

# Tasmanian Risk Management Fund

Annual Report 2012–13



## **Tasmanian Risk Management Fund Annual Report 2012–13**

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# Policy Statement

## Purpose of the Fund

The Tasmanian Risk Management Fund is the Tasmanian Government's self-insurance fund. It was established on 1 January 1999 and provides a whole of government approach to funding and managing specific identified insurable liabilities of participants.

All inner-Budget agencies are required to participate in the Fund and, subject to their date of joining, are covered for identified risks to which they are exposed or for which they wish to accept responsibility and which the Fund agrees to cover. A number of other Government entities also participate in the Fund and may only be covered for specific risks. The risks covered by the Fund include:

- workers compensation/personal accident;
- legal liability;
- property; and
- travel.

Marine hull and travel insurance are insured through the private sector: the former due to cost efficiencies, the later in order to benefit from a worldwide emergency assistance scheme. All other categories of risk are self-insured.

The Fund operates on a cost-recovery basis with contributions set to ensure adequate financial provision for the cost of risk now and in the future. All participants pay annual contributions to meet claim costs (for property, claims are capped at \$5 million)<sup>1</sup>, administrative expenses, and where applicable, insurance premiums and reinsurance costs. The level of a participant's contribution is determined by an independent actuary and reflects its risk coverage, risk exposure, claims experience and nominated excess amounts.

In setting contributions, the Fund aims to achieve:

- the collection of sufficient moneys each year to fund claims costs and alleviate the financial impact of large unexpected events;
- equity for participants with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management, through recognition of claims experience.

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<sup>1</sup> The Fund does not carry catastrophe insurance for losses in excess of \$5 million. The funding of the costs of any claim over \$5 million is determined post-event on a case by case basis – through either a contribution from the Consolidated Fund, an increase in contributions over time, or a combination of both. The only exceptions to this are the cover for the Tasmanian Museum and Art Gallery collection where insurance was taken out to meet the cost of losses up to \$40 million for 2012–13, and cover for bridges owned by the Department of Infrastructure, Energy and Resources, where losses exceed \$5 million. A loss of a substantial bridge would, in all likelihood, require contributions from the Consolidated Fund.

The Fund's finances are managed through the Tasmanian State Service Risk Management Account in the Special Deposits and Trust Fund (T847).

In addition to cover provided to participants, the Fund also arranges for the external placement of Principal Nominated Contract Works Insurance for contractors engaged by Government to undertake building works (civil and civic).

# Structure of the Fund

## Governance Structure

The Department of Treasury and Finance is responsible for the administration and management of the Fund and reports to the Minister for Finance on policy issues.

## Internal Advisors

### TRMF Steering Committee

The TRMF Steering Committee serves as a consultative forum through which participants can provide input into the operations of the Fund and feedback to Treasury, the Fund Administration Agent and the Actuary.

### Department of Treasury and Finance

The key activities of Treasury in relation to the Fund are: operational policy and advice, administration of the Fund, stakeholder relations and the management of relevant contracts.

## External Advisors

### Fund Administration Agent

Marsh Pty Ltd is retained on a contract basis for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

### Actuary

Benzulla Actuarial Pty Ltd is contracted to estimate future liabilities, advise on contributions and excesses, and report on the Fund's performance.

### Internal Auditor

As part of Treasury's annual audit program, an internal audit is undertaken on the controls and processes in place for the management of claims and to verify the figures used in Treasury's Financial Statements.

### Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions is exclusively responsible for providing legal advice on claims and provides legal representation in various courts and tribunals as required.



# Financial Performance

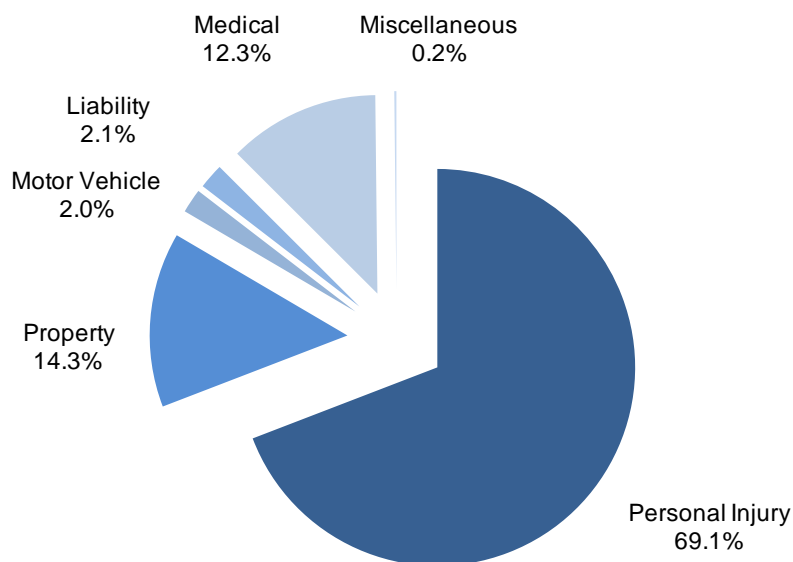
## Contributions

In 2012–13, gross contributions to the Fund totalled \$51.3 million with significant increases in general property and medical liability contributions from the previous year. The increase in general property is attributable to continuing poor claims experience with property losses substantially higher than typical historical levels. While the funding position for medical liabilities remains sound, it has weakened from its strong position a year ago. This, together with the reduction in bond yields pushing up the cost of future claims and the increased number and size of claims, will result in substantially increased contributions in this risk area.

Contributions for the other risk categories are expected to remain relatively stable with the exception of workers compensation which will increase moderately, generally reflecting a lower discount rate and higher assumed average claim size.

The percentage of contributions by class of risk is shown in Chart 1.

Chart 1 – Tasmanian Risk Management Fund Contributions by Class of Risk

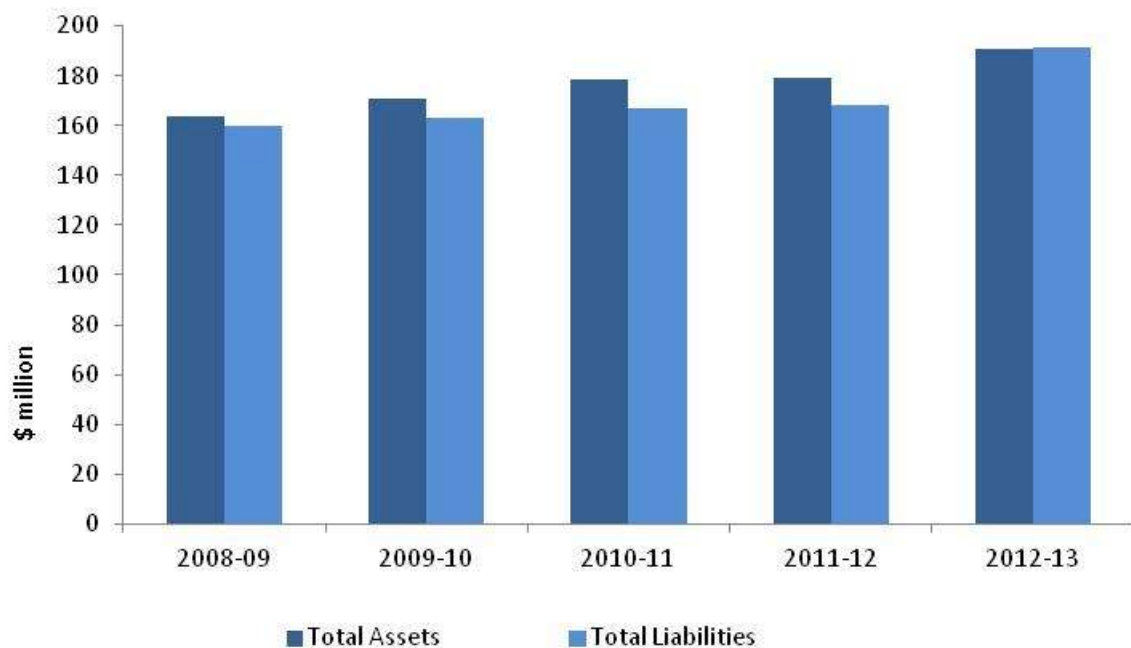


## Financial Position

As at 30 June 2013, the Fund had total assets of \$190.5 million and estimated liabilities of \$191.3 million, resulting in net liabilities of \$0.7 million. This compares with net assets of \$10.6 million as at 30 June 2012. This decrease is mainly attributed to deterioration in the funding position of the medical liability risks, together with a moderate weakening in the funding position of the workers compensation risks and to a lesser extent the liability risk area. The Fund's Actuary does not consider this shortfall to be a cause for concern considering the length of the Fund's liabilities, the cost recovery policy of the Fund and additional contributions already being included in the 2013–14 contributions to address funding shortfalls in some risk areas.

The position of the Fund for the past five years is represented in Chart 2.

Chart 2 – Assets and Liabilities as at 30 June 2013



# Significant Issues

## January Bushfires

As a result of the January 2013 bushfires, a number of government assets covered by the Fund were either damaged or destroyed. The most significant asset destroyed was the Dunalley Primary School, with a total estimated loss of around \$10.8 million. The other fire related claims included damage and destruction of the Dunalley Police Station and residence, damage to a water monitoring station building and damage to Tasmanian devil pen infrastructure, including loss of camera equipment within the pens.

As the Fund only covers the cost of damage up to \$5 million per claim, the total estimated cost to the Fund is expected to be approximately \$5.4 million.

# Fund Administration Agent's Report

This section, prepared by the Fund Administration Agent, Marsh Pty Ltd, provides an overview of the claims experience of the Fund as at 30 June 2013.

Figures in this report are inclusive of GST.

As at 30 June 2013, 2 284 claims were lodged for incidents which occurred during the period 1 July 2012 to 30 June 2013. These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2012–13

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 387	19.3
Property	394	17.6
Motor Vehicle	472	1.0
Liability	21	0.2
Miscellaneous	10	0.1
<b>Total</b>	<b>2 284</b>	<b>38.2</b>

**Note:** Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.

Chart 3 – Claim Numbers 2012–13 – Percentage by Class of Risk

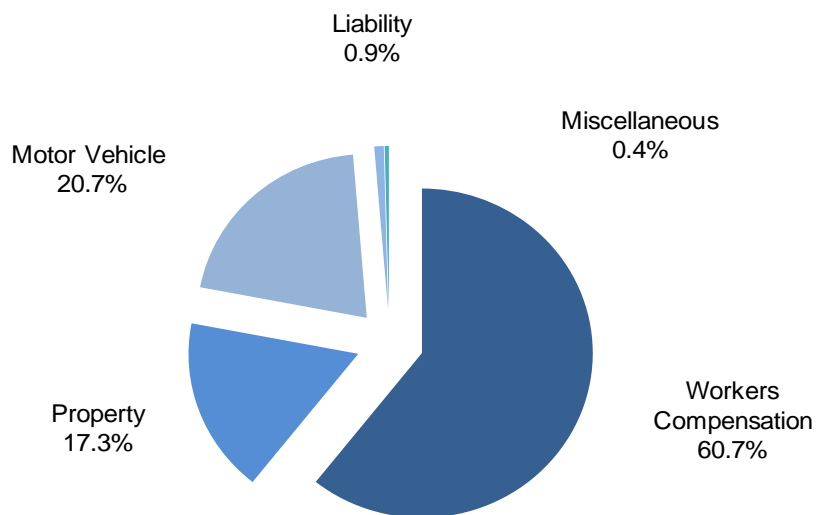
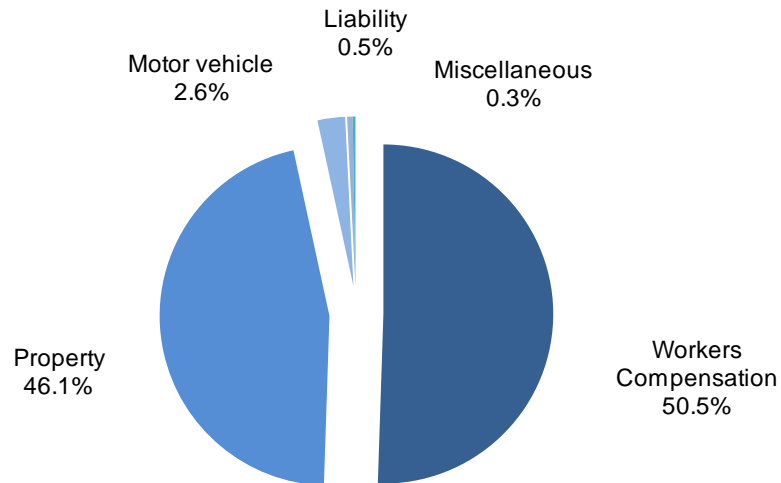


Chart 4 – Total Incurred Cost – 2012–13 Claims – Percentage by Class of Risk



## Workers Compensation

As at 30 June 2013, there were 1 387 claims made for incidents that occurred in 2012–13. This compares with 1 341 claims occurring as at 30 June 2012. This is represented in Chart 5 below.

Chart 5 – Workers Compensation Claim Numbers and Incurred Costs by Year of Incident

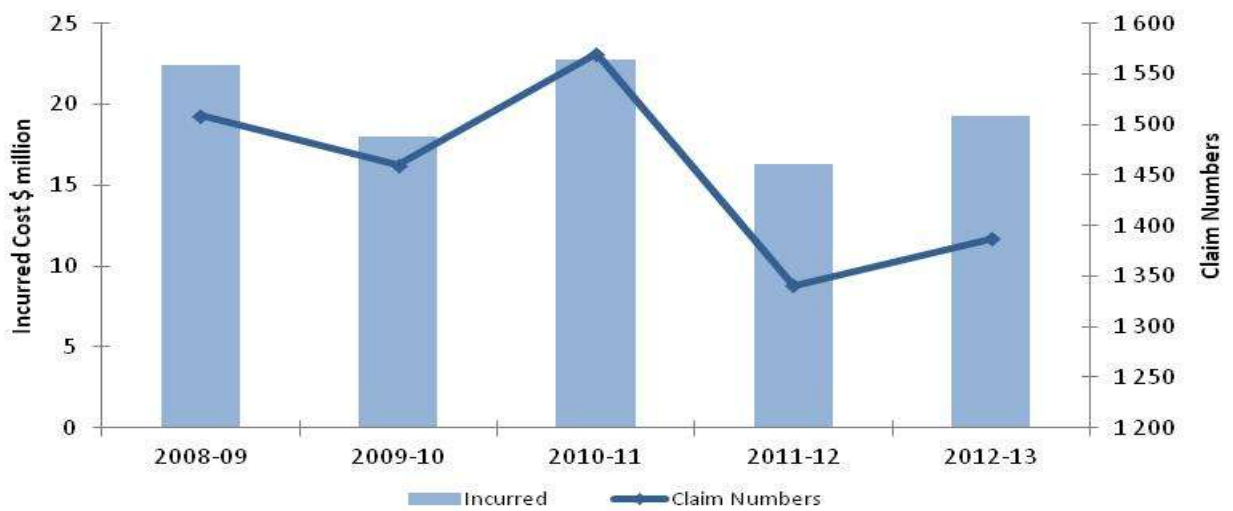
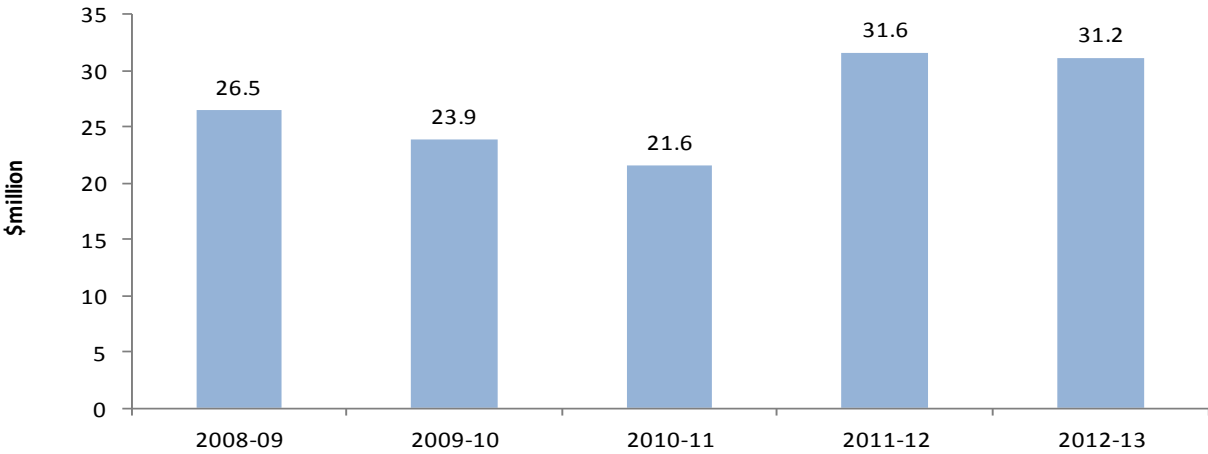


Chart 6 shows workers compensation payments, for claims occurring in 2012–13 and in previous years, paid during 2012–13 totalled \$31.2 million compared to \$31.6 million for 2011–12.

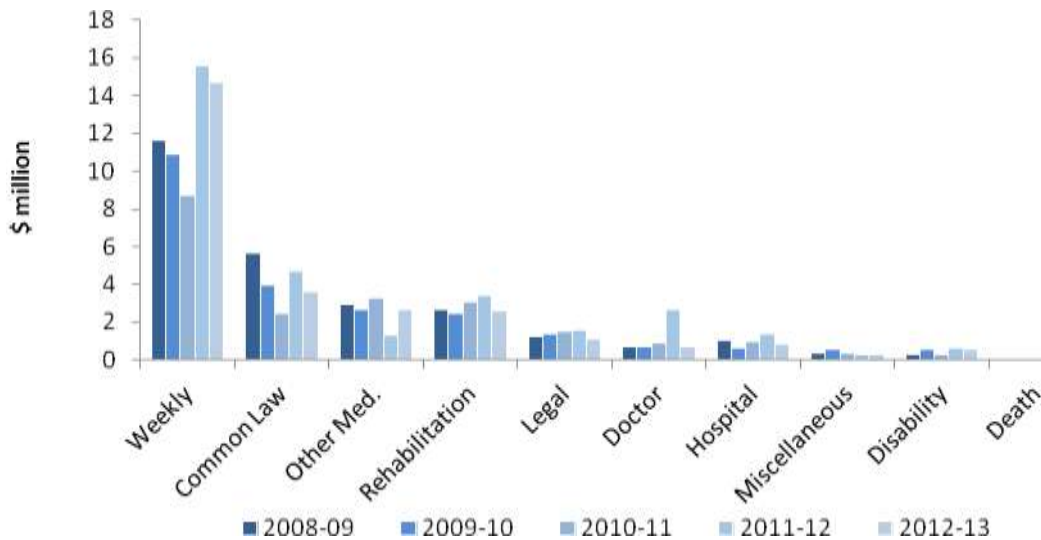
Chart 6 – Workers Compensation – Total Payments by Financial Year



**Note:** These figures include payments relating to claims with a date of occurrence prior to 1988 which differs from the data published by WorkCover Tasmania.

Chart 7 below outlines the composition of workers compensation payments by category from 2008-09. While there were increases in payments for weekly wages, doctors, rehabilitation and other medical expenses, the overall cost remained similar to 2011–12.

Chart 7 – Workers Compensation Payments by Category by Financial Year

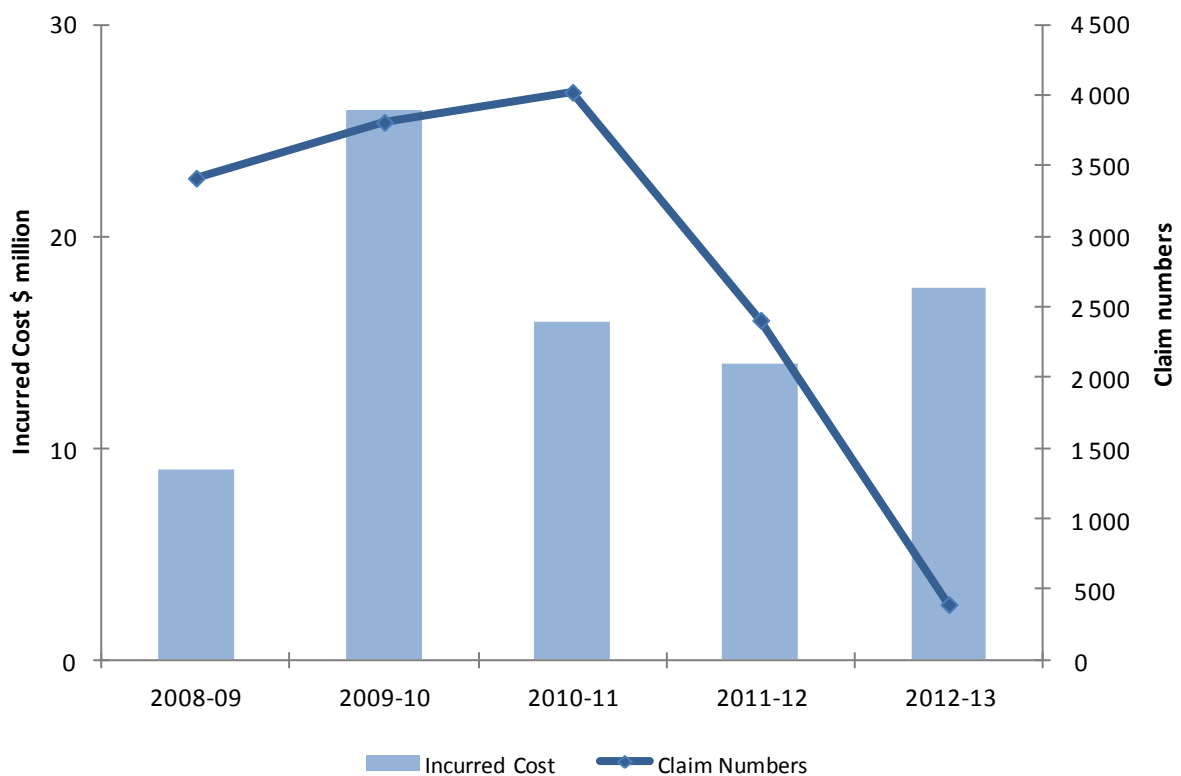


## Property (excluding motor vehicle claims)

As at 30 June 2013, there were 394 claims made for incidents that occurred in 2012–13. This compares with 2 409 claims made in 2011–12. This significant decrease is a result of the continuing reduction in the number of claims reported as insurance matters by Housing Tasmania. Housing Tasmania property claims decreased from 2 366 in 2011–12 to 368 in 2012-13 (84 per cent).

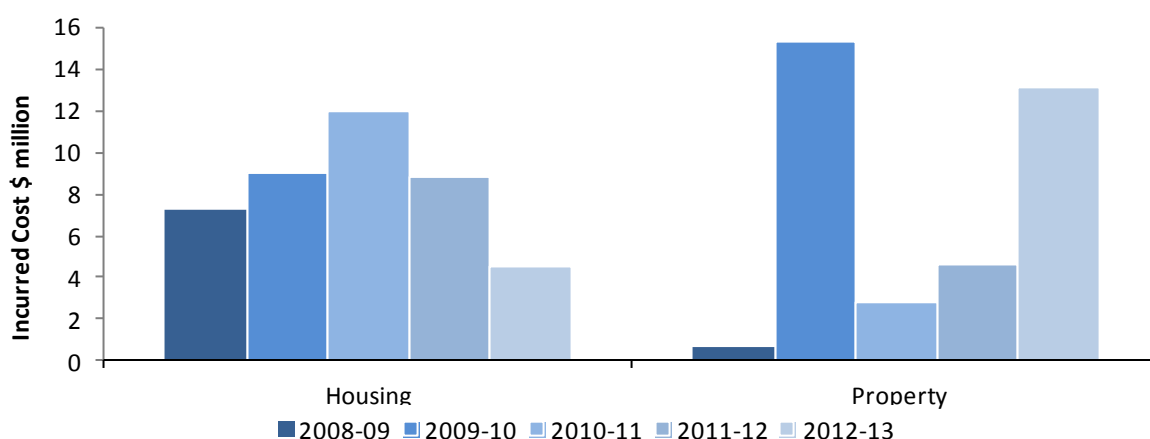
Overall, incurred costs for property claims have increased by approximately 25.7 per cent, from \$14.0 million in 2011–12 to \$17.6 million for 2012–13, primarily due to the Dunalley fires.

Chart 8 – Property – Claim Numbers and Incurred Costs for the year ending 30 June



**Note:** Figures exclude data relating to the Department of Education’s Property Protection Scheme.

Chart 9 – Property Incurred Costs by Category for the year ending 30 June



- Note:** (1) As the incurred costs for transit and marine hull are very low, they have not been included in Chart 9.  
 (2) The 2009–10 large incurred cost for property is primarily attributable to the Burnie High School fire.  
 (3) The 2012–13 large incurred cost for property is primarily attributable to the Dunalley School fire.

The Fund covers damage to, and loss of, Housing Tasmania properties under an “aggregate stop loss arrangement”. Housing Tasmania is required to pay the total costs of all losses and damage to Housing properties up to a selected excess in a financial year. The Fund meets the cost of any losses / damage above the excess. The Housing excess is adjusted annually. In 2012–13, the excess was \$16.6 million.

## Motor Vehicle

Motor vehicle claim numbers decreased from 494 as at 30 June 2012, to 472 as at 30 June 2013. However, the incurred costs increased by 3.7 per cent compared with the prior year.

There were nine total loss claims in 2012–13, compared to 10 total loss claims in 2011–12.

Chart 10 – Motor Vehicle – Claim Numbers and Incurred Costs for the year ending 30 June

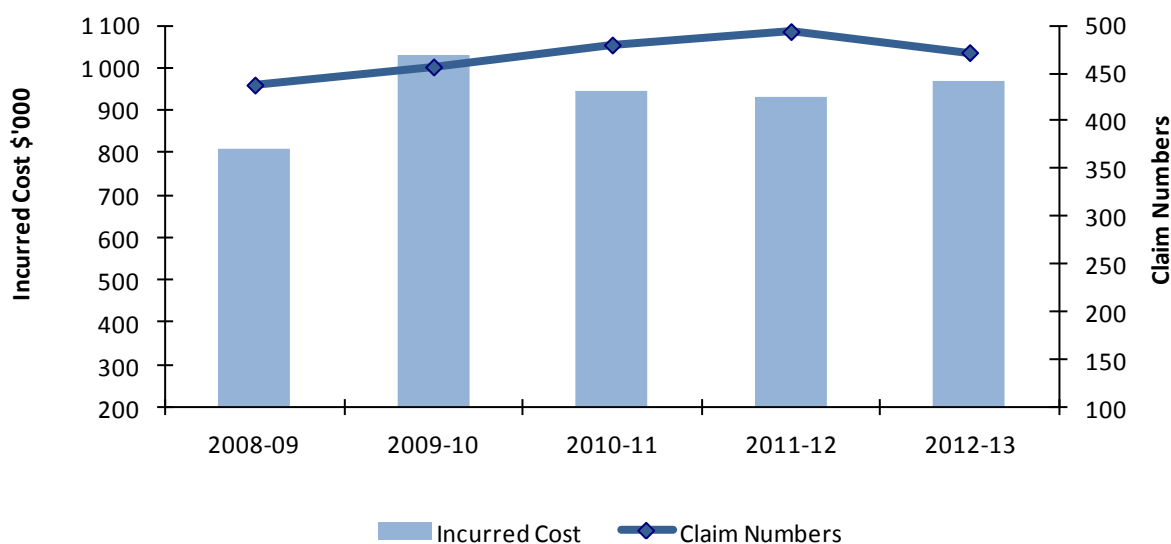
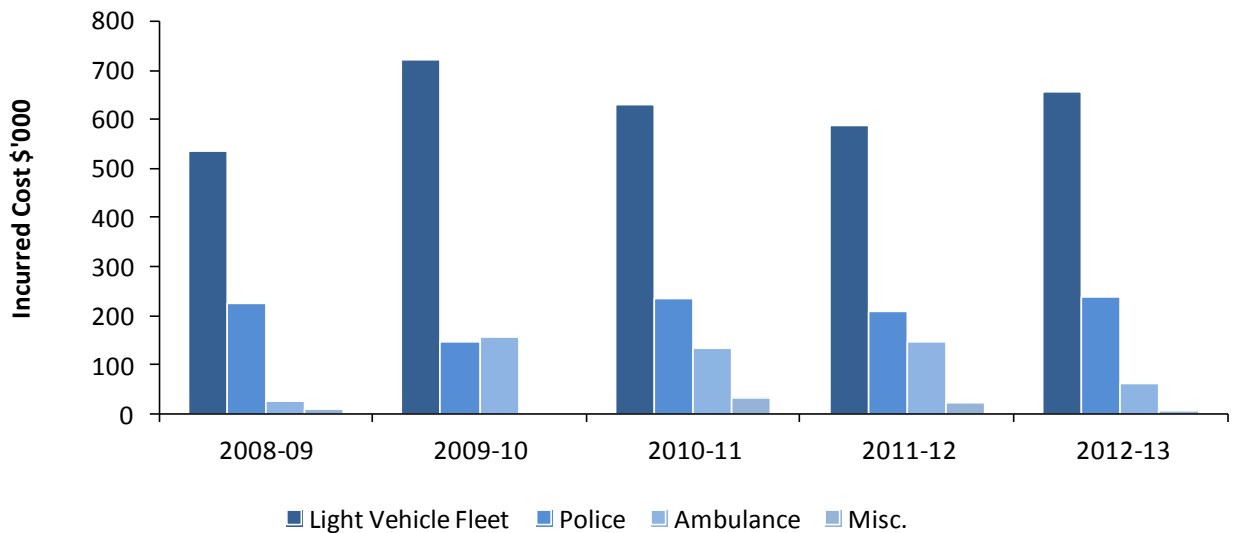




Chart 11 – Motor Vehicle Incurred Costs by category for the year ending 30 June



## Liability

During 2012–13, 21 liability claims were reported where the incident giving rise to the claim occurred in that year. This represents an 8.7 per cent reduction in claim numbers compared to the same time last year (23 during 2011–12).

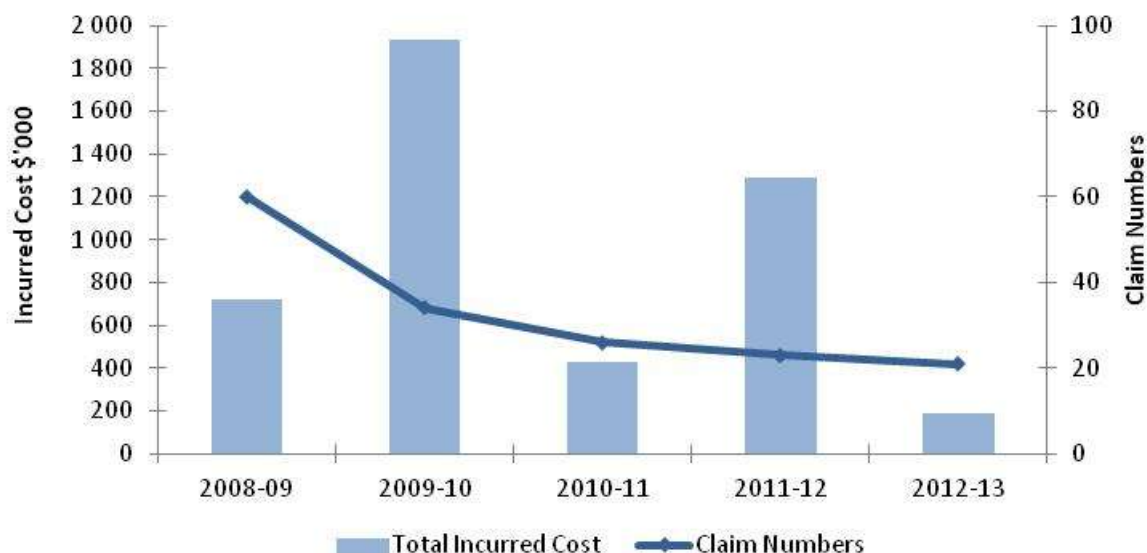
It is expected that liability claim numbers will rise in the future for incidents that occurred during 2012–13. Consequently, claim numbers and costs attributed to 2012–13 are expected to increase over time. Table 2 identifies the number of claims recorded by year of incident<sup>2</sup>, together with the total incurred costs for those claims as at 30 June 2013.

Table 2 – Liability Claims Comparison by Year of Incident

	2008–09	2009–10	2010–11	2011–12	2012-13		Movement (2011-12 to 2012-13)
Claim Numbers	61	34	31	32	21	↓	34.4%
Total Incurred Cost (\$'000)	259	1 504	2 158	1 470	190	↓	87.1%
Total Paid (\$'000)	249	980	17	25	3	↓	88.0%
Outstanding Payments (\$'000)	10	523	2 141	1 444	187	↓	87.1%
Largest Incurred Claim (\$'000)	236	500	1 620	1 055	40	↓	96.2%

<sup>2</sup> The year in which the incident giving rise to the claim occurred.

Chart 12 – Liability – Claim Numbers and Incurred Costs for the year ending 30 June



## Medical Liability

From 1 July 2008, medical liability claims have been managed by the Fund Administration Agent in collaboration with the Department of Health and Human Services and the Office of the Director of Public Prosecutions.

The Fund covers the total cost of lump sum payments in excess of \$50 000 for all medical liability claims. Thirty four new claims were lodged in 2012–13. Table 3 shows the number of claims reported<sup>3</sup>, together with the total incurred costs for each year as at 30 June 2013.

Table 3 – Medical Liability by Year Reported

Year	Number of Claims	Total Incurred Cost (\$'000)
2008-09	35	5 882
2009-10	29	7 060
2010-11	37	2 547
2011-12	23	5 823
2012-13	34	10 380

<sup>3</sup> Since 2011–12, the number of claims has been reported as at 30 June each year. Prior to 2011–12, the figures were based on an adjusted financial year figure.

Table 4 identifies the number of claims recorded by year of incident<sup>4</sup>, together with the total incurred costs for those claims as at 30 June 2013.

Table 4 – Medical Liability by Year of Incident

Year	Number of Claims	Total Incurred Cost (\$'000)
2008-09	30	11 220
2009-10	28	2 767
2010-11	17	1 451
2011-12	8	330
2012-13	9	1 485

Table 5 shows the total payments made in each financial year. These payments invariably relate to claims reported in previous years due to the “long tail” nature of these claims.

Table 5 – Medical Liability Payments by Financial Year

Year	Payment (\$'000)	Movement
2008-09	1 383	↓ 29.7%
2009-10	990	↓ 28.4%
2010-11	1 869	↑ 88.8%
2011-12	7 678	↑ 310.8%
2012-13	2 069	↓ 73.1%

The medical liability payments in 2011–12 reflect two substantial payments made during that year.

## Miscellaneous

There were 10 miscellaneous claims reported for 2012–13. These comprised:

- Personal Accident (five claims with incurred costs of \$102 963); and
- Transit (five claims with incurred costs of \$3 830).

<sup>4</sup> The year in which the incident giving rise to the claim occurred.

# Supporting Information

## Resources

A number of useful resources on the operation of the Fund are available from the [TRMF section](#) of the Treasury website. These documents, including the date when they were last updated, are listed below:

Title	Last Updated
Policy and Disclosure Document of the Tasmanian Risk Management Fund	March 2013
Agency excess levels	July each year
Guidelines for Determining Appropriate Levels of Insurance for Goods and Services Contracts	October 2011
Business Travel Brochure	August 2010
Cover for Volunteers Brochure	September 2013

## Communication

### *riskmatters* newsletter and email alerts

Editions of the TRMF newsletter, *riskmatters*, were published in September 2012 and February 2013.

However, it was determined that the February 2013 edition of *riskmatters* would be the final edition of the newsletter, and that the newsletter would be replaced by publication of 'items of interest' on relevant websites, with agency officers being alerted to new items as they are posted. The 'items of interest' articles are able to be produced on an as needs basis to provide participants in the Fund with timely information on risk management, procurement and contract management issues.

Current and past items of interest relevant to the TRMF can be found on the [Items of Interest](#) section of the Treasury website. Archived editions of *riskmatters* can be found at the [riskmatters archive](#) on the Treasury website.

# Financial Statements

The Fund is managed within Finance-General, through the Tasmanian State Service Risk Management Account in the Special Deposits and Trust Fund. The Fund's activities are reported within the Financial Statements of the Department of Treasury and Finance, which can be found in the Department's Annual Report.

As the Fund no longer prepares a full set of general purpose financial statements, the following concise financial information replaces the full Financial Statements included in previous Annual Reports.

## Concise TRMF Income Statement for the year ended 30 June 2013

	<b>2013</b>	<b>2012</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue and other income from transactions</b>		
Agency contributions	51 274	39 386
Investment income	5 962	8 244
<b>Total revenue and other income from transactions</b>	<b>57 236</b>	<b>47 630</b>
<b>Expenses from transactions</b>		
Claims expense	54 278	41 139
Other expenses	3 117	2 129
<b>Total expenses from transactions</b>	<b>57 395</b>	<b>43 268</b>
<b>Net result from transactions</b>	<b>(159)</b>	<b>4 362</b>
<b>Other economic flows included in net result</b>		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(11 198)	(5 216)
<b>Total other economic flows included in net result</b>	<b>(11 198)</b>	<b>(5 216)</b>
<b>Net Result</b>	<b>(11 357)</b>	<b>(854)</b>

Concise TRMF Balance Sheet as at 30 June 2013

	<b>2013</b>	<b>2012</b>
	<b>Actual</b>	<b>Actual</b>
<b>Assets</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Financial Assets</i>		
Cash and cash equivalents	189 879	177 813
Receivables	634	1 179
<b>Total assets</b>	<b>190 513</b>	<b>178 992</b>
<b>Liabilities</b>		
<i>Financial Liabilities</i>		
Payables	644	2 113
Outstanding claims	190 552	166 155
Employee entitlements	53	103
<b>Total liabilities</b>	<b>191 249</b>	<b>168 371</b>
<b>Net assets (liabilities)</b>	<b>(736)</b>	<b>10 621</b>
<b>Equity</b>		
Accumulated funds	(736)	10 621
<b>Total equity</b>	<b>(736)</b>	<b>10 621</b>

## Contact details

All queries for the Tasmanian Risk Management Fund should be directed to:

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