

ANNUAL REPORT 2001

Insurance Commission of Western Australia

PROFILE OF RESPONSIBILITIES

The Insurance Commission exists pursuant to and operates in accordance with the *Insurance Commission of Western Australia Act 1986*. The Minister responsible for the Insurance Commission is the Hon Nick Griffiths LLB MLC, Minister for Government Enterprises. There are two specific Insurance Divisions within the Insurance Commission;

- The Motor Vehicle Personal Injury Division, which manages the Compulsory Motor Vehicle Third Party (Personal Injury) Insurance Scheme in Western Australia.
- The RiskCover Division, which manages not only the self-insurance arrangements of Western Australian Government Public Authorities but also a number of smaller Funds. Earlier in the year the former Industrial Diseases Division was incorporated, as a team, into the RiskCover Division.

Each Division has its own dedicated Fund(s) and is supported by six Service Divisions: investments, finance, human resources, information technology, special investigations and the commission executive.

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

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

CONTACT DETAILS

The Insurance Commission of Western Australia
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Vision Statement

We will be renowned for providing excellence in Community Insurance and Risk Management.

Mission Statement

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.

Value Statement

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 community important purposes and uncompromising business ethics.

STATEMENT OF COMPLIANCE


Photo

The Hon Nick Griffiths LLB MLC
Minister for Government Enterprises

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 2001.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and any other relevant written law.


M E WRIGHT
CHAIRMAN
29 August 2001


V EVANS
MANAGING DIRECTOR
29 August 2001

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia, passed on 29 August 2001.

CONTENTS**ORGANISATION**

Profile of Responsibilities
Vision, Mission and Value Statements
Statement of Compliance
Financial History
Chairman and Managing Director's Joint Review
Results, Highlights and Achievements
Strategic Planning - 2001/2002 - Looking Ahead
Customer Service

REVIEW OF INSURANCE OPERATIONS***BUSINESS***

Motor Vehicle Third Party (Personal Injury) Division
RiskCover Division

COMMUNITY

Road Safety
Sponsorships

PEOPLE

Our People

BUSINESS SUPPORT

Investments
Information Technology
Finance
Special Investigations

CORPORATE GOVERNANCE

Corporate Governance Statement
Organisational Chart
Board of Commissioners
Executive Members
Publications
Additional Information
Annual Estimates 2001/2002

FINANCIAL STATEMENTS

Financial Statements Index
Statement by Members of the Board and Principal Accounting Officer
Opinion of the Auditor General
Financial Statements

PERFORMANCE INDICATORS

Certificate of Performance Indicators
Opinion of the Auditor General
Performance Indicators

APPENDICES

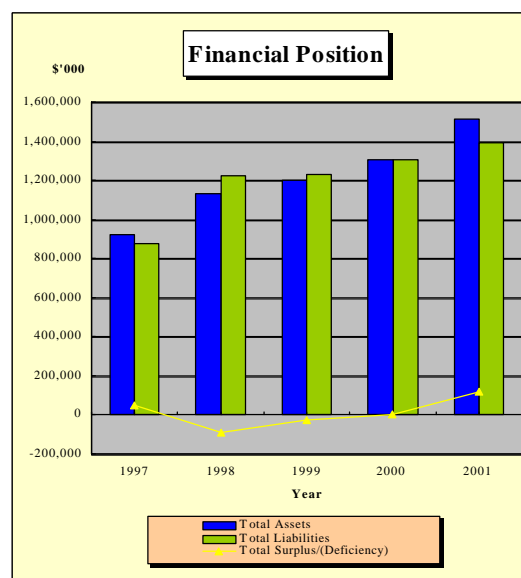
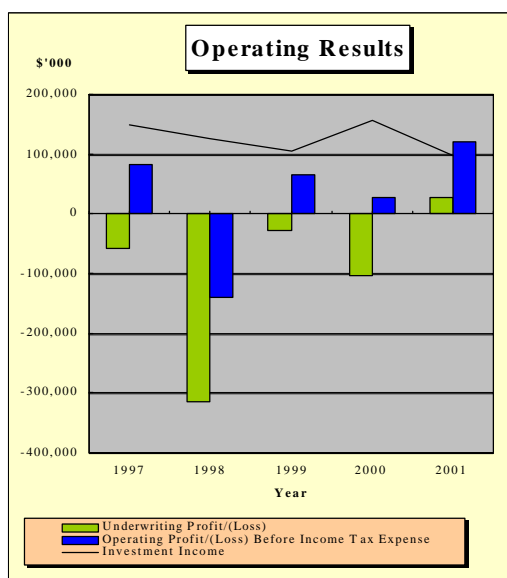
Glossary
Index

FINANCIAL HISTORY

	2001	2000	1999	1998	1997
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Operating Statement					
Net Earned Premium	289,572	275,211	267,047	242,174	279,891
Claims Incurred	(243,287)	(343,298)	(265,373)	(530,566)	(324,100)
Reinsurance and Other Recoveries Revenue	22,800	1,837	12,998	11,263	15,458
Net Claims Incurred	(220,487)	(341,461)	(252,375)	(519,303)	(308,642)
Underwriting and Administration Expenses	(42,117)	(37,798)	(42,628)	(37,203)	(28,709)
Underwriting Profit/(Loss)	26,968	(104,048)	(27,956)	(314,332)	(57,460)
Investment Income	97,384	155,888	104,540	125,305	148,303
Investment Expense	(25,457)	(27,302)	(21,135)	(16,627)	(10,880)
Other Income	20,926	6,556	11,499	66,396	2,709
Other Expenses	(98)	(4,581)	(832)	(154)	(150)
Operating Profit/(Loss) Before Income Tax Expense	119,723	26,513	66,116	(139,412)	82,522

Statement of Financial Position

Investments	1,217,255	1,147,845	1,023,746	923,544	868,836
Other Assets	294,000	155,201	177,863	205,755	53,157
Total Assets	1,511,255	1,303,046	1,201,609	1,129,299	921,993
Outstanding Claims	1,241,838	1,143,667	1,084,865	1,089,780	752,196
Unearned Premiums	113,592	117,387	113,171	103,807	92,709
Other	35,893	41,783	29,877	28,132	30,096
Total Liabilities	1,391,323	1,302,837	1,227,913	1,221,719	875,001
Net Assets/(Liabilities)	119,932	209	(26,304)	(92,420)	46,992
Reserves	12,816	10,535	7,542	6,060	4,985
Accumulated (Loss)/Profit	107,116	(10,326)	(33,846)	(98,480)	42,007
Total Surplus/(Deficiency)	119,932	209	(26,304)	(92,420)	46,992



CHAIRMAN AND MANAGING DIRECTOR'S JOINT REVIEW

The consolidated financial statements of the Insurance Commission for the 2000/2001 financial year show an operating profit of \$119.7 million (2000 - \$26.5 million) and a surplus of assets over liabilities of \$119.9 million at year end (2000 - \$0.2 million)

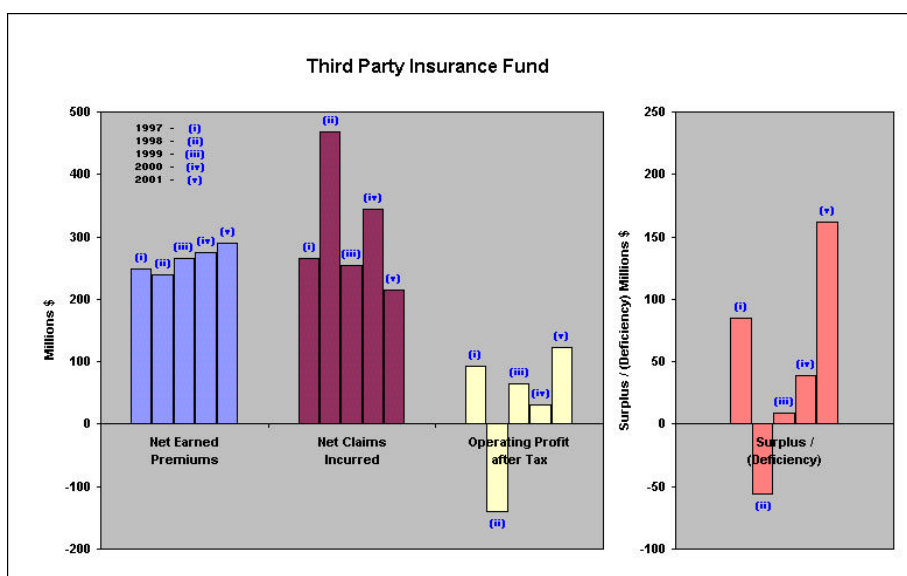
The Third Party Insurance Fund ended the year with an after tax operating profit of \$122.5 million (2000 - \$30.0 million) and a surplus of assets over liabilities of \$161.7 million (2000 - \$39.2 million).

The result in the Third Party Insurance Fund was achieved through a continuation of the pleasing trend in reduced claims frequency and a slowing in the rate of increase in the average value of claims payments. This lifted the Fund's solvency margin to 114% (2000 - 103%) moving it closer to its targeted margin of 115%.

The Insurance Commission is not regulated by the Australian Prudential Regulation Authority (APRA), but seeks to comply with APRA's minimum solvency ratio for private sector insurers, which is expected to increase to the order of 120% to 125% in the coming year. Given the inherent uncertainty in predicting future claim frequency trends, claims costs, inflation rates and investment returns, the increased solvency margin is designed to assist in stabilising premiums. A balanced approach to solvency is applied by the Insurance Commission in the premium setting process to ensure the long term financial stability of the Third Party Insurance Fund without placing an unnecessary burden on policyholders.

Road Safety and Fraud Prevention initiatives funded by the Insurance Commission are also recognised as contributing to the Third Party Insurance Fund's ongoing financial improvement.

Western Australia's Third Party Insurance premium for a family motor car remains the lowest in Australia.



RiskCover is now in its fourth year of operation under the management of the Insurance Commission. This year the financial statements for RiskCover reflect an operating deficit of \$3.3 million (2000 - \$13.2 million surplus). Higher claims costs in the property and liability classes and lower investment returns are the main contributing factors to RiskCover's operating deficit this year.

Total assets of the Insurance Commission at the end of the financial year stood at \$1,511.3 million. The figure of \$1,511.3 million is net of RiskCover's share of the Insurance Commission's investment pool totalling \$179.3 million, and does not include any amount in relation to the Insurance Commission's investments in Bell Group (\$150 million plus interest) and Southern Equities Corporation Ltd, (formerly Bond Corporation Holdings) ("SECL") of \$201 million which have no carrying value in its books

While the investment return for the year of 6.7% (2000 – 10.9%) was disappointing, the rate was achieved in the face of considerable volatility in capital markets worldwide. The investment pool is prudently diversified and consists of quality assets selected and managed on a conservative basis for the long term. Over the past five years the Insurance Commission's investment return has exceeded the Performance Benchmark by 0.9%.

In its capacity as an indemnifying creditor, the Insurance Commission, continues to fund the liquidators of a number of Bell Group companies in the pursuit of their claims against a syndicate of banks led by Westpac and Lloyds Bank of London. Insurance arrangements are in place to cover ongoing expense of pursuing these claims and the Insurance Commission has no material balance sheet exposure to the outcome of the Bell litigation.

The Insurance Commission has also fulfilled its funding obligations to the liquidator of SECL in respect of recovery action taken in that administration.

The Board of Commissioners of the Insurance Commission remains confident that significant monies will be recouped by the Insurance Commission from the funding of these liquidations.

Risk Management continues to be a major focus for RiskCover and the Insurance Commission as a whole. The organisation continues to identify and manage risk at a strategic, operational and project level. It also seeks to promote and encourage the practice of prudential risk management throughout government.

An active and participative role is taken by the Insurance Commission in numerous community initiatives relevant to its operations. During the year, funding of approximately \$2.7 million was provided to sponsor Road Safety Council programmes in an effort to curb the road toll and reduce the incidence and severity of personal injury.

Looking ahead, the Insurance Commission has developed a dynamic three year business strategy, including a business plan for the 2001/2002 financial year, using the 'Balanced Scorecard' approach. Development of the Strategic Plan has been a process of participation, with all employees given the opportunity to provide input. This strategy reflects a way forward that has been shaped by the organisation as a whole.

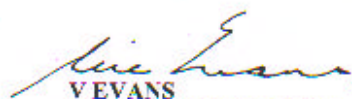
In February 2001, the Insurance Commission saw a change of responsible Minister, with The Hon Nick Griffiths LLB MLC, Minister for Government Enterprises, replacing The Hon Graham Kierath MLA, Minister Assisting the Treasurer. We thank both Ministers for their support and guidance during the year.

Our staff's ongoing dedication to their responsibilities, coupled with their strong belief in the purpose and mission of the Insurance Commission is greatly appreciated and has contributed to the delivery of further productivity gains. Their commitment and loyalty ensures that the Insurance Commission's objectives are achieved in a timely manner.

Our fellow Board members, management and staff remain focused on combining our collective strengths to achieve excellence in the provision of community insurance and risk management.



M E WRIGHT
CHAIRMAN



V EVANS
MANAGING DIRECTOR

RESULTS, HIGHLIGHTS AND ACHIEVEMENTS

Financial

- A consolidated operating profit, before tax, of \$119.7 million
- An increase in the consolidated surplus from \$0.2 million at 30 June 2000 to \$119.9 million at 30 June 2001
- The investment return for the year was 6.7%, lower than the average return of 11.7% over the past 5 years however, a reasonable result when compared to the performance benchmark return of 5.5% for the year.
- A net surplus of \$161.7 million in the Third Party Insurance Fund.
- An operating deficit of \$3.3 million in the RiskCover Managed Fund.
- A consolidated net cash inflow from operating activities of \$42.5 million.
- An increase of \$3.4 million (1.2%) in premium revenue.
- Western Australia's third party insurance premium for a family motor car remains the lowest in Australia.

Operational

- A second employee perception survey was conducted across the entire Organisation.
- Implementation of the Workflow and Imaging Project in the Motor Vehicle Personal Injury (MVPI) Division to increase productivity and improve customer service.
- Continued review and amendments to systems and processes to reflect several changes to GST legislation made by the Government after 1 July 2000. Independent reviews report no material risks or deficiencies found.
- RiskCover continues to develop integrated service plans, including needs analysis, service planning, client profiling, a service agreement and a service calendar for each client.
- RiskCover claim forms made available on-line. Claims can be lodged via the web page and the progress of claims can also be monitored by each agency.
- A second annual Government Risk Management Conference was held on 26 July 2000 with over 250 delegates in attendance.
- With the HIH Group of Companies being placed into provisional liquidation, the Supplementation Fund was activated resulting in the Insurance Commission taking over the responsibility for paying workers' compensation claims made against policies issued by HIH (where the insured event is up to and including 14 March 2001)
- The 2000 Annual Report was awarded two certificates by the Lonnie Award Panel of the Western Australian chapter of the Institute of Public Administration, a Bronze Certificate, for Distinguished Achievement in Accountability through Annual Reporting and the auditor General's Commendation for Transparency and Accountability in Financial Reporting.

Community

- In an effort to lower the number of new claims and reduce the incidence of road trauma, the Insurance Commission contributed approximately \$2.7 million to sponsor road safety awareness and accident prevention programmes . Programmes included public education campaigns and regional forums throughout the State.
- The Insurance Commission provides ongoing funding for research into mesothelioma, an asbestos-related disease, bringing the total amount paid to more than \$1.8 million.

STRATEGIC PLANNING 2001/2002 – LOOKING AHEAD

The 2001/2002 Balanced Business Plan and Budgets for the Insurance Commission's Business and Service Divisions are based upon the outcomes of a series of planning sessions and workshops. These workshops focused on the development of the Insurance Commission's three year business strategy as well as a business plan for the upcoming financial year using the 'Balanced Scorecard' approach. This year a process of participation was adopted, with all employees given the opportunity to provide input. The final strategy reflects a way forward that has been shaped by the organisation as a whole.

The Balanced Scorecard approach comprises a set of measures that give managers a more comprehensive view of the business. The Scorecard includes financial measures that show the results of actions already taken and compliments these measures with operational measures such as customer satisfaction, business processes and the organisation's innovation and improvement activities, which are drivers of future financial performance.

We believe that this approach to our planning will ensure that we can identify what our strategies are and how we will put these strategies into action. Some early benefits that have already been realised include:

- Alignment of divisional and support plans to the organisational strategy
- Improved communication of the strategy throughout the organisation
- Commitment of employees to both the divisional and organisational plans due to increased involvement
- Transparency of the Process - ability to measure and monitor progress through the Balanced Scorecard
- Integrate, reinforce and coordinate other initiatives and build on the good work already completed

As a result of a comprehensive environmental analysis, together with a thorough risk assessment, the following Balanced Plan outlines the Insurance Commission's key goals for the next three years.

**Insurance Commission of Western Australia
Balanced Business Plan 2001-2004**

Our Vision

We will be renowned for provided excellence in Community Insurance and Risk Management

Our Mission : To achieve best practice in

- Providing Insurance for both Motor Vehicle Personal Injury and Industrial Disease 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

To reach our vision, we must achieve these key goals and targets

Customers	People	Business Processes	Financial
Continually improve the quality of customer service Provide innovative, cost effective services and products to meet customer needs.	Be recognised as an employer of choice Help our people grow to achieve their best Have the right people in the right place at the right time	Develop and maintain processes and systems to support business requirements based on customer needs Ensure the processes and systems we deliver are in a user friendly format	Achieve and maintain a prudential level of net assets Meet key financial indicators

These key strategies and initiatives will enable us to achieve the above goals

Partnering with key stakeholders Road safety	Reward and recognition plan Implement diversity plan Implement strategic employee development plan Analyse and act on annual employee perception survey	Implement IT&S plan	Review accounting of Funds in run-off
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Progress against the measures, targets and initiatives will be monitored on a quarterly basis via a Balanced Scorecard. Through the use of a simple traffic light system the scorecards will immediately highlight those measures and strategies that are on track and those requiring further review or action.

CUSTOMER SERVICE

About Our Customers, the people we serve

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

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 Government agency which makes a claim for compensation or damages through the Insurance Commission.

Government Clients

Our Government clients include a range of State Government departments, authorities and instrumentalities. 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 Vision and Values

Communication

We will communicate openly with our customers and strive to ensure that they receive concise, clear, accurate and understandable advice.

Responsiveness

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

Respect for individuals

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

Accountability

We accept responsibility for our actions in delivering the highest standards of service to our customers. We will make known to our customers the levels of service we will deliver and ensure that they are met. Any will be 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 criticism and feedback. We are building a learning environment where employees are supported in their development and encouraged to seek and accept new responsibilities.

Customer complaints and compliments

The Insurance Commission continues to maintain the highest standards of service in its dealings with all customers. During the year a Customer Complaints Handling Policy and Procedure was implemented across the organisation with training being provided to all business division employees.

The purpose of this policy is to provide an efficient, fair and accessible formal framework for resolving customer complaints and a way of determining trends and identifying priorities for continuous improvement.

As the Insurance Commission operates in an adversarial system, our employees, on occasions, may be subject to offensive language or behaviour. To assist employees in these circumstances, the policy contains guidelines for dealing with emotional clients and other difficult situations. A peer support group has also been established to provide employees with support and a forum to 'debrief' following a stressful work situation.

Over the course of the financial year 15 letters of complaint have been formally received by the Managing Director. The majority of complaints relate to day to day operational claims matters, involving individual claims matters. It was pleasing to note that 13 letters were received complimenting the services provided by our employees. This is an excellent result in light of the adversarial system under which the Insurance Commission operates.

A further 60 ministerial letters of inquiry were referred to the Insurance Commission. Of these, 23 letters related to individual claims matters, 10 related to the MVPI Division's policy for payment of physiotherapy treatment and 15 related to legislative issues, (such as the feasibility of introducing both a no-fault scheme and a compulsory third party property damage insurance scheme in Western Australia and issues relating to the threshold legislation).

REVIEW OF INSURANCE OPERATIONS**BUSINESS**

MOTOR VEHICLE THIRD PARTY INSURANCE

The Insurance Commission is the sole provider of motor vehicle personal injury insurance (commonly referred to as third party insurance) in Western Australia.

It is compulsory for the owners of approximately 1.7 million motor vehicles on register to be insured against liability in respect of death or bodily injury caused by the negligent driving of their vehicle. An unlimited indemnity policy of insurance is combined with every Western Australian motor vehicle licence, with the premium being collected by Transport and their agents.

The relevant legislation is the *Motor Vehicle (Third Party Insurance) Act 1943* with administration of this Act being the responsibility of the Motor Vehicle Personal Injury Division within the Insurance Commission. 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 owner/driver for injuries received as a result of their own negligence. The policy insures the owner/driver of the motor vehicle against all liability for personal bodily injury claims made against them. It should be noted that 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 deliver the following:

- < the lowest premiums in Australia for a family motor car (**Diagram 1**);
- < benefits to claimants equivalent to, or better than, those provided by alternative schemes throughout the other States of Australia;
- < administratively cost efficient when compared to alternative schemes in other States of Australia; and
- < a Third Party Insurance Fund which is fully funded (after applying a commercially prudent 80% level of confidence to the Outstanding Claims Liabilities).

Pricing policy

To comply with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission must make an assessment of premium income necessary to meet the claims and administration costs arising in the following year, after an independent actuarial report has been procured and considered. The assessment must take into account the accumulated surplus or deficit which is expected to exist at the commencement of the following financial year. Following this process, the Board makes a recommendation to the Minister for Government Enterprises. (For the schedule of premiums refer to the Government Gazette 27 April 2001, reference IA401 on page 2217).

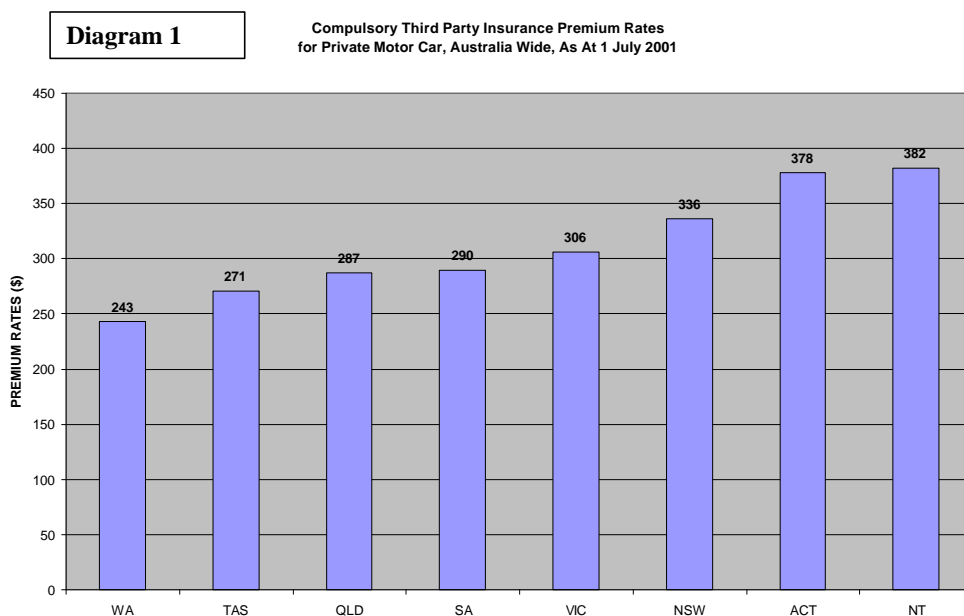
Premiums

In April 2001 the Minister approved a 3.6% increase to the Third Party Insurance premium pool effective from 1 July 2001. For the first time since 1998, the Actuary was instructed to conduct a premium relativities review, whereby the annual premium income for each class of vehicle was compared to its respective claims experience over the previous nine year period. This process was undertaken to ensure that particular classes were not being cross subsidised by others.

As a consequence, 80% of motor vehicles on register, (including Class 1A - sedans and station wagons, comprising 58% of the total number of registered vehicles) had premium increases of only 2% at 1 July 2001.

Class 3(e), being public transport buses operating within the metropolitan area, has been rewarded with a premium reduction, reflecting its improved claims experience.

A deteriorating claims experience has resulted in five classes of vehicles, (consisting of goods vehicles such as utilities, vans and trucks including tow trucks, school buses, fork lifts tractors) being subjected to varying higher increases in premiums.



Third Party Insurance Fund

The net assets of the Third Party Insurance Fund were \$161.7 million at 30 June 2001, compared to \$39.2 million the previous year. This improvement has resulted from a continuation of the reducing trend in claims frequency (which is expected to plateau) combined with favourable variations in relation to the economic assumptions underlying the Actuary's assessment of the Fund's outstanding claims liabilities at 30 June 2001. A

reduction in the net provision for outstanding claims of \$21.4 million in the year to 30 June 2001 has occurred, compared with a budgeted increase of \$77.6 million.

Based on past claims experience, the Actuary has forecast that the cost of current claims is likely to continue to rise at a rate in excess of wage inflation as those claims reach settlement in future years. When combined with the fact that the premium rate for 2000/2001 (excluding GST) actually fell by approximately 2.3%, this year's result is an excellent achievement.

By way of background, the number of claims lodged in 2000/2001 totalled 5,397, a decrease of 327 on 1999/2000. This reduction is a very pleasing result given that the number of vehicles on register increased by 1.8% over the year. As can be seen in **Diagram 2**, there has been a sustained reduction in the number of claims lodged since 1992/1993, the year before the threshold legislation came into effect.

On the issue of thresholds and caps, effective from 1 July 2001, the threshold increased from \$11,000 to \$11,500 and the cap from \$225,000 to \$232,000. The threshold and cap do not apply to out of pocket expenses, such as medical and hospital expenses, past and future loss of earnings, the cost of paid care, travelling, medication, treatment, aids and appliances.

The Claims Frequency Rate reduced further during 2000/2001. This excellent result can be attributed in part to the threshold legislation, road safety programmes and fraud prevention initiatives. **Diagram 2** shows that the Claim Frequency Rate has been steadily reducing since 1992/1993 with the exception of 1999/2000 where there was a slight increase.

The Insurance Commission's ongoing funding of road safety programmes seeks to maintain this downward trend.

Diagram 2

Year	Number of Claims	Number of Registered Vehicles	Claims Frequency Rate*
2000/2001	5,397	1,721,548	0.31%
1999/2000	5,724	1,691,250	0.34%
1998/1999	5,558	1,669,827	0.33%
1997/1998	5,912	1,623,902	0.36%
1996/1997	5,810	1,554,843	0.37%
1995/1996	6,709	1,505,602	0.45%
1994/1995	6,867	1,460,826	0.47%
1993/1994	7,235	1,421,478	0.51%
1992/1993	10,254	1,384,709	0.74%

* Claims Frequency Rate is the percentage of claims to the number of registered vehicles

At 30 June 2001, the number of outstanding active claims stood at 9,570 (9,282 at 30 June 2000) after deducting a further 19 finalised claims awaiting clearance from the Health Insurance Commission. This is the first time since 1996, that there has been an increase in the number of outstanding claims from the previous year, primarily due to the number of claims finalised being less than expected. This reduction in productivity was mainly caused by problems associated with the implementation of the Workflow/Imaging project.

Informal settlement negotiation conferences, which focus mainly on claims at the lower end of the injuries scale, increased from 1,660 in 1999/2000 to 1,937 in 2000/2001. By striving to promote to all relevant parties the benefits of pursuing settlements by negotiation rather than litigation, unnecessary legal expenses are avoided.

In accordance with Section 45(3)(b) of the *Financial Administration & Audit Act 1985*, the Minister and the Board approved debt write-offs totalling \$8.3 million and \$1.4 million respectively for the 2000/2001 financial year. These debts were created by the Insurance Commission as a result of it meeting its statutory obligations to pay the claims of innocent crash victims, notwithstanding breaches by owners/drivers. These debts were not initially brought to account as revenue as they could not be reliably measured and consequently their subsequent write-off has not been charged as an expense. The debt write-offs are net of recoveries received from negligent owners/drivers which totalled \$233,000 for the 2000/2001 financial year (2000 - \$411,000). The only loss to the Insurance Commission is the non-payment of premiums by uninsured motor vehicle owners, the total of which is estimated at only \$3,475 for the year, which is more than offset by the \$233,000 in recoveries.

Innovations

Workflow/Imaging Project

The implementation of Workflow/Imaging technology has been a major challenge for the Division during the year.

Workflow is an automated system designed to ensure that all actions required to deal with a business event are taken in a timely and effective manner. Workflow tracks the progress of prescribed actions against predetermined business rules and provides management alerts to processes that are not running to standard. The document imaging component allows electronically scanned images of documents to be viewed on computer terminals and moved inside and outside the organisation thereby eliminating the cost of physical paper handling.

Workflow/Imaging technology was introduced within the MVPI Division in November 2000, with a "*pilot*" programme involving a sample group of employees. Following the successful completion of this "*pilot*", the new technology was implemented on a team by team basis from January through to April 2001.

Midway through the implementation process, problems with the technology emerged. These unexpected problems, combined with the enormous cultural change in the way the work is presented and moved throughout the Division, resulted in productivity losses during the last quarter of 2000/2001. Notably, claim finalisations were well short of target over this period.

Extensive staff training and the provision of dedicated Workflow Support Officers has greatly assisted all employees through this period of change. The commitment and efforts of all MVPI employees is acknowledged.

The Claims Teams are now adapting to the new environment and the benefits of this new technology are expected to be realised by the second quarter of 2001/2002.

Whilst there are still some outstanding issues to be finalised, with the provider of the technology, the Division is now fully operational in a Workflow/Imaging environment. The original plan had been to gradually build and tailor the Workflow System to meet business requirements over a three year period within an overall budget of \$4.3 million. In reality, the majority of work has been condensed into 2000/2001 at a total cost to date of \$3.1 million.

It is envisaged that the project will be completed during 2001/2002 at a cost well under the original budget. This is a credit to the Project Team, all MVPI Division employees and the Information Technology Division employees involved.

Future directions

- < Develop and enhance the Workflow/Imaging Technology in order to improve the claims management process, productivity and customer service.
- < Continue efforts, in collaboration with the Department Transport, to develop a shared (information technology) environment to provide timely and accurate details of relevant statistical data and premium collection.
- < Continue to work with the Actuary to determine how their model for evaluating outstanding claims liabilities might be more responsive to claims experiences, thereby enabling corrective strategies to be developed in a timely manner.
- < Monitor Third Party Personal Injury Insurance Schemes throughout the World to ensure best practice for all Western Australian motor vehicle owners.
- < Continue to support road safety programmes aimed at preventing crashes that result in personal injury or death.
- < In conjunction with our Eastern States counterparts, continue to lobby the Federal Treasury to make the existing Compulsory Third Party GST transitional arrangements permanent.

RISKCOVER

The RiskCover Division's primary function is to manage the RiskCover Managed Fund. The RiskCover Managed Fund was created to administer the self-insurance arrangements of Western Australian Government Public Authorities (agencies) and to promote risk management practise throughout Government. The Fund assists the Government to manage and finance exposure to risk through the integration of risk management, claims management, self-retention and reinsurance services.

The Division also administers a number of smaller funds including the Compensation (Industrial Diseases) Fund, which provides workers' compensation insurance to the mining industry for specified industrial diseases and manages claims relating to the Employer's Indemnity Supplementation Fund, which provides cover for workers' compensation claims lodged against insurance companies which go into liquidation.

Currently the Division is responsible for the administration and payment of claims made under the *Employers' Indemnity Supplementation Fund Act 1980* which relate to the recent collapse of HIH Group of Companies.

These functions are performed in accordance with the relevant sections of the *Insurance Commission of Western Australia Act 1986*, *Workers' Compensation and Rehabilitation Act 1981*, *Water Front Workers' (Compensation for Asbestos Related Diseases) Act 1986* and *Employers' Indemnity Supplementation Fund Act 1980*.

RiskCover Fund

The Insurance Commission has recently been reappointed by Treasury to manage the RiskCover Fund until June 2005.

In administering the RiskCover Fund the RiskCover Division continues to deliver the following:

- Ensuring agencies have extensive cover, with few of the exclusions commonly found in standard insurance contracts.
- Administratively cost efficient when compared to other funding methods.
- Consistent systematic approach to risk management across Government.
- Greater consistency in claims management.
- Maximum buying power in reinsurance markets.

Pricing Policy

The objective of the Fund Contribution setting process is to collect contributions from each of the agencies which will fully fund liabilities estimated on a central estimate (for example, no funding for a prudential margin above a 50% probability factor), whilst achieving a balance between:

- equitable Fund Contributions for all agencies;
- minimum cross-subsidisation between agencies;
- protection for all agencies against major surprises; and incentives for risk management.

RiskCover Fund Management

The Fund had an operating deficit of \$3.3 million for the 2000/2001 financial year, this compares to an operating surplus of \$13.2 million for 1999/2000. The operating surplus for 1999/2000 was primarily due to a change of accounting policy in respect of the provision for Outstanding Claims, and as such was a one-off adjustment.

Higher claims costs in the property and liability classes, and lower investment returns are the main contributing factors for this year's result.

Each year in September, RiskCover provides agencies with Indicative Performance Adjustments in respect of the Workers' Compensation and Motor Vehicle classes for each unclosed cover year. These adjustments which reflect claims experience, enable agencies to include the forecast result into their budgets for the forthcoming year.

Performance adjustments for the cover periods closing at 30 June 2001, saw some agencies receiving a refund and other agencies contributing additional funds. These adjustments have been incorporated into the 2001/2002 renewals.

For the Workers' Compensation class, 1997/1998 cover year, there was a net call-up of additional funds totalling \$1.0 million. This was comprised of 68 agencies contributing an additional \$9.8 million, and 113 agencies receiving refunds totalling \$8.8 million.

In respect of the Motor Vehicle class, 1999/2000 cover year, there was a net refund of \$1.2 million, comprised of 59 agencies contributing an additional \$0.4 million and 67 agencies receiving refunds totalling \$1.6 million.

RiskCover reports to agencies on a quarterly basis by providing details of claim payments and estimates of outstanding claims costs for all classes, so that their individual performance can be tracked progressively. Some of the larger agencies with a higher volume of claims, receive this type of information on a monthly basis.

Risk Management

Over the past twelve months, the practice of risk management within Government has developed rapidly. Currently 80% of agencies are reporting that they are implementing and practicing risk management, with more than 100 agencies utilising the services provided by the Division's Risk Management Team. Some of the services provided to agencies have included:

- development of risk management implementation strategies
- facilitation of risk identification and treatment workshops
- site risk reviews
- training and awareness

The type of risk reviews being undertaken with agencies has also changed. The nature of the risk is now more focused on the broader business risks, with the more traditional risk types being subsets of the business risks. Most agencies are now identifying and managing risks at three levels:

1. strategic (inclusion of strategic risk assessment in the strategic planning process)
2. operational
3. project (inclusion of a formal risk assessment in the project planning process)

This year RiskCover has launched some new initiatives including:

- RiskBase - an electronic risk register which incorporates all of the elements of risk management into one simple database. This enables agencies to capture details of risks, including the consequence and likelihood of risk, details on existing controls, controls assurance and treatment plans. The reporting element provides a very useful tool for the ongoing management of identified risks.
- Injury Management Co-ordinator Training – throughout the year, four workshops (covering basic training in injury prevention, workplace injury management and claims management) were held.
- A Risk Management Briefings Schedule was developed, which provided agencies with the opportunity to attend a series of briefings on current risk management topics including:
 - professional services and advice
 - project risk management
 - business continuity planning and
 - contract risks

RiskCover has continued to support existing initiatives developed in previous years, including the annual risk management conference and Government Risk Management (GRM) magazine. The positive feedback confirms that both of these initiatives are considered valuable and remain effective tools for raising agencies' awareness of particular risk issues and providing simple solutions.

The Division continues to provide agencies with assistance and guidance specific to their needs. Risk management is not a 'one size fits all' solution and we are cognisant of the fact that specific issues require specific treatments. Although a common approach is used across government, solutions are specifically tailored for each agency.

Client Service

RiskCover is committed to providing excellence in customer service and relationship management. Each year an independent survey is conducted to ensure we are meeting the needs of our customer by providing a valuable service. The survey also assists in identifying areas for improvement or the demand for a new product or service not already being provided. It is pleasing to note the excellent results of this year's survey, with agencies once again reporting a high level of satisfaction with RiskCover's performance.

Of the agencies responding to the survey, 55% rated RiskCover's performance as 'very good' and 'excellent', compared to 48% for the same measure last year. The comparative rating for large and medium agencies was 48%, down from 54% last year, and for small agencies 61%, up from 44% last year. The overall rating of RiskCover's performance for 'good' and above, was 92% compared to 85% last year.

In response to enquires from agencies, two new products developed by RiskCover, were introduced this year, being Employment Practices Liability cover and an enhanced Directors' and Officers' Liability insurance facility, both of which are underwritten by private sector insurers.

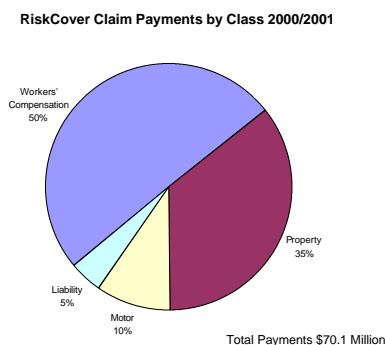
To enable better access for our clients, RiskCover's web-site has been updated and now offers a secure environment in which to access information such as:

- the current RiskCover Insurance Cover Document and Fund Guidelines
- an Employers' Guide to Workers' Compensation
- copies of the GRM magazine
- agency Quarterly Performance Reports, selectable by each agency
- the RiskCover Fund Report
- a number of printable forms have also been added.

Claims Management

Claims management is an important role performed by RiskCover on behalf of agencies. 2000/2001 was a busy year in regard to the ongoing management of claims, with 76,058 new claims received, an increase of 11% on the previous year. Whilst 91% of these claims are 'short-tail' claims, such as property and motor vehicle claims, which are generally finalised within a short time frame, the remainder were 'long-tail' claims, such as workers' compensation and liability claims, which generally require ongoing management for several years. Approximately \$70.1 million was paid on all claims managed during 2000/2001, ranging from minor property and motor vehicle damage to large liability loss claims.

Diagram 3



The number of new workers' compensation claims and 'reopened' workers' compensation claims, both increased by 6%. It is anticipated, however, that the legislative changes enacted in 1999, combined with injury management initiatives introduced jointly by agencies and RiskCover, should result in the total costs for these claims reducing from previous years.

The Fund reflected the trend being experienced by the insurance industry, both nationally and internationally, with an increase in the number (7%) and potential severity of liability claims, in particular claims concerning personal injury, medical negligence and professional liability. These claims represent a potential liability for the Fund and must be managed closely to minimise the Fund's exposure.

OTHER FUNDS

Compensation (Industrial Diseases) Fund (CIDF)

Earlier in the year, the former Industrial Diseases Division, was incorporated as a team within the RiskCover Division. This specialist team is responsible for administering and managing the claims of the CIDF, Employers' Indemnity Supplementation Fund, Insurance Commission General Fund, and providing, for a fee, a claims management service to WorkCover WA.

Industrial Diseases insurance is compulsory for employers engaged in mining operations and is reported through the CIDF. Liability is limited to workers' compensation payments for respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, all of which arise from exposure to harmful mineral dust in the course of employment.

Recommended premium rates are set by the Workers' Compensation Premium Rates Committee and have, for over ten years, been set at a nominal level, which meets administration costs. (For the schedule of premiums refer to the Government Gazette 17 April 2001, ref 80, on page 2125)

The CIDF has been in surplus for many years and it is expected that this situation will continue into the foreseeable future. As a consequence of its sound financial status, the premium rates for 2001/2002 were maintained at the same level as last year.

Insurance Commission General Fund (ICGF)

The ICGF is in a state of run-off. The claims paid from the fund relate to liabilities of the former State Government Insurance Office. No policies have been issued since 31 December 1986.

There is an incurred but not reported liability, relating to the workforce which was exposed to asbestos at the Wittenoom Mine, which operated between 1943 and 1967. The gross provision at 30 June 2001 was estimated at \$42.2 million, which includes a prudential margin that allows for an 80% level of confidence.

Employers' Indemnity Supplementation Fund (EISF)

The collapse of HIH Group of Companies in March 2001 activated the EISF in Western Australia for workers injured in the course of their employment, where the accident occurred prior to the date that HIH went into provisional liquidation. On behalf of the Government, RiskCover claims staff have had an active role responding to the immediate needs of both employers and employees who were impacted by this collapse. RiskCover continues to provide an important management role for these ongoing claims and it is expected this role will continue for at least a decade.

Government Insurance Fund

The RiskCover Division is also responsible for management of the run-off of the Government Insurance Fund (GIF) on behalf of the WA Treasury. The GIF is an amalgamation of the Government's previous self-insurance Funds preceding RiskCover. The financial aspects of GIF are reported in the Insurance Commission's Financial Statements, however, the Insurance Commission has a right of Indemnity from Treasury in respect of any claims payments and expenses incurred.

Future Directions

RiskCover Fund

The focus on the provision of risk management services will continue. There is still some work to be done in this area by agencies. In association with Treasury and other central agencies, it is planned to introduce a Cost of Risk measure across government to more fully record and understand the cost impact of risk for individual agencies and government as a whole.

RiskCover will continue to provide briefings to agencies over the next twelve months on current risk management topics such as Stress Claims Management.

The RiskCover Division has commenced a major enhancement of operational systems, with the objective of improving the collection and provision of information, both internally and externally. The scope of the project includes;

- An upgrade of the current IT systems (particularly the claims management system).
- Implementation of a data warehouse.
- Implementation of a customer relationship management system.

An analysis of current and proposed manual processes will also be conducted as part of the project. This is a significant project with an estimated period for completion of nine months.

The Division has made considerable progress in developing on-the-job operational training manuals over the past six months. These manuals, supported by appropriate supervisor involvement, are being delivered to lower level staff. A number of lower and mid-level training manuals, targeted mainly for claims staff, are currently under development and will be delivered over the next twelve months. Together with the review of RiskCover's operating systems this should further improve the quality of our services to clients.

COMMUNITY ROAD SAFETY

The Insurance Commission, as a member of the Road Safety Council, is committed to safe driving habits for all Western Australians and thereby reducing road crashes resulting in death and injury.

During the year the Insurance Commission's contribution of approximately \$2.7 million has supported road safety initiatives through the sponsorship of community education campaigns, regional forums, promotional signage and community events.

All road safety sponsorships are conducted in accordance with the Road Safety Council's State Strategy. The Insurance Commission is represented on the Road Safety Council by the Managing Director and on the Road Safety Officers Support Group by the Public Relations Manager.

Community Education

The development of community education campaigns, sponsored by the Insurance Commission, are based on international best practice. High risk groups are targeted with compelling and original mass media advertising and supported by community involvement programmes, police incentives, promotional items and public relations activities. Community education campaigns focus primarily on the issues of speed, drink driving, restraints and fatigue. The campaigns have been recognised, receiving national awards on several occasions.

Regional Road Safety Strategies

Regional Forums / Workshops

There is a strong perception that city drivers fare worst on country roads, yet more than three-quarters of all vehicle crashes on country roads in regional Western Australia involve local resident drivers.

Fatigue and non-use of restraints are of particular concern in country areas with 20% of those seriously injured not wearing a seat belt at the time of the crash.

The Insurance Commission has provided funding for the Road Safety Council to hold regional forums and workshops in every region in the State. In partnership with the community, a series of strategies have been developed for the Kimberley, Southern, Goldfields-Esperance, Pilbara, Mid-West Gascoyne and Wheatbelt regions. The Road Safety Council undertakes 4-5 regional visits per year.

The Wild West Bike Tour

The Insurance Commission and the Geraldton Police District joined forces to initiate a bike tour of the Mid-West. The event was held on 14 and 15 October 2000 and was opened by the Minister for Transport. Although the main focus of the event was to raise the salience of road safety, it also had the advantage of drawing the Mid-West communities together. A range of different road safety activities were undertaken over the course of the weekend. The Insurance Commission fielded its own corporate team comprising six employees.

A Sign of Safety

The Insurance Commission is working together with the Margaret River wine industry, local wineries and RoadWise with the aim of improving road safety in the South-West by particularly targeting drink driving and the use of restraints. Road safety signage has been erected at the entrance, (Who's the Skipper?") and exit ("Belt-Up") of most wineries in the South-West region. "A Guide to Safe Wine Tasting" posters have also been produced and are displayed in winery "tasting" areas. The project was officially launched during the Margaret River Wine Festival in November 2000. Wineries in the Great Southern region have also expressed an interest in working with the Insurance Commission to introduce this initiative.

The Insurance Commission continues to fund a variety of other road safety signs in the State, including sites at Subiaco Oval, the WACA, Cottesloe and Trigg beach.

Mobile Breath Testing Stations ('Booze buses')

The Insurance Commission has recently agreed to purchase two new Mobile Breath Testing Stations for the Western Australian Police Service. The two new buses will be utilised in the metropolitan area while the existing two booze buses (also purchased by the Insurance Commission) will be deployed to regional centres.

Future directions

Over the next few years the Insurance Commission will focus on developing and funding youth road safety initiatives. A steering committee "Children and Road Safety" has recently been developed and given the charter to develop an integrated Statewide road safety strategy for children and youth (in schools). It is envisaged that the Insurance Commission will be a major contributor to the development and implementation of this strategy.

SPONSORSHIPS

In an effort to provide excellence in Community Insurance and Risk Management the Insurance Commission supports many community valued projects and initiatives. In addition, many individual employees contribute to the community by undertaking various activities and fund raising on a voluntary basis.

Medical Research

The Insurance commission has granted funding for research into mesothelioma, an asbestos related disease, since 1990, and has pledged more than \$1.8 million to such research programmes.

The Sir Charles Gardiner Hospital Research Foundation (as it was then named) received \$500,000 over three years, pledged in February 1990, \$540,000 over a further three year period, given in April 1993, and just over \$230,000, granted in February 1997, for an additional year. Following these donations, approval was granted in December 1997 to further fund a project specifically focusing on mesothelioma for a four year period from 1998 to 2001 totalling \$581,000.

Casual for a Cause

Several times a year employees will dress casually for the day and make a gold coin donation in support of various charities. Each time the organisation conducts a casual day approximately \$500 is raised for the selected charity. Over the course of the year employees have raised money for Princess Margaret Hospital, The Cerebral Palsy Association, Cancer Research, Perth City Mission and others.

The International Year of the Volunteer 2001

2001 marks the Year of the Volunteer and is a year to recognise those who serve the community. We salute all volunteers and recognise our employees who have worked as volunteers throughout the year.

OUR PEOPLE

Rapid technological developments, competitive pressures, rising customer expectations and political and legislative change demand a workforce that is highly motivated, knowledgeable and flexible. Developing innovative employee strategies and practices to meet this demand in the environment that the Insurance Commission operates within remains a challenge.

Employee Relations

The Insurance Commission has a workforce of 302 employees with 76% employed under the Workplace Agreement and the remainder being covered by the Enterprise Bargaining Agreement.

Diagram 4

Number of Employees by Division

Division	2001	2000
Executive	6	6
Finance	12	13
Human Resources	8	8
Information Technology	14	13
Investments	14	15
Motor Vehicle Personal Injury	110	109
RiskCover (including the former ID Division)	118	118
Special Investigations	6	5
Officers Attached	9	10
Trainees	5	3
Total	302	300

Employee turnover rates continue to improve with the 2000/2001 turnover rate of 9% the lowest for four years.

During the year the Insurance Commission continued to derive significant benefits from its Human Resource Information Management System (HRIMS). All employees now have the ability to apply for leave and have it approved online, through a web based employee kiosk, eliminating the need for paper based forms and expediting the approval process.

The maximum productivity based salary increase of 3%, available under the Government Wages Policy for both the Workplace and Enterprise Bargaining Agreements, was paid to all employees from 1 September 2000.

Our planned approach to the management of accrued leave liabilities is reflected by the average of seven days accrued Long Service Leave per Insurance Commission employee compared to the public sector average of 37 days per employee.

The Insurance Commission recommenced participation in a nationally recognised HR Benchmarking Programme enabling comparison against the Finance and Insurance industry and all industries on over 300 Human Resource performance indicators. The Insurance Commission

was recognised as best practice in three key areas: training investment per employee, payroll expense factor and HR professional staffing mix.

Occupational Safety and Health (“OSH”)

An independent review of the Insurance Commission’s OSH structures and systems compared to the WorkSafe Best Practice Plan resulted in a number of recommendations aimed at enhancing the Insurance Commission’s commitment to occupational safety and health.

Following consultation with employees, an OSH Business Action Plan was developed and is currently being implemented.

Although the Insurance Commission recorded its first Lost Time Injury in two years, our Lost Time Injury rate of 0.3% still compares favourably with the Finance Industry rate of 0.8%.

Diagram 5

Indicator	2000/01	1999/00	1998/99	1997/98	1996/97	1995/96
Number of LTI/D	1	0	0	2	3	3
LTI/D Frequency Rate						
Number of LTI/D x 1 000 000	1.72	0	0	3.90	5.36	5.14
Total Hours Worked						
LTI/D Incidence Rate						
Number of LTI/D x 100	0.32	0	0	0.67	1.01	0.99
Total Number of Employees						
Estimated Cost of Claims Incurred per \$100 Payroll						
Estimated Cost of Claims Incurred x 100	0.18	0.013%	0.16%	0.10%	0.32%	0.81%
Total Payroll						
Workers Compensation Premium Rate						
Premium as a percentage of payroll	0.57	0.69%	0.46%	0.86%	2.013%	2.237%
Rehabilitation Success Rate	No eligible rehab cases	No eligible rehab cases	No eligible rehab cases	No eligible rehab cases	No eligible rehab cases	100%

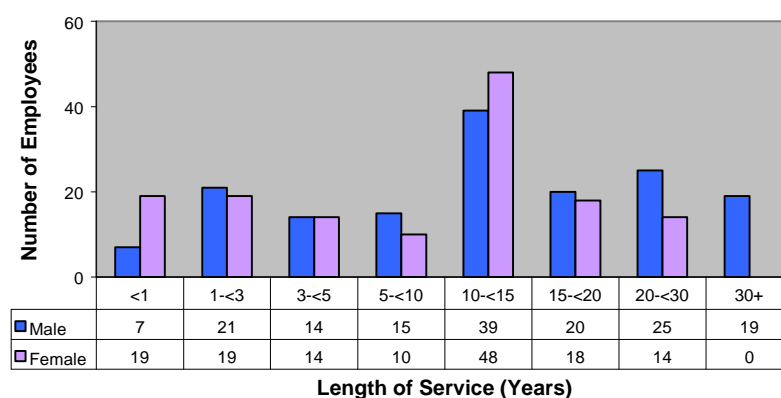
EEO & Diversity

As a result of the Insurance Commission's initiatives, the composition of the workforce is becoming more diverse with people with disabilities, youth and mature workers well represented when compared to both the community in general and the WA Public Sector Workforce. Strategies to enhance the representation of female employees have been implemented.

Diagram 6

Target Group	Representation		
	Community	Public Sector Workforce (1999)	Insurance Commission
Women	52%	59.8%	47%
People with disabilities	4%	2%	6%
Youth	11%	5%	13%
Mature Age	29%	41%	25%

Diagram 7



The average length of service of our employees within the Insurance Commission is 12.6 years. The Insurance Commission has 38 employees aged 50 or over who have 10 or more years service, including 16 who have more than 30 years service. These employees have extensive knowledge which the Insurance Commission values highly. Strategies to manage the transfer of this knowledge will be developed in the ensuing years.

Employee Development

The Insurance Commission continues its ongoing investment in the development of its people through the provision of innovative employee training and development strategies.

The Insurance Commission demonstrates best practice in the area of employee development investment as compared to Finance and Insurance Industry benchmarks. For the 2000/2001 year

an average of \$1,285 was invested in each employee at an average of 23 hours of training per employee.

Employee Development focused on assisting our business units achieve their objectives by enhancing our employee's skills and ongoing professional and leadership development.

Major achievements this year included:

- A Management and Leadership programme focusing on the four main themes of; the business environment, financial, people and technology. The programme linked contemporary and theoretical management concepts with the Insurance Commission's strategic direction and business objectives.
- Introduction of a Team leader management development programme for the RiskCover Division.
- Formation of operational claims management project team in collaboration with the RiskCover Division to assess operational training requirements.
- Implementation of the "Team Briefing Process" – a structured communication corporate strategy for all levels of employee as part of the Empowerment and Development project.
- An increase in the percentage of employees holding a recognised qualification relevant to the Insurance Commission (46%).
- Continued commitment and participation in the performance management and development system.

Organisational Development

The Insurance Commission's first employee Perception Survey was conducted in February 2000 with 66% of employees responding, resulting in a Quality of Work Experience (QWE) survey score of 26 compared to the national survey average of 38.

The QWE score is the measure of a range of employee job satisfaction indicators providing a useful base for internal measurement that can then be benchmarked nationally against other organisations.

The second Employee Perception Survey was conducted during April 2001 with participation rates increasing to 69% which in itself is a good result for an organisation our size.

There were significant improvements in employee perceptions of internal communication, involvement in direction setting and generally employees remain very positive about the purpose of the organisation, the technical knowledge of their supervisors and the levels of customer service to clients.

The results have been presented to all employees at briefing sessions and further focus groups will be undertaken to obtain a better understanding of employee perceptions relating to organisational culture and their suggestions for improvement.

Future Directions

- Responding to the new Governments revised industrial relations framework and Wages Policy.
- Continued development of the Insurance Commission's HRIMS including enhancements to the HR Intranet to assist in service delivery.
- In – house nationally accredited Legal Studies education strategy in the form of Certificate IV in Legal Studies and Insurance 2001/2002.
- Development of a professional claims advocacy programme for claims staff.
- A further Employee Perception survey will be conducted in 2002 to measure improvements in employee perceptions of current issues and identify any new or emerging issues.

BUSINESS SUPPORT

It is the role of the Service Divisions to provide support to meet the needs of the Business Divisions.

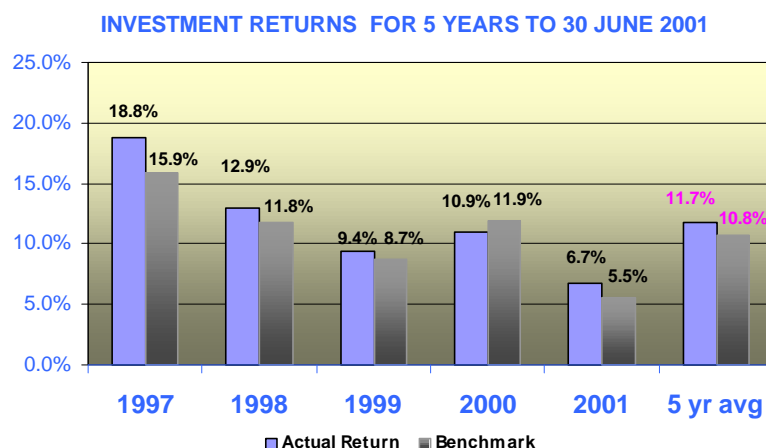
INVESTMENTS

The total investment return achieved by the Insurance Commission for the year, before investment manager fees and administration expenses, was 6.7% (10.9% for 1999/2000). After Investment Manager fees and administration expenses the return was 6.4% and was a favourable result when compared to the portfolio performance benchmark return of 5.5%.

As with the previous financial year, investment markets in 2000/2001 continued to experience considerable volatility. Global equities produced negative returns for the first time since 1991, however, the Australian equities market finished on a strong note, having experienced negative returns for most of the year. The S & P ASX300 returned 9.1%. Fixed interest markets were essentially stable, with long term government bond rates at 30 June 2001 only marginally lower than rates at 30 June 2000. The benchmark return for Australian Fixed Interest was 7.4%. Direct Property, as measured by the Towers Perrin Direct Property Index, returned 9.8% for the year and listed property returned 14.1%.

Investment returns achieved by the Insurance Commission for the past 5 years compared to the Performance Benchmark are set out in **Diagram 8** and show an average return over that period of 11.7% (benchmark average 10.8%).

Diagram 8

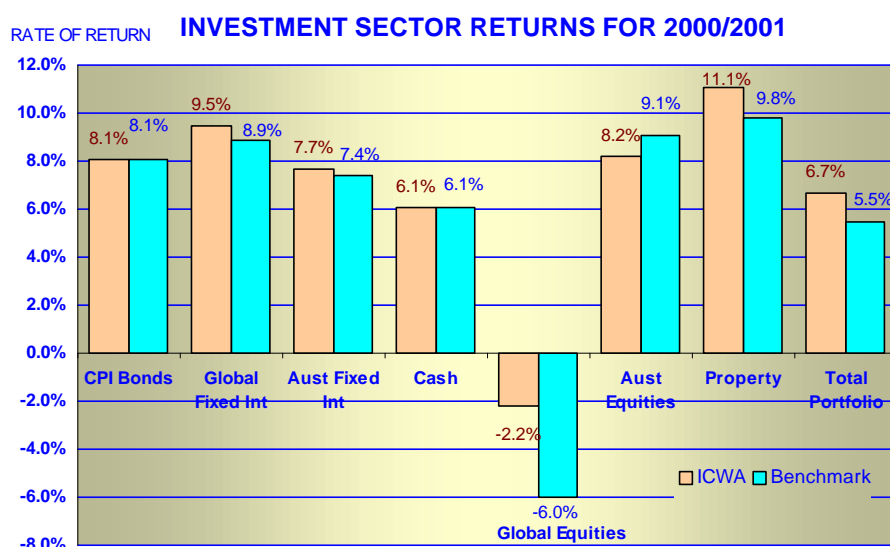


The Insurance Commission's performance for each investment sector is illustrated in **Diagram 9** and shows strong outperformance for Global Equities and Property. The only sector to underperform its benchmark was Australian Equities.

The Property Portfolio assets remain unchanged from 1999/2000 and are comprised of two Perth Central Business District properties, the Hartley Poynton Building (formerly Westralia Square)

and the Forrest Centre. The portfolio performed reasonably well with a return of 11.1% for the year which was 1.3% above the property performance benchmark. Over the past 5 years the property portfolio has achieved an average annualised rate of return of 14.1% which has exceeded the performance benchmark over that period by 5.1%.

Diagram 9

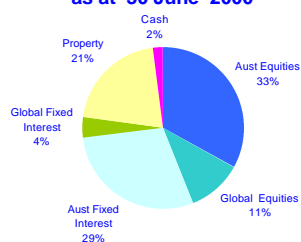


Investment Strategy

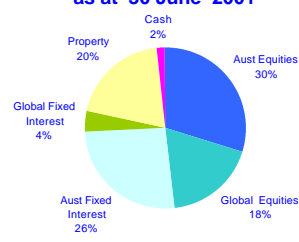
Over the past five years the Insurance Commission's strategy has been to maintain a diversified portfolio with an asset mix of 60% invested in growth assets (equities and property) and 40% in defensive assets (fixed interest). In September 2000 the Board of Commissioners reviewed this allocation and increased the asset weighting of growth assets to 65%. This was achieved by reducing the allocations to Fixed Income and Property by 5% and increasing the weighting to Global Equities by 10%. Asset allocations as at 30 June 2001 compared to the previous year are illustrated in **Diagram 10**.

Diagram 10

**INVESTMENT ASSET ALLOCATION
as at 30 June 2000**



**INVESTMENT ASSET ALLOCATION
as at 30 June 2001**



Investment Management

With the increase to the weighting in Global Equities and the lack of investment manager diversification in this sector the Board decided to appoint a second global equities manager, Fidelity Investments, to complement Lazard Asset Management.. This appointment brings the total number of externally appointed investment managers to seven. The Direct Property and Cash portfolios are managed within the Investments Division.

With the significant increase in exposure to unhedged overseas equity investments at a time when the Australian dollar was at near record low levels, the Board determined that it was an appropriate time to reduce the currency risk associated with investing in unhedged overseas shares. A short term passive Currency Overlay was implemented on part of the US, UK and Japanese currency exposures. This Currency Overlay was put in place at a time when the \$A was trading below 53 cents to the \$US.

The external investment managers used by the Insurance Commission are as follows:

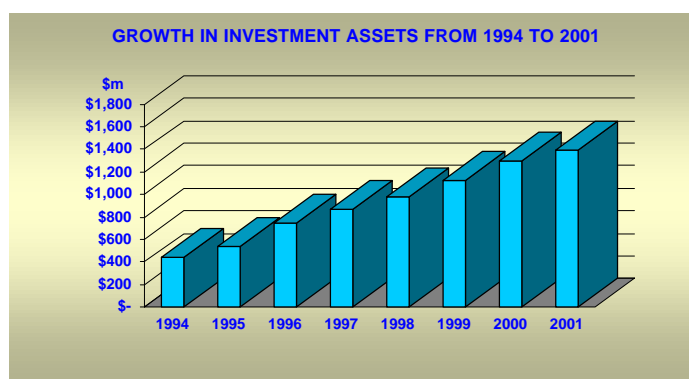
Australian Equities	Global Equities	Fixed Income
HSBC Asset Management Credit Suisse Asset Management Challenger Portfolio Management	Lazard Asset Management Fidelity Investments	UBS Asset Management Barclays Global Investors

As reported last year a review of our WA Equities Portfolio was to be undertaken in the early part of the financial year. This portfolio was being managed by Challenger Portfolio Management (CPM) and in September 2000 it was decided to convert the portfolio to an Australian equities mandate managed by CPM with the S&P ASX 300 Index as the performance benchmark.

Investment Assets

There has been a threefold growth in Investment assets over the past eight years, with the value of investment assets at 30 June 2001 of \$1.4 billion (as illustrated in **Diagram 11**). Overall investment earnings for the year of \$91 million contributed to the portfolio growth together with positive operational cash flows of \$11 million.

Diagram 11



The investment assets at 30 June 2001 include \$179.3 million in funds managed on behalf of RiskCover. These funds are secured by way of a Redeemable Floating Rate Promissory Note issued by the Insurance Commission. This allows RiskCover to benefit by participating in the Insurance Commission's diversified investment portfolio and thereby receives the same rate of return as the Insurance Commission.

During the year the Commission received \$3.8 million from direct investments in Spedley Securities which were written off in 1989. The recovery of these funds has not been included in the investment performance calculations however, the overall return for the year inclusive of this income was 7.0%.

Prudential Guidelines for Investments

The Insurance Commission's investments are subject to Prudential Guidelines for Investments as set down by the Treasurer of Western Australia. During the 2000/2001 financial year there were no material changes made to these Guidelines.

INFORMATION TECHNOLOGY (IT)

During the year an upgrade of the Insurance Commission's systems infrastructure, including an enhanced computer room and improved local area network and application server technology, took place to ensure high levels of system performance and reliability are maintained.

The Board of Commissioner's endorsed a new four year strategic plan for Information Systems and Technology (IS&T).

The focus of the plan is to maintain the RiskCover and Compulsory Third Party Schemes as cost effective systems for the benefit of the public and Government of Western Australia through a process of continual enhancement of existing services and business processes.

The evolutionary strategy recommended in the IS&T plan proposes the integration of applications software across several hardware and software platforms to support the key business objectives of :-

- improving productivity through the adoption of proven business process automation technologies
- enhancing service delivery by extending the reach of our systems through e-commerce development using the Internet
- managing the cost of IS & T Services in a period of rapidly increasing demand through adherence to a well defined architecture, careful project selection and selective outsourcing.

FINANCE

Over the year the Finance Division worked with the IT Division to deliver several projects that improved the accessibility to financial information, including the upgrade of core financial applications to include an internet based interface.

The Division was also recognised at the 2001 Lonnie Awards, receiving a gold award, the Auditor General's commendation for Transparency and Accountability in Financial Reporting for its 2000 Annual Report.

SPECIAL INVESTIGATIONS

During the 2000/2001 financial year 213 counts of fraud against eleven individuals were referred to the Western Australia Police for prosecution. The vigilance of employees from the business divisions is to be commended, with claims savings resulting from investigations amounting to more than \$1,000,000.

Over the year greater emphasis was placed on delivering fraud detection training to the Insurance Commission's claims staff, with more analytical and investigative resources directed to detection of service provider frauds and over-servicing.

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.

CORPORATE GOVERNANCE

Board of Commissioners (“The Board”)

The Board exercise and perform the functions, powers and duties conferred or imposed on the Insurance Commission under the *Insurance Commission of Western Australia Act 1986*.

In the exercise of these functions and powers, the Board adopts the financial statements, determines the strategic direction, reviews and endorses objectives established by management, whilst monitoring the achievement of those objectives. The Managing Director is responsible to the Board for the day-to-day management of the Insurance Commission.

The Board is comprised of six persons, appointed by the Governor on the nomination of the Minister, plus the Managing Director, who is a commissioner *ex-officio*. Except for the Managing Director, the Board is generally appointed for a three year term and is non-executive. The Board is individually allocated responsibility to monitor matters with respect to audit and accounts, investments, insurance, information technology and human resources and meets monthly, or more regularly, when required.

Annual Report Sub-Committee

For 2000/2001, the Board appointed an Annual Report Sub-Committee, comprising one non-executive member of the Board and the Managing Director, which is responsible for overseeing the preparation of the financial statements. This Sub-Committee reports to the Insurance Commission’s Audit and Accounts Committee.

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 Auditor General.

Budget and Business 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 Budget and Business Plan 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 the text of any direction received in the Annual Report. No ministerial directives were received during 2000/2001.

Ethical Standards

The Board has approved standards of conduct applying 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 meets monthly and is comprised of twelve persons including the Managing Director, 2 General Managers, 7 Divisional Managers, Manager Property Investments and Manager Reinsurance.

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.

Goods and Services Tax (GST) Compliance

During the year, all GST issues requiring consideration were monitored by the Executive Members.

Regular updates were and will be given to both the Board of Commissioners and the Audit and Accounts Committee.

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 outsources the Internal Audit services. The audit aims to assess 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 Board and include opinions regarding the adequacy of financial, operational, administrative and computer controls.

Investments

The Board oversees the Insurance Commission's investment strategies, which are structured to balance risk with an appropriate return. To this end, the Board receives a monthly report and regular presentations on investment performance and results from the seven appointed external specialist investment managers. External investment manager appointments are approved by the Treasurer.

The administration of externally managed funds is carried out by a Master Custodian. The Insurance Commission's property and cash portfolios are managed internally, however, there are two external property managers who are responsible for the day to day operations of the buildings owned by the Insurance Commission.

National Competition Policy

In November 1999, Cabinet endorsed the reviews of the Competitive Neutrality of the *Insurance Commission and the Motor Vehicle (Third Party Insurance) Act 1943*.

Following the change of Government, Treasury's National Competition Unit is considering the means and process to be adopted to facilitate changes of policy.

Remuneration

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

Risk Management

The Board has in place a number of arrangements to identify and manage risk(s) 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 Co-ordinator to assist in this process.
- A Risk Register is maintained and reviewed to identify, analyse, evaluate and formulate treatment plans for all risks.

Role of State Government

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

Compliance Report

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.

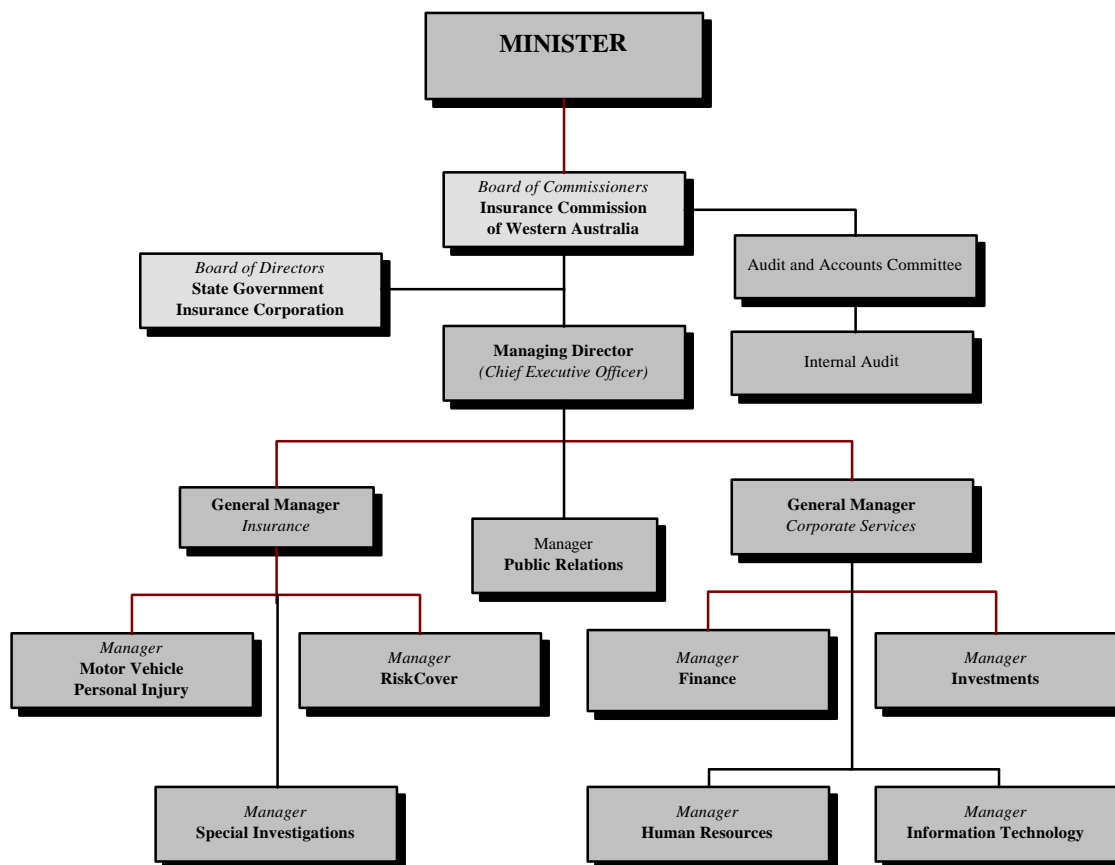
An independent review identified that the Insurance Commission had complied with all of the Public Sector Standards in Human Resource Management and the Western Australian Public Sector Code of Ethics and our own Code of Conduct.

No applications for Breach of Standards were received during the year ended 30 June 2001.



VIC EVANS
MANAGING DIRECTOR

ORGANISATIONAL CHART



THE BOARD OF COMMISSIONERS OF THE INSURANCE COMMISSION OF WESTERN AUSTRALIA

The Board of Commissioners ("The Board") is the governing body of the Insurance Commission of Western Australia. The Board members are appointed by the Governor and are eligible for re-appointment. The Board for the year ending 30 June 2001 comprised:

MR M E WRIGHT

FAICD

Chairman of the Board of Commissioners

Re-appointed for a period expiring on 30 November 2001

Deputy Chairman, State Government Insurance Corporation

Consultant, Mallesons Stephen Jaques

MR P D EASTWOOD

FCA, FAICD

Deputy Chairman of the Board of Commissioners

Re-appointed for a period expiring on 30 September 2003

Director, State Government Insurance Corporation

Consultant, Grant Thornton Chartered Accountants

Director, WA Centre for Pathology and Medical Research

Councillor, Edith Cowan University

MR G C BOND

FAII

Commissioner

Re-appointed for a period expiring on 30 September 2001

Director, State Government Insurance Corporation

MR F J DALY

BE(Mech) Hons, BComm, MIEAust, FAICD

Commissioner

Re-appointed for a period expiring on 30 September 2002

Chairman, Australian Cancer Technology Ltd

Chairman, Alternative Energy Development Board

MR F G MERRY

JP, Dip Mgt, AFAIM, FAIMH, FAIMM

Commissioner

Re-appointed for a period expiring on 30 September 2001

MR G N REYNOLDS

AAII, FAIM, FAICD, CD, FNIBA

Commissioner

Re-appointed for a period expiring on 30 September 2002

Director, State Government Insurance Corporation

Deputy Chairman, Medical Indemnity Company of Western Australia Pty Ltd

Chairman, Medical Indemnity Services Pty Ltd

Executive Member, Medical Defence Association of WA

National Consultant, Jardine Lloyd Thompson Pty Ltd

Director, Perth Bone and Tissue Bank Inc

Chairman, Erracht Pty Ltd

Deputy Chairman, Plan B Trustees Limited

Chairman, Botanic Gardens and Parks Authority

Director, Medepartner Ltd

MR V EVANS

Dip Bus Mgt, AFAIM

Commissioner

Re-appointed for a period expiring on 21 June 2006

Managing Director, Insurance Commission of Western Australia

Chairman, State Government Insurance Corporation

Diagram 12**Commissioners' Attendance at Meetings 2000/2001**

Commissioner	Board of Commissioners (Total of 12 Meetings)	Audit & Accounts (Total of 11 Meetings)
	Number of Meetings Attended	Number of Meetings Attended
M E Wright	12	11
P D Eastwood	11	10
G C Bond	11	9
G N Reynolds	11	10
F J Daly	12	11
F G Merry	11	10
V Evans	11	10

DISCLOSURE OF INTEREST IN AN EXISTING OR PROPOSED CONTRACT

Chairman of the Board, Mr M E Wright, is a consultant to Mallesons Stephen Jaques which, during 2000/2001, received professional fees for legal advice provided to the Insurance Commission.

EXECUTIVE MEMBERS

VIC EVANS Dip Bus Mgt, AFAIM

Managing Director

Permanent head responsible for overseeing the performance of the Insurance Commission's functions and operations. Chairman, State Government Insurance Corporation.

DOUG PASCOE AAI

General Manager Insurance

Responsible for the Insurance operations of the Insurance Commission

KEN McAULLAY Grad Dip Bus, Grad Cert Mgt, Dip Pub Admin

General Manager Corporate Services

Responsible for the Corporate Services operations of the Insurance Commission

LEW WATTS Dip Pub Admin, AAI

Manager Motor Vehicle Personal Injury Division

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

Responsible for ensuring 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, managing the Compensation (Industrial Diseases) Fund. Responsible for the administration of; claims made under the *Employers' Supplementation Act 1980*, the claims run-off of the Insurance Commission General Fund and Government Insurance fund and the run-off of the Corporation's Inwards Reinsurance business.

JIM MILLIGAN BSc (Security), GCert Comp Sec

Manager Special Investigations Division

Responsible for co-ordinating strategies to protect the assets of the Insurance Commission and to minimise the incidence of fraud.

RICHARD HASELGROVE CA

Principal Accounting Officer/ Manager Finance

Primarily responsible for ensuring that all the Insurance Commission's revenues and expenditures have been brought to account, ensuring compliance with the *Financial Administration and Audit Act 1985* and the Treasurer's Instructions. Responsible for the preparation of various internal and external reports and returns

GRAHAM CROFT BBus, GDip App Fin (Sec Inst), FCPA, ASIA, CFTP

Manager Investments Division

Responsible for administering the Insurance Commission's investment policies and practices.

PETER AMOS BSc

Manager Information Technology Division

Responsible for ensuring that the Insurance Commission's information systems requirements are met via systems maintenance and systems and technological improvements.

GRANT SPEIGHT MHRM, Grad Dip Bus, AFAHRI

Manager Human Resources Division

Responsible for developing and implementing human resource strategies that contribute to the achievement of the Insurance Commission corporate objectives.

PUBLICATIONS

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

Insurance Commission of Western Australia Annual Reports

This document contains details of the objectives, achievements and the financial results and position of the Insurance Commission of Western Australia. The 2000 Annual Report was awarded two certificates by the Lonnie Award Panel of the Western Australian chapter of the Institute of Public Administration, a Bronze Certificate, for Distinguished Achievement in Accountability through Annual Reporting and the auditor General's Commendation for Transparency and Accountability in Financial Reporting.

State Government Insurance Corporation Annual Reports

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

RiskCover Fund Reports

This document contains details of the objectives, achievements and financial results and position of RiskCover, the Managed Fund. The Report is mailed to all Government agencies who are a member of the Fund.

All Annual Reports are published on the Insurance Commission's website

<http://www.icwa.wa.gov.au>

<http://www.riskcover.wa.gov.au>

Customer Service Charter

The Insurance Commission prepares a *Customer Service Commitment* brochure which identifies its customers and the standard of service the Organisation aims to deliver to them. Any information or suggestions can be directed to:

Public Relations Manager
Insurance Commission of Western Australia
221 St Georges Terrace
Perth WA 6000
Telephone: (08) 9264 3374

Motor Vehicle Personal Injury Brochure

Information for Owners and Drivers

This brochure outlines the rights and responsibilities of (1) claimants and (2) vehicle owners/drivers following involvement in motor vehicle crashes that result in personal injury.

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 Co-ordinator
Insurance Commission of Western Australia
221 St Georges Terrace
Perth WA 6000
Telephone: (08) 9264 3490

Insurance Commission Internet Website

The 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 <http://www.icwa.wa.gov.au>.

Government Risk Management Magazine (GRM)

GRM Magazine replaced the "Fundamentals" newsletter in Jul 2001. Each issue of GRM highlights risk management practices and concepts and addresses a variety of RiskCover Fund issues that apply to agencies. All Government agencies are encouraged to contribute articles of interest and identify new articles that they would like to see covered. GRM is published three times 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 has developed (and continues to update) a Disability Services Plan which outlines the perceived barriers and proposes strategies and actions aimed at facilitating access. The Plan is communicated via various avenues to staff, service providers and the general public, which includes people with disabilities.

Recycling of Waste Paper

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

Freedom of Information

The Freedom of Information Co-ordinator is responsible for processing applications received under the *Freedom of Information Act 1992*. During 2000/2001

- C 22 new applications were received
- C 5 applications for internal appeals were received
- C 2 complaints 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 :

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

The Insurance Commission's compliance with the State Government Purchasing Charter is monitored on a quarterly basis.

Electoral Amendment (Political Finance) Act 1992

Under Section 175ZE, the Insurance Commission is required to disclose expenditure over the 2000/2001 financial year in relation to:

Advertising agencies

BC+Y	\$2,967
------	---------

Market research organisations

NFO Donovan Research	\$42,721
Data Analysis Australia	\$22,210
Senior Management Centre AIM	\$15,169
Subtotal	\$80,100

Polling organisations

NIL

<i>Direct mail organisations</i>	NIL
<i>Media advertising organisations</i>	
Media Decisions WA	\$135,781
Marketforce Productions	\$ 22,432
Subtotal	\$158,213
<i>Total expenditure</i>	\$241,280

The above expenditure related to employment advertising, employee and customer perception surveys, advertising campaign evaluations and media buying for press, radio and television commercials.

ANNUAL ESTIMATES

In accordance with Section 42 of the Financial Administration and Audit Act 1985, the following 2001/2002 Annual Estimates for the Insurance Commission of Western Australia and RiskCover (a Managed Fund) have been approved by the Minister.

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

	<u>\$million</u>
INSURANCE COMMISSION OF WESTERN AUSTRALIA	
Premium Revenue	296.1
Outwards Reinsurance Expense	(1.6)

Net Earned Premium	294.5
Claims Expense	(320.5)
Reinsurance and Other Recoveries Revenue	0.5

Net Incurred Claims	(320.0)
Underwriting and Administration Expenses	(45.6)

UNDERWRITING LOSS	(71.1)
Investment Income	95.0
Investment Expense	(5.3)
Other Revenue	15.5
Other Expenses	0.0

OPERATING PROFIT BEFORE INCOME TAX EXPENSE	34.1
	=====

	<u>\$million</u>
RISKCOVER	
Contribution Revenue	113.5
Contribution Adjustment	(5.3)
Outwards Reinsurance Expense	(26.8)
Outwards Reinsurance Commission Revenue	2.4

Net Earned Contribution	83.8
Claims Expense	(107.4)
Reinsurance and Other Recoveries Revenue	22.3

Net Incurred Claims	(85.1)
Underwriting and Administration Expenses	(14.0)

TRADING DEFICIT	(15.3)
Investment Income	19.1

OPERATING SURPLUS	3.8
	=====

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

**INSURANCE COMMISSION OF WESTERN AUSTRALIA
AND ITS SUBSIDIARY**

FINANCIAL STATEMENTS 2001

INDEX

Statement by the Members of the Board and Principal Accounting Officer

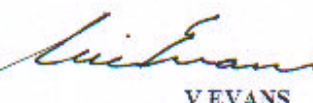
Opinion of the Auditor General	53
Statement of Financial Performance for the year ended 30 June 2001	54
Statement of Financial Position as at 30 June 2001	55
Statement of Cash Flows for the year ended 30 June 2001	56
Note 1 Statement of Significant Accounting Policies	58
Note 2 Revenue	70
Note 3 Net Gains/(Losses) and Expenses	71
Note 4 Net Claims Incurred	72
Note 5 Income Tax	73
Note 6 Receivables	74
Note 7 Investments	75
Note 8 Other Assets	77
Note 9 Plant and Equipment	77
Note 10 Creditors and Accruals	77
Note 11 Outstanding Claims	78
Note 12 Employee Entitlements	84
Note 13 Provisions	85
Note 14 Other Liabilities	85
Note 15 Reserves	86
Note 16 Accumulated Profit/(Losses)	86
Note 17 Amounts Receivable and Payable Denominated in Foreign Currencies	86
Note 18 Financial Instruments	87
Note 19 Segment Reporting	91
Note 20 Funds' Statement of Financial Performance	92
Note 21 Funds' Statement of Financial Position	94
Note 22 Funds' Accumulated Profit/(Losses)	96
Note 23 Explanatory Statement - Commission	97
Note 24 Group Entities	99
Note 25 Economic Dependency	100
Note 26 Contingent Liabilities	100
Note 27 Commitments	100
Note 28 Events Occurring after Balance Date	100
Note 29 Losses Through Theft, Defaults and Other Causes	101
Note 30 Remuneration of the Board of Commissioners and Senior Officers	102
Note 31 RiskCover Managed Fund Financial Statements	103

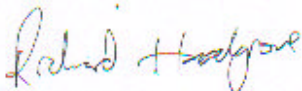
Statement by the Members of the Board and Principal Accounting Officer**Insurance Commission of Western Australia**

The accompanying consolidated financial statements and the financial statements of the Commission 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 2001 and the financial position as at 30 June 2001.

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.


M E WRIGHT
CHAIRMAN
29 August 2001


V EVANS
MANAGING DIRECTOR
29 August 2001


R HASELGROVE
PRINCIPAL ACCOUNTING OFFICER
29 August 2001

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 29 August 2001.





Auditor General

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2001

Scope

I have audited the accounts and financial statements of the Insurance Commission of Western Australia for the year ended June 30, 2001 under the provisions of the Financial Administration and Audit Act 1985. The financial statements include the consolidated accounts of the consolidated entity comprising the Commission and the entities it controlled at the year's end or from time to time during the financial year.

The Board of Commissioners is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial statements, and complying with the Act and other relevant written law. The primary responsibility for the detection, investigation and prevention of irregularities rests with the Board of Commissioners.

My audit was performed in accordance with section 79 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, the controls exercised by the Commission to ensure financial regularity in accordance with legislative provisions, evidence to provide reasonable assurance that the amounts and other disclosures in the financial statements are free of material misstatement and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Treasurer's Instructions so as to present a view which is consistent with my understanding of the Commission's and the consolidated entity's financial position, the results of their operations and their cash flows.

The audit opinion expressed below has been formed on the above basis.

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 and the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows of the Commission and the Consolidated Statement of Financial Performance, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows of the consolidated entity and the Notes to and forming part of the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and the Treasurer's Instructions, the financial position of the Commission and the consolidated entity at June 30, 2001 and the results of their operations and their cash flows for the year then ended.

D D R PEARSON
AUDITOR GENERAL
August 29, 2001

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2001

	<u>Notes</u>	CONSOLIDATED		COMMISSION	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Premium Revenue	2	291,050	276,564	291,081	276,584
Outwards Reinsurance Expense		(1,799)	(1,525)	(1,646)	(1,524)
Outwards Reinsurance Commission Revenue		137	151	137	151
Net Earned Premium		289,388	275,190	289,572	275,211
Claims Incurred	3	(243,388)	(348,008)	(243,287)	(343,298)
Reinsurance and Other Recoveries Revenue	2	22,820	1,839	22,800	1,837
Net Claims Incurred	4	(220,568)	(346,169)	(220,487)	(341,461)
Underwriting and Administration Expenses	3	(42,286)	(38,052)	(42,117)	(37,798)
UNDERWRITING PROFIT/(LOSS)		26,534	(109,031)	26,968	(104,048)
Investment Income	2	97,585	156,131	97,384	155,888
Investment Expenses	3	(25,457)	(27,302)	(25,457)	(27,302)
Other Income	2	21,470	6,977	20,926	6,556
Other Expenses	3	(409)	(262)	(98)	(4,581)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		119,723	26,513	119,723	26,513
Income Tax Expense attributable to Ordinary Activities	5	-	-	-	-
OPERATING PROFIT AFTER INCOME TAX EXPENSE RECOGNISED IN EQUITY		119,723	26,513	119,723	26,513

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2001

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
	Notes	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS					
Cash Assets		733	8,505	-	7,541
Receivables	6	79,975	26,525	79,953	26,506
Investments	7	938,135	879,013	934,755	875,845
Other	8	2,729	2,770	2,729	2,770
Total Current Assets		1,021,572	916,813	1,017,437	912,662
NON-CURRENT ASSETS					
Receivables	6	206,906	115,284	206,755	115,151
Investments	7	282,500	272,000	282,500	272,000
Plant and Equipment	9	4,563	3,233	4,563	3,233
Total Non-Current Assets		493,969	390,517	493,818	390,384
TOTAL ASSETS		1,515,541	1,307,330	1,511,255	1,303,046
CURRENT LIABILITIES					
Bank		229	-	229	-
Creditors and Accruals	10	10,662	16,779	10,498	16,598
Outstanding Claims	11	353,187	284,289	350,240	282,195
Unearned Premiums		113,592	117,387	113,592	117,387
Provisions	13	2,585	2,796	2,585	2,796
Other	14	1,145	1,101	10,686	10,959
Total Current Liabilities		481,400	422,352	487,830	429,935
NON-CURRENT LIABILITIES					
Outstanding Claims	11	902,314	873,339	891,598	861,472
Provisions	13	11,895	11,430	11,895	11,430
Total Non-Current Liabilities		914,209	884,769	903,493	872,902
TOTAL LIABILITIES		1,395,609	1,307,121	1,391,323	1,302,837
NET ASSETS		119,932	209	119,932	209
EQUITY					
Reserves	15	12,816	10,535	12,816	10,535
Accumulated Profit/(Loss)	16	107,116	(10,326)	107,116	(10,326)
TOTAL SURPLUS		119,932	209	119,932	209

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 Notes 20 and 21.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2001

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
<u>Notes</u>		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium Received		315,008	292,297	315,008	292,297
Right of Indemnity Receipts - Government Insurance Fund		11,838	40,107	11,838	40,107
Interest Received		27,016	29,076	26,813	28,834
Rents Received		28,941	22,324	28,941	22,324
Dividends Received		18,061	14,713	18,061	14,713
Reinsurance and Other Recoveries Received		9,429	7,249	9,427	7,211
Management Fees Received		12,512	11,041	12,512	11,041
Recovery of Investments Previously Written Off	2	3,814	21,119	3,814	21,119
Other Receipts		922	845	877	803
Internal Interest		-	-	(5)	(8)
Claims Paid		(271,129)	(286,609)	(270,691)	(284,495)
Interest Paid - RiskCover		(12,318)	(15,311)	(12,318)	(15,311)
Outwards Reinsurance Paid		(1,945)	(1,689)	(1,792)	(1,688)
Underwriting and Administration Expenses Paid		(34,503)	(34,371)	(34,323)	(34,117)
Debt Recovery Costs		(16,996)	(22,464)	(16,996)	(22,464)
Property Expenses Paid		(8,336)	(7,640)	(8,336)	(7,640)
Goods and Services Tax Paid		(33,948)	-	(33,948)	-
Other Payments		(5,875)	(4,144)	(5,875)	(4,144)
		-----	-----	-----	-----
Net Cash Inflow from Operating Activities	(i)	42,491	66,543	43,007	68,582
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Funds Received from RiskCover		32,618	48,200	32,618	48,200
Payments for Purchase of Investments		(976,955)	(769,522)	(976,955)	(769,522)
Proceeds from Sale of Investments		885,898	658,422	885,898	658,422
Payments for Purchase of Plant and Equipment		(3,759)	(1,918)	(3,759)	(1,918)
Proceeds from Sale of Plant and Equipment		490	334	490	334
		-----	-----	-----	-----
Net Cash Outflow from Investing Activities		(61,708)	(64,484)	(61,708)	(64,484)
		-----	-----	-----	-----
NET (DECREASE)/INCREASE IN CASH HELD		(19,217)	2,059	(18,701)	4,098
CASH AT THE BEGINNING OF THE YEAR		63,313	60,875	59,188	55,090
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies.		542	379	-	-
		-----	-----	-----	-----
CASH AT THE END OF THE YEAR	(ii)	44,638	63,313	40,487	59,188
		=====	=====	=====	=====

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

In accordance with Urgent Issues Group Abstract 31 "Accounting for the Goods & Services Tax" cash flows are presented on a gross (GST inclusive) basis.

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

STATEMENT OF CASH FLOWS (Continued)

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
	Notes	\$'000	\$'000	\$'000	\$'000
(i) Reconciliation of Operating Profit After Income Tax Expense Recognised in Equity to Net Cash Flows from Operating Activities					
Operating Profit After Income Tax Expense		119,723	26,513	119,723	26,513
Depreciation		1,567	1,133	1,567	1,133
Bad Debts		(54)	-	(47)	-
Foreign Exchange Gain: Corporation		(499)	(379)	-	-
Foreign Exchange Gain: Investments		(9,737)	(6,544)	(9,737)	(6,544)
Increase in Net Market Value of Investments		(13,950)	(64,098)	(13,950)	(64,098)
Indemnity for Corporation's Net Liabilities		-	-	(316)	4,311
Other		61	(26)	61	(25)
Changes in Assets and Liabilities					
(Increase)/Decrease in Premiums Receivable		(729)	456	(729)	421
Increase in Reinsurance and Other Recoveries Receivable		(148,396)	(15,060)	(148,382)	(15,124)
Decrease in Other Assets		5,621	47,313	5,619	47,313
Increase in Outstanding Claims		97,873	61,195	98,171	58,802
(Decrease)/Increase in Unearned Premiums		(3,795)	4,216	(3,795)	4,216
(Decrease)/Increase in Other Liabilities		(5,194)	11,824	(5,178)	11,664
Net Cash Inflow from Operating Activities		42,491	66,543	43,007	68,582
(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		733	8,505	-	7,541
Bank Liability		(229)	-	(229)	-
Short-Term Discount Securities	7	16,836	35,193	13,883	32,695
Deposits At Call	7	27,298	19,615	26,833	18,952
		44,638	63,313	40,487	59,188

The economic entity does not have any stand-by credit arrangements or loan facilities. The economic entity's ability to meet its financial obligations as and when they fall due is ultimately supported by the Government of Western Australia.

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

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.

(a) Basis of Accounting

The financial statements constitute a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards 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 Australian Accounting Standards 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 financial effect upon the reported results, details of that modification and, where practicable, the resulting financial effect is disclosed in individual notes to these financial statements. No such modifications were required to be reported either this year or last year.

The financial statements have been prepared in accordance with the historical cost convention and, except where stated, do not take into account current valuations of non-current assets.

The accounting policies used are consistent with those adopted in the previous year.

The financial statements have been prepared on the assumption that the 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 as a going concern. The State Government has also confirmed that it is committed to ensuring the Commission and Corporation can meet their financial obligations as and when they fall due.

(b) Principles of Consolidation

The consolidated financial statements of the economic entity incorporate the financial statements of the Commission, being the parent entity and the Corporation, being its subsidiary.

The financial statements of the Corporation are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All significant inter-entity balances and transactions have been eliminated in full.

(c) Taxation

The Commission and Corporation, pursuant to the State Enterprises (Commonwealth Tax Equivalents) Act 1996, are liable to pay to the State Treasurer a tax equivalent sum in respect of each financial year. All Funds of the Commission are subject to the Tax Equivalent Regime ("TER"), except for the Government Insurance Fund.

The purpose of the TER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring they bear similar tax-based imposts.

The tax equivalent sum is equal to the amount of any income tax for which the Commission and/or Corporation would have been liable in respect of the financial year if they were not exempt from that tax under the relevant Commonwealth Act.

As the TER obligations are equivalent to those of a public company, Australian Accounting Standard "Accounting for Income Tax" (AAS 3) has been adopted. Where the Commission or Corporation has tax losses, the net future income tax benefit relating to the tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised. Refer Note 5.

(d) Revenue Recognition

Revenue is recognised to the extent that it is probable that the 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.

C 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.

C 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.

C 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 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 discount and inflation rates used are set out in Note 11.

C Interest Income

Interest income is recognised as it accrues.

C 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.

C 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.

C 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.

c Foreign Exchange Revenue

Refer Note 1 (g) "Foreign Currencies".

C 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.

(e) 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 surplus/deficit, 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.

(f) Outwards Reinsurance

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

(g) Foreign Currencies

- Transactions of the economic entity in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.
- Assets (including investments) and liabilities of the economic entity denominated in foreign currencies at the 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.

(h) Plant and Equipment

Plant and equipment are measured at cost. 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 annual depreciation rates used for each class of plant and equipment, for both the current and previous year, are as follows:

	<u>2001</u>	<u>2000</u>
C Plant and Equipment	16 %	16 %
C Furniture and Fittings	12 %	12 %
C Computer Hardware	33 %	25 %
C Computer Software	25 %	25 %
C Motor Vehicles	50 %	50 %
C Leasehold improvements	15 %	n/a

(i) 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 expected net cash flows have, where applicable, been discounted to their present value using a market determined risk adjusted discount rate.

(j) Outstanding Claims

The liability for outstanding claims at balance date comprises:

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

together with the anticipated direct and indirect claims' settlement costs.

The liability for outstanding claims is the present value of the expected future 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 rates of return.

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

C 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.

C 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 31(c)). The prudential margin provides for a higher degree of certainty that the liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by a prudential margin that allows for an 80% level of confidence.

(k) Receivables

C Premium Receivable

Premium 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 subsequent to balance date. Refer Note 1(d).

C Other Receivables

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

(l) Employee Entitlements

C 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 based upon current salary rates 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 estimated future cash outflows. 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. In determining the liability, consideration has been given to future increases in salary rates, experience with staff departures and periods of service.

C Superannuation

The Commission's employees have an entitlement to superannuation under either the defined benefit Pension scheme (Superannuation and Family Benefits Act 1938), the defined benefit Gold State Superannuation scheme or the accumulation West State Superannuation scheme (Government Employees Superannuation Act 1987).

The defined benefit Pension scheme and the Gold State Superannuation Scheme were closed to new members with effect from 15 August 1986 and 30 December 1995 respectively.

The employer's liability to meet members' pensions under the defined benefit pension scheme is paid to Treasury at the end of each month. The liability for superannuation charges under the Gold State Superannuation and West State Superannuation schemes are extinguished by payments of employer contributions to the Government Employees Superannuation Board. Refer Note 12.

The liability for superannuation charges under the defined benefit Pension scheme, together with the pre-transfer service liability for employees who transferred to the Gold State Superannuation scheme, is provided for at balance date. The superannuation liability is determined following an independent actuarial assessment of the present value of the liability.

C Superannuation - Net Market Value of Plan Assets

In relation to the defined benefit Gold State Superannuation scheme, the note disclosure required by paragraph 51(e) of Australian Accounting Standard "Accounting for Employee Entitlements" (AAS 30) (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 Government of Western Australia in its whole of government reporting. The Government Employees Superannuation Board's records are not structured to provide this information for the Commission. Accordingly, deriving the information is impractical under current

arrangements and any benefits thereof would be exceeded by the cost of obtaining the information.

In relation to the defined benefit 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 taken on the basis that there is no pre-funding of the employer's liability for benefits under the Pension scheme. Refer Note 12.

(m) 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.

(n) 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.

(o) 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.

C 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 are accrued monthly using the coupon rate of interest.

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 on a straight-line basis over the term period.

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 cost 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.

C 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.

C 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.

C Units in Equity Trusts

Net fair value 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.

C 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.

C Classification of Investments

Investments other than freehold properties and unlisted shares are treated as current assets on the basis that they are readily convertible into cash.

(p) 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 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).

C 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. 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.

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.

C 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.

(q) Net Fair Value of Financial Assets and Liabilities

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

C 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(o) for determination of net fair value of unlisted units in equity trusts.

C Recognised Financial Liabilities

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

C 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.

(r) Bank

Any bank liability 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.

(s) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, 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 not subject to a significant risk of changes in value), net of any bank account liability. Refer Note 1(r).

STATE GOVERNMENT INSURANCE CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

69

(t) Management Fee

RiskCover (a Managed Fund) and the Corporation are charged a management fee in proportion to their usage of the Commission's services.

(u) 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.

(v) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	<u>Notes</u>	CONSOLIDATED		COMMISSION	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
2. REVENUE					
(a) Revenue from Operating Activities					
Premium					
Direct (i)		291,081	276,584	291,081	276,584
Inwards Reinsurance		(31)	(20)	-	-
		-----	-----	-----	-----
		291,050	276,564	291,081	276,584
		-----	-----	-----	-----
Outwards Reinsurance Commission		137	151	137	151
Recoveries					
Reinsurance		(7,556)	(15,891)	(7,576)	(15,893)
Other		30,376	17,730	30,376	17,730
		-----	-----	-----	-----
		22,820	1,839	22,800	1,837
		-----	-----	-----	-----
Investments					
Property		26,543	18,210	26,543	18,210
Dividends		16,776	16,743	16,776	16,743
Interest		26,572	29,215	26,371	28,972
Changes in Net Market Values: Unrealised		23,914	59,094	23,914	59,094
Changes in Net Market Values: Realised		(9,964)	5,004	(9,964)	5,004
Foreign Exchange Gain	3	9,737	6,544	9,737	6,544
Recovery of investments previously written off (ii)		3,814	21,119	3,814	21,119
Other		193	202	193	202
		-----	-----	-----	-----
		97,585	156,131	97,384	155,888
		-----	-----	-----	-----
Other					
Management Fees		12,324	11,184	12,324	11,184
Right of Indemnity - Government Insurance Fund		7,731	(5,331)	7,731	(5,331)
Interest		803	589	758	547
Foreign Exchange Gain: Corporation		499	379	-	-
Sundry		113	156	113	156
		-----	-----	-----	-----
		21,470	6,977	20,926	6,556
		-----	-----	-----	-----
		433,062	441,662	432,328	441,016
		-----	-----	-----	-----
(b) Revenue from Non-Operating Activities					
Proceeds from Sale of Plant and Equipment		445	334	445	334
		-----	-----	-----	-----
Total Revenue		433,507	441,996	432,773	441,350
		=====	=====	=====	=====

(i) Premium revenue in 2000 is stated after deducting a charge of \$11,067,000 relating to a Goods and Services Tax liability on Third Party Insurance premiums issued during 1999/2000, covering policy periods beyond 1 July 2000, the cost of which was unable to be passed on to policy holders. This charge was shown as an abnormal item in the 2000 financial statements.

(ii) Recovery of Investments previously written off in 2001 relates to Spedley Securities Limited (in Liquidation). Refer Note 7.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	<u>Notes</u>	CONSOLIDATED		COMMISSION	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
3. NET GAINS/(LOSSES) AND EXPENSES					
Profit from Ordinary Activities Before Income Tax					
Expense includes the following specific net gains/(losses) and expenses:					
Net Gains/(Losses)					
Foreign Exchange Gain/(Loss)					
Investment - Realised		(988)	(1,423)	(988)	(1,423)
- Unrealised		10,725	7,967	10,725	7,967
		9,737	6,544	9,737	6,544
Corporation		499	379	-	-
Net Foreign Exchange Gain		10,236	6,923	9,737	6,544
Other					
Net Loss on Disposal of Plant and Equipment		(34)	(7)	(34)	(7)
Total Net Gains/(Losses)		10,202	6,916	9,703	6,537
Expenses					
Claims					
Direct		243,287	343,298	243,287	343,298
Inwards Reinsurance		101	4,710	-	-
		243,388	348,008	243,287	343,298
Outwards Reinsurance		1,799	1,525	1,646	1,524
Investments					
Property		7,447	7,490	7,447	7,490
Provision for Cost of Realisation		458	601	458	601
Investment Management and Custodian Fees		4,222	3,068	4,222	3,068
Administration - Commission		1,012	832	1,012	832
Interest - RiskCover	31	12,318	15,311	12,318	15,311
		25,457	27,302	25,457	27,302
Underwriting and Administration					
Accident Prevention and Research		3,110	2,566	3,110	2,566
Acquisition Costs		6,358	5,776	6,363	5,775
Levies and Charges		172	310	172	310
Bad and Doubtful Debts		(44)	(33)	(37)	(32)
Amounts paid or due and payable to the Auditor General					
- Auditing the financial statements		197	186	190	180
Board of Commissioners' Fees		245	245	245	245
Contractors and Consultants		3,447	2,935	3,417	2,887
Debt Recovery Costs		4,990	5,271	4,990	5,271
Depreciation		1,567	1,133	1,567	1,133
Employee Entitlements					
- Annual Leave		1,081	839	1,081	839
- Long Service Leave		590	475	590	475
- Salaries and Employee-Related Costs		12,869	12,434	12,869	12,434
- Superannuation		2,576	1,138	2,576	1,138
IT Hardware and Software		2,589	2,020	2,589	2,020
Other Underwriting and Administration		2,539	2,757	2,395	2,557
		42,286	38,052	42,117	37,798
Other					
Net Loss on Disposal of Plant and Equipment		34	7	34	7
Plant and Equipment Written Off		27	-	27	-
Indemnity for Corporation's Net Liabilities	24	-	-	(316)	4,311
Internal Interest		-	-	5	8
Sundry		348	255	348	255
		409	262	98	4,581
Total Expenses		313,339	415,149	312,605	414,503

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. NET CLAIMS INCURRED

Current Year	CONSOLIDATED	COMMISSION		
	2001 Total \$'000	Current Year (i) \$'000	2001 Prior Years (ii) \$'000	Total \$'000
Gross Claims Incurred and Related Expenses - Undiscounted	194,284	359,191	(158,065)	201,126
Reinsurance and Other Recoveries - Undiscounted	(21,998)	(29,860)	7,890	(21,970)
Net Claims Incurred - Undiscounted	172,286	329,331	(150,175)	179,156
Discount and Discount Movement - Gross Claims Incurred	49,103	(64,820)	106,980	42,160
Discount and Discount Movement - Reinsurance and Other Recoveries	(821)	(8,650)	7,821	(829)
Net Discount Movement	48,282	(73,470)	114,801	41,331
Net Claims Incurred	220,568	255,861	(35,374)	220,487
Previous Year	2000 Total \$'000	Current Year (i) \$'000	2000 Prior Years (ii) \$'000	Total \$'000
Gross Claims Incurred and Related Expenses - Undiscounted	381,932	362,096	13,227	375,323
Reinsurance and Other Recoveries - Undiscounted	759	-	741	741
Net Claims Incurred - Undiscounted	382,691	362,096	13,968	376,064
Discount and Discount Movement - Gross Claims Incurred	(33,926)	(78,200)	46,174	(32,026)
Discount and Discount Movement - Reinsurance and Other Recoveries	(2,596)	-	(2,577)	(2,577)
Net Discount Movement	(36,522)	(78,200)	43,597	(34,603)
Net Claims Incurred	346,169	283,896	57,565	341,461

(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.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED		COMMISSION	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
5. INCOME TAX				
(a) Calculation of Income Tax Expense				
Operating Profit before Income Tax Expense	119,723	26,513	119,723	26,513
Prima Facie Income Tax Expense on the Operating Profit at 34% (2000 - 36%)	(40,706)	(9,545)	(40,706)	(9,545)
Tax Effect of Permanent Differences:				
Non-assessable items	6,566	11,023	6,566	11,023
Allowable deductions not recognised in the Statement of Financial Performance	(107)	1,552	-	-
Non-deductible items	(576)	(2,706)	(576)	(2,706)
Tax Effect of Losses not previously brought to account	34,823	(324)	34,716	1,228
Income Tax Expense attributable to Operating Profit	-	-	-	-
(b) Tax Losses				
Balance at the Beginning of the Year	(331,802)	(248,486)	(267,117)	(188,116)
Tax Profit/(Loss) arising in year	96,767	(83,316)	96,251	(79,001)
Balance at the End of the Year	(235,035)	(331,802)	(170,866)	(267,117)

Benefit of Tax Losses not brought to account

At balance date, the economic entity had tax losses of \$235.0 million (2000 - \$331.8 million) which are available to offset against future years' taxable income, of which \$99.0 million (2000 - \$246.0 million) is unrecognised.

The benefit of these unrecognised losses of \$29.7 million is expected to be realised after 1 July 2002 and is therefore expressed at a corporate rate of 30% (2000 - \$73.8 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 Commission or Corporation derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; and
- the Commission or Corporation continues to comply with the conditions for deductibility imposed by the National Tax Equivalent Regime ("NTER"); and
- no changes in the NTER adversely affect the Commission or Corporation in realising the benefit.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED		COMMISSION	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
6. RECEIVABLES				
Current				
Premiums Receivable	3,198	2,469	3,198	2,469
Less: Provision for Doubtful Debts	(8)	(4)	(8)	(4)
	<u>3,190</u>	<u>2,465</u>	<u>3,190</u>	<u>2,465</u>
Reinsurance and Other Recoveries Receivable	15,708	8,126	15,621	8,035
Less: Provision for Doubtful Debts	(652)	(710)	(587)	(638)
	<u>15,056</u>	<u>7,416</u>	<u>15,034</u>	<u>7,397</u>
Right of Indemnity -				
Government Insurance Fund (i)	11,991	12,189	11,991	12,189
Workers' Compensation and Rehabilitation Commission (ii)	41,035	-	41,035	-
	<u>53,026</u>	<u>12,189</u>	<u>53,026</u>	<u>12,189</u>
Other Receivables	8,703	4,455	8,703	4,455
	<u>79,975</u>	<u>26,525</u>	<u>79,953</u>	<u>26,506</u>
Non-Current				
Reinsurance and Other Recoveries Receivable	50,101	44,296	49,950	44,163
Right of Indemnity -				
Government Insurance Fund (i)	44,575	48,484	44,575	48,484
Workers' Compensation and Rehabilitation Commission (ii)	78,117	-	78,117	-
	<u>122,692</u>	<u>48,484</u>	<u>122,692</u>	<u>48,484</u>
Other Receivables (iii)	34,113	22,504	34,113	22,504
	<u>206,906</u>	<u>115,284</u>	<u>206,755</u>	<u>115,151</u>
Movement in Provision for Doubtful Debts				
Balance at Beginning of the Year	714	747	642	674
Previously provided for and written off during the year	(10)	-	(10)	-
Previously provided for but provision no longer required	(49)	(33)	(42)	(32)
New provision in the year	5	-	5	-
	<u>660</u>	<u>714</u>	<u>595</u>	<u>642</u>

- (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 Insurance 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 \$27.9 million (2000 - \$16.0 million) relating to costs incurred in a debt recovery action. Refer Note 7.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
		\$'000	\$'000	\$'000	\$'000
7. INVESTMENTS					
Current					
At Net Market Value					
Government Bonds		73,607	81,128	73,607	81,128
Semi-Government Bonds		114,622	126,571	114,622	126,571
Corporate Bonds		127,123	107,243	127,123	107,243
Indexed Bonds		53,373	49,512	53,373	49,512
Fixed Interest Unit Trusts		39,420	42,971	39,420	42,971
Shares - Listed		637,522	542,348	637,522	542,348
Equity Unit Trusts		14,869	8,921	14,869	8,921
Futures		75	-	75	-
Forward Foreign Exchange Contracts		(3,058)	485	(3,058)	485
Short-Term Discount Securities	(i)	16,836	35,193	13,883	32,695
Deposits At Call	(i)	27,298	19,615	26,833	18,952
Debtors	(ii)	22,900	17,896	22,938	17,889
Creditors	(iii)	(7,143)	(6,179)	(7,143)	(6,179)
Floating Rate Promissory Note	(iv)	(179,309)	(146,691)	(179,309)	(146,691)
		938,135	879,013	934,755	875,845
Non-Current					
At Net Market Value					
Freehold Properties	(v)	282,500	272,000	282,500	272,000
Shares - Unlisted		-	-	-	-
Investment in Subsidiary	(vi)	-	-	100,000	100,000
Provision for Write Down in Subsidiary		-	-	(100,000)	(100,000)
		282,500	272,000	282,500	272,000
		1,220,635	1,151,013	1,217,255	1,147,845

- (i) Short-term discount securities and deposits at call are cash assets which are investments integral to the general insurance activities of the entity.
- (ii) Debtors mainly comprise accrued interest, dividends and unsettled transaction trades.
- (iii) Creditors mainly comprise unsettled transaction trades.
- (iv) The Floating Rate Promissory Note represents RiskCover's share of the investment pool of the economic entity. Refer Note 31.
- (v) The Commission has a policy of having all freehold properties valued annually by one or more independent valuers. All properties have been valued at 30 June 2001. Refer Note 1(o). The independent valuers used for the balance date valuations were Mr S Nuttall AAPI ASIA of CB Richard Ellis (W) Pty Ltd for the Forrest Centre and Mr G N Kennedy FAPI of Jones Lang LaSalle for the Hartley Poynton Building.
- (vi) The Commission owns 100% of the issued share capital of the Corporation. The investment in the Corporation is fully written down at 30 June 2001 because its liabilities exceed its assets. The Corporation's net deficiency in assets at balance date of \$9.5 million (2000 - \$9.9 million) has been included as a current liability of the Commission. Refer Note 14.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. INVESTMENTS (continued)

Rothwells Limited (in Liquidation) ("Rothwells") - Investment

The Rothwells' investment debt (previously written off) is \$78.054 million. Total dividends received from the liquidator up to 30 June 2000 amounted to \$29.437 million (37.71 cents in the dollar). No further distributions were received during the year to 30 June 2001.

There is uncertainty with respect to the likely payment and timing of any further dividends to creditors.

The Board, having regard to that uncertainty, believes that it is appropriate to maintain the carrying value of this investment debt at zero.

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

The Spedley's investment debt (previously written off) is \$31.849 million. Dividends for the full amount had been received from the liquidator by 30 June 2000. An additional \$4.153 million had been received from the liquidator in the year to 30 June 2000 representing interest earned on the funds held by the liquidator. Further interest received in the year to 30 June 2001 amounted to \$3.814 million, resulting in total interest received to 30 June 2001 of \$7.967 million. The liquidator has advised that there will be a small final distribution, however the timing and value of this payment is uncertain and has therefore not been brought to account at balance date.

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 to conduct an action for the recovery of approximately \$280 million plus interest (which results in a total claimed recovery to the liquidation in excess of \$1 billion) from two syndicates of banks headed by Westpac Banking Corporation Ltd and Lloyds Bank PLC of London.

At balance date insurance policies were in place to cover the Commission's exposure to the funding of the liquidators' costs from 1 April 1999.

The Board, having regard to the uncertainty that exists in relation to the amount and timing of any dividend to be received from the liquidator, believe that it is appropriate to maintain the carrying value of the Bell bonds at zero.

- TBGL Shares and Southern Equities Corporation Ltd (in Liquidation) ("SECL") Indemnity

The Commission is also owed \$200.967 million 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.

There are several matters yet to be resolved by the liquidator that may affect the amount available for distribution to creditors from the SECL administration.

The Board having regard to the uncertainty that exists in relation to the amount and timing of dividends to be received from the liquidator, believe that it is appropriate to maintain the carrying value of this debt at zero.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED		COMMISSION	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
8. OTHER ASSETS				
Current				
Prepaid Expenses	512	465	512	465
Deferred Acquisition Costs	2,217	2,305	2,217	2,305
	-----	-----	-----	-----
	2,729	2,770	2,729	2,770
	=====	=====	=====	=====
9. PLANT AND EQUIPMENT				
Plant and Equipment				
At Cost	1,064	922	1,064	922
Less: Accumulated Depreciation	(593)	(603)	(593)	(603)
	-----	-----	-----	-----
	471	319	471	319
	-----	-----	-----	-----
Furniture and Fittings				
At Cost	819	1,063	819	1,063
Less: Accumulated Depreciation	(783)	(977)	(783)	(977)
	-----	-----	-----	-----
	36	86	36	86
	-----	-----	-----	-----
Computer Hardware and Software				
At Cost	7,929	6,011	7,929	6,011
Less: Accumulated Depreciation	(5,155)	(4,156)	(5,155)	(4,156)
	-----	-----	-----	-----
	2,774	1,855	2,774	1,855
	-----	-----	-----	-----
Motor Vehicles				
At Cost	1,125	1,131	1,125	1,131
Less: Accumulated Depreciation	(152)	(158)	(152)	(158)
	-----	-----	-----	-----
	973	973	973	973
	-----	-----	-----	-----
Leasehold Improvements				
At Cost	343	-	343	-
Less: Accumulated Depreciation	(34)	-	(34)	-
	-----	-----	-----	-----
	309	-	309	-
	-----	-----	-----	-----
	4,563	3,233	4,563	3,233
	=====	=====	=====	=====
10. CREDITORS AND ACCRUALS				
Current				
Sundry Creditors	7,768	5,284	7,768	5,284
Reinsurance Creditors	453	451	289	270
Goods and Services Tax Liability	2,441	11,044	2,441	11,044
	-----	-----	-----	-----
	10,662	16,779	10,498	16,598
	=====	=====	=====	=====

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED		COMMISSION	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
11. OUTSTANDING CLAIMS				
Liability for Outstanding Claims (undiscounted)	1,547,733	1,478,757	1,530,408	1,460,579
Discount to present value	(292,232)	(321,129)	(288,570)	(316,912)
	-----	-----	-----	-----
Liability for Outstanding Claims (discounted)	1,255,501	1,157,628	1,241,838	1,143,667
	=====	=====	=====	=====
Current	353,187	284,289	350,240	282,195
Non-Current	902,314	873,339	891,598	861,472
	-----	-----	-----	-----
	1,255,501	1,157,628	1,241,838	1,143,667
	=====	=====	=====	=====

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(j). The degree of certainty required by the Board has been achieved by a prudential margin that allows for an 80% (2000 - 80%) 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 \$87.4 million (2000 - \$66.0 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 Insurance 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 Insurance 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 Insurance Commission's underwriting activities.

The actuarially assessed outstanding claims liabilities for these HIH policies of \$119.2 million are included in the Insurance Commission's total "Liability for Outstanding Claims (discounted)" above of \$1,241.8 million and includes a prudential margin that allows for an 80% level of confidence. This prudential margin has added \$16.8 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 currently uncertain. No material EISF Act outstanding claims liabilities existed at 30 June 2000.

In accordance with Section 25(2) of the EISF Act, the Insurance 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.

Inwards Reinsurance

The measurement of the liability for outstanding claims is consistent with Direct Insurance above. The level of confidence is 80% (2000 - 80%). The prudential margin has added \$1.8 million (2000 - \$1.8 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 \$0.8 million (2000 - \$0.9 million) and \$1.7 million (2000 - \$1.9 million) respectively.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. OUTSTANDING CLAIMS (Continued)

Liability for Outstanding Claims

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

	CONSOLIDATED		COMMISSION	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Insurance Commission General Fund				
- General Insurance*	42,224	43,315	42,224	43,315
- EISF Act *	119,152	-	119,152	-
	161,376	43,315	161,376	43,315
Third Party Insurance Fund	1,001,160	1,004,420	1,001,160	1,004,420
Compensation (Industrial Diseases) Fund	7,724	10,111	7,724	10,111
Government Insurance Fund *	71,578	85,821	71,578	85,821
Total Commission	1,241,838	1,143,667	1,241,838	1,143,667
Inwards Reinsurance - Corporation *	13,663	13,961	-	-
Total Consolidated	1,255,501	1,157,628	1,241,838	1,143,667

* Indicates Funds in "run-off"

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 2001 for each fund of the Commission:

Third Party Insurance Fund	% Rates Used - 2001		% Rates Used - 2000	
	Year Ending 30 June 2002	Subsequent Years	Year Ending 30 June 2001	Subsequent Years
Inflation Rate (Wage)	2.60	4.64	2.60	5.30
Superimposed Inflation	6.00	6.00	6.00	6.00
Total Inflation*	8.76	10.92	8.76	11.62
Discount Rate	6.00	7.15	7.00	7.22

Compensation (Industrial Diseases) Fund	% Rates Used - 2001		% Rates Used - 2000	
	Year Ending 30 June 2002	Subsequent Years	Year Ending 30 June 2001	Subsequent Years
Inflation Rate (Wage)	2.60	4.60	2.60	4.75
Superimposed Inflation	-	-	2.00	2.00
Total Inflation*	2.60	4.60	4.65	6.85
Discount Rate	6.00	7.30	7.00	7.38

Insurance Commission General Fund	% Rates Used - 2001		% Rates Used - 2000	
	Year Ending 30 June 2002	Subsequent Years	Year Ending 30 June 2001	Subsequent Years
- General Insurance				
Inflation Rate (Wage)	2.60	4.60	2.60	4.87
Superimposed Inflation	-	-	2.00	2.00
Total Inflation*	2.60	4.60	4.65	6.97
Discount Rate	6.04	7.30	7.00	7.36
- EISF Act				
Inflation Rate (Wage)	3.50	3.50	n/a	n/a
Superimposed Inflation	8.24	8.24	n/a	n/a
Total Inflation*	12.03	12.03	n/a	n/a
Discount Rate	5.00	6.20	n/a	n/a

Government Insurance Fund	% Rates Used - 2001		% Rates Used - 2000	
	Year Ending 30 June 2002	Subsequent Years	Year Ending 30 June 2001	Subsequent Years
- Workers' Compensation				
Inflation Rate (Wage)	2.60	4.70	2.60	5.37
Superimposed Inflation	4.00	4.00	9.00	4.72
Total Inflation*	6.70	8.89	11.83	10.34
Discount Rate	6.00	7.30	7.00	7.30
- Liability				
Inflation Rate (Wage)	2.60	4.60	2.60	5.33
Superimposed Inflation	5.00	5.00	5.50	5.50
Total Inflation*	7.73	9.83	8.24	11.12
Discount Rate	6.00	7.20	7.00	7.25

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 2001 and 2000 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.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

		Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund (iii)	
	<u>Notes</u>	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
11. OUTSTANDING CLAIMS (Continued)									
(a) Commission									
The following are the liabilities for outstanding claims for each Fund:									
Liability for Outstanding Claims (undiscounted)		1,211,030	1,266,080	11,840	18,517	108,896	104,481	198,642	71,501
Discount to present value		(209,870)	(261,660)	(4,116)	(8,406)	(37,318)	(18,660)	(37,266)	(28,186)
		-----	-----	-----	-----	-----	-----	-----	-----
Liability for Outstanding Claims (discounted)		1,001,160	1,004,420	7,724	10,111	71,578	85,821	161,376	43,315
		=====	=====	=====	=====	=====	=====	=====	=====
Current	21	286,800	254,450	1,043	859	15,442	21,795	46,955	5,091
Non-Current	21	714,360	749,970	6,681	9,252	56,136	64,026	114,421	38,224
		-----	-----	-----	-----	-----	-----	-----	-----
		1,001,160	1,004,420	7,724	10,111	71,578	85,821	161,376	43,315
		=====	=====	=====	=====	=====	=====	=====	=====
Weighted average expected term to settlement		2 yrs 7 mths	3 yrs	5 yrs 8 mths	11 yrs	(i)	(i)	(ii)	(ii)

(i) The long-tail classes in the Government Insurance Fund comprise Workers' Compensation: 5 yrs 4 mths (2000 - 3 yrs 3 mths) and Liability: 3 yrs 10 mths (2000 - 3 yrs 8 mths).

(ii) The long-tail classes in the Insurance Commission General Fund comprise General Insurance : 5 yrs 10 mths (2000 - 9 yrs 1 mth) and EISF Act liabilities : 2 yrs 3 mths (2000 - not applicable).

(iii) The Insurance Commission General Fund includes the liabilities arising under the EISF Act as follows :-

Liability for Outstanding Claims (undiscounted)	133,668	-
Discount to present value	(14,516)	-
	-----	-----
Liability for Outstanding Claims (discounted)	119,152	-
	=====	=====
Current	41,035	-
Non-Current	78,117	-
	-----	-----
	119,152	-
	=====	=====

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. OUTSTANDING CLAIMS (Continued)

Compensation (Industrial Diseases) Fund

The long duration of 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 2024.

The above liability includes an amount of \$6.9 million (2000 - \$9.3 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 \$2.5 million (2000 - \$2.4 million) is included in Reinsurance and Other Recoveries Receivable in Note 6. This produces a net liability for asbestos-mining-related claims of \$4.4 million (2000 - \$6.9 million).

Insurance Commission General Fund - General 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 2025.

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 \$37.6 million (2000 - \$38.9 million) representing the estimated liability, prior to future recoveries, for the Wittenoom asbestos-related common law claims. A recoverable amount of \$20.9 million (2000 - \$20.9 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 \$16.7 million (2000 - \$18.0 million).

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED	
	2001	2000
	\$'000	\$'000
11. OUTSTANDING CLAIMS (Continued)		
(b) Inwards Reinsurance - Corporation		
Liability for Outstanding Claims (undiscounted)	17,325	18,178
Discount to present value	(3,662)	(4,217)
	-----	-----
Liability for Outstanding Claims (discounted)	13,663	13,961
	=====	=====
Current	2,947	2,094
Non-Current	10,716	11,867
	-----	-----
	13,663	13,961
	=====	=====
Weighted average expected term to settlement	5 yrs 4 mths	5 yrs 10 mths

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, reinsurance and other recoveries for the Corporation:

Financial Year	% Rates Used - 2001			% Rates Used - 2000		
	Australia	UK	US	Australia	UK	US
2001	N/A	N/A	N/A	6.0	6.2	6.3
2002	5.0	5.5	4.0	6.0	6.0	6.4
2003	5.8	5.7	4.8	6.1	5.7	6.3
2004	6.1	5.6	5.3	6.3	5.5	6.2
2005	6.3	5.6	5.7	6.4	5.2	6.1
2006	6.5	5.5	6.0	6.4	5.0	6.0
2007	6.5	5.4	6.2	6.5	4.8	5.9
2008	6.5	5.3	6.3	6.5	4.6	5.8
2009	6.5	5.1	6.3	6.5	4.5	5.8
2010	6.5	5.0	6.3	6.5	4.3	5.8
2011	6.5	4.9	6.3	6.5	4.2	5.8
2012 and later	6.5	4.9	6.3	6.5	4.2	5.8

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	<u>Notes</u>	CONSOLIDATED		COMMISSION	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
12. EMPLOYEE ENTITLEMENTS					
Current					
Provisions					
Annual Leave		1,031	1,010	1,031	1,010
Long Service Leave		423	328	423	328
Superannuation: Pension Scheme		1,031	805	1,031	805
	13	2,485	2,143	2,485	2,143
Other Liabilities					
Accrued Salaries		277	214	277	214
Accrued Superannuation: - Gold State/West State		13	190	13	190
	14	290	404	290	404
Total Current		2,775	2,547	2,775	2,547
Non-Current					
Provisions					
Long Service Leave		1,617	1,511	1,617	1,511
Superannuation: Pension Scheme		10,257	9,897	10,257	9,897
Total Non-Current	13	11,874	11,408	11,874	11,408
Total Employee Entitlements		14,649	13,955	14,649	13,955

As explained in Note 1(n), the amounts for 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 entitlements (%)	4.0	4.0	4.0	4.0
Weighted average discount rates (%)	5.7	6.0	5.7	6.0
Weighted average expected term to settlement	4 yrs 3 mths	4 yrs 9 mths	4 yrs 3 mths	4 yrs 9 mths
(b) Superannuation: Pension Scheme				
Weighted average rates of increase in annual employee entitlements (%)	3.5	3.3	3.5	3.3
Weighted average discount rates (%)	6.5	6.5	6.5	6.5
Weighted average expected term to settlement	10 yrs 7 mths	10 yrs 10 mths	10 yrs 7 mths	10 yrs 10 mths

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

		CONSOLIDATED		COMMISSION	
	Notes	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
13. PROVISIONS					
Current					
Employee Entitlements	12	2,485	2,143	2,485	2,143
Rebates		100	653	100	653
		-----	-----	-----	-----
		2,585	2,796	2,585	2,796
		=====	=====	=====	=====
Non-Current					
Employee Entitlements	12	11,874	11,408	11,874	11,408
Mine Workers' Relief Fund (i)		21	22	21	22
		-----	-----	-----	-----
		11,895	11,430	11,895	11,430
		=====	=====	=====	=====

- (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.

14. OTHER LIABILITIES

Current					
Indemnity for Corporation's Net Liabilities	24	-	-	9,548	9,864
Employee Entitlements	12	290	404	290	404
Other		855	697	848	691
		-----	-----	-----	-----
		1,145	1,101	10,686	10,959
		=====	=====	=====	=====

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	<u>Notes</u>	CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
15. RESERVES					
Compensation (Industrial Diseases) Fund					
Balance at beginning of the year		10,535	7,542	10,535	7,542
Transfer from Accumulated Profits	16	2,281	2,993	2,281	2,993
Balance at end of the year		<u>12,816</u>	<u>10,535</u>	<u>12,816</u>	<u>10,535</u>

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 moneys 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 13) 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.

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
16. ACCUMULATED PROFIT/(LOSSES)					
Balance at beginning of the year		(10,326)	(33,846)	(10,326)	(33,846)
Operating profit for the year after Income Tax Expense		119,723	26,513	119,723	26,513
Amount transferred to Compensation (Industrial Diseases) Reserve	15	(2,281)	(2,993)	(2,281)	(2,993)
Balance at end of the year		<u>107,116</u>	<u>(10,326)</u>	<u>107,116</u>	<u>(10,326)</u>

		CONSOLIDATED	
17.	AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)	2001 \$'000	2000 \$'000
Receivables			
Current			
United States dollars		5	5
		5	5
Non-Current			
United States dollars		31	25
Total Receivables		36	30
Payables			
Current			
Canadian dollars		2	3
Great British pounds		752	123
United States dollars		1,652	1,184
		2,406	1,310
Non-Current			
Canadian dollars		13	13
Great British pounds		506	569
United States dollars		5,171	5,601
		5,690	6,183
Total Payables		8,096	7,493

The amounts disclosed above for Receivables and Payables for both 2001 and 2000 relate solely to the Corporation. No amounts relate to the Commission.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 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.

(b) Futures

	CONSOLIDATED	
	2001	2000
	\$'000	\$'000
At balance date the details of outstanding contracts are:		
Up to 1 year		
Interest Rate Futures		
Notional Principal Amount of (Liability)/Asset (i)	(10,231)	4,068
Weighted Average Price	5.71%	6.14%
Equity Futures		
Notional Principal Amount of Asset (i)	3,352	-

- (i) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS (Continued)

(c) 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 2001 (\$'000)					Total	Weighted Average Interest Rate (%)
	Variable Interest Rate	Fixed Interest Rate Maturing in Less than 1 Year	1 to 5 Years	More than 5 Years	Non-Interest Bearing		
Financial Assets							
Cash	-	733	-	-	-	733	4.75
Other Receivables	-	-	-	-	42,815	42,815	-
Right of Indemnity	-	-	-	-	175,718	175,718	-
Government Bonds	-	-	13,594	60,013	-	73,607	5.86
Semi-Government Bonds	-	8,975	53,682	51,965	-	114,622	5.91
Corporate Bonds	-	17,605	97,742	11,776	-	127,123	6.07
Indexed Bonds	-	-	4,800	48,573	-	53,373	3.16
Fixed Interest Unit Trusts	-	-	-	-	39,420	39,420	-
Shares - Listed	-	-	-	-	637,520	637,520	-
Equity Unit Trusts	-	-	-	-	14,869	14,869	-
Equity Futures	-	-	-	-	3,370	3,370	-
Forward Exchange Contracts	-	-	-	-	-	-	-
Short-Term Discount Securities	-	16,836	-	-	-	16,836	4.82
Deposits At Call	-	27,298	-	-	-	27,298	3.24
Investment Debtors	-	-	-	-	22,900	22,900	-
Interest Rate Futures	-	-	-	-	-	-	-
Total Financial Assets	-	71,447	169,818	172,327	936,612	1,350,204	
Weighted Average Interest Rate (%)	-	4.66	5.92	5.13	-		
Financial Liabilities							
Bank	229	-	-	-	-	229	4.75
Sundry Creditors	-	-	-	-	10,209	10,209	-
Investment Creditors	-	-	-	-	7,143	7,143	-
RiskCover Floating Rate Promissory Note	179,309	-	-	-	-	179,309	6.70 (i)
Other Liabilities	-	-	-	-	4,202	4,202	-
Forward Exchange Contracts	-	-	-	-	3,058	3,058	-
Interest Rate Futures	-	10,174	-	-	-	10,174	5.71
Total Financial Liabilities	179,538	10,174	-	-	24,612	214,324	
Weighted Average Interest Rate (%)	6.70 (i)	5.71	-	-	-		
Net Financial Assets/(Liabilities)	(179,538)	61,273	169,818	172,327	912,000	1,135,880	

(i) The weighted average interest rate is the rate the Commission has earned on its own investment portfolio, which includes funds managed on behalf of RiskCover.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS (Continued)

Previous Year	CONSOLIDATED 2000 (\$'000)						Weighted Average Interest Rate (%)
	Variable Interest Rate	Fixed Interest Rate Maturing in			Non-Interest Bearing	Total	
		Less than 1 Year	1 to 5 Years	More than 5 Years			
Financial Assets							
Cash	7,542	964	-	-	-	8,506	5.10
Other Receivables	-	-	-	-	26,959	26,959	-
Right of Indemnity	-	-	-	-	60,673	60,673	-
Government Bonds	-	-	11,306	69,822	-	81,128	6.11
Semi-Government Bonds	1,023	3,588	74,797	47,163	-	126,571	6.38
Corporate Bonds	-	9,451	74,135	23,657	-	107,243	6.32
Indexed Bonds	-	-	-	49,512	-	49,512	3.39
Fixed Interest Unit Trusts	-	-	-	-	42,971	42,971	-
Shares - Listed	-	-	-	-	542,348	542,348	-
Equity Unit Trusts	-	-	-	-	8,921	8,921	-
Equity Futures	-	-	-	-	-	-	-
Forward Exchange Contracts	-	-	-	-	485	485	-
Short-Term Discount Securities	-	35,193	-	-	-	35,193	6.15
Deposits At Call	-	19,614	-	-	-	19,614	3.93
Investment Debtors	-	-	-	-	17,896	17,896	-
Interest Rate Futures	-	4,075	-	-	-	4,075	6.14
Total Financial Assets	8,565	72,885	160,238	190,154	700,253	1,132,095	
Weighted Average Interest Rate (%)	5.82	5.63	6.52	5.55	-		
Financial Liabilities							
Bank	-	-	-	-	1	1	-
Sundry Creditors	-	-	-	-	16,328	16,328	-
Investment Creditors	-	-	-	-	6,179	6,179	-
RiskCover Floating Rate Promissory Note	146,691	-	-	-	-	146,691	10.92 (i)
Other Liabilities	-	-	-	-	3,759	3,759	-
Forward Exchange Contracts	-	-	-	-	-	-	-
Interest Rate Futures	-	-	-	-	-	-	-
Total Financial Liabilities	146,691	-	-	-	26,267	172,958	
Weighted Average Interest Rate (%)	10.92 (i)	-	-	-	-		
Net Financial Assets/(Liabilities)	(138,126)	72,885	160,238	190,154	673,986	959,137	

(i) The weighted average interest rate is the rate the Commission has earned on its own investment portfolio, which includes funds managed on behalf of RiskCover.

(ii) Reconciliation of Net Financial Assets to Net Assets	Notes	CONSOLIDATED	
		2001 \$'000	2000 \$'000
Net Financial Assets as above	18 (c)	1,135,880	959,137
Add/(Less): Interest Rate Futures		10,231	(4,075)
Less: Equity Futures		(3,352)	-
		1,142,759	955,062
Reinsurance and Other Recoveries Receivable	6	65,157	51,712
Investments - Freehold Properties	7	282,500	272,000
Plant and Equipment	9	4,563	3,233
Other Assets		5,919	5,235
Outstanding Claims	11	(1,255,501)	(1,157,628)
Superannuation Liability	12	(11,301)	(10,892)
Unearned Premium		(113,592)	(117,387)
Other Liabilities		(572)	(1,126)
Net Assets per Statement of Financial Position		119,932	209

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS (Continued)

(d) 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 following table details the economic entity's maximum credit risk exposure at balance date without taking into account the value of any collateral or other security obtained. 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 90% (2000 - 84%) of its recognised financial assets in Australia.

	CONSOLIDATED	
	2001	2000
	\$'000	\$'000
Recognised Financial Assets		
The carrying amount of the financial assets recorded in the consolidated Statement of Financial Position, net of any provision for losses	1,346,912	1,128,020
Total Maximum Credit Risk Exposure	1,346,912	1,128,020

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.

AAA rating	263,827	252,576
AA+ to AA- ratings	28,435	93,665
A+ to A- ratings	81,673	78,609
A1+ to A2 (short-term) rating	58,401	2,952
Credit Risk Exposure	432,336	427,802

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS (Continued)

(e) 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:

	CONSOLIDATED	
	2001	2000
	<u>\$'000</u>	<u>\$'000</u>
<i>Not Readily Traded on Organised Markets</i>		
Recognised Financial Assets		
Fixed Interest Unit Trusts	39,420	42,971
Equity Unit Trusts	14,271	8,805
Investment Debtors	22,900	17,896
Receivables (Current and Non-Current)	42,815	26,959
Right of Indemnity (Current and Non-Current)	175,718	60,673
	-----	-----
	295,124	157,304
	=====	=====
Recognised Financial Liabilities		
Investment Creditors	7,143	6,179
Creditors and Accruals	10,209	16,328
Other Liabilities (Current and Non-Current)	4,211	3,759
	-----	-----
	21,563	26,266
	=====	=====

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 Review of Insurance 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.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. FUNDS' STATEMENT OF FINANCIAL PERFORMANCE

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Premium Revenue	290,693	276,140	388	443	-	1	-	-
Outwards Reinsurance Expense	(1,646)	(1,514)	-	-	-	(10)	-	-
Outwards Reinsurance Commission Revenue	137	151	-	-	-	-	-	-
Net Earned Premium	289,184	274,777	388	443	-	(9)	-	-
Claims (Incurred)/Credit Reinsurance and Other Recoveries Revenue/(Charge)	(237,608)	(340,189)	2,166	941	(5,564)	(1,069)	(2,455)	(3,918)
Net Claims (Incurred)/Credit	(214,360)	(343,594)	2,427	912	(8,189)	2,924	(375)	(1,703)
Underwriting and Administration Expenses	(23,796)	(20,921)	(766)	(385)	(232)	(1,228)	(19,154)	(17,073)
UNDERWRITING PROFIT/(LOSS)	51,028	(89,738)	2,049	970	(8,421)	1,687	(19,529)	(18,776)
Investment Income	84,042	133,573	1,329	2,184	704	3,722	13,063	18,130
Other Revenue	-	-	-	-	7,747	(5,326)	13,266	11,969
Investment Expenses	(11,045)	(10,353)	(173)	(161)	(30)	(83)	(14,209)	(16,704)
Other Expenses	-	-	1	-	-	-	(99)	(4,581)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX (EXPENSE)/BENEFIT	124,025	33,482	3,206	2,993	-	-	(7,508)	(9,962)
Income Tax (Expense)/Benefit attributable to Operating Profit/(Loss)	(1,511)	(3,493)	(925)	-	-	-	2,436	3,493
OPERATING PROFIT/(LOSS) AFTER INCOME TAX (EXPENSE)/BENEFIT RECOGNISED IN EQUITY	122,514	29,989	2,281	2,993	-	-	(5,072)	(6,469)

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 2001 and 30 June 2000.

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 \$1.754 million (2000 - \$1.722 million) in relation to the Commission's portion of the rentals incurred as an owner/occupier.
- (ii) Net Claims recoveries of \$0.164 million (2000 - \$0.937 million) by the Government Insurance Fund from the Third Party Insurance Fund for workers' compensation expense arising out of injuries involving motor vehicles.
- (iii) Fees of \$0.087 million (2000 - \$0.087 million) in relation to the management of the Government Insurance Fund's claims by the Insurance Commission General Fund.
- (iv) Tax Losses transferred of \$2.436 million (2000 - \$3.493 million) from the Insurance Commission General Fund. \$1.511 million (2000 - \$3.493 million) was transferred to the Third Party Insurance Fund and \$0.925 million (2000 - \$Nil) to the Compensation (Industrial Diseases) Fund.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FUNDS' STATEMENT OF FINANCIAL POSITION

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
CURRENT ASSETS								
Cash Assets	-	-	-	-	-	-	-	7,541
Receivables	12,652	5,714	411	209	15,445	13,926	51,445	10,150
Investments	-	-	-	-	-	-	934,835	875,845
Other	2,245	2,375	-	-	-	-	484	395
TOTAL CURRENT ASSETS	14,897	8,089	411	209	15,445	13,926	986,764	893,931
NON-CURRENT ASSETS								
Receivables	22,450	10,605	2,167	2,269	51,623	61,738	132,951	40,539
Investments	-	-	-	-	-	-	282,500	272,000
Plant and Equipment	-	-	-	-	-	-	4,563	3,233
TOTAL NON-CURRENT ASSETS	22,450	10,605	2,167	2,269	51,623	61,738	420,014	315,772
Inter-Fund Investments	1,248,260	1,159,920	19,042	18,331	4,769	11,151	(1,272,072)	(1,189,402)
TOTAL ASSETS	1,285,607	1,178,614	21,620	20,809	71,837	86,815	134,706	20,301
CURRENT LIABILITIES								
Bank	-	-	-	-	-	-	229	-
Creditors and Accruals	7,111	13,513	3	50	154	330	3,309	2,705
Outstanding Claims	286,800	254,450	1,043	859	15,442	21,795	46,955	5,091
Unearned Premiums	113,442	117,276	150	111	-	-	-	-
Provisions	-	-	-	-	100	653	2,485	2,143
Other	663	4,199	2	2	5	11	10,016	10,240
TOTAL CURRENT LIABILITIES	408,016	389,438	1,198	1,022	15,701	22,789	62,994	20,179

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FUNDS' STATEMENT OF FINANCIAL POSITION (Continued)

		Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	<u>Notes</u>	<u>2001</u> <u>\$'000</u>	<u>2000</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>	<u>2000</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>	<u>2000</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>	<u>2000</u> <u>\$'000</u>
NON-CURRENT LIABILITIES									
Outstanding Claims		714,360	749,970	6,681	9,252	56,136	64,026	114,421	38,224
Provisions		-	-	-	-	-	-	11,895	11,430
Other		1,511	-	925	-	-	-	-	-
TOTAL NON-CURRENT LIABILITIES		715,871	749,970	7,606	9,252	56,136	64,026	126,316	49,654
TOTAL LIABILITIES		1,123,887	1,139,408	8,804	10,274	71,837	86,815	189,310	69,833
NET ASSETS/(LIABILITIES)		161,720	39,206	12,816	10,535	-	-	(54,604)	(49,532)
EQUITY									
Reserves		-	-	12,816	10,535	-	-	-	-
Funds' Accumulated Profits/(Losses)	22	161,720	39,206	-	-	-	-	(54,604)	(49,532)
TOTAL SURPLUS/(DEFICIENCY)		161,720	39,206	12,816	10,535	-	-	(54,604)	(49,532)

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 2001 and 30 June 2000.

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 \$119.2 million relating to Western Australian workers' compensation policies of insurance issued by the HIH Group of Companies (in provisional liquidation). No material corresponding liabilities existed at 30 June 2000. Refer Note 11.

The above Statement of Financial Position for the four Funds are presented without eliminations for inter-fund transactions. Refer Note 20 (iv).

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FUNDS' ACCUMULATED PROFITS/(LOSSES)

	Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Balance at beginning of the year	39,206	9,217	-	-	-	-	(49,532)	(43,063)
Operating Profit/(Loss) for the year after Income Tax (Expense)/Benefit	122,514	29,989	2,281	2,993	-	-	(5,072)	(6,469)
Amount transferred to Compensation (Industrial Disease) Reserve	-	-	(2,281)	(2,993)	-	-	-	-
Balance at end of the year	161,720	39,206	-	-	-	-	(54,604)	(49,532)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

[illegible]

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

23. EXPLANATORY STATEMENT - COMMISSION (Continued)

COMPARISON OF 2001 ACTUAL RESULTS TO 2001 BUDGET AND 2000 ACTUAL

Operating Profit

The Operating Profit for the Commission of \$119.7 million (before tax) is \$97.5 million more than budget and \$93.2 million more than last year. The analysis below highlights the key variances.

Premium Revenue

The increase in Premium Revenue of \$14.5 million on last year (5.2%) is mainly attributable to a charge to revenue of \$11.0 million (4.0%) in 2000 representing the GST liability on the Third Party Insurance Fund ("TPIF"), previously disclosed as an abnormal item. In addition there was a 1.8% growth in the number of registered vehicles over the previous year in respect to the TPIF.

Claims Incurred

Claims Incurred has seen a \$100.0 million decrease (29.1%) on last year's figure of \$343.3 million, and a \$83.2 million decrease (25.5%) against budget of \$326.5 million.

The bulk of the decrease against last year's result is due to an increase in the 2000 provision for net outstanding claims in TPIF of \$92.2 million compared to a 2001 decrease of \$21.4 million, a variance of \$113.6 million. In addition Gross Claims Paid fell by \$10.8 million in 2001.

Similarly the decrease against budget relates to a budgeted \$77.6 million increase in the TPIF net outstanding claims provision compared to the actual decrease of \$21.4 million, a variance of \$99.0 million. This decrease has resulted from a continuation of the reducing trend in claims frequency combined with favourable variations in relations to the economic assumptions underlying the Actuary's assessment of the TPIF's outstanding claims liabilities.

Reinsurance and Other Recoveries

The increase in Reinsurance and Other Recoveries of \$21.0 million compared to both the 2001 budget and the actuals for 2000 is mainly due to the build up within the Recoverables of the ITC and DAM credits that are available under The New Tax System.

Underwriting and Administration Expenses

The increase on last year of \$4.3 million (11.4%) is mainly related to associated costs with the imaging/workflow project in the Third Party Insurance Division with both contractors and IT costs increasing by \$0.5 million each. An actuarial adjustment of the Superannuation Pension Scheme liability of \$0.6 million, compared to a 2000 reduction in liability of \$0.8 million, resulted in a \$1.4 million increase in the 2001 superannuation cost as compared to 2000. Other expenses also higher than 2000 included Accident Prevention and Research costs (mainly Road Safety Campaign) up by \$0.54 million as well as Acquisitions Costs increasing by \$0.58 million.

Investment Income

The decrease in Investment Income from the previous year was \$58.5 million (37.5%) and is mainly attributable to the lower returns from both Overseas equities of -2.2% (expected 14.6%) and Australian equities of 8.2% (expected 16.8%). All other sectors returns were either equal to or greater than the previous year returns.

Also included in Investment Income is \$3.8 million relating to amounts recoverable from investments previously written off (2000 - \$21.1 million). Refer Note 7.

Actual Investment Income was below budget by \$22.9 million (19.1%), again due to the low equity return as highlighted above.

Other Income

The increase in Other Income of \$14.4 million from 2000 relates mainly to the fluctuation in the GIF Right of Indemnity. The loss from the GIF operations results in a increase of \$7.7 million in the Right of Indemnity, compared to a decrease of \$5.3 million in 2000.

Similarly, Other Income is \$7.3 million (53.9%) more than budget due to the adjustment to the GIF Right of Indemnity.

Other Expenses

The decrease from last year in Other Expenses of \$4.5 million (97.9%) relates to the change in the Indemnity for the Corporation's net liabilities. The reduction in the indemnity for this year of \$0.3 million (2000 - increase in the indemnity of \$4.3 million) has been credited to the Statement of Financial Performance.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

24. GROUP ENTITIES

24. GROUP ENTITIES			Contribution to Consolidated Operating Profit after Income Tax Expense Recognised in Equity					
Name	Legal Form	Place of Inc.	Shares Held		Cost of Investment			
			2001 %	2000 %	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Parent Entity								
Insurance Commission of Western Australia	Statutory Authority	Western Australia	-	-	-	-	119,723	26,513
(Less)/Add Indemnity for Corporation's (profits)/losses (eliminated on consolidation)							(316)	4,311
							119,407	30,824
Subsidiary								
State Government Insurance Corporation	Statutory Authority	Western Australia	100	100	100,000	100,000	316	(4,311)
					100,000	100,000	119,723	26,513

The Commission indemnifies the Corporation in respect of the amount by which its liabilities exceed its assets. At 30 June 2001 the indemnity for the Corporation's net liabilities was \$9.5 million (2000 - \$9.9 million). Refer Note 14.

The reduction in the indemnity for the year ended 30 June 2001 of \$0.3 million (2000 - increase in the indemnity of \$4.3 million) has been credited to the Statement of Financial Performance. Refer Note 3.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. ECONOMIC DEPENDENCY

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

Transport 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 2001 financial year was \$290.7 million (2000 - \$287.2 million), representing virtually all of the Commission's premium revenue.

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

Transport has provided the Commission with a written confirmation dated 13 July 2001 that the above major weaknesses:

- did not in financial years 2000, 2001 and 2002 to date, affect the completeness and accuracy of the Third Party insurance premiums collected on the Commission's behalf by them; and
- have not affected and will not affect Transport's ability to issue and process Third Party insurance premiums collected on the Commission's behalf by them.

Transport's advice also confirms that:

- Third Party insurance premiums remitted to the Commission during the financial years 2000, 2001 and 2002 to date, completely and accurately reflect all such premiums the Commission was entitled to receive as collected on its behalf by Transport; and
- Transport is satisfied that the unearned premium value reported to the Commission is an accurate representation of the liability amount based on tests and algorithms conducted to date.

26. CONTINGENT LIABILITIES

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

27. COMMITMENTS

(a) Capital Commitments

At balance date the Commission had contracted to purchase computer hardware to the value of \$0.4 million (2000 - \$0.9 million).

(b) Road Safety Commitments

The Board has resolved to provide funding of \$2.5 million for road safety community education programs through the Office of Road Safety for the 2002 financial year in addition to the purchase of two booze buses for an estimated cost of \$0.4 million.

(c) Other Commitments

The Commission is committed to pay \$0.8 million into the Supreme Court of Western Australia representing the balance of a total commitment of \$6.3 million, as security costs in The Bell Group Ltd and Bell Group Finance Pty Ltd recovery action. This payment is due to be made at the commencement of the trial.

It is estimated that the Commission may advance approximately \$12 million in funding the liquidators' prosecution of the action during the 2002 financial year.

28. EVENTS OCCURRING AFTER BALANCE DATE

There were no events after balance date that materially affect the financial statements of the economic entity.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

		CONSOLIDATED		COMMISSION	
		2001	2000	2001	2000
		\$'000	\$'000	\$'000	\$'000
29. LOSSES THROUGH THEFT, DEFAULTS AND OTHER CAUSES					
Write off of Revenue and Debt	(i)	10	-	10	-
Write off of Plant and Equipment	(ii)	6	-	6	-
Recovery of Losses	(iii)	5	-	5	-
Gifts of Public Property	(iv)	3	-	3	-

(i) Comprises reinsurance debts of \$10,180
(ii) Comprises fixed assets of \$5,942
(iii) Insurance claims were lodged in relation to fixed assets stolen and settlement of \$4,614 was received.
(iv) Computer equipment totalling \$2,500 was donated to Government schools.

Claims Recoveries Written Off

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

		CONSOLIDATED	
		2001	2000
		\$'000	\$'000
Third Party Insurance Fund		9,642	15,554
Insurance Commission General Fund		-	1
Government Insurance Fund		-	3
		-----	-----
		9,642	15,558
		=====	=====
Amounts written off by the responsible Minister		8,289	12,468
Amounts written off by the Board		1,353	3,090
		-----	-----
		9,642	15,558
		=====	=====

In accordance with Australian Accounting Standard "Financial Reporting of General Insurance Activities" (AAS26), 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 above for the 2001 financial year are net of recoveries received from negligent owners or drivers of \$233,000 (2000 - \$411,000). 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 \$3,474 for the year (2000 - \$5,400), which is more than offset by the recoveries received.

Recoveries arises 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 injured claim and where the driver of the vehicle was in breach of the warranties of the policy or where the vehicle was uninsured.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	CONSOLIDATED	
	2001	2000
	\$'000	\$'000
30. REMUNERATION OF THE BOARD OF COMMISSIONERS AND SENIOR OFFICERS		
Total fees, salaries and other benefits received or due and receivable for the financial year by:		
Board of Commissioners ("Board")	490	485
Senior Officers	1,357	1,335

These amounts are based on a Total Employment Cost incorporating salary and all other employee benefits, excluding employer's contributions to superannuation.

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

Income Band (\$)	No. of Members of the Board	
	2001	2000
20,001 - 30,000	3	3
30,001 - 40,000	1	1
40,001 - 50,000	1	1
90,001 - 100,000	1	1
220,001 - 230,000	1	1

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

Income Band (\$)	No. of Senior Officers	
	2001	2000
80,001 - 90,000	1	1
90,001 - 100,000	-	1
100,001 - 110,000	2	6
110,001 - 120,000	5	2
120,001 - 130,000	1	-
140,001 - 150,000	1	1
150,001 - 160,000	1	1

Retirement Benefits	CONSOLIDATED	
	2001	2000
	\$'000	\$'000
In respect of the Board and Senior Officers, the following amounts were paid or payable to the following superannuation schemes:		
Board of Commissioners		
Gold State	24	22
West State	20	17
Senior Officers		
Gold State	97	108
West State	27	16

At 30 June 2001 there were no members (2000 - Nil) of the Board or Senior Officers remaining as members of the Superannuation and Family Benefit Act 1938 scheme.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED 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 Commission was appointed to administer the Managed Fund 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 2000.

RiskCover's assets are not owned by the economic entity and are therefore not consolidated. The 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 deficit in RiskCover represents a liability 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 Treasury.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2001

	<u>References</u>	<u>2001</u> <u>\$'000</u>	2000 <u>\$'000</u>
Contribution Revenue	(a)	103,298	106,257
Contribution Adjustment	(b)	(8,462)	(18,516)
Outwards Reinsurance Expense		(21,307)	(22,246)
Outwards Reinsurance Commission Revenue		3,486	4,184
		-----	-----
Net Earned Contribution		77,015	69,679
Claims Incurred		(99,328)	(80,657)
Reinsurance and Other Recoveries Revenue		19,874	20,878
		-----	-----
Net Claims Incurred		(79,454)	(59,779)
Underwriting and Administration Expenses		(13,170)	(12,010)
		-----	-----
TRADING DEFICIT		(15,609)	(2,110)
Investment Income		12,318	15,311
		-----	-----
OPERATING (DEFICIT)/SURPLUS		(3,291)	13,201
		=====	=====

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED FUND FINANCIAL STATEMENTS (Continued)

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2001

	<u>References</u>	2001 \$'000	2000 \$'000
CURRENT ASSETS			
Bank		4,490	-
Receivables		20,344	19,580
Investments	(c)	179,309	146,691
Total Current Assets		204,143	166,271
NON-CURRENT ASSETS			
Receivables		6,897	6,836
TOTAL ASSETS		211,040	173,107
CURRENT LIABILITIES			
Bank		-	1,763
Creditors and Accruals		6,955	2,310
Outstanding Claims	(d)	60,562	56,656
Total Current Liabilities		67,517	60,729
NON-CURRENT LIABILITIES			
Creditors and Accruals		21,333	12,260
Outstanding Claims	(d)	127,408	102,045
Total Non-Current Liabilities		148,741	114,305
TOTAL LIABILITIES		216,258	175,034
NET LIABILITIES		(5,218)	(1,927)
EQUITY			
Accumulated Deficit	(e)	(5,218)	(1,927)
TOTAL DEFICIT		(5,218)	(1,927)

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED FUND FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2001

		2001 \$'000	2000 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions Received		117,146	106,443
Reinsurance and Other Recoveries Received		20,691	15,027
Outwards Reinsurance Commission Received		3,835	4,184
Interest Received		12,318	15,311
Outwards Reinsurance Paid		(23,438)	(22,246)
Claims Paid		(71,657)	(59,495)
Underwriting and Administration Expenses Paid		(13,284)	(11,723)
Goods & Services Tax Paid		(6,740)	-
		-----	-----
Net Cash Inflow from Operating Activities	(i)	38,871	47,501
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Investments		(32,618)	(48,200)
		-----	-----
NET INCREASE/(DECREASE) IN CASH HELD		6,253	(699)
CASH AT THE BEGINNING OF THE YEAR		(1,763)	(1,064)
		-----	-----
CASH AT THE END OF THE YEAR	(ii)	4,490	(1,763)
		=====	=====

(i) and (ii) refer to the following page.

In accordance with Urgent Issues Group Abstract 31 "Accounting for the Goods & Services Tax" cash flows are presented on a gross (GST inclusive) basis.

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED FUND FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS (Continued)

	2001 \$'000	2000 \$'000
(i) Reconciliation of Operating (Deficit)/Surplus to Net Cash Flows from Operating Activities		
Operating (Deficit)/Surplus	(3,291)	13,201
Changes in Assets and Liabilities		
Increase in Reinsurance and Other Recoveries Receivable	(178)	(5,851)
Increase in Outstanding Claims	29,269	21,162
Increase in Contribution Adjustment Liability	8,426	18,536
Increase in Other Liabilities	4,645	453
Net Cash Inflow from Operating Activities	38,871	47,501
(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	4,490	(1,763)

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED 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 (3 years after the close of the risk period for Workers' Compensation and 1 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 calculation of the contribution adjustment for each risk period uses claims costs, which have been actuarially assessed (Workers' Compensation only) at the net central estimate. A prudential margin on outstanding claims is not included in this determination in accordance with the Treasury endorsec policy.

The amount provided for represents the estimated additional contributions to be collected or paid based on the current claims trend of the 2001 and 2000 risk periods.

The Contribution Adjustment in respect of the Workers' Compensation class for the 1997/98 cover year, was a net call-up of additional funds totalling \$1.0 million. This comprised 68 agencies contributing an additional \$9.8 million and 113 agencies receiving refunds totalling \$8.8 million.

In respect of the Motor Vehicle class Contribution Adjustment for the 1999/2000 cover year, there was a net refund of \$1.2 million, comprised of 59 agencies contributing an additional \$0.4 million and 67 agencies receiving refunds totalling \$1.6 million.

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

INSURANCE COMMISSION OF WESTERN AUSTRALIA AND ITS SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

31. RISKCOVER MANAGED FUND FINANCIAL STATEMENTS (Continued)

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS

	2001 \$'000	2000 \$'000
(d) Outstanding Claims		
Liability for Outstanding Claims (undiscounted)	233,194	194,464
Discount to present value	(45,224)	(35,763)
	-----	-----
Liability for Outstanding Claims (discounted)	187,970	158,701
	=====	=====
Current	60,562	56,656
Non-Current	127,408	102,045
	-----	-----
	187,970	158,701
	=====	=====
Weighted average expected term to settlement:		
Workers' Compensation	2 yrs 8 mths	2 yrs 3 mths
Liability Classes	3 yrs 10 mths	4 yrs 2 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 classes of business. These short-tail liabilities are not actuarially assessed and total \$17.1 million at balance date (2000 - \$17.7 million)

	2001 \$'000	2000 \$'000
(e) Accumulated Deficit		
Balance of deficit at beginning of the year	(1,927)	(15,128)
(Deficit)/Surplus for the year	(3,291)	13,201
	-----	-----
Balance of deficit at end of the year	(5,218)	(1,927)
	=====	=====

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 2001 for RiskCover:

	% Rates Used - 2001		% Rates Used - 2000	
	Year Ending 30 June 2002	Subsequent Years	Year Ending 30 June 2001	Subsequent Years
- Workers' Compensation				
Inflation Rate (Wage)	2.60	4.60	2.60	5.37
Superimposed Inflation	4.00	4.00	9.00	4.72
Total Inflation*	6.70	8.78	11.83	10.34
Discount Rate	6.00	7.30	7.00	7.16
- Liability				
Inflation Rate (Wage)	2.60	4.60	2.60	5.33
Superimposed Inflation	5.00	5.00	5.50	5.50
Total Inflation*	7.73	9.83	8.24	11.12
Discount Rate	6.00	7.20	7.00	7.39

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 2001 and 2000 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.

**INSURANCE COMMISSION OF WESTERN AUSTRALIA
AND ITS SUBSIDIARY**

PERFORMANCE INDICATORS 2001

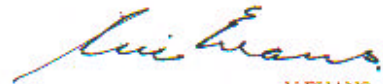
CERTIFICATION OF PERFORMANCE INDICATORS

110

We hereby certify that the Performance Indicators are based on proper records and fairly represent the performance of the Insurance Commission of Western Australia for the financial year ended 30 June 2001.

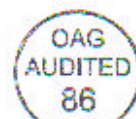


M E WRIGHT
CHAIRMAN
29 August 2001



V EVANS
MANAGING DIRECTOR
29 August 2001

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 29 August 2001.





Auditor General

To the Parliament of Western Australia

**INSURANCE COMMISSION OF WESTERN AUSTRALIA
PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2001**

Scope

I have audited the key effectiveness and efficiency performance indicators of the Insurance Commission of Western Australia for the year ended June 30, 2001 under the provisions of the Financial Administration and Audit Act 1985.

The Board of Commissioners is responsible for developing and maintaining proper records and systems for preparing and presenting performance indicators. I have conducted an audit of the key performance indicators in order to express an opinion on them to the Parliament as required by the Act. No opinion is expressed on the output measures of quantity, quality, timeliness and cost.

My audit was performed in accordance with section 79 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the performance indicators, and assessing the relevance and appropriateness of the performance indicators in assisting users to assess the Commission's performance. These procedures have been undertaken to form an opinion as to whether, in all material respects, the performance indicators are relevant and appropriate having regard to their purpose and fairly represent the indicated performance.

The audit opinion expressed below has been formed on the above basis.

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Insurance Commission of Western Australia are relevant and appropriate for assisting users to assess the Commission's performance and fairly represent the indicated performance for the year ended June 30, 2001.

DD R PEARSON
AUDITOR GENERAL
August 29, 2001

PERFORMANCE INDICATORS

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. The 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 are audited by the Office of the Auditor General, the Output Measures are for information only and are not subject to audit.** The Commission's results exclude the GIF (Unfunded scheme) in the 1997 financial year to ensure comparability with the Financial Statements. 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

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

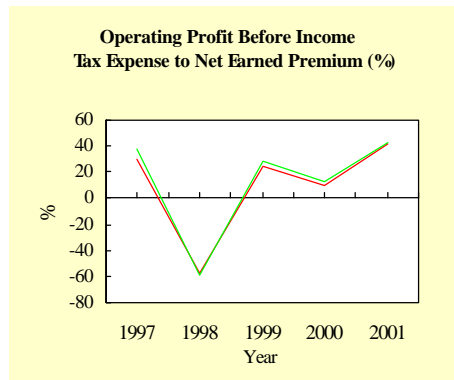
through the promotion of risk management and the commitment and professionalism of our people.

COMMISSION OUTCOMES

That The Commission's Revenue Is Sufficient To Meet Its Expenditure

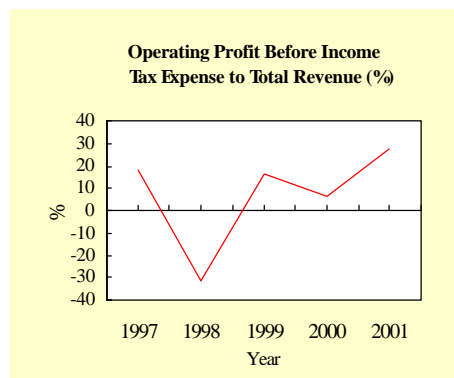
Effectiveness Performance Indicators

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

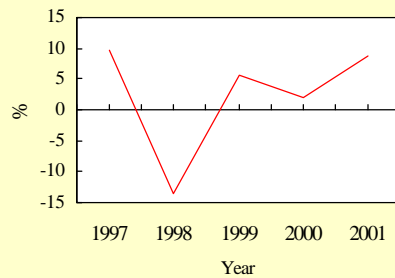


	2001		Legend
	Target	Actual	
Commission	7.7%	41.3%	—
Third Party Insurance Fund	10.6%	42.9%	—

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

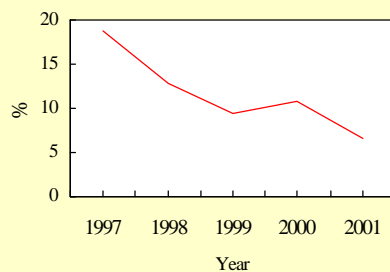


	2001	
	Target	Actual
Commission	5.3%	27.7%

Return on Total Assets (%)

Return On Total Assets is calculated as the Commission's operating profit 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 - Refer Note 6 in the Financial Statements).

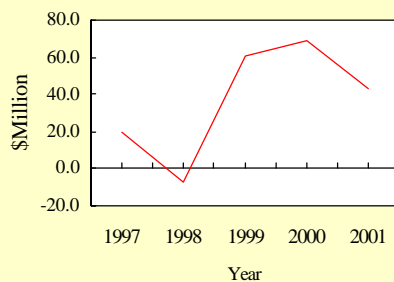
	2001	
	Target	Actual
Commission	1.6%	8.9%

Investment Income Rate of Return

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.

	2001	
	Target	Actual
Commission	8.8%	6.7%

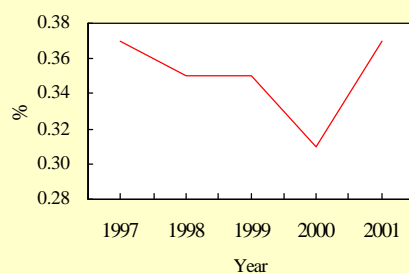
Net Operating Cash Inflow equals receipts less payments from the operating activities of the Commission. Refer to the Statement of Cashflows - Net Cash Inflow from Operating Activities.

Net Operating Cash Inflow

	2001	
	Target	Actual
Commission	\$44,233,000	\$43,007,000

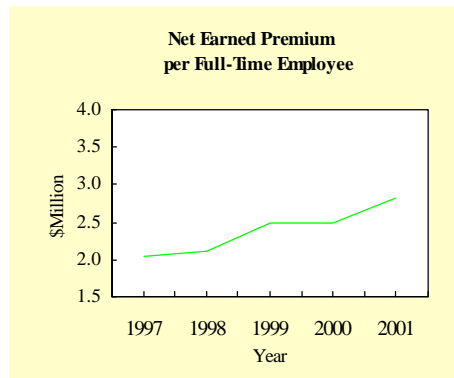
Efficiency Performance Indicators

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

Ratio of Investment Administration Expenses to Average Investment Assets

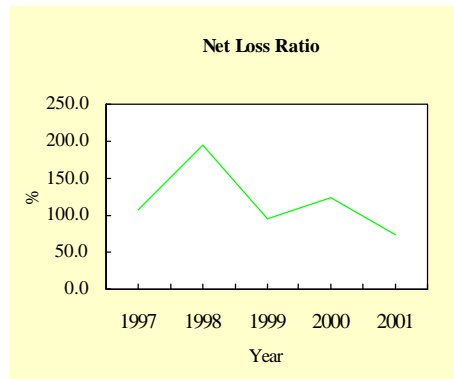
	2001	
	Target	Actual
Commission	0.30%	0.37%

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.



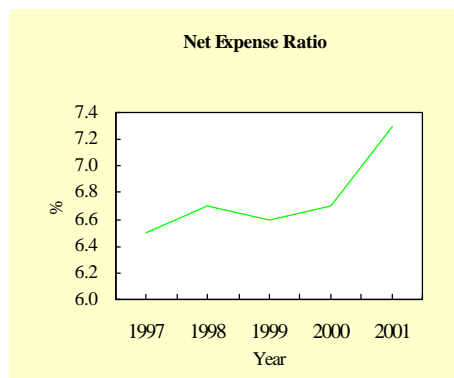
Net Earned Premium Per Full-Time Employee is a high level measure of business efficiency in generating revenue, *Note 7*.

	2001	
	Target	Actual
Third Party Insurance Fund	\$2,682,000	\$2,824,100



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.

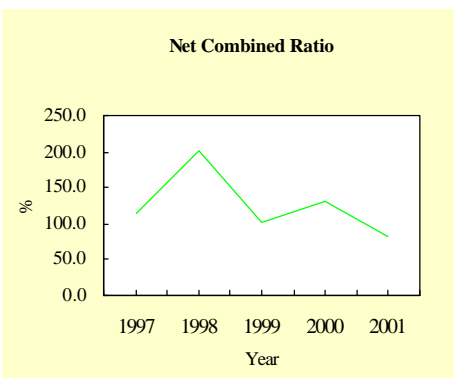
	2001	
	Target	Actual
Third Party Insurance Fund	114.1%	74.1%



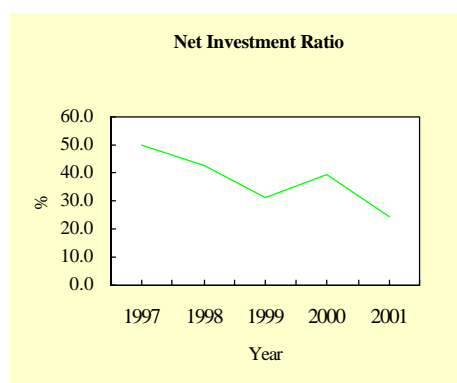
Net Expense Ratio shows the percentage of underwriting and administration expenses against net earned premium. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing and corporate overheads, but does not include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

	2001	
	Target	Actual
Third Party Insurance Fund	7.2%	7.3%

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



	2001	
	Target	Actual
Third Party Insurance Fund	121.3%	81.4%



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 (2001 actual 57.1%, target 88.2%).

	2001	
	Target	Actual
Third Party Insurance Fund	33.1%	24.3%

COMMENTS

COMMISSION

In the 2001 financial year the Commission's operating profit before income tax was \$119.7 million, which has materially improved its financial position from the \$0.2 million surplus at 30 June 2000 to a surplus of \$119.9 million at 30 June 2001. The main contributor to the operating profit was the Third Party Insurance Fund ("TPIF") (\$124.0 million).

The Commission's profit-related Performance Indicators have returned a positive result in 2001 from the \$119.7 million operating profit. These indicators also show a positive result against their 2001 targets.

The "**investment income rate of return**" was under target mainly due to the weak overseas equity returns which were 10% below the budget. The "**ratio of investment administration expenses to average investment assets**" was above target due to higher than expected investment administration costs due to the appointment of an additional overseas equity manager which was not anticipated when setting the original budget.

THIRD PARTY INSURANCE FUND

In relation to the TPIF, the actuary revised his model effective from 31 December 2000 to reflect the actual experience for the period 1 July 2000 to 31 December 2000. Consequently the forecast for closed claims and new claims was revised downward whereas gross claims payments were revised upward.

At this time, the movement in the net outstanding claims provision at 30 June 2001 was expected to be approximately \$70 million less than budget i.e. \$985.7 million compared to \$1,056 billion.

Actual experience for the period 1 January 2001 to 30 June 2001 was such that the number of closed claims fell short of expectations by 241 or 9.3%, the number of claims reported exceeded expectation by 159 or 6.3% and claim payments were \$18.1 million or 14.0% less than forecast. These factors, combined with lower than anticipated inflation for this period, future economic assumptions in relation to rates of investment return being amended upwards, parameters of the actuarial models being altered slightly to refit recent experience, revision of the percentage required to maintain a prudential margin equal to an 80% level of certainty margin and the compound effect of all of the above changes in relation to The New Tax System ("TNTS") have caused the movement in the net outstanding claims provision to decrease by \$21.4 million compared to the position at 30 June 2000.

Net earned premium for 2001 was \$289.2 million compared to a budget of \$287.0 million.

The "**net earned premium per full time employee**" exceeded target due to net earned premium being slightly higher than expected whilst the number of full-time employees at year end was 102.4 compared to a targeted 107. The reduction in employees emanated from the implementation of Workflow/Imaging technology.

The "**net loss ratio**" is favourable to target due to net earned premium being slightly higher than expected whereas net incurred claims were significantly (\$113.1 million) lower than budget. The explanation for this reduction has been covered above.

The "**net combined ratio**" is also favourable to target for the same reasons as described above.

The "**net investment ratio**" is lower than target as a result of investment income being \$24.7 million or 26.0% below expectations.

PERFORMANCE INDICATORS

THIRD PARTY INSURANCE FUND

The Third Party Insurance Fund issues and undertakes liability under policies of insurance required by the Motor Vehicle (Third Party Insurance) Act 1943. In accordance with this Act, the owners and drivers of 1.72 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

	Target	2001	2000	1999
<i>Quantity</i>				
Number Of Third Party Policies Issued (Million)	1.75	1.72	1.69	1.67
<i>Quality</i>				
Complies With MVTPI Act 1943	Yes	Yes	Yes	Yes
<i>Timeliness</i>				
Issue Date Four Weeks Prior To Renewal (%)	100	100	100	100
<i>Cost</i>				
CTP Insurance Premium To Be In The Lowest Quartile For All States.	Lowest Quartile	Lowest Quartile	Lowest Quartile	Lowest Quartile

b) Management And Payment Of Motor Vehicle Third Party Claims

	Target	2001	2000	1999
<i>Quantity</i>				
Number Of Claims Settled	5,449	5,145	6,173	5,962
<i>Quality</i>				
Net Loss Ratio (%) (Note 1)	114.1	74.1	125.0	95.4
<i>Timeliness</i>				
Time Between Claim Lodgement And Claim Settlement (yrs)	2.4	2.3	2.3	2.4
<i>Cost</i>				
Claims Administration Costs As A Ratio Of Gross Claims Paid (%) (Note 2)	5.6	6.1	5.0	5.4
Claims Administration Costs Per Claim Administered (\$) (Note 3)	964	1,000	814	781

*Output measures not subject to audit.

For Notes refer end of this section, Page 17

2. OUTCOMES

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

	Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>						
Proportion Of Third Party Insurance Claims Involving Unregistered Motor Vehicles (%)	0.0	0.32	0.13	0.38	0.48	0.26
<i>Efficiency</i>						
Underwriting And Administration Costs To The Number Of Registered Motor Vehicles (\$) (i)	11.8	12.4	10.9	10.6	9.9	10.4

COMMENTS

The “proportion of third party insurance claims involving unregistered motor vehicles” has increased in 2001 compared to 2000. In 2000 there were 5 unregistered motor vehicles involved in claims, whereas there were 12 in 2001. During this period the overall number of reported claims in respect of incidents arising in the 2001 year decreased from 3,984 to 3,797.

“Underwriting and administration costs to the number of registered vehicles” in 2001 is unfavourable relative to target, as underwriting and administration costs were 2% (\$444,000) more than budget and the number of registered motor vehicles being lower than budget which continues the trend established last year. Up until last year, for the 7 previous years the average increase in registered vehicles was 3%. In 2000, it was 1.3% followed by 1.8% in 2001. The cost of the Workflow/Imaging project implementation is the major reason for the increase in overheads as compared to previous years.

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

	Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>						
Average Number Of Years To Claims Payment (Note 4)	3.8	3.9	4.0	4.0	4.0	3.9
Number Of Outstanding Claims	9,150	9,570	9,282	9,728	10,190	10,503
Ratio Of Outstanding Claims To Claims Administered (%) (Note 5)	63	65	60	62	62	61
<i>Efficiency</i>						
Claims Administration Costs As A Ratio of Gross Claims Paid (%) (i), (ii) (Note 2)	5.6	6.1	5.0	5.4	4.9	5.1
Claims Administration Costs Per Claim Administered (\$) (i), (ii) (Note 3)	964	1,000	814	781	690	640
Number Of Claims Administered Per Full-Time Employee (Notes 6,7)	136	144	140	147	145	142

(i) Excludes accident prevention costs.

(ii) Excludes commission paid for premium collection.

COMMENTS

The **“number of outstanding claims”** was higher than both target and the previous year due to lower than expected claims closures, primarily the result of difficulties encountered during the Workflow/Imaging project implementation. There were 5,145 (6.7% less than original forecast) claims closures during 2001 whereas the number of new claims reported was 5,397 (1.7% less than original budget).

For the same reasons as described above, the **“ratio of outstanding claims to claims administered”** increased, both in respect to target and previous year.

“Claims administration costs as a ratio of gross claims paid” is unfavourable compared to target primarily due to claim payments being \$9.3 million less than budget (in line with lower than expected claims closures).

In relation to **“claims administration costs per claim administered”**, the 2001 result is higher than target because, whilst the number of claims administered was in line with expectations, the claims administration costs were \$651,000 more than budget.

The **“number of claims administered per full time employee”** is higher than target due to the number of employees being 102.4 compared to an expected 107. This reduction has come about as a result of restructure to accommodate the introduction of Workflow/Imaging technology.

PERFORMANCE INDICATORS

COMPENSATION (INDUSTRIAL DISEASES) FUND

The Compensation (Industrial Diseases) Fund issues Industrial Diseases 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.

1. OUTPUTS *

a) Industrial Diseases Insurance Policies

	Target	2001	2000	1999
<i>Quantity</i>				
Number Of Industrial Diseases Policies Issued	756	777	717	781
<i>Quality</i>				
Complies With All Statutory Requirements	Yes	Yes	Yes	Yes
<i>Timeliness</i>				
Proportion Of Mining Entities Where Cover Notes Have Been Converted To Policies Within 60 Days (%)	100	75	60	81
<i>Cost</i>				
Underwriting And Administration Cost Per Policy Administered (\$)	484	454	450	470

b) Management And Payment Of Workers' Compensation Claims

	Target	2001	2000	1999
<i>Quantity</i>				
Number Of Claims Settled	35	21	31	40
<i>Quality/Timeliness</i>				
Weighted Average Months To Finalise Claims	11.8	10.3	10.5	9.0
<i>Cost</i>				
Claims Administration Costs As A Ratio Of Gross Claims Paid (%) (Note 2)	4.9	20.7	9.2	9.1
Claims Administration Costs Per Claim Administered (\$) (Note 3)	750	827	1,033	979

* Output measures not subject to audit.
For Notes refer end of this section, Page 17

2. OUTCOMES

a) All Entities That Conduct Mining Operations Convert Cover Notes To Policies Within 60 Days

	Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>						
Proportion Of Mining Entities Where Cover Notes Have Been Converted To Policies Within 60 Days (%)	100	75	60	81	81	63
<i>Efficiency</i>						
Number Of Policies Administered Per Full-Time Employee (Note 7)	396	507	427	457	595	523
Underwriting And Administration Costs Per Policy Administered (\$) (iii)	484	454	450	470	339	387

COMMENTS

The “**proportion of mining entities where cover notes have been converted to policies within 60 days**” did not achieve the 100% target although the 15% increase over the 2000 result shows progress towards achieving this target. The higher than anticipated number of policies issued during the year contributed considerably to this result.

The higher than anticipated “**number of policies administered per full-time employee**” reflects the increased number of policies issued during the year.

The “**underwriting and administration costs per policy administered**” was below the anticipated target, resulting from the increased number of policies issued.

(iii) Excludes Sir Charles Gairdner Hospital research costs.

b) Minimise The Financial Hardship Of Industrial Diseases Claimants

	Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>						
Number Of Outstanding Claims	32	34	32	35	38	51
Ratio Of Outstanding Claims To Claims Administered (%) (Note 5)	48	62	51	47	46	53
<i>Efficiency</i>						
Claims Administration Costs As A Ratio Of Gross Claims Paid (%) (Note 2)	4.9	20.7	9.2	9.1	5.8	5.4
Claims Administration Costs Per Claim Administered (\$) (Note 3)	750	827	1,033	979	720	633
Number Of Claims Administered Per Full-Time Employee (Notes 6, 7)	223	183	158	188	166	192

COMMENTS

“Claims administration costs as a ratio of gross claims paid” was higher than the target due to the gross claims paid (\$220,000) being substantially lower than target (\$1.025 million). As the fund consists of very few claims with a high degree of volatility in the individual claim costs this indicator is subject to large deviations from target. The Actuarial assessment of projected claim payments cannot factor in the large degree of variance to which each claim is subject.

The **“claims administration costs per claim administered”** and **“number of claims administered per full-time employee”** were both affected by the lower than anticipated number of claims administered during the year.

PERFORMANCE INDICATORS

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.

OUTCOMES

Minimise The Financial Hardship Of ICGF Claimants

Performance Indicators	Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>						
Number Of Outstanding Claims	115	137	118	139	146	223
Weighted Average Months To Finalise Claims (Note 8)	11.8	12.8	11.1	10.2	11.4	14.9
<i>Efficiency</i>						
Claims Administration Costs As A Ratio Of Gross Claims Paid (%) (Note 2)	4.9	5.6	8.3	8.8	8.8	5.3
Claims Administration Costs Per Claim Administered (\$) (Note 3)	1,102	1,202	1,385	1,389	1,283	1,147
Number Of Claims Administered Per Full-Time Employee (Notes 6, 7)	186	195	181	135	132	115

COMMENTS

The "number of outstanding claims" reflects the a substantially lower claim closure rate than initially anticipated.

The higher than anticipated "claims administration costs as a ratio of gross claims paid" results from lower than forecast gross claims paid during the 2001 year.

A lower than expected number of claims administered resulted in the "claims administration costs per claim administered" producing a higher than anticipated result.

PERFORMANCE INDICATORS

GOVERNMENT INSURANCE FUND

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 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 Performance Indicators reported below include the GIF (Unfunded scheme) in comparative years to reflect the overall performance of this Fund.

The RiskCover Managed Fund and “run-off” of GIF are both managed by the RiskCover division.

OUTCOMES

Minimise The Financial Hardship Of Government Insurance Claimants

		Target	2001	2000	1999	1998	1997
<i>Effectiveness</i>							
Number Of Outstanding Claims		1,000	821	1,209	1,902	3,056	6,790
Average Number Of Years To Claims Payment	(Note 4)	-	6.0	4.9	3.8	3.0	2.7
<i>Efficiency</i>							
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(Note 2)	4.2	4.2	5.5	4.6	6.1	8.6
Claims Administration Costs Per Claim Administered (\$)	(Note 3)	499	588	855	615	412	357
Number Of Claims Administered Per Full-Time Employee	(Notes 6, 7)	375	501	264	306	218	182

COMMENTS

A higher than anticipated claim closure rate during the year produced the lower than expected “**number of outstanding claims**”.

The basis for the “**average number of years to claims payment**” has been restated by the actuary to represent the average number of years to make the payments on those claims handled in the prior financial year rather than the weighted average expected term to claim settlement stated in previous annual reports. This brings this indicator into line with that used by the TPIF, except that the GIF indicator includes claims incurred in the most recent accident year. These claims are excluded from the TPIF indicator as the payment pattern is considerably longer than GIF claims. As the GIF is in run-off this indicator is expected to increase from year to year.

A slightly higher salaries cost allocation resulted in the “**claims administration cost per claim administered**” exceeding the initial target.

The “**number of claims administered per full-time employee**” was above target as a result of lower than anticipated full-time employee allocation for the purpose of handling GIF claims.

PERFORMANCE INDICATORS

RISKCOver

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 Commission was appointed to administer the Managed Fund on behalf of the State Government and its participating public authorities for an initial term of five years, commencing from 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.

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 Public Authorities

	Target	2001	2000	1999
Quantity				
Number Of Public Sector Agencies Covered	203	202	206	203
Quality				
Customer Satisfaction Survey Score (%)	(Note 9)			
• Large and Medium Agencies	57	48	54	32
• Small Agencies	50	61	44	67
Timeliness				
Covers issued no later than 31 July (%)	100.0	83.0	92.3	94.6
Cost				
Underwriting And Administration Cost Per Cover Administered (\$)	67,203	65,198	58,248	58,542

b) Management and Payment of Claims

	Target	2001	2000	1999
Quantity				
Number Of Claims Administered	22,910	19,768	19,704	18,937
Quality				
Payment Of Workers' Compensation Accounts Within 20 Working Days (%)	85	87	79	74
Timeliness				
Average Number Of Years To Claims Payment (Workers' Compensation)	(Note 4)	-	1.1	0.6
Average Number Of Months To Claims Payment (Property, Motor Vehicle, Miscellaneous)	(Note 8)	3.0	2.9	2.0
Cost				

* Output measures are not subject to audit.
For Notes refer end of this section, Page 17

Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(Note 2)	12.2	12.3	14.2	13.8
Claims Administration Costs Per Claim Administered (\$)	(Note 3)	369	436	428	358

c) **Risk Management Services**

		Target	2001	2000
Quantity				
Number of Agencies Served		203	202	206
Quality				
Risk Management Performance Score (Out of 20)	(Note 14)	15	14	13
Timeliness				
Number of Risk Reviews Completed Within Planned Time Frames (%)		100	100	90
Cost				
Risk Management and Client Service Costs Per Public Sector Organisation (\$)	(Note 15)	22,831	20,017	15,349

2. OUTCOMESa) **Achieve Best Practice In Fund Management**

		Target	2001	2000	1999	1998
Effectiveness						
Customer Satisfaction Survey Score (%)	(Note 9)					
• Large and Medium Agencies		57	48	54	32	n/a
• Small Agencies		50	61	44	67	n/a
Fund Contribution Ratio (%)	(Note 10)	0.245	0.222	0.251	0.176	0.166
Efficiency						
Net Loss Ratio (%)	(Note 1)	94.6	103.2	85.8	123.5	91.0
Net Expense Ratio (%)	(Note 11)	16.1	17.1	17.2	14.7	8.6
Net Combined Ratio (%)	(Note 12)	110.6	120.3	103.0	138.2	99.6
Net Investment Ratio (%)	(Note 13)	19.6	16.0	22.0	12.1	6.9

COMMENTS

The “**customer satisfaction survey score**” is based on those clients which rated RiskCover’s performance as Very Good or Excellent. The result for Large and Medium Agencies was below target however the result for Small Agencies far exceeded its target. As service levels increase so do client expectations of the level of service they should be receiving. Overall the number of Agencies that rated RiskCover performance as Good, Very Good or Excellent increased over last year.

The “**net loss ratio**” produced a higher result than anticipated mainly due to higher incurred claims particularly in the Property and Liability classes of cover. Slightly lower than targeted Fund Contributions also contributed to the result. Earned Contributions reduced as a result of an allowance for future performance adjustments which relate to current and earlier pool year experience.

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

The “**net investment ratio**” performed below expectations due to the poorer than anticipated performance of the investment portfolio.

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

		Target	2001	2000	1999	1998
Effectiveness						
Customer Service Satisfaction Survey Score (%)	(Note 9)					
• Large and Medium Agencies		57	48	54	32	n/a
• Small Agencies		50	61	44	67	n/a
Risk Management Performance Score (Out of 20)	(Note 14)	15	13.6	13	12	11
Workers' Compensation Claims Incurred Per \$100 Wage Roll (%)		1.54	1.21	0.96	1.74	1.62
Efficiency						
Risk Management And Client Service Costs Per Public Sector Organisation (\$)	(Note 15)	22,831	20,017	15,349	17,879	9,911
Fund Contributions Per \$100 Wage Roll (%)	(Note 16)	2.82	2.69	2.85	2.61	2.68

COMMENTS

The result for the “workers’ compensation claims incurred per \$100 wage roll” reflects lower than anticipated incurred claims for the workers’ compensation class. The 2000 year result was influenced by removal of a Prudential Margin from prior years incurred claims.

“Risk Management and Client Service costs per public sector organisation” was below target due to actual administration costs incurred being below budget expectations.

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

		Target	2001	2000	1999	1998
Effectiveness						
Average Number Of Years To Claims Payment	(Note 4)	-	1.4	1.1	0.6	n/a
Average Number Of Months To Claims Payment	(Note 8)	3.0	3.1	2.9	2.0	1.5
WorkCover Claims Best Practice Performance Monitoring Indicators:	(Note 17)					
• Determining Liability Within 17 Days (%)		85	85	83	77	87
• Notification to Worker/Employer/Directorate of pended liability within 17 days (%)		100	83	74	n/a	n/a
• Reimbursement Of Weekly Compensation Payments Within 10 Working Days (%)		85	81	65	60	79
• Payment Of Accounts Within 20 Working Days (%)		85	87	79	74	92
Efficiency						
Claims Administration Costs As A Ratio Of Gross Claims Paid (%)	(Note 2)	12.2	12.3	14.2	13.8	17.3
Claims Administration Costs Per Claim Administered (\$)	(Note 3)	369	436	428	358	355

Number Of Claims Administered Per Full-Time Employee					
(Note 6)	337	278	273	330	317

COMMENTS

The basis for the “**average number of years to claims payments**” has been restated by the actuary to represent the average number of years to make the payments on those claims handled in the prior financial year rather than the weighted average expected term to claim settlement stated in previous annual reports. This brings this indicator into line with that used by the TPIF, except that the RiskCover indicator includes claims incurred in the most recent accident year. These claims are excluded from the TPIF indicator as the payment pattern is considerably longer than RiskCover claims. As RiskCover has a developing portfolio of claims it is expected that this indicator will increase from year to year until the fund has fully developed.

The “**claims administration costs per claim administered**” and “**number of claims administered per full-time employee**” were influenced by the lower than anticipated number of claims administered during the year.

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. This Performance Indicator relates to "long tail" classes of insurance. In the case of the Third Party Insurance Fund, Government Insurance Fund and RiskCover Managed Fund, the **“Average Number Of Years To Claims Payment”** 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 either very good or excellent. The basis of measurement for this Performance Indicator has changed and is not directly comparable to 1998. 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 by 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.

GLOSSARY

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
ID	-	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 Australian and managed by the Commission.

3 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.

4 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.

GLOSSARY**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 are claims arising from events which have occurred but have not been reported as at balance date. Incurred But Not Enough Reported (IBNER) claims are claims arising 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 (eg. salvage) in relation to claims.

5 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.

6 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.

INDEX

Subject	Page	Note Ref.
INSURANCE COMMISSION OF WESTERN AUSTRALIA		
Accumulated Profit/Losses	86	16
Additional Information	47	
Amounts Receivable and Payable Denominated in Foreign Currencies	86	17
Annual Estimates	49	
Auditor General's Opinion - Financial Statements	53	
Board of Commissioners	42	
Chairman and Managing Director's Joint Review	2	
Commitments	100	27
Contingent Liabilities	100	26
Corporate Governance Statement	38	
Creditors and Accruals	77	10
Customer Complaints and Compliments	10	
Customer Service	9	
Economic Dependency	100	25
Employee Entitlements	84	12
Employers' Indemnity Supplementation Fund	21	
Events Occurring After Balance Date	100	28
Executive Members	44	
Explanatory Statement - Commission	97	23
Finance Division	36	
Financial History	(iv)	
Financial Instruments	87	19
Financial Statements Index	51	
Funds Statement of Financial Performance	92	20
Funds' Statement of Financial Position	94	21
Government Insurance Fund	22	
Group Entities	99	24
Income Tax	73	5
Industrial Diseases Division	21	
Information Technology Division	36	
Investments	32, 75	7
Losses Through Theft, Defaults and Other Causes	101	29
Motor Vehicle Personal Injury Division	12	
Net Claims Incurred	72	4
Net Gains/(Losses) And Expenses	71	3
Organisational Chart	41	
Other Assets	77	8
Other Liabilities	85	14
Our People	26	
Outstanding Claims	78	11
Performance Indicators		
- Commission	115	
- Compensation (Industrial Diseases) Fund	119	
- Government Insurance Fund	123	
- Insurance Commission General Fund	122	
- RiskCover	124	
- Third Party Insurance Fund	115	
- Auditor General's Opinion	111	
Plant and Equipment	77	9
Profile of Responsibilities	(i)	
Provisions	85	13
Publications	45	

Subject	Page	Note Ref
Receivables	74	6
Remuneration of the Board of Commissioners and Senior Officers	101	30
Reserves	86	15
Results, Highlights and Achievements	5	
Revenue	70	2
RiskCover	17	
RiskCover Managed Fund Financial Statements	103	31
Road Safety	23	
Segment Reporting	91	19
Special Investigations Division	36	
Sponsorship	25	
Statement of Cash Flows	56	
Statement of Compliance	(iii)	
Statement of Financial Performance	54	
Statement of Financial Position	55	
Statement by the Members of the Board and Principal Accounting Officer	52	
Statement of Significant Accounting Policies	58	1
Strategic Planning 2000/2001- Looking Ahead	7	
Vision, Mission and Value Statement	(ii)	
APPENDICES		
Glossary	130	