ACCURO HEALTH INSURANCE

ANNUAL REPORT 2018

accuro
HEALTH INSURANCE

Contents

Report from the Chair 2
Report from the Chief Executive 3
Spotlight on the financial year 4
Board of Directors 5
Statement of corporate governance 8
Financial statements 9
Notes to the financial statements 12
Report from the Independent Auditor 32

Company directory

Board of Directors

Anthony Haycock (Chair) (appointed)

Marion Guy (Deputy Chair) (elected)

Edward Schuck (appointed)

Andrew Dickerson (elected)

Toni Ferrier (appointed)

Robyn Byers (elected)

Karolyn Kerr (elected)

Chief Executive Officer

Geoff Annals

Actuary

Peter Davies BBUS, SC, FIA, FNZSA

Solicitor

Mahony Burrowes Horner

Banker

Westpac Banking Corporation

Auditor

EY, Wellington

Registered office

Level 10, 102-112 Lambton Quay

Wellington

Incorporation

Industrial and Provident Societies Act 1908

Report from the Chair

I am pleased to advise that membership growth greatly exceeded targets in the 2018 financial year. In percentage terms Accuro has done better than any of our competitors. In a highly contested market dominated by much larger competitors more consumers are choosing Accuro as 'best'.

Income from premium increased by 8% but Accuro paid out 15% more in claims than last year. These increases reflect growth in both the average cost of healthcare diagnostics and treatments and the frequency of their demand. As a result of this claims experience Accuro returned a deficit in 2018. While losses arise from time to time, financial sustainability, will unfortunately require growth in premium to match this growth in cost of claims.

Recognising that each member's annual premium increase needs to be as small as possible, the Board has prioritised business developments in the coming years which are designed to ensure that members will continue to get high quality healthcare at an affordable cost.

Accuro's investment in customer research and development in 2018 has informed this approach. The 'brand re-fresh' and new website launched in September provides an ideal platform for greater customer engagement and satisfaction.

The increase in Accuro's AM Best Financial Strength Rating is a strong sign that we are continuing to manage the key financial performance measures in the business.

I would like to thank our CEO Geoff Annals and his talented team for their commitment to Accuro's mission and values and for their patience during our search for replacement office space in Wellington following the earthquake and our sudden and forced exit from Boulcott St premises.

And finally thanks the Accuro Directors for their hard work and in particular for the effort involved in completing our very successful strategic planning process.

Tony Haycock

Dr Anthony Haycock

Board Chair

Report from the Chief Executive

April 14, 2018 might have loomed over the past year as a date of disaster. At 3pm on that Thursday afternoon, Accuro staff were given two hours' notice to evacuate from our head office in Wellington. Engineers had determined the building was unsafe. Re-occupation remains uncertain today.

But the date doesn't loom large at all. The complete business disruption that arose from the short-notice loss of access to our business premises was so effectively managed that all business systems and services were back up and running within a few days. In fact, few members would even have noticed. This is as it should be.

Yes, losing our head office had its challenges. Quick recovery doesn't come without costs. But the important story of this incident is not in the unexpected disruption and cost it imposed but in our well executed Disaster Recovery Plan and the expected resilience and strength displayed by staff in response.

While 2018 was not the year of disruption to business as usual, it was the year when Accuro laid down the foundations for the intentional disruption to business needed to be NZ's best little health insurer. In 2018 we set out to build a deeper understanding of our members and their needs, and to use this to inform the rebuild of our business model.

Simply doing the same things other insurers do, but doing them better, is not enough.

Accuro members expect their health insurer to do things that other insurers can't or won't do. Accuro members need products and services that will make it easier for them to get well and stay well. Accuro members want simplicity and flexibility and they want Accuro to be proactive and understanding.

In 2018 Accuro successfully completed the customer insights programme that now is informing the development of better health insurance products and business systems. The benefits of this research will become more visible to members as our investments in product development, customer engagement and better systems and processes bear fruit in 2019 and beyond.

The new website is already up and running. Accuro's new Best Doctors service has already been taken up by hundreds of existing members. And hundreds of new members are taking advantage of HUGO, Accuro's automated underwriting system, to sign-up quickly and easily.

Accuro is already New Zealand's best little health insurer. We just keep on getting better!

My thanks to the continued support of all our Accuro members, the dedication of all Accuro staff and our business partners, and for the strong leadership of Tony Haycock and his director colleagues.

Geoff Annals

Chief Executive Officer

Spotlight on the financial year

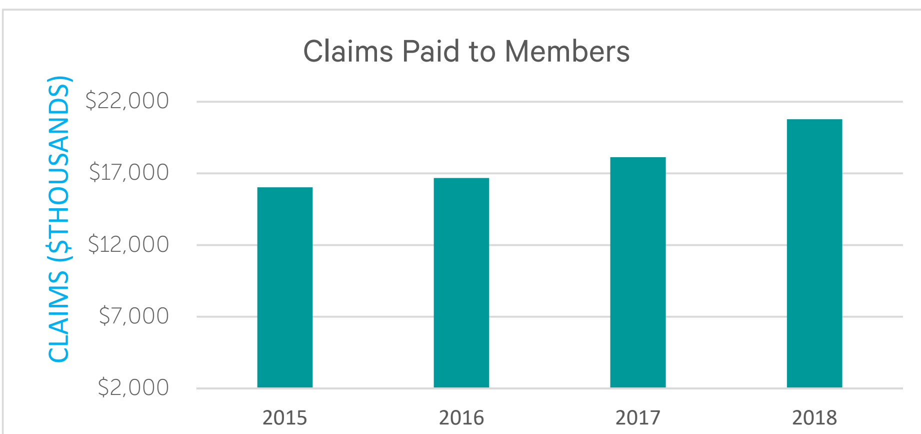
As at 31 August 2018

Financial position	**$000**
Members' funds	**8,623**
Represented by:	
Cash	1,561
Premium & other receivables	1,488
Investments	11,500
Property and equipment	51
Intangible assets	422
Total assets	**15,022**
Liabilities	(6,399)
Net assets	**8,623**
Solvency ratio	273%

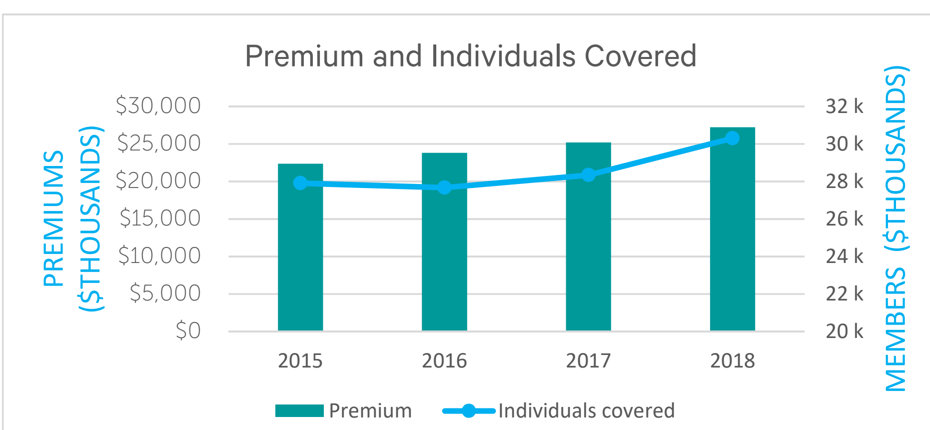
For the year ended 31 August 2018

Financial performance	**$000**
Premium revenue	27,230
Other income	260
Investment income	486
Total income	**27,976**
Claims expense	(20,779)
Direct selling expenses	(1,900)
Operating expenses	(5,773)
Total expenses	**(28,452)**
Overall surplus/(deficit)	**(476)**
AM Best's financial strength rating	B+ (stable)

Claims paid to members



Total annual premium and membership trend



Board of Directors

Anthony Haycock

MB, ChB, PGDip IH, CMInst.D

Chair

Anthony is a medical practitioner with wide ranging experience and expertise gained from his on-going involvement in the NZ health sector. Roles have included General Practice (GP) medicine, project management, health publishing and health planning consultancy.

He is currently a health planning advisor to Medispace – a NZ company which specializes in the development of healthcare facilities. His governance experience includes directorships in the Not-for-Profit sector and for private NZ companies. He is also a former elected board member of the Waikato DHB.

Marion Guy

RN, PGDip, Master of Nursing, QSO, MInstD

Deputy Chair

Marion is a registered nurse with 30 years of experience in the health sector, mainly in Primary Health Care. She has had a number of governance roles which include a member of the National Health Board, President of the New Zealand Nurses Organisation and Board member of the International Council of Nurses. Marion is an elected member of the Bay of Plenty DHB and a board member of the Western Bay of Plenty PHO. She also works in general practice and the out-patients department at Tauranga Hospital. Marion was awarded the Queens Service Order in 2010 for her services to Nursing.

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 chairman of the Board of Trustees of the National Provident Fund and the licensed independent trustee of the MFL Mutual Fund and the SIL Superannuation Scheme with collective assets of $700 million.

Prior to starting Fidato 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.

Andrew Dickerson

BBS, MMgt, MInstD

Director

Andy has worked in hospitals and the health sector for 34 years and has been a member of Accuro for most of this time. He was elected to the Canterbury District Health Board in 2007, and re-elected in 2010, 2013 and 2016.

He currently Chairs the Board's Hospital Advisory Committee and is also a member of the Quality, Finance, Audit & Risk Committee and the Facilities Committee. Andrew has served on many not-for-profit boards and was previously the Chief Executive of an NGO.

His current community work includes being Chair of the University of Otago Healthcare for the Elderly Education Trust and a Trustee of the Māia Health Foundation.

Toni Ferrier

LLB (Hons), MInstD

Director

Toni is an experienced senior Executive with extensive legal and financial services experience and Governance experience. She spent a number of years on the Executive at Wesfarmers Insurance (Lumley) and most recently at Crombie Lockwood.

Toni is a Commissioner on the Board of the NZ Earthquake Commission and is a Shareholder/Director on the Board of a SaaS business expanding internationally.

Toni has proven ability in leading businesses through a wide range of challenges: turnarounds, step change, disaster response and rapid growth. She currently runs her own independent consultancy business "Purposely" which focusses on providing contract support in these areas.

Toni brings to the Accuro Board capability in organisational change, strategic planning/delivery, leadership, stakeholder management, risk and compliance.

She is a current member of the Institute of Directors of New Zealand.

Robyn Byers

BA, MA(Hons), DipClinPsych, DipEd, Cert Health Mgmt, MInstD

Director

Robyn is a Clinical Psychologist with extensive experience as a clinician, manager and auditor in Mental Health, Addictions and Mental Health of the Older Person. As General Manager, she was responsible for planning and funding, service provision, monitoring and audit for Mental Health Promotion, Primary Mental Health, Specialist Mental Health and Non-Government Organisations in Nelson Marlborough. She also taught Social Sciences and Health Management at NMIT School of Nursing for 14 years. She currently works as a Quality Consultant and Auditor. Robyn has extensive regional and national involvement on various working parties and reference groups for the Ministry of Health and regional governance bodies, in addition to 12 years as a Trustee of the Mental Health Foundation.

Karolyn Kerr

PhD, FACHI, RGON, MInstD

Director

Karolyn is director and owner of Illuminare. Illuminare provides data management, data governance and data quality strategic planning services to a range of clients, including government and private organisations. Karolyn began her career as a nurse, training in New Zealand and the UK and specialised in coronary care nursing and research before studying health informatics. Having completed a Masters in Telehealth, Karolyn began working at the Ministry of Health. Here she completed a PhD in data quality, developing a national strategy for data quality for the health sector. Karolyn was Chair of the Health Informatics New Zealand and is the current New Zealand representative on the Council of the Australasian College of Health Informatics and a Fellow of the organisation.

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 three-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 2018, the Board comprised Anthony Haycock (Chair), Marion Guy (Deputy Chair), Edward Schuck (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Andrew Dickerson (Chief Executive Employment (CEE) Committee Chair), Toni Ferrier, Karolyn Kerr, and Robyn Byers. Co-opted Directorships being held by Anthony Haycock, Edward Schuck and Toni Ferrier.

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, the Financial Market Conduct 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 (2017). 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 revenue and expenses

For the year ended 31 August 2018

	note	2018 $000	2017 $000
Premium revenue		27,230	25,189
Claims expense	5, 12	(20,779)	(18,138)
Underwriting surplus		**6,451**	**7,051**
Operating expenses	2	(5,773)	(5,033)
Direct selling expenses		(1,900)	(1,590)
Investment income	3	486	442
Other income	3	260	222
Surplus attributed to members		**(476)**	**1,092**
Other comprehensive revenue or expense			
Total comprehensive revenue or expense attributed to members		**(476)**	**1,092**

Statement of changes in equity

For the year ended 31 August 2018

	2018 $000	2017 $000
Opening retained earnings	**9,099**	**8,007**
Surplus attributed to members	(476)	1,092
Total comprehensive income attributed to members	**8,623**	**1,092**
Closing retained earnings	**8,623**	**9,099**

Statement of financial position

As at 31 August 2018

	note	31 August 2018 $000	31 August 2017 $000
Assets			
Cash and cash equivalents	4	1,561	1,102
Premium and other receivables	6	1,488	1,300
Investments	7	11,500	12,100
Plant and equipment	8	51	49
Intangible assets	9	422	496
Total assets		**15,022**	**15,047**
Liabilities			
Trade and other payables	10	543	546
Employee benefits	11	210	288
Unearned premium liability	12	3,449	3,053
Provision for outstanding claims	12	2,197	2,061
Total liabilities		**6,399**	**5,948**
Net assets		**8,623**	**9,099**
Represented by			
Retained earnings		**8,623**	**9,099**

Tony Haycock Chair

19 October 2018

Marion Guy Deputy Chair

19 October 2018

Statement of cash flows

For the year ended 31 August 2018

	note	2018 $000	2017 $000
Cash flows from operating activities			
Cash receipts from customers		27,590	25,373
Cash paid as claims		(20,642)	(17,952)
Cash paid to suppliers and employees		(7,399)	(6,473)
Interest received		543	426
Net cash flows from operating activities	15	92	1,374
Cash flows from investing activities			
Proceeds from sale of investments		15,100	11,067
Acquisitions of investments		(14,500)	(11,400)
Acquisitions of software		(200)	(389)
Acquisitions of plant and equipment		(33)	(31)
Net cash flows used in investing activities		367	(753)
Net increase/(decrease) in cash and cash equivalents		459	621
Opening cash and cash equivalents		1,102	481
Closing cash and cash equivalents	4	1,561	1,102

Notes to the financial statements

For the year ended 31 August 2018

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 102-112 Lambton Quay, 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.

The Society is a Tier 1 entity for reporting purposes.

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 generally accepted accounting practice (NZ GAAP).

The financial statements comply with *Public Benefit Entity Accounting Standards (PBE Standards)*, as appropriate for Tier 1 not for profit public benefit entities.

The financial statements were approved by the Board of Directors on 19 October 2018.

Accounting standards issued but not yet effective

The amendments to PBE FRS 48 "Service Performance Reporting" which is only effective for reporting periods beginning 1 January 2021 and the consequential effect of this standard will not result in any measurement changes.

Basis of measurement

The financial statements are prepared on a historical cost basis except the following; insurance contract liabilities, which are measured on an actuarial basis described in note 12.

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 12 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 PBE Standards definition of financial assets, cash and cash equivalents are classified as loans and receivables.

Premiums and other receivables

Premiums and other receivables are financial assets which are recognised initially at fair value plus any directly attributable transaction costs, less any impairment losses. Impairment losses for uncollectable premiums are expensed in the year in which the impairment occurs.

Under the PBE Standards 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 recognised initially at fair value plus directly attributable transaction costs, using the effective interest method, less impairment losses.

Plant and equipment

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

Plant and equipment is predominately a car, office furniture and local ICT equipment such as personal computers, laptops and phones.

Depreciation of plant and equipment is recognised in the Statement of comprehensive revenue and expenses on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Computer equipment — 17–40% per annum, 2.5–6 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 capitalised once the asset is in condition for use. Work in progress is not amortised, however is amortised once capitalised and ready for use.

Intangible assets (software) are amortised over the expected economic life of the software which is 2.5 years (40-65%) on a straight-line basis, with the exception of a member portal addition to the website which had an expected shorter economic life of 1.5 years. Intangible assets are assessed for impairment annually by reviewing their fitness for purpose and any degradation is recognised as an expense.

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.

Impairment

The Society assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Society estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive revenue and expenses in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Society estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive revenue and expenses.

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the period of cover for 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 at the point at which the related services are performed.

Investment income

Interest income is recognised in the surplus or deficit, 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 on a straight-line basis over the term of the lease in the surplus or deficit.

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

Policy acquisition costs

Acquisition costs incurred in obtaining and recording 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 revenue that will be recognised in the surplus or deficit in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of incidence of risk under the related insurance contracts.

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. Subsequently, trade and other payables are measured at amortised cost, using the effective interest rate method. All liabilities are paid on or before the due date.

Claims expense

The 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 as disclosed in note 12.

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 statement of comprehensive revenue and expenses.

Employee entitlements

Employee entitlements represent an accrual for an annual bonus and the current obligation to employees in respect of outstanding salaries, leave entitlements and other short-term benefits. Short-term employee benefits are measured at the undiscounted amount expected to be paid in exchange for the employees' services received.

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 as being exempt from all income tax.

Goods and services tax (GST)

The statement of comprehensive revenue and expenses 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.

Comparative Figures

Certain items from 2017 have been reclassified between categories where appropriate to provide more meaningful comparative information

2. Operating expenses

Operating expenses include:

	2018 $000	2017 $000
Depreciation	31	29
Amortisation of intangible assets	274	109
Directors' fees	211	187
Employee benefits expense	2,658	2,392
Contributions to KiwiSaver	111	104
Rental of premises	49	96
Impairment of receivables	76	50
Other operating costs	2,363	2,066
Total operating costs	**5,773**	**5,033**

Independent Audit Firm's remuneration - EY
Auditor's remuneration for other services disclosed below consists of reviewing the solvency return.

	2018 $000	2017 $000
Audit of financial statements	40	39
Auditor non-audit assurance services	4	4
Total auditor's remuneration	**44**	**43**

Directors' fees and expenses (refer note 18)	2018 $000	2017 $000
Anthony Haycock	50	36
Marion Guy	29	19
Edward Schuck	37	33
Andrew Dickerson	33	21
Toni Ferrier	25	6
Robyn Byers (elected December 2017)	13	-
Karolyn Kerr (elected December 2017)	24	-
Jane Bawden (resigned 17 February 2017)	-	23

Pat Curry (resigned 18 August 2017)	-	24
Melissa Clark-Reynolds (term ended 5 December 2016)	-	5
Bridgit Sissons (retired 17 February 2017)	-	14
Aaron Mills (term ended 5 December 2016)	-	6
	211	**187**
Directors' expenses	9	14
	220	**201**
In addition, member Directors received a subsidy on their health insurance premiums	4	4
Health insurance claims paid to member Directors	1	1
Directors' contractual services to the Society	-	-

Remuneration of key management personnel	**2018 $000**	**2017 $000**
Remuneration	769	850
KiwiSaver contributions	22	29
Health insurance premiums paid	16	15
Health insurance claims paid	15	10

Key management personnel included Chief Executive Officer and 3 senior executives in 2018 (2017: Chief Executive Officer and 4 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 annual leave.

3. Investment and other income

	2018 $000	2017 $000
Loans and receivables – interest	486	442
Total investment income	**486**	**442**
Claims processing fees	128	129
ACC recoveries	132	93
Total other income	**260**	**222**

4. Cash and cash equivalents

	2018 $000	2017 $000
Held in operating bank accounts on rates ranging from 0.1-1.25% (2017: 0.1–1.5%). All cash and cash equivalents are held on call.	1,561	1,102

5. Claims Expense

	2018 $000	2017 $000
Claims relating to risk in current year	(20,579)	(18,137)
Claims relating to risk in previous years	(200)	(1)
Total claims relating to risk	**(20,779)**	**(18,138)**

6. Premium and other receivables

	2018 $000	2017 $000
Premium receivables	955	745
Allowance for impairment	(121)	(45)
Net realisable amount	**834**	**700**
GST receivable	19	13
Prepayments	85	47
Deferred acquisition costs	409	342
Accrued interest	141	198
	1,488	**1,300**

The fair value of premiums and accrued interest approximates the carrying amount. Receivables are a current asset. 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 $167,300 (2017: $76,697).

Analysis of premium receivables impairment	2018 $000	2017 $000
Opening allowance for impairment	45	22
Impairment	(45)	(22)
Year-end allowance	121	45
Closing allowance for impairment	**121**	**45**

7. Investments

	2018 $000	2017 $000
Term deposits	11,500	12,100
Total investments	**11,500**	**12,100**

All investments are held with financial institutions.

Analysis of investments	2018 $000	2017 $000
Current		
Term deposits under 12 months	11,500	12,100
	11,500	**12,100**

The average interest rate for term deposits at 31 August 2018 was 3.57% (2017 3.70%).

8. Plant and equipment

	31 August 2018			31 August 2017		
	Computer and equipment $000	other assets $000	total $000	Computer and equipment $000	other assets $000	total $000
Cost	160	60	220	127	60	187
Accumulated depreciation	(118)	(51)	(169)	(97)	(41)	(138)
Closing balance	**42**	**9**	**51**	**30**	**19**	**49**
Opening balance	30	19	49	26	21	47
Additions	33	-	33	23	8	31
Disposals	-	-	-	-	-	-
Depreciation	(21)	(10)	(31)	(19)	(10)	(29)
Closing balance	**42**	**9**	**51**	**30**	**19**	**49**

9. Intangible assets

	2018 $000	2017 $000
	Software $000	Software $000
Cost	941	741
Accumulated amortisation	(519)	(245)
Closing balance	**422**	**496**
Opening balance	496	216
Additions	200	389
Amortisation	(274)	(109)
Closing balance	**422**	**496**

10. Trade and other payables

	2018 $000	2017 $000
Trade payables	494	430
Other payables	49	116
	543	**546**

11. Employee benefits

	2018 $000	2017 $000
Accrued incentives	45	191
Annual leave	103	97
Severance and redundancy	62	-
	210	**288**

12. Insurance contract liabilities

	2018 $000	2017 $000
Provision for outstanding claims (refer to note 12b)	2,197	2,061
Unearned premium liability (refer to note 12d)	3,449	3,053
	5,646	**5,114**
Assets backing insurance contracts	**11,500**	**12,100**

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.

	2018 $000	2017 $000
12a		
Central estimate	1,928	1,817
Expense margin	116	109
Risk margin	153	135
	2,197	**2,061**
12b		
Opening claims provision	2,061	1,875
Amounts utilised during the period	(1,194)	(1,266)
Additional provision/(reversal of unused provision)	(200)	(1)
Amounts provided during the year	1,505	1,430
Movement in risk margin	18	13
Movement in claims handling costs	7	10
	2,197	**2,061**
12c		
Claims expense		
Insurance claims paid	20,643	17,952
Movement in provisions for outstanding claims	136	186
	20,779	**18,138**
12d		
Opening unearned premium liability	3,053	2,762
Premiums written during the year	27,626	25,480
Less premiums earned during the year	(27,230)	(25,189)
Closing unearned premium liability	**3,449**	**3,053**

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 solvency capital of $8.2 million (2017: $8.6 million) is equal to the net assets as disclosed in the financial statements minus deductions from net assets as determined by the Reserve Bank of New Zealand solvency standard.

As a consequence of being a fully licenced 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.

	2018 $000	2017 $000
Actual solvency capital	8,200	8,603
Minimum solvency capital	3,000	3,000
Solvency margin	5,200	5,603
Solvency ratio	273%	287%

During the year ended 31 August 2018, 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 20 September 2017. The 2017 target relating to financial year 2018 was 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 2018 was $5.2 million (2017: $5.1 million), relative to an actual solvency capital of $8.2 million (2017: 8.6 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 2018.

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 2018, 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 7.5% of the central estimate was established at 31 August 2018 (31 August 2017: 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:

	2018 $000	2017 $000
Central estimate in previous years	1,817	1,654
Total claims made in hindsight	(1,617)	(1,653)
	200	**1**

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 2017: 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 2017: less than 90 days for 93% of hospital claims) and less than 11 months for 90% primary/medical claims (31 August 2017: 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 comprehensive revenue and expenses.

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 2017. There is no unexpired risk liability for the year ended 31 August 2018 (2017: 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 6% of the present value of expected future cash flows has been applied at 31 August 2018 (31 August 2017: 6%). 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 75% (2017: 72%).

An expense allowance of 10% (2017: 10%).

A commission component of 8% of the unearned premium (2017: 11%).

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

13. 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 12. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2018 $000	2017 $000
Base assumptions	2,197	2,061
Claims settlement time + 10%	2,766	2,582
Claims settlement time - 10%	1,688	1,549

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

Credit risk

The credit quality of investment counterparties is as follows:

	2018 $000	2017 $000
A-rated	11,500	11,750
B-rated	-	350
	11,500	**12,100**

The above $11.5 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 allowance 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. The premium receivable book is very diversified with no significant concentrations except for health professionals.

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.

	2018 $000	2017 $000
The contractual maturities of investments are as follows: Under 12 months	11,500	12,100
	11,500	**12,100**
In addition to the above investments, the Society has on-call funds of:	1,561	1,102
The contractual maturity of financial liabilities are as follows:		
Trade and other payables		
Under 12 months	505	528

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).

	2018 $000	2017 $000
Full-year impact of 1% interest rate change on interest earnings in the surplus or deficit and loss and equity	118	119

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.

14. 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
2018			
Assets			
Cash and cash equivalents	1,561	-	1,561
Trade and other receivables	855	-	855
Investments	11,500	-	11,500
Total assets	**13,916**	**-**	**13,916**
Liabilities			
Trade and other payables		505	505
Total liabilities		**505**	**505**
2017			
Assets			
Cash and cash equivalents	1,102	-	1,102
Trade and other receivables	752	-	752
Investments	12,100	-	12,100
Total assets	**13,954**	**-**	**13,954**
Liabilities			
Trade and other payables		528	528
Total liabilities		**528**	**528**

15. Reconciliation of surplus /(deficit) with net cash flows from operating activities

	2018	2017
	$000	$000
Reported surplus (deficit)	**(476)**	**1,092**
Non-cash items		
Depreciation/amortisation expense	305	138
Movement in claims provision	136	186
	441	**324**
Movements in working capital		
Premiums and other receivables	(189)	(234)
Premiums in advance	396	291
Trade and other payables	123	(13)
Employee benefits	(184)	(26)
(Decrease)/increase in net GST	(19)	(60)
	127	**(42)**
Net cash inflow from operating activities	**92**	**1,374**

16. Operating lease obligations

	2018	2017
	$000	$000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	262	318
1–5 years	804	221
Later than 5 years	438	-
	1,504	**539**

The major component of the Society's non-cancellable leases above relates to a six and a half year lease at a fixed rate for the third floor of 17 Whitmore Street. This lease runs until August 2025, at which stage, the Society has one further right of renewal until the lease expires on 31 July 2031.

Capital commitments

	2018 $000	2017 $000
Capital commitments at period end	-	-

17. Rating

The Society financial strength rating issued by A M Best is B+ Stable (2017: A M Best B Positive).

18. 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.

One director provided specialist advice for an additional cost of $5,000 during the year (2017: No directors provided specialist advice for an additional cost throughout the year).

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these reported results (2017: Nil)

20. 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.

Report from the Independent Auditor

Independent Auditor's Report
To the members of Health Service Welfare Society Limited
Report on the audit of the financial statements

Opinion

We have audited the financial statements of Health Service Welfare Society Limited ("the Society") on pages 10 to 32, which comprise the statement of financial position of the Society as at 31 August 2018, and the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year then ended of the Society, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 10 to 32 present fairly, in all material respects, the financial position of the Society as at 31 August 2018 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

This report is made solely to the Society's members, as a body. Our audit has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's 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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Society in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We provide other assurance services to the Society in relation to the Society's Solvency Return. We have no other relationships with, or interest in, the Society. Partners and employees of our firm may deal with the Society on normal terms within the ordinary course of trading activities of the business of the Society.

Information other than the financial statements and auditor's report

The directors are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Director's responsibilities for the financial statements

The Directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance Public Benefit Entity Standards, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing, on behalf of the Society, its ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Society or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

Ernst + Young

Chartered Accountants
Wellington
19 October 2018

accuro

HEALTH INSURANCE