Victorian Managed Insurance Authority

Supporting Victoria's recovery

vmia

Annual Report 2021-22

VICTORIA State Government

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

Victorian Managed Insurance Authority (VMIA) acknowledges the Traditional Custodians of the land on which we work, and we pay our respects to Elders past, and present. We acknowledge the important contribution that Aboriginal and Torres Strait Islander peoples make in creating a thriving Victoria.

Cover image:

Entrance of the new Arden Station.
Photo courtesy of the Metro Tunnel Project.

Contents

To support Victoria's economic recovery, VMIA worked with the Department of Jobs, Precincts and Regions (DJPR) to design an innovative, Australian first and world-leading COVID-19 Event Insurance product. This provided confidence to Victoria's thriving events industry at a time of uncertainty.

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 them if their builder dies, disappears or becomes insolvent or has failed to comply with a Victorian Civil and Administrative Tribunal (VCAT) order.

As we operate across Victoria's public sector, we're uniquely placed to connect experts and decision makers with world-leading thinking and insights. Our harm prevention initiatives include undertaking and commissioning research, as well as delivering programs that reduce the risk of harm to Victorians. 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 the State's 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.

What we do

VMIA was established to:

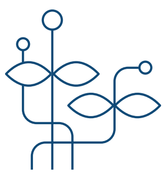
- assist departments and participating bodies to establish programs for the identification, quantification and management of risks
- monitor risk management by departments and participating bodies
- act as insurer for, or provide insurance services to, departments and participating bodies
- provide insurance 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 over $16,000.

Our values

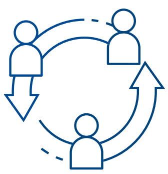
Meaningful interactions

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 success

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

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.

Chairperson’s and CEO’s Report

Bringing confidence in uncertain times

While insurance provides the means to recover after a loss, it’s also a vital ingredient in creating confidence for business and industry to get on with what they need to do – build, create and serve the community. In the context of a rapidly evolving pandemic, this confidence is even more important.

> In the wake of the unprecedented disruption caused by the pandemic, VMIA played an integral role in giving confidence to our clients.

We’re proud of our work to enable the community’s creative, sporting and business events sectors to reignite and rebuild. VMIA, together with Department of Treasury and Finance (DTF) and Department of Jobs, Precincts and Regions (DJPR), designed and implemented an Australian-first COVID-19 Event Insurance. This provided confidence to the events sector covering losses due to COVID-19 restrictions imposed by the State or Federal Government and is testament to the agility of our insurance and risk services.

We also worked closely with Creative Victoria to establish a Fine Art Indemnification Scheme. This government-backed insurance was made available to temporary exhibitions at Victorian public galleries and museums to help attract visitors to regional centres and stimulate economic activity.

While the commercial insurance market continued to impose exclusions for COVID-19, in February VMIA changed our Business Travel Insurance to provide cover for COVID-19 related losses. The enhanced cover means clients can travel for business activities with greater confidence that the financial impact of COVID-19 related travel disruptions will be covered.

Our public health care clients have faced many challenges over the past year, including workforce shortages and increased demand for services. We continued to support our clients to participate in the flagship Incentivising Better Patient Safety (IBPS) program, which financially rewards maternal health services for undertaking evidence-based training to improve safety for women and babies. We reverted to the COVID-safe training criteria for the period 1 July 2021 to 30 June 2022 and amended the list of clinicians required to be trained. It is pleasing that 93% of participating hospitals will successfully pass the IBPS criteria this year. This will return $4.1 million in medical indemnity premiums to be reinvested into Victoria’s public maternity services.

"Insurance is a vital ingredient in creating confidence for our clients, allowing them to get on with what they need to do – build, create and serve the community. This year we adapted our services to respond to the evolving nature of the pandemic and continued to deliver our ambitious Strategy 2024 agenda."

Elana Rubin AM
Chairperson, VMIA Board

"We're proud we've been able to support the State during another challenging year. The achievements outlined in this report are due to the hard work and commitment of all our remarkable and dedicated people. We're deeply appreciative of their efforts and their passion for our clients."

Andrew Davies
Chief Executive Officer

Strategy 2024 vision remains on target

While we adapted our services where needed to respond to the evolving nature of the pandemic, we continued to deliver our ambitious Strategy 2024 agenda.

> A key component of Strategy 2024 was our technology upgrade, providing our clients and staff with an enhanced digital experience. A number of clients are already using our new self-service portal to access documents, submit and monitor progress of claims, and manage their insurance needs online.

Implementing new technology with our clients during a pandemic was challenging, and we continue to support them to make the most of the new platform. We can now capitalise on the portal's substantial data analytics capability to develop deeper risk insights for our clients and the State.

Responding to challenges in the home building sector

Our domestic building insurance division supported homeowners impacted by the collapse of builders who became insolvent during the year. This included the Privium Group's insolvency, which left over 200 homeowners across Victoria with incomplete homes.

VMIA continues to work with the Victorian Building Authority and Consumer Affairs Victoria to improve consumer protection. We also continued to support the work being done by the Expert Panel on Building Reform led by the Commissioner for Better Regulation.

We provided insights to our interstate counterparts and continue to identify lead indicators of risk relating to building defects to inform harm prevention initiatives in the sector.

Providing value for money for the State in a challenging insurance market context

A significant part of our risk work has focused on ensuring clients have a portfolio of insurance and claims management solutions that better match the risk profile and risk appetite of their organisation. In 2021-22, VMIA used the strength of its balance sheet to absorb reinsurance risk to optimise risk coverage across various portfolios, resulting in more than $65 million in cumulative future risk reduction for the State.

Our annual independent benchmark found that our insurance policies continued to be excellent value for money when compared with the commercial market in terms of coverage and premiums. We're able to provide insurance where the commercial insurance market cannot.

Globally, the commercial insurance market continued to take on less risk at higher premiums. As the world navigates an uncertain environmental, economic and geopolitical climate, operating conditions of the commercial insurance markets are expected to remain difficult for some time. Risks such as climate change and cyber security present particular challenges given their scale and unpredictability. VMIA continues to scan the market for trends and opportunities for creative insurance solutions to meet the needs of our clients and the State.

Tackling cyber risk maturity

We continued to work across whole-of-government to support the public sector in building its resilience to cyber risk. We partnered with the Department of Premier and Cabinet's Cyber Security Unit to deliver the second year of the Cyber Maturity Benchmark; an annual measure of maturity across the Victorian Government. We also developed a new Health Sector Cyber Security Assessment in partnership with Digital Health and Department of Health for Victorian public health and community health services to measure their cyber risk maturity and formulate an action plan.

Securing insurance for Victoria's Big Build

Victoria's major infrastructure program continues at pace and VMIA has continued to play an important role providing advice and insurance solutions for the State's $90 billion major infrastructure Big Build program. These are complex projects that will transform the way Victorians live and work. This year, we have bolstered our already strong construction insurance internal expertise, as our clients increasingly turn to us for sophisticated risk and insurance solutions for progressive stages of these projects. This includes being there for the State when the commercial insurance market cannot provide the cover required or offer the best value for money.

Strategic harm prevention

We are building on our past successes with harm prevention. This year we finalised our Harm Prevention Investment Framework, which outlines guiding principles for future harm prevention activities. This will mean investment is geared toward activities that are evidence-based and designed to reduce harm to the Victorian community. Our objective is to lower our clients' exposure to losses, minimise risks and harm, and reduce claims.

Image courtesy Metro Tunnel Project

Embracing hybrid work and a learning culture

We recognise the value of giving individuals the opportunity to work flexibly, as well as embracing the connection and collaboration that occurs when working together in a physical space. Our culture of “bring your whole self to work” has been critical to the success of this. Our people with caring and other responsibilities were encouraged to raise these with their leaders, so they could work together on mutually beneficial solutions.

> We are engaging employees to refine our hybrid working model to ensure our learning culture continues to thrive.

We continued our commitment as a learning organisation through the launch of the new leadership development program for our senior leaders and the implementation of our new performance development framework. This is part of a bigger learning goal to provide our people with opportunities for exposure to broad commercial business principles.

We also continued to encourage and support opportunities for inbound and outbound secondments with our clients. Secondments are an important part of developing our people while supporting our clients with specialist expertise when they need it most.

Chairperson's and CEO's Report

Financial results

The insurance market has continued to tighten with a number of categories seeing increasing claims both for VMIA and the broader market, while investment markets were volatile with significant falls in the second half of the year. This resulted in an operating deficit for the 2021-2022 year, predominantly due to lower investment returns, a result of the impact on global markets of inflationary pressures and war in Ukraine, as well as higher than expected claims across a range of portfolios.

Acknowledgements

It's important to acknowledge that many of our clients provide services to the Victorian community that have been critical during the pandemic. These essential services include emergency services, public health services, community service organisations (CSOs), and education providers, as well as builder restorers. We join the whole Victorian community in thanking everyone who worked on the front line of the COVID-19 response, which provide much-needed services and support during periods of great uncertainty and high pressure.

While there remain challenges ahead for us all, we are confident that we head into the future with the benefit of insight, agility and adaptability acquired during a truly historic period. We thank our clients and government partners for collaborating with us in new ways. An enduring legacy of this period is no doubt that teamwork, a shared purpose, and commitment to finding solutions to complex problems will help to achieve our vision of building a confident, resilient Victoria.

Finally, we thank the people at VMIA for their enthusiasm in embracing the challenges of our time, being adaptable to change – both within and external to our organisation, and for embracing the vision of VMIA's Strategy 2024 to ensure our clients are covered, connected and confident, now and in the future. The achievements we have outlined could not have occurred without the hard work and commitment of our team. We are profoundly grateful of their ongoing commitment to supporting our clients.

Elana Rubin AM
Chairperson

Andrew Davies
Chief Executive Officer

Leadership team

Board

Elana Rubin AM (Chairperson)
Appointed in November 2016
Appointed as Chair in September 2017
Reappointed in November 2019

Ross Castle
Appointed in June 2019
Reappointed in June 2022

Jasmine Doak
Appointed in March 2018
Reappointed in March 2021

Claire Keating
Appointed in August 2017
Reappointed in August 2020

Dr Bronwyn King AO
Appointed in June 2018
Reappointed in June 2021

Chris Lovell
Appointed in June 2019
Reappointed on June 2022

Glenn Sedgwick
Appointed November 2019

Executive

Andrew Davies
Chief Executive Officer

Paul Dulfer
Chief Technology Officer, Information Technology

Efy Karagiannis
Chief Officer, Domestic Building Insurance

Frieda Esquelin
Chief Operating Officer & Corporate Secretary, Business Operations

Angela Kelly
Chief Insurance Officer, Insurance Services

Wayne Kenafacke
Chief Performance Officer, Business Performance

Charlotte Mills
Chief Services Officer, Chief Risk Officer

Letter from the Chairperson to the Minister

29 August 2022

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 2021 to 30 June 2022, in accordance with the *Financial Management Act 1994*.

Yours sincerely

Elana Rubin AM
Chairperson, VMIA Board

2021-2022 at a glance

Protected Victoria's assets

$224b

We insured $224 billion in public assets.

Reduced future risk

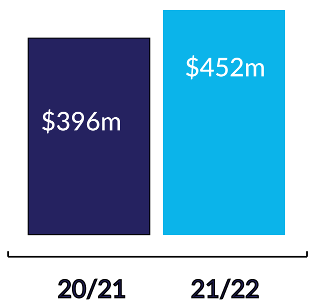
$65m

in cumulative future risk reductions for the State by optimising clients' insurance programs and providing innovative insurance solutions.

Covered our clients

$452m

We paid $452 million in claims, an increase from $396 million in 2020-21.



We issued **COVID-19 Event Insurance** for 654 event days between 17 December 2021 and 30 June 2022, with $9.3 million in claims paid, resolved within 21 days (on average).

Supported Victorian homeowners

We issued

82798

domestic building insurance certificates, with

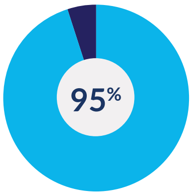
2004

claims settled

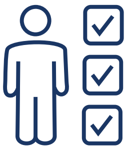
$77.1m

in payments.

Enhanced risk maturity in the public sector



95% of Victorian Government agencies completed the **Risk maturity benchmark** self-assessment survey.

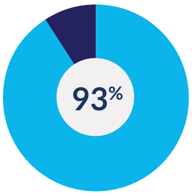


50 VMIA clients were provided with comprehensive and tailored risk related services.

167 Victorian Government organisations completed an **Essential 8** cyber maturity assessment.

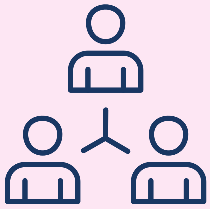
60 client learning workshops or over 1,000 attendees lifting risk capability across the public sector.

Health services



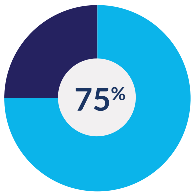
93% of Victorian public maternity services attested to the **Incentivising Better Patient Safety program,**

resulting in **$4.1 million** in premium refunds to public maternity health services.



Maintained our strong culture and engaged workforce

High levels of employee engagement at pulse survey results – 7.5 on a 0-10 scale.



Victorian Public Sector Commission Survey – People matter results 75% engagement.

Development of the Innovate Reconciliation Action Plan.

"The affordable insurance policy we purchased from VMIA for our All-Ages Tour allowed us options for flexibility in the event of changes to COVID-19 restrictions. This gave us the confidence to proceed with the events, despite the uncertain times. Some of our events were affected by a reduced capacity, but making claims and payments were quick and easy. We would have had to cancel the tour without the assurances this policy provided us – meaning thousands of young people would have missed out on the opportunity to connect with their communities and participate in live music."

Kate Duncan
CEO, The Push

Covered

Insurance is one of the critical enablers for Victoria's economy, growth and prosperity. As the State's insurer, VMIA plays an important role in helping to protect the State's financial interests by advising on fit-for-purpose insurance cover for a range of complex risks, spanning fine arts, major infrastructure projects, public health and other services.

We also provide mandatory cover for builders undertaking home building or renovation works, helping to keep this critical part of Victoria's economy going. In a time of great uncertainty – as we have experienced during the pandemic – VMIA has stood shoulder to shoulder with our clients. We've listened to them and provided insurance solutions that met their needs and risk appetite. In a challenging insurance market, we've consulted with clients and partnered with international reinsurers to insure some of the largest infrastructure projects in the southern hemisphere, which are transforming our State's roads and rail services.

Supporting the State's economic recovery

VMIA continued to support the State during the lockdowns implemented to reduce the spread of COVID-19. We provided insurance and risk advice to support Victoria's vaccination rollout and the planning and implementation of the Victorian Quarantine Hub.

Restrictions eased in late October 2021, and at the request of the Assistant Treasurer, VMIA worked closely with the DTF and our clients to identify the risk and insurance aspects of the re-opening. To support the State's economic recovery, VMIA worked with the Department of Jobs, Precincts and Regions (DJPR) to design an innovative, Australian first and world-leading COVID-19 Event Insurance.

VMIA's COVID-19 Event Insurance provides cover for Victorian creative, business, sporting and community events that have to be cancelled or run at reduced capacity due to government issued pandemic orders. It became available to purchase from 15 December 2021, for events between 31 December 2021 and 31 December 2022 where the expected revenue or cost for the event is between $20,000 and $10 million.

The insurance gives Victoria's event industry confidence to plan for the future. We issued COVID-19 Event Insurance for 654 event days between 17 December 2021 and 30 June 2022, with $9.3 million in claims paid.

In February we changed our Business Travel Insurance to provide cover for COVID-19 related losses. The enhanced cover means clients can travel for business with greater confidence, knowing that the financial impact of COVID-19 related travel disruptions will be covered.

To lift confidence for event organisers in regional centres, VMIA worked closely with Creative Victoria to establish the Fine Art Indemnification Scheme. The scheme provides government-backed insurance for temporary exhibitions at Victorian public galleries and museums, attracting visitors and stimulating economic activity in the regions.

We're also proud to have supported the State's response during the pandemic, particularly given the surging health demand, through private public hospital arrangements.


Lin Onus: The Land Within, installation view, 2021, Shepparton Art Museum.
Photo: Cam Matheson

"The Fine Arts Indemnification Scheme offers security and peace of mind when developing and delivering world-class exhibitions. Thanks to Creative Victoria and VMIA providing robust insurance solutions for regional museums and galleries through the scheme, Shepparton Art Museum was able to present an important and historic exhibition "Lin Onus: The Land Within" to regional audiences as the inaugural exhibition in our new museum in November 2021."

Claire Liersch
Collections Manager, Shepparton Art Museum

Contributing to Victoria's Big Build

VMIA continues to share our insurance expertise to support the transformative infrastructure projects re-shaping our State. The Victorian Government's Big Build program is delivering 165 major road and rail projects worth $90 billion, including the Melbourne Airport Rail, Metro Tunnel Project, Regional Rail Revival and the North East Link. VMIA's role is to advise on insurance and risk-related issues at every stage of these projects so that the State's interests and that of the many related project participants are protected. Our involvement with projects during the planning phase ensures that risk transfer considerations and insurance requirements are embedded in project design and deliverables.

During the year, VMIA supported the Level Crossing Removal Project's delivery of network upgrades including works on Melbourne's underground rail loop and train station car park upgrades, by advising on and insuring the needs for this work.

VMIA advised on and secured the Initial and Early works insurance program for Suburban Rail Loop Authority (SRLA), the first major contract award as part of Suburban Rail Loop (SRL) East's overall $30 to $34.5bn estimated cost. In addition, VMIA has advised SRLA on the design and development of the insurance program for the planned major works for SRL East.

The North East Link insurance placement was effected in October 2021, and reinsurance secured following an intensive round of negotiations with the global reinsurance market. This was a significant achievement in the context of a much more challenging market for construction reinsurance.

Domestic Building Insurance

The building and construction sector is a key contributor to the State's economic growth, employing over 300,000 Victorians. VMIA has an important role in providing builders the mandatory insurance they need to build and renovate Victorian homes. VMIA's domestic building insurance (DBI) provides cover for all home building and renovations valued at more than $16,000 that aren't completed or are defective if the builder has died, disappeared, become insolvent or has failed to comply with a Victorian Civil and Administrative Tribunal order.

As a result of the Stage 4 restrictions due to COVID-19, VMIA was unable to conduct on-site inspections unless there was an emergency or safety-related situation. We swiftly shifted to alternative methods such as virtual inspection where there were impediments to physically attending sites. This meant we could continue to progress claims without losing momentum. In cases where we were unable to complete the assessment due to restrictions, we communicated with each affected homeowner and prioritised the assessment and quoting of their claim once the restrictions were lifted.

As restrictions eased, builders were able to recommence or start new projects. VMIA expedited requests from builders to increase their insurance arrangements for jobs they had already quoted. This reflects the increase in building supply costs and consequent increase in the price of building contracts. The increase in supply chain costs and labour shortages due to the pandemic continues to impact the sector. VMIA has responded quickly to claims made by homeowners affected by insolvencies. We anticipate an increase in claims activity in the coming year.

In 2021-22 we issued 82,798 DBI certificates of insurance (compared with 90,337 certificates issued in 2020-21). While the number of certificates of insurance issued remains high, the reduction in 2021-22 is due to the cessation of the government pandemic stimulus package, increases in build costs and build lead times, as well as forecasted interest rates increases.

Claims volumes remained steady, largely driven by defects arising from multi-unit buildings and the insolvency of Privium Pty Ltd. Consistent with previous years, common defects included waterproofing and plumbing with an increase in numbers relating to cladding.

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 (VBA) to raise awareness and improve consumer outcomes for common defects such as waterproofing.

Refreshed BuildVic claims portal

The BuildVic claims platform was introduced in July 2018 and as part of our commitment to continuous improvement, we have listened to feedback from our internal team and homeowners. In May 2022 we refreshed the portal, providing homeowners with:

- streamlined pages so they are easier to navigate
- tailored messages to direct consumers on where and how to do things
- a video guide to help users navigate the portal and alerting existing clients to the changes that have been made.

We've also streamlined our claims management approach to reduce administrative tasks and improve our ability to service consumers.

Providing value for money in a more challenging insurance market

VMIA's insurance and pricing remains competitive and delivers value for money for the State. This year has seen a further tightening of the commercial reinsurance market, with more exclusions, less capacity available and increased premiums. Economic challenges and geopolitical tensions are impacting reinsurance markets. VMIA continues to monitor reinsurance market conditions and work closely with DTF to ensure our reinsurance arrangements are appropriate.

An independent review found our premiums for 2021–22 to be 49% below the commercial market premiums on average. In many cases, we also offer clients broader protection, as well as types of insurance not available in the commercial market.

Supporting clients with risk transfer optimisation decisions

This year, the cumulative reduction in risk to the State increased to $65 million. This was achieved through a combination of proactive insurance and deductible optimisation solutions, which means improved and optimised coverage for clients who have a portfolio of insurance that better match the risk profile and risk appetite of their organisation.

“The work produced by the VMIA Harm Prevention team is brilliant and will produce positive health outcomes for the entire community. As a community representative it was a pleasure to work alongside such a talented and experienced team.”

Elizabeth Flemming-Judge, Healthcare Consumer Representative and member of VMIA’s emergency department project Steering Committee.

Connected

> As we implement Strategy 2024, our ability to capture, analyse and share data is better than ever before. This means we can more accurately predict and price risk, provide valued advice to the State, help our clients to identify losses and recover more quickly, and support reinsurers to make informed decisions about our risk.

We're also initiating strategic harm prevention research and activities to better support our clients with insights that reduce risk and promote better health outcomes. The Harm Prevention Program identifies and works to implement evidence-based interventions that reduce harm to the Victorian community. Our objective is to lower our clients' exposure to losses, help to minimise risks and harm, and help to reduce claims.

And we're collaborating with our partners in the domestic building sector to improve consumer protection.

VMIA portal, Client360

In the past year the VMIA portal (Client360) has been made available to all our clients to access insurance information and lodge claims. This has enabled us to decommission two legacy platforms and provided efficiencies for our people. We're continuing to work with our clients to support them to use and make the most of the VMIA portal and we're continuing to develop new capabilities to enhance client engagement.

Maximise the potential of data through new data infrastructure platform

'Big data', which is the increasing size, speed and granularity of data sets that are accessed and linked, has far-reaching potential to enhance our work for clients. It allows us to more accurately understand and price risk, and report on harm prevention activities in detail.

This year, we bedded down our new cloud-based strategic data infrastructure platform. This has a range of new capabilities to innovatively use data to benefit our clients. We've built internal capability to operate this platform, which will mean we can fully leverage its potential and speed.

For example, using our enhanced geospatial tool we can overlay public information about critical events (such as Emergency Management Victoria data) and quickly identify clients affected and the number and value of assets potentially impacted by a bushfire. This can speed up recovery efforts and brief reinsurers about events that may trigger the reinsurance cover, and minimise delays in assessing claims.

"We engaged VMIA's Risk Advisory service during a critical time in the merger of two organisations into a new entity – Safe and Equal. As the peak body for specialist family violence services in Victoria, we have a deep understanding of the need to address risk in all contexts, including at the organisational level. The work we did with VMIA helped to strengthen our capability and confidence in relation to organisational risk."

Tania Farha
CEO, Safe and Equal

Working smarter with data

Medical indemnity claims represent a significant (and growing) part of our claim portfolio. Understanding the factors that contribute to claims is key to developing harm prevention initiatives that will help to minimise the risk of harm in public health settings.

We have used a medical indemnity taxonomy (a classification system) to code every medical indemnity claim closed since 2012. This helps us understand what happened in the claim and the factors that impacted or contributed to it. We can use this aggregated profile to identify specific trends or factors that contribute to risk in individual public health services, changing the conversation from the general to the specific risk factors that give rise to claims. It gives us deep insights into areas to target for harm prevention actions.

Making the maternity setting safer

The evidence shows that when birth suite clinicians take part in best practice training, outcomes for women and their babies improve. It also helps to manage risk within the health service, and improve teamwork by contributing to a healthier, safer community.

That's why since 2003, VMIA has invested in harm prevention initiatives that emphasise practical training to mitigate risks to women and babies in maternity and neonatal settings. Our Incentivising Better Patient Safety (IBPS) program is a State-wide initiative that rewards hospitals for training birth suite clinicians in key areas of risk mitigation in the birth suite. The program has refunded $10 million in obstetric premiums over the past three years to public maternity services.

However, we recognise the significant burden that has been placed on our health care services during the pandemic. Many of our public health clients reported workforce shortages that affected their ability to meet the training requirements of the IBPS program.

In response, VMIA adjusted the program so that it continued to improve safety for women and babies in Victorian public maternity services in the context of the pandemic. We reverted to the COVID-safe training criteria for the period 1 July 2021 to 30 June 2022, amended the list of clinicians required to be trained, and developed an optional IBPS Training Tracker Tool to help our clients track, monitor and report on their hospital's progress against the eligibility criteria.

As a result, 93% of participating hospitals will pass the IBPS criteria this year. This will return $4.1 million in medical indemnity premiums to be reinvested into Victoria's public maternity services.

Evolving our investment in harm prevention

Our Strategy 2024 vision is to invest in initiatives and partnerships that prevent harm. While we have been very successful in doing this within the neo-natal setting, we wanted to align future harm prevention activities with a consistent investment-based framework.

This year, we developed the Harm Prevention Investment framework to identify, prioritise and measure the success of harm prevention initiatives. This will help clients lower their exposure and reduce claims. We look forward to using the new framework with our clients.

Better Patient Safety Strategy

Medical indemnity claims represent a significant proportion of VMIA's liabilities. Unfortunately, the number and cost of these claims continues to increase.

Our most significant medical indemnity claims relate to obstetrics, emergency medicine and perioperative care. With our system partners and health services, we continued to identify and invest in initiatives that improve patient safety and reduce medical indemnity claims.

The major initiatives that we invested in this year are outlined below.

Emergency departments

Emergency departments and urgent care centres are high-risk settings.

To improve patient safety, VMIA partnered with Safer Care Victoria and the Australasian College for Emergency Medicine to develop recommendations for harm prevention measures in the complex and challenging emergency setting.

Working with clinical experts, we identified 11 recommended interventions to: help clinical practitioners make decisions at the point of care; give them easier access to information; mobilise resources available in the wider system for local need; and build and share practitioners' knowledge and skill.

> We recently published our report, *Preventing patient harm in emergency and urgent care settings* and we're working with our partners to begin delivery of recommended interventions across Victoria. We'll focus first on supporting clinical decision-making when patients attend hospital with neurological conditions or back pain.

"Seeking advice from the VMIA about how to review our risk management processes served VARTA extremely well in 2021-22. The expert assistance provided over several months allowed our board and leadership team to confidently and swiftly review how well we were doing under the Victorian Government Risk Management Framework. It helped us identify gaps and immediate actions to improve. We are now on track to produce a much better risk score under the framework for 2022-23. These improvements ultimately enhance our performance as a small regulator with positive flow on effects for the broader Victorian community."

Anna MacLeod,
CEO, Victorian Assisted Reproductive Treatment Authority

The supporting document, *Emergency and urgent care – the long-term system opportunities*, highlights other opportunities for improvement identified during our research. Our aim is to improve patient safety and outcomes, reduce risk and ultimately, reduce the number and cost of medical indemnity claims in Victoria's public healthcare services.

Client education to improve risk capability in the public sector

We help uplift the risk capability across the public sector through education services for our clients.

Our client learning programs continued to be delivered online this year, helping to develop the understanding, identification and management of risk and related topics. These virtual workshops provided increased accessibility for regional and rural clients, while supporting all clients with ongoing development opportunities.

In 2021–22, more than 1,000 participants took part in our 60 client learning workshops, which covered the fundamentals of risk management, risk appetite, insurance and how to enable a positive risk culture. These workshops support our clients in implementing the updated requirements of the Victorian Government Risk Management Framework (VGRMF).

As part of continuing to improve our online education offering, we teamed up with the Victorian Public Sector Commission (VPSC) and RMIT Online to develop a new micro-credential for public sector risk management. This is part of an 18-month trial of micro-credentials for the VPS.

We're also bringing our learners back together in a new alumni series to extend their learning and to further examine the benefits of hybrid learning.

First attestation against the new Victorian Government Risk Management Framework

During the year, we focused on building our clients' confidence as they prepare to attest for the first time against the updated VGRMF 2020. The revised VGRMF features an increased emphasis on risk appetite, risk culture and shared risk. It also mandates agencies to proactively work towards minimising their exposure to insurable risk. In May and June 2022, we ran a series of client workshops that focused on new attestation requirements. This will help clients understand their responsibilities and demonstrate how VMIA's Risk Maturity Benchmark self-assessment tool can provide them confidence to attest and develop an action plan.

Uplift in public sector risk maturity on target

We play an important role in helping to build the risk maturity of the Victorian public sector through our client learning, individualised risk advisory services and tools that support confidence in attesting to the VGRMF.

We updated the Risk Maturity Benchmark to reflect the new requirements of the VGRMF to help our clients see their progress on their risk maturity journey. The benchmark is an online self-assessment tool for Victorian Government departments and agencies to measure their risk maturity and benchmark it against their peers.

Risk maturity benchmark

This year we are changing our reporting model from a percentage of self-reported uplift in risk maturity, to reporting a risk maturity index. This year's data will form the baseline for index reporting.

There was an 89% completion rate in 2021-22 from the 248 organisations now accessing the Risk Maturity Benchmark self-assessment tool. This includes 91.5% of the 224 of Victorian Government agencies that must attest to the VGRMF. This is an excellent result and reflects the significant progress made by our clients in embedding risk management in their organisations.

Contributing to harm prevention in the building sector

As the main provider of compulsory DBI in Victoria for the past 12 years, VMIA has access to a significant dataset that identifies building practices that lead to defects in home building construction. VMIA continues to work with our government and industry partners to contribute to harm prevention, consumer protection and the reform of the building industry.

We have provided advice to the Building Reform Expert Panel, which is undertaking an extensive review of Victoria's building system. We are also sharing our insights with other states and territories who have sought our expertise on the assessment of project risks and claims management practices.

Climate change is considered one of Victoria's most significant risks. It's a complex issue that needs coordination between sectors and industries to agree on effective risk management strategies. As the State's risk adviser and insurer, we have an important role in advising on this whole-of-government risk and supporting our clients in relation to evolving financial disclosure and assurance considerations.

Confident

in making informed, deliberate risk transfer decisions.

We support our clients and the State to deal with uncertainty with greater confidence through our risk and insurance services. Never has this been more important as we deal with the pandemic, geopolitical tensions, increasing cyber security threats and unprecedented weather events caused by climate change. We provide expert advice to clients to give them confidence to identify risks, measure exposures and assess options to make informed, deliberate risk management and transfer decisions.

For risks that affect the whole-of-government, we collaborate with our government partners as the State's risk adviser. We use our data insights, risk expertise and technology, together with our relationships with reinsurers around the globe to deliver our services and ensure Victoria's financial position is protected.

Supporting the State and our clients to deal with climate change impact

Climate change is considered one of Victoria's most significant risks. It's a complex issue that needs coordination between sectors and industries to agree on effective risk management strategies. As the State's risk adviser and insurer, we have an important role in advising on this whole-of-government risk and supporting our clients in relation to evolving financial disclosure and assurance considerations.

In 2021 we delivered the first Victorian Government guides and training for managing climate risk in partnership with Department of Environment, Land, Water and Planning (DELWP). This year, our clients have continued to access these materials and learning opportunities.

In March 2022 we hosted a whole-of-government roundtable discussion for Audit and Risk Committees (ARCs). The roundtable provided a forum for independent chairs of the ARCs to engage and discuss climate change risk and facilitated collaboration between Victorian Government agencies.

The forum highlighted the important role ARCs play in influencing how climate change risks are identified and managed. It underlined the challenges the State faces in ensuring the right skills and capabilities are deployed to support transition to net zero emissions and adapt to our changing climate. It also highlighted the need to review how audit and assurance programs are planned and executed considering climate change.

"In 2021 I spent six months seconded to the Cyber Safety Unit of DPC as a Senior Cyber Risk Advisor to help public sector organisations to understand and manage their cyber risk. This involved working on the joint Cyber Benchmark Program and authoring a cyber governance review for the State Significant Risk Interdepartmental Committee. This opportunity has enabled me to contribute to driving positive and meaningful cyber security outcomes across the public sector."

Jack Petrie,
Portfolio Manager, VMIA

Measuring client satisfaction

We have worked hard to understand our clients and what they most value from us in crafting our Strategy 2024 vision. We work hard to listen to clients and use the information we capture about their experience to improve services. We regularly check in with clients and gather data, primarily via our Net Promoter Score (NPS) across claims, risk advisory and education services. NPS data is shared in a monthly client experience forum, with improvements made throughout the year.

Our overall 12-month rolling NPS for the year was +66, which showed a high level of satisfaction.

A highlight was clients' positive experience of their annual insurance renewal and demonstrated the effect of service improvements implemented during the year.

Keeping clients informed ahead of the renewal process

The cost of insurance comprises factors that are both within and outside our client's control.

The insurance sector is facing several headwinds, including the rising cost of claims due to inflation, increasing reinsurance costs and more restrictive policy terms. Part of our role is to help our clients understand the macro factors that influence premiums and where possible, explore alternative risk transfer opportunities or further harm prevention initiatives within their control that may lower premiums.

Again this year, we offered clients information webinars to share how premiums are calculated and to present the broader commercial insurance market context.

Management of shared risk

Victorian Government agencies are required to identify and contribute to the management of shared risks and those that affect the whole of the State. VMIA has a role in providing support to agencies to identify and manage these risks. This role is important in providing confidence to government and the community that these risks are being managed and there is a clear line of sight over the medium to long-term.

Increasing cyber risk awareness and resilience

We partner with Digital Victoria, Digital Health, Cenitex, departments, agencies and the cyber industry to develop whole-of-government solutions to tackle cyber risk.

VMIA supports clients across government to understand and complete the Cyber Risk Maturity Benchmark and identify the steps required to satisfy the Australian Cyber Security Centre's (ACSC) 'Essential Eight' technical IT controls. The ACSC considers these are the most effective strategies to protect organisations against various cyber threats.

As risk adviser to the State, VMIA partnered with the Department of Premier and Cabinet's Cyber Security Unit to develop the Cyber Maturity Benchmark as an annual measure of cyber control maturity across the Victorian Government. The benchmark, launched in 2020, is an online self-assessment tool and a companion to the Improving Cyber Maturity with the Essential Eight Guide for public sector organisations.

On 30 September 2021 our first Cyber Maturity Benchmarking campaign closed. It was pleasing to see more than 70% of eligible clients completing the benchmarking activities, which exceeded our goal of 50% completion in the first year. In 2022, we targeted organisations that didn't complete the benchmark in 2021 and expanded the eligibility to a further 20 entities. The benchmark aims to give government organisations insight into how they fare in relation to the Essential Eight and identify areas for improvement to strengthen cyber security.

A goal of this year's cyber program was to add Victoria's health services as they didn't take part in 2021. Digital Health (part of the Department of Health) agreed to migrate its existing cyber security assessment to VMIA's self-assessment hub, improving the user experience for health services. As of June 2022, all 118 health sector organisations were in the process of completing their 2022 assessment in a more secure and user-friendly system. By hosting both the General Government Cyber Maturity Benchmark (based on the Essential 8 controls) and now Digital Health's HSCSA (based on 31 controls), VMIA has line of sight of the self-assessed IT security maturity for 167 organisations across the whole of Victorian Government.

This year our efforts to support the State to increase cyber security extended to a new cyber service. Partnering with selected clients, VMIA undertook scans of cyber vulnerabilities mainly related to the threat of ransomware. While the scan activity highlighted vulnerabilities, as expected, we've been able to support clients with specific remediation advice to ensure vulnerabilities are reduced over time.

Business and operational performance

> Our Strategy 2024 vision is for an empowered workforce, with a client-centred, curious and collaborative culture.

The pandemic has fundamentally changed the nature of where and how we work. We have learnt new skills and adopted new ways of working. We've stretched in ways that we otherwise may never have imagined and have learnt how to embrace flexibility, interact and serve our clients while working remotely.

As we transition to a sustainable hybrid working environment, we are blending the best of our remote experiences and flexibility. We are learning how we can work best together and apart, so we can benefit from the collaboration that learning organisations such as ours depend on.

Supporting our clients and people

For the second year of the COVID-19 pandemic, the wellbeing of our staff and client centricity remained our core focus, despite changes to the way our services were delivered due to the continuing restrictions.

It is pleasing that despite the challenges of the pandemic, we have kept on track with our Strategy 2024 deliverables, while supporting our clients with agile and responsive risk and insurance services.

Developing our people to have the skills needed for our future

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, and pandemics – to supporting the delivery of major infrastructure projects and promoting better outcomes in healthcare. In addition, we deliver a model for DBI that has transformed the way this mandatory cover is provided following a market failure in 2010.

VMIA is determined to develop the leadership and business skills of our people to build the capability needed for the future of work including the skills required to leverage our data analytics and insights for the benefit of our clients and the State.

During the year we launched our new Leadership Development Program, which combines 360-degree feedback, individualised development modules and group coaching. Each leader undertakes a leadership initiative that will benefit the business and is aligned with an individual development goal. We are also developing a Business Essentials Suite to enhance the ongoing development of our current and future leaders.

Our people have a unique opportunity for learning across the risk and insurance industry, as well as the broader public sector. There are opportunities for our people to move within the organisation, whether that is via secondment, higher duties assignment or through promotion.

We also supported opportunities for inbound and outbound secondments with our clients. Secondments are an important part of developing our people while supporting our clients with specialist expertise when they need it most.

"I was seconded to COVID-19 Quarantine Victoria (CQV) for 12 months. I began the secondment first as Deputy General Counsel and then had the opportunity to act as Executive Director and General Counsel while CQV recruited a permanent General Counsel. It was a unique opportunity to contribute to Victoria's COVID-19 response at a critical time in our history."

Sarah McPherson,
Head of Claims, VMIA

"When it comes to flexibility, with VMIA it's action, not just words. During the late 2021 lockdown, I travelled to Latvia to spend precious time with my family. VMIA supported me so I could continue to do my work overseas - from another continent 15,000 km away with a 9 hour-time difference, for 3 months. I will never forget how helpful this was, at a time when my family really needed me close by."

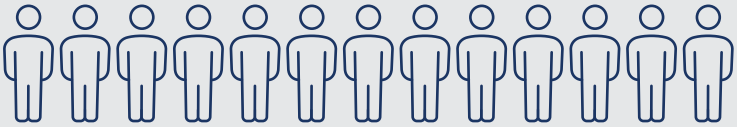
Zanda Kruze,
People & Culture Analyst, VMIA

In March we launched a new performance and development framework that aligns with our aspiration to be a learning organisation. Every employee has a learning plan in place designed to support not only immediate skills uplift, but longer-term career aspirations.

Through our internal learning and development programs, secondments and graduate pathways, we are building the skills for our future workforce, while also contributing to improving risk and insurance expertise across the Victorian public sector more broadly.

Developing skills

Total staff



223

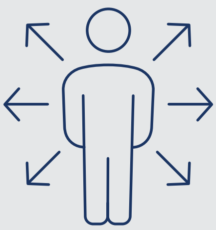
13

employees were seconded to other roles inside VMIA

17

employees moved into roles with higher duties

6

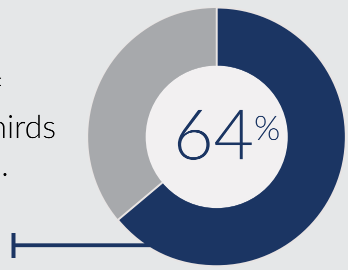


people took external secondments, including to:

- COVID-19 Quarantine Victoria
- Department of Premier and Cabinet
- Department of Transport
- Department of Health and Human Services
- Department of Families, Fairness and Housing

33

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



2

Building Surveyor Pathways program participants rotated through VMIA

Diversity and Inclusion

VMIA requires a workforce with diverse skills, backgrounds and experience that reflects the Victorian community. We want to ensure our inclusive culture and practices encourage our workforce to contribute their best, allowing for the richness of ideas, backgrounds and perspectives to be harnessed to create value for the Victorian community we serve.

Our Diversity and Inclusion program which is in its fifth year was refreshed in August 2021. The program focuses on embedding our culture, values and behaviours to support us to be an inclusive, client-centric, learning organisation. Our people have played a significant role in defining our enabling behaviours which provide an important link to our organisational values and will act as an anchor to support our new performance development framework.

Employee reference groups and Executive sponsors are supporting each of the Focus Areas to ensure there is ownership and ongoing participation.

Gender equality is a key part of our diversity and inclusion strategy and builds on the considerable progress VMIA has made in our first 3-year roadmap.

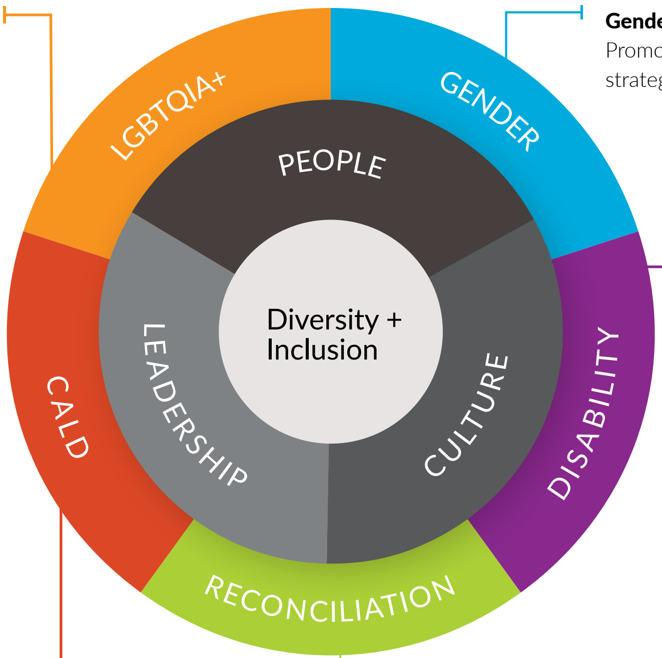
Our vision for gender equality (aligned to our Diversity and Inclusion Plan) is an integrated, inclusive, and equitable culture where everyone regardless of their gender identity has access to resources and opportunities, and is treated with dignity, respect, and fairness.

The *Victorian Gender Equality Act 2020* ('the Act') aims to improve workplace gender equality. As an organisation we've committed to fulfilling a range of obligations, activities, and actions in line with the Act and its principles to promote gender equality in our workplace, programs, and policies. Our Gender Equality Action Plan (GEAP) outlines our continued commitment to promoting gender equality.

In November 2021, we submitted our first workplace gender audit to the Commissioner.

LGBTQIA +
Fostering a network of allies to promote and support the wellbeing of our LGBTQIA+ community through education and engagement.

Gender
Promoting and championing strategies to support gender equity.



Disability
Increasing disability awareness in the workplace, including opportunities to remove barriers for persons with disabilities through accessible and inclusive environments.

Culturally and Linguistically Diverse (CALD)
Increasing awareness and understanding of culturally and linguistically diverse cultures and supporting days of significance.

Aboriginal & Torres Strait Islander
Developing and strengthening relationships with Aboriginal and Torres Strait Islander people, engage our staff and stakeholders in reconciliation, developing and piloting innovative strategies to empower Aboriginal and Torres Straight Islanders including development of our 'Innovate' RAP.

"The Leadership Development Program has been a fantastic opportunity to learn foundational leadership, coaching and mentoring skills. This has been extremely beneficial as I take on greater management responsibilities and provides me a variety of tools to practice on my team, develop my leadership style and develop confidence in my role."

Kirsten Kruger,
Head of Insurance, VMIA

Gender pay

VMIA has been tracking and measuring gender pay gap since 2018, well before it was a requirement under the *Gender Equality Act 2020*. We also undertake pay parity impact assessments.

Pay parity is just one measure of gender equality in the workplace. We also recognise that measuring pay parity across bands does not allow for differentiation between those who are new to the role (or recently promoted), and highly capable and experienced staff in the same job band. Our review of the Remuneration Framework later in 2022 will consider these factors.

As at 30 June 2022, VMIA's overall 12-month rolling gender pay gap was slightly outside the 3% tolerance at 3.9% (compared to 2.7% at June 2021). At pay-grade level, the 12-month rolling gender pay gap was outside of the 3% tolerance for two of the eight job grades.

VMIA is committed to achieving gender pay parity and while the overall results for gender pay this year are still positive they have been impacted by recent departures and the challenge of offering competitive remuneration to attracting talent from a competitive external market.

Looking towards a sustainable hybrid future

Throughout 2021/22 we continued to learn new skills and adopt new ways of working as we responded to the continuing pandemic landscape, embracing flexibility, interacting, and serving our clients while working remotely.

The health and wellbeing of our people and client centricity were 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 across the business. Popular weekly all-staff sessions led by the CEO continued this year and provided an important vehicle for staff connections through the second year of the pandemic.

Due to COVID-19 restrictions, the VMIA office was closed for the majority of the first half of the financial year. It reopened on 1 November 2021 to vaccinated employees as an optional place to work. Following the removal of the public health recommendation for Victorians to work or study from home on 26 February 2022, the office reopened and was available in line with our principles of place-based work. Following the announcement, we saw a three-fold increase in people registering to attend the office in March 2022.

> In May 2022 we launched our *Guide to Hybrid Work at VMIA* highlighting the importance of flexibility and purpose-driven use of the office with people connecting in person for two to three days in the office.

We know some of our outcomes are best realised through face-to-face connection in a physical workspace, coming together and seeing each other. Coming together and seeing allows us to reinforce deeper social bonds, enhanced ideation and innovation, mentoring and informal learning opportunities, as well as creating broader organisation wide connections and culture. Since the launch of the *Guide* office attendance has increased.

An important part of our hybrid working arrangements is supporting our people with flexible working arrangements. Whether that be remote working for part of the week, flexible start and finishing times fitting various other activities through the day, or more formalised reduced hours and additional leave benefits.

Employee engagement

Maintaining a cohesive, supportive culture was a key priority for VMIA during the year. Throughout the year, we continued to conduct regular employee Pulse Check surveys to understand how our employees are feeling and how we can best support them. Employee engagement remained strong – the overall result was 7.5 (out of 10) for the six surveys conducted over the financial year.

Results 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 year of both remote and hybrid working.

Building Surveyor Career Pathways program

In February 2021 in response to a shortage of building surveyors, VMIA partnered with the VBA and Domestic Building Dispute Resolution Victoria (DBDRV) to create the 18 month Building Surveyors Career Pathways program. Over the past 12 months, two participants worked with us, with a particular focus on identifying and rectifying building defects.

Reconciliation Action Plan: our third year

VMIA is committed to addressing the generational disadvantage experienced by Aboriginal and Torres Strait Islander peoples.

Our Reconciliation Action Plan (RAP) is an important part of our Diversity and Inclusion program. This year, our staff, supported by the Koorie Heritage Trust, developed the next set of commitments for our 'Innovate RAP'.

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.

In 2021-22, seventeen 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.

Financial Summary

Five year summary of financial results

	2022 $'000	2021 $'000	2020 $'000	2019 $'000	2018 $'000
Total income[1]	499,965	965,208	554,526	651,308	664,427
Less reinsurance, claims, commission and administration expenses	749,199	703,744	943,717	758,951	492,087
Operating surplus/(deficit)	(249,234)	261,465	(389,191)	(107,643)	172,340
Net cash inflow from operating activities	205,067	91,535	167,316	208,980	172,548
Total assets	3,531,117	3,268,664	2,820,781	2,676,395	2,910,737
Total liabilities	3,793,972	3,282,285	3,081,996	2,548,419	2,267,118
Net assets/(liabilities)	(262,855)	(13,621)	(261,215)	127,976	643,619

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 sound, with our insurance funding ratio at 110% as at 30 June 2022. VMIA had an operating deficit of $249.2 million for the 2021-2022 year, a shortfall of $166.8 million compared to the budgeted loss of $82.5 million. The variance to budget was mainly driven by:

- lower investment returns due to the impact on global markets of inflationary pressures and the war in Ukraine
- higher than expected claims incurred across a range of portfolios.

This was offset partially by higher than expected net premium earned and favourable movements in economic assumptions as interest rates rose (reducing the net claims liability and unexpired risks).

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 2021-2022, the PFIO result was a loss of $111.1 million against an expected surplus of $62.6 million, with the shortfall driven primarily by the claims experience over the past year.

Significant changes in financial position

At 30 June 2022, total assets were higher than the prior year by $262.5 million, primarily due to growth in business volumes as VMIA insures elements of Victoria's Big Build. Correspondingly, total liabilities increased by $511.7 million, reflecting the same volume increase and also increases in gross claims liabilities. During 2021–2022, VMIA generated a net cash inflow of $205.1 million from operating activities. VMIA's equity position decreased by $249.2 million to a deficit of $262.9 million at 30 June 2022 as a result of the operating deficit 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

	2022	2021	2020	2019	2018
Performance from insurance operations (PFIO)					
Actual ($ million)	(111.1)	(31.2)	(180.1)	(14.7)	96.0
Budget ($ million)	62.6	2.1	34.4	54.7	45.6
PFIO Combined Ratio	167.6%	128.8%	177.7%	135.3%	98.9%
Insurance Funding Ratio[1]	109.7%	130.8%	118.6%	144.3%	-
Return on Investments (before fees)	(1.8%)	17.9%	1.7%	8.4%	10.6%
Return on Investments (after fees)	(2.8%)	16.9%	1.1%	7.7%	9.8%
Return on Assets[2]	(3.3%)	(1.0%)	(6.5%)	(0.5%)	3.5%
Number of employees at end of year[3]	223	226	214	191	187
Number of full time equivalent employees at end of year (FTE)[3]	213.4	217.8	205.8	183.0	180.4
Gross Premium Written ($ million)	781.8	531.9	439.4	371.8	423.7
Gross Premium Earned ($ million)	560.0	485.9	417.6	395.0	385.5

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 through employment agencies.

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

Financial Report

The Victorian Managed Insurance Authority (VMIA) presents its audited general purpose financial statements for the financial year ended 30 June 2022 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 2022

	Note	2022 $'000	2021 $'000
Gross premium earned	2.1, 2.7	**559,967**	**485,918**
Reinsurance premium incurred	2.7	(73,111)	(56,601)
Decrease in unexpired risks liability	2.8(b)	18,411	29,098
Net premium earned		**505,267**	**458,415**
Gross claims incurred	2.2, 2.3(b)	(583,634)	(571,871)
Reinsurance and other recoveries	2.2, 2.3(b)	8,108	17,825
Net claims incurred	2.2	**(575,526)**	**(554,046)**
Commission incurred		(12,724)	(12,050)
Other income		2,289	3,513
Administration expenses	5.1	(47,524)	(48,502)
Underwriting result		**(128,218)**	**(152,670)**
Investment income	3.1	(70,399)	457,952
Investment management expenses		(8,158)	(7,688)
Net investment income		**(78,557)**	**450,264**
Payments to the State	7.1(a)	(42,459)	(36,129)
Net result		**(249,234)**	**261,465**
Comprehensive result		**(249,234)**	**261,465**

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

Balance Sheet

As at 30 June 2022

	Note	2022 $'000	2021 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	3.2	45,721	53,832
Trade receivables	2.10	312	652
Non-trade receivables		4,331	3,918
Investments	3.3(c)	2,965,895	3,000,276
Total financial assets		**3,016,259**	**3,058,678**
Non-financial assets			
Trade receivables	2.10	194,818	26,809
Non-trade receivables		3,047	2,059
Prepaid expenses		1,852	2,119
Furniture, fittings, equipment and motor vehicles		489	651
Intangibles		12,815	10,641
Right-of-use-assets	4.1	9,458	11,214
Deferred acquisition costs	2.8(a), 2.9	-	-
Unearned reinsurance	2.7	210,119	53,210
Reinsurance and other recovery assets	2.3(b), 2.3(c)	82,260	103,283
Total non-financial assets		**514,858**	**209,986**
Total assets		**3,531,117**	**3,268,664**
LIABILITIES			
Trade payables	2.11	143,688	25,949
Non-trade payables	6.1	17,562	13,957
Derivative liabilities	3.3(c)	78,199	21,802
Provisions		6,687	6,302
Lease liability	4.2	10,674	12,279
Unearned premium	2.7	517,946	296,088
Unexpired risks	2.8(b)	168,514	186,925
Gross claims liabilities	2.3(a), 2.3(b)	2,850,702	2,718,983
Total liabilities		**3,793,972**	**3,282,285**
Net assets		**(262,855)**	**(13,621)**
EQUITY			
Contributed capital		-	–
Accumulated surplus/(deficit)		(262,855)	(13,621)
Total equity		**(262,855)**	**(13,621)**

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 2022

	Note	Contributed capital $'000	Accumulated surplus/(deficit) $'000	Total $'000
Balance at 30 June 2020		**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)**
Comprehensive result for the year		-	(249,234)	(249,234)
Return of capital		-	-	-
Balance at 30 June 2022	**7.1**	**-**	**(262,855)**	**(262,855)**

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 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Insurance premium received		735,847	620,939
Other income		4,977	3,864
Reinsurance premium paid		(135,180)	(50,538)
Gross claims paid		(515,905)	(449,059)
Reinsurance and other recoveries received		29,058	17,322
Reimbursement of claims paid on behalf of others		79,107	46,742
Gross commission paid		(10,517)	(11,941)
Payments to employees and suppliers for services and goods		(64,017)	(65,080)
Dividends, distributions and other investment income received	3.1	224,271	109,000
Interest received	3.1	1,204	1,694
Goods and Services Taxation paid		(44,212)	(39,088)
Stamp Duty paid		(57,107)	(56,191)
Payments to the State		(42,459)	(36,129)
Net cash inflow from operating activities	**3.2(a)**	**205,067**	**91,535**
Cash flows from investing activities			
Acquisition of furniture, fittings, equipment and motor vehicles		(41)	(163)
Proceeds on disposal of furniture, fittings, equipment and motor vehicles		30	177
Acquisition of intangibles		(4,595)	(8,103)
Acquisition of investments		(2,214,331)	(2,233,717)
Proceeds on disposal of investments		2,007,364	2,193,102
Net cash inflow/(outflow) from investing activities		**(211,573)**	**(48,704)**
Cash flows from financing activities			
Return of capital		-	(13,871)
Lease payments (principal component)		(1,605)	(1,462)
Cash outflow from financing activities		**(1,605)**	**(15,333)**
(Decrease)/increase in cash and cash equivalents		(8,111)	27,498
Cash and cash equivalents at beginning of year		53,832	26,334
Cash and cash equivalents at end of year	**3.2**	**45,721**	**53,832**

The Cash Flow Statement should be read in conjunction with the accompanying Notes to the Financial Statements.

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 2022 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 2022 of $263 million (2021: negative $14 million) and a net loss at 30 June 2022 of $249 million (2021: profit of $261 million), it delivered positive cash flows from operating activities of $205 million (2021: $92 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, 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 29 August 2022.

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:

VMIA's business is very diverse with seven main lines of business classifications being Domestic Building Insurance, Dust Diseases and Workers' Compensation, Liability, Medical Indemnity, Property, Construction 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; Cyber Liability; 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.

Construction

This line of business provides cover to Government Departments or their service providers for losses during the period of construction of state-owned assets or infrastructure.

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

	2022 $'000	2021 $'000
Gross premium earned		
Domestic building insurance	75,444	65,426
Liability	74,572	55,035
Medical indemnity	208,959	193,443
Property	84,526	70,775
Construction	72,735	60,375
Other	43,731	40,864
Total gross premium earned	**559,967**	**485,918**

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

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 for details pertaining to actuarial assumptions.

	2022			2021		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	642,218	174,349	816,567	585,237	18,801	604,038
Discount movement	(102,451)	(140,318)	(242,769)	(27,727)	(10,978)	(38,705)
Unallocated claims expenses	9,836	-	9,836	6,538	–	6,538
Total gross claims incurred	**549,603**	**34,031**	**583,634**	**564,048**	**7,823**	**571,871**
Reinsurance and other recoveries						
Undiscounted	(17,256)	1,487	(15,769)	(9,565)	(8,432)	(17,997)
Discount movement	1,326	6,335	7,661	136	36	172
Total reinsurance and other recoveries	**(15,930)**	**7,822**	**(8,108)**	**(9,429)**	**(8,396)**	**(17,825)**
Total net claims incurred	**533,673**	**41,853**	**575,526**	**554,619**	**(573)**	**554,046**

2.3 Claims liabilities

(a) Gross claims liabilities

	2022 $'000	2021 $'000
Undiscounted central estimate	2,718,402	2,287,828
Discount to present value	(350,133)	(107,364)
Discounted value of central estimate	**2,368,269**	**2,180,464**
Claims handling expenses	66,226	61,050
Risk margin	416,207	477,469
Total gross claims liabilities	**2,850,702**	**2,718,983**
Current	650,193	539,852
Non-current	2,200,509	2,179,131
Total gross claims liabilities	**2,850,702**	**2,718,983**

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

Notes to the financial statements

2 Results from insurance operations

2.3 Claims liabilities continued

(b) Reconciliation of movement in discounted claims liabilities

	2022			2021		
	Gross $'000	Reinsurance and other recoveries $'000	Net $'000	Gross $'000	Reinsurance and other recoveries $'000	Net $'000
Claims liabilities at beginning of year	**2,718,983**	**(103,283)**	**2,615,700**	**2,543,178**	**(100,194)**	**2,442,984**
Effect of changes in economic assumptions	(186,643)	4,822	(181,821)	1,643	(499)	1,144
Effect of changes in other assumptions	198,968	3,355	202,323	(7,559)	(7,599)	(15,158)
Effect of claims moving one year closer to settlement	21,706	(355)	21,351	13,739	(298)	13,441
Claims incurred for most recent policy year	549,603	(15,930)	533,673	564,048	(9,429)	554,619
Claims incurred charged/(credited) to income	**583,634**	**(8,108)**	**575,526**	**571,871**	**(17,825)**	**554,046**
Net claim payments during the year	(451,915)	29,131	(422,784)	(396,066)	14,736	(381,330)
Claims liabilities at end of year	**2,850,702**	**(82,260)**	**2,768,442**	**2,718,983**	**(103,283)**	**2,615,700**

(c) Reinsurance and other recovery assets

	2022 $'000	2021 $'000
Reinsurance recoveries in respect of claims liabilities	55,676	83,160
Other recoveries in respect of claims liabilities	35,388	21,266
Discount to present value	(8,804)	(1,143)
Total reinsurance and other recovery assets	**82,260**	**103,283**
Current	23,795	37,533
Non-current	58,465	65,750
Total reinsurance and other recovery assets	**82,260**	**103,283**

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 ten 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	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	33,730	41,282	45,577	52,563	64,226	53,697	59,672	68,987	81,980	84,454	
One year later	35,473	36,167	39,879	69,285	59,381	51,686	69,962	66,676	94,179		
Two years later	37,266	35,247	44,170	70,792	72,897	73,239	66,458	52,909			
Three years later	35,545	37,184	49,033	84,479	100,920	78,298	63,745				
Four years later	36,246	40,135	51,207	99,962	110,609	79,051					
Five years later	37,034	38,595	55,277	110,985	115,173						
Six years later	35,393	39,836	56,396	117,667							
Seven years later	36,200	40,166	74,522								
Eight years later	38,030	40,492									
Nine years later	39,937										
Current estimate of net claims incurred	**39,937**	**40,492**	**74,522**	**117,667**	**115,173**	**79,051**	**63,745**	**52,909**	**94,179**	**84,454**	**762,129**
Cumulative payments	(36,506)	(35,850)	(49,291)	(86,365)	(78,316)	(44,458)	(27,593)	(6,345)	(8,019)	(1,559)	(374,302)
Net claims liabilities – undiscounted	**3,431**	**4,642**	**25,231**	**31,302**	**36,857**	**34,593**	**36,152**	**46,564**	**86,160**	**82,895**	**387,827**
2012 and prior years											4,084
Unearned liabilities											(182,904)
Total net claims liabilities – undiscounted											**209,007**
Discount to present value											(14,807)
Claims handling expenses											8,739
Risk margin											47,694
Net claims liabilities at 30 June 2022											**250,633**

Notes to the financial statements

2 Results from insurance operations continued

2.3 Claims liabilities continued

(d) Net claims development tables continued

Dust diseases and workers' compensation	Total $'000
Nine years previous	648,608
Eight years previous	620,617
Seven years previous	565,876
Six years previous	533,804
Five years previous	547,545
Four years previous	567,996
Three years previous	518,230
Two years previous	510,120
One year previous	520,930
Current estimate of ultimate net claims incurred	**542,165**
Cumulative payments (since 30 June 1999)	(264,344)
Net claims liabilities – undiscounted	**277,821**
Discount to present value	(90,583)
Claims handling expenses	6,198
Risk margin	55,214
Net claims liabilities at 30 June 2022	**248,650**

2.3 Claims liabilities continued

(d) Net claims development tables continued

Liability	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	21,278	21,876	24,657	34,968	23,427	29,814	65,292	75,983	72,186	74,653	
One year later	21,537	22,193	24,926	32,793	19,335	31,234	57,168	85,700	81,650		
Two years later	16,163	21,645	20,299	39,131	18,453	26,107	55,014	165,182			
Three years later	12,534	13,312	17,041	38,825	19,162	32,226	86,765				
Four years later	9,397	12,167	14,705	38,783	21,405	37,584					
Five years later	9,914	11,450	14,582	43,843	27,411						
Six years later	10,060	12,400	15,526	45,171							
Seven years later	9,358	12,728	18,911								
Eight years later	9,183	12,413									
Nine years later	10,158										
Current estimate of ultimate net claims incurred	**10,158**	**12,413**	**18,911**	**45,171**	**27,411**	**37,584**	**86,765**	**165,182**	**81,650**	**74,653**	**559,898**
Cumulative payments	(9,292)	(11,499)	(13,226)	(40,255)	(20,460)	(26,031)	(77,389)	(54,458)	(29,305)	(5,740)	(287,655)
Net claims liabilities – undiscounted	**866**	**914**	**5,685**	**4,916**	**6,951**	**11,553**	**9,376**	**110,724**	**52,345**	**68,913**	**272,243**
2012 and prior years											2,675
Total net claims liabilities – undiscounted											**274,918**
Discount to present value											**(16,261)**
Claims handling expenses											12,602
Risk margin											69,918
Net claims liabilities at 30 June 2022											**341,177**

Notes to the financial statements

2 Results from insurance operations continued

2.3 Claims liabilities continued

(d) Net claims development tables continued

Medical indemnity	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	200,994	211,101	194,564	194,232	189,902	195,181	214,474	231,067	260,201	298,885	
One year later	192,272	177,767	178,022	176,145	191,175	203,207	212,998	242,740	271,533		
Two years later	167,130	165,566	145,890	160,011	200,175	206,332	217,291	273,036			
Three years later	149,957	149,170	129,310	147,412	194,972	221,188	237,680				
Four years later	133,266	152,188	143,737	142,970	175,105	228,318					
Five years later	125,426	172,056	145,176	149,766	176,367						
Six years later	117,084	169,079	134,492	155,887							
Seven years later	120,603	169,162	146,146								
Eight years later	128,256	166,411									
Nine years later	133,949										
Current estimate of ultimate net claims incurred	**133,949**	**166,411**	**146,146**	**155,887**	**176,367**	**228,318**	**237,680**	**273,036**	**271,533**	**298,885**	**2,088,212**
Cumulative payments	(109,420)	(136,335)	(94,062)	(73,049)	(66,189)	(46,578)	(27,574)	(8,307)	(1,241)	(400)	(563,155)
Net claims liabilities - undiscounted	**24,529**	**30,076**	**52,084**	**82,838**	**110,178**	**181,740**	**210,106**	**264,729**	**270,292**	**298,485**	**1,525,057**
2012 and prior years											82,867
Total net claims liabilities - undiscounted											**1,607,924**
Discount to present value											(205,799)
Claims handling expenses											28,184
Risk margin											193,586
Net claims liabilities at 30 June 2022											**1,623,895**

2.3 Claims liabilities continued

(d) Net claims development tables continued

Property	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	10,768	19,505	27,110	8,899	40,331	9,447	27,688	109,131	30,974	38,877	
One year later	9,820	13,105	27,180	10,270	51,358	14,665	24,311	98,259	78,927		
Two years later	4,913	14,151	24,275	10,283	48,066	12,387	24,869	116,154			
Three years later	5,521	13,873	24,290	9,675	43,296	12,021	23,167				
Four years later	5,154	13,837	24,075	9,671	43,488	14,129					
Five years later	5,154	13,822	24,054	9,670	41,121						
Six years later	5,154	13,822	24,062	9,669							
Seven years later	5,154	13,822	24,055								
Eight years later	5,154	13,822									
Nine years later	5,154										
Current estimate of ultimate net claims incurred	**5,154**	**13,822**	**24,055**	**9,669**	**41,121**	**14,129**	**23,167**	**116,154**	**78,927**	**38,877**	**365,075**
Cumulative payments	(5,154)	(13,822)	(24,049)	(9,659)	(41,080)	(11,122)	(17,593)	(52,286)	(10,661)	(13,973)	(199,399)
Net claims liabilities – undiscounted	**–**	**–**	**6**	**10**	**41**	**3,007**	**5,574**	**63,868**	**68,266**	**24,904**	**165,676**
2012 and prior years											(575)
Total net claims liabilities – undiscounted											**165,101**
Discount to present value											(6,492)
Claims handling expenses											6,789
Risk margin											23,099
Net claims liabilities at 30 June 2022											**188,497**

Notes to the financial statements

2 Results from insurance operations continued

2.3 Claims liabilities continued

(d) Net claims development tables continued

Construction	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	3,919	2,949	3,767	4,301	13,795	8,627	8,961	9,156	24,049	27,836	
One year later	1,944	3,165	1,686	5,607	13,501	7,137	8,281	14,806	32,177		
Two years later	2,017	4,524	2,591	4,975	11,465	6,716	12,042	14,001			
Three years later	2,199	5,705	1,995	4,750	10,991	9,932	12,347				
Four years later	2,315	6,536	1,565	4,739	11,259	10,853					
Five years later	2,252	7,985	2,522	3,068	11,560						
Six years later	3,182	9,870	2,282	3,603							
Seven years later	2,707	9,191	2,173								
Eight years later	3,214	9,003									
Nine years later	4,493										
Current estimate of ultimate net claims incurred	**4,493**	**9,003**	**2,173**	**3,603**	**11,560**	**10,853**	**12,347**	**14,001**	**32,177**	**27,836**	**128,046**
Cumulative payments	(3,174)	(8,961)	(2,143)	(2,047)	(9,106)	(5,406)	(6,057)	(3,791)	(5,655)	(64)	(46,404)
Net claims liabilities – undiscounted	**1,319**	**42**	**30**	**1,556**	**2,454**	**5,447**	**6,290**	**10,210**	**26,522**	**27,772**	**81,642**
2012 and prior years											358
Total net claims liabilities – undiscounted											**82,000**
Discount to present value											(6,662)
Claims handling expenses											3,207
Risk margin											24,879
Net claims liabilities at 30 June 2022											**103,424**

2.3 Claims liabilities continued

(d) Net claims development tables continued

Other	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Original estimate of ultimate net claims incurred at end of policy year	2,609	1,327	1,114	1,592	1,024	1,489	1,596	10,466	13,209	16,085	
One year later	1,990	1,877	1,819	1,431	1,061	1,222	1,181	7,431	13,233		
Two years later	1,855	1,683	2,117	1,557	1,038	1,166	1,324	9,431			
Three years later	1,678	1,603	2,878	1,072	965	1,141	1,039				
Four years later	1,661	1,674	2,514	1,402	1,029	838					
Five years later	1,955	2,130	2,202	1,603	897						
Six years later	1,935	2,430	2,071	1,612							
Seven years later	1,626	2,279	2,104								
Eight years later	1,573	2,325									
Nine years later	1,536										
Current estimate of ultimate net claims incurred	**1,536**	**2,325**	**2,104**	**1,612**	**897**	**838**	**1,039**	**9,431**	**13,233**	**16,085**	**49,100**
Cumulative payments	(1,485)	(1,976)	(1,811)	(1,402)	(612)	(595)	(511)	(8,192)	(11,938)	(10,022)	(38,544)
Net claims liabilities – undiscounted	**51**	**349**	**293**	**210**	**285**	**243**	**528**	**1,239**	**1,295**	**6,063**	**10,556**
2012 and prior years											8
Total net claims liabilities – undiscounted											**10,564**
Discount to present value											(725)
Claims handling expenses											508
Risk margin											1,816
Net claims liabilities at 30 June 2022											**12,163**

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 2022 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.

2.4 Critical actuarial judgements, assumptions and estimates continued

Domestic building insurance	Dust diseases and workers' compensation	Liability, property, construction 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.	With the exception of Construction, 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. Construction insurance contracts are a mix of annual policies covering smaller projects commencing during the period of insurance and multi-year policies covering larger projects that incept at project commencement and expire at project completion with premium earned over the period of insurance. 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% (2021: 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 $1.715 million at 30 June 2022, up from $1.623 million at 30 June 2021 to better reflect the emerging experience.

Notes to the financial statements

2 Results from insurance operations continued

2.4 Critical actuarial 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	Constr-uction	Other
2022							
Inflation rate (% p.a.)	3.0	3.3	3.0	3.1	3.0	3.0	3.0
Superimposed inflation rate (% p.a.)	-	2.0	-	3.5	-	-	-
Discount rate (% p.a.)	3.2	3.8	3.0	3.4	3.0	3.0	3.0
Weighted average term to settlement (years)	2.7	9.5	2.3	3.9	1.4	2.8	1.9
Non–large claims costs for the latest policy year ($ per 1,000 separations)**	-	-	-	77,300	-	-	-
Ultimate claims ratio (% for the latest policy year)	-	-	92.5	-	-	-	-
Large claim frequency for the latest policy year (% per 1,000 separations)**	-	-	-	1.5	-	-	-
Claim frequency (% of total certificates)	2.0	-	-	-	-	-	-
Number of incurred but not reported (IBNR) claims	-	719	-	-	-	-	-
Average claim size ($ per claim at end of year)	53,200	195,000	-	-	-	-	-
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	3.3	4.0	2.0	4.0	4.0	4.0
Risk margin (% p.a.)	23.5	28.5	25.8	13.5	14.0	31.7	17.5
2021							
Inflation rate (% p.a.)	2.1	2.7	2.0	2.2	2.0	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	0.4
Weighted average term to settlement (years)	2.9	10.9	2.4	4.0	1.3	2.7	3.3
Non–large claims costs for the latest policy year ($ per 1,000 separations)**	-	-	-	66,200	-	-	-
Ultimate claims ratio (% for the latest policy year)	-	-	109.0	-	-	-	-
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	4.0
Risk margin (% p.a.)	23.5	29.4	39.0	18.8	17.5	31.7	17.5

(*) Liability, Property and Other CHE for working claims = 4.0 % (2021: 4.0%) and Property Catastrophe claims = 4.0% (2021: 4.0%).
(**) The threshold for a large claim has changed from $1.623 million (2021) to $1.715 million (2022).
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.

2.4 Critical actuarial judgements, assumptions and estimates continued

(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.

Notes to the financial statements

2 Results from insurance operations continued

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% (2021: 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% (2021: 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.

2.4 Critical actuarial judgements, assumptions and estimates continued

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	Construction $'000	Other $'000
Inflation rate (% p.a.)	+0.50 -0.50	2,797 (2,733)	11,519 (10,756)	3,308 (3,262)	3,534 (5,588)	1,232 (1,225)	1,419 (1,396)	135 (132)
Superimposed inflation rate (% p.a.)	+0.50 -0.50	- -	9,805 (9,146)	- -	3,534 (5,588)	- -	- -	- -
Discount rate (% p.a.)	+0.50 -0.50	(2,733) 2,797	(10,908) 11,798	(3,244) 3,321	(30,431) 31,505	(1,219) 1,238	(1,389) 1,426	(131) 135
Non-large claims costs for the latest policy year ($ per 1,000 certificates)	+10.0 -10.0	- -	- -	- -	(888) 925	- -	- -	- -
Ultimate claims ratio (% for the latest policy year)	+20.0 -20.0	- -	- -	15,453 (15,453)	- -	- -	- -	- -
Large claim frequency for the latest policy year (% per 1,000 separations)	+0.2 -0.2	- -	- -	- -	(772) 792	- -	- -	- -
Claim frequency (% of total certificates)	+0.1 -0.1	12,575 (12,575)	- -	- -	- -	- -	- -	- -
Number of incurred but not reported (IBNR) claims	+10.0 -10.0	- -	23,514 (23,514)	- -	- -	- -	- -	- -
Average claim size ($ per claim at end of year)	+10.0 -10.0	25,063 (25,063)	23,514 (23,514)	- -	- -	- -	- -	- -
Average claim size for large claims ($ million per claim at end of year)	+5.0 -5.0	- -	- -	- -	3,209 (4,330)	- -	- -	- -
Claims handling expense (CHE) rate (% of claim payments)	+1.0 -1.0	2,398 (2,398)	2,407 (2,407)	3,962 (3,962)	14,283 (14,283)	1,934 (1,934)	1,056 (1,056)	149 (149)
Risk margin (% p.a.)	+1.0 -1.0	2,029 (2,029)	1,934 (1,934)	2,713 (2,713)	14,303 (14,303)	1,654 (1,654)	785 (785)	103 (103)

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.

Notes to the financial statements

2 Results from insurance operations continued

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 reinsurance 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.

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

	2022			2021		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Unearned premium liability/(asset) at beginning of year	**296,088**	**(53,210)**	**242,878**	**250,124**	**(48,742)**	**201,382**
Premium written	781,825	(230,020)	551,805	531,882	(61,069)	470,813
Premium (earned)/incurred	(559,967)	73,111	(486,856)	(485,918)	56,601	(429,317)
Unearned premium liability/(asset) at end of year	**517,946**	**(210,119)**	**307,827**	**296,088**	**(53,210)**	**242,878**
Current	178,380	(45,342)	133,038	135,475	(20,530)	114,945
Non-current	339,566	(164,777)	174,789	160,613	(32,680)	127,933
Unearned premium liability/(asset) at end of year	**517,946**	**(210,119)**	**307,827**	**296,088**	**(53,210)**	**242,878**

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.

Notes to the financial statements

2 Results from insurance operations continued

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, Construction, 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. A surplus from one portfolio cannot be offset against a deficiency from another portfolio.

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

2.8 Unexpired risks liability continued

(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	Construction $'000	Other $'000	Total $'000
2022							
Net premium liability	186,632	77,405	254,300	67,136	75,465	23,017	
Net present value of future policy costs	(172,337)	(76,643)	(291,476)	(67,024)	(66,368)	(16,571)	
Risk margin	(40,502)	(23,797)	(52,337)	(11,523)	(27,445)	(2,841)	
Gross deferred acquisition costs recognised	(22,111)	-	-	-	-	-	
Gross premium (deficiency)/surplus	**(48,318)**	**(23,035)**	**(89,513)**	**(11,411)**	**(18,348)**	**3,605**	
Deferred acquisition costs written down	22,111	-	-	-	-	-	
Net premium deficiency	**(26,207)**	**(23,035)**	**(89,513)**	**(11,411)**	**(18,348)**	**-**	**(168,514)**
Deferred acquisition costs recognised in Balance Sheet(i)	-	-	-	-	-	-	
2021							
Net premium liability	166,946	69,264	234,376	60,002	-	50,244	
Net present value of future policy costs	(177,585)	(72,061)	(274,384)	(61,446)	-	(42,455)	
Risk margin	(41,736)	(22,325)	(54,199)	(10,565)	-	(11,001)	
Gross deferred acquisition costs recognised	(22,931)	–	–	–	-	–	
Gross premium (deficiency)/surplus	**(75,305)**	**(25,122)**	**(94,207)**	**(12,008)**	**-**	**(3,213)**	
Deferred acquisition costs written down	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)							

(i) The decrease in deferred acquisition costs recognised in the Comprehensive Operating Statement during the financial year amounted to Nil (2021: Nil).

(ii) Construction was consolidated into the Other portfolio in 2021

(b) Movement in unexpired risks liability

	2022 $'000	2021 $'000
Current		
Unexpired risks liability at beginning of year	**186,925**	**216,023**
Increase/(decrease) in unexpired risks liability	(18,411)	(29,098)
Unexpired risks liability at end of year	**168,514**	**186,925**

Notes to the financial statements

2 Results from insurance operations continued

2.9 Deferred acquisition costs

Deferred acquisition costs movement:

	Note	2022 $'000	2021 $'000
Deferred acquisition costs at beginning of year		-	–
Acquisition costs deferred		9,561	10,856
Amortisation charged to income		(10,381)	(10,481)
Decrease/(increase) in write down due to premium deficiency		820	(374)
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

	2022 $'000	2021 $'000
Current		
Insurance receivables - non-financial (statutory)	194,818	26,809
Other receivables - financial (contractual)	312	652
Total trade receivables	**195,130**	**27,461**

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 comprise insurance premium owing by various Victorian Government Departments and agencies and premiums for multi-year construction policies that will be invoiced in instalments over the life of the project. 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. $10.0 million of insurance receivables were past due at 30 June 2022 (2021: $2.8 million). The credit terms for insurance premium receivable in instalments commences once an instalment invoice is issued, and no instalments are past due at 30 June 2022.

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 2022 (2021: Nil).

No provision for doubtful debts has been raised at 30 June 2022 (2021: Nil) as there is no risk of non-recovery of trade receivables.

2.11 Trade payables

	2022 $'000	2021 $'000
Current		
Trade payables - financial (contractual)[i]	106,835	11,839
Deposits held to meet future claim payments - financial (contractual)[ii]	36,853	14,110
Total trade payables	**143,688**	**25,949**

(i) Trade payables includes reinsurance premium for multi-year construction policies that are being paid in instalments

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

Notes to the financial statements

3. Cash and investments

Introduction to this section

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

3.1 Investment income

	Note	2022 $'000	2021 $'000
Investment income			
Dividends and distributions		224,271	109,000
Interest		1,204	1,694
Fair value movements through income	3.2(a)	(295,874)	347,259
Total investment income		**(70,399)**	**457,952**

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 2021 or the cost of acquisition (for investments purchased during the year), and sales proceeds or their fair value at 30 June 2022.

3.2 Cash and cash equivalents

	2022 $'000	2021 $'000
Current		
Cash at bank	45,721	53,832
Total cash and cash equivalents	**45,721**	**53,832**

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

3.2 Cash and cash equivalents continued

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

	Note	2022 $'000	2021 $'000
Net result		(249,234)	261,465
Profit on disposal of furniture, fittings, equipment and motor vehicles		(15)	(30)
Depreciation		1,944	1,939
Amortisation of intangible assets		2,420	297
Fair value movements through income	3.1	295,874	(347,259)
Interest credited to clients		1,006	(1,562)
Change in fair value of investments as a result of outstanding settlements		866	1,054
Changes in operating assets and liabilities:			
(Increase)/Decrease in trade receivables		(167,669)	(17,049)
(Increase)/Decrease in non-trade receivables		(1,401)	(1,016)
(Increase)/Decrease in prepaid expenses		267	(1,193)
(Increase)/Decrease in reinsurance and other operating assets		(135,886)	(7,557)
Increase/(Decrease) in trade payables		117,739	12,206
Increase/(Decrease) in non-trade payables		3,605	(3,292)
Increase/(Decrease) in provisions		385	858
Increase in gross insurance liabilities		335,166	192,671
Net cash inflow from operating activities		**205,067**	**91,535**

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 the Victorian Funds Management Corporation (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 2022, 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.

Notes to the financial statements

3 Cash and investments continued

3.3 Investments continued

(c) VMIA's investment portfolio

	2022 $'000	2021 $'000
Australian equities	352,786	388,183
Australian bonds	133,890	149,616
US bonds	74,455	89,033
Emerging market debt	75,122	83,330
Inflation linked bonds	202,186	240,791
Infrastructure	221,407	195,973
International equities	732,679	837,552
Opportunistic	20,595	28,959
Private credit	150,808	132,520
Insurance investments	5,062	4,839
Hedge funds	288,940	213,433
Private equity	2,942	3,426
Property	233,943	180,331
Derivative overlay	(2,678)	-
Short term money market funds	395,559	430,487
Total fair value of investment portfolio at 30 June	**2,887,696**	**2,978,474**
Investments	2,965,895	3,000,276
Derivative liabilities	(78,199)	(21,802)
Total fair value of investment portfolio at 30 June	**2,887,696**	**2,978,474**

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 (b)]

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.

Notes to the financial statements

4. Leases

Introduction to this section

This section provides details of the lease assets and liabilities entered into by VMIA
This section contains the following disclosure:

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

	2022 $'000	2021 $'000
Non-current		
Cost	14,696	14,696
Accumulated depreciation	(5,238)	(3,482)
Total right-of-use-asset	**9,458**	**11,214**

4.2 Lease liability

	2022 $'000	2021 $'000
Current	1,756	1,605
Non-current	8,918	10,674
Total lease liability	**10,674**	**12,279**

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

	2022 $'000	2021 $'000
Staff and related	38,360	39,417
Professional services	4,450	3,623
Information services	4,788	4,352
Client risk management	1,224	1,332
Strategic risk	342	801
Depreciation and amortisation	4,364	2,236
Other operating	3,832	3,279
Total administration expenses	**57,360**	**55,040**
Less: unallocated claims expenses	(9,836)	(6,538)
Net administration expenses	**47,524**	**48,502**
Total administration expenses include the following:		
Auditor-General's fees	145	142
Operating lease expenditure	902	1,049

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 2022 (2021: Nil).

Notes to the financial statements

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.
This section contains the following disclosure:

6.1 Non-trade payables

	2022 $'000	2021 $'000
Current		
Accruals and other payables - financial (contractual)	6,502	4,536
Goods and Services Taxation - non-financial (statutory)	6,305	4,852
Stamp Duty - non-financial (statutory)	4,755	4,569
Total non-trade payables	**17,562**	**13,957**

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.

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

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 (2021: $50 million - $14 million as a return of capital) to the State as directed by the Treasurer and VMIA earned grant income of $7.5 million paid by the State in relation to the provision of COVID-19 event cancellation insurance. The net balance of $42.5 million has been recognised as a payment to the State through the Net Result as VMIA have no capital to return.

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

Dividends

In accordance with section 13 of the *State Owned Enterprises Act 1992*, VMIA is required to pay to the State a dividend as determined by the Treasurer. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer after consulting with the Assistant Treasurer and VMIA's Board of Directors. No dividend was paid during the financial year ended 30 June 2022 (2021: 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 2022 (2021: 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.

Notes to the financial statements

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% (2021: 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.

	2022 $'000	2021 $'000
Impact on comprehensive result and equity from a movement in equity prices		
Listed investments prices		
Decrease of 15%	(859)	(6,325)
Increase of 15%	859	6,325
Unlisted investments prices		
Decrease of 15%	(384,824)	(389,352)
Increase of 15%	384,824	389,352

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% (2021: 25%) of international equities exposure and 100% (2021: 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% (2021: 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.

	2022 $'000	2021 $'000
Impact on comprehensive result and equity from a movement in foreign exchange rates		
Decrease of 10%	(33,504)	(37,283)
Increase of 10%	27,412	30,504

(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.

Notes to the financial statements

8 Financial instruments continued

8.1 Financial risk management continued

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

	Note	2022 Fixed rate $'000	2022 Variable rate $'000	2022 Total $'000	2021 Fixed rate $'000	2021 Variable rate $'000	2021 Total $'000
Financial assets							
Cash and cash equivalents		-	45,721	45,721	-	53,832	53,832
Debt securities	8.1(b)	-	-	-	-	-	-
Interest rate derivatives		-	-	-	-	-	-
Short term money market funds		486	374,452	374,938	73	389,208	389,281
Financial assets exposed to interest rate risk		**486**	**420,173**	**420,659**	**73**	**443,040**	**443,113**
Financial liabilities							
Interest rate derivatives		3,942	-	3,942	586	-	586
Short term money market funds		-	32,005	32,005	-	40,716	40,716
Trade payables (i)	2.11	-	36,853	36,853	-	14,110	14,110
Lease liability		10,674	-	10,674	12,279	-	12,279
Financial liabilities exposed to interest rate risk		**14,616**	**68,858**	**83,474**	**12,865**	**54,826**	**67,691**
Net exposure		**(14,130)**	**351,315**	**337,185**	**(12,792)**	**388,214**	**375,422**

(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.

(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.

8.1 Financial risk management continued

Financial assets held with the following credit grades:

	Note	Investment grade $'000	Non-investment grade $'000	Not rated $'000	Total $'000
2022					
Trade receivables [i]	2.10	289	-	23	312
Non-trade receivables		-	-	4,331	4,331
Debt securities	8.1 (a)(iii)	-	-	-	-
Total [ii]		**289**	**-**	**4,354**	**4,643**
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**

(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.

(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
2022					
Financial liabilities					
Financial derivatives	8.2	78,199	-	-	78,199
2021					
Financial liabilities					
Financial derivatives	8.2	21,802	-	-	21,802

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 (2021: 30 days).

Notes to the financial statements

8 Financial instruments continued

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
2022					
Derivative assets		49,920	(27,666)	(22,029)	225
Derivative liabilities	3.3(c), 8.1(c)	(78,199)	27,666	2,133	(48,400)
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)

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
2022					
Financial assets and financial liabilities					
Cash and cash equivalents	3.2	45,721	-	-	45,721
Trade receivables	2.10	-	312	-	312
Non-trade receivables		-	4,331	-	4,331
Investments and derivative liabilities					
Australian equities	3.3(c)	(7)	352,793	-	352,786
Australian bonds	3.3(c)	66	133,824	-	133,890
US bonds	3.3(c)	132	74,323	-	74,455
Emerging Market Debt	3.3(c)	-	75,122	-	75,122
Inflation linked bonds	3.3(c)	288	201,898	-	202,186
Infrastructure	3.3(c)	-	(7,548)	228,955	221,407
International equities	3.3(c)	(32,259)	764,938	-	732,679
Opportunistic	3.3(c)	-	-	20,595	20,595
Private Credit	3.3(c)	-	(8,304)	159,112	150,808
Insurance investments	3.3(c)	-	(468)	5,530	5,062
Hedge Funds	3.3(c)	-	13,067	275,873	288,940
Private equity	3.3(c)	-	-	2,942	2,942
Property	3.3(c)	-	60	233,883	233,943
Derivative Overlay	3.3(c)	1,264	(3,942)	-	(2,678)
Short term money market funds	3.3(c)	381,222	14,337	-	395,559
Trade payables	2.11	-	(143,688)	-	(143,688)
Non-trade payables	6.1	-	(6,502)	-	(6,502)
Total financial assets and financial liabilities		**396,427**	**1,464,553**	**926,890**	**2,787,870**

Notes to the financial statements

8 Financial instruments continued

8.3 Fair values continued

(a) Measurement of fair values continued

	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	-	837,552
Opportunistic		-	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**

Transfers between fair value hierarchy levels

During the current financial year there were $15.2 million (2021: $25.2 million) 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.

8.3 Fair values continued

Reconciliation of Level 3 fair value measurements of financial assets

	2022 $'000	2021 $'000
Level 3 fair value hierarchy reconciliation of investments		
Balance at beginning of year	**711,426**	**727,418**
Transfer in	15,187	25,198
Acquisitions	203,724	110,423
Disposals	(59,334)	(153,177)
Gains/(losses) on disposal credited to income	(639)	3,694
Gains/(losses) on changes in fair value	56,526	(2,130)
Balance at end of year	**926,890**	**711,426**

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.

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.

Notes to the financial statements

8 Financial instruments continued

8.3 Fair values continued

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

9. Other disclosures

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

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 2022.

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 2023, further explanation is provided below. The extent of any impact from other standards with an operative date after 1 January 2023 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 – Classification of Liabilities as Current or Non-Current	1 January 2023
AASB 17	Insurance Contracts	1 July 2025

Exposure Draft 319 has been released by the Australian Accounting Standards Board (AASB) in relation to public sector entities adopting AASB 17, which for other entities has an operative date of 1 January 2023. This draft proposes that public sector entities would adopt AASB 17 from 1 July 2025. AASB 4 and AASB 1023 would also be amended to allow public sector entities to continue using these standards until AASB 17 is applied.

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.

Notes to the financial statements

9 Other disclosures continued

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 2022 (2021: Nil).

Capital commitments

VMIA has uncalled capital commitments in respect of investments totalling $291.550 million as at 30 June 2022 (2021: $229.500 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. (Assistant Treasurer)
Governing Board of Directors:	E. Rubin, J. Doak, C. Keating , B. King, C. Lovell, R. Castle and G. Sedgwick
Accountable Officer:	A. Davies

(b) Remuneration of responsible persons

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

	2022	2021
Directors		
$40,000–$49,999	6	6
$90,000–$99,999	-	1
$100,000 - $109,999	1	-
Accountable Officers		
$480,000–$489,999	1	1

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

The Responsible Minister, 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 Annual Financial Report of the State.

The remuneration, including the superannuation guarantee contribution, received or receivable by responsible persons from VMIA amounted to $828,839 (2021: $833,303).

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	2022 $'000	2021 $'000
Short term employee benefits	2,498	2,611
Post employment benefits	218	227
Other long term benefits	(28)	113
Termination benefits	18	373
Total compensation	**2,706**	**3,324**

Remuneration and allowances pertaining to ministers are reported in the Annual Financial Report of the State. 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.

(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 (2021: 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.

Notes to the financial statements

9 Other disclosures continued

9.4 Related parties continued

	Gross premium written $	Gross claims paid $	Risk management program expenses $	Administration expenses $	Investment expenses $
2022					
Victorian Funds Management Corporation	1,566,189	-	-	-	8,157,822
VicForests	487,341	-	-	-	-
Metropolitan Fire and Emergency Services Board	-	-	-	-	-
Yooralla	-	-	-	-	-
Judicial Commission of Victoria	21,081	-	-	-	-
Cenitex	137,435	-	-	-	-
Coles	-	-	-	812	-
Telstra Corporation	-	-	-	5,259	-
Pricewaterhouse Coopers	-	-	-	658,710	-
Total	**2,212,046**	**-**	**-**	**664,781**	**8,157,822**
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**

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. Resigned in March 2022
	AustralianSuper	Director	VMIA contributes superannuation benefits to AustralianSuper for a number of employees.
	Cenitex	Member of Audit and Risk Committee	VMIA provides insurance on normal terms and conditions. Resigned in March 2022
	Judicial Commission of Victoria	Director	VMIA provides insurance on normal terms and conditions.
	PricewaterhouseCoopers	Beneficiary	VMIA contracts for services 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 Victoria	Director	VMIA provides insurance on normal terms and conditions through the community service organisation program operated by the Department of Families, Fairness, and Housing.

Notes to the financial statements

9 Other disclosures continued

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 (2021: 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.

	2022 $'000	2021 $'000
Short term employee benefits	1,737	1,836
Post employment benefits	150	168
Other long term benefits	(28)	113
Termination benefits	18	373
Total remuneration	**1,877**	**2,490**
Total number of VMIA officers with executive responsibility	**8**	**15**
Total annualised employee equivalent (AEE)	**7.2**	**8.6**

In 2022 no VMIA officer with executive responsibility acted in the Accountable Officer role for part of the financial year (2021: None).

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 2022 and the financial position of the Victorian Managed Insurance Authority at 30 June 2022.

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

We authorise the attached financial report for issue on 29 August 2022.

Elana Rubin AM
Chairperson, VMIA Board

Andrew Davies
Chief Executive Officer

Wayne Kenafacke
Chief Performance Officer

Melbourne
29 August 2022

Independent auditor’s report

VAGO
Victorian Auditor-General's Office

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 2022 • 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 2022 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.

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

Key audit matter	How I addressed the matter
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.	

Investment assets: $3.0 billion
 	
Derivative liabilities: $78.2 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.
	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:
	  o assessing the adequacy of the scope of work agreed between management and the assurance auditor
	  o assessing the professional competence and independence of the assurance auditor in the context of the engagement
	  o evaluating findings provided in the assurance reports
	  o relying on the assurance reports to confirm the description, design, and operating effectiveness of controls at the fund manager and master custodian
	  o relying on the assurance reports to confirm the existence, valuation and rights and obligations of investment assets and derivative liabilities at 30 June
	  o assessing the impact of any limitations, disclaimers or exceptions noted in the assurance reports on the audit.
	• reviewing and assessing the impact of other representations given by the fund manager and master custodian
	• obtaining further audit evidence that the value of investment assets and derivative liabilities not covered in the independent assurance auditor's report were materially correct
	• assessing the completeness and adequacy of financial report disclosures against the requirements of Australian accounting standards.

<table>
<tr><th>Key audit matter</th><th>How I addressed the matter</th></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>Gross claims liabilities - $2.9 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 engaged actuaries to value the liabilities as at 30 June.</td><td>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
assessing the professional competence and independence of management's actuary in the context of the engagement
obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to:
assess the appropriateness of management's selection and application of the methods, significant assumptions and data used in valuing the liabilities
evaluate the appropriateness of the model used to value the liabilities
challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks
assess the reasonableness of the reported liabilities value.
assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.</td></tr>
</table>

<table>
<tr><td>Board's responsibilities for the financial report</td><td>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.</td></tr>
</table>

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
2 September 2022

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.

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.

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 2022:

- 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 2022:

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

Corporate governance and compliance

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.

Remuneration and Capability Committee

Members as at 30 June 2022:

- 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.

Directions of the Assistant Treasurer

During the 2021-22 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:

- Government Rail Insurance Program (GRIP) entities from 1 November 2021 to 30 June 2024. The types of insurance and entities to be insured are set out in Victoria Government Gazette G45 on 11 November 2021.
- Event Organisers, if they meet the conditions set out in the direction, are to be provided with COVID-19 Event Insurance. The conditions of insurance are set out in Victoria Government Gazette S709 on 13 December 2021. The direction is effective from 10 December 2021 to 31 December 2022.

Declarations of Participating Bodies by the Assistant Treasurer

There were no new declarations of Participating Bodies by the Assistant Treasurer, during the 2021-22 financial year, pursuant to section 4 of the *Victorian Managed Insurance Authority Act 1996*.

Occupational Health and Safety

VMIA is committed to the health and safety of our people and visitors. The Work Health and Safety Committee meets quarterly and has representatives from across VMIA. VMIA maintains a strong approach to health and wellbeing to ensure its people remain mentally and physically well.

VMIA has established and maintains a COVIDSafe Plan that encompasses and evolves with changing Government Regulations and Guidelines and is available to our employees on the intranet.

A number of OHS initiatives were implemented in 2021-22 including:

- Air purifiers (with HEPA filters) installed throughout the office
- Hybrid working arrangements that provide flexibility for people to work from the office or remotely
- Technology uplift at the commencement of the pandemic that has provided all employees with the means to work remotely with minimal (if any) operational impact.

Health and wellbeing support

During 2021-22, we continued to offer numerous programs to support employee health and wellbeing, including:

- Wellness Day allowing employees to utilise two additional personal leave days per calendar year to support health and wellbeing
- Managing mental health and wellbeing in the workplace training
- Mental health and wellbeing programs, including a Wellness subsidy to support employees who wish to undertake health and wellbeing related activities (e.g. fitness classes, mindfulness and meditation workshops)
- Onsite and offsite flu vaccinations
- Access to free Sun Safety webinar in November 2021
- An upgraded Employee Assistance Program offering services by experienced and qualified registered/clinical psychologists.

Pandemic-related support

- A remote working allowance of $20 per week (before tax) continued in 2021-22 to assist with working from home expenses
- Ergonomic allowance for home workspace (introduced in March 2020) to support the purchase of additional equipment
- Special pandemic leave and special pandemic carers leave (introduced in April 2020) to assist with managing COVID-19 related absence
- Access to an additional half day of leave to obtain COVID-19 vaccinations
- Ergonomic home self-assessments, with the option of this being carried out by an external provider where additional support was required.

Other support offered to employees

- Supporting for transition through life stages (parenthood, retirement)
- Updated flexible work and leave policies
- Family violence support, including an in-house trained Family Violence support officer.

We continue to conduct regular employee pulse surveys to understand how our employees are feeling and what support is required, particularly as we continue to navigate through the pandemic. Employee engagement remains strong – with an average pulse score of 7.5 out of 10 based on the six surveys conducted over the financial year 2021-22. Our people continue to feel supported by VMIA and appreciate the ability to work flexibly (in line with our principles of place-based work). Manager and team support, engaging work and regular communication about COVID-19 related developments are noted as strong positives.

Guide to Hybrid Work at VMIA was launched to staff on 12 May 2022, highlighting the importance of flexibility and purpose driven use of the office. It is anticipated that people will be connecting in-person in the office two to three days a week.

Corporate governance and compliance

Performance against occupational health and safety management measures

	2021–22	2020–21
Hazards identified	0**	15*
Incidents reported	0	5
Workers Compensation claims	1	2

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

** This financial year 2021-22, workplace hazards that are unrelated to COVID-19 are reported separately from COVID-19 related hazards (suspected exposures or risks). No workplace hazards (non-COVID-19 related) were identified this financial year; however, 55 COVID-19 related hazards were registered.

Employment and conduct principles

VMIA is committed to applying merit and equity principles when appointing new employees. 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 suite of detailed employment policies and procedures, including policies covering talent attraction and selection, flexible work, learning and development, resolution of workplace issues, remuneration and redeployment. These policies are reviewed regularly to ensure they comply with legislative requirements and contemporary workplace practices.

Workforce data

	All employees				Ongoing						Fixed term and casual			
	Number (headcount)		FTE		Full-time (headcount)		Part-time (headcount)		FTE		Number (headcound)		FTE	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Gender														
Women	138	135	130.5	129.3	84	84	27	20	104.9	99.3	27	31	25.6	30.0
Men	85	91	82.9	88.5	63	63	6	4	67.1	65.1	16	24	15.8	23.4
Self-described														
TOTAL	223	226	213.4	217.8	147	147	33	24	172.0	164.4	43	55	41.4	53.4
Age														
15-24	1	5	1.0	4.6	0	3	0	0	0.0	3.0	1	2	1.0	1.6
25-34	41	43	40.2	42.2	31	32	2	1	32.2	32.2	8	10	8.0	10.0
35-44	66	71	62.6	67.5	41	34	12	12	50.4	43.1	13	25	12.2	24.4
45-54	65	64	62.9	61.9	45	47	6	6	49.7	51.5	14	11	13.2	10.4
55-64	39	36	36.4	35.3	23	27	10	2	30.4	28.3	6	7	6.0	7.0
65+	11	7	10.3	6.3	7	4	3	3	9.3	6.3	1	0	1.0	0.0

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

Workforce inclusion

We are continuing to work towards creating an inclusive working environment where equal opportunity and diversity are valued, and that reflects the communities that we serve.

In March 2022, VMIA delivered its first Gender Equality Action Plan to the Commission for Gender Equality in the Public Sector (CGEPS). As part of it, a number of diversity and inclusion measures were identified, including tracking progress towards a positive culture within VMIA in relation to employees of different genders, who are Aboriginal and/or Torres Strait Islander, from varied cultural backgrounds, who identify as LGBTQIA+, of different age groups, and with disability.

The 2022 People Matter survey results reveal that our people agree that there is a positive culture at VMIA in relation to employees with the intersectional attributes mentioned above (agreement of 80% and above).

Compliance with *Local Jobs First Act 2003*

The *Local Jobs First Act 2003* brings together the Victorian Industry Participation Policy (VIPP) and Major Projects Skills Guarantee (MPSG) policy which were previously administered separately. Victorian Departments and public sector bodies are required 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 policy in all projects 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. MPSG applies to all construction projects valued at $20 million or more.

Corporate governance and compliance

Projects commenced – Local Jobs First Standard

During 2021-22, VMIA commenced one Local Jobs First Standard project totalling $3.53 million. This project is a state-wide project.

The outcomes expected from the implementation of the Local Jobs First policy to this project is as follows:

- commitment to use 97% local content for the project
- commitment to only use goods produced and services supplied for the project with a minimum 97% local content
- office locations in Melbourne
- retention and creation of local jobs for the project.

Government advertising expenditure

VMIA did not spend any money on government advertising campaigns during 2021–22.

Information and communication technology expenditure

For the 2021–22 reporting period, VMIA had a total information and communication technology spend of $14.5 million excluding GST with details shown below.

Business as usual expenditure ($ excl GST)	Non-business as usual expenditure ($ excl GST)	Operational expenditure ($ excl GST)	Capital expenditure ($ excl GST)
7,174,841	7,318,013	2,216,620	5,101,393

NOTE:

- **Business as usual expenditure** relates to ongoing activities to operate and maintain current information and communication technology capacity.
- **Non-business as usual** expenditure relates to extending and enhancing VMIA's current capability. It is the sum of operational expenditure and capital expenditure.

Freedom of Information

The *Freedom of Information Act 1982* (FOI Act) 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 on www.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.

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 $30.10 applied from 1 July 2021 to 30 June 2022. 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

Freedom of Information statistics

During 2021–22, VMIA received six valid freedom of information requests, all of which were from the general public.

VMIA made five freedom of information decisions during the 12 months ending 30 June 2022. All five decisions were made within the statutory 30-day time period. Freedom of information requests received late in the financial year (ie mid-June) may not be decided until early in the following financial year (ie mid-July) and will be reported in that period (1 July 2022 to 30 June 2023).

The average time taken to finalise requests in 2021–22 was 28 days.

During 2021–22, no requests were subject to an internal review by the Office of the Victorian Information Commissioner.

Further information

Further information regarding the operation and scope of the FOI Act can be obtained from the Office of the Victorian Information Commissioner at https://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.

Corporate governance and compliance

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
Internet: 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 2021–22 financial year, VMIA undertook a range of activities to support the implementation of the Framework and to find opportunities to maximise the take of up social procurement through its procurement activity.

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

- Opportunities for Victorian Aboriginal and Torres Strait Islanders
- 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 and indirect spend through suppliers that have made social procurement commitments in their procurement contracts.

Office-based environmental impacts

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

- Adoption of ISO 14001 Environmental Management System guidelines in the development of its environmental policies
- Integration of sustainability principles into the design and fit-out of office space
- Establishing internal procedures to maximise alternative use of redundant stationery and used office equipment
- Separating office waste into 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 mobile devices.

Consultancy expenditure

In 2021–22, there were 10 consultancies where the total fees paid or payable were $10,000 or greater, excluding GST. The total approved expenditure was $1,103,263, excluding GST. Details of individual consultancies are outlined below.

Consultant	Purpose of consultancy	Total approved expenditure ($ ex GST)	Expenditure 2021-22 ($ ex GST)	Future expenditure ($ ex GST)
Accenture Australia Pty Ltd	Consulting Services - DBI	$247,500	$247,500	$0
Aon Risk Services Australia Limited	Market scan of the Professional Indemnity market	$45,455	$45,455	$0
Aon Risk Services Australia Limited	Technical review of cyber policy wording	$11,400	$11,400	$0
Comprara Group Pty Ltd	Advice & support for VGPB Procurement requirements	$100,502	$94,202	$6,300
Court Heath Consulting	Probity advisory services for DBI Property Search	$30,000	$14,175	$15,825
Data Agility Pty Ltd	Knowledge management assessment	$33,750	$33,750	$0
Deloitte Consulting Pty Limited	Procurement management for DBI property search	$225,420	$126,464	$98,956
Deloitte Consulting Pty Limited	Scoping research for DBI property search	$45,425	$45,425	$0
KPMG Financial Advisory Services	Business Continuity Planning	$27,182	$27,182	$0
Pricewaterhouse Coopers	Factor Analysis of Information Risk (FAIR) pilot	$36,210	$36,210	$0
Pricewaterhouse Coopers	Risk Culture Survey	$34,500	$34,500	$0
Pricewaterhouse Coopers	Australian Cyber Security Centre (ACSC) Essential Eight maturity assessment	$25,000	$25,000	$0
Pricewaterhouse Coopers	DBI process review	$15,000	$15,000	$0
Pricewaterhouse Coopers	Controls Effectiveness Framework	$28,000	$14,280	$13,720
SoftwareOne Australia Pty Limited	Modern Workplace Collaboration	$13,363	$13,363	$0
Three Chairs Consulting Pty Ltd	Capability Uplift Leadership program	$184,556	$107,756	$76,800
		$1,103,263		

In 2021–22, there were 7 consultancies where the total fees paid or payable were less than $10,000, excluding GST.

Modern Slavery

The *Modern Slavery Act 2018* (Cth) (MS Act) was enacted 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 continues to be committed to the principles of the *MS Act* through ensuring that there are provisions in supplier contracts requiring suppliers to comply with the *MS Act* (where applicable). Suppliers are required to report to VMIA on their compliance with the *MS Act* and supply chain monitoring. All of VMIA's material contracts have a provision that gives VMIA the right to make enquiries of suppliers about their compliance with the *MS Act*.

Corporate governance and compliance

Asset Management Accountability Framework (AMAF) maturity assessment

The following section summarises VMIA'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 website (https://dtf.vic.gov.au/infrastructure-investment/asset-mangement-accountability-framework).

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

Leadership and Accountability (requirements 1-19)

VMIA has increased its target maturity to meet all requirements under this category. VMIA is now compliant in the areas of resourcing and skills and allocating asset management responsibility. There is no material non-compliance reported in this category.

Planning (requirements 20-23)

VMIA has improved its target maturity to meet all of the requirements in this category. There is no material non-compliance reported on this category.

Acquisition (requirements 24 and 25)

VMIA has met its target maturity level in this category.

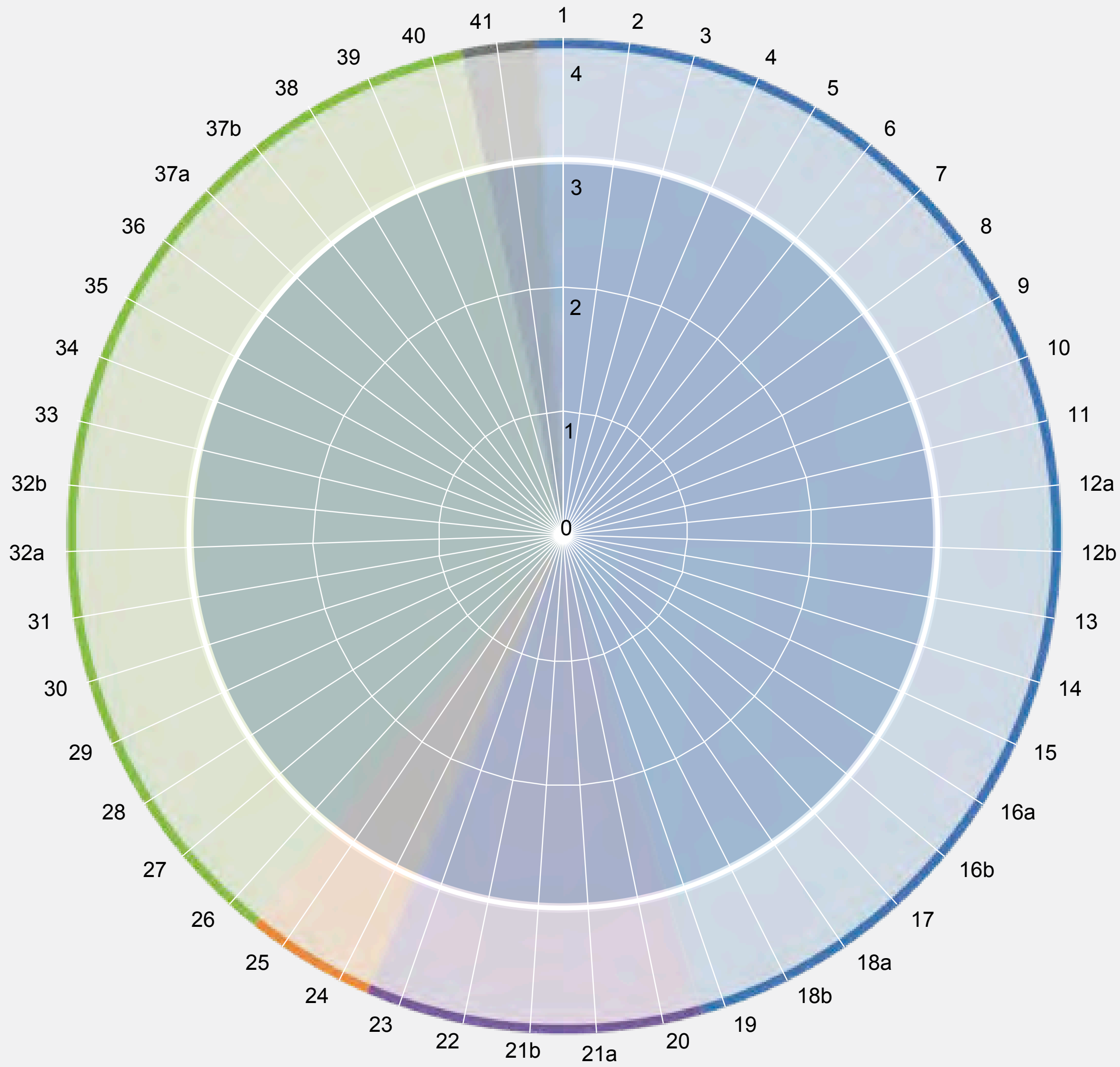
Operation (requirements 26-40)

VMIA has improved the target maturity level in all requirements under this category. There are no material non-compliance reported in this category.

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	

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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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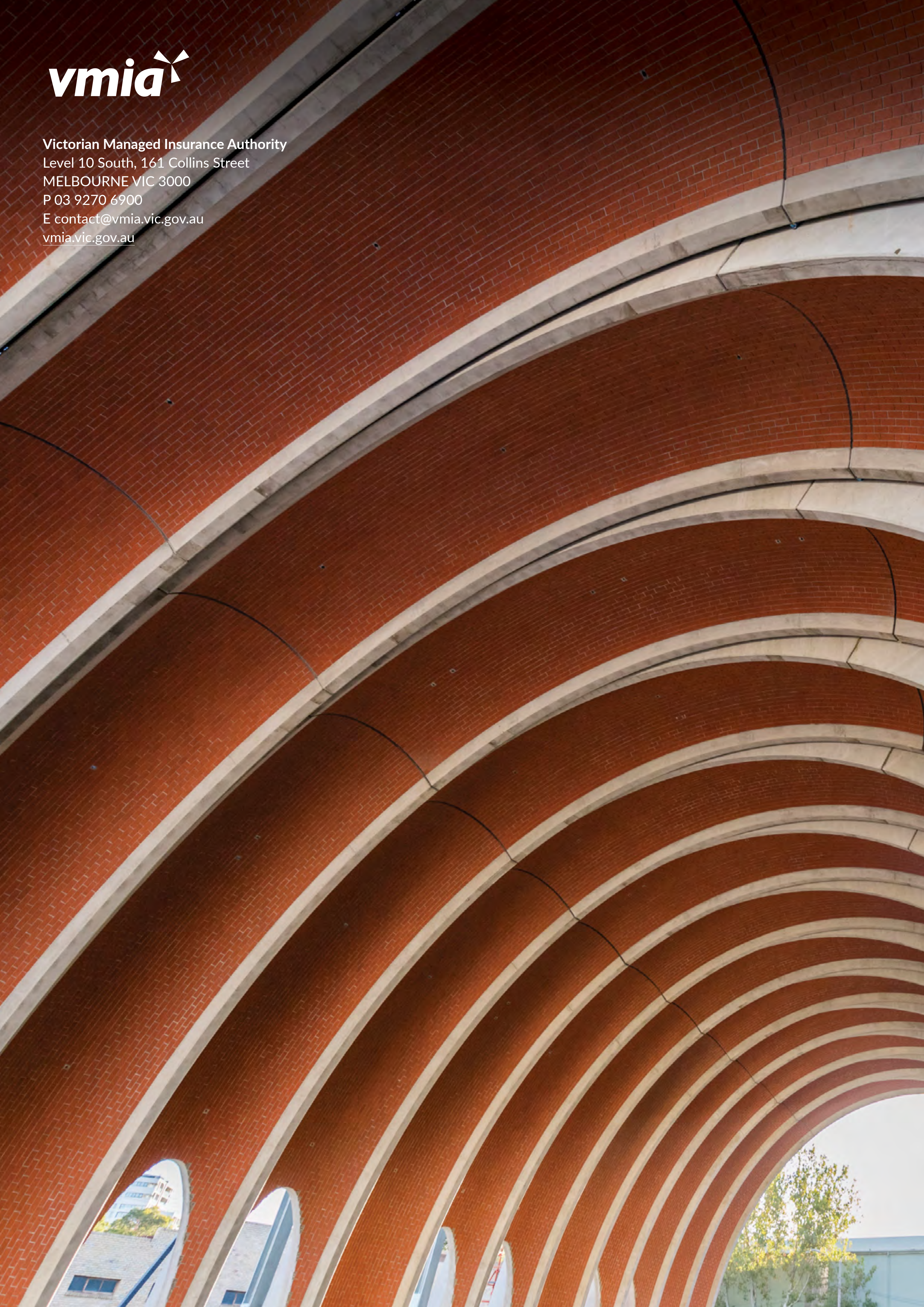
"Thank you to all our people for another exceptional year "

Elana Rubin - VMIA Chair



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