

Tasmanian Risk Management Fund

Annual Report 2011–12



Tasmanian Risk Management Fund Annual Report 2011–12

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Policy Statement

Purpose of the Fund

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

- workers compensation/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 later in order to benefit from a worldwide emergency assistance scheme. 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 (for property, claims are capped at \$5 million)¹, 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.

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 insurance is taken out to meet the cost of losses up to \$40 million, and cover for bridges owned by the Department of Infrastructure, Energy and Resources, where losses exceed \$5 million. A loss of a substantial bridge would, in all likelihood, require contributions from the Consolidated Fund.

The Fund's finances are managed through the Tasmanian State Service Risk Management Account in the Special Deposits and Trust Fund (T847).

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 Government to undertake building works (civil and civic). A copy of the Contract Works Insurance policy can be found on the website of the Department of Infrastructure, Energy and Resources at http://www.transport.tas.gov.au/road/contract_tenders.

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.

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 on a contract basis for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

Actuary

Benzulla Actuarial Pty Ltd is 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 annual internal audit is undertaken on the controls and processes in place for the management of claims and to verify the figures used in Treasury's Financial Statements.

Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions is exclusively responsible for providing legal advice on claims and provides legal representation in various courts and tribunals as required.

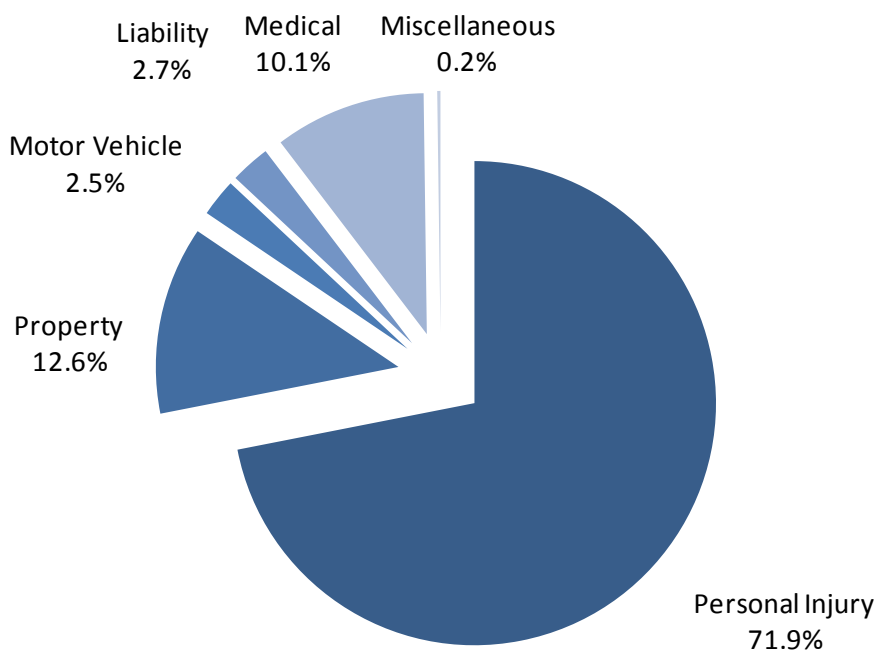
Financial Performance

Contributions

In 2011-12, gross contributions to the Fund totalled \$39.4 million. The trend of personal injury contributions rising sharply in previous years stabilised in 2011-12, with contributions decreasing marginally. General property contributions continued to increase steadily, reflecting higher losses experienced in recent years for smaller claims (those less than \$1.0 million) and a component for rebuilding a provision to fund future large claims. In view of the strong funding position in medical liability, there was a significant reduction in contributions in this risk area. 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

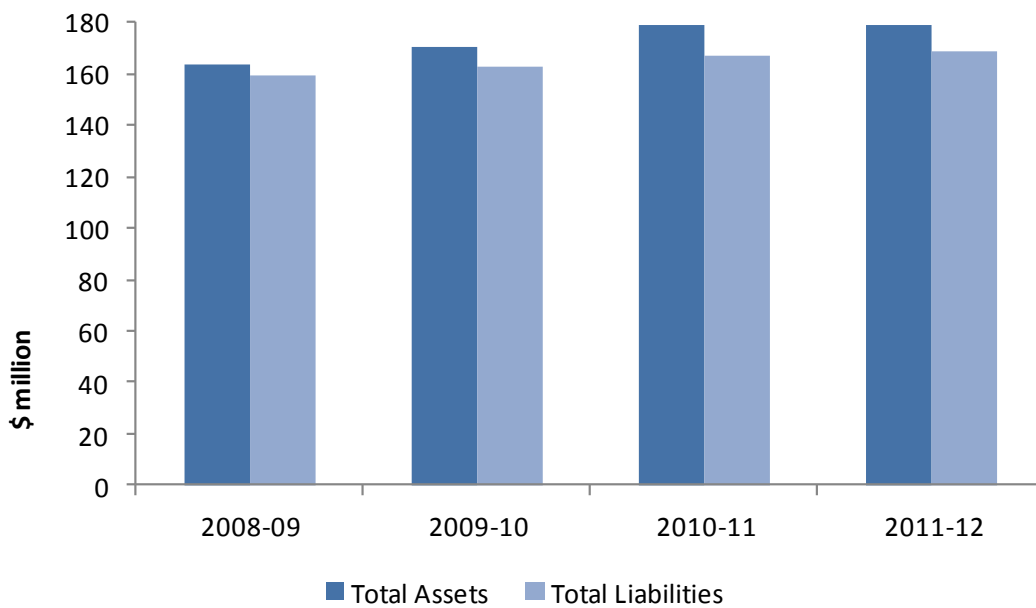


Financial Position

As at 30 June 2012, the Fund had total assets of \$179.0 million and estimated liabilities of \$168.4 million, resulting in net assets of \$10.6 million. This result is mainly attributable to the excess of assets in the liability and medical liability risk categories, which were offset to some extent by the shortfall in assets in the property and workers compensation risk areas. The Fund's actuary stressed that there is significant uncertainty surrounding the estimate for medical liability claims, and the eventual loss outcome could be substantially higher than expected. Maintaining a modest excess in the funding position of medical liabilities is therefore considered a prudent approach.

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

Chart 2 – Assets and Liabilities as at 30 June 2012



Significant Issues

Asbestos-Related Diseases Legislation

The *Asbestos-Related Diseases (Occupational Exposure) Compensation Act 2011* came into effect on 31 October 2011. The legislation established a scheme that provides for statutory compensation to workers who have been exposed to asbestos at work and, as a result, have developed an asbestos-related disease. The scheme is self-funded through a four per cent levy on workers compensation premiums. The introduction of this legislation will impact on the Fund when the State Government commences paying the levy in 2012-13.

Natural Disaster Relief and Recovery Arrangements

Following substantial natural disasters on the mainland in early 2011, the Australian Government issued the *Natural Disaster Relief and Recovery Arrangements Determination 2011*. This amended the requirements for states and territories to access Australian Government funding under the NDRRA, and requires states and territories to have the adequacy of their property insurance arrangements independently assessed at least every three years.

Finity Consulting Pty Ltd was engaged to undertake the first independent assessment of Tasmania's property insurance arrangements. Finity's assessment, together with the State's submission, was submitted to the Australian Government for review in September 2011. A copy of Finity's assessment can be accessed at www.treasury.tas.gov.au/trmf > NDRRA.

The Australian Government's review was undertaken in two phases. The Phase 1 report was released in March 2012, and the Phase 2 consolidated final report in September 2012. A link to the Phase 2 report (incorporating the Phase 1 report at Appendix A) can be accessed at www.treasury.tas.gov.au/trmf > NDRRA.

Treasury has been responsible for preparing the State's submission, engaging Finity Consulting to prepare the independent assessment and liaising with the Australian Government.

Treasury is currently considering those recommendations in the Phase 2 consolidated final report that relate to Tasmania.

Policy and Disclosure Document

First published in 2007, the Policy and Disclosure Document of the Tasmanian Risk Management Fund aims to set out clearly, for participants, the purpose of the Fund, the risks covered by and through the Fund, including any exclusions from cover and the entities covered by the Fund.

The PDD was reviewed by Treasury during 2011-12 to ensure that the content reflects the current policy position of the Fund. The PDD can be accessed at www.treasury.tas.gov.au/trmf > About the Fund, and serves as a consolidated reference tool for participants.

Fund Administration Agent's Report

This section, prepared by the Fund Administration Agent, Marsh Pty Ltd, provides an overview of the claims experience of the Fund as at 30 June 2012.

Figures in this report are inclusive of GST.

As at 30 June 2012, 4 280 claims were lodged for incidents which occurred during the period 1 July 2011 to 30 June 2012.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2011–12

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 341	16.3
Property	2 409	14.0
Motor Vehicle	494	1.0
Liability	23	1.3
Miscellaneous	13	0.4
Total	4 280	33.0

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

Chart 3 – Claim Numbers 2011–12 – Percentage by Class of Risk

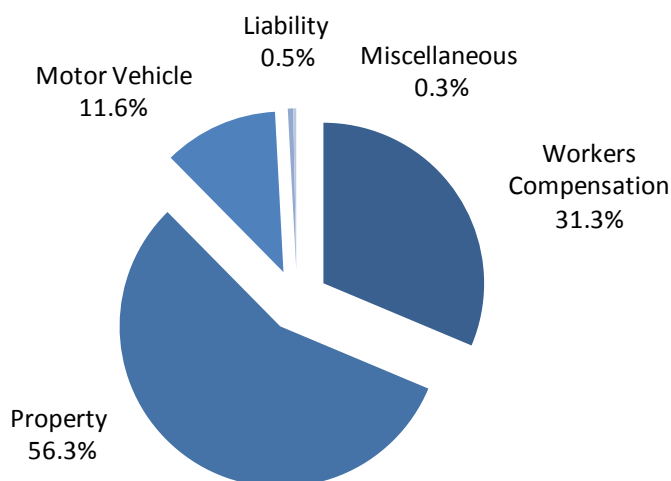
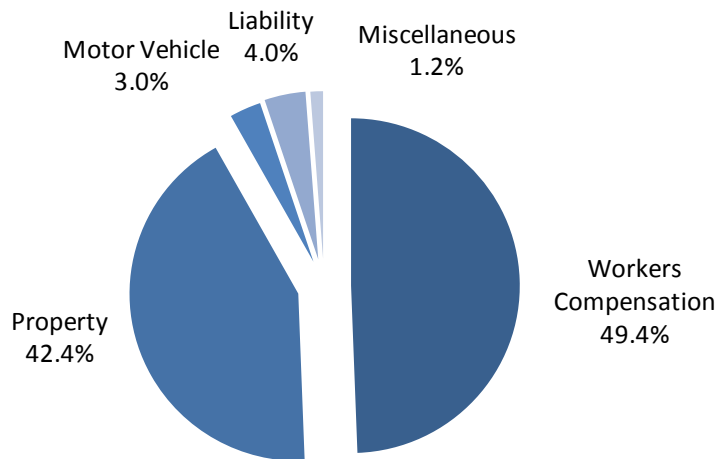


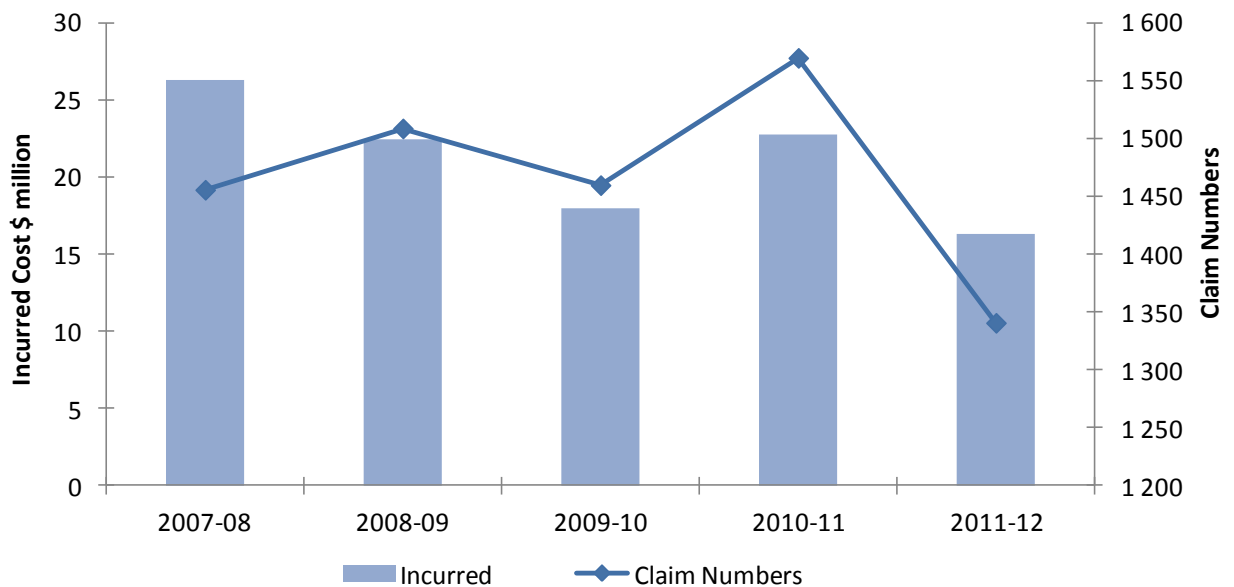
Chart 4 – Total Incurred Cost – 2011–12 Claims – Percentage by Class of Risk



Workers Compensation

As at 30 June 2012, there were 1 341 claims made for incidents that occurred in 2011-12. This compares with 1 570 claims occurring in 2010-11 (adjusted)².

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

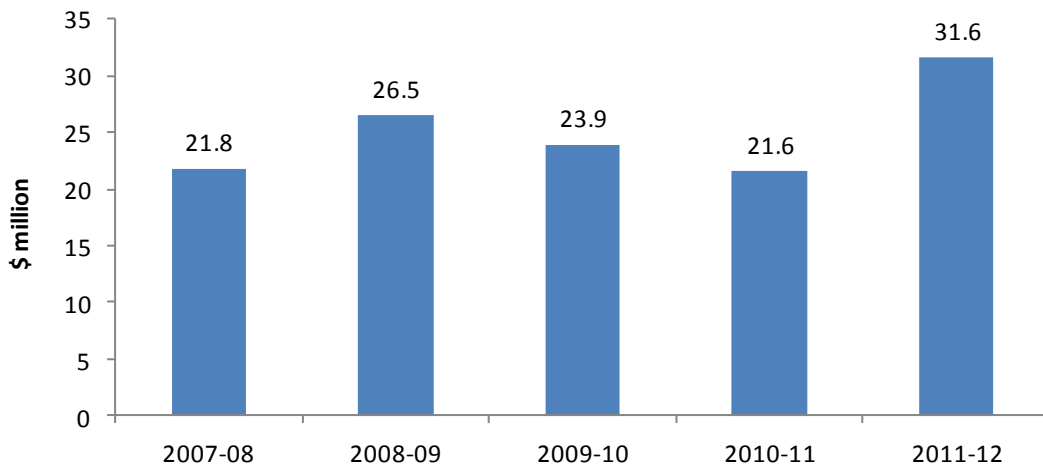


Workers compensation payments for all categories for 2011-12 totalled \$31.6 million compared to \$21.6 million for 2010-11. This was driven by an increase in common law settlements and reimbursements to two agencies in respect of prior year claims.

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

These details relate to payments made in a year, regardless of when the claim was incurred.

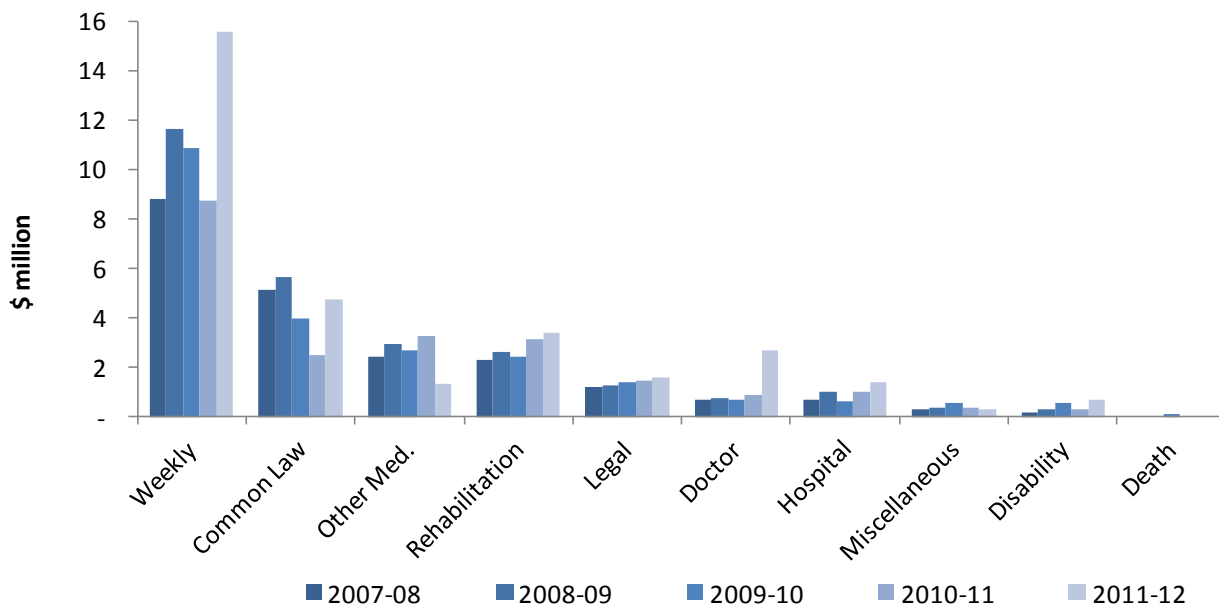
Chart 6 – Workers Compensation – Total Payments by Financial Year



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.

Chart 7 outlines the composition of workers compensation payments by category from 2007-08. As noted above, the majority of the increase in workers compensation payments is attributable to the increase in weekly payments and common law payments. Payments to doctors also increased in 2011-12.

Chart 7 – Workers Compensation Payments by Category by Financial Year



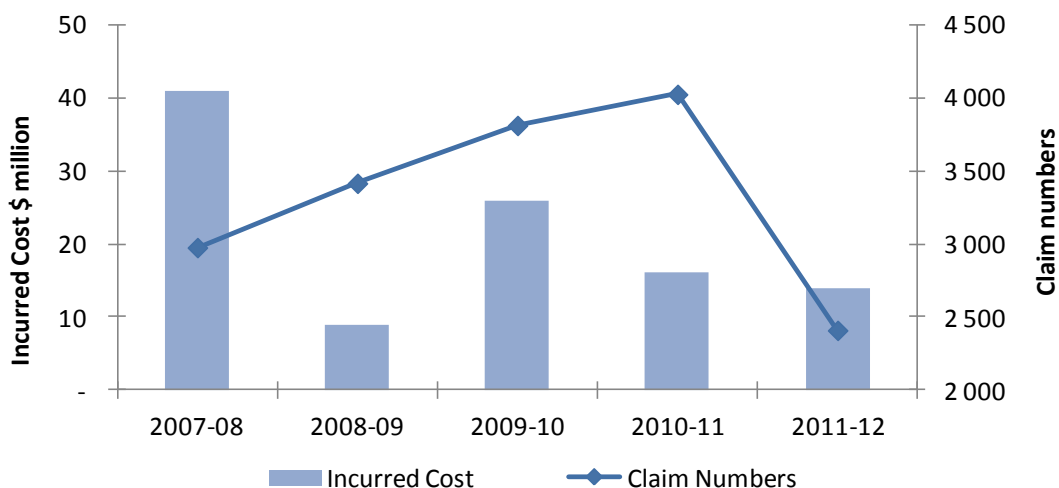
Property (excluding motor vehicle claims)

As at 30 June 2012, there were 2 409 claims made for incidents that occurred in 2011-12. This compares with 4 039 claims made in 2010-11, a decrease of 40.4 per cent. This was driven by a significant reduction in the number of claims reported as insurance matters by Housing Tasmania.

Incurred costs have decreased by approximately 16.2 per cent, from \$16.7 million in 2010-11 to \$14.0 million for 2011-12.

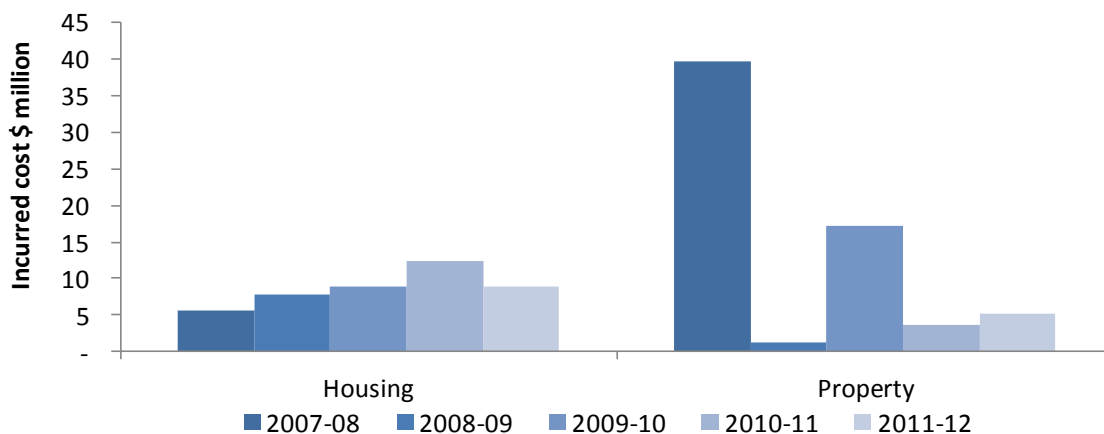
Housing Tasmania property claims decreased from 3 975 in 2010-11 to 2 362 in 2011-12 (a 40.6 per cent decrease).

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: (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.

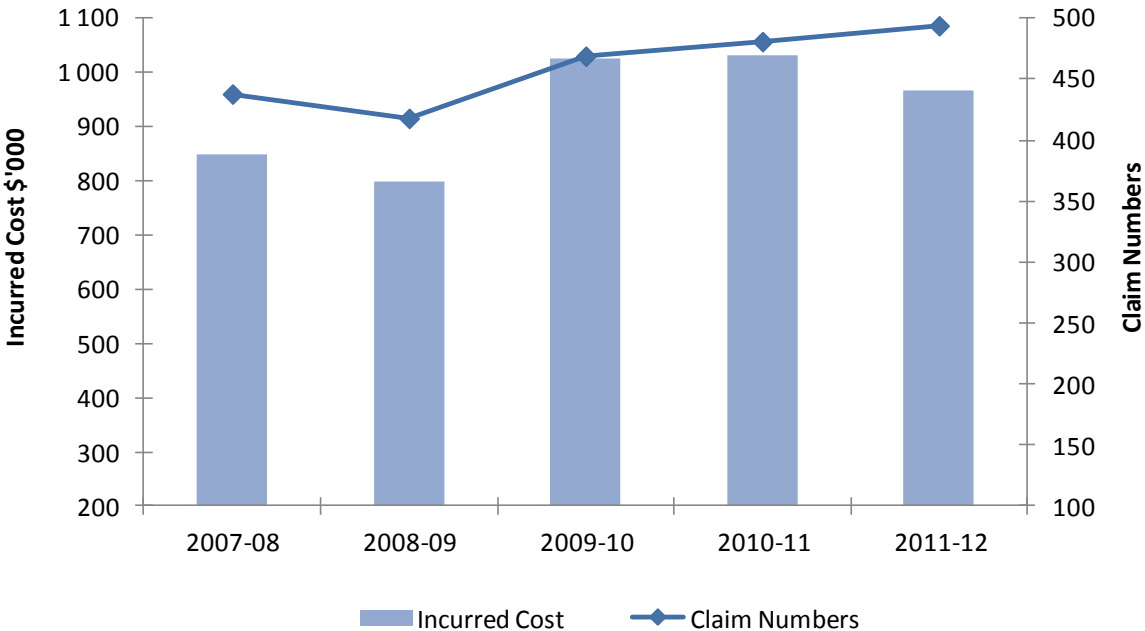
The Fund covers damage to, and loss of, Housing Tasmania properties under an “aggregate stop loss arrangement”. Housing Tasmania is required to pay the total costs of all losses and damage to housing properties up to a selected excess in a financial year. The Fund meets the cost of any losses / damage above the excess. The excess is adjusted annually. In 2011-12, the excess was \$14.1 million.

Motor Vehicle

Motor vehicle claim numbers increased from 481 in 2010-11 (adjusted)³, to 494 for 2011-12⁴. However, the incurred costs (\$968 000) represented a reduction of 6 per cent compared with the prior year.

There were ten total loss claims in 2011-12, compared to four in 2010-11.

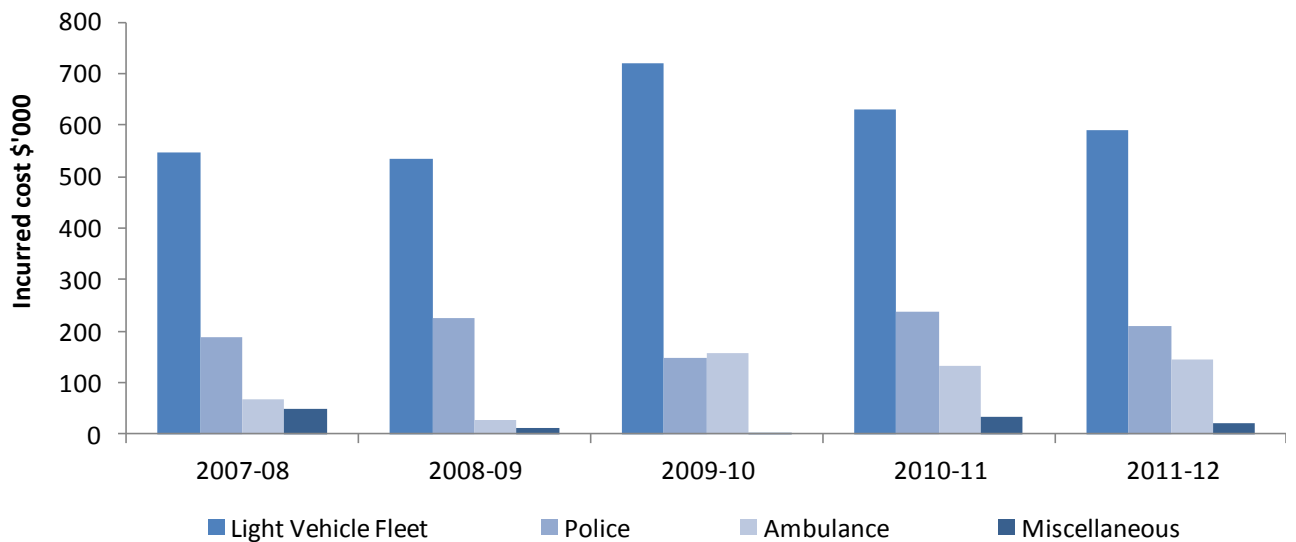
Chart 10 – Motor Vehicle – Claim Numbers and Incurred Costs for the year ending 30 June



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

⁴ Motor vehicle data for 2011-12 relates to claims lodged to 30 June 2012.

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



Liability

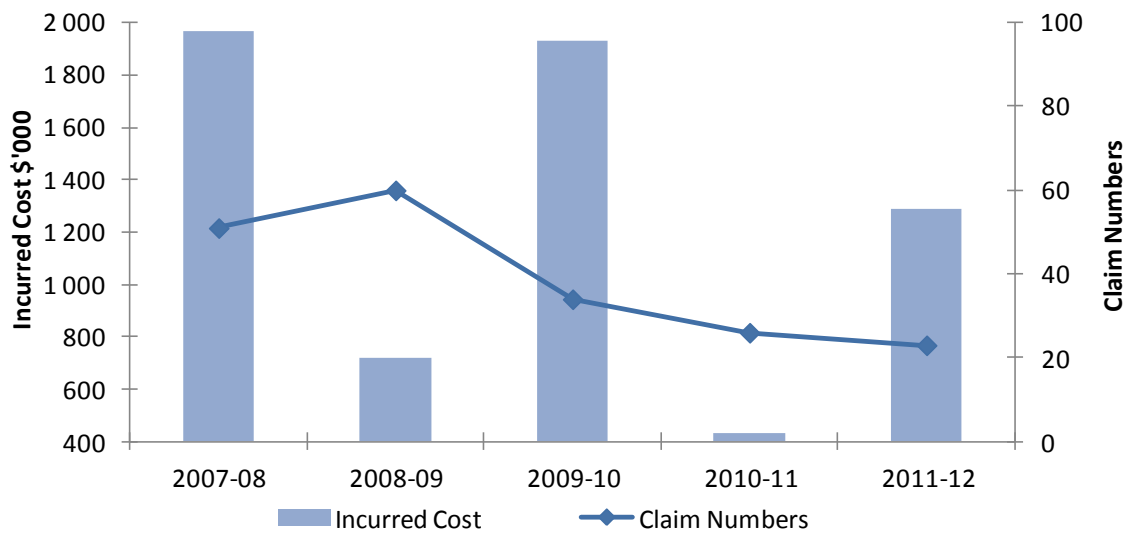
During 2011-12, 23 liability claims were reported where the incident giving rise to the claim occurred in that year. To date, this represents an 11.5 per cent decrease compared to the 2010-11 period.

It is expected that liability claims will rise and be reported in the future for incidents that occurred during 2011-12. Consequently, claim numbers and costs attributed to the 2011-12 year are expected to increase over time. Conversely, the incurred costs for 2008-09 and 2010-11 have reduced since published in the 2010-11 Annual Report, as incurred costs include outstanding payments which often reduce, for example, when claims are settled for less than the case reserve.

Table 2 – Liability Claims Comparison by Year of Incident

	2007-08	2008-09	2009-10	2010-11	2011-12		Movement (2010-11 to 2011-12)
Claim Numbers	51	60	34	26	23	↓	11.5%
Total Incurred Cost (\$'000)	1 968	717	1 931	431	1 287	↑	198.6%
Total Paid (\$'000)	1 476	250	473	2	9	↑	350.0%
Outstanding Payments (\$'000)	493	467	1 457	429	1 278	↑	197.9%
Largest Incurred Claim (\$'000)	986	371	932	335	1 056	↑	215.2%

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. Twenty three new claims were lodged in 2011-12.

Table 3 shows the number of claims reported in each year together with the total incurred costs as at 30 June 2012.

Table 3 – Medical Liability by Year Reported

Year	Number of Claims	Total Incurred Cost (\$'000)
2008-09	35	5 703
2009-10	29	7 745
2010-11	37	2 547
2011-12	23	5 535

It should be noted that the majority of claims reported in 2011-12 relate to incidents which occurred during several preceding years.

Table 4 identifies the number of claims recorded by year of incident as at 30 June 2012.

Table 4 – Medical Liability by Year of Incident

Year	Number of Claims	Total Incurred Cost (\$'000)
2008-09	25	4 952
2009-10	20	2 619
2010-11	11	334
2011-12	3	148

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
2008-09	1 383	
2009-10	990	↓ 28.5%
2010-11	1 869	↑ 88.8%
2011-12	7 678	↑ 310.8%

The medical liability payments in 2011-12 reflect two substantial payments made during the year.

Miscellaneous

There were 13 miscellaneous claims reported for 2011-12. These comprised:

- Personal Accident (eight claims with incurred costs of \$16 030);
- Transit (four claims with incurred costs of \$4 546); and
- Fraud (one claim with an incurred cost of \$343 000).

Supporting Information

Resources

A number of useful resources on the operation of the Fund are available at www.treasury.tas.gov.au/trmf. 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	October 2011
Policy and Disclosure Document of the Tasmanian Risk Management Fund	August 2012
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. About 300 subscribers received an email advising of the day of publication.

Current and past editions can be found at www.treasury.tas.gov.au/trmf > *riskmatters*.

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 2012

	2012	2011
	Actual	Actual
	\$'000	\$'000
Revenue and other income from transactions		
Agency contributions	39 386	42 771
Investment income	8 244	8 803
Revenue from government	...	6 548
Total revenue and other income from transactions	47 630	58 122
Expenses from transactions		
Claims expense	41 139	33 308
Other expenses	2 129	2 100
Total expenses from transactions	43 268	35 408
Net result from transactions	4 362	22 714
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(5 216)	(18 978)
Total other economic flows included in net result	(5 216)	(18 978)
Net Result	(854)	3 736

Concise TRMF Balance Sheet as at 30 June 2012

	2012	2011
	Actual	Actual
	\$'000	\$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	177 813	176 945
Receivables	1 179	1 756
Total assets	178 992	178 701
Liabilities		
<i>Financial Liabilities</i>		
Payables	2 113	1 273
Outstanding claims	166 155	165 859
Employee entitlements	103	94
Total liabilities	168 371	167 226
Net assets (liabilities)	10 621	11 476
Equity		
Accumulated funds	10 621	11 476
Total equity	10 621	11 476

Contact details

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

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