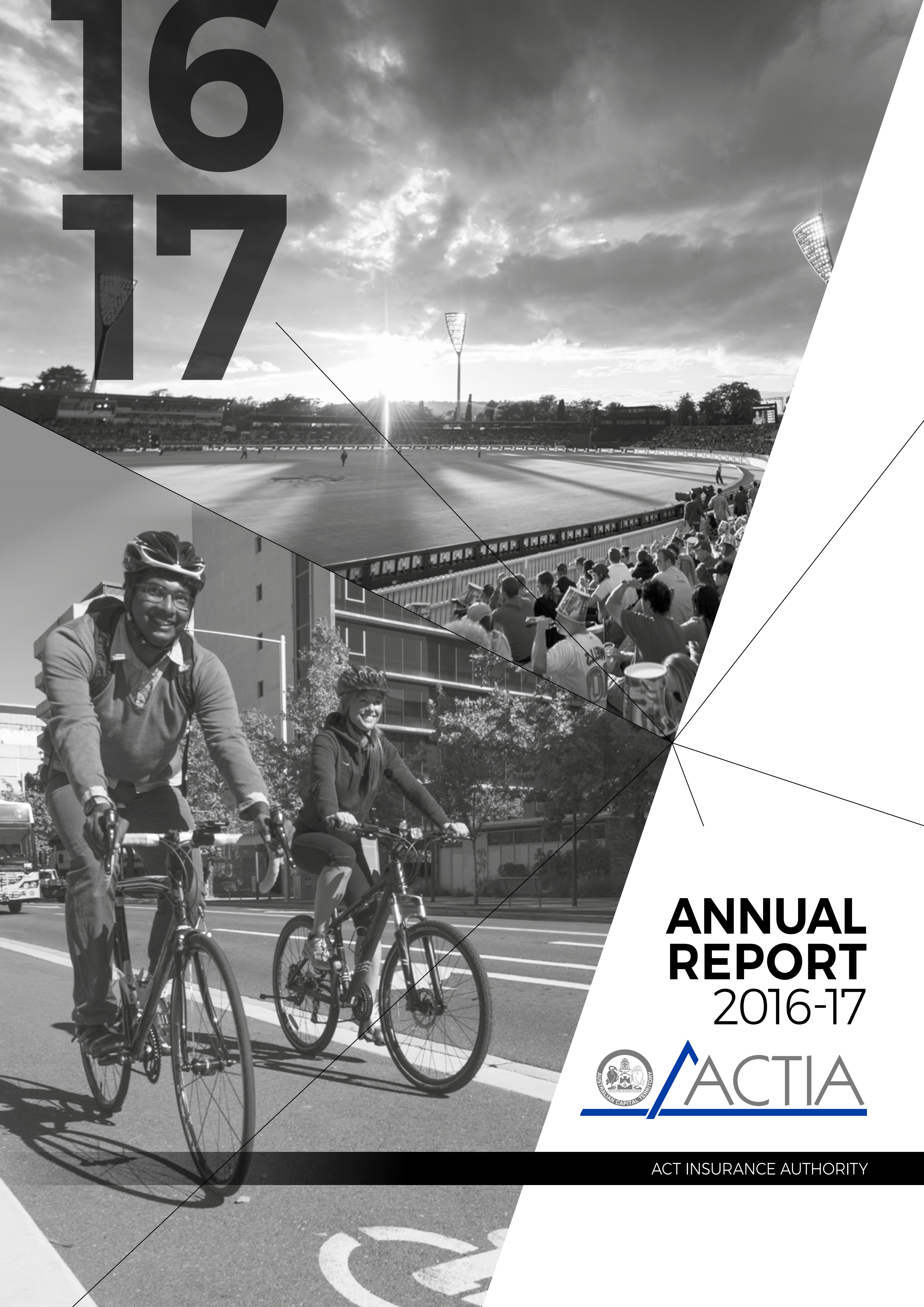
ANNUAL REPORT 2016-17

ACTIA

ACT INSURANCE AUTHORITY



ANNUAL REPORT
2016-17

ACTIA

ACT INSURANCE AUTHORITY

ACT Insurance Authority

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the ACT Insurance Authority Act 2005. The Authority meets the insurable claims and losses of ACT Government agencies.

The Authority reports to the Treasurer and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each agency.

The Authority may be contacted at:

GPO Box 158
Canberra City ACT 2601

Further information is available from:

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Website: http://apps.treasury.act.gov.au/insurance-and-risk-management

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PART 1

A. TRANSMITTAL CERTIFICATE AND COMPLIANCE STATEMENT

ACTIA
Australian Capital Territory Insurance Authority

Mr Andrew Barr MLA
Treasurer
ACT Legislative Assembly
PO Box 1020
Canberra ACT 2601

Dear Treasurer

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2017.

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 2016 to 30 June 2017.

I hereby certify that fraud prevention has been managed in accordance with Public Sector Management Standards, 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
5 October 2017

GPO Box 158, Canberra ACT 2601 | phone: 6207 0184 | http://www.cwd.act.gov.au/act-insurance-authority
3rd floor, Canberra Nara Centre,
Cnr London Circuit & Constitution Avenue, CANBERRA CITY

COMPLIANCE STATEMENT

The ***2016-17 ACT Insurance Authority Annual Report*** must comply with the 2017 Annual Report Directions (the Directions). The Directions are found at the ACT Legislation Register: www.legislation.act.gov.au.

The Compliance Statement indicates the subsections, under the five parts of the Directions that are applicable to the ACT Insurance 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 records keeping of annual reports. The ***2016-17 ACT Insurance Authority Annual Report*** complies with all subsections of Part 1 under the Directions.

In compliance with Section 13 Feedback, Part 1 of the Directions, contact details for the Authority are provided within the ***2016-17 ACT Insurance Authority Annual Report*** to provide readers with the opportunity to provide feedback.

PART 2 DIRECTORATE AND PUBLIC SECTOR BODY ANNUAL REPORT REQUIREMENTS

The requirements within Part 2 of the Directions are mandatory for all directorates and public sector bodies and the Authority complies with all subsections. The information that satisfies the requirements of Part 2 is found in the ***2016-17 ACT Insurance Authority Annual Report*** as follows:

A. Transmittal Certificate, see page 6.

B. Organisational Overview and Performance, inclusive of all subsections, see page 8.

C. Financial Management Reporting, inclusive of all subsections, see page 24.

PART 3 REPORTING BY EXCEPTION

The Authority has nil information to report by exception under Part 3 of the Directions for the 2016-17 reporting period.

PART 4 DIRECTORATE AND PUBLIC SECTOR BODY SPECIFIC ANNUAL REPORT REQUIREMENTS

Part 4 of the 2017 Directions is not applicable to the Authority.

PART 5 WHOLE OF GOVERNMENT ANNUAL REPORTING

All sections 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:

N. Community Engagement and Support, see the annual report of the Chief Minister, Treasury and Economic Development Directorate;

O. Justice and Community Safety, including all subsections O.1 – O.4, see the annual report of the Justice and Community Safety Directorate;

P. Public Sector Standards and Workforce Profile, including all subsections P.1 – P.3, see the annual State of the Service Report; and

Q. Territory Records see the annual report of the Chief Minister, Treasury and Economic Development Directorate.

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

As required by Australian Auditing Standards, the ACT Audit Office checks financial statements included in annual reports (and information accompanying financial statements) for consistency with previously audited financial statements. This includes checking the consistency of statements of performance with those statements previously reviewed (where a statement of performance is required by legislation).

B. ORGANISATIONAL OVERVIEW AND PERFORMANCE

B.1 ORGANISATIONAL OVERVIEW

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *ACT Insurance Authority Act 2005* (the Act).

The Act establishes the Authority as the ACT Government's captive insurer providing insurance services to all ACT Government directorates and statutory authorities, to meet the insurable claims and losses of ACT Government agencies.

The Authority's captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its reinsurance arrangements, and the accumulation of a fund reserve to meet the cost of future legal liabilities and asset losses generated through the activities of Government.

The Authority works to protect the assets and services of the Territory by providing insurance services and risk management to a large and diverse group of ACT Government client agencies and entities.

The portfolio represents over $24 billion of insured assets, with annual premium revenue of $51.1 million, and $346 million in investments and other assets.

The Authority reports to the Treasurer through the Under Treasurer Chief Minister, Treasury and Economic Development Directorate and is financed through risk-based premiums that reflect the asset holdings and liability risks faced by each insured agency.

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

The Advisory Board continues to provide important and valuable support to the Authority, particularly in relation to a strategic approach to its reinsurance program, the identification of emerging risks and improvements to risk and claims management services. Details of Board members' qualifications and experience appear under Advisory Board in Section B.1.4.

The Authority also performs the function of Fund Manager for 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.

B.1.1 FUNCTIONS

The functions of the Authority are specified in Section 8 of the Act and include:

> to carry on the business of insurer of Territory risks;

> to take out insurance of Territory risks with other entities;

> to satisfy or settle claims in relation to Territory risks (including claims that may not necessarily be valid in law);

> 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 Treasurer about insurance and the management of Territory risks;

In addition, the Authority also performs the function of:

> the Office of the Nominal Defendant of the ACT, for claims against uninsured/unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and

> the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

B.1.2 CLIENTS

The Authority insures all ACT Government directorates and statutory authorities. The core services provided to directorates are: insurance via indemnity agreements, claims and risk management services.

The insurance coverage provided is broad form cover that includes:

> public liability;

> medical malpractice;

> professional indemnity;

> property damage; and

> others including standing timber, specialised motor, overseas travel, directors and officers and financial crime.

B.1.3 ORGANISATIONAL STRUCTURE

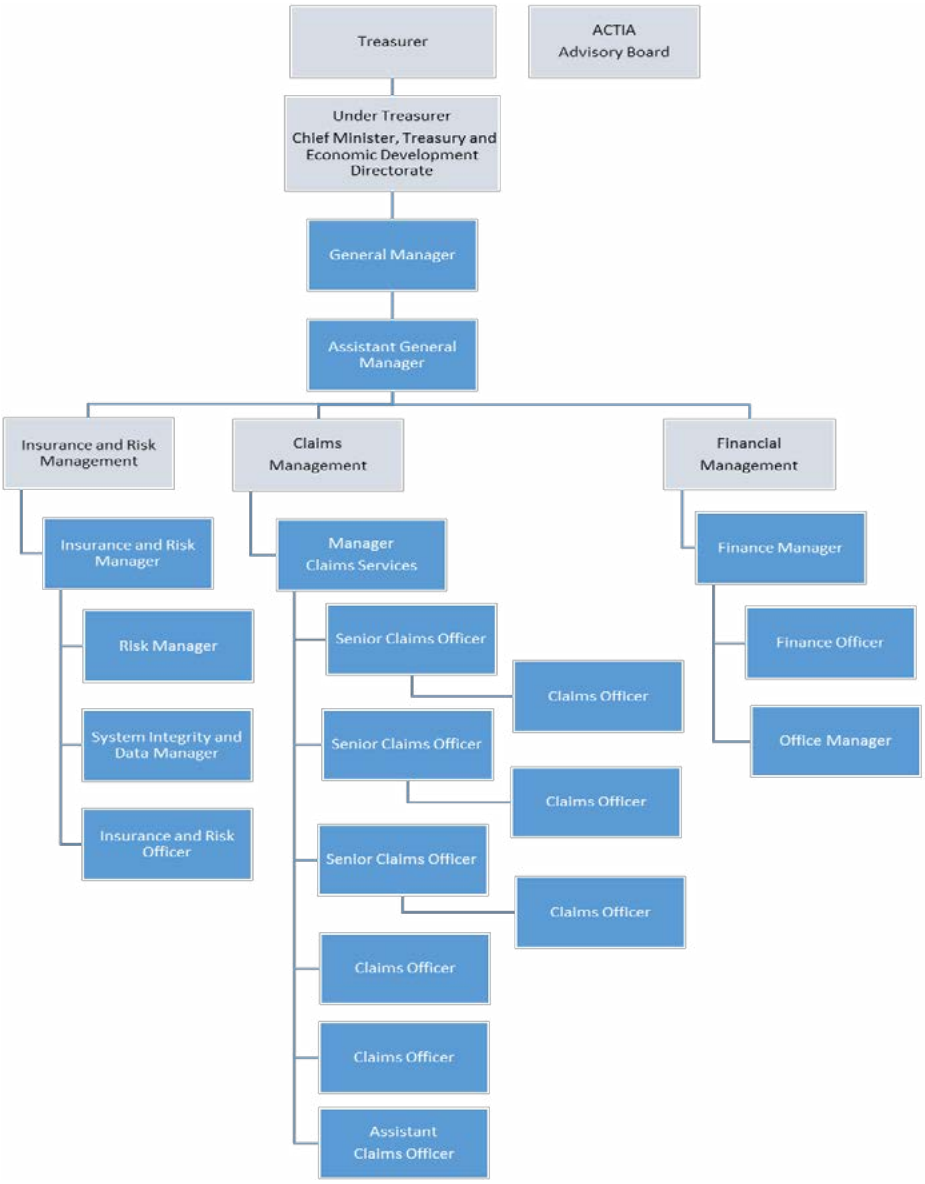
The Authority operates under the *Insurance Authority Act 2005*. Under the *Financial Management Act 1996* the Authority is responsible to the ACT Treasurer through the Chief Executive Officer for the efficient and effective financial management of resources. The delegate for the Chief Executive Officer is the Under Treasurer and the Authority operates under the Chief Minister, Treasury and Economic Development Directorate.

The Authority delivers services through three streams: Insurance and Risk Management; Claims Management; and Financial Management.

Executive Remuneration

Executives employed by the Authority were 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*.

The organisational structure of the Authority at 30 June 2017 is as follows:



Note: The Authority undertook an organisational re-structure during the reporting period which involved the Authority absorbing one FTE position from the Default Insurance Fund and creating an additional FTE due to an increase in required resources.

B.1.4 INTERNAL ACCOUNTABILITY

Advisory Board

The Board is appointed under Section 12 and 14 (2) of the Act in accordance with *Insurance Management Guidelines 2005* (No. 1). The Board must consist of two members appointed by the Authority who must, in the opinion of the Authority, possess sufficient skill and judgement with respect to the following:

> at the request of the Treasurer or the Authority, provide advice to the Treasurer or the Authority on any question relating to the exercise by the Authority of its powers, functions or duties under the Act; and

> if, in the opinion of the Board, it should provide advice to the Treasurer or the Authority on any matter relating to the exercise by the Authority of its powers, functions or duties under the Act—providing advice on its own initiative.

In regard to these appointments, the Under Treasurer, Chief Minister, Treasury and Economic Development Directorate is the Authority and the appointees are selected based on skills relevant to the above requirements. Appointment terms 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 Board members are:

Name of Member	Position	Duration	Meetings Attended
Mrs Maxine McDowell	Chair	July 16 to June 17	4 of 4
Mr David Sandoe	Member	July 16 to June 17	4 of 4

Mrs Maxine McDowell (Chair) - Grad Mgt. UTS, ANZIIF (Fellow) CIP. Mrs McDowell has had over 45 years' experience in general insurance underwriting, risk management, marketing and claims. This experience includes underwriting management roles with Vero Insurance, QBE Insurance, Calliden Insurance Group and Harbour Pacific Underwriting Management as well as undertaking consulting roles with Finserv Consulting, CHU Underwriting Agencies, National Insurance Brokers Association (NIBA) and Marsh. She has been a named underwriter for managing agents at Lloyds of London and has conducted compliance and underwriting audits on behalf of Lloyds. She has represented NIBA on the Insurance Council Catastrophe Insurance Taskforce, and lectured in Property Insurance at the University of Technology, Sydney. She is now consulting on various general insurance and insurance broker matters, delivers compliance and technical training and is active in mentoring programs. She is an Honorary Life Member, 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 46 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 an independent 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) and Prostate Cancer Foundation of Australia. He retired as National Chairman of Prostate Cancer Foundation of Australia on 31 March 2015.

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

The Board met on four occasions during 2016-17 and was consulted on the following issues:

> reinsurance program for 2017-18;

> actuarial and financial matters;

> operational structure;

> review of major claims; and

> risk management matters.

B.1.5 ACHIEVEMENTS

Major achievements during the 2016-17 year were:

Reinsurance Program Placement 2017-18

The Authority's key operational priority is the placement of the Territory's annual insurance and reinsurance program, developed to protect the Territory from losses resulting from a catastrophic event or an accumulation of insurable losses.

The Authority completed a review of the insurance and reinsurance structure to confirm suitability of these arrangements including consideration by the ACTIA Advisory Board of short and long term strategic objectives. The 2017-18 renewal strategy tested the current program structure and pricing with incumbent insurance and reinsurance providers across all insurance classes.

As a result, the Authority was able to attract excess capacity in the insurance and reinsurance market which secured 100 per cent placement of the 2017-18 program at a cost of $6.6 million, resulting in a saving of $0.3 million compared with the cost of the 2016-17 program. The result represents an excellent outcome from a financial position and also assists to position the Territory's risk profile with the insurance and reinsurance market.

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

Claims Management Restructure

During 2016-17, the Authority undertook an organisational restructure of its claims function. This process included the consolidation of the three claims management functions delivered by the Authority, for claims against the Territory, the Default Insurance Fund and the Office of the Nominal Defendant of the ACT. In addition to the consolidation a new leadership position of Manager Claim Services was created to oversee the new team.

The creation of the leadership position and consolidation of the separate teams provided an opportunity to improve the overall performance of the team. This included the consolidation of like skills and capabilities, alignment of data management and ICT systems to improve data quality, efficiency, enhance flexibility and responsiveness, increase levels of communication and collaboration between functional elements across the Authority.

The combined claims management team continues to focus on meeting key claims management operational deliverables consistent with the requirement of the *Law Officers (General) Legal Services Directions 2012* and business best practice.

Reduction in Outstanding Claims Liability

The Authority completed a valuation of its outstanding claims liabilities as at 30 June 2017. The valuation resulted in a decrease of $10.1 million on the outstanding claims liabilities.

This decrease is predominantly due to revised economic and actuarial assumptions. The actuaries forecast that there will be fewer claims reported. Also large claims for medical malpractice and public liability have settled earlier than expected causing a reduction in the outstanding claims liabilities.

Risk Management Support

The Authority's risk management team continue to work with directorates to promote best practice risk management within the Territory. The team provides a range of consultancy services to senior officers and staff involved in the delivery of a range of operational programs and capital works projects. This consultancy support includes a number of activities such as:

> facilitating general risk assessment workshops;

> facilitating project specific risk assessments;

> support of risk management and audit committees within directorates;

> presentations to senior management teams and/or directorate interest groups; and

> provision of risk specific training.

The strong working relationship of the Authority's risk management team with directorate staff at all levels allows the risk management team to respond to directorate needs in the provision of services offered.

B.1.6 OUTLOOK AND FUTURE PRIORITIES

The Authority will continue to work with Territory agencies and entities to protect the assets and services of the Territory by providing high quality risk management and insurance services.

The Territory's outstanding claims liabilities profile continues to mature. The majority of the Authority's claims are long tailed in nature, which means that claims often take many years to settle.

The Authority's ability to value outstanding claims liabilities will be further informed by the accumulation of claims data including claims experience information. Further revisions of the outstanding claims liabilities are expected as the Authority's portfolio continues to mature.

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 claims liabilities. 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 are expected to remain stable in the short-term, although there are signs in the market that property premium rates will begin to increase in the medium to long-term. The medical malpractice and public liability insurance classes are expected to remain competitive. This situation is expected to continue on the back of a surplus of capital available in the market and increased levels of completion between insurers looking to maintain market share.

The Authority will continue working with agencies to develop strategies to reduce the incidence and cost of insurance claims against the Territory by promoting the implementation of 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 intends to deliver the following key strategies in 2017-18 to achieve its objectives:

> implementing a reinsurance program 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 within the Territory that reflect international standards and business best practice;

> delivering a program of targeted risk management seminars for agencies that increase the level of stakeholder engagement on relevant topics;

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

> developing a long term investment strategy with investment options that target investment returns and strategic asset allocation.

B.2 PERFORMANCE ANALYSIS

The Authority has met and in many cases exceeded accountability indicator measures as detailed in the *Authority's 2016-17 Statement of Intent*.

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 Customer Service Charter details the standards that agency customers can expect when doing business with the Authority. To measure our effectiveness against these commitments the Authority surveyed agencies to identify their level of satisfaction with the services provided.

Surveys were sent to 65 agency insurance contacts including the Directors-General of all ACT Government directorates and statutory authorities insured by the Authority.

The survey asked respondents to rate their level of satisfaction against key areas of service delivery including insurance management services, claims management, annual insurance renewal and financial management services. The Authority received 29 responses from a cross section of agency clients who indicated high levels of satisfaction with the services provided by the Authority.

Survey respondents identified a number of key elements of service provision that supported overall satisfaction levels. These areas include: the support provided when managing claims matters; support provided to procurement and capital infrastructure project teams; the strength of the Authority's network of risk management and insurance providers and our strong relationships with directorate insurance contacts.

The Authority continues to work with customers to enhance the level of service provided and to identify and clarify those areas in which its performance does not meet expectations.

Determine annual insurance premiums for Territory agencies

Outcome

The Authority completed an annual review of agency insurance premiums, with assistance from the fund actuary, PricewaterhouseCoopers Actuarial Pty Ltd for the 2017-18 insurance year. Premiums are determined based on agency claims history, asset ownership and overall risk profile.

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.

In summary, the Authority manages its capital position between the ranges of 100 – 110 per cent with an adopted target funding ratio 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 returning excess capital (in a surplus situation).

This position seeks to strike a balance between the appropriate and prudential management of the Territory's risk, while allowing suitable mechanisms to return capital in instances where the updated actuarial advice suggests a lower risk profile moving forward than originally anticipated. Unwarranted over provisioning of risk unnecessarily restricts the Government's budgetary flexibility.

As a trade-off, the plan also contemplates a mechanism to allow a request for capital injection (as has happened in the past), where the profile moving forward, for some reason, is revised upwards.

The Authority's funding ratio as at 30 June 2017, is 138 per cent following the return of $50 million of surplus capital in March, which equated to a balance sheet surplus of $94.5 million, with the Authority forecasting capital funding positions for 2017-18 and the next years as follows:

Balance Sheet	Actual 30 June 2016	Actual 30 June 2017	Forecast 30 June 2018	Forecast 30 June 2019	Forecast 30 June 2020	Forecast 30 June 2021
Assets	$377.4	$345.5	$374.7	$400.4	$426.3	$451.0
Liabilities	$257.8	$250.1	$285.5	$310.1	$336.1	$362.2
+/- $	$119.6	$94.5	$89.2	$90.3	$90.2	$88.8
Funding Ratio	146%	138%	131%	129%	127%	125%
Capital Return	$60 million	$50 million	-	-	-	-

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

Outcome

General and administrative expenses represent 6 per cent of ordinary revenue. This is one per cent higher than the target of five per cent.

The Authority operated slightly higher than the budgeted amount for general and administrative expenses in 2016-17.

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 Reimburse Agencies' Settlements

Outcome

During 2016-17 it took an average of eight days to process payment for the settlement of insurance claims. This is two days less than the target of ten days. Claim payments are processed as a priority.

Review the Territory's insurance and reinsurance program

Outcome

The Authority completed an annual review of the Territory's insurance and reinsurance programs that included a review of the Territory's risk profile, reinsurance program structure, an analysis of market conditions and the suitability of insurance policy terms and conditions.

The review outcome was presented to the Authority's Advisory Board who provided advice to the Under Treasurer and the Authority's General Manager on the suitability of the proposed 2017-18 reinsurance program.

The Authority was able to achieve placement of 100 per cent of the Territory's reinsurance program for 2017-18 with the London and Australian reinsurance markets within budget. The program renewal for the 2017-18 insurance year included an increase in the value of insured assets that totals $24 billion and growth in the general Territory wide risk exposure.

The Authority was able to place the Territory in a healthy position with the insurance and reinsurance market and achieved a premium saving of $0.3 million on the reinsurance renewal, without compromising long term relationships with lead underwriters in the Australian and London reinsurance markets.

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 undertook a review of the Territory's insurance assets schedule and replacement values nominated by agencies in their annual insurance declaration. The Authority worked with individual agencies to refine the detail included in schedules for inclusion in the Authority's property reinsurance renewal.

Facilitate the implementation of agreed recommendations from property loss control surveys

Outcome

The Authority's lead property reinsurer undertakes an annual program of property surveys in consultation with the Authority and Territory agencies. A selection of key 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 property protection and emergency management systems. The surveys in 2016-17 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

Quarterly claims review meetings were held during 2016-17 to review all liability and medical malpractice claims where the Territory's reserve exceeds $250,000. The claim review meetings were attended by Authority staff and representatives of the ACT Government Solicitor's Office, the Authority's insurance brokers, Marsh Pty Ltd, as well as external insurers and their solicitors. 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 the ultimate insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial 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.

Further information regarding the actuarial process and the assumptions used appears in the Authority's Financial Statements at Appendix D: Changes in Accounting Estimates.

B.2.4 DEVELOP AND PROMOTE GOOD PRACTICES FOR THE MANAGEMENT OF TERRITORY RISKS

Provide Risk Management Profile Reports

Outcome

In October 2016 and March 2017, the Authority issued Risk Profile Reports to Directors-General, with additional distribution to agency officers involved in management of operational insurance and risk management.

The reports contained a detailed claims history, claims costs and assists 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.

Conduct general and targeted risk management training courses

Outcome

The Authority's risk managers delivered fourteen general and targeted risk management training sessions to approximately 238 Territory staff in 2016-17. The courses remain popular and are consistently well attended by a range of Territory staff including senior executive managers, senior officers and operational staff.

The Authority has also delivered an increased number of tailored training solutions directly to directorate business units. These have included courses to provide Territory staff with an understanding of the ACT Government Risk Management Framework and introductory level courses where training exercises relate specifically to attendees' job roles. The various training initiatives were a mixture of half day and full day training sessions.

Overall participant satisfaction with risk management training sessions delivered to agency staff

Outcome

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

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

When prompted if they were satisfied with the risk management training courses overall, 99.5 per cent of respondents indicated that they were.

B.2.5 GIVE ADVICE TO THE MINISTER ABOUT INSURANCE AND THE MANAGEMENT OF TERRITORY RISK

Annual Insurance Premium Allocation

Outcome

The Authority prepared a brief for the Chief Minister and Treasurer in early 2017 to seek approval for the annual agency insurance premiums for inclusion in the 2017-18 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 by the Chief Minister and Treasurer for the Authority to proceed with the renewal of the Territory's reinsurance program on the best available terms and conditions in the London and Australian insurance markets for the 2017-18 year.

The brief provided background information on the process applied to the development of the proposed reinsurance program including a summary of current insurance market conditions in the medical malpractice, public liability, property and directors and officers insurance classes.

The Authority subsequently placed the Territory reinsurance program for 2017-18 with the London and Australian insurance market and achieved a premium savings of $0.3 million.

Authority's Annual Report

Outcome

The Authority prepared a brief to provide the Chief Minister and Treasurer with a copy of the Authority's 2015-16 Annual Report.

The brief provided key points of the Authority's financial performance for the reporting year as well as a request for signature on the accompanying letter to the Speaker of the ACT Legislative Assembly in order to distribute the Authority's annual report to Members of the Legislative Assembly.

B.3 SCRUTINY

There were no inquiries or reviews from the ACT Auditor-General, the ACT Ombudsman, or any Legislative Assembly Committees in 2016-17. The only scrutiny from the Auditor-General during the reporting period was for the audit of the 2015-16 Financial Statements and the review of the 2015-16 Statement of Performance.

B.4 RISK MANAGEMENT

The Authority has developed and implemented a broad risk management plan in accordance with the ACT Government Risk Management Framework. The Authority's plan identifies and details risks and control measures and treatment plans for identified categories of risk including financial, business and ICT risks. The Risk Management Plan is reviewed annually.

B.5 INTERNAL AUDIT

During 2016-17 the Authority's internal audit functions were provided by the Chief Minister, Treasury and Economic Development Directorate Audit and Risk Committee (the Committee). The Committee's functions are governed by the Audit Committee Charter.

Membership includes an independent Chair, independent Deputy Chair, an executive member from another ACT Government agency and three appointees from within the Chief Minister, Treasury and Economic Development Directorate. A representative from the ACT Audit Office and advisors regularly attended meetings. The Executive Director, Corporate and the Chief Finance Officer attended as observers.

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

Name of Member	Position	Duration	Meetings Attended
John Gordon	Independent Member and Chair (end of appointment February 2017)	July 2016 to February 2017	2
Carol Lilley	Independent Member and Deputy Chair (until end of appointment February 2017) when appointed Chair	July 2016 to February 2017	2
Carol Lilley	Independent Member and Chair (appointed Chair February 2017)	March 2017 to June 2017	3
Peter Lewinsky	Independent Member and Deputy Chair	May 2017 to June 2017	1
Geoffrey Rutledge	CMTEDD Member	July 2016 to June 2017	5
Peter Murray	CMTEDD Member	July 2016 to June 2017	5
Ian Thompson	Independent Directorate Member	July 2016 to March 2017	0
Simon Tennent	CMTEDD Member	November 2016 to June 2017	2
Gary Rake	Independent Directorate Member	June 2017	0

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

The internal audit program required the Authority to complete one audit activity in 2016-17, the Default Insurance Fund and Office of the Nominal Defendant of the ACT database review.

B.6 FRAUD PREVENTION

The Authority conducts a risk assessment of its operational activities and its Fraud and Corruption Plan every two years. 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 year.

B.7 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 work safety representative;

> two qualified first aid officers; and

> one fire warden.

B.7.1 REPORTING REQUIREMENTS UNDER THE WORK SAFETY ACT 2011

During the reporting period 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. Resources are provided to ensure that all employees understand the basic principles of injury prevention and management.

The Authority was covered by the following CMTEDD Human Resource Management arrangements:

> *CMTEDD Corporate Framework; and*

> *CMTEDD Strategic People Plan 2015-2017.*

Details of the above arrangements are available in the Chief Minister, Treasury and Economic Development Directorate 2016-17 Annual Report.

B.8 HUMAN RESOURCES MANAGEMENT

The Authority was supported by the Shared Services Strategic Human Resources team within the Chief Minister, Treasury and Economic Development Directorate. This team provide strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the Chief Minister, Treasury and Economic Development Directorate 2016-17 Annual Report.

The Authority is committed to the *ACT Public Service Code of Conduct, ACTPS Performance Framework* and the *ACT Public Service Respect, Equity and Diversity Framework* to build a positive, inclusive and diverse work place.

Staff have been employed by the Authority on the basis of 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. The Authority has adopted a range of measures aimed at achieving that objective.

These include:

> 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.

B.8.1 LEARNING AND DEVELOPMENT

The key development and learning priorities for the Authority have been identified as risk management, insurance, finance and ICT. During 2016-17, staff undertook formal training courses and attended conferences and seminars in these areas. The cost of training courses undertaken in 2016-17 totalled $17,945. A number of the Authority's employees are either in the process of or have commenced long-term courses during the year which when completed will give them various formally recognised qualifications.

B.8.2 WORKPLACE RELATIONS

The Authority's staff are covered under the *ACT Public Service Administrative and Related Classifications Enterprise Agreement 2013-2017* that continues to apply. 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.8.3 STAFFING PROFILE

The following tables provide statistical information for permanent staff of the Authority for 2016-17:

FTE AND HEADCOUNT BY DIVISION/BRANCH

Division/Branch	FTE	Headcount
ACT Insurance Authority	17.6	18
Total	**17.6**	**18**

FTE AND HEADCOUNT BY GENDER

	Female	Male	Total
FTE by Gender	14.6	3.0	**17.6**
Headcount by Gender	15	3	**18**
% of Workforce	83.3%	16.7%	**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	**15**	**3**	**18**

HEADCOUNT BY EMPLOYMENT CATEGORY AND GENDER

Employment Category	Female	Male	Total
Casual	-	-	-
Permanent Full-time	14	2	16
Permanent Part-time	1	-	1
Temporary Full-time	-	1	1
Temporary Part-time	-	-	-
TOTAL	**15**	**3**	**18**

HEADCOUNT BY DIVERSITY GROUP

	Headcount	Percentage of Authority workforce
Aboriginal and Torres Strait Islander	-	-
Culturally & Linguistically Diverse	1	5.6%
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	2	-	**2**
25-34	2	-	**2**
35-44	7	-	**7**
45-54	4	1	**5**
55 and over	-	2	**2**

AVERAGE LENGTH OF SERVICE BY GENDER (HEADCOUNT)

	Female	Male	Total
Average years of service	7.8	11.9	**8.5**

RECRUITMENT AND SEPARATION RATES BY CLASSIFICATION GROUP

Division	Recruitment Rate	Separation Rate
Administrative Officers	22.5%	11.3%
Senior Officers	15.6%	31.1%
Executive Officers	-	-

B.9 ECOLOGICALLY SUSTAINABLE DEVELOPMENT

Section 158A of the *Environmental Protection Act 1997* requires agencies to report on actions and initiatives taken during the reporting period to support ecologically sustainable development.

The Authority applies appropriate management practices that are consistent with the principles of ecologically sustainable development. The Authority uses recycled paper and cardboard where possible and uses energy efficient office machines. Recycling bins are provided for staff. Where possible electronic communications are used in preference to paper.

Indicator as at 30 June	Unit	2015-16 Result	2016-17 Result	% Change
Authority Staff and Area				
Authority Staff	FTE	15.6	17.6	12.8
Workplace floor area	Area (m2)	214.46	258.12	20.4
Stationery Energy Usage				
Electricity use Renewable Electricity use Natural Gas use	Kilowatt hours Kilowatt hours Mega joules	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Transport Fuel Usage				
Total number of vehicles	Number	-	-	
Total kilometres travelled	Kilometres	-	-	
Fuel use – petrol	Kilolitres	-	-	
Fuel use – Diesel	Kilolitres	-	-	N/A
Fuel use – Liquid Petroleum Gas (LPG)	Kilolitres	-	-	
Fuel use – Compressed Natural Gas (CNG)	Kilolitres	-	-	
Water Usage				
Water use		Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Resource Efficiency and Waste				
Total Reams of paper purchased	Reams	285	312	9.5
Recycled content of paper purchased	Percentage	98.9%	99.4%	0.5
Waste to landfill Co-mingled material recycled Paper & Cardboard recycled (include Secure paper) Organic material recycled	Litres Litres Litres Litres	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A
Greenhouse Emissions				
Emissions from stationery energy use Emissions from Transport Total emissions	Tonnes CO2-e Tonnes CO2-e Tonnes CO2-e	Refer to Chief Minister, Treasury and Economic Development Directorate Annual Report		N/A

C. FINANCIAL MANAGEMENT REPORTING

C.1 FINANCIAL MANAGEMENT ANALYSIS

The Authority's financial results are reported in Part 2 of this report. Part 2 Section A of the *2015-16 ACT Insurance Authority Annual Report* contains the Authority's Management Discussion and Analysis.

C.2 FINANCIAL STATEMENTS

The Authority's financial results are reported in Part 2 Section B of the 2016-17 *ACT Insurance Authority Annual Report.*

C.3 CAPITAL WORKS

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

C.4 ASSET MANAGEMENT

The Authority has no assets other than furniture and fittings and investments. The Authority has some 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 Shared Services Procurement Solutions, 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.

C.5.1 EXTERNAL SOURCES OF LABOUR

Contracts with a total financial year cost greater than $25,000:

Contract Title	Procurement Methodology	Contractor Name	Contract Amount	Execution Date	Expiry/Extension Date
Insurance Broking Services	Public	Marsh Pty Ltd	$1,473,000	October 2012	September 2017
Provision of Actuarial Services	Public	PriceWaterhouseCoopers Actuarial Pty Ltd	$500,000	January 2013	January 2018

C.6 STATEMENT OF PERFORMANCE

The Authority's Statement of Performance is reported in Part 2 Section C of the *2016-17 ACT Insurance Authority Annual Report*. Narrative on the performance measures is also included in B.2 Performance Analysis.

PART 2

PART 2

A. MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

The Australian Capital Territory Insurance Authority (the Authority) is established under Section 7 of the *Insurance Authority Act 2005.*

The Authority operates as the captive insurer for the ACT Government and provides a range of insurance, claims and risk management services to ACT Government Directorates and Statutory Authorities.

The Authority operates on a cost recovery basis by collecting premiums from Directorates and Statutory Authorities to meet the cost of insurable claims and losses. The Authority's operating costs are largely driven by provisioning for future claims and current claims expense.

The Authority works to protect the assets and services of the Territory by providing a range of insurance services and risk management support to a large and diverse client base.

OBJECTIVES

The key objectives of the ACT Insurance 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 party's 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 and New Zealand Standard on risk management AS/NZS ISO 31000:2009 and the ACT Government's Risk Management Framework. 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's two key risks are external insurance arrangements being unsatisfactory and annual premiums not geared to fully fund claims over the claim development period. To manage these risks, the Authority uses skilled international insurance brokers and professional actuaries to access the world wide reinsurance market, spread risk and align premiums with claims experience as estimated by actuarial valuations.

FINANCIAL PERFORMANCE

The following financial information is based on audited Financial Statements for 2015-16 and 2016-17, and the forward estimates contained in the Authority's 2016-17 Statement of Intent.

The Authority's operating result for 2016-17 is a surplus of **$25.9 million**, being **$25 million** higher than the budgeted surplus of **$0.9 million.**

Underwriting Gain/(Loss)

1. Components of Underwriting Gain/(Loss)

For the financial year ended 30 June 2017, the Authority recorded a total gain of **$21.6 million**.

The largest components of the Authority's underwriting gain for 2016-17 were net earned premiums, which represent **$44.2 million**, and net incurred claims representing **($22.6) million**.

2. Comparison to Budget

The underwriting gain of **$21.6 million** was **$27 million**, higher than the 2016-17 budgeted loss of **($5.4) million**.

The underwriting result comprises:

Net Earned Premiums

Net earned premium of **$44.2 million** was **$0.7 million**, or **1.7 percent** higher than the 2016-17 Budget of **$43.5 million.** Net earned premiums is the collection of annual insurance premiums less reinsurance premium expense.

Net Incurred Claims

Net incurred claims of **($22.6) million** were **$26.3 million**, or **53.8 percent** lower than the 2016-17 Budget of **($48.9) million.** Net incurred claims is claims expense net of reinsurance recoveries and other underwriting income.

Claims expense was lower than budget by **$25.8 million**, this is mostly due to the changes in actuarial assumptions used to determine the Authority's outstanding claims liability and the subsequent claims expense. The changes in actuarial assumptions are due to actual claim payments being made earlier than expected.

3. Comparison to 2015-16 Actual

The underwriting gain of **$21.6 million** was **$14 million**, or **39.4 percent** lower than the 2015-16 actual result of **$35.6 million** due to a decrease in claims expense along with a reduction in gross earned premiums charged to agencies. The decrease in claims expense is the result of changes in actuarial assumptions used to determine the Authority's outstanding claims liability and the subsequent claims expense.

4. Future Trends

The underwriting result for 2017-18 is budgeted to be a loss of **($5.3) million**. This is a decrease of **$26.9 million** from the 2016-17 actual gain of **$21.6 million**. This is predominately due to an increase of **$25.7 million** for the claims expense which is expected to return to normal expected actuarial calculated levels for the cost of future claims.

Other Revenue

1. Components of Other Revenue

For the year ended 30 June 2017, the Authority recorded other revenue of **$14.2 million.**

The Authority collected **$11.3 million** in investment distributions and bank interest, and **$2.9 million** in other sources including an unrealised gain on investments, support services, contract works and external insurance contracts.

2. Comparison to Budget

Other revenue for the year ending 30 June 2017 was **$14.2 million**, which was **$3.2 million** higher than the 2016-17 budget of **$11 million**, this is predominantly due to higher than anticipated investment returns.

3. Comparison to 2015-16 Actual

Other revenue was **$14.2 million** in 2016-17, **$4 million**, or **22 percent** lower than the 2015-16 actual result of **$18.2 million**, due to a decrease in distributions and unrealised gains on investments compared to what was anticipated in the budget.

4. Future Trends

Other revenue for 2017-18 is budgeted to be **$13.1 million**. This is a decrease of **$1.1 million** from the 2016-17 actual result of **$14.2 million**, predominantly due to a lower forecast in returns from investments.

Other Expenses

1. Components of Other Expenses

For the financial year ended 30 June 2017, the Authority recorded other expenses of **$6.9 million.**

Other expenses includes expenses relating to contract works and external insurance contracts totalling **$2 million** along with an unrealised loss on the Fixed Interest Fund investment of **$4.8 million**.

2. Comparison to Budget

Other expenses for the year ending 30 June 2017 was **$6.9 million**, which was **$5.1 million** higher than the 2016-17 budget of **$1.8 million**, predominately due to the unrealised loss on investment in the Fixed Interest Fund, which was not budgeted.

3. Comparison to 2015-16 Actual

Other expenses was **$6.9 million** in 2016-17, **$5 million**, or **281 percent** higher than the 2015-16 actual result of **$1.8 million**, also due to the unrealised loss on investment in the Fixed Interest Fund in the current year.

4. Future Trends

Other expenses for 2017-18 is budgeted to be **$2 million**.

General and Administration Expenses

1. Components of General and Administration Expenses

For the financial year ended 30 June 2017, the Authority recorded general and administration expenses of **$3 million.**

The Authority paid **$2.1 million** in salaries and superannuation and **$0.9 million** in depreciation and supplies and services.

2. Comparison to Budget

General and administration expenses for the year ending 30 June 2017 were **$3 million**, which was equal to the 2016-17 budget of **$3 million**.

3. Comparison to 2015-16 Actual

General and administration expenses were **$3 million** in 2016-17 which was **$0.3 million** or **13.6 percent** higher than the 2015-16 actual result of **$2.7 million** due to an increase of **$0.3 million** in salary expenses due to the Authority absorbing resources from the Default Insurance Fund along with redundancies paid following an organisational restructure**.**

4. Future Trends

General and administration expenses for 2017-18 is budgeted to be **$3.3 million,** which is consistent with anticipated expenses.

FINANCIAL POSITION

In relation to the balance sheet, the Authority maintains an adequate asset position in order to meet the cost of future claim liabilities.

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2017 is **$345.5 million**. The Authority held **$5.2 million** of its assets in cash, **$165.5 million** in short-term investments and **$4.1 million** in other current receivables and prepayments. The Authority also held non-current assets of **$170.2 million** in long-term investments.

2. Comparison to Budget

The total asset position as at 30 June 2017 is **$345.5 million**, **$4 million** higher than the 2016-17 budget of **$341.5 million**. This is primarily due to an increase in funds invested and an increase in receivables compared to what was budgeted for.

3. Comparison to 2015-16 Actual

The Authority's total asset position of **$345.5 million** is **$31.9 million** lower than the 2015-16 actual position of **$377.4 million**. The decrease primarily reflects a reduction in investments due to a **$50 million** return of capital to the ACT Government in 2016-17, which was partially offset by an increase in invested funds.

4. Future Trends

Total assets for 2017-18 is budgeted to be **$374.7 million**. This is an increase of **$29.2 million** from the 2016-17 actual result of **$345.5 million,** this is due to an increase in invested funds from derived income sources.

Total Liabilities

1. Components of Total Liabilities

The majority of the Authority's total liabilities of **$250.1 million** relate to outstanding claims liabilities of **$238.5 million**. The outstanding claims consist of current liabilities of **$27.1 million** and **$211.4 million** in non-current liabilities.

2. Comparison to Budget

The Authority's liabilities at 30 June 2017 of **$250.1 million** were **$29.6 million** lower than the 30 June 2017 budget of **$279.7 million** due primarily to a decrease in the estimated outstanding claims liabilities as a result of changes in economic and actuarial assumptions compared to what was budgeted for.

3. Comparison to 2015-16 Actual

Total liabilities are **$7.7 million** lower than the 30 June 2016 actual result of **$257.8 million** primarily due to a decrease in the outstanding claims liabilities as a result of changing economic and actuarial assumptions.

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 Territory's captive fund and the capital 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.

The Authority manages its capital position between the range of 100 to 110 percent. 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 2018 $'000	Actual at 30 June 2017 $'000	Budget at 30 June 2017 $'000	Prior Year Actual at 30 June 2016 $'000
Total Assets	374,720	345,534	341,481	377,439
Total Liabilities	285,555	250,084	279,662	257,848
Funding Ratio	131%	138%	122%	146%

The Authority's funding ratio at 30 June 2017 is **138 percent.** This is higher than the budgeted funding ratio of **122 percent** due to lower than expected outstanding claims liabilities.

PART B

PART B:
2016-17
FINANCIAL
STATEMENT

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the ACT Insurance Authority (the Authority) for the year ended 30 June 2017. The financial statements comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

In my opinion, the financial statements:

(i) are presented in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia; and

(ii) present fairly the financial position of the Authority and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting 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 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.

Responsibility for the audit of the financial statements

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

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Authority;
- adequacy of controls implemented by the Authority; or
- integrity of the audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

M. Cooper.

Dr Maxine Cooper
Auditor-General
15 September 2017

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 2017 and the financial position of the Authority on that date.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
12 September 2017

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with the 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 2017 and the financial position of the Authority on that date.

John Fletcher
General Manager
ACT Insurance Authority
12 September 2017

ACT INSURANCE AUTHORITY

OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

	Note No	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Ordinary activities				
Underwriting				
Gross Earned Insurance Premiums	4	**51,127**	51,156	56,917
Reinsurance Premiums (Expense)	4	**(6,944)**	(7,710)	(8,210)
Net Earned Premiums	5	**44,183**	43,446	48,707
Claims (Expense)	4	**(23,055)**	(48,874)	(13,727)
Reinsurance Recoveries	4	**-**	-	343
Other Recoveries Claims Related	4	**462**	-	292
Net Incurred Claims	6	**(22,593)**	(48,874)	(13,092)
Underwriting Gain/(Loss)	4	**21,590**	(5,428)	35,615
Other Revenue				
Interest Revenue	7	**1,097**	711	631
Distribution Received	7	**10,205**	8,251	13,419
Unrealised Gains on Investments	7	**388**	-	2,012
Other Revenue	7	**2,475**	2,086	2,136
		14,165	11,048	18,198
Other Expenses				
Other Expenses	7	**(6,851)**	(1,800)	(1,802)
		(6,851)	(1,800)	(1,802)
General and Administration				
Employee Expenses	8	**(1,871)**	(1,796)	(1,584)
Superannuation Expenses	8	**(274)**	(298)	(268)
Depreciation	9	**(30)**	(29)	(9)
Supplies and Services	10	**(870)**	(841)	(821)
		(3,045)	(2,964)	(2,681)
Operating Surplus		**25,859**	856	49,330
Other Comprehensive Income		**-**	-	-
Total Comprehensive Income		**25,859**	856	49,330

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

ACT INSURANCE AUTHORITY

BALANCE SHEET
AT 30 JUNE 2017

	Note No	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Current Assets				
Cash	12	**5,163**	5,566	3,787
Investments	13	**165,512**	159,179	190,124
Receivables	14	**3,753**	2,562	7,410
Prepayments	19	**365**	293	307
Total Current Assets		**174,792**	167,600	201,628
Non-Current Assets				
Investments	13	**170,161**	173,121	175,001
Plant and Equipment	16	**255**	192	287
Intangibles	-	**-**	45	-
Prepayments	19	**326**	523	523
Total Non-Current Assets		**170,742**	173,881	175,811
Total Assets		**345,534**	341,481	377,439
Current Liabilities				
Payables	17	**189**	2,192	371
Outstanding Claims	18	**27,146**	28,607	23,737
Employee Benefits	20	**444**	497	453
Other Liabilities	19	**10,563**	293	7,793
Total Current Liabilities		**38,342**	31,589	32,354
Non-Current Liabilities				
Outstanding Claims	18	**211,397**	247,519	224,933
Employee Benefits	20	**19**	31	38
Other Liabilities	19	**326**	523	523
Total Non-Current Liabilities		**211,742**	248,073	225,494
Total Liabilities		**250,084**	279,662	257,848
Net Assets		**95,450**	61,819	119,591
Equity				
Accumulated Funds		**95,450**	61,819	119,591
Total Equity		**95,450**	61,819	119,591

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 2017

	Accumulated Funds Actual 2017 $'000	Total Equity Actual 2017 $'000	Original Budget 2017 $'000
Balance at 1 July 2016	**119,591**	**119,591**	**110,963**
Comprehensive Income			
Operating Surplus	25,859	25,859	856
Total Comprehensive Income	**25,859**	**25,859**	**856**
Transactions Involving Owners Affecting Accumulated Funds			
Capital (Distributions)	(50,000)	(50,000)	(50,000)
Total Transactions Involving Owners Affecting Accumulated Funds	**(50,000)**	**(50,000)**	**(50,000)**
Balance at 30 June 2017	**95,450**	**95,450**	**61,819**

	Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000
Balance at 1 July 2015	**130,261**	**130,261**
Comprehensive Income		
Operating Surplus	49,330	49,330
Total Comprehensive Income	**179,591**	**179,591**
Transactions Involving Owners Affecting Accumulated Funds		
Capital (Distributions)	(60,000)	(60,000)
Total Transactions Involving Owners Affecting Accumulated Funds	**(60,000)**	**(60,000)**
Balance at 30 June 2016	**119,591**	**119,591**

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 2017

	Note No	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities				
Receipts				
Annual Insurance Premiums Received		**51,127**	51,156	56,917
Interest Received		**1,097**	711	631
Distribution from Investments with the Territory Banking Account		**13,664**	8,251	10,991
Reinsurance and Other Recoveries Received		**467**	-	778
Contract Works Insurance Receipts		**1,700**	1,284	1,133
External Insurance Contracts Receipts		**346**	515	378
Goods and Services Tax Credit from the Australian Taxation Office		**9,990**	11,299	9,874
Goods and Services Tax Collected from Customers		**13,826**	15,620	14,770
Other Receipts		**375**	286	59
Workers' Compensation Insurance Receipts		**85,736**	92,394	89,942
Total Receipts from Operating Activities		**178,328**	181,516	185,474
Payments				
Employees		**1,900**	1,764	1,584
Superannuation		**273**	298	275
Supplies and Services		**825**	841	882
Contract Works Insurance Payments		**1,554**	1,283	1,279
External Insurance Contracts Payments		**346**	516	378
Goods and Services Tax Paid to Suppliers		**9,914**	11,299	9,964
Goods and Services Tax Paid to the Australian Taxation Office		**13,823**	15,620	14,780
Reinsurance Premiums Payments		**6,944**	7,710	8,210
Insurance Claims Payments		**33,182**	24,979	20,663
Workers' Compensation Insurance Payments		**83,017**	97,830	84,428
Total Payments for Operating Activities		**151,778**	162,140	142,443
Net Cash Inflows from Operating Activities	**22**	26,550	19,376	43,031
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		**70,000**	75,000	130,000
Total Receipts from Investing Activities		**70,000**	75,000	130,000

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

CASH FLOW STATEMENT - CONTINUED
FOR THE YEAR ENDED 30 JUNE 2017

	Note No	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Payments				
Payments for Investments		**45,000**	40,000	110,000
Payments for Plant and Equipment		**174**	-	119
Payments for Intangibles		**-**	50	-
Total Payments for Investing Activities		**45,174**	40,050	110,119
Net Cash Inflows from Investing Activities		**24,826**	34,950	19,881
Cash Flows from Financing Activities				
Payments				
Capital Distributions		**50,000**	50,000	60,000
Total Payments for Financing Activities		**50,000**	50,000	60,000
Net Cash (Outflows) from Financing Activities		**(50,000)**	(50,000)	(60,000)
Net Increase in Cash		**1,376**	4,326	2,912
Cash at the Beginning of the Reporting Period		**3,787**	1,240	875
Cash at the End of the Reporting Period	**12**	**5,163**	5,566	3,787

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

ACT INSURANCE AUTHORITY

FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017
NOTE INDEX

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 1. OBJECTIVES OF THE ACT INSURANCE AUTHORITY

Operations and Principal Activities of the ACT Insurance Authority

The ACT Insurance Authority (the Authority) was established on 1 April 2001. The Authority operates under the *Insurance Authority Act 2005*. The 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;
- 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 Treasurer about insurance and the management of Territory risks.

In addition, the Authority also performs the function of:

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

Financial Statements for these entities are available in Volume 2 of the Chief Minister, Treasury and Economic Development Directorate 2016-17 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.	2017 $'000	2016 $'000
Underwriting Revenues			
Gross Earned Insurance Premiums			
General Government Sector		**41,181**	46,631
Public Trading Enterprises		**8,280**	8,370
External		**1,666**	1,916
	5	**51,127**	56,917
Reinsurance Recoveries	6 and 15	**-**	343
Other Recoveries Claims Related	6	**462**	292
		462	635
Underwriting Revenues		**51,589**	57,552
All underwriting revenues relate to operating activities.			
Underwriting Expenses			
Gross Claims Expenses		**(23,055)**	(13,727)
	6	**(23,055)**	(13,727)
Reinsurance Premiums	5	**(6,944)**	(8,210)
		(6,944)	(8,210)
Underwriting Expenses		**(29,999)**	(21,937)
Underwriting Gain			
Underwriting Revenues		**51,589**	57,552
Underwriting Expenses		**(29,999)**	(21,937)
Underwriting Gain		**21,590**	35,615

The change in underwriting gain is mainly due to both an increase in the gross claims expenses, refer to Gross Incurred Claims and Related Expenses - Discounted in Note 6: 'Net Incurred Claims' and a decrease in the reinsurance premiums refer to Note 5: 'Net Earned Insurance Premium'.

NOTE 5. NET EARNED INSURANCE PREMIUMS

	Note No.	2017 $'000	2016 $'000
Gross Written Premiums			
General Government Sector		**41,181**	46,631
Public Trading Enterprises		**8,280**	8,370
External		**1,666**	1,916
Total Gross Written Premiums [a]	4	**51,127**	56,917
Reinsurance Premium Expense [b]	4	**(6,944)**	(8,210)
Net Earned Insurance Premiums		**44,183**	48,707

[a] *The decrease in gross written premiums was the result of a $5.8 million reduction in the premiums charged to agencies. The decrease in premiums is mainly due to a decrease in the projected ultimate number of claims and sizes due to favourable claims experience in particular for medical malpractice and public liability classes of insurance along with a decrease in administrative and reinsurance costs.*

[b] *The decrease in Reinsurance Premium expenses is the result of the Authority negotiating a reduction in the cost of reinsurance.*

NOTE 6. NET INCURRED CLAIMS

2017	Note No.	Current Year $'000	Prior Years $'000	Total $'000
Gross Incurred Claims and Related Expenses - Undiscounted [a]		(63,980)	30,775	**(33,205)**
Other Recoveries Claims Related		462	-	**462**
Net Incurred Claims - Undiscounted		(63,518)	30,775	**(32,742)**
Gross Incurred Claims and Related Expenses - Discounted [a]	4	(52,255)	29,200	**(23,055)**
Other Recoveries Claims Related	4	462	-	**462**
Total Net Incurred Claims Discounted [b]		(51,793)	29,200	**(22,593)**

2016	Note No.	Current Year $'000	Prior Years $'000	Total $'000
Gross Incurred Claims and Related Expenses - Undiscounted [a]		(56,810)	58,692	**1,882**
Reinsurance and Other Recoveries - Undiscounted		343	-	**343**
Other Recoveries Claims Related		292	-	**292**
Net Incurred Claims - Undiscounted		(56,175)	58,692	**2,517**
Gross Incurred Claims and Related Expenses - Discounted [a]	4	(48,075)	34,348	**(13,727)**
Reinsurance and Other Recoveries - Discounted	4	343	-	**343**
Other Recoveries Claims Related	4	292	-	**292**
Total Net Incurred Claims Discounted [b]		(47,440)	34,348	**(13,092)**

[a] *The gross incurred claims and related expenses both undiscounted and discounted are separated into those contributed from the most recent year and those from prior years, which are impacted by changes in economic factors and the assumptions used to derive the provision for outstanding claims in the actuarial valuation.*

[b] *The change in total net incurred claims discounted between 2015-16 and 2016-17 has been the result of changes to the actuarial assessment of outstanding claims liabilities relating to insurance claims from current and prior years. In 2016-17, gross incurred claims and related expenses discounted saw a reduction of $29.2 million in the prior years and an increase of $52.3 million in the current year resulting in claims expenses of $23.1 million ($13.7 million in 2015-16). This increase is mostly driven by an increase in the actual claim payments made earlier than expected.*

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 7. OTHER REVENUE AND EXPENSES

	2017 $'000	2016 $'000
Interest from Bank [a]	**1,097**	631
Distributions [b]	**10,205**	13,419
Unrealised Gains on Investments [c]	**388**	2,012
	11,690	16,063
Other Revenue:		
Income from Support Services	**465**	334
Contract Works Insurance	**1,496**	1,298
External Insurance Contracts	**514**	504
	2,475	2,136
Total Other Revenue	**14,165**	18,199
Other Expenses		
Contract Works Insurance	**1,496**	1,298
External Insurance Contracts	**514**	504
Unrealised Loss on Investments [d]	**4,841**	-
Total Other Expenses	**6,851**	1,802

[a] *Interest from bank increased due to a higher balance being held in the Westpac general account.*

[b] *The investment performance on the Cash Enhanced Fund was 3.18% in 2016-17 (2015-16 2.51%) and the rate of return on the Fixed Interest Fund was 0.26% in 2016-17 (2015-16 6.84%). The Authority held less funds in both the Cash Enhanced Fund and the Fixed Interest Fund during 2016-17, this along with the decrease in the rate of return have resulted in a decrease in distributions being earned.*

[c] *The decrease in unrealised gains on investments are due to a decrease in unit price value of the Cash Enhanced Fund investment. The unit price at 30 June 2017 was $1.006 ($1.009 at 30 June 2016)*

[d] *The unrealised loss on investments during 2016-17 is due to a decrease in unit price value of the Fixed Interest Fund investment the unit price at 30 June 2017 was $1.094 ($1.125 at 30 June 2016)*

NOTE 8. EMPLOYEE AND SUPERANNUATION EXPENSES

	2017 $'000	2016 $'000
Employee Expenses		
Salaries [a]	**1,898**	1,517
Annual Leave Movement	**(22)**	(2)
Long Service Leave Movement	**(27)**	54
Workers' Compensation Insurance Premium	**22**	15
Total Employee Expenses	**1,871**	1,584
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	**157**	167
Productivity Benefit	**20**	22
Superannuation Payment to ComSuper (for the PSSaP)	**19**	13
Superannuation to External Providers	**78**	65
Total Superannuation Expenses	**274**	268

[a] *Salaries have increased due to the Authority absorbing resources from the Default Insurance Fund along with having paid out 2 redundancies following an organisational restructure in 2016-17.*

NOTE 9. DEPRECIATION

	2017 $'000	2016 $'000
Depreciation		
Plant and Equipment	**30**	9
Total Depreciation	**30**	9

NOTE 10. SUPPLIES AND SERVICES

	Note No.	2017 $'000	2016 $'000
Actuarial Costs		**179**	160
Audit Fees	11	**53**	53
Communications and Computing Costs		**121**	102
Contractors and Consultants		**138**	169
Rent		**120**	90
Risk Management Initiative		**75**	37
Staff Development		**18**	14
Support Services		**54**	90
Travel		**58**	51
Other		**54**	54
Total Supplies and Services		**870**	**821**

NOTE 11. AUDITOR'S REMUNERATION

Auditor's remuneration consists of financial audit services provided to the Authority by the ACT Audit Office.

	2017 $'000	2016 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	**53**	53
Total Audit Fees	**53**	53

No other services were provided by the ACT Audit Office.

NOTE 12. CASH

The Authority holds a general operating bank account with Westpac Banking Corporation as part of the whole-of-government banking arrangements.

	2017 $'000	2016 $'000
Cash		
Cash	**5,163**	3,787
Total Cash	**5,163**	3,787

The increase in the cash balance is due to less movement of funds to investments.

NOTE 13. INVESTMENTS

Short-term investments were held with the Territory Banking Account in the Cash Enhanced Fund throughout the year. These funds are able to be withdrawn upon request.

The purpose of the investment in the Fixed Interest Fund is to hold it for a period of longer than twelve months. The total carrying amount of the Fixed Interest Fund investment below has been measured at fair value.

	2017 $'000	2016 $'000
Investments		
Current		
Investments with Territory Banking Account - Cash Enhanced Fund [a]	**165,512**	190,124
Non-Current		
Investments with Territory Banking Account - Fixed Interest Fund	**170,161**	175,001
Total Investments	**335,673**	365,125

[a] The decrease in investments in the Cash Enhanced Fund is due to the payment of capital distribution of $50 million to ACT Government. This is partially offset by the investment of funds derived from the underwriting gain and other revenue.

NOTE 14. RECEIVABLES

	2017 $'000	2016 $'000
Current		
Distributions Receivable [a]	**3,179**	6,637
Contract Works Insurance Premiums	**-**	192
Goods and Services Tax Receivable	**63**	141
Other Receivables	**511**	440
Total Receivables	**3,753**	7,410

[a] The Authority held less funds in investments in the last quarter of 2016-17. This along with a lower rate of return resulted in a decrease in distributions being received.

Ageing of Receivables

	Not Overdue		Overdue			Total
	Less than 30 Days $'000	Greater than 60 Days $'000	Less than 30 Days $'000	30 to 60 Days $'000	Greater than 60 Days $'000	$'000
2017						
Not Impaired[1] Receivables	**3,531**	**222**	**-**	**-**	**-**	**3,753**
Impaired Receivables	**-**	**-**	**-**	**-**	**-**	**-**
2016						
Not Impaired[1] Receivables	7,180	227	-	3	-	7,410
Impaired Receivables	-	-	-	-	-	-

Receivables not overdue less than 30 days predominantly relates to distributions receivable and support services. Not overdue receivables greater than 60 days relate to court ordered costs awarded to the Territory and terms are determined by the court.

[1]'Not Impaired' refers to Net Receivables (Gross Receivables less Impaired Receivables).

Classification of ACT Government/Non-ACT Government Receivables

	2017 $'000	2016 $'000
Receivables with ACT Government Entities		
Distributions Receivable	**3,179**	6,637
Contract Works Insurance Premium	**-**	192
Other Receivables	**-**	20
	3,179	6,849
Receivables with Non-ACT Government Entities		
Goods and Services Tax Receivable	**63**	141
Other Receivables	**511**	420
Total Receivables	**574**	561
	3,753	7,410

The Authority does not hold any collateral for receivables that are overdue or determined to be impaired.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 15. REINSURANCE RECOVERIES

	Note No.	2017 $'000	2016 $'000
Reconciliation of the Movement of Reinsurance Recoveries			
Provision for Reinsurance Recoveries at the Beginning of the Period		**-**	-
Reinsurance Received		**-**	(343)
Movement in Reinsurance Provisions due to Changes in Claims	4	**-**	343
Provision for Reinsurance Recoveries at the End of Reporting Period		**-**	-

NOTE 16. PLANT AND EQUIPMENT

Plant and equipment include furniture and fittings assets.

	2017 $'000	2016 $'000
Plant and Equipment		
Plant and Equipment at Cost	**293**	295
Less: Accumulated Depreciation	**(38)**	(9)
Total Written Down Value of Plant and Equipment	**255**	287

	2017 $'000	2016 $'000
Carrying Amount at the Beginning of the Reporting Period	**287**	7
Additions	**14**	293
Depreciation	**(30)**	(9)
Other Movements	**(16)**	(4)
Carrying Amount at the End of the Reporting Period	**255**	287

NOTE 17. PAYABLES

	2017 $'000	2016 $'000
Current Payables		
Trade Creditors	**9**	46
Accrued Expenses [a]	**180**	325
Total Payables	**189**	371
Ageing of Payables		
Payables are aged as follows:		
Not Overdue	**189**	371
Total Payables	**189**	371

[a] Accrued expenses were higher in 2015-16 due to expenses being accrued for the improvement works for the office accommodation last year which did not occur in 2016-17.

NOTE 17. PAYABLES - CONTINUED

Classification of ACT Government/Non-ACT Government Payables

	2017 $'000	2016 $'000
Payables with ACT Government Entities		
Accrued Expenses	**79**	121
Payables with Non-ACT Government Entities		
Trade Creditors	**9**	46
Accrued Expenses	**101**	204
Total Payables	**189**	371

NOTE 18. OUTSTANDING CLAIMS

The Authority uses the services of an independent actuary, PwC Actuarial Services Pty Limited, to provide the estimated liability for outstanding claims. Information disclosed in Note 18: 'Outstanding Claims' is provided by the actuary. The valuation of the outstanding claims liability was completed in July 2017, based on data at 30 June 2017. 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 No.	2017 $'000	2016 $'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		**237,650**	237,970
Risk Margin		**38,436**	38,078
Claims Handling Costs		**11,883**	11,899
Total Undiscounted Expected Future Claims		**287,969**	287,947
Discount to Present Value		**(49,426)**	(39,277)
Total Discounted Outstanding Claims Provision [a]	18(d)	**238,543**	248,670
Current		**27,146**	23,737
Non-Current		**211,397**	224,933
Total Discounted Outstanding Claims Provision	18(d)	**238,543**	248,670

[a] The total discounted outstanding claims provision has decreased in 2016-17 mainly due to changes in the discount rate used to calculate the outstanding claims liability (refer to Note 18 (d): 'Reconciliation of Movement in Discounted Outstanding Claims Liability'). An increase in the discount rate results in a decrease to the outstanding claims liability (refer to Note 18 (b): 'Inflation and Discount Rates'.

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

(a) Risk Margin

The process of determining risk margin

The overall risk margin was determined allowing for diversification between different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty for each portfolio was analysed taking into account potential variability in the actuarial models and assumptions, the quality of 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 classes when compared to short tail classes 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 enough to reflect all possible future claims. A 75% level of probability sufficiency is required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	Adopted Risk Margin	
	2016-17 (%)	2015-16 (%)
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]	**15.5**	15.3

[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 the gap methodology, which assumes a constant gap of adopted future inflation to the long-term discount rates and will increase/(decrease) as discount rates increase/(decrease).

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

	2017 %	2016 %
For the succeeding year		
Inflation rate	**2.5**	3.5
Discount rate	**1.6**	1.6
For the subsequent year		
Inflation rate	**3.0**	3.5
Discount rate	**1.9**	1.5
For long-term assumptions		
Inflation rate	**2.3**	1.3
Discount rate	**4.3**	3.3

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

(c) Term to Settlement

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 6.6 years in 2016-17 (6.8 years in 2015-16). 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.

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability

Change in Basis** - **In the 12 months from 30 June 2016 to 30 June 2017

	$'000	$'000
Gross Central Estimate at 30 June 2016 (30 June 2016 basis) [a]		**205,454**
Expense margin at 30 June 2016		10,273
Risk Margin at 30 June 2016		32,943
Gross Outstanding Claims Provision at 30 June 2016 (30 June 2016 basis) [a]		**248,670**
New Incurred Period		42,819
Expected payments to 30 June 2017 (Inflated and Undiscounted values)		(21,817)
Expected interest to 30 June 2017		3,191
Expected change in Expense Margin		1,210
Expected change in Risk Margin		3,884
Expected Gross Outstanding Claims Provision at 30 June 2017 (30 June 2016 basis)		**277,957**
(Actual less Expected) inflation [b]		(9,710)
Change in future discounting assumptions		(10,319)
Change in future inflation assumptions		6,149
(Expected less Actual) payments [c]		(12,537)
Directors and Officers	57	
Financial Crime	39	
Medical Malpractice	(14,512)	
Professional Indemnity	88	
Property and Motor	2,585	
Public Liability	(794)	
Change in actuarial assumptions		(6,489)
Directors and Officers	(225)	
Financial Crime	(293)	
Medical Malpractice	(7,789)	
Professional Indemnity	(554)	
Property and Motor	2,445	
Public Liability	(73)	
Change in Expense margin at 30 June 2017		(1,645)
Change in Risk margin at 30 June 2017		(4,863)
Overall change in basis		(39,414)
Gross Outstanding Claims Provision at 30 June 2017 (30 June 2017 basis)		**238,543**

[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

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

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

The expected gross outstanding claims provision of $277.96 million compares to the actual gross outstanding claims provision of $238.54 million, indicating a total decrease of $39.42 million. This decrease may be broken down into seven main components:

- a $12.54 million decrease due to actual payments being more than expected over the 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;
- a $10.32 million decrease due to increases in the assumed discount rates since 30 June 2016, all else being equal, an increase in the discount rates decreases the outstanding claims liability;
- a $9.71 million decrease due to lower than expected inflation in the past 12 months;
- a $6.49 million decrease due to changes in assumptions used in the actuarial valuation. These have resulted from:
  - a reduction in the Medical Malpractice insurance class resulting from a reduction in the assumed size of large claims, this is partially offset by the deterioration of one large claim settled during 2016-17 and an increase in the assumed size of small claim finalisations;
  - a small reduction in the Public Liability insurance class driven by a lower than expected number of reported claims, offset by an increase in the assumed finalisation size of legal only claims;
  - an increase in the Property and Motor insurance class primarily resulting from the occurrence of one large claim;
  - a decrease in the Professional Indemnity insurance class due to lower than expected number of claims reported and an increase in the proportion of zero finalisations, partially offset by an assumed increase in the small claim finalisation size;
  - a reduction in the Directors and Officers insurance class due to lower than expected number of claims reported, partially offset by an increase in the proportion of legal finalisations; and
  - a reduction in the Financial Crime insurance class due to lower than expected number of claims reported.
- a $4.86 million decrease in the risk margin resulting from a decrease in the central estimate of outstanding claims;
- a $1.65 million decrease in the expense margin as a result of the decrease in the central estimate of outstanding claims; and
- a $6.15 million increase due to an increase in the future inflation assumption since 30 June 2016.

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

(e) Claims Development Tables

i) Summary of all claims incurred classes includes public liability, financial crime and special purpose motor

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the eight most recent accident years.

Gross and Net

Accident year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	11,957	12,371	12,476	11,063	12,750	11,277	11,077	10,944	
One year later	14,000	11,055	9,476	9,472	13,019	8,439	9,871	0	
Two years later	12,849	8,726	8,822	8,767	11,579	8,695	0	0	
Three years later	23,512	7,525	9,445	8,403	12,436	0	0	0	
Four years later	16,396	6,997	7,891	9,312	0	0	0	0	
Five years later	9,685	6,086	7,928	0	0	0	0	0	
Six years later	9,483	6,061	0	0	0	0	0	0	
Seven years later	9,071	0	0	0	0	0	0	0	
Current estimate	9,071	6,061	7,928	9,312	12,436	8,695	9,871	10,944	74,317
Cumulative payments	(8,321)	(3,116)	(4,503)	(5,213)	(6,367)	(1,501)	(878)	(36)	(29,935)
Outstanding claims undiscounted	749	2,945	3,424	4,100	6,069	7,194	8,992	10,909	44,383
Discount	(59)	(510)	(626)	(796)	(1,028)	(1,226)	(1,216)	(1,420)	(6,881)
Outstanding claims	690	2,435	2,798	3,304	5,041	5,968	7,776	9,489	37,502
2008/09 and prior years									5,097
Outstanding claims									**42,599**

Gross and net figures represent the same result due to there being zero re-insurance recoveries expected.

ii) Summary of all claims made classes includes medical malpractice, directors and officers and professional indemnity

Gross and Net

Accident year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	36,409	35,304	34,565	40,445	30,388	30,218	29,335	31,202	
One year later	35,445	31,893	34,725	49,380	28,288	25,619	28,786	0	
Two years later	31,759	33,376	28,823	29,666	24,449	24,329	0	0	
Three years later	23,450	19,158	26,141	23,287	22,827	0	0	0	
Four years later	30,294	25,618	22,981	22,261	0	0	0	0	
Five years later	23,223	22,975	19,839	0	0	0	0	0	
Six years later	21,018	21,962	0	0	0	0	0	0	
Seven years later	21,488	0	0	0	0	0	0	0	
Current estimate	21,488	21,962	19,839	22,261	22,827	24,329	28,786	31,202	192,692
Cumulative payments	(19,409)	(8,381)	(13,502)	(4,938)	(3,630)	(2,286)	(1,342)	(96)	(53,584)
Outstanding claims undiscounted	2,079	13,581	6,336	17,323	19,196	22,043	27,444	31,106	139,108
Discount	(192)	(1,976)	(850)	(2,424)	(3,855)	(4,430)	(6,710)	(8,074)	(28,511)
Outstanding claims	1,887	11,605	5,486	14,899	15,342	17,613	20,734	23,032	110,597
2008/09 and prior years									32,786
Outstanding claims									**143,383**

Gross and net figures represent the same result due to there being zero re-insurance recoveries expected.

NOTE 18. OUTSTANDING CLAIMS - CONTINUED

(e) Claims Development Tables - Continued

iii) Summary of all long tail policy classes excludes property

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the eight most recent accident years.

Gross and Net

Accident year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2015-16	2016-17	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	48,366	47,675	47,041	51,509	43,138	41,495	40,412	42,146	
One year later	49,444	42,948	44,201	58,852	41,307	34,058	38,656	0	
Two years later	44,608	42,102	37,645	38,433	36,028	33,024	0	0	
Three years later	46,962	26,684	35,586	31,690	35,263	0	0	0	
Four years later	46,689	32,615	30,873	31,573	0	0	0	0	
Five years later	32,908	29,061	27,766	0	0	0	0	0	
Six years later	30,501	28,022	0	0	0	0	0	0	
Seven years later	30,558	0	0	0	0	0	0	0	
Current estimate	30,558	28,022	27,766	31,573	35,263	33,024	38,656	42,146	267,010
Cumulative payments	(27,730)	(11,497)	(18,006)	(10,151)	(9,997)	(3,787)	(2,220)	(132)	(83,519)
Outstanding claims undiscounted	2,828	16,526	9,761	21,422	25,266	29,237	36,436	42,015	183,491
Discount	(251)	(2,486)	(1,476)	(3,220)	(4,883)	(5,656)	(7,926)	(9,494)	(35,392)
Outstanding claims	2,577	14,040	8,284	18,202	20,383	23,581	28,510	32,521	148,099
2008/09 and prior years									37,883
Outstanding claims									**185,982**
Claims handling expense									9,837
Risk margin									31,966
Outstanding long tail claims									**227,784**
Outstanding short tail claims									10,759
Total gross outstanding claims as per balance sheet									**238,543**

Gross and net figures represent the same result due to there being zero re-insurance recoveries expected.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 19. PREPAYMENTS AND OTHER LIABILITIES

	2017 $'000	2016 $'000
Prepayments		
Current		
Contract Works Insurance Premium Prepayments	**212**	138
External Insurance Premium Prepayments	**153**	169
Total Current Prepayments	**365**	307
Non-Current		
Contract Works Insurance Premium Prepayments	**41**	85
External Insurance Premium Prepayments	**285**	438
Total Non-Current Prepayments	**326**	523
Other Liabilities		
Current		
Workers' Compensation Insurance Premium Received in Advance from Agencies [a]	**4,017**	4,017
Icon Water Limited Workers' Compensation Insurance Payments [b]	**6,181**	3,470
Contract Works Insurance Premium Received in Advance from Agencies	**212**	138
External Insurance Premium Received in Advance from Agencies	**153**	168
Total Current Other Liabilities	**10,563**	7,793
Non-Current		
Contract Works Insurance Premium Received in Advance from Agencies	**41**	85
External Insurance Premium Received in Advance from Agencies	**285**	438
Total Non-Current Other Liabilities	**326**	523

[a] The Authority retains additional funds on behalf of the Chief Minister, Treasury and Economic Development Directorate for recoveries relating to appeals from previous years Comcare premiums. These funds will be held with the Authority until instructed by the Chief Minister, Treasury and Economic Development Directorate to release them.

[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 has agreed to invoice Icon Water Limited for these costs and to hold the funds until advised by the Chief Minister, Treasury and Economic Development Directorate to release them.

NOTE 20. EMPLOYEE BENEFITS

	2017 $'000	2016 $'000
Current		
Accrued Salaries	**15**	7
Annual Leave	**108**	119
Long Service Leave	**321**	327
Total Current Employee Benefits	**444**	453
Non-Current		
Long Service Leave	**19**	38
Total Non-Current Employee Benefits	**19**	38
Total Employee Benefits	**463**	491

	2017 Numbers	2016 Numbers
Employee Numbers		
Full-time Equivalents at the End of the Reporting Period	**17.6**	15.6

The increase of two employees during 2016-17 was due to the absorption of one FTE from the Default Insurance Fund and one FTE as the result of an organisation restructure.

Estimate of When Leave is Payable	2017 $'000	2016 $'000
Estimated Amount Payable Within 12 Months		
Accrued Salaries	**15**	7
Annual leave	**65**	71
Long Service Leave	**34**	37
Total Employee Benefits Payable Within 12 Months	**114**	115
Estimated Amount Payable After 12 Months		
Annual Leave	**43**	48
Long Service Leave	**306**	328
Total Employee Benefits Payable After 12 Months	**349**	376
Total Employee Benefits	**463**	491

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 21. 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 in floating interest rate arrangements, whereas the Authority's financial liabilities are not subject to floating 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 rates have remained relatively steady during the year ended 30 June 2017 however, an increase in the average balance being held in the general cash account during the year has resulted in an increase in the amount of interest received.

Interest rate risk for financial assets is managed by the Authority by only holding limited funds in cash. These funds are only invested in arrangements that are low risk. 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 period.

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.

(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 investments by only investing surplus funds with the Territory Banking Account, which has appropriate investment criteria for the external fund manager engaged to manage the Territory's surplus funds. There is no collateral held as security for financial assets.

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 changes in credit risk exposure since the last reporting period.

NOTE 21. FINANCIAL INSTRUMENTS - CONTINUED

(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 period.

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2017. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

2017	Note No.	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Maturing In: 1 Year or Less	Over 1 to 5 Years	Over 5 years	Non-Interest Bearing	Total
		%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Instruments								
Financial Assets								
Cash	12	**2.37**	**5,163**	-	-	-	-	**5,163**
Investments - Cash Enhanced Fund	13		-	-	-	-	**165,512**	**165,512**
Investments - Fixed Interest Fund	13		-	-	-	-	**170,161**	**170,161**
Receivables	14		-	-	-	-	**3,690**	**3,690**
Total Financial Assets			**5,163**	-	-	-	**339,363**	**344,526**
Financial Liabilities								
Payables	17		-	-	-	-	**(189)**	**(189)**
Total Financial Liabilities			-	-	-	-	**(189)**	**(189)**
Net Financial Assets			**5,163**	-	-	-	**339,174**	**344,337**

Reconciliation of Net Financial Assets to Net Assets	Note No.	2017 $'000
Net Financial Assets (as above)		**344,337**
Employee Benefits	20	**(463)**
Plant and Equipment	16	**255**
Other Assets	14 and 19	**754**
Other Liabilities	19	**(10,889)**
Gross Outstanding Claims	18	**(238,543)**
Net Assets as per the Balance Sheet		**95,450**

NOTE 21. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - continued

The following table sets out the Authority's maturity analysis for financial assets and liabilities as well as the exposure to interest rates, including the weighted average interest rates by maturity period as at 30 June 2016. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

				Fixed Interest Maturing In:				
2016	**Note No.**	**Weighted Average Interest Rate**	**Floating Interest Rate**	**1 Year or Less**	**Over 1 to 5 Years**	**Over 5 years**	**Non-Interest Bearing**	**Total**
		%	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Instruments								
Financial Assets								
Cash	12	2.81	3,787	-	-	-	-	3,787
Investments - Cash Enhanced Fund	13		-	-	-	-	190,124	190,124
Investments - Fixed Interest Fund	13		-	-	-	-	175,001	175,001
Receivables	14		-	-	-	-	7,269	7,269
Total Financial Assets			3,787	-	-	-	372,394	376,181
Financial Liabilities								
Payables	17		-	-	-	-	(371)	(371)
Total Financial Liabilities			-	-	-	-	(371)	(371)
Net Financial Assets			3,787	-	-	-	372,023	375,810

Reconciliation of Net Financial Assets to Net Assets	**Note No.**	**2016 $'000**
Net Financial Assets (as above)		375,810
Employee Benefits	20	(491)
Plant and Equipment	16	287
Other Assets	14 and 19	971
Other Liabilities	19	(8,316)
Gross Outstanding Claims	18	(248,670)
Net Assets as per the Balance Sheet		119,591

NOTE 21. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - continued

Carrying Amount of Each Category of Financial Asset and Financial Liability	2017 $'000	2016 $'000
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**335,673**	365,125
Loans and Receivables Measured at Amortised Cost	**3,690**	7,269
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**189**	371
(Losses)/Gains on Each Category of Financial Asset		
Financial Assets at Fair Value through the Profit and Loss Designated upon initial Recognition	**(4,453)**	2,012

(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 market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market.

The price risk which the Authority is exposed to results from its investment in the Cash Enhanced and Fixed Interest Funds. The Authority has units in the Cash Enhanced and Fixed Interest Funds which fluctuate in value. The price fluctuations in the units of the Cash Enhanced and Fixed Interest Funds are caused by movements in the underlying investments of the Funds. The underlying investments are managed by an external fund manager who invests in a variety of different investment funds and bonds, including bonds issued by the Commonwealth Government, the State Government guaranteed Treasury corporations and semi-government authorities, as well as investment grade corporate issues. To limit price risk, all bonds that make up the underlying investments of the fixed interest fund must have a long-term credit rating of BBB- or greater. Anything rated BBB- or greater is considered 'investment grade'.

The aim of the fund manager is to match the total return of the UBS Australian Composite Bond Index before taking into account fund fees and expenses. The Authority's exposure to price risk and management of the risk has not changed since the last reporting period.

NOTE 21. FINANCIAL INSTRUMENTS - CONTINUED

(d) Price Risk - 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 are 'reasonably possible' over the next twelve months if the price risk changes by the volatility factors of -/+ 0.5% for the Cash Enhanced Fund and -/+6.0% for the Fixed Interest Fund from the target benchmarks with all other variables held constant.

2017	Benchmark/ Volatility Factor	Profit/(Loss) Impact $'000	Profit/(Loss) Impact $'000
	UBS Australian Composite Bond Index -/+ 0.5%	**(0.5%)**	**0.5%**
	Cash Enhanced Fund	**(828)**	**828**
	UBS Australian Composite Bond Index -/+ 6.0%	**(6%)**	**6%**
	Fixed Interest Fund	**(10,210)**	**10,210**

2016	Benchmark/ Volatility Factor	Profit/(Loss) Impact $'000	Profit/(Loss) Impact $'000
	UBS Australian Composite Bond Index -/+ 0.5%	(0.5%)	0.5%
	Cash Enhanced Fund	(951)	951
	Fixed Interest Fund	(875)	875

(e) Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of financial assets and liabilities at the end of the reporting period are:

	Note No.	Carrying Amount 2017 $'000	Fair Value 2017 $'000	Carrying Amount 2016 $'000	Fair Value 2016 $'000
Financial Assets					
Cash	12	**5,163**	**5,163**	3,787	3,787
Investment with the Territory Banking Account - Cash Enhanced Fund	13	**165,512**	**165,512**	190,124	190,124
Investment with the Territory Banking Account - Fixed Interest Fund	13	**170,161**	**170,161**	175,001	175,001
Receivables	14	**3,690**	**3,690**	7,269	7,269
Total Financial Assets		**344,526**	**344,526**	376,322	376,322
Financial Liabilities					
Payables	17	**189**	**189**	371	371
Total Financial Liabilities		**189**	**189**	371	371

NOTE 21. FINANCIAL INSTRUMENTS - CONTINUED

(f) Fair Value Hierarchy

The carrying amount of financial assets 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			
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account - Cash Enhanced Fund	**-**	**165,512**	**-**	**165,512**
Investment with the Territory Banking Account - Fixed Interest Fund	**-**	**170,161**	**-**	**170,161**
Total	**-**	**335,673**	**-**	**335,673**

	Classification According to the Fair Value Hierarchy			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account - Cash Enhanced Fund	-	190,124	-	190,124
Investment with the Territory Banking Account - Fixed Interest Fund	-	175,001	-	175,001
Total	-	365,125	-	365,125

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.

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1, 2 or 3 during the current and previous reporting periods.

NOTE 22. CASH FLOW RECONCILIATION

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

	2017 $'000	2016 $'000
Total Cash Recorded in the Balance Sheet	**5,163**	3,787
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement	**5,163**	3,787

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

	2017 $'000	2016 $'000
Operating Surplus	**25,859**	49,330
Add/(Less) Non-Cash Items		
Depreciation of Plant and Equipment	**30**	9
Loss on transferred Assets	**-**	4
Add/(Less) Items Classified as Investing or Financing		
Unrealised Loss/(Gains) on Investments	**4,452**	(2,012)
Cash Before Changes in Operating Assets and Liabilities	**30,341**	47,330
Change in Operating Assets and Liabilities		
Decrease/(Increase) in Distribution Receivable	**3,458**	(2,427)
Decrease/(Increase) in Other Receivables	**338**	(368)
Decrease/(Increase) in Other Assets	**176**	(174)
(Decrease)/Increase in Payables	**(182)**	153
(Decrease) in Outstanding Claims	**(10,127)**	(6,937)
Increase in Other Liabilities	**2,573**	5,462
(Decrease) in Employee Benefits	**(28)**	(7)
Net Changes in Operating Assets and Liabilities	**(3,792)**	(4,298)
Net Cash Inflows from Operating Activities	**26,550**	43,031

NOTE 23. EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring after 30 June 2017 which would affect the financial statements of the Authority in the current or future reporting periods.

NOTE 24. 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, Executive Director of Economic Financial Group 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 2017.

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 financial statements for the year ended 30 June 2017.

Two of the KMP of the Authority are employees of Chief Minister, Treasury and Economic Development Directorate and are compensated by the Chief Minister, Treasury and Economic Development Directorate.

Compensation by the Authority to KMP is set out below.

	2017 $'000
Short-term employee benefits	211,005
Post-employment benefits	35,059
Other long-term benefits	5,013
Total Compensation by the Authority to KMP	**251,077**

(b)(2) Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the Authority.

(b)(3) Transactions with parties related to Key Management Personnel

There were no transactions with parties related to KMP, including transactions with KMP's close family members or other related entities that were material to the financial statements of the Authority.

(c) Transactions with Other ACT Government Controlled Entities

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the Authority.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

NOTE 25. BUDGETARY REPORTING

The following are brief explanations of major line item variances between budget estimates and actual outcomes. Variances are considered to be major variances if both of the following criteria are met:

(a) The line item is a significant line item: where either the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or more than 10% of the 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 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Ordinary activities					
Claims Expense	(23,055)	(48,874)	25,819	(52.8)	The variance of $25.8 million is predominantly the result of a reduction of the outstanding claims liabilities which impacts the expense. The budgeted amount is based on actuarial assumptions from the Authority's December 2015 review of claims expense.
Distribution Received	10,205	8,251	1,954	23.7	The higher distribution received is due to a higher rate of return being achieved than expected on the average balance of both the fixed interest fund and cash enhanced fund.
Other Revenue	2,475	2,086	389	18.7	The increase in other revenue is due to an increase in contract works premiums received from agencies along with an increase in support services income. The increase in contract works premiums is due to an increase in ACT Government capital construction works where the increase in support services is due to an increase in the functions performed by the Authority on behalf of the Office of the Nominal Defendant and the Default Insurance Fund.
Other Expenses	(6,851)	(1,800)	(5,051)	280.6	Other expenses is higher mainly due to an unrealised loss on investments that was not anticipated in the budget.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 Statement of Intent).

NOTE 25. BUDGETARY REPORTING - CONTINUED

Balance Sheet Line Items	Actual 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Liabilities					
Current Other Liabilities	10,563	293	10,270	3504.9	Current other liabilities are higher as a result of funds being held on behalf of Territory agencies for workers' compensation premiums as directed by Chief Minister, Treasury and Economic Development Directorate. This was unknown at the time the budget was prepared.
Non-Current Outstanding Claims	211,397	247,519	(36,122)	(14.6)	Non-current outstanding claims were lower than budget mainly due to revised economic and actuarial assumptions. The actuaries forecast that there will be fewer claims reported. Also large claims for medical malpractice and public liability have settled earlier than expected causing a reduction in non-current outstanding claims.

Cash Flow Statement Line Items	Actual 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Cash Flows from Operating Activities					
Payments					
Insurance Claims Payments	(33,182)	(24,979)	(8,203)	32.8	The insurance claims payments were more than budget due to actual claim payments settling earlier than expected.
Workers' Compensation Payments	(83,017)	(97,830)	14,813	(15.1)	Payments were lower than budget due to the Authority not making expected payments of additional funds held on behalf of Territory agencies for workers compensation as directed by Chief Minister, Treasury and Economic Development Directorate.
Cash Flows from Investing Activities					
Payments					
Payment for Investments	(45,000)	(40,000)	(5,000)	12.5	The payments for investments were higher than budget due to an increase in funds invested as a result of holding surplus funds received from agencies for the workers' compensation premiums and higher distributions being received.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 Statement of Intent).

ACT INSURANCE AUTHORITY
APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS FORMING PART OF NOTE 2 OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 to 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. Accordingly, the financial statements have been prepared in accordance with:

I. Australian Accounting Standards; and

II. ACT Accounting and Disclosure Policies.

Accrual Accounting

The financial statements have been prepared using the accrual basis of accounting, which recognises the effects 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 period.

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.

Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Authority for the year ended 30 June 2017 and the financial position of the Authority at 30 June 2017.

Comparative Figures

Budget Figures

To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2016-17 has been presented in the financial statements. Budget numbers in the financial statements are the original budget numbers that appear in the Authority's Statement of Intent contained in the ACT Budget Statements.

Prior Year Comparatives

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements, except where an Australian Accounting Standard does not require comparative information to be disclosed.

Where the presentation or classification of items in the financial statements is amended, the comparative amounts have been reclassified where practical. Where a reclassification has occurred, the nature, amount and reason for the reclassification is provided.

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
FORMING PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

SIGNIFICANT ACCOUNTING POLICIES - INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Authority are affected by a number of key risks including insurance risk, interest rate risk, credit risk, liquidity risk and price risk. Notes on the Authority's policies and procedures in respect to managing insurance risks are set out in this note. The Authority's policies and procedures for managing other risks are disclosed in Note 21 - Financial Instruments.

Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating those Risks

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

The Authority has developed, implemented and maintains a sound and prudent risk management strategy and a reinsurance management strategy. These strategies 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.

Key aspects of the processes established to mitigate insurance risks include:

- actuarial models are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process;
- documented procedures are followed for claims management; and
- reinsurance is used to limit the Authority's exposure to large claims and catastrophes. When selecting a reinsurer, the Authority only considers those companies that have a Standard and Poors credit risk rating of 'A-' or higher. In order to assess this, the Authority uses ratings information from the public domain or gathered through internal investigations.

To limit the concentration of credit risk in purchasing reinsurance, the Authority has regard to existing reinsurance assets and seeks to limit excessive exposure to any single reinsurer or group of related reinsurers.

Development of Claims

There is a possibility that changes may occur in the estimate of the liability for outstanding claims at the end of a premium (contract) period. The tables in Note 18 'Outstanding Claims' show the Authority's estimate of outstanding claims for each underwriting year at successive year ends.

Concentration of Insurance Risk

The Authority's exposure to concentrations of insurance risk is mitigated by the Authority purchasing reinsurance on all classes of insurance policies. The main sources of concentration risk for property assets are bushfire, earthquake and storm damage. The Authority purchases catastrophe level reinsurance cover to limit exposure to any single event.

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

Direct insurance premium revenue comprises amounts charged to agencies, but excludes duties, Goods and Services Tax (GST) and other amounts collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2016 to 30 June 2017.

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 individual claim files 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 central estimate of the present value of the expected future payments, against claims incurred at the reporting date under general insurance contracts issued by the Authority, 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 trend in court awards, for example increases in he 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 reinsures at catastrophe level for those classes for which it accepts insurance, which 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.

All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2016 to 30 June 2017.

SIGNIFICANT ACCOUNTING POLICIES - INCOME AND EXPENSES - CONTINUED

NOTE 7 - OTHER REVENUE AND EXPENSES

Interest

Interest revenue is recognised using the effective interest method.

Distributions

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 bears no risk on these contracts and does not underwrite the business, but rather acts 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. Cover for policies which extend further than the current reporting period are recorded as prepayments with corresponding transactions recorded in other liabilities as premiums received in advance (refer to Note 19: 'Prepayments and Other Liabilities').

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 bears 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 business, 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.

Acquisition Costs

Under the *Insurance Authority Act 2005*, the Authority is responsible for managing the insurance costs of the Territory and Territory entities. The costs incurred in obtaining and recording policies of insurance (acquisition costs) are not material and are therefore not separately identified from other costs.

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 twelve months after the end of the annual reporting period 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.

(Refer to Appendix B - Note 20: 'Employee Benefits' for accrued wages and salaries, and annual and long service leave).

SIGNIFICANT ACCOUNTING POLICIES - INCOMEAND EXPENSES - CONTINUED

NOTE 8 - EMPLOYEE AND SUPERANNUATION EXPENSES - CONTINUED

Superannuation Expenses

The Authority makes fortnightly payments to the Territory Banking Account to extinguish the Authority's superannuation liability for employees who are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). This payment does not include the CSS and PSS productivity component which is paid directly to the Commonwealth Superannuation Corporation (CSC) by the Authority.

Superannuation payments have also been made directly to superannuation funds for those members of the Public Sector who are part of superannuation accumulation schemes. This includes the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice.

The Authority's accruing superannuation liability obligations are expensed as they are incurred.

Superannuation Liability Recognition

The superannuation liability for the Territory's relevant share of the employer financed portion of entitlements of all employees participating in the CSS and PSS schemes who became Territory employees with effect on or after 1 July 1989 is recognised at a total Territory level in the Chief Minister, Treasury and Economic Development Directorate's Superannuation Provision Account.

The ACT Government reimburses the CSC annually for the Territory's share of employer superannuation benefits paid to entitled Territory employees who are, or were members of the CSS and PSS. These reimbursement payments are made from the Superannuation Provision Account.

NOTE 9 - DEPRECIATION

Depreciation is applied to physical assets such as plant and equipment. Depreciation for non-current assets is determined as follows:

Class of Fixed Asset	Depreciation Method	Useful Life
Fixtures and fittings	Straight Line	5-10 years

The useful lives of all major assets held are reassessed on an annual basis.

SIGNIFICANT ACCOUNTING POLICIES - ASSETS

ASSETS - CURRENT & NON-CURRENT

Assets are classified as current or non-current in the Balance Sheet and in the relevant notes. Assets are classified as current where they are expected to be realised within twelve 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 back general insurance liabilities.

The Authority's investment funds are managed by the Territory Banking Account within Chief Minister, Treasury and Economic Development Directorate'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.

ACT INSURANCE AUTHORITY
APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES - ASSETS - CONTINIUED

NOTE 12 - CASH

For the purposes of the Cash Flow Statement and the Balance Sheet, cash is subject to an insignificant risk of changes in value. The Authority holds general operating bank accounts with the Westpac Banking Corporation.

NOTE 13 - INVESTMENT

Short-term investments are held with the Territory Banking Account in a unit trust called the Cash Enhanced Fund. Long-term investments are held with the Territory Banking Account in a unit trust called the Fixed Interest Fund. The prices of the units in both these unit trusts fluctuate in value. The net gain or loss on investments consists of the fluctuation in price of the unit trusts between the end of the last reporting period and the end of this reporting period as well as any profit on the sale of units in the unit trust (the gain or loss being the difference between the price at the end of the last reporting period and the sale price). The net gains or losses do not include interest or dividend income.

These short-term and long-term 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 the Cash Enhanced Fund and from the Fixed Interest Fund are paid quarterly.

NOTE 14 - RECEIVABLES

Accounts receivable are initially recognised at fair value and subsequently 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) and court ordered recoveries.

The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when some doubt as to the collection exists. The allowance for impairment is based on objective evidence and a review of overdue balances. The Authority considers the following is objective evidence of impairment:

I. becoming aware of financial difficulties of debtors;

II. default payments; or

III. debts more than 90 days overdue.

NOTE 16 - PLANT AND EQUIPMENT

Acquisition and Recognition of Plant and Equipment

Plant and equipment is initially recorded at cost.

Plant and equipment with a useful life greater than twelve months and minimum value of $5,000 is capitalised.

Measurement of Plant and Equipment After Initial Recognition

Plant and equipment is measured at cost less depreciation.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES

LIABILITIES - CURRENT & NON-CURRENT

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

NOTE 17 - PAYABLES

Payables are initially recognised at fair value based on the transaction cost and subsequent to initial recognition at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement. All amounts are normally settled within 30 days after the invoice date.

Payables include trade creditors, GST payable and accrued expenses.

Trade creditors represent the amounts owing for goods and services received prior to the end of the reporting period and unpaid at the end of the reporting period and relating to the normal operations of the Authority.

Accrued expenses represent goods and services provided by other parties during the reporting period that are unpaid at the end of the reporting period and where an invoice has not been received by period end.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 18 - 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 Balance Sheet date, including the cost of incurred but not yet reported (IBNR) and incurred but not enough reported (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 salvage and other 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 may often not be apparent until many years after the claim event. The public liability and medical malpractice classes of business 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 mix of business;
- 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 the ACT Government Solicitor's Office 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 accident 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.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 19 - PREPAYMENTS AND OTHER LIABILITIES

Workers' Compensation

The Authority processes the payment of the ACT Government workers' compensation premium to the Commonwealth Government workers' compensation insurer (Comcare), which levies a single premium covering all ACT Government agencies. Each agency pays its share of the insurance premium to the Authority for the purpose of financing the premium payment to Comcare. The Authority is not underwriting this workers' compensation insurance business, but rather acting as an intermediary for the Territory, the amounts involved are recorded in the Cash Flow Statement only and are not included in insurance premium revenue and claims expense.

Revenue Received in Advance

Revenue received in advance is recognised as a liability if there is a present obligation to return the funds received, otherwise all are recorded as revenue.

NOTE 20 - EMPLOYEE BENEFITS

Employee Benefits are listed in Appendix B - Note 8 Employee Expenses.

Wages and Salaries

Accrued wages and salaries are measured at the amount that remains unpaid to employees at the end of the reporting period.

Annual and Long Service Leave

Annual and long service leave including applicable on-costs that are not expected to be wholly settled before twelve months after the end of the reporting period when the employees render the related service are measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to the future wage and salary levels, experience of employee departures and periods of service. At the end of each reporting period end, the present value of future annual leave and long service leave payments is estimated using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

Annual leave liabilities have been estimated on the assumption that they will be wholly settled within three years. In 2016-17, the rate used to estimate the present value of future annual leave payments is 99.8% at 30 June 2017 (101.4% at 30 June 2016).

In 2016-17, the rate used to estimate the present value of future payments for long service leave is 103.4% at 30 June 2017 (114.7% at 30 June 2016).

The long service leave liability is estimated with reference to the minimum period of qualifying service. For employees with less than the required minimum period of seven years qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

The provision for annual leave and long service leave includes estimated on-costs. As these on-costs only become payable if the employee takes annual and long service leave while in-service, the probability that employees will take annual and long service leave while in service has been taken into account in estimating the liability for on-costs.

SIGNIFICANT ACCOUNTING POLICIES - LIABILITIES - CONTINUED

NOTE 20 - EMPLOYEE BENEFITS CONTINUED

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional rights to defer the settlement of the liability for at least twelve months. Conditional long service leave liabilities are classified as non-current because the Authority has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Significant Judgements and Estimates - Employee Benefits

Significant judgements have been applied in estimating the liability for employee benefits. The estimated liability for annual and long service leave requires a consideration of the future wage and salary levels, experience of employee departures, probability that leave will be taken in service and periods of service. The estimate also includes an assessment of the probability that employees will meet the minimum service period required to qualify for long service leave and that on-costs will become payable.

The significant judgements and assumptions included in the estimation of annual and long service leave liabilities include an assessment by an actuary. The Australian Government Actuary performed this assessment in May 2014. The assessment by an actuary is performed every 5 years. However it may be performed more frequently if there is a significant contextual change in the parameters underlying the 2014 report. The next actuarial review is expected to be undertaken by May 2019.

NOTE 24 - BUDGETARY REPORTING

Significant Judgements and Estimates - Budgetary Reporting

Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 24 'Budgetary Reporting'. Variances are considered to be major variances if both of the following criteria are met:

- the line item is a significant line item: where either the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or <u>more than</u> 10% of the sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
- the variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

APPENDIX C - IMPACT OF ACCOUNTING STANDARDS ISSUED - BUT YET TO BE APPLIED
FORMING PART OF NOTE 2 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Impact of Accounting Standards Issued but yet to be Applied

The following revised accounting standards have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards are applicable to future reporting periods. The Authority does not intend to adopt these standards early. Where applicable, these Australian Accounting Standards will be adopted from their application date.

The Authority is currently assessing the impact of the standards below, and while it is assumed there will be no material financial impact in implementing these standards there is potentially an impact on the classification, measurement and disclosures of the Authority's financial assets. The Authority will make a more detailed assessment of the impact over the next 12 months.

- AASB 9 *Financial Instruments* (December 2014) (application date 1 January 2018)
  This standard supersedes AASB 139 *Financial Instruments: Recognition and Measurement*. The main impact of AASB 9 is that it will change the classification, measurement and disclosures of the Authority's financial assets.
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (application date 1 January 2018);
  This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 9 in December 2010.
- AASB 2014-1 Amendments to Australian Accounting Standards - Part E Financial Instruments [AASB 1, 3, 4, 5,7,9 (December 2009), 9 (December 2010), 101, 102, 108, 112, 118, 120, 121, 132, 136, 137,139, Interpretation 2, 5,10, 12, 16, 19, and 107] (application date 1 January 2018);
  Part E of this standard defers the application of AASB 9 to 1 January 2018.
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) [AASB 1, 2, 3, 4, 5, 7, 13, 101, 102, 108, 110, 112, 120, 121, 123, 128, 132, 133, 136, 137, 139, 1023, 1038, 1049, Interpretation 2, 5, 10, 12, 16, 19 &127] (application date 1 January 2018);
  This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 9 (December 2014).

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES
FORMING PART OF NOTE 3 OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Changes in Accounting Estimates

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

Changes in Actuarial Assumptions

The Authority uses an actuary to estimate the 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 a decrease to the estimates of the outstanding claims liabilities and claims expense in the current reporting period (refer to Note 6: 'Net Incurred Claims' and Note 18: 'Outstanding Claims').

The Authority writes seven classes of insurance: medical malpractice, public liability, property, directors and officers, professional indemnity, financial crime and special purpose motor.

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

- estimates of claims incurred by the Authority but not yet reported at the balance date (IBNR claims) 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.

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities for 2016-17.

	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.18 Years	5.92 Years	7.23 Years	5.39 Years	3.37 Years	5.56 Years
Ultimate Claim Numbers (2016-17 Insurance Year)*	55	131	82	1	0.2	2
Average Settlement Size	$79,000†	$98,200† and $3.479m††	$267,200† and $4.8m††	$76,500†	$150,000†	$80,600†
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate **	1.8%	2.8%	2.9%	2.7%	2.2%	2.7%
Inflation and Superimposed Inflation**	2.8%	3.5%	3.5%	3.5%	3.3%	3.5%

The following assumptions have been made in estimating the outstanding claims liabilities for 2015-16.

	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.84 Years	5.80 Years	7.35 Years	4.46 Years	3.40 Years	4.07 Years
Ultimate Claim Numbers (2015-16 Insurance Year)*	66	145	98	2	0.2	4
Average Settlement Size	$141,700†	$93,900† and $3.525m††	$255,000† and $4.9m††	$77,500†	$150,000†	$77,600†
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate **	1.7%	2.1%	2.2%	2.0%	1.7%	2.0%
Inflation and Superimposed Inflation**	3.5%	3.2%	3.1%	3.4%	3.7%	3.3%

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

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 else 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 sizes 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 balance date have been adopted. The discount rates shown above are the rates which match the weighted term and the outstanding claims liability is discounted to adjust for the time value of money. All else 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 both 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.

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis - Insurance Contracts

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.

Assumptions	**Note No.**	**Net Provision $'000**	**Difference $'000**	**%**
Current Net Outstanding Claims Provision	**18**	**238,543**		
Economic Assumptions				
Discount rates increased by 1.0%		226,561	(11,982)	(5.0)
Discount rates decreased by 1.0%		251,541	12,998	5.4
Medical Malpractice				
Large Claims				
Assumed average size on IBNR Claims is $4.8 million				
Increase by $1.0 million		271,016	32,472	13.6
Decrease by $1.0 million		207,498	(31,045)	(13.0)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2011 and later		271,296	32,753	13.7
1 less claim per annum for 20011 and later		206,123	(32,421)	(13.6)
Public Liability				
Large Claims				
Assumed average size on IBNR Claims is $3.5 million				
Increase by $1.0 million		245,501	6,958	2.9
Decrease by $1.0 million		231,666	(6,877)	(2.9)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2011 and later		261,591	23,048	9.7

Current Net Outstanding Provision

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

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate, with a 1% increase in the discount rate this would result in a decrease of $12 million in claims liability whereas a decrease in the discount rate of 1% would result in an increase of $13 million in the liability.

APPENDIX D - CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES – CONTINUED

Sensitivity Analysis - Insurance Contracts - Continued

Medical Malpractice and Public Liability

The liability for outstanding claims is sensitive to movements in the average claim size; a change in average claim size by $1.0 million has a subsequent effect on the outstanding claim provision of either an increase of $32.5 million or a decrease of $31 million in the liability for large medical malpractice claims and either an increase of $7 million or a decrease of $6.9 million in the liability for large public liability claims.

A significant proportion of the outstanding claims provision 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. In particular for large medical malpractice claims, a change in the assumption of allowing for one additional or one less IBNR claim from 2011 and onwards has the subsequent effect on the outstanding claim provision of either an increase of $32.8 million or a decrease of $32.4 million in the liability. Whereas for Public liability, a change in the assumption of allowing for one additional IBNR claim from 2011 and onwards has the subsequent effect on the outstanding claim provision of an increase of $23 million in the liability. Recent experience in the number of large claims in the public liability class has meant that less than one large claim is expected. As a result, the sensitivity test for one less large claim has been removed.

PART C

PART C
STATEMENT OF PERFORMANCE

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

REPORT OF FACTUAL FINDINGS

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the ACT Insurance Authority (the Authority) for the year ended 30 June 2017.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting 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 2017*; 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.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, the Auditor-General is responsible for issuing a report of factual findings on the statement of performance of the Authority.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Authority.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited assurance that the results of the accountability indicators reported in the statement of performance have been fairly presented in accordance with the *Financial Management Act 1996*.

A review is primarily limited to making inquiries with representatives of the Authority, performing analytical and other review procedures and examining other available evidence. These review procedures do not provide all of the evidence that would be required in an audit, therefore, the level of assurance provided is less than that given in an audit. An audit has not been performed and no audit opinion is being expressed on the statement of performance.

This review 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;
- adequacy of controls implemented by the Authority; or
- integrity of the reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.
- .

M. Cooper.

Dr Maxine Cooper
Auditor-General
15 September 2017

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

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 2017, and also fairly reflects the judgements exercised in preparing it.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
12 September 2017

John Fletcher
General Manager
ACT Insurance Authority
12 September 2017

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

DESCRIPTION OF OBJECTIVES

The ACT Insurance Authority (the Authority) was established on 1 April 2001. The Authority operates under the *Insurance Authority Act 2005*. The Authority's key objectives 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 Treasurer about insurance and the management of Territory risks.

In addition, the Authority also performs the function of:

> the Office of the Nominal Defendant of the ACT, for claims against uninsured/unidentified vehicles for the ACT Compulsory Third Party Insurance Scheme; and

> the Default Insurance Fund, for default claims under the ACT Private Workers' Compensation Scheme.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

Objective	Accountability Indicators	Original Target 2016-17	Actual Result 2016-17	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Carry on the business of insurer of Territory risks	a. Results from an annual customer satisfaction survey:		29 responses received of the 65 surveys distributed			
	> Overall customer satisfaction with insurance management services.	>90%	97%	-	-	
	> Overall customer satisfaction of claims management.	>80%	97%	-	-	
	> Overall customer satisfaction of annual insurance renewal.	>80%	90%	-	-	
	> Overall customer satisfaction of financial management services.	>90%	93%	-	-	
	b. Determine annual insurance premiums for Territory agencies that allow 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%-110% as outlined in the Authority's Capital Management Plan.	122%	138%	16%	13	The increase in the actual result ratio compared with the original target is predominately due to the decrease in the Authority's non-current outstanding claims liabilities. This is the result of claims settling earlier than expected along with changes in discount rates and expected inflation.

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 2017

Objective	Accountability Indicators	Original Target 2016-17	Actual Result 2016-17	Variance Amount	Variance %	Explanation of Material Variances (>10%)
Carry on the business of insurer of Territory risks - continued	d. General and administrative expense as a percentage of total annual premium revenue.	5%	6%	(1 %)	20	The Authority has seen a reduction in annual premiums resulting in an increase in expenses as a percentage of premium revenue.
	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	8 days	(2) days	(20)	Claim payments are processed as a priority.
	f. Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs.	Annual review completed	Annual review completed	-	-	
Take out insurance of Territory risks with other entities	g. Review the Territory property asset register to ensure that values provided by agencies reflect insurance replacement costs.	Annual review completed	Annual review completed	-	-	
	h. Facilitate Property Loss Control Surveys undertaken at a number of selected Territory locations.	7	8	1	14	An additional territory site was surveyed at the request of the reinsurers.
Satisfy or settle claims in relation to Territory risks	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	3 Quarterly claims review meetings were held	(1)	25	The quarterly review meeting scheduled for June was delayed until July due to the availability of key attendees. The meeting was held on the 5th July 2017.

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 2017

Objective	Accountability Indicators	Original Target 2016-17	Actual Result 2016-17	Variance Amount	Variance %	Explanation of Material Variances (>10%)
Satisfy or settle claims in relation to Territory risks - continued	j. Insurance claims data: **Public Liability**					
	Discounted Mean Term (for Outstanding Claims)[1]	4.54 Years	5.92 Years	1.38 Years	30	The discounted mean term has exceeded the target due to a lower than expected discount rate. When a lower discount rate occurs this reduces the discounting effect and, all else being equal, this then increases the discounted mean term.
	Ultimate Claim Numbers[2]	128	131	3	2	
	Average Small Claim (<$1 m) Settlement Size[3]	$99,570	$94,881	($4,689)	(4.7)	
	Average Large Claim (>$1 m) Settlement Size[3]	$3,425,441	$3,479,000	$53,559	1.6	
	Medical Malpractice					
	Discounted Mean Term (for Outstanding Claims)[1]	6.40 Years	7.23 Years	0.83 Years	13	The discounted mean term has exceeded the target due to a lower than expected discount rate. When a lower discount rate occurs this reduces the discounting effect and, all else being equal, this then increases the discounted mean term.
	Ultimate Claim Numbers[2]	95	82	(13)	(14)	The ultimate claim numbers are lower than the original target due to lower than expected claim numbers being reported.
	Average Small Claim (<$1 m) Settlement Size[3]	$247,661	$254,965	$7,304	2.9	
	Average Large Claim (>$1 m) Settlement Size[3]	$4,900,000	$4,800,000	($100,000)	(2)	

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

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

Objective	Accountability Indicators	Original Target 2016-17	Actual Result 2016-17	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]	1.01 Years	1.18 Years	0.17 Years	17	The discounted mean term is higher than the target due to a number of larger claims that have emerged with longer average times between reporting and settlement.
	Ultimate Claim Numbers[2]	52	55	3	5.8	
	Average Small Claim (<$1 m) Settlement Size[3]	$61,580	60,472	($1,108)	(1.8)	
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 October 2016 and March 2017	-	-	
	l. Deliver a program of general and targeted risk management training courses to Territory agencies	12	14	2	17	Training programs for risk management were higher than the original target due to higher than expected demand from agencies.
	m. Overall participant satisfaction with risk management training sessions delivered to agency staff members.	>90%	99.5%	-	-	

[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 Statement of Performance should be read in conjunction with the accompanying notes

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

Objective	Accountability Indicators	Original Target 2016-17	Actual Result 2016-17	Variance		Explanation of Material Variances (>10%)
				Amount	%	
Give advice to the Minister about insurance and the management of Territory Risk	n. Provide briefing material on the agency Annual Insurance Premiums.	Brief provided to Minister	Brief provided to Minister	-	-	
	o. Provide briefing material on the Reinsurance Program.	Brief provided to Minister	Brief provided to Minister	-	-	
	p. Provide briefing material on the Authority's Annual Report.	Brief provided to Minister	Brief provided to Minister	-	-	

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 2017

NOTES

a. Surveys are sent to the 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 Authority's performance against the Client Service Charter that details what agencies can expect when doing business with the Authority. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree and strongly disagree. Any strongly agree or agree responses were taken as a satisfied result.

b. The Authority completes an annual review of agency insurance premiums, with assistance from the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd. Annual premiums are determined based on agency claims history, asset ownership and risk profile.

c. The Authority has a funding target ratio of between 100-110% as outlined in the Authority's capital management plan. The 2016-17 original target ratio was higher than the targeted range due to the decrease in the Authority's outstanding claims liabilities. The funding ratio is calculated by dividing total assets by total liabilities. These parameters 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 as a percentage of annual premium revenue are measured against a targeted average of the Authority's actual results from the previous three years.

e. The Authority processes payments for the settlement of claims as a priority. The number of days to process a payment is measured from the date all required documentation 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 values detailed in the Territory's asset schedule as part of the property reinsurance renewal.

h. An annual property loss control survey program is undertaken by the Authority's property reinsurers. 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. Quarterly claims review meetings are held to review all public liability and medical malpractice claims where the Territory's reserve exceeds $250,000. Meetings are attended by Authority staff and 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 actuarial assessment of the measure for insurance claims data is provided by the Authority's actuary, PricewaterhouseCoopers Actuarial Pty Ltd at the end of each financial year. The 'original target' and 'actual result' figures are based on claims experience and include general actuarial assumptions of growth, for example, population and price indexation.

   The 'original target' is based on actuarial assumptions provided during the mid-term estimate of outstanding claims liabilities at 31 December 2015 and the 'actual results' are based on the valuation at 30 June 2017. The assumptions provide the basis for establishing the Authority's outstanding claims provision and measuring the impact of action taken by the Authority to influence that outcome. The Authority works with agencies and our 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.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

NOTES - CONTINUED

j. **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 discounted settlements. 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 to payments occurring further into the future results in an increase to the discounted mean term whereas an increase in the discount rate will lower the payment value in the future resulting in a lower 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 2.90% (2.96% on original target) resulting in an increase to discounted mean terms for those insurance classes with larger long-term payments.

[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 reporting rates 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 3.55% (3.53% on 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 courses that covers general introductory and intermediate level risk management and topic specific training sessions in the modification and use of risk management software tailored to meet agency requirements.

m. Attendees are requested to complete feedback forms at the completion of the risk management training 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 and strongly disagree where strongly agree and agree are taken as a satisfied result.

n. The Authority prepares a brief for decision by 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 decision by 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 information to the Minister each year on the Authority's Annual Report.

The above accountability indicators and accompanying notes 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 losses and claims under a large number of policies in a class (e.g. a hailstorm, cyclone or earthquake).

Compulsory Third Party (CTP) Insurance

A prescribed class of insurance business covering accidental bodily injury to or death of third parties as a result of a road accident. All owners of a motor vehicle using public roads are required to have CTP cover purchased in the state in which each vehicle is registered. Third party property damage insurance is not compulsory and is classified with comprehensive motor vehicle insurance. The parties involved in a road traffic accident are:

> First party: The insured or policyholder;

> Second party: The insurer; and

> Third party: All persons involved except driver of vehicle at fault.

Claims Incurred

The expenses relating to claims arising from risks covered during an accounting period, including claims paid, outstanding claims 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

Covers directors and officers of a company for negligent acts or omissions, and for misleading statements that result in suits against the company, often by shareholders.

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 under a policy (i.e. the gross written premium) that relates to the proportion of the risk covered by the policy 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

Insurance business, for example, employer liability insurance, where the financial outcome of some claims may not be known for several years.

Medical Malpractice Insurance

Professional liability coverage for physicians and other specialists against suits alleging negligence or errors and omissions that have harmed patients.

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

Covers professionals for causing loss or injury to their clients.

Property Insurance

Covers damage to or loss of policyholders' property.

Public Liability Insurance

Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

Reinsurance

Insurance bought by insurers. A reinsurer assumes part of the risk. The business is global and some of the largest reinsurers are based abroad. Reinsurers don't pay policyholder claims. Instead, they reimburse insurers for claims paid.

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

Management of the varied risks to which a business firm or association might be subject. It includes analysing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures.

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

Claim settlement trends/movements (usually up) that are not aligned with normal inflation. For example, significant settlements are awarded by the courts, well above what would normally be paid if average inflation indices were applied.

Underwriting Result

Traditional measure for determining the profitability of a general insurer.

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).

Unidentified Vehicle

A motor vehicle, including a trailer that cannot be identified after reasonable inquiry and search.

ALPHABETICAL INDEX