Statement of Corporate Intent (SCI)

2012/2013
# TABLE OF CONTENTS

1 **CHAIRMAN'S INTRODUCTION** ................................................................. 1

2 **OUR BUSINESS** ......................................................................................... 5
   - Our Vision ............................................................................................... 5
   - Our Mission ............................................................................................. 5
   - Our Core Values ....................................................................................... 5
   - Statutory Functions .................................................................................. 6
   - Motor Vehicle Personal Injury Division ................................................ 7
   - RiskCover Division .................................................................................. 7
   - Investments ............................................................................................... 10

3 **OUR RELATIONSHIPS** ............................................................................... 14
   - Our Relationship Challenges .................................................................. 14
   - Our Key Stakeholders ............................................................................. 15
   - Priorities for 2012/2013 ........................................................................ 15

4 **OUR PEOPLE** ............................................................................................ 17
   - Priorities for 2012/2013 ........................................................................ 17

5 **BUSINESS MANAGEMENT** ....................................................................... 19
   - Dividends ................................................................................................. 19
   - Competitive Neutrality ............................................................................ 19
   - Borrowings ............................................................................................... 19
   - Accounting Policy ..................................................................................... 19
   - Basis of Accounting ................................................................................. 20
   - Business Continuity Planning ................................................................. 20
   - Performance Reporting to the Minister ................................................... 20

6 **OUR FINANCIALS** ..................................................................................... 21
   - Capital Investment .................................................................................... 21
   - Financial Outcome Forecast and Key Performance Indicators ............... 21
1 CHAIRMAN'S INTRODUCTION

The Statement of Corporate Intent (SCI) describes how the Insurance Commission of Western Australia (Insurance Commission) intends to achieve its objectives in the 2012/2013 financial year. This Statement meets the requirements of the Insurance Commission of Western Australia Act 1986 (ICWA Act) and represents the agreement between the Minister responsible for the Insurance Commission, as the Shareholder, and the Board of Commissioners (Board) of the Insurance Commission regarding the expected level of performance by the Insurance Commission during 2012/2013.

Under section 8 of the ICWA Act, the Insurance Commission is to perform its functions and exercise its powers in an efficient and economic manner and use its best endeavours to ensure that its revenue is sufficient to meet its expenditure. Under section 15 of the ICWA Act, the Insurance Commission is responsible for managing its own finances.

As indicated in previous SCIs, in 2010 the Insurance Commission commenced a major program of business modernisation of its Information & Communication Technology infrastructure. Implementation of the program is likely to span three years (2012/15) following the necessary approvals. The aim is to replace all core insurance systems with contemporary, more functional and cost efficient applications. The Insurance Commission identified the need to make these changes so that it could improve the range and quality of services and service delivery processes, to both the RiskCover and Compulsory Third Party (CTP) Insurance Funds, and to ensure stakeholder expectations are met.

The Minister has advised that consistent with the Economic Audit Committee recommendation that Government Trading Enterprises align with the State's Strategic Asset Management Framework, the Insurance Commission must seek Economic and Expenditure Reform Committee (EERC) approval for any increase in its Asset Investment Plan (AIP) that exceeds $1 million.

Against this background, in May 2011, the Insurance Commission was requested by the Minister to implement a reduction in operating expenditure (i.e. Efficiency Dividend) of 5% each year, pertaining to discretionary operating expenses (as determined by Treasury and set out in the Table below) for the period 2011-2012 to 2014-2015.
In response to the Minister’s request for this reduction in discretionary expenses totalling $22.936M, the Insurance Commission responded with an Implementation Plan for approximately $40M of reduced expenditure.

On 28 May 2012 the Minister, by letter, advised of an additional efficiency dividend on the discretionary operating expenditure of the Insurance Commission. The Minister has requested that the Insurance Commission further reduce its discretionary operating expenditure by 2.5% in 2012/13, 4.0% in 2013/14, 5.5% in 2014/15 and 6.0% in 2015/16. The amounts, as determined by Treasury, are set out in the table below:

<table>
<thead>
<tr>
<th>EF FICIENCY DIVIDEND</th>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary Operating Expenses ($’000)</td>
<td>101,225</td>
</tr>
<tr>
<td>Rate (%)</td>
<td>5</td>
</tr>
<tr>
<td>Reduction in expenses ($’000)</td>
<td>5,061</td>
</tr>
</tbody>
</table>

The Board is committed to working in co-operation with its owner whilst complying with its obligations under the ICWA Act.

The year ahead offers the following significant opportunities and challenges to the Insurance Commission:

- Clarifying/confirming the role of the Insurance Commission with its owner, the State Government.
- Reducing discretionary operating expenditure within a context of not reducing services or negatively impacting customers or increasing prices.
- Developing a Business Case for presentation to the Minister, supporting the need to modernise the Insurance Commission’s core insurance systems.
- Utilising Insurance Commission’s assets to ensure sustained delivery of existing products. This needs to be achieved without any significant adverse impact upon prudent reserve levels, having regard to Australian Prudential Regulation Authority (APRA) capital adequacy guidelines for general insurers, and special circumstances affecting the Insurance Commission, while maintaining affordable premium rates determined in accordance with section 3T of the Motor Vehicle (Third Party Insurance) Act 1943.
Ensure that in considering actuarial assessments obtained in regard to the financial state of the various Funds, additional matters outside the scope of those assessments are also taken into account as required by the legislation.

In accordance with the Western Australian Government's Economic Audit Committee Report, October 2009, *Putting the Public First* vision, building upon earlier project success which has promoted collaborative inter-agency working and more citizen focused service delivery, the Insurance Commission will complete planned changes to the on-line crash reporting facility (OCRF) which will make it easier and more cost effective for other government agencies to contribute to and utilise, where appropriate, information collected by the OCRF in a secure environment.

With some of the impacts of the Global Financial Crisis behind it, the Board nonetheless remains conscious of continuing unease in global investment markets resulting from sovereign and other debt levels around the globe and the failure of Governments to implement appropriate reforms. This universal unease is likely to continue to impact investment market confidence levels, and this in turn raises the potential for significant investment income and investment return volatility, and low growth economic outcomes.

Despite having in place well established risk management processes, the inherent nature of insurance is such that external environmental factors will continue to impact on the value of the Insurance Commission’s assets and liabilities and result in them being subject to material unpredictability.

Outstanding claims liabilities and investment assets held to meet these liabilities, are subject to professional valuation or 'mark to market' processes on a regular basis, and movements in these values directly impact on reported profit and reserve levels as well as affecting capital adequacy considerations.

Managing the increasing demand for services provided by the RiskCover Managed Fund continues to present a significant challenge.

In particular, a continuing adverse trend in the number and duration of time lost for workers’ compensation claims by employees of RiskCover member agencies, has placed increased pressure upon claims management staff. The root cause of this situation cannot be addressed by the Insurance Commission in isolation, and will primarily require attention at source in the agencies where the adverse claims trend is arising.
RiskCover will continue to work closely with member agencies to reinforce the importance of a safe working environment and injury prevention, and to assist the agencies to truly embrace their injury management responsibilities.

RiskCover also continues to respond to the demand from member agencies to provide Risk Management consulting services. The challenge for the Western Australian Government is to continue to support these services until the member agencies become more proficient in this area, embed good risk management processes in their businesses, and become less dependent upon RiskCover to provide risk management consultancy and business continuity guidance.

- Ensuring the Insurance Commission has the means to secure the right numbers of skilled and experienced people to achieve its business objectives. The Insurance Commission’s commitment to training and growing its people needs to be augmented by the pursuit of a considered and coherent HR strategy.

- To manage the Insurance Commission’s involvement as an indemnifying creditor supporting the Bell Group Liquidators’ action against 20 banks, and maximise the Insurance Commission’s return from recoveries by the Bell Group Liquidators’ administrations.

The Board, in compliance with its fiduciary obligations and financial responsibilities, has prepared this SCI with the objective of maintaining a commercial focus in respect of the Insurance Commission’s business operations, based on the Board’s ongoing drive for continuous improvement in the delivery of core products and services.
2 OUR BUSINESS

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

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

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

Our Vision

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

Our Mission

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

• provide insurance for motor vehicle personal injury damages and industrial diseases compensation;

• manage and administer self-insurance and risk management services on behalf of Western Australian public authorities and eligible community groups; and

• provide advice to government on matters relating to insurance and risk management,

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

Our Core Values

In everything the Insurance Commission does, its Core Values are:

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

Statutory Functions

The main statutory functions of the Insurance Commission are:

• to issue, or cause to be issued, and undertake liability under policies of insurance as required by the Motor Vehicle (Third Party Insurance) Act 1943;

• to issue and undertake liability under policies of insurance as required by section 163 of the Workers' Compensation and Injury Management Act 1981 (WCIM Act), (i.e. pneumoconiosis, lung cancer and mesothelioma);

• to manage and administer insurance and risk management arrangements on behalf of public authorities;

• to manage and administer insurance and risk management arrangements on behalf of eligible community organisations;

NB: No longer active due to the General Insurance industry resuming provision of "affordable" insurance cover to this sector.

• to provide services, facilities and advice to public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law;

• to initiate, or participate in, and promote programs and schemes for:
  - research into the treatment of industrial diseases and personal injury; and
  - research into, education for, and promotion of public awareness relating to the prevention of industrial diseases, personal injury and accidental death,

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

• to provide advice to the Government on matters relating to insurance and risk management; and

• to invest and manage moneys and other property under its control.

These statutory functions are managed by the following Divisions:
Motor Vehicle Personal Injury Division

In accordance with the Motor Vehicle (Third Party Insurance) Act 1943, owners and drivers of approximately 2.5 million Western Australian registered vehicles (including caravans and trailers), are provided with unlimited indemnity against personal injury damages claims arising out of motor vehicle crashes.

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

In keeping with the Insurance Commission's corporate philosophy, if a prima facie case of negligence is established by a claimant, progressive payment of related medical accounts and proven past economic loss is made to the claimant or a service provider, even though there is no statutory requirement to do so before settlement of the claim. This payment policy seeks to be efficient and effective, with an aim of alleviating financial hardship and inconvenience to the claimants and service providers.

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

RiskCover Division

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

RiskCover Fund

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

The Department of Treasury (Treasury) appointed the Insurance Commission's RiskCover Division to manage this Fund, with a rolling three year termination notification clause applying.
In seeking to reduce the Western Australian Government’s total cost of risk, the RiskCover Division actively promotes risk management practice to agencies, and through training and risk management consultancy services, assists agencies to build in-house expertise to develop an integrated risk management strategy and effectively self-manage their business risks.

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

RiskCover workers’ compensation cover is in a statutory form. Other covers provided by RiskCover have generally less exclusions than similar products available in the general insurance market, reflecting the self-insurance basis of the RiskCover Fund.

The RiskCover Fund is underwritten by the State, and Treasury is consulted during the process of determining agencies’ annual contributions and refunds.

Monies held by the Insurance Commission which are in excess of the RiskCover Fund’s immediate operating requirements, are invested as part of the Insurance Commission’s professionally managed investment portfolio.

**Government Insurance Fund (GIF)**

The GIF is in “run-off” and no longer generates premium income. The “run-off” commenced 1 July 1997 upon establishment of the RiskCover Fund, and the remaining GIF liabilities are of a long-tail nature, which arose from events prior to 1 July 1997.

Treasury has financial responsibility for any deficit in this Fund. Treasury ensures sufficient cash is available to meet claims payments. The liabilities of Treasury are recognised via a Right of Indemnity Agreement with the Insurance Commission. The RiskCover Division provides the claims management service for the GIF.

**Compensation (Industrial Diseases) Fund (CIDF)**

Under section 163 of the WCIM Act, industrial diseases insurance cover is compulsory for employers engaged in mining and mining operations.

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

The RiskCover Division issues industrial diseases insurance policies to the mining industry, on behalf of the Insurance Commission, and pays claims arising from these policies. The liabilities are underwritten by the Insurance Commission and are administered through the CIDF.
Historically, a surplus in the CIDF could only be transferred to the Mine Workers' Relief Fund in the event of a shortfall in the Mine Workers' Relief Fund. There are no outstanding claims under the Mine Workers' Relief Fund. As there is confidence no future claims will arise, action has been taken to repeal the Mine Workers' Relief Act and related Acts via the "Statutes (Repeals and Minor Amendments Bill (No.2) 2010)", which is currently before Parliament.

**Insurance Commission General Fund (ICGF)**

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

Estimated outstanding liabilities include an allowance for 'incurred but not reported' claims. The primary source of ongoing claims, arises from workers exposed to asbestos mined by private companies at Wittenoom between 1943 and 1967. Sufficient reserves are currently available to meet known liabilities.

**Employers' Indemnity Supplementation Fund (EISF)**

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

The EISF was established to ensure workers injured in the course of their employment, and covered by an insurer placed into liquidation, are properly compensated to the extent of the insurance cover which would have been available but for the insolvency of the insurer.

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

**General Funds**

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

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

The Police Commissioner is liable for the medical and other expenses incurred, and the Insurance Commission was appointed to manage claims on behalf of the Western Australian Police, for a period of three years (on a fee for service basis) from the commencement of the scheme on 1 July 2009. It is expected that this appointment will be extended as negotiations are currently underway and there have been no problems observed with the service being provided.

Investments

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

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

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


The Insurance Commission's Investment Portfolio is professionally managed by a combination of external investment managers and internal management. The Investment Division is responsible for the Direct Property, Fixed Interest, and Cash Portfolios.

All Investment Managers are measured against performance targets based upon market indices (benchmarks) for their respective asset classes. The Insurance Commission continually monitors the performance of all managers, both internal and external, with the assistance of its independent Asset Consultant.
Where there is a clear trend showing underperformance over the longer-term (generally three years), or there have been negative developments in terms of a manager's performance, structure, investment processes and/or staffing resources, the manager's services may be terminated by the Insurance Commission.

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

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

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

The investment objectives of the Insurance Commission are to:

- Achieve an investment performance target of CPI+3.5% annualised over rolling seven year periods.
- Achieve a rate of return for each asset class that exceeds the relevant performance benchmark over rolling three year periods.
- Maintain a level of liquidity that is sufficient at all times to meet business division requirements.
- Contribute to the Insurance Commission maintaining a fully-funded position.
ICWA Law Pty Ltd

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

Insurance Commission Priorities for 2012/2013

Continue to:

- Provide affordable compulsory motor vehicle third party personal injury insurance premiums to owners of Western Australian registered motor vehicles.

- Provide a compulsory motor vehicle third party personal injury claims system that treats claimants fairly and delivers equitable compensation.

- Ensure that the Third Party Insurance Fund remains fully-funded, broadly in line with Australian Prudential Regulatory Authority (APRA) guidelines.

- Monitor, in its capacity as an indemnifying creditor, recovery action by the Liquidators of the Bell Group companies.

- Be recognised by RiskCover member agencies as an excellent provider of risk management and self-insurance services.

- Maintain RiskCover’s participation in assisting all agencies to identify ways of minimising their cost of risk through alternative and less costly ways of managing/eliminating their risk exposure.

- Assist RiskCover member agencies to increase and/or enhance take-up of their injury management responsibilities in relation to workers’ compensation claimants.
• Implement strategies to address the problems being experienced within the RiskCover Division with respect to its internal management of increased volume and duration of workers' compensation claims.

• Assist Western Australian Government agencies to develop and/or enhance Business Continuity Plans in accordance with Government Policy.

• Maintain a long-term investment strategy which optimises investment returns through diversification of investment assets and Managers, without incurring undue additional risk.

• Seek to achieve a rate of return for each asset class that:
  - is focused on maintaining a long-term absolute return overall, and
  - is better than the relevant performance benchmark.

• Provide support and advice to the Road Safety Council to implement road safety strategies aimed at promoting safe driving practices, and consequently, reducing death and injury resulting from motor vehicle crashes.

• Monitor and fund through net assets in the Compensation (Industrial Diseases) Fund, the medical research project "Markers of Mesothelioma". This research is being undertaken by the Foundation for Advanced Medical Research and University of Western Australia, up to at least 30 June 2013.

• Invest in Human Resource Strategies to ensure the Insurance Commission is recognised as "A Great Place to Work" by existing and prospective employees.

The focus for 2012/2013 remains the retention of existing employees who possess valuable experience and corporate knowledge, while medium to longer-term strategies aim to enhance the profile and attractiveness of the Insurance Commission to the appropriate labour markets.

• Review and implement business processes/systems to better meet customer needs and increase productivity. In particular, continue migrating technology away from the current mainframe proprietary environment to open systems technology.

• Enhance the Special Investigation Division's analytical cell to facilitate the detection and prevention of fraud and kindred activities impacting on the Insurance Commission's funds and other funds it administers.
3 OUR RELATIONSHIPS

An Integral Part of the Western Australian Community

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

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

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

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

- Cost efficient administration which principally results from economies of scale; no profit factor, and no need to spend money on advertising to win and maintain market share.

- Broad coverage with less exclusions than similar products available in the general insurance market.

- Consistent, cohesive and structured approach to claims, injury and risk management, across all government entities.

- Enhanced buying power in reinsurance markets due to an ability to aggregate the State-wide exposure.

Our Relationship Challenges

- Maintain a fully-funded Third Party Insurance Fund, whilst balancing affordability of premiums with the provision of equitable entitlements for claimants and clients.

- Maintain RiskCover member agencies' positive perception of its ability to effectively provide risk management and self-insurance services.
• Balance the expectations of the Minister; Government; Stakeholders; and Claimants whilst complying with its fiduciary obligations and financial responsibilities.

Our Key Stakeholders

Our key stakeholders include:

Owner/Drivers of Western Australian registered motor vehicles, government agencies who are members of the RiskCover Fund, Treasury (representing the owners of the RiskCover Fund), DoT (as the Insurance Commission’s premium collection agent) and the WorkCover WA Authority.

The Insurance Commission is accountable to its sole shareholder, the Western Australian Government, for delivery of its services in an effective and efficient manner. The Insurance Commission achieves this through the professionalism of its people and continuous improvement of its systems.

Priorities for 2012/2013

• Continue to develop the working relationship with the Minister and Treasury.

• Strive to maintain high customer satisfaction ratings by continuing to provide excellent customer service.

• Pursue and enhance opportunities that enable customers to transact efficiently via on-line self service options.

• Continue to support road safety/crash prevention programs.

• Continue to support medical research into the cause, diagnosis, and potential cure/treatment of asbestos related diseases.

• Enhance Information & Communication Technology services through improvements in quality control, design, and development methods, with a renewed focus on completing the transition from mainframe to open systems technology, as well as better utilisation of external service providers.

• Attend to the deterioration in RiskCover member agency workers’ compensation claims performance to mitigate further losses.

• Be mindful of the goal to restore the RiskCover Fund’s Prudential Reserve to a level agreed to by the State Government/Treasury.
Promote collaborative inter-agency working by continuing the roll-out of the web-version of RiskBase to agencies, and support its ongoing use, and implementation of further enhancements to assist agency reporting requirements.

Continue a commitment to ensure compliance with Western Australian Government Policy such as Sustainability; e-Government; Disability Services; Purchasing; State Records; and Waste Paper Recycling.
4 OUR PEOPLE

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

Our goal is for the Insurance Commission to be ‘a great place to work’ for existing and prospective employees.

The Insurance Commission will support the achievement of this goal through the implementation of its Human Resources Blueprint 2012-2014, that articulates a range of strategies focused on three business priorities.

- Creating the right environment.
- Having the right people at the right time.
- Giving our people a clear purpose.

The strength of the Western Australian economy is leading to an increased demand for skills and experience in the labour market, at a time when demographic change within the community generally is reducing the total available labour pool.

The Insurance Commission competes primarily in the financial services labour market, and it is increasingly difficult to attract and retain skilled and experienced employees as a commercially focused Government Business Enterprise relying solely on public sector terms and conditions of employment that are determined centrally.

The Insurance Commission’s workforce planning models forecast increasing internal demand for skilled and experienced employees. It is revising its people strategies to mitigate these known risks.

Priorities for 2012/2013

- Re-defining the employee value proposition to arrest the decline in average experience levels through the retention of current employees.

- Establishing the Insurance Commission’s employment brand in alternative labour markets (nationally and internationally) to meet current and future skills shortages.

- Maintaining appropriate levels of investment in employee training, development and education, to ensure the Insurance
Commission's staff can meet current needs and respond to future challenges.

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

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

Cabinet in December 2009, approved the drafting of the Insurance Commission of Western Australian Act 1986 Amendment Bill, subject to the Insurance Commission giving consideration as to whether a dividend policy should apply. (A decision on the minimal capital required by the TPIF needs to be made in order to consider how a dividend policy might best be determined. An independent review was commissioned in this regard).

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

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

Borrowings
The Insurance Commission is fully-funded and currently has no debt capital (borrowings) other than the RiskCover Fund’s share of the Insurance Commission’s investment pool.

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

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

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

**Business Continuity Planning**

As part of the Insurance Commission’s overall corporate governance, in accordance with Public Sector Commissioner’s Circular No. 19 of 2009 - Risk Management and Business Continuity Planning, a Business Continuity Management Plan has been prepared and is reviewed annually.

**Performance Reporting to the Minister**

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

In addition, the Chairman of the Board of Commissioners meets with the Minister from time to time, to advise him of any significant issues and/or variation with respect to the Insurance Commission’s performance.

An Annual Report for the 2011/2012 financial year was provided to the Minister within the time frame specified by the Financial Management Act 2006.

**State Budget 2012/2013**

The Insurance Commission’s component for the State Budget for this year was submitted via the Treasury Information Management System (TIMS) within the required timetable (internally the Board monitors performance based on a more detailed Budget, which is prepared in June using the latest actuarial and investment forecasts).
6 OUR FINANCIALS

Capital Investment
Capital investment expenditure is generally of the nature of the economic replacement of existing assets, and the maintenance and improvement of Information and Communication Technology systems integral to the efficient operation of the core business. Capital Investment is reviewed on a year by year basis. Note that capital expenditure is funded from Insurance Commission generated revenue flows without recourse to the Consolidated Account.

2012/2013 Insurance Commission Capital Expenditure Summary

<table>
<thead>
<tr>
<th>Budget</th>
<th>Plant and Equipment</th>
<th>90,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Telephone/Communication equipment</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>Furniture and Fittings, office machines</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Motor Vehicle (net)</td>
<td>300,000</td>
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<tr>
<td></td>
<td>IT Hardware</td>
<td>1,190,000</td>
</tr>
<tr>
<td></td>
<td>IT Software and Intangibles</td>
<td>2,450,000</td>
</tr>
<tr>
<td></td>
<td>Total Capital Expenditure</td>
<td>4,070,000</td>
</tr>
</tbody>
</table>

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

IT software incorporates systems developed for use by Insurance Commission customers; application development software; performance monitoring applications; general desktop applications; and expenditure on re-hosting of the core insurance systems. The costs associated with these initiatives will be finalised during the Insurance Commission’s detailed budgetary process.

Financial Outcome Forecast and Key Performance Indicators
The numbers provided for the State Budget in TIMS incorporate the following:

- Premium/Fund Contribution and claim information from Actuaries (based on 30 June 2011 data).
- Documented Fund Contribution administration expense budget guidelines.
- Forecast expense based on actuals to 31 October 2011.
The financial outcome of this process is at Appendix 1.

The Insurance Commission’s component of the State Budget therefore does not reflect the current investment markets uncertainty or any later actuarial assessments on underwriting inputs since being submitted. Due to the volatility of both of these factors on forecasts, reliance cannot now be placed on these estimates.

Furthermore, note that CTP premium revenue projections entered into TIMS in these financial forecasts were in accordance with the long established approach of the Board of Commissioners, of regular inflation-linked premium increases, when appropriate, in preference to irregular and potentially significant variations to premium rates. However, based on more up-to-date information the Board determined that there would be no change to the Schedule of Premiums for 2012/13.

## INSURANCE COMMISSION of WA

### STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th></th>
<th>30/06/2013</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>38,540</td>
<td></td>
</tr>
<tr>
<td>Financial Assets at Fair Value</td>
<td>1,719,072</td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>5,976</td>
<td></td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>1,763,593</td>
<td></td>
</tr>
</tbody>
</table>

| **NON-CURRENT ASSETS** |            |       |
| Receivables            | 168,268    |       |
| Financial Assets at Fair Value | 396,424  |       |
| Investment Properties  | 574,846    |       |
| Property, Plant and Equipment | 271,413   |       |
| Intangible Assets      | 11,254     |       |
| Other Assets           | 55,959     |       |
| Total Non-Current Assets | 1,477,865 |       |

| **TOTAL ASSETS**       | 3,241,457  |       |

| **CURRENT LIABILITIES** |            |       |
| Payables                | (23,269)   |       |
| Outstanding Claims Liability | (406,484) |       |
| Unearned Premium Liability | (198,172) |       |
| Provisions              | (4,518)    |       |
| Current Tax Payable     | (28,000)   |       |
| Total Current Liabilities | (659,343) |       |

| **NON-CURRENT LIABILITIES** |            |       |
| Outstanding Claims Liability | (1,443,165) |       |
| Provisions                  | (10,831)   |       |
| Deferred Tax Liabilities    | (113,233)  |       |
| Total Non-Current Liabilities | (1,567,249)|       |

| **TOTAL LIABILITIES**     | (2,226,592) |       |

| **NET ASSETS**            | 1,014,865   |       |

### EQUITY

- Asset Revaluation Surplus | 124,042 |
- C/JDF Reserve             | 17,876  |
- Retained Earnings         | 872,946 |

**TOTAL EQUITY** | 1,014,865 |

### STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th></th>
<th>30/06/2013</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Revenue</td>
<td>487,597</td>
<td></td>
</tr>
<tr>
<td>Outwards Reinsurance Premium Expense</td>
<td>(6,000)</td>
<td></td>
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<tr>
<td>Outwards Reinsurance Commission Revenue</td>
<td>500</td>
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</tr>
<tr>
<td>Net Premium Revenue</td>
<td>482,097</td>
<td></td>
</tr>
<tr>
<td>Claims Expense</td>
<td>(500,100)</td>
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</tr>
<tr>
<td>Reinsurance and Other Recoveries Revenue</td>
<td>5,382</td>
<td></td>
</tr>
<tr>
<td>Net Claims Incurred</td>
<td>(494,718)</td>
<td></td>
</tr>
<tr>
<td>Underwriting and Administration Expenses</td>
<td>(85,788)</td>
<td></td>
</tr>
</tbody>
</table>

**UNDERWRITING LOSS** | (196,406) |

|                        |            |       |
| Investment Income      | 235,990    |       |
| Investment Expenses (incl. Bldg Depreciation) | (24,713)  |       |
| Net Investment Income  | 211,277    |       |
| Finance Costs          | (33,054)   |       |
| Other Income           | 32,254     |       |
| PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE | 101,178    |       |
| Income Tax Equivalent Expense @ 30% | (30,353)  |       |
| PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE | 70,825     |       |
## INSURANCE COMMISSION of WA

### Key Performance Indicators

#### Insurance Commission

- **Profit/(Loss) Before Income Tax (Expense)/Benefit to Net Premium Revenue (%):** 21.0
  - Profit/(Loss) Before Income Tax (Expense)/Benefit to Net Premium Revenue indicates the return the Insurance Commission has earned on its net premium revenue.

- **Profit/(Loss) Before Income Tax (Expense)/Benefit to Total Revenue (%):** 13.3
  - Profit/(Loss) Before Income Tax (Expense)/Benefit to Total Revenue indicates the return the Insurance Commission has earned on its total revenue (including net investment revenue).

- **Return on Total Assets (%):** 3.2
  - Return on Total Assets is calculated as the Insurance Commission's profit/(loss) before income tax (expense)/benefit divided by its average total assets and is expressed as a percentage.

- **Net Loss Ratio (%):** 102.6
  - Net Loss Ratio indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.

#### Third Party Insurance Fund

- **Net Loss Ratio (%):** 102.9
  - Net Loss Ratio indicates whether or not net premium revenue is sufficient to meet net claims incurred. Where net claims incurred is greater than net premium revenue the ratio will be higher than 100%. Net claims incurred equals claims expense, less reinsurance and other recoveries revenue.

- **Net Expense Ratio (%):** 9.4
  - Net Expense Ratio shows the percentage of underwriting and administration expenses against net premium revenue. Total administration expenses include amounts relating to claims management as well as non-claims administration tasks, such as policy processing and corporate overheads, but does not include sponsorship of road safety-crash prevention.

- **Net Investment Ratio (%):** 33.1
  - Net Investment Ratio represents net investment income as a percentage of net premium revenue.
### STATEMENT OF FINANCIAL POSITION

**30/06/2013**

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Amount ('000)</th>
</tr>
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<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
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<tr>
<td>Cash and Cash Equivalents</td>
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<tr>
<td>Receivables</td>
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<td>Financial Assets at Fair Value</td>
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<td>Receivables</td>
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<tr>
<td><strong>Total Non-Current Assets</strong></td>
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<td><strong>TOTAL ASSETS</strong></td>
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<td><strong>CURRENT LIABILITIES</strong></td>
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<tr>
<td>Payables</td>
<td>(31,282)</td>
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<tr>
<td>Outstanding Claims Liability</td>
<td>(180,686)</td>
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<td><strong>Total Current Liabilities</strong></td>
<td>(211,968)</td>
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<tr>
<td><strong>NON-CURRENT LIABILITIES</strong></td>
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<tr>
<td>Outstanding Claims Liability</td>
<td>(375,202)</td>
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<td><strong>Total Non-Current Liabilities</strong></td>
<td>(375,202)</td>
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<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>(587,170)</td>
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<tr>
<td><strong>NET ASSETS</strong></td>
<td>38,748</td>
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<td><strong>EQUITY</strong></td>
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<tr>
<td>Retained Earnings</td>
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<td>Prudential Reserve</td>
<td>38,748</td>
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<td><strong>TOTAL EQUITY</strong></td>
<td>38,748</td>
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</table>

### STATEMENT OF COMPREHENSIVE INCOME

**30/06/2013**

<table>
<thead>
<tr>
<th>Income/Expense Category</th>
<th>Amount ('000)</th>
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<tbody>
<tr>
<td>Premium Revenue</td>
<td>259,988</td>
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<tr>
<td>Premium Adjustment</td>
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<tr>
<td>Outwards Reinsurance Premium Expense</td>
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<tr>
<td>Outwards Reinsurance Commission Revenue</td>
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<td><strong>Net Premium Revenue</strong></td>
<td>245,311</td>
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<td>Claims Expense</td>
<td>(225,303)</td>
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<tr>
<td>Reinsurance and Other Recoveries Revenue</td>
<td>2,600</td>
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<tr>
<td><strong>Net Claims Incurred</strong></td>
<td>(222,703)</td>
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<tr>
<td>Underwriting and Administration Expenses</td>
<td>(33,522)</td>
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<tr>
<td><strong>UNDERWRITING PROFIT/(LOSS)</strong></td>
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<tr>
<td>Net Investment Income</td>
<td>33,954</td>
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<td><strong>PROFIT/(LOSS)</strong></td>
<td>23,040</td>
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### RISKCOVER

#### Key Performance Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2012-2013 Forecast</th>
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<tbody>
<tr>
<td><strong>Net Assets ($000's)</strong></td>
<td>38,748</td>
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<tr>
<td><strong>Expense Performance Target (%)</strong></td>
<td>11.9</td>
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<tr>
<td><strong>Net Investment Ratio (%)</strong></td>
<td>13.8</td>
</tr>
</tbody>
</table>

- **Net Assets**: Reflects the financial position of RiskCover at the end of the period and its ability to maintain a suitable reserve for future use.
- **Expense Performance Target**: Compares the total RiskCover Management Fee to that benchmarked by the Department of Treasury. It compares the management cost of RiskCover as a percentage of total Fund Contributions.
- **Net Investment Ratio**: Represents net investment income as a percentage of contribution collected.