



**Insurance Commission  
of Western Australia**

# 2020 End of Year Performance Report

Insurance Commission  
of Western Australia

# END OF YEAR PERFORMANCE REPORT

The Insurance Commission's end-of-year performance report presents unaudited financial information to transparently provide our stakeholders with an early indication of performance for the 2019-20 financial year (herein referred to as 2020).

The Insurance Commission's core operations recorded a loss before tax of \$17.3 million, which was \$211.9 million worse than budget. The after tax result was a small loss of \$2.9 million. The RiskCover Fund recorded a loss of \$51.2 million.

This is the first loss for the Insurance Commission in eight years. It's also the first investment loss in 11 years, as a result of investment market reactions to the COVID-19 pandemic and resultant Government-restrictions on international economies to protect public health. As flagged in these pages, despite incurring our first losses in a number of years, the Insurance Commission passed the milestone of returning over \$1.1 billion in dividends and capital returns since we commenced paying dividends in 2013.

The Insurance Commission delivered a core underwriting profit of \$121.5 million. The decline in bond rates (discount rates) during the year had the effect of inflating outstanding claim liabilities. However, that increase in liabilities was more than offset by reductions in forecasts of future inflation.

Our organisation received over 32,000 new insurance claims during the financial year. The total insurance premium paid by customers for products and services delivered by the Insurance Commission in 2020 was \$1.1 billion. We incurred claims expenses of almost \$1 billion which includes physical payments of \$752.8 million to individuals, service providers and customers for injury, loss and damage claims. We estimate the need to pay over \$3.2 billion in the future for all the claims that have occurred and/or have been received at 30 June 2020.

The solvency level for the Insurance Commission dropped from 132% at 1 July 2019 to 121.1% at 31 March 2020 at the peak of the pandemic driven market disruption in Australia before rebounding to 126.7% at 30 June 2020. The Insurance Commission's equity (net assets) dropped from \$1.4 billion at 1 July 2019 to \$971 million at 31 March 2020 before rising back to \$1.2 billion at 30 June 2020.

The unaudited end-of-year financial statements are included as part of this report. The full audited 2020 Annual Report will be tabled in Parliament and published on the Insurance Commission's website in a few weeks.

## Investments

The Insurance Commission's global investment portfolio saw an investment loss of \$137.5 million in 2020. This loss reflects the total investment result from the two investment funds, the Main Fund and the Motor Vehicle (Catastrophic Injuries) Fund (MVCIF). Each fund has an asset allocation designed to meet its insurance liabilities. The Main Fund and MVCIF delivered negative returns of 2.6% and 2.5% respectively in 2020, substantially down from the gross profit at the half year point of 4.3%. Both funds underperformed their respective benchmarks and against the budgeted returns, as a result of economic shutdowns caused by the global pandemic. This reflects our first annual investment loss since the -7.3% loss in the 2009 Global Financial Crisis.

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 6.5% per annum, which is above the target of 5.4% and Consumer Price Index plus 3% performance objective of 4.9%.

The downturn in global investment market valuations resulted a decline in the total value of the investment funds held by the Insurance Commission, from \$5.5 billion at 30 June 2019 to \$5.3 billion at 30 June 2020. The total value of assets held by the Insurance Commission at 30 June was over \$5.7 billion.

### **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: the *Motor Vehicle (Third Party Insurance) Act 1943* and *Motor Vehicle (Catastrophic Injuries) Act 2016*.

The policy provides owners and drivers of WA registered vehicles with an unlimited indemnity against personal injury claims for injuries they cause to others in motor vehicle crashes, known as Compulsory Third Party (CTP) insurance. The Insurance Commission provides compensation to claimants where the fault of a third party in a crash causing injury can be identified.

The policy also provides no-fault, first party cover for catastrophic injuries they may sustain in a car crash, in circumstances where they are unable to find another driver at fault. This is known as Catastrophic Injuries Support (CIS) insurance.

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

The combination of CTP and CIS insurance cover is known as motor injury insurance. The cost of the two motor injury insurance policies in WA continues to be more affordable than most schemes in Australia. The annual cost of motor injury insurance for a family car remains at \$444 at 1 July 2020 in Western Australia. This is substantially cheaper than similar insurance available in Northern Territory (\$561), Victoria (\$532), New South Wales (\$515) and the Australian Capital Territory (\$506).

The Insurance Commission received \$831.6 million in motor injury insurance premium revenue for approximately 2.9 million insured vehicles.

The Insurance Commission incurred car crash claims expenses of \$656.1 million which includes \$479.7 million in physical payments to people injured in vehicle crashes (mostly from prior years). We estimate the need to pay over \$2.8 billion in the future for all the claims that have occurred and/or have been received at 30 June 2020.

The Third Party Insurance Fund (TPIF) is the fund for the CTP scheme, and the MVCIF is the fund for the CIS scheme.

The TPIF recorded an underwriting profit of \$85.2 million, compared to the budget of \$32 million. This result was caused by the decline in forecast inflation rates resulting in a decrease in future claims costs. The TPIF recorded a loss before tax of \$23.3 million, following an investment loss of \$89.5 million. The TPIF's solvency level at 30 June 2020 was 136.1%. The MVCIF recorded an underwriting profit of \$39.2 million, which was \$89.2 million better than budget. This favourable result was also due to the decline in inflation rates. The MVCIF delivered a profit before tax of \$16.1 million, after an investment loss of \$20.4 million. The MVCIF's solvency level at 30 June 2020 was 116.5%.

### **RiskCover Fund**

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

- workers' compensation;
- loss or damage to property;
- cyber risk;

- liability; and
- personal accidents.

The RiskCover Fund recorded an underwriting loss of \$27 million compared to a forecast loss of \$14.4 million in 2020. This underwriting loss was primarily due to an increase in the number of new large claims and higher claims costs in the workers' compensation class of insurance.

The RiskCover Fund recorded a loss of \$51.2 million, after an investment loss of \$24.2 million. The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of other funds managed by the Insurance Commission. The RiskCover Fund solvency level at 30 June 2020 was 129.8%.

### **Shareholder Return**

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

Dividend and capital payments made to the Government since 2013 now total over \$1.1 billion. This year, the Insurance Commission's payment contribution to Government was \$433.4 million which represented \$254.1 million in dividend and return of capital payments related to 2019 financial results, a \$22.9 million interim dividend, \$91.3 million of insurance duty and \$65.1 million of tax equivalent payments.

At 30 June 2020, the Insurance Commission held assets that contribute to a State net debt reduction of \$3.8 billion.

### **Bell Litigation**

The Bell litigation appears to have finally drawn to a close. On 12 August 2020, various Bell Group companies and their creditors agreed to liquidation settlement scheme arrangements. On 20 August 2020, the Supreme Court of Western Australia made orders approving the settlement. Those orders were lodged with the Australian Securities and Investments Commission on 20 August 2020 at which point the schemes became effective. The Insurance Commission expects to receive the settlement amount during September 2020.

These outcomes are a very welcome end to a long running distraction for the Insurance Commission. Cessation of the Insurance Commission's involvement in that litigation offers the opportunity to devote more executive resources to enhance our core business and to improve service delivery.

Sincerely



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

## Actual Performance Compared to Budget as at 30 June 2020

### - Insurance Commission

|  | Actual<br>\$'000 | Budget<br>\$'000 | Variance<br>\$'000 |
|--|------------------|------------------|--------------------|
| Net Premium Revenue                                    | 822,965          | 829,290          | (6,325)            |
| Net Claims Incurred                                    | (657,203)        | (792,945)        | 135,742            |
| Net Movement in Unexpired Risk                         | 16,155           | 0                | 16,155             |
| Other Underwriting and Administration Expenses         | (60,416)         | (57,470)         | (2,946)            |
| <b>Underwriting Profit/(Loss)</b>                      | <b>121,501</b>   | <b>(21,125)</b>  | <b>142,626</b>     |
| Investment (Loss)/Income                               | (137,523)        | 310,820          | (448,343)          |
| Investment Expenses                                    | (22,808)         | (18,895)         | (3,913)            |
| RiskCover Fund Investment Return                       | 24,172           | (56,282)         | 80,454             |
| Other  | (2,622)          | (19,868)         | 17,246             |
| <b>(Loss)/Profit Before Tax Equivalent</b>             | <b>(17,280)</b>  | <b>194,650</b>   | <b>(211,930)</b>   |
| Income Tax Equivalent Benefit/(Expense)                | 14,373           | (58,395)         | 72,768             |
| <b>(Loss)/Profit After Tax Equivalent</b>              | <b>(2,907)</b>   | <b>136,255</b>   | <b>(139,162)</b>   |
| <b>Total Comprehensive Income After Tax Equivalent</b> | <b>(3,155)</b>   | <b>136,255</b>   | <b>(139,410)</b>   |
| <b>Total Equity (as per Balance Sheet)</b>             | <b>1,210,052</b> |                  |                    |

|  | Actual | Target | Variance |
|--|--------|--------|----------|
| Annual Investment Rate of Return (%) - Main Fund | (2.6)  | 5.5    | (8.1)    |
| Annual Investment Rate of Return (%) - MVCIF     | (2.5)  | 5.7    | (8.2)    |
| Solvency Level (%)                               | 126.7  | 129.9  | (3.2)    |
| Investment Rolling 7-Year Return (%) - Main Fund | 6.5    | 5.4    | 1.1      |

## Actual Performance Compared to Budget as at 30 June 2020

### - RiskCover Fund

|  | Actual          | Budget          | Variance        |
|--|-----------------|-----------------|-----------------|
|  | \$'000          | \$'000          | \$'000          |
| Premium Revenue                                | 289,609         | 286,721         | 2,888           |
| Reinsurance and Other Adjustments              | 15,274          | (20,243)        | 35,517          |
| Net Claims Incurred                            | (299,333)       | (246,718)       | (52,615)        |
| Other Underwriting and Administration Expenses | (32,592)        | (34,158)        | 1,566           |
| <b>Underwriting Loss</b>                       | <b>(27,042)</b> | <b>(14,398)</b> | <b>(12,644)</b> |
| Investment (Loss)/Income                       | (24,172)        | 56,282          | (80,454)        |
| <b>(Loss)/Profit</b>                           | <b>(51,214)</b> | <b>41,884</b>   | <b>(93,098)</b> |
|  |                 |                 |                 |
| <b>Total Equity (as per Balance Sheet)</b>     | <b>192,256</b>  |                 |                 |

|                        | Actual | Target | Variance |
|------------------------|--------|--------|----------|
| Solvency Level (%)     | 129.8  | 135.0  | (5.2)    |
| Net Loss Ratio (%)     | 98.2   | 92.6   | (5.6)    |
| Net Expense Ratio (%)  | 10.7   | 12.8   | 2.1      |
| Net Combined Ratio (%) | 108.9  | 105.4  | (3.5)    |

# Insurance Commission Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME at 30 June 2020

|  | 2020<br>\$'000  | 2019<br>\$'000 |
|--|-----------------|----------------|
| Net Premium Revenue                            | 822,965         | 788,883        |
| Net Claims Incurred                            | (657,203)       | (706,892)      |
| Net Movement in Unexpired Risk                 | 16,155          | (15,062)       |
| Other Underwriting and Administration Expenses | (60,416)        | (54,726)       |
| <b>Underwriting Profit</b>                     | <b>121,501</b>  | <b>12,203</b>  |
| Investment (Loss)/Income                       | (137,523)       | 350,459        |
| Investment Expenses                            | (22,808)        | (18,822)       |
| RiskCover Fund Investment Return               | 24,172          | (54,264)       |
| Other  | (2,622)         | (16,717)       |
| <b>(Loss)/Profit Before Tax Equivalent</b>     | <b>(17,280)</b> | <b>272,859</b> |
| Income Tax Equivalent Benefit/(Expense)        | 14,373          | (69,094)       |
| <b>(Loss)/Profit After Tax Equivalent</b>      | <b>(2,907)</b>  | <b>203,765</b> |

## BALANCE SHEET at 30 June 2020

|  | 2020<br>\$'000   | 2019<br>\$'000   |
|--|------------------|------------------|
| <b>Assets</b>                                      |                  |                  |
| Cash and Cash Equivalents                          | 17,235           | 12,997           |
| Receivables  | 356,597          | 331,030          |
| Investments  | 5,334,224        | 5,505,835        |
| Deferred Premium Collection Costs                  | 3,458            | 5,163            |
| Right of Use Lease Assets                          | 17,641           | -                |
| Plant and Equipment                                | 1,556            | 1,891            |
| Intangibles  | 4,522            | 4,375            |
| Deferred Tax Assets                                | 667              | -                |
| Other Assets                                       | 2,788            | 2,685            |
| <b>Total Assets</b>                                | <b>5,738,688</b> | <b>5,863,976</b> |
| <b>Liabilities</b>                                 |                  |                  |
| Payables   | 131,514          | 34,249           |
| Financial Liabilities - RiskCover Fund Investments | 760,078          | 908,449          |
| Current Tax Payable                                | 50,159           | 5,106            |
| Outstanding Claims                                 | 3,216,652        | 3,017,352        |
| Unearned Premium                                   | 310,043          | 298,131          |
| Unexpired Risk Liability                           | 20,111           | 36,965           |
| Provisions   | 19,971           | 16,771           |
| Lease Liabilities                                  | 20,108           | -                |
| Deferred Tax Liabilities                           | -                | 124,658          |
| <b>Total Liabilities</b>                           | <b>4,528,636</b> | <b>4,441,681</b> |
| <b>Net Assets</b>                                  | <b>1,210,052</b> | <b>1,422,295</b> |
| <b>Equity</b>                                      |                  |                  |
| Compensation (Industrial Diseases) Fund Reserve    | 22,702           | 23,471           |
| Retained Earnings                                  | 1,187,350        | 1,398,824        |
| <b>Total Equity</b>                                | <b>1,210,052</b> | <b>1,422,295</b> |

# RiskCover Fund Financial Statements

The financial statements of the RiskCover Fund are not consolidated in the Insurance Commission's accounts as the State Government is responsible for any shortfall in its self-insurance arrangements.

## Statement of Comprehensive Income at 30 June 2020

|  | 2020            | 2019            |
|--|-----------------|-----------------|
|  | \$'000          | \$'000          |
| Premium Revenue                                | 289,609         | 288,228         |
| Reinsurance and Other Adjustments              | 15,274          | (12,182)        |
| Net Claims Incurred                            | (299,333)       | (268,946)       |
| Other Underwriting and Administration Expenses | (32,592)        | (30,556)        |
| <b>Underwriting Loss</b>                       | <b>(27,042)</b> | <b>(23,456)</b> |
| Investment (Loss)/Income                       | (24,172)        | 54,264          |
| <b>(Loss)/Profit</b>                           | <b>(51,214)</b> | <b>30,808</b>   |

## Balance Sheet at 30 June 2020

|                            | 2020           | 2019           |
|----------------------------|----------------|----------------|
|                            | \$'000         | \$'000         |
| <b>Assets</b>              |                |                |
| Cash and Cash Equivalents  | 14,518         | 13,146         |
| Receivables                | 61,738         | 17,501         |
| Investments                | 760,078        | 908,449        |
| <b>Total Assets</b>        | <b>836,334</b> | <b>939,096</b> |
| <b>Liabilities</b>         |                |                |
| Payables                   | 38,241         | 134,140        |
| Outstanding Claims         | 605,837        | 561,486        |
| <b>Total Liabilities</b>   | <b>644,078</b> | <b>695,626</b> |
| <b>Net Assets / Equity</b> | <b>192,256</b> | <b>243,470</b> |



# Funds' Financial Statements

## Statement of Comprehensive Income at 30 June 2020

|  | Third Party<br>Insurance Fund |                | Motor Vehicle<br>(Catastrophic Injuries)<br>Fund |                | Compensation<br>(Industrial Diseases)<br>Fund |                | Government<br>Insurance Fund |                | Insurance Commission<br>General Fund |                |
|--|-------------------------------|----------------|--|----------------|---|----------------|------------------------------|----------------|--------------------------------------|----------------|
|  | 2020<br>\$'000                | 2019<br>\$'000 | 2020<br>\$'000                                   | 2019<br>\$'000 | 2020<br>\$'000                                | 2019<br>\$'000 | 2020<br>\$'000               | 2019<br>\$'000 | 2020<br>\$'000                       | 2019<br>\$'000 |
| Net Premium Revenue                            | 624,844                       | 598,987        | 198,017  | 189,807        | 104   | 89             | -                            | -              | -                                    | -              |
| Net Claims Incurred                            | (491,810)                     | (554,966)      | (164,258)  | (149,763)      | (140)   | (900)          | 858                          | 371            | (1,853)                              | (1,636)        |
| Net Movement in Unexpired Risk                 | -                             | -              | 16,155   | (15,062)       | -   | -              | -                            | -              | -                                    | -              |
| Other Underwriting and Administration Expenses | (47,869)                      | (43,293)       | (10,709)   | (9,804)        | (315)   | (533)          | (858)                        | (371)          | (665)                                | (725)          |
| <b>Underwriting Profit/(Loss)</b>              | <b>85,165</b>                 | <b>728</b>     | <b>39,205</b>                                    | <b>15,178</b>  | <b>(351)</b>                                  | <b>(1,344)</b> | <b>-</b>                     | <b>-</b>       | <b>(2,518)</b>                       | <b>(2,361)</b> |
| Investment Income                              | (89,505)                      | 243,469        | (20,365)   | 42,740         | (705)   | 1,839          | (47)                         | (114)          | (26,901)                             | 62,525         |
| Investment Expenses                            | (16,176)                      | (16,309)       | (2,751)  | (1,853)        | (120)   | (120)          | -                            | -              | (3,761)                              | (540)          |
| RiskCover Fund Investment Return               | -                             | -              | -  | -              | -   | -              | -                            | -              | 24,172                               | (54,264)       |
| Other  | (2,823)                       | (17,132)       | 29   | 29             | -   | -              | 47                           | 114            | 127                                  | 272            |
| <b>(Loss)/Profit Before Tax Equivalent</b>     | <b>(23,339)</b>               | <b>210,756</b> | <b>16,118</b>                                    | <b>56,094</b>  | <b>(1,176)</b>                                | <b>375</b>     | <b>-</b>                     | <b>-</b>       | <b>(8,881)</b>                       | <b>5,632</b>   |
| Income Tax Equivalent Benefit/(Expense)        | 14,493                        | (53,369)       | (3,433)  | (14,204)       | 407   | (95)           | -                            | -              | 2,906                                | (1,426)        |
| <b>(Loss)/Profit After Tax Equivalent</b>      | <b>(8,846)</b>                | <b>157,387</b> | <b>12,685</b>                                    | <b>41,890</b>  | <b>(769)</b>                                  | <b>280</b>     | <b>-</b>                     | <b>-</b>       | <b>(5,975)</b>                       | <b>4,206</b>   |

## Balance Sheet at 30 June 2020

|  | 2020<br>\$'000   | 2019<br>\$'000   | 2020<br>\$'000 | 2019<br>\$'000 | 2020<br>\$'000 | 2019<br>\$'000 | 2020<br>\$'000 | 2019<br>\$'000 | 2020<br>\$'000   | 2019<br>\$'000   |
|--|------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
| <b>Assets</b>                                      |                  |                  |                |                |                |                |                |                |                  |                  |
| Cash and Cash Equivalents                          | -                | -                | 9,939          | 6,761          | -              | -              | -              | -              | 7,296            | 6,236            |
| Receivables  | 188,065          | 186,207          | 60,523         | 30,460         | 82             | 197            | 99,400         | 77,987         | 32,430           | 37,640           |
| Current Tax Receivable                             | -                | 18,295           | -              | -              | -              | 1              | -              | -              | -                | -                |
| Investments  | 3,551,283        | 3,796,613        | 773,491        | 641,307        | 26,389         | 28,029         | (9,946)        | (6,718)        | 993,007          | 1,046,604        |
| Deferred Tax Assets                                | -                | -                | 10,607         | 16,875         | 373            | -              | -              | -              | 2,827            | -                |
| Deferred Premium Collection Costs                  | 3,458            | 5,163            | -              | -              | -              | -              | -              | -              | -                | -                |
| Right of Use Lease Assets                          | 3,440            | -                | 404            | -              | -              | -              | -              | -              | 13,797           | -                |
| Plant and Equipment                                | -                | -                | -              | -              | -              | -              | -              | -              | 1,556            | 1,891            |
| Intangibles  | -                | -                | -              | -              | -              | -              | -              | -              | 4,522            | 4,375            |
| Other Assets                                       | -                | -                | -              | -              | -              | -              | -              | -              | 2,788            | 2,685            |
| <b>Total Assets</b>                                | <b>3,746,246</b> | <b>4,006,278</b> | <b>854,964</b> | <b>695,403</b> | <b>26,844</b>  | <b>28,227</b>  | <b>89,454</b>  | <b>71,269</b>  | <b>1,058,223</b> | <b>1,099,431</b> |
| <b>Liabilities</b>                                 |                  |                  |                |                |                |                |                |                |                  |                  |
| Payables   | 35,198           | 18,138           | 4,628          | 4,618          | 358            | 221            | 9              | -              | 115,224          | 12,733           |
| Current Tax Payable                                | 27,707           | -                | 21,564         | 22,675         | 341            | -              | -              | -              | 547              | 727              |
| Financial Liabilities - RiskCover Fund Investments | -                | -                | -              | -              | -              | -              | -              | -              | 760,078          | 908,449          |
| Outstanding Claims                                 | 2,436,982        | 2,411,965        | 612,256        | 450,785        | 3,330          | 3,620          | 89,445         | 71,269         | 74,639           | 79,713           |
| Unearned Premium                                   | 234,788          | 225,742          | 75,142         | 72,208         | 113            | 181            | -              | -              | -                | -                |
| Unexpired Risk Liability                           | -                | -                | 20,111         | 36,965         | -              | -              | -              | -              | -                | -                |
| Provisions   | -                | -                | -              | -              | -              | -              | -              | -              | 19,971           | 16,771           |
| Other Liabilities                                  | 3,927            | -                | 460            | -              | -              | -              | -              | -              | 15,721           | -                |
| Deferred Tax Liabilities                           | 13,140           | 139,245          | -              | -              | -              | 734            | -              | -              | -                | 1,554            |
| <b>Total Liabilities</b>                           | <b>2,751,742</b> | <b>2,795,090</b> | <b>734,161</b> | <b>587,251</b> | <b>4,142</b>   | <b>4,756</b>   | <b>89,454</b>  | <b>71,269</b>  | <b>986,180</b>   | <b>1,019,947</b> |
| <b>Net Assets / Equity</b>                         | <b>994,504</b>   | <b>1,211,188</b> | <b>120,803</b> | <b>108,152</b> | <b>22,702</b>  | <b>23,471</b>  | <b>-</b>       | <b>-</b>       | <b>72,043</b>    | <b>79,484</b>    |

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



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of Western Australia**

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