Financial summary

Five-year summary of financial results

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Total income[1]	651,308	664,427	635,077	437,068	566,573
Less reinsurance, claims, commission and administration expenses	758,951	492,087	295,115	323,159	163,666
Operating surplus/(deficit)	(107,643)	172,340	339,962	113,909	402,907
Net cash inflow from operating activities	208,980	172,548	198,537	200,015	189,979
Total assets	2,676,395	2,910,737	2,521,587	2,654,019	2,861,821
Total liabilities	2,548,419	2,267,118	2,050,308	2,361,002	2,313,713
Net assets/(liabilities)	127,976	643,619	471,279	293,017	548,108

1. Total income figures are subject to fluctuation in value year on year as they include reinsurance recoveries and investment income.

Financial Performance

Overall, VMIA's financial position continues to remain solid, with our economic funding ratio at 144 percent as at 30 June 2019. VMIA had an operating loss of $107.6 million for 2018/2019, an adverse variance of $160.7 million compared to the budgeted surplus of $53.0 million. This was primarily driven by an increase of $170 million in net claims incurred, half of which was due to changes in economic assumptions, with the balance due to an increase in higher than expected net claim liabilities in our:

- Medical indemnity portfolio - relating to nervous shock, resulting in changes in actuarial assumptions to better reflect the emerging claims experience in this area.
- Domestic building insurance (DBI) portfolio - relating to an increase in multi-unit defect claims.
- Professional Indemnity portfolio - relating to Child Protection Indemnity and the activity associated with three Royal Commissions (Aged Care, Management of Police Informants and Victoria's Mental Health System).

This was offset by lower than expected net claims liabilities in respect of the Dust Diseases and Workers' Compensation portfolio, due to the actual claims experience of asbestosis and lung cancer claims received in 2018/19.

Performance from insurance operations

Performance from insurance operations (PFIO) is a measure of the underlying strength of VMIA's internal operations. It is calculated by removing the effects of external factors such as:

- Variance between the actual and expected long-term investment return.
- Changes in inflation and discount rates used in the net claims liabilities actuarial valuation.
- Impact of the net movement in the unexpired risks liability.
- Legislative changes and government-directed changes.

For 2018/2019, the PFIO result was a loss of $14.7 million against an expected surplus of $54.8 million, driven primarily by claims experience over the past year.

Significant changes in financial position

At 30 June 2019, total assets were lower than in the prior year by $234.3 million, due to a decrease in our investment portfolio of $231.3 million. This was a result of paying the State a budgeted dividend of $408 million in June 2019, offset by higher investment returns. Total liabilities increased by $281.4 million, driven by an increase in gross claims liabilities of $287.1 million.

During 2018/2019, VMIA generated a net cash inflow of $209 million from operating activities.

VMIA's equity position decreased by $515.6 million from $629.8 million as at 30 June 2018 to $114.1 million as at 30 June 2019.

Subsequent events

No material events affecting VMIA have occurred between the Balance Sheet date and the date of this report.

Pursuant to the Department of Treasury and Finance's Corporate Planning and Performance Reporting Requirements for Government Business Enterprises, VMIA provides the following historical summary of its key financial performance indicators.

Key financial performance indicators

Pursuant to the Department of Treasury and Finance Corporate Planning and Performance Reporting Requirements for Government Business Enterprises, VMIA provides the following historical summary of its key financial performance indicators.

Key financial performance indicators	2019	2018	2017	2016	2015
Performance from Insurance Operations (PFIO)					
Actual ($ million)	(14.7)	96.0	241.0	307.4	331.0
Budget ($ million)	54.7	45.6	8.1	39.3	52.9
Return on Investments (before fees)	8.4%	10.6%	12.3%	3.6%	11.7%
Return on Investments (after fees)	7.7%	9.8%	11.4%	3.1%	11.2%
Return on Assets [1]	(0.5%)	3.5%	9.3%	11.1%	11.9%
Return on Equity [1]	(3.8%)	17.2%	63.1%	73.1%	95.5%
Number of employees at end of year [2]	191	187	164	144	138
Number of full time equivalent employees at end of year (FTE) [2]	183.0	180.4	158.3	138.1	130.7
Gross Premium Written ($ million) [3]	371.8	423.7	130.4	377.4	346.0
Gross Premium Earned ($ million)	395.0	385.5	365.4	333.8	328.6

1. Return on Assets and Return on Equity are calculated based on the PFIO.
2. All figures reflect employees paid in the last full pay period of June each year. Excluded are those on leave without pay, secondees, external contractors/consultants and temporary staff employed by employment agencies.
3. Until 30 June 2016 the majority of VMIA's insurance policies with its clients incepted at 4.00pm on 30 June each year and accordingly the majority of such gross premium written was written prior to 2017 financial year. With effect from 1 July 2017 these insurance policies incepted just past midnight on 1 July 2017 and accordingly the majority of such gross premium written is written in the 2018 financial year.

Financial report

The Victorian Managed Insurance Authority (VMIA) presents its audited general purpose financial statements for the financial year ended 30 June 2019 and provides users with the information about VMIA's stewardship of resources entrusted to it. It is presented in the following structure:

Financial Statements

Comprehensive Operating Statement

For the financial year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Gross premium earned	2.1, 2.7	**395,048**	**385,454**
Reinsurance premium incurred	2.7	(57,020)	(49,947)
Increase in unexpired risks liability	2.8(b)	(73,899)	(23,916)
Net premium earned		**264,129**	**311,591**
Gross claims incurred	2.2, 2.3(b)	(566,774)	(350,937)
Reinsurance and other recoveries	2.2, 2.3(b)	29,890	21,573
Net claims incurred	2.2	**(536,884)**	**(329,364)**
Commission incurred		**(9,271)**	**(20,397)**
Other income		2,024	2,321
Administration expenses	4.1	(43,642)	(38,502)
Underwriting result		**(323,644)**	**(74,351)**
Investment income	3.1	224,346	255,079
Investment management expenses		(8,345)	(8,388)
Net investment income		**216,001**	**246,691**
Net result		**(107,643)**	**172,340**
Comprehensive result		**(107,643)**	**172,340**

VMIA has no other comprehensive income to report for the year ended 30 June 2019 (2018: Nil).

The Comprehensive Operating Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

Balance Sheet

As at 30 June 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	3.2	32,715	20,245
Trade receivables	2.10	1,529	796
Non-trade receivables		62	119
Investments	3.3(c)	2,550,418	2,781,757
Total financial assets		**2,584,724**	**2,802,917**
Non-financial assets			
Prepaid expenses		1,176	1,252
Trade receivables	2.10	16,104	30,959
Non-trade receivables		655	678
Furniture, fittings, equipment and motor vehicles		1,639	2,694
Intangibles		1,066	2,004
Deferred acquisition costs	2.8(a), 2.9	-	968
Unearned reinsurance	2.7	42,729	44,821
Reinsurance and other recovery assets	2.3(b) , 2.3(c)	28,302	24,444
Total non-financial assets		**91,671**	**107,820**
Total assets		**2,676,395**	**2,910,737**
LIABILITIES			
Trade payables	2.11	39,224	35,917
Non-trade payables	5.1	12,405	57,635
Derivative liabilities	3.3(c)	11,244	25,410
Provisions		4,515	4,532
Lease incentive liability		1,560	1,883
Unearned premium	2.7	228,312	251,527
Unexpired risks	2.8(b)	144,416	70,517
Gross claims liabilities	2.3(a), 2.3(b)	2,106,743	1,819,697
Total liabilities		**2,548,419**	**2,267,118**
Net assets		**127,976**	**643,619**
EQUITY			
Contributed capital		13,871	13,871
Accumulated surplus		114,105	629,748
Total equity		**127,976**	**643,619**

The Balance Sheet should be read in conjunction with the accompanying Notes to the Financial Statements.

Financial statements (cont)

Statement of Changes in Equity

For the financial year ended 30 June 2019

	Note	Contributed capital $'000	Accumulated surplus $'000	Total $'000
Balance at 30 June 2017		**13,871**	**457,408**	**471,279**
Comprehensive result for the year		-	172,340	**172,340**
Dividend paid		-	-	-
Balance at 30 June 2018	6.1	**13,871**	**629,748**	**643,619**
Comprehensive result for the year		-	(107,643)	(107,643)
Dividend paid		-	(408,000)	(408,000)
Balance at 30 June 2019	**6.1**	**13,871**	**114,105**	**127,976**

The Statement of Changes in Equity should be read in conjunction with the accompanying Notes to the Financial Statements.

Cash Flow Statement

For the financial year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Insurance premium received		473,367	488,170
Other income		2,226	2,552
Reinsurance premium paid		(54,928)	(70,741)
Gross claims paid		(315,918)	(269,673)
Reinsurance and other recoveries received		16,092	20,855
Reimbursement of claims paid on behalf of others		41,393	34,589
Gross commission paid		(7,402)	(8,233)
Payments to employees and suppliers for services and goods		(65,775)	(56,387)
Dividends, distributions and other investment income received	3.1	177,816	93,935
Interest received	3.1	8,830	7,505
Goods and Services Taxation paid		(26,096)	(30,726)
Stamp Duty paid		(40,624)	(39,298)
Net cash inflow from operating activities	3.2(a)	**208,980**	**172,548**
Cash flows from investing activities			
Acquisition of furniture, fittings, equipment and motor vehicles		(232)	(408)
Proceeds on disposal of furniture, fittings, equipment and motor vehicles		209	211
Acquisition of intangibles		(0)	(1,072)
Acquisition of investments		(2,228,320)	(1,401,165)
Proceeds on disposal of investments		2,439,834	1,224,518
Net cash outflow from investing activities		**211,491**	**(177,916)**
Cash flows from financing activities			
Dividend paid		(408,000)	-
Cash outflow from financing activities		**(408,000)**	**-**
(Decrease)/increase in cash and cash equivalents		12,470	(5,368)
Cash and cash equivalents at beginning of year		20,245	25,613
Cash and cash equivalents at end of year	3.2	**32,715**	**20,245**

1. About this report

VMIA is the Victorian Government's insurer and risk adviser. Our purpose is to build a confident, resilient Victoria through world-leading harm prevention and recovery.

The financial report covers VMIA as an individual reporting entity. VMIA is a Public Financial Corporation, established on 1 October 1996 by the *Victorian Managed Insurance Authority Act 1996* to provide insourced risk management and multi-line insurance services to its clients across the State of Victoria. The Order in Council gazetted on 14 May 2015 declared VMIA as a reorganising body under section 7 of the *State Owned Enterprises Act 1992*.

VMIA's principal address is Level 10, 161 Collins Street, Melbourne, Victoria, 3000.

1.1 Basis of preparation

The financial report has been prepared on an accrual basis, and is based on historical costs and does not take into account changing money values, except for outstanding claims liabilities, recoveries receivable, employee benefits liabilities and leasehold restoration provision which are included at present value, and investments and property, plant and equipment which are included at fair value. Historical cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and financial consequences of events are reported. The accounting policies have been applied in preparing the financial report for the year ended 30 June 2019 and the comparative information presented for the year ended 30 June 2018.

The functional and presentation currency of VMIA is the Australian dollar. Amounts are rounded and expressed to the nearest thousand dollars in accordance with Ministerial Directions under the *Financial Management Act 1994*.

VMIA is exempt from Federal income taxation under section 24AM of the *Income Tax Assessment Act 1936*. VMIA is liable to pay Fringe Benefits Taxation (FBT) and Goods and Services Taxation (GST). Revenue and expenses are brought to account exclusive of GST. Receivables and payables are stated inclusive of GST. The amounts of GST recoverable from or payable to the Australian Taxation Office are included as part of non-trade receivables and non-trade payables. Cash flows which include GST are included in the Cash Flow Statement on a gross basis in accordance with *AASB 107 Statement of Cash Flows*.

1.2 Statement of compliance

The financial report is a general purpose financial report prepared on an accrual basis in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards, which include Interpretations, and other mandatory professional requirements.

For the purposes of compliance with the accounting standards, the Assistant Treasurer has determined that VMIA is a not-for-profit entity. Australian Accounting Standards include requirements that apply specifically to not-for-profit entities that are not consistent with the International Financial Reporting Standards requirements. Consequently, where appropriate, VMIA applies those paragraphs in Australian Accounting Standards applicable to not-for-profit entities. The financial report also complies with relevant Financial Reporting Directions approved by the Assistant Treasurer.

The financial report was authorised for issue by the Board of Directors on 29 August 2019.

2. Results from insurance operations

Introduction to this section

VMIA provides risk advice and insurance services for the Victorian Government.

VMIA works with its clients to improve the quality of life for the Victorian community. VMIA is dedicated to help the public sector build a confident, resilient Victoria through world-leading harm prevention and recovery.

This section provides details of the premium received and expenditure incurred by VMIA in delivering its services to the Victorian Government.

This section contains the following disclosure:

VMIA's business is very diverse, with six main lines of business classifications being Domestic Building Insurance, Dust Diseases and Workers' Compensation, Liability, Medical Indemnity, Property and Other activities.

Domestic Building Insurance

This line of business provides cover to homeowners for incomplete or defective building work. VMIA commenced writing domestic bulding insurance on 31 May 2010.

Dust Diseases and Workers' Compensation

This line of business covers pre–1985 workers' compensation and public liability claims against the former State Electricity Commission of Victoria and some other State Government entities. The portfolio is in run-off. The last Dust Diseases and Workers' Compensation insurance contract expired on 31 January 1995.

Liability

These lines of business provide a range of general insurance (including Public and Products Liability; Professional Indemnity; and, Directors & Officers Liabilty) to Government Departments, participating bodies and non-Government entities, as directed by the Assistant Treasurer.

Medical Indemnity

This line of business covers all public hospitals in Victoria and many other healthcare providers in the event of an adverse healthcare incident.

Property

This line of business provides cover for any physical loss or damage to any Government Departments that own or assume responsibility for buildings, contents, watercraft, plant and machinery.

Other

This includes other lines of business such as travel, motor vehicle and personal accident.

2. Results from insurance operations (cont)

2.1 Gross premium earned

	Note	2019 $'000	2018 $'000
Gross premium earned			
Domestic Building Insurance		65,689	68,854
Liability		38,595	32,943
Medical Indemnity		179,335	176,810
Property		55,158	54,655
Other		56,271	52,192
Total gross premium earned		**395,048**	**385,454**

Premium includes amounts charged to policyholders but excludes Stamp Duty and Goods and Services Taxation. Premium is recognised in the Comprehensive Operating Statement when it has been earned. Premium is treated as earned from the date of attachment of risk and recognised over the policy period, which has been judged as closely approximating the pattern of risk.

2.2 Net claims incurred

	2019			2018		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	472,938	(2,668)	470,270	380,052	(49,870)	330,182
Discount movement	(24,204)	113,075	88,871	(41,044)	54,494	13,450
Unallocated claims expenses	7,633	-	7,633	7,305	-	7,305
Total gross claims incurred	**456,367**	**110,407**	**566,774**	**346,313**	**4,624**	**350,937**
Reinsurance and other recoveries						
Undiscounted	(9,109)	(36,383)	(45,492)	(8,255)	3,064	(5,191)
Discount movement	186	15,416	15,602	395	(16,777)	(16,382)
Total reinsurance and other recoveries	**(8,923)**	**(20,967)**	**(29,890)**	**(7,860)**	**(13,713)**	**(21,573)**
Total net claims incurred	**447,444**	**89,440**	**536,884**	**338,453**	**(9,089)**	**329,364**

Current year claims relate to claims incurred for the most recent policy year. Prior year claims relate to a reassessment of the claims assumptions (e.g. changes in economic assumptions and claims experience) made in all previous policy years and include the effects of discounting caused by the natural reduction in discount, as the claims move one year closer to settlement. Recoveries on claims paid and outstanding claims are recognised as revenue.

Indirect claims handling expenses included in administration expenses are referred to as unallocated claims expenses and are reallocated from administration expenses to net claims incurred.

Refer to Note 2.4(c) for details pertaining to actuarial assumptions.

2.3 Claim liabilities

(a) Gross claims liabilities

	2019 $'000	2018 $'000
Undiscounted central estimate	1,769,143	1,647,423
Discount to present value	(111,932)	(217,240)
Discounted value of central estimate	**1,657,211**	**1,430,183**
Claims handling expenses	63,293	55,197
Risk margin	386,239	334,317
Total gross claims liabilities	**2,106,743**	**1,819,697**
Current	358,174	299,272
Non-current	1,748,569	1,520,425
Total gross claims liabilities	**2,106,743**	**1,819,697**

The gross claims liabilities, which are assessed and valued by VMIA's independent external actuary, comprise: (i) claims reported but not yet paid; (ii) claims incurred but not reported and claims incurred but not enough reported; (iii) the anticipated claims handling expenses of settling those claims and (iv) a risk margin.

Since the claims liabilities are based on estimates, the ultimate settlement of claims and the related expenses may vary from the independent actuarial valuation.

Refer to Note 2.4 (b) for the calculation of claims liabilities and actuarial assumptions pertaining to components of claims liabilities for each line of business.

(b) Reconciliation of movement in discounted claims liabilities

	2019			2018		
	Gross $'000	Reinsurance and other recoveries $'000	Net $'000	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
Claims liabilities at beginning of year	**1,819,697**	**(24,444)**	**1,795,253**	**1,699,838**	**(23,081)**	**1,676,757**
Effect of changes in economic assumptions	80,334	(702)	79,632	(2,762)	154	(2,608)
Effect of changes in other assumptions	(11,577)	(19,915)	(31,492)	(30,882)	(13,535)	(44,417)
Effect of claims moving one year closer to settlement	41,649	(350)	41,299	38,268	(332)	37,936
Claims incurred for most recent policy year	456,368	(8,923)	447,445	346,313	(7,860)	338,453
Claims incurred charged/(credited) to income	**566,774**	**(29,890)**	**536,884**	**350,937**	**(21,573)**	**329,364**
Net claim payments during the year	(279,728)	26,032	(253,696)	(231,078)	20,210	(210,868)
Claims liabilities at end of year	**2,106,743**	**(28,302)**	**2,078,441**	**1,819,697**	**(24,444)**	**1,795,253**

2. Results from insurance operations (cont)

2.3 Claim liabilities (cont)

(c) Reinsurance and other recovery assets

	2019 $'000	2018 $'000
Reinsurance recoveries in respect of claims liabilities (undiscounted)	16,088	14,250
Other recoveries in respect of claims liabilities (undiscounted)	13,274	12,089
Discount to present value	(1,060)	(1,895)
Total reinsurance and other recovery assets	**28,302**	**24,444**
Current	13,684	8,285
Non-current	14,618	16,159
Total reinsurance and other recovery assets	**28,302**	**24,444**

The reinsurance and other recovery assets are assessed and valued by VMIA's independent external actuary and comprise reinsurance and other recovery assets in respect of claims reported but not yet paid, claims incurred but not reported and claims incurred but not enough reported.

Refer to Note 2.4 for the calculation and actuarial assumptions pertaining to components of claims liabilities for each line of business.

2.3 Claim liabilities (cont)

(d) Net claims development tables

Domestic Building Insurance	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	1,608	31,679	28,783	33,730	41,282	45,577	52,563	64,226	53,697	59,672	
One year later	1,608	31,323	34,447	35,473	36,167	39,879	69,285	59,381	51,686		
Two years later	1,609	36,046	37,103	37,266	35,247	44,170	70,792	72,897			
Three years later	1,728	40,612	36,635	35,545	37,184	49,033	84,479				
Four years later	1,767	44,142	38,341	36,246	40,135	51,207					
Five years later	2,160	49,313	39,283	37,034	38,595						
Six years later	2,224	52,122	39,007	35,393							
Seven years later	2,077	51,802	36,573								
Eight years later	1,925	50,048									
Nine years later	1,824										
Current estimate of ultimate net claims incurred	**1,824**	**50,048**	**36,573**	**35,393**	**38,595**	**51,207**	**84,479**	**72,897**	**51,686**	**59,672**	**482,373**
Cumulative payments	(1,763)	(44,148)	(30,742)	(26,558)	(22,315)	(24,163)	(45,419)	(25,999)	(4,086)	(411)	(225,605)
Net claims liabilities - undiscounted	**61**	**5,900**	**5,831**	**8,835**	**16,280**	**27,044**	**39,060**	**46,898**	**47,600**	**59,261**	**256,770**
Unearned liabilities											(135,939)
Total net claims liabilities - undiscounted											**120,831**
Discount to present value											**(3,535)**
Claims handling expenses											**5,865**
Risk margin											**28,944**
Net claims liabilities at 30 June 2019											**152,105**

Dust Diseases and Workers' Compensation	Total $'000
Nine years previous	703,439
Eight years previous	688,654
Seven years previous	682,802
Six years previous	648,608
Five years previous	620,617
Four years previous	565,876
Three years previous	533,804
Two years previous	547,545
One year previous	567,996
Current estimate of ultimate net claims incurred	**518,230**
Cumulative payments (since 30 June 1999)	(233,535)
Net claims liabilities – undiscounted	**284,695**
Discount to present value	(53,100)
Claims handling expenses	16,212
Risk margin	76,132
Net claims liabilities at 30 June 2019	**323,939**

2. Results from insurance operations (cont)

2.3 Claim liabilities (cont)

(d) Net claims development tables (cont)

Liability	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	8,319	11,304	11,555	14,407	18,286	16,245	24,543	11,824	12,124	11,767	
One year later	8,524	11,411	12,042	15,888	17,473	18,494	21,502	9,125	9,466		
Two years later	9,148	10,929	11,345	11,497	18,052	14,355	28,009	7,834			
Three years later	5,830	8,549	4,866	9,068	9,658	11,916	27,595				
Four years later	4,019	6,023	3,819	6,319	8,889	9,754					
Five years later	3,767	5,862	3,072	7,133	8,470						
Six years later	3,443	6,170	2,707	7,373							
Seven years later	3,365	6,495	2,450								
Eight years later	3,303	6,418									
Nine years later	3,429										
Current estimate of ultimate net claims incurred	**3,429**	**6,418**	**2,450**	**7,373**	**8,470**	**9,754**	**27,595**	**7,834**	**9,466**	**11,767**	**94,555**
Cumulative payments	(3,112)	(5,793)	(2,259)	(6,896)	(6,628)	(5,968)	(11,280)	(1,020)	(844)	(466)	(44,266)
Net claims liabilities - undiscounted	**317**	**625**	**191**	**477**	**1,842**	**3,786**	**16,315**	**6,814**	**8,622**	**11,301**	**50,290**
2009 and prior years											484
Total net claims liabilities - undiscounted											**50,774**
Discount to present value											**(1,578)**
Claims handling expenses											**4,063**
Risk margin											**16,870**
Net claims liabilities at 30 June 2019											**70,129**
Medical Indemnity											
Original estimate of ultimate net claims incurred at end of policy year	148,717	186,932	197,860	200,994	211,101	194,564	194,232	189,902	195,181	214,474	
One year later	148,175	182,807	170,682	192,272	177,767	178,022	176,145	191,175	203,207		
Two years later	144,714	166,419	163,285	167,130	165,566	145,890	160,011	200,175			
Three years later	119,391	144,376	146,747	149,957	149,170	129,310	147,412				
Four years later	120,452	140,505	112,781	133,266	152,188	143,737					
Five years later	112,333	124,256	99,880	125,426	172,056						
Six years later	103,925	107,183	85,827	117,084							
Seven years later	96,491	98,151	82,524								
Eight years later	103,411	105,392									
Nine years later	98,672										
Current estimate of ultimate net claims incurred	**98,672**	**105,392**	**82,524**	**117,084**	**172,056**	**143,737**	**147,412**	**200,175**	**203,207**	**214,474**	**1,484,734**
Cumulative payments	(79,854)	(78,596)	(57,840)	(75,616)	(60,966)	(22,406)	(11,597)	(7,812)	(1,977)	(182)	(396,847)
Net claims liabilities - undiscounted	**18,818**	**26,797**	**24,684**	**41,468**	**111,090**	**121,331**	**135,816**	**192,363**	**201,230**	**214,292**	**1,087,887**
2009 and prior years											42,389
Total net claims liabilities - undiscounted											**1,130,276**
Discount to present value											**(49,111)**
Claims handling expenses											**27,167**
Risk margin											**221,770**
Net claims liabilities at 30 June 2019											**1,330,102**

2.3 Claim liabilities (cont)

(d) Net claims development tables (cont)

Property	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	20,086	119,894	31,591	10,768	19,505	27,110	8,899	40,331	9,447	27,688	
One year later	14,099	145,466	45,686	9,820	13,105	27,180	10,270	51,358	14,665		
Two years later	13,125	140,569	43,829	4,913	14,151	24,275	10,283	48,066			
Three years later	12,113	130,050	37,075	5,521	13,873	24,290	9,675				
Four years later	12,042	117,495	30,386	5,154	13,837	24,075					
Five years later	12,144	118,683	30,177	5,154	13,822						
Six years later	12,042	125,627	30,177	5,154							
Seven years later	12,042	125,627	30,177								
Eight years later	12,042	125,627									
Nine years later	12,042										
Current estimate of ultimate net claims incurred	**12,042**	**125,627**	**30,177**	**5,154**	**13,822**	**24,075**	**9,675**	**48,066**	**14,665**	**27,688**	**310,991**
Cumulative payments	(12,042)	(125,609)	(30,177)	(5,154)	(13,822)	(24,064)	(9,660)	(30,956)	(6,760)	(3,745)	(261,989)
Net claims liabilities - undiscounted	**-**	**18**	**-**	**-**	**-**	**11**	**15**	**17,110**	**7,905**	**23,943**	**49,002**
2009 and prior years											(589)
Total net claims liabilities - undiscounted											**48,413**
Discount to present value											**(485)**
Claims handling expenses											**3,203**
Risk margin											**8,972**
Net claims liabilities at 30 June 2019											**60,103**

Other	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	7,205	23,899	11,162	13,400	7,866	13,293	16,318	26,422	27,797	64,082	
One year later	6,958	18,732	15,117	9,583	9,762	9,937	18,330	24,797	30,127		
Two years later	5,554	18,920	14,324	8,538	9,800	10,652	17,678	23,122			
Three years later	6,311	18,530	12,809	7,344	10,962	9,998	17,052				
Four years later	5,338	17,953	12,474	7,055	11,488	9,030					
Five years later	4,740	17,077	12,109	6,989	13,095						
Six years later	4,317	17,248	12,102	7,803							
Seven years later	4,064	17,361	12,136								
Eight years later	3,837	17,154									
Nine years later	3,670										
Current estimate of ultimate net claims incurred	**3,670**	**17,154**	**12,136**	**7,803**	**13,095**	**9,030**	**17,052**	**23,122**	**30,127**	**64,082**	**197,271**
Cumulative payments	(3,576)	(16,460)	(10,507)	(6,512)	(10,165)	(7,141)	(12,258)	(14,769)	(9,352)	(1,838)	(92,578)
Net claims liabilities - undiscounted	**94**	**694**	**1,629**	**1,291**	**2,930**	**1,889**	**4,794**	**8,353**	**20,775**	**62,244**	**104,693**
2009 and prior years											102
Total net claims liabilities - undiscounted											**104,795**
Discount to present value											**(3,063)**
Claims handling expenses											**6,783**
Risk margin											**33,551**
Net claims liabilities at 30 June 2019											**142,066**

2. Results from insurance operations (cont)

2.4 Critical actuarial judgements, assumptions and estimates

VMIA makes judgements, assumptions and estimates in respect of the liabilities and corresponding assets for claims arising from insurance and reinsurance contracts issued, which are subject to significant estimation uncertainty. These are regularly evaluated and are based on historical experience and expectations of future events that are deemed reasonable.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

(a) Descriptions of the lines of business and the actuarial process for determining claims liabilities

The claims liabilities are measured at the central estimate of the present value of the expected future payments. The expected future payments include allowances for economic inflation and superimposed inflation, which reflect trends in court awards and increases in the level of compensation for injuries.

The expected future payments are then discounted to a present value using a risk–free discount rate. The discount rates are derived from the market price of Commonwealth Government securities with terms to maturity that match, as closely as possible, the estimated future claims payments. The effects of any adjustments resulting from the independent actuarial valuation of the gross claims liabilities are reflected in this financial report and disclosed in Note 2.3.

VMIA uses a variety of actuarial techniques that analyse experience, trends, exposure data, industry data and other relevant factors to estimate the claims liabilities for each line of business.

Domestic Building Insurance	Dust Diseases and Workers' Compensation	Liability, Property and Other	Medical Indemnity
Insurance contracts commence on the project contract's start date and run for six years after the completion date of the project. The terms and conditions of these insurance contracts are reviewed on an ongoing basis. Domestic building insurance is a long tail class of insurance with premium earned over a period of eight years from policy inception.	The portfolio is in run-off. The last Dust Diseases and Workers' Compensation insurance contract expired on 31 January 1995. Most of these claims are for asbestos–related diseases and are very long tail in nature.	Insurance contracts typically incept just past midnight on 1 July and run for 12 months, resulting in almost all premium being received in the first quarter of the financial year. The terms and conditions of these insurance contracts are established annually in advance of 1 July. The claims liabilities consist of a combination of short tail property and long tail liability risks. Reinsurance recoveries, including for major catastrophic events, are allowed for based on ceded outstanding claims for reported claims and amounts calculated by VMIA's independent actuary for the incurred but not reported and incurred but not enough reported components.	Insurance contracts typically incept just past midnight on 1 July and run for 12 months, resulting in almost all premium being received in the first quarter of the financial year. The terms and conditions of these insurance contracts are established annually in advance of 1 July. The State of Victoria has provided stop loss reinsurance protection for policy years incepting on or after 1 July 2003 that limits VMIA's liability for medical indemnity claims incurred in any one policy year to a maximum of 120% (2018: 120%) of the actuarially estimated undiscounted gross claims incurred for that policy year as used in the pricing of the insurance. Separate modelling is undertaken for claims that are classified as large, with the classification threshold being $1.467 million at 30 June 2019, up from $1.380 million at 30 June 2018, to better reflect the emerging experience.

2.4 Critical actuarial judgements, assumptions and estimates (cont)

Actuarial assumptions	Domestic Building Insurance	Dust Diseases and Workers' Compensation	Liability	Medical Indemnity	Property	Other
2019						
Inflation rate (% p.a.)	2.3	2.5	2.3	2.3	2.3	2.3
Superimposed inflation rate (% p.a.)	-	2.0	-	3.5	-	-
Discount rate (% p.a.)	1.1	1.7	1.1	1.1	1.1	1.1
Weighted average term to settlement (years)	3.1	11.7	3.1	4.0	1.0	2.6
Non-large claim costs for the latest policy year ($ per 1,000 separations)**	-	-	0.0	54,600	-	-
Ultimate claims ratio (% for the latest policy year)	-	-	38.1	-	-	-
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Director and Officers for the latest policy year)	-	-	0.0	-	-	412.6
Large claim frequency for the latest policy year (% per 1,000 separations)**	-	-	0.0	1.4	-	-
Claim frequency (% of total certificates)	1.8	-	0.0	-	-	-
Number of Incurred But Not Reported claims	-	872	0.0	-	-	-
Average claim size ($ per claim at end of year)	47,200	174,000	0.0	-	-	-
Average claim size for large claims ($ million per claim at end of year)**	-	-	0.0	2.6	-	-
Claims handling expense (CHE) rate (% of claim payments)*	5.0	7.0	6.5	2.5	6.5	6.2
Risk margin (% p.a.)	23.5	30.7	31.7	20.0	17.5	30.9
2018						
Inflation rate (% p.a.)	3.0	3.4	2.8	2.9	2.8	2.8
Superimposed inflation rate (% p.a.)	-	2.0	-	3.4	-	-
Discount rate (% p.a.)	2.3	3.0	2.3	2.4	2.3	2.3
Weighted average term to settlement (years)	3.4	11.7	3.2	4.0	1.1	2.5
Non-large claim costs for the latest policy year ($ per 1,000 separations)**	-	-	-	47,500	-	-
Ultimate claims ratio (% for the latest policy year)	-	-	36.7	-	-	-
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Director and Officers for the latest policy year)	-	-	-	-	-	164.4
Large claim frequency for the latest policy year (% per 1,000 separations)**	-	-	-	1.3	-	-
Claim frequency (% of total certificates)	2.1	-	-	-	-	-
Number of Incurred But Not Reported claims	-	927	-	-	-	-
Average claim size ($ per claim at end of year)	39,200	171,000	-	-	-	-
Average claim size for large claims ($ million per claim at end of year)**	-	-	-	2.6	-	-
Claims handling expense (CHE) rate (% of claim payments)*	5.0	7.0	6.6	2.5	6.5	6.0
Risk margin (% p.a.)	23.5	30.9	31.7	20.0	17.5	30.1

(*) Liability, Property and Other CHE rate for working claims =6.5% (2018: 6.5%) and Property Catastrophe claims = 0.8% (2018: 0.8%).

(**) The threshold for a large claim has changed from $1.380 million (2018) to $1.467 million (2019).

If a field is left blank in the above table, it is not applicable, not separately estimated or does not have a material impact on the valuation of the respective line of business.

2. Results from insurance operations (cont)

2.4 Critical actuarial judgements, assumptions and estimates (cont)

(b) Process used to determine assumptions

(i) Dust Diseases and Workers' Compensation

The number of incurred but not reported claims represents the expected number of asbestos claims that will ultimately be reported after the balance sheet date. Although the injuries are considered to already have occurred, asbestos–related diseases may take decades to present and hence be reported to VMIA.

(ii) Medical Indemnity

The large claim frequency as a proportion of separations (per 1,000) is calculated with reference to past experience of large claims and an understanding of the claims management philosophy.

(iii) All VMIA lines of business

- The inflation rate is set following consideration of the duration of the claims liabilities and with reference to both economic forecasts and historical experience for wage inflation. Short term wage inflation rates are set following consideration of a range of economic forecasts, while medium to long term wage inflation rates are set based on consideration of both economic forecasts and historical average rates of wage inflation.
- The superimposed inflation rates are set with reference to the superimposed inflation indicators present in the portfolio data and industry trends.
- The discount rate is calculated as the weighted average of the interest rates on Commonwealth Government securities, with terms to maturity that match, as closely as possible, the estimated future cash outflows.
- The weighted average discounted term to settlement is calculated separately for each class of business based on historical settlement patterns and is measured from the balance sheet date.
- The claims handling expense rates are calculated with reference to past experience of claims handling expenses as a percentage of gross claims payments.
- The risk margins are estimated separately for each broad class of business, taking into account both the historic volatility of each class, and internal and external risk factors that may impact the ultimate claims cost for each class.

(c) Sensitivity analysis – insurance contracts

The independent actuary has conducted sensitivity analysis to quantify the impact of movements in key underlying variables on the claims liabilities at the balance sheet date. As VMIA is not subject to income taxation, the impact, net of recoveries, on equity is the same as the impact on the comprehensive result for the financial year.

2.4 Critical actuarial judgements, assumptions and estimates (cont)

The tables below describe how a change in each assumption will impact on equity and the comprehensive result.

Variable	Impact of movement in variable on the comprehensive result
Inflation and superimposed inflation rates	Expected future claim payments are increased to take account of the impact of inflation. Such increases include economic and superimposed inflation. Superimposed inflation assumptions are specific to the individual actuarial models adopted. An increase in an inflation assumption would increase net claims incurred.
Discount rate	Claims liabilities are calculated with reference to expected future claim payments. These claim payments are discounted to take into account the time value of money. An increase in the assumed discount rate would decrease net claims incurred.
Ultimate claims ratio for long tail classes	Ultimate claims ratio for long tail classes is ultimate net claims incurred divided by gross ultimate premium. An increase in the ultimate claims ratio for long tail classes would increase net claims incurred.
Claim frequency (both large and small)	Claim frequency is calculated based on past experience. An increase in the frequency of claims would increase net claims incurred.
Number of Incurred But Not Reported (IBNR) claims	The number of IBNR claims is calculated based on past experience of claim notification patterns and information on the changes in the profile of risk over time. An increase in the estimate of the number of IBNR claims would increase net claims incurred.
Average claim size	Estimated average claim size is based primarily on historical experience. An increase in the estimated average claim size would increase net claims incurred.
Claims handling expense (CHE) rate	Claims liabilities include the professional and administration costs that are directly associated with individual claims pertaining to the future management and settlement of these claims. This is calculated as a percentage of the gross claim payments based on past experience. An increase in the CHE rate would increase gross claims incurred.
Risk margin	The risk margin is applied to the net central estimate of the claims liabilities to achieve a 75% (2018: 75%) probability that the claims liabilities will be sufficient. To estimate the risk margin, the independent actuary considers the uncertainty associated with the actuarial models and assumptions, the quality of the data used, and the insurance and economic environments. Risk margins are set for each major insurance line of business and include a 25% (2018: 25%) allowance for diversification between insurance lines of business. The risk margins utilised also take into account the effect of the stop loss reinsurance protection pertaining to the medical indemnity claims liabilities. An increase in the risk margin would increase net claims incurred.

2. Results from insurance operations (cont)

2.4 Critical actuarial judgements, assumptions and estimates (cont)

Financial impact, net of recoveries, of changes in assumptions on the comprehensive result for the current year based on actuarial assumptions in Note 2.4(a)

Variable	Sensitivity %	Domestic Building Insurance $'000	Dust Diseases and Workers' Compensation $'000	Liability $'000	Medical Indemnity $'000	Property $'000	Other $'000
Inflation rate (% p.a.)	+1.0	4,156	39,114	2,006	51,731	542	3,784
	-1.0	(3,949)	(33,304)	(1,938)	(49,277)	(542)	(3,657)
Superimposed inflation rate (% p.a.)	+1.0	-	34,490	-	51,731	-	-
	-1.0	-	(29,299)	-	(49,277)	-	-
Discount rate (% p.a.)	+1.0	(3,949)	(33,885)	(1,943)	(50,996)	(545)	(3,662)
	-1.0	4,156	40,740	2,054	54,728	556	3,867
Non-large claims costs for the latest policy year ($ per 1,000 certificates)	+10.0	-	-	-	15,958	-	-
	-10.0	-	-	-	(16,579)	-	-
Ultimate claims ratio (% for the latest policy year)	+20.0	-	-	8,366	-	-	-
	-20.0	-	-	(8,366)	-	-	-
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Directors and Officers for the latest policy year)	+20.0	-	-	-	-	-	3,048
	-20.0	-	-	-	-	-	(3,048)
Large claim frequency for the latest policy year (% per 1,000 separations)	+0.2	-	-	-	15,841	-	-
	-0.2	-	-	-	(16,691)	-	-
Claim frequency (% of total certificates)	+0.1	8,401	-	-	-	-	-
	-0.1	(8,401)	-	-	-	-	-
Number of incurred but not reported (IBNR) claims	+10.0	-	30,858	-	-	-	-
	-10.0	-	(30,858)	-	-	-	-
Average claim size ($ per claim at end of year)	+10.0	15,210	30,858	-	-	-	-
	-10.0	(15,210)	(30,858)	-	-	-	-
Average claim size for large claims ($ million per claim at end of year)	+5.0	-	-	-	18,687	-	-
	-5.0	-	-	-	(18,687)	-	-
Claims handling expense (CHE) rate (% of claim payments)	+1.0	1,449	3,027	823	11,084	579	1,438
	-1.0	(1,449)	(3,027)	(823)	(11,084)	(579)	(1,438)
Risk margin (% p.a.)	+1.0	1,232	2,478	533	11,083	511	1,085
	-1.0	(1,232)	(2,478)	(533)	(11,083)	(511)	(1,085)

If a field is left blank in the above table, it is not applicable, not separately estimated or does not have a material impact on the valuation of the respective line of business.

2.5 Reinsurance program

VMIA provides insurance to State Government Departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. VMIA has a policy of purchasing reinsurance to limit financial exposure to the State, as follows:

- Property – $3.575 billion (2018: $3.575 billion) in excess of the State $50 million (2018: $50 million) retention, any one event, including the Government Rail Insurance Program.
- Public and Product Liability – $950 million (2018: $950 million) in excess of the State $50 million (2018: $50 million) retention, any one occurrence, and in the annual aggregate separately for Product Liability and Bushfire Liability.
- Government Rail Insurance Program – Public and Product Liability – $999.9 million (2018: $999.9 million) in excess of the State $100,000 (2018: $100,000) retention, any one occurrence.
- Principal Controlled Construction Risks – Material Damage – $497.5 million (2018: $497.5 million) for property damage in excess of the State $2.5 million (2018: $2.5 million) retention, any one contract.
- Principal Controlled Construction Risks – Public Liability – $495 million (2018: $295 million) in excess of the State $5 million (2018: $5 million) retention, any one occurrence.
- Terrorism – $1.49 billion (2018: $1.49 billion) in excess of the State $10 million (2018: $10 million) retention, any one event and in the annual aggregate for Property, with a further sub-limit of $490 million (2018: $450 million), any one event and in the annual aggregate for Public Liability.

In addition, to protect against the potential for a series of insured losses incurred in any one year under VMIA's Property, and Public and Product Liability policies, VMIA has purchased Aggregate Stop Loss reinsurance of $60 million (2018: $60 million) in the aggregate subject to VMIA retaining the first $20 million (2018: $20 million) of each loss as well as the first $30 million (2018: $30 million) of losses in the aggregate.

2.6 Insurance contracts — risk management policies and procedures

The financial condition and operation of VMIA is affected by a number of key risks including insurance, financial and operational risk. VMIA's policies and procedures in respect of managing insurance risks are set out below.

(a) Objectives in managing risks arising from insurance contracts and policies mitigating these risks

VMIA's purpose is to minimise the impact on the State and its clients of the exposure to loss from adverse events through the provision of risk management and insurance services. VMIA does this in part by accepting the transfer of all or part of such exposures by way of insurance contracts protected by appropriate reinsurance arrangements. Insurance claims experience is inherently uncertain, which can lead to significant variability in losses experienced. VMIA maintains Prudential Insurance Policies that encompass all aspects of VMIA's operations including the reinsurance risk retentions and limits. These policies set out VMIA's processes and controls in respect of the management of both financial and non-financial insurance risks likely to be faced by VMIA.

Key aspects of the processes established to mitigate risks include:

- The maintenance and use of detailed risk exposure surveys and collection of management information from insured entities which provide reliable data on the risks to which VMIA is exposed.
- Actuarial models that use claims information derived from the claims experience of VMIA with consideration of industry experience.
- Documented procedures which are followed for underwriting and pricing risk.
- Exposures to natural disasters are modelled and the State's accumulated risks are mainly protected by arranging reinsurance to limit the losses arising from catastrophe events. The retention limits as set out in Note 2.5 are approved by VMIA's Board of Directors.
- Financial exposure to the long tail medical indemnity class of insurance has been mitigated by the stop loss reinsurance protection provided by the State. The purpose of this arrangement is to minimise any capital strain that might arise from future deterioration of the claims experience [refer to Note 2.4(a)].
- Only reinsurers with credit ratings equal to or in excess of the minimum rating specified in VMIA's Reinsurance Management Strategy are accepted as participants in VMIA's reinsurance program.

The investment Strategic Asset Allocation, as determined by the Victorian Funds Management Corporation, to meet VMIA's Investment Objective is approved by the Board of Directors to optimise the investment return within acceptable risk parameters.

2. Results from insurance operations (cont)

2.6 Insurance contracts — risk management policies and procedures (cont)

(b) Insurance risks)

Concentration of insurance risk	Interest rate risk	Credit risk
The portfolio contains some diversity, but is geographically concentrated in Victoria, and as such is exposed to the potentially material catastrophes of the State. Aggregate risk is modelled annually using a combination of data sorted by geospatial positioning and/or postcode reference using available catastrophe models. The catastrophe excess of loss reinsurance program is reviewed on an annual basis. VMIA provides medical indemnity insurance for all public hospitals in Victoria and many other healthcare providers. VMIA is therefore exposed to the consequences of any event which increases the cost of such cover. The stop loss reinsurance protection provided by the State to VMIA limits the potential ultimate cost for any one policy year in respect of such events.	The assets and liabilities arising from insurance or reinsurance contracts entered into are directly exposed to interest rate risk. Changes in interest rates affect the valuation of VMIA's insurance and reinsurance assets and liabilities.	The assets and liabilities arising from insurance and reinsurance contracts are stated in the Balance Sheet at fair value. There are no significant concentrations of credit risk.

2.7 Net unearned premium liability

	2019			2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Unearned premium liability/(asset) at beginning of year	**251,527**	**(44,821)**	**206,706**	**213,264**	**(11,655)**	**201,609**
Premium written	371,833	(54,928)	316,905	423,717	(83,113)	340,604
Premium (earned)/incurred	(395,048)	57,020	(338,028)	(385,454)	49,947	(335,507)
Unearned premium liability/(asset) at end of year	**228,312**	**(42,729)**	**185,583**	**251,527**	**(44,821)**	**206,706**
Current	82,157	(13,377)	68,780	89,774	(14,366)	75,408
Non-current	146,155	(29,352)	116,803	161,753	(30,455)	131,298
Unearned premium liability/(asset) at end of year	**228,312**	**(42,729)**	**185,583**	**251,527**	**(44,821)**	**206,706**

Unearned premium represents the proportion of premium written that relates to unexpired terms of policies in force at the Balance Sheet date, generally calculated on a time proportionate basis.

Premium ceded to reinsurers is recognised as an expense in accordance with the indemnity period of the corresponding reinsurance contract. Accordingly, a portion of the outward reinsurance premium is treated as an unearned reinsurance asset at the Balance Sheet date.

Refer to Note 2.8 for the independent actuarial assessment of the adequacy of net unearned premium liability.

2.8 Unexpired risks liability

At balance sheet date, the VMIA's independent actuary performs a Liability Adequacy Test (LAT) to assess the adequacy of the carrying amount of the net unearned premium to settle future claim payments in respect of the relevant insurance contracts. The LAT is carried out in respect of each of the Domestic Building Insurance, Liability, Medical Indemnity, Property and Other portfolios, with each line of business' risks being managed together as a single portfolio. The Dust Diseases and Workers' Compensation portfolio is in run-off, therefore no LAT assessment is required.

If the present value of the expected future claim payments including an allowance for claims handling and policy administration expenses, plus an additional risk margin to reflect the inherent uncertainty in the central estimates [refer to Note 2.4], exceeds the unearned premium liability and any other future premium cash flows less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient.

The deficiency is recognised immediately in the Comprehensive Operating Statement. The deficiency is recognised first by writing down any related deferred acquisition costs, with any excess being recorded in the Balance Sheet as an unexpired risks liability.

Refer to Note 2.4 for the actuarial assumptions pertaining to discount rates and risk margins for each line of business.

(a) Calculation of premium deficiencies

The table below shows the calculation of premium deficiency by line of business.

	Domestic Building Insurance $'000	Liability $'000	Medical Indemnity $'000	Property $'000	Other $'000
2019					
Net unearned premium liability	140,354	39,535	184,232	38,128	46,946
Net present value of future policy costs	(137,445)	(40,549)	(224,001)	(36,046)	(46,368)
Risk margin	(32,302)	(12,544)	(44,268)	(6,177)	(13,911)
Gross deferred acquisition costs recognised	(26,855)	-	-	-	-
Gross premium (deficiency)/surplus	**(56,248)**	**(13,558)**	**(84,037)**	**(4,095)**	**(13,333)**
Deferred acquisition costs written down	26,855	-	-	-	-
Net premium deficiency	**(29,393)**	**(13,558)**	**(84,037)**	**(4,095)**	**(13,333)**
Deferred acquisition costs recognised in Balance Sheet (i)	-	-	-	-	-
2018					
Net unearned premium liability	149,763	19,957	179,085	40,907	72,438
Net present value of future policy costs	(120,480)	(14,626)	(187,591)	(34,317)	(73,123)
Risk margin	(28,315)	(4,490)	(36,998)	(5,877)	(24,328)
Gross deferred acquisition costs recognised	(35,379)	-	-	-	-
Gross premium (deficiency)/surplus	**(34,411)**	**841**	**(45,504)**	**713**	**(25,013)**
Deferred acquisition costs written down	34,411	-	-	-	-
Net premium deficiency	**-**	**-**	**(45,504)**	**-**	**(25,013)**
Deferred acquisition costs recognised in Balance Sheet (i)	968	-	-	-	-

(b) Movement in unexpired risks liability

	2019 $'000	2018 $'000
Current		
Unexpired risks liability at beginning of year	**70,517**	**46,601**
Increase/(decease) in unexpired risks liability charged/(credited) to income	73,899	23,916
Unexpired risks liability at end of year	**144,416**	**70,517**

2. Results from insurance operations (cont)

2.9 Deferred acquisition costs

Deferred acquisition costs movement:

	Note	2019 $'000	2018 $'000
Deferred acquisition costs at beginning of year		**968**	**10,560**
Acquisition costs deferred		6,729	8,274
Amortisation charged to income		(7,697)	(18,672)
Decrease/(increase) in write down due to premium deficiency		-	806
Decrease in deferred acquisition costs charged to income	2.8(a)	**(968)**	**(9,592)**
Deferred acquisition costs at end of year	2.8(a)	**-**	**968**

Acquisition costs, which represent gross commission paid in respect of general insurance contracts, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium earned that will be recognised in the Comprehensive Operating Statement in subsequent reporting periods.

Deferred acquisition costs are amortised on the same basis as the earning of premium to which they relate.

2.10 Trade receivables

	2019 $'000	2018 $'000
Current		
Insurance receivables - non-financial (statutory)	16,104	30,959
Other receivables - financial (contractual)	1,529	796
Total trade receivables	**17,633**	**31,755**

Trade receivables represent receivables associated with the premium, reinsurance and other recoveries, claims and commission. All other receivables are classified as non-trade receivables. Receivables are initially recognised at fair value and subsequently measured at fair value which is approximated by taking the initially recognised amount reduced for impairment where appropriate.

Insurance receivables mainly comprise insurance premium owing by various Victorian Government Departments and agencies. The usual credit terms for insurance premium receivables is 30 days. No interest is charged on insurance premium invoices not paid within the credit terms. $1.694 million of insurance receivables were past due at 30 June 2019 (2018: $5.404 million).

Credit terms for reinsurance receivables vary. No interest is charged on reinsurance receivable invoices not paid within the credit terms. No reinsurance receivables were past due at 30 June 2019 (2018: Nil).

No provision for doubtful debts has been raised at 30 June 2019 (2018: Nil) as there is no risk of non-recovery of trade receivables.

2.11 Trade payables

	2019 $'000	2018 $'000
Current		
Trade payables – financial (contractual)	11,343	17,463
Deposits held to meet future claim payments – financial (contractual)[(i)]	27,881	18,454
Total trade payables	**39,224**	**35,917**

(i) Deposits held to fund clients' deductibles where VMIA provides a claims management service to clients in respect of such deductibles.

3. Cash and investments

Introduction to this section

This section includes the cash and investments that are held by VMIA that are utilised to fund the insurance operations outlined in Section 2 together with the associated returns.

This section contains the following disclosure:

3.1 Investment income

	Note	2019 $'000	2018 $'000
Investment income			
Dividends and distributions		177,816	93,935
Interest		8,830	7,505
Fair value movements through income	3.2(a)	37,700	153,639
Total investment income		**224,346**	**255,079**

Net investment income

Dividend income is recognised when VMIA has the right to receive payment. Interest income is recognised on an accrual basis. Trust distributions are recognised when the market price is quoted ex-distribution for listed trusts or when the trustee declares a distribution for unlisted trusts. Fair value movements of investments is the difference between the fair value of the investments at 30 June 2018 or the cost of acquisition (for investments purchased during the year), and sales proceeds or their fair value at 30 June 2019.

3.2 Cash and cash equivalents

	2019 $'000	2018 $'000
Current		
Cash on hand	0	1
Cash at bank	32,715	20,244
Total cash and cash equivalents	**32,715**	**20,245**

Cash and cash equivalents comprise cash on hand, cash at bank and cash in transit which are held for the purpose of meeting short term cash commitments rather than for investment purposes.

3. Cash and investments (cont)

3.2 Cash and cash equivalents (cont)

(a) Reconciliation of net cash inflow from operating activities to net result

	Note	2019 $'000	2018 $'000
Net result		**(107,643)**	**172,340**
Profit on disposal of furniture, fittings, equipment and motor vehicles		(5)	(11)
Depreciation of furniture, fittings, equipment and motor vehicles		1,082	1,214
Amortisation of intangible assets		830	594
Change in outstanding payables for investing activities		108	-
Fair value movements through income	3.1	(37,700)	(153,639)
Interest credited to clients		(818)	(1,788)
Change in fair value of investments as a result of outstanding settlements		44,178	(8,598)
Changes in operating assets and liabilities:			
(Increase)/Decrease in trade receivables		14,123	(14,440)
Decrease in non-trade receivables		80	1,922
Decrease in prepaid expenses		75	82
Increase in intangible assets		-	(160)
Decrease in deferred acquisition costs	2.8(a)	968	9,592
Increase in reinsurance and other assets		(1,765)	(34,529)
Increase in trade payables		3,308	16,682
Increase/(Decrease) in non-trade payables		(45,230)	2,591
Increase/(Decrease) in provisions		(17)	305
Decrease in lease incentive liability		(323)	(1,648)
Increase in gross insurance liabilities		337,730	182,039
Net cash inflow from operating activities		**208,980**	**172,548**

3.3 Investments

(a) Investment framework

VMIA's investment activity is undertaken pursuant to the *Victorian Managed Insurance Authority Act 1996*, the *Borrowing and Investment Powers Act 1987*, the Prudential Standard: VFMC and the Centralised Investment Model and Orders in Council dated 1 February 2009 and 23 June 2015 respectively.

The Orders in Council define the responsibilities of VMIA and VFMC. VMIA is responsible for setting the investment objectives after considering such matters as capital needs, income and expenditure requirements, future projections of assets and liabilities and risk preferences of the Assistant Treasurer. VFMC has the responsibility to develop and implement suitable investment strategies to meet VMIA's investment objective and ensure that its systems encompass strong internal controls and good corporate governance. The investment strategy that is determined by VFMC is documented in a detailed Investment Risk Management Plan, which is approved by the Treasurer of Victoria.

The Department of Treasury and Finance ensures that appropriate structures exist to manage investment risk and undertakes the prudential supervision of VFMC.

3.3 Investments

(b) Derivative financial instruments

The use of derivatives forms part of the investment strategy set by VFMC.

VFMC restricts the managers of VMIA's direct investment portfolio and of the trusts in which VMIA invests by permitting the use of derivative investments only in the following circumstances:

(i) Hedging to protect the value of the assets against any significant decline in investment markets;

(ii) As a means of making adjustments to the asset allocation while minimising transaction costs; and

(iii) Entering or exiting a position at an advantageous price.

At 30 June 2019, VMIA had exposure to Australian fixed interest futures, Australian share price index futures, International equity futures, swaps and forward currency contracts. These exposures are valued at fair value as determined by their market value at the balance sheet date.

(c) VMIA's investment portfolio

	Note	2019 $'000	2018 $'000
Australian equities		291,886	333,140
Diversified fixed interest		291,684	387,910
Inflation linked bonds		261,768	310,478
Infrastructure		170,349	151,725
International equities		639,701	711,313
Non-traditional strategies		331,636	286,638
Private equity		4,735	4,201
Property		229,113	222,955
Short term money market funds		318,302	347,987
Total fair value at 30 June		**2,539,174**	**2,756,347**
Investments			
Current		297,122	341,454
Non-current		2,253,296	2,440,303
Total investments at fair value		**2,550,418**	**2,781,757**
Derivative liabilities			
Current		(11,244)	(25,410)
Non-current		-	-
Total derivative liabilities at fair value	**7.1(c)**	**(11,244)**	**(25,410)**
Total fair value		**2,539,174**	**2,756,347**

3. Cash and investments (cont)

3.3 Investments (cont)

Assets backing insurance liabilities

VMIA has determined that all assets, except for prepaid expenses and furniture, fittings, equipment and motor vehicles, are held to back the insurance liabilities and are valued at fair value in the Balance Sheet.

Financial assets are designated at fair value through profit or loss in accordance with *FRD 114C Financial Instruments – Public Finance Corporations and AASB 1023 General Insurance Contracts*. Initial recognition is at fair value in the Balance Sheet with any subsequent changes in fair value recognised in the Comprehensive Operating Statement.

Details of fair value for the different types of financial and non-financial assets are listed below:

- Cash on hand, cash at bank, cash in transit and short term money market funds are carried at the face value which approximates to their fair value.
- Receivables are recognised and measured at fair value being the undisputed recoverable amounts between counterparties.
- Equities, fixed interest securities, derivatives and unit trusts listed on an organised financial market are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the instrument at the balance sheet date.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at the balance sheet date.
- Units in unlisted financial instruments are recorded at fair value as determined by the fund manager or valuations by other skilled independent third parties. In determining fair values, observable market transactions of the units and the underlying assets are used where available and applicable. Some of the underlying assets of these financial instruments are valued using valuation models and techniques that include inputs which are not based on observable market data. The carrying amounts include accrued distributions.
- Derivative financial instruments are classified as financial assets and financial liabilities. They are initially recognised at fair value on the date on which the derivative contract is entered into. Derivatives are carried as assets when their net fair value is positive and liabilities when their net fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the Comprehensive Operating Statement.
- Reinsurance and other recovery assets are measured at the present value of expected future receipts and are subject to an independent actuarial valuation on a similar basis to the claims liabilities (refer to Note 2.4).

Refer to Note 7.3 for fair value details of the financial instruments.

All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention are recognised at trade date, being the date on which VMIA commits to buy or sell the asset.

Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and VMIA has transferred substantially all the risks and rewards of ownership.

Investments are classified as current and non-current in accordance with maturity dates. Investments that are due to mature, expire or be realised within 12 months of the balance sheet date are classified as current investments. All equity investments are classified as non-current. While this classification policy may result in a reported working capital deficit, VMIA holds high quality liquid assets in its investment portfolio which are readily convertible to cash assets.

4. Cost of operations

Introduction to this section

This section provides details of expenses incurred by VMIA to support its day to day operating activities.

This section contains the following disclosure:

4.1 Administration expenses

	2019 $'000	2018 $'000
Staff and related	32,749	29,516
Professional services	4,550	3,469
Information services	4,354	3,637
Client risk management	1,757	2,018
Strategic risk	1,493	1,114
Depreciation of furniture, fittings, equipment and motor vehicles	1,913	1,808
Other operating	4,459	4,245
Total administration expenses	**51,275**	**45,807**
Less: unallocated claims expenses	(7,633)	(7,305)
Net administration expenses	**43,642**	**38,502**
Total administration expenses include the following:		
Auditor-General's fees	152	148
Operating lease expenditure	2,600	2,355
Interest expense	-	2

Administration expenses represent the day to day costs in managing VMIA and are recognised as they are incurred. No remuneration was paid to the Victorian Auditor-General's Office for any other services except for audit services.

4.2 Superannuation benefits

VMIA contributes superannuation benefits for employees to both defined benefit and defined contribution plans. The defined benefit plan provides benefits based on years of service and final average salary. VMIA does not recognise any defined benefit liability in respect of this plan because the entity has no legal or constructive obligation to pay future benefits relating to its employees. VMIA's obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance recognises and discloses the State's defined benefit liabilities in its financial report. Superannuation contributions paid or payable during the financial year are included as part of administration expenses in Note 4.1. There were no superannuation contributions outstanding at 30 June 2019 (2018: Nil).

5. Other liabilities

Introduction to this section

This section includes other liabilities that are employed by VMIA to support its day to day operating activities.

This section contains the following disclosure:

5.1 Non-trade payables

5.1 Non-trade payables

	2019 $'000	2018 $'000
Current		
Accruals and other payables – financial (contractual)	6,579	6,794
Outstanding investment settlements – financial (contractual)	2,785	46,963
Goods and Services Taxation – non-financial (statutory)	1,822	1,998
Stamp Duty – non-financial (statutory)	1,219	1,880
Total non-trade payables	**12,405**	**57,635**

Trade payables (refer to Note 2.11) represent payables associated with the premium, reinsurance and other recoveries, claims and commission. All other payables are classified as non-trade payables. Payables are recognised and measured at fair value being the cost of the goods and services.

Payables comprise contractual payables, for example, accounts payable, and statutory payables comprise GST and Stamp Duty payables. Accounts payable represent liabilities for goods and services provided to VMIA prior to the end of the financial year that are unpaid.

Contractual payables are classified as financial instruments and categorised as financial liabilities at fair value through profit or loss. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments because they do not arise from a contract.

6. Equity and capital management

Introduction to this section

This section covers equity and transactions with the State.

This section contains the following disclosure:

6.1 Equity

There is no minority interest in the equity of VMIA. The equity is not represented by share capital with a specified par value.

(a) Capital management

The Order in Council gazetted on 14 May 2015 declared VMIA as a reorganising body under section 7 of the *State Owned Enterprises Act 1992* and gave the Treasurer the power to direct VMIA to pay dividends and/or repay capital to the State after consulting with the Assistant Treasurer and VMIA's Board of Directors.

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital in accordance with *FRD 119A Transfers through Contributed Capital*.

(b) Statutory guarantee

The due satisfaction of amounts payable by VMIA as a result of, or in connection with, liabilities of VMIA is guaranteed by the State of Victoria. VMIA's financial objective is to operate essentially as a stand alone entity. To this end VMIA seeks to hold sufficient capital to maintain an acceptable probability that with appropriate reinsurance, it will be able to fund its liabilities as they fall due and not have to rely on its guarantee from the State. It is not anticipated that VMIA will call on the statutory guarantee other than in exceptional circumstances.

(c) Guarantee fee

Pursuant to section 27 of the *Victorian Managed Insurance Authority Act 1996*, the State has guaranteed amounts payable by VMIA as a result of, or in connection with, liabilities of VMIA. In accordance with section 27(3) of the *Victorian Managed Insurance Authority Act 1996* VMIA must, in respect of this statutory guarantee, pay to the Treasurer for payment into the Consolidated Fund from any surplus for the year ended on the preceding 30 June such amount as the Treasurer determines after consultation with VMIA. VMIA has not received any Treasurer's determination in relation to the payment of a guarantee fee for the financial year ended 30 June 2019 (2018: Nil).

Dividends

In accordance with section 13 of the *State Owned Enterprises Act 1992*, VMIA is required to pay to the State a dividend as determined by the Treasurer. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer after consulting with the Assistant Treasurer and VMIA's Board of Directors. A dividend of $408 million was paid during the financial year ended 30 June 2019 (2018: Nil).

7. Financial instruments

Introduction to this section

This section provides information on the sources and risks of finance utilised by VMIA in its operations, including disclosure of balances that are financial instruments and fair values.

This section contains the following disclosure:

7.1 Financial risk management

VMIA's operating activities expose it to a variety of financial risks including market risk (being equity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk.

(a) Market risk

(i) Equity price risk

VMIA is exposed to equity price risk arising from investments held at fair value through profit and loss. VFMC limits equity price risk through diversification of the equity investment portfolio.

The listed equity sensitivity analysis below has been determined for the directly held Australian and international equities which are listed on the Australian Stock Exchange and international stock exchanges, and effective exposure to futures, both domestic and international. Australian and international equities that are held through trusts are included in the analysis of unlisted investment prices. The following details VMIA's sensitivity to a 15% (2018: 15%) increase or decrease in markets based on exposures at the balance sheet date and assumes that the change takes place at the beginning of the financial year and remains constant to the balance sheet date.

	2019 $'000	2018 $'000
Impact on comprehensive result and equity from a movement in equity prices		
Listed investments prices		
Decrease of 15%	(1,975)	(1,920)
Increase of 15%	1,975	1,920
Unlisted investments prices		
Decrease of 15%	(328,760)	(356,122)
Increase of 15%	328,760	356,122

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. VMIA is exposed to foreign exchange rate risk through its investments which are denominated in foreign currencies.

VFMC limits foreign exchange risk through the use of forward currency contracts where it agrees to sell specified amounts of foreign currencies in the future at predetermined exchange rates. The proportion of foreign exchange risk that is hedged is reviewed regularly to ensure that the net exposure is maintained at a level that is consistent with VMIA's overall Investment Objective. VFMC's policy, contained in its Investment Risk Management Plan approved by the Treasurer of Victoria, is to adopt a neutral hedged position of 25% (2018: 50%) of international equities exposure and 100% (2018: 100%) of other international asset exposure.

The foreign currency risk disclosure has been prepared on the basis of VMIA's direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently, the disclosure of currency risk may not represent the true currency risk profile of VMIA where the unit trust has significant investments which have exposure to the currency markets.

7.1 Financial risk management (cont)

The sensitivity analysis below has been determined based on VMIA's exposure to foreign currencies at the balance sheet date and a 10% (2018: 10%) increase or decrease in the Australian Dollar against the relevant foreign currencies and assumes that the change takes place at the beginning of the financial year and remains constant to the balance sheet date.

	2019 $'000	2018 $'000
Impact on comprehensive result and equity from a movement in foreign exchange rates		
Decrease of 10%	(8,336)	(32,795)
Increase of 10%	6,820	26,832

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Where the applicable fair value is determined by discounting future cash flows, movements in interest rates will result in a reported unrealised gain or loss in the Comprehensive Operating Statement. An increase in interest rates results in a decrease in the value of investments, while a decrease in interest rates increases the value of investments.

VFMC and its fund managers seek to manage interest rate risk through an asset allocation strategy for the investment portfolio which acts as an economic hedge against VMIA's insurance liabilities. As interest rates move, to the extent these assets and liabilities can be matched, increases or decreases in claims incurred arising from the remeasurement of the claims liabilities will be offset by increases or decreases in the fair value of interest bearing investments.

VFMC uses derivatives to manage the interest rate risk on interest rate sensitive assets. Interest rate swap contracts and forward rate agreements are used to either change the interest rate risk between fixed and floating rates of interest or between different floating rates of interest.

A summary of VMIA's exposure to interest rate risk on financial instruments follows:

		2019			2018		
	Note	Fixed rate $'000	Variable rate $'000	Total $'000	Fixed rate $'000	Variable rate $'000	Total $'000
Financial assets							
Cash and cash equivalents [(i)]		-	32,715	32,715	-	20,244	20,244
Debt securities	7.1(b)	21,554	17,909	39,463	49,661	17,881	67,542
Interest rate derivatives		91	-	91	19	-	19
Short term money market funds		-	302,702	302,702	-	324,920	324,920
Financial assets exposed to interest rate risk		**21,645**	**353,326**	**374,971**	**49,680**	**363,045**	**412,725**
Financial liabilities							
Interest rate derivatives		-	-	-	138	-	138
Short term money market funds		-	25,898	25,898	-	27,191	27,191
Trade payables [(ii)]	2.11	-	27,881	27,881	-	18,454	18,454
Financial liabilities exposed to interest rate risk		**-**	**53,779**	**53,779**	**138**	**45,645**	**45,783**
Net exposure		**21,645**	**299,547**	**321,192**	**49,542**	**317,400**	**366,942**

(i) Cash and cash equivalents in the above analysis exclude cash on hand.

(ii) Trade payables represent deposits held to fund clients' deductibles where VMIA provides a claims management service to clients in respect of such deductibles.

A sensitivity table is not disclosed, as the impact of a 1.0% movement in interest rates with all other variables held constant on VMIA's net profit and equity is not material.

7. Financial instruments (cont)

7.1 Financial risk management (cont)

(b) Credit risk

Credit risk arises from the potential default of an issuer or counterparty on their contractual obligations resulting in a financial loss to VMIA.

The credit risk of the investment portfolio is managed by VFMC and its appointed fund managers under instructions from VFMC. The appointed fund managers, through VFMC, manage credit risk by diversifying the exposure amongst counterparties. VFMC manages counterparty credit risk by conducting due diligences on counterparties and will only deal with counterparties of high quality and with substantial balance sheets. Agreements also contain provisions for the agreements to be reviewed or rescinded upon the occurrence of specified events relating to counterparty credit and liquidity.

The establishment of appropriate policies and multi-tiered limits ensures that VMIA maintains a diversified portfolio without any significant concentration of credit risk on an industry, regional or foreign country basis.

Financial assets held with the following credit grades:

	Note	Investment grade $'000	Non-investment grade $'000	Not rated $'000	Total $'000
2019					
Trade receivables (i)	2.10	1,479	-	50	1,529
Non-trade receivables		-	-	62	62
Debt securities	7.1 (a)(iii)	39,463	-	-	39,463
Total (ii)		**40,942**	**-**	**112**	**41,054**
2018					
Trade receivables (i)	2.10	27	-	769	796
Non-trade receivables		-	-	119	119
Debt securities	**7.1 (a)(iii)**	**67,542**	**-**	**-**	**67,542**
Total (ii)		**67,569**	**-**	**888**	**68,457**

(i) Trade receivables exclude statutory receivables which mainly comprise insurance premium owing by various Victorian Government departments and agencies as the credit risk is minimal.

(ii) The above analysis excludes cash and cash equivalents and short term money market funds for which the credit risk is minimal.

Investment grade financial assets include only those assets with Standard & Poor's credit ratings of AAA to A- (long term) and/or A-1+ to A-3 (short term). Non-investment grade financial assets have Standard & Poor's credit ratings of BBB+ to BBB-. Not rated financial assets include assets that have not been formally rated by Standard & Poor's but are within the risk parameters outlined in the Investment Risk Management Plan.

7.1 Financial risk management (cont)

(c) Liquidity risk

Liquidity risk is the risk that VMIA will encounter difficulty in meeting its financial obligations as they fall due.

VFMC uses a combination of cash and futures portfolios, plus a largely liquid portfolio of investments, to ensure sufficient liquidity is available at all times to meet VMIA's operating requirements. VMIA is cash flow positive, with insurance premium, investment income and other income receipts exceeding claim payments, reinsurance premium, commission and administration expense payments.

The following table summarises the maturity profile of the derivatives that form part of VMIA's financial liabilities. The table is based on the undiscounted cash flows of the financial liabilities and on the earliest date on which VMIA can be required to pay.

	Note	Under 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2019					
Financial liabilities					
Financial derivatives	7.2	11,244	-	-	11,244
2018					
Financial liabilities					
Financial derivatives	7.2	25,410	-	-	25,410

7.2 Offsetting financial assets and financial liabilities

The following table discloses financial assets and financial liabilities that have been offset in the Balance Sheet in accordance with *AASB 132 Financial Instruments: Presentation* and those that have not been offset in the balance sheet but are subject to enforceable master netting agreements (or similar arrangements) with trading counterparties.

The net positions of financial assets and financial liabilities that meet the criteria for offsetting in the normal course of business are disclosed in the Balance Sheet at financial year end and are disclosed in the first column of the table below.

The second column represents the related amounts that do not meet the criteria for offsetting in the normal course of business, but can be offset under certain circumstances, such as default or when the right to offset is conditional upon the default of the counterparty. The third column represents the related amounts that have not been offset in the Balance Sheet but are subject to any related financial collateralised obligation in accordance with *AASB 7 Financial Instruments*. The last column discloses the net impact on the Balance Sheet if all existing rights of offset were exercised.

			Related amounts not set-off in the Balance Sheet		
	Note	Net amount disclosed in Balance Sheet $'000	Related amounts subject to master netting agreements $'000	Collateralised obligation $'000	Net amount $'000
2019					
Derivative assets		41,442	(8,369)	(25,239)	7,834
Derivative liabilities	3.3(c), 7.1(c)	(11,244)	8,369	56	(2,819)
2018					
Derivative assets		40,061	(10,360)	(25,412)	4,289
Derivative liabilities	3.3(c), 7.1(c)	(25,410)	10,360	1,775	(13,275)

7. Financial instruments (cont)

7.3 Fair values

(a) Measurement of fair values

A number of VMIA's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities in accordance with the requirements of AASB 13 Fair Value Measurement.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the input used in the valuation techniques as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, VMIA has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. In addition, VMIA determines whether transfers have occurred between the different levels in the fair value hierarchy by reviewing the categorisation at the end of each financial year.

	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019					
Financial assets and financial liabilities					
Cash and cash equivalents	3.2	32,715	-	-	32,715
Trade receivables	2.10	-	1,529	-	1,529
Non-trade receivables		-	62	-	62
Investments and derivative liabilities					
Australian equities	3.3(c)	(26)	291,912	0	291,886
Diversified fixed interest	3.3(c)	-	282,922	8,762	291,684
Inflation linked bonds	3.3(c)	91	261,677	-	261,768
Infrastructure	3.3(c)	-	(325)	170,674	170,349
International equities	3.3(c)	(24,064)	663,765	-	639,701
Non-traditional strategies	3.3(c)	-	33,687	297,949	331,636
Private equity	3.3(c)	-	(15)	4,750	4,735
Property	3.3(c)	-	-	229,113	229,113
Short term money market funds	3.3(c)	301,837	16,465	-	318,302
Trade payables	2.11	-	(39,224)	-	(39,224)
Non-trade payables	5.1	(2,785)	(6,579)	-	(9,364)
Total financial assets and financial liabilities		**307,768**	**1,505,876**	**711,248**	**2,524,892**

7.3 Fair values (cont)

	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018					
Financial assets and financial liabilities					
Cash and cash equivalents	3.2	20,245	-	-	20,245
Trade receivables	2.10	-	796	-	796
Non-trade receivables		-	119	-	119
Investments and derivative liabilities					
Australian equities	3.3(c)	53	333,087	-	333,140
Diversified fixed interest	3.3(c)	80	344,070	43,760	387,910
Inflation linked bonds	3.3(c)	(86)	310,564	-	310,478
Infrastructure	3.3(c)	-	(2,756)	154,481	151,725
International equities	3.3(c)	(22,678)	733,991	-	711,313
Non-traditional strategies	3.3(c)	-	23,925	262,713	286,638
Private equity	3.3(c)	-	(28)	4,229	4,201
Property	3.3(c)	-	-	222,955	222,955
Short term money market funds	3.3(c)	322,166	25,821	-	347,987
Trade payables	2.11	-	(35,917)	-	(35,917)
Non-trade payables	5.1	(46,963)	(6,794)	-	(53,757)
Total financial assets and financial liabilities		**272,817**	**1,726,878**	**688,138**	**2,687,833**

Transfers between fair value hierarchy levels

During the current financial year, there were no (2018: Nil) transfers from Level 2 to Level 3 based on management's annual reassessment of the significance of unobservable valuation inputs that had been used to derive the fair value of those investments.

7. Financial instruments (cont)

7.3 Fair values (cont)

Reconciliation of Level 3 fair value measurements of financial assets

	2019 $'000	2018 $'000
Level 3 fair value hierarchy reconciliation of investments		
Balance at beginning of year	**688,138**	**597,457**
Acquisitions	87,290	74,296
Disposals	(79,906)	(19,884)
Gains on disposal credited to income	15,216	1,870
Gains on changes in fair value	510	34,399
Balance at end of year	**711,248**	**688,138**

Key inputs and assumptions subject to estimation uncertainty

The investments managed by VFMC on behalf of VMIA include unlisted financial instruments that are not traded in an active market. Hence, their fair values at the balance sheet date are based on prices advised by the external fund managers, as well as valuations determined by appropriately skilled independent third parties.

Where valuation techniques including discounted cash flows, analysis based on multiples, comparison with similar transactions and other appropriate valuation techniques have been employed in valuing investments, the valuations are inherently subject to estimation uncertainty. Given this inherent uncertainty, the underlying inputs and assumptions are reviewed on an ongoing basis to ensure that the valuations reflect the best estimates of the economic conditions at the balance sheet date. The value of these investments subject to estimation uncertainty is set out in the table below.

It is possible that the outcomes, within the next financial year, could be different from the inputs and assumptions used in the current valuation models and could require a material adjustment to the carrying amount of these financial instruments.

7.3 Fair values (cont)

The disclosure below provides details of the inputs and assumptions used in the current valuation models. Further detailed information has been provided where available. A significant majority of these investments are held via third party pooled investment vehicles, and as such, VMIA is not privy to the detailed inputs and assumptions used to value the underlying investment assets and hence VMIA is not in a position to provide the sensitivity analysis pertaining to the fair value measurement due to changes in unobservable inputs.

Investment class	Valuation methodologies	Key inputs and assumptions
Diversified fixed income investments	Diversified fixed income investments – third party pricing servicers, which source prices from brokers and market makers.	• Appropriate credit spread and other risk premium. • Future risk free rate. • Estimated future cash flows. • Identification of appropriate comparables. • Future economic and regulatory conditions. • Life expectancy estimates and mortality probabilities.
Non-traditional strategies investments	Prices quoted on an exchange or traded in a dealer market. Less liquid securities – discounted cash flow, amortised cost, direct comparison and others.	
Infrastructure investments	Discounted cash flow.	• Risk premium. • Risk–free discount rate. • Asset utilisation rates. • Capital and operating expenditure forecasts. • Other estimated future cash flows dependent on the longer term general economic forecasts. • Forecast performance of applicable underlying assets.
Private equity investments	Multiples of earnings, discounted cash flow, market equivalents and other market accepted methodologies.	• Risk–free discount rate, risk premium. • Estimated future cash flows. • Estimated future profits. • Identification of appropriate comparables. • Future economic and regulatory conditions.
Property investments	Discounted cash flow, capitalisation and direct comparison methodologies.	

8. Other disclosure

Introduction to this section

This section includes additional material disclosure required by accounting standards for the understanding of this financial report.

This section contains the following disclosure:

8.1 New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that may be applicable to VMIA but are not mandatory for the year ended 30 June 2019.

The nature of the application of these standards could impact the classification and measurement of financial assets and financial liabilities. There is not expected to be a material impact to VMIA for standards with an operative date of 1 January 2019 – further explanation is provided below. The extent of any impact from other standards with an operative date after 1 January 2019 has not yet been determined.

VMIA will apply these for the annual reporting period beginning on or after the operating dates set out below.

	Title	Operative date
AASB 15	Revenue from Contracts with Customers	1 January 2019
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2019
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 January 2019
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2019
AASB 2016-7	Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	1 January 2019
AASB 2016-8	Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	1 January 2019
AASB 16	Leases	1 January 2019
AASB 17	Insurance Contracts	1 January 2021

In addition to those accounting standards listed above, the Australian Accounting Standards Board has also released a number of other Australian Accounting Standards and Interpretations. These Australian Accounting Standards and Interpretations are either not applicable or will have a minimal impact on VMIA's financial report and thus have not been specifically identified above.

AASB 15 Revenue from contracts with customers

AASB 15 was issued in 2015 and establishes the principles used to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This standard will have an immaterial impact on VMIA's financial statements.

AASB 16 Leases

AASB 16 was issued in 2016 and will replace AASB 117 *Leases and related interpretations*. AASB 16 introduces a single on-balance sheet lease accounting model for lessees, which will remove the operating/finance lease distinction for lessees. The application of AASB 16 will result in the recognition of all leases on the balance sheet in the form of a right-of-use asset and a corresponding lease liability. Over the life of the lease, the liability incurs interest and is reduced as lease payments are made, and the asset is depreciated over its useful life. The resulting amount to be recognised as a gross up to the Balance Sheet at 1 July 2019 is approximately $9 million.

VMIA will adopt AASB 16 using the modified retrospective approach with no restatement of comparative information.

8.2 Commitments and contingencies

Commitments include operating and capital commitments and are disclosed at their nominal value and are inclusive of GST.

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST.

VMIA has no known contingent assets and contingent liabilities as at 30 June 2019 (2018: Nil).

(a) Capital commitments

VMIA has uncalled capital commitments in respect of investments totalling $299.176 million as at 30 June 2019 (2018: $202.438 million).

(b) Operating lease commitments

Commitments in relation to operating leases contracted for at 30 June 2019 but not recognised as liabilities are:

	2019 $'000	2018 $'000
Not later than one year	3,400	3,260
Later than one year but not later than five years	12,677	12,490
Later than five years	-	2,728
Total operating lease commitments	**16,077**	**18,478**

Operating lease commitments relate to office premises and office equipment and include GST. VMIA does not have the option to purchase leased assets at the expiry of the lease periods.

8.3 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the *Financial Management Act 1994*, the following disclosure is made with regard to responsible persons for the financial year.

(a) Responsible persons

The names of persons who were responsible persons at any time during the financial year are as follows:

Responsible Minister:	R. Scott MP.
Governing Board of Directors:	E. Rubin, C. Christian, J. Doak, C. Keating , B. King, T. Ryan (until 21 August 2018), and R. Worthington (until 31 January 2019), C. Lovell (appointed 18 June 2019), R. Castle (appointed 18 June 2019).
Accountable Officer:	C. Radford (Chief Executive Officer).

8. Other disclosure (cont)

8.3 Responsible persons (cont)

(b) Remuneration of responsible persons

The number of responsible persons during the financial year is shown below in their relevant total income bands:

	2019	2018
Directors		
$0 - $9,999	3	1
$10,000 - $19,999	-	1
$20,000 - $29,999	1	1
$30,000 - $39,999	1	3
$40,000 - $49,999	3	3
$80,000 - $89,999	-	1
$90,000 - $99,999	1	-
Accountable Officers		
$480,000 - $489,999	1	1

The Directors' remuneration shown in the above table is as determined by the Assistant Treasurer.

The Responsible Minister, R. Scott MP, did not receive any remuneration from VMIA. Remuneration and allowances pertaining to the Assistant Treasurer are set in accordance with the *Parliamentary Salaries and Superannuation Act 1968* and reported in the financial report of the Department of Parliamentary Services.

The remuneration, including the superannuation guarantee contribution, received or receivable by responsible persons from VMIA amounted to $848,432 (2018: $849,326).

8.4 Related parties

(a) Key management personnel and related parties

The key management personnel of VMIA include the Responsible Minister, the members of VMIA's Board of Directors, the Chief Executive Officer and officers with executive responsibility.

The related parties of VMIA include:

- All key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over); and
- All cabinet ministers and their close family members.

Compensation of key management personnel	2019 $'000	2018 $'000
Short term employee benefits	3,239	2,402
Post employment benefits	270	210
Other long term benefits	210	194
Termination benefits	-	66
Total compensation	**3,719**	**2,872**

Remuneration and allowances pertaining to ministers are reported in the financial report of the Department of Parliamentary Services. Remuneration of VMIA's officers with executive responsibility, other than the Chief Executive Officer, is reported in Note 8.5.

For information pertaining to related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register-of-interests.

8.4 Related parties (cont)

(b) Other transactions and balances with key management personnel and other related parties

During the current financial year no key management personnel received or became entitled to receive any benefit from VMIA, other than remuneration disclosed in the financial report, from a contract between VMIA and that key management person or firm or company of which that key management person is a member or has a substantial interest (2018: Nil).

Any transactions or issues that involve related parties listed below are dealt with on normal commercial terms and conditions and without reference to the key management personnel concerned. All income and expense transactions exclude Stamp Duty and GST.

	Gross premium written $	Gross claims paid $	Risk management program expenses $	Administration expenses $	Investment expenses $
2019					
State Library of Victoria	555,002	-	-	-	-
Victorian Funds Management Corporation	828,652	37,563	-	-	8,343,392
Mirvac Home Builders (Vic) Pty Limited	126,845	-	-	-	-
VicForests	336,567	-	-	-	-
Metropolitan Fire and Emergency Services Board	809,525	570,685	-	-	-
Transport Accident Commission	226,860	3,018			
Kids Under Cover	5,006	-	-	-	-
Yooralla	-	-	-	423	-
Judicial Commission of Victoria	18,250	-	-	-	-
Total	**2,906,707**	**611,266**	**-**	**423**	**8,343,392**
2018					
State Library of Victoria	567,447	953	-	-	-
Emergency Services Telecommunications Authority	-	231,550	-	-	-
Court Services Victoria	914,040	463,439	-	-	-
Austin Health	7,788,940	2,587,238	-	-	-
Alfred Health	9,299,249	7,615,057	-	-	-
Victorian Funds Management Corporation	-	-	-	-	8,401,766
Mirvac Home Builders (Vic) Pty Limited	176,695	-	-	-	-
VicForests	315,918	-	-	-	-
Metropolitan Fire and Emergency Services Board	809,183	4,642,980	-	-	-
Transport Accident Commission	120,872	-	-	-	-
Kids Under Cover	2,417	-	-	-	-
Yooralla	-	397,844	-	-	-
Judicial Commission of Victoria	17,562	-	-	-	-
Total	**20,012,323**	**15,939,061**	**-**	**-**	**8,401,766**

8. Other disclosure (cont)

8.4 Related parties (cont)

VMIA provides insurance and risk services to the related parties of the key management personnel of government sector, including Directors and Officers Liability insurance, disclosed in the table below on normal commercial terms and conditions. The additional comments in the table below provide further disclosure in respect of the transactions with related parties.

Key management person	Related party	Key management person's relationship with related party	Additional comments
C. Christian	State Library of Victoria	Director	VMIA hires venues from the State Library of Victoria on normal commercial terms and conditions.
J. Doak	Metropolitan Fire and Emergency Services Board	Director	
C. Keating	Yooralla	Director	
	CARE Super	Director	VMIA contributes superannuation benefits to CARE Super for a number of employees
	Judicial Commission of Victoria	Director	
E. Rubin	Victorian Funds Managed Corporation (VFMC	Director	VFMC is VMIA's investment manager and receives investment management fees for its services on normal terms and conditions.
	Mirvac Limited	Director	Mirvac Limited is the ultimate holding company of Mirvac Home Builders (VIC) Pty Limited. VMIA provides domestic building insurance to Mirvac Home Builders (VIC) Pty Limited on normal commercial terms and conditions.
T. Ryan	VicForests	Director	
C. Lovell	VicForests	Director	
C. Radford	Transport Accident Commission	Director without remuneration	Resigned directorship on 12 March 2019.
	Kids Under Cover	Chairperson	

8.5 Remuneration of VMIA officers with executive responsibility

The number of VMIA officers with executive responsibility, other than the Chief Executive Officer, and their total remuneration during the financial year is shown in the table below. The total annualised employee equivalent (AEE) is based on working 7.6 (2018: 7.6) ordinary hours per day during the financial year. The AEE provides a measure of full time equivalent executive officers during the financial year.

	2019 $'000	2018 $'000
Short term employee benefits	2,514	1,602
Post employment benefits	225	161
Other long term benefits	210	194
Termination benefits	-	66
Total remuneration	**2,949**	**2,023**
Total number of VMIA officers with executive responsibility	**11**	**11**
Total annualised employee equivalent (AEE)	**9.5**	**5.8**

In 2019, no VMIA officer with executive responsibility acted in the Accountable Officer role for part of the financial year (2018: Nil).

8.6 Subsequent events

No material events affecting VMIA have occurred between the balance sheet date and the date of this report.

Declaration by Chairperson, Chief Executive Officer and Chief Financial Officer

The attached financial report for the Victorian Managed Insurance Authority has been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the Financial Management Act 1994, applicable Financial Reporting Directions, Australian Accounting Standards including interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and accompanying notes, presents fairly the financial transactions for the year ended 30 June 2019 and the financial position of the Victorian Managed Insurance Authority at 30 June 2019.

At the time of signing, we are not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial report for issue on 29 August 2019.

Elana Rubin	**Colin Radford**	**Megan Bond**
Chairperson	Chief Executive Officer	Chief Financial Officer

Melbourne
29 August 2019

Independent Auditor's Report

To the Board of the Victorian Managed Insurance Authority

Opinion	I have audited the financial report of the Victorian Managed Insurance Authority (the Authority) which comprises the: • balance sheet as at 30 June 2019 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • Declaration by the Chairperson, Chief Executive Officer and Chief Financial Officer. In my opinion the financial report presents fairly, in all material respects, the financial position of the Authority as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. My independence is established by the *Constitution Act 1975.* My staff and I are 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* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Other information	The Directors are responsible for the Other Information, which comprises the information in the Authority's annual report for the year ended 30 June 2019 but does not include the financial report and my auditor's report thereon. My opinion on the financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.
Board's responsibilities for the financial report	The Board is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Financial Management Act 1994, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Board is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994,* my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is 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 the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the 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 report, 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the 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 my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Board 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.

MELBOURNE
10 September 2019

Andrew Greaves
Auditor-General

Attestation for financial management compliance with Standing Directions 5.1.4

I, Elana Rubin, on behalf of the Victorian Managed Insurance Authority, certify that the Victorian Managed Insurance Authority has complied with the applicable Standing Directions made under the *Financial Management Act 1994* and Instructions.

Elana Rubin
Chairperson, VMIA Board

Corporate governance and compliance

Board

The Board is responsible for the management of the affairs of VMIA and for exercising the powers conferred on VMIA under the *Victorian Managed Insurance Authority Act 1996*.

The Board has established clearly defined accountabilities and delegations for the Chief Executive Officer and other officers of VMIA.

Directors are appointed by the Governor in Council on a nomination of the Assistant Treasurer.

Board Committees

The Board has three committees:

- Audit Committee.
- Capital and Risk Committee.
- Remuneration and Capability Committee.

Each committee assists the Board with the specified responsibilities set out in each committee's charter.

Audit Committee

Members as at 30 June 2019:

- Claire Keating, Chairperson.
- Elana Rubin.

The Audit Committee is responsible for the independent review and oversight of the:

- Integrity and effectiveness of the systems of controls for financial management, performance and sustainability, accounting and financial reporting processes of VMIA, including risk management, actuarial processes and compliance of those processes with applicable regulatory requirements.
- External and internal audit of VMIA.

Capital and Risk Committee

Members as at 30 June 2019:

- Christine Christian, Chairperson.
- Claire Keating.

The Capital and Risk Committee is responsible for making recommendations to the Board regarding the prudential policies of VMIA, monitoring prudential policy issues and, in particular, their effect on:

- Premium pricing on capital.
- Investment risk on capital.
- Insurance and reinsurance risk on capital.
- Claims trends and liability risk.
- Capital attribution, including equity injection or return of equity.

The Committee is also responsible for the review and oversight of VMIA's risk management framework, practices and systems. The Committee assists the Board in its setting of the risk appetite and tolerance levels within which VMIA operates.

The Committee has oversight of the risks to the successful implementation of VMIA's corporate plan.

Remuneration and Capability Committee

Members as at 30 June 2019:

- Jasmine Doak, Chairperson.
- Elana Rubin.
- Bronwyn King.

The Committee is responsible for assisting the Board to discharge its responsibilities in relation to VMIA's people, their remuneration and the culture of VMIA. The Committee is also responsible for reviewing the remuneration policy, framework and outcomes for all employees and assessing the alignment of the capability of VMIA to its strategic objectives.

Note: Elana Rubin is a Non-Executive director of Slater and Gordon. Chris Lovell was appointed a Director of VMIA on 18 June 2019 and is Chairman of Holding Redlich. Slater and Gordon and Holding Redlich act for clients who may bring a claim against VMIA. The Directors remain at arm's length at all times and are not involved in the management of, or any decision-making regarding these claims.

Directions of the Assistant Treasurer (Formerly the Minister for Finance)

During the 2018/19 financial year, the Assistant Treasurer directed VMIA, pursuant to Section 25A of the *Victorian Managed Insurance Authority Act 1996*, to provide the following entities with the appropriate insurance for the term of 1 July 2019 until 30 June 2024 (except where noted):

Entity
Alexandra Timber Tramway and Museum Incorporated
Australian Rail Track Corporation Limited
Ballarat Tramway Museum Incorporated
Castlemaine and Maldon Railway Preservation Society
Diesel Electric Rail Motor Preservation Association of Victoria
Emergency Resources Providers Support Scheme
Evolution Rail Pty Ltd – in its personal capacity and as a trustee for the Evolution Rail Unit Trust (Evolution Rail) and all the Insured listed in the Project agreement between the Minister for Public Transport on behalf of the Crown in the right of the State of Victoria and Evolution Rail (Project Agreement) to deliver the High Capacity Metro Trains (HCMT) Project
Geelong Steam Preservation Society
Heide Museum of Modern Art
KDR Victoria Pty Ltd
Melbourne Tramcar Preservation Association Incorporated
Metro Trains Melbourne Pty Ltd
Mornington Railway Preservation Society Incorporated
NTT Data Payment Services Victoria Pty Ltd
Portland Cable Trams Incorporated
Puffing Billy Preservation Society
Red Cliffs Historical Steam Railway Incorporated
Seven O Seven Operations Incorporated
Seymour Rail Heritage Centre Incorporated
Shepparton Search and Rescue Squad Inc (30 June 2018 until 30 June 2023)
Steamrail Victoria Incorporated
The Central Highlands Tourist Railway
Victorian Marine Search and Rescue Entities (30 June 2018 until 30 June 2023)
Walhalla Goldfields Railway Incorporated
Yarra Valley Railway Incorporated

Corporate governance and compliance (cont)

Occupational Health and Safety

VMIA is committed to the health and safety of our people and visitors. The Work Health and Safety Committee meets every two months and has individual representatives from the various functions across VMIA.

VMIA maintains a strong approach to health and wellbeing to ensure its people remain mentally and physically well. We provide many opportunities, including:

- Managing mental health and wellbeing in the workplace training.
- Parental transition coaching program for new parents.
- Annual health checks and flu vaccinations.
- Employee Assistance Program.

Performance against occupational health and safety management measures

	2018/19	2017/18
Hazards identified	1	1
Incidents reported	6	16
Workers compensation claims	5	1

Employment and conduct principles

VMIA is committed to applying merit and equity principles when appointing staff. The selection processes ensure applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities without discrimination.

Public administration values and employment principles

VMIA has a documented suite of detailed employment policies, including policies pertaining to recruitment, managing performance, grievance resolution, remuneration and redeployment. These policies are reviewed annually to ensure they comply with legislative requirements and contemporary workplace practices.

Workforce data

	2018/19	2017/18
Number of employees (headcount)	191	187
Number of employees (full-time equivalent)	183.0	180.4

NOTE: All figures reflect employees paid in the last full pay period of June of each financial year. Excluded are those on leave without pay, secondees, external contractors/consultants and temporary staff employed by employment agencies.

All VMIA positions and employees have been classified within VMIA's classification structure.

Compliance with the *Local Jobs First Act 2003*

The *Local Jobs First Act 2003* requires Victorian Departments and public sector bodies to report on the implementation of the Local Jobs First – Victorian Industry Participation Policy (Local Jobs First – VIPP). Departments and public sector bodies are required to apply the Local Jobs First – VIPP in all procurement activities valued at $3 million or more in metropolitan Melbourne and for State-wide projects, or $1 million or more for procurement activities in regional Victoria.

During 2018/19, VMIA did not commence or complete any procurement activities that required the application of VIPP.

Government advertising expenditure

VMIA did not spend any money on government advertising campaigns during 2018/19.

Information and communication technology expenditure

For the 2018/19 reporting period, VMIA had a total information and communication technology spend of $7,142,611 excluding GST with details shown below.

Business as usual expenditure ($ excl GST	Non-business as usual expenditure ($ excl GST)	Operational expenditure ($ excl GST)	Capital expenditure ($ excl GST)
$5,668,007	$1,474,603	$1,474,603	$0

NOTE: Business as usual expenditure relates to ongoing activities to operate and maintain current information and communication technology capacity.

Non-business as usual expenditure relates to extending and enhancing VMIA's current capability. It is the sum of operational expenditure and capital expenditure.

Freedom of Information

The *Freedom of Information Act 1982* (FOI Act) allows the public a right of access to documents held by VMIA. The purpose of the FOI Act is to extend as far as possible the right of the community to access information held by government Departments, local councils, Ministers and other bodies subject to the FOI Act.

An applicant has a right to apply for access to documents held by a Department or agency. This comprises documents created by both the Department or agency, or supplied to a Department or agency by an external organisation or individual, and may also include maps, films, microfiche, photographs, computer printouts, computer discs, tape recordings and videotapes. Information about the type of material produced by VMIA is available on www.vmia.vic.gov.au under its Freedom of Information Part II Statement.

The FOI Act allows a Department or agency to refuse access, either fully or partially, to certain documents or information. Examples of documents that may not be accessed include: cabinet documents; some internal working documents; law enforcement documents; documents covered by legal professional privilege; personal information about other people; and information provided to a Department or agency in-confidence.

From 1 September 2017, the Act has been amended to reduce the freedom of information processing time for requests received from 45 to 30 days. In some cases, this time may be extended.

If an applicant is not satisfied by a decision made by the VMIA, under section 49A of the FOI Act, they have the right to seek a review by the Office of the Victorian Information Commissioner within 28 days of receiving a decision letter.

Making a request

Freedom of Information requests can be lodged online and an application fee of $28.40 applies. Access charges may also be payable if the document pool is large and the search for material is time consuming.

Access to documents can also be obtained through a written request to VMIA's Freedom of Information Officer, as detailed in section 17 of the FOI Act.

When making a Freedom of Information request, applicants should ensure requests are in writing, and clearly identify what types of material/documents are being sought.

Requests for documents in the possession of VMIA should be addressed to:

The Freedom of Information Officer,
Victorian Managed Insurance Authority
Level 10, 161 Collins Street
Melbourne VIC 3000

Freedom of Information statistics/timeliness

During 2018/19, VMIA received 5 applications. Of these requests, two were from members of Parliament and three from the general public.

VMIA made five Freedom of Information decisions during the 12 months ended 30 June 2019.

Two decisions were made within the statutory 30-day time period and three decisions were made within an extended statutory 30-45-day time period.

The average time taken to finalise requests in 2018/19 was 36.6 days.

During 2018/19, one request was subject to an internal review by the Office of the Victorian Information Commissioner.

Further information

Further information regarding the operation and scope of freedom of information can be obtained from the FOI Act Regulations made under the FOI Act and www.foi.vic.gov.au.

Compliance with the National Competition Policy

VMIA operates in accordance with the requirements of the National Competition Policy and the Competitive Neutrality Policy Victoria.

Competitive neutrality requires government businesses to ensure where government businesses compete, or potentially compete, with the private sector, any advantage arising solely from their government ownership be removed if it is not in the public interest.

Government businesses are required to cost and price these services as if they were privately owned. Self-assessment against the Victorian Government Competitive Neutrality Policy determined that none of VMIA's activities are within the scope of the Policy, as they do not constitute 'significant business activities' for competitive neutrality purposes.

VMIA remains committed to assessing its activities to ensure compliance with the requirements of both the National Competition Policy and the Competitive Neutrality Policy Victoria.

Corporate governance and compliance (cont)

Compliance with the *Protected Disclosure Act 2012*

The *Protected Disclosure Act 2012* encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The Protected Disclosure Act provides protection to people who make disclosures in accordance with its provisions and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

VMIA does not tolerate improper conduct by employees, nor the taking of reprisals against those who come forward to disclose such conduct. VMIA is committed to ensuring transparency and accountability in its administrative and management practices and supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

No disclosures were made to VMIA and notified to the Independent Broad-based Anti-Corruption Commission during 2018/19. VMIA will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure to the extent it is legally possible.

Reporting procedures

Disclosures of improper conduct or detrimental action by the VMIA or any of its employees may be made directly to:

The Independent Broad-based Anti-Corruption Commission

Level 1, North Tower, 459 Collins Street
Melbourne, VIC 3000

Phone: 1300 735 135
Internet: www.ibac.vic.gov.au

Compliance with the *Carers Recognition Act 2012*

VMIA has taken all practical measures to comply with our obligations under the *Carers Recognition Act 2012*. These include considering the carer relationship principles set out in the Act when setting policies. These principles are reflected in VMIA's Flexible Work Policy and Leave Policies.

Compliance with the *Building Act 1993*

VMIA does not own or control any government buildings and is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993*.

Office-based environmental impacts

VMIA is committed to proactively contributing to a sustainable environment and aims to minimise its office-based environmental impact through:

- Adoption of ISO 14001 Environmental Management System guidelines in the development of its environmental policies.
- Building environmental awareness amongst staff to reduce water, energy and paper use.
- Integration of sustainability principles into the design and fit-out of office space.
- Establishing internal procedures to maximise alternative use of redundant stationery and used office equipment.
- Separating office waste into organised, commingled recyclable and landfill streams.
- Reducing paper and printer toner use with the widespread adoption by staff of laptops, tablets, smartphones and other digital mobile devices.

Consultancy expenditure

In 2018/19, there were 17 consultancies where the total fees paid or payable were $10,000 or greater, excluding GST. The total expenditure was $2,017,893 excluding GST. Details of individual consultancies are outlined below.

Consultant	Purpose of consultancy	Total expenditure ($ excl GST)	Expenditure 2018-19 ($ excl GST)	Future expenditure ($ excl GST)
Court Heath Consulting	Probity Services for Legal Panel Renewal 2019	$172,727	$172,727	$0
Court Heath Consulting	Probity Services for Internal Audit	$116,073	$54,893	$61,180
Court Heath Consulting	IT Probity and Procurement Advisory	$19,018	$19,018	$0
Deloitte Consulting Pty Limited	VMIA's Strategic Plan 2019-2024	$790,446	$790,446	$0
Deloitte Consulting Pty Limited	VMIA IT Infrastructure and Cloud Strategy Roadmap	$48,890	$48,890	$0
Entheos Consulting	Culture and change program	$68,095	$68,095	$0
Insync Surveys Pty Ltd	PROMPT - Statewide education program surveys	$48,700	$48,700	$0
Integral technology Solutions Pty Ltd	Market scan for enterprise IT project	$13,694	$13,694	$0
Intuitive Flow	Change management coaching	$11,250	$11,250	$0
Kirkland & Associates Pty Ltd	Medical Indemnity Taxonomy Project	$90,275	$86,350	$3,925
KPMG Financial Advisory Services	Services for Data Insights	$135,000	$135,000	$0
KPMG Financial Advisory Services	Roadmap to strengthen financial capabilities	$108,332	$108,332	$0
Naked Ambition Consulting	Insurance Capability Uplift	$11,800	$11,800	$0
Pitcher Partners	VMIA IT Strategic Planning	$66,353	$66,353	$0
Principals Pty Ltd	VMIA Brand Strategy	$152,540	$152,540	$0
SCLA Advisers Pty Limited	Insurance specialist services	$147,950	$147,950	$0
Three's a Crowd	Talent Attraction program	$16,750	$16,750	$0

In 2018/19, there were 5 consultancies where the total fees paid or payable were less than $10,000 excluding GST. The total expenditure was $22,575 excluding GST.

Disclosure index

The Annual Report of VMIA is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of VMIA's compliance with statutory disclosure requirements.

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