Reserve Bank Health Society Limited

ABN 91 087 648 735

Annual Report – 30 June 2020

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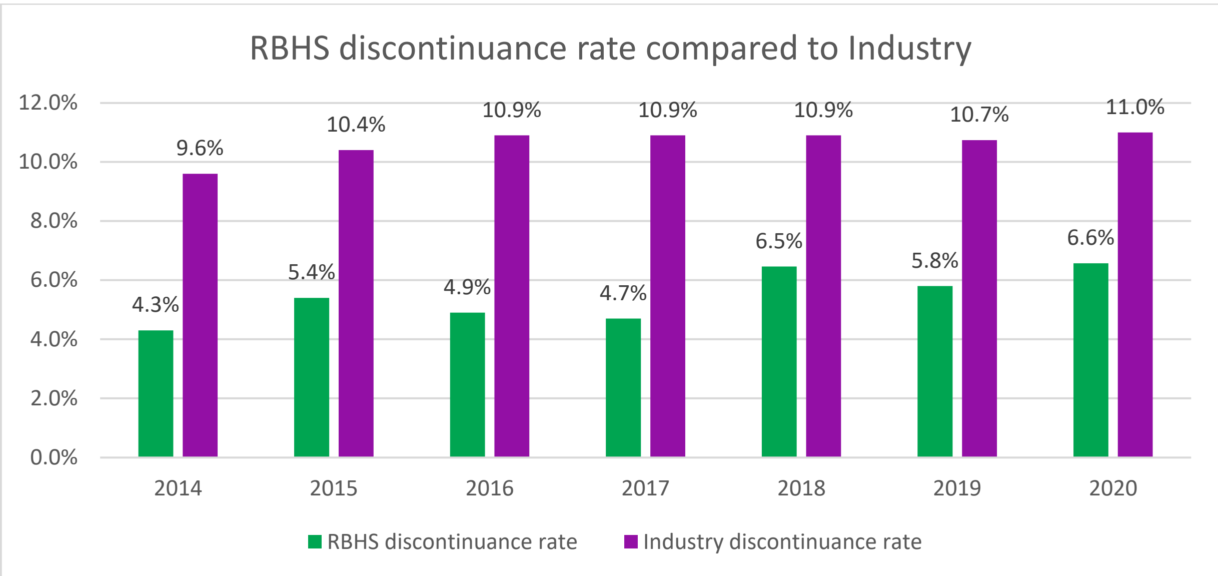
Like every household and business in Australia, the financial position of the Reserve Bank Health Society (RBHS) was affected by the unprecedented COVID-19 crisis in 2019/20. Our surplus for the year was a fair bit lower than in recent years ($0.3 million), while capital per policyholder increased to $6,282 as at 30 June 2020. This reflected the fact that at the onset of the crisis we postponed our annual premium increase to help members through the crisis, a decision that the Board was proud to take. In addition, we extended telehealth and video consultations to members with extras cover to enable continued access to a variety of common services, such as psychology and physiotherapy. We also waived any waiting periods for COVID-19 hospital admissions and we were able to extend our financial hardship support arrangements to a larger number of circumstances. While some healthcare treatments were postponed as a result of the crisis, we have seen an increase in claims as the health system catches up and members are able and feel more comfortable accessing a wider range of services again.

Needless to say, it was a year like no other. While the pandemic caused many unanticipated effects, the focus of the RBHS was on assisting our members through the period of massive uncertainty by maintaining the value for members of continuing their RBHS membership. As a not for profit fund we continue to look for ways to keep premium increases to a minimum while maintaining high quality benefits; we only charge you what it costs to pay member claims and run the fund.

On behalf of my fellow Directors, the Board thanks our Chief Executive Officer, Dr Melinda Williams, and all the staff at our outsourced service provider for the dedication, professionalism and positive approach to the difficult working environment that the COVID-19 crisis imposed on everyone. The move to working from home for the staff was, and remains, a huge change and I cannot thank enough the leadership displayed by Melinda and her executive team during the transition and the many months since that have required adjustments in the ways of working. The ongoing maintenance of high levels of customer service during this challenging time has been much appreciated by all members and the Board, and in doing so, reflects the simply better benefit and service ethos that the RBHS has had for a long time.

Despite the significant economic challenges faced by many households in 2019/20, the number of RBHS policyholders declined only slightly. As in previous years, the proportion of policyholders who discontinued their membership through the year was low relative to the average for the PHI industry. In 2019/20, the RBHS had a discontinuance rate of 6.6 per cent, compared with the industry average of over 11 per cent. Again, an impressive result given the challenges for household incomes that the pandemic has brought.

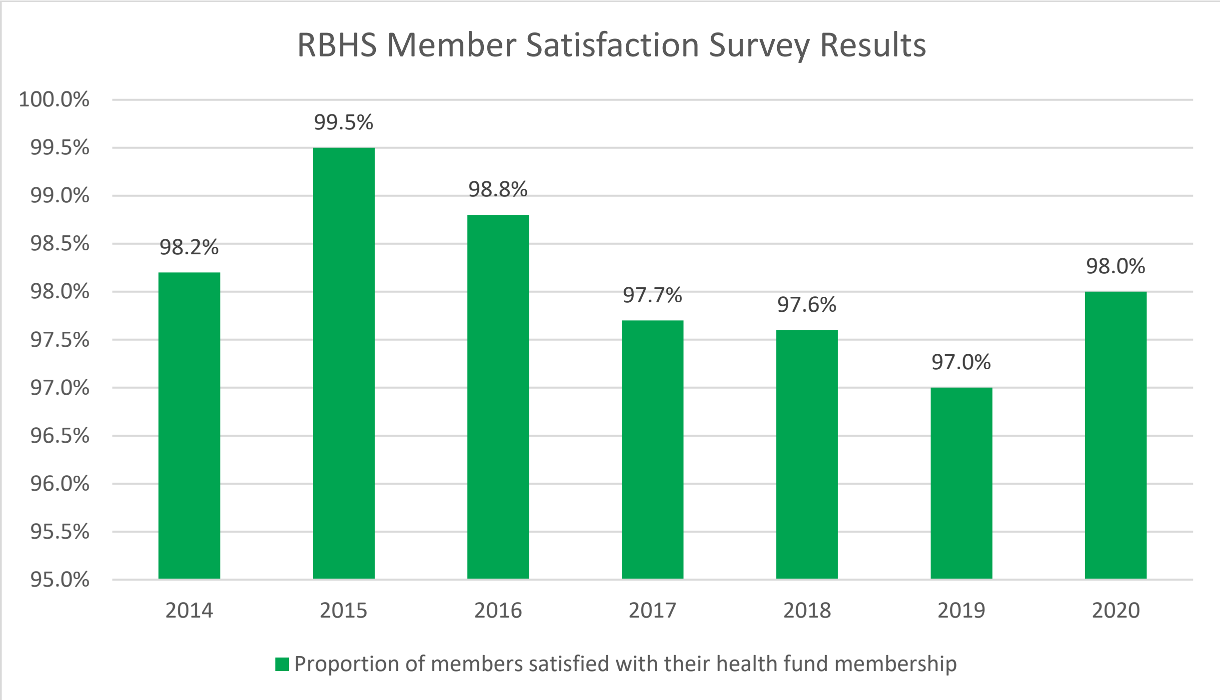


It is very pleasing that once again, the RBHS maintained its Number 1 rank in 2019/20 for customer satisfaction amongst the 12 funds that took part in the Members Health Fund Alliance Annual Membership Satisfaction Survey. I thank those members who took the opportunity to provide this important feedback on the RBHS. Of note, the RBHS was ranked Number 1 in the following sub-categories:

- Reliability and integrity;
- Better benefits than other health funds;
- Value for money and affordability of health insurance premiums; and
- Members least likely to drop out of PHI due to affordability.

Respondents also identified a significant improvement in satisfaction with the amount and understanding of communication this year. The improved communication scores were mirrored in respondents rating their understanding of their cover at the highest level recorded. The Survey was undertaken just prior to the launch of the revamped RBHS website and mobile claiming app, which occurred in April, so the prospects are good for further improvements in these areas next year.

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



As in previous years, in 2019/20 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 July 2019 the Australian Prudential Regulation Authority (APRA) required private health insurers meet new standards in the areas of: Governance; Fit and Proper for Directors and Management; Audit; the Appointed Actuary; and Information Security. These were implemented in advance of this timeline and the Board and senior executives continued to be involved in various initiatives for the RBHS during the year. Another requirement of APRA relates to the Board's preparedness to take action in the event of severe financial distress, including through the development of a comprehensive recovery plan. In 2019/20 the Board oversaw the preparation of a recovery plan in line with APRA's requirements.

In 2019/20 the Board agreed with the Reserve Bank of Australia (RBA) a new five year Deed under which the RBA provides certain staff with a health benefit as part of their remuneration, which includes the ability to become RBHS members. The key terms of the new Deed, which will commence on 1 May 2021, remain unchanged from the existing Deed that was agreed in 2015.

During the year the Board identified the need to appoint an additional Director to assist with the extra work involved in the lead-up to the expiry of the management services agreement with Peoplecare in May 2021. Directors welcomed Mr David Brown onto the Board on 1 March 2020. Finally, I thank each of my fellow Directors for their ongoing commitment, wisdom, time and camaraderie in their contributions over the past year. I very much look forward to this involvement continuing in the year ahead.

M. Coombs

Merylin Coombs
Chairperson - Board

24 September 2020
Sydney

Reserve Bank Health Society Limited
Directors Report
30 June 2020

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2020.

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	
Mr David Brown	Appointed 1 March 2020

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.

Like many businesses, the uncertainty created by the COVID-19 pandemic has proven to be a challenging time for RBHS. In response to this uncertainty, RBHS deployed a number of initiatives to help improve the value proposition and to assist affordability challenges faced by members.

A key element of these initiatives was the postponement of the April 2020 premium increase until 9 October 2020.

COVID-19 also challenged the fund's capacity to service members during times of uncertainty. This resulted in the need to invoke the fund's business continuity plan, which was achieved successfully and ensured the effective continuity of service to our members.

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

Information on directors (continued)

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

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), CFA Charterholder
Experience and expertise:	Director from November 2015 Chairperson Risk 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

Name:	Mr David Brown
Title:	Independent Non-Executive Director
Qualifications:	B. Applied Science
Experience and expertise:	Director from 1 March 2020

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 2020, 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	9	9	2	2	-	-	-	-	-	-
K Drayton	9	9	2	2	4	4	-	-	3	3
S Girn	9	9	-	-	3	4	4	4	-	-
E Maley	9	9	-	-	-	-	-	-	3	3
J Pleban	9	9	-	-	-	-	4	4	3	3
S Suan	7	9	-	-	4	4	-	-	-	-
W Wise	9	9	2	2	-	-	4	4	-	-
D Brown	3	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 2,362 members as at 30 June 2020, it means the members of the company are liable to contribute a total of $2,362 ($1 per member) if the company is wound up.

Matters subsequent to the end of the financial year

As noted in the Chairman’s review, the COVID-19 pandemic impacted the company during the year. The situation related to the pandemic has continued to develop post reporting date, for example, with Melbourne going back into lockdown (and elective surgeries once again deferred) and further government stimulus packages, such as JobKeeper 2.0, being announced. It is therefore not practical to estimate the potential impact, positive or negative, after the reporting date. Other than this, no matter of circumstance has arisen since 30 June 2020 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 2020.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (Grant Thornton) for audit and non-audit services during the year are disclosed in Note 16 - Remuneration of Auditors.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

i. All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
ii. The nature of the services provided do not compromise the general principles relating to auditor independence as set out in Section 290 of APES 110 – Code of Ethics for Professional Accountants set by the Accounting Professional and Ethics Standards Board.

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

24 September 2020
Sydney

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Auditor's Independence Declaration

To the Directors of Reserve Bank Health Society Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Reserve Bank Health Society Ltd for the year ended 30 June 2020, 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, 24 September 2020

Reserve Bank Health Society Limited
Statement of surplus or deficit and other comprehensive income
For the year ended 30 June 2020

	Note	2020 $	2019 $
Revenue			
Premium revenue		16,406,887	15,919,268
Expenses			
Fund benefits paid to members		(16,375,576)	(15,039,562)
State ambulance levies		(195,458)	(194,462)
Risk Equalisation Trust Fund Levy		2,127,740	1,976,951
Movement in outstanding claims liability		211,972	167,122
		(14,231,322)	(13,089,951)
Gross underwriting result		2,175,565	2,829,317
Management expenses			
Management fees		(917,063)	(891,755)
Depreciation and amortisation expense		(25,696)	(17,250)
Other management expenses		(1,155,524)	(1,065,277)
		(2,098,283)	(1,974,282)
Other			
Other revenue	4	17,750	15,227
Increase in fair value of financial assets	5	224,599	347,722
		242,349	362,949
Surplus before income tax expense		319,631	1,217,984
Income tax expense		-	-
Surplus after income tax expense for the year attributable to the members of Reserve Bank Health Society Limited		319,631	1,217,984
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to the members of Reserve Bank Health Society Limited		319,631	1,217,984

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 2020

	Note	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents	6	827,381	768,715
Trade and other receivables	7	1,092,504	1,081,510
Other financial assets	8	15,800,000	14,700,000
Other assets	9	64,431	45,427
Total current assets		17,784,316	16,595,652
Non-current assets			
Property, plant and equipment	10	307	1,098
Intangibles	11	179,710	32,615
Total non-current assets		180,017	33,713
Total assets		17,964,333	16,629,365
Liabilities			
Current liabilities			
Trade and other payables	12	1,093,634	1,111,205
Provisions	13	2,032,193	999,285
Total current liabilities		3,125,827	2,110,490
Total liabilities		3,125,827	2,110,490
Net assets		14,838,506	14,518,875
Equity			
Retained surpluses		14,838,506	14,518,875
Total equity		14,838,506	14,518,875

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 2020

	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

	Retained surpluses $	Total equity $
Balance at 1 July 2019	14,518,875	14,518,875
Surplus for the year	319,631	319,631
Other comprehensive income for the year	-	-
Total comprehensive income for the year	319,631	319,631
Balance at 30 June 2020	14,838,506	14,838,506

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 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from members and customers		16,355,475	16,021,633
Payments to members, suppliers and employees		(15,235,159)	(15,032,104)
		1,120,316	989,529
Interest received		7,500	15,227
Other revenue		10,250	-
Net cash from operating activities	21	1,138,066	1,004,756
Cash flows from investing activities			
Payments for investments		(46,100,000)	(44,200,000)
Payments for intangibles	11	(172,000)	-
Proceeds from disposal of investments		45,192,600	43,311,244
Net cash used in investing activities		(1,079,400)	(888,756)
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		58,666	116,000
Cash and cash equivalents at the beginning of the financial year		768,715	652,715
Cash and cash equivalents at the end of the financial year	6	827,381	768,715

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 24 September 2020. 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', 'Provisions: Deferred claims liability' and ‘Liability adequacy test’.

Note 2. Significant accounting policies (continued)

Revenue recognition
Revenue is recognised for the major business activities as follows:

Premium revenue
Premium revenue comprises premiums from private health insurance contracts held by policyholders.

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.

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 or as a performance obligation is satisfied by transferring a promised good or service to a customer. Transfer occurs when or as the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time.

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 and deferred claims due to the COVID-19 pandemic.

Note 2. Significant accounting policies (continued)

Claims (continued)
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.

The provision for deferred claims liability has been determined using guidance provided by regulators the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC).

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.

Financial assets at amortised cost
A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets
The company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through surplus or deficit. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through surplus or deficit.

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	3 years

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

Note 2. Significant accounting policies (continued)

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 3 to 5 years.

Unearned premiums
Premiums received from members prior to 30 June 2020 relating to the period beyond 30 June 2020 are recognised as Unearned Premiums. Also, forecast premiums receivable from members at 30 June 2020 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% (2019: 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% (2019: 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 2021, the latter of the two premium adjustment opportunities allowed by the Department of Health for 2021, using a probability of sufficiency of 55%.

Provision for unexpired risk liability

2020	Unearned premium[1] $	Unearned unclosed business[2] $	Constructive obligation[3] $	Total $
Hospital and General Treatment Combined Premiums	410,042	9,418	12,154,994	12,574,454
Outflows:				
Central estimate of future benefits	(344,295)	(7,894)	(10,498,737)	(10,850,925)
Central estimate of future claims handling management expenses	(42,912)	(989)	(1,277,578)	(1,321,479)
Risk margin	(3,872)	(89)	(117,763)	(121,724)
Total outflows	(391,079)	(8,972)	(11,894,078)	(12,294,128)
Total surplus	18,963	446	260,916	280,326
Total unexpired risk liability				-

1. *Unearned premium - the value of health insurance premiums received from members prior to 30 June 2020 relating to the period beyond 30 June 2020.*
2. *Unearned unclosed business - the value of health insurance premiums owing by members from 30 June 2020 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 2020 up to 31 March 2021, the last premium rate change date of the period, at which time the company is no longer obligated to accept policy renewals at the 2021 premium rates.*

Note 2. Significant accounting policies (continued)

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.*

No provision for unexpired risk liability has been recognised at 30 June 2020 (2019: nil).

Provisions

Claims liability Accounting Policy
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 judgements:
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:

	2020			2019		
Variables	**Hospital %**	**Medical %**	**General Treatment %**	**Hospital %**	**Medical %**	**General Treatment %**
Assumed portion paid to date	96.04%	97.52%	98.94%	96.46%	97.41%	98.96%
Expense rate	5.96%	5.96%	5.96%	6.06%	6.06%	6.06%
Discount rate	-	-	-	-	-	-
Risk equalisation rate	-21.14%	-21.14%	-	-21.56%	-21.56%	-
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% (2019: 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

2020 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%	(7,380)	(7,380)	(7,380)	(7,380)
	-1.00%	7,380	7,380	7,380	7,380
Discount rate	-	-	-	-	-
	-	-	-	-	-
Risk equalisation rate	1.00%	(6,051)	(6,051)	(6,051)	(6,051)
	-1.00%	6,051	6,051	6,051	6,051
Risk margin	1.00%	(6,465)	(6,465)	(6,465)	(6,465)
	-1.00%	6,465	6,465	6,465	6,465

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

Note 2. Significant accounting policies (continued)

Deferred claims liability
On 12 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a global pandemic. Due to the reduced access to both elective surgery procedures and ancillary benefits, Private Health Insurers (PHIs) experienced unusually low claims volumes during the period March to June 2020 inclusive.

As a result of this lower claims activity, the Reserve Bank Health Society considers it has an obligation to recognise a provision for deferred claims based on a present constructive obligation resulting from a past event under relevant accounting standards. In RBHS' case, the impact of COVID-19 has triggered the deferral of claim benefits that would have otherwise been provided to members.

Management have calculated the Deferred claims liability at 30 June 2020 in accordance with guidance provided by regulators the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC).

Accounting estimates and judgements
The claims liability has been estimated on the basis of actual claims versus expected claims during the period in which health services were restricted due to COVID-19. This took into account an estimate of the procedures and services deferred (deferral rate) into the next financial period. The expected claims experience is based on the most recent financial forecast prior to COVID-19 impacting claims activity.

The claims deferral rates adopted by the Fund are aligned with Australian Prudential Regulation Authority (APRA) interpretive guidance and are as follows:

- 96% of claims reduction in 2020 (representing 100% hospital and 85% ancillary estimated claims reduction) to be deferred on the basis that this represents the 2021 financial year claims which are expected to be inflated above normal trends due to COVID-19.

A Deferred claims liability of $1.244 million ($0.652m hospital and $0.592m general treatment) has been recognised in the Statement of surplus or deficit and other comprehensive income for the year ended 30 June 2020.

Risks and uncertainties have been taken into account in the measurement of the liability and are reflected in the key inputs and judgements. The key risks associated in estimating the components of the provision is the under/over estimation of the claims deferral rate and to a lesser extent, the under/over estimation of the claims savings (net of risk equalisation impact).

This provision is expected to fully unwind over the next twelve months based on expected claims activity and payment patterns, however the Fund will continue to reassess the extent of any deferred claims as a result of any ongoing or future restrictions.

Other provisions
Other 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 is 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 2020. 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 17 Insurance Contracts
This standard is applicable to annual reporting periods beginning on or after 1 January 2023. 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 profit or loss 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 2023. An implementation gap analysis (May 2020) has assessed that the adoption of this standard will have minimal impact on the company. AASB 17 does alter some existing concepts and terminology resulting in a possible change for analysis and accounting.

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 under the terms of a five (5) year management agreement. The current agreement is the second five (5) year term. 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.

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 $5,494,838 (2019: $5,450,000).

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 23.

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 2020.

d) Other risk
The management and administration of the company is outsourced to Peoplecare Health 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 which commenced on 1 May 2016 and expires on 30 April 2021.

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 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 2020.

Note 4. Other revenue

	2020 $	2019 $
Interest income	7,500	15,227
Government Grant	10,000	-
Other income	250	-
	17,750	15,227

Note 5. Increase in fair value of financial assets

	2020 $	2019 $
Term deposits	224,599	347,722

Note 6. Current assets - cash and cash equivalents

	2020 $	2019 $
Cash at bank	827,381	768,715

Cash at bank bears floating interest rates between 0.00% and 0.35% (2019: 0.00% and 1.25%).

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

	2020 $	2019 $
Unclosed business premium - earned	5,329	5,030
Unclosed business premium - unearned	7,642	7,179
Amounts due from the Risk Equalisation Trust Fund	673,716	625,814
Private Health Insurance Rebate on premiums	286,406	289,452
Investment income receivable	31,999	75,295
Other debtors	87,412	78,740
	1,092,504	1,081,510

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

	2020 $	2019 $
Past due 0 - 30 days	4,882	4,935
Past due 31 - 120 days	447	95
	5,329	5,030

Note 8. Current assets - other financial assets

	2020 $	2019 $
Financial assets at fair value through surplus or deficit: term deposits	15,800,000	14,700,000

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

Note 9. Current assets - other assets

	2020 $	2019 $
Prepayments	64,431	45,427

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

	2020 $	2019 $
Computer equipment - at cost	9,438	9,438
Less: Accumulated depreciation	(9,131)	(8,340)
	307	1,098

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 2018	2,043	2,043
Depreciation expense	(945)	(945)
Balance at 30 June 2019	1,098	1,098
Depreciation expense	(791)	(791)
Balance at 30 June 2020	307	307

Note 11. Non-current assets - intangibles

	2020 $	2019 $
Computer software - at cost	239,884	67,884
Less: Accumulated amortisation	(60,174)	(35,269)
	179,710	32,615

Note 11. Non-current assets - intangibles (continued)

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

	Software $	Total $
Balance at 1 July 2018	48,920	48,920
Amortisation expense	(16,305)	(16,305)
Balance at 30 June 2019	32,615	32,615
Additions	172,000	172,000
Amortisation expense	(24,905)	(24,905)
Balance at 30 June 2020	179,710	179,710

Note 12. Current liabilities - trade and other payables

	2020 $	**2019 $**
Unclosed business premium liability	7,642	7,179
Unearned premium liability (premiums in advance)	355,179	428,034
Other creditors and accruals	730,813	675,992
	1,093,634	1,111,205

Refer to Note 14 for further information on financial instruments.

Note 13. Current liabilities - provisions

	2020 $	**2019 $**
Outstanding claims liability - central estimate	774,382	983,049
Outstanding claims liability - risk margin 2.00% (2019: 2.00%)	12,931	16,236
Deferred claims liability	1,244,880	-
	2,032,193	999,285

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 2020, 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 2020 was 2.00% (2019: 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.

Note 13. Current liabilities - provisions (continued)

Deferred claims liability
The provision for Deferred claims liability has been determined using guidance provided to insurers by the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investment Commission (ASIC) for regulatory reporting purposes which implies a 75% probability of adequacy.

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

	Outstanding claims liability 2020 $	Outstanding claims liability 2019 $	Deferred claims liability 2020 $	Deferred claims liability 2019 $
Carrying amount at the start of the year	999,285	1,166,407	-	-
Additional provisions recognised	-	-	1,244,880	-
Add Claims incurred	16,163,604	14,872,440	-	-
Less Claims paid	(16,375,576)	(15,039,562)	-	-
Carrying amount at the end of the year	787,313	999,285	1,244,880	-

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.

Market risk

Foreign currency risk
The company has no exposure to foreign currency risk at the end of the reporting period (2019: 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:

	2020		**2019**	
	Weighted average interest rate %	**Balance $**	**Weighted average interest rate %**	**Balance $**
Fixed rate instruments (maturing within one year): Financial assets at fair value through surplus or deficit	0.80%	15,800,000	2.20%	14,700,000
Variable rate instruments: Cash and cash equivalents	0.34%	827,381	1.20%	768,715
Net exposure to cash flow interest rate risk		16,627,381		15,468,715

Note 14. Financial instruments (continued)

Sensitivity Analysis:

2020	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	158,000	158,000	100	(158,000)	(158,000)
Variable rate instruments	100	8,274	8,274	100	(8,274)	(8,274)
		166,274	166,274		(166,274)	(166,274)

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)

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:

	2020 $	2019 $
Financial Assets		
Cash and cash equivalents	827,381	768,715
Receivables	1,092,504	1,081,510
Financial assets at fair value through surplus or deficit: term deposits	15,800,000	14,700,000
	17,719,885	16,550,225

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.

2020	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)	729,953	-	-	-	729,953
Total non-derivatives	729,953	-	-	-	729,953

Note 14. Financial instruments (continued)

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

The carrying value of trade and other payables is $729,953 (2019: $675,550). The company is not significantly exposed to this risk. To meet these obligations as they fall due, it has $827,381 of cash and cash equivalents.

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:

	2020		**2019**	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Assets				
Financial assets fair valued through surplus or deficit	15,800,000	15,800,000	14,700,000	14,700,000
	15,800,000	15,800,000	14,700,000	14,700,000

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 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
David Brown (appointed 1 March 2020)

Note 15. Key management personnel disclosures (continued)

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

	2020 $	2019 $
Short-term employee benefits	8,477	8,479
Post-employment benefits	808	806
	9,285	9,285

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:

	2020 $	2019 $
Audit services - Grant Thornton Audit Pty Ltd		
Audit of the financial statements	17,100	16,275
Other services - Grant Thornton Audit Pty Ltd		
Audit of regulatory returns	23,600	16,800
Non-audit services	3,500	-
	27,100	16,800
	44,200	33,075

Note 17. Contingent assets and liabilities

At 30 June 2020 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:

	2020 $	2019 $
Payment for goods and services:		
Payment for management services to Peoplecare Health Limited	919,083	915,152
Purchase of goods/services from Peoplecare Health Limited	277,036	-

Note 18. Related party transactions (continued)

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:

	2020 $	2019 $
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.

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 Board recently agreed a new five year Deed with the Reserve Bank of Australia (RBA) of which the key terms remain unchanged from the existing Deed that was agreed in 2015.

Note 20. Events after the reporting period

The COVID-19 pandemic impacted the company during the year. The situation related to the pandemic has continued to develop post reporting date, for example, with Melbourne going back into lockdown (and elective surgeries once again deferred) and further government stimulus packages, such as Jobkeeper 2.0, being announced. It is therefore not practical to estimate the potential impact, positive or negative, after the reporting date. Other than this, no matter of circumstance has arisen since 30 June 2020

Note 21. Reconciliation of surplus to net cash from operating activities

	2020 $	2019 $
Surplus for the year	319,631	1,217,984
Adjustments for:		
Depreciation and amortisation	25,696	17,250
Increase in fair value of financial assets	(224,599)	(347,722)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	21,005	118,711
Increase in prepayments	(19,004)	(15,709)
Increase in trade and other payables	54,821	197,719
Increase/(decrease) in other provisions	1,032,908	(167,122)
Decrease in other operating liabilities	(72,392)	(16,355)
Net cash from operating activities	1,138,066	1,004,756

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 (members) 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 members. 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.

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 2020

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 2020 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

24 September 2020
Sydney

Grant Thornton

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Independent Auditor's Report

To the Members of Reserve Bank Health Society Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Reserve Bank Health Society Ltd (the Company), which comprises the statement of financial position as at 30 June 2020, 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 2020 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 2020, 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: http://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, 24 September 2020