Reserve Bank Health Society Limited

ABN 91 087 648 735

Annual Report – 30 June 2018

Reserve Bank Health Society Limited
Contents
30 June 2018

Contents **Page**

Chairperson’s review	1
Directors’ report	3
Auditor's independence declaration	6
Financial Report	
Statement of surplus or deficit and other comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors’ declaration	34
Independent auditor's report to the members of Reserve Bank Health Society Limited	35

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2018

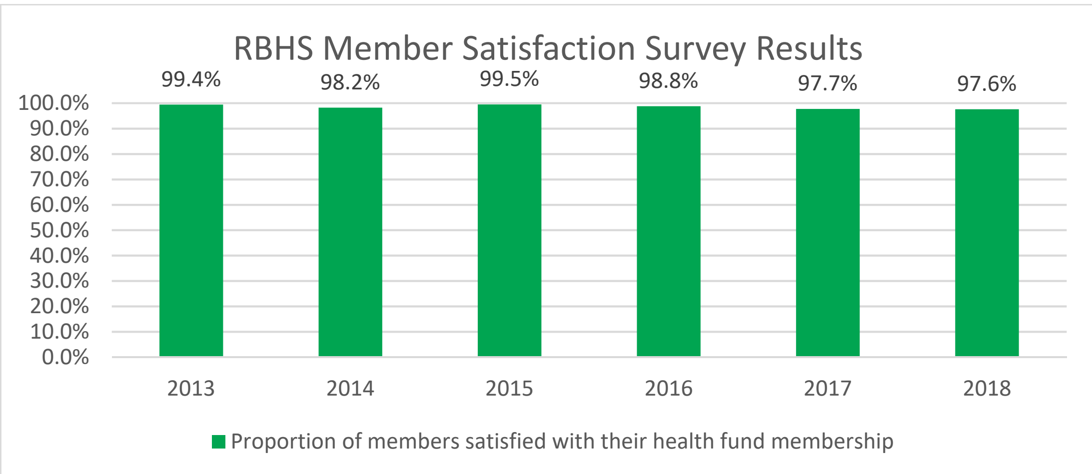
The Reserve Bank Health Society (RBHS) recorded a strong financial result in 2017/18, which included a surplus of $714,919. Other measures of the RBHS' financial position improved over the year; the capital position of the RBHS as measured by net assets per policy holder was $5,570 at 30 June 2018 compared to $5,220 in the previous year. This occurred against the background of an increase in premiums of 3.97%. While this was the lowest increase in several years, and in line with the industry average, the Board continues to look at ways of minimising the increase. Each year the Board needs to weigh up the size of the premium increase with the need to maintain the value of benefits that members receive from their membership, while also taking into account more general concerns about affordability of private health insurance. The number of RBHS members declined slightly in 2017/18 for the first time in many years. Even though this was an industry-wide trend, it is something that the Board is seeking to address in its strategic initiatives for the coming year.

The services provided to members in 2017/18 continued to be driven by the RBHS' focus on simply better benefits and services. One of the initiatives that was announced during the year was the extended family policy. This policy introduces greater flexibility and affordability for children of RBHS members, as it allows non-student dependants to remain on their parent policy for an additional 28% of the family premium. This is a significant saving compared with a separate single RBHS policy. Eligibility is limited to non-dependent children who are: aged 18 to 24; single; and were previously covered on their parent policy. More generally, a key part of the RBHS' strategy is to offer a small number of high quality products; unlike the overall trend across the industry, our strategy involves delivering products that do not have exclusions, restrictions or require members to pay an excess upon claiming.

During 2017/18, nearly 400 RBHS members completed our annual Membership Satisfaction Survey – this is an important indicator that the Board reviews closely and I thank all members who took the opportunity to provide this important feedback on the RBHS. The results showed a 97.6 per cent satisfaction rate amongst members, which for the 6th year placed the RBHS at the top of the member satisfaction score of the 15, mostly smaller, not-for-profit funds that took part in the survey. Of note, the RBHS continued to be ranked Number 1 in a number of sub-categories, including:

- Having better benefits than other health funds;
- Affordability of health insurance premiums;
- Members understand their cover and how it works; and
- Information that is easy to understand.

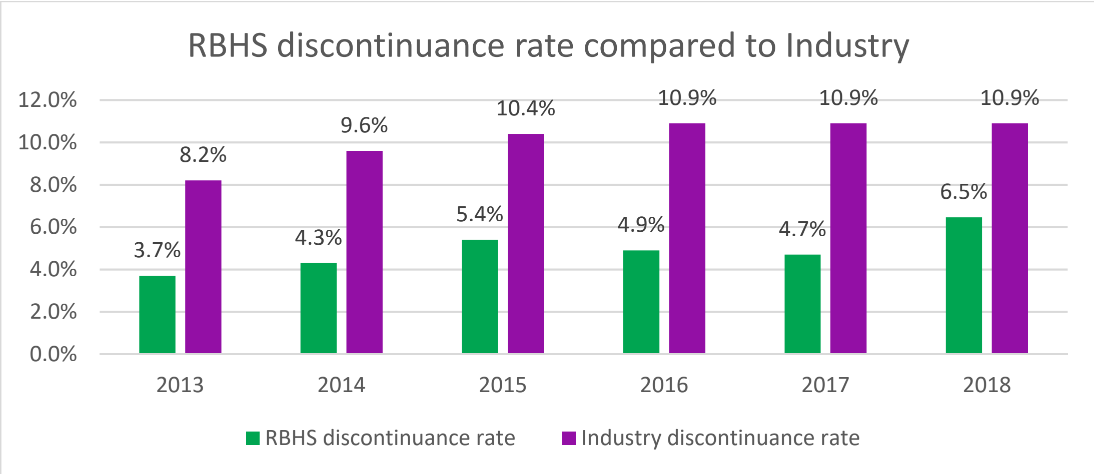
The graph below highlights the overall RBHS member satisfaction from the survey results over the last six years.



The RBHS also commenced surveying members on a more regular basis through the year. I thank those members who provided this real-time feedback on the quality of, and satisfaction with, the services they received following interactions with our customer service staff. I'm proud to report that these results also confirm the very positive experiences that our members receive in interacting with the RBHS. The Board looks forward to continuing to receive and respond to insights coming directly from members through both of these forms of member engagement. Excellence in customer service requires a positive culture and engaged staff. Our customer service team is employed by Peoplecare, our service provider. During the year Peoplecare was named as an Aon Best Employer for 2017. I warmly congratulate this achievement and recognise the benefits helpful customer service brings our members and also look forward to this important relationship continuing in the year ahead.

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2018

Another indicator that illustrates the positive experience of RBHS members is the low number of members who discontinue their membership through the year. In 2017/18, the RBHS had a discontinuance rate of 6.5 per cent, which is significantly below that experienced by the industry on average. The graph below shows the favourable RBHS discontinuance rates over the last six years when compared to the industry average.



Source of data: PHIAC/APRA quarterly statistics

The RBHS Board continued to focus on ensuring our risk management framework and other prudential requirements were all in line with regulatory expectations in 2017/18. The risk management processes of the private health insurance (PHI) industry have been a key focus of the PHI regulator, the Australian Prudential Regulation Authority (APRA), for several years leading up to the commencement of the risk management prudential standard for private health insurers on 1 April 2018. This requires the RBHS Board to certify, inter alia, that the RBHS has a risk management framework appropriate to its size, business mix and complexity. The Board and senior executives have continued to be involved in a number of initiatives to improve our understanding of regulatory developments and expectations in this area.

In July 2018, the RBHS farewelled our Chief Executive Officer, Mr Michael Bassingthwaighte, AO, following eight years of service to the RBHS and over 36 years to the private health insurance industry. I would like to thank Michael for his contribution to the RBHS, especially the pragmatic and balanced leadership that he brought to the spectrum of issues that faced the Society since 2011. The ease of the transition to Peoplecare as the RBHS' outsourced service provider reflects the wisdom and leadership of Michael during that period; wisdom that the Board has continued to benefit from since. Going forward, we welcome the opportunity to have Dr Melinda Williams as our CEO and look forward to more years of Melinda's successful leadership of the RBHS.

Once again, I thank each of my fellow Directors for their support, commitment and time that they provided to me over 2017/18 and I very much look forward to this involvement continuing in the year ahead.

M. Coombs

Merylin Coombs
Chairperson - Board

27 September 2018
Sydney

Reserve Bank Health Society Limited
Directors Report
30 June 2018

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2018.

Directors

The following persons were directors of the company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Ms Merylin Coombs
Mr Keith Drayton
Mr Sarv Girn
Ms Emma Maley
Ms Jill Pleban
Ms Sharon Suan
Mr Warren Wise

Objectives

The Reserve Bank Health Society (RBHS) is a not-for-profit restricted access health insurer with the objective of providing members with superior health benefits in a cost-effective manner.

To achieve this mission, the Board has set the following broad company objectives:

Corporate Governance*; governance aligned with regulatory standards & outsourcing risks*

Financial Stability; *maintain financial strength to comply with APRA prudential standards*

Member Growth & Retention; *maximise growth & retention within the restricted access group*

Product & Service Excellence; *industry leading service & simply better benefits*

Principal activities

The RBHS' principal activity during the financial year was the underwriting of private health insurance policies to its members. This remained unchanged from the previous financial year.

Information on directors

Name:	Ms Merylin Coombs
Title:	Chairperson Independent Non-Executive Director
Qualifications:	B. Economics, Graduate of AICD
Experience and expertise:	Director from February 2008 Chairperson from November 2010

Name:	Mr Keith Drayton
Title:	Independent Non-Executive Director
Qualifications:	B. Business (Hons), M. App Finance, Graduate of AICD
Experience and expertise:	Director from November 2011 Chairperson Product and Members Committee

Name:	Mr Sarv Girn
Title:	Independent Non-Executive Director
Qualifications:	B. Sc Computer Science (Hons), Fellow of AICD
Experience and expertise:	Director from March 2014 Member Risk Committee Member Audit Committee

Information on directors (continued)

Name:	Ms Emma Maley
Title:	Independent Non-Executive Director
Qualifications:	B. Science (Computer Science), Diploma of Information Technology, Graduate of AICD
Experience and expertise:	Director from November 2013 Member Product and Members Committee

Name:	Ms Jill Pleban
Title:	Independent Non-Executive Director
Qualifications:	B. Arts Economics (First Class Hons), M. Sc Economics, Graduate of AICD
Experience and expertise:	Director from August 2015 Member Product and Members Committee

Name:	Ms Sharon Suan
Title:	Independent Non-Executive Director
Qualifications:	B. Economics (First Class Hons)
Experience and expertise:	Director from November 2015 Member Risk Committee Member Audit Committee

Name:	Mr Warren Wise
Title:	Independent Non-Executive Director
Qualifications:	B. Business, Graduate of AICD
Experience and expertise:	Director from July 2008 Chairperson Risk Committee Chairperson Audit Committee

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Board Meetings		Risk and Audit Committee*		Risk Committee*		Audit Committee*		Product and Members Committee	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**
M Coombs	6	6	-	-	-	-	-	-	-	-
K Drayton	5	6	-	-	-	-	-	-	2	2
S Girn	4	6	1	2	2	2	2	2	-	-
E Maley	6	6	-	-	-	-	-	-	2	2
J Pleban	6	6	-	-	-	-	-	-	2	2
S Suan	6	6	2	2	2	2	2	2	-	-
W Wise	6	6	2	2	2	2	2	2	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.
* The Risk and Audit Committee split into two separate committees from 1 January 2018

Contributions on winding up

The RBHS is a company limited by guarantee under the Corporations Act 2001 and hence has no contributed equity. If the RBHS is wound up and cannot meet its debts, the Constitution states that each member may be required to contribute a maximum of $1 towards meeting any outstanding obligations of the RBHS. As the RBHS had 2,388 members as at 30 June 2018, it means the members of the company are liable to contribute a total of $2,388 ($1 per member) if the company is wound up.

Matters subsequent to the end of the financial year

As at the date of this directors' report, the directors are not aware of any matter of circumstance that has arisen that has significantly affected, or may significantly affect:

i. the operations of the company;
ii. the results of these operations; or
iii. the state of affairs of the Company in the financial years subsequent to 30 June 2018.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Merylin Coombs
Chairperson - Board

Warren Wise
Chairperson - Audit Committee

27 September 2018
Sydney

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Reserve Bank Health Society Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Reserve Bank Health Society Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

Sydney, 27 September 2018

Reserve Bank Health Society Limited
Statement of surplus or deficit and other comprehensive income
For the year ended 30 June 2018

	Note	2018 $	2017 $
Revenue			
Premium revenue		15,284,675	14,475,061
Other income	4	310,695	305,243
		15,595,370	14,780,304
Expenses			
Fund benefits paid to members		(14,703,890)	(13,755,835)
State ambulance levies		(186,075)	(180,343)
Risk Equalisation Trust Fund Levy		2,172,737	1,722,569
Movement in outstanding claims liability		(340,525)	122,319
		(13,057,753)	(12,091,290)
Gross underwriting result		2,537,617	2,689,014
Management expenses			
Management fees		(865,796)	(840,239)
Remuneration of auditors: Auditing the financial report		(31,084)	(29,545)
Depreciation and amortisation expense		(3,947)	(3,784)
Other management expenses		(921,871)	(858,994)
		(1,822,698)	(1,732,562)
Surplus before income tax expense (net underwriting result)		714,919	956,452
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Reserve Bank Health Society Limited		714,919	956,452
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of Reserve Bank Health Society Limited		714,919	956,452

The above statement of surplus or deficit and other comprehensive income should be read in conjunction with the accompanying notes

Reserve Bank Health Society Limited
Statement of financial position
As at 30 June 2018

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents	5	652,715	616,604
Trade and other receivables	6	1,163,743	900,344
Other financial assets	7	13,500,000	13,000,000
Other assets	8	29,718	39,562
Total current assets		15,346,176	14,556,510
Non-current assets			
Property, plant and equipment	9	2,043	732
Intangibles	10	48,920	37,223
Total non-current assets		50,963	37,955
Total assets		15,397,139	14,594,465
Liabilities			
Current liabilities			
Trade and other payables	11	929,841	1,182,611
Provisions	12	1,166,407	825,882
Total current liabilities		2,096,248	2,008,493
Total liabilities		2,096,248	2,008,493
Net assets		13,300,891	12,585,972
Equity			
Retained surpluses		13,300,891	12,585,972
Total equity		13,300,891	12,585,972

The above statement of financial position should be read in conjunction with the accompanying notes

Reserve Bank Health Society Limited
Statement of changes in equity
For the year ended 30 June 2018

	Retained surpluses $	Total equity $
Balance at 1 July 2016	11,629,520	11,629,520
Surplus for the year	956,452	956,452
Other comprehensive income for the year	-	-
Total comprehensive income for the year	956,452	956,452
Balance at 30 June 2017	12,585,972	12,585,972

	Retained surpluses $	Total equity $
Balance at 1 July 2017	12,585,972	12,585,972
Surplus for the year	714,919	714,919
Other comprehensive income for the year	-	-
Total comprehensive income for the year	714,919	714,919
Balance at 30 June 2018	13,300,891	13,300,891

The above statement of changes in equity should be read in conjunction with the accompanying notes

Reserve Bank Health Society Limited
Statement of cash flows
For the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from members and customers		15,019,831	14,567,345
Payments to members, suppliers and employees		(14,773,689)	(13,788,802)
		246,142	778,543
Interest received		306,924	308,556
Net cash from operating activities	19	553,066	1,087,099
Cash flows from investing activities			
Payments for investments		(51,800,000)	(47,100,000)
Payments for property, plant and equipment	9	(2,325)	-
Payments for intangibles	10	(14,630)	(11,430)
Proceeds from disposal of investments		51,300,000	45,600,000
Net cash used in investing activities		(516,955)	(1,511,430)
Cash flows from financing activities			
Net cash from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		36,111	(424,331)
Cash and cash equivalents at the beginning of the financial year		616,604	1,040,935
Cash and cash equivalents at the end of the financial year	5	652,715	616,604

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial report covers Reserve Bank Health Society Limited as an individual entity. The financial report is presented in Australian dollars, which is Reserve Bank Health Society Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Reserve Bank Health Society Limited is a not-for-profit unlisted public company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	**Principal place of business**
Corner Victoria and Young Streets, Wollongong, NSW, 2500	Corner Victoria and Young Streets, Wollongong, NSW, 2500

A description of the nature of the company's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 September 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period and applicable to the company.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have also been prepared on an historical cost basis, except for the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value method of accounting has been adopted.

Comparative figures

Where required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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 the 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 and in any future periods affected.

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both internally and externally to the company.

In particular, 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 this note under the heading of 'Provisions: Outstanding claims liability' and ‘Liability adequacy test’.

Note 2. Significant accounting policies (continued)

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised for the major business activities as follows:

Premium revenue
Premium revenue is recognised in surplus or deficit when it has been earned. Premium revenue is recognised in surplus or deficit from the attachment date over the period of the contract. The attachment date is from when the insurer accepts the risk from the insured under the insurance contract. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The Reserve Bank Health Society receives employer contributions from the Reserve Bank of Australia and Note Printing Australia. This is recognised as premium income along with contributions received directly from members.

Interest income
Interest income is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Receivables
Unclosed business premium
Unclosed business premium represents amounts owing by members at the end of the reporting period, up to and including the date of the next normal payment cycle for their individual policy. The unclosed business premium consists of two components:

i. Earned – representing contribution amounts owed by members up to and including 30 June; and
ii. Unearned – representing contribution amounts owed by members from 30 June up to and including their next normal payment date.

Interest receivable
Interest receivable represents an accrual calculation of interest from investments outstanding as at the end of the reporting period.

Private Health Insurance rebate on premiums
This is the amount claimed by Reserve Bank Health Society Limited, as a cash amount, from the Department of Human Services for the Australian Government Private Health Insurance Rebate.

Other debtors
Other debtors are recorded at amounts due less any provision for doubtful debts. Other debtors are normally settled in 30 days.

Income tax
No income tax expense was provided for as the company is entitled to tax exempt status under the provisions of Section 50-30, Item 6.3 of the Income Tax Assessment Act 1997.

Claims
Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims. The provision for unpresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claims incidence and processing. No discount is applied to the provision due to the generally short period between claims incidence and settlement. The provision also provides for the expected payment to or receipt from the Risk Equalisation Trust Fund (RETF) in relation to the amount provided for unpresented and outstanding claims. The provision also allows for an estimate of expenses to cover the cost of processing the claims.

Note 2. Significant accounting policies (continued)

Cash and cash equivalents
Cash and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand and deposits held at call with financial institutions net of bank overdrafts.

Property, plant and equipment
Plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation of property, plant and equipment
Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Computer equipment	2 to 3 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to surplus or deficit.

Impairment of assets
At each reporting date, the company reviews the carrying values of its financial assets other than those classified as fair value through surplus or deficit and non-financial assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to surplus or deficit.

Intangible assets
Computer Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 1 to 3 years.

Unearned premiums
Premiums received from members prior to 30 June 2018 relating to the period beyond 30 June 2018 are recognised as Unearned Premiums. Also, forecast premiums receivable from members at 30 June 2018 are recognised as unclosed business premiums.

Trade and other payables
These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 2. Significant accounting policies (continued)

Liability adequacy test

At each reporting date, the sufficiency of the unearned premium liability is assessed by considering the current estimate of all expected future cash flows relating to future claims against current private health insurance contracts.

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin, over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience compared to projected and based on no membership growth.

The risk margin of 1.00% (2017: 1.50%) that is applied to the benefits, risk equalisation, state levies and claims related expenses cashflows has been estimated to equate to a probability of adequacy of approximately 55% (2017: 55%).

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April 2019, the next premium adjustment opportunity allowed by the Department of Health, using a probability of sufficiency of 55%.

Provision for unexpired risk liability

2018	**Unearned premium[1]** $	**Unearned unclosed business[2]** $	**Constructive obligation[3]** $	**Total** $
Hospital and General Treatment Combined Premiums	375,627	8,008	11,423,758	11,807,393
Outflows:				
Central estimate of future benefits	(320,987)	(6,759)	(9,873,950)	(10,201,695)
Central estimate of future management expenses	(32,547)	(695)	(1,009,042)	(1,042,284)
Risk margin	(3,535)	(75)	(108,830)	(112,440)
Total outflows	(357,069)	(7,528)	(10,991,822)	(11,356,419)
Total surplus	18,558	480	431,936	450,974
Total unexpired risk liability				-

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2018 relating to the period beyond 30 June 2018.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2018 up to and including their next normal payment date.*
3. *Constructive obligation - the value of health insurance premiums to be received from members and the cash flows relating to future claims arising from rights and obligations under current insurance coverage at 30 June 2018 up to 31 March 2019, the next premium rate change date at which time the company is no longer obligated to accept policy renewals at the current premium rates.*

Note 2. Significant accounting policies (continued)

2017	Unearned premium[1] $	Unearned unclosed business[2] $	Constructive obligation[3] $	Total $
Hospital and General Treatment Combined Premiums	368,787	6,474	11,019,293	11,394,554
Outflows:				
Central estimate of future benefits	(313,856)	(5,445)	(9,520,821)	(9,840,123)
Central estimate of future management expenses	(30,566)	(532)	(933,180)	(964,278)
Risk margin	(5,166)	(90)	(156,810)	(162,066)
Total outflows	(349,589)	(6,068)	(10,610,811)	(10,966,467)
Total surplus	19,198	406	408,482	428,087
Total unexpired risk liability				-

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2017 relating to the period beyond 30 June 2017.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2017 up to and including their next normal payment date.*
3. *Constructive obligation - the value of health insurance premiums to be received from members and the cash flows relating to future claims arising from rights and obligations under current insurance coverage at 30 June 2017 up to 31 March 2018, the next premium rate change date at which time the company is no longer obligated to accept policy renewals at the current premium rates.*

No provision for unexpired risk liability has been recognised at 30 June 2018 (2017: nil).

Provisions

Outstanding claims liability

Provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the company. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowance for Risk Equalisation Trust Fund consequences and claims handling expenses.

The provision for outstanding claims liability is determined after taking into account claims paid in July of the following financial year, that relate to services provided in the current financial year.

Accounting estimates and judgments:

Risk margins are determined by the Board based upon advice from the Appointed Actuary, and on a basis that reflects the company’s business. Regard is had to the robustness of the valuation models, the reliability and volume of available data, past experience of the company and the industry and the characteristics of the classes of business written.

Note 2. Significant accounting policies (continued)

Actuarial assumptions
The following assumptions have been made in determining the outstanding claims liability:

	2018			**2017**		
Variables	**Hospital %**	**Medical %**	**General Treatment %**	**Hospital %**	**Medical %**	**General Treatment %**
Assumed portion paid to date	95.42%	97.23%	98.63%	97.46%	96.73%	98.70%
Expense rate	9.43%	9.43%	9.43%	9.37%	9.37%	9.37%
Discount rate	-	-	-	-	-	-
Risk equalisation rate	-23.69%	-23.69%	-	-20.45%	-20.45%	-
Risk margin	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%

The risk margin was determined from the assumption that there is a normal distribution of differences between the calculated provisions required for past periods and the finally determined requirements for those periods. A probability of sufficiency of 55% is intended to be achieved through the adoption of the risk margin of 2.00% (2017: 1.50%) at the end of the reporting period.

The actuarial valuation model used to calculate the outstanding claims is a modified chain ladder model. This model, and variants of it, is used by other health insurers and general insurers to calculate outstanding claims liabilities by using the relationships between the claims paid at each time interval in the past, for each period incurred, to predict the extent of incurred claims for each recent period for which claim payments have not yet been completed.

As the run-off of health insurance claims is relatively rapid, the claims to be paid in the future were not discounted.

The company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the company.

Impact on key variables

2018 **Variables**	**Movement in variable**	**Adjustments on Surplus $**	**Adjusted amount included in Income Statement $**	**Adjustments on Equity $**	**Adjusted amount included in Balance Sheet $**
Chain ladder development factors	1.00%	(10,668)	(10,668)	(10,668)	(10,668)
	-1.00%	10,668	10,668	10,668	10,668
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(8,854)	(8,854)	(8,854)	(8,854)
	-1.00%	8,854	8,854	8,854	8,854
Risk margin	1.00%	(9,378)	(9,378)	(9,378)	(9,378)
	-1.00%	9,378	9,378	9,378	9,378

Note 2. Significant accounting policies (continued)

Impact on key variables (continued)

2017 **Variables**	**Movement in variable**	**Adjustments on Surplus $**	**Adjusted amount included in Income Statement $**	**Adjustments on Equity $**	**Adjusted amount included in Balance Sheet $**
Chain ladder development factors	1.00%	(7,564)	(7,564)	(7,564)	(7,564)
	-1.00%	7,564	7,564	7,564	7,564
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(6,099)	(6,099)	(6,099)	(6,099)
	-1.00%	6,099	6,099	6,099	6,099
Risk margin	1.00%	(6,908)	(6,908)	(6,908)	(6,908)
	-1.00%	6,908	6,908	6,908	6,908

Other provisions
Provisions are recognised when:

i. the company has a present legal or constructive obligation as a result of past events;
ii. it is more likely than not that an outflow of economic benefits will be required to settle the obligation; and
iii. that the outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

Health Insurance Risk Equalisation Trust Fund (RETF)
Under the provisions of the Private Health Insurance Risk Equalisation Policy Rules 2007, the risk equalisation scheme seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Money is then transferred from private health insurers with younger healthier members with lower average claims payments to those insurers with older and less healthy membership and which have higher average claims payments.

Goods and Services Tax ('GST') and other similar taxes
Revenues and expenses are recognised net of GST, except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Assets backing private health insurance liabilities
As part of the investment strategy, the company actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities.

All insurance backing financial assets are classified as fair value through the surplus or deficit in accordance with the accounting policy set out on the following pages.

With the exception of property, plant and equipment, the company has determined that all assets are held to back private health insurance liabilities and their accounting treatment is as follows:

Note 2. Significant accounting policies (continued)

Financial instruments
Initial recognition and measurement:
Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are derived within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through surplus or deficit. Transaction costs related to instruments classified as at fair value through surplus or deficit are expensed to surplus or deficit immediately. Financial instruments are classified and measured as set out as follows:

Classification and subsequent measurement
Financial assets at fair value through surplus or deficit:
Financial assets are designated at fair value through surplus or deficit in accordance with AASB 1023 General Insurance Contracts. Initial recognition is at fair value, being acquisition cost, in the Statement of Financial Position and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in surplus or deficit.

Details of fair value for the different types of financial assets are listed below:

Cash and cash equivalents
Cash and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value. For the purposes of the statement of cash flows, cash includes cash on hand and deposits held at call with financial institutions net of bank overdrafts.

Investments
Initial recognition is at fair value, being acquisition cost, in the statement of financial position with transaction costs expensed in surplus or deficit. Subsequent measurement is at fair value with any resultant fair value gains or losses recognised in surplus or deficit. Regular purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the asset. Investments are derecognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

Loans and receivables
Trade and other receivables have been classified as 'loans and receivables' and are initially recognised at fair value, being the amounts due, which is equivalent to their amortised cost.

Amounts due from members
Amounts due from members are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking this initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The impairment charge is recognised in surplus or deficit.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended, that are applicable to the company but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2018. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

The company will adopt this standard from 1 July 2018. The company has reviewed its financial assets and liabilities and is expecting the following impact on adoption of the new standard:

- the company's investments are currently measured at fair value through profit or loss ('FVTPL') which will continue to be measured on the same basis under AASB 9. Accordingly, the company does not expect the new guidance to affect the classification and measurement of these financial assets;
- there will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the company does not have any such liabilities;
- the derecognition rules have been transferred from AASB 139 and have not been changed;
- the company does not currently participate in any hedge arrangements; and
- the new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses, as is the case under AASB 139. The company anticipates that it will use the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. Based on the assessments undertaken to date, the company does not expect a material impact of the new impairment model.
- the new standard also introduces expanded disclosure requirements and changes in presentation.

AASB 15 Revenues from Contracts with Customers
AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expands and improves disclosures about revenue.

In May 2015, the AASB issued ED 260 Income of Not-for-Profit Entities, proposing to replace the income recognition requirements of AASB 1004 Contributions and provide guidance to assist not-for-profit entities to apply the principles of AASB 15.

When this Standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements. This is due to the company complying with AASB 1023 General Insurance Contracts in regards to recognition of Premium Revenues.

AASB 17 Insurance Contracts
The Australia Accounting Standards Board issued AASB 17 Insurance Contracts on 19 July 2017. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 17 will change the accounting for insurance contracts by the company.

Three new measurement approaches are introduced. These include the Building Block approach for long term contracts, the Premium Allocation approach for short term contracts, and a Variable Fee approach for direct participating products.

AASB 17 is not mandatory until financial years commencing on or after 1 January 2021. No assessment has been performed to date as to the impact on the company. The company does not intend to adopt the standard before its effective date.

Note 3. Risk management and financial instruments

The Company has exposure to the following risks from investing in various financial instruments:

a) *Credit risk*
b) *Liquidity risk*
c) *Market risk*
d) *Other risk*

Note 3. Risk management and financial instruments (continued)

This note presents information about the company's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The Risk Committee consists entirely of non-executive directors and reports regularly to the full Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

The management and administration of the company is outsourced to Peoplecare Health Limited (formerly named Lysaght Peoplecare Limited) under the terms of a five (5) year management agreement. The Risk Committee is responsible for monitoring Peoplecare's compliance with the risk management policies and procedures that are in place and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Risk Committee is assisted in its oversight role by internal audit functions performed by a professional services firm. The Internal Auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported through the company's Risk Committee to the Board of Directors.

a) Credit risk
Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from policyholders (insurance contracts), other customers and investment securities.

Receivables from insurance contracts:
Credit risk in relation to insurance contracts is discussed in Note 21.

Other receivables:
The risk of financial loss to the company from customers other than fund members arises principally from receivables due from Department of Human Services in relation to the Australian Government Private Health Insurance Rebate. The probability of financial loss to the company from this arrangement is assessed as low, the reason being that the premium reductions scheme is legislated under the Private Health Insurance Act 2007 and is an integral part of the private health insurance industry affecting all private health insurers.

There has been no history of default in relation to this category of receivables.

Investment securities (Other financial assets):
The board has addressed the issue of credit risk from investment securities through the development and regular review of the company's investment strategy. The company limits its exposure to credit risk by:

i. investing in highly liquid securities; and
ii. investing only with authorised deposit-taking institutions (ADIs) regulated by the Australian Prudential Regulation Authority (APRA):
    a. Limiting the amount of funds that can be invested with any single financial institution.
    b. Institutions are to have a minimum Standard and Poor's short-term credit rating of A1. This is to ensure that funds are placed with the lowest risk rated financial institutions.

Given the company's conservative investing policies and procedures, management does not expect any counterparty to fail to meet its obligations.

At the end of the reporting period, the maximum exposure of the company to any one financial institution measured at fair value was $4,850,000 (2017: $4,800,000).

Note 3. Risk management and financial instruments (continued)

b) Liquidity risk
Liquidity risk is the risk that the company might encounter difficulties in settling debts or otherwise meeting its obligations related to financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as and when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The following procedures have been adopted by the company to manage future liquidity requirements:

i. Management prepare daily cash flow forecasts for the upcoming six months. This forecast provides for the major types of inflows and outflows, as well as the projected net cash position each day and cumulatively over the forecast period. The forecasts are assessed and updated on a regular basis as new information comes to hand. Cash flow projections are updated daily with actual cash flow outcomes to assess accuracy and assist in improving future cash flow forecasting;

ii. The company should always hold enough cash to meet the solvency standard. Investments in cash and term deposits must be sufficient to meet the short-term liabilities, claims liability and other recurring operating expenditure. To do this, the value of the short-term deposit portfolio must be at least equal to the capital adequacy requirement reported in the quarterly regulatory return lodged with APRA.

   In setting the minimum cash balance the Board has considered the following:
   - the historical seasonality of cash flows of the fund over a number of years;
   - the cash management amount (CMA) as defined in the Solvency Standard. The minimum cash balance has been set at broadly twice the CMA requirement ($300,000); and
   - the inability to convert term deposits into cash prior to maturity date.

   To ensure, as far as practically possible, compliance with the Solvency Standard requirements, and to avoid breaching the cash management requirement under the standard, the sum of $300,000 is held in a separate bank account that will not be drawn upon and is not to be considered in managing the day to day cash flow requirements of the fund; and

iii. Ensure an adequate match between fund assets and liabilities.

c) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the fair value or future cash flows of a financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk in relation to insurance contracts:
Market risk in relation to insurance contracts is discussed in Note 21.

Market risk in relation to investment securities:

1. *Currency risk*
   Currency risk is that the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company does not have any direct foreign investments and therefore no exposure to currency risk.

2. *Interest rate risk*
   The company is subject to interest rate risk through volatility in cash flows generated by interest bearing financial instruments. The risk is that movements in interest rates could affect returns and income. Interest rate risk is managed by investing in a range of short term fixed rate deposits. Interest rate risk is minimised as the short term fixed deposits allow for regular reinvestment in line with interest rate movements. See Note 13 for the impact to surplus by a change in interest rate on investments held by the company at 30 June 2018.

d) Other risk
The management and administration of the company is outsourced to Peoplecare Health Limited (formerly named Lysaght Peoplecare Limited). Consequently there is significant third party risk as the company is dependent upon Peoplecare continuing to provide the services outlined in the management agreement in an efficient and timely manner. The current agreement is the second five (5) year term and commenced on 1 May 2016.

Note 3. Risk management and financial instruments (continued)

The Committees of the Board, assist the full Board in managing this significant third-party risk by:

- Undertake the role of Contract Manager under the Management Services Agreement with Peoplecare;
- Review the performance of Peoplecare against the general requirements of the contract annually, including:
    - Ensuring appropriate insurances are in place;
    - Succession planning for key staff involved in RBHS business;
    - Adherence to confidentiality, privacy and other compliance related requirements under service contracts.
- Review the operating performance of Peoplecare against the KPIs detailed in the contract each six months, in particular the performance trends against service performance levels (SPLs);
- Provide recommendations to the Board in regard to actions required to correct performance issues with Peoplecare;
- Review the contract with Peoplecare annually and recommend changes to the Board as appropriate;
- Review requests for contract fee increases by Peoplecare, and recommend any changes to the Board;
- Review requests for changes to SPLs and recommend any changes to the Board; and
- Review the contract with Peoplecare prior to termination or renewal and make recommendations to the Board in terms of renewal.

Capital management

The company operates in the private health insurance industry and is subject to prudential capital regulations determined in accordance with the solvency and capital adequacy standards which are set out in the APRA Prudential Standard HPS 100 - Solvency Standard and APRA Prudential Standard HPS 110 - Capital Adequacy.

The Capital Adequacy Standard requires amongst other things that the company holds sufficient assets in its health benefits fund to provide adequate capital for the conduct of the health benefits fund in accordance with the *Private Health Insurance Act 2007* and in the interests of policyholders of the fund. The company's compliance with the capital adequacy standard is an indication of its future financial strength, on a going concern basis.

Each private health insurer must have, and comply with, a written, board endorsed, capital management policy, which as a key component must include a capital management plan. The company's capital management plan must contain:

i. A description of the board's risk appetite as it relates to capital needs and the process used to determine that appetite;
ii. Target capital levels which have regard to access to internal and external capital and the impact on premiums of holding more or less capital than the amount determined;
iii. Details of how the capital target is calculated; and
iv. Clearly defined capital trigger points and corrective actions for each of the trigger points which specifies the actions and timeframes for those actions that the company may utilise to return capital to the target levels.

The Board's policy is to maintain a strong capital base and to hold capital in accordance with the capital management plan.

At the end of the reporting period the company had capital in excess of the minimum statutory requirements and slightly above the target capital range endorsed by the Board in the capital management plan.

The Board will review the capital management plan on a biennial basis, or as triggered by events detailed in the company's capital management policy.

Note 3. Risk management and financial instruments (continued)

Solvency
The purpose of this Prudential Standard is to ensure as far as practicable that at any time the financial position of a health benefits fund conducted by a private health insurer is such that the private health insurer will be able to meet, out of the fund's assets, all liabilities that are referrable to the fund, as those liabilities become due.

This Prudential Standard requires the private health insurer to demonstrate that it will be able to meet the liabilities of its health benefits fund, allowing for adverse circumstances.

It is also a requirement of the Solvency Standard that the company has and complies with a Board endorsed liquidity management plan for each health benefits fund it conducts. The liquidity management plan must include Board approved minimum liquidity requirements and management action triggers should liquidity fall below the minimum set down by the Board.

The company has a Board endorsed liquidity management plan in place and all liquidity requirements contained in the Standard were met at all times during the year ended 30 June 2018.

Note 4. Other income

	2018 $	2017 $
Interest income	310,695	305,243

Note 5. Current assets - cash and cash equivalents

	2018 $	2017 $
Cash at bank	652,715	616,604

Cash at bank bears floating interest rates between 0.00% and 1.60% (2017: 0.00% and 1.60%).

For the purpose of the cash flow statement, cash and cash equivalents relate entirely to cash at bank. Cash and cash equivalents at the end of the financial year is reconciled to the related item in the statement of financial position.

Note 6. Current assets - trade and other receivables

	2018 $	2017 $
Unclosed business premium - earned	5,435	3,250
Unclosed business premium - unearned	6,204	5,291
Amounts due from the Risk Equalisation Trust Fund	749,562	476,031
Private Health Insurance Rebate on premiums	283,415	294,905
Investment income receivable	38,817	35,046
Other debtors	80,310	85,821
	1,163,743	900,344

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $5,434 as at 30 June 2018 ($3,250 as at 30 June 2017).

Note 6. Current assets - trade and other receivables (continued)

The aging of the past due but not impaired receivables are as follows:

	2018 $	2017 $
Past due 0 - 30 days	4,677	2,785
Past due 31 - 120 days	757	465
	5,434	3,250

No receivables were impaired at balance date (2017: Nil)

Note 7. Current assets - other financial assets

	2018 $	2017 $
Financial assets at fair value through surplus or deficit	13,500,000	13,000,000

Financial assets at fair value through surplus or deficit comprise entirely of term deposits.

Note 8. Current assets - other assets

	2018 $	2017 $
Prepayments	29,718	39,562

Note 9. Non-current assets - property, plant and equipment

	2018 $	2017 $
Computer equipment - at cost	9,438	7,113
Less: Accumulated depreciation	(7,395)	(6,381)
	2,043	732

Note 9. Non-current assets - property, plant and equipment (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Computer Equipment $	Total $
Balance at 1 July 2016	1,315	1,315
Depreciation expense	(583)	(583)
Balance at 30 June 2017	732	732
Additions	2,325	2,325
Depreciation expense	(1,014)	(1,014)
Balance at 30 June 2018	2,043	2,043

Note 10. Non-current assets - intangibles

	2018 $	2017 $
Computer software - at cost	67,884	18,964
Less: Accumulated amortisation	(18,964)	(16,031)
	48,920	2,933
Computer software under development - at cost	-	34,290
	48,920	37,223

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Software $	Software Development $	Total $
Balance at 1 July 2016	6,133	22,860	28,993
Additions	-	11,430	11,430
Amortisation expense	(3,200)	-	(3,200)
Balance at 30 June 2017	2,933	34,290	37,223
Additions	14,630	-	14,630
Transfers in/(out)	34,290	(34,290)	-
Amortisation expense	(2,933)	-	(2,933)
Balance at 30 June 2018	48,920	-	48,920

Note 11. Current liabilities - trade and other payables

	2018 $	2017 $
Unclosed business premium liability	6,204	5,291
Unearned premium liability (premiums in advance)	445,364	451,493
Other creditors and accruals	478,273	725,827
	929,841	1,182,611

Refer to note 13 for further information on financial instruments.

Note 12. Current liabilities - provisions

	2018 $	2017 $
Outstanding claims liability - central estimate	1,147,649	815,519
Outstanding claims liability - risk margin 2.00% (2017: 1.50%)	18,758	10,363
	1,166,407	825,882

Outstanding claims liability
Process for determining risk margin
The risk margin for the outstanding claims provision is based on an analysis of the historical accuracy of the Fund's provision for outstanding claims. The benefits component of the provision for each period, which reflects the expected outstanding claims at the time of reporting, calculated according to the chain ladder method, is compared to the actual claims that are subsequently paid for that period. The difference between the actual outstanding claims and the expected outstanding claims is analysed to determine a risk margin which provides a 55% probability of sufficiency.

The risk margin at 30 June 2018, is calculated as 2.00% of the central estimate of the benefits component of the outstanding claims liability. Allowance is also made for expected risk equalisation consequences and administration costs associated with claims processing in the outstanding claims liability estimate.

The risk margin adopted at 30 June 2018 was 2.00% (2017: 1.50%). The Provision was determined by adopting one month's hindsight of claims paid after 30 June. Refer to Note 2 for further explanation.

Movements in provisions
Movements in each class of provision, are set out below:

Outstanding claims	2018 $	2017 $
Carrying amount at the start of the year	825,882	948,201
Add Claims incurred	15,044,415	13,633,517
Less Claims paid	(14,703,890)	(13,755,836)
Carrying amount at the end of the year	1,166,407	825,882

Note 13. Financial instruments

Financial risk management objectives
The company's activities expose it to a variety of financial risks. Note 3 presents information about the company's exposure to these risks.

Note 13. Financial instruments (continued)

Market risk

Foreign currency risk
The company has no exposure to foreign currency risk at the end of the reporting period (2017: Nil).

Price risk
The company is not exposed to any significant price risk.

Interest rate risk
Interest rate risk is explained in Note 3 c).

As at the reporting date, the interest rate profile of the company's interest bearing financial instruments was:

	2018		2017	
	Weighted average interest rate %	**Balance $**	**Weighted average interest rate %**	**Balance $**
Fixed rate instruments (maturing within 1 year): Financial assets at fair value through surplus or deficit	2.50%	13,500,000	2.29%	13,000,000
Variable rate instruments: Cash and cash equivalents	1.51%	652,715	1.46%	616,604
Net exposure to cash flow interest rate risk		14,152,715		13,616,604

Sensitivity Analysis:

	Basis points increase			Basis points decrease		
2018	**Basis points change**	**Effect on surplus**	**Effect on equity**	**Basis points change**	**Effect on surplus**	**Effect on equity**
Fixed rate instruments	100	135,000	135,000	100	(135,000)	(135,000)
Variable rate instruments	100	6,527	6,527	100	(6,527)	(6,527)
		141,527	141,527		(141,527)	(141,527)

	Basis points increase			Basis points decrease		
2017	**Basis points change**	**Effect on surplus**	**Effect on equity**	**Basis points change**	**Effect on surplus**	**Effect on equity**
Fixed rate instruments	100	130,000	130,000	100	(130,000)	(130,000)
Variable rate instruments	100	6,166	6,166	100	(6,166)	(6,166)
		136,166	136,166		(136,166)	(136,166)

The above results are based on the change in interest rates being maintained for the past year and with all other variables remaining constant.

Note 13. Financial instruments (continued)

Credit risk
Credit risk is explained in Note 3 a).

Exposure to credit risk:
The carrying amount of the company's financial assets represents the maximum credit exposure. The company's maximum exposure to credit risk at the end of the reporting period was as follows:

	2018 $	2017 $
Financial Assets		
Cash and cash equivalents	652,715	616,604
Receivables	1,163,743	900,344
Financial assets at fair value through surplus or deficit: term deposits	13,500,000	13,000,000
	15,316,458	14,516,948

Liquidity risk
Liquidity risk is explained in Note 3 b).

Remaining contractual maturities
The following tables detail the company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2018	1 month or less $	Between 2 and 4 months $	Between 4 and 6 months $	More than 6 months $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables (excl. GST & PAYG)	478,273	-	-	-	478,273
Total non-derivatives	478,273	-	-	-	478,273

2017	1 month or less $	Between 2 and 4 months $	Between 4 and 6 months $	More than 6 months $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables (excl. GST & PAYG)	725,827	-	-	-	725,827
Total non-derivatives	725,827	-	-	-	725,827

The carrying value of trade and other payables is $478,273 (2017: $725,827). The company is not significantly exposed to this risk. To meet these obligations as they fall due, it has $652,715 of cash and cash equivalents.

Note 13. Financial instruments (continued)

Fair value

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the company are as follows:

	2018 Carrying amount $	2018 Fair value $	2017 Carrying amount $	2017 Fair value $
Assets				
Cash and cash equivalents	652,715	652,715	616,604	616,604
Receivables	1,163,743	1,163,743	900,344	900,344
Financial assets fair valued through surplus or deficit	13,500,000	13,500,000	13,000,000	13,000,000
	15,316,458	15,316,458	14,516,948	14,516,948
Liabilities				
Trade and other payables	478,273	478,273	725,827	725,827
	478,273	478,273	725,827	725,827

Financial assets measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities above are classified as Level 1 due to their short term nature. The net carrying amounts for these financial assets and liabilities are deemed to approximate their fair values.

Note 14. Key management personnel disclosures

Directors

The following persons were directors of Reserve Bank Health Society Limited during the financial year:

Merylin Coombs
Keith Drayton
Sarv Girn
Emma Maley
Jill Pleban
Sharon Suan
Warren Wise

Compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	2018 $	2017 $
Short-term employee benefits	8,225	7,978
Post-employment benefits	781	758
	9,006	8,736

Note 14. Key management personnel disclosures (continued)

Other transactions with key management personnel
During the period the company received health insurance contributions from key management personnel on normal terms and conditions. That is to say, on terms or conditions no more favourable than those available to other members.

Note 15. Contingent assets and liabilities

At 30 June 2018 the company had no contingent assets and liabilities.

Note 16. Related party transactions

Key management personnel
Disclosures relating to key management personnel are set out in Note 14.

Transactions with other parties
The following transactions occurred with other parties:

	2018 $	2017 $
Payment for goods and services:		
Payment for management services to Peoplecare Health Limited	883,321	871,543
Payment for services to HAMB Systems Limited	444,058	458,276
Payment for services to Australian Health Service Alliance Limited	193,959	181,626

The company is managed and administered by Peoplecare Health Limited through a management services agreement. The nature of the relationship is outlined in Note 3.

During the year, fees were paid to HAMB Systems Limited, a not-for-profit company which the CEO, Michael Bassingthwaighte, was a director. He received from HAMB Systems Limited, nominal remuneration to cover costs. The payments were made on normal commercial terms and conditions and relate to software and information technology services provided to the company.

During the year, fees were paid to Australian Health Service Alliance Limited, a not-for-profit company which the CEO, Michael Bassingthwaighte, is a director. He receives no remuneration from Australian Health Service Alliance Limited. The payments were made on normal commercial terms and conditions and relate to the management of provider relationships, collection, dissemination and analysis of medical and hospital data, management of Access Gap Cover, as well as prosthesis, educational services and training.

Receivable from and payable to other parties
The following balances are outstanding at the reporting date in relation to transactions with other parties:

	2018 $	2017 $
Current payables:		
Payment for management services to Peoplecare Health Limited	-	10,000

Loans to/from other parties
There were no loans to or from other parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 17. Economic dependency

A number of eligible RBHS members are provided with an Employer Health Benefit by the Reserve Bank under the terms of a Deed which expires on 1 April 2021. The Deed also provides that the parties may agree to enter into a new arrangement beyond 1 April 2021.

Note 18. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 19. Reconciliation of surplus to net cash from operating activities

	2018 $	2017 $
Surplus for the year	714,919	956,452
Adjustments for:		
Depreciation and amortisation	3,947	3,784
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(263,399)	89,011
Decrease/(increase) in prepayments	9,844	(335)
Increase/(decrease) in trade and other payables	(247,554)	153,746
Increase/(decrease) in other provisions	340,525	(122,319)
Increase/(decrease) in other operating liabilities	(5,216)	6,760
Net cash from operating activities	553,066	1,087,099

Note 20. Non-cash investing and financing activities

During the financial year the entity did not undertake any non-cash activities.

Note 21. Nature and extent of risks arising from insurance contracts

The purpose of insurance is risk distribution, that is, to spread risks across a large pool of individuals. Insurance provides a mechanism by which individuals who pay an agreed sum, known as a 'premium' can be indemnified against future events that may cause loss.

An insurance contract is a product under which an insurer accepts significant risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

A health insurance contract is a type of insurance whereby the company (the insurer) agrees to reimburse the policyholder for health care costs in exchange for a premium. The contract (policy) stipulates the type of health care benefits covered as well as costs to be reimbursed.

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

The company has determined that all current contracts with policyholders are insurance contracts.

Sensitivity to insurance risk

Health insurance claims tend to be short-tailed in nature, in that the period of time between a claim event occurring and the date of payment of that claim are typically less than one year, and in most cases less than six months. Historical claim lag patterns demonstrate that greater than 90% of claims are settled within three months of the claim event occurring.

The health insurance claims are therefore generally not sensitive to factors such as inflation, changes in interest rates, or other time-value of money issues, and as such a sensitivity analysis has not been provided in the financial statements.

Selection, pricing and concentration risk

Community rating is the basis of Australia's private health insurance system. Under the Private Health Insurance Act 2007, private health insurance contracts are required to be community rated, that is, in setting premiums, or paying benefits, funds cannot discriminate on the basis of health status, age, race, sex, and sexuality, use of hospital or medical services or general claiming history. Although this risk is shared collectively across the entire pool of policyholders, actuaries and underwriters still collect health information to determine the overall premium that insurers must charge to sustain the pool.

Community rating mandates that one price must apply to all member groups within each product, meaning that the pricing applied to the member groups within a product applies to all current and future potential members.

The company manages concentration risk by pricing each product with regard to the risk profile of each policyholder group.

Another regulatory factor is Risk Equalisation which supports the principle of community rating. The Risk Equalisation scheme transfers money from private health insurers with younger healthier members with lower average claims payments to those insurers with an older and less healthy membership and which have higher average claims payments.

The Private Health Insurance Act 2007, also limits the types of treatment that private health insurers are able to offer as part of their health insurance business. Premiums for health insurance can only be changed with the approval of the Minister for Health.

Credit risk in relation to insurance contracts

Credit risk is the risk that one party to an insurance contract will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk for insurance contract related assets, at the end of the reporting period, is the carrying amount net of any provision for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Note 21. Nature and extent of risks arising from insurance contracts (continued)

This risk is minimised through a process of arrears management whereby benefit payments are with-held from non-financial policyholders. Where payment of contributions is not received for a continual period of three months, the policy is terminated.

The company does not have any material credit risk exposure to any single receivable or group of receivables under insurance contracts entered into by the company.

Liquidity risk in relation to insurance contracts
Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with insurance contracts.

The company manages liquidity risk in relation to insurance contracts by continuously monitoring forecast and actual cash flows and claims provisioning risk as well as holding a high percentage of highly liquid investments to meet the obligations of the company.

The approach adopted by the company in determining the outstanding claims provision is detailed in Note 2. The provision is subject to some uncertainty, but the company seeks to ensure the outstanding claims provision is adequate by:

i. ongoing and regular review of claim lags to ensure they are consistent with historical analysis;
ii. a periodic external review conducted by the appointed actuary, incorporated within a quarterly report to the Board of Directors and the annual financial conditions report prepared for the Board of Directors and provided to the industry regulator;
iii. ongoing and regular reviews of forecasts to ensure that factors included in calculating the outstanding claims provision remain relevant and reliable; and
iv. the inclusion of a risk margin in the calculations (as detailed in note 2) to ensure a probability of sufficiency of 55%.

Market risk in relation to insurance contracts
Market risk is the risk that the fair value or future cash flows associated with insurance contracts will fluctuate because of changes in market prices. Factors affecting market prices faced by the company include inflation risk.

The company is exposed to inflationary risk in relation to hospital and medical services that may materially impact on the future value of claims payments. Controls in place to mitigate this risk include contracts with hospital and medical service providers, and limits applied to some benefits provided under general treatment products. The company also monitors growth in the utilisation and charges for medical services on an ongoing basis to ensure they are within forecast ranges.

Reserve Bank Health Society Limited
Directors' declaration
30 June 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

M. Coombs

Merylin Coombs
Chairperson - Board

Warren Wise
Chairperson - Audit Committee

27 September 2018
Sydney

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report

To the Members of Reserve Bank Health Society Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Reserve Bank Health Society Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Grant Thornton

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

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

If, based on 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.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing 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 to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A Sheridan
Partner – Audit & Assurance

Sydney, 27 September 2018