



**Insurance Commission
of Western Australia**

Mid-Year Performance Report 2018-19

Insurance Commission
of Western Australia

MID-YEAR PERFORMANCE REPORT

In the first half of the 2018-19 financial year (1 July 2018 to 31 December 2018), the Insurance Commission of Western Australia (Insurance Commission) and RiskCover managed insurance claims valued at over \$3.5 billion, (including payments of \$361.5 million to individuals and agencies on over 29,600 active claims, and estimated future claims liabilities of over \$3.2 billion).

In the first half of the year, the Insurance Commission recorded a loss before tax of \$181.6 million. This result was driven primarily by investment losses of \$142.3 million. Further investment losses of \$33.9 million were attributable to the RiskCover Fund.

The unaudited half-year financial statements are included in this Report.

Investment Market Downturn

Global investment markets experienced a significant sell-off between October and December 2018 in response to slowing global growth, increases in the US Federal Funds rate, concerns surrounding trade wars, Brexit and the US government shut-down. Stock market sell-off was sharp with some markets down more than 10% at one point from their September 2018 highs.

After recording a compound investment return over the previous six financial years of 70.9% (\$2.2 billion), the Insurance Commission's main investment fund delivered an investment loss of 3.3% for the first half of 2017-18 underperforming against market benchmarks by 2.6%. This was mainly due to underperformance in Australian Equities (4.28% below benchmark), Property (4.21% below benchmark, and Global Equities (3.17% below benchmark).

Following the downturn in global investment markets and taking into consideration operational cashflows, the total value of the investment funds held by the Insurance Commission to offset insurance liabilities reduced from \$5.3 billion at 1 July 2018 to \$5 billion at 31 December 2018. The total value of assets held by the Insurance Commission at 31 December was over \$5.3 billion.

Despite the half-year investment losses, the 7-year rolling investment return of 8.3% for the main fund is well above the target of 5.5%.

Over the past six years, the Insurance Commission has prudently taken steps towards ensuring premium revenue is sufficient to meet claims and administration costs, whilst seeking to limit premium increases to match rises in wage inflation. This means that we are less reliant on investment returns to pay current and future claims. This course of action means that the price of insurance should not be impacted in years of investment losses, as has been experienced in the first half of this financial year.

Motor Injury Insurance

In the first half of the year, the Insurance Commission collected \$393.2 million in motor injury insurance premiums for approximately 2.9 million insured vehicles.

Over the same period, the Insurance Commission managed car crash claims expected to cost over \$2.8 billion, consisting of \$229 million in claim payments to people injured in crashes, mostly from prior years, and estimated future claims liabilities of \$2.6 billion.

The Insurance Commission is the sole underwriter of motor injury insurance in Western Australia. One motor injury insurance policy is governed by two Acts of Parliament: the *Motor Vehicle (Third Party Insurance) Act 1943* and the recently introduced *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 to more than 1.8 million motorists 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 and its agents 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 motor injury insurance in WA continues to be one of the most affordable in Australia. The annual cost of motor injury insurance for a family car, at \$431 from 1 July 2018 in Western Australia, is substantially cheaper than similar insurance in the Australian Capital Territory (\$588), New South Wales (\$574), Northern Territory (\$552), South Australia (\$522) and Victoria (\$521).

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

The TPIF recorded a half-year underwriting loss of \$36.1 million. The underwriting loss was driven by an unfavourable movement in the outstanding claims liabilities following the December actuarial valuation. Outstanding claims liabilities increased by \$23 million as a result of a decrease in forecast discount rates (based on Commonwealth Bond rates).

The TPIF recorded a loss before tax of \$163.2 million. This was mainly due to an investment loss of \$127.2 million.

The MVCIF recorded a small underwriting loss of \$3 million for the first half of the year. The MVCIF recorded a loss before tax of \$13 million. This was mainly due to an investment loss of \$10 million.

RiskCover

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

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

The RiskCover Fund recorded a small half-year underwriting loss of \$2.3m. The RiskCover Fund recorded a half-year loss of \$36.2 million. This result was again driven by an investment loss of \$33.9 million. The Insurance Commission invests RiskCover funds under the same arrangements used for the investment of other funds managed by the Insurance Commission.

In the first half of the year, RiskCover received 5,789 new insurance claims, 47 more compared to the same period in 2018 (5,742).

RiskCover fund contributions charged to agencies have continued to remain flat since 2012. This in part reflects the efforts of agencies in managing insurable risks. This flows from lower workers' compensation claim costs as agencies improve the management of workplace injuries.

Contributions to Government

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

Contrasting the financial results in the first half of this financial year, in 2017-18 the Insurance Commission recorded a profit before tax of \$382.7 million. As a result of the strong financial performance in 2017-18, the Insurance Commission paid a final dividend to Government of \$24.5 million and a special dividend of \$58.9 million.

In the first half of this year, the Insurance Commission paid tax of \$79 million and insurance duty of \$44.2 million to the WA Government.

As a result of these dividend and tax payments, in the first half of the year the Insurance Commission contributed \$206.6 million (2017-18 full year: \$274.8 million) to improving the General Government Net Operating Balance.

In September 2018, the Insurance Commission also paid a return of capital to Government from the RiskCover Fund of \$162.3 million in light of its very strong financial performance in 2017-18. The Treasurer has announced these funds as one the sources used by the Government for Consolidated Account debt repayment.



ROD WHITHEAR
CHIEF EXECUTIVE

Actual Performance Compared to Budget as at 31 December 2018 - Insurance Commission only

	Actual \$'000	Budget \$'000	Variance \$'000
Net Premium Revenue	399,046	407,415	(8,369)
Net Claims Incurred	(404,522)	(365,694)	(38,828)
Underwriting and Administration Expenses	(34,403)	(38,057)	3,654
Underwriting (Loss)/Profit	(39,879)	3,664	(43,543)
Investment (Loss)/Income	(176,171)	127,080	(303,251)
RiskCover Investment Loss/(Return)	33,893	(29,892)	63,785
Other	520	455	65
(Loss)/Profit Before Tax Equivalent	(181,637)	101,307	(282,944)
Income Tax Equivalent Benefit/(Expense)	54,638	(30,392)	85,030
(Loss)/Profit AfterTax Equivalent	(126,999)	70,915	(197,914)
Total Equity (as per Balance Sheet)	1,110,995		

	Actual	Budget	Variance
Annual Investment Rate of Return (%) - Main Fund	(3.3)	2.8	(6.1)
Annual Investment Rate of Return (%) - MVCIF	(1.7)	2.4	(4.1)
Return on Total Assets ¹ (%)*	(3.3)	3.5	(6.8)
Solvency Level (%)*	126.1	129.2	(3.1)
Investment Rolling 7-Year Return (%)*	8.3	5.5	2.8
Net Loss Ratio (%)	101.4	89.8	(11.6)
Net Expense Ratio (%)	8.6	9.3	0.7
Net Combined Ratio (%)	110.0	99.1	(10.9)

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

*Annual Target in lieu of YTD Target.

Actual Performance Compared to Budget as at 31 December 2018

- RiskCover

	Actual \$'000	Budget \$'000	Variance \$'000
Premium Revenue	145,283	143,677	1,606
Reinsurance and Other Adjustments	(8,871)	(9,508)	637
Net Claims Incurred	(123,804)	(120,438)	(3,366)
Administration Expenses	(14,904)	(16,681)	1,777
Underwriting Loss	(2,296)	(2,950)	654
Investment (Loss)/Income	(33,893)	29,892	(63,785)
(Loss)/Profit	(36,189)	26,942	(63,131)
Total Equity (as per Balance Sheet)	245,930		

	Actual	Budget	Variance
Solvency Level (%) *	133.5	135.0	(1.5)
Net Loss Ratio (%)	90.8	89.8	(1.0)
Net Expense Ratio (%)	10.9	12.4	1.5
Net Combined Ratio (%)	101.7	102.2	0.5

* Annual Target in lieu of YTD Target.

Insurance Commission Financial Statements

Statement of Comprehensive Income at 31 December 2018

	2019 YTD \$'000	2018 \$'000
Net Premium Revenue	399,046	761,915
Net Claims Incurred	(404,522)	(652,935)
Net Movement in Unexpired Risk	-	(5,874)
Other Underwriting and Administration Expenses	(34,403)	(69,277)
Underwriting (Loss)/Profit	(39,879)	33,829
Investment (Loss)/Income	(167,002)	446,741
Investment Expenses	(9,169)	(21,454)
RiskCover Investment Loss/(Return)	33,893	(95,656)
Other	520	19,279
(Loss)/Profit Before Tax Equivalent	(181,637)	382,739
Income Tax Equivalent Benefit/(Expense)	54,638	(105,050)
(Loss)/Profit After Tax Equivalent	(126,999)	277,689

Balance Sheet at 31 December 2018

	2019 YTD \$'000	2018 \$'000
Assets		
Cash and Cash Equivalents	5,039	6,434
Receivables	319,496	277,487
Investments	5,030,402	5,326,217
Deferred Premium Collection Costs	4,837	4,837
Plant and Equipment	1,960	1,959
Intangibles	4,472	4,708
Other Assets	4,087	2,419
Total Assets	5,370,293	5,624,061
Liabilities		
Payables	16,976	33,549
Financial Liabilities - RiskCover Investments	954,392	1,054,785
Current Tax Payable	-	70,631
Outstanding Claims	2,902,655	2,707,281
Unearned Premium	283,657	291,350
Unexpired Risk Liability	20,958	20,958
Provisions	15,123	16,204
Deferred Tax Liabilities	65,537	107,922
Total Liabilities	4,259,298	4,302,680
Net Assets	1,110,995	1,321,381
Equity		
Compensation (Industrial Diseases) Fund Reserve	22,382	23,192
Retained Earnings	1,088,613	1,298,189
Total Equity	1,110,995	1,321,381

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 31 December 2018

	2019 YTD \$'000	2018 \$'000
Premium Revenue	145,283	299,789
Reinsurance and Other Adjustments	(8,871)	(24,865)
Net Claims Incurred	(123,804)	(178,759)
Administration Expenses	(14,904)	(32,664)
Underwriting (Loss)/Profit	(2,296)	63,501
Investment (Loss)/Income	(33,893)	95,656
(Loss)/Profit	(36,189)	159,157

Balance Sheet at 31 December 2018

	2019 YTD \$'000	2018 \$'000
Assets		
Cash and Cash Equivalents	-	15,637
Receivables	19,469	17,749
Investments	954,392	1,054,785
Other Assets	9,442	-
Total Assets	983,303	1,088,171
Liabilities		
Bank Overdraft	2,952	-
Payables	57,121	272,945
Outstanding Claims	533,973	533,108
Unearned Premium	142,914	-
Other Liabilities	413	-
Total Liabilities	737,373	806,053
Net Assets / Equity	245,930	282,118

Funds' Financial Statements

Statement of Comprehensive Income at 31 December 2018

	Third Party Insurance Fund		Motor Vehicle (Catastrophic Injuries) Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000
Net Premium Revenue	303,029	586,685	95,974	175,107	43	123	-	-	-	-
Net Claims Incurred	(310,283)	(505,185)	(94,239)	(122,217)	-	(10)	-	(18,422)	-	(7,101)
Net Movement in Unexpired Risk	-	-	-	(5,874)	-	-	-	-	-	-
Underwriting and Administration Expenses	(28,810)	(55,493)	(4,778)	(9,412)	(266)	(927)	(186)	(380)	(363)	(3,065)
Underwriting (Loss)/Profit	(36,064)	26,007	(3,043)	37,604	(223)	(814)	(186)	(18,802)	(363)	(10,166)
Investment (Loss)/Income	(118,388)	325,802	(9,085)	16,063	(868)	2,446	(58)	(106)	(38,603)	102,536
Investment Expenses	(8,815)	(20,770)	(920)	(1,083)	(64)	(150)	-	-	630	549
RiskCover Investment (Loss)/Return	-	-	-	-	-	-	-	-	33,893	(95,656)
Other	45	116	14	34	-	-	244	18,908	217	221
(Loss)/Profit Before Tax Equivalent	(163,222)	331,155	(13,034)	52,618	(1,155)	1,482	-	-	(4,226)	(2,516)
Income Tax Equivalent Benefit/(Expense)	49,073	(90,235)	3,946	(15,494)	347	(379)	-	-	1,272	1,058
(Loss)/Profit After Tax Equivalent	(114,149)	240,920	(9,088)	37,124	(808)	1,103	-	-	(2,954)	(1,458)

Balance Sheet at 31 December 2018

	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000	2019 YTD \$'000	2018 \$'000
Assets										
Cash and Cash Equivalents	-	-	5,617	5,351	-	-	-	-	127,482	1,083
Receivables	183,676	164,104	26,397	21,454	561	555	52,286	53,989	36,512	39,114
Current Tax Receivable	37,933	-	-	-	-	-	-	-	2,318	1,927
Investments	3,544,146	3,669,864	520,415	448,420	25,915	26,847	(7,248)	(7,256)	947,174	1,188,342
Deferred Tax Assets	-	-	13,353	9,474	-	-	-	-	155	-
Deferred Premium Collection Costs	4,837	4,837	-	-	-	-	-	-	-	-
Plant and Equipment	-	-	-	-	-	-	-	-	1,960	1,959
Intangibles	-	-	-	-	-	-	-	-	4,472	4,708
Other Assets	1,141	-	1,015	-	-	-	-	-	1,931	2,419
Total Assets	3,771,733	3,838,805	566,797	484,699	26,476	27,402	45,038	46,733	1,122,004	1,239,552
Liabilities										
Bank Overdraft	126,963	-	-	-	154	-	943	-	-	-
Payables	11,778	19,433	3,809	4,640	1	119	2	4	1,894	11,083
Current Tax Payable	-	52,758	19,425	19,461	254	339	-	-	-	-
Financial Liabilities - RiskCover Investments	-	-	-	-	-	-	-	-	954,392	1,054,785
Outstanding Claims	2,380,799	2,273,646	396,800	302,739	2,975	2,979	44,093	46,729	77,988	81,188
Unearned Premium	214,829	220,712	68,629	70,638	199	-	-	-	-	-
Unexpired Risk Liability	-	-	20,958	20,958	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	15,123	16,204
Deferred Tax Liabilities	78,534	115,896	-	-	511	773	-	-	-	727
Total Liabilities	2,812,903	2,682,445	509,621	418,436	4,094	4,210	45,038	46,733	1,049,397	1,163,987
Net Assets / Equity	958,830	1,156,360	57,176	66,263	22,382	23,192	-	-	72,607	75,565

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



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icwa.wa.gov.au

Insurance Commission of Western Australia

Forrest Centre, 221 St Georges Terrace
Perth WA 6000

GPO Box U1908 Perth WA 6845

T: +61 8 9264 3333 E: public.relations@icwa.wa.gov.au