2018–19 ANNUAL REPORT

ACT Insurance Authority

ACTIA
Australian Capital Territory Insurance Authority

ACT Insurance Authority (the Authority)

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Part A

Transmittal Certificate and Compliance Statement

TRANSMITTAL CERTIFICATE

ACTIA
Australian Capital Territory Insurance Authority

Suzanne Orr MLA
Minister for Government Services and Procurement
ACT Legislative Assembly
GPO Box 1020
CANBERRA ACT 2601

Dear Minister

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2019.

This Report has been prepared under section 7(2) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements under the Annual Report Directions.

It has been prepared in conformity with other legislation applicable to the preparation of the Annual Report by the ACT Insurance Authority.

I certify that information in the attached annual report, and information provided for whole of government reporting, is an honest and accurate account and that all material information on the operations of the ACT Insurance Authority has been included for the period 1 July 2018 to 30 June 2019.

I hereby certify that fraud prevention has been managed in accordance with *Public Sector Management Standards 2006*, Part 2.

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you present the Report to the Legislative Assembly within 15 weeks after the end of the reporting year.

Yours sincerely

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic
Development Directorate
Delegate for the Chief Executive Officer
26 September 2019

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Cnr London Circuit & Constitution Avenue, CANBERRA CITY

COMPLIANCE STATEMENT

The **2018-19 ACT Insurance Authority Annual Report** must comply with the 2019 Annual Report Directions (the Directions) made under section 8 of the Annual Reports Act. The Directions are found at the ACT Legislation Register: https://www.legislation.act.gov.au/.

The Compliance Statement indicates the subsections, under Parts 1 to 5 of the Directions that are applicable to the Authority and the location of information that satisfies these requirements:

Part 1 Directions overview

The requirements under Part 1 of the Directions relate to the purpose, timing and distribution, and record keeping of annual reports. The **2018-19 ACT Insurance Authority Annual Report** complies with all subsections of Part 1 under the Directions.

To meet Section 15 Feedback, Part 1 of the Directions, contact details for the Authority are provided within the **2018-19 ACT Insurance Authority Annual Report** to provide readers with the opportunity to provide feedback.

Part 2 Reporting entity annual report requirements

The requirements within Part 2 of the Directions are mandatory for all reporting entities and the Authority complies with all subsections. The information that satisfies the requirements of Part 2 is found in the **2018-19 ACT Insurance Authority Annual Report** as follows:

> A. Transmittal Certificate, see page 6.

> B. Organisational Overview and Performance, inclusive of all subsections, see pages 9-28.

> C. Financial Management Reporting, inclusive of all subsections, see pages 29-96.

Part 3 Reporting by exception

The Authority has nil information to report by exception under Part 3 of the Directions for the 2018-19 reporting year.

Part 4 Directorate and public sector body specific annual report requirements

Part 4 of the Directions is not applicable to the Authority.

Part 5 Whole of government annual reporting

All subsections of Part 5 of the Directions apply to the Authority. Consistent with the Directions, the information satisfying these requirements is reported in the one place for all ACT Public Service directorates, as follows:

- Bushfire Risk Management, see the annual report of the Justice and Community Safety Directorate;
- Human Rights, see the annual report of the Justice and Community Safety Directorate;
- Legal Services Directions, see the annual report of the Justice and Community Safety Directorate;
- Public Sector Standards and Workforce Profile, see the annual State of the Service Report; and
- Territory Records see the annual report of the Chief Minister, Treasury and Economic Development Directorate (CMTEDD).

ACT Public Service Directorate annual reports are found at the following web address:
www.cmd.act.gov.au/open_government/report/annual_reports.

Part B

Organisational Overview and Performance

B.1 ORGANISATIONAL OVERVIEW

B.1.1 **Who we are**

The ACT Insurance Authority (the Authority) is established under the *ACT Insurance Authority Act 2005* (the Act).

The Authority works to protect the assets and services of the Territory by providing risk management support and insurance services to all ACT Government directorates and statutory authorities. The Authority meets the insurable claims and losses of the ACT Government through its self-insurance and reinsurance arrangements and operates on a cost recovery basis by collecting premiums from directorates and statutory authorities to meet the anticipated costs of claims.

The Authority operates as the ACT Government's captive insurer of Territory risks. The captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its insurance arrangements, and the accumulation of a fund reserve to meet the cost of asset losses and legal liabilities that occur as a result of the activities of Government.

The Authority insured Territory assets to the value of $25.5 billion, collected $50.6 million in annual premium revenue, held $326.3 million in investments and other assets, with total liabilities of $253.6 million.

The Authority reports to the Minister for Government Services and Procurement through the Under Treasurer, Chief Minister, Treasury and Economic Development Directorate (CMTEDD).

B.1.2 **What we do**

The Authority provides insurance, claims and risk management services to directorates and statutory authorities.

The Authority's functions are to:

> carry on the business of insurer of Territory risks;
> take out insurance of Territory risks with other entities;
> manage and settle claims in relation to Territory risks;
> develop and promote good practices for the management of Territory risks; and
> give advice to the Minister about insurance and the management of Territory risks.

The insurance coverage provided to directorates and statutory authorities by indemnity agreements and the Authority's reinsurance program is broad form cover that includes:

> public liability;
> medical malpractice;
> professional indemnity;
> property damage;
> directors' and officers'; and
> financial crime.

The Authority also arranges external insurance policies on behalf of ACT Government to cover contract works, corporate travel, standing timber, aviation and personal accident cover for both aero retrieval and volunteer workers. The Authority bears no risk on these policies.

The Authority also administers the Office of the Nominal Defendant of the ACT, for default claims under the ACT Compulsory Third-Party Insurance Scheme and the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

The activities of these entities are reported separately and appear in reports annexed to the CMTEDD Annual Report.

B.1.3 **Our Approach**

The Authority is part of the Commercial Services and Infrastructure Group (CSI) within CMTEDD and our approach is consistent with the CSI's mission and values.

Mission

We engage to provide high quality enabling services and solutions in collaboration with our directorate partners. We strive to ensure:

> our understanding of directorate needs;
> cost effectiveness;
> timeliness;
> governance and integrity; and
> assurance.

Values

In all that we do, we hold ourselves accountable for demonstrating our values:

> Integrity
> Respect
> Collaboration
> Innovation.

B.1.4 **Organisational Structure**

Under the *Financial Management Act 1996* the Authority is responsible to the Minister for Government Services and Procurement through the Chief Executive Officer for the efficient and effective financial management of resources. The delegate for the Chief Executive Officer is the Under Treasurer and the Authority operates under CMTEDD.

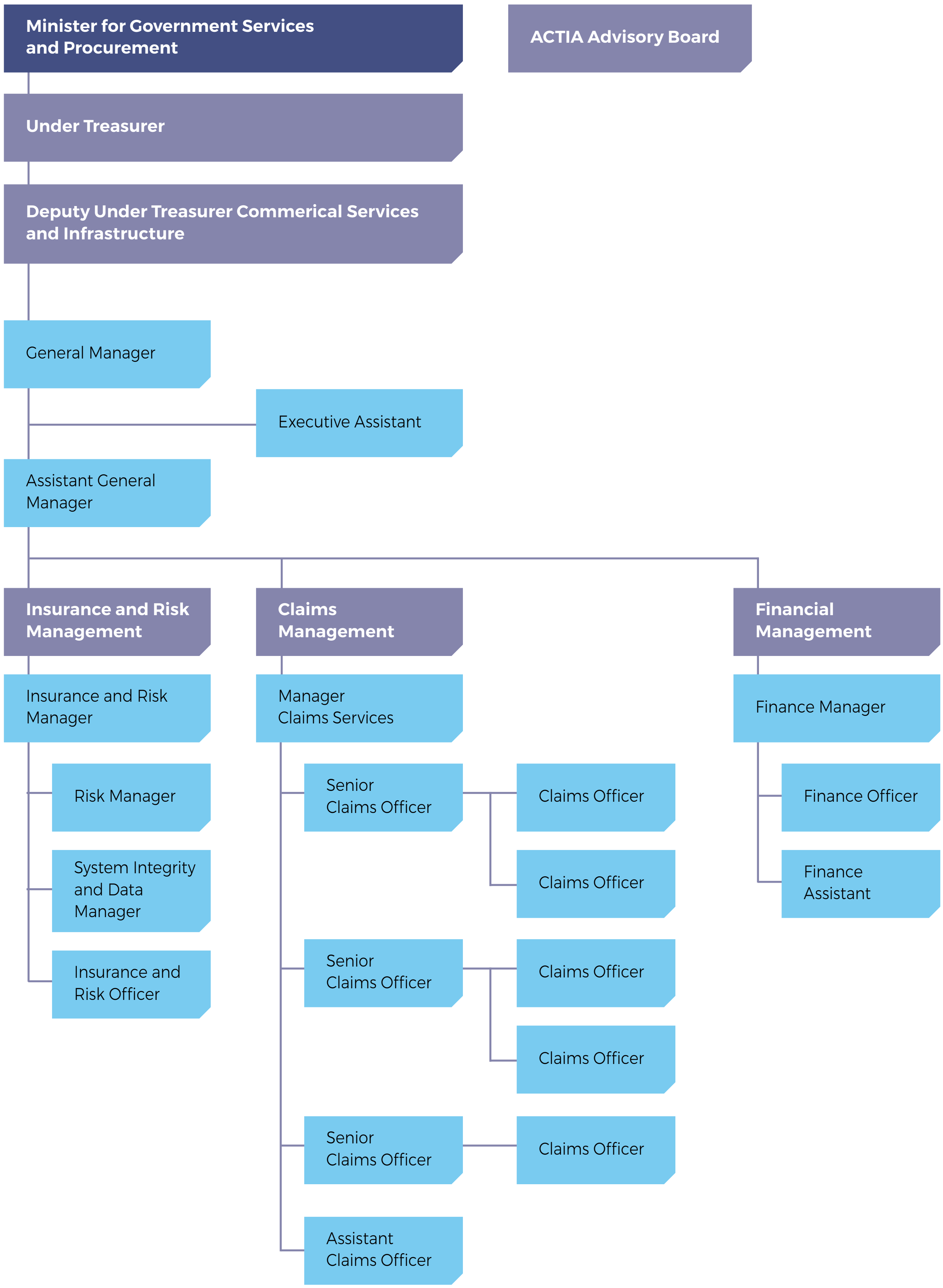
The Authority is supported by an Insurance Advisory Board (the Board) appointed under the Authority's enabling legislation. The current Board members are Mrs Maxine McDowell (Chair) and Mr David Sandoe OAM (Member).

The Board provides important and valuable support to the Authority, particularly in relation to its reinsurance program, the identification of emerging risks and improvements to risk and claims management services. Details of the Board members' qualifications and experience appear in section B.1.7 Internal Accountability under sub-heading Insurance Advisory Board.

The Authority delivers services through three streams:

> Insurance and Risk Management;
> Claims Management; and
> Financial Management.

The organisational structure of the Authority at 30 June 2019 is as follows:



B.1.5 Year in Review

The Authority's key achievements during the 2018-19 year were:

Risk Management Support

The Authority was responsible for the development of the ACT Risk Management Policy 2019 (the Policy) in consultation with directorates and statutory authorities. This Policy was launched in February 2019 after endorsement by the ACT Strategic Board and the Minister for Government Services and Procurement.

The Authority has formed a Risk Management Office and continues to promote best practice risk management across the Territory and to support directorates and statutory authorities to implement the policy.

The Risk Management Office provides the following support through its scope of services:

- an implementation guide for the Policy;
- risk management tools and templates;
- learning forums;
- presentations to senior management teams and/or directorate interest groups;
- risk management training, in the form of general, specialist and executive training; and
- face to face risk assessments and workshops.

Reinsurance Program Placement and External Insurance 2019-20

The placement of the Territory's annual insurance and reinsurance program is one of the Authority's key operational outcomes. The program protects the Territory from losses resulting from catastrophic events or an accumulation of insurable losses.

The Authority completed a strategic review of the suitability of its program taking into consideration a range of issues including: market conditions, emerging operational issues and changes to business activities, claims experience, legislative changes, historical costs, placement structure, risk retention levels as well as short and long-term strategic objectives.

The 2019-20 renewal strategy tested the current program structure and pricing with incumbent insurance and reinsurance providers across all insurance classes.

The successful placement of the 2019-20 program, with 100 per cent capacity provided by the global insurance market, was a positive result for the Territory in the current market conditions and consistent with the Authority's renewal strategy. The cost of the 2019-20 program was $7.1 million, representing an increase of $0.3 million on the 2018-19 program.

The Authority also arranged external insurance cover for contract works, corporate travel, standing timber, aviation and personal accident cover for both aero retrieval and volunteer workers.

The Authority continues to be a valued client with insurers and reinsurers who participate on the current program, while attracting interest from alternate underwriters to provide additional insurance capacity if required.

Annual Insurance Premiums 2019-20

Each year the Authority, with the assistance of its actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd, determines the total annual insurance premiums to be collected from ACT Government agencies to meet the anticipated cost of claims for the insurance year.

The actuarial approach to setting the annual insurance premiums relies on assumptions about the estimated future number of claims, the estimated average settlement size, expected inflation rates and investment returns.

For the 2019-20 insurance year the annual premiums charged to agencies has been set at $46.34 million. These premiums represent a saving of $4.27 million or eight per cent from the premiums recovered in the 2018-19 year.

Investment Plan

Following the approval of the Treasurer, the Authority implemented a new investment plan during the reporting year. The Authority's Investment Plan outlines the investment objectives to achieve a long-term funding target of an annualised return of between CPI+2.5% and CPI+3.5% while minimising the risk taken and costs incurred in achieving that outcome. In order to achieve the targeted outcome, the investments are allocated to a balance index fund which has a medium risk tolerance seeking balance between income generating and capital growth potential.

Outstanding Claims Liability

The Authority used the services of its actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd, to estimate the outstanding claims liabilities as at 30 June 2019. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

This year's valuation resulted in an increase of $20.9 million for the total outstanding claims liabilities. This increase is due to revised economic and actuarial assumptions.

B.1.6 Outlook and Future Priorities

The Authority will continue to work with Territory directorates and statutory authorities to protect the assets and services of the Territory by providing high quality risk management, claims management and insurance services.

The Authority's ability to value outstanding claims liabilities is informed by the accumulation of claims data including claims experience information. It remains important to the Authority that insurance related incidents are reported promptly to facilitate early intervention claims management and appropriate estimation of the future claim liabilities which are reviewed annually. The Authority will continue to monitor incident reporting practices by agencies and provide guidance on the nature of incidents that need to be reported.

Reinsurance premiums continue to be competitive although there are signs in the market that premium rates will continue to increase in the medium to long-term. The directors' and officers' insurance market is under significant pressure as a result of recent class actions in the banking and finance sector, this has resulted in increases in market rates for this cover. There are indications that premium rates for the property insurance class will increase as a result of recent natural disasters. The public liability and medical malpractice insurance classes are also expected to see a rise in premiums due to reduced capital and capacity in the market.

The Authority will continue working with directorates and statutory authorities to develop strategies to reduce the incidence and cost of insurance claims against the Territory by promoting good claims and risk management practices. The Authority's risk management team continues to provide assistance to agencies on a range of risk management related topics.

The Authority's strategic and operational priorities in 2019-20 include:

> implementing a program of reinsurance to protect the Territory budget based on an appropriate balance between transferred and retained risk;

> proactively managing claims against the Territory in consultation with agency stakeholders and in accordance with the ACT model litigant requirements;

> assisting agencies with the implementation and continuous improvement of risk management practices consistent with the ACT Risk Management Policy that reflects international standards and best practice;

> delivering risk management services including training, targeted educational seminars and consultancy services for agencies that increase the level of stakeholder engagement;

> implementing an insurance management system consistent with the requirements identified in the Authority's Information Communication Technology Plan; and

> developing a change management plan to facilitate the Authority's move to an activity-based work environment in the new ACT Government office building.

B.1.7 Internal Accountability

Senior Executive Responsibilities and Remuneration

Senior Executive responsibilities include providing professional advice to the Authority's Minister, the ACT Government and Territory agencies on insurance and risk management matters, as well as proactively managing claims against the Territory. In addition, the Senior Executive administers the Default Insurance Fund and the Office of the Nominal Defendant of the ACT.

The Senior Executive employed by the Authority is paid in accordance with the determinations of the ACT Remuneration Tribunal and relevant laws and instruments, including the *Public Sector Management Act 1994* and the *Public Sector Management Standards 2006*.

Insurance Advisory Board

The Board is established under Section 12 of the Act and members are appointed in accordance with *Insurance Management Guidelines 2005 (No. 1)*. The Under Treasurer, CMTEDD is delegated with authority to make board appointments. The Board must consist of two members appointed by the Authority who in the opinion of the Authority, possess sufficient skill and judgement to provide advice in relation to the Authority's execution of its powers, functions and responsibilities. The appointment term must not exceed 3 years and can be revoked by the Authority for misconduct, neglect of duty or if the member becomes unable to carry out the duties of the office satisfactorily.

The members are:

Name of Member	Position	Duration	Meetings Attended
Mrs Maxine McDowell	Chair	July 18 to June 19	4 of 4
Mr David Sandoe OAM	Member	July 18 to June 19	4 of 4

The Authority's board members have extensive experience in the general insurance industry at the executive level, particularly in relation to underwriting, claims management, risk management, reinsurance and actuarial and financial services.

Mrs Maxine McDowell (Chair) - ANZIIF (Fellow). Grad Bus.Mgt. UTS. Mrs McDowell has extensive experience in general insurance underwriting, marketing, claims and risk management, including as a named underwriter at Lloyds of London. She has performed consulting roles with National Insurance Brokers Association (NIBA), Austbrokers Sydney Pty Ltd., and others, has conducted compliance and underwriting audits on behalf of Lloyds, and also has delivered compliance training and product education to some industry members. Maxine has represented NIBA on the Insurance Council Catastrophe Insurance Taskforce, she lectured in Insurance at the University of Technology, Sydney, and she has been an expert witness in some litigated general insurance matters. She now consults on various general insurance matters, continues to deliver compliance and technical training and is active in mentoring programs. Mrs McDowell is an Honorary Life Member of the Australian & New Zealand Institute of Insurance and Finance (ANZIIF).

Mr David Sandoe OAM (Member) - Dip BIA, MBA, ANZIIF (Fellow) CIP, MCMI, FAIM, FAICD. Mr Sandoe has over 48 years' experience in the insurance and financial services industry in Australia, New Zealand, UK and Ireland. This included senior executive roles with South British United/New Zealand Insurance and Zurich Financial Services and as a Principal and General Manager of Finity Consulting, an independently owned Australian firm of actuaries and insurance consultants. He is a former board member of Defence Service Homes Insurance Scheme Advisory Board and is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance, is an Honorary Life Member of the Swiss Australian Chamber of Commerce and Industry (now SwissCham Australia), the Prostate Cancer Foundation of Australia and the Prostate Cancer Foundation of New Zealand. He retired as National Chairman of Prostate Cancer Foundation of Australia on 31 March 2015.

The remuneration of the Board members is determined by the ACT Remuneration Tribunal.

The Board met on four occasions during 2018-19 and was consulted on the following:

> reinsurance program for 2019-20;
> actuarial and financial matters;
> operational priorities;
> ICT systems and management;
> review of major claims; and
> risk management matters.

B.2 PERFORMANCE ANALYSIS

The Authority's accountability indicators are detailed in the Authority's *2018-19 Statement of Intent* and are reported as part of the Authority's Statement of Performance see pages 84-96.

A summary of the outcomes achieved against each of the Authority's principal objectives and accountability indicators are detailed below.

B.2.1 Carry on the business of insurer of Territory risks

Conduct an annual customer satisfaction survey

Outcome

The Authority's annual customer satisfaction survey was conducted as part of the CMTEDD Commercial Services and Infrastructure Group (CSI) which undertook a standardised approach for receiving customer feedback. The range of questions focused on governance processes and practices, product and services outcomes.

Surveys are sent to a range of agency contacts including Directors-General, Chief Executive Officers and other key stakeholders of ACT Government directorates and statutory authorities. Respondents are asked to rate the quality of different aspects of the Authority's services based on their experiences over the past 12 months.

Overall satisfaction for the Authority was 78%, with 19% dissatisfied. The majority of the Authority's customers were positive about the extent to which the Authority:

- understands the work performed by their Directorate (77%);
- meets their needs and expectations (73%);
- collaborates effectively (65%); and
- communicates about its services effectively (74%).

The Authority continues to collaborate with customers at all levels to enhance the level of service provided and to identify and clarify those areas that may require improvement.

Determine annual insurance premiums for territory agencies

Outcome

The Authority operates on a cost recovery basis by collecting premiums from directorates and statutory authorities to meet the costs of future asset losses and legal liabilities that occur as a result of the activities of government.

The Authority completed an annual review of agency insurance premiums, with assistance from its actuary, PricewaterhouseCoopers Consultants (Australia) Pty Ltd, for the 2019-20 insurance year. Premiums are allocated to individual agencies based on their claims history, asset ownership and overall risk profile which includes the services and business activities of each agency.

The Authority continues to refine its premium allocation model, informed by the accumulation of claims data including claims experience, risk exposure and asset ownership information.

Maintain a funding ratio within the targeted range stated in the ACTIA Capital Management Plan

Outcome

The ACTIA Capital Management Plan provides a comprehensive and structured approach to the long-term management of the Authority's financial assets.

The plan establishes the basis for an agreed approach to the management of the Authority's financial strategy and objectives and takes into consideration the variability of the Authority's capital position that may result from changes in claims experience and investment returns.

The Authority aims to manage its capital position at a range between 100 – 120 per cent with an adopted target funding ratio of 100%. This position seeks to strike a balance between the appropriate management of the Territory's risk while allowing suitable mechanisms to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or surrendering unneeded capital (in a surplus situation).

The Authority's funding ratio as at 30 June 2019, is 129 per cent equating to a balance sheet surplus of $72.7 million.

The Authority forecasted capital funding positions for 2019-20 and the next three years as follows:

Balance Sheet	Actual 30 June 2018	Actual 30 June 2019	Forecast 30 June 2020	Forecast 30 June 2021	Forecast 30 June 2022	Forecast 30 June 2023
Assets	$374.7	$326.3	$347.8	$375.9	$404.5	$433.3
Liabilities	$244.5	$253.6	$265.6	$288.0	$309.1	$328.9
+/- $	$130.2	$72.7	$82.2	$87.9	$95.4	$104.4
Funding Ratio	153%	129%	131%	131%	131%	132%
Capital Return		$70 million	-	-	-	-

General and administrative expense as a percentage of total annual premium revenue

Outcome

General and administrative expenses represent six per cent of ordinary revenue. This is one per cent lower than the target of seven per cent. The Authority's management and staff continue to work on improving operational efficiency without compromising on the service delivery expectations of customers.

Average number of days to process payments for settlement of claims

Outcome

During 2018-19 it took an average of 14 days to process payment for the settlement of claims. This is four days higher than the target of 10 days. The higher number of days is due to changing the processing of payments from weekly to fortnightly as a result of a review of efficiency measures.

Review the Territory’s insurance and reinsurance programs

Outcome

The Authority completed a review of the Territory’s insurance and reinsurance programs as part of its annual renewal process that included a review of the Territory’s risk profile, current reinsurance program structure including risk retention levels, an analysis of market conditions and the suitability of insurance policy terms and conditions.

The review outcome was presented to the Board and advice was provided to the Under Treasurer on the suitability of the proposed 2019-20 reinsurance program.

The Authority was able to achieve 100 per cent placement of the Territory’s reinsurance program for 2019-20 with the global insurance markets within budget. The program renewal for the 2019-20 insurance year includes cover of approximately $25.5 billion of insured assets and general growth in the Territory wide risk exposure.

B.2.2 Take out insurance of Territory risks with other entities

Review the Territory’s property asset register to ensure that values reflect insurance replacement costs

Outcome

The Authority reviewed the Territory’s insurance assets schedule and replacement values stated by agencies in their annual insurance declaration. The Authority worked with individual agencies to refine the detail included in the Authority’s property reinsurance renewal.

Complete property loss control surveys

Outcome

The Authority’s lead property reinsurer, XL Insurance Company SE, undertakes an annual program of property surveys in consultation with the Authority and Territory agencies. A selection of assets is surveyed each year as part of a rolling program. This provides reinsurers with an overview of the Territory’s asset management practices, with a focus on emergency management systems and property protection. The surveys in 2018-19 confirmed that the Territory’s asset management practices were appropriate in the sample of assets surveyed.

The survey reports and recommendations were provided to agency representatives responsible for asset management arrangements for consideration and appropriate action.

B.2.3 Satisfy or settle claims in relation to Territory risks

Quarterly review of claims

Outcome

Claim review meetings were held quarterly during 2018-19 to review all liability and medical malpractice claims where the reserve exceeds $250,000. The claim review meetings were attended by Authority staff, representatives of the Authority’s insurance brokers Marsh Pty Ltd, the ACT Government Solicitor’s Office and representatives from external insurers. The review meetings provide an excellent opportunity to enhance the Territory’s ability to develop and execute complex claims management strategies.

The Authority continues to work with key agencies, analysing claims data and developing strategies to reduce the incidence of claims against the Government by implementing robust risk management practices, which in turn assists in the reduction of costs incurred by the Territory. The Authority provides support to identify causes and contributing factors resulting in claims events.

Insurance claims data

Outcome

An actuarial assessment of insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd at the end of each financial year.

The data is provided by major insurance class and includes an assessment of the discounted mean term relating to the average time it takes to finalise claims, ultimate claims numbers, and the average cost of large and small claims. These assumptions provide the basis for establishing the Authority's outstanding claims liabilities and annual agency premiums.

B.2.4 Develop and promote good practices for the management of Territory risks

Provide risk profile reports

Outcome

In September 2018 and May 2019, the Authority issued Risk Profile Reports to Directors-General and to agency staff involved in management of operational insurance and risk management.

The reports contained analysis of claims history, claims costs and claim estimates which are broken down by insurance class and incident type. These reports assist agencies to identify trends or issues across different classes of insurance.

The feedback from directorates regarding the reports has been positive and provides for an increased level of focus on risk management by senior managers and risk practitioners as a result.

Deliver general and targeted risk management training courses

Outcome

The Authority facilitated the delivery of 24 general and targeted risk management training sessions to approximately 425 territory staff in 2018-19. The training attracts significant interest and is consistently well attended by a range of territory staff including executive and senior officers as well as operational staff.

The Authority delivered an increased number of training sessions due to increased demand from directorates and business units. The training courses provided territory staff with an understanding of risk management and practical application in the context of their operational responsibilities. Training sessions were a mixture of half day and full day courses.

Overall participant satisfaction with risk management training sessions

Outcome

The risk management courses offered by the Authority have been well received and feedback from participants is positive.

Participants indicated a high level of satisfaction with the courses provided and a majority indicated that the training was informative, comprehensive, well presented and generally met their needs.

Feedback received showed 98.9 per cent of respondents were satisfied with the risk management training provided.

B.2.5 Give advice to the Minister about insurance and the management of Territory risk

Agency annual insurance premium

Outcome

The Authority prepared a brief for the Minister for Government Services and Procurement in May 2019 to seek approval for the annual agency insurance premiums for inclusion in the 2019-20 ACT Budget. The brief provided a detailed schedule outlining the allocation of premiums per agency.

Annual reinsurance program placement

Outcome

The Authority prepared a brief to seek the approval from the Treasurer and Minister for Government Services and Procurement for the Authority to proceed with the renewal of the Territory's reinsurance program on the best available terms and conditions in the global insurance markets for the 2019-20 year.

The brief provided background information on the Authority's strategy for the development of its proposed reinsurance program including a summary of current insurance market conditions in the four main classes of insurance: medical malpractice, public liability, property and directors' and officers'.

Authority's Capital Management Plan

Outcome

The Authority prepared a brief to seek agreement from the Minister for Government Services and Procurement to the Authority's Capital Management Plan prepared for the 2019-20 Budget.

The brief provided background information relating to the Authority's Capital Management Plan which provides a comprehensive and structured approach to the long-term management of the Authority's financial assets. The key issues raised in this brief reported on the Authority's capital position as at 30 June 2018 and outlined the forecasted funding ratio for the 2019-20 Budget.

B.3 SCRUTINY

There were no inquiries or reviews from the ACT Auditor-General, the ACT Ombudsman, or any Legislative Assembly Committees in 2018-19. The only scrutiny from the Auditor-General during the reporting year was for the audit of the 2017-18 Financial Statements and the review of the 2017-18 Statement of Performance.

B.4 RISK MANAGEMENT

The Authority maintains its own operational risk register which identifies the Authority's business risks and workplace, health and safety risks. The register details the control measures and treatment plans for identified categories of risk including financial, business, information technology dependencies and workplace health and safety. The Authority is part of CMTEDD and as such, it is covered in CMTEDD's risk management arrangements.

B.5 INTERNAL AUDIT

During 2018-19 the Authority's internal audit functions were provided by the CMTEDD Audit and Risk Committee (the Committee). The Committee's functions are governed by the Audit Committee Charter.

Membership includes an Independent Chair, Deputy Chair, a senior executive member from another ACT Government agency and three appointees from within CMTEDD. A representative from the ACT Audit Office and advisors regularly attended meetings.

Four general meetings and two special meetings were held during the year. The number of meetings attended by committee members is as follows:

Name of Member	Position	Duration	Meetings Attended
Carol Lilley	Independent Chair	July 2018 to June 2019	6
Peter Lewinsky	Deputy Chair (outgoing)	July 2018 to April 2019	5
Jennifer Johanson	Deputy Chair (incoming)	June 2019	1
Geoffrey Rutledge	ACT Government External Member	July 2018 to June 2019	3
Dave Peffer	CMTEDD Member	July 2018 to June 2019	4
Sam Engele	CMTEDD Member	July 2018 to June 2019	5
Nicole Masters	CMTEDD Member	April 2019 to June 2019	2

Internal audit services are provided by private audit firms. Internal audits are selected from an internal audit program; this program is developed after identifying areas of operational and financial risk.

The internal audit program did not require the Authority to complete any audit activities during 2018-19.

B.6 FRAUD PREVENTION

The Authority is part of CMTEDD and as such, it is covered in the CMTEDD's Fraud and Corruption Prevention Plan and the CMTEDD Fraud Risk Register. Appropriate delegations and separation of duties are in place for financial and administrative operations. There were no reports or allegations of fraud or corruption received during the reporting year.

B.7 FREEDOM OF INFORMATION (FOI)

The *Freedom of Information Act 2016* (FOI Act) gives individuals the legal right to:

> access government information unless access to the information would, on balance, be contrary to the public interest;

> ask for personal information to be changed if it is incomplete, out-of-date, incorrect or misleading; and

> appeal a decision about access to a document, or a decision in relation to a request to amend or annotate a personal record.

In accordance with Section 96 of the FOI Act the Authority is required to report on the operation of the FOI Act in relation to the Authority for the reporting year.

Open Access Information - Section 96 (3) (a) (i), (ii) and (iii)	**Decisions to publish Open Access Information**	**Decisions to withhold Open Access Information**	**Decisions not to publish a description of Open Access Information**
Number of open access information published under Section 24	2	-	-

FOI Applications received and decision type - Section 96 (3) (a) (iv), (vii), (viii) and (ix)	**Applications Received**	**Full Access**	**Partial Access**	**Refused Access**
Number of FOI access applications requests received and access type	1	-	1	-

FOI processing timeframe - Section 96 (3) (v) and (vi); Section 96 (3) (d)	**Access application decided within the time to decide**	**Access application not decided within the time to decide**	**Additional number of days taken to decide over the time to decide [1]**
Time to decide under Section 40	1	-	-

Amendment to personal information - Section 96 (a) (x) and Section 96 (3) (e)	**Number**	**Decision**
Number of FOI requests for amendment of personal records under Section 59	-	-

Reviews – Section 96 (3) (b); Section 96 (3) (c)	**Number**	**Detail**
Number of applications made to the Ombudsman under Section 74	-	-
Number of applications made to the ACAT under Section 84	-	-

Total Charges and Application Fees Collected

The Authority did not collect any fees or charges in relation to the processing of FOI requests in 2018-19 under the FOI Act.

Further information relating to the Freedom of Information including how to make an FOI application, what details you need to make an application and contact details for the FOI information officer can be found on the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) website https://www.cmtedd.act.gov.au/functions/foi. There are also details of requests received by the directorate listed on the Freedom of Information Disclosure Log for the CMTEDD and can be accessed at https://www.cmtedd.act.gov.au/functions/foi/disclosure-log.

1 Applicants agree to extensions under Section 41 and request were finalised with the agreed extension.

B.8 COMMUNITY ENGAGEMENT AND SUPPORT

The Authority has nothing to report against this section. The Authority does not undertake any community engagement or support in performing its functions.

B.9 ABORIGINAL AND TORRES STRAIT ISLANDER REPORTING

The Authority has nothing to report against this section. The Authority does not undertake any Aboriginal and Torres Strait Islander programs, projects and/or initiatives.

B.10 WORK HEALTH AND SAFETY

The Authority manages workplace health and safety in accordance with the provisions of the *Work Safety Act 2011*. The Authority is committed to maintaining the health and safety of its employees and arranges ongoing training throughout the year for the following:

> one health and safety representative;

> two qualified first aid officers; and

> one fire warden.

B.10.1 Reporting Requirements under the *Work Safety Act 2011*

During the reporting year the Authority did not receive any notices under Part 10, 11 or any findings of a failure to comply with a safety duty under Part 2 Division 2.2, 2.3 or 2.4 of the *Work Safety Act 2011*.

The Authority is committed to promoting and maintaining a high standard of health safety and well-being for all staff, contractors and visitors. The Authority is provided guidance and support via the CMTEDD People and Capability Branch to ensure that all employees understand the basic principles of injury prevention and management. Details of the CMTEDD Work Health and Safety arrangements can be found in the CMTEDD 2018-19 Annual Report.

B.11 HUMAN RESOURCES MANAGEMENT

The Authority is supported by the Shared Services Strategic Human Resources team within CMTEDD. This team provides strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the CMTEDD 2018-19 Annual Report.

The Authority is committed to building a positive, inclusive and diverse work place in accordance with the ACT Public Service Code of Conduct, ACTPS Performance Framework and the ACT Public Service Respect, Equity and Diversity Framework. The Authority has adopted a range of measures aimed at achieving this objective, including:

> providing access to study leave;

> providing access to flex time and ensuring staff do not work excessive hours; and

> providing flexible working arrangements including part-time work.

Staff have been employed by the Authority based on merit, their qualifications, experience and skills. The Authority aims to create a workplace where the strengths, talents and contributions of all staff are recognised and valued.

B.11.1 **Learning and Development**

The key development and learning priorities for the Authority have been identified as risk and claims management, insurance, finance and ICT. During 2018-19, staff undertook formal training courses and attended conferences and seminars in these areas. In addition, a number of the Authority's employees have attended courses from the CMTEDD training calendar and utilised the CMTEDD Study Assistance Program to gain various formally recognised qualifications. The cost of training courses and seminars undertaken in 2018-19 totalled $28,101.

B.11.2 **Workplace Relations**

The Authority's staff are covered under the *ACT Public Service Administrative and Related Classifications Enterprise Agreement 2018-2021*. The ACT Public Service Enterprise Agreements provide scope for Attraction and Retention Incentives (ARIns) to be agreed with staff to allow higher levels of remuneration or other benefits to be provided, where market rates exceed those payable. The Authority has no ARIn arrangements in place.

B.11.3 **Staffing Profile**

The following tables provide statistical information for permanent staff of the Authority for 2018-19:

FTE AND HEADCOUNT BY DIVISION/BRANCH

Division/Branch	FTE	Headcount
ACT Insurance Authority	16.7	18

FTE AND HEADCOUNT BY GENDER

	Female	Male	Total
FTE by Gender	14.7	2	16.7
Headcount by Gender	16	2	18
% of Workforce	88.9%	11.1%	100.0%

HEADCOUNT BY CLASSIFICATION AND GENDER

Classification Group	Female	Male	Total
Administrative Officers	11	-	11
Senior Officers	4	2	6
Executive Officers	1	-	1
TOTAL	16	2	18

HEADCOUNT BY EMPLOYMENT CATEGORY AND GENDER

Employment Category	Female	Male	Total
Casual	-	-	-
Permanent Full-time	12	2	14
Permanent Part-time	2	-	2
Temporary Full-time	1	-	1
Temporary Part-time	1	-	1
TOTAL	16	2	18

HEADCOUNT BY DIVERSITY GROUP

	Headcount	Percentage of Authority workforce
Aboriginal and Torres Strait Islander	-	-
Culturally & Linguistically Diverse	3	16.7%
People with a disability	1	5.6%

NB: Employees may identify with more than one diversity groups.

HEADCOUNT BY AGE GROUP AND GENDER

Age Group	Female	Male	Total
Under 25	3	-	3
25-34	-	-	-
35-44	6	-	6
45-54	7	-	7
55 and over	-	2	2

AVERAGE LENGTH OF SERVICE BY GENDER (HEADCOUNT)

	Female	Male	Total
Average years of service	9.6	16.1	10.3

RECRUITMENT AND SEPARATION RATES

	Percentage Total
Recruitment Rate	6.8%
Separation Rate	6.8%

B.12 ECOLOGICALLY SUSTAINABLE DEVELOPMENT

The Authority is committed to the principles of ecologically sustainable development as set out in the *Environmental Protection Act 1997* and required by *Climate Change and Greenhouse Gas Reduction Act 2010.*

The Authority proactively incorporates appropriate management practices that are consistent with the principles of ecologically sustainable development into its daily business practices. The Authority uses recycled paper and where possible uses energy efficient office equipment. Recycling and organic bins are provided for the use of staff. Where possible electronic communications are used in preference to paper.

The ACT Government is committed to achieving carbon neutrality by 2020. Information on the Authority's operational consumption data that are captured at a directorate level can be found in the Ecological Sustainable Development section with the CMTEDD Annual Report. Those operational consumption resources that are within the Authority's control for 2018-19 are outlined on the following pages with comparison data for 2017-18.

Indicator as at 30 June	Unit	2017-18 Result	2018-19 Result	Percentage change
Authority staff and area				
Authority Staff	FTE	18.3	16.7	(8.74%)
Workplace floor area	Area (m^2)	257.12	257.12	-
Stationary energy usage				
Electricity use	Kilowatt hours	Refer to the CMTEDD Annual Report		N/A
Natural gas use	Megajoules	Refer to the CMTEDD Annual Report		N/A
Diesel use	Kilolitres	Refer to the CMTEDD Annual Report		N/A
Transport fuel usage				
Electric vehicles	Number	-	-	-
Hybrid vehicles	Number	-	-	-
Other vehicles (that are not electric or hybrid)	Number	-	-	-
Total number of vehicles	Number	-	-	-
Total kilometres travelled	Kilometres	-	-	-
Fuel use – petrol	Kilolitres	-	-	-
Fuel use – diesel	Kilolitres	-	-	-
Fuel use – Liquid Petroleum Gas (LPG)	Kilolitres	-	-	-
Fuel use – Compressed Natural Gas (CNG)	Gigajoules	-	-	-
Water Usage				
Water use	Kilolitres	Refer to the CMTEDD Annual Report		N/A
Resource efficiency and waste				
Reams of paper purchased	Reams	344	240	(30)
Recycled content of paper purchased	Percentage	98.6%	100%	1.4
Waste to landfill	Litres	Refer to the CMTEDD Annual Report		N/A
Co-mingled material recycled	Litres	Refer to the CMTEDD Annual Report		N/A
Paper and cardboard recycled (incl. secure paper)	Litres	Refer to the CMTEDD Annual Report		N/A
Organic material recycled	Litres	Refer to the CMTEDD Annual Report		N/A
Greenhouse gas emissions				
Emissions from stationary energy use	Tonnes CO_2-e	Refer to the CMTEDD Annual Report		N/A
Emissions from transport	Tonnes CO_2-e	Refer to the CMTEDD Annual Report		N/A

Part C

Financial Management Reporting

C.1 FINANCIAL MANAGEMENT ANALYSIS

The Authority's financial results are contained in Part C of this report. The Authority's Management Discussion and Analysis is below.

C.1.1 Management Discussion and Analysis ACT Insurance Authority for the Financial Year Ended 30 June 2019

General Overview

The ACT Insurance Authority (the Authority) is established under the *Insurance Authority Act 2005*.

The Authority works to protect the assets and services of the Territory by providing risk management support and insurance services to all ACT Government directorates and statutory authorities. The Authority meets the insurable claims and losses of the ACT Government.

The Authority operates as the ACT Government's captive insurer of Territory risks. The captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its insurance arrangements, and the accumulation of a fund reserve to meet the cost of asset losses and legal liabilities that occur as a result of the activities of Government.

The Authority operates on a cost recovery basis by collecting premiums from directorates and statutory authorities to meet the anticipated costs of claims.

Objectives

The key objectives of the Authority are to:

- carry out the business of insurer of Territory risks;
- take out insurance of Territory risks with other entities;
- satisfy or settle claims in relation to Territory risks;
- with the Treasurer's approval, take action for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern.
- develop and promote good practices for the management of Territory risks; and
- give advice to the Minister about insurance and the management of Territory risks.

Risk Management

The Authority has developed and implemented a risk management plan in accordance with the Australian Standard on risk management AS ISO 31000:2018 and the ACT Government's Risk Management Policy. The Authority's plan identifies and details risks and control measures and treatment action plans for risks in the financial, business and information technology dependencies.

The Authority has identified the following key risks:

- insufficient and/or unsatisfactory external insurance arrangements; and
- annual premiums not sufficient to fully fund claims over the claim development period.

To manage these risks, the Authority engages a specialised insurance broker to provide professional advice and access to international and local reinsurance markets. Professional actuaries provide support and advice that aligns agency premiums with claims experience. During 2018-19 the Authority adopted an investment strategy which takes a structured and comprehensive approach to the long-term management of its financial assets to fund future claims liabilities.

Financial Performance

The following financial information is based on audited Financial Statements for 2017-18 and 2018-19, and the forward estimates contained in the Authority's 2018-19 Statement of Intent.

Operating Result

The Authority's operating result for 2018-19 is a surplus of **$12.5 million**, being **$12.5 million** higher than the original budget breakeven result. The variance to budget was primarily due to gains on investments of **$21.8 million** which was offset by claims expense being **$9.2 million** higher than budget.

Underwriting Gain/(Loss)

Components of Underwriting Gain/(Loss)

For the year ended 30 June 2019, the Authority recorded a total underwriting loss of **$15.3 million**. As shown below at *Table C1* the underwriting results comprise of net earned premiums less net incurred claims.

TABLE C1: UNDERWRITING GAIN/(LOSS)

Description	Actual 2017-18 $'000	Actual 2018-19 $'000	Original Budget 2018-19 $'000	Budget 2019-20 $'000
Net Earned Premiums	44,272	43,714	43,403	38,407
Net Incurred Claims	(16,856)	(59,029)	(50,081)	(48,088)
Underwriting Gain/(Loss)	27,416	(15,315)	(6,678)	(9,681)

Comparison to Budget

The underwriting loss was **$8.6 million** higher than the original budget underwriting loss of **$6.7 million**.

The increase in the underwriting result is predominantly due to the increase in the net incurred claims. Net incurred claims incorporate claims expense net of reinsurance recoveries and other claims related recoveries. Claims expense was higher than the original budget by **$9.2 million**. This is primarily due to claim payments being higher as a result of claims settling earlier than expected.

Comparison to 2017-18 Actual

In comparison to the 2017-18 actual result of **$27.4 million**, the underwriting result increased by **$42.7 million**. The variance is predominantly the result of an increase in claims expense in 2018-19. This increase is due to the claims experience in the last 12 months which has not been as favourable as the previous 12 months. This has been driven by higher numbers of claims in some insurance classes and reductions in discount rates.

Future Trends

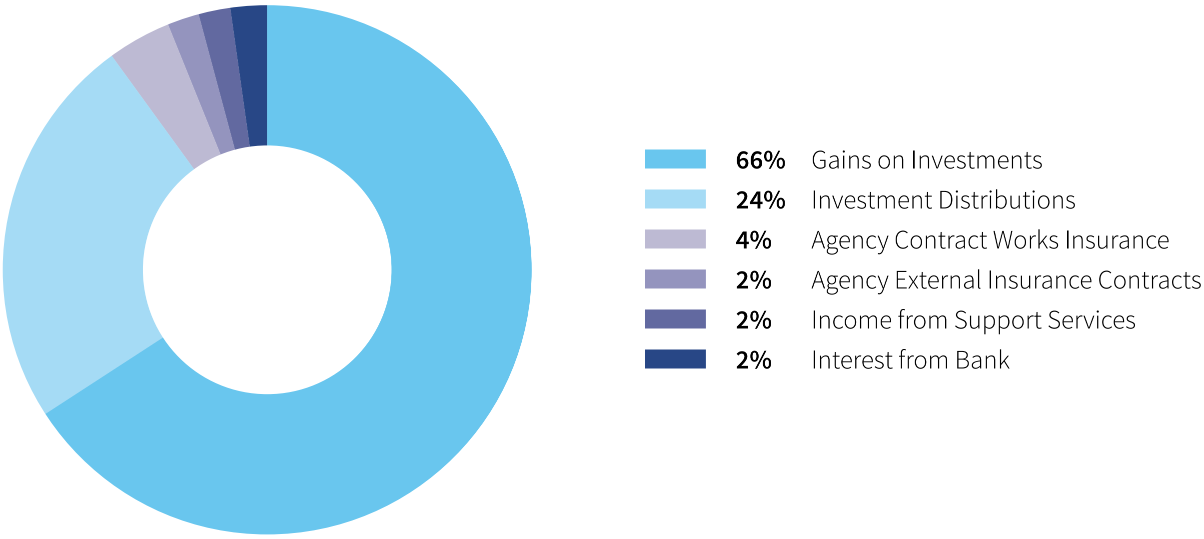
The future trend expected for the 2019-20 underwriting result is a budget loss of **$9.7 million**. This is a decrease of **$5.6 million** from the 2018-19 actual result. This is predominantly due to an expected decrease of **$10.9 million** in net incurred claims as a result of a reduction in claims expense which is anticipated to return to normal expected actuarial calculated levels for the cost of future claims. This is offset by an increase in outward insurance expenses of **$1 million** and a decrease in the annual insurance premiums of **$4.3 million**.

Other Revenue

Components of Other Revenue

For the year ended 30 June 2019 the Authority's recorded other revenue of **$33 million**. The main source of other revenue is gains and distributions from investments which provided 90 per cent of the Authority's other revenue as shown in *Figure C1*.

FIGURE C1: COMPONENTS OF OTHER REVENUE 2018-19



Source: ACT Insurance Authority's 2018-19 Financial Statements.

Comparison to Budget

Other revenue was **$20.7 million** higher than the original budget of **$12.3 million**. This is predominantly due to the gains on investment as result of the fair value of investments increasing during 2018-19. The Authority implemented a new investment strategy during 2018-19 which outlines annualised returns of between CPI+2.5% and CPI+3.5%, this return objective was not previously in place.

Comparison to 2017-18 Actual

In comparison to the 2017-18 actual result of **$13.2 million**, other revenue increased by **$19.8 million** or **149 per cent**. This is predominantly due to the increase in gains on investments in 2018-19.

Future Trends

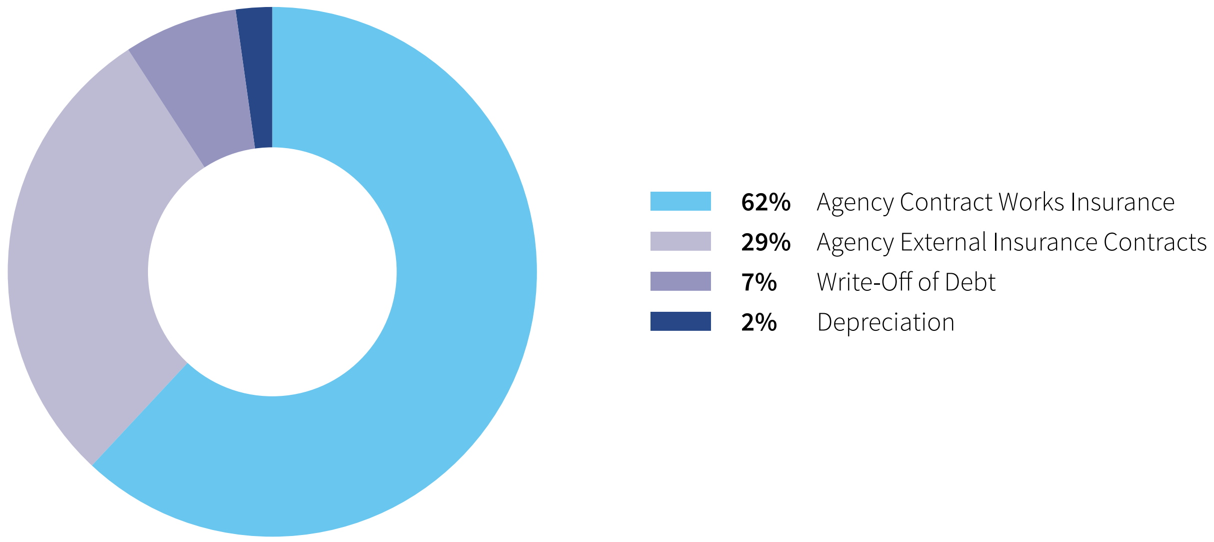
The future trend expected for the 2019-20 budget for other revenue is **$2.3 million**. This is a decrease of **$30.7 million** from the 2018-19 actual result, predominantly due to a lower forecast in returns from investments.

Other Expenses

Components of Other Expenses

For the year ended 30 June 2019 the Authority's recorded other expenses of **$1.9 million**. The main source of other expenses is agency contract works insurance premiums as shown in *Figure C.2*.

FIGURE C2: COMPONENTS OF OTHER EXPENSES 2018-19



Source: ACT Insurance Authority's 2018-19 Financial Statements.

Comparison to Budget

Other expenses were **$0.4 million** lower than the original budget of **$2.3 million**. This is predominantly due to a reduction in contract works premiums paid as the result of less capital construction being undertaken than budgeted.

Comparison to 2017-18 Actual

In comparison to the 2017-18 actual result of **$2.8 million**, other expenses decreased by **$0.9 million** or **31 per cent**. The decrease is primarily due to a reduction in contract works premiums as well as the investments returning a gain in 2018-19 compared with a loss on investments in 2017-18.

Future Trends

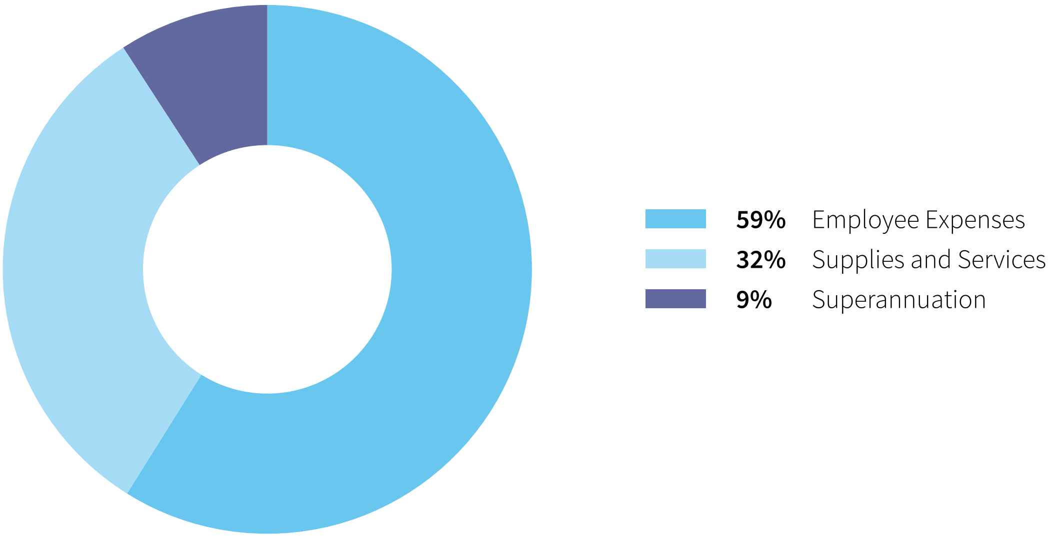
The future trend expected for the 2019-20 budget for other expenses is **$1.6 million** due to expected further reductions in contract works premiums as the result of the value of capital construction undertaken by agencies reducing compared to previous years.

General and Administration Expenses

Components of General and Administration Expenses

General and administration expenses totalled **$3.2 million** for the Authority in 2018-19. As shown in *Figure C3*, the main components of these expenses relate to employee and superannuation expenses, representing **68 per cent** of the Authority's general and administration expenses.

FIGURE C3: COMPONENTS OF GENERAL AND ADMINISTRATION EXPENSES 2018-19



Source: ACT Insurance Authority's 2018-19 Financial Statements.

Comparison to Budget

In 2018-19, general and administration expenses of **$3.2 million** was materially in line with the original budget of **$3.3 million**.

Comparison to 2017-18 Actual

In comparison to the 2017-18 actual result of **$3.1 million**, general and administration expenses increased by **$0.1 million**.

Future Trends

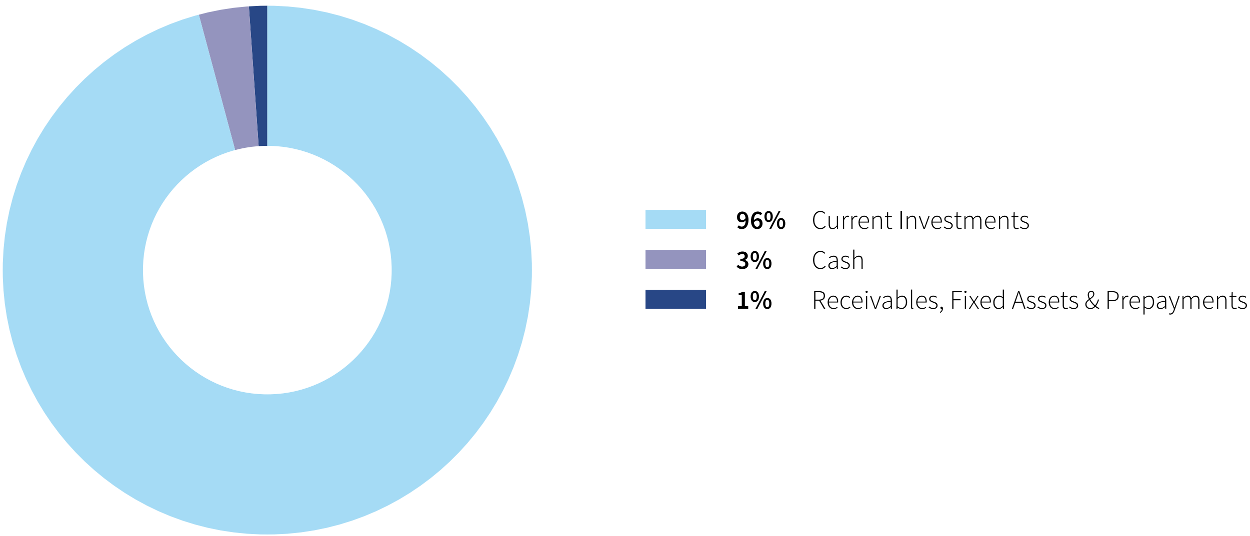
The future trend expected for the 2019-20 budget for general and administration expenses is **$3.7 million**.

Total Assets

Components of Total Assets

The total assets position as at 30 June 2019 is **$326.3 million**. Figure C4 below indicates that the majority of assets are held in investments.

FIGURE C4: COMPONENTS OF TOTAL ASSETS 2018-19



Source: ACT Insurance Authority's 2018-19 Financial Statements.

Comparison to Budget

At 30 June 2019, the Authority's total assets position was materially in line with the 2018-19 budget.

Comparison to 2017-18 Actual

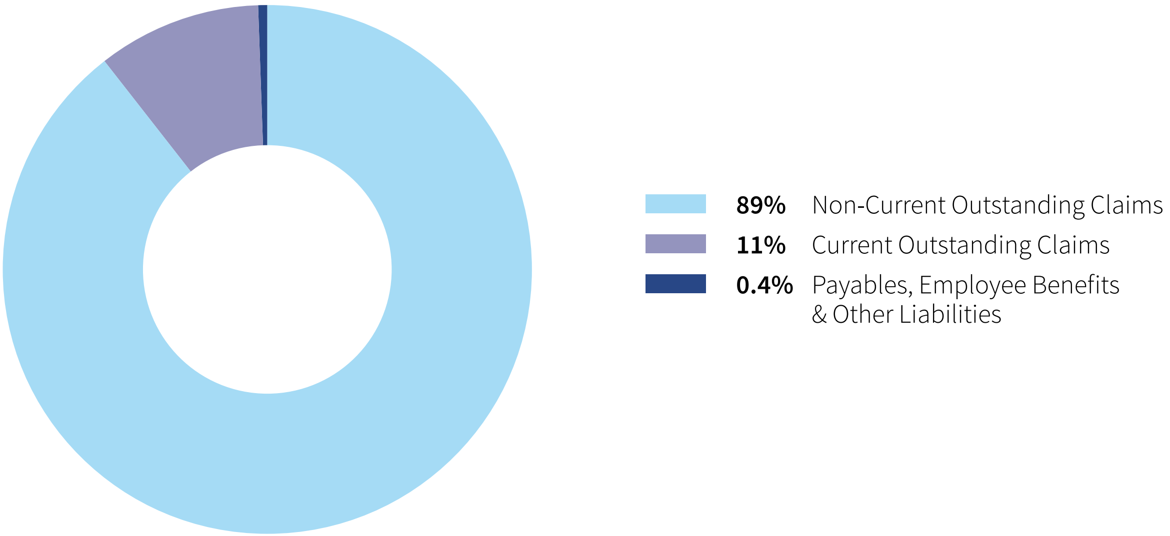
Total assets are **$48.3 million** or **12.9 per cent** lower than the 2017-18 actual position of **$374.7 million**. The decrease is due to the return of **$70 million** in capital to the ACT Government as outlined in the Authority's capital management plan which was offset by the gains in investments.

Total Liabilities

Components of Total Liabilities

Figure C5 below shows the majority of liabilities relate to outstanding claims liabilities; 89 per cent in non-current outstanding claims and 11 per cent in current outstanding claims.

FIGURE C5: COMPONENTS OF TOTAL LIABILITIES 2018-19



Source: ACT Insurance Authority's 2018-19 Financial Statements.

Comparison to Budget

Total liabilities at 30 June 2019 of **$253.6 million** is **$22.8 million** lower than the original budget of **$276.4 million**. The decrease is predominantly due to a reduction in both the outstanding claims liabilities and other liabilities.

The decrease in outstanding claims liabilities of **$10.6 million** is as a result of revised actuarial assumptions, driven by more favourable claims experience. The claims experience shows reductions in the number and size of large claims in both medical malpractice and public liability insurance classes.

The reduction in other liabilities of **$12.2 million** is due to funds, which were previously held on behalf of the ACT Government relating to workers compensation, being transferred to the ACT Public Sector Workers' Compensation Fund which was not anticipated in the budget.

Comparison to 2017-18 Actual

Total liabilities are **$9.1 million** or **3.7 per cent** higher than the 2017-18 actual position of **$244.4 million**. This increase is primarily due to an increase in the outstanding claims liabilities.

Capital Funding Ratio

The Authority's capital management plan takes into consideration the variability of the Authority's capital position that may result from changes in claims experience and investment returns, the opportunity cost of holding capital in the Authority's captive fund and the funding ratio targets of other like captive insurers in the public sector.

Each year the Authority prepares a capital management plan which outlines a structured and comprehensive approach to the long-term management of the Authority's financial assets.

Under this plan ACTIA aims to maintain its funding ratio between 100 – 120 per cent with an adopted target of 100 per cent. These parameters guide decision making to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or surrendering excess capital (in a surplus situation).

Funding Ratio

Description	Budget at 30 June 2020 $'000	Actual at 30 June 2019 $'000	Budget at 30 June 2019 $'000	Prior Year Actual at 30 June 2018 $'000
Total Assets	347,762	326,327	328,978	374,668
Total Liabilities	265,582	253,578	276,431	244,447
Funding Ratio	131%	129%	119%	153%

The Authority's funding ratio at 30 June 2019 is **129 per cent.** This is higher than the 2018-19 budget funding ratio of **119 per cent** due to higher than expected gains on investments.

The Authority's 2019-20 Budget forecasts a funding ratio of **131 per cent**. The forecast funding ratios prepared during this budget period are estimated above the targeted ratio of 100 to 120 per cent.

Given the strong equity position and high target funding ratio forecast for 30 June 2020, the Authority will investigate and consider available corrective actions to reduce the funding ratio back to the targeted range of 100 to 120 per cent.

C.2 FINANCIAL STATEMENTS

For the Financial Year Ended 30 June 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of the ACT Legislative Assembly

Opinion

I have audited the financial statements of the ACT Insurance Authority (the Authority) for the year ended 30 June 2019 which comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

(i) present fairly, in all material respects, the Authority's financial position as at 30 June 2019, and its financial performance and cash flows for the year then ended; and

(ii) are presented in accordance with the *Financial Management Act 1996* and comply with Australian Accounting Standards.

Basis for opinion

I conducted the audit in accordance with the Australian Auditing Standards. My responsibilities under the standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of this report.

I am independent of the Authority in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code). I have also fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Authority for the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996*, and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of the financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Authority to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Auditor's responsibilities for the audit of the financial statements

Under the *Financial Management Act 1996,* I am responsible for issuing an audit report that includes an independent opinion on the financial statements of the Authority.

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Authority's internal controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Authority;
- conclude on the appropriateness of the Authority's use of the going concern basis of accounting and, based on audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in this report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of this report. However, future events or conditions may cause the Authority to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether they represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Under Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Ajay Sharma
Assistant Auditor-General, Financial Audit
13 September 2019

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF RESPONSIBILITY

In my opinion, the financial statements are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2019 and the financial position of the Authority on that date.

Stephen Miners
A/g Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
11 September 2019

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with Australian Accounting Standards and are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2019 and the financial position of the Authority on that date.

Lisa Manzoney
A/g General Manager
ACT Insurance Authority
11 September 2019

ACT INSURANCE AUTHORITY

OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2019

	Note No.	Actual 2019 $'000	Original Budget 2019 $'000	Actual 2018 $'000
Ordinary activities				
Underwriting				
Gross Earned Insurance Premiums	4	**50,610**	50,609	50,946
Reinsurance Premiums (Expense)	4	**(6,896)**	(7,206)	(6,674)
Net Earned Premiums	5	**43,714**	43,403	44,272
Claims (Expense)	4	**(59,286)**	(50,081)	(17,599)
Other Recoveries Claims Related	4	**257**	-	743
Net Incurred Claims	6	**(59,029)**	(50,081)	(16,856)
Underwriting (Loss)/Gain	4	**(15,315)**	**(6,678)**	27,416
Other Revenue				
Interest Revenue	7	**704**	367	349
Distributions Received	7	**8,056**	9,075	9,954
Other Revenue	7	**24,249**	2,867	2,940
		33,009	**12,309**	13,243
Other Expenses				
Other Expenses	7	**(1,923)**	(2,323)	(2,787)
		(1,923)	**(2,323)**	(2,787)
General and Administration				
Employee and Superannuation Expenses	8	**(2,216)**	(2,361)	(2,232)
Supplies and Services	9	**(1,027)**	(921)	(869)
		(3,243)	**(3,282)**	(3,101)
Operating Surplus		**12,528**	**26**	34,771
Total Comprehensive Income		**12,528**	**26**	34,771

The above Operating Statement should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

BALANCE SHEET
AS AT 30 JUNE 2019

	Note No.	Actual 2019 $'000	Original Budget 2019 $'000	Actual 2018 $'000
Current Assets				
Cash		**9,020**	9,044	12,580
Investments	10	**314,067**	145,734	187,045
Receivables	11	**2,578**	2,845	4,141
Prepayments		**228**	399	341
Total Current Assets		**325,893**	158,022	204,107
Non-Current Assets				
Investments	10	**-**	170,161	170,199
Fixed Assets		**383**	734	225
Prepayments		**51**	61	137
Total Non-Current Assets		**434**	170,956	170,561
Total Assets		**326,327**	328,978	374,668
Current Liabilities				
Payables		**165**	223	247
Outstanding Claims	12	**27,989**	37,380	31,542
Employee Benefits		**528**	477	517
Other Liabilities	13	**192**	12,398	11,840
Total Current Liabilities		**28,874**	50,478	44,146
Non-Current Liabilities				
Outstanding Claims	12	**224,614**	225,862	200,128
Employee Benefits		**39**	30	36
Other Liabilities	13	**51**	61	137
Total Non-Current Liabilities		**224,704**	225,953	200,301
Total Liabilities		**253,578**	276,431	244,447
Net Assets		**72,749**	52,547	130,221
Equity				
Accumulated Funds		**72,749**	52,547	130,221
Total Equity		**72,749**	52,547	130,221

The above Balance Sheet should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Accumulated Funds Actual 2019 $'000	Total Equity Actual 2019 $'000	Original Budget 2019 $'000
Balance at 1 July 2018	**130,221**	**130,221**	**122,521**
Comprehensive Income			
Operating Surplus	12,528	12,528	26
Total Comprehensive Income	**12,528**	**12,528**	**26**
Transactions Involving Owners Affecting Accumulated Funds			
Capital (Distributions)	(70,000)	(70,000)	(70,000)
Total Transactions Involving Owners Affecting Accumulated Funds	**(70,000)**	**(70,000)**	**(70,000)**
Balance at 30 June 2019	**72,749**	**72,749**	**52,547**

	Accumulated Funds Actual 2018 $'000	Total Equity Actual 2018 $'000
Balance at 1 July 2017	**95,450**	**95,450**
Comprehensive Income		
Operating Surplus	34,771	34,771
Total Comprehensive Income	**34,771**	**34,771**
Balance at 30 June 2018	**130,221**	**130,221**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2019

	Note No.	Actual 2019 $'000	Original Budget 2019 $'000	Actual 2018 $'000
Cash Flows from Operating Activities				
Receipts				
Annual Insurance Premiums Received		**50,609**	50,609	50,946
Distribution from Investments with the Territory Banking Account		**9,510**	9,100	9,715
Reinsurance and Other Recoveries Received		**260**	-	747
Other Insurance Premium Receipts		**1,452**	2,124	2,021
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		**8,035**	7,707	7,653
Goods and Services Tax Collected from Customers		**11,733**	11,480	11,589
Interest and Other Receipts		**1,389**	968	899
Workers' Compensation Insurance Receipts [a]		**65,497**	62,781	63,251
Total Receipts from Operating Activities		**148,485**	144,769	146,821
Payments				
Employees and Superannuation		**2,192**	2,360	2,141
Supplies and Services		**1,117**	918	847
Other Insurance Premium Payments		**1,534**	2,124	2,049
Goods and Services Tax Paid to Suppliers		**8,028**	7,708	7,680
Goods and Services Tax Remitted to the Australian Taxation Office		**11,730**	11,481	11,591
Reinsurance Premiums Payments		**6,896**	7,206	6,674
Insurance Claims Payments		**38,354**	24,269	24,472
Workers' Compensation Insurance Payments [a]		**76,996**	62,282	61,950
Total Payments for Operating Activities		**146,847**	118,348	117,404
Net Cash Inflows from Operating Activities	**15(b)**	1,638	26,421	29,417
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		**95,000**	80,567	18,000
Total Receipts from Investing Activities		**95,000**	80,567	18,000
Payments				
Purchase of Investments		**30,000**	30,000	40,000
Purchase of Fixed Assets		**198**	567	-
Total Payments for Investing Activities		**30,198**	30,567	40,000
Net Cash Inflows/(Outflows) from Investing Activities		**64,802**	50,000	(22,000)

ACT INSURANCE AUTHORITY

CASH FLOW STATEMENT - CONTINUED
FOR THE YEAR ENDED 30 JUNE 2019

	Note No.	Actual 2019 $'000	Original Budget 2019 $'000	Actual 2018 $'000
Cash Flows from Financing Activities				
Payments				
Capital Distributions		**70,000**	70,000	-
Total Payments for Financing Activities		**70,000**	70,000	-
Net Cash (Outflows) from Financing Activities		**(70,000)**	(70,000)	-
Net Increase in Cash		**(3,560)**	6,421	7,417
Cash at the Beginning of the Reporting Year		**12,580**	2,623	5,163
Cash at the End of the Reporting Year	**15(a)**	**9,020**	9,044	12,580

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

[a] *The Authority processed the payment of ACT Government workers' compensation premiums payable to Comcare, which levied a single premium covering all ACT Government agencies. Each agency paid its share of the insurance premium to the Authority for the purpose of financing the premium payment to Comcare. As the Authority did not underwrite this workers' compensation insurance, but rather acted as an agent for the Territory, the amounts involved were recorded in the cash flow statement only and are not included in insurance premium revenue and claims expense. As of 30 June 2019 this arrangement ceased with all additional funds held by the Authority transferred to the ACT Public Sector Workers' Compensation Fund. Refer to Note 13: 'Other Liabilities'.*

ACT INSURANCE AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019
NOTE INDEX

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. OBJECTIVES OF THE ACT INSURANCE AUTHORITY

Operations and Principal Activities of the ACT Insurance Authority

The ACT Insurance Authority (the Authority) is established under the *Insurance Authority Act 2005*.

The functions of the Authority are to:

- carry on the business of insurer of Territory risks;
- take out insurance of Territory risks with other entities;
- satisfy or settle claims in relation to Territory risks;
- take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern;
- develop and promote good practices for the management of Territory risks; and
- give advice to the Minister about insurance and the management of Territory risks.

The Authority also administers the:

- Office of the Nominal Defendant of the ACT, for claims against uninsured and/or unidentified vehicles for the ACT Compulsory Third-Party Insurance Scheme; and
- Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

Financial Statements for these entities are included in Volume 2 of the Chief Minister, Treasury and Economic Development Directorate 2018-19 Annual Report.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information.

Appendix A - Basis of Preparation of the Financial Statements

Appendix B - Significant Accounting Policies

Appendix C - Impact of Accounting Standards Issued But Yet to be Applied

NOTE 3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D - Change in Accounting Policy and Accounting Estimates.

NOTE 4. UNDERWRITING RESULT

	Note No.	2019 $'000	2018 $'000
Underwriting Revenues			
Gross Earned Insurance Premiums			
General Government Sector		**40,824**	40,694
Public Trading Enterprises		**8,079**	8,599
External		**1,707**	1,653
	5	**50,610**	50,946
Other Recoveries Claims Related	6	**257**	743
Underwriting Revenues		**50,867**	51,689
All underwriting revenues relate to operating activities			
Underwriting Expenses			
Gross Claims Expenses	6	**(59,286)**	(17,599)
Reinsurance Premiums	5	**(6,896)**	(6,674)
Underwriting Expenses		**(66,182)**	(24,273)
All underwriting expenses relate to operating activities			
Underwriting Gain			
Underwriting Revenues		**50,867**	51,689
Underwriting Expenses		**(66,182)**	(24,273)
Underwriting Gain		**(15,315)**	27,416

The change in underwriting gain is mainly due to the decrease in the gross claims expenses, refer to Discounted Gross Incurred Claims and Related Expenses in Note 6: 'Net Incurred Claims'.

NOTE 5. NET EARNED INSURANCE PREMIUMS

	Note No.	2019 $'000	2018 $'000
Gross Written Premiums			
General Government Sector		**40,824**	40,694
Public Trading Enterprises		**8,079**	8,599
External		**1,707**	1,653
Total Gross Written Premiums	4	**50,610**	50,946
Reinsurance Premium Expense	4	**(6,896)**	(6,674)
Net Earned Insurance Premiums		**43,714**	44,272

NOTE 6. NET INCURRED CLAIMS

2019	Note No.	Current Year $'000	Prior Years $'000	Total $'000
Undiscounted Gross Incurred Claims and Related Expenses		(55,896)	17,757	**(38,139)**
Discount and Discount Movement		5,029	(26,176)	**(21,147)**
Discounted Gross Incurred Claims and Related Expenses [a]	4	(50,867)	(8,419)	**(59,286)**
Other Recoveries Claims Related	4	257	-	**257**
Net Incurred Claims		(50,610)	(8,419)	**(59,029)**

2018	Note No.	Current Year $'000	Prior Years $'000	Total $'000
Undiscounted Gross Incurred Claims and Related Expenses		(53,456)	40,005	**(13,451)**
Discount and Discount Movement		10,007	(14,155)	**(4,148)**
Discounted Gross Incurred Claims and Related Expenses [a]	4	(43,449)	25,850	**(17,599)**
Other Recoveries Claims Related	4	743	-	**743**
Net Incurred Claims		(42,706)	25,850	**(16,856)**

Net incurred claims are separated into those contributed from the current insurance year and those from prior insurance years, which are impacted by changes in economic factors and the assumptions used in the actuarial valuation of the outstanding claims liabilities.

Discounted Gross Incurred Claims and Related Expenses

[a] The discounted gross incurred claims and related expenses reflects the cost of claim payments actually made, as well as changes in the value of the outstanding claims liabilities between valuation dates.

In 2018-19, the discounted gross incurred claims and related expenses was $59.3 million, of this amount $50.9 million related to the current year and is largely the result of estimated new claims liabilities. For the prior years, $36.9 million in claim payments were made however, a review of the liabilities associated with these payments resulted in a reduction of only $28.5m in the outstanding claims liabilities resulting in the net expense of $8.4 million for the prior years.

The change in discounted gross incurred claims and related expenses between financial year 2017-18 and 2018-19 is largely the result of changes to the actuarial assessment of outstanding claims liabilities relating to insurance claims from current and prior years. The resulting claims expenses for 2018-19 is $59.3 million compared to $17.6 million in 2017-18. This equates to a $41.7 million increase which is predominantly due to the claims experience in the 12 months to 30 June 2019 which has not been as favourable as the prior 12 months. This has been driven by a higher number of claims in some insurance classes and large reductions in discount rates, which has resulted in significant increases in the outstanding claims liability.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 7. OTHER REVENUE AND EXPENSES

	2019 $'000	2018 $'000
Interest from Bank	**704**	349
Distributions from Investments [a]	**8,056**	9,954
	8,760	10,303
Other Revenue:		
Gain on Investments [b]	**21,823**	38
Income from Support Services	**684**	612
Contract Works Insurance	**1,197**	1,738
External Insurance Contracts	**545**	552
	24,249	2,940
Total Other Revenue	**33,009**	13,243
Other Expenses		
Contract Works Insurance	**1,197**	1,738
External Insurance Contracts	**545**	552
Loss on Investments	**-**	467
Write-off of Debt	**141**	-
Depreciation	**40**	30
Total Other Expenses	**1,923**	2,787

[a] *Distributions from investments fluctuate year on year and are subject to the amounts of income available for distribution in the underlying asset class sectors for the investment exposures (refer to Note 10: 'Investments').*

[b] *The increase in gain on investments is mainly due to the fair value of investments increasing during 2018-19. The investment portfolio achieved a return of 8.4 per cent over the 2018-19 financial year compared to 2.71 per cent in 2017-18 and which is in excess of the investment objective's benchmark return (CPI+2.5% or 3.9 per cent). The portfolio's strong return over the financial year, as reflected in gain on investment, is due to positive returns achieved across all underlying asset class exposures with particularly strong returns from Australian and international shares.*

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 8. EMPLOYEE AND SUPERANNUATION EXPENSES

	2019 $'000	2018 $'000
Employee Expenses		
Salaries	**1,852**	1,867
Annual Leave Movement	**(19)**	30
Long Service Leave Movement	**66**	27
Workers' Compensation Insurance Premium	**28**	23
Total Employee Expenses	**1,927**	1,947
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	**180**	171
Productivity Benefit	**20**	19
Superannuation to External Providers	**89**	95
Total Superannuation Expenses	**289**	285
Total Employee and Superannuation Expenses	**2,216**	2,232

NOTE 9. SUPPLIES AND SERVICES

Actuarial Costs	**161**	152
Audit Fees – ACT Audit Office [a]	**55**	54
Telecommunications and Computing Costs [b]	**305**	192
Contractors and Consultants	**83**	57
Rent	**139**	132
Risk Management Initiative	**100**	89
Support Services	**64**	73
Travel	**55**	50
Other	**65**	70
Total Supplies and Services	**1,027**	869

[a] *Audit Fees are paid to the ACT Audit Office for the audit of the financial statements. No other services were provided by the ACT Audit Office.*

[b] *The increase in Telecommunications and computing costs is predominantly due to the introduction of an annual licence fee for the new claims management system.*

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 10. INVESTMENTS

Investments are held with the Territory Banking Account and can be withdrawn upon request.

The carrying amount of the investments are measured at fair value and are held as units. Gain and/or loss on investments reflect the result of changes in the fair value of the investments with the Territory Banking Account. The fair value of investments fluctuates year on year depending on the performance of the underlying financial investment exposures in the market. Refer to Note 7: 'Other Revenue and Expenses' for the gain and/or loss on investments.

During 2018-19 the Authority adopted an investment plan which takes a structured and comprehensive approach to the long-term management of its financial assets to fund future claims liabilities. The Authority's investments are exposed to a range of asset class sectors in accordance with the strategic asset allocation structured to achieve the Authority's long-term investment objective.

The underlying asset class exposures of the investments made by the Territory Banking Account for the Authority are set out below:

	2019 $'000	2018 $'000
Investments Asset Class Exposures		
Current		
Australian Cash	-	187,045
Australian Equities	46,682	-
Australian Inflation Debt	31,004	-
Australian Fixed Interest	63,172	-
International Equities	109,781	-
International Fixed Interest	63,427	-
Total Current Investments	**314,067**	187,045
Non-Current		
Australian Fixed Interest	-	170,199
Total Investments	**314,067**	357,244

The overall decrease in investments is predominantly due to the return of capital of $70 million during 2018-19, offset by $21.8 million in gains on investments as at 30 June 2019.

NOTE 11. RECEIVABLES

	2019 $'000	2018 $'000
Current Receivables		
Distributions Receivable	**1,962**	3,417
Goods and Services Tax Receivable	**78**	85
Other Receivables	**538**	639
Total Receivables	**2,578**	4,141

No receivables are past due or impaired.

Classification of ACT Government/Non-ACT Government Receivables

	2019 $'000	2018 $'000
Receivables with ACT Government Entities		
Distributions Receivable	**1,962**	3,417
Other Receivables	**121**	66
	2,083	3,483
Receivables with Non-ACT Government Entities		
Goods and Services Tax Receivable	**78**	85
Other Receivables	**417**	573
Total Receivables	**495**	658
	2,578	4,141

NOTE 12. OUTSTANDING CLAIMS

The Authority used the services of an independent actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd to estimate the outstanding claims liabilities at 30 June 2019. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

	Note	2019 $'000	2018 $'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		**222,184**	228,544
Risk Margin		**36,776**	36,976
Claims Handling Costs		**17,775**	11,427
Total Undiscounted Expected Future Claims		**276,734**	276,947
Discount to Present Value		**(24,131)**	(45,277)
Total Discounted Outstanding Claims	12(c)	**252,603**	231,670
Current		**27,989**	31,542
Non-Current		**224,614**	200,128
Total Discounted Outstanding Claims	12(c)	**252,603**	231,670

NOTE 12. OUTSTANDING CLAIMS – CONTINUED

(a) Risk Margin

The process of determining risk margin

The overall risk margin was determined allowing for diversification between different insurance classes and the relative uncertainty of the outstanding claims estimate for each class. Uncertainty for each class was analysed taking into account potential variability in the actuarial models and assumptions, the underlying data used in the models, the general insurance environment and the impact of legislative reform. The estimate of uncertainty is greater for long tail claims within the relevant insurance class when compared to short tail claims due to the longer time until settlement of outstanding claims. The assumptions were applied to the net central estimates and aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of adequacy, meaning that the outstanding claims liability has a 75% chance of being sufficient to reflect all possible future claims. A 75% level of probability sufficiency is the minimum required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	**Adopted Risk Margin**	
	2019 (%)	**2018 (%)**
Directors and Officers	**18**	18
Financial Crime	**30**	30
Medical Malpractice	**15**	15
Professional Indemnity	**18**	18
Property and Motor	**23**	23
Public Liability	**15**	15
Overall margin (weighted average) [1]	**15.3**	15.5

[1] The weighted average is based on the size of the net central estimate of the liability. That is, even if the adopted risk margin for each insurance class doesn't change, the weighted average may still change due to movements in the underlying liabilities for each insurance class.

(b) Inflation and Discount Rates

For the succeeding and subsequent year, inflation assumptions are set with reference to economic forecasts (short-term inflation assumptions). The long-term assumption is set using methodology which assumes a constant gap of adopted future inflation to the long-term discount rates and will increase or decrease as discount rates increase and decrease.

The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

	2019 (%)	**2018 (%)**
For the succeeding year		
Inflation rate	**2.0**	2.5
Discount rate	**1.0**	1.9
For the subsequent year		
Inflation rate	**2.3**	3.0
Discount rate	**1.0**	2.1
For long-term assumptions		
Inflation rate	**1.6**	1.7
Discount rate	**2.5**	3.5

NOTE 12. OUTSTANDING CLAIMS - CONTINUED

(c) Reconciliation of Movement in Discounted Outstanding Claims Liability

The table below compares the estimates as at 30 June 2019, Gross Outstanding Claims at 30 June 2019 (30 June 2019 basis) compared with those projected from the 30 June 2018 valuation, Expected Gross Outstanding Claims at 30 June 2019 (30 June 2018 basis).

Change in Basis - In the 12 months from 30 June 2018 to 30 June 2019	**$'000**	**$'000**
Gross Central Estimate at 30 June 2018 (30 June 2018 basis) [a]		191,066
Expense margin at 30 June 2018		9,553
Risk Margin at 30 June 2018		31,051
Gross Outstanding Claims at 30 June 2018 (30 June 2018 basis) [a]		231,670
New Incurred Period		38,838
Expected payments to 30 June 2019 (Inflated and Undiscounted values)		(27,977)
Expected interest to 30 June 2019		3,338
Expected change in Expense Margin		710
Expected change in Risk Margin		1,980
Expected Gross Outstanding Claims at 30 June 2019 (30 June 2018 basis)		248,559
(Actual less Expected) inflation [b]		4,151
Change in future discounting assumptions		17,966
Change in future inflation assumptions		(9,727)
(Expected less Actual) payments [c]		(10,103)
Directors and Officers	17	
Financial Crime	39	
Medical Malpractice	(10,877)	
Professional Indemnity	(92)	
Property and Motor	411	
Public Liability	399	
Change in actuarial assumptions		(4,784)
Directors and Officers	29	
Financial Crime	(316)	
Medical Malpractice	(1,923)	
Professional Indemnity	601	
Property and Motor	194	
Public Liability	(3,369)	
Change in Expense margin at 30 June 2019		5,958
Change in Risk margin at 30 June 2019		583
Overall change in basis		4,044
Gross Outstanding Claims at 30 June 2019 (30 June 2019 basis)		252,603

[a] gross central estimates are inflated and discounted excluding expenses
[b] includes both past and future inflation
[c] a negative number indicates actual payments were more than expected during the insurance year

NOTE 12. OUTSTANDING CLAIMS - CONTINUED

(c) Reconciliation of Movement in Discounted Outstanding Claims Liability - continued

The expected gross outstanding claims of $248.6 million compares to the actual gross outstanding claims of $252.6 million, indicating a total increase of $4 million. The reasons for this increase can be broken down into seven main components:

- $4.1 million increase due to higher than expected inflation in the past 12 months;
- $18 million increase due to decreases in the assumed discount rates since 30 June 2018. All other things being equal, a decrease in the discount rates increases the outstanding claims liability;
- $9.7 million decrease due to a decrease in the future inflation assumption since 30 June 2018;
- $10.1 million decrease due to actual payments being more than expected over the last 12 months. The decrease in the estimate assumes that, all other things being equal, the difference between actual and expected payments is due to timing;
- $4.8 million decrease due to changes in assumptions used in the actuarial valuation. These have resulted from:
  - an increase in property and motor resulting from a significantly higher than expected number of claims reported, offset by a reduction due to fewer large claims [a] than expected;
  - a reduction in medical malpractice resulting from both a reduction in large claim size and lower than expected number of claims reported in the most recent insurance years. This was partially offset by an increase in the assumed number of small claim finalisations;
  - a reduction in public liability driven by a reduction in the assumed number of large claims, partially offset by an increase in the assumed overall number of claims resulting from the higher than expected number of claims reported over the 12 months;
  - a decrease in financial crime due to a lower than expected number of claims reported;
  - an increase in professional indemnity due to a higher than expected number of claims reported, including the emergence of a large claim; and
  - a small increase in directors and officers due to a higher than expected number of claims reported.
- $5.9 million increase in the expense margin due to an increase in the assumed expense rate; and
- an increase of $0.6 million in the risk margin resulting from an increase in the central estimate of outstanding claims.

[a] *A large claims is defined as a claim which has a total cost of $1 million or greater*.

(d) Term to Settlement

The weighted average expected term to settlement of the outstanding claims from the valuation date is estimated to be 6.4 years in 2018-19 (6.4 years in 2017-18). The weighted average expected term to settlement has been based on industry averages and adjusted to reflect the specific classes of insurance offered by the Authority.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 13. OTHER LIABILITIES

	2019 $'000	2018 $'000
Other Liabilities		
Current		
Workers' Compensation Insurance Premium Received in Advance from Agencies [a]	**-**	4,017
Icon Water Limited Workers' Compensation Insurance Payments [b]	**-**	7,482
Contract Works Insurance Premium Received in Advance from Agencies	**55**	192
External Insurance Premium Received in Advance from Agencies	**137**	149
Total Current Other Liabilities	**192**	11,840
Non-Current		
Contract Works Insurance Premium Received in Advance from Agencies	**51**	-
External Insurance Premium Received in Advance from Agencies	**-**	137
Total Non-Current Other Liabilities	**51**	137

[a] *The workers' compensation premiums received in advance from agencies for recoveries relating to Comcare premiums from previous years was returned to agencies in June 2019.*

[b] *Icon Water Limited (formerly ACTEW Corporation Limited) withdrew from the ACT Workers' Compensation Scheme on 1 September 2012. The Scheme remains liable for all outstanding claims incurred prior to this date. ACTEW had entered into an agreement to compensate the Territory for growth in the outstanding liability arising after this date. The Authority had previously agreed to retain these funds on behalf of the ACT Government. In June 2019 there funds were transferred to the ACT Public Sector Workers' Compensation Fund.*

NOTE 14. FINANCIAL INSTRUMENTS

Details of the significant policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset and financial liability are disclosed in Appendix B - Significant Accounting Policies.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

A small percentage of the Authority's financial assets are held as cash at bank which has a variable interest rate exposure. The Authority's financial liabilities are not subject to variable interest rates. This means that the Authority is not exposed to movements in interest payable; however, it is exposed to movements in interest receivable.

Interest rate risk for financial assets is managed by the Authority by only holding limited funds in cash. The interest rate risk for financial liabilities is not actively managed by the Authority as these liabilities are held in non-interest bearing arrangements. There have been no changes in risk exposure or processes for managing risk since the last reporting year.

Sensitivity Analysis

A sensitivity analysis has not been undertaken for the interest rate risk of the Authority as it has been determined that the possible impact on income and expenses or total equity from fluctuations in interest rates is immaterial.

NOTE 14. FINANCIAL INSTRUMENTS - CONTINUED

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Authority's credit risk is limited to the amount of the financial assets it holds net of any allowance for impairment. The Authority expects to collect all financial assets that are not past due or impaired.

Credit risk is managed by the Authority for its financial investments by only investing surplus funds with the Territory Banking Account. Accordingly, the Authority's direct credit risk exposure is the Territory Banking Account. The risk is assessed as very low.

A large proportion of the Authority's receivables are from other ACT Government agencies which means that the credit risk of these receivables going into default is low.

There have been no significant changes in credit risk exposure since the last reporting year.

(c) Liquidity Risk

Liquidity risk is the risk that the Authority will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit its exposure to liquidity risk, the Authority ensures that it has sufficient amounts of financial assets to meet its current financial liabilities. The Authority manages its premium revenue to meet the cost of future claims payments.

The Authority's exposure to liquidity risk in relation to its financial instruments and the management of this risk has not changed since the previous reporting year.

(d) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in unit prices.

The Authority's price risk exposure results from its unit holdings of financial investments with the Territory Banking Account. The price fluctuations in unit holdings reflects changes in the value of the underlying investments made by the Territory Banking Account.

Territory Banking Account invests the Authority's funds across a range of asset classes in line with the Authority's Investment Plan. Underlying investment exposures include cash, money market securities, fixed rate bonds (domestic and international) and equities (domestic and international). Investment exposures are maintained in line with the strategic asset allocation considered to represent an efficient portfolio (acceptable risk return outcome) to achieve the Authority's long-term investment objective. Under the investment structure, investments are diversified by geography, sector, financial instrument type, currency hedges, credit and interest rates to manage the risks associated with changing financial and economic conditions. More details can be found in the financial statements of the Territory Banking Account.

The Authority's exposure to price risk and management of the risk has not changed since the last reporting year.

NOTE 14. FINANCIAL INSTRUMENTS - CONTINUED

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the estimated impact on profit or loss and the impact on equity in the table below is reasonably possible over the next 12 months if the unit price changes by the volatility factors of -/+ 8.3% per annum (-/+ 0.5% in 2017-18) for investments with the Territory Banking Account.

The change in volatility factor from June 18 to June 19 is due to the change in the investment exposures across a wider range of asset classes. These exposures reflect a higher risk profile, particularly from shares exposures, necessary to achieve the long-term investment objective as outlined in the Authority's Investment Plan.

		Loss Impact $'000	Profit Impact $'000
2019			
	Volatility Factors	**(8.3%)**	**8.3%**
	Investments with the Territory Banking Account	**(26,068)**	**26,068**

2018			
	UBS Australian Composite Bond Index -/+ 0.5%	(0.5%)	0.5%
	Australian Cash	(935)	935
	UBS Australian Composite Bond Index -/+ 6.0%	(6%)	6%
	Australian Fixed Interest	(10,212)	10,212

(e) Fair Value of Financial Assets and Liabilities

The carrying amounts for all financial assets and liabilities reflect their fair value.

(f) Carrying Amount of Each Category of Financial Asset and Financial Liability

Investments with the Territory Banking Account are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments which have quoted market prices on the held units at the reporting date.

	2019 $'000	2018 $'000
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**314,067**	357,245
Loans and Receivables Measured at Amortised Cost	**2,500**	4,056
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**165**	247

NOTE 14. FINANCIAL INSTRUMENTS - CONTINUED

(g) Gain/(Loss) on Each Category of Financial Asset

The Authority's financial assets are at fair value and as such, no additional categories are applicable.

Also, the Authority does not have any financial liabilities in the 'Financial Liabilities at Fair Value through Profit and Loss' category and, as such, this category is not included above.

	2019 $'000	2018 $'000
Gain/(Loss) on Financial Asset		
Financial Assets at Fair Value through the Profit and Loss Designated upon initial Recognition	**21,823**	(429)

(h) Fair Value Hierarchy

The carrying amount of financial assets are measured at fair value. All other financial assets and liabilities are measured, subsequent to initial recognition, at amortised cost and as such are not included in the table below.

	Classification According to the Fair Value Hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Financial Assets at Fair Value through the Profit and Loss				
Australian Equities	-	**46,682**	-	**46,682**
Australian Inflation Debt	-	**31,004**	-	**31,004**
Australian Fixed Interest	-	**63,172**	-	**63,172**
International Equities	-	**109,781**	-	**109,781**
International Fixed Interest	-	**63,427**	-	**63,427**
Total Financial Assets	-	**314,067**	-	**314,067**
2018				
Financial Assets at Fair Value through the Profit and Loss				
Australian Cash	-	187,045	-	187,045
Australian Fixed Interest	-	170,199	-	170,199
Total Financial Assets	-	357,244	-	357,244

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 15. CASH FLOW RECONCILIATION

(a) Reconciliation of Cash at the End of the Reporting Year in the Cash Flow Statement to the Equivalent Items in the Balance Sheet

	2019 $'000	2018 $'000
Total Cash Recorded in the Balance Sheet	**9,020**	12,580
Cash at the End of the Reporting Year as Recorded in the Cash Flow Statement	**9,020**	12,580

(b) Reconciliation of the Operating Surplus to the Net Cash Inflows from Operating Activities

Operating Surplus	**12,528**	34,771
Add/(Less) Non-Cash Items		
Depreciation of Fixed Assets	**40**	30
Add/(Less) Items Classified as Investing or Financing		
Net (Gain)/Loss on Investments	**(21,823)**	428
Cash Before Changes in Operating Assets and Liabilities	**(9,255)**	35,229
Change in Operating Assets and Liabilities		
Decrease/(Increase) in Distribution Receivable	**1,454**	(238)
Decrease/(Increase) in Other Receivables	**109**	(150)
Decrease in Prepayments	**199**	213
(Decrease)/Increase in Payables	**(82)**	58
Increase/(Decrease) in Outstanding Claims	**20,933**	(6,873)
(Decrease)/Increase in Other Liabilities	**(11,734)**	1,088
Increase in Employee Benefits	**14**	90
Net Changes in Operating Assets and Liabilities	**10,893**	(5,812)
Net Cash Inflows from Operating Activities	**1,638**	29,417

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16. RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Authority, directly or indirectly.

KMP of the Authority are the Under Treasurer, Deputy Under Treasurer, Commercial Services & Infrastructure and the General Manager of the ACT Insurance Authority.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the Authority.

This note does not include typical citizen transactions between the KMP and the Authority that occur on terms and conditions no different to those applying to the general public.

(a) Controlling Entity

The Authority is an ACT Government controlled entity.

(b) Key Management Personnel

(b)(1) Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2019.

Compensation of the Head of Service is included in the note on related party disclosures included in Chief Minister, Treasury and Economic Development Directorate's (CMTEDD) financial statements for the year ended 30 June 2019.

The KMP's of the Authority that are employees of CMTEDD and are compensated by CMTEDD.

Compensation by the Authority to KMP is set out below.

	2019 $'000	**2018 $'000**
Short-term employee benefits	**215**	229
Post-employment benefits	**36**	37
Other long-term benefits	**5**	5
Total Compensation by the Authority to KMP	**256**	272

NOTE 17. BUDGETARY REPORTING

The following are brief explanations of major line items variances between budget estimates and actual outcomes.

(a) the line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and

(b) the variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Operating Statement Line Items	Actual 2018-19 $'000	Original Budget[1] 2018-19 $'000	Variance $'000	Variance %	Variance Explanation
Ordinary activities					
Claims Expense	59,286	50,081	9,205	18	The variance of $9.2 million is predominantly the result of claim payments being higher than budgeted due to claims settling earlier than expected. The budgeted amount is based on actuarial assumptions from the Authority's December 2017 review of claims expense.
Distributions Received	8,056	9,075	(1,019)	(11)	The decrease in actual distributions from the budgeted amount is due to lower than expected distribution returns being received from the Territory Banking Account.
Other Revenue	24,249	2,867	21,382	746	The increase in actual other revenue from the budgeted amounts is the result of unexpected gain of investments being higher than budgeted.
Other Expenses	1,923	2,323	(400)	(17)	The variance in other expenses is predominantly due to a reduction in contract works premiums paid as the result of less capital construction being undertaken than budgeted.
Supplies and Services	1,027	921	106	11	The increase in supplies and services is predominantly due to an increase in software licence costs as the result of the introduction of an annual licence fee for the Authority's new claims management system.

[1] *Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting year (2018-19 Statement of Intent).*

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17. BUDGETARY REPORTING - CONTINUED

Balance Sheet Line Items	Actual 2019 $'000	Original Budget[1] 2019 $'000	Variance $'000	Variance %	Variance Explanation
Assets					
Current Investment	314,067	145,734	168,333	116	The increase in current investments is mainly due to the movement of funds from non-current investments.
Non-Current Investments	-	170,161	(171,161)	(100)	The decrease in non-current investments is due to these funds being moved to current investments.
Liabilities					
Current Outstanding Claims	27,989	37,380	(9,391)	(25)	Current outstanding claims were lower than budget mainly due to revised actuarial assumptions, as the result of more favourable claims experience. In particular there has been a reduction in the number and size of large claims in both medical malpractice and public liability insurance classes.
Current Other Liabilities	192	12,398	(12,207)	(98)	The Authority previously held funds on behalf of the ACT Government relating to workers compensation liabilities for Icon Water. In June 2019 these funds were transferred to the newly formed ACT Public Sector Workers' Compensation Fund. Hence, the reduction in current other liabilities.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting year (2018-19 Statement of Intent).

Cash Flow Statement Line Items	Actual 2018-19 $'000	Original Budget[1] 2018-19 $'000	Variance $'000	Variance %	Variance Explanation
Cash Flows from Operating Activities					
Payments					
Insurance Claims Payments	38,354	24,269	14,085	58	The insurance claims payments were higher than budget due to settlement of claims occurring earlier than expected in comparison to the budget.
Workers' Compensation	76,996	62,282	14,714	24	The increase in workers' compensation payments is due to the payment of previously held workers compensation liabilities for Icon Water being transferred to the newly formed ACT Public Sector Workers' Compensation Fund in June 2019.
Proceeds from Sale/Maturities of Investments	95,000	80,567	14,433	18	The increase in proceeds from investments along with the additional funds held at the beginning of the reporting period compared to budget was required to fund the higher payments experience during this reporting period.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting year (2018-19 Statement of Intent).

ACT INSURANCE AUTHORITY
APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS
FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Legislative Requirement

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT Government agencies.

The FMA and the *Financial Management Guidelines* issued under the Act, requires that an Authority's financial statements include:

I. an Operating Statement for the year;

II. Balance Sheet at the end of the year;

III. Statement of Changes in Equity for the year;

IV. Cash Flow Statement for the year;

V. the significant accounting policies adopted for the year; and

VI. other statements as are necessary to fairly reflect the financial operations of the Authority during the year and its financial position at the end of the year.

These general purpose financial statements have been prepared to comply with Australian Accounting Standards as required by the FMA and ACT Accounting and Disclosure Policies.

Accrual Accounting

The financial statements have been prepared using the accrual basis of accounting which recognises the effect of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for assets such as those included in financial instruments which were measured at fair value in accordance with the (re)valuation policies applicable to the Authority during the reporting year.

Currency

The financial statements are presented in Australian dollars, which is the Authority's functional currency.

Individual Reporting Entity

The Authority is an individual reporting entity.

Budget Figures

The FMA requires the statement to facilitate a comparison with the Statement of Intent. The budget numbers are as per the Authority's 2018-19 Statement of Intent.

Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000). Use of "-" represents zero amounts or amounts rounded down to zero.

ACT INSURANCE AUTHORITY
APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES
FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

SIGNIFICANT ACCOUNTING POLICIES - RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Authority are affected by a number of key risks. The Authority's policies and procedures in respect to managing insurance risks are set out in this note. Policies and procedures for managing interest rate risk, credit risk, liquidity risk and price risk are disclosed in Note 14 - Financial Instruments.

Objectives and Policies for Managing Insurance Risks

The Authority's objective is to support the ACT Government by protecting the budget from financial loss through management of the ACT Government self-insured liabilities and insurance arrangements.

The Authority has developed, implemented and maintains a sound and prudent risk management plan. The plan outlines strategies which incorporate the Authority's policies and procedures, processes and controls for risk management. These strategies address all material risks, financial and non-financial, likely to be faced by the Authority.

The Authority has identified the following key risks:

> annual premiums not sufficient to fully fund claims over the claim development period; and

> insufficient and/or unsatisfactory external insurance arrangements.

Processes established to manage these risks are:

> actuarial models are used to calculate premiums and monitor claim patterns. Past experience and statistical methods are also used as part of this process;

> documented procedures are followed for the management of claims;

> valuations of outstanding claims liabilities are conducted by professional actuaries; and

> the Authority engages a specialised insurance broker to provide professional advice and access to international and local reinsurance markets.

To limit the Authority's exposure to accumulation of financial loss from catastrophic events the Authority purchases reinsurance policies for major insurance classes, including public liability, medical malpractice, professional indemnity, property damage and directors and officers, to limit exposure to any single event. The main exposure risk for property assets are bushfire, earthquake and storm damage.

When selecting a reinsurer, the Authority only considers those companies that have a Standard and Poor's credit risk rating of 'A-' or higher. To limit the concentration of credit risk in purchasing reinsurance, the Authority has established a program that limits excessive exposure to any single reinsurer or group of related reinsurers.

ACT INSURANCE AUTHORITY
APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - INCOME AND EXPENSES

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement.

NOTE 4 - UNDERWRITING RESULT

Gross Earned Insurance Premiums

Insurance premium revenue comprises amounts charged to agencies. All gross earned insurance premiums are written and earned in the current reporting year as all policies cover the period from 1 July 2018 to 30 June 2019.

Gross Claims Expenses

Gross claims expenses include the movement in liability for outstanding claims and related claims expenses and are recognised in the financial statements. The liability covers claims reported but not yet paid; incurred but not yet reported (IBNR); incurred but not enough reported (IBNER) and the anticipated direct and indirect costs of settling those claims. Outstanding claims are actuarially assessed by reviewing claim data and estimating changes in the ultimate cost of settling claims, IBNRs and associated settlement costs using statistics based on past experience and trends.

The liability for outstanding claims is measured as the net central estimate of the present value of the expected future payments, against claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. 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 superimposed inflation. Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The present value of future payments is estimated using the Commonwealth Government Bond risk free rate.

Reinsurance Premium

The Authority purchases reinsurance to cover catastrophic and accumulated risk exposures for those major insurance classes which it underwrites, this includes insurance against:

- loss, damage, or destruction of Territory assets; and
- the legal liabilities incurred by the Territory for third party property damage and personal injury to third parties.

SIGNIFICANT ACCOUNTING POLICIES - INCOME AND EXPENSES - CONTINUED

NOTE 7 - OTHER REVENUE AND EXPENSES

Interest

Interest revenue is recognised using the effective interest method.

Distributions from investments with the Territory Banking Account

Distribution revenue is received from investments with the Territory Banking Account. This is recognised on an accrual basis using data supplied by the Territory Banking Account.

Contract Works Insurance

The Authority purchases contract works insurance cover for ACT Government capital construction works. Premiums are recovered from ACT Government agencies by the Authority based on the value of each agency's capital works program. The Authority acts as an agent for the Territory to purchase contract works insurance. The Authority does not underwrite this insurance and therefore holds no financial risk for this class of insurance. The amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense. Cover for policies which extend further than the current reporting year are recorded as prepayments with corresponding transactions recorded in other liabilities as premiums received in advance.

External Insurance Contracts

The Authority arranges insurance cover on behalf of ACT Government agencies for travel, standing timber, aviation and personal accident cover for both aero retrieval and volunteer workers. The Authority holds no risk on these contracts. Similar to contract works insurance, each agency pays its share of the premium to the Authority for the purpose of financing the insurance premium payment to an external insurer. As the Authority is not underwriting the risk, but rather acting as an agent for the Territory, the amounts involved are included in other revenue and expenses and not reflected in the gross earned insurance premiums and claims expense.

NOTE 8 - EMPLOYEE AND SUPERANNUATION EXPENSES

Employee Expenses

Employee benefits include:

> short-term employee benefits such as wages and salaries, annual leave loading and applicable on-costs, if expected to be settled wholly before 12 months after the end of the annual reporting year in which the employees render the related services;
> other long-term benefits, such as long service leave and annual leave; and
> termination benefits.

On-costs include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual leave and long service leave.

ACT INSURANCE AUTHORITY
APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES – INCOME AND EXPENSES - CONTINUED

NOTE 8 - EMPLOYEE AND SUPERANNUATION EXPENSES - CONTINUED

Superannuation Expenses

Employees of the Authority will have different superannuation arrangements due to the type of superannuation scheme available at the time of commencing employment, including both defined benefit and defined contribution superannuation scheme arrangements.

For employees who are members of the defined benefit Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) the Authority makes employer superannuation contribution payments to the Territory Banking Account at a rate determined by the Chief Minister, Treasury and Economic Development Directorate (CMTEDD). The Authority also makes productivity superannuation contribution payments on behalf of these employees to the Commonwealth Superannuation Corporation, which is responsible for administration of the schemes.

For employees who are members of defined contribution superannuation schemes (the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice) the Authority makes employer superannuation contribution payments directly to the employees' relevant superannuation fund.

All defined benefit employer superannuation contributions are recognised as expenses on the same basis as the employer superannuation contributions made to defined contribution schemes. The accruing superannuation liability obligations are expensed as they are incurred and extinguished as they are paid.

Superannuation Liability Recognition

For the Authority's employees who are members of the defined benefit CSS or PSS the employer superannuation liabilities for superannuation benefits payable upon retirement are recognised in the financial statements of the Superannuation Provision Account.

SIGNIFICANT ACCOUNTING POLICIES - ASSETS

ASSETS - CURRENT & NON-CURRENT

Assets are classified as current where they are expected to be realised within 12 months after the reporting date. Assets, which do not fall within the current classification are classified as non-current.

Assets Backing General Insurance Liabilities

The Authority holds assets to fund its outstanding claims liabilities.

The Authority's investment funds are managed by the Territory Banking Account within CMTEDD's Asset Liability Management team.

Financial assets are valued at fair value through profit or loss. Initial recognition is at cost in the Balance Sheet and subsequent measurement is at fair value with any resultant realised or unrealised profits or losses recognised in the Operating Statement.

NOTE 10 - INVESTMENTS

Investments are held with the Territory Banking Account. The price of the units in this investment fluctuate in value. The net gain or loss on investments consists of the fluctuation in the price of the units between the end of the last reporting year and the end of this reporting year as well as any profit on the sale of units in the investment (the gain or loss being the difference between the price at the end of the last reporting year and the sale price). The net gain or loss do not include interest or dividend income.

These investments are measured at fair value with any adjustments to the carrying amount being recorded in the Operating Statement. Fair value is based on an underlying pool of investments which have quoted market prices at the reporting date.

Distributions from investments with the Territory Banking Account are paid quarterly.

NOTE 11 - RECEIVABLES

Accounts receivable are measured at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement.

Receivables include interest, goods and services taxation (GST), trade receivables and court ordered recoveries.

The Authority's receivables predominantly relate to the distributions from investments for the June quarter which are expected to be received in early July. The remaining receivables relate to trade receivable between government entities and court ordered costs awarded to the Territory where the terms are determined by the court. The Authority expects all receivables will be paid.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES

LIABILITIES - CURRENT & NON-CURRENT

Liabilities are classified as current when they are due to be settled within 12 months after the reporting date or the Authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Liabilities which do not fall within the current classification are classified as non-current.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 12 - OUTSTANDING CLAIMS

Significant Judgements and Estimates - Outstanding Claims

The Ultimate Liability Arising from Claims Made Under Insurance Contracts

A provision is made at year-end for the estimated cost of claims incurred but not settled at the valuation date, including the cost of IBNR and IBNER claims to the Authority.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected value of recoveries. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimate of the liability.

The estimation of IBNR and IBNER are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as the cost of these claims is often not apparent until many years after the claim event. The public liability and medical malpractice classes typically display higher levels of IBNR and IBNER claims.

For the property class, claims are typically reported soon after the claim event, and therefore tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowances are made for factors which may cause these to change, including:

- changes in the Authority’s processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the ACT Government activities;
- the impact of large losses;
- movements in industry benchmarks; and
- medical and technological developments.

A component of these estimation techniques is the estimation of the cost of notified but not paid claims (case estimation) which takes into account the claim circumstance as reported, any information available from ACT Government Solicitor and information on the cost of settling claims with similar characteristics in previous periods.

Large claims are assessed separately, being measured on a case by case basis or projected separately, in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Authority adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected and the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each insurance year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Appendix D - Change in Accounting Policy and Accounting Estimates - Actuarial Assumptions and Methods.

ACT INSURANCE AUTHORITY
APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED
FORMS PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Impact of Accounting Standards Issued but yet to be Applied

The Authority has assessed the accounting standards and standard amendments that have been issued by the Australian Account Standards Board but are yet to be applied and have assessed the impact as having no expected material financial or reporting effect on the Authority other than:

- the proposed amendments to AASB 17 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, the Authority will conduct a further impact assessment prior to the application date of 1 January 2021.

ACT INSURANCE AUTHORITY
APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES
FORMS PART OF NOTE 3 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Changes in Accounting Estimates

The Authority had the following changes in accounting estimates during the reporting year.

Changes in Actuarial Assumptions

The Authority uses an independent actuary, currently PricewaterhouseCoopers Consulting (Australia) Pty Ltd, to provide the estimate of outstanding claims liabilities. The estimate is based on actuarial assumptions and methods which are based on past claims experience, risk exposure and projections of economic variables. As a result of changes in these variables the estimate of the outstanding claims liabilities has changed. This change has resulted in an increase to the estimates of the outstanding claims liabilities and claims expense in the current reporting year (refer to Note 6: 'Net Incurred Claims' and Note 12: 'Outstanding Claims').

The Authority provides the following classes of insurance: medical malpractice, public liability, property damage, directors and officers, professional indemnity and financial crime.

The actuarial process for estimating the outstanding claims liabilities is similar for all classes. A description is as follows:

- estimates of IBNR claims at the actuarial valuation date are made by analysing past reporting patterns and applying assumed development rates to numbers of claims already reported to the Authority;
- the number of past settlements are analysed and adopted ultimate settlement proportions are applied to the estimated ultimate numbers of claims to obtain expected numbers of future settlements;
- past settlement sizes and past changes in case estimates are analysed;
- estimates of outstanding claims are first adopted for the most developed insurance years, taking into account the average sizes and relationship to current estimates of the claims from the Authority. The same process is extended to the more recent years, taking into account the experience of the earlier years and any differences in experience to date;
- separate analyses of large and small claims are made for all classes. The incidence and sizes of large claims for recent years are drawn from experience in the more developed years;
- analyses are made on data which is gross of reinsurance and therefore resulting estimates of outstanding liabilities are also gross of reinsurance. Subsequent allowances, where needed, are then made for potential reinsurance recoveries to arrive at estimates of net outstanding liabilities; and
- allowances are made for all future claims' escalation, whether from external inflation or superimposed inflation and projected payments are discounted to present values to reflect the time value of money.

Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities for 2018-19.

2019	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.54 Years	5.19 Year	7.00 Years	2.74 Years	3.37 Years	5.39 Years
Ultimate Claim Numbers (2018-19 Insurance Year) [a]	90	122	82	6	0.2	4
Average Settlement Size	$84,500 [c]	$112,300 [c] and $3.468m [d]	$293,900 [c] and $4.4m [d]	$81,700 [c]	$150,000 [c]	$85,900 [c]
Expense Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Rate [b]	1.1%	1.4%	1.5%	1.2%	1.1%	1.3%
Inflation and Superimposed Inflation [b]	2.1%	2.2%	2.1%	2.2%	2.2%	2.2%

The following assumptions have been made in estimating the outstanding claims liabilities for 2017-18.

2018	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.74 Years	5.59 Years	7.11 Years	3.44 Years	3.35 Years	4.35 Years
Ultimate Claim Numbers (2017-18 Insurance Year) [a]	62	117	84	1	0.2	6
Average Settlement Size	$80,800 [c]	$97,300 [c] and $3.318m [d]	$291,300 [c] and $4.7m [d]	$78,200 [c]	$150,000 [c]	$82,200 [c]
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate [b]	2.1%	2.8%	2.8%	2.5%	2.3%	2.6%
Inflation and Superimposed Inflation [b]	2.7%	2.9%	2.8%	2.9%	2.9%	2.9%

[a] *Ultimate claims reported are the assumed number of claims incurred in the insurance year.*
[b] *Discount and inflation rates are calculated for each insurance class based on the payment pattern and the discount/inflation rate at the corresponding period of time.*
[c] *The adopted average claim size for small claims has a total cost up to $1 million*
[d] *The adopted average claim size for large claims has a total cost of $1 million or greater*.

ACT INSURANCE AUTHORITY
APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Process used to determine assumptions

Discounted mean term

The discounted mean term to settlement is calculated separately by class of insurance based on historic settlement patterns. A decrease in the discounted mean term to settlement would lead to more claims being paid sooner than anticipated. An increase or decrease in the discounted mean term would have a corresponding decrease or increase on claims expense respectively.

Ultimate claim numbers

The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reporting rates and applying them to the observed claims reported to date in order to project the timing and number of future claims reported. All other things being equal, an increase in the ultimate number of claims will increase the liability.

Average settlement size

The average settlement size is based on past claims experience. For public liability and medical malpractice classes the incidence of large claims are greater and therefore their average size for small and large claims are shown separately.

Expense rate

Claims handling expenses are calculated based on an assumed proportion of claims handling costs as a percentage of past payments. An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

Discount rate

Discount rates derived from market yields on Commonwealth Government Bonds at the actuarial valuation date have been adopted. The discount rates shown are the rates which match the weighted term and the outstanding claims liability is discounted to adjust for the time value of money. All other things being equal, an increase or decrease in the discount rate would have a corresponding decrease or increase on claims expense respectively.

Inflation

Economic inflation assumptions are set by reference to current economic indicators. An increase or decrease in the assumed levels of economic inflation would have a corresponding increase or decrease on claims expense.

Superimposed inflation

Superimposed inflation is the tendency for payments to increase over time at a faster rate than a suitable standard measure of inflation. This can be driven by factors such as increases in court settlement sizes and an assumption is set considering any superimposed inflation present in the portfolio and industry superimposed inflation trends. Currently, there has been no allowance for inflation over and above economic inflation measures used.

ACT INSURANCE AUTHORITY
APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis

The Authority conducted a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial performance and equity position of the Authority.

Each of the below variations has been considered in isolation. However, in reality, volatility in the net outstanding claims is likely to be due to a number of these and other factors in combination.

Assumptions	Note	Net Outstanding Claims	Difference	
	No.	$'000	$'000	%
Current Net Outstanding Claims	**12**	252,603		
Economic Assumptions				
Discount rates increased by 1.0%		240,038	(12,565)	(5)
Discount rates decreased by 1.0%		259,278	6,675	2.6
Medical Malpractice				
Large Claims				
Assumed average size on IBNR Claims is $4.4 million				
Increase by $1.0 million		285,170	32,566	12.9
Decrease by $1.0 million		220,232	(32,371)	(12.8)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2013 and later		280,105	27,502	10.9
1 less claim per annum for 2013 and later		225,367	(27,236)	(10.8)
Public Liability				
Large Claims				
Assumed average size on IBNR Claims is $3.5 million				
Increase by $1.0 million		258,768	6,165	2.4
Decrease by $1.0 million		246,438	(6,165)	(2.4)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2013 and later		277,296	24,692	9.8

Current Net Outstanding Claims

The current net outstanding claims is the gross outstanding claims net of reinsurance recoveries.

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate; a 1% increase in the discount rate would result in a decrease of $12.6 million in claims liability whereas a decrease in the discount rate of 1% would result in an increase of $6.7 million in the liability.

ACT INSURANCE AUTHORITY
APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis - Continued

Medical Malpractice and Public Liability

The liability for outstanding claims is sensitive to movements in the average claim size. As per the table above, a change in average large claim size for medical malpractice by $1.0 million has a subsequent effect on the outstanding claims of either an increase of $32.6 million or a decrease of $32.4 million. Whereas for a change by $1.0 million in average large claim size for public liability would either increase or decrease by $6.1 million.

A significant proportion of the outstanding claims is associated with large medical malpractice and public liability claims. As such, the provision is sensitive to movements in the assumed number of large claims, with a greater uncertainty for more recent insurance years where experience is still relatively undeveloped.

For large medical malpractice claims, a change in the assumption of allowing for one additional or one less IBNR claim per annum from 2013 and later has the subsequent effect on the outstanding claims liability of either an increase of $27.5 million or a decrease of $27.2 million. For large public liability claims, a change in the assumption of allowing for one additional IBNR claim per annum from 2013 and later has the subsequent effect on the outstanding claims liability of an increase of $24.7 million.

C.3 CAPITAL WORKS

The Authority did not have capital works expenditure during the reporting year.

C.4 ASSET MANAGEMENT

The Authority has no assets other than furniture and fittings and investments. The Authority has capacity to invest funds over the medium and long term.

C.5 GOVERNMENT CONTRACTING

The Authority engages consultants to perform a number of specialised functions. Consultants provide insurance broking services, risk management advice, actuarial services and legal advice.

The procurement selection and management processes for all contractors including consultants complied with the *Government Procurement Act 2001* and the **Government Procurement Regulation 2007**.

Procurement processes above $25,000 have been reviewed by Goods and Services Procurement, and if necessary, by the Government Procurement Board consistent with the provisions of the *Government Procurement Regulation 2007*. The Authority has complied with all employee and industrial relations obligations in relation to contractors employed.

Contracts with a value of $25,000 or more are listed in the below table:

Contract Title	Procurement Methodology	Contractor Name	Contract Amount	Execution Date	Expiry Date
Insurance Broking and Risk Management Services	Public	Marsh Pty Ltd	$1,164,951	April 2018	April 2021
Provision of Actuarial Services	Public	PricewaterhouseCoopers Consulting Australia Pty Ltd	$525,000	Oct 2018	Oct 2021

C.6 STATEMENT OF PERFORMANCE

The Authority's Statement of Performance is reported on page 85 of the *2018-19 ACT Insurance Authority Annual Report*. Narrative on the performance measures is also included in B.2 Performance Analysis.

INDEPENDENT LIMITED ASSURANCE REPORT

To the Members of the ACT Legislative Assembly

Conclusion

I have undertaken a limited assurance engagement on the statement of performance of the ACT Insurance Authority (the Authority) for the year ended 30 June 2019.

Based on the procedures performed and evidence obtained, nothing has come to my attention to indicate the results of the accountability indicators reported in the statement of performance for the year ended 30 June 2019 are not in agreement with the Authority's records or do not fairly reflect, in all material respects, the performance of the Authority, in accordance with the *Financial Management Act 1996*.

Basis for conclusion

I have conducted the engagement in accordance with the Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. My responsibilities under the standard and legislation are described in the 'Auditor-General's responsibilities' section of this report.

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and the ACT Audit Office applies Australian Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements.*

I believe that sufficient and appropriate evidence was obtained to provide a basis for my conclusion.

Authority's responsibilities for the statement of performance

The Under Treasurer is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2019*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Auditor-General's responsibilities

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2019*, the Auditor-General is responsible for issuing a limited assurance report on the statement of performance of the Authority.

My objective is to provide limited assurance on whether anything has come to my attention that indicates the results of the accountability indicators reported in the statement of performance are not in agreement with the Authority's records or do not fairly reflect, in all material respects, the performance of the Authority, in accordance with the *Financial Management Act 1996*.

Level 4, 11 Moore Street Canberra City ACT 2601 PO Box 275 Civic Square ACT 2608
T 02 6207 0833 F 02 6207 0826 E actauditorgeneral@act.gov.au W www.audit.act.gov.au

In a limited assurance engagement, I perform procedures such as making inquiries with representatives of the Authority, performing analytical review procedures and examining selected evidence supporting the results of accountability indicators. The procedures used depend on my judgement, including the assessment of the risks of material misstatement of the results reported for the accountability indicators.

Limitations on the scope

The procedures performed in a limited assurance engagement are less in extent than those required in a reasonable assurance engagement and consequently the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, I do not express a reasonable assurance opinion on the statement of performance.

This limited assurance engagement does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations; or
- adequacy of controls implemented by the Authority.

Ajay Sharma
Assistant Auditor-General, Financial Audit
13 September 2019

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF RESPONSIBILITY

In our opinion, the Statement of Performance is in agreement with the ACT Insurance Authority's records, and fairly reflects the service performance of the ACT Insurance Authority for the year ended 30 June 2019, and also fairly reflects the judgements exercised in preparing it.

Stephen Miners
A/g Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
September 2019

Lisa Manzoney
A/g General Manager
ACT Insurance Authority
11 September 2019

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

DESCRIPTION OF OBJECTIVES

The ACT Insurance Authority (the Authority) is established under the Insurance Authority Act 2005. The functions of the Authority are to:

> carry on the business of insurer of Territory risks;
> take out insurance of Territory risks with other entities;
> satisfy or settle claims in relation to Territory risks;
> take action, with the Treasurer's approval, for the realising, enforcing, assigning or extinguishing of rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third party's business as a going concern;
> develop and promote good practices for the management of Territory risks; and
> give advice to the Minister about insurance and the management of Territory risks.

The Authority also administers the:

> Office of the Nominal Defendant of the ACT, for claims against uninsured and/or unidentified vehicles for the ACT Compulsory Third-Party Insurance Scheme; and
> Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

Annual reports and financial statements for these two entities are available in the Chief Minister, Treasury and Economic Development Directorate 2018-19 Annual Report.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

Objective	Accountability Indicators	Original Target 2018-19	Actual Result 2018-19	Variance Amount	Variance %	Explanation of Material Variances (>10%)
Carry on the business of insurer of territory risks	a. Results from the annual customer satisfaction survey:					
	- Overall customer satisfaction with insurance management services.	>90%	78%	(12%)	(13)	The Authority's annual customer satisfaction survey was conducted as part of the CMTEDD Commercial Service and Infrastructure group's survey which took a standardised approach for receiving customer feedback. The format of the survey changed with more in-depth questions and a different rating scale was used to determine results.
	- Overall customer satisfaction of claims management.	>80%	77%	(3%)	(4)	
	- Overall customer satisfaction of annual insurance renewal.	>80%	89%	-	-	
	- Overall customer satisfaction of financial management services.	>80%	78%	(2%)	(3)	
	b. Determine annual insurance premiums for territory agencies that allow for full funding of claim costs and associated expenses.	Annual premium determination completed	Annual premium determination completed	-	-	
	c. Maintain the Authority's funding ratio within the targeted range of 100%-120% as outlined in the Authority's Capital Management Plan.	119%	129%	10%	8	
	d. General and administrative expense as a percentage of total annual premium revenue.	7%	6.41%	(0.59%)	8	
	e. The average number of days to process payments for the settlement of claims from the day all required documents are received from the agency.	10 days	14 days	4	40	The higher average number of days to process settlement payments is due to a change from processing settlement payments from weekly to fortnightly as an efficiency measure with more efficient use of resources.
	f. Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs.	Annual review completed	Annual review completed	-	-	

The above accountability indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

Objective		Accountability Indicators	Original Target 2018-19	Actual Result 2018-19	Variance Amount	Variance %	Explanation of Material Variances (>10%)
Take out insurance of territory risks with other entities	g.	Review the Territory's property asset register to ensure that values provided by agencies reflect insurance replacement costs.	Annual review completed	Annual review completed	-	-	
	h.	Complete Property Loss Control Surveys at a number of selected territory locations.	8	8	-	-	
	i.	Hold quarterly reviews of all liability and medical malpractice claims to assess the claim management strategy for matters where the Territory's reserve exceeds $250,000.	Quarterly claims review meetings held	4 claims review meetings were held	-	-	
Satisfy or settle claims in relation to territory risks	j.	Insurance claims data:					
		Liability					
		- Discounted Mean Term (for Outstanding Claims)[1]	4.79 Years	5.19 Years	0.4 Years	8	
		- Ultimate Claim Numbers[2]	121	122	1	1	
		- Average Small Claim (<$1 m) Settlement Size[3]	$96,294	$109,008	$12,714	13	Average small claims during this reporting year have taken longer to finalise which is reflected in recent claims experience. It is assumed that this trend will continue in the future and claims that take longer to finalise tend to have a higher assumed average settlement size.
		- Average Large Claim (>$1 m) Settlement Size[3]	$3,667,694	$3,467,700	($199,994)	(5)	
		Medical Malpractice					
		- Discounted Mean Term (for Outstanding Claims)[1]	6.91 Years	7.00 Years	0.09 Years	1	
		- Ultimate Claim Numbers[2]	89	82	(7)	(8)	
		- Average Small Claim (<$1 m) Settlement Size[3]	$275,850	$293,927	$18,077	7	
		- Average Large Claim (>$1 m) Settlement Size[3]	$4,955,493	$4,400,000	($555,493)	(11)	The size of recently finalised and reported large medical malpractice claims has been lower than the historical average, which has led to a reduction in the assumed average size of large claims.

1 2 3 The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.

The above accountability indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

Objective	Accountability Indicators	Original Target 2018-19	Actual Result 2018-19	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Satisfy or settle claims in relation to territory risks - continued	j. Insurance claims data - continued:					
	Property and Motor					
	- Discounted Mean Term (for Outstanding Claims)[1]	1.02 Years	1.54 Years	0.52 Years	51	There were significantly fewer small property claims finalised than expected in this 12-month reporting period due to processes involved in substantiating and reimbursing the loss as well as an increase in volume of claims. In response to this recent experience the assumptions used in the actuarial valuation of the discounted mean term is that these claims will take longer to settle.
	- Ultimate Claim Numbers[2]	55	90	35	64	There was a significantly larger number of claims reported than expected in the 2019 insurance year. This has resulted in an increase in the assumed ultimate number of claims for this insurance year compared to the original target.
	- Average Small Claim (<$1 m) Settlement Size[3]	$64,882	$77,582	$12,700	20	Although there are more claims reported, there were fewer small property claim finalisations than expected with the outstanding open claims having a higher assumed cost which has resulted in an increase in the average size.

1 2 3 The discounted mean term, ultimate claims numbers, and the average claim settlement size are defined and explained further in the accompanying notes.

The above accountability indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*.

The above Statement of Performance should be read in conjunction with the accompanying notes.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

Objective		Accountability Indicators	Original Target 2018-19	Actual Result 2018-19	Variance		Explanation of Material Variances (>10%)
					Amount	%	
Develop and promote good practices for the management of territory risks	k.	Provide Risk Profile Reports to assist agencies by profiling and measuring their risk management progress.	Bi-annual reports provided to agencies	Risk Profile reports were issued in September 2018 and May 2019	-	-	
	l.	Deliver a program of general and targeted risk management training courses to territory agencies	12	24	12	100	The number of training programs held was higher than the original target due to an increased demand from directorates as a result of the release of the revised ACT Government Risk Management Policy.
	m.	Overall participant satisfaction with risk management training sessions delivered to agency staff members.	>90%	98.9%	-	-	
Give advice to the Minister about insurance and the management of territory risks	n.	Provide briefing material on the agency annual insurance premiums.	Brief provided to the Minister	Brief provided to the Minister	-	-	
	o.	Provide briefing material on the Authority's reinsurance program.	Brief provided to the Minister	Brief provided to the Minister	-	-	
	p.	Provide briefing material on the Authority's Capital Management plan.	Brief provided to the Minister	Brief provided to the Minister	-	-	

The above accountability indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*.

The above Statement of Performance should be read in conjunction with the accompanying notes.

Notes

a. Surveys are sent to a range of agency contacts including Directors-General, Chief Executive Officers and other key stakeholders of ACT Government directorates and statutory authorities insured by the Authority. Respondents are asked to rate the quality of different aspects areas of the Authority's services based on their experiences over the past 12 months. For questions relating to specific areas of service the satisfaction levels are determined by the respondents selecting either very good, good, average, poor or very poor. Very good and good responses are taken as a positive result. For the questions relating to the overall satisfaction of insurance management services the respondent is asked to select either very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied or very dissatisfied. Very satisfied or satisfied responses are taken as a positive result.

b. The Authority completes an annual review of agency insurance premiums, with assistance from the Authority's actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd. The actuarial approach relies on assumptions about the estimated future number of claims, the estimated average settlement size, expected inflation rates and investment returns. Annual premiums are allocated to agencies based on their claims history, asset ownership, risk profile and the actuarial advice.

c. The funding ratio is calculated by dividing total assets by total liabilities. The Authority aims to maintain its capital position between 100-120% as outlined in the Authority's capital management plan. A capital position outside this range requires the Authority to consider corrective action. The parameters outlined in the Authority's capital management plan guide decision making to address a capital position outside the targeted ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation) to the ACT Government.

d. The Authority's general and administrative expenses which includes employee and superannuation expenses along with supplies and services and is calculated as a percentage of gross earned premiums and is measured against the budgeted results for the Authority.

e. The Authority generally processes payments for the settlement of claims on a fortnightly basis. The number of days to process a payment is measured from the date all required documentation relating to settlements is received by the Authority to the date payment is made.

f. The Authority completes an annual review of the Territory's insurance arrangements. This includes a review of the Territory's reinsurance program structure, an analysis of market conditions and the suitability of policy terms and conditions.

g. The Authority completes a review of the replacement value of assets detailed in the Territory's asset schedule as part of the property reinsurance renewal.

h. The Authority's property reinsurers conduct an annual property loss control survey program on selected Territory locations. Property loss control reports identify the potential for property loss and assist agencies to reduce the risks of loss through loss prevention efforts. Recommendations are communicated to surveyed Territory agencies for consideration.

i. The Authority conducts quarterly claims review meetings to review all liability and medical malpractice claims where the Territory's reserve exceeds $250,000. Meetings are also attended by representatives of the ACT Government Solicitor's Office, the Authority's insurance brokers (Marsh Pty Ltd) as well as external insurers and their solicitors.

j. The measure for insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd. The 'original target' were based on actuarial assumptions provided during the mid-term estimate of outstanding claims liabilities at 31 December 2017 and the 'actual results' are based on the valuation at 30 June 2019. These valuations are based on claims experience and include actuarial assumptions of growth, such as, population and price indexation.

   The actuarial assumptions provide the basis for establishing the Authority's outstanding claims liabilities and measuring the impact of action taken by the Authority to influence that outcome. The Authority works with agencies and the Authority's legal advisors to develop strategies to reduce the occurrence and cost of insurance claims against the Territory by promoting the implementation of good risk and claim management practices.

   The data displays an actuarial assessment of the discounted mean term to finalise claims, ultimate claims numbers, and the average cost of large and small claims.

   Discounted Mean Term, Ultimate Claim Numbers and Average Settlement Size

   1 The discounted mean term is the average time it takes to make payments of settlements with the discount rate applied. The payments are weighted according to the size of the settlement. Small payments have less weighting and large payments have a greater weighting on the mean term.

     Applying a lower discount rate means the value of payments in the future increases resulting in an increase to the discounted mean term whereas a higher discount rate will lower the payment value in the future resulting in a decrease to the discounted mean term. If discount rates change, the value of the expected future payments also change. Applying discount rate changes to payments due in the near future has little or no impact whereas payments due further into the future will have a higher impact.

     The average weighted discount rate used in the valuation of 'actual results' for the average claim settlement size was 1.45% (discount rate of 2.89% was used for the original target) resulting in an increase to discounted mean terms for those insurance classes with larger long-term payments.

Notes - continued

2. The ultimate number of claims for each insurance class is the estimated total number of claims expected to emerge from each insurance year. The ultimate number of claims is estimated by analysing historical claim reported values and applying them to the observed claims reported to date in order to predict the timing and number of future claims reported.
3. For medical malpractice, property and motor and public liability insurance classes, the Authority has adopted the average settlement size for small and large claims based on historical claims experience. Further to this the assessment of the outstanding claims liability allows for future inflation and average weighted inflation rates. The rate applied to the valuation of actual results was 2.15% (inflation rate of 3.59% was used for the original target).

k. Risk Profile Reports are provided to directorates, the reports contain a detailed analysis of claim numbers and costs by insurance class and provide a comparison of their directorate against the whole of ACT Government. The reports are provided biannually.

l. The Authority delivers a program of risk management training that covers general introductory and intermediate to advanced level risk management, along with entity specific training tailored to meet agency requirements.

m. Attendees of risk management training sessions are requested to complete feedback forms at the completion of the courses delivered by the Authority. Attendees are asked to assess the course based on areas such as, course suitability, facilitators' knowledge and whether they would recommend the training. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree or strongly disagree. Strongly agree and agree are taken as a satisfied result.

n. The Authority prepares a brief for the Minister each year seeking agreement to the annual premiums charged to agencies for inclusion in the ACT Government budget.

o. The Authority prepares a brief for the Minister each year seeking agreement to proceed with renewal of the Territory's reinsurance program on the best available terms in the London and Australian insurance markets for the following insurance year.

p. The Authority prepares a brief for the Minister each year seeking agreement on the Authority's Capital Management Plan.

The above accountability indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*.

GLOSSARY OF TECHNICAL TERMS

Actuary

An actuary uses complex mathematical methods to analyse past loss data and other statistics to develop systems for determining outstanding claims liability and future premiums.

Catastrophe

A major event giving rise to multiple losses across multiple agencies (e.g. a hailstorm, cyclone or earthquake).

Claims Incurred

The expenses relating to claims arising from risks covered during an accounting period, including claims paid, claims outstanding and claims settlement expenses associated with such risks.

Claims Incurred But Not Enough Reported/Recorded ("IBNER")

The understatement of the cost of claims reported prior to the close of an accounting period for which the insurer had insufficient information to be able to make an assessment of the amount of the claims.

Claims Incurred But Not Reported ("IBNR")

Claims arising from incidents occurring prior to the close of an accounting period which are expected to be reported in subsequent accounting periods.

Claims Reported

Claims resulting from accidents or occurrences which have taken place and of which the insurer has received notice or report of loss.

Directors' and Officers' Insurance

Provides management liability cover for negligent acts, errors or omissions arising because of a person's status as a "Manager".

Discount Rate

Outstanding claims include a discount to allow for interest that is expected to be earned on investments until claims are paid. A lower discount rate reduces the amount of expected interest and therefore increases the claim liability.

Earned Premiums

The amount of the total premium payable (i.e. the gross written premium) that relates to the proportion of the risk covered which has expired up to the date of calculation.

Insurance Claim

An insurance incident which has developed to the stage where there has been a demand for compensation which may or may not involve legal proceedings.

Insurance Incident

An incident or event that may give rise to an insurance claim at a future date.

Insurance Year

1 July to 30 June.

Long-tail Claims

Long tail claims are claims that are made or settled a significant time after the incident occurred. Typically, long tail claims would occur under the public liability and medical negligence policies.

Medical Malpractice Insurance

Insurance for healthcare services and providers against claims alleging negligent acts or omissions that have harmed third parties.

Outstanding Claims

The estimated amount of unpaid claims and claims settlement expenses for which an insurer is liable. The estimate will usually include:

> case estimates for reported claims;

> provision for IBNER claims costs; and

> provision for IBNR claims costs.

Professional Indemnity Insurance

Insurance against claims alleging that professional advice or service provided by the Territory has caused a financial loss to third parties.

Property Insurance

Insurance against loss or damage to property that is owned by the Territory or for property that is required to be insured through a contract or agreement.

Public Liability Insurance

Insurance against claims of personal injury or property damage that a third party suffers (or claims to have suffered) as a result of the Territory's negligence.

Reinsurance

Is a practice where an insurance company transfers a portion of its risks to another insurance company (the reinsurer) in order to mitigate the impact of catastrophic losses.

Reinsurance Recoveries

The amount recovered or recoverable under a contract of reinsurance as a result of claims paid on the occurrence of an event, or series of events, specified as being reinsured.

Risk Management

Risk management is the combination of culture, systems and processes undertaken by an entity in the identification and management of risk.

Settlement Costs

The costs incurred by an insurer in connection with settling claims. These may include not only the amount paid to the insured but also indirect costs related to handing claims (e.g. the salaries of staff in the claims handling area, and solicitors' fees).

Superimposed Inflation

Superimposed inflation is the tendency for payments to increase over time at a faster rate than a suitable standard measure of inflation. This can be driven by factors such as increases in court settlement sizes and an assumption is set considering any superimposed inflation present in the portfolio and industry superimposed inflation trends.

Underwriting Result

This is the surplus or deficit that emerges after reinsurance cost, unearned premiums, claims expenses and underwriting expenses applicable to a period are deducted from premium revenue.

It is a deficient measure in that it does not have regard to investment earnings arising on insurance funds held (i.e. unearned premium and claims provisions).

ALPHABETICAL INDEX