

Tasmanian Risk Management Fund

Annual Report 2013-14

Tasmanian Risk Management Fund Annual Report 2013-14

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Published January 2015
ISSN 1837-5790 (Online)

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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.

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 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).

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 exception to this is the cover for bridges owned by the Department of State Growth, where losses exceed \$5 million. A loss of a substantial bridge would, in all likelihood, require contributions from the Consolidated Fund.

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.

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 2013-14, Marsh Pty Ltd was 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

During 2013-14, Bendzulla Actuarial 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 is 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 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

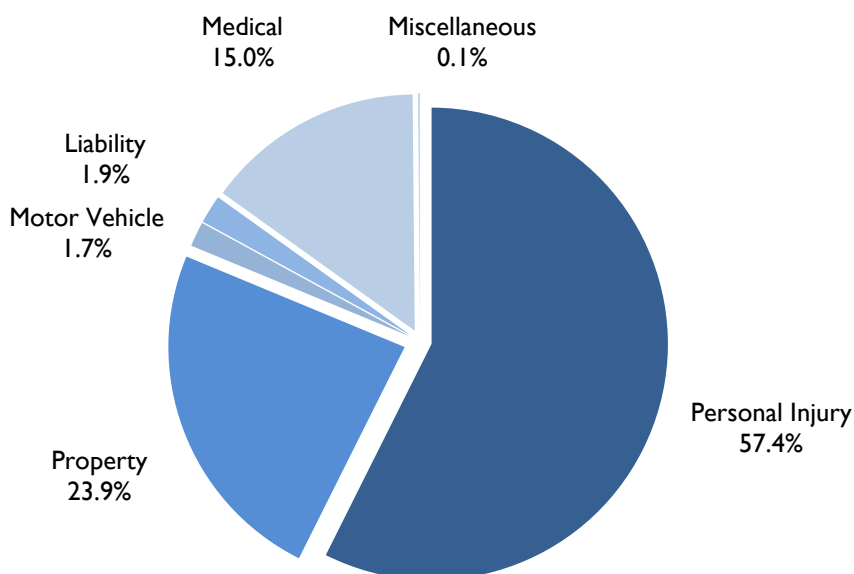
In 2013-14, agency contributions to the Fund totalled \$58 million with significant increases in medical liability and general property contributions from the previous year. This includes a contribution of \$5.9 million to the Fund from the Consolidated Fund for the rebuilding of the Dunalley Primary School.

A rise in both the number of larger claims and in the average small claim size has contributed to the deteriorating funding position of the medical liability risk category, resulting in substantial increases in contributions in recent years. The increase in general property contributions is due to an additional charge to rebuild the provision for significant claims and a higher allowance for large claims.

For the other major risk categories, workers compensation contributions decreased due to a significant variance in the adjustment made for the difference between estimated and actual salaries from the previous year, liability contributions increased moderately reflecting increased claims costs and motor vehicle contributions decreased moderately due to a robust funding position in this risk category.

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

Chart 1 - Agency Contributions by Class of Risk

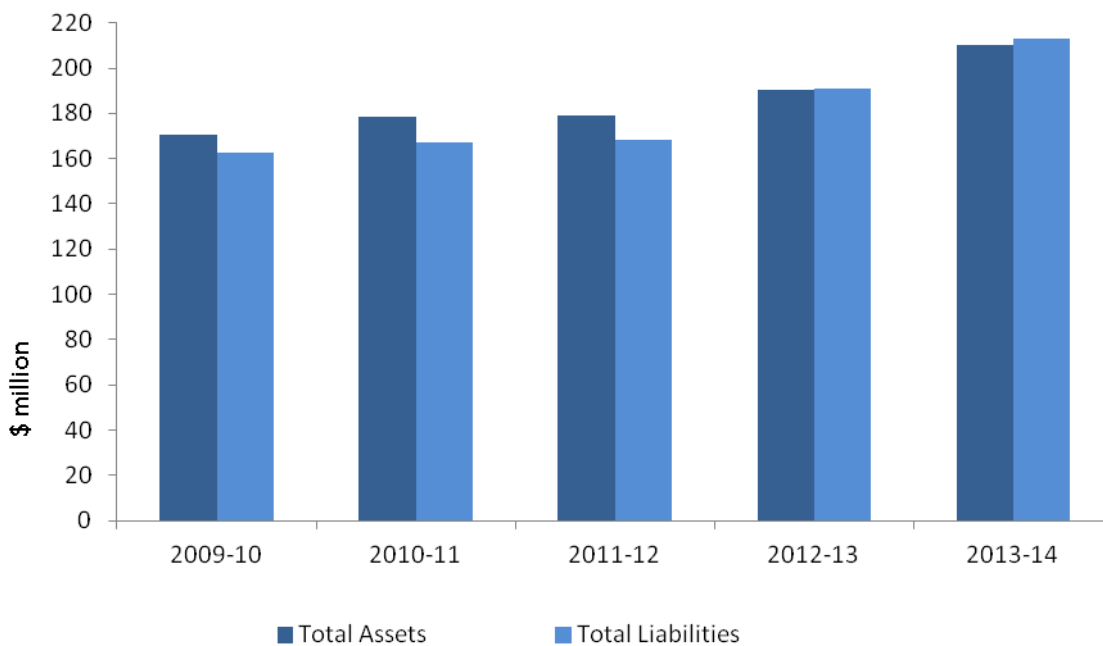


Financial Position

As at 30 June 2014, the Fund had total assets of \$210.4 million and estimated liabilities of \$213.2 million, resulting in net liabilities of \$2.9 million. This compares with the net liability result of \$0.7 million as at 30 June 2013. The deterioration in the funding position is mainly attributed to the significant deficit position of the medical liability risk category, which has been somewhat offset by surpluses in assets in the general property and the general liability risk areas. 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 strong deficit position in the medical liability portfolio 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 2014



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 2014.

Figures in this report are inclusive of GST.

As at 30 June 2014, 2 182 claims were lodged for incidents which occurred during the period 1 July 2013 to 30 June 2014. These claims can be broken up as follows:

Table 1 - Claim Numbers and Incurred Cost - Incidents Occurring in 2013-14

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 339	21.5
Property	392	4.9
Motor Vehicle	413	0.8
Liability	30	0.5
Miscellaneous	8
Total	2 182	27.7

Notes:

- Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.
- Miscellaneous incurred costs totalled \$6 282.

Chart 3 - Claim Numbers 2013-14 - Percentage by Class of Risk

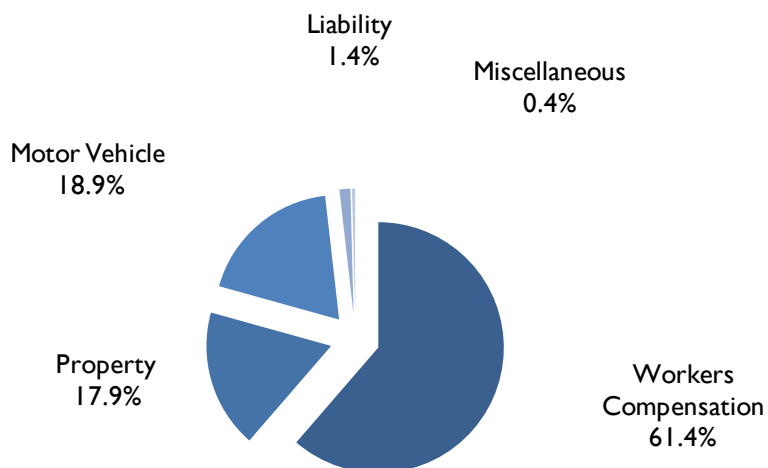
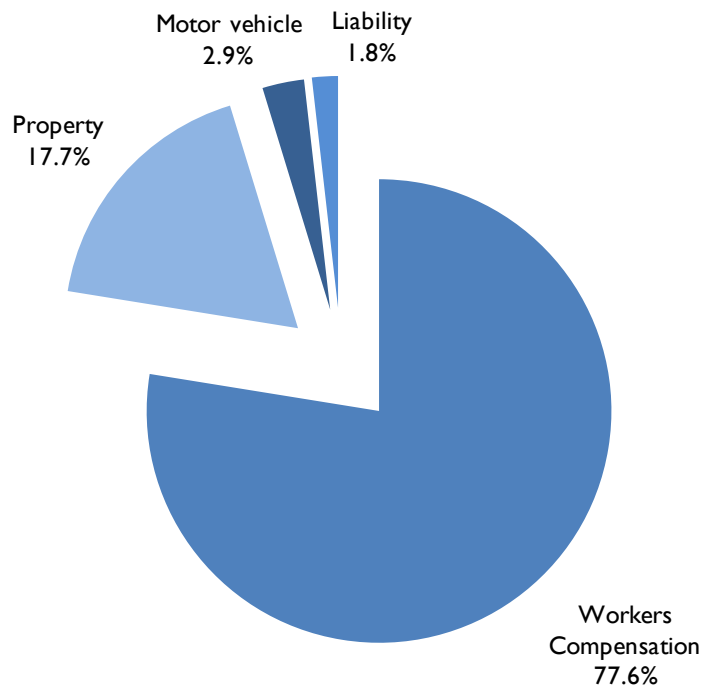


Chart 4 - Total Incurred Cost - 2013-14 Claims - Percentage by Class of Risk



Workers Compensation

As at 30 June 2014, there were 1 339 claims made for incidents that occurred in 2013-14. This compares with 1 387 claims occurring as at 30 June 2013. This is represented in Chart 5 below.

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

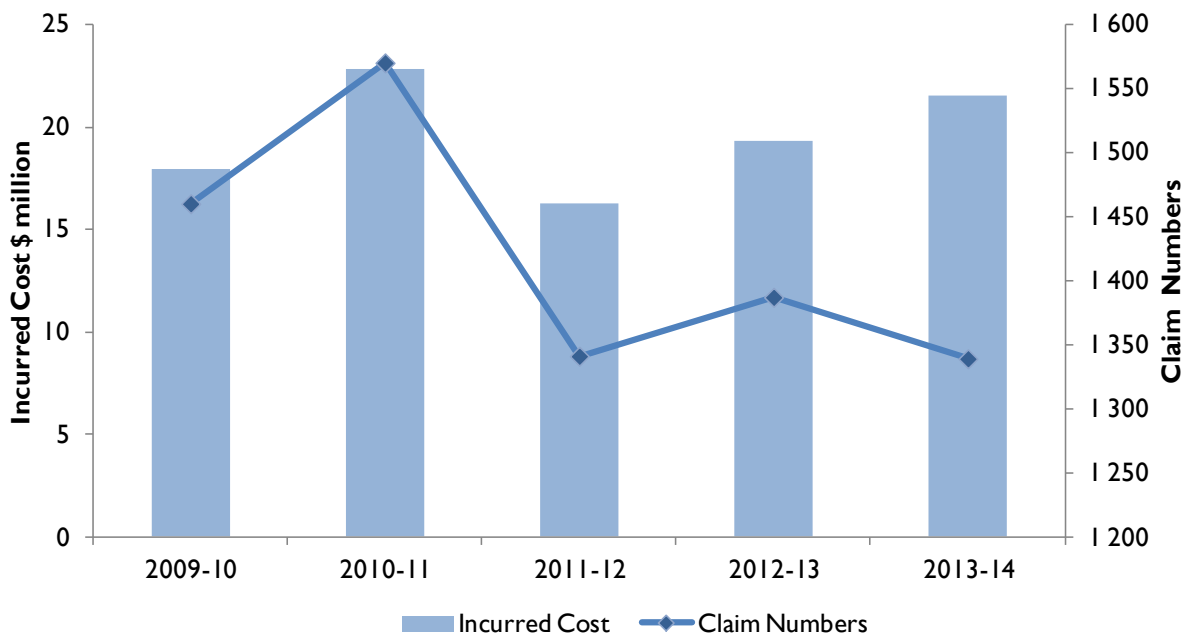
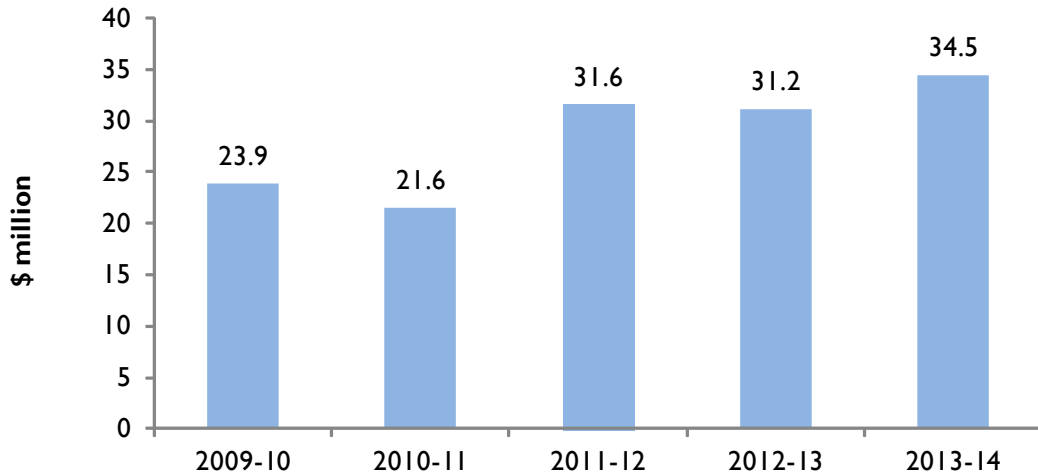


Chart 6 shows workers compensation payments, for claims occurring in 2013-14 and in previous years, during 2013-14 totalled \$34.5 million compared to \$31.2 million for 2012-13.

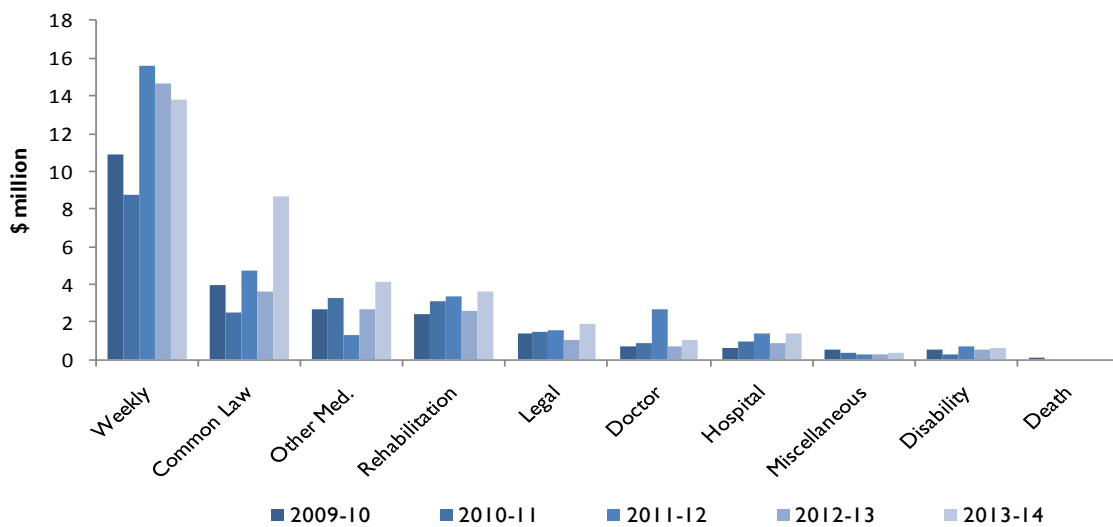
Chart 6 - Workers Compensation - Total Payments by Financial Year



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

Chart 7 below outlines the composition of workers compensation payments by category from 2009-10. Payment of wages reduced slightly compared to the previous two years, but increased settlement activity saw Common Law payments increase significantly in 2013-14.

Chart 7 - Workers Compensation Payments by Category by Financial Year

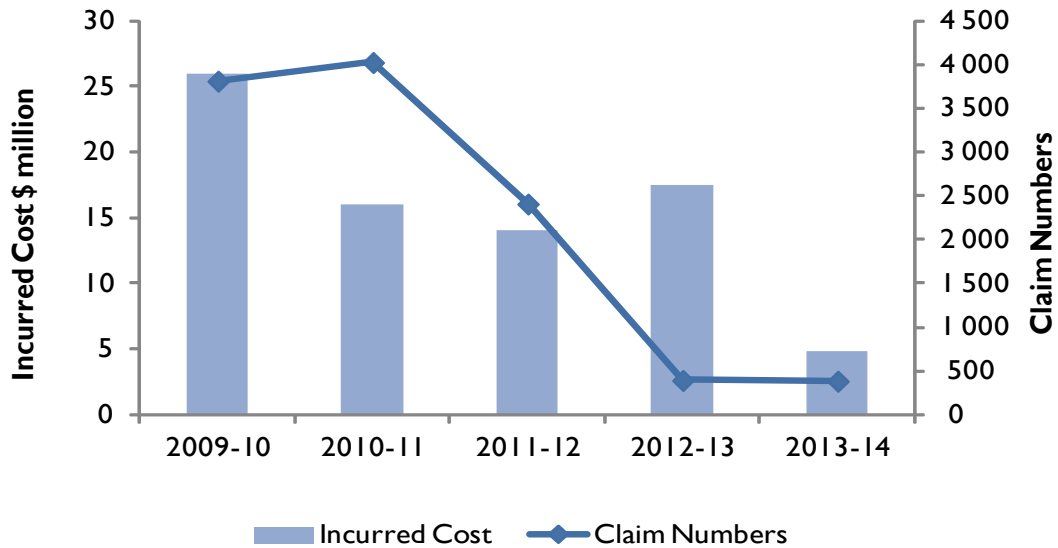


Property (excluding motor vehicle claims)

As at 30 June 2014, there were 392 claims made for incidents that occurred in 2013-14. This compares with 394 claims made in 2012-13.

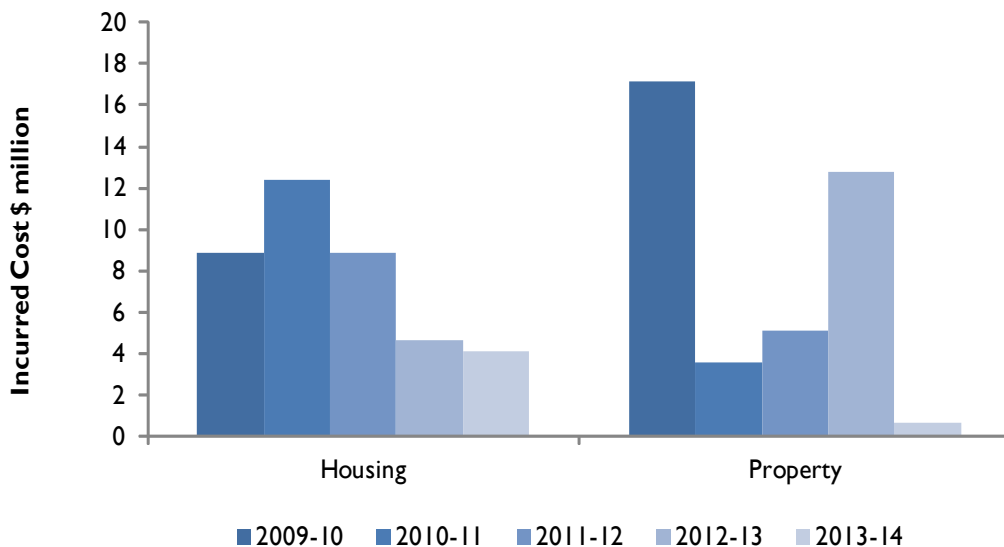
Due to the January 2013 bushfires, the overall incurred costs for property claims decreased substantially in 2013-14 compared to 2012-13.

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



Notes:

- As the incurred costs for transit and marine hull are very low, they have not been included in Chart 9.
- The 2009-10 incurred cost for property is primarily attributable to the Burnie High School fire.
- The 2012-13 incurred cost for property is primarily attributable to the Dunalley 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 Housing excess is adjusted annually. In 2013-14, the excess was \$17 million.

Motor Vehicle

Motor vehicle claim numbers decreased from 472 as at 30 June 2013, to 413 as at 30 June 2014. Incurred costs decreased by 10.2 per cent compared with the prior year.

There were six total loss claims in 2013-14, compared to nine total loss claims in 2012-13.

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

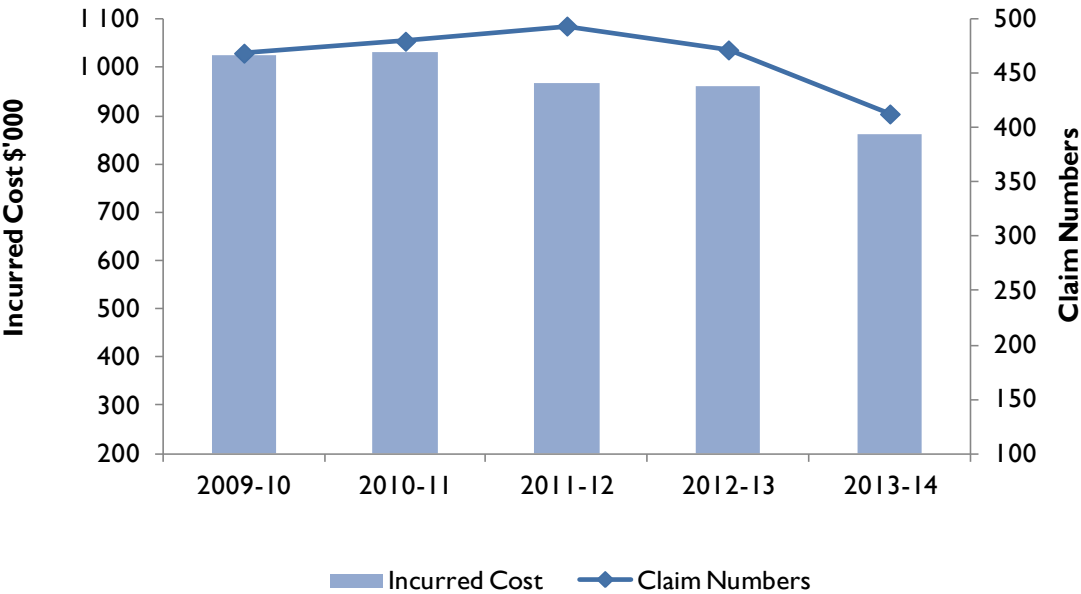
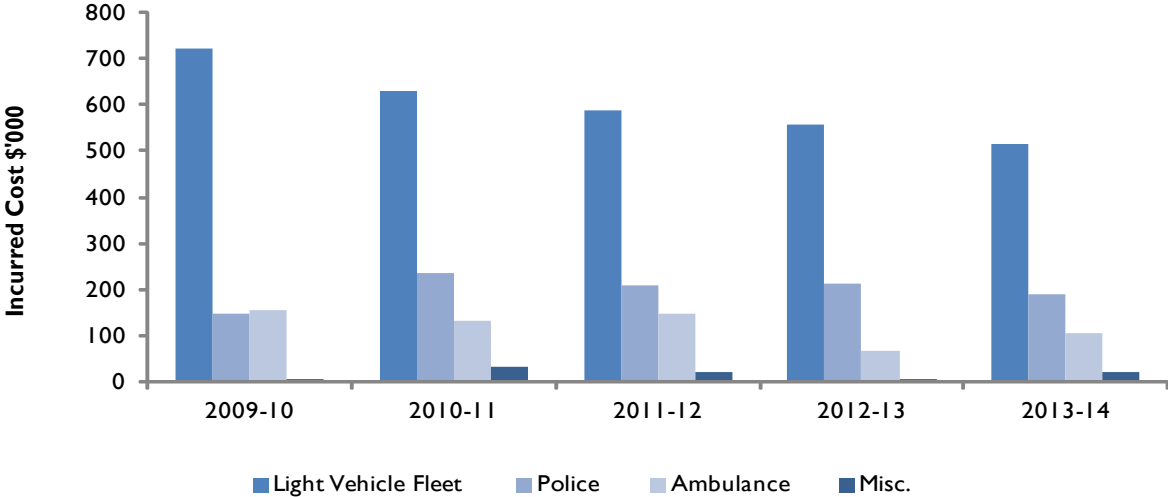


Chart 11 - Motor Vehicle Incurred Costs by category for the year ending 30 June



Liability

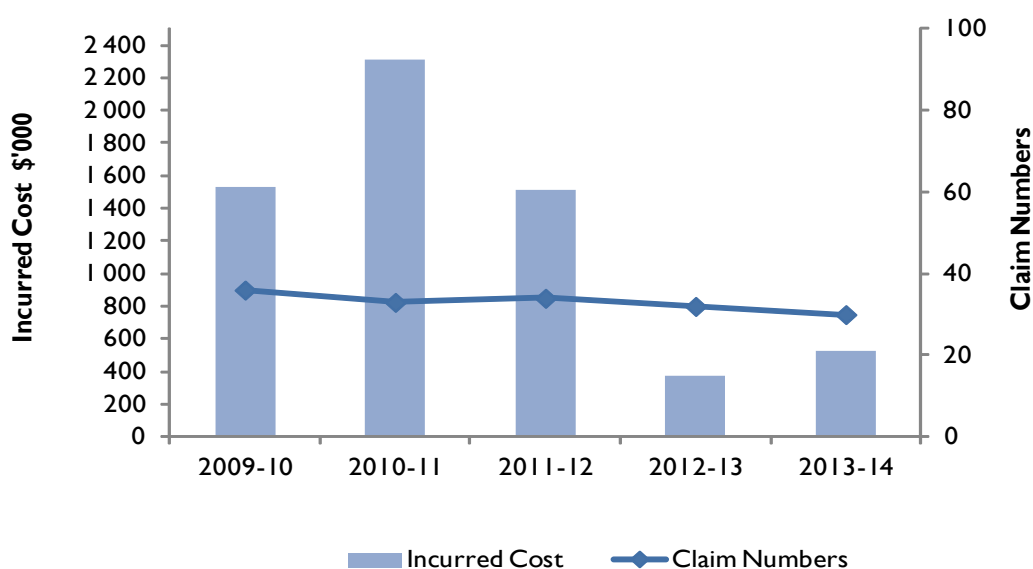
During 2013-14, 30 liability claims were reported where the incident giving rise to the claim occurred in that year. This represents a 6.3 per cent reduction in claim numbers compared to the same time last year (32 during 2012-13).

It is expected that liability claim numbers will rise in the future for incidents that occurred during 2013-14. Consequently, claim numbers and costs attributed to 2013-14 are expected to increase over time. Table 2 identifies the number of claims recorded by year of incident², together with the total incurred costs for those claims as at 30 June 2014.

Table 2 - Liability Claims Comparison by Year of Incident

	2009-10	2010-11	2011-12	2012-13	2013-14		Movement (2012-13 to 2013-14)
Claim Numbers	36	33	34	32	30	↓	(6.3%)
Total Incurred Cost (\$'000)	1 532	2 312	1 512	370	530	↑	43.2%
Total Paid (\$'000)	1 030	79	142	90	10	↓	(88.9%)
Outstanding Payments (\$'000)	502	2 233	1 370	280	520	↑	85.7%
Largest Incurred Claim (\$'000)	489	1 620	1 055	56	68	↑	21.4%

Chart 12 - Liability - Claim Numbers and Incurred Costs for the year ending 30 June



² The year in which the incident giving rise to the claim occurred.

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. Eighteen new claims were lodged in 2013-14. Table 3 shows the number of claims reported³, together with the total incurred costs for each year as at 30 June 2014.

Table 3 - Medical Liability by Year Reported

Year	Number of Claims	Total Incurred Cost (\$'000)
2009-10	29	7 350
2010-11	37	4 172
2011-12	23	6 017
2012-13	34	11 163
2013-14	18	2 064

Table 4 identifies the number of claims recorded by year of incident⁴, together with the total incurred costs for those claims as at 30 June 2014.

Table 4 - Medical Liability by Year of Incident

Year	Number of Claims	Total Incurred Cost (\$'000)
2009-10	31	3 726
2010-11	20	2 509
2011-12	12	919
2012-13	14	1 725
2013-14	3	405

³ Since 2011-12, the number of claims has been reported as at 30 June each year. Prior to 2011-12, the figures were based on an adjusted financial year figure.

⁴ The year in which the incident giving rise to the claim occurred.

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	
2009-10	1 664	↓	(11.6%)
2010-11	1 853	↑	11.4%
2011-12	6 785	↑	266.2%
2012-13	1 882	↓	(72.3%)
2013-14	2 618	↑	39.1%

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

Miscellaneous

There were eight miscellaneous claims reported for 2013-14. These comprised:

- Personal Accident (four claims with incurred costs of \$1 932); and
- Transit (four claims with incurred costs of \$4 350).

Supporting Information

Resources

A number of useful resources on the operation of the Fund are available from the [TRMF section](#) of the Treasury website. These documents, including the date when they were last updated, are listed below:

Title	Last Updated
Policy and Disclosure Document of the Tasmanian Risk Management Fund	May 2014
Agency excess levels	July each year
Guidelines for Determining Appropriate Levels of Insurance for Goods and Services Contracts	October 2011
Business Travel Brochure	March 2014
Cover for Agency Volunteers Brochure	December 2013

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.

Concise TRMF Income Statement for the year ended 30 June 2014

	2014	2013
	\$'000	\$'000
Revenue and other income from transactions		
Agency contributions	57 970	51 274
Investment income	5 733	5 962
Total revenue and other income from transactions	63 703	57 236
Expenses from transactions		
Claims expense	44 054	54 278
Other expenses	3 088	3 117
Total expenses from transactions	47 142	57 395
Net result from transactions	16 561	(159)
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(18 684)	(11 198)
Total other economic flows included in net result	(18 684)	(11 198)
Net Result	(2 123)	(11 357)

Concise TRMF Balance Sheet as at 30 June 2014

	2014	2013
	\$'000	\$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	209 134	189 879
Receivables	1 241	634
Total assets	<u>210 375</u>	<u>190 513</u>
Liabilities		
<i>Financial Liabilities</i>		
Payables	1 134	644
Outstanding claims	212 031	190 552
Employee entitlements	68	53
Total liabilities	<u>213 234</u>	<u>191 249</u>
Net assets (liabilities)	<u>(2 859)</u>	<u>(736)</u>
Equity		
Accumulated funds	(2 859)	(736)
Total equity	<u>(2 859)</u>	<u>(736)</u>

Contact details

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

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