

Tasmanian Risk Management Fund

Annual Report 2016-17

Tasmanian Risk Management Fund Annual Report 2016-17

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I. Policy Statement

I.1. 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 (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 2016-17 through Vero Insurance to cover catastrophe risk 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.

2. Structure of the Fund

2.1. 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.

(a) 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.

(b) External Advisors

Fund Administration Agent

During 2016-17, Jardine Lloyd Thompson 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 2016-17, 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.

3. Financial Performance

3.1. Contributions

In 2016-17, agency contributions to the Fund totalled \$56.9 million. This compares with agency contributions of \$57.5 million in 2015-16.

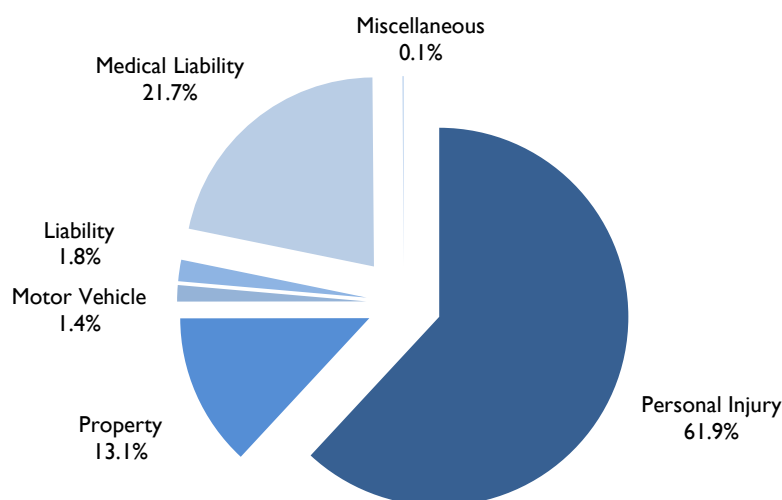
General property contributions decreased significantly from the previous year reflecting favourable claims experience and also a reduction in the premium for catastrophe risk insurance. The general property contribution also includes an adjustment for:

- payments transferred from the TRMF account to the Consolidated Fund relating to the Bridgewater and Burnie High School fire claims; and
- the receipt of the first progressive payment from the catastrophe insurer relating to the storm event claim from June 2016.

Despite an increase in personal injury contributions as a result of increased claim payments and a deterioration in the funding level, the overall contribution decreased marginally from the previous year which is mainly attributable to a major agency changing its excess level. These reductions were offset to some extent by marginal increases in medical liability, general liability and motor vehicle contributions.

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

Chart 1 - Agency Contributions by Class of Risk



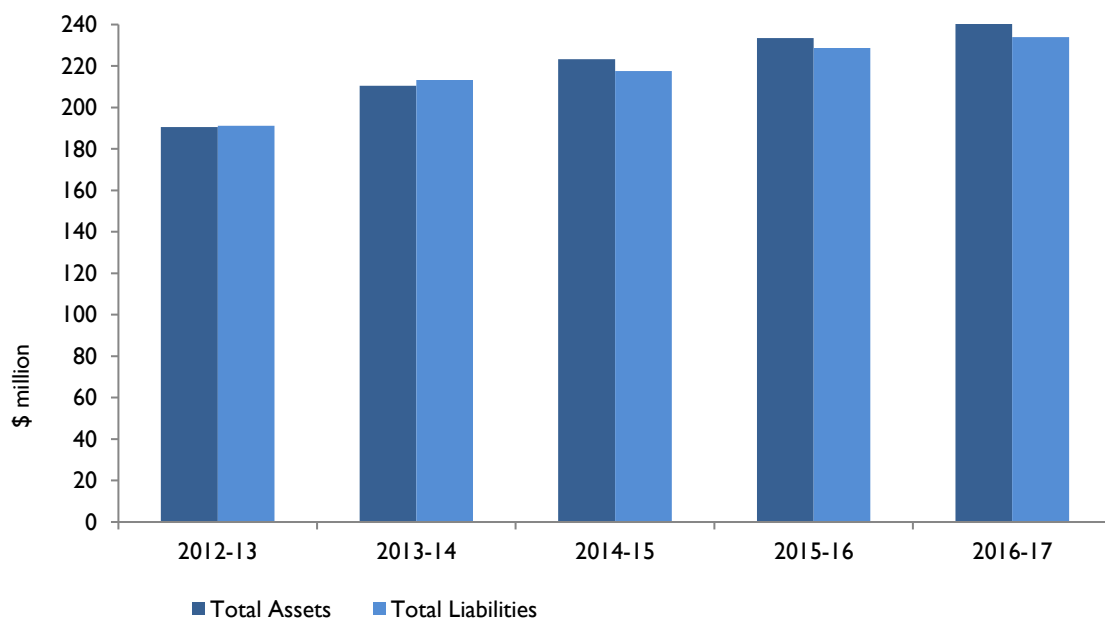
3.2. Financial Position

As at 30 June 2017, the Fund had total assets of \$241.1 million and estimated liabilities of \$233.9 million, resulting in net assets of \$7.2 million. This compares with a net asset result of \$4.8 million as at 30 June 2016. The change in the funding position is primarily attributed to a significant improvement in the funding level for medical liability risks which has been moderately offset by a weakening in the funding level for general property 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 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 2017



4. 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 2017.

Figures in this report are exclusive of GST.

During 2016-17, 2 457 claims were reported in the period 1 July 2016 to 30 June 2017. These claims can be further detailed as follows:

Table I - Claim Numbers and Incurred Cost – Claims Reported in 2016-17

	Number of Claims	Incurred Cost (\$m)
Workers Compensation	1 374	31.8
Property	487	21.1
Motor Vehicle	511	1.0
Liability	55	0.8
Medical Liability	22	5.0
Miscellaneous	8
Total	2 457	59.7

Notes:

- The total incurred cost is the sum of total amount paid and the estimated outstanding reserve. Incurred costs will vary over time as claims develop towards finalisation.
- Workers compensation claims data is reported on a claims reported basis for 2016-17; that is, by year in which a claim is reported. In previous years, workers compensation claims data was reported on a claims incurred basis; that is, by year of incident giving rise to the claim. This will see claim numbers remaining stable from year to year and enable comparison of historical data.
- Miscellaneous incurred costs totalled \$3 052.

Chart 3 - Claim Numbers 2016-17 - Percentage by Class of Risk

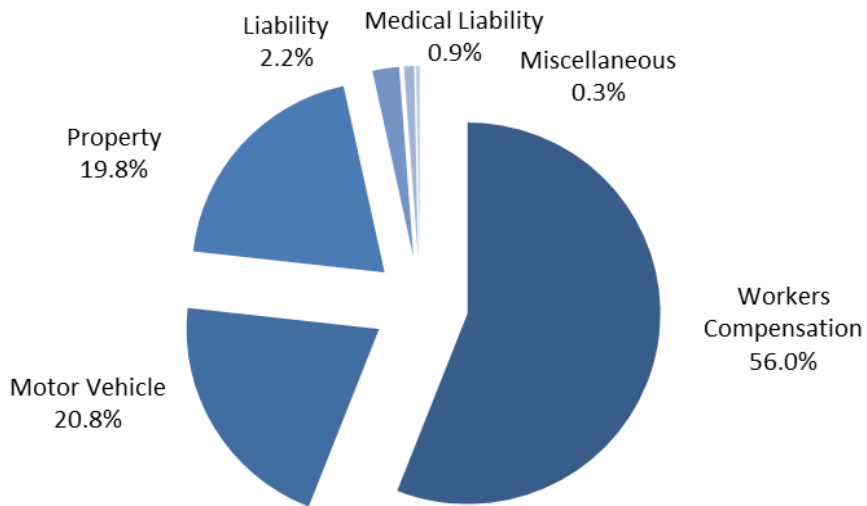
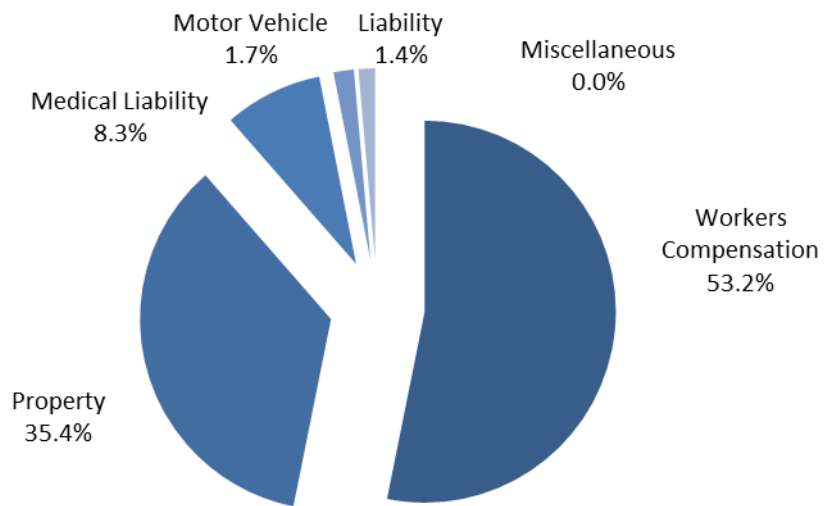


Chart 4 - Total Incurred Cost - 2016-17 Claims - Percentage by Class of Risk



4.1. Workers Compensation

Workers compensation claims increased from 1 347 claims reported in 2015-16 to 1 374 reported in 2016-17. This is represented in Chart 5 below. A number of claims reported during 2016-17 involved dates of injury in previous financial years.

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

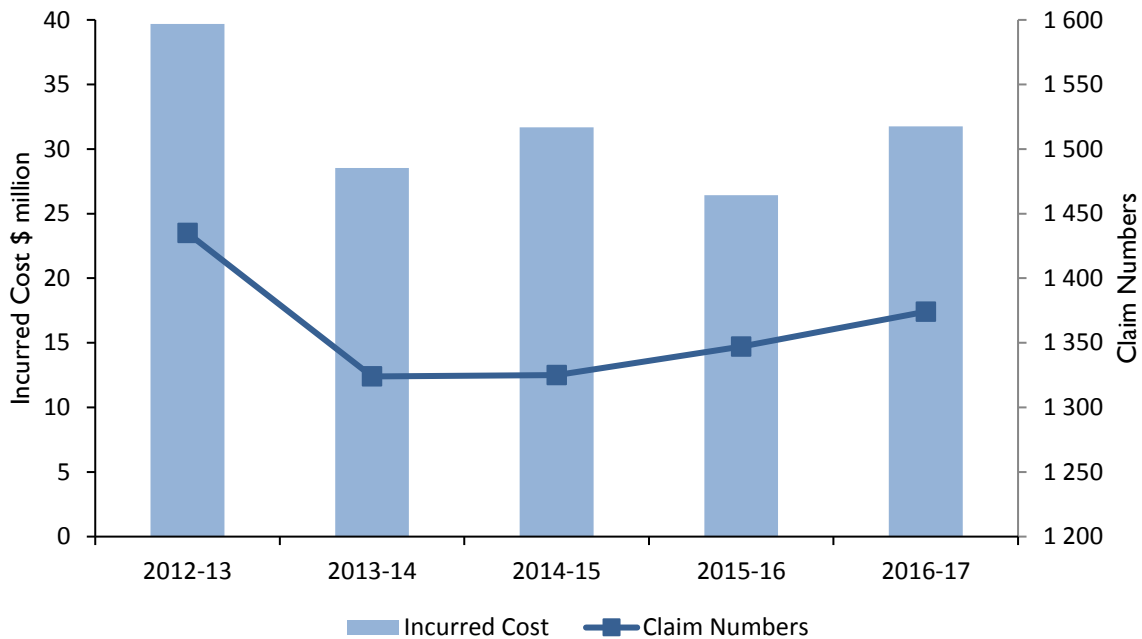
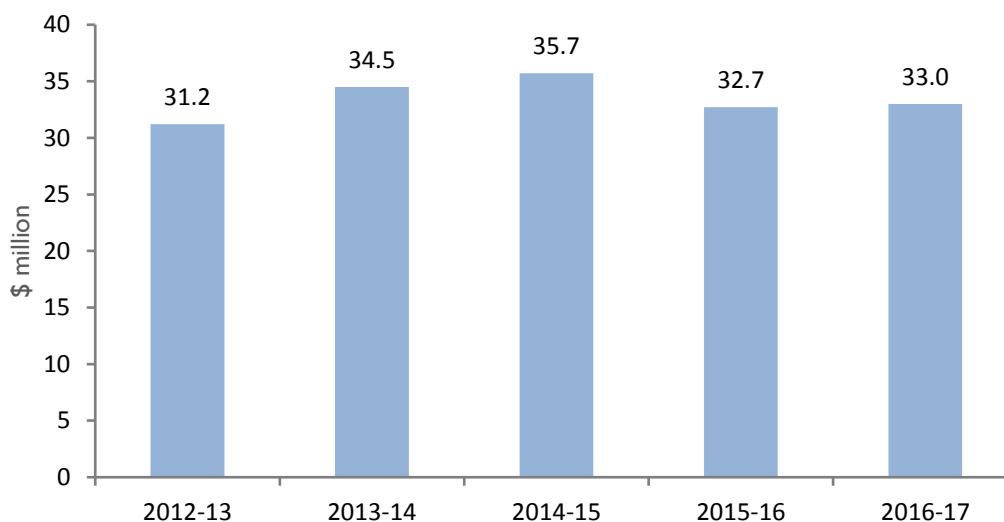


Chart 6 shows workers compensation payments made in 2016-17 and in previous years. During 2016-17, payments totalled \$33.0 million compared to \$32.7 million for 2015-16.

Chart 6 - Workers Compensation - Total Payments by Financial Year

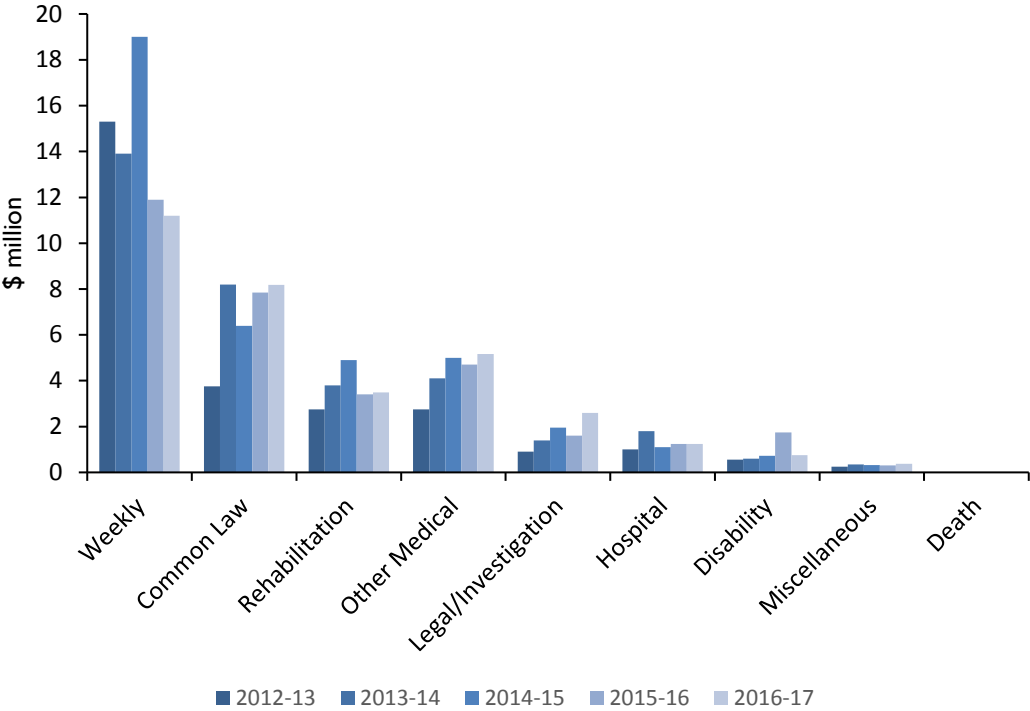


Notes:

- 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 2012-13. Payment of wages decreased for 2016-17 compared to the previous year, but Common Law payments (including settlement of entitlements) increased slightly compared to 2015-16.

Chart 7 - Workers Compensation Payments by Category by Financial Year



Note:

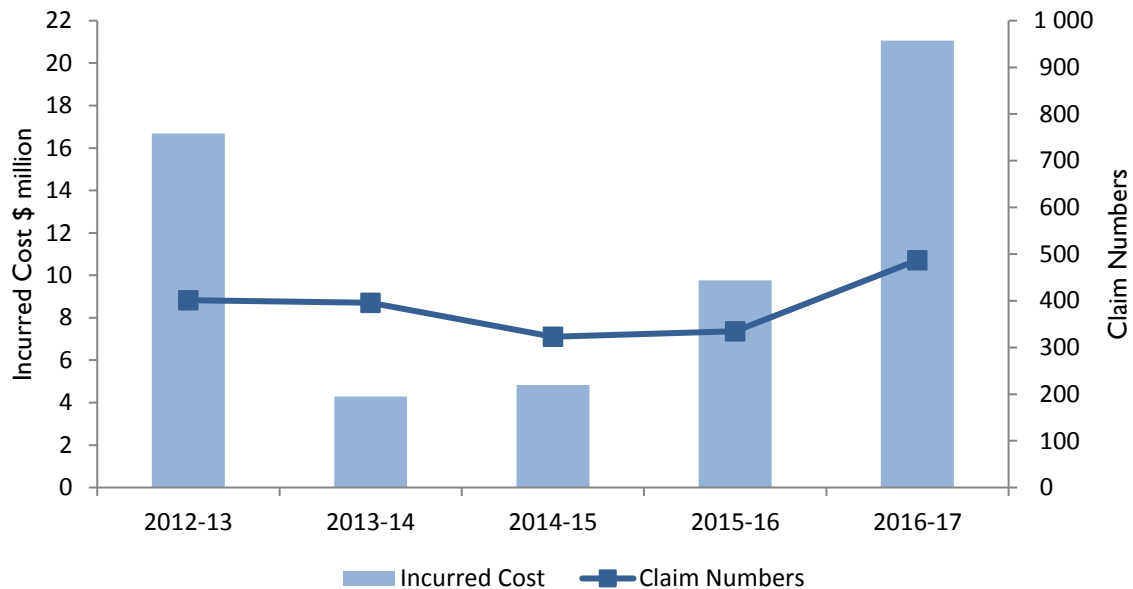
- These figures include payments relating to claims with a date of occurrence prior to 1988 and therefore differs from the data published by WorkCover Tasmania.

4.2. Property (excluding motor vehicle claims)

Property claim numbers increased from 335 claims reported during 2015-16 to 487 claims reported during 2016-17.

A significant increase in incurred costs for 2016-17 is attributable to the severe storm event in June 2016 as well as fire damage to a heritage property in December 2016. A large number of claims relating to the storm event were reported during 2016-17.

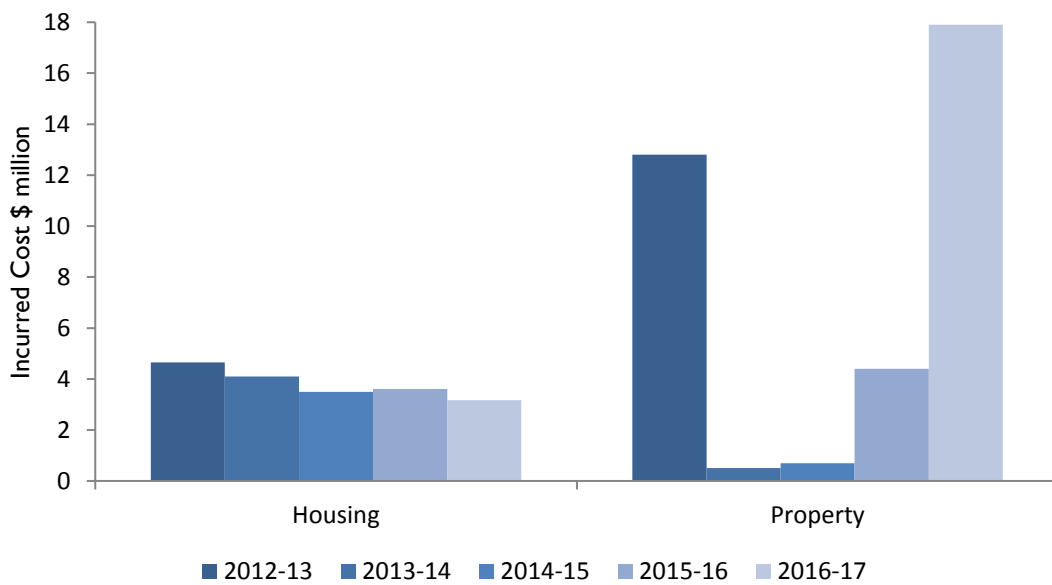
Chart 8 - Property - Claim Numbers and Incurred Costs by Financial Year Reported



Notes:

- Figures exclude data relating to the Department of Education's Property Protection Scheme.
- Reported 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 Incurred Costs by Category by Financial Year Reported



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 2016-17, the excess was \$12 million.

4.3. Motor Vehicle

Motor vehicle claim numbers increased from 444 claims reported during 2015-16 to 511 claims reported during 2016-17.

There were 14 total loss claims in 2016-17, compared to seven total loss claims in 2015-16.

The incurred cost of claims increased from \$702 418 in 2015-16 to \$1 017 774 in 2016-17 due to the relatively large number of total losses and an increase in claim numbers. The average repair cost remained consistent to previous years.

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

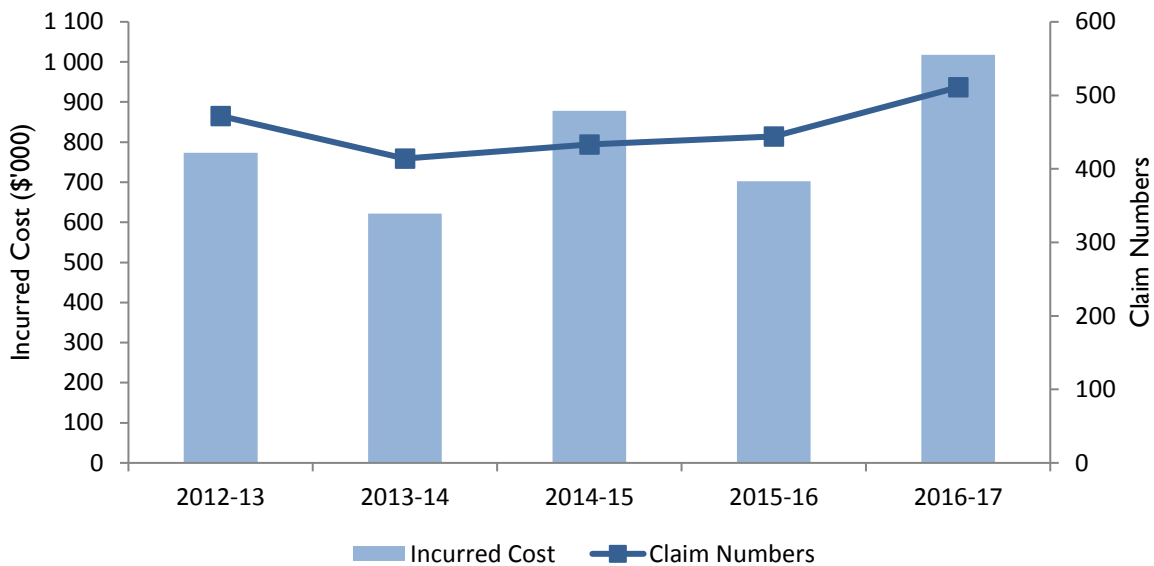
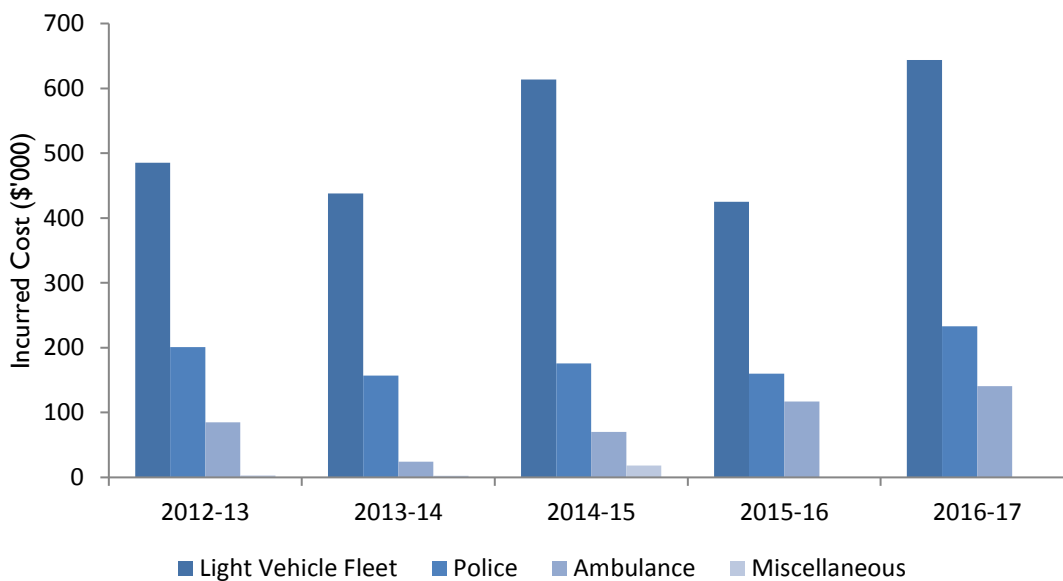


Chart 11 - Motor Vehicle Incurred Costs by category by Financial Year Reported



Note:

- Motor vehicle claims data is reported net of claim recoveries and excess costs for 2016-17. In previous years, motor vehicle claims data was reported gross of claim recoveries and excess costs.

4.4. Liability

Liability claim numbers increased to 48 claims reported for incidents that occurred in 2016-17. By comparison, there were 27 claims reported for incidents that occurred in 2015-16.

Reported claim numbers may vary over time, as previously unreported claims become known.

Table 2 identifies the number of claims recorded by year of incident, together with the total incurred costs for those claims, as at 30 June 2017. The incurred costs will vary over time as claims develop towards finalisation.

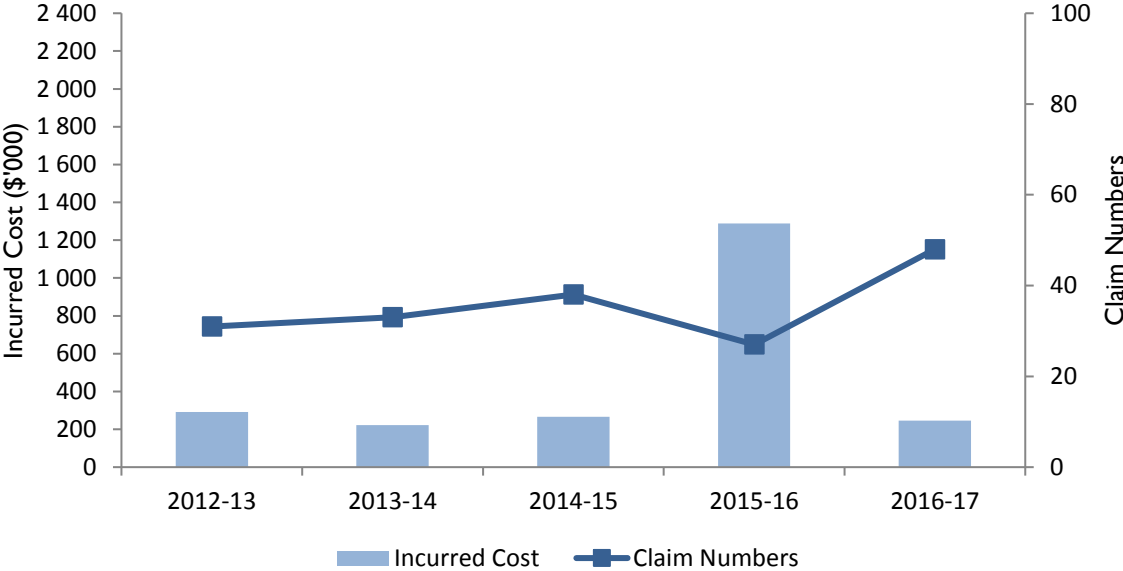
Table 2 - Liability Claims Comparison by Year of Incident

	2012-13	2013-14	2014-15	2015-16	2016-17		Movement (2015-16 to 2016-17)
Claim Numbers	32	33	37	27	48	↑	77.78%
Total Incurred Cost (\$'000)	292	222	267	1 288	246	↓	(80.90%)
Total Paid (\$'000)	145	130	40	15	14	↓	(6.67%)
Outstanding Payments (\$'000)	146	92	226	1 274	231	↓	(81.87%)
Largest Incurred Claim (\$'000)	133	86	172	580	38	↓	(93.45%)

Notes:

- Reductions in the total paid can occur if a loss date is adjusted changing the year of loss.
- The 2015-16 incurred cost for liability is primarily attributable to the submission of two large claims.

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



4.5. 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. Three new claims were lodged in 2016-17 relating to notifications for the 2016-17 year, with 19 claims relating to injuries sustained in prior years but notified in 2016-17.

Table 3 shows the number of claims by year reported, together with the total incurred costs for each year, as at 30 June 2017. 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)
2012-13	35	15 008
2013-14	18	1 823
2014-15	25	4 934
2015-16	20	3 071
2016-17	22	5 013

Table 4 identifies the number of claims recorded by year of incident, together with the total incurred costs for those claims, as at 30 June 2017. 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)
2012-13	24	2 450
2013-14	11	1 194
2014-15	14	4 744
2015-16	13	2 713
2016-17	3	2 270

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
2012-13	1 882	↓ (72.3%)
2013-14	2 618	↑ 39.1%
2014-15	4 296	↑ 64.1%
2015-16	5 726	↑ 33.3%
2016-17	3 847	↓ (32.8%)

Note:

- The 2015-16 incurred cost for medical liability is primarily attributable to one settlement in excess of \$1 million and two of approximately \$500 000.

4.6. Miscellaneous

There were eight miscellaneous claims reported for 2016-17. All involved personal accident claims with a total incurred cost of \$3 052.

5. Supporting Information

5.1. Resources

A number of useful resources on the operation of the Fund are available from the [TRMF section \(www.treasury.tas.gov.au/trmf\)](http://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

6. 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 2016-17 Annual Report.

Concise TRMF Income Statement for the year ended 30 June 2017

	2017	2016
	\$'000	\$'000
Revenue and other income from transactions		
Agency contributions	56 852	57 451
Investment income	4 203	5 001
Total revenue and other income from transactions	61 055	62 452
Expenses from transactions		
Claims expense	59 428	53 465
Other expenses	4 164	3 378
Total expenses from transactions	63 592	56 843
Net result from transactions	(2 537)	5 609
Other economic flows included in net result		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	4 946	(6 582)
Total other economic flows included in net result	4 946	(6 582)
Net Result	2 409	(973)

Concise TRMF Balance Sheet as at 30 June 2017

	2017	2016
	\$'000	\$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	240 373	232 689
Prepayments
Receivables	760	789
Total assets	241 133	233 478
Liabilities		
<i>Financial Liabilities</i>		
Payables	1 292	724
Outstanding claims	232 569	227 893
Employee entitlements ¹	65	62
Total liabilities	233 926	228 679
Net assets (liabilities)	7 207	4 799
Equity		
Accumulated funds	7 207	4 799
Total equity	7 207	4 799

Note:

- The Employee entitlements for the Tasmanian Risk Management Fund are reflected within the Department of Treasury and Finance's Controlled Statement of Financial Position.

7. Contact details

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

Risk Management Unit
Procurement and Property Branch
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