

**Insurance Commission of Western Australia —**

Mr I.M. Britza, Chairman.

Dr M.D. Nahan, Treasurer.

Mr R. Whithear, Chief Executive.

Mr R. Howe, Deputy Chief Executive.

Mr K. Blackman, Commission Secretary.

Mr D. De Nooyer, Chief Finance Officer.

Ms L. Di Paulo, Principal Policy Adviser.

**The CHAIRMAN:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 3 June 2016.

I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

Minister, would you please introduce your advisers.

[Witnesses introduced.]

**The CHAIRMAN:** I give the call to the member for Victoria Park.

**Mr B.S. WYATT:** I think this time last year Mr Whithear was in Singapore on Bell! A bit of water has flowed under that bridge.

**Dr M.D. NAHAN:** He said he will probably be going back there in a short time.

**Mr B.S. WYATT:** I have no doubt.

I want to get an understanding of where the Insurance Commission of Western Australia is at with its property sales. Ellenbrook and Livingston Marketplace were both sold. Ellenbrook was sold—this is just from the media—for \$231.6 million.

**Dr M.D. NAHAN:** Mr Whithear will go through all that for you.

**Mr B.S. WYATT:** Could Mr Whithear take us through the status of the property sales of the Insurance Commission, including how much each property was sold for?

**Mr R. Whithear:** The Insurance Commission announced during 2015 that it was seeking to divest its direct property assets, in order to reallocate its investment assets to other asset classes.

**Dr M.D. NAHAN:** Can I cut in there for just a minute? The reason the Insurance Commission came to me and made the recommendation—it goes through the full detail, as the member questions—is twofold. It had a high concentration of its total investment in property, particularly in St Georges Terrace, and that was a historical anomaly, if you wish, brought about by the past. It was also a sizeable proportion of the total investment, but it was very costly because it was not of the scale necessary to run a property business, so it was spending a hell of a lot of money just managing the properties. The recommendation was that it wanted to sell some of its hard assets in property and invest it elsewhere, probably in properties that it did not have to manage physically.

**Mr B.S. WYATT:** A fund that was investing in property?

**Dr M.D. NAHAN:** Yes; that is the context.

**Mr R. Whithear:** We ran through a two stage sale process for the properties. On 18 December 2015, we settled the sale of the retail portfolio. That was the two assets the member for Victoria Park mentioned—Ellenbrook and Livingston Marketplace. We sold those for \$303 million.

**Mr B.S. WYATT:** They were sold in a package?

**Mr R. Whithear:** Yes, the two together. On 9 March 2016, we settled the sale of the Forrest Centre for \$200 million.

**Mr B.S. WYATT:** What is the status of the Westralia properties?

**Mr R. Whithear:** We are in the process of seeking off-market offers, if you like. Our tender process was completed but we said to those who were interested that the Insurance Commission still has a long-term plan not to be a manager of direct properties.

**Mr B.S. WYATT:** But it did not accept the price that was offered.

**Mr R. Whithear:** Indeed, so we are still in the process of exploring offers for those properties. If we get the prices we are after, we will divest them.

**Dr M.D. NAHAN:** And the discussions in some cases are ongoing.

**Mr W.J. JOHNSTON:** The other day we had a briefing from Treasury on the budget, as we do every year courtesy of the Public Accounts Committee. Treasury indicated in one of the slides that the sale of those properties had a \$456 million impact on net debt. I was surprised to learn that. Can the Treasurer explain the reason for that impact?

**Mr R. Whithear:** The reason is accounting standards. Our fixed assets, such as these buildings, do not have any effect on consolidation of our accounts through into the government's accounts. When we invest in liquid assets—for example, the proceeds of those buildings are sitting in cash—that is counted against net debt on a whole-of-government basis.

**Mr W.J. JOHNSTON:** If the Insurance Commission is holding \$503 million in cash, it must be looking for somewhere to place that cash, because I imagine that holding that amount of cash is not the best investment. When the Insurance Commission moves to another investment, will that mean that there will be a net debt effect in the opposite direction?

**Mr R. Whithear:** Yes, at some point, depending on the asset class. If we invest in a property trust, that will still count against net debt.

**Mr B.S. WYATT:** I think I might have cut you off, Mr Whithear; if I did, sorry. If something was effectively liquid—for example, units in a property trust—would that count? From my understanding from the conversations we have had about this over the past two years, that is where the Insurance Commission is probably putting that \$500 million into more of a liquid-style asset.

**Mr R. Whithear:** Yes; property trusts are liquid and do count against net debt. Cash counts against net debt. That is all governed by global financial standards.

**Mr B.S. WYATT:** I am not suggesting anything else; I am just trying to get my head around it.

**Mr R. Whithear:** Ironically, equities do not count. I think the member will see that that number is \$455 million as opposed to \$503 million.

**Mr W.J. JOHNSTON:** Yes; it said that \$503 million was the sale proceeds, and the minus \$456 million was the net debt impact.

**Mr R. Whithear:** The difference is that we would probably plan to put about \$50 million of that \$500 million into equities and it will not count against net debt.

**Mr B.S. WYATT:** Obviously that is the position that has been put to Treasury and the Treasurer—that is the intent of that investment?

**Dr M.D. NAHAN:** And the investment decisions will be made by the board of ICWA. First, it sold the assets—great; cash. It will then reallocate that. The reallocation decision would be made by the board of ICWA.

**Mr B.S. WYATT:** Probably the substantial part of our conversation on ICWA is around this, so I have a few follow-up questions on it. When the intention to divest these assets was made—I am speaking a little from memory—I think a media statement or maybe an exchange in Parliament stated that ICWA had about \$4.5 billion in assets. I see some nodding heads; okay. Is this all the property? Is the other \$3.5 billion, rounded, all liquid assets?

[7.40 pm]

**Mr R. Whithear:** The member's first question was: is that all the property? The answer to that is no. There is another \$300 million in round figures in a retail shopping centre fund that is operated by the Queensland Investment Corporation, so we currently have about 15 per cent of that portfolio in property for the divestment of these three assets. That is the \$300 million comprising the retail building and the two office buildings we currently hold.

**Mr W.J. JOHNSTON:** As the member for Victoria Park says, this is really the guts of what we are talking about tonight. That \$300 million in the property trust run but QIC, as I heard you say, is still counted as offsetting net debt because it is liquid even though it is property trust.

**Mr R. Whithear:** My understanding is that it is the consolidation—yes.

**Mr B.S. WYATT:** Does Mr Whithear want to add to that?

**Mr R. Whithear:** I think the member's second question was about other holdings. We have 20-odd per cent of our portfolio in Australian equities and around 20 per cent in international equities and neither of those count against net debt.

**Mr B.S. WYATT:** Equities do not, no. Going through the various CEO reports, at the beginning of the Insurance Commission of Western Australia's annual report over the last few years, the Insurance Commission results jump around but they all seem to be consistently underwritten by the returns on the investment portfolio. In particular, Mr Whithear makes the point —

Investment returns rather than insurance operations again drove the positive financial performance for the year, with a total investment return achieved for 2015 of 9.7% ... over the last three years, 39.3 %.

They are significant returns. How much of that has been driven by the property. Mr Whithear can see what I am trying to work out. Even though, as the Treasurer pointed out, it is costly because the commission does not have a scale as such, are the actual property holdings bringing in a significant percentage of that investment return?

**Mr R. Whithear:** It is not a significant percentage. Perhaps from 2012–13 property valuations would have increased. In 2013–14 and 2015–16 they are flat or are declining.

**Dr M.D. NAHAN:** From my knowledge, ICWA's success has been driven by its investment portfolio rather than insurance. I think only in one year of many has it made a net cash benefit from insurance. But for many of those years the equities made the money.

**Mr R. Whithear:** That has been the primary driver of the investment return.

**Mr B.S. WYATT:** From what Mr Whithear said, about half of ICWA's investments are in equities.

**Mr R. Whithear:** That is 40 per cent plus.

**Mr G.M. CASTRILLI:** I refer to the sixth dot point under "Key Government Charges Affecting Households" under "Tariffs, Fees and Charges" in appendix 9 of budget paper No 3, which refers to compulsory third party and states —

... cover under the Catastrophic Injuries Support Scheme to be introduced on 1 July ...

Can the Treasurer please provide us an update on the implementation of the catastrophic injuries support scheme?

**Mr R. Howe:** I can provide an update. Obviously, everyone will be well aware that the legislative background for that has been completed and we are all set for the scheme to kick off on 1 July. The collection of premiums will commence with the issuing of notices from the Department of Transport for renewals for vehicles, starting from this weekend coming. The first time those notices will go out is 29 May, and we will start to collect premiums for that from the moment people start paying those new invoices. The commission is in the final throes of getting itself set up to manage the scheme and provide care for whoever those unfortunate first people are who end up moving into the scheme as a result of an accident after 1 July. The Department of Transport had a lot of work to do with getting its Transport Executive and Licensing Information System, which is Transport's IT system, set to collect premiums on our behalf. Obviously, people can make payments at DOT frontline offices, whether they are post offices or DOT's own retail shops. That premium is collected and passed on to us to manage. There was a fair amount of work to do on that. That was completed on time and, as I say, is set to be collected from this weekend coming. Inside ICWA we have been preparing our own IT systems. Our existing claims capability needs to be extended to manage this type of claim. We are putting on new staff, who will help manage the actual care for the people who will need it. The care coordinating staff will start shortly and will be the frontline once we start that. I estimate the project is somewhere between 80 to 90 per cent complete in being able to manage the scheme from the start.

**Mr B.S. WYATT:** From memory of our conversation during the passage of the legislation, it is expected that in the first year, ICWA will make a loss because it is still bringing on people to pay the premium. What is the assumed margin that ICWA will make on the catastrophic industry fund for which dividends will not be paid? For modelling purposes, as we said before about the other investments, is ICWA assuming the fund will return a five per cent return on that across the years? I assume the plan will be to build up a significant capital base of money.

**Mr R. Whithear:** If the member's question was about the target investment return, it will be the same as our —

**Mr B.S. WYATT:** Mr Whithear has summed up my question beautifully.

**Mr R. Whithear:** It will be the same as the other funds, and that will be CPI plus 3.5 per cent, currently that would be 5.5 per cent.

**Dr M.D. NAHAN:** The fund itself will be balanced.

**Mr R. Whithear:** It is not structured to make a profit; it is structured to break even, which, I guess, is the profit and loss.

**Mr B.S. WYATT:** The idea being—we had this exchange during the legislation—that if for five years in a row we are lucky on the roads and the fund builds up, effectively, there is no capacity for the government of the day to say in that case it will take a special dividend from that fund. From memory, we dealt with that during debate on the legislation.

**Dr M.D. NAHAN:** From the way the fund has been structured, it will lose money in the first year, for reasons we discussed. It will accumulate up to a certain amount that is expected to cover the ins and outs of demands of the fund. It will be an insurance, so it will be a fund. Once it builds up to a certain fund, it will be in a stable state, hopefully, and then the ins and outs should, on average, match the funds. The couple of uncertainties in there, as we discussed, are that there has been significant inflation in the catastrophic area. Over the last 10 years or so I think there has been an almost two-and-a-half-fold increase in average costs with huge variability from two to 15. The fund is there to reach a stable state—this is what we are planning for—and then the ins and outs should match over a period. It is not planned to make a profit to generate a dividend or otherwise make a payment to the Treasurer.

[7.50 pm]

**Mr W.J. JOHNSTON:** How long is it expected to take for that fund to get to the stable state the Treasurer has described?

**Mr R. Whithear:** The actuaries will say a mere 100 years! That is the unfortunate nature of entering into this type of insurance with almost the longest possible tail, when there are life expectancies such that the clients may live and continue being clients for 80 or 90 years.

**Mr W.J. JOHNSTON:** As we discussed in the passage of the legislation, it is not like the Insurance Commission of WA can buy out the future liability; it has to match the liability for the length of the person's disability.

**Dr M.D. NAHAN:** Yes. This one is no-fault, so it is there for life by definition. I might add, just for the member's information, that the Queensland government is evolving towards a scheme and our reading of that is that it is truncating some of the liabilities and planning on it going into the National Disability Insurance Scheme. We have not done that; ours is independent of the NDIS. Once they become ICWA's clients, they are clients for life.

**Mr B.S. WYATT:** I will go back to a previous issue—the Westralia assets—if I may. I am unsure about the answer Mr Whithear gave. Where is that up to now? The government has effectively rejected an offer that was made. Is that now still in play to be sold? Is the revaluation of those properties going on? I am just trying to understand where we are at with those properties.

**Mr R. Whithear:** We are yet to accept an offer for those two buildings; we may yet do so.

**Mr W.J. JOHNSTON:** What is the obligation of the carrying value on the books for those two assets? Do the directors just decide how much they are worth or do they have to be written down as the property market falls?

**Mr R. Whithear:** We have independent valuations.

**Mr B.S. WYATT:** Each year?

**Mr R. Whithear:** Yes.

**Mr W.J. JOHNSTON:** Do they have to be carried at the value that is given?

**Mr R. Whithear:** Yes, and that will be valued again after 30 June.

**Mr W.J. JOHNSTON:** So on 1 July the commission will be in a better position to sell them!

**Mr B.S. WYATT:** Just to follow up on that, although no offer has been accepted, has there been substantial, or at the very least, adequate interest in the properties?

**Mr R. Whithear:** Yes.

**Mr B.S. WYATT:** It is just an issue of price post-30 June.

**Ms L. METTAM:** My question has largely been answered. Can the Treasurer please expand on what impact the sale of assets within ICWA's property portfolio will have on the state's finances?

**Mr R. Whithear:** I believe it is a \$455 million reduction in net debt, from recollection.

**Dr M.D. NAHAN:** But as Mr Whithear said, the main benefit of this is that it liquidates hard assets—buildings and shopping centres—to reallocate the funds in liquidated state entirely within ICWA for investments, and this investment pool largely keeps the compulsory third party funds and RiskCover going.

**Mr B.S. WYATT:** Where are we with the Bell Group Companies now that the legislation has been invalidated? The Treasurer made mention of this at the beginning—I do not know whether it was just by way of a tricky aside—but will Mr Whithear be going back up to Singapore in the near future?

**Dr M.D. NAHAN:** First, we cannot negotiate with the federal government until after the federal election; we always have to do that. I do not have great expectations of having a new deal with the federal government but it is not ruled out.

**Mr B.S. WYATT:** The problem is we can have all the deals we want with the federal government; it is just the Australian Taxation Office.

**Dr M.D. NAHAN:** I know. We thought we had that the last time, and that is why I said I do not hold out much hope. Within hours of the High Court decision the litigation started flowing. Maybe Mr Whithear can explain the extent of that. There has been some commentary in the paper that this should be a done deal very quickly by the liquidator for Bell Group NV. I have been told that there are 40 to 80 different issues that have to be resolved, mainly in court, before we can get to the Supreme Court here, so anybody who thinks this can be settled quickly is extremely optimistic.

**Mr B.S. WYATT:** I guess the litigation will continue, but has the negotiation process recommenced?

**Dr M.D. NAHAN:** We would like to renegotiate but —

**Mr B.S. WYATT:** It is subject to the federal government.

**Dr M.D. NAHAN:** Not even that; the ATO is an entity unto itself. In truth, there is not a commitment from all parties to seriously renegotiate, and there has not been for a while. Not everybody showed up to last year's aborted trip to Singapore, and some people were arguing about it. The truth of the matter is, besides the ATO's approach, most of them are just holding out. They are waiting and hoping to wear us down so we give up a large amount of our rights. When they get together, I have been told, most of them focus on us giving up so they can get more, including the ATO.

**Mr W.J. JOHNSTON:** Welcome to the world of negotiations.

**Dr M.D. NAHAN:** Yes.

**Mr W.J. JOHNSTON:** The Treasurer said he would table the letter from the federal government.

**Dr M.D. NAHAN:** I did.

**Mr W.J. JOHNSTON:** Has that been tabled? Okay.

**The CHAIRMAN:** Members, that completes the examination of the Insurance Commission of Western Australia.

[8.00 pm]