds	12	3.2	5

Employee Development

Developing our people to grow and to achieve their best is a key strategy in the achievement of our goals and contributes to employee satisfaction through opportunities for professional and career development.

Achievement in the area of employee development included:

- Negotiation skills training programs for effective claims management for Claims Officers in our key business divisions, RiskCover and MVPI.
- Training and briefing sessions for employees in the new Performance Management and Development System (PMDS).
- Continuation of operational claims competency-based training for Claims Officers of the RiskCover Division.
- Support for employees in their professional development through the provision of assistance and incentives to commence and complete tertiary and professional qualifications relevant to the business needs of the Insurance Commission. Some 152 employees (55%) already possess a relevant post-secondary qualification and a further 7% of employees are currently undertaking further study with the financial and other support of the Insurance Commission.

Organisational Development

The Insurance Commission's average training and development hours per employee was 23.5 hours, its average training investment exceeded the All Industry benchmark (\$1,820 compared to \$1,772).

Implementation of the new PMDS has been a key driver in linking employee effort with organisational objectives and identifying skill and general development requirements. The corporate values of the Insurance Commission have been incorporated into the PMDS, supporting the strong commitment by employees to the Insurance Commission's values.

2004 Employee Perception Survey

An independently conducted Employee Perception Survey highlighted an increase in the overall satisfaction level of employees measured by the Quality of Work Experience (QWE) score. The QWE provides a general summary of how employees perceive the overall quality of their work experience.

The Insurance Commission's QWE score, which is based on a range of -100 to +100, increased from 32 to 37 (equal to national average), with improvements in every dimension of the survey.

Specific opportunities for further improvement exist in recognising and rewarding employees, and internal communication at Divisional meetings which will enhance our corporate culture.

Ongoing Projects

During 2004–2005 the Human Resources Division will:

- Conduct a post-implementation evaluation of the new PMDS system.
- Implement a Management and Leadership Development strategy aligned with the Insurance Commission's corporate values to support the development and fostering of a leadership ethos throughout the organisation.
- Continue to define and develop Knowledge Management within the context of the Insurance Commission.

Investments

Key goals:

- *To enhance investment returns without incurring additional risk through increased diversification of investment assets and managers*
- *To achieve a rate of return for each asset class that exceeds the relevant asset class performance benchmark*

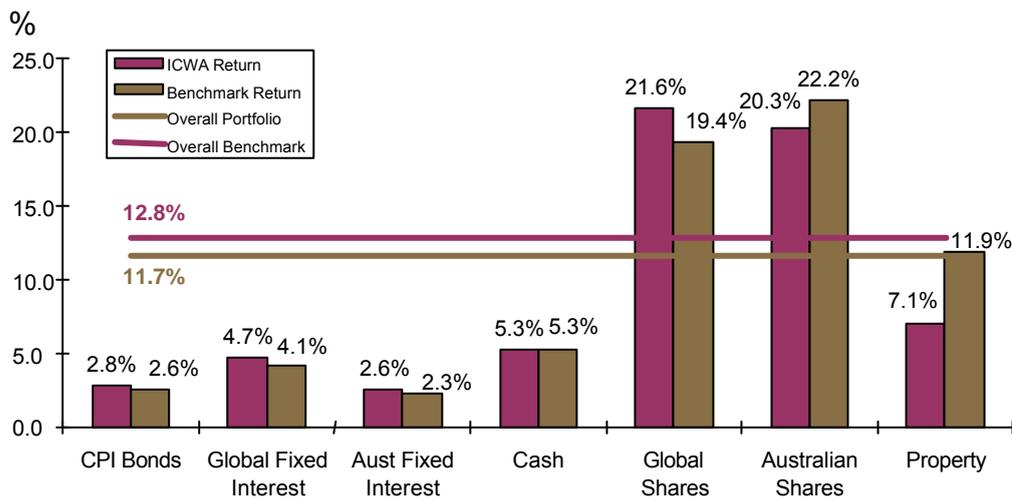
Investment Management and Performance

The Insurance Commission's prudential management of investment assets continued to focus on the balance between achieving consistent, strong, positive returns without increasing the overall level of risk within the Investment Portfolio. The Board continued to examine the investment strategy in detail on a regular basis, receiving strategic investment advice from asset consultants, JANA Investment Advisors.

Investment management of all portfolios, through a combination of external and internal management, produced a total return for the year of 11.7% which was 1.1% below the performance benchmark. The return net of manager fees and expenses was 11.4%. As a further measure, the annual investment return was 2.2% below that achieved by the median Australian Balanced Superannuation Fund (as measured by the Mercer Pooled Fund Survey). However over three and five year periods, our return exceeded the median Australian Balanced Superannuation Fund by 0.8% and 0.2% respectively.

The main factors contributing to the lower overall annual return compared to balanced superannuation funds were the lower weighting to Global Shares and the significantly higher weighting to direct property. As the diagram below shows, the returns from Global and Australian Shares were very strong (around 20%) whereas Property returned 7.1% which was 4.8% below the Property Performance Benchmark.

Investment Asset Class Returns 2003–2004



Given the long-term nature of the Insurance Commission's property portfolio and the fact that returns from new retail property investments will not start to flow through to performance until early 2005, the overall performance result compared well with our peers.

During the year there were a number of changes to investment managers (*refer to Table A*) and to active asset allocation. The allocation to Global Shares was increased from 15% to 19% and fixed interest reduced from 30% to 26%. Changes to investment managers included the appointment of a Global Emerging Equity

Markets Manager and a High Yield Fixed Interest Manager. Other strategy initiatives included the implementation of a partial currency hedge on global share portfolios.

A key long-standing feature of the investment asset allocation strategy has been the large allocation to direct property, an asset class that has achieved excellent long-term results for the Insurance Commission. The 10-year annualised return of 12.9% is 3.5% above the property performance benchmark. Diversification of assets within the property portfolio has been an important strategy to secure strong income flows over the long term. The development of the Ellenbrook Shopping Centre located approximately 22 kilometres north-east of Perth, commenced in January 2004 and is due for completion in December 2004. This will be one of two retail properties to be added to the internally managed property portfolio in 2004–2005.

Investment income of \$187.9 million and positive cash flow of \$26.0 million over the reporting year resulted in total investment assets increasing to \$1.71 billion. These funds were managed by the following external and internal investment managers during the year:

**Table A: Insurance Commission of Western Australia
Investment Managers as at 30 June 2004**

Australian Shares	Global Shares	Australian and Global Fixed Interest	Cash	Property
Barclays Global Investors Australia Ltd	Fidelity Investments	UBS Asset Management	Internally managed	QIC Shopping Centre Fund
Challenger Managed Investments Ltd	Marathon Asset Management	Barclays Global Investors Australia Ltd		Internally managed commercial property
GMO Australia Limited	Wellington Asset Management	Australian Inflation Linked Bonds (internally managed)		
Concord Capital Ltd	Genesis Management Australia Ltd (emerging markets)	Hastings Funds Management Ltd (<i>High Yield</i>)		

Total investment assets include RiskCover investment funds of \$276 million (2003 - \$234 million).

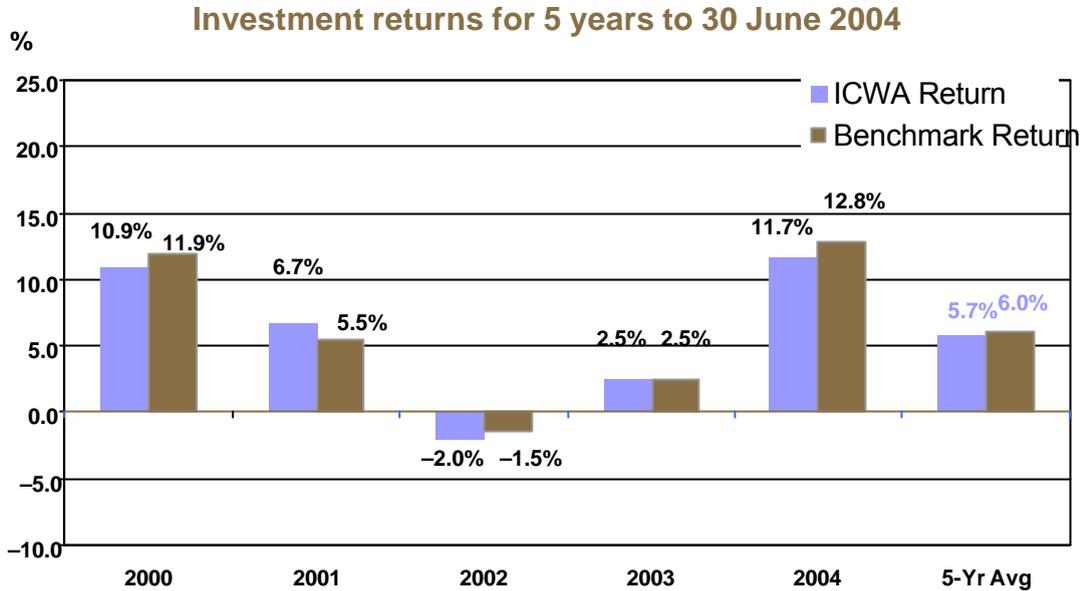
Investment Strategy

The primary driver of investment strategy for the Insurance Commission is to broadly match its investment assets to the claims liabilities for both the Third Party Insurance Fund and RiskCover. This involves extensive asset/liability modelling to determine the appropriate level of investment return and risk for the Portfolio.

Asset allocation is the critical component in setting overall investment strategy. Asset allocation has remained reasonably consistent over the past 10 years with minor variations to the allocations between defensive (fixed interest and cash) and growth (equities and property) sectors. As at 30 June 2004, 27% was allocated to defensive assets (2003 - 32%) and 73% was allocated to growth assets (2003 - 68%).

The Prudential Guidelines for Investments (“Guidelines”) issued by the Treasurer of Western Australia determine the limits and types of investments in which the Insurance Commission can invest. The Guidelines are regularly reviewed and updated to incorporate changes that are continually evolving within investment markets both internationally and within Australia and can be viewed on the Insurance Commission’s website.

Although the one-year investment performance is an important consideration for the Board, the longer term returns are considered to be the most crucial measures of investment performance in determining the success of the Insurance Commission's investment strategy. These results are illustrated in the diagram below. The five-year annualised return was a marginal 0.3% below the benchmark.

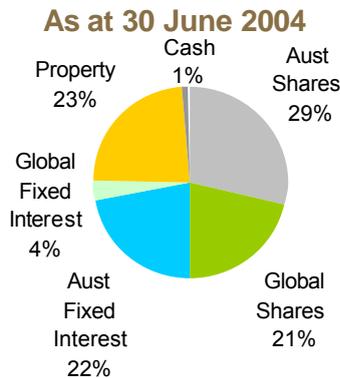


Asset Allocation

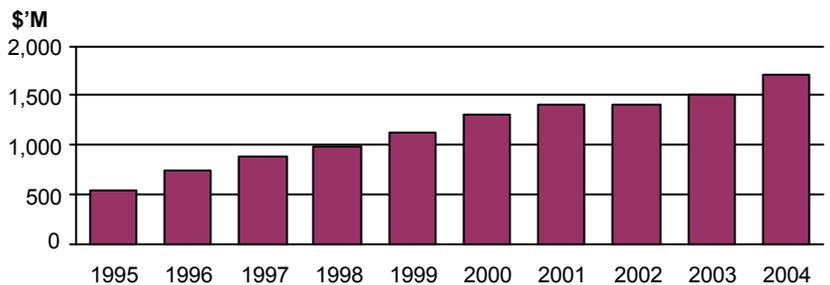
Actual allocations for each asset class as at 30 June 2004 are illustrated below.

These allocations vary from the strategic long-term asset allocation set by the Board and take into account short-term expectations in performance for certain asset classes. The main variations to the Neutral Asset Allocation relate to Fixed Interest (4% below benchmark allocation) and Global Shares (6% above benchmark allocation) as at 30 June 2004. Growth in the investment portfolio over the past 10 years is illustrated below.

Investment Asset Allocation



Growth in investment assets from 1995 to 2004



Community Focus

For many years the Insurance Commission has been an active sponsor of initiatives that benefit our customers, the people of Western Australia. The activities that the Insurance Commission sponsors and supports, as required by Section 6 of the *Insurance Commission of Western Australia Act 1986*, are limited to initiating, or participating in, and promoting programs and schemes for:

- research into the treatment of industrial diseases and personal injury; and
- research into, education for, and promotion of public awareness relating to the prevention of industrial diseases, personal injury and accidental death.

These are programs and schemes relevant to risks in respect of which the Insurance Commission is to provide insurance.

Road Safety Partnerships

The Insurance Commission sponsors road-safety programs aimed at promoting safe driving practices and reducing death and injury. To ensure a coordinated approach to road safety with the Western Australian Road Safety Council (of which the Insurance Commission is a member), the majority of our sponsorship funds are directed to the Office of Road Safety which administers the Road Safety Council's Road Trauma Trust Fund programs. Providing funding for road-safety programs also continues to be a key strategy to help control Motor Vehicle Third Party Personal Injury Insurance claim costs.

In 2003–2004 the Insurance Commission provided \$3.3 million funding to the Office of Road Safety for Road Safety Council programs. In addition, the Insurance Commission provided a further \$300,000 to fund other road-safety initiatives. A detailed breakdown of all funding provided is shown below.

Road safety programs funded by the Insurance Commission in 2003–2004

Road Safety Council program	Funding provided (\$'000)
Community Education media campaigns	2,863
Road Aware	46
Graduated Driver Training and Licensing	156
Youth Driver Development	25
Conferences	100
Road Safety Council Regional Visits	48
Workplace Road Safety	81
<i>Sub-total</i>	3,319
Other road safety programs	
'The Buzz' theatre project	136
'Belt Up' partnership with Western Australian Football Development	94
Aboriginal Theatre Project with Yirra Yaakin Theatre Company	92
<i>Sub-total</i>	322
Grand total	3,641

A legally binding funding agreement between the Insurance Commission and the Office of Road Safety that set out the obligations and performance evaluation was prepared and signed by both parties to ensure proper

accountability for the funding of these programs. All programs have performance indicators and are evaluated on a regular basis by independent bodies such as market research organisations, and the Insurance Commission. A brief description of some larger programs has been provided.

Community Education Campaigns

The Statewide mass media campaigns are based on international best practice and focus on ‘the big four’ – speeding, drink-driving, restraints and fatigue. The campaigns utilise television, radio, outdoor advertising, and promotional products that are supported by extensive market research conducted with the target groups and timely police enforcement.

Road Aware Program

The Road Aware Program is a school road-safety program that commenced operations in January 2003.

The Insurance Commission funded the ‘Road Aware Drivers’ program – a pre-driver road safety course for Year 10 and 11 students and a two-hour parent and pre-driver session that focuses on the importance of supervised driving for learner drivers. Road Aware Drivers Teacher and Student Resources were trialed in 64 secondary schools throughout metropolitan and regional Western Australia and will be offered to all schools in Terms 3 and 4 of 2004 and onwards.

‘The Buzz’ – Road Safety messages delivered through theatre in schools

‘The Buzz’ is a play that addresses the risks facing young drivers – lack of driver experience and the thrill of speeding. During the 2003 calendar year, there were 97 free performances of ‘The Buzz’ held in schools located throughout the MidWest, Goldfields, Great Southern and metropolitan regions of Western Australia. This resulted in 12,479 secondary students seeing this hard-hitting play that highlights the consequences of reckless driving. The ongoing success of ‘The Buzz’ resulted in the Insurance Commission entering into a two-year contract with Barking Gecko Theatre Company and the owners of the play United Kingdom theatre company Box Clever to deliver a 15-week schools tour of ‘The Buzz’ in the 2004 and 2005 calendar years.

‘Belt Up’ – Road Safety messages delivered through football

The Insurance Commission’s ‘Belt Up’ partnership with the Western Australian Football Development ensures that the ‘Belt Up – Seatbelts Saves Lives’ message and associated activities such as Red Arm Band days are delivered to thousands of young people throughout the State who are involved in junior football. In 2003, 135 schools competed in the ‘Belt Up Cup’, a Statewide football competition for students in Years 8 and 9 in metropolitan schools and Years 8 to 10 in country regions. The 2004 calendar year is the final year of this three-year naming rights partnership.

‘Muttacar Sorry Business’ – Aboriginal Theatre Project

The Insurance Commission completed the tender evaluation for a theatre project written and performed by Aboriginal people that is about road safety issues specific to Aboriginal people. Aboriginal theatre company Yirra Yaakin was the successful tenderer and has written and produced a 30-minute play followed by a 30-minute workshop. A six-week tour of the free performances of the play, titled ‘Muttacar Sorry Business’, has been scheduled to tour Aboriginal communities and schools in the metropolitan, Kimberley and Gascoyne regions in August and September 2004. This will be the first specific Aboriginal road-safety theatre project in Australia.

Medical Research into mesothelioma

During the year, the Insurance Commission provided \$298,600 to the Foundation for Advanced Medical Research and The University of Western Australia as part of a four-year funding commitment for research into mesothelioma, an asbestos-related disease. Professor Bruce Robinson and his team at the Department of Medicine at Sir Charles Gairdner Hospital undertake this research.

The Insurance Commission has been a long-term supporter of medical research into mesothelioma as this research is relevant to the Compensation (Industrial Diseases) Fund, a fund managed by RiskCover. Between 1990 and 2000, the Insurance Commission pledged more than \$1.8 million funding for research into mesothelioma. Following favourable reviews from an independent peer review that evaluated the progress and achievements of the research in 2001, the Insurance Commission committed a further \$1.2 million (excluding GST) funding over four years, being \$300,000 per annum from 1 January 2002 until 30 December 2005.

In January 2004, Professor Robinson provided a report to the Board on work performed in 2003 in relation to the project milestones in the study of mesothelioma tumour antigens and development of immunotherapy for mesothelioma, and a copy of the monthly expenditures.

Professor Robinson was awarded the Wagner Medal at the 7th International Mesothelioma Interest Group conference in Brescia, Italy in June 2004 for his contributions to mesothelioma research. The late Dr Chris Wagner pioneered research into mesothelioma.

Charity Support

Insurance Commission staff generously donate to many charities, with a number of community organisations benefiting: Camp Quality; The Cancer Foundation of Western Australia; and the Children's Medical Research Institute. Staff also donated Christmas presents to disadvantaged children in foster care.

Customers, Stakeholders and Community Relations

Our customers

The Insurance Commission belongs to the people of Western Australia, as a State-owned enterprise of the Government of Western Australia. Whilst it seeks to operate on a commercial insurance basis, funded by both premiums and investment-generated returns, it is not profit-driven. The Insurance Commission deals with the following customer groups:

Policyholders

Our policyholders include any person or company holding a policy of insurance underwritten by the Insurance Commission.

Claimants

Our claimants include any person, company or State Government agency that makes a claim for compensation or damages through the Insurance Commission.

Government Clients

All State Government departments, authorities and instrumentalities are our clients. The RiskCover Division manages the self-insurance arrangements of the State Government and provides professional risk management and insurance services.

Service Providers

Professional bodies and individual service providers are engaged to assist with insurance, claims-related and operational matters.

Customer Service Values

As a customer-focussed organisation, providing quality customer service is integral to achieving the Insurance Commission's vision for the future. The first point of contact for many customers is often our Crash Reporting Team and Claims Officers. The Insurance Commission's Customer Service Vision and Values statement provides guidelines for customer service.

Customer Service Vision and Values Statement

The Insurance Commission is committed to maintaining the highest standard of service in our dealings with all customers. We achieve this through:

Communication

We communicate openly with our customers and strive to ensure that they receive clear and accurate information and advice.

Responsiveness

We respond to our customers in a timely manner and show consideration to their needs and expectations. We honour our commitments.

Respect for individuals

We strive to be efficient, courteous and considerate. We respect the dignity of our customers. We always act fairly.



Accountability

We accept responsibility for our actions in delivering the highest standards of service to our customers. We make known to our customers the levels of service we will deliver and ensure that they are met. Any complaints are handled promptly and equitably.

Learning environment

We are committed to improving the way we work, to sharing our knowledge and concerns and to being open to constructive criticism and feedback. We build a learning environment where employees are supported in their development and are encouraged to seek and accept new responsibilities.

Customer Feedback – Complaints and Compliments

Key goal: *Continually improve the quality of customer service*

During 2003–2004, the Insurance Commission’s Complaints Management Committee, comprising senior representatives from both insurance divisions and corporate service divisions, reviewed and updated the Insurance Commission’s Complaints Handling Policy and Procedures to ensure that they were compliant with Australian Standard – Complaints Handling AS4269 (1995). The committee also investigated various Customer Feedback Systems now available that record and collect complaints and compliments.

The Insurance Commission received 12 written complaints against service in the form of letters to the Minister and 19 enquiries relating to previous complaints in the reporting year. This compares to 22 written complaints against service in the previous year. We received 14 letters complimenting the service provided by employees compared to eight last year. Customers also provided compliments by telephone however these were not recorded, but will be collected with the new Customer Feedback System.

The continued reduction in complaints and increased number of written compliments was a pleasing result considering the potentially adversarial nature of the greater part of our business which relates to claims management.

Ongoing Projects

During 2004–2005, the Insurance Commission’s Complaints Management Committee will undertake the following activities:

- Introduce a Customer Feedback system that is compliant with Complaints Handling AS4269 (1995) Complaints Handling.
- Integrate a comprehensive complaints data collection and recording system into its IT systems environment.
- Provide training to Business Divisions and other frontline employees on the revised Customer Feedback Policy and Procedures, and on the Customer Feedback System which will collect and record both complaints and compliments.

CORPORATE GOVERNANCE

Good corporate governance is essential in ensuring the success of any organisation, particularly one such as the Insurance Commission, which has multiple stakeholders.

Corporate Governance is concerned with the way in which an organisation is controlled and directed and describes the corresponding systems and practices in place to meet the desired State Government outcomes.

Board of Commissioners

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

The Board currently comprises six members who are appointed by the Governor on the nomination of the Minister, plus the Managing Director who is a commissioner ex-officio. Board members are generally appointed for a three-year term and are eligible for re-appointment. The Board meets monthly or more regularly when required.

The Minister appoints a Chairperson and Deputy Chairperson from the six members.

Audit and Accounts Committee

The Audit and Accounts Committee comprises non-Executive Commissioners who are responsible for making recommendations to the Board, for the review of the adequacy of internal and external audit arrangements, financial statements, financial administration policies and reporting procedures. This Committee meets regularly with the Internal Auditors and officers of the Office of the Auditor General.

Corporate Governance Committee

The Board established a Corporate Governance Committee as a sub-committee to assist it in discharging its corporate governance responsibilities. The Committee which comprises non-Executive Commissioners met twice during 2003–2004.

Business and Budget Plan

The Board meets annually with senior management to determine the Insurance Commission's key objectives, strategies and initiatives for the forthcoming year. The outcome of this meeting is the production of a detailed Business Plan and Budget for consideration and approval by the Board. The Budget is submitted by the Board to the Minister for approval in accordance with Section 42 of the *Financial Administration and Audit Act 1985*.

Directions by the Minister

Section 10 of the *Insurance Commission of Western Australia Act 1986* empowers the Minister 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 in the Annual Report the text of any direction received. No ministerial directives were received during 2003–2004.

Ethical Standards

The Board has approved standards of conduct that apply to the behaviour of members of the Board, Executives and Employees. These standards extend beyond procedures prescribed in the *Insurance Commission of Western Australia Act 1986* and require all Board members, Executives and Employees to act with honesty, fairness and integrity and to display the highest ethical standards at all times.

Executive Committee

The Executive Committee generally meets monthly and is comprised of the Managing Director, two General Managers and seven Divisional Managers. Details of the members of the Executive Committee can be found on pages 10 and 11 of this Annual Report.

Financial Administration

An Accounting Manual is maintained in accordance with Section 44 of the *Financial Administration and Audit Act 1985*. A Financial Delegations and Authorisations Manual, which records the Board's delegation of powers, obligations and duties, is also maintained.

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 by the Board to seek independent professional advice would be a matter for them to consider at the time in light of the specific circumstances.

Internal Audit

The Insurance Commission out-sources the Internal Audit function. The audit assesses financial and administrative control systems and seeks to improve the organisation's 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.

Investments

The Board oversees the Insurance Commission's investment strategies, which are structured to balance risk with an appropriate return. The Board receives a monthly report and regular presentations on investment performance and results from the ten appointed external specialist investment managers. The Treasurer approves external investment manager appointments. In addition, the Insurance Commission has three strategic investments with investment managers via unlisted trusts in the areas of High Yield Fixed Interest, Emerging Market Equities and Retail Property. There are also three portfolios managed internally by the Insurance Commission.

A Master Custodian carries out the administration of externally managed funds. The Insurance Commission's property and cash portfolios are managed internally, however, there is an external property manager who is responsible for the day-to-day operations of the buildings owned by the Insurance Commission.

Investment strategy, investment manager appointments and other key investment portfolio construction issues considered by the Board of Commissioners, are subject to Prudential Guidelines for Investments (Guidelines) issued by the Treasurer of Western Australia. These Guidelines are regularly reviewed and updated and can be viewed on the Insurance Commission's website.

Remuneration

Remuneration of the non-executive Board of Commissioners is determined by the Minister for Government Enterprises on recommendations received from the Public Sector Management Division of the Department of the Premier and Cabinet. The Salaries and Allowances Tribunal determines the remuneration for the Managing Director.

Risk Management

The Board has in place a number of arrangements to identify and manage risks, which include the following:

- An Executive Committee which meets regularly to consider the Insurance Commission's Risk Management policy and practices. The Insurance Commission also has a Risk Management Consultant to assist in this process.
- A Risk Register is maintained and reviewed to identify, analyse, evaluate and formulate treatment plans for all risks.

Relationship with Government of Western Australia

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

Statement of Compliance – Public Sector Standards and Public Sector Code of Ethics

The Insurance Commission has policies, guidelines and processes in place that support ongoing compliance with the Public Sector Standards in Human Resource Management, the Public Sector Code of Ethics and the Insurance Commission's own Code of Conduct.

The Insurance Commission is currently developing a policy and guidelines on internal procedures for handling public interest disclosures as required by the *Public Interest Disclosure Act 2003*.

Number of Claims Lodged:	Nil
Breaches Found:	Nil
Applications under review:	Nil
Material Breaches:	Nil

No internal grievances were lodged relating to non-compliance with the ethical codes and no complaints were made to external authorities.

No investigations were undertaken during the year by the Office of Public Sector Standards Commissioner in accordance with Section 24 of the *Public Sector Management Act 1994*.

VIC EVANS
MANAGING DIRECTOR

The Board of Commissioners

The Board is the governing body of the Insurance Commission. The Board members are appointed by the Governor and are eligible for re-appointment. The Board at 30 June 2004 comprised:

CHAIRMAN
MICHAEL E WRIGHT
FAICD

Mr Wright has been a member of the Board since 7 January 1993, and began his term as Chairman on 27 June 1994. He is a Barrister and Solicitor who has practised since 1964 and a former senior partner with law firm Mallesons Stephen Jaques. Mr Wright specialised in banking and finance and corporate commercial resources law. Mr Wright was also Past Deputy Chairman of Wesfi Limited Group and Markalinga Investments Ltd, and past National President of the Australian Mining and Petroleum Law Association Limited.

Consultant, Mallesons Stephen Jaques
Deputy Chairman, State Government Insurance Corporation
Director, Wesbeam Holdings Limited Group

Expiry of present term: 30 November 2004

DEPUTY CHAIRMAN
PETER D EASTWOOD
FCA, FAICD

Mr Eastwood was appointed to the Board on 24 May 1994. He is a Chartered Accountant who was in practice for more than 30 years and a partner of Grant Thornton since 1971. His experience as a practising Chartered Accountant was principally as 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.

Director, State Government Insurance Corporation
Consultant, Grant Thornton Chartered Accountants
Director, Capricorn Mutual Limited
Director, Capricorn New Zealand Insurance Limited

Expiry of present term: 30 September 2005

DENYSE PHILLIPS
LLB

Commissioner

Ms Phillips was appointed to the Board on 11 December 2001. She has a legal background spanning more than 25 years, and was admitted as a Barrister and Solicitor to the Supreme Court of Western Australia in 1975. Ms Phillips now combines part-time appointments both as a Senior Member of the Veterans' Review Board and Referee at the Small Claims Tribunal.

Director, State Government Insurance Corporation

Expiry of present term: 30 November 2004

SHARON BROWN

Commissioner

Ms Brown was appointed to the Board on 11 December 2001. Ms Brown has 30 years experience in the Information Technology industry. She now works as the Strategic Business Manager of Alphawest Services Pty Ltd. Ms Brown was 'Telstra Business Woman of the Year' for Western Australia in 1999 and was the first female to be elected to the position of Branch Convenor at the WA Australian Information Industries Association for two consecutive years. Ms Brown now sits on a number of Boards and Committees.

Councillor, WA Technology and Industry Advisory Council

Councillor, Defence Reserves Support Council

Director, State Government Insurance Corporation

Director, Federal Industry Research and Development Board

Chair of Australian Information Industries Association WA

Expiry of present term: 30 November 2004

DOUG PASCOE

AAII

Commissioner

Mr Pascoe was appointed to the Board on 1 January 2003. He has worked in the insurance industry for more than 40 years and has held senior positions at AGC (Insurance) Limited, AMP United Insurance Limited and MMI Insurance (now Allianz). He also held the position of General Manager Insurance with the Insurance Commission of Western Australia from 1996 to 2002. Mr Pascoe was the Governor of Rotary International District 9450 in Western Australia for 2003–2004.

Expiry of present term: 31 December 2005

ANNEMIE McAULIFFE

MLS, Dip Ed, CMC,

Commissioner

Ms McAuliffe was appointed to the Board on 1 January 2003. She has a background in business management and strategic planning and is a management consultant with Gilbert McAuliffe and Associates Pty Ltd. Her previous positions have included Director of the Western Australian (WA) Trade Office in Indonesia, Manager of the International Relations Branch for the WA Department of Trade and Commerce and Ministerial Representative for Industry and Technology with the WA London Office.

Deputy Chair, Fire and Emergency Services Authority of Western Australia (FESA) Board

Chair of the Bushfire Service Consultative Committee FESA

Deputy Chair of ArtSource

Expiry of present term: 31 December 2005

VIC EVANS

Dip Bus Mgt, AFAIM

Commissioner

Mr Evans is the Managing Director of the Insurance Commission of Western Australia and has held this position since 1993. He is responsible for the operations of the Insurance Commission and is the only executive member of the Board.

Chairman, State Government Insurance Corporation

Expiry of present term: 21 June 2006



Commissioners' Attendance at Meetings 2003–2004

Commissioner	Board of Commissioners (Total of 12 meetings)	Audit and Accounts (Total of 10 meetings)	Corporate Governance (Total of 2 meetings)
	Number of meetings attended	Number of meetings attended	Number of meetings attended
Michael E Wright	12	10	N/A
Peter D Eastwood	10	9	2
Sharon Brown	9	9	N/A
Denyse Phillips*	2	2	N/A
Annemie McAuliffe	11	9	2
Doug Pascoe	12	10	2
Vic Evans	12	9	N/A

*Approved leave of absence was granted to Commissioner Phillips for the period August 2003 to May 2004.

Disclosure of interest in an existing or proposed contract

The Chairman of the Board, Michael E Wright, is a consultant to Mallesons Stephen Jaques which, during 2003–2004, received professional fees for legal advice provided to the Insurance Commission.

Publications

All Annual Reports and relevant publications are published on both the Insurance Commission's and RiskCover's websites www.icwa.wa.gov.au and www.riskcover.wa.gov.au respectively.

The following documents are prepared by the Insurance Commission and are available upon request:

Insurance Commission of Western Australia Annual Report

This document contains details of the objectives, achievements and the financial results and position of the Insurance Commission of Western Australia.

State Government Insurance Corporation Annual Report

This document contains details of the operations and financial results of the State Government Insurance Corporation.

RiskCover Fund Report

This document contains details of the objectives, achievements and financial results and position of RiskCover, the Managed Fund. The report is mailed to all State Government agencies that are members of the Fund.

RiskCover Services and People

This document contains information on the services that RiskCover offer to agencies. It is available for any State Government agency client that works directly with RiskCover and/or wishes to gain a better understanding of its operations and services.

Customer Service Charter

The Insurance Commission prepares a Customer Service Commitment brochure that lists our customer groups and the standard of service that we aim to deliver. Any enquiries or suggestions can be directed to:

Public Relations Manager
Insurance Commission of Western Australia
Level 13, The Forrest Centre
221 St George's Terrace
Perth WA 6000
Telephone: (08) 9264 3374
Facsimile: (08) 9264 3522
E-mail: publicrelations@icwa.wa.gov.au

Motor Vehicle Personal Injury Brochure

This brochure outlines the rights and responsibilities of both claimants and vehicle owners and drivers following involvement in motor vehicle crashes that result in personal injury.

Important information for you to read about your Motor Vehicle Compulsory Third Party Personal Injury Premiums

This brochure advises owners of Western Australian registered vehicles about the introduction of dual Compulsory Third Party Insurance premiums and explains the difference between the Private Rate and Standard (business) Rate and the importance of paying the correct rate. It was mailed out with all motor vehicle registrations from 1 July 2003 to 30 June 2004.



Information Statement for *Freedom of Information Act 1992*

This statement outlines the functions and structure of the Insurance Commission, the types of documents held, the availability of such documents to the public and the appropriate avenues for requesting access to such documents. All applications can be directed to:

Freedom of Information Coordinator
Insurance Commission of Western Australia
Level 13, The Forrest Centre
221 St Georges Terrace
Perth WA 6000
Telephone: (08) 9264 3490
Facsimile: (08) 9321 1246
E-mail: foi@icwa.wa.gov.au

Insurance Commission Internet Website

This website contains information about a variety of topics relevant to the Insurance Commission's operations, functions, customers, publications and claims procedures. It can be accessed at www.icwa.wa.gov.au.

GRM (Government Risk Management Magazine)

Each issue of GRM highlights risk management practices and concepts and addresses a variety of RiskCover Fund issues that apply to agencies. All State Government agencies are encouraged to contribute articles of interest and identify new topics that they would like to see covered. GRM is published twice a year.

Intercom

Intercom newsletter is a quarterly internal publication produced for Insurance Commission employees.

Additional Information

Disability Services Plan

The Insurance Commission is committed to ensuring that people with disabilities, their families and carers are able to access the full range of services and facilities. To this end, the Insurance Commission developed, and continually updates, its Disability Services Plan. The perceived barriers and proposed strategies and actions aimed at facilitating access are outlined in the Plan. It is communicated via various avenues to staff, service providers and the general public.

Freedom of Information

The Freedom of Information Coordinator is responsible for processing applications received under the *Freedom of Information Act 1992*. During 2003–2004:

- 42 new applications were received;
- six applications for internal review were received; and
- two applications for external review were lodged with the Office of the Information Commissioner.

Government Purchasing Charter

The Insurance Commission complies with the State Government Purchasing Charter in all significant areas including the following:

- Value for money
- Industry development
- Proper staffing and development
- Open and competitive environment
- Formal management and purchasing systems.

Compliance with the State Government Purchasing Charter is monitored on a quarterly basis.

Statement of Expenditure – *Electoral Act 1907*

Section 175ZE of the *Electoral Act 1907* requires the publication of the details of certain classes of expenditure in an agency's annual report. The Insurance Commission incurred the following expenditure in advertising, market research, polling, direct mail and media advertising for the 2003–2004 financial year.

Class of Expenditure	Organisation	Amount (\$)	Purpose
Advertising agencies	–	–	
Market research organisations	Data Analysis Australia	28,085	RiskCover Customer Satisfaction Survey
	Integral Leadership Centre	18,398	Employee Perception Survey
	Data Analysis Australia	49,456	Motor Vehicle Personal Injury Service Survey
Polling organisations	–	–	
Direct mail organisations	Hermes Precisa Pty Ltd	1,764	Mailing of GRM magazine
	Zipform Pty Ltd	35,524	Printing and mailing of CTP Premium Rates brochure
Media advertising organisations	Marketforce Productions	26,982	Employment and tender advertisements
Total (GST Inclusive)		160,209	



Statement of compliance with *State Records Act 2000*

The Insurance Commission complies with the *State Records Act 2000*. A review of the Insurance Commission's recordkeeping systems was completed in September 2002. The Recordkeeping Plan was finalised and submitted to the State Records Commission in February 2004.

Training and induction outlined in the Insurance Commission's Recordkeeping Plan will be undertaken in 2004–2005.

Waste Paper Recycling

The Insurance Commission maintained its commitment to waste paper recycling by continuing to separate recyclable material from general waste.

THE ROAD AHEAD

Strategic Business Planning for 2004–2005

The 2004–2005 Strategic Business Plan and Budgets are based upon the outcomes of a series of Strategic Business Planning sessions and workshops held between December 2003 and March 2004 involving a cross-section of Board members, the Executive and staff.

The initial workshop was a full day external workshop held on 1 December 2003 to review the Insurance Commission's Vision, Mission and Values. A revised Vision and Mission statement were proposed in the workshop and taken back to Divisional staff prior to being presented to the Board for further discussion and, after some minor changes, were endorsed.

Subsequent planning sessions focussed on Environment Scan, SWOT analysis, Risk Review and identification of Stakeholder expectations to derive the following key goals for the year ahead within our Balanced Scorecard framework.

Our Vision

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

Our 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*.

Our Values

We value

- our customers, as the most important aspect of our business.
- employees who demonstrate open communication, a responsive work ethic, respect for the individual, accountability for their actions and a commitment to continuous improvement and learning in all that they do.
- decisive leadership that provides direction and encouragement so that every employee understands how their individual job contributes to the divisional and organisational objectives.
- teamwork that exhibits a constructive and collaborative working environment characterised by diversity and tolerance.
- corporate citizenship through commitment to purposes that are important to the community and uncompromising business ethics.

Key Business Objectives for 2004–2005

Motor Vehicle Personal Injury

- To provide a claims system that treats claimants fairly and delivers equitable compensation.
- To provide affordable premiums to owners of Western Australian registered motor vehicles.

RiskCover

- To meet our customer Risk Management and Self-insurance needs.
- To support the growth of client risk-management skills.

Corporate

- To build upon our positive working environment which reflects our values and challenges people to achieve their best.
- To continually review and implement business processes to better meet customer needs and to increase productivity.
- Achieve all key financial targets.

A number of key projects and initiatives have been planned to support the achievement of these goals.

Annual Estimates 2004–2005

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the following 2004–2005 Annual Estimates for the Insurance Commission of Western Australia have been approved by the Minister.

As required by Treasurer's Instruction 953, the approved Annual Estimates are detailed below:

	<u>\$'000</u>
INSURANCE COMMISSION OF WESTERN AUSTRALIA	
Premium Revenue	342,023
Outwards Reinsurance Expense	(3,200)
Outwards Reinsurance Commission Revenue	320
	<hr/>
Net Earned Premium	339,143
	<hr/>
Claims Incurred	(360,164)
Reinsurance and Other Recoveries Revenue	6,143
	<hr/>
Net Claims Incurred	(354,021)
	<hr/>
Underwriting and Administration Expenses	(71,590)
	<hr/>
UNDERWRITING LOSS	(84,468)
	<hr/>
Investment Income	121,729
Investment Expenses	(23,826)
Other Income	17,319
Other Expenses	218
	<hr/>
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE	28,972
	<hr/> <hr/> <hr/>



Annual Estimates 2004–2005 (cont.)

The 2004–2005 Annual Estimates for the RiskCover Fund and Community Insurance Fund (both Managed Funds) are detailed below.

RISKCOVER FUND	\$'000
Contribution Revenue	121,068
Contribution Adjustment	(5,126)
Outwards Reinsurance Expense	(34,265)
Outwards Reinsurance Commission Revenue	3,244
Net Earned Contribution	84,921
Claims Incurred	(107,253)
Reinsurance and Other Recoveries Revenue	14,846
Net Claims Incurred	(92,407)
Underwriting and Administration Expenses	(16,869)
UNDERWRITING DEFICIT	(24,355)
Investment Income	23,825
OPERATING DEFICIT	(530)
	=====
COMMUNITY INSURANCE FUND	\$'000
Premium Revenue	1,174
Outwards Reinsurance Expense	(143)
Outwards Reinsurance Commission Revenue	14
Net Earned Premium	1,045
Claims Incurred	(979)
Net Claims Incurred	(979)
Underwriting and Administration Expenses	(110)
UNDERWRITING DEFICIT	(44)
Other Income	44
OPERATING SURPLUS	-
	=====

The RiskCover Fund and Community Insurance Fund are not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.

**INSURANCE COMMISSION OF WESTERN AUSTRALIA
FINANCIAL STATEMENTS 2004**

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CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND PRINCIPAL ACCOUNTING 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 Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the year ended 30 June 2004 and the financial position as at 30 June 2004.

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
25 August 2004

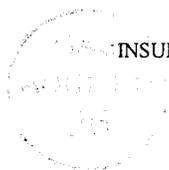


VIC EVANS
MANAGING DIRECTOR
25 August 2004



RICHARD A HASELGROVE
PRINCIPAL ACCOUNTING OFFICER
25 August 2004

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 25 August 2004.





AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Audit Opinion

In my opinion,

- (i) the controls exercised by the Insurance Commission of Western Australia provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Commission and the consolidated entity at June 30, 2004 and their financial performance and cash flows for the year ended on that date.

Scope

The Commission's Role

The Commission is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows of the Commission and the consolidated entity, and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
August 27, 2004

STATEMENT OF FINANCIAL PERFORMANCE**for the year ended 30 June 2004**

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Premium Revenue	2	326,102	309,413	326,096	309,106
Outwards Reinsurance Expense		(3,035)	(2,556)	(2,924)	(2,556)
Outwards Reinsurance Commission Revenue		292	265	292	265
Net Earned Premium		323,359	307,122	323,464	306,815
Claims Incurred	3	(374,813)	(316,563)	(377,338)	(316,690)
Reinsurance and Other Recoveries Revenue	2	9,974	22,127	9,782	22,122
Net Claims Incurred	4	(364,839)	(294,436)	(367,556)	(294,568)
Underwriting and Administration Expenses	3	(58,666)	(40,244)	(58,666)	(40,221)
UNDERWRITING LOSS		(100,146)	(27,558)	(102,758)	(27,974)
Investment Income	2	205,553	42,498	205,553	42,498
Investment Expenses	3	(44,659)	(19,849)	(44,659)	(19,849)
Other Income	2(a), (b)	28,776	28,194	28,908	28,432
Other Expenses	3	(317)	(682)	2,163	(504)
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE		89,207	22,603	89,207	22,603
Related Income Tax Equivalent Expense attributable to Ordinary Activities	5	-	-	-	-
OPERATING PROFIT AFTER RELATED INCOME TAX EQUIVALENT EXPENSE		89,207	22,603	89,207	22,603

The Statement of Financial Performance should be read in conjunction with the Notes to and forming part of the financial statements.

The Statement of Financial Performance for the Commission represents an aggregation of the Commission's Funds, taking into account inter-fund eliminations. Refer Note 20.

The Consolidated Statement of Financial Performance excludes both the RiskCover Fund and Community Insurance Fund, which are shown separately. Refer Notes 32 and 33 respectively.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CURRENT ASSETS					
Cash Assets		2,760	2,727	-	-
Receivables	6	43,404	49,365	43,384	49,348
Other Financial Assets	7	1,034,261	905,249	1,034,261	905,249
Other Assets	8	4,391	3,236	4,391	3,236
Total Current Assets		1,084,816	960,577	1,082,036	957,833
NON-CURRENT ASSETS					
Receivables	6	250,384	213,324	250,291	213,193
Other Financial Assets	7	400,235	368,257	400,235	368,257
Plant and Equipment	9	4,434	5,839	4,434	5,839
Total Non-Current Assets		655,053	587,420	654,960	587,289
TOTAL ASSETS		1,739,869	1,547,997	1,736,996	1,545,122
CURRENT LIABILITIES					
Bank Overdraft		2,441	1,528	2,441	1,528
Payables	10	15,021	11,994	14,971	11,981
Outstanding Claims	11	341,069	307,854	340,112	306,631
Unearned Premiums		135,034	126,005	135,034	126,005
Provisions	13	3,387	19,913	3,387	19,913
Other Liabilities	14	559	450	4,478	6,961
Total Current Liabilities		497,511	467,744	500,423	473,019
NON-CURRENT LIABILITIES					
Payables	10	18	19	18	19
Outstanding Claims	11	1,026,139	952,525	1,020,354	944,375
Provisions	13	10,804	11,519	10,804	11,519
Total Non-Current Liabilities		1,036,961	964,063	1,031,176	955,913
TOTAL LIABILITIES		1,534,472	1,431,807	1,531,599	1,428,932
NET ASSETS		205,397	116,190	205,397	116,190
EQUITY					
Reserves	15	11,869	11,540	11,869	11,540
Accumulated Profit	16	193,528	104,650	193,528	104,650
TOTAL EQUITY		205,397	116,190	205,397	116,190

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 Commission represents an aggregation of the Commission's Funds, taking into account inter-fund eliminations. Refer Note 21.

The Consolidated Statement of Financial Position excludes both the RiskCover Fund and Community Insurance Fund, which are shown separately in Notes 32 and 33 respectively.

STATEMENT OF CASH FLOWS**for the year ended 30 June 2004**

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium Received		372,871	349,305	372,865	348,998
Right of Indemnity Receipts - Government Insurance Fund		3,443	11,471	3,443	11,471
Right of Indemnity Receipts - WCRC		7,325	9,960	7,325	9,960
Interest Received		34,459	32,738	34,459	32,738
Property Income Received		41,435	33,995	41,435	33,995
Dividends Received		24,232	21,088	24,232	21,088
Reinsurance and Other Recoveries Received		1,851	2,525	1,624	2,494
Management Fees Received		13,361	13,206	13,361	13,206
Recovery of Investments Previously Written Off	7	541	44,170	541	44,170
Other Receipts		1,018	1,132	1,008	1,116
Internal Interest		-	-	(112)	(114)
Claims Paid		(292,171)	(279,531)	(292,065)	(278,196)
Interest Paid - RiskCover	32	(30,155)	(6,453)	(30,155)	(6,453)
Interest Paid - Community Insurance Fund	33	(20)	-	(20)	-
Outwards Reinsurance Paid		(3,083)	(2,906)	(3,009)	(2,894)
Underwriting and Administration Expenses Paid		(39,724)	(37,002)	(39,560)	(36,832)
Security of Costs Paid	6(iii)	(19,574)	(5,833)	(19,574)	(5,833)
Debt Recovery Costs		(24,018)	(19,269)	(24,018)	(19,269)
Property Expenses Paid		(9,281)	(9,407)	(9,281)	(9,407)
Goods and Services Tax Paid		(6,063)	(32,215)	(6,063)	(32,215)
Other Payments		(6,233)	(5,510)	(6,233)	(5,510)
Net Cash Inflow from Operating Activities	(i)	70,214	121,464	70,203	122,513
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Funds Received from RiskCover		41,954	30,633	41,954	30,633
Payments for Purchase of Investments		(794,632)	(1,026,822)	(794,632)	(1,026,822)
Proceeds from Sale of Investments		640,174	882,881	640,174	882,881
Payments for Purchase of Plant and Equipment		(1,329)	(2,429)	(1,329)	(2,429)
Proceeds from Sale of Plant and Equipment		333	557	333	557
Net Cash Outflow from Investing Activities		(113,500)	(115,180)	(113,500)	(115,180)
NET (DECREASE)/INCREASE IN CASH HELD		(43,286)	6,284	(43,297)	7,333
CASH AT THE BEGINNING OF THE YEAR		86,014	79,823	83,287	75,954
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies.		22	(93)	-	-
CASH AT THE END OF THE YEAR	(ii)	42,750	86,014	39,990	83,287

The Statement of Cash Flows should be read in conjunction with the Notes to and forming part of the financial statements.

For Notes (i) and (ii), refer to the following page.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2004 (continued)

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(i) Reconciliation of Operating Profit After Related Income Tax Equivalent Expense to Net Cash Flows from Operating Activities					
Operating Profit After Related Income Tax Equivalent Expense		89,207	22,603	89,207	22,603
Depreciation		2,287	2,505	2,287	2,505
Bad Debts		(82)	8	(82)	8
Foreign Exchange (Gain)/Loss: Corporation		(22)	93	-	-
Foreign Exchange (Gain)/Loss: Investments		(514)	22,640	(514)	22,640
(Increase)/Decrease in Net Market Value of Investments		(94,283)	22,641	(94,283)	22,641
Indemnity for Corporation's Net Liabilities		-	-	(2,592)	(291)
Other		14	24	14	24
Changes in Assets and Liabilities					
Increase in Premiums Receivable		3	387	3	387
Increase in Reinsurance and Other Recoveries Receivable		(17,205)	(4,546)	(17,240)	(4,572)
Increase in Other Assets		(11,224)	(5,229)	(11,224)	(5,229)
Increase in Outstanding Claims		106,829	33,652	109,460	35,092
Increase in Unearned Premiums		9,029	8,148	9,029	8,148
(Decrease)/Increase in Other Liabilities		(13,825)	18,538	(13,862)	18,557
Net Cash Inflow from Operating Activities		70,214	121,464	70,203	122,513
(ii) Reconciliation of Cash					
Cash 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		2,760	2,727	-	-
- Bank Overdraft		(2,441)	(1,528)	(2,441)	(1,528)
Investments - Cash Assets	7	42,431	84,815	42,431	84,815
		42,750	86,014	39,990	83,287

The economic entity does not have any stand-by credit arrangements or loan facilities.

The Cash detailed in (ii) above is available to the economic entity without restriction.

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 (“Commission”) and its subsidiary, the State Government Insurance Corporation (“Corporation”), in preparing the financial statements.

General Statement

The financial statements constitute a general purpose financial report, which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group (“UIG”) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The *Financial Administration and Audit Act 1985* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements. No such modifications were required to be reported either this year or last year.

(a) Basis of Accounting

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 noted, are measured at valuation.

The financial statements have been prepared on the assumption that the consolidated economic entity is a “going concern”, 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.

The Commission and Corporation are Agents of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*. Letters have been received from the Premier confirming that the State Government fully supports the financial viability of both the Commission and Corporation and will continue to support them and their Boards.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Change in Accounting Policy**

There are no changes in accounting policies which impact the consolidated financial statements of the economic entity.

(c) Principles of Consolidation

The consolidated financial statements of the economic entity combine the financial statements of the Commission, being the parent entity and the Corporation, being a controlled entity in accordance with Australian Accounting Standard “Consolidated Financial Reports” (AAS 24).

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

The accounting policies have been consistently applied by each entity in the consolidated economic entity and are consistent with those adopted in the previous year.

The financial statements of the RiskCover Fund and the Community Insurance Fund are not consolidated as their assets are controlled by the Government of Western Australia and not by the parent economic entity.

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

(d) 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 government.

As a consequence of participation in the NTER, the entity is required to comply with Australian Accounting Standard “Accounting for Income Tax (Tax Effect Accounting)” (AAS 3).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Timing differences which arise due to income and expense items being recognised in different accounting periods for accounting and taxation purposes, are brought to account as either a provision for deferred income tax (liability) or as a future income tax benefit (asset) at the rate of income tax applicable to the period in which the benefit is expected to be received or the liability is expected to become payable.

Future income tax benefits in relation to timing differences are not brought to account unless realisation of the assets is assured beyond reasonable doubt.

Future income tax benefits arising in relation to tax losses are not brought to account as an asset unless the benefit can be regarded as being virtually certain of realisation. Refer Note 5.

On 26 February 2003, the Board of Commissioners of the Commission and the Board of Directors of the Corporation resolved that the Corporation would join the Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidation group are recognised in the financial statements of the Commission.

The tax equivalent sum, payable to the State Department of Treasury and Finance 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.

(e) 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 Tax 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)
(f) Revenue Recognition

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

- **Premium Revenue**

Premium revenue comprises amounts charged to policyholders and other insurers (relating to Inwards Reinsurance) including workers' compensation insurance levies. Stamp duty and other amounts collected on behalf of third parties are excluded. Premiums are recognised as revenue over the policy periods based on time, which closely approximates the pattern of risks underwritten.

Premiums on unclosed business are recorded as revenue on the basis of premiums received subsequent to balance date. In accordance with Australian Accounting Standard "Financial Reporting of General Insurance Activities" (AAS 26), unclosed business is recorded only for those classes of insurance where it can be reliably measured.

- **Unearned Premium**

Unearned premium liability represents the portion of premium written, which relates to risks for periods of insurance subsequent to balance date and is determined by apportioning the premiums written in the year on a pro-rata basis.

- **Reinsurance and Other Recoveries**

Reinsurance and other recoveries on paid claims, claims reported but not paid, claims incurred but not reported and claims incurred but not enough reported 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 11.

- **Interest Income**

Interest income is recognised as it accrues.

- **Property Rental Income**

Income from property rentals is recognised on a receivables basis. No rental income is recorded as earned for any rent-free periods.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Dividend Income**

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

- **Investment Revenue – Changes in Market Values**

Gains and losses realised from the sale of investments and unrealised changes in the net market values of investments at balance date are recognised in the Statement of Financial Performance.

- **Foreign Exchange Revenue**

Refer Note 1 (i) “Foreign Currencies”.

- **Proceeds from Sale of Plant and Equipment**

Income from the sale of plant and equipment is recognised when control of the relevant asset has passed to the buyer.

(g) Third Party Insurance Fund – Premium Setting

In accordance with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Commission must make an assessment of premium income necessary to meet the claims and administration costs arising in the following financial year, after an actuarial report has been procured and considered. The assessment must take into account the accumulated profit/loss, which is 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 Commission’s premium recommendations are considered by the responsible Minister who may approve, refuse or invite the Commission to review all or any of its recommendations.

(h) Outwards Reinsurance

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

(i) Foreign Currencies

- Transactions of the economic entity denominated in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Assets (including investments) and liabilities of the economic entity denominated in foreign currencies at balance date are converted to Australian currency using rates of exchange ruling at that date. Resulting exchange differences are recorded as exchange gains or losses in the Statement of Financial Performance in that financial year.

(j) Plant and Equipment

Plant and equipment is measured at cost.

Computer hardware assets costing \$300 or over and all other assets costing \$1,000 or over are capitalised in the year of acquisition.

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 plant and equipment, for both the current and previous year, are as follows:

• Plant and Equipment	16 % to 25%
• Furniture and Fittings	12 %
• Computer Hardware	33 %
• Computer Software	25 %
• Motor Vehicles	50 %
• Leasehold Improvements	15 %

(k) Recoverable Amount

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. In determining the recoverable amount, the estimated future net cash flows have, where applicable, been discounted to their present value using a market-determined risk adjusted discount rate.

(l) Outstanding Claims

The liability for outstanding claims at balance date comprises:

- claims that have been reported but not paid,
- claims incurred but not reported (“IBNR”),
- claims incurred but not enough reported (“IBNER”),

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 like 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 balance date using market-determined risk adjusted discount rates.

The details of inflation and discount rates used are set out in Note 11.

- **Short-tail claims**

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 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 prudential margin to the central estimate of the discounted future claims payments for all long-tail classes of insurance (excluding RiskCover, refer Note 32). The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimate of claims liabilities that allows for a 75% (2003 - 75%) level of confidence. Refer Note 11.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Receivables**

Receivables are reviewed as to their collectability on an ongoing basis. Debts which are known to be not collectable are written off. A provision for doubtful debts is raised, where some doubt as to collection exists.

- **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 balance date. Refer Note 1(f).

- **Other Receivables**

Other receivables are recognised and carried at the nominal amounts receivable.

(n) 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.

(o) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation.

(p) Employee Benefits

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

Liabilities in respect of employee entitlements to salaries, long service leave, annual leave and sick leave, which are expected to be settled within twelve months of the balance date, are measured at their nominal amounts using the salary rates expected to be paid when the liability is settled, inclusive of related on-costs.

Liabilities in respect of employee entitlements to long service leave, which are not expected to be settled within twelve months of the balance date, are measured at the present value of their future estimated cash outflows. In determining the

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 balance date, which most closely match the terms of maturity of the related liabilities, are used.

- **Superannuation**

Staff may contribute to the Pension Scheme as set out in the repealed *Superannuation and Family Benefits Act 1938*, a defined benefits scheme closed to new members with effect from 15 August 1986 but whose provisions are continued in force by Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*, or to the Gold State Superannuation Scheme, a defined benefits lump sum scheme closed to new members with effect from 30 December 1995. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme (*Government Employees Superannuation Act 1987*), an accumulation fund complying with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.

All of these Schemes are administered by the Government Employees Superannuation Board ("GESB")

The employer's liability to meet members' pensions under the defined benefit Pension scheme is paid to the State Department of Treasury and Finance at the end of each month.

The liability for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by payments of employer contributions to the GESB. Refer Note 12.

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 balance date. The liability is determined following an independent actuarial assessment of the present value of the liability.

- **Superannuation – Net Market Value of Plan Assets**

In relation to the defined benefit Gold State Superannuation Scheme, the note disclosure required by paragraph 6.10 of Australian Accounting Standards Board "Accounting for Employee Entitlements" (AASB 1028) (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided. State scheme deficiencies are recognised by the State in its whole-of-government

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reporting. The GESB's records are not structured to provide this information for the Commission. Accordingly, deriving the information is impractical under current arrangements, and thus any benefits thereof would be exceeded by the cost of obtaining the information.

In relation to the defined benefits Pension Scheme, the value of any excess of accrued superannuation benefits over the net market value of assets is recorded as a liability of the 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 12.

(q) Deferred Acquisition Costs

The direct and indirect costs of generating premium revenue, such as commissions, are called acquisition costs. A portion of acquisition costs, relating to unearned premium, is deferred in recognition that it represents future benefits. Deferred acquisition costs are amortised over the financial periods expected to benefit from the expenditure, which is generally less than one year. Refer Note 8.

A write-down to recoverable amount is recognised when the present value of expected claims (including settlement costs) in relation to business written to the balance date exceeds related unearned premiums.

(r) Statutory Charges

Statutory levies and charges, such as Workers' Compensation and Rehabilitation Commission charges, paid or payable are accounted for on the same basis as the recognition of premiums.

(s) Investments

Investments considered integral to the general insurance activities of the economic entity are measured at net market value, where the expected costs of realisation are taken into account at balance date. Refer Note 7.

- **Securities**

Securities include bonds and short-term discount 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 recorded at cost. Interest income for such securities is accrued monthly using the coupon rate of interest.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Purchases of discount securities are recorded at their principal amount with the unearned discount netted against the principal amount to arrive at book 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 market prices 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 net market value is recorded as unrealised revenue.

- **Shares**

Purchases of shares are booked at cost, which comprises the acquisition cost, brokerage and stamp duty. Shares are marked to market using the securities exchange price at the close of the last business day of the financial year.

- **Convertible Notes**

Convertible notes are convertible into ordinary shares of the issuing company at the option of the holder. The cost of the ordinary shares issued on conversion is based on the carrying value of the option extinguished with no gain or loss realised.

- **Units in Equity Trusts**

Net fair values of units in unlisted unit trusts are determined using the net asset value ("NAV") per unit 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 currency at rates of exchange ruling at balance date.

- **Properties**

All freehold properties (including buildings) are measured at net market value after providing for the estimated costs of disposal. Freehold properties are valued annually at balance date by an independent valuer using a valuation method based on an orderly sale having regard to current economic and market conditions. Buildings are integral to the investing activities of the Commission and, in accordance with Australian Accounting Standard "Financial Reporting of General Insurance Activities" (AAS 26), are not depreciated.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retail property under development by the Commission at balance date has been valued at cost.

- **Unlisted Property Trusts**

Unlisted Property Trusts are valued by the Trustee at net 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 net market value at balance date.

- **Investments in Subsidiaries**

Investments in subsidiaries are valued at the lower of cost and recoverable amount.

- **Classification of Investments**

Investments other than freehold properties, unlisted shares and unlisted property trusts, are treated as “Current Other Financial Assets” on the basis that they are readily convertible into cash.

(t) **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. Any gain or loss arising after acquisition is reflected in the valuation of the relevant investment asset.

The purpose for which derivative transactions are undertaken is set out in Note 18(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 a notional principal amount at a given future date.

Futures contracts are used to 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 Financial Performance.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Financial Performance. 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 share price index futures contracts are marked to market based on the value of the last quoted purchase or sale price of the relevant contract traded on a recognised futures exchange. Any gain or loss is recorded in the Statement of Financial Performance as a change in the net 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.

Domestic equity options are priced daily from the Australian Stock Exchange using the "Bid" price if greater than the "Last" price, "Offer" price if less than the "Last" price, or "Last" price otherwise. 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 net fair value of investments in the Statement of Financial Performance.

(u) Net Fair Value of Financial Assets and Liabilities

Net fair values of financial assets and liabilities are determined on the following basis:

- **Recognised Financial Assets**

For financial assets traded in an organised market, net fair value equates to net market value.

Where financial assets are not traded in an organised market, net fair value is the historical carrying cost net of any provision for diminution in value or doubtful debt. Refer Note 1(s) for determination of net fair value of unlisted units in equity and property trusts.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****• Recognised Financial Liabilities**

Where financial liabilities are not traded in an organised market, net fair value is the historical carrying value.

• Unrecognised Financial Assets and Financial Liabilities

For unrecognised financial assets and liabilities traded in an organised market, net fair value equates to net market value.

(v) Bank

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 unrepresented on the bank account at balance date.

(w) Cash

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(v), together with short-term discount securities and deposits at call, which are investments integral to the entity's general insurance activities (all of which are readily convertible to cash and are subject to an insignificant risk of change in value).

(x) Management Fee

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

(y) Comparatives

In accordance with *Treasurer's Instruction 949*, where appropriate, certain reclassifications are made to the prior year's financial statements in order to enhance comparability with those of the current year.

(z) Rounding

In accordance with *Treasurer's Instruction 948*, all amounts shown in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

2. REVENUE FROM ORDINARY ACTIVITIES

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Revenue from Operating Activities					
Premium					
Direct		326,096	309,106	326,096	309,106
Inwards Reinsurance		6	307	-	-
		326,102	309,413	326,096	309,106
Outwards Reinsurance Commission		292	265	292	265
Recoveries					
Reinsurance		(588)	(1,205)	(780)	(1,210)
Other		10,562	23,332	10,562	23,332
		9,974	22,127	9,782	22,122
Investments					
Property		34,682	34,437	34,682	34,437
Dividends		24,284	21,670	24,284	21,670
Interest		33,946	31,494	33,946	31,494
Changes in Net Market Values: Unrealised		73,342	11,337	73,342	11,337
Changes in Net Market Values: Realised		20,941	(33,978)	20,941	(33,978)
Foreign Exchange Gain/(Loss)	3	514	(22,640)	514	(22,640)
Recovery of investments previously written off	(i)	17,623	-	17,623	-
Other		221	178	221	178
		205,553	42,498	205,553	42,498
Other					
Management Fees		13,589	13,050	13,753	13,212
Right of Indemnity - Government Insurance Fund		13,780	13,762	13,780	13,762
Interest		1,057	579	1,047	563
Foreign Exchange Gain/(Loss): Corporation		22	(93)	-	-
Sundry		25	390	25	389
		28,473	27,688	28,605	27,926
		570,394	401,991	570,328	401,917
(b) Revenue from Non-Operating Activities					
Proceeds from Sale of Plant and Equipment		303	506	303	506
Total Revenue from Ordinary Activities		570,697	402,497	570,631	402,423

(i) Recovery of investments previously written off relates to amounts recovered from the liquidators of both Southern Equities Corporation Ltd (in Liquidation) and Spedley Securities Limited (in Liquidation). Refer Note 7.

3. EXPENSES AND NET (GAINS)/LOSSES

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Profit from Ordinary Activities Before Related Income					
Tax Equivalent Expense includes the following specific expenses and net (gains)/losses:					
Net (Gains)/Losses					
Foreign Exchange (Gain)/Loss					
Investment - Realised		5,795	(3,048)	5,795	(3,048)
Investment - Unrealised		(6,309)	25,688	(6,309)	25,688
		(514)	22,640	(514)	22,640
Investment - Realised: Corporation		(75)	1	-	-
Investment - Unrealised: Corporation		53	92	-	-
Net Foreign Exchange (Gain)/Loss		(536)	22,733	(514)	22,640
Other					
Net Loss on Disposal of Plant and Equipment		10	19	10	19
Total Net (Gains)/Losses		(526)	22,752	(504)	22,659
Expenses					
Claims					
Direct		377,338	316,690	377,338	316,690
Inwards Reinsurance		(2,525)	(127)	-	-
		374,813	316,563	377,338	316,690
Outwards Reinsurance		3,035	2,556	2,924	2,556
Investments					
Property		8,603	8,324	8,603	8,324
Investment Management and Custodian Fees		4,920	4,032	4,920	4,032
Administration - Commission		961	1,040	961	1,040
Interest - Community Insurance Fund	33	20	-	20	-
Interest - RiskCover Fund	32	30,155	6,453	30,155	6,453
		44,659	19,849	44,659	19,849

3. EXPENSES AND NET (GAINS)/LOSSES (continued)

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Underwriting and Administration					
Accident Prevention and Research		4,045	2,768	4,045	2,768
Acquisition Costs (Commission)		7,163	6,857	7,163	6,834
Levies and Charges		83	134	83	134
Bad and Doubtful Debts		(29)	32	(29)	32
Amounts paid or due and payable to the Auditor General					
- Auditing the financial statements	(i)	252	240	252	240
Board of Commissioners' Fees		272	258	272	258
Contractors and Consultants		2,232	2,677	2,232	2,677
Debt Recovery Costs		19,151	1,665	19,151	1,665
Depreciation		2,287	2,505	2,287	2,505
Employee Benefits					
- Annual Leave		1,465	1,108	1,465	1,108
- Long Service Leave		447	555	447	555
- Salaries and Employee-Related Costs		13,131	13,134	13,131	13,134
- Superannuation		1,735	2,158	1,735	2,158
IT Hardware and Software		3,650	3,329	3,650	3,329
Other Underwriting and Administration		2,782	2,824	2,782	2,824
		58,666	40,244	58,666	40,221
Other					
Cost of Plant and Equipment Sold		313	525	313	525
Plant and Equipment Written Off		3	5	3	5
Reduction in Indemnity for Corporation's Net Liabilities	24	-	-	(2,592)	(291)
Internal Interest		-	-	112	113
Sundry		1	152	1	152
		317	682	(2,163)	504
Total Expenses		481,490	379,894	481,424	379,820

- (i) Includes an amount of \$12,000 (2003 - \$10,000) 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 Commission to the Corporation.

4. NET CLAIMS INCURRED

	CONSOLIDATED	COMMISSION		
	2004 Total \$'000	Current Year (i) \$'000	2004 Prior Years (ii) \$'000	Total \$'000
Current Year				
Gross Claims Incurred and Related Expenses - Undiscounted	447,092	374,665	73,856	448,521
Reinsurance and Other Recoveries - Undiscounted	(12,963)	(25,322)	12,550	(12,772)
Net Claims Incurred - Undiscounted	434,129	349,343	86,406	435,749
Discount and Discount Movement - Gross Claims Incurred	(72,279)	(63,920)	(7,263)	(71,183)
Discount and Discount Movement - Reinsurance and Other Recoveries	2,989	46,120	(43,130)	2,990
Net Discount Movement	(69,290)	(17,800)	(50,393)	(68,193)
Net Claims Incurred	364,839	331,543	36,013	367,556
Previous Year				
Gross Claims Incurred and Related Expenses - Undiscounted	314,354	353,683	(38,439)	315,244
Reinsurance and Other Recoveries - Undiscounted	(29,020)	(29,790)	765	(29,025)
Net Claims Incurred - Undiscounted	285,334	323,893	(37,674)	286,219
Discount and Discount Movement - Gross Claims Incurred	2,209	(53,270)	54,716	1,446
Discount and Discount Movement - Reinsurance and Other Recoveries	6,893	54,900	(47,997)	6,903
Net Discount Movement	9,102	1,630	6,719	8,349
Net Claims Incurred	294,436	325,523	(30,955)	294,568

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

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

5. INCOME TAX EQUIVALENT

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Calculation of Income Tax Equivalent Expense					
Operating Profit before Income Tax Equivalent Expense		89,207	22,603	89,207	22,603
Prima Facie Income Tax Equivalent Expense on the Operating Profit at 30% (2003 - 30%)		(26,761)	(6,781)	(26,761)	(6,781)
Tax Effect of Permanent Differences:					
Non-assessable items		5,249	84	5,249	84
Imputation gross up on dividends received		(4,314)	-	(4,314)	-
Allowable deductions not recognised in the Statement of Financial Performance		-	(87)	-	-
Non-deductible items		(151)	(7,591)	(151)	(7,591)
Tax Effect of Losses not previously brought to account	(i)	25,977	14,375	25,977	14,288
Income Tax Equivalent Expense attributable to Operating Profit		-	-	-	-
(b) Tax Losses					
Balance at the Beginning of the Year		(162,934)	(175,026)	(162,934)	(113,109)
Tax Losses transferred		-	-	-	(61,917)
Tax (Loss)/Profit arising in year	(ii)	(50,195)	12,092	(50,195)	12,092
Balance at the End of the Year	(i)	(213,129)	(162,934)	(213,129)	(162,934)

(i) Benefit of Tax Equivalent Losses not brought to account

At balance date, the economic entity had tax losses of \$213.1 million (2003 - \$162.9 million) which are available to offset against future years' taxable income, of which \$38.1 million (2003 - \$74.5 million) is unrecognised.

The benefit of these unrecognised losses of \$11.4 million expressed at a corporate rate of 30% (2003 - \$22.3 million, expressed at a corporate rate of 30%). This benefit has not been brought to account as its realisation is not virtually certain. The benefit will be obtained only if:

- the tax consolidation parent entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; and
- the tax consolidation parent entity continues to comply with the conditions of deductibility imposed by the National Tax Equivalent Regime ("NTER"); and
- no changes in the NTER adversely affect the tax consolidation parent entity in realising the benefit.

(ii) Tax Loss arising in year

A Consolidated tax loss arose for the 2003/04 financial year. This is materially different to the accounting operating profit for the year due primarily to:

- net impact of excess franking offsets on losses carried forward - \$33.6 million.
- amount received re dividend from the SECL administration recognised in the year of \$17.1 million which is not assessable as it relates to pre-NTER. Refer Note 7.
- unrealised gains on investments not assessable - \$79.8 million.

6. RECEIVABLES

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current					
Premiums Receivable		3,068	3,071	3,068	3,071
Less: Provision for Doubtful Debts		-	(10)	-	(10)
		3,068	3,061	3,068	3,061
Reinsurance and Other Recoveries Receivable		24,576	21,833	24,491	21,751
Less: Provision for Doubtful Debts		(662)	(734)	(597)	(669)
		23,914	21,099	23,894	21,082
Right of Indemnity					
Government Insurance Fund	(i)	9,009	8,549	9,009	8,549
Workers' Compensation and Rehabilitation Commission	(ii)	4,362	6,945	4,362	6,945
		13,371	15,494	13,371	15,494
Other Receivables					
Goods and Services Tax Receivable		-	5,575	-	5,575
Sundry Receivables		3,051	4,136	3,051	4,136
		3,051	9,711	3,051	9,711
		43,404	49,365	43,384	49,348
Non-Current					
Reinsurance and Other Recoveries Receivable		79,548	76,170	79,455	76,039
Right of Indemnity					
Government Insurance Fund	(i)	55,652	42,297	55,652	42,297
Workers' Compensation and Rehabilitation Commission	(ii)	19,517	23,915	19,517	23,915
		75,169	66,212	75,169	66,212
Other Receivables	(iii)	95,667	70,942	95,667	70,942
		250,384	213,324	250,291	213,193
Movement in Provision for Doubtful Debts					
Balance at Beginning of the Year		744	736	679	671
Previously provided for and written off during the year		(53)	(24)	(53)	(24)
Previously provided for but provision no longer required		(29)	(5)	(29)	(5)
New provision in the year		-	37	-	37
Balance at End of the Year		662	744	597	679

- (i) In accordance with Cabinet's decision of May 1996, Treasury assumed liability for the accumulated deficit existing in the Government Insurance Fund.
- (ii) In accordance with Section 25(2) of the *Employers' Indemnity Supplementation Fund Act 1980*, the Commission has the right of reimbursement from the Workers' Compensation and Rehabilitation Commission for all payments and expenses paid under this Act. Refer Note 11.
- (iii) Other Receivables (Non-Current) includes \$60.0 million (2003 - \$55.5 million) relating to costs incurred in a debt recovery action (Refer Note 7) and \$30.9 million (2003 - \$11.3 million) relating to the payment of security of costs ordered by the Supreme Court of Western Australia in the Bell recovery action.

7. OTHER FINANCIAL ASSETS

	CONSOLIDATED		COMMISSION	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current Investments				
At Net Market Value				
Fixed Interest Bonds	253,557	281,495	253,557	281,495
Fixed Interest Unit Trusts	89,563	72,356	89,563	72,356
Indexed Bonds	81,989	67,969	81,989	67,969
Shares - Listed Equities	845,660	628,111	845,660	628,111
Cash Assets	42,431	84,815	42,431	84,815
Receivables	1,256	4,541	1,256	4,541
Floating Rate Promissory Note (i)	(275,741)	(233,787)	(275,741)	(233,787)
Forward Foreign Exchange Contracts	(830)	7	(830)	7
Payables	(3,624)	(258)	(3,624)	(258)
	1,034,261	905,249	1,034,261	905,249
Non-Current Investments				
At Net Market or Fair Value				
Freehold Properties (ii)	315,828	290,365	315,828	290,365
Property Trust - Unlisted	88,407	77,892	88,407	77,892
Payables	(4,000)	-	(4,000)	-
	400,235	368,257	400,235	368,257
At Cost				
Investment in Subsidiary (iii)	-	-	100,000	100,000
Provision for Write Down in Subsidiary	-	-	(100,000)	(100,000)
	-	-	-	-
	400,235	368,257	400,235	368,257
	1,434,496	1,273,506	1,434,496	1,273,506

(i) The Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. Refer Note 32.

(ii) The Forrest Centre and 141 St. George's Terrace (formerly Hartley's Building) were valued at 30 June 2004. Refer Note 1(s). The independent valuer used was Mr Jason Fenner AAPI of CB Richard Ellis (C) Pty Ltd. Freehold Properties includes \$31.9 million relating to retail development properties currently under construction, which have been valued at cost. The Commission believes this amount equates to fair value.

(iii) The Commission owns 100% of the issued share capital of the Corporation. The investment in the Corporation is fully written down at 30 June 2004 because its liabilities exceed its assets. The Corporation's net deficiency in assets at balance date of \$3.9 million (2003 - \$6.5 million) has been included as a current liability of the Commission. Refer Note 14.

7. OTHER FINANCIAL ASSETS (continued)

Spedley Securities Limited (in Liquidation) ("Spedley") - Investment

The Spedley's investment debt (previously written off) was \$31.849 million. Dividends for the full amount had been received from the liquidator by 30 June 2000. Total interest received up to 30 June 2003, representing interest earned on the funds held by the liquidator, amounted to \$8.314 million. Further interest of \$0.541 million was received during the year ended 30 June 2004, representing a fifth and final dividend on admitted claims for interest. No further amounts are expected to be received from the liquidator.

The Bell Group Ltd (in Liquidation) ("TBGL") and Bell Group Finance Pty Ltd (in Liquidation) ("BGF") - Convertible Bonds

The Commission is owed \$150 million plus interest by TBGL and BGF in respect of subordinated convertible bonds ("Bell bonds") which were purchased by the Commission pursuant to an underwriting agreement dated 29 April 1988.

The 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 conducting an action (the "Bell recovery action") for the recovery of approximately \$280 million plus interest (which results in a total claimed recovery to the liquidations in excess of \$1.4 billion) from two syndicates of banks headed by Westpac Banking Corporation Ltd and Lloyds Bank plc of London.

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 Commission was owed \$200.967 million (previously written off) by SECL (formerly known as Bond Corporation Holdings) pursuant to a judgement of the Supreme Court of Western Australia dated 21 June 1996. The judgement arose from an indemnity given by SECL in relation to the purchase of shares in TBGL by the Commission at the time it acquired the Bell bonds.

On 21 August 2002, the Commission received \$26.741 million from the SECL administration pursuant to a legal settlement reached with SECL's auditors, Arthur Andersen. This receipt does not reduce the Commission's claim in respect of the judgement debt.

On 7 May 2003, the Commission received \$17.082 million (8.5 cents in the dollar) as a dividend from the SECL administration. The recognition of this dividend in the Statement of Financial Performance was deferred at 30 June 2003 (refer Note 13). This recovery has been recognised in the Statement of Financial Performance for the year ended 30 June 2004 (refer Note 2).

Further dividends from the SECL administration are expected. However, the Board, having regard to the uncertainty that exists in relation to the amount and timing of the future dividends to be received from the SECL liquidator, believes that it is appropriate to maintain the carrying value of this debt at zero.

8. OTHER ASSETS

	CONSOLIDATED		COMMISSION	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current				
Prepaid Expenses	1,481	526	1,481	526
Deferred Acquisition Costs	2,910	2,710	2,910	2,710
	4,391	3,236	4,391	3,236

9. PLANT AND EQUIPMENT

Plant and Equipment				
At Cost	955	956	955	956
Less: Accumulated Depreciation	(744)	(648)	(744)	(648)
	211	308	211	308
Furniture and Fittings				
At Cost	390	404	390	404
Less: Accumulated Depreciation	(290)	(292)	(290)	(292)
	100	112	100	112
Computer Hardware and Software				
At Cost	8,903	9,424	8,903	9,424
Less: Accumulated Depreciation	(7,371)	(6,748)	(7,371)	(6,748)
	1,532	2,676	1,532	2,676
Motor Vehicles				
At Cost	990	1,004	990	1,004
Less: Accumulated Depreciation	(151)	(103)	(151)	(103)
	839	901	839	901
Leasehold Improvements				
At Cost	2,606	2,325	2,606	2,325
Less: Accumulated Depreciation	(854)	(483)	(854)	(483)
	1,752	1,842	1,752	1,842
	4,434	5,839	4,434	5,839

10. PAYABLES

Current				
Sundry Creditors	13,115	11,689	13,115	11,689
Reinsurance Creditors	549	305	499	292
Goods and Services Tax Liability	1,357	-	1,357	-
	15,021	11,994	14,971	11,981
Non-Current				
Mine Workers' Relief Fund	(i) 18	19	18	19
	18	19	18	19

- (i) The assets of the Mine Workers' Relief Fund ("MWRF") were vested in the State Government Insurance Office on 14 September 1984 pursuant to Section 62A of the *Mine Workers' Relief Fund Act 1932* and were transferred to the Commission on 1 January 1987 when Schedule 4(9) of the *Insurance Commission of Western Australia Act 1986* came into operation. The MWRF is managed by the Commission, the liability for which is included in the Insurance Commission General Fund.

11. OUTSTANDING CLAIMS

	CONSOLIDATED		COMMISSION	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Liability for Outstanding Claims (undiscounted)	1,711,582	1,533,989	1,701,954	1,521,580
Discount to present value	(344,374)	(273,610)	(341,488)	(270,574)
Liability for Outstanding Claims (discounted)	1,367,208	1,260,379	1,360,466	1,251,006
Current	341,069	307,854	340,112	306,631
Non-Current	1,026,139	952,525	1,020,354	944,375
	1,367,208	1,260,379	1,360,466	1,251,006

Direct Insurance (excluding RiskCover)

The Board has added a prudential margin to the central estimate of the discounted future claims payments to provide for a higher degree of certainty that the liability for long-tail outstanding claims, at balance date, will be adequate to cover possible adverse developments. Refer Note 1(l). The degree of certainty required by the Board has been achieved by a prudential margin that allows for a 75% (2003 - 75%) level of confidence that the provision will be adequate in meeting the actual amount of liability to which it relates. The prudential margin has added \$96.2 million (2003 - \$90.2 million) to the liability for outstanding claims at balance date.

Employers' Indemnity Supplementation Fund Act 1980 ("EISF Act") Liabilities

On 14 March 2001, the HIH Insurance Group of companies (incorporating both FAI Insurances Limited and CIC Insurance Limited) was placed in provisional liquidation. All relevant workers' compensation claims arising within Western Australia up to and including this date will be met from the Employers' Indemnity Supplementation Fund, which is managed by the Workers' Compensation and Rehabilitation Commission ("WCRC").

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 Commission for compensation under the *Workers' Compensation and Rehabilitation Act 1981*, or damages at common law, if the liability of the employer is covered by an employers' 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 Commission is required to take up a liability for the HIH workers' compensation outstanding claims, notwithstanding the fact that these EISF Act liabilities have not arisen as a result of the Commission's underwriting activities.

The actuarially assessed outstanding claims liabilities for these HIH policies of \$23.9 million (2003 - \$30.9 million) are included in the Commission's total "Liability for Outstanding Claims (discounted)" above of \$1,360.5 million (2003 - \$1,251.0 million) and includes a prudential margin that allows for a 75% level of confidence (2003 - 75%). This prudential margin has added \$2.5 million (2003 - \$3.8 million) to the EISF Act liability for outstanding claims, at balance date, which excludes any allowance for reinsurance recoveries, as the extent of these recoveries is uncertain.

In accordance with Section 25(2) of the EISF Act, the Commission has the right of reimbursement from the WCRC for all payments and expenses paid 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.

11. OUTSTANDING CLAIMS (continued)**Inwards Reinsurance**

The measurement of the liability for outstanding claims is consistent with Direct Insurance (excluding RiskCover). The level of confidence required by the Board is 75% (2003 - 75%). The prudential margin has added \$0.7 million (2003 - \$1.0 million) to the liability for outstanding claims at balance date. In addition, due to adverse experience in two segments of the claims portfolio in recent years, namely in the Australian Casualty Proportional business and on a professional indemnity contract (MIPI), the Board has accepted an actuarial recommendation to include additional margins in these two segments, of \$0.4 million (2003 - \$0.9 million) and \$0.5 million (2003 - \$0.9 million) respectively.

Liability for Outstanding Claims (discounted)

The liability for outstanding claims (which does not include reinsurance and other recoveries receivable) by Fund is set out below:

	CONSOLIDATED		COMMISSION	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Insurance Commission General Fund				
- Workers' Compensation and Liability Insurance*	71,000	74,074	71,000	74,074
- Employers' Indemnity Supplementation Fund Act *	23,879	30,860	23,879	30,860
	94,879	104,934	94,879	104,934
Third Party Insurance Fund	1,183,050	1,073,080	1,183,050	1,073,080
Compensation (Industrial Diseases) Fund	7,682	7,744	7,682	7,744
Government Insurance Fund *	74,855	65,248	74,855	65,248
Inwards Reinsurance - Corporation *	6,742	9,373	-	-
Total	1,367,208	1,260,379	1,360,466	1,251,006

* Indicates Funds in "run-off"

11. OUTSTANDING CLAIMS (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 2004 for each fund of the Commission:

	% Rates Used - 2004		% Rates Used - 2003	
	Year Ending 30 June 2004	Subsequent Years	Year Ending 30 June 2003	Subsequent Years
Third Party Insurance Fund				
Inflation Rate (Wage)	3.80	4.15	3.60	3.78
Superimposed Inflation	5.00	5.00	2.00	2.00
Total Inflation*	8.99	9.36	5.67	5.86
Discount Rate	5.40	5.91	4.40	4.99
Compensation (Industrial Diseases) Fund				
Inflation Rate (Wage)	3.80	4.30	3.60	3.90
Superimposed Inflation	-	-	-	-
Total Inflation*	3.80	4.30	3.60	3.90
Discount Rate	5.40	6.10	4.40	5.20
Insurance Commission General Fund				
- Workers' Compensation and Liability Insurance				
Inflation Rate (Wage)	3.80	4.30	3.60	3.90
Superimposed Inflation	-	-	-	-
Total Inflation*	3.80	4.30	3.60	3.90
Discount Rate	5.40	6.10	4.40	5.20
- Employers' Indemnity Supplementation Fund Act				
Inflation Rate (Wage)	3.50	3.50	3.50	3.50
Superimposed Inflation	4.50	4.50	3.75	3.75
Total Inflation*	8.16	8.16	7.38	7.38
Discount Rate	5.40	5.50	4.40	4.40
Government Insurance Fund				
- Workers' Compensation				
Inflation Rate (Wage)	3.80	3.90	3.60	3.90
Superimposed Inflation	-	-	4.00	4.00
Total Inflation*	3.80	3.90	7.74	8.06
Discount Rate	5.40	5.20	4.40	5.20
- Liability				
Inflation Rate (Wage)	3.80	4.20	3.60	3.80
Superimposed Inflation	5.00	5.00	5.00	5.00
Total Inflation*	8.99	9.41	8.78	8.99
Discount Rate	5.40	6.00	4.40	5.00

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 2004 and 2003 financial 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. The average weighted expected terms to settlement are separately disclosed in this Note (see over page).

* The total inflation rate is determined by compounding the wage and superimposed inflation rates.

11. OUTSTANDING CLAIMS (continued)

	Notes	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund (iii)	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
The following are the liabilities for outstanding claims for each Fund:									
Liability for Outstanding Claims (undiscounted)		1,422,940	1,265,700	12,020	11,686	125,878	94,862	141,116	149,332
Discount to present value		(239,890)	(192,620)	(4,338)	(3,942)	(51,023)	(29,614)	(46,237)	(44,398)
Liability for Outstanding Claims (discounted)		1,183,050	1,073,080	7,682	7,744	74,855	65,248	94,879	104,934
Current	21	317,320	281,330	731	804	10,134	9,754	11,927	14,743
Non-Current	21	865,730	791,750	6,951	6,940	64,721	55,494	82,952	90,191
		1,183,050	1,073,080	7,682	7,744	74,855	65,248	94,879	104,934
Weighted average expected term to settlement		2 yrs 10 mths	3 yrs 1 mth	7 yrs 4 mths	7 yrs 11 mths	(i)	(i)	(ii)	(ii)

- (i) The long-tail classes in the Government Insurance Fund comprise Workers' Compensation: 6 yrs 4 mths (2003 - 6 yrs 4 mths) and Liability: 3 yrs 8 mths (2003 - 3 yrs 4 mths).
- (ii) The long-tail classes in the Insurance Commission General Fund comprise Workers' Compensation and Liability Insurance: 7 yrs (2003 - 7 yrs 8 mths) and Employers' Indemnity Supplementation Fund Act liabilities: 4 yrs 10 mths (2003 - 4 yrs 7 mths).
- (iii) The Insurance Commission General Fund includes the liabilities arising under the Employers' Indemnity Supplementation Fund Act as follows:

Liability for Outstanding Claims (undiscounted)	31,667	38,821
Discount to present value	(7,788)	(7,961)
Liability for Outstanding Claims (discounted)	23,879	30,860
Current	4,362	6,945
Non-Current	19,517	23,915
	23,879	30,860

11. OUTSTANDING CLAIMS (continued)

Compensation (Industrial Diseases) Fund

The long duration or the expected term to settlement of these claims is due to the latency associated with asbestos-related diseases. The IBNR and IBNER claims included in the liability for outstanding claims are actuarially estimated to continue to be reported until the year 2032.

The above liability includes an amount of \$7.1 million (2003 - \$7.3 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 \$2.0 million (2003 - \$2.0 million) is included in Reinsurance and Other Recoveries Receivable in Note 6. This produces a net liability for asbestos-mining-related claims of \$5.2 million (2003 - \$5.3 million).

Insurance Commission General Fund - Workers' Compensation and Liability Insurance

The long duration of the expected term to settlement of these claims is also due to the latency associated with asbestos-related diseases. The IBNR and IBNER claims included in the liability for outstanding claims are actuarially estimated to continue to be reported until the year 2032.

The liability for outstanding claims applicable to classes of insurance conducted by the State Government Insurance Office prior to 1 January 1987 are settled through this Fund, which includes Wittenoom asbestos-related common law liability, as detailed below.

The above liability includes an amount of \$49.5 million (2003 - \$55.0 million) representing the estimated liability, prior to future recoveries, for the Wittenoom asbestos-related common law claims. A recoverable amount of \$24.7 million (2003 - \$27.5 million) is included in Reinsurance and Other Recoveries Receivable in Note 6. This produces a net liability relating to the Wittenoom asbestos-related common law claims of \$24.8 million (2003 - \$27.5 million).

(b) Inwards Reinsurance - Corporation

	CONSOLIDATED	
	2004	2003
	\$'000	\$'000
Liability for Outstanding Claims (undiscounted)	9,628	12,409
Discount to present value	(2,886)	(3,036)
Liability for Outstanding Claims (discounted)	6,742	9,373
Current	957	1,223
Non-Current	5,785	8,150
	6,742	9,373
Weighted average expected term to settlement	6 yrs 2 mths	6 yrs 1 mth

Liability for Outstanding Claims

The liability for outstanding claims is based on development patterns derived from International Underwriting Association statistics, or derived from the experience of particular treaties. These development patterns indicate the manner in which the liability, in respect of individual years of underwriting, are expected to change over future periods. The estimate allows implicitly for the same rates of claim inflation as those occurring during the periods from which the development patterns were derived.

Discount Rates

The following discount rates were used in measuring the liability for outstanding claims and reinsurance and other recoveries for the Corporation:

Financial Year	% Rates Used - 2004			% Rates Used - 2003		
	Australia	UK	US	Australia	UK	US
2004	N/A	N/A	N/A	4.40	3.30	1.10
2005	5.40	4.60	2.10	4.50	3.60	1.60
2006	5.50	5.30	3.20	4.70	3.90	2.40
2007	5.70	5.30	4.10	5.00	4.20	3.20
2008	6.10	5.30	4.70	5.40	4.40	3.90
2009	6.30	5.30	5.30	5.50	4.60	4.40
2010	6.30	5.20	5.70	5.50	4.70	4.90
2011	6.30	5.20	5.90	5.50	4.80	5.30
2012	6.30	5.10	6.00	5.50	4.80	5.50
2013	6.30	5.10	6.00	5.50	4.80	5.70
2014	6.30	5.00	6.00	5.50	4.80	5.80
2015 and later	6.30	4.90	6.00	5.50	4.80	5.80

12. EMPLOYEE BENEFITS

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current					
Provisions					
Annual Leave		1,401	1,059	1,401	1,059
Long Service Leave		710	613	710	613
Superannuation: Pension Scheme		1,276	1,159	1,276	1,159
	13	3,387	2,831	3,387	2,831
Other Liabilities					
Accrued Salaries		434	335	434	335
Accrued Superannuation: - Gold State – West State		24	17	24	17
	14	458	352	458	352
Total Current		3,845	3,183	3,845	3,183
Non-Current					
Provisions					
Long Service Leave		1,306	1,484	1,306	1,484
Superannuation: Pension Scheme		9,498	10,035	9,498	10,035
Total Non-Current	13	10,804	11,519	10,804	11,519
Total Employee Benefits		14,649	14,702	14,649	14,702

As explained in Note 1(p), 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:

(a) Long Service Leave					
Weighted average rates of increase in annual employee benefits (%)		3.2	3.0	3.2	3.0
Weighted average discount rates (%)		5.6	4.6	5.6	4.6
Weighted average expected term to settlement		4 yrs 10 mths	4 yrs 4 mths	4 yrs 10 mths	4 yrs 4 mths
(b) Superannuation: Pension Scheme					
Weighted average rates of increase in annual employee benefits (%)		3.2	3.5	3.2	3.5
Weighted average discount rates (%)		6.5	6.5	6.5	6.5
Weighted average expected term to settlement		9 yrs 4 mths	10 yrs 4 mths	9 yrs 4 mths	10 yrs 4 mths

13. PROVISIONS

Current					
Employee Benefits	12	3,387	2,831	3,387	2,831
Deferred Income	7	-	17,082	-	17,082
		3,387	19,913	3,387	19,913
Non-Current					
Employee Benefits	12	10,804	11,519	10,804	11,519
		10,804	11,519	10,804	11,519

14. OTHER LIABILITIES

Current					
Indemnity for Corporation's Net Liabilities	24	-	-	3,919	6,511
Employee Benefits	12	458	352	458	352
Other		101	98	101	98
		559	450	4,478	6,961

15. RESERVES

	Notes	CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Compensation (Industrial Diseases) Fund Reserve					
Balance at beginning of the year		11,540	12,528	11,540	12,528
Transfer from/(to) Accumulated Profits	16	329	(988)	329	(988)
Balance at end of the year		11,869	11,540	11,869	11,540

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 Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Commission pursuant to the *Mine Workers' Relief Fund Act 1932* (refer Note 10) 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.

16. ACCUMULATED PROFIT

Balance at beginning of the year		104,650	81,059	104,650	81,059
Operating Profit for the year after Related Income Tax Equivalent Expense		89,207	22,603	89,207	22,603
Amount transferred (to)/from Compensation (Industrial Diseases) Fund Reserve	15	(329)	988	(329)	988
Balance at end of the year		193,528	104,650	193,528	104,650

17. AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)

	CONSOLIDATED	
	2004 \$'000	2003 \$'000
Receivables		
Current		
United States dollars	2	3
Non-current		
United States dollars	17	19
Total Receivables	19	22
Payables		
Current		
Canadian dollars	2	2
Great British pounds sterling	70	68
United States dollars	456	596
	528	666
Non-current		
Canadian dollars	9	10
Great British pounds sterling	373	380
United States dollars	2,254	3,356
	2,636	3,746
Total Payables	3,164	4,412

The amounts disclosed above for Receivables and Payables for both 2004 and 2003 relate solely to the Corporation. No amounts relate to the Commission.

18. 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 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 Commission's investment strategy.

Derivatives are not utilised in a speculative manner, nor are Investment Managers permitted to leverage the investment portfolio. 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 balance date, all of the 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 Commission has appointed Macquarie Investment Management Ltd to enter into forward foreign exchange contracts, on its behalf, to manage the risk associated with anticipated overseas equity portfolio transactions out to 3 months, at 50% of the exposure generated.

	CONSOLIDATED	
	2004	2003
	\$'000	\$'000
(b) Futures		
At balance date the details of outstanding contracts are:		
Up to 1 year		
Interest Rate Futures		
Notional Principal Amount of Liability	(2,408)	(2,989)
Weighted Average Price	5.47%	4.88%
Equity Futures		
Notional Principal Amount of Asset	1,238	1,962

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 balance date, the Commission could effectively replace the futures with cash holdings. The Notional Principal Amounts shown above are not considered to be materially different to their Net Fair Value.

(c) Forward Foreign Exchange Contracts

Details of forward foreign exchange contracts outstanding at balance date are as follows:

	CONSOLIDATED			
	Average Exchange Rate		Notional Principal Amount	
	2004	2003	2004	2003
			\$'000	\$'000
Sell US Dollars				
Up to 3 months	0.6944	-	102,943	-
Sell Euros				
Up to 3 months	0.5721	-	31,430	-
Sell Great British Pounds				
Up to 3 months	0.3839	-	19,199	-
Sell Japanese Yen				
Up to 3 months	74.2162	-	16,762	-
Total			170,334	-

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 Financial Performance immediately. At balance date, a net unrealised loss on these contracts amounted to \$0.83 million (2003 - \$Nil). Refer Note 7.

18. FINANCIAL INSTRUMENTS (continued)

(d) Interest Rate Risk Exposure

Interest rate risk is the risk that the economic entity will suffer a financial loss due to adverse movements in interest rates.

The following tables detail the economic entity's exposure to interest rate risk at balance date:

Current Year

	CONSOLIDATED 2004 (\$'000)					Total	Weighted Average Interest Rate (%)
	Variable Interest Rate	Fixed Interest Rate Maturing in			Non-Interest Bearing		
		Less than 1 Year	1 to 5 Years	More than 5 Years			
Financial Assets							
Fixed Interest Bonds	-	28,807	131,402	95,753	-	255,962	5.92
Fixed Interest Unit Trusts	-	-	-	-	89,563	89,563	-
Indexed Bonds	-	-	6,981	75,008	-	81,989	3.28
Shares - Listed Equities	-	-	-	-	844,425	844,425	-
Cash Assets	41,208	3,983	-	-	-	45,191	4.17
Right of Indemnity	-	-	-	-	88,540	88,540	-
Forward Foreign Exchange Contracts	-	-	-	-	-	-	-
Other Financial Assets	-	-	-	-	99,975	99,975	-
Total Financial Assets	41,208	32,790	138,383	170,761	1,122,503	1,505,645	
Weighted Average Interest Rate (%)	4.04	5.86	5.78	4.76	-		
Financial Liabilities							
Bank Overdraft	2,441	-	-	-	-	2,441	5.00
RiskCover Floating Rate Promissory Note	275,741	-	-	-	-	275,741	- (i)
Forward Foreign Exchange Contracts	-	-	-	-	830	830	-
Other Financial Liabilities	-	-	-	-	22,049	22,049	-
Total Financial Liabilities	278,182	-	-	-	22,879	301,061	
Net Financial Assets/(Liabilities)	(236,974)	32,790	138,383	170,761	1,099,624	1,204,584	
Weighted Average Interest Rate (%)	11.69	-	-	-	-		

(i) The RiskCover Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. RiskCover earns an investment return on its share of the investment pool. For the year ended 30 June 2004 this equated to a return of 11.69%.

18. FINANCIAL INSTRUMENTS (continued)

Previous Year

	CONSOLIDATED 2003 (\$'000)					Total	Weighted Average Interest Rate (%)
	Variable Interest Rate	Fixed Interest Rate Maturing in			Non-Interest Bearing		
		Less than 1 Year	1 to 5 Years	More than 5 Years			
Financial Assets							
Fixed Interest Bonds	-	27,416	141,967	109,126	-	278,509	4.91
Fixed Interest Unit Trusts	-	-	-	-	72,356	72,356	-
Indexed Bonds	-	-	7,193	60,776	-	67,969	2.87
Shares - Listed Equities	-	-	-	-	630,073	630,073	-
Cash Assets	34,021	53,521	-	-	-	87,542	3.96
Right of Indemnity	-	-	-	-	81,706	81,706	-
Forward Foreign Exchange Contracts	-	-	-	-	7	7	-
Other Financial Assets	-	-	-	-	85,191	85,191	-
Total Financial Assets	34,021	80,937	149,160	169,902	869,333	1,303,353	
Weighted Average Interest Rate (%)	2.62	4.84	4.81	4.18	-		
Financial Liabilities							
Bank Overdraft	1,528	-	-	-	-	1,528	4.50
RiskCover Floating Rate Promissory Note	233,787	-	-	-	-	233,787	- (i)
Forward Foreign Exchange Contracts	-	-	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	15,536	15,536	-
Total Financial Liabilities	235,315	-	-	-	15,536	250,851	
Net Financial Assets/(Liabilities)	(201,294)	80,937	149,160	169,902	853,797	1,052,502	
Weighted Average Interest Rate (%)	2.50	-	-	-	-		

(i) The RiskCover Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. RiskCover earns an investment return on its share of the investment pool. For the year ended 30 June 2003 this equated to a return of 2.50%.

18. FINANCIAL INSTRUMENTS (continued)

		CONSOLIDATED	
		2004	2003
		\$'000	\$'000
	Notes		
(ii) Reconciliation of Net Financial Assets to Net Assets			
Net Financial Assets as above	18(d)	1,204,584	1,052,502
(Less)/Add: Interest Rate Futures		(2,408)	2,989
Add/(Less): Equity Futures		1,238	(1,962)
		1,203,414	1,053,529
Reinsurance and Other Recoveries Receivable	6	103,462	97,269
Investment Properties	7	400,235	368,257
Plant and Equipment	9	4,434	5,839
Other Assets		7,459	6,297
Outstanding Claims	11	(1,367,208)	(1,260,379)
Superannuation Liability	12	(10,798)	(11,211)
Unearned Premium		(135,034)	(126,005)
Other Liabilities		(567)	(17,406)
Net Assets per Statement of Financial Position		205,397	116,190

(e) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity.

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 72% (2003 - 76%) of its recognised financial assets in Australia.

Recognised Financial Assets

The carrying amount of the financial assets recorded in the consolidated Statement of Financial Position, net of any provision for losses

Total Maximum Credit Risk Exposure

	1,504,474	1,304,369
	1,504,474	1,304,369

18. FINANCIAL INSTRUMENTS (continued)**Credit Risk Exposure by Institutions' Ratings**

The economic entity is authorised by its enabling legislation to invest and manage money and other property under its control. The Treasurer of Western Australia has approved and issued Prudential Guidelines for investment, developed by the economic entity, which controls the type of investments that it can invest in and imposes ratings for credit risk limits for those investments. The following table relates to the market values of only bonds, short-term discount securities, deposits at call and debtors in respect of unsettled transaction trades as per Standard and Poors ratings. Refer Note 7.

	CONSOLIDATED	
	2004	2003
	\$'000	\$'000
AAA rating	237,210	239,349
AA+ to AA- ratings	24,496	42,573
A+ to A- ratings	71,741	67,426
BBB+ ratings	2,016	-
A1+ to A2 (short-term) rating	60,546	125,239
Credit Risk Exposure	396,009	474,587

(f) Net Fair Value

The recognised financial assets and liabilities are carried at amounts that approximate net fair value. The recognised financial assets and liabilities, with the exception of those listed below, are readily traded on organised markets. The following table details the net fair value at balance date of each class of recognised financial asset and liability, which are not readily traded on organised markets:

Not Readily Traded on Organised Markets**Recognised Financial Assets**

Fixed Interest Unit Trusts	89,563	72,356
Equity Unit Trusts	35,255	9,797
Investment Receivables	1,256	4,541
Receivables (Current and Non-Current)	98,718	80,653
Right of Indemnity (Current and Non-Current)	88,540	81,706
	313,332	249,053

Recognised Financial Liabilities

Investment Payables	3,625	258
Payables	14,472	11,689
Other Liabilities (Current and Non-Current)	3,952	3,589
	22,049	15,536

19. SEGMENT REPORTING

The ultimate location of the Corporation's insured risks is not readily identifiable. Other than the geographical segmentation of the Corporation being unknown, the economic entity operates predominantly in the general insurance industry in Australia. A full description of the general insurance services provided by the Commission is contained in the Report on Operations section of the Annual Report. Financial information in relation to the Third Party Insurance Fund, Compensation (Industrial Diseases) Fund, Government Insurance Fund and the Insurance Commission General Fund is disclosed in Notes 20 and 21.

20. FUNDS' STATEMENT OF FINANCIAL PERFORMANCE

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Premium Revenue	326,036	308,924	60	182	-	-	-	-
Outwards Reinsurance Expense	(2,924)	(2,556)	-	-	-	-	-	-
Outwards Reinsurance Commission Revenue	292	265	-	-	-	-	-	-
Net Earned Premium	323,404	306,633	60	182	-	-	-	-
Claims Incurred	(360,202)	(278,217)	(610)	(670)	(14,480)	(12,562)	(2,053)	(25,259)
Reinsurance and Other Recoveries Revenue/(Charge)	9,828	11,649	23	(411)	478	(741)	(540)	11,644
Net Claims Incurred	(350,374)	(266,568)	(587)	(1,081)	(14,002)	(13,303)	(2,593)	(13,615)
Underwriting and Administration Expenses	(25,780)	(24,561)	(689)	(620)	(489)	(573)	(35,103)	(17,535)
UNDERWRITING (LOSS)/PROFIT	(52,750)	15,504	(1,216)	(1,519)	(14,491)	(13,876)	(37,696)	(31,150)
Investment Income	160,946	38,985	1,953	493	763	141	43,890	4,797
Investment Expenses	(12,546)	(11,119)	(151)	(150)	(53)	(27)	(31,909)	(8,555)
Other Income	113	-	-	-	13,781	13,762	16,411	15,819
Other Expenses	-	-	-	-	-	-	2,163	(504)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT	95,763	43,370	586	(1,176)	-	-	(7,141)	(19,593)
Related Income Tax Equivalent (Expense)/Benefit attributable to Operating Profit/(Loss)	(6,896)	(5,873)	(257)	188	-	-	7,153	5,685
OPERATING PROFIT/(LOSS) AFTER RELATED INCOME TAX EQUIVALENT (EXPENSE)/BENEFIT	88,867	37,497	329	(988)	-	-	12	(13,908)

20. FUNDS' STATEMENT OF FINANCIAL PERFORMANCE (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 2004 and 30 June 2003.

The above Statements of Financial Performance for the four Funds are presented without eliminations for inter-fund transactions. The Statement of Financial Performance for the Commission represents an aggregation of the Funds taking into account inter-fund eliminations. The main eliminations are:

- (i) Investment revenue of \$1.999 million (2003 - \$1.919 million) in relation to the Commission's portion of the rentals incurred as an owner-occupier.
- (ii) In 2004, Tax Equivalent Losses of \$6.896 million and \$0.257 million were transferred to both the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund respectively from the Insurance Commission General Fund. In 2003, Tax Equivalent Losses of \$5.873 million were transferred to the Third Party Insurance Fund from both the Insurance Commission General Fund (\$5.685 million) and the Compensation (Industrial Diseases) Fund (\$0.188 million).

21. FUNDS' STATEMENT OF FINANCIAL POSITION

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CURRENT ASSETS								
Receivables	22,403	25,056	263	260	10,108	9,603	10,811	14,448
Other Financial Assets	-	-	-	-	-	-	1,034,261	905,539
Other Assets	3,910	2,710	-	188	-	-	7,634	6,211
TOTAL CURRENT ASSETS	26,313	27,766	263	448	10,108	9,603	1,052,706	926,198
NON-CURRENT ASSETS								
Receivables	52,780	46,100	1,782	1,819	58,549	45,868	137,180	119,406
Other Financial Assets	-	-	-	-	-	-	400,235	368,257
Plant and Equipment	-	-	-	-	-	-	4,434	5,839
TOTAL NON-CURRENT ASSETS	52,780	46,100	1,782	1,819	58,549	45,868	541,849	493,502
Inter-Fund Investments	1,536,333	1,328,025	17,904	17,137	6,595	9,808	(1,560,832)	(1,354,970)
TOTAL ASSETS	1,615,426	1,401,891	19,949	19,404	75,252	65,279	33,723	64,730
CURRENT LIABILITIES								
Bank Overdraft	-	-	-	-	-	-	2,441	1,528
Payables	13,172	8,542	76	75	397	31	1,527	3,642
Outstanding Claims	317,320	281,330	731	804	10,134	9,754	11,927	14,743
Unearned Premiums	134,969	125,961	65	45	-	-	-	-
Provisions	-	-	-	-	-	-	3,387	19,913
Other Liabilities	7,057	5,997	257	-	-	-	4,317	6,837
TOTAL CURRENT LIABILITIES	472,518	421,830	1,129	924	10,531	9,785	23,599	46,663
NON-CURRENT LIABILITIES								
Payables	-	-	-	-	-	-	18	19
Outstanding Claims	865,730	791,750	6,951	6,940	64,721	55,494	82,952	90,191
Provisions	-	-	-	-	-	-	10,804	11,519
TOTAL NON-CURRENT LIABILITIES	865,730	791,750	6,951	6,940	64,721	55,494	93,774	101,729
TOTAL LIABILITIES	1,338,248	1,213,580	8,080	7,864	75,252	65,279	117,373	148,392
NET ASSETS/(LIABILITIES)	277,178	188,311	11,869	11,540	-	-	(83,650)	(83,662)

21. FUNDS' STATEMENT OF FINANCIAL POSITION (continued)

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EQUITY								
Reserves	-	-	11,869	11,540	-	-	-	-
Funds' Accumulated Profits/(Losses)	277,178	188,311	-	-	-	-	(83,650)	(83,662)
TOTAL EQUITY/(EQUITY DEFICIT)	277,178	188,311	11,869	11,540	-	-	(83,650)	(83,662)

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 financial years ended 30 June 2004 and 30 June 2003.

The Government Insurance Fund forms part of the financial statements of the Commission. In accordance with the Cabinet's decision of May 1996, however, Treasury has assumed liability for the accumulated deficit in that Fund as from 1 July 1997.

The Insurance Commission General Fund includes outstanding claims liabilities of \$23.9 million (2003 - \$30.9 million) relating to Western Australian workers' compensation policies of insurance issued by the HIH Group of Companies (in provisional liquidation). Refer Note 11.

The above Statement of Financial Position for the four Funds are presented without eliminations for inter-fund transactions.

22. FUNDS' ACCUMULATED PROFITS/(LOSSES)

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Balance at beginning of the year	188,311	150,814	-	-	-	-	(83,662)	(69,754)
Operating Profit/(Loss) for the year after Related Income Tax Equivalent (Expense)/Benefit	88,867	37,497	329	(988)	-	-	12	(13,908)
Amount transferred (to)/from Compensation (Industrial Diseases) Fund reserve	-	-	(329)	988	-	-	-	-
Balance at end of the year	277,178	188,311	-	-	-	-	(83,650)	(83,662)

23. EXPLANATORY STATEMENT - COMMISSION

	ACTUAL		ACTUAL 2003 \$'000	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2004 TO			
	2004	BUDGET		BUDGET 2004		ACTUAL 2003	
	\$'000	2004 \$'000		\$'000	%	\$'000	%
Premium Revenue	326,096	332,523	309,106	(6,427)	(1.9)	16,990	5.5
Outwards Reinsurance Expense	(2,924)	(3,500)	(2,556)	576	16.5	(368)	(14.4)
Outwards Reinsurance Commission Revenue	292	350	265	(58)	(16.6)	27	10.2
Net Earned Premium	323,464	329,373	306,815	(5,909)	(1.8)	16,649	5.4
Claims Incurred	(377,338)	(332,105)	(316,690)	(45,233)	(13.6)	(60,648)	(19.2)
Reinsurance and Other Recoveries Revenue	9,782	7,673	22,122	2,109	27.5	(12,340)	(55.8)
Net Claims Incurred	(367,556)	(324,432)	(294,568)	(43,124)	(13.3)	(72,988)	(24.8)
Underwriting and Administration Expenses	(58,666)	(43,638)	(40,221)	(15,028)	(34.4)	(18,445)	(45.9)
UNDERWRITING LOSS	(102,758)	(38,697)	(27,974)	(64,061)	(165.5)	(74,784)	(267.3)
Investment Income	205,553	120,825	42,498	84,728	70.1	163,055	383.7
Investment Expenses	(44,659)	(35,513)	(19,849)	(9,146)	(25.8)	(24,810)	(125.0)
Other Income	28,908	15,097	28,432	13,811	91.5	476	1.7
Other Expenses	2,163	231	(504)	1,932	836.4	2,667	529.2
PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE	89,207	61,943	22,603	27,264	44.0	66,604	294.7

COMPARISON OF 2004 ACTUAL RESULTS TO 2004 BUDGET AND 2003 ACTUAL

Operating Profit

The Operating Profit for the Commission of \$89.2 million (before tax) is \$27.3 million higher than the budgeted Operating Profit of \$61.9 million and \$66.6 million higher than last year's profit, which was \$22.6 million. The analysis below highlights the key variances.

Claims Incurred

Claims Incurred at \$377.3 million increased by \$60.6 million compared to 2003 (\$316.7 million), and is \$45.2 million (13.6%) over budget. This resulted mainly from the Third Party Insurance Fund, which experienced an increase in the gross outstanding claims provision brought about primarily by a higher than forecast inflation rate and strengthening of the actuarial projected case estimates model. This is partially offset by a better than forecast result in gross claims paid which is \$18.7 million below budget. In the Insurance Commission General Fund, claims incurred as assessed by the actuary reduced by \$23.2 million compared to 2003, due to an increase in Employers' indemnity lung disease claims in 2003.

23. EXPLANATORY STATEMENT - COMMISSION (continued)**Reinsurance and Other Recoveries Revenue**

In the Insurance Commission General Fund there is an \$11.1 million negative movement compared to last year, due to an actuarially assessed increase in recoverables relating to Employers' Indemnity lung disease claims in 2003.

Underwriting and Administration Expenses

Underwriting and Administration Expenses exceeded budget by \$15.0 million and is \$18.4 million greater than 2003. This primarily resulted from an increase in debt recovery costs expensed in respect to the Bell Group recovery actions, although this has been offset by the recovery of amounts received by the liquidators of SECL (refer "Investment Income" below and Note 7).

Investment Income

Investment Income of \$205.6 million is \$84.7 million (70.1%) above budget and \$163.1 million above 2003, which is primarily related to the strong returns in Australian and overseas equity markets, which exceeded the budget by 11% and 13% respectively. Other investment sectors are within a reasonable margin of their respective positive targeted returns, although fixed interest is 2% below budget for the year. Investment Income for 2004 also includes \$17.1 million recovered as a dividend from the SECL administration.

Investment Expenses

Due to the improvement in investment performance in 2004, the amount of investment income paid to RiskCover (shown as part of Investment Expenses) has increased proportionately, from \$6.5 million in 2003 to \$30.2 million in 2004 (2004 budget - \$21.7 million). Refer Note 32.

Other Income

Other Income is \$13.8 million over the budget of \$15.1 million. This is primarily due to an increase in the Right of Indemnity within the GIF, arising from an increase in the actuarially assessed net outstanding claims, which resulted in net claims incurred of \$14.0 million in the GIF. Refer Note 20.

24. GROUP ENTITIES

Name	Legal Form	Place of Inc.	Shares Held		Cost of Investment		Total Changes Recognised in Equity	
			2004 %	2003 %	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Parent Entity								
Insurance Commission of Western Australia	Statutory Authority	Western Australia	-	-	-	-	89,207	22,603
Less: Indemnity for Corporation's profits (eliminated on consolidation)							(2,592)	(291)
							86,615	22,312
Subsidiary								
State Government Insurance Corporation	Statutory Authority	Western Australia	100	100	100,000	100,000	2,592	291
					100,000	100,000	89,207	22,603

The Commission indemnifies the Corporation in respect of the amount by which its liabilities exceed its assets. At 30 June 2004, the indemnity for the Corporation's net liabilities was \$3.9 million (2003 - \$6.5 million). Refer Note 14.

The reduction in the indemnity for the year ended 30 June 2004 of \$2.6 million (2003 - \$0.3 million) has been credited to the Statement of Financial Performance. Refer Note 3.

25. ECONOMIC DEPENDENCY

The normal trading activities of the Commission depend to a significant extent on the Department for Planning and Infrastructure ("DPI"), an agency of the Government of Western Australia.

DPI is responsible, under the *Motor Vehicle (Third Party Insurance) Act 1943*, for issuing the Commission's Third Party insurance policies, collecting premiums in relation to those policies and remitting premiums to the Commission.

Total premium revenue for the Third Party Insurance Fund during the 2004 financial year was \$326.0 million (2003 - \$308.9 million), representing virtually all of the Commission's premium revenue.

The Commission and DPI have jointly received independent professional advice that a number of major weaknesses existed in the overall control environment surrounding DPI's Licensing operations, which are responsible for processing and issuing Third Party insurance policies.

DPI has provided the Commission with a written confirmation dated 28 July 2004 that the above major weaknesses:

- did not in financial years 2003, 2004 and 2005 to 5 July 2004, affect the completeness and accuracy of the Third Party insurance premiums, GST and stamp duty collected on the Commission's behalf by the DPI; and
- will not affect and have not affected DPI's ability to issue and process Third Party insurance policies on the Commission's behalf, including the remitting of monies collected in relation to those policies in an accurate and complete manner.

DPI's advice also confirms that:

- Third Party insurance premiums, GST and stamp duty remitted to the Commission during the financial years 2003, 2004 and 2005 to 5 July 2004, completely and accurately reflect all such premiums, GST and stamp duty the Commission was entitled to receive as collected on its behalf by DPI; and
- DPI has reviewed the data relating to the reporting of the unearned premium value to the Commission and is fully satisfied that this is an accurate representation of the liability amount.

The Commission continued working with DPI during the 2004 financial year in the implementation by DPI of a new Executive and Licensing Information System, which went live on 6 July 2004. Subsequent to balance date, DPI is continuing to work through a number of system issues that are currently impacting on the ability of DPI to provide accurate daily information on, and analysis of, the actual amounts of premium, GST and stamp duty it is collecting on behalf of the Commission. DPI has advised that these issues are currently expected to be finalised and brought up to date during September 2004.

26. CONTINGENT LIABILITIES

In relation to the protracted Bell litigation and Court orders in respect of security for costs, a liability on the Commission may arise contingent upon any future cost orders being made by the court as a result of the liquidator's recovery action against the syndicates of banks being unsuccessful.

Insurance cover has been put in place in relation to such contingency and, given such cover and the uncertainty in relation to the existence and extent of any liabilities, it is not practicable to estimate the potential financial effect on the Commission of any liability that may arise.

The Commission continues to monitor and, where considered appropriate, modify its insurance programs in respect of exposure to the Bell litigation funding.

There are no other contingent liabilities that materially affect the financial statements of the Commission.

27. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

	CONSOLIDATED		COMMISSION	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Estimated capital expenditure contracted for at balance date, but not provided for, payable:				
Not later than one year				
- Computer Software	804	-	804	-
- Investment Property	53,255	11,750	53,255	11,750
	54,059	11,750	54,059	11,750
Between one and five years				
- Investment Property	-	34,700	-	34,700
	-	34,700	-	34,700

(b) Road Safety Commitments

The Board has resolved to provide funding of \$4.5 million (2003 - \$5.1 million) for road safety community education programs for the 2004-2005 financial year.

(c) Other Commitments

It is estimated that the Commission may advance approximately \$23.0 million (2003 - \$23.0 million) in funding the liquidator's prosecution of the Bell recovery action during the 2004-2005 financial year.

28. EVENTS OCCURRING AFTER BALANCE DATE

Other than the disclosures referred to in Note 25, relating to current system issues being experienced by DPI, there were no events after balance date that could materially affect the financial statements of the economic entity.

29. LOSSES THROUGH THEFT, DEFAULT AND OTHER CAUSES

		CONSOLIDATED		COMMISSION	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Write off of Revenue and Debt	(i)	52	25	52	25
Write off of Plant and Equipment	(ii)	3	4	3	4
Recovery of Losses	(iii)	2	-	2	-
Gifts of Public Property		-	1	-	1

(i) Comprises reinsurance debts of \$47,856 (2003 - \$24,190), Compensation (Industrial Diseases) Fund debts of \$3,910 (2003 - \$526) and Government Insurance Fund debts of \$66 (2003 - \$Nil).

(ii) Comprises plant and equipment of \$2,672 (2003 - \$4,205).

(iii) Insurance claims were lodged in relation to plant and equipment stolen and settlement of \$1,540 (2003 - \$493) was received.

Claims Recoveries Written Off

Recoveries arise from instances where the Commission seeks to recover from a third party, or the insured, the costs of a claim paid. In relation to the Third Party Insurance Fund the Commission has a statutory obligation to pay a third party claim and recognises a claim recovery when it has fully paid an injury claim and where the driver of the vehicle was in breach of the warranties of the policy or where the vehicle was uninsured.

29. LOSSES THROUGH THEFT, DEFAULT AND OTHER CAUSES (continued)

In relation to the Insurance Commission General Fund, a number of recoverable amounts remained on Motor Vehicle (property) claims which arose prior to December 1986. These recoverables were with respect to responsible third parties and recovery action continued as part of the run-off of the Fund. Continuing against those responsible is now considered uneconomical. The corresponding write-off amount in relation to the Motor Vehicle (property) claims totalled \$24,730 arising out of 16 individual claims.

In accordance with Australian Accounting Standard "Financial Reporting of General Insurance Activities" (AAS 26), 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 Financial Performance. The debt write-offs below for the 2003-2004 financial year are net of recoveries received from negligent owners or drivers of \$44,730 (2003 - \$12,804). The only loss to the Commission is the non-payment of TPIF premiums by uninsured motor vehicle owners, the total of which is estimated at \$3,427 for the year (2003 - \$3,380), which is more than offset by the recoveries received.

In accordance with Section 45(3) of the *Financial Administration and Audit Act 1985*, recoveries were written off from the following funds:

	CONSOLIDATED	
	2004	2003
	\$'000	\$'000
Third Party Insurance Fund	6,808	11,611
Insurance Commission General Fund	25	-
Government Insurance Fund	4	-
	6,837	11,611
Amounts written off by the responsible Minister	5,617	10,743
Amounts written off by the Board	1,220	868
	6,837	11,611

Number of individual recovery write-offs with values between (\$):	2004	2003
	No.	No.
100,001 - 250,000	16	12
250,001 - 1,000,000	4	9
4,000,001 - 5,000,000	-	1

30. REMUNERATION OF THE BOARD OF COMMISSIONERS AND SENIOR OFFICERS

	CONSOLIDATED	
	2004	2003
	\$'000	\$'000
Total fees, salaries, employer's contributions to superannuation and reportable fringe benefits received or due and receivable for the financial year by:		
- Board of Commissioners ("Board")	552	548
- Senior Officers	1,347	1,379

These amounts are based on a Total Employment Cost incorporating fees, salaries, employer's contribution to superannuation and reportable fringe benefits.

30. REMUNERATION OF THE BOARD OF COMMISSIONERS AND SENIOR OFFICERS (continued)

The Board consists of six non-executive Commissioners and the Managing Director. The number of Members of the Board whose total fees, salaries, employer's contributions to superannuation and reportable fringe benefits received, fall within each band of income of \$10,000 are as follows:

Income Band (\$)	No. of Members of the Board	
	2004	2003
10,001 - 20,000	-	4
30,001 - 40,000	4	2
40,001 - 50,000	1	1
90,001 - 100,000	-	-
100,001 - 110,000	1	1
260,001 - 270,000	-	1
270,001 - 280,000	1	-

The number of Senior Officers, other than members of the Board, whose total fees, salaries, employer's contributions to superannuation and reportable fringe benefits received, fall within each band of income of \$10,000 are as follows:

Income Band (\$)	No. of Senior Officers	
	2004	2003
80,001 - 90,000	-	1
110,001 - 120,000	1	-
120,001 - 130,000	1	2
130,001 - 140,000	3	4
140,001 - 150,000	1	-
150,001 - 160,000	1	-
160,001 - 170,000	-	2
170,001 - 180,000	1	1
220,001 - 230,000	1	-

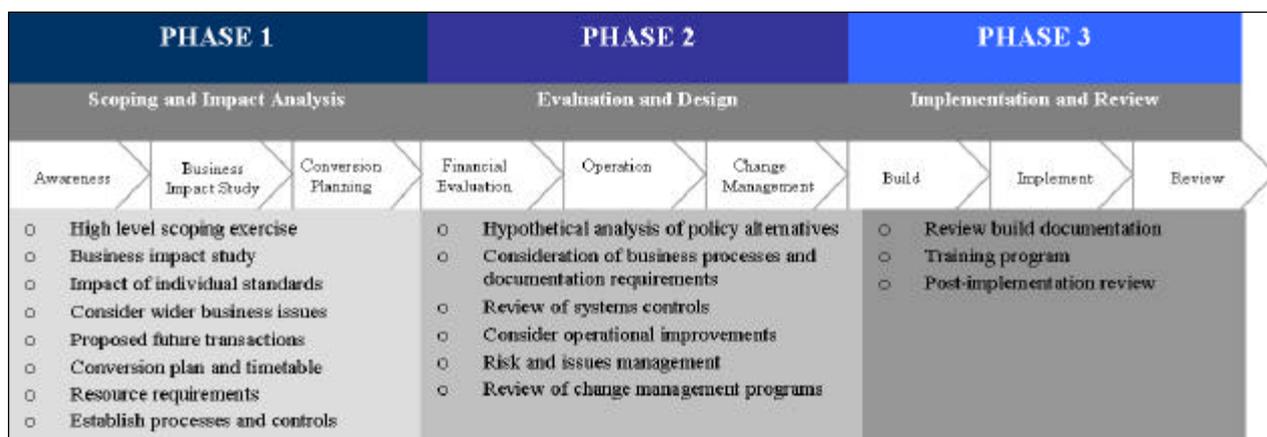
At 30 June 2004, no members (2003 - Nil) of the Board or Senior Officers were members of the State Pension Scheme (as set out in the repealed *Superannuation and Family Benefits Act 1938*) but whose provisions are continued in force by Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*.

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Management of the transition to A-IFRS

The Commission will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, the Commission's first annual financial statements prepared under A-IFRS will be for the year ending 30 June 2006.

The Commission has not yet established a Steering Committee to manage the transition to A-IFRS, but has allocated internal resources and engaged external consultants to commence the transition process. Once the Steering Committee is formed, it will establish a project team to carry out the transition work and report to the Committee. The Commission plans to manage the transition to A-IFRS in three phases, as diagrammatically presented below, with the key activities to be conducted as part of each stage. Risk management and change management will be managed throughout the life of the project.



31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

At the date of this report, the Commission has not yet finalised a high-level assessment of the impact of all A-IFRS and consequently has not yet determined how it is going to manage the transition to A-IFRS in relation to those standards. However, the Commission is monitoring the developments and potential impacts of A-IFRS and expects to complete an impact study and commence a plan to prepare the Commission to be A-IFRS-compliant shortly.

While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the Commission, the following have been identified as the likely significant areas of differences affecting it on adoption of A-IFRS. This does not represent an exhaustive list of the differences that will arise, and further analysis may change the Commission's assessment of the importance or otherwise of the various differences. At this stage the Commission has also not been able to reliably quantify the impacts of the transition to A-IFRS on its financial statements:

- AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"
- AASB 101 "Presentation of Financial Statements"
- AASB 112 "Income Taxes"
- AASB 139 "Financial Instruments: Recognition and Measurement"
- AASB 1023 "General Insurance Contracts"

First-time adoption of A-IFRS

On first-time adoption of A-IFRS, the Commission will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that will be presented in the financial report for the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be de-recognised. As any adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 30 June 2004, as presented as comparatives in the 2005 financial statements, may differ from the retained earnings disclosed in the 2006 financial statements.

Various voluntary and mandatory exemptions are available to the Commission on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS.

The impact on the Commission of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The Commission is evaluating the effect of the options available on first-time adoption in order to determine the best possible outcome.

Presentation of Financial Statements

Full retrospective application of AASB 101 will be required on the adoption of A-IFRS, with the requirement that at least one year of comparative information must be restated. In addition, disclosures will be required to explain how the transition from superseded Australian Accounting Standards to A-IFRS affected the reported financial position, financial performance and cash flows.

A-IFRS describes 5 components of the financial statements:

- balance sheet;
- income statement;
- statement of changes in equity;
- cash flow statement; and
- notes, comprising a summary of significant accounting policies and other explanatory notes.

The main changes relate to the introduction of a new statement of changes in equity and a requirement to restate comparatives.

Income taxes

The Commission's current accounting policy recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the tax base of assets and liabilities and their respective carrying amounts recognised in the Statement of Financial Position.

The Commission has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the 'virtually certain' criteria under current Australian Accounting Standards (refer note 5(b)). Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they will have to be recognised based on a 'probable' recognition criteria. The impact of this difference may be to increase deferred tax assets and opening retained earnings, and result in a higher level of recognised deferred tax assets on a go-forward

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Financial Instruments

Under current Australian Accounting Standards, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the Commission will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement at amortised cost, using the effective interest rate method; fair value with movements recognised through equity; or fair value recognised through the Statement of Financial Performance. The Commission is evaluating the different options available, but has not made any determination at balance date of the accounting treatment to be adopted, and as such, the corresponding impact of any change on the financial statements cannot yet be quantified.

General Insurance

Under the revised AASB 1023 "General Insurance Contracts", assets backing insurance liabilities must be measured at their fair values, with other assets measured in accordance with other standards. This implies a change in accounting policy (refer Note 1(s) – "Investments") to the Commission, resulting in the estimated transaction cost for the realisation of the respective investments, to no longer be deducted from their respective market values. The estimated impact on the financial statements would be to increase the value of the investments by approximately \$4.99 million (based on 30 June 2004 values), with a corresponding increase in operating profit.

The new 'liability adequacy test' is a major change in accounting policy, which indicates that the adequacy of the unearned premium liability (refer Note 1(f) – "Revenue Recognition") will have to be assessed by considering current estimates of the recent value of the expected future cash flows relating to future claims arising from the rights and obligations under general insurance contracts.

The Commission currently occupies a proportion of the Forrest Centre, Perth, which is held as part of the Commission's investment portfolio that backs its outstanding claims liabilities. There is currently some uncertainty as to whether valuation movements in the Forrest Centre, being an owner-occupied property, will fail to be classified under AASB 140 ("Investment Property") or AASB 116 ("Property, Plant and Equipment"). The resulting classification will determine whether such valuation increases will be reflected through the Statement of Financial Performance or through a Revaluation Reserve. As such, the accounting treatment to be adopted and the corresponding impact of any change on the financial statements cannot yet be quantified.

32. RISKCOVER FUND FINANCIAL STATEMENTS

The Government of Western Australia has 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 was managed by the Commission on behalf of the Government and its participating public authorities for an initial term of five years commencing July 1996 under the supervision of Treasury. On 18 July 2001, Treasury confirmed the re-appointment of the Commission to manage the RiskCover fund for a further four years to 30 June 2005, conditional upon the achievement of a number of performance targets.

The Commission earns a management fee from this activity representing the proportion of the Commission's services used by RiskCover.

The significant accounting policies adopted in preparing RiskCover's financial statements are consistent with both those used in preparing the economic entity's financial statements, as detailed in Note 1, and with those adopted in 2003.

RiskCover's assets are not owned by the economic entity and are therefore not consolidated. The Investment assets of RiskCover are, however, included in the investment pool of the economic entity, represented by a Floating Rate Promissory Note. Refer Note 7. RiskCover earns an investment return on its share of the investment pool of the Insurance Commission of Western Australia. Refer Note 3.

Any accumulated surplus in RiskCover represents an asset of the Government of Western Australia and not of the economic entity.

RiskCover is not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2004	References	2004 \$'000	2003 \$'000
Contribution Revenue	(a)	118,415	119,341
Contribution Adjustment	(b)	(6,947)	(1,027)
Outwards Reinsurance Expense		(33,574)	(31,882)
Outwards Reinsurance Commission Revenue		4,174	4,087
Net Earned Contribution		82,068	90,519
Claims Incurred		(92,797)	(83,603)
Reinsurance and Other Recoveries Revenue		19,158	11,622
Net Claims Incurred		(73,639)	(71,981)
Underwriting and Administration Expenses		(14,833)	(14,604)
UNDERWRITING (DEFICIT)/SURPLUS		(6,404)	3,934
Investment Income		30,155	6,453
OPERATING SURPLUS		23,751	10,387

The Statement of Financial Performance should be read in conjunction with the references to and forming part of RiskCover's financial statements.

32. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF FINANCIAL POSITION at 30 June 2004	<u>References</u>	2004 \$'000	2003 \$'000
CURRENT ASSETS			
Receivables		17,027	16,357
Other Financial Assets	(c)	275,741	233,787
Total Current Assets		292,768	250,144
NON-CURRENT ASSETS			
Receivables		10,798	9,246
TOTAL ASSETS		303,566	259,390
CURRENT LIABILITIES			
Bank Overdraft		610	193
Payables		19,101	22,045
Outstanding Claims	(d)	71,513	66,153
Total Current Liabilities		91,224	88,392
NON-CURRENT LIABILITIES			
Payables		27,914	18,881
Outstanding Claims	(d)	160,121	151,561
Total Non-Current Liabilities		188,035	170,442
TOTAL LIABILITIES		279,259	258,834
NET ASSETS		24,307	556
EQUITY			
Accumulated Surplus	(e)	24,307	556
TOTAL EQUITY SURPLUS		24,307	556

The Statement of Financial Position should be read in conjunction with the references to and forming part of RiskCover's financial statements.

32. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF CASH FLOWS for the year ended 30 June 2004		2004 \$'000	2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions Received		127,570	133,575
Reinsurance and Other Recoveries Received		19,057	16,952
Outwards Reinsurance Commission Received		4,591	4,496
Interest Received		30,155	6,453
Outwards Reinsurance Paid		(36,958)	(35,056)
Claims Paid		(80,022)	(74,438)
Underwriting and Administration Expenses Paid		(13,749)	(14,012)
Goods and Services Tax Paid		(9,107)	(7,625)
Net Cash Inflow from Operating Activities	(i)	41,537	30,345
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Investments		(41,954)	(30,633)
NET DECREASE IN CASH HELD		(417)	(288)
CASH AT THE BEGINNING OF THE YEAR		(193)	95
CASH AT THE END OF THE YEAR	(ii)	(610)	(193)
(i) Reconciliation of Operating Surplus to Net Cash Flows from Operating Activities			
Operating Surplus		23,751	10,387
Changes in Assets and Liabilities			
(Increase)/Decrease in Reinsurance and Other Recoveries Receivable		(2,145)	4,366
Increase in Outstanding Claims		13,920	11,553
Increase in Contribution Adjustment Liability		6,947	1,053
(Decrease)/Increase in Other Liabilities		(936)	2,986
Net Cash Inflow from Operating Activities		41,537	30,345
(ii) Reconciliation of Cash			
Cash 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:			
Bank Overdraft		(610)	(193)

32. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS

(a) Fund Contribution setting

When determining the deposit contributions for the Workers' Compensation and Motor Vehicle classes, RiskCover 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) Contribution Adjustment

The contributions levied for the Workers' Compensation and Motor Vehicle classes are deposit contributions and are subject to adjustment at a future date (three years after the close of the risk period for Workers' Compensation and one year for Motor Vehicle) to take into account the actual claims experience of the public authority. This process reflects the conceptual design of the funding mechanism for these classes and enables sanctions to apply to performance.

The amount provided for includes the estimated contributions to be called-up or refunded based on the current claims trend of the 2004, 2003, 2002 and 2001 risk periods. An additional provision of \$9.4 million has been brought to account at balance date, reflecting surplus funds held in the workers' compensation class for closed cover periods 1998, 1999 and 2000. It is anticipated that this amount will be refunded to the relevant public authorities at a future date.

(c) Floating Rate Promissory Note owed to RiskCover by the Commission. Refer Note 7.

(d) Outstanding Claims

	2004 \$'000	2003 \$'000
Liability for Outstanding Claims (undiscounted)	284,919	259,834
Discount to present value	(53,285)	(42,120)
Liability for Outstanding Claims (discounted)	231,634	217,714
Current	71,513	66,153
Non-Current	160,121	151,561
	231,634	217,714

Weighted average expected term to settlement:

Workers' Compensation	2 yrs 8 mths	2 yrs 8 mths
Liability Classes	4 yrs 6 mths	4 yrs 8 mths

In addition to the long-tail classes of Workers' Compensation and Liability, RiskCover also has short-tail liabilities for Property and Business Interruption, Motor Vehicle and Personal Accident, and Travel risks. These short-tail liabilities are not actuarially assessed and total \$14.7 million at balance date (2003 - \$16.0 million).

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 2004 for RiskCover:

	% Rates Used - 2004		% Rates Used - 2003	
	Year Ending 30 June 2004	Subsequent Years	Year Ending 30 June 2003	Subsequent Years
Workers' Compensation				
Inflation Rate (Wage)	3.80	3.80	3.60	3.80
Superimposed Inflation	-	-	4.00	4.00
Total Inflation*	3.80	7.95	7.74	7.95
Discount Rate	5.40	5.20	4.40	5.20
Liability				
Inflation Rate (Wage)	3.80	4.30	3.60	3.90
Superimposed Inflation	5.00	5.00	5.00	5.00
Total Inflation*	8.99	9.52	8.78	9.09
Discount Rate	5.40	6.00	4.40	5.10

32. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS (continued)

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 2003-2004 and 2002-2003 financial 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.

* The total inflation rate is determined by compounding the wage and superimposed inflation rates.

(e) Accumulated Surplus	2004	2003
	\$'000	\$'000
Balance of surplus/(deficit) at beginning of the year	556	(9,831)
Surplus for the year	23,751	10,387
Balance of surplus at end of the year	24,307	556

(f) Claims Recoveries Written Off

Recoveries arise from instances where RiskCover seeks to recover the costs of a claim paid from a third party or the insured .

In accordance with Australian Accounting Standard "Financial Reporting of General Insurance Activities" (AAS 26), 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 Financial Performance.

The amount written off in relation to RiskCover property claims totalled \$9,345 arising out of one individual claim.

33. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS

The Community Insurance Fund ("CIF") was established by the Government of Western Australia, to assist incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. The CIF is backed by the Crown and is managed by the Commission.

The *Insurance Commission of Western Australia Amendment Act 2002*, which enables establishment of the CIF, came into effect on 20 November 2002.

The significant accounting policies adopted in preparing the CIF's financial statements are, where relevant, consistent with those used in preparing the economic entity's financial statements, as detailed in Note 1.

The CIF's assets are not owned by the economic entity and are therefore not consolidated.

Any accumulated surplus in the CIF represents an asset of the State Government of Western Australia and not of the economic entity.

The CIF is not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2004		2004	2003
	References	\$'000	\$'000
Premium Revenue	(a)	793	150
Outwards Reinsurance Expense		(141)	(60)
Net Earned Premium		652	90
Claims Incurred		(50)	(90)
Reinsurance and Other Recoveries Revenue		1	-
Net Claims Incurred		(49)	(90)
Underwriting and Administration Expenses		(414)	-
UNDERWRITING SURPLUS		189	-
Other Income	(b)	20	-
OPERATING SURPLUS		209	-

The Statement of Financial Performance should be read in conjunction with the references to and forming part of the Community Insurance Fund's financial statements.

33. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF FINANCIAL POSITION at 30 June 2004	<u>References</u>	2004 \$'000	2003 \$'000
CURRENT ASSETS			
Cash Assets		565	202
Receivables		56	63
Other Assets		73	70
Total Current Assets		694	335
TOTAL ASSETS		694	335
CURRENT LIABILITIES			
Payables		-	2
Outstanding Claims	(c)	18	-
Unearned Premiums		377	243
Total Current Liabilities		395	245
NON-CURRENT LIABILITIES			
Outstanding Claims	(c)	90	90
Total Non-Current Liabilities		90	90
TOTAL LIABILITIES		485	335
NET ASSETS		209	-
EQUITY			
Accumulated Surplus	(d)	209	-
TOTAL EQUITY SURPLUS		209	-

The Statement of Financial Position should be read in conjunction with the references to and forming part of the Community Insurance Fund's financial statements.

33. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF CASH FLOWS for the year ended 30 June 2004		2004 \$'000	2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums Received		1,026	369
Interest Received		20	-
Outwards Reinsurance Paid		(154)	(140)
Claims Paid		(33)	
Underwriting and Administration Expenses Paid		(414)	-
Goods and Services Tax Paid		(82)	(27)
Net Cash Inflow from Operating Activities	(i)	363	202
CASH AT THE BEGINNING OF THE YEAR			
		202	-
CASH AT THE END OF THE YEAR			
	(ii)	565	202
(i) Reconciliation of Operating Surplus to Net Cash Flows from Operating Activities			
Operating Surplus		209	-
Changes in Assets and Liabilities			
Decrease/(Increase) in Receivables		7	(64)
Increase in Other Assets		(3)	(70)
Increase in Outstanding Claims		18	90
Increase in Other Liabilities		132	246
Net Cash Inflow from Operating Activities		363	202
(ii) Reconciliation of Cash			
Cash 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 Assets		565	202

33. COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE COMMUNITY INSURANCE FUND FINANCIAL STATEMENTS

(a) Premium setting

Premiums for the CIF are determined by assessing individual risk exposures and loss potential. Previous claims history and risk management practices of the organisation are important considerations when setting premiums. As the size of the CIF is quite small, actuarial involvement in assessing claims costs is not practical at this time.

(b) Other Income

Other income relates to interest earned on monies held at bank.

(c) Outstanding Claims

	2004 \$'000	2003 \$'000
Liability for Outstanding Claims (undiscounted)	108	90
Discount to present value	-	-
Liability for Outstanding Claims (discounted)	108	90
Current	18	-
Non-Current	90	90
	108	90

The above outstanding claims provision includes an internally assessed estimate of the claims incurred but not yet reported (IBNR).

(d) Accumulated Surplus

Balance at beginning of the year	-	-
Surplus for the year	209	-
Balance at end of the year	209	-

**INSURANCE COMMISSION OF WESTERN AUSTRALIA
PERFORMANCE INDICATORS**

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators of the Insurance Commission of Western Australia ("the Commission") for the financial year ended 30 June 2004:

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Commission; and
- fairly represent the performance of the Commission.



MICHAEL E WRIGHT
CHAIRMAN
25 August 2004



VIC EVANS
MANAGING DIRECTOR
25 August 2004

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 25 August 2004.



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2004

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Insurance Commission of Western Australia are relevant and appropriate to help users assess the Commission's performance and fairly represent the indicated performance for the year ended June 30, 2004.

Scope

The Commission's Role

The Commission is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

DDR PEARSON
AUDITOR GENERAL
August 27, 2004

PERFORMANCE INDICATORS

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The Performance Indicators in this report are produced to assist users in evaluating the performance of the Insurance Commission of Western Australia ("Commission") in achieving its mission. This report includes measures of our key outputs as well as key effectiveness and efficiency Performance Indicators for the total Commission, each of the Commission's statutory Funds and RiskCover (a Managed Fund). **The Performance Indicators relating to the Commission's Outcomes are audited by the Office of the Auditor General, the Output Measures are for information only and are not subject to audit.** The Performance Indicators of the Commission's subsidiary, the State Government Insurance Corporation, are disclosed in its Annual Report. Other important Indicators providing a broader perspective of the Commission's performance are included in the Review of Operations section of the Annual Report.

Where appropriate, prior years' figures have been restated in order to enhance comparability with those of the current year.

MISSION

To achieve best practice in

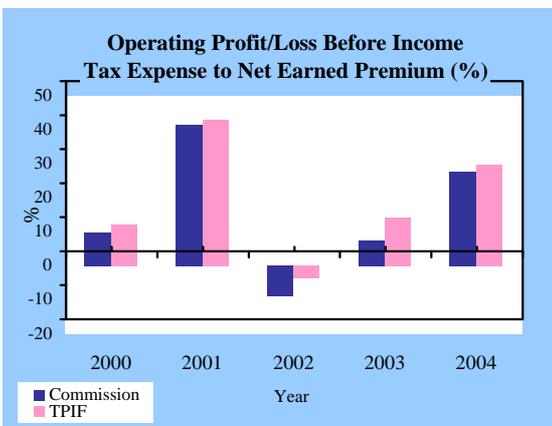
- providing insurance for both Motor Vehicle Personal Injury and Industrial Diseases Compensation, and
- managing the Western Australian Public Sector's self-insurance arrangements,

through the promotion of risk management and the commitment and professionalism of our people.

COMMISSION OUTCOMES

That The Commission's Revenue Is Sufficient To Meet Its Expenditure*Effectiveness Performance Indicators*

Operating Profit/Loss Before Income Tax Expense To Net Earned Premium indicates the return the Commission has earned on its premium revenue.

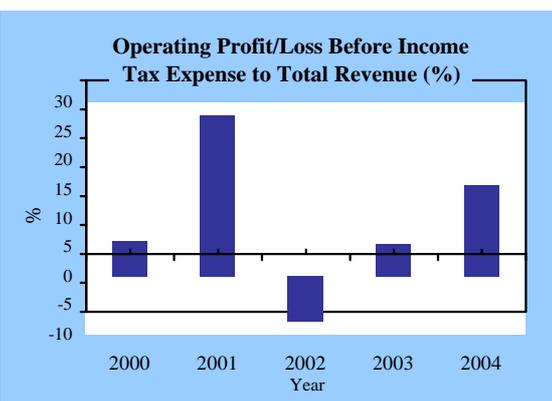


2004

	Target	Actual
Commission	18.8%	27.6%
Third Party Insurance Fund	21.0%	29.6%

The Commission indicator exceeds target due to the Operating Profit of \$89.2 million, being \$27.3 million (44.0%) above target. This was mainly due to a higher than expected net investment return, which is \$57.8 million above target, though offset by a \$43.1 million increase in net claims incurred against target. The Third Party Insurance Fund also exceeded target for this indicator by 8.6% due to net investment income being \$57.1 million above target, offset by an increase of \$26.5 million in net claims incurred.

Operating Profit/Loss Before Income Tax Expense To Total Revenue indicates the return the Commission has earned on its total revenue (including investment revenue).



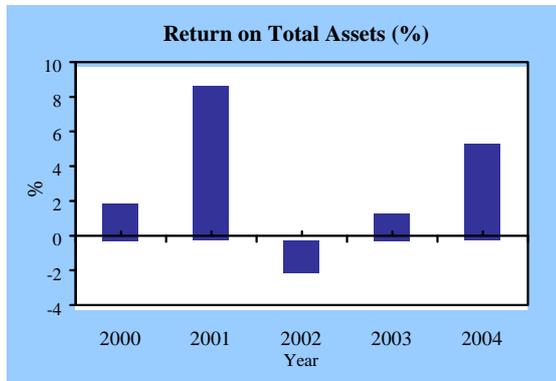
2004

	Target	Actual
Commission	13.1%	15.6%

This indicator is above target due to a higher operating profit of \$89.2 million against a target of \$61.9 million (see above). The improved profit result is mainly attributable to a higher than expected investment return of 11.7% (target 7.4%).

PERFORMANCE INDICATORS (continued)

Return On Total Assets is calculated as the Commission's operating profit/loss before income tax expense divided by its average total assets and is expressed as a percentage (total assets excludes the Right of Indemnity asset from the Workers' Compensation Rehabilitation Commission ("WCRC") - Refer Note 6 in the Financial Statements).

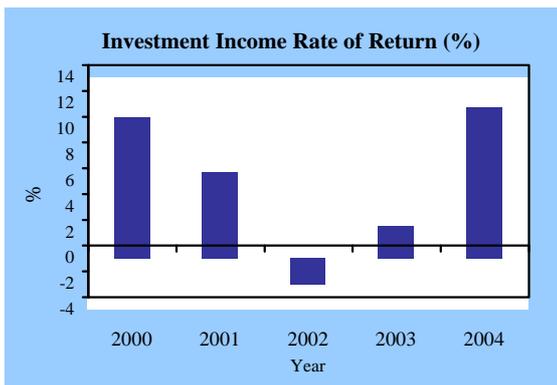


	2004	
	Target	Actual

Commission	4.0%	5.5%
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The "return on total assets" is above target due to the operating profit being \$27.3 million (44.0 %) above target. Average total assets (less WCRC indemnity) were also \$68.5 million above target (4.4%) which also contributed to the improved result.

Investment Income Rate Of Return for the Commission provides the percentage rate of return (excluding income received from investments previously written off) on its weighted average investment assets.

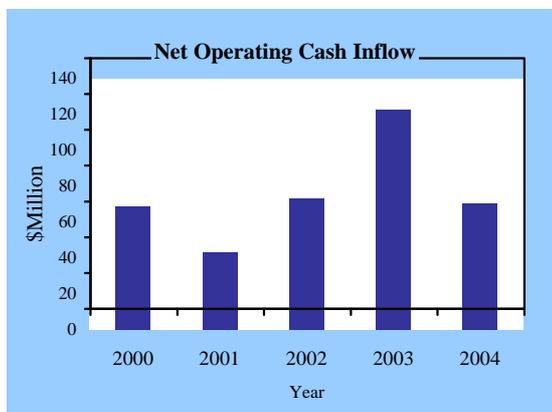


	2004	
	Target	Actual

Commission	7.4%	11.7%
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The "investment income rate of return" exceeded the target as a result of very strong returns from Global and Australian shares which were 13% and 11% above their respective target returns. This was offset to a small extent by Australian fixed interest which detracted from the overall result where the actual return was 2% below the target return. Actual returns from the Property and Cash sectors were close to their respective target returns for the year.

Net Operating Cash Inflow equals receipts less payments from the operating activities of the Commission. Refer to the *Statement of Cash Flows - Net Cash Inflow from Operating Activities*.



	2004	
	Target	Actual

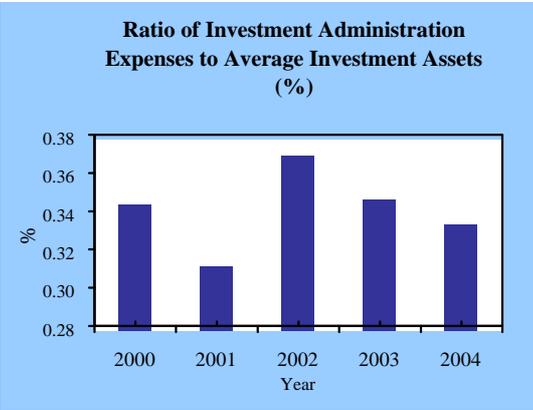
Commission	\$78,940,000	\$70,203,000
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The "net operating cash inflow" is below target mainly resulting from lower premiums received - \$10.8 million below expectations, despite increased income from interest, rents and dividends being \$11.9 million over target. Also, claims paid exceeded target by \$10.2 million and interest paid to RiskCover was \$8.4 million over target. Increases in payments of Bell Group security of costs and underwriting and administration costs were offset by lower than expected GST payments.

PERFORMANCE INDICATORS (continued)

Efficiency Performance Indicators

Ratio Of Investment Administration Expenses To Average Investment Assets is a useful measure of the Commission's efficiency in managing its investments.

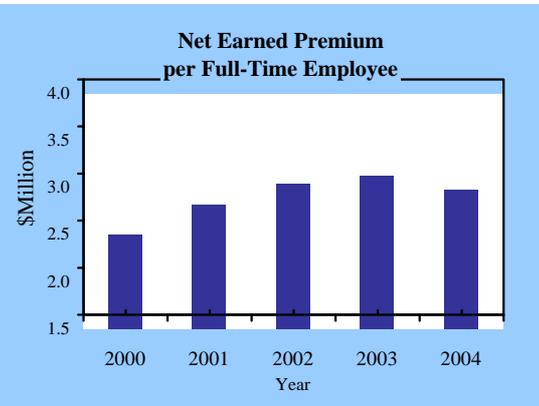


	2004	
	Target	Actual
Commission	0.36%	0.34%

The “**ratio of investment administration expenses to average investment assets**” was similar to the previous year, which was 0.33%. The better than expected result against the target was due to average investment assets being \$57.3 million greater than the target and investment expenses \$0.2 million lower than the target.

The following Performance Indicators are not applicable to the Compensation (Industrial Diseases) Fund as the premium rates currently only meet administration expenses and are not intended to reflect underwriting experience. Also the Insurance Commission General Fund and Government Insurance Fund are in "run-off" and as they no longer issue covers for premium, it is inappropriate to measure either of these Funds by these premium-related indicators.

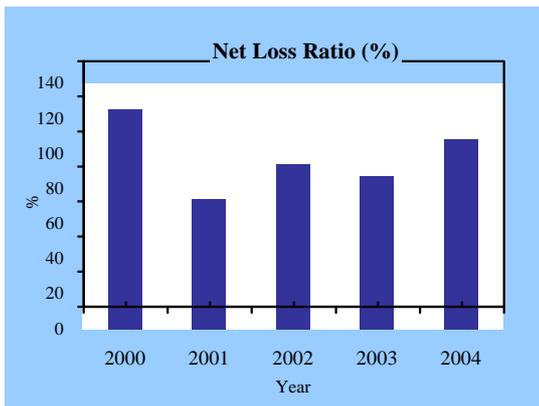
Net Earned Premium Per Full-Time Employee is a high level measure of business efficiency in generating revenue.



	2004	
	Target	Actual
Third Party Insurance Fund	\$3,121,801	\$2,970,534

The “**net earned premium per full-time employee**” is below target as a result of lower net earned premium than expected being \$5.9 million (1.8%). The number of employees increased marginally (3.2%).

Net Loss Ratio indicates whether or not net earned premium is sufficient to meet net claims incurred. Where net claims incurred is greater than net earned premium the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.

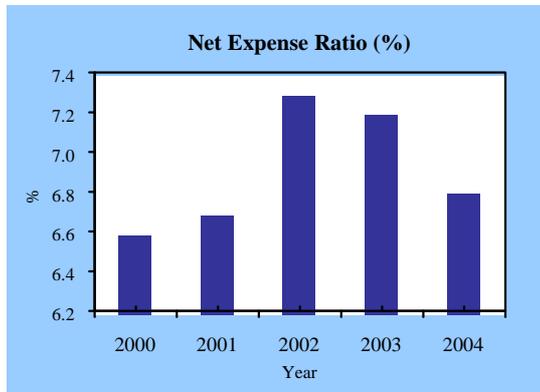


	2004	
	Target	Actual
Third Party Insurance Fund	98.3%	108.3%

The “**net loss ratio**” is unfavourable to target due to an overall increase in net claims incurred of \$26.5 million (8.2%) above target. This is largely the result of a negative movement in Outstanding Claims Provisions, primarily driven by a strengthening of the actuarially projected case estimates model, higher than forecast inflation rate and lower than target net earned premium. This movement has offset a better than expected result in Claims payments.

PERFORMANCE INDICATORS (continued)

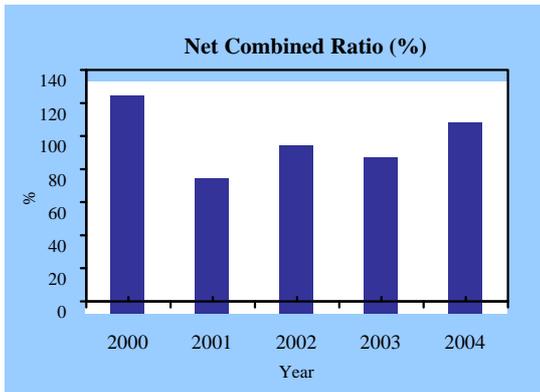
Net Expense Ratio shows the percentage of underwriting and administration expenses against net earned premium. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing and corporate overheads, but does not include sponsorship of road safety/crash prevention.



	2004	
	Target	Actual
Third Party Insurance Fund	7.1%	6.8%

The **“net expense ratio”** is favourable to target mainly due to a decrease in net earned premium of \$5.9 million (1.8%) and a decrease of \$1.4 million (6.1%) in underwriting and administration expenses, which is as a result of lower salary, commission and corporate overhead expenses.

Net Combined Ratio is the sum of the net loss and net expense ratios.

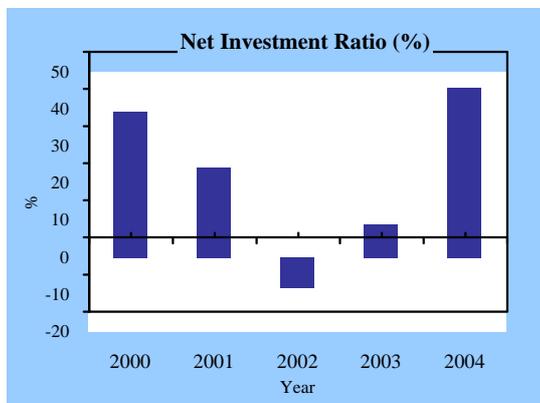


	2004	
	Target	Actual
Third Party Insurance Fund	105.4%	115.1%

The **“net combined ratio”** is higher than target due to the unfavourable net loss ratio result (see previous page). This was despite a slight improvement in the net expense ratio (see above).

Net Investment Ratio represents net investment income as a percentage of net earned premium.

The net combined ratio less the net investment ratio should be equal to or less than 100% to achieve a break-even or better result (2004 target 77.8%, 2004 actual 69.3%).



	2004	
	Target	Actual
Third Party Insurance Fund	27.6%	45.8%

The **“net investment ratio”** is significantly above target due to investment income being \$57.1 million (62.8%) over the expected return. This improved performance was due primarily to strong returns in Australian and Overseas equity markets this year (See Explanatory Statement Note 23).

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 1.9 million Western Australian registered motor vehicles are provided with unlimited indemnity against injury claims resulting from motor vehicle accidents under the Compulsory Third Party (Personal Injury) Insurance scheme.

1. OUTPUTS *

a) Motor Vehicle Third Party Insurance Policies

	Notes	Target	2004	2003	2002	2001	2000
Quantity							
Number Of Third Party Policies Issued (Million)		1.83	1.86	1.80	1.76	1.72	1.69
Quality							
Complies With MVTPI Act 1943		Yes	Yes	Yes	Yes	Yes	Yes
Timeliness							
Issue Date Four Weeks Prior To Renewal (%)		100	100	93	100	100	100
Cost							
CTP Insurance Premium To Be In The Lowest Quartile For All States		Lowest Quartile					

COMMENTS

The "number of third party policies issued" exceeded target primarily due to the strong Western Australian economy during 2003/04, driving up the number of motor vehicles being registered at a rate higher than what has been the norm over the past few years.

b) Management And Payment Of Motor Vehicle Third Party Claims

	Notes	Target	2004	2003	2002	2001	2000
Quantity							
Number Of Claims Settled		5,425	5,385	5,482	5,925	5,145	6,173
Quality							
Net Loss Ratio (%)	(1)	98.3	108.3	86.9	94.2	74.1	125.0
Timeliness							
Time Between Claim Lodgement And Claim Settlement (yrs)		2.2	2.1	2.2	2.1	2.3	2.3
Cost							
Claims Administration Costs As a Ratio Of Gross Claims Paid (%)	(2)	5.9	5.9	6.1	5.7	6.1	5.0
Claims Administration Costs Per Claim Administered (\$)	(3)	1,129	1,063	1,060	978	1,000	814

* Output measures are for information only and are not subject to audit by the Office of the Auditor General.

For Notes, refer end of this section.

2. OUTCOMES

a) That The Fund's Revenue Is Sufficient To Meet Its Expenditure

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Operating Profit/(Loss) To Net Earned Premium (%)		21.0	29.6	14.1	(3.7)	42.9	12.2
Efficiency							
Net Loss Ratio - (%)	(1)	98.3	108.3	86.9	94.2	74.1	125.0
Net Expense Ratio - (%)	(11)	7.1	6.8	7.2	7.1	7.3	6.7
Net Combined Ratio - (%)	(12)	105.4	115.1	94.1	101.3	81.4	131.7
Net Investment Ratio - (%)	(13)	27.6	45.8	9.1	(7.9)	24.3	39.4
Net Earned Premium Per Full-Time Employee (\$'000)	(7)	3,122	2,971	3,129	3,037	2,824	2,498

COMMENTS

“Operating profit/loss to net earned premium” - this outcome is higher than target due to a better than target investment return, notwithstanding a lower than target net earned premium resulting from a fluctuation in the expected split between business and private policies in affected insurance classes.

“Net loss ratio” - the higher than target outcome is largely the result of a negative movement in Outstanding Claims Provisions, primarily driven by a strengthening of the actuarially projected case estimates model, higher than forecast inflation rate and lower than target net earned premium. This movement has offset a better than expected result in Claims payments.

“Net investment ratio” - this outcome is higher than target due to a better than target investment performance.

The “net earned premium per full-time employee” is less than target due to a lower than target net earned premium and a higher than anticipated number of employees, (3.2%) resulting from the implementation of resourcing strategies.

b) Ensure That All Western Australian Motor Vehicles Using Public Roads Are Registered And Insured

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Proportion Of Third Party Claims Involving Unregistered Motor Vehicles (%)		0.00	0.45	0.60	0.27	0.32	0.13
Efficiency							
Underwriting And Administration Costs To The Number Of Registered Motor Vehicles (\$) (i)		12.8	11.9	12.3	12.0	12.4	10.9

COMMENTS

The “proportion of third party claims involving unregistered motor vehicles” has decreased in 2004 compared to 2003. In 2004, there were 16 unregistered motor vehicles involved in claims whereas there were 23 in 2003. The overall number of reported claims in respect of incidents arising in the 2004 year was 3,561 compared to 3,819 in 2003.

“Underwriting and administration costs to the number of registered motor vehicles” in 2004 is favourable compared to target, as underwriting and administration costs were \$1.4 million (6.1%) less than target whilst vehicle growth was higher than target. In 2004, the average increase in registered vehicles was 3.2% compared to 2.4% in 2003.

(i) Excludes accident prevention costs.

For Notes, refer end of this section.

c) Minimise The Financial Hardship Of Motor Vehicle Personal Injury Claimants

	Notes	Target	2004	2003	2002	2001	2000
<i>Effectiveness</i>							
Average Number Of Years To Claims Payments	(4)	3.8	3.6	3.7	3.7	3.9	4.0
Number Of Outstanding Claims		8,731	8,598	8,916	9,052	9,570	9,282
Ratio of Outstanding Claims To Claims Administered (%)	(5)	62	61	62	60	65	60
<i>Efficiency</i>							
Claims Administration Costs As A Ratio Of Gross Claims Paid (%) (i), (ii)	(2)	5.9	5.9	6.1	5.7	6.1	5.0
Claims Administration Costs Per Claim Administered (\$) (i), (ii)	(3)	1,129	1,063	1,060	978	1,000	814
Number Of Claims Administered Per Full-Time Employee	(6,7)	134	128	147	153	144	140

COMMENTS

The “**number of outstanding claims**” is lower than target and 3.6% lower than the previous year’s actual. A major factor is the continuation of a reducing claim frequency trend (ratio of claims reported to the number of registered vehicles) experienced over the past 10 years, which had been forecast to start “bottoming out”. New claims reported were 5,075 (5.5% less than target) and there were 5,385 (0.7% less than target) claims closures during 2004.

For the same reasons, as above, the “**ratio of outstanding claims to claims administered**” is better than target and lower than the previous year.

“**Claims administration costs per claim administered**” is better than target even though the number of claims administered was less than expected. This is due to administration and underwriting expenses being less than target (\$1.4 million).

The “**number of claims administered per full-time employee**” is lower than target due to the reduced number of claims administered and a marginal increase in the number of employees resulting from the implementation of resourcing strategies.

- (i) Excludes accident prevention costs.
- (ii) Excludes commission paid for premium collection.

For Notes, refer end of this section.

RISKCOS

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 Commission on behalf of the State Government and its participating public authorities. The Department of Treasury and Finance supervises the activities and performance of the Commission in the management of the RiskCover Fund. The Commission earns a management fee from this activity, equivalent to the proportion of the Commission's services used by RiskCover.

RiskCover's assets are not owned by the Commission and are therefore not consolidated. The investment assets of RiskCover are, however, included in the investment pool of the Commission represented by a Floating Rate Promissory Note (refer Note 7 to the Financial Statements). Any accumulated deficit in RiskCover represents a liability of the Government of Western Australia and not of the Commission.

1. OUTPUTS *

a) Insurance Covers For State Government Agencies

	Notes	Target	2004	2003	2002	2001	2000
<i>Quantity</i>							
Number Of Public Sector Agencies Covered		183	167	183	193	202	206
<i>Quality</i>							
Customer Satisfaction Survey Score (%)	(9)						
- Large and Medium Agencies		80	98	96	96	91	93
- Small Agencies		80	98	98	95	93	78
<i>Timeliness</i>							
Covers Issued No Later Than 31 July (%)		84.0	56.0	92.6	42.5	83.0	92.3
<i>Cost</i>							
Underwriting And Administration Cost Per Cover Administered (\$)		86,678	88,814	79,803	74,036	65,198	58,248

COMMENTS

The “number of public sector agencies covered”, and the “underwriting and administration costs per cover administered” have been affected by a consolidation of public sector agencies resulting from the recommendations of the “Country Health Services Review” and “Machinery of Government Report”. Although the total number of agencies has decreased, this has not impacted significantly on the number of claims managed or the level of Client Service delivery required.

The number of “covers issued no later than 31 July” (in the 2004 financial year) was adversely affected by delays in finalising reinsurance terms, as well as the consequent late issuing of motor covers for school owned (Education Department) vehicles.

b) Management and Payment of Claims

	Notes	Target	2004	2003	2002	2001	2000
<i>Quantity</i>							
Number Of Claims Administered		20,160	20,125	20,920	20,366	19,768	19,704
<i>Quality</i>							
Payment Of Workers' Compensation Accounts Within 20 Working Days (%)		85	85	90	91	87	79
<i>Timeliness</i>							
Average Number Of Years To Claims Payment (Workers' Compensation)	(4)	1.7	1.6	1.7	1.8	1.4	1.1
Average Number Of Months To Claims Payment (Property, Motor Vehicle, Miscellaneous)	(8)	4.0	4.2	3.5	4.3	3.1	2.9

* Output measures are for information only and are not subject to audit by the Office of the Auditor General.

For Notes, refer end of this section.

b) Management and Payment of Claims (continued)

	Notes	Target	2004	2003	2002	2001	2000
<i>Cost</i>							
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(2)	10.8	14.3	15.2	15.8	12.3	14.2
Claims Administration Costs Per Claim Administered (\$)	(3)	453	559	524	521	436	428

COMMENTS

The “claims administration costs as a ratio of gross claims paid” is higher than anticipated due to significantly lower than expected claim payments during the year.

The “claims administration costs per claim administered” is higher than anticipated with claims administration costs staying the same whilst overall claim numbers have fallen. The increased attention to claims management is associated with lower than anticipated gross claims paid.

c) Risk Management Services

	Notes	Target	2004	2003	2002	2001	2000
<i>Quantity</i>							
Number Of Agencies Served		183	167	183	193	202	206
<i>Quality</i>							
Risk Management Performance Score (Out Of 20)	(14)	15	14	14	14	14	13
<i>Timeliness</i>							
Number Of Risk Reviews Completed Within Planned Time-Frames (%)		100	100	98	100	100	90
<i>Cost</i>							
Risk Management And Client Service Costs Per Public Sector Organisation (\$)	(15)	31,748	17,201	15,394	14,732	20,017	15,349

COMMENT

“Risk management and client service costs per public sector organisation” was below target due to reduced risk-management expenditure. The target was determined using estimated costs for an anticipated 2.5 risk-management consultants, whereas the actual result was approximately 1.5 consultants.

* Output measures are for information only and are not subject to audit by the Office of the Auditor General.

For Notes, refer end of this section.

2. OUTCOMES

a) Achieve Best Practice In Fund Management

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Fund Contribution Ratio (%)	(10)	0.251	0.257	0.294	0.275	0.222	0.251
Customer Satisfaction Survey Score (%)	(9)						
- Large and Medium Agencies		80	98	96	96	91	93
- Small Agencies		80	98	98	95	93	78
Efficiency							
Net loss ratio (%)	(1)	89.4	89.7	79.5	82.4	103.2	85.8
Net expense ratio (%)	(11)	15.0	18.1	16.1	18.9	17.1	17.2
Net combined ratio (%)	(12)	104.4	107.8	95.7	101.3	120.3	103.0
Net investment ratio (%)	(13)	20.5	36.7	7.1	(4.8)	16.0	22.0

COMMENTS

The “net expense ratio” was higher than anticipated due mainly to the lower than expected Net Earned Contributions.

The “net investment ratio” performed above expectations due to stronger than anticipated growth in equity markets as well as lower than expected Net Earned Contributions.

b) Promote, Co-ordinate And Improve Risk Management Practices In Government

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Risk Management Performance Score (Out Of 20).	(14)	15	14	14	14	14	13
Customer Satisfaction Survey Score (%)							
- Large and Medium Agencies	(9)	80	98	96	96	91	93
- Small Agencies		80	98	98	95	93	78
Workers' Compensation Claims Incurred Per \$100 Wage Roll		1.16	0.83	0.94	0.79	1.21	0.96
Efficiency							
Risk Management and Client Service Costs Per Public Sector Organisation (\$)	(15)	31,747	17,201	15,394	14,732	20,017	15,349
Fund Contribution Per \$100 Wage Roll	(16)	2.64	2.25	2.73	2.79	2.69	2.85

COMMENTS

The result for the “workers’ compensation claims incurred per \$100 wage roll” reflects lower net incurred claims for the workers’ compensation class.

“Risk management and client service costs per public sector organisation” was below target due to reduced risk-management expenditure. The target was determined using estimated costs for an anticipated 2.5 risk-management consultants, whereas the actual result was approximately 1.5 consultants.

c) Achieve Best Practice In Claims Management And To Minimise The Financial Hardship Of Claimants

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
WorkCover Claims Best Practice Performance Monitoring Indicators (%):	(17)						
- Determining Liability Within 17 Days		85	89	87	86	85	83
- Notification To Worker/Employer/Directorate Of Pended Liability Within 17 Days		85	94	91	83	83	74
- Reimbursement Of Weekly Compensation Payments Within 10 Working Days		85	80	84	85	81	65
- Payment Of Accounts Within 20 Working Days (%)		85	85	90	91	87	79
Average Number Of Years To Claims Payment (Workers' Compensation)	(4)	1.7	1.6	1.7	1.8	1.4	1.1
Average Number Of Months To Claim Payments (Property Motor Vehicle, Miscellaneous)	(8)	4.0	4.2	3.5	4.3	3.1	2.9
Efficiency							
Number Of Claims Administered Per Full Time Employee		327	250	262	253	278	273
Claims Administration Costs Per Claim Administered (\$)		453	559	524	521	436	428
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)		10.8	14.3	15.2	15.8	12.3	14.2

COMMENTS

Due to incorrect lodgement of electronic compensation invoices from some clients, “reimbursement of weekly compensation payments within 10 working days” was lower than anticipated.

The “number of claims administered per full-time employee” was less than anticipated due to a reduction of claims being added for the financial period.

The “claims administration costs per claim administered” is higher than anticipated with claims administration costs staying the same whilst overall claim numbers have fallen. The increased attention to claims management is one reason why gross claims paid were lower than anticipated.

The “claims administration costs as a ratio of gross claims paid” is higher than anticipated due to significantly lower than expected claim payments during the year.

For Notes, refer end of this section.

COMPENSATION (INDUSTRIAL DISEASES) FUND

The Compensation (Industrial Diseases) Fund (CIDF) issues Industrial Disease insurance policies and undertakes the liability arising from these policies. Industrial Diseases insurance is compulsory for employers engaged in mining operations. Liability is limited to workers' compensation payments for the respiratory diseases of pneumoconiosis, lung cancer and mesothelioma caused by the inhalation of harmful mineral dust.

The CIDF is managed by the RiskCover Division.

1. OUTPUTS *

a) Industrial Diseases Insurance Policies

	Notes	Target	2004	2003	2002	2001	2000
Quantity							
Number Of Industrial Diseases Policies Issued		756	719	816	693	700	717
Quality							
Complies With All Statutory Requirements		Yes	Yes	Yes	Yes	Yes	Yes
Timeliness							
Proportion Of New Covers Processed Within 15 Working Days (%)		100	84	-	-	-	-
Cost							
Underwriting And Administration Cost Per Policy Administered (\$)		465	380	365	385	454	450

b) Management and Payment of Workers' Compensation Claims

	Notes	Target	2004	2003	2002	2001	2000
Quantity							
Number Of Claims Settled		35	35	25	33	21	31
Quality/Timeliness							
Weighted Average Months To Finalise Claims		11.8	12.4	10.3	10.0	10.3	10.5
Cost							
Claims Administration Costs As A Ratio of Gross Claims Paid (%)	(2)	6.2	7.4	8.9	8.4	20.7	9.2
Claims Administration Costs Per Claim Administered (\$)	(3)	720	680	641	545	827	1,033

COMMENTS

The “number of industrial disease policies issued” is below target due to fewer applications for cover received than anticipated. The actual result of this indicator is dependent on the number of mining operations taking place within the State and therefore is out of the direct control of the Insurance Commission.

From 1 July 2002, cover notes ceased to be issued for Industrial Disease policies, making the previous performance indicator “number of cover notes converted within 60 days” redundant. The replacement indicator “proportion of new covers processed within 15 working days” returned the result of 84% which is within acceptable tolerances. Delays in processing occurred due to incomplete information provided by applicants.

The better than targeted "underwriting and administration cost per policy administered" results from a higher than anticipated number of policies administered.

The “weighted average months to finalise claims” is higher than anticipated. This is due to the average settlement costs increasing from \$11,808 to \$13,869.

* Output measures are for information only and are not subject to audit by the Office of the Auditor General.

For Notes, refer end of this section.

2. OUTCOMES

a) To Ensure That All New Covers Are Processed Within 15 Working Days

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Proportion Of New Covers Processed Within 15 Working Days (%)		100.0	84.0	-	-	-	-
Efficiency							
Number Of Policies Administered Per Full-Time Employee	(7)	396	490	387	370	507	427
Underwriting And Administration Costs Per Policy Administered (\$) (iii)		465	380	365	385	454	450

COMMENTS

From 1 July 2002 cover notes ceased to be issued for Industrial Disease policies, making the previous performance indicator “number of cover notes converted within 60 days” redundant. The replacement indicator “proportion of new covers processed within 15 working days” returned the result of 84% which is within acceptable tolerances. Delays in processing occurred due to incomplete information provided by applicants.

The higher than anticipated “number of policies administered per full-time employee” reflects a decrease in the number of staff allocated to the task of processing policies and a decrease in the complexity of issuing policies. From 1 July 2003, a flat charge of \$100 per policy applies and provides three years' cover.

The better than targeted "underwriting and administration costs per policy administered" results from a higher than anticipated number of policies administered.

b) To Minimise The Financial Hardship Of Industrial Diseases Claimants

	Notes	Target	2004	2003	2002	2001	2000
Effectiveness							
Number Of Outstanding Claims		32	38	37	36	34	32
Ratio Of Outstanding Claims To Claims Administered (%)	(5)	48	52	60	52	62	51
Efficiency							
Number Of Claims Administered Per Full-Time Employee	(6,7)	223	243	191	230	183	158
Claims Administration Costs Per Claim Administered (\$)	(3)	720	680	641	545	827	1,033
Claims Administration Costs As Ratio Of Gross Claims Paid (%)	(2)	6.2	7.4	8.9	8.4	20.7	9.2

COMMENTS

The higher than anticipated “number of claims administered per full-time employee” reflects a decrease in the number of staff allocated to the task of processing claims.

The “claims administration costs as a ratio of gross claims paid” was higher than anticipated due to lower than anticipated gross claims paid. As the fund consists of very few claims with a high degree of volatility with respect to the individual claims costs, this indicator is subject to large fluctuations.

(iii) Excludes "Foundation for Advanced Medical Research" costs.

For Notes, refer end of this section.

INSURANCE COMMISSION GENERAL FUND

The Performance Indicators for the Insurance Commission General Fund (“ICGF”) only relate to operations associated with claims for incidents arising prior to 1 January 1987 under policies of insurance issued by the former State Government Insurance Office. The majority of outstanding claims relate to those arising from Workers’ Compensation policies. This activity of the ICGF is in “run-off” and will ultimately be wound up at some future time. As such, output measures have not been separately identified. The output measures of cost, quality, quantity and timeliness are embedded in the Performance Indicators below.

The Insurance Commission General Fund is managed by the RiskCover Division.

OUTCOMES

To Minimise The financial Hardship Of ICGF claimants

	Notes	Target	2004	2003	2002	2001	2000
<i>Effectiveness</i>							
Number Of Outstanding Claims		110	128	137	130	113	96
Weighted Average Months To Finalise Claims	(8)	11.8	14.8	13.6	12.9	12.8	11.1
<i>Efficiency</i>							
Number Of Claims Administered Per Full Time Employee	(6,7)	181	177	64	165	167	161
Claims Administration Costs Per Claims Administered (\$)	(3)	1,005	2,390	1,089	865	1,405	1,552
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(2)	3.0	8.3	3.4	2.7	5.6	8.3

COMMENTS

The “number of outstanding claims” reflects the increased activity for Employers’ Indemnity lung disease claims during the year.

The “weighted average months to finalise claims” is higher than anticipated. This is due to the average settlement costs increasing from \$119,648 to \$121,065.

As a result of decreasing the allocation of staff from 2.6 to 1.0, the “number of claims administered per full-time employee” is higher than for last year and closer to target for this financial year.

In previous years, the allocation of administration costs was apportioned between policies and claims. This has now changed to a 100% allocation to claims to reflect policies no longer being issued for this fund. As a result of this change “claims administration costs per claims administered” and “claims administration costs as a ratio of gross claims paid” are higher than anticipated.

For Notes, refer end of this section.

The Government Insurance Fund (“GIF”) previously provided self-insurance covers for State Government departments, authorities and instrumentalities in respect of Workers’ Compensation, Motor Vehicle and Fire and General exposures. The GIF ceased issuing covers on 30 June 1997 and commencing 1 July 1997 is in “run-off” and will ultimately be extinguished at some future time. As such, output measures have not been separately identified. The output measures of cost, quality, quantity and timeliness are embedded in the Performance Indicators below.

The Government Insurance Fund is managed by the RiskCover Division.

OUTCOMES

To Achieve Best Practice In Claims Management And To Minimise The Financial Hardship of Claimants

	Notes	Target	2004	2003	2002	2001	2000
<i>Effectiveness</i>							
Average Number Of Years To Claims Payment	(4)	7.7	9.7	9.8	8.8	6.0	4.9
Number Of Outstanding Claims		425	423	496	627	821	1,209
<i>Efficiency</i>							
Number Of Claims Administered Per Full-Time Employee	(6,7)	328	306	360	252	501	264
Claims Administration Costs Per Claim Administered (\$)	(3)	810	954	718	632	588	855
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(2)	7.0	10.2	7.0	5.5	4.2	5.5

COMMENTS

As the GIF is in run-off, the “average number of years to claims payment” is generally expected to increase from year to year as only the long-tail claims remain.

A lower than anticipated number of claims administered resulted in the “claims administration cost per claim administered” exceeding the initial target.

For Notes, refer end of this section.

PERFORMANCE INDICATORS

NOTES

1. The **“Net Loss Ratio”** indicates whether or not net earned premium is sufficient to meet net incurred claims. Where net incurred claims is greater than net earned premium the ratio will be higher than 100%. Net incurred claims equals claims expense, less reinsurance and other recoveries revenue.
2. **“Claims Administration Costs As A Ratio Of Gross Claims Paid”** is a measure of claims management efficiency and is a factor incorporated in the actuarial evaluation of the liability for outstanding claims.
3. **“Claims Administration Costs Per Claim Administered”** provides a measure of the efficiency of the claims management operations of the various Funds. This measure will also vary between Funds due to different classes of insurance underwritten/managed.
4. **“Average Number Of Years To Claims Payment”** relates to "long tail" classes of insurance. In the case of the Third Party Insurance Fund, Government Insurance Fund and RiskCover Managed Fund, this Performance indicator represents the payments made on claims in a year multiplied by the weighted average time since the accident year. This information is not relevant to the Compensation (Industrial Diseases) Fund because the entitlement to compensation may run for the claimant's lifetime.
 - In the case of Government Insurance Fund and RiskCover this Performance Indicator relates to the Workers' Compensation class of cover. The indicator is calculated inclusive of payments made during a year in respect of claims incurred during the current accident year. The indicator for the Third Party Insurance Fund is calculated exclusive of payments made during a year in respect of claims incurred during the current accident year. The reason for the divergent calculation method is that for Workers' Compensation claims, the proportion of payments made during the year in respect of claims incurred during the current accident year is much greater than for Third Party Insurance Fund claims.
 - This Performance Indicator is a useful measure of the overall effectiveness of the insurances, which the Commission underwrites (in the case of Third Party Insurance Fund and the Insurance Commission General Fund) and manages (in the case of RiskCover and the Government Insurance Fund's self-insurance arrangements) in meeting the needs of claimants.
 - The results achieved are influenced by a range of external sources including claimants, the Courts, applicable legislation and the medical and legal professions. From the Commission's view point, delayed settlement can result in much increased legal and medical expenses and in undesirable risks of inflation, costly court precedents and retrospective legislation"
5. The **“Ratio Of Outstanding Claims To Claims Administered”** gives an indication of the Commission's success in settling claims as early as possible.
6. The **“Number Of Claims Administered Per Full-Time Employee”** provides a measure of the efficiency of the operations of the various Funds. Comparisons between Funds are not meaningful in view of the different classes of insurance underwritten/managed.
7. Includes all employees who are directly and indirectly involved in the activity described by the indicator.
8. The **“Weighted Average Months To Finalise Claims”** for the Insurance Commission General Fund is calculated on finalised claims lodged in the last five years, as the number of months between lodgement and closure multiplied by the costs of the claim divided by the sum of the cost for all finalised claims.

For RiskCover this Performance Indicator only relates to the motor vehicle and property classes of cover and represents the **“average number of months to finalise a claim”**. Because these classes involve “short tail” claims, i.e. those which are typically settled within one year of the occurrence of the events giving rise to those claims, the Performance Indicator is reported in months.
9. Each year RiskCover conducts a survey of Public Authorities which were clients. The **“Customer Satisfaction Survey Score”** is the percentage of those respondents to the survey who rated their overall impression of RiskCover's performance as an organisation as good, very good or excellent. The indicator is broken down into two categories, Large and Medium Agencies, who make up over 92% of the Fund contribution pool, and Small Agencies.

PERFORMANCE INDICATORS**NOTES**

10. The **“Fund Contribution Ratio”** represents the contribution paid by participating Public Authorities per \$100 of sum insured for the Motor Vehicle and Property Classes of cover. Workers’ Compensation and Liability classes have not been included because they do not have a “sum insured” included in the cover and it is more appropriate to measure the effectiveness of performance in the **“Cost Of Claims Incurred Per \$100 Wage Roll”**, which is exclusively for Workers’ Compensation.
11. **“Net Expense Ratio”** shows the percentage of underwriting and administration expenses against net earned premium. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing, helping clients reduce their risk exposure and corporate overheads.
12. **“Net Combined Ratio”** is the sum of the net loss and net expense ratios.
13. **“Net Investment Ratio”** represents investment income as a percentage of net earned premium. The net combined ratio less the net investment ratio should be equal to or less than 100% to achieve a break-even or better result.
14. The **“Risk Management Performance Score”** which is out of 20, is the average achieved from respondents to the survey of risk management practices within State Government Public Authorities.
15. **“Risk Management And Clients Services Costs Per Public Sector Organisation”** is calculated as the proportion of costs relating to the Risk Management and Client Service functions divided by the number of State Government Public Authorities covered by the Fund.
16. **“Fund Contributions Per \$100 Wage Roll”** is calculated as contributions made to the RiskCover Fund for all classes of insurance per \$100 of declared wages per annum.
17. The Workers’ Compensation and Rehabilitation Commission (“WorkCover”) has implemented an Insurer audit program to verify approved insurers compliance with the requirements of the Workers’ Compensation and Rehabilitation Act. This program will assess the standard of service Insurers provide to employers, workers and the scheme in general and will be subject to an independent audit. The Performance Indicators listed relate to the claims management standards of the Insurer Audit Program for the workers’ compensation class of insurance only.

The following definitions have been provided to assist readers in gaining a better understanding of the Annual Report and Financial Statements.

1. COMMISSION'S FUNDS

TPIF	-	Third Party Insurance Fund
CIDF	-	Compensation (Industrial Diseases) Fund
GIF	-	Government Insurance Fund
ICGF	-	Insurance Commission General Fund

2. 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 Commission.

3. CIF – COMMUNITY INSURANCE FUND

The CIF was established by the Government of Western Australia to assist eligible incorporated not-for-profit community organisations, based in Western Australia, to obtain affordable insurance cover. The CIF is underwritten by the Crown and managed by the RiskCover Division.

4. 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.

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 balance date.

Net Earned Premium

Premium revenue plus the outwards reinsurance commission earned less 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 balance date.

Unearned Premium

The portion of premium written, which relates to risks for periods of insurance subsequent to balance date.

5. CLAIMS

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.

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.

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.

IBNR and IBNER Claims

Incurred But Not Reported (IBNR) claims arise from events which have occurred but have not been reported as at balance date. Incurred But Not Enough Reported (IBNER) claims arise from events which have occurred and been reported as at balance date, 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.

Case Estimate

An assessment of the amount outstanding for an individual claim made by the insurer for each claim reported.

Short – Tail Claims

Claims which are typically settled within one year of the occurrence of the events giving rise to those claims.

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.

Liability for Outstanding Claims

A provision for the future estimated cost of claims outstanding as at balance date, 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.

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.

Other Recoveries

Other amounts recovered or recoverable (e.g. salvage) in relation to claims.

6. 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.

7. 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, Insurance Commission General Fund and the State Government Insurance Corporation are in run-off.

8. APRA – AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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