ACCURO HEALTH INSURANCE

Annual Report

Financial year ending 31 August 2019

accuro
HEALTH INSURANCE

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Company directory

Board of Directors

Tony Haycock (Chair) (appointed)

Marion Guy (Deputy Chair) (elected)

Toni Ferrier (appointed)

Robyn Byers (elected)

Karolyn Kerr (elected)

Pat Curry (elected)

Joy Tracey (appointed)

Chief Executive Officer

Geoff Annals

Actuary

Peter Davies BBUS, SC, FIA, FNZSA

Solicitor

Mahony Horner Lawyers

Banker

Westpac Banking Corporation

Auditor

EY, Wellington

Registered office

Level 3, 17 Whitmore Street

Wellington

Incorporation

Industrial and Provident Societies Act 1908

Report from the Chair

You will see from reading the financial statements in this annual report that Accuro has achieved a good result for this last financial year.

It is always a challenge for a not-for-profit Health Insurer to balance out the need to keep members premium increases to a minimum, and at the same time maintain the required level of solvency for the current insurance regulatory environment.

Our Accuro staff have had a busy year and have been focused on implementing phase two of our strategic plan and I would like to thank Geoff and his team for the individual contributions they have made.

Phase two has been all about further improvements in our member communications and member experience. You will no doubt have seen the Website refresh and hopefully you have had an opportunity to take advantage of our 'Active Insurance' package which includes access to Best Doctors, the new Accuro Health Hub benefits, and the bowel screening kit initiative.

Our ability to communicate with you the members will be greatly enhanced by the investment we have made in our new Customer Relationship Management System – this went live in July.

We have built a good culture around the Accuro Board table and have worked hard to maintain high standards of good governance.

I want to take this opportunity to welcome our newly appointed Director Joy Tracey to the Board table.

We look forward to the 2020 year and being able to cement our claim to being NZ's Best Little Health Insurer!

Tony Haycock

Dr Tony Haycock

Board Chair

Report from the Chief Executive

2019 is a year to celebrate because it was a year of all-round performance.

A sustainable business requires sound financial performance, but financial performance alone is insufficient for Accuro to succeed. Sustainable business success for Accuro requires that our financial performance flows from the quality and effectiveness of our partnership with our members. And the purpose of our financial success is to support and continuously advance that partnership, providing more choices and faster access to the health care our members need so they can get well, be well and stay well.

Faced with turning around the previous year's deficit we decided this must not be achieved at the expense of investing in new business systems and processes or the rollout of additions to our range of active benefits that we had planned. This was the right call but a brave one. So, it is very pleasing to report on the successful achievement of the essential modest surplus AND the implementation of new business systems that improve performance for our members AND the rollout of further active benefits to our members.

This considerable achievement is largely due to the hard work and perseverance of the Accuro staff.

On top of all their usual business critical work, they also successfully sharpened up our brand delivery, completely re-engineered our sales and customer engagement processes, introduced a raft of active benefits, refined products, implemented our CRM system (ORCA), ensured we are on top of our game coming into a changed regulatory environment, made sure our HMS heart kept on beating, and more. That they successfully and cheerfully achieved all this despite the strict financial constraints imposed on them by management is simply awesome!

Of course, these achievements would not have been possible without the strong leadership of their General Managers, the committed expertise of our business partners, the support and engagement of our members and the effective governance of our Board of Directors. To Tony and all our Directors, thank you. Your leadership, oversight and watchful eyes keep Accuro safe, on track and out front.

2019 has been a year of all-round performance that everyone has participated in and can be proud of. Thank you all. I am very satisfied with the way Accuro responded to the difficult and important challenges faced this year.

Geoff Annals

Chief Executive Officer

Spotlight on the financial year

As at 31 August 2019

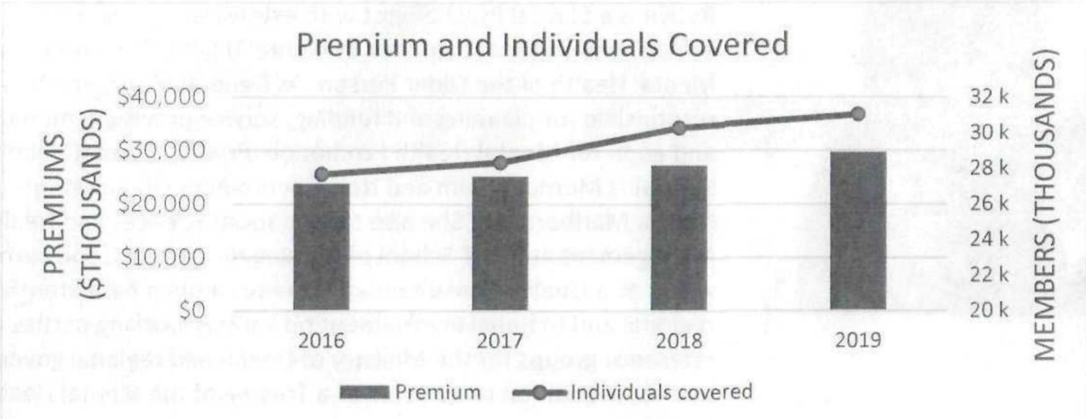
Financial position	$000
Members' funds	9,041
Represented by:	
Cash	**3,888**
Inventory	**6**
Premium & other receivables	**1,564**
Investments	**10,045**
Property and equipment	**83**
Intangible assets	**507**
Total assets	16,093
Liabilities	**(7,052)**
Net assets	9,041
Solvency ratio	**285%**

For the year ended 31 August 2019

Financial performance	$000
Premium revenue	**29,671**
Other income	**201**
Investment income	**379**
Total income	30,251
Claims expense	**(22,058)**
Direct selling expenses	**(2,073)**
Operating expenses	**(5,702)**
Total expenses	(29,833)
Overall surplus/(deficit)	418
AM Best Financial Strength Rating	**B+ (stable)**

Claims paid to members

Total annual premium and membership trend



Board of Directors

Tony Haycock

MB, ChB, PGDip IH, CMInst.D

Chair

Tony is an Occupational Medicine Advisor based in Hamilton. He has gained wide ranging experience and expertise from on-going involvement in the NZ health sector. Roles have included General Practice (GP) medicine, project management, health publishing and health facilities planning consultancy work.

His governance experience includes directorships in the Not-for-Profit sector and for private NZ companies. He is also a former elected board member of the Waikato DHB.

Marion Guy

RN, PGDip, Master of Nursing, QSO, MInstD

Deputy Chair

Marion is a registered nurse with 30 years of experience in the health sector, mainly in Primary Health Care. She has held a number of governance roles which include a member of the National Health Board, President of the New Zealand Nurses Organisation and Board member of the International Council of Nurses.

Marion is currently an elected member of the Bay of Plenty DHB. She also works in general practice and the out-patients department at Tauranga Hospital. Marion was awarded the Queens Service Order in 2010 for her services to Nursing.

Robyn Byers

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

Director

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

Toni Ferrier

LLB (Hons), CMInstD

Director

Toni is an experienced senior Executive in the financial services sector and was most recently an Executive at Crombie Lockwood (New Zealand) Limited, part of the Arthur J Gallagher international group of Insurance Brokers. Prior to that, Toni was on the Executive team at Lumley General Insurance (part of the Wesfarmers Group) from 2010 to 2015 where she ran the Lumley Canterbury Earthquake Recovery Business Unit and the Lumley Business Solutions Division.

Toni is a qualified lawyer who was in practice for ten years before starting her financial services career. She is a current Commissioner on the Board of the New Zealand Earthquake Commission, an Advisory Board member for Fergus Software Limited and runs her own consultancy business Purposely Limited.

Toni brings deep insurance sector experience and capability in organisational change, strategic planning/delivery, risk and compliance to the Accuro Board. Toni is a Chartered Member of the Institute of Directors.

Karolyn Kerr

PhD, FACHI, RGON, MInstD

Director

Karolyn is director and owner of Illuminare. Illuminare provides data management, data governance and data quality strategic planning services to a range of clients, including government and private organisations.

Karolyn began her career as a nurse, training in New Zealand and the UK and specialised in coronary care nursing and research before studying health informatics. Having completed a Masters in Telehealth, Karolyn began working at the Ministry of Health where she completed a PhD in data quality, developing a national strategy for data quality for the health sector.

Karolyn was Chair of the Health Informatics New Zealand and is the current Vice President and New Zealand representative on the Council of the Australasian College of Health Informatics and a Fellow of the organisation.

Pat Curry

RN, ADN

Director

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

Pat is a registered nurse with over 40 years' experience in a wide range of roles including health funding and planning, various management roles at the Nelson Marlborough District Health Board and Chief Executive of the Nelson Tasman Hospice Trust. Pat has previously held director positions on the boards of the Nelson Bays Primary Health Organisation and the Abbeyfield Nelson Incorporated Society.

In addition to governance roles Pat is engaged in a range of voluntary work.

Joy Tracey

CA, MBA (Dist), CMinstD, FGNZ

Director

Joy is a professional director and business consultant specialising in strategy and performance improvement. She is a chartered accountant with a professional background in not-for-profit Crown entities, primary sector organisations, commercial manufacturing and service industries. She is a Chartered Member of the Institute of Directors and a Chartered Fellow of Governance NZ.

She is a Board Member of Governance NZ and a Trustee of Wellington Rotary Charitable Trust. She is a Governor General appointed trustee of the Winston Churchill Memorial Trust.

Statement of corporate governance

Board of Directors

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

As at 31 August 2019, the Board comprised Tony Haycock (Chair), Marion Guy (Deputy Chair), Toni Ferrier (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Robyn Byers (Chief Executive Employment (CEE) Committee Chair), Karolyn Kerr, Pat Curry, and Joy Tracey. Co-opted Directorships being held by Tony Haycock, Toni Ferrier and Joy Tracey.

Governance framework

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

The Board and Management Team are governed by the overarching Governance Charter (2017). The Governance Charter represents a transparent set of standards under which Accuro operates and includes such things as the Code of Ethics and Fit and Proper Policy.

Board meetings and standing committees

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

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

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

Board meeting attendance

The individual attendances of Directors at Board and Committee Meetings for the 2019 financial year are as follows:

	Board	RAIC	CEE
Tony Haycock	5	-	-
Marion Guy	5	-	-
Toni Ferrier	5	6	-
Robyn Byers	6	-	-
Karolyn Kerr	5	5	-
Pat Curry (appointed 1 March 2019)	3	-	-
Joy Tracey (appointed 1 June 2019)	2	1	-
Edward Shuck (resigned 30 November 2018)	-	2	-
Andrew Dickerson (resigned 22 February 2019)	-	-	-
Total meetings held	**6**	**6**	**0**

Financial statements

Statement of comprehensive revenue and expenses

For the year ended 31 August 2019

	note	2019 $000	2018 $000
Premium revenue		29,671	27,230
Claims expense	5, 12	(22,058)	(20,779)
Underwriting surplus		**7,613**	**6,451**
Operating expenses	2	(5,702)	(5,773)
Direct selling expenses		(2,073)	(1,900)
Investment income	3	379	486
Other income	3	201	260
Surplus attributed to members		**418**	**(476)**
Other comprehensive revenue or expense			
Total comprehensive revenue or expense attributed to members		**418**	**(476)**

Statement of changes in equity

For the year ended 31 August 2019

	2019 $000	2018 $000
Opening retained earnings	**8,623**	**9,099**
Surplus attributed to members	418	(476)
Total comprehensive income attributed to members	**9,041**	**8,623**
Closing retained earnings	**9,041**	**8,623**

Statement of financial position

As at 31 August 2019

	note	31 August 2019 $000	31 August 2018 $000
Assets			
Cash and cash equivalents	4	3,888	1,561
Inventory		6	-
Premium and other receivables	6	1,564	1,488
Investments	7	10,045	11,500
Plant and equipment	8	83	51
Intangible assets	9	507	422
Total assets		**16,093**	**15,022**
Liabilities			
Trade and other payables	10	714	543
Employee benefits	11	109	210
Unearned premium liability	12	3,850	3,449
Provision for outstanding claims	12	2,379	2,197
Total liabilities		**7,052**	**6,399**
Net assets		**9,041**	**8,623**
Represented by			
Retained earnings		**9,041**	**8,623**

Tony Haycock, Chair

25 October 2019

Toni Ferrier, RAIC Chair

25 October 2019

Statement of cash flows

For the year ended 31 August 2019

	note	2019 $000	2018 $000
Cash flows from operating activities			
Cash receipts from customers		30,078	27,590
Cash paid as claims		(21,878)	(20,642)
Cash paid to suppliers and employees		(7,303)	(7,399)
Interest received		415	543
Net cash flows from operating activities	**15**	**1,312**	**92**
Cash flows from investing activities			
Proceeds from sale of investments		14,500	15,100
Acquisitions of investments		(13,045)	(14,500)
Acquisitions of software		(379)	(200)
Acquisitions of plant and equipment		(61)	(33)
Net cash flows used in investing activities		**1,015**	**367**
Net increase/(decrease) in cash and cash equivalents		**2,327**	**459**
Opening cash and cash equivalents		**1,561**	**1,102**
Closing cash and cash equivalents	**4**	**3,888**	**1,561**

Notes to the financial statements

For the year ended 31 August 2019

1. Statement of accounting policies

Reporting entity

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

The Society is domiciled in New Zealand. The registered office and principal place of business is Level 3, 17 Whitmore Street, Wellington.

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

The Society is a Tier 1 entity for reporting purposes.

Nature of the business

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

Basis of preparation

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

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

The financial statements were approved by the Board of Directors on 25 October 2019.

Accounting standards issued but not yet effective

PBE FRS 48 *"Service Performance Reporting" which is only effective for reporting periods beginning* 1 January 2021 will result in the disclosure of service performance information.

A new standard, PBE IFRS 17 "Insurance Contracts", was issued in July 2019 and will take effect for reporting periods from 1 January 2022. This replaces NZ IFRS 4 Insurance Contracts. The Society has not yet assessed the effects of the new standard.

Basis of measurement

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

Functional and presentation currency

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

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

Use of estimates and judgements

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

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

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

- Note 12 Insurance contract liabilities

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

Cash and cash equivalents

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

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

Premiums and other receivables

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

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

Investments

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

Term deposits with a term greater than three months are classified as investments. Investments are recognised initially at fair value plus directly attributable transaction costs, using the effective interest method, less impairment losses.

Plant and equipment

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

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

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

- Computer equipment 17–40% per annum, 2.5–6 years
- Other fixed assets 17–33% per annum, 3–6 years
- Leasehold improvements/furniture Based on the remaining life of the lease, 3–6 years

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

Intangible assets

The Society purchases and capitalises its accounting and reporting software packages. The Society's membership system is both developed and maintained by internal resources. The direct salary cost of the development component for the CRM system was initially charged to work in progress and then capitalised once the asset was in condition for use. Work in progress is not amortised, however is amortised once capitalised and ready for use.

Intangible assets (software) are amortised over the expected economic life of the software which is 2.5-5 years (20-40%) on a straight-line basis, with the exception of a member portal addition to the website which had an expected shorter economic life of 1.5 years. Intangible assets are assessed for impairment annually by reviewing their fitness for purpose and any degradation is recognised as an expense.

Insurance contracts

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

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

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

Impairment

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

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

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

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

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the period of cover for the contract.

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

Fees and other income

Fees and other income are recognised as income at the point at which the related services are performed.

Investment income

Interest income is recognised in the surplus or deficit, as it accrues using the effective interest rate method.

Leases

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

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

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

Policy acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the surplus or deficit in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of incidence of risk under the related insurance contracts.

Trade and other payables

Trade and other payables are categorised as other financial liabilities. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, trade and other payables are measured at amortised cost, using the effective interest rate method. All liabilities are paid on or before the due date.

Claims expense

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

Provisions

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

Outstanding claims provision

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

The liability for outstanding claims includes expected claim payment plus associated claims handling costs as disclosed in note 12.

Unexpired risk provision and liability adequacy test

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

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

Employee entitlements

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

Income tax expense

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

Goods and services tax (GST)

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

2. Operating expenses

Operating expenses include:

	2019 $000	2018 $000
Depreciation	30	31
Amortisation of intangible assets	294	274
Directors' fees	215	211
Employee benefits expense	2,544	2,658
Contributions to KiwiSaver	116	111
Rental of premises	153	49
Impairment of receivables	(46)	76
Other operating costs	2,396	2,363
Total operating costs	**5,702**	**5,773**

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

	2019 $000	2018 $000
Audit of financial statements	42	40
Auditor non-audit assurance services	5	4
Total auditor's remuneration	**47**	**44**

Directors' fees and expenses (refer note 18)	2019 $000	2018 $000
Tony Haycock	51	50
Marion Guy	33	29
Robyn Byers	31	13
Toni Ferrier	31	25
Karolyn Kerr	26	24
Pat Curry	13	-
Joy Tracey	7	-
Edward Schuck (Resigned 30/11/2018)	8	37
Andrew Dickerson (Resigned 22/02/2019)	15	33
	215	211
Directors' expenses	37	9
	252	220
In addition, member Directors received a subsidy on their health insurance premiums	4	4
Health insurance claims paid to member Directors	18	1
Directors' contractual services to the Society	-	5

Remuneration of key management personnel	2019 $000	2018 $000
Remuneration	574	769
KiwiSaver contributions	29	22
Health insurance premiums paid	12	16
Health insurance claims paid	3	15

Key management personnel included Chief Executive Officer and 2 senior executives in 2019 (2018: Chief Executive Officer and 3 senior executives).

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

3. Investment and other income

	2019	2018
	$000	$000
Loans and receivables – interest	379	486
Total investment income	379	486
Claims processing fees	124	128
ACC recoveries	78	132
Total other income	201	260

4. Cash and cash equivalents

	2019	2018
	$000	$000
Held in operating bank accounts on rates ranging from 0.1-0.26% (2018: 0.1–1.25%). All cash and cash equivalents are held on call.	3,888	1,561

5. Claims Expense

	2019	2018
	$000	$000
Claims relating to risk in current year	(22,010)	(20,579)
Claims relating to risk in previous years	(48)	(200)
Total claims relating to risk	(22,058)	(20,779)

6. Premium and other receivables

	2019 $000	2018 $000
Premium receivables	1,095	955
Allowance for impairment	(74)	(121)
Net realisable amount	1,021	834
GST receivable	3	19
Prepayments	109	85
Deferred acquisition costs	326	409
Accrued interest	105	141
	1,564	1,488

The fair value of premiums and accrued interest approximates the carrying amount. Receivables are a current asset. When a member is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy and membership lapses and the premium is written off. The exception is where a payment plan is in place. The total of premium receivables past due and not impaired is $73,700 (2018: $120,800).

Analysis of premium receivables impairment	2019 $000	2018 $000
Opening allowance for impairment	121	45
Impairment	(121)	(45)
Year-end allowance	74	121
Closing allowance for impairment	74	121

7. Investments

	2019 $000	2018 $000
Term deposits	10,045	11,500
Total investments	10,045	11,500

All investments are held with financial institutions.

Analysis of investments	2019 $000	2018 $000
Current Term deposits under 12 months	10,045	11,500
	10,045	11,500

The average interest rate for term deposits at 31 August 2019 was 3.16% (2018: 3.57%).

8. Plant and equipment

	31 August 2019			31 August 2018		
	Computer and equipment $000	Other assets $000	Total $000	Computer and equipment $000	Other assets $000	Total $000
Cost	125	114	239	160	60	220
Accumulated depreciation	(100)	(56)	(156)	(118)	(51)	(169)
Closing book value	25	58	83	42	9	51
Opening balance	42	9	51	30	19	49
Additions	8	54	62	33	-	33
Disposals	-	-	-	-	-	-
Depreciation	(25)	(5)	(30)	(21)	(10)	(31)
Closing book value	25	58	83	42	9	51

9. Intangible assets

	2019	2018
	$000	$000
	Software	Software
	$000	$000
Cost	1,320	941
Accumulated amortisation	(813)	(519)
Closing book value	507	422
Opening balance	422	496
Additions	379	200
Amortisation	(294)	(274)
Closing book value	507	422

10. Trade and other payables

	2019	2018
	$000	$000
Trade payables	484	494
Other payables	229	49
	714	543

11. Employee benefits

	2019	2018
	$000	$000
Accrued incentives	-	45
Annual leave	109	103
Severance and redundancy	-	62
	109	210

12. Insurance contract liabilities

	2019 $000	2018 $000
Provision for outstanding claims (refer to note 12b)	2,379	2,197
Unearned premium liability (refer to note 12d)	3,850	3,449
	6,229	5,646
Assets backing insurance contracts	10,045	11,500

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

	2019 $000	2018 $000
12a Central estimate	2,088	1,928
Expense margin	125	116
Risk margin	166	153
	2,379	2,197
12b Opening claims provision	2,197	2,061
Amounts utilised during the period	(1,880)	(1,194)
Additional provision/(reversal of unused provision)	(48)	(200)
Amounts provided during the year	2,088	1,505
Movement in risk margin	13	18
Movement in claims handling costs	9	7
	2,379	2,197

12c

Claims expense

Insurance claims paid	21,878	20,643
Movement in provisions for outstanding claims	182	136
	22,060	20,779

12d

Opening unearned premium liability	3,449	3,053
Premiums written during the year	30,072	27,626
Less premiums earned during the year	(29,671)	(27,230)
Closing unearned premium liability	3,850	3,449

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

Capital and solvency requirement

The Society is a registered industrial and provident society. As a consequence of its legal structure, the Society has no recourse to external capital. The Society's solvency capital of $8.5 million (2018: $8.2 million) is equal to the net assets as disclosed in the financial statements minus deductions from net assets as determined by the Reserve Bank of New Zealand solvency standard.

As a consequence of being a fully licenced insurer, the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank requires the Society to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

	2019 $000	2018 $000
Actual solvency capital	8,550	8,200
Minimum solvency capital	3,000	3,000
Solvency margin	5,550	5,200
Solvency ratio	285%	273%

During the year ended 31 August 2019, the Society complied with all externally imposed capital requirements.

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

The Capital Management policy was reaffirmed in November 2018. The target relating to financial year 2019 was to have a reserve of 4% of premium and 6% of claims (based on the last 12 months actual) plus the Reserve Bank minimum. The target at 31 August 2019 was $5.5 million (2018: $5.2 million), relative to an actual solvency capital of $8.6 million (2018: $8.2 million).

Provision for claims

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

- The effective date of the assessment in the actuarial report was 31 August 2019.
- 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 2019, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. A risk margin of 7.5% of the central estimate was established at 31 August 2019 (31 August 2018: 7.5%). 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:

	2019 $000	2018 $000
Central estimate in previous years	1,928	1,817
Total claims made in hindsight	(1,880)	(1,617)
	48	200

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 2018: 6%) of the underlying claims amounts based on an analysis of administration expenses.
- The expected settlement date for 94% of claims included in the liability is less than 90 days for hospital claims (31 August 2018: less than 90 days for 94% of hospital claims) and less than 11 months for 91% primary/medical claims (31 August 2018: less than 11 months for 90% of primary claims). Accordingly, expected future payments are not discounted due to the short-tail nature of the liabilities.
- The above provisions have been included in the total of claims paid and accrued in the statement of comprehensive revenue and expenses.

Unexpired risk provision and liability adequacy test

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

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

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 September 2018. There is no unexpired risk liability for the year ended 31 August 2019 (2018: 0).

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 6.5% of the present value of expected future cash flows has been applied at 31 August 2019 (31 August 2018: 6%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

- An average loss ratio for the remaining deferred revenue period of 75% (2018: 75%).
- An expense allowance of 10% (2018: 10%).
- A commission component of 8% of the unearned premium (2018: 8%).
- Expected future payments are not discounted due to the short-tail nature of the liabilities.

13. Risk management

Insurance risk

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

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

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

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

Sensitivity risk represents impact of variables on Accuro's key metrics. The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 12. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2019 $000	2018 $000
Base assumptions	2,379	2,197
Claims settlement time + 10%	2,954	2,766
Claims settlement time - 10%	1,821	1,688

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

Credit risk

The credit quality of investment counterparties is as follows:

	2019 $000	2018 $000
A-rated	10,045	11,500
B-rated	-	-
	10,045	11,500

The above $10.0 million is the face value of term deposits with New Zealand trading banks or their subsidiaries.

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

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

Premium receivables are due from a very large number of counterparties, ranging from corporates to individual members. The premium receivable book is very diversified with no significant concentrations except for health professionals.

Liquidity risk

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

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

	2019 $000	2018 $000
The contractual maturities of investments are as follows: Under 12 months	10,045	11,500
	10,045	11,500
In addition to the above investments, the Society has on-call funds of:	3,888	1,561
The contractual maturity of financial liabilities are as follows:		
Trade and other payables	504	505
Under 12 months		

Interest rate risk

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

Cash flow interest rate risk

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

	2019 $000	2018 $000
Full-year impact of 1% interest rate change on interest earnings in the surplus or deficit and loss and equity	*108*	*118*

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

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

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

14. Fair values

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

Classification and fair values

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

	loans and receivables	other financial liabilities	total carrying amount
2019			
Assets			
Cash and cash equivalents	3,888	-	3,888
Trade and other receivables	1,564	-	1,564
Investments	10,045	-	10,045
Total assets	15,497	-	15,497
Liabilities			
Trade and other payables	-	504	504
Total liabilities	-	504	504

	loans and receivables	other financial liabilities	total carrying amount
2018			
Assets			
Cash and cash equivalents	1,561	-	1,561
Trade and other receivables	855	-	855
Investments	11,500	-	11,500
Total assets	13,916	-	13,916
Liabilities			
Trade and other payables	-	505	505
Total liabilities	-	505	505

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

	2019	2018
	$000	$000
Reported surplus (deficit)	418	(476)
Non-cash items		
Depreciation/amortisation expense	324	305
Movement in claims provision	182	136
	506	441
Movements in working capital		
Premiums and other receivables	(76)	(189)
Premiums in advance	401	396
Trade and other payables	154	123
Employee benefits	(101)	(184)
Inventory	(6)	-
(Decrease)/increase in net GST	16	(19)
	388	127
Net cash inflow from operating activities	1,312	92

16. Operating lease obligations

	2019	2018
	$000	$000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	175	262
1–5 years	698	804
Later than 5 years	160	438
	1,033	1,504

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

Capital commitments

	2019	2018
	$000	$000
Capital commitments at period end	-	-

17. Rating

The Society financial strength rating issued by A M Best is B+ Stable (2018: A M Best B Positive).

18. Related-party transactions

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

There were no additional costs during the year (2018: One director provided specialist advice for an additional cost of $5,000).

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these reported results (2018: Nil)

20. Definitions related to the financial statements

Amortisation

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

Fair Value

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

Public Benefit Entity (PBE)

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

Building a better working world

Independent auditor's report to the members of Health Service Welfare Society Limited

Opinion

We have audited the financial statements of Health Service Welfare Society Limited ('the Society') on pages 10 to 33, which comprise the statement of financial position of the Society as at 31 August 2019, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year then ended of the Society, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 10 to 33 present fairly, in all material respects, the financial position of the Society as at 31 August 2019 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

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

Basis for opinion

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

We are independent of the Society in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Provision for outstanding claims

Why significant	How our audit addressed the key audit matter
The Society's provision for outstanding claims amounts to approximately $2.38 million at 31 August 2019. The estimation of the provision for outstanding claims involves judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date as required by PBE IFRS 4 *Insurance contracts*. Assumptions included in the model can generally be categorised as either economic assumptions, such as inflation and discount rates, or non-economic assumptions relating to claims development and cost. Non-economic assumptions are often based on historical data relating to the volume, amount and pattern of claims settlement. Disclosures relating to the provision for outstanding claims, including key assumptions, are included in Note 12 to the financial statements.	Our procedures over the valuation of the provision for outstanding claims included: ► Evaluating and testing key controls over the claims assessment and settlement process; ► On a sample basis, validating the costs recorded for claims closed in the year; ► Comparing the historical data used by the appointed actuary to the Society's underlying systems; ► Using our actuarial specialists to review the provision for outstanding claims valuation report prepared by the appointed actuary and evaluating the appropriateness of the methodologies and assumptions used in the valuation; ► Evaluating the objectivity and expertise of the appointed actuary; and ► Considering the adequacy of disclosures for the provision for outstanding claims.

Information other than the financial statements and auditor's report

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

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

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

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

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

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

Ernst + Young

Chartered Accountants
Wellington
25 October 2019

Davies Financial and Actuarial Limited

10th December 2019

To: The Directors
Health Service Welfare Society Limited (trading as Accuro)

From: Peter Davies
Appointed Actuary

Re: Health Service Welfare Society Limited (trading as Accuro): Report as at 31st August 2019 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Accuro as at 31st August 2019. "Actuarial information" includes the following:

   - claim provisions and unexpired risk / unearned premium provisions;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the Society's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay 0632 Telephone [redacted] e-mail: [redacted]
P.O. Box 35-258, Browns Bay, Auckland 0753 home page: www.actuary.co.nz

3. I am independent with respect to Accuro as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. Accuro exceeded the minimum solvency margin required under the RBNZ Solvency Standard for Non-life Insurance Business 2014 as at 31st August 2019. Based on the Society's financial forecasts, and its improved financial performance in recent years, it is also projected to exceed the minimum requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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