Victorian Managed Insurance Authority

Annual Report 2020–2021

A trusted partner

Peta Clancy (Bangerang), *Undercurrent* (installation view, detail). From *Undercurrent* at Koorie Heritage Trust. Photo: Christian Capurro

VMIA's purpose is to build a confident, resilient Victoria through world-leading harm prevention and recovery.

Cover image: Tongue Point, Wilsons Promontory. Photo: Mark Watson

Contents

Who we are

VMIA is the Victorian Government's insurer and risk adviser, covering the people, places and projects that help Victorians thrive.

From iconic cultural institutions, major infrastructure, public schools and hospitals to emergency services and not-for-profits, our clients are diverse but united in their ambition to make a positive impact in our community. We share this ambition.

Meeting our clients' risk and insurance needs means they can be confident in the face of uncertainty and recover quickly when things don't go to plan.

We're also here for Victorian homeowners embarking on domestic building projects, offering cover to protect one of the biggest personal investments Victorians make in their lives.

And because we operate across Victoria's public sector, we're uniquely placed to connect experts and decision makers with critical thinking and insights. This leads to smarter ways of working and partnering to prevent harm.

It underpins our purpose: to build a confident, resilient Victoria through world-leading harm prevention and recovery.

How we provide value for Victoria

As a state insurer we offer unique value to the Victorian public sector, including:

- broad, proactive risk transfer and creative insurance solutions for state significant risks not covered in the commercial market
- competitive pricing significantly below commercial rates
- fair interpretations of policy to protect clients from significant loss and help them move quickly to restore critical public services and infrastructure
- investment in harm prevention to reduce losses and creative risk transfer solutions for emerging and evolving risks
- tailored advice to help agencies effectively cover their risk exposure, while protecting the State and community
- access to global expertise to support strategic risk planning, preparation and recovery, and aid joint problem-solving on shared issues.

Our values

Meaningful interactions

Every conversation we have and task we undertake contributes to achieving our goals.

Helping Victorians thrive

We are connected to something much bigger than ourselves and have a role to play in Victoria's continued success.

Curious and connected

We have the curiosity to ask questions, innovate, and partner with clients to solve problems.

Shared succes

We embrace teamwork and celebrate our clients' successful outcomes and our contribution to them.

Functions

VMIA was established to:

- assist departments and participating bodies to establish programs for the identification, quantification and management of risks
- monitor risk management by departments and participating bodies
- act as insurer for, or provide insurance services to, departments and participating bodies
- provide insurance or indemnities to persons or bodies as required
- provide risk management advice to the State and risk management advice and training to departments and participating bodies
- carry out such other functions as are conferred on it by the *Victorian Managed Insurance Authority Act 1996*, or any other Act.

In March 2010 the Victorian Government directed VMIA to assume responsibility for providing domestic building insurance, which is compulsory for builders carrying out domestic building work in excess of $16,000.

Our aspiration

By 2024, VMIA's clients will be:

Covered by contemporary, commercially competitive insurance solutions.

Connected to world-leading risk management advice, insights and innovation.

Confident in making informed, deliberate risk transfer decisions.

Our clients will never find themselves unconsciously uninsured.

Letter from the Chairperson to the Minister

29 SEPTEMBER 2021

The Hon Danny Pearson MP
Assistant Treasurer

Level 5, 1 Macarthur Street
EAST MELBOURNE VIC 3002

Dear Minister

I am pleased to submit the Annual Report of the Victorian Managed Insurance Authority for the period 1 July 2020 to 30 June 2021, in accordance with the ***Financial Management Act 1994.***

Yours sincerely

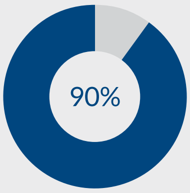
Elana Rubin AM
Chairperson, VMIA Board

2020–2021 at a glance

Improved health services to local communities

$3.9m

We refunded $3.9 million in premiums to hospitals in the third year of the *Incentivising Better Patient Safety* program.



Created better outcomes for women and babies in birth suites

90% of Victorian public maternity services attested to the *Incentivising Better Patient Safety* program.

Protected Victoria's assets for future generations

$214b

We insured $214 billion in public assets, up from $208 billion in 2019–20.

Supported Victorian homeowners when things didn't go to plan

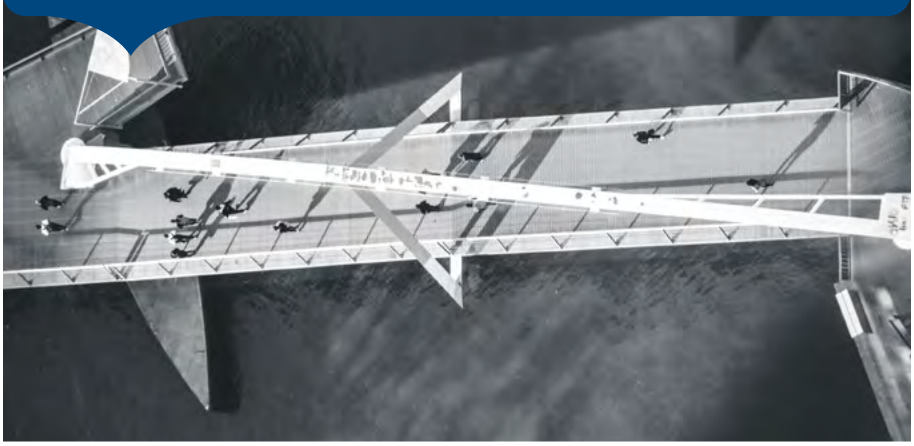
We issued 90,337 domestic building insurance certificates, with 1,384 claims settled and $58.7 million in payments.

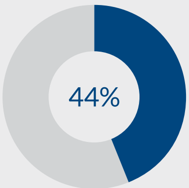
$396m

Covered our clients

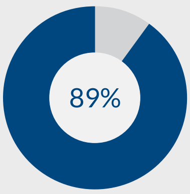
We paid $396 million in claims, an increase from $320 million in 2019–20.

Enhanced risk maturity in the public sector





44% of Victorian Government departments and agencies improved their risk maturity as measured by our online assessment tool, with 80% of clients improving their maturity from 2017–18 levels.



89% of Victorian Government agencies completed the risk maturity benchmark.

176

176 Optimum Risk Transfer reviews were completed, with clients adopting recommendations resulting in more than $50 million in future risk reduction for the State.

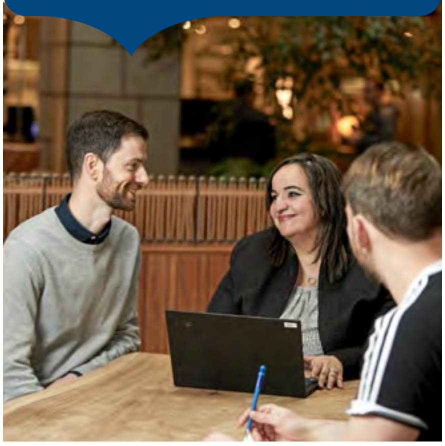
Created a deeper understanding of cyber risk

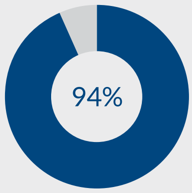
52 clients employed the new cyber assessment tool.

Delivered valued client services

64 client learning workshops for almost 1,000 attendees lifted risk capability and literacy across the public sector.

Maintained our strong culture and engaged workforce





94% of staff have completed cultural awareness training as part of our Reconciliation Action Plan.

68 of the 69 commitments we made in our Reflect Reconciliation Action Plan are complete.

Our average employee engagement score in the last six surveys was 7.8.

Chairperson's and CEO's report

This year, we celebrate VMIA's 25th anniversary. While relatively young in insurance terms, we build on the long and proud history of our predecessors – the Managed Insurance Fund and State Insurance Office. At this milestone, we celebrate our history and reflect on our future.

On behalf of the Board, we're grateful to the people of VMIA. Since VMIA started 25 years ago, our people have been our most important asset – and this year is no different. They've excelled in delivering more for our clients in the context of a pandemic and the economic, health and social recovery that continues to unfold.

VMIA was established by the Victorian Government in 1996 to centralise insurance and claims management, and reform risk management in the public sector. The government of the day well understood the value of centralising these functions.

Over our history, VMIA has been there to support clients after significant events such as natural disasters. We've helped our clients in the wake of the devastating loss of life and property from the Black Saturday bushfires, losses from the 2011 floods, and more recently, our insurance solutions supported clients impacted by the unprecedented 2019-20 Black Summer bushfires.

As the impact of the COVID-19 pandemic continues to play out in Victoria and further afield, the real value of VMIA's insurance and risk advice for the State has emerged. As insurers in the commercial market reduce their exposure to uncertainties including communicable disease, VMIA has developed innovative solutions for the risks faced by the Victorian public sector.

Elana Rubin AM, Chairperson

Adapting to the changing nature of risk

One of the most significant changes of the past 25 years is the risks we manage. When VMIA was established, the organisation largely insured property, medical negligence and liability risk. As we increasingly work, transact and communicate online, cyber risk is growing exponentially – in terms of frequency and complexity of attacks. In 2020-21 we partnered with the new State Government agency, Digital Victoria, to improve government cyber security controls, and in September 2020 we launched a new cyber maturity benchmark. We also hosted interactive education sessions with cyber security research and innovation experts to build our clients' understanding of contemporary cyber risks.

In addition to cyber, climate change is another key risk posing a significant challenge for Victoria. VMIA contributes to the management of these risks in two ways: by providing expert data and advice through inter-agency committees and direct advice to relevant departments, as well as contributing to whole-of-government programs to lift resilience and capability across the public sector. We continued to work closely with the Department of Environment, Land, Water and Planning to develop guidance materials and tools for the management of climate change risk.

The sophistication and innovation of major infrastructure project delivery also presented new challenges. We're proud of our work supporting Victoria's Big Build. This year, our specialist construction team continued to service these major infrastructure projects, providing expert risk and insurance insights to the projects that will transform the way we move around Melbourne and Victoria.

Supporting Victoria during the pandemic and economic recovery

As commercial insurers have moved to exclude communicable disease coverage from policies, VMIA's advice and insurance solutions have enabled our clients to continue operating and providing essential services. That included support for the new COVID-19 Quarantine Victoria agency in establishing insurance arrangements for the revised quarantine program for returning travellers, insuring student nurse and doctor volunteers in public hospitals, and hospitals operating vaccination centres. We also continue to support clients impacted by the policy implications of the ongoing pandemic.

Supporting our clients to develop their risk maturity

On 1 July 2021, the new Victorian Government Risk Management Framework came into effect. The framework emphasises risk appetite and risk culture, mandating that agencies proactively work towards minimising their insurable risk exposure. We've worked with clients to assist them to understand the impact of the new framework and adapted our risk maturity benchmark tools.

Delivering more digitised services and deeper insights

We're now halfway through implementing our five-year strategic plan, Strategy 2024. This year, we digitised more of our services. Clients using the digital portal can now access, amend and renew their policies online, and complete straight-through lodgement for simple claims.

Andrew Davies, Chief Executive Officer

We're delivering even more insight from our data, with a new interactive reporting tool for Victorian Government departments and eight major hospitals. Our site risk survey reports have also been digitised, with engineering and asset data to support engagement with our clients on risks and our engagement with reinsurers for underwriting. The restrictions resulting from the COVID-19 pandemic also accelerated innovation in our domestic building insurance claims process, including virtual site inspections.

Chairperson's and CEO's report

State Library of Victoria. Photo: Mark Chew

Enhancing our harm prevention activities

Our flagship Incentivising Better Patient Safety program has improved safety for mothers and babies in Victoria's public maternity suites over the past three years. This year we returned $3.9 million in premium refunds to public hospitals.

We're building on the success of our maternity harm prevention programs by expanding into another high-risk area for medical indemnity claims: emergency departments of public hospitals and critical care centres. In a groundbreaking initiative, VMIA partnered with Safer Care Victoria and the Australasian College for Emergency Medicine to develop recommendations for harm prevention measures in the complex, challenging emergency setting.

Evolving into a client-centric, empathetic, learning organisation

Our client satisfaction as measured by our Net Promoter Score remained solid this year, with a rating of +34. At the heart of any organisation is its people, and our employees remained highly engaged with our purpose to build a confident, resilient Victoria through world-leading harm prevention and recovery. We focused on supporting our people during the pandemic so they could continue to serve our clients while remaining connected to each other, and to our organisational culture.

VMIA provides an innovative learning environment to develop hands-on expertise in identifying and managing large-scale, evolving risks facing societies around the world.

We have our sights set on becoming a learning organisation, where our people are supported and encouraged to take up opportunities to develop their skills and make a contribution to our clients, the industry and the public sector more broadly.

Financial results

We're in a period of cyclical change in the insurance market – a 'hardening' – where insurers seek to limit exposure through more restrictive underwriting terms and higher premiums. In response, we continued to deepen our understanding of our clients' risks and maintained strong engagement with the commercial market. Our solutions are focused on creating the best possible risk transfer outcomes for the state.

In 2020-21, investment returns defied expectations. While we experienced increases in our claims, particularly for the domestic building insurance and combined liability portfolios, these were more than offset by investment returns and resulted in an operating surplus of $247.6 million. Our insurance funding ratio was 131% as at 30 June 2021, well within our preferred range of 100–145%.

Acknowledgements

Our clients are central to the purpose of VMIA. They've trusted us to support them during a period when they've been under significant pressure to deliver services supporting Victoria's response and recovery during the COVID-19 pandemic. We're proud of our partnerships across government in helping to reduce harm and improve outcomes for the community, and improve our state's resilience.

While our progress has been worthy of reflection, our eyes are focused on the horizon ahead. We embrace our role as part of the Victorian public sector in encouraging our people to consider being vaccinated for COVID-19, to help achieve the state's target vaccination rates. It supports our aspiration of a future where our clients and people are covered, connected and confident to deal with any challenge.

Elana Rubin AM
Chairperson

Andrew Davies
Chief Executive Officer

Celebrating 25 years

1996

VMIA is created, superseding the Managed Insurance Fund and State Insurance Office. Charged with administering the *Victorian Managed Insurance Authority Act 1996*, VMIA provides a consistent, best practice approach to identifying and managing risks of accidental loss or damage across all Victorian Government departments and participating bodies.

1998

VMIA assumes the insurance and risk management of Victoria's public healthcare agencies, including 250 rural doctors.

1999

The 'Y2K bug' creates anxiety in global business and insurance markets. VMIA provides 'cover to its clients for indirect property losses that may flow, but not for public liability consequences' of the millennium bug.

VMIA assumes certain claim liabilities of the State Electricity Commission of Victoria for pre-1985 workers compensation.

2003

VMIA assumes liability for public health medical indemnity claims, making it one of Australia's largest medical indemnity insurers.

2004

Changes across the insurance sector see a global re-appraisal of the value of risk analysis. As a captive insurer, VMIA acknowledges premiums charged to clients must be competitive and that the best risk management practices in the private and not-for-profit sectors need to be applied to the public sector.

2006

On VMIA's 10th anniversary, Chairperson Adrian Nye declares that "the VMIA 'experiment' can confidently be proclaimed a success".

The service offering is expanded, with 23 new staff onboarded when VMIA assumes responsibility for run-off of the builders warranty claims for the Housing Guarantee Fund Limited, Domestic Building Indemnity Fund and support of Homesafe Equities. VMIA is also responsible for insuring the government's 10,000-vehicle fleet and Rural Ambulance Victoria fleet.

VMIA leads the insurance and risk management strategy for the Commonwealth Games, from the time Melbourne is declared the winning bidder to host the major international sporting event until its conclusion in March 2006.

2021

In our 25 years of operation, VMIA has grown to reflect the state we were created to protect. We have a long and proud history of helping reduce harm and supporting our clients to recover after a loss. Our risk and insurance services are an integral part of enabling Victoria to grow and thrive. We're here to help our state prepare for, and recover from, extraordinary and unprecedented events.

VMIA was established to respond to property, medical negligence, and liability risk. A quarter of a century later, we've adapted to reflect the changing nature of risk. Today, we support clients with the impacts of climate change, cyber attacks and communicable disease – while scanning the horizon for emerging risks.

2008

In partnership with the Department of Human Services and other stakeholders, VMIA launches a patient safety program in public hospitals, focused on early risk identification and mitigation.

2009

Victoria suffers one of the worst natural disasters in our nation's history when the Black Saturday bushfires strike on 7 February. The fires ravage 78 communities, resulting in 173 deaths and extensive damage to property and natural assets. VMIA responds by supporting clients with fast claims resolution, and on-the-ground assessment and support.

2010

The Victorian Government announces that domestic building insurance – mandatory cover for homeowners building and renovating in Victoria – will transition to VMIA. The change is successfully implemented following the exit of private insurers from the market.

The innovative PRractical Obstetric Multi-Professional Training (PROMPT) program is introduced, using simulated obstetric emergency situations to improve the skills, communication and teamwork of obstetricians, midwives and anaesthetists to reduce preventable harm during childbirth.

2011

Unprecedented floods and storms hit Victoria. The once-in-100-year flood and severe hailstorms highlight the true value of Victoria's captive insurance model, with VMIA funding insured losses to state-owned assets without impacting other funding requirements allocated by the state.

2016

VMIA supports major infrastructure projects under the Victorian Government's transformative Big Build program.

The School Councils Insurance Program is expanded with the Department of Education and Training to improve cover to more than 1,000 Victorian public schools.

2019

VMIA develops a five-year strategy, Strategy 2024, to deliver more value to clients and the state.

VMIA hosts the inaugural Global Medical Indemnity Forum, bringing together world-leading experts and insights, as well as a climate change roundtable to progress our work in new and alternative risk transfer solutions to meet the state's insurance needs for this complex issue.

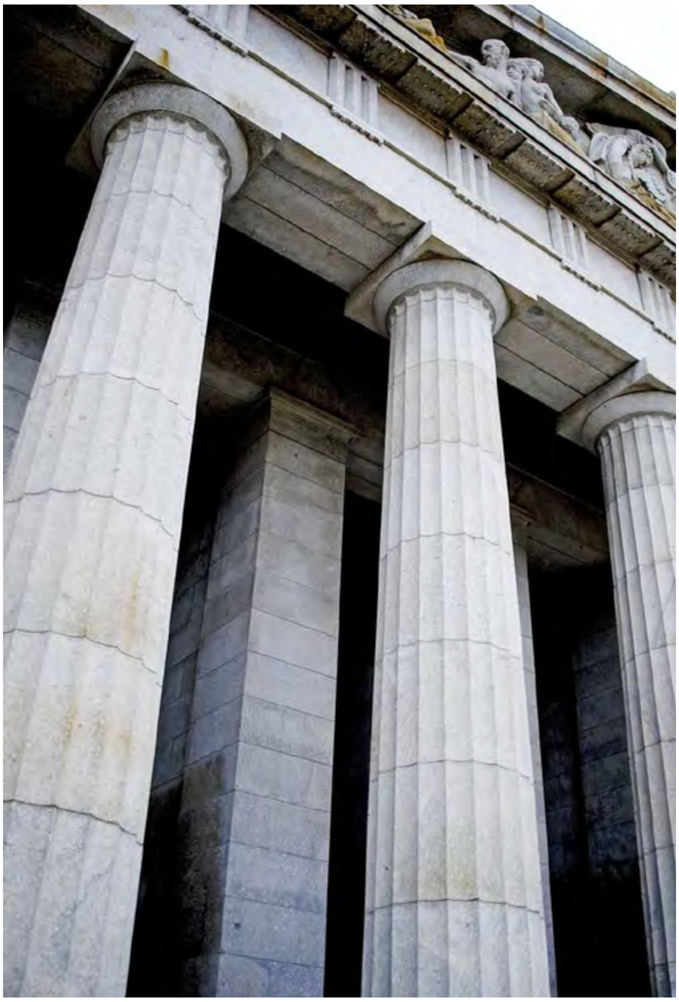
2020

Ferocious bushfires devastate regional communities in what becomes known as Black Summer.

VMIA continues to provide extensive support to clients through the COVID-19 pandemic, particularly those taking on new risks because of changes to the way they work or administer services.

25 YEARS OF VMIA

VMIA in the words of our former Chairs, Directors, CEOs, and long-serving employees.



Michael Guilmartin
Inaugural CEO
1996 – 2006

"When I joined VMIA, there were four staff. We quickly built a reputation as a trusted adviser, and were often given tasks by the Victorian Government. That included taking on the liabilities of the former State Electricity Commission of Victoria, which had significant asbestos risk, and the builders warranty program: domestic building insurance. VMIA brought discipline to calculating and reserving losses, particularly for long-tail liabilities.

We also hired doctors to better understand our medical indemnity portfolio. There were significant claims from obstetric incidents, so we hired two professors from the Royal Australian and New Zealand College of Obstetricians and Gynaecologists, who identified the need for improved fetal monitoring. The College developed a new practice and guidance for this aspect, and VMIA's contribution to this important work is tremendous.

I'm very proud of VMIA's work in improving outcomes in the neonatal setting, and it's pleasing to see this important work continue today."

Ron Farrell
Director
1996 – 2010

"VMIA supports clients who carry out some of the most complex activities in the state, touching nearly every aspect of life and living in Victoria. There was a time when local, not-for-profit organisations such as pony clubs or major tourist attractions like Puffing Billy couldn't get public liability insurance. VMIA advised government on the legislative changes needed and provided interim cover until the commercial market could offer affordable terms again.

A challenge was championing the concept and benefits of risk management. It's important to remember we're trying to protect people and important assets – you want to reduce the risk of a negative event, rather than just buying a policy to cover the loss when it does."

Stephen Manning
Claims Portfolio Manager,
Dust Diseases and Workers Compensation
1996 – present

"Within a day of joining VMIA, I'd met everyone. It was like a family.

I'd worked at the State Insurance Office and QBE, managing the run-off claims for the old workers compensation scheme. Since then, VMIA has taken on the management of public liability asbestos claims for government departments.

VMIA is very much about supporting and helping people. When the new workers compensation scheme, WorkCover, came in, we had almost 40% of the entire workers compensation market in Victoria. The State Insurance Office was regarded as a compassionate and ethical insurer, and I'm proud of how that ethos has continued with VMIA."

As a captive insurer, VMIA can identify inter-departmental risk, manage the downstream impact of that risk, and ultimately get the best outcome for the people of Victoria.

Efy Karagiannis
Chief Officer,
Domestic Building Insurance
2001 – present

"In 2010, private insurers exited the domestic building insurance market, so builders couldn't get this compulsory insurance. Over the past decade, we've improved the way domestic building insurance is distributed, and streamlined the claims process.

Our claims, underwriting and risk teams partner with our clients to help them better understand their risk and how to manage it. We analyse our data to assess and price risk across a diverse range of products for a broad and complex range of risks. In the future, we're looking to harness emerging technology such as artificial intelligence to advance our risk modelling even further."

Steve Marshall
CEO
2006 – 2011

"My time at VMIA was an exciting, energising period of great progress. We began to operate more as a government business entity, with a high-calibre Board supporting the transition. The introduction of geo-spatial asset mapping was a leap forward because it helped our reinsurers understand our risks and how they're dispersed across Victoria.

During the Black Saturday bushfires, we brought Victorian Government departments and agencies together with energy suppliers to resolve losses without protracted, costly litigation. That collaboration meant we got money out to communities quickly, so they could get on with the rebuild.

As a captive insurer, VMIA can identify inter-departmental risk, manage the downstream impact of that risk, and ultimately get the best outcome for the people of Victoria."

Therese Ryan
Director
2012 – 2018

"There was a strong sense of social purpose flowing through our Board, management and the people of VMIA. We all had a role beyond administering claims and maintaining a robust balance sheet. More importantly, we also provided stewardship for the State's assets, educating leaders in the public sector about risk management and shared risk, and guiding improvements in risk maturity. One of my strongest memories of VMIA's purpose in action was the support provided to Numurkah Hospital after the 2012 floods across north-east Victoria, and the work to rebuild it as an improved regional District Health Service in 2015. Events like that demonstrate the true value of a state insurer."

John Peberdy
Chairperson
2012 – 2017

"In a relatively short time, VMIA went from being funded to neutral to a net contributor. Once our operating surplus moved to the top of the upper parameter, the legislation was changed to enable VMIA to pay dividends. Paying dividends was an important way of making a contribution to Victoria beyond providing insurance and risk advice.

We focused on what our clients and the community need, and that requires creativity and innovation. That perspective means VMIA can offer solutions to emerging risks like cyber that the commercial market may not be able to deliver."

Leadership team

By meeting our clients' insurance and risk management needs, we enable them to focus on their core business – delivering services and infrastructure with confidence and certainty.

Board

Elana Rubin AM (Chairperson)
Appointed Chairperson
September 2017

Ross Castle
Appointed June 2019

Jasmine Doak
Appointed March 2018

Claire Keating
Appointed August 2017

Dr Bronwyn King AO
Appointed June 2018

Chris Lovell
Appointed June 2019

Glenn Sedgwick
Appointed November 2019

Executive

Andrew Davies
Chief Executive Officer

Paul Dulfer
Chief Technology Officer

Frieda Esquelin
General Counsel and Corporate Secretary

Efy Karagiannis
Chief Officer – Domestic Building Insurance

Angela Kelly
Chief Insurance Officer

Wayne Kenafacke
Chief Performance Officer

Charlotte Mills
Chief Services Officer and Chief Risk Officer

Sarah Poole
Chief Operating Officer

Strategy 2024

Royal Botanic Gardens

VMIA's five-year strategy, Strategy 2024, was launched in 2018–19. It's been designed to support our clients' ambitions to contribute to a thriving Victoria, and was developed in conjunction with our people, clients, and stakeholders.

In 2020–21, VMIA made headway in the delivery of our new client portal, and continued delivering service and product improvements for our clients. The capability of our people and development of our culture as a learning organisation underpinned these initiatives. By making the most of our unique data and insights, our teams continued to focus on deeper interactions with clients and creating more efficient ways of doing business.

Covered

Part of our role as the State's insurer is to provide contemporary, fit-for-purpose insurance that meets our clients' needs and protects Victoria.

The risks facing our clients are constantly evolving, as is the complexity of the environment in which those risks need to be managed. VMIA has played an important role in providing clients with tailored insurance solutions during the COVID-19 pandemic, supporting the state's measures to manage this unprecedented event.

Using reinsurance is an important part of VMIA's financial management, and the global insurance market is undergoing a significant correction. Several factors are at play, including losses related to COVID-19, more frequent catastrophic and geopolitical events, and the lower interest rate environment. The increasing frequency and severity of natural catastrophes worldwide is impacting the appetite of insurers, and their capacity to take on risk. Insurers have also introduced blanket exclusions for communicable diseases (including COVID-19) and some cyber damage. Overall, we've reached a stage of the market cycle where insurers are more selective on risks. Capacity is being reduced, putting pressure on price where insurers do participate. These conditions have implications for the amount of cover available in the market, and its cost.

We're providing our clients with expert advice and innovative solutions to keep them covered, while also getting the best value.

Supporting Victoria's pandemic response

VMIA continued to support the implementation of Victorian Government programs and measures to slow the spread of COVID-19. We helped clients understand the insurance and risk implications of changes to work arrangements or business operations as a result of COVID-19 restrictions and advised on novel risk and insurance matters such as the operation of Victoria's COVID-19 vaccination clinics by entities including Austin Health, Western Health and Monash Health.

In December 2020, following interim recommendations of the COVID-19 Hotel Quarantine Inquiry, the Victorian Government established a revised quarantine program and a dedicated agency, COVID-19 Quarantine Victoria, to oversee it. We worked closely with the Department of Justice and Community Safety to identify and support the insurable risk requirements for the new program. Our support also included in-house expertise for our clients through employee secondments. Private insurers had begun to exclude cover for communicable disease in many public liability policies as a result of the pandemic. In response, VMIA designed tailored insurance that met the needs of the revised accommodation program.

Reinforcing our role as a trusted partner to the state, we will continue to advise our clients on the most appropriate way of managing the risk and insurance arrangements for these critical programs as their needs evolve.

Designs for the Yarra River Bridge and busway along the North East Link. Image: Victorian Government.

Supporting the State's growth and economic recovery

This year, VMIA expanded its team to support Victoria's Big Build, which is transforming the way Victorians travel on roads and by rail. The Major Projects Infrastructure team supports projects including the Metro Tunnel, Regional Rail Revival, Level Crossing Removal Project, and North East Link, together with upcoming works for the Suburban Rail Loop and the new Melbourne Airport Rail project. In addition, the team advised the Department of Health and the Victorian Health Building Authority on insurance for the construction of the new $1.5 billion Footscray Hospital – the largest ever health infrastructure investment in Victoria. Collectively, these projects are massive in scale and highly complex. In the current insurance environment, our advisory services and risk transfer partnerships demonstrate the value of the state's insurance model.

Our contribution to these and other major infrastructure projects is two-fold:

- We advise on insurance and risk-related issues. This ensures risk transfer considerations and insurance planning are embedded in project planning at the outset. Our far-reaching relationships in the commercial insurance market allow us to connect the state with global expertise to support the development of solid risk transfer strategies.
- We can act as the insurer for major projects. This offering is increasingly in demand as the commercial insurance market cannot always meet the changing needs of our clients. Our inherent agility as the state's insurer and risk adviser means we can think and act innovatively to help solve these challenges.

Globally, construction projects are evolving from traditional 'design and construct' contract models to more collaborative construction models, where risks are shared between government and private partners. The changing nature of large scale commercial construction contracts is driving demand for non-traditional insurance solutions. VMIA has designed tailored insurance solutions to ensure the changing nature of contractual relationships for major construction projects is adequately addressed.

In April 2021, the VMIA Board approved an increase in VMIA's risk retention capacity from $10 million to $20 million for construction classes of insurance, reflecting our increased confidence in the risk management for key projects. This change provides even more opportunity and flexibility to innovate and drive value for money in insurance programs for major infrastructure projects.

Keeping Melbourne moving with the North East Link

David Winkler, North East Link Project

The North East Link is Victoria's largest road project, and VMIA's Major Projects Infrastructure team has provided insurance advisory services since its initial stages.

The project will connect millions of people across Melbourne's north, east and south-east to schools, hospitals, and the city's main airport. The new freeway has been designed to keep everyone moving, with dedicated lanes and green bridges to create open spaces and wetlands.

The Eastern Freeway will be upgraded as part of a connection with Victoria's longest tunnel. The tunnel will connect with the Eastern Freeway, which will undergo significant upgrades to deliver quicker, toll-free trips. North East Link will take trucks off local roads, create 25kms of new walking and cycling paths, make bus travel faster, and introduce two new Yarra River crossings. When it's complete, motorists will be able to travel from Melbourne's east to the airport without stopping at a single traffic light.

"VMIA has been a valued partner of the North East Link Project since its inception. Having a trusted adviser involved from the project's infancy to ensure it has the right insurance arrangements in place is a critical step in delivering this important 'missing link' that will transform the way Victorians commute in the city's north and east."

David Winkler
Commercial Lead – Transaction
North East Link Project
Major Transport Infrastructure Authority

Supporting Victorian homeowners

Since 2010, VMIA has been issuing domestic building insurance (DBI) at the direction of the Victorian Government. This compulsory insurance provides cover for all home building and renovations valued at more than $16,000 that aren't completed or are defective because the builder has died, disappeared or become insolvent.

The building and construction sector is a key contributor to the state's economic growth, employing over 300,000 Victorians. VMIA continues to support the work of the Victorian Government's building reform initiatives to improve the industry's legislative framework.

As a result of Stage 4 restrictions during COVID-19, we revised our approach to inspecting properties and assessing claims to continue operating the DBI program with minimal disruption to homeowners making a claim on their policy.

Innovations included:

- New website functionality to streamline the online contact and claims processes.
- Virtual inspections, where building assessors viewed properties through an app on the homeowner's mobile device. Claims were assessed and completed remotely, reducing cost, saving time, and avoiding travel during COVID-19 restrictions.
- A live chat feature on the website, allowing swift responses to homeowners during peak periods, proved particularly popular. There was a 59% increase in activity since its introduction in October.
- An expanded call centre to manage the higher volume of general enquiries over the past year, where building activity has defied predictions of a downturn.

In 2020-21, we issued 90,337 DBI certificates of insurance (compared to 71,500 certificates in 2019–20). The stimulus provided by government incentives for building and renovation contributed to the increase in activity.

Claims volumes also continued to increase, largely driven by defects arising from multi-unit buildings. Consistent with previous years, common defects included framing and plumbing, particularly the impacts of water damage. In 2020-21, we settled 1,384 claims and made $59 million in payments to Victorian homeowners to help them get back on their feet.

Identifying defects early means they can be rectified sooner, and with lower remediation costs. We share data and insights with organisations such as the Victorian Building Authority to raise awareness and improve consumer outcomes for common defects such as waterproofing and mould.

Tackling cyber risk

With the events of 2020 continuing to change how people work, how businesses transact, and how citizens interact with governments, cyber security has been cemented as a critical worldwide threat. The March 2021 cyber attack in the Victorian health sector, as well as recent attacks on critical infrastructure in other parts of the world, highlight the importance of keeping cyber risk front of mind for senior leaders across the public and private sectors.

VMIA ensures our clients are adequately covered for cyber-related events and informed about this rapidly evolving issue through our insurance solutions, tailored education and engagement initiatives.

Value for money

VMIA consistently delivers insurance products for our clients that offer equal or better value than what is available in the commercial market. This year's benchmarking exercise found our premiums for 2020–21 to be 42% below commercial market premiums on average. In many cases, we also offer clients broader protection than is available in the commercial insurance market.

Connected

With our bolstered capability in integrated data, research and insights, we engaged more deeply with our clients on the issues that matter to them.

Midway through our implementation of Strategy 2024, we continue to see the value that data – collected and presented in a meaningful way – can deliver to our clients. Reliable data helps us better predict losses and support clients to assess their risk and insurance positions, and means we can focus on strategic harm prevention activities to improve community outcomes.

Interactive client reporting

This year, VMIA piloted a new interactive reporting tool for departments and selected health services. The tool gives departments a system-wide view of claims and insurance across their portfolio, with data intelligence features showing trends at a glance. Still in its initial stages, this interactive reporting feature has been co-designed with clients to inform their analysis and decisions.

Enhanced site risk analysis

Each year, VMIA supports clients with a program of site risk surveys. The surveys identify risks at client sites, provide recommendations to reduce potential harm and support maintenance programs. This year we compiled information from completed surveys into a standardised database for a system-wide view of risks across the state.

Better integration

Our focus on improving data efficiency and effectiveness has been bolstered with a strategic data infrastructure platform. This cloud-based system allows better integration of information across a wide range of internal data sources and will enable automatic connection to data hosted by external organisations. The platform will enhance the support we provide to clients, backed up by data and research to better manage risk and coverage, and for targeted harm prevention programs.

Better outcomes for women and babies

VMIA has a long history of investing in harm prevention initiatives to reduce harm to women and babies in the maternity and neonatal setting. Since the introduction of fetal surveillance training in 2004 and PRactical Obstetric Multi-Professional Training (PROMPT) in 2010, fetal death and obstetric claims to VMIA have decreased.

These initiatives, together with neonatal resuscitation, are the foundation of VMIA's Incentivising Better Patient Safety (IBPS) program. The state-wide initiative rewards hospitals for training birth suite clinicians in key areas of risk mitigation in the birth suite. In 2020–21, the program delivered $3.9 million in medical indemnity premium refunds to be reinvested into Victoria's public maternity services.

Due to the Stage 4 COVID-19 restrictions during 2020, health providers paused face-to-face training, one of the fundamental aspects of the IBPS program. To continue delivering the education program, VMIA worked closely with registered training organisations to develop a hybrid model that was delivered online and face-to-face. This ensured the important program continued, improving safety for women and babies in Victorian public maternity services while helping hospitals keep their staff safe during the pandemic.

The depth of our commitment to improving outcomes is further demonstrated in our support of the Maternity Services Education Program. In 2021, we supported the Royal Women's Hospital to create a Centre for Teamwork Excellence in Maternity Emergencies, which aims to:

- adapt PROMPT to an online format suitable for the Victorian context
- develop, map and deliver a flexible, hybrid model of online and face-to-face education to support smaller rural maternity services with multidisciplinary, scenario-based maternity emergency training.

Reducing patient harm in emergency departments

This year, VMIA built on the success of the maternal and neonatal harm prevention program to explore harm reduction in the emergency department and urgent care setting. Joining forces with Safer Care Victoria and the Australasian College for Emergency Medicine, VMIA analysed emergency care practices, claims, and adverse event data to understand causes of harm.

Australasian College for Emergency Medicine Fellow and Emergency Physician Ashish Jaison was seconded to VMIA to provide clinical leadership and insight, collaborating with internal specialists and Steering Committee representatives from metropolitan and regional health services.

The resulting three-year harm prevention strategy and implementation approach for emergency departments will be launched in 2021–22. It's an exciting demonstration of the practical value of VMIA's data and insights, together with industry collaboration. The ultimate beneficiaries will be patients experiencing better health outcomes, clinicians and hospital staff with improved resources and support, and the broader community with enhanced hospital services and facilities from reduced claims and premiums.

Collaboration for positive action

Professor Simon Bell, The University of Melbourne

Organisations and individuals intuitively know that engaged, satisfied employees produce better outcomes. This theory rings true in a research collaboration focusing on engagement and satisfaction among public health workers.

VMIA partnered with Safer Care Victoria, the Victorian Public Sector Commission, Victorian Agency for Health Information and The University of Melbourne on a research project that examined the relationship between staff experience, hospital acquired complications and insurance claims. The study drew on comprehensive data from health service providers over a six-year period to show how workforce engagement correlates with health outcomes.

The research showed a correlation between staff satisfaction and lower hospital-acquired complications. This relationship flowed through to insurance indicators, where lower levels of hospital-acquired complications were linked to faster reporting, as well as fewer reported claims and incidents for some health services.

"By sharing data around state-wide insurance claims, VMIA forged a strong research partnership that allowed us to build a comprehensive, de-identified data set. They were quick to welcome our multi-skilled team from Melbourne University and ensured that all voices and perspectives in the project were heard.

From the start, we felt like we were part of an integrated project team. Our strong collaboration meant we quickly understood that the data were highly valuable for the project and would produce robust insights. VMIA's support has gone beyond the delivery of the research itself, to being vocal supporters of the work and educators around the potential for positive impact across the healthcare sector, and ultimately to the community."

Professor Simon Bell
Head of School
Melbourne School of Professional and Continuing Education
The University of Melbourne

A case study of engagement in action: The Royal Melbourne Hospital

"An engaged healthcare workforce benefits our whole community. Regardless of profession, everyone has a right to feel safe at work - and that includes feeling safe to speak up. We know that people working in psychologically safe healthcare settings are more engaged in their work, and that leads to better care for patients and better outcomes for our community.

At Royal Melbourne Hospital, we're all accountable for living our values and it starts at the top. We're building a culture where the same rules apply across the entire hospital; from 'Board to ward'. While the program is in its early stages, we can already see a positive difference."

Associate Professor Lou Irving
Director
Clinical Training
Royal Melbourne Hospital

In a practical application of increasing healthcare employee engagement, Royal Melbourne Hospital introduced a safety culture program in 2016.

The hospital serves a diverse community of over 550,000 people across Melbourne's north and west, as well as a broader population for specialist services. Established in 1848 as Victoria's first hospital, it employs more than 10,000 staff across 32 sites and almost 500 volunteers. It has been at the forefront of Victoria's COVID-19 health response, and scientists from The Peter Doherty Institute for Infection and Immunity (a joint venture between The University of Melbourne and Royal Melbourne Hospital) were the first in the world to grow the virus in early 2020, and share it with domestic and international research laboratories.

Recognising that major challenges facing today's hospital practice include patient and staff safety, organisational culture and clinical leadership, the hospital introduced its safety culture initiative. The Royal Melbourne Hospital's Executive Director People and Culture, Ellen Flint, said "We have continued to be focused on building a workplace culture where safety, wellbeing and our people are the priority. Recently we reviewed our organisational values and launched these as 'The Melbourne Way', recognising we need to put people first and lead with kindness to achieve excellence together. We continue to support a culture of speaking up through organisation-wide training, a team of safety champions and an anonymous feedback system. We know culture change doesn't happen quickly and we have a long way to go, but these initiatives are important to help achieve our strategic goal to be a great place to work and a great place to receive care."

Associate Professor Lou Irving, The Royal Melbourne Hospital

Connected

A streamlined claims and insurance experience

The initiatives in Strategy 2024 are designed to make it easier for clients to interact with us, giving them control to manage their day-to-day interactions in a more streamlined and efficient way.

All school councils and cemetery trusts, as well as selected agencies, now have access to our secure digital portal, where insurance and claims information are all in one place. With an easy-to-use dashboard, clients can apply for cover, submit a claim, or check claim progress online, at any time that suits them. They can also download detailed policy information, including policy inclusions, limits and certificates of currency.

School council and cemetery trust clients are already actively using the system and lodging claims. The remainder of our clients will have access to the portal in 2021–22, providing important information they need to confidently make risk transfer decisions and seamlessly transact with VMIA.

Aligning our risk services

VMIA's risk advisory teams are designed to reflect the needs of clients, and are segmented into Enterprise, Insurable, and Statewide Risk Advisory teams. Each team has specific and defined skillsets to support the needs of our clients.

Our risk services encompass:

- self-service tools and guidance, including materials supporting our clients to have confidence in attesting to the Victorian Government Risk Management Framework (VGRMF)
- a comprehensive Risk Maturity Benchmark to help clients build their risk maturity
- learning programs covering a range of risk topics
- customised risk advice to:
  - help clients apply risk management concepts and tools to build risk maturity and capability
  - support departments with new business activities or acquisition of physical sites
  - support decisions around Optimum Risk Transfer, insurance and deductible levels.

Client education

We help lift risk capability and literacy across the public sector through education services for our clients.

Our client learning programs were all delivered online for the first time this year, helping develop the understanding, identification and management of risk and related topics. The online sessions had a range of positive benefits, including improved accessibility for regional and rural clients. With a wider cross-section of attendees, ideas and knowledge were shared across our client segments.

In 2020–21, almost 1,000 participants took part in our 68 client learning workshops, which covered the fundamentals of insurance and risk culture, topical areas such as climate change and cyber security, as well as skill development in online facilitation. We also delivered dedicated sessions on the revised VGRMF ahead of its implementation on 1 July 2021. This series helped clients understand the impact of changes to the VGRMF and was well received, with more than 390 attendees across the public sector.

Fostering safer practices in emergency healthcare

VMIA's emergency department harm prevention initiative uses data, expert clinical opinion and best practice literature to understand patient harm in emergency and urgent care centres, and how we can support Victorian health services to improve outcomes. VMIA has partnered with Safer Care Victoria and the Australasian College for Emergency Medicine to deliver the project, drawing on connections between emergency medicine practices, claims, incidents and complaints data. The project has been bolstered with clinical insight from an emergency clinician on secondment to VMIA.

Professor Peter Cameron (Safer Care Victoria) and Associate Professor Carmel Crock (Australasian College for Emergency Medicine)

"VMIA has been crucial in helping to initiate, lead and resource the project. As the state's insurer, VMIA plays a critical role in the health system and has the potential to be the catalyst for change. State insurers are in a uniquely beneficial position where they can reduce premiums according to risks, which they can help manage. This will ultimately benefit healthcare and positively impact the Victorian community.

The partnership has been mutually valuable. VMIA has the data and the expertise to promote improvements in patient safety across the health sector. This initiative is a world first, so it really is a milestone for us."

Professor Peter Cameron
Clinical Lead
Emergency Care Clinical Network
Safer Care Victoria

"Decisions in emergency departments are made under conditions of complexity and uncertainty. As physicians, we need safety nets – that's where this project comes in.

It's a partnership based on trust and communication. The VMIA team is passionate about the project and their dedication to learning from past incidents helps make healthcare as safe as it can possibly be.

This partnership has helped shine a light on how harm occurs in the healthcare system and aims to change that. I'm excited about the possibility of achieving medical excellence at every step of the consultation process in emergency departments."

Associate Professor Carmel Crock
Chair
Quality and Patient Safety Committee
Australasian College for Emergency Medicine

Confident

VMIA is supporting clients across government to understand and complete the benchmark, and identify the steps to satisfy the Australian Cyber Security Centre's 'Essential Eight' control strategies that can reduce up to 85% of cyber events.

We guide our clients to make informed decisions about risk and insurance. We earn their trust and give them confidence to identify risks, measure exposures and assess options to make informed, deliberate risk management and transfer decisions. Our approach is enabled by client insight, risk expertise and technology. VMIA's risk transfer solutions for Victorian Government responses such as the hotel quarantine program demonstrates our innovation and agility to support clients in a changing environment.

Tools to manage shared and state significant risk

Victorian Government agencies identify and contribute to the management of both shared and state significant risks. VMIA works with the Department of Treasury and Finance and Victorian agencies for the management of state significant risks.

Climate change risk management service

In 2020–21, VMIA worked with the Department of Environment, Land, Water and Planning to develop guides and training to embed climate change risk management in planning and decision making.

We held seven climate change workshops for 140 attendees with positive feedback from participants, who felt more confident about climate change in risk management approaches.

Increasing cyber risk awareness and resilience

As our world increasingly relies on technology, the risk and potential consequences of a cyber attack increase. Cyber is regarded as a whole-of-government risk. VMIA partners with the Department of Premier and Cabinet to help identify the cyber risk maturity of individual departments and agencies, as well as contributing to inter-agency efforts to lift cyber resilience and maturity.

This year, VMIA partnered with the new Victorian Government agency, Digital Victoria, to improve cyber security controls. In September 2020, VMIA launched the Victorian Government Cyber Maturity Benchmark in partnership with the Department of Premier and Cabinet's Cyber Safety Unit.

The benchmark brings risk, information and cyber professionals together to assess baseline cyber controls across departments and agencies. It also provides aggregated data that will assist the Cyber Safety Unit and VMIA to understand cyber maturity across government and make informed decisions on improving cyber security and recovery across the state.

The benchmark was initially launched to the Department of Education and Training ahead of a phased rollout to all departments and agencies. Engagement has focused on the concept that cyber security is a business risk that relies on people, culture, process and technology for effective management.

Tackling cyber risk

Brett King, The Gordon Institute of TAFE

The Victorian Government Cyber Maturity Benchmark brings risk, IT and cyber professionals together to assess baseline cyber controls and plan improvements that will protect government services and data.

The Gordon Institute of TAFE in Geelong has been a regional Victorian centre of vocational education, hands-on training, work placements and pathways to university for over 130 years. As a safeguard against frequent cyber attacks in the sector, educational institutions were among the first to participate in the rollout and implementation of the Cyber Maturity Benchmark.

The Gordon Institute of TAFE used VMIA's cyber training material to review and understand the maturity of their baseline cyber controls, and to compare their cyber maturity against a whole-of-government benchmark.

The Victorian Government Chief Information Security Officer recommends organisations implement the tool to prevent cyber incidents, mitigate the damage they cause, and recover more efficiently and effectively.

"The Cyber Maturity Benchmark is designed to heighten knowledge around cyber security. It's been valuable in enhancing the conversation about cyber maturity and prioritising actions within our roadmap. Because of the tool, we now have better communication with management and executive staff, ensuring a more thorough evaluation of cyber preparedness and risk.

Gaining a risk management perspective over our work is extremely helpful – we now better understand where to invest our efforts and resources. We can never be fully protected from cyber dangers, but the tool helps us make sure we cover the most important things first.

VMIA is always willing to help drive improvements in this field. The more prepared we are, the more protected we become, resulting in less risk across the Victorian community."

Brett King
Chief Information Officer
The Gordon Institute of TAFE

Our regular client events give our staff and Directors an opportunity to engage with senior representatives from our client organisations.

Measuring client satisfaction

We strive to develop a deep understanding of our clients so we can provide a tailored, responsive service based on empathy. VMIA uses Net Promoter Score (NPS) to measure client satisfaction with our services, as well as tacit insights captured through client interactions. To measure our overall NPS, we ask clients for feedback on claims, the client learning program, risk workshops and client advice services.

Our overall 12-month rolling NPS for the year was +34. Satisfaction with our claims, client learning, and risk workshops remained strong across the full year. Satisfaction with client advice services was high for the first three quarters, and lower in the June quarter.

In a demonstration of client centricity across VMIA, NPS data is shared in a monthly client experience forum, with improvement opportunities actioned throughout the year.

Our regular client events – which this year included Museums Victoria, the Department of Environment, Land, Water and Planning, and The Alfred Hospital's Emergency Department – provided our staff and Directors an opportunity to engage directly with senior representatives from our client organisations.


Melbourne Museum. Photo: Robert Blackburn.

Preparing for the launch of the revised Victorian Government Risk Management Framework

The revised Victorian Government Risk Management Framework (VGRMF) features an increased emphasis on risk appetite, risk culture and control effectiveness – mandating agencies to proactively work towards minimising their exposure to insurable risk. Our risk teams were involved in the revision of the framework and are well equipped to support our clients to adopt the new requirements.

VMIA worked with the Department of Treasury and Finance to develop guidance materials for clients. In August 2020, we engaged a diverse group of clients to help inform the development and design of the materials.

The updated Risk Maturity Benchmark is a self-assessment tool for Victorian Government departments and agencies to measure their risk maturity and benchmark it against their peers. This year, 89% of Victorian Government agencies completed the self-assessment, with 44% demonstrating an uplift in risk maturity. Since 2017–18, 80% of our clients have improved their risk maturity.

Keeping our health clients informed

In October we launched the first edition of *Safeguard*, our e-newsletter designed specifically for the health sector. Safeguard keeps clients informed on VMIA's harm prevention programs, upcoming training, and development opportunities such as webinars outlining the impact of workplace manslaughter legislation changes that came into effect in July 2020.

Business and operational performance

VMIA's employee value proposition flows from a connection with our purpose, and that of our clients.

The events of the past year cemented VMIA's role in contributing to a thriving Victoria by building a curious and collaborative workforce focused on client outcomes. With regional recovery from 2019-20's Black Summer bushfires still underway, the health, social and economic impact of the COVID-19 pandemic continues to play out in Victoria, nationally, and internationally. With the right people equipped to provide specialist advice when it counts, we continued to support our clients as their needs changed.

This year, our pathway towards an empowered workforce underpinned by an inclusive, diverse, learning culture continued. This benefited our clients by building the expertise of our people with varied and fulfilling work experiences. Our people brought fresh perspectives for continuous improvement across our organisation, positively impacting the way we serve our clients, the management of public sector risk and the social insurance model.

Supporting our clients and people

We proudly continued supporting and serving our clients during the extended period of remote working through COVID-19, and the emergence of adaptive working arrangements aligned with changing health guidance.

Our COVID-19 Steering Committee guided our business response, with staff wellbeing and client centricity remaining our core focus despite changes to the way our services were delivered. The Committee's role included tactical responses to the rapidly-evolving health and economic situation, as well as strategic planning for longer-term business issues. A key objective for VMIA was fostering an environment for innovation, and retaining benefits of the new way of working such as expedited decision-making and rapid response to changes in our clients' operations. In another example of agility, our Domestic Building Insurance team simplified the documentation requirements for claims made during restrictions related to COVID-19.

Maintaining connection and engagement

According to our employee survey in October 2020, an overwhelming majority of staff agreed that they received sufficient information (97%) and support (94%) from VMIA during the pandemic. The accessibility and transparency of VMIA's leaders in communicating how we were adapting our operations was particularly evident: a testament to the connected, engaged culture that's been fostered during the transition to a hybrid working model.

As we transitioned from crisis management to our 'new normal', we followed public health advice while working in a way that best supported our clients, our colleagues and stakeholders. The health and wellbeing of our people and client centricity continued to be key focus areas, with regular support sessions on working and communicating effectively in a hybrid environment, managing outcomes, maintaining productivity and operating in an evolving work environment. Our people kept building connections, fostered cross-divisional learning, and stayed informed about activity from across the business with popular weekly all-staff sessions led by the CEO and featuring a variety of internal and external guests.

As restrictions changed, enhanced technology in our office increased the effectiveness of hybrid interactions. We continued to experiment with our ways of working to build social capital, collaboration and problem-solving. We adapted our client services to support changing priorities, providing product solutions that responded to new scenarios.

Learning and adapting

Our people spent much of the year working remotely or in a hybrid environment, staying focused on keeping our clients covered, connected and confident. Strengthening relationships and improving processes are the hallmarks of our new way of working – whether it's our harm prevention initiatives or our Talent Acquisition area recruiting specialists to provide expert advice to clients.

"Over the past year, we've done the majority of our project remotely, using online collaboration tools to work closely with regional and metropolitan health sector clients. We've held regular steering committee meetings with expert clinical representatives from across Victoria, and hosted online interactive workshops to understand what causes patient harm and what VMIA and our partners can do to help prevent it.

This format has helped our clients contribute in between their clinical responsibilities – especially regional clients. By capturing their perspectives, we've made sure our work delivers benefits for emergency departments and urgent care centres all over Victoria."

Lachlan Crowe
Project Lead
Harm Prevention in the Emergency Department
VMIA

"Living and working through COVID-19 has been challenging for many Victorians. VMIA's genuine care, empathy, understanding and timely communication throughout the pandemic was a fantastic representation of our culture, our values, and our flexible, outcome-focused work environment.

As we've transitioned to hybrid work, I've relished the face-to-face collaboration with my colleagues, supplemented by strong connections during periods of remote work. In my role as Talent Acquisition Business Partner, I'm often the first point of contact with VMIA for prospective employees. Collaborating with hiring managers, conducting interviews in person or remotely, and welcoming new starters through our onboarding process is so rewarding. Recruiting for our learning organisation brings real value for our clients, the public sector, and the whole Victorian community."

Hanita Singh
Business Partner
Talent Acquisition
VMIA

We encourage learning through experiences and professional development. That manifests in our people taking on leadership opportunities or different roles within VMIA, or moving into client organisations.

Our learning organisation

Our people provide risk advice and product solutions that support our clients to respond to some of the biggest challenges facing our society – from natural disasters, cyber security, pandemics and major infrastructure projects to promoting better outcomes in healthcare. It's a unique opportunity for learning across the risk and insurance industry as well as the broader public sector, creating deeper connections with our clients and a shared understanding of best practice in our fields of expertise.

Building skills, sharing knowledge

16 employees were seconded to other roles inside VMIA

5 people took external secondments, including to:

- Department of Premier and Cabinet
- Department of Health
- Department of Jobs, Precincts and Regions

15 employees moved into roles with higher duties

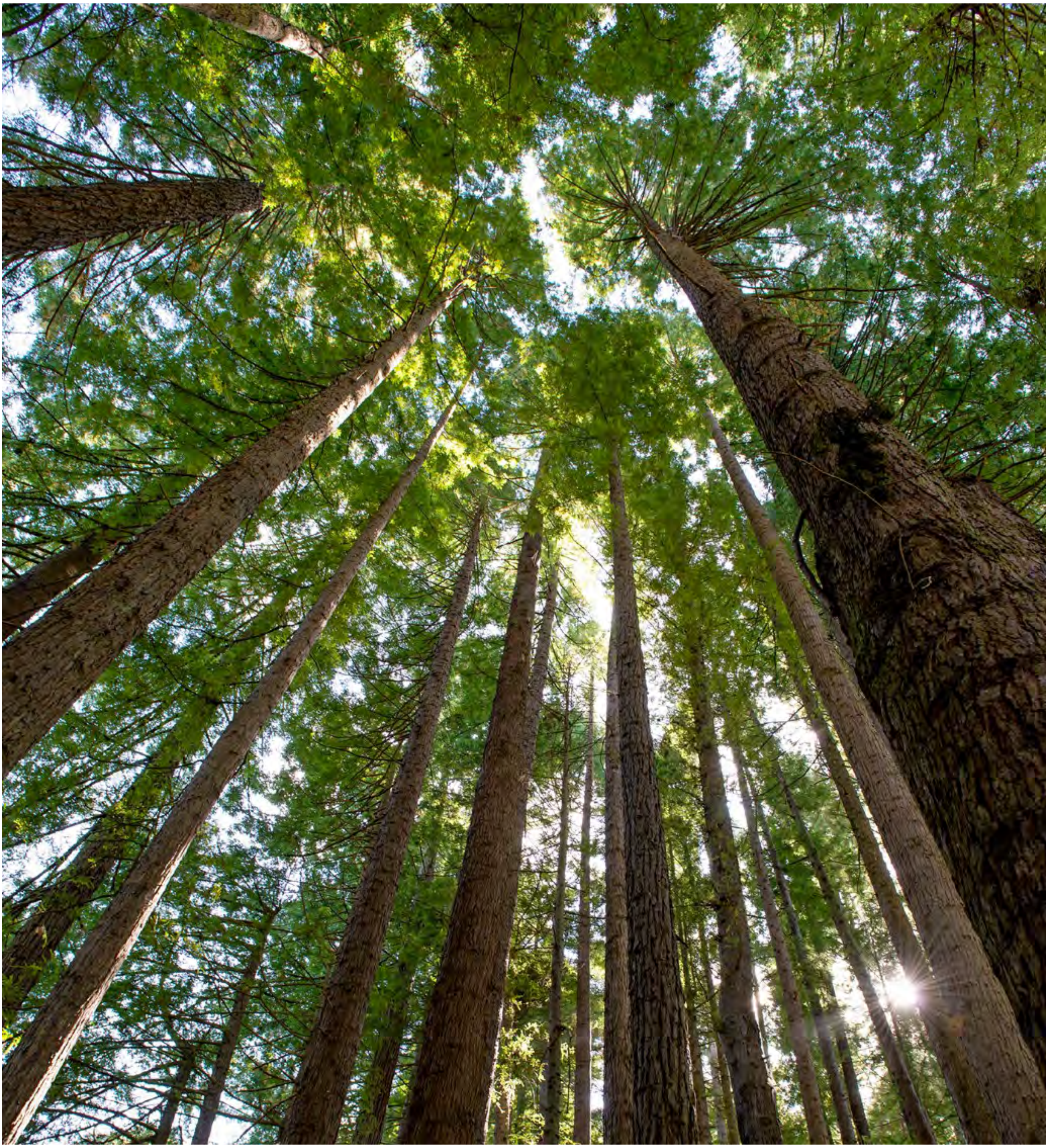
21 people were promoted, of which two-thirds were women

Our **CareerTrackers intern** returned for a second, three-month placement

We welcomed **interns** from the Australasian College of Health Service Management to our Harm Prevention team

A **secondee** from the Victorian Building Authority started with our Domestic Building Insurance division

The first **2 cadets** joined us through the building surveyor career pathways program, a partnership with the Victorian Building Authority and Domestic Building Dispute Resolution Victoria



Beech Forest. Photo: Emily Godfrey.

Attracting diverse skills and experiences

We welcomed a number of secondees to our organisation, including interns through the Australasian College of Health Service Management. This ongoing arrangement sees our harm prevention initiatives benefit from front line, clinical perspectives in disciplines as diverse as emergency medicine, physiotherapy and midwifery. It ensures we deliver practical, relevant solutions that improve outcomes for patients and their families, health services, and our community.

Following the success of our graduate program in recent years, we profiled several recent graduates as part of our ongoing support of the Australian and New Zealand Institute of Insurance and Finance.

The graduates represented VMIA alongside other organisations from the insurance industry at Melbourne's 'The Big Meet' careers fair. Our graduates described their career journey and shared insights about the benefits of early-career professionals considering roles with VMIA and the broader public sector.

Further bolstering VMIA's support for homeowners and the building and construction sector, we welcomed a secondee from the Victorian Building Authority for collaboration on claims, industry reform initiatives, and the domestic consumer protection framework.

Hands-on experience for the next generation of surveyors

Sue Eddy (Victorian Building Authority), Gina Ralston (Domestic Building Dispute Resolution Victoria) and Efy Karagiannis (VMIA)

Building surveyors play an integral role in the building process. They're responsible for ensuring commercial and residential buildings are safe, accessible and energy efficient. However, there's an emerging shortage of building surveyors in Victoria and of those in the profession, nearly half are aged over 50.

In response, VMIA partnered with the Victorian Building Authority and Domestic Building Dispute Resolution Victoria to develop the building surveyor career pathway program. Available to final year students and graduates, the program helps aspiring building surveyors apply their academic knowledge to real life situations.

"Building surveyors play such an important role in the efficient and effective operation of the building industry. They often save homeowners time and money by spotting issues early, before they become a bigger problem. Our graduates have already shown a thirst for learning and have turned their minds to how they can influence positive change in the industry and be exemplary practitioners in the future."

Sue Eddy
Chief Executive Officer
Victorian Building Authority

"It's been wonderful to have the opportunity to collaborate with the Victorian Building Authority and VMIA, and for all three agencies to share our expertise with participants in the program. I'm pleased to be able to provide the graduates with practical technical experience and insights about how to best prevent and resolve disputes as they forge their careers as building surveyors."

Gina Ralston
Chief Resolution Officer
Domestic Building Dispute Resolution Victoria

"I'm proud to give back to the industry by sharing my experience and ideas with our graduates during their rotation. As a provider of domestic building insurance, we protect homeowners and have unique access to insights on the common defects that building surveyors can help prevent as they support homeowners in one of the most important transactions of their life."

Efy Karagiannis
Chief Officer
Domestic Building Insurance
VMIA

Introducing VMIA's career pathway program participants

The career pathway program doubles as a tangible benefit to Victorian homeowners: a thriving surveying industry with skilled practitioners that provide oversight on domestic building work so buildings are safe, accessible and energy efficient. The flow-on effect is confidence in the building and construction industry. Homeowners have certainty that permits, inspections and certificates through the construction process and at a project's conclusion are completed to the highest standard and with a comprehensive knowledge of relevant construction methods, principles and common defects.

Candidates are supported with training, development, and mentoring to develop skills and technical experience aligned to the requirements of registration in the categories of building inspectors and surveyors. They also gain exposure to the operation of the regulatory framework from a variety of different perspectives through internal and external rotations at the three agencies over the 18-month program. The VMIA placement gives candidates on-the-job knowledge of why and how things go wrong in the building process and efficient rectification options, as well as an understanding of related career opportunities. With an overwhelming response of almost 100 applicants in the program's inaugural year, the first six candidates began the program in February 2021.

Rijendra Shrestha and Morris Khouzi

"My dad was a tiler and my uncles were bricklayers, so I grew up around the building industry. I've always loved building, so I followed my passion and studied building surveying. I love watching things take shape: starting at the ground, and working up to a final product – someone's dream home, or a commercial building for a local business.

The career pathway program is an opportunity to network and open doors to talented, experienced people who are helping me understand the bigger picture of building and construction in Victoria."

Morris Khouzi
Building surveyor career pathway program participant

"I was born in Nepal. A lot of the country was destroyed in the 2015 earthquake because most of the buildings weren't built properly. That's when I started to explore the building process, so I could play a small part in keeping people safe through buildings that are properly constructed. Four people in my family have become structural engineers because of that earthquake.

The best part of this program is learning how the industry works – the big picture of regulations, insurance and permits that protect people if things go wrong. Building surveyors have such an important role; it's our responsibility to identify issues during an inspection, so we're keeping the occupant of the building and the general public safe."

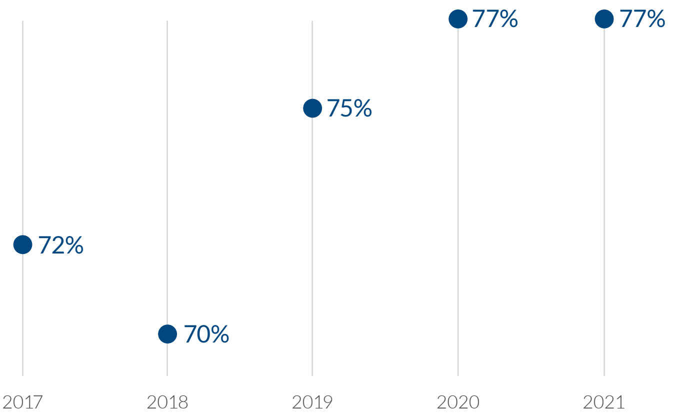
Rijendra Shrestha
Building surveyor career pathway program participant

We continued to better identify, track and report on the value that diversity and inclusion delivers to VMIA, our people, our clients and our broader community.

Our engaged workforce

Maintaining a cohesive, supportive culture was a key priority for VMIA during the year. Our regular surveys measuring employee engagement showed consistently high results. The average engagement score of six surveys conducted over the last three quarters was 7.8, on a rating scale of 0-10. Results for the March and April surveys indicate that our people felt particularly supported by their manager and connected to their work and colleagues, a pleasing result that demonstrated the strength of the culture that was maintained during a period of remote and hybrid working.

The People Matter surveys conducted in October 2020 and May to July 2021 both delivered an overall engagement score of 77%. They were the highest scores on record, up from 75% in 2019.



VMIA's People Matter survey results 2017–2021

Our future workforce

This year, we defined our future workforce plan, identifying the capability and capacity needed to deliver on our business objectives. To support a culture of high performance, client focus and continuous learning, we also developed a new performance and development framework. Each action is a step towards evolving our organisational culture and building the right capability at the right time, so we can continue to provide trusted advice to our clients in the future.

Aunty Bronwyn Razem (Gunditjmara), *Land of the Dreamtime 2019* (detail), painted wood and raffia. From *Camping on Country* at Koorie Heritage Trust. Photo: Christian Capurro

Reflecting our diverse community

VMIA has been focused on fostering diversity and inclusion for some time. This year, we continued to develop ways to better identify, track and report on the value that diversity and inclusion delivers to VMIA, our people, our clients, and our broader community.

We started by articulating the values and behaviours that cultivate a diverse and inclusive culture. Recognising the importance of diverse perspectives across our organisation, we held several in-person and virtual workshops with our people to canvas views about how our values and behaviours would have practical, day-to-day application. Our plan sets out clear focus areas and actions to strengthen that culture and measures to benchmark and track our progress.

Our employee-led LGBTQIA+ working group remained active in fostering a network of allies to promote and support the wellbeing of the LGBTQIA+ community through education and engagement. For the tenth anniversary of *Wear it Purple Day*, we held a staff event to raise awareness for mental health within the LGBTQIA+ community through education and storytelling.

Reconciliation Action Plan: our second year

VMIA is committed to addressing the generational disadvantage experienced by Aboriginal and Torres Strait Islander peoples. Following the launch of our first Reconciliation Action Plan (RAP) in June 2019, we completed our Reflect RAP in May 2021. We recognise our role in promoting the inclusion of Aboriginal and Torres Strait Islander peoples through our RAP and will continue to actively promote and demonstrate diversity and inclusion as part of our culture and our practices.

To date, we've completed 68 of the 69 commitments we made in the Reflect RAP. The completed activities signal an outward commitment to reconciliation with collateral, imagery, physical cues and awareness raising across the organisation. In 2020–21, 17 employees undertook cultural awareness training with the Koorie Heritage Trust, bringing the total to 94% of our people completing the training since the introduction of our first RAP. We look forward to extending our commitment further with our Innovate RAP.

As part of our ongoing partnership with CareerTrackers, we welcomed back University of Melbourne student and proud Yorta Yorta woman Bella Coates for her second internship at VMIA, this time working with our People and Culture team. VMIA is proud to support development opportunities, employment experience and professional networks to Aboriginal and Torres Strait Islander university students through the program.

Gender equality and pay parity

We are well progressed in terms of gender equality and our obligations under the *Gender Equality Act 2020 (Vic)*, having undertaken a gender audit in July 2020 to understand the state and nature of gender equality in our workplace.

The audit results recognised VMIA's continued strong representation of women in leadership roles. It draws on years of solid gender-balanced recruitment practices, a strong stance on negative and unlawful behaviours, a best practice family violence policy, flexible working arrangements and programs to support a transition back to the workplace from parental leave.

Women at VMIA

57% of our Board

63% of our executive

55% of our senior leaders

Our gender audit

The positive audit findings reflect the significant work of the last three years. Our people said:

- **94%** My leader genuinely supports gender equality
- **93%** We have flexibility to manage work and other commitments
- **85%** Having a diverse characteristic is not a barrier to success at VMIA
- **84%** All genders have the same opportunity for promotion

In March we celebrated International Women's Day and Women's History Month with a panel event featuring external speakers from the fields of STEM (science, technology, engineering, and maths) advocacy for women and girls, as well as career strategy. Their perspectives complemented insights from our female leaders, who discussed the role of each individual in moving towards gender equality in the workplace and our broader community. Profiles of women in our workforce were shared throughout the month on our internal and external social media platforms.

Strategies and measures to address the audit findings and promote gender equality at VMIA form part of our new diversity and inclusion plan. Our next gender audit and gender impact assessments are underway, to make sure our policies, programs and services consider the needs of Victorians of all genders.

Pay parity is one measure of gender equality in the workplace. We have continued our commitment to pay parity through the last year, with our overall rolling 12-month pay gap closing from 6.2% in July 2020 to 2.7% in June 2021. Promotions of female leaders from within VMIA and the appointment of experienced senior female leaders from the commercial market reflect the positive activity across the organisation to promote gender equality.

Financial summary

Five year summary of financial results

	2021 $'000	2020 $'000	2019 $'000	2018 $'000	2017 $'000
Total income[1]	965,208	554,526	651,308	664,427	635,077
Less reinsurance, claims, commission and administration expenses	703,744	943,717	758,951	492,087	295,115
Operating surplus/(deficit)	261,465	(389,191)	(107,643)	172,340	339,962
Net cash inflow from operating activities	91,535	167,316	208,980	172,548	198,537
Total assets	3,268,664	2,820,781	2,676,395	2,910,737	2,521,587
Total liabilities	3,282,285	3,081,996	2,548,419	2,267,118	2,050,308
Net assets/(liabilities)	(13,621)	(261,215)	127,976	643,619	471,279

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 insurance funding ratio at 131% as at 30 June 2021. VMIA had an operating surplus of $261.5 million for the 2020-2021 year, an improvement of $442.1 million compared to the budgeted loss of $180.6 million. The variance to budget was mainly driven by:

- high investment returns mainly due to a rebound in equities markets from the prior year
- the deferral of some of the planned capital payments to Government
- higher than expected earned premiums due to one-offs relating to major construction projects, price increases and growth in the domestic building insurance portfolio
- release of unexpired risk liability, reflecting the impact on this liability of pricing revisions.

This was offset partially by higher than expected claims incurred across the Domestic Building Insurance, Professional Indemnity, Liability and Construction portfolios.

Performance from insurance operations

Performance from insurance operations (PFIO) is a financial measure of performance of the State's insurance system that attempts to broadly reflect VMIA's underwriting performance and is heavily influenced by claims volatility. 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 2020-2021, the PFIO result was a loss of $31.2 million against an expected surplus of $2.1 million, with the shortfall driven primarily by the claims experience over the past year.

Key financial performance indicators

	2021	2020	2019	2018	2017
Performance from insurance operations (PFIO)					
Actual ($ million)	(31.2)	(180.1)	(14.7)	96.0	241.0
Budget ($ million)	2.1	34.4	54.7	45.6	8.1
PFIO Combined Ratio	128.8%	177.7%	135.3%	98.9%	55.8%
Insurance Funding Ratio[1]	130.8%	118.6%	144.3%		
Return on Investments (before fees)	17.9%	1.7%	8.4%	10.6%	12.3%
Return on Investments (after fees)	16.9%	1.1%	7.7%	9.8%	11.4%
Return on Assets[2]	(1.0%)	(6.6%)	(0.5%)	3.5%	9.3%
Number of employees at end of year[3]	226	214	191	187	164
Number of full time equivalent employees at end of year (FTE)[3]	217.8	205.8	183.0	180.4	158.3
Gross Premium Written ($ million) [4]	531.9	439.4	371.8	423.7	130.4
Gross Premium Earned ($ million)	485.9	417.6	395.0	385.5	365.4

1. Insurance Funding Ratio came into effect in 2019. 2. Return on Assets is calculated based on the PFIO. 3. 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. 4. 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.

Significant changes in financial position

At 30 June 2021, total assets were higher than the prior year by $447.9 million, primarily due to investment returns over the year. Total liabilities increased by $200.3 million, driven by an increase in gross claims liabilities. During 2020–2021, VMIA generated a net cash inflow of $91.5 million from operating activities. VMIA's equity position increased by $247.6 million to a deficit of $13.6 million at 30 June 2021 as a result of the operating surplus this year.

Subsequent events

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

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 historical summary of its key financial performance indicators in the tables above.

Financial report

The Victorian Managed Insurance Authority (VMIA) presents its audited general purpose financial statements for the financial year ended 30 June 2020 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 2021

	Note	2021 $'000	2020 $'000
Gross premium earned	2.1, 2.7	485,918	417,628
Reinsurance premium incurred	2.7	(56,601)	(52,459)
Increase in unexpired risks liability	2.8(b)	29,098	(71,607)
Net premium earned		458,415	293,562
Gross claims incurred	2.2, 2.3(b)	(571,871)	(756,820)
Reinsurance and other recoveries	2.2, 2.3(b)	17,825	92,572
Net claims incurred	2.2	(554,046)	(664,248)
Commission incurred		(12,050)	(9,684)
Other income		3,513	2,065
Administration expenses	5.1	(48,502)	(45,951)
Underwriting result		(152,670)	(424,256)
Investment income	3.1	457,952	42,261
Investment management expenses		(7,688)	(7,196)
Net investment income		450,264	35,065
Payments to the State		(36,129)	–
Net result		261,465	(389,191)
Comprehensive result		261,465	(389,191)

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

Balance Sheet

As at 30 June 2021

	Note	2021 $'000	2020 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	3.2	53,832	26,334
Trade receivables	2.10	652	3,192
Non-trade receivables		3,918	3,964
Investments	3.3(c)	3,000,276	2,612,588
Total financial assets		**3,058,678**	**2,646,078**
Non-financial assets			
Trade receivables	2.10	26,809	7,220
Non-trade receivables		2,059	997
Prepaid expenses		2,119	926
Furniture, fittings, equipment and motor vehicles		651	828
Intangibles		10,641	2,835
Right-of-use-assets	4.1	11,214	12,961
Deferred acquisition costs	2.8(a), 2.9	-	-
Unearned reinsurance	2.7	53,210	48,742
Reinsurance and other recovery assets	2.3(b) , 2.3(c)	103,283	100,194
Total non-financial assets		**209,986**	**174,703**
Total assets		**3,268,664**	**2,820,781**
LIABILITIES			
Trade payables	2.11	25,949	13,743
Non-trade payables	6.1	13,957	17,249
Derivative liabilities	3.3(c)	21,802	22,494
Provisions		6,302	5,444
Lease liability	4.2	12,279	13,741
Unearned premium	2.7	296,088	250,124
Unexpired risks	2.8(b)	186,925	216,023
Gross claims liabilities	2.3(a), 2.3(b)	2,718,983	2,543,178
Total liabilities		**3,282,285**	**3,081,996**
Net assets		**(13,621)**	**(261,215)**
EQUITY			
Contributed capital		–	13,871
Accumulated surplus/(deficit)		(13,621)	(275,086)
Total equity		**(13,621)**	**(261,215)**

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

Financial statements

Statement of changes in equity

For the financial year ended 30 June 2021

	Note	Contributed capital $'000	Accumulated surplus/(deficit) $'000	Total $'000
Balance at 30 June 2019		**13,871**	**114,105**	**127,976**
Comprehensive result for the year		–	(389,191)	(389,191)
Dividend paid		–	–	–
Balance at 30 June 2020	**7.1**	**13,871**	**(275,086)**	**(261,215)**
Comprehensive result for the year		–	261,465	261,465
Return of capital		(13,871)	–	(13,871)
Balance at 30 June 2021	**7.1**	**–**	**(13,621)**	**(13,621)**

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 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Insurance premium received		620,939	530,482
Other income		3,864	2,271
Reinsurance premium paid		(61,069)	(58,472)
Gross claims paid		(449,059)	(372,546)
Reinsurance and other recoveries received		17,322	24,377
Reimbursement of claims paid on behalf of others		46,742	29,260
Gross commission paid		(11,941)	(8,479)
Payments to employees and suppliers for services and goods		(54,549)	(69,198)
Dividends, distributions and other investment income received	3.1	109,000	153,911
Interest received	3.1	1,694	5,367
Goods and Services Taxation paid		(39,088)	(27,227)
Stamp Duty paid		(56,191)	(42,430)
Payments to the State		(36,129)	–
Net cash inflow from operating activities	**3.2(a)**	**91,535**	**167,316**
Cash flows from investing activities			
Acquisition of furniture, fittings, equipment and motor vehicles		(163)	(133)
Proceeds on disposal of furniture, fittings, equipment and motor vehicles		177	166
Acquisition of intangibles		(8,103)	(2,538)
Acquisition of investments		(2,233,717)	(3,294,214)
Proceeds on disposal of investments		2,193,102	3,123,340
Net cash inflow/(outflow) from investing activities		**(48,704)**	**(173,380)**
Cash flows from financing activities			
Return of capital		(13,871)	–
Lease payments (principal component)		(1,462)	(318)
Cash outflow from financing activities		**(15,333)**	**(318)**
(Decrease)/increase in cash and cash equivalents		27,498	(6,381)
Cash and cash equivalents at beginning of year		26,334	32,715
Cash and cash equivalents at end of year	**3.2**	**53,832**	**26,334**

Notes to the financial statements

1. About this report

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.

VMIA also provides insurance to Community Service Organisations and for Victorian homeowners through Domestic Building Insurance.

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 2021 and the comparative information presented for the year ended 30 June 2021.

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.*

The financial report has been prepared on a going concern basis. While the VMIA recorded negative net assets as at 30 June 2021 of $14 million (2020: negative $261 million) and a net profit at 30 June 2021 of $261 million (2020: loss of $389 million), it delivered positive cash flows from operating activities of $92 million (2020: $167 million). Based on the insurance funding ratio projections remaining within the prescribed range in the following twelve months to the signing of the financial statements, the Directors have concluded that the going concern assumption of the VMIA remains appropriate. The VMIA also has a statutory guarantee with the State of Victoria, refer Note 7.1, however it is not anticipated that this will be needed to be called upon.

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 30 August 2021.

2. Results from insurance operations

Introduction to this section

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:

2.1 Gross premium earned

2.2 Net claims incurred

2.3 Claim liabilities

2.4 Critical actuarial judgements, assumptions and estimates

2.5 Reinsurance program

2.6 Insurance contracts – risk management policies and procedures

2.7 Net unearned premium liability

2.8 Unexpired risks liability

2.9 Deferred acquisition costs

2.10 Trade receivables

2.11 Trade payables

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 building 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 Liability) 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.

Notes to the financial statements

2. Results from insurance operations continued

2.1 Gross premium earned

	Note	2021 $'000	2020 $'000
Gross premium earned			
Domestic building insurance		65,426	62,970
Liability		55,035	46,664
Medical indemnity		193,443	191,391
Property		70,775	55,886
Other		101,239	60,717
Total gross premium earned		**485,918**	**417,628**

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

	2021			2020		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	585,237	18,801	604,038	670,387	36,558	706,945
Discount movement	(27,727)	(10,978)	(38,705)	(14,088)	57,361	43,273
Unallocated claims expenses	6,538	–	6,538	6,602	–	6,602
Total gross claims incurred	**564,048**	**7,823**	**571,871**	**662,901**	**93,919**	**756,820**
Reinsurance and other recoveries						
Undiscounted	(9,565)	(8,432)	(17,997)	(62,818)	(29,665)	(92,483)
Discount movement	136	36	172	480	(569)	(89)
Total reinsurance and other recoveries	**(9,429)**	**(8,396)**	**(17,825)**	**(62,338)**	**(30,234)**	**(92,572)**
Total net claims incurred	**554,619**	**(573)**	**554,046**	**600,563**	**63,685**	**664,248**

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 Claims liabilities

(a) Gross claims liabilities

	2021 $'000	2020 $'000
Undiscounted central estimate	2,287,828	2,099,111
Discount to present value	(107,364)	(68,660)
Discounted value of central estimate	**2,180,464**	**2,030,451**
Claims handling expenses	61,050	63,993
Risk margin	477,469	448,734
Total gross claims liabilities	**2,718,983**	**2,543,178**
Current	539,852	540,978
Non-current	2,179,131	2,002,200
Total gross claims liabilities	**2,718,983**	**2,543,178**

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

	2021			2020		
	Gross $'000	Reinsurance and other recoveries $'000	Net $'000	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
Claims liabilities at beginning of year	**2,543,178**	**(100,194)**	**2,442,984**	**2,106,743**	**(28,302)**	**2,078,441**
Effect of changes in economic assumptions	1,643	(499)	1,144	15,498	(174)	15,324
Effect of changes in other assumptions	(7,559)	(7,599)	(15,158)	55,483	(29,893)	25,590
Effect of claims moving one year closer to settlement	13,739	(298)	13,441	22,938	(167)	22,771
Claims incurred for most recent policy year	564,048	(9,429)	554,619	662,901	(62,338)	600,564
Claims incurred charged/(credited) to income	**571,871**	**(17,825)**	**554,046**	**756,820**	**(92,572)**	**664,248**
Net claim payments during the year	(396,066)	14,736	(381,330)	(320,385)	20,680	(299,705)
Claims liabilities at end of year	**2,718,983**	**(103,283)**	**2,615,700**	**2,543,178**	**(100,194)**	**2,442,984**

2. Results from insurance operations continued

2.3 Claims liabilities continued

(c) Reinsurance and other recovery assets

	2021 $'000	2020 $'000
Reinsurance recoveries in respect of claims liabilities	83,160	81,798
Other recoveries in respect of claims liabilities (undiscounted)	21,266	19,367
Discount to present value	(1,143)	(971)
Total reinsurance and other recovery assets	**103,283**	**100,194**
Current	37,533	34,417
Non-current	65,750	65,777
Total reinsurance and other recovery assets	**103,283**	**100,194**

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 Claims liabilities continued

(d) Net claims development tables

The following tables show the development of net undiscounted claims liabilities relative to the ultimate expected cost of claims for the 10 most recent policy years. As all claims for the Dust Diseases and Workers' Compensation portfolio were incurred prior to these policy years, a modified table has been disclosed for that portfolio.

Domestic building insurance	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	28,783	33,730	41,282	45,577	52,563	64,226	53,697	59,672	68,987	81,980	
One year later	34,447	35,473	36,167	39,879	69,285	59,381	51,686	69,962	66,676		
Two years later	37,103	37,266	35,247	44,170	70,792	72,897	73,239	66,458			
Three years later	36,635	35,545	37,184	49,033	84,479	100,920	78,298				
Four years later	38,341	36,246	40,135	51,207	99,962	110,609					
Five years later	39,283	37,034	38,595	55,277	110,985						
Six years later	39,007	35,393	39,836	56,396							
Seven years later	36,573	36,200	40,166								
Eight years later	35,419	38,030									
Nine years later	36,298										
Current estimate of net claims incurred	**36,298**	**38,030**	**40,166**	**56,396**	**110,985**	**110,609**	**78,298**	**66,458**	**66,676**	**81,980**	**685,896**
Cumulative payments	(35,173)	(34,071)	(31,208)	(36,728)	(75,389)	(63,137)	(33,005)	(20,067)	(2,959)	(389)	(332,126)
Net claims liabilities – undiscounted	**1,125**	**3,959**	**8,958**	**19,668**	**35,596**	**47,472**	**45,293**	**46,391**	**63,717**	**81,591**	**353,770**
2011 and prior years											1,970
Unearned liabilities											(173,414)
Total net claims liabilities – undiscounted											**182,326**
Discount to present value											(2,746)
Claims handling expenses											8,081
Risk margin											44,103
Net claims liabilities at 30 June 2021											**231,764**

Dust diseases and workers' compensation	Total $'000
Nine years previous	682,802
Eight years previous	648,608
Seven years previous	620,617
Six years previous	565,876
Five years previous	533,804
Four years previous	547,545
Three years previous	567,996
Two years previous	518,230
One year previous	510,120
Current estimate of ultimate net claims incurred	**520,930**
Cumulative payments (since 30 June 1999)	(256,587)
Net claims liabilities – undiscounted	**264,343**
Discount to present value	(51,166)
Claims handling expenses	8,527
Risk margin	65,278
Net claims liabilities at 30 June 2021	**286,982**

Notes to the financial statements

2. Results from insurance operations continued

2.3 Claims liabilities continued

(d) Net claims development tables continued

Liability	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	11,555	14,407	18,286	16,245	24,543	11,824	12,124	11,767	30,112	22,029	
One year later	12,042	15,888	17,473	18,494	21,502	9,125	9,466	11,269	33,340		
Two years later	11,345	11,497	18,052	14,355	28,009	7,834	8,457	13,843			
Three years later	4,866	9,068	9,658	11,916	27,595	8,642	15,388				
Four years later	3,819	6,319	8,889	9,754	28,990	11,512					
Five years later	3,072	7,133	8,470	10,084	34,484						
Six years later	2,707	7,373	9,623	10,592							
Seven years later	2,450	6,815	10,020								
Eight years later	2,386	6,675									
Nine years later	2,363										
Current estimate of ultimate net claims incurred	**2,363**	**6,675**	**10,020**	**10,592**	**34,484**	**11,512**	**15,388**	**13,843**	**33,340**	**22,029**	**160,246**
Cumulative payments	(2,295)	(6,508)	(8,256)	(7,772)	(28,563)	(5,963)	(2,655)	(3,615)	(10,507)	(691)	(76,825)
Net claims liabilities – undiscounted	**68**	**167**	**1,764**	**2,820**	**5,921**	**5,549**	**12,733**	**10,228**	**22,833**	**21,338**	**83,421**
2011 and prior years											413
Total net claims liabilities – undiscounted											**83,834**
Discount to present value											(844)
Claims handling expenses											4,274
Risk margin											27,641
Net claims liabilities at 30 June 2021											**114,905**

Medical indemnity	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	197,860	200,994	211,101	194,564	194,232	189,902	195,181	214,474	231,067	260,201	
One year later	170,682	192,272	177,767	178,022	176,145	191,175	203,207	212,998	242,740		
Two years later	163,285	167,130	165,566	145,890	160,011	200,175	206,332	217,291			
Three years later	146,747	149,957	149,170	129,310	147,412	194,972	221,188				
Four years later	112,781	133,266	152,188	143,737	142,970	175,105					
Five years later	99,880	125,426	172,056	145,176	149,766						
Six years later	85,827	117,084	169,079	134,492							
Seven years later	82,524	120,603	169,162								
Eight years later	100,812	128,256									
Nine years later	93,910										
Current estimate of ultimate net claims incurred	**93,910**	**128,256**	**169,162**	**134,492**	**149,766**	**175,105**	**221,188**	**217,291**	**242,740**	**260,201**	**1,792,111**
Cumulative payments	(65,268)	(91,499)	(106,359)	(76,971)	(38,277)	(39,506)	(20,163)	(8,740)	(2,277)	(128)	(449,188)
Net claims liabilities - undiscounted	**28,642**	**36,757**	**62,803**	**57,521**	**111,489**	**135,599**	**201,025**	**208,551**	**240,463**	**260,073**	**1,342,923**
Unearned liabilities											53,515
Total net claims liabilities - undiscounted											**1,396,438**
Discount to present value											(49,955)
Claims handling expenses											27,067
Risk margin											258,438
Net claims liabilities at 30 June 2021											**1,631,988**

2.3 Claims liabilities continued

(d) Net claims development tables continued

Property	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	31,591	10,768	19,505	27,110	8,899	40,331	9,447	27,688	109,131	30,974	
One year later	45,686	9,820	13,105	27,180	10,270	51,358	14,665	24,311	98,259		
Two years later	43,829	4,913	14,151	24,275	10,283	48,066	12,387	24,869			
Three years later	37,075	5,521	13,873	24,290	9,675	43,296	12,021				
Four years later	30,386	5,154	13,837	24,075	9,671	43,488					
Five years later	30,177	5,154	13,822	24,054	9,670						
Six years later	30,177	5,154	13,822	24,062							
Seven years later	30,177	5,154	13,822								
Eight years later	30,177	5,154									
Nine years later	30,177										
Current estimate of ultimate net claims incurred	**30,177**	**5,154**	**13,822**	**24,062**	**9,670**	**43,488**	**12,021**	**24,869**	**98,259**	**30,974**	**292,496**
Cumulative payments	(30,177)	(5,154)	(13,822)	(24,057)	(9,661)	(40,997)	(9,503)	(17,339)	(35,695)	(3,419)	(189,824)
Net claims liabilities – undiscounted	**–**	**–**	**–**	**5**	**9**	**2,491**	**2,518**	**7,530**	**62,564**	**27,555**	**102,672**
2011 and prior years											(554)
Total net claims liabilities – undiscounted											**102,118**
Discount to present value											(403)
Claims handling expenses											5,673
Risk margin											18,843
Net claims liabilities at 30 June 2021											**126,231**

Other	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	11,162	13,400	7,866	13,293	16,318	26,422	27,797	64,082	65,493	87,414	
One year later	15,117	9,583	9,762	9,937	18,330	24,797	30,127	55,360	74,597		
Two years later	14,324	8,538	9,800	10,652	17,678	23,122	25,532	54,538			
Three years later	12,809	7,344	10,962	9,998	17,052	22,475	27,912				
Four years later	12,474	7,055	11,488	9,030	15,934	22,180					
Five years later	12,109	6,989	13,095	9,222	14,030						
Six years later	12,102	7,803	15,077	9,287							
Seven years later	12,136	6,876	14,179								
Eight years later	13,299	7,294									
Nine years later	12,190										
Current estimate of ultimate net claims incurred	**12,190**	**7,294**	**14,179**	**9,287**	**14,030**	**22,180**	**27,912**	**54,538**	**74,597**	**87,414**	**323,621**
Cumulative payments	(11,955)	(6,626)	(13,533)	(8,169)	(12,086)	(18,196)	(11,146)	(51,658)	(13,408)	(22,741)	(169,518)
Net claims liabilities – undiscounted	**235**	**668**	**646**	**1,118**	**1,944**	**3,984**	**16,766**	**2,880**	**61,189**	**64,673**	**154,103**
2011 and prior years											238
Total net claims liabilities – undiscounted											**154,341**
Discount to present value											(1,107)
Claims handling expenses											7,427
Risk margin											63,166
Net claims liabilities at 30 June 2021											**223,827**

Notes to the financial statements

2. Results from insurance operations continued

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. Critical estimates and assumptions for the year ended 30 June 2021 include consideration of the COVID-19 pandemic.

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% (2020: 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 $1.623 million at 30 June 2021, up from $1.545 million at 30 June 2020 to better reflect the emerging experience.

2.4 Critical accounting judgements, assumptions and estimates continued

The following table summarises the main assumptions used by the independent actuary in estimating the net claims liabilities.

Actuarial assumptions	Domestic building insurance	Dust diseases and workers' compensation	Liability	Medical indemnity	Property	Other
2021						
Inflation rate (% p.a.)	2.1	2.7	2.0	2.2	2.0	2.0
Superimposed inflation rate (% p.a.)	–	2.0	–	3.5	–	–
Discount rate (% p.a.)	0.6	1.9	0.4	0.9	0.4	0.4
Weighted average term to settlement (years)	2.9	10.9	3.2	4.0	1.3	2.1
Non–large claims costs for the latest policy year ($ per 1,000 separations)**	–	–	–	66,200	–	–
Ultimate claims ratio (% for the latest policy year)	–	–	60.9	–	–	–
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Directors and Officers for the latest policy year)	–	–	–	–	–	188.4
Large claim frequency for the latest policy year (% per 1,000 separations)**	–	–	–	1.4	–	–
Claim frequency (% of total certificates)	2.0	–	–	–	–	–
Number of incurred but not reported (IBNR) claims	–	749	–	–	–	–
Average claim size ($ per claim at end of year)	50,900	188,000	–	–	–	–
Average claim size for large claims ($ million per claim at end of year)**	–	–	–	2.6	–	–
Claims handling expense (CHE) rate (% of claim payments)*	4.5	4.0	4.0	2.0	4.0	4.0
Risk margin (% p.a.)	23.5	29.4	31.7	18.8	17.5	39.3
2020						
Inflation rate (% p.a.)	1.8	2.3	1.8	1.8	1.8	1.8
Superimposed inflation rate (% p.a.)	–	2.0	–	3.5	–	–
Discount rate (% p.a.)	0.4	1.3	0.4	0.6	0.4	0.4
Weighted average term to settlement (years)	3.0	11.3	3.3	3.9	1.1	2.0
Non–large claims costs for the latest policy year ($ per 1,000 separations)**	–	–	–	60,900	–	–
Ultimate claims ratio (% for the latest policy year)	–	–	111.4	–	–	–
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Directors and Officers for the latest policy year)	–	–	–	–	–	268.3
Large claim frequency for the latest policy year (% per 1,000 separations)**	–	–	–	1.4	–	–
Claim frequency (% of total certificates)	2.0	–	–	–	–	–
Number of incurred but not reported (IBNR) claims	–	811	–	–	–	–
Average claim size ($ per claim at end of year)	49,400	181,000	–	–	–	–
Average claim size for large claims ($ million per claim at end of year)**	–	–	–	2.6	–	–
Claims handling expense (CHE) rate (% of claim payments)*	4.5	7.0	4.0	2.0	4.0	4.0
Risk margin (% p.a.)	23.5	30.3	31.7	20.0	17.5	30.6

* Liability, Property and Other CHE for working claims = 4.0 % (2020: 4.0%) and Property Catastrophe claims = 4.0% (2020: 4.0%)

** The threshold for a large claim has changed from $1.545 million (2020) to $1.623 million (2021).

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 continued

2.4 Critical actuarial judgements, assumptions and estimates

(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 continued

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% (2020: 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% (2020: 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 continued

2.4 Critical actuarial judgements, assumptions and estimates

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 $'000
Inflation rate (% p.a.)	+0.50	2,946	15,365	1,644	14,597	706	2,240
	-0.50	(2,875)	(14,254)	(1,618)	(16,292)	(705)	(2,213)
Superimposed inflation rate (% p.a.)	+0.50	–	13,321	–	14,597	–	–
	-0.50	–	(12,341)	–	(16,292)	–	–
Discount rate (% p.a.)	+0.50	(2,875)	(14,584)	(1,641)	(31,985)	(713)	(2,239)
	-0.50	2,946	15,906	1,686	33,150	722	2,288
Non-large claims costs for the latest policy year ($ per 1,000 certificates)	+10.0	–	–	–	80	–	–
	-10.0	–	–	–	(13,496)	–	–
Ultimate claims ratio (% for the latest policy year)	+20.0	–	–	8,549	–	–	–
	-20.0	–	–	(8,549)	–	–	–
Ultimate claims ratio for long tail classes (% for Professional Indemnity and Directors and Officers for the latest policy year)	+20.0	–	–	–	–	–	3,945
	-20.0	–	–	–	–	–	(3,945)
Large claim frequency for the latest policy year (% per 1,000 separations)	+0.2	–	–	–	9	–	–
	-0.2	–	–	–	(9,393)	–	–
Claim frequency (% of total certificates)	+0.1	11,555	–	–	–	–	–
	-0.1	(11,555)	–	–	–	–	–
Number of incurred but not reported (IBNR) claims	+10.0	–	27,146	–	–	–	–
	-10.0	–	(27,146)	–	–	–	–
Average claim size ($ per claim at end of year)	+10.0	23,176	27,146	–	–	–	–
	-10.0	(23,176)	(27,146)				
Average claim size for large claims ($ million per claim at end of year)	+5.0	–	–	–	10,209	–	–
	-5.0	–	–	–	(11,028)	–	–
Claims handling expense (CHE) rate (% of claim payments)	+1.0	2,218	2,759	1,407	13,788	1,667	2,587
	-1.0	(2,218)	(2,759)	(1,407)	(13,788)	(1,667)	(2,587)
Risk margin (% p.a.)	+1.0	1,877	2,217	873	13,736	1,074	1,607
	-1.0	(1,877)	(2,217)	(873)	(13,736)	(1,074)	(1,607)

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 was established in 1996 as an insurer for State Government Departments, participating bodies and other entities as defined under the *Victorian Managed Insurance Authority Act 1996*. VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other insurances. VMIA also provides domestic building insurance to Victorian residential builders.

VMIA reinsures in the private market up to limits that protect from events with a likelihood of at least 1 in 200 years and considers resinurance on a cost benefit basis beyond that point. The risk of losses above what VMIA reinsurers in the private market is borne by the State.

VMIA also insures the Department of Health for all public sector medical indemnity claims incurred from 1 July 2003. Under a deed of indemnity, that provides stop-loss protection for VMIA, the Department of Treasury and Finance has agreed to reimburse VMIA if the cost of claims for a policy year exceeds the initial estimate, on which the risk premium was based, by more than 20 per cent.

Under a separate deed of indemnity, in relation to claims other than medical indemnity and domestic building insurance, the Department of Treasury and Finance has agreed to reimburse VMIA if the cost of claims for a policy year exceeds the initial estimate, determined by the Appointed Actuary at the end of that policy year, by more than an amount that would result in a 16 per cent drop in VMIA's insurance funding ratio from the midpoint of the preferred funding range.

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.

Notes to the financial statements

2. Results from insurance operations continued

2.6 Insurance contracts — risk management policies and procedures continued

(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

	2021			2020		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Unearned premium liability/(asset) at beginning of year	**250,124**	**(48,742)**	**201,382**	**228,312**	**(42,729)**	**185,583**
Premium written	531,882	(61,069)	470,813	439,440	(58,472)	380,967
Premium (earned)/incurred	(485,918)	56,601	(429,317)	(417,628)	52,459	(365,170)
Unearned premium liability/(asset) at end of year	**296,088**	**(53,210)**	**242,878**	**250,124**	**(48,742)**	**201,381**
Current	135,475	(20,530)	114,945	108,726	(17,111)	91,615
Non-current	160,613	(32,680)	127,933	141,398	(31,631)	109,766
Unearned premium liability/(asset) at end of year	**296,088**	**(53,210)**	**242,878**	**250,124**	**(48,742)**	**201,381**

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	Total $'000
2021						
Net premium liability	166,946	69,264	234,376	60,002	50,244	580,831
Net present value of future policy costs	(177,585)	(72,061)	(274,384)	(61,446)	(42,455)	(627,932)
Risk margin	(41,736)	(22,325)	(54,199)	(10,565)	(11,001)	(139,825)
Gross deferred acquisition costs recognised	(22,931)	–	–	–	–	(22,931)
Gross premium (deficiency)/surplus	**(75,305)**	**(25,122)**	**(94,207)**	**(12,008)**	**(3,213)**	**(209,856)**
Deferred acquisition costs written down	22,931	–	–	–	–	22,931
Net premium deficiency	**(52,375)**	**(25,122)**	**(94,207)**	**(12,008)**	**(3,213)**	**(186,925)**
Deferred acquisition costs recognised in Balance Sheet(i)	–	–	–	–	–	–
2020						
Net premium liability	141,645	46,015	218,489	48,658	48,747	503,554
Net present value of future policy costs	(170,521)	(41,914)	(277,311)	(51,936)	(48,806)	(590,488)
Risk margin	(40,075)	(12,919)	(54,832)	(8,933)	(12,329)	(129,089)
Gross deferred acquisition costs recognised	(22,557)	–	–	–	–	(22,557)
Gross premium (deficiency)/surplus	**(91,509)**	**(8,818)**	**(113,654)**	**(12,212)**	**(12,388)**	**(238,580)**
Deferred acquisition costs written down	22,557	–	–	–	–	22,557
Net premium deficiency	**(68,952)**	**(8,818)**	**(113,654)**	**(12,212)**	**(12,388)**	**(216,023)**
Deferred acquisition costs recognised in Balance Sheet(i)	–	–	–	–	–	–

(i) The decrease in deferred acquisition costs recognised in the Comprehensive Operating Statement during the financial year amounted to Nil (2020: Nil).

(b) Movement in unexpired risks liability

	2021 $'000	2020 $'000
Current		
Unexpired risks liability at beginning of year	**216,023**	**144,416**
Increase/(decrease) in unexpired risks liability	(29,098)	71,607
Unexpired risks liability at end of year	**186,925**	**216,023**

Notes to the financial statements

2. Results from insurance operations continued

2.9 Deferred acquisition costs

Deferred acquisition costs movement:

	Note	2021 $'000	2020 $'000
Deferred acquisition costs at beginning of year		–	–
Acquisition costs deferred		10,856	7,709
Amortisation charged to income		(10,481)	(12,007)
Decrease/(increase) in write down due to premium deficiency		(374)	4,298
Decrease in deferred acquisition costs	2.8(a)	–	–
Deferred acquisition costs at end of year	2.8(a)	–	–

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

	2021 $'000	2020 $'000
Current		
Insurance receivables - non-financial (statutory)	26,809	7,220
Other receivables - financial (contractual)	652	3,192
Total trade receivables	**27,461**	**10,412**

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. $2.806 million of insurance receivables were past due at 30 June 2021 (2020: $1.739 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 2021 (2020: Nil).

No provision for doubtful debts has been raised at 30 June 2021 (2020: Nil) as there is no risk of non-recovery of trade receivables.

2.11 Trade payables

	2021 $'000	2020 $'000
Current		
Trade payables - financial (contractual)	11,839	1,880
Deposits held to meet future claim payments - financial (contractual) (i)	14,110	11,863
Total trade payables	**25,949**	**13,743**

(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

3.2 Cash and cash equivalents

3.3 Investments

3.1 Investment income

	Note	2021 $'000	2020 $'000
Investment income			
Dividends and distributions		109,000	153,911
Interest		1,694	5,367
Fair value movements through income	3.2(a)	347,259	(117,017)
Total investment income		**457,952**	**42,261**

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 2020 or the cost of acquisition (for investments purchased during the year), and sales proceeds or their fair value at 30 June 2021.

3.2 Cash and cash equivalents

	2021 $'000	2020 $'000
Current		
Cash at bank	53,832	26,334
Total cash and cash equivalents	**53,832**	**26,334**

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.

Notes to the financial statements

3. Cash and investments continued

3.2 Cash and cash equivalents continued

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

	Note	2021 $'000	2020 $'000
Net result		**261,465**	**(389,191)**
Profit on disposal of furniture, fittings, equipment and motor vehicles		(30)	(20)
Depreciation		1,939	1,898
Amortisation of intangible assets		297	769
Fair value movements through income	3.1	(347,259)	117,017
Interest credited to clients		(1,562)	190
Change in fair value of investments as a result of outstanding settlements		1,054	2,747
Changes in operating assets and liabilities:			
(Increase)/Decrease in trade receivables		(17,049)	7,221
(Increase)/Decrease in non-trade receivables		(1,016)	(4,244)
(Increase)/Decrease in prepaid expenses		(1,193)	250
(Increase)/Decrease in reinsurance and other assets		(7,557)	(77,906)
Increase/(Decrease) in trade payables		12,206	(25,481)
Increase/(Decrease) in non-trade payables		(3,292)	4,844
Increase/(Decrease) in provisions		858	929
Decrease in lease incentive liability		–	(1,560)
Increase in gross insurance liabilities		192,671	529,854
Net cash inflow from operating activities		**91,535**	**167,316**

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.

(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 2021, 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	2021 $'000	2020 $'000
Australian equities		388,183	314,422
Australian bonds		149,616	121,670
US bonds		89,033	74,372
Emerging market debt		83,330	30,842
Inflation linked bonds		240,791	236,959
Infrastructure		195,973	202,359
International equities		837,552	605,851
Opportunistic		28,959	–
Private credit		132,520	185,099
Insurance investments		4,839	23,786
Hedge funds		213,433	222,675
Private equity		3,426	4,306
Property		180,331	180,958
Short term money market funds		430,487	386,794
Total fair value of investment portfolio at 30 June		**2,978,474**	**2,590,094**
Investments		3,000,276	2,612,588
Derivative liabilities		(21,802)	(22,494)
Total fair value of investment portfolio at 30 June		**2,978,474**	**2,590,094**

Notes to the financial statements

3. Cash and investments continued

3.3 Investments continued

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* 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 8.3 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. Leases

Introduction to this section

This section provides details of the lease assets and liabilities due to the introduction of the new accounting standard AASB 16.

This section contains the following disclosure:

4.1 Right-of-use-assets

4.2 Lease liability

VMIA has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 *Leases and related interpretations* and for lessees removes the operating/finance lease distinction for lessees. The application of AASB 16 results in the recognition of all leases on the Balance Sheet in the form of a right-of-use asset and a corresponding lease liability.

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

VMIA has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

4.1 Right-of-use-assets

	2021 $'000	2020 $'000
Non-current		
Cost	14,696	14,686
Accumulated depreciation	(3,482)	(1,725)
Total right-of-use-asset	**11,214**	**12,961**

4.2 Lease liability

	2021 $'000	2020 $'000
Current	1,605	1,462
Non-current	10,674	12,279
Total lease liability	**12,279**	**13,741**

Notes to the financial statements

5. 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:

5.1 Administration expenses

5.2 Superannuation benefits

5.1 Administration expenses

	2021 $'000	2020 $'000
Staff and related	39,417	36,338
Professional services	3,623	4,149
Information services	4,352	4,285
Client risk management	1,332	861
Strategic risk	801	589
Depreciation and amortisation	2,236	2,667
Other operating	3,279	3,664
Total administration expenses	**55,040**	**52,553**
Less: unallocated claims expenses	(6,538)	(6,602)
Net administration expenses	**48,502**	**45,951**
Total administration expenses include the following:		
Auditor-General's fees	142	142
Operating lease expenditure	1,049	1,120

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.

5.2 Superannuation benefits

VMIA contributes superannuation benefits for employees to defined contribution plans. VMIA does not recognise any defined benefit liability in respect of any defined benefit plans because the entity has no legal or constructive obligation to pay future benefits to any defined benefit plan 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 5.1. There were no superannuation contributions outstanding at 30 June 2021 (2020: Nil).

6. Other liabilities

Introduction to this section

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

6.1 Non-trade payables

6.1 Non-trade payables

	2021 $'000	2020 $'000
Current		
Accruals and other payables - financial (contractual)	4,536	6,995
Outstanding investment settlements - financial (contractual)	–	38
Goods and Services Taxation - non-financial (statutory)	4,852	5,319
Stamp Duty - non-financial (statutory)	4,569	4,897
Total non-trade payables	**13,957**	**17,249**

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.

Notes to the financial statements

7. Equity and capital management

Introduction to this section

This section covers equity and transactions with the State.

This section contains the following disclosure:

7.1 Equity

7.2 Insurance funding ratio

7.1 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. During the period, VMIA repaid $50 million (2020: nil) to the State as directed by the Treasurer, $14 million as a return of Capital and the balance as a payment to the State in the Comprehensive Operating Statement.

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*.

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. No dividend was paid during the financial year ended 30 June 2021 (2020: Nil).

(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 2021 (2020: Nil).

7.2 Insurance funding ratio

VMIA target a funding position where assets available to meet net outstanding claims liabilities are 100% to 145% of the net outstanding claims liabilities (where liabilities are discounted using the long-term investment return objective and include a risk margin that provides a 75% probability of sufficiency). This ratio of modified assets available to meet claims liabilities to modified claims liabilities is referred to as the Insurance Funding Ratio (IFR) and is the measure adopted for capital management purposes.

8. 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:

8.1 Financial risk management

8.2 Offsetting financial assets and financial liabilities

8.3 Fair values

8.1 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% (2020: 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.

	2021 $'000	2020 $'000
Impact on comprehensive result and equity from a movement in equity prices		
Listed investments prices		
Decrease of 15%	(6,325)	810
Increase of 15%	6,325	(810)
Unlisted investments prices		
Decrease of 15%	(389,352)	(318,053)
Increase of 15%	389,352	318,053

8. Financial instruments continued

8.1 Financial risk management continued

(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% (2020: 25%) of international equities exposure and 100% (2020: 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.

The sensitivity analysis below has been determined based on VMIA's exposure to foreign currencies at the Balance Sheet date and a 10% (2020: 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.

	2021 $'000	2020 $'000
Impact on comprehensive result and equity from a movement in foreign exchange rates		
Decrease of 10%	(37,283)	(3,271)
Increase of 10%	30,504	2,677

(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.

8.1 Financial risk management continued

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

		2021			2020		
	Note	Fixed rate $'000	Variable rate $'000	Total $'000	Fixed rate $'000	Variable rate $'000	Total $'000
Financial assets							
Cash and cash equivalents		–	53,832	53,832	–	26,334	26,334
Debt securities	8.1(b)	–	–	–	–	17,828	17,828
Interest rate derivatives		–	–	–	–	–	–
Short term money market funds		73	389,208	389,281	–	400,978	400,978
Financial assets exposed to interest rate risk		**73**	**443,040**	**443,113**	**–**	**445,140**	**445,140**
Financial liabilities							
Interest rate derivatives		586	–	586	77	–	77
Short term money market funds		–	40,716	40,716	–	41,715	41,715
Trade payables(i)	2.11	–	14,110	14,110	–	11,863	11,863
Lease liability		12,279	–	12,279	13,741	–	13,741
Financial liabilities exposed to interest rate risk		**12,865**	**54,826**	**67,691**	**13,818**	**53,578**	**67,396**
Net exposure		**(12,792)**	**388,214**	**375,422**	**(13,818)**	**391,562**	**377,744**

(i) 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.

Notes to the financial statements

8. Financial instruments continued

8.1 Financial risk management continued

(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
2021					
Trade receivables[(i)]	2.10	256	–	396	652
Non-trade receivables		-	–	3,918	3,918
Debt securities	8.1 (a)(iii)	-	–	-	-
Total[(ii)]		**256**	**–**	**4,314**	**4,569**
2020					
Trade receivables[(i)]	2.10	3,112	–	80	3,192
Non-trade receivables		–	–	3,964	3,964
Debt securities	8.1 (a)(iii)	17,828	–	–	17,828
Total[(ii)]		**20,939**	**–**	**4,044**	**24,983**

(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.

8.1 Financial risk management continued

(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
2021					
Financial liabilities					
Financial derivatives	8.2	21,802	–	–	21,802
2020					
Financial liabilities					
Financial derivatives	8.2	22,494	–	–	22,494

All other trade payables and non–trade payables are incurred in the ordinary course of trade and are expected to be settled within 30 days (2020: 30 days).

8.2 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
2021					
Derivative assets		52,574	(2,861)	(40,672)	9,041
Derivative liabilities	3.3(c), 8.1(c)	(21,802)	2,861	1,639	(17,302)
2020					
Derivative assets		109,002	(21,971)	(41,621)	45,409
Derivative liabilities	3.3(c), 8.1(c)	(22,494)	21,971	304	(219)

Notes to the financial statements

8. Financial instruments continued

8.3 Fair values

(a) Measurement of fair values

A number of VMIA's accounting policies and disclosure 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
2021					
Financial assets and financial liabilities					
Cash and cash equivalents	3.2	53,832	–	–	53,832
Trade receivables	2.10	–	652	–	652
Non-trade receivables		–	3,918	–	3,918
Investments and derivative liabilities					
Australian equities	3.3(c)	67	388,116	–	388,183
Australian bonds	3.3(c)	73	149,543	–	149,616
US bonds	3.3(c)	(586)	89,619	–	89,033
Emerging Market Debt	3.3(c)	–	83,330	–	83,330
Inflation linked bonds	3.3(c)	–	240,791	–	240,791
Infrastructure	3.3(c)	–	(3,752)	199,725	195,973
International equities	3.3(c)	(33,792)	871,345	–	837,553
Opportunistic	3.3(c)	–	28,959	–	28,959
Private Credit	3.3(c)	–	(3,744)	136,264	132,520
Insurance investments	3.3(c)	–	(183)	5,022	4,839
Hedge Funds	3.3(c)	–	26,800	186,633	213,433
Private equity	3.3(c)	–	(3)	3,429	3,426
Property	3.3(c)	–	(22)	180,353	180,331
Short term money market funds	3.3(c)	385,739	44,748	–	430,487
Trade payables	2.11	–	(25,949)	–	(25,949)
Non-trade payables	6.1	–	(4,536)	–	(4,536)
Total financial assets and financial liabilities		405,333	1,889,632	711,426	3,006,391

8.3 Fair values continued

	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020					
Financial assets and financial liabilities					
Cash and cash equivalents	3.2	26,334	–	–	26,334
Trade receivables	2.10	–	3,192	–	3,192
Non-trade receivables		–	3,964	–	3,964
Investments and derivative liabilities					
Australian equities	3.3(c)	(80)	314,503	–	314,422
Australian bonds	3.3(c)	14	121,656	–	121,670
US bonds	3.3(c)	–	74,372	–	74,372
Emerging Market Debt	3.3(c)	–	30,842	–	30,842
Inflation linked bonds	3.3(c)	(91)	237,050	–	236,959
Infrastructure	3.3(c)	–	15,622	186,737	202,359
International equities	3.3(c)	(25,459)	631,311	–	605,851
Private Credit	3.3(c)	–	29,593	155,506	185,099
Insurance investments	3.3(c)	–	1,888	21,898	23,786
Hedge Funds	3.3(c)	–	41,156	181,519	222,675
Private equity	3.3(c)	–	21	4,285	4,306
Property	3.3(c)	–	3,486	177,472	180,958
Short term money market funds	3.3(c)	386,794	–	–	386,794
Trade payables	2.11	–	(13,743)	–	(13,743)
Non-trade payables	6.1	(38)	(6,995)	–	(7,033)
Total financial assets and financial liabilities		387,474	1,487,917	727,418	2,602,809

Transfers between fair value hierarchy levels

During the current financial year there were $25.2 million (2020: 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.

8. Financial instruments continued

8.3 Fair values continued

Reconciliation of Level 3 fair value measurements of financial assets

	2021 $'000	2020 $'000
Level 3 fair value hierarchy reconciliation of investments		
Balance at beginning of year	**727,418**	**711,248**
Transfer in	25,198	–
Acquisitions	110,423	186,469
Disposals	(153,177)	(129,619)
Gains on disposal credited to income	3,694	17,183
Gains on changes in fair value	(2,130)	(57,863)
Balance at end of year	**711,426**	**727,418**

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.

8.3 Fair values continued

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.

<table>
<tr><th>Investment class</th><th>Valuation methodologies</th><th>Key inputs and assumptions</th></tr>
<tr><td>Diversified fixed income investments</td><td>Diversified fixed income investments – third party pricing servicers, which source prices from brokers and market makers.</td><td rowspan="2">• 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.</td></tr>
<tr><td>Non-traditional strategies investments</td><td>Prices quoted on an exchange or traded in a dealer market.
Less liquid securities – discounted cash flow, amortised cost, direct comparison and others.</td></tr>
<tr><td>Infrastructure investments</td><td>Discounted cash flow.</td><td>• 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.</td></tr>
<tr><td>Private equity investments</td><td>Multiples of earnings, discounted cash flow, market equivalents and other market accepted methodologies.</td><td rowspan="2">• Risk free discount rate, risk premium.
• Estimated future cash flows.
• Estimated future profits.
• Identification of appropriate comparables.
• Future economic and regulatory conditions.</td></tr>
<tr><td>Property investments</td><td>Discounted cash flow, capitalisation and direct comparison methodologies.</td></tr>
</table>

Notes to the financial statements

9. 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:

9.1 New accounting standards and interpretations

9.2 Commitments and contingencies

9.3 Responsible persons

9.4 Related parties

9.5 Remuneration of VMIA officers with executive responsibility

9.6 Subsequent events

9.1 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 2021.

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 2020, further explanation is provided below. The extent of any impact from other standards with an operative date after 1 January 2020 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 2020-1	Amendments to Australian Accounting Standards – Classifcation of Liabilities as Current or Non-Current	1 January 2023
AASB 17	Insurance Contracts	1 January 2023

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.

9.2 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 2021 (2020: Nil).

Capital commitments

VMIA has uncalled capital commitments in respect of investments totalling $229.500 million as at 30 June 2021 (2020: $250.675 million).

9.3 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:	D. Pearson MP.
Governing Board of Directors:	E. Rubin, J. Doak, C. Keating , B. King, C. Lovell, R. Castle and G. Sedgwick
Accountable Officer:	A. Davies

9.3 Responsible persons continued

(b) Remuneration of responsible persons

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

	2021	2020
Directors		
$10,000–$19,999	–	1
$20,000–$29,999	–	1
$40,000–$49,999	6	5
$90,000–$99,999	1	1
Accountable Officers		
$90,000–$99,999	–	1
$160,000–$169,999	–	1
$290,000–$299,999	–	1
$480,000–$489,999	1	–

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

The Responsible Minister, D. Pearson 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 $889,473 (2020: $854,927).

9.4 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	2021 $'000	2020 $'000
Short term employee benefits	2,931	3,357
Post employment benefits	227	254
Other long term benefits	113	284
Termination benefits	373	–
Total compensation	**3,644**	**3,894**

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 9.5.

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.

Notes to the financial statements

9. Other disclosure continued

9.4 Related parties continued

(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 (2020: 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 $
2021					
Victorian Funds Management Corporation	(150,000)	-	-	-	7,688,338
VicForests	456,167	-	-	-	-
Metropolitan Fire and Emergency Services Board	-	28,626	-	-	-
Yooralla	-	13,772	-	38	-
Judicial Commission of Victoria	20,250	-	-	-	-
Cenitex	127,100	-	-	-	-
Coles	-	-	-	265	-
Telstra Corporation	-	-	-	3,173	-
Total	**453,516**	**42,398**	**-**	**3,477**	**7,688,338**
2020					
State Library of Victoria	568,660	-	-	-	-
Victorian Funds Management Corporation	2,306,136	16,230	-	-	7,195,702
Mirvac Home Builders (Vic) Pty Limited	33,855	-	-	-	-
VicForests	430,892	-	-	-	-
Metropolitan Fire and Emergency Services Board	891,828	1,245,430	-	-	-
Kids Under Cover	2,416	-	-	-	-
Yooralla	-	440,416	-	-	-
Judicial Commission of Victoria	19,000	-	-	-	-
Cenitex	122,575	-	-	-	-
Telstra Corporation	-	-	-	4,168	-
Total	**4,375,362**	**1,702,076**	**-**	**4,168**	**7,195,702**

9.4 Related parties continued

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
J. Doak	Metropolitan Fire and Emergency Services Board	Director	VMIA provides insurance on normal terms and conditions. Resigned as President in July 2020.
	Coles Group	General Manager	VMIA purchases goods on normal terms and conditions.
C. Keating	Yooralla	Director	VMIA provides insurance on normal terms and conditions.
	Australian Super	Director	VMIA contributes superannuation benefits to Australian Super for a number of employees.
	Cenitex	Member of Audit and Risk Committee	VMIA provides insurance on normal terms and conditions.
	Judicial Commission of Victoria	Director	VMIA provides insurance on normal terms and conditions.
E. Rubin	Victorian Funds Management Corporation (VFMC)	Director	VFMC is VMIA's investment manager and receives investment management fees for its services on normal terms and conditions. VMIA provides insurance on normal terms and conditions.
	Telstra Corporation Limited	Director	VMIA contracts for services on normal terms and conditions.
C. Lovell	VicForests	Director	VMIA provides insurance on normal terms and conditions.
R. Castle	CatholicCare	Director	VMIA provides insurance on normal terms and conditions.
	CatholicCare Victoria Limited	Director	VMIA provides insurance on normal terms and conditions.

9.5 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 (2020: 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.

	2021 $'000	20120 $'000
Short term employee benefits	2,100	2,614
Post employment benefits	168	207
Other long term benefits	113	219
Termination benefits	373	–
Total remuneration	**2,755**	**3,039**
Total number of VMIA officers with executive responsibility	**15**	**12**
Total annualised employee equivalent (AEE)	**8.6**	**9.8**

In 2021 no VMIA officer with executive responsibility acted in the Accountable Officer role for part of the financial year (2020: One).

9.6 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 Performance 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 2021 and the financial position of the Victorian Managed Insurance Authority at 30 June 2021.

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 30 August 2021.

Elana Rubin AM Chairperson

Andrew Davies Chief Executive Officer

Wayne Kenafacke Chief Performance Officer

Melbourne
30 August 2021

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 2021 • 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 Chairperson, Chief Executive Officer and Chief Performance Officer. In my opinion the financial report presents fairly, in all material respects, the financial position of the Authority as at 30 June 2021 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements 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.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How I addressed the matter</th></tr>
<tr><td colspan="2">Valuation of investment assets and derivative liabilities

Refer to Note 3.3 of the financial report for the accounting policy associated with the valuation of investment assets and derivative liabilities and Note 8.3 of the financial report for the methods and assumptions applied by management in valuing investment assets and derivative liabilities.</td></tr>
<tr><td>Investment assets: $3.0 billion

Derivative liabilities: $21.8 million

I considered this to be a key audit matter because:
investment assets and derivative liabilities are financially significant
there are several types of investment assets and derivative liabilities with varying observable and unobservable inputs impacting how and when they are valued
sufficient and appropriate audit evidence may not be present for the valuation of some investment assets and derivative liabilities. This includes those with stale investment prices at reporting date and/or those which are subject to significant estimation uncertainty
the performance of financial markets fluctuated over the period impacting the value of investment assets and derivative liabilities
the management of investment assets and derivative liabilities is outsourced to a fund manager and a master custodian
extensive disclosures are required by Australian accounting standards which are critical to the users understanding of the valuation of investment assets and derivative liabilities.
Management engaged an independent assurance auditor to report on the:
description, design and operating effectiveness of controls at the fund manager and master custodian
existence, valuation and rights and obligations of investment assets and derivative liabilities at 30 June.</td><td>My key procedures included:
gaining an understanding of key controls over the outsourced arrangement, and assessing and testing their operating effectiveness
obtaining reports provided by the independent assurance auditor and:
assessing the adequacy of the scope of work agreed between management and the independent assurance auditor
assessing the professional competence and independence of the independent assurance auditor in the context of the engagement
evaluating findings provided in the independent assurance reports
relying on the assurance reports to confirm the description, design and operating effectiveness of controls at the fund manager and master custodian
relying on the assurance reports to confirm the existence, valuation and rights and obligations of investment assets and derivative liabilities at 30 June
assessing the impact of any limitations, disclaimers or exceptions noted in the assurance reports to the audit.
reviewing and assessing the impact of other representations given by the fund manager and master custodian
analysing investment assets and derivative liabilities, in conjunction with management, to identify those where issues may exist in obtaining sufficient and appropriate evidence over their valuation, then obtaining further audit evidence that the value of identified assets and liabilities were materially correct
assessing the completeness and adequacy of financial report disclosures against the requirements of Australian accounting standards.</td></tr>
</table>

Key audit matter	How I addressed the matter
Valuation of gross claims liabilities	
Refer to Note 2.3(a) of the financial report for the accounting policy associated with the valuation of the gross claims liabilities and Note 2.4 of the financial report for the actuarial assumptions and methods applied by management in valuing the liabilities.	
Gross claims liabilities - $2.7 billion I considered this to be a key audit matter because: • the gross claims liabilities are financially significant • the underlying model used to value the liabilities is complex • the valuation of the liabilities is subject to significant management assumptions and estimation uncertainty • a small adjustment to a key assumption may have a significant effect on the total value of the liabilities • extensive disclosures are required by Australian accounting standards which are critical to the users understanding of the valuation of this liability Management engage actuaries to value the liabilities as at 30 June.	My key procedures included: • assessing and testing the operating effectiveness of key controls supporting the underlying claims data used in the model • assessing the completeness and accuracy of the claims data used in the model by reconciling this data to underlying claims data in the insurers systems • obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to: o assess the appropriateness of management's selection and application of the methods, significant assumptions and data used in valuing the liabilities o assess the appropriateness of the model used to value the liabilities o challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks o assess the reasonableness of the reported liabilities value. • assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

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.

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 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.

Auditor's responsibilities for the audit of the financial report (continued)	From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
6 September 2021

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 no Material Compliance Deficiency with respect to the applicable Standing Directions made under the *Financial Management Act 1994* and Instructions.

Elana Rubin AM
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 of VMIA.

Directors are appointed by the Governor in Council on a nomination from 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 2021:

- Claire Keating, Chairperson
- Chris Lovell
- Elana Rubin AM
- Glenn Sedgwick.

The 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 and compliance of those processes with applicable regulatory requirements
- external and internal audit of VMIA.

Capital and Risk Committee

Members as at 30 June 2021:

- Ross Castle, Chairperson
- Claire Keating
- Chris Lovell
- Glenn Sedgwick.

The 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 actuarial processes, risk management framework, practices and systems. The Committee assists the Board in setting VMIA's risk appetite and tolerance levels.

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

Corporate governance and compliance

Remuneration and Capability Committee

Members as at 30 June 2021:

- Jasmine Doak, Chairperson
- Dr Bronwyn King AO
- Elana Rubin AM.

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 AM is a Non-Executive Director of Slater and Gordon. Chris Lovell 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

During the 2020-21 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 appropriate insurance for the periods detailed below:

Domestic Building Insurance (DBI) to domestic builders and people to whom section 137B of the *Building Act 1993* applies for a term of five years with effect from 1 July 2021 to 30 June 2026 (both dates inclusive) where such domestic builders or persons can demonstrate to VMIA's satisfaction that:

- the DBI required is of the type specified in an applicable order as published in the Government Gazette under section 135 of the *Building Act* from time to time
- they comply with the underwriting terms and conditions, including but not limited to conditions relating to premium and security, as determined by VMIA in its absolute discretion.

Declarations of Participating Bodies by the Assistant Treasurer

During the 2020-21 financial year, the Assistant Treasurer made the following declaration under section 4 of the *Victorian Managed Insurance Authority Act 1996:*

Declaration of Participating Body

I, Danny Pearson MP, being the Minister responsible for administering the *Victorian Managed Insurance Authority Act 1996* (the Act), pursuant to section 4(1)(b) of the Act, hereby declare the Veterinary Practitioners Registration Board of Victoria to be a participating body for the purposes of the Act.

This declaration remains valid until revoked.

Dated 17 June 2021
The Hon Danny Pearson MP
Assistant Treasurer

Occupational health and safety

VMIA is committed to the health and safety of our people and visitors. The Work Health and Safety Committee consists of representatives from across VMIA and meets every three months.

VMIA prioritises the health and wellbeing of its people, and implemented a number of new initiatives during 2020–21, including:

- supporting people to use their personal leave for health and wellbeing
- remote working support, in line with the Victorian Public Service
- the annual skin check was offered as a contactless service
- to support the hybrid working model, an additional 20 first aid officers were trained – including in infection control.

These new initiatives were in addition to VMIA's current program, which includes:

Health and wellbeing support

- Training in managing mental health and wellbeing in the workplace
- Mental health and wellbeing programs, including a wellness subsidy
- Flu vaccinations
- An Employee Assistance Program.

Support related to COVID-19

- Special pandemic leave and special pandemic carers leave in line with the Victorian Public Service
- Ergonomic setup support.

Other support offered

- Support for transition through life stages such as parenthood, return to work, and retirement
- Revised principles to support flexible working
- Family violence support, including trained, in-house family violence support officer.

Performance against occupational health and safety management measures

	2020–21	2019–20
Hazards identified	15*	14*
Incidents reported	5	8
Workers Compensation claims	2	2

* Includes employee reported COVID-19 hazards (suspected exposures or risks) or illnesses since January 2020.

All hazards reported in the last two financial years relate to potential exposure of employees to COVID-19. All matters are closed.

All incidents reported this financial year relate to ergonomic issues arising from working from home. Ergonomic assessments were conducted, with adjustments made to employee workstations at home.

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.

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

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 regularly to ensure they comply with legislative requirements and contemporary workplace practices.

Corporate governance and compliance

Workforce data

All employees

	Number (headcount)		FTE	
	2021	2020	2021	2020
Total	**226**	**214**	**217.8**	**205.8**
Women	135	131	129.3	124.6
Men	91	83	88.5	81.2
Self described				
Age				
15–24	5	8	4.6	8.0
25–34	43	49	42.2	47.8
35–44	71	63	67.5	59.3
45–54	64	59	61.9	57.1
55–64	36	28	35.3	27.1
65+	7	7	6.3	6.5

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.

Workforce inclusion policy

Diversity, inclusion, equity and belonging are part of VMIA's culture. We actively advocate for and support diverse groups to create a connected community. VMIA has a target of at least 50% women on its Executive Leadership Team, and is currently exceeding this target, with women comprising 63% of its executive.

VMIA values staff with non-binary gender identities at all levels. VMIA acknowledges that due to historic and current barriers to disclosure of non-binary gender identities, staff may choose not to disclose this information. As a result, targets or quotas are not currently a useful way to promote opportunities for gender diverse staff at all levels.

Compliance with the *Local Jobs First Act 2003*

The *Local Jobs First Act 2003* requires Victorian Government 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 other public sector bodies are required to apply the Local Jobs First – VIPP for all procurement activities valued at $3 million or more in metropolitan Melbourne and for state-wide projects, and $1 million or more for procurement activities based in regional Victoria.

VMIA did not commence or complete any new Local Jobs First applicable projects during 2020–21.

Government advertising expenditure

VMIA did not spend any money on government advertising campaigns during 2020–21.

Information and communication technology expenditure

For the 2020–21 reporting period, VMIA had a total information and communication technology spend of $17.8 million excluding GST. Details are shown below.

Information and communication technology expenditure

Business as usual expenditure (excl GST)	Non-business as usual expenditure (excl GST)	Operational expenditure (excl GST)	Capital expenditure (excl GST)
$7,029,350	$10,759,299	$882,864	$9,876,435

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.

Ongoing

Full-time (headcount)		Part-time (headcount)		FTE	
2021	2020	2021	2020	2021	2020
147	**133**	**24**	**27**	**164.4**	**152.8**
84	78	20	23	99.3	95.3
63	55	4	4	65.1	57.5
3	4	0	0	3.0	4.0
32	31	1	3	32.2	32.8
34	30	12	13	43.1	39.8
47	40	6	6	51.5	44.6
27	24	2	3	28.3	26.1
4	4	3	2	6.3	5.5

Fixed term and casual

Number (headcount)		FTE	
2021	2020	2021	2020
55	**54**	**53.4**	**53.0**
31	30	30.0	29.3
24	24	23.4	23.7
2	4	1.6	4.0
10	15	10.0	15.0
25	20	24.4	19.5
11	13	10.4	12.5
7	1	7.0	1.0
0	0.0	0.0	1.0

Freedom of Information

The *Freedom of Information Act 1982* (**FOI Act**) provides a mechanism for the public to request 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 Victorian 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 VMIA. This includes documents created by VMIA or supplied to VMIA by an external organisation or individual. Information about the type of material produced by VMIA is available at vmia.vic.gov.au under its Freedom of Information Part II Statement.

The FOI Act allows VMIA to refuse access, either fully or partially, to certain documents. 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 third parties, and information provided to VMIA in confidence.

Decisions must be made by VMIA in response to requests made pursuant to the FOI Act as soon as practicable, but within 30 calendar days. The 30-day period may be extended by up to 15 days if VMIA is required to notify and seek the views of third parties, and it is practicable to consult with those third parties. If VMIA refuses to grant access to a document in accordance with the request, defers the provision of access to a document or decides not to waive or reduce the application fee, applicants have the right to seek a review by the Victorian Information Commissioner. An applicant can also make a complaint to the Victorian Information Commissioner if VMIA decides that a document requested under the FOI Act does not exist or could not be located.

Making a request

Freedom of Information requests can be lodged online and an application fee of $29.60 applied from 1 July 2020 to 30 June 2021. Access charges may also be payable for searching and providing access to documents.

Access to documents can also be obtained through a written request to VMIA's Freedom of Information Officer. 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
Email: foi@vmia.vic.gov.au

Freedom of Information statistics

During 2020–21, VMIA received nine freedom of information requests, all from the general public.

VMIA made eight freedom of information decisions during the 12 months ended 30 June 2021. Of those, six decisions were made within the statutory 30-day time period, one decision was made within an extended statutory time period of 30 to 45 days, and and one decision fell outside of the statutory 30-day time period by four days.

The average time taken to finalise requests in 2020–21 was 29 days.

During 2020–21, no requests were subject to an internal review by the Office of the Victorian Information Commissioner.

Corporate governance and compliance

Further information

Further information regarding the operation and scope of the FOI Act can be obtained from the Office of the Victorian Privacy Commissioner at ovic.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.

Compliance with the *Public Interest Disclosure Act 2012*

The *Public Interest Disclosure Act 2012* encourages and assists individuals to make disclosures of improper conduct or detrimental action by public officers and public bodies. The *Public Interest Disclosure Act 2012* provides protection to people who make disclosures in accordance with its provisions and establishes a system for matters to be investigated and action to be taken.

VMIA does not tolerate improper conduct by employees, nor the taking of detrimental action 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.

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 VMIA or any of its employees may be made directly to:

The Independent Broad-based Anti-corruption Commission
Phone: 1300 735 135
Email: info@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*.

Social procurement activities

VMIA is committed to incorporating social procurement practices in its core business and strategic functions by applying the Victorian Government's Social Procurement Framework (Framework). In doing so, VMIA will use its purchasing power to generate social value above and beyond the value of the goods and services it procures.

During the 2020–21 financial year VMIA undertook a range of activities to support the implementation of the Framework and to find opportunities to maximise the takeup of social procurement through its procurement activity.

VMIA focused on a number of the Framework's objectives including:

- opportunities for Victorian Aboriginal and/or Torres Strait Islander peoples
- women's equality and safety
- supporting safe and fair workplaces
- environmentally sustainable outputs.

Social value requirements were applied to a variety of procurement activities across a range of goods and services, including legal services. This resulted in a direct spend by VMIA with social benefit suppliers valued at $29,204 and indirect spend through suppliers that have made social procurement commitments in their procurement contracts valued at $27.44 million. This includes procurement from businesses operated by Victorian Aboriginal and/or Torres Strait Islander peoples.

Office-based environmental impacts

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

- adopting ISO 14001 Environmental Management System guidelines in the development of its environmental policies
- integrating sustainability principles into the design and fitout of office space
- establishing internal procedures to maximise alternative use of redundant stationery and used office equipment
- separating office waste into organic, commingled recyclable and landfill streams
- reducing paper and printer toner use with the widespread adoption by staff of laptops, tablets, smartphones and other digital devices.

Modern Slavery

The Australian Government enacted the *Modern Slavery Act 2018* (Cth) (MS Act) to address modern slavery risks within supply chains. The MS Act covers a range of offences including forced labour, deceptive recruiting, slavery, servitude, debt bondage, human trafficking and offences involving non-citizens working in Australia without the correct visa.

VMIA has committed to the principles of the MS Act through new provisions in supplier contracts requiring suppliers to comply with the MS Act (where applicable), report to VMIA on their supply chain monitoring, and to include a right for VMIA to make enquiries of suppliers about their compliance with the MS Act.

Consultancy expenditure

In 2020–21, there were 11 consultancies where the total fees paid or payable were $10,000 or greater, excluding GST. The total expenditure was $802,301, excluding GST. Details of individual consultancies are outlined below.

Consultant	Purpose of consultancy	Total approved project fee ($ excl GST)	Expenditure 2020–21 ($ excl GST)	Future expenditure ($ excl GST)
Aon Risk Services Australia Limited	Professional Indemnity market assessment	$40,000	$40,000	–
CourtHeath Consulting	Probity advisory services for DBI panel renewal	$31,818	$31,818	–
CourtHeath Consulting	Probity advisory services for internal audit procurement	$20,700	$20,700	–
CourtHeath Consulting	Probity advisory services for loss Assessor, Builder and Restorer panel	$42,000	$19,350	$22,650
CourtHeath Consulting	Procurement work – VGPB requirements	$31,725	$31,725	–
Data Agility Pty Ltd	Knowledge management assessment	$41,932	$41,932	–
Deloitte Consulting Pty Ltd	Scoping research for DBI property search	$49,968	$49,968	–
Elwela Consulting	Harm prevention framework development	$16,200	$16,200	–
Guy Carpenter and Company Pty Ltd	Reinsurance program review	$40,000	$40,000	–
JAMM Consulting Pty Ltd	DBI distributor procurement	$34,169	$34,169	–
KPMG Financial Advisory Services	Business resilience uplift	$49,900	$49,900	–
Landell Consulting	DBI distributor procurement process	$191,533	$191,533	–
Landell Consulting	Probity advisory for reinsurance broker tender	$10,523	$10,523	–
Pricewaterhouse Coopers	Performance development framework review	$175,733	$175,733	–
Pricewaterhouse Coopers	Risk culture review	$28,750	$28,750	–
Regs and Corporate Advisory Pty Ltd	Review – targeting prevalence of mould and condensation	$20,000	$20,000	–

In 2020–21, there were 9 consultancies where the total fees paid or payable were less than $10,000, excluding GST.

Corporate governance and compliance

Asset Management Accountability Framework (AMAF) maturity assessment

The following section summarises the Department of Treasury and Finance's assessment of maturity against the requirements of the Asset Management Accountability Framework (AMAF). The AMAF is a non-prescriptive, devolved accountability model of asset management that requires compliance with 41 mandatory requirements. These requirements can be found on the Department of Treasury and Finance wesite (dtf.vic.gov.au/infrastructure-investment asset-management-accountability-framework).

VMIA's target maturity rating is 'competence', meaning systems and processes are fully in place, consistently applied and meeting AMAF requirements.

Leadership and Accountability (requirements 1–19)

VMIA has met its target maturity level under most requirements in this category. VMIA did not comply with some requirements in the areas of resourcing and skills and allocating asset management responsibility. There is no material non-compliance reported in this category. A plan is in place to improve VMIA's maturity ratings in these areas.

Planning (requirements 20–23)

VMIA has met most of the requirements in this category, but has not met the requirements related to contingency planning. There is no material non-compliance reported in this category. A plan is in place to improve VMIA's maturity rating in these areas.

Acquisition (requirements 24 and 25)

VMIA has met its target maturity level in this category.

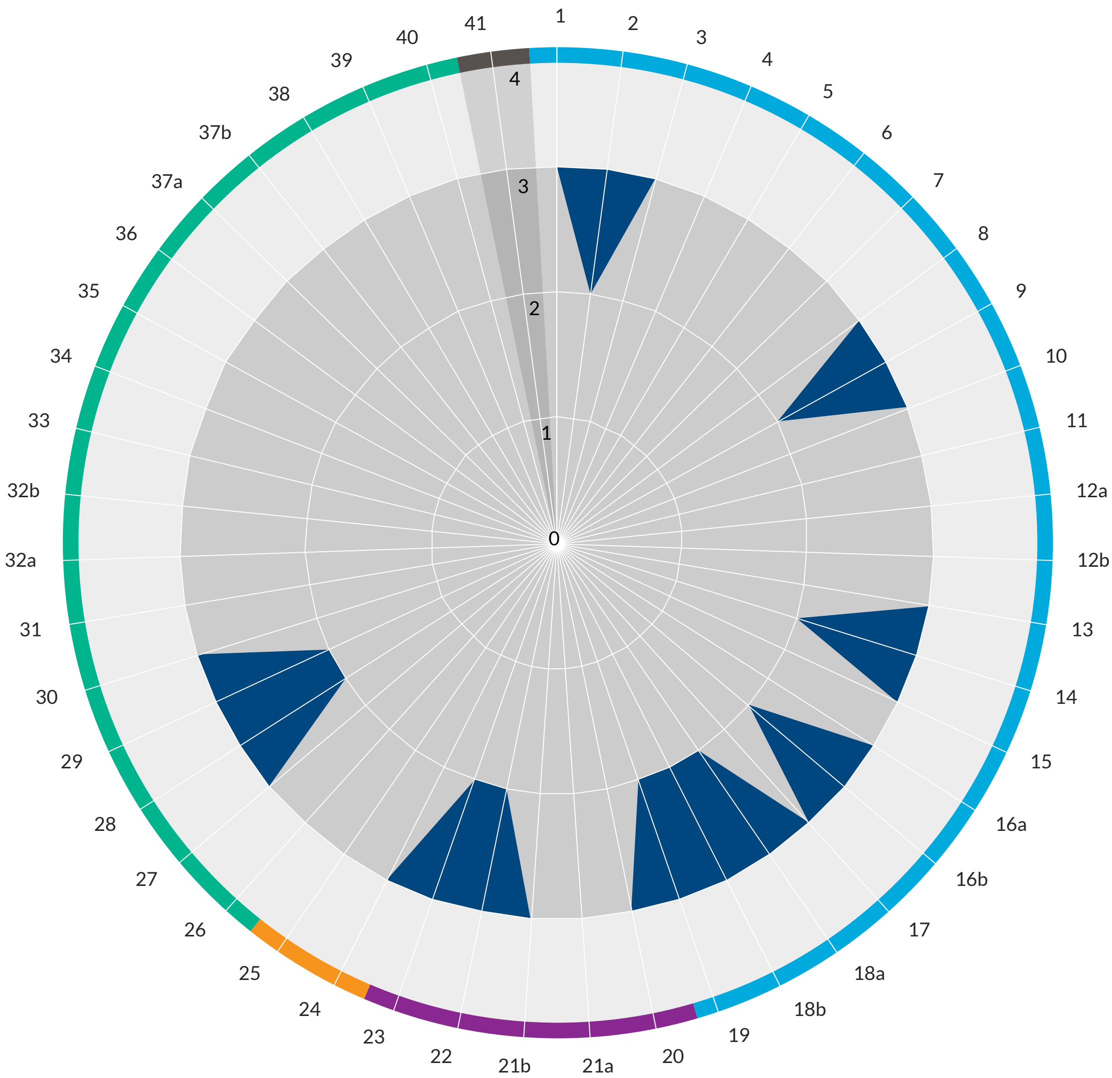
Operation (requirements 26–40)

VMIA has met the target maturity level for most requirements in this category. VMIA did not comply with two requirements in the areas of monitoring and preventative action. There is no material non-compliance reported in this category. A plan is in place to improve VMIA's maturity rating in these areas.

Disposal (requirement 41)

VMIA has met its target maturity level in this category.

VMIA's application of the compliance and rating tool



Asset management maturity

Status	Scale
Not Applicable	N/A
Innocence	0
Awareness	1
Developing	2
Competence	3
Optimising	4
Unassessed	U/A

Target	
Overall	
Overview and key requirements	
Planning	
Acquisition	
Operation	
Disposal	

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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