ACTIA

Australian Capital Territory Insurance Authority

ANNUAL REPORT 2012-13

AUSTRALIAN CAPITAL TERRITORY INSURANCE AUTHORITY

Office of the NOMINAL DEFENDANT of the Australian Capital Territory

ANNUAL REPORT 2012-13

NOMINAL DEFENDANT

ACTIA

Australian Capital Territory Insurance Authority

ANNUAL REPORT 2012-13

AUSTRALIAN CAPITAL TERRITORY INSURANCE AUTHORITY

Office of the NOMINAL DEFENDANT of the Australian Capital Territory

ANNUAL REPORT 2012-13

NOMINAL DEFENDANT

ACT Insurance Authority

The Australian Capital Territory Insurance 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:

John Fletcher
General Manager
ACT Insurance Authority
Phone: (02) 620 70268
E-mail: john.fletcher@act.gov.au

Website: http://www.cwd.act.gov.au/act-insurance-authority

Produced by Publishing Services for the ACT Insurance Authority

Publication No 13/1061

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 2013.

This Report has been prepared under section 6(1) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements referred to in the Chief Minster's 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 hereby certify that the attached Annual Report is to the best of my knowledge and honest and accurate account and that all material information on the operations of the ACT Insurance Authority during the period 1 July 2012 to 30 June 2013 has been included and that it complies with the Chief Minister's Annual Report Directions.

I also herby certify that fraud prevention has been managed in accordance with Public Sector Management Standard 2, Part 2.4.

Section 13 of the Annual Reports (Government Agencies) Act 2004 requires that you cause a copy of the Report to be laid before the Legislative Assembly within 3 months of the end of the financial year.

Yours sincerely

Megan Smithies
Director General
18 September 2013

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

TABLE OF CONTENTS

PART ONE
SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORT

A.1 THE ORGANISATION

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

The Act establishes the Authority as the ACT Government's captive insurer providing insurance services to all ACT Government Directorates and Statutory Authorities: we meet the insurable claims and losses of ACT Government agencies.

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

The portfolio represents just over $22 billion of insured assets, with annual premium revenue of $55.4 million, and $386.6 million in investments and other assets.

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

A.1.1 Principal Objectives

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;
- 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;
- give advice to the Treasurer about insurance and the management of Territory risks;
- carry out the role of the Nominal Defendant of the ACT; and
- administer, on behalf of and under agreement with the Chief Minister and Treasury Directorate, the Default Insurance Fund.

A.1.2 Functions

The functions of the Authority are specified in Section 8 of the *ACT Insurance Authority Act 2005* and include:

- carrying on the business of insurer of Territory risks;
- insuring of Territory risks with other entities;
- managing claims in relation to Territory risks;
- promoting good risk management practices; and
- giving advice to the Minister about insurance and the management of Territory risks.

The ACTIA operational model is focused on satisfying the Authority's objectives and functions by taking a leadership role to reduce the total cost of risk to the Territory and individual agencies.

This focus leverages on the integration of core functions as the:

- Insurer and reinsurer of Territory risks;
- Risk management advisor to Government; and
- Insurance advisor to Government.

A.1.3 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.

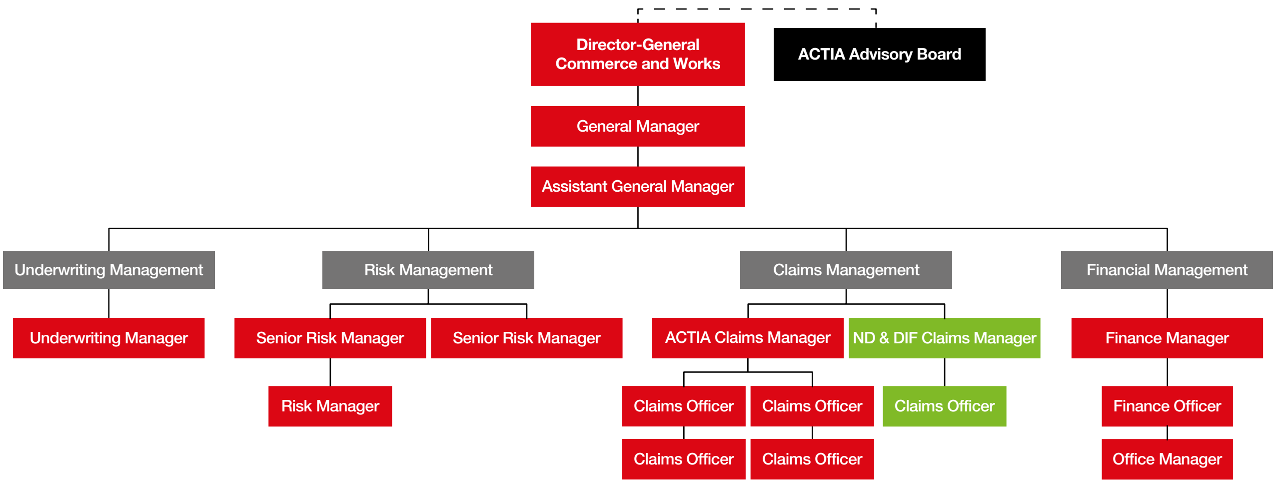
The insurance coverage provided is broad form cover that includes:

- public liability;
- medical malpractice;
- professional indemnity;
- property damage; and
- others including standing timber, specialised motor, overseas travel, directors and officers and financial crime.

A.1.4 Organisational Structure

The management structure of the Authority consists of 16 positions, structured as follows:

ACT Insurance Authority



1. The Default Insurance Fund (DIF) for private Workers' Compensation is managed by ACTIA under a Memorandum of Understanding with the Chief Minister and Treasury Directorate. In addition, the Nominal Defendant Fund (ND) for the ACT is also managed by ACTIA fund management staff.

A.2 OVERVIEW

The ACTIA Statement of Intent 2012-13 provides details of the principal objectives and functions of the Authority including a range of strategic objectives, functions, business priorities and accountability indicators.

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

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 is supported by the ACTIA Advisory Board appointed under the Authority's enabling legislation. The current members are Mr David Sandoe (chair), Mr Peter Matthews, Mrs Karen Doran Executive Director, Investment and Economics Division, ACT Treasury.

The Advisory Board continues to provide important and valuable input to the Authority, particularly in relation to a strategic approach to its reinsurance program and improvements to risk and claims management activities. Details of Board members qualifications and experience appear in Section C.5.1.

The Authority also performs the function of fund manager for 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.

A.3 HIGHLIGHTS

Highlights during the 2012-13 year were:

- The Authority's key operational priority is placement of the Territory's annual 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. In 2012-13, the Authority achieved 100% placement of the agreed reinsurance program within budget consistent with the strategic objective of maintaining long term relationships with lead underwriters in the Australian and London insurance markets.
- The public liability claims arising from the 2003 bushfire were heard in the ACT Magistrates Court in early 2011. In August 2012, the remaining plaintiffs, a group known collectively as the "Stacks" plaintiffs, agreed to settle their claim with judgement entered in favour of the Territory and the New South Wales Governments. The Authority's reinsurance program has met the strategic objective of protecting the Territory's budget from the financial impact of a catastrophic event. The Authority has been able to meet the cost of claims made by Territory agencies from accumulated reserves and to then call on reinsurance policies in place with local and international insurance providers. The Authority forecasts a total recovery in excess of $120 million from reinsurers providing liability, property and standing timber reinsurance. Without an appropriate reinsurance program in place this cost would have transferred directly to the Territory's bottom line budget. For the ACT Government, the final settlement effectively brings to an end litigation arising from the 2003 bushfire.
- The Authority's Risk Managers continue to work with Directorates to promote best practice risk management within the Territory. The team provides a range of consultancy services to

executive managers and staff involved in the delivery of a range of projects and operational programs. This consultancy support includes a number of activities such as: facilitating risk assessment workshops; review of risk plans; support of risk management and audit committees within Directorates; presentations of topical issues to senior management teams and / or Directorate interest groups; and provision of risk specific training. The strong working relationship of Authority Risk Managers with Directorate staff at all levels allows Risk Managers to respond to Directorate needs in the provision of services offered.

- The Authority reduced its claims liability by $30.7 million. This has resulted in an overall reduction in ordinary claims expenses of $54.4 million against budget. This is predominantly due to increased discounting and inflation rates and changes in the actuarial assumptions used to calculate the Authority's outstanding claims liability. The changes in actuarial assumptions are driven by experience in the portfolio that include higher than usual payments in 2012-13, an assumed decrease in the number of medical malpractice and public liability claims and a reduction in the size and number of property claims.

A.4 OUTLOOK

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.

While the liability profile is exhibiting increasing signs of maturity, considerable volatility remains, with only limited claims experience from which to derive actuarial assumptions. The majority of ACTIA's claims are long tailed in nature, which means that claims often take many years to settle resulting in further uncertainty.

Further revisions of the outstanding claims liability are expected as the Authority's portfolio moves towards a mature state. The Authority's ability to value outstanding liabilities will be better informed by the accumulation of claims data including claims experience information.

It remains critical to the Authority that insurance related incidents are reported promptly to facilitate 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.

The cost of reinsurance premiums is expected to remain stable in the short term, all classes are expected to continue to perform well and increases should be modest market driven increases.

ACTIA 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 risk management practices.

ACTIA continues to promote good risk management practices in agencies. The Authority's risk management team continues to provide advice and assistance to agencies. During the year ACTIA staff delivered a total of 31 general and agency specific risk management training courses to various Territory agencies.

The Authority intends to implement the following key strategies in 2013-14 to achieve its objectives:

- provide professional advice to Government and Territory agencies on insurance and risk management issues;
- deliver a value for money reinsurance program to protect the Territory budget;
- continue to maximise reinsurance recoveries;
- review the Territory asset register as part of the insurance renewal process;
- develop business practices which will enable the Authority to achieve best practice results, and if feasible, reduce premiums for clients;

- proactively manage claims against the Territory in consultation with agency stakeholders and in accordance with the ACT model litigant requirements;
- conduct regular reviews of existing claims to ensure that appropriate management is being applied and that realistic claim estimates are included in financial statements;
- facilitate agency access to the claims reporting and data analysis to support a risk managed approach to operational and asset management;
- continue to assist agencies with the implementation of the ACT Government Risk Management Framework;
- work with selected agencies to reduce the number and severity of incidents and ultimate claims cost;
- deliver to agencies a program of general and targeted risk management training;
- administer the Office of the Nominal Defendant of ACT; and
- administer the Default Insurance Fund on behalf of the Chief Minister and Treasury Directorate.

A.5 MANAGEMENT DISCUSSION AND ANALYSIS

The Authority's financial results are reported in Part 2 of this report. Part 2 contains annual financial results for the Authority along with a Management Discussion and Analysis and a Statement of Performance.

A.6 FINANCIAL REPORT

The Authority's financial results are reported in Part 2 of the 2012-13 ACT Insurance Authority Annual Report.

A.7 STATEMENT OF PERFORMANCE

The Authority's Statement of Performance is reported in Part 2 of the 2012-13 ACT Insurance Authority Annual Report. Narrative on the performance measures is also included in A.9 Analysis of Agency Performance.

A.8 STRATEGIC INDICATORS

This section does not apply to the Authority.

A.9 ANALYSIS OF AGENCY PERFORMANCE

The Authority has met and in many cases exceeded accountability indicator measures as detailed in the ACTIA Statement of Intent 2012-13.

A summary of the outcome achieved against each of the ACTIA principal objectives and accountability indicators as detailed in the ACTIA Statement of Intent 2012-13 follows:

Carry out the business of insurer of Territory risks

- **Conduct an annual customer satisfaction survey**

Outcome
ACTIA's Customer Service Charter details the standards that our agency customers can expect when dealing with us. To gauge our effectiveness against these commitments ACTIA surveyed agencies to identify their level of satisfaction with the services provided.

Surveys were sent to the Directors-General of all ACT Government Directorates, Statutory Authorities and agency insurance contacts insured by the Authority.

The survey asked respondents to rate their level of satisfaction against key areas of service delivery including insurance claims management and risk management. Respondents were asked to confirm that they were satisfied with the overall performance of the Authority as their insurance service provider, 94% "agreed" or "strongly agreed" with this statement.

Survey respondents identified a number of key elements of service provision that supported overall satisfaction levels. These areas include: ACTIA understands government service delivery; our ability to act quickly to support agencies on complex claims matters; the provision of risk management support and training sessions; and the customer focus of Authority staff and ability to build relationships with Directorates to facilitate service provision.

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

- **General and administrative expense as a percentage of total revenue**

Outcome

General and administrative expenses represent 8% of ordinary revenue. This is 3.4% greater than the target of 4.6%.

The indicator is a poor measure of performance this year due to the inclusion of reinsurance recovery revenue item (a large reduction in value) for the 2003 bushfire claim.

The Authority operated within budget for general and administrative expenses in 2012-13.

ACTIA management and staff continue to work on improving operational efficiency without compromising on the service delivery expectations of customers.

- **Determine annual insurance premiums for Territory agencies**

Outcome

ACTIA completed an annual review of agency insurance premiums, with assistance from the fund actuary PwC for the 2012-13 insurance year. Premiums are determined based on agency claims history, asset ownership and overall risk profile.

- **Average Number of Days to Process an Insurance Payment**

Outcome

During 2012-13 it took an average of 4 days to reimburse agencies for insurance settlements. This is 16 days less than the target of 20 days.

Take out insurance of Territory risks with other entities

- **Review the Territory's insurance and reinsurance programs**

Outcome

ACTIA completed an annual review of the Territory's insurance and reinsurance programs. This 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 ACTIA Advisory Board who provided advice to the Director-General and the General Manager ACTIA on the suitability of the proposed arrangements.

The detail provided by agencies in response to an insurance questionnaire issued by ACTIA, claims experience reports and an ongoing asset review exercise enables the ACTIA to develop and deliver the ACTIA Reinsurance Program for 2012-13.

ACTIA was able to achieve placement of 100% of the Territory's reinsurance program for 2012-13 with the London and Australian Insurance markets within budget.

The self insured retention for the Territory's Medical Malpractice program for 2012-13 was increased from $17.5 million to $20 million due to market pressure and agreed based on an analysis of historical claims and premium costs.

- **Conduct annual property asset audits to ensure that values reflect replacement costs**

Outcome

ACTIA 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 actions from property asset management surveys**

Outcome

The Authority's property reinsurers undertake an annual program of property surveys in consultation with the Authority and Territory agencies. The program 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 2012-13 confirmed that the Territory's asset management practices were appropriate in the sample of assets surveyed.

Satisfy or settle claims in relation to Territory risks

- **Quarterly review of claims**

Outcome

Quarterly claims review meetings were held for general liability and medical malpractice claims during 2012-13. The claim review meetings were attended by Authority staff and representatives of the Government Solicitor's Office, ACTIA's insurance brokers, Marsh, as well as external insurers and their solicitors, where appropriate. Claims estimated at $500,000 or greater were reviewed and reserves adjusted where appropriate.

ACTIA 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 and in developing effective mitigation strategies.

- **Number of active insurance claims and incidents**

Outcome

The Authority's claims management system shows that there were 1,113 open claims and incidents and that 7,368 claims and incidents were closed during the financial year.

This is a decrease on the forecast 2012-13 outcome that reflects a decrease (6.4%) in the number of overall claims and incident notifications received by the Authority. It is important to note that the vast majority of reported incidents will not result in a claim for compensation.

It is expected that the number of open claims will increase over time due to the lengthy period between claims notification and settlement for Medical Malpractice and Liability claims that form the majority of ACTIA's claims.

Develop and promote good practices for the management of Territory risks

- **Provide Risk Management Profile Reports**

Outcome

In August 2012 and February 2013, ACTIA issued Risk Profile Reports to Director-Generals, 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 provided a commentary on issues or trends, where identified, across classes of insurance. The reports also included suggested risk management actions for information and action.

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

- **Conduct of risk management training courses**

Outcome

The Authority's Risk Managers have delivered 31 training sessions to approximately 580 Territory Staff. A rolling schedule of 12 Whole of Government Risk Management Training was set at the beginning of the year. The foundation course "Introduction to whole of government risk management" remains popular and is consistently well attended. In addition, two new courses were introduced this year "Managing risk in project management" and "Managing risk in events." The new courses were developed following a review of agency risk management needs. Both courses have been well attended by a range of Territory Staff including Senior Executive Managers, Senior Officers and operational staff.

The Authority has provided an increased number of tailored training solutions directly to Directorate Business Units. Nineteen, specifically tailored courses were run to provide Territory Staff with: assistance in using the excel risk register, understanding of the current ACT Government Risk Management Framework, how to assess a risk management plan, risk treatments and introductory level courses where training exercises related specifically to attendees job roles. The tailored training initiatives were a mixture of half day and full day training sessions.

The courses offered by the Authority have been well received and feedback from Directorates is extremely positive.

- **Conduct Risk Management Performance and Improvement Reviews**

Outcome

The Authority assisted ten agencies with a review of risk management performance in 2012-13.

The Authority assisted ten agencies to complete an evidence based survey of their risk management arrangements against the key principles of the ACT Government's Risk Management Framework: The principles of risk management, the Frame work – mandate and commitment to risk management and the process of risk management.

The report uses a risk management model developed by the Authority to assess the maturity level of the risk management practices within Territory agencies and business units. The review process asks agencies to self-audit their risk management arrangements against the key principles of the ACT Government Risk Management Framework.

The ten agencies who participated achieved "satisfactory or above" rating against the key principles criteria, with a range of areas identified for further attention to achieve a higher rating against the maturity model.

A.10 TRIPLE BOTTOM LINE REPORT

INDICATOR	2011-12 Result	2012-13 Result	% Change
Economic			
Employee Expenses			
Number of staff employed (head count)	15	15	
Total employee expenditure ($'000 dollars)	1480	1,469	(0.74%)
Operating Statement			
Total expenditure ($'000 dollars)	90,068	22,901	(74.5)%
Total own source revenue ($'000 dollars)	89,213	76,027	(14.8)%
Total net cost of services ($'000 dollars)	(855)	53,126	6313.6%
Economic Viability			
Total assets ($'000 dollars)	396,419	386,249	(12.9%)
Total liabilities ($'000 dollars)	379,293	316,853	(25.8%)
Environmental			
Transport			
Total number of fleet vehicles			
Total transport fuel used (kilolitres)	-	-	N/A
Total direct greenhouse emissions of the fleet (tonnes of CO2e)			
Energy use			
Total office energy use (mega joules)	Refer to Commerce & Works Directorate Annual Report		N/A
Office energy use per FTE (mega joules/FTE)			
Office energy use per square metre (mega joules/m2)			
Greenhouse Emissions			
Total office greenhouse emissions – direct and indirect (tonnes of CO2e)			
Total office greenhouse emissions per FTE (tonnes of CO2e/FTE)	Refer to Commerce & Works Directorate Annual Report		N/A
Total office greenhouse emissions per square metre (tonnes of CO2e/m2)			

INDICATOR	2011-12 Result	2012-13 Result	% Change
Environmental (continued)			
Water Consumption Total water use (kilolitres) Office water use per FTE (kilolitres/FTE) Office water use per square metre (kilolitres/m2)	Refer to Commerce & Works Directorate Annual Report		N/A
Resource Efficiency and Waste Estimate of co-mingled office waste per FTE (litres) Estimate of paper recycled (litres) Estimate of paper used (by reams) per FTE (litres)	Refer to Commerce & Works Directorate Annual Report		N/A
Social			
Diversity of Our Workforce			
Women (Female FTEs as a percentage of the total workforce)	60%	60%	- -
People with a disability (as a percentage of the total workforce)	7%	7%	-
Aboriginal and Torres Strait Islander people (as a percentage of the total workforce)	-	-	-
Staff with English as a second language (as a percentage of the total workforce)	-	-	-
Staff Health and Wellbeing			
WH&S Incident and Reports	1	1	-
Accepted claims for compensation (as at 31 August 2012)	-	-	-
Staff Receiving influenza vaccinations	6	5	(17%)
Workstation assessments requested	-	-	-

SECTION B: CONSULTATION AND SCRUTINY REPORTING

B.1 COMMUNITY ENGAGEMENT

It was not necessary for the Authority to undertake consultation with the public during 2012-13 as the Authority's functions do not require it to deal directly with the community. However, the Authority does provide risk management support to agencies who engage with the community regarding community matters such as the management and running of public events.

These activities may include:

- advice to an agency as to the adequacy of a community group's insurance cover;
- advice to agencies on the adequacy of insurance and indemnity clauses in contracts; and
- assisting an agency to prepare a risk assessment and management plan for a public event.

Feedback from our Government clients on their expectation and level of satisfaction with the quality of our services is actively sought through the Authority's annual customer service survey.

B.2 INTERNAL & EXTERNAL SCRUTINY

The valuation of outstanding insurance claims for 2012-13, completed by the Authority's actuaries PwC, was peer reviewed by CumpstonSarjeant Consulting Actuaries. The valuation was found to be reasonable.

During the reporting period the Authority was not subject to formal external scrutiny in relation to judicial review or by the ACT Ombudsman.

B.3 LEGISLATIVE ASSEMBLY COMMITTEE INQUIRIES AND REPORTS

During the reporting period the Authority did not participate in any Legislative Assembly Committee inquiries related to its operational activities.

B.4 LEGISLATION REPORT

The following is a list of legislation for which the Authority has a responsibility:

- *ACT Insurance Authority Act 2005.*

SECTION C: LEGISLATIVE AND POLICY BASED REPORTING

C.1 RISK MANAGEMENT AND INTERNAL AUDIT

C.1.1 Internal Audit

Internal audit for the Authority is provided by Commerce and Works Directorate Audit Committee (the Committee). The Committee's functions are governed by the Audit Committee Charter.

Membership includes appointees from two other directorates and an independent Chair. Advisors, including a representative from the ACT Auditor-General's Office, also regularly attend meetings. Mr William Laurie was appointed as the Independent Chair in July 2011, and Ms Carol Lilley was appointed as Deputy Chair in July 2011.

Five general meetings were held during the year, with an additional meeting held on 18 July 2012 to review and clear the financial statements. The number of general meetings attended by committee members and observers is as follows:

Name of Member	Position	Duration	Meetings Attended
William Laurie	Independent Member and Chair	July 2012 to June 2013	5/5
Carol Lilley	Independent Member and Deputy Chair	July 2012 to June 2013	5/5
Andrew Whale	Member	July 2012 to June 2013	4/5
David Collett	Member	July 2012 to June 2013	3/5
Mark Whybrow	Member	July 2012 to June 2013	5/5
Kirsten Thompson	Member	May 2013 to June 2013	2/2
Jill Divorty	Advisor	July 2012 to June 2013	5/5
Ross Burton	Advisor	July 2012 to June 2013	5/5
Kim Salisbury	Advisor	March 2013 to June 2013	1/3
Sarbjit Sidhu	Advisor	July 2012 to June 2013	4/5
Representative from Auditor-General's Office	Advisor	July 2012 to June 2013	5/5

Internal audit services were provided by private audit firms. Internal audits were selected from an internal audit program developed by the Directorate after identifying areas of operational and financial risk. The proposed internal audit program was then approved by the Director-General and overseen by the Committee.

Field work was completed for an audit of the ACTIA Insurance Claims Database which is expected to be presented to the Committee in September 2013.

C.1.2 Risk Management Plan

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 / loss mitigation plans for identified categories of risk including financial, business and IT risks. The Risk Management Plan is reviewed annually.

C.2 FRAUD PREVENTION

The Authority conducts a risk assessment of its operational activities and its Fraud and Integrity Plan annually. 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.

C.3 PUBLIC INTEREST DISCLOSURE

The *Public Interest Disclosure Act 2012* (the Act) provides a mechanism for people to report wrongdoing in the ACT public sector. This action is referred to as making a 'public interest disclosure', and is less formally known as 'whistle blowing'. A Whole of Government Fact Sheet is available, which provides information on making a disclosure.

The Fact Sheet includes summary information on:

- what is a Public Interest Disclosure (PID);
- who can make a PID;
- how protection is provided to someone who makes a disclosure; and
- what happens after a disclosure is made.

The Fact Sheet also provides contact details to obtain further information in making a disclosure.

In 2012-13, the Authority did not have any public interest disclosure as described by the Act.

C.4 FREEDOM OF INFORMATION

The *Freedom of Information Act 1989* (FOI Act) provides a legally enforceable right of access by citizens to documents in the possession of the ACT Government.

Section 7 Statement

Public Participation in Decision-making

Section 7 of the FOI Act requires the Authority to prepare and publish a statement outlining organisation function and powers, public participation in decision making, the categories of documents available and facilities available to access documents.

The ACT Insurance Authority was established in 2001 by the *ACT Insurance Authority Act 2000*, and now operates under the amended *ACT Insurance Authority Act 2005* (the Act). Its functions under the Act are to:

- carry on the business of insurer of Territory risks;
- insure Territory risks with other entities;
- manage claims in relation to Territory risks;
- promote good risk management practice by client agencies;

- carry out the role of the Nominal Defendant of the ACT; and
- administer, on behalf of and under agreement with the Chief Minister and Treasury Directorate, the Default Insurance Fund.

The Authority is responsible for:

- advising the Treasurer on appropriate self-insurance strategies;
- the oversight of the management of the Government's own insurance arrangements;
- issuing policies of insurance to government agencies; and
- the oversight of risk management policy and its implementation in ACT Government agencies.

Documents held include insurance claim files, insurance declarations and agreements, management files and finance records.

Section 8 Statement

Agency Index of Decision-making Documents

The Authority's Section 8 Statement is included with that of the Commerce and Works Directorate published in the Commerce and Works Annual Report 2012-13.

Commerce and Works makes available a Section 8 statement under the ACT *Freedom of Information Act 1989*, being an index of documents provided by the agency for the purpose of making a decision or recommendation under an enactment or scheme. The statement is available from Commerce and Works FOI Coordinator or the Commerce and Works website at http://www.cwd.act.gov.au/.

Freedom of information guidelines are available at the Commerce and Words website http://www.cwd.act.gov.au/documents-and-foi/foi

The Authority did not receive any requests for access to documents under the *Freedom of Information Act 1989* during 2012-13.

C.5 INTERNAL ACCOUNTABILITY

The Authority is responsible to the ACT Treasurer and operates under the *ACT Insurance Authority Act 2005*. Under the Act the Director-General of Commerce and Works is the Authority and an Advisory Board is established.

Under the Government's Administrative Arrangement Orders, the ACT Insurance Authority resides within the Commerce and Works Directorate.

Executives employed by the Authority are paid in accordance with the Determination of the ACT Remuneration Tribunal and relevant laws and instruments, including the *Public Sector Management Act 1994* and the Public Sector Management Standards 2006.

There have not been any major structural changes to the Authority during the reporting period. The organisational chart showing senior management and functional units as at 30 June 2013 are shown in Section A.1.4.

C.5.1 Advisory Board

The ACT Insurance Authority Advisory Board is appointed under Section 12 of the Act in accordance with Insurance Management Guidelines established under s.14 of the Act.

Guideline No. 1 of 2005 requires that the Board should consist of two members appointed in writing 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, providing 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 and retirements, the Director-General Commerce and Works is the Authority and the appointees are chosen based on skills relevant to the above requirements. Appointments 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
Mr David Sandoe	Member (Chair)	July 12 to June 13	4 of 4
Mr Peter Matthews	Member	July 12 to June 13	4 of 4
Ms Karen Doran	Member	July 12 to June 13	3 of 4

Mr David Sandoe OAM - Dip BIA, MBA, ANZIIF (Fellow) CIP, MCMI, FAIM, FAICD. Mr Sandoe has over 43 years insurance and financial services industry experience in Australia, New Zealand, UK and Ireland. This included senior executive roles and he was formally a Principal and General Manager of Finity Consulting, an independently owned Australian firm of actuaries and insurance consultants. He is a member of Defence Service Homes Insurance Scheme Advisory Board and is an Honorary Life Member of the Australian & New Zealand Institute of Insurance & Finance.

Mr Peter Matthews, ANZIIF (Fellow), CIP, AIMM, MRIMA. Mr Matthews has some 30 years insurance and risk management experience and was until his retirement in October, 2009 General Manager of the ACT Insurance Authority.

Mrs Karen Doran is currently employed in the ACT Government and occupies the position of Executive Director Investment and Economics Division, Chief Minister and Treasury Directorate.

The Board met on four occasions during 2012-13.

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

The Advisory Board was consulted on the following major issues during 2012-13:

- reviews of major claims;
- reinsurance program for 2013-14;
- risk management matters; and
- actuarial and financial matters.

C.6 HR PERFORMANCE

The Authority is supported by the Commerce and Works Directorate Strategic HR team who provide strategic, operational and technical advice and support as issues arise and through the strategic enablers of Workforce Planning, Learning and Development Strategy, Health and Wellbeing and early intervention for strategies for injured workers.

The Authority is committed to the ACTPS Code of Conduct and the Respect Equity and Diversity (RED) Frameworks 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.

C.7 STAFFING PROFILE

The following tables provides statistical information for permanent staff of the Authority for 2012-13:

FTE & Headcount

	Female	Male
FTE by Gender	8.6	5.0
Headcount by Gender	10	5
% of Workforce	66.7%	33.3%

Classifications

Classification Group	Female	Male	Total
Administrative Officers	7		7
Executive Officers		1	1
Senior Officers	3	4	7
TOTAL	10	5	15

Employment Category by Gender

Employment Category	Female	Male	Total
Casual	0	0	0
Permanent Full-time	7	4	11
Permanent Part-time	3	0	3
Temporary Full-time	0	1	1
Temporary Part-time	0	0	0
TOTAL	10	5	15

Average Length of Service by Gender by age-group

Average Length of Service	Pre-Baby Boomers		Baby Boomers		Generation X		Generation Y		Total	
	F	M	F	M	F	M	F	M	F	M
0-2										
2-4						1				1
4-6			1	1	4				5	1
6-8										
8-10				1	1		1		2	1
10-12				2						2
12-14										
14+ years			1		2				3	

Total Average Length of Service by Gender

Gender	Average length of service
Female	12.3
Male	7.9
Total	10.8

Age Profile

Age Group	Female	Male	Total
<20			
20-24			
25-29	1		1
30-34			
35-39	3		3
40-44	2		2
45-49	2	1	3
50-54	2	2	4
55-59		1	1
60-64		1	1
65-69			
70+			

Agency Profile

Branch/Division	FTE	Headcount
ACT Insurance Authority	13.6	15
Total	13.6	15

Agency Profile by Employment Type

Branch/Division	Permanent	Temporary	Casual
ACT Insurance Authority	14	1	0
Total	14	1	0

Equity & Workplace Diversity

	A Aboriginal and/ or Torres Strait Islander	B Culturally & Linguistically Diverse	C People with a disability	Employees who identified in A, B or C*	Women
Headcount	0	0	1	1	10
% of Total Staff	0.0%	0.0%	6.6%	6.6%	66.7%

*NB: employees who identify in more than one equity and diversity category should only be counted once.

C.8 LEARNING AND DEVELOPMENT

The key development and learning priorities for the Authority have been identified as risk management, insurance and finance. During 2012-13, 10 staff undertook 6 formal training courses and attended conferences and seminars in these areas.

The cost of training courses undertaken in 2012-13 totalled $5,295.

C.9 WORKPLACE HEALTH AND SAFETY

The Authority manages workplace health and safety in accordance with the provisions of the *Work Safety Act 2011* (WS Act). The Authority is committed to maintaining the health and safety of its employees the Authority has one trained work safety representative. The Authority also has three qualified first aid officers and one fire warden who is provided with ongoing training throughout the year.

Reporting Requirements under the *Work Safety Act 2011*

During the report period ACTIA 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.

Measures taken during the year to ensure the health, safety and welfare of employees:

- one officer has purchased leave arrangements;
- six officers have flexible working arrangements;
- four officers are members of the Nara Centre Emergency Response Training Team;
- five officers had an influenza vaccination; and
- three officers hold a first aid certificate.

The Authority is covered by the following Commerce and Works Directorate Human Resource Management arrangements:

- CWD Work Health and Safety Consultation Framework;
- CWD Health and Well being Framework; and
- CWD Workplace Health and Safety Plan.

Details of the above arrangements are available in the Commerce and Works Directorate Annual Report 2012-13.

C.10 WORKPLACE RELATIONS

The Authority's staff are covered under the Treasury Directorate Enterprise Agreement that continues to apply. There are no Special Employment Arrangements (SEAs) or Australian Workplace Agreements (AWAs) in place.

C.11 *HUMAN RIGHTS ACT 2004*

Commerce and Works complies with the human rights requirements introduced from 1 July 2004 following enactment of the *Human Rights Act 2004*. The Human Rights Act imposes a duty on all public officials to operate within a human rights framework and to interpret legislation consistent with the Act.

The Authority adheres to the principles as set out in the HRA. The Authority is committed to a workplace that respects, protects and promotes human rights. Where possible the Authority will integrate the human rights standards into its strategic and operational planning processes. Staff are able to undertake training on human rights principles as part of their personal development programs and have access to information on human rights and the scrutiny process. The Authority has not developed any policy proposals that require consultation with the Human Rights Unit and the Authority does not administer any legislation which has substantial human rights implications.

C.12 STRATEGIC BUSHFIRE MANAGEMENT PLAN

The Authority is office based, within the Canberra CBD, and does not use any bush-fire prone government land. As such, this item does not apply.

C.13 STRATEGIC 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.

The Authority employs 15 staff occupying 213.72m^2 at the Nara Centre. The average area occupied by each is up to 14.25m^2.

C.14 CAPITAL WORKS

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

C.15 GOVERNMENT CONTRACTING

The Authority employs consultants to perform a number of specialised functions. Consultants provide insurance broking services, actuarial services, and legal advice. Contractors are employed to address short term staffing requirements. The procurement selection and management processes for all contractors including consultants complied with the *Government Procurement Act 2001* and the Government Procurement Regulation 2007. KPIs have been developed for key consultants. 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.

External Sources of Labour

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

Name	Description	Cost	Date let	Procurement Type
Marsh	Insurance consultants	$302,000	October 2012	Open Tender
PwC	Actuarial advice and business services	$301,000	October 2007	Open Tender

C.16 COMMUNITY GRANTS/ ASSISTANCE/ SPONSORSHIP

As the insurer of Territory risks the Authority does not provide community grants, assistance or sponsorship.

C.17 TERRITORY RECORDS

The *Territory Records Act 2002* requires each agency to have an approved records management program. The Authority complies with the *Territory Records Act 2002.*

The Authority has adopted the “whole of government” approach to record creation and storage, as directed by Territory Records Office for all new files created from 1 July 2009 onwards.

ACTIA generates individual claim files for each claimant or plaintiff, and relevant details are recorded in the Authority’s claims management computer system. An archive field has been allocated in this system to record file movements to Territory archiving facilities. Boxed files are issued with a barcode reference number once they are archived by Record Services. These codes are then recorded in the archive field on the claimant file in the claims system database. A hard copy of all archive transfers complete with the box reference numbers is kept in a secure place. Staff within the Authority have undergone appropriate training in records management.

C.18 COMMISSIONER FOR THE ENVIRONMENT

The Authority has made no reports to, nor received requests for information from, the Commissioner for the Environment. The activities of the Authority do not have a significant environmental impact.

C.19 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.

C.20 CLIMATE CHANGE AND GREENHOUSE GAS REDUCTION POLICIES AND PROGRAMS

This section does not apply to the Authority.

C.21 ABORIGINAL AND TORRES STRAIT ISLANDER REPORTING

There are no Aboriginal and Torres Strait Islander self identified employees employed in the Authority. The Authority is working with Commerce and Works Directorate to develop a five year Aboriginal and Torres Strait Islander Employment Strategy and Action plan.

C.22 ACT MULTICULTURAL STRATEGY 2010-13

The Authority adheres to the principles as set out in the ACT Multicultural Strategy 2010-2013. The Authority is committed to a client focused service delivery in a culturally and linguistically diverse society. Where possible the Authority will integrate the strategy into its strategic and operational planning processes.

C.23 ACT STRATEGIC PLAN FOR POSITIVE AGEING 2010-2014

The Strategic Plan for Positive Ageing 2010-2014 aims to provide a coordinated approach across Government and the community to support positive ageing and an age-friendly city where older people are respected, valued and supported to actively participate.

The Authority does not deliver services directly to individuals in the community. Specific actions implemented by the Authority to address the initiatives in the Strategic Plan for Positive Ageing are limited, due to the small size of the Office and its legislated mandate.

The Authority's non-discriminatory recruitment policy offers flexible opportunities to older persons who want continued engagement in the workforce.

C.24 ACT WOMEN'S PLAN 2010-2015

The ACT Women's Plan 2010-2015 is a strategic framework to assist the ACT Government work with the community to improve the status of women and girls.

The Authority is committed to valuing and investing in women. In particular it supports and promotes flexible work arrangements for female staff. The Authority has agreements for some female staff to have part-time employment, school based hours of work and work from home arrangements.

A number of women hold management positions within the Authority.

The Commerce and Works Directorate's Annual Report section on the ACT Women's Plan also applies to the Authority.

C.25 MODEL LITIGANT GUIDELINES

This report is prepared in accordance with section 5AC of the *Law Officer Act 2011*, which states that agencies must report on measures to ensure compliance with the model litigant guidelines. The model litigant guidelines apply to Territory legal work, including conduct that may lead to litigation in the future, even if advice has not been sought from the ACT Government Solicitor's Office (ACTGSO).

The Chief Executive has the following procedures in place to ensure that the Authority is aware of and complying with the Guidelines.

(1) The General Manager is advised on a monthly basis on the status of all current litigation and legal proceedings. The General Manager is also advised on a weekly basis of the current status of all Freedom of Information requests;

(2) The Authority's legal services are provided by the ACT Government Solicitor's Office, which reviews the Authority's instructions to ensure compliance with the guidelines. The Authority is able to rely upon the ACTGSO to identify those matters where a question arises as to compliance with the Model Litigant Guidelines and to address it or elevate it within the department as appropriate; and

(3) All staff involved in claims procedures or other decisions which may at some point become the subject of litigation are informed of the guidelines and instructed to comply with them, referring any queries to the ACTGSO.

The Authority is not aware of any breaches of the Model Litigant Guidelines during the financial year.

C.26 NOTICES OF NONCOMPLIANCE

The Authority does not issue any notices in line with the *Dangerous Substances Act 2004*, section 200 and *Medicines, Poisons and Therapeutic Good Act 2008*, section 177.

C.27 PROPERTY CRIME REDUCTION

The Authority does not have any specific action items within the ACT Government Property Crime Reduction Strategy 2012-2015.

PART TWO
MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

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

Objectives

The key objectives of the ACT Insurance Authority are to:

- carry on the business of insurer of Territory risks;
- take out insurance of Territory risks with other entities;
- satisfy or settle claims in relation to Territory risks;
- 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 parties business as a going concern;
- develop and promote good practices for the management of Territory risks;
- give advice to the Minister about insurance and the management of Territory risks;
- carry out the role of the Nominal Defendant of the ACT; and
- administer the Default Insurance Fund, on behalf of and under agreement with the Chief Minister and Treasury Directorate.

Summary of the Authority's Operations

The Authority's captive insurance model only insures government agencies, 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 operates on a cost recovery basis by collecting premiums from client agencies 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.

In 2012–13 the Authority made an operating surplus of $53.1 million, $60.0 million higher than budgeted deficit.

The financial outcome was driven by lower than estimated:

- ordinary claims expense ($54.4 million) predominantly due to changes in actuarial assumptions used to value the Authorities claims liabilities.
- interest and distributions on investments ($5.8 million) due to better than anticipated investment returns;
- external reinsurance costs decreased by $1.3 million;
- administrative expenses decreased by $0.3 million, partially offset by lower than expected:
  - annual premiums by $2.3 million; and
  - reinsurance recoveries on ordinary claims by $1.3 million due to lower recoveries from property damage resulting from storm events.

RISK MANAGEMENT

The Authority has developed and implemented a broad risk management plan in accordance with the Australian/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 IT dependencies.

This plan is reviewed annually to assess the effect of change in the Authority's structure, responsibilities and operating environment.

Financial Performance

The following financial information is based on audited Financial Statements for 2011-12 and 2012-13, and the forward estimates contained in the 2012-2013 Budget Paper Number 4.

The Authority's operating result for 2012-13 is a surplus of $53.1 million, $60.0 million higher than the budgeted deficit. This outcome results from a number of factors detailed on pages 29 to 31. In summary these factors include:

- lower costs of both ordinary claims and expenses ($54.4 million);
- higher interest and disbursements from investment activities ($5.8 million);
- lower administration expenses ($0.3 million); and
- lower external reinsurance costs ($1.3 million).

Offset by:

- annual premiums lower by ($2.3 million); and
- reinsurance recoveries from ordinary claims lower by ($1.2 million).

In relation to the balance sheet, the Authority maintains an adequate investment balance in order to meet the cost of future claims. The Authority's financial position maintains strong liquidity on its balance sheet in terms of coverage of liabilities.

Underwriting Gain/(Loss)

1. Components of Underwriting Gain/ Loss

For the financial year ended 30 June 2013, the Authority recorded a total gain of $36.2 million.

The largest components of the Authority's underwriting gain for 2012-13 were net incurred claims, which represent $6.9 million, and net earned insurance premiums representing $43.1 million.

2. Comparison to Budget

The underwriting gain of $36.2 million was $54.0 million, or 302.7 percent higher than the 2012-13 Budget loss of ($17.8 million).

Net Earned Insurance Premiums

Net earned premium of $43.1 million was $1.0 million, or 2.3 percent lower than the 2012-13 Budget of $44.1 million. The lower than budgeted result was due to a lower gross earned premium of $2.3 million following a revision of annual agency insurance premiums, offset by savings in the purchase of external reinsurance of $1.3 million.

Net Incurred Claims

Net incurred claims of $6.9 million were $55.0 million, or 88.9 percent lower than the 2012-13 Budget of $61.9 million.

The claims expense was lower than budget predominantly due to revision of actuarial assumptions used to determine the Authority's ordinary claims liability and subsequent claims expense. The key changes were lower number of medical malpractice, public liability and property claims, smaller than anticipated settlements for storm damage claims that occurred in 2010-11 and 2011-12, and lower discount rates.

The lower claims expense was partially offset by changes to actuarial assumptions, as discussed above, that reduced the reinsurance recoveries anticipated by $1.2 million.

3. Comparison to 2011-12 Actual Expenditure

The underwriting gain was $55.9 million, or 283.4 percent higher than the 2011-12 actual result of ($19.7 million). This largely reflects ordinary claims decreasing in value by $61.5 million and reinsurance recoveries decreasing by $8.2 million due to changes in actuarial assumptions surrounding expected claim numbers and size.

4. Future Trends

The underwriting result for 2013-14 is budgeted to be ($12.4 million). This is a decrease of $48.5 million from the 2012-13 actual result of $36.2 million, predominantly due to an overall lower cost of claims.

Other Revenue

1. Components of Other Revenue

For the financial year ended 30 June 2013, the Authority recorded other revenue of $21.6 million.

The Authority collected $19.6 million in investment interest and distributions and recorded a $1.9 million unrealised gain on short term investments.

2. Comparison to Budget

Other revenue for the year ending 30 June 2013 was $21.6 million, which was $7.7 million higher than the 2012-13 budget of $13.9 million.

This higher amount is due to better than anticipated investment returns.

3. Comparison to 2011-12 Actual Income

Other revenue was $21.6 million in 2012-13, $0.1 million, or 0.5 percent lower than the 2011-12 actual result of $21.7 million.

4. Future Trends

Other revenue for 2013-14 is budgeted to be $12.0 million. This is a decrease of $9.6 million from the 2012-13 actual result of $21.6 million, predominantly due to expected lower interest rates and returns.

Other Expenses

1. Components of Other Expenses

For the financial year ended 30 June 2013, the Authority recorded other expenses of $1.9 million.

This is due to a $1.9 million unrealised loss on long term investments.

General and Administration Expenses

1. Components of General and Administration Expenses

For the financial year ended 30 June 2013, the Authority incurred general and administration expenses of $2.7 million.

The Authority paid $1.7 million in salaries and superannuation and $1.0 million in administration expenses.

2. Comparison to Budget

General and administration expenses for the year ending 30 June 2013 were $2.7 million, which was $0.3 million lower than the 2012-13 budget of $3.0 million.

This lower amount is due predominantly to savings in operating costs in supplies and services.

3. Comparison to 2011-12 Actual Expenditure

General and administration expenses were $2.7 million in 2012-13, $0.1 million, or 3.7 percent lower than the 2011-12 actual result of $2.8 million.

This decrease is due predominantly to savings in operating costs in supplies and services.

4. Future Trends

General and administration expenses for 2013-14 is budgeted to be $3.2 million. This is an increase of $0.5 million from the 2012-13 actual result of $2.7 million, due to predominantly higher salary costs and indexation.

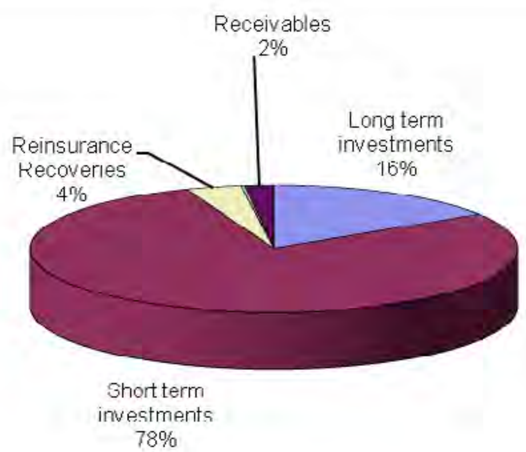
Financial Position

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2013 is $386.2 million. The Authority held $302.3 million of its assets in cash equivalents and short term investments, $61.4 million in long-term investments with a further $14.3 million anticipated as reinsurance recoveries and $8.3 million in other receivables and prepayments.

Figure 3 – Total Assets as at 30 June 2013



2. Comparison to Budget

The total asset position as at 30 June 2013 is $386.2 million, $59.4 million lower than the 2012-13 budget of $445.7 million.

The decrease primarily reflects a reduction in reinsurance recoveries for the bushfire liability claim due to the settlement of the claim for less than budgeted ($70.1 million), offset by higher than anticipated reinsurance recoveries on normal claims ($5.6 million), higher receivables ($3.8 million) and higher investment balances ($1.6 million).

3. Comparison to 2011-12 Actuals

The Authority's total asset position of $386.2 million is $57.2 million lower than the 2011-12 actual result of $443.4 million.

The decrease primarily reflects the 2003 reinsurance recoveries from both ordinary claims ($1.7 million) and the 2003 bushfires ($77.0 million) partially offset by increased investments held to meet the cost of future claims ($21.2 million).

4. Liquidity

'Liquidity' is the ability of the Authority to satisfy its short-term debts as they fall due. A common indicator for liquidity is the current ratio, which compares the ability to fund short-term liabilities from short-term assets. A ratio of less than 1-to-1 may indicate a reliance on the next financial year's annual insurance premiums to meet short-term debts. Table 1 indicates the liquidity position of the Authority.

Table 1 – Current Ratio

Description	Prior Year Actual $'000s 2011-12	Current Year Budget $'000s 2012-13	Current Year Actual $'000s 2012-13	Forward Year Budget $'000s 2013-14	Forward Year Budget $'000s 2014-15	Forward Year Budget $'000s 2015-16
Current Assets	294,191	314,877	316,608	329,905	381,490	412,290
Current Liabilities	38,765	56,306	39,544	49,164	56,818	62,688
Current Ratio	7.6:1	5.6:1	8.0:1	6.7:1	6.7:1	6.6:1

The Authority's current ratio for the financial year as at 30 June 2013 was 8.5:1, which is higher than the budgeted current ratio of 5.6:1. The increase reflects lower outstanding claims liabilities.

The Authority is expecting to maintain a strong level of liquidity in the forward years with the current ratio averaging 6.7:1.

Total Liabilities

The majority of the Authority's total liabilities of $316.9 million relate to outstanding claims liabilities, $312.5 million.

Figure 4 – Total Liabilities as at 30 June 2013

The Authority's liabilities for the year ended 30 June 2013 of $316.9 million were $148.6 million lower than the 2012-13 budget of $465.5 million due primarily to a lower outstanding claims liability. The key changes were higher discount rates, smaller claim numbers and size of claims in the major insurance classes, and the settlement of the 2003 bushfire claim.

Total liabilities are $110.3 million lower than the 2011-12 actual result of $427.1 million due primarily to a decrease in the ordinary claims provision as a result of changing economic and actuarial assumptions and the settlement of the 2003 bushfire claim.

PART TWO
FINANCIAL STATEMENTS

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A13/27

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 5, 40 Allara Street
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan

AUDIT REPORT – ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Audit Office has completed the audit of the financial statements of the ACT Insurance Authority for the year ended 30 June 2013.

I have attached the audited financial statements and unqualified audit report.

A copy of the financial statements and audit report has been provided to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

M. Cooper
Dr Maxine Cooper
Auditor-General
10 September 2013

c.c. Mr John Fletcher, General Manager, ACT Insurance Authority
Mr Will Laurie, Chair, Internal Audit Committee, Commerce and Works Directorate
Ms Kirsten Thompson, Director, Corporate and Governance, Commerce and Works Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

INDEPENDENT AUDIT REPORT

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the ACT Insurance Authority (the Authority) for the year ended 30 June 2013 have been audited. These comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement, statement of appropriation and accompanying notes.

Responsibility for the financial statements

The Chief Executive Officer of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with the *Financial Management Act 1996*. This includes responsibility for maintaining adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and the accounting policies and estimates used in the preparation of the financial statements.

The auditor's responsibility

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

The audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance that the financial statements are free of material misstatement.

I formed the audit opinion by performing audit procedures to obtain evidence about the amounts and disclosures in the financial statements. As these procedures are influenced by the use of professional judgement, selective testing of evidence supporting the amounts and other disclosures in the financial statements, inherent limitations of internal control and the availability of persuasive rather than conclusive evidence, an audit cannot guarantee that all material misstatements have been detected.

Although the effectiveness of internal controls is considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

The audit is not designed to provide assurance on the appropriateness of budget information included in the financial statements or to evaluate the prudence of decisions made by the Authority.

Electronic presentation of the audited financial statements

Those viewing an electronic presentation of the financial statements should note that the audit does not provide assurance on the integrity of information presented electronically, and does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements. If users of these financial statements are concerned with the inherent risks arising from the electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the audit.

Audit opinion

In my opinion, the financial statements of the Authority for the year ended 30 June 2013:

(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 as at 30 June 2013 and the results of its operations and cash flows for the year then ended.

This audit opinion should be read in conjunction with the above information.

M. Cooper

Dr Maxine Cooper
Auditor-General
10 September 2013

ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS
For the Year Ended 30 June 2013

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 2013, and the financial position of the Authority on that date.

Megan Smithies
Chief Executive Officer
ACT Insurance Authority
6 September 2013

ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS
For the Year Ended 30 June 2013

STATEMENT OF RESPONSIBILITY

In my opinion, the financial statements have been presented in accordance with generally accepted accounting principles, 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 2013, and the financial position of the Authority on that date.

John Fletcher
General Manager
ACT Insurance Authority
6 September 2013

ACT INSURANCE AUTHORITY
Operating Statement
For the Year Ended 30 June 2013

	Note No.	Actual 2013 $'000	Budget 2013 $'000	Actual 2012 $'000
Ordinary activities				
Underwriting				
Gross Earned Insurance Premiums	7	55,462	57,765	53,697
Outwards Reinsurance	7	(12,409)	(13,714)	(11,442)
Net Earned Premiums	8	43,053	44,051	42,255
Claims Expense	7	(7,462)	(61,888)	(68,973)
Claims Expense – Bushfire	7	47,221	-	(6,838)
Reinsurance (Losses)/Recoveries	7	(1,194)	-	7,039
Reinsurance Recoveries - Bushfire	7	(45,630)	-	6,760
Other Underwriting Income	7	168	-	38
Net Incurred Claims	9	(6,896)	(61,888)	(61,974)
Underwriting Gain/(Loss)	7	36,156	(17,837)	(19,719)
Other Revenue				
Interest Revenue	10	254	55	431
Distribution	10	19,296	13,711	19,548
Unrealised Gains on Investments	10	1,907	-	1,615
Other Revenue	10	134	179	85
		21,591	13,945	21,679
Other Expenses				
Unrealised Losses on Investments	10	(1,875)	-	-
Construction Industry Insurance Premium Insurance	10	(69)	-	(46)
		(1,944)	-	(46)
General and Administration				
Employee Expenses	11	(1,469)	(1,482)	(1,480)
Superannuation Expenses	11	(253)	(266)	(239)
Supplies and Services	12	(957)	(1,275)	(1,050)
		(2,679)	(3,023)	(2,769)
Operating Surplus/(Deficit)		53,126	(6,915)	(855)
Total Comprehensive Income/(Deficit)		53,126	(6,915)	(855)

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

ACT INSURANCE AUTHORITY
Balance Sheet
As at 30 June 2013

	Note No.	Actual 2013 $'000	Budget 2013 $'000	Actual 2012 $'000
Current Assets				
Cash and Cash Equivalents	13	147	2,352	481
Investments	13	302,185	307,460	279,277
Receivables	14	7,389	3,626	6,545
Reinsurance Recoveries	15	6,254	746	7,109
Prepayments	18	633	693	779
Total Current Assets		316,608	314,877	294,191
Non Current Assets				
Investments	13	61,389	54,477	63,264
Reinsurance Recoveries	15	7,976	6,175	8,783
Reinsurance Recoveries - Bushfire	15	-	70,052	77,037
Prepayments	18	276	115	105
Total Non-Current Assets		69,641	130,819	149,189
Total Assets		386,249	445,696	443,380
Current Liabilities				
Payables	16	177	147	223
Outstanding Claims	17	33,205	52,918	34,740
Outstanding Claims - Bushfire	17	2,304	2,279	2,710
Employee Benefits	19	522	266	528
Other Liabilities	18	3,336	696	779
Total Current Liabilities		39,544	56,306	38,980
Non-Current Liabilities				
Outstanding Claims	17	276,980	331,083	306,174
Outstanding Claims - Bushfire	17	-	77,908	81,802
Employee Benefits	19	55	39	49
Other Liabilities	18	274	115	105
Total Non-Current Liabilities		277,309	409,145	388,130
Total Liabilities		316,853	465,451	427,110
Net Assets		69,396	(19,755)	16,270
Equity				
Contributed Equity		53,126	(6,915)	43,855
Accumulated Funds/(Deficits)		16,270	(12,840)	(27,585)
Total Equity/(Deficit)		69,396	(19,755)	16,270

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 2013

	Accumulated Funds/ (Deficits) Actual 2013 $'000	Contributed Equity Actual 2013 $'000	Total Equity Actual 2013 $'000	Original Budget 2013 $'000
Balance at the Beginning of the Reporting Period	(27,585)	43,855	16,270	(12,840)
Comprehensive Income				
Operating Surplus/(Deficit)	53,126	-	53,126	(6,915)
Total Comprehensive Income/(Deficit)	53,126	-	53,126	(6,915)
Balance at the End of the Reporting Period	25,539	43,855	69,396	(19,755)

	Accumulated Funds/ (Deficit) Actual 2012 $'000	Contributed Equity Actual 2012 $'000	Total Equity Actual 2012 $'000
Balance at the Beginning of the Reporting Period	(26,729)	43,855	17,126
Comprehensive (Deficit)			
Operating (Deficit)	(855)	-	(855)
Total Comprehensive (Deficit)	(855)	-	(855)
Balance at the End of the Reporting Period	(27,585)	43,855	16,270

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 2013

	Note	Actual 2013 $'000	Budget 2013 $'000	Actual 2012 $'000
Cash Flows from Operating Activities				
Ordinary Activities				
Insurance Premiums Received		55,462	57,765	53,655
Net Workers' Compensation Insurance Premiums		2,951	(45)	(332)
Net Construction Industry Insurance Premiums		145	-	29
External Insurance Premiums		(12,424)	(13,713)	(11,447)
Insurance Claims Payments		(38,193)	(21,216)	(25,729)
Insurance Claims Payments – Bushfire		(24,779)	-	(2,453)
Reinsurance and Other Recoveries Received		21,836	4,796	2,111
		4,998	27,587	15,839
Other				
Interest Received		259	55	427
Distributions Received		18,155	13,711	17,082
Other Receipts		253	-	56
General and Administration Payments		(2,999)	(3,137)	(2,742)
Other Payments		-	-	(23)
		15,668	10,629	14,800
Net Cash Inflows from Operating Activities	23	20,666	38,216	30,639
Cash Flows from Investing Activities				
Proceeds from Sale/Maturities of Investments		22,000	911	48,800
Purchase of Investments		(43,000)	(36,817)	(79,000)
Net Cash (Outflows) from Investing Activities		(21,000)	(35,906)	(30,200)
Net (Decrease)/Increase in Cash and Cash Equivalents		(334)	2,310	439
Cash and Cash Equivalents at the Beginning of the Reporting Period		481	42	42
Cash and Cash Equivalents at the End of the Reporting Period	13	147	2,352	481

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

ACT INSURANCE AUTHORITY
Statement of Appropriation
For the Year Ended 30 June 2013

	Budget 2013 $'000	Total Appropriated 2013 $'000	Appropriation Drawn 2013 $'000	Appropriation Drawn 2012 $'000
Capital Injections	0	0	0	0

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

Column Heading Explanations

The *Budget* column shows the amounts that appear in the Cash Flow Statement in the Statement of Intent. This amount also appears in Cash Flow Statement.

The *Total Appropriated* column is inclusive of all appropriation variations occurring after the Original Budget.

The *Appropriation Drawn* is the total amount of the appropriation received by the Authority during the year. This amount appears in the Cash Flow Statement.

Variance between 'Total Appropriated' and 'Appropriation Drawn'

No amounts were appropriated or drawn because additional funds were not required as a result of the Authority's improved cash position.

ACT INSURANCE AUTHORITY

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2013

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

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;
- give advice to the Treasurer about insurance and the management of Territory risks;
- carry out the role of the Nominal Defendant of the ACT; and
- administer, on behalf of and under agreement with the Chief Minister and Treasury Directorate, the Default Insurance Fund.

Note 2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The *Financial Management Act 1996* (FMA) requires the preparation of financial statements for Territory Authorities.

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

(i) an Operating Statement for the year;
(ii) a Balance Sheet at the end of the year;
(iii) a Statement of Changes in Equity for the year;
(iv) a Cash Flow Statement for the year;
(v) a Statement of Appropriation for the year;
(vi) a summary of the significant accounting policies adopted for the year; and
(vii) such other statements as are necessary to fairly reflect the financial operations of the Territory 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 'Generally Accepted Accounting Principles' (GAAP) as required by the FMA. The financial statements have been prepared in accordance with:

(i) Australian Accounting Standards;
(ii) ACT Accounting and Disclosure Policies.

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 financial assets and liabilities measured at fair value through the Operating Statement.

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

The Authority is an individual reporting entity.

(b) Insurance Premium Revenue

Direct insurance premium revenue comprises amounts charged to policyholders, 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. Premium revenue is treated as earned from the date of attachment of risk. All premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2012 to 30 June 2013. As a consequence, the Liability Adequacy Test, which considers the adequacy of unearned insurance premium liability, does not apply as there are no unearned premiums in the reporting period.

Note 2. Summary of Significant Accounting Policies (Continued)

(c) Workers' Compensation

The Authority processes the payment of the ACT Government workers' compensation premium to Comcare, the Commonwealth Government Workers Compensation Insurer, 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. As the Authority is not underwriting this workers' compensation insurance business, but rather acting as an agent for the Territory, the amounts involved are not included in insurance premium revenue and claims expense.

(d) Construction Industry Premiums and Other Insurance Contracts

The Authority arranges insurance cover for contract works, travel, aviation, standing timber and public liability for volunteers on behalf of all ACT Government agencies. The Authority bears no risk on these contracts. Similar to worker's compensation, 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 not included in insurance premium revenue and claims expense.

(e) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank, cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Receivables

All premium and other debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectability of insurance premium and other debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment losses is raised when some doubt as to collection exists, to the extent that any relevant insurance premium has been earned. The Authority assesses, at each reporting date, whether there is any indication that a receivable may be impaired. Receivables are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(g) Outwards Reinsurance Premium

The Authority reinsures at a 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 injury to third parties.

Insurance premiums paid to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 2. Summary of Significant Accounting Policies (Continued)

(h) Claims

Claims expense and a liability for outstanding claims 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. Claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends.

The Authority has used the services of an independent actuary, PwC Actuarial Services, to provide a full assessment of outstanding claims. Christa Majoribanks is the actuary responsible for the valuation of outstanding claims and is a Fellow of the Institute of Actuaries Australia. The valuation for this report was completed in July 2013, based on data at 30 June 2013.

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 trends in court awards, for example increases in the level and period of compensation for injury. The present value of future payments is estimated using the Commonwealth Government Bond risk free rate.

(i) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNER and IBNR are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims described in Note 2 (h) 'Claims'.

(j) 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.

(k) Investments

Short-term investments and long-term investments are held with the Territory Banking Account. The short-term investment is held in a unit trust called the Cash Enhanced Portfolio and the long-term investment in a unit trust called the Fixed Interest Portfolio. The price 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 trusts (the profit 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.

The 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 Portfolio and from the Fixed Interest Portfolio are paid quarterly.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 2. Summary of Significant Accounting Policies (Continued)

(l) Payables

Payables are a financial liability and are measured at the fair value of the consideration received when initially recognised and at amortised cost subsequent to initial recognition, 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 payables, accrued expenses and other payables.

Trade payables 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 period that are unpaid at the end of the reporting period and where an invoice has not been received by the end of the reporting period.

Other payables are those unpaid invoices that do not directly relate to the normal operations of the Authority.

(m) Employee Benefits

Employee benefits include wages and salaries, annual leave, annual leave loading, long service leave and applicable on costs, including workers' compensation, and payroll tax. On costs also include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual and long service leave. These benefits accrue as a result of services provided by employees up to the reporting date that remain unpaid. They are recorded as a liability and as an expense.

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 leave and long service leave wholly within the next 12 months is measured based on the estimated amount of remuneration payable when the leave is taken.

Annual and long service leave including applicable on costs that do not fall due within the next 12 months 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 date. Consideration is given to the present wage and salary levels, experience of employee departures and periods of service. At each reporting end, the present value of future payments is calculated using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows. In 2012-13, the rate used to estimate the present value of these future payments is 101.3% (106.6% in 2011-12).

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 7 years qualifying service, the probability the employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and the 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 the employees take annual and long service leave while in service has been taken into account in estimating the liability for the on-costs.

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional right to defer the settlement of the liability for at least 12 months. However, where there is an unconditional right to defer settlement of the liability for at least 12 months, annual leave and long service leave have been classified as a non-current liability in the Balance Sheet.

(n) Rounding of Amounts

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
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 2. Summary of Significant Accounting Policies (Continued)

(o) Comparative Figures

Budget Figures
The *Financial Management Act 1996* requires the financial statements to facilitate a comparison with the Statement of Intent. The budget numbers are as per the Statement of Intent.

Prior Year Comparatives
Comparative information has been disclosed in respect of the previous period for all 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.

(p) Current and Non-Current Items

Assets and liabilities 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 12 months after the reporting date. 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.

Assets or liabilities which do not fall within the current classification are classified as non-current.

(q) Superannuation

Superannuation payments are made to the Territory Banking Account on a fortnightly basis, to cover the Authority's superannuation liability for the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). This payment covers the CSS/PSS employer contribution but does not include the productivity component. The productivity component is paid direct to ComSuper by the Authority. The CSS and PSS are defined benefit superannuation plans meaning that the defined benefits received by employees are based on years of service and average final salary.

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.

Superannuation employer contribution payments, for the CSS and PSS, are calculated by taking the salary level at an employee's anniversary date and multiplying it by the actuarially assessed nominal CSS or PSS employer contribution rate for each employee. The productivity component payments are calculated by taking the salary level, at an employee's anniversary date and multiplying it by the employer contribution rate (approximately 3%) for each employee. Superannuation payments for the PSSaP are calculated by taking the salary level, at an employee's anniversary date, and multiplying it by the appropriate employer contribution rate. Superannuation payments for fund of choice arrangements are calculated by taking an employee's salary each pay and multiplying it by the appropriate employer contribution rate.

A superannuation liability is not recognised in the Balance Sheet as the Superannuation Provision Account recognises the total Territory superannuation liability for the CSS and PSS, and ComSuper and the external schemes recognise the superannuation liability for PSSaP and other schemes respectively.

The ACT Government is liable for the reimbursement of the emerging costs of benefits paid each year to members of the CSS and PSS in respect of the ACT Government service provided after 1 July 1989. These reimbursement payments are made from the Superannuation Provision Account.

(r) Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Authority for the year ended 30 June 2013 together with the financial position of the Authority as at 30 June 2013.

Note 2. Summary of Significant Accounting Policies (Continued)

(s) Equity Contributed by the ACT Government

Capital injections are made by the ACT Government, as owner of the Authority. Capital injections are treated as contributions to equity.

(t) Assets Backing General Insurance Liabilities

The investment portfolio is managed to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities. The investment portfolio is managed by the Chief Minister's and Treasury Directorate (CMTD) Investment Branch on behalf of the Authority.

The Authority has determined that all assets are held to back general insurance liabilities on the basis that all assets are valued at fair value in the balance sheet. 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 unrealised profits or losses recognised in the operating statement.

(u) Impact of Accounting Standards Issued but yet to be Applied

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. The Authority does not intend to adopt these standards and interpretations early. Where applicable, these Australian Accounting Standards will be adopted from their applicable date. It is estimated that the effect of adopting the below pronouncements, when applicable, will have no material financial impact on the Authority in future reporting periods:

- AASB 9 Financial Instruments (application date 1 January 2015);
- AASB 13 Fair Value Measurement (application date 1 January 2013);
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards [AASB 1, 7, 101, 108, 118, 132, 136, 137, 139 & 1023] (application date 1 January 2013 for profit entities and 1 Jan 2014 for not-for-profit entities); and
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB13 [AASB 1, 4, 7, 9, 2009-11, 101, 108, 110, 118, 119, 132, 136, 139, 1004 & 1023] (application date 1 January 2013).

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 3. Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error

Changes in Accounting Estimates

Changes in Actuarial Assumptions

The Authority uses actuaries (Refer Note 5: 'Actuarial Assumptions and Methods') to calculate the outstanding claims liability. Actuarial assumptions 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 provision has changed. This change has resulted in a decrease to the estimate of the outstanding claims provision and expense in the current reporting period of approximately $30.7 million (Refer Note 17: 'Outstanding Claims).

Revision of Estimation of the Employee Benefit Liability

As disclosed in Note 2(m) - *Employee Benefits*, annual leave and long service leave, including applicable on-costs, which do not fall due in the next 12 months, are measured at the present value of estimated payments to be made in respect of services provided by employees up to the reporting date. The present value of future payments is estimated using the government bond rate. Last financial year the rate was 106.6%, however, due to a change in the government bond rate, the rate is now 101.3%.

As such the estimate of the long service leave and annual leave liabilities has changed. This change has resulted in a decrease to the estimate of the long service leave liability and expense in the current reporting period of approximately $6,000.

Correction of Prior Period Errors and Changes in Accounting Policy

The Authority had no correction of prior period errors or changes in accounting policy during the reporting period.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 4. Significant Accounting Judgements and Estimates

The Authority makes estimates and assumptions in respect of certain key amounts recorded in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

(a) 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 claims incurred but not yet reported to the Authority.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross 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 liability estimate.

The estimation of claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are generally subject to a greater degree of uncertainty than the estimation of the cost of settling property claims, where more information about the claim event is generally available.

IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened.

The public liability and medical malpractice classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR and IBNER reserves.

For the property class, claims are typically reported soon after the claim event, and hence 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. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims 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 usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Authority has regard to the claim circumstance as reported, any information available from the ACT Government Solicitor 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. The projections given by the various methods also assist in setting 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 Note 5:'Actuarial Assumptions and Methods.'

Note 4. Significant Accounting Judgements and Estimates (Continued)

(b) Assets Arising from Reinsurance Contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Authority may not receive amounts due and these amounts can be reliably measured.

(c) Employee Benefits

Significant judgements have been applied in estimating the liability for employee benefits. The estimated liability for employee benefits requires a consideration of the future wage and salary levels, experience of employee departures 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. Further information on this estimate is provided in Note 2(m): 'Employee Benefits' and Note 3: 'Changes in Accounting Policy and Accounting Estimates and Correction of a Prior Period Error'.

Note 5. Actuarial Assumptions and Methods

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

An actuarial process is used for determining the estimated value of outstanding claims liabilities, and is largely similar for all classes. A description is as follows:

- Estimates are made of claims incurred but not yet reported (IBNR) or not enough reported (IBNER) through a combination of analyses of past reporting patterns and application of assumed development rates to numbers of claims already reported to the Authority.
- Analyses are made of numbers of past settlements. Adopted ultimate settlement proportions are applied to the estimated ultimate numbers of claims to obtain numbers of future settlements.
- Analyses are made of past settlement sizes, and past changes in case estimates.
- Estimates of outstanding claims are first adopted for the most developed insurance years, ensuring consistency of average sizes and relationship to case estimates. 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.
- In some classes (property, medical malpractice and public liability), separate analyses are made of large and small claims. In these classes, the incidence and sizes of large claims for recent years is drawn from experience in the more developed years.
- Analyses are made on data, which is gross of reinsurance, and the resulting estimates of outstanding liabilities are therefore gross of reinsurance. Subsequent allowances, where needed, are then made for potential reinsurance recoveries to arrive at estimates of net outstanding liabilities.
- Allowances are incorporated 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.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 5. Actuarial Assumptions and Methods (Continued)

Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities.

	Property & Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	0.96 Years	5.27 Years	6.63 Years	3.78 Years	3.00 Years	4.60 Years
Ultimate Claim Numbers (2012-13 Insurance Year)*	58	103	102	4	1	12
Average Settlement Size	$74,500	$89,000⁺ and $3.3m⁺⁺	$300,000⁺ and $5.0m⁺⁺	$61,100	$150,000	$82,100
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	2.5%	4.3%	4.5%	3.7%	3.3%	3.9%
Inflation and Superimposed Inflation	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

* Ultimate claims reported for 2012-13 are the assumed number of claims that were incurred in the insurance year.
⁺ Adopted average claim size for small claims with total cost up to $1 million.
⁺⁺ Adopted average claim size for large claims with total cost of $1 million or greater

Ultimate Loss Ratios

The loss ratio indicates whether or not net earned premium is sufficient to meet net incurred claims. Where net incurred claims are greater than net earned insurance premium, the ratio will be higher than 100%. If the ratio is higher than 100%, investment revenue is being used to meet the cost of claims. Net incurred claims equals claims expense, less reinsurance and other recoveries.

It is not possible to calculate an ultimate loss ratio for each class of business as the premiums provided are across multiple classes. However, the Authority has the overall loss ratios for the entire portfolio for the last three insurance years available. The net loss ratio is calculated on an insurance year, rather than a financial year, in order to show the ultimate cost of insurance written for each year. As such the net loss ratios for the years reported are recalculated at the 30 June each year to reflect changes in incurred claims. The net loss ratio has past claim payments in historical dollars and future claim payments inflated to date of payment. The earned insurance premium is the historical net earned insurance premium (i.e. no adjustment for inflation).

Insurance Year	Net Loss Ratio
2010-11	101%
2011-12	94%
2012-13	92%

The loss ratio dropped for the 2011-12 insurance year due to a Medical Malpractice claim with estimates much lower than the assumed large claim settlement size; and reductions in the estimate of a large Property claim.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 5. Actuarial Assumptions and Methods (Continued)

Process Used to Determine Assumptions

A description of the processes used to determine these assumptions is provided below.

Average weighted term to settlement
The average weighted term to settlement is calculated separately by class of business based on historic settlement patterns.

Ultimate number of claims
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.

Expense rate
Claims handling expenses were calculated based on an assumed proportion of claims handling costs as a percentage of past payments.

Discount rate
Discount rates derived from market yields on Commonwealth Government Bonds as at the balance date have been adopted. The discount rates shown above are the rates which match the weighted term to maturity.

Inflation
Economic inflation assumptions are set by reference to current economic indicators.

Superimposed inflation
Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering both the superimposed inflation present in the portfolio and industry superimposed inflation trends. While superimposed inflation is always considered to form part of the assumptions there currently is no allowance for inflation over and above economic inflation.

Note 5. Actuarial Assumptions and Methods (Continued)

Sensitivity Analysis – Insurance Contracts

The Authority conducts sensitivity analyses 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 performance and equity of the Authority.

Assumptions		Assumption	Difference	
	$'000	$'000	$'000	% change
Current Net Outstanding Claims Provision	$295,955			
Economic Assumptions				
Discount rates increased by 1.0%		278,903	(17,052)	(5.8%)
Discount rates decreased by 1.0%		314,839	18,884	6.4%
Medical Malpractice				
Large Claims				
Average size on IBNR claims of $6.0m		321,248	25,293	8.5%
Average size on IBNR claims of $4.0m		270,661	(25,293)	(8.5%)
One additional claim per annum for 2007 and later		315,836	19,882	6.7%
One less claim per annum for 2007 and later		276,061	(19,894)	(6.7%)
Public Liability				
Large Claims				
Average size on IBNR claims of $4.2m		303,104	7,149	2.4%
Average size on IBNR claims of $2.2m		286,576	(9,378)	(3.2%)
One additional claim per annum for 2007 and later		310,821	14,867	5.0%

Impact of Movement in Variable

Average weighted term to settlement
A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding increase or decrease on claims expense respectively.

Expense rate
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
The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on total claims expense.

Inflation and superimposed inflation rates
Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 6. 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, financial risk and operational 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 20: 'Financial Instruments'.

(a) Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating Those Risks

The Authority has an objective to control insurance risk thus reducing the volatility of the operating result. The inherent uncertainty of insurance risk, which can lead to short-term variability, is to some extent, a feature of insurance business.

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 provide high security. In order to assess this, the Authority uses ratings information from the public domain or gathered through internal investigations.

In order 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.

(b) Development of Claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a premium (contract) period. The tables in Note 17: 'Outstanding Claims' show the Authority's estimate of outstanding claims for each underwriting year at successive year ends.

(c) 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 are bushfire, earthquakes and hail storms. The Authority purchases catastrophe reinsurance cover to limit exposure to any single event.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 7. Underwriting Result

	Notes	2013 $'000	2012 $'000
(a) Underwriting Revenues			
Gross Earned Insurance Premiums [1]			
General Government Sector		46,299	46,268
Public Trading Enterprises		9,163	7,429
	8	55,462	53,697
Reinsurance (Losses)/ Recoveries [2]		(1,194)	7,039
Reinsurance Recoveries – Bushfire [2]		(45,630)	6,760
Recoveries Claims Related	9	168	38
	9	(46,656)	13,837
		8,806	67,534

All underwriting revenues relate to operating activities.

	Notes	2013 $'000	2012 $'000
(b) Underwriting Expenses			
Gross Claims Expense [1]		7,462	68,973
Gross Claims (Credit)/Expense – Bushfire [2]		(47,221)	6,838
	9	(39,759)	75,811
Outwards Reinsurance Insurance Premium Expense	8	12,409	11,442
		12,409	11,442
		(27,350)	87,253
(c) Underwriting Profit/(Loss)			
Underwriting Revenues		8,806	67,534
Underwriting Expenses		27,350	(87,253)
		36,156	(19,719)

a) 1. The annual insurance premiums increased slightly in 2012-13 due an expected increase in the cost of future property and public liability claims.

2. Reinsurance recoveries for ordinary claims decreased due to the storm damage claims settling for less than previously anticipated. Reinsurance recoveries on bushfires decreased as public liability bushfire claim was settled by the reinsurers directly with the claimants.

b) Movement in the claims expenses - the outstanding claims provisions (refer Note 17: 'Outstanding Claims') are expensed in the operating statement.

1. In ordinary claims there was a decrease resulting from change in actuarial assumptions. This change has been largely driven by lower than expected numbers of medical malpractice, property and public liability claims reported in more recent years and reduced estimates for large 2011-12 storm damage property claims.

   Claims expenses also reduced due to increased discount rates. Outstanding claims include a discount to allow for interest that is expected to be earned on investments until claims are paid. A higher discount rate increases the amount of expected interest and therefore decreases the claim liability.

2. The bushfire public liability claim was settled for less than anticipated.

c) The underwriting profit was due mainly to the decreased gross claims expenses. This can be mostly attributed to lower claims numbers leading to a decrease in the claims expense due to the resulting change in actuarial assumptions.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 8. Net Earned Insurance Premiums

	Notes	2013 $'000	2012 $'000
Gross Written Premiums			
General Government Sector		46,299	46,268
Public Trading Enterprises		9,163	7,429
	7	55,462	53,697
Outwards Reinsurance Premium Expense			
	7	(12,409)	(11,442)
Net Earned Insurance Premiums		43,053	42,255

The gross written insurance premiums were increased slightly in 2012-13 to provide for an expected increase in the future claims costs for the property and public liability classes.

Note 9. Net Incurred Claims

	Notes	2013 Current Year $'000	Prior Years $'000	2012 Current Year $'000	Prior Years $'000
Gross Incurred Claims and Related Expenses					
- Undiscounted		(67,190)	53,254	(73,857)	46,662
- Undiscounted (Bushfire)		-	47,221	-	-
		(67,190)	100,475	(73,857)	46,662
- Discounted		(47,980)	40,518	(57,649)	(11,324)
- Discounted (Bushfire)		-	47,221	-	(6,838)
		(47,980)	87,739	(57,649)	(18,162)
Total Gross Incurred Claims and Related Expenses	7	39,759		(75,811)	
Reinsurance and Other Recoveries					
- Undiscounted		-	583	4,933	12,930
- Undiscounted (Bushfire)		-	-	-	-
- Other Underwriting Income	7	168	-	38	-
		168	583	4,971	12,930
- Discounted		-	(1,194)	4,773	2,266
- Discounted (Bushfire)		-	(45,630)	-	6,760
- Other Underwriting Income	7	168	-	38	-
		168	(46,824)	4,811	9,026
Total Reinsurance and Other Recoveries	7	(46,656)		13,837	
Net Incurred Claims (Discounted)		(47,811)	40,915	(52,838)	(9,136)
Total Net Incurred Claims (Discounted)		(6,896)		(61,974)	

The expected cost of ordinary claims was impacted by increased discount and inflation rates and changes in the assumptions used in the actuarial valuation. These changes in assumptions are driven by experience in the Authority's portfolio and resulted from higher than anticipated payments during 2012-13, a decrease to the number of medical malpractice and public liability claims and a reduction in the size and number of property claims. These changes resulted in an overall decrease in the ordinary claims expense.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 10. Other Revenue and Expenses

	2013 $'000	2012 $'000
(a) Other Revenue		
Interest and Distributions Received:		
Interest Received from Bank [a]	254	431
Distributions Received from the Territory Banking Account [a]	19,296	19,548
	19,550	19,979
Other Revenue:		
Recoveries from Other Agencies	134	85
Unrealised Gains on Investments [b]	1,907	1,615
	2,041	1,700
	21,591	21,679
(b) Other Expenses		
Unrealised Losses on Investments [b]	1,875	-
Construction Industry Premium Insurance:		
Outwards Insurance Premium Expense – Construction Industry Gross	2,550	2,069
Construction Industry Premium Receipts Gross	(2,481)	(2,023)
Outwards Insurance Premium Expense – Externally Insured Contracts Gross	494	560
Externally Insured Contracts – Receipts Gross	(494)	(560)
	1,944	46

a. In 2012-13, interest and distributions received decreased due to lower interest rates.

b. Unrealised gains or losses on investments is the difference between the carrying amount at market value and the value of the long-term investments held with the Territory Banking Account. During 2012-13, the unit price of the Cash Enhanced Portfolio increased and Fixed Interest Portfolio decreased resulting in an unrealised gain and loss.

Note 11. Employee and Superannuation Expenses

	2013 $'000	2012 $'000
(a) Employee Expenses		
Salaries	1,458	1,420
Annual Leave Expense	(27)	11
Long Service Leave Expense	28	46
Workers' Compensation Insurance Premium	10	3
Total Employee Expenses	1,469	1,480
(b) Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	177	164
Productivity Benefit	22	21
Superannuation Payment to ComSuper (for the PSSaP)	12	12
Superannuation to External Providers	42	42
Total Superannuation Expenses	253	239

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 12. Supplies and Services

	2013 $'000	2012 $'000
Contractors and Consultants [a]	642	630
Insurance	6	6
Computing Costs	56	96
Repairs and Maintenance	10	8
Printing	4	7
Communications	11	11
Publications	2	1
Postage and Courier	1	2
Staff Development	5	13
Stationery	6	3
Travel	62	68
Audit Fees	55	53
Hospitality costs	-	1
Other [b]	97	151
	957	1,050

a. The increase in contractors and consultants expense is due to more demand for the services of the actuaries and insurance consultants than in the last reporting period.

b. The decrease to other costs occurred because the Authority was only charged by the Chief Minister and Treasury Directorate for rent and other accommodation operating costs for 5 months of the year. The Authority's computing costs have declined due to changes in charging by the Commerce and Works Directorate.

Note 13. Cash and Investments

	2013 Current $'000	2013 Non-Current $'000	2013 Total $'000	2012 Current $'000	2012 Non-Current $'000	2012 Total $'000
(a) Cash						
Current						
Cash at Bank	147	-	147	481	-	481
Total Cash	147	-	147	481	-	481
(b) Investments						
Current						
Investments with Territory Banking Account – Cash Enhanced Portfolio	302,185	-	302,185	279,277	-	279,277
Non-Current						
Investments with Territory Banking Account – Fixed Interest Portfolio	-	61,389	61,389	-	63,264	63,264
Total Investments	302,185	61,389	363,574	279,277	63,264	342,541

The Authority holds a bank account with the Commonwealth Bank. The average interest rate on cash at bank was 2.98% in 2012-13 (2011-12 3.85%).

Other investments are held with the Territory Banking Account. The weighted average interest rate on the Cash Enhanced Portfolio is 5.77% in 2012-13 (2011-12 4.87%) and the rate of return of investment on the Fixed Interest Portfolio was 2.71% in 2012-13 (2011-12 12.39%). These funds are able to be withdrawn upon request.

An increase in investments reflects the increase in funds invested from annual premiums in order to meet the cost of future claims.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 14. Receivables

	2013 $'000	2012 $'000
Current		
Interest/ Distribution Receivable	6,627	5,489
Net Goods and Services Tax Receivable	34	151
Other Receivables	728	904
	7,389	6,545
Less: Allowance for Impairment Losses	-	-
Total Receivables	7,389	6,545

Ageing Of Receivables

	Not Overdue	Past Due			Total
		Less than 30 Days	30 to 60 Days	Greater than 60 Days	
	$'000	$'000	$'000	$'000	$'000
2013					
Not Impaired[1] Receivables	6,788	490	14	97	7,389
Impaired Receivables	-	-	-	-	-
2012					
Not Impaired[1] Receivables	6,094	405	-	46	6,545
Impaired Receivables	-	-	-	-	-

The receivables less than 30 days overdue relate to workers compensation insurance premiums. The Authority pays this premium on behalf of Government and seeks reimbursement from the agencies. As such receipt of payment is due from the agencies within 14 days rather than the usual 28 days.

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

Classification of ACT Government/Non-ACT Government Receivables

	2013	2012
Receivables with ACT Government Entities		
Interest Receivable	6,623	5,481
Annual Insurance Premium	47	47
Contract Works Insurance Premium	134	371
Workers Compensation Insurance Premium	304	-
Other	34	274
	7,142	6,173
Receivables with Non-ACT Government Entities		
Other Receivables	247	371
Total Receivables	7,389	6,545

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 the Year Ended 30 June 2013

Note 15. Reinsurance Recoveries

	2013 $'000	2012 $'000
(a) Current:		
Ordinary Reinsurance Recoveries – Undiscounted [2]		
Undiscounted Expected Future Recoveries	6,316	7,205
Discounted Present Value	(62)	(96)
Less: Allowance for Impaired Reinsurance Assets	-	-
	6,254	7,109
Bushfire Reinsurance Recoveries – Undiscounted [1]		
Undiscounted Expected Future Recoveries	-	-
Discount to Present Value	-	-
	-	-
Total Current Reinsurance Recoveries Discounted	6,254	7,109
(b) Non-Current		
Ordinary Recoveries – Undiscounted [2]		
Undiscounted Expected Future Recoveries	9,691	9,868
Discount to Present Value	(1,715)	(1,085)
Less: Allowance for the Impairment of Reinsurance Assets	-	-
	7,976	8,783
Bushfire Reinsurance Recoveries – Undiscounted [1]		
Undiscounted Expected Future Recoveries	-	85,008
Discount to Present Value	-	(7,971)
	-	77,037
Total Non-Current Reinsurance Recoveries Discounted	7,976	85,820
Total Ordinary Reinsurance Recoveries – Discounted [2]	14,230	15,892
Total Bushfire Reinsurance Recoveries – Discounted [1]	-	77,037
Total Reinsurance Recoveries Discounted	14,230	92,929
(c) Reconciliation of the Movement of Reinsurance Recoveries		
Provision for Reinsurance Recoveries at the Beginning of the Period	92,929	81,219
Reinsurance Received	(468)	(1,958)
Bushfire Reinsurance Received	(45,630)	-
Movement in Reinsurance Provision (Bushfire)	45,630	-
Movement in Reinsurance Provisions due to Changes in Claims	(78,231)	13,668
Provision for Reinsurance Recoveries at the End of Reporting Period	14,230	92,929

1. Bushfire recoveries: the 2003 public liability Bushfire claim was settled in 2012-13 and the monies were paid by the reinsurer directly to the claimants. As such no reinsurance recoveries for the bushfire were paid to the Authority.

2. Ordinary Reinsurance Recoveries: the Authority's is expecting reinsurance recoveries on a number of insurance years. Future payments from reinsurers are expected on public liability in the 2002-03 and 2006-07 insurance year and property in the 2010-11 and 2011-12 insurance years. No financial difficulties are known for the reinsurers of these insurance years and therefore an allowance for impairment of reinsurance assets has not been recognised.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 16. Payables

	2013 $'000	2012 $'000
Current Payables		
Trade Payables	177	223
Ageing of Payables		
Payables are aged as follows:		
Not Overdue	177	223
	177	223
Classification of ACT Government/Non- ACT Government Payables		
Payables with ACT Government Entities		
Trade Payables	8	28
Payables with Non-ACT Government Entities		
Trade Payables	169	195
Total Payables	177	223

Note 17. Outstanding Claims

	Note No.	2013 $'000	2012 $'000
(a) Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		330,677	345,452
Risk Margin		51,539	60,332
Claims Handling Costs		15,733	16,419
Total Undiscounted Expected Future Claims (A)		397,949	422,203
Discount to Present Value		(87,765)	(81,289)
Total Discounted Outstanding Claims Provision (B)	17(f)	310,185	340,914
Current		33,204	34,740
Non-Current		276,980	306,174
	17(f)	310,185	340,914
(b) Expected Future Claim Payments (Bushfire)			
Central Estimate		2,304	92,547
Total Undiscounted Expected Future Claims (Bushfire) (C)		2,304	92,547
Discount to Present Value		-	(8,035)
Total Discounted Outstanding Claims Provision (Bushfires) (D)		2,304	84,512
Current		2,304	2,710
Non-Current			81,802
		2,304	84,512
Total Undiscounted Expected Future Claim Payments (A + C)		400,253	514,750
Total Discounted Claims Provision as per Balance Sheet (B + D)		312,488	425,426

All figures in Note 17(a) have been calculated by actuaries as outlined in Note 2(h): 'Claims'.
The ordinary claims provision decreased in 2013 due predominately to the downward revision of actuarial assumptions. Actuaries consider that there will be fewer and smaller than anticipated medical malpractice and public liability claims arising from the recent years.

Note 17 (b) is the amount of reinsurance recoveries still to be paid to Territory and Municipal Services (TAMS) Directorate. The Authority holds these funds until the Treasurer approves there release to the TAMS Directorate.

Note 17. Outstanding Claims (Continued)

(c) Risk Margin[a]

The process of determining risk margin

The overall risk margin was determined by allowing for diversification between different classes of claims and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to 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 regarding uncertainty for each class were applied to the net central estimates. The results were 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 great enough to reflect all possible future claims. A 75% level of sufficiency is the minimum required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	Risk Margin	
	2012-13 (%)	2011-12 (%)
Property and Motor	**18**	18
Financial Crime	**30**	30
Public Liability	**15**	17
Professional Indemnity	**18**	18
Directors and Officers	**23**	23
Medical Malpractice	**15**	17
Overall margin (weighted average)	**15.7**	17.2

(d) Inflation and Discount Rates[a]

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

	2013 %	2012 %
For the succeeding year		
Inflation rate	**4.0**	4.0
Discount rate	**2.5**	2.8
For the subsequent year		
Inflation rate	**4.0**	4.0
Discount rate	**2.6**	2.1

(e) Term to Settlement[a]

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 6.1 years (2012 – 6.5 years). The weighted average expected term to settlement has been based on industry averages and it has been adjusted to reflect the specific classes of insurance offered by the Authority.

[a] Notes (c) to (e) exclude bushfire claims

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 17: Outstanding Claims (Continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (Excluding Bushfires)

Change in Basis - In the 12 months from 30 June 2012 to 30 June 2013

		$'000
Gross Outstanding Claims Provision at 30 June 2012		**340,914**
Plus New Incurred Period		**45,116**
Less Expected payments to 30 June 2013 (Inflated and Undiscounted values)		(31,597)
Plus Expected Interest to 30 June 2013		7,401
Plus Expected Change in Expense Margin		1,389
Plus Expected Change in Risk Margin		4,618
Expected 30 June 2013 Gross Outstanding Claims Provision as at 30 June 2012		**367,841**
Between 30 June 2012 and 30 June 2013, there have been the following changes in experience and assumptions		
Plus (Actual less Expected) inflation		644
Plus Change in Future Inflation and Discounting Assumptions		(13,813)
Plus (Expected less Actual) Payments		
Directors and Officers		(65)
Financial Crime		47
Medical Malpractice		(4,133)
Professional Indemnity		(101)
Property and Motor		(1,935)
Public Liability		166
Sub-total		(6,021)
Plus Change in Actuarial Assumptions		
Directors and Officers		(292)
Financial Crime		(168)
Medical Malpractice		(9,433)
Professional Indemnity		(1,768)
Property and Motor		(6,379)
Public Liability		(5,063)
Sub-total		(23,103)
Plus Change in Expense Margin at 30 June 2013		(2,375)
Plus Change in Risk Margin at 30 June 2013		(12,990)
Overall Change in Basis		(57,657)
Gross Outstanding Claims Provision at 30 June 2013	17(a)	**310,185**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 17. Outstanding Claims (Continued)

(f) Reconciliation of Movement in Discounted Outstanding Claims Liability (Excluding Bushfires) – Continued

The expected gross outstanding claims provision of $367.841 million compares to the actual gross outstanding claims provision of $310.184 million, a total decrease of $57.656 million. This decrease in provision is broken down into six main components:

- A $23.103 million decrease due to changes in assumptions used in the actuarial valuation. These have resulted from a reduction in the:
    - Property and Motor insurance class largely resulting from more favourable development in large claims and small finalisations settling at lower than the assumed average size.
    - Medical Malpractice insurance class resulting from lower than expected number of claims reports causing a reduction in the assumed ultimate small damages finalisations, favourable development in the incurred cost of existing reported large claims, partially offset by higher than expected new large claims being reported.
    - Public Liability insurance class resulting from lower than expected number of claims reports (both small and large) causing a reduction in the assumed ultimate number of small and large finalisations partially offset by significant development in existing large claims.
    - Professional Indemnity insurance class resulting from lower than expected number of claims reported; and
    - Directors and Officers insurance class resulting from lower than expected number of claims reported.
- A $13.813 million decrease due to increases in the assumed discount rates since 30 June 2012;
- A decrease of $12.990 million in the risk margin resulting from a decrease in the central estimate of outstanding claims;
- A $6.021 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 payments expected to be made in the 12 months are reduced as they have been made sooner than expected; and
- A $2.375 million decrease in the expense margin as a result of the decrease in the central estimate of outstanding claims.

Partially offset by:

- A $0.644 million increase due to higher than expected inflation.

Note 17. Outstanding Claims (Continued)

Claims Development Table – Bushfires Claims

The following tables show the development of gross and net undiscounted oustanding claims relative to the ultimate expected claims for the four classes of bushfire-related claims in the 2002-03 accident year.

i) Gross

Accident year	**2002-03**					
	Standing Timber	**Property**	**Public Liab**	**Prof. Indem**	**Total**	**Notes**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**	
Estimate of ultimate claims cost						
At end of accident year	64,058	58,909	-	-	122,967	
One year later	56,028	65,066	15,500	-	136,594	
Two years later	56,028	60,496	15,500	-	132,024	
Three years later	56,028	60,596	15,500	-	132,124	
Four years later	56,028	60,596	15,500	-	132,124	
Five years later	56,028	60,596	46,985	-	163,609	
Six years later	56,028	60,596	193,503	1,485	311,612	
Seven years later	56,028	60,596	96,526	1,882	215,032	
Eight years later	56,028	60,596	95,336	1,834	213,794	
Nine years later	56,028	60,596	95,336	1,672	213,632	
Ten years later	56,028	60,596	5,827	8	122,459	
Current estimate of cumulative claims cost	56,028	60,596	5,827	8	122,459	
Cumulative payments	-56,028	-58,292	-5,827	-8	-120,155	
Outstanding claims undiscounted	0	2,304	0	0	**2,304**	
Discount	0	0	0	0	**0**	
Outstanding claims	0	2,304	0	0	**2,304**	**17(b)**

ii) Net of reinsurance recoveries

Accident year	**2002-03**				
	Standing Timber	**Property**	**Public Liab**	**Prof. Indem**	**Total**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Estimate of ultimate claims cost					
At end of accident year	4,058	4,961	-	-	9,019
One year later	4,028	6,053	-	-	15,581
Two years later	4,028	6,784	-	-	16,312
Three years later	4,028	6,884	-	-	16,412
Four years later	4,028	6,984	-	-	16,512
Five years later	4,028	7,084	-	-	16,612
Six years later	4,028	6,884	5,827	1,485	18,224
Seven years later	4,028	6,884	5,827	1,882	18,621
Eight years later	4,028	6,884	5,827	1,834	18,573
Nine years later	4,028	6,884	5,827	1,834	18,573
Ten years later	4,028	6,884	5,827	8	16,747
Current estimate of cumulative claims cost	4,028	6,884	5,827	8	16,747
Cumulative payments	-4,028	-6,884	-5,827	-8	-16,747
Outstanding claims undiscounted	0	0	0	0	0

Note:
Claims incurred policy classes are public liability, financial crime and motor.
Claims made policy classes are medical malpractice, directors and officers and professional indemnity.
Table may not add to Balance Sheet due to rounding.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 17. Outstanding Claims (Continued)

Claims development tables
Summary of all claims incurred classes

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.

i) Gross

Accident year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	11,534	13,513	9,356	10,942	11,957	12,371	12,476	11,063	
One year later	11,670	13,385	11,211	14,397	14,000	11,055	9,476	0	
Two years later	9,304	14,670	8,209	15,941	12,849	8,726	0	0	
Three years later	9,744	18,324	10,547	12,840	23,512	0	0	0	
Four years later	9,495	14,276	8,660	10,480	0	0	0	0	
Five years later	7,542	13,766	7,368	0	0	0	0	0	
Six years later	10,178	11,479	0	0	0	0	0	0	
Seven years later	9,487	0	0	0	0	0	0	0	
Current estimate	9,487	11,479	7,368	10,480	23,512	8,726	9,476	11,063	91,591
Cummulative payments	(2,774)	(8,291)	(2,276)	(2,972)	(2,639)	(1,111)	(287)	(46)	(20,396)
	6,713	3,188	5,092	7,508	20,873	7,616	9,188	11,017	71,195
Oustanding claims undiscounted									
Discount	(885)	(579)	(874)	(1,196)	(3,925)	(1,561)	(2,073)	(2,785)	(13,878)
Outstanding claims	5,828	2,609	4,218	6,312	16,949	6,054	7,115	8,232	57,317
2004 and prior years									9,736
Outstanding claims									67,053

ii) Net

Accident year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	11,534	13,513	9,356	10,942	11,957	12,371	12,476	11,063	
One year later	11,670	11,123	11,211	14,397	14,030	11,055	9,476	0	
Two years later	9,304	12,835	8,209	15,941	12,849	8,726	0	0	
Three years later	9,744	17,025	10,547	12,840	17,657	0	0	0	
Four years later	9,495	13,660	8,660	10,480	0	0	0	0	
Five years later	7,542	13,707	7,368	0	0	0	0	0	
Six years later	10,178	11,416	0	0	0	0	0	0	
Seven years later	9,487	0	0	0	0	0	0	0	
Current estimate	9,487	11,416	7,368	10,480	17,657	8,726	9,476	11,063	85,674
Cummulative payments	(2,774)	(8,291)	(2,276)	(2,972)	(2,639)	(1,111)	(287)	(46)	(20,396)
	6,713	3,126	5,092	7,508	15,018	7,616	9,188	11,017	65,277
Oustanding claims undiscounted									
Discount	(885)	(568)	(874)	(1,196)	(2,638)	(1,561)	(2,073)	(2,785)	(12,580)
Outstanding claims	5,828	2,558	4,218	6,312	12,380	6,054	7,115	8,232	52,697
2004 and prior years									9,736
Outstanding claims									62,433

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Claims development tables
Summary of all claims made classes

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.

i) Gross

Accident year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	19,260	23,304	22,558	29,076	36,409	35,304	34,565	40,445	
One year later	20,133	25,216	30,013	19,786	35,445	31,893	34,725	0	
Two years later	14,193	22,316	29,878	20,708	31,759	33,376	0	0	
Three years later	22,217	28,970	22,316	19,103	23,450	0	0	0	
Four years later	12,525	38,089	17,788	18,415	0	0	0	0	
Five years later	14,578	33,175	15,100	0	0	0	0	0	
Six years later	12,270	28,838	0	0	0	0	0	0	
Seven years later	12,838	0	0	0	0	0	0	0	
Current estimate	12,838	28,838	15,100	18,415	23,450	33,376	34,725	40,445	207,187
Cummulative payments	(2,945)	(1,745)	(2,667)	(2,594)	(5,963)	(1,876)	(1,223)	(13)	(19,026)
	9,893	27,094	12,433	15,821	17,487	31,500	33,507	40,432	188,161
Oustanding claims undiscounted									
Discount	(1,883)	(4,813)	(3,364)	(3,588)	(4,967)	(8,283)	(10,192)	(13,040)	(50,130)
Outstanding claims	8,010	22,281	9,069	12,233	12,520	23,217	23,310	27,392	138,031
2004 and prior years									48,250
Outstanding claims									**186,281**

ii) Net

Accident year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Estimate of ultimate claims cost:									
At end of accident year	19,110	23,304	22,558	29,076	36,409	35,304	34,565	40,445	
One year later	20,133	24,751	30,013	19,786	35,445	31,893	34,725	0	
Two years later	14,193	22,316	29,878	20,708	31,759	33,376	0	0	
Three years later	22,217	28,970	22,316	19,103	23,450	0	0	0	
Four years later	12,525	38,089	17,788	18,415	0	0	0	0	
Five years later	14,578	33,175	15,100	0	0	0	0	0	
Six years later	12,270	28,838	0	0	0	0	0	0	
Seven years later	12,838	0	0	0	0	0	0	0	
Current estimate	12,838	28,838	15,100	18,415	23,450	33,376	34,725	40,445	207,187
Cummulative payments	(2,945)	(1,745)	(2,667)	(2,594)	(5,963)	(1,876)	(1,223)	(13)	(19,026)
Oustanding claims undiscounted	9,893	27,094	12,433	15,821	17,487	31,500	33,502	40,432	188,161
Discount	(1,883)	(4,813)	(3,364)	(3,588)	(4,967)	(8,283)	(10,192)	(13,040)	(50,130)
Outstanding claims	8,010	22,281	9,069	12,233	12,520	23,217	23,310	27,392	138,031
2004 and prior years									48,250
Outstanding claims									**186,281**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Claims development tables
Summary of all long tail policy classes

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.

i) Gross

Accident year	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	2012-13 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	30,795	36,817	31,914	40,018	48,366	47,675	47,041	51,509	
One year later	31,802	38,601	41,224	34,183	49,444	42,948	44,201	0	
Two years later	23,497	36,986	38,087	36,650	44,608	42,102	0	0	
Three years later	31,951	47,294	32,863	31,943	46,962	0	0	0	
Four years later	22,021	52,365	26,448	28,895	0	0	0	0	
Five years later	22,119	46,941	22,468	0	0	0	0	0	
Six years later	22,448	40,317	0	0	0	0	0	0	
Seven years later	22,325	0	0	0	0	0	0	0	
Current estimate	22,325	40,317	22,468	28,895	46,962	42,102	44,201	51,509	298,778
Cummulative payments	(5,719)	(10,035)	(4,944)	(5,566)	(8,601)	(2,987)	(1,510)	(59)	(39,422)
Oustanding claims undiscounted	16,605	30,282	17,524	23,330	38,360	39,115	42,690	51,449	259,356
Discount	(2,768)	(5,392)	(4,238)	(4,784)	(8,891)	(9,844)	(12,265)	(15,825)	(64,008)
Outstanding claims	13,838	24,890	13,287	18,545	29,469	29,271	30,425	35,624	195,348

2004 and prior years	57,985
Claims handling expense	12,177
Risk margin	40,228
Outstanding claims	**305,739**
Short tail outstanding claims	4,445
Total gross outstanding claims as per balance sheet	**310,185**

ii) Net

Accident year	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	2012-13 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	30,491	36,679	31,777	40,018	48,366	47,675	47,041	51,509	
One year later	31,664	35,738	41,224	34,183	49,444	42,948	44,201	0	
Two years later	23,497	35,152	38,087	36,650	44,608	42,102	0	0	
Three years later	31,961	45,995	32,863	31,943	41,106	0	0	0	
Four years later	22,021	51,749	26,448	28,895	0	0	0	0	
Five years later	22,119	46,882	22,468	0	0	0	0	0	
Six years later	22,448	40,255	0	0	0	0	0	0	
Seven years later	22,325	0	0	0	0	0	0	0	
Current estimate	22,325	40,255	22,468	28,895	41,106	42,102	44,201	51,509	292,860
Cummulative payments	(5,719)	(10,035)	(4,944)	(5,566)	(8,601)	(2,987)	(1,510)	(59)	(39,422)
Oustanding claims undiscounted	16,605	30,219	17,524	23,330	32,505	39,115	42,690	51,449	253,438
Discount	(2,768)	(5,381)	(4,238)	(4,784)	(7,605)	(9,844)	(12,265)	(15,825)	(62,710)
Outstanding claims	13,838	24,839	13,287	18,545	24,900	29,271	30,425	35,624	190,728

2004 and prior years	57,985
Claims handling expense	12,177
Risk margin	40,228
Outstanding claims	**301,119**
Short tail outstanding claims	-5,165
Total net outstanding claims as per balance sheet*	**295,955**

Total Outstanding Ordinary Claims Reconciliation	
Gross current claims as per balance sheet	33,205
Gross non-current claims as per balance sheet	276,980
Total Gross outstanding claims	**310,185**
Less current reinsurance recoveries as per balance sheet	-6,254
Less non-current reinsurance recoveries as per balance sheet	-7,976
Total reinsurance recoveries	**-14,230**
Net Outstanding claims*	**295,955**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 18. Prepayments and Other Liabilities

	Note No.	2013 $'000	2012 $'000
(a) Prepayments			
Current Construction Industry Insurance Premium Prepayments		633	779
Non-Current Construction Industry Insurance Premium Prepayments		276	105
		909	884
(b) Other Liabilities			
ACTEW Workers Compensation Payment		2,703	-
Current Construction Industry Premium Received in Advance from Agencies		633	779
Non-Current Construction Industry Premium Received in Advance from Agencies		276	105
	2 (d)	3,612	884

ACTEW exited the ACT Worker's Compensation Scheme on 1 September 2012. The scheme will remain liable for all outstanding ACTEW claims incurred prior to this date. ACTEW has entered an agreement to compensate the Territory for growth in the 1 September 2012 outstanding liability arising after this date. The Authority has agreed to invoice ACTEW for these costs and to hold the funds until advised by the Chief Minister and Treasury Directorate to release them.

Note 19. Employee Benefits

	2013 $'000	2012 $'000
Current Employee Benefits		
Accrued Salaries	45	46
Annual Leave	171	198
Long Service Leave	306	284
	522	528
Non-Current Employee Benefits		
Long Service Leave	55	49
	55	49
Total Employee Benefits	577	577

	2013 Number	2012 Number
Employee Numbers		
Full-time Equivalents at the End of the Reporting Period	14	14

Estimate of When Leave is Payable	2013 $'000	2012 $'000
Estimated Amount Payable Within 12 Months		
Annual leave	171	148
Long Service Leave	137	69
Accrued Salaries	45	46
Total Employee Benefits Payable Within 12 Months	353	263
Estimated Amount Payable After 12 Months		
Long Service Leave	224	264
Annual Leave		50
Total Employee Benefits Payable After 12 Months	224	314
Total Employee Benefits	577	577

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 20. Financial Instruments

(a) Accounting Policies, Terms and Conditions

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 Note 2: 'Summary of Significant Accounting Policies'.

Derivative Instruments

The Authority is not a party to derivative financial instruments.

(b) 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:

	Carrying Amount 2013 $'000	Fair Value 2013 $'000	Carrying Amount 2012 $'000	Fair Value 2012 $'000
Financial Assets				
Cash and Cash Equivalents	147	147	481	481
Investments with the Territory Banking Account – Cash Enhanced Portfolio	302,185	302,185	279,277	279,277
Investments with the Territory Banking Account – Fixed Interest Portfolio	61,389	61,389	63,264	63,264
Receivables	7,389	7,389	6,545	6,545
Total Financial Assets	371,110	371,110	349,567	349,567
Financial Liabilities				
Payables	177	177	223	223
Total Financial Liabilities	177	177	223	223

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 20. Financial Instruments (Continued)

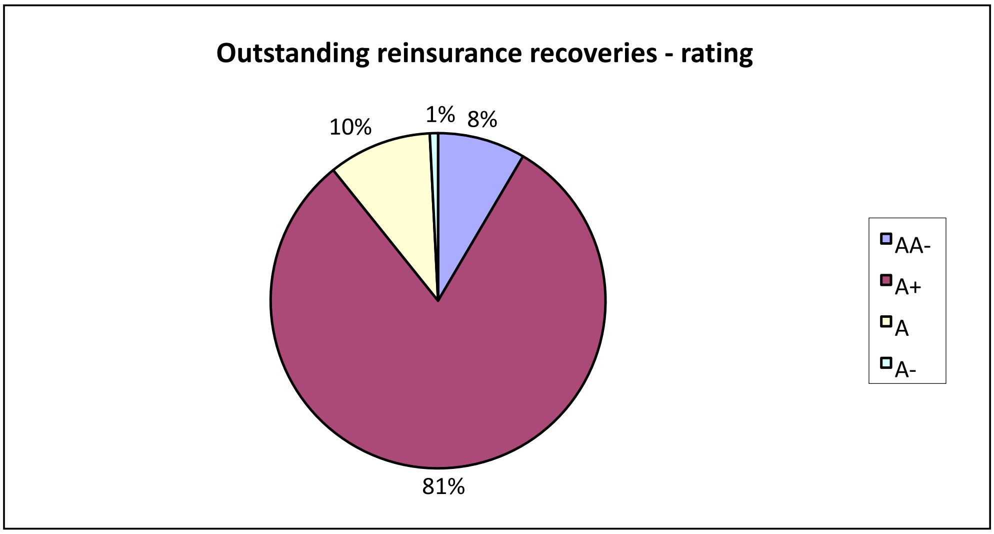
(c) Credit risk

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 less any allowance for impairment. A large proportion of the Authority's receivables are from other ACT Government agencies which mean that the credit risk of these receivables going into default is low. The Authority expects to collect all financial assets that are not past due or impaired.

Though not a financial instrument, the credit risk of a reinsurer defaulting is significant, refer to Note 15: 'Reinsurance Recoveries'. The Authority minimises this credit risk by:

- limiting individual reinsurer participation to 25% in the Industrial Special Risk (ISR) cover, the principle catastrophe reinsurance for the Fund;
- requiring each reinsurer to have a Standard and Poors security rating of 'A-' or higher on placement; and
- arranging replacement insurance for the unexpired portion of the treaty, in the event of reinsurer downgrades below acceptable levels.



Note 20. Financial Instruments (Continued)

(d) 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 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 decreased during the year ended 30 June 2013. The majority of the Authority's financial assets are not subject to interest rate risk as the investments receive distributions rather than interest.

Interest rate risk for financial assets is managed by the Authority by only investing 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 no-interest bearing arrangements. Though not a financial investment, the discount rates for the outstanding claims provision are derived from market yields on Commonwealth Government Bonds at the balance date. There have been no changes in risk exposure or processes for managing risk since last reporting period.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if interest rates change by -/+ 1.0%.

30 June 2013	(1.0%)	+1.0%
	Profit/(Loss) Impact	Profit/(Loss) Impact
	$'000	$'000
Cash and Cash Equivalents	(1)	1
Outstanding Claims Provision Discount to Present Value	3,102	(3,102)
Total Increase/(Decrease)	**3,101**	**(3,101)**

30 June 2012	(1.0%)	+1.0%
	Profit/(Loss) Impact	Profit/(Loss) Impact
	$'000	$'000
Cash and Cash Equivalents	(5)	5
Outstanding Claims Provision Discount to Present Value	3,409	(3,409)
Total Increase/(Decrease)	**3,404**	**(3,404)**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 20. Financial Instruments (Continued)

(e) 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.

Although the majority of the Authority's liabilities are insurance claims, which are not financial instruments the Authority may be considered to have a liquidity risk if the cost of claims escalates unexpectantly. In order to limit liquidity risk in the future, the Authority has put in place the following strategies:

- to set premiums at a level that will fully cover claims costs and associated expenses; and
- to reduce claims cost by improving risk management practices at the agencies.

The Authority's exposure to liquidity risk 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 2013. 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.

2013			Fixed interest maturing in:				
Financial Instruments	Notes No.	Floating interest rate $'000	1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Assets							
Cash and Cash Equivalents	13	147	-	-	-	-	147
Investments – Cash Enhanced Portfolio	13	-	-	-	-	302,185	302,185
Investments – Fixed Interest Portfolio	13	-	-	-	-	61,389	61,389
Receivables	14	-	-	-	-	7,389	7,389
Total Financial Assets		**147**	**-**	**-**	**-**	**370,963**	**371,110**
Weighted Average Interest Rate	5.25%						
Financial Liabilities							
Payables	16	-	-	-	-	177	177
Total Financial Liabilities		-	-	-	-	**177**	**177**
Net Financial Assets		**147**	**-**	**-**	**-**	**370,786**	**370,933**

Reconciliation of Net Financial Assets to Net Assets	**Notes**	**2013 $'000**
Net Financial Assets (as above)		370,933
Employee Benefits	19	(577)
Reinsurance Recoveries	15	14,230
Other Assets		909
Other Liabilities		(3,612)
Outstanding Claims	17	(312,489)
Net Assets as per the Balance Sheet		**69,396**

Note 20. Financial Instruments (Continued)

(e) 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 2012. 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.

2012			Fixed interest maturing in:				
Financial Instruments	Notes No.	Floating Interest rate $'000	1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Assets							
Cash and Cash Equivalents	13	481	-	-	-	-	481
Investments – Cash Enhanced Portfolio	13	-	-	-	-	279,277	279,277
Investments – Fixed Interest Portfolio	13	-	-	-	-	63,264	63,264
Receivables	14	-	-	-	-	6,393	6,393
Total Financial Assets		481	-	-	-	348,934	349,415
Weighted Average Interest Rate		6.79%					
Financial Liabilities							
Payables	16	-	-	-	-	223	223
Total Financial Liabilities		-	-	-	-	223	223
Net Financial Assets		481	-	-	-	348,711	349,192

Reconciliation of Net Financial Assets to Net Assets	Notes	2012 $'000
Net Financial Assets (as above)		349,192
Net GST Receivable		151
Employee Benefits	19	(577)
Reinsurance Recoveries	15	92,929
Other Assets		884
Other Liabilities		(884)
Outstanding Claims	17	(425,426)
Net Assets as per the Balance Sheet		**16,270**

Carrying Amount of Each Category of Financial Instruments	2013 $'000	2012 $'000
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**363,574**	342,541
Loans and Receivables	**7,389**	6,393
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	177	223
Gains/(Loss) on Each Category of Financial Asset		
Financial Assets at Fair Value through Profit and Loss Designated upon Initial Recognition	32	1,615

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 20. Financial Instruments (Continued)

(f) Price Risk

Price risk is the risk that the fair value or future cashflows 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 portfolios. The Authority has units in the Cash Enhanced and Fixed Interest portfolios which fluctuate in value. The price fluctuations in the units of the Cash Enhanced and Fixed Interest portfolios are caused by movements in the underlying investments of the portfolios. 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 portfolio 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 last reporting period.

Taking into account past performance, future expectations, economic forecasts, and the Chief Minister and Treasury Directorate's management's knowledge and experience of the financial markets, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if interest rates change-/+ 0.5% for the Cash Enhanced Portfolio and -/+5.0% for the Fixed Interest Portfolio from the target benchmark with all other variables held constant.

June 2013		(0.5%)	0.5%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$'000	$'000
Cash Enhanced Portfolio	UBS Australian Composite Bond Index -/+ 0.5%	(1,511)	1,511

June 2012		(0.5%)	0.5%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$'000	$'000
Cash Enhanced Portfolio	UBS Australian Composite Bond Index -/+ 0.5%	(1,396)	1,396

June 2013		(5.0%)	5.0%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact $'000	Profit/(Loss) Impact $'000
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 5.0%	(3,069)	3,069

June 2012		(5.0%)	5.0%
	Benchmark/ Volatility Factor	Profit/(Loss) Impact	Profit/(Loss) Impact
		$'000	$'000
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 5.0%	(3,163)	3,163

Note 20. Financial Instruments (Continued)

(g) **Fair Value Hierarchy**

The Authority is required to classify financial assets and financial liabilities into a fair value hierarchy that reflects the significance of the inputs used in determining their fair value. The fair value hierarchy is made up of the following three levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amount of financial assets measured at fair value, as well as the methods used to estimate the fair value are summarised in the table below. 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.

2013

	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	302,185	-	302,185
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	61,389	-	61,389
Total	-	363,574	-	363,574

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

2012

	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	279,277	-	279,277
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	63,264	-	63,264
Total	-	342,541	-	342,541

Transfer Between Categories

There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

Note 21. Remuneration of Auditor

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

	2013 $'000	2012 $'000
Audit Fees Paid to the ACT Auditor-General's Office	56	55

No other services were provided by the ACT Auditor-General's Office.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

Note 22. Contingent Liabilities and Contingent Assets

No contingent liabilities or assets were recognised at the reporting date.

Note 23. Cash Flow Reconciliation

(a) Reconciliation of Cash and Cash Equivalents at the end of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet.

	2013 $'000	2012 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	147	481
Cash and Cash Equivalents at the end of the Reporting Period as Recorded in the Cash Flow Statement	147	481

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

	2013 $'000	2012 $'000
Operating Surplus/(Deficit)	53,126	(855)
Add/ Less Items Classified as Investing or Financing		
Changes in Net Market Value of Investments	(32)	(1,615)
Cash Before Changes in Operating Assets and Liabilities	53,094	(2,470)
Change in Operating Assets and Liabilities		
Decrease/ (Increase) in Reinsurance Recoveries	78,699	(11,710)
(Increase) in Interest Receivable	(992)	(2,470)
Decrease/ (Increase) in Other Receivables	294	(452)
(Decrease)/ Increase in Payables	(46)	73
(Decrease)/Increase in Outstanding Claims	(112,938)	47,630
(Decrease)/Increase in Other Liabilities	2,557	
(Decrease)/Increase in Employee Benefits	(1)	38
Net Changes in Operating Assets and Liabilities	(32,427)	33,109
Net Cash Inflows from Operating Activities	20,666	30,639

Note 24. Events Occurring after Balance Date

There were no events occurring after the balance date which would affect the financial statements as at 30 June 2013.

STATEMENT OF PERFORMANCE

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A13/27

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 5, 40 Allara Street
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan

REPORT OF FACTUAL FINDINGS - ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

The Audit Office has completed the review of the statement of performance of the ACT Insurance Authority for the year ended 30 June 2013.

I have attached the statement of performance and unqualified report of factual findings.

I have provided a copy of the statement of performance and report of factual findings to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

M. Cooper.

Dr Maxine Cooper
Auditor-General
11 September 2013

c.c. Mr John Fletcher, General Manager, ACT Insurance Authority
Mr Will Laurie, Chair, Internal Audit Committee, Commerce and Works Directorate
Ms Kirsten Thompson, Director, Corporate and Governance, Commerce and Works Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

REPORT OF FACTUAL FINDINGS

ACT INSURANCE AUTHORITY

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the ACT Insurance Authority (the Authority) for the year ended 30 June 2013 has been reviewed.

Responsibility for the statement of performance

The Chief Executive Officer of the Authority is responsible for the preparation and fair presentation of the statement of performance in accordance with the *Financial Management Act 1996*. This includes responsibility for maintaining adequate records and internal controls that are designed to prevent and detect fraud and error, and the systems and procedures to measure the results of the accountability indicators reported in the statement of performance.

The auditor's responsibility

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2011*, I am responsible for providing a report of factual findings on the statement of performance.

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide assurance that the results of the accountability indicators reported in 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.

The review did not include an assessment of the relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

No opinion is expressed on the accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations.

Electronic presentation of the statement of performance

Those viewing an electronic presentation of this statement of performance should note that the review does not provide assurance on the integrity of information presented electronically, and does not provide an opinion on any other information which may have been hyperlinked to or from the statement of performance. If users of the statement of performance are concerned with the inherent risks arising from the electronic presentation of information, they are advised to refer to the printed copy of the reviewed statement of performance to confirm the accuracy of this electronically presented information.

Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the review.

Review opinion

Based on the review procedures, no matters have come to my attention which indicate that the results of the accountability indicators, reported in the statement of performance of the Authority for the year ended 30 June 2013, are not fairly presented in accordance with the *Financial Management Act 1996*.

This review opinion should be read in conjunction with the other information disclosed in this report.

M. Cooper.

Dr Maxine Cooper
Auditor-General
11 September 2013

ACT INSURANCE AUTHORITY
STATEMENT OF PERFORMANCE
For the year ended 30 June 2013

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 2013, and also fairly reflects the judgements exercised in preparing it.

Megan Smithies
Chief Executive
ACT Insurance Authority
6 September 2013

John Fletcher
General Manager
ACT Insurance Authority
6 September 2013

ACT INSURANCE AUTHORITY
Statement of Performance
For the Year Ended 30 June 2013

Description of Objectives

The ACT Insurance Authority's (ACTIA's) key objectives are:

- to carry out 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;
- to 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;
- to develop and promote good practices for the management of Territory risks;
- to give advice to the Treasurer about insurance and the management of Territory risks;
- to carry out the role of the Nominal Defendant of the ACT; and
- to administer, on behalf of and under agreement with the Chief Minister and Cabinet Directorate, the Default Insurance Fund.

Objective	Accountability Indicators	Original Target	Actual Result	Variance	Variance %	Explanation of Material Variances
Carry out the business of insurer of Territory risks	(a) Results from an annual customer satisfaction survey of the level of overall customer satisfaction with insurance management services	Overall customer satisfaction > 90%	94%	4%	4%	
	(b) General and administrative expense as a percentage of total revenue. Industry benchmark 5.9%	4.6%	8.0%	3.4%	74%	Total revenue was lower than expected due to reduced reinsurance revenue from the bushfire claim. ACTIA continues to operate within budget for general and administrative expenses.

ACT INSURANCE AUTHORITY
Statement of Performance
For the Year Ended 30 June 2013

Objective	Accountability Indicators	Original Target	Actual Result	Variance	Variance %	Explanation of Material Variances
Carry out the business of insurer of Territory risks (continued)	(c) 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	0	0%	
	(d) The average number of days to process an insurance claim payment	20	4	(16)	(80%)	Agency payments are processed as a priority.
Take out insurance of Territory risks with other entities	(e) Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs	Annual review completed	Annual review completed	0	0%	
	(f) Review the Territory property asset register to ensure that values provided by agencies reflect insurance replacement costs	Annual review completed	Annual review completed	0	0%	
	(g) Facilitate the implementation by Territory agencies of agreed recommendations from reinsurer's Property Asset Management Surveys	>90% completed	>90% completed	0	0%	

ACT INSURANCE AUTHORITY
Statement of Performance
For the Year Ended 30 June 2013

Objective	Accountability Indicators	Original Target	Actual Result	Variance	Variance %	Explanation of Material Variances
Satisfy or settle claims in relation to Territory risks	(h) Hold quarterly reviews of all liability and medical malpractice claims to assess the claim management strategy and reserve for matters where the Territory's liability may exceed $100,000	Quarterly claims review meetings held	4	0	0%	
	(i)					There were a lower number of claims and incidents reported.
	– Number of active insurance claims (including pre-ACTIA claims)	9,060	8,481	(579)	(6.4%)	
	– Number of open claims and incidents	1,360	1,113	(247)	(18%)	
	– Number of claims and incidents closed or settled	7,700	7,368	(332)	(4.3%)	
Develop and promote good practices for the management of Territory risks	(j) Provide Risk Profile Reports to assist agencies by profiling and measuring their risk management progress	Bi-annual reports provided to agencies	2	0	0%	
	(k) Deliver a program of general and targeted risk management training courses to Territory agencies	Deliver a minimum of 12 training courses	31	19	158%	Increased demand for risk management training.
	(l) Conduct Risk Management Performance and Improvement Reviews	Review 4 Territory Agencies	10 agencies	6	150%	The Authority was able to review six additional agencies.

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

Notes:

(a) Surveys are sent to the Directors-General and Chief Executive Officer's of all ACT Government Directorates and Statutory Authorities insured by ACTIA. Respondents are asked to rate performance against the ACTIA Customer Service Charter that details what agencies can expect from ACTIA when doing business with the Authority. There were 20 agencies who responded to this survey.

(b) ACTIA General and Administrative Expenses are measured against an Insurance Industry Benchmark.

(c) ACTIA completes an annual review of agency insurance premiums, with assistance from the fund actuary, PricewaterhouseCoopers Actuarial Pty Ltd. Premiums are determined based on agency claims history, asset ownership and risk profile.

(d) ACTIA processes payments to insured Agencies as a priority. The number of days to process payments is measured from the date settlement is agreed until the date payment is made.

(e) ACTIA 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.

(f) ACTIA completes a review of the replacement values detailed in the Territory's asset schedule as part of the property reinsurance renewal.

(g) An Annual Property Survey Program is undertaken by the Authority's reinsurers. Agreed recommendations are implemented by Territory agencies.

(h) Quarterly claims review meetings are held to review all liability and medical malpractice claims with a reserve of $500,000 or above. Meetings are attended by representatives of the Government Solicitor's Office, ACTIA's insurance brokers, Marsh Pty Ltd, as well as external insurers and their solicitors. Claims with reserves greater than $100,000 are regularly reviewed by ACTIA claims managers.

(i) The ACTIA Claims Management System provides claims management data used by the Authority to manage individual claims and to estimate total outstanding claims liability.

(j) Risk Profile Reports are provided to directorates and the reports contain a detailed claims history, claims costs and provide a commentary on issues or trends, where identified, across classes of insurance. The reports also included suggested risk management actions for information and action. The reports are provided biannually.

(k) ACTIA delivers a program of 12 risk management training courses that canvassed 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.

(l) ACTIA conducts risk management performance reviews to measure the level of risk management maturity within Directorates and their associated Divisions or Business Units.

ANNEXED REPORT
OFFICE OF THE NOMINAL DEFENDANT ACT

THE ORGANISATION

The ACT Insurance Authority is the appointed Nominal Defendant of the ACT (the Fund) and operates under the *Road Transport (Third Party Insurance) Act 2008*.

The objectives of the Nominal Defendant are to:

- provide a safety net mechanism to meet the costs of third party personal injury claims made by injured parties where:
  - the vehicle involved does not have a compulsory third party insurance policy; or
  - the injured person is unable to identify the driver and vehicle at fault.
- ensure that persons, who are injured in the circumstances listed above, receive the same entitlements as an injured person would receive where the vehicle did have CTP insurance.
- collect recoveries from uninsured drivers at fault to the sum paid out by the Nominal Defendant of the ACT.
- levy each licensed CTP insurer in the Territory as well as the Commonwealth and ACT Governments.

Claims are managed within the auspices of the *Road Transport (Third Party) Insurance Act 2008*, and the Nominal Defendant meets the cost of all legislated entitlements for injured people including, medical expenses, rehabilitation costs, and lump sum settlements.

FINANCE

Revenue

Total revenue received by the Nominal Defendant during the year amounted to $7.078 million.

The amount required by the Nominal Defendant to settle claims is apportioned by the CTP regulator annually. The amount is apportioned among the licensed insurers having regard to the amount of third party premium income received and among the self insurers having regard to premiums that would otherwise have been payable for the numbers and types of vehicles operated in the Territory.

A total of $4.781 million was derived from levies on licensed insurers, and on recognised self insurers in the ACT - the Commonwealth of Australia and the Government of the Australian Capital Territory in accordance with the *Road Transport (Third Party Insurance) Act 2008*.

In addition, revenue is received by the Nominal Defendant from the following sources:

- Any penalties or penalty interest imposed under the Act;
- Amounts recovered by the Nominal Defendant;
- Unregistered Vehicle Permits (UVPs) liability contributions to fund cost of claims of the Nominal Defendant in relation to unregistered vehicle permits;
- Interest accruing from the investment of the Nominal Defendant fund; and
- Unregistered Vehicle Fines liability contributions to assist to fund the cost of claims of the Nominal Defendant.

Where the Nominal Defendant has made payments on a claim involving an uninsured motor vehicle, attempts are made to recover the cost of those payments from the owner or driver concerned. Although the financial resources of all uninsured drivers are investigated, in the majority of cases formal recovery action would be futile because the fund is unable to locate the uninsured driver or the uninsured has limited or no financial resources.

The following table details funds received as other revenue during the period totalling $1.2 million.

Source	Amount
Unregistered Vehicle Permits	$652,000
Unregistered Vehicle Fines	$480,000
Uninsured owner's & driver's	$54,000
Recoveries from Third Parties	$14,000
Total	**$1,200,000**

Expenses

The total expenses paid by the Nominal Defendant during the year was $5.153 million.

The total claims expense for the reporting period was $4.611 million.

Equity

The total assets and liabilities of $25.142 million and $18.901 million respectively.

As at 30 June 2013 the total equity of the Nominal Defendant was $6.241 million.

CLAIMS

During the reporting period the fund received 46 new claims.

There are 99 open claims remaining as at 30 June 2013 with a combined total provision for claims payable of $18.766 million.

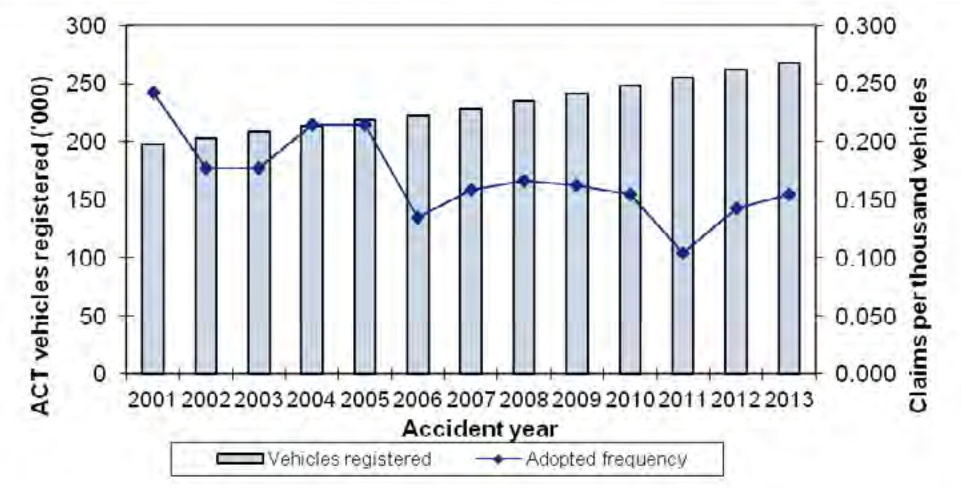
Of the 99 open claims, unidentified vehicles account for 48%, unregistered and uninsured vehicles for 50% and 1% are related to unregistered vehicle permits.

Claims Frequency and Vehicle Registrations

The Australian Capital Territory has 268,094 registered vehicles.

During the reporting period there were approximately 0.155 claims per 1,000 vehicles registered.

A comparison between the number of vehicles registered and the number of claims made to the Fund is shown in the following table:

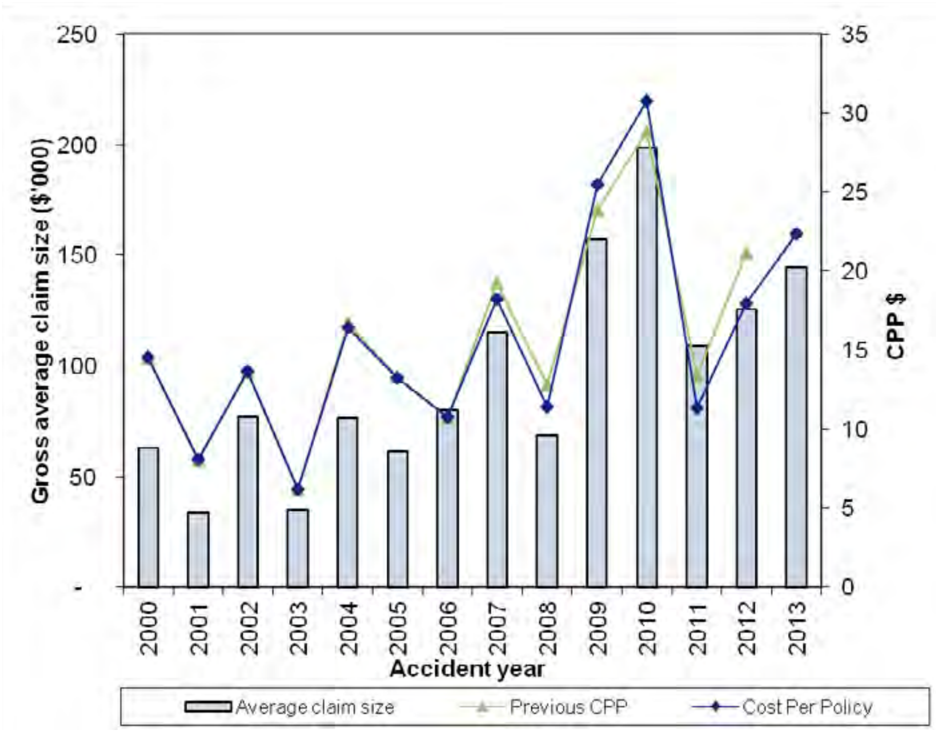


Source: Nominal Defendant Liability Valuation Report as at 30 June 2013 produced by KPMG Actuarial.

Average claims size and cost per policy

The average claim size in the period was $144,000 while the average CTP Claim per policy cost was $22.39.

A comparison between the average size of a claim and the cost of a CTP policy is shown in the following table:



Source: Nominal Defendant Liability Valuation Report as at 30 June 2013 produced by KPMG Actuarial.

FREEDOM OF INFORMATION

Section 7 Statement

The functions and operations of the Fund are outlined in the “Operations and Principal Activities” section of the ACTIA Annual Report 2012-13.

Documents held include insurance claims, management files and finance records.

Section 8 Statement

The Fund’s Section 8 Statement is included with that of the Commerce & Works Directorate Annual Report as published.

The Fund received no requests for access to documents under the *Freedom of Information Act 1989* during 2012-13.

FINANCIAL STATEMENTS OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A13/48

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 5, 40 Allara Street
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan

AUDIT REPORT – OFFICE OF THE NOMINAL DEFENDANT OF THE ACT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Audit Office has completed the audit of the financial statements of the Office of the Nominal Defendant of the ACT for the year ended 30 June 2013.

I have attached the audited financial statements and unqualified audit report.

I have provided a copy of the financial statements and audit report to the Treasurer, Mr Andrew Barr MLA.

Yours sincerely

Bernie Sheville
Director, Financial Audits
11 September 2013

c.c. Mr John Fletcher, General Manager, ACT Insurance Authority
Mr Will Laurie, Chair, Internal Audit Committee, Commerce and Works Directorate
Ms Kirsten Thompson, Director, Corporate and Governance, Commerce and Works Directorate

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

INDEPENDENT AUDIT REPORT

OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the Office of the Nominal Defendant of the ACT (the Nominal Defendant) for the year ended 30 June 2013 have been audited. These comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

Responsibility for the financial statements

The Chief Executive Officer of the ACT Insurance Authority is responsible for the preparation and fair presentation of the financial statements of the Nominal Defendant. This includes responsibility for maintaining adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and the accounting policies and estimates used in the preparation of the financial statements.

The auditor's responsibility

I am responsible for expressing an independent audit opinion on the financial statements of the Nominal Defendant.

The audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance that the financial statements are free of material misstatement.

I formed the audit opinion following the use of audit procedures to obtain evidence about the amounts and disclosures in the financial statements. As these procedures are influenced by the use of professional judgement, selective testing of evidence supporting the amounts and other disclosures in the financial statements, inherent limitations of internal control and the availability of persuasive rather than conclusive evidence, an audit cannot guarantee that all material misstatements have been detected.

Although the effectiveness of internal controls is considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

Level 4, 11 Moore Street, Canberra City, ACT 2601 | PO Box 275, Civic Square, ACT 2608
Telephone: 02 6207 0833 | Facsimile: 02 6207 0826 | Email: actauditorgeneral@act.gov.au

The audit is not designed to evaluate the prudence of decisions made by the Nominal Defendant.

Electronic presentation of the audited financial statements

Those viewing an electronic presentation of the financial statements should note that the audit does not provide assurance on the integrity of information presented electronically, and does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from the electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the audit.

Audit opinion

In my opinion, the financial statements of the Nominal Defendant for year ended 30 June 2013:

(i) are presented in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia; and

(ii) present fairly the financial position of the Nominal Defendant as at 30 June 2013 and the results of its operations and cash flows for the year then ended.

This audit opinion should be read in conjunction with the other information disclosed in this report.

Bernie Sheville
Director, Financial Audits
11 September 2013

Financial Statements
For the Year Ended
30 June 2013

Office of the Nominal Defendant of the ACT

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2013

Statement of Responsibility

In my opinion, the financial statements of the Office of the Nominal Defendant of the ACT (the Fund) are in agreement with its accounts and records and fairly reflect the financial operations of the Fund for the year ended 30 June 2013 and the financial position of the Fund on that date.

Megan Smithies
Chief Executive Officer
ACT Insurance Authority
8 August 2013

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2013

Statement by the General Manager

In my opinion, the financial statements of the Office of the Nominal Defendant of the ACT (the Fund) have been presented in accordance with generally accepted accounting principles, and are in agreement with the Fund's accounts and records and fairly reflect the financial operations of the Fund for the year ended 30 June 2013, and the financial position of the Fund on that date.

John Fletcher
General Manager
ACT Insurance Authority
8 August 2013

Office of the Nominal Defendant of the ACT
Operating Statement
For the Year Ended 30 June 2013

	Note No.	Actual 2013 $'000	Actual 2012 $'000
Income			
Interest and Distributions	6	1,097	1,062
Levies	7	4,781	4,393
Unrealised Gain on Investments	11	-	371
Other Revenue	8	1,200	1,120
Total Income		7,078	6,946
Expenses			
Claims Expenses	9	4,611	6,901
Supplies and Services	10	354	355
Unrealised Loss on Investments	11	188	-
Total Expenses		5,153	7,256
Operating Surplus/(Deficit)		1,925	(310)
Total Comprehensive Income/(Deficit)		1,925	(310)

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

Office of the Nominal Defendant of the ACT
Balance Sheet
As at 30 June 2013

	Note No.	Actual 2013 $'000	Actual 2012 $'000
Current Assets			
Cash and Cash Equivalents	12	17,764	15,439
Receivables	13	1,447	1,319
Total Current Assets		19,211	16,758
Non-Current Assets			
Investments	14	5,931	6,119
Total Non-Current Assets		5,931	6,119
Total Assets		25,142	22,877
Current Liabilities			
Payables	15	135	160
Provision for Claims Payable	16	3,953	4,231
Total Current Liabilities		4,088	4,391
Non-Current Liabilities			
Provision for Claims Payable	16	14,813	14,170
Total Non-Current Liabilities		14,813	14,170
Total Liabilities		18,901	18,561
Net Assets		6,241	4,316
Equity			
Accumulated Funds		6,241	4,316
Total Equity		6,241	4,316

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

Statement of Changes in Equity
For the Year Ended 30 June 2013

	Accumulated Funds Actual 2013 $'000	Total Equity Actual 2013 $'000
Balance at the Beginning of the Reporting Period	4,316	4,316
Comprehensive Income		
Operating Income	1,925	1,925
Total Comprehensive Income	6,241	6,241
Balance at the End of the Reporting Period	6,241	6,241

	Accumulated Funds Actual 2012 $'000	Total Equity Actual 2012 $'000
Balance at the Beginning of the Reporting Period	4,626	4,626
Comprehensive (Deficit)		
Operating (Deficit)	(310)	(310)
Total Comprehensive (Deficit)	(310)	(310)
Balance at the End of the Reporting Period	4,316	4,316

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

Office of the Nominal Defendant of the ACT
Cash Flow Statement
For the Year Ended 30 June 2013

	Note No.	Actual 2013 $'000	Actual 2012 $'000
Cash Flows from Operating Activities			
Receipts			
Interest and Distribution Received		1,103	1,012
Recoveries		68	59
Fees and Fines		1,057	1,187
Levies		4,759	4,476
Goods and Services Input Tax Credits from the Australian Taxation Office		311	207
Total Receipts from Operating Activities		7,298	6,941
Payments			
Supplies and Services		379	226
Payment of Claims		4,246	2,625
Goods and Services Tax Paid to Suppliers		348	132
Total Payments from Operating Activities		4,973	2,983
Net Cash Inflows from Operating Activities	19	2,325	3,958
Net Increase in Cash and Cash Equivalents Held		2,325	3,958
Cash and Cash Equivalents at Beginning of Reporting Period		15,439	11,481
Cash and Cash Equivalents at End of Reporting Period	19	17,764	15,439

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

Office of the Nominal Defendant of the ACT

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2013

NOTE INDEX

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 1 OBJECTIVES OF THE OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

Operations and Principal Activities of the Office of the Nominal Defendant of the ACT

The ACT Insurance Authority took over the assets and liabilities of the Office of the Nominal Defendant of the ACT (the Fund) from the previous Nominal Defendant on 17 December 2008, and commenced operations on 1 January 2009. On establishment, $13.2 million was transferred to the Fund from the previous Nominal Defendant. The Fund is operated under the *Road Transport (Third Party Insurance) Act 2008*. The objectives of the Fund are to:

- provide a safety net mechanism to meet the costs of third party personal injury claims made by injured parties where:
  a. the vehicle involved does not have a compulsory third party insurance policy; or
  b. the injured person is unable to identify the driver and vehicle at fault;
- ensure that persons, who are injured in the circumstances listed above, receive the same entitlements as an injured person would receive where the vehicle did have Compulsory Third Party insurance;
- collect recoveries from uninsured drivers at fault to the sum paid out by the Nominal Defendant of the ACT; and
- raise levies on each licensed Compulsory Third Party insurer in the Territory as well as the Commonwealth and ACT Governments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

These general purpose financial statements have been prepared to comply with 'Generally Accepted Accounting Principles'. These financial statements have been prepared in accordance with Australian Accounting Standards, and ACT Accounting and Disclosure Policies.

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 which were valued in accordance with the (re)valuation policies applicable to the fund during the reporting period.

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

The Fund is an individual reporting entity.

(b) The Reporting Period

The financial statements state the financial performance, change in equity and cash flows of the Fund for the year ended 30 June 2013 together with the financial position of the Fund as at 30 June 2013.

Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(c) Comparative Figures

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.

(d) 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. Some totals throughout this report may not add due to rounding.

(e) Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement. All revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

Levies

Monies required to satisfy claims are apportioned by way of levies placed on Comprehensive Third Party Insurers and Self-Insurers in the ACT. The levies are calculated based on the market share. Levies are recognised in the Operating Statement when they have been earned.

Interest

Interest rate revenue is recognised using the effective interest method.

Distribution

Distribution revenue is received from investments with the Public Trustee Fixed Interest Portfolio. This is recognised on an accrual basis.

(f) Current and Non-Current Items

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank and cash on hand. Cash equivalents include any short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include short-term investments held in the Justice and Community Safety Directorate Cash Trust Account managed by an external fund manager on behalf of the Public Trustee for the ACT. Short-term investments in the Cash Trust Account are measured at fair value.

(h) Receivables

Accounts receivable (including interest and other receivables) are recognised at fair value and subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement.

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

a. becoming aware of financial difficulties of debtors; or
b. defaulting debtors.

(i) Investments

Long-term investments for the Fund are held with the Public Trustee for the ACT in a unit trust called the Fixed Interest Portfolio. The price of units fluctuates in value. The net gain or loss on investments consists of the fluctuation in price of the units in the trust 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 profit 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.

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 reporting date.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Payables

Payables are a financial liability and are measured at the fair value of the consideration received when initially recognised and at amortised cost subsequent to initial recognition, 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 Payables, Accrued Expenses and Other Payables.

Trade Payables 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 Fund.

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.

Other Payables are those unpaid invoices that do not directly relate to the normal operations of the Fund.

(k) Provision for Claims Payable

The provision covers claims reported but not yet paid, incurred but not yet reported claims ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends.

An assessment of outstanding claims is done annually by an independent actuary. The Fund has used the services of an independent actuary, KPMG Actuaries Pty Ltd, to provide a full assessment of outstanding claims at 30 June 2013.

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to present value using the Commonwealth Government Bonds risk free rate.

Payables estimated to fall due within a 12-month period are classified as a current liability and all other payables as a non-current liability.

(l) Recoveries

The Fund may receive recoveries from the uninsured drivers, claimant third parties, and court associated recoveries. The recoveries are included in the actuarial calculations, and are netted off from the value of outstanding claims.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 3 IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. The Fund does not intend to adopt these standards and interpretations early. It is estimated that the effect of adopting the below pronouncements, when applicable, will have no material financial impact on the Fund in future reporting periods:

- AASB 9 Financial Instruments (application date 1 January 2015);
- AASB 13 Fair Value Measurement (application date 1 January 2013);
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards [AASB 1, 7, 101, 108, 118, 132, 136, 137 & 139] (application date 1 January 2013 for profit entities and 1 Jan 2014 for not-for-profit entities);
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB13 [AASB 1, 4, 7, 9, 2009-11, 101, 108, 110, 118, 119, 132, 136, 139 & 1004] (application date 1 January 2013)

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Measurement of the Provision for Outstanding Claims

The Fund is not required to comply with AASB 1023: General Insurance Contracts as its operations are not underpinned by contracts of insurance with its customers. Contracts of insurance need to be in existence in order for a reporting entity to apply AASB 1023. Instead, liabilities are reported under AASB 137: Provisions, Contingent Liabilities and Contingent Assets. The measurement of liabilities under AASB 137 is based on an actuarial assessment, in the context of the Fund's claims, equating to the central estimate of claim liabilities (i.e. without an explicit risk margin).

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES -CONTINUED

(b) Actuarial Assumptions

The actuarial estimate of provision for claims payable comprises:

- future compensation payments on open reported claims;
- future compensation payments for claims that have been incurred but not reported (i.e. IBNR);
- any recoveries, including input tax credits, recoveries from owners of unregistered vehicles and shared recoveries, where relevant;
- an average claims handling expense associated with managing the claims, such as the staff costs for employees managing the claims; and
- claims inflated and discounted to a 'present value' basis.

Analysis and estimates are analysed in aggregate, without being subdivided by claim types.

The approaches used in estimating the liability for all claims were as follows:

Method 1

- historical claim payments and outstanding case estimates were summarised by accident and payment year;
- adequacy of case estimates was assessed by comparing the outstanding case estimates for a given accident year at each year end, with payments in the following year added to outstanding case estimates at the following year end, and consideration given to the need to assume future increases in case estimates; and
- a rate of payout was assumed, with the projected payments then discounted to a present value, to allow for the expected timing of those payments.

Method 2

- projection of IBNR claims by examining the rate of reporting as a frequency relative to vehicle registrations;
- claim payments were inflated to a common year (the 2012-13 year) using historical inflation indices;
- the payment pattern per number of claims incurred was analysed for each accident year, and an assumption made regarding a base average claim size and payment pattern for the run off of claims incurred to 30 June 2013; and
- the average claim size and pattern was applied to the reported and projected future reported claim numbers to derive projected payments, with the projected payments adjusted for future claims inflation and discounting to present value, allowing for the expected timing of those payments.

A blend of methods was adopted reflecting the relative strengths of those methods in projecting liabilities at different stages of development.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

Table 1 outlines the main assumptions which were made in estimating the provision for claims payable.

Table 1 – Selected Actuarial Assumptions

Assumption	2013	2012
Claim frequency per thousand vehicles	0.155 per 1,000	0.155 per 1,000
Gross average claim size current year values (Method 2)	$108,800	$102,500
Case estimate development factors (Method 1)	1.2 reducing to 1	1.2 reducing to 1
Claims inflation – wage inflation	4.25%pa	4.25% pa
Claims inflation – superimposed inflation	3.0% pa	3.0% pa
Discount rate	3.31%	2.81%
Discounted average term to settlement	3.50 years	3.60 years
Claims handling expenses	9%	7%

Projected Claim Numbers

The projected claim numbers have been determined based on an assumed pattern of claim emergence using chain ladder projections or the application of average claim frequencies to measures of exposure. This projection results in an underlying assumed average claim frequency per thousand registered vehicles. Individual years will vary based on experience to date.

Case Estimate Development Factors

For those years with reliance on Method 1, the projected increase over case estimates in each year ranges from 1.2 (i.e. an increase of 20%) for a more recent year, reducing to 1 after eight years of development (i.e. no further increase in estimates after that point).

Claims Inflation Rate

A base wage inflation rate of 4.25% per annum has been selected. However, claims costs have a tendency to increase above the rate of wage inflation over time. A rate of 3.00% per annum for additional (i.e. superimposed) inflation has been adopted. Method 2 uses these assumptions, while inflation is implicit in Method 1.

Discount Rate

The estimate of the Fund's liability is provided on both a discounted (i.e. allowing for future investment income) and undiscounted basis. To discount the liability, the Fund has used the market yield as at 30 June 2013 on long-duration Commonwealth bonds, which gives weighted average discount rates of 3.31%.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

(b) Actuarial Assumptions - Continued

Claims Handling Expenses

Based on an exercise of benchmarking against insurers in a range of compulsory third party schemes and the expenses applied to other Funds managed by the ACT Insurance Authority, the Fund has adopted a claims handling expenses rate of 9% of gross provision for claims payable.

Sensitivity Analysis

The provision for claims payable valuation relies on two key methods, each of which relies on certain assumptions about the experience of claims which are already incurred, but not yet fully paid. To understand the impact of variations in these assumptions, the Fund made changes to each assumption and quantified the impact on the outstanding claims result for the Fund. This is referred to as a sensitivity analysis.

Impact of Movement in Variable

Claims frequency

The provision for claims payable is calculated by reference to expected claim frequency and average claim sizes. An increase in future reported claims would increase the liability.

Average claim size

The provision for claims payable is calculated by reference to expected claim frequency and average claim sizes. An increase in the base average claim size from which future payments are derived would have a proportionate impact on those periods relying on this method.

Case estimate development

The provision for claims payable relies in part on the case estimates held by the Fund. Allowance is made in the valuation for expected development on open claims. The impact on reported claim expense will reflect the extent that the development of case estimate differs from what is expected and already incorporated in the provision.

Discount rate

The provision for claims payable is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. A decrease in the assumed discount rate will increase the total claims expense.

Inflation and superimposed inflation rates

Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate, an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase in the assumed levels of either economic or superimposed inflation would have a corresponding and magnified impact on claims expense, given the long-tail nature of these liabilities.

As a result of changes in these variables, the provision of claims payable has increased by $365,148 (refer to Note 9 'Claims Expense' and 16 'Provision for Claims Payable').

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

(b) Actuarial Assumptions - Continued

Uncertainty

General sources of uncertainty

General areas of uncertainty include:

- data error – the base data can contain material errors or may not be representative of the current portfolio of business;
- model error – incorrect or inappropriate models may be used to project the future claims;
- parameter error – the selected values for various assumptions within the valuation are in some cases based on judgement and may not accurately represent the future values for the parameters;
- random error – claims development is, by its nature, subject to random variation; and
- unforeseen development due to events including jury decisions, court interpretations, legislative changes, public attitudes, potential sources of 'latent claims' (e.g. child claims in the context of compulsory third party), and social/economic conditions such as inflation.

Fund specific sources of uncertainty

Specific sources of uncertainty of note include:

- the small number of claims in each year leads to significant volatility. Separating trends from variation can be challenging. The size of the portfolio also means that having more or fewer large claims will lead to significant variations in incurred cost between injury years. Models based on continuation of past averages will not necessarily reflect this variability;
- the change in administration of the portfolio. Although there is now a number of years of data, payments can continue for many years after the initial accident. Therefore, the impact of any changes in claims management on the experience in the "tail" (i.e. later durations) remains subject to some uncertainty. In particular, there are a number of larger claims for recent years and we do not have sufficient history to know whether the strength of reserving of those claims is similar to what would have been the case in the past; and
- input errors and the currency of the data. Delays or errors in entering data into the database will affect how reliable the data is. The need for manual adjustments introduces additional risk to the process; however the number of amendments has reduced over time.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

(b) Actuarial Assumptions - Continued

Scenario Assumptions	Scenario net central estimate including claims handling expense	Difference from net Claims expense including claims handling expense	Difference %
Net central estimate including claims handling expense and recoveries	$18,723,308		
Future claim reports increase 10%	19,299,515	576,207	3.1%
Inflation +1%	19,120,160	396,852	2.1%
Projected case estimate +5% each year until development year 8	19,872,433	1,149,125	6.1%
Payment per claim incurred +5%	19,264,262	540,954	2.9%
Discount -1% for all years	19,377,108	653,800	3.5%

Explanation of Scenario Assumptions:

- The net central estimate (or NCE) refers to the provision for claims payable, which is net of any recoveries, inclusive of claims handling expenses (CHE) and 'central' in the sense that it is not intentionally over or underestimated (i.e. does not include a margin for uncertainty).
- The Projected Case Estimate (or PCE) method relies on assumptions regarding the adequacy of case estimates at any given period to cover the remaining run off cost of those claims. Therefore, 'development factors' are assumed that are intended to mimic the natural rate of increase (or decrease) of estimates as additional information or other factors come to light.
- The Payment per Claim Incurred (or PPCI) method relies on an assumption regarding the average payment made in each period for each claim that was incurred. An increase in assumption implies a higher average claim cost and therefore a higher estimate of liabilities.

NOTE 5 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES, AND CORRECTION OF A PRIOR PERIOD ERROR

Changes in Accounting Estimate

Changes in Actuarial Assumptions

The fund uses actuaries (Refer Note 4: 'Significant Accounting Judgements and Estimates') to estimate the provision for claims payable. Actual assumptions are based on past claims experience, risk exposure and projections of economic variables. As such the estimate of the provision for claims payable has changed.

This change has resulted in an increase to the estimate of the provision for claims payable and expense in the current reporting period of approximately $365,148

Change in Accounting Policy

The Fund had no changes in Accounting Policy during the reporting period.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 6 INTEREST AND DISTRIBUTIONS

	2013 $'000	2012 $'000
Revenue Received from ACT Government Entities		
Interest Revenue from Investments	734	692
Distribution Revenue from Investments	345	329
Revenue from Non-ACT Government Entities		
Interest Revenue from Bank	18	41
Total Interest and Distribution Revenue	1,097	1,062

Interest increased in 2013 as there are a greater amount of funds invested to meet the cost of future claims.

NOTE 7 LEVIES

Claims and administrative costs of the Fund are paid by raising a levy on all licensed Compulsory Third Party insurers in the ACT and the Commonwealth and Territory Governments.

Levies from Insurers	4,726	4,343
Levies from the Commonwealth Government	15	13
Levies from the ACT Government	40	37
Total Levies	4,781	4,393

Levies issued increased in 2013 as there were more vehicles registered in the Territory.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 8 OTHER REVENUE

	2013 $'000	2012 $'000
Unregistered Vehicle Permits	652	534
Unregistered Vehicle Fines	480	536
Uninsured Owner/ Driver Recoveries	54	43
Recoveries from Third Parties	14	7
Total Other Revenue	1,200	1,120

Permits, fines and recoveries from uninsured owners/drivers and third parties are very unpredictable and may vary significantly from year to year.

NOTE 9 CLAIMS EXPENSES

	2013	2012
Settlements [a]	2,927	1,668
Medical Costs	402	319
Investigation Costs	37	31
Legal Costs [a]	880	537
Increase in the Provision for Claims Payable [b]	365	4,346
Total Claims Expenses	4,611	6,901

The change claims expense in 2013 is due to:

a. Settlements and legal costs – a number of larger claims settled in 2013. A larger number of settlements also results in higher legal costs.
b. The increase in the provision for claims payable is based on actuarial advice. The lower increase was mainly due to changes in economic assumptions and fewer and smaller claims reported than expected.

NOTE 10 SUPPLIES AND SERVICES

	2013	2012
Administration Expenses	77	96
Audit Fees	27	31
Purchased Administrative Services from the ACT Insurance Authority and Default Insurance Fund	250	228
Total Supplies and Services	354	355

The Fund has no employees and services are provided by the Default Insurance Fund and the ACT Insurance Authority.

NOTE 11 UNREALISED GAIN/(LOSS) ON INVESTMENTS

	2013 $'000	2012 $'000
Unrealised Gain on Investments	-	371
Unrealised (Loss) on Investments	(188)	-
Total Unrealised Gain/(Loss) on Investments	**188**	**371**

NOTE 12 CASH AND CASH EQUIVALENTS

The Fund holds a bank account with the Commonwealth Bank as part of the whole-of-government banking arrangements. The Fund also held short-term investments with Public Trustee in the JACSD Cash Trust Account throughout the year. The investment earned a floating interest rate of 4.66% (5.7% in 2012). These funds are able to be withdrawn upon request and are not subject to movement in market value and, as such, meet the definition of a cash equivalent.

	2013 $'000	2012 $'000
Cash at Bank	1,172	267
Short Term Investments	16,592	15,172
Total Cash and Cash Equivalents	**17,764**	**15,439**

An increase in cash and cash equivalents reflects the building of funds in order to meet the cost of future claims.

NOTE 13 RECEIVABLES

	2013 $'000	2012 $'000
Current Receivables		
Accrued Interest	86	92
Goods and Services Tax Receivable	75	38
Accrued Fees and Fines	74	
Accrued Levies	1,212	1,189
Total Receivables	**1,447**	**1,319**

Ageing of Receivables

	Not Overdue	Past Due			Total
		Less Than 30 Days	30 to 60 Days	Greater than 60 days	
	$'000	$'000	$'000	$'000	$'000
2013					
Not Impaired[1] Receivables	1,447	-	-	-	1,447
Impaired Receivables	-	-	-	-	-
2012					
Not Impaired[1] Receivables	1,319	-	-	-	1,319
Impaired Receivables	-	-	-	-	-

1) 'Not Impaired' refers to Net Receivables (that is Gross Receivables less Impaired Receivables).
The Fund does not hold any collateral for receivables that are overdue or determined to be impaired.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 13 RECEIVABLES - CONTINUED

	2013 $'000	2012 $'000
Classification of ACT Government/Non-ACT Government Receivables		
Receivables with ACT Government Entities		
Accrued Interest	83	90
Accrued Fees and Fines	74	-
Accrued Levies	11	20
Total Receivables with ACT Government Entities	**168**	**110**
Receivables with Non-ACT Government Entities		
Accrued Interest	3	2
Goods and Services Tax Receivable	75	38
Accrued Levies	1,201	1,169
Total Receivables with Non-ACT Government Entities	**1,279**	**1,209**
Total Receivables	**1,447**	**1,319**

NOTE 14 INVESTMENTS

The purpose of the investment in the Fixed Interest Trust Portfolio is to hold it for a period of longer than 12 months. The total carrying amount of the Fixed Interest Trust Portfolio investment below has been measured at fair value.

	2013 $'000	2012 $'000
Non-Current Investments		
Fixed Interest Trust Portfolio	5,931	6,119
Total Investments	5,931	6,119

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 15 PAYABLES

	2013 $'000	2012 $'000
Current Payables		
Trade Payables	7	19
Accrued Expenses	128	141
Total Payables	135	160
Payables are Aged as follows:		
Not Overdue	135	160
Total Payables	135	160
Classification of ACT Government/Non-ACT Government Payables		
Payables with ACT Government Entities		
Accrued Expenses	135	141
Total Payables with ACT Government Entities	135	141
Payables with Non-ACT Government Entities		
Trade Payables	-	19
Total Payables with Non-ACT Government Entities	-	19
Total Payables	135	160

NOTE 16 PROVISION FOR CLAIMS PAYABLE

	2013 $'000	2012 $'000
Inflated and Discounted Liability		
Gross Central Estimate	18,723	18,721
Recoveries	(1,642)	(1,630)
Claims Handling Expense	1,685	1,311
Net Central Estimate	18,766	18,402
Current Provision for Claims Payable		
Provision for Claims Payable	3,953	4,231
Non-Current Provision for Claims Payable		
Provision for Claims Payable	14,813	14,171
Total Provision for Claims Payable	18,766	18,402

There were 99 open claims as at 30 June 2013 compared to 85 as at 30 June 2012.
The Provision is based on an actuarial assessment. (See Note 4)

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 17 FINANCIAL INSTRUMENTS

(a) Fair Values 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 2013 $'000	Fair Value 2013 $'000	Carrying Amount 2012 $'000	Fair Value 2012 $'000
Financial Assets					
Cash and Cash Equivalents	12	17,764	17,764	15,439	15,439
Receivables	13	86	86	92	92
Investments	14	5,931	5,931	6,119	6,119
Total Financial Assets		**23,781**	**23,781**	**21,650**	**21,650**
Financial Liabilities					
Payables	15	7	7	19	19
Total Financial Liabilities		**7**	**7**	**19**	**19**

Fair Value Hierarchy

The Fund is required to classify financial assets and financial liabilities into a fair value hierarchy that reflects the significance of the inputs used in determining their fair value. The fair value hierarchy is made up of the following three levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(a) Fair Values of Financial Assets and Liabilities - continued

2013

	Classification According to Fair Value Hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss	-	-	-	-
Investment with the Public Trustee Fixed Interest Trust Portfolio	-	5,931	-	5,931
	-	5,931	-	5,931

Transfer Between Categories
There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

2012

	Classification According to Fair Value Hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial Assets at Fair Value through the Profit and Loss	-	-	-	-
Investment with the Public Trustee Fixed Interest Portfolio	-	6,119	-	6,119
	-	6,119	-	6,119

Transfer Between Categories
There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 during the reporting period.

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(b) 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.

Most of the Fund's financial assets are held in floating interest rate arrangements and all of its financial liabilities are non-interest bearing. This means that the Fund is not exposed to movements in interest payable, however, it is exposed to movements in interest receivable. Interest rates increased during the year ended 30 June 2013 and this resulted in an increase in the amount of interest received. There are no unrecognised financial assets or liabilities.

Interest rate risk for financial assets is managed by the Fund by only investing in floating interest rate investments that are low risk. Interest rate risk for financial liabilities is not actively managed by the Fund 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.

Carrying Amount of Each Category of Financial Assets and Liabilities
Financial Assets

	2013 $'000	2012 $'000
Financial Assets at Fair Value through the Profit and Loss		
Designated upon Initial Recognition	5,931	6,119
Receivables	86	92
Gain/(Loss) on Each Category of Financial Assets and Financial Liabilities		
Gain/(Loss) on Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	(188)	371

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if interest rates change by -/+ 1.4% per annum.

	Carrying Amount $'000	-1.4% Profit/ (Loss) $'000	+1.4% Profit/ (Loss) $'000
Financial Assets:			
Cash and Cash Equivalents	17,764	(249)	249
Total (Decrease)/ Increase	**17,764**	**(249)**	**249**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(c) 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 Fund's credit risk is limited to the amount of the financial assets it holds net any allowance for impairment.

Credit risk for investments is managed by the Fund by only investing surplus funds with the Public Trustee for the ACT. The Public Trustee for the ACT has set appropriate investment criteria for the external fund manager it has engaged to manage the surplus funds of agencies, resulting in an insignificant credit risk. No significant concentration of credit risk has been identified by the Fund.

A large proportion of the Fund's receivables are from major Australian insurers and the ACT and Commonwealth Governments. The credit risk of these receivables going into default is considered low. A small proportion of receivables are expected from drivers or owners identified as at fault. These receivables have been impaired as part of the actuarial valuation. The Fund expects to collect all financial assets that are not past due or impaired.

There have been no changes in credit risk since the last reporting period.

(d) Liquidity Risk

Liquidity risk is the risk that the Fund 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 Fund keeps sufficient cash on hand to meet its payables. The Fund's outstanding claims, while not financial liabilities, are unlikely to settle in any one financial year. At any particular point in time, through raising levies, the Fund has sufficient current financial assets to meet its current financial liabilities. This ensures that the Fund has enough liquidity to meet its emerging financial liabilities.

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

(e) 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 to which the Fund is exposed results from its investment in the Fixed Interest Trust Portfolio. The Fund has units in the Fixed Interest Trust Portfolio which fluctuate in value. The price fluctuations in the units of the Fixed Interest Trust portfolio are caused by movements in the underlying investments of the portfolio. The underlying investments are managed by an external fund manager who invests in a variety of different 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 the bonds that make up the underlying investments of the fixed interest trust portfolio 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 Board Index before taking into account fund fees and expenses. The Fund's exposure to price risk and the management of this risk has not changed since last reporting period.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next 12 months if unit values change by -/+ 3.14%, which is two standard deviations from the 2012-13 average unit price.

	Units Held 30 June 2013	Unit Value 30 June 2013	Carrying Amount	(3.14%) Profit/ (Loss)	+3.14% Profit/ (Loss)
	Number of Units		$ 000's	$ 000's	$ 000's
Financial Assets:					
Investments in the Fixed Interest Trust Portfolio	5,909,583.37	$1.0036	5,931	(186)	186

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

The following table sets out the Fund'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 2013. 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.

2013	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	over 1 to 5 years	more than 5 years	Non-interest bearing	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	12	17,764	-	-	-	-	17,764
Receivables	13	-	-	-	-	86	86
Investments	14	-	-	-	-	5,931	5,931
Total Financial Assets		17,764	-	-	-	6,017	23,781
Weighted average interest rate		4.664%					
Financial Liabilities							
Payables	15	-	-	-	-	7	7
Total Financial Liabilities		-	-	-	-	7	7
Net Financial Assets		17,764	-	-	-	6,010	23,774

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	Note	2013 $'000
Net Financial Assets (as above)		23,774
Goods and Services Tax Receivable	13	76
Accrued Revenue	13	1,286
Accrued Expenses	15	(128)
Provision for Claims Payable	16	(18,766)
Net Assets as per the Balance Sheet		6,241

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

2012	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	over 1 to 5 years	more than 5 years	Non-interest bearing	Total
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	12	15,439	-	-	-	-	15,439
Receivables	13	-	-	-	-	92	92
Investments	14	-	-	-	-	6,119	6,119
Total Financial Assets		15,439	-	-	-	6,211	21,650
Weighted average interest rate		5.74%					
Financial Liabilities							
Payables	15	-	-	-	-	19	19
Total Financial Liabilities		-	-	-	-	19	19
Net Financial Assets		15,439	-	-	-	6,192	21,631

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	Note	2012 $'000
Net Financial Assets (as above)		21,631
Goods and Services Tax Receivable	13	38
Accrued Levies	13	1,189
Accrued Expenses	15	(141)
Provision for Claims Payable	16	(18,402)

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2013

NOTE 18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

No contingent liabilities or assets were recognised at the reporting date.

NOTE 19 CASH FLOW RECONCILIATION

	2013 $'000	2012 $'000
(a) Reconciliation of Cash and Cash Equivalents at the End of the Reporting Period in the Cash Flow Statement to the Equivalent Items in the Balance Sheet		
Total Cash and Cash Equivalents Recorded in Balance Sheet	17,764	15,439
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**17,764**	**15,439**
(b) Reconciliation of Net Cash Inflows/(Outflows) from Operating Activities to the Operating (Deficit)/Surplus		
Operating (Deficit)/Surplus	1,925	(310)
Add/(Less) Items Classified as Investing or Financing		
(Gain) in Net Market Value of Investments	-	(371)
Unrealised Loss on Investments	188	
Cash before Operating Assets and Liabilities	**2,113**	**(681)**
Changes in Operating Assets and Liabilities		
(Increase)/Decrease in Receivables	(128)	174
Increase in Provision for Claims Payable	364	4,347
Increase/(Decrease) in Payables	(25)	118
Net Changes in Operating Assets and Liabilities	**211**	**4,639**
Net Cash Inflows from Operating Activities	**2,325**	**3,958**

NOTE 20 AUDITOR'S REMUNERATION

Auditor's remuneration consists of financial audit services provided to the Fund by the ACT Auditor-General's Office.

	2013 $'000	2012 $'000
Audit Services		
Audit Fees Paid to the ACT Auditor-General's Office	29	27
Total Auditor's Fees	**29**	**27**

No other services were provided by the ACT Auditor-General's Office (See Note 10).

NOTE 21 EVENTS OCCURING AFTER BALANCE DATE

There Fund has no events occurring after 30 June 2013 which would affect the financial statements of the Fund in the current or future reporting periods.

GLOSSARY

Actuary

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

Actuarial Report

A financial report prepared by an actuary, typically on the adequacy of an insurance company's claims provision.

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 Insurance (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 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
- 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, claims outstanding and claims settlement expenses associated with such risks.

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

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

Claims Incurred But Not Reported ("IBNR")

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

Claims Outstanding (or Liability for Outstanding Claims)

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

(1) Case estimates for reported claims,

(2) Provision for IBNER claims costs, and

(3) Provision for IBNR claims costs.

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 date of calculation.

Insurance Incident

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

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 Year

1 July to 30 June.

Long-tail Business

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

Loss Ratio

Proportion of net earned premium that is paid as claims (i.e. Claims expense less reinsurance recoveries as a proportion of earned premium revenue less reinsurance expense).

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 accounting liability raised by the insurer for claims relating to events (whether notified to the insurer or not) which have occurred to date but which have not been paid.

Property Insurance

Covers damage to or loss of policyholders' property.

Professional Indemnity Insurance

Covers professionals for causing loss or injury to their clients.

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).

Super-imposed 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 Motor Vehicle

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

COMPLIANCE INDEX

ALPHABETICAL INDEX