

SAicorp

A DIVISION OF **SAFA**

Annual Report 2017



...under pressure.
...and it provides excellent results. Your reputation, business is built
...and can deliver more to management's
...Wong And Lam Consulting
...I have been very satisfied with the service and the results.
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SAicorp: who are we?

SAicorp is the captive insurer for the Government of South Australia.

We provide comprehensive insurance protection by insuring the risks of South Australian Government Agencies.

We are also responsible for reinsuring risks in the Australian and International insurance markets, as well as providing reinsurance to the private insurance market for South Australian Building Indemnity Insurance risks.

SAicorp has two main divisions; Underwriting and Claims, but also provides Risk Consulting and Advisory Services to South Australian Government Agencies.

2016-17 activities

In 2016-17 SAicorp continued to manage property and civil liability claims from client agencies and medical malpractice claims from the Department for Health and Ageing.

The highlights



Achieved a **significant profit** for SAicorp's core insurance business on the back of **strong returns** on SAicorp's investment portfolio.



Negotiated a **6.2% reduction in premiums** for the renewal of the State's catastrophe reinsurance program.



Reformed the distribution of **building indemnity insurance** to consumers, including **increasing the policy limit** from \$80,000 to \$150,000.



Resolved 111 insured and uninsured building indemnity **insurance claims** in the Homestead Homes Pty Ltd liquidation.



Paid the **first ever dividend** to the Treasurer.

Insurance Funds

SAicorp operates its business through three self-managed funds as follows.

SAicorp Insurance Fund 1

The normal commercial insurance operations of SAicorp are transacted through SAicorp Insurance Fund 1 (Fund 1), which is funded by premiums charged to client agencies and investment earnings.

During the year Fund 1 recorded a profit before tax of \$54.8 million, which compares to a loss for the previous year of \$10 million. The profit was largely attributable to good investment returns, positive movements in discount rates used to calculate claim liabilities and lower than expected claims experience.

	2016-17 \$m	2015-16 \$m	2014-15 \$m	2013-14 \$m	2012-13 \$m
Total Assets	547	547	491	430	403
Total Liabilities	355	386	322	261	273
Net Assets	192	161	168	169	130
Outstanding Claim Liabilities	355	349	322	261	273
Total Investments	537	495	475	413	377
Premium Revenue	42.5	40.5	41.5	39.8	39.1
Reinsurance Expense	(7.7)	(8.4)	(8.7)	(9.1)	(9.2)
Net Claims (Expense)/ Gain	(40.5)	(58.9)	(74.5)	(30.0)	(19.0)
Underwriting Result	(5.9)	(26.2)	(41.8)	1.1	11.4
Profit/ (Loss) Before Tax	54.8	(10.0)	(1.3)	55.9	67.8

Highlights for Fund 1

The method of calculation of the level of free reserves is assets over liabilities, expressed as a percentage, with the target range being total assets of 125% to 165% of total liabilities. The actual solvency margin as at 30 June 2017 was 154% which is within the target range. This equates to a surplus of assets over liabilities of \$192 million.

SAicorp's insurance investments for Fund 1 are invested in Funds SA's Growth product.

During the year the Treasurer approved a dividend policy for SAicorp, which is calculated as 50% of average net profit after tax over a rolling five years. As a result of profits achieved in the 2013, 2014 and 2017 financial years a dividend of \$7.63 million was paid to the Treasurer this year. This is the first dividend SAicorp has ever paid to the Treasurer.

Significant claim matters handled during the year included:

- property losses arising from significant storm events in September 2016
- claims relating to medical malpractice, particularly those relating to injuries sustained at birth.

A total of 489 claims were open as at 30 June 2017, comprising 104 medical malpractice claims, 330 general liability claims, 52 property claims and three volunteer claims.

341 new claims were received during the year and 565 claims were finalised.



Fund 1 recorded a **profit** before tax of **\$54.8 m**



First ever dividend of **\$7.63 m** paid to the Treasurer.



489 claims were open as at 30 June **2017**



341 new claims were received in 2017
565 claims were **finalised**.

SAicorp Insurance Fund 2

SAicorp Insurance Fund 2 (Fund 2) funds liabilities arising from insurable incidents that occurred prior to 1 July 1994 that survive the Limitation of Actions Act, claims under the previous building indemnity reinsurance arrangements with private insurers, SGIC residual claims and claims against the former RESI Corporation.

On an annual basis the liabilities of Fund 2 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 2 records a break even result as at 30 June each year.

SAFA's insurance investments for Fund 2 are invested in Funds SA's Conservative product.

During the year Fund 2 recorded a loss of \$2.1 million, which compares to a profit for the previous year of \$4.5 million. The loss was largely attributable to higher than expected claims experience.

Significant claim matters managed through Fund 2 during the year included a number of asbestos disease related claims against the former RESI Corporation and Children in State Care claims.

	2016-17 \$m	2015-16 \$m	2014-15 \$m	2013-14 \$m	2012-13 \$m
Total Assets	22	33	50	55	63
Total Liabilities	22	33	50	55	63
Outstanding Claim Liabilities	17.3	18.7	40.6	41.6	54.7
Total Investments	19.5	27.9	44.9	46.7	53.3
Net Claims (Expense)/ Gain	(4.1)	1.7	(7.5)	(0.4)	4.5
Receivable from/ (Payable) to Treasurer	2.1	(4.5)	3.5	(5.0)	(9.4)
Profit/ (Loss) Before Tax	-	-	-	-	-

Avoid

Ide

RISK MANAGEMENT

Reduce

Ac
p

Control

Mitigate

Highlights for Fund 3



13,463
certificates
were issued

\$2.8b of
building works



\$10.6m in
premium revenue
collected



122 new
claims
were received



\$3.8m
claim
payments to
SA home owners



Since 2013
\$35m
premium
revenue
collected
against claim
payments
totalling \$7.5m

SAicorp Insurance Fund 3

SAicorp Insurance Fund 3 (Fund 3) was established on 1 July 2013 to fund the cost of the new building indemnity insurance (BII) arrangements.

BII covers homeowners from loss or damage resulting from non completion of building work, loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of their death, disappearance or insolvency.

Prior to 2013, in order to facilitate the availability and affordability of building indemnity insurance to homeowners, the Treasurer provided catastrophe reinsurance protection to three private insurers who have all since withdrawn from the BII market.

Since the withdrawal of insurers from the BII market in 2013, SAicorp has been underwriting BII through 100% quota share agreements with QBE and Calliden (now known as GLA).

The quota share agreement with GLA expired without renewal on 30 June 2017, while the agreement with QBE was extended for up to a further five years.

Fund 3 receives premium income from QBE (and previously GLA) and pays commissions, claims and other costs payable under the new reinsurance arrangements. Fund 3 is supported by an indemnity from the Treasurer and has been established to quarantine the costs arising from building indemnity insurance from SAicorp's normal insurance activities.

On an annual basis the liabilities of Fund 3 are revalued and any deficiency arising from the valuation is offset by a receivable from the Treasurer. Conversely any surplus is offset by a payable to the Treasurer. This ensures that Fund 3 records a break even result as at 30 June each year.

SAFA's insurance investments for Fund 3 are invested in Funds SA's Conservative product.

During the year Fund 3 recorded a loss of \$3.7 million, which compares to a loss for the previous year of \$2.3 million.

	2016-17 \$m	2015-16 \$m	2014-15 \$m	2013-14 \$m
Total Assets	32	23	15	9
Total Liabilities	32	23	15	9
Outstanding Claim Liabilities	10.7	7.4	3.5	0.8
Total Investments	21.2	16.0	9.1	2.5
Premium Written	10.6	8.7	7.7	8.2
Certificates Written	13,432	13,162	12,041	13,424
Net Claims (Expense)/ Gain	(7.4)	(5.8)	(4.2)	(1.2)
Receivable from/ (Payable) to Treasurer	3.7	2.3	3.8	1.0
Profit/ (Loss) Before Tax	-	-	-	-

The following are some of the developments in BII during the year:

- consolidation of the network of insurance brokers distributing BII to the market so as to better manage the risk at the point of eligibility assessment
- transferring the responsibility for paying broker commissions to a direct cost between the builder and broker so as to achieve greater transparency
- increasing the indemnity limit per policy from \$80,000 to \$150,000 for new policies written from 1 July 2017
- SAicorp entered into a new five year agreement with QBE for the distribution of the BII policies and management of claims.

In 2016-17, 13,432 BII certificates were issued and \$10.6 million in premium revenue collected covering \$2.8 billion of building works. 122 new claims were received and \$3.8 million in claim payments were made to South Australian home owners during the year.

Since SAicorp commenced writing BII in 2013 it has written a total of \$35 million in premium covering \$12.1 billion of building works against 225 claims totalling \$7.5 million. Note that homeowners have up to five years after completion of a building project to make a claim under the BII policy, which means there is often a long period of time between receipt of the premium and payment of claims.

Highlights for reinsurance



Insured
\$70.3b
of government
assets



**Premium for
the property
reinsurance program
decreased
by 9%**



The combined
**liability
premium
decreased
by 3.5%**



**Terrorism
(property) Cover**
was renewed with a
decrease in
premiums
of **7.8%**



**Network
security** and
privacy reinsurance
policy was
renewed
with an aggregate
limit of \$30 million

Reinsurance Arrangements

Catastrophe Reinsurance Program

Although the Government of South Australia is fundamentally a self-insurer of most of its own risks, the State's finances are protected against the financial consequences of a catastrophic event, a very large property loss or civil liability claim, or a series of large losses or claims in a particular year.

This protection is obtained through the placement of a commercial catastrophe reinsurance program in the Australian and international insurance markets. The program was successfully renewed at 31 October 2016.

During the year SAicorp insured \$70.3 billion of government assets, an increase of 2.1% on the previous year. For the 2016-17 reinsurance renewal the premium for the property reinsurance program decreased by 9%, despite a 2.1% increase in declared values of insured assets.

Liability reinsurers continue to maintain a cautious approach to bushfire risk in Australia and so detailed presentations were again provided to reinsurers in London on the State's bushfire risk. For the 2016-17 reinsurance renewal the combined liability premium decreased by 3.5%.

The terrorism (property) cover was renewed with a 7.8% decrease in premium, despite asset values increasing by 2.1%, while the aviation liability cover was renewed with a small increase in premium.

Cover for the network security and privacy reinsurance policy was renewed with an aggregate limit of \$30 million.

Overall, the catastrophe reinsurance program was renewed with a total decrease in premiums for renewed policies of 6.2%.

Details on the State's catastrophe reinsurance program for 2016-17 are on page 11.

SAicorp Reinsurance Program 2016-17

Industrial Special Risks (Property and Business Interruption)	
Level of cover	\$1b
Aggregate annual deductible for losses in excess of \$1m each and every event	\$15m
Public and Products Liability	
Level of cover	\$750m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m
Professional Indemnity	
Level of cover	\$300m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m
Directors and Officers Liability	
Level of cover	\$75m
Aggregate annual deductible for losses in excess of \$1m/\$3m each and every event	\$20m
Medical Malpractice	
Level of cover	\$100m
Each and every event deductible	\$15m
Aviation Liability	
Level of cover	\$500m
Each and every event deductible	\$5,000
Terrorism Property	
Level of cover	\$250m
Each and every event deductible	\$25m
Network Security and Privacy Liability	
Level of cover	\$30m
Each and every event deductible	\$0.5m

m = million
b = billion

Local Government Association Treasurer's indemnity

The catastrophe reinsurance program also covers civil liability risks assumed by the government under the indemnity provided by the Treasurer to the Local Government Association (LGA). The LGA is noted on the government's catastrophe liability reinsurance program. During the year the indemnity was extended for a further five years.

The Treasurer's indemnity with the LGA has been in place since 1989 and seeks to ensure stability to Local Government in the event of a significant liability claim against a member Council. Under the Treasurer's indemnity the LGA is required to purchase \$500 million of general liability reinsurance before the State's liability reinsurance comes into effect.

Further information

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