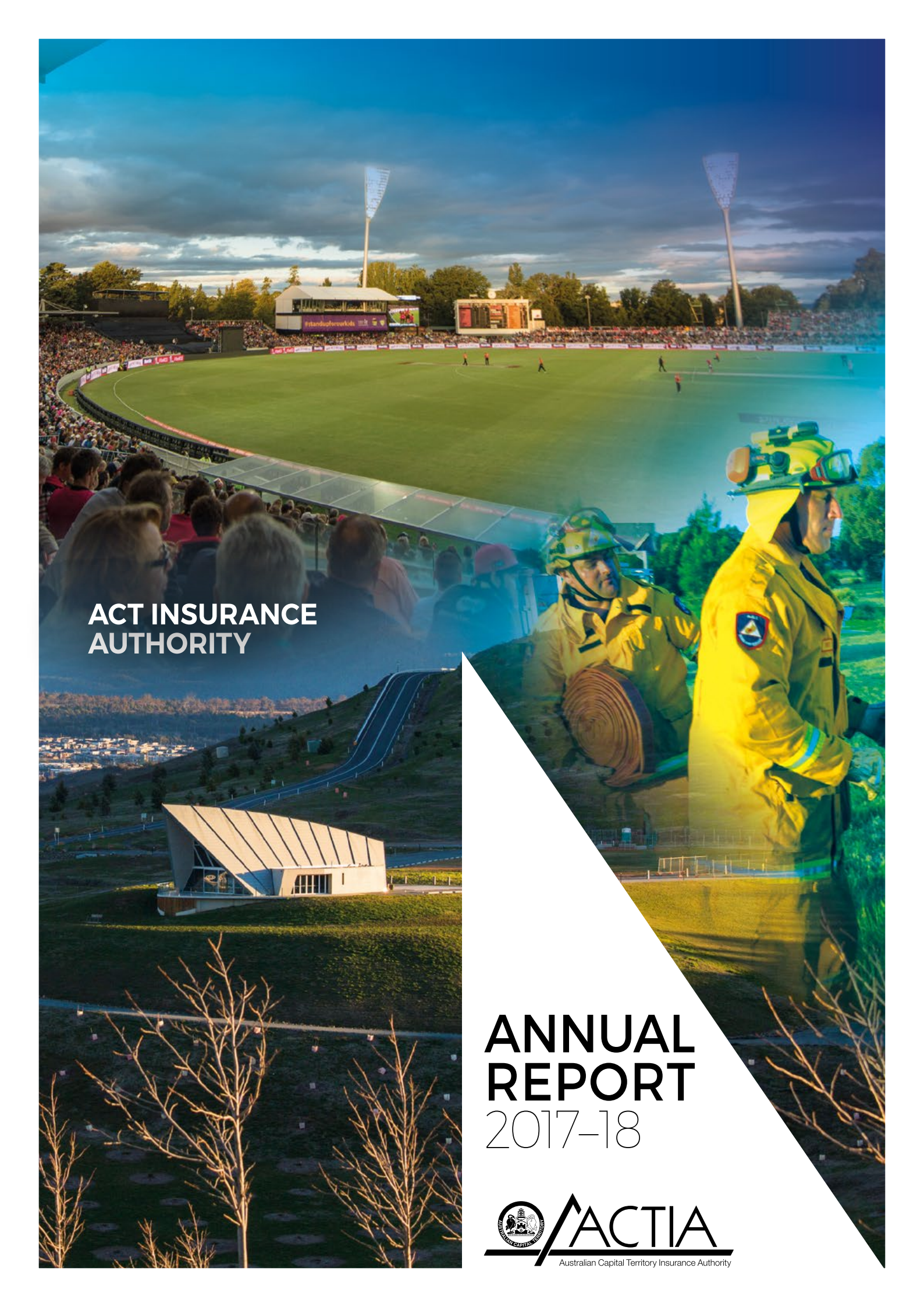




**ACT INSURANCE
AUTHORITY**

ANNUAL REPORT 2017-18

ACT Insurance Authority

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *ACT Insurance Authority Act 2005*. The Authority meets the insurable claims and losses of ACT Government agencies.

The Authority reports to the Treasurer and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each agency.

The Authority may be contacted at:

GPO Box 158
Canberra City ACT 2601

Further information is available from:

John Fletcher
General Manager
ACT Insurance Authority (ACTIA)

Phone: (02) 620 70268

E-mail: john.fletcher@act.gov.au

Website: <http://apps.treasury.act.gov.au/insurance-and-risk-management>

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PART
1

A. TRANSMITTAL CERTIFICATE AND COMPLIANCE STATEMENT



Rachel Stephen-Smith MLA
Minister for Government Services and Procurement
ACT Legislative Assembly
GPO Box 1020
CANBERRA ACT 2601

Dear Minister

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2018.

This Report has been prepared under section 7(2) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements under the Annual Report Directions.

It has been prepared in conformity with other legislation applicable to the preparation of the Annual Report by the ACT Insurance Authority.

I certify that information in the attached annual report, and information provided for whole of government reporting, is an honest and accurate account and that all material information on the operations of the ACT Insurance Authority has been included for the period 1 July 2017 to 30 June 2018.

I hereby certify that fraud prevention has been managed in accordance with *Public Sector Management Standards 2006*, Part 2.

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you present the Report to the Legislative Assembly within 15 weeks after the end of the reporting year.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D. Nicol'.

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic
Development Directorate
Delegate for the Chief Executive Officer
2 October 2018

COMPLIANCE STATEMENT

The *2017-18 ACT Insurance Authority Annual Report* must comply with the 2017 Annual Report Directions (the Directions). The Directions are found at the ACT Legislation Register: www.legislation.act.gov.au.

The Compliance Statement indicates the subsections, under the five parts of the Directions that are applicable to the ACT Insurance Authority and the location of information that satisfies these requirements:

PART 1 DIRECTIONS OVERVIEW

The requirements under Part 1 of the Directions relate to the purpose, timing and distribution, and records keeping of annual reports. The *2017-18 ACT Insurance Authority Annual Report* complies with all subsections of Part 1 under the Directions.

In compliance with Section 13 Feedback, Part 1 of the Directions, contact details for the Authority are provided within the *2017-18 ACT Insurance Authority Annual Report* to provide readers with the opportunity to provide feedback.

PART 2 DIRECTORATE AND PUBLIC SECTOR BODY ANNUAL REPORT REQUIREMENTS

The requirements within Part 2 of the Directions are mandatory for all directorates and public sector bodies and the Authority complies with all subsections. The information that satisfies the requirements of Part 2 is found in the *2017-18 ACT Insurance Authority Annual Report* as follows:

- > Transmittal Certificate, see page 6.
- > Organisational Overview and Performance, inclusive of all subsections, from page 9.
- > Financial Management Reporting, inclusive of all subsections, from page 25.

PART 3 REPORTING BY EXCEPTION

The Authority has nil information to report by exception under Part 3 of the Directions for the 2017-18 reporting period.

PART 4 DIRECTORATE AND PUBLIC SECTOR BODY SPECIFIC ANNUAL REPORT REQUIREMENTS

Part 4 of the 2017 Directions is not applicable to the Authority.

PART 5 WHOLE OF GOVERNMENT ANNUAL REPORTING

All sections of Part 5 of the Directions apply to the Authority. Consistent with the Directions, the information satisfying these requirements is reported in the one place for all ACT Public Service directorates, as follows:

- > N. Community Engagement and Support, see the annual report of the Chief Minister, Treasury and Economic Development Directorate;
- > O. Justice and Community Safety, including all subsections O.1 – O.4, see the annual report of the Justice and Community Safety Directorate;
- > P. Public Sector Standards and Workforce Profile, including all subsections P.1 – P.3, see the annual State of the Service Report; and
- > Q. Territory Records see the annual report of the Chief Minister, Treasury and Economic Development Directorate.

ACT Public Service Directorate annual reports are found at the following web address: www.cmd.act.gov.au/open_government/report/annual_reports.

As required by Australian Auditing Standards, the ACT Audit Office checks financial statements included in annual reports (and information accompanying financial statements) for consistency with previously audited financial statements. This includes checking the consistency of statements of performance with those statements previously reviewed (where a statement of performance is required by legislation).

B. ORGANISATIONAL OVERVIEW AND PERFORMANCE

B.1 Organisational Overview

The Australian Capital Territory Insurance Authority (the Authority) is established under the *ACT Insurance Authority Act 2005* (the Act).

The Act establishes the Authority as the ACT Government's captive insurer providing insurance services to all ACT Government directorates and statutory authorities, to meet the insurable claims and losses of ACT Government agencies.

The Authority's captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its reinsurance arrangements, and the accumulation of a fund reserve to meet the cost of future asset losses and legal liabilities that occur as a result of the activities of Government.

The Authority works to protect the assets and services of the Territory by providing risk management and insurance services to a large and diverse group of ACT Government client agencies and entities.

The Authority reports to the Minister for Government Services and Procurement through the Under Treasurer, Chief Minister, Treasury and Economic Development Directorate (CMTEDD) and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each insured agency.

The portfolio provides insurance cover for an insurable value of approximately \$25 billion of the Territory's assets, with annual premium revenue of \$50.9 million, \$374.7 million in investments and other assets and \$244.4 million in total liabilities.

The Authority is supported by the ACTIA Advisory Board (the Board) appointed under the Authority's enabling legislation. The current board members are Mrs Maxine McDowell (Chair) and Mr David Sandoe (Member).

The Advisory Board provides important and valuable support to the Authority, particularly in relation to a strategic approach to its reinsurance program, the identification of emerging risks and improvements to risk and claims management services. Details of Board members' qualifications and experience appear under Advisory Board in Section B.1.4.

The Authority also performs the function of Fund Manager for the Office of the Nominal Defendant of the ACT, for default claims under the ACT Compulsory Third Party Insurance Scheme and the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

The activities of these entities are reported separately and appear in reports annexed to the CMTEDD Annual Report 2017-18.

B.1.1 Functions

The functions of the Authority are specified in Section 8 of the Act and include:

- > to carry on the business of insurer of Territory risks;
- > to take out insurance of Territory risks with other entities;
- > to satisfy or settle claims in relation to Territory risks (including claims that may not necessarily be valid in law);
- > with the Treasurer's approval take action, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern.
- > develop and promote good practices for the management of Territory risks; and
- > give advice to the Treasurer about insurance and the management of Territory risks.

B.1.2 Clients

The Authority insures all ACT Government directorates and statutory authorities. The core services provided to directorates are: insurance via indemnity agreements, claims and risk management services.

The insurance coverage provided is broad form cover that includes:

- > public liability;
- > medical malpractice;
- > professional indemnity;
- > property damage; and
- > others including standing timber, specialised motor, overseas travel, directors and officers and financial crime.

B.1.3 Organisational Structure

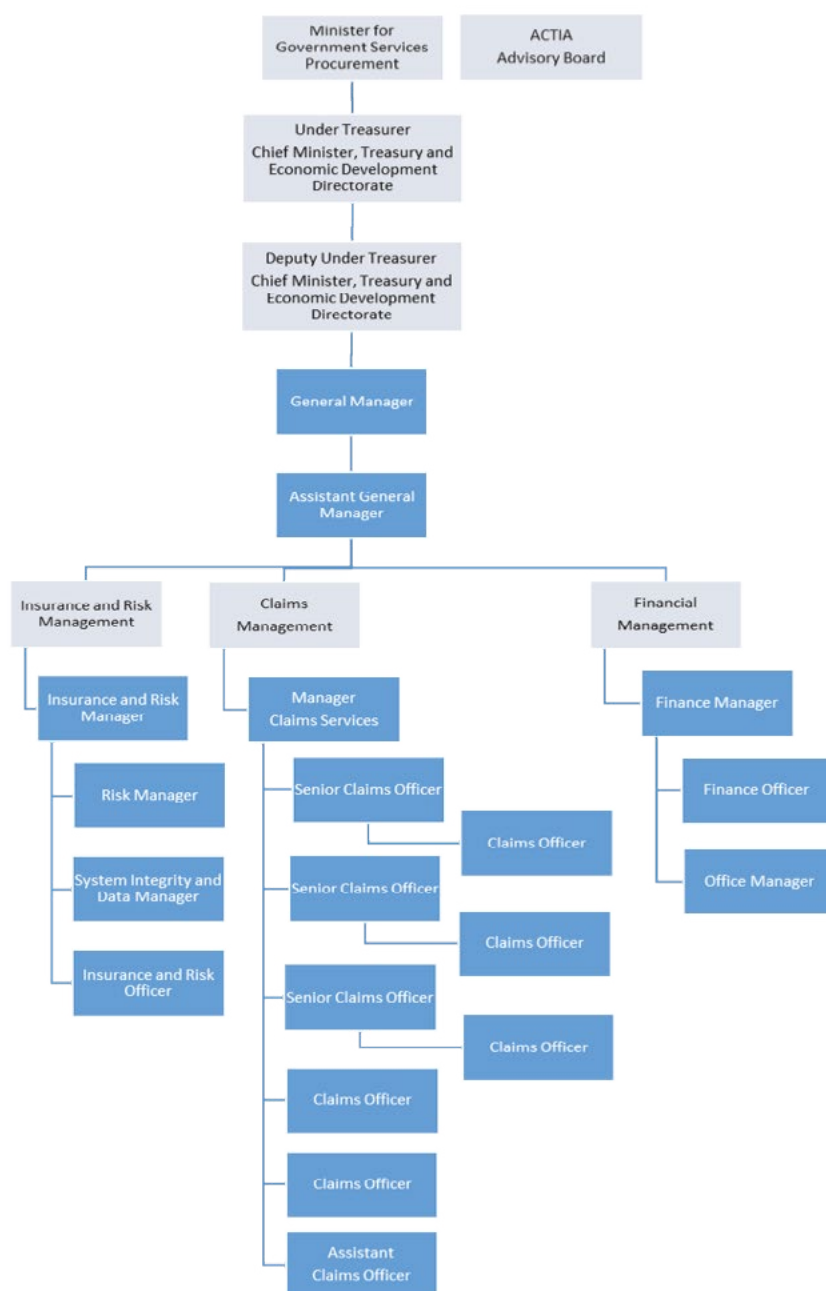
The Authority operates under the *Insurance Authority Act 2005*. Under the *Financial Management Act 1996* the Authority is responsible to the Minister for Government Services and Procurement through the Chief Executive Officer for the efficient and effective financial management of resources. The delegate for the Chief Executive Officer is the Under Treasurer and the Authority operates under CMTEDD.

The Authority delivers services through three streams: Insurance and Risk Management; Claims Management; and Financial Management.

Executive Remuneration

Executives employed by the Authority were paid in accordance with the Determinations of the ACT Remuneration Tribunal and relevant laws and instruments, including the *Public Sector Management Act 1994* and the *Public Sector Management Standards 2006*.

The organisational structure of the Authority at 30 June 2018 is as follows:



B.1.4 Internal Accountability

Advisory Board

The Board is appointed under Section 12 and 14 (2) of the Act in accordance with *Insurance Management Guidelines 2005 (No. 1)*. The Board must consist of two members appointed by the Authority who must, in the opinion of the Authority, possess sufficient skill and judgement with respect to the following:

- > at the request of the Treasurer or the Authority, provide advice to the Treasurer or the Authority on any question relating to the exercise by the Authority of its powers, functions or duties under the Act; and
- > if, in the opinion of the Board, it should provide advice to the Treasurer or the Authority on any matter relating to the exercise by the Authority of its powers, functions or duties under the Act—providing advice on its own initiative.

In regard to these appointments, the Under Treasurer, CMTEDD is the Authority and the appointees are selected based on skills relevant to the above requirements. Appointment terms must not exceed 3 years and can be revoked by the Authority for misconduct, neglect of duty or if the member becomes unable to carry out the duties of the office satisfactorily.

The Board members are:

Name of Member	Position	Duration	Meetings Attended
Mrs Maxine McDowell	Chair	July 17 to June 18	4 of 4
Mr David Sandoe	Member	July 17 to June 18	4 of 4

Mrs Maxine McDowell (Chair) - ANZIIF (Fellow). Grad Bus.Mgt. UTS. Mrs McDowell has over 40 years' experience in general insurance underwriting, marketing, claims and risk management with companies including Vero Insurance, QBE Insurance, GIO and Harbour Pacific Underwriting Management. Maxine is also a named underwriter at Lloyds of London. She has performed consulting roles with Finserv Consulting, CHU Underwriting, National Insurance Brokers Association (NIBA), Austagencies and others, including compliance and underwriting audits on behalf of Lloyds. Maxine has represented NIBA on the Insurance Council Catastrophe Insurance Taskforce, and lectured in Property Insurance at the University of Technology, Sydney. She now consults on various general insurance matters, delivers compliance and technical training and is active in mentoring programs. Maxine is also an Honorary Life Member of the Australian & New Zealand Institute of Insurance and Finance (ANZIIF).

Mr David Sandoe OAM (Member) - Dip BIA, MBA, ANZIIF (Fellow) CIP, MCMI, FAIM, FAICD. Mr Sandoe has over 47 years' experience in the insurance and financial services industry in Australia, New Zealand, UK and Ireland. This included senior executive roles with South British United/New Zealand Insurance and Zurich Financial Services and as a Principal and General Manager of Finity Consulting, an independently owned Australian firm of actuaries and insurance consultants. He is an independent board member of Defence Service Homes Insurance Scheme Advisory Board and is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance, is an Honorary Life Member of the Swiss Australian Chamber of Commerce and Industry (now SwissCham Australia), the Prostate Cancer Foundation of Australia and the Prostate Cancer Foundation of New Zealand. He retired as National Chairman of Prostate Cancer Foundation of Australia on 31 March 2015.

The remuneration of the Advisory Board members is determined by the ACT Remuneration Tribunal.

The Board met on four occasions during 2017-18 and was consulted on the following issues:

- > reinsurance program for 2018-19;
- > actuarial and financial matters;
- > operational structure;
- > ICT systems and management;
- > review of major claims; and
- > risk management matters.

B.1.5 Achievements

Major achievements during the 2017-18 year were:

Reinsurance Program Placement 2018-19

The Authority's key operational outcome is the placement of the Territory's annual insurance and reinsurance program. The program is developed to protect the Territory from losses resulting from catastrophic events or an accumulation of insurable losses.

The Authority completed a review of the insurance and reinsurance structure to confirm suitability of these arrangements including consideration by the ACTIA Advisory Board of short and long term strategic objectives. The 2018-19 renewal strategy tested the current program structure and pricing with incumbent insurance and reinsurance providers across all insurance classes.

The Authority continues to be a valued client with insurers and reinsurers who participate on the current program, while attracting interest from alternate underwriters ready to provide additional insurance capacity if required.

The Authority was able to attract excess capacity in the insurance and reinsurance market and secured 100 per cent placement of the 2018-19 program at a cost of \$6.9 million, an increase of \$0.3 million compared with the cost of the 2017-18 program.

Reduction in Outstanding Claims Liability

The Authority undertakes a valuation of its outstanding claims liabilities as at 30 June 2018. The valuation resulted in a decrease of \$6.9 million on the outstanding claims liabilities. This decrease is predominantly due to revised economic and actuarial assumptions.

Risk Management Support

The Authority's risk management team continues to work with directorates to promote best practice risk management within the Territory. The team provides a range of consultancy services to staff involved in the delivery of a range of operational programs and capital works projects. This consultancy support includes a number of activities such as:

- > facilitating general risk management training;
- > facilitating project specific risk assessments and workshops;
- > support of risk management and audit committees within directorates;
- > presentations to senior management teams and/or directorate interest groups; and
- > provision of risk specific training.

The strong working relationships of the Authority's risk management team has with directorate staff at all levels allows the team to respond to directorate needs in the provision of services offered.

B.1.6 Outlook and Future Priorities

The Authority will continue to work with Territory agencies and entities to protect the assets and services of the Territory by providing high quality risk management and insurance services.

The Authority's ability to value outstanding claims liabilities is informed by the accumulation of claims data including claims experience information. The majority of the Authority's claims are long-tailed in nature, which means that claims often take many years to settle.

It remains important to the Authority that insurance related incidents are reported promptly to facilitate early intervention claims management and appropriate estimation of the future claims liabilities. The Authority will continue to monitor incident reporting practices by agencies and provide guidance on the nature of incidents that need to be reported. Further revisions of the outstanding claims liabilities are expected as the Authority's portfolio continues to mature.

Reinsurance premiums are expected to remain stable in the short-term, although there are signs in the market that property premium rates will continue to increase in the medium to long-term. The directors and officers insurance market is under significant pressure as a result of recent class actions in the banking and finance sector, this has resulted in increases in market rates for this cover. The medical malpractice and public liability insurance classes are expected to remain competitive in the short term. This situation is expected to continue on the back of a surplus of capital available in the market and increased levels of competition between insurers looking to maintain market share.

The Authority will continue working with agencies to develop strategies to reduce the incidence and cost of insurance claims against the Territory by promoting the implementation of good claims and risk management practices.

The Authority's risk management team continues to provide assistance to agencies on a range of risk management related topics.

The Authority intends to deliver the following key strategies in 2018-19 to achieve its objectives:

- > implementing a program of reinsurance to protect the Territory budget based on an appropriate balance between transferred and retained risk;
- > proactively managing claims against the Territory in consultation with agency stakeholders and in accordance with the ACT model litigant requirements;
- > assisting agencies with the implementation and continuous improvement of risk management practices within the Territory that reflect international standards and business best practice;
- > delivering a program of targeted risk management seminars for agencies that increase the level of stakeholder engagement on relevant topics;
- > reviewing the ACT Government Risk Management Policy in consultation with ACT Government directorates including the development of a suite of consultancy, training and general risk management support services;
- > implementing an insurance management system consistent with the requirements identified in the Authority's Information Communication Technology Plan;
- > developing a long term investment strategy with investment options that target investment returns and strategic asset allocation; and
- > developing a change management plan to facilitate the Authority's move to an activity based work environment in the new ACT Government office building.

B.2 Performance Analysis

The Authority has met and in many cases exceeded accountability indicator measures as detailed in the Authority's 2017-18 *Statement of Intent*.

A summary of the outcomes achieved against each of the Authority's principal objectives and accountability indicators are detailed below.

B.2.1 Carry on the business of insurer of territory risks

Conduct an annual customer satisfaction survey

Outcome

The Authority's Customer Service Charter details the standards that agency customers can expect when doing business with the Authority. To measure our effectiveness against these standards the Authority surveyed agencies to identify their level of satisfaction with the services provided.

Surveys were sent to 86 agency insurance contacts including the Directors-General of all ACT Government directorates and statutory authorities insured by the Authority.

The survey asked respondents to rate their level of satisfaction against key areas of service delivery including insurance management services, claims management, annual insurance renewal and financial management services. The Authority received 17 responses from a cross section of agency clients who indicated high levels of satisfaction with the services provided by the Authority.

Overall, respondents indicated that they were satisfied with the Authority's overall performance as their provider of insurance and risk management services. Survey respondents identified a number of key elements of service provision that supported overall satisfaction levels. These areas include: the strength of the Authority's network of risk management and insurance providers and our strong relationships with directorate insurance contacts; the support provided when managing claim matters; and the support provided to procurement and capital infrastructure project teams.

The Authority continues to collaborate with customers at all levels within directorates to enhance the level of service provided and to identify and clarify those areas in which its performance does not meet expectations.

Determine annual insurance premiums for territory agencies

Outcome

The Authority completed an annual review of agency insurance premiums, with assistance from the fund actuary, PricewaterhouseCoopers Actuarial Pty Ltd for the 2018-19 insurance year. Premiums are determined based on agency claims history, asset ownership and overall risk profile.

The Authority continues to refine its premium allocation model, informed by the accumulation of claims data including claims experience, risk exposure and asset ownership information.

Maintain a funding ratio within the targeted range stated in the ACTIA capital management plan

Outcome

The ACTIA Capital Management Plan provides a comprehensive and structured approach to the long-term management of the Authority's financial assets.

The plan establishes the basis for an agreed approach to the management of the Authority's financial strategy and objectives and takes into consideration the variability of the Authority's capital position.

In summary, the Authority has adopted a target funding ratio of 100 per cent and manages its capital position between the funding ratio ranges of 100 to 120 per cent. These parameters guide decision making to address a capital position outside these ranges. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation).

This position seeks to strike a balance between the appropriate and prudential management of the Territory's risk, while allowing suitable mechanisms to return capital in instances where the updated actuarial advice suggests a lower risk profile moving forward than originally anticipated. Unwarranted over provisioning of risk unnecessarily restricts the Government's budgetary flexibility.

As a trade-off, the plan also contemplates a mechanism to allow a request for capital injection (as has happened in the past), where the profile moving forward, for some reason, is revised upwards.

The Authority's funding ratio as at 30 June 2018, is 153 per cent equating to a balance sheet surplus of \$130.2 million. In accordance with the Authority's Capital Management Plan, the Authority has included in its 2018-19 budget a return of \$70 million in capital to the ACT Government.

The Authority forecasted capital funding positions for 2018-19 and the next three years as follows:

Balance Sheet	Actual 30 June 2017	Actual 30 June 2018	Forecast 30 June 2019	Forecast 30 June 2020	Forecast 30 June 2021	Forecast 30 June 2022
Assets	\$345.5	\$374.7	\$329.0	\$353.8	\$380.8	\$409.1
Liabilities	\$250.1	\$244.5	\$276.4	\$303.1	\$331.7	\$361.1
+/- \$	\$94.5	\$130.2	\$52.6	\$50.7	\$49.1	\$48.0
Funding Ratio	138%	153%	119%	117%	115%	113%
Capital Return	\$50 million		\$70 million	-	-	-

General and administrative expense as a percentage of total annual premium revenue

Outcome

General and administrative expenses represent six per cent of ordinary revenue. This is one per cent higher than the target of five per cent. The Authority's annual premium revenue has reduced over the past three years resulting in the increase to the expense percentage.

The Authority's management and staff continue to work on improving operational efficiency without compromising on the service delivery expectations of customers.

Average number of days to process payments for settlement of claims

Outcome

During 2017-18 it took an average of 11 days to process payment for the settlement of insurance claims. This is one day higher than the target of 10 days. The higher number of days is due to increases in operational demands relating to the processing of settlement payments.

Review the Territory's insurance and reinsurance programs

Outcome

The Authority completed a review of the Territory's insurance and reinsurance programs as part of its annual renewal process that included a review of the Territory's risk profile, current reinsurance program structure, an analysis of market conditions and the suitability of insurance policy terms and conditions.

The review outcome was presented to the Authority's Advisory Board who provided advice to the Under Treasurer and the Authority's General Manager on the suitability of the proposed 2018-19 reinsurance program.

The Authority was able to achieve placement of 100 per cent of the Territory's reinsurance program for 2018-19 with the London and Australian reinsurance markets within budget. The program renewal for the 2018-19 insurance year included an increase of insurable value of approximately \$25 billion of the Territory's assets and general growth in the Territory wide risk exposure.

The Authority was able to place the Territory in a healthy position with the insurance and reinsurance market with a premium increase of \$0.3 million on the reinsurance renewal.

B.2.2 Take out insurance of territory risks with other entities

Review the Territory's property asset register to ensure that values reflect insurance replacement costs

Outcome

The Authority reviewed the Territory's insurance assets schedule and replacement values made by agencies in their annual insurance declaration. The Authority worked with individual agencies to refine the detail included in schedules for inclusion in the Authority's property reinsurance renewal.

Complete property loss control surveys

Outcome

The Authority's lead property reinsurer, XL Catlin undertakes an annual program of property surveys in consultation with the Authority and Territory agencies. A selection of assets is surveyed each year as part of a rolling program. This provides reinsurers with an overview of the Territory's asset management practices, with a focus on emergency management systems and property protection. The surveys in 2017-18 confirmed that the Territory's asset management practices were appropriate in the sample of assets surveyed.

The survey reports and recommendations were provided to agency representatives responsible for asset management arrangements for consideration and appropriate action.

B.2.3 Satisfy or settle claims in relation to territory risks

Quarterly review of claims

Outcome

Claim review meetings were held quarterly during 2017-18 to review all liability and medical malpractice claims where the Territory's reserve exceeds \$250,000. The claim review meetings were attended by Authority staff, representatives of the Authority's insurance brokers, Marsh Pty Ltd and the ACT Government Solicitor's Office, as well as external insurer's representatives. The review meetings provide an excellent opportunity to enhance the Territory's ability to develop and execute complex claims management strategies.

The Authority continues to work with key agencies, analysing claims data and developing strategies to reduce the incidence of claims against the Government by implementing robust risk management practices, which in turn assists in the reduction of costs incurred by the Territory. The Authority provides support to identify causes and contributing factors resulting in claims events.

Insurance claims data

Outcome

An actuarial assessment of insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd at the end of each financial year.

The data is provided by major insurance class and includes an assessment of the discounted mean term relating to the average time it takes to finalise claims, ultimate claims numbers, and the average cost of large and small claims. These assumptions provide the basis for establishing the Authority's outstanding claims liabilities and annual agency premiums.

Further information regarding the actuarial process and the assumptions used appears in the Authority's Financial Statements at Appendix D: Changes in Accounting Estimates.

B.2.4 Develop and promote good practices for the management of territory risks

Provide risk profile reports

Outcome

In August 2017 and June 2018, the Authority issued Risk Profile Reports to Directors-General and to agency officers involved in management of operational insurance and risk management.

The reports contained a detailed claims history, claims costs and assists agencies to identify trends or issues across different classes of insurance.

The feedback from directorates regarding the reports has been positive and provides for an increased level of focus on risk management by senior managers and risk practitioners as a result.

Deliver general and targeted risk management training courses

Outcome

The Authority's risk managers delivered 20 general and targeted risk management training sessions to approximately 308 territory staff in 2017-18. The courses remain popular and are consistently well attended by a range of territory staff including senior executive managers, senior officers and operational staff.

The Authority delivered an increased number of tailored training solutions directly to directorate business units. These have included courses to provide territory staff with an understanding of the ACT Government Risk Management Framework and introductory level courses where training exercises relate specifically to attendees' job roles. The various training initiatives were a mixture of half day and full day training sessions.

Overall participant satisfaction with risk management training sessions

Outcome

The risk management courses offered by the Authority have been well received and feedback from participants is positive.

Participants indicated a high level of satisfaction with the courses provided and a majority indicated that they were informative, comprehensive, well presented and generally met their needs.

When prompted if they were satisfied with the risk management training courses overall, 99.1 per cent of respondents indicated that they were.

B.2.5 Give advice to the Minister about insurance and the management of territory risk

Agency annual insurance premium

Outcome

The Authority prepared a brief for the Chief Minister and Treasurer in early 2018 to seek approval for the annual agency insurance premiums for inclusion in the 2018-19 ACT Budget. The brief provided a detailed schedule outlining the allocation of premiums per agency.

Annual reinsurance program placement

Outcome

The Authority prepared a brief to seek the approval by the Chief Minister and Treasurer for the Authority to proceed with the renewal of the Territory's reinsurance program on the best available terms and conditions in the London and Australian insurance markets for the 2018-19 year.

The brief provided background information on the process applied to the development of the proposed reinsurance program including a summary of current insurance market conditions in the medical malpractice, public liability, property and directors and officers insurance classes.

The Authority subsequently placed the Territory reinsurance program for 2018-19 with the London and Australian insurance market with a premium increase of \$0.3 million on the reinsurance renewal.

Authority's capital management plan

Outcome

The Authority prepared a brief to seek agreement by the Chief Minister and Treasurer to the Authority's Capital Management Plan prepared for the 2018-19 Budget.

The brief provided background information relating to the Authority's capital management plan that provides a comprehensive and structured approach to the long-term management of the Authority's financial assets. The key issues raised in this brief reported on the Authority's capital position as at 30 June 2017 and outlined the forecasted funding ratio for the 2018-19 Budget.

B.3 Scrutiny

There were no inquiries or reviews from the ACT Auditor-General, the ACT Ombudsman, or any Legislative Assembly Committees in 2017-18. The only scrutiny from the Auditor-General during the reporting period was for the audit of the 2016-17 Financial Statements and the review of the 2016-17 Statement of Performance.

B.4 Risk Management

The Authority is part of CMTEDD, as such, it is covered in CMTEDD's risk management arrangements. Additionally, the Authority's maintains its own Workplace Health & Safety and Corporate Risk Register. This register identifies and details its own risks, control measures and treatment plans for identified categories of risk including financial, business and information technology dependencies. The Risk Register is reviewed annually.

B.5 Internal Audit

During 2017-18 the Authority's internal audit functions were provided by the CMTEDD Audit and Risk Committee (the Committee). The Committee's functions are governed by the Audit Committee Charter.

Membership includes an Independent Chair, Deputy Chair, a senior executive member from another ACT Government agency and three appointees from within CMTEDD. A representative from the ACT Audit Office and advisors regularly attended meetings.

Four general meetings and two special meetings were held during the year. The number of meetings attended by committee members is as follows:

Name of Member	Position	Duration	Meetings Attended
Carol Lilley	Independent Chair	July 2017 to June 2018	6
Peter Lewinsky	Deputy Chair	July 2017 to June 2018	6
Geoffrey Rutledge	CMTEDD Member from July 2017 to February 2018 External Member from March 2018 to June 2018	July 2017 to June 2018	3
Peter Murray	CMTEDD Member	July 2017 to June 2018	4
Dave Peffer	CMTEDD Member	March 2018 to June 2018	2
Sam Engele	CMTEDD Member	March 2018 to June 2018	2

Internal audit services are provided by private audit firms. Internal audits are selected from an internal audit program; this program is developed after identifying areas of operational and financial risk.

During the committee meeting held in August 2017, the Audit and Risk Committee reviewed the findings from the Default Insurance Fund and Office of the Nominal Defendant of the ACT database review conducted by the private audit firm, Protiviti during 2016-17.

The internal audit program did not required the Authority to complete any audit activities during 2017-18.

B.6 Fraud Prevention

The Authority's is part of CMTEDD. As such, it is covered in the CMTEDD's Fraud and Corruption Prevention Plan. Appropriate delegations and separation of duties are in place for financial and administrative operations. There were no reports or allegations of fraud or corruption received during the year.

B.7 Work Health and Safety

The Authority manages workplace health and safety in accordance with the provisions of the *Work Safety Act 2011*. The Authority is committed to maintaining the health and safety of its employees and arranges ongoing training throughout the year for the following:

- > two health and safety representatives;
- > one qualified first aid officer; and
- > two fire wardens.

B.7.1 Reporting Requirements under the Work Safety Act 2011

During the reporting period the Authority did not receive any notices under Part 10, 11 or any findings of a failure to comply with a safety duty under Part 2 Division 2.2, 2.3 or 2.4 of the *Work Safety Act 2011*.

The Authority is committed to promoting and maintaining a high standard of health safety and well-being for all staff, contractors and visitors. Resources are provided to ensure that all employees understand the basic principles of injury prevention and management.

The Authority was covered by the following CMTEDD Human Resource Management arrangements:

- > *CMTEDD Corporate Framework*; and
- > *CMTEDD Strategic People Plan 2015-2017*.

Details of the above arrangements are available in the CMTEDD 2017-18 Annual Report.

B.8 Human Resources Management

The Authority was supported by the Shared Services Strategic Human Resources team within CMTEDD. This team provides strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the CMTEDD 2017-18 Annual Report.

The Authority is committed to the *ACT Public Service Code of Conduct*, *ACTPS Performance Framework* and the *ACT Public Service Respect, Equity and Diversity Framework* to build a positive, inclusive and diverse work place.

Staff have been employed by the Authority on the basis of merit, their qualifications, experience and skills. The Authority aims to create a workplace where the strengths, talents and contributions of all staff are recognised and valued. The Authority has adopted a range of measures aimed at achieving that objective.

These include:

- > providing access to study leave;
- > providing access to flex time and ensuring staff do not work excessive hours; and
- > providing flexible working arrangements including part-time work.

B.8.1 Learning and Development

The key development and learning priorities for the Authority have been identified as risk management, insurance, finance and ICT. During 2017-18, staff undertook formal training courses and attended conferences and seminars in these areas. The cost of training courses and seminars undertaken in 2017-18 totalled \$40,019. A number of the Authority's employees are either in the process of or have commenced long-term courses during the year which when completed will give them various formally recognised qualifications.

B.8.2 Workplace Relations

The Authority's staff are covered under the *ACT Public Service Administrative and Related Classifications Enterprise Agreement 2013-2017* that continues to apply. The ACT Public Service Enterprise Agreements provide scope for Attraction and Retention Incentives (ARIs) to be agreed with staff to allow higher levels of remuneration or other benefits to be provided, where market rates exceed those payable. The Authority has no ARI arrangements in place.

B.8.3 Staffing Profile

The following tables provide statistical information for permanent staff of the Authority for 2017-18:

FTE AND HEADCOUNT BY DIVISION/BRANCH

Division/Branch	FTE	Headcount
ACT Insurance Authority	18.3	19
Total	18.3	19

FTE AND HEADCOUNT BY GENDER

	Female	Male	Total
FTE by Gender	15.3	3.0	18.3
Headcount by Gender	16	3	19
% of Workforce	84.2%	15.8%	100.0%

HEADCOUNT BY CLASSIFICATION AND GENDER

Classification Group	Female	Male	Total
Administrative Officers	12	-	12
Senior Officers	4	2	6
Executive Officers	-	1	1
TOTAL	16	3	19

HEADCOUNT BY EMPLOYMENT CATEGORY AND GENDER

Employment Category	Female	Male	Total
Casual	-	-	-
Permanent Full-time	13	2	15
Permanent Part-time	2	-	2
Temporary Full-time	1	1	2
Temporary Part-time	-	-	-
TOTAL	16	3	19

HEADCOUNT BY DIVERSITY GROUP

	Headcount	Percentage of Authority workforce
Aboriginal and Torres Strait Islander	-	-
Culturally & Linguistically Diverse	2	10.5%
People with a disability	1	5.3%

NB: Employees may identify with more than one diversity groups.

HEADCOUNT BY AGE GROUP AND GENDER

Age Group	Female	Male	Total
Under 25	2	-	2
25-34	2	-	2
35-44	7	-	7
45-54	5	1	6
55 and over	-	2	2

AVERAGE LENGTH OF SERVICE BY GENDER (HEADCOUNT)

	Female	Male	Total
Average years of service	8.3	12.9	9.1

RECRUITMENT AND SEPARATION RATES BY CLASSIFICATION GROUP

Division	Recruitment Rate	Separation Rate
Administrative Officers	9%	-
Senior Officers	-	-
Executive Officers	-	-

B.9 Ecologically Sustainable Development

Section 158A of the *Environmental Protection Act 1997* requires agencies to report on actions and initiatives taken during the reporting period to support ecologically sustainable development.

The Authority applies appropriate management practices that are consistent with the principles of ecologically sustainable development. The Authority uses recycled paper and cardboard where possible and uses energy efficient office machines. Recycling bins are provided for staff. Where possible electronic communications are used in preference to paper.

Indicator as at 30 June	Unit	2016-17 Result	2017-18 Result	Percentage change
Authority staff and area				
Authority Staff	FTE	17.6	18.3	3.9
Workplace floor area	Area (m2)	258.12	257.12	(0.4)
Stationary energy usage				
Electricity use	Kilowatt hours	Refer to the CMTEDD Annual Report		N/A
Natural gas use	Megajoules			
Diesel use	Kilolitres			
Transport fuel usage				
Electric vehicles	Number	-	-	-
Hybrid vehicles	Number	-	-	-
Other vehicles (that are not electric or hybrid)	Number	-	-	-
Total number of vehicles	Number	-	-	-
Total kilometres travelled	Kilometres	-	-	-
Fuel use – petrol	Kilolitres	-	-	-
Fuel use – diesel	Kilolitres	-	-	-
Fuel use – Liquid Petroleum Gas (LPG)	Kilolitres	-	-	-
Fuel use – Compressed Natural Gas (CNG)	Gigajoules	-	-	-
Water Usage				
Water use	Kilolitres	Refer to the CMTEDD Annual Report		N/A
Resource efficiency and waste				
Reams of paper purchased	Reams	312	344	10.3
Recycled content of paper purchased	Percentage	99.4%	98.6%	(0.8)
Waste to landfill	Litres	Refer to the CMTEDD Annual Report		N/A
Co-mingled material recycled	Litres			
Paper and cardboard recycled (incl. secure paper)	Litres			
Organic material recycled	Litres			
Greenhouse gas emissions				
Emissions from stationary energy use	Tonnes CO2-e	Refer to the CMTEDD Annual Report		N/A
Emissions from transport	Tonnes CO2-e			

C. FINANCIAL MANAGEMENT REPORTING

C.1 Financial Management Analysis

The Authority's financial results are reported in Part 2 of this report. Part 2 Section A of the *2017-18 ACT Insurance Authority Annual Report* contains the Authority's Management Discussion and Analysis.

C.2 Financial Statements

The Authority's financial results are reported in Part 2 Section B of the *2017-18 ACT Insurance Authority Annual Report*.

C.3 Capital Works

The Authority did not have capital works expenditure during the reporting period.

C.4 Asset Management

The Authority has no assets other than furniture and fittings and investments. The Authority has some capacity to invest funds over the medium and long term.

C.5 Government Contracting

The Authority engages consultants to perform a number of specialised functions. Consultants provide insurance broking services, risk management advice, actuarial services and legal advice.

The procurement selection and management processes for all contractors including consultants complied with the *Government Procurement Act 2001* and the *Government Procurement Regulation 2007*.

Procurement processes above \$25,000 have been reviewed by Goods and Services Procurement, and if necessary, by the Government Procurement Board consistent with the provisions of the Government Procurement Regulation 2007. The Authority has complied with all employee and industrial relations obligations in relation to contractors employed.

Contracts with a value of \$25,000 or more are listed in the below table:

Contract Title	Procurement Methodology	Contractor Name	Contract Amount	Execution Date	Expiry Date
Insurance Broking and Risk Management Services	Public	Marsh Pty Ltd	\$1,164,951	April 2018	April 2021
Provision of Actuarial Services ^a	Public	PriceWaterhouseCoopers Actuarial Pty Ltd	\$500,000	January 2013	January 2018

^a The actuarial services contract was under contract negotiations with Price WaterhouseCoopers at 30 June 2018.

C.6 Statement of Performance

The Authority's Statement of Performance is reported in Part 2 Section C of the *2017-18 ACT Insurance Authority Annual Report*. Narrative on the performance measures is also included in B.2 Performance Analysis.

PART
2

A.
**MANAGEMENT
DISCUSSION
AND ANALYSIS**

**SECTION
A**

A. MANAGEMENT DISCUSSION AND ANALYSIS

General Overview

The Australian Capital Territory Insurance Authority (the Authority) is established under the *Insurance Authority Act 2005*.

The Authority operates as the captive insurer for the ACT Government and provides a range of insurance, claims and risk management services to ACT Government directorates and statutory authorities.

The Authority operates on a cost recovery basis by collecting premiums from directorates and statutory authorities to meet the cost of insurable claims and losses. The Authority's operating costs are largely driven by provisioning for future claims and current claims expense.

The Authority works to protect the assets and services of the Territory by providing a range of insurance services and risk management support to a large and diverse client base.

Objectives

The key objectives of the Authority are to:

- > carry out the business of insurer of territory risks;
- > take out insurance of territory risks with other entities;
- > satisfy or settle claims in relation to territory risks;
- > with the Treasurer's approval, take action for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern;
- > develop and promote good practices for the management of territory risks; and
- > give advice to the Minister about insurance and the management of territory risks.

Risk Management

The Authority has developed and implemented a risk management plan in accordance with the Australian and New Zealand Standard on risk management AS/NZS ISO 31000:2009 and the ACT Government's Risk Management Framework. The Authority's plan identifies and details risks and control measures and treatment action plans for risks in the financial, business and information technology dependencies.

The Authority's two key risks are unsatisfactory external insurance arrangements and annual premiums that are not geared to fully fund claims over the claim development period. To manage these risks, the Authority uses a skilled international insurance broker to provide advice and access to the global reinsurance markets. Professional actuaries provide support and advice that aligns premium income with claims experience.

Financial Performance

The following financial information is based on audited Financial Statements for 2016-17 and 2017-18, and the forward estimates contained in the Authority's 2017-18 Statement of Intent.

The Authority's operating result for 2017-18 is a surplus of **\$34.8 million**, being **\$32.3 million** higher than the budgeted surplus of **\$2.5 million**.

Underwriting Gain/(Loss)

1. Components of Underwriting Gain/(Loss)

For the financial year ended 30 June 2018, the Authority recorded a total gain of **\$27.4 million**.

The largest components of the Authority's underwriting gain for 2017-18 were net earned premiums, which represent **\$44.3 million**, and net incurred claims representing **(\$16.9) million**.

2. Comparison to Budget

The underwriting gain of **\$27.4 million** was **\$32.7 million** higher than the 2017-18 budgeted loss of **(\$5.3) million**.

The underwriting result comprises:

Net Earned Premiums

Net earned premiums of **\$44.3 million** was **\$0.8 million**, or **1.9 percent**, higher than the 2017-18 Budget of **\$43.5 million**. Net earned premiums is the collection of annual insurance premiums less reinsurance premium expense.

Net Incurred Claims

Net incurred claims of **(\$16.9) million** was **\$31.8 million**, or **65.4 percent**, lower than the 2017-18 Budget of **(\$48.7) million**. Net incurred claims incorporates claims expense net of reinsurance recoveries and other claims related recoveries. Claims expense was lower than budget by **\$31.1 million**, this is mostly due to the changes in actuarial assumptions used to determine the Authority's outstanding claims liability and the subsequent claims expense. The changes in actuarial assumptions are as a result of decreases in the assumed size of large claims in medical malpractice, favourable property claims experience and a decrease in the future inflation assumptions.

3. Comparison to 2016-17 Actual

The underwriting gain of **\$27.4 million** was **\$5.8 million**, or **27 percent**, higher than the 2016-17 actual result of **\$21.6 million**. This is predominately due to a decrease in claims expense as the result of changes in actuarial assumptions used to determine the Authority's outstanding claims liability and the subsequent claims expense.

4. Future Trends

The underwriting result for 2018-19 is budgeted to be a loss of **(\$6.7) million**. This is a decrease of **\$34.1 million** from the 2017-18 actual gain of **\$27.4 million**. This is predominately due to an increase of **\$32.5 million** for the claims expense, which is anticipated to return to normal expected actuarial calculated levels for the cost of future claims.

Other Revenue

1. Components of Other Revenue

For the year ended 30 June 2018, the Authority recorded other revenue of **\$13.2 million**.

The Authority collected **\$10 million** in investment distributions, **\$0.3 million** in bank interest and **\$2.9 million** from other sources including an unrealised gain on investments, support services, contract works and external insurance contracts.

2. Comparison to Budget

Other revenue for the year ending 30 June 2018 was **\$13.2 million**, which was materially in line with the 2017-18 budget.

3. Comparison to 2016-17 Actual

Other revenue was **\$13.2 million** in 2017-18, **\$1 million**, or **7 percent**, lower than the 2016-17 actual result of **\$14.2 million**, due to decreases in both distributions and interest received.

4. Future Trends

Other revenue for 2018-19 is budgeted to be **\$12.3 million**. This is a decrease of **\$0.9 million** from the 2017-18 actual result of **\$13.2 million**, predominantly due to a lower forecast in returns from investments.

Other Expenses

1. Components of Other Expenses

For the financial year ended 30 June 2018, the Authority recorded other expenses of **\$2.8 million**.

Other expenses includes expenses relating to contract works and external insurance contracts totalling **\$2.3 million**, along with an unrealised loss on the Fixed Interest Fund investment of **\$0.5 million**.

2. Comparison to Budget

Other expenses for the year ending 30 June 2018 was **\$2.8 million**, which was **\$0.7 million** higher than the 2017-18 budget of **\$2.1 million**, predominately due to the unrealised loss on investment in the Cash Enhanced Portfolio, which was not budgeted.

3. Comparison to 2016-17 Actual

Other expenses was **\$2.8 million** in 2017-18, **\$4.1 million**, or **59.5 percent**, lower than the 2016-17 actual result of **\$6.9 million**. This was predominately due to the unrealised loss on investment in the Fixed Interest Fund in 2016-17.

4. Future Trends

Other expenses for 2018-19 is budgeted to be **\$2.3 million**.

General and Administration Expenses

1. Components of General and Administration Expenses

For the financial year ended 30 June 2018, the Authority recorded general and administration expenses of **\$3.1 million**.

The Authority paid **\$2.2 million** in salaries and superannuation and **\$0.9 million** in supplies and services.

2. Comparison to Budget

General and administration expenses for the year ending 30 June 2018 were **\$3.1 million**, which was materially in line with the 2017-18 budget.

3. Comparison to 2016-17 Actual

General and administration expenses were **\$3.1 million** in 2017-18, which was materially in line with the 2016-17 actual result.

4. Future Trends

General and administration expenses for 2018-19 is budgeted to be **\$3.3 million**, which is consistent with anticipated expenses.

Financial Position

In relation to the balance sheet, the Authority maintains an adequate asset position in order to meet the cost of future claim liabilities.

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2018 is **\$374.7 million**. The Authority held **\$12.6 million** of its assets in cash, **\$187 million** in short-term investments, **\$4.1 million** in current receivables and **\$0.3 million** in prepayments. The Authority also held non-current assets of **\$170.2 million** in long-term investments, **\$0.2 million** in fixed assets and **\$0.1 million** in non-current prepayments.

2. Comparison to Budget

The total asset position as at 30 June 2018 is **\$374.7 million**, which is in line with the 2017-18 budget.

3. Comparison to 2016-17 Actual

The Authority's total asset position of **\$374.7 million** is **\$29.2 million** higher than the 2016-17 actual position of **\$345.5 million**. The increase is due to the investment of funds from income derived from operating activities.

4. Future Trends

Total assets for 2018-19 is budgeted to be **\$329 million**. This is a decrease of **\$45.7 million** from the 2017-18 actual result of **\$374.7 million**, due to the budgeted return of capital to the ACT Government of **\$70 million** expected to occur during 2018-19.

Total Liabilities

1. Components of Total Liabilities

The majority of the Authority's total liabilities of **\$244.4 million** relates to outstanding claims liabilities of **\$231.6 million**. The outstanding claims consist of current liabilities of **\$31.5 million** and **\$200.1 million** in non-current liabilities.

2. Comparison to Budget

The total liabilities position at 30 June 2018 of **\$244.4 million** is **\$41.1 million** lower than the 30 June 2018 budget of **\$285.5 million** due primarily to a decrease in the estimated outstanding claims liabilities as a result of changes in economic and actuarial assumptions.

3. Comparison to 2016-17 Actual

The Authority's total liabilities position of **\$244.4 million** is **\$5.6 million** lower than the 2016-17 actual position of **\$250 million** primarily due to a decrease in the outstanding claims liabilities as a result of changing economic and actuarial assumptions.

Capital Funding Ratio

The Authority's capital management plan takes into consideration the variability of the Authority's capital position that may result from changes in claims experience and investment returns, the opportunity cost of holding capital in the Territory's captive fund and the capital targets of other like captive insurers in the public sector.

Each year the Authority prepares a capital management plan that outlines a structured and comprehensive approach to the long-term management of the Authority's financial assets.

The Authority manages its capital position between the range of 100 to 120 percent. These parameters guide decision making to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or surrendering excess capital (in a surplus situation).

Funding Ratio

Description	Budget at 30 June 2019 \$'000	Actual at 30 June 2018 \$'000	Budget at 30 June 2018 \$'000	Prior Year Actual at 30 June 2017 \$'000
Total Assets	328,978	374,668	374,720	345,534
Total Liabilities	276,431	244,446	285,555	250,084
Funding Ratio	119%	153%	131%	138%

The Authority's funding ratio at 30 June 2018 is **153 percent**. This is higher than the budgeted funding ratio of **131 percent** due to lower than expected outstanding claims liabilities.

The Authority's 2018-19 Budget anticipates a capital return of **\$70 million** to bring the funding ratio to **119 percent**.

B.
2016-17 FINANCIAL
STATEMENT

SECTION
B

INDEPENDENT AUDIT REPORT

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the ACT Insurance Authority (the Authority) for the year ended 30 June 2018. The financial statements comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

In my opinion, the financial statements:

- (i) are presented in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia; and
- (ii) present fairly the financial position of the Authority and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996* and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of the financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Authority to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

Under the *Financial Management Act 1996*, the Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Authority.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Authority;
- adequacy of controls implemented by the Authority; or
- integrity of the audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.



Tim Larnach
Acting Director, Financial Audits
13 September 2018

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF RESPONSIBILITY

In my opinion, the financial statements are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2018 and the financial position of the Authority on that date.



David Nicol
Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
i September 2018

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with the Australian Accounting Standards, and are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2018 and the financial position of the Authority on that date.



John Fletcher
General Manager
ACT Insurance Authority
10 September 2018

ACT INSURANCE AUTHORITY

OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Note No.	Actual 2018 \$'000	Original Budget 2018 \$'000	Actual 2017 \$'000
Ordinary activities				
<i>Underwriting</i>				
Gross Earned Insurance Premiums	4	50,946	50,945	51,127
Reinsurance Premiums (Expense)	4	(6,674)	(7,500)	(6,944)
<i>Net Earned Premiums</i>	5	44,272	43,445	44,183
Claims (Expense)	4	(17,599)	(48,732)	(23,055)
Other Recoveries Claims Related	4	743	-	462
<i>Net Incurred Claims</i>	6	(16,856)	(48,732)	(22,593)
Underwriting Gain/(Loss)	4	27,416	(5,287)	21,590
<i>Other Revenue</i>				
Interest Revenue	7	349	1,095	1,097
Distribution Received	7	9,954	9,583	10,205
Other Revenue	7	2,940	2,410	2,863
		13,243	13,088	14,165
<i>Other Expenses</i>				
Other Expenses	7	(2,787)	(2,075)	(6,881)
		(2,787)	(2,075)	(6,881)
<i>General and Administration</i>				
Employee and Superannuation Expenses	8	(2,232)	(2,359)	(2,145)
Supplies and Services	9	(869)	(893)	(870)
		(3,101)	(3,252)	(3,015)
Operating Surplus		34,771	2,474	25,859
Other Comprehensive Income		-	-	-
Total Comprehensive Income		34,771	2,474	25,859

The above Operating Statement should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

BALANCE SHEET AT 30 JUNE 2018

	Note No.	Actual 2018 \$'000	Original Budget 2018 \$'000	Actual 2017 \$'000
Current Assets				
Cash	10	12,580	12,998	5,163
Investments	11	187,045	186,614	165,512
Receivables	12	4,141	3,000	3,753
Prepayments	13	341	365	365
Total Current Assets		204,107	202,977	174,792
Non-Current Assets				
Investments	11	170,199	171,001	170,161
Fixed Assets		225	416	255
Prepayments	13	137	326	326
Total Non-Current Assets		170,561	171,743	170,742
Total Assets		374,668	374,720	345,534
Current Liabilities				
Payables		247	204	189
Outstanding Claims	14	31,542	31,122	27,146
Employee Benefits	15	517	450	444
Other Liabilities	13	11,840	11,563	10,563
Total Current Liabilities		44,146	43,339	38,342
Non-Current Liabilities				
Outstanding Claims	14	200,128	241,877	211,397
Employee Benefits	15	36	13	19
Other Liabilities	13	137	326	326
Total Non-Current Liabilities		200,301	242,216	211,742
Total Liabilities		244,447	285,555	250,084
Net Assets		130,221	89,165	95,450
Equity				
Accumulated Funds		130,221	89,165	95,450
Total Equity		130,221	89,165	95,450

The above Balance Sheet should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Accumulated Funds Actual 2018 \$'000	Total Equity Actual 2018 \$'000	Original Budget 2018 \$'000
Balance at 1 July 2017	95,450	95,450	86,691
Comprehensive Income			
Operating Surplus	34,771	34,771	2,474
Total Comprehensive Income	34,771	34,771	2,474
Balance at 30 June 2018	130,221	130,221	89,165

	Accumulated Funds Actual 2017 \$'000	Total Equity Actual 2017 \$'000
Balance at 1 July 2016	119,591	119,591
Comprehensive Income		
Operating Surplus	25,859	25,859
Total Comprehensive Income	25,859	25,859
Transactions Involving Owners Affecting Accumulated Funds		
Capital (Distributions)	(50,000)	(50,000)
Total Transactions Involving Owners Affecting Accumulated Funds	(50,000)	(50,000)
Balance at 30 June 2017	95,450	95,450

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Note No.	Actual 2018 \$'000	Original Budget 2018 \$'000	Actual 2017 \$'000
Cash Flows from Operating Activities				
Receipts				
Annual Insurance Premiums Received		50,946	50,945	51,127
Interest Received		349	1,095	1,097
Distribution from Investments with the Territory Banking Account		9,715	9,426	13,664
Reinsurance and Other Recoveries Received		747	-	467
Contract Works Insurance Receipts		1,621	1,528	1,700
External Insurance Contracts Receipts		400	506	346
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		7,653	7,709	9,990
Goods and Services Tax Collected from Customers		11,589	11,491	13,826
Other Receipts		550	376	375
Workers' Compensation Insurance Receipts		63,251	63,262	85,736
Total Receipts from Operating Activities		146,821	146,338	178,328
Payments				
Employees and Superannuation		2,141	2,354	2,173
Supplies and Services		847	892	825
Contract Works Insurance Payments		1,649	1,680	1,554
External Insurance Contracts Payments		400	353	346
Goods and Services Tax Paid to Suppliers		7,680	7,709	9,914
Goods and Services Tax Remitted to the Australian Taxation Office		11,591	11,491	13,823
Reinsurance Premiums Payments		6,674	7,500	6,944
Insurance Claims Payments		24,472	26,266	33,182
Workers' Compensation Insurance Payments		61,950	62,263	83,017
Total Payments for Operating Activities		117,404	120,508	151,778
Net Cash Inflows from Operating Activities	17(b)	29,417	25,830	26,550
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		18,000	10,000	70,000
Total Receipts from Investing Activities		18,000	10,000	70,000

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

CASH FLOW STATEMENT - CONTINUED FOR THE YEAR ENDED 30 JUNE 2018

	Note No.	Actual 2018 \$'000	Original Budget 2018 \$'000	Actual 2017 \$'000
Payments				
Purchase of Investments		40,000	35,000	45,000
Purchase of Plant and Equipment		-	-	174
Purchase of Intangibles		-	200	-
Total Payments for Investing Activities		40,000	35,200	45,174
Net Cash (Outflows)/Inflows from Investing Activities		(22,000)	(25,200)	24,826
Cash Flows from Financing Activities				
Payments				
Capital Distributions		-	-	50,000
Total Payments for Financing Activities		-	-	50,000
Net Cash (Outflows) from Financing Activities		-	-	(50,000)
Net Increase in Cash		7,417	630	1,376
Cash at the Beginning of the Reporting Period		5,163	12,368	3,787
Cash at the End of the Reporting Period	17(a)	12,580	12,998	5,163

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1. OBJECTIVES OF THE ACT INSURANCE AUTHORITY

Operations and Principal Activities of the ACT Insurance Authority

The ACT Insurance Authority (the Authority) was established on 1 April 2001. The Authority operates under the *Insurance Authority Act 2005*. The objectives of the Authority are to:

- > carry out the business of insurer of territory risks;
- > take out insurance of territory risks with other entities;
- > satisfy or settle claims in relation to territory risks;
- > take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third parties business as a going concern;
- > develop and promote good practices for the management of territory risks; and
- > give advice to the Treasurer about insurance and the management of territory risks.

In addition, the Authority also performs the function of:

- > the Office of the Nominal Defendant of the ACT, for claims against uninsured and/or unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and
- > the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

Financial Statements for these entities are available in Volume 2 of the Chief Minister, Treasury and Economic Development Directorate 2017-18 Annual Report.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information.

Appendix A - Basis of Preparation of the Financial Statements

Appendix B - Significant Accounting Policies

Appendix C - Impact of Accounting Standards Issued But Yet to be Applied

NOTE 3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D - Change in Accounting Policy and Accounting Estimates.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4. UNDERWRITING RESULT

	Note No.	2018 \$'000	2017 \$'000
Underwriting Revenues			
Gross Earned Insurance Premiums			
General Government Sector		40,694	41,181
Public Trading Enterprises		8,599	8,280
External		1,653	1,666
	5	50,946	51,127
Other Recoveries Claims Related	6	743	462
		743	462
Underwriting Revenues		51,689	51,589
All underwriting revenues relate to operating activities.			
Underwriting Expenses			
Gross Claims Expenses		(17,599)	(23,055)
	6	(17,599)	(23,055)
Reinsurance Premiums	5	(6,674)	(6,944)
		(6,674)	(6,944)
Underwriting Expenses		(24,273)	(29,999)
All underwriting expenses relate to operating activities.			
Underwriting Gain			
Underwriting Revenues		51,689	51,589
Underwriting Expenses		(24,273)	(29,999)
Underwriting Gain		27,416	21,590

The change in underwriting gain is mainly due to the decrease in the gross claims expenses, refer to Discounted Gross Incurred Claims and Related Expenses in Note 6: 'Net Incurred Claims'.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5. NET EARNED INSURANCE PREMIUMS

	Note No.	2018 \$'000	2017 \$'000
Gross Written Premiums			
General Government Sector		40,694	41,181
Public Trading Enterprises		8,599	8,280
External		1,653	1,666
Total Gross Written Premiums	4	50,946	51,127
Reinsurance Premium Expense	4	(6,674)	(6,944)
Net Earned Insurance Premiums		44,272	44,183

NOTE 6. NET INCURRED CLAIMS

2018	Note No.	Current Year \$'000	Prior Years \$'000	Total \$'000
Undiscounted Gross Incurred Claims and Related Expenses ^a		(53,456)	40,005	(13,451)
Other Recoveries Claims Related		743	-	743
Undiscounted Net Incurred Claims		(52,713)	40,005	(12,708)
Discounted Gross Incurred Claims and Related Expenses ^a	4	(43,449)	25,850	(17,599)
Other Recoveries Claims Related	4	743	-	743
Discounted Total Net Incurred Claims ^b		(42,706)	25,850	(16,856)

2017	Note No.	Current Year \$'000	Prior Years \$'000	Total \$'000
Undiscounted Gross Incurred Claims and Related Expenses ^a		(63,980)	30,775	(33,205)
Other Recoveries Claims Related		462	-	462
Undiscounted Net Incurred Claims		(63,518)	30,775	(32,742)
Discounted Gross Incurred Claims and Related Expenses ^a	4	(52,255)	29,200	(23,055)
Other Recoveries Claims Related	4	462	-	462
Discounted Total Net Incurred Claims ^b		(51,793)	29,200	(22,593)

Undiscounted and Discounted Gross Incurred Claims and Related Expenses

^a The undiscounted and discounted gross incurred claims and related expenses are separated into those contributed from the most recent financial insurance year and those from prior financial insurance years, which are impacted by changes in economic factors and the assumptions used to derive the outstanding claims liabilities in the actuarial valuation.

Discounted Total Net Incurred Claims

^b The change in the discounted total net incurred claims between financial year 2016-17 and 2017-18 is the result of changes to the actuarial assessment of outstanding claims liabilities relating to insurance claims from current and prior years. In 2017-18, discounted gross incurred claims and related expenses saw a reduction of \$25.8 million in the prior years and additional incurred costs of \$43.4 million in the current year relating to new risk written during the year. The resulting claims expenses is \$17.6 million compared to \$23.1 million in 2016-17. This decrease in claims expenses is mostly driven by decreases in the outstanding claims liabilities as a result of decreases in the assumed size of large claims in medical malpractice, favourable property claims experience and a decrease in the future inflation assumptions.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
NOTE 7. OTHER REVENUE AND EXPENSES

	2018 \$'000	2017 \$'000
Interest from Bank	349	1,097
Distributions	9,954	10,205
	10,303	11,302
<i>Other Revenue:</i>		
Gains on Investments	38	388
Income from Support Services	612	465
Contract Works Insurance	1,738	1,496
External Insurance Contracts	552	514
	2,940	2,863
Total Other Revenue	13,243	14,165
Other Expenses		
Contract Works Insurance	1,738	1,496
External Insurance Contracts	552	514
Loss on Investments ^a	467	4,841
Depreciation	30	30
Total Other Expenses	2,787	6,881

^a Loss on investments during 2017-18 decreased due to changes in the price per unit of the Cash Enhanced Portfolio investment and the Fixed Interest Portfolio. The unit price for the Cash Enhanced Portfolio at 30 June 2018 was \$1.0074 (\$1.0096 at 30 June 2017) and the unit price for the Fixed Interest Portfolio at 30 June 2018 was \$1.094 (\$1.0939 at 30 June 2017).

NOTE 8. EMPLOYEE AND SUPERANNUATION EXPENSES

Employee Expenses		
Salaries	1,867	1,898
Annual Leave Movement	30	(22)
Long Service Leave Movement	27	(27)
Workers' Compensation Insurance Premium	23	22
Total Employee Expenses	1,947	1,871
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	171	176
Productivity Benefit	19	20
Superannuation to External Providers	95	78
Total Superannuation Expenses	285	274
Total Employee and Superannuation Expenses	2,232	2,145

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 9. SUPPLIES AND SERVICES

	2018 \$'000	2017 \$'000
Actuarial Costs	152	179
Audit Fees ^a	54	53
Communications and Computing Costs	192	121
Contractors and Consultants	57	138
Rent	132	120
Risk Management Initiative	89	75
Staff Development	33	18
Support Services	73	54
Travel	50	58
Other	37	54
Total Supplies and Services	869	870

^a Audit Fees are paid to the ACT Audit Office for the audit of the financial statements. No other services were provided by the ACT Audit Office.

NOTE 10. CASH

The Authority holds a general operating bank account with Westpac Banking Corporation as part of the whole-of-government banking arrangements.

Cash	12,580	5,163

The increase in the cash balance is the result of an increase in the funds being drawn from investments to cover claims expected to settle in July.

NOTE 11. INVESTMENTS

Short-term investments were held with the Territory Banking Account in the Cash Enhanced Portfolio throughout the year. These funds are able to be withdrawn upon request.

The purpose of the investment in the Fixed Interest Portfolio is to hold it for a period of longer than twelve months. The total carrying amount of the Fixed Interest Portfolio investment below has been measured at fair value.

Both investments are held as units and can fluctuate in value. Refer to Note 7: 'Other Revenue and Expenses' for movements in unit prices of these portfolios.

Investments		
Current		
Investments with Territory Banking Account - Cash Enhanced Portfolio ^a	187,045	165,512
Non-Current		
Investments with Territory Banking Account - Fixed Interest Portfolio	170,199	170,161
Total Investments	357,244	335,673

^a The increase in investments in the Cash Enhanced Portfolio is due to the investment of funds derived from the underwriting gain and other revenue.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12. RECEIVABLES

	2018	2017
	\$'000	\$'000
Current Receivables		
Distributions Receivable	3,417	3,179
Goods and Services Tax Receivable	85	63
Other Receivables	639	511
Total Receivables	4,141	3,753

No receivables are past due or impaired.

Classification of ACT Government/Non-ACT Government Receivables

Receivables with ACT Government Entities		
Distributions Receivable	3,417	3,179
Other Receivables	66	-
	3,483	3,179
Receivables with Non-ACT Government Entities		
Goods and Services Tax Receivable	85	63
Other Receivables	573	511
Total Receivables	658	574
	4,141	3,753

The Authority does not hold any collateral for receivables that are overdue or determined to be impaired.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
NOTE 13. PREPAYMENTS AND OTHER LIABILITIES

	2018 \$'000	2017 \$'000
Prepayments		
Current		
Contract Works Insurance Premium Prepayments	192	212
External Insurance Premium Prepayments	149	153
Total Current Prepayments	341	365
Non-Current		
Contract Works Insurance Premium Prepayments	-	41
External Insurance Premium Prepayments	137	285
Total Non-Current Prepayments	137	326
Other Liabilities		
Current		
Workers' Compensation Insurance Premium Received in Advance from Agencies ^a	4,017	4,017
Icon Water Limited Workers' Compensation Insurance Payments ^b	7,482	6,181
Contract Works Insurance Premium Received in Advance from Agencies	192	212
External Insurance Premium Received in Advance from Agencies	149	153
Total Current Other Liabilities	11,840	10,563
Non-Current		
Contract Works Insurance Premium Received in Advance from Agencies	-	41
External Insurance Premium Received in Advance from Agencies	137	285
Total Non-Current Other Liabilities	137	326

^a The Authority retains excess funds on behalf of the Chief Minister, Treasury and Economic Development Directorate for recoveries relating to Comcare premiums from previous years. These funds will be held with the Authority until instructed by the Chief Minister, Treasury and Economic Development Directorate to release them.

^b Icon Water Limited (formerly ACTEW Corporation Limited) withdrew from the ACT Workers' Compensation Scheme on 1 September 2012. The Scheme remains liable for all outstanding claims incurred prior to this date. ACTEW had entered into an agreement to compensate the Territory for growth in the outstanding liability arising after this date. The Authority has agreed to invoice Icon Water Limited for these costs and to hold the funds until advised by the Chief Minister, Treasury and Economic Development Directorate to release them.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14. OUTSTANDING CLAIMS

The Authority used the services of an independent actuary, Pricewaterhouse Coopers Actuarial Services Pty Limited to estimate the outstanding claims liabilities at 30 June 2018. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

	Note No.	2018 \$'000	2017 \$'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		228,544	237,650
Risk Margin		36,976	38,436
Claims Handling Costs		11,427	11,883
Total Undiscounted Expected Future Claims		276,947	287,969
Discount to Present Value		(45,277)	(49,426)
Total Discounted Outstanding Claims Provision	14(d)	231,670	238,543
Current		31,542	27,146
Non-Current		200,128	211,397
Total Discounted Outstanding Claims Provision	14(d)	231,670	238,543

(a) Risk Margin

The process of determining risk margin

The overall risk margin was determined allowing for diversification between different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty for each portfolio was analysed taking into account potential variability in the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform. The estimate of uncertainty is greater for long-tail classes of insurance when compared to short-tail classes due to the longer time until settlement of outstanding claims. The assumptions were applied to the net central estimates and aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a 75% probability of adequacy, meaning that the outstanding claims liability has a 75% chance of being sufficient enough to reflect all possible future claims. A 75% level of probability sufficiency is required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	Adopted Risk Margin	
	2018 (%)	2017 (%)
Directors and Officers	18	18
Financial Crime	30	30
Medical Malpractice	15	15
Professional Indemnity	18	18
Property and Motor	23	23
Public Liability	15	15
Overall margin (weighted average) ¹	15.5	15.5

¹ The weighted average is based on the size of the net central estimate of the liability. That is, even if the adopted risk margin for each insurance class does not change, the weighted average may still change due to movements in the underlying liabilities for each insurance class.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(b) Inflation and Discount Rates

For the succeeding and subsequent years, inflation assumptions are set with reference to economic forecasts (short-term inflation assumptions). The long-term assumption is set using methodology, which assumes a constant gap of adopted future inflation to the long-term discount rates and will increase or decrease as discount rates increase and decrease.

The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

	2018 (%)	2017 (%)
For the succeeding year		
Inflation rate	2.5	2.5
Discount rate	1.9	1.6
For the subsequent year		
Inflation rate	3.0	3.0
Discount rate	2.1	1.9
For long-term assumptions		
Inflation rate	1.7	2.3
Discount rate	3.5	4.3

(c) Term to Settlement

The weighted average expected term to settle outstanding claims from the balance date is estimated to be 6.4 years in 2017-18 (6.6 years in 2016-17). The weighted average expected term to settlement has been based on industry averages and adjusted to reflect the specific classes of insurance offered by the Authority.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability

Change in Basis - In the 12 months from 30 June 2017 to 30 June 2018

	\$'000	\$'000
Gross Central Estimate at 30 June 2017 (30 June 2017 basis) ^a		196,740
Expense margin at 30 June 2017		9,837
Risk Margin at 30 June 2017		31,966
Gross Outstanding Claims Provision at 30 June 2017 (30 June 2017 basis) ^a		238,543
New Incurred Period		41,441
Expected payments to 30 June 2018 (Inflated and Undiscounted values)		(24,426)
Expected interest to 30 June 2018		2,908
Expected change in Expense Margin		996
Expected change in Risk Margin		3,093
Expected Gross Outstanding Claims Provision at 30 June 2018 (30 June 2017 basis)		262,555
(Actual less Expected) inflation ^b		(1,628)
Change in future discounting assumptions		1,343
Change in future inflation assumptions		(10,190)
(Expected less Actual) payments ^c		(4,471)
<i>Directors and Officers</i>	33	
<i>Financial Crime</i>	39	
<i>Medical Malpractice</i>	(9,412)	
<i>Professional Indemnity</i>	(38)	
<i>Property and Motor</i>	5,987	
<i>Public Liability</i>	(1,080)	
Change in actuarial assumptions		(10,651)
<i>Directors and Officers</i>	(159)	
<i>Financial Crime</i>	(308)	
<i>Medical Malpractice</i>	(5,523)	
<i>Professional Indemnity</i>	150	
<i>Property and Motor</i>	(5,022)	
<i>Public Liability</i>	211	
Change in Expense margin at 30 June 2018		(1,280)
Change in Risk margin at 30 June 2018		(4,008)
Overall change in basis		(30,885)
Gross Outstanding Claims Provision at 30 June 2018 (30 June 2018 basis)		231,670

^a gross central estimates are inflated and discounted excluding expenses

^b includes both past and future inflation

^c a negative number indicates actual payments were more than expected during the insurance year

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability - continued

The expected gross outstanding claims provision of \$262.56 million compares to the actual gross outstanding claims provision of \$231.67 million, indicating a total decrease of \$30.89 million. This decrease can be broken down into seven main components:

- > a \$1.63 million decrease due to lower than expected inflation in the past 12 months;
- > a \$1.34 million increase due to decreases in the assumed discount rates since 30 June 2017, all else being equal, a decrease in the discount rates increases the outstanding claims liability;
- > a \$10.19 million decrease due to a decrease in the future inflation assumption since 30 June 2017;
- > a \$4.47 million decrease due to actual payments being more than expected over the 12 months. The decrease in the estimate assumes that, all other things being equal, the difference between actual and expected payments is due to timing;
- > a \$10.65 million decrease due to changes in assumptions used in the actuarial valuation. These have resulted from:
  - a reduction in the medical malpractice insurance class due to both a reduction in the assumed size of reported large claims and a decrease in the assumed size of large claim finalisations, this is partially offset by an increase in the assumed size of small claim finalisations;
  - a small increase in the public liability insurance class driven by an increase in the assumed size of small claim finalisations, offset by a reduction in the assumed number of ultimate claims reflecting the lower than expected number of claims reported over the 12 months;
  - a decrease in the property and motor insurance class due to a reduction in the reported cost of one existing large claim, and the absence of any further large claims being reported since the previous valuation;
  - an increase in the professional indemnity insurance class due to higher than expected number of claims reported;
  - a reduction in the directors and officers insurance class due to a reduction in the large claims allowance, as a result of changes made to the reinsurance program which lead to a reduction in net claims liability for this class; and
  - a reduction in the financial crime insurance class due to lower than expected number of claims reported.
- > a \$1.28 million decrease in the expense margin as a result of the decrease in the central estimate of outstanding claims; and
- > a \$4.01 million decrease in the risk margin resulting from a decrease in the central estimate of outstanding claims.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15. EMPLOYEE BENEFITS

Significant accounting policies and significant judgements and estimates have been applied in determining the Authority's current and non-current employee benefits. Refer to Appendix B - Note 15: 'Employee Benefits'.

	2018 \$'000	2017 \$'000
Current		
Accrued Salaries	47	15
Annual Leave	138	108
Long Service Leave	332	321
Total Current Employee Benefits	517	444
Non-Current		
Long Service Leave	36	19
Total Non-Current Employee Benefits	36	19
Total Employee Benefits	553	463

Estimate of When Leave is Payable		
Estimated Amount Payable Within 12 Months		
Accrued Salaries	47	15
Annual leave	83	65
Long Service Leave	13	34
Total Employee Benefits Payable Within 12 Months	141	114
Estimated Amount Payable After 12 Months		
Annual Leave	55	43
Long Service Leave	355	306
Total Employee Benefits Payable After 12 Months	410	349
Total Employee Benefits	553	463

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16. FINANCIAL INSTRUMENTS

Details of the significant policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset and financial liability are disclosed in Appendix B - Significant Accounting Policies.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

A small percentage of the Authority's financial assets are held in floating interest rate arrangements, whereas the Authority's financial liabilities are not subject to floating interest rates. This means that the Authority is not exposed to movements in interest payable; however, it is exposed to movements in interest receivable. Interest rates have remained relatively steady during the year ended 30 June 2018 however, a decrease in the average balance being held in the general cash account during the year has resulted in a decrease in the amount of interest received.

Interest rate risk for financial assets is managed by the Authority by only holding limited funds in cash. These funds are only invested in arrangements that are low-risk. The interest rate risk for financial liabilities is not actively managed by the Authority as these liabilities are held in non-interest bearing arrangements. There have been no changes in risk exposure or processes for managing risk since the last reporting period.

Sensitivity Analysis

A sensitivity analysis has not been undertaken for the interest rate risk of the Authority as it has been determined that the possible impact on income and expenses or total equity from fluctuations in interest rates is immaterial.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Authority's credit risk is limited to the amount of the financial assets it holds net of any allowance for impairment. The Authority expects to collect all financial assets that are not past due or impaired.

Credit risk is managed by the Authority for investments by only investing surplus funds with the Territory Banking Account, which has appropriate investment criteria for the external fund manager engaged to manage the Territory's surplus funds. There is no collateral held as security for financial assets.

A large proportion of the Authority's receivables are from other ACT Government agencies which means that the credit risk of these receivables going into default is low.

There have been no changes in credit risk exposure since the last reporting period.

(c) Liquidity Risk

Liquidity risk is the risk that the Authority will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit its exposure to liquidity risk, the Authority ensures that it has sufficient amounts of financial assets to meet its current financial liabilities. The Authority manages its premium revenue to meet the cost of future claims payments.

The Authority's exposure to liquidity risk in relation to its financial instruments and the management of this risk has not changed since the previous reporting period.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16. FINANCIAL INSTRUMENTS - CONTINUED

(d) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market.

The price risk to which the Authority is exposed results from its investment in the Cash Enhanced and Fixed Interest Portfolios. The Authority has units in the Cash Enhanced and Fixed Interest Portfolios that fluctuate in value. The price fluctuations in the units of the Cash Enhanced and Fixed Interest Portfolios are caused by movements in the underlying investments of the Portfolios. The underlying investments are managed by an external fund manager who invests in a variety of different investment funds and bonds, including bonds issued by the Commonwealth Government, the State Government guaranteed Treasury corporations and semi-government authorities, as well as investment grade corporate issues. To limit price risk, all bonds that make up the underlying investments of the fixed interest fund must have a long-term credit rating of BBB- or greater. Anything rated BBB- or greater is considered 'investment grade'.

The aim of the fund manager is to match the total return of the UBS Australian Composite Bond Index before taking into account fund fees and expenses. The Authority's exposure to price risk and management of the risk has not changed since the last reporting period.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the estimated impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next twelve months if the price risk changes by the volatility factors of $\pm 0.5\%$ for the Cash Enhanced Portfolio and $\pm 6.0\%$ for the Fixed Interest Portfolio from the target benchmarks with all other variables held constant.

Benchmark/ Volatility Factor	Loss Impact \$'000	Profit Impact \$'000
2018		
UBS Australian Composite Bond Index $\pm 0.5\%$	(0.5%)	0.5%
Cash Enhanced Portfolio	(935)	935
UBS Australian Composite Bond Index $\pm 6.0\%$	(6%)	6%
Fixed Interest Portfolio	(10,212)	10,212
2017		
UBS Australian Composite Bond Index $\pm 0.5\%$	(0.5%)	0.5%
Cash Enhanced Portfolio	(828)	828
UBS Australian Composite Bond Index $\pm 6.0\%$	(6%)	6%
Fixed Interest Portfolio	(10,210)	10,210

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16. FINANCIAL INSTRUMENTS - CONTINUED

(e) Fair Value of Financial Assets and Liabilities

The carrying amounts for all financial assets and liabilities reflect their fair value.

(f) Fair Value Hierarchy

The carrying amount of financial assets are measured at fair value. All other financial assets and liabilities are measured, subsequent to initial recognition, at amortised cost and as such are not included in the table below.

	Classification According to the Fair Value Hierarchy			Total
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
2018				
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account - Cash Enhanced Portfolio	-	187,045	-	187,045
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	170,199	-	170,199
	-	357,244	-	357,244
2017				
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account - Cash Enhanced Portfolio	-	165,512	-	165,512
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	170,161	-	170,161
	-	335,673	-	335,673

Investments with the Territory Banking Account are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments that have quoted market prices on the held units at the reporting date.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16. FINANCIAL INSTRUMENTS - CONTINUED

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2018. All financial assets and liabilities that have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

2018	Note No.	Weighted Average Interest Rate %	Fixed Interest Maturing In:					Non-Interest Bearing \$'000	Total \$'000
			Floating Interest Rate \$'000	1 Year or Less \$'000	Over 1 to 5 Years \$'000	Over 5 years \$'000			
Financial Instruments									
Financial Assets									
Cash	10	2.35%	12,580	-	-	-	-	12,580	
Investments - Cash Enhanced Portfolio	11		-	-	-	-	187,045	187,045	
Investments - Fixed Interest Portfolio	11		-	-	-	-	170,199	170,199	
Receivables	12		-	-	-	-	4,056	4,056	
Total Financial Assets			12,580	-	-	-	361,300	373,880	
Financial Liabilities									
Payables			-	-	-	-	(247)	(247)	
Total Financial Liabilities			-	-	-	-	(247)	(247)	
Net Financial Assets			12,580	-	-	-	361,053	373,633	
Reconciliation of Net Financial Assets to Net Assets									
Net Financial Assets (as above)								373,633	
Fixed Assets								225	
Other Assets							13	563	
Outstanding Claims							14	(231,670)	
Employee Benefits							15	(553)	
Other Liabilities							13	(11,977)	
Net Assets as per the Balance Sheet								130,221	

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16. FINANCIAL INSTRUMENTS - CONTINUED

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2017. All financial assets and liabilities that have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

2017	Note No.	Weighted Average Interest Rate	Fixed Interest Maturing In:					Non-Interest Bearing	Total
			Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Over 5 years			
			%	\$'000	\$'000	\$'000	\$'000		
Financial Instruments									
Financial Assets									
Cash	10	2.37	5,163	-	-	-	-	5,163	
Investments - Cash Enhanced Portfolio	11		-	-	-	-	165,512	165,512	
Investments - Fixed Interest Portfolio	11		-	-	-	-	170,161	170,161	
Receivables	12		-	-	-	-	3,690	3,690	
Total Financial Assets			5,163	-	-	-	339,363	344,526	
Financial Liabilities									
Payables			-	-	-	-	(189)	(189)	
Total Financial Liabilities			-	-	-	-	(189)	(189)	
Net Financial Assets			5,163	-	-	-	339,174	344,337	
Reconciliation of Net Financial Assets to Net Assets							Note No.	2017 \$'000	
Net Financial Assets (as above)								344,337	
Fixed Assets								255	
Other Assets							13	754	
Gross Outstanding Claims							14	(238,543)	
Employee Benefits							15	(463)	
Other Liabilities							13	(10,889)	
Net Assets as per the Balance Sheet								95,450	

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
NOTE 16. FINANCIAL INSTRUMENTS - CONTINUED

Carrying Amount of Each Category of Financial Asset and Financial Liability	2018 \$'000	2017 \$'000
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	357,245	335,673
Loans and Receivables Measured at Amortised Cost	4,056	3,690
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	247	189

The Authority's financial assets are at fair value and as such, no additional categories are applicable. Also, the Authority does not have any financial liabilities in the 'Financial Liabilities at Fair Value through Profit and Loss' category and, as such, this category is not included above.

Gains/(Losses) on Each Category of Financial Asset		
Gains/(Losses) on Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon initial Recognition	(429)	(4,453)

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17. CASH FLOW RECONCILIATION

(a) Reconciliation of Cash at the End of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet

	2018 \$'000	2017 \$'000
Total Cash Recorded in the Balance Sheet	12,580	5,163
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement	12,580	5,163

(b) Reconciliation of the Operating Surplus to the Net Cash Inflows from Operating Activities

Operating Surplus	34,771	25,859
Add/(Less) Non-Cash Items		
Depreciation of Fixed Assets	30	30
Add/(Less) Items Classified as Investing or Financing		
Net Loss on Investments	428	4,452
Cash Before Changes in Operating Assets and Liabilities	35,229	30,341
Change in Operating Assets and Liabilities		
(Increase)/Decrease in Distribution Receivable	(238)	3,458
Decrease in Other Receivables	63	338
Decrease in Other Assets	-	176
Increase /(Decrease) in Payables	58	(182)
(Decrease) in Outstanding Claims	(6,873)	(10,127)
Increase in Other Liabilities	1,088	2,573
Increase/(Decrease) in Employee Benefits	90	(28)
Net Changes in Operating Assets and Liabilities	(5,812)	(3,792)
Net Cash Inflows from Operating Activities	29,417	26,550

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18. RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Authority, directly or indirectly.

KMP of the Authority are the Under Treasurer, Deputy Under Treasurer, Commercial Services & Infrastructure and the General Manager of the ACT Insurance Authority.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the Authority.

This note does not include typical citizen transactions between the KMP and the Authority that occur on terms and conditions no different to those applying to the general public.

(a) Controlling Entity

The Authority is an ACT Government controlled entity.

(b) Key Management Personnel

(b)(1) Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2018.

Compensation of the Head of Service is included in the note on related party disclosures included in Chief Minister, Treasury and Economic Development Directorate's (CMTEDD) financial statements for the year ended 30 June 2018.

Two of the KMP of the Authority are employees of CMTEDD and are compensated by CMTEDD.

Compensation by the Authority to KMP is set out below.

	2018 \$'000	2017 \$'000
Short-term employee benefits	229	211
Post-employment benefits	37	35
Other long-term benefits	5	5
Total Compensation by the Authority to KMP	272	251

ACT INSURANCE AUTHORITY **NOTES TO AND FORMING PART OF THE** **FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 19. BUDGETARY REPORTING

The following are brief explanations of major line items variances between budget estimates and actual outcomes.

- (a) the line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
- (b) the variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Operating Statement Line Items	Actual	Original	Variance	Variance	Variance Explanation
	2017-18 \$'000	Budget ¹ 2017-18 \$'000			
Ordinary activities					
Reinsurance Premiums	(6,674)	(7,500)	826	11.01	The authority was able to negotiate a reduction in premiums from the overseas and local reinsurance markets.
Claims Expense	(17,599)	(48,732)	31,133	63.89	The variance of \$31.1 million is predominantly the result of a reduction in the outstanding claims liabilities which impacts the expense. The budgeted amount is based on actuarial assumptions from the Authority's December 2016 review of claims expense.
Other Revenue	2,940	2,410	530	21.98	The increase in other revenue is predominately due to an increase in contract works premiums received from agencies along with an increase in support services income. The increase in contract works premiums is due to an increase in ACT Government capital construction works where the increase in support services is due to an increase in the functions performed by the Authority on behalf of the Office of the Nominal Defendant and the Default Insurance Fund.
Other Expenses	(2,787)	(2,075)	(712)	(34.31)	Other expenses is higher mainly due to an unrealised loss on investments that was not anticipated in the budget along with the increase in contract works premiums noted above.

¹ Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2017-18 Statement of Intent).

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
NOTE 19. BUDGETARY REPORTING - CONTINUED**

Balance Sheet Line Items				
Liabilities				
Non-Current Outstanding Claims	200,128	241,877	(41,749)	(17.26)
Non-current outstanding claims were lower than budget mainly due to revised economic and actuarial assumptions. The forecasted inflation assumptions have reduced in the 30 June 2018 actuarial valuation along with a decrease in the size of large claims in the medical malpractice and property insurance classes, leading to a reduction in the outstanding claims liabilities.				
Equity				
Accumulated Funds	130,221	89,165	41,056	46.04
The increase in accumulated funds is predominately due to the decrease in liabilities as above.				
Cash Flow Statement Line Items				
Cash Flows from Investing Activities				
Payments				
Proceeds from Sale/Maturities of Investments	18,000	10,000	8,000	80.0
The proceeds from the sale/maturities of investments were higher than budget due to additional funds being required to settle a number of large claims in early July which were not anticipated.				
Payment for Investments	(40,000)	(35,000)	(5,000)	(14.29)
The payments for investments were higher than budget due to an increase in funds invested as a result of a reduction in the claim payments occurring during the financial year.				

¹ Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2017-18 Statement of Intent).

ACT INSURANCE AUTHORITY

APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Legislative Requirement

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT Government Agencies.

The FMA and the *Financial Management Guidelines* issued under the FMA, requires that the Authority's financial statements include:

- I. an Operating Statement for the year;
- II. Balance Sheet at the end of the year;
- III. Statement of Changes in Equity for the year;
- IV. Cash Flow Statement for the year;
- V. the significant accounting policies adopted for the year; and
- VI. other statements as are necessary to fairly reflect the financial operations of the Authority during the year and its financial position at the end of the year.

These general purpose financial statements have been prepared to comply with Australian Accounting Standards as required by the FMA. Accordingly, the financial statements have been prepared in accordance with:

- I. Australian Accounting Standards; and
- II. ACT Accounting and Disclosure Policies.

Accrual Accounting

The financial statements have been prepared using the accrual basis of accounting which recognise the effect of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for assets such as those included in financial instruments that were measured at fair value in accordance with the (re)valuation policies applicable to the Authority during the reporting period.

Currency

The financial statements are presented in Australian dollars, which is the Authority's functional currency.

Individual Reporting Entity

The Authority is an individual reporting entity.

Budget Figures

The FMA requires the statements to facilitate a comparison with the Statement of Intent. The budget numbers are as per the Statement of Intent.

Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000). Use of “-” represents zero amounts or amounts rounded down to zero.

ACT INSURANCE AUTHORITY
APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES
FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

SIGNIFICANT ACCOUNTING POLICIES - RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Authority are affected by a number of key risks. The Authority's policies and procedures in respect of managing insurance risks are set out in this note. Policies and procedures for managing interest rate risk, credit risk, liquidity risk and price risk are disclosed in Note 16 - Financial Instruments.

Objectives and Policies for Managing Insurance Risks

The Authority's objective is to support the ACT Government by protecting the budget from financial loss through management of the ACT Government's self-insured liabilities.

The Authority has developed, implemented and maintains a sound and prudent risk management plan. The plan outlines strategies that incorporate the Authority's policies and procedures, processes and controls for risk management. These strategies address all material risks, financial and non-financial, likely to be faced by the Authority.

The key areas of risk identified by the Authority are that annual premiums are not geared to fully fund claims over the claim development period and an accumulation of financial loss from catastrophic events.

Processes established to manage the risk of not being fully funded include:

- > actuarial models are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used as part of this process;
- > documented procedures are followed for the management of claims; and
- > a valuation of outstanding claims liabilities are conducted by skilled actuaries at the end of each insurance year. Changes in the estimate of the liabilities are outlined in Note 14 'Outstanding Claims'.

To limit the Authority's exposure to accumulation of financial loss from catastrophic events the Authority purchases reinsurance policies for all major insurance classes to limit exposure to any single event. The main exposure risk for property assets are bushfire, earthquake and storm damage.

When selecting a reinsurer, the Authority only considers those companies that have a Standard and Poors credit risk rating of 'A-' or higher. In order to assess this, the Authority uses ratings information from the public domain or gathered through internal investigations.

To limit the concentration of credit risk in purchasing reinsurance, the Authority has established a program that limits excessive exposure to any single reinsurer or group of related reinsurers.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - INCOME AND EXPENSES

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement.

NOTE 4 - UNDERWRITING RESULT

Gross Earned Insurance Premiums

Insurance premium revenue comprises amounts charged to agencies, but excludes duties, Goods and Services Tax (GST) and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2017 to 30 June 2018.

Gross Claims Expenses

Gross claims expenses include the movement in liability for outstanding claims and related claims expenses and are recognised in the financial statements. The liability covers claims reported but not yet paid; incurred but not yet reported (IBNR); incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims. Outstanding claims are actuarially assessed by reviewing claim data and estimating changes in the ultimate cost of settling claims, IBNRs and associated settlement costs using statistics based on past experience and trends.

The liability for outstanding claims is measured as the central estimate of the present value of the expected future payments, against claims incurred at the reporting date under general insurance contracts issued by the Authority, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The present value of future payments is estimated using the Commonwealth Government Bond risk free rate.

Reinsurance Premium

The Authority reinsures at catastrophe level for those classes which it underwrites, this includes insurance against:

- > loss, damage, or destruction of Territory assets; and
- > the legal liabilities incurred by the Territory for third party property damage and personal injury to third parties.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - INCOME AND EXPENSES - CONTINUED

NOTE 7 - OTHER REVENUE AND EXPENSES

Interest

Interest revenue is recognised using the effective interest method.

Distributions

Distribution revenue is received from investments with the Territory Banking Account. This is recognised on an accrual basis using data supplied by the Territory Banking Account.

Contract Works Insurance

The Authority purchases contract works insurance cover for ACT Government capital construction works. Premiums are recovered from ACT Government agencies by the Authority based on the value of each agency's capital works program. The Authority bears no risk on these contracts and does not underwrite the risk, but rather acts as an agent for the Territory. The amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense. Cover for policies which extend further than the current reporting period are recorded as prepayments with corresponding transactions recorded in other liabilities as premiums received in advance (refer to Note 13 'Prepayments and Other Liabilities').

External Insurance Contracts

The Authority arranges insurance cover on behalf of ACT Government agencies for travel, standing timber, aviation and personal accident cover for both aero retrieval and volunteer workers. The Authority bears no risk on these contracts. Similar to contract works insurance, each agency pays its share of the premium to the Authority for the purpose of financing the insurance premium payment to an external insurer. As the Authority is not underwriting the risk, but rather acting as an agent for the Territory, the amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense.

NOTE 8 - EMPLOYEE AND SUPERANNUATION EXPENSES

Employee Expenses

Employee benefits include:

- > short-term employee benefits such as wages and salaries, annual leave loading and applicable on-costs, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services;
- > other long-term benefits, such as long service leave and annual leave; and
- > termination benefits.

On-costs include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual leave and long service leave.

(Refer to Appendix B - Note 15: 'Employee Benefits' for accrued wages and salaries, and annual and long service leave).

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES – INCOME AND EXPENSES - CONTINUED

NOTE 8 - EMPLOYEE AND SUPERANNUATION EXPENSES - CONTINUED

Superannuation Expenses

Employees of the Authority will have different superannuation arrangements due to the type of superannuation scheme available at the time of commencing employment, including both defined benefit and defined contribution superannuation scheme arrangements.

For employees who are members of the defined benefit Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) the Authority makes employer superannuation contribution payments to the Territory Banking Account at a rate determined by the Chief Minister, Treasury and Economic Development Directorate. The Authority also makes productivity superannuation contribution payments on behalf of these employees to the Commonwealth Superannuation Corporation, which is responsible for administration of the schemes.

For employees who are members of defined contribution superannuation schemes (the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice) the Authority makes employer superannuation contribution payments directly to the employees' relevant superannuation fund.

All defined benefit employer superannuation contributions are recognised as expenses on the same basis as the employer superannuation contributions made to defined contribution schemes. The accruing superannuation liability obligations are expensed as they are incurred and extinguished as they are paid.

Superannuation Liability Recognition

For the Authority's employees who are members of the defined benefit CSS or PSS the employer superannuation liabilities for superannuation benefits payable upon retirement are recognised in the financial statements of the Superannuation Provision Account.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - ASSETS

ASSETS - CURRENT & NON-CURRENT

Assets are classified as current where they are expected to be realised within twelve months after the reporting date. Assets that do not fall within the current classification are classified as non-current.

Assets Backing General Insurance Liabilities

The Authority holds assets to back general insurance liabilities.

The Authority's investment funds are managed by the Territory Banking Account within Chief Minister, Treasury and Economic Development Directorate's Asset Liability Management team.

Financial assets are valued at fair value through profit or loss. Initial recognition is at cost in the Balance Sheet and subsequent measurement is at fair value with any resultant realised or unrealised profits or losses recognised in the Operating Statement.

NOTE 10 - CASH

For the purposes of the Cash Flow Statement and the Balance Sheet, cash is subject to an insignificant risk of changes in value. The Authority holds general operating bank accounts with the Westpac Banking Corporation.

NOTE 11 - INVESTMENT

Short-term investments are held with the Territory Banking Account in a unit trust called the Cash Enhanced Portfolio. Long-term investments are held with the Territory Banking Account in a unit trust called the Fixed Interest Portfolio. The prices of the units in both these unit trusts fluctuate in value. The net gain or loss on investments consists of the fluctuation in price of the unit trusts between the end of the last reporting period and the end of this reporting period as well as any profit on the sale of units in the unit trust (the gain or loss being the difference between the price at the end of the last reporting period and the sale price). The net gains or losses do not include interest or dividend income.

These short-term and long-term investments are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments which have quoted market prices at the reporting date.

Distributions from the Cash Enhanced Portfolio and from the Fixed Interest Portfolio are paid quarterly.

NOTE 12 - RECEIVABLES

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement.

Receivables include interest, GST and court ordered recoveries.

The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is raised when some doubt as to the collection exists. The allowance for impairment is based on objective evidence and a review of overdue balances. The Authority considers the following is objective evidence of impairment:

- I. becoming aware of financial difficulties of debtors;
- II. default payments; or
- III. debts more than 90 days overdue.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES

LIABILITIES - CURRENT & NON-CURRENT

Liabilities are classified as current when they are due to be settled within twelve months after the reporting date or the Authority does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Liabilities that do not fall within the current classification are classified as non-current.

NOTE 13 - PREPAYMENTS AND OTHER LIABILITIES

Workers' Compensation

The Authority processes the payment of the ACT Government workers' compensation premium to the Commonwealth Government workers' compensation insurer (Comcare), which levies a single premium covering all ACT Government agencies. Each agency pays its share of the insurance premium to the Authority for the purpose of financing the premium payment to Comcare. The Authority is not underwriting this workers' compensation insurance risk, but rather acting as an intermediary for the Territory. The amounts involved are recorded in the Cash Flow Statement only and are not included in insurance premium revenue and claims expense.

NOTE 14 - OUTSTANDING CLAIMS

Significant Judgements and Estimates - Outstanding Claims

The Ultimate Liability Arising from Claims Made Under Insurance Contracts

A provision is made at year-end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of incurred but not yet reported (IBNR) and incurred but not enough reported (IBNER) claims to the Authority.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimate of the liability.

The estimation of IBNR and IBNER are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as the cost of these claims may often not be apparent until many years after the claim event. The public liability and medical malpractice classes typically display higher levels of IBNR and IBNER claims.

For the property class, claims are typically reported soon after the claim event, and therefore tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowances are made for factors that may cause these to change, including:

- > changes in the Authority's processes that might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- > changes in the legal environment;
- > the effects of inflation;
- > changes in the mix of business;
- > the impact of large losses;
- > movements in industry benchmarks; and
- > medical and technological developments.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 14 - OUTSTANDING CLAIMS - CONTINUED

A component of these estimation techniques is the estimation of the cost of notified but not paid claims (case estimation) which takes into account the claim circumstance as reported, any information available from the ACT Government Solicitor's Office and information on the cost of settling claims with similar characteristics in previous periods.

Large claims are assessed separately, being measured on a case by case basis or projected separately, in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Authority adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected and the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Appendix D - Change in Accounting Policy and Accounting Estimates - Actuarial Assumptions and Methods.

NOTE 15 - EMPLOYEE BENEFITS

Employee Benefits are listed in Appendix B - Note 8 'Employee Expenses'.

Wages and Salaries

Accrued wages and salaries are measured at the amount that remains unpaid to employees at the end of the reporting period.

Annual and Long Service Leave

Annual and long service leave including applicable on-costs that are not expected to be wholly settled before twelve months after the end of the reporting period when the employees render the related service are measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to the future wage and salary levels, experience of employee departures and periods of service. At the end of each reporting period end, the present value of future annual leave and long service leave payments is estimated using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

Annual leave liabilities have been estimated on the assumption that they will be wholly settled within three years. In 2017-18, the rate used to estimate the present value of future annual leave payments is 99.7% at 30 June 2018 (99.8% at 30 June 2017).

In 2017-18, the rate used to estimate the present value of future payments for long service leave is 100.9% at 30 June 2018 (103.4% at 30 June 2017).

The long service leave liability is estimated with reference to the minimum period of qualifying service. For employees with less than the required minimum period of seven years qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

The provision for annual leave and long service leave includes estimated on-costs. As these on-costs only become payable if the employee takes annual and long service leave while in-service, the probability that employees will take annual and long service leave while in service has been taken into account in estimating the liability for on-costs.

ACT INSURANCE AUTHORITY

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 15 - EMPLOYEE BENEFITS - CONTINUED

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional rights to defer the settlement of the liability for at least twelve months. Conditional long service leave liabilities are classified as non-current because the Authority has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Significant Judgements and Estimates - Employee Benefits

Significant judgements have been applied in estimating the liability for employee benefits. The estimated liability for annual and long service leave requires a consideration of the future wage and salary levels, experience of employee departures, probability that leave will be taken in service and periods of service. The estimate also includes an assessment of the probability that employees will meet the minimum service period required to qualify for long service leave and that on-costs will become payable.

The significant judgements and assumptions included in the estimation of annual and long service leave liabilities include an assessment by an actuary. The Australian Government Actuary performed this assessment in May 2014. The assessment by an actuary is performed every 5 years. However it may be performed more frequently if there is a significant contextual change in the parameters underlying the 2014 report. The next actuarial review is expected to be undertaken by May 2019.

ACT INSURANCE AUTHORITY

APPENDIX C - IMPACT OF ACCOUNTING STANDARDS ISSUED - BUT YET TO BE APPLIED

FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Impact of Accounting Standards Issued but yet to be Applied

The Authority has assessed the following accounting standards and standard amendments that have been issued by the Australian Accounting Standards Board but are yet to be applied. These standards and interpretations are applicable to future reporting periods and have been assessed as having no material financial impact expected. The Authority does not intend to adopt these standards early. Where applicable, these Australian Accounting Standards will be adopted from their application date.

- > AASB 9 Financial Instruments (December 2014) (application date 1 January 2018);
- > AASB 15 Revenue from Contracts with Customers (application date 1 January 2019 for not-for-profit entities);
- > AASB 16 Leases (application date 1 January 2019);
- > AASB 17 Insurance Contracts (application date 1 January 2021);
- > AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 [AASB 1, 3, 4, 9 (December 2009) (December 2010), 101, 102, 112, 116, 132, 134, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053, 1056, Interpretation 12, 127, 132, 1031, 1038 & 1052] (application date 1 January 2018);
- > AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2018);
- > AASB 2016-3 Amendments to Australian Accounting Standards- Clarifications to AASB 15 (application date 1 January 2018); and
- > AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-profit Entities (application date 1 January 2017, which was the original mandatory effective date of AASB 15).

ACT INSURANCE AUTHORITY
APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING
ESTIMATES
FORMS PART OF NOTE 3 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Changes in Accounting Estimates

The Authority had the following changes in accounting estimates during the reporting period.

Changes in Actuarial Assumptions

The Authority uses an independent actuary, currently Pricewaterhouse Coopers Actuarial Services Pty Limited, to provide the estimate of outstanding claims liabilities. The estimate is based on actuarial assumptions and methods that are based on past claims experience, risk exposure and projections of economic variables. As a result of changes in these variables the estimate of the outstanding claims liabilities has changed. This change has resulted in a decrease to the estimates of the outstanding claims liabilities and claims expense in the current reporting period (refer to Note 6: 'Net Incurred Claims' and Note 14: 'Outstanding Claims').

The Authority writes seven classes of insurance: medical malpractice, public liability, property, directors and officers, professional indemnity, financial crime and special purpose motor.

The actuarial process for estimating the outstanding claims liabilities is largely similar for all classes. A description is as follows:

- > estimates of claims incurred by the Authority but not yet reported at the balance date (IBNR claims) are made by analysing past reporting patterns and applying assumed development rates to numbers of claims already reported to the Authority;
- > the number of past settlements is analysed and adopted ultimate settlement proportions are applied to the estimated ultimate numbers of claims to obtain expected numbers of future settlements;
- > past settlement sizes and past changes in case estimates are analysed;
- > estimates of outstanding claims are first adopted for the most developed insurance years, taking into account the average sizes and relationship to current estimates of the claims from the Authority. The same process is extended to the more recent years, taking into account the experience of the earlier years and any differences in experience to date;
- > separate analyses of large and small claims are made for all classes. The incidence and sizes of large claims for recent years are drawn from experience in the more developed years;
- > analyses are made on data that is gross of reinsurance and therefore resulting estimates of outstanding liabilities are also gross of reinsurance. Subsequent allowances, where needed, are then made for potential reinsurance recoveries to arrive at estimates of net outstanding liabilities; and
- > allowances are made for all future claims escalation, whether from external inflation or superimposed inflation and projected payments are discounted to present values to reflect the time value of money.

ACT INSURANCE AUTHORITY

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities for 2017-18.

2018	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.74 Years	5.59 Years	7.11 Years	3.44 Years	3.35 Years	4.35 Years
Ultimate Claim Numbers (2017-18 Insurance Year)*	62	117	84	1	0.2	6
Average Settlement Size	\$80,800 ⁺	\$97,300 ⁺ and \$3.318m ⁺⁺	\$291,300 ⁺ and \$4.7m ⁺⁺	\$78,200 ⁺	\$150,000 ⁺	\$82,200 ⁺
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate **	2.1%	2.8%	2.8%	2.5%	2.3%	2.6%
Inflation and Superimposed Inflation**	2.7%	2.9%	2.8%	2.9%	2.9%	2.9%

The following assumptions have been made in estimating the outstanding claims liabilities for 2016-17.

2017	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.18 Years	5.92 Years	7.23 Years	5.39 Years	3.37 Years	5.56 Years
Ultimate Claim Numbers (2016-17 Insurance Year)*	55	131	82	1	0.2	2
Average Settlement Size	\$79,000 ⁺	\$98,200 ⁺ and \$3.479m ⁺⁺	\$267,200 ⁺ and \$4.8m ⁺⁺	\$76,500 ⁺	\$150,000 ⁺	\$80,600 ⁺
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate **	1.8%	2.8%	2.9%	2.7%	2.2%	2.7%
Inflation and Superimposed Inflation**	2.8%	3.5%	3.5%	3.5%	3.3%	3.5%

*Ultimate claims reported are the assumed number of claims incurred in the insurance year.

**Inflation and discount rates are calculated for each insurance class based on the payment pattern and the inflation/discount rate at the corresponding period of time.

⁺The adopted average claim size for small claims has a total cost up to \$1 million.

⁺⁺The adopted average claim size for large claims has a total cost of \$1 million or greater.

ACT INSURANCE AUTHORITY

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Process used to determine assumptions

Discounted mean term

The discounted mean term to settlement is calculated separately by class of insurance based on historic settlement patterns. A decrease in the discounted mean term to settlement would lead to more claims being paid sooner than anticipated. An increase or decrease in the discounted mean term would have a corresponding decrease or increase on claims expense respectively.

Ultimate claim numbers

The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reporting rates and applying them to the observed claims reported to date in order to project the timing and number of future claims reported. All else being equal, an increase in the ultimate number of claims will increase the liability.

Average settlement size

The average settlement size is based on past claims experience. For public liability and medical malpractice classes the incidence of large claims is greater and therefore the average sizes for small and large claims are shown separately.

Expense rate

Claims handling expenses are calculated based on an assumed proportion of claims handling costs as a percentage of past payments. An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

Discount rate

Discount rates derived from market yields on Commonwealth Government Bonds at the balance date have been adopted. The discount rates shown above are the rates which match the weighted term and the outstanding claims liability is discounted to adjust for the time value of money. All else being equal, an increase or decrease in the discount rate would have a corresponding decrease or increase on claims expense respectively.

Inflation

Economic inflation assumptions are set by reference to current economic indicators. An increase or decrease in the assumed levels of economic inflation would have a corresponding increase or decrease on claims expense.

Superimposed inflation

Superimposed inflation is the tendency for payments to increase over time at a faster rate than a suitable standard measure of inflation. This can be driven by factors such as increases in court settlement sizes and an assumption is set considering both any superimposed inflation present in the portfolio and industry superimposed inflation trends. Currently, there has been no allowance for inflation over and above economic inflation measures used.

ACT INSURANCE AUTHORITY

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis

The Authority conducted a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial performance and equity position of the Authority.

Assumptions	Note No.	Net Provision \$'000	Difference \$'000	%
Current Net Outstanding Claims Provision	14	231,670		
Economic Assumptions				
Discount rates increased by 1.0%		220,395	(11,275)	(4.9)
Discount rates decreased by 1.0%		243,895	12,225	5.3
Medical Malpractice				
<i>Large Claims</i>				
Assumed average size on IBNR Claims is \$4.7 million				
Increase by \$1.0 million		262,075	30,405	13.1
Decrease by \$1.0 million		202,065	(29,605)	(12.8)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2012 and later		261,908	30,238	13.1
1 less claim per annum for 2012 and later		204,184	(27,486)	(11.9)
Public Liability				
<i>Large Claims</i>				
Assumed average size on IBNR Claims is \$3.3 million				
Increase by \$1.0 million		238,512	6,842	3.0
Decrease by \$1.0 million		224,828	(6,842)	(3.0)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2012 and later		252,756	21,086	9.1

Current Net Outstanding Provision

The current net outstanding claims provision is the gross outstanding claims net of reinsurance recoveries.

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate, with a 1% increase in the discount rate this would result in a decrease of \$11 million in claims liability whereas a decrease in the discount rate of 1% would result in an increase of \$12 million in the liability.

ACT INSURANCE AUTHORITY

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis - Continued

Medical Malpractice and Public Liability

The liability for outstanding claims is sensitive to movements in the average claim size; a change in average claim size by \$1.0 million has a subsequent effect on the outstanding claim provision of either an increase of \$30.4 million or a decrease of \$29.6 million in the liability for large medical malpractice claims and either an increase of \$6.8 million or a decrease of \$6.8 million in the liability for large public liability claims.

A significant proportion of the outstanding claims provision is associated with large medical malpractice and public liability claims. As such, the provision is sensitive to movements in the assumed number of large claims, with a greater uncertainty for more recent insurance years where experience is still relatively undeveloped. In particular for large medical malpractice claims, a change in the assumption of allowing for one additional or one less IBNR claim from 2012 and later has the subsequent effect on the outstanding claim provision of either an increase of \$30.2 million or a decrease of \$27.5 million in the liability. Whereas for public liability, a change in the assumption of allowing for one additional IBNR claim from 2012 and later for large claims has the subsequent effect on the outstanding claim provision of an increase of \$21.1 million in the liability.

C.
**STATEMENT OF
PERFORMANCE**

**SECTION
C**

REPORT OF FACTUAL FINDINGS

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the ACT Insurance Authority (the Authority) for the year ended 30 June 2018.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting the statement of performance

The Under Treasurer is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, the Auditor-General is responsible for issuing a report of factual findings on the statement of performance of the Authority.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Authority.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited assurance that the results of the accountability indicators reported in the statement of performance have been fairly presented in accordance with the *Financial Management Act 1996*.

A review is primarily limited to making inquiries with representatives of the Authority, performing analytical and other review procedures and examining other available evidence. These review procedures do not provide all of the evidence that would be required in an audit, therefore, the level of assurance provided is less than that given in an audit. An audit has not been performed and no audit opinion is being expressed on the statement of performance.

This review does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations;
- adequacy of controls implemented by the Authority; or
- integrity of the reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.



Tim Larnach
Acting Director, Financial Audits
13 September 2018

ACT INSURANCE AUTHORITY

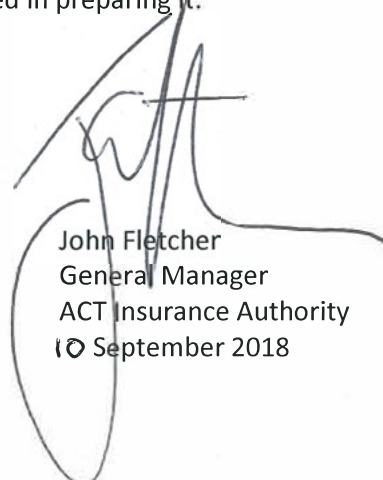
STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF RESPONSIBILITY

In our opinion, the Statement of Performance is in agreement with the ACT Insurance Authority's records, and fairly reflects the service performance of the ACT Insurance Authority for the year ended 30 June 2018, and also fairly reflects the judgements exercised in preparing it.



David Nicol
Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
10 September 2018



John Fletcher
General Manager
ACT Insurance Authority
10 September 2018

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

DESCRIPTION OF OBJECTIVES

The ACT Insurance Authority (the Authority) was established on 1 April 2001. The Authority operates under the *Insurance Authority Act 2005*. The Authority's key objectives are to:

- > carry on the business of insurer of territory risks;
- > take out insurance of territory risks with other entities;
- > satisfy or settle claims in relation to territory risks;
- > take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing of rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third parties business as a going concern;
- > develop and promote good practices for the management of territory risks; and
- > give advice to the Treasurer about insurance and the management of territory risks.

In addition, the Authority also performs the function of:

- > the Office of the Nominal Defendant of the ACT, for claims against uninsured and/or unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and
- > the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

Annual reports and financial statements for these two entities are available in the Chief Minister, Treasury and Economic Development Directorate 2017-18 Annual Report.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Objective	Accountability Indicators	Original Target 2017-18	Actual Result 2017-18	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Carry on the business of insurer of territory risks	a. Results from an annual customer satisfaction survey:					
	> Overall customer satisfaction with insurance management services.	>90%	100%	-	-	
	> Overall customer satisfaction of claims management.	>80%	88%	-	-	
	> Overall customer satisfaction of annual insurance renewal.	>80%	92%	-	-	
	> Overall customer satisfaction of financial management services.	>80%	93%	-	-	
	b. Determine annual insurance premiums for territory agencies that allow for full funding of claim costs and associated expenses.	Annual premium determination completed	Annual premium determination completed	-	-	
	c. Maintain the Authority's funding ratio within the targeted range of 100%-110% as outlined in the Authority's capital management plan.	132%	153%	21%	15.9	The higher actual ratio compared with the original target is predominately due to the decrease in the Authority's non-current outstanding claims liabilities. This is the result of a reduction in the forecasted inflation assumptions along with a decrease in the size of large claims in the medical malpractice and property insurance classes.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Objective	Accountability Indicators	Original Target 2017-18	Actual Result 2017-18	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Carry on the business of insurer of territory risks - continued	d. General and administrative expense as a percentage of total annual premium revenue.	5%	6%	1%	20	The Authority has seen a reduction in annual premiums over the proceeding 3 years resulting in the increase in the expense percentage.
	e. The average number of days to process payments for the settlement of claims from the day all required documents are received from the agency.	10 days	11 days	1 day	10	The higher average number of days to process settlement payments is due to a delay in the financial delegation authorisation on a number of settlement payments, this was due to an increase in operational demands.
	f. Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs.	Annual review completed	Annual review completed	-	-	
Take out insurance of territory risks with other entities	g. Review the Territory's property asset register to ensure that values provided by agencies reflect insurance replacement costs.	Annual review completed	Annual review completed	-	-	
	h. Complete Property Loss Control Surveys at a number of selected territory locations.	8	8	-	-	
Satisfy or settle claims in relation to territory risks	i. Hold quarterly reviews of all liability and medical malpractice claims to assess the claim management strategy for matters where the Territory's reserve exceeds \$250,000.	Quarterly claims review meetings held	5 Quarterly claims review meetings were held	1	25	The quarterly review meeting scheduled for June 2017 was delayed until July due to the availability of key attendees. The meeting was held on 5 July 2017 resulting in an increase to the number of meetings held during the reporting period.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Objective	Accountability Indicators	Original Target 2017-18	Actual Result 2017-18	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Satisfy or settle claims in relation to territory risks - continued	j. Insurance claims data: Public Liability					
	Discounted Mean Term (for Outstanding Claims) ¹	4.66 Years	5.59 Years	0.93 Years	20	The discounted mean term is higher than the target due to a decrease in the assumed number of small claims being reported and finalised. Therefore a greater portion of the outstanding payments relates to large claims that take longer to settle. This results in an increase in the discounted mean term.
	Ultimate Claim Numbers ²	142	117	(25)	(17.6)	The ultimate claim numbers are lower than the original target due to a lower than expected number of claims being reported.
	Average Small Claim (<\$1 m) Settlement Size ³	\$91,586	\$97,300	\$5,714	6.24	
	Average Large Claim (>\$1 m) Settlement Size ³	\$3,634,268	\$3,318,000	(\$316,268)	(8.7)	
	Medical Malpractice					
	Discounted Mean Term (for Outstanding Claims) ¹	6.83 Years	7.11 Years	0.28 Years	4.1	
	Ultimate Claim Numbers ²	93	84	(9)	(9.7)	
	Average Small Claim (<\$1 m) Settlement Size ³	\$259,390	\$291,300	\$31,910	12.3	The average small claim settlement size is higher than the original target as the result of small claims being settled for more than expected, this has led to an increase in the actuarial assumption for the small claim size.
	Average Large Claim (>\$1 m) Settlement Size ³	\$5,051,599	\$4,700,000	(\$351,599)	(7)	

^{1,2,3} The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Objective	Accountability Indicators	Original Target 2017-18	Actual Result 2017-18	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Satisfy or settle claims in relation to territory risks - continued	j. Insurance claims data - continued: Property and Motor					
	Discounted Mean Term (for Outstanding Claims) ¹	1.01 Years	0.74 Years	(0.27) Years	(26.7)	The discounted mean term is lower than the target due to a number of claims, including one large claim, being expected to settle earlier than anticipated.
	Ultimate Claim Numbers ²	59	62	3	5.1	
	Average Small Claim (<\$1 m) Settlement Size ³	\$63,980	\$74,822	10,842	16.9	The higher the average small claim settlement size is due to emerging open claims having a higher average estimated cost than expected.
Develop and promote good practices for the management of territory risks	k. Provide Risk Profile Reports to assist agencies by profiling and measuring their risk management progress.	Bi-annual reports provided to agencies	Risk Profile reports were issued in August 2017 and June 2018	-	-	
	l. Deliver a program of general and targeted risk management training courses to territory agencies	12	20	8	67	The number of training programs held for risk management were higher than the original target due to higher than expected demand from agencies.
	m. Overall participant satisfaction with risk management training sessions delivered to agency staff members.	>90%	99.1%	-	-	

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Objective	Accountability Indicators	Original Target 2017-18	Actual Result 2017-18	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Give advice to the Minister about insurance and the management of territory risk	n. Provide briefing material on the agency annual insurance premiums	Brief provided to Minister	Brief provided to Minister	-	-	
	o. Provide briefing material on the Authority's reinsurance program.	Brief provided to Minister	Brief provided to Minister	-	-	
	p. Provide briefing material on the Authority's capital management plan.	Brief provided to Minister	Brief provided to Minister	-	-	

¹²³ The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.
The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

NOTES

- a. Surveys are sent to the Directors-General, Chief Executive Officers and other key stakeholders of ACT Government directorates and statutory authorities insured by the Authority. Respondents are asked to rate the Authority's performance against the Client Service Charter that details what agencies can expect when doing business with the Authority. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree or strongly disagree. Any strongly agree or agree responses were taken as a satisfied result.
- b. The Authority completes an annual review of agency insurance premiums, with assistance from the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd. Annual premiums are determined based on agency claims history, asset ownership and risk profile.
- c. The Authority's funding target ratio for the 2017-18 budget was between 100-110% as outlined in the Authority's capital management plan. The 2017-18 original target ratio was higher than the targeted range due to the decrease in the Authority's outstanding claims liabilities. The funding ratio is calculated by dividing total assets by total liabilities. These parameters guide decision making to address a capital position outside the targeted ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation) to the ACT Government.
- d. The Authority's general and administrative expenses as a percentage of annual premium revenue are measured against a targeted average of the Authority's actual results from the previous three years.
- e. The Authority processes payments for the settlement of claims as a priority. The number of days to process a payment is measured from the date all required documentation is received by the Authority to the date payment is made.
- f. The Authority completes an annual review of the Territory's insurance arrangements. This includes a review of the Territory's reinsurance program structure, an analysis of market conditions and the suitability of policy terms and conditions.
- g. The Authority completes a review of the replacement values detailed in the Territory's asset schedule as part of the property reinsurance renewal.
- h. An annual property loss control survey program is undertaken by the Authority's property reinsurers. Property loss control reports identify the potential for property loss and assist agencies to reduce the risk of loss through loss prevention efforts. Recommendations are communicated to surveyed agencies for consideration.
- i. Quarterly claims review meetings are held to review all liability and medical malpractice claims where the Territory's reserve exceeds \$250,000. Meetings are attended by representatives of the ACT Government Solicitor's Office, the Authority's insurance broker, Marsh Pty Ltd, as well as external insurers and their solicitors.
- j. The actuarial assessment of the measure for insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd at the end of each financial year. The 'original target' and 'actual result' figures are based on claims experience and include general actuarial assumptions of growth, for example, population and price indexation.

The 'original target' is based on actuarial assumptions provided during the mid-term estimate of outstanding claims liabilities at 31 December 2016 and the 'actual results' are based on the valuation at 30 June 2018. The assumptions provide the basis for establishing the Authority's outstanding claims provision and measuring the impact of action taken by the Authority to influence that outcome. The Authority works with agencies and the Authority's legal advisors to develop strategies to reduce the occurrence and cost of insurance claims against the Territory by promoting the implementation of good risk and claim management practices. The data displays an actuarial assessment of the discounted mean term to finalise claims, ultimate claims numbers, and the average cost of large and small claims.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

NOTES CONTINUED

j. Discounted Mean Term, Ultimate Claim Numbers and Average Settlement Size

¹The discounted mean term is the average time it takes to make payments of discounted settlements. The payments are weighted according to the size of the settlement. Small payments have less weighting and large payments have a greater weighting on the mean term. Applying a lower discount rate to payments occurring further into the future results in an increase to the discounted mean term whereas an increase in the discount rate will lower the payment value in the future resulting in a lower discounted mean term. If discount rates change, the value of the expected future payments also change. Applying discount rate changes to payments due in the near future has little or no impact whereas payments due further into the future will have a higher impact.

The average weighted discount rate used in the valuation of 'actual results' for the average claim settlement size was 2.84% (3.03% on original target) resulting in an increase to discounted mean terms for those insurance classes with larger long-term payments.

²The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reporting rates and applying them to the observed claims reported to date in order to predict the timing and number of future claims reported.

³For medical malpractice, property and motor and public liability insurance classes, the Authority has adopted the average settlement size for small and large claims based on historical claims experience. Further to this the assessment of the outstanding claims liability allows for future inflation and average weighted inflation rates. The rate applied to the valuation of actual results was 2.87% (3.73% on original target).

- k. Risk Profile Reports are provided to directorates, the reports contain a detailed analysis of claim numbers and costs by insurance class and provide a comparison of their directorate against the whole of ACT Government. The reports are provided biannually.
- l. The Authority delivers a program of risk management training courses that covers general introductory and intermediate level risk management and topic specific training sessions in the modification and use of risk management software tailored to meet agency requirements.
- m. Attendees are requested to complete feedback forms at the completion of the risk management training courses delivered by the Authority. Attendees are asked to assess the course based on areas such as, course suitability, facilitators' knowledge and whether they would recommend the training. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree or strongly disagree, where strongly agree and agree are taken as a satisfied result.
- n. The Authority prepares a brief for decision by the Minister each year seeking agreement to the annual premiums charged to agencies for inclusion in the ACT Government budget.
- o. The Authority prepares a brief for decision by the Minister each year seeking agreement to proceed with renewal of the Territory's reinsurance program on the best available terms in the London and Australian insurance markets for the following insurance year.
- p. The Authority prepares a brief for decision by the Minister each year seeking agreement on the Authority's capital management plan.

The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.

GLOSSARY OF TECHNICAL TERMS

Actuary

An actuary uses complex mathematical methods, to analyse past loss data and other statistics to develop systems for determining outstanding claims liability and future premiums.

Catastrophe

A major event giving rise to losses and claims under a large number of policies in a class (e.g. a hailstorm, cyclone or earthquake).

Claims Incurred

The expenses relating to claims arising from risks covered during an accounting period, including claims paid, claims outstanding and claims settlement expenses associated with such risks.

Claims Incurred But Not Enough Reported/Recorded (“IBNER”)

The understatement of the cost of claims reported prior to the close of an accounting period for which the insurer had insufficient information to be able to make an assessment of the amount of the claims.

Claims Incurred But Not Reported (“IBNR”)

Claims arising from incidents occurring prior to the close of an accounting period which are expected to be reported in subsequent accounting periods.

Claims Reported

Claims resulting from accidents or occurrences which have taken place and of which the insurer has received notice or report of loss.

Directors and Officers Insurance

Covers directors and officers of a company for negligent acts or omissions, and for misleading statements that result in suits against the company, often by shareholders.

Discount Rate

Outstanding claims include a discount to allow for interest that is expected to be earned on investments until claims are paid. A lower discount rate reduces the amount of expected interest and therefore increases the claim liability.

Earned Premiums

The amount of the total premium payable under a policy (i.e. the gross written premium) that relates to the proportion of the risk covered by the policy which has expired up to the date of calculation.

Insurance Claim

An insurance incident which has developed to the stage where there has been a demand for compensation which may or may not involve legal proceedings.

Insurance Incident

An incident or event that may give rise to an insurance claim at a future date.

Insurance Year

1 July to 30 June.

Long-tail

Insurance business, for example, employer liability insurance, where the financial outcome of some claims may not be known for several years.

Medical Malpractice Insurance

Professional liability coverage for physicians and other specialists against suits alleging negligence or errors and omissions that have harmed patients.

Outstanding Claims

The estimated amount of unpaid claims and claims settlement expenses for which an insurer is liable. The estimate will usually include:

- > case estimates for reported claims;
- > provision for IBNER claims costs; and
- > provision for IBNR claims costs.

Professional Indemnity Insurance

Covers professionals for causing loss or injury to their clients.

Property Insurance

Covers damage to or loss of policyholders' property.

Public Liability Insurance

Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

Reinsurance

Insurance bought by insurers. A reinsurer assumes part of the risk. The business is global and some of the largest reinsurers are based abroad. Reinsurers don't pay policyholder claims. Instead, they reimburse insurers for claims paid.

Reinsurance Recoveries

The amount recovered or recoverable under a contract of reinsurance as a result of claims paid on the occurrence of an event, or series of events, specified as being reinsured.

Risk Management

Management of the varied risks to which a business firm or association might be subject. It includes analysing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures.

Settlement Costs

The costs incurred by an insurer in connection with settling claims. These may include not only the amount paid to the insured but also indirect costs related to handling claims (e.g. the salaries of staff in the claims handling area, and solicitors' fees).

Superimposed Inflation

Claim settlement trends/movements (usually up) that are not aligned with normal inflation. For example, significant settlements are awarded by the courts, well above what would normally be paid if average inflation indices were applied.

Underwriting Result

Traditional measure for determining the profitability of a general insurer.

This is the surplus or deficit that emerges after reinsurance cost, unearned premiums, claims expenses and underwriting expenses applicable to a period are deducted from premium revenue.

It is a deficient measure in that it does not have regard to investment earnings arising on insurance funds held (i.e. unearned premium and claims provisions).

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