

TASMANIAN RISK MANAGEMENT FUND ANNUAL REPORT 2019-20

Tasmanian Risk Management Fund Annual Report 2019-20

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Contents

Policy Statement.....	4
Purpose of the Fund.....	4
Structure of the Fund.....	5
Governance Structure.....	5
Internal Advisors.....	5
External Advisors.....	6
Financial Performance	7
Contributions	7
Financial Position	8
Fund Administration Agent’s Report.....	9
Workers Compensation.....	11
Property (excluding motor vehicle claims).....	14
Motor Vehicle.....	17
Liability	19
Medical Liability.....	21
Miscellaneous.....	22
Financial Statements	23
Contact Details.....	26

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. Subject to their date of joining, inner-Budget 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. 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 property 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 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.

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;
- 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 2020 was:

- James Craigie, Chairperson
Department of Treasury and Finance;
- Emsada Babic
Department of Treasury and Finance;
- Abigail Shelley
Department of Treasury and Finance;

- Donna Adams
Department of Police, Fire and Emergency Management;
- Vacant
(Shane Bond subsequently appointed)
Department of Health;
- Kathy Baker
Department of Communities Tasmania;
- 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;
- Dale Webster
Department of Justice; 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 2019-20, JLT Risk Solutions 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 2019-20, GM Actuaries Pty Ltd was contracted to estimate future liabilities, advise on contributions and excesses and report on the Fund's performance. The contract was novated from DeeDeeRa Actuaries Pty Ltd to GM Actuaries Pty Ltd effective 1 August 2019.

Internal Auditor

As part of Treasury's annual audit program, an internal audit was undertaken of the controls and processes in place for the administration 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

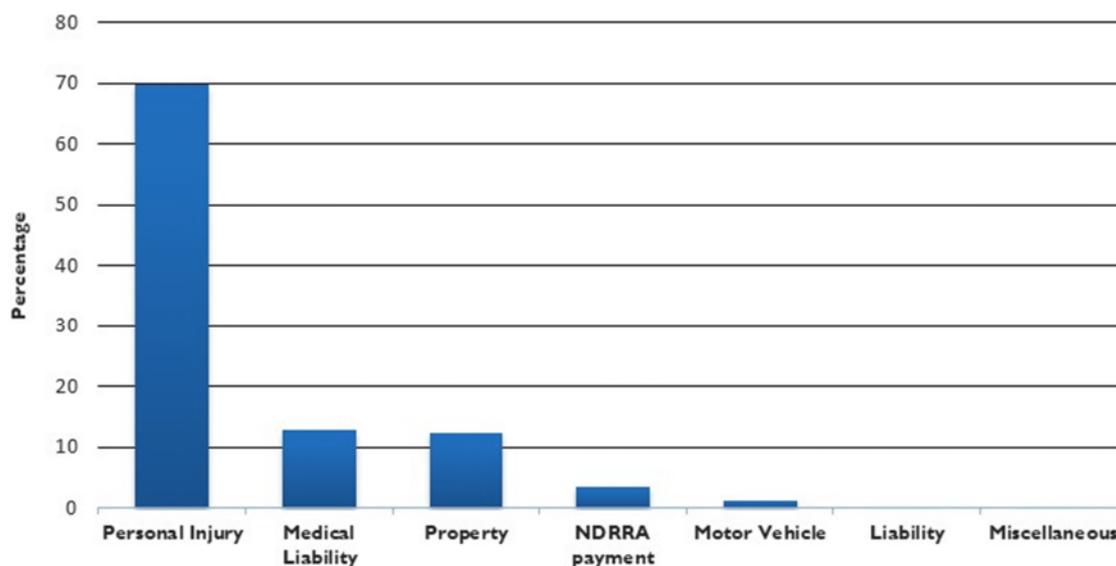
In 2019-20, participant contributions to the Fund totalled \$77.9 million, reflecting an increase from \$67.6 million in 2018-19.

Personal injury contributions increased significantly from the previous year principally due to higher claim costs in recent years, higher growth in salaries above inflation and a decrease in the discount rate. The increase in personal injury contributions has been partly offset by a decrease in medical liability contributions, which is mainly due to the favourable funding position of this risk category.

For 2019-20, a payment received through the Natural Disaster Relief and Recovery Arrangements (NDRRA) funded by the Australian Government in relation to the June 2016 storm event has been recorded separately in Chart 1.

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

Chart 1 - Participant Contributions by Class of Risk



Notes:

- Discount rates are used to adjust future claim payments to current values. The discount rate is based on the forecast interest rates applying to the Fund's assets over the next few years.
- The NDRRA (Natural Disaster Relief and Recovery Arrangements) is an Australian Government initiative providing financial assistance directly to the states to assist with certain relief and recovery measures associated with natural disaster events occurring before 1 November 2018. Natural disaster events occurring on or after this date are funded through the DRFA (Disaster Recovery Funding Arrangements).
- Participant contributions for Liability and Miscellaneous risks represented 0.2 per cent and 0.1 per cent respectively.

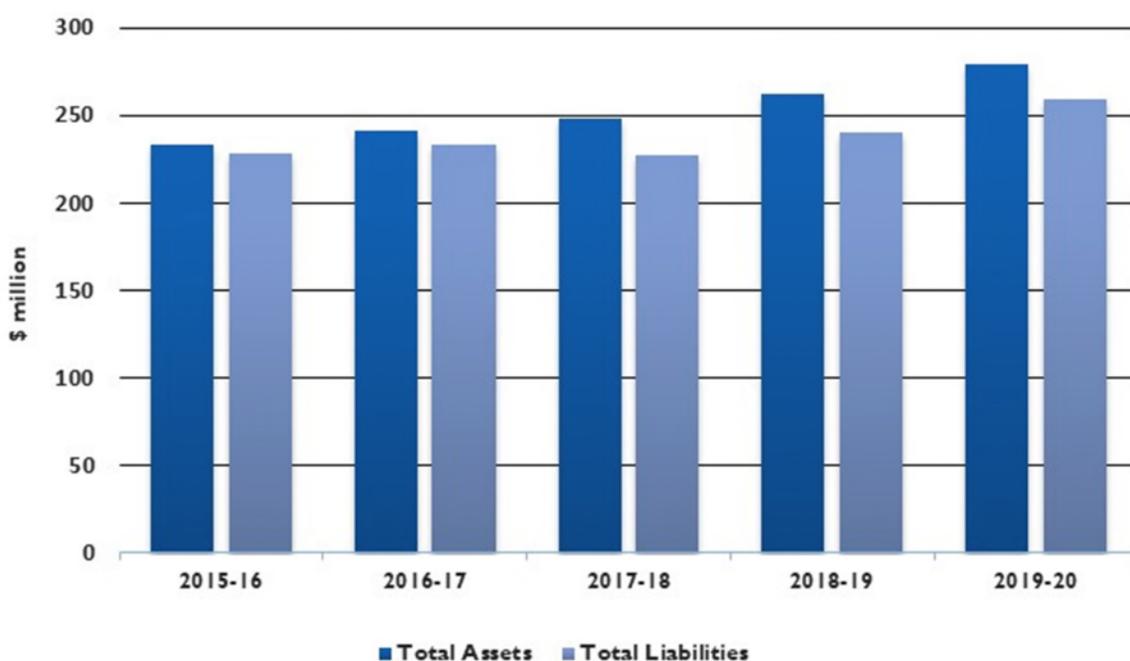
Financial Position

As at 30 June 2020, the Fund had total assets of \$278.9 million and estimated liabilities of \$259.6 million, resulting in net assets of \$19.2 million. This compares with a net asset result of \$21.7 million as at 30 June 2019. The change in the funding position is primarily attributable to 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 maintain assets that are relatively close to the liabilities, 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 2020



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, JLT, provides an overview of the claims experience of the Fund as at 30 June 2020.

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 and adjustments are made to the cost estimate on claims. As a result, there will be differences in incurred cost figures reported in the Annual Report from year to year.

During the period 1 July 2019 to 30 June 2020, claims were reported for incidents that occurred in 2019-20 and in previous years. These claims can be further detailed as follows:

Table 1 - Claim Numbers and Incurred Cost – Claims Reported in 2019-20

	Claim Numbers	Incurred Cost (\$m)
Workers Compensation	1 558	42.7
Property	388	16.4
Motor Vehicle	489	1.0
Liability	68	0.9
Medical Liability	35	7.0
Miscellaneous	7
Total	2 545	67.9

Notes:

- The incurred cost is rounded to one decimal place. As a consequence, rounded figures may not add up to total.
- The incurred cost for the Miscellaneous claims category totalled \$30 064.

Chart 3 - Claim Numbers - Claims Reported in 2019-20 - Percentage by Class of Risk

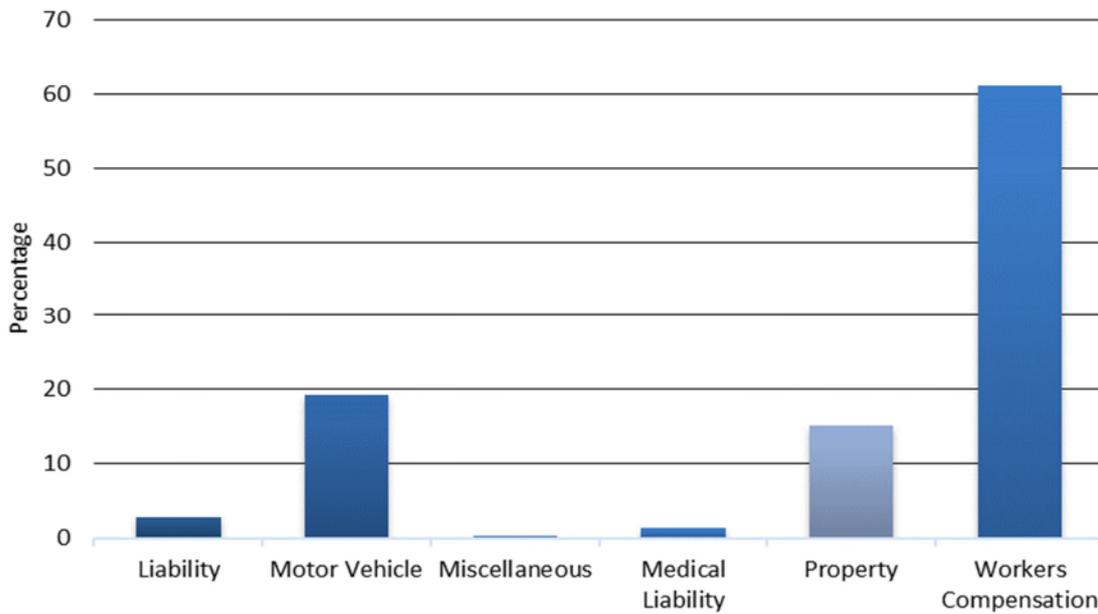
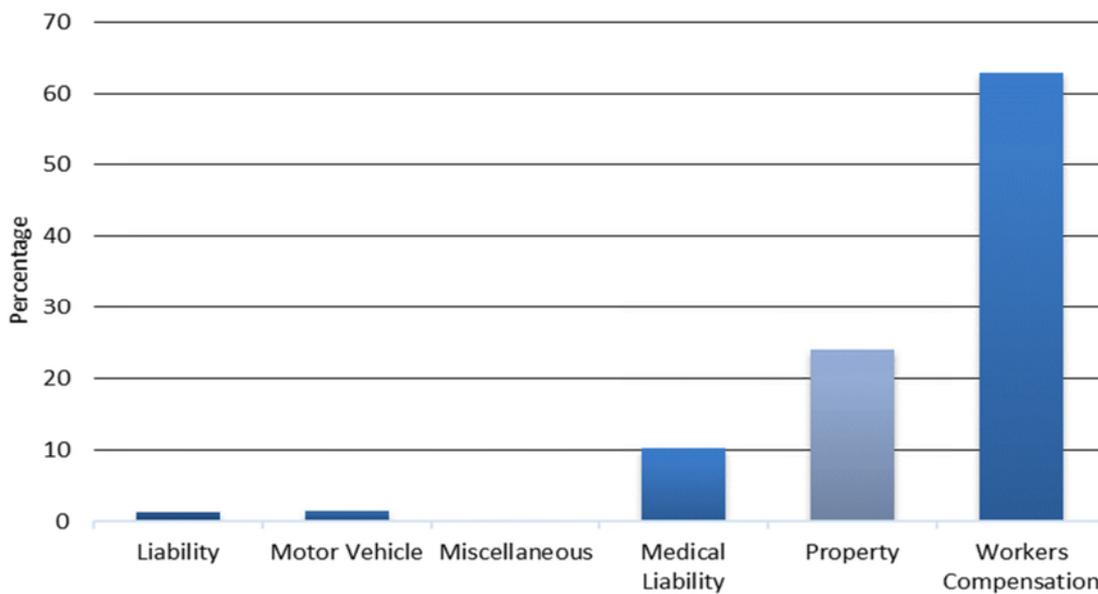


Chart 4 - Incurred Cost - Claims Reported in 2019-20 - Percentage by Class of Risk



Workers Compensation

Workers compensation claims increased from 1 519 claims reported during 2018-19 with an incurred cost of \$38.2 million, to 1 558 claims reported during 2019-20 with an incurred cost of \$42.7 million. This information is displayed in Chart 5 below. A number of claims reported during 2019-20 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.

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

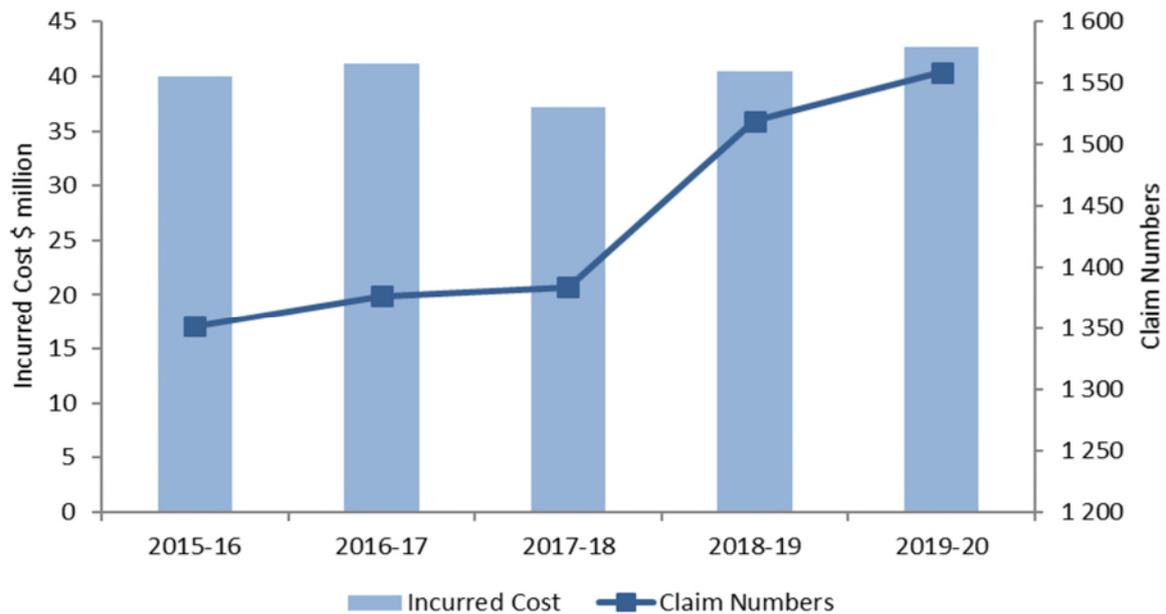


Chart 6 shows the average incurred cost for claims reported in each financial year. During 2019-20, the average incurred cost was \$27 386.

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

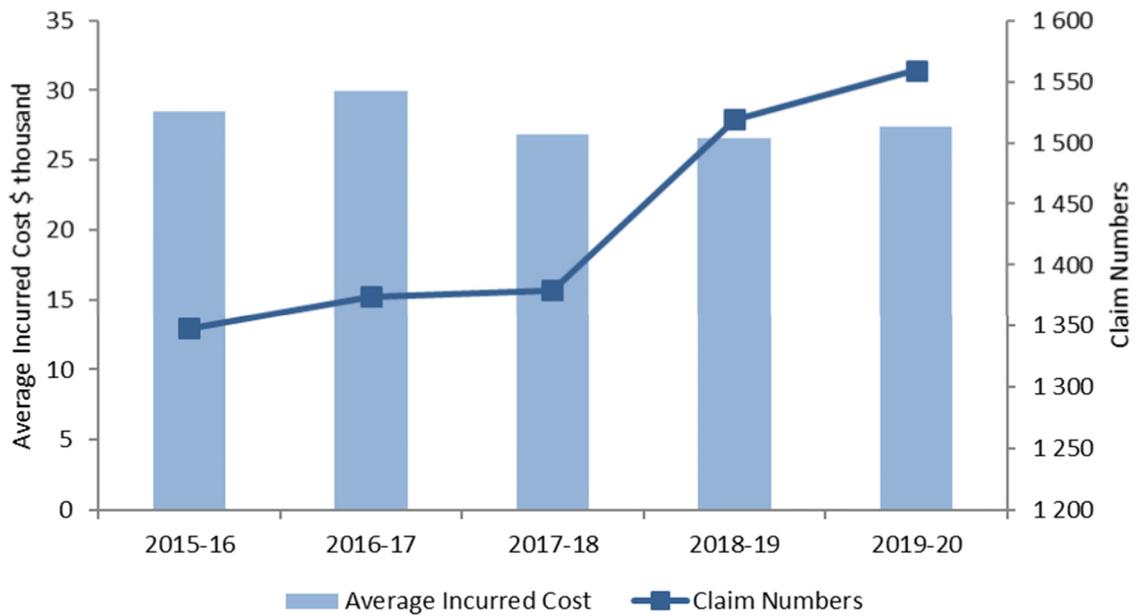


Chart 7 shows workers compensation payments made from 2015-16 to 2019-20. During 2019-20, payments totalled \$44.8 million compared to \$41.7 million for 2018-19.

Chart 7 - Workers Compensation - Payments by Financial Year

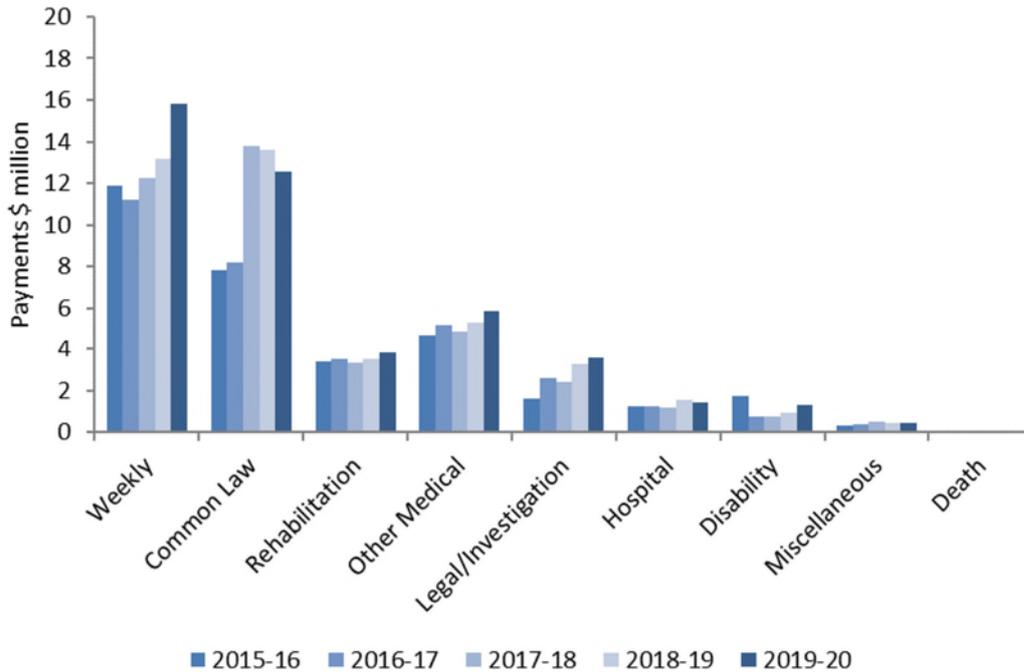


Notes:

- 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 2015-16. With the exception of Common Law (including settlement of entitlements), hospital and miscellaneous payments, all categories increased for 2019-20 compared to the previous year with a significant increase in weekly payments.

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 346 claims reported during 2018-19 with an incurred cost of \$8.2 million, to 388 claims reported during 2019-20 with an incurred cost of \$16.4 million. This information is displayed in Chart 9 below.

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.

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

The increase in the incurred cost in 2019-20 is attributable to bush fire events in December 2018 and January 2019 that impacted the south-west of the State.

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

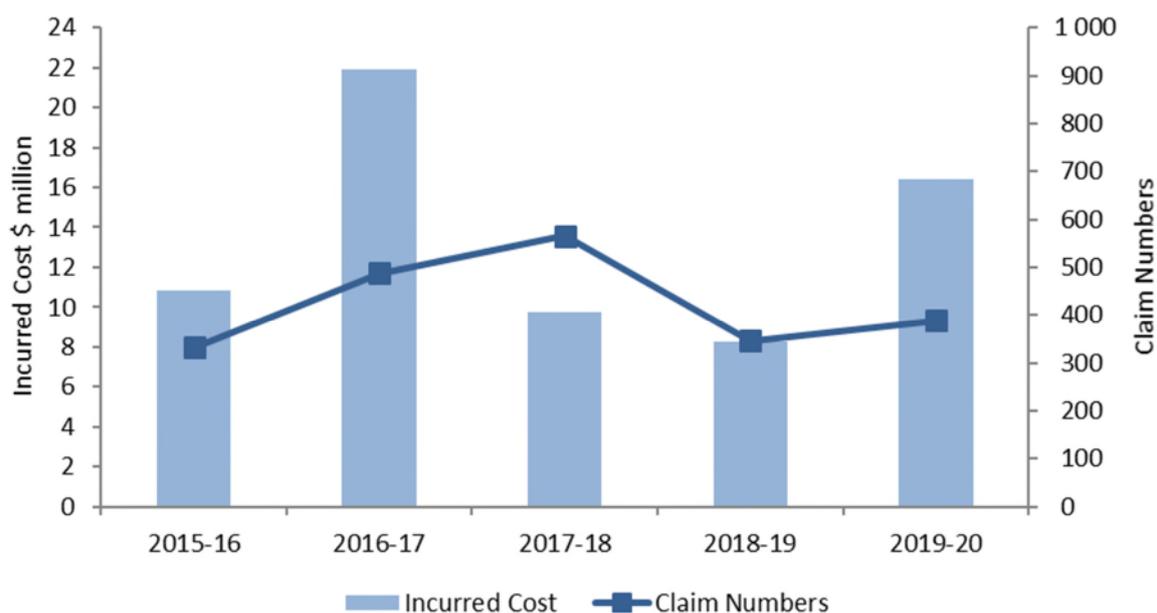


Chart 10 shows the average incurred cost for claims reported in each financial year. During 2019-20, the average incurred cost was \$42 230, compared to \$23 809 for 2018-19.

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

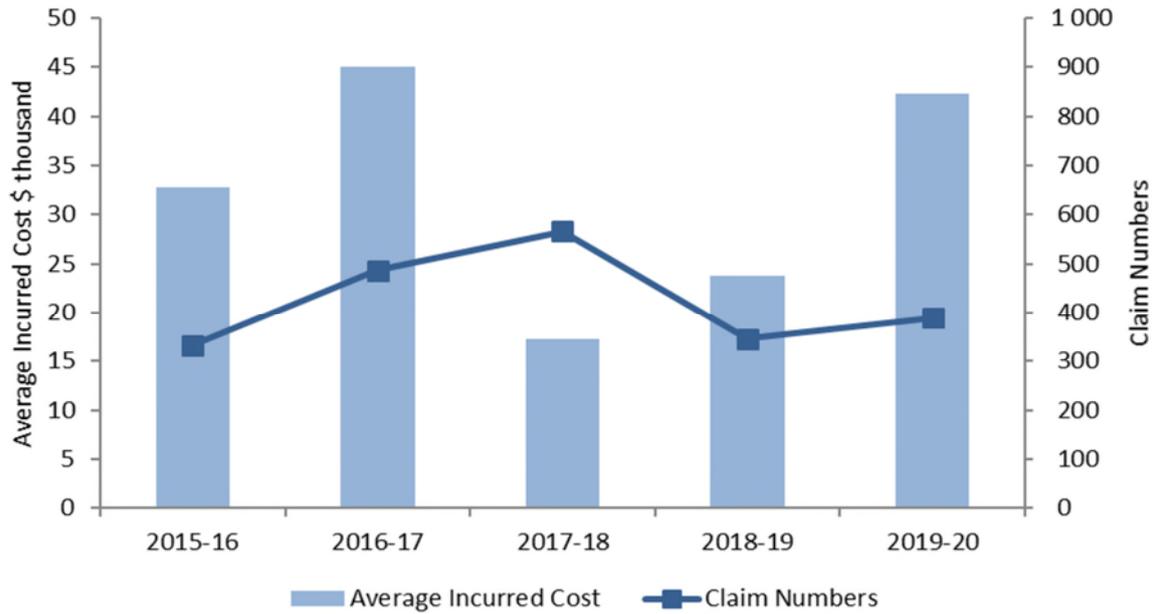
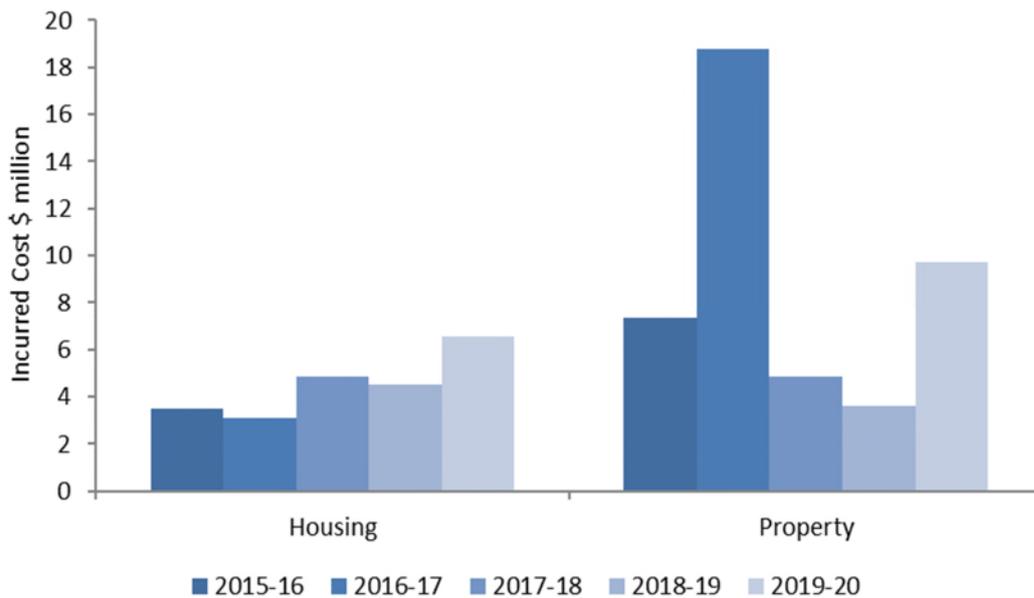


Chart II shows the incurred cost for claims reported in each financial year for Housing Tasmania and other property (non-Housing Tasmania). The Fund covers damage to, and loss of, Housing Tasmania properties under an aggregate stop loss arrangement. Housing Tasmania is required to pay the total costs 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 reviewed annually. In 2019-20, the excess was \$9.8 million.

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



Note:

- Other property includes transit and machine breakdown risks however, as the incurred costs for transit and machine breakdown are relatively low, they have not been included in Chart II.

Motor Vehicle

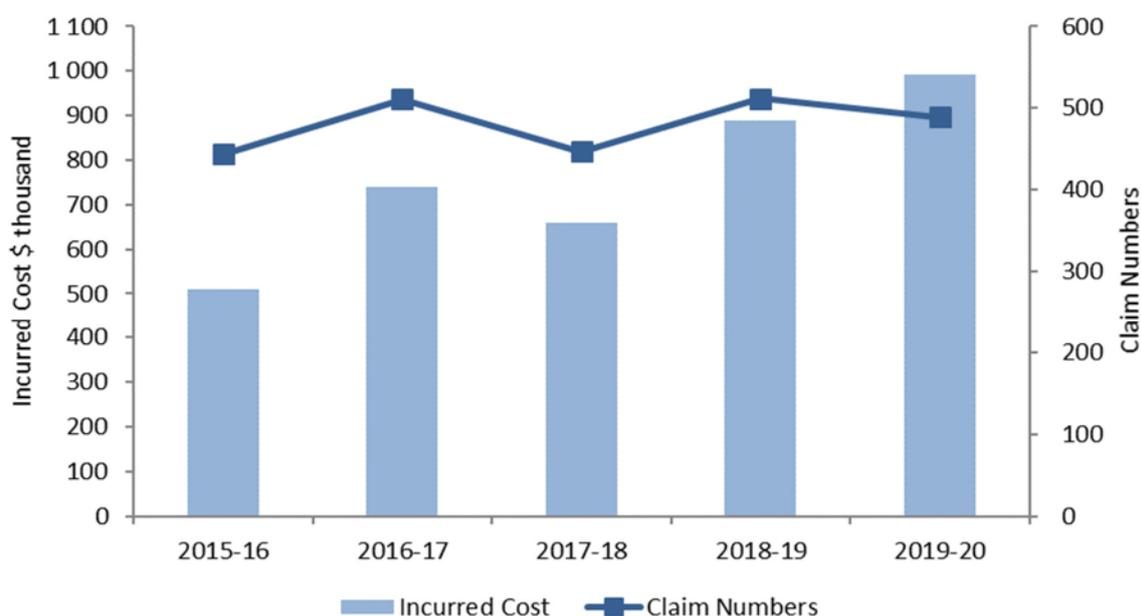
Motor vehicle claim numbers decreased from 512 claims reported during 2018-19 to 489 claims reported during 2019-20. This information is displayed in Chart 12 below.

There were 12 total loss claims in 2019-20, compared to eight total loss claims in 2018-19.

The incurred cost of claims increased from \$887 636 in 2018-19 to \$992 902 in 2019-20 due to the increase in total losses and average repair cost.

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



Note:

- The Tasmanian Risk Management Fund Annual Report 2018-19 inadvertently reported motor vehicle claims data gross of claim recoveries and excess costs.

Chart 13 shows the average incurred cost for claims reported in each financial year. During 2019-20, the average incurred cost was \$2 030, compared to \$1 734 for 2018-19.

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

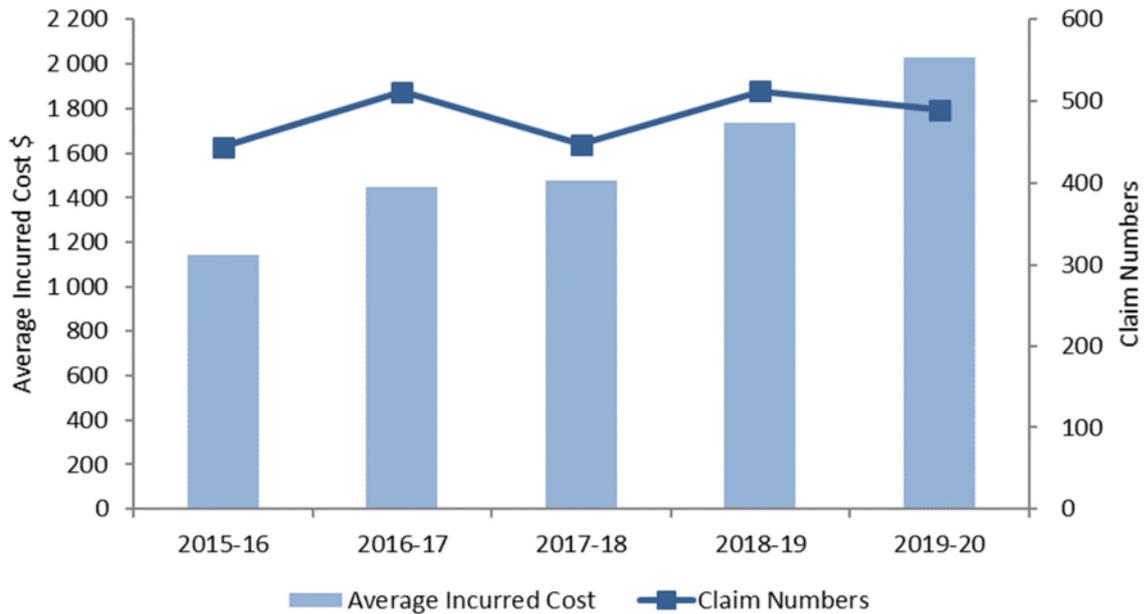
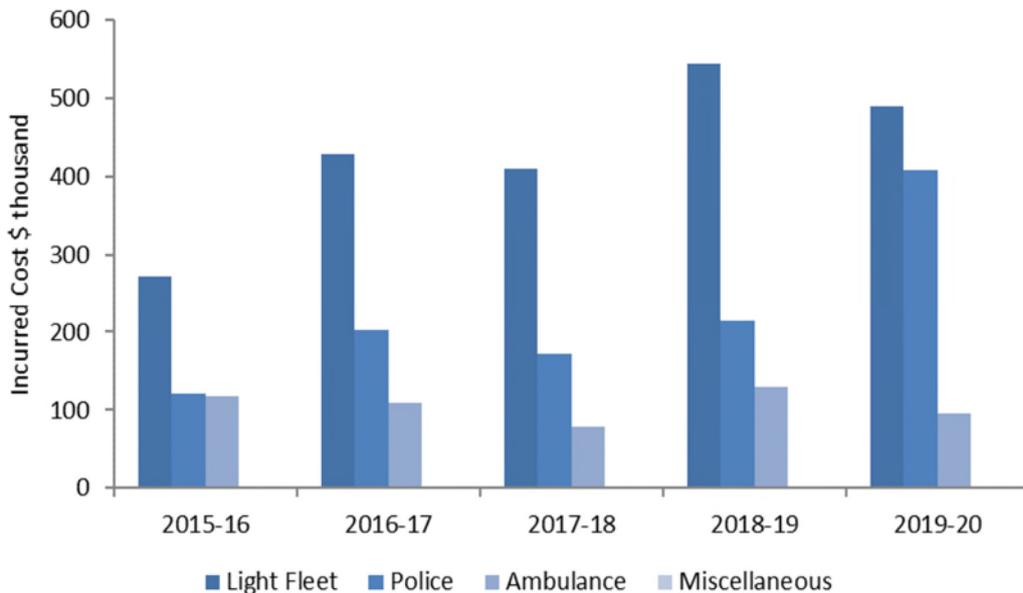


Chart 14 shows the incurred cost for claims reported in each financial year by category of motor vehicle. The low value of claims involving miscellaneous vehicles cannot be represented within the chart.

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



Liability

Liability claim numbers increased from 44 claims reported for incidents that occurred in 2018-19 to 58 claims reported for incidents that occurred in 2019-20.

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 2020. 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

	2015-16	2016-17	2017-18	2018-19	2019-20		Movement (2018-19 to 2019-20)
Claim Numbers	29	56	46	44	58	↑	31.8%
Total Incurred Cost (\$'000)	2 016	235	507	214	547	↑	155.6%
Total Paid (\$'000)	996	167	42	38	22	↓	(42.1%)
Outstanding Payments (\$'000)	1 020	67	466	176	525	↑	198.3%
Largest Incurred Claim (\$'000)	1 026	70	320	68	210	↑	208.8%

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

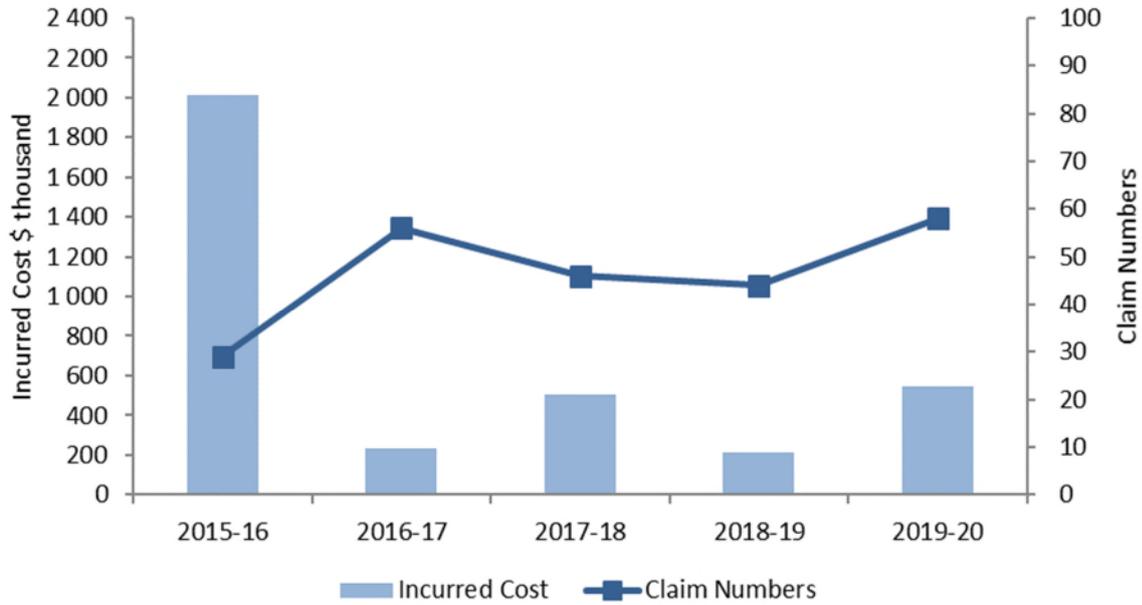
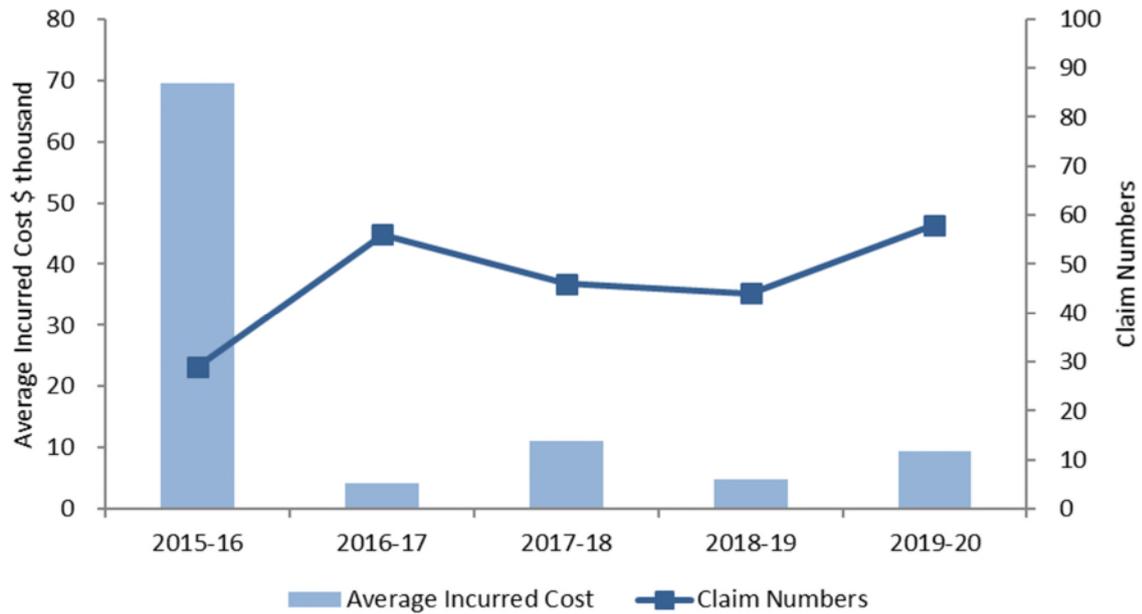


Chart 16 shows the average incurred cost for claims occurring in each financial year. During 2019-20, the average incurred cost was \$9 429.

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 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. Five new claims were reported in 2019-20 relating to incidents that occurred in 2019-20, with another 30 claims reported in 2019-20 relating to incidents that occurred in prior years.

Table 3 shows the number of claims by year reported, together with the total incurred for each year, as at 30 June 2020. 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)
2015-16	20	3 109
2016-17	22	4 584
2017-18	23	10 171
2018-19	21	3 734
2019-20	35	6 962

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 2020. 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)
2015-16	31	5 999	194
2016-17	22	5 542	252
2017-18	9	1 608	179
2018-19	5	700	140
2019-20	5	1 358	272

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
2015-16	5 269	↑ 42.5%
2016-17	1 947	↓ (63.0)%
2017-18	2 681	↑ 37.7
2018-19	1 677	↓ (37.4)
2019-20	6 407	↑ 282.1

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.
- The 2019-20 payment amount for medical liability is primarily attributable to one settlement in excess of \$1 million and three in excess of \$500 000.

Miscellaneous

There were seven miscellaneous claims reported for 2019-20. All involved personal accident claims with a total incurred cost of \$30 064.

Financial Statements

For 2019-20, the Fund's finances were managed within Finance-General, through the Tasmanian Risk Management Fund in the Public Account. 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 2019-20 Annual Report.

Table 6 - TRMF Concise Income Statement for the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Revenue and other income		
Agency contributions	77 936	67 559
Investment income	2 746	5 292
Total revenue and other income	80 682	72 851
Expenses from transactions		
Claim expenses	69 777	67 309
Other expenses	3 906	3 494
Total expenses	73 682	70 803
Net result	7 000	2 048
Other comprehensive income		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(9 409)	(911)
Total other economic flows included in net result	(9 409)	(911)
Net Result	(2 409)	1 137

Table 7 - TRMF Concise Balance Sheet as at 30 June 2020

	2020 \$'000	2019 \$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	276 497	261 386
Receivables	2 375	1 147
Total assets	278 872	262 533
Liabilities		
<i>Financial Liabilities</i>		
Payables	1 536	1 067
Outstanding claims	258 010	239 688
Employee entitlements	85	118
Total liabilities	259 631	240 873
Net assets (liabilities)	19 241	21 660
Equity		
Accumulated funds	19 241	21 660
Total equity	19 241	21 660

Table 8 - Outstanding Claims Liabilities

	2020 \$'000	2019 \$'000
Claims Liabilities		
Personal injury	122 879	112 839
Property	10 627	3 116
Motor vehicle	224	341
General liability	4 320	3 392
Medical liability	119 960	120 000
Total	258 010	239 688
Settled within 12 months	52 404	45 145
Settled in more than 12 months	205 606	194 543
Total	258 010	239 688

Timing of estimated claim expenditure

Based on information provided by the Actuary, the Tasmanian Risk Management Fund has recognised a total provision of \$258 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	2.6 years
Personal accident cover	<1 year
Property risk	<1 year
Motor vehicle risk	<1 year
General liability	>1 year
Medical liability	6.0 years

Table 9 - Reconciliation of movements in provisions

2020	Workers compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	112 820	120 000	6 868	239 688
Claims paid	(45 216)	(7 122)	(1 178)	(53 516)
Increase in provision	46 564	11 707	4 157	62 428
Actuarial losses/(gains)	8 667	(4 627)	5 369	9 409
Balance at 30 June	122 835	119 958	15 215	258 008

2019	Workers compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	99 854	116 000	11 129	226 983
Claims paid	(43 008)	(348)	(7 786)	(51 142)
Increase in provision	46 079	11 958	4 899	62 936
Actuarial losses/(gains)	9 895	(7 610)	(1 374)	911
Balance at 30 June	112 820	120 000	6 868	239 688

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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