Insurance Commission of Western Australia —

Mr I.C. Blayney, Chairman.

Dr M.D. Nahan, Treasurer.

Mr R. Howe, Deputy Chief Executive.

Mr K. Blackman, Commission Secretary.

Mr D. Denooyer, Chief Finance Officer.

Ms L. Di Paulo, Principal Policy Adviser.

Mr B. Graham, 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. If so, the minister must clearly indicate what supplementary information he agrees to provide and I will then allocate a reference. If supplementary information is to be provided, I seek the minister's co-operation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. 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.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: I give the call to the Treasurer.

Dr M.D. NAHAN: The chief executive Rob Whithear would have been here but he is in mediation on the Bell Group in Singapore.

Mr B.S. WYATT: I have a couple of questions around the no-fault catastrophic injury insurance scheme. I hope that the Treasurer can stick with me on this one because it is a complicated question, but the Treasurer and his advisers are all smart people and I am sure they can stay with me. I will try to combine this question with the Treasurer's media statement that came out at budget time on the no-fault insurance scheme. I refer to page 301 of the *Economic and Fiscal Outlook*, which refers to the fees and charges and the compulsory third-party insurance rate for 2015–16 of $275. It makes the point that no adjustment has been made to that figure for the introduction of the no-fault catastrophic injury scheme. In the media statement on 14 May 2015, the Treasurer made the point that the cost of that no-fault insurance scheme would be a maximum of $99, and that from 1 July 2016, the CTP rate, which includes the no-fault fee, would be $415. I am trying to work out the baseline CTP insurance rate. If we start with $415 minus the $99 for the no-fault catastrophic CTP insurance, the baseline compulsory third-party insurance fee is reduced to $316 for 2016–17. Is this correct, because it would equate to a 15 per cent increase in the baseline CTP from 2015–16 to 2016–17? Is there something else in that figure or are we now looking at 15 per cent in the underlying compulsory third-party insurance rate?

Dr M.D. NAHAN: I will pass over to the deputy chief executive to go through this.

Mr R. Howe: With regard to the totals, the $415 that is quoted for that year is the maximum expected, but obviously we would project what those figures would be when we get there. The number is made up from the —

Dr M.D. NAHAN: To clarify that, we announced an increase this year for 2015–16 but we have not said what the increase for the base CTP rate is for 2016–17.

Mr B.S. WYATT: That is what I am trying to work out. I had the $415 from the media statement minus $99, which gets us down to $316.

Mr R. Howe: The $316 allows for an indeterminable increase next year, but if the number for 2015–16 is then added to the $99, we end up with $402. If there is an increase in 2015–16 in the base CTP rate as well, if one is required, is that anticipated to fall within that range up to $415, which is the maximum that is expected to be applied at that time?

Mr B.S. WYATT: I am just trying to get my head around that. The $316, which is the figure I am trying to use as the baseline CTP insurance rate, is a maximum. Is that the maximum rise in the base CTP insurance rate?

Mr R. Howe: We have committed to the $99 price for 2016–17, and we will not change that fee when it comes into play—we are committed to that as it stands.

Mr B.S. WYATT: So the $415 figure has not been committed to at this stage —

Mr R. Howe: The $415 in total is an estimate of the $99 plus the maximum that the compulsory third party rate, which is already in existence, will be at that time. In the event that we were to make no increase for that year, it would actually end up lower than that at around $402.

Mr B.S. WYATT: Presumably if the same rise occurs that was made for 2015–16, which is 4.1 per cent, then that $415 would be significantly less.

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: In respect of the new arrangement, I refer to the $99 annual increase in the cost of CTP insurance for the no-fault scheme. I imagine that the Insurance Commission of WA would be factoring in some level of profit to that arrangement because it is a business thing and it needs to have some capacity to earn some income from its invested assets. I assume that ICWA is expecting to make some level of surplus out of the $99.

Dr M.D. NAHAN: Yes. In first year, 2016–17, we will lose about $74 million on the implementation because some people renew their insurance prior to 1 July 2016 but have insurance after that date and may therefore be eligible after that date for the no-fault scheme. We have made a decision that before 1 July 2016 we will not put it in but we will allow people who have insurance after that date to draw on the insurance. For the first year, we will lose $73 million. I will call on Mr Howe to discuss what he thinks the build up of assets will be.

Mr R. Howe: The $99 is not priced to generate a significant profit. There are no dividends to be paid from the fund as it has been priced. It has a sufficient margin to ensure that we are able to achieve an ongoing capacity to pay the claims. The projections show a significant loss in the first year and a very small loss in the second year, but they move to a very small profit from the third year if the pricing we have assumed is correct. Obviously we will get actuarial assessments done each year to advise us on the way the claims experience is running and we will adjust premiums if we need to according to that advice.

[7.40 pm]

Mr W.J. JOHNSTON: As the deputy chief executive officer has said, ICWA will continue to examine the increase in compulsory third party insurance, because if it is not priced correctly, the cost of that component of CTP insurance will increase, and, potentially, if ICWA finds that it has overpriced CTP insurance, it might have to reduce the price, but one way or another the increase is not fixed at $99 in perpetuity.

Dr M.D. NAHAN: The member for Cannington would remember that we took option three. Initially, the increase came in at $101, and ICWA decided to have another actuarial evaluation, which resulted in it dropping to $99 on a whole range of assumptions, including the cost of hospitals and whatnot. There are a large number of uncertainties here, including the flow of demand for services, the cost of services, and the inflation rate for the provision of services over time. When the Productivity Commission reported on this matter way back, it took data from the early part of the last decade and estimated the cost to be $37. It is now up to $99; indeed, it was much higher than the cost in Victoria. There is some uncertainty in the actuarial evaluation. There was extensive discussion about this because we wanted to get it right; we did not want it too high or too low. Maybe Mr Howe can answer.

Mr R. Howe: We are comfortable that the number we are starting at will give us, based upon the assumptions within our actuarial assessments, the right pricing for the foreseeable future, but we cannot predict the actual outcomes in service provision. Significantly, the new scheme being introduced for the long-term care of road accident victims will provide care for the rest of their lives. We are taking on liabilities that could run for 50 to 60 years, and it is clear that there is a large degree of uncertainty in estimating forward what will happen with the costs in that space. The existing CTP scheme under which people are paid out looks forward only, on average, six to seven years, so there will be a larger degree of certainty in the actuarial assumptions made for the existing scheme. We are confident that the pricing is reasonable and that it has been set neither too high nor too low. We do not want to be in the position of not being able to pay claims; at the same time, we do not want to find ourselves in the position of charging more than we need to.

Mr W.J. JOHNSTON: Does that mean that ICWA is expecting to have losses in the first two years and then there will be a slight surplus in the third year? I assume that ICWA will simply absorb those losses into its reserves and that there will be no impact on the dividend paid to government because of that transition.

Dr M.D. NAHAN: We will absorb both of those years in our reserves. As the member knows, the dividend to government from ICWA is paid as a percentage of the total stock, with capital in the fund adjusted for solvency and other issues—I guess it is called liquidity—and then factored back into a dividend payout. That is factored in, but the losses for the first two years will be absorbed in the funds of ICWA.

Mr B.S. WYATT: Will premiums from the no-fault catastrophic CTP insurance be paid into the third party insurance fund?

Mr R. Howe: The intention is that the no-fault fund will establish its own fund to provide for the care of victims of accidents who are unable to identify a driver at fault. The existing third party fund will continue to fund the injured people who are able to identify fault. The existing scheme will effectively remain as is, and a new fund will be established, which will fund the liabilities for the no-fault component. There will be two separate funds. That second fund will not have a dividend component paid out of it.

Mr B.S. WYATT: The no-fault catastrophic CTP fund will not have a dividend?

Mr R. Howe: That is right.

Mr J. NORBERGER: On page 603, under “Asset Investment Program”, a bit of information is given in the two dot points about information and communications technology hardware and software. The total estimated cost of software is $41 million, which is significant, and there is also a bit of a spike in funding in the upcoming budget of almost $4.5 million. That is a big bill. How much of that software is bespoke versus off the shelf? Where is $41 million worth going for software development?

Mr D. Denooyer: The forward estimates contain $20.2 million for the commission’s asset investment program. The member is right; that mainly consists of internally generated software and hardware renewals. A lot of that is bespoke renewals. There is a small spike in 2015–16 when additional funds will be required for the implementation of the no-fault catastrophic scheme. We have estimated that that capital program will be about $2.1 million for setting up the systems. There will be a small amount of additional operational expenditure to put that scheme in as well.

Mr F.M. LOGAN: Under the industrial diseases responsibility of ICWA, can the Treasurer tell me how many claims are currently underway in the industrial diseases section, and how many additional industrial disease claims have been made over the current financial year? For example, is there an increase in the number of industrial disease claims?

Mr R. Howe: I am not sure I can answer exactly the question the member has asked, but I can provide some information that I have to hand. In 2014, eight new claims were received for the industrial diseases fund. We have 2 430 policies issued, and they run for three years at a time. I am afraid I will have to take on notice the total number of claims currently outstanding, but I can advise that eight were received in 2014.

Mr F.M. LOGAN: Maybe that can be provided as supplementary information.

The former Treasurer made changes to claims that could be made under industrial diseases to incorporate diffuse pleural fibrosis. Does the Treasurer remember that debate in Parliament about how far it extended? I would like to know whether incorporating those people diagnosed with that disease has had an impact and increased the number of successful claims.

Dr M.D. NAHAN: I am more than willing to take that as supplementary information.

The CHAIRMAN: Can the Treasurer define clearly the information?

Dr M.D. NAHAN: I will ask the member to ask the question again.

Mr F.M. LOGAN: By way of supplementary information, could we have the exact number of claims underway in the industrial diseases division of ICWA and the exact increase in the number of extra claims that have occurred over the 2014–15 financial year; and can the Treasurer tell us whether the changes that were made recently—about a year or two ago—to the industrial diseases definition that included diffuse pleural fibrosis, which was debated in the house about how far it would go, have resulted in an increase in the number of claims accepted?

[*Supplementary Information No B26.*]

Mrs G.J. GODFREY: Why has the premium for no-fault CTP insurance been applied to vehicle registrations rather than an individual’s licence?

Dr M.D. NAHAN: I must admit that I am asked a lot of questions on this because some people have a lot of vehicles, particularly farmers and hobbyists.

Mrs G.J. GODFREY: I have quite a few car enthusiasts in my electorate.

Dr M.D. NAHAN: So do I, but it is for a variety of reasons. I will pass the question over to Mr Howe, but first, I will explain that we have an existing CTP insurance scheme based on vehicle registration. Second, a large number of people have a licence but not a car, and if it was on the driver's licence, those people would have to pay, particularly older people who use their licences for identity and for other purposes. Another issue is a large number of people come to Western Australia who rent vehicles and drive them and other people would have to subsidise them. Also, if we put the estimated fee onto licences, because there are more vehicles than licences, it would have to go up to about $135.

[7.50 pm]

Mr B.S. WYATT: Is that what it would be if the bill is passed?

Dr M.D. NAHAN: Yes. That is what the estimate is; much higher for the residual. This is an issue of equity made in the existing system and also comparability with other states. That is the reason.

Mr B.S. WYATT: To confirm: is the dividend policy of the Insurance Commission of Western Australia the same as it was last year, which was four per cent of net equity? Is that still the same?

Dr M.D. NAHAN: Yes; we have not changed anything.

Mr B.S. WYATT: That is not changed; okay. I just want to try to work out the likely impact of —

Dr M.D. NAHAN: The only change was adding in 2016 no-fault insurance, and that is not affected by the dividend.

Mr B.S. WYATT: We established that because the fund is not part of that—I understand that. I am interested in the likely implications of ICWA's decision to divest property assets. This was announced a couple of months ago now. Going from the ICWA media statement, property is basically a big part of the asset base of ICWA. It is a significant part of ICWA's total investment portfolio of approximately $4.4 billion. When we look at the various annual reports of the Insurance Commission, they all make this point and in particular emphasise the point by which there has been a loss in the insurance side. I will read one part of the most recent 2014 annual report in the "Chief Executive's Report". It states —

> Our two core insurance divisions, Compulsory Third Party (CTP) and RiskCover remain dependent on investment returns to break even or make a profit. In 2014, both CTP and RiskCover Divisions recorded underwriting losses of $228.8 million and $37 million respectively. Given the prospect that investment markets may not continue this positive performance, it is important that we position our main insurance lines to be supported more strongly from premium revenue and improved operational efficiencies to reduce the reliance on investment returns. We still have more work to do to meet this objective.

There is nothing terribly shocking in that statement, but I am curious. ICWA has been reliant for many years of the last 20, when it has run a loss in the insurance side on the investment returns from, effectively, its property. If we are going to sell the property, surely there has to be a significant increase in the premium fees. If the 20 years post-sale of those assets were the same as the last 20 years, I imagine the government would eat away into its reserves if it does not generate that income from the investment side of things. Has any work been done within ICWA, within government, around the likely impact on insurance premium requirements to offset that sale?

Dr M.D. NAHAN: The request to divest itself of those CBD properties and others was first a decision of the board of ICWA. The proceeds will stay with ICWA in full. It has made a decision to move into other more liquid assets. I will pass to Mr Howe to explain what ICWA is thinking and what type of investments it would put them in. These assets have quite a high management fee. ICWA has decided that it is an insurance firm, not a property manager. Some of the property came to them not as their choice.

Mr B.S. WYATT: Unusual circumstances.

Dr M.D. NAHAN: There have been unusual circumstances, and it has made a decision to go into other assets. It will probably stay with infrastructural assets of some sort, but more in an investment fund rather than manage it itself.

Mr B.S. WYATT: The practice of effectively using the returns from the investments will continue. It is the major investments that will change.

Dr M.D. NAHAN: I expect the rationale behind ICWA doing this is that it is going to get a higher net return from other investments than from these.

Mr B.S. WYATT: From outside of property.

Dr M.D. NAHAN: Particularly when we bring in the management costs, which are not insignificant. The other question the member might raise is why ICWA is selling in a market like this. The two shopping centres are highly valued. As for the CBD properties, the market might be slowing, but the demand and premium put on that type of property from investors, particularly investors that need CBD properties or infrastructure assets, is quite high. That is strange, but they go to market and the interest that they fetch is very high. In summary, ICWA's recommendation is that it would rather take its assets and put it in a different portfolio. It expects to get good rates returned and higher rates returned from its investments and the money will stay in full within ICWA for meeting its future needs.

Mr F.M. LOGAN: Bearing in mind what the minister said about the board's decision on moving out of those fixed assets, how does that relate to the press release that was put out on 26 May by ICWA that it is going to be building a bulky goods development at the Ellenbrook site? That is not that long ago. It is actually moving into fixed assets. Could the minister explain?

Mr K. Blackman: The release on the development of the bulky goods precinct referenced the long planning that had been occurring of progressively developing The Shops at Ellenbrook. That is something that has been planned for a long time to optimise that asset. That will be something that will be of interest to potential bidders as well and will assist in maximising the value of the sale proceeds that the Insurance Commission may be able to receive. It is an adjacent site of 4.3 hectares; that is, adjacent to the existing shopping centre. We would see the development of that bulky goods precinct hopefully increase the number of shoppers to the area and service the growing needs of the Ellenbrook community.

Mr F.M. LOGAN: Will that development be completed before the site will be sold?

Mr K. Blackman: We expect to go to tender in the coming weeks for a builder for that project, and we expect it to open next year. The announcement for the sale process was made in April this year. We are expecting to release an information memorandum later this month and we expect to conclude the sale process by the end of the year, so the completion would be afterwards.

Mr F.M. LOGAN: The minister referred to the Bell Group mediation earlier on in his statement. Given the fact that the minister has already indicated to the media and to the house that he seeks to introduce legislation on the Bell Group —

Dr M.D. NAHAN: I have.

Mr F.M. LOGAN: The minister has? Then he has introduced the legislation. However, the mediation is still going on.

Mr B.S. WYATT: That is why it was introduced.

Mr F.M. LOGAN: Obviously the mediation is still going on. I thought that the point of the legislation was to actually identify exactly what return ICWA would get from the funds that were being recovered. Why legislation, minister, and not allowing the judicial process to conclude and allow the courts to decide the return to each of the parties in terms of the moneys recovered?

Dr M.D. NAHAN: Yes; mediation has taken place. There was mediation scheduled for a few weeks ago—I forget the exact date. Not all the parties showed up to it but ICWA did.

Mr B.S. WYATT: I do not think anyone did.

Dr M.D. NAHAN: Yes, they did. In fact, there was an agreed settlement with one of them—Bell Group UK. It has not been settled; they all have to be settled together. One party did show up, and it was a good mediation. All of the parties are now in Singapore.

The CHAIRMAN: I am afraid we have come to the end of our time. That completes the examination of the Insurance Commission of Western Australia.

[8.00 pm]