Tasmanian Risk Management Fund

Annual Report 2002 – 2003

Department of
Treasury and **Finance**

Contents

The Chairman's Report

The 2002-03 year has seen the operations of the Tasmanian Risk Management Fund stabilise, resulting in a minor increase in the TRMF account over 2001-02. This indicates that the overall level of contributions from agencies is broadly in line with the cost of claims and operating expenses incurred by the Fund.

On the national and international front, 2002-03 has continued to see large increases in insurance premiums as a result of a number of factors including: the catch-up on under-pricing of insurance in the past; an increase in the number and cost of successful insurance claims; reduced competition in the insurance market; and the continuing higher reinsurance costs following the events of 11 September 2001. In this environment, it is an exceptional result that total agency contributions for 2002-03 have fallen by 3.5 per cent over contributions collected in 2001-02.

However, while contributions fell, claims expenses for the year increased significantly by 25 per cent. The increase in claims costs has occurred in a number of areas, particularly the light motor vehicle fleet, the Police motor vehicle fleet, the miscellaneous vehicle fleet and Housing. In order to minimise agencies' contributions in the future, it is important for agencies to develop sound risk management practices, utilising advice from the Fund.

As at 30 June 2003, the Fund had total assets of $77.134 million.

For the 2002-03 financial year, the Fund recorded a net operating deficit of $18.374 million. This was primarily the result of an increase in the valuation of outstanding claims of $20.872 million ($3.259 million in current and $17.613 million in non-current liabilities). While there is always some uncertainty in quantifying the level of outstanding liability, the Fund is actively pursuing the review of known claims and possible claims, through the Fund Administration Agent, to ensure that the best possible estimate of the Fund's liability is available. However, little information is available at present on outstanding medical malpractice liabilities and, as a result, the Fund plans to devote additional resources to develop a better understanding of this area of liability during 2003-04.

As always, a cautious approach must be taken to ensure an adequate retention of funds in the event of a large claim. The requirement to build in risk margins when calculating the outstanding claims liabilities of the Fund in future years will ensure that future large claims can be met from the accumulated reserves of the Fund.

The operation of the Fund continues to be overseen by the Steering Committee and the three risk-specific orientated sub-committees. Throughout the year, this governance structure has provided the opportunity for meaningful discussion of issues and concerns of agencies and has ensured that the Fund remains focused in its activities in achieving the aim of minimising the impact of claims across all agencies. Greater emphasis is being put on the sharing of information on risk management activities and the need to ensure that appropriate risk management practices are adopted by agencies. By doing this, the Government's exposure to future claims should be reduced and government employees' safety maintained through the awareness of safe working practices.

Finally, it is with some regret that I announce Tom Saltmarsh's departure from the Fund to take on another role in the Department to further his career. I would like to take this opportunity to thank Tom for his dedication and contribution to the Fund and the former Tasmanian State Service Workers' Compensation Scheme over the past eight years.

I look forward to another successful year for the Tasmanian Risk Management Fund in 2003-04.

Philip Mussared
Chairman
Tasmanian Risk Management Fund
Steering Committee

Report from the Fund Administration Agent

The Tasmanian Risk Management Fund remains an acceptable and appropriate alternative for the management of the risks associated with assets and liabilities of Tasmania's inner Budget agencies. The Fund's relevance is particularly evident when compared to today's insurance market.

Following two years of substantial premium increases and particularly difficult conditions for the general insurance market in Australia, the market is starting to show signs of easing in certain major classes.

Economic conditions affecting insurers

Economic conditions over the past two years have severely impacted on the financial strength of a number of insurers. Claims reserve strengthening, investors withdrawing from the industry and underwriting losses, together with low or negative investment returns, have severely reduced capital available to the Australian and global insurance sectors. Inadequate capital and low investment returns, coupled with legislative reform following the collapse of HIH and others, have reduced the ability of the Australian industry to assume greater risks and made return on capital a high priority for insurers.

Over the past year, many organisations have had to go to overseas markets to complete insurance programs. This was a result of the reduced willingness of local insurers to offer terms on many classes of insurance, particularly on the more hazardous risk profiles and difficult classes of insurance such as Public and Products Liability, even if organisations demonstrated good risk management practices.

In 2002, we saw insurers imposing higher premiums and tighter terms and conditions, and allocating their capacity to historically more profitable classes of insurance to maximise their return on capital.

Insurance pricing and capacity was also directly tied to the quality and availability of underwriting data presented to insurers. Insurers required a dramatic turnaround in their financial results otherwise further Financial Agency rating downgrades would occur and, in some cases, threaten the viability of insurers.

A number of insurers are now seeing improved results. In the first quarter of 2003, Lloyds and a number of international and Australian insurers announced a return to profitability with the publication of 2002 year-end financial results. However, other companies, particularly European insurers and reinsurers, recorded disappointing financial year-end results, largely driven by European weather losses, poor equity returns and the need to supplement reserve provisions.

Trends in major insurance classes

Property Insurance

There are early signs of the increase in rate and premium levels stabilising in 2003 renewals and this trend is expected to continue.

One of the significant drivers was the adequacy of terms and pricing with a number of risk profiles, a product of two conservative years of rate increases. The good news for those seeking insurance is that there is new and increased capacity from the London market.

Large increases were still being experienced in March 2003 due to individual poor loss experience, a difficult risk profile or historical underpricing by the market.

The low frequency and severity of catastrophes in 2002 led to good results for most property insurance carriers. However, a large industry catastrophe loss in 2003 could affect the current level of insurer profitability and alter the pace of change.

The Fund's relevance is particularly evident when compared to today's insurance market.

Property premiums will also be impacted by the commencement of the *Terrorism Insurance Act* on 1 July 2003, although the extent of the impact is not yet known. A levy will be charged for policies due on and after 1 October 2003.

Public and Products Liability

The market for Public and Products Liability is now decidedly different from that of the Property market.

The market for Public and Products Liability is continuing to contract in 2003. One of the major influences is that increased capital is being reallocated to the more attractive short-tail classes of insurance such as Property, Motor Vehicle and Marine, which are showing stronger returns without the potential for 'claims lag' which characterises liability insurance.

The new minimum capital adequacy requirements and increased regulatory obligations for Australian insurers under the new insurance licensing provisions have had a major impact on the market's appetite to write Public and Products Liability business.

The General Insurance Reform Act which came into effect on 1 July 2002 is far-reaching and has changed the local insurer landscape forever, introducing a preference for Property risks, given that they attract a lower capital adequacy requirement.

It is difficult to assess the impact of recent tort reform on future liability premiums.

Much of the reform is geared towards removing the incentive for claimants to make small claims and capping some categories of damages for major claims.

There are few signs in Australia or overseas that the environment for Public and Products Liability will improve during 2003.

Reporting

The awareness of the Fund continues to improve with regular customised reporting of claims statistics to participating agencies. This awareness is complemented by the quarterly sub-committee meetings for Workers' Compensation, Liability and Property. Regular file reviews, particularly for Workers' Compensation and to a lesser extent Liability claims, is now happening as a matter of course with the majority of agencies.

Improvement has also been achieved in cost coding for some agencies, with further enhancements expected in 2003-04.

Risk Management

The awareness and the need for risk management continues to grow with individual agencies undertaking their own process for continued improvement.

In the past year, the Fund has conducted three Risk Management Workshops which were well attended by participating agencies. In addition, one agency undertook a Business Risk Review process with the assistance of Marsh.

The Tasmanian Risk Management Fund

The Tasmanian Risk Management Fund was established on 1 January 1999 to provide a whole-of-government approach to the treatment of all risks to which agencies are exposed, including ensuring that adequate financial provision is made for the cost of risk. The Fund operates in accordance with the following principles:

- the Fund is owned and underwritten by the Crown;
- the Fund is managed centrally within the Public Account;
- actuarially determined agency contribution costs, relating to the replacement of assets and the cost of liability exposures, are paid into the Fund;
- the costs of all claims, as well as administrative expenses, are met from the Fund;
- the Fund operates on a fully funded basis;
- a Fund Administration Agent is retained on a contract basis for claims administration, the provision of advice in relation to the identification, quantification and financing of risk and the placement of insurance as required; and
- the Department of Treasury and Finance is responsible for the administration of the Fund, and an inter-agency Steering Committee is responsible for the strategic operation of the Fund.

The Fund merged with the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) on 1 July 2001. The TSSWCS had previously managed whole-of-government workers' compensation liabilities. From 1 July 2001, all outstanding liabilities of the TSSWCS and all future workers' compensation claims will be met by the Fund.

The expanded Fund also meets the costs associated with all other risks, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance.

In 2002-03, the Government announced that the Fund would assume the responsibility for pre 1 July 2001 medical negligence claims.

A direct contribution is being made to the Fund by the Government to cover the estimated cost of these claims.

The majority of claims costs are met directly from the Fund, although in some cases the Fund purchases insurance from the private sector if it is considered cost effective. In addition, agencies are subject to an excess, whereby they meet a proportion of the cost of each claim in return for a lower contribution. In this way, there are three levels of responsibility for meeting the cost of claims under the Fund:

- by self-insurance through the Fund, from pooled agency contributions. The Fund is responsible for all claim costs in respect of workers' compensation, public and products liability, professional indemnity, motor vehicles, property and business interruption, medical negligence, directors' and officers' liability, fraud/fidelity and personal accident. In respect of risks, except workers' compensation and motor vehicles, agency contributions are based on the claims experience of similar agencies in other jurisdictions. In respect of workers' compensation and motor vehicles, the claims experience of agencies participating in the Fund is used to calculate contributions;
- by insurance from the private sector. For 2002-03, in respect of machinery breakdown, marine hull, transit and travel risks, the Fund placed the whole of each risk with private sector

The majority of claims costs are met directly from the Fund…

insurers. It was decided to fully insure these risks because the cost of insurance was cheaper than the cost of self-insurance; and

- by agencies, in the form of an excess.

In undertaking its operations, the Tasmanian Government is exposed to a diverse range of potential risks. The range of risks does not remain static; it tends to vary over time. For example, in recent years there has been an emergence of medical malpractice and professional indemnity claims. Furthermore, there is considerable variation in the frequency and amount of losses associated with each risk.

Roles of the Stakeholders in the Fund

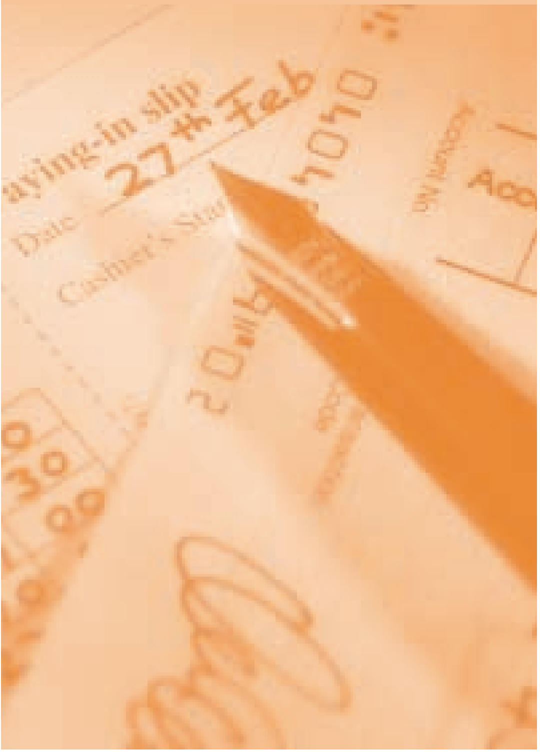
The Fund is strategically managed by the Tasmanian Risk Management Fund Steering Committee, an inter-departmental committee with representatives from participating agencies. In addition, the Fund has three sub-committees – one for Workers' Compensation, one for Liability and one for Property – to deal with operational issues.

Department of Treasury and Finance

Treasury provides secretariat and administrative support for the Fund and for the Steering Committee and each of the sub-committees through the Tasmanian Risk Management Fund Unit. The Unit is responsible for:

- managing the Fund Administration Agent Agreement, including conducting annual fee reviews;
- administering the financial aspects of the Fund;
- providing advice to agencies;
- developing and communicating risk management policies, procedures and processes to all stakeholders involved with the Fund;
- raising the profile of risk management within the participating agencies; and
- reporting at both strategic and operational levels to all stakeholders involved with the Fund.

The staffing structure of the Unit comprises one Principal Policy Analyst and three Senior Policy Analysts, reporting to the Director of the Procurement and Property Branch through the Assistant Director of the Procurement and Property Branch.



Agencies

All inner-Budget agencies are required to participate in the Fund and pay contributions into an account in the Special Deposits and Trust Fund to meet insurance premiums, claims costs for which the Fund is responsible and administrative expenses. In addition, a number of other government entities participate in the Fund for workers' compensation purposes only. These government entities participated in the former Tasmanian State Service Workers' Compensation Scheme before its merger with the Fund on 1 July 2001.

The Fund Administration Agent

The Fund Administration Agent for the Fund for 2002-03 was Marsh Pty Ltd. Marsh has been contracted to act as the Fund Administration Agent from 1 July 2001 to 30 June 2004. The Fund Administration Agent carries out its functions at the direction of agencies.

The key responsibilities of the Fund Administration Agent are to:

- provide claims administration for both insured risks and self-insured risks on behalf of, and in accordance with, the requests and directions of agencies. This involves file management, processing of payments and reimbursement of wages, collecting recoveries from third parties, investigating liability, estimating the cost of claims, and providing risk identification and quantification advice. The Fund Administration Agent is also responsible for managing the claims dispute process on behalf of agencies;
- provide broking services for cover of insured risks;
- report to the Fund, agencies and other bodies as required;
- maintain a database (referred to as STARS) concerning all claims made by agencies covered by the Fund. The database includes information concerning the cost incurred to date and also the estimated cost outstanding of each claim;
- provide data to agencies to assist with risk management and rehabilitation – although it is the responsibility of agencies to interpret that data and act on it; and
- provide claims management advice to agencies – although it is the responsibility of each individual agency to make decisions as to how claims are conducted.

The administration of workers' compensation claims has been sub-contracted by Marsh to NRMA Insurance (now CGU Workers Insurance), while the administration of all other claims has been sub-contracted to Lumley General Insurance.

Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions (DPP) provides legal advice to the Fund Administration Agent on individual claims as part of the day-to-day administration of files and provides legal representation for agencies in various courts and tribunals as required. The Office of the DPP is paid on a fee-for-service basis.

The Head of Civil Litigation, Mr Paul Turner, represents the Office of the DPP at Steering Committee meetings and is the initial contact for Fund matters.

Actuary

The Fund's Actuary is Bendzulla Actuarial Pty Ltd. Bendzulla provides the following services to the Fund:

- calculates the total contribution required from participating agencies for each self-insured risk;
- calculates the proportion of the total contribution required from each participating agency;
- calculates the breakdown of contributions to division level, where requested by an agency;
- calculates excesses;

All inner-Budget agencies are required to participate in the Fund and pay contributions…

- provides an annual report on the Fund's performance as at 30 June each year;
- provides reports on administrative arrangements for the Fund, including the reduction in contribution for higher optional excesses;
- provides miscellaneous reports on the calculation of agency contributions; and
- attends meetings with agencies to discuss contributions where required.

Sub-Committe Responsibilities

Liability	Property	Workers' Compensation
Public and Product Liability	Property and Business Interruption	Workers' Compensation
Professional Liability	Machinery Breakdown	Personal Accident/ Volunteers
Directors' and Officers' Liability	Motor Vehicle	Travel
Medical Liability	Marine Hull	
Government Contingency	Transit	
	Fidelity/Fraud	
	Housing	

Committee Membership

Membership of the TRMF Steering Committee and sub-committees as at 30 June 2003:

Agency	Steering Committee representative	Liability Sub-Committee representative	Property Sub-Committee representative	Workers' Compensation Sub-Committee representative
Treasury	Philip Mussared (Chair)	Rick Inglis (Chair)	Rick Inglis (Chair)	Rick Inglis (Chair)
Treasury	Robert Cockerell	Mike Gluskie	Mike Gluskie	Suzie Jones
Education	Simon Barnsley	Armin Howald	Armin Howald	David Salisbury
Health	Dianne Smith	David Page	Peter Alexander	Marjorie Fitzgerald
Infrastructure	David Peters	Stephen Shirley	Stephen Shirley	Amanda Russell
Justice	Brian Smith	Brian Smith	Kaylene Bentley	Linda Urh
Police	Frank Ogle	Ian Latham	Ian Latham	Diane Green
Premier	Geoff Owen	Peter Wright	Paul Jacobs	Mark Cook
Primary Industries	Michele Moseley	John Doering	John Doering	Karen Steenhuis
Economic Development	Craig Watson	Stacy Brennan	Stacy Brennan	Justine Griffiths
Tourism, Parks, Heritage and the Arts	David Hudson	Tony Prenter	Tony Prenter	Kieran Doyle
TAFE	N/A	David Marshall	David Marshall	Leo Foley
Office of the DPP	Paul Turner	N/A	N/A	Lawrence Neasey

Conduct of Meetings

Meetings are held at least quarterly, with additional meetings held as required. The Steering Committee receives, at each meeting, a report from the chair of each sub-committee.

Participating Agencies

At June 2003, the following agencies had all risks to which they were exposed covered by the Fund:

- Department of Education (including TAFE Tasmania, a State authority)
- Department of Health and Human Services (including the Tasmanian Ambulance Service, a corporation sole)
- Department of Infrastructure, Energy and Resources
- Department of Justice and Industrial Relations
- Department of Police and Public Safety
- Department of Premier and Cabinet
- Department of Primary Industries, Water and Environment
- Department of Economic Development
- Department of Tourism, Parks, Heritage and the Arts
- Department of Treasury and Finance
- House of Assembly
- Legislative Council
- Legislature-General
- Office of the Governor
- Tasmanian Audit Office.

The following statutory authorities were covered for workers' compensation risks by the Fund:

- Inland Fisheries Service
- Port Arthur Historic Site Management Authority
- Private Forests Tasmania
- Retirement Benefits Fund Board
- Royal Tasmanian Botanical Gardens.

Marine and Safety Tasmania has its public, products and professional liability risks covered by the Fund.

During 2002-03, the Fund continued to develop a whole-of-government approach…

During 2002-03, the Fund continued to develop a whole-of-government approach to risk management and the prevention of the need for claims. The Fund increased its activities in the following strategic areas, with the aim of establishing appropriate policies and procedures to minimise the cost of risk to agencies.

Communication and Education

Communication of risk management issues, policy and processes to all stakeholders involved in the operation of the Fund is essential. The profile of risk management must be raised before costs can be significantly reduced.

During 2002-03, Treasury improved communication and raised the risk management profile with stakeholders through:

- holding seminars on various risk management topics in conjunction with the Fund Administration Agent. The seminars included:
  - two risk management seminars in October 2002, attended by approximately 40 agency personnel;
  - a further two risk management seminars held in March 2003 and an additional seminar for senior managers. These were attended by approximately 50 agency personnel; and
  - a workers' compensation open forum held in April 2003. Approximately 25 agency personnel involved in workers' compensation matters attended the forum.
- production of the Fund's quarterly newsletter. During the 2002-03 financial year, four issues of the Fund's newsletter, *riskmatters*, were produced – September 2002, December 2002, March 2003, and June 2003;
- maintenance of the Fund's website. The Unit continued to monitor and update the Fund's website during 2002-03. New additions include the 2001-02 Annual Report, quarterly editions of *riskmatters* for 2002-03 and Version 2 of the TRMF Procedures Manual;
- presentations at sub-committee meetings. The TRMF Unit arranged for the following guest speakers to make presentations at sub-committee meetings during 2002-03:
  - Mr Tom Saltmarsh of Treasury led an open discussion at the Workers' Compensation Sub-Committee meeting of 14 November 2002 regarding the effect that the *Workers Rehabilitation and Compensation Amendment Act 2000* has had on agencies since it commenced operation on 1 July 2001;
  - Mr Ray Pickett and Ms Therese Butler of Workplace Standards Tasmania and Mr Martin Shirley of the Workcover Tasmania Board made a presentation on the proposed performance standards for self-insurers at the Workers' Compensation Sub-Committee on 20 February 2003;
  - Mr Peter Wise, Acting Manager Internal Audit, Department of Health and Human Services (DHHS) provided an overview of enterprise risk management, controls and governance processes currently being implemented within DHHS at the Liability Sub-Committee on 18 July 2002;

– Ms Alison Lyne, Legal Services Officer – Hobart City Council provided an overview of risk management at the Hobart City Council at the Liability Sub-Committee on 17 October 2002. The presentation included information on the background to the Council's introduction of risk management, the key initiatives/drivers of risk management within the Council, the alignment of strategic documentation and the development of a risk management culture and the results that have been yielded;

– Ms Jenny Milne, Principal Policy Analyst, Economic Policy Branch, Treasury provided an overview at the Liability Sub-Committee meeting on 17 April 2003 on the proposed tort law reform arising from events that have led to significant increases in the cost of public/professional liability cover in recent years (such as the terrorist attack on 11 September 2001 and a decrease in competition because of the collapse of HIH);

– Mr Doug Ling, Chief Engineer – RACT provided an overview on the issue of driver fatigue at the Property Sub-Committee meeting on 12 December 2002;

– Mr Brian Mignot and Ms Sarah Hazell of Treasury gave a presentation at the Property Sub-Committee meeting on 20 March 2003 on steps undertaken by Treasury to address motor vehicle safety from a whole-of-government perspective; and

– Mr Tim Johns, Manager Government Services, Marsh Pty Ltd presented a Fund Administration Agent Report at each of the Steering Committee and sub-committee meetings.

Risk Management

A range of issues, in addition to insurance, must be addressed if risk is to be successfully managed within participating agencies. This strategy is facilitated by establishing appropriate policies and procedures for the operation of the Fund; undertaking research into general risk management issues; monitoring risk management developments in other jurisdictions; actively encouraging and monitoring the implementation of risk management and health and safety programs in participating agencies; and developing agency risk management profiles.

Treasury continued to develop risk management issues in 2002-03 by:

- updating the TRMF Procedures Manual. The TRMF Procedures Manual for agencies was reviewed and updated by the Unit. Version 2 was completed in August 2002 and added to the TRMF web site;
- drafting of Statements of Indemnity to clarify risk cover. The TRMF Unit developed draft Statements of Indemnity in late 2002. In January 2003, a sub-committee was formed to meet and consult with Crown Law on the appropriateness of the Statements of Indemnity. Representatives from Treasury, TAFE, Education, Primary Industries, Water and Environment and Health and Human Services participated. The sub-committee last met with Crown Law on 28 March 2003. These statements are now being finalised with Crown Law; and
- developing Motor Vehicle Fleet Purchase and Use Guidelines. During 2002-03, the TRMF Unit commenced preparing broad guidelines regarding Motor Vehicle Fleet Purchase and Use. The purpose of the guidelines is to assist agencies to develop a policy for the implementation of a program for motor vehicle selection and use within their agency. The information gathering and consultative phase of this project was completed and it is anticipated that a full draft of the guidelines will be completed by October 2003.

During the year, Treasury continued to facilitate the provision of information…

Reporting

The key to successfully implementing risk management in participating agencies is the availability of information, both at a strategic and operational level.

During the year, Treasury continued to facilitate the provision of information to the Fund's stakeholders by:

- developing a template for the sub-committees to report to the Steering Committee;
- improving STARS reporting. Treasury revised the STARS reports that the Steering Committee and sub-committee members receive from the Fund Administration Agent. The Fund Administration Agent initially provided only raw claims data, with no commentary, to the TRMF Unit. The Fund Administration Agent now summarises the claims data into a form appropriate for the Steering Committee and sub-committees;
- providing trend analysis. Treasury has been working with the Fund Administration Agent to provide trend analysis and commentary on the data; and
- producing the 2001-02 Annual Report. Treasury enhanced its reporting to stakeholders through the development of a Fund Annual Report. The 2001-02 TRMF Annual Report was distributed to heads of agencies and the Fund's Steering Committee and sub-committee members in April 2003. The Annual Report provides trend analysis of the risks covered by the Fund, a report from the Fund Administration Agent and information on the year in review.

Risks

The Tasmanian Risk Management Fund is structured to handle risks in three broad areas – workers' compensation, property and liability.

Workers' compensation includes workers' compensation, personal accident and travel. Property includes property and business interruption, motor vehicle, marine hull, transit, fidelity/fraud and machinery breakdown. Liability includes public and product liability, professional liability, directors' and officers' liability and medical liability.

Agencies contribute to the Fund by making actuarially determined contributions in relation to these areas of risk. The following table provides a summary of contributions for 2002-03.

Summary of overall contributions to the Fund and expenses paid out by the Fund in 2002-03

	Contributions to the Fund[1] $ million	Expenses paid out by the Fund[2] $ million
Workers' compensation	16.2	17.8
Property	3.8	2.1
Liability	6.2	4.2
Total	**26.2**	**24.1**

Notes: 1. Excludes GST and takes into account agency excess options

2. Excludes GST, administration fees and accrued expenses

Further analysis is provided under each of the broad categories of risk.

…the Fund's Steering Committee is responsible for the strategic direction of the Fund

Introduction

The Fund provides cover for three categories of employee risk:

- Workers' Compensation – provides cover for the liabilities arising out of the *Workers Rehabilitation and Compensation Act 1988,* which provides a range of benefits for employees injured in the course of their employment.
- Personal Accident – provides a no-fault cover for people who are not covered under the *Workers Rehabilitation and Compensation Act 1988* (those who are not employees of an agency) in the event of an accident resulting in injury or death while in service to the government.
- Travel (insured in the private sector in 2002-03) – provides worldwide cover for employees and other nominated persons (including board members and consultants) while on authorised business travel or travel incidental to business or trade. Travel cover is insured in the private sector because it provides a worldwide network of support services.

While the Fund's Steering Committee is responsible for the strategic direction of the Fund, a Workers' Compensation sub-committee is responsible for operational matters associated with employee risk.

Workers' Compensation Sub-Committee

The sub-committee met four times in 2002-03.

Weekly benefits for claims in respect of accidents occurring after 1 July 2001 are now payable for a maximum of 10 years, rather than being capped at a fixed dollar amount as was previously the case. As a result, the potential exposure of the Fund to make weekly benefit payments has significantly increased. In February 2003, the sub-committee decided that, given increases in early 2002-03, analysis of weekly benefits be made a priority issue and that these payments continue to be monitored.

The drafting of a Personal Accident Statement of Indemnity was progressed during 2002-03. Early in 2003, the Steering Committee formed a sub-committee to progress this matter. It is anticipated that the Personal Accident Statement of Indemnity will be completed by December 2003.

The issue of coverage for personal injury for certain classes of volunteers, which undertake tasks on behalf of agencies from time to time, was discussed at the May 2003 meeting. The sub-committee has commenced work to clarify coverage for volunteers and will further consider this issue during 2003-04.

The claims experience for 2002-03 for each of the categories of risk for which the sub-committee is responsible is discussed overleaf.

Claim Trends

The following figures are sourced from the Fund Administration Agent's claims system, STARS, and are as at 30 June 2003.

The number of claims lodged during 2002-03, regardless of when the injury leading to the claim occurred, varied only slightly from 2001-02. There were 1 581 claims lodged in 2002-03, compared to 1 566 claims in 2001-02, which represents an increase of just 0.95 per cent, and is an improvement over 2000-01 (1 667) and 1999-00 (1 810).

The claims experience during 2002-03 supports the continuation of a general downward trend in the number of claims since 1994. Total workers' compensation claims costs paid in 2002-03, regardless of when the injury leading to the claim occurred, totalled $20.204 million, as compared with $20.919 million for the preceding year.

After peaking in October 2002 at $1.929 million, average monthly workers' compensation payments fell consistently to the end of June 2003 to $1.683 million.

Consistent with the fall in average monthly workers' compensation payments to 30 June 2003, there was a slowing in the rate of payment of weekly benefits. Average monthly weekly benefit payments peaked in November 2002 ($0.702 million, with a projected total annual cost of $8.424 million), but fell consistently to the end of June 2003 ($0.620 million, with a total annual cost of $7.449 million). This represents an increase of 25 per cent on the preceding year when the total annual cost was $5.925 million, which is consistent with expectations following the changes to the workers' compensation legislation that came into effect on 1 July 2001.

Offsetting the increase in weekly benefits, common law payments were $5.495 million in 2002-03, compared to $7.091 million in 2001-02. This is to be expected as older claims are finalised, and there are relatively few new claims with common law potential given the 1 July 2001 amendments to the *Workers Rehabilitation and Compensation Act 1988* that limit an employee's ability to make a common law claim.

Legal costs, which include legal fees of the Office of the Director of Public Prosecutions (DPP), claims investigation expenses, medical assessments and legal fees of claimants whose claims are settled, decreased by 19 per cent in 2002-03 compared with the preceding year. Legal costs totalled $1.661 million in 2002-03, compared with $2.066 million in 2001-02. This is a reflection of the reduction in the number of active common law files.

Rehabilitation costs for 2002-03 were $1.993 million, compared with $2.129 million in 2001-02, which represents a reduction of 6 per cent. Payments to doctors totalled $0.624 million in 2002-03, compared with $1.781 million in 2001-02, while payments to hospitals totalled $0.404 million in 2002-03, compared with $0.378 million in 2001-02.

Nature of Injuries

The table below shows the number and cost of claims from 1999-00 to 2002-03 by nature of injury, where the injury occurred during that year. The estimated cost of claims represents the Fund Administration Agent's estimated cost of those claims that have been reported and is calculated on a claim-by-claim basis.

2002-03 Workers' Compensation Claims at a Glance Compared with 2001-02

	Percentage Increase/Decrease	
Number of claims lodged in financial year	⇑	1%
Total claims costs for financial year	⇓	3%
Weekly benefits	⇑	25%
Common Law	⇓	22%
Legal costs	⇓	19%
Rehabilitation costs	⇓	6%
Payments to doctors	⇓	65%
Payments to hospitals	⇑	7%

The claims experience during 2002-03 supports the continuation of a general downward trend…

Workers' Compensation Claims by Injury Type

Type	1999-00		2000-01		2001-02		2002-03	
	Claim No.	Estimated Claims Cost $	Claim No.	Estimated Claims Cost $	Claim No.	Estimated Claims Cost $	Claim No.	Estimated Claims Cost $
Amputation	1	12 856	0	0	0	0	0	0
Burn	15	11 501	25	11 553	20	19 123	20	27 772
Contusion	130	250 722	125	290 528	99	338 051	113	339 154
Dislocation	10	15 051	9	477 205	6	121 566	6	15 829
Ear Disease/Deafness	4	646	5	10 028	7	40 343	1	11 000
Eye Disorder	2	118	1	86	4	4 120	4	688
Foreign body on eye, ear etc	40	50 840	23	6 274	26	127 888	19	21 053
Fracture	48	352 551	44	435 673	50	400 031	53	754 651
Hernia/Ulcer	3	7 806	1	14 806	2	7 972	2	16 200
Internal Injury	6	9 822	7	11 311	3	607 814	4	58 355
Laceration	91	54 162	89	94 813	111	461 396	127	141 920
Multiple Injuries	9	118 581	9	194 921	13	82 798	10	58 261
Muscle and Tendon Injury	46	502 443	77	1 037 885	17	70 495	42	365 453
Nervous System Disorder	3	5 117	2	90 479	0	0	0	0
Other	6	17 362	2	2 633	4	50 323	2	1 049
Other Disease	33	183 306	15	127 332	10	15 750	13	55 615
Other Injury	28	530 202	28	429 737	29	130 469	20	95 030
Poisoning	16	13 706	8	96 038	10	1 030	4	390
Respiratory Condition	8	5 242	15	196 340	11	58 936	12	5 560
Skin Disease	3	70 666	11	104 983	9	50 048	4	46 893
Sprains and Strains	917	9 004 770	854	6 752 481	906	7 369 763	742	6 986 004
Stress	151	5 353 622	148	4 239 740	138	4 037 141	117	3 825 781
Superficial Injury	166	171 376	147	270 345	148	510 024	116	169 365
Total by Period	1 736	16 742 468	1 645	14 895 191	1 623	14 505 081	1 431	12 996 023

The figures represented in this table are distinct from the number of claims actually reported by financial year.

Since 1999-00, it appears that the number of injuries per year has been decreasing. The number of injuries occurring during 2002-03, as distinct from those reported during this period, totalled 1 431 which represents a decrease of 13 per cent on the 2001-02 period when 1 623 injuries occurred. However, it must be remembered that there will be a number of injuries that occurred during the course of 2002-03, which were not yet reported as at 30 June 2003.

The chart shows that during the period 1999-00 to 2002-03, sprains and strains and stress have been the most significant injury types. Sprains and strains have consistently represented approximately 50 per cent of claims and 50 per cent of total estimated costs.

On the other hand, stress claims have represented less than 10 per cent of total claims, but approximately 29 per cent of total estimated costs.

Personal Accident

Six personal accident claims were reported in 2002-03 with a total incurred cost of $34 793. By comparison, there were no personal accident claims made during 2001-02.

Travel

A total of 21 travel claims were reported in 2002-03 with a total incurred cost of $32 684. This is an increase in the number of travel claims for 2001-02 when 16 claims were reported with a total incurred cost of $21 261.

Other Issues

Port Arthur Tragedy

As a result of the Port Arthur tragedy in April 1996, 82 claims were made. Of those claims, 16 were later denied cover. As at 30 June 2003, the Fund and agencies have paid claims costs of $6.47 million (net of recoveries and inclusive of GST) in total.

Allianz, the reinsurer for the Tasmanian State Service Workers' Compensation Scheme at the time of the tragedy, has to date reimbursed the Tasmanian Risk Management Fund around $5.429 million (net of recoveries and inclusive of GST) in claims costs, of which $0.225 million was reimbursed in 2002-03. It is considered unlikely that any additional claims will be made.

Impact of HIH Collapse

Following the collapse of HIH in March 2001, amendments to the *Workers Rehabilitation and Compensation Act 1988* require all policy holders and self-insurers to pay to the Nominal Insurer a special contribution commencing from 2002-03. The Nominal Insurer, which is funded through payments made by insurers and self-insurers, is responsible for meeting the unfunded outstanding cost of claims against private sector employers previously insured by HIH. The Fund makes a special contribution equivalent to 4 per cent of its workers' compensation contributions to the Nominal Insurer. In 2002-03, this amounted to $611 465 in respect of the 2001-02 financial year.

Contributions and Costs

Agencies made total payments of $16.194 million (excluding GST and taking into account agency excess options) to the Fund for workers' compensation, personal accident and travel cover for 2002-03.

The overall expenses paid out by the Fund (excluding GST) for workers' compensation, personal accident and travel claims and purchasing insurance in the private sector (for travel) during 2002-03 was $17.847 million. This figure does not include Fund Administration Agent fees, Actuary fees or accrued expenses.

Risk Management Practices

During 2002-03, Treasury and the Fund Administration Agent organised a workers' compensation open forum, which was held on 15 April 2003. The forum was seen as an opportunity for workers' compensation personnel to meet with their agency counterparts to discuss particularly difficult claims and issues, as well as to establish communication networks with the aim of strengthening and better developing risk management practices in this area of risk. Approximately 25 agency personnel involved in workers' compensation matters attended the forum.

...Treasury and the Fund Administration Agent organised a workers' compensation open forum

The following items were discussed:

- Calculation of Weekly Benefits

  Paul Turner, of the Office of the Director of Public Prosecutions, discussed the calculation of weekly benefits and outlined possible strategies agencies may be able to adopt to better manage claims. The discussion was valuable to agencies in providing them with advice on the interpretation of Part VI Division 1 of the *Workers Rehabilitation and Compensation Act 1988* with respect to the calculation of weekly benefits, the meaning of normal weekly earnings, and the assessment of the degree of impairment; and

- Department of Education's approach to rehabilitation

  David Salisbury and Trudi Keenan, of the Department of Education, made a presentation on their Agency's approach to rehabilitation and monitoring the performance of rehabilitation providers. Their presentation detailed the Agency's claims management approach in practical terms, from the initial reporting of an injury through the investigation stage to the appointment of a rehabilitation provider and return to work program. Through the application of the policies and practices discussed at the forum, the Department of Education has reduced the number of teachers who are incapacitated for work by about 90 per cent over the past seven years.

Outlook for 2003-04

As discussed, the Fund enjoyed a favourable trend in terms of the total cost of workers' compensation claims in 2002-03. From a risk margin perspective, it is clear that the Fund can cover this risk with a very high level of probability. However, the 1 July 2001 changes to the *Workers Rehabilitation and Compensation Act 1988* will need to continue to be monitored carefully by the Fund.

The Fund intends to investigate workers' compensation claims management procedures in agencies in order to identify the most appropriate practices to ensure the effective management of claims. The Fund will consider developing uniform procedures if appropriate.

Risks – Property

Introduction

In broad terms, the Fund provides cover for seven categories of property risk:

- property and business interruption – provides cover for buildings and contents arising from any fortuitous loss or damage;
- Housing – the Housing Tasmania Division of the Department of Health and Human Services is a substantial holder of public housing. The Fund provides an Aggregate Stop Loss Insurance cover for property damage to this housing stock (excluding glass breakage) for claims costs in excess of $2.5 million. There is also an additional per event excess as follows: $100 000 per dwelling; $500 000 per unit complex; and $500 000 all other locations;
- motor vehicle – provides cover for accidental loss or damage to a vehicle and the legal claims arising from damage to the property of third parties;
- machinery breakdown (insured in the private sector in 2002-03) – provides cover for machinery breakdown (covering damage to machinery as a consequence of breakdown of a mechanical nature from internal or external causes, except damage to petrol, diesel or gas-powered engines unless specifically declared for the purpose of the Fund) and electronic equipment breakdown (covering damage to electronic equipment as a consequence of breakdown of a mechanical nature from internal or external causes, including loss of records);
- fidelity/fraud – provides cover for fraudulent misappropriation of goods or money by officials and employees. Any claim would be subject to investigation by Police;
- marine hull (insured in the private sector in 2002-03) – provides cover for accidental loss or damage to a vessel and its equipment. Cover includes the costs of salvage and any environmental liability due to accidental collision, sinking or stranding; and
- transit (insured in the private sector in 2002-03) – provides worldwide cover for loss or damage to goods while in transit, including loading and unloading and incidental storage.

Due to a minimal claims history and the low level of premium required, it was considered prudent to source insurance from the private sector for machinery breakdown, marine hull and transit risks.

Year	No. of claims > $5 000	Total incurred cost $	Average cost $
2001-02	39	938 111	24 054
2002-03	69	2 107 485	30 543

Further analysis of this data by service centre is detailed in the following table:

Service Centre	2001-02 No.	2001-02 Incurred $	2002-03 No.	2002-03 Incurred $
Bridgewater	16	474 942	25	820 991
Burnie	1	37 103	4	155 952
Clarence	1	19 696	1	6 720
Clarence Plains	6	130 222	5	215 187
Devonport	2	30 563	3	110 241
Glenorchy	9	209 790	13	298 534
Hobart	1	8 058	8	161 462
Launceston	3	27 737	10	338 397

It should be noted that the predominant cause relating to the cost of these claims was fire, which was the cause of 93 per cent of 2002-03 claims and 90 per cent of 2001-02 claims.

Claim Trends

The following figures are sourced from the Fund Administration Agent's claims system, STARS, and are as at 30 June 2003.

Property Claims (non-Housing)

During 2002-03, 11 claims (non-Housing) were reported, with a total incurred cost of $97 496. This compares favourably with 2001-02 when 14 claims were reported with a total incurred cost of $1 689 420. The large claims cost for 2001-02 was due to fire damage to a school which cost $1.551 million.

Property Claims (Housing)

As at 30 June 2003, there were 2 803 claims made with a total estimated cost of $3.011 million in relation to Housing Tasmania, compared to 3 031 claims made in 2001-02 with a total estimated cost of $1.832 million. This represents a decrease of 8 per cent in the number of claims, but an increase of 64 per cent in claims costs. This increase has been driven by an increase in large claims.

The following table shows the relative cost of claims above $5 000 for 2001-02 and 2002-03.

Motor Vehicles

As at 30 June 2003, there were 178 claims made with a total estimated cost of $643 848 in relation to the light motor vehicle fleet of approximately 1 950 vehicles. This compares with 165 claims made in 2001-02, with a total estimated cost of $337 999, representing an increase of 8 per cent in the number of claims and 90 per cent in claims costs.

This increase was driven by an increase in large claims. In 2002-03, there were 35 large claims – ie claims with an estimated cost of more than $5 000 – with a total estimated cost of $487 623, compared with 20 large claims in 2001-02 with a total estimated cost of $241 945.

The following table shows the relative cost of claims above and below $5 000:

	No. of claims >$5 000	Cost of claims >$5 000	Av. cost of claims >$5 000	No. of claims <$5 000	Cost of claims <$5 000	Av. cost of claims <$5 000
1999-00	26	310 503	11 942	247	152 082	616
2000-01	20	265 043	13 252	141	116 765	828
2001-02	20	241 945	12 097	145	96 648	667
2002-03	35	487 623	13 932	143	156 223	1 092

The factors that distinguish 2002-03 from previous years are the high number and average cost of claims greater than $5 000 as can be seen in the following chart. The underlying number and cost of claims under $5 000 (with the exception of the number of claims in 1999-00) has been relatively constant, although the average cost of these smaller claims has increased 64 per cent.

The cost of parts is a significant factor that drives the cost of small claims. In the last 12 months, the cost of parts has risen. During 2002-03, overall costs increased by up to 12 per cent for some vehicles. For example, the cost of Ford Falcon parts increased the most, with a 3.5 per cent increase in August 2002 and a further 7.43 per cent increase in January 2003 for this model (the front tie bar was superseded to the current model, resulting in the part doubling in cost).

Toyota was the only manufacturer to show a decrease in costs for the 12 month period.

Year	No. of claims	No. at fault	Total incurred cost $	At fault incurred $
2001-02	11	5	173 216	81 034
2002-03	20	12	379 336	258 855

The factor that drives the cost of large claims is the cost of the repairs to the vehicles involved in the accident.

Further analysis of the period 1 July 2001 to 30 June 2003, in particular on claims exceeding $10 000, shows a significant increase in the numbers of claims, the numbers of "at fault" claims and the average claims cost.

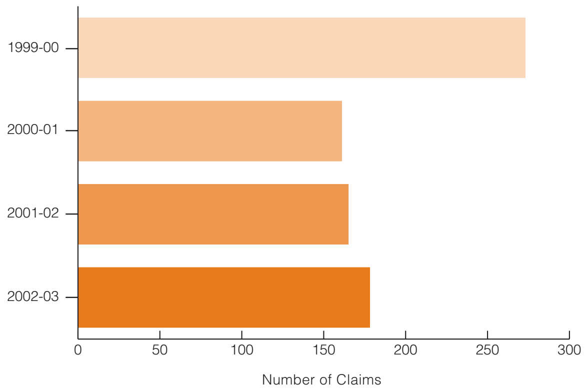
Details of claims in excess of $10 000 are shown in the table above.

Types of Light Motor Vehicle Accidents

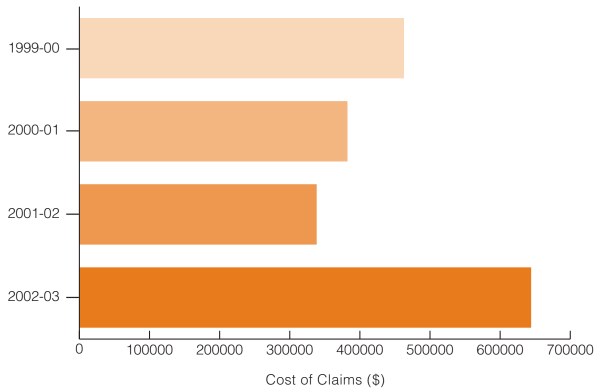
A number of trends emerged from the 2002-03 claims experience, including:

- multiple vehicle "at fault" accidents were the most significant type of claims in terms of claim numbers and cost, comprising 34 per cent of claim numbers and 36 per cent of claims costs;
- the next most significant type of claims in terms of claim numbers and cost was single vehicle accidents, comprising 29 per cent of claim numbers and 35 per cent of claims costs;
- both the multiple vehicle and single vehicle "at fault" accidents increased in claim numbers and costs compared with 2001-02. Multiple vehicle "at fault" claim numbers increased by 25 per cent and single vehicle claims increased by 18 per cent; and
- the total number of "at fault" claims has increased 22 per cent compared with claim numbers in 2001-02 and costs have increased from $197 797 in 2001-02 to $451 772 in 2002-03, which equates to an increase of 128 per cent.

Light Motor Vehicle No. of Claims



Light Motor Vehicle Cost of Claims



It is also noted that there was a high incidence of “reversing” accidents.

Most types of “at fault” accidents increased in claim numbers in 2002-03 compared with 2001-02 figures as seen in the chart below. Of particular concern are the following increases in claim numbers:

- “hit rear” increased 129 per cent;
- “hit object” increased 57 per cent;
- “right of way” increased 60 per cent; and
- “lost control” increased 20 per cent.

It is also noted that there was a high incidence of “reversing” accidents.

The Property Sub-Committee is developing motor vehicle fleet purchase and use guidelines to assist agencies develop and implement programs to train and educate employees to be safer drivers. Agencies will be able to use the guidelines as a basis for the development of departmental policies aimed at addressing the rising incidences of claims.

Ambulance, Miscellaneous and Police Motor Vehicles

There have been significant percentage increases in estimated claims costs in relation to ambulance and miscellaneous vehicles.

While claim numbers for ambulance vehicles decreased in 2002-03 by 26 per cent compared with claims numbers in 2001-02, the estimated cost of claims increased 188 per cent to $115 278 as a result of two vehicles being written off. Similarly, claim numbers for miscellaneous vehicles decreased 25 per cent in 2002-03 compared with 2001-02, while estimated claims costs increased 83 per cent, although the total cost remains relatively small at $10 455 in 2002-03.

There has been a 38 per cent reduction in claim numbers and an 11 per cent decrease in estimated claims costs for Police vehicles in 2002-03 compared with 2001-02. However, the average claims cost has increased 44 per cent from $2 200 in 2001-02 to $3 178 in 2002-03.

The reduction in the number of claims and increase in average cost is largely due to the Department of Police and Public Safety opting for a $1 000 excess in 2002-03, whereas in 2001-02 the excess was only $500 per claim.

Marine Hull

Two marine hull claims were reported in 2002-03, with a total incurred cost of $10 334. One claim, of $11 300, was made against the Fund in 2001-02.

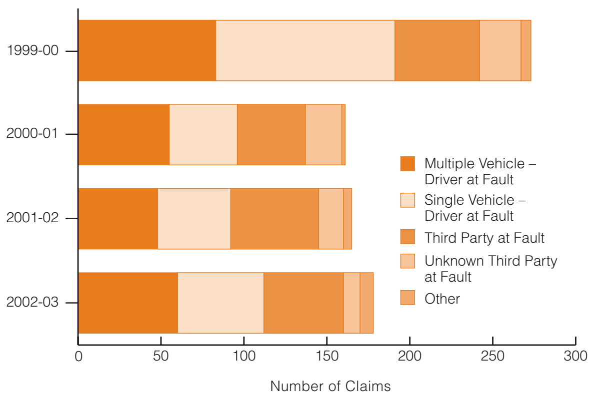
Marine Transit

Seven marine transit claims have been reported in 2002-03, with a total incurred cost of $9 844. Four claims totalling $1 500 were made against the Fund in 2001-02.

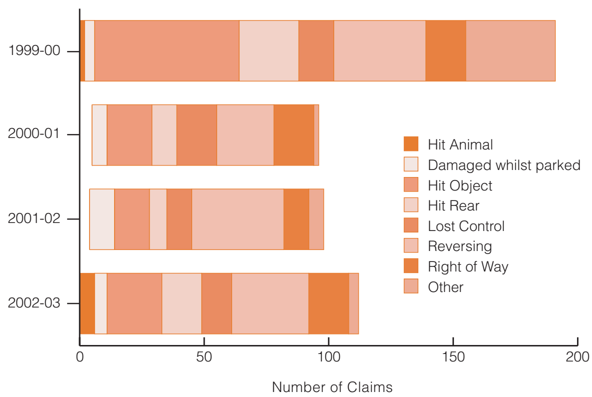
Machinery Breakdown

No machinery breakdown claims were reported in 2002-03. One machinery breakdown claim was made against the Fund in 2001-02, with a total incurred cost of $2 384.

Motor Vehicle Accidents by Cause



Motor Vehicle ‘At Fault’ Claims by Type



Fidelity/Fraud

No fidelity/fraud claims have been made against the Fund as at 30 June 2003.

Contributions and Costs

Agencies made total payments of $3.758 million (excluding GST and taking into account agency excess options) to the Fund for property cover for 2002-03.

The overall expenses paid out by the Fund (excluding GST) for property claims and purchasing insurance in the private sector (for machinery breakdown, marine hull and transit) during 2002-03 was $2.133 million. This figure does not include Fund Administration Agent fees, Actuary fees or accrued expenses.

Major decisions of Property Sub-Committee for the year

The Property Sub-Committee met four times in 2002-03 and made the following major decisions:

- Lumley General Insurance is to liaise more closely with agencies regarding under excess claims, and provide more supportive documentation for each claim;
- the Fund Administration Agent is to provide more detailed reports that give explanations as to the causes of variations and trends; and
- amendments are to be made to the proposed report format for reporting from the sub-committee to the Steering Committee to make the report more "pro-active" and note the Fund Administration Agent's performance.

Risk Management Practices

Motor Vehicle Fleet Purchase and Use Guidelines

The Department of Treasury and Finance's Tasmanian Risk Management Fund Unit is drafting Motor Vehicle Fleet Purchase and Use Guidelines to assist agencies to implement a program for motor vehicle fleet selection and use within their agency, having regard to their individual business requirements.

In maintaining and operating a vehicle fleet for its employees, the Government has a legal obligation and duty of care under the *Workplace Health and Safety Act 1995* to provide a safe and healthy workplace. The Guidelines are intended to clearly set out the obligation of each party in delivering a safe working/driving environment, and provide research results and recommendations for improved driver and vehicle safety.

The Guidelines will discuss particular safety features which should be considered when choosing a fleet vehicle, such as an anti-lock braking system, speed alert systems, air bags and head restraints, and recommend that government employees adopt certain vehicle use behaviours when driving a fleet vehicle, for example, not driving when fatigued, avoiding the use of alcohol prior to driving, and not using hands free mobile phones whilst driving or stationary in traffic.

The Guidelines will also aim to encourage and assist agencies develop and implement programs to train and educate employees to be safer drivers.

2002-03 Property Claims at a Glance Compared with 2001-02

Type of Claim	No. of Claims	Cost of Claims
Property (non-Housing)	⇓ 21%	⇓ 94%
Housing	⇓ 8%	⇑ 64%
Motor Vehicles	⇑ 8%	⇑ 90%
Ambulance Vehicles	⇓ 26%	⇑ 188%
Miscellaneous Vehicles	⇓ 25%	⇑ 83%
Police Vehicles	⇓ 38%	⇓ 11%
Marine Hull	⇑ 100%	⇓ 9%
Marine Transit	⇑ 75%	⇑ 556%

…the Government has a legal obligation and duty of care

Another focus of the Guidelines will be on the collection and analysis of accident data. Amendments will be made to the Motor Vehicle Accident Notification Form to assist trend identification and ensure that safety measures are actually addressing problem areas in the fleet. It is anticipated that the Motor Vehicle Fleet Purchase and Use Guidelines will be available to agencies in December 2003.

Department of Education's Property Protection Scheme

During 2002-03, the Department of Education developed the concept of a Property Protection Scheme to provide financial assistance to schools and colleges suffering from incidents of damage and vandalism to school property under the Department's excess level of $50 000.

Prime beneficiaries of the Scheme are generally expected to be the smaller schools in areas where the occurrence of vandalism is high.

Key features of the Scheme include:

- its operation as a mutual fund under the auspices of the TRMF;
- compulsory participation for all schools and colleges;
- contributions to the Scheme by schools and colleges being linked to the number of students enrolled;
- schools and colleges having a cumulative excess responsibility which, again, will be based on the number of students enrolled; and
- the establishment of a comprehensive database to closely monitor future incidents of vandalism and damage in Tasmanian schools and colleges, and to undertake preventative action.

It is currently planned that the Scheme will be implemented on a trial basis during the latter part of 2003.

Department of Health and Human Services – deterrents for inappropriate motor vehicle usage

The Department of Health and Human Services publishes at manager level the names of staff who have received speeding tickets while using government motor vehicles. This is seen as an effective way of reducing the number of repeat offenders.

Department of Treasury and Finance – defensive driving

The Department of Treasury and Finance requires all regular drivers of government vehicles to undertake a defensive driving course.

Outlook for 2003-04

The recent performance of the Fund in this category of risk has been mixed. Claim numbers and costs decreased in 2002-03 for property and business interruption and, as such, contributions for 2003-04 decreased.

However, other areas have not been particularly pleasing due to the large number and cost of claims and, if this trend continues, the outlook for 2003-04 is not good. This is reflected in the fact that the Fund will be increasing agency contributions in 2003-04 for the following areas of property risk:

- light motor vehicle fleet. The increase in the contribution for light vehicles is due to the increasing trend in the cost of motor vehicle claims;
- Police vehicle fleet. There has been a slight increase compared with the 2002-03 contribution;
- miscellaneous vehicles. There has been an increase in the contribution for ambulance vehicles due to the large increase in the cost of ambulance claims in 2002-03; and
- Housing. There has been an increase in the contribution pool for 2003-04 due to a large increase in the claims costs for Housing in 2002-03.

Introduction

The Fund provides liability cover to government agencies and their employees in the event that they are sued by a third party. The Fund self-insures all liability risks. In broad terms, the Fund provides cover for five categories of risk:

- Public (General) Liability – provides cover for any injuries to third parties or damage to property belonging to others caused by the negligent actions of an agency and/or agency representative.
- Medical Negligence – provides cover for the cost of claims arising from any act, error or omission in the provision of medical services.
- Directors' and Officers' – provides cover for the personal liability of directors and officers against the cost of claims made by third parties. Cover applies to directors, managers, individual officers and others who are involved in the management of an agency against claims alleging a breach of their managerial duties, or an act or omission in relation to the discharge of their functions as a director or an officer of the agency.
- Professional Indemnity – provides cover against a claim from a third party arising from a breach of the professional duties of an agency or its representative (excluding medical malpractice).
- Product Liability – provides cover for any injuries to third parties, or damage to property belonging to others, caused by anything manufactured, serviced, altered or prepared by the agency.

While the Fund's Steering Committee is responsible for the strategic management of the Fund, a Liability Sub-Committee is responsible for operational matters associated with liability.

Liability Sub-Committee

The Liability Sub-Committee met three times in 2002-03.

Early in 2003 the Steering Committee formed a sub-committee to progress the drafting of Statements of Indemnity.

In a meeting of the sub-committee, with representatives from the TRMF Unit and Crown Law, it was decided that the Liability Statement of Indemnity would not be progressed as it is not possible to define or restrict situations where the Crown and its employees may be sued.

In 2001-02, the Liability Sub-Committee was responsible for the operational matters associated with medical indemnity risks. Early in 2003, the Liability Sub-Committee decided that it would no longer assume this role as the area of medical indemnity related to only one department – the Department of Health and Human Services (DHHS). It was decided that DHHS should be solely responsible for the operational matters of medical indemnity with assistance and support from the TRMF Unit and the Fund Administration Agent.

Medical Indemnity

In 2002-03, the Government announced that the Fund would be assuming the liability for all pre 1 July 2001 medical negligence claims. It has been estimated by DHHS that this could include up to 48 claims, with a value of approximately $13.235 million.

Due to the high profile of medical indemnity insurance, the Fund intends to undertake further research into this market and the nature of existing claims in order to improve the management of medical malpractice liabilities.

In 2002-03, two claims were paid by the Fund, totalling $4.2 million.

In 2002-03, the Fund reduced liability contributions from participating agencies by 10 per cent…

Contributions and Costs

Agencies made total payments of $6.19 million (excluding GST and taking into account agency excess options) to the Fund for liability cover for 2002-03.

The overall expenses paid out by the Fund (excluding GST) for liability claims during 2002-03 was $4.242 million. This figure does not include Fund Administration Agent fees, Actuary fees or accrued expenses.

Claim Trends

As 2002-03 is only the second year of operation of the expanded Fund, there is little comparative history to compare liability risks. The table below summarises liability claims in 2001-02 and 2002-03, excluding medical indemnity claims:

Outlook 2003-04

In 2002-03, the Fund reduced liability contributions from participating agencies by 10 per cent, which was a significant achievement in the current insurance environment. Based on claims trends over the past two years, the Fund will be considering further reducing agencies' contributions in 2003-04.

	2001-02	2002-03
Claims	58	33
Total Incurred	$1 550 725	$259 461
Total Paid	$40 556	$46 244
Outstanding Payments	$1 510 169	$213 217
Largest Incurred Claim	$1 200 000	$50 000

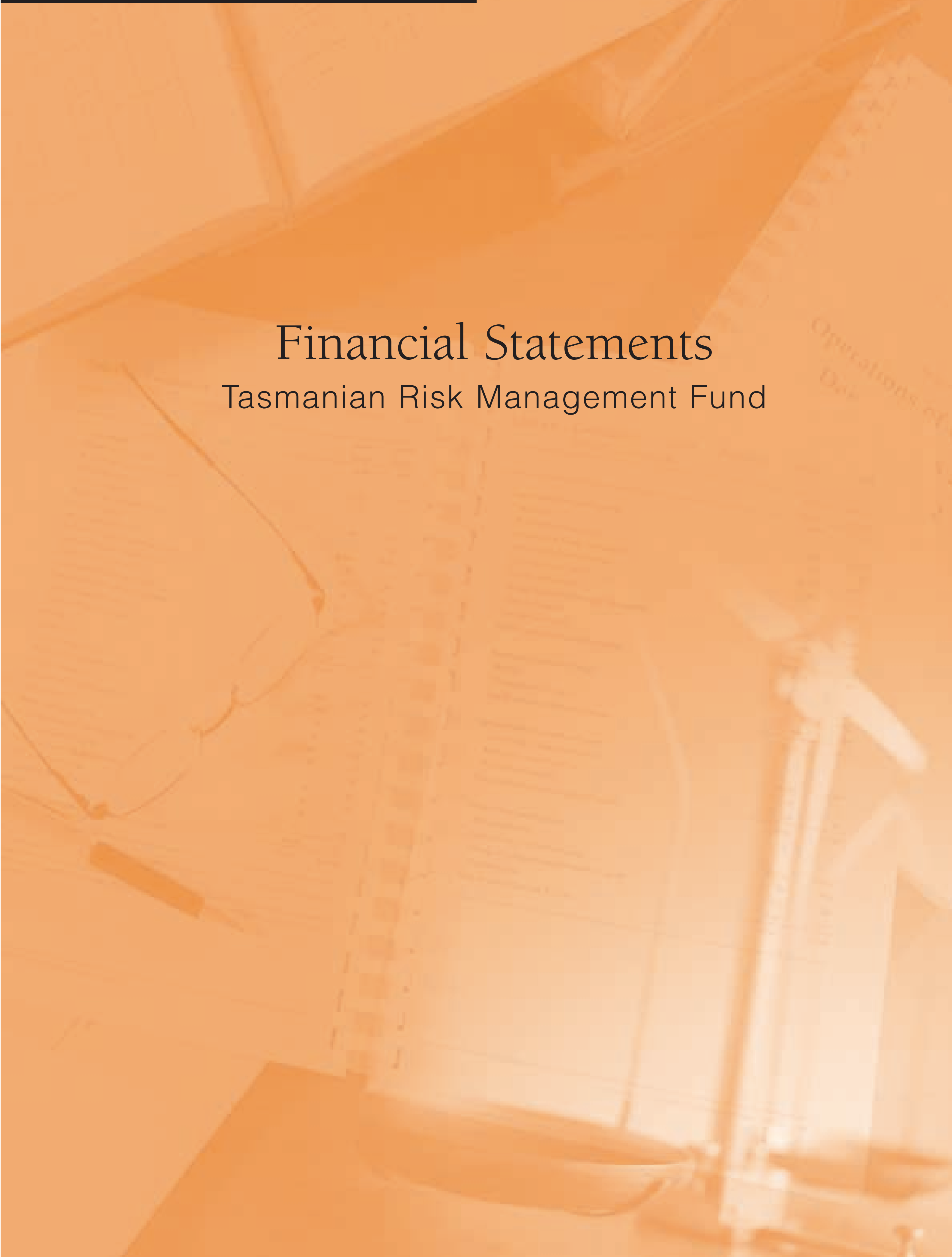
Future Challenges

There are a number of challenges and initiatives that Treasury will pursue in 2003-04, including the following:

- finalising the Motor Vehicle Fleet Purchase and Use Guidelines;
- examining options to improve the management of medical malpractice risks that are identified, and monitoring the funding of medical malpractice claims;
- reviewing agency risks and the basis for calculation of contributions now that the Fund has at least two years of claims history for all risks. Treasury will undertake a thorough review of risk-related information that Treasury has received from each agency including asset registers and risk audits. Treasury will also be reviewing the current classes of cover and calculation of various contributions;
- investigating the development of whole-of-government procedures for the management of workers' compensation claims;
- investigating the option of adopting a whole-of-government risk management policy similar to that developed by the Australian Capital Territory Fund;
- investigating the Victorian Managed Insurance Authority's (VMIA) self-assessment program for agencies;
- monitoring the progress of reinsurance in other states, in particular action taken by VMIA with its presentation to overseas reinsurers, which details the Authority's risk management initiatives;
- assisting the Department of Education to develop and manage a central self-insurance arrangement for under excess property claims (the Property Protection Scheme); and
- investigating whether a security system for schools, as has been introduced in Western Australian government schools, would assist in reducing property claims.

Treasury will also undertake the following standard tasks and projects:

- providing regular advice and responses to queries from agencies;
- calculating contributions and invoicing agencies;
- conducting financial reporting;
- administering the Steering Committee and sub-committee meetings;
- providing Certificates of Currency to agencies;
- updating the TRMF Procedures Manual;
- conducting weekly meetings with the Fund Administration Agent;
- managing the contracts with the Fund Administration Agent and the Actuary;
- arranging risk management seminars and forums;
- maintaining the Fund's web page;
- coordinating the production of the Fund's Annual Report and financial statements;
- preparing quarterly issues of the Fund's electronic newsletter, *riskmatters*; and
- finalising the statements of indemnity for the risks covered by the Fund.



Financial Statements

Tasmanian Risk Management Fund

TASMANIAN RISK MANAGEMENT FUND

Statement of Financial Performance

for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
Revenue from ordinary activities			
Agency contributions & recoveries	2	26 850	27 796
Investment revenue	2	3 696	3 368
Total revenue from ordinary activities		30 546	31 164
Expenses from ordinary activities			
Claims expense	3	(47 412)	(25 621)
Other underwriting expenses	3	(1 132)	(426)
General administration expenses	3	(376)	(286)
Expenses from ordinary activities		(48 920)	(26 333)
Net operating surplus (deficit) from ordinary activities	9	(18 374)	4 831

The statement of financial performance is to be read in conjunction with the Notes to and forming part of the Financial Statements.

TASMANIAN RISK MANAGEMENT FUND

Statement of Financial Position

as at 30 June 2003

	Note	2003 $'000	2002 $'000
Current Assets			
Trust Account	10 (a)	76 052	73 603
Receivables	5	1 082	493
		77 134	74 096
Total Assets		77 134	74 096
Current Liabilities			
Outstanding claims	8	25 223	21 964
Payables	6	2 129	1 592
Provisions	7	38	35
		27 390	23 591
Non-Current Liabilities			
Outstanding claims	8	46 402	28 789
		46 402	28 789
Total Liabilities		73 792	52 380
Net Assets / (Liabilities)		3 342	21 716
Equity			
Retained Surplus	9	3 342	21 716

The Statement of Financial Position is to be read in conjunction with the Notes to and forming part of the Financial Statements.

TASMANIAN RISK MANAGEMENT FUND

Statement of Cash Flows

for the year ended 30 June 2003

	Note	2003 $'000	2002 $'000
Cash flows from operating activities			
Agency contributions		26 284	28 561
Interest received		3 673	3 100
Claims and expenses paid		(24 233)	(22 141)
Fund management fees		(1 768)	(1 710)
Underwriting expenses		(1 132)	(426)
General and administration expenses		(375)	(335)
Net cash inflow (outflow) from operating activities	10 (b)	2 449	7 049
Net increase (decrease) in cash held		2 449	7 049
Cash at beginning of the financial year		73 603	66 554
Cash at end of the financial year	10 (a)	76 052	73 603

The Statement of Cash Flows is to be read in conjunction with the Notes to and forming part of the Financial Statements.

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

The Tasmanian Risk Management Fund (TRMF) is a self-insurance arrangement established within the Tasmanian State Service to provide a whole-of-government approach to the treatment of all risks to which agencies are exposed. The Fund was established on 1 January 1999 and is intended to operate on a fully funded basis. On 1 July 2001, the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) merged with the Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Statements have been drawn up as a general purpose financial report in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial Statements have been prepared on the basis of historical costs. The accounting policies have been consistently applied and are consistent with the previous year.

(b) Revenue recognition

Agency contributions

Agency contributions comprise amounts required to be paid by participating agencies of the TRMF to meet the cost of claims. The earned portion of the contributions received and receivable is recognised as revenue. The contribution is treated as earned from the date of attachment of risk.

Investment revenue

Interest is recognised as it accrues.

(c) Claims

The TRMF commenced providing cover as follows:

– Workers' compensation	– from 1 July 2001 (formerly covered under TSSWCS)
– Property	– from 1 July 2001
– Motor vehicle	– from 1 July 1999
– Liability	– from 1 July 1999
– Medical malpractice	– post 1 July 2001 claims – from 1 July 2001
	– pre 1 July claims – from 1 July 2002
– Miscellaneous	– from 1 July 1999

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Claims (continued)

Workers' compensation

Claims incurred expense and a liability for outstanding claims are recognised in the financial statements. The liability covers claims incurred, but not yet paid, incurred but not reported claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding (and estimated, unnotified claims and settlement costs) are reassessed by the Fund Manager in consultation with an independent actuary.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "super-imposed inflation". Super-imposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the balance date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 8.

Property

The liability for outstanding claims in respect to property and business, business interruption and machinery breakdown is measured using aggregate case estimates increased by 30 per cent for expenses and 25 per cent for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

Motor vehicle

The liability for outstanding claims in respect to vehicles is measured using aggregate case estimates increased by 30 per cent for expenses and 25 per cent for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

Liability

The liability for outstanding claims in respect to public and products, professional, directors and officers is measured using aggregate case estimates increased by 30 per cent for expenses and 25 per cent for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Claims (continued)

Medical malpractice

The TRMF commenced providing cover in respect to medical malpractice from 1 July 2001, and is liable for claims arising from that date. In addition, during 2002-03 the Fund assumed the liability for all pre 1 July 2001 medical negligence claims. The liability for outstanding claims is measured using case estimates.

Miscellaneous

The TRMF provides cover in respect to marine hull, fidelity/fraud, transit, government contingency, travel, volunteers, hirer and aviation charter. The liability for outstanding claims is measured using aggregate case estimates increased by 30 per cent for expenses and 25 per cent for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

In addition, liabilities for claims arising as a result of the Port Arthur Tragedy which are not recoverable under TRMF's insurance policies have also been included in this category.

(d) Payables

Payables are recognised when the Fund become obliged to make future payments as a result of purchases of assets or services. Payables are recognised when goods have been delivered and/or services rendered even though invoices may not have been received.

(e) Provisions for employee entitlements

Provisions for employee entitlements include entitlement to annual leave, sick leave and long service leave. Employee entitlements are accounted for in accordance with Australian Accounting standard AAS 30 "Accounting for Employee Entitlements".

Liabilities annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates plus on-costs for payroll tax and employer superannuation contributions in respect of employees' service up to that date. Sick leave taken by employees is typically less that the rate at which it accrues and, accordingly, no liability for sick leave entitlements is recognised.

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Provisions for employee entitlements (continued)

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels plus on-costs, experience of employee departures and periods of service. On-costs include payroll tax and employer superannuation contributions, however they normally exclude workers' compensation contributions and fringe benefits tax. Expected future payments are discounted using interest rates attaching, as at the reporting date, to Commonwealth Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(f) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

GST transactions are administered by the Department of Treasury and Finance with only the net amounts reflected in the accounts of the TRMF. As such, the net amount of GST recoverable from, or payable to, the ATO is not included as a current asset or liability in the Balance Sheet.

Similarly, cash flows are included in the Statement of Cash Flows on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to revenue items amounted to $2.544 million (2001-02: $2.691 million) and GST relating to expense items amounted to $1.044 million (2001-02: $0.734 million).

(g) Tax status

The activities of the Fund are exempt from taxation.

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

	2003 $'000	2002 $'000
2. REVENUE FROM ORDINARY ACTIVITIES		
Agency contributions & recoveries	26 850	27 796
Investment revenue	3 696	3 368
Total revenue from ordinary activities	30 546	31 164
3. EXPENSES FROM ORDINARY ACTIVITIES		
Individually significant expenses		
Initial recognition of medical malpractice claims	13 235	–
Payment relating to individual medical negligence claim	4 100	–
Claims expense		
Claims paid	22 673	20 578
Claims accrued	2 099	1 560
Movement in outstanding claims	20 872	1 772
Management expenses	1 768	1 711
	47 412	25 621
Other Underwriting expenses		
Payment to Workplace Safety Board	1 132	426

As a result of the HIH collapse, and amendments to the *Workers Rehabilitation and Compensation Act*, the Fund has contributed 4 per cent of workers' compensation contributions to the Nominal Insurer for the first time in 2002-03.

	2003 $'000	2002 $'000
General Administration Expenses		
Actuarial expenses	81	79
Accounting and audit fees	20	17
Salaries	248	163
Other	27	27
	376	286

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

		2003 $'000	2002 $'000
4.	**UNDERWRITING RESULT**		
	Agency contributions & recoveries	26 850	27 796
	Claims expense	(47 412)	(25 621)
	Other underwriting expenses	(1 132)	(426)
		(21 694)	1 749
5.	**RECEIVABLES**		
	Accrued interest	290	267
	Contributions receivable from agencies	734	226
	Insurance recoveries	58	–
		1 082	493
6.	**PAYABLES**		
	Unreimbursed claims	2 099	1 560
	Other	30	32
		2 129	1 592
7.	**PROVISIONS**		
	Employee entitlements	38	35

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

	2003 $'000	2002 $'000
8. OUTSTANDING CLAIMS		
Current		
Workers' compensation	19 998	18 986
Property	1 473	2 024
Motor vehicle	392	153
Liability	2 834	801
Medical	235	–
Miscellaneous	291	–
	25 223	21 964
Non-Current		
Workers' compensation	33 167	28 789
Property	–	–
Motor vehicle	–	–
Liability	–	–
Medical	13 235	–
Miscellaneous	–	–
	46 402	28 789

Workers' compensation

The liability for outstanding workers' compensation claims is determined by the consulting independent actuary, Bendzulla Tasmania Pty Ltd.

	2003	2002
Expected future claims payments (undiscounted)	59 900	53 831
Less discounted to present values	(5 524)	(4 985)
Less recoveries under excess	(1 211)	(1 071)
Liability for outstanding claims	53 165	47 775
Current	19 998	18 986
Non-Current	33 167	28 789
	53 165	47 775

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

	2003 $'000	2002 $'000
8. OUTSTANDING CLAIMS (continued)		
Workers' compensation		
(a) The weighted average expected term of settlement from the balance date is estimated at:	2.05 years	2.03 years
(b) In measuring the liability for outstanding claims, the following rates were used:		
– Inflation rate (years 1 – 3)	6.0%	4.0%
– Inflation rate (years 4 onward)	5.0%	4.0%
– Discount rate	5.0%	5.5%
9. RETAINED SURPLUS		
Retained surplus (deficit) at the beginning of the year	21 716	16 885
Current year net surplus (deficit)	(18 374)	4 831
Retained surplus (deficit) at the end of the year	3 342	21 716

10. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

Cash at the end of the financial year as shown on the statement of cash flows is reconciled to the related item in the Statement of Financial Position as follows:

	2003 $'000	2002 $'000
Trust Account	76 052	73 603

(b) Reconciliation of net cash provided by operating activities to operating surplus

	2003 $'000	2002 $'000
Operating surplus (deficit)	(18 374)	4 831
(Increase)/Decrease in interest receivable	(23)	(267)
(Increase)/Decrease in agency contributions	(508)	(173)
(Increase)/Decrease in insurance recoveries	(58)	938
Increase/(Decrease) in creditors	537	(84)
Increase/(Decrease) in provisions	3	32
Increase/(Decrease) in claims payable	20 872	1 772
Net cash inflow/(outflow) from operating activities	2 449	7 049

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2003

11. FINANCIAL INSTRUMENTS

Interest Rate Risk

Financial instruments for the purposes of the Fund are limited to Receivables, Creditors and cash in the TRMF Account in the Special Deposits and Trust Accounts. Creditors and Receivables of the Fund are not subject to any interest rate risk. The TRMF Account is subject to a variable interest rate, which resulted in an average interest rate for the year ended 30 June 2003 of 4.73 per cent (30 June 2002 4.41 per cent).

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Fund. The Fund has the policy of only dealing with creditworthy counterparties. Therefore, the Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Net Fair Value

The carrying amount of the TRMF Account approximates the net fair value due to its short maturity. Receivables are carried at nominal amounts due and Creditors are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund.

Certification of Financial Statements

for the Year ended 30 June 2003

The accompanying financial statements of the Tasmanian Risk Management Fund are in agreement with the relevant accounts and records and have been prepared in compliance with Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990* to present fairly the financial transactions for the year ended 30 June 2003 and the financial position as at 30 June 2003.

At the date of signing, I am not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

D W Challen
Secretary
Department of Treasury and Finance

Date: 11 November 2003

INDEPENDENT AUDIT REPORT

To the Secretary, Department of Treasury and Finance

Tasmanian Risk Management Fund

Scope

I have audited the financial report of the Tasmanian Risk Management Fund comprising Financial Performance, Financial Position and Cash Flows Statements and notes thereto, for the year ended 30 June 2003. The Secretary of the Department of Treasury and Finance is responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the Secretary.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with my understanding of the financial position of the Tasmanian Risk Management Fund and the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial report presents fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, the financial position of the Tasmanian Risk Management Fund as at 30 June 2003, and the results of its operations and cash flows for the year then ended.

TASMANIAN AUDIT OFFICE

A J McHugh
AUDITOR-GENERAL

12 November 2003
HOBART

The members of the Tasmanian Risk Management Fund Unit of the Department of Treasury and Finance are:

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