



ANNUAL REPORT 2011

STATE
GOVERNMENT
INSURANCE
CORPORATION

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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

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 State Government Insurance Corporation 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*.

A handwritten signature in black ink, appearing to read 'Michael E Wright', enclosed in a thin black rectangular border.

Michael E Wright
Deputy Chairman of State Government Insurance Corporation
31 August 2011

A handwritten signature in black ink, appearing to read 'Peter Eastwood', enclosed in a thin black rectangular border.

Peter Eastwood
Director of State Government Insurance Corporation
31 August 2011

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 31 August 2011.

CONTACT DETAILS

State Government Insurance Corporation

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PERTH WA 6845

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Website

www.icwa.wa.gov.au

1.0 OVERVIEW

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

1.1 DEPUTY CHAIRMAN'S REVIEW

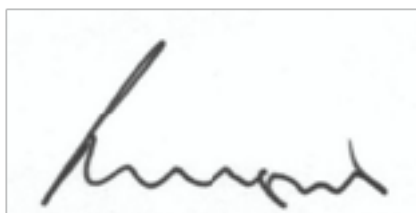
I am pleased to report that for the 2011 financial year, the State Government Insurance Corporation (Corporation) posted a total comprehensive income after tax of \$1.1 million.

The Corporation did not write any new business and remains in existence mainly to run-off small lines of Australian and overseas reinsurance business written between 1988 and 1992. The Insurance Commission's Reinsurance and Underwriting Section is responsible for managing the run-off.

During the 2011 year, the Insurance Commission agreed terms to commute 100 Inwards Reinsurance contracts and closed 25 Inwards Reinsurance claims. Commutation of only those contracts with outstanding claims will not eliminate the possibility of future claims being received on the remaining contracts, but given the age of the portfolio and, the reporting requirements within the contracts, few new claims are expected.

Future administration expenses of the Corporation now exceed the costs of known outstanding claims, which reduced during the year due to the commutations. The actuarially assessed discounted provision for outstanding claims at 30 June 2011, inclusive of a 75 percent risk margin, is \$0.65 million. Approximately 90 percent of this outstanding claims provision is the allowance for future claims administration expenses.

The reduction in outstanding claims liabilities will now allow the Board of Directors to consider options for winding up the Corporation. Were the Corporation to be wound up, its residuary assets, rights and liabilities would then vest in the Insurance Commission.

A handwritten signature in black ink, appearing to read 'Michael Wright', enclosed in a thin black rectangular border.

MICHAEL WRIGHT
DEPUTY CHAIRMAN

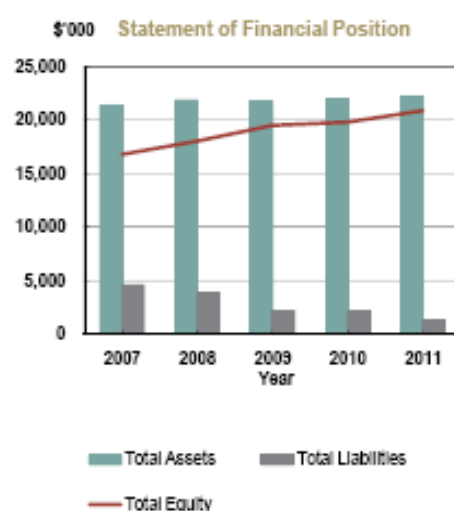
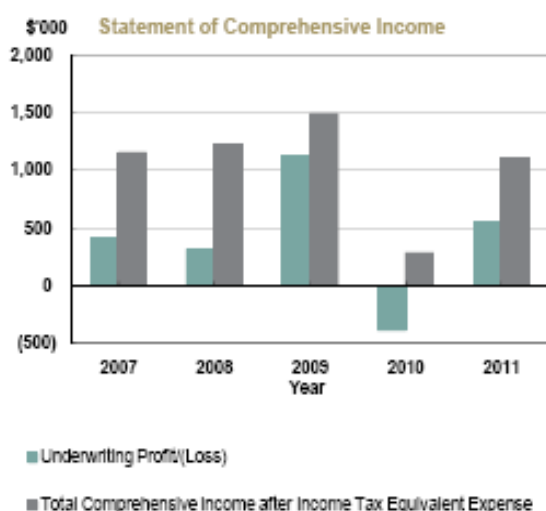
1.2 FINANCIAL OVERVIEW

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2007 \$'000	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000
Net Premium Revenue	2	150	84	-	2	-
Claims Incurred Credit/(Expense)	3	415	565	1,337	(118)	839
Reinsurance and Other Recoveries Expense	2	(4)	(145)	(25)	-	(1)
Net Claims Incurred Credit/(Expense)	4	411	420	1,312	(118)	838
Acquisition Costs		(10)	-	-	-	-
Underwriting and Administration Expenses	3	(147)	(191)	(188)	(267)	(285)
Underwriting Profit/(Loss)		404	313	1,124	(383)	553
Other Income	2	1,238	1,440	1,002	787	1,015
Profit Before Income Tax		1,642	1,753	2,126	404	1,568
Equivalent Expense						
Income Tax Equivalent Expense	5	(493)	(526)	(638)	(121)	(470)
Total Comprehensive Income after Income Tax Equivalent Expense Attributable to the Insurance Commission of WA		1,149	1,227	1,488	283	1,098

STATEMENT OF FINANCIAL POSITION

Other Assets	5,6,11,12	21,384	21,868	21,720	21,905	22,257
Total Assets		21,384	21,868	21,720	21,905	22,257
Outstanding Claims Liability	8	4,059	3,287	1,857	1,873	647
Other Liabilities	7	503	532	326	212	692
Total Liabilities		4,562	3,819	2,183	2,085	1,339
Net Assets		16,822	18,049	19,537	19,820	20,918
Share Capital	9	100,000	100,000	100,000	100,000	100,000
Retained Earnings		(83,178)	(81,951)	(80,463)	(80,180)	(79,082)
Total Equity		16,822	18,049	19,537	19,820	20,918



1.3 OPERATIONAL STRUCTURE

About the State Government Insurance Corporation

The State Government Insurance Commission (SGIC) and the State Government Insurance Corporation (Corporation), trading as SGIO, were established in 1987, following the merging of the Motor Vehicle Insurance Trust and the State Government Insurance Office.

The separation of government and motor vehicle third party, and non-government business commenced in 1989. The SGIO took on the non-government business and was privatised in 1994.

The Corporation is a wholly-owned subsidiary of the Insurance Commission of Western Australia.

The Corporation remains in existence mainly to run-off small lines of Australian and overseas reinsurance business written between 1988 and 1992. The Insurance Commission's Reinsurance and Underwriting Section is responsible for the management of the run-off of the business.

Enabling Legislation

The Corporation was established as a statutory authority under Section 4 of the *Insurance Commission of Western Australia Act 1986* on 5 August 1986 and operates in accordance with this Act.

Responsible Minister

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

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

Relationship with Government of Western Australia

As a wholly-owned subsidiary of the Insurance Commission, the Corporation 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*.

Organisational Structure

The operations of the Corporation are managed by the RiskCover Division of the Insurance Commission.

1.4 BOARD OF DIRECTORS

The Board of Directors of the Corporation has been appointed in accordance with the *Insurance Commission of Western Australia Act 1986*. The Board, at 30 June 2011, comprised:

Vic Evans Dip Mgt Studies, MAICD

Chairman of the Board of Directors

Managing Director, Insurance Commission of Western Australia

Expiry of present term: 30 September 2011

Michael E Wright FAICD

Deputy Chairman

Chairman, Insurance Commission of Western Australia

Chairman, CCK Financial Solutions Limited

Director, Wesbeam Holdings Limited Group

Expiry of present term: 30 November 2012

Peter D Eastwood AM, FCA, FAICD

Director

Commissioner, Insurance Commission of Western Australia

Director, Unimutual Limited

Director, Unimutual Insurance (NZ) Limited

Director, Unimutual (Isle of Man) Limited

Expiry of present term: 30 November 2012

Annemie McAuliffe MLS, Dip Ed, CMC

Director

Commissioner, Insurance Commission of Western Australia

Board Member, WA Potato Marketing Corporation

Expiry of present term: 31 December 2009

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

Sharon Brown**Director**

Commissioner, Insurance Commission of Western Australia
Director, Federal Industry Research and Development Board
Councillor, Technology and Industry Advisory Council WA
Councillor, Defence Reserves Support Council

Expiry of present term: 30 November 2009

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

Directors' Attendance at Meetings in 2011

Board of Directors (Total of 11 Meetings)	
Director	Number of Meetings Attended
Vic Evans	10
Michael Wright	11
Peter Eastwood	10
Sharon Brown	7
Annemie McAuliffe	10

Remuneration

No fees are paid to non-Executive Directors of the Corporation.

2.0 AGENCY PERFORMANCE – REPORT ON OPERATIONS

The Corporation inwards reinsurance business has now been in run-off for 19 years and claims activity has diminished to such an extent that the costs incurred in the general administration of the Corporation now exceed the cost of claim payments.

In 2011, the Insurance Commission agreed terms to commute 100 Inwards Reinsurance contracts and closed 25 Inwards Reinsurance claims, leaving the Corporation with known outstanding claims liabilities of approximately \$50,000. There are now only 29 open Inwards Reinsurance claims.

Future administration expenses of the Corporation now exceed the costs of known outstanding claims, which reduced during the year due to the commutations. The actuarially assessed discounted provision for outstanding claims at 30 June 2011, inclusive of a 75 percent risk margin, is \$0.65 million.

Approximately 90 percent of this outstanding claims provision is the allowance for future claims administration expenses.

The reduction in outstanding claims liabilities will now allow the Board of Directors to consider options for winding up the Corporation. Were the Corporation to be wound up, its residuary assets, rights and liabilities would then vest in the Insurance Commission.

Commutation negotiations will continue although it is apparent that some companies have little interest in commuting due to the relatively small value of outstanding claims.

3.0 SIGNIFICANT ISSUES IMPACTING THE AGENCY

Changes in Written Law

There were no changes in written law during the year that impacted on the core business and operations of the Corporation.

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 and/or any of its Statutory Corporations with respect to its functions, powers and duties, either generally or with respect to a particular matter. The Insurance Commission and/or its subsidiaries are then required to give effect to those directions and to include the text of any direction received in its Annual Report.

The State Government Insurance Corporation did not receive any ministerial directives during 2011.

4.2 GOVERNANCE DISCLOSURES

Disclosure of Interest

There were no disclosures of pecuniary interest by a Director during 2011.

Shares Held by Senior Officers

All authorised and issued shares in the Corporation are owned by the Insurance Commission of Western Australia.

4.3 OTHER FINANCIAL DISCLOSURES; OTHER LEGAL REQUIREMENTS AND GOVERNMENT POLICY REQUIREMENTS

As a wholly-owned subsidiary of the Insurance Commission of Western Australia, the Corporation's 'Other Financial Disclosures'; 'Other Legal Requirements' and 'Government Policy Requirements' are stated in the Insurance Commission of Western Australia Annual Report 2011.

**State Government Insurance Corporation
Financial Statements 2011**

FINANCIAL STATEMENTS 2011 INDEX

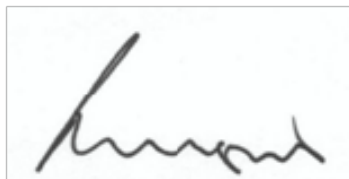
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CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND CHIEF FINANCE OFFICER

State Government Insurance Corporation

The accompanying financial statements of the State Government Insurance Corporation 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.

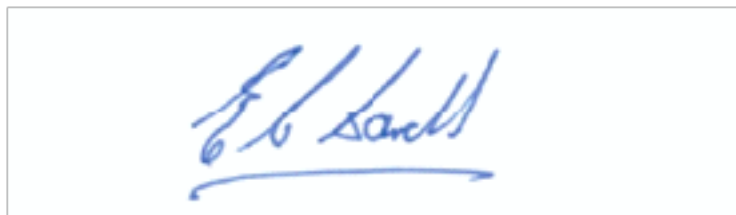
At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
31 August 2011



PETER EASTWOOD
DIRECTOR
31 August 2011



ERNIE COWELL
CHIEF FINANCE OFFICER
31 August 2011

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 31 August 2011.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION

Report on the Financial Statements

I have audited the accounts and financial statements of the State Government Insurance Corporation.

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 for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Corporation's Responsibility for the Financial Statements

The Corporation 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 Corporation 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 Corporation'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 Corporation, 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 State Government Insurance Corporation at 30 June 2011 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

State Government Insurance Corporation

Report on Controls

I have audited the controls exercised by the State Government Insurance Corporation. The Corporation 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 Corporation based on my audit conducted in accordance with Australian Auditing Standards.

Opinion

In my opinion, the controls exercised by the State Government Insurance Corporation 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 State Government Insurance Corporation. The Corporation 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 State Government Insurance Corporation are relevant and appropriate to assist users to assess the Corporation'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	2011 \$'000	2010 \$'000
Premium Revenue	2	-	2
Net Premium Revenue		-	2
Claims Incurred Credit/(Expense)	3	839	(118)
Reinsurance and Other Recoveries Expense	2	(1)	-
Net Claims Incurred Credit/(Expense)	4	838	(118)
Underwriting and Administration Expenses	3	(285)	(267)
UNDERWRITING PROFIT/(LOSS)		553	(383)
Other Income	2	1,015	787
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE		1,568	404
Income Tax Equivalent Expense	5	(470)	(121)
TOTAL COMPREHENSIVE INCOME AFTER INCOME TAX EQUIVALENT EXPENSE ATTRIBUTABLE TO THE INSURANCE COMMISSION OF WESTERN AUSTRALIA		1,098	283

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

STATEMENT OF FINANCIAL POSITION

at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	11,12	22,077	3,150
Receivables	6	25	24
Total Current Assets		22,102	3,174
Non-Current Assets			
Receivables	6	5	18,457
Deferred Tax Assets	5	150	274
Total Non-Current Assets		155	18,731
TOTAL ASSETS		22,257	21,905
LIABILITIES			
Current Liabilities			
Payables	7	692	212
Outstanding Claims Liability	8	256	521
Total Current Liabilities		948	733
Non-Current Liabilities			
Outstanding Claims Liability	8	391	1,352
Total Non-Current Liabilities		391	1,352
TOTAL LIABILITIES		1,339	2,085
NET ASSETS		20,918	19,820
EQUITY			
Share Capital	9	100,000	100,000
Accumulated Losses		(79,082)	(80,180)
TOTAL EQUITY		20,918	19,820

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
SUMMARY OF CHANGES IN EQUITY			
BALANCE OF EQUITY AT START OF THE YEAR		19,820	19,537
Total Comprehensive Income for the Year		1,098	283
BALANCE OF EQUITY AT END OF THE YEAR		20,918	19,820
SHARE CAPITAL			
Balance at Start of the Year		100,000	100,000
Balance at End of the Year	9	100,000	100,000
ACCUMULATED LOSSES			
Balance at Start of the Year		(80,180)	(80,463)
Total Comprehensive Income for the Year		1,098	283
Balance at End of the Year		(79,082)	(80,180)
BALANCE OF EQUITY AT END OF THE YEAR		20,918	19,820

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

CASH FLOW FROM OPERATING ACTIVITIES			
Premiums Received		-	2
Reinsurance and Other Recoveries Paid		(1)	-
Interest Received		1,015	787
Claims Paid		(51)	(98)
Underwriting and Administration Expenses Paid		(285)	(272)
Income Tax Equivalent Paid		(202)	(321)
Intercompany Debtor Received		18,451	-
Net Cash Flow From Operating Activities	11	18,927	98
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD		18,927	98
CASH AND CASH EQUIVALENTS AT START OF THE YEAR		3,150	3,052
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	22,077	3,150

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

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 State Government Insurance Corporation (Corporation) 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 the Treasurer's Instructions.

In preparing these financial statements the Corporation 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 Corporation cannot early adopt an Australian Accounting Standard or an Interpretation unless specifically permitted by *Treasurer's Instruction 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 Corporation 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, a Framework for the Preparation and Presentation of Financial Statements (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 the 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 Corporation's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 19, '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 20, 'Actuarial Assumptions and Methods'.

The financial statements have been prepared on the assumption that the Corporation 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 Corporation is an Agent of the Crown in the right of the State under Section 28(3) 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 Corporation consist of all transactions arising from writing general insurance contracts.

(f) Disclosure of Changes in Accounting Policy

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

(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 Corporation 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 Corporation 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 Corporation has not applied 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 Corporation.

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:

(i) Income Tax Effect Accounting

The Corporation operates within the National Tax Equivalent Regime (NTER).

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 income tax 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 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,

- 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 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 in other comprehensive income are recognised in 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 of Western Australia (Insurance Commission) and the Board of Directors of the Corporation resolved that the Corporation would join the

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits arising from the Corporation 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 Corporation 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.

(j) 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.

(k) Revenue and Income Recognition

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

• Premium Revenue

Premium revenue comprises amounts charged to other insurers. Stamp duty and other amounts collected on behalf of third parties are excluded. Premiums on unclosed business are brought to account as revenue, based upon an actuarial assessment. As the periods of cover provided by all underwritten contracts have now expired, all premium is earned, whether on closed or unclosed business.

• Reinsurance and Other Recoveries Revenue

Reinsurance and other recoveries 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 discount and inflation rates used are set out in Note 20.

• Interest Income

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

• Foreign Exchange Revenue

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

Transactions of the Corporation 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 Corporation denominated in foreign currencies at the end of the reporting period were, where appropriate, converted to AUD 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.

(l) Claims

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

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Outwards Reinsurance

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

(n) Unexpired Risk Liability

The Corporation is in run-off and hence there is no unearned premium. As a result neither a Liability Adequacy Test nor Unexpired Risk Liability is required.

(o) Management Fee

The Corporation is charged a management fee in proportion to its usage of the Insurance Commission's services.

(p) Assets Backing General Insurance Liabilities

All assets are held to back general insurance liabilities.

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 investments are appropriate given the expected pattern of future 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.

(q) Cash

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 on hand and in banks, which is integral to the Corporation's general insurance activities.

(r) Receivables

Receivables are reviewed as to their collectability, in regard to the 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, default payments or debts more than 60 days overdue are considered objective evidence for impairment.

(s) Fair Value of Financial Assets and Liabilities

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

• Recognised Financial Assets

For financial assets traded in an organised market, fair value equates to market value.

Where financial assets are not traded in an organised market, fair value is the historical carrying cost net of any provision for diminution in value or impairment.

• Recognised Financial Liabilities

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

(t) Payables

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

(u) 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 like trends in court awards and changes in legislation, for example, increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at the end of the reporting period using market-determined risk-free discount rates.

The details of discount and inflation rates used are set out in Note 20.

The liability for outstanding claims is estimated following an independent actuarial assessment. Inwards Reinsurance is a long-tail class of insurance. 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 issues of negligence or liability and/or to establish the amount of claims' settlement.

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In determining the liability for outstanding claims, the Board has added a prudential margin to the central estimate of the discounted future claims payments. The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimates of claims liabilities that allows for a 75% level of confidence. Refer Note 8.

(v) Other Corporate Information

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*.

Principal Place of Business

State Government Insurance Corporation
The Forrest Centre
221 St George's Terrace
PERTH WA 6000

Postal Address

GPO Box U1908
PERTH WA 6845

Telephone	+61 (8) 9264 3333
Facsimile	+61 (8) 9264 3690
Website	www.icwa.wa.gov.au
Email	customer@icwa.wa.gov.au

Corporate Secretary

Mr Ken McAullay

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. REVENUE AND INCOME

	Notes	2011 \$'000	2010 \$'000
Premium Revenue	(i)	-	2
Reinsurance and Other Recoveries Expense		(1)	-
Other Income			
Interest Received from the Insurance Commission	(ii)	1,015	787
Total Revenue and Income		1,014	789

(i) The premium revenue incorporates premium adjustments from unclosed business.

(ii) Interest received from the Insurance Commission in respect of Cash and Cash Equivalents of the Non-Current Other Receivables (refer Note 6).

3. EXPENSES

Claims Incurred (Credit)/Expense		(839)	118
Underwriting and Administration			
Impairment of Receivables		-	(5)
Other	(i)	285	272
		285	267
Total (Benefits)/Expenses		(554)	385

(i) Includes management fee charged by the Insurance Commission which takes into account an amount of \$13,500 (2010: \$14,000) in respect of amounts due or payable to the Auditor General for auditing the financial statements.

4. NET CLAIMS INCURRED

Inwards Reinsurance

Gross Claims Incurred and Related Expenses			
- Undiscounted		(1,202)	(74)
Reinsurance and Other Recoveries			
- Undiscounted		1	-
Net Claims Incurred - Undiscounted		(1,201)	(74)
Discount and Discount Movement			
- Gross Claims Incurred		363	192
Discount and Discount Movement			
- Reinsurance and Other Recoveries		-	-
Net Discount Movement		363	192
Net Claims Incurred (Credit)/Expense		(838)	118

2011	2010
\$'000	\$'000
346	203
-	-
124	(82)
470	121
-	-
1,568	404
470	121
470	121

346	203
-	-
124	(82)
470	121

	-	-
--	---	---

1,568	404
470	121
470	121

470	121
470	121

470	121
-----	-----

2011 \$'000		2010 \$'000	2011 \$'000		2010 \$'000
150	274		124		(82)
150	274				
			124		(82)

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 subsidiary, the Corporation, have agreed to pay a tax-equivalent payment to, or from, the head entity based on "separate taxpayer within group" approach. Such amounts are reflected in amounts receivable from, or payable to, the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. RECEIVABLES

Current

Reinsurance and Other Recoveries Receivable
Less: Provision for Impairment

Notes

2011
\$'000

2010
\$'000

25

24

-

-

25

24

Non-Current

Reinsurance and Other Recoveries Receivable
Other Receivables

(i)

5

6

-

18,451

5

18,457

Movement in Provision for Impairment

Balance at Start of the Year
Impairment Provision No Longer Required
New Provision Made During the Year

-

5

-

(5)

-

-

Balance at End of the Year

-

-

No amounts were required to be written-off in 2011 (2010: Nil) in relation to Section 48 of the *Financial Management Act 2006*.

- (i) Other Receivables relates to amounts due from the Insurance Commission in respect of deferred tax assets arising from past losses presented as an intercompany receivable in accordance with the Tax Sharing Agreement. This amount was paid by the Insurance Commission in 2011.

7. PAYABLES

Current

Trade Creditors
Reinsurance Creditors

347

203

345

9

692

212

8. OUTSTANDING CLAIMS LIABILITY

Central Estimate
Discount to Present Value

100

790

(26)

(215)

74

575

Claims Handling Costs (discounted)

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

Liability for Outstanding Claims

Refer Notes 19 and 20 for the methodologies and assumptions used to calculate the Outstanding Claims Liability.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. OUTSTANDING CLAIMS LIABILITY (continued)

Risk Margin

Process for Determining Risk Margin

The Corporation has 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), 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.

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.

Risk Margin Applied

2011	2010
%	%
12.8	17.1

Reconciliation of Movement in Discounted Outstanding Claims Liability

	Gross \$'000	Reinsurance and Other Recoveries \$'000	Net \$'000
Corporation - Inwards Reinsurance			
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)
Outstanding Claims Liability at 30 June 2011	647	7	640

Claims Development Table

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 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.

	Gross \$'000	Net \$'000
Estimated Ultimate Claims Cost at 30 June:		
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 Outstanding Claims per Statement of Financial Position	647	640

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. SHARE CAPITAL

	2011		2010	
	SHARES	\$'000	SHARES	\$'000
Authorised Shares of \$100 each	1,000,000	100,000	1,000,000	100,000
Issued and Paid-Up Share Capital				
Balance at Beginning and End of the Period	1,000,000	100,000	1,000,000	100,000

The ultimate holding entity is the Insurance Commission of Western Australia which holds all the shares issued by the Corporation. The Insurance Commission monitors and manages the capital of the Corporation.

10. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities that materially affect the financial statements of the Corporation.

11. NOTES TO THE STATEMENT OF CASH FLOWS

	2011 \$'000	2010 \$'000
Reconciliation of Profit After Income Tax Equivalent Expense to Net Cash Flow from Operating Activities:		
Profit after Income Tax Equivalent Expense	1,098	283
Non-Cash Items		
Impairment of Receivables	-	(5)
Decrease/(Increase) in Assets		
Current Receivables	(1)	-
Non-Current Receivables	18,452	-
Non-Current Deferred Tax Assets	124	(82)
Increase/(Decrease) in Liabilities		
Current Payables	480	(114)
Current Outstanding Claims Liability	(265)	(4)
Non-Current Outstanding Claims Liability	(961)	20
Net Cash Flow from Operating Activities	18,927	98
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	22,077	3,150

The Corporation has no stand-by credit arrangements or loan facilities. The Corporation's ability to meet its financial obligations as and when they fall due is ultimately supported by the Government of Western Australia. The cash detailed above is available to the Corporation without restriction.

12. FINANCIAL INSTRUMENTS

The recognised financial assets and financial liabilities are carried at amounts that approximate fair value. All recognised financial assets and liabilities are readily traded on organised markets.

13. EXPENDITURE COMMITMENTS

There are no material expenditure commitments at the end of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. EXPLANATORY STATEMENT

	ACTUAL	BUDGET	ACTUAL	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2011 TO			
	2011 \$'000	2011 \$'000	2010 \$'000	BUDGET 2011 \$'000	%	ACTUAL 2010 \$'000	%
Premium Revenue	-	-	2	-	-	(2)	(100.0)
Net Premium Revenue	-	-	2	-	-	(2)	(100.0)
Claims Incurred Credit	839	8	(118)	831	10,387.5	957	811.0
Reinsurance and Other Recoveries Expense	(1)	-	-	(1)	-	(1)	-
Net Claims Incurred Credit	838	8	(118)	830	10,375.0	956	810.2
Underwriting and Administration Expenses	(285)	(284)	(267)	(1)	(0.4)	(18)	(6.7)
UNDERWRITING PROFIT/(LOSS)	553	(276)	(383)	829	300.4	936	244.4
Other Income	1,015	983	787	32	3.3	228	29.0
PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE	1,568	707	404	861	121.8	1,164	288.1

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The general insurance activities of the Corporation relate to the run-off of its Inwards Reinsurance business. During the 2011 and 2010 financial years, the Corporation's only activity has been the winding down of this operation.

Due to the nature of reinsurance, it is expected that it will take a number of years for all claims to be finalised. Reinsurance is, by nature, highly variable, especially where there is a heavy exposure to the liability class of insurance. As a result, significant variations between actual and budget and the current and comparative years are expected to occur.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. FUNDING OF INWARDS REINSURANCE NET CLAIMS LIABILITIES

Claims liabilities are payable in the currency designated by the Reinsurance Agreement. The Corporation has a policy to hold assets only in Australian dollars (AUD) to maximise interest earned on its total assets, also recognising the ongoing reduction in its currency liabilities and correspondingly reducing exposure to currency fluctuations.

The following tables set out the net liabilities at the end of the reporting period in the respective currencies:

30 June 2011	Currency of Exposure (in Australian dollars equivalent)				
	AUD \$'000	CAD \$'000	GBP \$'000	USD \$'000	Total \$'000
Net Liability	562	1	7	70	640
Amount of Assets Held	22,076	-	-	-	22,076
Funding Surplus/(Deficit)	21,514	(1)	(7)	(70)	21,436

30 June 2010	Currency of Exposure (in Australian dollars equivalent)				
	AUD \$'000	CAD \$'000	GBP \$'000	USD \$'000	Total \$'000
Net Liability	1,502	1	9	354	1,866
Amount of Assets Held	3,150	-	-	-	3,150
Funding Surplus/(Deficit)	1,648	(1)	(9)	(354)	1,284

16. NET OUTSTANDING CLAIMS - AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)

	2011 \$'000	2010 \$'000
Payables		
Current		
Great British Pounds	1	1
United States Dollars	9	139
	10	140
Non-Current		
Canadian Dollars	1	1
Great British Pounds	6	8
United States Dollars	62	215
	69	224
Total Payables	79	364

17. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

No events have occurred after the end of the reporting period that materially affect the financial statements of the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

18. REMUNERATION OF THE BOARD OF DIRECTORS

The Board of Directors do not receive any remuneration in respect of their duties for the Corporation.

19. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Corporation 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 area in which critical estimates are applied is the Provisions for Outstanding Claims Liability.

Provisions are made at the year-end for the outstanding claims which appear as liabilities in the Statement of Financial Position. This represents 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 (which appear in the Statement of Financial Position as Receivables, refer Note 6), claims management expenses and a 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 generally, more information about the claims is available. The 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 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 might cause the cost of unsettled 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 retard 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.

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 8.

Refer Note 20 for details of specific assumptions used in deriving the outstanding claims liability at year-end.

20. ACTUARIAL ASSUMPTIONS AND METHODS

To estimate 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 other similar 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 liability at the end of the reporting period.

Models of the ratio of 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Actuarial Assumptions

Processes Used To Determine Assumptions

The following are a brief description of the source information for actuarial assumptions:

Inflation Rates: based on forecasts of an independent third party economics research firm.

Discount Rates: risk-free rates derived from the market yields on Government Bonds at the end of the reporting period.

Claims Management Expenses: derived from past experience and breakdown of expenses and outcomes of recent review.

Reinsurance Recoveries: based on expected claims currently estimated to exceed the reinsurance retention.

Risk Margin: based on benchmark studies.

Average Term to Settlement: is calculated as the weighted average duration to payment of the estimated inflated and discounted cash flows.

The following assumptions have been made in determining the outstanding claims liabilities for the State Government Insurance 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 table below illustrates how changes in key assumptions would impact upon equity and profit after tax (assumed at a Corporate tax rate of 30%):

Variable	Change in Variable %	Profit/(Loss) Increase/(Decrease)	
		Net of Reinsurance and Other Recoveries \$'000	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)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. RISK MANAGEMENT POLICIES AND PROCEDURES

The Corporation remains in existence to run-off small lines of Australian and overseas reinsurance business written by the Corporation between 1988 and 1992.

(a) Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating those Risks

Key processes for the mitigation of risks faced in the operations of the Insurance Commission in its management of the Corporation include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Corporation 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.

(b) Terms and Conditions of Insurance Risk

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.

(c) Concentration Risk

The inwards reinsurance contracts in which the Corporation participated 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.

(d) Development of Claims

As the majority of insurance contracts under management of the Corporation 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 8 which details outstanding claims estimates for underwriting years at successive year-ends.

(e) Liquidity Risk

The Corporation is subject to daily calls upon its available cash resources for insurance policy claims. Liquidity risk is the risk that payments of obligations may not be met in a timely manner at a reasonable cost. The Corporation's liquidity is managed by the Insurance Commission. The Insurance Commission has in place policies and procedures to cover unexpected fluctuations in the levels of claim payments.

The following tables detail the maturity profile of the Corporation's gross discounted outstanding claims liability and other key financial liabilities, at the end of the reporting period:

2011 (\$'000)					
	Maturity in				Total
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	
Outstanding Claims Liability	256	133	170	88	647
Payables	692	-	-	-	692
Total	948	133	170	88	1,339

2010 (\$'000)					
	Maturity in				Total
	Less than 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	
Outstanding Claims Liability	521	445	461	446	1,873
Payables	212	-	-	-	212
Total	733	445	461	446	2,085

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(f) Interest Rate Risk

The Insurance Commission manages the Corporation's exposure to interest rate risk associated with assets and liabilities arising from insurance contracts, through strategies that seek to match the interest rate sensitivity of the assets to the underlying liabilities. Interest rate risk associated with the Corporation's bank account is managed by the Insurance Commission. An increase/decrease of 1% in the interest rate will result in an increase/decrease in profit after tax (assumed at a Corporate tax rate of 30%) and equity of \$154,539 (2010: \$151,249).

(g) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation.

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the Statement of Financial Position at the amount which best represents the maximum credit risk exposure.

The following table details the Corporation's maximum credit risk exposure at the end of the reporting period without taking into account the value of any collateral or other security obtained. 100% of the Corporation's recognised financial assets are held in Australia. The Corporation's credit risk exposure is to one single counterparty, the financial assets having a Standard and Poor's rating of A1+.

	2011 \$'000	2010 \$'000
Credit Risk Exposure	22,077	3,150

The following tables provide information about the quality of the Corporation'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.

	2011 (\$'000)					Total
	AAA	AA	A	BBB	Speculative Grade	
Reinsurance and Other Recoveries	-	-	-	-	7	7

	2010 (\$'000)					Total
	AAA	AA	A	BBB	Speculative Grade	
Reinsurance and Other Recoveries	-	-	-	-	7	7

The following tables provide further information regarding the ageing of amounts receivable for reinsurance and other recoveries on paid claims at the end of the reporting period:

		2011 (\$'000)					
		Past Due but Not Impaired					
	Neither Past Due nor Impaired	0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired	Total
Corporation - Inwards Reinsurance	-	-	-	-	24	-	24

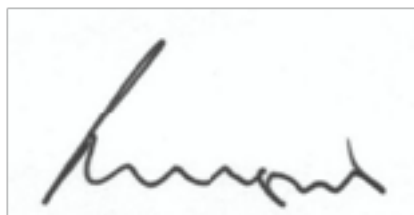
		2010 (\$'000)					
		Past Due but Not Impaired					
	Neither Past Due nor Impaired	0 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Impaired	Total
Corporation - Inwards Reinsurance	-	-	-	-	23	-	23

State Government Insurance Corporation Key Performance Indicators

CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby certify that the Key Performance Indicators of the State Government Insurance Corporation (Corporation) 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 Corporation; and
- fairly represent the performance of the Corporation.



MICHAEL E WRIGHT
DEPUTY CHAIRMAN
31 August 2011



PETER EASTWOOD
DIRECTOR
31 August 2011

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 31 August 2011.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

STATE GOVERNMENT INSURANCE CORPORATION

Report on the Financial Statements

I have audited the accounts and financial statements of the State Government Insurance Corporation.

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 for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Corporation's Responsibility for the Financial Statements

The Corporation 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 Corporation 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 Corporation'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 Corporation, 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 State Government Insurance Corporation at 30 June 2011 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

State Government Insurance Corporation

Report on Controls

I have audited the controls exercised by the State Government Insurance Corporation. The Corporation 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 Corporation based on my audit conducted in accordance with Australian Auditing Standards.

Opinion

In my opinion, the controls exercised by the State Government Insurance Corporation 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 State Government Insurance Corporation. The Corporation 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 State Government Insurance Corporation are relevant and appropriate to assist users to assess the Corporation'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

STATE GOVERNMENT INSURANCE CORPORATION

The State Government Insurance Corporation (Corporation) ceased underwriting Inwards Reinsurance in August 1992 and its remaining activity is the “run-off” of its Inwards Reinsurance business. The key effectiveness and efficiency Performance Indicators listed here for the Corporation only relate to this Inwards Reinsurance operation.

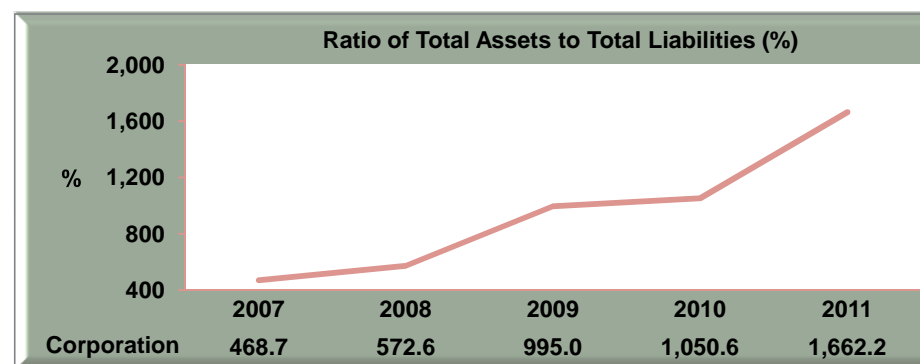
Where appropriate, prior-year figures have been restated in order to enhance comparability with those of the current year.

(a) That the Corporation has sufficient assets to meet its liabilities

Effectiveness Performance Indicator

The **Ratio of Total Assets to Total Liabilities** reflects the financial position of the Corporation at the end of the period.

	2011 Actual
Corporation	1,662.2%



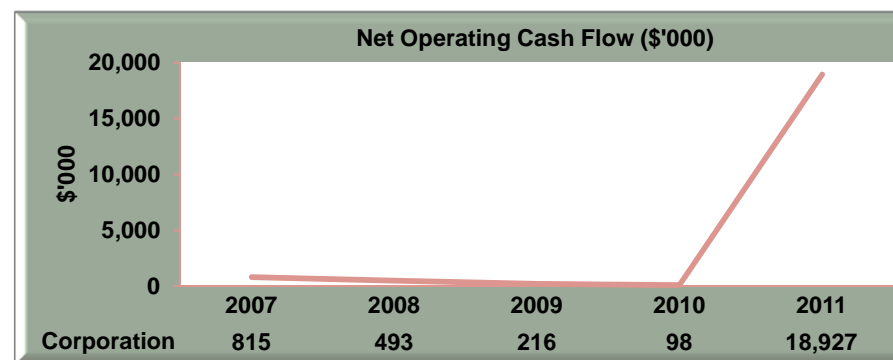
Comments: The significant improvement in the ratio is mainly due to a substantial reduction in the outstanding claims liability resulting from the commutation of inwards reinsurance contracts. The number of outstanding claims reduced to 29 (2009/10: 63) mainly as a result of the commutation.

STATE GOVERNMENT INSURANCE CORPORATION

Efficiency Performance Indicator

Net Operating Cash Flow equals receipts less payments from the operating activities of the Corporation. *Refer to the Statement of Cash Flows - Net Cash Flow from Operating Activities.*

2011
Actual
Corporation (\$'000) **18,927**



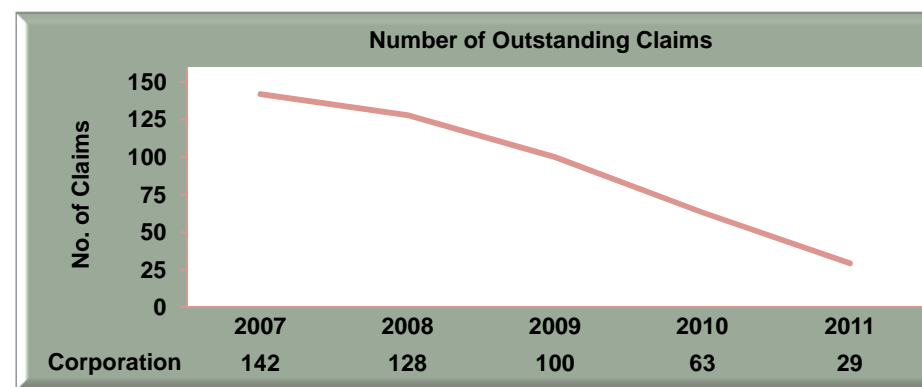
Comments: The significant increase in **Net Operating Cash Flow** is a result of the Insurance Commission paying a long-term receivable owing in respect to tax losses previously taken.

(b) Minimise the financial liability of insurers and reinsurers

Effectiveness Performance Indicator

The **Number of Outstanding Claims** as at year-end (accidents from all years). As the Corporation is in "run-off", it is desirable for there to be a downward trend in the number of claims still active.

2011
Actual
Corporation **29**



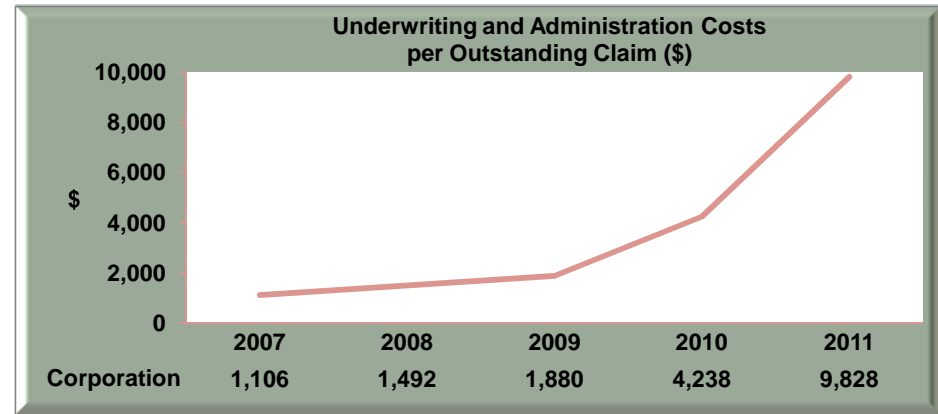
Comments: The **Number of Outstanding Claims** is dependent on the claims settlement activity of insured parties and any commutation of contracts with outstanding claims. Following further commutation of inwards reinsurance contracts, 25 outstanding claims were closed. Overall the number of outstanding claims has reduced to 29 (2009/10: 63).

STATE GOVERNMENT INSURANCE CORPORATION

Effectiveness Performance Indicator (continued)

The **Underwriting and Administration Costs per Outstanding Claim** indicator demonstrates how costs are tracking on a per outstanding claim basis. An ongoing operation may aim to either progressively reduce the cost per claim or limit the cost increases to below annual inflation movements. Given that the Corporation is in run-off and is focused on actively reducing the number of outstanding claims, the cost per active claim is likely to continue to rise until such time as the Corporation can be wound up or administration costs can be reduced due to diminished activity.

	2011
	Actual
Corporation	\$9,828



Comments: The large increase in the **Underwriting and Administration Costs per Outstanding Claim** is mainly due to the reduction in outstanding claims, from 63 to 29 (46.0%). There was a minimal increase in the underwriting and administration expenses.

GLOSSARY

The following definitions have been provided to assist readers in gaining a better understanding of the Annual Report and Financial Statements.

1. CLAIMS

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); and
- 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.

IBNR and IBNER Claims

IBNR claims arise from events which have occurred but have not been reported as at the end of the reporting period.

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 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.

GLOSSARY

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.

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.

2. PREMIUMS

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 at the end of the reporting period.

Premium Revenue

Premium revenue comprises amounts in relation to Inwards Reinsurance, charged to other insurers.

GLOSSARY

3. 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.

4. OTHER

Run-Off

Run-off refers to closed insurance portfolios where the applicable claims liabilities are being progressively extinguished to their final liquidation. The State Government Insurance Corporation is in run-off.

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