



Insurance Commission
of Western Australia

Statement of Corporate Intent (SCI)

2010/2011

TABLE OF CONTENTS

1	CHAIRMAN'S INTRODUCTION	1
2	OUR BUSINESS	4
	Our Vision	4
	Our Mission	4
	Our Core Values	4
	Statutory Functions	5
	Motor Vehicle Personal Injury Division	6
	RiskCover Division	6
	Investments	9
	State Government Insurance Corporation	11
	Priorities for 2010/2011	11
3	OUR RELATIONSHIPS.....	14
	Our Relationship Challenges.....	14
	Our Key Stakeholders	15
	Priorities for 2010/2011	15
4	OUR PEOPLE	17
	Priorities for 2010/2011	17
5	BUSINESS MANAGEMENT	19
	Dividend Policy and National Tax Equivalent Regime.....	19
	Dividends	19
	Competitive Neutrality	19
	Borrowings	19
	Accounting Policy	20
	Basis of Accounting.....	20
	Business Continuity Planning.....	20
	Performance Reporting to the Minister.....	20
6	OUR FINANCIALS	21
	Capital Investment	21
	Financial Outcome Forecast and Key Performance Indicators	21
	APPENDIX 1	23

1 CHAIRMAN'S INTRODUCTION

The Statement of Corporate Intent describes how the Insurance Commission of Western Australia (Insurance Commission) intends to achieve its objectives in the 2010/2011 financial year. This Statement meets the requirements of the *Insurance Commission of Western Australia Act 1986* (ICWA Act) and represents the agreement between the Treasurer (Minister responsible for the Insurance Commission of WA) as the Shareholder and the Board of Commissioners of the Insurance Commission regarding the expected level of performance by the Insurance Commission during 2010/2011.

The 2010/2011 year offers the following significant opportunities and challenges to the Insurance Commission:

- In line with the State Government's Economic Audit Committee *Putting the Public First* vision, build on the good progress made to date in promoting collaborative and more citizen focused service delivery. Examples of this progress include the successful implementation of:
 - An on-line crash reporting facility, which benefits the community, Western Australian Police, Main Roads WA, Office of Road Safety and Department of Health.
 - A contact management system (INTERACT), which assists the RiskCover Division to deliver consistent high quality services to meet its clients' needs (i.e. Government Agencies).
- The recovery of world investment markets in the 2009/2010 year has helped to restore the relative strength of the Balance Sheet of the Insurance Commission. This had previously been severely impacted by two successive years of negative investment returns resulting from the Global Financial Crisis (GFC). The challenge now becomes how best to utilise Insurance Commission assets to ensure sustained delivery of existing products for our stakeholders, whilst developing initiatives which will enhance the performance of, or alternatively benefits provided by, the Motor Vehicle Third Party Insurance scheme, without adversely impacting the maintenance of prudent reserve levels and affordable premium rates.

One such major initiative is to consider and evaluate ways of broadening the benefits available to Motor Vehicle Personal Injury claimants, while maintaining premiums at affordable levels (e.g. add "no-fault" components for minors and victims of inevitable accidents and provide long term care for the catastrophically injured).

A "No Fault" long term care scheme for the catastrophically injured motor vehicle crash victims will require the Disability Services Commission and the Insurance Commission to collaborate for the ultimate benefit of all concerned.

This is in line with the feasibility study into a National Disability Long-term Care and Support Scheme currently being undertaken by the Federal Government's Productivity Commission.

The GFC and subsequent market recovery provided a stark reminder of the potential in the business for significant positive and negative profit volatility.

Outstanding claims liabilities and investment assets held to back these liabilities are subject to professional valuation or 'mark to market' processes every year and movements in these values directly impact reported profit and/or reserve levels.

At 30 June 2009 assets and liabilities subject to valuation represented in excess of 90% of all liabilities and assets of the Insurance Commission.

Despite having in place well established risk management processes, the nature of 'insurance' is such that exterior environmental factors will exert influence upon the value of these assets and liabilities of a nature and potential severity which is less than predictable in the short term.

It should also be noted that valuation movements which translate to "unrealised" accounting profits do not result in commensurate cash flow movements until liabilities are expunged or assets are sold.

- For RiskCover to continue to meet the increasing demand from all member agencies to provide Risk Management consulting services that will assist them in implementing risk management practices into all aspects of their business, especially business continuity plans.
- Managing human resources whilst minimising any negative impact on efficiencies during changing economic cycles.
- Delivery of long term investment returns which exceed the performance objective of Consumer Price Index (CPI) + 3.5% in order to ameliorate the long term impact of factors that place upwards pressure on future outstanding claims liabilities without adversely impacting reserve levels.

This is of particular importance for the Third Party Insurance Fund and the RiskCover Fund and will be achieved by

effectively managing investment portfolio risk through active asset allocation and asset class management.

- Managing a major program of work to update, or replace, all of the core insurance Information and Communication Technology (ICT) systems that support the Insurance Commission's operations. This extensive undertaking will be delivered over the next three to four years and will complete the ICT Modernisation Program that commenced several years ago.

2 OUR BUSINESS

The Insurance Commission was established on 1 January 1987 under the *State Government Insurance Commission Act 1986*, by amalgamating the operations of the Motor Vehicle Insurance Trust and the State Government Insurance Office.

The Insurance Commission's corporate identity altered on 1 October 1997, following the proclamation of the "Name Change" section of the *Acts Amendment (ICWA) Act 1996*, when the name changed from the State Government Insurance Commission to the **Insurance Commission of Western Australia**.

The State Government Insurance Corporation (Corporation), which traded as SGIO until 1993, was established as a subsidiary of the Insurance Commission, on 1 January 1987.

Our Vision

Recognised by the community as the leader in the responsible management of risk and the delivery of equitable compensation schemes.

Our Mission

To excel in the delivery of high quality insurance and risk management services, specifically:

- provide insurance for motor vehicle personal injury damages and industrial diseases compensation;
- manage and administer self-insurance and risk management services on behalf of Western Australian public authorities and eligible community groups; and
- provide advice to government on matters relating to insurance and risk management,

in accordance with the *Insurance Commission of Western Australia Act 1986*.

Our Core Values

In everything we do, our Core Values are:

- Simplicity
- Team Work
- Accountability
- Integrity and Openness
- Respect and Compassion

Statutory Functions

The main statutory functions of the Insurance Commission are:

- to issue, or cause to be issued, and undertake liability under policies of insurance as required by the *Motor Vehicle (Third Party Insurance) Act 1943*;
- to issue and undertake liability under policies of insurance as required by section 163 of the *Workers' Compensation and Injury Management Act 1981*, (i.e. *pneumoconiosis, lung cancer and mesothelioma*);
- to manage and administer insurance and risk management arrangements on behalf of public authorities;
- to manage and administer insurance and risk management arrangements on behalf of eligible community organisations;

NB: No longer active due to the General Insurance industry deciding to resume providing "affordable" insurance cover to this sector.

- to provide services, facilities and advice to public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law;
- to initiate, or participate in, and promote programs and schemes for:
 - research into the treatment of industrial diseases and personal injury; and
 - research into, education for, and promotion of public awareness relating to the prevention of industrial diseases, personal injury and accidental death,

being programs and schemes relevant to risks in respect of which the Insurance Commission is to provide insurance;

- to provide advice to the Government on matters relating to insurance and risk management; and
- to invest and manage moneys and other property under its control.

These statutory functions are managed by the following Divisions:

Motor Vehicle Personal Injury Division

In accordance with the *Motor Vehicle (Third Party Insurance) Act 1943*, owners and drivers of approximately 2.3 million Western Australian registered vehicles (including caravans and trailers) are provided with unlimited indemnity against personal injury damages claims arising out of motor vehicle crashes.

For a claim to succeed, negligence must be established by the claimant against the owner or driver of a Western Australian registered motor vehicle. Claims are administered by the Motor Vehicle Personal Injury (MVPI) Division.

In keeping with the Insurance Commission's corporate philosophy, if a *prima facie* case of negligence has been established, progressive payment of related medical accounts is made to the claimant or service provider, even though there is no statutory requirement to do so before settlement of the claim. This payment policy seeks to alleviate financial hardship and inconvenience to the claimant or service provider.

By virtue of Section 8 of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Third Party Insurance Fund also undertakes the liabilities of a Nominal Defendant where for example a third party is injured in a motor vehicle crash and either the driver or the vehicle is unlicensed/uninsured or cannot be identified.

RiskCover Division

The RiskCover Division manages several separate Insurance Funds and claims functions. The Funds are:

RiskCover Fund

The RiskCover Fund commenced on 1 July 1997 and was established to administer the self-insurance arrangements for Western Australian Government public authorities (agencies). It is a simple and effective insurance scheme, designed to efficiently and economically assist the Western Australian Government manage its risk exposure through a combination of risk management and reinsurance programs.

Department of Treasury and Finance (DTF) has approved the Insurance Commission's RiskCover Division managing this Fund, with a rolling three year termination notification clause applying.

In seeking to reduce the State Government's total cost of risk, the RiskCover Division actively promotes risk management practice to agencies, and assists them to develop an integrated risk management strategy to effectively manage all their business risks.

The RiskCover Fund provides agencies with financial protection through self-insurance products designed to facilitate the management of their insurable risk exposure arising from workers' compensation; accidental loss or damage to property; personal accident; and legal liability.

RiskCover workers' compensation is in a statutory form. Other covers provided by RiskCover have generally less exclusions than similar products available in the general insurance market.

DTF underwrites the RiskCover Fund and is consulted during the process of determining agencies' annual contributions and refunds.

Monies in excess of the RiskCover Fund's operating requirements are invested for the benefit of agencies as part of the Insurance Commission's professionally managed investment portfolio.

Government Insurance Fund (GIF)

The GIF is in "run-off" and no longer generates premium income. The "run-off" commenced 1 July 1997 upon commencement of the RiskCover facility and the remaining GIF liabilities are of a long-tail nature, which were incurred prior to 1 July 1997.

DTF has financial responsibility for this Fund. They ensure sufficient cash is available to meet operating requirements and recognise their liabilities via a Right of Indemnity Agreement with the Insurance Commission. The RiskCover Division provides the claims management service.

Compensation (Industrial Diseases) Fund (CIDF)

Under Section 163 of the *Workers' Compensation and Injury Management Act*, industrial diseases insurance is compulsory for employers engaged in mining and mining operations.

Liability is limited to workers' compensation payments for the nominated respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, caused by the inhalation of harmful mineral dusts.

RiskCover Division issues industrial diseases insurance policies to the mining industry, on behalf of the Insurance Commission, and pays claims arising from these policies. The liabilities are underwritten by the Insurance Commission and are administered through the CIDF.

Historically, a surplus in this Fund could only be transferred to the Mine Workers' Relief Fund in the event of a shortfall. The Insurance Commission's General Fund liability to the Mine Workers' Relief Fund has now been paid out. There are no outstanding claims under the Mine Workers' Relief Fund. As we are confident no future claims will arise, action has been taken to repeal the *Mine Workers' Relief Act* and related Acts via the "*Statutes (Repeals and Minor Amendments) Bill (No.2) 2009*" which is currently before Parliament.

Insurance Commission General Fund (ICGF)

The ICGF no longer generates premium income. ICGF claim payments are a product of claims incurred prior to 1 January 1987 against policies of general insurance issued by the former State Government Insurance Office.

Estimated outstanding liabilities include an allowance for *incurred but not reported* claims. The primary source for ongoing claims arises from workers exposed to asbestos mined at Wittenoom between 1943 and 1967. There are sufficient funds available to meet known liabilities.

Community Insurance Fund (CIF)

The CIF was established by the State Government on 2 January 2003 to assist incorporated not-for-profit community organisations based in Western Australia, by providing affordable public liability insurance cover.

The CIF was underwritten by the State Government through the DTF and managed on its behalf by the Insurance Commission.

The Government closed the CIF to new members on 30 June 2007. Twelve month renewals were offered to existing members up to 31 January 2008, so the last date any organisation was still in the Fund was 30 January 2009. These decisions were taken due to the 'general insurance market' again being in a position to offer "affordable" public liability cover to not-for-profit community organisations.

Following the Treasurer's approval, the 30 June 2009 balance of the CIF was transferred to the Consolidated Fund in July 2009.

The RiskCover Division will provide a claims management service to DTF for any CIF run-off that may emerge.

Employers' Indemnity Supplementation Fund (EISF)

WorkCover WA is responsible for the *Employers' Indemnity Supplementation Fund Act 1980*. In consequence of Section 19 of that Act, the Insurance Commission manages claims funded by the EISF.

The EISF was established to ensure workers injured in the course of their employment and covered by an insurer placed into liquidation, are properly compensated.

The collapse of the HIH Group of Companies in March 2001 increased the Insurance Commission's activities in this area. RiskCover Division staff provide an important management role in the "run-off" claims settlement process, on behalf of WorkCover WA, and in conjunction with appointed agent CGU (whose function it is to process the relevant workers' compensation claims). This is expected to continue for at least three years.

General Funds

On behalf of WorkCover WA and on a fee for service basis, the RiskCover Division manages personal injury claims arising under the relevant sections of the *Waterfront Workers' (Compensation for Asbestos-Related Diseases) Act 1986*, *Workers' Compensation and Injury Management (Acts of Terrorism) Act 2001* and WorkCover WA's General Fund.

In addition, the Police (former Officers' Medical and Other Expenses) Act 2008 created an entitlement to post-separation medical and other expenses benefits for former Police Officers and Aboriginal Police Liaison Officers who had left the Western Australian Police and had sustained a work-related injury or disease.

The Police Commissioner is liable for the medical and other expenses incurred and the Insurance Commission has been appointed to manage claims on behalf of the Western Australian Police for a period of three years (on a fee for service basis) from the commencement of the scheme on 1 July 2009.

Investments

The Insurance Commission has the power to invest in real or personal property of any kind (section 7(5) of the ICWA Act). As a result, monies held in excess of the Insurance Commission's immediate operating requirements are invested in various asset classes.

The Board of Commissioners determine investment strategy, investment manager appointments and other key investment portfolio construction issues including tactical and strategic asset allocation parameters. The Board consults with an independent Asset Consultant and receives input from the Investment Division.

Management of the Insurance Commission Investment Portfolio is subject to Prudential Guidelines for Investments (Guidelines) issued by the Treasurer of Western Australia.

Guidelines are reviewed and updated regularly to incorporate changes required to reflect evolving International and Australian investment markets. The guidelines can be viewed on the Insurance Commission's website www.icwa.wa.gov.au.

The Insurance Commission's Investment Portfolio is professionally managed by a combination of external Investment Managers and internal management. The Investment Division is responsible for the Direct Property, Inflation Linked Bonds and Cash Portfolios.

All Investment Managers are measured against performance targets based upon market indices (benchmarks) for their respective asset classes. The Insurance Commission continually monitors the

performance of all managers, both internal and external, with the assistance of an independently appointed Asset Consultant. Where there is a clear trend showing underperformance over the longer term (generally three years) or that there have been negative developments in terms of the manager's structure, investment processes and/or staffing resources, the manager's services may be terminated by the Insurance Commission.

The investment strategy of the Insurance Commission seeks to align the assumptions used in setting investment objectives with the actuarial assumptions used to determine the long term projected outstanding claims liabilities for both the Third Party Insurance Fund and the RiskCover Fund. This has historically necessitated detailed asset/liability modelling every four years by the Asset Consultant to determine the appropriate long term strategic asset allocation for the Portfolio.

Actuarial outstanding claims projections currently indicate that the performance objective for long term investment returns should be Consumer Price Index (CPI) + 3.5% if we are to provide for and counter the long term impact of factors that place upwards pressure on future outstanding claims liabilities without adversely impacting reserve levels. This is of particular importance for the Third Party Insurance Fund and the RiskCover Fund.

RiskCover (on behalf of DTF) invests its surplus funds through a pooled arrangement with the Insurance Commission. These Funds are accounted for by way of a loan (Floating Rate Promissory Note) to the Insurance Commission which yields the same investment return (or loss) as that achieved by the Insurance Commission. This facilitates the separate investment accounting required by the RiskCover Fund and its "owner" the State Government. The loan represents the net value of RiskCover's share of investment assets, held on its behalf by the Insurance Commission. RiskCover therefore has the same investment asset allocation profile as the Insurance Commission.

The key goals of the Insurance Commission investment strategy are to:

- Optimise investment returns without incurring additional risk, through diversification of both investment assets and Managers.
- Achieve a rate of return for each asset class that:
 - is focused on maintaining a long term absolute return overall and
 - is better than the relevant performance benchmark.

State Government Insurance Corporation

The Corporation's remaining activity relates to the "run-off" of Inwards Reinsurance business. Underwriting ceased in August 1992.

The Inwards Reinsurance "run-off" process is managed internally by the RiskCover Division's Reinsurance and Underwriting Section.

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. Due to the nature of reinsurance, it is expected that it will take many years for all claims to be finalised. In consequence and based on actuarial advice, claims payments have been projected to beyond 2024.

In 2008/09 a company specialising in commuting the "run-off" of this type of business reviewed the inwards reinsurance book, updated claim numbers and provided recommendations as to how the portfolio should be managed going forward.

Equipped with this information and assisted by the specialist company, these commutation opportunities will continue to be pursued with good progress having been made during 2009/10.

Legislative amendments passed in 1996, but not yet proclaimed, allow for the dissolution of the Corporation and provide for its residual assets, rights and liabilities to be vested in the Insurance Commission and held in the Insurance Commission's General Fund.

One minor benefit of dissolving the Corporation would be that the current requirement to prepare a separate Annual Report would be removed.

There may, however, be some advantage in maintaining the Corporation as a "shelf company", i.e. to accommodate a possible future State-operated insurance facility without the need for major legislative change.

Priorities for 2010/2011

Continue to:

- Provide affordable compulsory motor vehicle third party personal injury insurance premiums to owners of Western Australian registered motor vehicles.
- Provide a compulsory motor vehicle third party personal injury claims system that treats claimants fairly and delivers equitable compensation.

- Ensure that the Third Party Insurance Fund remains fully funded broadly in line with Australian Prudential Regulatory Authority (APRA) guidelines by:
 - applying a risk margin, which is intended to provide a probability of adequacy of at least 75% to the outstanding claims provisions (known as a prudential margin) and
 - maintaining a level of capital not less than that which would be notionally required under APRA's minimum capital requirements.
- During 2009/10 a study commissioned by the Insurance Commission, in order to gather information in relation to the utilisation, amount, cost and availability of long-term care for the catastrophically injured in Western Australia, was concluded.

Consequently, the Insurance Commission is now able to seriously evaluate the implementation of a "no fault" long-term care scheme for those people catastrophically injured as a consequence of a motor vehicle crash.

Liaison with stakeholder groups such as the Disability Services Commission and the Federal Government's Productivity Commission, which is conducting a feasibility study into a National Disability Long-term Care and Support Scheme, will be a focus throughout 2010/11.

- Monitor the funding requirements of the recovery action by the Liquidators of the Bell Group companies and to employ risk reduction strategies so as to minimise exposures and maximise recoveries for the Insurance Commission.
- Be recognised by RiskCover Member Agencies as an excellent provider of risk management and self-insurance services.
- Increase RiskCover's participation in assisting all Agencies to minimise their cost of risk through alternative and less costly ways of managing/eliminating their risk exposure.
- Assist Government Agencies to develop and/or enhance Business Continuity Plans in accordance with Government Policy.
- Maintain a long term investment strategy which optimises investment returns through diversification of investment assets and Managers without incurring undue additional risk.
- Achieve a rate of return for each asset class that:

- is focused on maintaining a long term absolute return overall; and,
 - is better than the relevant performance benchmark.
- Provide financial support to the Office of Road Safety to implement road safety strategies aimed at promoting safe driving practices and consequently reducing death and injury resulting from motor vehicle crashes.
- Monitor and fund through net assets in the Compensation (Industrial Diseases) Fund the medical research project "Markers of Mesothelioma". This research is being undertaken by the Foundation for Advanced Medical Research and University of Western Australia, up to at least the 30 June 2013.
- Invest in human resource strategies to ensure the Insurance Commission is recognised as "A Great Place to Work" by existing and prospective employees.

The focus for 2010/2011 is the retention of existing employees who possess valuable corporate knowledge while medium to longer term strategies aim to enhance the profile and attractiveness of the Insurance Commission to the appropriate labour markets.

- Review and implement business processes/systems to better meet customer needs and increase productivity. In particular, migrating technology away from the IBM proprietary environment to open systems technology.
- Focus on the task of bringing to a closure the "run off" of the Corporation's inwards re-insurance residue, by a commutation process.

3 OUR RELATIONSHIPS

An Integral Part of the Western Australian Community

The Insurance Commission is the sole provider of Third Party (Motor Vehicle) Personal Injury Insurance in Western Australia.

Every owner of a motor vehicle registered in Western Australia is a policy holder. An unlimited indemnity policy of insurance is combined with every motor vehicle licence. The Department of Transport (DOT) and its agents issue the policies and collect the premium on behalf of the Insurance Commission.

Any third party injured or killed as a consequence of the negligent driving of a Western Australian registered motor vehicle is entitled to damages for personal injury under this system and furthermore, the Third Party Insurance Fund undertakes the liabilities of the Nominal Defendant.

The RiskCover Fund provides cover for the majority of the State Government's insurable risk exposure. Some of the benefits that the RiskCover Fund provides include:

- Cost efficient administration which principally results from economies of scale; no profit factor and no need to spend money on advertising to win and maintain market share.
- Cover wording with less exclusions than similar products available in the general insurance market.
- Consistent, cohesive and structured approach to claims, injury and risk management across all government entities.
- Buying power in reinsurance markets is enhanced due to an ability to aggregate the State-wide exposure.

Our Relationship Challenges

- Maintain a fully funded Third Party Insurance Fund, whilst balancing affordability of premiums with the provision of equitable entitlements for claimants and clients.
- Maintain RiskCover member agencies' positive perception of our ability to effectively provide risk management and self-insurance services.
- Balance the expectations of Government, Stakeholders and Claimants.

Our Key Stakeholders

Our key stakeholders include:

Owner/Drivers of Western Australian registered motor vehicles, State Government agencies who are members of the RiskCover Fund, DTF (as the owners of the RiskCover Fund), DOT (as our premium collection agent) and the WorkCover WA Authority.

We are accountable to our sole shareholder, the State Government of Western Australia, for delivery of our services in an effective and efficient manner. The Insurance Commission is currently achieving this through the professionalism of its people and the quality of its systems. Notwithstanding this, a focus on continuous improvement is maintained.

Independent research conducted by the Insurance Commission identified that a significant proportion of the community knows very little about the role and functions of the organisation. There is also a strong demand by the community to be informed and know who to contact.

External research also indicates that drawing upon a strong company reputation or brand is becoming the single most common strategy to attract new employees and retain existing employees. Consequently, the need for a stronger brand is being considered. From a timing perspective, progress will be linked to the Insurance Commission's achievement of reclassification to Schedule 1 of the *Public Sector Management Act 1994* as this will provide an ideal catalyst for marketing a new brand.

Priorities for 2010/2011

- Maintain high customer satisfaction ratings by continuing to provide excellent customer service.
- Pursue and enhance opportunities that enable customers to transact efficiently via on-line self service options.
- Continue to support road safety/crash prevention programs.
- Continue to support medical research into the cause, diagnosis and potential cure/treatment of asbestos related diseases.
- Continue the revision of all documentation/correspondence that we use in communicating with our customers to ensure that it is in plain English and easily understood.

- Enhance Information and Communication Technology (ICT) services through improvements in quality control, design and development methods with a renewed focus on completing the transition from mainframe to open systems technology, as well as better utilisation of external service providers.
- Enhance scope of entitlements to claimants.
- Continue a commitment to ensure that State Government policy in relation to, Sustainability; e-Government; Disability Services; Purchasing; State Records; and Waste Paper Recycling are complied with.
- Explore a branding strategy that will deliver on our vision, improve public awareness and perception whilst positioning the organisation for the future.

4 OUR PEOPLE

The Insurance Commission's business is knowledge based and we employ approximately 370 people covering professionals from a variety of disciplines including insurance/risk management, fraud prevention, information technology, investments, finance and human resource management.

The uncertain economic environment in the preceding 12 months resulted in a number of varied forecasts of the impact on employment and the demand and supply of skills. Although there has been an easing of the past labour supply challenges, skill shortages in occupations relevant to our needs remain.

The Insurance Commission faces continued demographic change in 2010/2011 as a result of an increasing number of our most experienced employees attaining the minimum statutory retirement age.

The Insurance Commission continues to experience challenges in the attraction and retention of younger generation employees further impacting our longer term skill supply strategies.

These challenges will increase with the continued economic upturn affecting labour markets. In response, the Insurance Commission needs to continue to invest in people strategies that ensure the organisation has the necessary skills and knowledge to achieve strategic and business objectives.

We will continue to promote the Insurance Commission as "A Great Place to Work" and support the achievement of this goal by ensuring we have the right people operating with the right focus in an environment and legislative framework that is appropriate to the business needs of a commercially focussed Government Business Enterprise.

Priorities for 2010/2011

- Achieving reclassification to Schedule 1 of the *Public Sector Management Act 1994* through the progression of the ICWA Act Amendment Bill 2010.
- Re-defining the employee value proposition to arrest the decline in average experience levels through the retention of current employees.
- Enhancing the profile and attractiveness of the Insurance Commission in appropriate labour markets (nationally and internationally) to meet current and future skills shortages.
- Maintain best practice levels of investment in employee training, development and education to ensure our people can meet current needs and respond to future challenges.

- Continue the investment in shaping a positive and collaborative organisational culture that is characterised by effective working relationships at all levels of the Insurance Commission.

5 BUSINESS MANAGEMENT

Dividend Policy and National Tax Equivalent Regime

The Insurance Commission's policy is to operate on a commercial basis.

A Cabinet Minute dated 14 December 2009 provided notice that Cabinet had approved the drafting of the ICWA Amendment Bill; and recommended consideration be given to whether a dividend should be applied. Consequently, the Insurance Commission is liaising with DTF to resolve the dividend issue.

Dividends

The Insurance Commission of Western Australia Act 1986 does not currently include a specific dividend requirement.

By way of background, under Section 18(2) of the ICWA Act the Board of Commissioners can (subject to Treasurer approval) transfer a surplus in a designated Fund (or proportion thereof) to:

- Another of the Insurance Commission's Funds
- The Consolidated Fund; or
- Any other Fund or Account

Taxation

In relation to the National Tax Equivalent Regime (NTER), apart from RiskCover and GIF, the Insurance Commission complies with this regime. NTER monies are payable directly to the DTF for the benefit of the State. This scheme ensures that the Insurance Commission bears a tax impost similar to other commercial organisations.

Competitive Neutrality

The Insurance Commission is committed to the principles of Competitive Neutrality. Applicable legislation, internal policies and procedures will continue to be aligned with the State's Policy Statement on Competitive Neutrality 1996 to ensure the Insurance Commission of Western Australia operates free of competitive advantages or disadvantages.

Borrowings

The Insurance Commission is fully funded and currently has no debt capital (borrowings).

Accounting Policy

The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. Such modifications are intended to provide certainty and ensure consistency and appropriate reporting across the Public Sector.

Where modification is required and has a material or significant effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to the financial statements in the Insurance Commission's Annual Report.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which are measured at fair value. The financial reports are prepared in accordance with Australian Accounting Standards as modified by Treasurer's Instruction.

Business Continuity Planning

As part of the Insurance Commission's overall corporate governance (in accordance with Premier's Circular No. 2006/3 Risk Management and Business Continuity Planning), a Business Continuity Management Plan has been prepared and is reviewed annually.

Performance Reporting to the Minister

On a monthly basis, the Minister is provided with a copy of the Board of Commissioners' Meeting Agenda papers which include a monthly report against performance targets, along with information in relation to the financial position and significant issues.

In addition, the Chairman of the Board of Commissioners and the Managing Director, meet as required with the Minister and advise him of any significant issues and/or variation with respect to the Insurance Commission's performance.

An Annual Report will be provided to the Minister within the time frames specified by the *Financial Management Act 2006*.

6 OUR FINANCIALS

Capital Investment

Capital investment expenditure is generally of the nature of the economic replacement of existing assets and the maintenance and improvement of Information and Communication Technology systems integral to the efficient operation of the core business. Capital Investment is reviewed on a year by year basis.

2010/2011 Insurance Commission Capital Expenditure Summary

	Budget \$
Plant and Equipment	350,000
Leasehold Improvements	321,000
Telephone/Comm equipment	30,000
Furniture and Fittings, office machines	113,500
Motor Vehicle	731,800
IT Hardware	2,605,000
IT Software	4,483,628
Total Capital Expenditure	8,634,928

Expenditure on IT hardware includes amounts in relation to infrastructure through improved network and server facilities, the upgrading of desktop workstations and enhanced disaster recovery and imaging facilities.

IT software incorporates application development software, performance monitoring applications, general desktop applications and expenditure on the upgrade of insurance systems.

Note that capital expenditure is funded from Insurance Commission generated revenue flows without recourse to the Consolidated Fund.

Financial Outcome Forecast and Key Performance Indicators

The 2010/2011 Strategic Business Plan, Budget and Key Performance Indicators are based upon the outcomes of a number of Strategic Business Planning sessions between December 2009 and May 2010. These sessions involved at various times, Board members, the Executive and senior staff. The Divisional Business Plans, Budgets and Key Performance Indicators are prepared by the respective Divisional Managers using:

- Premium/Fund Contribution and claim information from Actuaries.
- Documented Fund Contribution administration expense budget guidelines.
- Forecast information based on actuals to May 2010.
- Overall allocation methods which have been documented using objective measures.

The financial outcome of this process is at Appendix I.

Copies of the Insurance Commission's major public documents, including the Annual Report and Statement of Corporate Intent can be accessed through our website www.icwa.wa.gov.au

APPENDIX 1

Financial Outcome Forecast and Key Performance Indicators

INSURANCE COMMISSION OF WESTERN AUSTRALIA BUDGET 2010/2011

NB: (excludes RiskCover)

INSURANCE COMMISSION OF WESTERN AUSTRALIA	
	\$'000
Premium Revenue	421,256
Outwards Reinsurance Premium Expense	(4,400)
Outwards Reinsurance Commission Revenue	110
Net Premium Revenue	416,966
Claims Expense	(448,900)
Reinsurance and Other Recoveries Revenue	3,936
Net Claims Incurred	(444,964)
Underwriting and Administration Expenses	(95,169)
UNDERWRITING LOSS	(123,167)
Investment Income	130,025
Finance Costs	(20,485)
Other Income	33,652
Other Expenses	-
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	20,025
Income Tax Equivalent Expense	(6,007)
PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE	14,018

RISKCOVER FUND BUDGET 2010/2011

RISKCOVER FUND	
	\$'000
Gross Written Premium Revenue	203,207
Premium Adjustment	16,157
Outwards Reinsurance Premium Expense	(14,604)
Outwards Reinsurance Commission Revenue	1,313
Net Premium Revenue	206,073
Claims Expense	(178,622)
Reinsurance and Other Recoveries Revenue	4,579
Net Claims Incurred	(174,043)
Underwriting and Administration Expenses	(31,487)
UNDERWRITING SURPLUS	543
Investment Income	20,485
PROFIT	21,028

NOTE: RiskCover is not a participant in the National Tax Equivalent Regime

Key Performance Indicators		2010-2011 Forecast	
Insurance Commission			
Profit/(Loss) Before Income Tax (Expense)/Benefit to Net Premium Revenue (%)	4.8	Profit/(Loss) Before Income Tax (Expense)/Benefit to Net Premium Revenue indicates the return the Insurance Commission has earned on its net premium revenue.	
Profit/(Loss) Before Income Tax (Expense)/Benefit to Total Revenue (%)	3.4	Profit/(Loss) Before Income Tax (Expense)/Benefit to Total Revenue indicates the return the Insurance Commission has earned on its total revenue (including net investment revenue).	
Return on Total Assets (%)	0.7	Return on Total Assets is calculated as the Insurance Commission's profit/(loss) before income tax (expense)/benefit divided by its average total assets and is expressed as a percentage.	
Net Loss Ratio (%)	106.7	Net Loss Ratio indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.	
Third Party Insurance Fund			
Net Loss Ratio (%)	106.4	Net Loss Ratio indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.	
Net Expense Ratio (%)	10.4	Net Expense Ratio shows the percentage of underwriting and administration expenses against net premium revenue. 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.	
Net Investment Ratio (%)	24.1	Net Investment Ratio represents net investment income as a percentage of net premium revenue.	

RiskCover - Key Performance Indicators		
	2010-2011 Forecast	
Net Assets (\$000's)	110,468	Net Assets reflects the financial position of RiskCover at the end of the period and its ability to maintain a suitable reserve for future use.
Expense Performance Target (%)	13.3	The Expense Performance Target compares the total RiskCover Management Fee to that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.
Net Investment Ratio (%)	9.9	Net Investment Ratio represents net investment income as a percentage of contribution collected.