ACCURO **ANNUAL REPORT 2016**

taking care

accuro

health insurance

Contents

Company directory

Board of Directors
Jane Bawden (Chair)
Bridgit Sissons (Deputy Chair)
Anthony Haycock
Edward Schuck
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

Report from the Chair and Chief Executive

Accuro has completed a third successive year of strong financial performance. A surplus of $1,674,000 this year has been added to the surpluses of $737,000 in 2014 and $1,568,000 in 2015. After the three preceding years of small losses this is an important achievement. Capital reserves provide a buffer against years when claims are unusually high and allow for investment to improve member services. But while strong financial performance is necessary it is simply an enabler of purpose, not an end in itself. Accuro's purpose is to provide the means by which more New Zealanders have access to better health.

The main barrier to more New Zealanders taking up and maintaining health insurance is affordability. With increases in health cost outpacing growth in average incomes the majority of New Zealanders find health insurance too expensive and have little option but to gamble on only ever needing healthcare available through our taxpayer funded health services.

Of course New Zealand's public health services are undoubtedly world leading. But priority is given to acute and urgent health care, and rightly so. Most people needing treatment that is not considered urgent must wait until their scheduled treatment slot comes up or until their health deteriorates to the point where their need becomes acute. Health insurance enables people to take themselves out of the 'lottery' for elective treatment. As such, ideally it should be affordable to everyone. So at the forefront of our minds for 2017 is the need for health insurance to be made affordable for many more New Zealanders.

The challenge is to do this without reducing the value of cover. We don't believe limited cover options offer genuine value. Instead we believe that changes in the way healthcare is being delivered and in the way consumers want it to be provided have the potential for more effective models of health insurance to be designed. This will take time and investment. Just as there are no quick fixes to the problems of sustaining the quality and effectiveness of publicly funded health services there are no quick fixes to the health insurance affordability problem. But Accuro is committed to continuing to deliver best value health insurance on the current model while investing in designing a model that will give many more New Zealanders access to better health.

Many changes are underway in health. A key objective of these is to put the patient or health consumer at the centre of healthcare. As a member owned society with our roots within the health sector Accuro is uniquely placed to bring together the insights and needs of our members and an understanding of the changing capabilities of the healthcare system to design member-centered health insurance that delivers better and sustained value. Accuro has chosen experts in health psychology and healthcare, Atlantis Healthcare NZ, to partner with Accuro staff and members to design this new model of health insurance. We look forward to reporting on progress over the coming years.

Our thanks for your continued support to all our members and for your commitment, expertise and hard work to the Accuro team of directors, professional colleagues and staff.

With very best wishes for 2017.

Jane Bawden
Board Chair

Geoff Annals
Chief Executive Officer

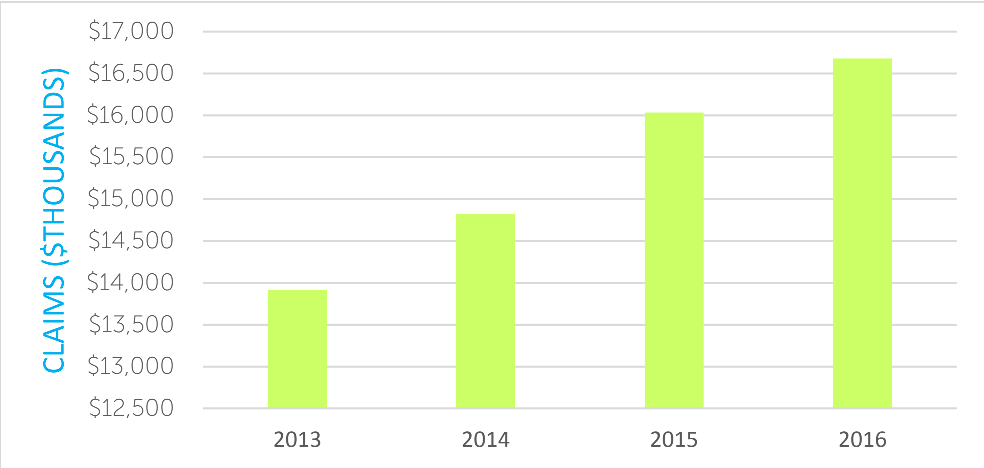
Spotlight on the financial year

For the year ended 31 August 2016

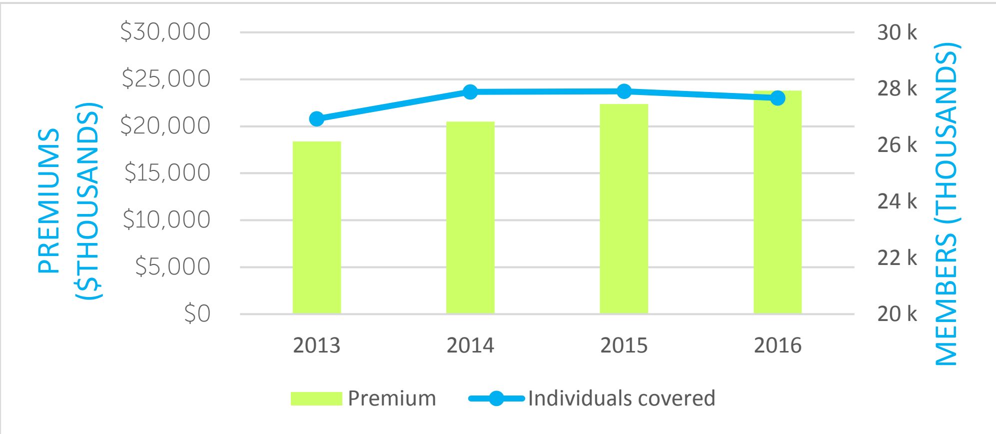
Financial position	$000
Members' funds	**8,007**
Represented by:	
Cash	481
Premium & other receivables	1,035
Investments	11,767
Property and equipment	47
Intangible assets	216
Total assets	**13,546**
Payables (liabilities)	(5,539)
Net assets	**8,007**
Solvency ratio	260%

Financial performance	$000
Premiums	23,812
Other income	228
Investment income	457
Total income	**24,497**
Claims expenses	(16,678)
Direct selling expenses	(1,460)
Other expenses	(4,685)
Total expenses	**(22,823)**
Overall surplus	**1,674**
AM Best's financial strength rating	B (positive)

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. She is a director of Home of Choice Limited and a trustee of Spectrum Care Trust Board and a member of 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 38 years' experience and expertise gained within the health sector. His experience includes 13 years in general practice medicine and 19 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, a director of MFL Mutual Fund Ltd 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), AFHRINZ, MInst.D

Director

Aaron is a professional human resources practitioner who is an Associate Fellow of the Human Resources Institute and a member of the Institute of Directors. He works at Victoria University of Wellington (*Capital thinking. Globally minded*).

He has previous experience in the public service (Ministry of Health, Department of the Prime Minister and Cabinet, State Services Commission) and the health and disability sector.

Aaron is an elected Director, since 2012, who chairs Accuro's Chief Executive Employment Committee. He also has professional affiliations, as member, with the Shared Services & Outsourcing Network and the New Zealand Psychological Society.

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, Jasmax Architects and the Ministry of Primary Industries' PGP Investment Advisory Panel.

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 2016, 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 (2016). 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 2016

	note	2016 $000	2015 $000
Premium revenue		23,812	22,377
Claims expense	5, 12	(16,678)	(16,033)
Underwriting surplus		**7,134**	**6,344**
Operating expenses	2	(4,685)	(4,125)
Direct selling expenses		(1,460)	(1,364)
Investment income	3	457	454
Other income	3	228	259
Surplus attributed to members		**1,674**	**1,568**
Other comprehensive revenue or expense		-	-
Total comprehensive revenue or expense attributed to members		**1,674**	**1,568**

Statement of changes in equity

For the year ended 31 August 2016

	2016 $000	2015 $000
Opening retained earnings	6,333	4,766
Surplus attributed to members	1,674	1,568
Total comprehensive income attributed to members	**1,674**	**1,568**
Closing retained earnings	**8,007**	**6,333**

Statement of financial position

For the year ended 31 August 2016

	note	31 August 2016 $000	31 August 2015 $000
Assets			
Cash and cash equivalents	4	481	658
Premium and other receivables	6	1,035	1,035
Investments	7	11,767	10,006
Plant and equipment	8	47	84
Intangible assets	9	216	107
Total assets		**13,546**	**11,890**
Liabilities			
Trade and other payables	10	606	503
Employee benefits	11	296	326
Unearned premium liability	12	2,762	2,627
Provision for outstanding claims	12	1,875	2,102
Total liabilities		**5,539**	**5,557**
Net assets		**8,007**	**6,333**
Represented by			
Retained earnings		**8,007**	**6,333**

Jane Bawden Chair
14 October 2016

Edward Schuck RAIC Chair
14 October 2016

Statement of cash flows

For the year ended 31 August 2016

	note	2016 $000	2015 $000
Cash flows from operating activities			
Cash receipts from customers		24,000	22,900
Cash paid as claims		(16,905)	(16,079)
Cash paid to suppliers and employees		(5,851)	(5,237)
Interest received		488	447
Net cash flows from operating activities	15	**1,732**	**2,031**
Cash flows from investing activities			
Proceeds from sale of investments		11,006	8,090
Acquisitions of investments		(12,767)	(10,006)
Acquisitions of software		(146)	(112)
Acquisitions of plant and equipment		(2)	(29)
Net cash flows used in investing activities		(1,909)	(2,057)
Net increase/(decrease) in cash and cash equivalents		**(176)**	**(26)**
Opening cash and cash equivalents		658	684
Closing cash and cash equivalents	4	**481**	**658**

Notes to the financial statements

For the year ended 31 August 2016

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.

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 general 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.

These are the first set of financial statements issued under these PBE Standards.

The financial statements were approved by the Board of Directors on 14 October 2016.

The statement of financial position has been presented in the order of decreasing liquidity. All balances are current, except for intangible assets, plant and equipment, and a portion of investments.

First time adoption of PBE Standards

PBE FRS 46 First-time adoption of PBE standards by entities previously applying NZ IFRS.

The annual financial statements are the Society's first set of financial statements presented in accordance with PBE Standards. There are no adjustments in the financial statements resulting from the transition to PBE Standards. The accounting policies adopted in the financial statements for the year ended 31 August 2016 are consistent with those of the financial year ended 31 August 2015.

Accounting standards issued but not yet effective

The amendments to PBE IPSAS 1 which is only effective for reporting periods beginning 1 January 2016 and the consequential effect of this standards will only impact the disclosures ("Disclosure Initiative"). The amendments to 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, which are stated at their fair value: 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 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 recognized 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 — 17–33% 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 capitalised 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 assessed 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 (either plant & equipment or intangible) 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.

Premium receivables relate to solely members' premiums. Outstanding premiums are reviewed for their likely collectability and an appropriate impairment when they are past due, 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 cash equivalents, and term deposits in New Zealand A-rated banks and these have no impairment 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 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 recognized 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.

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 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 Department 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.

2. Operating expenses

Operating expenses include:

	2016 $000	2015 $000
Depreciation	39	40
Amortisation of intangible assets	37	6
Loss on disposal of plant and equipment	-	1
Directors' fees	163	131
Employee benefits expense	2,418	2,288
Contributions to KiwiSaver	98	93
Rental of premises	96	96
Impairment of receivables	73	60

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.

	2016 $000	2015 $000
Audit of financial statements	37	37
Auditor non-audit assurance services	2	1
Non-audit advisory services	-	-

Directors' fees and expenses (refer note 18)	2016 $000	2015 $000
Jane Bawden	37	30
Patricia Curry	19	15
Melissa Clark-Reynolds	19	15
Bridgit Sissons	23	20
Anthony Haycock	19	15
Edward Schuck	23	19
Aaron Mills	23	17
	163	**131**
Directors expenses	4	13
	168	**144**

In addition, member Directors received a subsidy on their health insurance premiums	5	5
Health insurance claims paid to member Directors	0	12
Directors contractual services to the Society	5	8

Remuneration of key management personnel	2016 $000	2015 $000
Remuneration	910	885
KiwiSaver contributions	47	46
Health insurance premiums paid	16	14
Health insurance claims paid	24	6

Key management personnel included Chief Executive Officer and 5 senior executives in both 2015 and 2016.

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

	2016 $000	2015 $000
Loans and receivables – interest	457	454
Total investment income	**457**	**454**
Claims processing fees	138	140
ACC recoveries	91	119
Total other income	**228**	**259**

4. Cash and cash equivalents

	2016 $000	2015 $000
Held in operating bank accounts on rates ranging from 0.5–1.5% (2015: 2.45–2.5%). All cash and cash equivalents are held on call.	481	658

5. Claims Expense

	2016 $000	2015 $000
Claims relating to risk in current year	(16,277)	(15,706)
Claims relating to risk in previous years	(401)	(327)
Total claims relating to risk	**(16,678)**	**(16,033)**

6. Premium and other receivables

	2016 $000	2015 $000
Premium receivables	512	550
Allowance for impairment	(22)	(30)
Net realisable amount	**489**	**519**
Prepayments	102	30
Deferred acquisition costs	266	277
Accrued interest	178	209
	1,035	**1,035**

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 $58,242 (2015: $62,300).

Analysis of premium receivables impairment	2016 $000	2015 $000
Opening allowance for impairment	30	48
Impairment	(30)	(48)
Year-end allowance	22	30
Closing allowance for impairment	**22**	**30**

7. Investments

	2016 $000	2015 $000
Loans and receivables		
Term deposits	11,767	10,006
Total investments	**11,767**	**10,006**

Cash and cash equivalents are all held with financial institutions.

Analysis of investments	2016 $000	2015 $000
Current		
Term deposits under 12 months	11,067	10,006
Non-current		
Term deposits over 12 months, under 24 months	700	-
	11,767	**10,006**

The average interest rate for term deposits at 31 August 2016 was 3.79%. (2015 4.51%)

8. Plant and equipment

	31 August 2016			31 August 2015		
	Computer and equipment $000	other assets $000	total $000	Computer and equipment $000	other assets $000	total $000
Cost	104	52	156	102	52	154
Accumulated depreciation	(78)	(31)	(109)	(48)	(22)	(70)
Closing balance	**26**	**21**	**47**	**54**	**30**	**84**
Opening balance	54	30	84	58	39	97
Additions	2	-	2	29	-	29
Disposals	-	-	-	(2)	-	(2)
Depreciation	(30)	(9)	(39)	(31)	(9)	(40)
Closing balance	**26**	**21**	**47**	**54**	**30**	**84**

9. Intangible assets

	2016 $000	2016 $000	2015 $000	2015 $000
	Software $000	Total $000	Software $000	Total $000
Cost	352	352	206	206
Accumulated amortisation	(136)	(136)	(99)	(99)
Closing balance	**215**	**215**	**107**	**107**
Opening balance	107	107	-	-
Additions	146	146	112	112
Amortisation	(37)	(37)	(5)	(5)
Closing balance	**216**	**216**	**107**	**107**

10. Trade and other payables

	2016 $000	2015 $000
Trade payables	266	303
GST payable	47	52
Other payables	293	148
	606	**503**

11. Employee benefits

	2016 $000	2015 $000
Accrued incentives	192	197
Annual leave	87	75
Salary accruals	(17)	51
Severance and redundancy	35	-
Superannuation on payable and other staff liabilities	(1)	3
	296	**326**

12. Insurance contract liabilities

	2016 $000	2015 $000
Provision for outstanding claims (refer to note 12b)	1,875	2,102
Unearned premium liability (refer to note 12d)	2,762	2,627
	4,637	**4,728**

Assets backing insurance contracts	11,767	10,006

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.

	2016 $000	2015 $000
12a		
Central estimate	1,249	1,853
Expense margin	75	111
Risk margin	93	138
	1,417	**2,102**
12b		
Opening claims provision	2,102	2,148
Amounts utilised during the period	(1,452)	(1,567)
Additional provision/(reversal of unused provision)	(401)	(327)
Amounts provided during the year	1,654	1,853
Movement in risk margin	(12)	(3)
Movement in claims handling costs	(16)	(2)
	1,875	**2,102**
12c		
Claims expense		
Insurance claims paid	16,904	16,079
Movement in provisions for outstanding claims	(226)	(46)
	16,678	**16,033**
12d		
Opening unearned premium liability	2,627	2,271
Premiums written during the year	23,947	22,732
Less premiums earned during the year	(23,812)	(22,377)
Closing unearned premium liability	**2,762**	**2,627**

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 $8 million

(2015: $6.3 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.

	2016 $000	2015 $000
The Society's adjusted available capital	7,791	6,246
Calculated minimum solvency capital	2,064	1,979
Ratio	377%	315%
Standard	3,000	3,000
Solvency Margin	4,791	3,246
Solvency coverage ratio	260%	208%

During the year ended 31 August 2016, 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 2016 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 2016 was $5 million (2015: $4.9 million), relative to an actual solvency capital of $7.8 million (2015: 6.2 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 2016.
- 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 2016, 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 2016 (31 August 2015: 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	1,853	1,894
Total claims made in hindsight	(1,452)	(1,567)
	401	**327**

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 2015: 6%) of the underlying claims amounts based on an analysis of administration expenses.

The expected settlement date for 93% of claims included in the liability is less than 90 days for hospital claims (31 August 2015: less than 90 days for 94% of hospital claims) and less than 11 months for 90% primary/medical claims (31 August 2015: less than 10 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 2015. There is no unexpired risk liability for the year ended 31 August 2016 (2015: 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 7% of the present value of expected future cash flows has been applied at 31 August 2015 (31 August 2015: 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% (2015: 72%).
- An expense allowance of 10% (2015: 10%).
- A commission component of 11% of the unearned premium (2015: 12%).

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:

	2016 $000	2015 $000
Base assumptions	1,875	2,102
Claims settlement time + 10%	2,408	2,700
Claims settlement time - 10%	1,374	1,442

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

Credit risk

The credit quality of investment counterparties is as follows:

	2016 $000	2015 $000
A-rated	11,767	10,006
	11,767	**10,006**

The above $11.76 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. 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.

	2016 $000	2015 $000
The contractual maturities of investments are as follows: Under 12 months	11,067	10,006
Between 1 and 2 years	700	-
	11,767	**10,006**

In addition to the above investments, the Society has on-call funds of:	481	658
The contractual maturity of financial liabilities are as follows:		
Trade and other payables		
Under 12 months	363	326

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).

	2016 $000	2015 $000
Full-year impact of 1% interest rate change on interest earnings in the surplus or deficit and loss and equity	109	90

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
2016			
Assets			
Cash and cash equivalents	481	-	481
Trade and other receivables	556	-	556
Investments	11,767	-	11,767
Total assets	**12,805**	**-**	**12,805**
Liabilities			
Trade and other payables		363	363
Total liabilities		**363**	**363**
2015			
Assets			
Cash and cash equivalents	658	-	658
Trade and other receivables	549	-	519
Investments	10,006	-	10,006
Total assets	**11,213**	**-**	**11,183**
Liabilities			
Trade and other payables		326	326
Total liabilities		**326**	**326**

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

	2016 $000	2015 $000
Reported surplus (deficit)	**1,674**	**1,568**
Non-cash items		
Bad debts expense	-	-
Depreciation/amortisation expense	76	46
Movement in claims provision	(227)	(46)
	(151)	**-**
Movements in working capital		
Premiums and other receivables	1	35
Premiums in advance	135	356
Trade and other payables	109	60
Employee benefits	(30)	(12)
(Decrease)/increase in net GST	(5)	24
	209	**463**
Net cash inflow from operating activities	**1,732**	**2,031**

16. Operating lease obligations

	2016 $000	2015 $000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	283	324
1–5 years	312	429
Later than 5 years	0	20
	595	**773**

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

	2016 $000	2015 $000
Capital commitments at period end	-	-

17. Rating

The Society financial strength rating issued by A M Best is B Positive (2015: A M Best B Stable).

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. Refer note 2.

One director has provided specialist advice at a total cost of $5,000 (2015: 2 directors provided services at a total cost of $8,000).

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these reported results (2015: 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.

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 accompanying financial statements of Health Service Welfare Society Limited on pages 9 to 31, which comprise the statement of financial position as at 31 August 2016, and the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year 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 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 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 Public Benefit Entity Standards issued in New Zealand by the New Zealand Accounting Standards Board 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 made by Health Service Welfare Society Limited, 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. 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. Other than this, and in our capacity as auditors, we have no other relationship with or interests in 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 2016, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

BDO Wellington

BDO WELLINGTON
14 October 2016
Wellington