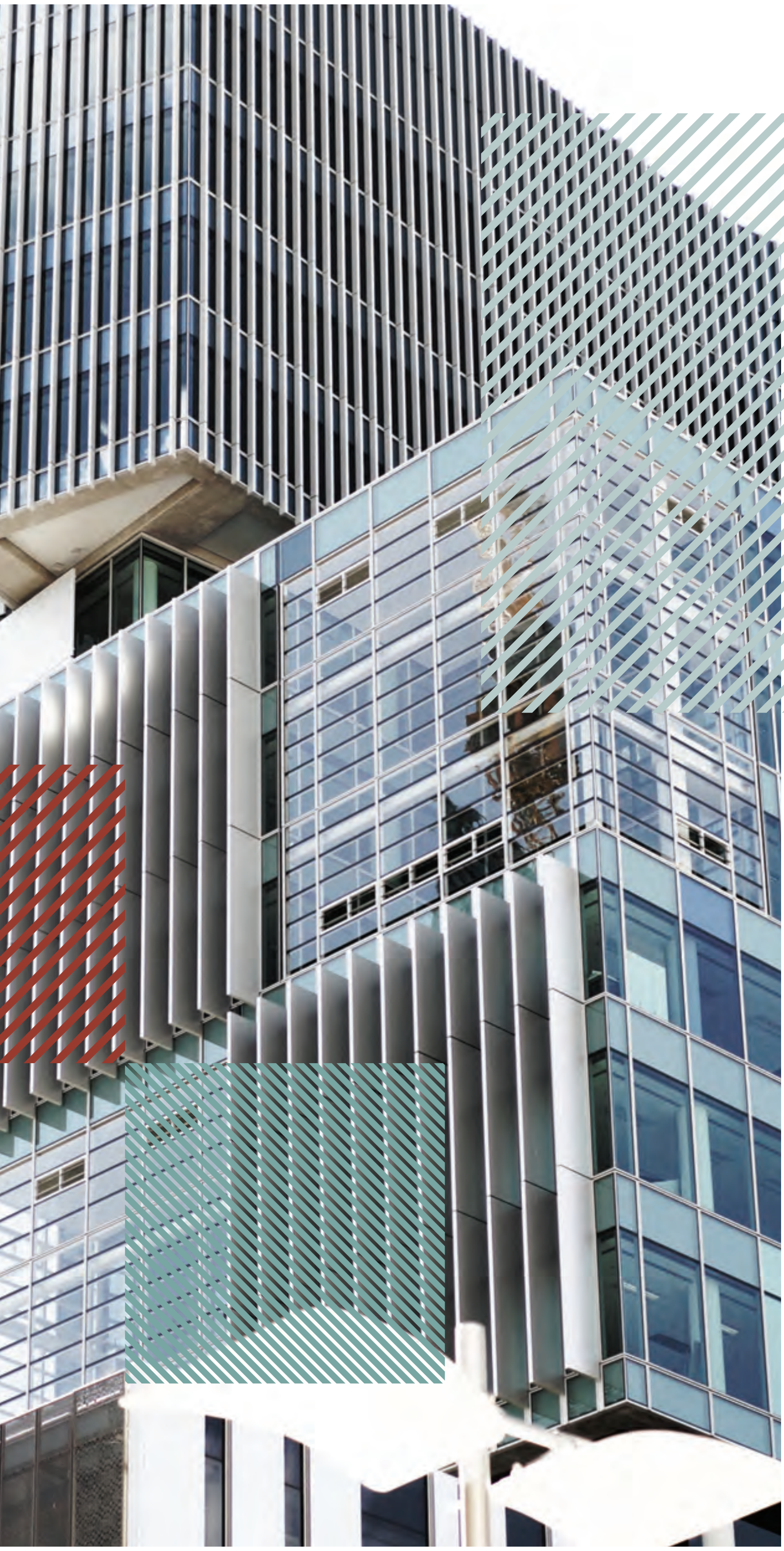

Insurance Commission of Western Australia

ANNUAL REPORT 2011

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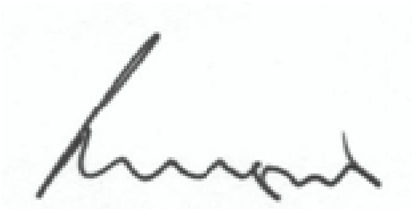
Please note that in this Annual Report:
References to the year 2012 mean the 2011-2012 financial year ending 30 June 2012.
References to the year 2011 mean the 2010-2011 financial year ended 30 June 2011.
References to the year 2010 mean the 2009-2010 financial year ended 30 June 2010.

STATEMENT OF COMPLIANCE TO THE MINISTER

To the Hon C. Christian Porter MLA
Treasurer; Attorney General

In accordance with Section 63 of the *Financial Management Act 2006,* we hereby submit for your information and presentation to Parliament, the Annual Report of the Insurance Commission of Western Australia for the financial year ended 30 June 2011.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006* and the *Insurance Commission of Western Australia Act 1986.*



Michael E Wright
Chairman
31 August 2011

Lew Watts
Acting Managing Director
31 August 2011

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia, passed on 31 August 2011.

CONTACT DETAILS

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1.0 OVERVIEW

1.1 EXECUTIVE SUMMARY

1.1.1 Chairman's Report

I have pleasure in presenting, on behalf of the Board, the Annual Report of the Insurance Commission of Western Australia for the 2011 financial year.

Our Activities

The Insurance Commission is a statutory corporation with an independent Board constituted under the *Insurance Commission of Western Australia Act 1986*. The Board is the governing body of the Commission with authority, in the name of the Commission, to exercise and perform the powers, functions and duties conferred or imposed on the Commission under the Act. The Commission is required to perform its functions and exercise its powers in an efficient and economic manner and use its best endeavours to ensure that its revenue is sufficient to meet its expenditure. The Commission is required to perform its functions in accordance with the Strategic Development Plan and Statement of Corporate Intent prepared and submitted by the Board to the Minister, and is responsible for managing its own finances.

Two of the main functions of the Insurance Commission are the underwriting of the Third Party Insurance Fund (involving the issue of compulsory third party (CTP) motor vehicle personal injury insurance policies and management of claims) and its investment activities. As an ancillary to its insurance business, the Insurance Commission manages on behalf of the Government of Western Australia, a self-insurance fund for the whole of Government, under the trading name, RiskCover. Other ancillary activities of the Insurance Commission are detailed in the following pages of this Annual Report.

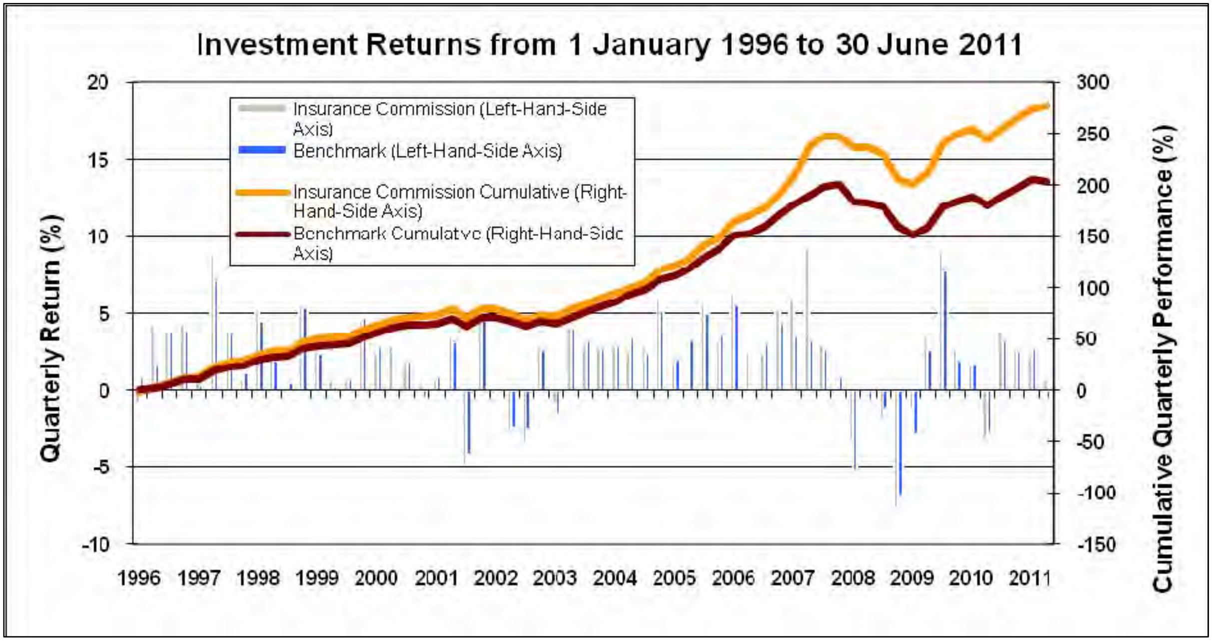
The Year Gone By

The past 12 months have brought challenges and successes for the Insurance Commission as we pursue our objective of efficiently delivering equitable compensation schemes and responsible risk management for the Western Australian community.

Once again, Western Australian motorists have enjoyed the lowest cost CTP insurance premiums in Australia for a family motor vehicle.

Investment Strategy and Performance of Investment Portfolio

The Insurance Commission's long-term cross-cycle investment strategy remains the key to prudential management of the investment assets which constitute the bulk of our consolidated total assets of $2.93 billion. Our conservative investment strategy and diverse investment portfolio continue to prove successful in minimising adverse impacts on the Insurance Commission's gross investment return which achieved 9.7% in 2011, and further extended the historic out-performance against benchmark as shown in the graph below.



Bell Group Action

The judgment for more than $1.6 billion obtained by the Bell Group Liquidators against 20 Banks in the Bell Recovery Action is currently the subject of appeal processes (refer Note 7(b) of the Financial Statements). The Insurance Commission, as an indemnifying creditor, continues to provide financial support to the Liquidators in their recovery efforts for the benefit of all creditors.

In 2011, ICWA Law Pty Ltd, a wholly owned subsidiary of the Insurance Commission, was established for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action. Although the Insurance Commission is not itself a party to the proceedings, the purpose in creating ICWA Law Pty Ltd, and its role going forward, is to independently manage and protect the interests of the Insurance Commission arising out of its status as an indemnifying creditor in the Bell Group administrations. Previously a unity of interest has existed with the Bell Liquidators in simply assisting them to recover assets for their administrations. With the existing judgment (and subject to the outcome of appeals), this objective may no longer prove to be the unique driver of the relationship between the Insurance Commission and the Liquidators, in the face of challenges by other creditors.

Reserves

The Board of the Insurance Commission has an awareness (borne of experience) of the inherent costs and uncertainties involved in conducting litigation. It is also conscious of the concerns and abnormal volatility which are currently endemic in global financial markets. In good faith, the Board has sought to establish and maintain a level of solvency and prudential reserves in the Insurance Commission which the Board considers appropriate to the circumstances and the environment in which the Insurance Commission is presently operating. Factors identified in Note 30 to the attached Financial Statements will impose a need to review those policies for maintenance of adequate reserves and, as a result, may have a materially adverse impact on the Insurance Commission's future performance.

In assessing the adequacy of CTP premiums for the purposes of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission is required to make an assessment of the extent to which premium income (and other monies received for the purposes of that Act) will be sufficient to meet claims, costs and other expenses to arise or be incurred under that Act. To assist in making its assessment, the Insurance Commission is required to procure and consider an actuarial report on the Third Party Insurance Fund. The main focus of the actuarial report is to estimate the net present value of outstanding claims which the Third Party Insurance may incur in the future. It is the role of the Board, after considering the actuarial report as one of the factors to be taken into account, to reach an assessment of what other costs and expenses (including contingent liabilities) may need to be covered.

Corporate Governance

The Insurance Commission's Corporate Governance Charter describes Corporate Governance as "the system by which the Insurance Commission of Western Australia is directed and managed. It influences how the objectives of the Insurance Commission are set and achieved, how risk is monitored and assessed and how performance is optimised."

Review of the Board Charter by the Corporate Governance Committee is continuous. The Committee's recommendations to the Board assist in discharging the Insurance Commission's Corporate Governance objectives.

Management and Executive Committee

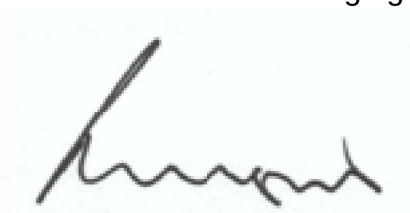
The Managing Director, Mr Vic Evans, and the Executive Committee continue to provide the Insurance Commission and the people of Western Australia with an outstanding level of service.

It is the strong leadership demonstrated by the management team that enhances the Insurance Commission's positive reputation within the community, and strengthens the positioning of the Insurance Commission as 'A Great Place to Work'.

Acknowledgements

The Board acknowledges and appreciates the loyalty shown by the staff of the Insurance Commission and their commitment to achieving our vision.

I also express gratitude to my fellow Commissioners for the strategic support and direction they have provided to the Insurance Commission and for their valuable contributions in bringing experience and robust views to the deliberations of the



MICHAEL WRIGHT
CHAIRMAN

1.1.2 Managing Director's Report

In the absence of the Managing Director, Mr Vic Evans on long service leave from 23 May to 14 October 2011 inclusive, I provide the following report.

Financial Performance

The Insurance Commission recorded a consolidated profit after tax of $42.7 million for the financial year ended 30 June 2011. This result was $28.7 million better than budget and was achieved primarily due to a significantly better than budget investment return of $256.5 million. Actual investment return was a solid 9.7% (before fees and expenses) which was better than the total portfolio benchmark of 8.1%.

As at 30 June 2011, net assets have increased from $832.8 million to $886.3 million.

Stakeholders should be re-assured that, during a period of ongoing financial market volatility, the Insurance Commission's commitment to a long-term focused investment strategy continued to deliver solid results.

The Insurance Commission's disappointing underwriting result of $188.7 million loss compared to a budget loss of $116.1 million, was primarily due to significant increases in outstanding claims provisions within the Third Party Insurance Fund (TPIF), due mainly to higher than forecast wage inflation in 2011 combined with a reduction in forecast investment returns for outward years.

Motor Vehicle Personal Injury

The TPIF posted an after-tax profit of $33.6 million for the year, primarily due to the positive investment return. As at 30 June 2011, the TPIF net assets increased to $672.7 million.

For the 2011 year, the actual underwriting result for the TPIF was a $151 million loss, which was $67.6 million worse than budget. This loss stems from a significant strengthening in outstanding claims provisions, primarily due to the reasons described above in the 'Financial Performance' section.

Western Australian motorists, for the past 15 consecutive years, have paid the lowest premiums for a family motor vehicle in all of Australia. In fact the current premium, in net present value terms, is the lowest it has been at any time in the past 35 years. From a claimant's perspective, it is important to note that 89% per annum of claims payments, continue to go to their direct benefit.

In seeking to maintain the long-term reduction in the claim frequency rate, the Insurance Commission has continued to support strategies and programs aimed at reducing road-related trauma in Western Australia. For 2011, the Insurance Commission committed $4.1 million from the TPIF towards road safety programs and initiatives. The major portion of this money ($3.76 million) was committed to the Western Australian Road Safety Council approved road safety programs.

RiskCover

Even though the RiskCover Fund benefited from its share of the gross 9.7% investment return, the actual underwriting result of a $51.3 million loss was significantly worse than the $0.5 million budgeted profit.

Consequently, in 2011 the RiskCover Fund reported an $11.4 million loss.

The major factors contributing to the underwriting loss were the continuation of a deteriorating claims experience for the workers' compensation class of insurance combined with the impact on outstanding claims provisions of higher than forecast wage inflation in 2011 and a reduction in forecast investment return for outward years.

The RiskCover Fund remains in a fully-funded position with net assets of $28.2 million, however, due to the RiskCover Fund having insufficient retained earnings, the prudential reserve was reduced to $28.2 million, this is $31.6 million below the amount which would be needed to maintain a 75% likelihood of adequacy with respect to the provision for outstanding claims and it is planned to rebuild to this level of adequacy over the next few years.

Notable achievements evolving from the RiskCover Division are:

- Further development of a project to replace its Legacy Systems with more contemporary e-Business Systems;

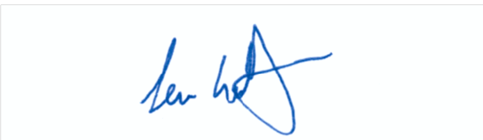
- Growth in Agency demand for project and contract related risk management services; and

- Introduction of a new self-insurance risk declaration system, which provides the agencies with a more intuitive and user-friendly experience, as well as greater reporting and analysis capabilities.

Acknowledgements

To all our staff, thank you for your dedication, loyalty and commitment. Through your positive attitude and sustained effort, the Insurance Commission's reputation as a financially sound and effective State Government entity has been maintained.

Thank you also to the Minister with responsibility for the Insurance Commission, the Hon C. Christian Porter, MLA, Treasurer; Attorney General, and his staff; the Insurance Commission Board; and Members of the Insurance Commission Executive Committee, for their support in our quest for excellence in the services the Insurance Commission provides to the people of Western Australia.



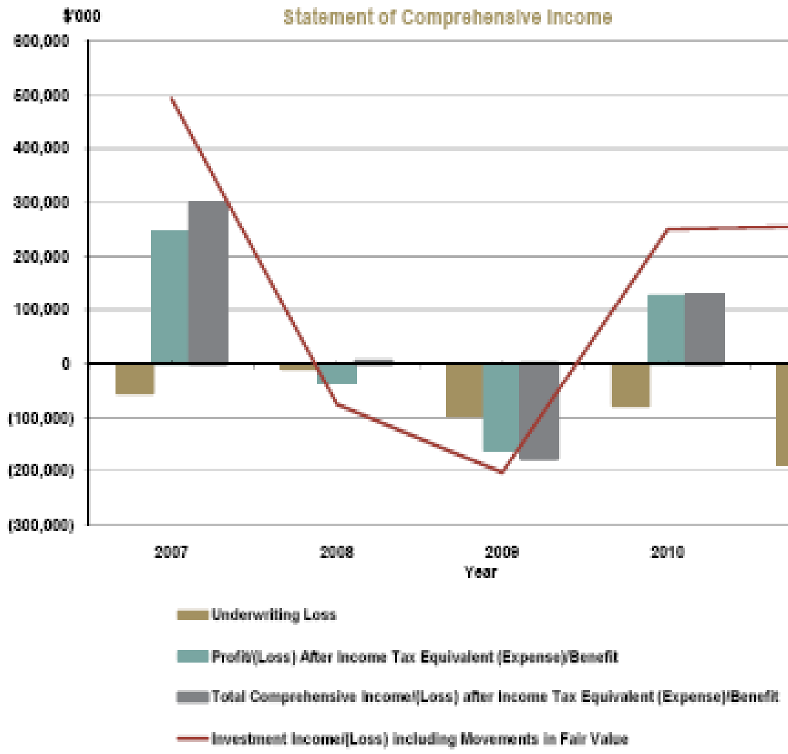
LEW WATTS
ACTING MANAGING DIRECTOR

1.1.3 Financial Overview – Insurance Commission of Western Australia (Consolidated)

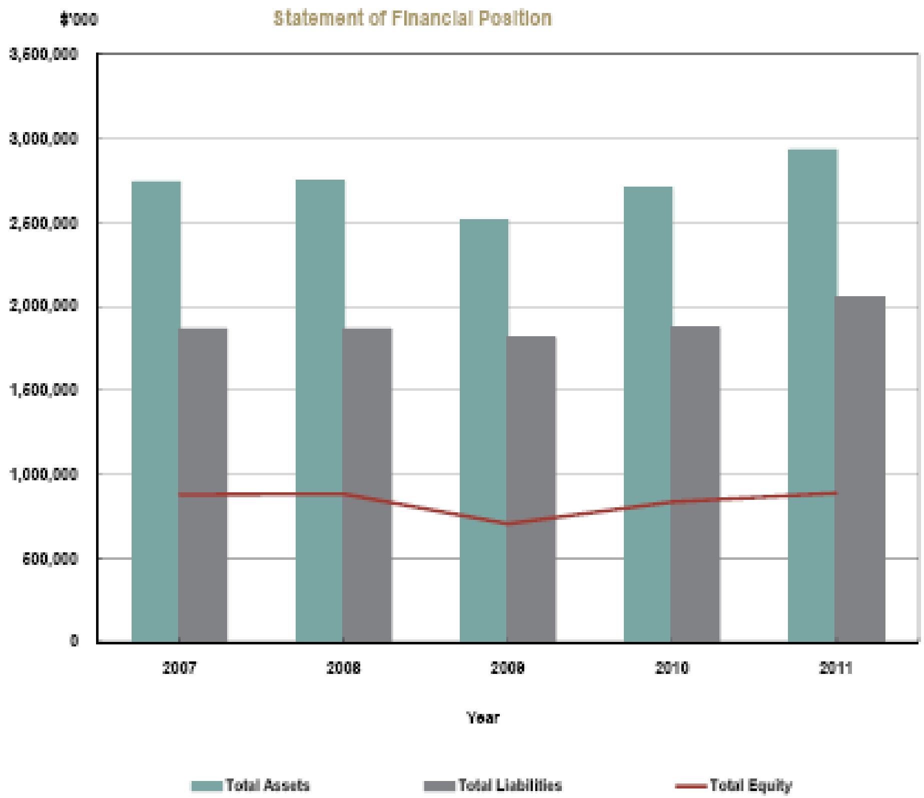
STATEMENT OF COMPREHENSIVE INCOME	Notes*	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000
Net Premium Revenue	2	345,434	356,865	360,518	405,505	425,627
Claims Expense	3	(346,246)	(314,064)	(408,437)	(413,879)	(528,073)
Reinsurance and Other Recoveries Revenue	2	3,992	1,887	3,286	12,512	11,496
Net Claims Incurred	4	(342,254)	(312,177)	(405,151)	(401,367)	(516,577)
Gross Movement in Unexpired Risk Liability	16	(11,188)	488	10,700	-	-
Reinsurance and Other Recoveries on Unexpired Risk Liability	16	10,000	700	(10,700)	-	-
Net Movement in Unexpired Risk Liability	16	(1,188)	1,188	-	-	-
Acquisition Costs	3,11	(11,224)	(10,109)	(11,007)	(13,566)	(18,496)
Underwriting and Administration Expenses	3	(46,785)	(45,812)	(62,127)	(69,555)	(78,276)
Underwriting Loss		**(56,017)**	**(10,045)**	**(97,767)**	**(78,983)**	**(187,724)**
Investment Income/(Loss) including Movements in Fair Value	2	493,523	(75,333)	(202,828)	249,736	256,473
Investment Expenses	3	(18,473)	(19,918)	(21,540)	(21,960)	(24,271)
Finance (Costs)/Recoup	3	(98,453)	15,863	42,244	(35,769)	(37,807)
Other Income	2	25,874	34,823	56,523	56,266	59,664
Other Expenses	3	(9,325)	(12,932)	(16,166)	(15,833)	(17,201)
Profit/(Loss) Before Income Tax Equivalent (Expense)/Benefit		**337,129**	**(67,542)**	**(239,534)**	**153,457**	**49,134**
Income Tax Equivalent (Expense)/Benefit	5	(93,736)	33,432	78,697	(26,607)	(6,385)
Profit/(Loss) After Income Tax Equivalent (Expense)/Benefit		**243,393**	**(34,110)**	**(160,837)**	**126,850**	**42,749**
Fair Value Revaluation of Land and Buildings presented as Plant, Property and Equipment		78,983	55,648	(22,247)	2,267	15,433
Related Income Tax Equivalent (Expense)/Benefit		(23,695)	(16,694)	6,674	(681)	(4,630)
Other Comprehensive Income/(Loss) after Income Tax Equivalent (Expense)/Benefit		**55,288**	**38,954**	**(15,573)**	**1,586**	**10,803**
Total Comprehensive Income/(Loss) after Income Tax Equivalent (Expense)/Benefit Attributable to the Government of Western Australia		**298,681**	**4,844**	**(176,410)**	**128,436**	**53,552**
STATEMENT OF FINANCIAL POSITION						
Financial Assets at Fair Value through Profit or Loss	7	1,815,186	1,749,356	1,588,567	1,745,358	1,894,292
Other Assets	6,8-12	925,479	995,474	926,941	959,891	1,037,961
Total Assets		**2,740,665**	**2,744,830**	**2,515,508**	**2,705,249**	**2,932,253**
Outstanding Claims Liability	14	1,449,971	1,459,920	1,545,249	1,579,728	1,715,056
Unearned Premiums Liability	15	139,702	150,231	162,085	173,927	184,522
Other Liabilities	5,13,17	275,089	253,932	103,837	118,838	146,367
Total Liabilities		**1,864,762**	**1,864,083**	**1,811,171**	**1,872,493**	**2,045,945**
Net Assets		**875,903**	**880,747**	**704,337**	**832,756**	**886,308**
Asset Revaluation Surplus		80,656	119,610	104,037	104,269	115,072
Compensation (Industrial Diseases) Fund Reserve		18,133	18,093	16,505	16,979	17,876
Retained Earnings	37	777,114	743,044	583,795	711,508	753,360
Total Equity		**875,903**	**880,747**	**704,337**	**832,756**	**886,308**

The Financial Overview excludes the RiskCover Fund.

* For full details, refer Financial Statements section.



$'000
Statement of Comprehensive Income
600,000
500,000
400,000
300,000
200,000
100,000
0
(100,000)
(200,000)
(300,000)
2007
2008
2009
2010
2011
Year
Underwriting Loss
Profit/(Loss) After Income Tax Equivalent (Expense)/Benefit
Total Comprehensive Income/(Loss) after Income Tax Equivalent (Expense)/Benefit
Investment Income/(Loss) Including Movements in Fair Value



$'000
Statement of Financial Position
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2007
2008
2009
2010
2011
Year
Total Assets
Total Liabilities
Total Equity

1.1.4 Significant Events

The Insurance Commission

- Consolidated total assets at balance date were $2.9 billion, with consolidated net assets of $886.3 million.

- Consolidated after-tax comprehensive income of $53.6 million.

- Investment return for the year was positive 9.7% (positive 9.2% net of fees and expenses).

- Western Australia's Compulsory Third Party Insurance premium for a family motor vehicle remains the cheapest in Australia.

- Motor vehicle personal injury claims payments for the 2011 year amounted to $381 million (net of GST) of which approximately $338 million was paid for the direct benefit of claimants.

- $3.76 million was expensed to road safety initiatives in partnership with the Office of Road Safety.

- ICWA Law Pty Ltd, a wholly-owned subsidiary of the Insurance Commission of Western Australia created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action.

- Requested by Western Australian Government to introduce a five percent efficiency dividend on discretionary operating expenditure for each year from 2011/2012 to 2014/2015.

- Stage 2 development of The Shops At Ellenbrook, one of the Insurance Commission's retail property investments was completed.

- The Westralia Plaza office development at 167 St Georges Terrace was completed.

The RiskCover Fund

- Sustained a Total Comprehensive Loss for the 2011 financial year of $11.4 million.

- At 30 June 2011 due to the RiskCover Fund having insufficient Retained Earnings, the Prudential Reserve was reduced to $28.2 million. This is $31.6 million below the amount which would be needed to maintain a 75% likelihood of adequacy with respect to the provision for outstanding claims.

- The RiskCover Fund remains in a fully-funded position, with net assets of $28.2 million.

1.1.5 Financial Budgets – Actual Performance Compared to Budget (Insurance Commission Only)

	Notes*	2011 Budget $'000	2011 Actual $'000	2011 Variation* $'000
Net Premium Revenue	2,3	416,967	425,627	8,660
Net Claims Incurred	4	(444,964)	(517,415)	(72,451)
Underwriting and Administration Expenses	3	(88,141)	(96,931)	(8,790)
Underwriting Loss		**(116,138)**	**(188,719)**	**(72,581)**
Net Investment Income	2,3	115,502	232,202	116,700
Finance Costs	3	(21,468)	(38,822)	(17,354)
Other	2,3	42,130	44,003	1,873
Profit before Income Tax Equivalent Expense		**20,026**	**48,664**	**28,638**
Income Tax Equivalent Expense		(6,008)	(5,915)	93
Profit After Income Tax Equivalent Expense		**14,018**	**42,749**	**28,731**

This comparison excludes the RiskCover Fund.

* For full details, refer Financial Statements section. Detailed explanation of variations are contained in Note 23 'Explanatory Statement' to the financial statements.

	$'000
Total Equity (as per Statement of Financial Position)	**886,308**

Key Performance Indicators Summary - Actual Performance Compared to Budget (Insurance Commission Only)

	2011 Budget	2011 Actual	2011 Variation*
Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Net Premium Revenue (%)	4.8	11.4	6.6
Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Total Revenue (%)	3.1	6.4	3.3
Net Operating Cash Flow ($M)	(27.3)	99.4	126.7
Return on Total Assets (%)	0.7	1.7	1.0
Investment Income Rate of Return (%)	5.1	9.7	4.6
Net Loss Ratio (%) **	106.4	120.4	14.0
Net Expense Ratio (%) **	10.4	11.1	0.7
Net Investment Ratio (%) **	24.1	44.6	20.5

This comparison excludes the RiskCover Fund.

* Detailed explanation of variations are contained in the Key Performance Indicators section.
** Third Party Insurance Fund only.

1.2 THE INSURANCE COMMISSION STORY

1.2.1 History

ORGANISATIONAL HISTORY

15 JUNE 1926

State Government Insurance Office established.

1 JULY 1949

Motor Vehicle Insurance Trust established.

1 JANUARY 1987

State Government Insurance Commission (Insurance Commission) established under the *State Government Insurance Commission Act 1986* following the amalgamation of the State Government Insurance Office and the Motor Vehicle Insurance Trust.

State Government Insurance Corporation (Corporation), trading as SGIO, also established as a subsidiary of the Insurance Commission under the *State Government Insurance Commission Act 1986*.

7 JANUARY 1993

SGIO Insurance Limited established under the *SGIO Privatisation Act in 1992* and traded selected general insurance products prior to its sale by public float. The Corporation (no longer trading as SGIO Insurance Limited) ceased underwriting the reinsurance and life insurance business, which was not transferred to SGIO Insurance Limited, and still exists, running-off its remaining claims liabilities.

31 MARCH 1994

SGIO Insurance Limited sold by public float, ceasing to be a subsidiary of the State Government Insurance Commission.

1 OCTOBER 1997

The name of the State Government Insurance Commission was changed to the Insurance Commission of Western Australia (Insurance Commission). The title of the relevant statute (*Insurance Commission of Western Australia Act 1986*) was also changed to reflect the new name.

2 MAY 2011

ICWA Law Pty Ltd, a wholly owned subsidiary of the Insurance Commission of Western Australia created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action.

1.2.2 About the Insurance Commission

The Insurance Commission is primarily responsible for administering, underwriting and managing Western Australia's Compulsory Third Party (CTP) Insurance scheme for motor vehicle personal injuries.

Western Australia operates a common law, fault-based CTP motor vehicle (personal injury) insurance scheme. The scheme offers owners and drivers of Western Australian registered motor vehicles an insurance policy that provides unlimited protection against liability arising from personal injury caused by, through, or in connection with the negligent driving of the insured motor vehicle.

The scheme provides access to common law remedies to persons injured in a motor vehicle crash, if they are able to establish negligence against the owner or driver of a motor vehicle registered in Western Australia.

In addition, the Government of Western Australia's self-insurance and risk management enterprise, RiskCover, is managed by the Insurance Commission on behalf of the Department of Treasury. RiskCover was established in 1997 as a Business Division of the Insurance Commission.

The consolidated financial results of the Insurance Commission represent the combined results of the Insurance Commission, the Corporation and ICWA Law Pty Ltd but exclude the RiskCover Fund.

Funds

The Insurance Commission underwrites and manages four funds under its enabling legislation: the Third Party Insurance Fund; the Compensation (Industrial Diseases) Fund; the Insurance Commission General Fund; and the Government Insurance Fund. It should be noted that the Government of Western Australia indemnifies the Insurance Commission for any deficit in the Government Insurance Fund (Refer Note 6 of the Financial Statements).

Administered Fund

The RiskCover Fund managed by the Insurance Commission is underwritten by the Government of Western Australia.

Subsidiary Companies

The State Government Insurance Corporation is a wholly-owned subsidiary of the Insurance Commission. It is a separate legal entity and publishes its own Annual Report. The Corporation exists to run-off small lines of Australian and overseas inwards reinsurance business written between 1988 and 1992. The Insurance Commission's RiskCover Division manages the run-off of the Corporation's business.

In 2011, ICWA Law Pty Ltd, a wholly-owned subsidiary of the Insurance Commission of Western Australia, was created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action. ICWA Law Pty Ltd commenced operations as an incorporated legal practice on 2 May 2011.

1.2.3 Relationship with the Government of Western Australia

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

1.2.4 Vision, Mission and Core Values

VISION

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

MISSION

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

- provide insurance for motor vehicle personal injury 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.*

CORE VALUES

In everything we do our Core Values are:

- Simplicity;

- Teamwork;

- Accountability;

- Integrity and Openness; and

- Respect and Compassion.

1.3 OPERATIONAL STRUCTURE

The Insurance Commission has two main insurance business divisions: the Motor Vehicle Personal Injury (MVPI) Division and the RiskCover Division.

These two insurance business divisions are supported by six corporate service divisions:

- Finance and Administration;
- Human Resources;
- Information Technology;
- Investments;
- Office of the Commission; and
- Special Investigations.

The Office of the Commission, led by the Managing Director, is responsible for the provision of overall leadership; ensuring compliance with legislation; policy advice; administrative support and performance reporting to the Board of Commissioners and the Minister.

The Managing Director works with the Board of Commissioners and the Executive Committee to oversee strategic planning, and all operational and administrative functions of the organisation.

1.3.1 The Minister

The Honourable Colin Barnett, Premier; Treasurer MLA, was the Minister responsible for the Insurance Commission until 14 December 2010.

From 14 December 2010, the Honourable C. Christian Porter MLA, Treasurer; Attorney General became the Minister responsible for the Insurance Commission.

1.3.2 The Leadership Team

Board of Commissioners

The Board of Commissioners (Board) is the governing body of the Insurance Commission. It has legislative authority to exercise and perform the powers, functions and duties conferred or imposed on the Insurance Commission under the *Insurance Commission of Western Australia Act 1986.*

The Board is responsible for:

- The overall corporate governance of the Insurance Commission;

- Approving goals, strategic directions and budgets;

- Preparation of Strategic Development Plan (SDP) and Statement of Corporate Intent (SCI);

- Ensuring that legal compliance, ethical behaviour and proper risk management processes are in place and operating effectively; and

- With the written approval of the Treasurer, arrange for the appointment of investment managers.

Comprehensive monthly reports are provided to the Board to enable it to monitor performance. Board meetings are generally held monthly.

The structure of the Board is subject to the following parameters:

- The Board must comprise at least three and not more than six persons appointed as Commissioners; and the Managing Director who is a Commissioner ex-officio;

- Commissioners are appointed by the Governor of Western Australia on the nomination of the Minister;

- The Minister appoints a Chairperson and Deputy Chairperson from the six non-Executive Commissioners; and

- Commissioners are appointed for terms of up to three years and are eligible for re-appointment.

Code of Conduct

The Board of Commissioner's Code of Conduct requires all Commissioners to act with honesty, fairness and integrity and to display the highest ethical standards at all times.

Commissioners' and Managing Director's Remuneration

Remuneration for non-Executive Commissioners is determined by the Minister on the recommendation received from the Minister for Public Sector Management. Non-Executive Commissioners receive 9% in superannuation but do not receive any other retirement benefits.

Through a long-standing administrative arrangement, the remuneration of the Managing Director is currently aligned to salary movements as determined by the Salaries and Allowances Tribunal for the Special Division Officers within the Public Service.

Board Performance

Board members completed a Board Performance Measurement Questionnaire as part of their annual evaluation process.

Changes to the Board

There were no changes to the composition of the Board during the year.

Board of Commissioners' Profiles

At 30 June 2011, the Board of Commissioners comprised:

Michael Wright FAICD
Chairman

Mr Wright is a Barrister and Solicitor who has been in legal practice since 1964 and is a former senior partner of law firm Mallesons Stephen Jaques. Mr Wright specialised in banking and finance and corporate commercial and resources law. He is a past National President of the Australian Mining and Petroleum Law Association Limited, Past Deputy Chairman of Wesfi Limited Group and a past Director of Markalinga Investments Ltd. Mr Wright is Chairman of CCK Financial Solutions Limited and a Director of Wesbeam Holdings Limited Group.

Committee Membership
Audit and Accounts Committee

First appointed: 7 January 1993, appointed Chairman 27 June 1994

Expiry of present term: 30 November 2012

Peter Eastwood AM, FCA, FAICD
Deputy Chairman

Mr Eastwood is a Chartered Accountant who practised in this profession for more than 35 years, and was a partner of Grant Thornton from 1971 to 1997. His experience as a practising Chartered Accountant was principally as a company auditor and his audit experience includes a wide range of industries, including mining, public company audits and assignments for the Office of the Auditor General. Mr Eastwood is also on the Board of Directors for Unimutual Limited; Unimutual Insurance (NZ) Limited and Unimutual (Isle of Man) Limited.

Committee Membership
Chair, Audit and Accounts Committee
Corporate Governance Committee

First appointed: 24 May 1994, appointed Deputy Chairman 19 July 1994

Expiry of present term: 30 November 2012

Sharon Brown
Commissioner

Sharon Brown has a career with over 30 years of experience in senior roles within sales and delivery in the IT industry and is CEO of Sharon Brown and Associates. More recently she has extensive experience in Boards at both the State and national levels including the Federal Cooperative Research Centres Committee. Ms Brown was ‘Telstra Business Woman of the Year’ for Western Australia in 1999.

<u>Committee Membership</u>
Audit and Accounts Committee

First appointed: 11 December 2001

Ms Brown’s present term as Commissioner expired on 30 November 2009 and continues in accordance with Section 5 of the *Insurance Commission of Western Australia Act 1986*.

Annemie McAuliffe MLS, Dip Ed, CMC
Commissioner

Ms McAuliffe has a background in business management and strategic planning and undertakes independent consulting work. Her previous positions have included Director of Gilbert McAuliffe & Associates P/L; Director of the Western Australian (WA) Trade Office in Indonesia; Manager of the International Relations Branch for the WA Department of Trade and Commerce and Ministerial Representative for Industry and Technology with the WA London Office. Ms McAuliffe is also a Board Member of the WA Potato Marketing Corporation.

<u>Committee Membership</u>
Audit and Accounts Committee
Chair, Corporate Governance Committee

First appointed: 1 January 2003

Ms McAuliffe’s present term as Commissioner expired on 31 December 2009 and continues in accordance with Section 5 of the *Insurance Commission of Western Australia Act 1986*.

Doug Pascoe AAII
Commissioner

Mr Pascoe worked in the insurance industry for more than 40 years and held National General Manager positions at AGC (Insurances) Limited; AMP United Insurance Limited and MMI Insurance (now Allianz). He also held the position of General Manager Insurance with the Insurance Commission of Western Australia from 1996-2002. Mr Pascoe was the Governor of Rotary International District 9450 in Western Australia for 2003-2004 and is a past Director of Rotary Australia World Community Service Limited. He is also Finance Director of Foodbank of Western Australia and is Deputy Chair of Meath Care Incorporated.

Committee Membership
Audit and Accounts Committee
Corporate Governance Committee

First appointed: 1 January 2003

Mr Pascoe's present term as a Commissioner expired on 31 December 2008 and continues in accordance with Section 5 of the *Insurance Commission of Western Australia Act 1986*.

Judy McGowan LLB
Commissioner

Ms McGowan has broad academic knowledge of Consumer, Trade Practices, Contract and Fair Trading laws. Since 1976, Ms McGowan has lectured in Law at the Curtin University Business School. She is also a compliance and legal issues trainer for numerous government and private organisations.

Ms McGowan is Deputy Chair of the Building Disputes Tribunal. Her previous Directorships include the Western Australian Dental Board; Unicredit; TAB; Aquinas College; Western Australian Gaming Commission. She has also held a position as a Member on the Small Claims Tribunal.

Committee Membership
Audit and Accounts Committee
Corporate Governance Committee

First appointed: 1 December 2005

Ms McGowan's present term as Commissioner expired on 30 November 2009 and continues in accordance with Section 5 of the *Insurance Commission of Western Australia Act 1986*.

Vic Evans Dip Mgt Studies, MAICD
Commissioner

Mr Evans has been the Managing Director/Chief Executive Officer of the Insurance Commission of Western Australia since 1993. He is responsible for the operations of the Insurance Commission and is the only executive member of the Board.

First appointed: 22 June 1993
Expiry of present term: 30 September 2011

Board Committees

Committees of the Board that operated during the year were:

Audit and Accounts Committee

The Audit and Accounts Committee is responsible for making recommendations to the Board on the adequacy of internal audit arrangements; financial statements; financial administration policies and reporting procedures. The Board also monitors recommendations arising from external audits and takes appropriate follow up actions. This Committee regularly meets with the Internal Auditors and representatives of the Office of the Auditor General. The Committee met eight times during the 2011 year.

Corporate Governance Committee

The Corporate Governance Committee assists the Board in discharging its corporate governance responsibilities. The Committee met once during the 2011 financial year.

Commissioners' Attendance at Meetings

	Board (11)	**Audit and Accounts (8)**	**Corporate Governance (1)**
Michael Wright	11	8	N/A
Peter Eastwood	10	7	1
Sharon Brown	7	4	N/A
Annemie McAuliffe	10	7	1
Doug Pascoe	10	8	1
Judy McGowan	10	7	1
Vic Evans	10	N/A*	N/A*
Ken McAullay	1	N/A**	N/A**

* Mr Vic Evans attends the Audit and Accounts and Corporate Governance Committee meetings in his capacity as Managing Director.

** Mr Ken McAullay attended one Board Meeting in the 2011 financial year in his capacity as Acting Managing Director.

Executive Committee

The Insurance Commission's Executive Committee comprises the Managing Director, two General Managers and the seven Divisional Managers. The Executive Committee met eight times in 2011. A profile of each of its member is provided below.

Vic Evans – Dip Mgt Studies, MAICD
Managing Director

Mr Evans commenced work with the then Motor Vehicle Insurance Trust in 1960. With more than 50 years' experience in all facets of the insurance industry, including Compulsory Third Party Insurance, general insurance and reinsurance, he has held senior management positions with the organisation since 1976 and was appointed Managing Director in 1993.

Mr Evans is responsible for overseeing the performance of the Insurance Commission's functions and operations. He is also Chairman of the State Government Insurance Corporation.

Ken McAullay – Grad Dip Bus, Grad Cert Mgt, Dip Pub Admin
General Manager Corporate Services

Mr McAullay joined the Insurance Commission in 1986. He has more than 40 years' experience in corporate services. Prior to being appointed General Manager Corporate Services in 1996, he had been the Manager Human Resources and Corporate Secretary; a role he has performed for the Board over the past 23 years.

As General Manager Corporate Services, Mr McAullay is responsible for the Corporate Services operations of the Insurance Commission (i.e. Finance and Administration, Human Resources, Information Technology and Investments Divisions).

Mr McAullay is also currently a Board member of the Western Australian Sports Centre Trust trading as VenuesWest.

Lew Watts – Dip Pub Admin, AAII, Grad Cert Bus Admin
General Manager Insurance

Mr Watts commenced work with the then SGIO in 1975 and worked in a diverse range of roles with the Insurance Commission and its predecessor agencies. His senior management experience encompasses six years as the Manager Human Resources followed by a further six years as the Manager Motor Vehicle Personal Injury Division, culminating in his appointment as the General Manager Insurance in December 2002.

Mr Watts is responsible for the insurance operations of the organisation (i.e. Motor Vehicle Personal Injury, RiskCover and Special Investigations Divisions).

Since December 2009, Mr Watts has been the Insurance Commission's representative on the Road Safety Council.

Fab Zanuttigh – MBA, Grad Cert Mgt, AIMM
Manager Motor Vehicle Personal Injury

Mr Zanuttigh has worked in the compulsory third party (CTP) insurance industry for the past 27 years and has been the Manager of the Motor Vehicle Personal Injury Division since 2003. In this capacity, he is responsible for managing the operations of Western Australia's CTP Insurance scheme and the administration of the statutory Third Party Insurance Fund.

Don Williams – Dip Bus Admin, AFAIM
Manager RiskCover

Mr Williams is responsible for the effective management of the RiskCover Division which manages the Western Australian Government's self-insurance managed fund (RiskCover), and a number of smaller insurance funds. He oversees the risk management and self-insurance services RiskCover provides to Western Australian Government agencies, and the risk management services, advice and assistance provided for the whole-of-government.

Mr Williams has more than 40 years' experience in all facets of general insurance company operations.

Jim Milligan – M Crim Just, BSc, Grad Cert Comp. Sec
Manager Special Investigations

Mr Milligan has more than 30 years' experience investigating criminal and commercial activities. He served with the Criminal Investigations Branch of the Western Australia Police Service for many years and spent two years attached to the National Crime Authority's Melbourne office investigating organised crime.

Mr Milligan has managed the Insurance Commission's Special Investigations Division since joining the Insurance Commission in 1990. He is responsible for co-ordinating strategies to protect the assets of the Insurance Commission and minimising the incidence of fraud.

Glenn Myers – CA (SA)
Chief Information Officer

Mr Myers has more than 20 years experience in Information Technology Management positions working in a variety of industry sectors including government, national and international organisations, trading in the manufacturing and services sectors.

Mr Myers has managed the Insurance Commission's Information Technology Division since joining the organisation in August 2010.

Mr Myers is responsible for the strategy; architecture; planning and operations of the Insurance Commission’s information systems. He contributes to the Insurance Commission's commercial decision making and ensures that the business requirements are enabled via appropriate systems, processes and technology.

Grant Speight – MHRM, FAHRI, AFAIM
Manager Human Resources

Mr Speight has over 20 years’ experience in human resource management, and as a Fellow of the Australian Human Resource Institute is active in a number of external human resource and industry advisory committees, including representing the Insurance Commission as a Director of the Personal Injury Education Foundation.

Mr Speight commenced his career in the general insurance areas of the then SGIO in 1977 before moving into a number of senior human resource roles, culminating in his appointment as the Manager Human Resources Division in 1996.

Mr Speight is responsible for developing and implementing human resource strategies that contribute to the achievement of the Insurance Commission’s corporate and business objectives.

Julie O’Neill – Executive MBA,
B Econs (Hons), DFP
Manager Investments

Ms O’Neill has over 20 years’ experience in the management of institutional investment portfolios, including the construction and implementation of multi-manager portfolios and the direct management of Australian Equity, Fixed Interest and Cash portfolios. Previously as an investment consultant, she advised a number of large Western Australian institutional investors on their investments.

Ms O’Neill is responsible for the effective management of the Insurance Commission’s investment portfolio including the development and implementation of investment strategy.

Ms O’Neill is also currently a member of the Catholic Education Commission of Western Australia.

Ernie Cowell – FCCA, FIPA
Manager Finance and Administration
(Chief Finance Officer)

Mr Cowell is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and of the Institute of Public Accountants (Australia). Mr Cowell held senior finance roles in the private sector before joining the Insurance Commission in 1999. His accounting experience, spanning over 35 years, includes strategic business planning, external financial and due diligence auditing, the management of financial system implementations and management and statutory reporting.

As the Chief Finance Officer, Mr Cowell has primary responsibility for:

- the preparation of financial information to facilitate the discharge of statutory and other reporting obligations of the Insurance Commission;

- the provision of advice on the effectiveness of accounting and financial management information systems and financial controls;

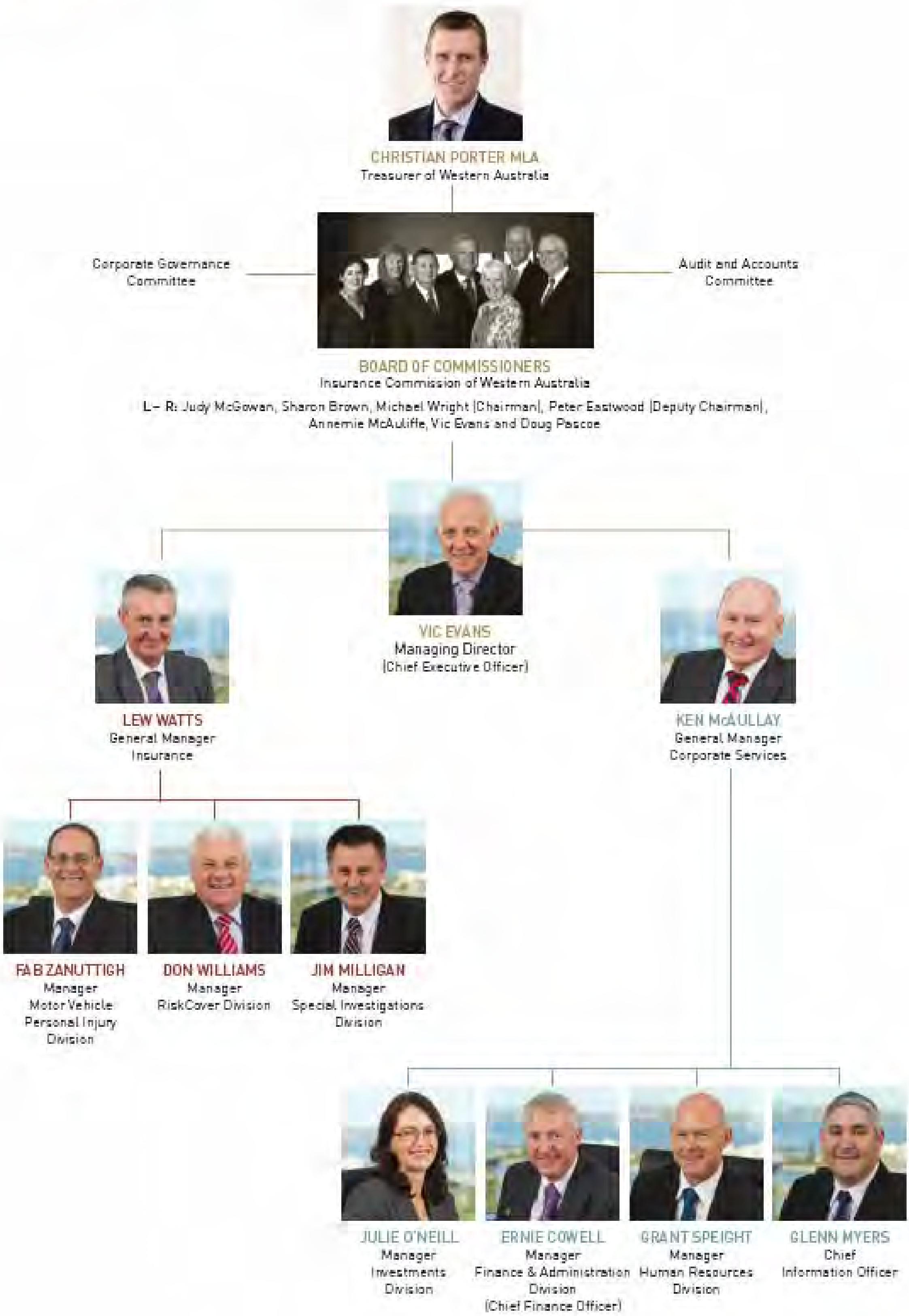
- the provision of advice concerning the financial implications of, and financial risks to, the Insurance Commission’s current and projected services; and

- the development of strategic options for the future financial management and capability of the agency.

Back row (Left -Right):
Fab Zanuttigh, Lew Watts, Glenn Myers, Don Williams, Jim Milligan.

Front Row (Left -Right):
Grant Speight, Julie O’Neill, Vic Evans, Ken McAullay, Ernie Cowell.

ORGANISATION CHART



1.4 PERFORMANCE MANAGEMENT FRAMEWORK

1.4.1 Outcome Based Management Framework

Relationship to Government Strategic Goals

The Insurance Commission's Key Outcomes support the current high-level government goals

Outcomes Based Service Delivery:

Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians.

Insurance Commission Services	Insurance Commission Key Outcomes
Timely, equitable and efficient claims management for motor vehicle personal injury claimants.	Minimise the financial hardship of motor vehicle personal injury claimants.
Provision of affordable premiums to owners of Western Australian registered motor vehicles.	Ensure that all Western Australian motor vehicles using public roads are registered and insured.
Timely, equitable and efficient claims management for industrial disease claimants.	Minimise the financial hardship of industrial disease claimants.
RiskCover claims management and claims analysis.	Meet customer risk management and self-insurance needs.

Financial and Economic Responsibility:

Responsibly managing the State's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector.

Insurance Commission Services	Insurance Commission Key Outcomes
Fund management and Investment function.	That the Insurance Commission's revenue is sufficient to meet expenditure.
Risk Management Program development and implementation.	Promote and support the growth of risk management practice to minimise the cost of risk to Government.

1.4.2 Changes to Outcome Based Management Framework

There were no changes to the Insurance Commission's Key Outcomes or Key Performance Indicators during 2011.

1.4.3 Shared Responsibilities with Other Agencies

The Insurance Commission does not have any shared responsibilities with other agencies.

2.0 INSURANCE COMMISSION PERFORMANCE

2.1 INSURANCE COMMISSION OUTCOMES

Motor Vehicle Third Party (Personal Injury) Insurance

Motor Vehicle Personal Injury Insurance is compulsory in all States and Territories of Australia. It is commonly referred to as Compulsory Third Party (CTP) Insurance. The Insurance Commission is the sole provider of CTP Insurance in Western Australia.

The Motor Vehicle Personal Injury (MVPI) Division of the Insurance Commission deals with all personal and fatal injury claims resulting from motor vehicle crashes involving Western Australian registered motor vehicles.

The MVPI Division operates in accordance with the provisions of the *Motor Vehicle (Third Party Insurance) Act 1943* and the *Motor Vehicle (Third Party Insurance) Amendment Act 2006.*

All claims for personal bodily injury in Western Australia are claims at common law where, for a claim to succeed, negligence must first be established against the owner or driver of a Western Australian registered motor vehicle.

The most commonly misunderstood aspect of the Western Australian CTP scheme is the extent of cover provided to the policyholder. The CTP Policy does not cover drivers for injuries they receive as a result of their own negligence or damage to vehicles or other property.

The Policy does, however, indemnify the owner or driver of Western Australian registered motor vehicles against liability for personal bodily injury claims made against them by a third party.

At 30 June 2011, there were approximately 2.43 million motor vehicles registered in Western Australia (including approximately 450,000 caravans and trailers).

The Department of Transport (DoT) acts as the Insurance Commission's agent for issuing CTP Insurance policies and the collection of premiums and policy data. The CTP Policy is combined with the motor vehicle licence issued by DoT and its agents. In exchange for this service, the Insurance Commission pays commission to the DoT, calculated on a 'fee-per-transaction' basis. For 2011, this fee was set at $3.65 per transaction.

This partnership delivers the benefit to Western Australian motorists of a 'one-step' process for the renewal of vehicle licences and CTP Insurance in an efficient and cost-effective manner.

Third Party Insurance Fund Performance

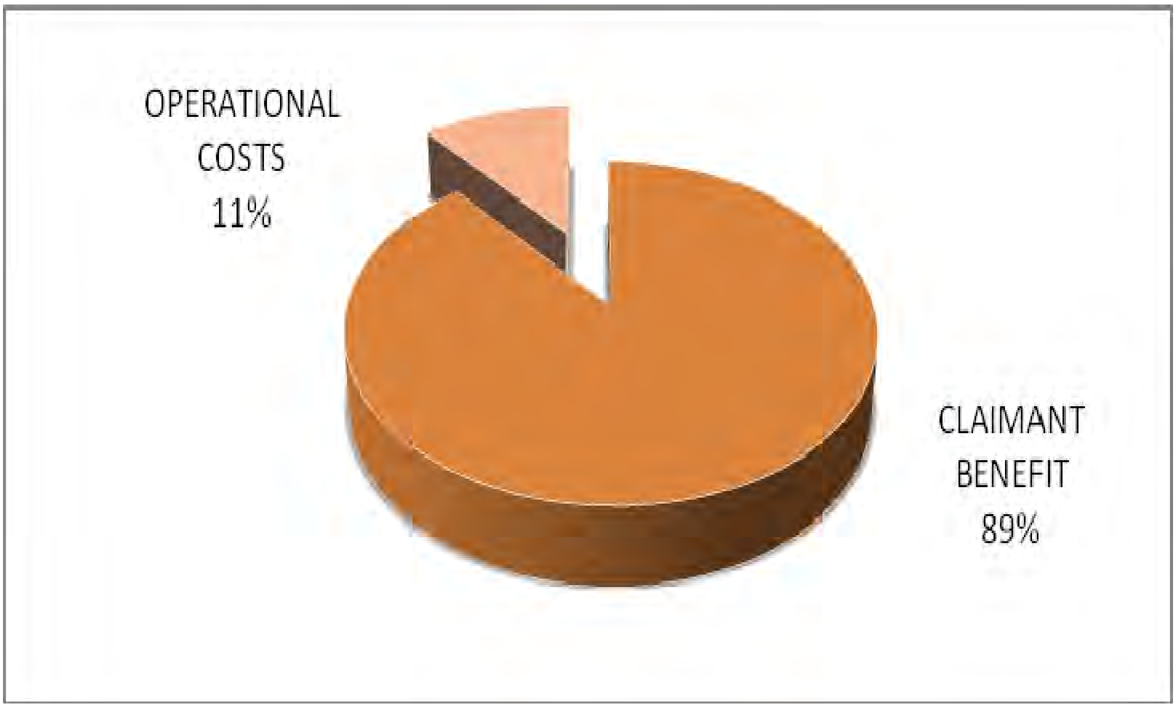
The net assets of the Third Party Insurance Fund (TPIF) were $672.7 million as at 30 June 2011, compared to $639 million at 30 June 2010. This increase in net assets was achieved by the improvements in the financial markets experienced over the past 12 months, reflected in the investment return of positive 9.7% gross which more than offset the worse than budget underwriting performance.

For the 2011 year, the actual underwriting result for the TPIF was a $151 million loss, which was $67.6 million worse than the budget (forecast loss of $83.4 million). This outcome was driven by significant increases in the provisions for outstanding claims, primarily on the back of substantial strengthening of economic assumptions relating to wage inflation combined with reduced forecast investment return for the forward years.

Claims payments (net of GST) of $381 million were marginally lower than forecast ($385 million) whilst net premium revenue of $425.6 million was marginally higher than forecast ($422.6 million).

For the 2011 year approximately $338 million (representing 89% of claims payments) were paid for the direct benefit of claimants.

Proportion of Total Claims Costs Paid for the Benefit of Claimants in 2011



Net Claims Incurred for the reporting year was $512.2 million (2010: $395.9 million). This outcome was substantially worse than budget ($443.6 million) and was primarily driven by an increase in outstanding claims liabilities over the reporting period, resulting from changes to economic assumptions relating to inflation and future investment returns as mentioned above.

The marginally lower than forecast claims payments were driven by a lower than expected number of claims finalisations. A total of 4,081 claims were finalised during the year (compared to 4,135 expected) however, the total number of outstanding active claims reduced from 7,037 at 30 June 2010 to 6,841 at 30 June 2011, a reduction of 196 claims.

Annual Expenditure by Head of Damage 2011

	2010 (%)	**2011 (%)**
Aids and Appliances	2.36	3.94
Care and Gratuitous Services*	12.61	13.03
Defendant Legal Costs	3.20	3.11
Funeral and Headstone	0.10	0.09
Future Economic Loss	16.57	17.81
Future Medical	3.71	3.29
Home Help and House Modification	0.19	0.25
Interest	0.06	0.09
Investigations	0.73	0.63
Loss of Amenities	20.50	18.47
Medical	11.79	10.75
Operational Costs	2.11	2.02
Plaintiff Legal Costs	5.71	5.61
Past Loss of Earning Capacity/ Workers' compensation	9.34	9.71
Sundries	0.64	0.68
Transport/Hospital	10.38	10.52
Total	**100**	**100**

**Gratuitous Services refer to those which are provided to a crash victim without payment and include; services of a domestic nature, services relating to nursing, and services that aim to alleviate the consequences of an injury.*

During the year, 3,885 new claims were received. This is approximately 4% lower than the number of new claims received in the previous year (2010: 4,036) and reflects a continuation of the reducing claim frequency trend observed over the past 17 years.

For further information, refer to Claims Trends in the Significant Issues Impacting the Insurance Commission section of this Annual Report.

Benefits

The CTP scheme in Western Australia continues to provide:

- The lowest premiums in Australia for a family motor vehicle;
- Benefits to claimants equivalent to, or better than, those provided by schemes in the other States and Territories of Australia;
- A cost-efficient administration when compared with schemes in other States and Territories of Australia; and
- A Third Party Insurance Fund which is fully funded.

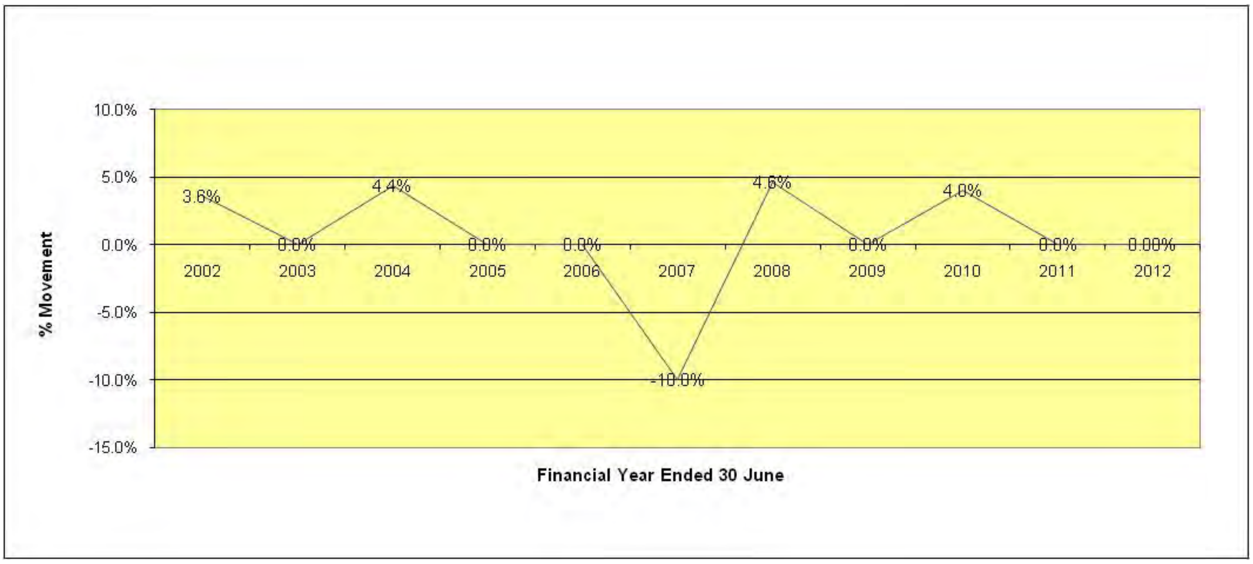
To view the Pricing Policy of CTP Insurance, refer to the Pricing Policies of Services Provided section of this Annual Report.

The MVPI Division monitors and evaluates progress towards achieving its stated objectives by the use of Performance Indicators. The outcomes are reported in the Performance Indicators section of this Annual Report.

Premiums

There was no increase in premiums for the 2011 financial year. This followed an increase of 4% for the 2010 financial year which was primarily driven by the volatility of investment markets over the preceding 12 months.

Ten Year History of Premium Adjustments

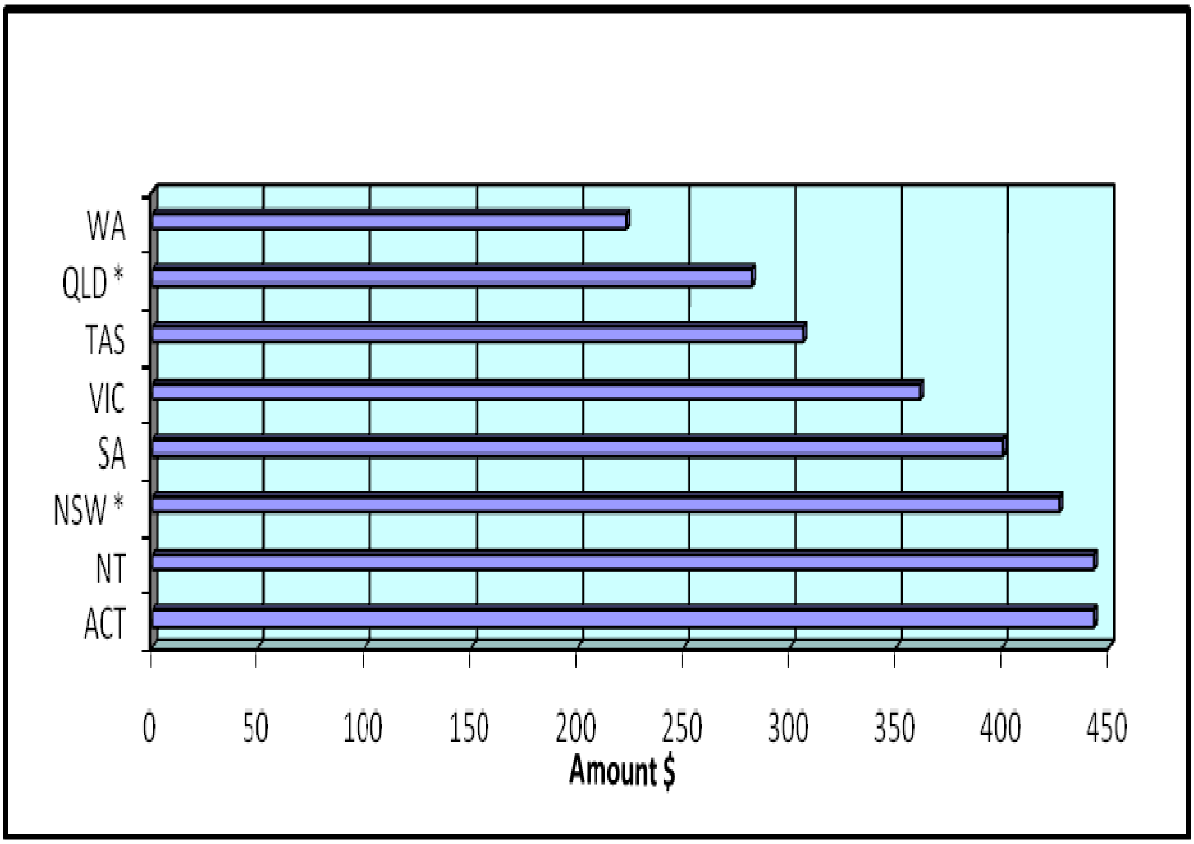


*(*2004 was a GST linked premium increase due to the end of transitional arrangements for CTP Insurance)*

In March 2011, the Board of Commissioners' resolved not to vary the existing scale of premiums for the 2012 financial year, notwithstanding that volatility and uncertainty in the investment markets continues to be a cause for concern. Over the past 10 years, Western Australian CTP premiums have been increased for inflation on only four occasions and in net present value terms, the current CTP premium for a private family sedan, is the lowest it has been at any time in the past 35 years.

This reinforces the Insurance Commission's position as the most affordable provider of CTP Insurance cover in Australia.

Compulsory Third Party Insurance Premium Rates for a Private Motor Car (Excl. GST) Australia-wide as at 1 July 2011



* Lowest Premium on offer amongst the private insurers operating in these States

Customers

The management of personal injury claims remains the principal and most important element of the MVPI Division's operations. The Division remains focused on efforts to continually improve the delivery and efficiency of services to customers, and ensuring that the Western Australian CTP scheme provides fair and equitable compensation in a socially and economically responsible manner.

Over the past 12 months, a comprehensive review of all of the MVPI's claims management systems and processes was carried out, as a first step in a planned major business modernisation project, expected to take a number of years to complete.

The strategic aim is to have a platform that underpins all MVPI business systems, leveraging from the existing solution and processes to minimise expenditure. The plan is to transfer functionality from the current disparate platforms to an enhanced workflow and imaging systems technology whilst concurrently building capacity to interface with systems external to the Insurance Commission.

Upon completion, this program of works would be expected to deliver improved processes and costs saving efficiencies with enhanced customer service whilst contributing to maintaining Western Australia's CTP premiums at an affordable level.

RiskCover

The Western Australian Government adopted a Managed Fund approach to administer all insurable risks of its public authorities who are RiskCover Fund members (agencies) on a self-insurance basis. The RiskCover Fund is underwritten by the Crown and is managed by the Insurance Commission on behalf of the Western Australian Government and its participating agencies.

RiskCover's assets are not owned by the Insurance Commission and are therefore not consolidated in its financial results. Monies which are surplus to immediate operational requirements are invested in the investment pool of the Insurance Commission and are represented by a Floating Rate Promissory Note. (Refer to Note 38 of the Financial Statements).

RiskCover Fund Performance

The RiskCover Fund's result for 2011 of $11.4 million loss (2010: $10.3 million loss) was $32.4 million worse than budget.

This comprised of an underwriting loss of $51.3 million, which was partially offset by a $39.9 million investment return.

The underwriting loss was $51.8 million worse than budget, primarily due to a $59.1 million over budget increase in net incurred claims. This however, was partially offset by net premium revenue being $6.6 million better than budget. It should be noted that net premium revenue included a receipt of $3.6 million by way of a Premium Adjustment.

The Premium Adjustment reflects an increase in the estimated amounts of additional premiums which will need to be charged to certain client agencies in future years. Refer Note 38(b) of the Financial Statements for more detailed information on this year's Premium Adjustment.

Despite the RiskCover Fund remaining fully-funded with net assets of $28.2 million (2010: $39.6 million) it had insufficient Retained Earnings to maintain a 75% likelihood of adequacy with respect to the provision for outstanding claims. Refer Note 38 of the Financial Statements for more detailed information.

Due to the fund not performing as strongly as in prior years, RiskCover was required to call back $16.8 million of Performance Adjustment in respect to workers' compensation and motor classes from agencies with poor claims experience.

RiskCover Service Delivery Model

RiskCover will only achieve its objectives through a collaborative approach that delivers a total coordinated service to its clients. RiskCover has a Service Delivery Model comprising the following areas:

Loss-prevention

- Risk management program development and implementation
- Data-analysis

Loss-minimisation

- Claims management
- Fund management

All areas are of equal importance to the future success of the RiskCover Division and its clients. Each area is inter-dependent on the other. This inter-dependency is reflected in the RiskCover Service Delivery Model.

RiskCover Service Delivery Model

RiskCover's Service Delivery Model is supported by the following Service Delivery Strategies:

- Adoption of a client-centric culture in the development and delivery of services;
- Ensure all services are targeted to client needs;
- Application of consistent business processes to optimise service delivery;
- Assist agencies to achieve self-sufficiency in the management of their risks;
- Manage resources to achieve maximum value for the government and agencies; and
- Manage the RiskCover scheme structure to minimise the cost-of-risk to government.

Risk Management Services

Risk management practice across Western Australian Government agencies has risen to a mature level, with most agencies incorporating risk-thinking into all aspects of their business. One of the key steps forward has been the use of risk information to help improve decision making at all levels within agencies.

Agencies are embracing a risk-aware culture, whereby risks are not only identified, but a thorough understanding of the risk issues is also developed and conscious decisions made regarding the amount of risk that is acceptable, commensurate with the services or initiatives being delivered.

There has been increased Business Continuity Planning, with the majority of agencies now having a plan relevant to their business. Many of these plans are now being tested to ensure that they are appropriate for the continuity of key services.

RiskBase (a web-based risk recording and management tool developed by RiskCover) is in use across the majority of agencies, with over 2,000 individuals accessing and using the system. Users are finding RiskBase particularly useful for reporting on risks and for the consolidation of risks across their operations.

Over the past twelve months RiskCover has provided an extensive training calendar including sessions on:

- Risk Management Fundamentals;
- Occupational Safety and Health Representative Training;
- Project / Contract Rules;
- Business Continuity - Information Technology Disaster Recovery;
- Business Continuity - Crisis Management;
- Business Continuity - Effective Testing; and
- Government Risk Management Conference – 'Managing Risk to achieve organisational objectives'.

The 'Good Governance Framework' produced by the Public Sector Commissioner clearly links risk management into a sound governance framework for all agencies to follow.

Data-Analysis Services

Claims-data-analysis is an integral part of the risk management process. It helps to effectively identify across-government and agency-specific risks to help minimise the cost of these risks.

RiskCover provides claims and data-analysis across all classes of insurance cover types, both for overall Fund analysis and for individual Western Australian Government agencies. RiskCover's claims-analysis services during 2011, included:

- Creation of agency specific reports to address workers' compensation concerns to allow informed decision-making regarding appropriate Occupational Safety and Health procedures;
- Targeted analysis of agencies with increasing workers' compensation costs and the subsequent impact on premiums and the RiskCover fund as a whole;
- Collaborating with external agencies to build a detailed profile of the causes and costs of motor vehicle accidents; and
- Analysis of property claim trends to assist individual agencies to develop strategies and policies to reduce claim frequency and cost.

Claims Services

Workers' compensation and commercial claims management represents the largest part of RiskCover's operations in volume of activity terms. RiskCover is focused on delivering quality, cost-efficient claims management in partnership with our client agencies.

Workers' compensation is the largest of RiskCover's claims management portfolios. Considerable focus is given by RiskCover to provide a service that integrates injury prevention, injury management and claims management. Through proactive claims management and specialist injury management advice and training, RiskCover continues to promote the benefits of injury management to client agencies.

In addition to regular training programs, work is done with individual agencies to tailor services to meet their specific needs. Some of the services to agencies introduced this year have included: injury management auditing, and development of line manager training programs. RiskCover also continues to enhance claims management processes to: better support agencies' injury management systems; improve return-to-work outcomes; and reduce claims costs.

Unfortunately, the implementation of good injury management practice has not progressed as quickly as expected within some agencies. This is reflected in their deteriorating claims experience and needs to be addressed as a priority during the financial year.

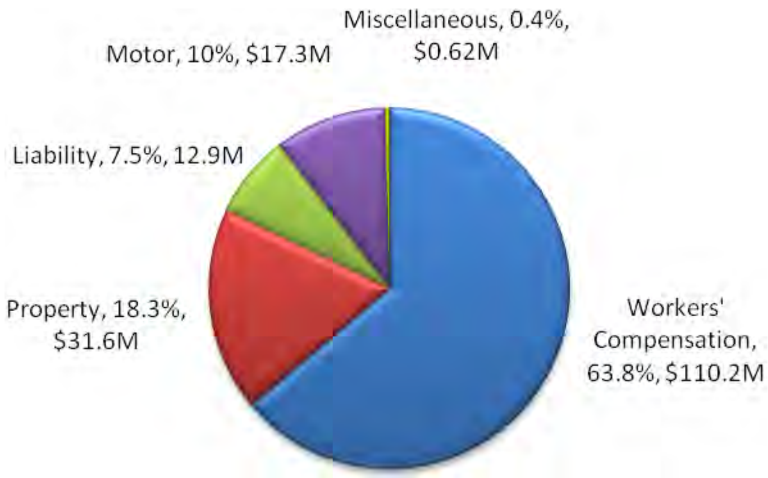
RiskCover continues to work closely with the Department of Commerce through the Public Sector Occupational Safety and Health (OSH) and Injury Management Initiative. The Initiative supports agencies to meet OSH reporting requirements and to comply with the *Code of Practice: Occupational Health and Safety in the Western Australian Public Sector 2007*.

RiskCover also manages a variety of Commercial claims, and claims for specialised schemes/funds, including: property and business interruption; general, professional and medical treatment liability; motor vehicle; personal accident; travel; industrial disease; Police (Medical and Other Expenses for Former Officers) scheme; workers' compensation Supplementation, and WorkCover WA General funds.

Commercial claims management ranges from minor to large loss situations; such as replacing/repairing damaged property; organising timely and quality repairs; defending and resolving liability actions for treatment liability; employment practices liability; port liability; asbestos liability; and major contractual damages disputes. As part of RiskCover's Commercial claims management service, a whole-of-State insurance response is provided in respect of Western Australian Government risks; to catastrophic losses such as cyclones, bushfires and floods.

RiskCover's claims management service provides agencies with access to a wide range of expert claims management advice and external support, from RiskCover accredited assessing, loss adjusting and legal panels. RiskCover has extensive experience and expertise in managing claims to ensure that equitable and value for money outcomes are achieved by agencies.

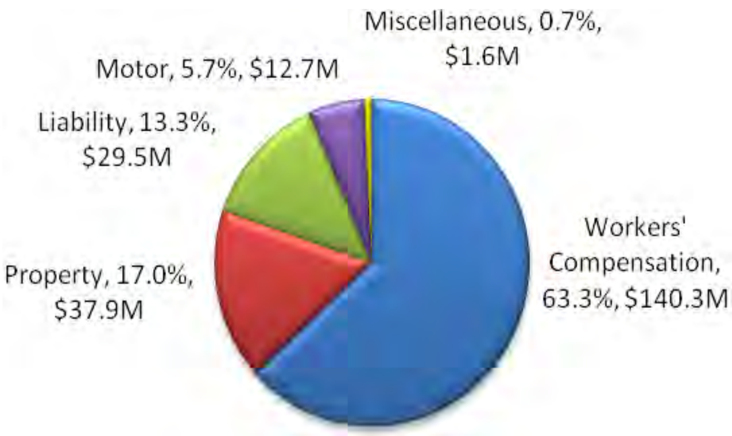
RiskCover Claim Payments by Insurable Risk for 2011



Claims payments in all classes except for the Property class were higher than projected. They were significantly higher than projected in the motor and workers' compensation classes, with payments being 92.2% and 14.9% greater than expected respectively.

Fund Services

RiskCover Fund Contributions by Insurable Risk for 2011



Coverage

RiskCover continues to provide extensive cover for the majority of State Government insurable risks, including:

- Workers' compensation;
- Property and business Interruption;
- Liability, including general, professional, medical treatment, directors and officers and employment practices;
- Motor vehicle property damage; and
- Miscellaneous, including travel, personal accident and special covers.

Some of the benefits that the RiskCover Fund provides include:

- Extensive coverage;
- Cost-efficient administration in comparison to other funding methods;
- Consistent and systematic approach to risk management across the State Government;
- Consistency in claims and injury management; and
- Buying power in reinsurance markets.

In support of these benefits, RiskCover currently has a Prudential Reserve of $28.2 million.

The Prudential Reserve is designed to protect the RiskCover Managed Fund against the impact of circumstances such as one-off large or catastrophic events, multiple large events in any one cover period, and events covered by the Fund for which reinsurance has not been obtained or is unobtainable. The RiskCover Managed Fund retains the first $20 million and $10 million respectively, for Property and Liability losses.

The reserve enables RiskCover to smooth the financial impact on Fund Members, caused by one-off extreme events through future increased Fund Contributions. For example, the costs resulting from the hail-storm which hit the South-West of Western Australia, particularly the Perth metropolitan area, on 22 March 2010. The cost of this event, to be borne by the Fund, and consequently its member agencies, will be spread over a number of years.

To view RiskCover's Fund Contributions Pricing Policy, refer to the Pricing Policies of Services Provided section of this Annual Report.

Other Funds and Business Managed by the RiskCover Division

Compensation Industrial Diseases Fund (CIDF)

Industrial Diseases insurance is compulsory for employers engaged in mining. Liability is limited to workers' compensation payments for the respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, all of which may arise from exposure to harmful mineral dust in the course of employment.
The CIDF has been in surplus for many years and it is expected that this situation will continue. Due to its sound financial status, the premium rate was reduced to a flat charge of $100 per three-year policy period from 1 July 2003. Following a review of the financial performance of the Fund and projected future claims, WorkCover WA decided to maintain this premium rate for a further three years from 1 July 2009.

Insurance Commission General Fund (ICGF)

The claims paid from the ICGF relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off and no policies have been issued since 31 December 1986. The run-off process has been prolonged because the claims that arise are asbestos-related.

Employers' Indemnity Supplementation Fund (EISF)

WorkCover WA manages the EISF, however the Insurance Commission has a statutory responsibility to process claims against this Fund which arise when an authorised workers' compensation insurer goes into liquidation. Liabilities under the EISF include asbestos and non-asbestos-related claims. The EISF levies ongoing workers' compensation policyholders to fund EISF liabilities. The majority of current EISF liabilities arose from the collapse of the HIH Group of Companies (HIH) in March 2001.

CGU workers' compensation claims, an Insurance Australia Group (IAG) company, manages all claims in relation to the collapse of HIH on behalf of the Insurance Commission, in consequence of an agreement with the HIH liquidator. In discharging its statutory obligations, the RiskCover Division continues to provide an important supervisory role in the management of ongoing claims and it is expected that this role will continue for a number of years. WorkCover WA reimburses the Insurance Commission for all payments and expenses incurred in respect of the management of EISF claims.

Government Insurance Fund (GIF)

The GIF is a consolidation of the State Government's superseded self-insurance arrangements which preceded RiskCover. The Fund is in run-off and the RiskCover Division manages it on behalf of the Department of Treasury. The financial aspects of the GIF are reported in the Insurance Commission's Financial Statements; however, the Insurance Commission is indemnified by the Western Australian Government for any liabilities arising in the GIF. The highest component of outstanding claims liabilities arises from asbestos exposure to public sector workers.

Former Police Officers' Medical Benefit Scheme

The *Police (Former Officers' Medical and Other Expenses) Act 2008* created entitlement to post-separation medical and other expenses benefits for former Police Officers and Aboriginal Liaison Officers who have left the Western Australia Police and had sustained a work related injury or disease during service.

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 Australia Police for a period of three years from the commencement of the scheme on 1 July 2009.

State Government Insurance Corporation

The RiskCover Division manages the run-off business in relation to the State Government Insurance Corporation which is a wholly-owned subsidiary of the Insurance Commission. The Corporation remains in existence mainly to run-off small lines of Australian and overseas inwards reinsurance business it wrote between 1988 and 1992.

During the 2011 year, the Insurance Commission agreed terms to commute 100 Inwards Reinsurance contracts leaving only a very small number of open claims. The reduction in outstanding claims liabilities will now allow the Board of Directors to consider options for winding up the Corporation.

Special Investigations

During 2011, the Special Investigations Division (SID) focused on the application of proactive analytical and investigation methodologies to more effectively detect and action suspected fraud. A catalogue of fraud identification profiles was established by the SID's analytical cell, and throughout the course of the year, was applied to the Insurance Commission's motor vehicle personal injury database.

Additionally, the SID was a major contributor to the establishment of fraud management specifications for RiskCover's proposed replacement insurance system. Input from SID's analysts was provided during the evaluation of presentations by shortlisted software vendors.

SID also provides an asset-protection service. The SID contributes to protection of personnel, information and property assets, and identifies and investigates suspected criminal fraud and kindred matters on behalf of the insurance business divisions. It also conducts 'trace and locate' investigations of parties associated with claims. These investigations facilitate equitable settlements and assist in the recovery of costs arising through breaches of warranty. Some investigations are undertaken to establish facts which assist in determining liability. Evidence is also assembled to support the defence of matters addressed by the Insurance Commission's legal counsel.

The SID has contracts in place with 21 firms of loss adjusters and private investigators. These service providers assist with identifying and investigating suspected fraud and kindred matters. The Manager SID chairs the Insurance Commission's Loss Adjusters and Private Investigators Committee and addresses issues arising from these contracts.

The Manager SID also liaises with the Corruption and Crime Commission to notify them of all reportable matters falling within the scope of the *Corruption and Crime Commission Act 2003*. He is one of the Insurance Commission's two designated Public Interest Disclosure Officers tasked with reporting and monitoring responsibilities in accordance with the *Public Interest Disclosure Act 2003.*

In 2011, SID analysts were involved in the analysis of 931 matters identified as high risk claims. Of these, investigations were undertaken into 223 RiskCover and Motor Vehicle Personal Injury Division claims.

For the year, a total of $1,060,777 in administration expenses was required to provide fraud management, investigation and asset protection services to the business divisions. Against this expenditure, the SID achieved investigation-related claims savings of approximately $1,800,000. Additionally, substantial potential claims savings are likely to result from a comprehensive brief of evidence involving a $950,000 motor vehicle personal injury claim referred to the Western Australia Police Major Fraud Squad during June 2011.

An additional 114 investigations were conducted to facilitate debt recoveries from negligent parties arising out of RiskCover claims. Whilst the potential value of these recoveries amounts to $2,069,740, actual settlements are determined by negotiations.

During the course of the year, four briefs of evidence were referred to the Western Australia Police for prosecution. Three referrals related to suspected motor vehicle personal injury frauds and another to a false declaration on oath relating to 84 travel reimbursement claims as a component of a RiskCover workers' compensation claim.

During the year, a motor vehicle personal injury claimant charged with attempting to defraud the Insurance Commission of $142,000 was found guilty by a District Court jury and sentenced to 16 months imprisonment.

The Insurance Commission endeavours through media reporting, to draw public attention to proven cases of fraud, to deter intending fraudsters from proceeding along these lines in respect of claims it manages.

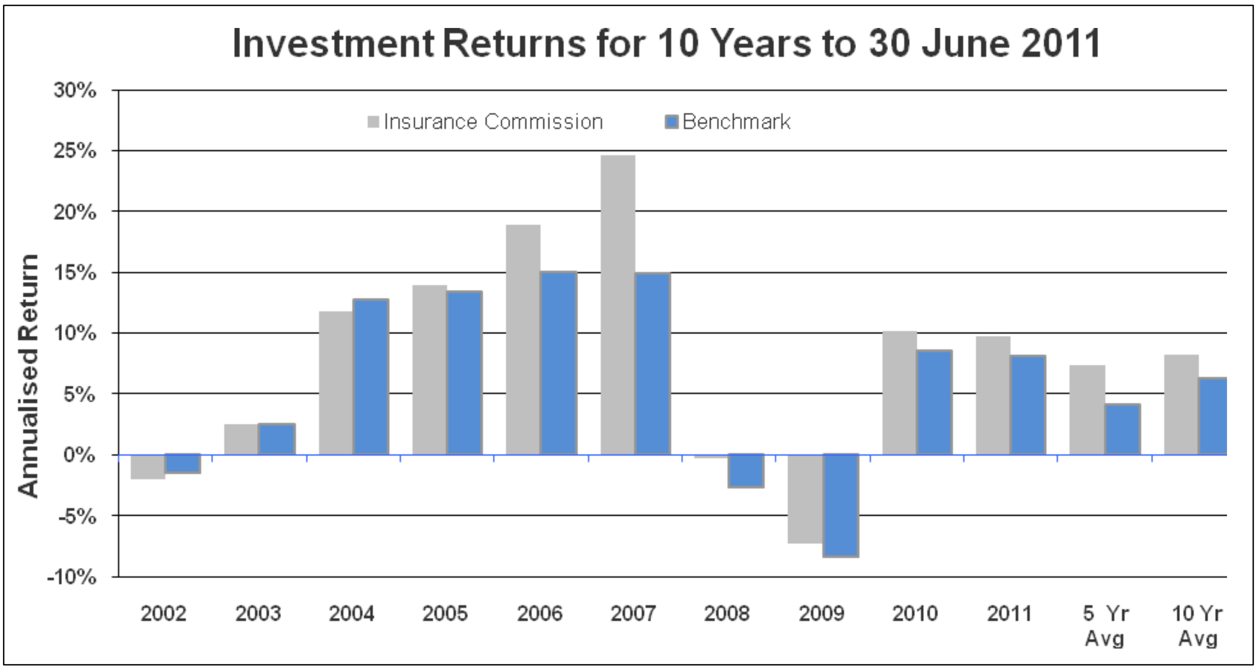
Investments

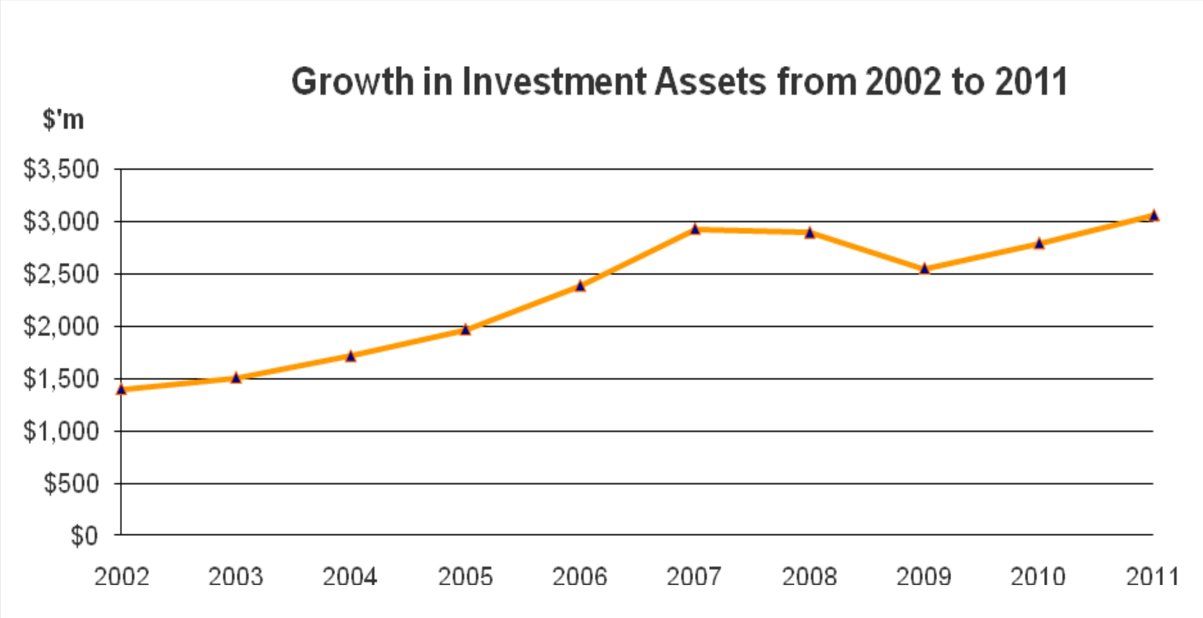
The Insurance Commission's investment strategy is based on the need to broadly match its investment assets to the claims liabilities for both the Third Party Insurance Fund and the RiskCover Fund. In setting the investment strategy, there is a continued focus on achieving consistent, long-term positive returns that exceed benchmark, balanced with reducing the overall level of volatility of investment returns.

The Insurance Commission's Board determines investment strategy, investment manager appointments and other key investment portfolio construction issues, including strategic and tactical asset allocation. The Board consults with an independent investment consultant, JANA Investment Advisers (JANA), and receives input from the Investments Division.

The Insurance Commission's investment manager configuration is achieved through a combination of external and internal management of assets. The Treasurer of Western Australia approves external investment manager appointments.

The Prudential Guidelines for Investments (Guidelines), approved by the Treasurer of Western Australia, are the guiding principles followed by the Board in managing the Insurance Commission's investment assets. The Guidelines are regularly reviewed and updated and can be viewed on the Insurance Commission's website www.icwa.wa.gov.au.





Insurance Commission Investment Performance (Benchmark: 8.1%; Gross Portfolio Return: 9.7%)

The Insurance Commission's diversified investment portfolio delivered a gross (before fees and expenses) return of 9.7% for the financial year, out-performing the benchmark return of 8.1%. The return net of fees and expenses for the year was 9.2%. The rolling seven year return was 9.9%, compared with the Insurance Commission's CPI + 3.5% performance target of 6.4%. This above budget outcome, during a period of continued financial market volatility, confirms that the Insurance Commission's commitment to a long-term focused investment strategy continues to deliver solid results.

All asset classes represented in the Insurance Commission investment portfolio delivered a positive return for the financial year. A brief commentary on each asset class follows.

Australian Shares (Benchmark: 11.9%; Return: 8.9%)

Despite a number of macro problems, many of them originating from overseas, the Australian share market delivered a better than average performance over the financial year with a return of 11.9%. As with the previous year, the mining and resources-related sectors were key contributors to the return while a more defensive posture by Australian consumers saw sectors such as media and retail decline over the year. Disappointingly, three out of four of the Insurance Commission's Australian Shares Managers under-performed, resulting in the Australian Shares Portfolio under-performing its performance benchmark.

Global Shares (Benchmark: 2.6%; Return: 13.2%)

The Global Shares Portfolio produced another solid return as four out of the five underlying managers recorded out-performance relative to benchmark. Global macro events resulted in volatile trading conditions for many overseas markets, however the Insurance Commission's blend of manager styles enabled significant out-performance to be captured. In addition, the decision to partly hedge the Global Shares exposure contributed significantly to the total return of the Global Shares Portfolio. The net result was the Global Shares Portfolio out-performed its underlying benchmark.

Property (Benchmark: 9.8%; Return: 11.8%)

The Property Portfolio was a major contributor to the overall Portfolio return, delivering an 11.8% return for the financial year and out-performing its underlying benchmark. The Perth commercial property market consolidated during the year with a stabilisation in vacancy rates and a marginal improvement in capitalisation rates. Despite a difficult year in retail, the Portfolio's retail shopping centre investments also contributed solidly to the return. The Insurance Commission's property exposure continues to be the mainstay for inflation protection.

Fixed Interest (Benchmark: 6.1%; Return: 7.4%)

For the fourth consecutive financial year, the Fixed Interest component of the Portfolio (Australian Fixed Interest, Global Fixed Interest and Inflation Linked Bonds) provided a solid contribution to the overall Portfolio return. In doing so, it also out-performed its underlying benchmark which was a pleasing outcome given the mostly defensive nature of this asset class.

Alternative Assets (Benchmark: 10.0%; Return: 9.0%)

The Alternative Assets component of the Portfolio comprises two separate investments consisting of a European infrastructure fund and a multi-strategy hedge fund. The financial year saw a contrast in returns from these investments with the infrastructure investment returning 11.7% and out-performing its challenging benchmark. By comparison, the multi-strategy hedge fund returned 5.47%, which was still a reasonable outcome given the highly defensive and non-correlated positioning of the fund.

Cash (Benchmark: 5.0%; Return: 6.0%)

Returns from the Cash Portfolio progressively increased over the course of the financial year in line with increases in the official cash rate. The Cash Portfolio delivered a strong 6.0% return, significantly out-performing its performance benchmark. Over the financial year the Insurance Commission retained an over-weight exposure to Cash as a defensive investment measure and to provide for liquidity requirements of the business.

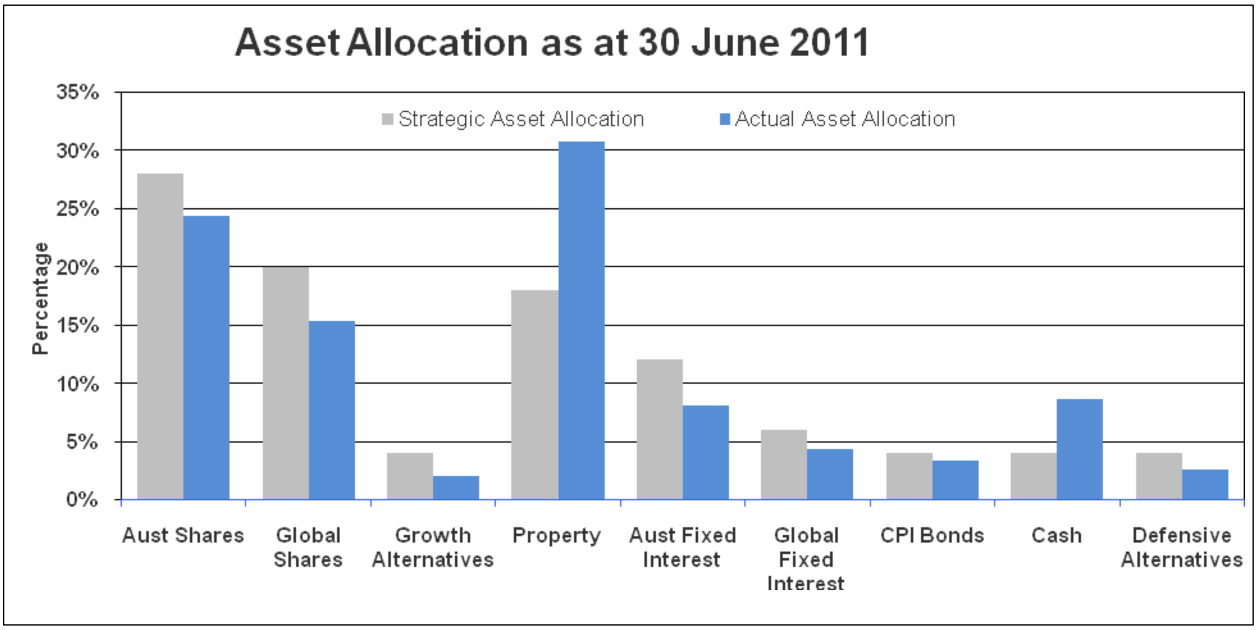
Currency Hedge for Global Shares

The Insurance Commission's currency hedging policy has been to passively hedge 100% of the $US exposure to its Global Long/Short Shares Portfolio and 50% of the balance of the Global Shares Portfolio, excluding emerging markets. During 2011, the strong appreciation of the Australian dollar provided the opportunity for the Board to reconsider this policy. Consequently, the Board decided to reduce the currency hedges to 50% of the $US exposure to its Global Long/Short Shares Portfolio and 25% of the balance of the Global Shares Portfolio, excluding emerging markets.

For the 2011 financial year, the appreciation in the Australian dollar resulted in a gain of $38.1 million from the currency hedge. This boosted the return of the Global Shares Portfolio.

Asset Allocation

There were no changes to the Strategic Asset Allocation during 2011, with the neutral allocations to Growth and Defensive Assets, remaining at 70% and 30% respectively. The actual Asset Allocation split as at 30 June 2011 between Growth and Defensive Assets was 73%/27%. The departure from the neutral strategic allocation reflects the tactical decision taken by the Board to develop the Western Australian held investment properties, and to take a more conservative approach to investing generally during the ongoing financial market volatility.



Investment Manager Changes

There were no changes to the Investment Manager composition during the financial year.

Environment, Social and Governance Factors

The Insurance Commission places considerable importance on its Environmental, Social and Governance (ESG) investment responsibilities. To ensure that such responsibilities are being effectively discharged, the Board has in place an ESG monitoring process for its appointed Investment Managers. Biannual review meetings conducted over the past year have confirmed that appointed Investment Managers are appropriately dealing with such matters as they arise. The Board is confident that the Investment Managers have demonstrated sufficient consideration of ESG factors and consequent impact on investment risk and return in making investment decisions.

Investing in the Western Australian Economy

Stage 2 The Shops At Ellenbrook

The Insurance Commission provided further investment in the Western Australian economy with the opening of the Stage 2 development of its retail property investment, The Shops At Ellenbrook. The Insurance Commission brought forward this $54 million development, opening Stage two, 2 years ahead of advice from urban planners, based on population growth projections. This investment demonstrates the Insurance Commission's commitment to acting to benefit the Western Australian community, in this case through the provision of a quality retail shopping facility in a newly developing area. The completed Shops At Ellenbrook provides 32,000m² of retail shops and has created an estimated 1,000 new jobs within the Ellenbrook town centre.

Westralia Plaza

The Insurance Commission added another quality investment asset to its direct Property Portfolio with the completion of an 11 storey office building, Westralia Plaza, located at 167 St George's Terrace, Perth. The $65 million project also provides an enhanced walkway plaza from the Esplanade bus port through Westralia Square to St George's Terrace for the community.

2.2 INSURANCE COMMISSION SUCCESS STORIES

The Shops At Ellenbrook Achieve Western Australia's First 4 Star Green Star Shopping Centre

Stage 2 of The Shops At Ellenbrook, is the first shopping centre in Western Australia and only the fourth nationally, to achieve a Green Star certification by the Green Building Council of Australia.

The centre expansion was awarded a 4 Star Green Star Rating for its environmentally sustainable design and construction which focused on areas such as indoor environment quality, water and energy conservation, reduced emissions and innovation in design. This achievement demonstrates the Insurance Commission's commitment to leading the market and delivering ecologically and economically sustainable assets for the people of Western Australia.

2.3 COMMUNITY FOCUS

The Insurance Commission, through one of its statutory functions, is able to provide financial support for programs that relate to the insurances it provides.

Section 6(e) of the *Insurance Commission of Western Australia Act 1986* provides us with the capability to fund a number of partnerships and programs within the community.

2.3.1 Road Safety Partnerships

The Insurance Commission is fully committed to the Western Australian Road Safety strategy, *Towards Zero.* In partnership with the Office of Road Safety, annual funding towards road safety programs is a key risk management strategy to assist the control of Motor Vehicle Third Party Injury Insurance claim costs.

Mr Lew Watts, General Manager Insurance, is the Insurance Commission's statutory Member of the Road Safety Council of WA.

For the 2011 year, the Insurance Commission committed $3.76 million for road safety programs in partnership with the Office of Road Safety, of which $3.56 million was expensed in the year.

Some of the programs funded include:

A new and innovative package of mediums to deliver the important message in relation to restraints (i.e. seatbelts and child restraints):

- *'Off the Boot' - WIN TV produced a regional football show with 'Belt Up' as the key sponsor.*
- *Outdoor Cinema - 38 free movies shown in regional and remote location, April-October 2011. Restraint community education including the 'Belt Up' logo will feature at these events;*
- *Embrace Life - a licence for this award winning restraint advertisement from the United Kingdom. This advertisement will feature in all the above mediums.*

Strategic Traffic Enforcement Program (STEP) funding will provide road policing enforcement above base line road policing levels to increase actual and perceived levels of enforcement and ultimately change driver behaviour. The funding provides the Western Australia Police additional opportunities to strategically target local area identified road enforcement programs with an emphasis on reducing the number of serious and fatal crashes;

An Enhanced Traffic Intelligence Model to capture all data relating to road user complaints and other traffic related information from a variety of sources. Once obtained and collated, this information will be analysed and effectively profiled to target and apprehend errant and recidivist road users. This Project will promote the safe system road safety approach by improving the effectiveness of enforcement through the use of intelligence when conducting traffic enforcement operations. The collection and extraction of road user behaviour data will provide a strategic *framework to traffic enforcement and ensure the effective deployment of resources to key risk areas.*

In addition to the Office of Road Safety partnership, in 2011, the Insurance Commission also committed $341,500 to the West Australian Football Commission to promote the 'Belt Up' message within the football community throughout rural and regional Western Australia.

All figures quoted in this section are exclusive of GST.

2.3.2 Medical Research into Mesothelioma

In 2011, $365,500 (excluding GST) was committed and expensed to the Sir Charles Gairdner Research Foundation and The University of Western Australia, as part of a new three year funding commitment for research into mesothelioma.

Professor Bruce Robinson and his team at the Department of Medicine at Sir Charles Gairdner Hospital undertake this important research. An independent peer review of the research carried out in 2010 confirmed the work being undertaken by Professor Robinson and his team is unique and the core work is both internationally competitive and is not being replicated elsewhere.

2.3.3 WA Miners' Database

In 2011, the Insurance Commission finalised its partnership with the Department of Respiratory Medicine at Sir Charles Gairdner Hospital, in relation to funding for a project that will help to preserve historic deteriorating chest x-rays and associated information pertaining to mine workers in a form which will make it available for the future and which will be of importance to future research and claims relating to respiratory diseases.

The Insurance Commission expensed $112,068 (exclusive of GST) in addition to its $600,000 commitment the previous year.

2.3.4 Complaints Management

The Insurance Commission is committed to providing the Western Australian community with high quality customer service. In order to ensure this, with the assistance of those who provide feedback, we aim to provide fair, equitable and timely resolution of complaints.

In 2011, a total of 18 complaints were received through the complaints system. All complaints were dealt with within the timeframes prescribed.

Complaints Policy

The Insurance Commission's Complaints Policy establishes procedures for the effective management and resolution of complaints from clients and members of the public.

The complete Policy is available from our website under Complaints.

Complaints System

The Insurance Commission has a customised and computerised Complaints System to ensure that complaints are captured and dealt with efficiently.

A brochure available from our website provides easy to follow steps on how an individual can lodge a complaint. Alternatively, complaints can also be made by telephone, in person, in writing or by fax.

2.4 PLANS FOR 2012

MVPI Division

Maintain focus on improving motor vehicle personal injury claims management systems and processes to deliver improved efficiencies and better customer service experience for our stakeholders. Our priority will be to implement technological solutions which take advantage of e-commerce and internet functionalities that enhance accessibility and utilisation of the scheme and promote a positive overall customer experience.

Continue on a comprehensive upgrade of our main business systems. This program of work is planned to take a number of years to complete and is expected to deliver additional functionality by building on the imaging and workflow technology already embedded in the MVPI Division's operations.

Ongoing efforts towards evaluating opportunities to expand the benefits provided under the existing CTP scheme and in particular, the concept of a no-fault, long-term care scheme to provide a defined level of catastrophically injured motor vehicle crash victims with the care and support they need, for the rest of their lives regardless of who is at fault for the crash.

Working with the independent Actuary to determine how the models for evaluating outstanding claims liabilities might be more responsive to actual claims experience, thereby enabling corrective strategies to be developed in a timely manner.

Monitor CTP Insurance schemes throughout the world to ensure best practice for all Western Australian motor vehicle owners.

Maintain support for road safety programs aimed at preventing crashes that result in personal injury or death.

RiskCover Division

Continue work to replace legacy insurance systems and introduce workflow, electronic information capture and contemporary e-business capabilities. The RiskCover Insurance System Evolution (RISE) project is focused on delivering improved service capabilities and efficiencies to Fund Members and other key stakeholders. The project is currently suspended pending the development of a business case.

Attend to the deterioration in workers' compensation claims performance to mitigate further losses, and thereby arrest further erosion of RiskCover Fund equity and Prudential Reserve.

Complete cycle one of the new client service delivery methodology designed to target agency needs.

Continue our risk consultancy services to agencies, working at Strategic, Operational and Project levels with a focus on business continuity planning.

Continuation of the roll out the web-version of RiskBase, a web-based risk recording and management tool developed by RiskCover, to agencies, the support of its ongoing use, and the implementation of further enhancements to better support agency reporting requirements, such as dynamic reporting.

The ongoing development of RiskCover's customer relationship management system, INTERACT.

3.0 SIGNIFICANT ISSUES IMPACTING THE INSURANCE COMMISSION

3.1 CHANGES IN WRITTEN LAW

There were no changes in written law that affected the Insurance Commission in 2011.

3.2 SECURING THE INSURANCE COMMISSION'S WORKFORCE

The success of the Insurance Commission in attracting, retaining and developing the right people for the business is recognised as a major factor in the continued strong financial performance of the organisation.

The Insurance Commission's people goal to sustain this important advantage is simply to be 'A Great Place to Work' underpinned by Core Values that promote, recognise and reward '*the Insurance Commission way'* of interacting with customers, key stakeholders and each other.

This goal is supported by the three year Human Resource Blueprint and a range of cost-justified human resource strategies designed to create small but important points of difference in a labour market that is both declining in overall size and increasing in competiveness.

Competitive pressures, changing political and legislative priorities, rising customer expectations and rapid technological developments, impacted the organisation's human resource strategies during 2011, and appear likely to continue to do so in the years ahead.

Responding to these risks, a major focus during the year was the continued development of alternative sources of supply for the skills, knowledge and experience that the Insurance Commission's workforce planning models have identified are required, now and into the future.

The Insurance Commission's employment brand was actively promoted through targeted local, interstate and overseas recruitment campaigns which resulted in the employment of a number of valued new employees in a range of specialist insurance and technology roles.

Despite complementing this recruitment strategy with a range of programs to improve the retention rate of experienced employees, the employee retention rate declined to 90% compared to 92% in 2010. As a result, the important measure of the average length of employee service with the Insurance Commission continued to decline to 10.3 years per employee compared to 12.8 years in 2010 and a high of 13.3 years in 2006.

Compounding the organisation's ability to respond to these workforce risks is the high level of voluntary employee turnover in the 1-3 years of service cohort who comprised 64% of all employee separations during the year. The nature of the industry in which the Insurance Commission operates, and the highly structured business processes may be a contributing factor. This represents a significant loss of productivity and training investment, and reaffirms the need to direct greater investment into the recruitment of more experienced employees, who have already made the conscious decision to work in the personal injury claims profession and are therefore more likely to stay.

As an organisation, the high levels of volunteering and discretionary effort displayed by our employees is highly valued. In 2010, an independently conducted Employee Perception Survey (EPS) reported a net employee engagement score of 31 compared to 18 in 2009 and the National Survey Average for the Finance Sector of 26. The Net Engagement Score reflects responses to the following statements:

- I am proud to work for the Insurance Commission;
- I get a sense of achievement from my work;
- I am committed to the success of the Insurance Commission; and
- I would recommend the Insurance Commission as a place to work.

Tempering these positive results was the relatively low employee response rate of 39% (compared to 60% in the Finance Sector) and an increase in the number of respondents indicating they planned to leave the Insurance Commission in the next 12 months than was the case in 2009. As a result of the of the low employee response rates we deferred conducting an EPS during 2011 to identify alternative approaches to measuring employee engagement levels.

The organisational workforce increased from 370 to 381 during 2011 in response to forecast losses of our more experienced employees and planned major information technology improvement projects.

Employee Profile	**2010 (FTE)**	**2011 (FTE)**
Permanent Full-Time	289 (289)	306 (306)
Permanent Part-Time	53 (29.7)	51 (28.15)
Fixed Term Full-Time	27 (27)	23 (23)
Fixed Term Part-Time	1 (0.6)	0 (0)
Casual	0 (0)	0 (0)
Seconded Out	0 (0)	1 (1)
Totals	**370 (346.3)**	**381(358.15)**

Full-time equivalents (FTE) shown in brackets.

The Insurance Commission’s youngest employee is 17 years and the eldest employees are 69 years old. The workforce is ageing in line with the general population with the average age of employees now at 41 years compared to 40 years in 2010. Fifty-three per cent of employees are female and forty-seven per cent are male compared to 54% and 46% respectively in 2010. 3.15% of employees report a disability and 16% are from non-English speaking backgrounds.

The organisation continues to make incremental progress, but has experienced difficulties in achieving an equity index more reflective of the general community and in particular the attraction and retention of youth and Indigenous employees remains challenging given the Insurance Commission's business environment.

Recognising the organisation's responsibility to better promote the industry as a career of choice to increase the available labour pool, the Insurance Commission accepted an invitation to join the Personal Injury Education Foundation (PIEF) as an Executive member. PIEF was established in 2006 by a consortium of Australian and New Zealand accident compensation regulators, insurers and claims management organisations to create leading educational programs, initiatives and events that are focused on the needs of those working in the accident compensation industry.

The employment terms and conditions of Insurance Commission employees are governed by the Government Wages Policy negotiated centrally by Government and the CPSU/CSA Union which has coverage of the organisation's employees.

The Government's approach to the standardisation of employment conditions for all Public Sector employees covered by the CPSU/CSA required the Insurance Commission to amend some existing employment conditions and not proceed with proposed amendments to the 2011 General Agreement. These employment conditions were relevant to the business performance of the Insurance Commission with a particular focus on employee retention and attraction.

Negotiations between the Government and the CPSU/CSA were completed in June 2011 for the 2011 General Agreement which provides for salary increases of 12% over three years for Public Sector broad banded employees. In accordance with Government Wages Policy, these increases were incorporated into the Insurance Commission 2011 General Agreement.

Developing the Workforce

The Insurance Commission is committed to developing people throughout their career cycle and investment in employee development programs that support business objectives and reflect our Core Values are integral to achieving this.

As a knowledge based organisation, it is recognised that the planned investment in employee learning and development is a legitimate business strategy and is reflected in the average training investment per employee of $2,372 for 2011 ($2,298 in 2010). Average training hours per employee also increased to 23 hours in 2011 from 18 hours in 2010. The high level of new employee turnover was a contributing factor to increased levels of training effort and investment.

One of the risk management responses to the high levels of new employee turnover was the delivery of structured Corporate Orientation and Induction programs to better bond new employees to the organisation. This was complemented by structured on-the-job training for Claims and Injury Service Trainees in the two business divisions, however, further work is required to improve employee retention rates for newer employees.

The Insurance Commission's on-line Performance and Management Development System (PMDS) underpins the approach to job performance, learning and career development. The PMDS provides the tool for managers and employees to discuss and agree upon key responsibility areas and objectives, and this contributes to the achievement of key organisational objectives. The PMDS also identifies employee learning and development needs and provides an opportunity for employees to discuss the application of the Insurance Commission's Core Values to their role. Eighty percent of the workforce participated in a full cycle of the PMDS.

Financial support and incentives for employees to obtain academic qualifications and memberships of professional associations relevant to business needs were continued during the year, with 22 (6%) of employees currently studying and 199 (52%) of employees possessing a relevant nationally recognised qualification.

A key training and development objective was the development of higher level organisational Information Technology capabilities to support the implementation of the approved Information and Communication Technology (ICT) Strategic Plan (2010-2013).

Aware of the generational change within the workforce the organisation continued to invest in leadership programs to equip employees with the competence and confidence to perform their current role and to develop their capabilities for future roles.

An internally designed management and leadership program involving 42 emerging leaders was completed with 28 experienced leaders completing a performance coaching program to mentor emerging leaders.

Length of Service Milestones

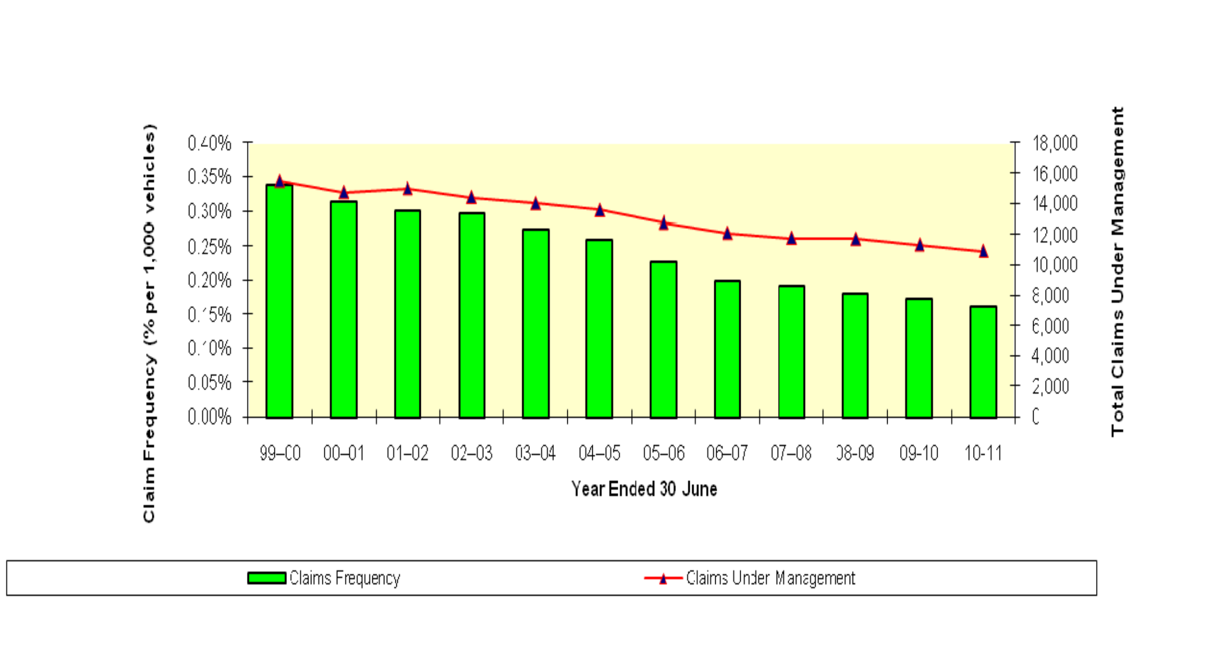
We value the loyal service of all employees and in particular we formally acknowledge John Bengough, Gary Newman and Philip Dodgson for achieving 30 years service, William (Jim) Hocking and Megan Lowe for 35 years service and Derek Fowler and Peter Meagher for contributing 40 years service to the Insurance Commission.

3.3 CLAIMS TRENDS

Motor Vehicle Personal Injury Claim Trends

The reducing claims frequency trend experienced over the past 17 years continues, with a total of 3,885 new claims received in 2011 which is approximately 4% less than the number for the preceding year (2010: 4,036). A continued strong focus on road safety and crash-prevention initiatives, safer cars, and better roads, are some of the recognised factors influencing this positive, long-running, downward trend.

Claims Frequency and Claims Under Management



RiskCover Claim Trends

Workers' compensation claims costs within the RiskCover Fund have continued to increase over the past 12 months. This is due to:

- A continuing trend of increasing claim numbers, largely driven by an increase in full-time employees and wages;
- An increase in average claims size, resulting from inflationary forces (such as wage inflation) and a tendency for claimants to stay on benefits for longer.

A clear implication is that agencies need to position their occupational safety and health, and injury management resources and practices, to achieve the best possible outcome for injury prevention, and an early return to work of injured workers.

RiskCover continues to work closely with the Department of Commerce through the Public Sector Occupational Safety and Health (OSH) and Injury Management Initiative, and with agencies, in order to assist agencies to address the deteriorating claims experience.

RiskCover has also been assisting agencies to embed a risk management culture into their business over several years. There is continuous growth in the use of risk management techniques by agencies to help manage successful outcomes. Many agencies are realising the benefits of having a clear understanding of their risk issues and using the risk information to inform their decision-making.

RiskCover will continue to work with agencies to integrate risk management into management practices. Project and contract risk management is an area where demand for RiskCover's services continues to grow.

3.4 BELL RECOVERY ACTION

Final judgment in the Supreme Court Action instituted by the Court-appointed Liquidators to the failed Bond Corporation conglomerate was handed down on 30 April 2009 with the Liquidators being successful in obtaining orders for recovery of in excess of $1.6 billion from a syndicate of 20 banks led by Westpac Banking Corporation and Lloyds Bank plc of London. An appeal against the Judgment in the Bell Recovery Action was heard in the Court of Appeal of the Supreme Court of Western Australia in May/June 2011 with the Judgment expected to be delivered by late 2011.

The Insurance Commission, as an indemnifying creditor, continues to provide financial support to the Bell Group Liquidators in their recovery efforts on behalf of all creditors.

In order to minimise the impact of financing the Bell Group Liquidators, an insurance program was put in place prior to the commencement of the Supreme Court trial and this remains in place. During the year to 30 June 2011, the Insurance Commission advanced a further $17.4 million (2010: $16.8 million) to fund the prosecution by the Bell Group Liquidators of their claim against the Banks.

In 2011, ICWA Law Pty Ltd, a wholly-owned subsidiary of the Insurance Commission of Western Australia, was created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action. ICWA Law Pty Ltd commenced operations as an incorporated legal practice on 2 May 2011.

4.0 DISCLOSURES AND LEGAL COMPLIANCE

4.1 MINISTERIAL DIRECTIVES

Section 10 of the *Insurance Commission of Western Australia Act 1986* empowers the Minister responsible for the Insurance Commission 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 its Annual Report.

The Insurance Commission did not receive any ministerial directives during 2011.

4.2 OTHER FINANCIAL DISCLOSURES

4.2.1 Pricing Policies of Services Provided

Pricing Policy of CTP Insurance (Motor Vehicle Personal Injuries)

To comply with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943,* the Insurance Commission is required to, at least once in each financial year, make an assessment of the extent to which the premium revenue, together with other income expected to be received, will be sufficient to meet the claims, costs and other expenses anticipated to arise or be incurred.

In making this assessment, an independent actuarial report is considered, together with any accumulated surplus or deficit existing in the Third Party Insurance Fund. Following this process, should a change in the Schedule of Premiums be required, the Board of Commissioners makes a recommendation to our Minister (for the Schedule of Premiums, refer to our website at www.icwa.gov.au).

RiskCover Fund Contributions Pricing Policy

Fund Contributions are set to ensure that sufficient funds are collected to pay for all liabilities. The key outcomes that RiskCover aims to achieve in setting premiums are:

- Equity for all public authorities;
- Transparency in the Fund Contributions setting methodology;
- Minimum cross-subsidisation;
- Protection against major surprises; and
- Incentives for risk management.

As agreed with the Department of Treasury, claims costs used to determine Fund Contributions do not include a prudential margin as the Western Australian Government underwrites the Fund. The RiskCover Fund is also excluded from the National Taxation Equivalent Regime.

4.2.2 Capital Works

Major Capital Projects Completed

A project to upgrade RiskCover's RiskBase system has been completed. RiskBase is a risk management system which has been designed and developed for Western Australian Government agencies. Over 130 agencies are currently using the web enabled version of RiskBase to manage risks associated with the services and projects of the agency. The RiskBase system is also being used in the management of some major government projects. The RiskBase system is hosted by the Insurance Commission and is made available to all Western Australian Government agencies.

The new Self Insurance Risk Declaration system (formerly known as the Questionnaire) has been completed. Leveraging on more contemporary technologies, the system has provided the agencies with a more intuitive and user friendly experience, as well as greater reporting and analysis capabilities.

Major Capital Projects Incomplete

The RiskCover Insurance System Evolution (RISE) Project is a business transformation project focused on delivering improved service capabilities to RiskCover Fund Members and other key stakeholders, and efficiency designed to help reduce the insurable cost of risk to the Western Australian Government. The Project will achieve this through the introduction of new technologies that support electronic business process management, electronic information capture and contemporary e-business capabilities, all of which will enable improvements in business process efficiency and effectiveness. The Project had progressed to the procurement phase, but all work has been suspended pending clarification of the State Government's request for their approval prior to proceeding further.

4.2.3 Financial Administration

A Financial Management Manual is maintained in accordance with Section 44 of the *Financial Management Act 2006*. A Financial Delegations and Authorisations Manual, which records the Board's delegation of powers, obligations and duties, is also maintained.

4.2.4 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 made to the Board to seek independent professional advice would be a matter for them to consider at the time in light of the specific circumstances.

4.2.5 Internal Audit

The Insurance Commission's Internal Audit Service is undertaken by an external contractor. This provides the Board with an independent appraisal of the operation and effectiveness of systems and controls, and assists the Board in discharging its responsibilities under the *Financial Management Act 2006* and relevant Treasurer's Instructions.

The Audit assesses financial and administrative control systems and seeks to improve 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 Audit and Accounts Committee and include opinions regarding the adequacy of financial; operational; administrative and systems controls.

During 2011, the Audit and Accounts Committee considered various Internal Audit reports covering all areas of the Insurance Commission's operations.

4.3 GOVERNANCE DISCLOSURES

4.3.1 Enabling Legislation

The Insurance Commission was established as a statutory authority under Section 4 of the *Insurance Commission of Western Australia Act 1986* and operates in accordance with this Act.

As an organisation, we are also administered in accordance with the *Motor Vehicle (Third Party Insurance) Act 1943.*

4.3.2 Compliance with other State and Commonwealth Legislation and Regulations

The Insurance Commission ensures that all legislation and regulations which impact upon our activities is adhered to.

4.3.3 Disclosure of Interest

Schedule 1, Section 5 of the *Insurance Commission of Western Australia Act 1986,* requires Commissioners to disclose any direct and indirect pecuniary interests in a matter being considered, or about to be considered, by the Board. All disclosures are required to be recorded in the Board meeting minutes.

During 2011, there were no disclosures of pecuniary interest by Commissioners.

The Insurance Commission also has an established 'Conflict of Interest' Policy for its employees and Commissioners for identifying, preventing, or resolving conflicts of interest. All employees and Commissioners have access to this Policy through the Insurance Commission's Intranet website. In accordance with the Policy, employees and Commissioners must declare any personal activities or involvements which may present a conflict of interest relating to their duties within the Insurance Commission.

4.3.4 Shares Held by Senior Officers

The Insurance Commission is not a private or publicly listed company with share capital.

4.4 OTHER LEGAL REQUIREMENTS

4.4.1 Advertising – Statement of Expenditure

The Insurance Commission incurred the following expenditure in advertising, market research, polling, direct mail and media advertising. All amounts are inclusive of GST:

Expenditure with Advertising Agencies	**$**
SEEK Limited	3,072
Community Newspaper Group Ltd	3,280
EOC Group Pty Ltd	4,395
Newsquest (London) Ltd	15,872
Media Decisions WA	30,678
Adcorp Australia Ltd	81,147
	$138,444

Expenditure with Market Research Agencies	$
Quantum Management Indicators Painted Dog Research Data Analysis Australia Pty Ltd	10,437 26,134 34,922
	$71,493
Expenditure with Polling Agencies	**Nil**
Expenditure with Direct Mail Agencies	**$**
Salmat BusinessForce Pty Ltd	4,792
	$4,792
Expenditure with Media Advertising Agencies	**Nil**
Total Expenditure	**$214,729**

4.4.2 Disability Access and Inclusion Plan Outcomes

The Insurance Commission's Disability Access and Inclusion Plan (DAIP) continues to guide the implementation of planned activities in and around our organisation.

The DAIP Implementation Plan 2010-2011, endorsed and carried out by the DAIP Committee, has resulted in a number of initiatives being achieved this past year.

Outlined below are some achievements matched against the Government's six disability standards.

Outcome 1: People with disabilities have the same opportunities as other people to access our services and events

- DAIP Committee met regularly to review progress on the implementation of the strategies identified in the DAIP;
- The principles of the DAIP were considered when formulating annual budgets and business plans;
- Events were planned using the Accessible Events Checklist.

Outcome 2: People with disabilities have the same opportunities as other people to access our buildings and other facilities

- Members of the Committee, in conjunction with building management, continued to explore opportunities to enhance access to our offices and make recommendations to the Executive Committee;
- Availability of disability friendly chairs for the reception area to accommodate those who have mobility difficulties;
- Tactiles for entrance to our reception area;

- The upgrade of lift cars in The Forrest Centre was endorsed by the Board of Commissioners;
- Opportunities were explored to enable disabled persons to access gym and pool area;
- Reviews were conducted of the emergency and evacuation plans; and
- An audit was undertaken by an external consultant to ensure ease of access.

Outcome 3: People with disabilities receive information from us in a format that will enable them to access the information as readily as other people are able to access it

- Regular revision of information available to employees via the Intranet on accessibility and interpreters.

Outcome 4: People with disabilities receive the same level and quality of service from our employees as other people receive

- Provide information on access and inclusion in the employee newsletter and on the Intranet.

Outcome 5: People with disabilities have the same opportunities as other people to make complaints to us

- Converted Customer Feedback Form to electronic form in addition to hard copy to promote feedback on all areas of our facilities and customer service.

Outcome 6: People with disabilities have the same opportunities as other people to participate in any public consultation we may carry out

- The Insurance Commission did not undertake any public consultation during the year. We are committed to ensuring that people with disabilities have the same opportunities as other people to participate in any public consultation that we may undertake in the future.

4.4.3 Compliance with Public Sector Standards and Ethical Codes

(*Public Sector Management Act 1994*, Section 31 (1))

Public Sector Standards:
No breach claims were lodged.

WA Code of Ethics:
No breach claims were lodged.

Insurance Commission Code of Conduct:
No breach claims were lodged.

In relation to the Public Sector Standards, WA Public Sector Code of Ethics and the Insurance Commission's Code of Conduct, the Insurance Commission adopted the following actions to monitor and ensure compliance:

- The Code of Conduct is integrated into the Corporate Induction Program and our employment practices and is easily accessible on the Intranet;
- The Insurance Commission has management and operational procedures to ensure Conflicts of Interest are identified and managed in a transparent and accountable manner;
- Policies, guidelines and procedures are in place to ensure compliance including internal and external reviews; and
- Awareness and Training Sessions have been conducted during the year including:
    - Comprehensive Induction Program on all Policies, Public Sector Standards, Code of Conduct and Code of Ethics; promoting Integrity and Accountability;
    - Prevention of Fraud presentations by the Special Investigations Division as part of the Induction Program for business divisions; and
    - Freedom of Information sessions.

In 2012, we will implement an on-line modular training program for all employees on Personal Behaviour, Communication and Official Information; Fraudulent and Corrupt Behaviour; Use of Public Resources; Recordkeeping and Use of Information and Conflicts of Interest.

4.4.4 Recordkeeping Plans

(*State Records Act 2000,* Section 61 and State Records Commission Standard 2, Principle 6)

Recordkeeping Systems Review

The Insurance Commission's revised Recordkeeping Plan was approved by State Records Commission in December 2009.

The revised Retention and Disposal Schedule RD 2009045/1 was approved by the State Records Commission in June 2010.

Recordkeeping Training Program

In 2011, Recordkeeping Awareness Training was delivered on-line for permanent staff and via information sheets for casual and temporary staff.

Twenty-one new permanent staff successfully completed the on-line course while four casual/temporary staff also completed their Recordkeeping Training obligation.

Nineteen new staff participated in claims management training sessions within which recordkeeping training is embedded.

Effectiveness of Recordkeeping Training

The evaluation of the Insurance Commission's File Plan in the 2009 calendar year indicated that recordkeeping training within the Insurance Commission was effective.

Induction Program Recordkeeping Awareness

The Insurance Commission's Induction Program addresses employee and contractor roles and responsibilities in regard to their compliance to the organisation's Recordkeeping Plan. The Induction Program includes Recordkeeping Awareness and recordkeeping training specifically tailored to the role of the new staff member within the Insurance Commission.

4.5 GOVERNMENT POLICY REQUIREMENTS

4.5.1 Occupational Safety, Health and Risk Management – A Leadership Role

Consistent with the organisational Vision and Mission, the Insurance Commission strives to be a leader in the occupational safety health and wellness of employees, to demonstrate to internal employees, clients and the community, the cost benefits of a collaborative approach to the management of risks in the workplace.
The Occupational Safety and Health (OSH) vision is to ensure a safe and healthy work environment for all employees, contractors and visitors.

There is a continued focus of resources into incident/hazard identification, elimination and control of hazards, development of safe and healthy work practices, and the provision of training and compliance with OSH legislation.

The work undertaken by the dedicated OSH Committee is integral to maintaining the safety culture, and is the key to OSH consultation and promotion at the Insurance Commission. The OSH Committee is comprised of senior management, employees and elected OSH Representatives. The Committee meets bi-monthly to discuss and review all incidents and hazards and track progress against our Business Plan, developed with consultation from all employees and endorsed by the Executive Committee.

In 2011, the number of employee elected OSH Representatives on the Committee increased which allowed the OSH Representatives to better balance the responsibilities of their substantive positions with the important functions of their role on the OSH Committee.

For the 38 incidents/hazards identified by employees during the 2011 financial year, all reported hazards were investigated, controls implemented or the hazards eliminated in consultation with management and the OSH Representatives.

The Insurance Commission's highly successful Wellness Program provides employees with access to Flu Vaccinations, Healthy Heart Checks, Skin Cancer Screening, corporate fun runs and interactive seminars on nutrition and energy.

In addition, employee health, wellbeing and productivity were further enhanced via our involvement in Safe Work Australia Week and other relevant OSH awareness days, optical reimbursement, Safe Driving training for employees under 25 years and the free use of onsite sports facilities.

In 2011, three claims for workers' compensation were lodged, with two claims lodged by one employee and both resulting in lost time. Unfortunately, despite active injury management and support, the injured employee is yet to return to work.

We support injured employees in their return-to-work following injury, with an injury management system exceeding the requirements of the *Workers' Compensation and Injury Management Act 1981,* and extending to assisting employees with non-work related injuries.

A complete review of the Insurance Commission's annual performance indicators are as follows:

OSH Performance Indicators	**2009**	**2010**	**2011**
Number of fatalities *(Target is zero)*	0	0	0
Lost-time injury/disease (LTI/D) incidence rate (%) *(Target is zero or 10% improvement on previous year)*	0	0.57	0.52
Lost time injury severity rate (%) *(Target is zero or 10% improvement on previous year)*	0	0	100
Percentage of injured workers returned to work within 28 weeks (%) *(Actual percentage result to be reported)*	100	100	0
Percentage of managers trained in occupational safety and health responsibilities *(Target is greater than or equal to 50%)*	90	79	89
Percentage of managers trained in injury management responsibilities (%) *(Target is greater than or equal to 50%)*	n/a	62	59
Number of Elected OSH Representatives Trained	4	6	7

All new managers and supervisors are required to participate in a comprehensive workshop on Injury Management in accordance with the Public Sector Code of Practice. Unfortunately, due to conflicting commitments, a proportion of newly appointed managers and supervisors are yet to complete this training. There has however, been an improvement in the percentage of managers/supervisors trained in their occupational safety and health responsibilities as a result of workshops conducted in February 2011.

4.5.2 Substantive Equality

In accordance with the *Public Sector Commissioner's Circular 2009/23: Implementation of the Policy Framework for Substantive Equality,* all departments represented on the Strategic Management Council are required to report on their commitment to implement the Policy Framework for Substantive Equality. The Insurance Commission is not represented on the Strategic Management Council, and therefore is not required to report on its commitment to implement the Policy Framework for Substantive Equality.

The Insurance Commission, however, is committed to substantive equality, in particular the objectives of the Policy Framework, which are to achieve sustainable equality by eliminating systemic racial discrimination in the provision of public sector services; and promoting sensitivity to the different needs of client groups.

Insurance Commission of Western Australia
Financial Statements 2011

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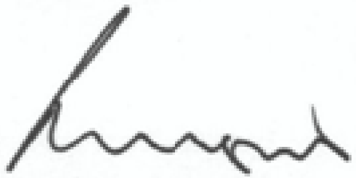
CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND CHIEF FINANCE OFFICER

Insurance Commission of Western Australia

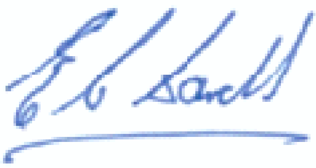
The accompanying financial statements of the Insurance Commission of Western Australia and the accompanying consolidated financial statements have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2011 and the financial position at 30 June 2011.

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.



MICHAEL E WRIGHT
CHAIRMAN
31 August 2011

LEW WATTS
ACTING MANAGING DIRECTOR
31 August 2011



ERNIE COWELL
CHIEF FINANCE OFFICER
31 August 2011

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 31 August 2011.

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA

Report on the Financial Statements
I have audited the accounts and financial statements of the Insurance Commission of Western Australia and the consolidated entity.

The financial statements comprise the Statement of Financial Position as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the Commission and the consolidated entity for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Commission's Responsibility for the Financial Statements
The Commission is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Commission determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Insurance Commission of Western Australia and the consolidated entity at 30 June 2011 and their financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

Insurance Commission of Western Australia

Matter of Significance
I draw attention to Note 30 to the financial statements that describes details of inquiries by the Treasurer in August 2011 for information relating to long term solvency levels, transfer of surplus funds to the Consolidated Account and implementation of a dividend policy. The Commission states that these factors may have a material impact on the financial performance of the Commission in future years. I am highlighting this matter because the Treasurer's request was for preliminary information and consequently the potential impact is uncertain. My opinion is not modified in respect of this matter.

Report on Controls
I have audited the controls exercised by the Insurance Commission of Western Australia. The Commission is responsible for ensuring that adequate control is maintained over the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Commission based on my audit conducted in accordance with Australian Auditing Standards.

Opinion
In my opinion, the controls exercised by the Insurance Commission of Western Australia are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

Report on the Key Performance Indicators
I have audited the key performance indicators of the Insurance Commission of Western Australia. The Commission is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing Standards.

Opinion
In my opinion, the key performance indicators of the Insurance Commission of Western Australia are relevant and appropriate to assist users to assess the Commission's performance and fairly represent indicated performance for the year ended 30 June 2011.

Independence
In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing Standards, and other relevant ethical requirements.

COLIN MURPHY
AUDITOR GENERAL
13 September 2011

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Premium Revenue	2	**430,239**	409,602	**430,239**	409,600
Outwards Reinsurance Premium Expense	3	**(5,110)**	(4,546)	**(5,110)**	(4,546)
Outwards Reinsurance Commission Revenue	2	**498**	449	**498**	449
Net Premium Revenue		**425,627**	405,505	**425,627**	405,503
Claims Expense	3	**(528,073)**	(413,879)	**(528,912)**	(413,761)
Reinsurance and Other Recoveries Revenue	2	**11,496**	12,512	**11,497**	12,512
Net Claims Incurred	4	**(516,577)**	(401,367)	**(517,415)**	(401,249)
Acquisition Costs	3,11	**(18,498)**	(13,566)	**(18,498)**	(13,566)
Other Underwriting and Administration Expenses	3	**(78,276)**	(69,555)	**(78,433)**	(69,560)
UNDERWRITING LOSS		**(187,724)**	(78,983)	**(188,719)**	(78,872)
Investment Income including Movements in Fair Value	2	**256,473**	249,736	**256,473**	249,736
Investment Expenses	3	**(24,271)**	(21,960)	**(24,271)**	(21,960)
Finance Costs	3	**(37,807)**	(35,769)	**(38,822)**	(36,556)
Other Income	2	**59,664**	56,266	**60,106**	56,538
Other Expenses	3	**(17,201)**	(15,833)	**(16,103)**	(15,550)
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE		**49,134**	153,457	**48,664**	153,336
Income Tax Equivalent Expense	5	**(6,385)**	(26,607)	**(5,915)**	(26,486)
PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA		**42,749**	126,850	**42,749**	126,850
Fair Value Revaluation of Land and Buildings	8	**15,433**	2,267	**15,433**	2,267
Related Income Tax Equivalent Expense	5	**(4,630)**	(681)	**(4,630)**	(681)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE		**10,803**	1,586	**10,803**	1,586
TOTAL COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA		**53,552**	128,436	**53,552**	128,436

The Statement of Comprehensive Income should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The Statement of Comprehensive Income for the Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 35.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 38. This fund is excluded from this Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION
at 30 June 2011

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
ASSETS					
Current Assets					
Cash and Bank Balances	20	-	1,934	-	-
Receivables	6	43,242	43,163	43,564	43,342
Current Tax Receivable		6,232	5,283	6,232	5,283
Financial Assets at Fair Value Through Profit or Loss	7	1,530,589	1,383,400	1,530,589	1,383,400
Deferred Acquisition Costs	11	1,542	4,488	1,542	4,488
Other Assets	12	3,024	4,021	3,024	4,021
Total Current Assets		1,584,629	1,442,289	1,584,951	1,440,534
Non-Current Assets					
Receivables	6	214,046	208,010	214,041	208,004
Financial Assets at Fair Value Through Profit or Loss	7	363,703	361,958	384,621	381,778
Property, Plant and Equipment	8	261,901	252,406	261,901	252,406
Investment Properties	9	497,658	430,873	497,658	430,873
Intangible Assets	10	8,714	8,882	8,714	8,882
Other Assets	12	1,602	831	1,602	831
Total Non-Current Assets		1,347,624	1,262,960	1,368,537	1,282,774
TOTAL ASSETS		2,932,253	2,705,249	2,953,488	2,723,308
LIABILITIES					
Current Liabilities					
Bank Overdraft	20	6,796	-	28,911	1,216
Payables	13	34,724	23,383	34,341	23,374
Outstanding Claims Liability	14	406,484	381,348	406,228	380,827
Unearned Premium Liability	15	184,522	173,927	184,522	173,927
Provisions	17	5,891	6,467	5,891	6,467
Total Current Liabilities		638,417	585,125	659,893	585,811
Non-Current Liabilities					
Payables	13	-	-	-	18,451
Outstanding Claims Liability	14	1,308,572	1,198,380	1,308,181	1,197,028
Provisions	17	10,073	11,065	10,073	11,065
Deferred Tax Liabilities	5	88,883	77,923	89,033	78,197
Total Non-Current Liabilities		1,407,528	1,287,368	1,407,287	1,304,741
TOTAL LIABILITIES		2,045,945	1,872,493	2,067,180	1,890,552
NET ASSETS		886,308	832,756	886,308	832,756
EQUITY					
Asset Revaluation Surplus		115,072	104,269	115,072	104,269
Compensation (Industrial Diseases) Fund Reserve		17,876	16,979	17,876	16,979
Retained Earnings	37	753,360	711,508	753,360	711,508
TOTAL EQUITY		886,308	832,756	886,308	832,756

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 Insurance Commission represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 36.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 38. This fund is excluded from this Statement of Financial Position.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
SUMMARY OF CHANGES IN EQUITY					
BALANCE OF EQUITY AT START OF THE YEAR		**832,756**	704,337	**832,756**	704,337
Profit after Income Tax Equivalent Expense		**42,749**	126,850	**42,749**	126,850
Fair Value Revaluation of Land and Buildings after Income Tax Equivalent Expense		**10,803**	1,586	**10,803**	1,586
Total Comprehensive Income after Income Tax Equivalent Expense		**53,552**	128,436	**53,552**	128,436
Transfer to Government Insurance Fund	**37(i)**	**-**	(17)	**-**	(17)
BALANCE OF EQUITY AT END OF THE YEAR		**886,308**	832,756	**886,308**	832,756
RESERVES					
Asset Revaluation Surplus					
Balance at Start of the Year		**104,269**	104,037	**104,269**	104,037
Fair Value Revaluation of Land and Buildings after Income Tax Equivalent Expense		**10,803**	1,586	**10,803**	1,586
Transfers during the Year	**37(ii)**	**-**	(1,354)	**-**	(1,354)
Balance at End of the Year		**115,072**	104,269	**115,072**	104,269
Compensation (Industrial Diseases) Fund Reserve					
Balance at Start of the Year		**16,979**	16,505	**16,979**	16,505
Transfer from Retained Earnings	**37(i)**	**897**	473	**897**	473
Transfer from Asset Revaluation Surplus	**37(ii)**	**-**	1	**-**	1
Balance at End of the Year		**17,876**	16,979	**17,876**	16,979
RETAINED EARNINGS					
Balance at Start of the Year		**711,508**	583,795	**711,508**	583,795
Profit after Income Tax Equivalent Expense		**42,749**	126,850	**42,749**	126,850
Transfer to Compensation (Industrial Diseases) Fund		**(897)**	(473)	**(897)**	(473)
Transfer from Asset Revaluation Surplus	**37(ii)**	**-**	1,336	**-**	1,336
Balance at End of the Year	**37**	**753,360**	711,508	**753,360**	711,508

The Statement of Changes in Equity should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The Statement of Changes in Equity for the Insurance Commission in relation to Retained Earnings represents an aggregation of the Insurance Commission's Funds, taking into account inter-fund eliminations. Refer Note 37.

The Asset Revaluation Surplus is held within the Insurance Commission General Fund (ICGF).

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 38. This fund is excluded from this Statement of Changes in Equity.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Premiums Received		**532,979**	509,839	**532,979**	509,837
Right of Indemnity Receipts - Government Insurance Fund		**3,383**	5,108	**3,383**	5,108
Right of Indemnity Receipts - WorkCover WA		**289**	3,782	**289**	3,782
Interest Received		**39,220**	27,184	**39,220**	27,184
Property Income Received		**74,723**	67,128	**74,723**	67,128
Dividends Received		**84,004**	73,744	**84,004**	73,744
Reinsurance and Other Recoveries Received		**4,082**	2,868	**4,083**	2,868
Management Fees Received		**28,010**	25,989	**28,168**	25,989
Outwards Reinsurance Commission Received		**548**	494	**548**	494
Other Receipts		**-**	1,039	**-**	1,039
Interest Paid to Corporation		**-**	-	**(1,015)**	(787)
Intercompany Debtor Paid		**-**	-	**(18,451)**	-
Claims Paid		**(415,505)**	(401,151)	**(415,454)**	(401,053)
Interest Paid to RiskCover Fund	38	**(39,892)**	(36,349)	**(39,892)**	(36,349)
Outwards Reinsurance Paid		**(5,490)**	(4,942)	**(5,490)**	(4,942)
Acquisition Costs Paid		**(17,402)**	(15,481)	**(17,402)**	(15,481)
Set-up Costs Paid		**(7,839)**	(325)	**(7,839)**	(325)
Underwriting and Administration Expenses Paid		**(56,021)**	(53,063)	**(53,978)**	(52,791)
Debt Recovery Costs Paid		**(16,360)**	(17,883)	**(18,321)**	(17,883)
Property Expenses Paid		**(20,766)**	(28,269)	**(20,766)**	(28,269)
Income Tax Equivalent (Paid)/Received		**(1,004)**	3,163	**(802)**	3,484
Goods and Services Tax Paid		**(13,045)**	(12,939)	**(13,038)**	(12,939)
Stamp Duty Paid		**(47,737)**	(45,748)	**(47,737)**	(45,748)
Other Payments		**(7,852)**	(8,008)	**(7,852)**	(8,008)
Net Cash Flow from Operating Activities	20	**118,325**	96,182	**99,360**	96,084
CASH FLOW FROM INVESTING ACTIVITIES					
Investment Funds Received from RiskCover Fund		**49,392**	38,424	**49,392**	38,424
Payments for Purchase of Investments		**(631,290)**	(1,192,317)	**(631,290)**	(1,192,317)
Payments for Purchase/Development of Investment Property		**(40,807)**	(60,562)	**(40,807)**	(60,562)
Proceeds from Sale of Investments		**522,204**	1,304,449	**522,204**	1,304,449
Payments for Purchase of Property, Plant and Equipment		**(8,216)**	(6,830)	**(8,216)**	(6,830)
Proceeds from Sale of Property, Plant and Equipment		**371**	491	**371**	491
Net Cash Flow From Investing Activities		**(108,346)**	83,655	**(108,346)**	83,655
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,979**	179,837	**(8,986)**	179,739
CASH AND CASH EQUIVALENTS AT START OF THE YEAR		**257,822**	77,985	**254,672**	74,933
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	20	**267,801**	257,822	**245,686**	254,672

The Statement of Cash Flows should be read in conjunction with the Notes to, and forming part of, the Financial Statements.

The RiskCover Fund is managed by the Insurance Commission on behalf of the Government of Western Australia. Refer Note 38. This fund is excluded from this Statement of Cash Flows.

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

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 (Insurance Commission) and its wholly owned subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law), in preparing the financial statements.

(a) Statement of Compliance

The financial statements for the year ended 30 June 2011 have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) as modified by Treasurer's Instructions.

In preparing these financial statements the Insurance Commission has adopted where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the AASB.

(b) Early Adoption of Standards

The Insurance Commission cannot early adopt an Australian Accounting Standard or an Interpretation unless specifically permitted by *Treasurer's Instruction 1101* (TI 1101), 'Application of Australian Accounting Standards and Other Pronouncements'. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the economic entity for the annual reporting period ended 30 June 2011.

(c) General Statement

These financial statements to 30 June 2011 constitute general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB 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.

The *Financial Management Act 2006* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

(d) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which, as detailed in the remainder of this accounting policies note, are measured at fair value.

The financial statements are presented in Australian dollars and in accordance with *Treasurer's Instruction 948*, all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated.

The judgements that have been made in the process of applying the economic entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 31, 'Critical Accounting Judgements and Estimates'.

Key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of outstanding claims liabilities within the next financial, year are disclosed at Note 32, 'Actuarial Assumptions and Methods'.

The financial statements have been prepared on the assumption that the consolidated 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 Insurance Commission and Corporation are Agents of the Crown in the right of the State under section 4(a) and 28(3) respectively of the *Insurance Commission of Western Australia Act 1986.*

(e) Principles of General Insurance Business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The general insurance activities of the Insurance Commission consist of all transactions arising from writing general insurance contracts.

(f) Disclosure of Changes in Accounting Policy and Estimates

There are no mandatory or voluntary changes in accounting policies which impact on the consolidated financial statements of the economic entity.

(g) Initial Application of an Australian Accounting Standard

There are no changes in Australian Accounting Standards and Interpretations which impact on the financial statements of the economic entity for the annual reporting period ended 30 June 2011.

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Future Impact of Australian Accounting Standards Not Yet Operative

The economic entity cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by TI 1101, 'Application of Australian Accounting Standards and Other Pronouncements'. TI 1101 has not mandated the early adoption of any Australian Accounting Standards or Interpretations. Consequently, the economic entity has not applied the following Australian Accounting Standards and Interpretations that have been issued but are not yet effective. These will be applied from their application date, where applicable to the economic entity:

- AASB 9 'Financial Instruments'. This Standard includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 to replace AASB 139 'Financial Instruments: Recognition and Measurement'. The Standard improves and simplifies the approach for the classification and measurement of financial assets compared with AASB 139. The economic entity does not expect any financial impact when the Standard is first applied. Disclosures in the notes to the financial statements may change if the reduced disclosure requirements apply.

- AASB 1053 'Application of Tiers of Australian Accounting Standards'. This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The economic entity does not expect any financial impact when the Standard is first applied. Disclosures in the notes to the financial statements may change.

- AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]'. The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The economic entity does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes to the financial statements may change.

- AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'. This Standard makes amendments to many Australian Standards, including Interpretations, to introduce reduced disclosure requirements into these pronouncements for certain types of entities. The economic entity does not expect any financial impact when the Standard is first applied. Disclosures in the notes to the financial statements may change if the reduced disclosure requirements apply.

- AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]'. The amendment to AASB 7 requires modification to the disclosure of categories of financial assets. The economic entity does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes to the financial statements may change.

The following amendments and interpretations will have no applicability to the economic entity and hence will have no impact.

Reference	Title
AASB 124	Related Party Disclosures
AASB 1054	Australian Additional Disclosures
AASB 2009-12	Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 & 134 and Interpretation 13]
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132, & 134 and Interpretations 2, 112 & 113]

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]
AASB 2011-3	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]

(i) Basis of Consolidation

The consolidated financial statements of the economic entity combine the financial statements of the Insurance Commission, being the parent entity and the Corporation and ICWA Law, being controlled entities in accordance with AASB 127, 'Consolidated and Separate Financial Statements'.

The financial statements of the Corporation are prepared for the same reporting period as the parent entity. The financial statements of ICWA Law are prepared for the period from commencement, 1 May 2011 to 30 June 2011.

Consistent accounting policies have been applied by each entity in the consolidated economic entity and unless otherwise stated are consistent with those adopted in the previous year.

In preparing the consolidated financial statements, all inter-entity balances, transactions and unrealised profits or losses arising within the consolidated entity are eliminated in full.

The financial statements of the RiskCover Fund are not consolidated as its assets are controlled by the State Government and not by the economic entity.

(j) Income Tax Effect Accounting

The economic entity operates within the National Tax Equivalent Regime (NTER). All Funds of the economic entity are subject to the NTER, except for the Government Insurance Fund.

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

The calculation of the liability in respect of the income tax equivalent is governed by the NTER guidelines and directions approved by the State Government.

As a consequence of participation in the NTER, the entity is required to comply with AASB 112, 'Income Taxes'.

Current Tax

Current tax is calculated by reference to the amount of tax equivalent payable, or recoverable, to or from the Department of Treasury of Western Australia (Treasury) (formerly the Department of Treasury and Finance) as calculated under the rules of the NTER. These rules (with limited exceptions) follow the Income Tax legislation and utilise tax rates effective at the end of the reporting period.

Deferred Tax

Deferred tax is accounted for using a comprehensive Statement of Financial Position liability approach whereby account is taken of temporary differences between the carrying amounts in the Statement of Financial Position and their corresponding tax base.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amounts of all deferred income tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of the reporting period and are recognised only to the extent that it has become

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at tax rates expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted at the end of the reporting period.

Income taxes relating to items recognised in other comprehensive income are recognised through the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax Consolidation

On 26 February 2003, the Board of Commissioners of the Insurance Commission and the Board of Directors of the Corporation resolved that the Corporation would join the Insurance Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002.

ICWA Law joined the tax consolidation group with effect from 26 November 2010.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits arising from the subsidiaries are recognised by the Insurance Commission (as head entity of the tax-consolidated group).

Tax equivalent expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax-funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to, or receivable by each member of the group in relation to the tax contribution amounts paid or payable between the Insurance Commission and the subsidiaries in accordance with the arrangement.

The tax equivalent sum, payable to Treasury in respect of each financial year, is equal to the amount of any income tax for which the tax consolidation parent entity would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST payable to, or recoverable from, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed gross of amounts recoverable from, or payable to, the ATO.

(l) Revenue and Income Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the economic entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue and other income is recognised.

- **Premium Revenue**

  Premium revenue comprises premiums from direct business and from reinsurance business.

  Premium revenue includes amounts charged to policyholders or other insurers, including workers' compensation insurance levies but excluding stamp duty, GST and other amounts collected on behalf of third parties.

  Premium revenue, including unclosed business, is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract for direct business and over the period of indemnity for reinsurance business, based on time, which closely approximates the pattern of risks underwritten.

  Premiums for unclosed business are recorded as revenue on the basis of premiums received subsequent to the end of the reporting period in accordance with AASB 1023, 'General Insurance Contracts'. Unclosed business is recorded only for those classes of insurance where it can be reliably measured.

  Premium revenue relating to Inwards Reinsurance relates to adjustment premiums affected by the final cost of certain long-tail claims for losses occurring prior to 1992 when

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the Corporation ceased writing Inwards Reinsurance business.

- **Unearned Premium**

  The proportion of premium received or receivable which relates to risks for periods of insurance subsequent to the end of the reporting period and hence not earned in the Statement of Comprehensive Income at the end of the reporting period is recognised in the Statement of Financial Position as an Unearned Premium Liability. This liability is determined by apportioning the premium written in the year on a pro-rata basis.

- **Reinsurance and Other Recoveries Revenue**

  Reinsurance and other recoveries revenue on paid claims, claims reported but not paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries receivable for long-tail classes of insurance 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 inflation and discount rates used are set out in Note 32.

- **Investment Income / Loss Including Changes in Fair Values**

  Gains and losses relating to assets categorised in the Statement of Financial Position as Financial Assets at Fair Value through Profit or Loss, and gains and losses resulting from revaluation of assets categorised as Investment Properties may be realised or unrealised. Realised gains and losses arise from the sale of investment assets (including investment property where applicable) and unrealised gains arise from changes in the fair value of investments and Investment Properties held at the end of the reporting period. These gains and losses are recognised in the Statement of Comprehensive Income.

- **Property Rental Income**

  Income from property rentals is recognised on a receivables basis. Rental income includes a proportional amount arising out of the value of rent-free periods and other agreed lease incentive expenses met by the Insurance Commission, apportioned over the term of the relevant leases.

  Income in respect of Investment Properties is reported as Investment Income.

  Income in respect of Owner-Occupied Properties is reported as Other Income.

- **Dividend Income**

  Dividend income is recognised when the underlying equities become ex-dividend. Distributions from investment trusts are recognised as income on the date they are declared and payable.

- **Interest Revenue**

  Interest revenue is recognised as the interest accrues, based on the effective interest method.

- **Foreign Exchange Income**

  The functional and presentation currency of the economic entity is Australian dollars (AUD).

  Transactions of the economic entity denominated in foreign currencies are converted to AUD at the rates of exchange current at the dates of the transactions.

  Assets and liabilities of the economic entity denominated in foreign currencies at the end of the reporting period are converted to Australian currency using rates of exchange current at that date. Resulting exchange differences are recorded as exchange gains or losses in the Statement of Comprehensive Income in that financial year.

- **Net Gains/Losses from Sale of Property, Plant and Equipment**

  Net gains/losses from the sale of property, plant and equipment are recognised when the significant risks and rewards of ownership control transfer to the purchaser.

(m) Third Party Insurance Fund – Premium Setting

In accordance with Section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, the Insurance Commission makes an assessment of the premium revenue which will be necessary to meet claims and administration expense arising in the following financial year. This assessment also takes into account an independent actuarial report and the retained earnings 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 Insurance Commission's premium recommendations are considered by the responsible Minister who may approve, refuse or invite the Insurance Commission to review any or all of its recommendations.

(n) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Outwards Reinsurance

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

(p) Unexpired Risk Liability

At the end of the reporting period, an assessment is made to determine the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against related unexpired portions of insurance contracts. This assessment is referred to as the Liability Adequacy Test (LAT). Liability adequacy testing is performed at the level of a portfolio of contracts which are subject to broadly similar risks and which are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less any related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Insurance Commission applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability. Refer Note 14.

The movement in total deficiency (net of reinsurance), if any, is recognised immediately in the Statement of Comprehensive Income. The total deficiency is determined by first writing down any related intangible assets and then any related deferred acquisition costs. The shortfall is recorded in the Statement of Financial Position as an Unexpired Risk Liability (URL). Refer Note 16.

An assessment of the URL at 30 June 2011 has only been made in relation to the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund which issue policies covering a three-year period.

The Government Insurance Fund, Insurance Commission General Fund and Corporation (Inwards Reinsurance) are in run-off and hence there is no unearned premium. As a result LATs and URLs are not required.

(q) Acquisition Costs

Acquisition costs relate to all costs charged by the Department of Transport for administering the collection of motor vehicle third party insurance premiums. Acquisition costs incurred in obtaining insurance business are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

(r) Statutory Charges

Statutory levies and charges, such as Workers' Compensation and Injury Management Commission (WorkCover WA) charges, paid or payable are accounted for on the same basis as the recognition of corresponding premium revenue.

(s) Management Fee

The RiskCover Fund, the Corporation, and ICWA Law are charged management fees in proportion to their usage of the Insurance Commission's services.

(t) Assets Backing General Insurance Liabilities

Most assets (including Owner-occupied Land and Buildings, and Land and Buildings under Construction or Development, presented under AASB 116 within Property, Plant and Equipment), are held to back general insurance liabilities.

The exceptions are intangible software assets and the remaining items presented within Property, Plant and Equipment and Other Assets. Refer Notes 8 and 12.

Financial assets backing general insurance liabilities include liquid and high-quality investments such as cash and fixed-income securities.

Financial assets held to back general insurance liabilities are valued at fair value in the Statement of Financial Position.

The management of financial assets, general insurance liabilities and policy liabilities are closely monitored to ensure that there is always sufficient liquidity in investments to meet cash flows arising from general insurance liabilities and policy liabilities.

Assets Backing General Insurance Liabilities are discussed in more detail under the relevant Statement of Financial Position headings in this Accounting Policy note.

(u) Cash and Cash Equivalent Assets

Cash and cash equivalent assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets approximate to their fair value.

For the purpose of the Statement of Cash Flows, cash includes cash assets on hand and in banks, net of any bank account liability, refer Note 1(dd), together with short-term discount securities and deposits at call, which are investments integral to the economic entity's general insurance activities (all of which are readily convertible to cash and are subject to an insignificant risk of change in value).

(v) Receivables

Receivables are reviewed as to their collectability, in regard to their appropriate terms and conditions, on an ongoing basis. Debts which are known to be not collectable are written off. Where objective evidence of impairment exists such as where there is doubt as to whether a debt is collectable, an appropriate provision is made. Financial difficulties of the debtor,

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

default payments or debts more than 60 days overdue are considered objective evidence for impairment.

- **Premiums Receivable**

Premiums 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 in the first 15 days subsequent to the end of the reporting period. Refer Note 1(l).

- **Other Receivables**

Other receivables are recognised and carried at amortised cost.

(w) Financial Assets at Fair Value through Profit or Loss

Investment assets presented as Financial Assets at Fair Value through Profit or Loss are considered to back General Insurance Liabilities of the economic entity. These are initially recognised at cost and subsequently measured at fair value. Refer Note 7.

- **Securities**

Securities include bonds and short-term 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 initially recognised at fair value. Interest income for such securities is accrued monthly using the coupon rate of interest.

Purchases of discount securities are initially recognised at fair value, being their principal amount with the unearned discount netted against the principal amount to arrive at fair value.

The discount security is amortised in line with the underlying security.

Securities are marked to market at the close of the last business day of the financial year. The securities are valued at quoted bid price or, if such prices are not available, at prices for securities of comparable maturity, quality and type. The costs 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 market value is recorded as unrealised revenue.

- **Equities and Listed Equity Trusts**

Purchases of equities and listed equity trusts are initially recorded at fair value. Equities and listed equity trusts are marked to market using the securities quoted bid price at the end of the reporting period.

- **Units in Unlisted Equity, Fixed Interest and Alternative Assets Trusts**

Fair values of units in unlisted Equity, Fixed Interest and Alternative Assets Trusts are determined using the Net Asset Value (NAV) per unit applicable for redemption 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 dollars at rates of exchange ruling at the end of the reporting period.

- **Deposits held with Brokers for Margins**

Deposits held with brokers for margins are monetary amounts held by the Insurance Commission to cover the cash obligations of the options held.

Deposits held with brokers for margins are carried at face value of the amounts deposited or drawn. The carrying amounts of these deposits approximate to their fair value.

- **Unlisted Property Trusts**

Unlisted Property Trusts are valued by the Trustee of the Trusts at market values based upon independent valuations of properties held within the trust. A unit price is advised to unit holders, which forms the basis for the calculation of market value at the end of the reporting period which equates to fair value.

- **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 future cash flows.

The purpose for which derivative transactions are undertaken is set out in Note 21(a).

- **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 economically hedge holdings and anticipated purchase commitments to avoid or minimise possible adverse financial effects of movements in exchange rates. Initial margin requirements

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Comprehensive Income.

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 Comprehensive Income. 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 equity price index futures contracts are marked to market based on the value of the last quoted bid price of the relevant contract traded on a recognised futures exchange. Any gain or loss is recorded in the Statement of Comprehensive Income as a change in the fair value of investments.

- **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.

Options are priced daily at 'Bid' price. 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 fair value of investments in the Statement of Comprehensive Income.

- **Investments in Subsidiaries**

Investments in subsidiaries are carried at fair value.

(x) Deferred Acquisition Costs

At the end of the reporting period, a portion of acquisition costs is deferred in recognition that it represents expense that will give rise to premium revenue that will be recognised in future reporting periods. Deferred Acquisition Costs are amortised over the financial periods expected to benefit from the expenditure, which is generally less than one year. Refer Note 11.

(y) Property, Plant and Equipment

Freehold Land and Buildings

Freehold Land and Buildings presented within Property, Plant and Equipment are Assets Backing General Insurance Liabilities.

Land and Buildings with a significant degree of owner occupation are required to be accounted for in accordance with AASB 116, 'Property, Plant and Equipment'.

Freehold Land and Buildings are initially measured at cost. Subsequent to initial measurement, Freehold Land and Buildings are revalued annually at the end of the reporting period to fair value by an independent valuer.

Owner-occupied property comprises both Land and Buildings.

Depreciation is applied to owner-occupied buildings only. Following revaluation each year, depreciation is applied to the revised fair value over its remaining useful life.

Revaluation of Freehold Land and Buildings

Fair value is determined by reference to market-based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

Any revaluation surplus is credited to the asset revaluation surplus included in the equity section of the Statement of Financial Position unless it reverses a revaluation decrement of the same asset previously recognised in profit or loss.

Any revaluation deficit is recognised in profit or loss unless it directly offsets a previous surplus of the same asset in the asset revaluation surplus.

Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in the carrying amount that is accounted for.

Upon disposal, any revaluation surplus relating to a particular asset being sold will be transferred to retained earnings.

Plant and Equipment

Plant and equipment is carried at cost less accumulated depreciation and any impairment in value.

Items of computer hardware with a cost of $300 or over and all other items of plant and equipment costing $1,000 or over are recognised as assets in the year of acquisition. Amounts less than this are

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expensed directly to the Statement of Comprehensive Income other than where they form a part of a group of similar items which are significant in total.

Amounts relating to software required to operate specific items of hardware are included as part of the hardware asset.

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 rates used are reviewed annually.

The annual depreciation rates used for each class of property, plant and equipment, for the current and previous year, are as follows:

	2011 (%)	2010 (%)
• Plant and Equipment	20-25	20-25
• Furniture and Fittings	12	12
• Computer Hardware	33	33
• Motor Vehicles	50	50
• Leasehold Improvements	15	15
• Building (Owner-Occupied)	4.2	4

Plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from their continued use.

Any gain or loss arising on derecognition (calculated as the difference between the net proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised.

Impairment of Plant and Equipment

The varying items of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. External factors such as changes in expected future processes, technology and economic conditions are monitored to assess for indicators of impairment.

If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment risk relates mainly to circumstances where an asset's depreciation is materially understated or where replacement cost is falling. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation /amortisation fairly reflects the level of consumption of the asset's future economic benefits and to re-evaluate any impairment risks.

Impairment losses are recognised in the Statement of Comprehensive Income.

(z) Investment Properties

Freehold Land and Buildings

Freehold Land and Buildings presented within Investment Property are Assets Backing General Insurance Liabilities.

Following initial recognition at cost, Investment Properties are revalued annually at the end of the reporting period by an independent valuer to fair value, which is based on active market prices.

Fair value is determined by reference to market based evidence, having regard to current economic and market conditions and based on an orderly sale between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the end of the reporting period.

Investment Properties are integral to the investing activities of the Insurance Commission and in accordance with AASB 1023, 'General Insurance Contracts', and with AASB 140, 'Investment Property', are not depreciated.

Gains and losses arising from changes in the fair values of Investment Properties are included in profit or loss in the year in which they arise.

Property under Development or Construction

Investment Properties under Development or Construction are required to be accounted for in accordance with AASB 140, 'Investment Property'.

Investment Properties under Development or Construction are measured at cost up until the stage when they can be reliably measured at fair value. Management relies on independent valuation advice in order to determine the stage at which fair value can be reliably measured.

(aa) Intangible Assets

Intangible Assets are non-monetary assets with no physical substance, that are separately identifiable, controlled by the Insurance Commission and have future economic benefits.

Acquisitions of intangible assets and internally generated intangible assets that qualify for recognition are capitalised.

The intangible assets reported primarily relate to computer software which is not of an essential nature required to operate specific items of hardware. Intangible assets include amounts relating to work in progress on designing and implementing computer software.

This software is amortised over four years and tested for impairment whenever there is an indication that the asset may be impaired.

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Impairment of Assets

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. The recoverable amount is the higher of fair value, less cost to sell and value in use. In assessing value in use, estimated future net cash flows are, where applicable, discounted to their present value using a market-determined risk-adjusted discount rate.

(cc) Non-Current Assets (or Disposal Groups) Classified as Held for Sale

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell and are presented separately from other assets in the Statement of Financial Position. Assets classified as held for sale are not depreciated or amortised.

Non-current assets (or disposal groups) held for sale to be sold within the next financial year are recognised as current assets.

(dd) Bank Overdraft

Any liability for bank overdraft shown in the Statement of Financial Position represents the general ledger account balance and includes the value of cheques drawn but unpresented on the bank account at the end of the reporting period and equates to fair value.

(ee) Payables

Payables, including accruals not yet billed, are carried at cost and recognised when the entity becomes obliged to make future payments as a result of a purchase of assets or services. Current payables are generally settled within 30 days.

(ff) Outstanding Claims

The liability for outstanding claims at the end of the reporting period comprises:

- claims that have been reported but not paid,
- IBNR claims,
- IBNER claims,

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

The liability for outstanding claims is the present value of an adjusted 'central estimate' of future claim 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 such as 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 the end of the reporting period using risk-free discount rates.

Refer Note 32 for details of inflation and discount rates used.

- **Short-tail claims**

  There are a number of short-tail claims relating to the RiskCover Fund, refer Note 38. The RiskCover Fund as previously stated does not form a part of the Consolidated Entity reporting.

  These 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 RiskCover Fund's liability for outstanding claims for the short-tail classes, such as Property and Motor, are internally assessed using a central estimate.

- **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 claim's 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 risk margin to the central estimate of the discounted future claims payments for all long-tail classes of insurance (excluding the RiskCover Fund, Refer Note 38), refer Note 14. The risk margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments.

(gg) Provisions

Provisions are recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

(hh) Employee Benefits

- **Salaries, Long Service Leave and Annual Leave**

  Liabilities in respect of employee entitlements to salaries, long service leave and annual leave, which are expected to be settled within twelve months of the end of the reporting period, are measured at their nominal amounts using the salary rates expected to be paid when the liability is settled.

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities in respect of employee entitlements to long service leave, which are not expected to be settled within twelve months of the end of the reporting period, are measured at the present value of their future estimated cash outflows. In determining the liability, consideration has been given to future increases in salary rates, experience with staff departures and periods of service.

In determining the present value of the future estimated cash outflows, the interest rates attaching to Commonwealth Government securities at the end of the reporting period, which most closely match the terms of maturity of the related liabilities, are used.

- **Superannuation**

Staff may contribute to the Pension Scheme as set out in the repealed *Superannuation and Family Benefits Act 1938*, a defined benefits scheme closed to new members with effect from 15 August 1986 but whose provisions continued to apply by virtue of Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*, or to the Gold State Superannuation Scheme, a defined benefits lump sum scheme closed to new members with effect from 30 December 1995. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme (*Government Employees Superannuation Act 1987*), and those staff who commenced employment on or after 16 April 2006 become members of the Government Employees Superannuation Board (GESB) Super Scheme. Both these schemes are accumulation funds complying with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.

All of these Schemes are administered by GESB.

The employer's liability to meet members' pensions under the defined benefit Pension Scheme is paid monthly to Treasury.

The liabilities for superannuation charges under the Gold State Superannuation Scheme, West State Superannuation Scheme and GESB Super Scheme are extinguished by payments of employer contributions to the GESB. Refer Note 18.

The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are unfunded and the liability for future payments is provided for at the end of the reporting period. The present value of the liabilities is determined following an independent actuarial assessment. Movements in actuarial assessments are brought to account through the Statement of Comprehensive Income.

- **Superannuation – Fair Value of Plan Assets**

In relation to the Pension Scheme and the pre-transfer benefits for employees who transferred to the Gold State Superannuation Scheme, the value of any excess of accrued superannuation benefits over the net fair value of assets is recorded as a liability of the Insurance Commission. This liability is brought to account on the basis that there is no pre-funding of the employer's liability for benefits under this Pension Scheme. Refer Note 18.

(ii) Other Corporate Information

The Insurance 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*.

ICWA Law is a proprietary company limited by shares, wholly owned by the Insurance Commission. ICWA Law is registered under the *Corporations Act 2001* and is registered in Western Australia.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. REVENUE AND INCOME

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Profit before Income Tax Equivalent Expense includes the following specific revenue items:					
Premium					
Direct		**440,834**	421,442	**440,834**	421,442
Inwards Reinsurance		**-**	2	**-**	-
Movement in Unearned Premium					
Direct		**(10,595)**	(11,842)	**(10,595)**	(11,842)
		430,239	409,602	**430,239**	409,600
Outwards Reinsurance Commission		**498**	449	**498**	449
Recoveries					
Reinsurance		**2,423**	3	**2,424**	3
Other		**9,073**	12,509	**9,073**	12,509
		11,496	12,512	**11,497**	12,512
Investment Income including Movements in Fair Value					
Investment Property Income		**37,387**	33,209	**37,387**	33,209
Dividends		**84,589**	74,902	**84,589**	74,902
Interest		**43,702**	29,131	**43,702**	29,131
Changes in Fair Values: Unrealised Gain		**64,620**	45,599	**64,620**	45,599
Changes in Fair Values: Realised Gain		**31,695**	61,822	**31,695**	61,822
Foreign Exchange: Unrealised Loss		**(20,722)**	(24,371)	**(20,722)**	(24,371)
Foreign Exchange: Realised Gain		**14,907**	28,949	**14,907**	28,949
Other		**295**	495	**295**	495
		256,473	249,736	**256,473**	249,736
Other Income					
Other Property Income	**(i)**	**29,220**	28,143	**29,220**	28,143
Management Fees	**(ii)**	**28,170**	25,790	**28,612**	26,062
Right of Indemnity - Government Insurance Fund	**(iii)**	**2,431**	1,593	**2,431**	1,593
Interest		**226**	197	**226**	197
Sundry		**(383)**	543	**(383)**	543
		59,664	56,266	**60,106**	56,538
Total Revenue and Income		**758,370**	728,565	**758,813**	728,835

(i) Other Property Income relates to rental income derived from Land and Buildings as required by AASB 116, 'Property, Plant and Equipment' to be presented within Property, Plant and Equipment.

(ii) Management Fee Income relates to the amount charged to/payable by the Department of Treasury for the costs associated with administering the RiskCover Fund. Refer Note 38.

(iii) Income received in accordance with Cabinet's decision of May 1996, whereby Treasury assumed liability for any accumulated deficit existing in the Government Insurance Fund.

For major variances between years, refer Note 23.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. EXPENSES

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Profit before Income Tax Equivalent Expense includes the following specific expense items:					
Claims					
Direct		**528,912**	413,761	**528,912**	413,761
Inwards Reinsurance		**(839)**	118	**-**	-
		528,073	413,879	**528,912**	413,761
Outwards Reinsurance		**5,110**	4,546	**5,110**	4,546
Investment Expenses					
Investment Property Expenses		**17,130**	14,144	**17,130**	14,144
Investment Management and Custodian Fees		**5,408**	6,080	**5,408**	6,080
Administration Expenses		**1,733**	1,736	**1,733**	1,736
		24,271	21,960	**24,271**	21,960
Finance Costs					
Interest Paid to RiskCover Fund	**38,(i)**	**39,892**	36,349	**39,892**	36,349
Interest Paid to Corporation		**-**	-	**1,015**	787
Decrease in Discount on Other Receivables: Non-Current	**(ii)**	**(2,085)**	(580)	**(2,085)**	(580)
		37,807	35,769	**38,822**	36,556
Net Movement in Unexpired Risk Liability	**16**	**-**	-	**-**	-
Acquisition Costs		**18,498**	13,566	**18,498**	13,566
Underwriting and Administration Expenses					
Accident Prevention and Research		**4,405**	3,880	**4,405**	3,880
Levies and Charges		**59**	55	**59**	55
Movement in Impairment of Receivables		**31**	16	**31**	21
Remuneration of Auditor	**27**	**388**	378	**388**	378
Board of Commissioners' Fees		**329**	329	**329**	329
Contractors and Consultants		**10,749**	5,876	**8,950**	5,876
Debt Recovery Costs		**17,376**	16,758	**19,337**	16,758
Amortisation Intangible Assets		**2,001**	1,693	**2,001**	1,693
Impairment Intangible Assets		**469**	-	**469**	-
Depreciation		**1,231**	1,298	**1,231**	1,298
Employee Benefits:					
- Annual Leave		**2,095**	2,329	**2,095**	2,329
- Long Service Leave		**176**	1,362	**176**	1,362
- Salaries and Employee-Related Costs		**24,276**	21,852	**24,276**	21,852
- Superannuation		**3,203**	2,994	**3,203**	2,994
IT Hardware and Software		**7,261**	6,488	**7,261**	6,488
Other		**4,227**	4,247	**4,222**	4,247
		78,276	69,555	**78,433**	69,560
Other Expenses					
Other Property Expenses	**(iii)**	**17,118**	15,745	**17,118**	15,745
Net Losses Arising from Disposal of Property, Plant and Equipment		**81**	88	**81**	88
Plant and Equipment Written-Off		**2**	-	**2**	-
Increase in Value of Corporation	**7,34**	**-**	-	**(1,098)**	(283)
		17,201	15,833	**16,103**	15,550
Total Expenses		**709,236**	575,108	**710,149**	575,499

(i) Interest paid to RiskCover Fund represents the RiskCover Fund's share of gains of the investment pool of the Insurance Commission. Refer Note 38.

(ii) Movement in the value of the Discount on Other Receivables (Non-Current) required by AASB 139, 'Financial Instruments: Recognition and Measurement' to bring to account the present value based on the 'time value of money'.

(iii) Other Property Expenses relate to Land and Buildings required by AASB 116, 'Property, Plant and Equipment' to be presented within Property, Plant and Equipment.

For major variances between years, refer Note 23.

4. NET CLAIMS INCURRED

	CONSOLIDATED			INSURANCE COMMISSION		
	2011			2011		
	Current Year (i) $'000	Prior Years (ii) $'000	Total $'000	Current Year (i) $'000	Prior Years (ii) $'000	Total $'000
Current Year						
Gross Claims Incurred and Related Expenses - Undiscounted	**513,758**	**50,805**	**564,563**	**513,758**	**52,007**	**565,765**
Reinsurance and Other Recoveries - Undiscounted	**(28,350)**	**12,836**	**(15,514)**	**(28,350)**	**12,835**	**(15,515)**
Net Claims Incurred - Undiscounted	**485,408**	**63,641**	**549,049**	**485,408**	**64,842**	**550,250**
Discount and Discount Movement - Gross Claims Incurred	**(74,070)**	**37,579**	**(36,491)**	**(74,070)**	**37,216**	**(36,854)**
Discount and Discount Movement - Reinsurance and Other Recoveries	**52,100**	**(48,081)**	**4,019**	**52,100**	**(48,081)**	**4,019**
Net Discount Movement	**(21,970)**	**(10,502)**	**(32,472)**	**(21,970)**	**(10,865)**	**(32,835)**
Net Claims Incurred	**463,438**	**53,139**	**516,577**	**463,438**	**53,977**	**517,415**

	2010			2010		
	Current Year (i) $'000	Prior Years (ii) $'000	Total $'000	Current Year (i) $'000	Prior Years (ii) $'000	Total $'000
Previous Year						
Gross Claims Incurred and Related Expenses - Undiscounted	447,377	(50,579)	396,798	447,377	(50,505)	396,872
Reinsurance and Other Recoveries - Undiscounted	(24,350)	8,402	(15,948)	(24,350)	8,402	(15,948)
Net Claims Incurred - Undiscounted	423,027	(42,177)	380,850	423,027	(42,103)	380,924
Discount and Discount Movement - Gross Claims Incurred	(61,900)	78,982	17,082	(61,900)	78,790	16,890
Discount and Discount Movement - Reinsurance and Other Recoveries	44,880	(41,445)	3,435	44,880	(41,445)	3,435
Net Discount Movement	(17,020)	37,537	20,517	(17,020)	37,345	20,325
Net Claims Incurred	406,007	(4,640)	401,367	406,007	(4,758)	401,249

(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.

5. INCOME TAX EQUIVALENT

	CONSOLIDATED		INSURANCE COMMISSION	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
INCOME TAX EQUIVALENT EXPENSE				
Current Income Tax				
Current Income Tax Equivalent Expense	**586**	42,410	**240**	42,207
Adjustments in Respect of Current Income Tax of Previous Years	**56**	(385)	**56**	(385)
Deferred Income Tax				
Relating to Origination and Reversal of Temporary Differences	**6,330**	26,991	**6,206**	27,073
Usage of Tax Losses	**(587)**	(42,409)	**(587)**	(42,409)
Income Tax Equivalent Expense Recognised in the Statement of Comprehensive Income	**6,385**	26,607	**5,915**	26,486
AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME				
Deferred Income Tax Related to Items Recognised in Other Comprehensive Income:				
Net Revaluation Increment of Property, Plant and Equipment	**4,630**	681	**4,630**	681
Income Tax Equivalent Expense Recognised in Other Comprehensive Income	**4,630**	681	**4,630**	681
RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE				
Profit before Income Tax Equivalent Expense	**49,134**	153,457	**48,664**	153,336
Tax at the Statutory Income Tax Rate of 30% (2010: 30%)	**14,740**	46,037	**14,599**	46,001
Conversion of Excess Imputation Credits into Carry Forward Tax Losses	**(6,998)**	(5,454)	**(6,998)**	(5,454)
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	**(1,045)**	(12,948)	**(1,045)**	(12,948)
Current Year - Building Amortisation	**(829)**	(1,014)	**(829)**	(1,014)
Purchased Goodwill	**514**	-	**514**	-
Subsidiary Indemnity Fluctuation	**-**	-	**(329)**	(85)
Miscellaneous Items	**3**	(14)	**3**	(14)
Income Tax Equivalent Expense	**6,385**	26,607	**5,915**	26,486

For further details regarding Income Tax Effect Accounting. Refer Note 1(j).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INCOME TAX EQUIVALENT (continued)

	STATEMENT OF FINANCIAL POSITION		STATEMENT OF COMPREHENSIVE INCOME	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
DEFERRED INCOME TAX				
Deferred Income Tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred Tax Liabilities				
Revaluations of Investment Properties to Fair Value	**(55,138)**	(45,183)	**9,955**	(12,803)
Revaluations of Property, Plant and Equipment	**(44,151)**	(42,272)	**(2,751)**	(7,558)
Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains	**(24,262)**	(17,973)	**6,289**	13,953
Recoverable Costs - Other	**(15,656)**	(15,031)	**625**	174
Property Receipts - Other	**(7,686)**	(6,649)	**1,037**	1,238
Other	**(4)**	(21)	**(17)**	3
	(146,897)	(127,129)		
Deferred Tax Assets				
Depreciable Property, Plant and Equipment	**1,708**	1,356	**(352)**	(124)
Losses Available for Offset Against Future Taxable Income	**29,505**	17,813	**(11,692)**	37,567
Trust Income	**1,040**	4,339	**3,299**	(2,940)
Indirect Claims Settlement Costs	**18,821**	19,285	**464**	(2,466)
Provisions - Various	**5,440**	4,913	**(527)**	(53)
Securities Impairment	**1,500**	1,500	**-**	-
	58,014	49,206		
Net Deferred Income Tax Liability	**(88,883)**	(77,923)		
Deferred Income Tax Equivalent Expense			**6,330**	26,991
INSURANCE COMMISSION				
Deferred Tax Liabilities				
Revaluations of Investment Properties to Fair Value	**(55,138)**	(45,183)	**9,955**	(12,803)
Revaluations of Property, Plant and Equipment	**(44,151)**	(42,272)	**(2,751)**	(7,558)
Financial Assets at Fair Value Through Profit and Loss - Net Unrealised Gains	**(24,262)**	(17,973)	**6,289**	13,953
Recoverable Costs - Other	**(15,656)**	(15,031)	**625**	174
Property Receipts - Other	**(7,686)**	(6,649)	**1,037**	1,238
Other	**(4)**	(21)	**(17)**	3
	(146,897)	(127,129)		
Deferred Tax Assets				
Depreciable Property, Plant and Equipment	**1,708**	1,356	**(352)**	(124)
Losses Available for Offset Against Future Taxable Income	**29,505**	17,813	**(11,692)**	37,567
Trust Income	**1,040**	4,339	**3,299**	(2,940)
Indirect Claims Settlement Costs	**18,671**	19,011	**340**	(2,384)
Provisions - Various	**5,440**	4,913	**(527)**	(53)
Securities Impairment	**1,500**	1,500	**-**	-
	57,864	48,932		
Net Deferred Income Tax Liability	**(89,033)**	(78,197)		
Deferred Income Tax Equivalent Expense			**6,206**	27,073

Tax Consolidation

The Insurance Commission and its 100% owned Australian resident subsidiaries, the Corporation and ICWA Law have formed a tax-consolidated group. The Corporation joined the group with effect from 1 July 2003. ICWA Law joined the group with effect from 26 November 2010. The Insurance Commission is the head entity of the tax-consolidated group.

Tax Effect Accounting by Members of the Tax Consolidated Group

Members of the tax-consolidated group have entered into a Tax-Funding Agreement. Under the terms of the Tax-Funding Agreement the Insurance Commission and its subsidiaries have agreed to pay a tax-equivalent payment to, or from, the head entity based on "separate taxpayer within group" approach. Where appropriate, such amounts are reflected in amounts receivable from, or payable, to the subsidiaries.

6. RECEIVABLES

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Current					
Premiums Receivable		**3,374**	3,451	**3,374**	3,451
Less: Provision for Impairment		**(3)**	-	**(3)**	-
		3,371	3,451	**3,371**	3,451
Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable		**30,450**	28,718	**30,425**	28,694
Less: Provision for Impairment		**(2)**	(191)	**(2)**	(191)
		30,448	28,527	**30,423**	28,503
Right of Indemnity					
Government Insurance Fund	**(i)**	**3,690**	3,974	**3,690**	3,974
WorkCover WA	**(ii)**	**2,050**	2,496	**2,050**	2,496
		5,740	6,470	**5,740**	6,470
Other Receivables					
Sundry Receivables		**3,683**	4,715	**4,030**	4,918
		43,242	43,163	**43,564**	43,342
Non-Current					
Discounted Value of Expected Future Reinsurance and Other Recoveries Receivable		**106,314**	99,156	**106,309**	99,150
Right of Indemnity					
Government Insurance Fund	**(i)**	**34,625**	35,293	**34,625**	35,293
WorkCover WA	**(ii)**	**18,850**	21,389	**18,850**	21,389
		53,475	56,682	**53,475**	56,682
Other Receivables	**(iii)**	**54,257**	52,172	**54,257**	52,172
		214,046	208,010	**214,041**	208,004
Movement in Provision for Impairment					
Balance at Start of the Year		**191**	176	**191**	171
New Provision Made During the Year		**35**	28	**35**	28
Impairment Written-Off During the Year		**(217)**	-	**(217)**	-
Impairment Provision No Longer Required		**(4)**	(13)	**(4)**	(8)
Balance at End of the Year	**33**	**5**	191	**5**	191

(i) In accordance with Cabinet's decision of May 1996, Treasury assumed liability for any 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 WorkCover WA for all payments and expenses paid under this Act. Refer Note 14.

(iii) Other Receivables (Non-Current) includes $52.2 million (2010: $50.1 million) relating to costs incurred in the Bell Group recovery action and is discounted to bring to account fair value based on the 'time value of money'. Refer Note 3.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Current Investments					
Fixed Interest Bonds		**68,469**	105,421	**68,469**	105,421
Fixed Interest Unit Trusts		**132,253**	120,304	**132,253**	120,304
Fixed Interest Term Deposits		**95,167**	66,000	**95,167**	66,000
Indexed Bonds		**99,131**	94,887	**99,131**	94,887
Equities - Listed		**989,650**	827,925	**989,650**	827,925
Equity Unit Trusts		**203,184**	205,536	**203,184**	205,536
Alternative Assets Unit Trusts		**61,511**	58,789	**61,511**	58,789
Margin Account		**618**	2,347	**618**	2,347
Cash and Cash Equivalent Assets	**20**	**274,597**	255,888	**274,597**	255,888
Receivables		**26,666**	28,908	**26,666**	28,908
Floating Rate Promissory Note	**(i)**	**(422,247)**	(372,855)	**(422,247)**	(372,855)
Forward Foreign Exchange Contracts	**21(c)**	**1,590**	(9,750)	**1,590**	(9,750)
		1,530,589	1,383,400	**1,530,589**	1,383,400
Non-Current Investments					
Fixed Interest Unit Trusts		**53,511**	56,666	**53,511**	56,666
Fixed Interest Term Deposits		**31,369**	55,000	**31,369**	55,000
Alternative Assets Unit Trusts		**77,710**	71,857	**77,710**	71,857
Property Trust - Unlisted		**183,328**	166,147	**183,328**	166,147
Receivables		**17,785**	12,288	**17,785**	12,288
		363,703	361,958	**363,703**	361,958
Original Investment in Subsidiaries	**(ii)**	**-**	-	**100,000**	100,000
Provision for Write Down in Subsidiaries		**-**	-	**(79,082)**	(80,180)
Value of Investment in Subsidiaries		**-**	-	**20,918**	19,820
		363,703	361,958	**384,621**	381,778
		1,894,292	1,745,358	**1,915,210**	1,765,178

(i) The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Note 38.

(ii) The Insurance Commission owns 100% of the issued share capital of the Corporation and ICWA Law. The original investment in the Corporation is written down at the end of the reporting period to the extent that the Insurance Commission's original investment exceeds fair value. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of investment in ICWA Law is equal to its original investment, which was a notional amount of $2.

For the key valuation assumptions relating to Financial Assets at Fair Value through Profit or Loss. Refer Note 1(w).

(a) Fair Value Hierarchy

The Fair Value Hierarchy assigns rankings to the level of judgment which is applied in deriving inputs for valuation techniques used to measure fair value. The three levels of the Fair Value Hierarchy are as follows:

Level 1 is the preferred input for valuation and reflects unadjusted quoted prices in active markets for identical assets or liabilities which the economic entity can access at the end of the reporting period. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 is the valuation of assets and liabilities either directly or indirectly based upon market observables other than quoted prices. For example: financial assets with fair values based on broker quotes; investments in private equity funds with fair values obtained via fund managers; and assets that are valued using the economic entities' own models whereby the majority of assumptions are market observable.

Level 3 relates to inputs that are unobservable. Unobservable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(a) Fair Value Hierarchy (continued)

The following tables detail the valuation of the economic entities Net Financial Assets using the Fair Value Hierarchy:

2011	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Current Investments					
Fixed Interest Bonds		-	68,469	-	**68,469**
Fixed Interest Unit Trusts		-	132,253	-	**132,253**
Fixed Interest Term Deposits		-	95,167	-	**95,167**
Indexed Bonds		-	99,131	-	**99,131**
Equities - Listed		989,637	-	13	**989,650**
Equity Unit Trusts		-	203,184	-	**203,184**
Alternative Assets Unit Trusts		-	61,511	-	**61,511**
Margin Account		-	618	-	**618**
Cash and Cash Equivalent Assets		-	274,597	-	**274,597**
Receivables	**(i)**	-	22,114	-	**22,114**
Floating Rate Promissory Note		-	(422,247)	-	**(422,247)**
Forward Foreign Exchange Contracts		-	1,590	-	**1,590**
		989,637	**536,387**	**13**	**1,526,037**
Non-Current Investments					
Fixed Interest Unit Trusts		-	53,511	-	**53,511**
Fixed Interest Term Deposits		-	31,369	-	**31,369**
Alternative Assets Unit Trusts		-	-	77,710	**77,710**
Property Trust - Unlisted		-	-	183,328	**183,328**
Receivables	**(i)**	-	-	-	**-**
		-	**84,880**	**261,038**	**345,918**
		989,637	**621,267**	**261,051**	**1,871,955**

2010	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Current Investments					
Fixed Interest Bonds		-	105,421	-	105,421
Fixed Interest Unit Trusts		-	120,304	-	120,304
Fixed Interest Term Deposits		-	66,000	-	66,000
Indexed Bonds		-	94,887	-	94,887
Equities - Listed		827,794	-	131	827,925
Equity Unit Trusts		-	205,536	-	205,536
Alternative Assets Unit Trusts		-	58,789	-	58,789
Margin Account		-	2,347	-	2,347
Cash and Cash Equivalent Assets		-	255,888	-	255,888
Receivables	**(i)**	-	25,185	-	25,185
Floating Rate Promissory Note		-	(372,855)	-	(372,855)
Forward Foreign Exchange Contracts		-	(9,750)	-	(9,750)
		827,794	551,752	131	1,379,677
Non-Current Investments					
Fixed Interest Unit Trusts		-	56,666	-	56,666
Fixed Interest Term Deposits		-	55,000	-	55,000
Alternative Assets Unit Trusts		-	-	71,857	71,857
Property Trust - Unlisted		-	-	166,147	166,147
Receivables	**(i)**	-	-	-	-
		-	111,666	238,004	349,670
		827,794	663,418	238,135	1,729,347

(i) Receivables relating to property of $22.3 million(2010: $16.0 million) are excluded from the Fair Value Hierarchy.

There were no significant transfers between Level 1 and Level 2 during the year.

The Fair Value Hierarchy is the same for both Consolidated and the Insurance Commission.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(a) Fair Value Hierarchy (continued)

The following tables detail the change in value associated with Level 3 Net Financial Assets:

2011	Opening Balance $'000	Transfers In/(Out) $'000	Unrealised Gain/(Loss) $'000	Realised Gain/(Loss) $'000	Purchases/ (Sales) $'000	Closing Balance $'000
Current Investments						
Equities - Listed	131	(112)	(2)	-	(4)	**13**
Non-Current Investments						
Alternative Assets Unit Trusts	71,857	-	(13,133)	-	18,986	**77,710**
Property Trust - Unlisted	166,147	-	8,352	-	8,829	**183,328**
	238,004	-	(4,781)	-	27,815	**261,038**
	238,135	**(112)**	**(4,783)**	**-**	**27,811**	**261,051**

Level 3 Net Financial Assets are the same for both Consolidated and the Insurance Commission.

The table below illustrates the sensitivity of Level 3 fair value to change:

	Fair Value			Fair Value Increase/(Decrease)	
	2011 $'000	**2010 $'000**	**Change %**	**2011 $'000**	**2010 $'000**
Current Investments					
Equities - Listed	**13**	131	+20 -20	**3** **(3)**	26 (26)
Non-Current Investments					
Alternative Assets Unit Trusts	**77,710**	71,857	+20 -20	**15,542** **(15,542)**	14,371 (14,371)
Property Trust - Unlisted	**183,328**	166,147	+20 -20	**36,666** **(36,666)**	33,229 (33,229)

Level 3 Net Financial Assets are the same for both Consolidated and the Insurance Commission.

(b) Other Investments

The Bell Group Ltd (in Liquidation) (TBGL) and Bell Group Finance Pty Ltd (in Liquidation) (BGF)

Convertible Bonds

The Insurance Commission has previously written-off $140 million (plus interest) in respect of TBGL and BGF subordinated convertible bonds (Bell bonds) purchased by the Insurance Commission pursuant to an underwriting agreement dated 29 April 1988.

The Insurance 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 of recovering money from two syndicates of banks headed by Westpac Banking Corporation and Lloyds Bank plc of London. In April 2009, the Liquidators were successful in obtaining Judgment in the Supreme Court of Western Australia requiring the Banks to repay in excess of $1.6 billion. The Judgment is currently the subject of appeal processes.

The Board believes that it is appropriate to maintain the carrying value of the Bell bonds at zero, pending the final outcome of the Bell recovery action.

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

The Insurance Commission was owed $200.967 million (previously written-off) by SECL (formerly known as Bond Corporation Holdings) pursuant to a judgment of the Supreme Court of Western Australia dated 21 June 1996. The judgment arose from an indemnity given by SECL in relation to the purchase of shares in TBGL by the Insurance Commission at the time it acquired the Bell bonds.

The Insurance Commission has recovered $58.292 million to date and no carrying amount is attributed to the balance of the judgment sum.

8. PROPERTY, PLANT AND EQUIPMENT

		CONSOLIDATED 2011 ($'000)							
Current Year	Notes	Freehold Land	Freehold Building	Plant and Equipment	Furniture and Fittings	Computer Hardware	Motor Vehicles	Leasehold Improvements	Total
Cost or Valuation									
Balance at Start of the Year		22,000	226,906	1,119	218	7,773	1,200	3,913	**263,129**
Additions		-	3,038	113	5	915	644	513	**5,228**
Disposals		-	-	(118)	(5)	(644)	(533)	-	**(1,300)**
Net Revaluation Increase/(Reduction)	**(i)**	13,300	(7,367)	-	-	-	-	-	**5,933**
Balance at End of the Year		35,300	222,577	1,114	218	8,044	1,311	4,426	**272,990**
Accumulated Depreciation									
Balance at Start of the Year		-	-	874	122	6,489	128	3,110	**10,723**
Depreciation Expense for the Year		-	9,500	109	12	757	150	218	**10,746**
Disposals		-	-	(114)	(3)	(644)	(119)	-	**(880)**
Net Adjustments from Revaluation Reduction	**(i)**	-	(9,500)	-	-	-	-	-	**(9,500)**
Balance at End of the Year		-	-	869	131	6,602	159	3,328	**11,089**
Carrying Amount at End of the Year		**35,300**	**222,577**	**245**	**87**	**1,442**	**1,152**	**1,098**	**261,901**

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Building which comprise land and buildings at 219 and 221 St George's Terrace (The Forrest Centre) was valued at the end of the reporting period. Refer Note 1(y). The Independent Valuer used was Mr M Foster-Key AAPI FRICS and Mr James Cox AAPI of Savills (WA) Pty Ltd.

(i) Total movement in Asset Revaluation Surplus before tax.

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Prior Year	Notes	Freehold Land	Freehold Buildings	Buildings under Construction	Plant and Equipment	Furniture and Fittings	Computer Hardware	Motor Vehicles	Leasehold Improvements	Total
		CONSOLIDATED 2010 ($'000)								
Cost or Valuation										
Balance at Start of the Year		31,900	228,484	27,023	1,100	214	7,171	1,183	3,883	300,958
Additions		-	3,024	-	65	4	681	705	30	4,509
Disposals		-	-	-	(46)	-	(79)	(688)	-	(813)
Net Revaluation Reduction	**(i)**	(2,400)	(4,602)	-	-	-	-	-	-	(7,002)
Transfers to Investment Properties	**(ii)**	(7,500)	-	(27,023)	-	-	-	-	-	(34,523)
Balance at End of the Year		22,000	226,906	-	1,119	218	7,773	1,200	3,913	263,129
Accumulated Depreciation										
Balance at Start of the Year		-	-	-	800	102	5,754	157	2,874	9,687
Depreciation Expense for the Year		-	9,184	-	120	20	812	126	236	10,498
Disposals		-	-	-	(46)	-	(77)	(155)	-	(278)
Net Adjustments from Revaluation Reduction	**(i)**	-	(9,184)	-	-	-	-	-	-	(9,184)
Balance at End of the Year		-	-	-	874	122	6,489	128	3,110	10,723
Carrying Amount at End of the Year		22,000	226,906	-	245	96	1,284	1,072	803	252,406

All Property, Plant and Equipment is held within the Insurance Commission General Fund of the Insurance Commission.

Freehold Land and Building which comprise land and buildings at 219 and 221 St Georges Terrace (The Forrest Centre) was valued at the end of the reporting period. Refer Note 1(y). The Independent Valuer used was Mr M Foster-Key AAPI MRICS of Savills (WA) Pty Ltd.

(i) Total movement in Asset Revaluation Surplus before tax.

(ii) In 2010, as a result of changes to AASB 140 'Investment Property', properties under construction at 167 St George's Terrace (Westralia Plaza) and the next phases of the Ellenbrook development which are intended for future use as investment properties and which had previously been classified as Property, Plant and Equipment are now classified as Investment Properties. Refer Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. INVESTMENT PROPERTIES

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Freehold Land and Buildings at Fair Value		**496,965**	345,401	**496,965**	345,401
Property under Construction at Fair Value		**-**	70,200	**-**	70,200
Property under Construction at Cost		**693**	15,272	**693**	15,272
Balance at End of the Year		**497,658**	430,873	**497,658**	430,873
RECONCILIATION:					
Freehold Land and Buildings at Fair Value					
Balance at Start of the Year		**345,401**	359,051	**345,401**	359,051
Additions		**2,196**	1,107	**2,196**	1,107
Net Revaluation Increase/(Reduction)		**22,711**	(14,757)	**22,711**	(14,757)
Transfer from Property under Construction at Fair Value	(i)	**82,273**	-	**82,273**	-
Transfer from Property under Construction at Cost	(ii)	**44,384**	-	**44,384**	-
Balance at End of the Year	(iii)	**496,965**	345,401	**496,965**	345,401
Property under Construction at Fair Value					
Balance at Start of the Year		**70,200**	-	**70,200**	-
Transfer from Property, Plant and Equipment	(iv)	**-**	33,885	**-**	33,885
Additions		**5,096**	39,314	**5,096**	39,314
Net Revaluation Increase/(Reduction)		**6,977**	(2,999)	**6,977**	(2,999)
Transfer to Freehold Land and Buildings	(i)	**(82,273)**	-	**(82,273)**	-
Balance at End of the Year		**-**	70,200	**-**	70,200
Property under Construction at Cost					
Balance at Start of the Year		**15,272**	-	**15,272**	-
Transfer from Property, Plant and Equipment	(iv)	**-**	638	**-**	638
Additions		**29,805**	14,634	**29,805**	14,634
Transfer to Freehold Land and Buildings	(v)	**(44,384)**	-	**(44,384)**	-
Balance at End of the Year		**693**	15,272	**693**	15,272

Independent valuers were used to assess the fair value of investment properties at the end of the reporting period. The Independent Valuers used were Mr M Foster-Key AAPI FRICS, Mr C Walker AAPI and Mr James Cox AAPI of Savills (WA) Pty Ltd.

For key valuation assumptions of Investment Properties, refer Note 1(z).

(i) During 2011, Westralia Plaza at 167 St George's Terrace and the Tavern at Ellenbrook were completed and transferred from Property under Construction at Fair Value to Freehold Land and Buildings.

(ii) During 2011, Ellenbrook Phase 2 was completed and transferred from Property under Construction at Cost to Freehold Land and Buildings.

(iii) At the end of the reporting period, Freehold Land and Buildings measured at fair value comprises the Westralia Square land and buildings at 141 St George's Terrace, Westralia Plaza land and buildings at 167 St George's Terrace, Livingston Market Place Shopping Centre and Ellenbrook Shopping Centre (including Tavern). At the end of the reporting period, the value adopted of $496.97 million reflects independently assessed value of $517.41 million adjusted by incentives of $20.44 million.

(iv) In 2010, as a result of changes to AASB 140, 'Investment Property', property under construction which was intended for future use as an investment property and which had previously been classified as Plant, Property and Equipment was re-classified as Investment Properties.

(v) At the end of the reporting period, investment properties under construction measured at cost comprise Ellenbrook Stage 3 and the Podium at Westralia Square.

10. INTANGIBLE ASSETS

Cost	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Balance at Start of the Year		**15,948**	14,233	**15,948**	14,233
Additions		**2,496**	900	**2,496**	900
Work in Progress - Movement		**(167)**	815	**(167)**	815
Work in Progress - Impairment	(i)	**(469)**	-	**(469)**	-
Transfer		**(27)**	-	**(27)**	-
Balance at End of the Year		**17,781**	15,948	**17,781**	15,948
Accumulated Amortisation					
Balance at Start of the Year		**7,066**	5,373	**7,066**	5,373
Amortisation Expense for the Year		**2,001**	1,693	**2,001**	1,693
Balance at End of the Year		**9,067**	7,066	**9,067**	7,066
Carrying Amount at End of the Year		**8,714**	8,882	**8,714**	8,882

(i) During 2011, some work in progress relating to software development projects was discontinued following a written assertion by the Minister on 8 June 2011 that the Insurance Commission must seek external approval from the Economic and Expenditure Reform Committee prior to any increase in its Asset Investment Plan that exceeds $1 million. This assertion introduced uncertainty as to whether the projects could continue either in their current or a revised form and as such prior year costs relating to these projects were expensed as impaired. Refer Note 3.

11. DEFERRED ACQUISITION COSTS

	Notes	Consolidated 2011	Consolidated 2010	Insurance Commission 2011	Insurance Commission 2010
Balance at Start of the Year		**4,488**	3,930	**4,488**	3,930
Acquisition Costs Deferred		**15,552**	14,124	**15,552**	14,124
Amortisation Charged to Income		**(15,366)**	(13,566)	**(15,366)**	(13,566)
Write Down for Premium Deficiency	16	**(3,132)**	-	**(3,132)**	-
Balance at End of the Year		**1,542**	4,488	**1,542**	4,488

12. OTHER ASSETS

	Notes	Consolidated 2011	Consolidated 2010	Insurance Commission 2011	Insurance Commission 2010
Current					
Prepaid Expenses		**2,246**	2,467	**2,246**	2,467
Sundry		**778**	1,554	**778**	1,554
		3,024	4,021	**3,024**	4,021
Non-Current					
Sundry		**1,602**	831	**1,602**	831
		1,602	831	**1,602**	831

13. PAYABLES

	Notes	Consolidated 2011	Consolidated 2010	Insurance Commission 2011	Insurance Commission 2010
Current					
Trade Creditors		**20,030**	13,291	**19,992**	13,291
Reinsurance Creditors		**1,002**	535	**657**	526
Accrued Employee Benefits	18	**510**	389	**510**	389
Investment Sundry Payables		**10,657**	7,160	**10,657**	7,160
Goods and Services Tax Liability		**2,525**	2,008	**2,525**	2,008
		34,724	23,383	**34,341**	23,374
Non-Current					
Other Payables	(i)	**-**	-	**-**	18,451
		-	-	**-**	18,451

(i) Other Payables in 2010 related to amounts arising from the value of past tax losses of the Corporation as used by the Insurance Commission. These were represented by an intercompany payable in accordance with the Tax-Sharing Agreement and Interpretation 1052. This amount was paid by the Insurance Commission in 2011.

14. OUTSTANDING CLAIMS LIABILITY

(a) Outstanding Claims Liability

	CONSOLIDATED		INSURANCE COMMISSION	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Central Estimate	**1,873,269**	1,708,840	**1,873,169**	1,708,050
Discount to Present Value	**(348,210)**	(312,855)	**(348,184)**	(312,640)
	1,525,059	1,395,985	**1,524,985**	1,395,410
Claims Management Expenses (discounted)	**66,301**	68,342	**65,801**	67,428
	1,591,360	1,464,327	**1,590,786**	1,462,838
Risk Margin	**123,696**	115,401	**123,623**	115,017
Gross Outstanding Claims Liability	**1,715,056**	1,579,728	**1,714,409**	1,577,855
Current	**406,484**	381,348	**406,228**	380,827
Non-Current	**1,308,572**	1,198,380	**1,308,181**	1,197,028
	1,715,056	1,579,728	**1,714,409**	1,577,855

(b) Employers' Indemnity Supplementation Fund Act 1980 (EISF Act) Liabilities

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 Injury Management Act 1981* , for damages at common law, if the liability of the employer is covered by an employer's 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 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.

In accordance with Section 25(2) of the EISF Act, the Insurance Commission has a right of reimbursement from WorkCover WA for all payments made 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.

14. OUTSTANDING CLAIMS LIABILITY (continued)

(c) Risk Margin

Process for Determining Risk Margin

The Insurance Commission and Corporation have adopted a risk margin in accordance with the Australian Prudential Regulation Authority (APRA) guidelines covering private insurers effective from 30 June 2002. Under this regime the central estimate is derived using risk-free rates based on yields from Commonwealth Government fixed interest securities. The total provision is required to achieve a 75% probability of sufficiency based solely on liability risk (including inflation risk), but with no allowance for asset risk, or asset returns above risk-free rates.

The 75% probability of sufficiency is estimated taking into account potential uncertainties relating to various actuarial assumptions and statistical modelling techniques, the underlying data quality, the general insurance and legal environments, and changes in social attitudes.

Risk Margin Applied	**2011 %**	**2010 %**
Third Party Insurance Fund	**7.0**	7.0
Compensation (Industrial Diseases) Fund	**18.7**	18.7
Government Insurance Fund		
- Workers' Compensation	**25.0**	25.0
- Public Liability	**16.8**	16.8
Insurance Commission General Fund		
- Workers' Compensation and Liability Insurance	**25.0**	25.0
- EISF Act:		
Asbestos-Related Diseases	**20.4**	20.4
Non-Asbestos-Related Diseases	**16.8**	16.8
Corporation - Inwards Reinsurance	**12.8**	17.1

(d) Liability for Outstanding Claims (discounted)

The liability for outstanding claims (excluding reinsurance and other recoveries receivable) is set out below by Fund:

	CONSOLIDATED		INSURANCE COMMISSION	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Insurance Commission General Fund				
- Workers' Compensation and Liability Insurance*	**69,185**	66,950	**69,185**	66,950
- EISF Act*	**21,070**	24,075	**21,070**	24,075
	90,255	91,025	**90,255**	91,025
Third Party Insurance Fund	**1,581,630**	1,439,490	**1,581,630**	1,439,490
Compensation (Industrial Diseases) Fund	**4,281**	5,159	**4,281**	5,159
Government Insurance Fund*	**38,243**	42,181	**38,243**	42,181
Corporation - Inwards Reinsurance*	**647**	1,873	**-**	-
Total	**1,715,056**	1,579,728	**1,714,409**	1,577,855

* Denotes Funds that are in run-off

14. OUTSTANDING CLAIMS LIABILITY (continued)

(e) Outstanding Claims Liability by Funds

Insurance Commission	Notes	Third Party Insurance Fund 2011 $'000	Third Party Insurance Fund 2010 $'000	Compensation (Industrial Diseases) Fund 2011 $'000	Compensation (Industrial Diseases) Fund 2010 $'000	Government Insurance Fund 2011 $'000	Government Insurance Fund 2010 $'000	Insurance Commission General Fund 2011 $'000	Insurance Commission General Fund 2010 $'000
The following are the liabilities for outstanding claims for each Fund:									
Central Estimate		**1,709,600**	1,539,350	**4,188**	4,964	**42,772**	47,292	**116,609**	116,444
Discount to Present Value		**(288,290)**	(251,960)	**(1,420)**	(1,612)	**(14,568)**	(16,161)	**(43,906)**	(42,907)
		1,421,310	1,287,390	**2,768**	3,352	**28,204**	31,131	**72,703**	73,537
Claims Management Expenses (discounted)		**56,850**	57,930	**970**	1,173	**2,774**	3,058	**5,207**	5,267
		1,478,160	1,345,320	**3,738**	4,525	**30,978**	34,189	**77,910**	78,804
Risk Margin		**103,470**	94,170	**543**	634	**7,265**	7,992	**12,345**	12,221
Gross Outstanding Claims Liability		**1,581,630**	1,439,490	**4,281**	5,159	**38,243**	42,181	**90,255**	91,025
Current	36	**392,060**	365,900	**401**	700	**3,952**	4,362	**9,815**	9,865
Non-Current	36	**1,189,570**	1,073,590	**3,880**	4,459	**34,291**	37,819	**80,440**	81,160
		1,581,630	1,439,490	**4,281**	5,159	**38,243**	42,181	**90,255**	91,025

The Insurance Commission General Fund includes the liabilities arising under the EISF Act (refer Note 14(b)) as follows:

	2011 $'000	2010 $'000
Central Estimate	**29,178**	32,705
Discount to present value	**(12,323)**	(13,506)
	16,855	19,199
Claims Management Expenses (discounted)	**739**	920
	17,594	20,119
Risk Margin	**3,476**	3,956
Gross Outstanding Claims Liability	**21,070**	24,075
Current	**2,069**	2,517
Non-Current	**19,001**	21,558
	21,070	24,075

14. OUTSTANDING CLAIMS LIABILITY (continued)

Compensation (Industrial Diseases) Fund

The liability includes an amount of $3.6 million (2010: $4.6 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 $0.8 million (2010: $1.1 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 6. This produces a net liability for asbestos mining-related claims of $2.8 million (2010: $3.5 million).

Insurance Commission General Fund - Workers' Compensation and Public Liability Insurance

The liability for outstanding claims applicable to classes of insurance conducted by the State Government Insurance Office prior to 1 January 1987 is settled through this Fund, which includes Wittenoom asbestos-related common law liability, as detailed below.

The above liability includes an amount of $45.4 million (2010: $46.9 million) representing the estimated liability, prior to future recoveries, for the Wittenoom asbestos-related common law claims. A recoverable amount of $23.7 million (2010: $24.5 million) is included in Reinsurance and Other Recoveries Receivable. Refer Note 6. This produces a net liability relating to the Wittenoom asbestos-related common law claims of $21.7 million (2010: $22.4 million).

Corporation - Inwards Reinsurance

	2011 $'000	2010 $'000
Central Estimate	**100**	790
Discount to present value	**(26)**	(215)
	74	575
Claims Management Expenses	**500**	914
	574	1,489
Risk Margin	**73**	254
Additional Precautionary Margin	**-**	130
Gross Outstanding Claims Liability	**647**	1,873
Current	**256**	521
Non-Current	**391**	1,352
	647	1,873

Refer Notes 31 and 32 for the methodologies and assumptions used to calculate Outstanding Claims Liability.

14. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability

Third Party Insurance Fund	Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010	1,439,490	97,187	1,342,303
Effect of Changes in Assumptions/Experience	141,220	30,010	111,210
Increase in Expected Claims Incurred/Recoveries During Year	407,870	26,310	381,560
Incurred Claims Recognised in the Statement of Comprehensive Income	549,090	56,320	492,770
Claim Payments/Recoveries During Year	(406,950)	(45,550)	(361,400)
Total Outstanding Claims Liability at 30 June 2011	**1,581,630**	**107,957**	**1,473,673**

Compensation (Industrial Diseases) Fund	Gross $'000	Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010	5,159	1,157	4,002
Effect of Changes in Assumptions/Experience	(828)	(560)	(268)
Increase in Expected Claims Incurred/Recoveries During Year	-	-	-
Incurred Claims Recognised in the Statement of Comprehensive Income	(828)	(560)	(268)
Claim Payments/Recoveries During Year	(50)	256	(306)
Total Outstanding Claims Liability at 30 June 2011	**4,281**	**853**	**3,428**

Government Insurance Fund **Workers' Compensation**		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		41,037	2,253	38,784
Effect of Changes in Assumptions/Experience		(665)	1,263	(1,928)
Decrease in Expected Claims Incurred/Recoveries During Year		(1,369)	(1,369)	-
Incurred Claims Recognised in the Statement of Comprehensive Income		(2,034)	(106)	(1,928)
Claim Payments/Recoveries During Year		(1,452)	(115)	(1,337)
Outstanding Claims Liability at 30 June 2011	**(i)**	**37,551**	**2,032**	**35,519**

Public Liability		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		1,144	575	569
Effect of Changes in Assumptions/Experience		(416)	(378)	(38)
Decrease in Expected Claims Incurred/Recoveries During Year		(27)	(14)	(13)
Incurred Claims Recognised in the Statement of Comprehensive Income		(443)	(392)	(51)
Claim Payments/Recoveries During Year		(9)	(3)	(6)
Outstanding Claims Liability at 30 June 2011	**(ii)**	**692**	**180**	**512**
Total Outstanding Claims Liability at 30 June 2011	**(i)+(ii)**	**38,243**	**2,212**	**36,031**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

Insurance Commission General Fund **Workers' Compensation**		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		64,568	25,989	38,579
Effect of Changes in Assumptions/Experience		7,294	1,655	5,639
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Statement of Comprehensive Income		7,294	1,655	5,639
Claim Payments/Recoveries During Year		(5,091)	(2,406)	(2,685)
Outstanding Claims Liability at 30 June 2011	**(iii)**	**66,771**	**25,238**	**41,533**

Public Liability		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		2,382	57	2,325
Effect of Changes in Assumptions/Experience		31	-	31
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Statement of Comprehensive Income		31	-	31
Claim Payments/Recoveries During Year		1	-	1
Outstanding Claims Liability at 30 June 2011	**(iv)**	**2,414**	**57**	**2,357**
Total Outstanding Claims Liability at 30 June 2011	**(iii)+(iv)**	**69,185**	**25,295**	**43,890**

EISF Act **Asbestos-Related Claims**		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		20,648	139	20,509
Effect of Changes in Assumptions/Experience		(1,785)	(12)	(1,773)
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Statement of Comprehensive Income		(1,785)	(12)	(1,773)
Claim Payments/Recoveries During Year		(193)	(1)	(192)
		18,670	126	18,544
Timing Difference		22	-	22
Removal of Claims Handling Costs		(875)	13	(888)
Outstanding Claims Liability at 30 June 2011	**(v)**	**17,817**	**139**	**17,678**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (continued)

EISF Act Non-Asbestos-Related Claims		Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010		4,674	32	4,642
Effect of Changes in Assumptions/Experience		(868)	(5)	(863)
Increase in Expected Claims Incurred/Recoveries During Year		-	-	-
Incurred Claims Recognised in the Statement of Comprehensive Income		(868)	(5)	(863)
Claim Payments/Recoveries During Year		(247)	(2)	(245)
		3,559	25	3,534
Timing Difference		8	-	8
Removal of Claims Handling Costs		(314)	4	(318)
Outstanding Claims Liability at 30 June 2011	**(vi)**	**3,253**	**29**	**3,224**
EISF Act Total Outstanding Claims Liability at 30 June 2011	**(v)+(vi)**	**21,070**	**168**	**20,902**
ICGF Total Outstanding Claims Liability	**(iii)+(iv)+(v)+(vi)**	**90,255**	**25,463**	**64,792**

Corporation Inwards Reinsurance	Gross $'000	Reinsurance and Other Recoveries $'000	Net $'000
Outstanding Claims Liability at 1 July 2010	1,873	7	1,866
Effect of Changes in Assumptions/Experience	(528)	-	(528)
Decrease in Expected Claims Incurred/Recoveries During Year	(316)	-	(316)
Incurred Claims Recognised in the Statement of Comprehensive Income	(844)	-	(844)
Claim Payments/Recoveries During Year	(382)	-	(382)
Total Outstanding Claims Liability at 30 June 2011	**647**	**7**	**640**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables

Third Party Insurance Fund

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent years:

Gross Claims Development Table

Accident Year Estimated Ultimate Gross Claims Cost:	**2002** **$'000**	**2003** **$'000**	**2004** **$'000**	**2005** **$'000**	**2006** **$'000**	**2007** **$'000**	**2008** **$'000**	**2009** **$'000**	**2010** **$'000**	**2011** **$'000**	**Total** **$'000**
At End of Crash Year	330,267	329,489	349,864	364,043	359,544	391,336	423,400	402,900	404,768	465,178	
One Year Later	298,977	338,860	331,040	341,742	374,159	410,204	368,186	393,621	419,377		
Two Years Later	300,390	314,117	322,762	347,210	370,038	363,308	359,445	421,265			
Three Years Later	294,932	312,198	342,168	343,604	334,609	350,606	365,301				
Four Years Later	329,095	322,713	328,902	320,029	338,250	352,575					
Five Years Later	324,637	328,712	319,187	322,123	343,669						
Six Years Later	346,245	325,750	316,993	342,827							
Seven Years Later	343,513	334,969	316,918								
Eight Years Later	349,148	338,584									
Nine Years Later	351,752										
Current Estimate of Cumulative Claims Costs	351,752	338,584	316,918	342,827	343,669	352,575	365,301	421,265	419,377	465,178	3,717,446
Cumulative Payments	(301,998)	(294,463)	(276,906)	(265,098)	(265,493)	(258,100)	(203,765)	(177,900)	(94,681)	(55,210)	(2,193,614)
Outstanding Claims Undiscounted	49,754	44,121	40,012	77,729	78,176	94,475	161,536	243,365	324,696	409,968	1,523,832

Discount (on Crash Years 2002 and Later)	(256,235)
Claims Management Expenses (on Crash Years 2002 and Later)	52,778
Claims 2001 and Prior (Discounted)	156,898
Third Party Recoveries (Gross Amounts in Table are Net of Third Party Recoveries)	886
Risk Margin	103,471
Gross Outstanding Claims per Funds' Statement of Financial Position (Refer Note 36)	**1,581,630**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Third Party Insurance Fund

Net Claims Development Table

Accident Year Estimated Ultimate Net Claims Cost:	**2002** **$'000**	**2003** **$'000**	**2004** **$'000**	**2005** **$'000**	**2006** **$'000**	**2007** **$'000**	**2008** **$'000**	**2009** **$'000**	**2010** **$'000**	**2011** **$'000**	**Total** **$'000**
At End of Crash Year	301,463	300,671	325,605	342,610	338,380	362,816	397,688	378,224	379,914	435,494	
One Year Later	272,774	309,094	299,805	321,549	351,424	379,697	345,460	369,279	392,496		
Two Years Later	273,872	277,967	289,521	326,070	347,536	336,200	336,995	394,266			
Three Years Later	268,651	273,614	310,245	322,653	314,274	324,755	341,841				
Four Years Later	298,065	286,954	306,377	300,429	317,674	326,296					
Five Years Later	295,270	285,292	297,083	302,380	322,516						
Six Years Later	315,159	283,695	295,077	321,587							
Seven Years Later	312,621	292,270	294,848								
Eight Years Later	317,769	291,016									
Nine Years Later	319,904										
Current Estimate of Cumulative Claims Costs	319,904	291,016	294,848	321,587	322,516	326,296	341,841	394,266	392,496	435,494	3,440,264
Cumulative Payments	(274,673)	(264,546)	(257,622)	(248,669)	(249,178)	(242,078)	(190,644)	(166,478)	(88,583)	(51,766)	(2,034,237)
Outstanding Claims Undiscounted	45,231	26,470	37,226	72,918	73,338	84,218	151,197	227,788	303,913	383,728	1,406,027

Discount (on Crash Years 2002 and Later)	(232,260)
Claims Management Expenses (on Crash Years 2002 and Later)	49,491
Claims 2001 and Prior (Discounted)	154,006
Risk Margin	96,409
Total Outstanding Claims Net of Reinsurance and Other Recoveries	**1,473,673**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Compensation (Industrial Diseases) Fund

The long-term nature of the expected term to settlement of these claims, results in claims costs developing many years after the initial policy period. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the table below lists developing claim costs over the past five years.

		Gross	Net
Estimated Ultimate Claims Cost at 30 June:		$'000	$'000
	2007	34,263	23,179
	2008	33,278	22,714
	2009	32,395	22,391
	2010	32,319	22,167
	2011	31,593	21,841
Current Estimate of Cumulative Claims Costs		31,593	21,841
Cumulative Payments		(27,405)	(18,954)
Outstanding Claims Undiscounted		4,188	2,887
Discount		(1,420)	(962)
Claims Management Expenses		969	963
Risk Margin		543	540
Outstanding Claims per Funds' Statement of Financial Position (Refer Note 36)		**4,280**	**3,428**

Government Insurance Fund

This Fund has now closed and has been in run-off since 1 July 1996. The long-term nature of the expected term to settlement of these claims is also due to the latency period associated with asbestos-related diseases and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the tables below list developing claim costs over the past five years. There are no remaining claims against the fund other than for Workers' Compensation and Liability insurance.

Workers' Compensation

		Gross	Net
Estimated Ultimate Claims Cost at 30 June:		$'000	$'000
	2007	995,788	920,850
	2008	989,930	914,927
	2009	988,250	913,015
	2010	989,947	911,885
	2011	987,311	909,458
Current Estimate of Cumulative Claims Costs		987,311	909,458
Cumulative Payments		(945,206)	(870,305)
Outstanding Claims Undiscounted		42,105	39,153
Discount		(14,460)	(13,454)
Claims Management Expenses		2,740	2,716
Risk Margin		7,166	7,104
Workers' Compensation Outstanding Claims		**37,551**	**35,519**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Public Liability

Estimated Ultimate Claims Cost at 30 June:			Gross $'000	Net $'000
	2007		21,798	15,513
	2008		20,537	15,279
	2009		21,220	15,910
	2010		21,156	14,863
	2011		20,733	14,839
Current Estimate of Cumulative Claims Costs			20,733	14,839
Cumulative Payments			(20,066)	(14,357)
Outstanding Claims Undiscounted			667	482
Discount			(108)	(78)
Claims Management Expenses			34	34
Risk Margin			99	74
Public Liability Outstanding Claims			**692**	**512**
Total GIF Outstanding Claims per Funds' Statement of Financial Position (Refer Note 36)			**38,243**	**36,031**

<u>Insurance Commission General Fund</u>

This fund is responsible for the administration of two claim portfolios:

- Run-off claims for Workers' Compensation and Public Liability claims prior to 1 January 1986; and
- Workers' Compensation claims to be settled in accordance with the EISF Act specifically relating to the HIH Insurance Group and other failed insurers.

Run-off Claims

The long-term nature of the expected term to settlement of these claims is due to the latency period associated with asbestos-related diseases and the nature of public liability insurance. In view of this, it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the tables below list developing claim costs over the past five years.

The claims in run-off include an immaterial number of, and values for, potential Public Liability claims reported as a single class of insurance.

Workers' Compensation

Estimated Ultimate Claims Cost at 30 June:			Gross $'000	Net $'000
	2007		560,822	438,905
	2008		557,402	433,261
	2009		552,671	433,902
	2010		566,663	437,906
	2011		576,760	446,442
Current Estimate of Cumulative Claims Costs			576,760	446,442
Cumulative Payments			(492,081)	(401,251)
Outstanding Claims Undiscounted			84,679	45,191
Discount			(30,619)	(16,247)
Claims Management Expenses			4,325	4,283
Risk Margin			8,386	8,307
Workers' Compensation Outstanding Claims		**(i)**	**66,771**	**41,534**

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Public Liability

Estimated Ultimate Claims Cost at 30 June:			Gross $'000	Net $'000
	2007		4,169	4,097
	2008		4,224	4,151
	2009		3,897	3,852
	2010		5,493	5,429
	2011		5,563	5,498
Current Estimate of Cumulative Claims Costs			5,563	5,498
Cumulative Payments			(2,811)	(2,811)
Outstanding Claims Undiscounted			2,752	2,687
Discount			(964)	(943)
Claims Management Expenses			143	142
Risk Margin			483	471
Public Liability Outstanding Claims		**(ii)**	**2,414**	**2,357**
Total Workers' Compensation and Public Liability Outstanding Claims		**(i)+(ii)**	**69,185**	**43,891**
EISF Act Asbestos-Related Claims			17,817	17,678
EISF Act Non-Asbestos-Related Claims			3,253	3,224
Total ICGF Outstanding Claims per Funds' Statement of Financial Position (Refer Note 36)			**90,255**	**64,793**

A claim development table has not been produced for the EISF Act asbestos-related disease claims as:

- all claims are for events occurring more than ten years ago; and
- this asbestos-related disease liability has only been separately assessed since 30 June 2004 and there have been significant data difficulties which have caused the ultimate expected claims cost to vary quite dramatically.

A claim development table for EISF Act non-asbestos-related disease claims is not shown as the limit of the actuarial data claim calculation has been reached and data is now aggregated from all prior accident years.

14. OUTSTANDING CLAIMS LIABILITY (continued)

(g) Claims Development Tables (continued)

Corporation - Inwards Reinsurance

The Corporation has ceased writing insurance business and has been in run-off since August 1992. The long-term nature of the expected term to settlement of these claims is also due to the latency period associated with reinsurance claims and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently, the table below lists developing claim costs over the past five years.

Estimated Ultimate Claims Cost at 30 June:		Gross $'000	Net $'000
	2007	39,503	28,277
	2008	39,155	28,091
	2009	38,824	27,835
	2010	38,731	27,742
	2011	38,494	27,505
Current Estimate of Cumulative Claims Costs		38,494	27,505
Cumulative Payments		(38,394)	(27,417)
Outstanding Claims Undiscounted		100	88
Discount		(26)	(21)
Claims Management Expenses		500	500
Risk Margin*		73	73
Total Corporation Outstanding Claims Liability		**647**	**640**

* Prior to 2011, an additional precautionary margin had also been added for the Australian Casualty Proportional segment of the portfolio which has historically shown significant volatility. Due to the commutation of the related contracts in 2011, this precautionary margin is no longer required.

15. UNEARNED PREMIUM LIABILITY

Current Year	CONSOLIDATED 2011 ($'000) Third Party Insurance Fund	Compensation (Industrial Diseases) Fund	Total
Unearned Premium Liability at Start of the Year	(173,808)	(119)	**(173,927)**
Deferral of Premiums on Contracts Written in the Period	(184,442)	-	**(184,442)**
Earning of Premiums Written in Previous Periods	173,808	39	**173,847**
Unearned Premium Liability at End of the Year	**(184,442)**	**(80)**	**(184,522)**

Prior Year	CONSOLIDATED 2010 ($'000) Third Party Insurance Fund	Compensation (Industrial Diseases) Fund	Total
Unearned Premium Liability at Start of the Year	(162,085)	-	(162,085)
Deferral of Premiums on Contracts Written in the Period	(173,808)	(119)	(173,927)
Earning of Premiums Written in Previous Periods	162,085	-	162,085
Unearned Premium Liability at End of the Year	(173,808)	(119)	(173,927)

The Compensation (Industrial Diseases) Fund issued policies on 1 July 2009 covering a three-year period.

Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation.

16. UNEXPIRED RISK LIABILITY

	Notes	Third Party Insurance Fund 2011 $'000	2010 $'000	Compensation (Industrial Diseases) Fund 2011 $'000	2010 $'000
Unexpired Risk Liability					
Unexpired Risk Liability at Start of the Year		**-**	-	-	-
Recognition of Additional Unexpired Risk Liability in the Period		**-**	-	-	-
Release of Unexpired Risk Liability Recorded in Previous Periods		**-**	-	-	-
Unexpired Risk Liability at End of the Year		**-**	-	-	-
Movement in Deficiency Recognised in the Statement of Comprehensive Income					
Gross Decrease in Unexpired Risk Liability		**-**	-	-	-
Decrease in Reinsurance and Other Recoveries on Unexpired Risk Liability		**-**	-	-	-
Net Movement in Unexpired Risk	**(i)**	**-**	-	-	-
Write-down of Deferred Acquisition Costs	**11**	**3,132**	-	**-**	-
Total Deficiency Recognised in the Statement of Comprehensive Income		**3,132**	**-**	**-**	**-**
Unearned Premium Liability Adequacy Test					
Unearned Premium Liability		**184,442**	173,808	**80**	119
Related Deferred Acquisition Costs		**(4,674)**	(4,488)	**-**	-
		179,768	169,320	**80**	119
Central Estimate of Present Value of Expected Future Cash Flows arising from Future Claims		**180,000**	153,000	**28**	55
Risk Margin		**16,400**	13,900	**8**	15
Present Value of Expected Future Cash Inflows Arising from Reinsurance and Other Recoveries on Future Claims		**(13,500)**	(11,500)	**-**	-
		182,900	155,400	**36**	70
Net (Deficiency)/Surplus		**(3,132)**	13,920	**44**	49
Less: Reinsurance Element of Present Value of Expected Future Cash Flows for Future Claims		**(13,500)**	(11,500)	**-**	-
Gross (Deficiency)/Surplus		**(16,632)**	2,420	**44**	49

Liability Adequacy Tests were performed for the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund.

The Third Party Insurance Fund demonstrated a net deficiency (2010: Net Surplus) which resulted in a write-down of Deferred Acquisition Costs which was sufficient to not require an Unexpired Risk Liability (2010: $Nil). The Compensation (Industrial Diseases) Fund demonstrated a net surplus which resulted in a $Nil Unexpired Risk Liability (2010: $Nil).

The Unexpired Risk Liability is not aggregated due to the different nature of the Third Party Insurance Fund and the Compensation (Industrial Diseases) Fund portfolios.

An Unexpired Risk Liability can only occur in those Funds which carry an Unearned Premium Liability at the end of the reporting period. Unearned Premium Liability is not applicable to the Government Insurance Fund, the Insurance Commission General Fund or the Corporation as the Funds are in run-off and not renewing premiums.

(i) The Net Movement in Unexpired Risk represents the gross movement in the Unexpired Risk Liability less any related Reinsurance and Other Recoveries.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. PROVISIONS

		CONSOLIDATED		INSURANCE COMMISSION	
	Notes	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Employee Benefits	18	**4,193**	4,551	**4,193**	4,551
On-Costs Relating to Employee Benefits	(i)	**222**	237	**222**	237
Investments		**1,374**	1,589	**1,374**	1,589
Sundry		**102**	90	**102**	90
		5,891	6,467	**5,891**	6,467
Non-Current					
Employee Benefits	18	**9,927**	10,888	**9,927**	10,888
On-Costs Relating to Employee Benefits	(i)	**146**	177	**146**	177
		10,073	11,065	**10,073**	11,065

(i) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation, payroll tax and workers' compensation premiums. The liability for such on-costs is included here. The associated expense is included under Employee Benefits (within Underwriting and Administration Expenses). Refer Note 3.

18. EMPLOYEE BENEFIT LIABILITIES

		CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Current					
Provisions					
Annual Leave		**2,234**	2,388	**2,234**	2,388
Long Service Leave		**890**	1,069	**890**	1,069
Superannuation Contributions	18(h)	**1,069**	1,094	**1,069**	1,094
	17	**4,193**	4,551	**4,193**	4,551
Payables					
Accrued Salaries		**452**	347	**452**	347
Accrued Payroll Tax		**25**	19	**25**	19
Accrued Superannuation:					
Gold State – West State – GESB Super		**33**	23	**33**	23
	13	**510**	389	**510**	389
Total Current		**4,703**	4,940	**4,703**	4,940
Non-Current					
Provisions					
Long Service Leave		**2,059**	2,576	**2,059**	2,576
Superannuation Contributions		**7,868**	8,312	**7,868**	8,312
Total Non-Current	17	**9,927**	10,888	**9,927**	10,888
Total Employee Benefit Liabilities		**14,630**	15,828	**14,630**	15,828

As explained in Note 1(hh), the amounts for Non-Current Long Service Leave and superannuation are measured at their present values. The following assumptions were adopted in measuring present values:

	CONSOLIDATED 2011	CONSOLIDATED 2010	INSURANCE COMMISSION 2011	INSURANCE COMMISSION 2010
Long Service Leave				
Weighted Average Rates of Increase in Annual Employee Benefits (%)	**4.4**	4.2	**4.4**	4.2
Weighted Average Discount Rates (%)	**4.8**	4.6	**4.8**	4.6
Weighted Average Expected Term to Settlement	**4 yrs 11 mths**	5 yrs 1 mth	**4 yrs 11 mths**	5 yrs 1 mth

18. EMPLOYEE BENEFIT LIABILITIES (continued)

Superannuation: Pension Scheme

Scheme Information

Pension Scheme members receive pension benefits on retirement, death or invalidity. The Fund share of the pension benefit, which is based on the member's contributions plus investment earnings, may be commuted to a lump sum benefit. The Insurance Commission does not bear the cost associated with indexation of any pension arising from the Fund share. The Government of Western Australia share of the pension benefit, which is fully employer-financed, cannot be commuted to a lump sum benefit.

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit the members receive a lump sum benefit on retirement, death or invalidity which is related to their salary during their employment and indexed during their employment and during any deferral period after leaving public sector employment.

The following disclosures are in respect of the employer-financed benefits only.

Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income in the year in which they occur.

(a) Reconciliation of the Present Value of Defined Benefit Obligations

	Pension Scheme		Pre-transfer Gold State	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Present Value of Defined Benefit Obligations at Start of the Year	**5,605**	5,907	**3,801**	4,400
Interest Cost	**290**	298	**197**	223
Actuarial (Gains)/Losses	**210**	78	**(105)**	(263)
Benefits Paid	**(669)**	(678)	**(392)**	(559)
Present Value of Defined Benefit Obligations at End of the Year	**5,436**	5,605	**3,501**	3,801

These defined benefit obligations are wholly unfunded, such that there are no Assets. The employer contributes, as required, to meet the benefits paid.

(b) Reconciliation of the Fair Value of Scheme Assets

Fair Value of Scheme Assets at Start of the Year	**-**	-	**-**	-
Employer Contributions	**669**	678	**392**	559
Benefits Paid	**(669)**	(678)	**(392)**	(559)
Fair Value of Scheme Assets at End of the Year	**-**	-	**-**	-

(c) Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position

Defined Benefit Obligations	**5,436**	5,605	**3,501**	3,801
Fair Value Assets	**-**	-	**-**	-
Deficit	**5,436**	5,605	**3,501**	3,801
Unrecognised Past Service Cost	**-**	-	**-**	-
Liability	**5,436**	5,605	**3,501**	3,801

(d) Expense Recognised in Statement of Comprehensive Income

Interest cost	**290**	298	**197**	223
Actuarial (Gains)/Losses	**210**	78	**(105)**	(263)
Superannuation Expense	**500**	376	**92**	(40)

18. EMPLOYEE BENEFIT LIABILITIES (continued)

(e) Scheme Assets

There are no assets in the Pension Scheme to support the Government of Western Australia share of the benefit and no assets in the Pension Scheme to support the transferred benefits. Hence, there is:

- No fair value of Scheme assets
- No asset allocation of Scheme assets
- No assets used by the employer
- No expected return of Scheme assets
- No actual return on Scheme assets

(f) Historical Information

	Pension Scheme		Pre-transfer Gold State	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Present Value of Defined Benefit Obligation	**5,436**	5,605	**3,501**	3,801
Fair value of Scheme Assets	**-**	-	**-**	-
Deficit in Scheme	**5,436**	5,605	**3,501**	3,801
Experience Adjustments Loss/(Gain) - Scheme Liabilities	**136**	(62)	**(149)**	(229)

The experience adjustment for Scheme liabilities represents the actuarial loss due to a change in the liabilities arising from the Scheme's experience (e.g. membership movements, unit entitlements) and excludes the effect of the changes in assumptions (e.g. movements in the bond rate and changes in pensioner mortality assumptions).

(g) Principal Actuarial Assumptions Used

	2011	**2010**	**2009**
Discount Rate (Active Members)	**5.28%**	5.48%	5.34%
Discount Rate (Pensioners)	**5.28%**	5.48%	5.34%
Expected Salary Increase Rate	**4.50%**	4.50%	4.50%
Expected Pension Increase Rate	**2.50%**	2.50%	2.50%

The discount rate is based on the 10-year Government Bond rate at the relevant date. The decrement rates used (e.g. mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

(h) Expected Contributions

Expected employer contributions for the year ended 30 June 2012:	**$'000**
Pension Scheme	671
Pre-transfer Gold State	398
	1,069

19. CONTINGENT ASSETS AND LIABILITIES

Bell Recovery Action

The Insurance Commission has agreed to fund the costs of the Liquidators of the Bell Group in the Liquidators' action against a syndicate of banks. Contingent upon the outcome of this litigation, the Insurance Commission is likely at a future time to either realise an asset or incur a liability.

In April 2009, the Liquidators were successful in obtaining Judgment in the Supreme Court of Western Australia requiring the Banks to repay in excess of $1.6 billion. The Judgment is the subject of appeal processes. A contingent asset may arise for the amount which the Insurance Commission will receive from the Liquidators, if the recovery action against the syndicate of banks is upheld after all rights of appeal are exhausted.

A contingent liability may arise for the Insurance Commission's share of any amounts required to be paid in respect of costs ordered by the Court, in the event that the Banks' appeals are successful. To mitigate the level of funding of the Liquidators, an insurance cover program was put in place in relation to some of the exposure to this contingent liability. The Insurance Commission continues to monitor, and where considered appropriate, modify the insurance program in respect of exposure to the funding of the litigation.

Because the eventual Court outcome and the amounts of any resulting contingent asset or liability are subject to inherent uncertainty, it is not practical to estimate the potential financial effect upon the Insurance Commission at the end of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. NOTES TO THE STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	INSURANCE COMMISSION 2011 $'000	INSURANCE COMMISSION 2010 $'000
Reconciliation of Profit after Income Tax Equivalent Expense to Net Cash Flow from Operating Activities:					
Profit after Income Tax Equivalent Expense		**42,749**	126,850	**42,749**	126,850
Non-Cash Items					
Depreciation and Amortisation		**12,732**	12,175	**12,732**	12,175
Impairment of Intangible Assets		**469**	-	**469**	-
Impairment of Receivables (Reduction)/Increase		**(186)**	15	**(186)**	20
Foreign Exchange Loss/(Gain): Investments		**5,815**	(4,578)	**5,815**	(4,578)
Increase in Fair Value of Investments		**(96,315)**	(107,421)	**(96,315)**	(107,421)
Indemnity for Corporation's Net Liabilities		**-**	-	**(1,098)**	(283)
Other		**81**	88	**81**	88
Amounts Recognised Directly in Equity					
Provision for Deferred Income Tax on Asset Revaluation		**(4,630)**	(681)	**(4,630)**	(681)
Transfer from Asset Revaluation Surplus		**-**	(17)	**-**	(17)
Decrease/(Increase) in Assets					
Current Receivables		**(1,256)**	2,059	**(1,255)**	2,059
Current Tax Receivable		**(949)**	2,781	**(949)**	2,781
Current Deferred Acquisition Costs		**2,946**	(558)	**2,946**	(558)
Other Current Assets		**997**	(2,300)	**997**	(2,300)
Non-Current Receivables		**6,332**	(453)	**(12,120)**	(453)
Other Non-Current Assets		**(771)**	55	**(771)**	55
Non-Current Deferred Tax Assets		**124**	(82)	**-**	-
Increase/(Decrease) in Liabilities					
Current Payables		**12,126**	(2,732)	**11,608**	(2,618)
Current Tax Payable		**-**	-	**-**	-
Current Outstanding Claims Liability		**25,136**	2,200	**25,401**	2,204
Current Unearned Premium Liability		**10,595**	11,842	**10,595**	11,842
Current Unexpired Risk Liability		**-**	-	**-**	-
Current Provisions		**(361)**	404	**(361)**	404
Current Other Liabilities		**1,107**	(3,190)	**1,107**	(3,190)
Non-Current Outstanding Claims Liability		**110,191**	32,279	**111,152**	32,259
Non-Current Provisions		**(992)**	(293)	**(992)**	(293)
Non-Current Deferred Tax Liabilities		**10,836**	27,752	**10,836**	27,752
Net Cash Flow from Operating Activities		**118,325**	96,182	**99,360**	96,084
Reconciliation of Cash					
Cash and Cash Equivalents 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 and Bank Balances		**-**	1,934	**-**	-
Bank Overdraft		**(6,796)**	-	**(28,911)**	(1,216)
Financial Assets at Fair Value through Profit or Loss	7	**274,597**	255,888	**274,597**	255,888
	(i)	**267,801**	257,822	**245,686**	254,672

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

21. 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 Insurance 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 Insurance Commission's investment strategy.

Derivatives are not utilised in a speculative manner, nor are Investment Managers permitted to leverage the investment portfolio. Derivative instruments are used to economically hedge or minimise risk incurred. 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 the end of the reporting period, all of the Insurance 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 generally 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. The Insurance Commission has appointed an Investment Manager to enter into forward foreign exchange contracts to manage the currency risk associated with overseas equity portfolio exposure. The economic level of the currency hedge varies between 0% and 100% depending on the nature of the underlying equity portfolio.

(b) Futures

	CONSOLIDATED 2011 $'000	2010 $'000
At the end of the reporting period, the details of outstanding contracts are:		
Up to 1 year		
Interest Rate Futures		
Notional Principal Amount of Asset	**(3)**	-
Weighted Average Price	**-**	-
Equity Futures		
Notional Principal Amount of Asset	**7,130**	18,216

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 the end of the reporting period, the Insurance Commission could effectively replace the futures with cash holdings. The Notional Principal Amounts shown above are not considered to be materially different to their Fair Value.

All Futures are held within the Insurance Commission General Fund of the Insurance Commission.

(c) Forward Foreign Exchange Contracts

CONSOLIDATED

	Assets 2011 $'000	Liabilities 2011 $'000	Notional Amount 2011 $'000	Assets 2010 $'000	Liabilities 2010 $'000	Notional Amount 2010 $'000
Up to 3 months	**98,424**	**(96,846)**	**98,419**	324,915	(334,641)	324,680
3 to 12 months	**1,016**	**(1,004)**	**984**	1,929	(1,953)	1,879
Total	**99,440**	**(97,850)**	**99,403**	326,844	(336,594)	326,559

The above contracts are marked to market by comparing the contractual rate to the current market rate for a contract with the same remaining period to maturity. Any unrealised gain or loss is taken to the Statement of Comprehensive Income immediately. At the end of the reporting period, a net unrealised gain on these contracts amounted to $1.59 million (2010: loss of $9.75 million). Refer Note 7.

All Forward Foreign Exchange Contracts are held within the Insurance Commission General Fund of the Insurance Commission.

22. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

Capital expenditure commitments, being contracted capital expenditure additional to the amounts reported in the financial statements, are payable as follows:

	CONSOLIDATED		INSURANCE COMMISSION	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Not Later than One Year:				
- Investment Property	**1,244**	3,015	**1,244**	3,015
- Property under Construction/Development	**-**	39,934	**-**	39,934
- Other Property	**4,941**	1,257	**4,941**	1,257
	6,185	44,206	**6,185**	44,206
Between One and Five Years:				
- Other Property	**239**	-	**239**	-
Total Capital Expenditure Commitments	**6,424**	44,206	**6,424**	44,206

(b) Road Safety Commitments

$3.8 million has been budgeted to provide funding for Road Safety Community Education programs for the 2012 financial year.

(c) Medical Research

In 2011, the Board committed to provide funding of $1.1 million between 1 July 2010 and 30 June 2013 to the Foundation for Advanced Medical Research and The University of Western Australia to undertake the 'Markers of Mesothelioma' medical research project.

(d) Other Commitments

$9.0 million has been budgeted in relation to funding the Liquidators' prosecution of the Bell Group recovery action during the 2012 financial year.

In 2008, the Board committed to invest $36.0 million in an unlisted property trust. At 30 June 2011, $22.9 million of this commitment remained.

23. EXPLANATORY STATEMENT – INSURANCE COMMISSION

	Notes	ACTUAL 2011 $'000	BUDGET 2011 $'000	ACTUAL 2010 $'000	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2011 TO BUDGET 2011 $'000	%	ACTUAL 2010 $'000	%
Premium Revenue	2	430,239	421,257	409,600	8,982	2.1	20,639	5.0
Outwards Reinsurance Premium Expense	3	(5,110)	(4,400)	(4,546)	(710)	(16.1)	(564)	(12.4)
Outwards Reinsurance Commission Revenue	2	498	110	449	388	352.7	49	10.9
Net Premium Revenue		425,627	416,967	405,503	8,660	2.1	20,124	5.0
Claims Expense	3	(528,912)	(448,900)	(413,761)	(80,012)	(17.8)	(115,151)	(27.8)
Reinsurance and Other Recoveries Revenue	2	11,497	3,936	12,512	7,561	192.1	(1,015)	(8.1)
Net Claims Incurred	4	(517,415)	(444,964)	(401,249)	(72,451)	(16.3)	(116,166)	(29.0)
Acquisition Costs	3	(18,498)	(14,100)	(13,566)	(4,398)	(31.2)	(4,932)	(36.4)
Other Underwriting and Administration Expenses	3	(78,433)	(74,041)	(69,560)	(4,392)	(5.9)	(8,873)	(12.8)
UNDERWRITING LOSS		(188,719)	(116,138)	(78,872)	(72,581)	(62.5)	(109,847)	(139.3)
Investment Income including Movements in Fair Value	2	256,473	158,811	249,736	97,662	61.5	6,737	2.7
Investment Expenses	3	(24,271)	(43,309)	(21,960)	19,038	44.0	(2,311)	(10.5)
Finance Costs	3	(38,822)	(21,468)	(36,556)	(17,354)	(80.8)	(2,266)	(6.2)
Other Income	2	60,106	60,488	56,538	(382)	(0.6)	3,568	6.3
Other Expenses	3	(16,103)	(18,358)	(15,550)	2,255	12.3	(553)	(3.6)
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE		48,664	20,026	153,336	28,638	143.0	(104,672)	(68.3)

23. EXPLANATORY STATEMENT – INSURANCE COMMISSION (continued)

COMPARISON OF 2011 ACTUAL RESULTS TO 2011 BUDGET AND 2010 ACTUAL

Profit before Income Tax Equivalent Expense

The Profit before Income Tax Equivalent Expense for the Insurance Commission of $48.6 million is $28.6 million better than the budgeted Profit of $20.0 million. The Profit before Income Tax Equivalent Expense was $104.7 million worse than last year's Profit of $153.3 million. The analysis below highlights the key variances.

Claims Expense

Claims expense for the Insurance Commission of $528.9 million is $80.0 million (17.8%) worse than the budget of $448.9 million. This is primarily due to an increase in the outstanding claims for the Third Party Insurance Fund of $83.4 million (141.9%). This was offset by claim payments being $4.1 million (1.0%) better than budget. Claims expense for the Insurance Commission is $115.2 million (27.8%) worse than last year, again predominantly due to an increase in the outstanding claims of $105.6 million (288.6%) and increased claim payments of $19.5 million (5.4%) in the Third Party Insurance Fund.

The larger than expected increase in outstanding claims at 30 June 2011 was determined following actuarial review of the Commission's claims liabilities and is due primarily to a reduction in forecast investment returns, based on an annual risk-free forward rate of return for Australian Government Bonds, and an increase in average weekly earnings (AWE) inflation estimates due to a revision in the estimate of past AWE inflation rates for the 6-month period to 30 June 2011.

Reinsurance and Other Recoveries

Reinsurance and other recoveries revenue is $7.6 million (192.1%) better than budget. This result has been primarily affected by a positive movement in projected recoveries as a result the flow-on effect from an increase in outstanding claims.

Investment Income including Movements in Fair Value

The Investment Income of $256.5 million was $97.7 million (61.5%) better than the budgeted Investment Income of $158.8 million and $6.8 million (2.7%) better than last year's Investment Income of $249.7 million.

The gross Investment Income Rate of return for 2011 was 9.7%, significantly better than target as financial markets continued to move higher. All asset class returns were better than target (Australian Shares 8.9% versus target 6.5%, Global Shares 13.2% versus target 7.2%, Australian Fixed Interest 5.7% versus target 5.4%, Global Fixed Interest 10.2% versus target 6.0%, Alternative Assets 9.0% versus target 8.0%, Property 11.8% versus target 2.5%, Cash 6.0% versus target 5.0%). This pleasing outcome masks the ongoing volatility of financial markets experienced during 2011.

Investment Expenses

Investment expenses of $24.3 million is $19.0 million (44.0%) better than the budget of $43.3 million. Investment Expenses were lower than expected due to a delay in the timing of the new commercial property development (167 St George's Terrace) being tenanted.

Finance Costs

As a result of the Insurance Commission's higher than expected investment return for 2011, the RiskCover Fund received an investment return of $38.8 million which was $17.3 million better than budget of $21.5 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

24. PROPERTY LEASE INCOME

	CONSOLIDATED		INSURANCE COMMISSION	
	2011	**2010**	**2011**	**2010**
Less than 1 Year	**53,171**	42,546	**53,171**	42,546
1 - 5 Years	**191,278**	140,333	**191,278**	140,333
Greater than 5 Years	**168,631**	125,884	**168,631**	125,884
	413,080	308,763	**413,080**	308,763

The above amounts represent future minimum lease payments receivable under non-cancellable operating leases.

This note shows future minimum lease payments receivable under non-cancellable operating leases for properties owned by the Insurance Commission. The Insurance Commission has numerous operating leases with tenants for its shopping centres and central business district office properties. The average term for commercial leases is 8 to 9 years and the average term for retail leases is 6 to 7 years.

25. ECONOMIC DEPENDENCY

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

DoT is responsible, under the *Motor Vehicle (Third Party Insurance) Act 1943*, for issuing the Insurance Commission's Third Party insurance policies, collecting premiums in relation to those policies and remitting premiums to the Insurance Commission.

Total Premium Revenue recognised for the Third Party Insurance Fund during the 2011 financial year was $430.2 million (2010: $409.5 million), representing virtually all of the Insurance Commission's premium revenue.

26. REMUNERATION OF THE BOARD OF COMMISSIONERS AND OTHER KEY MANAGEMENT PERSONNEL

	CONSOLIDATED 2011 $	2010 $
Total fees, salaries and fringe benefits (short-term benefits) received or due and receivable for the financial year by:		
- Board of Commissioners (Board)	**694,796**	658,913
- Other Key Management Personnel	**2,176,361**	1,807,400
	2,871,157	2,466,313
Total employer's contributions to superannuation (long-term benefits) received or due and receivable for the financial year by:		
- Board of Commissioners (Board)	**66,554**	65,775
- Other Key Management Personnel	**206,400**	181,412
	272,954	247,187
	3,144,111	2,713,500

These above amounts are based on a total employment cost incorporating fees, salaries, employer's contributions to superannuation and fringe benefits.

The Board consists of six non-executive Commissioners and the Managing Director:

- Michael E Wright	Chairman
- Peter D Eastwood	Deputy Chairman
- Sharon Brown	Commissioner
- Annemie McAuliffe	Commissioner
- Doug Pascoe	Commissioner
- Judy McGowan	Commissioner
- Vic Evans	Commissioner/Managing Director

The number of Members of the Board whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of $10,000 are as follows:

Income Band ($)	No. of Members of the Board 2011	2010
40,001 - 50,000	**4**	4
50,001 - 60,000	**-**	-
60,001 - 70,000	**1**	1
130,001 - 140,000	**1**	1
360,001 - 370,000	**-**	1
400,001 - 410,000	**1**	-

The Other Key Management Personnel of the Insurance Commission consist of:

- Ken McAullay	General Manager Corporate Services
- Lew Watts	General Manager Insurance
- Fab Zanuttigh	Manager Motor Vehicle Personal Injury
- Don Williams	Manager RiskCover
- Jim Milligan	Manager Special Investigations
- Glenn Myers	Chief Information Officer (Commenced 23 August 2010)
- Grant Speight	Manager Human Resources
- Julie O'Neill	Manager Investments
- Ernie Cowell	Manager Finance and Administration (Chief Finance Officer)
- Bruce Meredith	Legal Practitioner Director (Commenced 16 March 2011)
- Peter Amos	Manager Information Technology (Retired 8 June 2011)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. REMUNERATION OF THE BOARD OF COMMISSIONERS AND OTHER KEY MANAGEMENT PERSONNEL (continued)

The number of Key Management Personnel (excluding members of the Board) whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of $10,000 are as follows:

Income Band ($)	No. of Other Key Management Personnel	
	2011	**2010**
50,001 - 60,000	**1**	-
180,001 - 190,000	**1**	2
190,001 - 200,000	**-**	-
200,001 - 210,000	**1**	1
210,001 - 220,000	**1**	1
220,001 - 230,000	**2**	3
230,001 - 240,000	**-**	-
240,001 - 250,000	**3**	-
250,001 - 260,000	**-**	1
260,001 - 270,000	**-**	1
270,001 - 280,000	**1**	-
280,001 - 290,000	**1**	-

At 30 June 2011, no members (2010: Nil) of the Board or Other Key Management Personnel were members of the State Pension Scheme (as originally defined in the repealed *Superannuation and Family Benefits Act 1938*, the provisions of which are now continued in force by Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000)*.

27. REMUNERATION OF AUDITOR

Remuneration payable to the Auditor General for the financial year is as follows:

	CONSOLIDATED		INSURANCE COMMISSION	
	2011 $	**2010 $**	**2011 $**	**2010 $**
Auditing the Accounts, Financial Statements and Performance Indicators	**388,000**	378,000	**388,000**	378,000

Includes an amount of $13,500 (2010: $14,000) in respect of amounts paid or due and payable to the Auditor General for auditing the financial statements of the Corporation. This amount is included in the management fee charged by the Insurance Commission to the Corporation.

28. LOSSES THROUGH THEFT, DEFAULT AND OTHER CAUSES

		CONSOLIDATED		INSURANCE COMMISSION	
		2011	2010	2011	2010
	Notes	$'000	$'000	$'000	$'000
Write-Off of Revenue and Debt	(i)	217	11	217	11
Recovery of Losses	(ii)	2	1	2	1
Bad Debts Recovered	(iii)	9	10	9	10
Gifts	(iv)	1	-	1	-

(i) Comprises Reinsurance Debt - GIF of $142,803 and ICGF of $74,890 (2010: Investment Debt $11,077).

(ii) Insurance claims were lodged in relation to plant and equipment lost or stolen and settlement of $1,660 (2010: $968) was expected.

(iii) Bad Debts Recovered - ICGF of $8,834 (2010: TPIF $2,064 and ICGF $7,599).

(iv) Gift for retiring senior staff member of $1,157 (2010: $Nil).

Potential Claims Recoveries Written-Off

In relation to the Third Party Insurance Fund, the Insurance Commission has a statutory obligation to pay a third party claim. Where the negligent driver of a vehicle was in breach of the warranties of the policy or where the vehicle was uninsured, or where a third party was at fault, the Insurance Commission seeks to recover the costs of the claim from the driver or the third party.

In accordance with AASB 1023 'General Insurance Contracts', potential recoveries receivable are assessed with regard to the ability of the debtors to meet their obligations. These recoveries have not been brought to account as income 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 Comprehensive Income. The Third Party Insurance Fund debt write-offs below for the 2011 financial year are shown net of recoveries received from negligent owners or drivers of $208,579 (2010: $281,882). The only loss to the Insurance Commission is the non-payment of Third Party Insurance Fund premiums by uninsured motor vehicle owners, the total of which is estimated at $6,244 for the year (2010: $3,084), which is more than offset by the recoveries received.

In accordance with Section 48(2) of the *Financial Management Act 2006* , potential recoveries were submitted for write-off from the following funds:

	2011 $'000	2010 $'000
Third Party Insurance Fund	26,638	17,586
Government Insurance Fund	-	7
	26,638	17,593
Amounts Written-Off by the Board	14,945	2,952
Amounts Written-Off by the Responsible Minister	3,741	4,131
Amounts Written-Off by the Governor	7,952	10,510
	26,638	17,593

Number of Individual Recovery Write-Offs with Values between ($):	2011 No.	2010 No.
100,001 - 250,000	18	27
250,001 - 1,000,000	14	8
1,000,001 - 3,000,000	4	3
3,000,001 - 4,000,000	1	1

29. RELATED PARTY DISCLOSURES

The Consolidated Financial Statements include the financial statement of the Insurance Commission and its subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law).

The following table details the Insurance Commission's interest in its subsidiaries:

Name	Country of Incorporation	2011 $'000	2010 $'000
State Government Insurance Corporation	Australia		
Equity Interest		**100%**	100%
Original Cost of Investment		**100,000**	100,000
Carrying Value in Investment		**20,918**	19,820
		$	$
ICWA Law Pty Ltd	Australia		
Equity Interest		**100%**	-
Original Cost of Investment		**2**	-
Carrying Value in Investment		**2**	-

ICWA Law is a wholly-owned proprietary company, limited by shares. The Insurance Commission's 100% investment in ICWA Law is at a notional value of $2. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of the investment is equal to its original investment.

The following table provides the amounts of transactions that were entered into with the Corporation and ICWA Law:

		CONSOLIDATED		INSURANCE COMMISSION	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
Subsidiary:					
State Government Insurance Corporation					
Interest Paid to Corporation	**(i)**	**-**	-	**(1,015)**	(787)
Management Fees Paid by Corporation	**(ii)**	**-**	-	**284**	272
Non-Current Payable to Corporation	**(iii)**	**-**	-	**-**	18,451
ICWA Law Pty Ltd					
Management Fees Paid by ICWA Law	**(ii)**	**-**	-	**158**	-
Legal Fee Income Paid to ICWA Law	**(iv)**	**-**	-	**(1,961)**	-

(i) The Insurance Commission pays interest earned to the Corporation in proportion to its share of the cash on hand and in banks. It also pays interest to the Corporation on the Non-Current Other Payables to the Corporation. Refer (iii) below.

(ii) The Insurance Commission charges the Corporation and ICWA Law a management fee in proportion to their usage of the Insurance Commission's services.

(iii) Non-Current Payable to the Corporation relates to amounts due to the Corporation arising from the value of past tax losses of the Corporation used by the Insurance Commission which are represented by an intercompany payable in accordance with the tax-sharing agreement. This amount was paid by the Insurance Commission during 2011.

(iv) ICWA Law charges the Insurance Commission a legal fee income for all expenses it incurs.

Terms and Conditions of Transactions with Related Parties

- Transactions with related parties are made on an arm's length basis under normal commercial terms.
- Outstanding balances at year-end are unsecured and settlement occurs in cash.
- There are no guarantees provided to, or received from, the related parties.
- No allowance for impairment is required for amounts owing to, or from, the related parties.

30. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

(i) Since the balance date, investment markets worldwide have experienced significant downward fluctuations. This fluctuation does not constitute an adjusting event for the purpose of AASB 110 "Events after the Reporting Period". The exact impact on the investment portfolio is not quantifiable due to its transient nature. However, given its balanced nature, the movement of the portfolio will be reflective of movements in general investment markets. For information on sensitivities of market risk, refer Note 33.

(ii) A letter dated 12 August 2011 has been received by the Insurance Commission from the Treasurer; Attorney General, seeking information from the Insurance Commission (including actuarial advice) which would enable the Minister's office to consider options for the transfer from the Insurance Commission's Third Party Insurance Fund to the Government's Consolidated Account, of up to 50% of the present and predicted amounts which are calculated to represent a surplus in the Third Party Insurance Fund over a long term solvency level of 125%. The letter dated 12 August 2011, also suggests that the information sought from the Insurance Commission include actuarial advice to determine a range of scenarios including a 50% premium reduction in the Third Party Insurance Fund together with a 50% transfer of the Fund's solvency reserves in excess of 125% and the estimated impacts on Compulsory Third Party premiums if the entire surplus in the Third Party Insurance Fund was reduced to a 125% solvency level.

(iii) Information has also been sought from the Insurance Commission on the financial implications of reducing the solvency level of the Insurance Commission General Fund to 125% by transferring any excess to the Government's Consolidated Account.

The letter dated 12 August 2011 referred to above also records that, in addition to the possible transfers of funds from the Insurance Commission to the Government, the Department of Treasury has been requested to re-examine the future implementation of a dividend policy for the Insurance Commission.

(iv) The Insurance Commission was informed by letter from the Treasurer; Attorney General dated 18 May 2011 (confirmed in subsequent correspondence) that compliance with Government policy adopted for an efficiency dividend from Government Trading Enterprises will require it to implement a reduction in operating expenditure of five per cent each year from 2011-12 to 2014-15. The amount of the reduction in expenses in each such year has been stipulated as $5.061 million, $5.738 million, $6.170 million and $5.967 million respectively, a total of $22.936 million.

(v) The factors described in Note 10 and the foregoing paragraphs of this Note 30, may have a material impact on the financial performance of the Insurance Commission for the 2011-2012 and subsequent financial years. It is not possible to estimate the extent or quantum of that impact at the date of these financial statements.

31. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Insurance Commission makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below:

(a) Liabilities Arising Under Insurance Policies

Provisions are made at the year-end for the outstanding claims liability in the Statement of Financial Position. This is the cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not yet reported (IBNR) and claims incurred but not enough reported (IBNER). Estimations are also made in respect of all recoveries, including reinsurance and, where appropriate, tax credits. Those recoveries appear in the Statement of Financial Position as Receivables, refer Note 6, and are discussed at (b) below. Outstanding claims and recoveries take into account factors such as an allowance for future wage increases and superimposed inflation, risk-free investment return, claims administration expenses, and a prudential risk margin.

Whilst all reasonable steps are taken to ensure that adequate information is obtained regarding outstanding claims exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. In particular, the estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of claims already notified, where more information about the claim is usually available. IBNR claims may not be lodged until many years after the events giving rise to the claims have occurred.

The estimate of liability for outstanding claims is based upon an independent actuarial valuation employing a number of actuarial models, which utilise statistical analyses of historical experience, and which assume that the development pattern of the current claims will be consistent with past experience.

Allowances are also made, where appropriate, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of outstanding claims to increase or decrease when compared with the cost of previously settled claims. These include:

- Changes in claims management processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- Changes in the legal environment or social attitudes;
- The effects of inflation, superimposed inflation and discount rates;
- Estimates of Reinsurance Recoveries; and
- An applied Risk Margin.

Refer Note 32 for details of the specific assumptions used in deriving the outstanding claims liability at year-end.

(b) Assets Arising From Reinsurance Contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Insurance Commission may not receive amounts due to it and these amounts can be reliably measured.

(c) Property Valuations

Valuations are obtained from independent licensed valuers for each property presented under Property, Plant and Equipment and Investment Properties. These valuations are based inter-alia on projected future income streams of the individual properties and analysis of comparable sales evidence. Note: Investment properties under construction are measured at cost until the stage when they can be reliably measured at fair value. Refer Note 1(z).

(d) Superannuation

The Pension Scheme and the pre-transfer benefit for employees who transferred to the Gold State Superannuation Scheme are unfunded and the liability for future payments is provided for at the end of the reporting period. The present value of the liabilities is determined following an independent actuarial assessment on behalf of GESB. Refer Note 18.

31. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(e) Unlisted Investments

The Insurance Commission's investment portfolio includes unlisted items. The valuations of these are subject to estimation. Fair values of units in unlisted Equity, Fixed Interest and Alternative Assets Trusts are determined using the Net Asset Value (NAV) per unit applicable for redemption on the last day of the financial year. The NAV is calculated by deducting from the value of unlisted unit trust's gross assets, the value of its liabilities. Unit values denominated in foreign currency are converted to Australian dollars at rates of exchange current at the end of the reporting period. Unlisted Property Trusts are valued by the Trustee of the Trusts at market values based upon independent valuations of properties held within the trust. A unit price is advised to unit holders, which forms the basis for the calculation of market value at the end of the reporting period which equates to fair value.

32. ACTUARIAL ASSUMPTIONS AND METHODS

The Insurance Commission underwrites a number of insurance classes through its funds and its subsidiary, the Corporation.

The process of determining the value of the outstanding claims liability of the various classes of insurance underwritten by the Insurance Commission is described below.

The ultimate liability for outstanding claims is estimated by:

- projecting future claim payments in current values using a variety of actuarial models appropriate to each class;
- adjusting the projected claim payments to allow for the effect of future inflation from current values to the date of payment;
- discounting inflated claim payments to allow for an investment return at a risk-free rate;
- deducting the estimated effect of tax credits;
- adding an amount to provide for associated claims management expenses;
- reducing the amount by an allowance for reinsurance and other recoveries; and
- adding an allowance for a prudential risk margin.

Processes Used To Determine Assumptions
A description of the factors used to determine these assumptions is provided below:

Inflation Rates: based on forecasts of a respected independent third party economics research firm.

Discount Rates: risk-free rates derived from the market yields on traded Commonwealth Treasury Bonds on 30 June 2011.

Claims Management Expenses: derived from past experience and breakdown of expenses.

Reinsurance Recoveries: based on expected recoveries from claims that have exceeded, or are estimated to exceed, the reinsurance retentions.

Superimposed Inflation: derived internally from one of the actuarial models based on the long-term average of past experience.

Risk Margin: based on benchmark studies. Refer Note 14(c) for more detail.

Other Factors: such as Third Party Recoveries, Number of Claims, Average Claim Size, Average Term to Settlement, IBNR, Development of Case Estimates and Projected Case Estimates Payment Factors are based on past experience.

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

THIRD PARTY INSURANCE FUND (TPIF)

Outstanding claims estimates (including IBNR and IBNER) for the TPIF are assessed by an independent actuary, based upon a number of actuarial models. Ultimate numbers of claims are projected based upon past monthly data and the model allows for growth in the number of registered vehicles, seasonal variations in monthly experience, trends in claim frequency, and patterns in the delay of reporting. Payments experience is analysed based on past experience and projections of future claims payments. Cash flows are made based upon aggregate, individual and historic case estimate models. Separate predictions are made in respect of each combination of crash year and financial year of payment.

Actuarial Assumptions

The following table provides key actuarial assumptions made in determining the outstanding claims liability:

Third Party Insurance Fund	2011	2010
Inflation Rate	Varies from 4.7% for 2012, 5.1% for 2013, 4.8% for 2014 and 4.5% for 2015 and later	Varies from 3.8% for 2011, 4.7% for 2012, 4.6% for 2013 and 4.3% for 2014 and later
Discount Rate	Varies from 4.8% for 2012 up to 5.8% for 2018 and later	Varies from 4.5% for 2011 up to 5.7% for 2015 and later
Claims Management Expenses	4.0% of gross claim payments	4.5% of gross claim payments
Reinsurance Recoveries	1.0% of gross claim payments	0.9% of gross claim payments
Superimposed Inflation	Approximately 5% p.a. assumed although this varies according to the different actuarial models	Approximately 1.5% p.a. assumed for the first year up to 5% p.a. for years 3 and later, although this varies according to the different actuarial models
Risk Margin	7% of central estimated liability for 75% probability of sufficiency	7% of central estimated liability for 75% probability of sufficiency
Third Party Recoveries	0.06% of gross claim payments	0.06% of gross claim payments
Number of Claims	Approximately 3,910 for accident year	Approximately 3,946 for accident year
Average Claim Size	Approximately $103,000 for accident year	Approximately $90,100 for accident year
Average Term to Settlement	3.1 years	3.1 years

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

INSURANCE COMMISSION GENERAL FUND (ICGF)

The outstanding claims liability of the ICGF incorporates claims on policies in run-off pre-dating 1986, and claims made under the *Employers Indemnity Supplementation Fund Act 1980* (EISF Act).

RUN-OFF CLAIMS LIABILITIES - PRE-1986

Outstanding liabilities for claims in run-off for the ICGF are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims within the ICGF fall into, and are assessed in, the categories of Workers' Compensation and Public Liability claims. Workers' Compensation liabilities include those relating to common law risks and asbestos-related lung disease (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system).

Workers' Compensation - Lung Disease Claims

Lung disease claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

Workers' Compensation - Non-Lung Disease Claims

The majority of these claims are extremely long-tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

Public Liability

The majority of these claims are extremely long-tail in nature and the actuarial models rely heavily on the case estimates of each claim to determine the total outstanding liabilities.

Actuarial Assumptions

The following table provides key actuarial assumptions made in determining the outstanding claims liabilities:

Insurance Commission General Fund	2011	2010
Inflation Rate	Varies from 4.7% for 2012, 5.1% for 2013, 4.8% for 2014 and then 4.5% for 2015 and later	Varies from 3.8% for 2011 up to 4.7% for 2012, 4.6% for 2013 and then 4.3% for 2014 and later
Discount Rate	Varies from 4.8% for 2012 up to 5.8% for 2018 and later	Varies from 4.5% for 2011 up to 5.7% for 2017 and later
Claims Management Expenses	8% of gross claim payments	8% of gross claim payments
Risk Margin	25% of net outstanding claims for 75% probability of sufficiency	25% of net outstanding claims for 75% probability of sufficiency
Third Party Recoveries	44.7% of gross claim payments	47.7% of gross claim payments
Average Term to Settlement	7.3 years	7.2 years

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

INSURANCE COMMISSION GENERAL FUND (continued)

EISF ACT LIABILITIES

The outstanding liabilities for claims in run-off under the EISF Act are assessed by an independent actuary using models applicable to the nature of the incident by which the liability under the fund has been incurred. Claims under the EISF Act are assessed under the categories of asbestos-related claims (which includes incidents of mesothelioma, lung cancer and other diseases of the respiratory system) and non-asbestos-related claims.

Workers' Compensation - Asbestos-Related Claims

Asbestos-related claims are assessed using actuarial models based on those developed by Professor Geoffrey Berry* utilising ICGF data. The models predict the total number of claims likely to emerge over time and also determine likely average cost per claim.

Workers' Compensation - Non-Asbestos-Related Claims

The majority of these claims are long-tail in nature and the actuarial models rely heavily on the case estimates placed on each claim to determine the total outstanding liabilities.

Actuarial Assumptions

The following tables provide key actuarial assumptions made in determining the outstanding claims liabilities:

EISF Act: Asbestos-Related Claims	2011	2010
Inflation Rate	5.0% for 2012 and later	4.25% for 2011 and later
Discount Rate	Varies from 4.8% for 2012 then up to 5.7% for 2021 and later	Varies from 4.5% for 2011 then up to 5.8% for 2020 and later
Claims Management Expenses	10.5% of claim payments	10.5% of claim payments
Superimposed Inflation	2% for 2012 and later	2% for 2011 and later
Risk Margin	20.4% of estimated gross liability	20.4% of estimated gross liability

EISF Act: Non-Asbestos-Related Claims	2011	2010
Inflation Rate	5.0% for 2012 and later	4.25% for 2011 and later
Discount Rate	Varies from 4.8% for 2012 up to 5.7% for 2021 and later	Varies from 4.5% for 2011 up to 5.8% for 2020 and later
Claims Management Expenses	10.5% of claim payments	10.5% of claim payments
Superimposed Inflation	2.5% - 4.0% for 2012 and later	2.5% - 4.0% for 2011 and later
Risk Margin	16.8% of estimated gross liability	16.8% of estimated gross liability

* "Prediction of mesothelioma, lung cancer, and asbestosis in former Wittenoom asbestos workers", British Journal of Industrial Medicine; 48: 793-802.

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

GOVERNMENT INSURANCE FUND (GIF)

Outstanding claims estimates including IBNR and IBNER are assessed by an independent actuary based on a number of actuarial models. The ultimate number of claims and their associated costs are projected on past yearly data used to determine trends in the anticipated reporting and payment patterns.

As the GIF has been in a state of run-off since 1997, the remaining outstanding claims on which the Insurance Commission obtains actuarial valuations of outstanding claims are the long-tail classes of Workers' Compensation and Public Liability.

The following tables provide the key actuarial assumptions made in determining the outstanding claims liabilities:

Government Insurance Fund: Workers' Compensation	2011	2010
Inflation Rate	Varies from 4.7% for 2012 up to 5.1% for 2013, 4.8% for 2014 and 4.5% for 2015 and later	Varies from 3.8% for 2011 up to 4.7% for 2012, 4.6% for 2013 and 4.3% for 2014 and later
Discount Rate	Varies from 4.8% for 2012 and 2013 up to 5.8% for 2018 and later	Varies from 4.5% for 2011 and 2012 rising to 5.7% for 2017 and later
Claims Management Expenses	10% of net claim payments	10% of net claim payments
Superimposed Inflation	4% p.a., 3% p.a. and 3% p.a. assumed for payments per claim incurred for education, health and general government components, respectively	4% p.a., 2% p.a. and 2% p.a. assumed for payments per claim incurred for education, health and general government components, respectively
Risk Margin	25% of central estimated liability which is estimated as half the coefficient of variation of the outstanding claims liability	25% of central estimated liability which is estimated as half the coefficient of variation of the outstanding claims liability
Third Party Recoveries	5% of gross claim payments for mesothelioma claims, 10% of gross claim payments for lung cancer and other lung disease claims, and 6.7% of net claim payments for other claims	5% of gross claim payments for mesothelioma claims, 10% of gross claim payments for lung cancer and other lung disease claims, and 6.3% of net claim payments for other claims
Average Term to Settlement	6.9 years	7.1 years

Government Insurance Fund: Public Liability	2011	2010
Inflation Rate	Varies from 4.7% for 2012, 5.1% for 2013 down to 4.5% for 2015 and later	Varies from 3.8% for 2011, 4.7% for 2012 down to 4.3% for 2014 and later
Discount Rate	Varies from 4.8% for 2012 and 2013 rising to 5.8% for 2018 and later	Varies from 4.5% for 2011 and 2012 rising to 5.7% for 2017 and later
Claims Management Expenses	6% of gross claim payments	6% of gross claim payments
Superimposed Inflation	4% p.a. for public liability	4% p.a. for public liability
Risk Margin	16.8% of central estimated liability for 75% probability of sufficiency	16.8% of central estimated liability for 75% probability of sufficiency
Average Term to Settlement	4.1 years	3.3 years

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

COMPENSATION (INDUSTRIAL DISEASES) FUND (CIDF)

As the claims for this fund are limited to those related to pneumoconiosis, lung cancer and mesothelioma resulting from exposure to harmful mineral dust, the models used are similar to those used to determine the lung disease claims for the ICGF Lung Disease claims. This valuation is conducted on the same basis as for ICGF Workers' Compensation Lung Disease models.

The following table provides the key actuarial assumptions made in determining the outstanding claims liability:

Compensation (Industrial Diseases) Fund	2011	2010
Inflation Rate	Varies from 4.7% for 2012 up to 5.1% for 2013, 4.8% for 2014 and then 4.5% for 2015 and later	Varies from 3.8% for 2011 up to 4.7% for 2012, 4.6% for 2013 and then 4.3% for 2014 and later
Discount Rate	Varies from 4.8% for 2012 up to 5.8% for 2018 and later	Varies from 4.5% for 2011 up to 5.7% for 2017 and later
Claims Management Expenses	35% of gross claim payments	35% of gross claim payments
Risk Margin	18.7% of net outstanding claims for 75% probability of sufficiency	18.7% of net outstanding claims for 75% probability of sufficiency
Third Party Recoveries	31% of gross claim payments	34.4% of gross claim payments
Average Term to Settlement	6.9 years	6.7 years

STATE GOVERNMENT INSURANCE CORPORATION (Corporation)

The outstanding claims of the Corporation are assessed by an independent actuary. To estimate the claims liability, the portfolio has been divided into a number of groups based on the types of risks covered, the nature of the reinsurance treaties and the currency in which the treaties have been denominated.

Actuarial models have been constructed to describe the rate of development of incurred losses. These models were constructed by considering a mix of the insurer's own experience as well as the experience of similar industry portfolios. The models of incurred loss development are applied to losses incurred to the end of the reporting period to give estimates of incurred losses, as they will ultimately stand (ultimate incurred losses) for each underwriting year ending 30 June. This is done separately by line of business, currency and underwriting year. Losses paid to the end of the reporting period are deducted from the ultimate incurred losses, to give the outstanding claims at the end of the reporting period.

Models of the ratio of claims paid to incurred losses are applied to the outstanding claims liability at the end of the reporting period to project gross claim payment cash flows, as they fall due in future years.

The claim payment cash flows are discounted using risk-free rates in anticipation of future investment return to give a discounted estimate of gross outstanding claims at the end of the reporting period. An estimate of outstanding retrocession recoveries is made according to Corporation estimates at the end of the reporting period. These are deducted from the gross outstanding claims liability to yield the net liability for outstanding claims. A prudential risk margin is then added to the net liability for outstanding claims.

Following the commutation of many of the claims, by far the largest component of the outstanding claims liability now relates to administration expenses. Refer Note 14.

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

The following table provides the key actuarial assumptions made in determining the outstanding claims liability of the Corporation.

Corporation	2011	2010
Inflation Rate	Varies from 4.5% for 2012 up to 5.3% for 2013 and down to 4.5% for 2015 and later	Varies from 3.8% for 2011 up to 4.7% for 2012 and down to 4.3% for 2014 and later
Discount Rate	AUD – varies from 4.8% for 2012 up to 5.8% for 2018 and later GBP – varies from 0.7% for 2012 up to 5.4% for 2020 and later USD – varies from 0.2% for 2012 up to 5.6% for 2021 and later	AUD – varies from 4.5% for 2011 up to 5.7% for 2017 and later GBP – varies from 0.6% for 2011 up to 5.1% for 2017 and later USD – varies from 0.3% for 2011 up to 4.7% for 2018 and later
Claims Management Expenses	683% of gross claim payments	159% of gross claim payments
Reinsurance Recoveries	11.4% of gross claim payments	1.5% of gross claim payments
Risk Margin	12.8% has been added which is intended to give a 75% probability of sufficiency. An additional precautionary margin is no longer necessary	17.1% has been added which is intended to give a 75% probability of sufficiency. An additional precautionary margin has been added for one segment of the portfolio which has historically shown significant volatility
Average Term to Settlement	2.6 years	3.9 years

SENSITIVITY ANALYSIS

The tables below illustrate how changes in key assumptions would impact upon equity and the profit after tax (assumed at a Corporate tax rate of 30%) gross and net of all recoveries except for:

- The GIF is exempt from the National Tax Equivalent Regime and is indemnified by the Department of Treasury via a Right of Indemnity (refer Note 6), hence changes in the actuarial assumption variables will have no impact at all upon profit. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after-tax profit.

- EISF Act liabilities are indemnified by WorkCover WA via a Right of Indemnity (refer Note 6), hence changes in the actuarial assumption variables will have no impact at all upon profit after-tax. For disclosure purposes the impact upon outstanding claims liabilities is disclosed instead of impact upon after-tax profit.

Note that the impact of change in the variables upon outstanding claim liabilities moves in a direction opposite to the impact upon profits.

Third Party Insurance Fund

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	(33,250)	(33,740)
Inflation	-1	31,430	31,850
Discount	+1	31,010	31,430
Discount	-1	(33,460)	(33,950)
Superimposed Inflation	+1	(27,300)	(27,300)
Superimposed Inflation	-1	26,810	26,810
IBNR	+10	(12,180)	(12,180)
IBNR	-10	13,160	13,160
Development of Case Estimates	+1	(16,240)	(16,240)
Development of Case Estimates	-1	14,210	14,210
Projected Case Estimates (PCE) Payment Factors	+1	(1,470)	(1,470)
Projected Case Estimates (PCE) Payment Factors	-1	1,610	1,610
Shorten Projection of PCE Model to 16 years (from 20)	n/a	(9,660)	(9,660)
Lengthen Projection of PCE Model to 24 years (from 20)	n/a	4,970	4,970

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

Compensation (Industrial Diseases) Fund

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	(154)	(196)
Inflation	-1	140	175
Discount	+1	147	182
Discount	-1	(168)	(210)
Superimposed Inflation	+2	(343)	(434)
Increasing Base numbers of Mesothelioma Claims by 2 for over-65's and by 1 for under-65's	n/a	(161)	(231)
Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year	+5	(399)	(567)
Increasing Base numbers of 'Other' Claims by 2 for over-65's and by 1 for under-65's	n/a	(483)	(609)
Increasing Decay Rates in Annual Number of Future 'Other' Cases Reported every Future Year	+5	(399)	(497)

Insurance Commission General Fund: Workers' Compensation

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	(2,058)	(3,360)
Inflation	-1	1,841	2,996
Discount	+1	1,876	3,045
Discount	-1	(2,142)	(3,472)
Superimposed Inflation	+2	(3,570)	(6,384)
Increasing Base numbers of Mesothelioma Claims by 2 for over-65's and by 1 for under-65's	n/a	(2,961)	(5,978)
Increasing Decay Rates in Annual Number of Future Mesothelioma Cases Reported every Future Year	+5	(5,887)	(11,879)
Increasing Base numbers of 'Non-CSR EI Lung' Claims by 2 for over-65's and by 1 for under-65's	n/a	(2,156)	(2,359)
Increasing Decay Rates in Annual Number of Future 'Non-CSR EI Lung' Cases Reported every Future Year	+5	(5,040)	(5,502)

Insurance Commission General Fund: Liability

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease) Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	(126)	(126)
Inflation	-1	112	112
Discount	+1	112	112
Discount	-1	(126)	(126)

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

EISF Act: Asbestos-Related Claims

Variable	Change in Variable %	Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	1,823	2,672
Inflation	-1	(1,598)	(2,343)
Discount	+1	(1,656)	(2,429)
Discount	-1	1,929	2,828
Superimposed Inflation	+1	1,880	2,756
Superimposed Inflation	-1	(1,642)	(2,408)
Number of Claims	+10	1,790	2,634
Number of Claims	-10	(1,790)	(2,634)
Average Claim Size	+10	1,790	2,634
Average Claim Size	-10	(1,790)	(2,634)
Claims Management Expenses	+1	168	246
Claims Management Expenses	-1	(168)	(246)

EISF Act: Non-Asbestos-Related Claims

Variable	Change in Variable %	Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000	Gross $'000
Inflation	+1	87	86
Inflation	-1	(83)	(83)
Discount	+1	(82)	(82)
Discount	-1	88	87
Superimposed Inflation	+1	45	45
Superimposed Inflation	-1	(44)	(44)
Claims Reported	+10	175	174
Claims Reported	-10	(175)	(174)
Claims Management Expenses	+1	32	32
Claims Management Expenses	-1	(32)	(32)

32. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Sensitivity Analysis (continued)

Government Insurance Fund: Workers' Compensation

Variable	Change in Variable %	Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000	Movement in Outstanding Claims Liability: Gross $'000
Inflation	+1	2,300	2,500
Inflation	-1	(2,100)	(2,200)
Discount	+1	(2,200)	(2,300)
Discount	-1	2,500	2,600
Increase in Asbestos-Related Claims	+20	6,100	6,500
Increase in Asbestos-Related Claims	-20	(6,000)	(6,400)

Government Insurance Fund: Liability

Variable	Change in Variable %	Movement in Outstanding Claims Liability: Net of Reinsurance and Other Recoveries $'000	Movement in Outstanding Claims Liability: Gross $'000
Inflation	+1	20	20
Inflation	-1	(20)	(20)
Discount	+1	(20)	(20)
Discount	-1	20	20
Development of Case Estimates	+10	30	30
Development of Case Estimates	-10	(30)	(30)

State Government Insurance Corporation

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease): Net of Reinsurance and Other Recoveries $'000	Profit/(Loss) Increase/(Decrease): Gross $'000
Inflation	+1	(5)	(5)
Inflation	-1	5	5
Discount	+1	10	10
Discount	-1	(10)	(11)
Claims Management Expenses continue +5 years	n/a	(139)	(140)
Claims Management Expenses continue -5 years	n/a	125	125
Savings from run-off plan and commutations do not occur	n/a	(566)	(566)

33. RISK MANAGEMENT POLICIES AND PROCEDURES

(a) GOVERNANCE FRAMEWORK

It is the policy of the Insurance Commission and its subsidiaries, the State Government Insurance Corporation (Corporation) and ICWA Law Pty Ltd (ICWA Law), to strive to achieve 'Best Practice' in the management of all risks that threaten to adversely impact upon the economic entity, its customers, people, assets, finances, functions, objectives, operations or members of the public.

The materiality to the economic entity of the subsidiaries is minimal. Risk management procedures for the subsidiaries are integrated with those of the Insurance Commission.

The economic entity is subject to a number of insurance contract risks and a number of key financial risks which include insurance risk, market risk, liquidity risk, interest rate risk, foreign exchange risk and credit risk.

Management of risk forms a part of operational and line responsibilities and is integrated into the Strategic and Operational Business Planning cycles.

Overall risk management within the Insurance Commission is a Board and Executive responsibility. The Insurance Commission's Executive Committee determines and communicates Risk Policy, Objectives, Procedures and Guidelines and monitors implementation, practice and performance. This information is reported on a regular basis to the Board of Commissioners.

The Risk Policy provides for the retention of external consultants, where required, to advise and assist in the risk management process, or management of specific risks or categories of risk.

Internal Audit, which is provided by an independent external provider, assists in the identification, monitoring and evaluation of risk and gives assurance to the Board of Commissioners in relation to higher risk activities.

(b) EXTERNAL REGULATORY FRAMEWORKS AND CAPITAL MANAGEMENT

The Insurance Commission is not subject to external regulatory frameworks which would apply to most other general insurers. The *Australian Prudential Regulatory Authority Act 1998* (APRA Act) s3(2) sets out bodies regulated under that Act. This captures all general insurers within the meaning of the *Insurance Act 1973* (Insurance Act). The Insurance Act s5(1), however deems that the Insurance Act does not apply to State insurance.

Reporting by the entity is subject to AASB Standards as amended by Treasurer's Instructions. Refer Note 1 (c). Many of the AASB standards mirror best practice requirements such as those incorporated in APRA guidelines. Where matters relevant to the Insurance Commission relate to APRA guidelines which are not covered by AASB Standards (such as APRA Minimum Capital Requirements), the Board will consider and where appropriate instigate appropriate risk mitigation practices. The Insurance Commission considers its retained earnings and asset revaluation surplus as its core capital. A review of movements in capital is undertaken periodically and submitted to the Board for consideration.

(c) INSURANCE AND REINSURANCE CONTRACTS

(i) Objectives in Managing Risks arising from General Insurance Contracts and Policies for Mitigating those Risks

The Insurance Commission's activities primarily involve the issuing of insurance policies and managing the claims resulting from them together with the management of claims run-off in a number of areas. In addition, it provides risk management services and advice. In doing this, the Insurance Commission seeks to minimise the cost of risk to those it insures and to efficiently manage the claims arising from its statutory funds.

The only funds for which contracts of insurance are still issued by the Insurance Commission are the Third Party Insurance Fund (TPIF) and the Compensation (Industrial Diseases) Fund (CIDF). The Government Insurance Fund (GIF), Insurance Commission General Fund (ICGF) and the Corporation are all in run-off.

The Insurance Commission has a framework for the systematic identification, assessment and management of risks that could prevent it from achieving its goals.

Key processes for the mitigation of risks faced in the operations of the Insurance Commission include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Insurance Commission is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding claims liabilities for the various Funds.
- The mix of assets and Investment Managers in which the Insurance Commission invests, is driven by the nature and term of the insurance liabilities. Management monitors assets and liabilities to ensure claim payments can be met when required.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

State Government Insurance Corporation

The Corporation remains in existence to run-off small lines of Australian and overseas reinsurance business written by the Corporation between 1988 and 1992.

Key processes for the mitigation of risks faced in the management of the Corporation include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Insurance Commission is exposed.
- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding liabilities for the various risks.

As the Corporation is in run-off, the emerging payment patterns are highly variable and virtually impossible to predict. For this reason assets used to offset emerging liabilities are held in Australian cash funds.

(ii) Terms and Conditions of Insurance and Reinsurance Risks

Third Party Insurance Fund

The policy of insurance issued by the Insurance Commission provides unlimited indemnity to the owner or driver of a Western Australian registered motor vehicle for all liability for negligence incurred by that owner or driver in respect to the death or bodily injury to any person directly caused by, or by the driving of, the insured motor vehicle in any part of the Commonwealth of Australia. The policy is combined with every motor vehicle licence and the Department of Transport and its agents issue the policies and collect the premiums on behalf of the Insurance Commission on a fee-for-service basis.

The process for pricing the risk is laid out in section 3T of the *Motor Vehicle (Third Party Insurance) Act 1943*, which requires that, at least once each financial year, the Insurance Commission is to make an assessment of the extent to which the premium income, as estimated on the basis of existing scales of premiums, together with other income expected to be received under and for the purposes of the Act, will be sufficient to meet claims, costs and other expenses anticipated to arise or be incurred under the *Motor Vehicle (Third Party Insurance) Act 1943*. The assessment also takes into account an independent actuarial report and any retained earnings expected to exist at the commencement of the following financial year. Following this process, the Board then makes a recommendation to the Treasurer as Minister responsible for the Insurance Commission.

The TPIF has in place excess of loss treaty reinsurance arrangements, on a “per event” basis, to cover losses in excess of a defined limit for any one event. Reinsurance arrangements are placed through a broker with a number of global reinsurers, each carrying a share of the risk on 12-month contracts. Reinsurers on the program are regularly assessed to determine their effectiveness and only reinsurers with an 'A-' or higher security rating (Standard and Poor's) are considered for inclusion on the program.

Compensation (Industrial Diseases) Fund

The Insurance Commission is the only insurer authorised to issue contracts of insurance covering employers against workers’ compensation claims for respiratory diseases of pneumoconiosis, lung cancer and mesothelioma, arising from exposure to harmful mineral dust in the course of employment in the mining industry in Western Australia.

Due to the advent of modern mining techniques and the adoption of preventative occupational health and safety practices within the mining industry, there has been a substantial decline in the incident rate of Industrial Diseases. This has caused the CIDF to be in surplus for many years and it is expected that this situation will continue for the foreseeable future.

The majority of the potential outstanding liability for this Fund results from exposure to asbestos fibre from the mining activities at Wittenoom between 1943 and 1966.

CIDF premiums are set by WorkCover WA in accordance with the *Workers' Compensation and Injury Management Act 1981* s151(a)(iii). Due to the CIDF’s sound financial status, premiums from 1 July 2009 were set at a flat charge of $100 (plus GST) per policy for a three-year period or part thereof ending 30 June 2012.

Ongoing policies of insurance issued by the CIDF are of a standard format and contain no special terms or conditions that would have a material impact on the financial statements of the Insurance Commission.

Government Insurance Fund

This Fund is in run-off. The Insurance Commission is indemnified by the Department of Treasury of Western Australia for deficits arising in the GIF which ceased issuing contracts of insurance on 30 June 1997.

There are no special terms or conditions that would materially impact on the financial statements arising from latent contracts of insurance issued under this Fund as the majority of these covers were issued under a standard form basis.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Insurance Commission General Fund

The claims paid from the Fund which were previously incurred relate to liabilities of the former State Government Insurance Office (SGIO). This Fund is in run-off on claims incurred and no policies have been issued since 31 December 1986. There are no special terms or conditions that would materially impact upon the financial statements arising from latent contracts of insurance issued under this Fund as the majority of these covers were issued under a standard form basis.

Employers' Indemnity Supplementation Fund Act 1980 (EISF Act)

In response to the collapse of the HIH Group (HIH) in March 2001, the EISF Act was used to fund claims for workers injured in the course of their employment prior to 15 March 2001.

The run-off of claims for policies of insurance issued by HIH is managed externally by CGU Workers' Compensation Claims (an Insurance Australia Group company) on behalf of the Insurance Commission. Under Section 25(2) of the EISF Act, the Insurance Commission has a right of reimbursement for all costs associated with run-off of these liabilities.

As all the contracts of insurance cover under the EISF Act (including those issued by HIH), for which the Insurance Commission has now assumed responsibility, fall under the legislative guidelines governing all workers' compensation policies within Western Australia, they would not contain any terms or conditions that would materially impact on the financial statements of the Insurance Commission. The Insurance Commission has a right of indemnity from WorkCover WA in respect of all EISF claims. Refer Note 14(b).

Corporation

The terms and conditions under which inwards reinsurance business was placed through the operation of the Corporation were highly variable and in some cases extremely complex. The key issue being managed with the run-off of the fund is ensuring that all accounts being submitted are in accordance with the original contract terms.

(iii) Concentration Risk

Third Party Insurance Fund

A TPIF policy provides for an unlimited indemnity in respect to the death or bodily injury to any person directly caused by, or by the driving of, a Western Australian registered motor vehicle in any part of the Commonwealth of Australia. Most of the risk however, is concentrated within the Perth metropolitan area of Western Australia.

Compensation (Industrial Diseases) Fund

The CIDF has an exposure to concentration risk as it is restricted to one class of business and operates solely within the confines of Western Australia. This risk is mitigated by the large surplus held by the Fund and the decreased exposure to harmful mineral dust in modern mining operations, resulting in a far lower incidence rate in recent years.

Government Insurance Fund

During the years that GIF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at the end of the reporting period arise from risks associated with common law liability and long-tail workers' compensation claims.

The Insurance Commission has secured an indemnification from the Department of Treasury of Western Australia for Fund deficits resulting from the run-off of the GIF.

Insurance Commission General Fund

During the years that ICGF contracts of insurance were being issued, exposure to significant concentration risk was mitigated by having a diversified portfolio across the large geographic area of Western Australia. As this fund has been in run-off for a considerable time, the concentration risk has increased as the majority of outstanding liabilities at the end of the reporting period arise from risks associated with common law liability and long-tail workers' compensation claims.

To mitigate the risk contained in the ICGF, the majority of which stems from the common law liability resulting from asbestos mining activities at Wittenoom between 1943 and 1966, a Deed of Agreement has been entered into between the Insurance Commission, CSR Limited and Midalco Pty Ltd providing the Insurance Commission with a reimbursement for a set proportion of losses incurred from these activities.

Employers' Indemnity Supplementation Fund

At the end of the reporting period, all claims made against the Insurance Commission under the EISF Act result from contracts of insurance restricted to risks associated with the workers' compensation class of business and hence there is considerable concentration risk. This risk is mitigated by a requirement under the EISF Act that the Insurance Commission has a right of reimbursement from WorkCover WA for all costs associated with the run-off of claims under this Fund.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Corporation

The inwards reinsurance covers issued by the Corporation during its years of operation sought to mitigate concentration risk by the diversification of its portfolio across a number of product lines and geographical regions. As could be expected the majority of the benefit of the diversification has been consumed due to the shorter tail claims being settled some time ago leaving a residual tail of claims originating from a far more concentrated risk base.

(iv) Development of Outstanding Claims Liability

Given that the majority of insurance contracts under the management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, Claims Development Tables have been provided in Note 14(g) which detail outstanding claims estimates for underwriting years at successive year ends.

To ensure the adequacy of the outstanding claims provisions, all active claims have estimates placed by a designated Claims Officer, and independent actuaries review the outstanding claims provisions at least twice yearly. Although it is not governed by the APRA guidelines, the Insurance Commission has adopted a prudential margin which is sufficient to achieve a 75% level of adequacy based solely on liability risk (i.e. with no allowance for asset risk, nor asset returns above risk-free rates). The central claims estimate is first discounted to present value using risk-free rates. The prudential margin is then added to this to arrive at the provision for outstanding claims liability.

Nevertheless the provision for outstanding claims liability is subject to significant uncertainty, related to:

- Future trends in claim frequency;
- Future changes in social and judicial attitudes;
- Changes in legislation; and
- Changes in economic conditions (e.g. inflation, investment returns).

Corporation

As the majority of insurance contracts under management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, a Claims Development Table has been provided in Note 14(g) which details outstanding claims estimates for underwriting years at successive year ends.

(v) Financial Risk

The economic entity is subject to insurance contract risks and a number of key financial risks which include insurance risk, price risk, liquidity risk, interest rate risk, foreign exchange risk and credit risk.

To minimise exposure to these risks, which can affect assets and liabilities backing insurance contracts, the Insurance Commission's investment decisions are undertaken in accordance with Prudential Guidelines for Investments (PGIs) approved by the Treasurer of Western Australia. Refer below.

(d) FINANCIAL RISK MANAGEMENT

The Insurance Commission's investment portfolio consists of financial instruments which inter-alia include quoted and non-quoted Alternative Assets, Equity, Fixed Interest, Property and Cash investments. These investments are managed in accordance with the PGIs.

The PGIs clearly set out the authorised investments which the Insurance Commission may hold in its investment portfolio along with minimum credit rating requirements for Cash, Fixed Interest and over-the-counter derivative instruments. The 'Preamble' to the PGIs sets out the Insurance Commission's investment powers, asset allocation and manager configuration. The PGIs are regularly reviewed and updated to incorporate changes that are continually evolving within international and Australian investment markets.

The Board of Commissioners, in consultation with its Independent Asset Consultant and input from the Investments Division, determines investment strategy, asset allocation mix, investment manager configuration and investment manager appointments. The allocation of assets between the various types of financial instruments is determined so as to achieve the Insurance Commission's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Manager Investments Division on at least a monthly basis.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The Insurance Commission's investing activities expose it to the following risks from its use of financial instruments:

- Market Risk
- Credit Risk
- Liquidity Risk

The Board of Commissioners has overall responsibility for the establishment and oversight of the Insurance Commission's risks relating to its investment activities.

The Insurance Commission's investment portfolio is professionally managed by a combination of external and internal investment managers. The Investments Division is responsible for managing the Direct Property, Inflation Linked Bonds, a portion of Fixed Interest Term Deposit and Cash portfolios. Managers with discrete portfolios have investment mandates which set out risk parameters restricting their investment activities. Managers of pooled investment vehicles are selected having regard to the risk parameters of each Trust Deed.

Risk reporting is undertaken on a daily basis by the external Custodian. The Custodian reports to the Manager Investments Division on compliance of discrete portfolios with respect to each individual investment mandate. This includes risk measures relating to compliance with authorised investments, limits on allocations relating to the size of individual investments, issuers or sectors and credit rating requirements as set out in the PGIs. Any findings/breaches are immediately confirmed with the external investment manager and the necessary steps taken to rectify a compliance breach. All compliance incidents are reported to the Board on a monthly basis.

External investment managers also provide the Investments Division with a Risk Management Statement (RMS) which sets out their processes and procedures for managing derivatives. These RMSs are reviewed by the Manager Investments Division as received. Derivatives are not used in the internally managed investment portfolios.

Each external investment manager is requested on an annual basis to provide the Investments Division with an audit sign-off relating to adherence with its internal policies and procedures. The Insurance Commission's internal auditors review the policies and procedures relating to internally managed investment portfolios.

All investment managers are required to meet performance targets based on market indices (benchmarks) for their respective asset classes. The Investments Division continually monitors the performance of all managers including its own performance. This monitoring includes both qualitative and quantitative factors.

(i) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the economic entity's income or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates); interest rate risk (due to fluctuations in market interest rates); and price risk (due to fluctuations in market prices). The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments.

Currency Risk

The Insurance Commission is exposed to currency risk in respect of net foreign currency exposures. This currency risk of the investment portfolio is managed as follows:

- A currency overlay is used to passively hedge 25% (2010: 50%) of core Global Equities exposures.
- A currency overlay is used to passively hedge 50% (2010: 100%) of the US dollar exposure gained through the investment in the Holowesko Global Fund.
- Where possible, unit trust investments domiciled in Australian dollars are utilised.

The Investments Division is responsible for providing the currency overlay manager with updated portfolio values to be hedged on a monthly basis.

The effectiveness of the currency management processes and the related use of derivatives are actively monitored by the Manager Investments Division and the external Custodian.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of a movement in foreign currency exchange rates against the Australian dollar on our major currency exposures within the investment portfolio at the end of the reporting period. The analysis shows the total currency exposure before the currency hedge overlays have been applied:

	Exposure		Change in Variable		Profit/(Loss) and Equity Increase/(Decrease)	
	2011 $'000	**2010 $'000**	**2011 %**	**2010 %**	**2011 $'000**	**2010 $'000**
United States Dollars	**211,157**	212,418	**+20**	+20	**29,562**	29,739
			-20	-20	**(29,562)**	(29,739)
Great British Pounds	**24,174**	22,787	**+20**	+20	**3,385**	3,190
			-20	-20	**(3,385)**	(3,190)
Hong Kong Dollars	**23,259**	17,551	**+20**	+20	**3,256**	2,457
			-20	-20	**(3,256)**	(2,457)
Euros	**21,781**	20,642	**+20**	+20	**3,049**	2,890
			-20	-20	**(3,049)**	(2,890)
Japanese Yen	**15,865**	15,374	**+20**	+20	**2,221**	2,153
			-20	-20	**(2,221)**	(2,153)

The Currency Risk Exposure is the same for both Consolidated and the Insurance Commission. These figures are inclusive of RiskCover Fund's share of the investment pool of the economic entity. The RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 7 and 38.

Interest Rate Risk

The Insurance Commission invests in short and long dated fixed interest securities. Approximately 6.2% (2010: 7.4%) of the Insurance Commission's portfolio is invested in high quality fixed interest securities with maturity longer than one year. Consequently, the Insurance Commission has an exposure to fair value interest rate risk due to fluctuations in the prevailing level of market interest rates. Cash and cash equivalents are invested in short-term securities with a maturity of less than one year or floating rate notes with an interest reset every three months based on a fixed margin in excess of the 90-day bank bill rate.

The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of movements in interest rates in relation to the base value of interest bearing financial assets:

	Exposure		Change in Variable		Profit/(Loss) and Equity Increase/(Decrease)	
	2011 $'000	**2010 $'000**	**2011 %**	**2010 %**	**2011 $'000**	**2010 $'000**
Interest-Bearing Financial Assets	**561,940**	579,129	**+1**	+1	**(7,013)**	(5,537)
			-1	-1	**7,043**	7,209
Fixed Interest Unit Trusts	**185,764**	176,970	**+1**	+1	**254**	169
			-1	-1	**(254)**	(169)

The Interest Rate Risk Exposure is the same for both Consolidated and the Insurance Commission with the exception of $22.076 million (2010: $3.150 million) relating to Cash and Cash Equivalent Assets of the Corporation, which is only represented in the Consolidated Accounts. These figures are inclusive of RiskCover Fund's share of the investment pool of the economic entity. RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 7 and 38.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

Price Risk

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to the individual investment, its issuer, or other factors broadly affecting all instruments in the market. Since the majority of investments are reported at fair value, a change in market conditions will directly affect Net Investment Income.

Price risk is mitigated by the Insurance Commission holding a diversified investment portfolio. Diversification is achieved across instruments, issuers, asset classes, geographies and investment managers.

At 30 June 2011, 32.3% (2010: 29.7%) of the Insurance Commission's investment assets were listed equities, 16.3% (2010: 17.2%) were unlisted trusts, 0.9% (2010: 0.8%) were listed trusts and 16.9% (2010: 15.4%) were investment properties. The analysis below demonstrates the impact on profit after tax (assumed at a Corporate tax rate of 30%) and equity of movements in the price of equities listed in significant markets, listed trusts, unlisted trusts and investment properties:

	Exposure		Change in Variable		Profit/(Loss) and Equity Increase/(Decrease)	
	2011 $'000	**2010 $'000**	**2011 %**	**2010 %**	**2011 $'000**	**2010 $'000**
ASX	**732,731**	592,987	**+20**	+20	**102,582**	83,018
			-20	-20	**(102,582)**	(83,018)
Dow Jones	**70,534**	64,223	**+20**	+20	**9,875**	8,992
			-20	-20	**(9,875)**	(8,992)
NASDAQ	**25,055**	25,406	**+20**	+20	**3,508**	3,557
			-20	-20	**(3,508)**	(3,557)
FTSE	**24,055**	22,711	**+20**	+20	**3,368**	3,179
			-20	-20	**(3,368)**	(3,179)
Hong Kong	**23,077**	17,753	**+20**	+20	**3,231**	2,486
			-20	-20	**(3,231)**	(2,486)
Nikkei	**15,429**	14,753	**+20**	+20	**2,160**	2,066
			-20	-20	**(2,160)**	(2,066)
Listed Trust	**25,938**	22,564	**+20**	+20	**3,632**	3,159
			-20	-20	**(3,632)**	(3,159)
Unlisted Trusts	**499,794**	479,765	**+20**	+20	**69,971**	67,167
			-20	-20	**(69,971)**	(67,167)
Investment Properties	**517,410**	429,480	**+20**	+20	**72,437**	60,127
			-20	-20	**(72,437)**	(60,127)

The Price Risk Exposure is the same for both Consolidated and the Insurance Commission. The figures shown are inclusive of the RiskCover Fund's share of the investment pool of the economic entity. The RiskCover Fund's share is offset by a liability in the accounts of the Insurance Commission. Refer Notes 7 and 38.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(ii) Credit Risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in financial loss to the economic entity. The Insurance Commission's credit policy is contained in the PGIs and sets out the minimum credit rating requirements for cash, fixed interest and over-the-counter derivatives. Credit risk in these securities is mitigated by predominantly investing in rated instruments issued by rated counterparties with credit ratings of at least 'A2-' or better as determined by Standard and Poor's for securities up to 12 months maturity and 'A-' for securities more than 12 months to maturity.

The credit ratings of securities in the Australian fixed interest portfolios are monitored on a daily basis by the Custodian and reported to the Manager Investments Division. The average credit rating of holdings within the overseas fixed interest unit trust is monitored on a quarterly basis by the Investments Division. Breaches to the credit rating policy are rectified immediately. All credit rating breaches are incorporated in the monthly Investment Report to the Board.

Emerging market fixed interest securities are restricted to 20% of the total overseas fixed interest exposure and must be securities issued by Sovereign Governments with a credit rating of at least 'BB-' or better as determined by Standard and Poor's or Moody's.

Credit risk arising on transactions with brokers is mitigated by having an authorised list of brokers with whom the investment manager can transact. The investment managers minimise concentration risk by transacting with numerous brokers. Compliance checks confirm that the brokers used in transactions by investment managers are in accordance with the authorised brokers listing.

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 81% (2010: 75%) of its recognised financial assets in Australia.

	CONSOLIDATED		INSURANCE COMMISSION	
	2011	**2010**	**2011**	**2010**
Recognised Financial Assets	**$'000**	**$'000**	**$'000**	**$'000**
The Carrying Amount of the Financial Assets Recorded in the Consolidated Statement of Financial Position, Net of any Provision for Losses	**2,248,776**	2,083,789	**2,249,123**	2,082,058
Total Maximum Credit Risk Exposure	**2,248,776**	2,083,789	**2,249,123**	2,082,058

The following table relates to the market values of officially rated bonds, short-term discount securities, deposits at call and debtors in respect of unsettled transaction trades as per Standard and Poor's ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade. The table excludes listed and unlisted equities, unit trusts and alternative assets which are subject to market risk rather than credit risk. In addition, this table excludes Reinsurance and Other Recoveries which are shown separately later in this Note. Right of Indemnities (refer Note 6) related to Government Agencies are also excluded from this analysis.

AAA rating	**140,232**	141,991	**140,232**	141,991
AA+ to AA- ratings	**379,013**	383,986	**379,013**	383,986
A+ to A- ratings	**3,087**	6,039	**3,087**	6,039
BBB+ to BBB ratings	**-**	1,020	**-**	1,020
BB+ to BB ratings	**178**	-	**178**	-
Speculative	**261**	271	**261**	271
A1 to A2 (short-term) rating	**44,597**	43,888	**44,597**	43,888
Credit Risk Exposure	**567,368**	577,195	**567,368**	577,195

Insurance and Reinsurance related Credit Risk

The economic entity also has exposure to credit risk with regard to the reinsurance and other recovery arrangements in which it enters to offset insurance contract risk. The Insurance Commission reinsures to protect capital and reduce volatility in the event of catastrophic loss. The strategy used in respect of the selection, approval and monitoring of reinsurance arrangements is as follows:

- Reinsurance is approved and placed in accordance with Board delegations and authorisations, which include minimum financial credit ratings for reinsurance counterparties.
- The Department of Treasury agrees on the retention limits for the RiskCover Fund annually.
- Reinsurance arrangements are reviewed annually to monitor their effectiveness and ensure that coverage is appropriate, based on historical losses and the potential for future losses. The financial capacity of the Funds to withstand loss and the cost of reinsurance protection are factors taken into account in determining the level of risk retention.
- The credit quality of current and past reinsurance counterparties is actively monitored.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The following tables provide information about the quality of the consolidated entity's credit risk exposure in respect of reinsurance and other recoveries on claims already paid and on claims which remained outstanding at the end of the reporting period, but not yet "invoiced" or claimed from the relevant party. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating. Ratings that fall outside the range AAA to BBB and those which cannot be reliably rated, such as estimates of unknown third party recoveries, are classified as speculative grade. Input tax credits recoverable from the Australian Taxation Office have all been classified as AAA rating.

	2011 ($'000)					
	AAA	AA+ to AA-	A+ to A-	BBB+	Speculative Grade	Total
Reinsurance and Other Recoveries						
Third Party Insurance Fund	91,851	1,138	14,015	-	953	**107,957**
Compensation (Industrial Diseases) Fund	26	-	-	827	-	**853**
Government Insurance Fund						
- Workers' Compensation	360	-	-	-	1,672	**2,032**
- Public Liability	16	159	-	-	5	**180**
GIF Total Reinsurance and Other Recoveries	376	159	-	-	1,677	**2,212**
Insurance Commission General Fund						
- Workers' Compensation	617	-	-	23,390	1,231	**25,238**
- Public Liability	57	-	-	-	-	**57**
- EISF Act: Asbestos-Related Claims	139	-	-	-	-	**139**
- EISF Act: Non-Asbestos-Related Claims	29	-	-	-	-	**29**
ICGF Total Reinsurance and Other Recoveries	842	-	-	23,390	1,231	**25,463**
Total Insurance Commission Reinsurance and Other Recoveries	93,095	1,297	14,015	24,217	3,861	**136,485**
Corporation Inwards Reinsurance	-	-	-	-	7	**7**
Total Consolidated Reinsurance and Other Recoveries	**93,095**	**1,297**	**14,015**	**24,217**	**3,868**	**136,492**

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

	2010 ($'000)					
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB**	**Speculative Grade**	**Total**
Reinsurance and Other Recoveries						
Third Party Insurance Fund	83,881	1,354	11,068	-	884	97,187
Compensation (Industrial Diseases) Fund	31	-	-	1,126	-	1,157
Government Insurance Fund						
- Workers' Compensation	397	-	-	-	1,856	2,253
- Public Liability	25	-	408	-	142	575
GIF Total Reinsurance and Other Recoveries	422	-	408	-	1,998	2,828
Insurance Commission General Fund						
- Workers' Compensation	594	-	-	24,379	1,016	25,989
- Public Liability	57	-	-	-	-	57
- EISF Act: Asbestos-Related Claims	150	-	-	-	-	150
- EISF Act: Non-Asbestos-Related Claims	39	-	-	-	-	39
ICGF Total Reinsurance and Other Recoveries	840	-	-	24,379	1,016	26,235
Total Insurance Commission Reinsurance and Other Recoveries	85,174	1,354	11,476	25,505	3,898	127,407
Corporation Inwards Reinsurance	-	-	-	-	7	7
Total Consolidated Reinsurance and Other Recoveries	**85,174**	**1,354**	**11,476**	**25,505**	**3,905**	**127,414**

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The following table provides further information regarding the ageing of amounts "invoiced" and receivable for premium debtors, reinsurance and other recoveries on paid claims at the end of the reporting period:

2011 ($'000)

	Neither Past Due nor Impaired	Past Due but Not Impaired: 0 to 3 Months	Past Due but Not Impaired: 3 to 6 Months	Past Due but Not Impaired: 6 to 12 Months	Past Due but Not Impaired: Greater than 1 Year	Impaired *	Total
Third Party Insurance Fund	4	-	-	-	-	-	**4**
Compensation (Industrial Diseases) Fund	3	1	-	-	-	3	**7**
Government Insurance Fund	2	6	-	-	97	2	**107**
Insurance Commission General Fund	30	134	110	20	116	-	**410**
Total Insurance Commission	**39**	**141**	**110**	**20**	**213**	**5**	**528**
Corporation Inwards Reinsurance	-	-	-	-	24	-	**24**
Total Consolidated	**39**	**141**	**110**	**20**	**237**	**5**	**552**

* All Government Insurance Fund impaired receivables are greater than 1 year past due.
* All Compensation (Industrial Diseases) Fund impaired receivables are greater than 1 year overdue.

2010 ($'000)

	Neither Past Due nor Impaired	Past Due but Not Impaired: 0 to 3 Months	Past Due but Not Impaired: 3 to 6 Months	Past Due but Not Impaired: 6 to 12 Months	Past Due but Not Impaired: Greater than 1 Year	Impaired *	Total
Third Party Insurance Fund	-	-	-	-	-	-	-
Compensation (Industrial Diseases) Fund	2	50	-	6	-	-	58
Government Insurance Fund	57	-	-	-	97	148	302
Insurance Commission General Fund	255	816	37	71	45	43	1,267
Total Insurance Commission	**314**	**866**	**37**	**77**	**142**	**191**	**1,627**
Corporation Inwards Reinsurance	-	-	-	-	23	-	23
Total Consolidated	**314**	**866**	**37**	**77**	**165**	**191**	**1,650**

* All Government Insurance Fund impaired receivables are greater than 1 year past due.
* All Insurance Commission General Fund impaired receivables are less than 1 year overdue.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(iii) Liquidity Risk

Liquidity risk refers to the risk that the economic entity will not be able to meet its financial obligations as they fall due. The Manager Investments Division is responsible for ensuring that there is always sufficient liquidity to meet the Insurance Commission's liabilities when due.

The Cash Portfolio is managed to meet the day-to-day liquidity requirements of the insurance business. The target cash allocation is 4% of the total portfolio. Cash flows are monitored on a daily basis. Cash requirements are met by redeeming investments with the Insurance Commission's Equity and/or Fixed Interest managers. These securities are considered to be easily realisable. At 30 June 2011, the mean term to maturity of the Cash Portfolio was 150 days (2010: 191 days).

The following tables detail the maturity profile of the economic entity's gross discounted outstanding claims liability and certain other key financial liabilities, at the end of the reporting period:

CONSOLIDATED 2011 ($'000)

	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability					
Third Party Insurance Fund	392,060	346,001	563,909	279,660	**1,581,630**
Compensation (Industrial Diseases) Fund	401	525	1,195	2,160	**4,281**
Government Insurance Fund					
- Workers' Compensation	3,777	4,204	10,574	18,996	**37,551**
- Public Liability	175	131	227	159	**692**
GIF Total Outstanding Claims Liability	3,952	4,335	10,801	19,155	**38,243**
Insurance Commission General Fund					
- Workers' Compensation	7,499	7,416	16,839	35,017	**66,771**
- Public Liability	248	224	549	1,393	**2,414**
- EISF Act: Asbestos-Related Claims	1,103	986	3,051	12,677	**17,817**
- EISF Act: Non-Asbestos-Related Claims	966	949	954	384	**3,253**
ICGF Total Outstanding Claims Liability	9,816	9,575	21,393	49,471	**90,255**
Total Insurance Commission Outstanding Claims Liability	**406,229**	**360,436**	**597,298**	**350,446**	**1,714,409**
Corporation - Inwards Reinsurance	256	133	170	88	**647**
Total Consolidated Outstanding Claims Liability	**406,485**	**360,569**	**597,468**	**350,534**	**1,715,056**
Other Financial Liabilities					
Payables	34,724	-	-	-	**34,724**
Floating Rate Promissory Note (i)	422,247	-	-	-	**422,247**
Total	**863,456**	**360,569**	**597,468**	**350,534**	**2,172,027**

The Liquidity Risk Exposure for Other Financial Liabilities - Payables is the same for both Consolidated and the Insurance Commission.

(i) The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Notes 7 and 38.

33. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

	CONSOLIDATED 2010 ($'000)				
	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability					
Third Party Insurance Fund	365,900	312,934	507,994	252,662	1,439,490
Compensation (Industrial Diseases) Fund	700	500	1,429	2,530	5,159
Government Insurance Fund					
- Workers' Compensation	4,071	4,609	10,761	21,596	41,037
- Public Liability	291	217	376	260	1,144
GIF Total Outstanding Claims Liability	4,362	4,826	11,137	21,856	42,181
Insurance Commission General Fund					
- Workers' Compensation	7,100	6,790	16,838	33,840	64,568
- Public Liability	248	220	544	1,370	2,382
- EISF Act: Asbestos-Related Claims	1,045	1,065	3,436	14,250	19,796
- EISF Act: Non-Asbestos-Related Claims	1,472	1,224	1,164	419	4,279
ICGF Total Outstanding Claims Liability	9,865	9,299	21,982	49,879	91,025
Total Insurance Commission Outstanding Claims Liability	380,827	327,559	542,542	326,927	1,577,855
Corporation - Inwards Reinsurance	521	445	461	446	1,873
Total Consolidated Outstanding Claims Liability	**381,348**	**328,004**	**543,003**	**327,373**	**1,579,728**
Other Financial Liabilities					
Payables	23,383	-	-	-	23,383
Floating Rate Promissory Note (i)	372,855	-	-	-	372,855
Total	**777,586**	**328,004**	**543,003**	**327,373**	**1,975,966**

The Liquidity Risk Exposure for Other Financial Liabilities - Payables is the same for both Consolidated and the Insurance Commission with the exception of a non-current amount payable to the Corporation of $18.451 million which is eliminated on consolidation.

(i) The Floating Rate Promissory Note represents the RiskCover Fund's share of the investment pool of the economic entity. Refer Notes 7 and 38.

34. GROUP ENTITIES

Name	Legal Form	Place of Incorporation	Shares Held 2011 %	Shares Held 2010 %	Cost of Investment 2011 $'000	Cost of Investment 2010 $'000	Total Changes Recognised in Equity 2011 $'000	Total Changes Recognised in Equity 2010 $'000
Parent Entity								
Insurance Commission of Western Australia	Statutory Authority	Western Australia	**-**	-	**-**	-	**42,749**	126,850
Less: Increase in Value of Investment in the Corporation (Refer Note 7)							**(1,098)**	(283)
							41,651	126,567
Subsidiary								
State Government Insurance Corporation	Statutory Authority	Western Australia	**100**	100	**100,000**	100,000	**1,098**	283
ICWA Law Pty Ltd	Private Company	Western Australia	**100**	-	**-**	-	**-**	-
					100,000	100,000	**42,749**	126,850

The Insurance Commission would indemnify the Corporation in the event that its liabilities exceeded its assets. No such indemnity was required for either 2011 or 2010.

The movement in the value of the investment in the Corporation for the year ended 30 June 2011 of $1.1 million (2010: $0.3 million) has been credited to the Statement of Comprehensive Income. Refer Note 3.

ICWA Law is a wholly-owned proprietary company, limited by shares. The Insurance Commission's 100% investment in ICWA Law is at a notional value of $2. The Insurance Commission fully funds or reimburses ICWA Law for all expenses it incurs, as such the value of investment is always equal to its original investment.

35. FUNDS' STATEMENT OF COMPREHENSIVE INCOME

		Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	Notes	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Premium Revenue	2	430,174	409,542	65	58	-	-	-	-
Outwards Reinsurance Premium Expense	3	(5,110)	(4,546)	-	-	-	-	-	-
Outwards Reinsurance Commission Revenue	2	498	449	-	-	-	-	-	-
Net Premium Revenue		425,562	405,445	65	58	-	-	-	-
Claims Expense	3	(523,310)	(398,275)	829	16	1,114	(1,918)	(7,545)	(13,584)
Reinsurance and Other Recoveries Revenue	2	11,091	2,370	(281)	39	(413)	2,821	1,100	7,282
Net Claims Incurred	4	(512,219)	(395,905)	548	55	701	903	(6,445)	(6,302)
Acquisition Costs	3,11	(18,498)	(13,566)	-	-	-	-	-	-
Other Underwriting and Administration Expenses	3,(i)	(45,886)	(40,147)	(1,276)	(1,551)	(3,113)	(2,651)	(35,256)	(31,164)
UNDERWRITING LOSS		(151,041)	(44,173)	(663)	(1,438)	(2,412)	(1,748)	(41,701)	(37,466)
Investment Income including Movements in Fair Value	2	227,271	221,319	2,100	2,226	(19)	164	32,205	30,728
Investment Expenses	3	(37,554)	(33,922)	(344)	(334)	-	(9)	13,627	12,305
Finance Costs	3	-	-	-	-	-	-	(38,822)	(36,556)
Other Income	2	(354)	354	-	-	2,431	1,593	60,043	55,843
Other Expenses	3	-	-	-	-	-	-	(16,103)	(15,550)
PROFIT/PROFIT BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE		38,322	143,578	1,093	454	-	-	9,249	9,304
Income Tax Equivalent Expense	5	(4,681)	(24,479)	(196)	19	-	-	(1,038)	(2,026)
PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA		33,641	119,099	897	473	-	-	8,211	7,278
Fair Value Revaluation of Land and Buildings presented as Plant, Property and Equipment		-	-	-	-	-	-	15,433	2,267
Related Income Tax Equivalent Expense		-	-	-	-	-	-	(4,630)	(681)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE		-	-	-	-	-	-	10,803	1,586
TOTAL COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE		33,641	119,099	897	473	-	-	19,014	8,864

The Note references above relate to the Notes to, and forming part of, the Financial Statements of the economic entity.

35. FUNDS' STATEMENT OF COMPREHENSIVE INCOME (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 2011 and 30 June 2010.

The above Statement of Comprehensive Income for the four Funds is presented without eliminations for inter-fund transactions. The Statement of Comprehensive Income for the Insurance Commission represents an aggregation of the Funds taking into account inter-fund eliminations. The main elimination is:

- Investment revenue of $5.084 million (2010: $4.701 million) in relation to the Insurance Commission's portion of the rentals incurred as an owner-occupier.

(i) The Insurance Commission General Fund allocated Underwriting and Administration Expenses, which related to Bell Group debt recovery costs, as follows to the other Insurance Commission Funds in proportion to the original Investment: Third Party Insurance Fund, $13.381 million (2010: $11.597 million); Government Insurance Fund, $2.533 million (2010: $2.195 million); and Compensation (Industrial Diseases) Fund, $0.232 million (2010: $0.201 million). The Insurance Commission General Fund retained $3.191 million (2010: $2.765 million) of these costs.

36. FUNDS' STATEMENT OF FINANCIAL POSITION

	Notes	Third Party Insurance Fund 2011 $'000	Third Party Insurance Fund 2010 $'000	Compensation (Industrial Diseases) Fund 2011 $'000	Compensation (Industrial Diseases) Fund 2010 $'000	Government Insurance Fund 2011 $'000	Government Insurance Fund 2010 $'000	Insurance Commission General Fund 2011 $'000	Insurance Commission General Fund 2010 $'000
ASSETS									
Current Assets									
Cash and Cash Equivalents	20	-	-	-	-	-	-	-	-
Receivables	6	30,141	28,139	102	217	4,056	4,513	9,456	11,164
Current Tax Receivable		-	368	-	3	-	-	6,232	4,912
Financial Assets at Fair Value Through Profit or Loss	7	-	-	-	-	-	-	1,530,589	1,383,400
Deferred Acquisition Costs	11	1,542	4,488	-	-	-	-	-	-
Other Assets	12	-	-	-	-	-	-	3,024	4,021
Total Current Assets		31,683	32,995	102	220	4,056	4,513	1,549,301	1,403,497
Non-Current Assets									
Receivables	6	81,190	72,479	774	998	36,576	37,731	95,501	96,796
Financial Assets at Fair Value Through Profit or Loss	7	-	-	-	-	-	-	384,621	381,778
Deferred Tax Assets		-	-	266	461	-	-	-	-
Property, Plant and Equipment	8	-	-	-	-	-	-	261,901	252,406
Investment Properties	9	-	-	-	-	-	-	497,658	430,873
Intangible Assets	10	-	-	-	-	-	-	8,714	8,882
Other Assets	12	-	-	-	-	-	-	1,602	831
Total Non-Current Assets		81,190	72,479	1,040	1,459	36,576	37,731	1,249,997	1,171,566
Inter-Fund Investments		2,371,186	2,182,874	21,366	20,594	(1,793)	96	(2,390,759)	(2,203,564)
TOTAL ASSETS		2,484,059	2,288,348	22,508	22,273	38,839	42,340	408,539	371,499

36. FUNDS' STATEMENT OF FINANCIAL POSITION (continued)

		Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
	Notes	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
LIABILITIES									
Current Liabilities									
Bank Overdraft	20	**-**	-	**-**	-	**-**	-	**28,911**	1,216
Payables	13	**17,464**	12,849	**271**	16	**596**	159	**16,201**	11,041
Current Tax Payable		**-**	-	**-**	-	**-**	-	**-**	-
Outstanding Claims Liability	14	**392,060**	365,900	**401**	700	**3,952**	4,362	**9,815**	9,865
Unearned Premium Liability	15	**184,442**	173,808	**80**	119	**-**	-	**-**	-
Unexpired Risk Liability	16	**-**	-	**-**	-	**-**	-	**-**	-
Provisions	17	**-**	-	**-**	-	**-**	-	**5,891**	6,467
Total Current Liabilities		**593,966**	552,557	**752**	835	**4,548**	4,521	**60,818**	28,589
Non-Current Liabilities									
Payables	13	**-**	-	**-**	-	**-**	-	**-**	18,451
Outstanding Claims Liability	14	**1,189,570**	1,073,590	**3,880**	4,459	**34,291**	37,819	**80,440**	81,160
Provisions	17	**-**	-	**-**	-	**-**	-	**10,073**	11,065
Deferred Tax Liabilities	5	**27,797**	23,116	**-**	-	**-**	-	**61,502**	55,542
Total Non-Current Liabilities		**1,217,367**	1,096,706	**3,880**	4,459	**34,291**	37,819	**152,015**	166,218
TOTAL LIABILITIES		**1,811,333**	1,649,263	**4,632**	5,294	**38,839**	42,340	**212,833**	194,807
NET ASSETS		**672,726**	639,085	**17,876**	16,979	**-**	-	**195,706**	176,692
EQUITY									
Asset Revaluation Surplus		**-**	-	**-**	-	**-**	-	**115,072**	104,269
Compensation (Industrial Diseases) Fund Reserve		**-**	-	**17,876**	16,979	**-**	-	**-**	-
Funds' Retained Earnings	37	**672,726**	639,085	**-**	-	**-**	-	**80,634**	72,423
TOTAL EQUITY		**672,726**	639,085	**17,876**	16,979	**-**	-	**195,706**	176,692

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 either of the 2011 or 2010 financial years.

The Government Insurance Fund forms part of the financial statements of the Insurance Commission. In accordance with the Cabinet's decision of May 1996, however, the Department of Treasury has assumed liability for the accumulated deficit in that Fund as from 1 July 1997.

The above Statement of Financial Position for the four Funds is presented before eliminations for inter-fund transactions. The Note references above relate to the Notes to, and forming part of, the Financial Statements of the economic entity.

37. FUNDS' RETAINED EARNINGS

		Third Party Insurance Fund		Compensation (Industrial Diseases) Fund		Government Insurance Fund		Insurance Commission General Fund	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Balance at Beginning of the Year		**639,085**	518,771	**-**	-	**-**	-	**72,423**	65,024
Profit after Income Tax Equivalent Expense		**33,641**	119,099	**897**	473	**-**	-	**8,211**	7,278
Amount Transferred to Compensation (Industrial Diseases) Fund Reserve	**(i)**	**-**	-	**(897)**	(473)	**-**	-	**-**	-
Amount Transferred from Asset Revaluation Surplus	**(ii)**	**-**	1,215	**-**	-	**-**	-	**-**	121
BALANCE AT END OF THE YEAR		**672,726**	639,085	**-**	-	**-**	-	**80,634**	72,423

(i) 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 Insurance Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Insurance Commission pursuant to the *Mine Workers' Relief Act 1932* 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.

(ii) In 2010, as a result of changes to AASB 140 'Investment Property', property under construction which was intended for future use as an investment property and which had previously been classified as Plant, Property and Equipment was re-classified under Investment Properties. This change resulted in amounts previously recorded in the asset revaluation surplus which related to investment properties under construction (Westralia Plaza land at 167 St Georges Terrace) being transferred out and redistributed by the ICGF to other Insurance Commission funds directly through equity. Refer Note 1(aa).

38. RISKCOVER FUND FINANCIAL STATEMENTS

The Government of Western Australia has adopted a Managed Fund approach to administer all insurable risks of its participating public authorities on a self-insurance basis. The RiskCover Fund is underwritten by the Government of Western Australia, and is managed by the Insurance Commission on behalf of the State Government and its participating public authorities, under the supervision of the Department of Treasury. On 18 July 2001, the Department of Treasury confirmed the re-appointment of the Insurance Commission to manage the RiskCover Fund on the basis of a rolling three-year notification of termination period.

The Insurance Commission earns a management fee from this activity being a recovery of costs for the proportion of the Insurance Commission's services used by the RiskCover Fund.

Except as stated below, the significant accounting policies adopted in preparing the RiskCover Fund's financial statements are consistent with those used in preparing the economic entity's financial statements. Refer Note 1.

Because the RiskCover Fund is a Government self-insurance vehicle, it is not bound by AASB 1023, 'General Insurance Contracts' or by the requirements of the Australian Prudential Regulatory Authority (APRA).

In its determination of the Outstanding Claims Liability, the RiskCover Fund has instead followed the requirements of AASB 137, 'Provisions, Contingent Liabilities and Contingent Assets'. Like AASB 1023, this standard also requires the use of a risk-free discount factor when determining the Outstanding Claims Liability; however, it differs significantly in that it does not require the inclusion of a prudential margin.

In 2006, the State Government Expenditure Review Committee gave approval for the RiskCover Fund to maintain a separate Prudential Reserve equivalent in value to an APRA Prudential Margin sufficient to achieve a 75% likelihood of adequacy with respect to the provision for outstanding claims.

The RiskCover Fund's assets are not owned by the economic entity and are therefore not consolidated. The investment assets of the RiskCover Fund are, however, included in the investment pool of the economic entity, represented by a Floating Rate Promissory Note. Refer Note 7. The RiskCover Fund earns an investment return or shares investment losses in proportion to its share of the investment pool of the Insurance Commission. Refer Note 3.

Any Retained Earnings in the RiskCover Fund represents an asset of the Government of Western Australia and not of the economic entity.

The RiskCover Fund is not liable to pay Income Tax Equivalents under current arrangements with the Department of Treasury.

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2011	**References**	**2011 $'000**	**2010 $'000**
Premium Revenue	**(a)**	**222,010**	193,316
Premium Adjustment	**(b)**	**3,585**	17,285
Outwards Reinsurance Premium Expense		**(14,273)**	(14,166)
Outwards Reinsurance Commission Revenue		**1,306**	1,350
Net Premium Revenue		**212,628**	197,785
Claims Expense		**(242,354)**	(208,931)
Reinsurance and Other Recoveries Revenue/(Expense)		**9,234**	(7,523)
Net Claims Incurred		**(233,120)**	(216,454)
Underwriting and Administration Expenses		**(30,792)**	(27,976)
UNDERWRITING LOSS		**(51,284)**	(46,645)
Investment Income including Movements in Fair Value		**39,892**	36,349
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO THE GOVERNMENT OF WESTERN AUSTRALIA		**(11,392)**	(10,296)

The Statement of Comprehensive Income should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF FINANCIAL POSITION at 30 June 2011	References	2011 $'000	2010 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents		**4,024**	-
Receivables		**21,176**	25,252
Financial Assets at Fair Value Through Profit or Loss	(c)	**422,247**	372,855
Total Current Assets		**447,447**	398,107
Non-Current Assets			
Receivables		**83,274**	73,594
Total Non-Current Assets		**83,274**	73,594
TOTAL ASSETS		**530,721**	471,701
LIABILITIES			
Current Liabilities			
Bank Overdraft		**-**	322
Payables		**9,699**	8,696
Outstanding Claims Liability	(d)	**180,686**	164,279
Total Current Liabilities		**190,385**	173,297
Non-Current Liabilities			
Outstanding Claims Liability	(d)	**312,135**	258,811
Total Non-Current Liabilities		**312,135**	258,811
TOTAL LIABILITIES		**502,520**	432,108
NET ASSETS		**28,201**	39,593
EQUITY			
Retained Earnings		**-**	-
Prudential Reserve	(i)	**28,201**	39,593
TOTAL EQUITY		**28,201**	39,593

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

(i) In 2011, the Prudential Reserve was calculated by an internal assessment to be $59.8 million (2010: $52.1 million). However, because the RiskCover Fund did not have sufficient Retained Earnings to maintain the Prudential Reserve at this level, the Prudential Reserve was reduced to $28.2 million which is $31.6 million below the amount which would be required to achieve a 75% likelihood of adequacy.

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2011	References	2011 $'000	2010 $'000
BALANCE OF EQUITY AT START OF THE YEAR		39,593	49,888
PRUDENTIAL RESERVE			
Balance at Start of the Year		39,593	43,663
Transfer to Retained Earnings		(11,392)	(4,070)
Balance at End of the Year		28,201	39,593
RETAINED EARNINGS			
Balance at Start of the Year		-	6,225
Total Comprehensive Loss for the Year		(11,392)	(10,295)
Transfer from Prudential Reserve		11,392	4,070
Balance at End of the Year		-	-
BALANCE OF EQUITY AT END OF THE YEAR		28,201	39,593

The Statement of Changes in Equity should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

STATEMENT OF CASH FLOWS for the year ended 30 June 2011	References	2011 $'000	2010 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Premium Received		244,375	212,485
Reinsurance and Other Recoveries Received		10,539	5,485
Outwards Reinsurance Commission Received		1,437	1,485
Interest Received		39,892	36,349
Outwards Reinsurance Paid		(15,700)	(15,583)
Claims Paid		(175,828)	(158,788)
Underwriting and Administration Expenses Paid		(33,395)	(28,603)
Goods and Services Tax Paid		(17,582)	(15,502)
Net Cash Flow from Operating Activities	(h)	53,738	37,329
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Funds Paid to the Insurance Commission		(49,392)	(38,424)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments for Fund Experience Allowance		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,346	(1,095)
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		(322)	773
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(h)	4,024	(322)

The Statement of Cash Flows should be read in conjunction with the references to, and forming part of, the RiskCover Fund's Financial Statements.

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS

(a) Premium Revenue

When determining the deposit contributions for the Workers' Compensation and Motor Vehicle classes, the RiskCover Fund 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) Premium Adjustment

Premiums initially charged to client agencies at the beginning of each year for the Workers' Compensation and Motor Vehicle classes represent premium deposits. These premiums are subject to adjustment at a later date (three years after the close of the risk period for Workers' Compensation and one year for Motor Vehicle to take into account the ultimate claims costs, claims administration expenses and associated investment income outcomes as these develop for each cover year. This adjustment process reflects the conceptual design of the funding mechanism for these classes and enables sanctions to be applied to agency performance.

The Premium Adjustment brought to account at 2011 was a receivable from client agencies of $81.6 million (2010: a receivable of $78.0 million). The $3.6 million Premium Adjustment shown in the Statement of Comprehensive Income consists of an increase in the Workers Compensation class of $12.1 million which was offset by a decrease of $8.5 million in the Motor Vehicle class.

(c) Financial Assets at Fair Value Through Profit or Loss

Represented by a Floating Rate Promissory Note owed to the RiskCover Fund by the Insurance Commission. Refer Note 7.

(d) Outstanding Claims Liability

	2011 $'000	2010 $'000
Central Estimate	**534,806**	452,656
Discount to Present Value	**(79,560)**	(61,030)
	455,246	391,626
Claims Handling Costs	**37,575**	31,464
Liability for Outstanding Claims (discounted)	**492,821**	423,090
Current	**180,686**	164,279
Non-Current	**312,135**	258,811
	492,821	423,090
Weighted Average Expected Term to Settlement:		
Workers' Compensation	**2 yrs 8 mths**	2 yrs 6 mths
Liability Classes	**4 yrs 6 mths**	4 yrs 3 mths

In addition to the long-tail classes of Workers' Compensation and Liability, the RiskCover Fund also has short-tail liabilities for Property and Business Interruption, Motor Vehicle and Personal Accident, and Travel risks. These short-tail liabilities are internally assessed and total $52.3 million at the end of the reporting period (2010: $54.3 million).

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (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 2011 for the RiskCover Fund:

	% Rates Used - 2011		% Rates Used - 2010	
	Year Ending 30 June 2012	Subsequent Years	Year Ending 30 June 2011	Subsequent Years
Workers' Compensation				
Inflation Rate (Wage)	**4.70**	**5.10**	3.80	4.70
Total Inflation*	**4.70**	**5.10**	3.80	4.70
Discount Rate	**4.80**	**4.80**	4.50	4.50
Liability				
Inflation Rate (Wage)	**4.70**	**5.10**	3.80	4.70
Superimposed Inflation	**4.00**	**4.00**	4.00	4.00
Total Inflation*	**8.70**	**9.10**	7.80	8.70
Discount Rate	**4.80**	**4.80**	4.50	4.50

* The total inflation rate is determined by compounding the wage and superimposed inflation rates.

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 2011 and 2010 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.

(e) Claims Recoveries Written-Off

Recoveries arise from instances where the RiskCover Fund seeks to recover the costs of a claim paid from a third party or the insured.

In accordance with Australian Accounting Standards, 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 Comprehensive Income.

In 2011, there were $111,499 (2010: $38,460) amounts written-off in relation to RiskCover Fund claims.

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

(f) Credit Risk

The following tables provide information about the quality of the RiskCover Fund's credit risk exposure in respect of reinsurance and other recoveries on claims already paid and on claims which remained outstanding at the end of the reporting period, but not yet 'invoiced' or claimed from relevant parties. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating. Ratings that fall outside of the range AAA to BBB and those which cannot be reliably rated, such as estimates of unknown third party recoveries are classified as speculative grade. Input tax credits recoverable from the Australian Taxation Office have all been classified as AAA rating.

	2011 ($'000)					
	AAA	AA+ to AA-	A+ to A-	BBB	Speculative Grade	Total
- Fire and General	2,733	358	493	-	1,362	4,946
- Workers' Compensation	2,749	-	-	-	10,329	13,078
- Liability	2,599	-	-	-	1,768	4,367
Total Reinsurance and Other Recoveries	**8,081**	**358**	**493**	**-**	**13,459**	**22,391**

	2010 ($'000)					
	AAA	AA+ to AA-	A+ to A-	BBB	Speculative Grade	Total
- Fire and General	3,181	554	690	-	1,468	5,893
- Workers' Compensation	2,253	-	-	-	8,309	10,562
- Liability	2,271	-	-	-	1,411	3,682
Total Reinsurance and Other Recoveries	7,705	554	690	-	11,188	20,137

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

(f) Credit Risk (continued)

The following table provides further information regarding the ageing of amounts receivable for premium debtors, reinsurance and other recoveries on paid claims at the end of the reporting period:

2011 ($'000)

Neither Past Due nor Impaired	Past Due but Not Impaired 0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired	Total
20	25	-	-	57	-	**102**

2010 ($'000)

Neither Past Due nor Impaired	Past Due but Not Impaired 0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired	Total
226	82	-	80	-	-	388

38. RISKCOVER FUND FINANCIAL STATEMENTS (continued)

REFERENCES TO THE RISKCOVER FUND FINANCIAL STATEMENTS (continued)

(g) Liquidity Risk

The following tables detail the maturity profile of the RiskCover Fund's gross discounted outstanding claims liability at the end of the reporting period:

2011 ($'000)

	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability					
- Fire and General	52,263	-	-	-	52,263
- Workers' Compensation	108,064	65,410	84,002	46,659	304,135
- Liability	20,359	21,999	49,899	44,166	136,423
Total Outstanding Claims Liability	**180,686**	**87,409**	**133,901**	**90,825**	**492,821**

2010 ($'000)

	Maturity in				
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
Outstanding Claims Liability					
- Fire and General	54,312	-	-	-	54,312
- Workers' Compensation	89,097	54,975	70,151	35,041	249,264
- Liability	20,870	19,864	45,960	32,820	119,514
Total Outstanding Claims Liability	164,279	74,839	116,111	67,861	423,090

(h) Reconciliation of Loss to Net Cash Flow from Operating Activities

	2011 $'000	2010 $'000
Loss	**(11,392)**	(10,296)
Decrease/(Increase) in Assets		
Current Receivables	**4,076**	(12,012)
Non-Current Receivables	**(9,680)**	19,570
Increase/(Decrease) in Liabilities		
Current Payables	**1,003**	(12,363)
Current Outstanding Claims Liability	**16,407**	26,048
Non-Current Outstanding Claims Liability	**53,324**	26,381
Net Cash Flow from Operating Activities	**53,738**	37,328

Reconciliation of Cash

Cash and Cash Equivalents 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 and Cash Equivalents	**4,024**	(322)

Insurance Commission of Western Australia
Key Performance Indicators

CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby certify that the Key Performance Indicators of the Insurance Commission of Western Australia (Insurance Commission) for the financial year ended 30 June 2011:

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Insurance Commission; and
- fairly represent the performance of the Insurance Commission.

MICHAEL E WRIGHT
CHAIRMAN
31 August 2011

LEW WATTS
ACTING MANAGING DIRECTOR
31 August 2011

In accordance with a resolution of the Board of Commissioners of the Insurance Commission of Western Australia passed on 31 August 2011.

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

INSURANCE COMMISSION OF WESTERN AUSTRALIA

Report on the Financial Statements
I have audited the accounts and financial statements of the Insurance Commission of Western Australia and the consolidated entity.

The financial statements comprise the Statement of Financial Position as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the Commission and the consolidated entity for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Commission's Responsibility for the Financial Statements
The Commission is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Commission determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Commission, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Insurance Commission of Western Australia and the consolidated entity at 30 June 2011 and their financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

Insurance Commission of Western Australia

Matter of Significance
I draw attention to Note 30 to the financial statements that describes details of inquiries by the Treasurer in August 2011 for information relating to long term solvency levels, transfer of surplus funds to the Consolidated Account and implementation of a dividend policy. The Commission states that these factors may have a material impact on the financial performance of the Commission in future years. I am highlighting this matter because the Treasurer's request was for preliminary information and consequently the potential impact is uncertain. My opinion is not modified in respect of this matter.

Report on Controls
I have audited the controls exercised by the Insurance Commission of Western Australia. The Commission is responsible for ensuring that adequate control is maintained over the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Commission based on my audit conducted in accordance with Australian Auditing Standards.

Opinion
In my opinion, the controls exercised by the Insurance Commission of Western Australia are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

Report on the Key Performance Indicators
I have audited the key performance indicators of the Insurance Commission of Western Australia. The Commission is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing Standards.

Opinion
In my opinion, the key performance indicators of the Insurance Commission of Western Australia are relevant and appropriate to assist users to assess the Commission's performance and fairly represent indicated performance for the year ended 30 June 2011.

Independence
In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing Standards, and other relevant ethical requirements.

COLIN MURPHY
AUDITOR GENERAL
13 September 2011

INSURANCE COMMISSION OF WESTERN AUSTRALIA

The Insurance Commission's **Key Performance Indicators** assist in evaluating its performance in achieving both its stated mission and the achievement against higher level government-specified goals. This report includes our **'Key Outcomes'** which are expressed in the form of key ***Effectiveness*** and ***Efficiency*** **Performance Indicators**. The Performance Indicators are first shown for the Insurance Commission as a whole and then for each business area.

The Insurance Commission's specified desired Key Outcomes are listed in the table below showing the relationship to associated high-level Government Goals.

Government Goal	Services provided by the Insurance Commission	Insurance Commission Key Outcomes
Outcome Based Service Delivery		
Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians.	Timely, equitable and efficient claims management for motor vehicle personal injury claimants.	Minimise the financial hardship of motor vehicle personal injury claimants.
	Provision of affordable premiums to owners of Western Australian registered motor vehicles.	Ensure that all Western Australian motor vehicles using public roads are registered and insured.
	Timely, equitable and efficient claims management for industrial disease claimants.	Minimise the financial hardship of industrial disease claimants.
	RiskCover claims management and claims analysis.	Meet customer risk management and self-insurance needs.
Financial and Economic Responsibility		
Responsibly managing the State's finances through the efficient and effective delivery of services, encouraging economic activity and reducing regulatory burdens on the private sector.	Fund management and investment function.	That the Insurance Commission's revenue is sufficient to meet its expenditure.
	Risk Management Program development and implementation.	Promote and support the growth of risk management practice to maintain the cost of risk to government.

The Performance Indicators relating to the Insurance Commission's outcomes are audited by the Office of the Auditor General. The Performance Indicators of the Insurance Commission's subsidiary, the State Government Insurance Corporation, are disclosed in its Annual Report. Other important indicators providing a broader perspective of the Insurance Commission's performance are included in the Review of Operations section of this Annual Report. Where appropriate, figures from previous years have been re-stated in order to enhance comparison with those of the current year.

equal to or better than target

worse than target

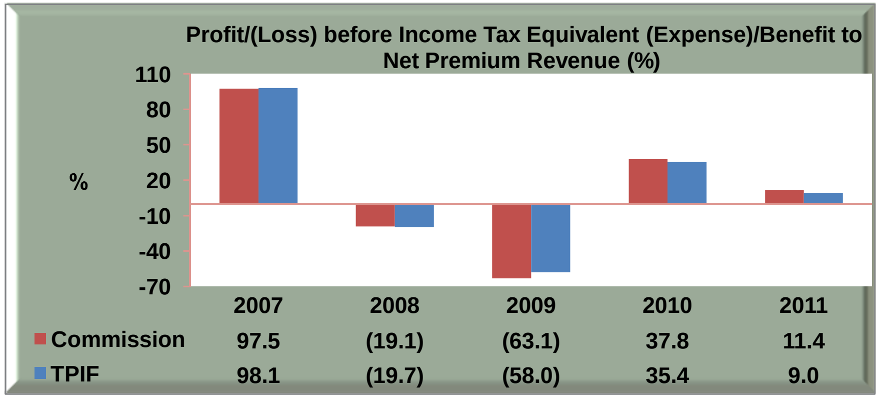
INSURANCE COMMISSION

That the Insurance Commission's revenue is sufficient to meet its expenditure

Effectiveness Performance Indicators

Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Net Premium Revenue indicates the return the Insurance Commission has earned on its net premium revenue.

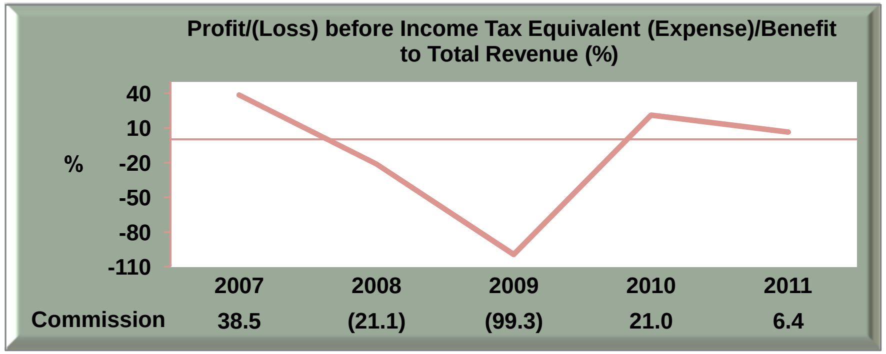
	2011	
	Target	Actual
Insurance Commission	4.8%	11.4%
Third Party Insurance Fund	4.1%	9.0%



Comments: The Insurance Commission indicator is better than target, due to profit before Income Tax of $48.6 million, being $28.6 million (143.0%) better than the targeted profit of $20.0 million. This was due to net investment income of $232.2 million which is $116.7 million (101.0%) better than target. Premium revenue is $9.0 million (2.1%) better than target. This is partially offset by net claims incurred which is $72.5 million (16.3%) worse than target and finance costs being $17.4 million (80.8%) worse than target. Acquisition costs are $4.4 million (31.2%) worse than target and other underwriting and administration expenses are $4.4 million (5.9%) worse than target. The *Third Party Insurance Fund* indicator is also better than target with a profit before Income Tax of $38.3 million, being $21.2 million (123.9%) above the targeted profit of $17.1 million. This was due to net investment income being $89.2 million (88.8%) above target but partially offset by net claims incurred which is $68.6 million (15.5%) worse than target.

Profit/(Loss) before Income Tax Equivalent (Expense)/Benefit to Total Revenue indicates the return the Insurance Commission has earned on its total revenue (including investment revenue).

	2011	
	Target	Actual
Insurance Commission	3.1%	6.4%



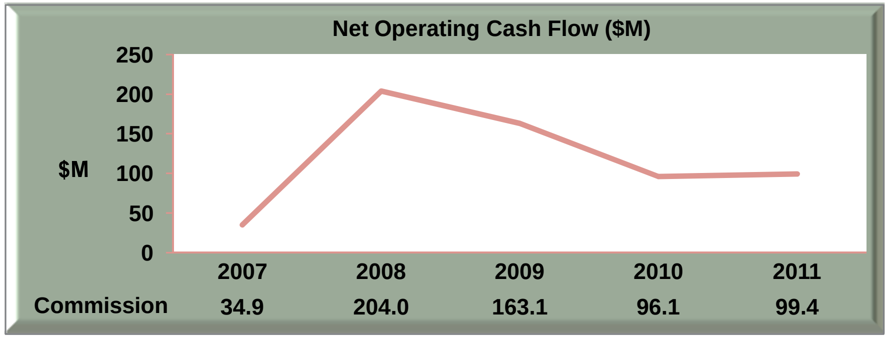
Comments: This indicator is better than target due to profit before Income Tax of $48.6 million, being $28.6 million (143.0%) better than the targeted profit of $20.0 million. This was due to net investment income of $232.2 million which is $116.7 million (101.0%) better than target. Premium revenue is $9.0 million (2.1%) better than target. This is partially offset by net claims incurred which is $72.5 million (16.3%) worse than target and finance costs being $17.4 (80.8%) million worse than target. Acquisition costs are $4.4 million (31.2%) worse than target and underwriting and administration expenses is $4.4 million (5.9%) worse than target. Total Revenue of $758.8 million was $114.5 million (17.8%) better than the target of $644.3 million. This is due to investment revenue (including movements in fair value) being $93.3 million (48.5%) better than target, recoveries being $15.4 million (392.2%) better than target and premium revenue being $9.0 million (2.1%) better than target.

INSURANCE COMMISSION

Effectiveness Performance Indicators (continued)

Net Operating Cash Flow equals receipts less payments from the operating activities of the Insurance Commission. It excludes cash flows from investing activities. Refer to the *Statement of Cash Flows - Net Cash Flow from Operating Activities.*

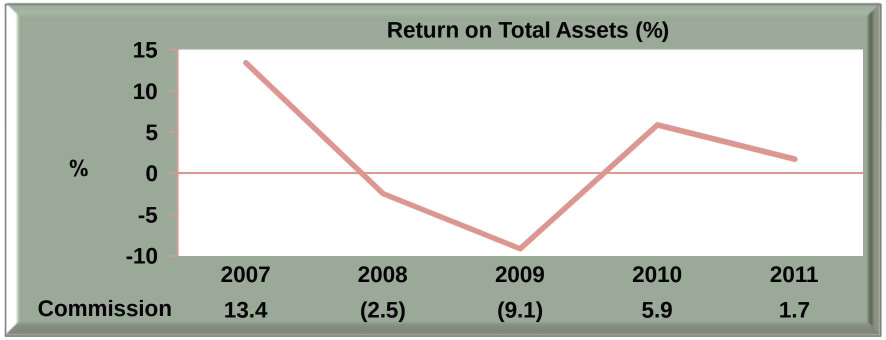
	2011 Target	2011 Actual
Insurance Commission ($M)	-27.3	99.4



***Comments*:** The **Net Operating Cash Inflow** of $99.4 million is $126.7 million (464.1%) better than the targeted net operating cash outflow of $27.3 million. In respect to receipts, cash flow net income from investing activities is $75.4 million (74.1%) better than target. In respect to payments, income tax equivalent payments were not required to be paid equating to a $79.2 million (99.0%) better than target result. Interest paid to RiskCover is $19.4 million (94.7%) worse than target resulting from better than expected investment return by the Insurance Commission. The Insurance Commission made an unbudgeted intercompany payment of $18.5 million to settle a debt owing to the State Government Insurance Corporation. Claims payments are $10.1 million better than target.

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 (total average assets excludes the Right of Indemnity asset from WorkCover WA *(Refer Note 6 to the Financial Statements*).

	2011 Target	2011 Actual
Insurance Commission	0.7%	1.7%



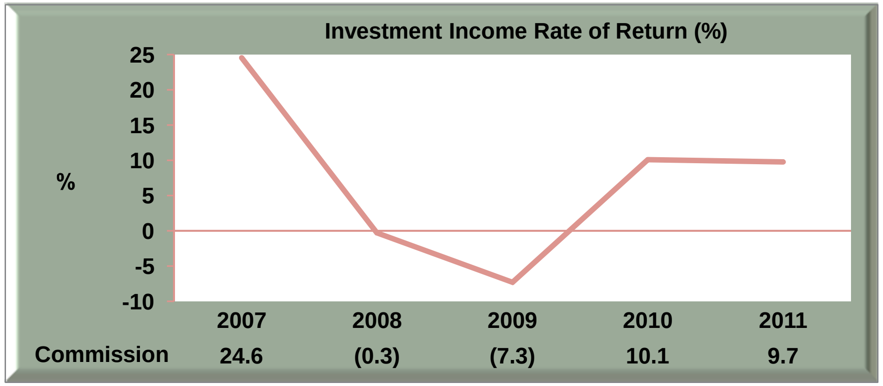
Comments: The **Return on Total Assets** is above target due to profit before Income Tax of $48.6 million, being $28.6 million (143.0%) better than the targeted profit of $20.0 million. This was due to net investment income of $232.2 million which is $116.7 million (101.0%) better than target. Premium revenue is $9.0 million (2.1%) better than target. This is partially offset by net claims incurred which is $72.5 million (16.3%) worse than target and finance costs being $17.4 million (80.8%) worse than target. Acquisition costs is $4.4 million (31.2%) worse than target and underwriting and administration expenses is $4.4 million (5.9%) worse than target. There was also an increase in Average Total Assets (excluding the WorkCover WA indemnity) to $2,818.5 million, which is $78.8 million (2.9%) better than the target of $2,739.7 million.

INSURANCE COMMISSION

Effectiveness Performance Indicators (continued)

Investment Income Rate of Return for the Insurance Commission provides the percentage rate of return (excluding income received from investments previously written-off) on its weighted average investment assets. This calculation includes non-investment property net income.

	2011	
	Target	Actual
Insurance Commission	5.1%	9.7%

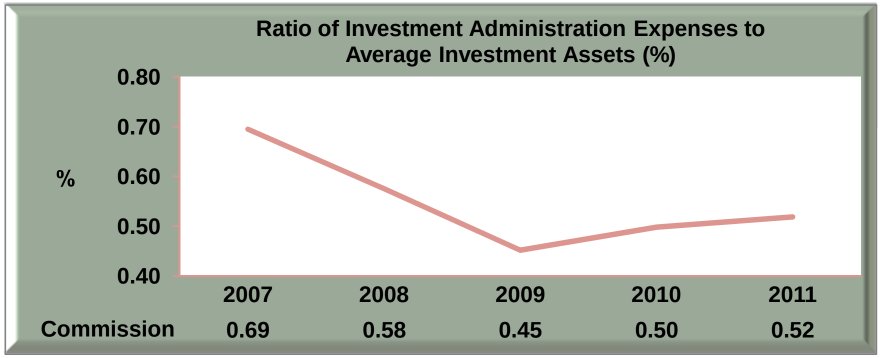


Comments: The **Investment Income Rate of Return** for 2011 of 9.7% is significantly better than the target of 5.1% as financial markets continued to move higher. All asset class returns were better than target (Australian Shares 8.9% versus target 6.5%, Global Shares 13.2% versus target 7.2%, Australian Fixed Interest 5.7% versus target 5.4%, Global Fixed Interest 10.2% versus target 6.0%, Alternative Assets 9.0% versus target 8.0%, Property 11.8% versus target 2.5%, Cash 6.0% versus target 5.0%). This pleasing outcome masks the ongoing volatility of financial markets experienced during 2011.

Efficiency Performance Indicators

Ratio of Investment Administration Expenses to Average Investment Assets is a useful measure of the Insurance Commission's efficiency in managing its investments. Non-investment property assets are included in the calculation.

	2011	
	Target	Actual
Insurance Commission	0.48%	0.52%

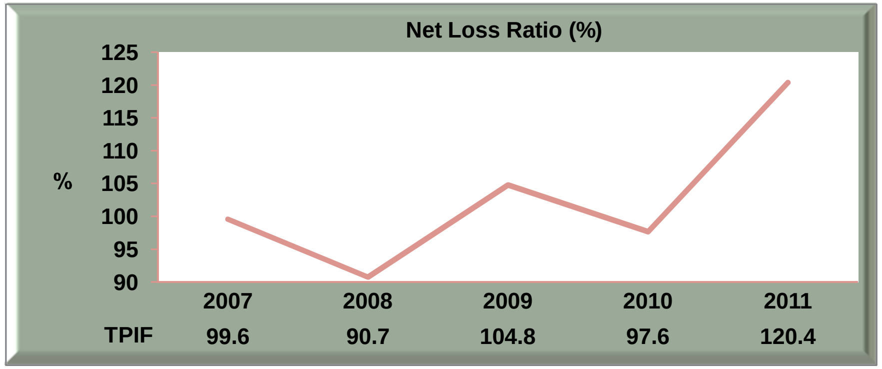


Comments: The **Ratio of Investment Administration Expenses to Average Investment Assets** of 0.52% for the year exceeded the target of 0.48% due to higher investment expenses of $15.4 million (target $13.4 million). Higher investment expenses resulted from performance fees paid to investment managers. Average investment assets increased to $2,955.4 million (target $2,812.9 million).

Efficiency Performance Indicators (continued)

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.

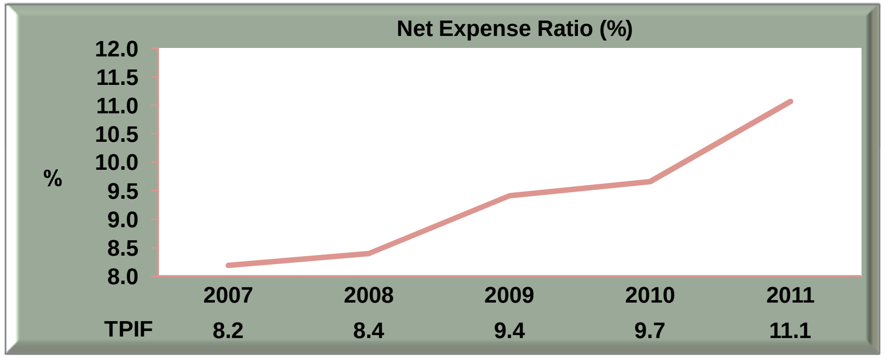
	2011 Target	2011 Actual
Third Party Insurance Fund	106.4%	120.4%



Comments: The **Net Loss Ratio** is worse than target primarily due to higher than targeted Net Claims Incurred which resulted from a substantial negative movement in outstanding claims of $142.1 million which was $83.4 million (142.1%) worse than the target of $58.7 million. Net Premium Revenue was $8.6 million (2.1%) better than target.

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 or debt recovery costs.

	2011 Target	2011 Actual
Third Party Insurance Fund	10.4%	11.1%

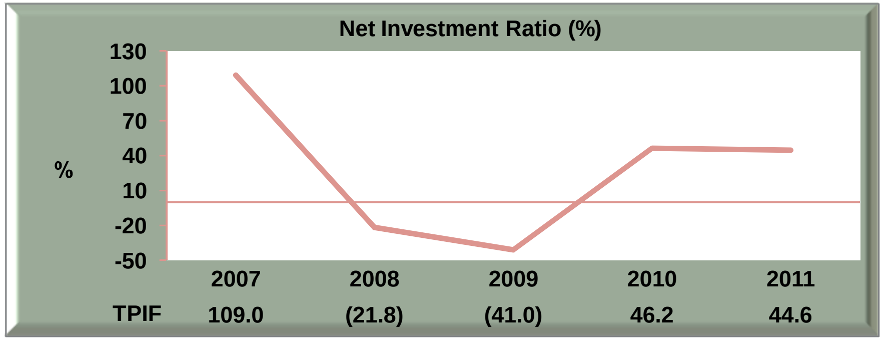


Comments: The **Net Expense Ratio** is worse than target, resulting from acquisition costs being $4.4 million (31.2%) higher than target and direct administration expenses being $5.3 million (25.5%) worse than target. The latter primarily from project related expenses originally planned to be capitalised but which have had to be expensed at 30 June as a result of uncertainty over whether these projects will proceed as planned.

Efficiency Performance Indicators (continued)

Net Investment Ratio represents net investment income as a percentage of net premium revenue.

	2011	
	Target	Actual
Third Party Insurance Fund	24.1%	44.6%



Comments: The **Net Investment Ratio** is significantly better than target, due to the Insurance Commission's better than expected investment income rate of return of 9.7% (target 5.1%). All asset class returns were better than target (Australian Shares 8.9% versus target 6.5%, Global Shares 13.2% versus target 7.2%, Australian Fixed Interest 5.7% versus target 5.4%, Global Fixed Interest 10.2% versus target 6.0%, Alternative Assets 9.0% versus target 8.0%, Property 11.8% versus target 2.5%, Cash 6.0% versus target 5.0%). This pleasing outcome masks the ongoing volatility of financial markets experienced during 2011.

THIRD PARTY INSURANCE FUND

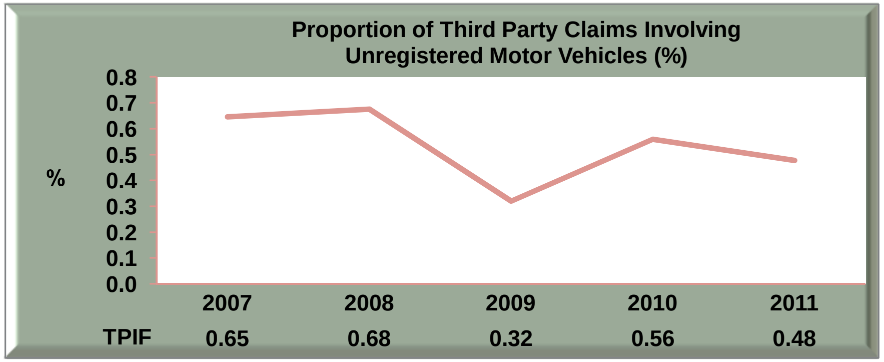
The **Third Party Insurance Fund** issues and undertakes liability under policies of insurance as required by the *Motor Vehicle (Third Party Insurance) Act 1943.* In accordance with this Act, the owners and drivers of over 2.4 million Western Australian registered vehicles (which includes caravans and trailers) are provided with unlimited indemnity against injury claims resulting from motor vehicle accidents under the Compulsory Third Party (Personal Injury) Insurance scheme.

(a) That the Fund's revenue is sufficient to meet its expenditure (refer Insurance Commission Indicators for this outcome)

(b) Ensure that all Western Australian motor vehicles using public roads are registered and insured

Effectiveness Performance Indicators

The **Proportion of Third Party Claims Involving Unregistered Motor Vehicles** measures the number of claims received involving unregistered motor vehicles compared to the total number of claims received.

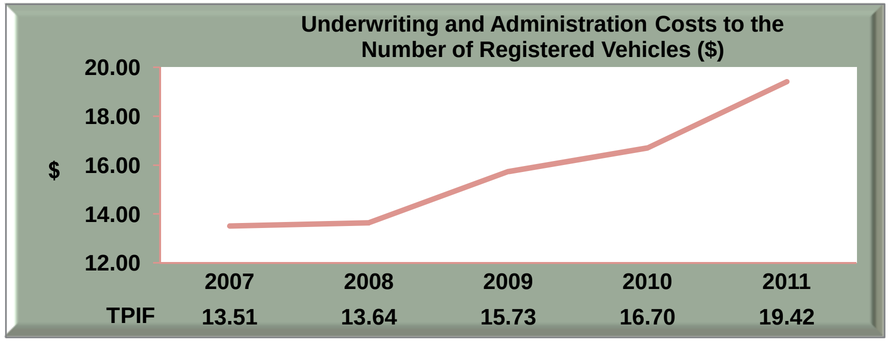


	2011 Target	2011 Actual
Third Party Insurance Fund	0.00%	0.48%

Comments **:** The **Proportion of Third Party Claims Involving Unregistered Motor Vehicles** is unfavourable compared to target. The number of claims involving unregistered motor vehicles in 2011 reduced to 13 from last year's total of 15 although the number of new claims received for this accident year was higher than 2010 (2,728 for 2011 compared to 2,683 for 2010). The overall net result is a marginal improvement in 2011 compared to the 2010 result.

Efficiency Performance Indicators

Underwriting and Administration Costs to the Number of Registered Vehicles measures the cost of administering the TPIF per registered vehicle in Western Australia. Accident prevention and debt recovery costs are excluded from this calculation.



	2011 Target	2011 Actual
Third Party Insurance Fund	$18.14	$19.42

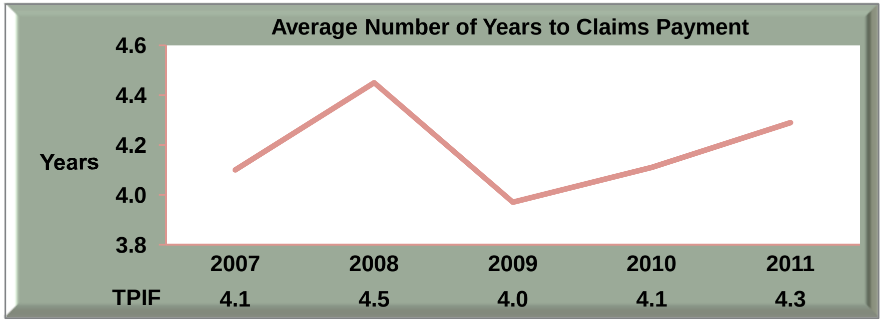
Comments: **Underwriting and Administration Costs to the Number of Registered Vehicles** is unfavourable compared to target, resulting from higher than target acquisition and direct administration costs. In relation to acquisition costs, commission payments to the Department of Transport for the collection of CTP premiums were 31.2% higher than forecast, mainly due to $3.1 million of deferred acquisition costs that were expensed at 30 June 2011 following an actuarial assessment of unearned premiums compared to unexpired risk liabilities. Direct Administration costs were also substantially higher than target primarily due to project related expenses originally planned to be capitalised but which have had to be expensed at the 30 June as a result of uncertainty over whether these projects will proceed as planned.

(c) Minimise the financial hardship of Motor Vehicle Personal Injury Claimants

Effectiveness Performance Indicators

The **Average Number of Years to Claims Payment** represents the weighted average number of years between the accident date and the date of claim payments made during this financial year (actuarial calculation). This Performance Indicator relates to long-tail claims. It is calculated exclusive of payments made during a year in respect of claims incurred during the current accident year.

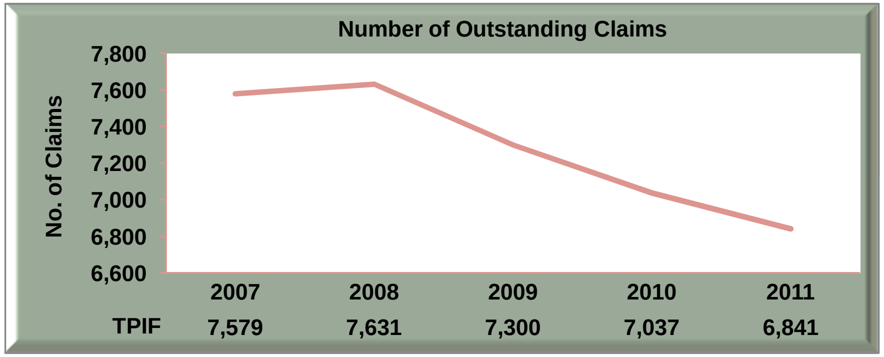
	2011 Target	2011 Actual
Third Party Insurance Fund	4.2	4.3



Comments: The **Average Number of Years to Claims Payment** is broadly in line with target and reflects the fact that overall, the actual proportion of claims payments for each accident year is comparable to projections, albeit with some differences between years.

The **Number of Outstanding Claims** as at year-end (accidents from all years).

	2011 Target	2011 Actual
Third Party Insurance Fund	6,856	6,841



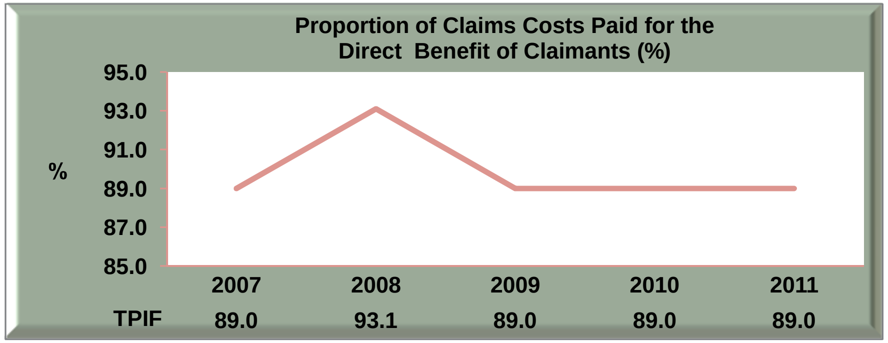
Comments: The **Number of Outstanding Claims** is better than target with 196 fewer active claims outstanding at 30 June 2011 than at 30 June 2010. This results from a lower than expected number of new claims received (3,885 actual compared to a target of 3,990) and only a marginally lower than the targeted number of claims closures (4,081 actual number of claims closed compared to the 4,135 target).

THIRD PARTY INSURANCE FUND

Effectiveness Performance Indicators (continued)

The **Proportion of Claims Costs Paid for the Direct Benefit of Claimants** reflects the TPIF's effectiveness in minimising the financial hardship of claimants. This measure excludes costs such as Legal and Investigation costs ordinarily incurred in the management of a claim.

	2011 Target	2011 Actual
Third Party Insurance Fund	90.0%	89.0%

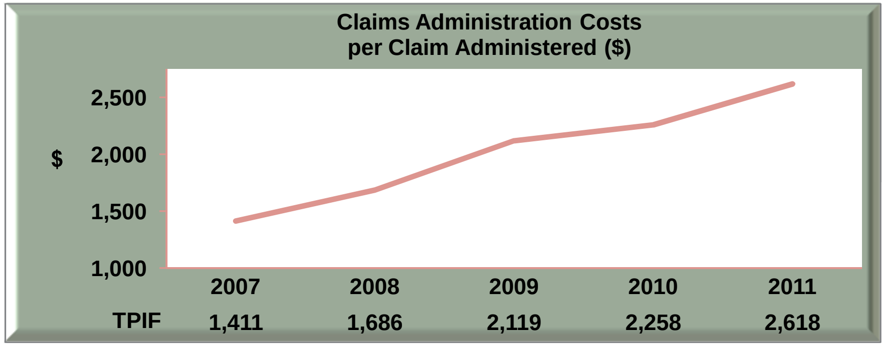


Comments: The **Proportion of Claims Costs Paid for the Direct Benefit of Claimants** is marginally worse than target. Total claims payments for the year were $381.2 million, of which $338.6 million (88.9%) was paid for the direct benefit of claimants by way of pecuniary and non-pecuniary losses, including $278.3 million (73.0%) for general damages, past and future economic loss, past and future medical expenses and past and future care and services. The balance includes sundry expenses of $20.0 million for ambulance and hospital expenses and $21.4 million in claimants' legal costs.

Efficiency Performance Indicators

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total Administration Costs divided by the number of claims administered in the period. Accident prevention and commissions paid for premium collection are excluded from this calculation. Debt recovery costs are also excluded.

	2011 Target	2011 Actual
Third Party Insurance Fund	$2,649	$2,618

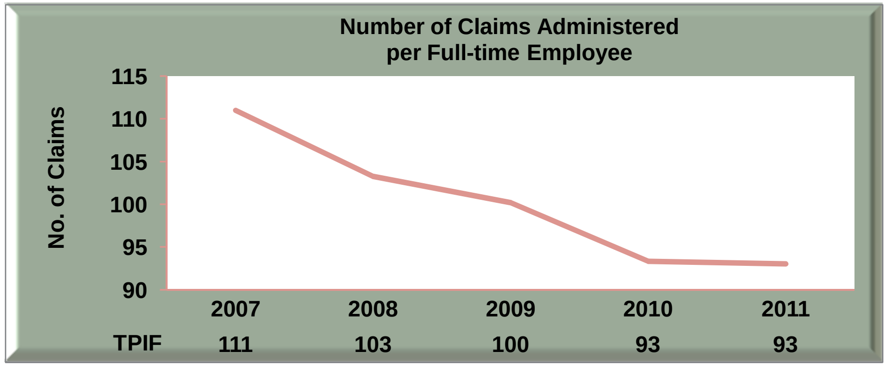


Comments: **Claims Administration Costs per Claim Administered** is better than target, notwithstanding claims administration costs being higher than target due to the deferment of major projects, which resulted in amounts previously planned to be capitalised being expensed, whilst the total number of claims administered is marginally lower than target as a result of the lower than expected number of claims finalisations.

THIRD PARTY INSURANCE FUND

Efficiency Performance Indicators (continued)

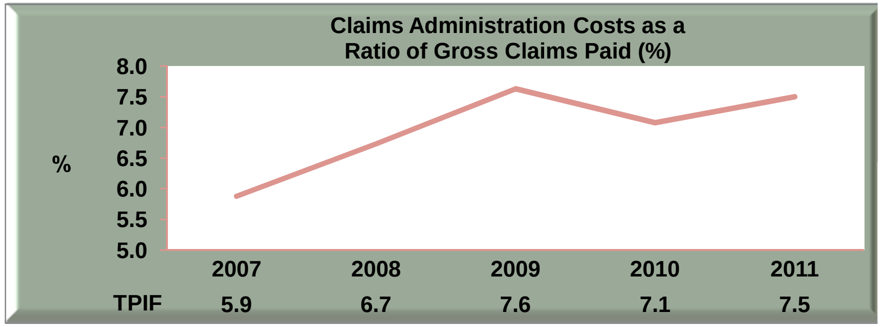
The **Number of Claims Administered per Full-time Employee** provides a measure of efficiency of the operation of the Fund, by measuring the volume of claims handled by all staff directly and indirectly involved in the claim management activities.



	2011 Target	2011 Actual
Third Party Insurance Fund	88	93

Comments: **Number of Claims Administered per Full-time Employee** is better than target. The number of claims administered was marginally below expected (10,922 actual compared to a target of 11,084). There were also less full-time equivalent employees (FTEs) (117.4 actual compared to 125.5 target). The lower than expected FTE count results from a number of positions which remained unfilled at year-end.

Claims Administration Costs as a Ratio of Gross Claims Paid indicates how efficient the TPIF is in administering claims compared to the overall claims cost. Accident prevention and commissions paid for premium collection are excluded from this calculation. Debt recovery costs are also excluded.



	2011 Target	2011 Actual
Third Party Insurance Fund	7.6%	7.5%

Comments: **Claims Administration Costs as a Ratio of Gross Claims Paid** is marginally better than target, notwithstanding claims administration costs being higher than target primarily due to project related expenses originally planned to be capitalised but which have had to be expensed at 30 June as a result of uncertainty over whether these projects will proceed as planned. Gross claims payments are marginally lower than target.

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 RiskCover Fund is underwritten by the Crown and is managed by the Insurance Commission on behalf of the State Government and its participating public authorities. The Department of Treasury supervises the activities and performance of the Insurance Commission in the management of the RiskCover Fund. The Insurance Commission earns a management fee from this activity, equivalent to the proportion of the Insurance Commission's services used by RiskCover.

RiskCover's assets are not owned by the Insurance Commission and are therefore not consolidated. Monies which are surplus to immediate operational requirements are invested in the investment pool of the Insurance Commission and are 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 Insurance Commission.

(a) Meet customer risk management and self-insurance needs

Effectiveness Performance Indicator

Each year RiskCover conducts a survey of its Public Authority customer base. The **Customer Satisfaction Survey Score** is the percentage of those respondents to the survey who rated RiskCover's performance as either good, very good or excellent. This indicator provides the average customer satisfaction result from the survey.

	2011	
	Target	Actual
RiskCover	97.5%	95.9%

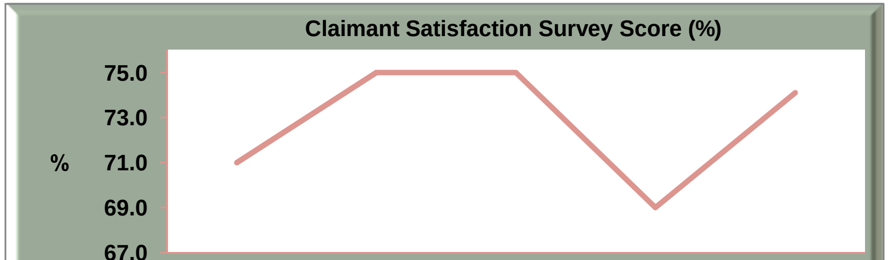
Comments: Whilst this indicator is slightly down on target, the RiskCover Division has continued to rate highly in customer satisfaction. Of the agencies that responded, 95.9% had a 'Good' or better impression of RiskCover.

RISKCOVER

Effectiveness Performance Indicator (continued)

RiskCover conducts a survey of claimants who received services from RiskCover. The **Claimant Satisfaction Survey Score** is the proportion of claimants, who dealt directly with RiskCover, that were satisfied or very satisfied with the level of service provided by RiskCover as per the independent survey conducted.

	2011 Target	2011 Actual
RiskCover	77.0%	74.1%



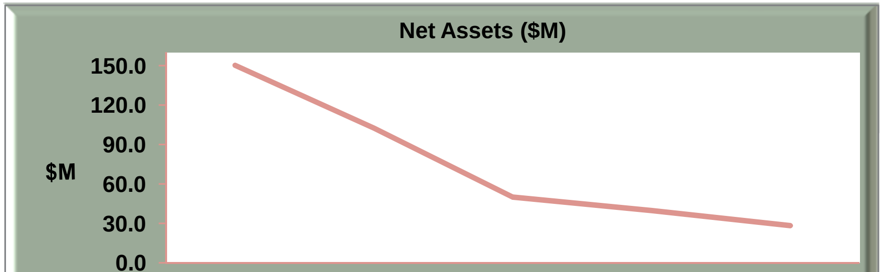
	2007	2008	2009	2010	2011
RiskCover	71.0	75.0	75.0	69.0	74.1

Comments: This year's **Claimant Satisfaction Survey** score was an improvement on 2010, with 74.1% of claimants being satisfied with RiskCover's overall level of service. RiskCover will endeavour to improve on this result further by working in partnership with client agencies and using the feedback from the survey, to ensure that claimants continue to receive a high level of service.

Efficiency Performance Indicators

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.

	2011 Target	2011 Actual
RiskCover ($M)	60.6	28.2



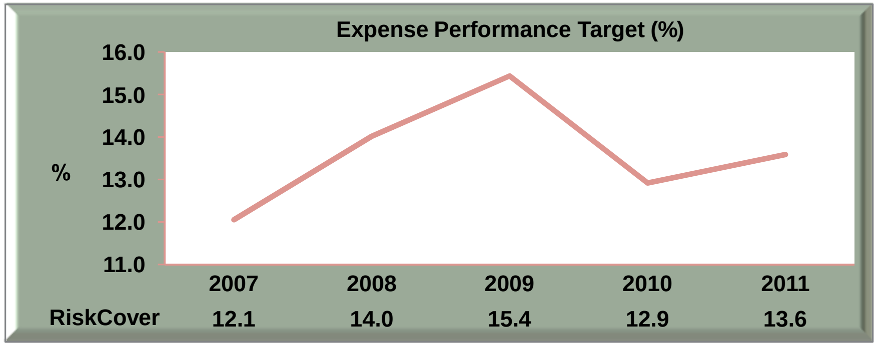
	2007	2008	2009	2010	2011
RiskCover	150.4	102.5	49.9	39.6	28.2

Comments: **Net Assets** are $32.4 million less than target due to a large negative movement in the outstanding claims being $50.3 million (259.3%) worse than target. This was predominantly related to the workers' compensation risk. This was partially offset by a better than anticipated investment return from the Insurance Commission, being $19.4 million (94.6%) better than target.

RISKCOVER

Efficiency Performance Indicators (continued)

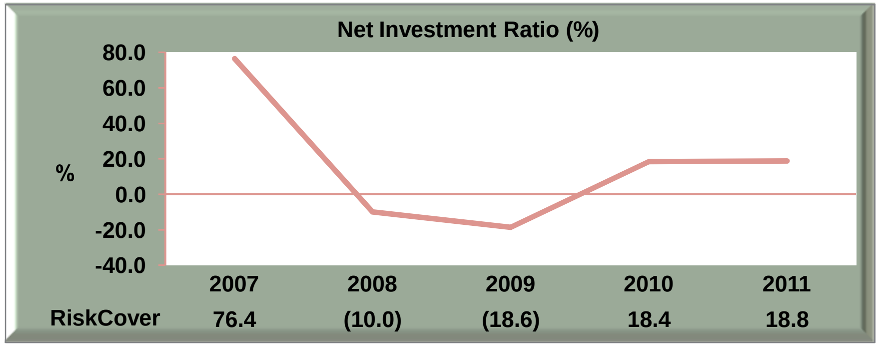
The **Expense Performance Target** compares the total RiskCover Management Fee to that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.



	2011 Target	2011 Actual
RiskCover	13.3%	13.6%

Comments: The **Expense Performance Target** was slightly worse than target due to agency contributions being $14.2 million (6.5%) worse than target. This is offset by the RiskCover Management Fee being $1.3 million (4.5%) better than target.

Net Investment Ratio represents net investment income as a percentage of contributions collected.



	2011 Target	2011 Actual
RiskCover	9.9%	18.8%

Comments: The **Net Investment Ratio** is significantly better than target, due to a better than expected investment income rate of return for the Insurance Commission. All asset class returns were better than target (Australian Shares 8.9% versus target 6.5%, Global Shares 13.2% versus target 7.2%, Australian Fixed Interest 5.7% versus target 5.4%, Global Fixed Interest 10.2% versus target 6.0%, Alternative Assets 9.0% versus target 8.0%, Property 11.8% versus target 2.5%, Cash 6.0% versus target 5.0%). This pleasing outcome masks the ongoing volatility of financial markets experienced during 2011. Contributions collected is $14.2 million (6.5%) worse than target.

RISKCOVER

(b) To promote and support the growth of risk management practice to minimise the cost of risk to Government

Effectiveness Performance Indicator

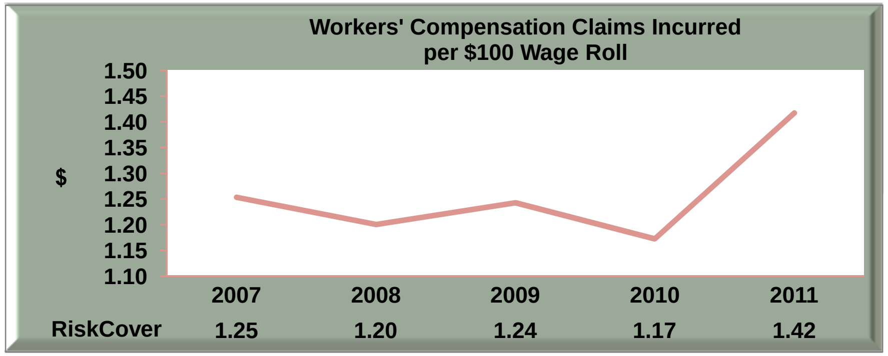
The **Risk Management Performance Score** indicates the average score resulting from the risk management practices survey which is conducted annually. The maximum score achievable is 20.

	2011	
	Target	Actual
RiskCover	15	15

Comments: The target result of 15 out of 20 was achieved. RiskCover continues to work extensively with agencies to improve their risk management practices.

The **Workers' Compensation Claims Incurred per $100 Wage Roll** indicator shows how effective the RiskCover Division is in keeping the cost of Workers' Compensation claims to a minimum. The ratio is expressed as the cost per $100 of wage roll declared by the State Government agencies included in the RiskCover Scheme.

	2011	
	Target	Actual
RiskCover	$1.10	$1.42



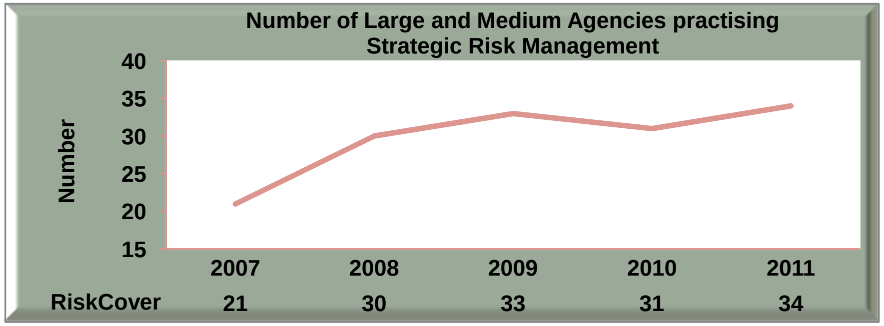
Comments: The 2011 result is substantially worse than target. This was mainly due to a significant increase in the total Government Agency wage roll, compared with only a comparatively slight increase in claim payments to target.

RISKCOVER

Effectiveness Performance Indicator (continued)

This indicator demonstrates RiskCover's success rate in introducing and implementing the principles and benefits of Strategic Risk Management practices in the larger WA State Government agencies.

	2011 Target	2011 Actual
RiskCover	35	34

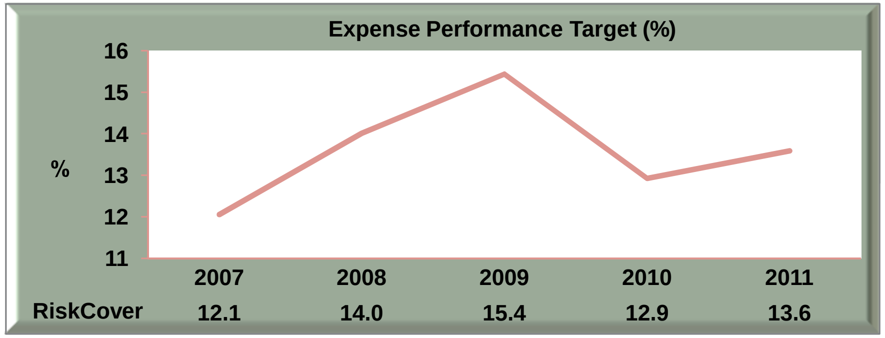


Comments: This is a commendable result for the 2011 financial year, with 34 large and medium agencies practising strategic risk management. Agencies are continuing to integrate risk thinking into their planning processes which will yield future benefits.

Efficiency Performance Indicators

The **Expense Performance Target** compares the total RiskCover Management Fee with that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.

	2011 Target	2011 Actual
RiskCover	13.3%	13.6%



Comments: The **Expense Performance Target** was slightly worse than target due to agency contributions being $14.2 million (6.5%) worse than target. This is offset by the RiskCover Management Fee being $1.3 million (4.5%) better than target.

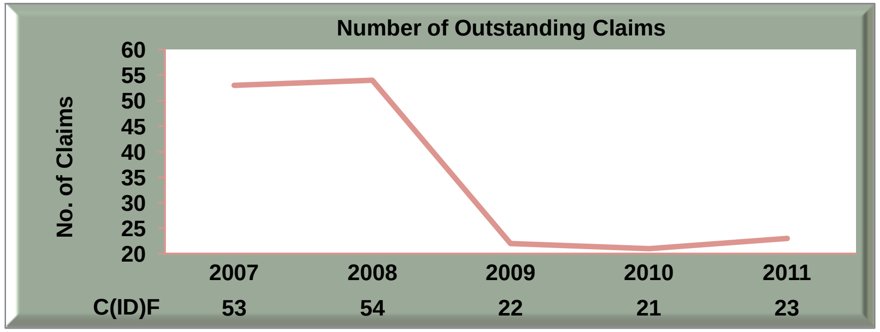
COMPENSATION (INDUSTRIAL DISEASES) FUND

To minimise the financial hardship of Industrial Disease claimants

Effectiveness Performance Indicators

The **Number of Outstanding Claims** as at year-end (accidents from all years).

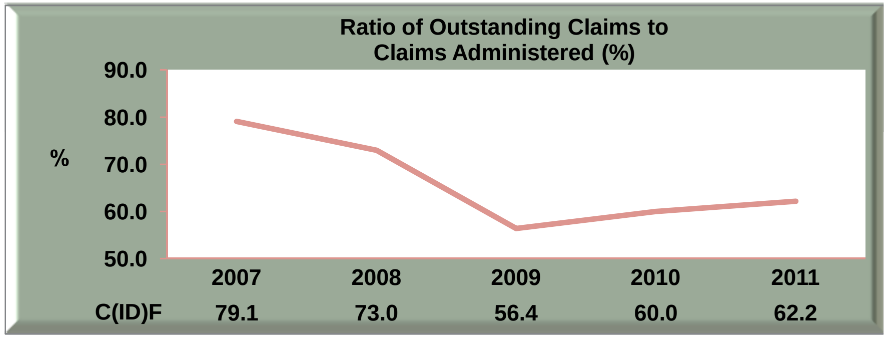
	2011	
	Target	Actual
C(ID)F	27	23



Comments: As the latency of development of Industrial Disease claims is over a number of decades and the number of incidents being relatively small, an accurate prediction of the number of outstanding claims at the end of any one year is problematic. The 2011 result is due to fewer new claims than anticipated being reported during the period.

The **Ratio of Outstanding Claims to Claims Administered** shows how effectively claims are managed and finalised for the best outcome for all parties.

	2011	
	Target	Actual
C(ID)F	71.1%	62.2%



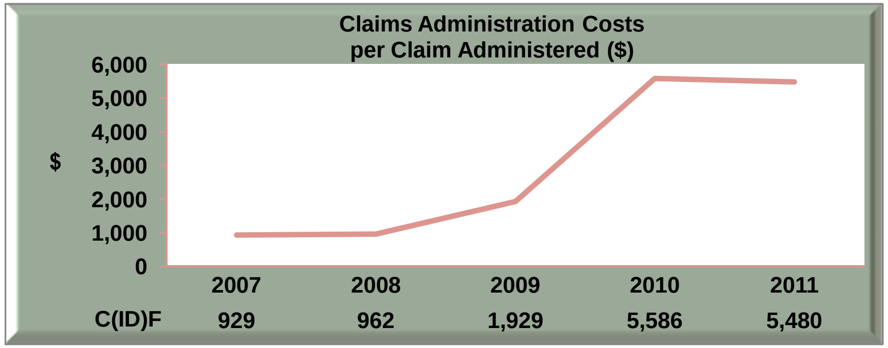
Comments: As the latency of development of Industrial Disease claims is over a number of decades and the number of incidents being relatively small, an accurate prediction of the number of outstanding claims at the end of any one year is problematic. There has been a slight increase in 2011 as a result of fewer than anticipated Industrial Disease claims being closed.

COMPENSATION (INDUSTRIAL DISEASES) FUND

Efficiency Performance Indicator

The **Claims Administration Costs per Claim Administered** indicates the efficiency of claims administration as an average of the total Administration Costs divided by the number of claims administered in the period.

	2011	
	Target	**Actual**
C(ID)F	$5,945	$5,480



Comments: The result for the 2011 financial year is better than target, which is a slight improvement on 2010. The increasing trend over the past three years has been due to a combination of increases in administration expenses and fewer new claims being lodged.

The following definitions have been provided to assist readers in gaining a better understanding of this Annual Report and its Financial Statements.

1. **ACERH**
Australian Centre for Economic Research on Health.

2. **ACQUISITION COSTS**
Acquisition costs relate to all costs charged by the Department of Transport for administering the collection of motor vehicle third party insurance premiums.

3. **ASSET REVALUATION RESERVE**
The asset revaluation reserve represents the surplus in fair value of land and buildings after revaluation.

4. **CLAIMS**

Average Term to Settlement
The term from notification of claim to its settlement date.

Case Estimate
An assessment of the amount outstanding for an individual claim made by the insurer for each claim reported.

Case Estimate Payment Factors
Used in determining the estimate amount of claims payments, may for example include, size of court awards, and changes in claimant attitudes.

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.

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.

Claims Handling/Management Expenses
The costs incurred in relation to the administration and processing of claims.

Discount Rate
The rate used to adjust expected future payments for the time value of money.

EISF Act
Employers Indemnity Supplementation Fund Act (1980)

IBNR and IBNER Claims
Incurred but not reported (IBNR) claims arise from events which have occurred but have not been reported at balance date. Incurred but not enough reported (IBNER) claims arise from events which have occurred and been reported as at the end of the reporting period, 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.

Inflation Rates
Expected future payments are inflated to take account of increases in the general economy.

Liability Adequacy Test
An assessment of whether the Unearned Premium Liability (less any deferred acquisition costs) recognised in the Statement of Financial Position, is sufficient to meet the estimated present value of future cashflows, plus an additional risk margin, related to future claims, that arise under current general insurance obligations.

If the Unearned Premium Liability is assessed to be insufficient to meet these future claims costs, then a deficiency is recognised in the Statement of Comprehensive Income and an additional liability presented in the Statement of Financial Position as "Unexpired Risk Liability".

Liability for Outstanding Claims
A provision for the future estimated cost of claims outstanding as at the end of the reporting period, 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.

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.

Other Recoveries
Other amounts recovered or recoverable (e.g. salvage) in relation to claims.

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.

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.

Short-Tail Claims
Claims which are typically settled within one year of the occurrence of the events giving rise to those claims.

Superimposed Inflation Rate
In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards.

Third Party Recoveries
May include amounts recovered from other insurers or private parties.

Unexpired Risk Liability
Arises as a result of an assessed deficiency in the "Liability Adequacy Test".

5. **COMPENSATION (INDUSTRIAL DISEASES) FUND RESERVE**
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 Insurance Commission may only transfer the monies in this Reserve to meet, or assist in meeting, any amounts required to be expended by the Insurance Commission pursuant to the *Mine Workers' Relief Fund Act 1932* 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.

6. **DAIP**
Disability Access and Inclusion Plan

7. **DEFERRED ACQUISITION COSTS**
Acquisition costs are deferred and recognised as assets when they give rise to revenue that will be recognised in future reporting periods.

8. **ESG**
Environmental, Social and Governance.

9. **FINANCE RECOUP / COSTS**
Finance Recoup / Costs includes interest recoup or paid and movements in discounts on receivables.

10. **ICWA LAW PTY LTD**
A proprietary company limited by shares, wholly owned by the Insurance Commission. ICWA Law is registered under the *Corporations Act 2001* and is registered in Western Australia. ICWA Law was created for the sole purpose of providing legal services to the Insurance Commission in relation to the Bell Recovery Action. ICWA Law commenced operations on 2 May 2011.

11. **INSURANCE COMMISSION'S FUNDS**

TPIF	-	Third Party Insurance Fund
C(ID)F	-	Compensation (Industrial Diseases) Fund
GIF	-	Government Insurance Fund
ICGF	-	Insurance Commission General Fund

12. **INVESTMENT EXPENSES**
Investment expenses relates to costs associated with deriving investment income.

13. **INVESTMENT INCOME/LOSS INCLUDING MOVEMENTS IN FAIR VALUE**
Realised and unrealised gains and losses relating to assets classified on the Statement of Financial Position as Financial Assets at Fair Value through Profit or Loss and those associated with the revaluation of investment properties.

14. **MVPI**
Motor Vehicle Personal Injury.

15. **NET MOVEMENT IN UNEXPIRED RISK LIABILITY**
The net movement in Unexpired Risk Liability represents the gross movement less any associated reinsurance or other recoveries.

16. **OCRF**
On-line Crash Reporting Facility.

17. 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.

Net Premium Revenue

Premium revenue plus the outwards reinsurance commission earned less than the outwards reinsurance expense. Net Premium Revenue has previously been referred to as Net Earned Premium.

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 the end of the reporting period.

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 the end of the reporting period.

Unearned Premium

The portion of premium written, which relates to risks for periods of insurance subsequent to the end of the reporting period.

18. 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.

19. 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 Australia and managed by the Insurance Commission.

20. RSC

Road Safety Council.

21. SID

Special Investigations Division.

22. STATE GOVERNMENT INSURANCE CORPORATION (CORPORATION)

The Corporation is a wholly-owned subsidiary of the Insurance Commission. The Corporation exists to run-off small lines of Australian and overseas inwards reinsurance business written between 1988 and 1992.

23. 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.

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