Health Care Insurance Ltd.

ACN 009 579 088

Annual report for the financial year ended
30 June 2020

Health Care Insurance Ltd.

Contents to the Annual Report

The directors of Health Care Insurance Ltd ("HCI") submit herewith the annual report of the company for the year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001,* the directors report as follows:

Information about the directors

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Experience	Committee Memberships
Greg Spinks B.A. Dip. Psych. Dip.Ed. MAPS, MAICD	- Transition Business Manager, CEO Office and Strategy - Opal Group - Member of the Australian Psychological Society - Registered psychologist - HCI Director appointed 19 October 2009	- Board Chair - Chair of Performance and Remuneration Committee - Member of the Audit Committee
Carolyn Harris B. Bus; FCPA; MBA; GAICD	- Business Manager, Tasmanian Dairy Industry Authority - HCI Director appointed 19 December 2016.	- Deputy Board Chair - Chair of the Audit Committee
Paul Smith B.Sc (For)	- Former General Manager Operations, Forestry Tasmania - Chair of Multicap Tasmania - HCI Director appointed 30 June 2008.	- Chair of Risk Committee - Member of the Performance and Remuneration Committee
Megan Bramich B.Comm (Acc); CPA; MAICD	- Supply Chain Commercial Manager, Lion Dairy Drinks Pty Ltd - HCI Director appointed 18 December 2017	- Member of the Audit Committee - Member of the Performance and Remuneration Committee
Phillip Boon B.Comm; GAICD	- CIO - Group Manager Australian Paper, formerly Commercial System Manager, Paperlinx. - HCI Director appointed 15 May 2000, resigned 28 October 2019	- Member of the Audit Committee
Mark Fishwick Grad. Cert. Bus.; MAICD	- Business Development Officer Past National President Apex - HCI Director appointed 19 November 2001, resigned 28 October 2019.	- Member of the Risk Committee
Paul Gladman MBA; GAICD	- Non-Executive director of mental health counselling service On the Line - Former CEO of CBHS Health Fund Limited, former Interim General Manager for HCI. - HCI Director appointed 17 December 2018.	- Member of the Risk Committee
Gerald White BBus(Acc), FCA, MBA, GAICD	- Chief Financial Officer & Company Secretary, Bank of Us (B&E Ltd) - HCI Director appointed 29 March 2020	- Member of the Risk Committee

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Mark Fishwick - resigned at 2019 Annual General Meeting, 28 October 2019
- Phillip Boon - resigned at 2019 Annual General Meeting, 28 October 2019
- Gerald White - appointed 29 March 2020

Principal activities

The principal activities of HCI during the financial year consisted of the provision of private health insurance to members.

No significant changes in the nature of HCI's activity occurred during the financial year.

Short term objectives

HCI's short term objectives are to:

- implement appropriate structures to ensure compliance with current industry prudential reviews and otherwise in accordance with good practice corporate governance;
- develop a positive, member-centric culture at all levels of the business;
- control current material business risks; and
- develop an appropriate product suite that will enable the fund to best service the interest of current and future members.

Long term objectives

HCI's long term objectives are to:

- to give our members peace of mind that we are there for them when they need us most;
- grow its membership base throughout Australia; and
- ensure that it remains a robust and sustainable business.

Strategy for achieving the objectives

To achieve these objectives, HCI has adopted the following strategies:

- **Simplify** our business structures, process and products;
- **Grow** through a strong brand proposition, community engagement and offering a competitive product suite that both serves the interest of members and delivers suitable margins for the business as a not-for-profit entity;
- **Sustain** by maintaining adequate capital that, in the unlikely occurrence of a major risk event, would allow HCI to continue to comply with minimum prudential requirements and strategically manage the interests of members and reviewing governance structures regularly in light of developments in best practice and regulatory reform;
- **Connect** and develop relationships with members and other stakeholders that facilitate a simple, transparent and efficient environment for transacting with the business.

How principal activities assisted in achieving the objectives

The principal activities assisted HCI in achieving its objectives by delivering competitive health insurance products to the market that served the interests of members. The principal activities will continue to assist HCI achieve its objectives by ensuring that its product suite is balanced to both serve the interests of members, deliver suitable margins for the business and remove complexity.

Performance measures

The following measures are used within HCI to monitor performance:

- a documented risk management framework that includes regular reporting against metrics considered appropriate to assess the risk profile of the business;
- a documented business plan with specified objectives and regular reporting against metrics to demonstrate progress against these objectives; and
- regular financial reporting to both the Board and regulatory bodies as required.

Members' guarantee

HCI is a company limited by guarantee. In the event of, and for the purpose of winding up of the company, the amount capable of being called up from each member and any person or association who ceased to be a member in the year prior to the winding up, is limited to $1 for members that are corporations and $1 for all other members, subject to the provisions of HCI's constitution.

At 30 June 2020 the collective liability of members was $5,885 (2019: $6,264).

Review of operations

A summary of the underwriting result and comprehensive income for the year are set out below:

	2020 $	2019 $
Member contributions	26,288,561	26,676,688
Member benefits expense	(21,928,544)	(23,063,907)
Underwriting results before operating expenses	**4,360,017**	**3,612,781**
Total comprehensive income for the year	**1,329,278**	**1,487,538**

Commentary on the operations and the results of those operations are set out as below:

HCI continued on its strategic journey of controlling the Company's growth profile and product performance and ensuring robust governance frameworks were in place.

HCI's Board renewal process also continued during the year, with long serving directors Mark Fishwick and Phillip Boon retiring after 19 & 18 years of service on the Board respectively. The significance of their contribution to HCI and serving of members was celebrated at the 2019 Annual General Meeting. The HCI Board subsequently welcomed Gerald White as newly appointed Director in March 2020 and looks forward to the value Gerald will bring to the Board given his substantial experience and expertise in financial services and governance.

The disruption of the COVID-19 pandemic was also felt at HCI throughout the year. We are proud that we were able to offer our members support by freezing premiums and providing financial relief to detrimentally impacted members and our staff proved their dedication and flexibility by embracing safety protocols and remote work practices. The financial implications for the fund to 30 June 2020 are reflected in this annual report and the fund is well positioned to address deferred claims. It should be noted that the pandemic is ongoing, in particular the 'second wave' that struck Victoria after the end of financial year. Our thoughts are with all impacted members. We will continue to monitor the situation and make provisions to ensure our members will be covered into the future.

HCI is well placed to pursue sustainable growth that will enable member-oriented delivery of simple, high value private heath insurance to members nationwide.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 8 board meetings, 2 audit committee meetings, 2 risk management committee and 2 performance and remuneration committee meetings were held.

	Directors meetings		Audit Committee		Risk Committee		Performance and Remuneration Committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Greg Spinks	8	8	1	-	-	-	1	1
Carolyn Harris	8	8	4	4	-	-	-	-
Paul Smith	8	7	-	-	2	2	1	1
Megan Bramich	8	8	4	4	-	-	1	1
Phillip Boon	2	2	2	2	-	-	-	-
Mark Fishwick	2	2	-	-	1	1	-	-
Paul Gladman	8	8	-	-	2	2	-	-
Gerald White	1	1	-	-	1	1	-	-

Changes in state of affairs

Other than as disclosed in this report or in the accompanying financial statements and notes thereto, in the opinion of the directors, there have been no significant changes in the state of affairs of the Company during the year.

Subsequent events

At the date of this report, there were no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may affect the operations of the company, the results of those operations or the state of affairs of the Company in future financial years.

Likely developments and expected results of operations

The directors are not aware of any likely developments or expected results that should be disclosed at this time.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretaries, Robert Wood and Jessica Lyons, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor’s independence declaration

The auditor’s independence declaration is included on page 7.

This directors’ report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001* .
On behalf of the Directors

Greg Spinks
Chairman
28 September 2020
Burnie

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Board of Directors
Health Care Insurance Ltd
25 Cattley Street
Burnie TAS 7320

28 September 2020

Dear Directors,

Auditor's Independence Declaration to Health Care Insurance Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Health Care Insurance Ltd.

As lead audit partner for the audit of the financial statements of Health Care Insurance Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

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Partner

Health Care Insurance Ltd.

Statement of profit or loss and other comprehensive income

for the year ended 30 June 2020

	Note	2020 $	2019 $
Member contributions		26,288,561	26,676,688
Member benefits expense		(21,321,717)	(23,361,127)
Net Risk Equalisation Special Account rebate income / (expense)		(606,827)	297,220
Net underwriting result	4 (a)	**4,360,017**	**3,612,781**
Other income		**47,290**	**1,096**
Employee benefits expense	15 (a)	(1,182,517)	(1,043,961)
Depreciation and amortisation expenses		(88,966)	(97,982)
Other expenses	9	(1,755,728)	(1,714,795)
		(3,027,211)	**(2,856,738)**
Profit before interest and investment income		1,380,096	**757,139**
Interest and investment income	10	(50,818)	730,399
Profit for the year		**1,329,278**	**1,487,538**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,329,278**	**1,487,538**

The above statement of profit or loss and other comprehensive income is to be read in conjunction with the attached notes.

Health Care Insurance Ltd.

Statement of financial position

as at 30 June 2020

	Note	2020 $	2019 $
Current assets			
Cash and cash equivalents	11 (d)	3,014,959	2,250,615
Trade and other receivables	11 (b)	662,140	1,002,297
Financial assets at fair value through profit or loss	7	19,355,885	17,417,781
Other assets		47,351	62,911
Total current assets		**23,080,335**	**20,733,604**
Non-current assets			
Property, plant and equipment	12	1,143,514	1,169,768
Intangible assets	13	38,312	50,696
Total non-current assets		**1,181,826**	**1,220,464**
Total assets		**24,262,161**	**21,954,068**
Current liabilities			
Trade and other payables	11 (c)	1,006,108	1,031,718
Claims liabilities	5 (a) (b)	2,884,749	1,483,650
Unearned contribution liability	6	3,141,245	3,555,047
Employee entitlement provision	15 (b)	77,522	65,343
Total current liabilities		**7,109,624**	**6,135,758**
Non-current liabilities			
Employee entitlement provision	15 (b)	16,556	11,608
Total Non-Current Liabilities		**16,556**	**11,608**
Total liabilities		**7,126,180**	**6,147,366**
Net assets		**17,135,981**	**15,806,702**
Equity			
Asset revaluation reserve	14	71,029	71,029
Retained earnings		17,064,951	15,735,673
Total equity		**17,135,980**	**15,806,702**

The above statement of financial position is to be read in conjunction with the attached notes.

Health Care Insurance Ltd.

Statement of changes in equity

for the year ended 30 June 2020

	Asset revaluation reserve $	Retained earnings $	Total $
Balance as at 1 July 2018	**71,029**	**14,248,135**	**14,319,164**
Profit for the year	-	1,487,538	**1,487,538**
Other comprehensive income for the year, net of tax			**-**
Balance as at 30 June 2019	**71,029**	**15,735,673**	**15,806,702**
Profit for the year	-	1,329,278	**1,329,278**
Other comprehensive income for the year, net of tax	-	-	**-**
Balance as at 30 June 2020	**71,029**	**17,064,951**	**17,135,980**
Note	14		

The above statement of changes in equity is to be read in conjunction with the accompanying notes.

Health Care Insurance Ltd.

Statement of cash flows

for the year ended 30 June 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Contributions received from members		25,903,674	26,744,339
Benefits paid to members		(19,920,618)	(23,609,977)
Receipts from / (Payments to) Health Benefits Risk Equalisation Trust		(342,041)	270,170
Payments to suppliers and employees		(3,019,445)	(2,661,991)
Other receipts		-	-
GST refunds		180,242	170,845
Net cash provided by / (used in) operating activities		**2,801,812**	**913,386**
Cash flows from investing activities			
Interest and dividend income		532,878	628,558
Investment expenses		(72,086)	(70,119)
Proceeds from sale of financial assets		9,040,831	6,260,447
Purchase of financial assets		(11,488,773)	(6,923,816)
Purchase of plant, equipment and intangibles		(51,227)	(90,917)
Proceeds from sale of plant, equipment and intangibles		909	19,000
Net cash used in investing activities		**(2,037,468)**	**(176,847)**
Net change in cash and cash equivalents		764,344	736,539
Cash and cash equivalents at the beginning of the year		2,250,615	1,514,076
Cash and cash equivalents at the end of the year	11 (d)	**3,014,959**	**2,250,615**

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

1 Application of new and revised accounting standards

(a) Amendments to AASBs and new Interpretations that are mandatorily effective for the current year

In the current year, the Company has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2019, and therefore relevant for the current year end. The impact of the new standards that are expected to significantly impact reporting have been further disclosed below:

AASB 15 'Revenue from contract with customers' [Not-for-Profit Entities] and AASB 1058 'Income for Not-for-Profit Entities'

AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15. The new income recognition requirements shift the focus from a reciprocal/non-reciprocal basis to a basis of assessment that considers the enforceability of a contract and the specificity of performance obligations. The core principle of the new income recognition requirements in AASB 1058 is when a NFP entity enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives, the excess of the asset recognised (at fair value) over any 'related amounts' is recognised as income immediately.

An example of a 'related amount' is AASB 15 and in cases where there is an 'enforceable' contract with a customer with 'sufficiently specific' performance obligations, income is recognised when (or as) the performance obligations are satisfied under AASB 15, as opposed to immediate income recognition under AASB 1058. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. AASB 15 introduces a 5-step approach to revenue recognition, which is more prescriptive than AASB 118.

It is rare that HCI would acquire assets for significantly less than the fair value of the assets and the majority of the HCI's revenue is currently recognised under AASB 1023 'General Insurance Contracts', with non-insurance revenue comprising immaterial revenue streams. As a result there no impact on the reported financial position or results from the implementation of this standard.

AASB 16 'Leases'

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 supersedes the previous lease guidance including AASB 117 Leases and the related Interpretations. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principles as in AASB 117 and distinguish between two types of leases: operating and finance leases.

Given the operations of the Company and the lack of significant lease arrangements, there has been no impact as a result of the implementation of this Standard. Details of these new requirements are described in note 18.

(b) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied
AASB 17 Insurance Contracts	1-Jan-23	30-Jun-24

Refer below for additional consideration of the potential impacts of the implementation of AASB 17 Insurance Contracts.

1 Application of new and revised accounting standards (continued)

(b) Standards and Interpretations in issue not yet adopted (continued)

AASB 17 'Insurance Contracts'

This standard is effective for reporting periods beginning on or after 1 January 2023 and will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. The Company plans to apply AASB 17 for the annual period beginning 1 July 2023.

The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating products. The Company has started an initial assessment of the potential impact on its consolidated financial statements. Disclosure changes and impacts on the profit and loss are expected.

2 Critical accounting judgements and estimates

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The 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.

(a) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below or elsewhere in the financial statements:

Outstanding claims liability
Refer to note 5(a)

Deferred Claims Liability
Refer to note 5(b)

Unearned risk liability
Refer to note 6 (b)

Fair value of investments
Refer to note 7

3 Summary of significant accounting policies

(a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards – Reduced Disclosure Requirements, and comply with other requirements of the law. For the purposes of preparing the financial statements, the Company is a not-for-profit entity limited by guarantee.

The financial statements were authorised for issue by the directors on 28 September 2020.

(b) Basis of Preparation

The financial report has been prepared on the basis of historical cost, with the exception of financial assets measured at fair value through profit and loss, land and buildings which are measured at fair value, and claims liabilities which are measured at the present value of expected future payments. All amounts are presented in Australian dollars, unless otherwise noted.

4 Insurance underwriting

(a) Insurance underwriting result

	2020 $	2019 $
Member contributions	26,288,561	26,676,688
Member benefits expense:		
Member claims expense	(21,264,953)	(23,354,054)
State levies	(56,764)	(59,073)
Unexpired risk movement	-	52,000
Net risk equalisation special account rebate income / (expense)	(606,827)	297,220
Underwriting results before operating expenses	**4,360,017**	**3,612,781**

Member contributions accounting policy

Member contributions comprises premiums from private health insurance contracts held by members.

Member contributions are recognised in the statement of profit or loss and other comprehensive income when payment for health insurance cover falls due in accordance with the terms of the membership conditions. Member contributions are recognised from the cover date over the period of the contract. The cover date is from when the insurer accepts the risk from the member, under the insurance contract. Member contributions are measured at the fair value of the consideration received and revenue is recognised on a systematic basis in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of the contribution received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as unearned contribution liabilities. Any non-current portion is discounted based on expected settlement dates, however as noted below this is minimal.

Contributions on unclosed business are brought to account using estimates based on payment cycles nominated by the member.

The Australian Government provides a rebate for contributions paid by eligible resident private health insurance members and pays this rebate directly to the Company under the Premium Rebate Scheme. This rebate is recognised within member contributions in the statement of profit or loss and other comprehensive income. Rebates due from the government but not received at balance date are recognised as trade and other receivables.

Member benefits expense accounting policy

Member benefits expenses comprise member claims expenses paid during the year together with related handling costs, state levies and the unexpired risk movement during the period. The Risk Equalisation Special Account levy for Australian health insurance business (as noted below), is shown as a separate line on the profit or loss and other comprehensive income, given the account can alternate between income or expense.

Net risk equalisation special account levies and rebates accounting policy

Under legislation, all private health insurers must participate in the Risk Equalisation Special Account, which shares a proportion of the hospital and medical claims of all members aged 55 years and over and those memberships with high costs claims meeting the high cost claim criteria in any one year between all health insurers.

The Australian Prudential Regulation Authority (APRA) determines the amount payable to or receivable from the Risk Equalisation Special Account after the end of each quarter. Provisions for estimated amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unpresented and outstanding claims.

5 Claims liabilities

(a) Outstanding claims liability

	2020 $	2019 $
Outstanding claims	1,103,666	1,361,000
Claims handling	76,000	78,000
RESA allowance	22,000	(26,000)
Risk margin	60,083	70,650
	1,261,749	**1,483,650**

Movements in outstanding claims liability

Movements in the balance are as follows:

	2020 $	2019 $
Balance at beginning of period (1 July)	**1,483,650**	1,732,500
Claims incurred during the year	19,730,999	23,276,000
Claims paid in respect of the current year	(18,627,966)	(21,915,000)
Claims incurred for prior years	(235,826)	76,000
Claims paid in respect of prior years	(1,124,541)	(1,622,000)
Margin on central estimate	(10,567)	(11,850)
RESA allowance adjustment	48,000	(34,000)
Claims handling costs	(2,000)	(18,000)
Balance at end of period (30 June)	**1,261,749**	**1,483,650**

Outstanding claims liability accounting policy

The outstanding claims liability (provision) represents claims received but not assessed and claims incurred but not received. The liability (provision) at balance date, is based on an actuarial assessment that considers historic patterns of claim incidence and processing. It is measured as a 'central estimate' of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued, plus a risk margin reflecting the inherent uncertainty in the central estimate.

Based on historical experience, approximately 85% of outstanding claims are received within 2 months of balance date, and accordingly only 15% of the outstanding claims provision requires an estimate. Accordingly reasonable changes in assumptions would not have a material impact on the outstanding claims balance. Given the short decay, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material.

The liability also allows for an estimate of claims handling costs which includes the expected costs of negotiation of claims settlement and administrative expenses of the claims department attributable to these future claims.

Key sources of estimation uncertainty

The outstanding claims liability estimate, is a key accounting judgement as a result of the determining the expected future patterns based on historical evidence. Allowances are made, however, given sources of estimation are based on historic trends a level of uncertainty is always inherent in the central estimate. The outstanding claims estimate is derived using all data combined in an aggregate model. As such diversification benefits have been implicitly allowed for in the process.

The determined risk margin of 5.0% (2019: 5.0%) is based on an analysis of historic evidence and calculated using the actuarial assistance. The risk margin has been estimated to equate to the Company's objective of achieving a probability of adequacy of at least 75% (2019: 75%).

(b) Deferred Claims Liability

	2020 $	2019 $
Deferred Claims Liability - Hospital	1,026,000	-
Deferred Claims Liability - Ancillary	597,000	-
	1,623,000	**0**

Notes to the accounts – Deferred Claims Liability

Rationale

In March 2020 the Government announced the suspension of certain surgical procedures as well as social distancing measures in response to the COVID-19 pandemic. Health insurers have an obligation to settle claims that were deferred as a result. In June 2020 APRA released guidance to the Industry in relation to an approach for determining the deferred claims liability relating to the claims that were deferred in the service months of March, April, May and June 2020 as a result of the restrictions. The amount disclosed above has been calculated in a manner which is consistent with the guidance issued.

Assumptions

The liability requires the following components:

- "Claims that did not occur" in the above service months, split by hospital treatment and general treatment.
  - This was determined by estimating the hospital and general treatment claims that would have occurred in those service months if COVID-19 had not happened.
  - Subtracting the estimated hospital claims and general treatment claims that ultimately did occur, based on payments to date and the outstanding claims liability for those service months.
- Determining what proportion of the claims that did not occur would have to be paid by HCI in future periods – the "deferred claims".
  - APRA has further prescribed that the implied 75th percentile level of sufficiency of the deferred claims liability is to apply 100% of the above calculation for hospital claims and 85% for general treatment claims.
  - APRA has indicated that both claims handling expenses and risk margins are implicitly included in the factors prescribed above, although a separate allowance is made for risk equalisation.
  - For HCI the liability adopted in the accounts has been determined as being at least at the 75th percentile level of sufficiency, and utilises the APRA prescribed factors.

Key judgements relate to:

- The expected claims level, which were based on the FY21 Budget.
- The proportion of claims deferred, inclusive of risk margin (100% for hospital and 85% for general treatment) which is based on APRA's consultation with stakeholders and HCI's internal view.

6 Unearned contribution liability and unexpired risk liability

(a) Unearned contribution liability

	2020 $	2019 $
Unearned contributions	3,092,770	3,500,999
Unearned unclosed business	48,475	54,048
	3,141,245	**3,555,047**

Liability adequacy testing did not result in any deficiency as at 30 June 2020 and 30 June 2019.

Unearned contribution liability accounting policy

The unearned contribution liability represents contributions written that relate to periods of risk in future accounting periods. Unearned contributions are released to profit and loss and other comprehensive income as revenue consistent with note 5 (a) over the term of the period of cover.

(b) Unexpired risk liability

	2020 $	2019 $
Unexpired risk liability	-	-
	-	-

Unexpired risk liability accounting policy

A liability adequacy test is required to be performed in respect of the unearned contributions and insurance contracts renewable before the next pricing review. At balance date, the adequacy of the unearned contributions balance is tested by considering current estimates of all expected future cash flows relating to future claims arising from the rights and obligations created under the current insurance coverage.

If the sum of the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned contributions then the unearned contribution is deemed to be deficient, with the deficiency being recorded in the income statement and an unexpired risk liability created.

This test is also extended beyond recognised unearned contributions to include contributions renewable until the next repricing review, which occurs 1 April each year.

Key sources of estimation uncertainty

Unexpired risk liability involves estimation of the expected future cash flows relating to claims and therefore involves a certain level of subjectivity in determination. To avoid management subjectivity in this estimation, management consult with a third party actuary to provide a statistical approach to testing and calculating unexpired risk liability.

7 Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss

	2020 $	2019 $
Term deposits	6,750,000	4,500,000
Australian equities	1,641,629	1,968,680
Fixed income	10,964,256	10,949,101
	19,355,885	**17,417,781**

Financial assets at fair value through profit or loss accounting policy

AASB 1023 General Insurance Contracts requires that all assets backing insurance liabilities be measured at fair value through profit or loss. All of the Company's financial assets were so classified throughout the reporting period. When financial assets are recognised initially, they are measured at fair value in the statement of financial position with any resultant unrealised profits and losses recognised in the statement of profit or loss and other comprehensive income.

All of HCI's investments are in fixed income bonds, Australian equities or term deposits. A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the Company retains the right to receive cash flows from the asset and either, the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Key sources of estimation uncertainty

The value of investments that are not traded in an active market are determined by the unit fund managers using valuation techniques. Such techniques include the use of recent arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow technique or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

8 Categories of financial assets and financial liabilities

(a) Classes and categories of financial instruments and their fair values

The following table combines information about:

- classes of financial assets and liabilities based on the nature and characteristics; and
- the fair values of financial instruments (where carried at fair value)

	2020 $	2019 $
Financial assets		
Cash and cash equivalents	**3,014,959**	**2,250,616**
Financial assets at fair value through profit or loss		
Australian equities	1,641,629	1,968,680
Term deposits	6,750,000	4,500,000
Fixed income	10,964,256	10,949,101
	19,355,885	**17,417,781**
Amortised cost		
Trade and other receivables	**662,140**	**1,002,297**
Financial liabilities		
Amortised cost		
Trade and other payables	**1,006,108**	**1,031,718**

9 Function of expense

The Company's function of expenses can be broken down as follows:

	2020 $	2019 $
Information, technology and communications	691,667	654,162
Compliance costs	479,728	468,774
Marketing and advertising	248,925	208,887
Administrative expenses	335,408	382,972
	1,755,728	**1,714,795**

10 Interest and investment income

	2020 $	2019 $
Interest income (on investments)	405,291	510,039
Dividends	86,880	105,616
Net gain/(loss) on disposal of financial assets	24,975	(22,900)
Net gain/(loss) on fair value movements on financial assets	(567,964)	137,644
	(50,818)	**730,399**

Net gains and losses on fair value movements of financial assets

Gains or losses arising from changes in the fair value of financial assets designated as 'fair value through profit of loss' are presented net in the interest and investment income balance in the period the adjustment arises.

Interest and dividend income

Interest income is accrued using the effective interest method and recognised in the period to which it is earned. Dividend income arising from investments in Australian Equities are also accrued and recognised when declared.

11 Working capital

(a) Capital management

The Company is required to hold liquid financial instruments in order to maintain sufficient capital to comply with APRA's Solvency and Capital Adequacy Prudential Standards under the *Private Health Insurance (Prudential Supervision) Act 2015.* The standard requires the fund to maintain liquid assets to meet capital adequacy under stressed scenarios.

The Company's financial assets that are measured through profit or loss are disclosed in note 8, all other financial assets are measured at amortised cost as the assets are being held to collect contractual cash flows - these include trade receivables. Financial liabilities - including trade payables are measured at amortised cost.

(b) Trade and other receivables

	2020 $	2019 $
Contributions in arrears	48,595	70,483
Allowance for impairment	(32,000)	(45,000)
	16,595	**25,483**
Unclosed Business - Unearned	48,475	54,048
Government rebate scheme	634,471	648,925
Risk equalisation special account	(109,619)	155,167
Interest receivable	60,557	101,264
GST refundable	11,661	16,330
Sundry receivables	-	1,080
	662,140	**1,002,297**

11 Working capital (continued)

Trade and other receivables accounting policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are non-interest bearing and generally due for settlement within 7-30 days.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment is used where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Objective evidence of impairment for contributions in arrears is 63 days past due. Objective evidence of impairment for trade receivables and other receivables is 60 to 90 days past due.

Goods and service taxes accounting policy

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.
Cash flows are included in the statement of cash flows on a gross basis. 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.

(c) Trade and other payables

	2020 $	2019 $
Risk Equalisation Special Account	-	-
Sundry payables and accrued expenses	1,006,108	1,031,718
	1,006,108	**1,031,718**

Trade and other payables accounting policy

Trade and other payables are recognised initially at fair value and then subsequently measured at amortised cost using the effective interest method. Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days.

(d) Cash and cash equivalents

	2020 $	2019 $
Cash on hand	700	849
Cash at bank	3,014,259	2,249,767
	3,014,959	**2,250,616**

Cash and cash equivalents accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

12 Property, plant and equipment

Reconciliation of movements

	Freehold land & Buildings (at fair value) $	Plant and equipment $	Total $
Gross Carrying Amount			
Balance as at 1 July 2018	**975,000**	**503,576**	**1,478,576**
Additions	-	123,110	123,110
Revaluation	-	-	-
Disposals	-	(113,771)	(113,771)
Balance as at 30 June 2019	**975,000**	**512,915**	**1,487,915**
Additions	-	51,227	51,227
Revaluation	-	-	-
Disposals	-	(13,691)	(13,691)
Balance as at 30 June 2020	**975,000**	**550,451**	**1,525,451**
Accumulated Depreciation			
Balance as at 1 July 2018	**-**	**288,429**	**288,429**
Depreciation expense	13,720	73,038	86,758
Revaluation	-	-	-
Disposals	-	(57,040)	(57,040)
Balance as at 30 June 2019	**13,720**	**304,427**	**318,147**
Depreciation expense	13,720	62,861	76,581
Revaluation			-
Disposals		(12,791)	(12,791)
Balance as at 30 June 2020	**27,440**	**354,497**	**381,937**
Net Book Value			
As on 30 June 2019	**961,280**	**208,488**	**1,169,768**
As on 30 June 2020	**947,560**	**195,954**	**1,143,514**

Property, plant and equipment accounting policy

Freehold land and buildings (excluding investment properties) are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity every 3 years such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

12 Property, plant and equipment (continued)

Property, plant and equipment accounting policy (continued)

Depreciation
Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

- Buildings 4% per annum
- Plant and equipment 10% – 33% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Disposal
The gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). These gains or losses are included in profit or loss and other comprehensive income. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

13 Intangible assets

	2020 $	2019 $
Computer software		
Cost	149,304	149,304
Accumulated amortisation	(110,992)	(98,608)
	38,312	**50,696**

Intangible assets - computer software accounting policy
Intangible assets arising from computer software are stated in the statement of financial position at cost less accumulated amortisation.
Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, at 30-40% per annum

The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

14 Asset revaluation reserve

	2020 $	2019 $
Opening balance 1 July	71,029	71,029
Revaluations	-	-
Balance 30 June	**71,029**	**71,029**

Asset revaluation reserve accounting policy

The asset revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

15 Employee expenses and entitlements

	2020 $	2019 $
(a) Employee benefits expense		
The Company's employee benefits expense comprises the following:		
Short-term employee benefits		
Salaries and wages	959,208	828,979
Directors remuneration and meeting expenses	128,932	132,555
	1,088,140	**961,534**
Post-employment benefits	94,377	82,427
Total employee benefits expenses	**1,182,517**	**1,043,961**
(b) Provisions for employee entitlements		
Current employee entitlements	77,522	65,343
Non-current employee entitlements	16,556	11,608
	94,078	**76,951**

Short-term and other long-term employee benefits accounting policy

Provision is made for HCI's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cash flows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cash flows. Changes in the measurement of the liability are recognised in profit or loss.

16 Key management personnel 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		
Salaries and fees	291,492	292,618
Other benefits	-	-
	291,492	**292,618**
Post- employment benefits		
Superannuation	32,537	27,134

Key management personnel are those who have the responsibility for planning, directing and controlling the activities of the Company and consist of the Directors and the General Manager.

17 Related party transactions

During the year, HCI received health insurance premiums of $25,553 (2019: $26,339) from key management personnel and their relatives on normal commercial terms and conditions. That is to say, on terms and conditions no more favourable than those available to others.

The discount available to HCI directors is no more than what is available to staff and is less than the maximum discount that a health fund is able to offer to members under the *Private Health Insurance Act 2007*.

18 Operating lease arrangements

Lease arrangements

	2020 $	2019 $
Payments recognised as an expense		
Lease and sub-lease payments recognised as an expense	2,947	-
Non-cancellable operating lease commitments		
No later than 1 year	3,930	
Later than 1 year and no later than 5 years	4,914	-
later than 5 years		-
	8,844	-

Operating lease accounting policy
The Company has a single operating lease. Payments relating to Short-term and/or low value leases are recognised as an expense as incurred.

19 Commitments and contingencies

Capital commitments

At balance date the company had $ nil capital expenditure commitments (2019: $nil)

Contingent liabilities

At balance date the company had no contingent liabilities

20 Subsequent events

At the date of this report, there were no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may affect the operations of the Company, the result of those operations or the state of affairs of the Company, in future financial years.

21 Corporate information and Members' Guarantee

Health Care Insurance Ltd is a company incorporated under the *Corporations Act 2001* and is limited by guarantee. In the event of the wind up of HCI the constitution states that each member is required to contribute a maximum of $1 each towards meeting any outstanding obligations of the Company. At 30 June 2020 the number of Members of HCI were 5,885 (2019: 6,264).

HCI is domiciled in Australia. The company’s registered office and its principal place of business are as follows:

Registered office:
25 Cattley Street
Burnie, Tasmania

Principal place of business:
25 Cattley Street
Burnie, Tasmania

Health Care Insurance Ltd.

Directors' declaration

for the year ended 30 June 2020

The Directors of the Company declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* , including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company

Signed in accordance with a resolution of directors made pursuant to s295 (5) of the *Corporations Act 2001* .

On behalf of the Directors

Greg Spinks
Chairman

28 September 2020

Deloitte.

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Independent Auditor's Report to the members of Health Care Insurance Limited

Opinion

We have audited the financial report of Health Care Insurance Limited (the "Entity") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Entity's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements 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 Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company**,** would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' 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 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 – Reduced Disclosure Requirements and the *Corporations Act 2001* and for 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 ability of the Entity 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 Entity or to cease operations, or has 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

S Dare
Partner
Chartered Accountants
Launceston, 28 September 2020