annual report

2015

taking care
accuro
health insurance

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Company directory

Board of Directors
Jane Bawden (Chair)
Bridgit Sissons (Deputy Chair)
Edward Schuck
Anthony Haycock
Aaron Mills
Pat Curry
Melissa Clark-Reynolds

Chief Executive Officer
Geoff Annals

Actuary
Peter Davies BBUS, SC, FIA, FNZSA

Solicitor
Mahony Burrowes Horner

Bankers
Westpac Banking Corporation

Auditor
BDO Wellington

Registered office
Level 1, 79 Boulcott Street
Wellington

Incorporation
Industrial and Provident Societies Act 1908

Chair's report

Our excellent public health services are not always available as and when required. Accuro members have the assurance that if they face that situation they have access to privately funded health services. Payment of members claims totalling nearly $15 million in 2014 and more than $16 million in 2015 is the confirmation of that assurance. Taking care of members is what Accuro was set up to do. Taking care is what Accuro does.

However Accuro has amongst the lowest health insurance premiums, the fact is all health insurance is expensive. Many members find the premium increases that ensure Accuro funds keep up with the increasing cost of health services, are more than they can manage. Taking care of members requires us to find ways to enable members to retain their membership despite rising health care costs. This continues to be a focus for Accuro.

Health services in New Zealand, and around the world, are confronted by an apparently never-ending acceleration in costs of services outstripping growth in wages and the economy. This is not only a problem for governments, economists and health providers. It is a problem for all of us. Health, wellbeing and access to the services and circumstances that enable us to live well, to stay well and to get well are of central importance to everyone.

Ensuring Accuro members continue to have affordable assurance of access to health care is of critical concern to Accuro's Board of Directors. Last year I reported on the commitment the Board has made to keep the burden of overheads on members' funds as low as possible. Unlike the costs of pharmaceuticals, medical technology and other health care inputs, the cost of business overheads is within our control. I'm very pleased to report the substantial reduction in the cost of overheads as a percentage of premium income I reported last year has been backed up with a further reduction this year. This will continue to be a focus for the Board.

Accuro also has the intrinsic cost advantage of being a co-operative or member owned business; we do not have the added cost of returning a share of 'customer' earnings to share holder owners.

We have also been encouraged to see a growing recognition by public policy makers that private health insurance and health services have a contribution to make towards solving the fiscal conundrum of healthcare cost growth outstripping economic growth. This issue will not be addressed in a real and sustainable way without all of us who have any part to play in the funding or delivery of health services working collaboratively.

Accuro is a community of New Zealanders. As such, collectively and individually Accuro is committed to the success and sustainability of New Zealand's health system. We are committed to working at all levels: internally - on our own systems, processes and products; across the health insurance sector; with the health sector – private and public; and with policy makers to play our part towards the goal of sustainable health care services supporting a healthy New Zealand.

I am pleased to acknowledge and thank my director colleagues for their industry, commitment, drive and support throughout the year. I also wish to thank Geoff Annals, his Management Team and all the wonderful staff who work with such enthusiasm to take care of Accuro members.

Jane Bawden
Board Chair

Chief Executive Officer's report

Last year I commented on the focus Accuro has placed on reducing the costs of business overheads and improving business systems and processes with the goal of making everything we do better, simpler, clearer and fairer for members. In her report the Chair has acknowledged the downwards trend in overheads achieved since this goal was set in place. At the same time I am pleased to report Accuro has been able to maintain investment in developing its systems and processes. Many of the resulting business improvements are not immediately visible to members, however some developments are gradually becoming visible to some members and as further improvements roll out will become visible to all members. Examples of visible improvements you may have already noticed include;

- Extension of the range of excess options for members with a Real Value Plan
- Introduction of the option to drop the specialist benefits for members with a Real Value Plan or a Major Medical Plan
- Introduction of the option of adding primary health care benefits for members with a Real Value Plan or a Major Medical Plan
- Extension of the time members, who have left an employer subsidised group scheme, have to decide if they wish to take up the option of continuing their health insurance under the same terms and conditions
- Introduction of emails to members who are eligible for loyalty benefits reminding them of these benefits
- Revision of premium notices with information about options for reducing premiums

These changes have been made in response to feedback from members and feedback on them received to date has been very positive and has seen an improvement in member retention. We do of course acknowledge that while a number of these changes go some way to improving the affordability of health insurance for some Accuro members, much more fundamental changes will be required in order that the option of taking up health insurance is an affordable option for all New Zealanders. As the Chair has commented, Accuro is committed to working both within and beyond ourselves to achieve the more fundamental changes that will be required.

Finally, I am very pleased to report that your Society has continued to strengthen its financial security this year. Last year I reported that in 2014 Accuro's reserves increased by 18% to $4.768m, well in excess of the actuarially calculated minimum and $1.768m in excess of the Reserve Bank's regulatory minimum. In 2015 Accuro's reserves increased by 33% to $6.333m or $3.333m in excess of the regulatory minimum of $3.0m. This, better than expected financial result, was largely due to the combined contributions made by strong growth in premium income, reduction in the cost of overheads and by improved underwriting performance. Unfortunately medical inflation does not stand still and despite this excellent result annual premium increases are still required.

However it does place Accuro in a great position to continue to build upon the business improvements made in the 2015 year.

My thanks to the continued great support by all of you, our Accuro members, the dedication of all Accuro staff and the inspired leadership of Jane Bawden and her governance team.

Geoff Annals
Chief Executive Officer

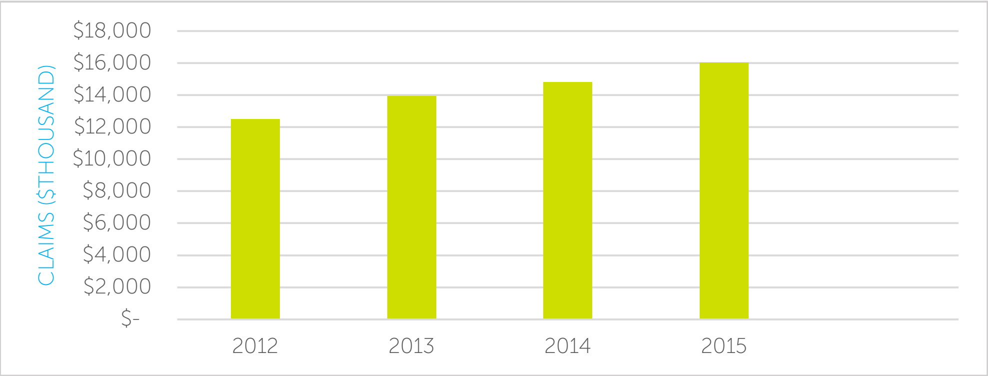
Spotlight on the financial year

For the year ended 31 August 2015

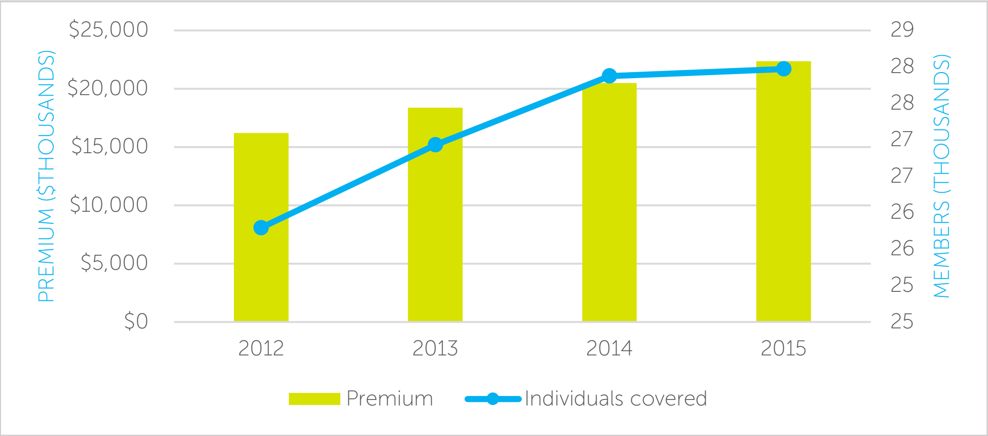
Financial position	$000
Members' funds	**6,333**
Represented by:	
Cash	658
Premium & other receivables	1,035
Investments	10,066
Property and equipment	84
Intangible assets	107
Total assets	**11,890**
Payables (liabilities)	(5,557)
Net assets	**6,333**
Solvency ratio	208%

Financial performance	$000
Premiums	22,377
Other income	259
Investment income	454
Total income	**23,090**
Claims expenses	(16,033)
Direct selling expenses	(1,364)
Other expenses	(4,125)
Total expenses	**(21,523)**
Overall surplus	**1,568**
AM Best's credit rating	B (stable)

Claims paid to members



Total annual premium and membership trend



Board of Directors

Jane Bawden LLM (Hons), CMInst.D

Chair

Jane Bawden is a barrister with extensive experience in the health and disability sector. Jane has worked with a variety of providers including District Health Boards and private hospitals. Jane also has a background in commercial litigation in both New Zealand and the UK.

Jane is a member of the Institute of Directors and the Auckland Medico-Legal Association. Jane is a director of Howick Baptist Healthcare Limited and 139 On Union Limited retirement village and has recently been appointed to the national adverse event expert advisory group of the Health Quality Safety Commission. Jane also advises on consumer engagement in the health sector.

Bridgit Sissons BA (HONS), PGDipCom (Dist), CMInst.D

Deputy Chair

Bridgit has worked extensively in New Zealand and the US developing and implementing communication strategies for well-known companies, start-ups and agencies. Bridgit has broad experience in corporate affairs, public relations, internal communications and stakeholder management, with over 18 years in the strategic communications industry.

Bridgit currently works as a consultant in Wellington, and she is also a member of the Institute of Directors. She has been a member of the Accuro Board of Directors since 2008.

Anthony Haycock MB, ChB, PGDip IH, CMInst.D

Director

Anthony is a medical doctor with 37 years' experience and expertise gained within the health sector. His experience includes 13 years in general practice medicine and 18 years of health project management, health planning, health publishing, health IT and general health consultancy.

Anthony has been actively involved in a number of successful health-related start-up companies. He is currently engaged in consultancy project work as an independent for his own company, Health-e-Consulting Ltd, and part-time employment with ACC as a medical advisor.

Board of Directors continued

Edward Schuck PhD, CMInst.D

Director

Ed is principal of Fidato Advisory, a provider of investment advisory and management consulting services to institutional investors and wealth management businesses in New Zealand. Ed is also a director of MMC Limited, a provider of administration services to fund managers, and a member of the National Provident Fund Board of Trustees.

Prior to starting his own business in 2009, Ed was managing director of Russell Investments in New Zealand, a global provider of investment advice and asset management services. Ed joined Russell in late 1999 after a six-year period as a senior lecturer in finance and investment at the University of Auckland.

Aaron Mills BMS, MSocSci (Hons)

Director

Aaron is a professional human resources practitioner with experience in the health and disability sector, the public service (Ministry of Health, Department of the Prime Minister and Cabinet, State Services Commission) and university sector (employed at Victoria University of Wellington).

Aaron has professional affiliations with the New Zealand Psychological Society (member), the Shared Services & Outsourcing Network (member) and the Institute of Directors (member). Aaron is an Associate Fellow of the Human Resources Institute (HRINZ).

Board of Directors continued

Pat Curry RN, ADN

Director

Pat has a strong background in health in the public, private and charitable organisation domain.

Pat is a registered nurse with over 35 years' experience in a wide range of roles including health funding and planning management at the Nelson Marlborough District Health Board and Chief Executive of the Nelson Tasman Hospice Trust. Pat currently holds director positions on the boards of the Nelson Bays Primary Health Organisation and the Abbeyfield Nelson Incorporated Society.

In addition to governance roles Pat is engaged in a range of voluntary work and provides business management consulting advice to small businesses focussed on health services. Pat is a member of the Institute of Directors.

Melissa Clark-Reynolds ONZM, MCRP, MInstD

Director

Melissa Clark-Reynolds is a professional company director, and on the Boards of Radio NZ, Software Education and the Ministry of Primary Industries' PGP Investment Advisory Panel.

Melissa is also an advisor to the Attitude Group who produce TV with a focus on disability; and Springload, a NZ web development company.

Melissa has had a previous career as a technology entrepreneur focused in the health and health and safety sector. In 2015 received a Queens Honour for services to Technology.

Statement of corporate governance

Board of Directors

The Board of Directors is the governing body of Accuro and consists of four elected Directors and up to three co-opted Directors (directorships are for two-year terms). The Board is responsible for the direction of the Society and management oversight. The two key establishing and guiding documents for Accuro are the Rules of the Society (which establishes the Board and its power) and the Governance Charter (which regulates and guides its function).

As at 31 August 2015, the Board comprised Jane Bawden (Chair), Bridgit Sissons (Deputy Chair), Edward Schuck (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Aaron Mills (Chief Executive Employment (CEE) Committee Chair), Anthony Haycock, Patricia Curry and Melissa Clark-Reynolds with co-opted Directorships being held by Jane Bawden, Edward Schuck and Anthony Haycock.

Governance framework

In conjunction with management, the Board operates under a number of statutory obligations. The primary legislative requirements for the Society are contained in, but not limited to, the Industrial and Provident Societies Act 1908, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. The governance framework in association with Accuro's risk management framework ensure that Accuro's processes and policies are aligned to ensure compliance with legislative requirements.

The Board and Management Team are governed by the overarching Governance Charter (2011). The Governance Charter represents a transparent set of standards under which Accuro operates and includes such things as the Code of Ethics and Fit and Proper Policy.

Board meetings and standing committees

The Board meets on a two-monthly basis to discuss the Society's affairs and strategic developments.

The Board has established a Risk, Audit, Investment and Compliance (RAIC) Committee, which presides over technical and advisory matters relating to a broad remit. The RAIC Committee operates on a quarterly basis, in between Board meetings and provides a direct interface between the Board and Management. The RAIC Committee is responsible for informing the Board of all matters arising from its remit and is governed by its responsibilities set out in the Governance Charter and the RAIC Committee Charter.

The Board has also established a Chief Executive Employment (CEE) Committee, which presides over technical and advisory matters relating to the employment of the Chief Executive. The purpose, membership, function, responsibilities and authority of the CEE Committee are set out in the Governance Charter and the CEE Committee Charter.

Financial statements

Statement of comprehensive income

For the year ended 31 August 2015

	note	2015 $000	2014 $000
Premium revenue		22,377	20,485
Claims expense	5, 11	(16,033)	(14,821)
Underwriting surplus		**6,344**	**5,664**
Operating expenses	2	(4,125)	(4,448)
Direct selling expenses		(1,364)	(1,177)
Investment income	3	454	344
Other income	3	259	354
Surplus attributed to members		**1,568**	**737**
Other comprehensive income			–
Total comprehensive surplus attributed to members		**1,568**	**737**

Statement of changes in equity

For the year ended 31 August 2015

	2015 $000	2014 $000
Balance	4,766	4,029
Surplus attributed to members	1,568	737
Total comprehensive income attributed to members	**1,568**	**737**
Closing retained earnings	**6,333**	**4,766**

Statement of financial position

For the year ended 31 August 2015

	note	31 August 2015 $000	31 August 2014 $000
Assets			
Cash and cash equivalents	4	658	684
Premium and other receivables	6	1,035	1,070
Investments	7	10,006	8,090
Property and equipment	8	84	97
Intangible assets	9	107	0
Total assets		**11,890**	**9,942**
Liabilities			
Trade and other payables	10	503	419
Employee benefits		326	336
Unearned premium liability	11	2,627	2,271
Provision for outstanding claims	11	2,102	2,148
Total liabilities		**5,557**	**5,174**
Net assets		**6,333**	**4,768**
Represented by			
Retained earnings		**6,333**	**4,768**

Jane Bawden Chair
16 October 2015

Edward Schuck RAIC Chair
16 October 2015

Statement of cash flows

For the year ended 31 August 2015

	note	2015 $000	2014 $000
Cash flows from operating activities			
Cash receipts from customers		22,900	21,004
Cash paid as claims		(16,079)	(14,421)
Cash paid to suppliers and employees		(5,237)	(5,237)
Interest received		447	217
Net cash flows from operating activities	14	**2,031**	**1,562**
Cash flows from investing activities			
Proceeds from sale of investments		8,090	4,600
Acquisitions of investments		(10,006)	(6,490)
Acquisitions of software		(112)	(44)
Acquisitions of property, plant and equipment		(29)	
Net cash flows used in investing activities		(2,057)	(1,935)
Net increase/(decrease) in cash and cash equivalents		**(26)**	**(373)**
Opening cash and cash equivalents		684	1,057
Closing cash and cash equivalents	4	**658**	**684**
Bank call accounts		**658**	**684**

Notes to the financial statements

For the year ended 31 August 2015

1. Statement of accounting policies

Reporting entity

Health Service Welfare Society Limited (the Society) trading as Accuro Health Insurance is registered under the Industrial and Provident Societies Act 1908. The Society is incorporated in New Zealand and is exempt from income tax.

The Society is domiciled in New Zealand. The registered office and principal place of business is 79 Boulcott Street, Wellington.

The financial statements of the Society have been prepared according to the Financial Reporting Act 2013.

The Society is an FMC Reporting Entity for the purposes of the Financial Market Conduct Act 2013. The Society is required to be fully licensed under section 19 of the Insurance (Prudential Supervision) Act 2010. On 11 June 2013, the Society was licensed by the Reserve Bank of New Zealand.

Nature of the business

The principal activity of the Society is to provide hospital, surgical, specialist and medical benefits and bereavement grants to members.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand general accepted accounting practice (NZ GAAP).

Under the specific criteria and definitions of the financial reporting standards, the Directors have classified the Society as a public benefit entity for financial reporting purposes.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS PBE) as appropriate for not-for-profit entities.

The statements of financial position have been presented in the order of decreasing liquidity. All balances are current, except for intangible assets, and property and equipment.

The financial statements were approved by the Board of Directors on 16 October 2015.

New financial reporting standards approved but not yet effective

The External Reporting Board (XRB) is responsible for setting accounting and auditing standards for entities required by law to prepare general purpose financial reports (GPFRS). The XRB will require that New Zealand move from a single set of sector neutral accounting standards to a multi sector and standards approach.

Under the new framework, Public Benefit Entities (PBEs) will be required to apply different accounting standards than those applied by for-profit entities when preparing GPFRS. It is not expected that the framework will have significant impact on the accounting policies or the recognition and measurement of assets, liabilities, equity, income and expenses of the Society.

Basis of measurement

The financial statements are prepared on a historical cost basis except the following, which are stated at their fair value: investments and insurance contract liabilities.

Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Society's functional and presentation currency.

All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 11 Insurance contract liabilities

The accounting policies set out below have been applied consistently by the Society to all periods presented in these financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits that are subject to an insignificant risk of changes in their fair value and are used by the Society in the management of its short-term commitments.

Under the NZ IFRS PBE definition of financial assets, cash and cash equivalents are classified as loans and receivables.

Premiums and other receivables

Premiums and other receivables are initially measured at cost and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Impairment losses for uncollectable premiums are expensed in the year in which the impairment occurs.

Under the NZ IFRS PBE definition of financial assets, premiums and other receivables are classified as loans and receivables.

Investments

The Society invests its reserves in term deposits with New Zealand banks/institutions with an A or better credit rating and these are classified as loans and receivables.

Term deposits with a term greater than three months are classified as investments. Investments are recognized initially at amortised cost.

Property and equipment

Items of property and equipment are measured at cost, less accumulated depreciation and impairment losses.

Property and equipment is predominately a car, office furniture and local ICT equipment such as personal computers, laptops and phones. Accommodation, servers and photo copiers are leased.

Depreciation of property and equipment is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Computer equipment — 17–33% per annum, 3–6 years
- Other fixed assets — 17–33% per annum, 3–6 years
- Leasehold improvements/furniture — Based on the remaining life of the lease, 3–6 years

The estimated useful life of assets, their residual value and depreciation method are reassessed annually.

Intangible assets

The Society purchases and capitalises its accounting and reporting software packages. The Society's membership system is both developed and maintained by internal resources. The direct salary cost of the development component is initially charged to work in progress and then capitalized on an annual basis. Work in progress is not amortised, only the capitalized development.

Intangible assets (software) are amortised over the expected economic life of the software which is 3 years (33%) on a straight line basis. Intangible assets are tested for impairment annually by reviewing their fitness for purpose and any degradation is recognized as an expense.

Impairment

The Society annually reviews the economic life and value of all its assets. Where an asset is deemed to be impaired, the depreciation rate is adjusted to reflect the reduced economic life of the asset, and any impairment is recognised as an expense in the current year.

Debtors relate to solely members premiums. Outstanding premiums are reviewed for their likely collectability and an appropriate provision, based on past experience. This impairment is expensed to the current year. Members who are in arrears are not able to claim for their medical costs and are terminated after three months of non-payment.

The remaining assets are cash and term deposits in New Zealand A-rated banks and these have no impairment provisions currently.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Society has determined that all health insurance policies provided to members are insurance contracts.

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract.

Revenue is recognised on the date from which the policy is effective. Premiums billed but unearned are recorded as an unearned premium liability in the statement of financial position.

Fees and other income

Fees and other income are recognised as income evenly over the period in which the related services are performed.

Investment income

Interest income is recognised in the profit or loss as it accrues using the effective interest rate method.

Leases

The Society as a lessee defines its leases as operating leases where they do not substantially transfer all the risks and rewards incidental to ownership.

Payments made under operating leases are recognised in determining the surplus or deficit in the statement of financial performance on a straight-line basis over the term of the lease.

Any inducement payments received as part of an operating lease agreement are deferred and recognized on a straight-line basis over the term of the lease.

Policy acquisition costs

The commission costs incurred in acquiring and recording insurance contracts may give rise to future benefits from premiums. Acquisition costs are initially recorded in profit or loss. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Trade and other payables

Trade and other payables are categorised as other financial liabilities. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. All liabilities are paid on or before the due date.

Net claims expense

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

Provisions

A provision is recognised when the Society has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not received.

The liability for outstanding claims includes expected claim payment plus associated claims handling costs.

Unexpired risk provision and liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium.

The test is performed on all the policies as a whole, as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in the profit or loss.

Employee entitlements

Employee entitlements represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short-term benefits.

Income tax expense

The Society is registered under the Industrial and Provident Societies Act 1908 with rules approved and an acknowledgement of registration dated 26 March 1991. The Society is recognised by the Inland Revenue Department as being exempt from all income tax.

Goods and services tax (GST)

The statement of comprehensive income and the statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Financial instruments

Loans and receivables

Loans and receivables comprise cash and cash equivalents, unpaid premiums, and investments. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

Non-derivative financial liabilities

All other financial liabilities are recognised initially on the trade date, which is the date that the Society becomes a party to the contractual provisions of the instrument.

The Society derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Society classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise employee benefits, trade and other payables.

2. Operating expenses

Operating expenses include:

	2015 $000	2014 $000
Depreciation	40	42
Amortisation of intangible assets	6	114
Disposal of assets	1	-
Directors' fees	131	114
Employee benefits expense	2,288	2,479
Contributions to KiwiSaver	93	99
Rental of premises	96	97
Impairment of receivables	60	113

Independent Audit Firm's remuneration – BDO Wellington

Auditor's remuneration for other services disclosed below consists of accounting/tax advisory services and reviewing regulatory returns.

	2015 $000	2014 $000
Audit of financial statements	37	39
Auditor non-audit assurance services	1	4
Non-audit advisory services	-	-

Directors' fees and expenses	2015 $000	2014 $000
Geoff Annals	-	7
Jane Bawden	30	29
Patricia Curry	15	8
Mellissa Clark-Reynolds	15	-
Bridgit Sissons	20	22
Anthony Haycock	15	15
Edward Schuck	19	19
Aaron Mills	17	14
	131	**114**
Directors expenses	13	10
	144	**124**

In addition, member Directors received a subsidy on their health insurance premiums of	5	2
Health insurance claims paid to member Directors	12	2
Directors contractual services to the Society	8	-

Remuneration of key management personnel	2015 $000	2014 $000
Remuneration	885	1,007
KiwiSaver contributions	46	48
Health insurance premiums paid	14	9
Health insurance claims paid	6	39

Key management personnel included Chief Executive Officer and senior executives

The Society does not provide loans or advances to key management personnel. At each reporting date, the amounts outstanding to key management personnel comprise salaries and earned leave.

3. Investment and other income

	2015 $000	2014 $000
Loans and receivables – interest	454	344
Total investment income	**454**	**344**
Claims processing fees	140	147
ACC recoveries	119	207
Total other income	**259**	**354**

4. Cash and cash equivalents

	2015 $000	2014 $000
Held in operating bank accounts on rates ranging from 2.45–2.5% (2014: 2.5-3.4%). All cash and cash equivalents are held on call.	658	684

5. Claims Expense

	2015 $000	2014 $000
Claims relating to risk in current year	(15,706)	(14,867)
Claims relating to risk in previous years	(327)	46
Total claims relating to risk	**(16,033)**	**(14,821)**

6. Premium and receivables

	2015 $000	2014 $000
Premium receivables	550	588
Provision for impairment	(30)	(48)
Net realisable amount	**519**	**540**
Prepayments	30	38
Acquisition costs	277	291
Accrued interest	209	201
	1,035	**1,070**

The fair value of premiums approximates the carrying amount. Receivables are a current asset. Premium receivables are 90 days or less. When a member is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy and membership lapses and the premium is written off. The exception is where a payment plan is in place. The total of premium receivables past due and not impaired is $62,300 (2014: $42,000).

Analysis of premium receivables impairment	2015 $000	2014 $000
Opening provision for impairment	48	10
Write offs	(48)	(10)
Year-end provision	30	48
Closing provision for impairments	**30**	**48**

7. Investments

	2015 $000	2014 $000
Loans and receivables		
Term deposits	10,006	8,090
Total investments	**10,006**	**8,090**

Cash and cash equivalents are all held with financial institutions at the daily call rate applicable.

Analysis of investments	2015 $000	2014 $000
Current		
Term deposits under 12 months	10,006	8,090
Non-current		
Term deposits over 12 months, under 24 months	-	–
	10,006	**8,090**

The average interest rate for term deposits at 31 August 2015 was 4.51%. (2014 4.56%)

8. Property and equipment

	31 August 2015			31 August 2014		
	Computer and equipment $000	other fixed assets $000	total $000	Computer and equipment $000	other fixed assets $000	total $000
Cost	102	52	154	101	74	175
Accumulated depreciation	(48)	(22)	(70)	(43)	(35)	(78)
Closing balance	**54**	**30**	**84**	**58**	**39**	**97**
Opening balance	58	39	97	43	52	95
Additions	29		29	41	3	44
Disposals	(2)	-	(2)	–	–	–
Depreciation	(31)	(9)	(40)	(26)	(16)	(42)
Closing balance	**54**	**30**	**84**	**58**	**39**	**97**

9. Intangible assets

	31 August 2015			31 August 2014		
	Software $000	Work in progress $000	Total $000	Software $000	Work in progress $000	Total $000
Cost	206	-	206	184	-	184
Accumulated depreciation	(99)	-	(99)	(184)	-	(184)
Closing balance	**107**	**-**	**107**	**0**	**-**	**0**
Opening balance	-	-	-	114	-	114
Additions	112	-	112	-	-	-
Amortisation	(5)	-	(5)	(114)	-	(114)
Closing balance	**107**	**-**	**107**	**0**	**–**	**0**

10. Trade and other payables

	2015 $000	2014 $000
Trade payables	303	200
Other payables	201	219
	503	**419**

11. Insurance contract liabilities

	2015 $000	2014 $000
Provision for outstanding claims (refer to note 11b)	2,102	2,148
Unearned premium liability (refer to note 11d)	2,627	2,271
	4,728	**4,419**
Assets backing insurance contracts	10,006	8,090

Accuro holds a number of short term deposits in financial institutions, as security over their insurance contract liabilities. The carrying value of investments that back insurance contract liabilities approximates the fair value of those assets. Assets backing insurance liabilities have been determined to be term deposits due to the similar nature of their contractual maturities.

	2015 $000	2014 $000
11a		
Central estimate	1,853	1,894
Expense margin	111	114
Risk margin	138	140
	2,102	**2,148**
11b		
Opening claims provision	2,148	1,749
Amounts utilised during the period	(1,567)	(1,603)
Additional provision/(reversal of unused provision)	(327)	46
Amounts provided during the year	1,853	1,894
Movement in risk margin	(3)	36
Movement in claims handling costs	(2)	26
	2,102	**2,148**
11c		
Claims expense		
Insurance claims paid	16,079	14,421
Movement in provisions for outstanding claims	(46)	399
	16,033	**14,821**
11d		
Opening unearned premium liability	2,271	1,876
Premiums written during the year	22,732	20,842
Less premiums earned during the year	(22,377)	(20,447)
Closing unearned premium liability	**2,627**	**2,271**

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

Capital and solvency requirement

The Society is a registered industrial and provident society. As a consequence of its legal structure, the Society has no recourse to external capital. The Society's capital of $6.3 million (2014: $4.8 million) is equal to the reserves as disclosed in the financial statements.

From 31 December 2012, as a provisional license holder, the Society was subject to new solvency margin requirements. From 21 February 2013, as a consequence of being a fully licensed insurer, the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank requires the Society to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

	2015 $000	2014 $000
The Society's adjusted available capital	6,246	4,765
Calculated minimum solvency capital	1,979	1,765
Ratio	315%	270%
Standard	3,000	3,000
Solvency Margin	3,246	1,765
Solvency coverage ratio	208%	159%

During the year ended 31 August 2015, the Society complied with all externally imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business whilst maintaining financial soundness. The Society has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard. The policy in respect of capital management is regularly reviewed by the Directors in line with the guidelines issued by the Reserve Bank.

The Capital Management policy was reaffirmed and submitted to the Reserve Bank 19 June 2015. The 2015 target is to have a reserve of 4% of premium and 6% of claims (based on the last 12 months actual) plus the Reserve Bank minimum. The target at 31 August 2015 was $4.9 million (2014: $4.7 million), relative to an actual solvency capital of $6.2 million (2014: 4.8 million).

Provision for claims

An actuarial report has been obtained to assess the provisions for claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 31 August 2015.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the Society of Actuaries New Zealand.
- The standards of the New Zealand Society of Actuaries were used to determine the amount of the outstanding claims liability.

- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

Outstanding claims liabilities are assessed as the central estimate of the present value of expected future payments for claims incurred but not settled at 31 August 2015, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. A risk margin of 7% of the central estimate was established at 31 August 2015 (31 August 2014: 7%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the outstanding claims provision.

A hindsight analysis of the provision shows:

	2015 $000	2014 $000
Central estimate in previous years	1,894	1,556
Total claims made in hindsight	(1,567)	(1,602)
	327	**(46)**

Key assumptions

- Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
- Processing of claims will continue to be consistent at the Society.

Claims-handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims.

Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims-handling costs were determined to be 6% (31 August 2014: 6%) of the underlying claims amounts based on an analysis of administration expenses.

The expected settlement date for 94% of claims included in the liability is less than 90 days for hospital claims (31 August 2014: less than 90 days for 90% of hospital claims) and less than 10 months for primary/medical claims (31 August 2014: less than 11 months for 90% of primary claims). Accordingly, expected future payments are not discounted due to the short-tail nature of the liabilities.

The above provisions have been included in the total of claims paid and accrued in the statement of financial performance.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims-handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, the unearned premium liability is deemed to be deficient.

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 September 2014. There is no unexpired risk liability for the year ended 31 August 2015 (2014: 0).

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 5% of the present value of expected future cash flows has been applied at 31 August 2015 (31 August 2014: 5%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

- An average loss ratio for the remaining deferred revenue period of 72% (2014: 72%).
- An expense allowance of 10% (2014: 10%).
- A commission component of 12% of the unearned premium (2014: 12%).

Expected future payments are not discounted due to the short-tail nature of the liabilities.

12. Risk management

Insurance risk

Accuro has adopted a risk management strategy that is set by the Board and managed operationally by Accuro staff, which provides a holistic view of risk exposure across all levels of the business. Such a strategy has allowed Accuro to run a sustainable and progressive business with a strong future.

Accuro's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- there is a sufficient financial buffer, as set by the Reserve Bank, to absorb any claims volatility
- strong underwriting that aligns with industry standards
- a pricing strategy that covers the underlying risk of insurance products
- strong operations through robust claims and member processes.

Accuro further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity risk represents impact of variables on Accuro's key metrics. The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 11. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2015 $000	2014 $000
Base assumptions	2,102	2,148
Claims settlement time + 10%	2,700	2,891
Claims settlement time - 10%	1,442	1,428

Accuro insurance risk is concentrated to within the health insurance sector.

Credit risk

The credit quality of investment counterparties is as follows:

	2015 $000	2014 $000
A-rated	10,006	8,090
	10,006	**8,090**

The above $10 million is the face value of term deposits with New Zealand trading banks or their subsidiaries.

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position.

These exposures are net of any recognised provisions for impairment losses. The Society does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

Premium receivables are due from a very large number of counterparties, ranging from corporates to individual members. Analysing these by credit quality would not be feasible, as the majority of counterparties will be unrated and the risk is offset due to members not being covered/insured if they are in arrears.

Liquidity risk

The Society is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost.

The portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand.

	2015 $000	2014 $000
The contractual maturities of investments are as follows: Under 12 months	10,006	8,090
Between 1 and 2 years	-	-
	10,006	**8,090**
In addition to the above investments, the Society has on-call funds of:	658	684
The contractual maturity of financial liabilities are as follows:		
Trade and other payables		
Under 12 months	326	235

Interest rate risk

The Society invests in term deposits and cash at call held in financial institutions. There is a risk that any movement in interest rates could have an effect on the profitability and cash flows. The Society maintains a spread of maturity profiles to mitigate this risk.

Cash flow interest rate risk

The cash flows from the Society's investments in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows (based on average investments held).

	2015 $000	2014 $000
Full-year impact of 1% interest rate change on interest earnings in profit and loss and equity	90	71

The Society used 1% in its sensitivity analysis as this is considered a possible material variation in the base interest rates.

Liabilities relating to non-insurance activities are of a short term nature and are covered by cash and cash equivalents.

The term deposits are held to cover liabilities relating to insurance activities.

13. Fair values

The estimated fair values of the financial instruments are considered to be their carrying value.

Classification and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows.

	loans and receivables	other financial liabilities	total carrying amount
2015			
Assets			
Cash and cash equivalents	658	-	658
Trade and other receivables	549	-	549
Investments	10,006	-	10,006
Total assets	**11,213**	**-**	**11,213**
Liabilities			
Trade and other payables		326	326
Total liabilities		**326**	**326**
2014			
Assets			
Cash and cash equivalents	684	-	684
Trade and other receivables	577	-	577
Investments	8,090	-	8,090
Total assets	**9,352**	**-**	**9,352**
Liabilities			
Trade and other payables	-	235	235
Total liabilities	**-**	**235**	**235**

14. Reconciliation of profit/(loss) with net cash flows from operating activities

	2015 $000	2014 $000
Reported profit (loss)	**1,568**	**737**
Non-cash items		
Bad debts expense	-	-
Depreciation/amortisation expense	46	156
Movement in claims provision	(46)	400
	-	**556**
Movements in working capital		
Premiums and other receivables	35	(229)
Premiums in advance	356	395
Trade and other payables	60	83
Employee benefits	(12)	51
(Decrease)/increase in net GST	24	(31)
	463	**269**
Net cash inflow from operating activities	**2,031**	**1,562**

15. Operating lease obligations

	2015 $000	2014 $000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	324	283
1–5 years	429	485
Later than 5 years	20	-
	773	**768**

The major component of the Society's non-cancellable leases above relates to a six-year lease at a fixed rate for the first floor of 79 Boulcott Street. This lease runs until November 2018, at which stage, the Society has two further rights of renewal until the lease expires on 31 October 2024.

Capital commitments

	2015 $000	2014 $000
Capital commitments at period end	-	-

16. Rating

The Society credit rating issued by A M Best is B Stable (2014: A M Best B Stable).

17. Related-party transactions

All the Society's dealings are at arm's length. The Society's staff are all members of the Society as part of a subsidised Accuro group staff health scheme. Refer note 2.

Two directors have provided specialist advice at a total cost of $8,000.

18. Definitions related to the financial statements

Amortisation

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the market under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Public Benefit Entity (PBE)

Public benefit entities (PBEs) are entities whose primary objective is to provide goods or services for community or social benefit, and where equity has been provided with a view to supporting that primary objective, rather than for a financial return to equity holders.

Independent Auditor's Report
To the Members of Health Service Welfare Society Limited (trading as Accuro Health Insurance).

Report on the Financial Statements

We have audited the financial statements of Health Service Welfare Society Limited on pages 10 to 32, which comprise the statement of financial position as at 31 August 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.
This report is made solely to the Members, as a body, in accordance with the Constitution of Health Service Welfare Society Limited. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
In addition to audit services, our firm provides other services in the areas of taxation advice and review of regulatory returns. Partners and employees of our firm deal with Health Service Welfare Society Limited on normal terms within the ordinary course of trading activities with the business. We have no other relationship with or interests in the Health Service Welfare Society Limited.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Health Service Welfare Society Limited as at 31 August 2015, its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting practice.

BDO Wellington

BDO WELLINGTON
16 October 2015
Wellington