AUSTRALIAN CAPITAL TERRITORY

ACTIA

Australian Capital Territory Insurance Authority

ANNUAL REPORT 2011-12

AUSTRALIAN CAPITAL TERRITORY
INSURANCE AUTHORITY

Office of the
NOMINAL DEFENDANT
of the Australian Capital Territory

ANNUAL REPORT 2011-12

NOMINAL DEFENDANT

ACTIA
Australian Capital Territory Insurance Authority

ANNUAL REPORT 2011-12

AUSTRALIAN CAPITAL TERRITORY INSURANCE AUTHORITY

Office of the
NOMINAL DEFENDANT
of the Australian Capital Territory

ANNUAL REPORT 2011-12

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 commenced operations on 1 April 2001 to replace the Insurance Management Account that was introduced from 1 July 1998. 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.

ISBN-13: 978-0-642-60572-6
ISBN-10: 0-642-60572-6

Produced by Publishing Services for the ACT Insurance Authority
Printed on recycled paper
Publication No 12/1152

The Authority may be contacted at:

GPO Box 158
Canberra ACT 2601

Level 3, Nara Centre, 1 Constitution Avenue, Civic 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.treasury.act.gov.au/actia/

TRANSMITTAL CERTIFICATE

ACTIA
Australian Capital Territory Insurance Authority

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

Dear ~~Treasurer~~ Andrew

I am pleased to present the ACT Insurance Authority's Annual Report for the year ended 30 June 2012.

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 Minister'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 an honest and accurate account and that all material information on the operations of the ACT Insurance Authority during the period 1 July 2011 to 30 June 2012 has been included and that it complies with the Chief Minister's Annual Report Directions.

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

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you 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
Chief Executive Officer
18 September 2012

CONTENTS

PART ONE

SECTION A: PERFORMANCE AND FINANCIAL MANAGEMENT REPORTING

A.1 THE ORGANISATION

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

As the ACT Government's captive insurer for 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 client base.

The portfolio represents just over $21 billion of insured assets, with annual premium revenue of $54 million, and $443.4 million in investments and other assets.

The Authority reports to the Treasurer through the Director-General of Treasury 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 Cabinet Directorate, the Default Insurance Fund.

A.1.2 Functions

The functions of the Authority are specified in Section 8 of the Insurance 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

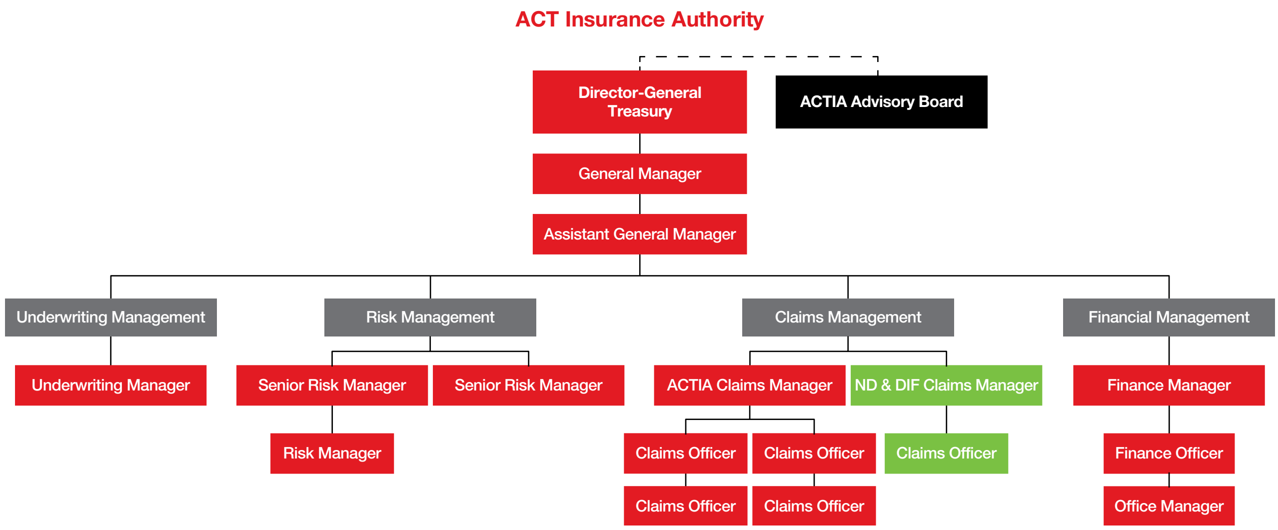
The Authority insures all ACT Government Directorates and Statutory Authorities. The core services provided to Directorates are: insurance via indemnity agreements, claims and risk management services.

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:



[1] The Default Insurance Fund (DIF) for private Workers' Compensation is managed by ACTIA under a Memorandum of Understanding with the Chief Minister and Cabinet 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 2011-12 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) and Mr Peter Matthews. The Advisory Board continues to provide important and valuable input to the Authority, particularly in relation to the 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 2011-12 year were:

- The Authority's key operational priority continues to be the 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. In 2011-12, the Authority's underwriting manager completed an annual review of insurance and reinsurance structure that confirmed suitability of these arrangements and achieved 100% placement of the agreed reinsurance program within budget.
- 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. For the ACT Government, the settlement effectively brings to an end litigation arising from the 2003 bushfire.

The Authority’s reinsurance program has met Authority’s 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.

- The Authority’s risk managers provided support to executive managers in the stewardship of internal risk management accountability and decision making processes, in addition to working with key staff operationally within agencies. The risk management team has supported a number of agencies in the implementation of improved risk management practices in line with the requirements of the ACT Government Risk Management Framework. This has included the delivery of a program of risk management training courses, completion of agency risk management performance and improvement reviews and development of a range of risk management support documentation and tools.
- The Authority’s claims management team continues to provide a proactive claims management service in consultation with agency stakeholders and in accordance with the ACT Model Litigant guidelines. The claims management team has been restructured in 2011-12 and has successfully implemented changes that have increased the team’s ability to provide a responsive and flexible delivery of services to agencies.
- ACT Government assets were the subject of considerable damage as a result of a storm event in 2011-12. The total estimate of cost for damage incurred is $11.2 million, comprising mainly of damage to infrastructure such as roads and storm water assets, with some building damage. ACTIA claims management staff provided assistance to affected agencies in the preparation and documentation of their claims. The Authority anticipates making a recovery of $5.0 million from reinsurers.
- The Authority completed a submission to the Commonwealth in response to a review of property asset insurance arrangements applicable under the Natural Disaster Recovery and Relief Arrangement (NDRRA). The Commonwealth has subsequently confirmed the suitability of the Authority’s property insurance program to respond to a catastrophic natural disaster event and our continuing eligibility to access funding support under the Commonwealth NDRRA.
- The Authority had an operating loss of $0.9 million. This was predominately due to changes in inflation and interest rates which have increased the likely cost of future insurance settlements.

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 due to ACTIA having been in existence only a short time, with limited data and claims experience from which to derive actuarial assumptions. The majority of ACTIA’s claims are long tailed in nature, meaning that it may take many years for the matters to settle. This also results in increased uncertainty. Further revisions in the outstanding claims expense are expected in the future as ACTIA’s portfolio grows and reaches a mature state.

The cost of reinsurance premiums are expected to increase in the coming years as the insurance market hardens and as the impact of natural disasters in Australia and internationally is factored into liability and property reinsurance premiums. Classes other than liability and property are expected to continue to perform well and any 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.

While claims and incident reporting practices by agencies has improved the Authority will further assist agencies with guidance on the nature of incidents that need to be reported. While it is critical to the Authority that insurance related incidents are reported promptly to facilitate appropriate estimation of the future claims liabilities, there remains evidence of over and under reporting by some agencies and further guidance should help in this respect.

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 21 general and agency specific risk management training courses to various Territory agencies.

The Authority intends to implement the following key strategies 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;
- review the ACTIA business continuity and risk management plan;
- 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, on behalf of the Chief Minister's Directorate, the Default Insurance Fund.

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 2011-12 ACT Insurance Authority Annual Report.

A.7 STATEMENT OF PERFORMANCE

The Authority's Statement of Performance is reported in Part 2 of the 2011-12 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 2011-12.

A summary of the outcome achieved against each of the ACTIA principal objectives and accountability indicators as detailed in the ACTIA Statement of Intent 2011-12 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 customers can expect when dealing with us. To gauge our effectiveness against these commitments ACTIA surveyed fund members to identify their level of satisfaction with the services provided.

Surveys were sent to the Directors-General of all ACT Government Directorates and Statutory Authorities insured by ACTIA.

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 ACTIA's understanding of government service delivery and our ability to act quickly to support agencies on complex claims matters, along with the risk management support and training programs offered as key elements of service provision.

Although the overall satisfaction levels are high, 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 were 3.3% of ordinary revenue. This is 1.3% less than the target of 4.6%.

ACTIA management and staff continue to work on a range of ongoing operational efficiency improvement activities 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 2011-12 it took an average of 5 days to reimburse agencies for insurance settlements. This is 15 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 Under Treasurer 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. Despite market pressure to increase premiums the program was delivered within budget.

The self insured retention for the Territory's Medical Malpractice program 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.

In August 2011, ACTIA undertook a review of the Territory's business interruption risk exposure. The review confirmed the overall suitability of the cover purchased by ACTIA, however the report recommended that the policy sublimit on the additional increased cost of working be increased by $80 million to $130 million, to meet the risk of a catastrophic incident that interrupted the delivery of Health services at The Canberra Hospital precinct.

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

Outcome

ACTIA completed a review of the Territory's insurance assets schedule and replacement values nominated as part of the property reinsurance renewal. The Authority worked with individual agencies to refine the detail included in schedules provided by agencies for inclusion in the Authority's property reinsurance renewal.

- **Facilitate the implementation of agreed actions from property asset management surveys.**

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 2011-12 confirmed that the Territory's assets management practices were appropriate in the sample of assets surveyed.

Satisfy or settle claims in relation to Territory risks

- **Quarterly review of claims**

Outcome

Four claims review meetings were held for general liability and medical malpractice claims during 2011-12. Claims estimated at $500,000 or greater were reviewed and reserves adjusted where appropriate. The reviews were attended by representatives of the Government Solicitor's Office, ACTIA's insurance brokers, Marsh, as well as external insurers and their solicitors, 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 1,745 open claims and incidents and that 8,632 claims and incidents were closed during the financial year.

This is an increase on the forecast 2011-12 outcome that reflects predominantly an increase in the number of incidents reported by the Health Directorate in June 2012 when finalising incident reporting for the insurance end of year. It is important to note, however, 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 2011 and February 2012, ACTIA issued Risk Profile Reports to agency 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

During 2011-12 the Authority's Risk Managers delivered 21 training sessions to approximately 305 Territory staff from various agencies. There were 9 training activities provided in addition to the planned target of 12 due to increased demand. Training sessions delivered canvassed general introductory level risk management, topic or project specific training sessions and a course to assist users in modification and use of ACTIA risk management templates and software tailored to meet agency requirements.

The Authority provides support for activities such as: the design and support of incident reporting databases, provision of advice regarding risk management policies and procedures, tailored training and one on one assistance, support in developing, monitoring and reviewing effective risk management treatment strategies.

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

Outcome

The Authority assisted six agencies with a review of risk management performance in

2011-12.

The Authority assisted six agencies to complete an evidence based survey of their risk management arrangements against the key principles of the ACT Governments Risk Management Framework.

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 six 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	2010-11 Result	2011-12 Result	% Change
ECONOMIC	**Employee Expenses**			
	Number of staff employed (head count)	14	15	7%
	Total employee expenditure ($'000 dollars)	1,565	1,480	(5%)
	Operating Statement			
	Total expenditure ($'000 dollars)	63,656	90,068	41%
	Total own source revenue ($'000 dollars)	79,355	89,213	12%
	Total net cost of services ($'000 dollars)	15,699	(855)	(54%)
	Economic Viability			
	Total assets ($'000 dollars)	443,380	396,419	(11%)
	Total liabilities ($'000 dollars)	427,110	379,293	(11%)

	INDICATOR	2010-11 Result	2011-12 Result	% Change
ENVIRONMENTAL	**Transport**			
	Total number of fleet vehicles			
	Total transport fuel used (kilolitres)	-	-	N/A
	Total direct greenhouse emissions of the fleet (tonnes of CO_2e)			
	Energy use			
	Total office energy use (megajoules)	Refer to Treasury Directorate Annual Report		N/A
	Office energy use per FTE (megajoules/FTE)			
	Office energy use per square metre (megajoules/m^2)			
	Greenhouse Emissions			
	Total office greenhouse emissions – direct and indirect (tonnes of CO_2e)	Refer to Treasury Directorate Annual Report		N/A
	Total office greenhouse emissions per FTE (tonnes of CO_2e/FTE)			
	Total office greenhouse emissions per square metre (tonnes of CO_2e/m^2)			
	Water Consumption			
	Total water use (kilolitres)	Refer to Treasury Directorate Annual Report		N/A
	Office water use per FTE (kilolitres/FTE)			
	Office water use per square metre (kilolitres/m^2)			
	Resource Efficiency and Waste			
	Estimate of co-mingled office waste per FTE (litres)	Refer to Treasury Directorate Annual Report		N/A
	Estimate of paper recycled (litres)			
	Estimate of paper used (by reams) per FTE (litres)			
SOCIAL	**Diversity of Our Workforce**			
	Women (Female FTEs as a percentage of the total workforce)	64%	60%	(4%)
	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			
	OH&S Incident and Reports	1	1	-
	Accepted claims for compensation (as at 31 August 2012)	1	-	(100%)
	Staff Receiving influenza vaccinations	4	6	50%
	Workstation assessments requested	3	-	(300%)

SECTION B: CONSULTATION AND SCRUTINY REPORTING

B.1 COMMUNITY ENGAGEMENT

The Authority strives to continually improve the delivery of services. Feedback from our Government clients on their expectation and level of satisfaction with the quality of our services is actively sought. It was not necessary for the Authority to undertake consultation with the public during 2011-12. However, two key roles of the Authority are to manage the risks of the Territory and to arrange appropriate insurance for those risks where possible. Hence it does not deal directly with the community, but it does assist agencies to manage insurance and risk issues that relate to community matters such as running public events. These activities may include:

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

B.2 INTERNAL & EXTERNAL SCRUTINY

The valuation of outstanding insurance claims for 2011-12, 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 or reports.

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 is an independent assurance and consulting activity that reviews and evaluates the effectiveness of the Directorate's risk management, internal control, and governance practices. ACTIA's internal audit is provided by the joint Treasury/CMCD Audit Committee.

The Committee is comprised of an Independent Chair and four members: two from CMCD and two from TD. Alternate members have also been appointed in each Directorate to attend meetings in the absence of members as required. The Chief Finance Officers (CFOs) from each Directorate and a representative from the Auditor General's Office are also invited to attend meetings as observers. The DGs of each Directorate have a standing invitation to attend Committee meetings.

The objective of the Committee is to provide independent assurance and assistance to the DGs on their Directorate's risk, control and compliance framework, and its external accountability responsibilities.

The Committee, in fulfilling its objectives, assists the DGs in the discharge of their responsibilities for: exercising due care; diligence and skill in relation to the Directorate's reporting of financial information; application of accounting policies; adequacy of internal controls; financial and risk management; and compliance with applicable laws.

Internal Audits are outsourced to members of the ACT Government Internal Audit Services Panel. Internal audits to be conducted for CMCD are selected from a work program that is revised and approved annually by the DG and reviewed by the Committee.

The Audit Committee held 12 meetings during the year. The number of meetings attended by committee members and observers is as follows:

Name of Member	Position	Duration	Meetings Attended
Mr John Gordon	Independent Chair	July 2011 to June 2012	12 / 12
Mr Andrew Kefford	CMCD Member	July 2011 to June 2012	12 / 12
Ms Sue Hall	CMCD Member	July 2011 to June 2012	6 / 7
Ms Kirsten Thompson	TD Member	July to August 2011	5 / 5
Ms Lisa Holmes	TD Member	August 2011 to June 2012	6 / 7
Ms Marsha Guthrie	TD Member	July 2011 to June 2012	8 / 9
Mr Chris Cole	CMCD Alternate Member	July 2011 to June 2012	4 / 5
Mr Glenn Bain	TD Alternate Member	June to August 2011	2 / 3
Mr Paul Ogden	Observer (CMCD CFO)	July 2011 to June 2012	10 / 12
Ms Lisa Holmes	Observer (TD CFO)	July to August 2011	1 / 2
Ms Anita Hargreaves	Observer (TD A/g CFO)	July to August 2011	3 / 3
Mr Scott Brown	Observer (TD CFO)	March to June 2012	3 / 4
Representative from the Auditor-General's Office	Observer	July 2011 to June 2012	5 /11

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. 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. A full risk assessment was carried out in 2011-2012. 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 1994 provides a mechanism for people to report wrongdoing in the ACT Public Sector. Each ACT Government agency is required to establish and maintain procedures to facilitate the making of public interest disclosures. The Treasury Directorate's Procedures for Actioning Public Interest Disclosures applies to the Authority.

There were no incidents requiring disclosure under the Act during the financial year.

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

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 to documents.

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

- carrying on the business of insurer of Territory risks;
- insuring Territory risks with other entities;
- managing claims in relation to Territory risks; and
- promoting good risk management practice by client agencies.

The Authority is responsible for:

- advising the Treasurer and Treasury 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

The Authority's Section 8 Statement is included with that of the Treasury Directorate published in the *Treasury Directorate Annual Report 2011-12*.

The Authority received one request for access to documents under the *Freedom of Information Act 1989* during 2011-12.

This request was a partial release, it was responded within 31 days and the request was made by an organisation.

Freedom of information guidelines is available at the treasury website http://www.treasury.act.gov.au/about/publications.shtml.

C.5 INTERNAL ACCOUNTABILITY

The Authority is responsible to the ACT Treasurer. In May 2005, the *Insurance Authority Act 2000* was replaced by the *Insurance Authority Act 2005*. The passing of the Insurance Authority Act 2005 completed the change in governance arrangements commenced in 2003-04. Under the new Act the Director-General of Treasury is the Authority and an Advisory Board is established.

Under the Government's Administrative Arrangement Orders, the ACT Insurance Authority resides within the Treasury Directorate's portfolio.

The organisational chart showing senior management and functional units as at 30 June 2012 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 of Treasury 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 11 to June 12	4
Mr Peter Matthews	Member	July 11 to June 12	4
Ms Megan Smithies	Under Treasurer	July 11 to June 12	2
Mr Roger Broughton	Executive Director Investment and Economics Division	July 11 to June 12	2
Ms Karen Doran	Executive Director Investment and Economics Division	March 12 to June 12	2
Mr John Fletcher	General Manager ACTIA - Observer	July 11 to June 12	4
Mr Peter Osborne	Assistant General Manager - Observer	July 11 to June 12	4
Representative from Treasury	Budget and Financial Management Division - Observer	July 11 to June 12	4

Mr David Sandoe, Dip BIA, MBA, ANZIIF (Fellow) CIP, MCMI, FAIM, FAICD. Mr Sandoe has over 41 years insurance and financial services industry experience in Australia, New Zealand, UK and Ireland. This included senior executive roles and currently is a Principal and General Manager of an independently owned Australian firm of actuaries and insurance consultants. He 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 Insurance Authority.

The Board met on four occasions during 2011-12.

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

The Advisory Board was consulted on the following major issues during 2011-12:

- reviews of major claims;
- reinsurance program for 2012-13;
- risk management matters; and
- actuarial and financial matters.

C.5.2 Audit Arrangements

Internal Audit of the Authority is provided by a joint Audit Committee, which provides services to the Authority, Treasury Directorate and the Chief Minister's and Cabinet Directorate. The Committee's functions are governed by the Audit Committee Charter. The membership includes appointees from the two agencies and an independent Chair. Observers also regularly attend meetings including a representative from the ACT Auditor-General's Office.

The Authority has identified areas of operational risk and developed a cyclical internal audit program designed to review these risks.

C.6 HR PERFORMANCE

The Authority is committed to providing employment opportunities for those in identified EEO groups. Officers with disabilities are employed and appropriate strategies have been implemented to ensure they have a safe and supportive work environment.

The Authority adheres to the principles of equity and diversity as detailed in the Public Service Equity and Diversity Framework. Where possible the Authority integrates the framework into its strategic and operational planning processes. While staff have been employed by the Authority on the basis of merit of their qualifications and skills, the Authority is committed to providing employment opportunities for those in identified EEO groups. 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 equity, diversity and work and life balance. 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.

C.7 STAFFING PROFILE

The following tables provides statistical information for permanent staff of the Authority for 2011-12:

FTE & Headcount

	Female	Male
FTE by Gender	9	5
Headcount by Gender	10	5
% of Workforce	67%	33%

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			
Permanent Full-time	8	4	12
Permanent Part-time	2		2
Temporary Full-time		1	1
Temporary Part-time			
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					2	1			2	1
4–6			1	1	2				3	1
6–8				1	1		1		2	1
8–10				1						1
10–12				1						1
12–14										
14+ years			1		2				3	

Total Average Length of Service by Gender

Gender	Average length of service
Female	11.3
Male	6.9
Total	**9.8**

Age Profile

Age Group	Female	Male	Total
<20			
20–24			
25-29	1		1
30-34	2		2
35-39	2		2
40-44	1	1	2
45-49	2		2
50-54	2	3	5
55-59			
60-64		1	1
65-69			
70+			

Agency Profile

Branch/Division	FTE	Headcount
ACT INSURANCE AUTHORITY	14	15
Total	**14**	**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	B	C		
	Aboriginal and/or Torres Strait Islander Employment	Culturally & Linguistically Diverse	People with a disability	Employees who identify in A, B, or C*	Women
Headcount	0	0	1	0	9
% of Total Staff	0.0%	0.0%	7.0%	0.0%	60.0%

*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 2011-12 staff undertook formal training courses and attended conferences and seminars in these areas. Staff undertook 3 courses from the ACTPS Training Calender.

The training undertaken in 2011-12 totalled $13,000. This expenditure represents the direct cost of training and development courses and does not include the salary equivalent of time away from the workplace in respect of staff that attended seminars and other training opportunities at no direct cost.

C.9 WORKPLACE HEALTH AND SAFETY

The Authority manages workplace health and safety in accordance with the provisions of the *Work Safety Act 2008* (WS Act). The Authority is committed to maintaining the health and safety of its employees and 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*.

During 2011-12 there were no occurrences of:

- Notices of non compliances issued to the Authority under section 171;
- Reports issues under section 166 in relation to any failure to comply with either a compliance agreement; enforceable undertaking; improvement notice and/or a prohibition notice;
- Improvement or prohibition notices received;
- Notices of non compliances issued to the Authority 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;
- Incidents requiring notification to the regulator in accordance with Part 3 Section 38 of the Work Safety Act 2011;
- Notices issued under section 167 – Failure to comply with a safety duty; and
- Notices issued under 170 – Failure to comply – failure not addressed.

Section 38 of the Work Safety Act 2008 outlines conditions under which a serious event at or near the workplace must be reported to Work Safety ACT. There were no incidents requiring notification to the regulator in accordance with Part 3 Section 38 of the Work Safety Act 2011.

The Authority adheres to the Occupational Health and Safety principles set out in the Public Sector Management Standards. 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. Expert assistance is available where necessary and health and safety representatives are appropriately trained.

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

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

The Authority is covered by the following Treasury Agreements and services:

- The Treasury Work Safety Policy Statement;
- The Treasury Workplace Health and Safety Improvement Strategy 2010-12;
- The Treasury Consultative Committee;
- The Treasury Worker Consultation Unit;
- Injury Prevention programs;
- The Treasury Physiotherapy Program;
- The Treasury Wellness Reviews and Early Psychological Intervention Program; and
- The Treasury Minimising Pain and Reducing Body Stressing Injuries in the Workplace Program.

Details of the above Treasury Agreements and Services can be found in the Treasury Directorate's Annual Report 2011-12.

C.10 WORKPLACE RELATIONS

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

C.11 HUMAN RIGHTS ACT 2004

The *Human Rights Act 2004* (HRA) is part of the Government's commitment to build a human right culture in the ACT and ensure that Territory staff are working within a human rights framework. From the commencement of the HRA in 2004 all public officials have a duty to interpret legislation under which they operate consistently with human rights unless the Territory law clearly authorises otherwise.

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 14 staff occupying 213.72m^2 at the Nara Centre. The average area occupied by each is up to 15.27m^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 specialised functions. Consultants provide insurance broking services, actuarial services, and legal advice. Contractors are employed to address short term staffing requirements. Expenditure on consultants and contractors was 23% of general and administration expenditure in 2011-12. 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 ACT 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	$533,000	June 2008	Open Tender
PwC	Actuarial advice and business services	$184,000	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 ecological 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.

The Treasury Directorate’s Annual Report section on Ecologically Sustainable Development also applies to the Authority.

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

The Authority adheres to the principles of the ACT Whole of Government Indigenous policy. However the nature of our business means that the strategic areas for action and change detailed in the ACT Whole of Government Indigenous Reporting Framework are not applicable to the Authority.

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 Aging 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 Treasury 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 USE OF TERRORISM POWERS

This section does not apply to the Authority.

C.27 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.

PART TWO

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Year Ended 30 June 2012

General Overview

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

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

The Authority operates on a cost recovery basis by collecting premiums from client Directorates 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.

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:
  - (1) taking possession of, dealing with or disposing of, property; or
  - (2) 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 Cabinet Directorate.

Summary of the Authority's Operations

The Authority was established to insure the Territory. It operates as a 'captive insurer'. This means that it can only insure the Territory's risks. The Authority operates on a cost recovery basis by collecting premiums from ACT Government agencies. The Authority's operating costs are largely driven by provisioning for future claims and current claims expense.

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

In 2011–12 the Authority achieved an operating deficit of **$0.9 million**, a decrease of **$3.3 million** from Budget.

The financial outcome was driven by:

- An increase in ordinary claims expense by **$16.6 million** predominately due to the effect of reduced discount rates on the Authority's claims liabilities.

This increase is offset by:

- External reinsurance costs decreased by **$0.5 million**;
- Reinsurance recoveries on ordinary claims increased by **$6.5 million** due to recoveries from property damage resulting from the 2012 storm events;
- Interest on investments was **$4.5 million** better than expected due to slow payment of claims;
- An unrealised gain on investments of **$1.6 million** occurred at 30 June 2012; and
- Administrative expenses decreased by **$0.5 million**.

Risk Management

The Authority has developed and implemented a broad risk management plan in accordance with the ACT Government Risk 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.

The Authority's risk management plan identifies the following potential risks that may influence the future financial position of the Authority.

- Inadequate cash reserves within the Authority to meet the cost of future insurance claims on the Territory;
- Insufficient reinsurance coverage due to reduced reinsurance market capacity;
- Reduced investment income due to a subdued investment market;
- Escalating claims cost due to poor risk management in agencies; and
- Increases in or late notification of claims by agencies, and data errors may result in either the claim provision being misstated or reinsurers revising insurance terms. There is also the possibility that reinsurers may withdraw cover previously agreed. The Authority will continue to develop better claims reporting and recording practices.

Financial Performance

The following financial information is based on audited Financial Statements for 2010 11 and 2011 12, and the forward estimates contained in the 2011 2012 Budget Paper Number 4.

The Authority's operating result for 2011-12 is a deficit of **$0.9 million**, a decrease of **$3.3 million** from Budget. This outcome results from a number of factors including:

- higher costs of both ordinary and bushfire claims (**$23.4 million**); offset by
- higher interest (**$0.4 million**);
- gains and disbursements from investment activities ($5.7 million);
- lower administration expenses ($0.5 million); and
- reinsurance recoveries from ordinary claims ($6.5 million) and bushfire claims ($6.8 million).

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

Total Expenditure

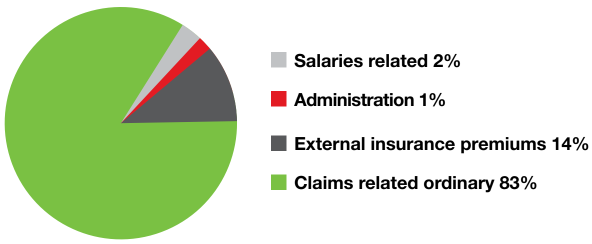
1. Components of Expenditure

For the financial year ended 30 June 2012, the Authority recorded a total expenditure for ordinary activities of **$83.2 million**.

The largest components of the Authority's ordinary expenditure for 2011 12 were insurance claims and related costs ('claims expense'), which represent **$69.0 million**, and the purchase of external reinsurance ('outwards reinsurance') representing **$11.4 million**.

The Authority incurred a total expenditure for the 2003 bushfires of **$6.8 million** resulting from a downwards revision of the discount rates on these claims.

Figure 1 - Components of Expenditure (excluding bushfire revisions)



2. Comparison to Budget

Expenditure

Total ordinary expenditure of **$83.2 million** was **$15.6 million**, or **22 percent** higher than the 2011-12 Budget of **$67.6 million**. The higher than budgeted expenditure was largely the result of an increase in insurance claims expenditure of **$16.6 million**.

The claims expense was higher than budget predominately due to revision of actuaries assumptions used to determine the Authority's claims liability and subsequent claims expense. The key changes were reduced discount rates, increased inflation, unforseen storm related property claims and slower than anticipated claim payments.

The higher claim payments were partially offset by changes to actuarial assumptions that reduced the number and value of large medical malpractice and public liability claims.

3. Comparison to 2010-11 Actual Expenditure

Total ordinary expenditure was **$20.4 million**, or **32 percent** higher than the 2010 11 actual result. This largely reflects ordinary claims increasing in value by **$20 million** due to changes in economic indicators such as inflation and discount rates.

4. Future Trends

Total expenditure for 2012-13 is budgeted to decrease by **$2.1 million** from the 2011-12 actual result, predominately reflecting an overall lower cost of claims.

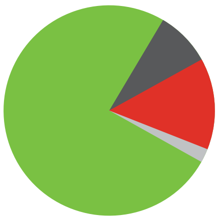
Total Income

1. Components of Income

For the financial year ended 30 June 2012, the Authority recorded a total ordinary income of **$82.4 million** and a reinsurance recovery from 2003 bushfires of **$6.8 million**.

The Authority collected **$53.7 million** in insurance premiums ('Gross earned premiums'). The remainder of the Authority's ordinary income is derived from reinsurance and other recoveries **$7.1 million** and investment returns **$21.7 million**.

Figure 2 - Components of Income (excluding bushfire revision)



2. Comparison to Budget

Revenue

Ordinary revenue for the year ending 30 June 2012 was **$82.4 million**, which was **$12.4 million** higher than the 2011 12 budget of **$70.0 million**.

This increase is primarily due to better than anticipated investment returns of **$6.0 million** and an unanticipated reinsurance recovery for storm damage claims on ordinary claims of **$6.5 million**.

3. Comparison to 2010-11 Actual Income

Revenue

Ordinary revenue of **$82.5 million** in 2011 12 was **$4.0 million**, or **5 percent** higher than the 2010 11 actual result of **$78.5 million**.

The increase was predominately due to higher investment returns of **$3.1 million**, higher annual premiums **$3.6 million** offset by reinsurance recoveries from ordinary claims declining by **$2.7 million**.

4. Future Trends

Total income for 2012-13 is budgeted to decrease by **$8.2 million**, from the 2011-12 actual result, predominately reflecting an expected decrease in ordinary reinsurance recoveries and return on investments.

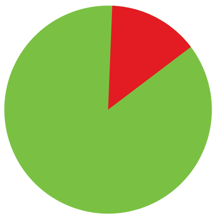
Financial Position

Total Assets

1. Components of Total Assets

The total asset position as at 30 June 2012 is **$443.4 million**. The Authority held **$279.8 million** of its assets in cash equivalents and short term investments, **$63.3 million** in long-term investments with a further **$92.9 million** anticipated as reinsurance recoveries.

Figure 3 – Total Assets as at 30 June 2012



2. Comparison to Budget

The total asset position as at 30 June 2012 is $443.4 million, $51.0 million **higher than the 2011 12 budget of** $392.4 million.

The increase primarily reflects an increase in reinsurance recoveries for the bushfire liability claim not anticipated in the budget ($7.5 million), better than anticipated reinsurance recoveries on normal claims ($11.9 million) and higher investment balances ($29.0 million).

3. Comparison to 2010-11 Actuals

The Authority's total asset position of $443.4 million is $47.0 million **higher than the 2010 11 actual result of** $396.4 million.

The increase primarily reflects an increase in investments held to meet the cost of future claims ($32.3 million) and the recognition of reinsurance recoveries from both storms ($5.0 million) and bushfires ($6.8 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 2010-11	Current Year Budget $'000s 2011-12	Current Year Actual $'000s 2011-12	Forward Year Budget $'000s 2012-13	Forward Year Budget $'000s 2013-14	Forward Year Budget $'000s 2014-15
Current Assets	256,111	267,996	294,191	314,877	345,314	399,627
Current Liabilities	47,057	60,879	38,765	56,306	62,330	68,354
Current Ratio	5.4:1	4.4:1	7.6:1	5.6:1	5.5:1	5.8:1

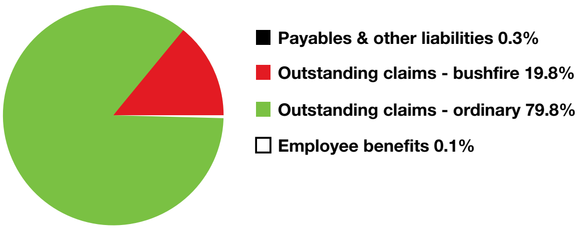
The Authority's current ratio for the financial year as at 30 June 2012 was 7.6 to 1, which is higher than the budgeted current ratio of 4.4:1. The increase reflects larger investment holdings.

The Authority is expecting to maintain a strong level of liquidity in the forward years with the current ratio at approximately **5.6:1** all years.

Total Liabilities

The majority of the Authority's total liabilities of $427.1 million relate to outstanding claims liabilities, $425.4 million.

Figure 4 – Total Liabilities as at 30 June 2012



The Authority's liabilities for the year ended 30 June 2012 of **$427.1 million** were **$40.7 million** higher than the 2011 12 budget of **$386.4 million** due primarily to increases in outstanding claims liability. The key changes were reduced discount rates, increased inflation, unforseen storm related property claims and slower than anticipated claim payments.

Total liabilities are **$47.8 million** higher than the 2010 11 actual result of **$379.3 million** due primarily to an increase in the ordinary claims provision as a result of changing economic and actuarial assumptions.

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A12/04

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 3, Canberra Nara Centre
1 Constitution Avenue
CANBERRA CITY ACT 2601

Dear Ms ~~Smithies~~ Megan

AUDIT REPORT – ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Audit Office has completed the audit of the financial statements of the ACT Insurance Authority for the year ended 30 June 2012.

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
12 September 2012

c.c. Mr John Gordon, Chair, Audit Committee, Treasury Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager (Internal Audit Manager), Accounting Branch, Treasury 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 2012 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.

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.

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

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 2012:

(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 Home Loan Portfolio as at 30 June 2012 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
12 September 2012

ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS
For the Year Ended 30 June 2012

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 2012, and the financial position of the Authority on that date.

Megan Smithies
Chief Executive Officer
ACT Insurance Authority
September 2012

ACT INSURANCE AUTHORITY
FINANCIAL STATEMENTS
For the Year Ended 30 June 2012

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 2012, and the financial position of the Authority on that date.

John Fletcher
General Manager
ACT Insurance Authority
September 2012

ACT Insurance Authority
Operating Statement
For the Year Ended 30 June 2012

	Note No.	Actual 2012 $'000	Budget 2012 $'000	Actual 2011 $'000
Ordinary activities				
Underwriting				
Gross Earned Premiums	7	**53,697**	53,735	50,125
Outwards Reinsurance	7	**(11,442)**	(11,982)	(10,752)
Net Earned Premiums	8	**42,255**	41,753	39,373
Claims Expense	7	**(68,973)**	(52,372)	(49,007)
Claims Expense - Bushfire	7	**(6,838)**	-	(811)
Reinsurance (Losses)/Recoveries	7	**7,039**	558	9,710
Reinsurance (Losses)/Recoveries - Bushfire	7	**6,760**	-	807
Other Underwriting (Expense)/Income	7	**38**	-	163
Net Incurred Claims	9	**(61,974)**	(51,814)	(39,138)
Underwriting (Loss)/Gain	**7**	**(19,719)**	(10,061)	235
Other Revenue				
Interest Revenue	10	**431**	55	187
Distribution Revenue	10	**19,548**	15,438	17,046
Unrealised Gains on Investments	10	**1,615**	-	1,166
Other Revenue	10	**85**	174	151
		21,679	15,667	18,550
Other (Expenses)/ Income				
Construction Industry Premium Insurance	10	**(46)**	-	(309)
		(46)	-	(309)
General and Administration				
Employee Expenses	11	**(1,480)**	(1,545)	(1,565)
Superannuation Expenses	11	**(239)**	(244)	(241)
Supplies and Services	12	**(1,050)**	(1,444)	(971)
		(2,769)	(3,233)	(2,777)
Operating (Deficit)/ Surplus		**(855)**	2,373	15,699
Total Comprehensive (Deficit)/ Income		**(855)**	2,373	15,699

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

ACT Insurance Authority
Balance Sheet
As at 30 June 2012

	Note No.	Actual 2012 $'000	Budget 2012 $'000	Actual 2011 $'000
Current Assets				
Cash and Cash Equivalents	13	**481**	396	42
Investments	13	**279,277**	259,282	251,235
Receivables	14	**6,545**	3,570	3,624
Reinsurance Recoveries	15	**7,109**	2,856	517
Reinsurance Recoveries - Bushfire	15	**-**	1,208	-
Prepayments	18	**779**	684	693
Total Current Assets		**294,191**	267,996	256,111
Non Current Assets				
Investments	13	**63,264**	54,443	59,491
Reinsurance Recoveries	15	**8,783**	1,173	10,424
Reinsurance Recoveries - Bushfire	15	**77,037**	68,289	70,278
Prepayments	18	**105**	468	115
Total Non-Current Assets		**149,189**	124,373	140,308
Total Assets		**443,380**	392,369	396,419
Current Liabilities				
Payables	16	**223**	218	150
Outstanding Claims	17	**34,740**	56,241	43,514
Outstanding Claims - Bushfire	17	**2,710**	3,316	2,218
Employee Benefits	19	**528**	420	482
Other Liabilities	18	**779**	684	693
Total Current Liabilities		**38,980**	60,879	47,057
Non-Current Liabilities				
Outstanding Claims	17	**306,174**	246,171	254,156
Outstanding Claims - Bushfire	17	**81,802**	78,843	77,908
Employee Benefits	19	**49**	41	57
Other Liabilities	18	**105**	468	115
Total Non-Current Liabilities		**388,130**	325,523	332,236
Total Liabilities		**427,110**	386,402	379,293
Net Assets		**16,270**	5,967	17,126
Equity				
Contributed Equity		**43,855**	43,855	43,855
Accumulated (Deficits)		**(27,585)**	(37,888)	(26,729)
Total Equity		**16,270**	5,967	17,126

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 2012

	Accumulated Funds/ (Deficits) Actual 2012 $'000	Contributed Equity Actual 2012 $'000	Total Equity Actual 2012 $'000	Original Budget 2012 $'000
Balance at the Beginning of the Reporting Period	**(26,729)**	**43,855**	**17,126**	3,594
Comprehensive Income				
Operating (Deficit)/Surplus	**(855)**	**-**	**(855)**	2,373
Total Comprehensive Income/ (Deficit)	**(855)**	**-**	**(855)**	2,373
Transactions Involving Equity Holders Affecting Accumulated Funds				
Capital Injections	-	-	-	-
Balance at the End of the Reporting Period	**(27,585)**	**43,855**	**16,270**	5,967

	Accumulated Funds/ (Deficit) Actual 2011 $'000	Contributed Equity Actual 2011 $'000	Total Equity Actual 2011 $'000
Balance at the Beginning of the Reporting Period	**(42,429)**	**43,855**	**1,427**
Comprehensive Income			
Operating Surplus	**15,699**	-	15,699
Total Comprehensive Income	**15,699**	**-**	**15,699**
Transactions Involving Equity Holders Affecting Accumulated Funds			
Capital Injections	-	-	-
Balance at the End of the Reporting Period	**(26,729)**	**43,855**	**17,126**

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 2012

	Note	Actual 2012 $'000	Budget 2012 $'000	Actual 2011 $'000
Cash Flows from Operating Activities				
Ordinary Activities				
Insurance Premiums Received		**53,655**	53,735	50,125
Net Workers' Compensation Premiums		**(332)**	-	6
Net Construction Industry Premiums		**29**	-	380
External Insurance Premiums		**(11,442)**	(11.981)	(11,329)
Insurance Claims Payments		**(25,729)**	(28,154)	(11,597)
Insurance Claims Payments – Bushfire		**(2,453)**	(6,984)	(2,842)
Reinsurance and Other Recoveries Received		**2,111**	4,453	2,309
Reinsurance Recoveries Received - Bushfire		**-**	-	-
		15,839	23,038	27,052
Other				
Interest Received		**427**	55	10,905
Distributions Received		**17,082**	15,438	5,160
Other Receipts		**56**	173	187
General and Administration Payments		**(2,742)**	(3,223)	(2,666)
Other Payments		**(23)**	-	(3)
		14,800	12,443	13,583
Net Cash Inflows from Operating Activities	23	**30,639**	35,481	40,635
Cash Flows from Financing Activities				
Capital Injections		**-**	-	-
Net Cash Inflows from Financing Activities		**-**	-	-
Cash Flows from Investing Activities				
Proceeds from Sale/ Maturities of Investments		**48,800**	911	1,133
Purchase of Investments		**(79,000)**	(36,392)	(42,122)
Net Cash (Outflows) from Investing Activities		**(30,200)**	(35,481)	(40,989)
Net Increase/(Decrease) in Cash Held		**439**	-	(354)
Cash and Cash Equivalents at the Beginning of the Reporting Period		**42**	42	396
Cash and Cash Equivalents at the End of the Reporting Period	13	**481**	42	42

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 2012

	Budget 2012 $'000	Total Appropriated 2012 $'000	Appropriation Drawn 2012 $'000	Appropriation Drawn 2011 $'000
Capital Injections	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 2012

NOTE INDEX

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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 is operated under the *Insurance Authority Act 2005*. The objectives of the Authority 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.

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 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 at fair value through the Operating Statement.

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

The ACT Insurance Authority is an individual reporting entity.

(b) Premium Revenue

Direct premium revenue comprises amounts charged to the 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 period as all policies cover the period from 1 July 2011 to 30 June 2012. As a consequence, the Liability Adequacy Test, which considers the adequacy of unearned premium liability, does not apply as there are no unearned premiums in the period.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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, which levies a single premium covering all Government agencies. Each agency pays its share of the premium into the Authority for the purpose of financing the premium payment to Comcare. As the Authority is not underwriting this workers' compensation business, but rather acting as an agent for the Whole of Government, the amounts involved are not included in premiums 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 premium payment to an external insurer. As the Authority is not underwriting the business, but rather acting as an agent for the Whole of Government, the amounts involved are not included in 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 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 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.

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

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 2012, based on data at 30 June 2012.

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 to 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 fluctuates 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 are paid monthly and those 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 2012

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, long service leave and applicable on costs, including workers' compensation, 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 estimated future payments are discounted using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows. In 2011-12, the rate used to estimate the present value of these future payments is 106.6% (92.2% in 2010-11).

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 2012

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 2012 together with the financial position of the Authority as at 30 June 2012.

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

As part of its investment strategy, the Authority manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

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 2013);
- 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 1,2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 &1038 and Interpretations 5, 9, 16 & 17] (application date 1 January 2013);
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB13 [AASB 1,2, 3, 4, 5, 7, 9, 2009-11, 101, 107, 112, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2,4, 12, 13, 14, 17, 19, 131 & 132] (application date 1 January 2013); and
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (application date 1 July 2012).

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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 an increase to the estimate of the outstanding claims provision and expense in the current reporting period of approximately $43.2 million (Refer Note 17: 'Outstanding Claims).

Changes in the Public Liability Bushfire Outstanding Claims and Reinsurance Recovery Provisions

The Authority relies upon information from reinsurers and actuaries to calculate the public liability bushfire outstanding claims and reinsurance recovery provisions. Actuarial assumptions are based on projections of economic variables and legal advice.

As a result of changes in these variables, the estimates for the public liability bushfire outstanding claims and the reinsurance recovery provisions have changed. This change has resulted in an increase of $6.8 million to the estimates for the public liability bushfire outstanding claims provision and the public liability bushfire reinsurance recovery provision in the current reporting period.

Revision of the Employee Benefit Rate

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 estimated future payments are calculated using the government bond rate. Last financial year the rate was 92.2%, however, due to a change in the government bond rate, the rate is now 106.6%.

As such the estimate of the long service leave and annual leave liabilities has changed. This change has resulted in an increase to the estimate of the long service leave liability and expense in the current reporting period of approximately $46,000.

Correction of Prior Period Errors

The Authority had no correction of prior period errors during the reporting period.

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 the 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 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 methodologies 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 computed 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 or not enough reported (IBNR) 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.

Note 5. Actuarial Assumptions and Methods (Continued)

Actuarial Assumptions

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

	Property & Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.38 years	5.58 years	7.32 years	3.68 years	3.03 years	5.24 years
Ultimate Claim Numbers (2011-12 Insurance Year)*	58	108	115	4	1	14
Average Settlement Size	$69,700	$95,700† and $3.2m††	$300,000† and $5.0m††	$69,200	$150,000	$78,800
Expense Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	2.1%	3.2%	3.7%	2.8%	2.4%	3.2%
Inflation and Superimposed Inflation	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

* Ultimate claims reported for 2011-12 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 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. This loss ratio is the net loss ratio, with past claim payments in historical dollars and future claim payments inflated to date of payment. The earned premium is the historical net earned premium (i.e. no adjustment for inflation).

Insurance Year	Net Loss Ratio
2009-10	106%
2010-11	103%
2011-12	101%

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.

Average claim frequency
The claim frequency given is the total number of claims reported for each class of business that relate to the most recent insurance year. Average claims frequency is commonly defined as the number of expected claims as a percentage of a measure of risk exposure. However, due to the nature of the insurance classes that the Authority covers, a reliable measure of exposure is not available to calculate a useful frequency.

Expense rate
Claims handling expenses were calculated based on an assumed proportion of claims handling costs as a percentage of past payments (as advised by PwC Actuarial Services to the Authority).

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			**Difference**	
	$'000	**$'000**	$'000	% change
Current Net Outstanding Claims Provision	**325,022**			
Economic Assumptions				
Discount rates increased by 1.0%		304,991	(20,031)	(6.2%)
Discount rates decreased by 1.0%		347,346	22,324	6.9%
Medical Malpractice				
Large Claims				
Average size on IBNR claims of $6.0m		346,022	21,000	6.5%
Average size on IBNR claims of $4.0m		304,023	(20,999)	(6.5%)
One additional claim per annum for 2006 & later		346,686	21,664	6.7%
One less claim per annum. for 2006 & later		303,359	(21,663)	(6.7%)
Public Liability				
Large Claims				
Average size on IBNR claims of $4.2m		336,285	11,263	3.5%
Average size on IBNR claims of $2.2m		313,759	(11,263)	(3.5%)
One additional claim per annum for 2006 & later		341,835	16,813	5.2%

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 in the discount rate will result in a reduction to the estimated outstanding claims liability and claims expense. A decrease in the discount rate will lead to an increase in the outstanding claims liabilities and 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 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.

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.
- 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 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.

Note 7. Underwriting Result

	Notes	2012 $'000	2011 $'000
(a) Underwriting Revenues			
Gross Earned Premiums			
General Government Sector (i)		**46,268**	42,750
Public Trading Enterprises		**7,429**	7,375
	8	**53,697**	50,125
Reinsurance Recoveries/ (Losses) (ii)		**7,039**	9,710
Reinsurance Recoveries/ (Losses) – Bushfire (iii)		**6,760**	807
Recoveries Claims Related	9	**38**	163
	9	**13,837**	10,680
		67,534	60,805
All underwriting revenues relate to operating activities.			
(b) Underwriting Expenses			
Gross Claims Expense		**68,973**	49,007
Gross Claims Expense/(Credit) – Bushfire		**6,838**	811
	9	**75,811**	49,818
Outwards Reinsurance Premium Expense	8	**11,442**	10,752
		11,442	10,752
		87,253	60,570
(c) Underwriting Profit/(Loss)			
Underwriting Revenues		**67,534**	60,805
Underwriting Expenses		**(87,253)**	(60,570)
		(19,719)	235

Definitions

Reinsurance: While ACTIA can meet the costs of the majority of its claims, it buys reinsurance on major classes of business. This safeguards the authority against a very large loss or claim, or a series of large losses or claims in any year (refer note 2 (i)).

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.

Explanations

Underwriting Revenues

(i) The annual insurance premiums increased slightly in 2011-12 due an expected increase in the cost of future medical malpractice claims.

(ii) Ordinary reinsurance recoveries ($7,039,000) decreased due to the receipt of outstanding recoveries during 2011-12.

(iii) A higher reinsurance recovery for the bushfire claims ($6,760,000) was recognised to correspond to an increase in claims expense ($6,838,000) due to changes in the discount rate. The remaining bushfire claims are fully covered by reinsurance. Therefore any change in the underlying liability will result in a corresponding change to the recovery.

Underwriting Expenses

- Increases in the outstanding claims provisions (refer Note 17: 'Outstanding Claims') are expensed in the operating statement. Decreases in the outstanding claims provision are credited in the operating statement.
- All claims expenses increased due to reduced discount rates.
- In ordinary claims the impact of the reduced discount rate was offset by a decrease resulting from change in actuarial assumptions. When estimating the outstanding claims provisions actuaries make assumptions about the number and average size of future claims settlements and expenses. A change in assumptions has reduced estimates for large medical malpractice and public liability claims as well as lowering the expected number of claims reported.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 8. Net Earned Premiums

	Notes	2012 $'000	2011 $'000
Gross Written Premiums			
General Government Sector		**46,268**	42,750
Public Trading Enterprises		**7,429**	7,375
	7	**53,697**	50,125
Outwards Reinsurance Premium Expense	7	**(11,442)**	(10,752)
Net Earned Premiums		**42,255**	39,373

The gross written premiums increased slightly in 2011-12 to provide for an expected increase in the future claims costs for the medical malpractice class.

Note 9. Net Incurred Claims

The following table provides further information in relation to the net claims incurred cost. Current year claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

	Notes	2012 Current Year $'000	2012 Prior Years $'000	2011 Current Year $'000	2011 Prior Years $'000
Gross Incurred Claims and Related Expenses					
- Undiscounted		**(73,857)**	**46,662**	(79,954)	(27,396)
- Undiscounted (Bushfire)		**-**	**-**	-	(1,243)
		(73,857)	**46,662**	(79,954)	(28,639)
- Discounted		**(57,649)**	**(11,324)**	(57,139)	8,132
- Discounted (Bushfire)		**-**	**(6,838)**	-	(811)
		(57,649)	**(18,162)**	(57,139)	7,321
Total Gross Incurred Claims and Related Expenses	7	**(75,811)**		**(49,818)**	
Reinsurance and Other Recoveries					
- Undiscounted		**4,933**	**12,930**	12,144	(1,326)
- Undiscounted (Bushfire)		**-**	**-**	-	1,212
- Recoveries claim related	7	**38**	**-**	-	163
		4,971	**12,930**	12,144	49
- Discounted		**4,773**	**2,266**	9,755	(45)
- Discounted (Bushfire)		**-**	**6,760**	-	807
- Recoveries claim related	7	**38**	**-**	-	163
		4,811	**9,026**	9,755	925
Total Reinsurance and Other Recoveries	7	**13,837**		**10,680**	
Net Incurred Claims (Discounted)		**(52,838)**	**(9,136)**	(47,384)	8,246
Total Net Incurred Claims (Discounted)		**(61,974)**		**(39,138)**	

Prior Years:

Ordinary Claims
The cost of ordinary claims increased due to reduced discount rates offset by lower than expected numbers of claims developing in older years and a lower than assumed size of large medical malpractice and public liability claims.

Bushfire Claims
Bushfire claims and reinsurance recoveries increased due to decreased discount rates.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 10. Other Revenue and Expenses

	2012 $'000	2011 $'000
(a) Other Revenue		
Interest and Distribution Received		
Interest Received from Bank [a]	**431**	187
Distribution Received from the Territory Banking Account [a]	**19,548**	17,046
	19,979	17,233
Other Revenue:		
Recoveries from Other Agencies	**85**	151
Unrealised Gain on Investments [b]	**1,615**	1,166
	1,700	1,317
	21,679	18,550
(b) Other Expenses		
Outwards Insurance Premium Expense – Construction Industry Gross	**2,069**	2,173
Construction Industry Premium Receipts Gross	**(2,023)**	(1,864)
Outwards Insurance Premium Expense – Externally Insured Contracts Gross	**560**	577
Externally Insured Contracts – Receipts Gross	**(560)**	(577)
	46	309

a. In 2011-12, interest and distributions received increased due to a greater amount of funds held in the Cash Enhanced Fund. The Authority is endeavouring to increase funds invested in order to meet the cost of future claims.

b. Unrealised gain 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 2011-12, the unit price of the Cash Enhanced Fund and Fixed Interest Fund increased resulting in an unrealised gain.

Note 11. Employee and Superannuation Expenses

	2012 $'000	2011 $'000
(a) Employee Expenses		
Salaries	**1,420**	1,469
Annual Leave Expense	**11**	13
Long Service Leave Expense	**46**	78
Workers' Compensation Insurance Premium	**3**	5
Total Employee Expenses	**1,480**	1,565
(b) Superannuation Expense		
Superannuation Contribution to the Territory Banking Account	**164**	174
Productivity Benefit	**21**	22
Superannuation Payment to ComSuper (for the PSSaP)	**12**	10
Superannuation to External Providers	**42**	35
Total Superannuation Expenses	**239**	241

The Authority makes payment on a fortnightly basis to the Territory Banking Account for its portion of the Territory's Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) superannuation liability. The productivity benefit for these schemes is paid directly to ComSuper.

Superannuation payments have been made direct to ComSuper to cover the superannuation liability for employees that are in the Public Sector Superannuation Scheme Accumulation Plan (PSSaP).

Superannuation payments are also made to external providers as part of the employee fund of choice arrangements, and to employment agencies for the superannuation contribution the Authority is required to make for the contract staff it employs.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 12. Supplies and Services

	2012 $'000	2011 $'000
Rental Expenses	**62**	113
Contractors and Consultants	**630**	504
Insurance	**6**	6
Computing Costs	**96**	105
Repairs and Maintenance	**8**	4
Printing	**7**	4
Communications	**11**	11
Publications	**1**	6
Postage and Courier	**2**	1
Staff Development	**13**	51
Stationery	**3**	14
Travel	**68**	39
Audit Fees	**53**	53
Hospitality costs	**1**	5
Other	**89**	55
	1,050	971

The increase in contractors and consultants is due to more demand for the services of the actuaries and insurance consultants than in the last reporting period. The decrease in rental expenses is due to the Default Insurance Fund and Nominal Defendant of the ACT being directly invoiced for their share of the rent.

Note 13. Cash and Investments

	2012 Current $'000	2012 Non-Current $'000	2012 Total $'000	2011 Current $'000	2011 Non-Current $'000	2011 Total $'000
(a) Cash						
Current						
Cash at Bank	**481**	**-**	**481**	42	-	42
Total Cash	**481**	**-**	**481**	42	-	42
(b) Investments						
Current						
Investments with Territory Banking Account – Cash Enhanced Portfolio	**279,277**	**-**	**279,277**	251,235	-	251,235
Non-Current						
Investments with Territory Banking Account – Fixed Interest Portfolio	**-**	**63,264**	**63,264**	-	59,491	59,491
Total Investments	**279,277**	**63,264**	**342,541**	251,235	59,491	310,726
Total Cash and Investments	**279,758**	**63,264**	**343,022**	251,277	59,491	310,768

The Authority holds a bank account with the Commonwealth Bank. The average interest rate on cash at bank was 3.85% (2011 4.5%). Other investments are held with the Territory Banking Account. The weighted average floating interest rate on the Cash Enhanced Portfolio is 4.87% (2011 6.71%) and the rate of return of investment on the Fixed Interest Portfolio was 12.39% (2011 5.54%). These funds are able to be withdrawn upon request.

An increase in investments reflects the increase in funds invested 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 2012

Note 14. Receivables

	2012 $'000	2011 $'000
Current		
Interest Receivable	**5,489**	3,020
Net Goods and Services Tax Receivable	**151**	115
Other Receivables	**904**	489
	6,545	3,624
Less: Allowance for Impairment Losses	**-**	-
Total Receivables	**6,545**	3,624

Ageing Of Receivables

	Not Overdue $'000	Past Due: Less than 30 Days $'000	Past Due: 30 to 60 Days $'000	Past Due: Greater than 60 Days $'000	Total $'000
2012					
Not Impaired[1] Receivables	6,094	405	-	46	6,545
Impaired Receivables					
2011					
Not Impaired[1] Receivables	3,446	109	-	69	3,624
Impaired Receivables	-	-	-	-	-

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

Reconciliation of the Allowance for Impairment Losses	2012 $'000	2011 $'000
Allowance for Impairment Losses at the Beginning of the Reporting Period	-	-
Additional Allowance Recognised	-	-
Reduction in Allowance Resulting from a Write Back against the Receivables	-	-
Allowance for Impairment Losses at the End of the Reporting Period	-	-

Classification of ACT Government/ Non-ACT Government Receivables	2012 $'000	2011 $'000
Receivables with ACT Government Entities		
Interest Receivable	**5,481**	3,017
Annual Premium	**47**	-
Contract Works Premium	**371**	411
Other	**274**	37
	6,173	3,465
Receivables with Non-ACT Government Entities		
Other Receivables	**371**	159
Total Receivables	**6,545**	3,624

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 2012

Note 15. Reinsurance Recoveries

	2012 $'000	2011 $'000
(a) Current:		
Ordinary Reinsurance Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	**7,205**	527
Discounted Present Value	**(96)**	(10)
	7,109	517
Bushfire Reinsurance Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	-	-
Discount to Present Value	-	-
	-	-
Total Current Reinsurance Recoveries Discounted	**7,109**	517
(b) Non-Current		
Ordinary Recoveries – Undiscounted		
Undiscounted Expected Future Recoveries	**9,868**	12,916
Discount to Present Value	**(1,085)**	(2,492)
Less: Allowance for the Impairment of Reinsurance Assets	-	-
	8,783	10,424
Bushfire Reinsurance Recoveries - Undiscounted		
Undiscounted Expected Future Recoveries	**85,008**	85,008
Discount to Present Value	**(7,971)**	(14,730)
	77,037	70,278
Total Non-Current Reinsurance Recoveries Discounted	**85,820**	80,702
Total Ordinary Reinsurance Recoveries – Discounted (i)	**15,892**	10,941
Total Bushfire Reinsurance Recoveries – Discounted (ii)	**77,037**	70,278
Total Reinsurance Recoveries Discounted	**92,929**	81,219
(c) Reconciliation of the Movement of Reinsurance Recoveries		
Provision for Reinsurance Recoveries at the Beginning of the Period	**81,219**	71,992
Reinsurance Received	**(1,958)**	(963)
Movement in Provision due to Changes in Claims	**13,668**	10,190
Provision for Reinsurance Recoveries at the End of Reporting Period	**92,929**	81,219

(i) Bushfire reinsurance recoveries increased due to changes in discount rates.

(ii) The Authority's self insured retention on a number of insurance years has been exceeded. A recovery is expected on ordinary public liability claims in the 2002-03 year as well as public liability in the 2006-07 insurance year, medical malpractice claims in the 2004–05 insurance years and property in the 2010-11 and 2011-12 insurance years.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 16. Payables

	2012 $'000	2011 $'000
Current Payables		
Trade Payables	**223**	150
Ageing of Payables		
Payables are aged as follows:		
Not Overdue	**223**	150
	223	150
Classification of ACT Government/Non- ACT Government Payables		
Payables with ACT Government Entities		
Trade Payables	**28**	26
Payables with Non- ACT Government Entities		
Trade Payables	**195**	124
Total Payables	**223**	150

Note 17. Outstanding Claims

	Note	2012 $'000	2011 $'000
(a) Undiscounted Expected Future Claim Payments			
Central Estimate		**345,452**	343,945
Risk Margin		**60,332**	60,261
Claims Handling Costs		**16,419**	16,532
		422,203	420,738
Discount to Present Value		**(81,289)**	(123,068)
Liability for Outstanding Claims	17(f)	**340,914**	297,670
Current		**34,740**	43,514
Non-Current		**306,174**	254,156
	17(f)	**340,914**	297,670
(b) Undiscounted Expected Future Claim Payments (Bushfire)			
Central Estimate		**92,547**	95,160
Discount to Present Value		**(8,035)**	(15,034)
Liability for Outstanding Claims		**84,512**	80,126
Current		**2,710**	2,218
Non-Current		**81,802**	77,908
		84,512	80,126
Total Undiscounted Expected Future Claim Payments		**514,750**	515,898
Total Discounted Claims Provision as per Balance Sheet		**425,426**	377,796

All figures in Note 17 (a) have been calculated by actuaries as outlined in Note 2(h): 'Claims'.

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 17. Outstanding Claims (Continued)

(c) Risk Margin[a]

The process of determining risk margin

The overall risk margin was determined allowing for diversification between different portfolios and the relative uncertainty of the outstanding claims estimate for each portfolio. Uncertainty 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).

Risk margins applied

Class	Risk margin (%)
Property and Motor	18
Financial Crime	30
Public Liability	17
Professional Indemnity	18
Directors and Officers	23
Medical Malpractice	17
Overall margin (weighted average)	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**:**

	2012 %	2011 %
For the succeeding year		
Inflation rate	**4.0**	**4.0**
Discount rate	**2.8**	**4.8**
For the subsequent year		
Inflation rate	**4.0**	**4.0**
Discount rate	**2.1**	**5.1**

(e) Term to Settlement [a]

The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 6.5 years (2011 – 6.1 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 bushfires

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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 2011 to 30 June 2012

		$'000
Gross Outstanding Claims Provision at 30 June 2011	Note 17(a)	**297,670**
Plus New Incurred Period		39,598
Less Expected payments to 30 June 2012 (Inflated and Undiscounted Values)		37,801
Plus Expected Interest to 30 June 2012		10,653
Plus Expected change in Expense Margin		617
Plus Expected change in Risk Margin		1,499
Expected 30 June 2012 Gross Outstanding Claims Provision as at 30 June 2011		**312,236**
Between 30 June 2011 and 30 June 2012, there have been the following changes in experience and assumptions		
Plus (Actual less Expected) Inflation		3,345
Plus Change in Future Inflation and Discounting Assumptions		38,900
Plus (Expected less Actual) Payments		
Directors and Officers		71
Financial Crime		33
Medical Malpractice		2,866
Professional Indemnity		(60)
Property and Motor		5,896
Public Liability		3,244
Sub-total		12,050
Plus Change in Actuarial Assumptions		
Directors and Officers		(670)
Financial Crime		(159)
Medical Malpractice		(24,364)
Professional Indemnity		412
Property and Motor		3,755
Public Liability		(9,906)
Sub-total		(30,932)
Plus Change in Expense Margin at 30 June 2012		920
Plus Change in Risk Margin at 30 June 2012		4,394
Overall Change in Basis		28,678
Gross Outstanding Claims Provision at 30 June 2012	Note 17(a)	**340,914**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 17. Outstanding Claims (Continued)

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

The expected gross outstanding claims provision of $312.236 million compares to the actual gross outstanding claims provision of $340.914 million, indicating a total increase of $28.678 million. This increase may be broken down into six main components:

- A $3.345 million increase due to higher than expected inflation;
- A $38.900 million increase due to decreases in the discount rates since 30 June 2011;
- A $12.050 million increase as a result of actual payments being less than expected over the 12 months. The increase in the estimate assumes that, all other things being equal, the difference in payments expected to be made in the 12 months would be deferred to some time in the future; and
- A $30.931 million decrease due to changes in actuarial assumptions. These have resulted from:
    - an increase in the Property and Motor insurance class largely resulting from large storms for the 2011-12 year. The impact on the **net** central estimate will be smaller due to expected reinsurance recoveries.
    - a reduction for the Medical Malpractice insurance class resulting from
        - lower than expected numbers of claims reports and favourable experience in large claims for this insurance class resulting in a lower assumed average size on large settlements,
        - partially offset by higher than expected average sizes for small finalisations in this class.
    - a reduction in the Public Liability insurance class resulting from lower than expected numbers of small settlements and a lower assumed average size for large claims due to more favourable experience.
    - an increase in the Professional Indemnity insurance class resulting from worse than expected experience in large claims for the 2011-12 year, offset by favourable experience in the average size of small claim settlements
    - a reduction in the Directors and Officers insurance class resulting from lower than expected number of claims reported
- A $0.920 million increase in the expense margin as a result of the increase in the central estimate of outstanding claims.
- An increase of $4.394 million in the risk margin resulting from an increase in the central estimate of outstanding claims.

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 2002-03 accident year.

i) Gross

Accident year			**2002-03**			
	Standing Timber $ '000	**Property $ '000**	**Public Liab $ '000**	**Prof. Indem $ '000**	**Total $ '000**	**Notes**
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	
Current estimate of cumulative claims cost	56,028	60,596	95,336	1,672	213,632	
Cumulative payments	(53,477)	(57,264)	(10,336)	(8)	(121,085)	
Outstanding claims undiscounted	2,551	3,332	85,000	1,664	**92,547**	
Discount	0	0	(7,971)	(64)	**(8,035)**	
Outstanding claims	2,551	3,332	77,029	1,600	**84,512**	**17(b)**

ii) Net of reinsurance recoveries

Accident year			**2002-03**		
	Standing Timber $ '000	**Property $ '000**	**Public Liab $ '000**	**Prof. Indem $ '000**	**Total $ '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
Current estimate of cumulative claims cost	4,028	6,884	5,827	1,834	18,573
Cumulative payments	(4,028)	(6,884)	(5,827)	(8)	(16,747)
Outstanding claims undiscounted	0	0	0	1,826	**1,826**
Discount	0	0	0	(303)	**(303)**
Outstanding claims	0	0	0	1,523	**1,523**

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 2012

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	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	9,560	11,534	13,513	9,356	10,942	11,957	12,371	12,476	
One year later	11,904	11,670	13,385	11,211	14,397	14,000	11,055	0	
Two years later	10,604	9,304	14,670	8,209	15,941	12,849	0	0	
Three years later	6,433	9,744	18,324	10,547	12,840	0	0	0	
Four years later	7,242	9,495	14,276	8,660	0	0	0	0	
Five years later	8,683	7,542	13,766	0	0	0	0	0	
Six years later	5,744	10,178	0	0	0	0	0	0	
Seven years later	6,595	0	0	0	0	0	0	0	
Current estimate	6,595	10,178	13,766	8,660	12,840	12,849	11,055	12,476	88,419
Cummulative payments	(2,251)	(1,896)	(2,761)	(2,087)	(2,428)	(1,837)	(210)	(73)	(13,543)
Oustanding claims undiscounted	4,344	8,282	11,005	6,574	10,411	11,012	10,845	12,403	74,875
Discount	(549)	(1,026)	(1,574)	(1,046)	(1,528)	(1,889)	(2,170)	(2,743)	(12,525)
Outstanding claims	3,795	7,256	9,431	5,527	8,884	9,123	8,674	9,660	62,350
2004 and prior years									8,857
Outstanding claims									**71,207**

ii) Net

Accident year	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	9,560	11,534	13,513	9,356	10,942	11,957	12,371	12,476	
One year later	11,904	11,670	11,123	11,211	14,397	14,000	11,055	0	
Two years later	10,604	9,304	12,835	8,209	15,941	12,849	0	0	
Three years later	6,433	9,744	17,025	10,547	12,840	0	0	0	
Four years later	7,242	9,495	13,660	8,660	0	0	0	0	
Five years later	8,683	7,542	13,707	0	0	0	0	0	
Six years later	5,744	10,178	0	0	0	0	0	0	
Seven years later	6,595	0	0	0	0	0	0	0	
Current estimate	6,595	10,178	13,707	8,660	12,840	12,849	11,055	12,476	88,360
Cummulative payments	(2,251)	(1,896)	(2,761)	(2,087)	(2,428)	(1,837)	(210)	(73)	(13,543)
Oustanding claims undiscounted	4,344	8,282	10,946	6,574	10,411	11,012	10,845	12,403	74,817
Discount	(549)	(1,026)	(1,564)	(1,046)	(1,528)	(1,889)	(2,170)	(2,743)	(12,515)
Outstanding claims	3,795	7,256	9,382	5,527	8,884	9,123	8,674	9,660	62,301
2004 and prior years									8,857
Outstanding claims									**71,158**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Estimate of ultimate claims cost:									
At end of accident year	25,204	19,260	23,304	22,558	29,076	36,409	35,304	34,565	
One year later	21,000	20,133	25,216	30,013	19,786	35,445	31,893	0	
Two years later	23,861	14,193	22,316	29,878	20,708	31,759	0	0	
Three years later	18,275	22,217	28,970	22,316	19,103	0	0	0	
Four years later	22,778	12,525	38,089	17,788	0	0	0	0	
Five years later	25,955	14,578	33,175	0	0	0	0	0	
Six years later	28,768	12,270	0	0	0	0	0	0	
Seven years later	37,228	0	0	0	0	0	0	0	
Current estimate	37,228	12,270	33,175	17,788	19,103	31,759	31,893	34,565	217,780
Cummulative payments	(10,953)	(2,333)	(1,547)	(2,235)	(1,877)	(1,162)	(312)	(157)	(20,578)
	26,275	9,936	31,628	15,553	17,226	30,596	31,580	34,408	197,203
Oustanding claims undiscounted									
Discount	(3,861)	(2,252)	(5,990)	(3,717)	(4,040)	(7,858)	(7,924)	(10,041)	(45,683)
Outstanding claims	22,414	7,684	25,638	11,836	13,186	22,739	23,656	24,367	151,520
2004 and prior years									40,067
Outstanding Claims									**191,586**

ii) Net

Accident year	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total**
	$ '000	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Estimate of ultimate claims cost:									
At end of accident year	25,204	19,110	23,304	22,558	29,076	36,409	35,304	34,565	
One year later	21,109	20,133	24,751	30,013	19,786	35,445	31,893	0	
Two years later	23,861	14,193	22,316	29,878	20,708	31,759	0	0	
Three years later	18,275	22,217	28,970	22,316	19,103	0	0	0	
Four years later	22,778	12,525	38,089	17,788	0	0	0	0	
Five years later	25,955	14,578	33,175	0	0	0	0	0	
Six years later	28,768	12,270	0	0	0	0	0	0	
Seven years later	32,775	0	0	0	0	0	0	0	
Current estimate	32,775	12,270	33,175	17,788	19,103	31,759	31,893	34,565	213,328
Cummulative payments	(10,953)	(2,333)	(1,547)	(2,235)	(1,877)	(1,162)	(312)	(157)	(20,578)
Oustanding claims undiscounted	21,822	9,936	31,628	15,553	17,226	30,596	31,580	34,408	192,750
Discount	(3,107)	(2,252)	(5,990)	(3,717)	(4,040)	(7,858)	(7,924)	(10,041)	(44,929)
Outstanding claims	18,715	7,684	25,638	11,836	13,186	22,739	23,656	24,367	147,821
2004 and prior years									40,067
Outstanding claims									**187,888**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	34,764	30,795	36,817	31,914	40,018	48,366	47,675	47,041	
One year later	32,904	31,802	38,601	41,224	34,183	49,444	42,948	0	
Two years later	34,465	23,497	36,986	38,087	36,650	44,608	0	0	
Three years later	24,708	31,961	47,294	32,863	31,943	0	0	0	
Four years later	30,019	22,021	52,365	26,448	0	0	0	0	
Five years later	34,638	22,119	46,941	0	0	0	0	0	
Six years later	34,512	22,448	0	0	0	0	0	0	
Seven years later	43,823	0	0	0	0	0	0	0	
Current estimate	43,823	22,448	46,941	26,448	31,943	44,608	42,948	47,041	306,199
Cummulative payments	(13,204)	(4,230)	(4,307)	(4,321)	(4,306)	(3,000)	(522)	(230)	(34,121)
Oustanding claims undiscounted	30,618	18,218	42,634	22,127	27,638	41,608	42,425	46,811	272,078
Discount	(4,410)	(3,278)	(7,564)	(4,764)	(5,568)	(9,746)	(10,094)	(12,784)	(58,208)
Outstanding claims	26,208	14,940	35,070	17,363	22,070	31,862	32,331	34,027	213,870

2004 and prior years		48,924
Claims handling expense		13,163
Risk margin		48,600
Outstanding Claims		**324,556**
Short tail outstanding claims		16,357
Total Gross Outstanding Claims as per Balance Sheet	Note 17(a)	**340,914**

ii) Net

Accident year	2004-05 $ '000	2005-06 $ '000	2006-07 $ '000	2007-08 $ '000	2008-09 $ '000	2009-10 $ '000	2010-11 $ '000	2011-12 $ '000	Total $ '000
Estimate of ultimate claims cost:									
At end of accident year	34,601	30,491	36,679	31,777	40,018	48,366	47,675	47,041	
One year later	32,820	31,664	35,738	41,224	34,183	49,444	42,948	0	
Two years later	34,348	23,497	35,152	38,087	36,650	44,608	0	0	
Three years later	24,592	31,961	45,995	32,863	31,943	0	0	0	
Four years later	30,019	22,021	51,749	26,448	0	0	0	0	
Five years later	34,638	22,119	46,882	0	0	0	0	0	
Six years later	34,512	22,448	0	0	0	0	0	0	
Seven years later	39,370	0	0	0	0	0	0	0	
Current estimate	39,370	22,448	46,882	26,448	31,943	44,608	42,948	47,041	301,688
Cummulative payments	(13,204)	(4,230)	(4,307)	(4,321)	(4,306)	(3,000)	(522)	(230)	(34,121)
Oustanding claims undiscounted	26,166	18,218	42,575	22,127	27,638	41,608	42,425	46,811	267,567
Discount	(3,656)	(3,278)	(7,554)	(4,764)	(5,568)	(9,746)	(10,094)	(12,784)	(57,444)
Outstanding claims	22,510	14,940	35,021	17,363	22,070	31,862	32,331	34,027	210,122

2004 and prior years	48,924
Claims handling expense	13,163
Risk margin	48,600
Outstanding Claims	**320,809**
Short tail outstanding claims	4,213
Total Outstanding Claims Net of Reinsurance Recoveries as per Balance Sheet	**325,022**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 18. Prepayments and Other Liabilities

	Note No.	2012 $'000	2011 $'000
(a) Prepayments			
Current Construction Industry Premium Prepayments		**779**	693
Non-Current Construction Industry Premium Prepayments		**105**	115
		884	808
(b) Other Liabilities			
Current Construction Industry Premium Received in Advance from Agencies		**779**	693
Non-Current Construction Industry Premium Received in Advance from Agencies		**105**	115
	2 (d)	**884**	808

Note 19. Employee Benefits

	2012 $'000	2011 $'000
Current Employee Benefits		
Accrued Salaries	**46**	42
Annual Leave	**198**	210
Long Service Leave	**284**	230
Other	**-**	-
	528	482
Non-Current Employee Benefits		
Long Service Leave	**49**	57
	49	57
Total Employee Benefits	**577**	539

	2012 Number	2011 Number
Employee Numbers		
Full-time Equivalents at the End of the Reporting Period	**14**	14

Estimate of When Leave is Payable

	2012 $'000	2011 $'000
Estimated Amount Payable Within 12 Months		
Annual leave	**148**	162
Long Service Leave	**69**	26
Accrued Salaries	**46**	42
Other	**-**	-
Total Employee Benefits Payable Within 12 Months	**263**	230
Estimated Amount Payable After 12 Months		
Long Service Leave	**264**	261
Annual Leave	**50**	48
Total Employee Benefits Payable After 12 Months	**314**	309
Total Employee Benefits	**577**	539

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 2012 $'000	Fair Value 2012 $'000	Carrying Amount 2011 $'000	Fair Value 2011 $'000
Financial Assets				
Cash and Cash Equivalents	**481**	**481**	42	42
Investments with the Territory Banking Account – Cash Enhanced Fund	**279,277**	**279,277**	251,235	251,235
Investments with the Territory Banking Account – Fixed Interest Fund	**63,264**	**63,264**	59,491	59,491
Receivables	**6,545**	**6,545**	3,509	3,509
Total Financial Assets	**349,567**	**349,567**	314,277	314,277
Financial Liabilities				
Payables	**223**	**223**	150	150
Total Financial Liabilities	**223**	**223**	150	150

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 20. Financial Instruments (Continued)

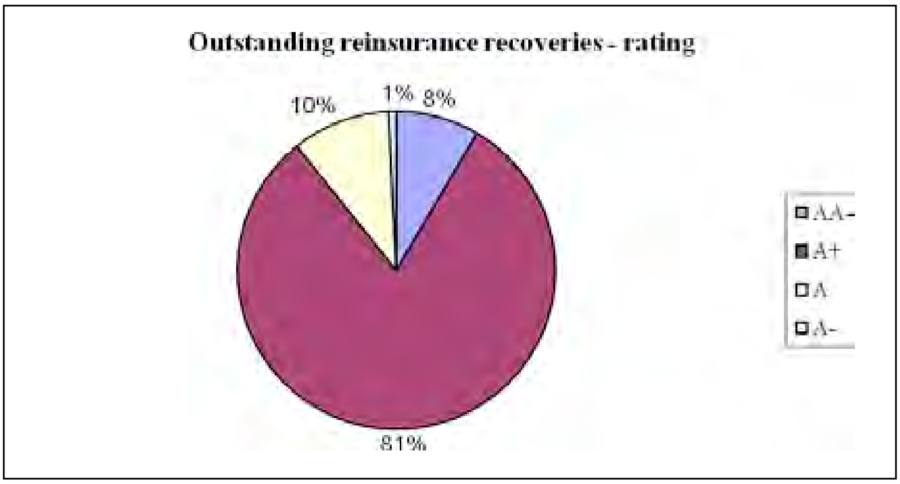
(c) Credit risk

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.



There have been new reinsurers added to the reinsurance program for 2011-12. These reinsurers have a credit rating of AA- and A-.

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 2012. The majority of the Authority's financial assets are not subject to cash flow interest rate risk.

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. 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 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)	**3,409**	**3,409**

30 June 2011	**(1.0%)**	**+1.0%**
	Profit/(Loss) Impact	**Profit/(Loss) Impact**
	$'000	**$'000**
Cash and Cash Equivalents	-	-
Outstanding Claims Provision Discount to Present Value	2,977	(2,977)
Total Increase/ (Decrease)	**2,977**	**(2,977)**

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.

Though the majority of the Authority's liabilities are not financial instruments, but insurance claims, the Authority may be considered to have a liquidity risk. 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 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	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	13	481	-	-	-	-	481
Investments – Cash Enhanced	13	-	-	-	-	279,277	279,277
Investments – Fixed Interest	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 Goods and Services Tax 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**

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

Note 20. Financial Instruments (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 2011. 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.

2011	**Notes**	**Floating interest rate $'000**	**Fixed interest maturing in: 1 year or less $'000**	**over 1 to 5 years $'000**	**more than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial Instruments							
Financial Assets							
Cash and Cash Equivalents	13	42	-	-	-	-	42
Investments – Cash Enhanced	13	-	-	-	-	251,235	251,235
Investments – Fixed Interest	13	-	-	-	-	59,491	59,491
Receivables	14	-	-	-	-	3,508	3,508
Total Financial Assets		42	-	-	-	314,235	314,277
Weighted Average Interest Rate		6.71%					
Financial Liabilities							
Payables	16	-	-	-	-	150	150
Total Financial Liabilities		-	-	-	-	150	150
Net Financial Assets		42	-	-	-	314,085	**314,127**

Reconciliation of Net Financial Assets to Net Assets	**Notes**	**2011 $'000**
Net Financial Assets (as above)		314,127
Net GST Receivable		115
Employee Benefits	19	(539)
Reinsurance Recoveries	15	81,219
Other Assets		807
Other Liabilities		(807)
Outstanding Claims	17	(377,796)
Net Assets as per the Balance Sheet		**17,126**

Carrying Amount of Each Category of Financial Instruments	**2012 $'000**	**2011 $'000**
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**342,541**	310,726
Loans and Receivables	**6,393**	3,508
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**223**	150
Gains/ (Loss) on Each Category of Financial Asset		
Financial Assets at Fair Value through Profit and Loss Designated upon Initial Recognition	**1,615**	1,166

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 Treasury 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 Fund and -/+2.0% for the Fixed Interest Fund from the target benchmark with all other variables held constant.

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 2011		**(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%	(1,256)	1,256

June 2012		**(2.0%)**	**2.0%**
	Benchmark/ Volatility Factor	**Profit/(Loss) Impact**	**Profit/(Loss) Impact**
		$’000	**$’000**
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 2.0%	(1,265)	1,265

June 2011		**(2.0%)**	**2.0%**
	Benchmark/ Volatility Factor	**Profit/(Loss) Impact**	**Profit/(Loss) Impact**
		$’000	**$’000**
Fixed Interest Portfolio	UBS Australian Composite Bond Index -/+ 2.0%	(1,190)	1,190

ACT INSURANCE AUTHORITY
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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.

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 from the Balance Sheet				
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.

2011

	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Financial Assets at Fair Value from the Balance Sheet				
Investment with the Territory Banking Account – Cash Enhanced Portfolio	-	251,235	-	251,235
Investment with the Territory Banking Account - Fixed Interest Portfolio	-	59,491	-	59,491
Total	**-**	**310,726**	**-**	**310,726**

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.

	Note	2012 $'000	2011 $'000
Audit Fees Paid to the ACT Auditor-General's Office	12	55	53

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

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.

	2012 $'000	2011 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	**481**	42
Cash and Cash Equivalents at the end of the Reporting Period as Recorded in the Cash Flow Statement	**481**	**42**

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

	2012 $'000	2011 $'000
Operating (Deficit)/Surplus	**(855)**	15,699
Add/ Less Items Classified as Investing or Financing		
Changes in Net Market Value of Investments	**(1,615)**	(1,166)
Cash Before Changes in Operating Assets and Liabilities	**(2,470)**	**14,533**
Change in Operating Assets and Liabilities		
(Increase) in Reinsurance Recoveries	**(11,710)**	(9,227)
(Increase) in Interest Receivable	**(2,470)**	(1,168)
(Increase)/ Decrease/in Other Receivables	**(452)**	1,115
Increase/(Decrease) in Payables	**73**	(70)
Increase in Outstanding Claims	**47,630**	35,358
Increase in Employee Benefits	**38**	95
Net Changes in Operating Assets and Liabilities	**33,109**	**26,103**
Net Cash Inflows from Operating Activities	**30,639**	**40,635**

Note 24. Events Occurring after Balance Date

There were no events occurring after the balance date which would affect the financial report as at 30 June 2012 or in future reporting periods.

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A12/04

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 3, Canberra Nara Centre
1 Constitution Avenue
CANBERRA CITY ACT 2601

Dear ~~Ms Smithies~~ Megan

REPORT OF FACTUAL FINDINGS - ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

The Audit Office has completed the review of the statement of performance of the ACT Insurance Authority for the year ended 30 June 2012.

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
12 September 2012

c.c. Mr John Gordon, Chair, Audit Committee, Treasury Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager (Internal Audit Manager), Accounting Branch, Treasury 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) 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 2012, 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
12 September 2012

ACT INSURANCE AUTHORITY
STATEMENT OF PERFORMANCE
For the year ended 30 June 2012

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 2012, and also fairly reflects the judgements exercised in preparing it.

Megan Smithies	John Fletcher
Chief Executive	General Manager
ACT Insurance Authority	ACT Insurance Authority
15 August 2012	13 August 2012

ACT INSURANCE AUTHORITY
Statement of Performance
For the Year Ended 30 June 2012

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	Conduct an annual customer satisfaction survey achieving high levels of overall customer satisfaction with insurance management services[1]	90%	94%	4%	4%	
	General and administrative expense as a percentage of total revenue. Industry benchmark 5.9%	4.6% excludes bushfires	3.3%	(1.3%)	(28%)	Ordinary revenue was higher than expected due to higher investment returns. General and administrative expenses were less than budget.
	Determine annual insurance premiums for Territory agencies that allow full funding of claim costs and associated expenses[2]	1	1	0	0%	
	The average number of days to process an insurance claim payment [3]	20	5	(15)	(75%)	Agency payments are processed as a priority.

Notes:

[1] Surveys are sent to the Director-Generals 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.

[2] ACTIA completes an annual review of agency insurance premiums, with assistance from the fund actuary PwC. Premiums are determined based on agency claims history, asset ownership and risk profile.

[3] This is from date settlement agreed until date of payment.

Objective	Accountability Indicators	Original Target	Actual Result	Variance	Variance%	Explanation of Material Variances
Take out insurance of Territory risks with other entities	Review the Territory's insurance and reinsurance programs to ensure they are appropriate for its needs[4]	1	1	0	0%	
	Review the Territory property asset register to ensure that values provided by agencies reflect insurance replacement costs[5]	1	1	0	0%	
	Facilitate the implementation by Territory agencies of agreed recommendations from reinsurer's Property Asset Management Surveys	>90% completed	>90% completed	0	0%	
Satisfy or settle claims in relation to Territory risks	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	4	4	0	0%	
	Number of active insurance claims (including pre-ACTIA claims)	9,060	10,377	1,317	15%	There were a greater number of claims and incidents reported.
	Number of open claims and incidents:	1,360	1,745	385	28%	
	Number of claims and incidents closed or settled:	7,700	8,632	932	12%	
Develop and promote good practices for the management of Territory risks	Provide Risk Profile Reports to assist agencies by profiling and measuring their risk management progress[6]	2	2	0	0%	
	Deliver a program of general and targeted risk management training courses to Territory agencies[7]	12	21	9	75%	Increased demand for risk management training.
	Conduct Risk Management Performance and Improvement Reviews	4 agencies	6 agencies	2	50%	The Authority was able to review two additional agencies.

Notes:

[4] 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.

[5] ACTIA completes a review of the replacement values detailed in the Territory's asset schedule as part of the property reinsurance renewal.

[6] Risk Profile Reports are provided to directors and 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 reports are provided biannually.

[7] 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.

ANNEXED REPORT: OFFICE OF THE NOMINAL DEFENDANT ACT

THE ORGANISATION

The ACT Insurance Authority was appointed as the Nominal Defendant of the ACT (the Fund) on 17 December 2008. 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 CTP insurance.
- collect recoveries from uninsured drivers at fault to the sum paid out by the Nominal Defendant of the ACT.
- raise levies on 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 DI Fund 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 $6.9 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 $4.4 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, the following revenue is received by the Nominal Defendant fund 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 represents monies treated as recoveries from other sources during the period totalling $1.12 million.

Source	Amount
Uninsured owner's & driver's	$43,000
Unregistered Vehicle Permits	$534,000
Unregistered Vehicle Fines	$536,000
Recoveries from Third Parties	$7,000
Total	**$1,120,000**

Expenses

The total revenue received by the Nominal Defendant during the year was $7.3 million.

The total claims expense for the reporting period was $6.9 million.

As at 30 June 2012 the total equity of the Nominal Defendant was $4.3 million.

CLAIMS

During the reporting period the fund received 24 new claims.

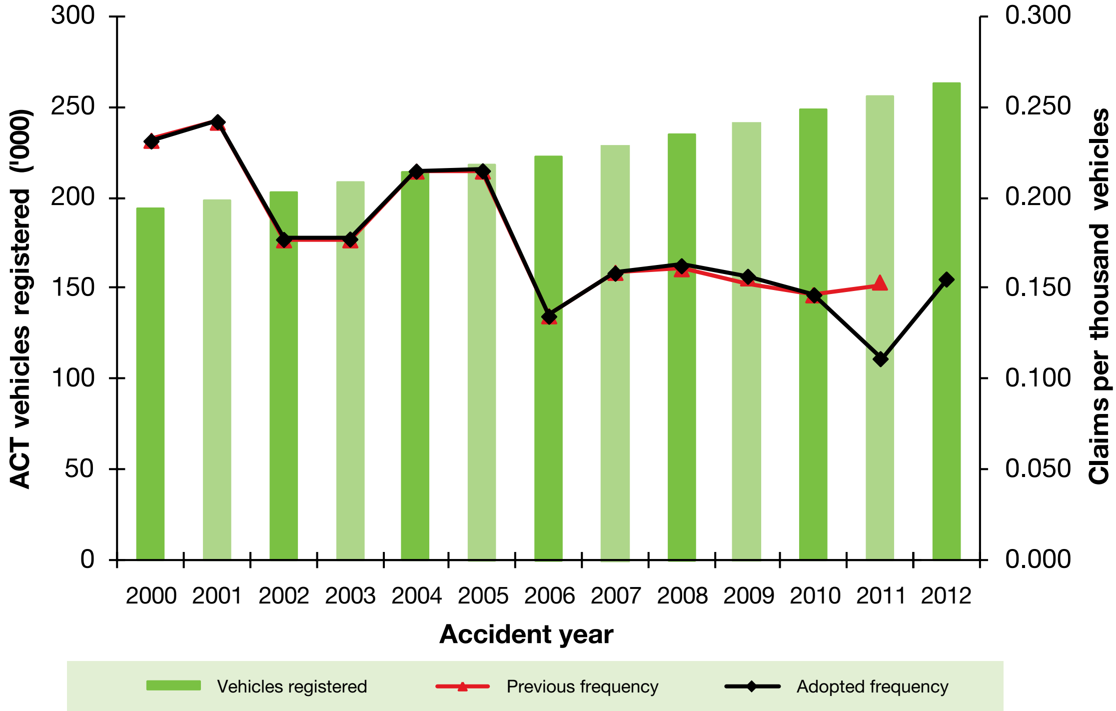
There are currently 96 open claims remaining as at 30 June 2012 with a combined total provision for claims payable of $18.4 million.

Of the 96 open claims, unidentified vehicles account for 51%; unregistered and uninsured vehicles for 47% and 2% are related to unregistered vehicle permits.

Claims Frequency and Vehicle Registrations

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

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 2012 produced by KPMG Actuarial.

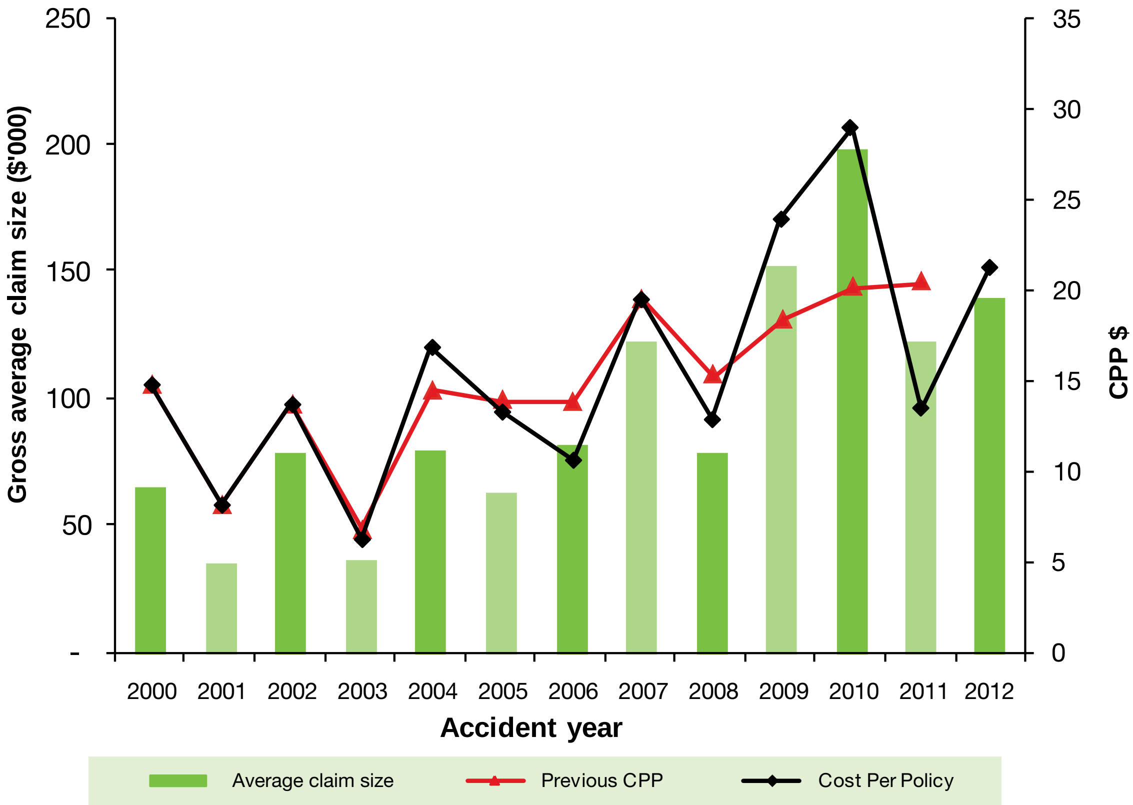
Note:

- The vehicle registrations for 2012 are sourced from Road User Services ACT, and other years from previous actuarial reports.
- Claim frequency refers to number of road incidents giving rise to a claim, whether one or more claimants. The measure is expressed per thousand vehicles registered.

Average claims size and cost per policy

The average claim size in the period was $136,529 while the average CTP Claim per policy cost was $21.16.

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 2012 produced by KPMG Actuarial.

Note:

- Average claim size and Cost Per Policy (CPP) are in expected payment date values, but without allowance for time value of money (i.e. present value discounting), and are gross of all recoveries.
- The historical data component is sourced from previous actuarial reports

FREEDOM OF INFORMATION

Section 7 Statement

The functions and operations of the Fund are outlined in the "Operations and Principal Activities" section at the beginning of the annexed report.

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 ACT Treasury as published.

The Fund received no requests for access to documents under the *Freedom of Information Act 1989 during 2011-12*.

Financial Statements
For the Year Ended
30 June 2012

Office of the Nominal Defendant of the ACT

Independent Auditor's Report

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

A12/35

Ms Megan Smithies
Chief Executive Officer
ACT Insurance Authority
Level 3, Canberra Nara Centre
1 Constitution Avenue
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 2012

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 2012.

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
14 September 2012

c.c. Mr John Gordon, Chair, Internal Audit Committee, Chief Minister and Cabinet Directorate
Mr John Fletcher, General Manager, ACT Insurance Authority
Ms Anne Anand, Senior Manager, Accounting Branch, Treasury 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 2012 have been audited. The financial statements are comprised of 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 2012:

(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 2012 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
14 September 2012

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2012

Statement of Responsibility

In my opinion, the financial statements of the Office of the Nominal Defendant are in agreement with its accounts and records and fairly reflect the financial operations of the Office of the Nominal Defendant of the ACT for the year ended 30 June 2012 and the financial position of the Fund on that date.

Megan Smithies
Chief Executive Officer
ACT Insurance Authority
14 September 2012

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2012

Statement by the General Manager

In my opinion, the financial statements of the Office of the Nominal Defendant of the ACT 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 2012, and the financial position of the Fund on that date.

John Fletcher
General Manager
ACT Insurance Authority
14 September 2012

Office of the Nominal Defendant of the ACT
Operating Statement
For the Year Ended 30 June 2012

	Note No	Actual 2012 $'000	Actual 2011 $'000
Income			
Interest and Distributions	6	1,062	831
Levies	7	4,393	4,891
Unrealised Gain on Investments	11	371	-
Other Revenue	8	1,120	1,175
Total Income		**6,946**	**6,897**
Expenses			
Claims Expenses	9	6,901	3,285
Supplies and Services	10	355	335
Unrealised Loss on Investments	11	-	16
Total Expenses		**7,256**	**3,636**
Operating (Deficit)/Surplus		**(310)**	**3,261**
Total Comprehensive (Deficit)/Income		**(310)**	**3,261**

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 2012

	Note No.	Actual 2012 $'000	Actual 2011 $'000
Current Assets			
Cash and Cash Equivalents	12	15,439	11,481
Receivables	13	1,319	1,493
Total Current Assets		**16,758**	**12,974**
Non-Current Assets			
Investments	14	6,119	5,748
Total Non-Current Assets		6,119	**5,748**
Total Assets		**22,877**	**18,722**
Current Liabilities			
Payables	15	160	41
Provision for Claims Payable	16	4,231	3,267
Total Current Liabilities		**4,391**	**3,308**
Non-Current Liabilities			
Provision for Claims Payable	16	14,171	10,788
Total Non-Current Liabilities		**14,171**	**10,788**
Total Liabilities		**18,561**	**14,096**
Net Assets		**4,316**	**4,626**
Equity			
Accumulated Funds		4,316	4,626
Total Equity		**4,316**	**4,626**

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

Office of the Nominal Defendant of the ACT
Statement of Changes in Equity
For the Year Ended 30 June 2012

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

	Accumulated Funds Actual 2011 $'000	Total Equity Actual 2011 $'000
Balance at the Beginning of the Reporting Period	**1,365**	**1,365**
Comprehensive Income		
Operating Surplus	3,261	3,261
Total Comprehensive Income	**3 261**	**3,261**
Balance at the End of the Reporting Period	**4,626**	**4,626**

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 2012

	Note No.	Actual 2012 $'000	Actual 2011 $'000
Cash Flows from Operating Activities			
Receipts			
Interest and Distribution Received		1,012	877
Recoveries		59	108
Fees and Fines		1,187	1,071
Levies		4,476	4,861
Goods and Services Input Tax Credits from the Australian Taxation Office		207	273
Total Receipts from Operating Activities		**6,941**	**7,190**
Payments			
Supplies and Services		226	509
Payment of Claims		2,625	2,879
Goods and Services Tax Paid to Suppliers		132	223
Total Payments from Operating Activities		**2,983**	**3,611**
Net Cash Inflows from Operating Activities	19	**3,958**	**3,579**
Net Increase in Cash and Cash Equivalents Held		3,958	3,579
Cash and Cash Equivalents at Beginning of Reporting Period		11,481	7,902
Cash and Cash Equivalents at End of Reporting Period	19	**15,439**	**11,481**

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 2012

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 2012

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 2012 together with the financial position of the Fund as at 30 June 2012.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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.

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. default payments.

(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 Trust Portfolio. The price of units in both the unit trusts fluctuates in value. The net gain or loss on investments consists of the fluctuation in price of the unit 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.

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 2012.

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 2012

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 2013);
- AASB 13 Fair Value Measurement (application date 1 January 2013);
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023, 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (application date 1 January 2013);
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 [AASB1, 2, 3, 4, 5, 7, 9, 2009-11, 101, 107, 112, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (application date 1 January 2013); and
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (application date 1 July 2012).

NOTE 4 CRITICAL 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 2012

NOTE 4 CRITICAL 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 sharing recoveries, where relevant;
- an estimate of the costs 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 2011-12 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 2012; 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 2012

NOTE 4 CRITICAL 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	2012	2011
Claim frequency per thousand vehicles	0.155 per 1,000	0.155 per 1,000
Gross average claim size 2011-12 values (Method 2)	$102,500	$97,000
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	2.81% pa	5.05% pa
Discounted average term to settlement	3.60 years	3.30 years
Claims handling expenses	7%	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 2012 on long-duration Commonwealth bonds, which gives weighted average discount rates of 2.81%.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 4 CRITICAL 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 7% 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 $4,346,000 (refer to Note 9 ‘Claims Expense’ and 16 ‘Provision for Claims Payable’).

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – 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 2012

NOTE 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES – 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	**$ 18,405,388**	**$ Not applicable**	**Not applicable**
Future claim reports increase 10%	18,932,228	530,840	2.9%
Inflation +1%	18,750,331	348,944	1.9%
Projected Case Estimate +5% each year until development year 8	19,695,208	1,293,820	7.0%
Payment Per Claim Incurred +5%	18,858,402	457,015	2.5%
Discount -1% for all years	19,070,606	669,218	3.6%

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: 'Critical 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 $4,346,000

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 2012

NOTE 6 INTEREST AND DISTRIBUTIONS

	2012 $'000	2011 $'000
Revenue Received from ACT Government Entities		
Interest Revenue from Investments	692	456
Distribution Revenue from Investments	329	359
Revenue from Non-ACT Government Entities		
Interest Revenue from Bank	41	16
Total Interest Revenue	**1,062**	**831**

Interest revenue increased in 2011-12 due to greater funds held 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.

	2012 $'000	2011 $'000
Levies from Insurers	4,343	4,836
Levies from the Commonwealth Government	13	15
Levies from the ACT Government	37	40
Total Levies	**4,393**	**4,891**

An actuarial review recommended that the levy be reduced from 4% to 3.3%. This is a consequence of the Fund receiving more revenue than anticipated from other sources.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 8 OTHER REVENUE

	2012 $'000	2011 $'000
Unregistered Vehicle Permits	534	538
Unregistered Vehicle Fines	536	529
Uninsured Owner/ Driver Recoveries	43	74
Recoveries from Third Parties	7	34
Total Revenue	**1,120**	**1,175**

Recoveries from uninsured owners/drivers and third parties are very unpredictable and may vary significantly from year to year.

NOTE 9 CLAIMS EXPENSES

	2012 $'000	2011 $'000
Settlements	1,668	2,029
Medical Costs	319	221
Investigation Costs	31	34
Legal Costs	537	598
Increase in the Provision for Claims Payable	4,346	403
Total Claims Expenses	**6,901**	**3,285**

The increase in the provision for claims payable is based on actuarial advice. Increase was mainly due to changes in economic assumptions and registered vehicle growth.

NOTE 10 SUPPLIES AND SERVICES

	2012 $'000	2011 $'000
Administration Expenses	223	197
Audit Fees	31	26
Purchased Administrative Services from the ACT Insurance Authority and Default Insurance Fund	101	112
Total Supplies and Services	**355**	**335**

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 11 UNREALISED GAIN/ (LOSS) ON INVESTMENTS

	2012 $'000	2011 $'000
Unrealised Gain on Investments	371	-
Unrealised (Loss) on Investments	-	(16)
Total Unrealised Gain/(Loss) on Investments	**371**	**(16)**

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 JACS Trust Investment Account throughout the year. The investment earned a floating interest rate of 5.7% (4.5% in 2011). 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.

	2012	2011
Cash at Bank	267	4
Short Term Investments	15,172	11,477
Total Cash and Cash Equivalents	**15,439**	**11,481**

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

NOTE 13 RECEIVABLES

	2012	2011
Current Receivables		
Interest	92	85
Goods and Services Tax Receivable	38	47
Accrued Levies	1,189	1,361
Total Receivables	**1,319**	**1,493**

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
2012					
Not Impaired[1]					
Receivables	1,319	-	-	-	1,319
Impaired					
Receivables	-	-	-	-	-
2011					
Not Impaired[1]					
Receivables	1,493	-	-	-	1,493
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 2012

NOTE 13 RECEIVABLES - CONTINUED

	2012 $'000	2011 $'000
Classification of ACT Government/Non-ACT Government Receivables		
Receivables with ACT Government Entities		
Interest	90	82
Accrued Levies	20	100
Total Receivables with ACT Government Entities	**110**	**182**
Receivables with Non-ACT Government Entities		
Interest	2	3
Goods and Services Tax Receivable	38	47
Accrued Levies	1,169	1,261
Total Receivables with Non-ACT Government Entities	**1,209**	**1,311**
Total Receivables	**1,319**	**1,493**

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.

	2012 $'000	2011 $'000
Non-Current Investments		
Fixed Interest Trust Portfolio	6,119	5,748
Total Investments	**6,119**	**5,748**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 15 PAYABLES

	2012 $'000	2011 $'000
Current Payables		
Trade Payables	19	4
Accrued Expenses	141	37
Total Payables	**160**	**41**
Payables are Aged as follows:		
Not Overdue	160	41
Total Payables	**160**	**41**

Classification of ACT Government/Non-ACT Government Payables

Payables with ACT Government Entities

	2012 $'000	2011 $'000
Accrued Expenses	141	37
Total Payables with ACT Government Entities	**141**	**37**

Payables with Non-ACT Government Entities

	2012 $'000	2011 $'000
Trade Payables	19	4
Total Payables with Non-ACT Government Entities	**19**	**4**
Total Payables	**160**	**41**

NOTE 16 PROVISION FOR CLAIMS PAYABLE

	2012 $'000	2011 $'000
Inflated and Discounted Liability		
Gross Central Estimate	18,721	14,365
Recoveries	(1,630)	(1,315)
Claims Handling Expense	1,310	1,005
Net Central Estimate	**18,402**	**14,055**
Current Provision for Claims Payable		
Provision for Claims Payable	4,231	3,267
Non-Current Provision for Claims Payable		
Provision for Claims Payable	14,171	10,788
Total Provision for Claims Payable	**18,402**	**14,055**

There were 85 open claims as at 30 June 2012 compared to 80 as at 30 June 2011.

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 2012

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 2012 $'000	Fair Value 2012 $'000	Carrying Amount 2011 $'000	Fair Value 2011 $'000
Financial Assets					
Cash and Cash Equivalents	12	15,439	15,439	11,481	11,481
Receivables	13	92	92	85	85
Investments	14	6,119	6,119	5,748	5,748
Total Financial Assets		**21,650**	**21,650**	**17,314**	**17,314**
Financial Liabilities					
Payables	15	19	19	4	4
Total Financial Liabilities		**19**	**19**	**4**	**4**

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 2012

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

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

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.

2011

	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	-	5,748	-	5,748
	-	**5,748**	-	**5,748**

Transfer Between Categories
There have been no transfers of financial assets or financial liabilities between Level 1 and Level 2 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 2012

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 2012 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

	2012 $'000	2011 $'000
Financial Assets at Fair Value through the Profit and Loss		
Designated upon Initial Recognition	**6,119**	**5,748**
Receivables	**92**	**85**

Gain/(Loss) on Each Category of Financial Assets and Financial Liabilities

	2012 $'000	2011 $'000
Gain/(Loss) on Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**371**	**(16)**

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% per annum.

	Carrying Amount	-1.0%	+1.0%
	$'000	Profit/ (Loss) $'000	Profit/ (Loss) $'000
Financial Assets:			
Cash and Cash Equivalents	15,439	(154)	154
Total (Decrease)/ Increase		**(154)**	**154**

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 -/+ 3.6%, which is two standard deviations from the 2011-12 average unit price.

	Units Held 30 June 2012	Unit Value 30 June 2012	Carrying Amount	(3.646%) Profit/ (Loss)	+3.646% Profit/ (Loss)
	Number of Units	$ 000's	$ 000's	$ 000's	$ 000's
Financial Assets:					
Investments in the Fixed Interest Trust Portfolio	5,909,583	6,119	6,119	(223)	223

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

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 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		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)**
Net Assets as per the Balance Sheet		**4,316**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

2011	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	**11,481**	**-**	**-**	**-**	**-**	**11,481**
Receivables	13	**-**	**-**	**-**	**-**	**85**	**85**
Investments	14	**-**	**-**	**-**	**-**	**5,748**	**5,748**
Total Financial Assets		**11,481**	**-**	**-**	**-**	**5,833**	**17,314**
Weighted average interest rate		**5.84%**					
Financial Liabilities							
Payables	15	**-**	**-**	**-**	**-**	**4**	**4**
Total Financial Liabilities		**-**	**-**	**-**	**-**	**4**	**4**
Net Financial Assets		**11,481**	**-**	**-**	**-**	**5,829**	**17,310**

Reconciliation of Net Financial Assets to Net Assets	**Note**	**2011 $'000**
Net Financial Assets (as above)		**17,310**
Goods and Services Tax	13	**47**
Accrued Levies	13	**1,361**
Accrued Expenses	15	**(37)**
Provision for Claims Payable	16	**(14,055)**
Net Assets as per the Balance Sheet		**4,626**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2012

NOTE 18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTE 19 CASH FLOW RECONCILIATION

	2012 $'000	2011 $'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	15,439	11,481
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**15,439**	**11,481**
(b) Reconciliation of Net Cash Inflows/ (Outflows) from Operating Activities to the Operating (Deficit)/Surplus		
Operating (Deficit)/Surplus	(310)	3,261
Add/(Less) Items Classified as Investing or Financing		
(Gain) in Net Market Value of Investments	(371)	-
Unrealised Loss on Investments		16
Cash before Operating Assets and Liabilities	**(681)**	**3,277**
Changes in Operating Assets and Liabilities		
Increase in Receivables	174	72
Increase in Provision for Claims Payable	4,347	403
Increase/ (Decrease) in Payables	118	(173)
Net Changes in Operating Assets and Liabilities	**4,639**	**302**
Net Cash Inflows From Operating Activities	**3,958**	**3,579**

NOTE 20 AUDITOR'S REMUNERATION

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

Audit Services		
Audit Fees Paid to the ACT Auditor-General's Office	28	26
Total Auditor's Fees	**28**	**26**

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 2012 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