

TASMANIAN RISK MANAGEMENT FUND ANNUAL REPORT 2017-18


Tasmanian Risk Management Fund Annual Report 2017-18

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Policy Statement

Purpose of the Fund

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

- personal injury (workers compensation and 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 latter in order to benefit from a worldwide emergency assistance scheme. An Industrial Special Risks policy is also purchased in the private market to cover catastrophe risk for all State-owned assets (with the exception of those assets owned by State-owned Companies, Government Business Enterprises and Local Government) for claims over \$5 million. 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, 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.

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 the 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 Treasurer 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.

In particular, the role of the Steering Committee is to:

- monitor the financial performance of the Fund;
- monitor the performance of the Fund Administration Agent;
- provide input on policies to improve the performance of the Fund and of participants in the Fund;
- review and provide feedback on issues affecting participant performance; and
- identify opportunities for participants to collaborate on issues and share information.

Membership of the Steering Committee is representative of the agencies participating in the Fund. Membership as at 30 June 2018 was:

- Andrew Finch, Chairperson
Department of Treasury and Finance;
- Jane Beaumont
Department of Treasury and Finance;

- Donna Adams
Department of Police, Fire and Emergency Management;
- Eleanor Patterson
Department of Health and Human Services;
- Adrian Pearce
Department of Primary Industries, Parks, Water and Environment;
- Paul Turner
Office of the Solicitor-General (Litigation);
- Kane Salter
Department of Education;
- Tony Prenter
Department of Premier and Cabinet;
- Gavin Wailes
Department of Justice;
- Craig Watson
Tasmanian Health Service; and
- Andrew Wright
Department of State Growth.

The Committee meets on a bi-annual basis.

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

During 2017-18, Jardine Lloyd Thompson Pty Ltd was retained as the Fund Administration Agent on a contract basis for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

Actuary

During 2017-18, DeeDeeRa Actuaries Pty Ltd was 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 was undertaken of the controls and processes in place for the management of claims and to verify the accuracy of the figures included in Treasury's Financial Statements.

Office of the Solicitor-General

The Office of the Solicitor-General (Litigation) was exclusively responsible for providing legal advice on claims and provides legal representation in various courts and tribunals as required.

Financial Performance

Contributions

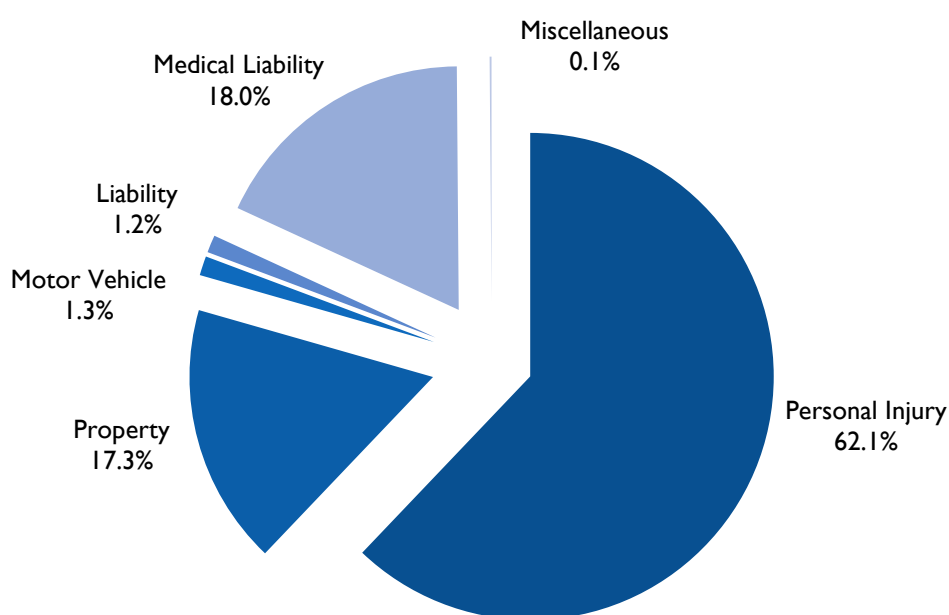
In 2017-18, agency contributions to the Fund totalled \$63.8 million, reflecting an increase from \$56.9 million in 2016-17.

Property contributions increased significantly from the previous year mainly as a result of poor claims experience in 2016-17 and anticipated higher claim costs for both large and small claims in 2017-18. The 2017-18 property contribution also includes an adjustment for the receipt of two progressive payments, in relation to the June 2016 storm event, from the Industrial Special Risks insurer at the time of the event.

In addition, personal injury contributions increased moderately from 2016-17 to 2017-18 reflecting higher claim payments in recent years. These increases were partly offset by reductions in medical liability, general liability and motor vehicle contributions.

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

Chart 1 - Agency Contributions by Class of Risk



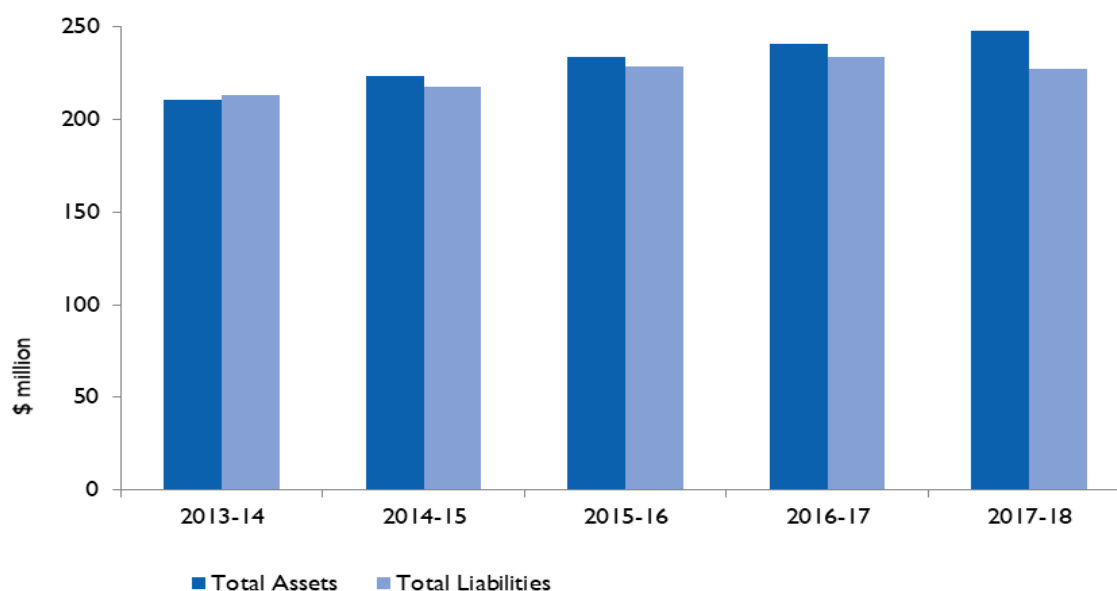
Financial Position

As at 30 June 2018, the Fund had total assets of \$248.2 million and estimated liabilities of \$227.6 million, resulting in net assets of \$20.5 million. This compares with a net asset result of \$7.2 million as at 30 June 2017. The change in the funding position is primarily attributable to a significant improvement in the funding level for medical liability risks, which has been partly offset by a weakening in the funding level for personal injury risks.

The Fund's Actuary takes into account the level of assets and liabilities in each risk category when determining annual contributions. As the aim is to match assets and liabilities over time, the funding positions of each risk category will be taken into account by the Fund's Actuary at the time agency contributions are determined.

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

Chart 2 - Assets and Liabilities as at 30 June 2018



Note:

- Above figures have been rounded to one decimal place. As a consequence the asset and liability amounts do not add up to the net assets total.

Fund Administration Agent's Report

This section, prepared by the Fund Administration Agent, Jardine Lloyd Thompson Pty Ltd, provides an overview of the claims experience of the Fund as at 30 June 2018.

Figures in this report are exclusive of GST and the total incurred cost is the sum of total amount paid and the estimated outstanding reserve. The incurred cost will vary over time as claims develop towards finalisation.

During the period 1 July 2017 to 30 June 2018, 2 462 claims were reported for incidents that occurred in 2017-18 and in previous years. These claims can be further detailed as follows:

Table I - Claim Numbers and Incurred Cost – Claims Reported in 2017-18

	Claim Numbers	Incurred Cost (\$m)
Workers Compensation	1 379	37.6
Property	564	9.2
Motor Vehicle	447	0.9
Liability	46	1.7
Medical Liability	23	8.6
Miscellaneous	3
Total	2 462	57.9

Notes:

- The incurred cost is rounded to one decimal place. As a consequence, rounded figures do not add up to total.
- The incurred cost for the Miscellaneous claims category totalled \$1 885.

Chart 3 - Claim Numbers - Claims Reported in 2017-18 - Percentage by Class of Risk

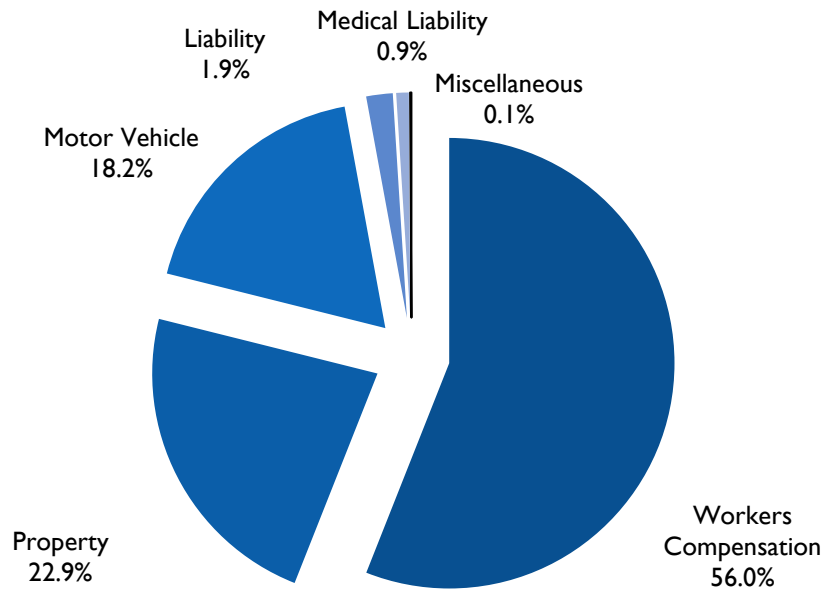
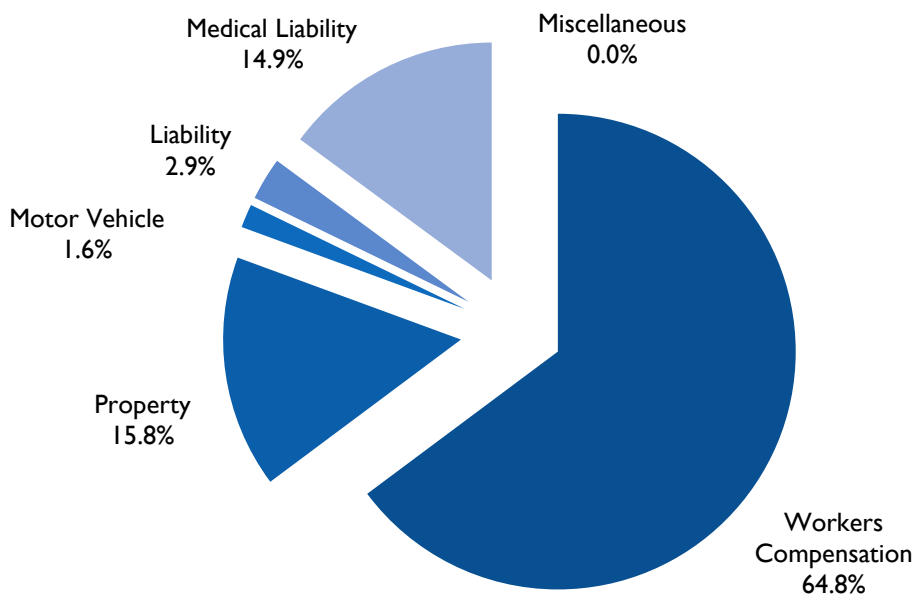


Chart 4 - Incurred Cost - Claims Reported in 2017-18 - Percentage by Class of Risk



Workers Compensation

Workers compensation claims increased from 1 374 claims reported during 2016-17 with an incurred cost of \$34.9 million, to 1 379 claims reported during 2017-18 with an incurred cost of \$37.6 million. This is represented in Chart 5 below. A number of claims reported during 2017-18 involved dates of injury in previous financial years.

From 2016-17, workers compensation claims data is reported on a claims reported basis; that is, by year in which a claim is lodged with the Fund Administration Agent. Prior to this, workers compensation claims data was reported on a claims incurred basis; that is, by year of incident giving rise to the claim. The change in the basis for reporting will see claim numbers remaining stable from year to year and enable comparison of historical data.

Chart 5 - Workers Compensation - Claim Numbers and Incurred Cost by Financial Year Reported

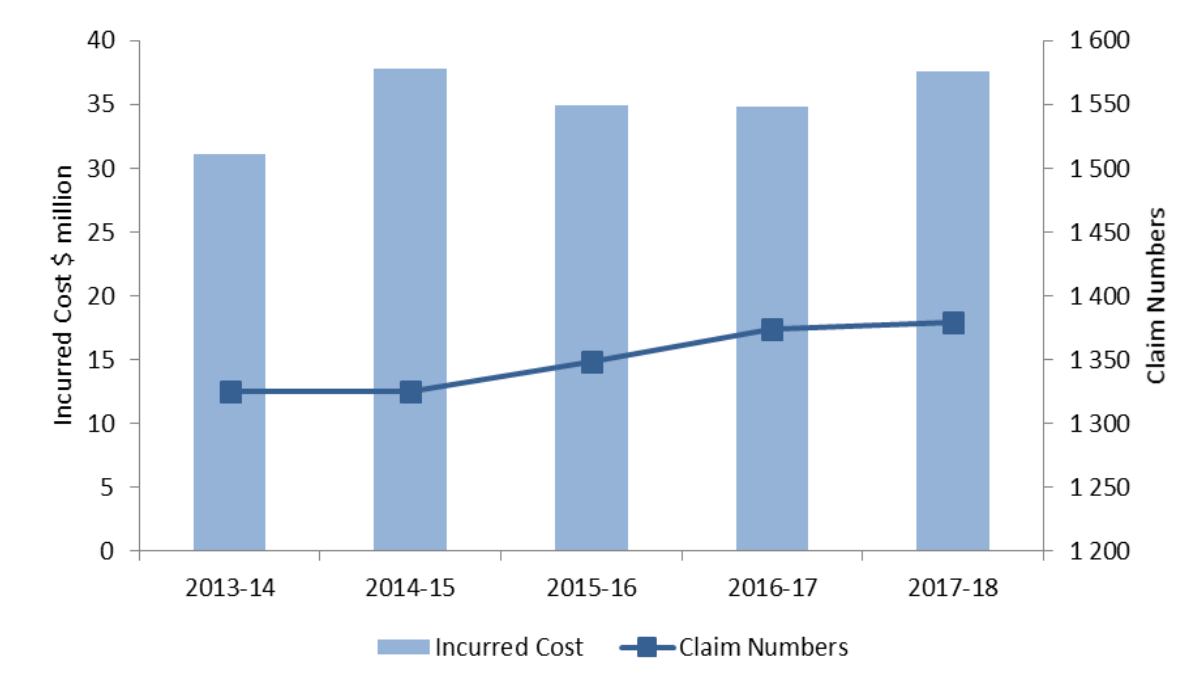


Chart 6 shows the average incurred cost for claims reported in each financial year. During 2017-18, the average incurred cost was \$27 250.

Chart 6 - Workers Compensation - Average Incurred Cost by Financial Year Reported

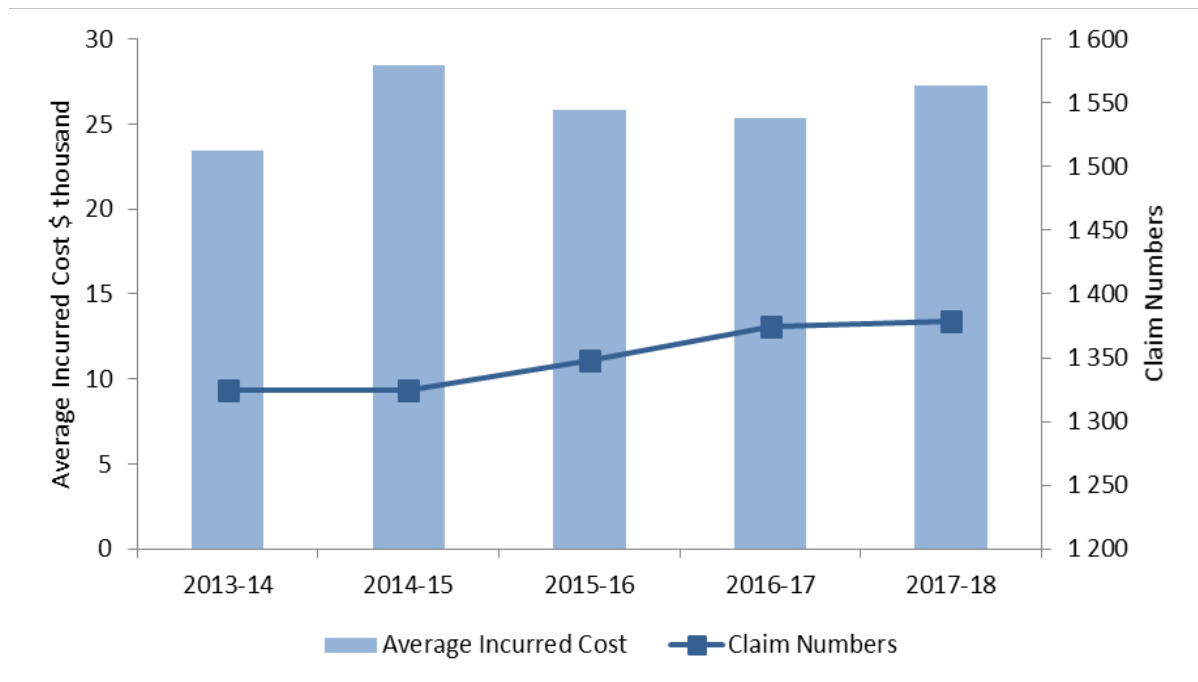
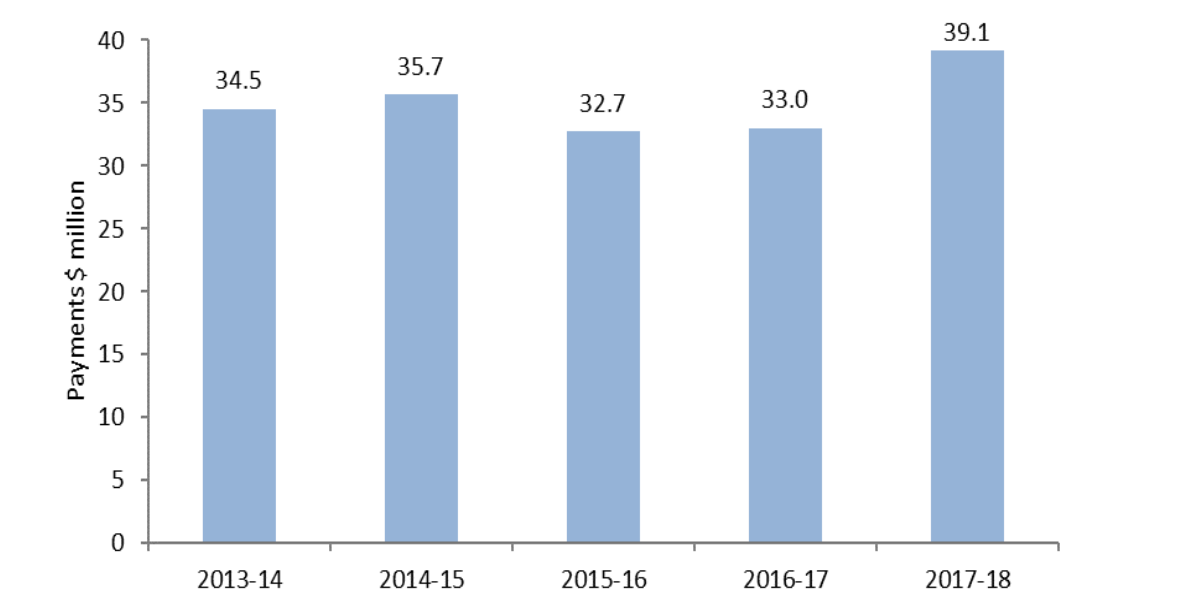


Chart 7 shows workers compensation payments made from 2013-14 to 2017-18. Payments increased from \$33 million in 2016-17 to \$39.1 million in 2017-18 as a result of the settlement of a number of long standing claims.

Chart 7 - Workers Compensation - Payments by Financial Year

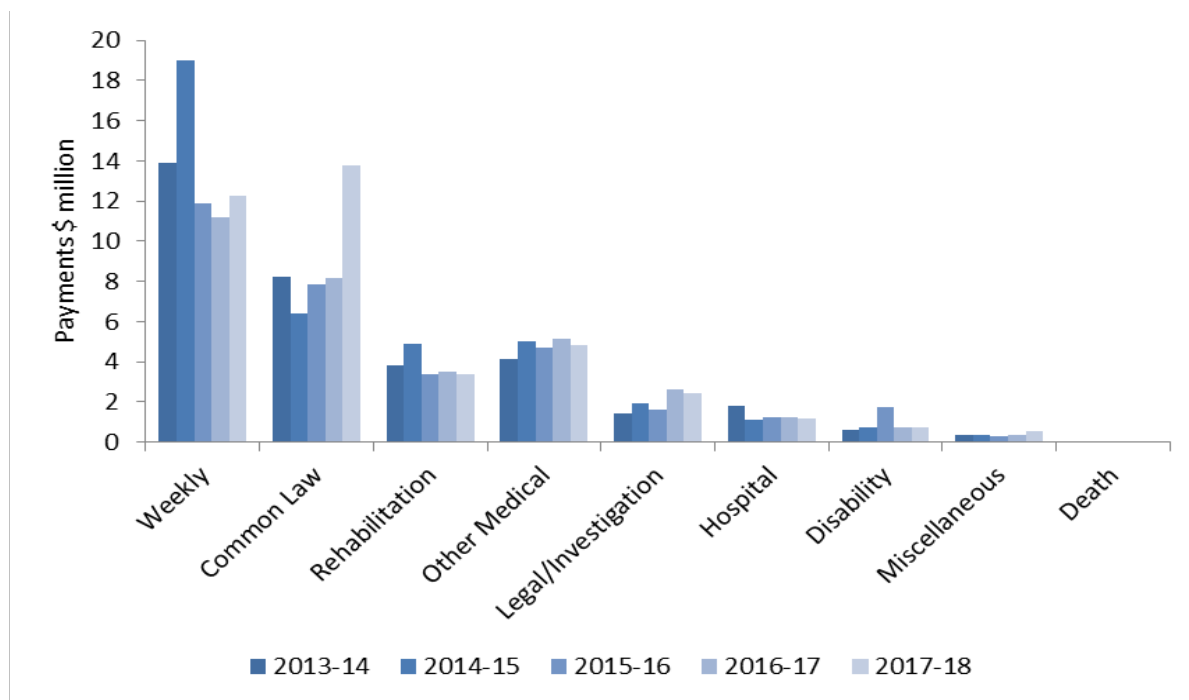


Notes:

- These figures include payments relating to claims with a date of occurrence prior to 1988 and therefore differ from the data published by WorkCover Tasmania.
- The reported payment figure includes all costs paid excluding the costs associated with the excess which are met by Fund participants and not paid by the Fund.

Chart 8 outlines the composition of workers compensation payments by category from 2013-14. Payment of weekly wages increased for 2017-18 compared to the previous year, as did Common Law payments (including settlement of entitlements).

Chart 8 - Workers Compensation - Payments by Category by Financial Year



Note:

- These figures include payments relating to claims with a date of occurrence prior to 1988 and therefore differ from the data published by WorkCover Tasmania.

Property (excluding motor vehicle claims)

Property claim numbers increased from 487 claims reported during 2016-17 with an incurred cost of \$22.4 million, to 564 claims reported during 2017-18 with an incurred cost of \$9.2 million. This is represented in Chart 9 below.

The increase in claims reported during 2017-18 is attributable to a severe storm event on 10 May 2018 that impacted southern Tasmania, however the incurred cost associated with this event was relatively low.

The increase in the incurred cost in 2015-16 and 2016-17 is attributable to severe storm events in January and June 2016, in addition to fire damage caused to a heritage listed property in December 2016.

Figures exclude data relating to the Department of Education's Property Protection Scheme and claim numbers may vary over time due to adjustments made by the Fund Administration Agent in relation to the categorisation of claims.

Chart 9 - Property - Claim Numbers and Incurred Cost by Financial Year Reported

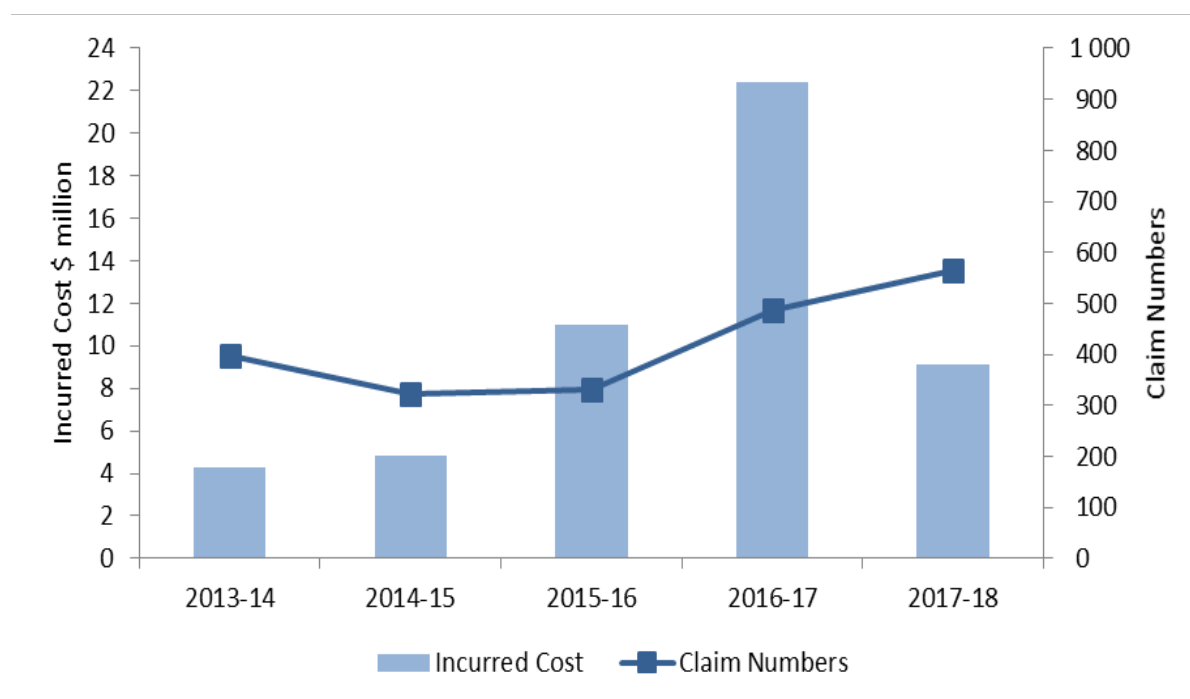


Chart 10 shows the average incurred cost for claims reported in each financial year. During 2017-18, the average incurred cost was \$16 263, compared to \$46 071 for 2016-17.

Chart 10 - Property - Average Incurred Cost by Financial Year Reported

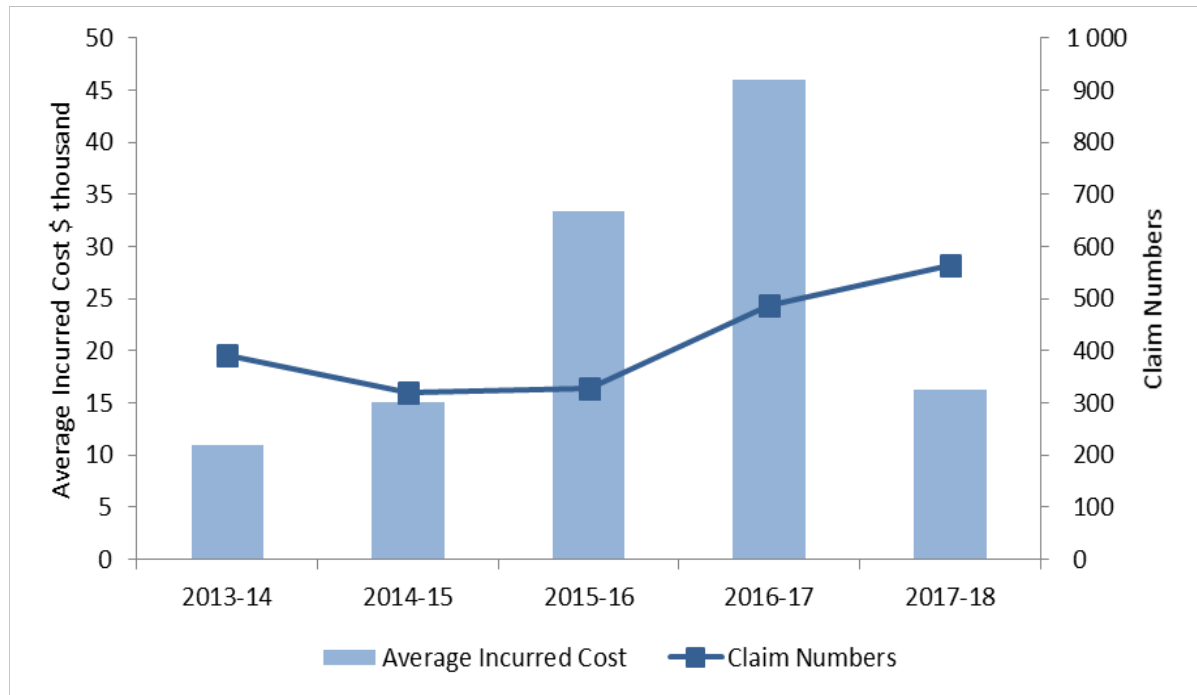
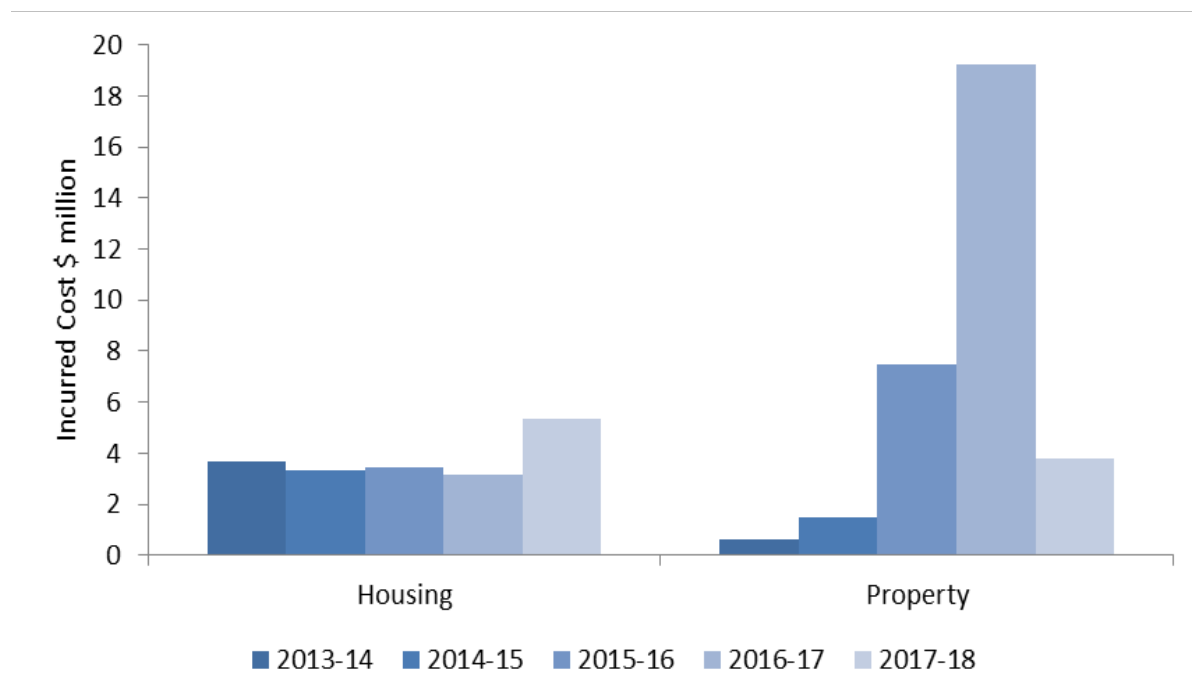


Chart II shows the incurred cost for claims reported in each financial year for Housing Tasmania and other property (non-Housing Tasmania). The Fund covers damage to, and loss of, Housing Tasmania properties under an aggregate stop loss arrangement. Housing Tasmania is required to pay the total costs of all losses and damage to Housing Tasmania properties up to a selected excess in a financial year. The Fund meets the cost of any losses/damage above the excess. The Housing Tasmania excess is adjusted annually. In 2017-18, the excess was \$9.6 million.

Chart II - Property - Incurred Cost by Category by Financial Year Reported



Note:

- Other property includes transit and marine hull risks however, as the incurred cost for transit and marine hull is very low, it has not been included in Chart II.

Motor Vehicle

Motor vehicle claim numbers decreased from 511 claims reported during 2016-17 to 447 claims reported during 2017-18. This is represented in Chart 12 below.

There were five total loss claims in 2017-18, compared to 14 total loss claims in 2016-17.

The incurred cost of claims decreased from \$959 993 in 2016-17 to \$906 273 in 2017-18 due to the reduction in claim numbers.

From 2016-17, motor vehicle claims data is reported net of claim recoveries and excess costs. Prior to this, motor vehicle claims data was reported gross of claim recoveries and excess costs.

Chart 12 - Motor Vehicle - Claim Numbers and Incurred Cost by Financial Year Reported

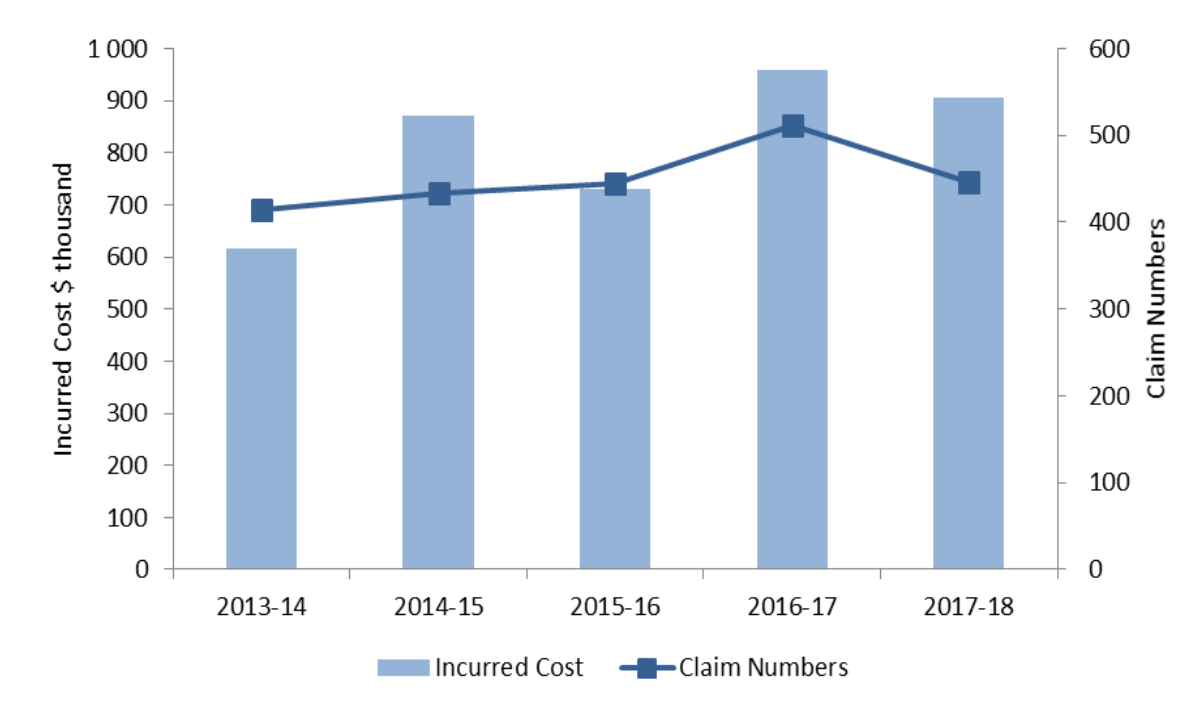


Chart 13 shows the average incurred cost for claims reported in each financial year. During 2017-18, the average incurred cost was \$2 027, compared to \$1 898 for 2016-17.

Chart 13 - Motor Vehicle - Average Incurred Cost by Financial Year Reported

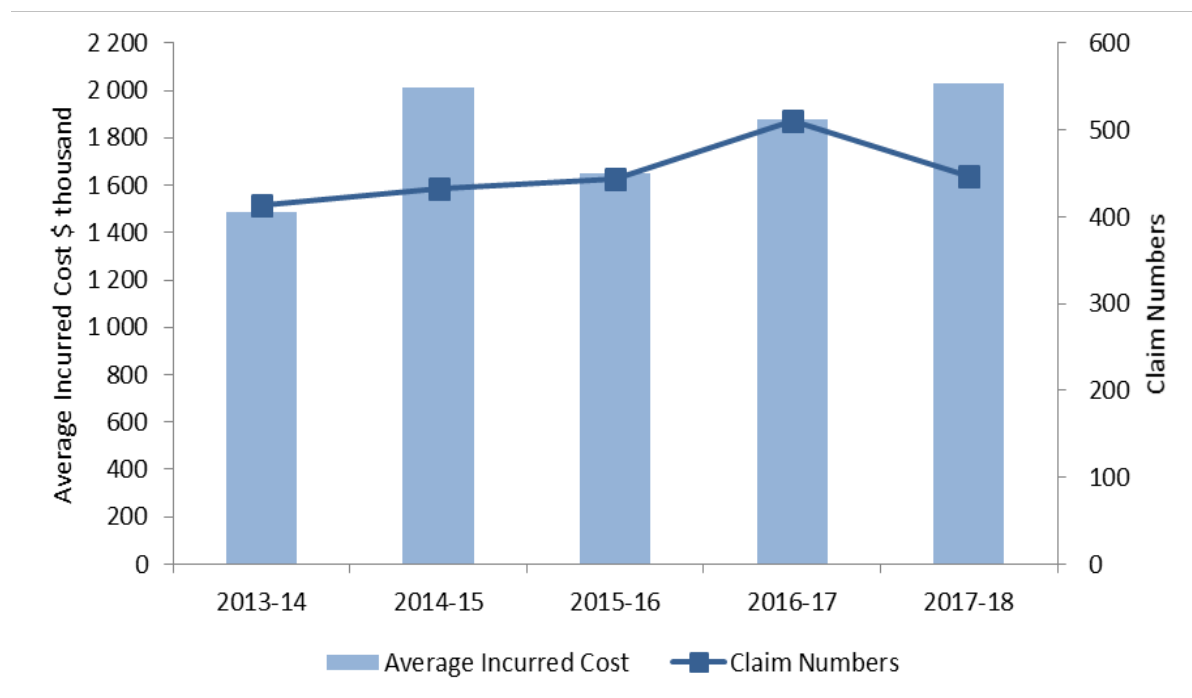
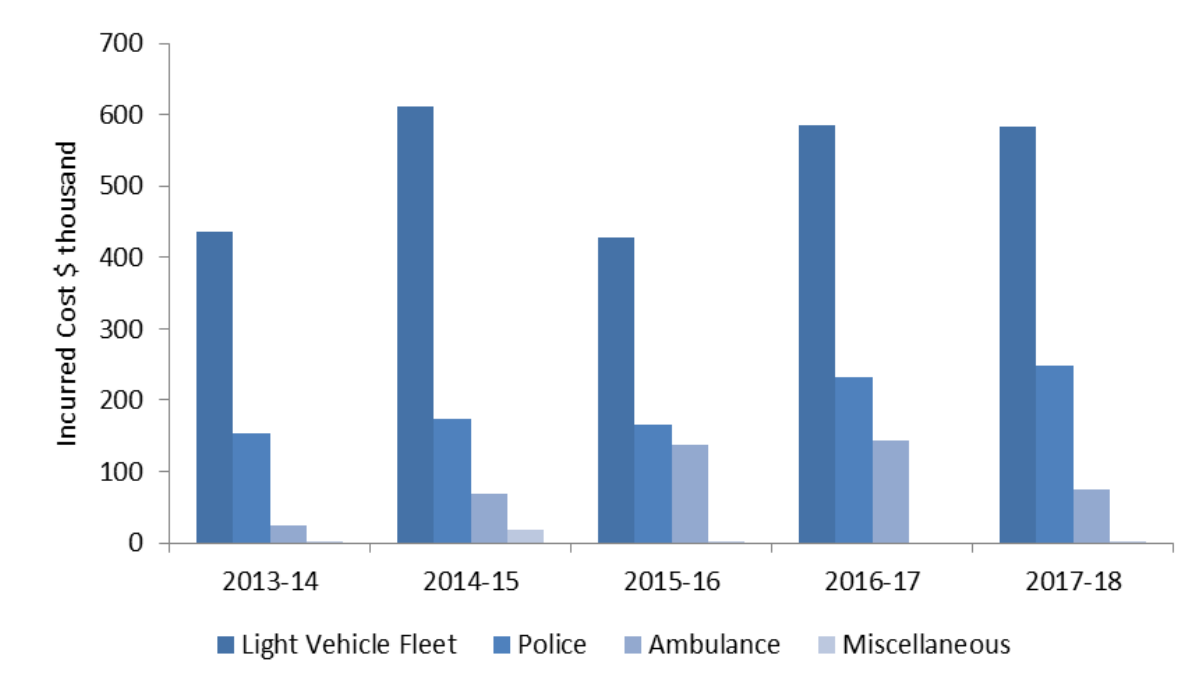


Chart 14 shows the incurred cost for claims reported in each financial year by category of motor vehicle.

Chart 14 - Motor Vehicle - Incurred Cost by Category by Financial Year Reported



Liability

Liability claim numbers decreased from 54 claims reported for incidents that occurred in 2016-17 to 35 claims reported for incidents that occurred in 2017-18.

Reported claim numbers may vary over time, as previously unreported claims become known.

Table 2 and Chart 15 identify the number of claims recorded by year of incident, together with the total incurred cost for those claims, as at 30 June 2018. The incurred cost will vary over time as claims develop towards finalisation.

The 2015-16 incurred cost for liability is primarily attributable to the submission of two large claims.

Table 2 - Liability - Claims Comparison by Year of Incident

	2013-14	2014-15	2015-16	2016-17	2017-18		Movement (2016-17 to 2017-18)
Claim Numbers	33	39	29	54	35	↓	(35.2%)
Total Incurred Cost (\$'000)	130	526	2 224	249	265	↑	6.4%
Total Paid (\$'000)	130	53	964	101	12	↓	(88.1%)
Outstanding Payments (\$'000)	0	472	1 261	148	253	↑	70.9%
Largest Incurred Claim (\$'000)	60	215	540	70	58	↓	(17.1%)

Chart 15 - Liability - Claim Numbers and Incurred Cost by Financial Year of Incident

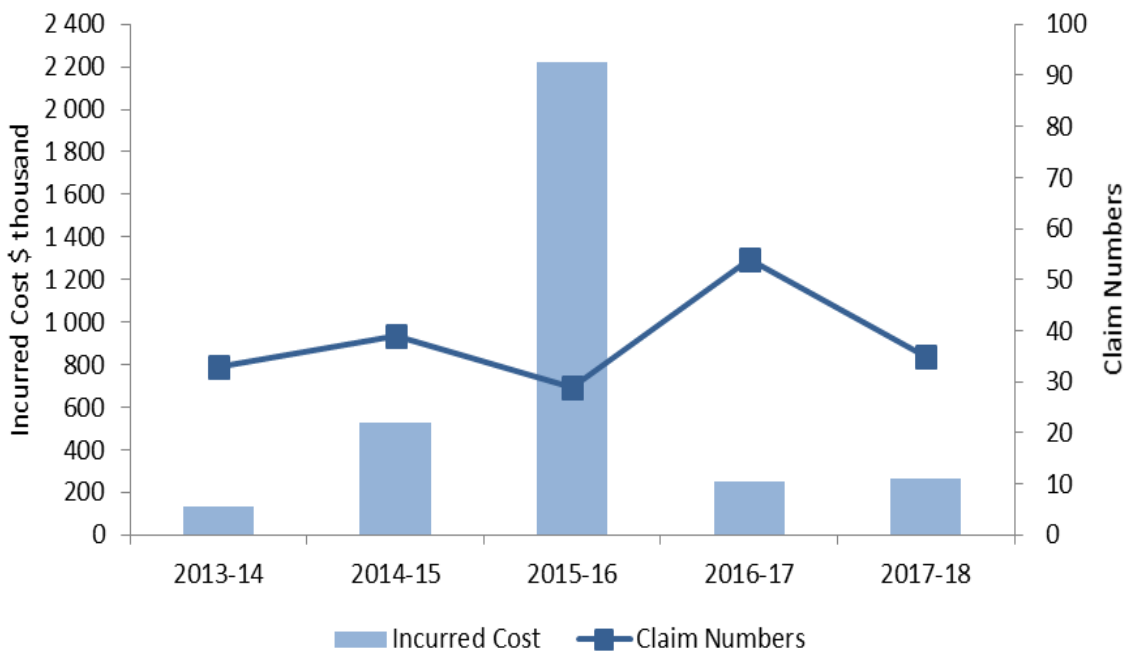
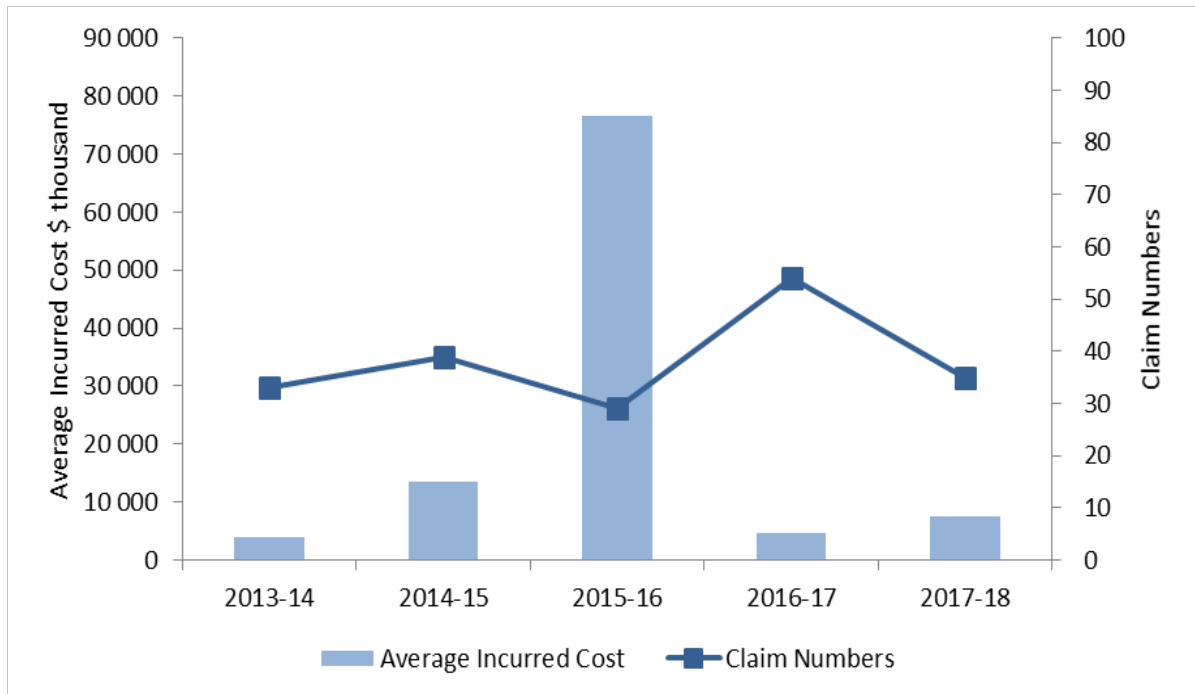


Chart 16 shows the average incurred cost for claims occurring in each financial year. During 2017-18, the average incurred cost was \$7 600.

Chart 16 - Liability - Average Incurred Cost by Financial Year of Incident



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 Solicitor-General.

The Fund covers the total cost of lump sum payments in excess of \$50 000 for all medical liability claims. Two new claims were reported in 2017-18 relating to incidents that occurred in 2017-18, with another 21 claims reported in 2017-18 relating to incidents that occurred in previous years.

Table 3 shows the number of claims by year reported, together with the total incurred for each year, as at 30 June 2018. The incurred cost will vary over time as claims develop towards finalisation.

Table 3 - Medical Liability - Claim Numbers and Incurred Cost by Financial Year Reported

Year	Claim Numbers	Total Incurred Cost (\$'000)
2013-14	18	2 875
2014-15	25	5 911
2015-16	20	2 956
2016-17	22	5 156
2017-18	23	8 611

Table 4 identifies the number of claims recorded by year of incident, together with the total incurred cost and average incurred cost per claim, as at 30 June 2018. The number of claims may vary over time as previously unreported claims become known. The incurred cost will vary over time as claims develop towards finalisation.

Table 4 - Medical Liability - Claim Numbers, Incurred Cost and Average Incurred Cost by Financial Year of Incident

Year	Claim Numbers	Total Incurred Cost (\$'000)	Average Incurred Cost (\$'000)
2013-14	12	1 428	119
2014-15	19	6 629	348
2015-16	18	3 156	175
2016-17	9	2 658	295
2017-18	2	170	85

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
2013-14	2 618	↑	39.1%
2014-15	4 296	↑	64.1%
2015-16	5 726	↑	33.3%
2016-17	3 847	↓	(32.8%)
2017-18	3 763	↓	(2.2%)

Note:

- The 2015-16 payment amount for medical liability is primarily attributable to one settlement in excess of \$1 million and two of approximately \$500 000.

Miscellaneous

There were three miscellaneous claims reported for 2017-18. All involved personal accident claims with a total incurred cost of \$1 885.

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 also reported within the Financial Statements of the Department of Treasury and Finance, which can be found in the Department's 2017-18 Annual Report.

Table 6 - TRMF Concise Income Statement for the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Revenue and other income from transactions		
Agency contributions	63 838	56 852
Investment income	4 227	4 203
Total revenue and other income from transactions	68 065	61 055
Expenses from transactions		
Claim expenses	60 576	59 428
Other expenses	3 597	4 164
Total expenses from transactions	64 173	63 592
Net result from transactions	3 892	(2 537)
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	9 423	4 946
Total other economic flows included in net result	9 423	4 946
Net Result	13 315	2 409

Table 7 - TRMF Concise Balance Sheet as at 30 June 2018

	2018 \$'000	2017 \$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	246 623	240 373
Receivables	1 548	760
Total assets	248 171	241 133
Liabilities		
<i>Financial Liabilities</i>		
Payables	593	1 292
Outstanding claims	226 983	232 569
Employee entitlements ¹	72	65
Total liabilities	227 648	233 926
Net assets (liabilities)	20 523	7 207
Equity		
Accumulated funds	20 523	7 207
Total equity	20 523	7 207

Note:

1. The employee entitlements for the Tasmanian Risk Management Fund are reflected within the Department of Treasury and Finance's Controlled Statement of Financial Position.

Table 8 - Outstanding Claims Liabilities

	2018 \$'000	2017 \$'000
Claims Liabilities		
Personal injury	99 868	98 928
Property	6 746	7 075
Motor vehicle	249	157
General liability	4 120	8 319
Medical liability	116 000	118 090
Total	226 983	232 569
Due within 12 months	45 710	45 494
Due in more than 12 months	181 273	187 075
Total	226 983	232 569

Timing of estimated claim expenditure

Based on information provided by the Actuary, the Tasmanian Risk Management Fund has recognised a total provision of \$227 million. For all insurance risks, the actual claim costs are uncertain. Even a modest deviation from the central estimate basis can have a material effect on the net outstanding liability. The timing of estimated expenditure is based on claims experience. The schedule below shows the average time to settle for each risk category:

Category	Average Settlement
Workers compensation	2.5 years
Personal accident cover	>1 year
Property risk	1 year
Motor vehicle risk	<1 year
General liability	>1 year
Medical liability	5.5 years

Table 9 - Reconciliation of movements in provisions

2018	Workers compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	98 898	118 090	15 581	232 569
Claims paid	(39 179)	(2 670)	(7 568)	(49 417)
Increase in provision	35 394	12 154	5 706	53 254
Actuarial losses/(gains)	4 741	(11 574)	(2 590)	(9 423)
Balance at 30 June	99 854	116 000	11 129	226 983

2017	Workers compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	95 993	119 560	12 340	227 893
Claims paid	(34 141)	(3 012)	(8 585)	(45 738)
Increase in provision	34 397	11 808	9 155	55 360
Actuarial losses/(gains)	2 649	(10 266)	2 671	(4 946)
Balance at 30 June	98 898	118 090	15 581	232 569

The provision for workers compensation does not reconcile with the personal injury liability which also includes provision for personal accident and aero-medical retrieval activities.

Workers compensation and medical claim liabilities are the only risk categories with discounting applied. As a consequence, the remaining risk categories are not shown in the reconciliation of movements in provisions.

Contact Details

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

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