

4. FINANCIAL MANAGEMENT OF THE RUN-OFF COVER SCHEME

4.1 Future liabilities of the Run-Off Cover Scheme

4.1.1 The estimation of the Commonwealth's liabilities under the ROC Scheme in future years is an inherently imprecise process. The operation of the ROC Scheme is likely to be characterised by a small number of claims of highly variable size. It is not possible to predict the costs of the ROC Scheme with a high level of confidence. For example, the presence of even a single large claim in any given year would be expected to have a substantial effect on the total amount of ROC Commonwealth contributions for that year.

4.1.2 The liabilities of the ROC Scheme could be measured in a number of ways. It is normal for insurance-type liabilities to be measured on either a 'notified' or an 'occurrence' basis. On a notified basis, new liabilities would accrue to the Scheme as new claims were notified. On an occurrence basis, new liabilities would accrue to the Scheme at the time of the occurrence of the incidents which were expected to give rise to professional indemnity claims which would attract a ROC Commonwealth contribution.

4.1.3 Under the occurrence model, liabilities are recognised more quickly than under the notified model. The occurrence model is more consistent with the notion that the Scheme is ongoing. Accordingly, the occurrence model will be adopted for this purpose. The liabilities of the ROC Scheme will therefore be taken as the present value of future ROC Commonwealth contributions which relate to relevant pregnancy or birth-related incidents which occurred before the effective date of valuation.

Based on the available data, we estimate the liabilities of the Scheme at the valuation date to be \$0.



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