ACCURO **ANNUAL REPORT 2014**

taking care

accuro

health insurance

Contents

Company directory

Board of Directors
Jane Bawden (Chair)
Bridgit Sissons (Deputy Chair)
Edward Schuck
Anthony Haycock
Aaron Mills
Pat Curry
Geoff Annals

Chief Executive Officer
Geoff Annals

Actuary
Peter Davies BBUS, SC, FIA, FNZSA

Solicitor
Morrison Kent

Bankers
Westpac Banking Corporation

Auditor
BDO Wellington

Registered office
Level 1, 79 Boulcott Street
Wellington

Incorporation
Industrial and Provident Societies Act 1908

Chair’s report

Accuro’s story began in 1971 when the Hospital Services Welfare Society was set up to provide staff employed by hospital boards with a range of health and welfare benefits. Staff paid a weekly subscription and in return received small payments in respect of events such as sickness or needs such as hearing aids and optical or medical costs. Much has changed since those days but the basic principle remains the same: people join Accuro to pool funds so that the costs of various health needs can be supported from the shared fund.

Earlier this year the Board of Director’s reviewed Accuro’s aims and objectives and re-confirmed that everything we do must focus on Taking Care of Our Members. This is why we exist and the Board spent some time figuring out what Accuro will look like when it is taking really great care of members. This is what we came up with:

- Members will choose to stay with Accuro for life
- Members will be recommending Accuro to their friends and workmates
- Non-members will be knocking on Accuro’s door
- Accuro will be financially robust and secure

In short, we think this would mean Accuro was The Best Little Health Insurer in New Zealand.

It may seem strange to include ‘little’ here but we want to be clear that what really matters is the quality of our care for members, not size. Typically insurers measure success on size and growth. We don’t. We judge our success on the quality of our care. And we challenge ourselves to do better.

In setting ourselves that challenge we take considerable confidence from how well we are already doing. Last year the Board made a commitment to reducing the burden of overheads on members’ funds and that has been achieved with a five percent reduction in overhead costs as a percentage of premium income.

In recent years Accuro has been delving into reserves each year to cover small operating losses while Accuro has been investing in improving the quality of its business systems. This year Accuro not only achieved a surplus but returned a little more than anticipated to members’ equity. This was achieved while continuing to strengthen and improve our business systems, service quality and paying a record $14.8 million in claims.

Financial security is essential and the Board will always maintain a strong focus on this. The purpose of financial security is to ensure we can take care of members for life. We want members to stay with Accuro for life. So the Board is paying special attention to Accuro’s ability to retain members so they can continue to gain the benefit of the health fund they have helped build.

And a comment on growth. Even though growth is not in itself a Board objective it is important to acknowledge that since the SmartCare range of products was introduced in 2007 Accuro has grown in each successive year. Focussing on quality and value has delivered growth and growth has helped strengthen Accuro’s financial position. We expect that strengthening Accuro’s focus on members is not only the right thing to do, but it will also continue to be the best thing to do.

My thanks to the Board and staff of Accuro for the expertise, hard work and enthusiasm they bring to their various responsibilities. Special thanks and acknowledgement also of course to all our members. Accuro exists because of your support and exists to support you.

Jane Bawden
Board Chair

Chief Executive Officer's report

It is 43 years since Accuro began life as the Health Services Welfare Society and seven years since the Accuro SmartCare product suite was launched introducing features such as discounts for non-smoking and healthy weight and systems such as on-line applications. The value of these innovations has been recognised by the steady growth in Accuro's membership since SmartCare was introduced and by all the other health insurers who have adopted many features Accuro introduced so they are now standard industry practice. We are proud to lead the way.

Since 2007 Accuro has focussed on strengthening its business systems and processes to support the growing numbers of members. This has included work to meet all the requirements for licensing under the Insurance (Prudential) Supervision Act with full licensing achieved in 2013. These investments came at a cost and it is pleasing to report that Accuro made a surplus of $737,000 in 2014 after several years of small losses - $141,000 in 2013, $108,000 in 2012, $346,000 in 2011. Small losses are sustainable in the short term and make good sense when they support essential business improvement. However great care must be taken to ensure Accuro's reserves are maintained at a level that provides a secure buffer against the possibility of extreme adverse events, without unduly locking up members' equity to the detriment of business improvement.

In 2014 Accuro's reserves increased by 18 per cent, from $4.031m to $4.776m. This is well in excess of the actuarially calculated minimum solvency capital of $1.765m and provides a margin of $1.776m above the Reserve Bank's regulatory minimum of $3.0m but we need to continue to build our reserves. The current plan is to make small surpluses each year for the next few years at least.

We are confident members will continue to support this financial strategy so long as they continue to receive excellent value. In 2014 Accuro met members' claims totalling a record $14.821m. A further $207,000 was initially paid out to members by Accuro to meet accident treatment costs declined by ACC but later returned to the members' funds when recovered by Accuro from ACC. That represents more than fifteen million dollars of access to health assessments and treatments that would otherwise have been denied or met directly by the members affected.

Looking ahead, Accuro will continue to work hard on reducing the cost of business overheads and to improve business systems and processes. We will also be testing everything we do to make sure it is better, simpler, clearer and fairer for members. This is the challenge the Board of Directors has placed before us. It is a challenge we welcome and that excites us. Staff and members are privileged to have directors committed to ensuring Accuro continues to lead the way. Thank you to the Chair and all the Directors.

My thanks also to the Accuro staff. It is a real pleasure to serve our members alongside you all.

Geoff Annals
Chief Executive Officer

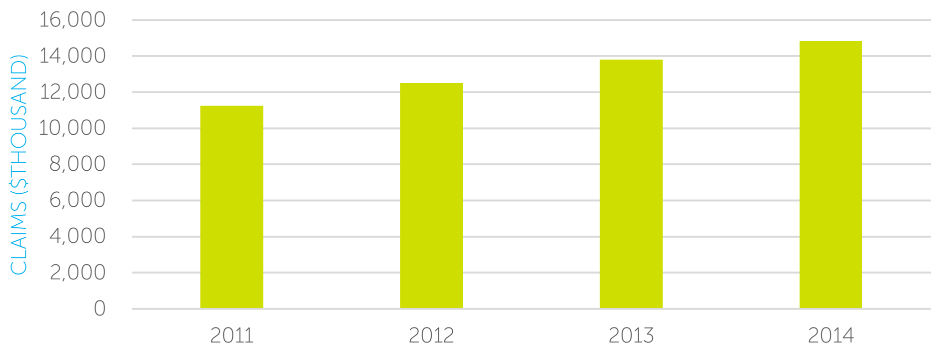
Spotlight on the financial year

For the year ended 31 August 2014

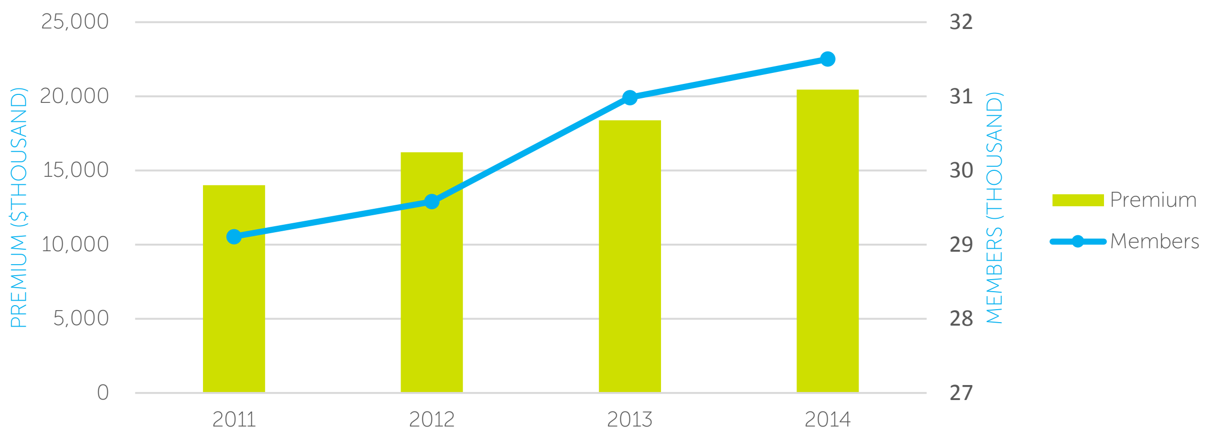
Financial position	$000
Members' funds	**4,768**
Represented by:	
Cash	684
Receivables and other	1,070
Investments	8,090
Property and equipment	98
Total assets	**9,942**
Payables (liabilities)	(5,174)
Net assets	**4,768**
Solvency ratio	159%

Financial performance	$000
Premiums	20,485
Other income	354
Investment income	344
Total income	**21,183**
Claims paid	(14,821)
Selling expenses	(1,177)
Other expenses	(4,448)
Total expenses	**(20,446)**
Overall surplus (deficit)	**737**
AM Best's credit rating	B (stable)

Claims paid to members



Total annual premium and membership trend



Board of Directors

Jane Bawden LLM (Hons), CMInst.D

Chair

Jane Bawden is a barrister with extensive experience in the health and disability sector. 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. She is a director of Howick Baptist Healthcare Limited and 139 On Union Limited retirement village and has recently been appointed to the national adverse event expert advisory group of the Health Quality Safety Commission. Jane also advises on consumer engagement in the health sector.

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

Deputy Chair

Bridgit has worked extensively in New Zealand and the US developing and implementing communication strategies for well-known companies, start-ups and agencies. She 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, where 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 36 years' experience and expertise gained within the health sector. His experience includes 13 years in general practice medicine and 18 years of health project management, health planning, health publishing, health IT, and general health consultancy.

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

Board of Directors continued

Edward Schuck PhD, CMInst.D

Director

Ed is principal of Fidato Advisory, a provider of investment advisory and management consulting services to institutional investors and wealth management businesses in New Zealand. He is also a director of MMC Limited, a provider of administration services to fund managers.

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

Aaron Mills BMS, MSocSci (Hons)

Director

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

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

Board of Directors continued

Pat Curry RN, ADN

Director

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

She 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. She currently holds director positions on the boards of the Nelson Bays Primary Health Organisation and the Abbeyfield Nelson Incorporated Society.

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

Geoff Annals RN, BSocSci

Managing Director

Geoff was appointed Accuro Chief Executive in September 2013. He a registered nurse with 20 years' experience working in the public sector in a range of clinical and management positions including as general manager of Waikato Hospital. Geoff has been a director since 2002 and retired as Chair to take up the role of Managing Director. He was Chief Executive of the New Zealand Nurses Organisation prior to his appointment at Accuro and is a member of the Institute of Directors. Geoff retires from the board at the 2014 AGM.

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 2014, the Board comprised Jane Bawden (Chair), Bridgit Sissons (Deputy Chair), Edward Schuck (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Aaron Mills, Anthony Haycock, Patricia Curry and Geoff Annals (Managing Director) 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 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 to ensure compliance with legislative requirements.

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

Board meetings and standing committees

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

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

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

Financial statements

Statement of comprehensive income

For the year ended 31 August 2014

	note	2014 $000	2013 $000
Premium revenue		20,485	18,374
Claims expense	6, 12	(14,821)	(13,792)
Underwriting surplus		**5,664**	**4,582**
Operating expenses	2	(4,448)	(4,203)
Direct selling expenses		(1,177)	(1,032)
Investment income	3	344	244
Other income	3	354	268
Profit/(loss) attributed to members		**737**	**(141)**
Other comprehensive income		–	–
Total comprehensive income (loss) attributed to members		**737**	**(141)**

Statement of changes in reserves

For the year ended 31 August 2014

	2014 $000	2013 $000
Opening balance/retained surplus/total reserves	4,029	4,172
Profit/(loss) attributed to members	737	(141)
Other comprehensive income	–	–
Total comprehensive income attributed to members	**4,766**	**(141)**
Closing balance/retained surplus/total reserves	**4,766**	**4,031**

Statement of financial position

For the year ended 31 August 2014

	note	31 August 2014 $000	31 August 2013 $000
Assets			
Cash and cash equivalents	4	684	1,057
Premium and other receivables	6	1,070	841
Investments	7	8,090	6,200
Property and equipment	8	97	95
Intangible assets	9	0	114
Total assets		**9,942**	**8,307**
Liabilities			
Trade and other payables	10	419	367
Employee benefits		336	284
Unearned premium liability	11	2,271	1,876
Provision for outstanding claims	11	2,148	1,749
Total liabilities		**5,174**	**4,276**
Net assets		**4,768**	**4,031**
Represented by			
Reserves		**4,768**	**4,031**

Jane Bawden Chair
24 October 2014

Edward Schuck RAIC Chair
24 October 2014

Bruce Morrison was Chief Executive Officer of Accuro Health Insurance until 20 September 2013.

Geoff Annals was the Chair of the Board for the 2013 financial year. He resigned his position as Chair on 9 September 2013 and took up the role of Chief Executive Officer on 23 September 2013.

Jane Bawden was elected Chair by the Board on 9 September 2013 and has signed off this document.

Statement of cash flows

For the year ended 31 August 2014

	note	2014 $000	2013 $000
Cash flows from operating activities			
Cash receipts from customers		21,004	19,015
Cash paid as claims		(14,421)	(13,864)
Cash paid to suppliers and employees		(5,237)	(4,870)
Interest received		217	170
Net cash flows from operating activities	14	1,562	451
Cash flows from investing activities			
Proceeds from sale of investments		4,600	5,800
Acquisitions of investments		(6,490)	(6,200)
Acquisitions of property and equipment		(44)	(68)
Net cash flows used in investing activities		(1,935)	(468)
Net increase/(decrease) in cash and cash equivalents		**(373)**	**(17)**
Opening cash and cash equivalents		1,057	1,074
Closing cash and cash equivalents	4	**684**	**1,057**
Bank call accounts		**684**	**1,057**

Notes to the financial statements

For the year ended 31 August 2014

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.

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 1993.

During the reporting period, the Society was operating under a licence granted by the Reserve Bank of New Zealand to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2011. The Society is deemed to be an issuer under the Financial Reporting Act 1993 from 1 September 2012.

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.

Basis of preparation

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

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

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

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

The financial statements were approved by the Board of Directors on 24 October 2014.

New financial reporting standards approved but not yet effective

The following new or amended standards and interpretations, which are applicable to the Society, are not yet effective for the year ended 31 August 2014, and have not been applied in preparing these financial statements:

NZ IFRS 9 - Financial Instruments: Classification and Measurement

The requirements of NZ IFRS 9 - Financial Instruments: Classification and Measurement represents a significant change from the existing requirements in NZ IAS 39 - Financial Instruments: Recognition and Measurement, in respect of financial assets. The standard is effective for annual reporting periods beginning on or after 1 January 2017. The standard contains two primary measurement categories for financial assets (amortised cost and fair value), and eliminates two existing NZ IAS 39 categories (held to maturity, and loans and receivables). Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in credit risk is presented in other comprehensive income with the remaining change presented in profit or loss. A financial asset would be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets would be measured at fair value. The impact of the requirements of this standard on the Society is still to be determined.

There are a number of other amendments to accounting standards as part of the ongoing improvement process.

None of these changes is expected to impact significantly on the Society. The Society has not adopted any standards prior to their effective date.

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Note 10 details several of the major assumptions. 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 10 Insurance contract liabilities

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

Cash and cash equivalents

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

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

Premiums and other receivables

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

Under the NZ IFRS 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.

Retained earnings/solvency capital are invested as term deposits with New Zealand banks or their subsidiaries. Term deposits with a term greater than three months are classified as investments. These financial assets are recognised as loans and receivables.

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 profit or loss.

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

- Computer equipment 25–33% per annum, 3–4 years
- Other fixed assets 20–33% per annum, 3–5 years
- Leasehold improvements Based on the remaining life of the lease, 1–6 years

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

The sale proceeds and purchase costs of property and equipment is disclosed in the statement of cash flows. Subsequent expenditure on assets is recognised as an expense in the profit or loss.

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 capitalized 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.

Amortisation of intangible assets are recognised in determining the surplus or deficit in the profit or loss on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Software 20–33% per annum, 3–5 years

The estimated useful life of assets, residual value and depreciation method are reassessed annually. The sale proceeds and purchase costs of intangible assets are disclosed in the statement of cash flows. Subsequent expenditure on assets is recognised as an expense in the profit or loss.

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.

Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to New Zealand dollars at the spot exchange rate at reporting date. All differences arising on settlement or translation of monetary items are taken to the profit or loss. The Society is New Zealand-based and, as such, has minimal foreign currency activity.

Impairment

Non-financial assets impairment

The carrying amounts and residual values of property and equipment and intangible 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 the profit or loss.

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Society on terms that the Society would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of debtors, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

The Society considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Society uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Insurance contracts

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

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

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

Income recognition

Premiums

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

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

Fees and other income

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

Investment income

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

Leases

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

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

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

Policy acquisition costs

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

Trade and other payables

Trade and other payables are categorised as other financial liabilities. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Net claims expense

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

Provisions

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

Outstanding claims provision

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

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

Unexpired risk provision and liability adequacy test

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

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

Employee entitlements

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

Income tax expense

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

Goods and services tax (GST)

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

Financial instruments

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables, and investments.

Non-derivative financial liabilities

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

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

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

Other financial liabilities comprise trade and other payables.

Change in accounting policies

In compliance with the Reserve Bank of New Zealand licensing requirements, the Society has adopted NZ IFRS. The accounting policies set out above have been applied consistently to all periods presented in these financial statement.

2. Operating expenses

Operating expenses include:

	2014 $000	2013 $000
Depreciation	42	30
Amortisation of intangible assets	114	40
Directors' fees	114	73
Employee benefits expense	2,479	2,489
Contributions to KiwiSaver	99	98
Rental of premises	97	96
Provision for impairment of, receivables	48	9
Impairment of receivables	65	39

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.

	2014 $000	2013 $000
Audit of financial statements	39	28
Auditor non-audit assurance services	4	7
Non-audit advisory services	0	0

Directors' fees and expenses	2014 $000	2013 $000
Geoff Annals	7	23
Jane Bawden	29	16
Patricia Curry	8	-
Anne Hare	-	7
Bridgit Sissons	22	13
Bernie Wood	-	8
Anthony Haycock	15	-
Edward Schuck	19	7
Aaron Mills	14	6
	114	**80**
Directors expenses	10	4
	124	**84**

In addition, member Directors received a subsidy on their health insurance premiums of	2	4
Health insurance claims paid to member Directors	2	3

Remuneration of key management personnel	2014 $000	2013 $000
Remuneration	1,007	937
KiwiSaver contributions	48	41
Health insurance premiums paid	9	8
Health insurance claims paid	39	8

Key management personnel included Chief Executive Officer and senior executives

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

3. Investment and other income

	2014 $000	2013 $000
Loans and receivables – interest	344	244
Total investment income	**344**	**244**
Claims processing fees	147	172
ACC recoveries	207	96
Total other income	**354**	**268**

4. Cash and cash equivalents

	2014 $000	2013 $000
Held in operating bank accounts on rates ranging from 2.5–3.4%	684	1,057

5. Claims Expense

	2014 $000	2013 $000
Claims relating to risk in current year	(14,867)	(13,765)
Claims relating to risk in previous years	46	(27)
Total claims relating to risk	**(14,821)**	**(13,792)**

6. Premium receivables

	2014 $000	2013 $000
Premium receivables	588	472
Provision for impairment	(48)	(10)
Net realisable amount	**540**	**462**
Prepayments	38	20
Acquisition costs	291	285
Accrued interest	201	74
	1,070	**841**

The fair value of premiums approximates the carrying amount. Receivables are a current asset. Premium receivables are 90 days or less. When a member is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy and membership lapses and the premium is written off. The exception is where a payment plan is in place. The total of premium receivables past due and not impaired is $42,000 (2013: $20,000).

Analysis of premium receivables impairment	2014 $000	2013 $000
Opening provision for impairment	10	66
Write offs	(10)	(66)
Year-end provision	48	10
Closing provision for impairments	**48**	**10**

7. Investments

	2014 $000	2013 $000
Loans and receivables		
Term deposits	8,090	6,200
Total investments	**8.090**	**6.200**

Cash and cash equivalents are all held with trading banks at the daily call rate applicable.

Analysis of investments	2014 $000	2013 $000
Current		
Term deposits under 12 months	8,090	4,400
Non-current		
Term deposits over 12 months, under 24 months	–	1,800
	8,090	**6,200**

The average interest rate for term deposits at 31 August 2014 was 4.56%. (2013 4.22%)

8. Property and equipment

	31 August 2014			31 August 2013		
	Computer and equipment $000	other fixed assets $000	total $000	Computer and equipment $000	other fixed assets $000	total $000
Cost	55	120	175	52	79	131
Accumulated depreciation	(35)	(43)	(78)	(19)	(17)	(36)
Closing balance	**19**	**77**	**97**	**33**	**62**	**95**
Opening balance	33	62	95	23	35	58
Additions	3	41	44	25	42	67
Transfers from work in progress	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Depreciation	(16)	(26)	(42)	(15)	(15)	(30)
Closing balance	**20**	**77**	**97**	**33**	**62**	**95**

9. Intangible assets

	31 August 2014			31 August 2013		
	Software $000	Work in progress $000	Total $000	Software $000	Work in progress $000	Total $000
Cost	184	–	184	184	–	184
Accumulated depreciation	(184)	–	(184)	(70)	–	(70)
Closing balance	**0**	–	**0**	**114**	–	**114**
Opening balance	114	-	114	94	50	144
Additions	-	–	–	29	–	29
Transfers from work in progress	-	-	–	50	(50)	–
Disposals	-	–		(19)	–	(19)
Depreciation	(114)	–	(114)	(40)	–	(40)
Closing balance	**0**	–	**0**	**114**	–	**114**

10. Trade and other payables

	2014 $000	2013 $000
Trade payables	200	200
Other payables	219	167
	419	**367**

11. Insurance contract liabilities

	2014 $000	2013 $000
Provision for outstanding claims (refer to note 11b)	2,148	1,749
Unearned premium liability (refer to note 11d)	2,271	1,876
	4,419	**3,625**
Assets backing insurance contracts	8,090	6,200

Accuro holds a number of short term bank deposits 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

	2014 $000	2013 $000
11a		
Central estimate	1,894	1,557
Expense margin	114	78
Risk margin	140	114
	2,148	**1,749**
11b		
Opening claims provision	1,749	1,820
Amounts utilised during the period	(1,603)	(1,593)
Additional provision/(reversal of unused provision)	46	(27)
Amounts provided during the year	1,894	1,556
Movement in risk margin	36	(5)
Movement in claims handling costs	26	(2)
	2,148	**1,749**
11c		
Claims expense		
Insurance claims paid	14,421	13,864
Movement in provisions for outstanding claims	399	(72)
	14,821	**13,792**
11d		
Opening unearned premium liability	1,876	1,385
Premiums written during the year	20,842	18,865
Less premiums earned during the year	(20,447)	(18,374)
Closing unearned premium liability	**2,271**	**1,876**

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 $4.8 million (2013: $4.0 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.

	2014 $000	2013 $000
The Society's adjusted available capital	4,765	3,915
Calculated minimum solvency capital	1,765	1,124
Ratio	270%	348%
Standard	3,000	3,000
Solvency Margin	1,765	915
Solvency coverage ratio	159%	131%

During the year ended 31 August 2014, 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 internal target was reviewed in May 2014 and submitted to the Reserve Bank. The 2014 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, which at 31 August 2014 was $4.7 million (2013: $4.6 million)

Provision for claims

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

- The effective date of the assessment in the actuarial report was 31 August 2014.
- 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 2014, 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 2014 (31 August 2013: 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:

	2014 $000	2013 $000
Central estimate in previous years	1,556	1,620
Total claims made in hindsight	(1,602)	(1,593)
	(46)	**27**

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 2013: 5%) of the underlying claims amounts based on an analysis of administration expenses.

The expected settlement date for 90% of claims included in the liability is less than 90 days for hospital claims (31 August 2013: less than 90 days) and less than 11 months for primary/medical claims (31 August 2013: 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.

Unexpired risk provision and liability adequacy test

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

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

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 September 2014. There is no unexpired risk liability for the year ended 31 August 2014 (2013: 0).

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 5% of the present value of expected future cash flows has been applied at 31 August 2014 (31 August 2013: 4%). 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% (2013: 74%).
- An expense allowance of 10% (2013: 10%).
- A commission component of 12% of the unearned premium (2013: 12%).

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

12. Risk management

Insurance risk

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

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

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

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

Sensitivity risk represents impact of variables on Accuro's key metrics. The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 10. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2014 $000	2013 $000
Base assumptions	2,148	1,749
Claims settlement time + 10%	2,891	2,417
Claims settlement time - 10%	1,428	1,099

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

Credit risk

The credit quality of investment counterparties is as follows:

	2014 $000	2013 $000
A-rated	8,090	6,200
	8,090	**6,200**

The above $8.1 million is the face value of term deposits with New Zealand trading banks or their subsidiaries.

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

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

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

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.

	2014 $000	2013 $000
The contractual maturities of investments are as follows: Under 12 months	8,090	4,400
Between 1 and 2 years	-	1,800
	8,090	**6,200**

In addition to the above investments, the Society has on-call funds of:	684	1,057
The contractual maturity of financial liabilities are as follows:		
Trade and other payables	235	200
Under 12 months		

Foreign currency risk

The Society's members' 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 (based on average investments held).

	2014 $000	2013 $000
Full-year impact of 1% interest rate change on interest earnings in profit and loss and equity	71	60

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

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

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

13. Fair values

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

Classification and fair values

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

	Designated at fair value through p&l	loans and receivables	other financial liabilities	total carrying amount
2014				
Assets				
Cash and cash equivalents	–	684	–	684
Trade and other receivables	–	577	-	577
Investments	–	8,090	–	8,090
Total assets	–	9,352	–	9,352
Liabilities				
Trade and other payables	–	–	235	235
Total liabilities	–	–	235	235
2013				
Assets				
Cash and cash equivalents	–	1,057	–	1,057
Trade and other receivables	–	472	–	472
Investments	–	6,200	–	6,200
Total assets	–	7,729	–	7,729
Liabilities				
Trade and other payables	–	–	200	200
Total liabilities	–	–	200	200

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

	2014 $000	2013 $000
Reported profit (loss)	**737**	**(141)**
Non-cash items		
Bad debts expense	-	48
Depreciation/amortisation expense	156	70
Movement in claims provision	400	(71)
Fixed asset register adjustment	-	(61)
	556	**(14)**
Movements in working capital		
Premiums and other receivables	(229)	(40)
Premiums in advance	395	491
Trade and other payables	83	81
Employee benefits	51	74
(Decrease)/increase in net GST	(31)	-
	269	**606**
Net cash inflow from operating activities	**1,562**	**451**

15. Operating lease obligations

	2014 $000	2013 $000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	283	194
1–5 years	485	433
Later than 5 years	-	134
	768	**761**

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

	2014 $000	2013 $000
Capital commitments at period end	-	30

16. Contingent liabilities

	2014 $000	2013 $000
The Society had no contingent liabilities at reporting date that would require disclosure	Nil	Nil

17. Rating

The Society credit rating issued by A M Best is B Stable (2013: Standard & Poor's BB+).

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.

The Society does provide health insurance to nurses and has a contract with the NZ Nurses Organisation (NZNO). In the previous year (2012-2013), the Chair was the Chief Executive for New Zealand Nurses Organisation (NZNO).

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these reported results (2013: Nil)

BDO

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the financial statements of Health Service Welfare Society Limited on pages 10 to 34, which comprise the statement of financial position as at 31 August 2014, and the statement of changes in reserves, statement of comprehensive income 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 accountancy and taxation advice and review of regulatory returns. Partners and employees of our firm deal with Health Service Welfare Society Limited on normal terms within the ordinary course of trading activities 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 10 to 34, present fairly, in all material respects, the financial position of Health Service Welfare Society Limited as at 31 August 2014, its financial performance and its cash flows for the period then ended in accordance with generally accepted accounting practice in New Zealand.

BDO Wellington

BDO WELLINGTON
24 October 2014
Wellington

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements Health Service Welfare Society Limited for the year ended August 31 2014, included on Health Service Welfare Society Limited's website. The directors are responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The auditor's report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related auditor's report dated 24 October 2014 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.