

Tasmanian Risk Management Fund

Annual Report 2010–11



Tasmanian Risk Management Fund Annual Report 2010–11

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Contents

- Policy Statement.....7
- Structure of the Fund.....9
- Financial Performance.....10
- Significant Issues.....12
- Fund Administration Agent’s Report.....13
- Supporting Information21
- Financial Statements22
- Contact Details24





The Tasmanian Risk Management Fund was established on 1 January 1999 and provides a whole of government approach to funding and managing specific identified insurable liabilities of participants.

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 and professional indemnity;
- 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 (for property, claims are capped at \$5 million)¹, 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:

¹ 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 reinsurance is taken out to meet the cost of losses up to \$60 million and cover for bridges owned by the Department of Infrastructure, Energy and Resources, where losses exceed \$5 million.

- 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 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 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.

Internal Auditor

Deloitte Touche Tohmatsu is engaged to undertake the 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.

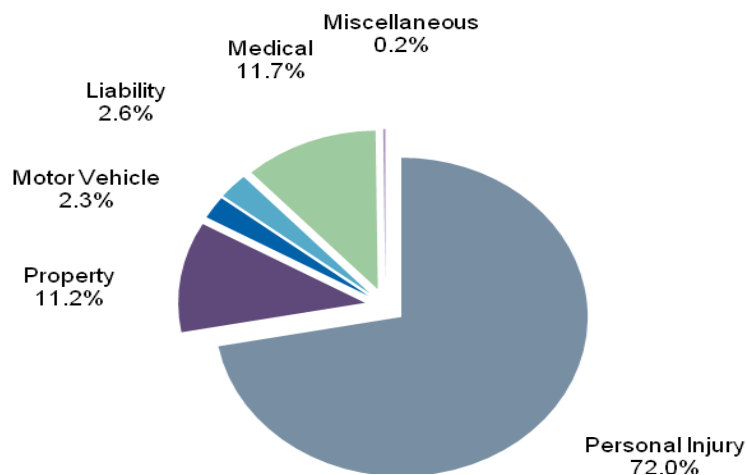
Financial Performance

Contributions

In 2010-11, gross contributions to the Fund totalled \$42.8 million. Personal injury contributions increased sharply as a result of amendments to the *Workers Rehabilitation and Compensation Act 1988* and to fund the shortfall of assets in this risk area. Both general property and Housing Tasmania contributions increased substantially in 2010-11, reflecting unfavourable claims experience in these risk categories. However, a considerable improvement in medical liability claims data resulted in a significant reduction in medical liability contributions for 2010-11, ending several years of material increases in this category of risk. Contributions for the other risks were similar to the previous year.

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

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

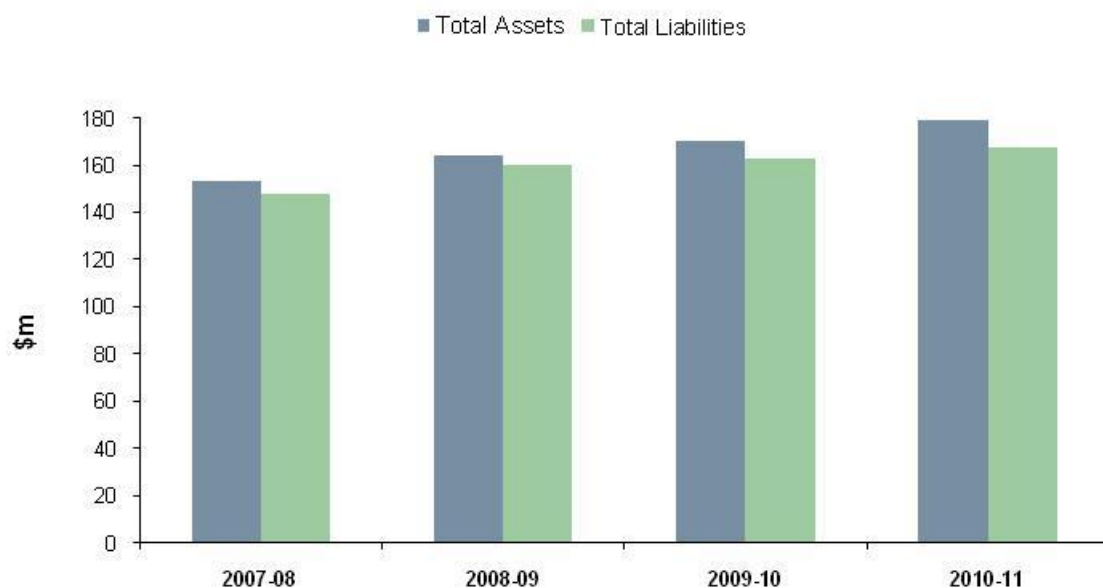


Financial Position

As at 30 June 2011, the Fund had total assets of \$178.7 million and estimated liabilities of \$167.2 million, resulting in net assets of \$11.5 million. This result is mainly attributable to a significant surplus of assets in the medical liability risk category, due to lower than expected payments made on medical liability claims in 2010-11 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



Significant Issues

During 2010–11, there were three issues of particular significance, as outlined below.

Statement of Findings

An annual internal audit was undertaken to review and report on the claims and financial management services put in place by the Fund Administration Agent, and to identify areas for improvement.

Asbestos-Related Diseases (Occupational Exposure) Compensation Bill

The *Asbestos-Related Diseases (Occupational Exposure) Compensation Bill 2011*, providing statutory compensation to workers who develop an asbestos-related disease through exposure at work, was introduced to Parliament in June 2011. This scheme will be self-funded through a 4 per cent levy on employers, including the State Government.

The legislation is expected to commence on 31 October 2011.

Natural Disaster Relief and Recovery Arrangements

In the event of an eligible natural disaster, the Australian Government, through the Natural Disaster Relief and Recovery Arrangements, provides financial assistance to states and territories, usually in the form of partial reimbursement for relief and recovery costs.

Following substantial natural disasters in other states in early 2011, the NDRRA Determination was amended to require states and territories to have their property insurance arrangements independently assessed, and to publish the outcome of the first assessment by 30 September 2011. The assessment is to be provided to the Commonwealth Attorney-General for review to ensure that the state or territory's insurance arrangements are adequate. If the insurance arrangements are deemed to be inadequate, the state or territory will be required to increase their coverage or potentially lose access to all or some of the NDRRA. To date, the Tasmanian Government has called on the NDRRA only once, that being following the 2006 east coast bushfires. A claim in relation to the floods in early 2011 will be submitted once all relevant information has been received.

Treasury has been responsible for preparing the submission detailing the Government's current insurance arrangements for assessment, engaging Finity Consulting to prepare the Independent Assessment.

Treasury has published the [Independent Assessment](#) on the TRMF page of the Treasury website at www.treasury.tas.gov.au.

Fund Administration Agent's Report

As at 30 June 2011, 5 980 claims were lodged for incidents which occurred during the period 1 July 2010 to 30 June 2011. 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 2010–11

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 480	17.3
Property	4 025	16.2
Motor Vehicle	442	1.0
Liability	23	0.5
Miscellaneous	10	0.3
Total	5 980	35.3

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

Chart 3 – Claim Numbers 2010–11 – Percentage by Class of Risk

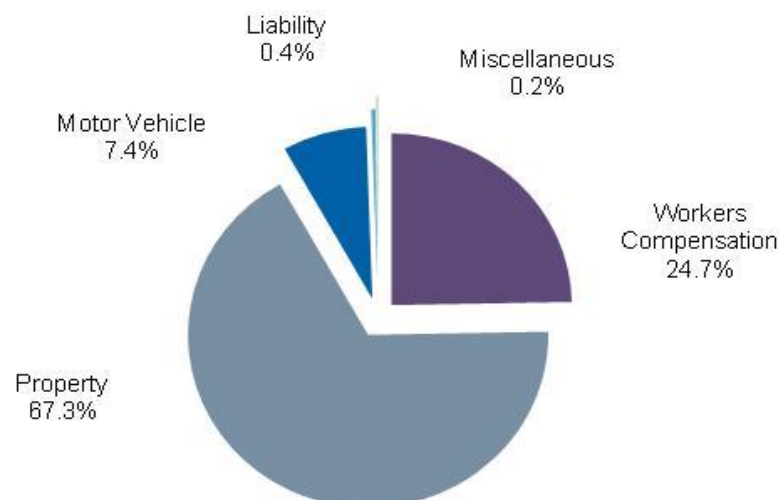
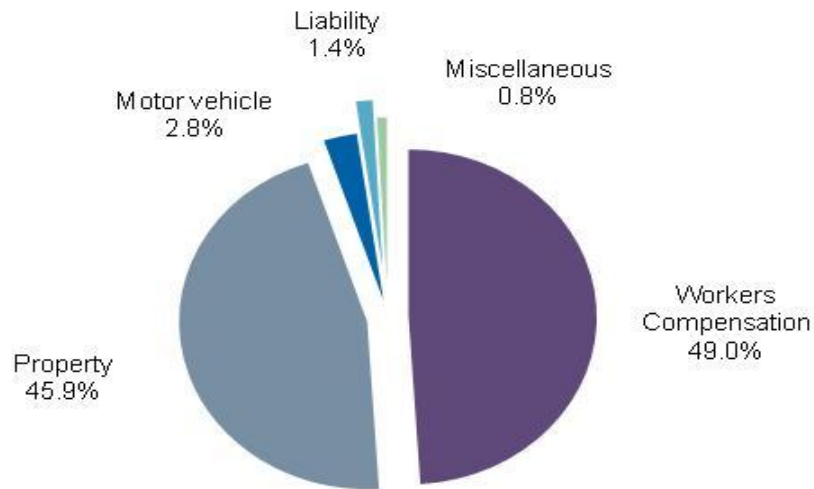


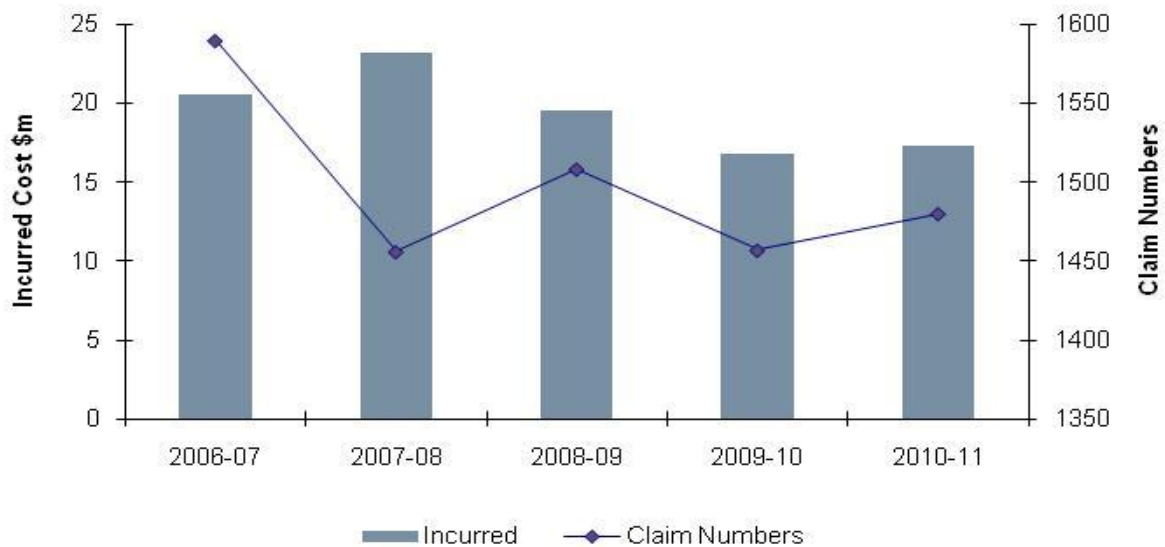
Chart 4 – Total Incurred Cost – 2010–11 Claims – Percentage by Class of Risk



Workers Compensation

As at 30 June 2011, there were 1 480 claims made for incidents that occurred in 2010-11. This compares with 1 457 claims made in 2009–10 (adjusted)², an increase of 1.6 per cent.

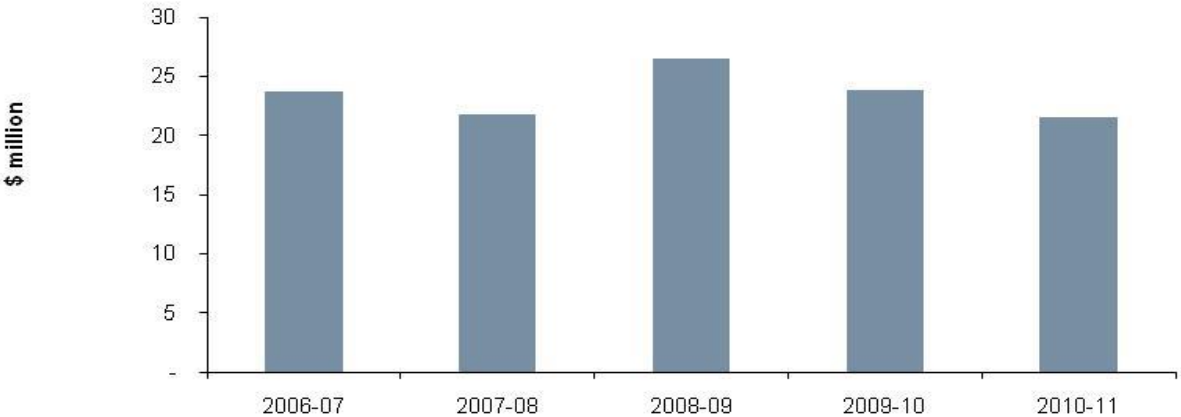
Chart 5 – Workers Compensation Claim Numbers and Incurred Costs by Year of Incident



² 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.

Workers compensation payments for all categories for 2010–11 totalled \$21.6 million compared to \$23.9 million for 2009–10. This is a reduction of \$2.3 million (9.6 per cent). These details relate to payments made in a year regardless of when the claim was incurred.

Chart 6 – Workers Compensation – Total Payments by Financial Year

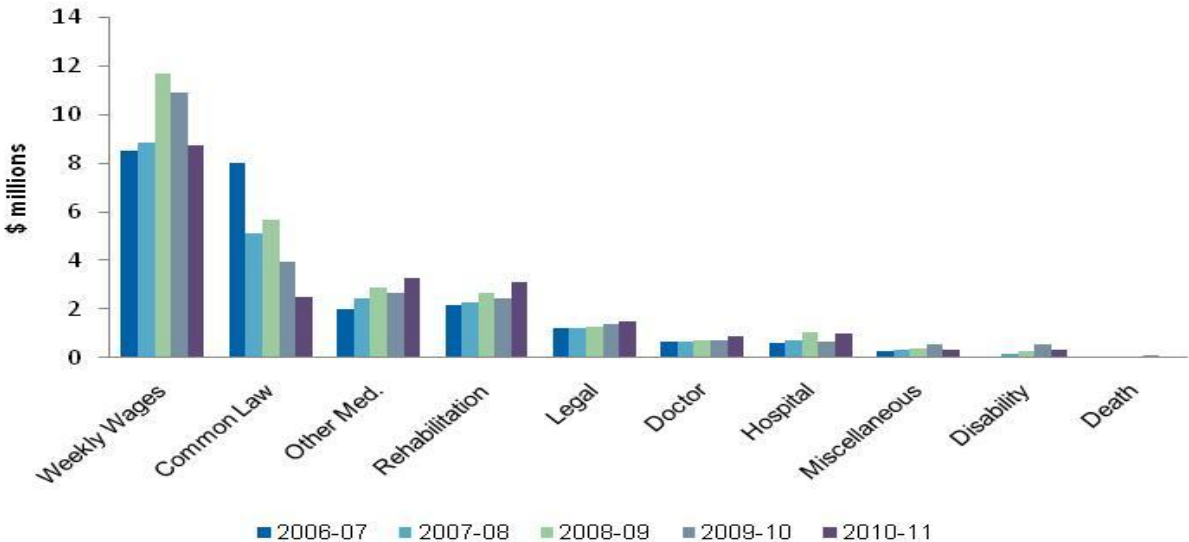


Note: These figures include payments relating to claims with a date of occurrence prior to 1988 which differs from the data published by WorkCover Tasmania.

Payments for most risk categories for workers compensation in 2010–11 were consistent with 2009–10. The main exceptions were payments for weekly wages which reduced from \$10.9 million in 2009–10 to \$8.7 million in 2010-11, and lump sum settlements (Common Law and disability) which reduced from \$4.4 million in 2009–10 to \$2.8 million in 2010–11.

Rehabilitation payments increased from \$2.4 million in 2009–10 to \$3.1 million in 2010-11. Payments to doctors increased from \$0.7 million in 2009–10 to \$0.9 million in 2010-11 and payments for other medical expenses increased from \$2.7 million in 2009-10 to \$3.3 million in 2010–11.

Chart 7 – Workers Compensation Payments by Category by Financial Year



Property (excluding motor vehicle claims)

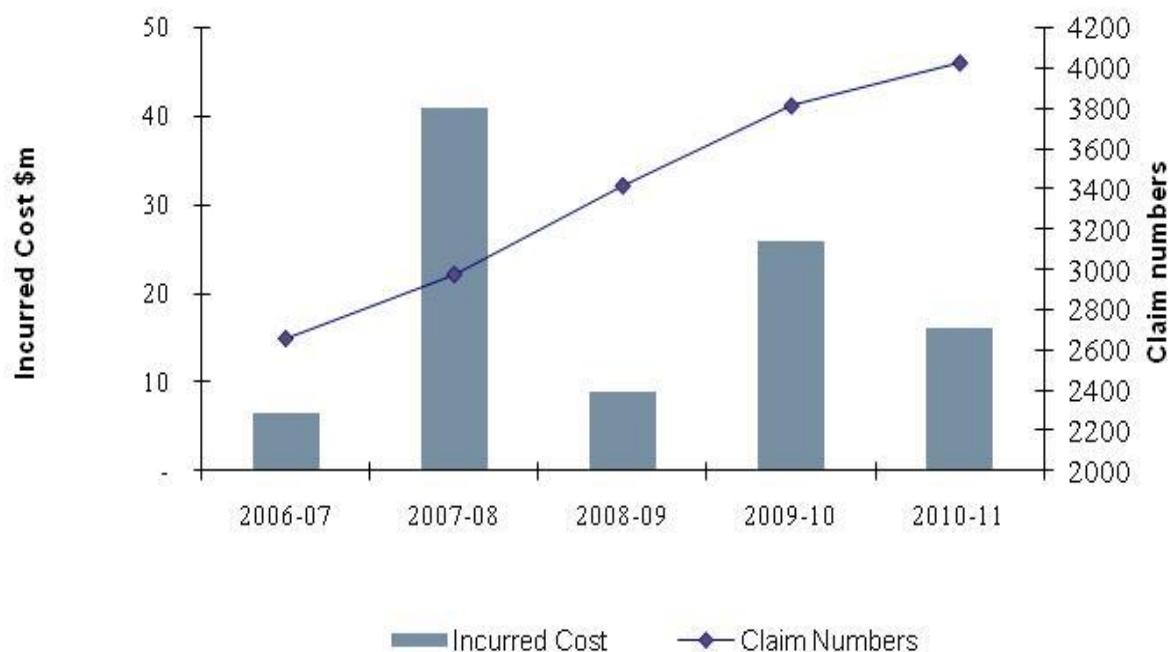
As at 30 June 2011, there were 4 025 claims made for incidents that occurred in 2010-11. This compares with 3 812 claims made in 2009-10, an increase of 5.6 per cent.

Incurred costs have decreased by approximately 37.7 per cent, from \$26.0 million in 2009-10 to \$16.2 million for 2010-11.

It is noted that the higher incurred cost in 2009-10 was attributable to the Burnie High School fire damage claim.

Housing Tasmania property claims increased from 3 785 in 2009-10 to 3 962 in 2010-11 (4.7 per cent).

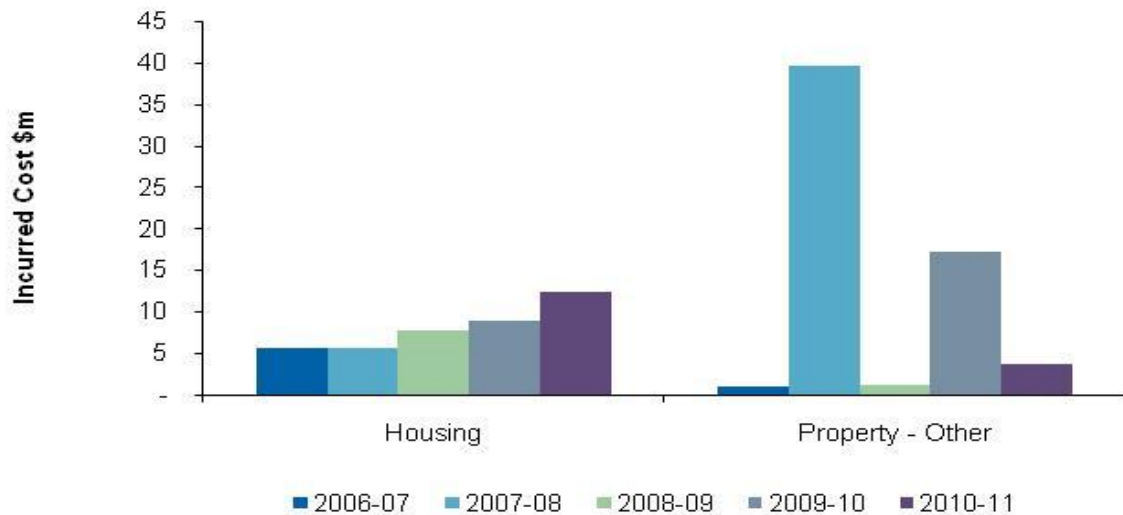
Chart 8 – Property – Claim Numbers and Incurred Costs for the year ending 30 June



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.

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 large incurred costs in Property – Other for 2007-08 is attributable to the Bridgewater High 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 excess is adjusted annually. In 2010–11, the excess was \$13.6 million.

Motor Vehicle

Motor vehicle claim numbers decreased by 5.8 per cent, from 469 in 2009–10, to 442 for 2010–11³. Incurred costs remained similar to 2009-10 at \$1.0 million.

There were four total loss claims in 2010–11, compared to six in 2009-10.

³ Motor vehicle data for 2010-11 relates to claims lodged to 30 June 2011.

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

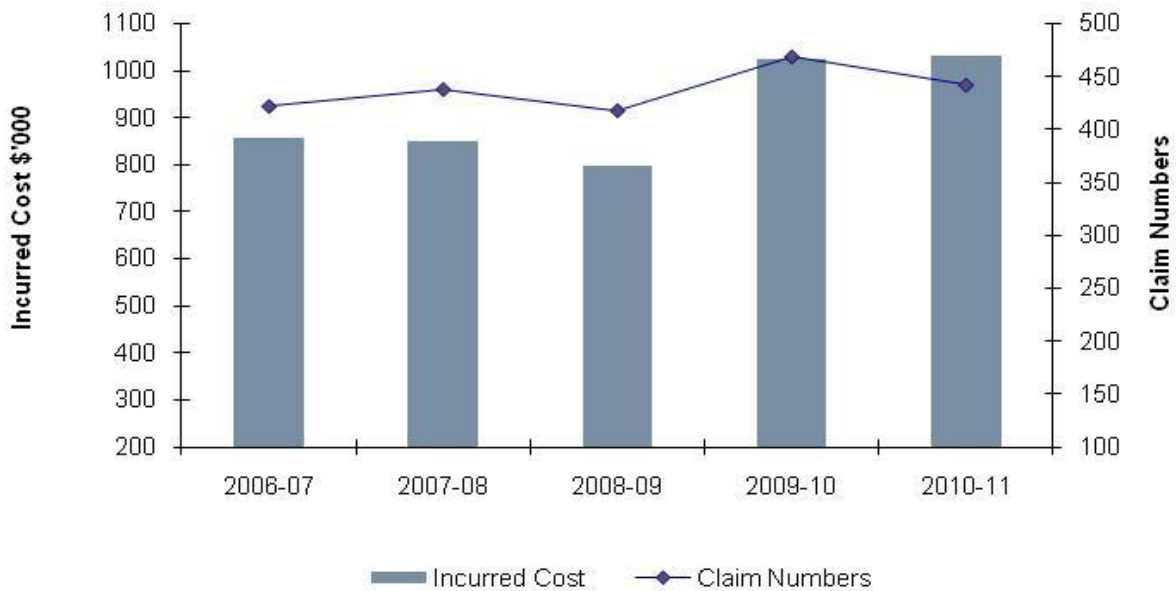
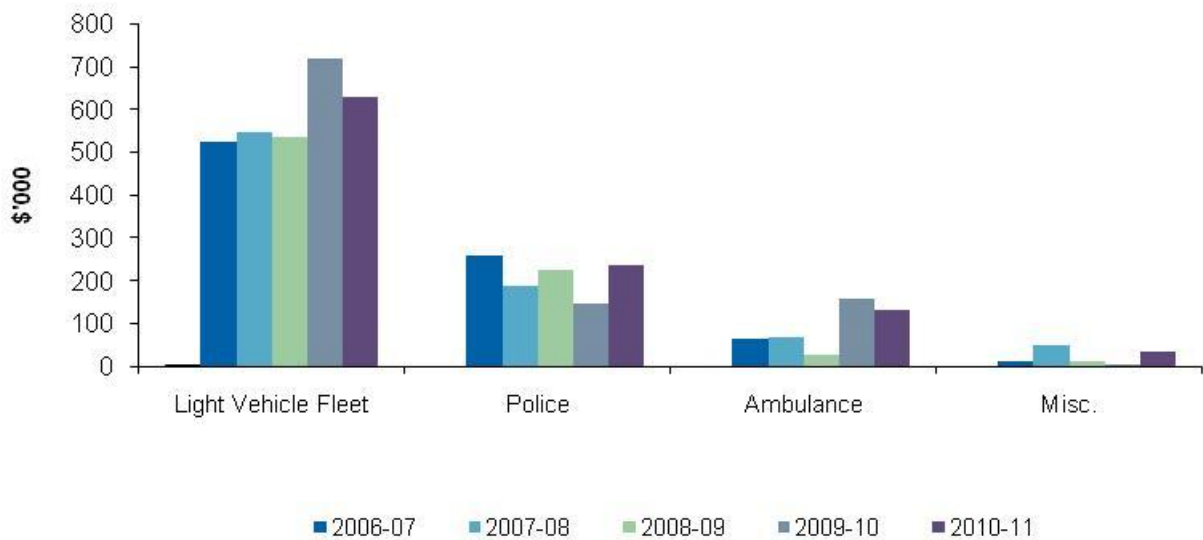


Chart 11 – Motor Vehicle Incurred Costs by Category for the year ending 30 June



Liability

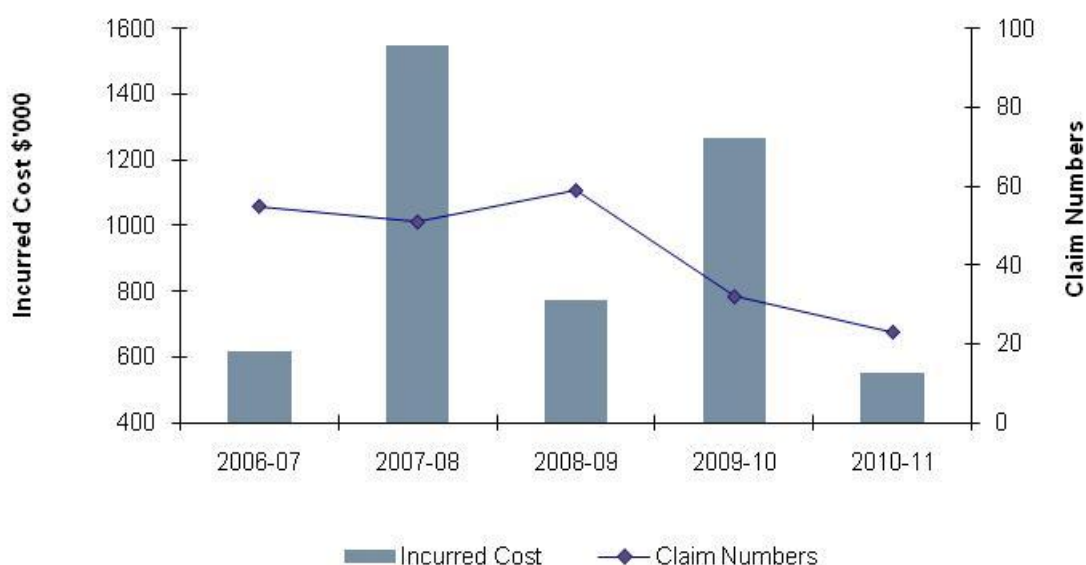
During 2010–11, 23 liability claims were reported where the incident giving rise to the claim occurred in that year. This represents a 28 per cent reduction in claim numbers compared to the 2009–10 period.

It is expected that liability claims will rise and be reported in the future for incidents that occurred during 2010–11. Consequently, claim numbers and costs attributed to the 2010–11 year are expected to increase over time.

Table 2 – Liability Claims Comparison by Year of Incident

	2006–07	2007–08	2008–09	2009–10	2010–11	Difference (2009–10 to 2010–11)	
Claim Numbers	55	51	59	32	23	↓	28.1%
Total Incurred Cost (\$'000)	617	1 549	771	1 268	552	↓	56.5%
Total Paid (\$'000)	95	489	242	265	1	↓	99.6%
Outstanding Payments (\$'000)	522	1 060	528	1 003	551	↓	45.1%
Largest Incurred Claim (\$'000)	210	540	371	303	335	↑	10.6%

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 eight new claims were lodged in 2010–11.

Table 3 – Medical Liability by Year Reported⁴

Year	Number of Claims	Total Incurred Cost (\$'000)
2006-07	18*	3 355
2007-08	12*	2 158
2008-09	20	2 323
2009-10	16	1 201
2010-11	8	243

Table 4 – Medical Liability Payments by Financial Year

Year	Payment (\$'000)	Difference as a %	
2006-07	3 665		
2007-08	1 967	↓	46.3%
2008-09	1 383	↓	29.7%
2009-10	990	↓	28.5%
2010-11	1 869	↑	88.9%

⁴ 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 these years have been adjusted following a review of claims information held by the Fund Administration Agent.

Supporting Information

Resources

A number of useful resources on the operation of the Fund are available on the TRMF page of the Treasury website at www.treasury.tas.gov.au. These documents, including the date when they were last updated, are listed below:

Title	Last Updated
Guidelines for Determining Appropriate Levels of Insurance for Goods and Services Contracts	September 2005
Policy and Disclosure Document of the Tasmanian Risk Management Fund	June 2011
Agency excess levels	July each year
Business Travel Brochure	August 2010
Personal Accident Cover for Volunteers Brochure	August 2010

Communication

riskmatters newsletter

During the year, three editions of the TRMF newsletter, *riskmatters*, were published, with about 300 subscribers receiving an email advising of the publication on the day of publication.

Current and past editions can be found on the TRMF page of the Treasury website at www.treasury.tas.gov.au.

Natural Disaster Relief and Recovery Arrangements assessment

As noted earlier, an independent assessment of the adequacy of Tasmania's property insurance arrangements required to be undertaken by virtue of the Australian Government's *Natural Disaster Relief and Recovery Arrangements Determination 2011*.

Treasury has published the independent assessment on the TRMF page of the Treasury website at www.treasury.tas.gov.au.

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 2011

	2011	2010
	Actual	Actual
	\$'000	\$'000
Revenue and other income from transactions		
Agency contributions	42 771	37 487
Investment income	8 803	6 071
Revenue from government	6 548	5 000
Total revenue and other income from transactions	58 122	48 558
Expenses from transactions		
Claims expense	33 308	36 509
Other expenses	2 100	1 577
Transfer to Consolidated Fund	...	1 790
Total expenses from transactions	35 408	39 876
Net result from transactions	22 714	8 682
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(18 978)	(4 851)
Total other economic flows included in net result	(18 978)	(4 851)
Net Result	3 736	3 831

Concise TRMF Balance Sheet as at 30 June 2011

	2011	2010
	Actual	Actual
	\$'000	\$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	176 945	169 420
Receivables	1 756	1 106
Total assets	178 701	170 525
Liabilities		
<i>Financial Liabilities</i>		
Payables	1 273	913
Outstanding claims	165 859	161 794
Employee entitlements	94	79
Total liabilities	167 226	162 786
Net assets (liabilities)	11 476	7 739
Equity		
Accumulated funds	11 476	7 739
Total equity	11 476	7 739

Contact details

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

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