



**Insurance Commission
of Western Australia**

2019 End of Year Performance Report

Insurance Commission
of Western Australia

END OF YEAR PERFORMANCE REPORT

The Insurance Commission of Western Australia (Insurance Commission) produces this end of year performance report with its unaudited financial information to transparently provide our stakeholders with an early indication of its performance for the 2018-19 Financial Year (herein referred to as 2019).

Our organisation received over 30,600 new insurance claims during the year, and managed claims valued at over \$4 billion (including payments of \$703.4 million to individuals, service providers and agencies, and estimated future claims liabilities of over \$3.3 billion).

The Insurance Commission's total operations generated more than \$1.5 billion in revenue and earnings in 2019.

The profit before tax for the Insurance Commission's total operations was \$303.7 million. The Insurance Commission's core profit before tax was \$272.9 million in 2019, which was \$67.7 million better than budget. The RiskCover Fund's profit was \$30.8 million.

The Insurance Commission's total operations delivered an underwriting loss of \$58.1 million. This underwriting loss was caused by a decline in discount rates (based on declining Government Bond rates) resulting in an increase in outstanding liabilities (future claims costs), and higher expenses as a result of Government's commitment to address historic child sexual abuse claims. The cost of these abuse claims will be met by the State Government or the RiskCover Fund.

The Insurance Commission delivered a core underwriting loss of \$34.7 million compared to a forecast underwriting profit of \$7.5 million. The RiskCover Fund recorded an underwriting loss of \$23.5 million.

Claims payments increased by \$75 million in 2019 to \$703.3 million, mainly as a result of a higher number of new compulsory third party (CTP) compensation and large-loss claims being finalised compared to 2018. The Insurance Commission's core operations made claim payments of \$458.7 million. The RiskCover Fund recorded claims payments of \$244.6 million.

The **unaudited** end of year financial statements are included as part of this Report. The full audited 2019 Annual Report will be tabled in Parliament and published on the Insurance Commission's website later in the year.

Shareholder Return

As a Government Trading Enterprise, the Insurance Commission seeks to deliver a return to its shareholder while also delivering efficient and equitable insurance services to Western Australian motorists, claimants and government agencies.

The Insurance Commission contributed \$264.9 million to Government in 2019 in dividend and RiskCover Fund return of capital payments.

As a result of our positive 2019 financial performance, we are also able to return capital of \$69.5 million from the RiskCover Fund to Government. This will be paid in September 2019. This return of capital is provided for in the RiskCover Fund's 2019 financial statements. The final 2019 dividend for the Insurance Commission will be declared towards the end of the 2019 calendar year.

The Insurance Commission also paid insurance duty (\$87.7 million) and tax (\$117.8 million) to Government during 2019.

The Insurance Commission also contributed a further \$124.3 million towards reducing State Net Debt in 2019, as measured by the consolidation of Insurance Commission finances in whole of government financial reporting.

The Insurance Commission has contributed to Government \$795.7 million in dividend and return of capital payments over the past five years, and \$2.2 billion in net debt reduction.

Motor Injury Insurance

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

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

The policy provides owners and drivers of WA registered vehicles with cover for the costs of compensation for personal injuries they cause to others in motor vehicle crashes. The policy also provides cover for care and support for any person catastrophically injured in a crash in WA.

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

The Insurance Commission received \$797.5 million in motor injury insurance premium revenue in 2019 for 2.9 million insured vehicles.

The Insurance Commission managed car crash claims valued at over \$3.1 billion in 2019, consisting of \$448.5 million in claims payments to people injured in crashes (mostly in prior years), and in anticipated future claims expenses of \$2.7 billion.

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

The TPIF recorded a profit before tax of \$210.8 million. Investment income for the TPIF was \$243.5 million.

The TPIF recorded an underwriting loss of \$16.5 million compared to a forecast underwriting profit of \$5.6 million. This underwriting loss is equivalent to 2.7% of premium revenue or 0.7% of outstanding claims liabilities. The main reason for the TPIF's underwriting loss was the decline in discount rates. Over the past 12 months, discount rates have dropped 1.2%, resulting in an increase in TPIF claims liabilities of \$104 million.

The CIS scheme and the Motor Vehicle (Catastrophic Injuries) Fund (MVCIF) were introduced on 1 July 2016 to provide lifetime treatment, care and support to people catastrophically injured in crashes who were ineligible for CTP cover. The MVCIF's profit before tax was \$56.1 million in 2019. The MVCIF recorded an underwriting profit of \$15.2 million compared to a forecast underwriting profit of \$4.2 million. The primary reasons for the positive financial results of the MVCIF are due to strong investment returns (\$42.7 million in 2019) and fewer people being catastrophically injured on the road than expected.

It is an excellent outcome when fewer people are catastrophically injured on the road. The number of people catastrophically injured on the road can vary significantly from year to year. One reason for that is the fine line that exists in a crash between someone being killed or catastrophically injured. The average annual number of people killed in crashes on WA roads over the last five years is 205.

The MVCIF is expected to experience significant volatility in its financial results until a stage when the Fund reaches a relative state of maturity. Variations from forecasts for number of claimants and their cost of care will have a material impact on the financial performance of the fund in its early years.

RiskCover Fund

The RiskCover Fund is the self-insurance arrangement for WA Government public authorities (agencies). The RiskCover Fund provides cover for the majority of the agencies' insurable risk exposures including:

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

The RiskCover Fund's profit was \$30.8 million in 2019 (2018: \$159.2 million).

The RiskCover Fund recorded an underwriting loss of \$23.5 million compared to a forecast underwriting loss of \$5.8 million. This underwriting loss was caused primarily by the decline in discount rates and an increase in the number of new large claims in the property and miscellaneous classes of insurance.

In 2019, agencies insured by the RiskCover Fund paid the lowest aggregate insurance premium (\$288.2 million) since 2012. This is a great outcome for agencies as it means their insurance premiums are at the most affordable levels in seven years. We have delivered that outcome for agencies while increasing the return delivered to our shareholder, the State Government, at the same time.

Investments

The Insurance Commission's investment portfolio delivered a gross return of 7% for 2019. This return reflects total investment return for two investment funds, the Main Fund and the MVCIF. Each fund has an asset allocation designed to meet its insurance liabilities. The Main Fund and MVCIF delivered returns of 6.9% and 7.8% respectively in 2019.

Following a downturn in global investment markets in the last quarter of the 2018 calendar year, the Insurance Commission recorded an investment loss of \$167 million at 31 December 2018. Since then investment markets rebounded sharply with the full investment portfolio delivering a turnaround of \$517.5 million. The total investment income for the year of \$350.5 million was \$73.7 million above the budget of \$276.8 million.

The Insurance Commission focuses on delivering long-term growth in investment assets in order to meet its insurance claims liabilities. The rolling seven-year Main Fund return was 9%, which is 3.5% above the Consumer Price Index plus 3%, performance objective.

The total value of investment funds held by the Insurance Commission grew from \$5.3 billion at 30 June 2018 to \$5.5 billion at 30 June 2019. The total value of assets held by the Insurance Commission at 30 June was almost \$5.9 billion.

The compound gross returns for the Main Fund in recent times have been strong:

- 5-year return of 44.3%; and
- 7-year return of 83.2%.

The Insurance Commission's investment assets have increased \$1.1 billion in the past three years and \$2.9 billion over the last ten years.

This growth reflects the successful implementation of the Insurance Commission's investment strategy. This has enabled the Insurance Commission to maintain a strong financial position to cover rises in future claims costs.

These are an excellent set of results to deliver. I look forward to reporting in further detail on our 2019 performance when we publish our Annual Report later in the year.

Sincerely



ROD WHITEHEAR
CHIEF EXECUTIVE

Actual Performance Compared to Budget as at 30 June 2019 - Insurance Commission only

	Actual \$'000	Budget \$'000	Variance \$'000
Net Premium Revenue	788,883	814,830	(25,947)
Net Claims Incurred	(736,539)	(731,388)	(5,151)
Net Movement in Unexpired Risk	(15,062)	-	(15,062)
Other Underwriting and Administration Expenses	(71,950)	(75,983)	4,033
Underwriting (Loss)/Profit	(34,668)	7,459	(42,127)
Investment Income	350,459	276,752	73,707
Investment Expenses	(18,822)	(22,114)	3,292
RiskCover Investment Return	(54,264)	(57,844)	3,580
Other	30,154	910	29,244
Profit Before Tax Equivalent	272,859	205,163	67,696
Income Tax Equivalent Expense	(69,094)	(61,549)	(7,545)
Profit After Tax Equivalent	203,765	143,614	60,151
Other Comprehensive Expense After Tax Equivalent	(289)	-	(289)
Total Comprehensive Income After Tax Equivalent	203,476	143,614	59,862
Total Equity (as per Balance Sheet)	1,422,295		

	Actual	Budget	Variance
Annual Investment Rate of Return (%) - Main Fund	6.9	5.5	1.4
Annual Investment Rate of Return (%) - MVCIF	7.8	4.8	3.0
Return on Total Assets ¹ (%)	4.8	3.5	1.3
Solvency Level (%)	132.0	129.2	2.8
Investment Rolling 7-Year Return (%) - Main Fund	9.0	5.5	3.5
Net Loss Ratio (%)	93.4	89.8	(3.6)
Net Expense Ratio (%)	11.0	9.3	(1.7)
Net Combined Ratio (%)	104.4	99.1	(5.3)

¹Calculation based on (loss)/profit before tax.

Actual Performance Compared to Budget as at 30 June 2019

- RiskCover

	Actual \$'000	Budget \$'000	Variance \$'000
Premium Revenue	288,228	287,354	874
Reinsurance and Other Adjustments	(12,182)	(19,015)	6,833
Net Claims Incurred	(268,946)	(240,878)	(28,068)
Other Underwriting and Administration Expenses	(30,556)	(33,213)	2,657
Underwriting Loss	(23,456)	(5,752)	(17,704)
Investment Income	54,264	57,844	(3,580)
Profit	30,808	52,092	(21,284)
Total Equity (as per Balance Sheet)	243,470		

	Actual	Budget	Variance
Solvency Level (%) *	135.0	135.0	-
Net Loss Ratio (%)	97.4	89.8	(7.6)
Net Expense Ratio (%)	11.1	12.4	1.3
Net Combined Ratio (%)	108.5	102.2	(6.3)

*The RiskCover Fund's solvency was 150% prior to providing for a Return of Capital amount of \$69.5 million.

Insurance Commission Financial Statements

Statement of Comprehensive Income at 30 June 2019

	2019 \$'000	2018 \$'000
Net Premium Revenue	788,883	761,915
Net Claims Incurred	(736,539)	(652,935)
Net Movement in Unexpired Risk	(15,062)	(5,874)
Other Underwriting and Administration Expenses	(71,950)	(69,277)
Underwriting (Loss)/Profit	(34,668)	33,829
Investment Income	350,459	446,741
Investment Expenses	(18,822)	(21,454)
RiskCover Fund Investment Return	(54,264)	(95,656)
Other	30,154	19,279
Profit Before Tax Equivalent	272,859	382,739
Income Tax Equivalent Expense	(69,094)	(105,050)
Profit After Tax Equivalent	203,765	277,689
Other Comprehensive (Expense)/Income after Tax Equivalent	(289)	469
Total Comprehensive Income After Tax Equivalent	203,476	278,158

Balance Sheet at 30 June 2019

	2019 \$'000	2018 \$'000
Assets		
Cash and Cash Equivalents	12,997	6,434
Receivables	331,030	277,487
Investments	5,505,835	5,326,217
Deferred Premium Collection Costs	5,163	4,837
Plant and Equipment	1,891	1,959
Intangibles	4,375	4,708
Other Assets	2,685	2,419
Total Assets	5,863,976	5,624,061
Liabilities		
Payables	34,249	33,549
Financial Liabilities - RiskCover Fund Investments	908,449	1,054,785
Current Tax Payable	5,106	70,631
Outstanding Claims	3,017,352	2,707,281
Unearned Premium	298,131	291,350
Unexpired Risk Liability	36,965	20,958
Provisions	16,771	16,204
Deferred Tax Liabilities	124,658	107,922
Total Liabilities	4,441,681	4,302,680
Net Assets	1,422,295	1,321,381
Equity		
Compensation (Industrial Diseases) Fund Reserve	23,471	23,192
Retained Earnings	1,398,824	1,298,189
Total Equity	1,422,295	1,321,381

Funds' Financial Statements

Statement of Comprehensive Income at 30 June 2019

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Net Premium Revenue	598,987	586,685	189,807	175,107	89	123	-	-	-	-
Net Claims Incurred	(554,966)	(505,185)	(149,763)	(122,217)	(900)	(10)	(29,276)	(18,422)	(1,636)	(7,101)
Net Movement in Unexpired Risk	-	-	(15,062)	(5,874)	-	-	-	-	-	-
Other Underwriting and Administration Expenses	(60,516)	(55,493)	(9,804)	(9,412)	(533)	(927)	(371)	(380)	(726)	(3,065)
Underwriting (Loss)/Profit	(16,495)	26,007	15,178	37,604	(1,344)	(814)	(29,647)	(18,802)	(2,362)	(10,166)
Investment Income	243,469	325,802	42,740	16,063	1,839	2,446	(114)	(106)	62,525	102,536
Investment Expenses	(16,309)	(20,770)	(1,853)	(1,083)	(120)	(150)	-	-	(540)	549
RiskCover Investment Return	-	-	-	-	-	-	-	-	(54,264)	(95,656)
Other	92	116	29	34	-	-	29,761	18,908	272	221
Profit/(Loss) Before Tax Equivalent	210,757	331,155	56,094	52,618	375	1,482	-	-	5,631	(2,516)
Income Tax Equivalent (Expense)/Benefit	(53,369)	(90,235)	(14,204)	(15,494)	(95)	(379)	-	-	(1,426)	1,058
Profit/(Loss) After Tax Equivalent	157,388	240,920	41,890	37,124	280	1,103	-	-	4,205	(1,458)
Other Comprehensive (Expense)/Income after Tax Equivalent	-	-	-	-	-	-	-	-	(289)	469
Total Comprehensive Income/(Loss) After Tax Equivalent	157,388	240,920	41,890	37,124	280	1,103	-	-	3,916	(989)

Balance Sheet at 30 June 2019

	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Assets										
Cash and Cash Equivalents	-	-	6,761	5,351	-	-	-	-	6,236	1,083
Receivables	186,207	164,104	30,460	21,454	197	555	77,987	53,989	37,640	39,114
Current Tax Receivable	18,295	-	-	-	1	-	-	-	-	1,927
Investments	3,796,613	3,669,864	641,307	448,420	28,029	26,847	(6,718)	(7,256)	1,046,604	1,188,342
Deferred Tax Assets	-	-	16,875	9,474	-	-	-	-	-	-
Deferred Premium Collection Costs	5,163	4,837	-	-	-	-	-	-	-	-
Plant and Equipment	-	-	-	-	-	-	-	-	1,891	1,959
Intangibles	-	-	-	-	-	-	-	-	4,375	4,708
Other Assets	-	-	-	-	-	-	-	-	2,685	2,419
Total Assets	4,006,278	3,838,805	695,403	484,699	28,227	27,402	71,269	46,733	1,099,431	1,239,552
Liabilities										
Payables	18,138	19,433	4,618	4,640	221	119	-	4	12,733	11,083
Current Tax Payable	-	52,758	22,675	19,461	-	339	-	-	727	-
Financial Liabilities - RiskCover Fund Investments	-	-	-	-	-	-	-	-	908,449	1,054,785
Outstanding Claims	2,411,965	2,273,646	450,785	302,739	3,620	2,979	71,269	46,729	79,713	81,188
Unearned Premium	225,742	220,712	72,208	70,638	181	-	-	-	-	-
Unexpired Risk Liability	-	-	36,965	20,958	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	16,771	16,204
Deferred Tax Liabilities	139,245	115,896	-	-	734	773	-	-	1,554	727
Total Liabilities	2,795,090	2,682,445	587,251	418,436	4,756	4,210	71,269	46,733	1,019,947	1,163,987
Net Assets / Equity	1,211,188	1,156,360	108,152	66,263	23,471	23,192	-	-	79,484	75,565

RiskCover Fund Financial Statements

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

Statement of Comprehensive Income at 30 June 2019

	2019 \$'000	2018 \$'000
Premium Revenue	288,228	299,789
Reinsurance and Other Adjustments	(12,182)	(24,865)
Net Claims Incurred	(268,946)	(178,759)
Other Underwriting and Administration Expenses	(30,556)	(32,664)
Underwriting (Loss)/Profit	(23,456)	63,501
Investment Income	54,264	95,656
Profit	30,808	159,157

Balance Sheet at 30 June 2019

	2019 \$'000	2018 \$'000
Assets		
Cash and Cash Equivalents	13,146	15,637
Receivables	17,501	17,749
Investments	908,449	1,054,785
Total Assets	939,096	1,088,171
Liabilities		
Payables	134,140	272,945
Outstanding Claims	561,486	533,108
Total Liabilities	695,626	806,053
Net Assets / Equity	243,470	282,118



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