

# Tasmanian Risk Management Fund

Annual Report 2008–09



Tasmania  
Explore the possibilities



## **Tasmanian Risk Management Fund Annual Report 2008-09**

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## Mission

Minimise the cost of risk to government through an efficient self-insurance arrangement.

## Objectives

- Ensure adequate financial provision is made for the cost of risk;
- Be responsive to changing conditions in the insurance environment; and
- Provide an efficient and effective claims administration service to agencies.

# Policy Statement

## Purpose of the Fund

The Tasmanian Risk Management Fund is the Tasmanian Government's self-insurance fund.

All inner-Budget agencies are required to participate in the Fund. Subject to their date of joining, agencies 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. These risks include:

- personal injury - workers compensation, personal accident;
- legal liability - public (general), directors and officers, product, professional indemnity and medical liability;
- property - building and contents, business interruption, fraud/fidelity, marine hull, motor vehicle and transit; and
- travel.

Marine hull and travel insurance are currently insured through the private sector. All other categories of risk noted above 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 participating agencies pay annual contributions to meet claim costs up to \$5 million<sup>1</sup>, administrative expenses, and where applicable, insurance premiums and reinsurance costs. The level of agencies' contributions is determined by an independent actuary and reflects their risk exposure, claims experience and nominated excess amounts.

In setting agency 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 user agencies with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management, through recognition of claims experience.

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

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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 exception to this is the cover for the Tasmanian Museum and Art Gallery collection where reinsurance is taken out to meet the cost of losses up to \$50 million.

# Structure of the Fund

## Governance Structure

The Department of Treasury and Finance is responsible for the management of the Fund and reports to the Treasurer on policy issues. Treasury chairs the Tasmanian Risk Management Fund Steering Committee meetings.

## Internal Advisors

### TRMF Steering Committee

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

The Steering Committee is representative of the agencies participating in the Fund.

### Department of Treasury and Finance

Administration of the Fund is undertaken by the Department of Treasury and Finance. The key activities of the Department are administration of the Fund, operational policy and advice, stakeholder relations and the management of relevant contracts.

## External Advisors

### Fund Administration Agent

The services of a Fund Administration Agent, Marsh Pty Ltd, are retained for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

### Actuary

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

### Accountant

Deloitte Touche Tohmatsu is engaged to undertake an annual audit of the controls and processes in place for the management of claims and to verify the figures used in Treasury's Financial Statements.



# Achievements in 2008-09

## What we achieved this year

During 2008–09 Treasury undertook a tender process for the provision of actuarial services to the Fund. The previous Actuary, Bendzulla Actuarial Pty Ltd, was the successful tenderer and has been reappointed for three years from 1 September 2009 with an option to extend for a further period of three years.

Treasury also undertook a quotation process for the provision of auditing services for the Fund. Deloitte Touche Tohmatsu was appointed for a period of one year, with an option to extend for a further year. Deloitte Touche Tohmatsu will undertake an audit of claims management and financial processes and controls put in place by the Fund Administration Agent, Marsh Pty Ltd. As part of the same quotation process, Finity Consulting Pty Limited was appointed to develop qualitative performance indicators and to benchmark the Fund's claims management against a best practice framework. This is a one-off review that will be conducted in 2009–10.

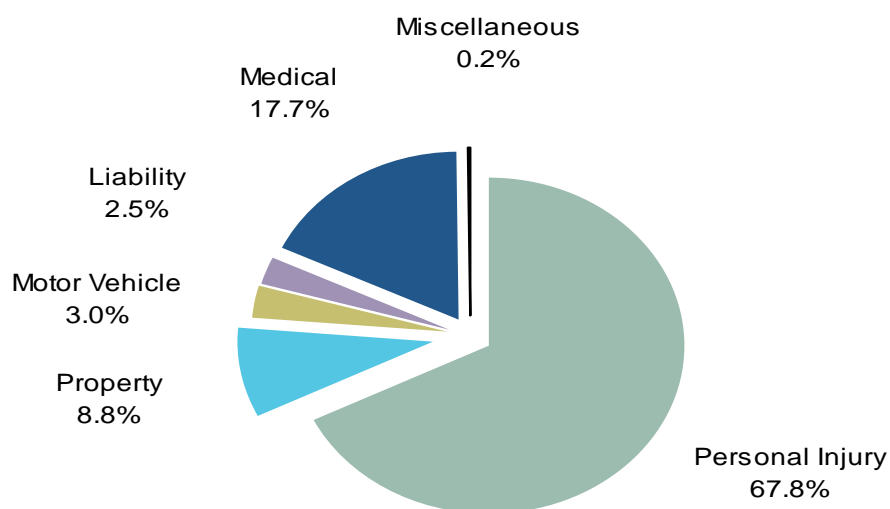
The Fund historically operates on the basis that single property claims in excess of \$5 million will be funded post-event from external sources, increased agency contributions, or a combination of both. During 2008–09 the 'large claims cut-off' figure of \$5 million was reviewed to determine whether this figure remained appropriate and the impact on agency contributions if the figure was revised. Following the review, and given the current economic situation and budgetary pressures facing agencies, it was determined that the current 'large claims cut-off' figure remained appropriate at this point in time.

# Financial Position

## Contributions

In 2008–09 gross contributions to the Fund totalled \$33.2 million. The percentage of contributions by class of risk is shown in Chart 1.

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



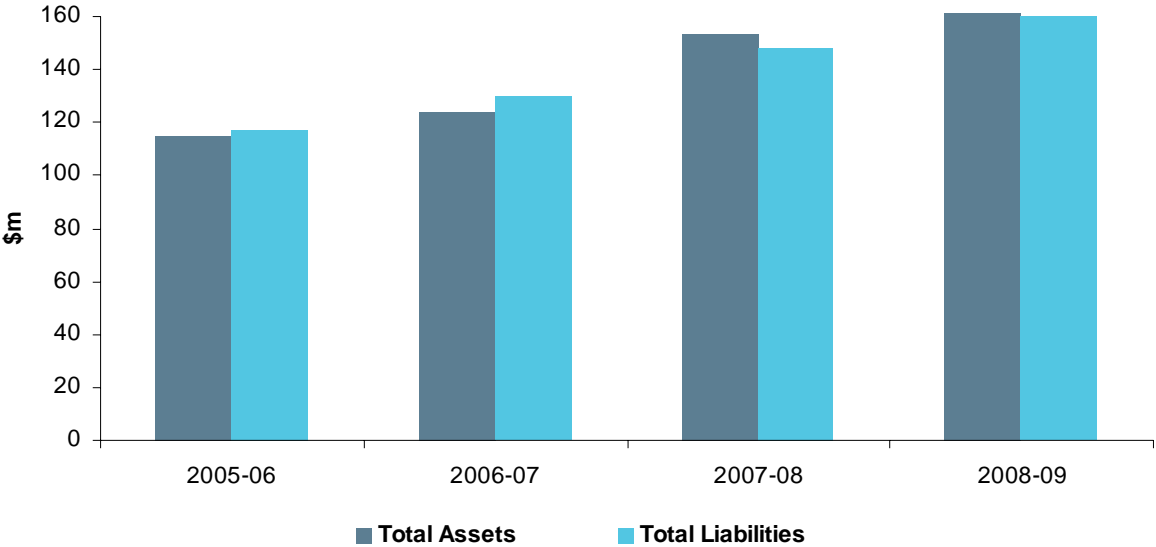
In 2008–09 general property contributions increased significantly as a result of several large claims in this category. Medical liability contributions also increased moderately. However, contributions for the other risks were similar to the previous year, or decreased marginally.

## Financial Position

As at 30 June 2009, the Fund had total assets of \$163.6 million and estimated liabilities of \$159.7 million, resulting in net assets of \$3.9 million. The position of the Fund for the past four years is represented in Chart 2.

The financial position of the Fund has declined from the previous year mainly as a result of increases in the outstanding liability provision for personal injury and medical liability. The movement in personal injury liabilities primarily reflects the significant change in the assumed discount rate which is based on the market yields of Australian government bonds. The changes in the bond yield have been a consequence of the turbulence in financial markets due to the global financial crisis. The change in the medical liability provision can be attributed to a combination of the decrease in the discount rate together with revised claims experience assumptions adopted by the Fund’s actuary.

Chart 2 – Assets and Liabilities as at 30 June



It is forecast that there will be some pressure on the Fund in future years due to the impact of the global financial crisis and proposed changes to the *Workers Rehabilitation and Compensation Act 1988*.



# Fund Administration Agent's Report

Throughout 2008–09, the Fund Administration Agent continued to actively promote cooperative and sustainable relationships with agency personnel to the advantage of the Fund and all stakeholders.

As at 30 June 2009, 5 270 claims were lodged for incidents which occurred during the period 1 July 2008 to 30 June 2009.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2008–09

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 409	14.4
Property	3 414	9.0
Motor Vehicle	397	0.8
Liability	35	0.5
Miscellaneous	15	0.03
<b>Total</b>	<b>5 270</b>	<b>24.73</b>

Chart 3 – Claim Numbers as a percentage of 2008–09 Claims

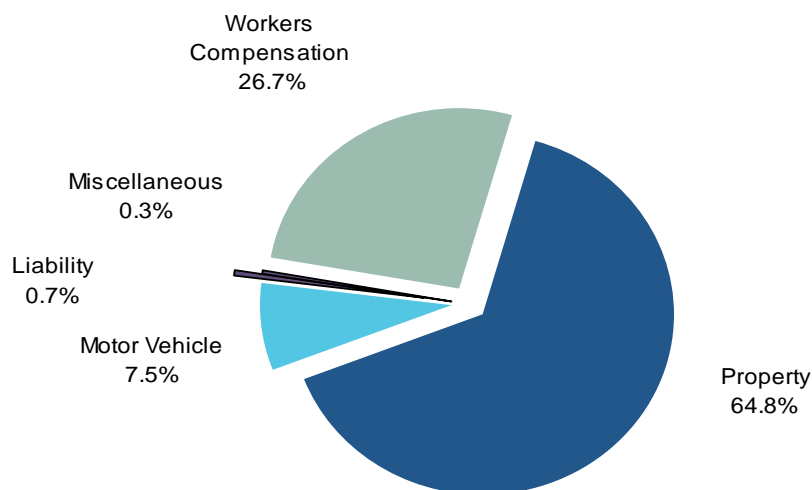
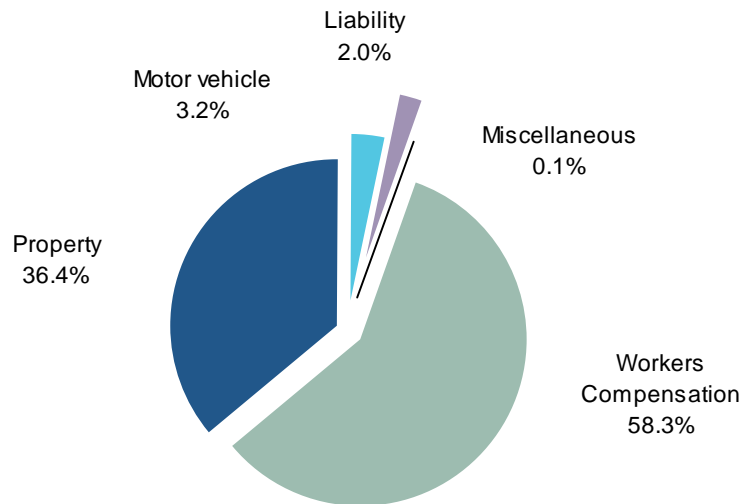


Chart 4 – Total Incurred Cost as a percentage of 2008–09 Claims

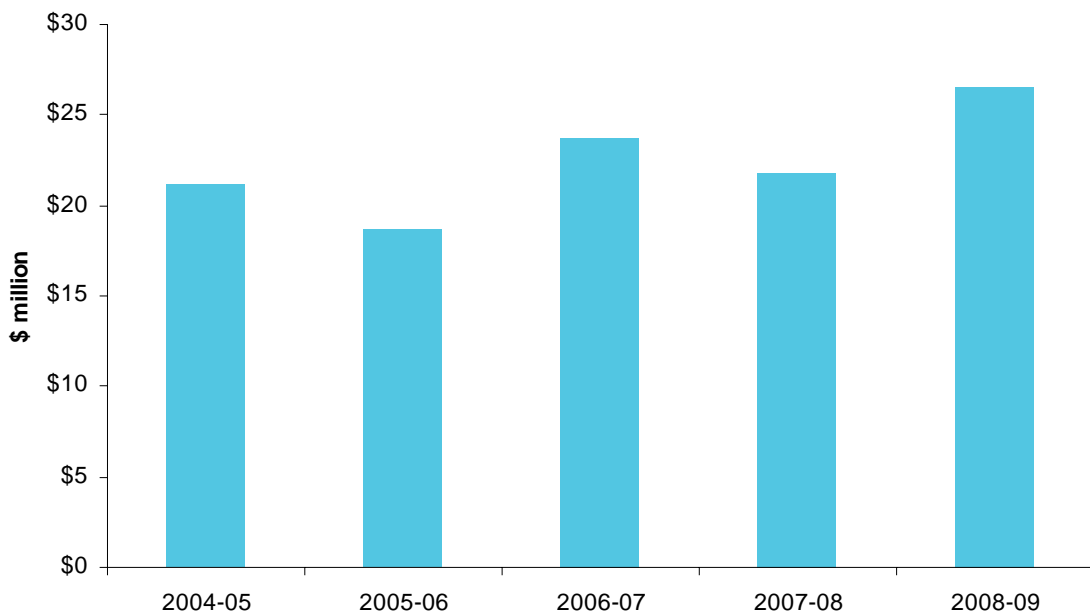


**Note:** Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.

## Workers Compensation

Workers compensation payments for all categories for 2008–09 totalled \$26.5 million compared to \$21.8 million for 2007–08, which is an increase of 21.6 per cent.

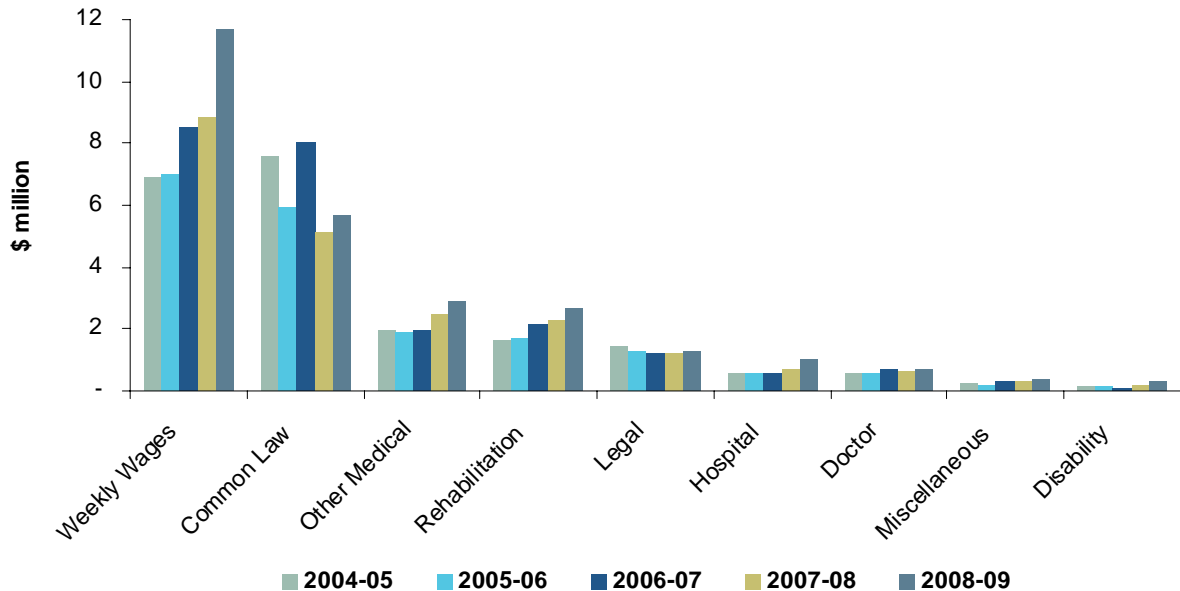
Chart 5 – Workers Compensation - Total Payments by Financial Year



**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.

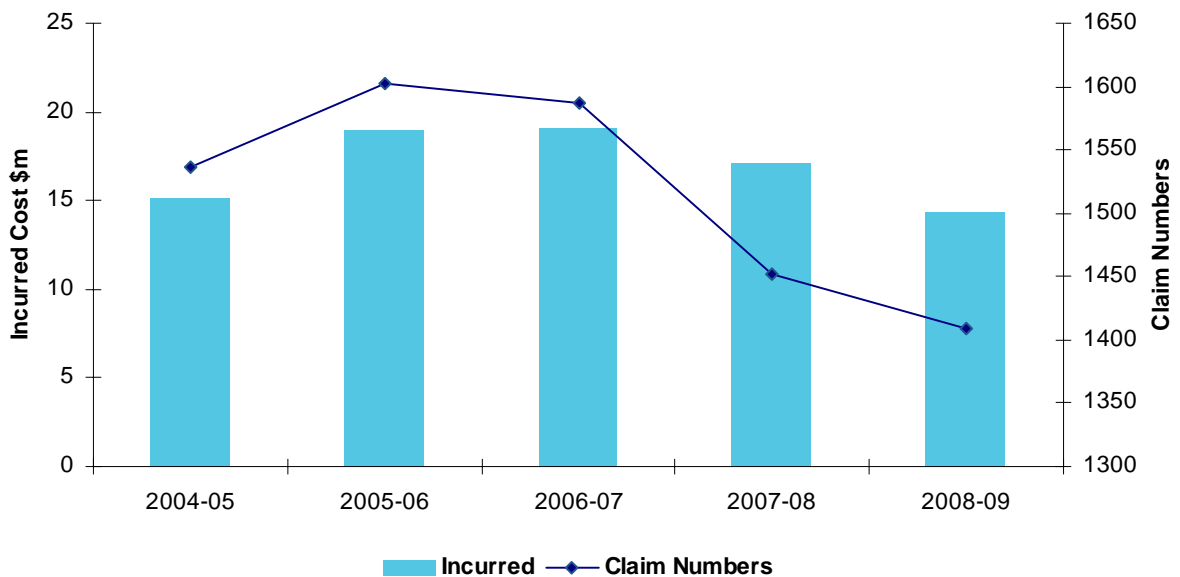
As at 30 June 2009, there were 1 409 claims made for incidents that occurred in 2008-09. This compares with 1 452 claims made in 2007-08 (adjusted)<sup>2</sup>, a decrease of 3.0 per cent.

Chart 6 – Workers Compensation Payments by Category by Financial Year



Payments for most risk categories for workers compensation in 2008–09 were consistent with 2007–08. The main exception was payments for weekly wages, which increased by 32.9 per cent from \$8.8 million in 2007–08 to \$11.7 million in 2008-09.

Chart 7 – Workers Compensation Claim Numbers by Year of Incident



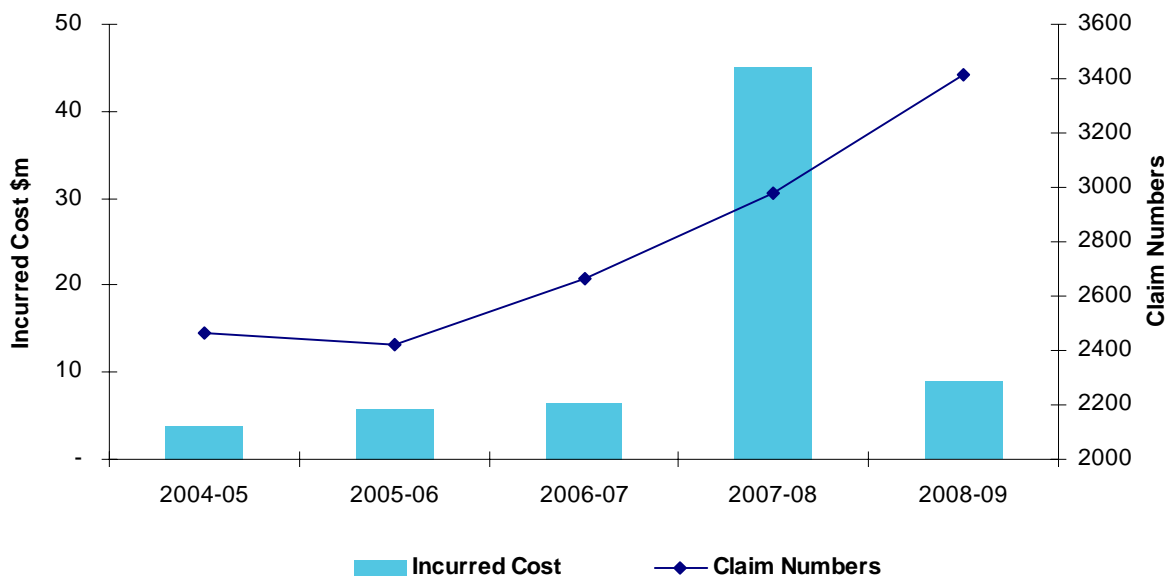
<sup>2</sup> The number of claims attributable to incidents in any financial year and associated costs will vary over time as new claims that relate to incidents in previous years are reported.

## Property (excluding motor vehicle claims)

Overall, reported property claims in 2008–09 increased by 15.0 per cent while incurred costs reduced by 78.0 per cent when compared to the 2007–08 period.

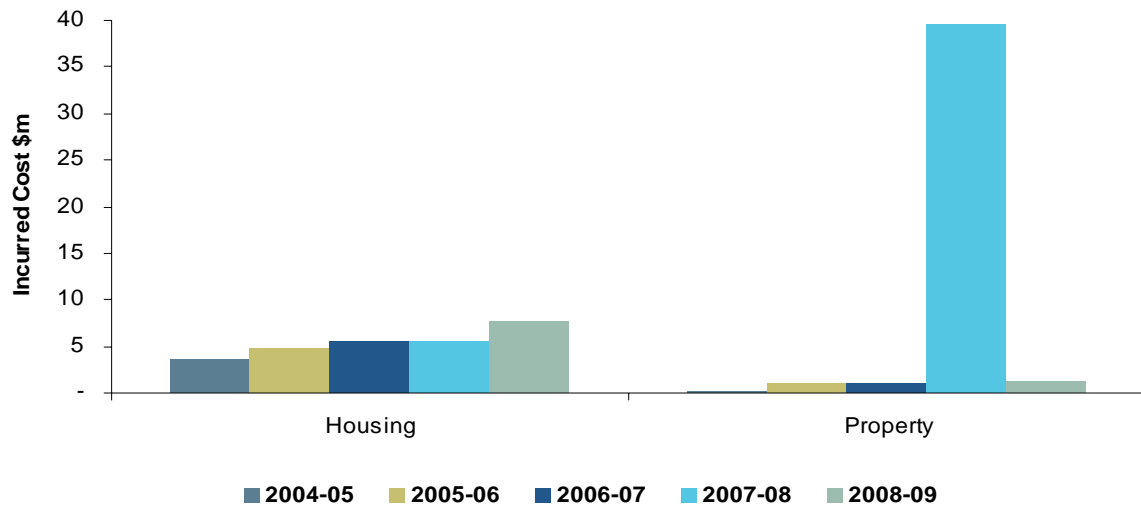
The increase in the number of claims is attributable to an increase in the number of total losses of properties caused by fire, while the significant reduction in incurred costs is attributable to the large claim in 2007–08 relating to the Bridgewater High School fire.

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:** As the incurred costs for marine hull and transit are very low, they have not been included in Chart 9.

A large component of the incurred costs for property relates to damage to Housing Tasmania’s assets. 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 excess changes from year to year. In 2008–09, the excess was \$7.5 million.

## Motor Vehicle

When compared to 2007–08, motor vehicle claim numbers reduced by 8.0 per cent and incurred costs decreased by 6.0 per cent. The decrease in incurred costs is a reflection of the reduction in the number of claims reported.

During 2008–09, there were 10 total loss claims, compared to 11 (adjusted)<sup>3</sup> during 2007–08. Incurred costs for total losses during 2008–09 totalled \$230 407.

<sup>3</sup> The number of claims attributable to incidents in any financial year and associated costs will vary over time as new claims that relate to incidents in previous years are reported.



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

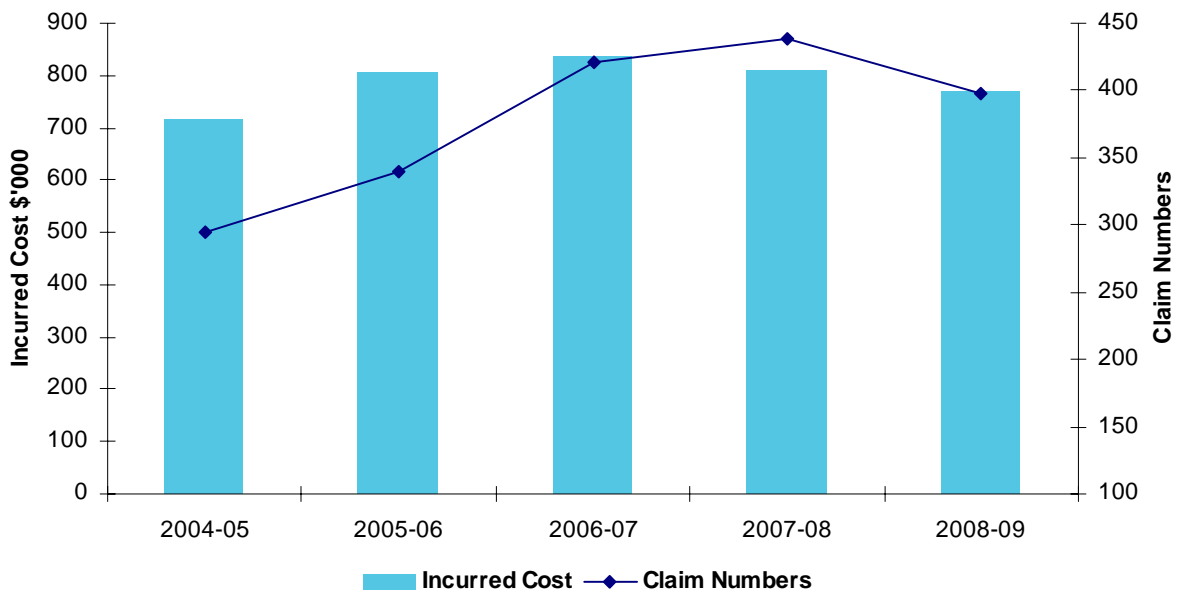
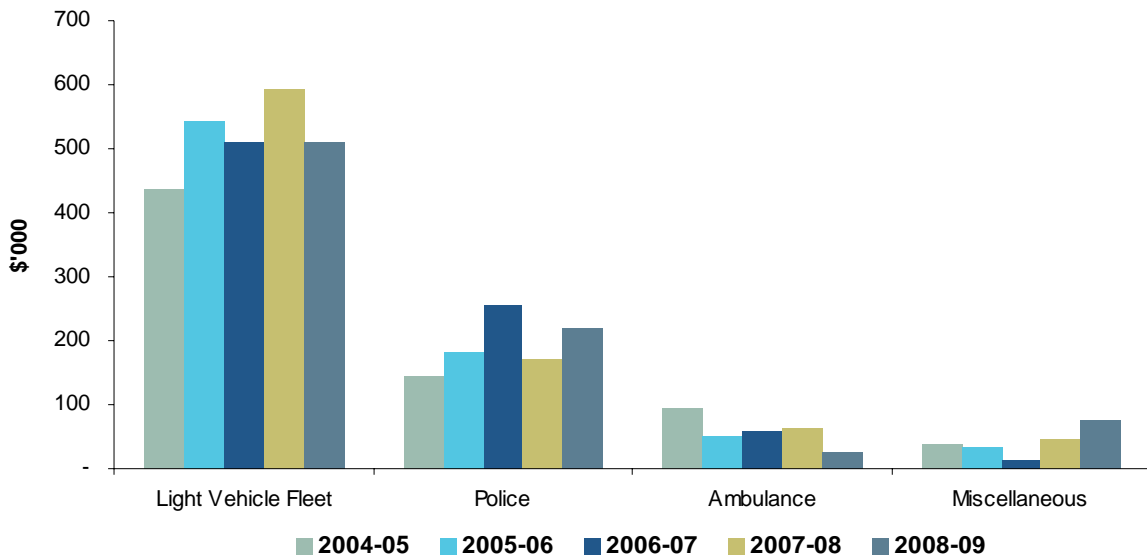


Chart 11 – Motor Vehicle Incurred Costs by Category for the year ending 30 June



## Liability

During 2008–09, 39 public liability claims where the incident giving rise to the claim occurred in that year, were reported. This represents a 13.3 per cent reduction in claim numbers compared to the 2007–08 period.

It is expected that liability claims will arise and be reported in the future for incidents that occurred during 2008–09. Consequently, claim numbers and costs attributed to the 2008–09 year are expected to increase over time.

Table 2 – Liability Claims Comparison by Year of Incident

	2004-05	2005-06	2006-07	2007-08	2008-09		Difference (2007-08 to 2008-09)
Claim Numbers	60	66	49	45	39	↓	13.3%
Total Incurred Cost (\$'000)	2 294	1 165	524	1 346	514	↓	62.0%
Total Paid (\$'000)	170	17	14	367	6	↓	98.4%
Outstanding Payments (\$'000)	2 124	1 147	510	978	507	↓	48.2%
Largest Incurred Claim (\$'000)	200	1 050	210	520	371	↓	28.6%

## 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 Director of Public Prosecutions.

The Fund covers the total cost of lump sum payments in excess of \$50 000 for all medical liability claims. Only four new claims were lodged in 2008–09.

Table 3 – Medical Liability by Year Reported

Year	Number of Claims	Total Incurred Cost (\$'000)
2004-05	26*	382
2005-06	20*	3 217
2006-07	10*	477
2007-08	2*	62
2008-09	4	84

\*Figures provided by DHHS for previous years have been adjusted following a review of claims information held by the Fund Administration Agent.

Table 4 – Medical Liability Payments by Financial Year

Year	Payment	Difference as a %	
2004-05	3 948 916		
2005-06	944 883	↓	76%
2006-07	3 664 856 <sup>^</sup>	↑	287.9%
2007-08	1 966 603 <sup>^</sup>	↓	46.3%
2008-09	1 383 488	↓	29.7%

<sup>^</sup>Figures provided by DHHS for the 2006–07 and 2007–08 financial years represented ‘under-excess payments’ and have been revised to reflect over-excess payments made by the Fund.

# 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 for Finance-General, which can be found in the Department of Treasury and Finance'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 2009

	<b>2009</b>	<b>2008</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Income</b>		
Agency contributions	33 159	29 559
Investment income	8 642	9 339
Revenue from government	5 000	30 200
<b>Total income</b>	<b>46 801</b>	<b>69 098</b>
<b>Expenses</b>		
Claims expense	45 288	55 750
Other expenses	2 703	2 317
<b>Total expenses</b>	<b>47 991</b>	<b>58 067</b>
<b>Net operating surplus (deficit)</b>	<b>(1 190)</b>	<b>11 031</b>

## Concise TRMF Balance Sheet as at 30 June 2009

	2009 Actual \$'000	2008 Actual \$'000
<b>Assets</b>		
<i>Financial Assets</i>		
Cash and cash equivalents	163 070	152 010
Receivables	529	588
<b>Total assets</b>	<b>163 600</b>	<b>152 598</b>
<b>Liabilities</b>		
<i>Financial Liabilities</i>		
Payables	569	1 385
Outstanding claims		
Workers' Compensation <sup>1</sup>	70 008	63 417
Property <sup>2</sup>	21 910	27 780
Motor vehicle	...	160
General liability	10 710	7 290
Medical liability <sup>3</sup>	56 420	47 390
Employee entitlements	74	77
<b>Total liabilities</b>	<b>159 691</b>	<b>147 499</b>
<b>Net assets (liabilities)</b>	<b>3 909</b>	<b>5 099</b>
<b>Equity</b>		
Accumulated funds	3 909	5 099
<b>Total equity</b>	<b>3 909</b>	<b>5 099</b>

<sup>1</sup> The significant increase in Workers' Compensation liability since 30 June 2008 is primarily due to the change in the assumed discount rate.

<sup>2</sup> The decrease in the property related liability is due to the payments made on the Bridgewater High School claim and other large claims, together with the downward revision of costs associated with the Bridgewater High School.

<sup>3</sup> Medical liability has increased primarily from a combination of movements in the discount rate and claims experience.

# Contact details

As at 30 June 2009, the following Treasury staff were involved in the day-to-day management of the Tasmanian Risk Management Fund:

## **Cheryl Johnston**

Manager, Procurement and Risk Management

## **Di Hope**

Principal Policy Analyst

## **Jan Wilson**

Senior Policy Analyst

## **David Sypkes**

Assistant Research Officer

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

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