MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2023

	Note	2023 $000	2022 $000
GROSS WRITTEN PREMIUM		124,800	102,255
Reinsurance Premiums		(30,387)	(23,862)
Movement in Unearned Premium Reserve		(11,220)	(7,072)
NET EARNED PREMIUM		83,193	71,321
OPERATING EXPENSES			
Claims		(172,101)	(60,706)
Reinsurance Recoveries		99,220	4,463
Other Recoveries		3,301	3,034
Net Claims Incurred	4	(69,580)	(53,209)
Administration Expenses	5	(1,741)	(1,262)
Administration Fees paid to Parent Company	6	(19,377)	(15,726)
Total Operating Expenses		(90,698)	(70,197)
(LOSS) / SURPLUS ON UNDERWRITING		(7,505)	1,124
INVESTMENT INCOME / (LOSS)			
Interest paid on Advances from Parent Company	6	(73)	(28)
Cash and Short Term Deposits		105	15
Domestic and International Fixed Interest		1,159	(403)
Net Investment Income / (Loss)	15	1,191	(416)
Commission and Sundry Income		850	2,070
NET (LOSS) / PROFIT		(5,464)	2,778
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME		(5,464)	2,778

The accompanying notes form part of and should be read in conjunction with these financial statements.

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2023

	Note	2023 Share Capital $000	2023 Retained (Loss)/Earnings $000	2023 Total $000
OPENING BALANCE 1 APRIL 2022		38,000	4,456	42,456
Current Year Loss		-	(5,464)	(5,464)
Other Comprehensive Income		-	-	-
Total Comprehensive Income / (Accumulated Losses)		-	(5,464)	(5,464)
Issue of Share Capital	19	10,800	-	10,800
CLOSING BALANCE 31 MARCH 2023	19	48,800	(1,008)	47,792

	Note	2022 Share Capital $000	2022 Retained Earnings $000	2022 Total $000
OPENING BALANCE 1 APRIL 2021		38,000	1,678	39,678
Current Year Profit		-	2,778	2,778
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	2,778	2,778
Dividends	19	-	-	-
CLOSING BALANCE 31 MARCH 2022	19	38,000	4,456	42,456

The accompanying notes form part of and should be read in conjunction with these financial statements.

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF FINANCIAL POSITION

as at 31 March 2023

	Note	2023 $000	2022 $000
FUNDS EMPLOYED			
EQUITY			
Ordinary Shares	19	48,800	38,000
Retained (Loss) / Earnings		(1,008)	4,456
Total Equity		47,792	42,456
LIABILITIES			
Advance from Parent Company	6	3,383	2,795
Trade and Other Payables and Provisions	7	8,711	8,996
Other Insurance Liabilities	9	6,239	2,444
Provision for Unearned Premium	8	65,114	53,893
Provision for Outstanding Claims	4	137,269	47,918
TOTAL FUNDS EMPLOYED		268,508	158,502
ASSETS			
Cash and Cash Equivalents	10	3,339	3,175
Investments	15	130,593	112,884
Prepayments and Other Insurance Assets		213	122
Premiums Outstanding	11	29,763	24,496
Reinsurance Recoveries Outstanding	12	102,002	13,799
Claims Recoveries Outstanding	13	1,328	2,881
Deferred Acquisition Costs	14	1,270	1,145
TOTAL ASSETS		268,508	158,502

Approved for issue for and on behalf of the Board of Medical Insurance Society Limited on 28 June 2023.

B C Sutton

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Director

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Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CASH FLOWS

for the year ended 31 March 2023

	Note	2023 $000	2022 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		119,785	99,796
Sundry Income		759	2,031
Reinsurance and Other Recoveries Received		15,871	3,792
Payment of Claims		(82,750)	(63,837)
Payments to Suppliers		(26,927)	(24,280)
Interest Received		2,159	1,535
Dividend Received		1,199	1,111
Administration Fees Paid to Parent Company		(19,377)	(15,726)
Interest Paid on Advances from Parent Company		(73)	(28)
Net Cash Flows from Operating Activities	20	10,646	4,394
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(56,453)	(48,031)
Withdrawals from Investment Funds		36,650	41,500
Net Cash Flows for Investing Activities		(19,803)	(6,531)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Advances (to) / from Parent Company	6	(1,479)	2,161
Issue of Share Capital to Parent Company		10,800	-
Net Cash Flows from Financing Activities		9,321	2,161
NET MOVEMENT IN CASH HELD		164	24
Opening Cash Balance brought forward		3,175	3,151
CASH AND CASH EQUIVALENTS CARRIED FORWARD		3,339	3,175
CASH AND CASH EQUIVALENTS COMPRISE			
On Call Deposits	10	3,339	3,175
		3,339	3,175

The accompanying notes form part of and should be read in conjunction with these financial statements.

1. CORPORATE INFORMATION

REGISTERED OFFICE
10 Waterloo Quay
Pipitea
Wellington

The parent and ultimate parent of Medical Insurance Society Limited ("the Company" or "MIS") is Medical Assurance Society New Zealand Limited ("the Parent" or "MAS"), which owns 100% of the ordinary shares. The Parent together with its subsidiaries are referred to as the Group in this financial report.

The Company is incorporated and domiciled in New Zealand and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

S&P Global Ratings Australia Pty Ltd has assigned the Company a financial strength rating of A (Strong).

2. ACCOUNTING POLICIES

(a) Principal Activity

The Company is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited. The Company provides general insurance products to Members of MAS. The head office is situated in Wellington and there are branch sites throughout New Zealand.

(b) Statement of Compliance and Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared in accordance with Financial Markets Conduct Act 2013 and the Charities Act 2005.

The Company was registered as a charity under the Charities Act 2005 on the 1st of December 2019. The Company is a member of the MAS Charitable Group. The registration number is CC57176. The Company remains a profit-oriented entity for financial reporting purposes.

The financial statements have been prepared on a historical cost basis, except for certain assets and liabilities as outlined in the accounting policies.

(c) Presentation Currency

Both the functional and presentation currency of the Company is New Zealand dollars ($). The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(d) Premium Revenue and Provision for Unearned Premium

Premium revenue comprises amounts charged to policyholders for insurance policies. Premium is expressed net of levies and charges which are collected on behalf of Fire and Emergency New Zealand ("FENZ") and the Earthquake Commission ("EQC"), and net of Goods and Services Tax ("GST").

Premium revenue is recognised in the Statement of Comprehensive Income when it has been earned. That is, from the date of attachment of the risk, over the period of the policy (which is generally one year). Unearned premiums are those proportions of premium written in a year, that relate to periods of risk after the balance date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is recognised in the Statement of Financial Position as a Provision for Unearned Premium.

(e) Claims and Provision for Outstanding Claims

Claims expense represents payments for claims plus the movement in the Provision for Outstanding Claims. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy.

2. ACCOUNTING POLICIES continued…

Claims expenses are recognised in the Statement of Comprehensive Income as incurred which is usually the point in time when the event giving rise to the claim occurs.

The liability for any outstanding claims is carried in the Statement of Financial Position as the Provision for Outstanding Claims. It is measured as the central estimate of the present value of the expected future payments against all claims incurred at reporting date. A risk margin is also included over and above the central estimate, to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for their determination are set out in Note 4. The expected future payments includes those in relation to claims reported but not yet paid, incurred but not reported ("IBNR") and the direct costs of settling those claims.

(f) Provision for Unearned Premium / Liability Adequacy Test

At each reporting date a Liability Adequacy Test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit and loss.

The proportion of premiums not earned in the Statement of Comprehensive Income at reporting date is recognised in the Statement of Financial Position as Provision for Unearned Premium. The Provision for Unearned Premium is calculated separately for each group of contracts which are subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability is recognised immediately.

The expected value of claims is calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate.

(g) Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs.

i) Financial Assets
Financial assets are classified as subsequently measured at amortised cost and fair value through profit or loss.

The Company measures financial assets at amortised cost if:
(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the Statement of Comprehensive Income when the asset is derecognised, modified or impaired.

Investments
Investments are classified as financial assets at fair value through profit or loss and any movements in fair value, interest and dividend income, and fund distributions are recognised in the Statement of Comprehensive Income as Investment Income or Loss. The valuation techniques used are detailed in Note 16.

The Company's policy is to manage investments to give the best possible yield whilst taking a prudent approach to risk. Investment funds are split by asset class in Note 15.

Funds are invested in both unitised or pooled vehicles and direct holdings. Investment fund values for unitised or pooled vehicles are supplied by the relevant fund manager. Investments held directly by the Company are valued at fair value each reporting date based on the current bid price where one is available. In the absence of a bid price, valuation is based on recent arms length transactions. Directly held investment funds are managed by JBWere (NZ) Limited and Bancorp Treasury Services Limited.

2. ACCOUNTING POLICIES continued…

ii) Financial Liabilities
Financial liabilities are classified as subsequently measured at amortised cost or financial liabilities at fair value through profit or loss. All financial liabilities held by the Company are measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

Advance from Parent Company
Classified as a financial liability measured at amortised cost.

Trade and Other Payables
Classified as a financial liability measured at amortised cost. Payables are recognised when the Company becomes obliged to make future payments resulting from the purchases of goods and services. They represent liabilities for goods and services provided to the Company prior to the end of the financial year but which are unpaid at reporting date.

(h) Cash and Cash Equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions, with an original term to maturity of three months or less.

(i) Premiums Outstanding

A significant number of policyholders elect to spread premium payments over the term of the cover. Accordingly, at any one time there is a large balance of premiums which are outstanding but not overdue. They are initially recognised at fair value. All outstandings are constantly reviewed for collectability and immediately written off where deemed to be uncollectible. Fair value is equal to the carrying value of the premiums receivable.

(j) Reinsurance Recoveries

During the normal course of the Company's activities claims are paid which will result in a contractual right to seek recovery from its reinsurers. At any point in time there will be amounts owing by these counterparties which will be represented by assets on the Statement of Financial Position. Fair value is equal to the carrying value of the reinsurance assets.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. The Company does not consider any of its reinsurance recoveries to be impaired.

(k) Assets Backing Insurance Liabilities

All investment assets of the Company have been identified as assets backing the insurance liabilities of the Company.

(l) Income and Other Taxes

Income Tax
The Company became a registered charity on 1 December 2019. As such, its activities from that date are no longer subject to income tax.

Other Taxes
Revenues, expenses and assets are recognised net of GST except when the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of Trade and Other Payables in the Statement of Financial Position. Any commitments or contingencies are disclosed net of the amount of GST recoverable from, or payable to, Inland Revenue.

(m) Policy Acquisition Costs

Policy acquisition costs comprise the costs of acquiring new business, including sales costs, underwriting costs and policy issue costs. These costs are deferred when they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Costs are amortised systematically in accordance with the expected pattern of the incidence of risk to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

An impairment review is performed at each reporting date as part of the Liability Adequacy Test. When the recoverable amount is less than the carrying value an impairment loss is recognised in profit or loss.

2. ACCOUNTING POLICIES continued…

(n) Reinsurance Premiums

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract. Ceded reinsurance does not relieve the Company from its obligations to policyholders. Reinsurance premium payable is accrued but not yet paid reinsurance premiums. A payable is recognised when reinsurance cover has been provided based on a contractual agreement with a reinsurer.

(o) Changes in Accounting Policies and Disclosures

Several amendments and interpretations apply for the first time in the period ended 31 March 2023, but do not have an impact on the financial statements of the Company. There have been no changes to accounting disclosures or policies during the current period.

NZ IFRS 17 Insurance Contracts ("IFRS 17") has been issued but is not yet effective for the period ended 31 March 2023, and has not been applied in preparing these financial statements. IFRS 17 is a comprehensive new accounting standard which replaces NZ IFRS 4 Insurance Contracts ("IFRS 4") and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard is effective for reporting periods beginning after 1 January 2023. The first applicable reporting period for the Company is the year ending 31 March 2024.

Measurement

The standard introduces a new measurement model (the General Model) for the recognition and measurement of insurance, and reinsurance contracts. A simplified model, the Premium Allocation Approach (PAA), can be used when certain criteria are met.

The Company anticipates being eligible to apply the PAA to its insurance and reinsurance contracts. When applying the PAA, NZ IFRS 17 allows for the immediate expensing of insurance acquisition cashflows. The Company intends to take up this option and expense acquisition costs when incurred.

Onerous Contracts

Onerous contract testing is performed at a more granular level than the Company's current assessment under the NZ IFRS 4 Liability Adequacy Test. Contracts that are measured using the PAA are assumed not to be onerous unless facts and circumstances indicate otherwise. This granularity is expected to lead to a greater possibility of loss-making contract groups.

Discount Rates

The Company is required to discount to present value its liability for incurred claims where the claim settlement duration is expected to exceed twelve months. The Company has elected to determine the discount rate by using the bottom-up approach. This rate is determined by reference to risk-free rates with an illiquidity premium adjustment. The majority of the Company's claims are settled within twelve months.

Risk Adjustment

The risk margin is replaced with a risk adjustment. The risk adjustment reflects the compensation that the Company requires for bearing the uncertainty relating to the amount and timing of future cash flows. The Company expects to take a cost of capital approach to determine a risk adjustment. For reinsurance contracts held, the risk adjustment will represent the amount of risk being transferred by the Company to the reinsurer. Additionally, under IFRS 17, the Company is also required to account for the changes in fulfilment cash flows that result from changes in the risk of non-performance of reinsurers.

Presentation and Disclosure

A number of presentation and disclosure changes are required. These include:

- On the Statement of Comprehensive Income (SoCI) - an Insurance Service Result will be reported which comprises Insurance Revenue less Insurance Service Expenses. Such items as Gross Written Premium and Gross claims will no longer be reported separately on the SoCI. The impacts of reinsurance contracts will be reported separately.
- On the Statement of Financial Position - Insurance Contract Liabilities will be presented as a single amount. This replaces the currently disclosed amounts of Provision for Unearned Premium, Provision for Outstanding Claims and aspects of Other Insurance Liabilities. A similar approach is also taken to Reinsurance.
- More detailed note disclosures will be required to outline the movement in insurance contract and reinsurance contracts than required under NZ IFRS 4.

Transition

The Company will adopt NZ IFRS 17 for the year ending 31 March 2024. The opening equity position as at 1 April 2022 and the 31 March 2023 (prior year) results will be remeasured under NZ IFRS 17. That is, as if the standard had always applied. Work is continuing to quantity the financial impact. As all decisions are not yet finalised it is not possible to accurately determine the impact. The default transition approach is the full retropective approach (FRA). Where the FRA is impracticable, two alternative options are available. The Company will apply the FRA.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

These financial statements are prepared in accordance with New Zealand equivalents of the International Financial Reporting Standards and other authoritative accounting pronouncements. In applying the Company's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors. All judgements, estimates and assumptions are based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Outstanding Claims Liability

The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments (including claims incurred but not reported) plus a risk margin. The estimated cost of claims includes expenses to be incurred in settling those claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is almost certain that the final outcome will prove to be different from the original liability established.

There is significant uncertainty to the net claims arising from the January - February 2023 North Island floods, Cyclone Gabrielle and Canterbury earthquakes and significant judgement is required in regards to elements such as; increases in building claim costs, litigation, reopening of claims, apportionment between earthquake events, claim handling expenses and future additional claims being received from EQC. Due to these uncertainties a higher risk margin is carried for these flood, cyclone and earthquake claims.

All claims reported are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and / or other third party, and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates are reviewed regularly and are updated as and when new information arises. The ultimate net outstanding claims provision also includes an additional (risk) margin to allow for the uncertainty within the estimation process.

Reinsurance and Other Recoveries Assets

As is the case for claims, reinsurance and other recoveries must be estimated at reporting date. The recoverability of these assets is assessed on a periodic basis to ensure that as best can be determined, the balance is reflective of the amounts which will ultimately be received, taking into consideration factors such as counterparty credit risk.

4. CLAIMS

	2023 $000	2022 $000
Claims paid during the year	82,750	63,837
Recoveries received during the year	(15,871)	(3,792)
Provision for Outstanding Claims at year end (new claims incurred during the year)	101,925	26,273
Provisioning at year end for Outstanding Claims incurred in prior years	13,313	20,543
Reinsurance and Other Recoveries Outstanding at year end	(103,330)	(16,680)
Change in IBNR (claims incurred but not reported) Provision at year end	336	1,011
Provision for Outstanding Claims at previous year end (excluding IBNR)	(45,016)	(50,260)
Reinsurance and Other Recoveries Outstanding at previous year end	16,680	14,078
Change in Risk Margin	18,792	(1,800)
Net Claims Expense per Statement of Comprehensive Income	69,580	53,209

Provision for Outstanding Claims

	2023 $000	2022 $000
Expected Future Claim Payments (undiscounted)	106,233	36,010
IBNR Claims at Year End	3,239	2,902
Risk Margin	27,798	9,005
Provision for Outstanding Claims	137,269	47,918

Assumptions adopted in calculation of claim provisions

A significant portion of the claims provision relate to flood, cyclone and earthquake claims. The claims estimate is subject to a degree of uncertainty as a number of issues are yet to be resolved. The following key assumptions have been used in determining general insurance net outstanding claims liabilities:

	2023	2022
Risk Margin - flood and cyclone claims	25.00%	n/a
Risk Margin - earthquake claims	49.00%	40.50%
Risk Margin - other claims	13.00%	15.40%
Weighted Average Expected Term to Settlement	Within 1 year	Within 1 year

Risk Margin

The initial amount calculated is the central estimate (the mean of the distribution of the probable outcomes). That is, it is intended to contain no deliberate, or conscious over or under estimation. Over and above the central estimate, and to reflect the inherent uncertainty in determining it, a risk margin is added in arriving at the carrying amount of the liability. This increases the probability that the liability will ultimately prove to be sufficient. The potential uncertainties include those relating to the actuarial model and assumptions, the quality of the underlying data used, general statistical uncertainty and the insurance environment.

The risk margin is applied to the net outstanding claims for the Company as a whole. However an assessment of the uncertainty and the determination of a risk margin is done by individual class of business (Motor Vehicle, House, Contents etc.). The entity risk margin is assessed to be less than the sum of the individual classes, reflecting the benefit of diversification in general insurance. The percentage risk margin applied is 25.00% (2022: not applicable) for flood and cyclone claims, 49.00% (2022: 40.50%) for earthquake claims and 13.00% (2022: 15.40%) for other claims. The Company has recognised a risk margin of $18.8 million for the flood and cyclone catastrophe events that occurred in the 2023 financial year (2022: not applicable). The level of sufficiency or probability of adequacy is 75.00% (2022: no change).

Claims Development Table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the ten most recent years. The majority of the claims that pre-date 2014 are Canterbury earthquake claims.

		Incident Year										
	Prior $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	2022 $000	2023 $000	Total $000
At end of incident year		30,985	28,650	33,118	48,602	40,393	39,127	43,289	51,296	55,294	148,683	
One year later		31,173	29,052	34,324	52,449	39,424	40,389	44,417	56,941	56,584	-	
Two years later		31,174	29,201	34,514	53,473	39,870	40,552	44,633	58,738	-	-	
Three years later		31,447	29,131	34,426	53,915	40,006	40,646	44,681	-	-	-	
Four years later		31,493	29,151	34,518	53,874	40,129	40,661	-	-	-	-	
Five years later		31,511	29,174	34,543	53,893	40,140	-	-	-	-	-	
Six years later		31,522	29,162	34,578	54,074	-	-	-	-	-	-	
Seven years later		31,541	29,095	34,578	-	-	-	-	-	-	-	
Eight years later		31,541	29,115	-	-	-	-	-	-	-	-	
Nine years later		31,548	-	-	-	-	-	-	-	-	-	
Current estimated claim cost		31,548	29,115	34,578	54,074	40,140	40,661	44,681	58,738	56,584	148,683	
Payments		(31,548)	(29,095)	(34,575)	(54,068)	(40,108)	(40,644)	(44,606)	(58,098)	(55,098)	(52,525)	
Central estimate	11,035	-	20	3	6	31	16	75	639	1,487	96,158	109,471
Risk margin												27,798
Gross outstanding claims liabilities												137,269
Recoveries from reinsurers and other third parties												(103,330)
Net outstanding claims liabilities												33,939

5. ADMINISTRATION EXPENSES

Included within Administration Expenses are:	2023 $000	2022 $000
Fees to auditors - for the audit of financial statements	95	57
Fees to auditors - for other assurance and related services	18	17

The auditor of the Company is Ernst & Young (EY). Fees for the audit of financial statements includes fees in relation to the IFRS 17 opening balance sheet assurance (2022: $0). Other assurance and related services relate to reviews of regulatory reporting (2022: no change) and are required by legislation to be provided by the auditor. The Board has considered the non-audit work carried out by the auditor and is satisfied the work did not compromise auditor objectivity and independence.

No Directors' fees are provided for or are payable.

6. RELATED PARTY TRANSACTIONS

(a) Medical Insurance Society Limited is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited. Related parties comprise companies within the Medical Assurance Society New Zealand Limited Group ("the Group").

(b) During the year, related party transactions with the Parent company took the form of advances / repayment of advance, administration fees and interest paid / received on advances. Interest on advances is charged at the 90 day bank bill rate plus 1%. The administration fees relate to management costs incurred on behalf of the Company by the Parent. The audit fee disclosed in Note 5 is paid by the Parent company.

(c) The advance from the Parent of $3.4 million (2022: $2.8 million) is unsecured and repayable on demand. None of the amounts owing between the Company and the Parent have been written off or forgiven during the year (2022: nil).

(d) No staff are directly employed by the Company. All staff, including those that are key management personnel, are employees of the Parent company, and the amounts detailed below have been paid by the Parent company and relate to services provided to the Group. Key management personnel is defined as Directors and members of the Executive Management Team.

(e) All transactions with Members, Directors of the Company and key management personnel (including Directors) of the Parent are at market rates. There are no loans to Directors and key management personnel.

	2023 $000	2022 $000
Salaries and other short-term employee benefits	3,610	3,219
Termination benefits	405	-
MAS Directors fees	776	731
Total compensation paid to key management personnel of the Group	4,791	3,950

(f) The Parent company has provided a guarantee of $7.5 million (2022: $7.5 million) to MIS to allow for additional funds if required. As at 31 March, $1.4 million of the guarantee has been utilised (2022: $1.2 million) and is included in the Advance from Parent. Remediation expenses are reimbursed by the Parent (2022: no change).

	2023 $000	2022 $000
Material transactions during the period with related parties:		
Interest Paid on Advances from Parent Company	(73)	(28)
Administration Fees paid to Parent Company	(19,377)	(15,726)
Shares Issued to Parent Company	10,800	-
Reconciliation of outstanding balances with related parties at period end:		
Opening: Advance (from) / to Parent Company at 1 April	(2,795)	1,399
Net Advances to / (from) Parent Company during the period	1,479	(2,161)
Advance from Parent Provision	(2,067)	(2,033)
Closing: Advance from Parent Company at 31 March	(3,383)	(2,795)

7. TRADE AND OTHER PAYABLES AND PROVISIONS

	2023 $000	2022 $000
Government Levies Payable	4,286	2,619
GST Payable	2,805	2,709
Trade and Other Payables	1,593	2,443
Remediation Provision	27	1,225
Total Trade and Other Payables and Provisions	8,711	8,996

Set out below is the movement in the Remediation Provision:	2023 $000	2022 $000
As at 1 April	1,225	2,875
Remediation Addition	126	2,177
Remediation Payments	(1,324)	(3,827)
As at 31 March	27	1,225

All payables are due within twelve months of balance date. The remediation provision reflects management's best estimate of the amount to meet remediation obligations to Members for issues that have been identified. The provision covers refunds, inconvenience payments and the cost of administering the remediation programme. It is expected the remediation provision will be utilised within twelve months of balance date.

8. PROVISION FOR UNEARNED PREMIUM

The following table is a reconciliation of Unearned Premium:

	2023 $000	2022 $000
Balance at the beginning of the financial year	53,893	46,822
Premiums written during the year	124,800	102,255
Premiums earned during the year	(113,579)	(95,184)
Balance at the end of the financial year	65,114	53,893

Liability Adequacy Test

The Appointed Actuary, Peter Davies, FIA, a Fellow of the New Zealand Society of Actuaries ("NZSA"), has reported on the Liability Adequacy Test undertaken by him as at 31 March 2023. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2022: no deficiency). In forming this opinion he has assessed the current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under all current contracts. Included within the claims figure is a risk margin to reflect the inherent uncertainty in the central estimate. The process used to determine the risk margin, including the allowance for diversification of risks, is the same as that for outstanding claims (refer to Note 4). His conclusion is that the provision exceeds the prospective claims value. He is satisfied with the nature, extent, and accuracy of the data used for this valuation. The financial statements have not been adjusted to recognise the surplus. There has been no write-down of deferred acquisition costs under the Liability Adequacy Test (2022: no write-down).

	2023 $000	2022 $000
Central estimate of present value of future cashflows from future claims	58,226	46,783
Risk Margin	5,408	4,140
	63,634	50,923

The central estimate of present value of future cashflows from future claims includes reinsurance costs.

	2023	2022
Risk Margin	15.70%	15.20%
Probability of Sufficiency	75.00%	75.00%

9. OTHER INSURANCE LIABILITIES

	2023 $000	2022 $000
Reinsurance Premium Payable	4,475	931
Premiums Received in Advance	1,764	1,513
	6,239	2,444

Reinsurance premium payable is accrued but not yet paid reinsurance premium. Premiums received in advance are premium payments received from policyholders for policies starting subsequent to balance date.

10. CASH AND CASH EQUIVALENTS

	2023 $000	2022 $000
On Call Deposits	3,339	3,175
	3,339	3,175

All funds are held with registered banks and are available on call.

11. PREMIUMS OUTSTANDING

	2023 $000	2022 $000
Premiums Owing by General Insurance Policyholders	29,763	24,496
	29,763	24,496

A significant number of policyholders elect to pay premiums in instalments spread evenly over the term of the cover. Accordingly, at any one time, including balance date, there will be large outstandings relative to premium which has been billed but not collected. All premiums outstanding are due within twelve months of balance date. Where any instalments are overdue (direct debits dishonoured) or alternatively where annual payments are overdue, the related debts are assessed for impairment and where it is evident adjusted immediately. The carrying amounts reasonably approximate fair value.

12. REINSURANCE RECOVERIES OUTSTANDING

	2023 $000	2022 $000
Gross Reinsurance Recoveries Outstanding	102,002	13,799
	102,002	13,799

The Company's insurance operations are protected from the impact of large losses and catastrophic events, by way of a comprehensive reinsurance programme arranged with some of the world's strongest reinsurance companies and syndicates.

The programme is developed once external professional advice, involving comprehensive modelling, is obtained to establish potential exposures and to assess how much any claim or series of claims the Company can retain for its own account. The Company's catastrophe cover exceeds the Reserve Bank of New Zealand's solvency requirements.

At any time, balance date included, the settlement of claims will have led to a receivable being created relative to the amount recoverable from the Company's reinsurers. Such amounts due are assessed for impairment and where it is evident, adjusted immediately. The carrying amounts reasonably approximate fair value.

13. CLAIMS RECOVERIES OUTSTANDING

	2023 $000	2022 $000
Gross Claims Recoveries Owing by Third Parties	4,723	5,988
Provision for Impairment	(3,395)	(3,107)
Net Claim Recoveries Outstanding	1,328	2,881

Set out below is the movement in the provision for impairment on claim recoveries owing by third parties:

	2023 $000	2022 $000
As at 1 April	(3,107)	(3,290)
Movement in Provision for Impairment	(288)	183
As at 31 March	(3,395)	(3,107)

Where a third party is at fault or responsible for a claim made, the Company may have a contractual right to recover from the third party, their insurer or EQC.

The Company recognises a provision for impairment on claim recoveries owed by third parties. The provision for impairment is measured based on the lifetime expected credit losses. Significant increases in credit risk occur after initial recognition as the older a claim, the lower the likelihood of claim recovery from third parties. Credit losses are assessed on a collective basis, considering all reasonable and supportable information at each reporting date. Forward looking information is considered when it is available without undue cost and effort.

Based on historical impairment experience and recognising current economic conditions, losses are recognised as follows:
- amounts owing by other insurers: 55% impairment (2022: no change)
- accounts placed with a collection agency: 90% impairment (2022: no change)
- amounts for which a regular payment arrangement is agreed with the debtor: 55% impairment (2022: no change)
- amounts referred to the Disputes Tribunal: 100% impairment (2022: no change).

Claims recoveries are non-interest bearing. Amounts that reduce the liability to the insured such as excesses, are not claims recoveries and are offset against claims expense.

14. DEFERRED ACQUISITION COSTS

	2023 $000	2022 $000
Opening balance	1,145	943
Acquisition costs deferred during the year	1,270	1,145
Current period amortisation	(1,145)	(943)
Closing balance	1,270	1,145

15. INVESTMENTS

	2023 $000	2022 $000
On Call and Term Deposits	81,065	71,936
Domestic Fixed Interest	25,776	14,686
International Fixed Interest (Unit Trust)	23,752	26,262
Total Investments	130,593	112,884
Realised Investment Income	3,285	2,618
Unrealised Investment Loss	(2,094)	(3,034)
Total Investment Income / (Losses)	1,191	(416)

The Company's investment securities are all financial assets classified as fair value through profit or loss. Fair value adjustments and realised gains or losses are recognised in profit or loss. Realised investment income is made up of interest and dividends received from investments. Unrealised investment loss/income is made up of unrealised fair value changes in investments.

During the year, the Company has been advised by JBWere (NZ) Limited and Bancorp Treasury Services Limited on the management of investments. Funds are invested into securities held in the name of the Company, via a custodian, and invested into unitised or pooled vehicles.

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and Cash Equivalents, On Call and Term Deposits
For cash, cash on call and short term deposits, balances with other financial institutions with maturities of less than three months and other types of short term financial assets, the carrying values of these financial instruments are considered to approximate their fair values as they are short term in nature or are receivable on demand.

Domestic Fixed Interest
The fair value for fixed interest investments is determined by reference to quoted prices in active markets for similar assets or liabilities. Where not available or the market is considered to be lacking sufficient depth to be active, fair value is determined by reference to other significant inputs that are based on observable market data, for example interest rate yield curves and the maturity profile. The average maturity is 4.0 years (2022: 5.0 years).

Unit Trust
The fair value for investments in managed funds is determined based on unit prices provided by the relevant fund manager.

Other Financial Assets
For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value.

Financial Liabilities
The carrying value of Trade and Other Payables and Advance from Parent Company approximate their fair values, as they are short term in nature or payable on demand. Provisions and other insurance liabilities are not considered to be financial liabilities.

Fair Value Hierarchy
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. The only assets and liabilities that the Company recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 17 for details of the classification categories). There have been no transfers between the levels during year (2022: no transfers).

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued…

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2023				
Financial Assets				
On Call and Term Deposits	-	81,065	-	81,065
Domestic Fixed Interest	-	25,776	-	25,776
International Fixed Interest (Unit Trust)	-	23,752	-	23,752
	-	130,593	-	130,593
31 March 2022				
Financial Assets				
On Call and Term Deposits	-	71,936	-	71,936
Domestic Fixed Interest	-	14,686	-	14,686
International Fixed Interest (Unit Trust)	-	26,262	-	26,262
	-	112,884	-	112,884

A level 1 financial asset or liability comprises those assets and liabilities that are valued by reference to published quotes in an active market and the price reflects actual and regularly occurring market transactions on an arm's length basis.

A level 2 financial asset or liability is measured using industry standard valuation techniques and are based on market observable inputs but where the prices have not been determined in an active market.

A level 3 financial asset or liability value is determined in part, or in whole, using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Effective risk management is key to achieving the Company's strategic goals. The Board approves the Risk Appetite Statement which sets the risk tolerances the Company is willing to take. Other key documents within the risk management framework include:
- a risk management programme;
- business continuity and disaster recovery plans;
- a capital management plan;
- reinsurance management policies; and
- a Statement of Investment Policy and Objectives (SIPO) and Treasury Policy.

The Company leverages the risk management capabilities of its Parent. The Parent operates the Three Lines of Defence model. The main risks arising from the financial instruments and the business the Company engages in are insurance risk, credit risk, market risk, liquidity risk and operating risk.

Insurance Risk
Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case a consequent inability to meet its liabilities when they fall due.

There are a number of key policies in place which mitigate insurance risk, including:
- the recruitment, retention and ongoing training of suitably qualified personnel;
- delegated authorities for the underwriting or risks, claims acceptance and settlement;
- the use of external actuarial expertise to assist in determining premium levels and monitoring claims patterns;
- the use of reinsurance to limit the Company's exposure to large single claims and accumulations of claims that arise from a singular event;
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default;
- the reduction in the variability in loss experience through diversification over classes of insurance business; and
- the modelling and monitoring of concentrations of risk which are particularly relevant in the case of natural disasters and catastrophes and accordingly must be recognised in the development of the reinsurance programme.

The concentration of insurance risk is mitigated through the use of reinsurance and the diversification of risk across a number of general insurance products.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued…

Credit Risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a financial instrument as a result of changes in credit risk on that instrument. Credit risk principally arises from the Company's fixed interest and cash investments, policyholder premiums and reinsurance exposures. The maximum credit risk exposures are the carrying amounts.

The Company manages credit risk in its insurance operations by:
- the use of standard credit control techniques which ensure that premium payments are made within a reasonable timeframe, or cover and hence exposure to claim is cancelled;
- the placement of reinsurance cover in accordance with its reinsurance policies. The policies contain requirements to limit the level of exposure to an individual reinsurer and requires reinsurers to have a minimum S&P credit rating (or equivalent) of A- at the time of placement; and
- ongoing monitoring of a reinsurer's credit risk rating.

Statement of Financial Position credit exposures:

	2023	2022
	$000	$000
Cash and Cash Equivalents	3,339	3,175
Investments	130,593	112,884
Premiums Outstanding	29,763	24,496
Reinsurance Recoveries Outstanding	102,002	13,799
	265,697	154,354

The investment portfolio, which potentially exposes the Company to credit risk, consists of cash on call, fixed interest securities and investments in Unit Trusts. The maximum exposure to credit risk is the carrying value of these financial instruments. The Company's investment managers adhere to formal policies which outline the maximum levels of credit risk the Company is willing to take.

Investment funds in part back the insurance operations and in part support share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of a SIPO. The Investment Committee meets regularly to develop and review investment strategy and monitor manager performance.

Statement of Financial Position investment exposures:	2023	2022
	$000	$000
Cash and Cash Equivalents	3,339	3,175
On Call and Term Deposits	81,065	71,936
Domestic Fixed Interest	25,776	14,686
International Fixed Interest (Unit Trust)	23,752	26,262
	133,932	116,059

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued …

Concentration of credit risk arises when the Company has a large exposure to an individual counterparty or enters into a number of contracts or financial instruments with entities that are engaged in similar business activities or exposed to similar economic factors. Investment concentration risk is managed through credit rating limits and counterparty limits.

The following table discloses the number of reinsurance counterparties the Company has an exposure to in excess of 10% of total reinsurance recoveries.

	2023	2022
10% - 20% of reinsurance recoveries	-	2

	$000	$000
Reinsurance Recoveries Outstanding	102,002	13,799

The following table provides information on the credit risk exposure for financial assets with external credit ratings and highlights the credit quality of the Company's exposures. Investment grade financial assets are classified within the range of AAA to BBB, with AAA being the highest possible rating. The 'Below BBB and not rated' column discloses those assets rated below BBB and not rated by external ratings agencies and principally comprises fixed interest investments with local government authorities.

The credit rating analysis is only shown for fixed interest investments held directly by the Company. Investments in Unit Trusts are not included in the table below as the funds are invested in unitised or pooled vehicles. The underlying credit quality of the funds is mandated by the SIPO.

31 March 2023	AAA	AA	A	BBB	Below BBB and not rated	Carrying Value $000
Cash and Cash Equivalents	-	100.0%	-	-	-	3,339
On Call and Term Deposits	-	61.0%	39.0%	-	-	81,065
Domestic Fixed Interest	-	53.8%	-	34.7%	11.5%	25,776
Reinsurance Recoveries Outstanding	-	27.4%	72.5%	-	0.1%	102,002

31 March 2022	AAA	AA	A	BBB	Below BBB and not rated	Carrying Value $000
Cash and Cash Equivalents	-	100.0%	-	-	-	3,175
On Call and Term Deposits	-	48.2%	51.8%	-	-	71,936
Domestic Fixed Interest	-	16.7%	-	62.6%	20.7%	14,686
Reinsurance Recoveries Outstanding	-	36.8%	61.3%	-	1.9%	13,799

Market Risk

Market risk is the risk of loss of current and future earnings from adverse moves in interest rates and the prices of other financial contracts.

Interest Rate Risk

Interest rate risk is the risk that the value / future value of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to interest rate movements through its advance from the Parent Company.

Price Risk

The Company is subject to price risk arising from changes in the market values of its domestic fixed interest and Unit Trust investments.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its liabilities, principally claims payments, as and when they fall due. Liquidity risk is reviewed on an ongoing basis. There are a number of key policies in place which mitigate liquidity risk, including:

- the immediate availability of significant levels of funding by way of access to intercompany advances;
- maintaining sufficient liquid assets;
- conservative reinsurance retention levels; and
- the ability to access investment funds via the fund managers at short notice.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued …

The following table analyses the Company's financial assets and liabilities at balance date into the relevant maturity groupings based on the remaining period to the contractual maturity date (if applicable). Investments in Unit Trusts and Cash on Call do not have a maturity date.

Liquidity profile of financial instruments:

	No maturity date $000	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
31 March 2023						
Financial Assets						
Cash and Cash Equivalents	3,339	-	-	-	-	3,339
Investments	41,549	69,210	3,785	5,959	10,090	130,593
	44,888	69,210	3,785	5,959	10,090	133,932
Financial Liabilities						
Advance from Parent Company	-	3,383	-	-	-	3,383
Trade and Other Payables	-	5,879	-	-	-	5,879
	-	9,262	-	-	-	9,262

	No maturity date $000	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
31 March 2022						
Financial Assets						
Cash and Cash Equivalents	3,175	-	-	-	-	3,175
Investments	36,760	61,439	5,111	2,446	7,128	112,884
	39,935	61,439	5,111	2,446	7,128	116,059
Financial Liabilities						
Advance from Parent Company	-	2,795	-	-	-	2,795
Trade and Other Payables	-	5,062	-	-	-	5,062
	-	7,857	-	-	-	7,857

Operating Risk

Operating risk is the risk of financial loss resulting from either external events, inadequate or failed systems or processes, or human error. Operational failures may lead to poor outcomes for Members, health and safety incidents, regulatory or legal implications, financial loss or reputational impacts. These risks are minimised whenever it is commercially sensible to do so.

There are a number of key policies in place which mitigate operating risk, including:

- management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities;
- Internal Assurance and Risk functions are charged with assisting staff in identifying current and emerging risks and ensuring the sufficiency of and ongoing presence of suitable mitigants;
- regular external review and testing of the Group's information security including for cyber risks;
- identifying critical outsourced providers and having appropriate plans in place in the event of supplier failure; and
- regular monitoring and reporting on risks, financial and operational performance to Senior Management and the Board.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued …

Sensitivity Analysis

The Company has two risks which are price sensitive to an extent that they may impact earnings materially. These are Insurance Risk and Market Risk (as it pertains to investments). The following table looks at how a range of reasonably possible movements in key risk variables, with all other variables held constant, can influence profit or loss and equity.

Risk Variable	**Movement**	**Impact on Profit and Equity** 2023 $000	2022 $000
Insurance Risk:			
Change in outstanding claims	Increase by 1%	(353)	(341)
	Decrease by 1%	353	341
Discount rates	Increase by 1%	307	376
	Decrease by 1%	(321)	(393)
Market Risk:			
Short term deposit rates	Increase by 1%	844	751
	Decrease by 1%	(844)	(751)
Bond interest rates	Increase by 1%	(498)	(288)
	Decrease by 1%	498	288
Unit Price	Increase by 10%	2,375	2,626
	Decrease by 10%	(2,375)	(2,626)

Classification of Financial Instruments

Financial assets and financial liabilities have been classified into the categories defined in NZ IFRS 9 Financial Instruments in the tables below. The carrying amount of financial assets and liabilities at amortised cost reasonably approximates fair value. No financial assets were reclassified during the year (2022: none).

	2023 $000	**2022 $000**
Financial Assets		
Financial assets at fair value through profit or loss		
Investments	130,593	112,884
	130,593	112,884
Financial Liabilities		
Financial liabilities at amortised cost		
Advance from Parent Company	3,383	2,795
Trade and Other Payables	5,879	5,062
	9,262	7,857

18. CONTINGENT LIABILITIES

The Company is subject to several legal disputes at 31 March 2023 (2022: no change). The disputes are of a type common to any entity engaged in similar activities. Where such disputes lead to formal proceedings they will be defended by the Company. Provisions are recorded for disputes when it is probable that an outflow of resources will be required to settle any obligations.

19. CONTRIBUTED EQUITY

	2023	**2022**
Ordinary Shares, issued and fully paid at beginning of the year	38,000,000	38,000,000
Issue of Share Capital	10,800,000	-
Ordinary Shares, issued and fully paid at end of the year	48,800,000	38,000,000
Ordinary Share Capital	$ 48,800,000	$ 38,000,000

19. CONTRIBUTED EQUITY continued …

During the year the Board did not approve any dividend payments (2022: none). Capital shares of $10.8 million were issued to the Parent (2022: none). All shares carry the same voting rights, and rights to share in any profit upon winding up.

Capital Management Policies and Objectives

When managing capital, management's objective is to ensure the Company continues as a going concern, adheres to regulatory requirements and maintains optimal returns to shareholders and benefits for other stakeholders, including the MAS Foundation. The Foundation receives distributions from the Group and funds health initiatives in line with the Group's charitable purpose. Directors may change the amount of dividends to be paid to shareholders (if any), return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010 and is required to maintain a solvency margin of at least $0. That is, actual solvency capital as determined under the solvency standard should be at or above the minimum solvency capital level. The solvency margin has been determined in accordance with the requirements of the solvency standards issued under the Insurance (Prudential Supervision) Act 2010.

The Company has a capital management plan and reporting process in place to assist in maintaining continuous and full compliance with the solvency standard. At 31 March 2023 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2022: no breaches). The Reserve Bank of New Zealand (RBNZ) issued the Interim Solvency Standard (ISS) in October 2022. The Company is required to report its regulatory capital using the ISS from 1 April 2023.

The Company's solvency position as per the solvency standards is as follows:

	2023 $000	2022 $000
Actual Solvency Capital	47,792	40,409
Minimum Solvency Capital	32,288	24,733
Solvency Margin	15,504	15,676
Solvency Ratio	1.48	1.63

20. RECONCILIATION OF CASH FLOWS

	2023 $000	2022 $000
Reported (Loss) / Profit after Taxation	(5,464)	2,778
Add / (Deduct) Non-Cash Items:		
Change in Unearned Premium	11,221	7,071
Change in Deferred Acquisition Costs	(125)	(202)
Unrealised Investment Loss	2,094	3,034
Movement in Provision for Impairment	288	(183)
Advance from Parent Provision	2,067	2,033
Change in Operating Assets and Liabilities		
Trade and Other Payables and Liabilities	3,510	(737)
Premiums Outstanding	(5,267)	(2,674)
Outstanding Claims	89,063	(4,051)
Prepayments, Reinsurance Recoveries and Claims Recoveries Outstanding	(86,741)	(2,675)
Net Cash Flows from Operating Activities	10,646	4,394

21. SUBSEQUENT EVENTS

On 1 June 2023, the Financial Markets Authority (FMA) announced it had filed High Court proceedings against MAS and its subsidiaries, which includes MIS. The FMA claims that MAS failed to apply the correct inflation adjustments on its customer policies, failed to apply multi-policy discounts and no claims bonuses, and underpaid life and disability claims to eligible clients. MAS carries a provision for the potential impacts. MAS self reported these incidents to the FMA and is committed to remediating all affected Members.

Building a better working world

Independent Auditor's Report

To the Shareholder of Medical Insurance Society Limited

Opinion

We have audited the financial statements of Medical Insurance Society Limited ('the company') on pages 1 to 20, which comprise the statement of financial position of the company as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 1 to 20 present fairly, in all material respects, the financial position of the company as at 31 March 2023 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholder. Our audit has been undertaken so that we might state to the company's shareholder 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 company and the company's shareholder, 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 company 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 assurance services in respect of the company's solvency return. Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company. We have no other relationship with, or interest in, the company.

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.

Valuation of outstanding claims liabilities

Why significant	How our audit addressed the key audit matter
The company's liability for outstanding claims represents 58% of total liabilities. The estimation of the value of outstanding claims liabilities involves significant judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date. 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. The liability for outstanding claims includes an estimate of the company's remaining liability for claims from the Canterbury earthquakes that occurred in late 2010 and early 2011. The estimates of the value of these claims involves significant judgement as the claims still outstanding from these events are generally those with a higher level of complexity. For the earthquake that occurred in February 2011 the company has fully utilised the associated reinsurance cover so any change in the underlying claims estimates has a direct impact on profit or loss. Disclosures relating to outstanding claims liabilities, including key assumptions, are included in Note 4 of the financial statements.	Our audit procedures over the valuation of outstanding claims liabilities included: ▶ Understanding the processes for writing policies, settling claims, processing costs and those related to the relevant IT systems; ▶ On a sample basis validating the costs recorded for claims in the year; ▶ Comparing the claims data used by the appointed actuary to the company's claims system on a sample basis; ▶ Using our actuarial specialists to consider the outstanding claims liability valuation report prepared by the appointed actuary and evaluate the appropriateness of the methodologies and assumptions used in the valuation; ▶ Evaluating the objectivity, competence and capabilities of the appointed actuary; and ▶ Considering the adequacy of the disclosures for the outstanding claims liability.

Information other than the financial statements and auditor's report

The Directors of the company 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 company, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting 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 company the company's 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 company 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 Grant Taylor.

Ernst + Young

Chartered Accountants
Wellington
28 June 2023

Davies Financial and Actuarial Limited

19th June 2023

To: The Directors
Medical Insurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Insurance Society Limited: Report as at 31st March 2023 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 Medical Insurance Society Limited as at 31st March 2023. "Actuarial information" includes the following:

   - claim provisions and unexpired risk provisions;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the company'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 (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 home page: www.actuary.co.nz

3. I am independent with respect to Medical Insurance Society Limited 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. At 31st March 2023, Medical Insurance Society Limited exceeded the minimum solvency requirement under the RBNZ Solvency Standard for Non-Life Insurance 2014 The Company also exceed the minimum requirement of the new Interim Solvency Standard, issued by the RBNZ in October 2022, which takes effect from 1st April 2023. The Company is projected to exceed the minimum RBNZ requirements at all times over the next four years.

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

Yours sincerely

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

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