

**Insurance Commission of Western Australia —**

Mr I.C. Blayney, Chairman.

Mr T.R. Buswell, Treasurer.

Mr R. Whithear, Chief Executive.

[Witness introduced.]

**Mr B.S. WYATT:** I want to clarify something, and Mr Whithear may be able to help us. When I looked online the status of the Insurance Commission of Western Australia Amendment Bill, as at 7 August, was awaiting royal assent. Has it received royal assent?

**Mr T.R. BUSWELL:** I will get Mr Whithear to answer that.

**Mr R. Whithear:** Not as of last night.

**Mr B.S. WYATT:** In respect of the ICWA dividend, even though the bill has not received royal assent—no doubt, Mr Whithear is preparing for it to receive royal assent—the budget has \$63 million in ICWA dividends, representing the 2012–13 interim dividend. The way I understand the amendment bill operates, that will be paid shortly, and then the 2013–14 dividend will be paid. Will a dividend be recommended in light of the fact that the forward estimates has built into it dividends from ICWA regardless of the profit position of ICWA.

**Mr T.R. BUSWELL:** For last year?

**Mr B.S. WYATT:** Any year.

**Mr T.R. BUSWELL:** I think I indicated this during consideration in detail of that bill. We are currently working with Mr Whithear and the board through the detail of what will comprise ICWA's dividend policy. As I indicated at that time, it is my view that we need to look at some capacity to average, or to base, that dividend over a number of years, as opposed to a single year, to deal with some of the impacts on underwriting performance that are, effectively—I would not say external to—beyond the control of ICWA; for example, the discount rate that applies to future liabilities in terms of future claims, which, as we know, when that moves can have a massive impact on profit or loss. In Tasmania there is an averaging methodology, so we are currently working through that.

My view is that it would not be appropriate for governments to look at one year in isolation simply because of the potential impact of those factors on the profit and/or loss of ICWA. That is still a work in progress. We have had a couple of discussions about it. ICWA, Treasury and I are now working through the dividend policy. My anticipation is that that will go to the board of ICWA for approval and, obviously, come to government for endorsement

**Mr B.S. WYATT:** What is going to the board?

**Mr T.R. BUSWELL:** The dividend policy.

**Mr B.S. WYATT:** You have the legislation.

**Mr T.R. BUSWELL:** Of course, there is the legislation, and the legislation gives some guidance around that. There is some suggestion in and around that it should be similar to other government trading enterprises; that is, a set percentage.

**Mr B.S. WYATT:** Your budget has a 65 per cent ratio.

**Mr T.R. BUSWELL:** Correct, the budget is based on an assumption. My view is that is not the best approach to calculate the dividend payment of ICWA in any one year. We are still working through that.

**Mr B.S. WYATT:** What I am curious about, Treasurer, and we had some debate around this, is that the legislation, the amendment act, has the board recommending a dividend.

**Mr T.R. BUSWELL:** Correct.

**Mr B.S. WYATT:** Yet the budget is predicated already on set dividends.

**Mr T.R. BUSWELL:** Correct.

**Mr B.S. WYATT:** For example, in that final year, whether it is a \$60 million operating surplus, there is a \$48 million dividend from ICWA. Will the board be looking at those figures and working backwards as opposed to looking forward at the circumstances of ICWA and making a decision around those?

**Mr T.R. BUSWELL:** No, they will not be. The board understands what is in the forward estimates. Again, we had a brief discussion about this in consideration in detail.

**Mr B.S. WYATT:** A very brief discussion.

**Mr T.R. BUSWELL:** It was, and I indicated at that time that we needed to do some more work around dividend policy. That work is now happening. I expect that the board will have a dividend policy that advises it in any one year on how it will approach the payment, or the recommendation it will make to the government around the dividend. That work is happening. It is my view that the flat application of X-per cent, whether it is 60 or whatever, in any one year is not entirely reflective of the environment that ICWA operates in and so we are doing more work around that.

**Mr B.S. WYATT:** Will that not apply to any of the utilities?

**Mr T.R. BUSWELL:** It applies particularly to ICWA because of the capacity for investment movements and also the movements in the discount rate that applies to the estimated value of future claims, for that to have a dramatic impact in one year in isolation on ICWA's performance. We are having a look at those issues. They have not been resolved yet, but we are working through it.

**Mr B.S. WYATT:** That is interesting, because these are the very issues that the opposition raised about ICWA paying a dividend. In terms of the current account, where a \$63 million payment has been booked, does the Treasurer expect that to be impacted on by this new dividend ratio?

**Mr T.R. BUSWELL:** No, I do not.

**Mr B.S. WYATT:** The ratio is unlikely to be impacted on any time soon?

**Mr T.R. BUSWELL:** The what?

**Mr B.S. WYATT:** The payments—the dividend ratio, the payout of 65 per cent.

**Mr T.R. BUSWELL:** I do not anticipate that it will, but, again, we still have a way to go on signing off on the exact structure of the dividend policy ICWA will adopt. We are working with the board around that. It is entirely appropriate.

**Ms R. SAFFIOTI:** In relation to the dividend issue, the annual report for 2011–12 refers to plans for 2012–13. There is no mention of this new dividend policy. When was ICWA first notified about the new policy? What discussions were had with the Treasurer in respect of it?

**Mr T.R. BUSWELL:** Mr Whithear's advice is that it has been a long-standing issue of discussion between ICWA and Treasury, and that is well known. I think the member for West Swan has referenced previous commentary around this from the former chair, Mr Wright, at some length. From a government point of view, whilst, of course, this decision is something that has been looked at within government, a formal decision of government, in terms of this budget, was crystallised.

[9.40 am]

**Ms R. SAFFIOTI:** I understood that the legislation had started to be drafted in November last year.

**Mr T.R. BUSWELL:** Mr Whithear has advised me that the first time ICWA saw this draft legislation was on 7 May.

**Mr B.S. WYATT:** When we got our briefing from Treasury, one of the points made was that Treasury was not satisfied with the return that ICWA was getting on its assets. My question to the Treasurer, or to Mr Whithear, which was outlined in debate on the bill, is that currently ICWA's prudential guidelines for investment stand at 68 per cent growth and 32 per cent defensive. Presumably that will be reviewed, with a higher allocation to growth assets.

**Mr T.R. BUSWELL:** The very firm advice I have from both the CEO and the chairman of the board is that they do not share that view, and they see no need to alter their current investment strategies on the basis of the legislation.

**Mr B.S. WYATT:** Therefore, do we expect to see compulsory third party insurance premiums rise because, as the Treasurer pointed out, he is unhappy with the return on assets effectively subsidising those premiums?

**Mr T.R. BUSWELL:** Again, the advice I have had from the board is there is no necessary link between the dividend policy or the payment of dividends per se and a rise in premiums.

**Mr W.J. JOHNSTON:** That was not the question.

**Mr T.R. BUSWELL:** Can the member restate the question?

**Mr B.S. WYATT:** Presumably ICWA can have a dividend payout ratio of 90 per cent.

**Mr T.R. BUSWELL:** No; we have to be sensible about this. We all understand that the payment of a dividend will ultimately impact on the rate of growth from retaining funds for investment purposes. Again, the advice I have is that that need not result in increased premiums per se. Clearly, the opposition has a different view about that, but as I pointed out in consideration in detail we are working with ICWA to look at premium rates, such that that part of the business, if I can put it that way, is more sustainable—that is, less dependent on its investment returns. We are looking at some work now to understand how that benchmarks with what other providers deliver. We do not have that yet. Similarly, we are looking at some of those elements in and around RiskCover, because there are some real concerns there, mainly around workers' compensation and how our performance matches up with other providers in industry, in and around not only administrative costs but also claim outcomes. We are doing a bit more work around that as well. It is part of a broader strategy around ICWA's performance generally. A range of other factors can have an impact on profitability and militate against any linkage between payment of a dividend, as members opposite would argue, and a direct impact on premiums.

**Mr W.J. JOHNSTON:** I am not challenging the Treasurer's assumption that the dividend will not increase premiums; that is the Treasurer's view and I will not argue about it. I want to understand what the Treasurer is saying; that is, a policy process is going on that may lead to increased premiums so that the premiums cover a greater percentage of the insurance costs and the profits of the reserves cover a smaller percentage of the insurance. Is that a summary of what the Treasurer is saying?

**Mr T.R. BUSWELL:** Yes. It would be fair to say, and Mr Whithear has just advised me that when he arrived at ICWA just over a year ago now, the business was generating a \$260 million underwriting loss. Even when we net out some of the impacts of having to deal with the changes in allocation for future claims, there is still a view—I must say I tend to share the view—that the business needs to do a little better in covering the cost of operating the core business. One of the issues we have had is that there has been a lot of pressure on claims costs, with issues like wage inflation and the cost of providing care and the like, and perhaps we have not responded appropriately in setting premiums to offset some of those impacts. The member's argument, or the observation he makes, in and around the underwriting business, is accurate.

**Mr W.J. JOHNSTON:** The results of that decision to move more of the costs onto premiums would be to increase the profitability of ICWA.

**Mr T.R. BUSWELL:** Possibly, but none of these decision effects are in isolation of a range of other effects. It may militate against other effects, such as wage impacts, cost of premiums, cost of re-insurance and all of those matters, but I could not definitively say that one will lead to another because of all these other factors—*ceteris paribus*, all else being equal, if that is the term! That is about all I remember from economics.

**Mr B.S. WYATT:** The Treasurer has been reading the contribution of former Treasurer Porter last year, who kept using that term.

**Mr T.R. BUSWELL:** It is not actually a favourite term of mine.

**Mr B.S. WYATT:** The Treasurer is not before the Supreme Court!

**Mr T.R. BUSWELL:** I am not flash on the old Latin! I am only a simple guy from the country.

**Mr B.S. WYATT:** I refer the Treasurer to page 43 of budget paper No 3. The Treasurer will be familiar with this part of the budget, "Summary of general government revenue and expense variations since the 2012–13 pre-election financial projections statement". Page 43 sets out what has impacted on revenue in 2012–13, which includes —

... delays to legislation which prevented an interim dividend collection from the Insurance Commission of Western Australia before 30 June 2013 ...

I do not recall the dividend from ICWA being booked in 2012–13 in the PFPS. Was that actually booked in the pre-election financial projections statements?

**Mr T.R. BUSWELL:** Yes.

**Mr B.S. WYATT:** The Treasurer can do this by way of supplementary information, if he likes, but I have gone through the PFPS and cannot find any reference to the ICWA dividend for 2012–13. Can the Treasurer point me to where that is?

**Mr T.R. BUSWELL:** No, I cannot; I do not have that document in front of me.

**The CHAIRMAN:** Do you want to provide that as supplementary information, Treasurer?

**Mr T.R. BUSWELL:** No.

**Mr B.S. WYATT:** Does not the Treasurer find it curious that revenue of some \$30 million in 2012–13 was booked in the PFPS but not disclosed in the PFPS?

**Mr T.R. BUSWELL:** I am sure that it was. I am just not in a position to detail to the member where it appeared.

**Mr B.S. WYATT:** On that point, the Treasurer said that he booked the revenue in the PFPS from a dividend and Mr Whithear has just told us he first saw this legislation on 7 May; is that correct?

**Mr T.R. BUSWELL:** Is it correct that Mr Whithear advised us the first time he saw the legislation was on 7 May?

**Mr B.S. WYATT:** That is right; but the Treasurer had already booked the revenue—the PFPS cut-off date must have been around early February, from memory—and not disclosed it in the PFPS.

**Mr T.R. BUSWELL:** Again, I will not comment on where it appeared in the PFPS. I would have to go back and look.

**Mr B.S. WYATT:** Could the Treasurer provide us with any information on that, because there is no reference to it?

**Ms R. SAFFIOTI:** When did government make a decision on this dividend? The PFPS only reports government decisions, so on what date did state cabinet decide to have this revenue?

**Mr T.R. BUSWELL:** I am not going to comment on decisions of cabinet.

**Ms R. SAFFIOTI:** It is a government decision, and I think it is relevant to this point. When did government make a decision?

[9.50 am]

**Mr T.R. BUSWELL:** I will get for the member some additional advice around that.

**Mr B.S. WYATT:** Can we get that by way of supplementary?

**Mr T.R. BUSWELL:** Yes.

[*Supplementary Information No B14.*]

**The CHAIRMAN:** What information will the minister be providing by way of supplementary?

**Mr T.R. BUSWELL:** I will provide additional advice to the committee in and around the timings of decisions associated with the payment of a dividend by ICWA and when that was booked in the PFPS.

**Ms R. SAFFIOTI:** When did ICWA know of the government's decision? Was it on 7 May or was it when it was shown the PFPS?

**Mr B.S. WYATT:** The first time the legislation was seen was 7 May.

**Mr T.R. BUSWELL:** Again, the advice from ICWA is that this had been a matter of toing and froing.

**Ms R. SAFFIOTI:** Sure. But this is a government decision. We are moving from people raising the issue to a government decision that was booked in the PFPS and that was not communicated either through the PFPS or through you as minister. So when did ICWA know that the government had made a decision to book the revenue?

**Mr T.R. BUSWELL:** I am not in a position to confirm with the member when it appeared in the PFPS. I have given an undertaking to provide that information to the member. What I do know, as I have been advised by Mr Whithear, is that ICWA was provided with a draft copy of the legislation in May. I will provide, as I have indicated, a more detailed response around the timings. I am not going to provide that now. I will need time to go back and research that so that I can provide the information to the member accurately.

**Mr B.S. WYATT:** I presume that at some point ICWA was advised, regardless of the fact that it did not see the legislation until 7 May, that it would have to pay in 2012–13 a dividend to government, as opposed to the toing and froing?

**Mr T.R. BUSWELL:** There has been toing and froing between ICWA and the Department of Treasury on this issue for a number of years. ICWA received a copy of the draft legislation in May, and I will provide more detail around that timing issue for the member by way of supplementary information.

**Ms R. SAFFIOTI:** Can the minister also by way of supplementary information show us, in both the budget year 2013–14 and the forward estimates, the total amount booked at the PFPS for the dividend?

**Mr T.R. BUSWELL:** I do not see why not.

**Mr B.S. WYATT:** Presumably you had the forward estimates for dividends in the PFPS.

**Mr T.R. BUSWELL:** I assume so, yes. In budget paper No 3, the dot point to which the member referred simply refers to the Labor legislation that prevented an interim dividend. The member is right. It does not give the quantum.

**The CHAIRMAN:** Is the minister going to provide that as a supplementary?

**Mr T.R. BUSWELL:** Yes.

**Mr B.S. WYATT:** Can the minister also provide the forward estimates assumptions in the PFPS?

**Mr T.R. BUSWELL:** I am assuming it would be similar to what is in the budget papers. However, I will provide that as supplementary information.

*[Supplementary Information No B15.]*

**The CHAIRMAN:** Can the minister please clarify what he will be providing by way of supplementary information?

**Mr T.R. BUSWELL:** The information I will be providing by way of supplementary information B15 will be the amounts embedded, if that is the correct term—incorporated is probably a better term—in the PFPS that represent the dividend payments that are anticipated to be collected over 2012–13 and subsequent years in the PFPS from the Insurance Commission of Western Australia.

**Mr B.S. WYATT:** I refer to page 73 of budget paper No 3 and the heading, “Other Contingent Assets and Liabilities”. Under the subheading “Bell Group Litigation” —

**Mr T.R. BUSWELL:** I thought you might have got onto this a bit earlier!

**Mr B.S. WYATT:** Under that heading, it states —

The current status of the Bell litigation suggests that other material contingent assets may accrue to the Insurance Commission.

What are those other material contingent assets that may accrue?

**Mr T.R. BUSWELL:** It is the potential return from Bell Group.

**Mr B.S. WYATT:** So there is nothing beyond what we are expecting in the way of any potential return?

**Mr T.R. BUSWELL:** No. But can I say that media reports of a windfall gain in the near future are significantly optimistic; that is probably the best way I can put it. There has been some progress, as reported of late, in and around some sensitive discussions around what I will call the size of the pie. The size of the pie is yet to be confirmed. There is also still a whole range of discussions to be had around how we divide up the pie. It is an ongoing process, unfortunately.

**Mr B.S. WYATT:** I have a question in respect of the solvency ratio, which I think has been reduced to 127 per cent of the fund. Is there any intention by government to reduce that further from 127 per cent?

**Mr T.R. BUSWELL:** No.

**Ms R. SAFFIOTI:** Can the minister provide an explanation of why our compulsory third party premiums in this state are lower than those in other states?

**Mr T.R. BUSWELL:** I will ask Mr Whithear to share his views on that with us.

**Mr R. Whithear:** There is a range of reasons. One very significant reason is that Queensland and New South Wales have commercial providers of CTP insurance, and some of those are incurring costs of 20 per cent to 30 per cent in advertising as they compete for market share. We do not need to incur those quite significant costs. Also, as I think the Parliament noted when it was debating this legislation, there are differences between schemes, and that leads to a difference in the level of payouts. Having I guess delved into the insurance commission’s operations over the past year, I can say that the scheme has been fairly stable and has not changed a lot, and that has made it a mature scheme that can be operated quite efficiently. We also do not incur the same levels of legal costs. The New South Wales government is going through quite a process of trying to streamline the costs incurred on that front. The South Australian government has also issued a green paper and white paper process as it looks to amend its scheme, under which it is paying out a lot of money in small \$2 000 whiplash claims, and that all adds up. So the South Australian government is looking to amend its scheme to make it a bit more like ours with caps and thresholds for the benefits that are paid to people. That is a quick list of the things that I think contribute to that difference.

**The CHAIRMAN:** This completes the examination.

[10.00 am]