Annual Report 2021

Celebrating 50 years

accuro
HEALTH INSURANCE

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Board of Directors

Tony Haycock (Chair) (appointed)

Marion Guy (Deputy Chair) (elected)

Joy Tracey (appointed)

Robyn Byers (elected)

Karolyn Kerr (elected)

Erica Hodgson (elected)

Gareth Fleming (appointed)

Chief Executive Officer

Lance Walker

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

accuro HEALTH INSURANCE Celebrating 50 years

From the **Chair**

I am pleased to report that, despite Covid disruptions and the challenges of uncertainty which this brings, Accuro is performing well and has delivered another year with good results.

This year we proudly celebrated Accuro's 50th birthday – a significant milestone indeed.

What started out as the Hospital Service Welfare Society in 1971 has, with a name change along the way, gone on to become a thriving Health Insurance provider with 33,000 members from all walks of life. There have been many challenges along the way, but Accuro has steadfastly delivered on its core values and mission to ensure our members get well and stay well. We have done this by consistently providing members with fit for purpose, competitively priced health insurance products and services. In the process Accuro has developed a reputation for its agility, innovation, fast claims' turnaround and high levels of customer satisfaction.

Undoubtedly the Covid pandemic and associated lockdowns during 2020 and 2021 have increased Accuro staff workloads and impacted their wellbeing. I would like to thank our team for their resilience and patience during these difficult times and acknowledge the extra efforts they have made to ensure that we were able to deliver 'business-as-usual' and still maintain a high level of customer service.

As we look to the new year ahead, a key development for Accuro will be the first release of our new Policy Administration System. This is a high value but much needed technology investment for Accuro. Our existing system will be replaced by a modern digitally enabled IT solution which will create a platform for new innovations while also addressing areas of inefficiency and operational risk. It will enable Accuro to deliver on its ambitious strategic goals and objectives.

My nine-year term as an Accuro Director (four of those as Chair) comes to an end at the AGM in December. It has been a real privilege to be part of this Accuro team and to see the organisation develop and grow into NZ's Best Little Health Insurer. I would like to take the opportunity to thank all my current and former Director colleagues and Accuro staff for the part they have played in making my time at Accuro so enjoyable and rewarding. A special thanks to Lance our Chief Executive for his inspiring leadership. It has been a real pleasure working with such a talented individual.

I wish the organization and all its members the very best for the future.

Tony Haycock

Dr Tony Haycock
Board Chair

From the **Chief Executive**

This has been another year of strong performance by the passionate people that make up the small but committed Accuro whānau. When we were writing our plans and budgets a year ago we had just come out of the 2020 Covid lockdowns, so there was a lot of uncertainty about the year ahead and how it might impact us. That uncertainty was perhaps best highlighted by the fact that we ended the financial year on 31 August 2021 in another lockdown!

However, despite all of that, we are pleased to report that we have more members today than ever before (up by 4.5% over the previous year - our highest growth rate since 2018) and that we generated a positive surplus for the financial year (having budgeted to achieve a small loss). Importantly, we also maintained our high levels of customer retention, with 91% of customers reporting satisfaction with Accuro's service and our Net Promoter Score (which measures likelihood to recommend) at an industry leading score of 60. We also paid out on 96% of claims received, with a total value of just over $26million (representing 76c for every dollar of premium received). These measures are important because, as a not-for-profit cooperative society, we exist to serve our members. We have no shareholders. Instead, every day our team turns up to work with the goal of acting in the best interests of our members. Seeing that mahi first-hand is awe-inspiring for me as CEO.

As we move ahead into 2022 we are looking forward to the launch of our new Policy Administration System which will reduce a number of operational barriers we face, and allow us to explore new products, services and active benefits. We are excited about the new opportunities which this system will enable and the improved service that we will be able to deliver to our members as a result.

This was my first full year on the Accuro team, having joined in June 2020. I want to take this opportunity to thank the Board and all the Accuro whānau for their support and hard work over the last 12 months. I especially want to thank the outgoing Chair Tony Haycock for his guidance and wise counsel. And most of all, thank you to our members for continuing to choose Accuro as your health insurance provider.

Lance Walker
Chief Executive Officer

2021 at a glance

32,968
ACCURO MEMBERS IN FY2021
An increase of 4.5% from last year

$26m*
PAID IN CLAIMS
An increase of 14% from last year

76c
PAID IN CLAIMS FOR EVERY DOLLAR OF PREMIUM

96%
OF CLAIMS ACCEPTED

17,116
CLAIMS PAID

*excludes reserving

TOP 4 CLAIMS PAID IN DOLLAR VALUE

$1.4m
PAID IN COLONOSCOPIES

$1.1m
PAID IN HIP REPLACEMENTS

$1m
PAID IN KNEE REPLACEMENTS

$877k
PAID IN CHEMOTHERAPY

CUSTOMER SATISFACTION

91%
CUSTOMER SATISFACTION

+60
ACCURO NET PROMOTER SCORE

PREFERENCE TO SUBMIT CLAIMS **online** HAS INCREASED OVER THE YEARS

25%	36%	44%
2019	2020	2021

Ratio of members submitting claims via the membership portal

ACTIVE BENEFITS

Best Doctors
403
BEST DOCTORS SERVICES USED

accuro Health Hub
2,916
TOTAL MEMBERS REGISTERED TO USE HEALTH HUB

SkinVision
563
SKIN CHECKS CARRIED OUT

BOWELSCREEN AOTEAROA
450
FREE BOWEL TESTING KITS DELIVERED

CELEBRATING 50 YEARS

HOSPITAL SERVICE WELFARE SOCIETY

Health Service Welfare Society HSWS Health Care

1970

Hospital Boards agree that they should establish a welfare society

1971

Formation of Hospital Service Welfare Society

This was the original name for Accuro.

Membership to HSWS was voluntary and cost 10c a week or free for students.

8,000 MEMBERS

1991

HSWS separates from the hospital boards and becomes an Independent Society

Membership still only available to hospital staff.

Renamed to Health Service Welfare Society

10,400 MEMBERS

ADVANCED PLAN

1993

Advanced Plan launched

The first of our health insurance plans, the Advanced plan was a primary health care product for everyday care. In April 1993 it was between \$2.80 and \$9.35 per week for cover.

HOSPITAL PLAN

1994

First Hospital and surgical plan launched

We partnered with Crombie Lockwood Financial Services and National Insurance Life and Health (later Tower) to deliver our first Hospital and Surgical plan.

1996

NZ Nurses Organisation Partnership

NZNO confirmed that it was prepared to endorse the HSWS plans and actively promote them with their members.

HSWS joins Health Funds Association of New Zealand

An umbrella organisation representing all health insurers.

1996

Private hospital cover included

Treatment could now be provided in both pubic and private hospitals.

1997

Moving out of the health sector

Became the preferred provider for New Zealand Electrical Institute & Christchurch Polytechnic.

First group plan sold

Covering pre-existing conditions for all members.

21,600 MEMBERS

HOSPITAL PLAN 6,000 PLANS IN 2 YEARS

1998

6,000 hospital plans sold in less than 2 years

2001

Launched our own health insurance

We ended the partnership with Crombie and Tower to provide our own independent health insurance.

taking care accuro health insurance

2007

HSWS rebranded to Accuro

Accuro means "taking care" in Latin. Accuro became available to all New Zealanders.

SmartCare launched

New hospital and surgical plan with extensive benefits.

First health insurer to introduce non-smoking and healthy weight discount

SMART-STAY

2008

SmartStay launched

Only health insurance product for those on a visa who can't access public healthcare.

2009

Accuro is the first health insurer to allow people to get a quote and apply online

STAFFCARE

2010

StaffCare launched

The only health insurance in New Zealand designed specifically for businesses and their staff.

CLAIM \$10.8M

2011

Claims paid were \$10.8 million

Highest single claim in 2011 was \$110,135 for Pancreaticoduodenectomy.

26,930 MEMBERS

KIDSMART

2017

Launched KidSmart

Health Insurance designed specifically for children and their needs.

HUGO- 100% online underwriting launched

A world first for health insurance.

28,337 MEMBERS

accuro HEALTH INSURANCE

2018

New Brand Refresh launched in September 2018

Active benefits launched

Best Doctors Active Benefit launched.

Innovation of the year award

Accuro wins the Innovation of the year award at the Australian and New Zealand Insurance Industry Awards for HUGO.

30,298 MEMBERS

HEALTH HUB

2019

Accuro wins Plain English Award

For best plain english website.

New Active Benefits Launched

Accuro is the first health insurer to offer a free online health and wellbeing programme (HealthHub) to all of its members.

Mental Health Navigator is launched to provide fast access to mental health professionals.

31,530 MEMBERS

50 YEARS

2021

This year we celebrate 50 years!

Board of **Directors**

Tony Haycock | Chair

MB, ChB, PGDip IH, CMInst.D

Tony is a medical practitioner with wide ranging experience gained from his involvement in the NZ health sector. Roles have included General Practice medicine, project management, health publishing and health planning consultancy. 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 | Deputy Chair

RN, PGDip, Master of Nursing, QSO, MInstD

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

Gareth Fleming

BA, DipBanking, MBA

Gareth is Chief Financial Officer at a Wellington based investment management group following a 20+ year career as a senior executive in the banking and insurance industry. This included 9 years at the customer owned Co-operative Bank where he played a leading role in the transformation of PSIS to The Co-operative Bank and also led the Life insurance business. Somewhat uniquely Gareth has a background in strategy, product and marketing leadership as well as finance. He uses this diverse background to help grow their investment management businesses from start-up to their currently successful scale.

Karolyn Kerr PhD, RGON, MInstD

Karolyn began her career as a registered nurse and is now a digital health specialist with extensive experience working across local, regional, and national health care organisations in New Zealand. She currently provides consultancy services within health and across government through her consultancy company, Illuminare. With a PhD in Information Systems, her specialty is data; it's management, quality and governance.

Having completed a Masters in Telehealth, Karolyn worked at the Ministry of Health in the digital health team. Here she completed a PhD in data quality, developing a national strategy for data quality for the health sector. Karolyn is a previous Chair of Health Informatics New Zealand and a previous Vice President and New Zealand representative on the Council of the Australasian College of Health Informatics.

Board of **Directors**

Robyn Byers

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

Robyn is a Clinical Psychologist with 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.

Joy Tracey

CA, MBA (Dist), CMInstD, FCG, FGNZ

Joy is a director and business consultant specialising in business strategy and performance improvement. As a professional Chartered Accountant she has worked for, and with, 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 Fellow of the Chartered Governance Institute. Joy's background includes commercial director roles across the private and NFP sector, and further governance roles in community, arts and health organisations, including being the previous Chair of Women on Board's New Zealand. She is a Director of the NZ Association of Registered Hairdressers, a Board Member of Governance NZ and a Trustee of Wellington Rotary Charitable Trust. She is the Chair of the NZ Winston Churchill Memorial Trust.

Erica Hodgson

BA, BHSc(OT), PGCert Management, MInstD

Erica is an Occupational Therapist with more than 15 years experience working in the mental health sector. Moving from frontline work to clinical education, project management and becoming Professional Advisor OT for NZ's largest mental health service she has extensive experience in service delivery and quality processes. Roles in organisational development across a large DHB have given her good general knowledge of the healthcare sector and the diverse needs of staff and the community. Over the last 5 years she has focused on not-for-profit and crown entity governance, holding chair and deputy chair roles and leading quality assurance and remuneration subcommittees for Connect Supporting Recovery, Ember Services Ltd and the Occupational Therapy Board.

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 2021, the Board comprised Tony Haycock (Chair), Marion Guy (Deputy Chair), Joy Tracey (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Robyn Byers (Chief Executive Employment (CEE) Committee Chair), Karolyn Kerr, Erica Hodgson and Gareth Fleming. Co-opted Directorships being held by Tony Haycock, Joy Tracey and Gareth Fleming.

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 Markets 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 (2021). 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 at least once per financial quarter to discuss the Society's affairs and strategic developments.

The Board has established a Risk, Audit, Investment and Compliance (RAIC) Committee, which is tasked with risk and investment oversight, and general regulatory compliance. 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 2021 financial year are as follows:

	BOARD	RAIC	CEE
Tony Haycock	6	–	–
Marion Guy	6	–	6
Joy Tracey	6	5	–
Robyn Byers	6	–	6
Karolyn Kerr	6	4	–
Erica Hodgson	6	5	–
Gareth Fleming (appointed 1 April 2021)	3	2	–
Total meetings held	**6**	**5**	**6**

Financial statements

Statement of comprehensive revenue and expenses

For the year ended 31 August 2021

	NOTES	2021 $000	2020 $000
Premium revenue		34,910	32,217
Claims expense	5, 13c	(26,286)	(23,306)
Underwriting surplus		**8,624**	**8,911**
Operating expenses	2	(6,593)	(6,556)
Direct selling expenses		(2,460)	(2,178)
Investment income	3	569	310
Other income	4	162	286
Surplus attributed to members		**302**	**773**
Other comprehensive revenue or expense		–	–
Total comprehensive revenue or expense attributed to members		**302**	**773**

Statement of changes in equity

For the year ended 31 August 2021

	NOTES	2021 $000	2020 $000
Opening retained earnings		**9,814**	**9,041**
Surplus attributed to members		302	773
Total comprehensive revenue or expense attributed to members		**302**	**773**
Closing retained earnings		**10,116**	**9,814**

Statement of financial position

For the year ended 31 August 2021

	NOTES	31 August 2021 $000	31 August 2020 $000
Assets			
Cash and cash equivalents	6	4,374	2,615
Inventory		3	3
Premium and other receivables	7	1,887	1,492
Investments	8	11,614	13,813
Plant and equipment	9	95	78
Intangible assets	10	1,256	286
Total assets		**19,229**	**18,287**

	NOTES	31 August 2021 $000	31 August 2020 $000
Liabilities			
Trade and other payables	11	1,106	817
Employee benefits	12	206	168
Unearned premium liability	13d	4,749	4,191
Provision for outstanding claims	13b	3,052	3,297
Total liabilities		**9,113**	**8,473**
Net assets		**10,116**	**9,814**
Represented by			
Retained earnings		**10,116**	**9,814**

Tony Haycock
Chair
22 October 2021

Joy Tracey
RAIC Chair
22 October 2021

Statement of cash flows

For the year ended 31 August 2021

	NOTES	2021 $000	2020 $000
Cash flows from operating activities			
Cash receipts from customers		35,336	32,680
Cash paid as claims		(26,531)	(22,388)
Cash paid to suppliers and employees		(8,571)	(8,106)
Investment income		299	405
Net cash flows from operating activities	**16**	**533**	**2,591**
Cash flows from investing activities			
Proceeds from sale of investments		3,534	12,514
Acquisitions of investments		(1,064)	(16,272)
Acquisitions of software		(1,198)	(76)
Acquisitions of plant and equipment		(46)	(30)
Net cash flows used in investing activities		**1,226**	**(3,864)**
Net increase/(decrease) in cash and cash equivalents		**1,759**	**(1,273)**
Opening cash and cash equivalents		2,615	3,888
Closing cash and cash equivalents		4,374	2,615

Notes to the **financial statements**

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 Markets Conduct 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 22 October 2021.

Accounting standards issued but not yet effective

PBE FRS 48 "Service Performance Reporting" which is only effective for reporting periods beginning 1 January 2022 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 2023. This replaces PBE IFRS 4 Insurance Contracts. The Society has not yet assessed the effects of the new standard.

The XRB issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes most of PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IPSAS 41 also supersedes PBE IFRS 9 Financial Instruments., which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the Society has not fully assessed the effect of the new standard, it does not expect any significant changes as requirements are similar to PBE IPSAS 29.

In July 2021, the RBNZ issued an Exposure Draft for the proposed new Interim Solvency Standard for licenced insurers. The Society are in the process of reviewing the potential impact of this proposed standard on our solvency position and operational/system requirements.

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 13 and Financial Instruments which are measured at fair value as described in the Investments note.

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 13 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 a significant portion of its reserves in a number of fixed interest and equity investments through Jarden Securities Limited in line with the Board approved Statement of Investment Policy and Objectives (SIPO).

Financial Assets at fair value through surplus or deficit

Fixed interest assets (including term deposits) and investments in equities are recorded in the statement of financial position at fair value and are subsequently measured at fair value at each reporting date. Fair value gain or loss excludes interest and dividend income.

The fair values of financial assets and financial liabilities designated at fair value through surplus or deficit are determined as;

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Where no market price is available, a yield to maturity valuation is done based on securities of a similar type or duration.

Plant and equipment

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

Plant and equipment is predominately 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 lease term, 2–10 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. Any work in progress is not amortised, however is amortised once capitalised and ready for use.

Intangible assets (software) are currently amortised over the expected useful 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. The new policy administration system life is yet to be confirmed but expected to be longer than current amortization period. Intangible assets are assessed for impairment annually by reviewing their fitness for purpose and impairment is done when there are indicators and any degradation is recognised as an expense.

Inventories

Inventories are stated at cost, determined on a first-in-first-out basis, and includes expenditure incurred in acquiring the inventories, conversion costs or other costs incurred in bringing them to their existing location and condition.

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

For financial instruments measured at fair value, interest income is recognised in the surplus or deficit, on an accruals basis on the effective interest basis. Dividend revenue is recognised when the right to receive payment has been established.

Leases

The Society as a lessee classifies 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 net of 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 and risk margin as disclosed in note 13.

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 plus risk margin 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 as disclosed in note 13. 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 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:

	2021 $000	2020 $000
Depreciation	29	35
Amortisation of intangible assets	228	296
Directors' fees	232	221
Employee benefits expense	3,102	2,725
Contributions to KiwiSaver	164	133
Rental of premises	168	169
Impairment of receivables	(37)	46
Other operating costs	2,707	2,931
Total operating costs	**6,593**	**6,556**

Independent Audit Firm's remuneration - EY

Auditor's remuneration for other services disclosed below consists of reviewing the solvency return.

	2021 $000	2020 $000
Audit of financial statements	44	43
Auditor non-audit assurance services	6	6
Total auditor's remuneration	**50**	**49**

Directors' fees and expenses (refer note 19)	2021 $000	2020 $000
Directors fees	232	**221**
Directors' expenses	6	**14**
	238	**236**
In addition, Directors are entitled to receive a subsidy on their health insurance premiums	7	7
Health insurance claims paid to Directors	3	24

Remuneration of key management personnel	2021 $000	2020 $000
Remuneration	1,035	529
KiwiSaver contributions	55	31
Health insurance premiums paid	29	11
Health insurance claims paid	5	2

Key management personnel included Chief Executive Officer and the senior leadership team in 2021 (2020: Chief Executive Officer and 2 senior executives). This is 6.4 FTE in 2021 (2020:3 FTE).

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 income

	2021 $000	2020 $000
Interest Income		
Fixed interest investments - at fair value through surplus or deficit	276	329
Dividend Income		
Dividend income - at Fair Value through surplus or deficit	63	33
Total Dividend Income	**63**	**33**
Total Finance Income	**339**	**362**
Finance Costs		
Interest Expense	-	(5)
Financial investment expenses	(64)	(42)
Total Finance Costs	**(64)**	**(47)**

	2021 $000	2020 $000
Investments at Fair Value through surplus or deficit		
Realised gains / (losses) from revaluations and disposal	13	(35)
Unrealised gains / (losses) from revaluations and disposal	281	30
Total Investments at Fair Value through surplus or deficit	**294**	**(5)**

Net Investment Income	**569**	**310**

4. Other income

	2021 $000	2020 $000
Claims processing fees	102	109
ACC recoveries	54	177
Other Income	7	-
Total other income	**162**	**286**

5. Claims Expense

	2021 $000	2020 $000
Claims relating to risk in current year	(26,944)	(23,485)
Claims relating to risk in previous years	658	179
Total claims relating to risk	**(26,286)**	**(23,306)**

6. Cash and cash equivalents

	2021 $000	2020 $000
Held in operating bank accounts on rates ranging from 0.1-0.5% (2020: 0.1–0.26%). All cash and cash equivalents are held on call.	4,374	2,615

7. Premium and other receivables

	2021 $000	2020 $000
Premium receivables	1,298	1,135
Allowance for impairment	(47)	(84)
Net premium receivables	**1,251**	**1,051**
GST receivable	-	-
Prepayments	155	106
Deferred acquisition costs	481	335
	1,887	**1,492**

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 receivable is written off. The exception is where a payment plan is in place.

Analysis of premium receivables impairment	2021 $000	2020 $000
Opening allowance for impairment	84	74
Provision	-	10
Write-off	(37)	0
Closing allowance for impairment	**47**	**84**

8. Investments

	2021 $000	2020 $000
Financial instruments at fair value through surplus or deficit		
Term Deposits	3,188	7,579
Equity Investments	2,911	2,211
Fixed Interest Investments	5,516	4,023
Total investments	**11,615**	**13,813**

As at 31 August 2021 the average interest rate for term deposits was 1.83% (2020: 2.32%) and the average interest rate on fixed interest investments was 3.49% (2020: 3.83%).

9. Plant and equipment

	31 August 2021			31 August 2020		
	Computer and equipment $000	Other assets $000	Total $000	Computer and equipment $000	Other assets $000	Total $000
Cost	124	100	224	91	86	177
Accumulated depreciation	(89)	(39)	(129)	(74)	(25)	(99)
Closing book value	**35**	**61**	**95**	**17**	**61**	**78**
Opening balance	17	61	78	25	58	83
Additions	32	14	46	15	15	30
Depreciation	(15)	(14)	(29)	(23)	(12)	(35)
Closing book value	**35**	**61**	**95**	**17**	**61**	**78**

10. Intangible assets

	2021 $000 Software $000	2020 $000 Software $000
Software Cost	2,570	1,372
Accumulated amortisation	(1,314)	(1,086)
Closing book value	**1,256**	**286**
Opening balance	286	507
Additions	1,198	75
Amortisation	(228)	(296)
Closing book value	**1,256**	**286**

Software additions in 2021 include WIP on the new policy administration system. This is expected to be completed in early 2022.

11. Trade and other payables

	2021 $000	2020 $000
Trade payables	823	571
Other payables	283	246
	1,106	**817**

12. Employee benefits

	2021 $000	2020 $000
Employee entitlements	27	11
Annual leave	179	157
	206	**168**

13. Insurance contract liabilities

	2021 $000	2020 $000
Provision for outstanding claims (refer to note 13b)	3,052	3,297
Unearned premium liability (refer to note 13d)	4,749	4,191
	7,801	**7,488**

Assets backing insurance contracts	**11,615**	**13,813**

Accuro holds a number of investments in a number of term deposits/fixed interest investments and equity investments through Jarden Securities Limited and 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/fixed interest investments due to the similar nature of their contractual maturities and equity investments which are invested in liquid securities with minimal impact on market price.

	2021 $000	2020 $000
13a		
Central estimate	2,704	2,893
Expense margin	108	174
Risk margin	239	230
	3,052	**3,297**

13b		
Opening claims provision	3,297	2,379
Amounts utilised during the period	(2,347)	(1,908)
Additional provision/(reversal of unused provision)	(658)	(179)
Amounts provided during the year	2,704	2,893
Movement in risk margin	(9)	64
Movement in claims handling costs	65	49
	3,052	**3,297**

13c		
Claims expense		
Insurance claims paid	26,531	22,388
Movement in provisions for outstanding claims	(245)	918
	26,286	**23,306**

	2021 $000	2020 $000
13d		
Opening unearned premium liability	4,191	3,850
Premiums written during the year	35,467	32,558
Less premiums earned during the year	(34,910)	(32,217)
Closing unearned premium liability	**4,749**	**4,191**

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 $8.9 million (2020: $9.5 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 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.

	2021 $000	2020 $000
Actual solvency capital	8,860	9,528
Minimum solvency capital	4,482	4,095
Solvency margin	4,378	5,433
Solvency ratio	198%	233%

During the year ended 31 August 2021, the Society complied with all externally imposed capital requirements.

The actual solvency capital has reduced in 2021 due to the development of a new policy administration system. This intangible is deducted from capital as per the Solvency Standard for Non-Life Insurance Business 2014.

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 February 2021. The target relating to financial year 2021 was to have a value equal to 25% of the total premium earned in the preceding 12 months. The target at 31 August 2021 was $8.7 million (2020 was $8.1 million) relative to an actual solvency capital of $8.9 million. (2020:$9.5 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 2021.
- 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 2021, 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.

The decrease in the provision for outstanding claims compared to the previous year, arises from a higher provision in 2021 to allow for post-Covid claim catchup that did not eventuate to the full degree anticipated as well as a reduction in claim processing times compared to prior year.

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 8.5% of the central estimate was established at 31 August 2021 (31 August 2020: 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:

	2021 $000	2020 $000
Central estimate in previous years	2,893	2,087
Total claims made in hindsight	(2,235)	(1,908)
	658	**179**

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 4% (31 August 2020: 6%) of the underlying claims amounts based on an analysis of administration expenses.
- The expected settlement date for 93% of claims included in the liability is less than 90 days for hospital claims (31 August 2020: less than 90 days for 94% of hospital claims) and less than 11 months for 90% primary/medical claims (31 August 2020: less than 11 months for 92% 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 2021. There is no unexpired risk liability for the year ended 31 August 2021 (2020: nil). As at 31 August 2021, the liability adequacy test identified a surplus, therefore no deficiency in the unearned premium liability has been recognized.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 7% of the present value of expected future cash flows has been applied at 31 August 2021 (31 August 2020: 7%). 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% (2020: 75%).
- An expense allowance of 10% (2020: 10%).
- A commission component of 8% of the unearned premium (2020: 8%).
- Expected future payments are not discounted due to the short-tail nature of the liabilities.

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

	2021 $000	2020 $000
Base assumptions	3,052	3,297
Claims settlement time + 10%	3,798	4,135
Claims settlement time - 10%	2,252	2,408

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

Credit risk

The credit quality of investment counterparties is as follows:

	2021 $000	2020 $000
AA	530	-
AA-	2,884	4,547
A	1,538	4,093
A-	1,163	830
BBB+	1,130	586
BBB	992	1,060
Unrated	467	486
	8,704	**11,602**

The above $8.7 million is the fair value of the various investments with Jarden Securities Limited.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Society. The Society has adopted a policy of only dealing with creditworthy counterparties.

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. Liquidity risk and exposure is reviewed on an on-going basis.

Maturity Profile of Investments

	2021 $000	2020 $000
Less than 1 Year - financial instruments at fair value through surplus or deficit		
Fixed Interest Investments	1,468	5,915
Total 1 Year	**1,468**	**5,915**
1-5 Years – financial instruments at fair value through surplus or deficit		
Fixed Interest Investments	6,139	4,480
Total 1-5 Years	**6,139**	**4,480**
5-10 Years – financial instruments at fair value through surplus or deficit		
Fixed Interest Investment	1,098	1,207
Total 5 – 10 Years	**1,098**	**1,207**
In addition to the above investments, the Society has on-call funds of:	4,374	2,615
The contractual maturity of financial liabilities are as follows:		
Trade and other payables	849	590
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.

Accuro invests in fixed interest securities and bank deposits and it is the intention of the Society to hold the investments to maturity. As a consequence, interest rate sensitivity is limited to changes in interest rates earned on these investments. Each 1% movement in interest rates up or down will equate to an increase/decrease in surplus or deficit attributable to members of $80,941 (2020: $115,915).

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.

Equity price risk

The Society invests in equity securities and it is the intention of the Board of Directors to hold the investments. As a consequence, equity price risk sensitivity is limited to changes in equity prices. Each 10% movement in equity prices up or down will equate to an increase/decrease in surplus or deficit attributable to members of $291,060 (2020: $221,118).

Fair Value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation technique using the effective interest rate method for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

For the purpose of fair value disclosures, the Society has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The following table provides the fair value measurement hierarchy of the Society's assets and liabilities

Hierarchy

	2021 $000	2020 $000
Level One		
Bonds	5,516	4,023
Equity Investments	2,911	2,211
Total Level One	**8,427**	**6,234**
Level Two		
Term Deposits	3,188	7,579
Total Level Two	**3,188**	**7,579**

15. 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.

	Total $000	Computer and equipment $000	Other assets $000	Total $000
2021				
Assets				
Cash and cash equivalents	-	4,374	-	4,374
Trade and other receivables	-	1,886	-	1,886
Investments	11,615	-	-	11,615
Total assets	**11,615**	**6,250**	**-**	**17,865**

	Total	Computer and equipment	Other assets	Total
	$000	$000	$000	$000
Liabilities				
Trade and other payables	-	-	849	849
Total liabilities	**-**	**-**	**849**	**849**

	Fair value through P&L	Loans and receivables	Other financial liabilities	Total carrying amount
2020				
Assets				
Cash and cash equivalents	-	2,615	-	2,615
Trade and other receivables	-	1,492	-	1,492
Investments	13,813	-	-	13,813
Total assets	**13,813**	**4,106**	**-**	**17,920**
Liabilities				
Trade and other payables	-	-	590	590
Total liabilities	**-**	**-**	**590**	**590**

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

	2021 $000	2020 $000
Reported surplus (deficit)	**302**	**773**
Non-cash items		
Depreciation/amortisation expense	257	331
Movement in claims provision	(245)	918
Net (gains)/losses on investments at fair value through surplus or deficit	(281)	–
	34	**2,022**
Movements in working capital		
Premiums and other receivables	(385)	59
Premiums in advance	558	341
Trade and other payables	278	80
Employee benefits	38	59
Inventory	–	3
(Decrease)/increase in net GST	10	27
	499	**569**
Net cash inflow from operating activities	**534**	**2,591**

17. Operating lease obligations

	2021 $000	2020 $000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	175	175
1–5 years	698	698
Later than 5 years	858	1,032
	1,730	**1,905**

The major component of the Society's non-cancellable leases above relates to a five 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

	2021 $000	2020 $000
Capital commitments at period end	843	-

This represents capital expenditure on the policy administration system contracted for at balance date but not yet incurred.

18. Rating

The Society financial strength rating issued by A M Best is B+ (2020: A M Best B +).

19. Related-party transactions

The Society's staff are all members of the Society as part of a subsidised Accuro group staff health scheme. The four elected Directors and one of the co-opted Directors are also members of the Society and receive a subsidy on their policies.

20. Covid-19 Pandemic

In December 2019, a new virus, COVID-19 was detected and on 11 March 2020 the World Health Organization declared that the outbreak should be considered a global pandemic.

The result of this pandemic has been a substantial reduction in economic activity throughout the world, as governments introduced measures (such as the closure of national borders, the closure of non-essential businesses, the cancellation of public events and the imposition of restrictions on individuals) in an attempt to reduce transmission of the virus. In late March 2020, the New Zealand Government ordered the country into lockdown which lasted 5 weeks, during which non-essential businesses and organisations were only allowed to operate in circumstances where the individuals were able to work from home (with the exception of services deemed to be essential). In late April 2020, the lockdown period ended and the New Zealand Government started gradually easing the restrictions that had been placed on businesses, organisations and individuals.

The Society experienced a period of lower claims as a direct result of the lockdowns and restrictions between March and June 2020. As anticipated, in the twelve months following, the Society has seen a period of higher claims due to claims deferrals from the lockdown. Due to the short term nature of claims liabilities it is assumed that these deferrals and delays have now flowed through over the course of the 2021 financial year.

On 17 August 2021 the New Zealand Government announced that the Delta variant of COVID-19 had been found in the community and the country re-entered a lockdown period. Because this occurred towards the end of the financial year, the impact for the 2021 financial year was limited and was considered in the claims provision in note 13. There could however be flow on impacts in the 2022 financial year if lockdowns continued.

21. Subsequent events

As at 1 September, the New Zealand Government announced a change from Level 4 resulting from the Delta variant of COVID-19 found in the community. Levels were subsequently revised to Level 2 for all of New Zealand except Auckland and parts of the Waikato which moved to Level 3 as at 3 October 2021. No adjustments are considered necessary, or have been made, to the financial statements as a result of this development (2020: Nil)

22. Definitions related to the financial statements

Amortisation

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

Fair Value

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

Public Benefit Entity (PBE)

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

Independent Auditor's **Report**

Building a better working world

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 12 to 39, which comprise the statement of financial position of the Society as at 31 August 2021, 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 12 to 39 present fairly, in all material respects, the financial position of the Society as at 31 August 2021 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 $3 million at 31 August 2021 and represents 33% of total liabilities. The estimation of the provision for outstanding claims involves significant 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 13 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 claims data used by the appointed actuary to the Society's underlying systems on a sample basis; • 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 information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, 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 internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

A further description of 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
22 October 2021

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HEALTH INSURANCE