Reserve Bank Health Society Limited

ABN 91 087 648 735

Annual Report – 30 June 2019

Reserve Bank Health Society Limited
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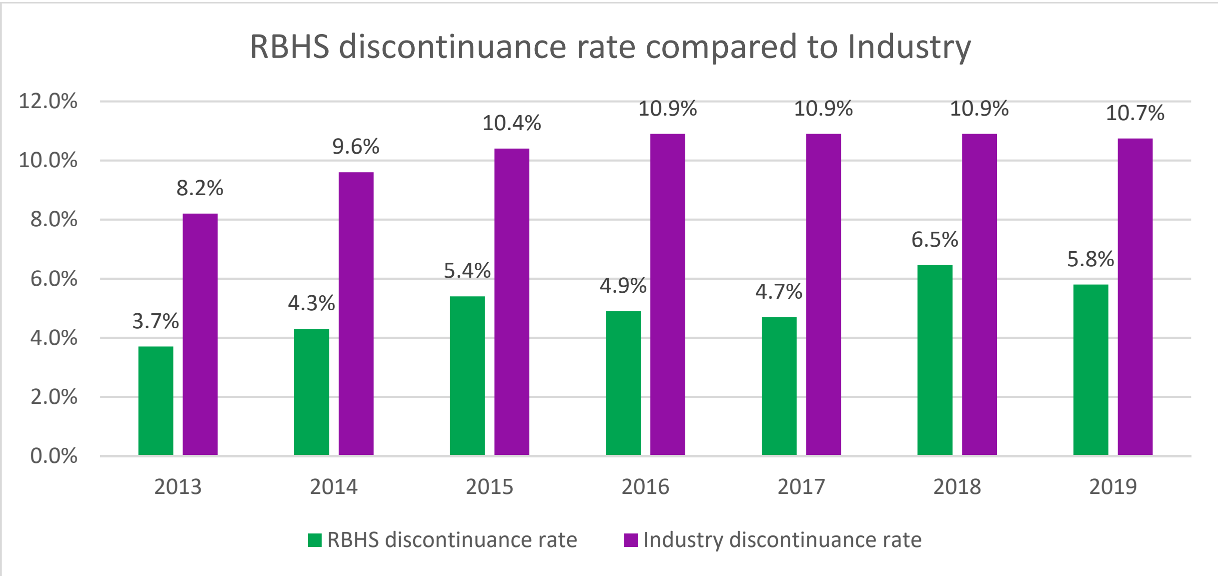
The Reserve Bank Health Society (RBHS) recorded a very strong financial result in 2018/19, including a surplus of $1.2 million and an increase in the capital position of the fund to $6,116 per policy holder as at 30 June 2019. This occurred against the background of benefit inflation of 3% and an increase in premium rates of 3.73%, which took effect on 1 April 2019.

Profitability was strong, but the number of RBHS policyholders declined slightly again in 2018/19. Growth across the private health insurance (PHI) industry has slowed over the past 3 years in Australia. While the total number of RBHS policyholders declined during the year, the proportion of policyholders who discontinued their membership through the year was low relative to the average for the PHI industry. In 2018/19, the RBHS had a discontinuance rate of 5.8 per cent, compared with the industry average of over 10 per cent. This pattern of the RBHS having significantly lower rates of discontinuance rates compared to the industry average is a feature that has been apparent for some years.



The desire to maintain the value proposition of the RBHS, and in doing so seek to retain and attract new policyholders, is something that the Board has sought to address in its strategic initiatives during 2018/19. In its annual consideration of pricing and benefit changes the Board continues to look at ways of minimising the premium increase, while trying to maintain the high quality benefits that policyholders receive from their membership. During 2018/19 the Australian Government introduced a number of reforms to private health insurance designed to improve transparency, value and attractiveness of PHI. The implementation of these for the RBHS resulted in a number of changes, including:

- The allocation of the RBHS hospital product to the 'Gold' product tier, which is the highest tier possible under the tier system for hospital products;
- The removal of certain natural therapies from the RBHS' benefit coverage, as this was no longer permitted by the Australian Government under the reforms; and
- The introduction of a youth discount on the premium paid by RBHS policyholders aged between 25 and 29, which eligible policyholders maintain until they reach 40 years of age.

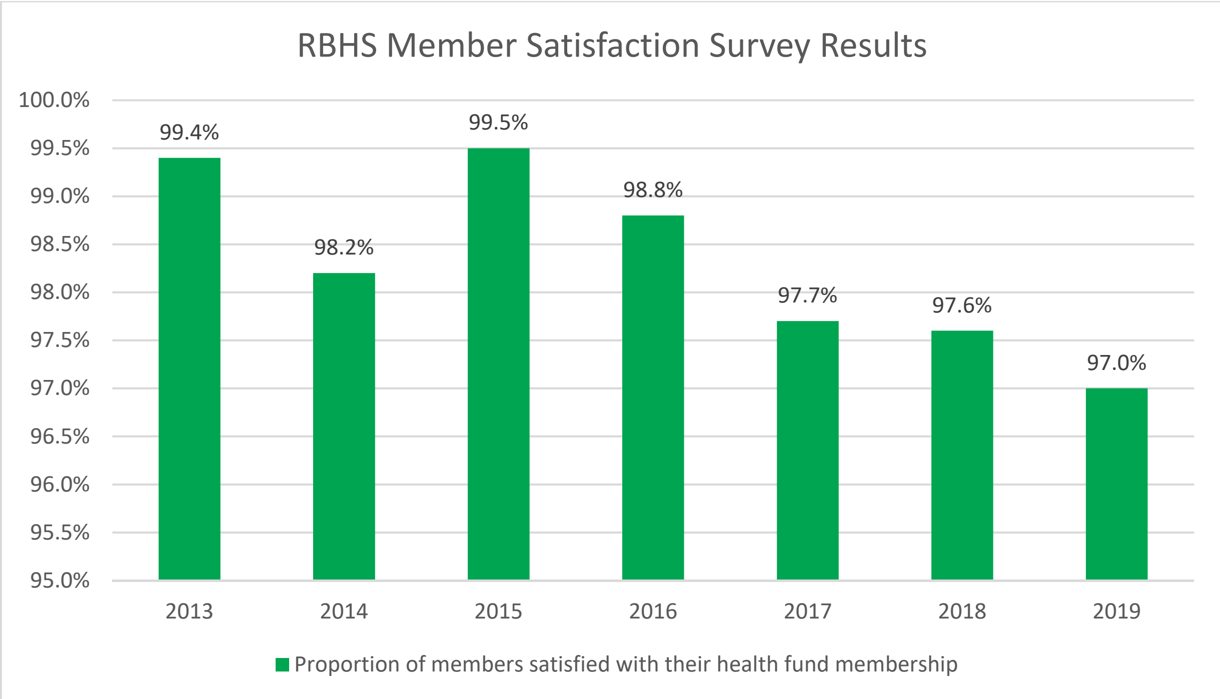
In implementing these reforms, the Board sought to keep its focus having the RBHS product offering reflect our simply better benefit and service ethos. The RBHS' strategy is to offer a small number of high quality products; unlike the overall trend across the industry, our strategy involves delivering products that do not have exclusions, restrictions or require members to pay an excess upon claiming. Another example of the better benefit ethos is the extended family policy, which allows non-student dependants to remain on the policy of their parent up until they reach 25, subject to the additional payment of 28 per cent of the family premium, and in doing so providing greater flexibility and affordability for adult children of RBHS policyholders.

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2019

Once again, I thank the nearly 450 RBHS policyholders who completed our annual Membership Satisfaction Survey in 2018/19 – this is an important indicator that the Board reviews closely and I thank all who took the opportunity to provide this important feedback on the RBHS. The results showed a 97 per cent satisfaction rate amongst members, which for the 7th year placed the RBHS at the top of the member satisfaction score of the 11, mostly smaller, not-for-profit funds that took part in the survey. Of note, the RBHS continued to be ranked Number 1 in the following sub-categories:

- Having better benefits than other health funds;
- Affordability of health insurance premiums; and
- Members least likely to drop out of PHI due to affordability.

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



I also thank those members who have responded to our requests for feedback on a more regular basis through the year. The real-time feedback on the quality of, and satisfaction with, the services provided by our customer service staff are important and the Board looks forward to continuing to receive and respond to insights coming directly from members through both of these forms of member engagement.

As in previous years, the RBHS Board continued to focus on ensuring our risk management and governance frameworks and other prudential requirements were all in line with regulatory expectations in 2018/19. The requirements for the private health insurance (PHI) industry have been a key focus of the PHI regulator, the Australian Prudential Regulation Authority (APRA), for several years. Following the commencement of the risk management prudential standard for private health insurers in 2018 the RBHS Board is required to certify, inter alia, that the RBHS has a risk management framework appropriate to its size, business mix and complexity. In July 2019 new APRA standards applied in the areas of: Governance; Fit and Proper for Directors and Management; Audit; the Appointed Actuary; and Information Security. 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 these areas. As a result of this there were several changes to the structure, number and terms of reference for the sub-committees that the Board uses to assist it in governing the RBHS. This includes the creation of a new Nominations and Remuneration sub-committee and splitting the chair of the Audit and Risk Committees. The Board also commissioned an external agency to assist in the preparation of relevant policies surrounding Board renewal and succession in order to ensure best practices are in place for these matters.

Reserve Bank Health Society Limited
Chairperson's Review
30 June 2019

At the start of 2018/19, Dr Melinda Williams took over the role of Mr Michael Bassingthwaighte, AO, as Chief Executive Officer of the RBHS. On behalf of my fellow Directors, the Board thanks Melinda for the initiative and energy that she has displayed and all of the Peoplecare team who have supported Melinda in making this transition as seamless as possible; we look forward to more years of Melinda's successful leadership of the RBHS.

I thank each of my fellow Directors for their ongoing commitment, wisdom, time and camaraderie in their contributions over 2018/19 and I very much look forward to this involvement continuing in the year ahead.

M. Coombs

Merylin Coombs
Chairperson - Board

26 September 2019
Sydney

Reserve Bank Health Society Limited
Directors Report
30 June 2019

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2019.

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 Member Nomination and Remuneration Committee

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

Information on directors (continued)

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

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 Chairperson 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 Member Audit Committee

Name:	Ms Sharon Suan
Title:	Independent Non-Executive Director
Qualifications:	B. Economics (First Class Hons)
Experience and expertise:	Director from November 2015 Chairperson 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 Nomination and Remuneration 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 2019, and the number of meetings attended by each director were:

	Board Meetings		Nomination and Remuneration Committee		Risk Committee		Audit Committee		Product and Members Committee	
Director	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held
M Coombs	7	7	1	1	-	-	-	-	-	-
K Drayton	7	7	1	1	2	2	-	-	3	3
S Girn	6	7	-	-	4	4	4	4	-	-
E Maley	6	7	-	-	-	-	-	-	3	3
J Pleban	7	7	-	-	-	-	2	2	3	3
S Suan	6	7	-	-	4	4	2	2	-	-
W Wise	7	7	1	1	2	2	4	4	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

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 2,374 members as at 30 June 2019, it means the members of the company are liable to contribute a total of $2,374 ($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 2019.

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

M. Coombs

Merylin Coombs
Chairperson - Board

Warren Wise
Chairperson - Audit Committee

26 September 2019
Sydney

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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 2019, 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 Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 26 September 2019

Reserve Bank Health Society Limited
Statement of surplus or deficit and other comprehensive income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Revenue			
Premium revenue		15,919,268	15,284,675
Other income	4	15,227	14,425
Increase/(decrease) in fair value of financial assets	5	347,722	296,270
		16,282,217	15,595,370
Expenses			
Fund benefits paid to members		(15,039,562)	(14,703,890)
State ambulance levies		(194,462)	(186,075)
Risk Equalisation Trust Fund Levy		1,976,951	2,172,737
Movement in outstanding claims liability		167,122	(340,525)
		(13,089,951)	(13,057,753)
Gross underwriting result		3,192,266	2,537,617
Management expenses			
Management fees		(891,755)	(865,796)
Depreciation and amortisation expense		(17,250)	(3,947)
Other management expenses		(1,065,277)	(952,955)
		(1,974,282)	(1,822,698)
Surplus before income tax expense		1,217,984	714,919
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Reserve Bank Health Society Limited		1,217,984	714,919
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		1,217,984	714,919

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 2019

	Note	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	6	768,715	652,715
Trade and other receivables	7	1,081,510	1,163,743
Other financial assets	8	14,700,000	13,500,000
Other assets	9	45,427	29,718
Total current assets		16,595,652	15,346,176
Non-current assets			
Property, plant and equipment	10	1,098	2,043
Intangibles	11	32,615	48,920
Total non-current assets		33,713	50,963
Total assets		16,629,365	15,397,139
Liabilities			
Current liabilities			
Trade and other payables	12	1,111,205	929,841
Provisions	13	999,285	1,166,407
Total current liabilities		2,110,490	2,096,248
Total liabilities		2,110,490	2,096,248
Net assets		14,518,875	13,300,891
Equity			
Retained surpluses		14,518,875	13,300,891
Total equity		14,518,875	13,300,891

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 2019

	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

	Retained surpluses $	Total equity $
Balance at 1 July 2018	13,300,891	13,300,891
Surplus for the year	1,217,984	1,217,984
Other comprehensive income for the year	-	-
Total comprehensive income for the year	1,217,984	1,217,984
Balance at 30 June 2019	14,518,875	14,518,875

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 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from members and customers		16,021,633	15,019,831
Payments to members, suppliers and employees		(15,032,104)	(14,773,689)
		989,529	246,142
Interest received		15,227	14,425
Net cash from operating activities	21	1,004,756	260,567
Cash flows from investing activities			
Payments for investments		(44,200,000)	(51,800,000)
Payments for property, plant and equipment	10	-	(2,325)
Payments for intangibles	11	-	(14,630)
Proceeds from disposal of investments		43,311,244	51,592,499
Net cash used in investing activities		(888,756)	(224,456)
Cash flows from financing activities			
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		116,000	36,111
Cash and cash equivalents at the beginning of the financial year		652,715	616,604
Cash and cash equivalents at the end of the financial year	6	768,715	652,715

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 26 September 2019. 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.

The following new Accounting Standards are most relevant to the company:

AASB 9 Financial Instruments
The company has adopted AASB 9 from 1 July 2018, applying the standard retrospectively. The standard replaced AASB 139 'Financial Instruments: Recognition and Measurement'. The standard introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through surplus or deficit unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI').

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through surplus or deficit to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through surplus or deficit, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Note 2. Significant accounting policies (continued)

Consistent with AASB 1023 'General Insurance Contracts', financial assets backing insurance liabilities are measured and classified at fair value through surplus or deficit and therefore the impact of AASB 9 has been minimal, as detailed below. There were also consequential changes to AASB 101 'Presentation of Financial Statements' from the introduction of AASB 9.

The impact on adoption is as follows:
- the company now recognises impairment of trade receivables and assets held at amortised cost based on ECL rather than only incurred credit losses, as was the case under AASB 139. The company has used the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. There was no impact on the change in impairment modelling; and
- interest income is now shown separately on the face of surplus or deficit. This resulted in the reclassification of 'investment income' split between 'interest revenue calculated using the effective interest method' and 'gain on the revaluation of financial instruments at fair value through surplus or deficit'.

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’.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

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 2019 relating to the period beyond 30 June 2019 are recognised as Unearned Premiums. Also, forecast premiums receivable from members at 30 June 2019 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.

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% (2018: 1.00%) 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% (2018: 55%).

Note 2. Significant accounting policies (continued)

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April 2020, the next premium adjustment opportunity allowed by the Department of Health, using a probability of sufficiency of 55%.

Provision for unexpired risk liability

2019	Unearned premium[1] $	Unearned unclosed business[2] $	Constructive obligation[3] $	Total $
Hospital and General Treatment Combined Premiums	509,593	8,751	11,807,111	12,325,455
Outflows:				
Central estimate of future benefits	(434,513)	(7,386)	(10,236,874)	(10,678,773)
Central estimate of future claims handling management expenses	(45,603)	(785)	(1,074,892)	(1,121,280)
Risk margin	(4,801)	(82)	(113,118)	(118,001)
Total outflows	(484,917)	(8,253)	(11,424,884)	(11,918,054)
Total surplus	24,676	498	382,227	407,401
Total unexpired risk liability				-

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2019 relating to the period beyond 30 June 2019.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2019 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 2019 up to 31 March 2020, the next premium rate change date at which time the company is no longer obligated to accept policy renewals at the current premium rates.*

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 claims handling management expenses	(32,547)	(695)	(1,009,042)	(1,042,284)
Risk margin	(3,535)	(75)	(108,830)	(112,440)
Total outflows	(357,069)	(7,529)	(10,991,822)	(11,356,419)
Total surplus	18,558	479	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)

No provision for unexpired risk liability has been recognised at 30 June 2019 (2018: 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.

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

	2019			2018		
Variables	**Hospital %**	**Medical %**	**General Treatment %**	**Hospital %**	**Medical %**	**General Treatment %**
Assumed portion paid to date	96.46%	97.41%	98.96%	95.42%	97.23%	98.63%
Expense rate	6.06%	6.06%	6.06%	9.43%	9.43%	9.43%
Discount rate	-	-	-	-	-	-
Risk equalisation rate	-21.56%	-21.56%	-	-23.69%	-23.69%	-
Risk margin	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

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% (2018: 2.00%) 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.

Note 2. Significant accounting policies (continued)

Impact on key variables

2019 **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%	(9,367)	(9,367)	(9,367)	(9,367)
	-1.00%	9,367	9,367	9,367	9,367
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(7,945)	(7,945)	(7,945)	(7,945)
	-1.00%	7,945	7,945	7,945	7,945
Risk margin	1.00%	(8,117)	(8,117)	(8,117)	(8,117)
	-1.00%	8,117	8,117	8,117	8,117

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

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.

Note 2. Significant accounting policies (continued)

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:

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 below.

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.

Note 2. Significant accounting policies (continued)

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 2019. 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.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018 (for-profit entities) or 1 January 2019 (not-for-profit entities). The standard provides a single standard for revenue recognition and replaces AASB 118 'Revenue' which covers contracts for goods and services and AASB 111 'Construction Contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The majority of the company's revenue is recognised under AASB 1023 'General Insurance Contracts' which is not impacted by the adoption of AASB 15. There is no material impact of this standard on the company's non-insurance revenue. The company will adopt this standard from 1 July 2019.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. As the company does not hold any operating or finance leases, adoption of this standard has no impact on the company.

AASB 17 Insurance Contracts
This standard is applicable to annual reporting periods beginning on or after 1 January 2021. The standard replaces AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts' and will enhance comparability of accounting between products, companies and across jurisdictions by establishing principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, including reinsurance contracts held and investment contracts with a discretionary participation feature. The standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract. AASB 17 combines current measurement of future cash flows with the recognition of profit over the period services are provided under the contract; presents insurance service results and insurance revenue separately from insurance finance income or expenses; and requires an accounting policy choice on a portfolio-by-portfolio basis of whether to recognise all insurance finance income or expenses in surplus or deficit or partially in other comprehensive income.

Insurance obligations will be accounted for using current values - instead of historical cost. The information needs be updated regularly, providing more useful information to the users of financial statements. Further key principles of AASB 17 include the following:
- insurance contracts are those where the entity accepts significant insurance risk from the policyholder;
- accounted for separately are specified embedded derivatives, direct investment components and performance obligations within the insurance contract;
- division of contracts into groups that are recognised and measured at a risk-adjusted present value of the future fulfilment cash flows plus or minus unearned profits cash flows plus or minus unearned profits;
- the profit from contract groups is recognised over the insurance coverage period, with anticipated losses recognised immediately; and
- disclosure of information so as to assess the effect that contracts have on the financial position, financial performance and cash flows of the entity, including qualitative and quantitative information about amounts recognised, significant judgements made and the nature and extent of the risks from insurance contracts.

The company expects to adopt this standard from 1 July 2021 and is yet to assess its impact.

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

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 Audit 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 23.

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.

Note 3. Risk management and financial instruments (continued)

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 Poors 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 $5,450,000 (2018: $4,850,000).

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 23.

Note 3. Risk management and financial instruments (continued)

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 14 for the impact to surplus by a change in interest rate on investments held by the company at 30 June 2019.

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.

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.

Note 3. Risk management and financial instruments (continued)

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 earlier if triggered by events detailed in the company's Capital Management Policy.

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 2019.

Note 4. Other income

	2019 $	2018 $
Interest income	15,227	14,425

Note 5. Increase/(decrease) in fair value of financial assets

	2019 $	2018 $
Term deposits	347,722	296,270

Note 6. Current assets - cash and cash equivalents

	2019 $	2018 $
Cash at bank	768,715	652,715

Cash at bank bears floating interest rates between 0.00% and 1.25% (2018: 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 7. Current assets - trade and other receivables

	2019 $	2018 $
Unclosed business premium - earned	5,030	5,435
Unclosed business premium - unearned	7,179	6,204
Amounts due from the Risk Equalisation Trust Fund	625,814	749,562
Private Health Insurance Rebate on premiums	289,452	283,415
Investment income receivable	75,295	38,817
Other debtors	78,740	80,310
	1,081,510	1,163,743

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $5,030 as at 30 June 2019 ($5,435 as at 30 June 2018).

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	2019 $	2018 $
Past due 0 - 30 days	4,935	4,677
Past due 31 - 120 days	95	757
	5,030	5,434

Note 8. Current assets - other financial assets

	2019 $	2018 $
Financial assets at fair value through surplus or deficit	14,700,000	13,500,000

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

Note 9. Current assets - other assets

	2019 $	2018 $
Prepayments	45,427	29,718

Note 10. Non-current assets - property, plant and equipment

	2019 $	2018 $
Computer equipment - at cost	9,438	9,438
Less: Accumulated depreciation	(8,340)	(7,395)
	1,098	2,043

Note 10. 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 2017	732	732
Additions	2,325	2,325
Depreciation expense	(1,014)	(1,014)
Balance at 30 June 2018	2,043	2,043
Depreciation expense	(945)	(945)
Balance at 30 June 2019	1,098	1,098

Note 11. Non-current assets - intangibles

	2019 $	**2018 $**
Computer software - at cost	67,884	67,884
Less: Accumulated amortisation	(35,269)	(18,964)
	32,615	48,920

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 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
Amortisation expense	(16,305)	-	(16,305)
Balance at 30 June 2019	32,615	-	32,615

Note 12. Current liabilities - trade and other payables

	2019 $	2018 $
Unclosed business premium liability	7,179	6,204
Unearned premium liability (premiums in advance)	428,034	445,364
Other creditors and accruals	675,992	478,273
	1,111,205	929,841

Refer to note 14 for further information on financial instruments.

Note 13. Current liabilities - provisions

	2019 $	2018 $
Outstanding claims liability - central estimate	983,049	1,147,649
Outstanding claims liability - risk margin 2.00% (2018: 2.00%)	16,236	18,758
	999,285	1,166,407

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 2019, 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 2019 was 2.00% (2018: 2.00%). 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	2019 $	2018 $
Carrying amount at the start of the year	1,166,407	825,882
Add Claims incurred	14,872,440	15,044,415
Less Claims paid	(15,039,562)	(14,703,890)
Carrying amount at the end of the year	999,285	1,166,407

Note 14. 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 14. Financial instruments (continued)

Market risk

Foreign currency risk
The company has no exposure to foreign currency risk at the end of the reporting period (2018: 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:

	2019 Weighted average interest rate %	**2019** Balance $	**2018** Weighted average interest rate %	**2018** Balance $
Fixed rate instruments (maturing within 1 year): Financial assets at fair value through surplus or deficit	2.20%	14,700,000	2.50%	13,500,000
Variable rate instruments: Cash and cash equivalents	1.20%	768,715	1.51%	652,715
Net exposure to cash flow interest rate risk		15,468,715		14,152,715

Sensitivity Analysis:

2019	**Basis points increase** Basis points change	Effect on surplus	Effect on equity	**Basis points decrease** Basis points change	Effect on surplus	Effect on equity
Fixed rate instruments	100	147,000	147,000	100	(147,000)	(147,000)
Variable rate instruments	100	7,687	7,687	100	(7,687)	(7,687)
		154,687	154,687		(154,687)	(154,687)

2018	**Basis points increase** Basis points change	Effect on surplus	Effect on equity	**Basis points decrease** 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)

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

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:

Note 14. Financial instruments (continued)

	2019 $	2018 $
Financial Assets		
Cash and cash equivalents	768,715	652,715
Receivables	1,081,510	1,163,743
Financial assets at fair value through surplus or deficit: term deposits	14,700,000	13,500,000
	16,550,225	15,316,458

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.

2019	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)	675,550	-	-	-	675,550
Total non-derivatives	675,550	-	-	-	675,550

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

The carrying value of trade and other payables is $675,550 (2018: $478,273). The company is not significantly exposed to this risk. To meet these obligations as they fall due, it has $768,715 of cash and cash equivalents.

Note 14. 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:

	2019 Carrying amount $	2019 Fair value $	2018 Carrying amount $	2018 Fair value $
Assets				
Cash and cash equivalents	768,715	768,715	652,715	652,715
Receivables	1,081,510	1,081,510	1,163,743	1,163,743
Financial assets fair valued through surplus or deficit	14,700,000	14,700,000	13,500,000	13,500,000
	16,550,225	16,550,225	15,316,458	15,316,458
Liabilities				
Trade and other payables	675,550	675,550	478,273	478,273
	675,550	675,550	478,273	478,273

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 15. 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:

	2019 $	2018 $
Short-term employee benefits	8,479	8,225
Post-employment benefits	806	781
	9,285	9,006

Note 15. 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 16. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	2019 $	2018 $
Audit services - Grant Thornton Audit Pty Ltd		
Audit of the financial statements	16,275	15,500
Other services - Grant Thornton Audit Pty Ltd		
Audit of regulatory returns	16,800	16,000
	33,075	31,500

Note 17. Contingent assets and liabilities

At 30 June 2019 the company had no contingent assets and liabilities.

Note 18. Related party transactions

Key management personnel
Disclosures relating to key management personnel are set out in Note 15.

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

	2019 $	2018 $
Payment for goods and services:		
Payment for management services to Peoplecare Health Limited	915,152	883,321

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.

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

	2019 $	2018 $
Current payables:		
Payment for management services to Peoplecare Health Limited	12,237	-

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

Note 18. Related party transactions (continued)

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

Note 19. 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 20. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 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 21. Reconciliation of surplus to net cash from operating activities

	2019 $	2018 $
Surplus for the year	1,217,984	714,919
Adjustments for:		
Depreciation and amortisation	17,250	3,947
(Increase)/decrease in fair value of financial assets	(347,722)	(296,270)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	118,711	(259,628)
Decrease/(increase) in prepayments	(15,709)	9,844
Increase/(decrease) in trade and other payables	197,719	(247,554)
Increase/(decrease) in other provisions	(167,122)	340,525
Decrease in other operating liabilities	(16,355)	(5,216)
Net cash from operating activities	1,004,756	260,567

Note 22. Non-cash investing and financing activities

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

Note 23. 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 23. 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 60 days, 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 2019

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 2019 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

Merylin Coombs	Warren Wise
Chairperson - Board	Chairperson - Audit Committee

26 September 2019
Sydney

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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 2019, 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 2019 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 2019, but does not include the financial report and our auditor's report thereon.

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 Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 26 September 2019