

TASMANIAN RISK MANAGEMENT FUND ANNUAL REPORT 2020-21

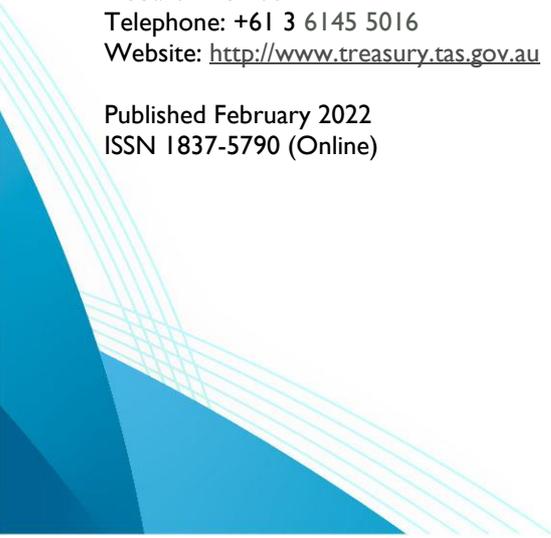
Tasmanian Risk Management Fund Annual Report 2020-21

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Policy Statement

Purpose of the Fund

The Tasmanian Risk Management Fund is the Tasmanian Government's self-insurance fund. The Fund 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. Subject to their date of joining, inner-Budget 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. 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:

- personal injury (workers compensation and 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 property assets (with the exception of those assets owned by State-owned Companies, Government Business Enterprises and Local Government) for claims over \$6 million. 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, 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.

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).

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.

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;
- review and provide feedback on issues affecting participant performance; and
- identify opportunities for participants to collaborate on issues and share information.

Membership of the Steering Committee is representative of the agencies participating in the Fund. Membership as at 30 June 2021 was:

- James Craigie, Chairperson
Department of Treasury and Finance;
- Abigail Shelley
Department of Treasury and Finance;
- Scott Wilson-Haffenden
Department of Police, Fire and
Emergency Management;
- Shane Bond
Department of Health;

- Kathy Baker
Department of Communities
Tasmania;
- Adrian Pearce
Department of Primary Industries,
Parks, Water and Environment;
- Paul Turner
Office of the Solicitor-General
(Litigation);
- Kane Salter
Department of Education;
- Tony Prenter
Department of Premier and Cabinet;
- Gavin Wailes
Department of Justice; and
- Joe Kanizay
Department of State Growth.

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 2020-21, JLT Risk Solutions 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 2020-21, GM Actuaries Pty Ltd was contracted to estimate future liabilities, advise on contributions and excesses and report on the Fund's performance.

Auditor

As part of Treasury's annual audit program, WLF Accounting & Advisory undertook a review of the controls and processes in place for the administration 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

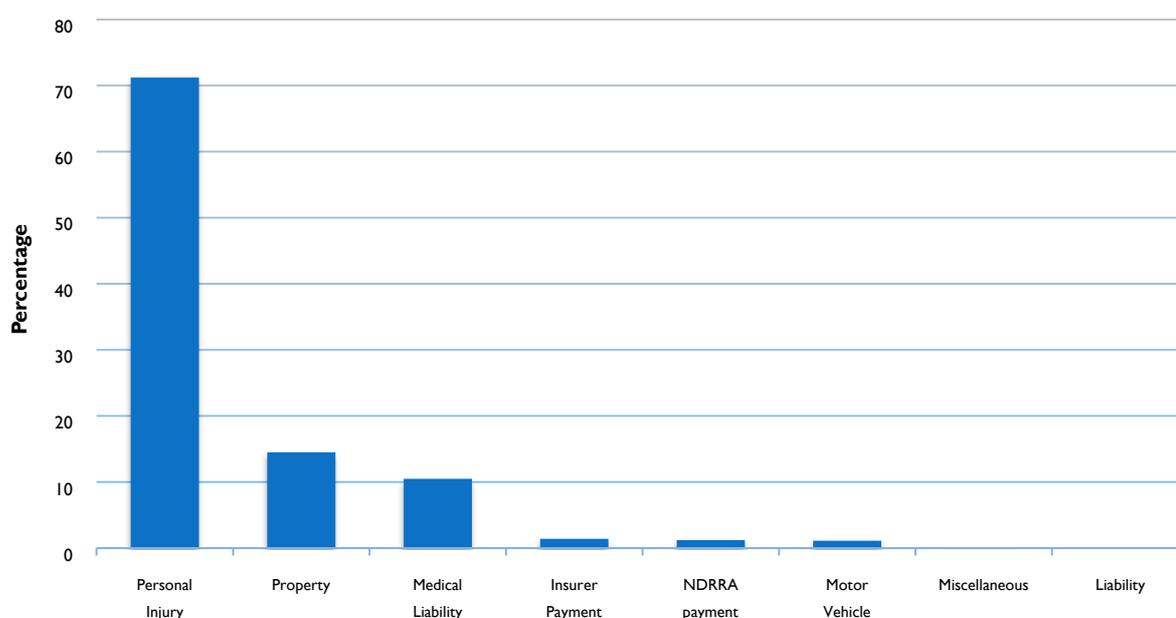
In 2020-21, contributions to the Fund totalled \$85.6 million, reflecting an increase from \$77.9 million in 2019-20.

Personal injury contributions increased significantly from the previous year principally due to materially higher claim costs in recent years, an increase in the number of claims, a lower discount rate, an increase in salaries and inflationary factors. Contributions for general property increased moderately reflecting an increase in the excess for the Industrial Special Risks insurance policy and unfavourable claims experience.

For 2020-21, payments received through the Natural Disaster Relief and Recovery Arrangements (NDRRA) and the Industrial Special Risks insurance policy in relation to the June 2016 storm event have been recorded separately in Chart I.

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

Chart I - Contributions by Class of Risk



Notes:

- Discount rates are used to adjust future claim payments to current values. The discount rate is based on the forecast interest rates applying to the Fund's assets over the next few years.
- The NDRRA is an Australian Government initiative providing financial assistance directly to the states to assist with certain relief and recovery measures associated with natural disaster events occurring before 1 November 2018. Natural disaster events occurring on or after this date are funded through the DRFA (Disaster Recovery Funding Arrangements).
- An Industrial Special Risks insurance policy is purchased in the private market to cover catastrophe risk for all State-owned property assets. At the time of the June 2016 storm event the retention on the policy was \$5 million.
- Participant contributions for Miscellaneous and Liability risks represented \$100 984 and \$17 234 respectively.

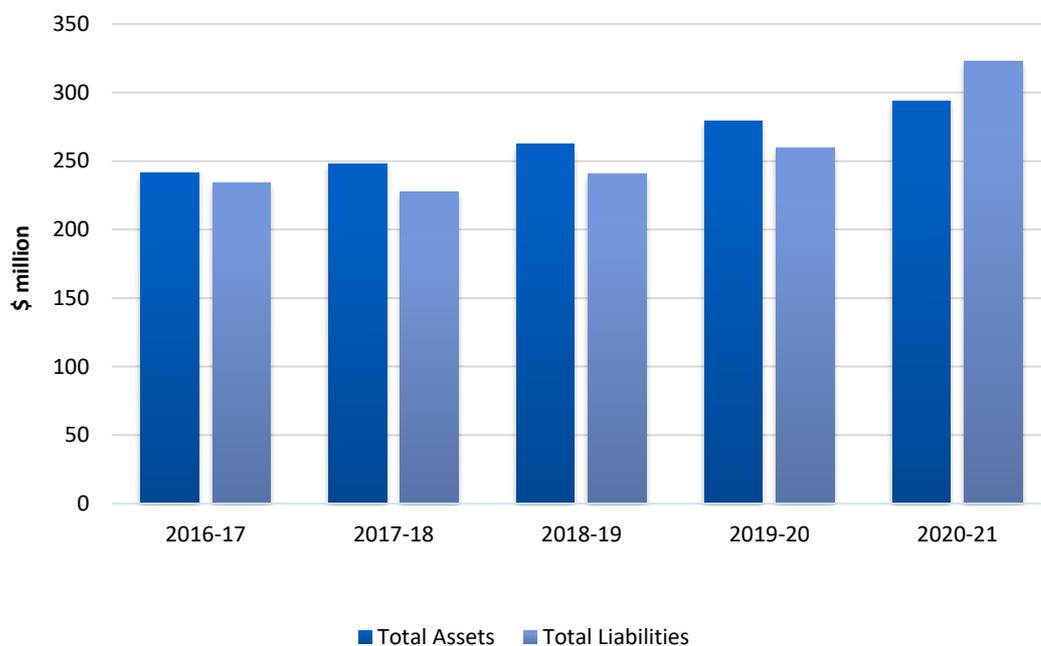
Financial Position

As at 30 June 2021, the Fund's total estimated liabilities of \$322.6 million exceeded the total assets of \$294.0 million by \$28.6 million. This compares with a net asset result of \$19.2 million as at 30 June 2020. Primarily this is attributable to a weakening in the funding level for personal injury 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 maintain assets that are relatively close to the liabilities, the funding positions of each risk category will be taken into account by the Fund's Actuary at the time participant contributions are determined.

The total assets and liabilities reflecting the position of the Fund for the past five years is represented in Chart 2.

Chart 2 - Assets and Liabilities as at 30 June 2021



Fund Administration Agent's Report

This section, prepared by the Fund Administration Agent, JLT Public Sector, provides an overview of the claims experience of the Fund as at 30 June 2021.

Figures in this report are exclusive of GST and the total incurred cost is the sum of total amount paid and the estimated outstanding reserve. The incurred cost will vary over time as claims develop towards finalisation and adjustments are made to the cost estimate on claims. As a result, there will be differences in incurred cost figures reported in the Annual Report from year to year.

During the period 1 July 2020 to 30 June 2021, claims were reported for incidents that occurred in 2020-21 and in previous years. These claims can be further detailed as follows:

Table 1 - Claim Numbers and Incurred Cost – Claims Reported in 2020-21

	Claim Numbers	Incurred Cost (\$m)
Workers Compensation	1 553	43.4
Property	334	13.1
Motor Vehicle	527	1.4
Liability	89	2.7
Medical Liability	23	3.0
Miscellaneous	3	...
Total	2 529	63.8

Notes:

- The incurred cost is rounded to one decimal place. As a consequence, rounded figures may not add up to total.
- The incurred cost for the Miscellaneous claims category is \$4 213.

Chart 3 - Percentage of Total Claims Reported in 2020-21 by Class of Risk

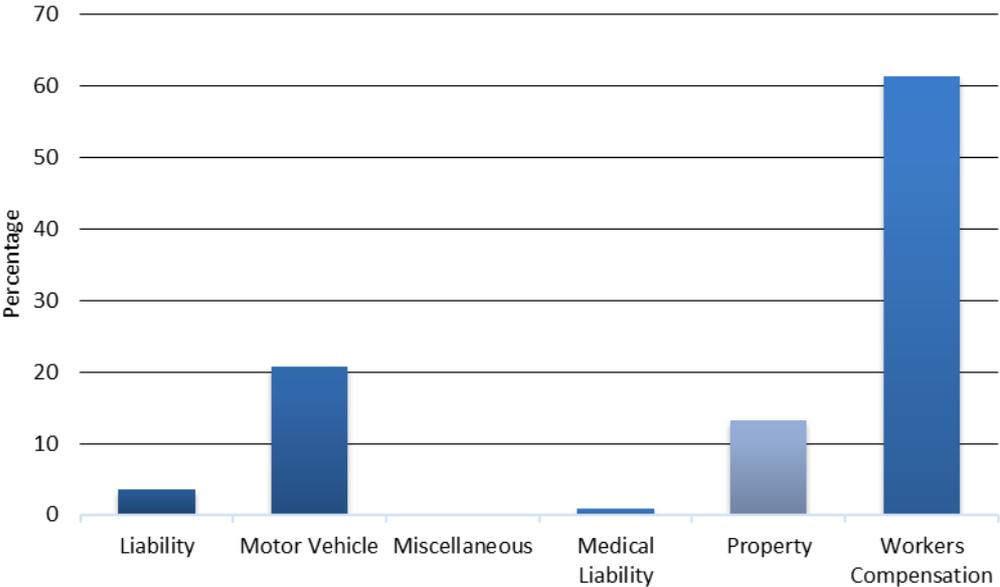
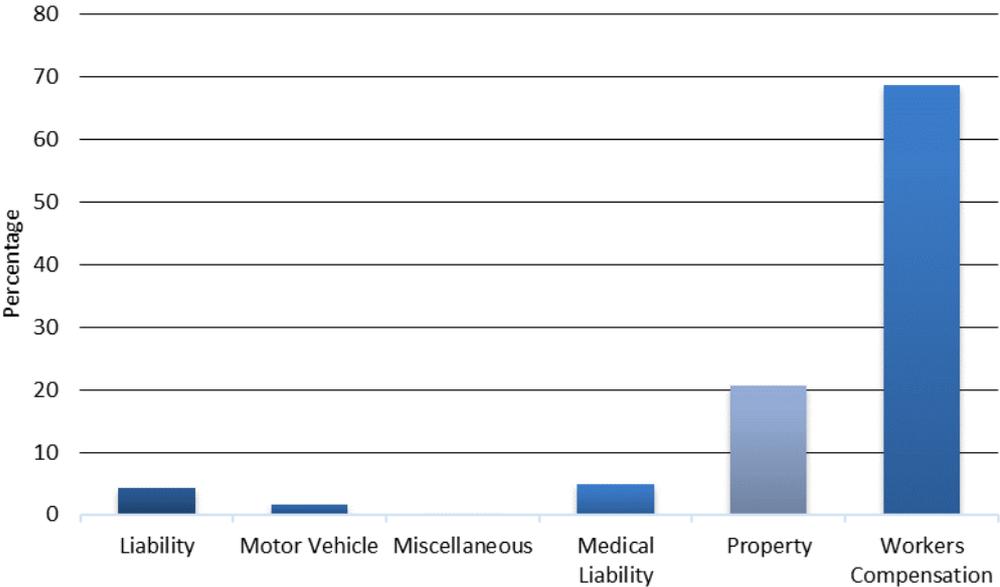


Chart 4 - Percentage of Total Incurred Cost for Claims Reported in 2020-21 by Class of Risk



Workers Compensation

The number of workers compensation claims reported during 2020-21 was 1 553, a decrease from 1 558 claims reported during 2019-20. A number of claims reported during 2020-21 involved dates of injury in previous financial years. The incurred cost for claims reported during 2020-21 was \$43.4 million. The incurred cost for claims reported during 2019-20 increased from \$42.7 million to \$46.2 million during 2020-21. This demonstrates how the incurred cost varies over time as claims develop towards finalisation. Claims data is reported on a claims reported basis; that is, by year in which a claim is lodged with the Fund Administration Agent.

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

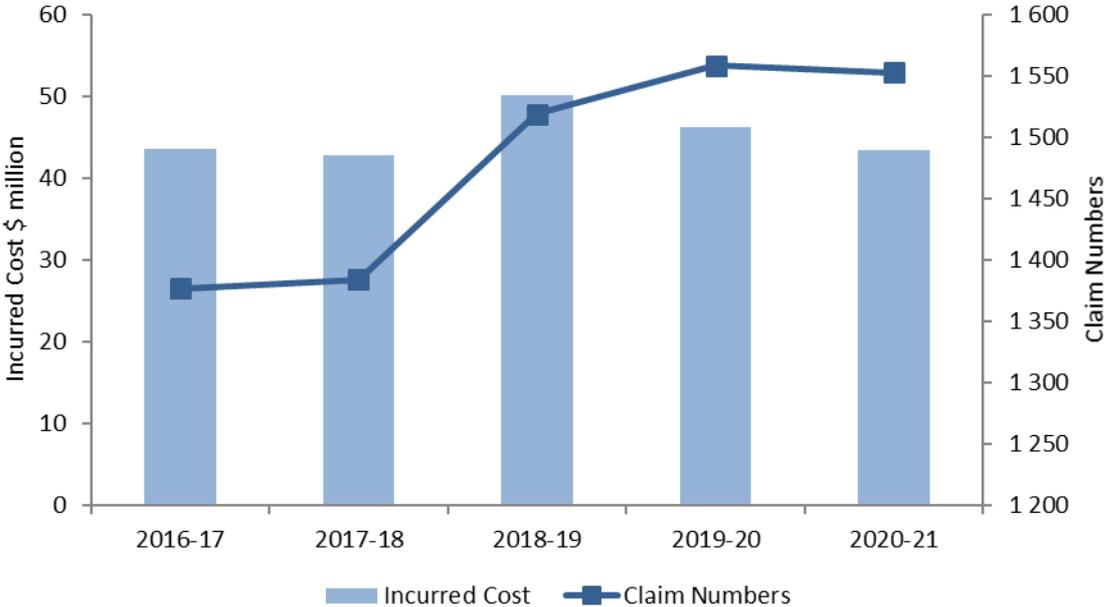


Chart 6 shows the average incurred cost for claims reported in each financial year. During 2020-21, the average incurred cost was \$27 996.

Chart 6 - Workers Compensation - Average Incurred Cost by Financial Year Reported

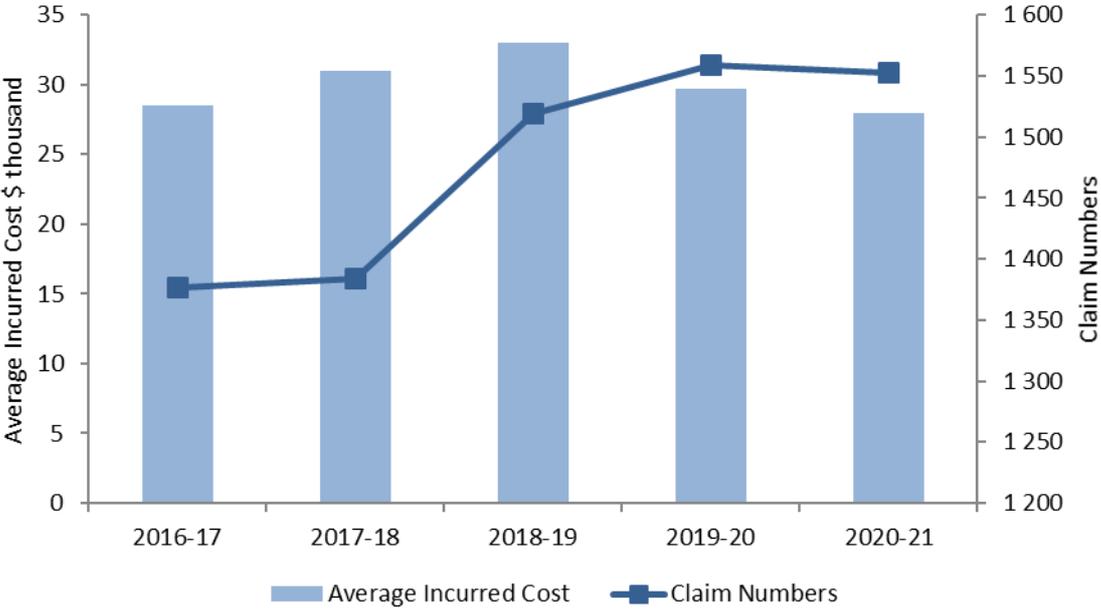
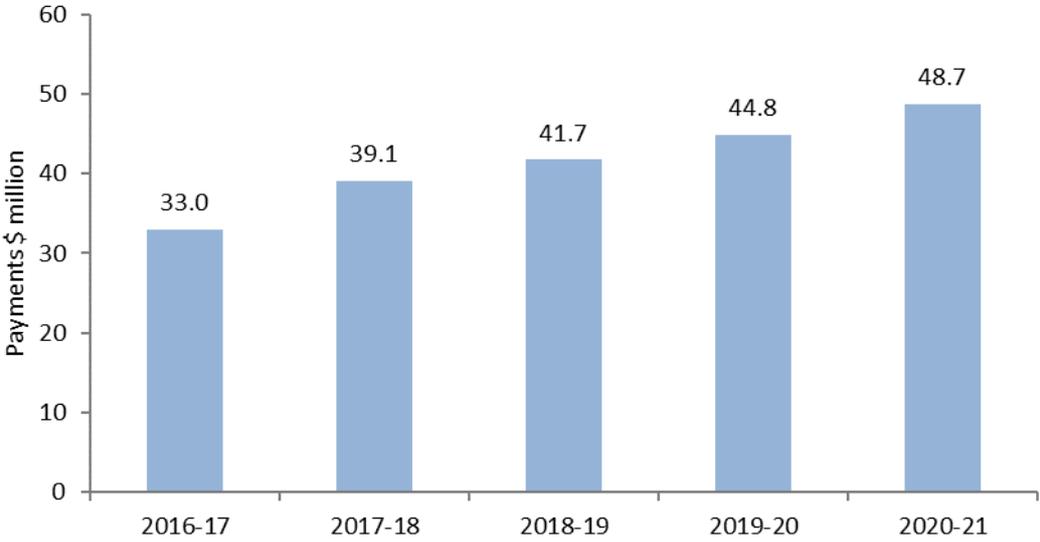


Chart 7 shows workers compensation payments made from 2016-17 to 2020-21. During 2020-21, payments totalled \$48.7 million compared to \$44.8 million for 2019-20.

Chart 7 - Workers Compensation - Payments by Financial Year

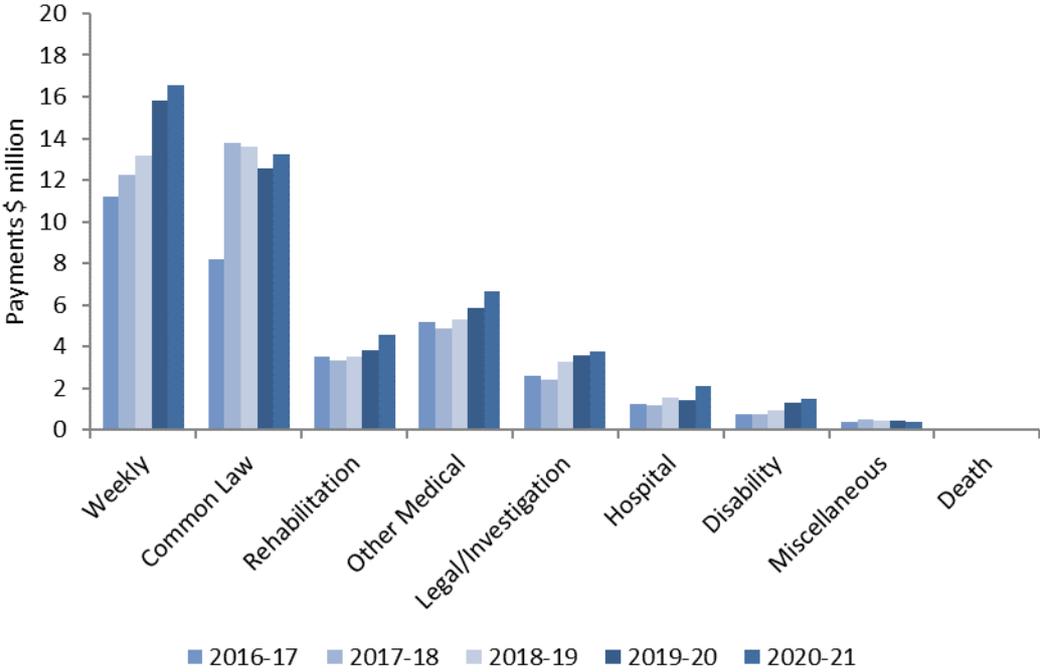


Notes:

- These figures include payments relating to claims with a date of occurrence prior to 1988 and therefore differ from the data published by WorkCover Tasmania.
- The reported payment figure includes all costs paid excluding the costs associated with the excess which are met by Fund participants and not paid by the Fund.

Chart 8 outlines the composition of workers compensation payments by category from 2016-17. With the exception of miscellaneous payments, all categories increased for 2020-21 compared to the previous year.

Chart 8 - 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 differ from the data published by WorkCover Tasmania.

Property (excluding motor vehicle claims)

The number of property claims reported during 2020-21 was 334 with an incurred cost of \$13.1 million. This is a decrease from 389 claims reported during 2019-20 with an incurred cost of \$16.9 million. The incurred cost will vary over time as claims develop towards finalisation.

The high incurred cost in 2016-17 is attributable to a severe storm event in June 2016, in addition to fire damage caused to a heritage listed property in December 2016.

The increase in claims reported during 2017-18 is attributable to a severe storm event in May 2018 that impacted southern Tasmania. However, the incurred cost associated with this event was relatively low.

The increase in the incurred cost in 2019-20 is attributable to bush fire events in December 2018 and January 2019 that impacted the south-west of the State.

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 - Claim Numbers and Incurred Cost by Financial Year Reported

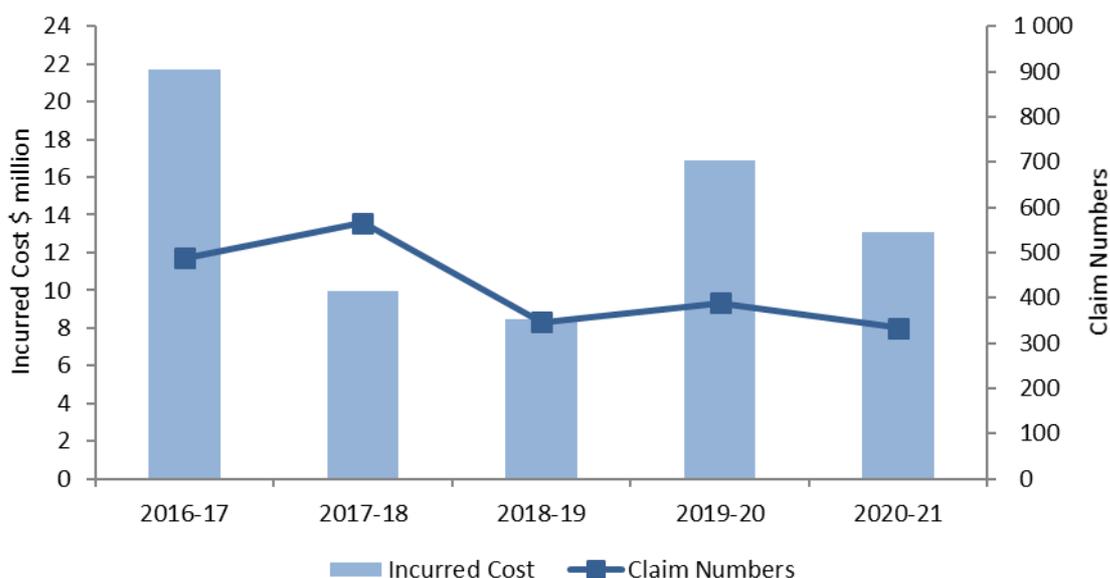


Chart 10 shows the average incurred cost for claims reported in each financial year. During 2020-21, the average incurred cost decreased to \$39 260, compared to \$43 463 for 2019-20.

Chart 10 - Property - Average Incurred Cost by Financial Year Reported

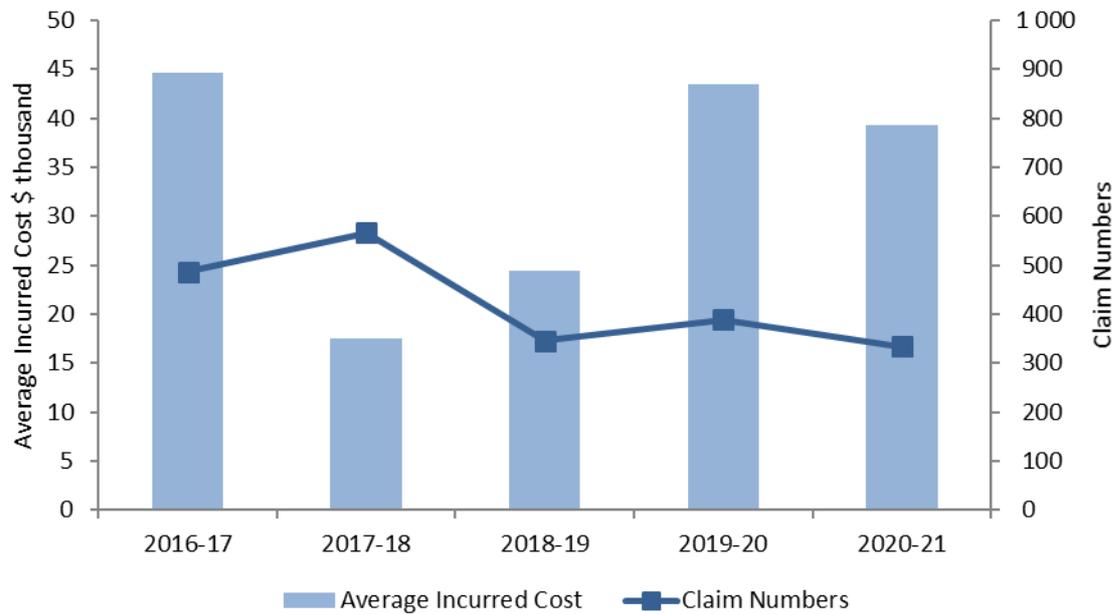
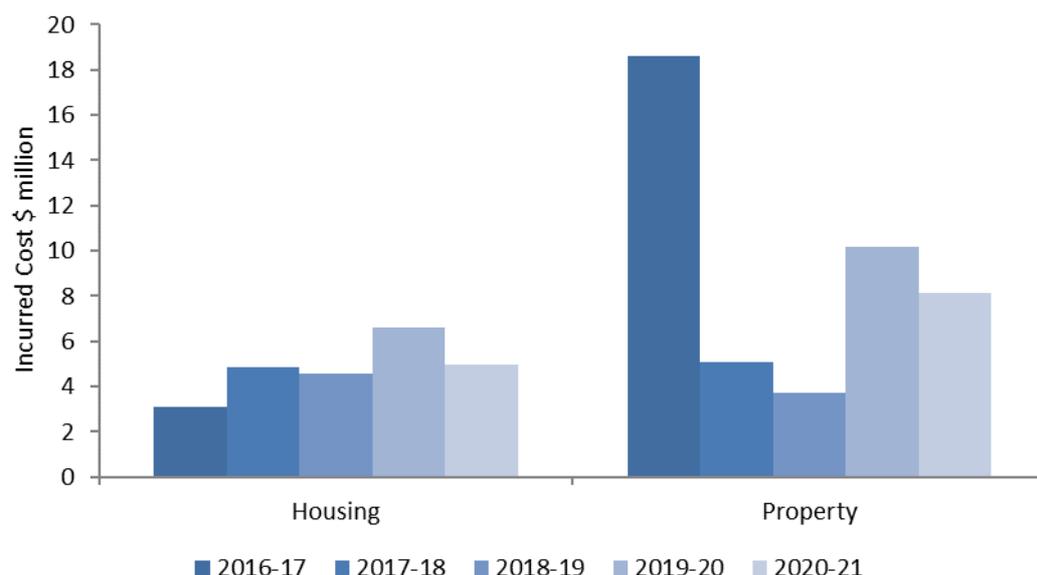


Chart 11 shows the incurred cost for claims reported in each financial year for Housing Tasmania and other property (non-Housing Tasmania). The Fund covers damage to, and loss of, Housing Tasmania properties under an aggregate stop loss arrangement. Housing Tasmania is required to pay the total costs of all losses and damage to Housing Tasmania properties up to a selected excess in a financial year. The Fund meets the cost of any losses/damage above the excess. The Housing Tasmania excess is reviewed annually. In 2020-21, the excess was \$11.35 million.

Chart 11 - Property - Incurred Cost by Category by Financial Year Reported



Note:

- Other property includes transit and machine breakdown risks however, as the incurred costs for transit and machine breakdown are relatively low, they have not been included in Chart 11.

Motor Vehicle

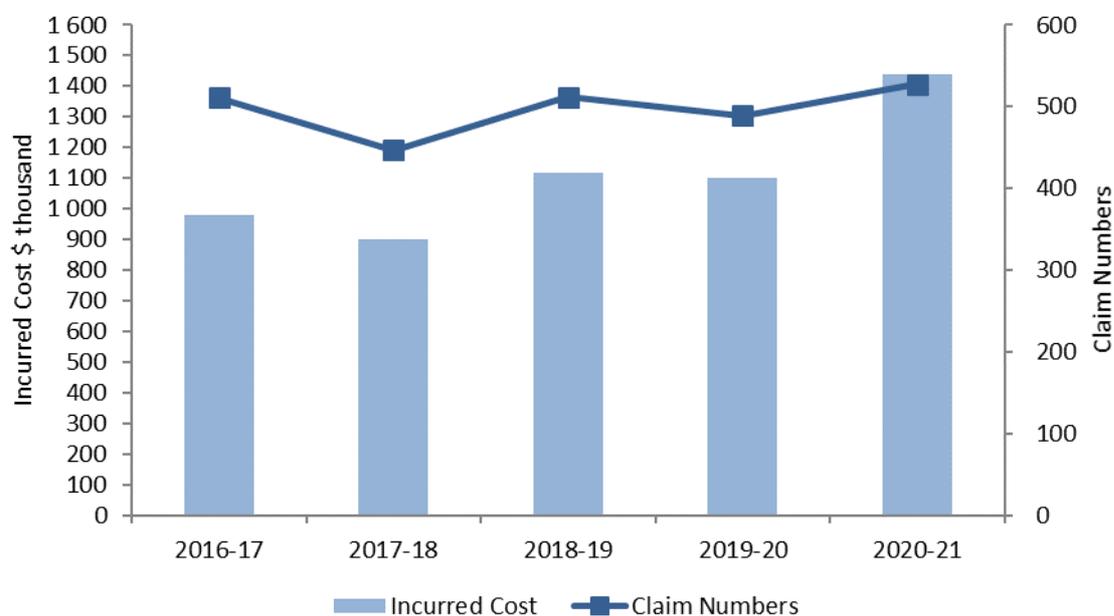
The number of motor vehicle claims reported during 2020-21 was 527 with an incurred cost of \$1 438 189. This is an increase from 489 claims reported during 2019-20 with an incurred cost of \$1 098 691. This information is displayed in Chart 12 below.

There were 17 total loss claims in 2020-21, compared to 12 total loss claims in 2019-20.

The increase in the incurred cost is due to the large increase in total losses and an increase in the average repair cost. The incurred cost will vary over time as claims develop towards finalisation.

From 2016-17, motor vehicle claims data is reported net of claim recoveries and excess costs. Prior to this, motor vehicle claims data was reported gross of claim recoveries and excess costs.

Chart 12 - Motor Vehicle - Claim Numbers and Incurred Cost by Financial Year Reported



Note:

- The note in relation to Chart 12, page 17 of the Tasmanian Risk Management Fund Annual Report 2019-20 was incorrect. The data included in the 2018-19 report was correct.

The data in Chart 12, page 17 of the Tasmanian Risk Management Fund Annual Report 2019-20 reported motor vehicle claims costs net of an additional excess per claim, these excesses should have been included in the data. This error has been corrected and is reflected in Chart 12 above.

Chart 13 shows the average incurred cost for claims reported in each financial year. During 2020-21, the average incurred cost was \$2 729, compared to \$2 247 for 2019-20.

Chart 13 - Motor Vehicle - Average Incurred Cost by Financial Year Reported

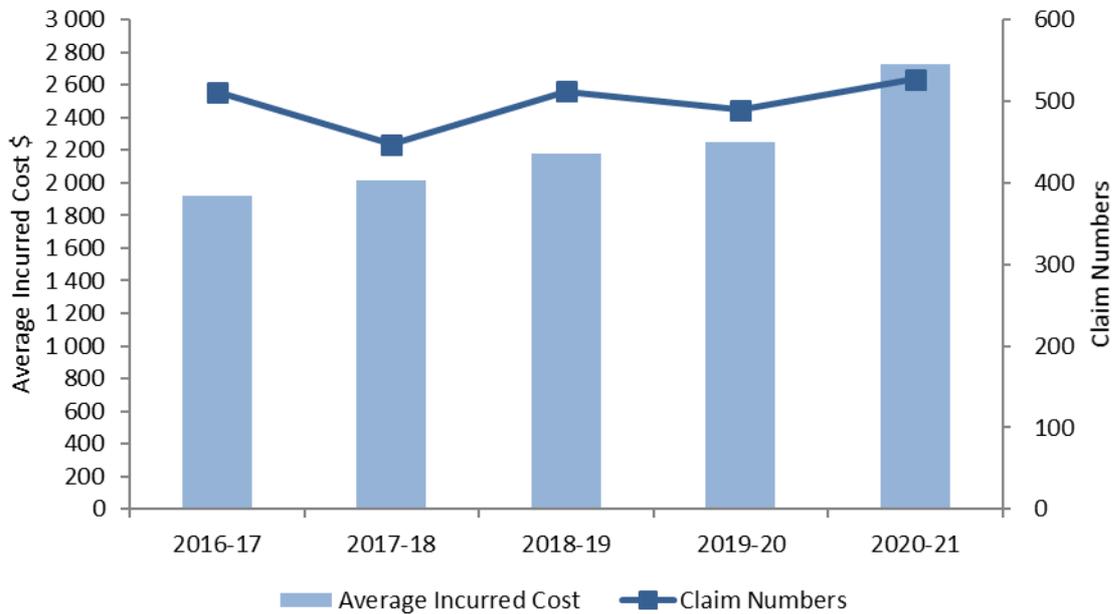
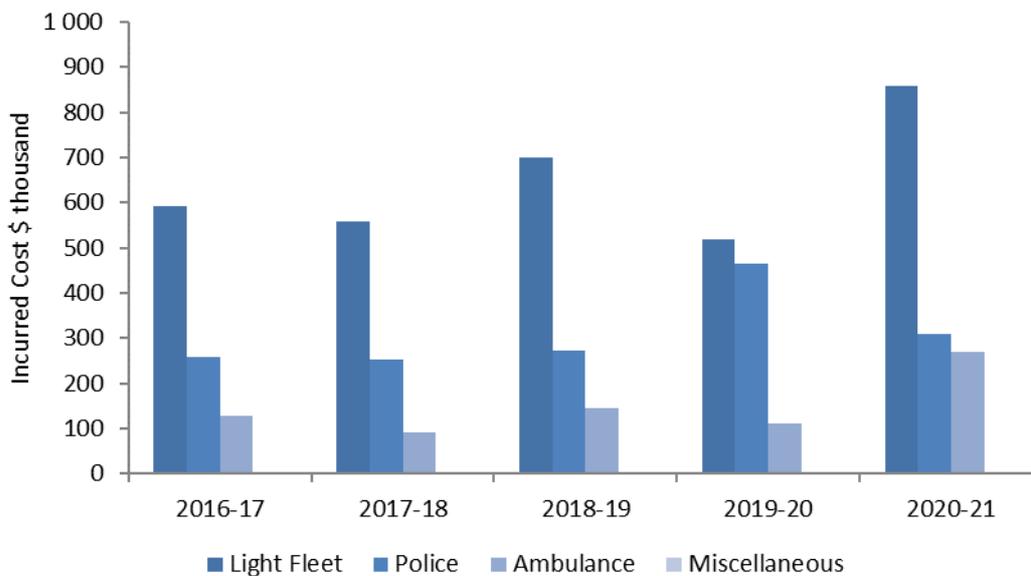


Chart 14 shows the incurred cost for claims reported in each financial year by category of motor vehicle. The low value of claims involving miscellaneous vehicles cannot be represented within the chart.

Chart 14 - Motor Vehicle - Incurred Cost by Category by Financial Year Reported



Liability

The number of liability claims reported for incidents that occurred in 2020-21 was 55. This is a decrease from 80 claims reported for incidents that occurred in 2019-20.

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

Table 2 and Chart 15 identify the number of claims recorded by year of incident, together with the total incurred cost for those claims, as at 30 June 2021. The incurred cost will vary over time as claims develop towards finalisation.

Table 2 - Liability - Claims Comparison by Year of Incident

	2016-17	2017-18	2018-19	2019-20	2020-21		Movement (2019-20 to 2020-21)
Claim Numbers	57	46	47	80	55	↓	(31.3)%
Total Incurred Cost (\$'000)	381	658	756	495	396	↓	(20.0)%
Total Paid (\$'000)	167	197	47	35	9	↓	(74.3)%
Outstanding Payments (\$'000)	213	461	710	294	387	↑	31.6%
Largest Incurred Claim (\$'000)	112	320	560	210	270	↑	28.6%

Chart 15 - Liability - Claim Numbers and Incurred Cost by Financial Year of Incident

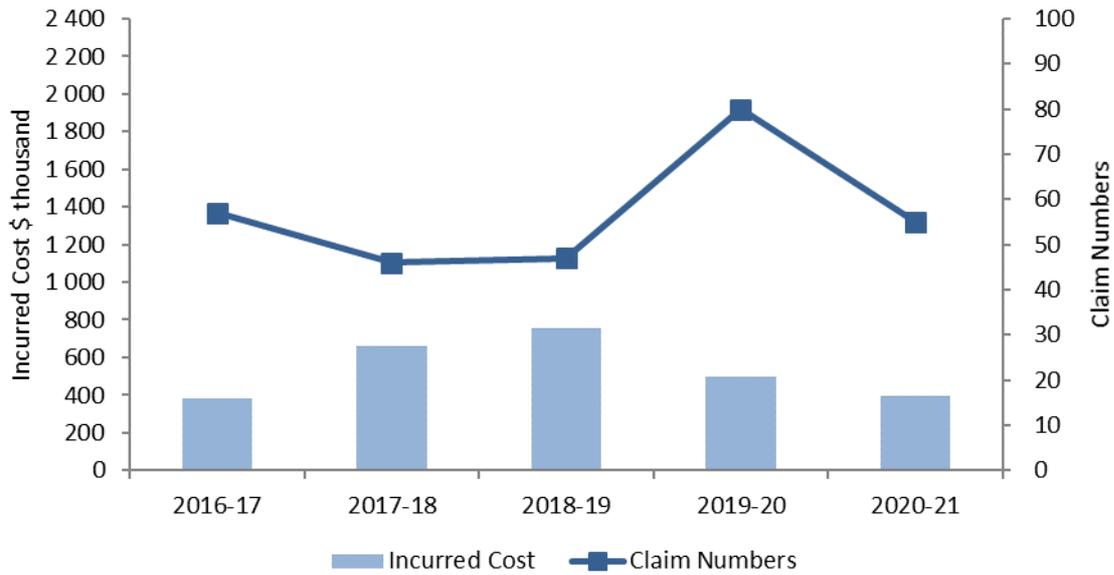
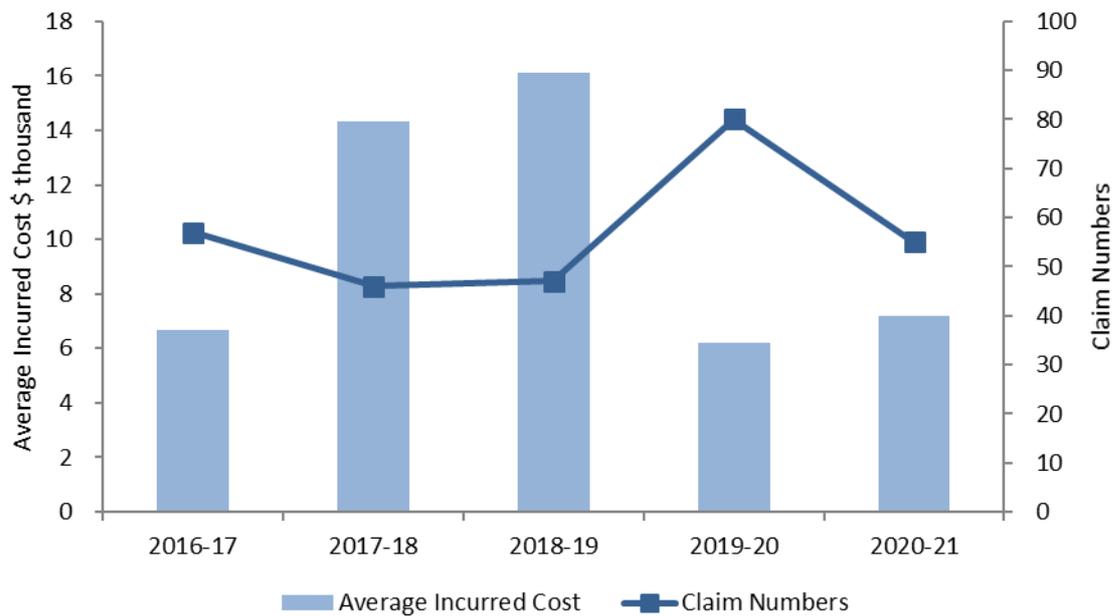


Chart 16 shows the average incurred cost for claims occurring in each financial year. During 2020-21, the average incurred cost was \$7 202.

Chart 16 - Liability - Average Incurred Cost by Financial Year of Incident



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 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. Four new claims were reported in 2020-21 relating to incidents that occurred in 2020-21, with another 19 claims reported in 2020-21 relating to incidents that occurred in prior years.

Table 3 shows the number of claims by year reported, together with the total incurred cost for each year, as at 30 June 2021. The incurred cost will vary over time as claims develop towards finalisation.

Table 3 - Medical Liability - Claim Numbers and Incurred Cost by Financial Year Reported

Year	Claim Numbers	Total Incurred Cost (\$'000)
2016-17	22	4 159
2017-18	23	8 845
2018-19	21	3 247
2019-20	35	18 088
2020-21	23	3 044

Table 4 identifies the number of claims recorded by year of incident, together with the total incurred cost and average incurred cost per claim, as at 30 June 2021. The number of claims may vary over time as previously unreported claims become known. The incurred cost will vary over time as claims develop towards finalisation.

Table 4 - Medical Liability - Claim Numbers, Incurred Cost and Average Incurred Cost by Financial Year of Incident

Year	Claim Numbers	Total Incurred Cost (\$'000)	Average Incurred Cost (\$'000)
2016-17	25	6 309	252
2017-18	16	2 637	165
2018-19	8	915	114
2019-20	9	2 138	238
2020-21	4	350	88

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
2016-17	1 947	↓ (63.0)%
2017-18	2 681	↑ 37.7%
2018-19	1 677	↓ (37.4)%
2019-20	6 407	↑ 282.1%
2020-21	4 154	↓ (35.2)%

Notes:

- The 2019-20 payment amount for medical liability is primarily attributable to one settlement in excess of \$1 million and three in excess of \$500 000.
- The 2020-21 payment amount for medical liability is attributable to four payments in excess of \$500 000.

Miscellaneous

There were three miscellaneous claims reported for 2020-21. All involved personal accident claims with a total incurred cost of \$4 213.

Financial Statements

For 2020-21, the Fund's finances were managed within Finance-General, through the Tasmanian Risk Management Fund in the Public Account. The Fund's activities are also reported within the Financial Statements of the Department of Treasury and Finance, which can be found in the Department's 2020-21 Annual Report.

Table 6 - TRMF Concise Income Statement for the year ended 30 June 2021

	2021 \$'000	2020 \$'000
Revenue and other income		
Agency contributions	85 553	77 936
Investment income	756	2 746
Total revenue and other income	86 309	80 682
Expenses from transactions		
Claim expenses	87 611	69 777
Other expenses	4 338	3 906
Total expenses	91 949	73 682
Net result	(5 640)	7 000
Other comprehensive income		
Net actuarial gain/(loss) of the Tasmanian Risk Management Fund	(42 238)	(9 409)
Total other economic flows included in net result	(42 238)	(9 409)
Net Result	(47 879)	(2 409)

Table 7 - TRMF Concise Balance Sheet as at 30 June 2021

	2021 \$'000	2020 \$'000
Assets		
<i>Financial Assets</i>		
Cash and cash equivalents	290 868	276 497
Receivables	3 097	2 375
Total assets	293 966	278 872
Liabilities		
<i>Financial Liabilities</i>		
Payables	1 148	1 536
Outstanding claims	321 371	258 010
Employee entitlements	84	85
Total liabilities	322 603	259 631
Net assets (liabilities)	(28 638)	19 241
Equity		
Accumulated funds	(26 638)	19 241
Total equity	(26 638)	19 241

Table 8 - Outstanding Claims Liabilities

	2021 \$'000	2020 \$'000
Claims Liabilities		
Personal injury	157 716	122 879
Property	16 887	10 627
Motor vehicle	517	224
General liability	6 091	4 320
Medical liability	140 160	119 960
Total	321 371	258 010
Settled within 12 months	70 898	52 404
Settled in more than 12 months	250 473	205 606
Total	321 371	258 010

Timing of estimated claim expenditure

Based on information provided by the Actuary, the Tasmanian Risk Management Fund has recognised a total provision of \$321 million. For all insurance risks, the actual claim costs are uncertain. Even a modest deviation from the central estimate basis can have a material effect on the net outstanding liability. The timing of estimated expenditure is based on claims experience. The schedule below shows the average time to settle for each risk category:

Category	Average Settlement
Workers compensation	2.6 years
Personal accident cover	<1 year
Property risk	<1 year
Motor vehicle risk	<1 year
General liability	>1 year
Medical liability	6.0 years

Table 9 - Reconciliation of movements in provisions

2021	Workers' compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	122 835	119 958	15 215	258 008
Claims paid	(50 011)	(4 464)	(5 677)	(60 152)
Increase in provision	57 959	12 513	10 806	81 278
Actuarial losses/(gains)	26 892	12 151	3 192	42 238
Balance at 30 June	157 675	140 160	23 536	321 372

2020	Workers' compensation \$'000	Medical liability \$'000	Other liabilities \$'000	Total \$'000
Balance at 1 July	112 820	120 000	6 868	239 688
Claims paid	(45 216)	(7 122)	(1 178)	(53 516)
Increase in provision	46 564	11 707	4 157	62 428
Actuarial losses/(gains)	8 667	(4 627)	5 369	9 409
Balance at 30 June	122 835	119 958	15 215	258 008

The provision for workers compensation does not reconcile with the personal injury liability, which also includes provision for personal accident and aero-medical retrieval activities.

Workers compensation and medical claim liabilities are the only risk categories with discounting applied. As a consequence, the remaining risk categories are not shown in the reconciliation of movements in provisions.

Contact Details

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

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