

# Tasmanian Risk Management Fund

Annual Report 2009–10



Tasmania  
Explore the possibilities



## **Tasmanian Risk Management Fund Annual Report 2009–10**

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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 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.

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

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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 administration and management of the Fund and reports to the Treasurer on policy issues. Treasury also chairs meetings of the Tasmanian Risk Management Fund Steering Committee.

## Internal Advisors

### **TRMF Steering Committee**

The TRMF Steering Committee serves as a consultative forum through which agencies participating in the Fund 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 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 2009–10

## What we achieved this year

During 2009–10, we undertook a review of physical assets covered by the Fund. Reviews are undertaken every two years so that a current total cost of risk can be determined.

We responded to issues arising from Fund cover of Tasmanian Museum and Art Gallery Collections and implemented new policy parameters.

During the second half of the financial year, we assisted agencies to develop Injury Management Programs required under workers compensation legislation by circulating information from WorkCover Tasmania, and liaising with the Fund Administration Agent, Marsh Pty Ltd. The Fund hosted the Managed Insurance Funds Forum in November 2009. The Forum is held every six months in different jurisdictions, and provides valuable input into Fund policy.

In May 2010, we undertook an agency survey on the performance of the FAA. Agencies provided ratings and comments on their dealings with the FAA in areas such as claims administration, reporting, data collection and the use of technology, and overall general performance. The collated data will be used to help improve client service to agencies and will also assist in determining whether to extend the FAA contract, which is due to expire on 30 June 2011. We also engaged Finity Consulting Pty Ltd to review the quality of the FAA's claims management services and benchmark the management of claims against a best practice framework.

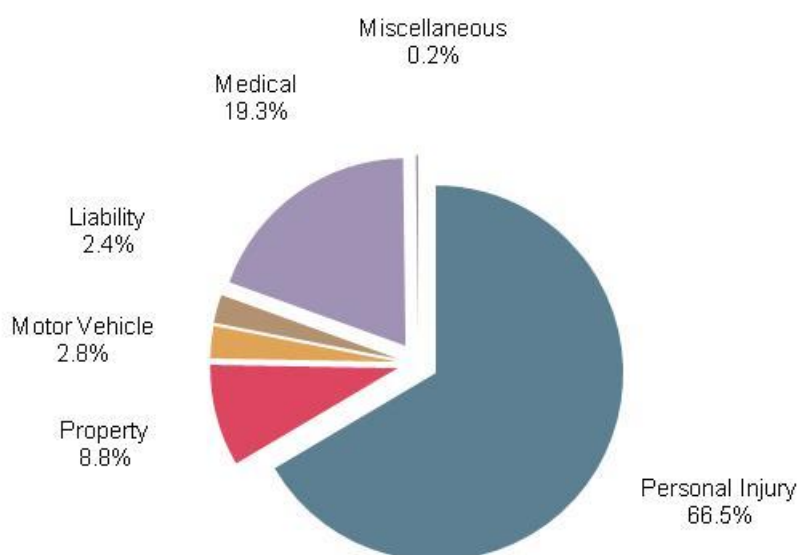
# Financial Performance

## Contributions

In 2009–10, gross contributions to the Fund totalled \$37.5 million. Personal injury contributions increased moderately as a result of the higher cost of funding new claims and a shortfall in respect of outstanding claim liabilities. Medical liability contributions also increased moderately, mainly due to the impact of the global economic slowdown and the subsequent decline in the value of Australian Government bond yields. However, contributions for the other risks were similar to the previous year, or increased only marginally.

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

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

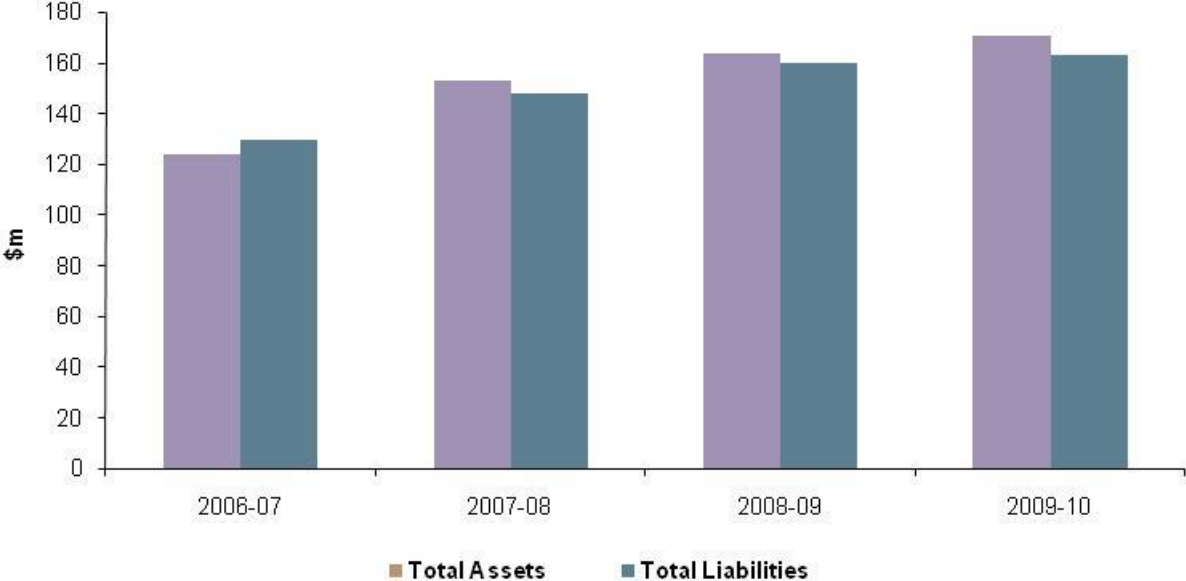


## Financial Position

As at 30 June 2010, the Fund had total assets of \$170.5 million and estimated liabilities of \$162.8 million, resulting in net assets of \$7.7 million. The financial position of the Fund has improved since 2008–09, mainly attributable to a surplus of assets in the medical liability risk category, due to lower than expected payments made on medical liability claims in 2010 and more up-to-date medical claim data. As the aim is to match assets and liabilities over time, this surplus will be taken into account by the Fund's Actuary in determining agency contributions.

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

Chart 2 – Assets and Liabilities as at 30 June



# Fund Administration Agent's Report

2009–10 has been a complex year, the global economic slowdown, resource issues and major legislative reform have created a number of challenges for both the Fund Administration Agent and agency personnel.

These issues required the development of strategies, in close consultation with agency personnel, to assist with a smooth transition to the new landscape post 1 July 2010.

As at 30 June 2010, 5 618 claims were lodged for incidents which occurred during the period 1 July 2009 to 30 June 2010. Figures in this report are inclusive of GST.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2009–10

	Number of Claims	Incurred Cost(\$M)
Workers Compensation	1 353	13.4
Property	3 803	26.0
Motor Vehicle	432	1.1
Liability	26	0.8
Miscellaneous	4	0.0
<b>Total</b>	<b>5 618</b>	<b>41.3</b>

Chart 3 – Claim Numbers as a percentage of 2009–10 Claims

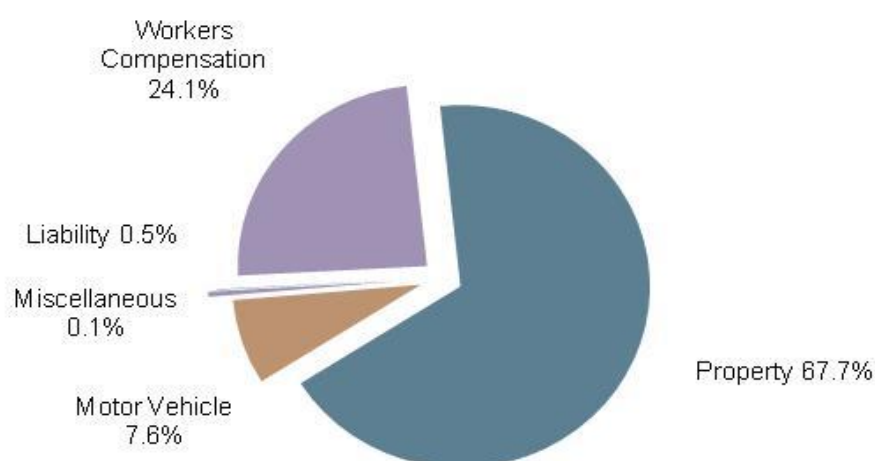
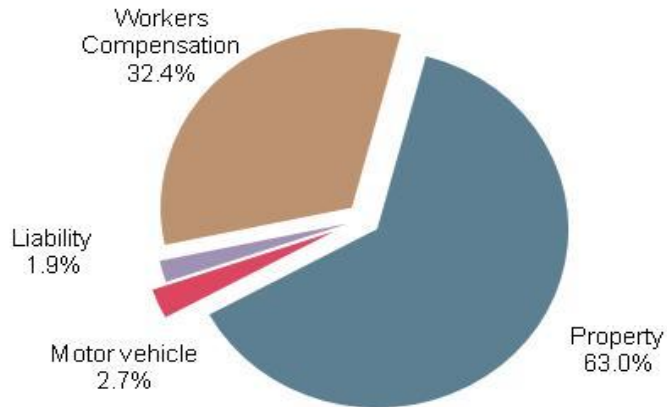


Chart 4 – Total Incurred Cost – 2009–10 Claims

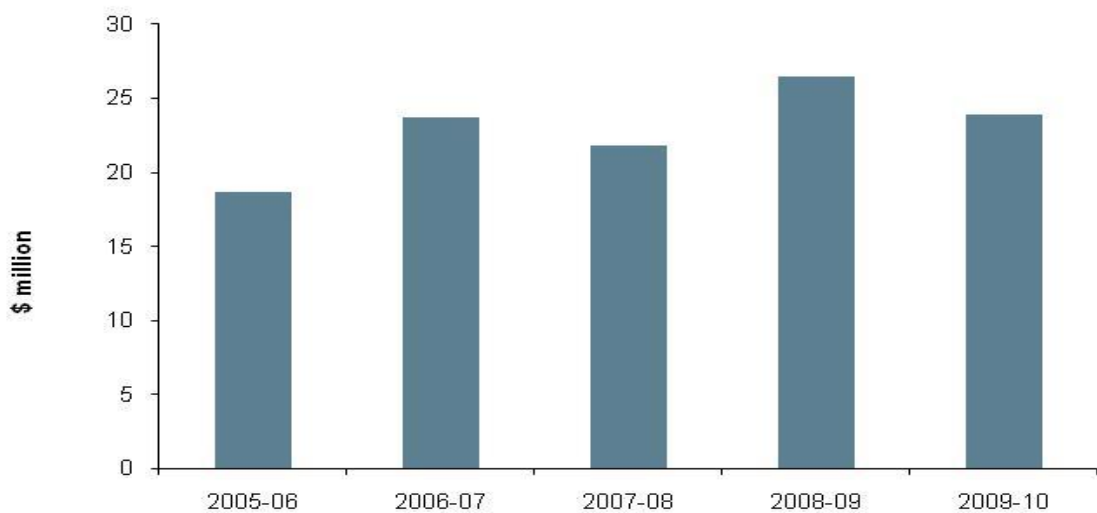


**Note:** Total incurred cost is the sum of the total amount paid and the estimated outstanding reserve.

## Workers Compensation

Workers compensation payments for all categories for 2009–10 totalled \$23.9 million compared to \$26.5 million for 2008–09.

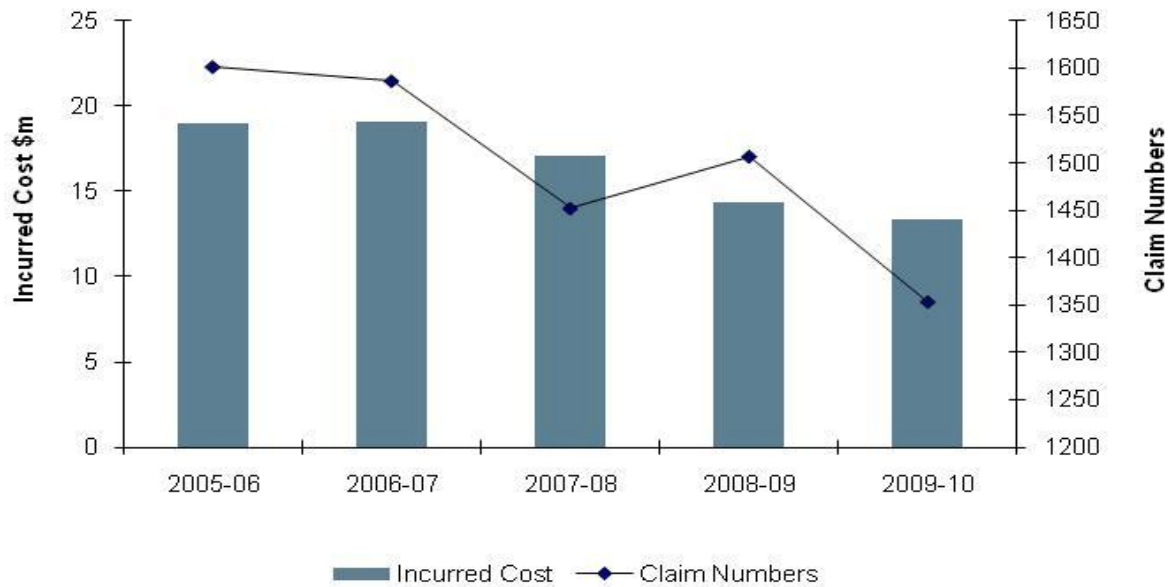
Chart 5 – Workers Compensation - Total Payments by Financial Year



**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.

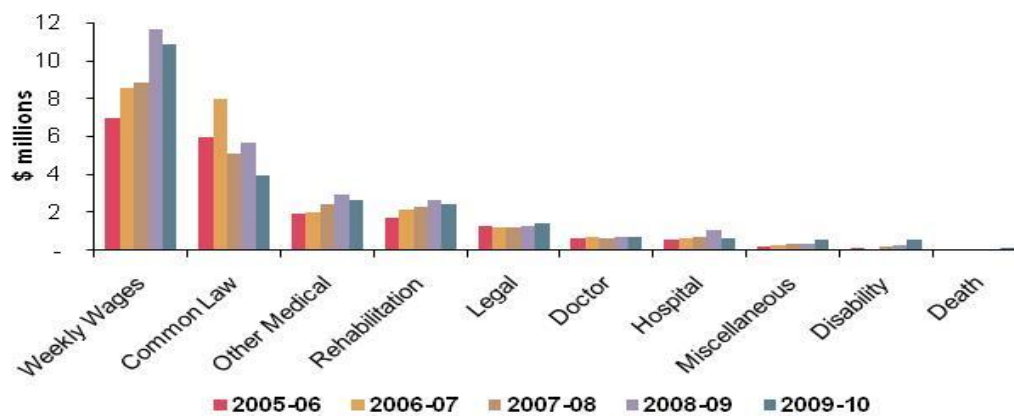
As at 30 June 2010, there were 1 353 claims made for incidents that occurred in 2009–10. This compares with 1 507 claims made in 2008–09 (adjusted)<sup>2</sup>, a reduction of 10.2 per cent.

Chart 6 – Workers Compensation Claim Numbers by Year of Incident



Payments for most risk categories for workers compensation in 2009–10 were consistent with 2008–09. The main exception was lump sum settlements (Common Law and disability), which reduced from \$5.9 million in 2008–09 to \$4.5 million in 2009–10. Hospital payments also reduced from \$1.0 million in 2008–09 to \$0.6 million in 2009–10.

Chart 7 – Workers Compensation Payments by Category by Financial Year



<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)

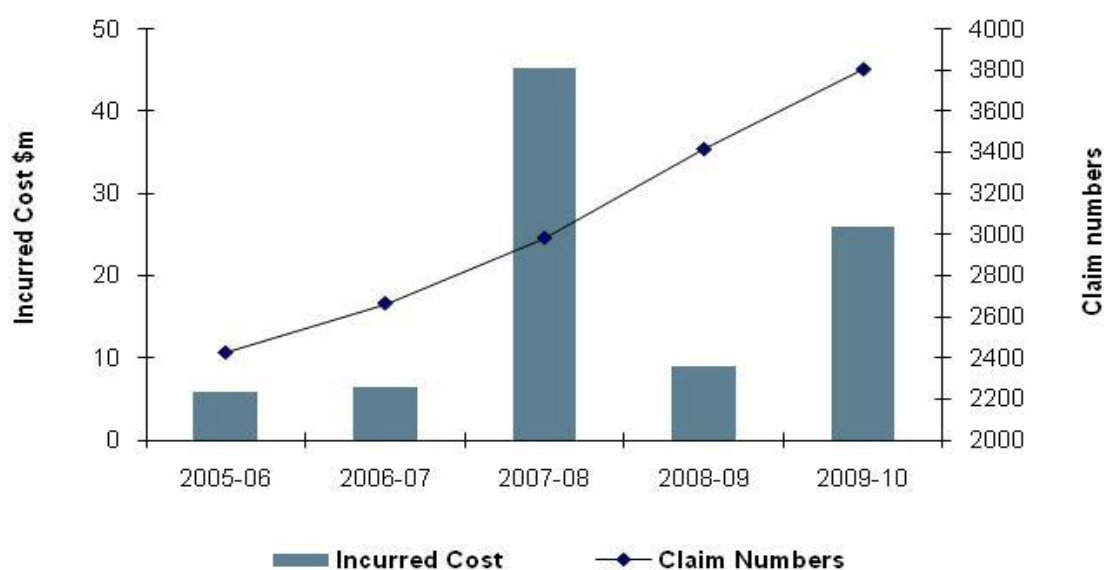
As at 30 June 2010, there were 3 803 claims made for incidents that occurred in 2009–10. This compares with 3 414 claims made in 2008–09, an increase of 11.4 per cent.

Incurred costs have increased from \$9 million in 2008–09 to \$26 million for 2009–10.

The increase in incurred cost is attributable, in part, to an increase in the number of total losses of Housing Tasmania properties caused by fire, and an increase in the number of significant claims with an incurred cost greater than \$5 000.

Major claims contributing to the increase in incurred costs include the Burnie High School fire claim, the New Town High School water damage claim and infrastructure damage on Maria Island.

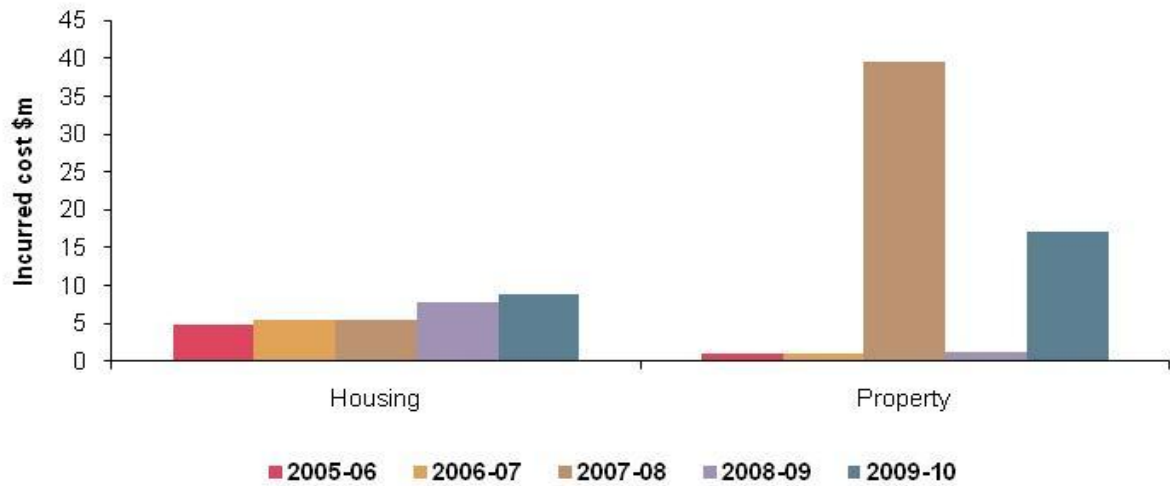
Chart 8 – Property – Claim Numbers and Incurred Costs for the year ending 30 June



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

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 is adjusted annually. In 2009–10, the excess was \$8.8 million.

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.

## Motor Vehicle

Motor vehicle claim numbers increased by 8.8 per cent, from 397 in 2008–09 to 432 for 2009–10. Incurred costs also increased from \$0.8 million in 2008–09 to \$1.1 million in 2009–10.

During 2009–10, there were six total loss claims, compared to ten during 2008–09. Incurred costs for total losses during 2009–10 totalled \$229 000, including the loss of an ambulance.

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

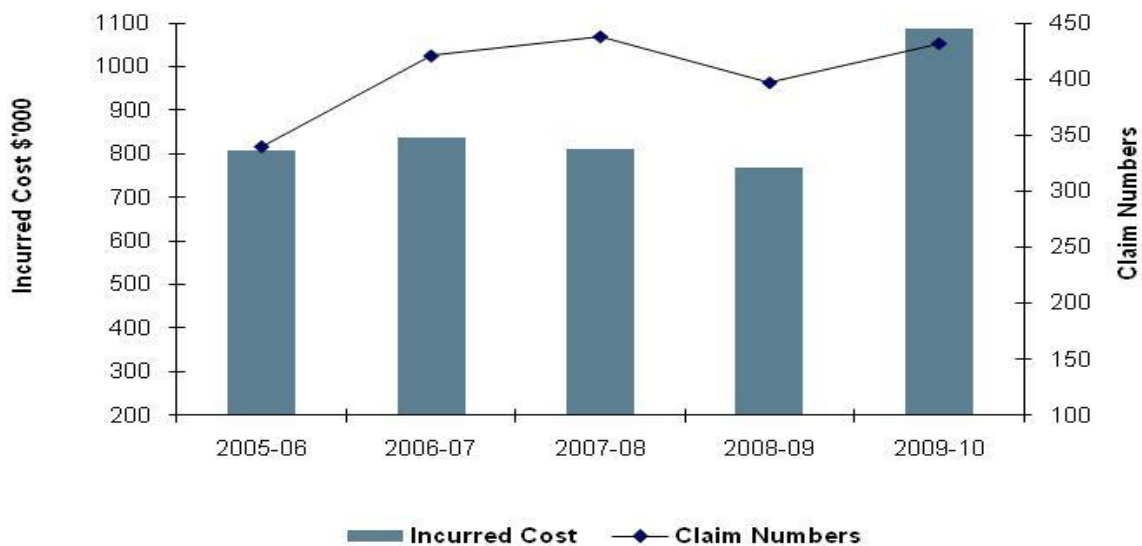
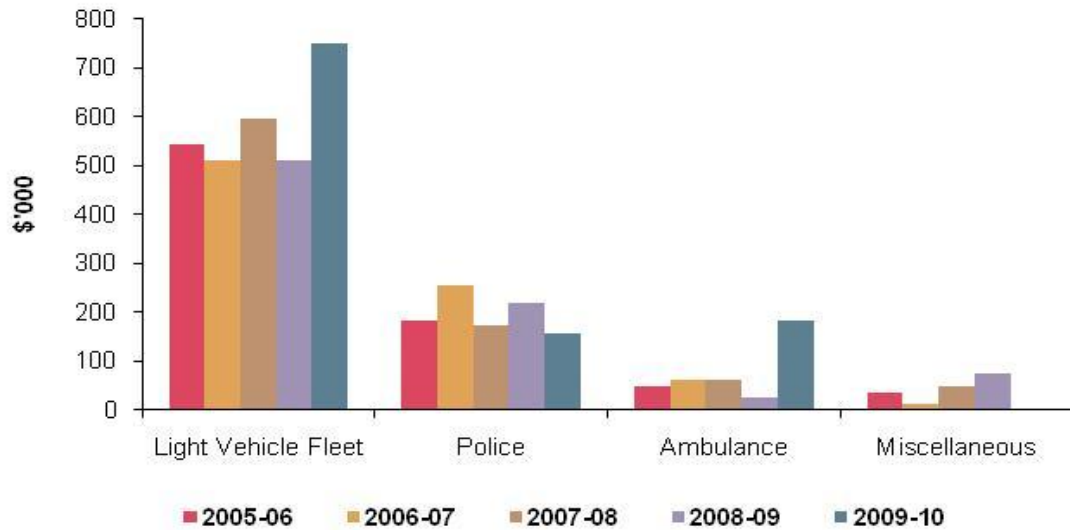




Chart 11 – Motor Vehicle Incurred Costs by Category for the year ending 30 June



## Liability

During 2009–10, 26 public liability claims were reported where the incident giving rise to the claim occurred in that year. This represents a 55.9<sup>3</sup> per cent reduction in claim numbers compared to the 2008–09 period.

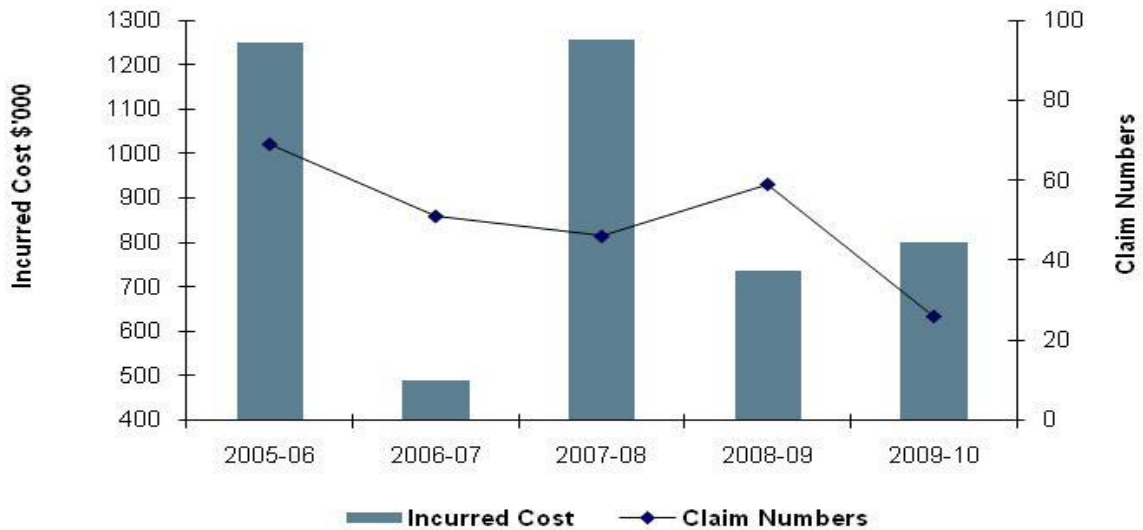
It is expected that additional liability claims will be reported in the future for incidents that occurred during 2009–10. Consequently, claim numbers and costs attributed to the 2009–10 year are expected to increase over time.

Table 2 – Liability Claims Comparison by Year of Incident

	2005–06	2006–07	2007–08	2008–09	2009–10		Difference (2008–09 to 2009–10)
Claim Numbers	69	51	46	59	26	↓	55.9%
Total Incurred Cost (\$'000)	1 251	491	1 258	737	799	↑	8.4%
Total Paid (\$'000)	47	45	443	37	5	↓	86.5%
Outstanding Payments (\$'000)	1 204	446	815	700	794	↑	13.4%
Largest Incurred Claim (\$'000)	1 050	210	520	371	310	↓	16.4%

<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 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. Only six new claims were lodged in 2009–10.

Table 3 – Medical Liability by Year Reported<sup>4</sup>

Year	Number of Claims	Total Incurred Cost (\$'000)
2005–06	21*	3 328
2006–07	14*	3 152
2007–08	6*	298
2008–09	15*	614
2009–10	6*	221

<sup>4</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.

\* 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 %	
2005–06	944 883		
2006–07	3 664 856	↑	287.9%
2007–08	1 966 603	↓	46.3%
2008–09	1 383 488	↓	29.7%
2009–10	989 555	↓	28.5%

# 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 2010

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Income</b>		
Agency contributions	37 487	33 159
Investment income	6 071	8 642
Revenue from government	5 000	5 000
<b>Total income</b>	<b>48 558</b>	<b>46 801</b>
<b>Expenses</b>		
Claims expense	36 509	29 672
Other expenses	1 577	2 703
Transfer to Consolidated Fund <sup>5</sup>	1 790	...
<b>Total expenses</b>	<b>39 876</b>	<b>32 375</b>
<b>Net result from transactions</b>	<b>8 682</b>	<b>14 426</b>
<b>Other economic flows included in net result</b>		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(4 851)	(15 616)
<b>Total other economic flows included in net result</b>	<b>(4 851)</b>	<b>(15 616)</b>
<b>Net Result</b>	<b>3 831</b>	<b>(1 190)</b>

<sup>5</sup> An amount of \$1.8 million was transferred to the Consolidated Fund for the Bridgewater High School claim as a result of actual costs being less than initial estimated costs.

Concise TRMF Balance Sheet as at 30 June 2010

	2010 Actual \$'000	2009 Actual \$'000
<b>Assets</b>		
<i>Financial Assets</i>		
Cash and cash equivalents	169 420	163 070
Receivables	1 106	529
<b>Total assets</b>	<b>170 525</b>	<b>163 600</b>
<b>Liabilities</b>		
<i>Financial Liabilities</i>		
Payables	913	569
Outstanding claims	161 794	159 048
Employee entitlements	79	74
<b>Total liabilities</b>	<b>162 786</b>	<b>159 691</b>
<b>Net assets (liabilities)</b>	<b>7 739</b>	<b>3 909</b>
<b>Equity</b>		
Accumulated funds	7 739	3 909
<b>Total equity</b>	<b>7 739</b>	<b>3 909</b>

## Contact details

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

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