

The lower half of the cover features several overlapping purple geometric shapes. On the left, there is a small purple triangle. To its right and slightly lower is a larger purple trapezoid. On the right side, a large purple triangle points upwards, overlapping the other shapes. The text "Annual Report 2022-23" is positioned within the large upward-pointing triangle.

**Annual
Report**
2022-23

ACT Insurance Authority

The ACT Insurance Authority acknowledges the Ngunnawal people as traditional custodians of the ACT and recognise any other people or families with connection to the lands of the ACT and region.

We respect the Aboriginal and Torres Strait Islander people, particularly our Aboriginal staff, and their continuing culture and contribution they make to the Canberra region and the life of our city.

Contact for this report

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Website: [ACT Insurance Authority - Treasury](#)

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Information about the directorate and an electronic version of this annual report can be found on the website: <https://www.treasury.act.gov.au/insurance-and-risk-management>

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Section A

A. Transmittal Certificate



Chris Steel MLA
Special Minister of State
ACT Legislative Assembly
London Circuit
CANBERRA ACT 2601

Dear Minister

2022-23 ACT Insurance Authority Annual Report

This report has been prepared in accordance with section 7(2) of the *Annual Reports (Government Agencies) Act 2004* and in accordance with the requirements under the *Annual Reports (Government Agencies) Directions 2023*.

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

I certify that information in the attached annual report, and information provided for whole of government reporting, is an honest and accurate account and that all material information on the operations of ACTIA has been included for the period 1 July 2022 to 30 June 2023.

I hereby certify that fraud prevention has been managed in accordance with the *Public Sector Management Standards 2006 (repealed)*, Part 2.3 (see section 113, Public Sector Management Standards 2016).

Section 13 of the *Annual Reports (Government Agencies) Act 2004* requires that you present the report to the Legislative Assembly within 15 weeks after the end of the reporting year. This report will be annexed to the 2022-23 Chief Minister, Treasury and Economic Development Annual Report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Hocking'.

Stuart Hocking PSM

Under Treasurer

Chief Minister, Treasury and Economic Development Directorate

20 September 2023

Compliance Statement

The **2022-23 ACT Insurance Authority Annual Report** must comply with the *Annual Reports (Government Agencies) Directions 2023* (the Directions) made under section 8 of the *Annual Reports (Government Agencies) 2004 Act*. The Directions are found at the ACT Legislation Register: [ACT Legislation Register](#).

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

PART 1 Directions Overview

The requirements under Part 1 of the Directions relate to the purpose, timing and distribution, and record keeping of annual reports. The **2022-23 ACT Insurance Authority Annual Report** complies with all subsections of Part 1 under the Directions.

To meet Section 15 Feedback, Part 1 of the Directions, contact details for the Authority are provided within the **2022-23 ACT Insurance Authority Annual Report** to provide readers with the opportunity to communicate feedback.

PART 2 Reporting Entity Annual Report Requirements

The requirements within Part 2 of the Directions are mandatory for all reporting entities and the Authority complies with all subsections. The information that satisfies the requirements of Part 2 is found in the **2022-23 ACT Insurance Authority Annual Report** as follows:

- A. Transmittal Certificate, see page 5.
- B. Organisational Overview and Performance, inclusive of all subsections, see pages 9-30.
- C. Financial Management Reporting, inclusive of all subsections, see pages 32-106.

PART 3 Reporting by Exception

The Authority has nil information to report by exception under Part 3 of the Directions for the 2022-23 reporting year.

PART 4 Specific Reporting Entities Annual Report Requirements

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

PART 5 Whole of Government Annual Reporting

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

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

ACT Public Service Directorate annual reports are found at the following web address:

www.cmd.act.gov.au/open_government/report/annual_reports

Section B

B. Organisational Overview and Performance

B.1 Organisational Overview

B.1.1 Who we are

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

The Authority works to protect the assets and services of the Territory by providing risk management support and insurance services to all ACT Government directorates and statutory authorities. The Authority operates as the ACT Government's captive insurer of Territory risks. The captive insurance model protects the ACT Government budget from a range of catastrophic and accumulated risk exposures through its insurance arrangements, and the accumulation of a fund reserve to meet the cost of asset losses and legal liabilities that occur as a result of the activities of Government.

The Authority meets the insurable claims and losses of the ACT Government through its self-insurance and reinsurance arrangements and operates on a cost recovery basis by collecting premiums from directorates and statutory authorities to meet the anticipated costs of claims.

In 2022-23, the Authority insured Territory assets to the value of \$30.2 billion, collected \$68.4 million in annual premium revenue, held \$350.9 million in investments and other assets, with total liabilities of \$391.0 million.

The Authority reports to the Special Minister of State through the Under Treasurer, Chief Minister, Treasury and Economic Development Directorate (CMTEDD).

B.1.2 What we do

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

The Authority's functions are to:

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

The insurance coverage is provided to directorates and statutory authorities by statements of insurance. The Authority's insurance program is broad form cover that includes:

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

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

Commencing 12 March 2020, the Territory entered into an indemnity agreement with QBE to continue providing Residential Builders Warranty Insurance (BWI) to ACT builders, with the Territory indemnifying QBE in respect of any claim losses. The QBE indemnity agreement has been renewed for another 3 year term from 1 July 2022.

Commencing 1 April 2023, ACTIA established a scheme to underwrite Physical and Sexual Abuse liability (PSA) for out of home care service providers in the ACT in coordination with the Community Services Directorate. The Territory has funded the initial scheme design and setup cost via appropriation through Treasury. The scheme will continue from 1 July 2023 is included in ACTIA's budgeted 2023-24 and forward years financial statements.

The Authority also administers the Office of the Nominal Defendant of the ACT, for default claims under the ACT Motor Accident Injuries Scheme and the Default Insurance Fund, and for default claims under the ACT Private Workers' Compensation Scheme.

The activities of these entities are reported separately and appear in reports annexed to the 2022-23 CMTEDD Annual Report.

B.1.3 Our Approach

Throughout 2022-23, the Authority was a part of the Economic, Revenue, and Insurance (ERI) division within CMTEDD.

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

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

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

- Integrity
- Respect
- Collaboration
- Innovation

B.1.4 Organisational Structure

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

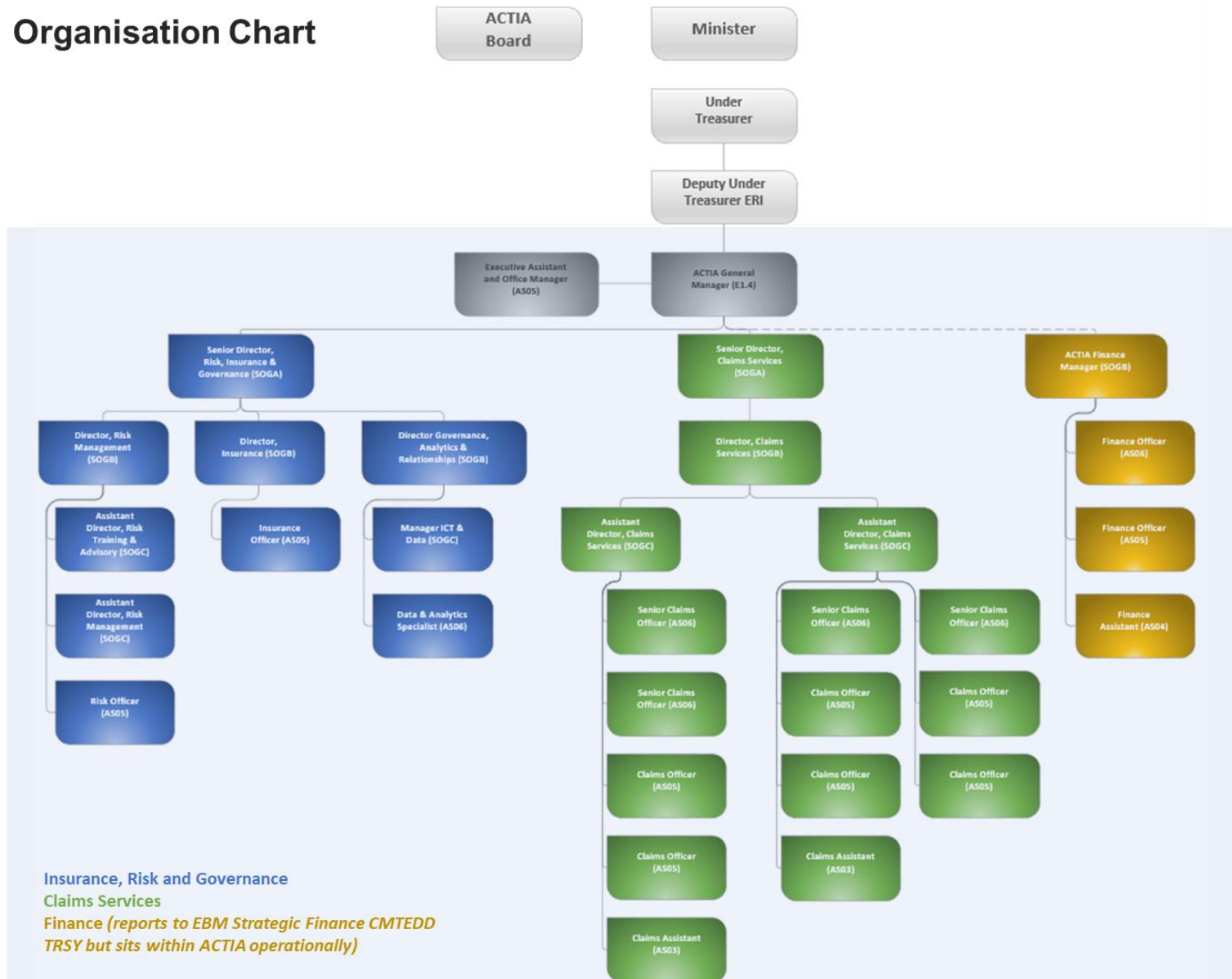
The Authority is supported by an Insurance Advisory Board (the Board) appointed under the Authority's enabling legislation. The Board members during 2022-23 were Mr Ian Faragher (Chair) and Ms Robyn Bateup (member).

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

The Authority delivers services through the following streams:

- Risk, Insurance and Governance;
- Claims Services; and
- Financial Services.

Organisation Chart



Insurance, Risk and Governance
Claims Services
Finance (reports to EBM Strategic Finance CMTEDD TRSY but sits within ACTIA operationally)

B.1.5 Year in Review

The Authority's key achievements during the 2022-23 year were:

Risk Management Support

In 2022-23 the Authority capitalised on the new Risk Management team structure initiated in 2021-22, building the team from 1 to 4 FTE, to deliver a significant increase in provision of in-house risk services to ACT Government directorates and agencies. These risk services promote best practice risk management across the Territory, support directorates and statutory authorities with implementation of the ACT Government Risk Policy, and assist with their risk maturity and risk management capability.

The Authority's Risk Management team provides the following support through its scope of services:

- policy and guidance material development and review;
- risk management tools and templates;
- risk maturity assessments;
- risk management representation on various whole of government initiatives and committees;
- learning forums;
- presentations to senior management teams and/or directorate interest groups;
- risk management consultancy;
- risk management training;
- face-to-face risk assessments and workshops; and
- risk reporting.

The Authority reviewed its service offering and implemented a new program of tiered training activities in 2022-23, designed to embed risk management skills at introductory, risk practitioner and executive levels across the ACT Public Service. The program complements the two e-learning offerings now widely utilised in directorate and agency induction programs.

A project was undertaken in 2022-23 to introduce a new risk reporting capability across government. The system, which operates on the Authority's existing insurance management platform, was designed to capture risks at a variety of levels from all territory entities to provide both a whole of government risk profile, and to assist each entity to aggregate, report on and manage its risks. Design and testing of the new system is complete, with initial data uploads and reporting to be conducted in 2023-24.

The Authority introduced a new tool in 2022-23 to enable entities to quantify the effectiveness of their risk controls in mitigating identified risks. The tool was developed in

consultation with risk practitioners from across the Territory, and is designed to both increase risk maturity and provide assurance to senior executives regarding management of directorate and statutory authority risks.

Reinsurance Program Placement and External Insurance for 2023-24

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

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

The 2023-24 renewal strategy tested the current program structure and pricing with incumbent insurance and reinsurance providers across all insurance classes.

The successful placement of the 2023-24 reinsurance program, with 100 per cent capacity provided by the global insurance market, was a positive result for the Territory in challenging market conditions. The Authority's Advisory Board and the Under Treasurer supported the final structure after lengthy negotiations with the participating reinsurance market. The cost of the 2023-24 reinsurance program was negotiated at \$16.04 million, representing an increase of 13.3 per cent on the 2022-23 program.

There were premium increases for each of the main reinsurance classes, based on rate increases from insurers, as well as increased activity and asset values. The largest increases were in relation to Property/ISR (Industrial Special Risk), with a 22.35 per cent increase, and an increase of 6.65 per cent for the combined Public Liability and Professional Indemnity reinsurance policy. The Authority negotiated a change to the reinsurance program structure for the Property/ISR policy. Moving to an event-based, self-insured retention provided the most efficient and best value for money transfer of this risk to the market.

The Authority also arranges direct insurance cover for contract works, travel, art and galleries, aviation and personal accident cover for both aero retrieval and volunteer workers. The premium for contract works has increased by 27.88 per cent from the prior period, based on an anticipated increase in construction activity across the Territory and an increase in claims costs from prior periods.

The Authority has agreed to self-insure standing timber within both the Arboretum and ACT Forests for the 2023-24 period, based on the reduction in cover and the prohibitive premium being sought by the commercial insurers.

The Authority continues to be a valued client with national and international insurers and reinsurers who participate on the current program, while continuing to attract interest from alternate underwriters to provide additional insurance capacity in certain classes of insurance.

Information System Upgrade

The Authority continues to work with the claims management system vendor on enhancement of the system to enable more streamlined claims and payment processing, and to assist with data analysis and trending.

The Authority extended the system during 2022-23 to include management of claims against the Nominal Defendant under the Motor Accident Injuries Scheme Service, which are managed by the Authority. The collation of information required for the 2023-24 annual insurance renewal process was also captured using the system for the first time. This enabled a more efficient collation and tracking of renewal information to streamline the reinsurance renewal process. The Authority has also been working with the system vendor, to create a risk reporting capability.

Natural Disasters

While change to climate and weather patterns continue to give rise to claims, 2022/2023 has not seen either the volume or severity of incidents as have been seen in the preceding years. The Authority's Claims team have actively managed and resolved most of the matters arising from the weather events in 2019/2020 and 2020/2021 with only the more complex matters outstanding. The Authority continues to actively work with the relevant directorates and agencies to resolve the outstanding matters.

B.1.6 Outlook and Future Priorities

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

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

Reinsurance premiums have increased significantly over the past three years in response to increased claims activity and reduced capacity in the insurance market. While there had been a gradual stabilisation of the global insurance market conditions, the Authority anticipates that the commercial insurance market will continue to be very sensitive to the experience of individual accounts.

The Authority will continue working with directorates and statutory authorities to develop strategies to reduce the incidence and cost of insurance claims against the Territory by promoting good claims and risk management practices. The Authority's risk management

team continues to provide assistance to agencies on a range of risk management related topics.

The Authority's strategic and operational priorities in 2023-24 include:

- implementing a program of reinsurance to protect the Territory budget based on an appropriate balance between transferred and retained risk;
- proactively managing claims against the Territory in consultation with agency stakeholders, and in accordance with the ACT model litigant requirements;
- assisting agencies with the implementation and continuous improvement of risk management practices within the Territory that reflect international standards and business best practice;
- delivering risk management services including training, targeted educational seminars and consultancy services for agencies that increase the level of stakeholder engagement; and
- implementing an insurance information management system to enable the Authority to continue to deliver mature services to Territory agencies.

B.1.7 Internal Accountability

Senior Executive Responsibilities and Remuneration

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

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

Insurance Advisory Board

The Board is established under Section 12 of the Act and members are appointed in accordance with the *Insurance Management Guidelines 2005 (No. 1)*. The Under Treasurer, CMTEDD is delegated with authority to make board appointments. The Board must consist of two members appointed by the Authority who, in the opinion of the Authority, possess sufficient skill and judgement to provide advice in relation to the Authority's execution of its powers, functions and responsibilities. The appointment term must not exceed 3 years and can be revoked by the Authority for misconduct, neglect of duty, or if the member becomes unable to carry out the duties of the office satisfactorily. Mr Faragher has been reappointed to his position for a further 3 years, consistent with the *Governance Principles: Appointments, Boards and Committees in the ACT*, as members can serve 2 full terms.

Table B.1: Board members

Name of Member	Position	Duration	Meetings Attended
Mr Ian Faragher	Member and Chair	March 2020 to February 2023. Re-appointed: Membership expires February 2026.	4 of 4
Ms Robyn Bateup	Member	September 2020 to September 2023	4 of 4

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

Mr Ian Faragher (Chair) - Mr Faragher has over 35 years' experience in the financial services industry, holding several Chief Executive positions of global financial services organisations. He has lived and worked in the United States, the Asia Pacific Region, and Australia. Mr Faragher has successfully lead businesses in both developed and emerging insurance markets. Mr Faragher was instrumental as the Chairman and sole Asia-Pacific member of the Lloyd's of London senior management team, in the establishment of Lloyd's in China, earning the prestigious UK Review's award for Company Start-up of the Year. Mr Faragher was invited to join the Members Council of the Motor Insurers Bureau in Hong Kong with responsibility over the Insurance Company Insolvency Funds and elected by membership as a Director of the Australian Chamber of Commerce in Shanghai to advocate on policy affecting over 300 Australian businesses across all sectors of the economy. Mr Faragher has been approved by Regulatory Authorities in Singapore, Thailand, Hong Kong, Taiwan, China, Fiji, and Australia to act as the Principal Officer and/or Responsible Person, evidencing a deep understanding of the operational requirements, governance, corporate laws and regulations in a wide variety of jurisdictions. Mr Faragher holds a Bachelor of Engineering from the University of Sydney, has participated in strategic leadership programs in Princeton, New Jersey, led by a consortium of elite international business schools, and was appointed as a Visiting Professor at the Shanghai University of Finance and Economics in recognition of support for International Risk Management and Insurance Studies. Mr Faragher now consults on various insurance matters, specialising in financial technology.

Ms Robyn Bateup (Member) BSc, FIAA, GAICD - Ms Bateup has over 25 years' experience in general insurance. Ms Bateup held a Senior Executive position within a general insurer prior to joining, and becoming a Principal of, and the Australian General Insurance Sector Leader for, an international consulting firm advising corporations and government entities. Ms Bateup has also been an elected Council member of the Council of the Actuaries Institute where she also sat on various advisory committees. Ms Bateup is an Executive Director of her own consulting firm, Bateup Actuarial & Consulting Services, as well as a Non-Executive Director of Medical Insurance Australia Limited, and Eric Insurance Pty Ltd, where she chairs the Risk Committees. Ms Bateup has a strong background in risk, pricing, governance, and

actuarial services. She has also served as an expert witness in litigated general insurance matters. Ms Bateup is a Graduate Member of the Australian Institute of Company Directors.

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

The Board met on four occasions during 2022-23 and was consulted on the following:

- the Territory's reinsurance program for 2023-24;
- actuarial and financial matters;
- operational priorities;
- ICT systems and management;
- reviews of major claims; and
- risk management matters.

B.2 Performance Analysis

The Authority's Key Performance Indicators (KPIs) are detailed in the Authority's *2022-23 Statement of Intent* and are reported as part of the Authority's Statement of Performance, see pages 97-106. The objective of the KPIs being measured is to ensure the delivery of the Authority's strategic objectives, quantifying specific outputs or activities that are measurable.

A summary of the outcomes achieved against each of the Authority's principal objectives and KPIs is detailed below.

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

Conduct an annual customer satisfaction survey

The Authority's annual customer satisfaction survey was undertaken with a range of questions focused on governance processes, practices, product, and service outcomes.

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

Overall satisfaction with the Authority was 81.6 per cent. The Authority's customers identified the following positive characteristics as the key drivers of positive experiences:

- the professionalism of the Authority's staff;
- the Authority's staff understand the services they deliver;
- the Authority's staff understand the Directorate's requirements; and
- the Authority responds to requests in a prompt and timely manner.

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

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

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

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

The Authority aims to manage its capital position at a range between 100 – 120 per cent. This position seeks to strike a balance between the appropriate management of the Territory’s risk, while allowing suitable mechanisms to address a capital position outside the target ratio range. This would include action to seek capital injections (in a deficit situation) or surrendering excess capital (in a surplus situation) if assessed as necessary after considering various factors including future market conditions.

The Authority’s funding ratio as at 30 June 2023, is 108 per cent, equating to a balance sheet surplus of \$32.6 million with a forecasted capital funding position for 2023-24 of \$63.7 million or 117 per cent.

Table B.2: Funding Ratio

Balance Sheet	Actual 30 June 2022 \$ million	Actual 30 June 2023 \$ million	Forecast 30 June 2024 \$ million
Assets	\$398.7	\$423.6	\$427.8
Liabilities	\$329.8	\$391.0	\$364.1
Net Assets	\$68.9	\$32.6	\$63.7
Funding Ratio	121%	108%	117%
Capital Return	-	-	-

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

General and administrative expenses represent 8.5 per cent of gross premium revenue in 2022-23. This is lower than the original target of 10 per cent. The Authority's management and staff continue to work on improving operational efficiency without compromising on the service delivery expectations of customers. The lower general and administrative expenditure ratio for 2022-23 is mainly due to the higher rate of increase in Gross Premium Revenue compared to the prior year.

Average number of days to process payments for settlement of claims

During 2022-23 it took an average of 18 days to process payments for the settlement of claims. This is higher than the original target of 14 days which is mainly due to the settlement and finalisation of a large number of historical claims in 2022-23. The Authority consistently makes payments within legislative requirements and court orders.

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

Complete property loss control surveys

The Authority's lead property reinsurer undertakes an annual program of property surveys in consultation with the Authority and Territory agencies. A selection of assets are surveyed each year as part of a rolling program. This process provides reinsurers with an overview of the Territory's asset management practices, with a focus on emergency management systems and property protection. The surveys conducted in 2022-23 confirmed that the Territory's asset management practices were appropriate in the sample of assets surveyed.

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

Quarterly review of claims

Claim review meetings were held quarterly during 2022-23 to review all liability and medical malpractice claims where the reserve exceeds \$250,000. The claim review meetings were attended by Authority staff, representatives of the Authority's insurance broker Marsh Pty Ltd, and the ACT Government Solicitor's Office, with notes from the meetings forwarded to the Territory's external reinsurers. The review meetings provide an excellent opportunity to enhance the Territory's ability to develop and execute complex claims management strategies and provides transparency to the Territory's reinsurers.

The Authority continues to work with key agencies, analysing claims data and developing strategies to reduce the incidence of claims against the Government by implementing robust risk management practices which, in turn, assist in the reduction of costs incurred by the Territory.

B.2.3 Develop and promote good practices for the management of Territory risks

Provide quarterly reports

In 2022-23, the Authority issued Risk Profile Reports to Directors-General, and to agency staff involved in management of operational insurance and risk management. These reports were provided with data as at 30 June 2022, 30 September 2022, 31 December 2022 and 31 March 2023. The reports contained analysis of claims history, claim costs and claim estimates, which were broken down by insurance class and incident type. These reports assist agencies to identify trends or issues across different classes of insurance. The content and format of these reports was reviewed and updated effective from 30 September 2022 based on consultation with Directorates. New reports are now provided that provide information on new and finalised claims, claims and incidents notified recently, and causation statistics.

Deliver general and targeted risk management training courses

The Authority saw a significant return to face-to-face training in 2022-23, with a total of 387 participants attending face-to-face risk management training across a total of 36 risk management training courses. Participation in training was provided across a range of directorates and statutory authorities.

Face to face training was delivered across introductory, risk practitioner and executive levels through a series of public (open to all territory entities) and bespoke (entity-specific) structured learning activities, which supported the existing introductory and risk practitioner level e-learning modules. The majority of risk management training continued to be delivered across e-learning platforms.

Overall participant satisfaction with risk management training sessions

The risk management training sessions offered by the Authority have been well received and feedback from participants continues to be positive.

Participants indicated a high level of satisfaction with the courses provided in 2022-23 and a majority indicated that the training was informative, comprehensive, well-presented and generally met their needs.

Feedback received showed 89 per cent of respondents were satisfied with the new format of risk management training provided in 2022-23. The Authority continues to consider all feedback to continually improve the programs delivered.

B.3 Scrutiny

There were no inquiries or reviews of the Authority from the ACT Auditor-General, the ACT Ombudsman, or any Legislative Assembly Committees in 2022-23. The only scrutiny from the Auditor-General during the reporting year was for the audit of the 2021-22 Financial Statements, and the review of the 2021-22 Statement of Performance.

B.4 Risk Management

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

B.5 Internal Audit

During 2022-23 the Authority's internal audit functions were provided by the CMTEDD Audit and Risk Committee (the Committee). The Committee provides independent assurance and assistance to the Director-General and Under Treasurer on the Directorate's risk, control and compliance frameworks, and its external accountability responsibilities. The Committee's responsibilities are set out in the CMTEDD Audit and Risk Committee Charter which is reviewed by the Committee and approved by the Director-General annually.

The Audit and Risk Sub-Committee (Financial) reviews the annual financial statements for the Directorate.

The Committee Chair provides advice to the Director-General and Under Treasurer on audit outcomes, significant risks and implementation of mitigation strategies via quarterly outcomes meetings.

The Committee reviews the Strategic Risk Register on a regular basis through their ordinary meetings and specific risks at their special meetings. Business area risk registers are presented to the Committee on a rotational basis at their ordinary meetings. New or emerging risks are reported to the Committee as identified. The Committee Chair has the availability to raise risk issues with the Director-General and Under Treasurer at their quarterly outcome meetings.

The membership of the Committee includes an external independent Chair, an external independent Deputy Chair, a Senior Executive from another ACT Government directorate and three members, 'advisors', from within CMTEDD. There were the following changes to the Committee membership during 2022-23:

- a new independent Deputy Chair was appointed to the Committee in July 2022;
- the Senior Executive from another ACT Government directorate reached the end of the maximum available term supporting the Committee, resulting in a new Senior Executive from another ACT Government directorate being appointed to the position; and
- an internal advisor reached the end of the maximum available term supporting the Committee, resulting in a new internal advisor being appointed to the position.

Representatives from the ACT Audit Office and CMTEDD staff regularly attend to present to the Committee.

The Committee held four ordinary meetings and two special meetings focussing on specific risks. Details are in the table below.

Table B.3: CMTEDD Audit and Risk Committee members:

Name of Member	Position	Duration	Meetings Attended
Greg Field	Independent Chair	1 July 2022 – 30 June 2023	6
Len Gainsford	Independent Deputy Chair	19 July 2022 – 30 June 2023	6
Geoffrey Rutledge	Senior Executive Officer from other ACT Government directorate	1 July 2022 – 31 March 2023	3
Paul Ogden	Senior Executive Officer from other ACT Government directorate	19 April 2023 – 30 June 2023	1
Sam Engele	Advisor	1 July 2022 – 31 March 2023	4
David Pryce	Advisor	1 July 2022 – 30 June 2023	5
Penny Shields	Advisor	1 July 2022 – 30 June 2023	6
Kate Starick	Advisor	19 April 2023 – 30 June 2023	2

The Directorate develops the Internal Audit Program by identifying areas of strategic, operational or fraud risk. The Committee provides input into this Program prior to being endorsed by the Chair of the Audit and Risk Committee, and approved by the Director-General, the Under Treasurer. CMTEDD engaged external service providers from the ACT Government Professional and Consulting Services Panel, or specialists, to undertake fieldwork and prepare Internal Audit reports in accordance with auditing standards.

The internal audit program did not require the Authority to complete any audit activities during 2022-23.

B.6 Fraud Prevention

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

B.7 Freedom of Information

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

- access government information unless access to the information would, on balance, be contrary to the public interest;
- ask for personal information to be changed if it is incomplete, out-of-date, incorrect or misleading; and
- appeal a decision about access to a document, or a decision in relation to a request to amend or annotate a personal record.

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

CMTEDD manage FOI applications on behalf of the Authority and reporting requirements are detailed in Volume 1 of the CMTEDD 2022-23 Annual Report.

Total Charges and Application Fees Collected

The Authority did not collect any fees or charges in relation to the processing of FOI requests in 2022-23 under the FOI Act.

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

B.8 Community Engagement and Support

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

B.9 Aboriginal and Torres Strait Islander Reporting

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

B.10 Work Health and Safety

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

- one health and safety representative;
- one qualified first aid officer;
- one Respect, Equity and Diversity Contact officer; and
- one fire warden.

B.10.1 Reporting Requirements under the Work Health and Safety Act 2011

During the reporting year, the Authority did not receive any notices under Part 10 or 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 Health and Safety Act 2011*.

The Authority is committed to promoting and maintaining a high standard of health, safety and well-being for all staff, contractors and visitors. The Authority is provided guidance and support by the CMTEDD People and Capability Branch to ensure that all employees understand the basic principles of injury prevention and management. Details of the CMTEDD work health and safety arrangements can be found in the CMTEDD 2022-23 Annual Report.

The Authority continues to strengthen its safety and reporting culture through increased awareness of reporting requirements and regular discussion as a standing agenda item at all team and leadership meetings.

As a result of staff working in a hybrid environment, the Authority has implemented strategies to ensure that staff do not feel isolated and continue to maintain its positive work culture when working away from the office environment.

B.11 Human Resources Management

The Authority was supported by CMTEDD Corporate throughout 2022-23. This team provides strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the CMTEDD 2022-23 Annual Report.

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

- providing access to study leave;
- providing access to flex time and ensuring staff do not work excessive hours; and
- providing flexible working arrangements including part-time work.

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

B.11.1 Learning and Development

The key development and learning priorities for the Authority have been identified as risk and claims management, insurance, finance, governance and work, health and safety. During 2022-23, staff undertook formal training courses and attended external conferences and seminars in these areas.

The Authority organised for internal training to be provided, from internal members of the team and service providers including legal advisors and the Territory's insurance broker.

A number of the Authority's employees have attended courses offered by CMTEDD throughout the year and utilised the CMTEDD Study Assistance Program to work towards gaining various formally recognised qualifications. The cost of training courses and seminars undertaken in 2022-23 totalled \$11,903.

B.11.2 Workplace Relations

The Authority's staff are covered under the *ACT Public Service Administrative and Related Classifications Enterprise Agreement 2021-2022*. The ACT Public Service Enterprise Agreements provide scope for Attraction and Retention Incentives (ARIn) to be agreed with staff to allow higher levels of remuneration or other benefits to be provided, where market rates exceed those payable. The Authority has no ARIn arrangements in place.

B.11.3 Staffing Profile

The following tables provide statistical information for permanent staff of the Authority for 2022-23:

Table B4: FTE and headcount by division/branch

Division/Branch	FTE	Headcount
ACT Insurance Authority	30.6	32

Table B5: FTE and headcount by gender

	Female	Male	Non-Binary	Total
FTE by Gender	22.6	8.0	0.0	30.6
Headcount by Gender	24	8	0	32
% of Workforce	75.0%	25.0%	0.0%	100.0%

Table B6: Headcount by classification and gender

Classification Group	Female	Male	Non-Binary	Total
Administrative Officers	16	2	0	18
Senior Officers	7	6	0	13
Executive Officers	1	0	0	1
TOTAL	24	8	0	32

Table B7: Headcount by employment category and gender

Employment Category	Female	Male	Non-Binary	Total
Casual	0	0	0	0
Permanent Full-time	17	7	0	24
Permanent Part-time	3	0	0	3
Temporary Full-time	3	1	0	4
Temporary Part-time	1	0	0	1
TOTAL	24	8	0	32

Table B8: Headcount by diversity group

	Headcount	Percentage of Authority Workforce
Aboriginal and Torres Strait Islander	0	0.0%
Culturally & Linguistically Diverse	12	37.5%
People with a disability	2	6.3%

Note: Employees may identify with more than one diversity group.

Table B9: Headcount by age group and gender

Age Group	Female	Male	Non-Binary	Total
Under 25	0	0	0	0
25-34	8	0	0	8
35-44	7	2	0	9
45-54	8	2	0	10
55 and over	1	4	0	5

Table B10: Average length of service by gender (headcount)

	Female	Male	Non-Binary	Total
Average years of service	6.2	6.5	0.0	6.3

Table B11: Recruitment and separation rates

	Percentage Total
Recruitment Rate	11.1%
Separation Rate	7.4%

B.12 Ecological Sustainability Reporting

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

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

Information on the Authority's operational consumption data that are captured at a directorate level can be found in the Ecological Sustainability Reporting section with the CMTEDD Annual Report 2022-23. Those operational consumption resources that are within the Authority's control for 2022-23 are outlined in Table B.12, with comparison data for 2021-22.

Table B.12: Sustainable Development: Current and Previous Financial Year

Indicator as at 30 June	Unit	2021-22 Result	2022-23 Result	Percentage change
Authority staff and area				
Authority Staff	FTE	27.4	30.6	11.7
Workplace floor area	Area (m ²)	334.34	334.34	-
Stationary energy usage				
Electricity use	Kilowatt hours	Refer to the CMTEDD Annual Report		N/A
Natural gas use (non-transport)	Megajoules			
Diesel use (non-transport)	Kilolitres			
Transport fuel usage				
Battery Electric vehicles (BEV)	Number	-	-	-
Hydrogen Fuel Cell Electric Vehicles (FCEV)	Number	-	-	-
Plug-in Hybrid Electric Vehicles (PHEV)	Number	-	-	-
Hybrid Electric Vehicles (HEV)	Number	-	-	-
Internal Combustion Engine (ICE) vehicles	Number	-	-	-

Indicator as at 30 June	Unit	2021-22 Result	2022-23 Result	Percentage change
Total number of vehicles	Number	-	-	-
Fuel use – petrol	Kilolitres	-	-	-
Fuel use – diesel	Kilolitres	-	-	-
Fuel use – Liquid Petroleum Gas (LPG)	Kilolitres	-	-	-
Fuel use – Compressed Natural Gas (CNG)	Gigajoules	-	-	-
Water Usage				
Water use	Kilolitres	Refer to the CMTEDD Annual Report		N/A
Resource efficiency and waste				
Reams of paper purchased	Reams	20	10	50%
Recycled content of paper purchased	Percentage	100%	100%	-
Waste to landfill	Litres	Refer to the CMTEDD Annual Report		N/A
Co-mingled material recycled	Litres			
Paper and cardboard recycled (incl. secure paper)	Litres			
Organic material recycled	Litres			
Greenhouse gas emissions				
Emissions from natural gas use (non-transport)	Tonnes CO2-e	Refer to the CMTEDD Annual Report		N/A
Emissions diesel use (non-transport)	Tonnes CO2-e			
Emissions from transport fuel use	Tonnes CO2-e			
Emissions from refrigerants	Tonnes CO2-e			
Total emissions	Tonnes CO2-e			

Section C

C. Financial Management Reporting

C.1 Financial Management Analysis

The Authority's financial results are contained in Part C.2 of this report. The Authority's Management Discussion and Analysis is below.

C.1.1 Management Discussion and Analysis for the Financial Year ended 30 June 2023

General Overview

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

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

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

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

The Authority manages Builders Warranty Insurance (BWI) on behalf of the Territory through the agreement in place between the Territory and QBE which commenced 12 March 2020. Under the agreement, the Authority receives premium revenue from QBE for any new policies written, QBE is paid a commission and receives fees for the administration of the claims management services it provides.

Services and Functions

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

The Authority's functions are to:

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

Risk Management

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

The Authority has identified the following key financial risks:

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

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

Financial Performance

The following financial information is based on audited Financial Statements for 2022-23, and the forward estimates contained in the Authority's 2023-24 Statement of Intent.

During 2022-23 the Authority experienced several functional and operational events, some of the key changes and events included:

- Two large claims for significant fire events in December 2022 at the Hume Material Recovery Facility and Calvary Public Hospital (now North Canberra Hospital) causing a significant increase in outstanding claims liabilities for the year ended 30 June 2023.
- A significant deterioration of claims experience in the medical malpractice insurance class with higher-than-expected claims incurred and larger claims sizes throughout 2022-23.
- Funding ratio has significantly declined during the year as a result of higher than expected outstanding claims liabilities.
- The Authority initiated the design and implementation of a short-term Physical and Sexual Abuse (PSA) Indemnity Scheme for out of home care providers who provide services for the Territory through a contractual relationship with the Community Services Directorate. The transitional arrangement was effective from 1 April 2023 with the aim of progressing to a formal establishment of the indemnity scheme effective 1 July 2023. The Authority has not collected any premium for the scheme for the period and has not incurred any direct expenses or reported claims for the transition period as at 30 June 2023.

Operating Result

The Authority's operating result for 2022-23 is a loss of **\$36.3 million**, being **\$58.9 million** lower than the original budget operating result surplus of **\$22.6 million**. The significant variance to budget was primarily due to substantially higher claims expenses in 2022-23 as a result of deteriorating claims experience in both the medical malpractice and property insurance classes. There were a higher than expected number of claims incurred in 2022-23 for medical malpractice and the property insurance class incurred large individual claims for significant fire events at the Hume Material Recovery Facility and the Calvary Public Hospital (now North Canberra Hospital).

Underwriting (Loss)

Components of Underwriting (Loss)

For the year ended 30 June 2023, the Authority recorded a total underwriting loss of **\$64.2 million**. As shown below at Table C.1 the underwriting results comprise of net earned premiums less net incurred claims.

Table C.1: Underwriting (Loss)

Description	Actual 2021-22 \$'000	Actual 2022-23 \$'000	Original Budget 2022-23 \$'000	Estimated Budget 2023-24 \$'000
Net Earned Premiums	48,652	53,962	56,471	65,515
Net Incurred Claims	(64,852)	(118,132)	(48,859)	(76,480)
Underwriting (Loss) Profit	(16,200)	(64,170)	7,612	(10,965)

Comparison to Budget

The underwriting result was a loss of **\$64.2 million**, which was **\$71.8 million** lower than the original budget underwriting profit result of **\$7.6 million**.

The significant underwriting loss is predominantly due to higher than expected net incurred claims of **\$69.2 million**. Net incurred claims incorporate claims expense net of reinsurance recoveries and other claims related recoveries. Claims expense were higher than the original budget by **\$89.3 million** due to the deteriorating claims experience on both the medical malpractice and property insurance classes where the Authority incurred more than expected medical negligence claims and large individual property damage claims mainly from the significant fire events at the Hume Material Recovery Facility and the Calvary Public Hospital (now North Canberra Hospital) partially offset by claims recoveries of **\$20 million** mainly from reinsurance. The lower net earned premium of **\$2.6 million** was mainly due to the actual premium charged being based on the lower range of premium modelling whereas the estimated premium budget was based on an average of the range.

Comparison to 2021-22 Actual

In comparison to the 2021-22 underwriting loss of **\$16.2 million**, the underwriting loss increased by **\$48 million**. The variance was due to an increase in net incurred claims of **\$53.3 million** partially offset by an increase in the net earned premiums of **\$5.3 million**. The increase in net incurred claims was predominantly due to an increase in claims expenses as a result of deteriorating claims experience on both the medical malpractice and property portfolios, which was partially offset by reinsurance recoveries.

Future Trends

The future trend expected for the 2023-24 underwriting result is a budgeted underwriting loss of **\$10.9 million**. The expectation is an improvement of **\$53.3 million** from the 2022-23 actual loss result. This is due to an expected decrease in net incurred claims of **\$41.6 million** for 2023-24 due to an expectation for improved claims experience and an increase in the net earned premiums of **\$11.6 million** as a result of updated actuarial assumptions incorporating recent claims experience.

Investment Performance

For the year ended 30 June 2023, the Authority's investment performance is a net gain of **\$32.3 million**. As shown below at Table C.2 the investment performance is measured as a combination of the distribution revenue from the investment portfolio and the gain/(loss) on remeasurement of investments reflecting the movement in the market value of the investment portfolio.

Table C.2: Investment Performance

Description	Actual 2021-22 \$'000	Actual 2022-23 \$'000	Original Budget 2022-23 \$'000	Estimated Budget 2023-24 \$'000
Investment and Interest Revenue	5,799	9,658	10,821	14,000
Gain / (Loss) on Investment	(27,295)	22,596	7,578	5,898
Total Investment Revenue/(Net loss)	(21,496)	32,254	18,399	19,898

Comparison to Budget

The total investment revenue of **\$32.3 million** was **\$13.9 million** higher than the original budget of **\$18.4 million**.

The increase in the investment revenue was due to the investment portfolio delivering an overall annual gain of 9.4 per cent compared to a budget target of 5.23 per cent gain. The higher-than-expected gain on the remeasurement of investments **\$15 million** is mainly due to the underlying gain on share investment partially offset by a lower-than-expected investment distribution of **\$1.1 million** due to a decrease in amount of distributable income from the Authority's investment portfolio.

Comparison to 2021-22 Actual

In comparison to the 2021-22 net investment loss of **\$21.5 million**, the investment revenue increased by **\$53.8 million**. The variance was mainly due to an increase in the value of investments on remeasurement of **\$49.9 million** and an increase in the distribution revenue of **\$3.9 million** due to an overall annual gain of 9.4 per cent compared to the annual loss incurred of 6.3 per cent for 2021-22.

Future Trends

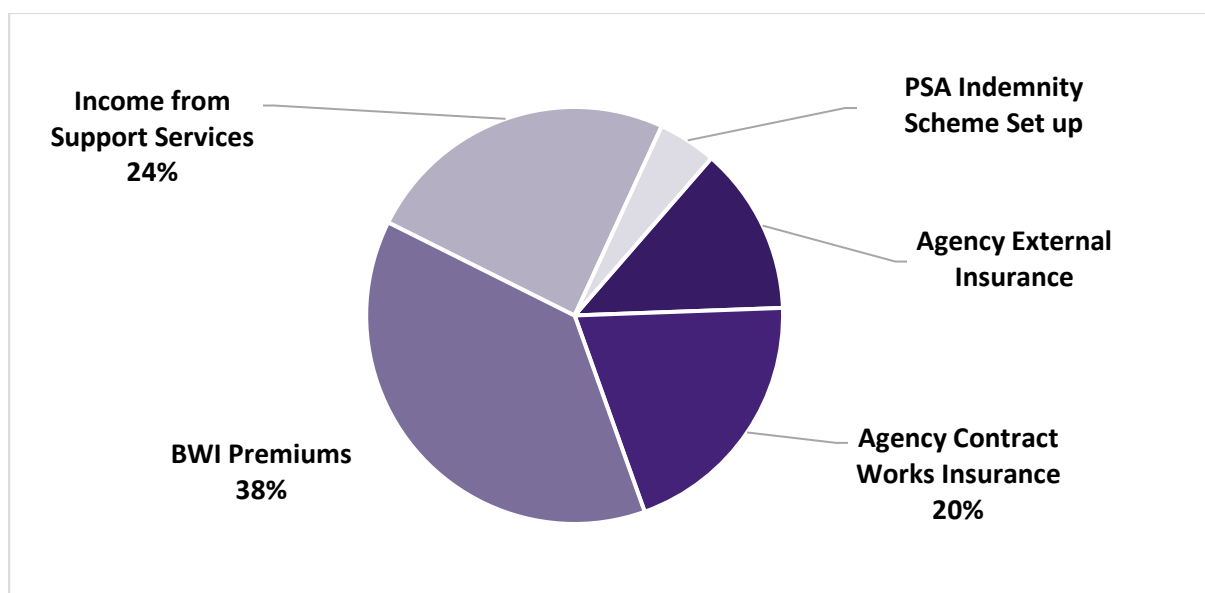
The future trend expected for the 2023-24 investment revenue is a budget of **\$19.9 million**. This is a decrease of **\$12.4 million** from the 2022-23 actual investment revenue. This is due to the investment return target of (long term average CPI+2.5%) remaining unchanged for the 2023-24 budget based on expectation of a return to normal investment market conditions during 2023-24. 2022-23 overall annual return on investment 9.4 per cent was significantly close to the investment gain of 2022-23 annual CPI+ 2.5% target.

Other Income

Components of Other Income

For the year ended 30 June 2023 the Authority recorded other revenue of **\$4.4 million**. The main sources of other revenue are the BWI premiums, Income from support services and agency contract works insurance as shown in the Figure C.1.

Figure C.1: Components of Other Income 2022-23



Source: ACT Insurance Authority's 2022-23 Financial Statements.

Comparison to Budget

Other revenue of **\$4.4 million** was **\$1.1 million** lower than the original budget of **\$5.5 million**. This is mainly due to lower insurance premium revenue for the BWI scheme due to construction delays and decline in the residential building sector relating to supply chain issues and recent economic conditions partially offset by one-off appropriation funding received for the setup of the new Physical and Sexual Abuse (PSA) Indemnity scheme for out of home care providers who provide services for the Territory.

Comparison to 2021-22 Actual

In comparison to the 2021-22 actual result of **\$3.7 million**, other revenue increased by **\$0.7 million** or **19 per cent**. This is predominantly due to a slight increase in externally purchased insurance policies for agency contract works due to increase in capital works activities of the government and one-off funding for the PSA Indemnity scheme set up.

Future Trends

The future trend expected for the 2023-24 budget for other income is **\$2.6 million**. This is a decrease of **\$1.8 million** from the 2022-23 actual result due to the BWI premium budget being transferred from other income to the gross earned insurance premiums line in the budget to improve the presentation and disclosure for future financial statements.

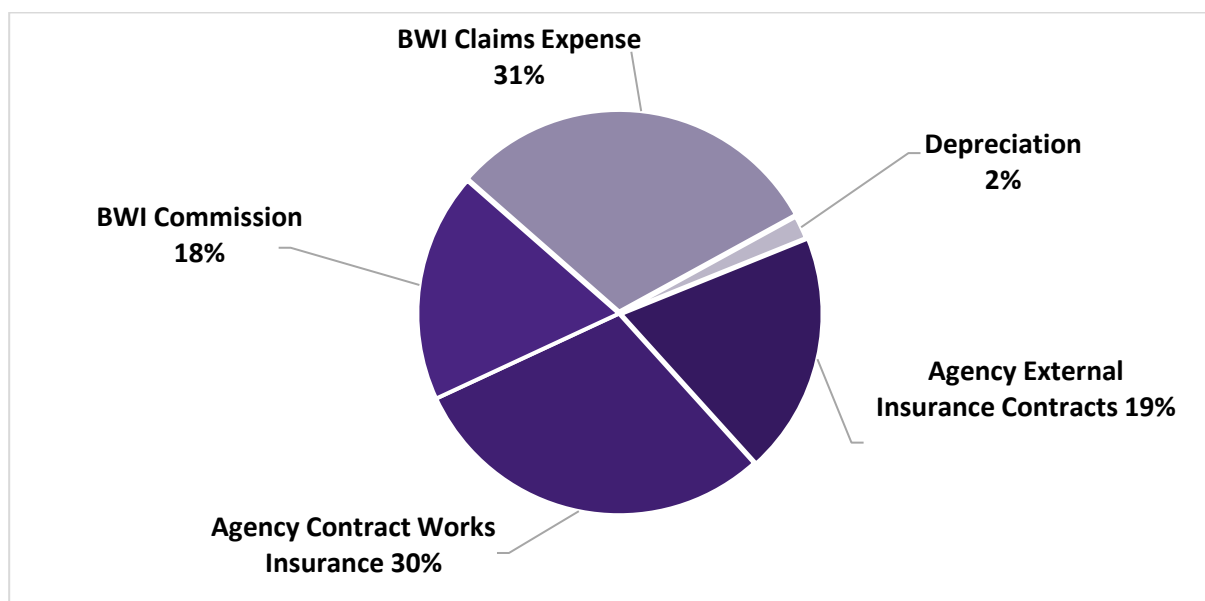
Other Expenses

Components of Other Expenses

For the year ended 30 June 2023 the Authority recorded other expenses of **\$3 million**. The main sources of other expenses are the BWI commission, agency contracts works and agency external insurance contracts premiums as shown in Figure C.2.

Figure C.2: Components of Other Expenses 2022-23

Source: ACT Insurance Authority's 2022-23 Financial Statements.



Source: ACT Insurance Authority's 2022-23 Financial Statements.

Comparison to Budget

Other expenses of **\$3 million** was **\$0.4 million** higher than the original budget of **\$2.5 million** mainly due to increase in BWI claims expenses due to a deteriorating claims experience.

Comparison to 2021-22 Actual

In comparison to the 2021-22 actual result of **\$2.7 million**, other expenses increased by **\$0.3 million** or **11 per cent**. This is predominantly due to an increase in BWI claims expenses due to a deteriorating claims experience and an increase in externally purchased contract works insurance premium expenses partially offset by a slight decrease in BWI commission and a decrease in agency external insurance contracts expense due to the Authority partially underwriting the standing timber and forestry policies.

Future Trends

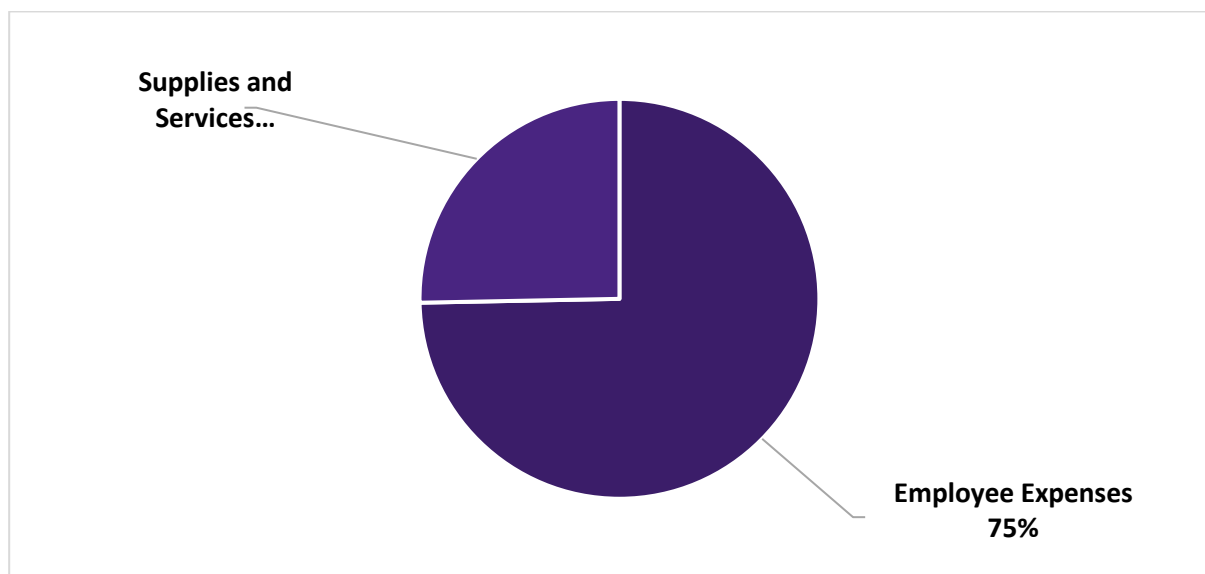
The future trend expected for the 2023-24 budget for other expenses is **\$1.6 million**. This is a decrease of **\$1.4 million** from the 2022-23 actual result mainly due to a budget transfer for the BWI claims expenses and commission expenses to align with the claims expenses budget in order to improve the presentation and disclosure for future financial statements.

General and Administration Expenses

Components of General and Administration Expenses

General and administration expenses totalled **\$5.8 million** for the Authority in 2022-23. As shown in Figure C.3, the main components of these expenses relate to employee (and superannuation) expenses, representing 75 per cent of the Authority's general and administration expenses.

Figure C.3: Components of General and Administration Expenses 2022-23



Source: ACT Insurance Authority's 2022-23 Financial Statements.

Comparison to Budget

In 2022-23, general and administration expenses were **\$0.4 million** lower than the original budget of **\$6.2 million**. This is predominantly due to lower supplies and services expenses.

Comparison to 2021-22 Actual

In comparison to the 2021-22 actual result of **\$4.5 million**, general and administration expenses increased by **\$1.3 million** or **29 per cent**. The increase is mainly due to higher employee expenses of \$1.2 million due to the full year impact of filling additional new positions under the new organisational structure approved in 2021-22.

Future Trends

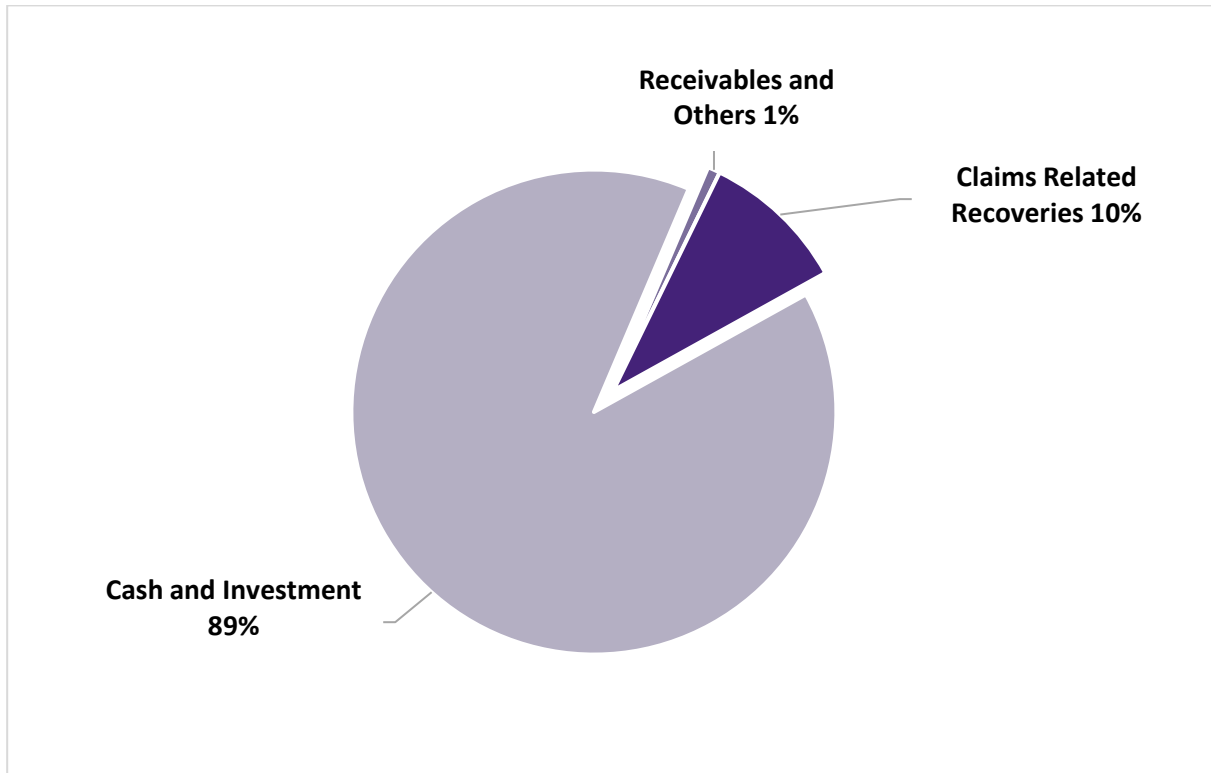
The future trend expected for the 2023-24 budget for general and administration expenses is **\$7.2 million**. This is an increase of **\$1.4 million** from the 2022-23 actual result mainly due to an expectation of increased spending on risk management initiatives, consulting expenses, system support for the provision of the procurement process for claims management system and additional staffing and administrative expenses for new PSA Indemnity scheme. The Authority aims to maintain its key performance indicator to achieve a cost control on the total administrative expenses at or below 10% of its gross earned insurance premiums.

Total Assets

Components of Total Assets

The total assets position as at 30 June 2023 is **\$423.6 million**. *Figure C.4* below indicates that the majority of assets are held in Cash and Investments (**89%**).

Figure C.4: Components of Total Assets 2022-23



Source: ACT Insurance Authority's 2022-23 Financial Statements.

Comparison to Budget

Total assets as at 30 June 2023 of **\$423.6 million** is **\$15.5 million** lower than the original budget of **\$439.1 million**. This is predominantly due to lower-than-expected claims related recoveries of **\$6.2 million** due to the movement of actuarially estimated claims recoveries, decrease in book value of investments of **\$6.1 million** and a decrease in receivables of **\$3.3 million** due to the budget being set at a point in time when the investment book value and investment distribution receivables were higher. The Authority aims to maintain its long-term investment strategy of achieving a growth of long-term average CPI+2.5%.

Comparison to 2021-22 Actual

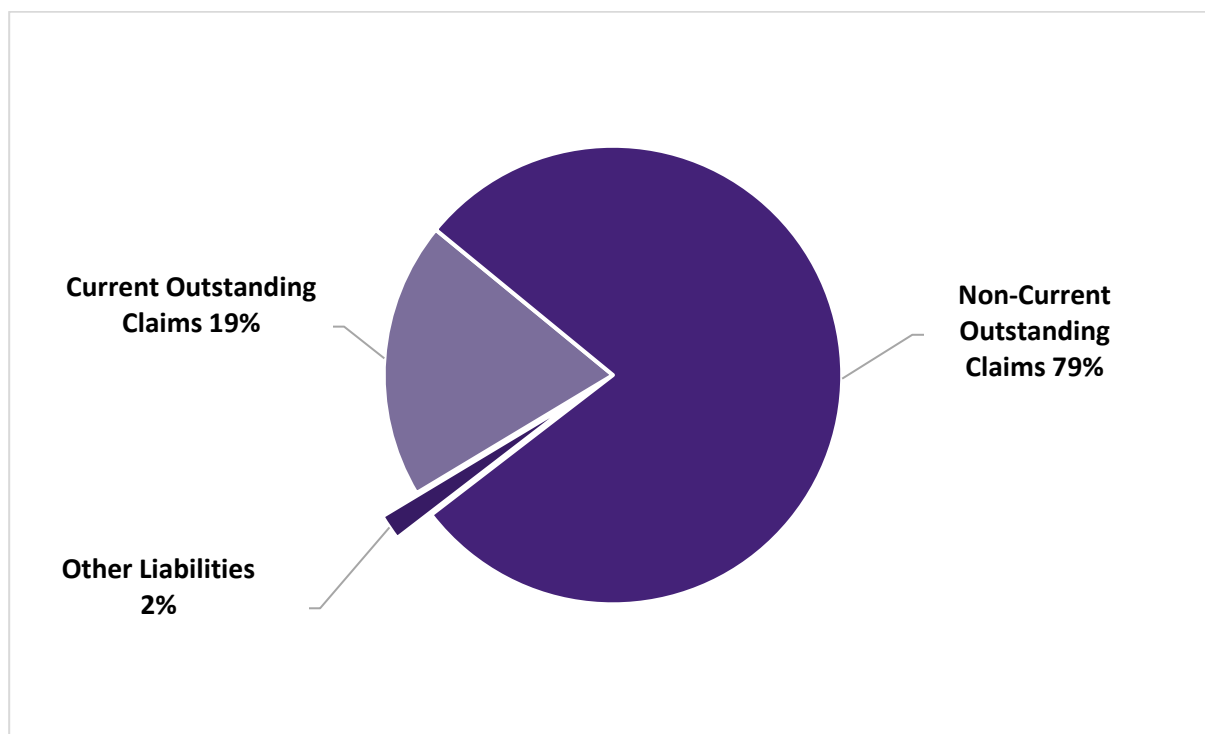
Total assets are **\$24.9 million** or **6 per cent** higher than the 2021-22 actual position of **\$398.7 million**. The increase is predominantly due to an increase in the fair value of investments as at 30 June 2023. The Authority's investment portfolio achieved a 9.42 per cent gain in 2022-23 due to an underlying gain in the share investment portfolio compared to the significant loss incurred of 6.34 per cent in 2021-22.

Total Liabilities

Components of Total Liabilities

The total liabilities position of the Authority as at 30 June 2023 is **\$391 million**. Figure C.5 below shows the majority of liabilities relate to outstanding claims.

Figure C.5: Components of Total Liabilities 2022-23



Source: ACT Insurance Authority's 2022-23 Financial Statements.

Comparison to Budget

Total liabilities as at 30 June 2023 of **\$391 million** is **\$76.3 million** higher than the original budget of **\$314.7 million**. The increase is predominantly due to an increase in outstanding claim liabilities as a result of deteriorating claims experiences in both the medical malpractice and property insurance classes. The medical malpractice insurance class has incurred more than expected claims and the property insurance class incurred large individual claims for significant fire events at the Hume Material Recycling Facility and the Calvary public hospital (now North Canberra Hospital).

Comparison to 2020-21 Actual

Total liabilities are **\$61.2 million** or **19 per cent** higher than the 2021-22 actual position of **\$329.8 million** mainly due to deteriorating claims experiences in both the medical malpractice and property insurance classes.

Capital Funding Ratio

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

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

Under this plan the Authority aims to maintain its funding ratio between 100 – 120 per cent. These parameters guide decision making to address a capital position outside this targeted ratio range. This would include considering action to seek capital injections (in a deficit situation) or surrendering excess capital (in a surplus situation) if assessed as necessary after considering various factors including future market conditions.

Table C.3: Funding Ratio

Description	Actual	Actual	Budget	Budget
	at 30 June 2022	at 30 June 2023	at 30 June 2023	at 30 June 2024
	\$'000	\$'000	\$'000	\$'000
Total Assets	398,731	423,612	439,141	427,860
Total Liabilities	329,843	391,044	314,673	364,166
Funding Ratio	121%	108%	140%	117%

The Authority's funding ratio as at 30 June 2023 is **108 per cent**. This is lower than the 2022-23 budget funding ratio of **140 per cent** due to the increase in outstanding claims liabilities related to deteriorating claims experience in both the medical malpractice and property insurance classes.

The Authority's budget forecast for 2023-24 is a funding ratio of **117 per cent**. This is mainly based on the expectation of an improvement in claims experiences and a stable return on investment portfolio as per its long-term investment objectives.

C.2 Financial Statements

For the Financial Year Ended 30 June 2023

The Authority's Financial Statements are reported on page 49 of the *2022-23 ACT Insurance Authority Annual Report*.

INDEPENDENT AUDITOR'S REPORT

To the Members of the ACT Legislative Assembly

Opinion

I have audited the financial statements of the ACT Insurance Authority (Authority) for the year ended 30 June 2023 which comprise the operating statement, balance sheet, statement of changes in equity, statement of cash flows, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- (i) present fairly, in all material respects, the Authority's financial position as at 30 June 2023, and its financial performance and cash flows for the year then ended; and
- (ii) are presented in accordance with the *Financial Management Act 1996* and comply with Australian Accounting Standards.

Basis for opinion

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

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

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

Responsibilities of the Authority for the financial statements

The Under Treasurer is responsible for:

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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



Ajay Sharma
Assistant Auditor-General, Financial Audit
22 September 2023

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 STATEMENT OF RESPONSIBILITY

In my opinion, the ACT Insurance Authority's financial statements fairly reflect the financial operations for the year ended 30 June 2023 and its financial position on that date.



Stuart Hocking PSM
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
22 September 2023

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023 STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with Australian Accounting Standards and are in agreement with its accounts and records and fairly reflect its financial operations for the year ended 30 June 2023 and the financial position on that date.



Penny Shields
General Manager
ACT Insurance Authority
22 September 2023

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**ACT INSURANCE AUTHORITY
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023**

	Note No.	Actual 2023 \$'000	Original Budget 2023 \$'000	Actual 2022 \$'000
<i>Underwriting activities</i>				
Gross Earned Insurance Premiums	5	68,443	71,077	61,669
Reinsurance Premiums (Expense)	5	(14,481)	(14,606)	(13,017)
<i>Net Earned Premiums</i>		53,962	56,471	48,652
Claims (Expense)	5	(138,162)	(48,859)	(56,289)
Claims Related Recoveries	5	20,030	-	(8,563)
<i>Net Incurred Claims</i>	6	(118,132)	(48,859)	(64,852)
Underwriting Result		(64,170)	7,612	(16,200)
<i>Investment Result</i>				
Investment and Interest Revenue	7	9,658	10,821	5,799
Gain/(Loss) on Investment	7	22,596	7,578	(27,295)
		32,254	18,399	(21,496)
<i>Other Income</i>				
Other Income	8	4,443	5,451	3,724
		4,443	5,451	3,724
<i>Other Expenses</i>				
Other Expenses	8	(3,003)	(2,601)	(2,724)
		(3,003)	(2,601)	(2,724)
<i>General and Administration Expenses</i>				
Employee Expenses	9	(4,365)	(4,434)	(3,100)
Supplies and Services	10	(1,479)	(1,745)	(1,444)
		(5,844)	(6,179)	(4,544)
Operating Result		(36,320)	22,682	(41,240)
Total Comprehensive Result		(36,320)	22,682	(41,240)

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

**ACT INSURANCE AUTHORITY
BALANCE SHEET
AS AT 30 JUNE 2023**

	Note No.	Actual 2023 \$'000	Original Budget 2023 \$'000	Actual 2022 \$'000
Current Assets				
Cash and Investments	11	378,923	385,063	351,316
Receivables	12	3,100	6,394	3,180
Claims Related Recoveries	13	13,040	18,587	17,663
Prepayments		53	67	41
Total Current Assets		395,116	410,111	372,200
Non-Current Assets				
Fixed Assets		374	226	430
Claims Related Recoveries	13	28,122	28,804	26,101
Total Non-Current Assets		28,496	29,030	26,531
Total Assets		423,612	439,141	398,731
Current Liabilities				
Payables		183	462	311
Outstanding Claims	14	76,423	63,030	81,871
Employee Benefits	15	1,053	795	719
Other Liabilities	16	2,123	4,320	1,641
Total Current Liabilities		79,782	68,607	84,542
Non-Current Liabilities				
Outstanding Claims	14	307,502	245,932	242,068
Employee Benefits	15	132	101	126
Other Liabilities	16	3,628	33	3,107
Total Non-Current Liabilities		311,262	246,066	245,301
Total Liabilities		391,044	314,673	329,843
Net Assets		32,568	124,468	68,888
Equity				
Accumulated Funds		32,568	124,468	68,888
Total Equity		32,568	124,468	68,888

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

**ACT INSURANCE AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023**

	Accumulated Funds Actual 2023 \$'000	Total Equity Actual 2023 \$'000	Original Budget 2023 \$'000
Balance at 1 July 2022	68,888	68,888	101,786
Comprehensive Income			
Operating Result	(36,320)	(36,320)	22,682
Total Comprehensive Result	(36,320)	(36,320)	22,682
Balance at 30 June 2023	32,568	32,568	124,468

	Accumulated Funds Actual 2022 \$'000	Total Equity Actual 2022 \$'000
Balance at 1 July 2021	110,128	110,128
Comprehensive Income		
Operating Result	(41,240)	(41,240)
Total Comprehensive Income	(41,240)	(41,240)
Balance at 30 June 2022	68,888	68,888

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

ACT INSURANCE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

	Note No.	Actual 2023 \$'000	Original Budget 2023 \$'000	Actual 2022 \$'000
Cash Flows from Operating Activities				
Receipts				
Insurance Premiums Received		68,435	71,077	61,622
Distribution from Investments		7,766	8,740	11,594
Externally Purchased Passthrough Insurance Premiums		1,440	5,392	1,354
Reinsurance and Other Recoveries Received		24,692	0	3,265
Other		3,705	0	1,228
Goods and Services Tax Collected from Customers		524	1,777	643
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		2,278	1,144	1,855
Total Receipts from Operating Activities		108,840	88,130	81,561
Payments				
Employee		4,022	4,393	3,049
Supplies and Services		1,490	1,692	1,392
Other		2,324	672	2,234
Reinsurance Premiums		14,481	14,606	13,017
Insurance Claims		78,535	60,166	65,458
Goods and Services Tax Paid to Suppliers		2,400	1,779	2,224
Goods and Services Tax Remitted to the Australian Taxation Office		578	1,144	326
Total Payments from Operating Activities		103,830	84,452	87,700
Net Cash Inflows/(Outflows) from Operating Activities	11(b)	5,010	3,678	(6,139)
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		30,000	20,000	20,000
Total Receipts from Investing Activities		30,000	20,000	20,000
Payments				
Purchase of Investments		30,000	40,000	-
Purchase of Fixed Assets		-	-	157
Total Payments from Investing Activities		30,000	40,000	157
Net Cash (Outflows)/Inflows from Investing Activities		-	(20,000)	19,843
Net Increase/(Decrease) in Cash		5,010	(16,322)	13,704
Cash at the Beginning of the Reporting Period		23,033	29,420	9,329
Cash at the End of the Reporting Period	11(a)	28,043	13,098	23,033

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

**ACT INSURANCE AUTHORITY
OPERATING STATEMENT BY SCHEMES
FOR THE YEAR ENDED 30 JUNE 2023**

	Note No.	ACTIA Core ^a \$'000	BWI ^b \$'000	PSA ^c \$'000	Total \$'000
<i>Underwriting activities</i>					
Gross Earned Insurance Premiums	5	68,443	-	-	68,443
Reinsurance Premiums (Expense)	5	(14,481)	-	-	(14,481)
Claims (Expense)	5	(138,162)	-	-	(138,162)
Claims Related Recoveries	5	20,030	-	-	20,030
Underwriting Result	5	(64,170)	-	-	(64,170)
Investment and Interest Revenue	7	9,415	243	-	9,658
Gain on Investment	7	22,596	-	-	22,596
Other Income	8	2,561	1,681	201	4,443
Other Expenses	8	(1,533)	(1,470)	-	(3,003)
Employee Expenses	9	(4,273)	-	(92)	(4,365)
Supplies and Services	10	(1,263)	(107)	(109)	(1,479)
Investment and Other Results		27,503	347	-	27,850
Operating Result		(36,667)	347	-	(36,320)

^a ACTIA Core includes mainstream captive insurance policies and Risk management function.

^b Builders Warranty Insurance (BWI) Scheme to ACT residential construction sector

^c Physical and Sexual Abuse (PSA) Scheme design and establishment

**ACT INSURANCE AUTHORITY
BALANCE SHEET BY SCHEMES
AS AT 30 JUNE 2023**

	Note No.	ACTIA Core \$'000	BWI \$'000	PSA ^d \$'000	Total \$'000
Cash and Investments	11	372,168	6,507	248 ^d	378,923
Receivables	12	2,663	437	-	3,100
Current Claims Related Recoveries	13	13,017	23	-	13,040
Prepayments		53	-	-	53
Fixed Assets		374	-	-	374
Non-Current Claims Related Recoveries	13	28,083	39	-	28,122
Total Assets		416,358	7,006	248	423,612
Payables		183	-	-	183
Current Outstanding Claims	14	75,669	754	-	76,423
Current Employee Benefits	15	1,053	-	-	1,053
Current Other Liabilities	16	45	1,830	248	2,123
Non-Current Outstanding Claims	14	307,045	457	-	307,502
Non-Current Employee Benefits	15	132	-	-	132
Non-Current Other Liabilities	16	-	3,628	-	3,628
Total Liabilities		384,127	6,669	248	391,044
Net Assets		32,231	337	-	32,568

^d The PSA cash balance is for presentation only. PSA cash is included under ACTIA core bank ledger account while the BWI scheme has a separate bank ledger code.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 1. OBJECTIVES OF THE ACT INSURANCE AUTHORITY

Operations and Principal Activities of the ACT Insurance Authority

The ACT Insurance Authority (the Authority) is a not-for-profit ACT Government entity established under the *Insurance Authority Act 2005*.

The functions of the Authority are to:

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

The Authority also administers the:

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

Financial Statements for these two entities are included in Volume 2 of the Chief Minister, Treasury and Economic Development Directorate 2022-23 Annual Report.

NOTE 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Legislative Requirement

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

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

- I. an Operating Statement for the year;
- II. a Balance Sheet at the end of the year;
- III. a Statement of Changes in Equity for the year;
- IV. a Statement of Cash Flows for the year;
- V. the significant accounting policies adopted for the year; and
- VI. other statements as are necessary to fairly reflect the financial operations of the Authority during the year and its financial position at the end of the year.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS - CONTINUED

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

Accrual Accounting

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

Currency

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

Individual Reporting Entity

The Authority is an individual not-for-profit reporting entity.

Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Authority for the year ended 30 June 2023 together with the financial position of the Authority as at 30 June 2023.

Comparative Figures

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 necessary, comparatives have been reclassified to conform to changes in presentation in the current year.

Budget Figures

The FMA requires the statement to facilitate a comparison with the Statement of Intent. The budget numbers are as per the Authority's 2022-23 Statement of Intent.

Rounding

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

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

Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) but yet to be applied have been assessed as not being relevant to the Authority or will have an immaterial financial impact. However, the Authority is currently assessing whether AASB 2022-8 and AASB 2022-9 will have a material financial impact.

- *AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments.*

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

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

AASB 17 *Insurance Contracts* was issued in 2017 to supersede AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts Organisations* in respect of private sector entities and not-for-profit public sector entities. AASB 17 incorporates IFRS 17 *Insurance Contracts*, which applies to annual periods beginning on or after 1 January 2023. However, the AASB decided to defer the mandatory application date of AASB 17 for public sector entities to annual periods beginning on or after 1 July 2026, as the AASB is amending AASB 17 for application by public sector entities.

Therefore, this Standard amends all accounting standards that refer to AASB 17 in order to permit public sector entities to continue applying AASB 1023 *General Insurance Contracts* to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

The Authority assessed no impact from this transitional arrangement as the Standard permits the Authority to continue to apply AASB 1023 for the transition period to the annual reporting periods beginning on or after 1 July 2026.

- AASB 2022-9 *Amendments to Australian Accounting Standards - Insurance Contracts in the Public Sector*.

This standard makes key modifications to the requirements of AASB 17 *Insurance Contracts* specific to public sector entities. The modifications relate to providing public sector entities with:

- a) pre-requisites, indicators and other considerations that need to be judged to identify arrangements that fall within the scope of AASB 17 in a public sector context;
- b) an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition;
- c) an exemption from sub-grouping contracts issued no more than a year apart;
- d) an amendment to the initial recognition requirements so that they do not depend on when contracts become onerous;
- e) guidance on coverage periods in a public sector context, which has consequences for determining the cash flows used to measure insurance liabilities and the pattern of revenue recognition;
- f) an accounting policy choice to measure liabilities for remaining coverage applying the premium allocation approach; and
- g) a transition requirement grandfathering the existing classification of arrangements constituting a liability for settlement of claims incurred before the liability was acquired in a transfer as either a liability for incurred claims within the scope of AASB 17 or a provision within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

This Standard also amends AASB 1050 *Administered Items* to provide an accounting policy choice for the Authority to apply either AASB 17 or AASB 137 in determining the information to be disclosed about administered captive insurer activities. Because AASB 17 applies to all entities for annual periods beginning on or after 1 July 2026, this Standard also:

- a) repeals AASB 1023 *General Insurance Contracts*; and
- b) reverses the temporary consequential amendments set out in AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* that amended various Standards to permit public sector entities to continue applying AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

Public sector entities are required to apply AASB 17 to an insurance arrangement if, and only if, it is enforceable, has an identifiable coverage period and gives rise to insurance contracts based on certain indicators and considerations.

Based on an initial assessment it is likely that the standard will apply to the insurance portfolios managed by the Authority on behalf of the Territory. However, a full assessment of application criteria and potential financial impact will be undertaken prior to application. The Authority does not intend to adopt this standard and subsequent interpretations early and as such they will be adopted from their application date as applicable.

NOTE 4. CHANGE IN ACCOUNTING ESTIMATES

Changes in Accounting Estimates

Refer to Note 14: 'Outstanding Claims' for changes in accounting estimates for actuarial assumptions and sensitivity analysis on outstanding claims liabilities.

INCOME AND EXPENSES NOTES

Material Accounting Policies – Income and Expenses

NOTE 5. UNDERWRITING RESULT

Description and Material Accounting Policies relating to Underwriting Result

Gross Earned Insurance Premiums

Gross Earned Insurance Premiums is recognised in the Operating Statement in accordance with *AASB 1023 General Insurance Contracts* and is measured evenly over the expected risk period.

Insurance premium revenue comprises amounts charged to directorates, agencies and statutory authorities. All gross earned insurance premiums are written and earned in the current reporting period as all policies cover the period from 1 July 2022 to 30 June 2023. Premiums are treated as earned from the date of attachment of risk and is recognised evenly over the policy period, which closely approximates the pattern of risks underwritten.

Claims Related Recoveries

Claims Related recoveries recognised in the operating statement include any reinsurance or external recoveries received and the movement in the estimated claims related recoveries receivables from reinsurance and external parties. Refer to Gross Claims Expenses, Note 13: 'Claims Related Recoveries' and Note 14: 'Outstanding Claims' for the methodology for valuation and estimates. The estimates for claims related recoveries receivable includes an assessment of reinsurance policy coverage maintained by the Authority on behalf of the Territory and involvement of external parties to indemnify the Authority against those estimated claims costs.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 5. UNDERWRITING RESULT - CONTINUED

Gross Claims Expenses

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

The liability for outstanding claims is measured as the net central estimate of the present value of the expected future payments, against claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments are estimated based on the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The present value of future payments is estimated using the Commonwealth Government Bond risk free yield curve derived from yields on Commonwealth Government Bonds.

Reinsurance Premium Expenses

Reinsurance premium expenses is recognised in the operating statement based on the period of coverage for reinsurance contracts. The Authority purchases reinsurance to cover catastrophic and accumulated risk exposures for those major insurance classes which it underwrites, including insurance against:

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 5. UNDERWRITING RESULT - CONTINUED

	Note No.	2023 \$'000	2022 \$'000
Underwriting Revenues			
Gross Earned Insurance Premiums		68,443	61,669
Claims Related Recoveries	6	20,030	(8,563)
Underwriting Revenues		88,473	53,106
<i>All underwriting revenues relate to operating activities</i>			
Underwriting Expenses			
Claims Expenses	6	(138,162)	(56,289)
Reinsurance Premium Expenses		(14,481)	(13,017)
Underwriting Expenses		(152,643)	(69,306)
<i>All underwriting expenses relate to operating activities</i>			
Underwriting Results			
Underwriting Revenues		88,473	53,106
Underwriting Expenses		(152,643)	(69,306)
Underwriting Result		(64,170)	(16,200)

The decrease in the underwriting result compared to 2021-22 is mainly due to the increase in claims expenses as a result of recent large claims experience for property damages particularly the significant fire events at the Hume Material Recovery Facility and the Calvary Public Hospital (now the North Canberra Hospital) along with deteriorating claims experience in the medical malpractice portfolio, partially offset by an increase in claims related recoveries from reinsurers and third parties. Refer to Discounted Gross Incurred Claims and Related Expenses in Note 6: 'Net Incurred Claims'.

NOTE 6. NET INCURRED CLAIMS

Description and Material Accounting Policies relating to Net Incurred Claims

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 6. NET INCURRED CLAIMS - CONTINUED

2023	Note No.	Current Year \$'000	Prior Years \$'000	Total \$'000
Undiscounted Gross Incurred Claims and Related Expenses		(142,067)	(14,025)	(156,092)
Discount and Discount Movement		19,728	(1,798)	17,930
Discounted Gross Incurred Claims and Related Expenses ^a	5	(122,339)	(15,823)	(138,162)
Claims Related Recoveries	5	22,707	(2,677)	20,030
Net Incurred Claims		(99,632)	(18,500)	(118,132)
2022				
Undiscounted Gross Incurred Claims and Related Expenses		(70,010)	(16,519)	(86,529)
Discount and Discount Movement		11,216	19,024	30,240
Discounted Gross Incurred Claims and Related Expenses ^a	5	(58,794)	2,505	(56,289)
Claims Related Recoveries	5	(8,563)	-	(8,563)
Net Incurred Claims		(67,357)	2,505	(64,852)

^a The discounted gross incurred claims and related expenses reflects the cost of claim payments actually made, as well as changes in the value of outstanding claims liabilities between valuation dates. In 2022-23, the total net incurred claims expenses are \$118.13 million. Of this amount, \$99.63 million relates to the current year, made up of \$122.33 million in discounted gross incurred claims and related expenses, largely the result of estimated new claims liabilities, partially offset by an increase in estimated recoveries of \$22.71 million. There is a further increase of \$18.5 million in net incurred claims and related expenses as a result of new incurred claims and revised case estimates related to prior years. The Authority made claim payments of \$77.06 million during the year on prior year claims, resulting in a total reduction of \$61.23 million in the prior year outstanding claims liabilities.

Discounted gross claims expense for 2022-23 is \$138.16 million compared to \$56.29 million in 2021-22. This equates to a \$81.87 million increase in discounted gross incurred claims and related expenses between 2021-22 and 2022-23 mainly due to the deteriorating claims experience in medical malpractice and property insurance classes as a result of an increase in the number of medical negligence claims, and large property damage claims for significant fire events at the Hume Material Recovery Facility and Calvary Hospital (now North Canberra Hospital).

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 7. INVESTMENT AND INTEREST REVENUE

Description and Material Accounting Policies relating to Investment and Interest Revenue

Interest

Interest revenue relates to the variable interest earned in the operating bank account maintained with Westpac Bank. Interest is recognised based on monthly interest received in the bank statement. Refer to Note 11: 'Cash and Investments' for further details. Interest for the Builders Warranty Insurance scheme is allocated based on the closing General Ledger bank balance for the scheme.

Distributions from Investments

Distribution revenue is received from investments with the Territory Banking Account.

Loss/Gain on Remeasurement of Investments

The Authority makes long-term investments with the Territory Banking Account by acquiring units in the Territory Banking Account's financial investments portfolio. The unit value changes in response to the underlying market value of the financial investments held by the Territory Banking Account. All unitised investments are designated at fair value through operating statement with the carrying amount measured at fair value. Refer Note 11: 'Cash and Investments' for further details.

	Note No.	2023 \$'000	2022 \$'000
Investment and Interest Revenue			
Interest from Bank ^a		1,548	272
Interest from Bank - Builders Warranty Insurance ^a	20	243	44
Distributions from Investments ^b		7,867	5,483
Total Investment and Interest Revenue		9,658	5,799
Gain/(Loss) on Remeasurement of Investments			
Gain/(Loss) on Remeasurement of Investments ^c		22,596	(27,295)
Gain/(Loss) on Remeasurement of Investments		22,596	(27,295)

^a Interest from bank is higher in 2022-23 mainly due to the increase in bank interest rates and the higher than average cash balance in the Westpac operating bank account.

^b Distributions received from investments held with the Territory Banking Account fluctuate year on year subject to the amount of income available for distribution in the underlying investment asset class sector exposures. The increase in distribution revenue reflects the amount of available distributable income from the Territory Banking Account.

^c The fair value of investments fluctuates year on year depending on the performance of the underlying financial investment exposures. In 2022-23 the investments recorded a positive return of 9.42% due to the increase in market valuation of the investment portfolio mainly due to underlying gains on share investments. In comparison investments made a negative return of 6.34% in 2022-23.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 8. OTHER INCOME AND EXPENSES

Description and Material Accounting Policies relating to Other Revenue and Expenses

Other revenue and expenses mainly relate to the Builders Warranty Insurance (BWI) Scheme and the Physical and Sexual Abuse (PSA) Indemnity Scheme design for out of home care providers, contract works insurance and external insurance contracts.

Builders Warranty Insurance Scheme

Refer to Note 20: 'Builder Warranty Insurance' for the background information. Premium revenue is recognised based on AASB 1023 General Insurance Contracts based on a liability adequacy test and actuarial estimates on assessment of unexpired risk. The commission and claims processing service fees are based on the agreement with QBE and recognised based on the policies written and number of claims processed by QBE during the period. Claims related recoveries and claims expenses are recognised based on claims payments and recoveries, and the movements in actuarial valuations of the outstanding claims liabilities as at the end of financial year.

Physical and Sexual Abuse Indemnity Scheme

Refer to Note 21: 'Physical and Sexual Abuse Indemnity Scheme' for the background. The Authority received appropriation of \$0.449 million in funding via CMTEDD through the mid-year budget review process to design and implement an indemnity scheme for out of home care providers in the ACT for physical and sexual abuse liability claims. Revenue is recognised based on the amount spent for the underlying work for the scheme. The respective employee expenses and supplies and services are recognised in those corresponding headings.

Contract Works Insurance

The Authority purchases contract works insurance cover for ACT Government capital construction works. Premiums are recovered from ACT Government agencies by the Authority based on the value of each agency's capital works program. Transactions are undertaken by the Authority on behalf of other agencies. The Authority does not underwrite this insurance and therefore holds no financial risk.

External Insurance Contracts

The Authority arranges insurance cover on behalf of ACT Government agencies for travel, standing timber, aviation, public art and personal accident cover for both aero retrieval, volunteer workers. Premiums are recovered from ACT Government agencies by the Authority based on the relevant cost drivers for the premium and as charged by external providers. Transactions are undertaken by the Authority on behalf of other agencies. The Authority does not underwrite this insurance and therefore holds no financial risk.

Income from Support Services

The Authority recovers a portion of administrative costs incurred in managing the Office of the Nominal Defendants of the ACT, the Default Insurance Fund, and the Builders Warranty Insurance Scheme as support services charges. The charges are based on a cost model allocating a portion of the employees expenses, administrative cost and ICT system support from the Authority in managing those entities and insurance scheme.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 8. OTHER INCOME AND EXPENSES - CONTINUED

	Note No.	2023 \$'000	2022 \$'000
Other Income			
Resources Received Free of Charge		28	23
Builders Warranty Insurance Premiums ^a	20	1,660	1,316
Builders Warranty Insurance Recoveries	20	21	32
Physical and Sexual Abuse Indemnity Scheme set up Funding ^b	21	201	-
Income from Support Services		1,060	950
Contract Works Insurance ^c		894	674
External Insurance Contracts ^d		579	729
Total Other Revenue		4,443	3,724
Other Expenses			
Contract Works Insurance ^c		894	674
External Insurance Contracts ^d		583	729
Builders Warranty Insurance Commission	20	552	744
Builders Warranty Insurance Claims Processing Service Fee	20	42	11
Builders Warranty Insurance Claims Expense	20	876	388
Asset Write Off ^e		-	107
Amortisation		56	71
Total Other Expenses		3,003	2,724

^a AASB 1023 has been adopted in relation to the Builders Warranty Insurance (BWI) scheme to recognise the gross earned revenue based on a liability adequacy test and actuarial estimates on assessment of unexpired risk. Refer Note 20: Builders Warranty Insurance Scheme'.

^b Physical and Sexual Abuse Indemnity Scheme design and establishment funding is a Territory appropriation funded initiative for the initial scheme set up arrangements. A total of \$0.449 million was approved for the initiative. The Authority recognised \$0.201 million as other revenue and acquitted the funding with actual spending on employee and supplies and services expenses. The balance of the Territory funding received of \$0.248 million is recognised as a liability, classified as revenue received in advance.

^c Contract Works insurance external policies and passthrough cost/revenue has increased due to an increase in capital works programs by the Territory, following a number of projects being delayed during the previous period mainly due to the COVID-19 pandemic.

^d External Insurance Contracts has decreased mainly due to the Authority underwriting 50% of the existing Standing Timber and Forestry insurance policy from 2022-23 which historically was a 100% external pass through insurance policy.

^e Asset write off relates to the write off of office fit out and furniture due to the refurbishment of the Authority's office accommodation at level 3 Nara Centre completed during 2022-23.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 9. EMPLOYEE EXPENSES

Description and Material Accounting Policies relating to Employee expenses

Employee Expenses

Employee benefits include:

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

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

Superannuation Expenses

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

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

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

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

Superannuation Liability Recognition

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

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 9. EMPLOYEE EXPENSES - CONTINUED

	Note No.	2023 \$'000	2022 \$'000
Employee Expenses			
Salaries ^a		3,452	2,663
Annual Leave		84	77
Long Service Leave ^b		104	(107)
Workers' Compensation Insurance Premium		45	24
Employee Expenses – PSA	21	92	-
Superannuation Contribution to the Territory Banking Account		202	221
Productivity Benefit		70	18
Superannuation to External Providers ^a		316	204
Total Employee and Superannuation Expenses		4,365	3,100

^a Salaries and superannuation costs have increased in 2022-23 mainly due to an increase in staff numbers as a result of completion of the recruitment for all new additional positions from the 2021 re-structure, with the 2021-22 results only including a portion of the annual employee expenses for the additional positions recruited during the year.

^b Higher Long Service Leave movement for 2022-23 is mainly due to an increase in the number of staff. Lower (or credit balance) in 2021-22 was mainly due to a decrease in liability relating to retirement payments for long serving staff members and staff taking leave during the year. When long service leave is paid it is paid as salary expenditure and Long Service Leave expenses only reflects the movement of leave liability balances.

NOTE 10. SUPPLIES AND SERVICES

Description and Material Accounting Policies Relating to Supplies and Services

Actuarial Services

Actuarial services fees include independent external valuation of the outstanding claims liabilities, mid-year review and analysis of claims estimates and actuarial reviews and modelling on the annual premium for the Authority.

Rent

Lease rental payments includes office accommodation leases with the ACT Property Group and the outgoings charged for building services, utilities and workorders.

Audit Fees

Auditor's remuneration consists of financial audit services and limited assurance engagement on statement of performance provided to the Authority by the ACT Audit Office. No other services were provided by the ACT Audit Office.

Telecommunications and Computing Costs

Telecommunication and computing cost include payments for ICT logistics, business applications and licenses along with asset rentals for computing equipment, phones, network equipment's and internet services charged by Digital Data and Technology Services (DDTS). The Authority also incurs software licencing fees and maintenance cost in managing its claims database system and accounting system.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 10. SUPPLIES AND SERVICES – CONTINUED

Risk Management Training and Seminars

The Authority runs risk management training events on demand for ACT Government agencies based on their specific risk management requirements. Training events can be organised inhouse or with specialised risk management consultants. The Authority assesses the funding for specific training events for ACT Government agencies based on business needs and also delivers some training events on a cost recovery basis.

	Note No.	2023 \$'000	2022 \$'000
Actuarial Services ^a		180	295
Actuarial Services Builders Warranty Insurance	20	60	60
Audit Fees		70	68
Telecommunications and Computing Costs ^b		524	379
Contractors and Consultants		70	189
Consulting and Consultants -PSA ^c	21	100	-
Rent		171	133
Risk Management Training and Seminars ^d		6	31
Support Services		126	213
Support Services – Builders Warranty Scheme	20	47	-
Legal Expenses – PSA ^c	21	9	-
Travel		69	31
Other		47	45
Total Supplies and Services		1,479	1,444

^a Actuarial Costs were lower in 2022-23 due mainly to a one-off actuarial service conducted to review reinsurance programs and a missing accrual for the June 2021 actuarial valuation fee which was processed in 2022-23.

^b Telecommunications and Computing Cost has increased mainly due to the increase in the number of staff during 2022-23 resulting in additional charges for ICT logistics from DDTS, number of user licences for IT systems and claims database and one-off system upgrade costs for the accounting system Sage300.

^c Physical and Sexual Abuse (PSA) Indemnity Scheme set up cost is a one off initiative funded by the Territory which included Contractor and Consultant and Legal Expenses to assist with the concept design, business modelling, and set up of the new scheme. Refer to Note 21: 'Physical and Sexual Abuse Indemnity Scheme'.

^d Risk Management training and seminars expenses has decreased mainly due to face-to-face workshops and training programs being conducted by internal staff members from the Authority instead of external consultants.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

ASSETS NOTES

Material Accounting Policies – Assets

Assets- Current and Non-Current

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

Assets Backing General Insurance Liabilities

The Authority holds assets to fund its outstanding claims liabilities.

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

NOTE 11. CASH AND INVESTMENTS

Description and Material Accounting Policies Relating to Cash and Investments

Cash and Cash Equivalents

The Authority holds one bank account with the Westpac Bank as part of the whole-of-government banking arrangements. As part of these arrangements, the Authority earns variable interest on credit balances (currently 4.95% annual interest rate effective as at 30 June 2023 for balances up to \$50 million).

Cash includes cash at bank and cash on hand. 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.

Investments

The Investments by the Authority are made in accordance with the Treasurer's approved ACT Insurance Authority Investment Plan. The Investment plan for the Authority outlines the Authority's investment strategy and objectives in relation to investing its funds with the Territory Banking Account. The long-term investment return objective for the Authority's financial investments is a long-term average Consumer Price Index (CPI) + 2.5 per cent per annum.

The Authority makes long-term investments with the Territory Banking Account by acquiring units in the Territory Banking Account's financial investments portfolio. The unit value changes in response to the underlying market value of the financial investments held by the Territory Banking Account. All unitised investments are designated at fair value through operating statement with the carrying amount measured at fair value.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and reflects the best available prices of the underlying financial investments. Subsequent to initial measurement, investments are re-measured to fair value with changes in their fair value (gains/loss) recognised in the Operating Statement of the Authority. Refer to Note 7: 'Investment and Interest Revenue' for distributions earned on these investments and the gains and/or loss on remeasurement of investments.

These long-term investments are classified as current because they are redeemable, subject to market conditions, on the request of the Authority.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 11. CASH AND INVESTMENTS - CONTINUED

Cash and Investment Balances

	Note No.	2023 \$'000	2022 \$'000
Current Cash and Investments			
Cash on Hand		21,537	17,852
Cash on Hand – Builders Warranty Insurance	20	6,507	5,181
Total Cash and Cash Equivalents		<u>28,044</u>	<u>23,033</u>
Investments with the Territory Banking Account		350,879	328,283
Total Current Cash and Investments		378,923	351,316

The fair value of investments fluctuates year on year depending on the performance of the underlying financial investment exposures in the market as well as investment deposit or redemption transactions. In 2022-23 the investments recorded a positive return of 9.42% due to an increase in market valuations mainly due to underlying gains on share investments (2021-22 recorded a loss of 6.34 per cent).

Cash Flow Reconciliations

(a) Reconciliation of Cash and Cash Equivalents at the End of the Reporting Period in the Statement of Cash Flows to the equivalent items in the Balance Sheet

	2023 \$'000	2022 \$'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	28,043	23,033
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Statement of Cash Flows	28,043	23,033

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 11. CASH AND INVESTMENTS - CONTINUED

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

Operating Result	(36,320)	(41,240)
Equity Adjustment for BWI shortfall on unearned premium Liability	-	(2,839)
Add/(Less) Non-Cash Items		
Depreciation of Fixed Assets	56	71
Asset Write Off	-	107
Add/(Less) Items Classified as Investing or Financing		
Net (Gain)/Loss on Investments	(22,596)	27,295
Cash Before Changes in Operating Assets and Liabilities	(58,860)	(16,606)
Change in Operating Assets and Liabilities		
Decrease in Receivables	80	6,025
Decrease in Recoveries	2,603	8,767
(Increase)/Decrease in Prepayments	(13)	22
(Decrease) in Payables	(128)	-
Increase/(Decrease) in Outstanding Claims	59,985	(8,868)
Increase in Other Liabilities	1,003	4,513
Increase in Employee Benefits	340	8
Net Changes in Operating Assets and Liabilities	63,870	10,467
Net Cash Inflows/(Outflows) from Operating Activities	5,010	(6,139)

NOTE 12. RECEIVABLES

Description and Material Accounting Policies Relating to Receivables

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

The Authority's receivables predominantly relate to distributions from investments for the June quarter which are expected to be received in August 2023. The remaining receivables relate to goods and services taxation (GST), trade receivable from government entities and external parties. The Authority expects all receivables will be received.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 12. RECEIVABLES - CONTINUED

	Note No.	2023 \$'000	2022 \$'000
Current Receivables			
Distributions Receivable		2,208	2,107
Goods and Services Tax Receivable		308	186
Receivables – Builders Warranty Insurance ^a	20	437	262
Other Receivables ^b		147	625
Total Receivables		3,100	3,180

No receivables are past due or impaired.

^a *The increase in Builders Warranty Insurance Receivables relates mainly due to the timing of March and June invoices. The line item was presented under other receivables line in the previous year financial statements and has been restated for comparative presentation for 2022-23.*

^b *The decrease in Other Receivables relates to the support services charges for the Office of Nominal Defendant of the ACT and the Default Insurance Fund being invoiced and paid prior to the financial year end in 2022-23. The invoices for the period January-June 2022 were outstanding as at 30 June 2022 and subsequently paid in 2022-23.*

NOTE 13. CLAIMS RELATED RECOVERIES

Description and Material Accounting Policies Relating to Claims Related Recoveries

Claims related recoveries represent amounts expected as a receivable from a third-party who has been identified as liable and accepted liability for costs incurred and, actuarial estimate for the recoveries from reinsurance claims and BWI claims recoveries. Actuarial valuation conducted for the end of the financial year includes analysis and valuation of claims expenses and an estimate for outstanding claims liabilities along with an estimate for the claims related recoveries. Reinsurance recoveries and external third-party recoveries are estimated using the total cost to settle the claims and any recovery from third party involvement or reinsurance coverage for the relevant period. Refer Note 14: 'Outstanding Claims' for further details on approach and methodologies.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 13. CLAIMS RELATED RECOVERIES - CONTINUED

	Note No.	2023 \$'000	2022 \$'000
Current Claims Related Recoveries			
Builders Warranty Insurance Recoveries	20	23	21
Reinsurance Recoveries ^a		11,715	13,672
Third Party Recoveries ^b		1,302	3,970
Total Current Claims Related Recoveries		13,040	17,663
Non-Current Claims Related Recoveries			
Builders Warranty Insurance Recoveries	20	39	20
Reinsurance Recoveries ^a		26,218	22,761
Third Party Recoveries ^b		1,865	3,320
Total Non-Current Claims Related Recoveries		28,122	26,101
Total Claims Related Recoveries		41,162	43,764

^a Reinsurance recovery estimates mainly relate to Property (\$33million) and Medical Malpractice (\$4.1million). The Authority incurred large individual claims and high-cost events mainly due to the significant fire events at the Hume Material Recovery Facility and the Calvary Public Hospital (now the North Canberra Hospital).

^b Third party recoveries mainly related to the 2020 bushfire in the Namadgi National Park, where the costs of property damage are recoverable through a third party.

LIABILITY NOTES

Material Accounting Policies – Liability

Liability – Current and Non-Current

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

NOTE 14. OUTSTANDING CLAIMS

Description and Material Accounting Policies Relating to Supplies and Services

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.

Significant Judgements and Estimates - Outstanding Claims

The Ultimate Liability Arising from Claims Made Under Insurance Contracts

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

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

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

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

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

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

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

A component of these estimation techniques is the estimation of the cost of notified but not paid claims (case estimation) which considers 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 and the range of possible outcomes. The most appropriate estimation technique is selected considering the characteristics of the business class and the extent of the development of each insurance year.

Changes in Actuarial Assumptions

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

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

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Additionally, the Authority also provides Insurance schemes to cover the Residential Builders Warranty for homebuilders in the ACT and the design and implementation of a short-term Physical and Sexual Abuse (PSA) Indemnity Scheme for out of home care providers who provide services for the Territory through a contractual relationship with the Community Services Directorate.

The Authority commenced the PSA indemnity scheme as a transitional arrangement effective from 1 April 2023 with the aim of progressing to a formal establishment of the indemnity scheme effective 1 July 2023. The Authority has not collected any premium for the scheme for the period and has not incurred any direct expenses or reported claims for the transition period as at 30 June 2023.

Due to the ongoing design and development of the new PSA policy framework, the limited availability of provider claims experience and analytics, actuarial valuation for the claims liabilities for the PSA interim scheme portfolio for the period was not possible for 30 June 2023. The Authority is not anticipating any claims liabilities for the scheme as at 30 June 2023. The Authority is in a process of establishing ongoing reviews of claims liabilities and independent actuarial valuation of liabilities and any required liability adequacy test for future reporting periods.

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

- estimates of claims incurred but not yet reported (IBNR) at the actuarial valuation date are made by analysing past reporting patterns and applying assumed development rates to numbers of claims already reported to the Authority;
- the number of past settlements are analysed and an adopted ultimate settlement proportions is applied to the estimated ultimate numbers of claims to obtain numbers of future settlements;
- past settlement sizes and past changes in case estimates are analysed;
- estimates of outstanding claims are first adopted for the most developed insurance years, considering the average sizes and relationship to current estimates of the claims from the Authority. The same process is extended to the more recent years, considering the experience of the earlier years and any differences in experience to date;
- separate analyses of large and small claims are made, and 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 also gross of reinsurance. Subsequent allowances, where needed, are then made for potential reinsurance recoveries to arrive at estimates of net outstanding liabilities; and
- allowances are made for all future claims escalation, whether from external inflation or superimposed inflation and projected payments are discounted to present values to reflect the time value of money.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Actuarial Assumptions

The following assumptions have been made in estimating the outstanding claims liabilities for 2022-23.

2023	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	2.01 years	3.82 years	4.01 years	2.66 years	2.72 years	4.13 years
Ultimate Claim Numbers (2022-23 Insurance Year) ^a	93	136	153	0.26	0.11	11
Average Settlement Size	\$83,400 ^c	\$146,400 ^c and \$4.039m ^d	\$368,400 ^c and \$3.9m ^d	\$83,000 ^c	\$ 150,000 ^c	\$96,600 ^c
Expense Rate	10%	10%	10%	10%	10%	10%
Discount Rate ^b	4.3%	4.4%	4.3%	4.4%	4.2%	4.3%
Inflation and Superimposed Inflation ^b	3.7%	3.8%	3.8%	3.9%	3.6%	3.8%

The following assumptions were made in estimating the outstanding claims liabilities for 2021-22.

2022	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.40 years	3.83 years	4.10 years	3.05 years	2.98 years	3.72 years
Ultimate Claim Numbers (2021-22 Insurance Year) ^a	79	100	108	1	0.2	7
Average Settlement Size	\$83,400 ^c	\$144,100 ^c and \$4.082m ^d	\$351,000 ^c and \$3.9m ^d	\$83,900 ^c	\$ 150,000 ^c	\$103,300 ^c
Expense Rate	10%	10%	10%	10%	10%	10%
Discount Rate ^b	3.1%	3.7%	3.7%	3.5%	3.3%	3.5%
Inflation and Superimposed Inflation ^b	3.3%	3.5%	3.4%	3.4%	3.3%	3.4%

^a Ultimate claims reported are the assumed number of claims incurred in the insurance year.

^b Discount and inflation rates are calculated for each insurance class based on the payment pattern and the discount/inflation rate at the corresponding period of time.

^c The adopted average claim size for small claims has a total cost up to \$1 million.

^d The adopted average claim size for large claims has a total cost of \$1 million or greater.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Process used to determine assumptions

Discounted mean term

The discounted mean term is the number of years taken to finalise claims settlement and is calculated separately by class of insurance based on historic settlement patterns. A decrease in the discounted mean term to settlement would lead to more claims being paid sooner than anticipated. A change in the discounted mean term can cause an increase or a decrease in claims expense, depending on the interaction between the discount and interest rates.

Ultimate claim numbers

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

Average settlement size

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

Expense rate

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

Discount rate

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

Inflation

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

Superimposed inflation

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Sensitivity Analysis

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

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

Assumptions	Note No.	Net Outstanding Claims \$'000	Difference	
			\$'000	%
Gross Outstanding Claims Liabilities		383,925		
Less expected Current and Non-Current Recoveries		(41,162)		
Net Outstanding Claims Liabilities		342,763		
Economic Assumptions				
Discount rates increased by 1.0%		331,994	(10,771)	(3.1%)
Discount rates decreased by 1.0%		354,209	11,445	3.3%
Medical Malpractice				
<i>Large Claims</i>				
Assumed average size of IBNR Claims is \$3.9 million				
Increase by \$1.0 million		373,390	30,626	8.9%
Decrease by \$1.0 million		313,781	(28,983)	(8.5%)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2014 and later		366,821	24,057	7.0%
1 less claim per annum for 2014 and later		319,295	(23,469)	(6.8%)
Public Liability				
<i>Large Claims</i>				
Assumed average size of IBNR Claims is \$4.1 million				
Increase by \$1.0 million		344,798	2,034	0.6%
Decrease by \$1.0 million		340,730	(2,034)	(0.6%)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2014 and later		358,745	15,981	4.7%

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate. Discount rates have increased since 30 June 2022, consequently the sensitivity analysis was undertaken using a reduction or increase of 1% as interest rates are high enough now that a decrease in rates would remain positive. Currently, a 1 percent increase in the discount rate would result in a decrease of \$10.76 million in claims liability whereas a decrease in the discount rate of 1 percent would result in an increase of \$11.43 million in the liability.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Medical Malpractice and Public Liability

The liability for outstanding claims is sensitive to movements in the average claim size. As per the previous table, a change in average large claim size for medical malpractice by \$1.0 million has a subsequent effect on the outstanding claims of either an increase of \$30.63 million or a decrease of \$28.98 million. Whereas for a change by \$1.0 million in average large claim size for public liability would either increase or decrease the outstanding claims liabilities by \$2.03 million.

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

For large medical malpractice claims, a change in the assumption of allowing for one additional or one less IBNR claim per annum from 2014 and later has the subsequent effect on the outstanding claims liability of either an increase of \$24.06 million or a decrease of \$23.47 million. For large public liability claims, a change in the assumption of allowing for one additional IBNR claim per annum from 2014 and later has the subsequent effect on the outstanding claims liabilities of an increase of \$15.98 million.

Gross Outstanding Claims Liabilities

The Authority used the services of an independent actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd to estimate the outstanding claims liabilities at 30 June 2023. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

	Note No.	2023 \$'000	2022 \$'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		355,124	294,450
Risk Margin		54,328	43,099
Claims Handling Costs		35,484	29,421
Total Undiscounted Expected Future Claims		444,936	366,970
Discount to Present Value		(61,011)	(43,032)
Total Gross Discounted Outstanding Claims Liabilities	14(d)	383,925	323,938
Current		75,669	81,240
Current – Builders Warranty Insurance		754	631
Total Current Liabilities		76,423	81,871
Non-Current		307,045	241,834
Non- Current – Builders Warranty Insurance		457	234
Total Non-Current Liabilities		307,502	242,068
Total Gross Discounted Outstanding Claims Liabilities	14(d)	383,925	323,939

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(a) Risk Margin

The process of determining risk margin

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class. Assumptions regarding the uncertainty were made for each class considering potential variability in the actuarial models and assumptions, the quality of underlying data used in the models, the general insurance environment, and the assumptions made in other government schemes.

The assumptions were applied to the net central estimates for each class and then aggregated, with no explicit allowance made for diversification, to arrive at an overall provision which is intended to have a 75 per cent probability of adequacy. This means that the outstanding claims liability has a 75 per cent chance of being sufficient to reflect all possible future claims. A 75 per cent level of sufficiency is the minimum required by the Australian Prudential Regulatory Authority (APRA) for APRA regulated insurers.

Risk margins applied

Class	Adopted Risk Margin	
	2023 (%)	2022 (%)
Directors and Officers	18	18
Financial Crime	30	30
Medical Malpractice	15	15
Professional Indemnity	18	18
Property and Motor	23	23
Public Liability	15	15
Residential Builders Warranty	30	30
Overall margin (weighted average) ¹	16.1	16.0

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(b) Inflation and Discount Rates

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

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

	2023 (%)	2022 (%)
For the succeeding year		
Inflation rate ¹	3.63	3.13
Discount rate ²	4.42	2.38
For the subsequent year		
Inflation rate ¹	3.50	3.25
Discount rate ²	4.03	3.32
For long-term assumptions		
Inflation rate ¹	3.76	3.21
Discount rate ²	4.66	4.11

¹Inflation rates are determined after consideration of forecasts from a number of economists and organisations as well as the mix of insurance classes and broader trends within similar insurance schemes.

²Discount rates are determined in accordance with AASB 1023 which requires the determination of a central estimate of the present value of the expected future payments for claims. It requires the application of "risk free" rates, which are generally accepted as rates derived from market values on Commonwealth Government Bonds.

(c) Term to Settlement

The weighted average expected term to settlement of the outstanding claims from the valuation date is estimated to be 3.53 years in 2023 (3.47 years in 2022). The weighted average expected term to settlement has been based on industry averages and has been adjusted to reflect the specific classes of insurance offered by the Authority.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability

The table below compares the estimates as at 30 June 2023 for Gross Outstanding Claims at 30 June 2023 (30 June 2023 basis) compared with those projected from the 30 June 2022 valuation and Expected Gross Outstanding Claims at 30 June 2023 (30 June 2022 basis).

<i>Change in Basis - In the 12 months from 30 June 2022 to 30 June 2023</i>	\$'000	\$'000
Gross Central Estimate at 30 June 2022 (30 June 2022 basis) ^a		259,935
Expense margin at 30 June 2022		25,970
Risk Margin at 30 June 2022		38,033
Gross Outstanding Claims at 30 June 2022 (30 June 2022 basis) ^a		323,938
New Incurred Period		48,104
Expected payments to 30 June 2023 (Inflated and Undiscounted values)		(69,363)
Expected interest to 30 June 2023		5,300
Expected change in Expense Margin		(1,603)
Expected change in Risk Margin		(695)
Expected Gross Outstanding Claims at 30 June 2023 (30 June 2022 basis)		305,681
(Actual less Expected) inflation ^b		(5,601)
Change in future discount rate assumptions		(2,065)
Change in future inflation assumptions		2,827
(Expected less Actual) payments ^c		(7,501)
<i>Directors and Officers</i>	45	
<i>Financial Crime</i>	98	
<i>Medical Malpractice</i>	(8,392)	
<i>Professional Indemnity</i>	(3,207)	
<i>Property and Motor</i>	7,331	
<i>Public Liability</i>	(3,553)	
<i>Residential Builders Warranty</i>	177	

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS – CONTINUED

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

<i>Change in Basis - In the 12 months from 30 June 2022 to 30 June 2023 - Continued</i>	\$'000	\$'000
Change in actuarial assumptions		74,035
<i>Directors and Officers</i>	(106)	
<i>Financial Crime</i>	(554)	
<i>Medical Malpractice</i>	28,672	
<i>Professional Indemnity</i>	3,543	
<i>Property and Motor</i>	32,719	
<i>Public Liability</i>	9,886	
<i>Residential Builders Warranty</i>	(125)	
Change in Expense margin at 30 June 2023		6,174
Change in Risk margin at 30 June 2023		10,375
Overall change in basis		78,244
Gross Outstanding Claims at 30 June 2023 (30 June 2023 basis)		383,925

^a gross central estimates are inflated and discounted excluding expenses

^b includes both past and future inflation

^c a negative number indicates actual payments were more than expected during the insurance year

The expected gross central estimate of \$305.68 million compares to the actual gross central estimate of \$383.93 million, indicating a total strengthening of \$78.24 million. This strengthening may be broken down into the main components:

- A release of \$5.60 million due to actual inflation being lower than expected over the 12 months.
- A release of \$2.06 million due to changes in future discounting and the yield curve. All else being equal, an increase in future discount rates decreases the outstanding claims liability.
- A strengthening of \$2.83 million from increase in future inflation assumptions since 30 June 2022, reflecting the increase in short term inflation forecasts.
- A release of \$7.50 million due to greater than expected payments made in the 12 months to 30 June 2023. Approximately \$15.15 million more than expected payments were made for Medical Malpractice, Professional Indemnity and Public liability classes. This was partially offset by \$7.33 million lower than expected payments made for the Property portfolio. All else equal, the decrease implies a bringing forward of payments, and therefore reducing the liability.
- An increase of \$74.04 million in actuarial assumptions. By class, these were:
 - A \$0.11 million release in the Directors and Officers insurance class.
 - A \$0.55 million release in the Financial Crime insurance class due to favourable claim reporting experience in older insurance years.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

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

- A \$28.67 million strengthening in the Medical Malpractice insurance class resulting from increases in assumed ultimate claims across multiple years, due to deteriorating claim reporting experience.
- A \$3.54 million increase in the Professional Indemnity insurance class mainly due to a \$3 million increase in estimated cost on a 2019 claim.
- A \$32.72 million strengthening in the Property and Motor insurance class driven by increases in the ultimate number of claims for the most recent year, and two significant large property events emerging in the last 12 months totalling \$38.5 million. Offset by a decrease of \$3 million in estimated cost for a large claim ^a in the 2021 year, and releases in ultimate claim numbers for 2021 and 2022 years.
- A \$9.89 million increase in the Public Liability insurance class driven by an increased number of ultimate claims for multiple insurance years, allowance for Sexual Assault claims for older years, and a new large claim from the 2019 year of \$3 million. These were offset by a release of \$6.5 million in small claims outstanding liability, due to small claims which were finalised approximately 50% lower than what was expected.
- A release of \$0.125 million in the Residential Builders Warranty class.

^a A large claim is defined as a claim which has a total cost of \$1 million or greater.

NOTE 15. EMPLOYEE BENEFITS

Description and Material Accounting Policies Relating to Employee Benefits Liabilities

Accrued Wages and Salaries

Accrued Salaries and relevant superannuation expenses are measured at the amount that remains unpaid to employees at the end of the reporting period.

Back payment of salaries (pay rise) and cost of living supplement payments offered by the government for the new Enterprise Agreement (EA) negotiation process has been recognised as a liability.

Annual and Long Service Leave

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

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 15. EMPLOYEE BENEFITS - CONTINUED

Annual leave liabilities have been estimated on the assumption they will be wholly settled within three years. This financial year the rate used to estimate the present value of future:

- annual leave payment is 98.2% (101.8% in the previous financial year); and
- payment for long service leave is 93.0% (95.3% in the previous financial year).

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 of qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

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

Significant judgements have been applied in estimating the annual and long service leave liabilities, given that Authority uses the Whole-of-Government present value, probability and on-cost factors. These factors are issued by ACT Treasury and apply to all ACT Government Agencies. ACT Treasury organises an actuarial review to be undertaken every three years by the Australian Government Actuary to estimate each of these factors. The latest assessment was undertaken in December 2021, with the next review expected to be undertaken by early late 2024.

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional rights to defer the settlement of the liability for at least 12 months. Conditional long service leave liabilities are classified as non-current because the agency has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Superannuation Liability

The employer superannuation benefits payable to the Authority's employees, who are members of the defined benefit CSS or PSS Schemes, are recognised in the financial statements of the Superannuation Provision Account.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 15. EMPLOYEE BENEFITS - CONTINUED

	2023 \$'000	2022 \$'000
Current Employee Benefits		
Annual Leave	421	338
Long Service Leave	388	290
Accrued Employee Expenses ^a	244	91
Total Current Employee Benefits	1,053	719
Non-Current Employee Benefits		
Long Service Leave	132	126
Total Non-Current Employee Benefits	132	126

As at 30 June 2023 the Authority employed 30.81 full time equivalent (FTE) staff. There were 26.41 FTE staff at 30 June 2022.

^a Accrued Employee Expenses were higher in 2022-23 mainly due to 7 working days salary and wages being outstanding for payment compared to 6 working days in the previous year. Accrued employee expenses also included an accrual of \$0.067 million for the pay rise and back payment estimate based on the offer made by the government for the new proposed Administrative and Related Classifications Enterprise Agreement 2023-2026 (yet to be effective) along with a one-off cost of living supplement offer costed at \$0.043 million.

NOTE 16. OTHER LIABILITIES

Description and Material Accounting Policies Relating to Other Liabilities

Unearned Premium Liability - Builders Warranty Insurance

Unearned Premium Liability - Builders Warranty Insurance (BWI) Scheme is the premium revenue that has not been recognised in the operating statement. Actuarial valuation for the outstanding claims liabilities for the BWI scheme as at 30 June 2023 included an estimate of unearned premium liability based on the cost to meet the claims liabilities that may arise including future claims handling costs.

A Liability Adequacy Test (LAT) was conducted as required by AASB 1023 General Insurance Contracts to assess the adequacy of the unearned premium liability by considering current estimates of the present value of the expected future cash flows relating to future claims under current policies. The Authority passed the LAT conducted by an external actuary as at 30 June 2023 and there is no deficiency to be recognised in the operating statement for 2022-23.

Accrued Expenses – Builders Warranty Insurance

Accrued Expenses for Builders Warranty Insurance (BWI) scheme is recognised as a liability for any outstanding BWI commission, reimbursement for claims expenses and claims management fee as at the end of reporting period.

Revenue Received in Advance PSA

Revenue received in advance for the Physical and Sexual Abuse (PSA) Indemnity Scheme set up initiative is recognised as a liability for the Territory appropriation received in full but to be acquitted for the full amount to match the revenue. Revenue received in advance arises from transactions that are not contracts with customers.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 16. OTHER LIABILITIES - CONTINUED

	2023 \$'000	2022 \$'000
Current Other Liabilities		
Unearned Premium - Builders Warranty Insurance	1,416	1,386
Payables - Builders Warranty Insurance ^a	414	136
Revenue Received in Advance – PSA ^b	248	-
Other	45	119
Total Current Other Liabilities	2,123	1,641
Non-Current Other Liabilities		
Unearned Premium Liability - Builders Warranty Insurance	3,628	3,107
Total Non-Current Other Liabilities	3,628	3,107

^a Payables - Builders Warranty Insurance scheme is higher than the previous year mainly due to invoices for March and June 2023 remaining outstanding for payment mainly due to the timing of invoices being issued and processed.

^b Revenue Received in Advance - PSA relates to the Territory appropriated funding received from Treasury but yet to be acquitted for the ongoing and outstanding work on PSA indemnity set up framework.

NOTE 17. FINANCIAL INSTRUMENTS

Description and Material Accounting Policies Relating to Financial Instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument of another entity.

Financial assets excluding statutory receivables and prepayments are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through Operating Statement on the basis of both:

- a. the business model for managing the financial assets;
- b. the contractual cash flow characteristics of the financial assets; and

The following are the classification of the Authority's financial assets under *AASB 9 Financial Instruments*:

Items	Business Model Held to collect principal and interest/sell	Solely for payment of Principal and Interest SPPI Test (basic lending characteristics)	Classification
Cash at Bank	Held to collect	Yes	Amortised cost
Receivables	Held to collect	Yes	Amortised cost
Investments	Held to collect and/or sell	No	FVTPL

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 under Note – 11 Cash and Investments and Note – 12 Receivables.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 17. FINANCIAL INSTRUMENTS - CONTINUED

(a) Interest Rate Risk

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

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

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

Sensitivity Analysis

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

(b) Credit Risk

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

Direct credit exposure for the Authority is mainly attributed to investments held with the Territory Banking Account and distributions receivable from the Territory Banking Account. The risk is assessed as very low.

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

The Authority actuarially estimates the claims related receivables in relation to claims related recoveries from a third-party, reinsurers and BWI claims recoveries. Refer Note - 13 Claims Related Recoveries and Note - 14 Outstanding Claims for details. The credit risk associated with claims related receivables, when the debt is raised is assessed as low as the Authority maintains a reinsurance program with reputed Australian or International reinsurance partners and receivables raised against third parties are often raised as per a court ordered or agreed settlement process coordinated by the ACT Government Solicitors Office.

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

(c) Liquidity Risk

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 17. FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - Continued

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

(d) Price Risk

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

The Authority is exposed to price risk as a result of its investment unit holdings with the Territory Banking Account. The investment unit price fluctuates as a result of changes in value in the underlying investment portfolio exposures.

The Territory Banking Account manages the price risk arising from these investments by diversifying the portfolio in accordance with the Authority's Investment Plan. Exposures to asset class sectors comprising cash, money market securities, fixed income bonds (domestic and international), equities (domestic and international), property and infrastructure are maintained in line with the strategic asset allocation that has been structured to achieve the Authority's long-term investment objective within acceptable risk tolerances. Under the investment structure, investments are diversified by geography, sector and financial instrument type to manage the risks associated with changing financial and economic conditions. More detail can be found in the financial statements of the Territory Banking Account.

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

Sensitivity Analysis

The following table summarises the sensitivity of the Authority's operating result and equity to price risk.

	Loss Impact \$'000	Profit Impact \$'000
2023		
Volatility Factors	(6.7%)	6.7%
Investments with the Territory Banking Account	(23,509)	23,509
2022		
Volatility Factors	(7%)	7%
Investments with the Territory Banking Account	(22,980)	22,980

The expected volatility factor represents the estimated variance in return for the Authority's investment strategy.

The volatility of returns reflects the inherent risk in the investments. The reasonably possible movements in risk variables are continually assessed and have been determined based on best estimates, having regard to a number of factors including historical correlation of the investment strategy with relevant benchmarks and market volatility.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 17. FINANCIAL INSTRUMENTS - CONTINUED

(d) Price Risk - Continued

Actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the underlying investments are invested.

(e) Fair Value of Financial Assets and Liabilities

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

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

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

	2023 \$'000	2022 \$'000
Financial Assets		
Financial Assets at Fair Value through Operating Statement		
Designated upon Initial Recognition	350,879	328,283
Receivables Measured at Amortised Cost	2,793	2,994
Financial Liabilities		
Payables Measured at Amortised Cost	183	311

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

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

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

	2023 \$'000	2022 \$'000
Gain/(Loss) on Financial Asset		
Financial Assets at Fair Value through Operating Statement		
Designated upon initial Recognition	22,596	(27,295)

(h) Fair Value Hierarchy

The Authority has investment assets whose carrying amount is measured at fair value. The Authority's investments are measured using the level 2 classification in the fair value hierarchy. This classification is based on the degree to which the fair value is observable considering the lowest level input that is significant to the fair value measurement as a whole. Level 2 fair value measurements are those derived from 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).

The Authority's Investments held within the Territory Banking Account financial investments are fair valued at redemption price on a daily basis reflecting the bet available prices and valuation of the underlying investments and are considered level 2 investments.

**ACT INSURANCE AUTHORITY
 NOTES TO AND FORMING PART OF THE
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 18. RELATED PARTY DISCLOSURES

Description and Material Accounting Policies Relating to Related Party Disclosures

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

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

KMP of the Authority are the Under Treasurer, Deputy Under Treasurer, Economic, Revenue, Insurance (ERI) and the General Manager of the ACT Insurance Authority.

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

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

(a) Controlling Entity

The Authority is an ACT Government controlled entity.

(b) Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive’s financial statements for the year ended 30 June 2023.

Compensation of the Head of Service is included in the note on related party disclosures included in the Chief Minister, Treasury and Economic Development Directorate’s (CMTEDD) financial statements for the year ended 30 June 2023.

The Under Treasurer and Deputy Under Treasurer, are the KMPs of the Authority employed by CMTEDD and are compensated by CMTEDD.

Compensation by the Authority to other KMP is set out below.

	2023	2022
	\$’000	\$’000
Short-term employee benefits	237	231
Post-employment benefits	27	24
Other long-term benefits	11	4
Total Compensation by the Authority to KMP	275	259

(c) Transactions with other ACT Government Controlled Entities

The Authority has entered into transactions with other ACT Government entities in 2022-23 and 2021-22 consistent with the Authority’s day-to-day business operations provided under varying terms and conditions. The notes to the Financial Statements provide the details of transactions with other ACT Government entities. Below is a summary of the material transactions with other ACT Government entities.

ACT INSURANCE AUTHORITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 18. RELATED PARTY DISCLOSURES - CONTINUED

(c) Transactions with other ACT Government Controlled Entities - Continued

Revenue

- Underwriting Results - Gross earned premium (Note 5) – The Authority received \$66.184 million in 2022-23 as revenue from other ACT Government Entities for insurance premiums to manage the self-insured insurance classes on behalf of the Territory.
- Distribution Revenue from TBA (Note 7) – The Authority received \$7.867 million in 2022-23 for investment distribution from the Territory Banking Account.
- Gains from Remeasurement of Assets (Note 7) – The Authority made \$22.596 million in 2022-23 for gains from the remeasurement of investments with the Territory Banking Account.
- Other Income (Note 8) – The Authority received \$1.473 million in 2022-23 for contract works and external insurance policies arranged and passed through to the ACT Government entities.
- Resources Received Free of Charge (Note 8) – The Authority received \$0.002 million in 2022-23 for legal services free of charge from the Government Solicitor’s Office and \$0.026 million for human resources services free of charge from Shared Services.
- Other Income (Note 8) – The authority received \$1.060 million in 2022-23 for support services provided to the Office of the Nominal Defendant of the ACT, the Default Insurance Fund and internally charged to the Builders Warranty Insurance scheme.
- Other Income (Note 8)- The Authority received \$0.201 million of appropriated funding passed-through from the Chief Minister Treasury and Economic Development Directorate (CMTEDD) for the Physical and Sexual Abuse (PSA) Indemnity Scheme set up and design.

Expenses

- Claims Expenses (Note 5 and Note 6)- The Authority paid \$11.865 million in 2022-23 to the Government Solicitor’s Office for legal matters related to claims services and settlements.
- Claims Expenses (Note 5 and Note 6) - The Authority paid \$26.855 million in 2022-23 for the settlement of claims to various ACT Government Entities and received \$1.799 million in excess payments and recoveries.
- Employee Expenses (Note 9) – The Authority paid \$0.271million in 2022-23 for superannuation contributions to the Territory Banking Account via Shared Services payroll and paid \$0.044 million for workers compensation cover to the Public Sector Workers Compensation Fund.
- Supplies and Services (Note 10) – The Authority paid \$0.070 million in 2022-23 to the ACT Audit Office for audit services, \$ 0.113 million to CMTEDD DDTs for telecommunication and computing services, \$0.171 million to ACT Property Group for rent and \$0.072million to the Government Solicitor’s Office for periodic claims review.

Assets

- Cash and Investments (Note 11) – The Authority holds \$350.879 million in ‘investment unit holdings’ with the Territory Banking Account at the end of 2022-23.
- Receivables (Note 12) – The Authority has \$2.208 million in accounts receivable for distributions receivable with the Territory Banking Account at the end of 2022-23.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 19. BUDGETARY REPORTING

Significant Accounting Judgements and Estimates – Budgetary Reporting

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

- (a) the line item is a significant line item: the line-item actual amount accounts for more than 10 percent of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
- (b) the variances (original budget to actual) are greater than plus (+) or minus (-) 10 percent and \$15 million for the financial statement line item.

Operating Statement Line Items	Actual 2023 \$'000	Original Budget ¹ 2023 \$'000	Variance \$'000	Variance %	Variance Explanation
Ordinary activities					
Claims Expenses	(138,162)	(48,859)	(89,303)	183	Higher claims expenses during 2022-23 is mainly due to deteriorating claims experience in the medical malpractice portfolio with more than expected claims incurred during the period and large property damage individual claims for significant fire events at the Hume Material Recovery Facility and the Calvary Public Hospital (now the North Canberra Hospital).
Claims Related Recoveries	20,030	-	20,030	100	Unbudgeted claims related recoveries mainly due to deteriorating claims experience and particularly large individual property damage claims and medical malpractice claims that exceeded the reinsurance retention threshold. The Authority collected \$22.6 million of the prior period claims receivables during 2022-23 and incurred a further \$20.03 million in new reinsurance and third-party receivables as at 30 June 2023.
Gain on Investment	22,596	7,578	15,018	198	Higher gain on investment is mainly due to the Authority's investment portfolio delivering a gain of 9.4 per cent overall portfolio return for 2022-23 compared to 5.23 per cent budgeted return. The increase in market valuation of the investment portfolio is mainly due to underlying gains on share investments.

¹Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2022-23 Statement of Intent).

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 19. BUDGETARY REPORTING - CONTINUED

Balance Sheet/ Cashflow Line Items	Actual 2023 \$'000	Original Budget ¹ 2023 \$'000	Variance \$'000	Variance %	Variance Explanation
Liabilities					
Current Outstanding Claims Liabilities	76,423	63,030	13,393	21	Higher current outstanding claims liabilities for 2022-23 is due to a deteriorating claims experience in both the medical malpractice and property insurance classes compared to the actuarial estimate used for budget process based on December 2021 valuation.
Non- Current Outstanding Claims	307,502	245,932	61,570	25	Higher non-current outstanding claims liabilities for 2022-23 is mainly due to deteriorating claims experience in both the medical malpractice and property insurance classes compared to the actuarial estimate used for budget process based on December 2021 valuation.
Cash Flows from Operating Activities					
Receipts					
Reinsurance and Other Recoveries Received	24,692	-	24,692	100	Higher reinsurance and other recoveries received is mainly due to the settlement of large property claims and medical malpractice claims during the year for prior period claims for one large malpractice claims and large property damage claims.
Payments					
Insurance Claims	78,535	60,166	18,369	31	Higher claims payments relate to larger numbers of historical claims paid and finalised during the year. Refer to Note 6 : 'Net Incurred claims" and Note 14 'Outstanding claims liabilities' commentaries.

¹ Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2022-23 Statement of Intent).

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

NOTE 20. BUILDERS WARRANTY INSURANCE

The Territory entered into an indemnity agreement with QBE which commenced on 12 March 2020 for the provision of Builders Warranty Insurance scheme to ACT builders, with the Territory indemnifying QBE in respect of any claim losses. Under the agreement, the Authority receives premium revenue from QBE for any new policies written, QBE is paid a commission and receives a fee for the administration of claims management services.

The following section outlines the Builders Warranty Insurance financial performance for the reporting period ending 30 June 2023 and is included for transparency of this function due to the indemnity covering non-ACT Government entities.

Operating Statement	Note No.	2023 \$'000	2022 \$'000
The figures below are included in the Authority's Operating Statement			
Revenue:			
Gross Earned Premiums ^a	8	1,660	1,316
Recoveries	8	21	32
Interest Revenue	7	243	44
		1,924	1,392
Expenses			
Commission ^b	8	552	744
Claims Processing Service Fees	8	42	11
Claims Expense ^c	8	876	388
Actuarial Cost	10	60	59
Support Services	10	47	-
		1,577	1,202
Operating Result		346	190

^a Gross earned premium is based on gross written premium and any release of unearned premium liability based on actuarial estimates and liability adequacy test.

^b Commission expenses is lower mainly due to a decrease in gross written premium indicating a lower number of certificates issued during the period as the residential building sector is impacted by the recent economic conditions and supply chain issues.

^c Claims expenses is higher mainly due to a known case of six builders failing during the year and claims being paid.

**ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023**

NOTE 20. BUILDERS WARRANTY INSURANCE - CONTINUED

Balance Sheet	Note No.	2023 \$'000	2022 \$'000
The figures below are included in the Authority's Balance Sheet			
Assets:			
Cash ^a	11	6,507	5,181
Claims Related Recoveries	13	23	21
Current Receivable	12	437	262
Non- Current Receivable	13	39	19
		7,006	5,483
Liabilities:			
Other Liability (Accrued Expenses)	16	414	136
Current Unearned Premium Liabilities ^b	16	1,416	1,386
Current Outstanding Claims Liabilities ^c	14	754	631
Non-Current Unearned Premium Liabilities ^b	16	3,628	3,107
Non-Current Outstanding Claims Liabilities ^c	14	457	234
		6,669	5,494
Net Assets		337	(11)

^a Cash balance in the bank for the BWI Scheme increased in 2022-23 due to a positive cash flow from operating activities, receipts of gross written premium netted with commission and payments for other operating expenses.

^b Current and Non-current unearned premium liabilities are based on the liability adequacy test carried out for 30 June 2023.

^c Higher outstanding claims liabilities is mainly due to six builders failing since the Authority commenced the BWI scheme and changes in actuarial assumptions for the valuation particularly the assumption related to delays on completion of the construction project, which has increased from 3 months to 8 months based on recent experiences with supply chain issues in the construction sector.

NOTE 21. PHYSICAL AND SEXUAL ABUSE INDEMNITY SCHEME

The Territory initiated the design and implementation of a short-term Physical and Sexual Abuse (PSA) Indemnity Scheme for out of home care providers who provide services for the Territory through a contractual relationship with the Community Services Directorate. The Territory allocated appropriation of \$0.449 million to the Authority via the Chief Minister, Treasury and Economic Development Directorate in the mid-year budget review in December 2022 for the initial scoping, design and implementation of the scheme.

The Authority commenced the PSA indemnity scheme as a transitional arrangement effective from 1 April 2023 with the aim of progressing to a formal establishment of the indemnity scheme effective 1 July 2023. The Authority has not collected any premium for the scheme for the period and has not incurred any direct expenses or reported claims for the transition period as at 30 June 2023.

Due to the ongoing design and development of the new policy framework, the limited availability of provider claims experience and analytics, actuarial valuation for the claims liabilities for the PSA interim scheme portfolio for the period was not possible for 30 June 2023. The Authority is not anticipating any claims liabilities for the scheme as at 30 June 2023. The Authority is in a process of establishing ongoing reviews of claims liabilities and independent actuarial valuation of liabilities and any required liability adequacy test for future reporting periods.

The following section outlines the PSA Indemnity Scheme set up project financial performance for the reporting period ending 30 June 2023.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023
NOTE 21. PHYSICAL AND SEXUAL ABUSE INDEMNITY SCHEME -
CONTINUED

Operating Statement	Note No.	2023 \$'000
<i>The figures below are included in the Authority's Operating Statement</i>		
Revenue:		
Appropriation funding	8	201
		201
Expenses		
Employee Expenses	9	92
Consulting	10	100
Legal Expenses	10	9
		201
Operating Result		-

Balance Sheet	Note No.	2023 \$'000
<i>The figures below are included in the Authority's Operating Statement</i>		
Assets		
Cash ^a		248
		248
Liability		
Revenue Received in Advance	16	248
		248
Net Assets		-

^a Cash is included and represented in ACTIA's bank balance and this line item is only for presentation purpose.

C.3 Capital Works

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

C.4 Asset Management

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

C.5 Government Contracting

C.5.1 Aboriginal and Torres Strait Islander Procurement Policy

The Authority is part of CMTEDD and as such, any performance measures relating to Aboriginal and Torres Strait Islander Enterprises and any addressable spend for this reporting period is reported within the CMTEDD's Annual Report. There were no Aboriginal and Torres Strait Islander Enterprises directly registered as suppliers with the Authority.

C.5.2 ACT Government Contracts Register

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

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

The online ACT Government Contracts Register records contracts with suppliers of goods, services and works, with a value of \$25,000 or more.

A full search of ACT Insurance Authority contracts notified with an execution date from 1 July 2022 to 30 June 2023 can be made at <https://www.tenders.act.gov.au/contract/search>.

C.6 Statement of Performance

The Authority's Statement of Performance is reported on page 102 of the *2022-23 ACT Insurance Authority Annual Report*. Narrative on the performance measures is also included in B.2 Performance Analysis.

INDEPENDENT LIMITED ASSURANCE REPORT

To the Members of the ACT Legislative Assembly

Conclusion

I have undertaken a limited assurance engagement on the statement of performance of the ACT Insurance Authority (Authority) for the year ended 30 June 2023.

Based on the procedures performed and evidence obtained, nothing has come to my attention to indicate the results of the accountability indicators reported in the statement of performance for the year ended 30 June 2023 are not in agreement with the Authority's records or do not fairly reflect, in all material respects, the performance of the Authority, in accordance with the *Financial Management Act 1996*.

Basis for conclusion

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

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

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

Authority's responsibilities for the statement of performance

The Under Treasurer is responsible for:

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

Auditor-General's responsibilities

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

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

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

Limitations on the scope

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

This limited assurance engagement does not provide assurance on the:

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



Ajay Sharma
Assistant Auditor-General, Financial Audit
22 September 2023

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023 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 2023, and also fairly reflects the judgements exercised in preparing it.



Stuart Hocking PSM
Under Treasurer
Chief Minister, Treasury and
Economic Development Directorate
Delegate for the Chief Executive Officer
ACT Insurance Authority
22 September 2023



Penny Shields
General Manager
ACT Insurance Authority
22 September 2023

ACT INSURANCE AUTHORITY

STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

DESCRIPTION OF OBJECTIVES

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

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

The Authority also administers the:

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

Annual reports and financial statements for these two entities are available in the Chief Minister, Treasury and Economic Development Directorate 2022-23 Annual Report.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

Objective	Accountability Indicators	Original Target 2022-23	Actual Result 2022-23	Variance		Explanation of Material Variances (+/-10%)
				Amount	%	
Carry on the business of insurer of territory risks	a. Results from the annual customer satisfaction survey: - Overall customer satisfaction with the Authority	> 80%	82%	2%	3	
	b. Maintain the Authority's funding ratio as outlined in the Authority's Capital Management Plan.	140%	108%	(32)	(23)	The Authority's 30 June 2023 capital funding ratio is within the targeted range of 100-120 per cent in the Authority's Capital Management Plan for 2022-23. The decrease in funding ratio of 23% from the budgeted target of 140% based on budgeted balance sheet is mainly due to the significant increase in outstanding claims liabilities due to deteriorating claims experience in medical malpractice and property insurance portfolio. Large individual claims for property damage due to the significant fire events at Hume Material Recovery Facility and Calvary Public Hospital (renamed to North Canberra Hospital) contributed to a larger outstanding claims liability for the year ended 30 June 2023
	c. General and administrative expense as a percentage of total annual premium revenue.	10%	8.5%	(1.5)	(15)	Lower expenses ratio is mainly due to higher rate of increase in Gross Premium Revenue compared to previous year. The Authority maintained a sound control on employee expenses and relevant supplies and services during the year where both employee expenses and supplies and services spending are below the annual budget. Gross Premium has increased mainly due to external factors such as reinsurance premium increases and deteriorating claims experiences.

*The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.
The above Statement of Performance should be read in conjunction with the accompanying notes.*

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

Objective	Accountability Indicators	Original Target 2022-23	Actual Result 2022-23	Variance		Explanation of Material Variances (+/-10%)
				Amount	%	
Carry on the business of insurer of territory risks	d. The average number of days to process settlement of claims payments from the day all required documents are received from the agency.	14 days	18 days	4	29	Longer average payment days is mainly due to a substantially a large volume of historical claims settled and finalised during the year 2022-23. The Authority ensured all payments are processed and paid on a timely manner as per settlement terms, court orders, and any other payment requests from the Government Solicitors Office. Most of the settlement terms allows more than 14 days payment terms. There are several instances where settlement payments need to wait longer than 14 days to collect relevant documents from other external parties such as Medicare and NDIS. The Authority did not incur any fines, interest or penalties for settlement payments during the year.
	Take out insurance of territory risks with other entities	e. Complete Property Loss Control Surveys undertaken at a number of selected Territory locations.	8	8	0	0
	f. Hold quarterly reviews of all public liability and medical malpractice claims to assess the claim management strategy for matters where the Territory's reserve exceeds \$250,000.	4	4	-	-	

*The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.
The above Statement of Performance should be read in conjunction with the accompanying notes.*

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

Objective	Accountability Indicators	Original Target 2022-23	Actual Result 2022-23	Variance		Explanation of Material Variances (+/-10%)
				Amount	%	
Develop and promote good practices for the management of territory risks	g. Provide quarterly reporting to directorates to assist the identification, assessment and treatment of risks.	4	4	-	-	
	h. Deliver a program of general and targeted risk management training courses to Territory agencies.	36	35	1	3	
	i. Overall participant satisfaction with introduction to risk management training sessions delivered to agency staff members.	> 90%	89%	(1%)	(1)	

*The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.
The above Statement of Performance should be read in conjunction with the accompanying notes.*

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

NOTES

- a) Surveys are sent to a range of agency contacts including Director-Generals, Chief Executive Officers and other key stakeholders of ACT Government directorates and statutory authorities insured by the Authority. Respondents are asked to rate the quality of different aspects areas of the Authority's services based on their experiences over the past 12 months. For the question relating to the overall satisfaction of insurance management services the respondent is asked to select either very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied or very dissatisfied. Very satisfied or satisfied responses are taken as a positive result.
- b) The funding ratio is calculated by dividing total assets by total liabilities. The Authority aims to maintain its capital position between 100-120 per cent as outlined in the Authority's capital management plan. A capital position outside this range requires the Authority to consider corrective action. The parameters outlined in the Authority's capital management plan guide decision making to address a capital position outside the targeted ratio range. This would include action to seek capital injections (in a deficit situation) or returning excess capital (in a surplus situation) to the ACT Government.
- c) The Authority's general and administrative expenses which includes employee and superannuation expenses, along with supplies and services is calculated as a percentage of gross earned premiums expressed as Sale of Goods & Services in the operating statement and is measured against the budgeted results for the Authority.
- d) The Authority generally processes payments for the settlement of claims on a fortnightly basis. The number of days to process a payment is measured from the date all required documentation relating to settlements is received by the Authority to the date payment is made.
- e) The Authority's property reinsurers conduct an annual property loss control survey program on selected Territory locations. Property loss control reports identify the potential for property loss and assist agencies to reduce the risks of loss through loss prevention efforts. Recommendations are communicated to surveyed Territory agencies for consideration.
- f) The Authority conducts quarterly claims review meetings to review all public liability and medical malpractice claims where the Territory's reserve exceeds \$250,000. Meetings are also attended by representatives of the ACT Government Solicitor's Office, the Authority's insurance brokers (Marsh Pty Ltd) as well as external insurers and their solicitors.
- g) The Authority provides quarterly reports to ACT Government agencies to assist in the identification, assessment and treatment of risk for Territory activities. The reports provide a range of information and data, including claim numbers, cost of claims and analytics to support ongoing risk management considerations.

*The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.
The above Statement of Performance should be read in conjunction with the accompanying notes.*

- h) The Authority delivers a program of face-to face risk management training that covers general introductory and intermediate to advanced level risk management, along with entity specific training tailored to meet agency requirements.
- i) Attendees of risk management training sessions are requested to complete feedback forms at the completion of the courses delivered by the Authority. Attendees are asked to assess the course based on areas such as, course suitability, facilitators' knowledge and whether they would recommend the training. The satisfaction levels are determined by the respondents selecting either strongly agree, agree, disagree or strongly disagree. Strongly agree and agree are taken as a satisfied result.

*The above accountability indicators were examined by the ACT Audit Office in accordance with the Financial Management Act 1996.
The above Statement of Performance should be read in conjunction with the accompanying notes.*

Glossary Of Technical Terms

Actuary

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

Builders Warranty Insurance

Provides compensation to ACT homeowners for losses if their builder goes bankrupt, dies, or disappears, or for faulty workmanship.

Catastrophe

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

Claims Incurred

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

Claims Incurred But Not Enough Reported/Recorded (“IBNER”)

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

Claims Incurred But Not Reported (“IBNR”)

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

Claims Reported

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

Directors’ and Officers’ Insurance

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

Discount Rate

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

Earned Premiums

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

Insurance Claim

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

Insurance Incident

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

Insurance Year

1 July to 30 June.

Long-tail Claims

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

Medical Malpractice Insurance

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

Outstanding Claims

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

- case estimates for reported claims;
- provision for IBNER claims costs; and
- provision for IBNR claims costs.

Professional Indemnity Insurance

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

Property Insurance

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

Public Liability Insurance

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

Reinsurance

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

Reinsurance Recoveries

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

Risk Management

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

Settlement Costs

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

Superimposed Inflation

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

Underwriting Result

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

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