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ANNUAL REPORT

2012

taking care
accuro
health insurance

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Company directory

Board of Directors

Geoff Annals (Chair)
 Anne Hare (Deputy Chair)
 Jane Bawden
 Melissa Clark-Reynolds
 Bridgit Sissons
 Bernie Wood

Chief Executive Officer

Bruce Morrison

Actuary

Peter Davies BBus, SC, FIA, FNZSA

Solicitor

Quigg Partners

Bankers

The National Bank of New Zealand Ltd

Auditor

BDO Wellington

Investment managers

National Bank Private Banking

Registered office

Level 5, 79 Boulcott Street
 Wellington

Incorporation

Industrial and Provident Societies Act 1908

Chairman's report

I am very pleased to introduce your Society's annual report for the 2012 year – a year that has seen the Society move into a completely new environment. While preparation for a new legislative regime began nearly two years ago, this year has seen Accuro earn the right, through the RBNZ licensing programme, to continue to provide health insurance for its members. It was with significant pleasure that Accuro was able to meet all of the standards demanded of it, and working through this process has provided the Board and management with confidence that we have a strong foundation to deliver to the on-going needs of our members.

One of the requirements for the new environment is to hold a credit rating. The rating was carried out by Standard & Poor's during the financial year, and although not required to hold that rating before November 2012, we publicly declared the week after our financial year closed on 31 August that Accuro had been rated BB+ with a stable outlook. In Standard & Poor's words: 'The ratings reflect the insurer's strong risk-based capitalisation, conservative investment profile and supportive liquidity position. We also hold a positive view of Accuro's ability to grow its membership base despite challenging market conditions.'

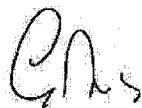
We were equally pleased that Standard & Poor's identified that our business philosophy was a strong contributor to our growth: 'The stable outlook reflects our expectation that Accuro's membership numbers will continue to increase as Accuro's value proposition reaches a wider audience.'

As Accuro has met the costs of meeting regulatory requirements, system changes and service delivery from a much smaller base than most of the competitors in the marketplace, our philosophy of targeting a break-even performance through this period has held us in good stead. Despite a small deficit for the year, we strongly believe that we can now deliver all of the services our members are seeking from their Society.

The Board and management will now be in the positive position of focusing future attention on new initiatives, products and services. Taking an industry lead in discussions with providers and with government on how New Zealand should best deliver positive health outcomes for its population is now under way. Awareness and consideration of how Accuro can, as a Society, assist its members in improving and protecting their own position in regards to wellness and health solutions will become a stronger focus in 2013.

Our products remain at the top of industry surveys and, for the fourth year in a row, have gained the recommended status from Consumer New Zealand. The entire organisation takes great pride in the philosophy of 'doing the right thing' for members. We believe the future is bright.

On behalf of the Board and members, I would like to thank the excellent team that is the staff of Accuro. I know that they are dedicated to ensure Accuro remains a Society to be proud of.



Geoff Annals

Chairman of the Board

Chief Executive Officer's report

It is a pleasure to provide this report on the 2012 year to our members. It has been a year full of events that heralded a new era for the Society. An improved regulated environment has meant providing for a scale of business that will comply with all of our licensing requirements. During this period and in a marketplace that includes 12 other health insurers, Accuro was the only organisation to report growth in membership for each reporting quarter – a statistic that now holds true for two full years. This achievement is significant given that the total health insurance industry has contracted a little in that time. We have not set out to achieve growth for growth's sake but firmly believe that, if we continue to offer good value and good service, new members will be attracted to the Society. Accuro has set a goal of being independently assessed as providing top quartile products at bottom quartile prices, and this goal has been consistently achieved throughout the year. For the fourth year in a row, Accuro has earned accolades from Consumer New Zealand and a number of financial product rating firms.

During the year and in keeping with our new requirements under the RBNZ licensing regime, Accuro invited international credit rating agency Standard & Poor's to provide the Society with a credit rating. Given our small relative size and our not-for-profit status, which includes our philosophy of not building up reserves at the cost to members' premiums, we were very pleased with the BB+ (stable) rating and the comments provided in their report. Our continuing view of maintaining affordable premiums while holding prudent reserves will remain. That will mean increasing our reserves slightly over the next two years, and we believe this can be achieved while holding premiums below the market average.

As our membership has grown, we have been conscious of the balance between providing excellent service and the cost of delivering that service. We have negotiated office space for our staff that, while acceptable and serviceable, costs the organisation just half the average per-person office space cost in Wellington. We have an excellent team of staff members who have an absolute focus on providing the high levels of service that Accuro is becoming very well known for.

The biggest outlay for the Society is, of course, the medical claims incurred by our members. While we continue to ensure that the benefits within our policies are at the forefront of what is available in the marketplace, we are very aware of the on-going inflation of these medical costs. We are working hard with providers to do what we can to keep those costs manageable, and we have also provided some product options for members who wish to reduce this premium growth. Claims payments to members have increased year on year by 12 percent and 13 percent for each of the past two years. While we expect claims to grow as membership grows and paying claims is the reason we are in business, it is important that we contain the medical inflation component of those claims as much as possible. There are initiatives under way for the 2013 year in order to deliver changes in this area.

All in all, 2012 has, once again, been a year of exciting changes that have seen Accuro become more and more recognised as a health insurance organisation that leads the way.



Bruce Morrison
Chief Executive Officer

Spotlight on the financial year

For the year ended 31 August 2012

Financial performance \$000

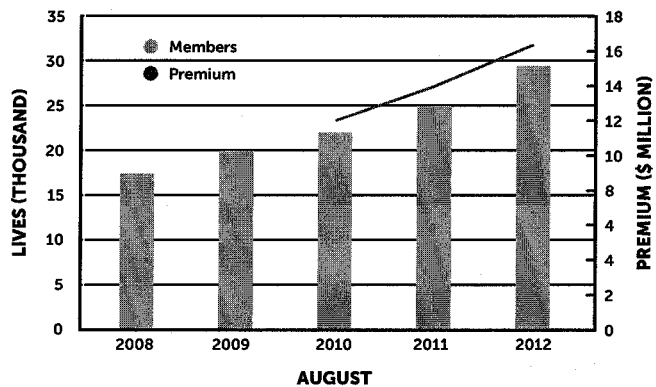
Premiums	16,216
Other income	294
Investment income	371
Total income	16,881
Claims paid	12,498
Other expenses	4,491
Total expenses	16,989
Overall surplus (deficit)	(108)

Financial position \$000

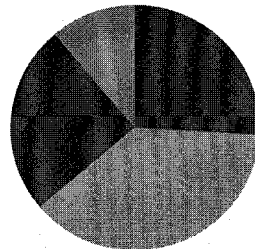
Members' funds	4,443
Represented by:	
Current assets	1,875
Investments	5,800
Fixed assets	58
Software	295
Total assets	8,028
Deduct current liabilities	3,585
Net assets	4,443
Solvency ratio	138%
Standard & Poor's credit rating	BB+

Financial statistics

Total annual premium and membership trend



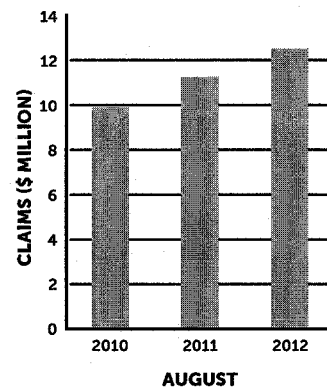
Accuro's investment portfolio



(\$ THOUSAND)

- Government stock \$1,454
- Local authority stock \$630
- Other fixed interest \$1,513
- Bank bonds and investments \$2,203

Claims paid to members



Board of Directors



Geoff Annals RN, BSocSci
Chair

Geoff is the Chief Executive of the New Zealand Nurses Organisation and has worked in a range of clinical positions at Waikato Hospital, including as General Manager and Director of Nursing. He is also a registered nurse and has studied organisational psychology post-registration at both a bachelor's and master's level.



Anne Hare BA, DipBus
Deputy Chair

Anne Hare is an NZX adviser and an Authorised Financial Adviser. In addition to sitting on the Accuro Board, Anne is a Trustee for the Community Trust of Wellington. Anne is a former athlete, with her highest achievement competing in the 1996 Olympics inaugural women's 5,000m final. Anne and husband Chris have two daughters.



Jane Bawden LLM (Hons)
Director

Jane Bawden is a barrister with extensive experience in the health and disability sector. She 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. As well as being a Director of the Health Service Welfare Society (Accuro Health Insurance), Jane is also a member of the Southern Cross Hospitals Ltd National Clinical Medical Committee.

Board of Directors continued



Bridgit Sissons BA, PGDipCom

Director

Bridgit has worked extensively in New Zealand and the US for the last 15 years, developing and implementing communication strategies for well known companies and agencies. Bridgit has held senior management positions with NZX and now works as a consultant in Wellington.



Bernie Wood MNZM

Director

A resident of Wellington, Bernie Wood has worked in the insurance industry for 47 years – the last 10 years of his career as CEO of HSWS Healthcare (Accuro Health Insurance). Currently retired from the workforce, Bernie has written two sports history books and is currently working on a third.

Bernie received the MNZM in the New Year's Honours list in 2000 for services to sport.



Melissa Clark-Reynolds BA (Hons), MCRP (Environmental Health & Epidemiology)

Director

Melissa's principal areas of expertise include high-tech product marketing and management, business strategy and leadership. Melissa was one of two New Zealanders selected in 2007 as an ambassador for Al Gore's Climate Reality Project and has also received numerous national awards, including being named by *Unlimited* magazine as one of New Zealand's most admired entrepreneurs and a member of the 150 most powerful women in New Zealand business.

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 2012, the Board comprised Geoff Annals (Chair), Anne Hare (Deputy Chair and RAIC Chair), Bridgit Sissons and Bernie Wood with co-opted directorships being held by Jane Bawden and Melissa Clark-Reynolds.

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 1993 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 with legislative requirements.

Further to legislative requirements, the Board and management team are governed by the overarching Governance Charter (2011). The Governance Charter represents a transparent set of standards under which Accuro operates and includes such things as the Code of Ethics and the 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. This is further supplemented, on a fortnightly basis, by a steering committee consisting of the Chair, Deputy Chair and Chief Executive Officer.

The Board has also established a Risk, Audit, Investment and Compliance Committee (RAIC), which resides over technical and advisory matters relating to a broad remit. RAIC operates on a two-monthly basis, in advance of 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.

Understanding how medical inflation affects premiums

Over the last few years, our members have seen increases in their premiums. There are many factors that have increased premiums, and the major ones are:

- rising medical inflation (increasing consultation, treatment and equipment costs)
- new medical technologies (more costly to provide)
- an ageing population (with higher average claim amounts).

The cost of healthcare is rising all the time, and a large part of this is due to medical advances and new treatments becoming available. These advances are very beneficial for our members; however, they affect how much insurers have to charge for private medical insurance.

We believe our members should have access to the best. The table below illustrates the increases in recent years. These figures all relate to the year ending 31 August.

High-value claims

	2011 \$	2012 \$	Increase %
Orthopaedic			
Average by value	7,658	8,356	9.1
Highest individual claim	34,195	37,672	10.2
Total claims paid	1,968,296	2,122,603	7.8
Cancer			
Average by value	4,218	4,710	11.7
Highest individual claim	36,269	52,565	44.9
Total claims paid	679,233	767,851	13

Highest single claim

	2011 \$	2012 \$
Pancreaticoduodenectomy	110,135	71,845

Average cost

	2011 \$	2012 \$	Increase %
Dermoscopy/mole mapping	184	212	15.4
Laparoscopy	6,125	9,061	47.9
Radiation therapy treatment	24,122	25,248	4.7
Repair of umbilical hernia	6,466	7,093	9.7
Total knee replacement	18,954	22,622	19.4
Varicose vein surgery (unilateral)	6,795	8,133	19.7

Financial statements

The comparative figures for the period ended 31 August 2011 are for a five-month period, and the August 2012 results are for a full 12-month period.

Statement of financial performance

For the year ended 31 August 2012

		12 months 2012 \$000	5 months 2011 \$000
	Note		
Premium revenue		16,216	6,053
Net claims expense		12,498	4,942
Underwriting surplus		3,718	1,111
Operating expenses	2	4,491	1,768
Net investment and other income	3	665	311
Surplus/(deficit)		(108)	(346)

Statement of changes in reserves

For the year ended 31 August 2012

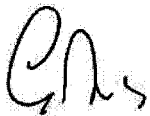
	12 months 2012 \$000	5 months 2011 \$000
Opening balance	4,551	4,897
Surplus/(deficit)	(108)	(346)
Closing balance	4,443	4,551

The financial statements should be read in conjunction with the notes on pages 12 to 25.

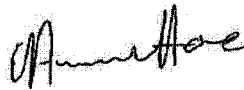
Statement of financial position

As at 31 August 2012

	Note	2012 \$000	2011 \$000
Cash and cash equivalents		1,074	532
Premium and other receivables	4	801	367
Investments	5	5,800	6,866
Property and equipment	6	58	73
Intangible assets	6	295	183
Total assets		8,028	8,021
Payables (liabilities)			
Creditors and accruals	7	286	431
Employee benefits		213	191
Income in advance		1,385	1,137
Provisions for outstanding claims	8, 9	1,701	1,711
Total payables (liabilities)		3,585	3,470
Reserves		4,443	4,551



Geoff Annals Chairman
16 November 2012



Anne Hare Deputy Chair
16 November 2012

The financial statements should be read in conjunction with the notes on pages 12 to 25.

Statement of cash flows

For the year ended 31 August 2012

		12 months 2012 \$000	5 months 2011 \$000
	Note		
Cash flows from operating activities			
Premium revenue		16,335	6,180
Investment income		398	200
Other income		294	123
Tower subscriptions	13	-	616
Claims paid		(12,508)	(4,939)
Operating expenses		(4,755)	(1,746)
Tower payments	13	(121)	(604)
Net cash flows from operating activities	11	(357)	(171)
Cash flows from investing activities			
Transfers (to)/from investments		1,067	480
Net purchases of assets		(168)	(169)
Net cash flows from investing activities		899	311
Net increase/(decrease) in cash held		542	140
Opening cash and cash equivalents		532	392
Closing cash and cash equivalents		1,074	532
Bank call accounts		1,074	532

The financial statements should be read in conjunction with the notes on pages 12 to 25.

Notes to the financial statements

For the year ended 31 August 2012

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 financial statements of the Society have been prepared according to the Financial Reporting Act 1993.

Nature of the business

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

Comparatives

The Society's business is seasonal, with the period January to March historically having lower claims costs. A pro-rata calculation scaling the five months to August 2011 and the 12 months to August 2012 will not give directly comparative data.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ('NZGAAP').

The Directors consider that the Society is more closely aligned with the characteristics of a public benefit entity than a profit-oriented entity.

The financial statements were approved by the Board of Directors on 16 November 2012.

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Note 9 details several of the major assumptions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going 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 9 Insurance contract liabilities
- Note 10 Risk management.

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 on hand and current account balances in bank accounts.

Premiums and other receivables

Premiums and other receivables are stated at their cost less any impairment losses. Impairment losses for uncollectable premiums are expensed in the year in which the impairment occurs.

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

Investments

Investments are purchased with the intention of being held until maturity.

The management of the investment portfolio is outsourced to National Bank Private Banking. The Society's requirement is that the portfolio is held in investment grade New Zealand fixed interest securities.

The Society designates its investments as financial assets at fair value through profit or loss at inception. That is, changes in fair value are recognised in determining the surplus or deficit in the statement of financial performance.

As investments are held to maturity and then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

Property and equipment

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

Subsequent expenditure that replaces a component or enhances the item of property or equipment is added to the carrying amount of an item of property or equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Society and the cost of the item can be measured reliably. All other costs are recognised as an expense in determining the surplus or deficit in the statement of financial performance.

Capital expenditure on major projects is initially recorded as work in progress. On completion of the project, the asset is transferred to the appropriate asset category. Work in progress is not depreciated.

Depreciation is recognised in determining the surplus or deficit in the statement of financial performance on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Computer equipment 25%–33% per annum
- Other fixed assets 20%–33% per annum
- Leasehold improvements Based on the life of the lease.

The estimated useful life of assets is reassessed annually.

The sale and purchase of assets (tangible and intangible) is disclosed in the statement of cash flows.

Intangible assets

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. All capitalised costs are deemed to have an expected useful life of five years unless it can be clearly demonstrated that the net benefits are to be generated over either a longer or shorter period. The capitalised costs are amortised on a straight-line basis over the period following completion of a project or implementation of part of a project.

The recoverability of the carrying amount of the asset is reviewed at each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value.

An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in determining the surplus or deficit in the statement of financial performance and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

Foreign currency transactions

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate.

Impairment

The carrying amounts of assets are reviewed at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The estimated recoverable amount of an asset is the greater of fair value less costs to sell or value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in determining the surplus or deficit in the statement of financial performance.

Insurance contracts

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

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

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

Income recognition

Premiums

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

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

Fees and other income

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

Investment income

Interest income is recognised in determining the surplus or deficit in the statement of financial performance as it accrues and is calculated by using the effective interest rate method.

Premiums and discounts that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses on investments, recorded in determining the surplus or deficit before tax in the statement of financial performance, include gains and losses on financial assets classified as financial assets at fair value through profit or loss. Gains and losses on the sale of investments are classified as the difference between net sale proceeds and the fair value recorded at the date of the sale transaction. Unrealised gains and losses are classified as the difference between the fair value at the reporting date and the previous carrying value.

Leases

Leases are defined as an operating lease where they do not substantially transfer all the risks and rewards incidental to ownership.

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

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

Policy acquisition costs

The commission costs incurred in acquiring and recording insurance contracts may give rise to future benefits from premiums. Acquisition costs are initially recorded in determining the surplus or deficit before tax in the statement of financial performance. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Payables

Payables are stated at cost.

Net claims expense

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

Provisions

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

Outstanding claims provision

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

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

Unexpired risk provision and liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test is performed on all the policies as a whole, as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in determining the surplus or deficit in the statement of financial performance.

Employee entitlements

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

Income tax expense

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

Goods and services tax (GST)

The statement of financial performance and 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.

Change in accounting estimates

A change in an accounting estimate that gives rise to a change in an asset or liability is recognised by adjusting the carrying amount of the related asset or liability item in the period of the change. Other changes in accounting estimates are recognised prospectively in the statement of financial performance in the period of the change and future periods, as applicable.

Change in accounting policies

There has been no change in accounting policies. All policies have been applied on a basis consistent with those used in previous years.

2. Operating expenses

	12 months 2012 \$000	5 months 2011 \$000
Operating expenses include:		
Auditor's remuneration:		
Audit fees	28	26
Other services	8	7
Depreciation	31	14
Amortisation of intangible assets	39	17
Directors' fees	101	39
Employee benefits expense	2,365	869
Contributions to KiwiSaver	110	45
Rental of premises	99	41
Provision for impairment of receivables	55	18

Auditor's remuneration for other services disclosed above consists of accounting/tax advisory services, reviewing regulatory returns and providing services at the AGM.

	12 months 2012 \$000	5 months 2011 \$000
Directors' fees and expenses:		
Geoff Annals	27	12
Jane Bawden	14	5
Melissa Clark-Reynolds	12	-
Anne Hare	22	9
Bridgit Sissons	14	5
Bernie Wood	12	-
Wayne McLachlan	-	5
Martin Stokes	-	3
	101	39
Directors' expenses	2	2
	103	41

3. Net investment and other income

	12 months 2012 \$000	5 months 2011 \$000
Investment income	371	188
Management fees	192	95
ACC recoveries	102	28
	665	311

4. Premium receivables

	2012 \$000	2011 \$000
Premium receivables	471	616
Salary deductions to be allocated	(1)	(66)
Provision for doubtful debts	(66)	(232)
Net realisable amount	404	318
Prepayments	67	20
Acquisition costs	330	29
	801	367

The fair value of premiums approximates the carrying amount. Receivables are a current asset.

5. Investments

	2012 \$000	2011 \$000
At fair value through profit or loss:		
Bank bonds and investments	2,203	3,988
Government stock	1,454	843
Local authority stock	630	640
Other	1,513	1,394
Total investments	5,800	6,866
\$500,000 of New Zealand Government stock is held by the Public Trustee as required under the Insurance Companies' Deposits Act 1953.		
Cash and cash equivalents held	1,074	532
Total cash and investments	6,874	7,397

6. Property, equipment and intangible assets

	31 August 2012			31 August 2011		
	Cost \$000	Accm depn \$000	Net book value \$000	Cost \$000	Accm depn \$000	Net book value \$000
Computer hardware	89	66	23	76	52	23
Furniture	77	61	16	77	50	28
Equipment	80	62	19	77	55	22
Total fixed assets	247	189	58	230	157	73

	31 August 2012			31 August 2011		
	Cost \$000	Accm depn \$000	Net book value \$000	Cost \$000	Accm depn \$000	Net book value \$000
Computer software (intangible assets)	414	169	245	191	131	60
Work in progress	50	-	50	123	-	123
Total intangible assets	464	169	295	214	131	183

	Computer hardware \$000	Furniture \$000	Equipment \$000	Computer software \$000	Work in progress \$000	Total \$000
Cost movements during 2012	14	-	3	223	(72)	168

The majority of the computer software and work in progress is internally generated.

Impairment losses arise from software development projects that do not have a positive quantifiable financial benefit. Where indicators of impairment exist, the future financial benefit is recalculated using a net present value analysis. Where the net present value is not positive, impairment is recognised in determining the surplus or deficit in the statement of financial performance.

7. Creditors and accruals

	2012 \$000	2011 \$000
Accounts payable	150	211
Accruals	137	220
	286	431

8. Claims provisions

	12 months 2012 \$000	5 months 2011 \$000
Opening claims provision	1,711	1,708
Amounts utilised during the period	(1,705)	(1,438)
Additional provision/(reversal of unused provision)	(10)	3
Amounts provided during the period	1,674	1,443
Movement in claims handling costs	31	(5)
	1,701	1,711

9. Insurance contract liabilities

	2012 \$000	2011 \$000
Provision for outstanding claims	1,701	1,711
Provision for unearned premium (income in advance)	1,385	1,137
	3,086	2,848

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

Solvency provision

Based on the information provided to the consulting actuary, he has determined that the total minimum solvency provision for the Society as at 31 August 2012 is \$1.6 million. The minimum required by the non-life solvency standard released by the Reserve Bank is \$3 million.

	12 months 2012 \$000	5 months 2011 \$000
The Society's adjusted available capital	4,148	4,368
	138%	146%

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 2012.
- 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.

- With respect to the key assumptions used by the actuary in determining the outstanding claims liability, the actuary has assumed that the notification of claims by members of the Society will follow past patterns for the majority of claims, except where some claims for relatively small amounts may be held back for a longer period than would have been the case had a claims service fee not been applied.
- The actuarial report contained no qualifications.

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 5 percent (31 August 2011: 3 percent) of the underlying claims amounts based on an analysis of administration expenses.

The expected settlement date for 90 percent of claims included in the liability is less than 90 days for hospital claims (31 August 2011: less than 90 days) and 11 months for primary/medical claims (31 August 2011: less than 11 months). Accordingly, expected future payments are not discounted due to the short-tail nature of the liabilities.

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

10. 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 RBNZ, 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 the impact of variables on Accuro's key metrics. Sensitivity risk to Accuro's performance is based on the variability and variance between claims paid and premiums collected, which is managed through product and pricing levers allowing Accuro to minimise its exposure.

Concentration risk within Accuro is defined as a concentration in insurance contracts under one entity. An entity could be a group or third party such as an adviser. Although Accuro's insurance risk is varied, there is a particular focus on ensuring that concentration does not occur. By doing so, Accuro ensures limited exposure to one-off large losses from singular events.

Financial risks

The credit quality of investment counterparties is as follows:

	2012	2011
	\$000	\$000
A-rated	5,064	5,341
B-rated	281	292
Unrated	455	1,233
	5,800	6,866

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

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

Premium receivables are due from a very large number of counterparties, ranging from corporates to individual members. Analysing these by credit quality would not be feasible, as the majority of counterparties will be non-rated.

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.

	2012	2011
	\$000	\$000
The contractual maturities of investments are as follows:		
Under 12 months	620	1,156
Between 1 and 2 years	999	286
Between 2 and 3 years	1,116	2,134
Between 3 and 4 years	783	764
Between 4 and 5 years	634	1,390
Over 5 years	1,648	1,136
	5,800	6,866

In addition to the above investments, the Society has on-call funds of:	1,074	532
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Foreign currency risk

The Society's member investments and business activities are New Zealand-based, and there is minimal exposure to foreign currency risk.

Interest rate risk

The Society invests in both fixed and variable rate financial instruments such as bonds, commercial paper and floating rate notes. 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 investment types and 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:

	12 months 2012 \$000	5 months 2011 \$000
Impact of increase in interest rates by 100 basis points on cash flows.		
The full-year impact of a movement of interest rates by 100 basis points on cash flows is plus or minus.	63	71

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

	12 months 2012 \$000	5 months 2011 \$000
Reported surplus/deficit	(108)	(346)
Add/(deduct) non-cash items:		
Write-downs and write-offs	-	41
Unrealised capital loss/(growth)	(1)	(1)
Depreciation	70	30
	69	70
Movements in working capital		
(Decrease)/increase in creditors	(163)	166
(Decrease)/increase in income in advance	248	185
(Decrease)/increase in provisions for claims	(10)	3
Decrease/(increase) in debtors	(86)	(111)
Decrease/(increase) in commission in advance	(330)	-
Decrease/(increase) in prepayments	(18)	(14)
(Decrease)/increase in employee payables	21	-
(Decrease)/increase in net GST	19	(121)
	(319)	105
Net cash inflow from operating activities	(357)	(171)

12. Operating lease obligations

	2012 \$000	2011 \$000
Obligations payable after balance date on non-cancellable operating leases are as follows:		
Due within 1 year	141	133
Due 1–2 years	130	40
Due in 2+ years	415	43
	686	216
Capital commitments		
Capital commitments at period end were:	10	30

13. Tower premiums

The Society collected hospital cover premiums on behalf of Tower Health Limited and paid these premiums on a monthly basis. This contract ceased on 31 August 2011.

No premiums were collected in the 2012 financial year.

14. Contingent liabilities

	2012 \$000	2011 \$000
Contingent liabilities on hand at end of year	Nil	Nil

15. Adoption of NZIFRS

In September 2008, the Accounting Standards Review Board (ASRB) issued *Release 9 – Delay of the Mandatory Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZIFRS) for Certain Small Entities*. The ASRB has decided that companies that satisfy all of the following criteria are permitted to continue to apply the existing approved New Zealand Financial Reporting Standards (FRS) and, therefore, are not required to apply NZIFRS for periods beginning on or after 1 January 2008 until further notice.

The Society, for the year ended 31 August 2012, was not an issuer, as defined by sections 4 and 19 of the Financial Reporting Act 1993, in either the current or preceding accounting period. Note that the Society will become an issuer in the 2013 financial year.

The implementation of NZIFRS is to coincide with the requirements stipulated in the Insurance Prudential Supervision Act 2010. Accuro has been issued with a provisional licence and is meeting the requirements to achieve the full licence by 7 September 2013.

In the interests of improved disclosure, the Society has included increased NZIFRS-style disclosure in the areas of risk and investments.

The adoption of NZIFRS4 will increase the opening IBNR provision by approximately \$114,000. The Society's actuary already includes this increased provision in calculating the Society's solvency for the Reserve Bank.

The adoption of NZIFRS4 will mainly increase the level of disclosure related to insurance contract liabilities (refer to note 9) and risk (refer to note 10).

In these areas, in this set of financial statements, the Society is applying the NZIFRS disclosures to commence the transition to full NZIFRS.

16. Fair values

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

17. Rating

The Society credit rating issued by Standard & Poor's is BB+.

18. Related party transactions

All the Society's dealings are at arm's length. The Society does provide health insurance to nurses and has a contract with the NZ Nurses Organisation (NZNO). The Society Board Chair Geoff Annals is the Chief Executive of the NZNO.

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Members of Health Service Welfare Society Limited (Trading as Accuro Health Insurance)

Report on the Financial Statements

We have audited the financial statements of Health Service Welfare Society Limited on pages 9 to 25, which comprise the statement of financial position as at 31 August 2012, and the statement of movements in equity, statement of financial performance and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Members, as a body, in accordance with the Constitution of Health Service Welfare Society Limited. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In addition to audit services, our firm provides other services in the areas of taxation advice and business services. Partners and employees of our firm deal with Health Service Welfare Society Limited on normal terms within the ordinary course of trading activities of their business. We have no other relationship with or interests in the Health Service Welfare Society Limited.

Opinion

In our opinion, the financial statements on pages 9 to 25, present fairly, in all material respects, the financial position of Health Service Welfare Society Limited as at 31 August 2012, its financial performance and its cash flows for the period then ended in accordance with generally accepted accounting practice in New Zealand.



BDO WELLINGTON
16 November 2012
WELLINGTON