

Tasmanian Risk Management Fund

Annual Report 2015-16

Tasmanian Risk Management Fund Annual Report 2015-16

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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 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 assets). 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 Industrial Special Risks Policy purchased for 2015-16 and 2016-17 through Vero Insurance provides cover up to \$1 billion for any one event (\$500 million for any one loss), with an excess of \$5 million, reflecting the current cap provisioned within the 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.

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 participants' performance; and
- identify opportunities for participants to collaborate on issues and share information.

The Committee is chaired by a Deputy Secretary of Treasury and membership is representative of the agencies participating in the Fund. 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 2015-16, Jardine Lloyd Thompson 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 2015-16, 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 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 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

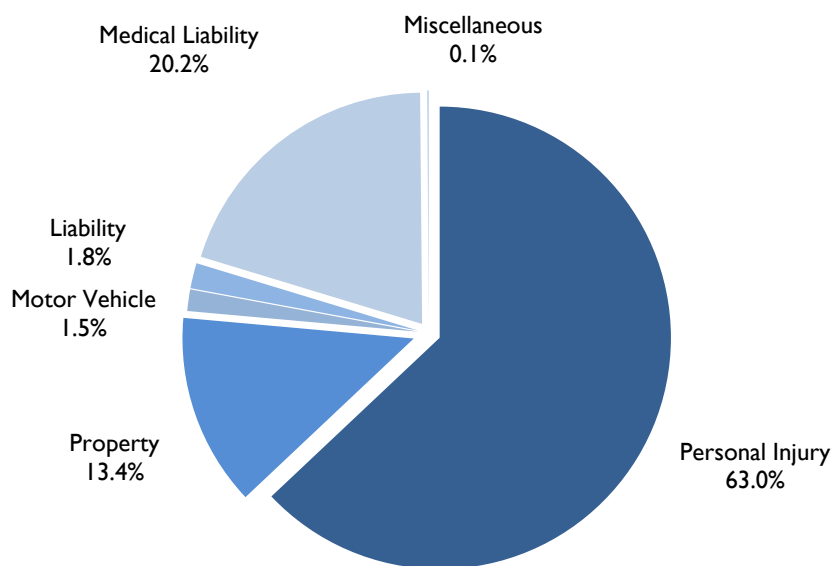
In 2015-16, agency contributions to the Fund totalled \$57.5 million. This compares with agency contributions of \$53.4 million in 2014-15.

Medical liability contributions increased significantly reflecting a reduction in the discount rate used for actuarial estimation and corrections to the claim cost indexation methodology. In addition, despite favourable claims experience, property contributions also increased due to the placement of catastrophe insurance in the external market for the first time in 2015-16, to cover property claims greater than \$5 million. These increases were offset to some extent by a reduction in the personal injury contribution for 2015-16, as a result of lower than expected claims experience.

For the other major risk categories, liability and motor vehicle contributions marginally reduced from the previous year.

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

Chart I - Agency Contributions by Class of Risk

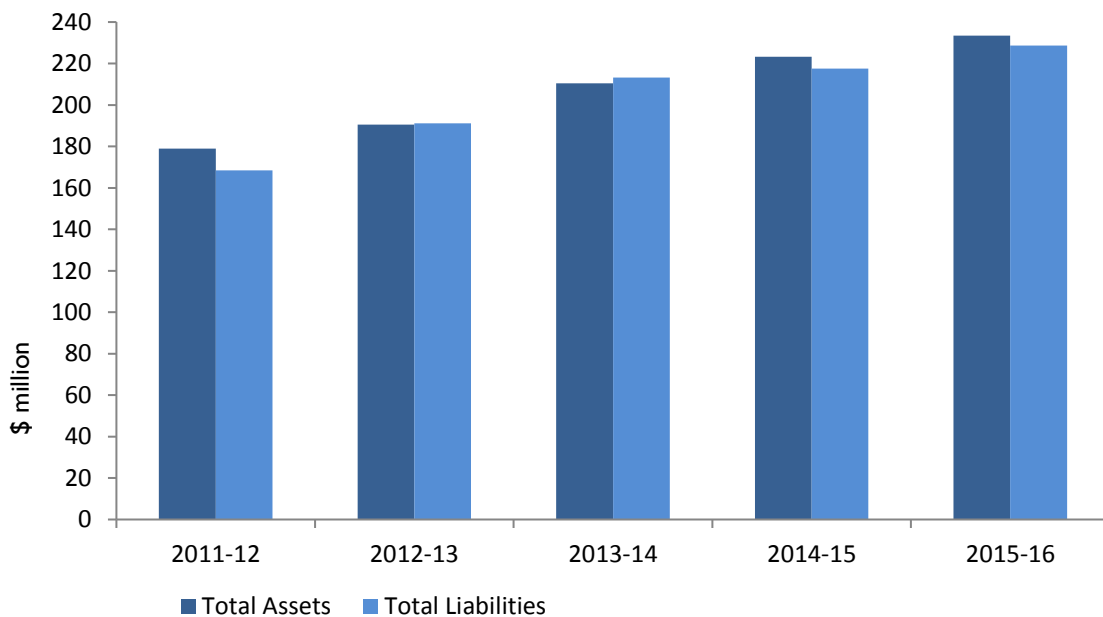


Financial Position

As at 30 June 2016, the Fund had total assets of \$233.5 million and estimated liabilities of \$228.7 million, resulting in net assets of \$4.8 million. This compares with the net asset result of \$5.8 million as at 30 June 2015. The change in the funding position is primarily attributed to a shortfall in the personal injury portfolio, mainly as a result of higher workers compensation claims payments in recent periods, which has been partly offset by improvements in the funding position of the medical liability and general liability portfolios. 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 2016



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 2016.

Figures in this report are inclusive of GST.

During 2015-16, 2 036 claims were lodged for incidents that occurred in the period 1 July 2015 to 30 June 2016. These claims can be broken up as follows:

Table I - Claim Numbers and Incurred Cost - Incidents Occurring in 2015-16

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 226	16.5
Property	334	8.0
Motor Vehicle	444	0.9
Liability	22	0.6
Medical Liability	9	0.8
Miscellaneous	1
Total	2 036	26.8

Notes:

- Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.
- Miscellaneous incurred costs totalled \$11 500.

Chart 3 - Claim Numbers 2015-16 - Percentage by Class of Risk

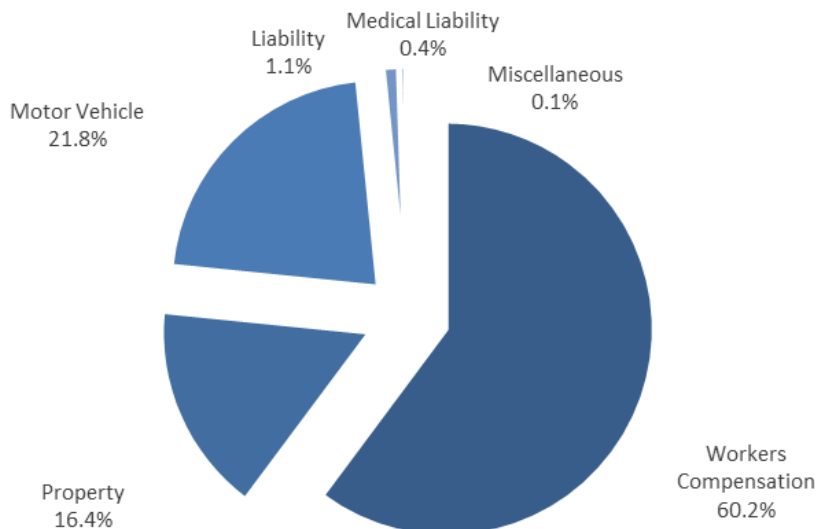
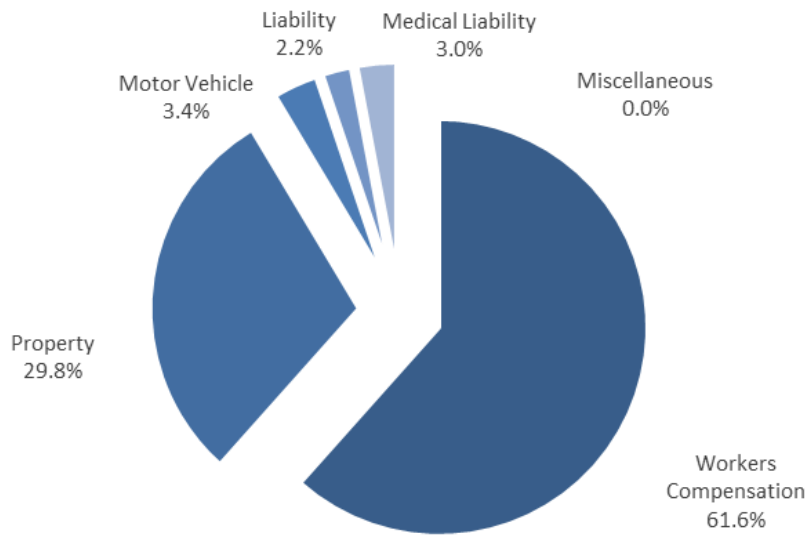


Chart 4 - Total Incurred Cost - 2015-16 Claims - Percentage by Class of Risk



Workers Compensation

Workers compensation claims increased from 1 214 claims occurring in 2014-15 to 1 226 claims occurring in 2015-16. This is represented in Chart 5 below.

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

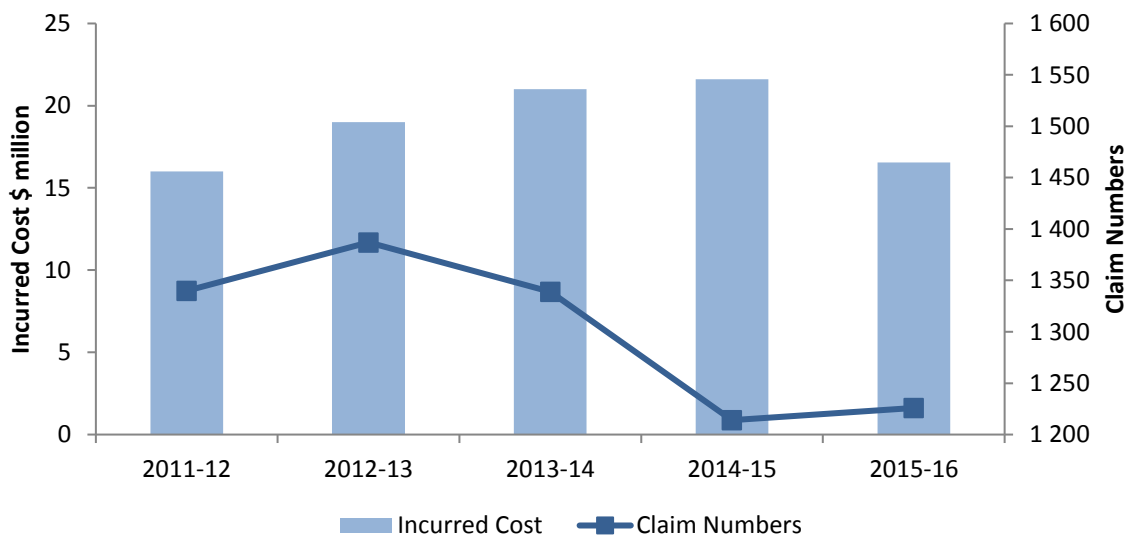


Chart 6 below shows workers compensation payments for claims occurring in 2015-16 and in previous years. During 2015-16, payments totalled \$32.7 million compared to \$35.7 million for 2014-15.

Chart 6 - Workers Compensation - Total Payments by Financial Year

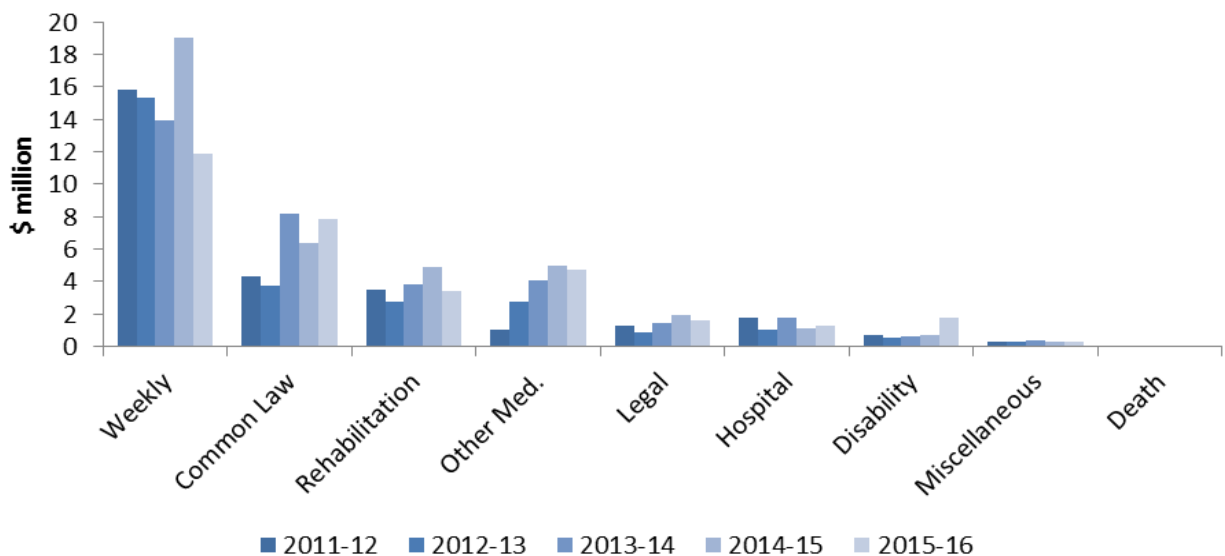


Notes:

- 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.
- The reported payment figure includes all costs paid for claims occurring in each Financial Year, excluding weekly compensation excess costs, which are met by Fund participants and not paid by the Fund.

Chart 7 below outlines the composition of workers compensation payments by category from 2011-12. Payment of wages decreased for 2015-16 compared to the previous year, but Common Law payments increased compared to 2014-15.

Chart 7 - Workers Compensation Payments by Category by Financial Year



Note:

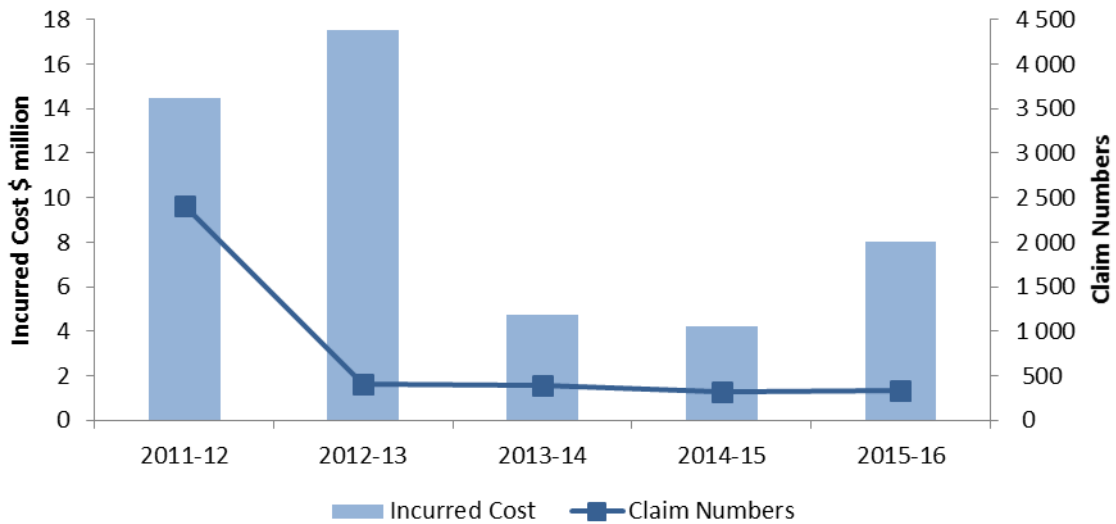
- These figures include payments relating to claims with a date of occurrence prior to 1988 and therefore differs from the data published by WorkCover Tasmania.

Property (excluding motor vehicle claims)

Property claim numbers increased from 316 claims reported during 2014-15 to 334 claims reported during 2015-16.

A significant increase in incurred costs for 2015-16 is attributable to the severe flood/storm events that occurred in January and June 2016.

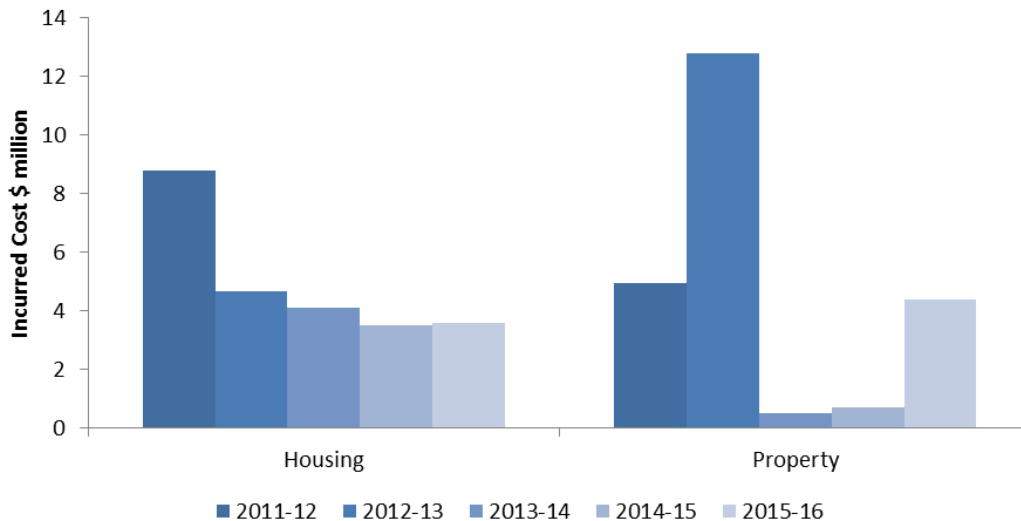
Chart 8 - Property - Claim Numbers and Incurred Costs by Financial Year



Note:

- Figures exclude data relating to the Department of Education’s Property Protection Scheme.

Chart 9 - Property Incurred Costs by Category by Financial Year



Notes:

- As the incurred costs for transit and marine hull are very low, they have not been included in Chart 9.
- 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 2015-16, the excess was \$14.4 million.

Motor Vehicle

Motor vehicle claim numbers increased from 401 claims reported during 2014-15 to 444 claims reported during 2015-16. However, incurred costs decreased when compared with the prior year.

There were 7 total loss claims in 2015-16, compared to 10 total loss claims in 2014-15.

Chart 10 - Motor Vehicle - Claim Numbers and Incurred Costs by Financial Year

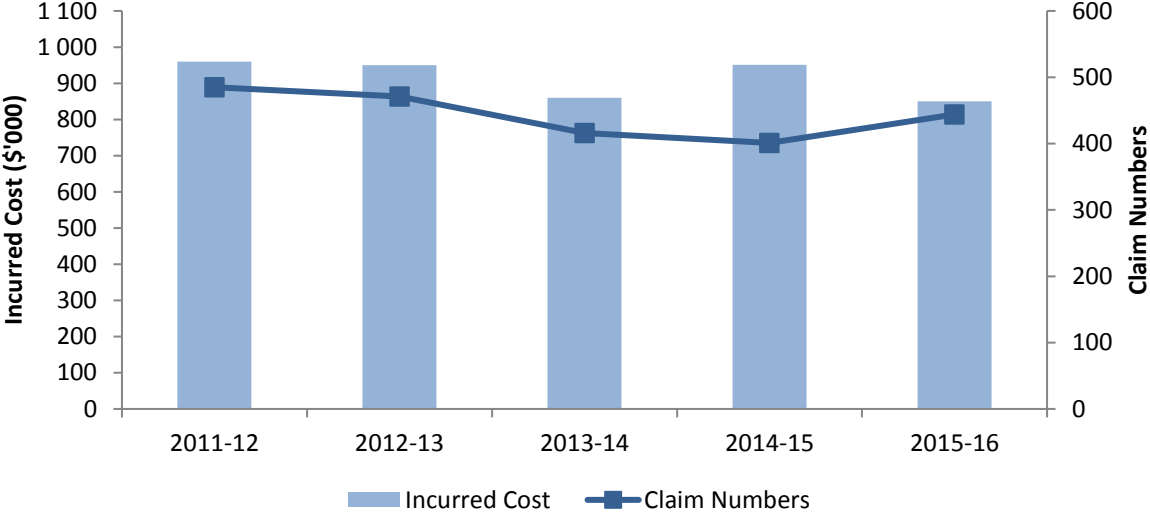
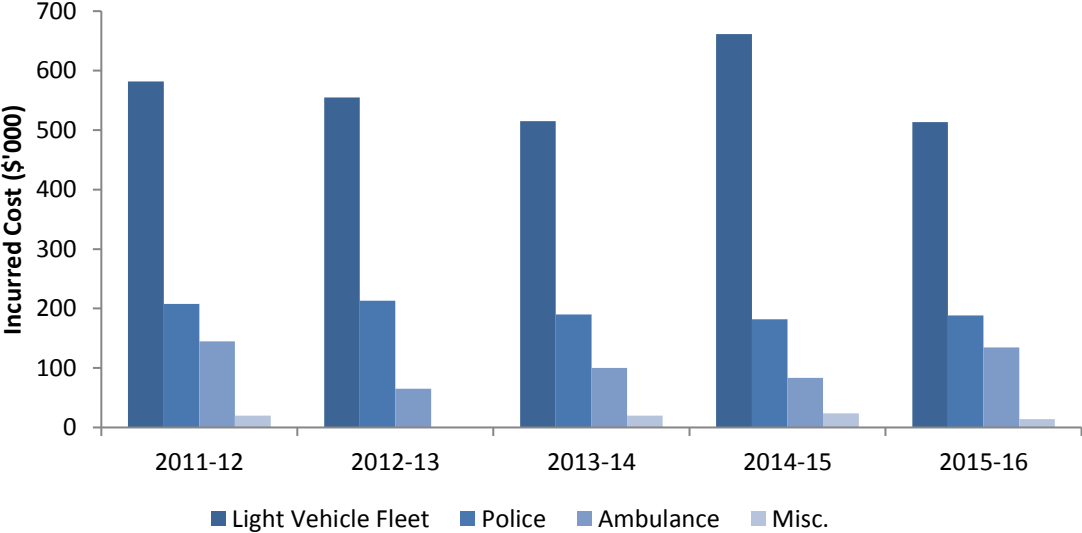


Chart 11 - Motor Vehicle Incurred Costs by category by Financial Year



Liability

Liability claim numbers decreased from 30 claims reported during 2014-15 to 22 claims reported during 2015-16.

Reported claim numbers may vary over time, as previously unreported claims become known. It is also expected that claim costs will vary over time as open claims develop towards finalisation.

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 2016.

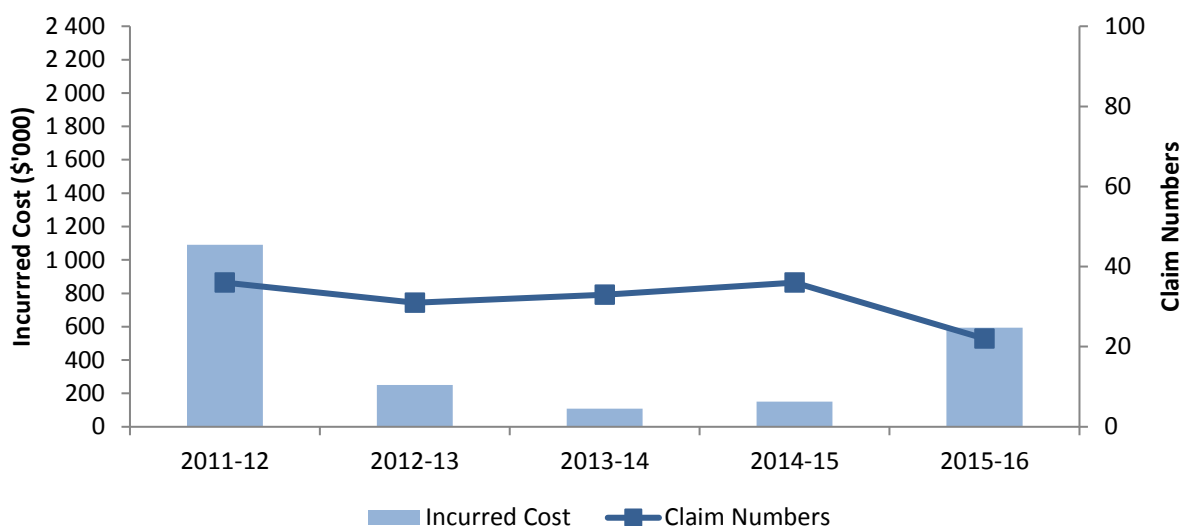
The significant increase in incurred costs for 2015-16 is due to the submission of two large claims.

Table 2 - Liability Claims Comparison by Year of Incident

	2011-12	2012-13	2013-14	2014-15	2015-16		Movement (2014-15 to 2015-16)
Claim Numbers	37	32	33	36	22	↓	(38.9%)
Total Incurred Cost (\$'000)	1 090	250	108	150	593	↑	295.3%
Total Paid (\$'000)	206	109	87	15	21	↑	40.0%
Outstanding Payments (\$'000)	884	141	21	135	572	↑	323.7%
Largest Incurred Claim (\$'000)	818	123	76	25	575	↑	2 200.0%

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

Chart 12 - Liability - Claim Numbers and Incurred Costs by Financial Year



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. Nine new claims were lodged in 2015-16 relating to notifications for the 2015-16 year, with 11 claims relating to injuries sustained in prior years but notified in 2015-16.

Table 3 shows the number of claims by year reported, together with the total incurred costs for each year, as at 30 June 2016. The incurred costs will vary over time as claims develop towards finalisation.

Table 3 - Medical Liability by Financial Year Reported

Year	Number of Claims	Total Incurred Cost (\$'000)
2011-12	24	6 172
2012-13	35	16 644
2013-14	18	1 701
2014-15	25	5 442
2015-16	20	1 389

Table 4 identifies the number of claims recorded by year of incident³, together with the total incurred costs for those claims, as at 30 June 2016. The number of claims may vary over time as previously unreported claims become known. The incurred costs will vary over time as claims develop towards finalisation.

Table 4 - Medical Liability by Financial Year of Incident

Year	Number of Claims	Total Incurred Cost (\$'000)
2011-12	22	1 400
2012-13	20	1 685
2013-14	6	440
2014-15	9	4 129
2015-16	9	790

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
2011-12	6 785	↑ 266.2%
2012-13	1 882	↓ (72.3%)
2013-14	2 618	↑ 39.1%
2014-15	4 296	↑ 64.1%
2015-16	5 726	↑ 33.3%

The medical liability payments in 2011-12 reflect two substantial payments made during that year. An increase in payments in 2015-16 is attributed primarily to one settlement in excess of \$1 million and two settlements of approximately \$500 000.

Miscellaneous

There was one miscellaneous claim reported for 2015-16. This was a personal accident claim with incurred costs of \$11 500.

³ The year in which the incident giving rise to the claim occurred.

Supporting Information

Resources

A number of useful resources on the operation of the Fund are available from the TRMF section (www.treasury.tas.gov.au/trmf) 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	September 2015
Agency excess levels	July each year
Guidelines for Determining Appropriate Levels of Insurance for Goods and Services Contracts	October 2011
Business Travel Brochure	July 2015
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 2015-16 Annual Report.

Concise TRMF Income Statement for the year ended 30 June 2016

	2016	2015
	\$'000	\$'000
Revenue and other income from transactions		
Agency contributions	57 451	53 359
Investment income	5 001	5 079
Total revenue and other income from transactions	62 452	58 438
Expenses from transactions		
Claims expense	53 465	43 847
Other expenses	3 378	3 588
Total expenses from transactions	56 843	47 435
Net result from transactions	5 609	11 003
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(6 582)	(2 372)
Total other economic flows included in net result	(6 582)	(2 372)
Net Result	(973)	8 631

Concise TRMF Balance Sheet as at 30 June 2016

	2016	2015
	\$'000	\$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	232 689	219 783
Prepayments	3 544
Receivables	789
Total assets	233 478	223 327
Liabilities		
<i>Financial Liabilities</i>		
Payables	724	645
Outstanding claims	227 893	216 846
Employee entitlements	62	64
Total liabilities	228 679	217 555
Net assets (liabilities)	4 799	5 772
Equity		
Accumulated funds	4 799	5 772
Total equity	4 799	5 772

Contact details

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

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