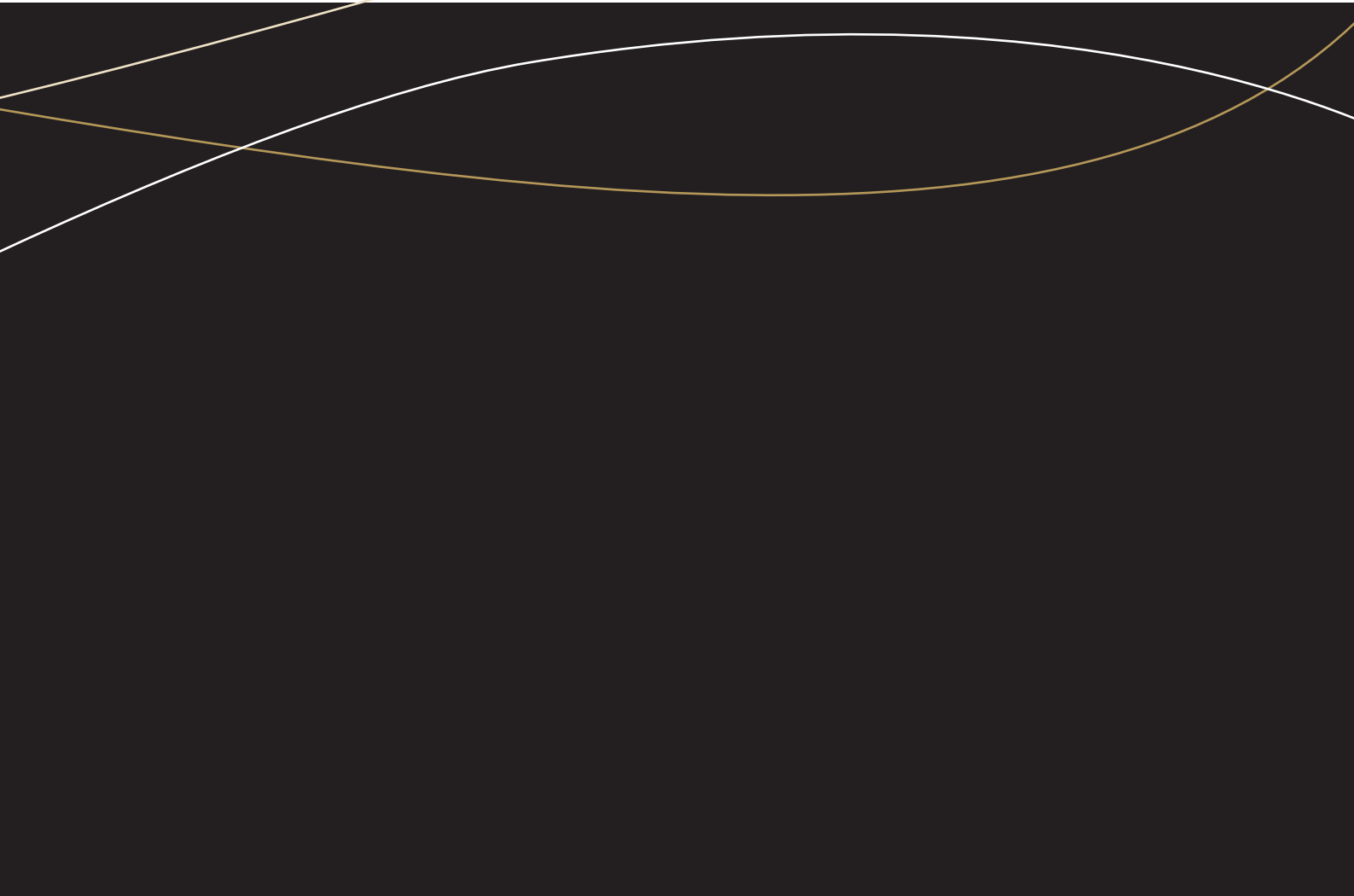




RiskCover
Fund Report 2005



About

RiskCover

RiskCover is a self-insurance scheme managed by the Insurance Commission of Western Australia which commenced operations in July 1997.

RiskCover was created to facilitate the self-insurance arrangements of Western Australian Government agencies on behalf of the State Government and promote risk management throughout government.

The main business activities of RiskCover, as defined by the *Insurance Commission of Western Australia Act 1986*, are:

- to manage and administer insurance and risk management arrangements on behalf of public authorities (agencies); and
- to provide services, facilities and advice to public authorities in respect of the management of claims against them or against funds maintained or administered by them under any written law.

RiskCover achieves its key goals through a collaborative approach that delivers a total coordinated service to its clients in the following areas:

- loss prevention, which includes the development and implementation of risk management programs;
- data analysis services; and
- loss minimisation, which includes fund management and claims management services.

The RiskCover Division also manages a number of smaller Funds such as the Compensation (Industrial Diseases) Fund and Community Insurance Fund, and the run-off of claims that the former State Government Insurance Office incurred prior to 1 January 1987.

Comments from *the Under Treasurer*

RiskCover, the Western Australian Government's self-insurance Fund, continues to provide quality insurance and risk management products and services to Fund members.

Since 1997 RiskCover has provided expert advice on risk management practices to government overall, and worked directly with many government agencies to help them minimise the cost of risk for all business risks. Agencies are also beginning to reap the benefits of sound risk management practices by way of lower contributions and refunds.

I urge all members of the RiskCover Fund to continue to embrace responsible risk management practices throughout their organisations.

Importantly, over the past seven years, government agencies have benefited from RiskCover's relative stability of cover and contributions during a period where there has been significant upheaval and pricing volatility in the general insurance and reinsurance markets.

I am pleased to advise that RiskCover met the performance target set by Treasury and continues to meet the fundamental objective of being fully funded. The coverage provided by RiskCover has not diminished and the Fund's strong financial position will benefit members in the long run.



A handwritten signature in black ink, which appears to read "Tim Marney". The signature is written in a cursive style and is positioned above the printed name and title.

TIM MARNEY
Under Treasurer

Managing Director's

Review

RiskCover achieved an operating surplus of \$34 million in 2004-2005 (2004: \$24 million surplus).

The underwriting deficit of \$10 million was significantly less than the budgeted deficit of \$24.5 million and reflects the benefits of agencies employing structured risk management programs.

The RiskCover Fund remains in a surplus position, with net assets of \$58 million (2004: \$24 million), primarily as a result of strong investment returns.

During the year, RiskCover embarked on an organisational restructure to improve service delivery and to enhance its capacity to work in partnership with agencies to implement risk management. It is anticipated that the new structure will be fully operational in early 2006.



A handwritten signature in black ink that reads "Vic Evans". The signature is fluid and cursive.

VIC EVANS

Managing Director

Insurance Commission of Western Australia

Highlights

- The RiskCover Fund ended the year with an operating surplus of \$34 million due to its strong investment return, despite an underwriting deficit of \$10 million.
- RiskCover's Risk Management Team facilitated 200 agency-specific workshops on various risk management issues.
- Approximately 260 delegates attended the fifth annual Government Risk Management Conference held in July 2004.

Risk Management

Services

RiskCover provides risk management consultancy services to assist Western Australian Government agencies implement risk management in all aspects of their business. RiskCover also invests a great deal of time and effort in developing risk management skills throughout agencies through training, mentoring and expert advice.

Risk management is a business management tool which helps agencies to achieve their goals and performance targets whilst ensuring the effective use of available resources. Risk management does not seek to create a risk-free environment, it simply enables management to operate more effectively in an environment filled with risks.

Agencies have started to realise the benefits of managing risks and being able to capitalise on opportunities with a greater level of confidence that they will achieve the desired outcome. This is most noticeable with agencies that have incorporated risk management into their strategic planning.

RiskCover has delivered training and development opportunities to a wide variety of agencies through many different forums over the past twelve months. Some of these initiatives include:

- Approximately 260 delegates attended the annual GRM (Government Risk Management) Conference held in July 2004. The theme of the conference was "Maximise opportunities – manage risks". This one-day conference featured keynote addresses on:
 - Risk Management at BankWest;
 - Business Risk Management Practical Application at Woodside;
 - Department of Education and Training Success Story; and
 - Keys to Ensuring Corporate Governance.

Other sessions covered case studies and a panel discussion on current issues.

- More than 150 representatives of agencies attended two seminars on Legal aspects of Risk Management and Claims Management, and 70 representatives attended a seminar on Risk Management – What, Why and How?
- More than 200 representatives of agencies attended regional training courses in Albany, Broome, Bunbury, Geraldton, Kalgoorlie, Karratha and Kununurra. The courses covered Risk Management, Occupational Health and Safety, Duty of Care, Injury and Claims Management and the *Workers' Compensation and Injury Management Act* amendments.
- Approximately 250 agency specific risk workshops, concentrating on strategic, operational and specific project risk management were facilitated.
- More than 50 agency specific training sessions were conducted, focusing on individual agency's requirements, including training on their risk management practices, occupational safety and health, and Risk Management Coordinator training.

In 2000, RiskCover developed its own database system called "RiskBase" to provide RiskCover and its client agencies with a means of recording and reporting on risks, controls and risk treatment plans. RiskBase is a simple risk management reporting tool that is available free of charge to agencies. The database comprises a number of standard selection screens, data entry forms and preconfigured reports. These have been customised to reflect the agency's organisational structure and management framework.

During the year, RiskBase was refined to provide security and tracking features. Some 117 agencies are now using RiskBase.

Data Analysis

Services

To assist agencies minimise their cost of risk, RiskCover provides them with detailed analyses of claims and risk data that focus on their specific trends and risk exposures.

Extensive claims analysis across workers' compensation, motor vehicle, property, treatment liability and general liability cover types, was undertaken over the past twelve months.

Highlights included:

- Across government benchmarking which identified agencies at risk. Benchmarking enabled a quick assessment of agencies with higher claims frequencies and/or higher average costs per claim.
- Over 40 agency reviews and presentations focused on performance and claimant risk factors. The reviews isolated areas for improvement such as operational locations or occupation groups within agencies. Similarly, benchmarking by claim descriptions and claimant profiles provided easy detection of the agency's specific risks.
- RiskCover and the Office of the Public Sector Standards Commissioner conducted a collaborative study of the relationship between job satisfaction and workers' compensation claims. The aim of the study was to gain a deeper understanding of job satisfaction and its relationship to the likelihood of a workers' compensation claim being made. The results showed that employees in operational areas with lower job satisfaction had a higher workers' compensation claims frequency. In some instances, employees in areas with lower job satisfaction were more than three times as likely to have made a claim as employees in areas with higher job satisfaction. The evidence strongly supports the notion that strategies to improve organisational culture and job satisfaction should be a major part of an agency's risk management program.

RiskCover's Data Warehouse was developed in March 2000 to assist agencies in managing their workers' compensation risks. In 2004–2005, the data held in the warehouse was expanded to include the non-workers' compensation classes of cover. This will further enhance RiskCover's capabilities in providing agencies with timely and accurate information to aid decision-making.



GRM conference 2004.

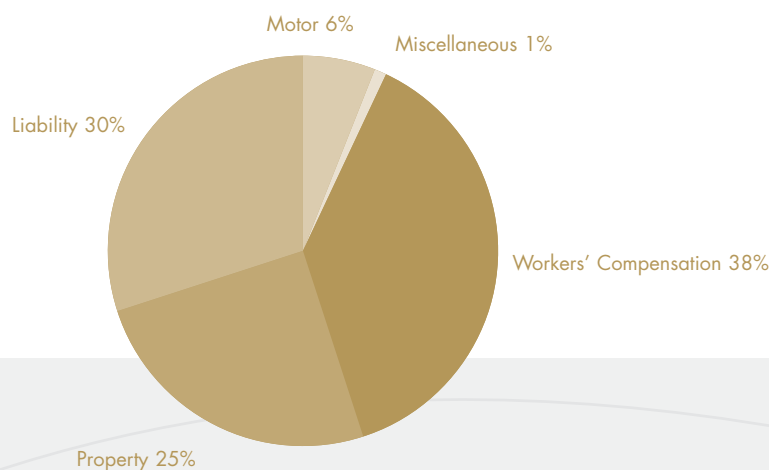
Fund

Services

RiskCover aims to have sufficient assets to pay for all liabilities. RiskCover achieved an excellent financial result through strong investment returns, and sound claims management and underwriting practices.

Contribution Revenue totalled \$123 million (2004: \$118 million). Underwriting and Administration Expenses, which includes risk management services, remained at approximately 10.5% of Renewal Contributions (i.e contribution charged for the 2005 period of cover). A breakdown of contributions by class of cover is shown in the following graph.

RiskCover Fund Contributions by Class of Cover for 2004–2005



Gross claims payments for 2004–2005 were \$89 million, some \$3 million more than the \$86 million budgeted. Despite this, the strong investment return of 14%, resulting in Investment Income of \$44 million, culminated in an operating surplus of \$34 million (2004: \$24 million). Overall, the RiskCover Fund has cumulative net assets of \$58 million (2004: \$24 million).

Last year RiskCover gained approval from the Department of Treasury and Finance to maintain sufficient reserves in the order of \$20 million to provide security for large losses not covered by the reinsurance program. RiskCover is having ongoing discussions with the Department of Treasury and Finance to resolve how best to deal with surplus funds going forward, bearing in mind a number of uncertainties, particularly whether the Australian equivalent to the International Financial Reporting Standards (A-IFRS) apply to the Fund.

Customer Satisfaction

Each year, a market research organisation conducts an independent survey to measure the level of customer satisfaction amongst RiskCover's clients. This helps RiskCover to monitor how well it is meeting its clients' expectations. It is pleasing to note that agencies reported a high level of satisfaction with RiskCover's performance in the 2005 customer satisfaction survey. The rating of RiskCover's performance for 'good' and above was 96% compared to 97% last year. Agencies who rated RiskCover's services as 'good' increased from 24% in 2004 to 30% in 2005, however the combined rating for 'very good' and 'excellent' reduced from 73% to 66%.

Coverage

RiskCover continues to provide extensive cover for the majority of State Government insurable risks including:

- Workers' Compensation;
- Property and Business Interruption;
- Liability, including General, Professional, Medical Treatment and Employment Practices Liability;
- Motor Vehicle; and
- Miscellaneous covers, including Travel, Personal Accident and Special Covers.

Some of the benefits that the RiskCover Fund provides include:

- extensive coverage;
- cost-efficient administration in comparison to other funding methods;
- consistent and systematic approach to risk management across the State Government;
- consistency in claims and injury management; and
- buying power in reinsurance markets.

Pricing Policy

Fund Contributions are set to ensure that sufficient funds are collected to pay for all liabilities.

The key outcomes that RiskCover aims to achieve in setting contributions are:

- equity for all agencies;
- transparency in the Fund Contribution setting methodology;
- minimum cross-subsidisation;
- protection against major surprises; and
- incentives for risk management.

As agreed with the Department of Treasury and Finance, claims costs used to determine Fund Contributions do not include a prudential margin as the Government of Western Australia underwrites the Fund.



Claims

Services

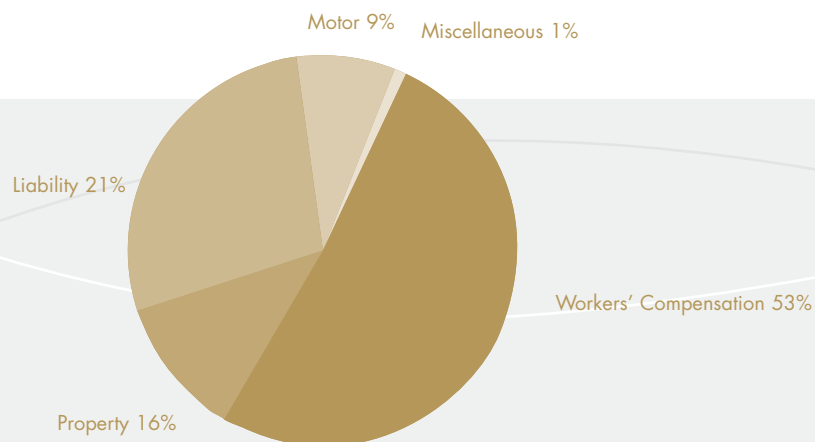
Claims services constitute the largest part of RiskCover's operations and consume the most resources. Workers' Compensation claims comprise the majority of the claims portfolio. RiskCover focuses on providing a claims service that integrates injury prevention, injury management, claims management and rehabilitation strategies.

In 2004–2005, the Workers' Compensation and Rehabilitation Act 1981 was significantly amended to enshrine requirements for injury management and expand the benefits available to injured workers. To highlight the focus of the legislation, the new Act is now titled the *Workers' Compensation and Injury Management Act 1981*.

To inform agencies of the legislative changes, RiskCover conducted a number of information sessions and workshops in the metropolitan area and in major regional centres. Regular injury management workshops were also conducted to promote this multi-faceted approach to claims management.

In 2004–2005, RiskCover's claim payments totalled \$89 million (2004: \$79 million), approximately 2.7% more than forecast. A breakdown by cover class is provided below.

RiskCover Claim Payments by Cover Class for 2004–2005



In the Workers' Compensation class, the number of reported claims, the number of claim closures and the net claim payments were all less than projected. The experience of the Liability and Property classes was better than expected. Conversely, the Motor Vehicle class claim payments were 34% more than projected.

Claimant Satisfaction Survey

In addition to RiskCover's 2005 Customer Satisfaction Survey, during the year a separate specific survey which targeted workers' compensation claimants was conducted for the first time. A major aim of this survey was to produce benchmark measures for comparison over time. Some 58% of respondents reported that they were 'satisfied' or 'very satisfied' with RiskCover's Claims Services. The survey results also highlighted a number of areas where RiskCover can improve its service to claimants. This feedback will assist RiskCover to develop appropriate service delivery strategies.

Ongoing Projects

RiskCover plans to do the following during 2005–2006:

- Complete the implementation of the Division's restructure and consolidate operations.
- Examine ways to improve claimant information services.
- Further develop electronic business capabilities.



Customer Service

Values

As a customer-focused organisation, providing quality customer service is integral to achieving the RiskCover vision for the future.

Customer Service Vision and Values Statement

RiskCover is committed to maintaining the highest standard of service in our dealings with all customers. We achieve this through:

Communication

We communicate openly with our customers and strive to ensure that they receive clear and accurate information and advice.

Responsiveness

We respond to our customers in a timely manner and show consideration to their needs and expectations. We honour our commitments.

Respect for individuals

We strive to be efficient, courteous and considerate. We respect the dignity of our customers. We always act fairly.

Accountability

We accept responsibility for our actions in delivering the highest standards of service to our customers. We make known to our customers the levels of service we will deliver and ensure that they are met. Any complaints are handled promptly and equitably.

Learning environment

We are committed to improving the way we work, to sharing our knowledge and concerns and to being open to constructive criticism and feedback. We build a learning environment where employees are supported in their development and are encouraged to seek and accept new responsibilities.

Publications

All RiskCover publications are published on the RiskCover website www.riskcover.wa.gov.au.

The following publications are prepared by RiskCover and are available upon request:

RiskCover Services and People

This document contains information on the services that RiskCover offers to agencies. It is available to any State Government agency that works directly with RiskCover and/or wishes to gain a better understanding of its operations and services.

GRM (Government Risk Management Magazine)

Each issue of GRM highlights risk management practices and concepts and addresses a variety of RiskCover Fund issues that apply to agencies. All State Government agencies are encouraged to contribute articles of interest and identify new topics that they would like to see covered. GRM is published twice a year.

RiskCover Website

This website contains information about a variety of topics relevant to RiskCover's operations, functions, customers, publications and claims procedures. It can be accessed at www.riskcover.wa.gov.au.



RiskCover Fund Statements

Statement of

Financial Performance

The Government of Western Australia has adopted a Managed Fund approach to administer all insurable risks of its agencies on a self-insurance basis. The RiskCover Fund is underwritten by the Crown and is managed by the Insurance Commission on behalf of the Government and its participating agencies for an initial term of five years commencing July 1996 under the supervision of The Department of Treasury and Finance. On 18 July 2001, Treasury confirmed the re-appointment of the Insurance Commission to manage the RiskCover Fund on the basis of a rolling 3-year notice period.

The Insurance Commission earns a management fee from this activity representing the proportion of the Insurance Commission's services used by RiskCover.

The significant accounting policies adopted in preparing RiskCover's financial statements are consistent with both those used in preparing the economic entity's financial statements.

RiskCover's assets are not owned by the economic entity and are therefore not consolidated. The Investment assets of RiskCover are, however, included in the investment pool of the economic entity, represented by a Floating Rate Promissory Note. RiskCover earns an investment return on its share of the investment pool of the Insurance Commission of Western Australia.

Any accumulated surplus in RiskCover represents an asset of the State Government of Western Australia and not of the economic entity.

RiskCover is not liable to pay income tax equivalents under current arrangements with the Department of Treasury and Finance.



STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2005		2005	2004
	References	\$'000	\$'000
Contribution Revenue	(a)	122,705	118,415
Contribution Adjustment	(b)	3,788	(6,947)
Outwards Reinsurance Expense		(36,263)	(33,574)
Outwards Reinsurance Commission Revenue		5,201	4,174
Net Earned Contribution		95,431	82,068
Claims Incurred		(112,397)	(92,797)
Reinsurance and Other Recoveries Revenue		22,568	19,158
Net Claims Incurred		(89,829)	(73,639)
Underwriting and Administration Expenses		(15,644)	(14,833)
UNDERWRITING DEFICIT		(10,042)	(6,404)
Investment Income		43,683	30,155
OPERATING SURPLUS		33,641	23,751

The Statement of Financial Performance should be read in conjunction with the references forming part of RiskCover's financial statements

STATEMENT OF FINANCIAL POSITION as at 30 June 2005	References	2005 \$'000	2004 \$'000
CURRENT ASSETS			
Receivables		24,628	17,027
Other Financial Assets	(c)	320,164	275,741
Total Current Assets		344,792	292,768
NON-CURRENT ASSETS			
Receivables		14,527	10,798
TOTAL ASSETS		359,319	303,566
CURRENT LIABILITIES			
Bank Overdraft		2,008	610
Payables		28,029	19,101
Outstanding Claims		84,796	71,513
Total Current Liabilities		114,833	91,224
NON-CURRENT LIABILITIES			
Payables		16,014	27,914
Outstanding Claims		170,524	160,121
Total Non-Current Liabilities		186,538	188,035
TOTAL LIABILITIES		301,371	279,259
NET ASSETS		57,948	24,307
EQUITY			
Accumulated Surplus	(d)	57,948	24,307
TOTAL EQUITY SURPLUS		57,948	24,307

The Statement of Financial Position should be read in conjunction with the references forming part of RiskCover's financial statements

REFERENCES TO THE RISKCOVER FINANCIAL STATEMENTS

a) Fund Contribution setting

When determining contributions for the Workers' Compensation and Liability classes, RiskCover relies on claims costs, which have been actuarially assessed at the net central estimate. A prudential margin on the outstanding claims cost is not included.

b) Contribution Adjustment

The contributions levied for the Workers' Compensation and Motor Vehicle classes are deposit contributions and are subject to adjustment at a future date (three years after the close of the risk period for Workers' Compensation and one year for Motor Vehicle) to take into account the actual claims experience of the agency. This process allows good performance to be rewarded and poor performance to be sanctioned.

The amount provided for includes the estimated contributions to be called-up or refunded based on the current claims trend of the 2005, 2004, 2003 and 2002 risk periods. An additional provision of \$19.7 million (2004 - \$9.4 million) has been brought to account at balance date, reflecting surplus funds held in the Workers' Compensation class for closed cover periods 1998 to 2001 inclusive. It is anticipated that this amount will be refunded to the relevant agencies at a future date.

c) Floating Rate Promissory Note owed to RiskCover by the Insurance Commission.

d) Accumulated Surplus

	2005 \$'000	2004 \$'000
Balance of surplus at beginning of the year	24,307	556
Surplus for the year	33,641	23,751
Balance of surplus at end of the year	57,948	24,307



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