Annual Report 21 22

Australian Capital Territory Insurance Authority

ACT
Insurance Authority

The ACT Insurance Authority acknowledges the traditional custodians of the Canberra region. The ACT Insurance Authority wishes to acknowledge and respect their continuing culture and the contribution they make to the life of this city and region.

Contact for this report

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Freedom of Information

Freedom of information requests can be made through CMTEDD's Freedom of Information webpage.

Accessibility

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If you are deaf, or have a hearing or speech impairment, and need the telephone typewriter (TTY) service, please phone 13 36 77 and ask for 13 34 27. For speak and listen users, please phone 1300 555 727 and ask for 13 34 27. For more information on these services, contact us through the National Relay Service: www.relayservice.gov.au

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A. TRANSMITTAL CERTIFICATE

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

Dear Minister

2021-22 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 2022*.

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 following 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 2021 to 30 June 2022.

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hereby certify that fraud prevention has been managed in accordance with the *Public Sector Management Standards 2006 (repealed)*, Part 2.3 (see section 113, Public Sector Management Standards 2016).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 2021-22 Chief Minister, Treasury and Economic Development Annual Report.

Yours sincerely

Stuart Hocking
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate

29 September 2022

COMPLIANCE STATEMENT

The ***2021-22 ACT Insurance Authority Annual Report*** must comply with the *2022 Annual Reports (Government Agencies) Directions* (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 ***2021-22 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 ***2021-22 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 ***2021-22 ACT Insurance Authority Annual Report*** as follows:

- A. Transmittal Certificate, see page 5.
- B. Organisational Overview and Performance, inclusive of all subsections, see pages 8-28.
- C. Financial Management Reporting, inclusive of all subsections, see pages 29-91**.**

PART 3 REPORTING BY EXCEPTION

The Authority has nil information to report by exception under Part 3 of the Directions for the 2021-22 reporting year.

PART 4 DIRECTORATE AND PUBLIC SECTOR BODY SPECIFIC ANNUAL REPORT REQUIREMENTS

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

PART 5 WHOLE OF GOVERNMENT ANNUAL REPORTING

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

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

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

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 2021-22, the Authority insured Territory assets to the value of $29.7 billion, collected $61.7 million in annual premium revenue, held $328.2 million in investments and other assets, with total liabilities of $328.8 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 reinsurance 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, corporate travel, standing timber, aviation and personal accident cover for both aero retrieval and volunteer workers. The Authority bears no risk on these policies.

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

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

B.1.3 Our Approach

Throughout 2021-22, the Authority was a part of the Economic, Revenue, Insurance, Property and Shared Services (ERIPSS) 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.

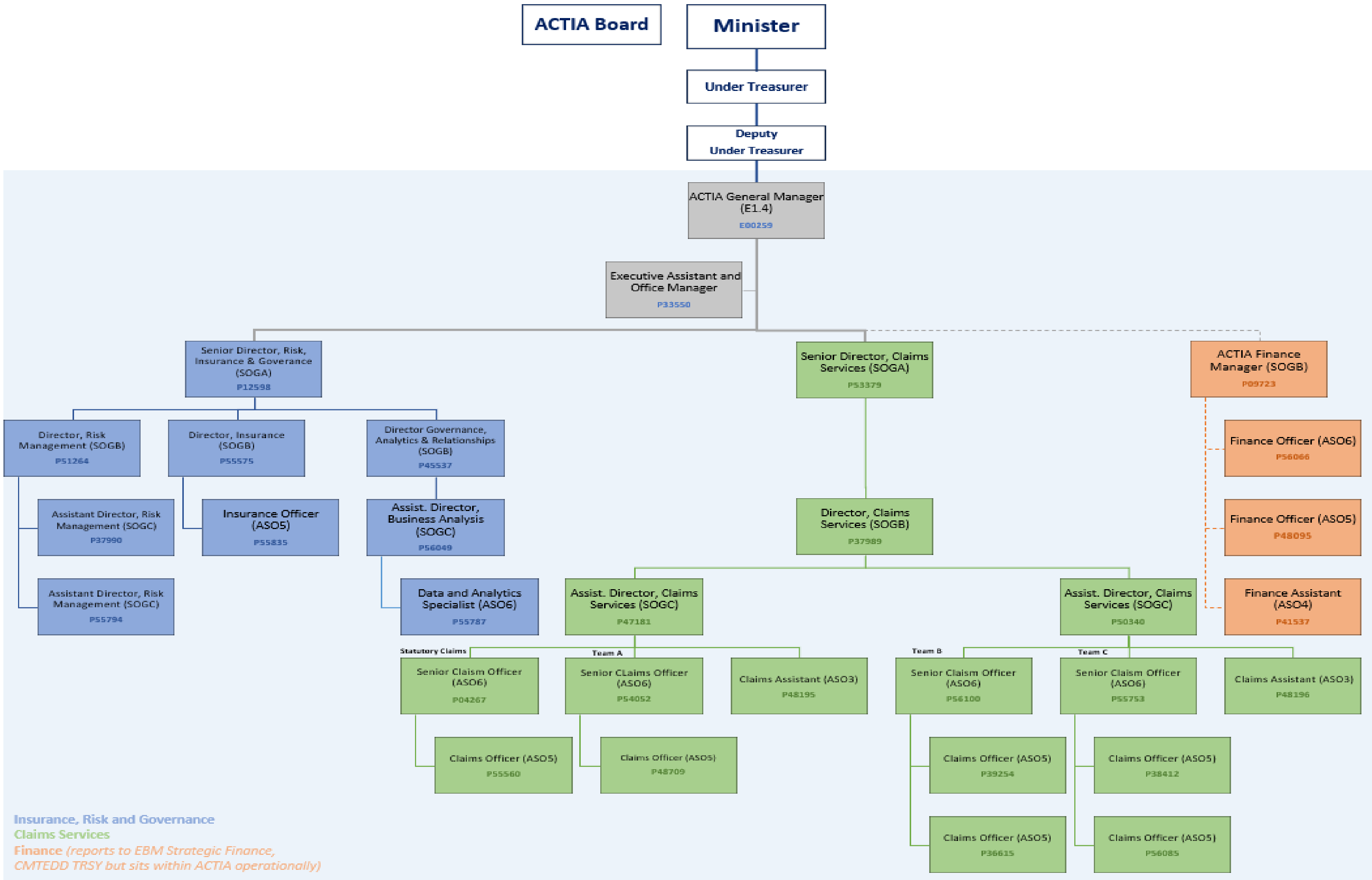
The Authority is supported by an Insurance Advisory Board (the Board) appointed under the Authority's enabling legislation. The Board members during 2021-22 were Mr Ian Faragher (Chair) and Ms Robyn Bateup (member).

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



B.1.5 Year in Review

The Authority's key achievements during the 2021-22 year were:

Risk Management Support

The Authority was responsible for the revision and publication of the ACT Risk Management Policy (the Policy) in consultation with directorates and statutory authorities in 2021-22. The Policy was originally launched in February 2019 after endorsement by Strategic Board and the Minister for Government Services and Procurement.

The Authority reviewed the Policy and the associated Risk Matrix in consultation with entities during the 2021-22 financial year. There were minimal changes made to the Policy, with focus on the addition of emerging risk categories to the Risk Matrix, specifically cyber security, and climate change.

The Authority has restructured during 2021-22 and increased capacity of its risk management team to enhance its ability to promote best practice risk management across the Territory and support directorates and statutory authorities with implementation of the Policy.

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, in the form of general, specialist, and executive training; and
- face-to-face risk assessments and workshops.

The increased capacity within the risk management team aims to enhance the capability and capacity of the team to assist directorates and agencies with their risk maturity and risk management capability.

Reinsurance Program Placement and External Insurance for 2022-23

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 2022-23 renewal strategy tested the current program structure and pricing with incumbent insurance and reinsurance providers across all insurance classes.

The successful placement of the 2022-23 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 global reinsurance market continues to be affected by several natural disasters in Australia and an ongoing reduction in capacity in the global insurance market. 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 2022-23 reinsurance program was negotiated at $14.3 million, representing an increase of 12.4 per cent on the 2021-22 program.

There were premium increases for each insurance class, based on rate increases from insurers, as well as increased activity and asset values. The largest increases were in relation to Property (Industrial Special Risk), with a 10.4 per cent increase, Medical Negligence, which saw an increase of 13 per cent, and an increase of 18.5 per cent for the combined Public Liability and Professional Indemnity reinsurance policy.

The Authority also arranges direct insurance cover for contract works, corporate travel, standing timber, aviation, and personal accident cover for both aero retrieval and volunteer workers. The premium for contract works has increased by 33.4 per cent from the 2021-22 period, based largely on an anticipated increase in construction activity across the Territory.

The Authority has agreed to self-insure standing timber within the Arboretum and has entered a co-insurance (50 per cent) arrangement for standing timber within ACT Forests, based on the reduction in cover and increased premium being charged by the commercial insurance market.

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 successfully implemented its new claims management system in November 2020. The Authority continues to work with the vendor on enhancement of the system to enable more streamlined claims and payment processing and to assist with data analysis and trending.

Advice has been obtained from ACT Government Solicitor and Digital Data and Technology Services throughout the project. The Authority's Advisory Board, the Deputy Under Treasurer, ERIPSS, and the Under Treasurer have also been briefed during this time.

The Authority extended the system during 2021-22 to include management of claims against the Default Insurance Fund and Nominal Defendant (both of which are managed by the Authority).

Natural Disasters

Natural disasters and change to weather patterns continue to impact claim frequency and severity. There have been two significant claims arising from weather events through 2021/2022; 18 December 2021 and the 3 January 2022. The Authority's Claims team are actively managing these matters. Assessment of these matters suggest that damage to Territory assets from these events, while considered significant, does not match that of weather events in previous years. In addition, work continues to resolve claims resulting from the January 2020 hail event.

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. The Authority anticipates that premiums may now be near to the top of the cycle and expects that they may start to stabilise, although this will depend on the Territory's claims experience and the continuation and success of the Territory's risk management practices.

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 2022-23 include:

- guiding and informing agencies on the implementation and continuous improvement of risk management practices consistent with the ACT Risk Management Policy;
- reviewing the Territory's risk profile, reinsurance program structure, policy terms and conditions to ensure that the program remains suitable 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;
- delivering risk management services including training, targeted educational seminars and consultancy services for agencies that increase the level of stakeholder engagement;
- continuing to implement an insurance and claims management system to enable the Authority to continue to deliver mature services to Territory agencies; and
- developing robust governance arrangements, focused on improving efficiency in process and service delivery.

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 *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.

Table B.1: Board members:

Name of Member	Position	Duration	Meetings Attended
Mr Ian Faragher	Member and Chair	March 20 to February 2023	4 of 4
Ms Robyn Bateup	Member	September 20 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 2021-22 and was consulted on the following:

- the Territory's reinsurance program for 2022-23;
- 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 *2021-22 Statement of Intent* and are reported as part of the Authority's Statement of Performance, see pages 86-93.

The Authority undertook a review of its Key Performance Indicators in 2021, with the 2021-22 KPIs reflecting a new suite of indicators, with some previous indicators being discontinued. The objective of the review was to ensure the KPIs being measured are relevant to 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 73 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; and
- the Authority responding in a helpful manner to requests.

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 2022, is 121 per cent equating to a balance sheet surplus of $68.9 million with a forecasted capital funding position for 2022-23 of $124.4 million, 140 per cent.

Table B.2: Funding Ratio:

Balance Sheet	Actual 30 June 2021 $ Million	Actual 30 June 2022 $ million	Forecast 30 June 2023 $ million
Assets	$447.2	$398.7	$439.1
Liabilities	$334.2	$329.8	$314.7
Net Assets	$113.0	$68.9	$124.4
Funding Ratio	134%	121%	140%
Capital Return	-	-	-

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

General and administrative expenses represent 7 per cent of gross premium revenue in 2021-22. 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 2021-22 is mainly due to lower employee expenses relating to the timing of recruitment for additional positions for ACTIA's new operating structure.

Average number of days to process payments for settlement of claims

During 2021-22 it took an average of 21 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 of a large number of historical claims in 2021-22, unplanned leave and new staff members being established in their roles. The Authority made all 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 in 2021-22 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 2021-22 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 2021-22, 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 2021, 31 December 2021 and 31 March 2022. 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 will be reviewed and updated based on consultation with Directorates for 2022-23.

Deliver general and targeted risk management training courses

The Authority facilitated the delivery of 9 targeted face to face risk management training sessions and workshops to approximately 94 territory staff in 2021-22. The training was facilitated using a combination of virtual and face-to-face mediums.

The Authority has seen a decrease in the overall number of face-to-face risk management training sessions undertaken during the financial year due to the continued impact of COVID-19. Interest and engagement from Directorates for general and targeted training remains high.

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 is positive.

Participants indicated a high level of satisfaction with the courses provided in 2021-22 and a majority indicated that the training was informative, comprehensive, well-presented and generally met their needs.

Feedback received showed 100 per cent of respondents were satisfied with the risk management training provided in 2021-22.

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 2021-22. The only scrutiny from the Auditor-General during the reporting year was for the audit of the 2020-21 Financial Statements, and the review of the 2020-21 Statement of Performance.

B.4 Risk Management

The Authority maintains its own operational risk register which identifies the Authority's business and workplace, health and safety risks. The register details the control measures and treatment plans for identified categories of risk including financial, business, information technology, 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 2021-22 the Authority's internal audit functions were provided by the CMTEDD Audit and Risk Committee (the Committee). The Committee assists the Director-General and the Under Treasurer in fulfilling their oversight and governance responsibilities. The Committee's functions are governed by the CMTEDD Audit and Risk Committee Charter. The Committee's role, composition, authorities and responsibilities are set out in the CMTEDD Audit and Risk Committee Charter.

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 CMTEDD Audit and Risk Sub-Committee (Financial) reviews the annual financial statements delivered by the Directorate. The Committee Chair provides advice to the Director-General and Under Treasurer on audit outcomes, significant risks and implementation of mitigation strategies.

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 from within CMTEDD. There were no changes to the Committee membership during 2021-22. The Committee held four ordinary meetings, two special meetings and intersessional meetings focussing on a specific risk.

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

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

Name of Member	Position	Duration	Meetings Attended
Greg Field	Independent Chair	1 July 2021 – 30 June 2022	7
Jennifer Johanson	Independent Deputy Chair	1 July 2021 – 30 June 2022	7
Geoffrey Rutledge	Senior Executive Officer from other ACT Government directorate	1 July 2021 – 30 June 2022	5
Sam Engele	CMTEDD Member	1 July 2021 – 30 June 2022	6
David Pryce	CMTEDD Member	1 July 2021 – 30 June 2022	7
Penny Shields	CMTEDD Member	1 July 2021 – 30 June 2022	7

CMTEDD engaged external service providers from the ACT Government Professional and Consulting Services Panel, or specialists, to write internal audit reports. The Directorate develops the internal audit program by identifying areas of strategic, operational or fraud risk. The Committee reviews this Program with endorsement from the Director-General and the Chair of the Committee.

The internal audit program did not require the Authority to complete any audit activities during 2021-22.

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 2021-22 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 2020-21 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*. 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; and
- one fire warden.

During 2021-22, ACTIA offered Mental Health First Aid training to all Authority employees. This has resulted in a number of staff members completing the qualifications to become Mental Health First Aid officers, enhancing support available to Authority employees and stakeholders.

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 2021-22 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 2021-22. This team provides strategic, operational and technical advice and support as issues arise. Details of human resource management can be found in the CMTEDD 2021-22 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 2021-22, 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. In addition, the Authority arranged tailored external training for Mental Health First Aid and Resilience and Wellbeing sessions.

A number of the Authority's employees have attended courses offered by CMTEDD throughout the year including the CMTEDD Supervisor Development Program and utilised the CMTEDD Study Assistance Program to work towards gaining various formally recognised qualifications. The cost of training courses and seminars undertaken in 2021-22 totalled $14,870.

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 (ARIns) to be agreed with staff to allow higher levels of remuneration or other benefits to be provided, where market rates exceed those payable. The Authority has no ARIn arrangements in place.

B.11.3 Staffing Profile

The following tables provide statistical information for permanent staff of the Authority for 2021-22:

Table B.4: FTE and headcount by division/branch

Division/Branch	FTE	Headcount
ACT Insurance Authority	27.4	28

Table B.5: FTE and headcount by gender

	Female	Male	Total
FTE by Gender	21.4	6.0	**27.4**
Headcount by Gender	22	6	**28**
% of Workforce	78.6%	21.4%	**100.0%**

Table B.6: Headcount by classification and gender

Classification Group	Female	Male	Total
Administrative Officers	14	2	**16**
Senior Officers	7	4	**11**
Executive Officers	1	-	**1**
TOTAL	**22**	**6**	**28**

Table B.7: Headcount by employment category and gender

Employment Category	Female	Male	Total
Casual	-	-	**-**
Permanent Full-time	18	5	**23**
Permanent Part-time	1	0	**1**
Temporary Full-time	2	1	**3**
Temporary Part-time	1	0	**1**
TOTAL	**22**	**6**	**28**

Table B.8: Headcount by diversity group

	Headcount	Percentage of Authority workforce
Aboriginal and Torres Strait Islander	-	-
Culturally & Linguistically Diverse	6	21.4%
People with a disability	3	10.7%

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

Table B.9: Headcount by age group and gender

Age Group	Female	Male	Total
Under 25	0	0	**0**
25-34	9	-	**9**
35-44	6	2	**8**
45-54	6	1	**7**
55 and over	1	3	**4**

Table B.10: Average length of service by gender (headcount)

	Female	Male	Total
Average years of service	5.6	6.2	**5.7**

Table B.11: Recruitment and separation rates

	Percentage Total
Recruitment Rate	**28.9%**
Separation Rate	**4.8%**

B.12 Ecologically Sustainable Development

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

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

Information on the Authority's operational consumption data that are captured at a directorate level can be found in the Ecological Sustainable Development section with the CMTEDD Annual Report 2021-22. Those operational consumption resources that are within the Authority's control for 2021-22 are outlined in table B.12, with comparison data for 2020-21.

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

Indicator as at 30 June	Unit	2020-21 Result	2021-22 Result	Percentage change
Authority staff and area				
Authority Staff	FTE	22.7	27.4	20.70
Workplace floor area	Area (m^2)	542	334.34	- 38.31
Stationary energy usage				
Electricity use	Kilowatt hours	Refer to the CMTEDD Annual Report		N/A
Natural gas use	Megajoules			
Diesel use	Kilolitres			
Transport fuel usage				
Electric vehicles	Number	-	-	-
Hybrid vehicles	Number	-	-	-
Hydrogen vehicles	Number	-	-	-
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	-	-	-

Indicator as at 30 June	Unit	2020-21 Result	2021-22 Result	Percentage change
Water Usage				
Water use	Kilolitres	Refer to the CMTEDD Annual Report		N/A
Resource efficiency and waste				
Reams of paper purchased	Reams	5	20	300
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 CO_2-e	Refer to the CMTEDD Annual Report		N/A
Emissions diesel use (non-transport)	Tonnes CO_2-e			
Emissions from transport fuel use	Tonnes CO_2-e			

Section C

C. FINANCIAL MANAGEMENT REPORTING

C.1 Financial Management Analysis

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

C.1.1 Management Discussion and Analysis for the Financial Year ended 30 June 2022

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 administers the financial transactions relating to the Builders Warranty Insurance (BWI) agreement in place between the Territory and QBE which commenced 12 March 2020. Under the agreement, the Authority received 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.

Objectives

The key objectives of the Authority are to:

- carry out the business of insurer of Territory risks;
- take out insurance of Territory risks with other entities;
- satisfy or settle claims in relation to Territory risks;
- with the Treasurer's approval, take action for the realising, enforcing, assigning or extinguishing rights against third parties arising out of or in relation to its business, including, for example:
  - taking possession of, dealing with or disposing of, property; or
  - carrying on a third 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.

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 plan, specific to the Authority's internal functions, identifies, and details risks and control measures and treatment action plans for risks in the three main areas of financial, business and information technology.

The Authority has identified the following key risks:

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

To manage these risks, the Authority engages a specialised insurance broker to provide professional advice and access to international and local reinsurance markets. Professional actuaries provide support and advice that aligns agency premiums with claims experience. 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 2021-22, and the forward estimates contained in the Authority's 2022-23 Statement of Intent.

During 2021-22 the Authority experienced several functional and operational events, some of the key changes and events included:

- The Authority has gone through an internal restructure with 10 additional staff being approved to improve the Insurance and Risk Management, Governance and Claims Management services provided by the Authority. The new staffing structure was approved through the 2021-22 budget process and the Authority is gradually recruiting for the new positions to complete the new structure.
- For the second half of the financial year, the Authority's investment fund has been significantly impacted by the unfavourable global economic and financial market volatilities driven by high inflation, interest rates and geopolitical risks resulting in a lower investment distribution and loss on the market value of investment.

Operating Result

The Authority's operating result for 2021-22 is a loss of **$41.2 million**, being **$62.4 million** lower than the original budget surplus of **$21.2 million**. The variance to budget was primarily due to a loss of 6.3 per cent on the remeasurement of investments, higher claims expenses due to a higher volume of claims payments and an adjustment for recoveries from reinsurance and third parties due to lower case estimates from the 30 June 2022 actuarial valuation.

Underwriting (Loss)

Components of Underwriting (Loss)

For the year ended 30 June 2022, the Authority recorded a total underwriting loss of **$16.2 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 2020-21 $'000	Actual 2021-22 $'000	Original Budget 2021-22 $'000	Estimated Budget 2022-23 $'000
Net Earned Premiums	39,945	48,652	47,265	56,471
Net Incurred Claims	(44,073)	(64,852)	(41,914)	(48,859)
Underwriting (Loss) Profit	(4,128)	(16,200)	5,351	7,612

Comparison to Budget

The underwriting loss of **$16.2 million** was **$21.6 million** lower than the original budget underwriting profit result of **$5.4 million**.

The lower underwriting loss is predominantly due to higher than expected net incurred claims of **$22.9 million**. Net incurred claims incorporate claims expense net of reinsurance recoveries and other claims related recoveries. Claims expense was higher than the original budget by **$14.3 million** primarily due to the increase in the numbers and amount of settlement payments processed in the 2021-22 insurance year and a decrease in the estimated claims recoveries of **$8.6 million** from reinsurance and third parties mainly due to revised lower case estimates on year end actuarial review. The lower case estimates related to a favourable claims experience on larger property and medical malpractice claims. There was a significant decrease in case estimates for larger property claims related to 2020 storm and bushfire events.

Comparison to 2020-21 Actual

In comparison to the 2020-21 underwriting loss of **$4.1 million**, the underwriting loss increased by **$12.1 million.** The variance is due to an increase in net incurred claims of **$20.8 million** partially offset by an increase in the net earned insurance premiums of **$8.7 million**. The increase in net incurred claims is predominantly due to a decrease in claims related recoveries as a result of favourable claims experience on property and medical malpractice portfolio with a decrease in case estimates for claims related receivables, partially offset by lower claims expenses for new incurred claims and an increase in discount rate leading to a favourable movement in outstanding claims Liability and claims expenses. The increase in net earned premiums was primarily due to the increase in annual premiums as a result of changes in actuarial assumptions which was attributed to less than favourable claims experiences since 2020-21.

Future Trends

The future trend expected for the 2022-23 underwriting result is a budget surplus of **$7.6 million**. This is an increase of **$23.8 million** from the 2021-22 actual loss result**.** This is due to an expected increase in net earned premiums of **$7.8 million** as a result of updated actuarial assumptions incorporating the assessment of the reinsurance market outlook and the portfolio's claims experience and a decrease in net incurred claims expenses of **$16.0 million** for 2022-23 due to an expectation for improved claims development experiences.

Investment Performance

For the year ended 30 June 2022, the Authority's investment performance is a net loss of **$21.5 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 2020-21 $'000	Actual 2021-22 $'000	Original Budget 2021-22 $'000	Estimated Budget 2022-23 $'000
Investment and Interest Revenue	20,639	5,799	10,947	10,821
Gain / (Loss) on Investment	27,777	(27,295)	8,074	7,578
Total Investment Revenue/(Net loss)	48,416	(21,496)	19,021	18,399

Comparison to Budget

The net loss on investments of **$21.5 million** was **$40.5 million** lower than the original budget of **$19.0 million**.

The decrease in the investment revenue is due to the investment portfolio incurring a loss of **$27.3 million** (or 6.3 per cent) for 2021-22 compared to a budget target of 7.7 per cent gain. The loss on the remeasurement of investments is mainly due to the decreased market valuations reflecting poor market conditions. Distributions from investments was substantially lower at **$5.8 million** for 2021-22 due to the lower income available in the investment fund for distribution.

Comparison to 2020-21 Actual

In comparison to the 2020-21 investment revenue of **$48.4 million**, the investment revenue decreased by **$69.9 million**. The variance is mainly due to a decrease in the value of investments on remeasurement of **$54.9 million** and a decrease in the distribution revenue of **$14.9 million** relating to the loss on investments of 6.3 per cent compared to a gain of 14.4 per cent for 2020-21.

Future Trends

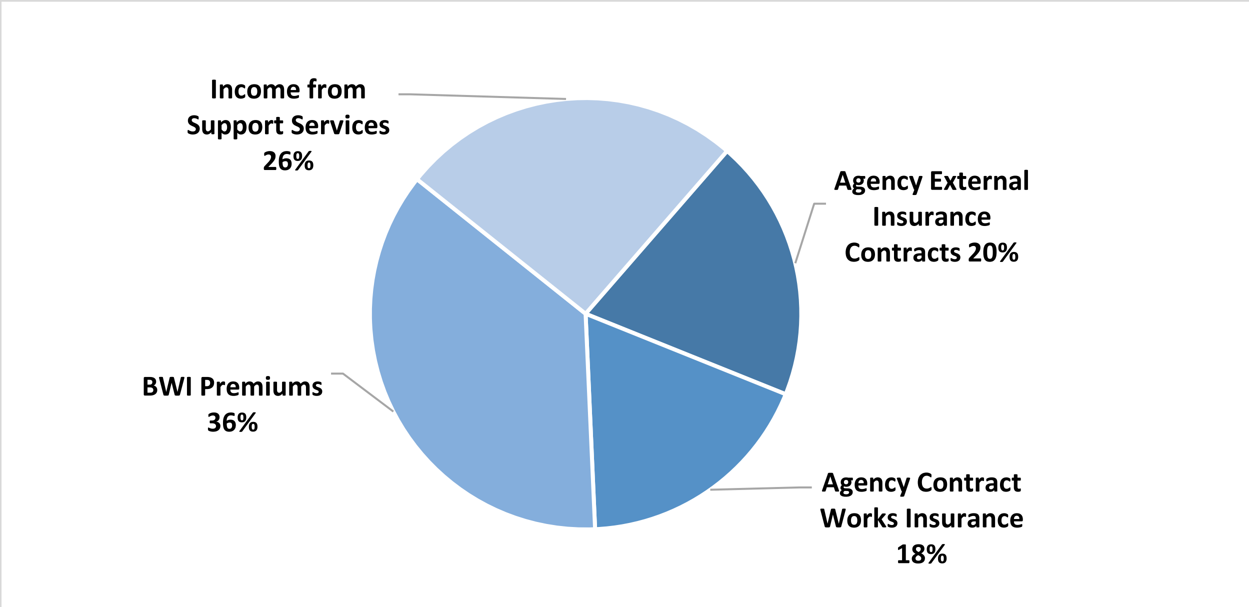
The future trend expected for the 2022-23 investment revenue is a budget of **$18.4 million**. This is an increase of **$39.9 million** from the 2021-22 actual investment revenue**.** This is due to the investment return target (CPI+2.5%) remaining unchanged for the 2022-23 budget based on expectation of a return to normal investment market conditions during 2022-23.

Other Revenue

Components of Other Revenue

For the year ended 30 June 2022 the Authority recorded other revenue of **$3.7 million.** The main sources of other revenue are the BWI premium, Income from support services and external insurance premiums as shown in the *Figure C.1*.

FIGURE C.1: COMPONENTS OF OTHER REVENUE 2021-22



Source: ACT Insurance Authority's 2021-22 Financial Statements.

Comparison to Budget

Other revenue of **$3.7 million** was **$1.6 million** lower than the original budget of **$5.3 million.** This is predominantly due to lower insurance premium revenue for the BWI scheme. The authority has adopted a change in the accounting policy, implementing Australian Accounting Standards Board (AASB) 1023 *General Insurance Contracts,* to recognise the unearned premium liability and earned premium revenue based on the Liability adequacy test for the BWI scheme. The budget was based on the previous arrangement of recognising the full amount of the gross premium as revenue. The revenue for externally purchased insurance policies for contract works and agency external insurance contracts are pass-through, and the revenue is materially in line with the original budget.

Comparison to 2020-21 Actual

In comparison to the 2020-21 actual result of **$5.8 million**, other revenue decreased by **$2.1 million** or **36 per cent**. This is predominantly due to changes in the accounting policies for BWI revenue to recognise earned premium as opposed to the gross premium revenue approach adopted in the past.

Future Trends

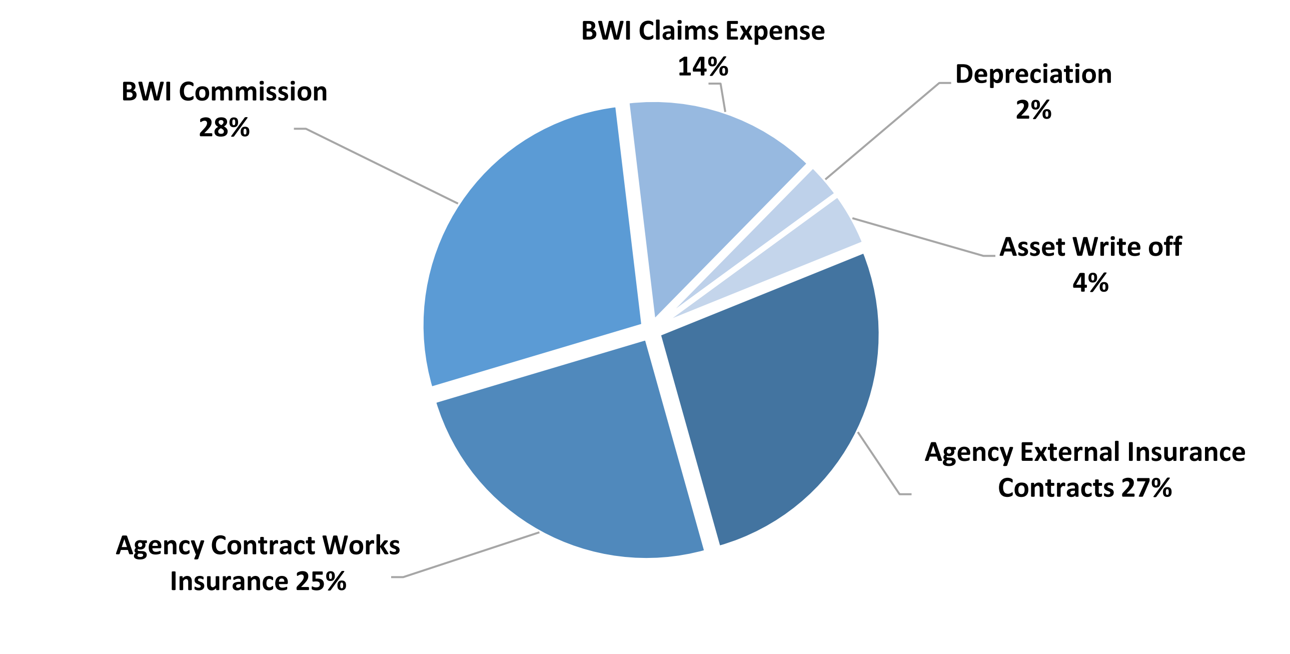
The future trend expected for the 2022-23 budget for other revenue is **$5.4 million**. This is an increase of **$1.7 million** from the 2021-22 actual result due to the budget being based on the previous approach of recognising the BWI premium on a gross basis.

Other Expenses

Components of Other Expenses

For the year ended 30 June 2022 the Authority recorded other expenses of **$2.7 million**. The main sources of other expenses are the BWI commission, agency external insurance contracts and agency contract works insurance premiums as shown in *Figure C.2.*

FIGURE C.2: COMPONENTS OF OTHER EXPENSES 2021-22



Source: ACT Insurance Authority's 2021-22 Financial Statements.

Comparison to Budget

Other expenses **$2.7 million** were mainly consistent with the original budget of **$2.5 million.**

Comparison to 2020-21 Actual

There is no significant variance between the 2020-21 actual result of **$2.7 million** for other expenses and the 2021-22 actual result of **$2.7 million.**

Future Trends

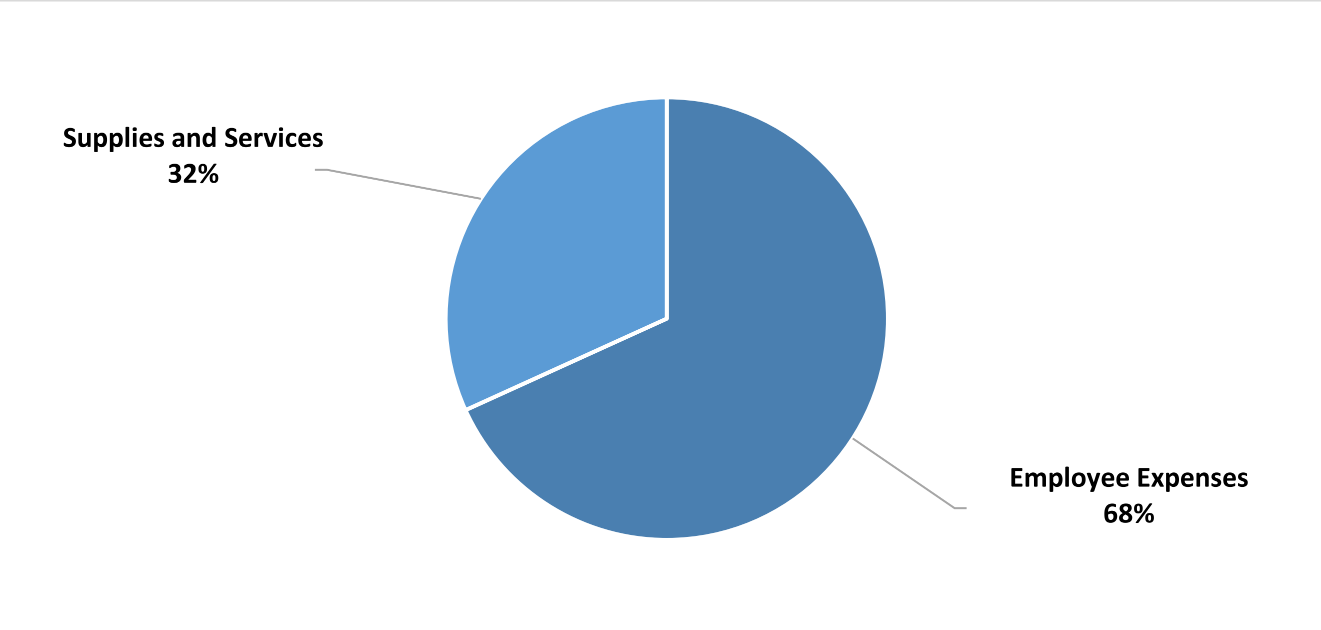
The future trend expected for the 2022-23 budget for other expenses is **$2.6 million.** This is a decrease of **$0.1 million** from the 2021-22 actual result predominantly due to the decrease in depreciation and one-off asset write off expenses.

General and Administration Expenses

Components of General and Administration Expenses

General and administration expenses totalled **$4.5 million** for the Authority in 2021-22. As shown in *Figure C.3*, the main components of these expenses relate to employee (and superannuation) expenses, representing 68 per cent of the Authority's general and administration expenses.

FIGURE C.3: COMPONENTS OF GENERAL AND ADMINISTRATION EXPENSES 2021-22



Source: ACT Insurance Authority's 2021-22 Financial Statements.

Comparison to Budget

In 2021-22, general and administration expenses were **$1.3 million** lower than the original budget of **$5.8 million**. This is predominantly due to lower employee expenses of **$1.2 million** due to the timing of recruitment for 10 additional positions in the new approved structure.

Comparison to 2020-21 Actual

In comparison to the 2020-21 actual result of **$3.9 million,** general and administration expenses increased by **$0.6 million.** The increase is mainly due to higher employee expenses of **$0.3 million** resulting from employing additional budgeted resources recruited toward the second half of the financial year and an increase of **$0.4 million** for supplies and services relating to an increase in actuarial and support services expenditure.

Future Trends

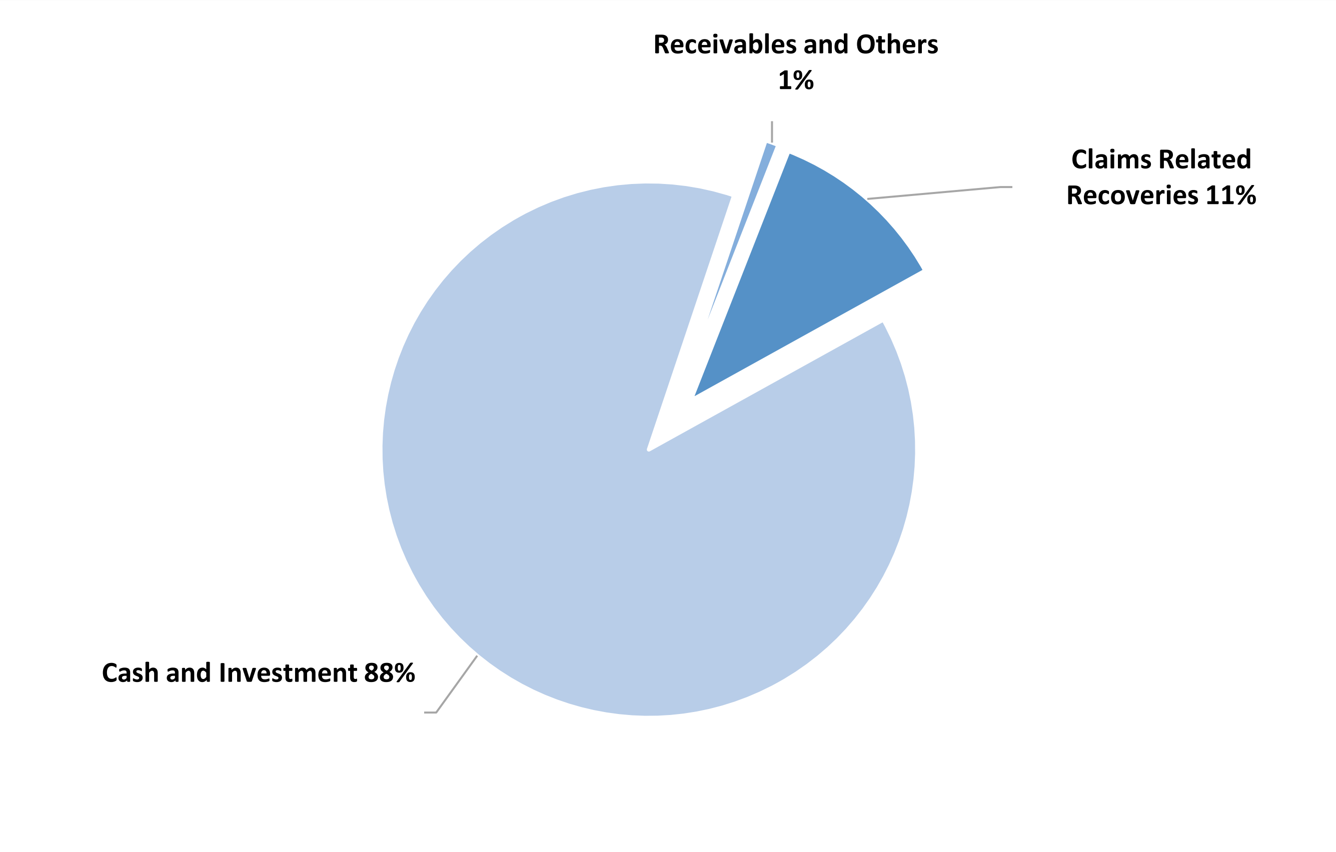
The future trend expected for the 2022-23 budget for general and administration expenses is **$6.2 million.** This is an increase of **$0.3 million** from the 2021-22 actual result mainly due to the full year impact of reaching budgeted staffing levels.

Total Assets

Components of Total Assets

The total assets position as at 30 June 2022 is **$398.7 million**. *Figure C.4* below indicates that the majority of assets are held in Cash and Investments (**88%**).

FIGURE C.4: COMPONENTS OF TOTAL ASSETS 2021-22



Source: ACT Insurance Authority's 2021-22 Financial Statements.

Comparison to Budget

Total assets as at 30 June 2022 of **$398.7 million** is **$79.8 million** lower than the original budget of **$478.5 million**. This is predominantly due to a lower than expected value of investments of **$118 million** partially offset by unbudgeted claims related recoveries of **$43.0 million** mainly due to provision for claims related receivables from reinsurers and third parties.

Comparison to 2020-21 Actual

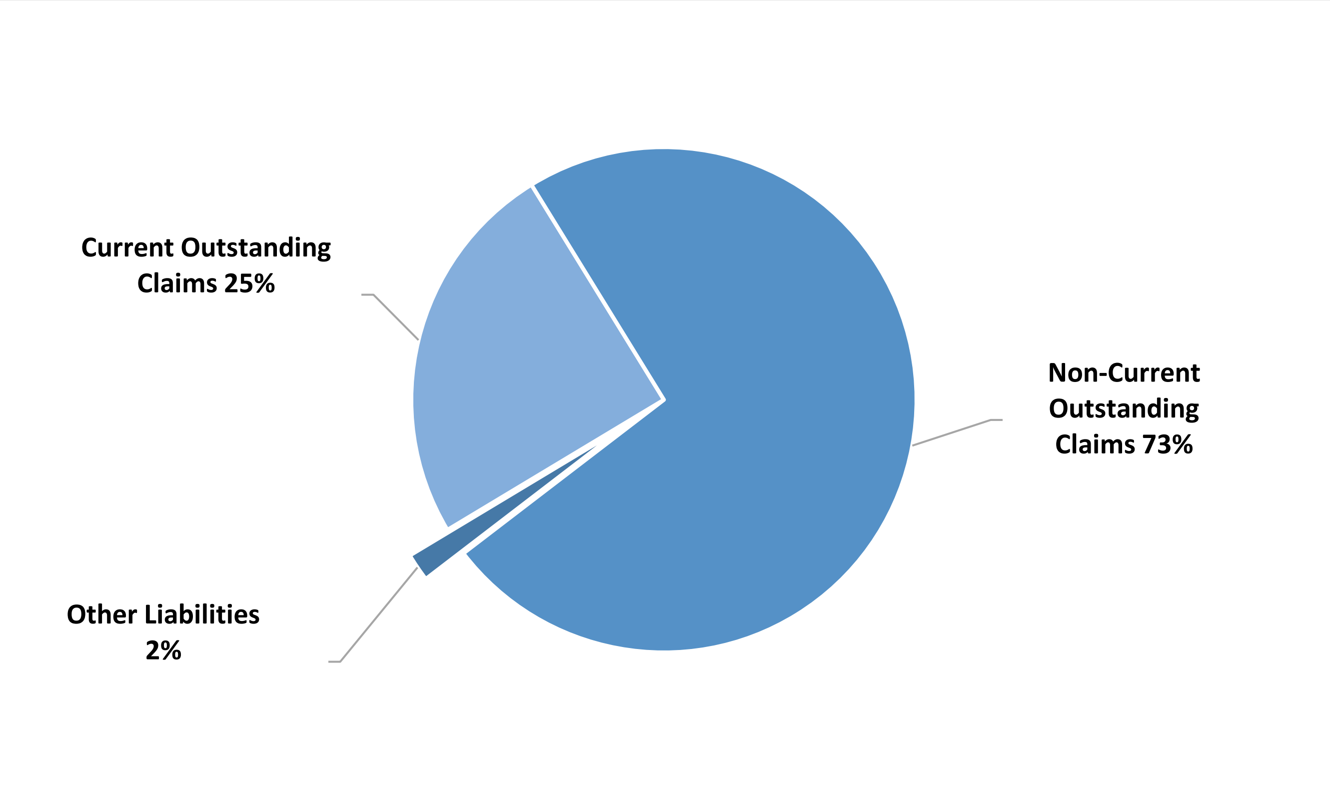
Total assets are **$48.4 million** or **11 per cent** lower than the 2020-21 actual position of **$447.1 million**. The decrease is predominantly due to a decrease in the fair value of investments as at 30 June 2022. In contrast to 2020-21, investments incurred an investment loss of 6.34 per cent (investment gain of 14.4 per cent in 2020-21) for financial year ended 30 June 2022 as a result of poor market conditions.

Total Liabilities

Components of Total Liabilities

The total liabilities position as at 30 June 2022 is **$329.8 million**. *Figure C.5* below shows the majority of liabilities relate to outstanding claims liabilities.

FIGURE C.5: COMPONENTS OF TOTAL LIABILITIES 2021-22



Source: ACT Insurance Authority's 2021-22 Financial Statements.

Comparison to Budget

Total liabilities as at 30 June 2022 of **$329.8 million** is **$14.5 million** lower than the original budget of **$344.3 million.** The decrease is predominantly due to a decrease in outstanding claim liabilities as a result of larger claims settlement payments processed during 2021-22 and lower new incurred claims for the year ended 30 June 2022.

Comparison to 2020-21 Actual

Total liabilities are **$4.3 million** or **1 per cent** lower than the 2020-21 actual position of **$334.1 million**.

Capital Funding Ratio

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

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

Under this plan 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 at 30 June 2021 $'000	Actual at 30 June 2022 $'000	Budget at 30 June 2022 $'000	Budget at 30 June 2023 $'000
Total Assets	447,156	398,731	478,515	439,141
Total Liabilities	334,189	329,843	344,310	314,673
Funding Ratio	134%	121%	139%	140%

The Authority's funding ratio as at 30 June 2022 is **121 per cent.** This is lower than the 2021-22 budget funding ratio of **139 per cent** due to the decrease in value of investments and the larger amounts of claims payments made during 2021-22.

The Authority's budget forecast for 2022-23 funding ratio is significantly higher at **140 per cent** mainly due to the timing difference as the budget was set in April 2022 with the base value of investment and investment returns. There has been a significant decline in investment value for the final two months in the financial year since the budget adjustment was closed, leading to a larger variance from 2021-22 actual results.

C.2 Financial Statements

For the Financial Year Ended 30 June 2022

The Authority's Financial Statements are reported on page 45 of the *2021-22 ACT Insurance Authority Annual Report*.

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

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 2022 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 2022, 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
28 September 2022

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

STATEMENT OF RESPONSIBILITY

In my opinion, the ACT Insurance Authority's financial statements fairly reflect the financial operations for the year ended 30 June 2022 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
27 September 2022

ACT INSURANCE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

STATEMENT BY THE GENERAL MANAGER

In my opinion, the financial statements have been prepared in accordance with Australian Accounting Standards and are in agreement with the ACT Insurance Authority's accounts and records and fairly reflect the financial operations of the Authority for the year ended 30 June 2022 and the financial position of the Authority on that date.

Penny Shields
General Manager
ACT Insurance Authority
27 September 2022

CONTENT OF FINANCIAL STATEMENTS

ACT INSURANCE AUTHORITY
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2022

	Note No.	Actual 2022 $'000	Original Budget 2022 $'000	Actual 2021 $'000
Underwriting activities				
Gross Earned Insurance Premiums	5	61,669	61,620	49,008
Reinsurance Premiums (Expense)	5	(13,017)	(14,355)	(9,063)
Net Earned Premiums		48,652	47,265	39,945
Claims (Expense)	5	(56,289)	(41,914)	(86,950)
Claims Related Recoveries	5	(8,563)	-	42,877
Net Incurred Claims	6	(64,852)	(41,914)	(44,073)
Underwriting Result		**(16,200)**	**5,351**	**(4,128)**
Investment Result				
Investment and Interest Revenue	7	5,799	10,947	20,639
(Loss)/Gain on Investment	7	(27,295)	8,074	27,777
		(21,496)	19,021	48,416
Other Revenue				
Other Revenue	8	3,724	5,281	5,766
		3,724	5,281	5,766
Other Expenses				
Other Expenses	8	(2,724)	(2,551)	(2,725)
		(2,724)	(2,551)	(2,725)
General and Administration Expenses				
Employee and Superannuation Expenses	9	(3,100)	(4,324)	(2,830)
Supplies and Services	10	(1,444)	(1,540)	(1,085)
		(4,544)	(5,864)	(3,915)
Operating Result		**(41,240)**	**21,238**	**43,414**
Total Comprehensive Income		**(41,240)**	**21,238**	**43,414**

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

ACT INSURANCE AUTHORITY
BALANCE SHEET
AS AT 30 JUNE 2022

	Note No.	Actual 2022 $'000	Original Budget 2022 $'000	Actual 2021 $'000
Current Assets				
Cash and Investments	11	351,316	469,499	384,907
Receivables	12	3,180	8,576	9,204
Claims Related Recoveries	13	17,663	-	15,483
Prepayments		41	65	63
Total Current Assets		**372,200**	**478,140**	**409,657**
Non-Current Assets				
Fixed Assets		430	375	451
Claims Related Recoveries	13	26,101	-	37,048
Total Non-Current Assets		**26,531**	**375**	**37,499**
Total Assets		**398,731**	**478,515**	**447,156**
Current Liabilities				
Payables		311	458	311
Outstanding Claims	14	81,871	77,148	76,527
Employee Benefits		719	747	738
Other Liabilities		1,641	2,433	235
Total Current Liabilities		**84,542**	**80,786**	**77,811**
Non-Current Liabilities				
Outstanding Claims	14	242,068	263,390	256,279
Employee Benefits		126	100	99
Other Liabilities	18	3,107	34	-
Total Non-Current Liabilities		**245,301**	**263,524**	**256,378**
Total Liabilities		**329,843**	**344,310**	**334,189**
Net Assets		**68,888**	**134,205**	**112,967**
Equity				
Accumulated Funds		68,888	134,205	112,967
Total Equity		**68,888**	**134,205**	**112,967**

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

ACT INSURANCE AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

	Note No.	Accumulated Funds Actual 2022 $'000	Total Equity Actual 2022 $'000	Original Budget 2022 $'000
Balance at 1 July 2021		**112,967**	**112,967**	**112,967**
Change in accounting policy	4	(2,839)	(2,839)	
Restated Balance at 1 July 2021		**110,128**	**110,128**	**112,967**
Comprehensive Income				
Operating Result		(41,240)	(41,240)	21,238
Total Comprehensive Income		**(41,240)**	**(41,240)**	**21,238**
Balance at 30 June 2022		**68,888**	**68,888**	**134,205**

	Accumulated Funds Actual 2021 $'000	Total Equity Actual 2021 $'000
Balance at 1 July 2020	69,552	69,552
Comprehensive Income		
Operating Result	43,415	43,415
Total Comprehensive Income	**43,415**	**43,415**
Balance at 30 June 2021	**112,967**	**112,967**

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

ACT INSURANCE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022

	Note No.	Actual 2022 $'000	Original Budget 2022 $'000	Actual 2021 $'000
Cash Flows from Operating Activities				
Receipts				
Insurance Premiums Received		61,622	61,620	49,008
Distribution from Investments		11,594	12,827	16,104
Externally Purchased Passthrough Insurance Premiums		1,354	4,487	1,113
Reinsurance and Other Recoveries Received		3,265	52,424	4,712
Other		1,228	794	931
Goods and Services Tax Collected from Customers		643	1,680	5,376
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		1,855	1,113	1,660
Total Receipts from Operating Activities		**81,561**	**134,945**	**78,904**
Payments				
Employees and Superannuation		3,049	4,310	2,807
Supplies and Services		1,392	1,487	1,112
Other		2,234	626	2,177
Reinsurance Premiums		13,017	14,355	9,063
Insurance Claims		65,458	33,619	40,974
Goods and Services Tax Paid to Suppliers		2,224	1,682	1,746
Goods and Services Tax Remitted to the Australian Taxation Office		326	1,113	5,324
Total Payments from Operating Activities		**87,700**	**57,192**	**63,203**
Net Cash (Outflows)/Inflows from Operating Activities	11(b)	**(6,139)**	**77,753**	**15,701**
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturities of Investments		20,000	20,000	10,000
Total Receipts from Investing Activities		**20,000**	**20,000**	**10,000**
Payments				
Purchase of Investments		-	98,005	30,000
Purchase of Fixed Assets		157	-	115
Total Payments from Investing Activities		**157**	**98,005**	**30,115**
Net Cash Inflows/(Outflows) from Investing Activities		**19,843**	**(78,005)**	**(20,115)**
Net Increase/(Decrease) in Cash		13,704	(252)	(4,414)
Cash at the Beginning of the Reporting Period		9,329	9,328	13,743
Cash at the End of the Reporting Period	11(a)	**23,033**	**9,076**	**9,329**

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

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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 2021-22 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.

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.

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

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 2022 together with the financial position of the Agency as at 30 June 2022.

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 2021-22 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

The Authority has assessed the following accounting standard that has been issued by the Australian Accounting Standards Board (AASB) but is not yet effective and are not expected to have a material impact on the financial performance or position of the Authority.

AASB 17 - *Insurance Contracts* with proposed effective date 1 July 2025 for public sector entities.

NOTE 4. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Change in Accounting Policy

The Authority has reviewed the accounting treatment relating to Builders Warranty Insurance (BWI) scheme and adopted AASB 1023 *General Insurance Contracts* for BWI scheme. Following the assessment and review of the accounting treatment and process, the Authority is required to implement AASB 1023 for recognition and measurement of earned premium revenue, unearned premium liabilities, and any resulting deficiencies as a loss on the Operating Statement.

The Authority recognised premium revenue for all gross proceeds from QBE from the commencement of the indemnity agreement in 2019-20. Actuarial valuation and liability adequacy test of the BWI scheme carried out for 30 June 2022 estimated unearned premium liability $4.493 million for the scheme which required a transfer of $2.839 million from accumulated funds for the component of gross written premium revenue for BWI recognised in the prior reporting periods.

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.

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 2021 to 30 June 2022. 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 Liabilities 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.

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

Reinsurance premium 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.

	Note No.	2022 $'000	2021 $'000
Underwriting Revenues			
Gross Earned Insurance Premiums		61,669	49,008
Claims Related Recoveries	6	(8,563)	42,877
Underwriting Revenues		**53,106**	**91,885**
All underwriting revenues relate to operating activities			
Underwriting Expenses			
Claims Expenses	6	(56,289)	(86,950)
Reinsurance Premium Expenses		(13,017)	(9,063)
Underwriting Expenses		**(69,306)**	**(96,013)**
All underwriting expenses relate to operating activities			
Underwriting Results			
Underwriting Revenues		53,106	91,885
Underwriting Expenses		(69,306)	(96,013)
Underwriting Result		**(16,200)**	**(4,128)**

The decrease in the underwriting result is mainly due to the decrease (reversal) of claims related recoveries related to revised case estimates on reinsurance recoveries and third-party recoveries based on actuarial estimates, higher reinsurance premiums relating to Australian and International insurance market factors and recent large claims experience partially offset by a decrease in the claims expenses for 2021-22. 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.

2022	Note No.	Current Year $'000	Prior Years $'000	Total $'000
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)**
2021				
Undiscounted Gross Incurred Claims and Related Expenses		(82,126)	(4,190)	(86,316)
Discount and Discount Movement		3,563	(4,197)	(634)
Discounted Gross Incurred Claims and Related Expenses [a]	5	**(78,563)**	**(8,387)**	**(86,950)**
Claims Related Recoveries	5	42,877	-	42,877
Net Incurred Claims		**(35,686)**	**(8,387)**	**(44,073)**

[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 2021-22, the total net incurred claims expenses are $64.85 million. Of this amount, $67.36 million relates to the current year, made up of $58.79 million in discounted gross incurred claims and related expenses largely the result of estimated new claims liabilities adjusted with a decrease in estimated recoveries by $8.56 million. This is partially offset by a favourable $2.5 million in discounted gross incurred claims and related expenses due to an increase in discount factors from the prior years included in the net incurred claims, as a result of a review of actuarial assumptions surrounding the outstanding claims liabilities. $63.8 million in claim payments were made during the year on prior year claims, resulting in a total reduction of $66.33 million in the prior year outstanding claims liabilities.*

The change in discounted gross incurred claims and related expenses between financial year 2020-21 and 2021-22 is largely related to the result of changes to the actuarial valuation of outstanding claims liabilities relating to insurance claims from the current and prior years. The resulting claims expense for 2021-22 is $56.29 million compared to $86.95 million in 2020-21. This equates to a $30.66 million decrease which is predominantly due to a favourable claims experience on the medical malpractice and property portfolios for the 2021-22 insurance year.

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.

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 profit or loss with the carrying amount measured at fair value. Refer Note 11: 'Cash and Investments' for further details.

	Note No.	2022 $'000	2021 $'000
Investment and Interest Revenue			
Interest from Bank		316	94
Distributions from Investments [a]		5,483	20,545
Total Investment and Interest Revenue		**5,799**	**20,639**
(Loss)/Gain on Remeasurement of Investments			
(Loss)/Gain on Remeasurement of Investments [b]		(27,295)	27,777
(Loss)/Gain on Remeasurement of Investments		**(27,295)**	**27,777**

[a] 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 decrease in distribution income reflects the amounts of distributable income received.

[b] In 2021-22 investments incurred a loss of 6.34 per cent for the financial year ended 30 June 2022 compared to a gain of 14.4 per cent in 2020-21. This was due to decreased market valuations in 2021-22 as a result of increasing financial market volatility, inflation and interest rates and a moderating growth outlook.

NOTE 8. OTHER REVENUE AND EXPENSES

Description and Material Accounting Policies relating to Other Revenue and Expenses

Revenue and expenses mainly relate to contract works insurance and external insurance contracts, with these transactions undertaken by the Authority on behalf of other agencies. The Authority does not underwrite this insurance and therefore holds no financial risk for these classes of insurance.

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.

External Insurance Contracts

The Authority arranges insurance cover on behalf of ACT Government agencies for travel, standing timber, aviation and personal accident cover for both aero retrieval, volunteer workers and public art. 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.

	Note No.	2022 $'000	2021 $'000
Other Revenue			
Resources Received Free of Charge		23	44
Builders Warranty Insurance Premiums [a]	18	1,316	3,716
Builders Warranty Insurance Recoveries	18	32	5
Income from Support Services		950	817
Contract Works Insurance		674	493
External Insurance Contracts		729	691
Total Other Revenue		**3,724**	**5,766**
Other Expenses			
Contract Works Insurance		674	493
External Insurance Contracts		729	691
Builders Warranty Insurance Commission	18	744	1,140
Builders Warranty Insurance Claims Processing Service Fee	18	11	-
Builders Warranty Insurance Claims Expense	18	388	344
Asset Write Off [b]		107	-
Depreciation		71	57
Total Other Expenses		**2,724**	**2,725**

[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. BWI premium was recognised based on gross written proceeds in the past from QBE invoicing. A larger portion of the written premium is recognised in the balance sheet as unearned premium liability.*

[b] *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. The refurbishment work was completed during 2021-22 and the Authority has moved to the newly refurbished office with the fit out compatible with activity based working arrangements.*

NOTE 9. EMPLOYEE AND SUPERANNUATION EXPENSES

Description and Material Accounting Policies relating to Employee and Superannuation expenses

Employee Expenses

Employee benefits include:

- short-term employee benefits such as wages and salaries, annual leave loading and applicable on-costs, if expected to be settled wholly before 12 months after the end of the annual reporting 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.

NOTE 9. EMPLOYEE AND SUPERANNUATION EXPENSES - CONTINUED

	2022 $'000	2021 $'000
Employee Expenses		
Salaries [a]	2,663	2,322
Annual Leave	77	71
Long Service Leave [b]	(107)	30
Workers' Compensation Insurance Premium	24	25
Total Employee Expenses	**2,657**	**2,448**
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	221	205
Productivity Benefit	18	18
Superannuation to External Providers	204	159
Total Superannuation Expenses	**443**	**382**
Total Employee and Superannuation Expenses	**3,100**	**2,830**

[a] Salaries costs have increased in 2021-22 mainly due to an increase in staff numbers relating to an approved restructure and the recruitment to 10 additional positions which occurred towards the second half of 2021-22.

[b] Lower (or credit balance) Long Service Leave expenses is mainly due to retirement payments for long serving staff members and staff taking leave during the year reducing the leave liabilities. 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.

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.

Risk Management Training and Seminars

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

NOTE 10. SUPPLIES AND SERVICES - CONTINUED

	2022 $'000	2021 $'000
Actuarial Services [a]	355	261
Audit Fees	68	60
Telecommunications and Computing Costs	379	340
Contractors and Consultants	189	65
Rent	133	148
Risk Management Training and Seminars [c]	31	70
Support Services [d]	213	106
Travel	31	2
Other	45	33
Total Supplies and Services	**1,444**	**1,085**

[a] Actuarial Costs has increased in 2021-22 due mainly to a separate actuarial services contract for the BWI Scheme and an actuarial review of the reinsurance program.

[c] Risk Management training and seminars have decreased mainly due to lower demand during the year and also cost savings achieved by delivering risk management training for agencies through webinars instead of face-to-face workshops.

[d] The Support Services cost has increased in 2021-22 due to the use of Government Solicitor's Office (GSO) personnel for legal and claim management services requiring specialist skills in 2021-22.

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 1.7% annual interest rate effective as at 30 June 2022 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.

NOTE 11 – CASH AND INVESTMENTS – CONTINUED

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 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 profit or loss 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 Statement of Income and Expenses on Behalf of the Territory. 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.

	2022 $'000	2021 $'000
Current Cash and Investments		
Cash on Hand	23,033	9,329
Investments with the Territory Banking Account	328,283	375,578
Total Current Cash and Investments	**351,316**	**384,907**

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 2021-22 investments incurred a loss of 6.34 per cent for the financial year ended 30 June 2022 compared to a gain of 14.4 per cent in 2020-21. This was due to decreased market valuations in 2021-22 as a result of increasing financial market volatility, inflation and interest rates and a moderating growth outlook. There was also a cash withdrawal of $20 million during 2021-22 relating to a higher volume of claims payments during 2021-22.

NOTE 11 – CASH AND INVESTMENTS – CONTINUED

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

	2022 $'000	2021 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	23,033	9,329
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Statement of Cash Flows	**23,033**	**9,329**

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

Operating Result	(41,240)	43,414
Equity Adjustment for BWI shortfall on unearned premium Liability	(2,839)	-
Add/(Less) Non-Cash Items		
Depreciation of Fixed Assets	71	57
Asset Write Off	107	-
Add/(Less) Items Classified as Investing or Financing		
Net Loss (Gain) on Investments	27,295	(27,777)
Cash Before Changes in Operating Assets and Liabilities	**(16,606)**	**15,694**
Change in Operating Assets and Liabilities		
Decrease/(Increase) in Receivables	6,025	(4,630)
Decrease/(Increase) in Recoveries	8,767	(41,748)
Decrease in Prepayments	22	114
(Decrease) in Payables	-	(90)
(Decrease)/Increase in Outstanding Claims	(8,868)	45,976
Increase in Other Liabilities	4,513	261
Increase in Employee Benefits	8	124
Net Changes in Operating Assets and Liabilities	**10,467**	**7**
Net Cash (Outflows)/Inflows from Operating Activities	**(6,139)**	**15,701**

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 early July. 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.

NOTE 12. RECEIVABLES - CONTINUED

	2022 $'000	2021 $'000
Current Receivables		
Distributions Receivable [a]	2,107	8,218
Goods and Services Tax Receivable	186	96
Other Receivables	887	890
Total Receivables	**3,180**	**9,204**

[a] No receivables are past due or impaired. The decrease in distribution receivable is due to the lower amount of income available for distribution for the fourth quarter of 2021-22 from the underlying investment asset class sector exposure. Refer Note 7: 'Investment and Interest Revenue' for further details.

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.

	2022 $'000	2021 $'000
Current Claims Related Recoveries		
Builders Warranty Insurance Recoveries	21	7
Reinsurance Recoveries [a]	13,672	11,896
Third Party Recoveries [b]	3,970	3,580
Total Current Claims Related Recoveries	**17,663**	**15,483**
Non-Current Claims Related Recoveries		
Builders Warranty Insurance Recoveries	20	1
Reinsurance Recoveries [a]	22,761	30,311
Third Party Recoveries [b]	3,320	6,736
Total Non-Current Claims Related Recoveries	**26,101**	**37,048**

[a] Reinsurance recovery estimates mainly relates to Medical Malpractice ($12.4m) and Property ($24.0m) where large individual claims and high-cost events (e.g. hailstorm and other storm events) have resulted in breaches to the aggregate reinsurance retention levels across a number of insurance years. Lower reinsurance receivables are mainly due to decreases in case estimates for larger medical malpractice and property claims.

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

MATERIAL ACCOUNTING POLICIES – LIABILITY

LIABILITIES – 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 claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimate of the liability.

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

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

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

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

A component of these estimation techniques is the estimation of the cost of notified but not paid claims (case estimation) which 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.

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

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’ and Note 14: ‘Outstanding 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.

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.

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Actuarial Assumptions

The following assumptions have been 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%

The following assumptions were made in estimating the outstanding claims liabilities for 2020-21.

2021	Property and Motor	Public Liability	Medical Malpractice	Directors and Officers	Financial Crime	Professional Indemnity
Discounted Mean Term (for Outstanding Claims)	1.45 years	3.83 years	4.43 years	2.98 years	3.36 years	3.54 years
Ultimate Claim Numbers (2020-21 Insurance Year) [a]	88	101	91	1	0.2	6
Average Settlement Size	$79,540 [c]	$133,400 [c] and $3.517m [d]	$315,300 [c] and $3.9m [d]	$106,400 [c]	$150,000 [c]	$100,100 [c]
Expense Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Discount Rate [b]	0.3%	1.1%	1.1%	0.6%	0.9%	1.0%
Inflation and Superimposed Inflation [b]	1.8%	2.1%	2.1%	2.0%	2.0%	2.1%

[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.

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.

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	Difference %
Gross Outstanding Claims Liabilities		**323,074**		
Less expected Current and Non-Current Recoveries		(43,722)		
Net Outstanding Claims Liabilities		**279,352**		
Economic Assumptions				
Discount rates increased by 1.0%		270,601	(8,751)	(3.1%)
Discount rates decreased by 1.0%		288,673	9,321	3.3%
Medical Malpractice				
Large Claims				
Assumed average size on IBNR Claims is $3.9 million				
Increase by $1.0 million		307,227	27,876	10.0%
Decrease by $1.0 million		253,908	(25,444)	(9.1%)
High uncertainty in IBNR claim numbers for more recent insurance years				
1 additional claim per annum for 2014 and later		302,572	23,220	8.3%
1 less claim per annum for 2014 and later		257,571	(21,781)	(7.8%)
Public Liability				
Large Claims				
Assumed average size on IBNR Claims is $4.1 million				
Increase by $1.0 million		281,507	2,156	0.8%
Decrease by $1.0 million		277,196	(2,156)	(0.8%)
High uncertainty in IBNR claim numbers for the more recent insurance years				
1 additional claim per annum for 2014 and later		296,835	17,484	6.3%

Economic Assumptions

The liability for outstanding claims is sensitive to movements in the discount rate. Discount rates have increased since 30 June 2021, consequently 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 $8.75 million in claims liability whereas a decrease in the discount rate of 1 percent would result in an increase of $9.32 million in the liability.

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 $27.87 million or a decrease of $25.44 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 $2.15 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 $23.22 million or a decrease of $21.78 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 $17.48 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 2022. 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.

		2022 $'000	2021 $'000
Expected Future Claim Payments and Discounted Liability for Outstanding Claims			
Central Estimate		294,450	286,196
Risk Margin		43,099	40,203
Claims Handling Costs		29,421	18,610
Total Undiscounted Expected Future Claims		**366,970**	**345,009**
Discount to Present Value		(43,032)	(12,767)
Total Gross Discounted Outstanding Claims Liabilities	14(d)	**323,938**	**332,242**
Current		81,871	75,997
Non-Current		242,068	256,245
Total Gross Discounted Outstanding Claims Liabilities	14(d)	**323,939**	**332,242**

(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.

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

Risk margins applied

Class	Adopted Risk Margin 2022 (%)	2021 (%)
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 [1]	30	60
Overall margin (weighted average) [2]	**16.0**	**16.1**

[1]The adopted risk margin for Residential Builders Warranty Insurance Scheme was higher mainly due to the scheme being in early stages of maturity with a limited number of polices and therefore exposure. The adopted risk margin for the first year was 100% and gradually reduced to 60% for 2020-21 and 30% for 2021-22 indicates an improvement on maturity and wider exposure with larger numbers of polices and new claims experience over recent years.

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

(b) Inflation and Discount Rates

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.

	2022 (%)	2021 (%)
For the succeeding year		
Inflation rate[1]	3.13	1.63
Discount rate[2]	2.38	0.03
For the subsequent year		
Inflation rate[1]	3.25	2.00
Discount rate[2]	3.32	0.12
For long-term assumptions		
Inflation rate[1]	3.21	1.88
Discount rate[2]	4.11	2.78

[1]Inflation 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.

[2]Discount 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 3.5 years in 2021-22 (3.6 years in 2020-21). 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.

NOTE 14. OUTSTANDING CLAIMS - CONTINUED

(d) Reconciliation of Movement in Discounted Outstanding Claims Liability

The table below compares the estimates as at 30 June 2022, Gross Outstanding Claims at 30 June 2022 (30 June 2022 basis) compared with those projected from the 30 June 2021 valuation, Expected Gross Outstanding Claims at 30 June 2022 (30 June 2021 basis).

Change in Basis - In the 12 months from 30 June 2021 to 30 June 2022	**$'000**	**$'000**
Gross Central Estimate at 30 June 2021 (30 June 2021 basis) [a]		**276,031**
Expense margin at 30 June 2021		17,873
Risk Margin at 30 June 2021		38,902
Gross Outstanding Claims at 30 June 2021 (30 June 2021 basis) [a]		**332,806**
New Incurred Period		44,786
Expected payments to 30 June 2022 (Inflated and Undiscounted values)		(65,679)
Expected interest to 30 June 2022		76
Expected change in Expense Margin		(435)
Expected change in Risk Margin		(1,734)
Expected Gross Outstanding Claims at 30 June 2022 (30 June 2021 basis)		**309,820**
(Actual less Expected) inflation [b]		10,468
Change in future discount rate assumptions		(21,266)
Change in future inflation assumptions		3,248
(Expected less Actual) payments [c]		352
Directors and Officers	70	
Financial Crime	40	
Medical Malpractice	(25,982)	
Professional Indemnity	(1,528)	
Property and Motor	25,286	
Public Liability	2,157	
Residential Builders Warranty	309	
Change in actuarial assumptions		11,919
Directors and Officers	(114)	
Financial Crime	(14)	
Medical Malpractice	22,312	
Professional Indemnity	970	
Property and Motor	(12,698)	
Public Liability	1,781	
Residential Builders Warranty	(318)	
Change in Expense margin at 30 June 2022		8,532
Change in Risk margin at 30 June 2022		865
Overall change in basis		**14,118**
Gross Outstanding Claims at 30 June 2022 (30 June 2022 basis)		**323,938**

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

NOTE 14.

OUTSTANDING CLAIMS - CONTINUED

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

The expected gross central estimate of $309.82 million compares to the actual gross central estimate of $323.94 million, indicating a total strengthening of $14.12 million. This strengthening can be broken down into the following main components:

- An increase of $10.47m due to actual inflation being higher than expected over the 12 months.
- A release of $21.27m due to increases in the assumed discount rates since 30 June 2021. All else being equal, an increase in the discount rates decreases the outstanding claims liability.
- An increase of $3.25m due to an increase in the future inflation assumptions since 30 June 2021, reflecting the increase in short term inflation forecasts.
- An increase of $0.35m as a result of actual payments paid being slightly less than expected over the 12 months. This was driven by lower-than-expected payments made for Property and Motor, Public Liability, Directors and Officers, Financial Crime and Residential Builders Warranty, mostly offset by higher than expected payments paid for Medical Malpractice and Professional Indemnity. The increase in the estimate assumes that all else being equal, the difference between actual payments and expected payments is due to timing and will be paid in the future.
- An increase of $11.92m in actuarial assumptions. By class, these were:
    - A $0.11m decrease in the Directors and Officers insurance class due to a downward revision in the case estimate for a small claim.
    - A $0.01m release in the Financial Crime insurance class due to favourable claim reporting experience in older insurance years.
    - A $22.31m increase in the Medical Malpractice insurance class resulting from a higher-than-expected number of large claims [an] emerging and an increase in the ultimate number of claims.
    - A $0.97m increase in the Professional Indemnity insurance class due to 2 large new claims reported in 2018 and 2019. This is offset by downwards case estimate revision of a 2018 large claim, increase in zero finalisation proportion and decrease in small claim settlement size.
    - A $12.70m liability release in the Property and Motor insurance class driven by a decrease in the ultimate number of claims for the most recent year, and significant downward revision in case estimates for a number of large events.
    - A $1.78m increase in the Public Liability insurance class driven by an increased number of ultimate claims for recent insurance years and an increase in the settlement size of large claims
    - A $0.32m liability release in the Residential Builders Warranty insurance class.

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

NOTE 15. 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 as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss (FVTPL) on the basis of both:

a. the business model for managing the financial assets; and

b. the contractual cash flow characteristics of the financial assets.

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

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 Investment and Note - 12 Receivables

(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.

NOTE 15. FINANCIAL INSTRUMENTS - CONTINUED

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.

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.

NOTE 15. FINANCIAL INSTRUMENTS - CONTINUED

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
2022			
	Volatility Factors	(7%)	7%
	Investments with the Territory Banking Account	(22,980)	22,980
2021			
	Volatility Factors	(7%)	7%
	Investments with the Territory Banking Account	(26,290)	26,290

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.

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.

	2022 $'000	2021 $'000
Financial Assets		
Financial Assets at Fair Value through Profit and Loss Designated upon Initial Recognition	328,283	375,578
Receivables Measured at Amortised Cost	2,994	9,108
Financial Liabilities		
Payables Measured at Amortised Cost	311	311

NOTE 15. FINANCIAL INSTRUMENTS - CONTINUED

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

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

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

	2022 $'000	2021 $'000
Gain/(Loss) on Financial Asset		
Financial Assets at Fair Value through Profit and Loss Designated upon initial Recognition	(27,295)	27,777

(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).

NOTE 16. 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, Property and Shared Services (ERIPSS) 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 2022.

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 2022.

NOTE 16. RELATED PARTY DISCLOSURES - CONTINUED

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.

	2022 $'000	2021 $'000
Short-term employee benefits	231	229
Post-employment benefits	24	22
Other long-term benefits	4	7
Total Compensation by the Authority to KMP	**259**	**258**

NOTE 17. 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 2022 $'000	Original Budget[1] 2022 $'000	Variance $'000	Variance %	Variance Explanation
Ordinary activities					
Claims Expenses	(56,289)	(41,914)	(14,375)	34	Higher claims expenses are largely attributable to the high volume of claims payments experienced during 2021-22 for prior year claims. The actual claim expenses include net incurred claims $64.8 million partially offset by a decrease in outstanding claims provision of $8.8 million. Refer Note-6 Net Incurred Claims.
Claims Related Recoveries	(8,563)	-	(8,563)	(100)	Unbudgeted claims related recoveries are due to decreased case estimates for the settlement of larger claims where estimated recoveries are coming from reinsurers and third parties.
Investment and Interest Revenue	5,799	10,947	(5,148)	(47)	Lower investment revenue is mainly due to lower amounts of distributable income available for distribution in the underlying investment asset class sector exposure. Refer Note 7- Investment and Interest Revenue.
(Loss)/Gain on Investment	(27,295)	8,074	(35,369)	(438)	The Authority's investment portfolio incurred a loss of 6.34 per cent compared to a budgeted gain of 7.7 per cent. The loss is mainly due to decreased market valuation of the asset portfolio as a result of increasing financial market volatility, inflation and interest rates along with a moderating growth outlook.
Employee and Superannuation Expenses	3,100	4,324	1,224	28	Lower Employees and Superannuation expenses is mainly due to full budgeted staffing levels not being attained for 2021-22 as the recruitment for approved new positions for 2021-22 was taken in a phased approach commencing with the recruitment for senior positions mid-year and operational positions expected to be finalised by first quarter of 2022-23.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2021-22 Statement of Intent).

NOTE 17. BUDGETARY REPORTING – CONTINUED

Balance Sheet Line Items	Actual 2022 $'000	Original Budget[1] 2022 $'000	Variance $'000	Variance %	Variance Explanation
Assets					
Cash and Investments	351,316	469,499	(118,183)	(25)	Lower Cash and Investment is mainly due to higher than average claims payments for 2021-22 and the Authority being unable to make additional investments during the financial year. The Authority's Investment decreased due to a 6.3 per cent loss during 2021-22 compared to the budget expectation of a gain on investment by 7.7 per cent.
Current Claim Related Recoveries	17,663	-	17,663	100	Unbudgeted claim related recoveries are mainly due to estimated recoveries from reinsurance recoveries and third parties based on claim experience and actuarial estimates. The variance is mainly due to timing as the budget considered the receivables from the prior year with provision being collected during the financial year.
Non-Current Claims Related Recoveries	26,101	-	26,101	100	
Liabilities					
Non- Current Outstanding Claims	242,068	263,390	21,322	8	Lower Outstanding claims liabilities is mainly due to the large amount of claims payments processed during the year for outstanding claims liabilities compared to the estimated liabilities in the budget.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2021-22 Statement of Intent).

NOTE 17. BUDGETARY REPORTING – CONTINUED

Statement of Cash Flows Line Items	Actual 2022 $'000	Original Budget[1] 2022 $'000	Variance $'000	Variance %	Variance Explanation
Cash Flows from Operating Activities					
Receipts					
Distribution from Investment	11,594	12,827	(1,233)	(10)	Lower Distribution from Investment is mainly due to a lower amount of distributable income being available for distribution in the underlying investment asset class sector exposure. Refer Note 7- Investment and Interest Revenue.
Reinsurance and Other Recoveries Received	3,265	52,424	(49,159)	(94)	Lower Reinsurance and other recoveries received is mainly due to the timing of recoveries. Budget assumptions included the recoveries to be received in 2021-22 but actual recoveries have not been realised and a revised (lower) amount is currently carried in the balance sheet as Current and Non-current Claims Related Recoveries.
Payments					
Insurance Claims	65,458	33,619	(31,839)	(95)	Higher claims payments relate to larger numbers of historical claims and larger claims being finalised and settled during the year. Refer to claims expenses and outstanding claims liabilities commentaries.
Purchase of Investment	-	98,005	98,005	100	The Authority was unable to purchase more investments during 2021-22 due to high cash requirements for the settlements of claims. Budget measured investment and cash surplus based on targeted investment return of 7.7 per cent compared to the actual loss of (6.3) per cent leading to lower distribution and lower surplus cash for investment.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted fraudout in respect of the reporting period (2021-22 Statement of Intent).

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 18. BUILDERS WARRANTY INSURANCE

Territory entered into an indemnity agreement with QBE 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. The Authority is currently administering the financial transactions relating to this agreement on behalf of the Territory. 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 2022 and is included for transparency of this function due to the indemnity covering non-ACT Government entities.

Operating Statement	**Note No.**	**2022 $'000**	**2021 $'000**
figures below are included in the Authority's Operating Statement under the following accounts			
Revenue:			
Gross Earned Premiums [a]	8	1,316	3,716
Recoveries	8	32	5
Interest Revenue		44	-
		1,392	**3,721**
Expenses			
Commission [b]	8	744	1,140
Claims Processing Service Fees	8	11	-
Claims Expense	8	388	344
Actuarial Cost		59	96
		1,202	**1,580**
Operating Result		**190**	**2,141**

[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. BWI premium was recognised based on gross written proceeds in the past from QBE invoicing. A larger portion of the written premium is recognised in the balance sheet as unearned premium liability.*

[b] *Commission expenses are lower for 2022, mainly due to a lower commission rate at 25% of the gross written premium compared to higher rates of 28% and 32% in previous years (as first and second year) of the 3 years Indemnity Agreement with QBE.*

ACT INSURANCE AUTHORITY
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 18. BUILDERS WARRANTY INSURANCE - CONTINUED

Balance Sheet	**Note No.**	**2022 $'000**	**2021 $'000**
figures below are included in the Authority's Balance Sheet under the following accounts			
Assets:			
Cash [a]		5,181	3,002
Claims Related Recoveries		21	8
Current Receivable		262	317
Non- Current Receivable		19	1
		5,483	**3,328**
Liabilities:			
Payables		136	125
Current Unearned Premium Liabilities [b]		1,386	-
Current Outstanding Claims Liabilities		631	530
Non-Current Unearned Premium Liabilities [b]		3,107	-
Non-Current Outstanding Claims Liabilities		234	35
		5,494	**690**
Net Assets		**(11)**	**2,638**
Equity as at beginning of the year		**(201)**	**2,638**
Equity Adjustment for shortfall on Unearned Premium Liabilities [c]			(2,839)
Operating Result		**190**	
Total Equity		**(11)**	**(201)**

[a] *Cash balance in the bank for the BWI Scheme increased in 2022 due to 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 relate to the adoption of AASB 1023 for the BWI scheme for recognising earned premium revenue and unearned premium revenue based on a liability adequacy test. Entire gross premium collected was recognised as earned premium for 2021 and prior years.*

[c] *Equity Adjustment for the shortfall on Unearned Premium Liabilities is mainly due to the unearned premium liability as of 30 June 2022 based on liability adequacy test ($4.493 million) being higher than the gross written premium during 2022 ($2.970) less earned premium for 2022 ($1.316 million). The shortfall represents the portion of premium revenue recognised in previous reporting periods.*

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 Creative Services Panel Expenditure

The Creative Services Panel is a whole of government arrangement for the purchase of creative services, including advertising, marketing communications, engagement material, and graphic design. The Authority engages the use of these panel services through CMTEDD and therefore any expenditure relating to this reporting period is reported within CMTEDD's Annual Report.

C.5.3 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*.

Procurement processes above $25,000 are reviewed by Procurement ACT and, if necessary, by the Government Procurement Board consistent with the provisions of the *Government Procurement Regulation 2007*. The Authority ensures all contractors comply with their employee and industrial relations obligations.

The Authority entered a contract through the competitive procurement process for the provision of Actuarial Services for Builders Warranty Insurance Scheme with PricewaterhouseCoopers Consulting (Australia) Pty Limited for annual actuarial valuation of liabilities for a contract term to cover 3 financial years. The total value of the procurement was $196,365. The Authority notified the contract for publication in the ACT Government Contract Register maintained by Tenders ACT.

C.6 Statement of Performance

The Authority's Statement of Performance is reported on page 86 of the *2021-22 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 2022.

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 2022 are not in agreement with the Authority's records or do not fairly reflect, in all material respects, the performance of the Authority, in accordance with the *Financial Management Act 1996*.

Basis for conclusion

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

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

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

Authority's responsibilities for the statement of performance

The Under Treasurer is responsible for:

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

Auditor-General's responsibilities

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

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

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
28 September 2022

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

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 2022, 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
27 September 2022

Penny Shields
General Manager
ACT Insurance Authority
27 September 2022

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

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 2021-22 Annual Report.

ACT INSURANCE AUTHORITY STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2022

Objective	Accountability Indicators	Original Target 2021-22	Actual Result 2021-22	Variance Amount	Variance %	Explanation of Material Variances (+/-10%)
Carry on the business of insurer of territory risks	a. Results from the annual customer satisfaction survey: - Overall customer satisfaction with the Authority	> 80%	73%	(7%)	(9)	
	b. Maintain the Authority's funding ratio as outlined in the Authority's Capital Management Plan.	134%	121%	(13)	(10)	The Authority's 30 June 2022 capital funding ratio is materially in line with the targeted range of 100-120 per cent in the Authority's Capital Management Plan for 2021-22. The decrease in funding ratio from the budgeted target of 134 per cent is mainly due to decreased market valuations of investment portfolio in 2021-22 as a result of increasing financial market volatility, inflation and interest rates and a moderating economic outlook.
	c. General and administrative expense as a percentage of total annual premium revenue.	10%	7%	(3)	(30)	Lower general and administrative expenditure ratio is mainly due to lower employee expenses relating to the timing of recruitment for additional positions for ACTIA's new operating structure.
	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	21 days	7	50	The average number of days for payment has been impacted by the settlement of a large number of historical claims in 2021-22, unplanned leave and new staff members being established in their roles. The Authority made all payments within legislative requirements and court orders.

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 2022

Objective	Accountability Indicators	Original Target 2021-22	Actual Result 2021-22	Variance Amount	Variance %	Explanation of Material Variances (+/-10%)
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	-	-	
	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 2022

Objective	Accountability Indicators	Original Target 2021-22	Actual Result 2021-22	Variance Amount	Variance %	Explanation of Material Variances (+/-10%)
Develop and promote good practices for the management of territory risks	g. Deliver a program of general and targeted risk management training courses to Territory agencies.	35	9	(26)	(74)	A lower number of courses delivered is attributed to ongoing work-from home arrangements in late 2021, and subsequent slow return an office-based environment, with significantly fewer face-to-face training activities being delivered than planned.
	h. Overall participant satisfaction with introduction to risk management training sessions delivered to agency staff members.	> 90%	100%	-	-	
	i. Provide quarterly reporting to directorates to assist the identification, assessment and treatment of risks.	4	3	(1)	(25)	The requirement for quarterly reporting is new in 2021-22, previously reports were provided bi-annually. The system was not able to be adjusted to accommodate the Q1 report timeframe. Reports were distributed for the subsequent reporting periods.

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 2022

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 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.

h. 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.

i. 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.

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 handing claims (e.g. the salaries of staff in the claims handling area, and solicitors' fees).

Superimposed Inflation

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

Underwriting Result

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

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

ALPHABETICAL INDEX