Annual Report

2020

We're with you for a healthy life.

Contents.

Our purpose:
to help members live healthy lives

Our vision:
to renew community confidence

Our values:

Community | Value and Affordability | Integrity | Member for Life | Accountability

A not for profit, here-for-you health fund.

HIF has been supporting its members and their families with their health and wellbeing for over 65 years.

Starting from humble beginnings, the HIF story began as the *Western Australian Government Railways Employees Hospital and Medical Benefits Fund Inc*, before becoming the *Health Insurance Fund of WA*, 24 years later, and then HIF in 2010. Our loveable Hif was introduced in 2018.

Today, HIF is a multi-award-winning health fund. That's why more and more people are turning away from other Australian health insurers in favour of our ethical member-focused approach, our great value health, pet and travel options, and our philosophy of allowing our members total freedom when it comes to choosing their own healthcare provider.

HIF was one of the first Australian health insurers to support Australian marriage equality and the LGBTIQ+ community. HIF has covered same-sex couples for decades and we of course welcome any new members who are transgender or non-binary gender, this is why we proudly offer third gender and Mx titles options and provide benefits on sexual reassignment surgery.

We also care about the environment. HIF was Australia's first carbon neutral health fund, as certified by the Carbon Reduction Institute (CRI) on 25 September 2008. By getting our greenhouse in order and offsetting our emissions, we're officially environmentally friendly.

Sponsorships

HIF has been proudly supporting the Perth Wildcats since 2013. Being an organisation that supports making healthy lifestyle choices, the partnership felt natural from the beginning and continues to go from strength to strength.

The Amanda Young Foundation is another cause very close to the heart of HIF. A foundation promoting the awareness of the deadly Meningococcal disease, HIF has been supporting the foundation for over fifteen years.

105,345

Members covered by HIF Health Insurance

$151 million

In claims paid to HIF Members

9,572

Overnight hospital stays

We're creating more touch points with our members to encourage **two-way communication** and feedback on how we can better improve our business.

Claims processed

28,933
Hospital

83,677
Medical

377,089
Extras

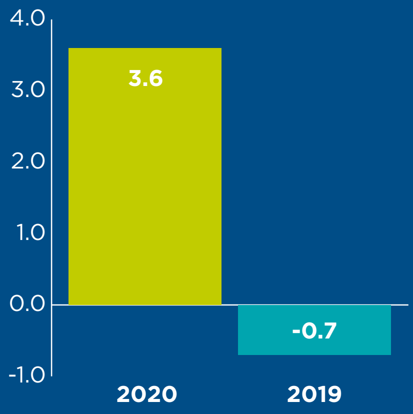
1.37%
Increase in web traffic

220%
Increase in blog traffic

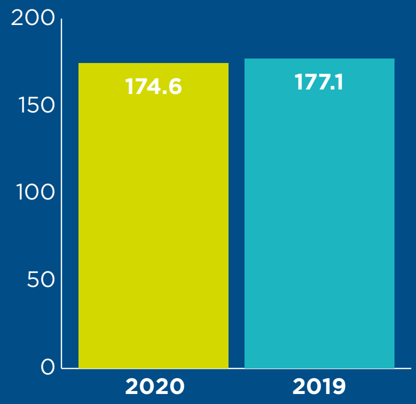
107,692
Calls recorded

533
Pets insured

Financial summary.



Consolidated surplus for the year **$3.6 million** compared to a consolidated loss of **$0.7 million** in 2019.



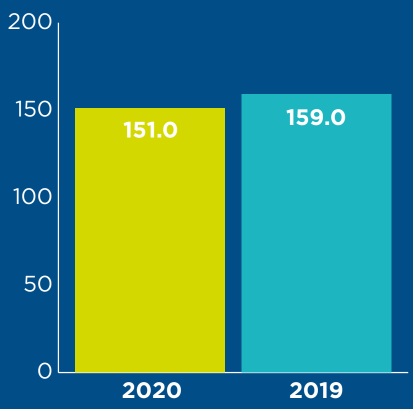
Premium revenue for the year was **$174.6 million** compared to **$177.1 million** in 2019, a decrease of 1.4%.

The Company planned to increase Members' premiums by a weighted average 5.58% on 1 April 2020, however, in response to the COVID-19 pandemic, the increase was postponed to 1 October 2020.

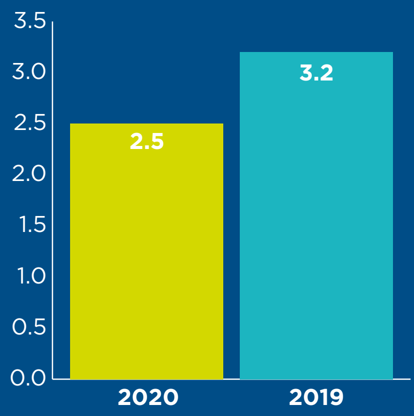
Underlying this year's net claims

72.6%

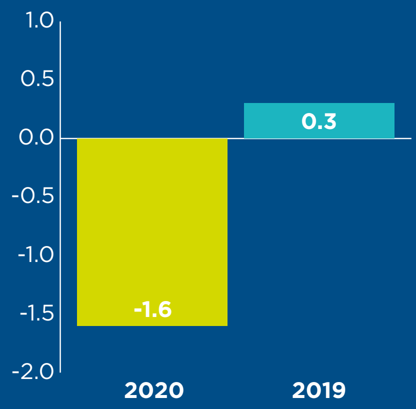
related to hospital treatment policies, a **(10.0%) decrease** in the number of hospital claims assessed, a **(10.4%) decrease** in the number of medical claims assessed and a **(9.4%) decrease** in extras claims due to the pandemic. These claims were deferred rather than cancelled, and are expected to be incurred in future months.



Net claims incurred was **$151.0 million** compared to **$159.0 million** in 2019, a decrease of 5.1%.



Investment income for the 2020 year was **$2.5 million** compared to **$3.2 million** in 2019.



The fair value (unrealised) loss on financial assets (i.e. the investment portfolio) at fair value was **$1.6 million** compared to a (unrealised) gain of **$0.3 million** in 2019.

Investment markets suffered severe losses in March 2020 due to the COVID-19 pandemic which were only partially recovered by 30 June 2020.

The total overheads for the year were

$21.3 million

(12.2% of premium revenue) compared to **$22.7 million** (12.8% of premium revenue) in 2019.

Other operating expenses for the year were

$8.5 million

compared to **$7.9 million** in 2019.

From our Chairman.

This year proved to be very challenging for our members and for businesses across Australia.

No one could have predicted the widespread effects of COVID-19 and its significant impact on our health, the economy and our members' livelihoods. We very much feel for our members based in areas of Australia who are still feeling its effects and we're happy to see that there is light at the end of the tunnel for those states.

Our business implemented many relief initiatives to help our members during this difficult time. From delaying the April premium increase, offering COVID-19 hospital cover for members, adopting telehealth and teledentistry services, to offering financial hardship suspensions for members who were, or are still doing it tough as a result of the pandemic. These functions cost the business over $5 million dollars, a price we were willing to pay to support our members' health.

In such an unprecedented year, we're pleased to present the HIF annual report that showcases how we've continued to work hard for our members to provide a high quality member experience and to produce health covers that address the health and wellbeing concerns of our members.

This year, HIF experienced a high level of renewal at its executive and board levels. A new strategy, purpose, vision and values were developed to continue to create lasting relationships with Members and renew confidence and value in our service. Our core values of Community, Member Value and Affordability, Integrity, Member for Life and Accountability are all the cornerstones for our strategy as we move into a new financial year, and years beyond.

Our financial performance was strong this year, which reflects the business's pricing adjustments to premiums to ensure the continued growth of our business.

This year HIF processed close to 500,000 members' claims and paid a total of $151 million across Hospital, Medical and Extras in support of our members' health and wellbeing.

As a business we work hard to meet best practice governance and the increasing prudential requirements of APRA and ASIC. HIF has adopted a robust risk and compliance strategy that will build on this area as we move into the new financial year.

On behalf of the entire HIF board, staff and member community, I would like to provide sincere thanks to our Company's long serving CEO and Managing Director, Mr Graeme Gibson, who retired on July 31st after 15 years at the helm of the HIF business. We thank him for his long-standing contribution and we wish him and his family well in his retirement. After an extensive national search to replace Mr Gibson, HIF appointed Justin James as the new CEO in May 2020. We look forward to the continued growth and transformation of our business under Justin's leadership.

Richard Homsany
Chairman

From our CEO.

Our focus is on choice, confidence and our community

Whether it's our members, our corporate culture or the team that help deliver the HIF experience every day, our community is the life force behind our business, so improving experience and confidence in HIF is our highest priority.

We want to be listening and learning how we can make each experience better, whether it's through improved processes, two-way communication, or by introducing more choices for our members.

We want our members to feel confident and assured that the health covers they have with us is good value for money and the service we provide is meaningful, due to the agility a smaller fund can offer.

We know affordability of private health continues to be an issue, so we plan to communicate with honesty and transparency on where the funds from our member's policies go. We want to show members the real value of HIF cover and what makes our community different.

In terms of our policies, for many years HIF's pricing was very low. Some products we had in the market were unsustainable, so a price correction was undertaken to ensure we aligned with the industry and so we can continue to cover the cost of claims and our operations. This ensures HIF remains competitive and sustainable in the market moving forward. As our regulator has said many times, 'we were too cheap'... Our premiums are still very competitive in the market, even with this correction.

We're conscious that there are many areas that we need to tackle to improve the affordability of private health cover from a wider industry perspective too, including; enhancing our relationships with industry stakeholders, continuing to lobby for broader reform including the delayed prosthesis benefits and tackling areas of waste across all areas of the private health sector. Affordability and choice are focus areas for HIF.

Moving into the new year and beyond, we're looking to embrace innovation and new technology, both within the HIF business and in the therapeutic treatments and services we offer our members.

We want our members to associate HIF with choice, as this is a real difference our fund offers. Whether it's choice in ancillary providers, choice of hospital or access to less conventional treatment methods, we want our members to have the freedom to make these decisions. That's why we don't have preferred providers.

In terms of communication, we're creating more touch points with our members than ever before, to help encourage two-way communication and feedback on how we can increase the value we provide to our members.

HIF now has a store front and a community lounge at our Stirling Street location in Perth, where members can come in and speak with membership consultants, or even me. The community lounge will also host regular health and wellbeing activities and other events throughout the year for members.

The HIF kiosk is travelling to shopping centres across Perth, so the wider community can pop in and ask questions about their cover or potential new members can join on the spot.

Moving forward, we want HIF to have a voice. We want to stand up for areas of health that we see value in and communicate with our members and the wider community more than ever, revealing the nuts and bolts of the industry. We want our members to understand the importance of private health insurance for singles, couples, families and even for pets!

We understand that our community will be challenged for some time still in this brave new world we share. With this, we sincerely wish the community good health as we move into the next 12 months.

Justin James
CEO

HIF Financial report.

Corporate information.

Directors

R. Homsany (Chairman)

G. N. Gibson (Managing Director)
(retired 31 July 2020)

S. V. Blake

A. J. Carpenter (retired 20 April 2020)

M. A. Dudley (retired 30 October 2019)

P. L. Hersey

K. Laufmann (appointed 20 April 2020)

T. W. Shackleton (appointed 29 June 2020)

Company secretary

K. L. J. Garvey

Registered office and principal place of business

100 Stirling Street, Perth
Western Australia

Solicitor

Lavan
Level 20, 1 William Street, Perth
Western Australia

Banker

National Australia Bank
Level 28, 500 Bourke Street, Melbourne
Victoria

External auditor

Deloitte Touche Tohmatsu
Tower 2, Brookfield Place,
123 St Georges Terrace, Perth
Western Australia

Internal auditor

PricewaterhouseCoopers
Brookfield Place,
125 St Georges Terrace, Perth
Western Australia

Appointed actuary

J. Reid – Finity Consulting
Level 7, 68 Harrington Street, Sydney
New South Wales

Directors' Report.

The board of directors (**Board**) of Health Insurance Fund of Australia Limited (**the Company**) submit herewith the Directors' report for the year ended 30 June 2020 in accordance with the *Corporations Act 2001* (Cth).

Our Board

Information about the Directors

The directors of the Company (**Directors**) during or since the end of the year ended 30 June 2020 are:

Mr R. Homsany *LLB (Hons), BCom, Grad Dip App Fin & Inv* **Chairman**	Mr Homsany was appointed to the Board in June 2010. Mr Homsany is Executive Vice President, Australia of Mega Uranium Ltd, a TSX listed company and is an experienced corporate lawyer having been admitted as a solicitor for over 20 years. Mr Homsany is also the principal of Cardinals Lawyers and Consultants. Previously he was Partner, Corporate and Commercial, of DLA Phillips Fox (now DLA Piper) and prior to that was a partner of Gadens Lawyers. Mr Homsany has also worked for an ASX top 50-listed internationally diversified resources company in operations, risk management and corporate. Mr Homsany is a Certified Practising Accountant (CPA) with CPA Australia, a fellow of the Financial Services Institute of Australasia (FINSIA) and a member of the Australian Institute of Company Directors. Mr Homsany has a Commerce Degree and Honours Degree in Law from the University of Western Australia and a Graduate Diploma in Finance and Investment from FINSIA. Mr Homsany has significant board experience with public listed companies including as Chairman of ASX listed Redstone Resources Ltd and TSX-V listed Central Iron Ore Limited, and as Executive Chairman of ASX listed Toro Energy Ltd, as Chairman of ASX listed Galan Lithium Limited and as a Non-Executive Director of ASX Listed Brookside Energy Limited. Mr Homsany is a member of the Audit Committee and the Risk Committee and Chairman of the Nomination and Remuneration Committee.

Mr G. N. Gibson *BBus, Grad Dip Ed, CPA, GAICD* **Executive Director** Retired: 31 July 2020	Mr Gibson is Chief Executive Officer and Managing Director, is a Certified Practising Accountant (CPA) with CPA Australia and a Graduate member of the Australian Institute of Company Directors. Mr Gibson was appointed by the Board in 2009. Mr Gibson commenced with the Company in 2004 as Commercial Manager when it operated as an incorporated association under the *Associations Incorporation Act 1987* (WA). In 2005, Mr Gibson was appointed Chief Executive Officer during which time Mr Gibson managed the Company's re-registration as a private health insurer in 2008 and transfer of incorporation (from an association to a company) in 2009, at which time Mr Gibson was appointed Managing Director. Before joining the Company, Mr Gibson worked as an Area Business Manager for Australia's then largest private hospital operator Affinity Health Ltd after serving in senior finance and commercial roles for several publicly listed companies involved in mining, infrastructure, manufacturing and industrial services. Mr Gibson also gained experience in the public sector as a senior lecturer in finance, accounting and commerce.
Ms S. V. Blake *MMkt, Grad Dip Comm, BComm Mkt & PR, GAICD* **Non-executive Director**	Ms Blake was appointed to the Board in September 2016. Ms Blake has significant experience as a consultant in building marketing strategies for clients, including in financial and professional services, utility, government, retail, hospitality, non-government and member-based organisations. Ms Blake has held senior marketing leadership positions in several organisations, involving national promotions and communications strategy and product development, and lectured in marketing and professional practice at Curtin University, and she is a former partner at strategy consulting firm Black House. Ms Blake is the former founding director of Glue Marketing Consulting, a firm specialising in marketing, brand and digital communication and channel strategy development. Ms Blake is currently the Chief Marketing Officer for a global technology company, Tape Ark. Ms Blake is a Councillor of Scotch College and is Chairman of the College's Risk Committee. Ms Blake is a member of the Audit Committee and Chairman of the Risk Committee.

Mr A. J. Carpenter *B Arts (Politics), MAICD* **Non-executive Director** Retired: 20 April 2020	Mr Carpenter was appointed to the Board in November 2018. Before his appointment, Mr Carpenter served nine years at Wesfarmers Ltd as Executive General Manager, Corporate Affairs. During this time, he worked with the senior Wesfarmers leadership and the boards of all the Wesfarmers business units including Coles, Bunnings, Kmart, Target, Officeworks and the industrials division. Mr Carpenter has extensive experience in corporate affairs spanning private and public sectors across Australia and internationally. Before joining Wesfarmers, Mr Carpenter served as a Labor Party member of the West Australian parliament for 13 years from 1996. In Government, he held the Ministerial portfolios of State Development and Trade, Energy, Science and Innovation, Federal Affairs, Education and Training, Indigenous Affairs, and Sport and Recreation. In January 2006, Mr Carpenter became the 28th Premier of Western Australia, holding that position until September 2008. Mr Carpenter was a journalist before entering politics, including at the Albany Advertiser Newspaper, Channel 7 and the ABC as its political reporter before becoming the lead presenter on the 7:30 Report and later the Stateline program. Mr Carpenter is a member of the Risk Committee and a member of the Nomination and Remuneration Committee.
Mr M. A. Dudley *BCom, BEcon* **Non-executive Director** Retired: 30 October 2019	Mr Dudley is an Associate of CPA Australia, an Associate of the Australian and New Zealand Institute of Insurance, an Associate of the Australian Institute of Management and a member of the Australian Institute of Company Directors. Mr Dudley was elected to the Board in 2007 and was appointed Chairman in 2008. Mr Dudley has extensive senior management experience in the financial services industry in Australia and New Zealand spanning over three decades. Mr Dudley was the Managing Director of financial planning and accounting services provider Pinnacle Planners until it was sold in late 2012. He currently holds directorships in private companies involved in private investment, property development and the operation of childcare facilities. Mr Dudley has served as a member of the Finance Committee of the Board of Newman College and Chairman of The Financial Planning Association of AMP Australia. Mr Dudley is a member of the Nomination and Remuneration Committee and Chairman of the Audit Committee.

Mr P. L. Hersey *BSc, MBA, MAICD* Non-executive Director	Mr Hersey was appointed to the Board in June 2019. Mr Hersey has extensive experience in the health, insurance, government, not for profit and financial services sectors as a senior executive and external consultant. Mr Hersey's early career involved working as a management consultant in London, primarily within the health and finance sector. Mr Hersey held roles in quality healthcare and as a project director in the Asia-Pacific region, as a senior executive of the Company, program manager for Ramsay Health, executive manager in health partnerships for a private health insurer and as a director within PricewaterhouseCoopers' health and government practice, working for clients in federal and state health departments, aged care, community and treasury, not for profit entities, private hospital groups and health insurers. Mr Hersey was Chief Executive Officer of 360 Health and Community, a not for profit primary healthcare organisation until 2017 before becoming a founding director of the Mavuno Group, a wealth, advisory and investments consultancy. Mr Hersey has held board positions within both the not for profit and private sectors, including at Pat Thomas House, Moorditj Koort Aboriginal Health and Wellness Centre and Intium Energy.
Mr K. B. Laufmann *BEcon, Grad Dip Fin Plan* Non-executive Director	Mr Laufmann was appointed to the Board in April 2020. Mr Laufmann is the Western Australian State Manager, Equity Partner and National Compliance Committee member of EL&C Baillieu Ltd, one of Australia's oldest share brokerage firms. Mr Laufmann has worked in financial markets for the past 25 years, holding positions with Salomon Smith Barney Inc., Citigroup Inc. and HSBC, focusing on capital raising, portfolio management and corporate advice. Throughout his career, Mr Laufmann has advised and funded several ASX resource companies from early-stage venture capital, through to IPO, and discovery. Previously Mr Laufmann was a non-executive director at NxGold Ltd, which held assets in WA and North America and also sat on its Audit Committee. Mr Laufmann is a member of the Board's Risk Committee and a member of its Nomination and Remuneration Committee.

Mr T. W. Shackleton *BSc, Grad Dip HSM, MAICD* **Non-executive Director**	Mr Shackleton was appointed to the Board in June 2020. Mr Shackleton has extensive experience as an executive and non-executive director in the public, private and NGO health sectors in WA. Currently employed as Chief Executive Officer (CEO) of Rural Health West (an NGO dedicated to improving access to health care for people in rural and remote regions of WA), his previous experience includes CEO of the Royal Flying Doctor Service, Regional Director for Health in the Pilbara, Gascoyne and Wheatbelt Regions, General Manager of the Murchison Health Service and Executive Director of the Asthma Foundation of WA. In 2011, Mr Shackleton also established health consultancy firm Virtual Health, which he operated successfully until joining Rural Health West in 2016. In addition to his executive experience, Mr Shackleton has a strong background in board directorship. Previous appointments include Chair of the Western Australian Regional Development Council, Chair of the Wheatbelt Development Commission and Chair of WA General Practice Education and Training Pty Ltd. In addition to his position on the Board of HIF, Mr Shackleton is currently Chair of the Western Australian Pastoral Lands Board and Non-Executive Director of the Royal Flying Doctor Service WA. Mr Shackleton has a bachelor's degree in Human Movement and a Post Graduate Diploma in Health Service Administration.

The Directors, except for Mr Carpenter, Mr Dudley, Mr Laufmann and Mr Shackleton, held office during the whole of the year ended 30 June 2020.

Company Secretary

Ms K. L. J. Garvey LLB, BA, MAICD is an experienced corporate and commercial lawyer and is presently Legal Counsel at Mega Uranium Ltd, a Senior Associate at Cardinals Lawyers and Consultants and Company Secretary of Central Iron Ore Limited, a TSX-V listed company. Prior to that Ms Garvey spent several years with international law firm DLA Phillips Fox (now DLA Piper) in corporate advisory and commercial. Ms Garvey is a member of the Australian Institute of Company Directors.

Principal Activities

The principal activity of the Company is the provision, as an underwriter, of private health insurance in Australia by operating as a registered private health insurer in accordance with the *Private Health Insurance Act 2007* (Cth) (**Act**). Private health insurance provided by the Company includes coverage for Australian citizens and permanent residents who are entitled to Medicare benefits under Complying Health Insurance Products (**CHIP**) for:

- Hospital treatment – inpatient, day patient and in-the-home services
- General treatment (extras) – ancillary health services (including dental, optical, physiotherapy and chiropractic)

Collectively, these categories of health insurance are health insurance business as this term is defined in the Act or in the rules referred to in the Act.

The Company provides, as an underwriter, non-CHIP private health insurance, including hospital treatment and/or general treatment, to overseas visitors who temporarily reside in Australia, including Temporary Skill Shortage visa holders (**health related business**). The Company also provides travel and pet insurance under agency agreements with third party underwriters.

The Company's principal activities include providing present and future contributors (as that term is defined in the Company's constitution) to the fund operated by the Company and their dependents (**Members**) access to a wide range of competitively priced healthcare treatments and services that are intended to be used to support healthy lives and lifestyles.

Objectives

The Company's purpose is to help present and future Members lead healthy lives by:

- Providing them access to relevant and high-quality healthcare facilities, providers, treatments and services
- Informing them about their health cover and relevant healthcare issues
- Providing them attractive benefits and rebates
- Keeping their premiums affordable and valuable
- Providing them the highest standards of service

The Company's objectives involve:

- Acquiring financial and non-financial benefits to increase value for Members
- Gaining greater prominence, relevance and reputation amongst Members, consumers, government, regulators and other stakeholders in the community
- Building confidence with Members to increase their loyalty
- Growing long term relationships with key healthcare providers and other stakeholders

The Company leverages its membership of stakeholder groups, including the Australian Health Services Alliance Ltd for purchasing medical services and access to over 550 private hospitals and a limited number of general treatment benefits, and HAMB Systems Ltd for core insurance application services and related electronic and digital information, technology and communications solutions.

The Company's vision is to create lasting relationships with Members through confidence, by providing them value that matters to them.

To support its purpose and vision, the Company believes in its core values of *Community, Member Value and Affordability, Integrity, Member for Life and Accountability*.

Performance Measures

The Company measures its performance in many ways, including by measuring, monitoring and analysing:

- Size, distribution and composition of its Member base
- Member loyalty, effort, experience and satisfaction
- How motivated Members are to recommend the Company and its products and services
- Member acquisition and retention and the related costs
- Cost and effort to serve Members
- Premium revenue, claim benefit outlays and out-of-pockets
- Capital adequacy and solvency strength
- Efficiency and effectiveness of financial and non-financial resources
- Staff engagement and culture
- Income from investments and other activities

Risk management

The Company also measures its performance by monitoring its governance and risk management frameworks and its ability, using capital and the gearing of its operational resources, to support the Company's strategy and key objectives for performance and development whilst building financial resilience and sustainability.

Financial Results

Profit / (loss)

The consolidated profit for the year ended 30 June 2020 was $3.6 million compared to a consolidated loss of ($0.7 million) in 2019. Premium revenue for the year was $174.6 million compared to $177.1 million in 2019, a decrease of 1.4%.

The profit this year reflects the Company's pricing adjustments in April 2019 to correct loss producing policies and a reduction in the cost of acquiring and retaining Members offset against fair value losses in the investment portfolio.

The Company planned to increase Members' premiums by a weighted average 5.58% on 1 April 2020, however, in response to the COVID-19 pandemic, the increase was postponed to 1 October 2020. The relatively higher premium increases planned for this year (i.e. above the overall industry weighted average increase of 2.95%) are necessary to keep pace with the growth in the Company's net claims incurred and to correct certain CHIP margins.

Comprehensive income

Consolidated total comprehensive income for the year was $3.2 million compared to ($0.7 million) in 2019. This year, the Directors of the Company adopted an independent licensed valuer's estimate of fair value at 30 June 2020 of the carrying values of its commercial properties, resulting in a write down in the revaluation reserve of ($0.4 million).

Claims incurred and underwriting

Net claims incurred was $151.0 million compared to $159.0 million in 2019, a decrease of 5.1%. The relatively larger decrease in the net claims incurred compared to the 1.4% decrease in premium revenue was due mainly to fewer policies and the relatively higher increase in premiums compared to the increase in the utilisation of hospital and medical services and the increased cost per service.

Underlying this year's net claims incurred, of which 72.6% is hospital treatment policies related, was a (10.0%) decrease in the number of hospital claims assessed, a (10.4%) decrease in the number of medical claims assessed and a (9.4%) decrease in extras claims. The reduction in claims assessed was due to fewer policies in force (3.5%) over the year and the impact of COVID-19 restrictions on the delivery of services over the June 2020 quarter ($9.2 million). In accordance with APRA's guidance, as at 30 June 2020 the Company has provided for 100% of the hospital treatment claims and 85% of the general treatment claims that did not proceed due to COVID-19 restrictions to be caught-up and incurred in future ($8.7 million).

The decrease in net claims incurred that resulted from slightly higher utilisation of hospital treatment services by a reduced number of policyholders resulted in the Company consuming 86.5% of this year's premium revenue towards the net claims incurred, compared to 89.8% in 2019.

Compared to $3.3 million (1.9%) in 2019, a contributor to the higher $10.9 million (6.2%) underwriting result this year was the deferral of Member acquisition expenses previously reversed in 2019 due to insufficient margin in the liability adequacy test.

Investment income and fair value gains / (losses)

Investment income for the 2020 year was $2.5 million compared to $3.2 million in 2019. This was a relatively good result considering the deterioration in interest rates during the year to record low rates and the impact of COVID-19 on investment markets.

The fair value (unrealised) loss on financial assets (i.e. the investment portfolio) at fair value was $1.6 million compared to a (unrealised) gain of $0.3 million in 2019. Investment markets suffered severe losses in March 2020 due to the COVID-19 pandemic which were only partially recovered by 30 June 2020.

Overheads

The total overheads for the year were $21.3 million (12.2% of premium revenue) compared to $22.7million (12.8% of premium revenue) in 2019. The main drivers of the decrease in the cost of overheads was the $2.2 million decrease in acquisition expenses, offset against an increase of $0.2 million in claims handling expenses and an increase of $0.6 million in other operating expenses.

Acquisition costs decreased from 6.7% of premium revenue in 2019 to 5.6% in 2020. A $1.0 million increase in deferred acquisition expenses in 2020 contributed to a swing of $2.2 million in acquisition expenses when compared to the write-down of deferred acquisition expenses of $0.6 million in 2019.

Other operating expenses for the year were $8.5 million compared to $7.9 million in 2019. The main driver of the 7.2% increase in these expenses was the $0.5 million increase in employee benefit expenses (including additional compliance roles and recruitment costs), $0.3 million increase in information technology expenses for cyber security and to upgrade, maintain and review core computer systems and $0.3 million impairment in investment property value offset against a decrease of $0.5 million in other expenses mainly for compliance consultant costs.

Capital management

The Company's capital management policy and a capital management plan (**CMP**) guide management's practices to ensure that the Company has enough capital to support the risks it undertakes and to meet its liabilities, including in the event of adverse circumstances.

The CMP is aligned to the Board's risk appetite which evolves through regular reviews. The reviews involve assessing the required levels of internal risk capital and related trigger points and action plans.

In 2019, the Company developed a recovery plan to enhance the Company's risk management capability, particularly, if the Company were to experience sustained and extremely adverse circumstances impacting on its capital.

The Company's investment policy contains investment rules and guidelines to ensure the appropriate investment of the Company's financial and non-financial assets and that investments align with the Board's risk appetite. The Board has a pricing philosophy, forming part of its capital management policy, that establishes target CHIP net margins that must be considered when making decisions affecting the prices of CHIPs. Consideration of the target CHIP net margins in pricing decisions helps the Company's management and Board fulfil the obligation to hold adequate economic capital.

Risk management

The Company's risk management capability is supported by the operation of a risk management framework that among other uses, allows the Board to monitor on an ongoing basis the Company's exposure (if any) to the key risks identified by the Board and the effectiveness of risk management processes and practices of management.

Review of Operations

Member growth

The Member base covered by CHIP's declined by (3.5%) compared to a decline of (3.6%) in 2019 and 0.5% net growth in the industry. The proportion of the total Member base from non-traditional markets (states/territories other than Western Australia) at 30 June 2020 was 41% compared to 41% 12 months earlier.

The Board considers net growth in the industry will remain subdued due to the affordability issues for lower and middle income earners and limited effectiveness of stimuli for young Australians to take out private health cover for the first time. The impact of COVID-19 on the economy and increased unemployment will put further financial strain on Australian households.

The Board considers its growth prospects in the short to medium term will be flat if not slightly negative, reflecting the broader concern in the industry that more targeted and integrated action, across federal and state governments, is required to arrest the ongoing population shift (particularly with respect to the younger cohorts) towards the public hospital system, to reduce the strain on public hospital waiting lists and take pressure off publicly funded resources, and ensure the public hospital system provides adequate access to Australians who need it most.

Affordability

The Minister for Health approved, for deployment on 1 April 2020, a weighted average 5.58% increase to Members' premiums, compared to a 2.95% weighted average increase for the industry (including the Company). In response to the COVID-19 pandemic, the industry, including the Company, postponed the approved increase for six months to 1 October 2020. The Company's planned increase this year reflected the need to keep pace with the growth in net claims incurred that resulted from increased prices charged by health providers and suppliers and increased service and treatment utilisation, and to correct certain CHIP prices in some of the markets in which the Company operates. Postponing the planned increase by six months and allowing the suspension of premiums due to financial hardship will provide premium relief of approximately $5.1 million for Members. The ultimate decrease in claims as a result of COVID-19 (i.e. claims that will not be incurred rather than those that have just been deferred and will be caught-up in coming months) is estimated at $1.4 million. The estimated net financial relief provided to Members in response to COVID-19 is $3.7 million.

Private health insurer claims related input costs (which account for around 87% of premiums received) are rising 5% – 6% per annum. Rising healthcare costs are being fuelled by the ageing population and increased use of health services. The Board remains focussed on the challenges of the rising hospital charges (including from public hospitals when Members are admitted as private patients) and the cost of doctors, prostheses costs, medical technology (e.g. MRIs, imaging and radiology) and pharmaceuticals.

The Board considers part of the solution to addressing affordability is for the government to address prostheses reforms, public hospitals charging patients with private health insurance and to restore the 30% rebate for low and middle income earners. Without a positive change in government policy towards funding arrangements for private health insurance, the rebate is likely to fall below 25% in the next 12 months.

Choice and convenience

The Company's strong stance on choice aligns with the understood consumer preference for them to remain in control when it comes to choosing their health cover and their service provider. This means that Members retain the freedom to choose any level of hospital and/or extras cover from the Company's generous range of covers and go to their family health provider without being financially disadvantaged.

Personalised service and convenience

The Company's priority is to develop its culture, people and processes to ensure Members get access to service-delivery from friendly, qualified, skilled and experienced staff when and in the form they want it. The Company introduced a Member service centre and a kiosk facility in June 2020 and remains focussed on building a Member experience model that provides access to relevant and smart digital transaction processing and communication solutions, including self-service options. The Company believes that its Members benefit from cost savings resulting in a higher allocation of available reserves for increased benefits and more affordable premiums.

Investments

Investments performed satisfactorily during the year considering the negative impact of COVID-19 and a further weakening in interest rates. Returns from fixed interest funds and bank term deposits declined over the year with the Reserve Bank of Australia regularly reducing the official cash rate by 0.25% over the course of the financial year from 1.25% in June 2019 to a record low of 0.25% by April 2020. Income from investments of $2.5 million in 2020 decreased by $0.7 million compared to the $3.2 million earned in 2019. The Company suffered a $1.6 million fair value (unrealised) loss on financial assets at fair value in 2020 compared to an (unrealised) gain of $0.3 million in 2019.

The investment portfolio (excluding cash and cash equivalents) increased from $83.4 million at 30 June 2019 to $86.5 million at 30 June 2020, an increase of 3.7% for the year. The additional cash invested in bank term deposits was drawn from an increase in total liabilities from $51.2 million at 30 June 2019 to $55.9 million at 30 June 2020.

Property

The tenant occupying the ground floor tenancy of the Company's head office premises at 100 Stirling Street, Perth vacated the premises and reneged on their lease agreement after being placed into liquidation in October 2019. The Company has subsequently occupied the ground floor tenancy for the purpose of a Member service centre. Although the Company experienced some interest from third parties, it was unable to secure another tenant. The Company continues to work with a commercial property agent to pursue prospective tenants for the vacant areas of those premises.

The Company owns a commercial property at 60 – 62 Stirling Street, Perth to earn commercial property rent. This property was fully tenanted for the year ended 30 June 2020.

Other Developments

Electronic transaction processing and communications

During the year, the Company continued to focus on developing new and innovative digital workflow and communications solutions to improve Member experience, including a new Member onboarding and enhanced core insurance application software and workflow integration to improve transaction processing efficiency and effectiveness, and to enhance the clarity of health insurance and policy related information.

Code of conduct

The Company subscribes to the Australian private health insurance industry's peak representative body, Private Healthcare Australia (**PHA**). The Company subscribes to and complies with the PHA's Code of Conduct (**Code**) which is audited regularly. The Company remains compliant with the Code.

Significant Changes in State of Affairs

In preparation for the retirement of the Company's long serving CEO and Managing Director, Mr Graeme Gibson, on 31 July 2020, the Board conducted an extensive national search for his replacement. This resulted in the successful appointment of and transition to new CEO Mr Justin James in May 2020.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2020.

Significant Matters or Circumstances after 30 June 2020

No matters or circumstances have arisen since 30 June 2020 which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future years.

Environmental Regulations

The Company's operations are not subject to any environmental regulation under a law of the Commonwealth or of a State or Territory.

The Company is certified NOCO2 by the Carbon Reduction Institute Pty Ltd. Certification confirms the Company's financial contribution, by purchasing carbon offsets, towards reducing carbon emissions.

Indemnification of Officers and Auditors

During the year ended 30 June 2020, the Company paid a premium in respect of a contract insuring the Directors, Secretary and all Executive Officers of the Company and of any related body corporate of the Company against a liability incurred as such by a Director, Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001* (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its Auditor, Deloitte Touche Tohmatsu (**Deloitte**), as part of the terms of its audit engagement agreement (**Engagement**) against certain claims by third parties arising from the audit work as that term is defined in the Engagement (for an unspecified amount). No payment has been made to indemnify Deloitte during or since the financial year ended 30 June 2020.

The Company has not, during or since the financial year ended 30 June 2020, 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.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees established by the Directors) held during the year ended 30 June 2020 and the number of meetings attended by each Director (including committee meetings attended by them as committee members). During the year ended 30 June 2020, 14 Board meetings, four Audit Committee meeting, four Risk Committee meeting and four Nomination and Remuneration Committee meetings were held.

	Board of Directors		Audit Committee		Risk Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Att.**	**Held**	**Att.**	**Held**	**Att.**	**Held**	**Att.**
Ms S. V. Blake	14	14	4	4	4	4	-	-
Mr A. J. Carpenter[1]	14	7	-	-	4	2	4	3
Mr M. A. Dudley[2]	14	5	4	2	-	-	-	-
Mr G. N. Gibson	14	13	-	-	-	-	-	-
Mr P. L. Hersey[3]	14	12	4	2	-	-	4	3
Mr R. Homsany	14	14	4	3	4	3	4	4
Mr K. B. Laufmann[4]	14	5	-	-	4	1	4	1
Mr T. W. Shackleton[5]	14	1	-	-	-	-	-	-

1 Mr A. J. Carpenter resigned as a Director on 20 April 2020.

2 Mr M. A. Dudley retired as a Director on 30 October 2019.

3 Mr P. L. Hersey was appointed as a member of the Audit Committee on 27 November 2019.

4 Mr K. B. Laufmann was appointed as a Director and a member of the Risk Committee and the Nomination and Remuneration Committee on 20 April 2020.

5 Mr T. W. Shackleton was appointed a Director on 29 June 2020.

Auditor's Independence Declaration to the Directors of Health Insurance Fund of Australia Limited

The Company has obtained an independence declaration from the Auditor, Deloitte, which is set out on the following page and forms part of this Directors' report for the year ended 30 June 2020.

Signed in accordance with a resolution of the Directors.

R. Homsany
Chairman

Perth, 30 September 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Board of Directors
Health Insurance Fund of Australia Limited
100 Stirling Street
PERTH WA 6000

30 September 2020

Dear Board Members

Auditor's Independence Declaration to Health Insurance Fund of Australia Limited

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 Insurance Fund of Australia Limited.

As lead audit partner for the audit of the financial statements of Health Insurance Fund of Australia Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountant

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

		Consolidated		Health Insurance Fund of Australia	
	Note	**2020 $**	2019 $	**2020 $**	2019 $
Premium revenue	5	**174,632,377**	177,066,984	**174,632,377**	177,066,984
Net claims incurred	8	**(150,984,579)**	(159,034,422)	**(150,984,579)**	(159,034,422)
Acquisition expenses	15	**(9,713,122)**	(11,907,640)	**(9,713,122)**	(11,907,640)
Claims handling expenses	9	**(3,050,532)**	(2,808,433)	**(3,050,532)**	(2,808,433)
Underwriting result		**10,884,144**	3,316,489	**10,884,144**	3,316,489
Investment income	6	**2,461,737**	3,215,505	**2,461,737**	3,215,505
Fair value gains on financial assets at fair value through profit or loss		**(1,560,990)**	253,673	**(1,560,990)**	253,673
Other income	7	**302,523**	466,031	**302,523**	466,031
Other operating expenses	9a	**(8,493,178)**	(7,928,757)	**(8,494,136)**	(7,927,270)
Result of operating activities		**3,594,236**	(677,059)	**3,593,278**	(675,572)
Finance costs	9b	**(19,663)**	(36,125)	**(19,597)**	(36,060)
Profit / (loss) before income tax		**3,574,573**	(713,184)	**3,573,681**	(711,632)
Income tax expense	10	**-**	(1,570)	**-**	-
PROFIT / (LOSS) FOR THE YEAR		**3,574,573**	(714,754)	**3,573,681**	(711,632)
Other comprehensive income		**(361,920)**	-	**(361,920)**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,212,653**	(714,754)	**3,211,761**	(711,632)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2020

		Consolidated		Health Insurance Fund of Australia	
	Note	**2020 $**	2019 $	**2020 $**	2019 $
ASSETS					
Current assets					
Cash and cash equivalents	11	**16,954,862**	11,657,668	**16,924,060**	11,628,104
Trade and other receivables	12	**4,590,024**	4,897,764	**4,590,024**	4,897,418
Other financial assets	13	**24,421,715**	21,805,734	**24,421,715**	21,805,734
Deferred acquisition costs	15	**1,241,276**	288,798	**1,241,276**	288,798
		47,207,877	38,649,964	**47,177,075**	38,620,054
Non-current assets					
Other financial assets	13	**62,118,930**	61,615,416	**62,118,930**	61,615,416
Investment in controlled entities	14	**-**	-	**1**	1
Property, plant and equipment	16	**13,624,793**	14,561,105	**13,624,793**	14,561,105
Investment property	17	**4,000,000**	4,250,000	**4,000,000**	4,250,000
		79,743,723	80,426,521	**79,743,724**	80,426,522
Total assets		**126,951,600**	119,076,485	**126,920,799**	119,046,576
LIABILITIES					
Current liabilities					
Trade and other payables	18	**3,588,075**	3,222,274	**3,588,076**	3,222,275
Claims liabilities	19	**24,974,399**	19,484,064	**24,974,399**	19,484,064
Unearned premium liability	20	**25,760,699**	27,138,051	**25,760,699**	27,138,051
Unexpired risk liability	22	**-**	-	**-**	-
Provisions	21	**1,440,737**	1,274,284	**1,440,737**	1,274,284
		55,763,910	51,118,673	**55,763,911**	51,118,674
Non-current liabilities					
Provisions	21	**116,457**	99,232	**116,457**	99,232
		116,457	99,232	**116,457**	99,232
Total liabilities		**55,880,367**	51,217,905	**55,880,368**	51,217,906
Net assets		**71,071,233**	67,858,580	**71,040,431**	67,828,670
EQUITY					
Reserves attributable to the entity's members					
Reserves	23	**488,080**	850,000	488,080	850,000
Retained earnings		**70,583,153**	67,008,580	70,552,351	66,978,670
Total equity		**71,071,233**	67,858,580	71,040,431	67,828,670

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

Statement of changes in equity

For the year ended 30 June 2020

	Revaluation reserve	Retained earnings	Total
	$	$	$
Consolidated			
At 1 July 2018	**850,000**	**67,723,334**	**68,573,334**
Loss for the year	-	(714,754)	(714,754)
Total comprehensive income for the year	-	(714,754)	(714,754)
At 30 June 2019	**850,000**	**67,008,580**	**67,858,580**
Fair value revaluation of land and buildings	(361,920)		(361,920)
Profit for the year		3,574,573	3,574,573
Total comprehensive income for the year	(361,920)	3,574,573	3,212,653
At 30 June 2020	**488,080**	**70,583,153**	**71,071,233**
Health Insurance Fund of Australia			
At 1 July 2018	**850,000**	**67,690,302**	**68,540,302**
Loss for the year	-	(711,632)	(711,632)
Total comprehensive income for the year	-	(711,632)	(711,632)
At 30 June 2019	**850,000**	**66,978,670**	**67,828,670**
Fair value revaluation of land and buildings	(361,920)		(361,920)
Profit for the year		3,573,681	3,573,681
Total comprehensive income for the year	(361,920)	3,573,681	3,211,761
At 30 June 2020	**488,080**	**70,552,351**	**71,040,431**

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

Statement of cash flows

For the year ended 30 June 2020

	Note	Consolidated		Health Insurance Fund of Australia	
		2020 **$**	2019 $	**2020** **$**	2019 $
Cash flows from operating activities					
Premiums received		**173,446,686**	176,737,278	**173,446,686**	176,737,278
Interest and unit distributions received		**2,501,856**	3,244,713	**2,501,856**	3,244,713
Other income received		**71,909**	144,134	**71,564**	144,480
Amounts paid to the Risk Equalisation Special Account		**(11,173,656)**	(16,841,795)	**(11,173,656)**	(16,841,795)
Rent received		**219,373**	305,038	**219,373**	305,038
Claims paid		**(133,249,832)**	(143,301,390)	**(133,249,832)**	(143,301,390)
Ambulance levy		**(591,373)**	(641,387)	**(591,373)**	(641,387)
Interest and other finance payments		**(507,881)**	(577,010)	**(507,815)**	(576,945)
Payments to suppliers and employees		**(20,471,501)**	(20,680,899)	**(20,472,460)**	(20,679,758)
Net cash from / (used in) operating activities	24	**10,245,581**	(1,611,318)	**10,244,343**	(1,609,766)
Cash flows from investing activities					
Payments to acquire financial assets		**(15,944,675)**	(22,873,194)	**(15,944,675)**	(22,873,194)
Proceeds from sale of financial assets		**11,264,190**	25,523,754	**11,264,190**	25,523,754
Payments for property, plant and equipment		**(308,812)**	(871,823)	**(308,812)**	(871,823)
Proceeds from disposal of property, plant and equipment		**40,910**	27,727	**40,910**	27,727
Net cash (used in) / from investing activities		**(4,948,387)**	1,806,464	**(4,948,387)**	1,806,464
Net cash flows from / (used in) financing activities		**-**	-	**-**	-
Net increase in cash and cash equivalents		**5,297,194**	195,146	**5,295,956**	196,698
Cash and cash equivalents at beginning of period		**11,657,668**	11,462,522	**11,628,104**	11,431,406
Cash and cash equivalents at end of period		**16,954,862**	11,657,668	**16,924,060**	11,628,104

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

1 Summary of significant accounting policies

a) General information

Health Insurance Fund of Australia Limited ('the Company') is a company limited by guarantee incorporated in Australia. The address of its registered office and principal place of business is disclosed in the corporate information on page 12. The principal activities of the Company and its subsidiaries ('the Group') are described in the Directors' Report on page 13.

b) Application of new and revised Australian Accounting Standards

b.1) New and amended Accounting Standards that are effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and are effective for the current financial reporting period beginning 1 July 2019.

New and revised Standards and amendments thereof and interpretations effective for the current year that are relevant to the Group include:

- AASB 16 *Leases*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015 – 2017 Cycle*
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*
- AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements*
- Interpretation 23 *Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*

AASB 16 Leases

In the current year, the Group has applied AASB 16 *Leases*, which is effective for annual periods that begin on or after 1 January 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

The date of initial application of AASB 16 for the Group is 1 July 2019.

Notes to the Financial Statements

For the year ended 30 June 2020

1 Summary of significant accounting policies (continued)

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in AASB 117 and Interpretation 4.

Impact on lease accounting

There has been no impact on the accounting for former operating or finance leases as the Group has no operating or finance leases.

Impact on lessor accounting

AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

AASB 16 did not have any impact on how the Group accounts for leases as it has no residual interest in leased assets and no sub-lease agreements.

b.2) New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ending 30 June 2020. Management is in the process of assessing the impact of the adoption of these standards and interpretations on the Group:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 17 *Insurance Contracts*	1 January 2021	30 June 2022
• AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*	1 July 2021	30 June 2022
• AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020	30 June 2021
• AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	30 June 2021
• AASB 2019-1 *Amendments to Australian Accounting Standards – Reference to the Conceptual Framework*	1 January 2020	30 June 2021
• AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020	30 June 2021

1 Summary of significant accounting policies (continued)

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Sector Entities on Compliance with Recognition and Measurement Requirements*	Annual reporting periods ending on or after 30 June 2020	30 June 2021
• AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	30 June 2021
• AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations*	1 January 2020	30 June 2021
• AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 January 2022	30 June 2023
• AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*	1 January 2022	30 June 2023
• AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions*	1 June 2020	30 June 2021

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• Amendments to IFRS 17	1 January 2023	30 June 2024
• Extension of the Temporary Exemption from Applying IFRS 9	1 January 2023	30 June 2024

Notes to the Financial Statements

For the year ended 30 June 2020

1 Summary of significant accounting policies (continued)

c) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* (Cth), Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group and Company. For the purposes of preparing the consolidated financial statements, the Company is a not for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 30 September 2020.

d) Basis of preparation

The consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and requirements of the Australian Prudential Regulation Authority (APRA).

These financial statements have been prepared on a historical cost basis, except for land and buildings and financial assets at fair value through profit and loss, which have been measured at fair value, as explained in the accounting policies below.

All amounts are presented in Australian dollars, which is the Group's functional currency, unless otherwise noted. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1 Summary of significant accounting policies (continued)

f) Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer.

Premium revenue

Premium revenue comprises amounts charged to the policyholders, excluding taxes collected on behalf of third parties.

Premium revenue is recognised from the attachment date, over the period of contract on a daily basis. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned at the reporting date is recognised in the balance sheet as an unearned premium liability.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

g) Claims expense

Claims expense represents payment for claims and the movement in outstanding and COVID-19 deferred claims liabilities [Note 1(l)].

h) Risk Equalisation Special Account levies / recoveries

Under the provisions of the *Private Health Insurance Act 2007* (Cth), all health insurers must participate in the Risk Equalisation Special Account (RESA). The RESA shares a proportion of the hospital claims of all persons aged 55 years and over and those persons with claims in excess of $50,000 in the current and preceding three quarters, amongst all health insurers based upon the number of policy holders. Individual health insurers are required to pay in to the RESA or receive a payment from the RESA for the difference between their proportional share and their actual claims paid.

The amounts payable to and receivable from the Risk Equalisation Special Account are determined by the Australian Prudential Regulation Authority (APRA) after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accrual basis.

1 Summary of significant accounting policies (continued)

i) Acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs (DAC) includes commission paid to intermediaries and other direct costs incurred in relation to the acquisition or renewal of health insurance contracts. Acquisition costs incurred are amortised in accordance with the expected pattern of the incidence of risk under the health insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

j) Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period of the policy from date of attachment of risk.

k) Unexpired risk liability

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs (DAC) and intangible assets not meeting the estimated future claims under current health insurance contracts.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the anticipated administration costs attributable to processing the claims and additional risk margin to reflect the inherent uncertainty in the central estimate, exceeds the unearned premium liability less related intangible assets and related DAC, then the shortfall is first offset against related DAC and then to the extent necessary a separate unexpired risk liability is recognised.

l) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of future projected claims payments and associated claims handling costs in respect of claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER).

Standard actuarial methods are applied to assess the net central estimate of outstanding claims liabilities. Features and trends of claim experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

1 Summary of significant accounting policies (continued)

m) Financial assets at fair value through profit or loss

(i) Financial assets backing health insurance liabilities

Assets backing health insurance liabilities are segregated from other assets.

Financial assets are held to back health insurance liabilities on the basis that these assets are valued at fair value in the balance sheet, and consist of liquid and high quality investments such as cash and fixed income securities.

The management of financial assets and health insurance liabilities are closely monitored to ensure that investments are appropriate, given the expected pattern of future cash flows arising from health insurance liabilities.

Financial assets backing health insurance liabilities are designated at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value in the statement of financial position with any resultant unrealised profits and losses recognised in the income statement.

(ii) Determination of fair value

Fair value for the various types of financial assets is determined as follows:

(a) Cash and term deposits – at face value of the amounts deposited;

(b) Unlisted securities – based on redemption value per unit as reported by the fund managers using valuation techniques.

Such valuation techniques include the use of recent arm's length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(iii) Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

Financial assets are de-recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risks and rewards of ownership.

n) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

1 Summary of significant accounting policies (continued)

o) Property, plant and equipment

Property, plant and equipment, excluding buildings and freehold land, are depreciated over their estimated useful lives using the reducing balance and straight line methods. Buildings are depreciated on a straight line basis to write off the net cost or revalued amount over their expected useful lives. Depreciation rates are as follows:

Freehold buildings	2.5%
Office furniture and equipment	5.0% – 33.3%
Motor vehicles	20.0%

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Buildings and freehold land are valued using the revaluation model whereby measurement subsequent to initial recognition is at fair value at the date of the latest revaluation less any subsequent accumulated depreciation and accumulated impairment losses.

Every third year the valuations are based on external property valuation reports. In the intervening years, valuations are based on management estimates. All properties are valued simultaneously.

When a revaluation increases the carrying value of a property, the increase is credited directly to equity under the heading of revaluation reserve. However, an increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. However, any decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Any remaining balance on the revaluation reserve is credited to retained earnings when the corresponding property is de-recognised.

Properties in the course of construction for administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

p) Cash and cash equivalents

Cash and short term deposits comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements

For the year ended 30 June 2020

1 Summary of significant accounting policies (continued)

q) Receivables

Trade receivables, which generally have 15-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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

An allowance for doubtful debts is made when there is objective evidence that the entity will not be able to collect the debts. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of doubtful debts. Bad debts are written off when identified.

Amounts due under the Federal Government Rebate Incentives Scheme are stated at the net amount expected to be collected.

r) Taxation

(i) Income tax

In accordance with Section 50 – 30 of the *Income Tax Assessment Act 1997* (Cth), the income of the Company is exempt from income tax. The profit of the controlled entity, which is included in the consolidated statements of the Group, has been determined after providing for taxation expense at 30% of the controlled entity's pre-tax operating profit, adjusted for exempt income and non-deductible expenses.

(ii) Deferred tax

Deferred tax is provided in full, using the Balance Sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes attributable to amounts recognised directly in equity are recognised in equity.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables and payables.

Cash flows are included in the statement of cash flow on a gross basis.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

1 Summary of significant accounting policies (continued)

s) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any resultant write-down is recognised as an expense in the reporting period in which it occurs, unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

The recoverable amount is the higher of an asset's fair value, less direct selling costs, and its value in use. In assessing the value-in-use of assets, the relevant cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or company of assets.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

t) Payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Payables generally have 15 – 30 day terms.

u) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, rostered days off and long service leave and they are measured at their nominal value, except the liability for long service leave which is measured as the present value of the expected payments to be made in respect of services provided by employees up to the reporting date.

Liabilities arising in respect of wages and salaries, annual leave, personal leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

v) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1 Summary of significant accounting policies (continued)

w) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2 Critical accounting estimates and judgements

Estimates and judgements are made by the Group to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of significant judgement and the methodologies used to determine key assumptions are set out below.

Uncertainty over estimate of claims expense provision arising from health insurance contracts

Actuarial estimates are obtained after analysis of past claims experience. From these analyses, models of the claim payment process can be established and used to project future payments on claims outstanding at the balance date.

The estimates of outstanding claims obtained in this manner are estimates in the sense that there is a degree of uncertainty as to the difference which will ultimately arise between the estimates and the final result of the experience. This uncertainty arises from four sources:

(a) the nature of the claims process is not fully understood, it might be that none of the valuation models used is an entirely accurate representation of reality;

(b) there are components of randomness in the claims process, it is not possible to estimate the parameters of that process with complete precision even if complete confidence were felt in the nature of the model;

(c) any erroneous data will similarly have introduced uncertainties into the estimates of those parameters;

(d) even if the parameters could be estimated with precision, it would not be possible to predict outstanding claims with the same precision because of the random component in future experience.

Errors associated with (b) and (d) can be quantified in a formal way (estimation and statistical errors). However a large part of the uncertainty is associated with (a) (model specification error), and it is not possible to quantify this component.

The investigation and application of different models to the data is intended to reduce the model specification error, although the extent to which this is achieved is unknown.

The initial estimates obtained from the calculations are central estimates in the sense that they incorporate no deliberate bias towards over or under estimation. By definition, the estimates are intended to have about an even chance of ultimately turning out to be sufficient.

Notes to the Financial Statements

For the year ended 30 June 2020

2 Critical accounting estimates and judgements (continued)

The nature of health insurance claims is such that the actual value of the liabilities is unknown because claims experience is subject to random fluctuations. The amount of the claim liability cannot be estimated with certainty. Also it is very difficult to determine the central estimate with a reasonable degree of precision. For this reason the inherent uncertainty in the central estimate must also be considered.

The provisions adopted in the Group's accounts are greater than the central estimate and the difference is referred to as a prudential margin. The prudential margin allows for some part of the uncertainties in the claim process and it also ensures that as far as possible that the surplus is not released until it is reasonably certain that the surplus is real.

The estimated liability for outstanding claims has been calculated after allowing for expenses associated with administering claims during the run-off period. Given the short weighted mean term of the liability (less than two months) no explicit allowances have been made for inflation and discounting.

Actuarial methods and assumptions

All actuarial methods and assumptions are discussed in Note 3.

3 Actuarial methods and assumptions

Claims estimates for the health insurance classes are derived from an analysis of four different actuarial models. Ultimate number of claims incurred are projected based on changes in claimant behaviour over time and past reporting patterns. Payments experience is analysed based on trends in ultimate incurred by month, paid chain ladder, paid per claim incurred and per claim reported. The resulting projected payments from these models are analysed along with benchmarks for average claim size and other statistics, in order to determine the final estimate of outstanding claims. The analysis and projection work is done for three valuation categories i.e. hospital, medical and general and consolidated into two health insurance classes, i.e. hospital including medical and general. The exposure period is month of service.

(i) Assumptions

	2020	2019
a) Weighted average expected term to settlement	Months	Months
Gross central estimate	1.34	1.48
Risk equalisation recoveries	1.26	1.37
Net central estimate	1.33	1.46
	Percent	Percent
b) Claims handling expense rate	2.00%	2.00%
c) Risk margin	5.10%	5.11%
d) Average claim size		
Hospital	$2,819.65	$2,643.37
Medical	$68.87	$67.42
General	$55.74	$54.53

(ii) Processes used to determine assumptions

Average weighted term to settlement

The average term to settlement is calculated separately by class of business based on historic payment patterns.

3 Actuarial methods and assumptions (continued)

Future claim reports (IBNR)

Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.

Average claim size

Average claim size is a benchmark being the outcome of the month of service blend of actuarial methods described above.

Expense rate

Claims handling expenses were calculated by analysis of the Company's actual expenses from profit and loss statements over the last 12 months.

Sufficiency margin

The inherent uncertainty in the estimated claim liability means that there is a range of possible outcomes. An analysis of the variation of the expected results lead to adoption of a 8.5% co-efficient of variation (6.2% for 1-month hindsight valuations) and the lognormal distribution. This distribution is then used to calculate the risk margin required to increase the level of sufficiency of the central estimate from 50% to 80%.

(iii) Sensitivity analysis – insurance contracts

The Company conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions, as described above. The movement in any key variable will impact the performance and equity of the Company.

The tables below describe how a change in each assumption will affect the insurance liabilities and hence the profit / (loss) and the equity both gross and net of risk equalisation.

Variable	Impact of movement in variable
Average weighted term to settlement	Does not directly affect the insurance liabilities.
Average claim sizes	Average claim size is determined by the valuation, see above, and is used as a benchmark. Hence it is not sensitivity tested.
Adopted reporting rates	Used to determine the level of claims incurred but not reported (IBNR). An increase or decrease in lodgements has a corresponding impact on claims expense.
Incurred cost in latest two service months	A change in the ultimate claims cost incurred for the most recent two service months will have a disproportionate impact on the outstanding claims amount due to the claim payments made to date.
Sufficiency margin	An increase or decrease in the coefficient of variation has a corresponding impact on the sufficiency margin and hence on the actuarial provision.
Claims handling expenses	An increase or decrease in the expense rate assumption has a corresponding impact on claims expense.

3 Actuarial methods and assumptions (continued)

		Increase / (decrease) in profit and equity ($)			
		2020		2019	
Variable	Movement in variable	Gross of risk equalisation	Net of risk equalisation	Gross of risk equalisation	Net of risk equalisation
Adopted reporting rates	1% decrease	19,119	22,375	10,551	12,103
	1% increase	(19,046)	(22,289)	(10,649)	(12,216)
Incurred cost of latest two service months	1% decrease	205,705	229,864	254,076	291,449
	1% increase	(205,705)	(229,864)	(254,076)	(291,449)
Sufficiency margin	1% decrease	85,455	98,679	123,408	141,561
	1% increase	(85,455)	(98,679)	(123,408)	(141,561)
Claims management expenses	1% decrease	83,520	101,678	110,035	126,220
	1% increase	(83,520)	(101,678)	(110,035)	(126,220)

4 Risk management

The Group's financial condition and operating activities are affected by a number of key financial risks including interest rate risk, credit risk, market risk, liquidity risk and fiscal risk and non-financial risks including insurance risk, compliance risk and operational risk. The Group's policies and procedures in respect of managing financial and insurance risks are set out in this note.

a) Corporate governance framework

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board of Directors of the Company determines the Group's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

Audit Committee

The Audit Committee is a committee of the Board of Directors of the Company. The Audit Committee oversees the Group's financial reporting process and the controls in place to ensure the transparency and integrity of internal and published financial information and the circumstances under which the Group's business funding could become inadequate or restricted. The Audit Committee's role includes: reviewing the effectiveness of the Group's financial reporting and risk management framework; overseeing the external audit, internal audit and appointed actuary functions including making recommendations to the Board on the appointment, evaluation and removal of the Appointed Auditor, Head of Internal Audit and Appointed Actuary; ensuring there is a 'whistleblowing' process in place, including policies and procedures; providing advice and recommendations to the Board on appropriate ethical standards for the management of the Group; and the adequacy and effectiveness of the Group's risk management framework.

4 Risk management (continued)

Risk Committee

The Risk Committee is a committee of the Board of Directors of the Company. The Risk Committee oversees the implementation and operation of the Group's risk management framework ('RMF'). The Risk Committee's role includes: oversight of the implementation and operation of the Group's RMF; and overseeing and ensuring that an appropriate framework of policies, procedures, internal controls, reporting, ethical standards (including the Code of Conduct) and management accountability are established for risk management and legal and regulatory compliance and are consistently maintained and adhered to.

The Risk Committee's responsibilities include to:

(1) review the Board's risk appetite and risk appetite statement for consideration and approval by the Board;

(2) oversee the Group's current and future risk position relative to the Board's risk appetite and capital strength;

(3) ensure the Group has established and maintains an appropriate policy and process to identify, assess, manage and report on the risks that could materially affect the business of the Group;

(4) monitor the appropriateness and effectiveness of the RMF and internal controls ensuring that where any major deficiencies or breakdown in controls have been identified, appropriate and prompt action is taken by management;

(5) monitor the alignment of the capital and liquidity requirements within the Group's risk profile having regard to the Board's appetite for risk and risk tolerances and reviewing policies, procedures and delegations of authority required to be authorised by the Board to support the Group's RMF;

(6) oversee management's implementation of the risk management strategy;

(7) ensure management has established and maintained systems, processes and procedures for compliance with relevant legal and regulatory requirements; and

(8) oversee senior management's promotion, and staff awareness and understanding, of a risk-based culture that properly and effectively balances risk and reward for the risks accepted.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a committee of the Board of Directors of the Company. The Nomination and Remuneration Committee is responsible for succession planning and for reviewing performance and compensation arrangements for the directors and key management personnel.

4 Risk management (continued)

Board

The Board is responsible for ensuring that management's objectives and activities are aligned with the strategy, expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the Committees referred to above, these mechanisms include the following:

(1) approval of the strategic agenda, which encompasses the Group's vision, mission and strategy, that is designed to meet stakeholders' needs and manage business risk;

(2) implementation of operating plans and budgets by management and monitoring of progress against budget by the Board which includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes.

The Board is responsible for determining investment policy and reviewing investment performance, having regard to advice from the Audit Committee and the Risk Committee. The Board utilises specialised investment management services for the management of the investment portfolio.

b) Capital management framework

Capital comprises the total equity as reflected in the balance sheet. The Company operates within the regulatory environment established by the *Private Health Insurance Act 2007* (Cth) (the "Act"). The regulatory body for the Private Health Insurance industry is the Australian Prudential Regulation Authority (APRA). The Company is subject to the Solvency and Capital Adequacy Standards applied by the Act and regulated by APRA. The Company is required to submit quarterly returns to APRA as well as an annual audited return that is used to establish whether the Company complies with the standards. The Company has exceeded the required Solvency and Capital Adequacy reserves throughout the year.

The Company makes use of the Financial Condition Report (FCR) prepared by its Appointed Actuary to inform the Board of Directors about decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the Company to assess a range of risks to which the business is exposed, their evolution over time, and the impact of the mitigating actions that might be taken.

Other tools the Company utilises to manage its capital requirements are the annual premium submission to the Department of Health, forecasts, the annual budget and monthly management accounts. The annual premium submission considers the financial impact of the Company's plans over the next two years and the impact on capital adequacy and solvency. The annual premium submission, which is reviewed by the Company's Appointed Actuary, is approved by the Minister for Health.

c) Insurance risk – health insurance

The Company's insurance activities primarily involve the underwriting of risks and claim management. The Company employs a disciplined approach to underwriting and risk management that emphasises maximising member benefits rather than a premium, volume or market share oriented approach.

Notes to the Financial Statements

For the year ended 30 June 2020

4 Risk management (continued)

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk process, together with claim management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Company's overall health insurance operations.

The key policies in place to mitigate risks arising from writing health insurance contracts include the following:

(a) the maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time;

(b) the use of actuarial models based on historical data to calculate premiums and monitor claims patterns;

(c) the mix of assets invested in is matched to the term of the insurance liabilities to maximise the investment performance;

(d) the diversification of business over two classes of insurance and a large number of uncorrelated individual risks seeks to reduce variability in loss experience.

(ii) Terms and conditions of health insurance business

The terms and conditions attaching to health insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The Company's exposure is concentrated in Western Australia where 58% of its policyholders reside. This concentration risk will change as the Company expands its business in other States and Territories.

(iv) Claims management and claims provisioning risks

The Company's approach to determining the outstanding claims liability is set out in Note 3. The Company's Appointed Actuary determines the Company's outstanding claims liability, that is reported at balance date, using approved actuarial methodology.

d) Risk equalisation risk

The Australian Prudential Regulation Authority (APRA) administers the Risk Equalisation Special Account (RESA) in terms of the *Private Health Insurance Act 2007* (Cth). All private health insurance funds in Australia are required to submit their quarterly eligible claims data to APRA for inclusion in an age based and high cost claims pool. The pool is divided by the total number of single equivalent units (SEUs) across all funds. The SEU rate is then applied to the number of SEUs in the fund and compared to the fund's actual risk equalisation eligible claims for the quarter. Each fund then either contributes their shortfall to or receives a payment for their surplus from the RESA. This arrangement spreads the risk of high cost claims and higher claiming older members across all funds in each defined RESA jurisdiction in Australia.

e) Financial risks

With regards to credit risk, liquidity risk and interest rate risk management, refer to note 27.

Notes to the Financial Statements

For the year ended 30 June 2020

5 Premium revenue

	Consolidated and Health Insurance Fund of Australia		
	Hospital Tables $	General Tables $	Total $
Premium revenue has been determined after including:			
2020 premium revenue			
Premiums received including Federal Government rebates	**121,430,034**	**52,016,652**	**173,446,686**
+/- premiums in arrears	**(111,939)**	**(47,056)**	**(158,995)**
+/- unearned premium liability	**1,137,810**	**226,087**	**1,363,897**
+/- amount receivable from the Federal Government Rebate Incentives Scheme	**(13,458)**	**(5,753)**	**(19,211)**
Total premium revenue	**122,442,447**	**52,189,930**	**174,632,377**
2019 premium revenue			
Premiums received including Federal Government rebates	123,583,431	53,153,847	176,737,278
+/- premiums in arrears	53,767	17,916	71,683
+/- unearned premium liability	161,056	276,130	437,186
+/- amount receivable from the Federal Government Rebate Incentives Scheme	(125,426)	(53,737)	(179,163)
Total premium revenue	**123,672,828**	**53,394,156**	**177,066,984**

The Group assessed the disaggregation of the revenue by geographical region and type of policies. This is information regularly reviewed by the Board to evaluate the financial performance of the Group. The Group's revenue from external customers by geographical location and type of policy are detailed below.

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Geographical region				
Australian Capital Territory	**1,258,893**	1,271,017	**1,258,893**	1,271,017
New South Wales	**18,588,098**	19,469,075	**18,588,098**	19,469,075
Northern Territory	**200,731**	223,958	**200,731**	223,958
Queensland	**16,593,991**	17,542,831	**16,593,991**	17,542,831
South Australia	**4,088,188**	4,079,062	**4,088,188**	4,079,062
Tasmania	**977,584**	982,604	**977,584**	982,604
Victoria	**27,295,518**	27,600,604	**27,295,518**	27,600,604
Western Australia	**105,629,374**	105,897,833	**105,629,374**	105,897,833
	174,632,377	177,066,984	**174,632,377**	177,066,984

Notes to the Financial Statements

For the year ended 30 June 2020

5 Premium revenue (continued)

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Type of policy				
Complying Health Insurance Products	**170,933,626**	172,818,073	**170,933,626**	172,818,073
Overseas Visitor Cover	**3,698,751**	4,248,911	**3,698,751**	4,248,911
	174,632,377	177,066,984	**174,632,377**	177,066,984

6 Investment income (net)

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Investment income	**2,461,737**	3,215,505	**2,461,737**	3,215,505

Investment income includes interest income and distribution income from unit trust investments.

7 Other income

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Profit from sale of property, plant and equipment	**3,828**	7,364	**3,828**	7,364
Rental revenue	**219,373**	305,038	**219,373**	305,038
Other revenue	**79,322**	153,629	**79,322**	153,629
	302,523	466,031	**302,523**	466,031

Notes to the Financial Statements

For the year ended 30 June 2020

8 Net claims incurred

	Consolidated and Health Insurance Fund of Australia		
	Current year $	Prior years $	Total $
2020			
Gross claims expense			
Gross claims incurred – undiscounted	142,488,747	(3,748,581)	138,740,166
Discount movement	-	-	-
	142,488,747	(3,748,581)	138,740,166
Ambulance levies	589,405	-	589,405
Risk equalisation expense			
Risk equalisation expense – undiscounted	11,782,311	(127,303)	11,655,008
Discount movement	-	-	-
	11,782,311	(127,303)	11,655,008
Net claims incurred	154,860,463	(3,875,884)	150,984,579
2019			
Gross claims expense			
Gross claims incurred – undiscounted	146,889,739	(2,630,816)	144,258,923
Discount movement	-	-	-
	146,889,739	(2,630,816)	144,258,923
Ambulance levies	641,726	-	641,726
Risk equalisation revenue			
Risk equalisation revenue – undiscounted	15,062,222	(928,449)	14,133,773
Discount movement	-	-	-
	15,062,222	(928,449)	14,133,773
Net claims incurred	162,593,687	(3,559,265)	159,034,422

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

The Company values are the same as the consolidated values.

Notes to the Financial Statements

For the year ended 30 June 2020

9 Other expenses

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
a) Other operating expenses				
Commission	**608,332**	1,034,525	**608,332**	1,034,525
Information technology	**1,965,477**	1,634,602	**1,965,477**	1,634,602
Depreciation	**846,124**	749,542	**846,124**	749,542
Impairment of investment property	**250,000**	-	**250,000**	-
Post-employment benefits	**890,089**	872,483	**890,089**	872,483
Other employee benefits	**10,498,515**	10,009,918	**10,498,515**	10,009,918
Legal fees	**107,128**	75,308	**108,085**	73,819
Postage and telephone	**563,828**	523,954	**563,828**	523,954
Printing and stationery	**134,408**	180,992	**134,408**	180,992
Rental and property expenses	**468,866**	513,959	**468,866**	513,959
Advertising	**3,684,889**	3,771,612	**3,684,889**	3,771,612
Other expenses	**1,703,436**	2,180,667	**1,703,437**	2,180,667
	21,721,092	21,547,562	**21,722,050**	21,546,073
Reclassification to deferred acquisition costs	**(10,396,714)**	(11,054,003)	**(10,396,714)**	(11,054,003)
Reclassification to claims handling expenses	**(2,831,200)**	(2,564,802)	**(2,831,200)**	(2,564,802)
	8,493,178	7,928,757	**8,494,136**	7,927,268

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
b) Finance costs				
Financial charges and taxes	**507,881**	577,010	**507,815**	576,945
Reclassification to deferred acquisition costs	**(268,886)**	(297,253)	**(268,886)**	(297,253)
Reclassification to claims handling expenses	**(219,332)**	(243,632)	**(219,332)**	(243,632)
	19,663	36,125	**19,597**	36,060

Notes to the Financial Statements

For the year ended 30 June 2020

10 Income tax

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	1,570	-	-
Total tax expense charged to profit or loss	-	1,570	-	-
Reconciliation between net profit before tax and tax expense				
Profit / (Loss) before income tax expense	3,574,573	(713,184)	3,573,681	(711,632)
Tax at the Australian tax rate of 30% (2019: 30%)	1,072,372	(213,955)	1,072,104	(213,490)
Exempt income of parent entity	(1,072,104)	213,490	(1,072,104)	213,490
Deferred tax asset not recognised on loss in subsidiary	(268)	465	-	-
Tax expense for the year	-	-	-	-

11 Cash and cash equivalents

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Cash on hand	949	985	949	985
Cash at bank and on call	16,953,913	11,656,683	16,923,111	11,627,119
Short-term deposits	-	-	-	-
	16,954,862	11,657,668	16,924,060	11,628,104

Notes to the Financial Statements

For the year ended 30 June 2020

12 Receivables

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Current				
Premiums in arrears	**225,801**	385,122	**225,801**	385,122
Investment income receivable	**87,534**	127,652	**87,534**	127,652
Amounts due from the Federal Government Rebate Incentives Scheme	**3,160,056**	3,179,267	**3,160,056**	3,179,267
Other amounts receivable	**1,116,633**	1,205,723	**1,116,633**	1,205,377
	4,590,024	4,897,764	**4,590,024**	4,897,418

13 Other financial assets

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Current				
Term deposits	**24,421,715**	21,805,734	**24,421,715**	21,805,734
Non-current				
Investments in unit trusts	**62,118,930**	61,615,416	**62,118,930**	61,615,416

The group holds investments in unit trusts carried at fair value through profit or loss (FVTPL).

14 Investments in controlled entities

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Health Insurance Australia Pty Ltd	**-**	-	**1**	1
	-	-	**1**	1

The subsidiary company is 100% owned by Health Insurance Fund of Australia Limited.

Notes to the Financial Statements

For the year ended 30 June 2020

15 Deferred acquisition costs

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Deferred acquisition costs at 1 July	**288,798**	845,182	**288,798**	845,182
Acquisition costs deferred	**10,665,600**	11,351,256	**10,665,600**	11,351,256
Recognised in income statement	**(9,713,122)**	(11,907,640)	**(9,713,122)**	(11,907,640)
Deferred acquisition costs at 30 June	**1,241,276**	288,798	**1,241,276**	288,798

16 Property, plant and equipment

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Land at fair value	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Buildings at fair value	**9,746,066**	10,835,201	**9,746,066**	10,835,201
Less: accumulated depreciation	**446,066**	910,929	**446,066**	910,929
	12,300,000	12,924,272	**12,300,000**	12,924,272
Office furniture and equipment – at cost	**5,075,058**	4,767,836	**5,075,058**	4,767,836
Less: accumulated depreciation	**3,884,752**	3,361,860	**3,884,752**	3,361,860
	1,190,306	1,405,976	**1,190,306**	1,405,976
Motor vehicles – at cost	**251,727**	323,886	**251,727**	323,886
Less: accumulated depreciation	**117,240**	93,029	**117,240**	93,029
	134,487	230,857	**134,487**	230,857
Total property, plant and equipment	**13,624,793**	14,561,105	**13,624,793**	14,561,105

The basis of valuation for land and buildings is the fair value based on existing use. The Company's Board of Directors is of the opinion that this basis provides a reasonable estimate of the recoverable amount. There was a revaluation of the Company's freehold land and buildings in June 2020. The valuation was based on the fair market value of the property at that date by reference to several methodologies including summation method, capitalisation method and comparable rate method and was conducted in accordance with independent valuation standards. The valuation was performed by David Lang of Knight Frank Australia Pty Ltd who is a Certified Practising Valuer (Licensed Valuer # 44506). The next independent valuation will be conducted in June 2023. The historic cost of the revalued land and buildings was $2,068,152.

16 Property, plant and equipment (continued)

	Land & Buildings	Office Furniture & Equipment	Motor Vehicles	Total
	$	$	$	$
Reconciliation of property, plant and equipment 2020 – consolidated				
Carrying amount at 1 July 2019	**12,924,272**	**1,405,976**	**230,857**	**14,561,105**
Revaluation	**(361,920)**	**-**	**-**	**(361,920)**
Additions	**-**	**308,812**	**-**	**308,812**
Disposals	**-**	**(1,393)**	**(35,689)**	**(37,082)**
Depreciation expense	**(262,352)**	**(523,089)**	**(60,681)**	**(846,122)**
Carrying amount at 30 June 2020	**12,300,000**	**1,190,306**	**134,487**	**13,624,793**
Reconciliation of property, plant and equipment 2019 – consolidated				
Carrying amount at 1 July 2018	12,909,925	1,282,855	266,408	14,459,188
Revaluation	-	-	-	-
Additions	275,919	546,583	49,321	871,823
Disposals	-	(884)	(19,479)	(20,363)
Depreciation expense	(261,572)	(422,578)	(65,393)	(749,543)
Carrying amount at 30 June 2019	12,924,272	1,405,976	230,857	14,561,105
Reconciliation of property, plant and equipment 2020 – Health Insurance Fund of Australia				
Carrying amount at 1 July 2019	**12,924,272**	**1,405,976**	**230,857**	**14,561,105**
Revaluation	**(361,920)**	**-**	**-**	**(361,920)**
Additions	**-**	**308,812**	**-**	**308,812**
Disposals	**-**	**(1,393)**	**(35,689)**	**(37,082)**
Depreciation expense	**(262,352)**	**(523,089)**	**(60,681)**	**(846,122)**
Carrying amount at 30 June 2020	**12,300,000**	**1,190,306**	**134,487**	**13,624,793**
Reconciliation of property, plant and equipment 2019 – Health Insurance Fund of Australia				
Carrying amount at 1 July 2018	12,909,925	1,282,855	266,408	14,459,188
Revaluation	-	-	-	-
Additions	275,919	546,583	49,321	871,823
Disposals	-	(884)	(19,479)	(20,363)
Depreciation expense	(261,572)	(422,578)	(65,393)	(749,543)
Carrying amount at 30 June 2019	12,924,272	1,405,976	230,857	14,561,105

17 Investment property

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Fair value				
Completed investment property	**4,000,000**	4,250,000	**4,000,000**	4,250,000
Balance at beginning of year	**4,250,000**	4,250,000	**4,250,000**	4,250,000
Additions	**-**	-	**-**	-
Revaluation	**(250,000)**	-	**(250,000)**	-
Balance at end of year	**4,000,000**	4,250,000	**4,000,000**	4,250,000

All of the Group's investment property is held under freehold interests.

The fair value of the Group's investment property as at 30 June 2020 has been arrived at on the basis of a valuation carried out in June 2020 by David Lang of Knight Frank Australia Pty Ltd who is an independent valuer not related to the Group. Mr Lang is a member of the Institute of Valuers of Australia, and has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation was based on the fair market value of the property at that date by reference to several methodologies including summation method, capitalisation method and comparable rate method and was conducted in accordance with independent valuation standards. In estimating the fair value of the properties, the highest and best use of the property is its current use. The next independent valuation will be conducted in June 2023.

18 Trade and other payables

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Amounts due to the Risk Equalisation Special Account	**2,312,022**	1,830,670	**2,312,022**	1,830,670
Trade payables	**509,134**	800,337	**509,134**	800,337
Other creditors	**766,919**	591,267	**766,920**	591,268
	3,588,075	3,222,274	**3,588,076**	3,222,275

The average credit period on purchases is 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice.

Notes to the Financial Statements

For the year ended 30 June 2020

19 Claims liabilities

		Consolidated		Health Insurance Fund of Australia	
		2020 $	2019 $	2020 $	2019 $
Outstanding claims liability – central estimate	(A)	**10,996,854**	13,915,894	**10,996,854**	13,915,894
Claims handling costs	(B)	**193,488**	240,156	**193,488**	240,156
Risk margin	(C)	**570,708**	724,102	**570,708**	724,102
Gross outstanding claims liability		**11,761,050**	14,880,152	**11,761,050**	14,880,152
COVID-19 deferred claims liability (refer note d below)		**8,663,030**	-	**8,663,030**	-
Outstanding claims payable		**4,550,319**	4,603,912	**4,550,319**	4,603,912
Claims liabilities		**24,974,399**	19,484,064	**24,974,399**	19,484,064
Gross claims incurred – undiscounted	(A)+(B)+(C)	**11,761,050**	14,880,152	**11,761,050**	14,880,152
a) Reconciliation of movement in gross outstanding claims liability					
Brought forward	(D)	**14,880,152**	15,163,545	**14,880,152**	15,163,545
Effect of changes in assumptions		**(3,142,612)**	(417,422)	**(3,142,612)**	(417,422)
Increase in claims incurred / recoveries anticipated over the year		**11,761,050**	14,880,152	**11,761,050**	14,880,152
Incurred claims recognised in income statement	(E)	**8,618,438**	14,462,729	**8,618,438**	14,462,729
Claim payments / recoveries during the year	(F)	**11,737,540**	14,746,122	**11,737,540**	14,746,122
Carried forward	(D)+(E)-(F)	**11,761,050**	14,880,152	**11,761,050**	14,880,152

Notes to the Financial Statements

For the year ended 30 June 2020

19 Claims liabilities (continued)

b) Claims development tables

The claims development table is not required where uncertainty about amount and timing is typically resolved within one year. As greater than 99.9% of the Company's claims are resolved within one year, the claims development table has not been included.

c) Risk margins

Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the data quality, the health insurance environment and the impact of legislative reform. As the Company is a single portfolio comprising two correlated classes of risk, no allowance is made for diversification when setting the risk margin. The risk margin applied to increase the level of adequacy of the central estimate to 80% is 5.1%.

d) COVID-19 deferred claims liability

In March 2020 the Government announced the suspension of certain surgical procedures and social distancing measures in response to the COVID-19 pandemic. APRA prescribed an approach to allow for the liability relating to claims that were missing in the service months of March, April, May and June 2020 due to COVID-19 restrictions for financial reporting and capital adequacy. This approach is supported by ASIC and has therefore been adopted in these financial statements.

The liability requires the following components:

1) '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 and general treatment claims that ultimately did occur, based on payments to date and the outstanding claims liability for those service months.

2) APRA has further prescribed that the implied 75th percentile level of sufficiency of the liability for the 'claims that did not occur' is to be calculated as 100% of the above calculation for hospital claims and 85% for general treatment claims. For HIF, the liability determined on this basis has been determined as being at least at the 75th percentile level of sufficiency, not the 80th percentile as is the case with the outstanding claims provision.

APRA has indicated that both claims handling expenses and risk margins are implicitly included in the hospital and general treatment factors prescribed above, although a separate allowance is made for risk equalisation.

Notes to the Financial Statements

For the year ended 30 June 2020

20 Unearned premium liability

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Unearned premium liability at beginning of the period	**27,138,051**	27,585,685	**27,138,051**	27,585,685
Deferral of premiums on contracts paid in the period	**25,760,699**	27,138,051	**25,760,699**	27,138,051
Earning of premiums paid in previous periods	**(27,138,051)**	(27,585,685)	**(27,138,051)**	(27,585,685)
Unearned premium liability at the end of the period	**25,760,699**	27,138,051	**25,760,699**	27,138,051

21 Provisions for employee entitlements

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Current				
Annual leave	**708,437**	606,161	**708,437**	606,161
Long service leave	**732,300**	668,123	**732,300**	668,123
	1,440,737	1,274,284	**1,440,737**	1,274,284
Non-current				
Long service leave	**116,457**	99,232	**116,457**	99,232

22 Unexpired risk liability

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
(a) Unexpired risk liability				
Unexpired risk liability opening balance	-	-	-	-
Release of unexpired risk liability in the period	-	-	-	-
Unexpired risk liability closing balance	**-**	-	**-**	-
(b) Calculation of deficiency				
Contributions in advance (CIA)				
Unearned premium liability	**26,033,227**	27,138,051	**26,033,227**	27,138,051
Less: related deferred acquisition costs	**1,241,276**	288,797	**1,241,276**	288,797
	24,791,951	26,849,254	**24,791,951**	26,849,254
Future claims*	**24,151,575**	26,155,738	**24,151,575**	26,155,738
Risk margin	**640,376**	693,516	**640,376**	693,516
	24,791,951	26,849,254	**24,791,951**	26,849,254
Unexpired risk liability – CIA	**-**	-	**-**	-
Constructive obligation (CO)				
Unearned premium liability	**96,852,400**	131,980,691	**96,852,400**	131,980,691
Less: related deferred acquisition costs	**4,060,192**	2,128,462	**4,060,192**	2,128,462
	92,792,208	129,852,229	**92,792,208**	129,852,229
Future claims*	**89,957,218**	126,498,147	**89,957,218**	126,498,147
Risk margin	**2,834,990**	3,354,082	**2,834,990**	3,354,082
	92,792,208	129,852,229	**92,792,208**	129,852,229
Unexpired risk liability – CO	**-**	-	**-**	-
Unexpired risk liability – CIA and CO	**-**	-	**-**	-

**Central estimate of present value of expected future cash flows arising from future claims including risk equalisation and policy handling expenses.*

The liability adequacy test identified a surplus (2019: surplus) for the combined portfolio of Hospital and General contracts that are subject to broadly similar risks that are managed together as a single portfolio. The process for determining the overall risk margin of 3.0%, is based on a coefficient of variation of 4.5% at 75% level of sufficiency.

The related deferred acquisition costs were recognised only to the extent of the surplus in the current year and in the prior year.

As health insurance contracts have no end date, unlike a general insurance contract, health funds are obliged to keep offering and renewing their products to members thus giving rise to a constructive obligation. The constructive obligation is required to be included when performing the liability adequacy test to determine the unexpired risk liability. It is generally recognised that whilst health insurance contracts have no end date, a health fund will be able to alter its product's prices at least annually (from 1 April), thus limiting the impact of the constructive obligation.

23 Reserves

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Reserves comprise revaluation of:				
Land and buildings	**488,080**	850,000	**488,080**	850,000

The land and buildings 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, and that is effectively realised, is transferred directly to retained earnings. The land and building at 100 Stirling St was revalued at 30 June 2020 resulting in a write down in value of $361,920 against the reserve.

24 Reconciliation of profit for the year to net cash flows from operating activities

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Net profit / (loss) from ordinary activities after tax	**3,574,573**	(714,754)	**3,573,681**	(711,632)
Adjustments for:				
Depreciation of property, plant and equipment	**846,123**	749,542	**846,123**	749,542
Profit on sale of property, plant and equipment	**(3,828)**	(7,364)	**(3,828)**	(7,364)
Fair value losses / (gains) on financial assets	**1,560,990**	(253,673)	**1,560,990**	(253,673)
Impairment of investment property	**250,000**	-	**250,000**	-
Operating cash flows before movements in working capital	**6,227,858**	(226,249)	**6,226,966**	(223,127)
(Increase) / Decrease in deferred acquisition costs	**(952,478)**	556,385	**(952,478)**	556,385
Decrease in unearned premium liability	**(1,377,352)**	(447,634)	**(1,377,352)**	(447,634)
Decrease / (Increase) in contributions in arrears	**159,322**	(71,682)	**159,322**	(71,682)
Increase in claims liabilities	**5,490,335**	899,285	**5,490,335**	899,285
Increase in employee entitlements	**183,678**	48,408	**183,678**	48,408
Decrease in other assets	**-**	1,570	**-**	-
Decrease / (Increase) in other debtors	**108,298**	(2,147)	**107,952**	(1,801)
Increase / (Decrease) in creditors	**365,801**	(2,398,461)	**365,801**	(2,398,807)
Decrease in interest receivable	**40,119**	29,207	**40,119**	29,207
Net cash generated by / (used in) operating activities	**10,245,581**	(1,611,318)	**10,244,343**	(1,609,766)

As the Group does not have any debt, there is no changes in the Group's liabilities arising from financing activities.

25 Related party disclosures

The names of each person holding the position of director of the Company during the financial year are:

S. V. Blake, A. J. Carpenter, M. A. Dudley, P. L. Hersey, G. N. Gibson, R. Homsany, K. Laufmann and T. W. Shackleton.

Directors of the Company are entitled to receive Company health benefits at subsidised rates applicable to all employees.

Transactions with related entities

There were no transactions with related entities in the current financial year.

Key management personnel compensation

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

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Short-term employee benefits	**1,847,042**	1,863,225	**1,847,042**	1,863,225
Post-employment benefits	**147,259**	160,584	**147,259**	160,584
	1,994,301	2,023,809	**1,994,301**	2,023,809

26 Remuneration of auditors

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Remuneration of the external auditor for audit of the consolidated financial statements of the Group and regulatory reporting (Deloitte Touche Tohmatsu)	**119,102**	118,650	**119,102**	118,650
Remuneration of the internal auditor for internal audit services (PricewaterhouseCoopers)	**111,330**	73,051	**111,330**	73,051
	230,432	191,701	**230,432**	191,701

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments

a) Financial risk

The Group is exposed to a number of forms of financial risk, the most significant being market risk. This section provides an explanation of the other aspects in which the Group is affected by financial risks.

(i) Market risk

The Group takes on exposure to market risks including fair value risk, interest risk and price risk. Market risks arise from open positions in interest rates and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments and liabilities.

Investment activity for the Group is undertaken in accordance with an investment policy established by the Board of Directors. The policy stipulates cash flow requirements, liquidity management, authorised investments and maximums, composition of portfolio, performance benchmarks and credit structure.

At 30 June, the Group had the following mix of financial assets exposed to equities price risk:

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Financial assets				
Investment in unit trusts	**62,118,930**	61,615,416	**62,118,930**	61,615,416

The unit trusts primarily invest in companies listed on the Australian Stock Exchange (ASX). All equity unit trusts are invested in listed equities.

At 30 June, if the S&P/ASX 300 Index had moved, as illustrated in the table below, with all other variables held constant, post tax profit/equity would have been affected as follows:

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
+ 10% S&P/ASX 300 Index	**2,528,991**	2,581,129	**2,528,991**	2,581,129
- 10% S&P/ASX 300 Index	**(2,528,991)**	(2,581,129)	**(2,528,991)**	(2,581,129)

27 Financial instruments (continued)

(ii) Interest rate risk

The Group manages its exposure to interest rate risk through a diversified portfolio of investments including property and equity investments in addition to interest bearing assets. The interest bearing assets are further diversified in type and duration.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
Financial assets				
Cash and cash equivalents	**16,954,862**	11,657,668	**16,924,060**	11,628,104
Term deposits	**24,421,715**	21,805,734	**24,421,715**	21,805,734
	41,376,577	33,463,402	**41,345,775**	33,433,838

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and hence equity would have been affected as follows:

	Post tax profit / equity higher / (lower)			
	Consolidated		Health Insurance Fund of Australia	
	2020 $	2019 $	2020 $	2019 $
+ 1.0% (100 basis points)	**782,056**	692,675	**781,748**	692,380
- 0.5% (50 basis points)	**(391,028)**	(346,338)	**(390,874)**	(346,190)

The movements in profit / equity are due to higher / lower interest income from variable rate cash and term deposit balances.

(iii) Liquidity risk

The Group is exposed to daily calls on its available cash resources from policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Company's Board sets limits on the minimum proportion of maturing funds available to meet such calls and to cover claims at unexpected levels of demand.

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities at 30 June 2020. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2020.

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments (continued)

Maturity analysis of financial assets and liabilities based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Payables and other financial liabilities mainly originate from the ongoing operations of the Group such as overhead expenses and investments in working capital.
To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its various business units that reflects expectations of management of expected settlement of financial assets and liabilities. The financial assets at fair value through profit and loss categorised as maturing in less than or equal to 3 months have been categorised as such because there is no maturity date, however, they are disclosed as non current assets on the Statement of Financial Position as it is the intention to hold these investments for greater than 12 months.

	≤ 3 months	>3-6 months	>6-12 months	>1-5 months	>5 months	Total
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**
Year ended 30 June 2020						
Financial assets						
Cash and cash equivalents	**16,954,862**	**-**	**-**	**-**	**-**	**16,954,862**
Term deposits	**23,418,999**	**1,090,249**	**-**	**-**	**-**	**24,509,248**
Receivables	**4,502,490**	**-**	**-**	**-**	**-**	**4,502,490**
Financial assets at fair value through profit or loss	**62,118,930**	**-**	**-**	**-**	**-**	**62,118,930**
	106,995,281	**1,090,249**	**-**	**-**	**-**	**108,085,530**
Financial liabilities						
Payables	**(3,588,075)**	**-**	**-**	**-**	**-**	**(3,588,075)**
Net maturity	**103,407,206**	**1,090,249**	**-**	**-**	**-**	**104,497,455**
Year ended 30 June 2019						
Financial assets						
Cash and cash equivalents	11,657,668	-	-	-	-	11,657,668
Term deposits	9,681,067	12,252,319	-	-	-	21,933,386
Receivables	4,770,112	-	-	-	-	4,770,112
Financial assets at fair value through profit or loss	61,615,416	-	-	-	-	61,615,416
	87,724,263	12,252,319	-	-	-	99,976,582
Financial liabilities						
Payables	(3,222,274)	-	-	-	-	(3,222,274)
Net maturity	84,501,989	12,252,319	-	-	-	96,754,308

Fair value

The methods for estimating fair value are outlined in Note 1(m) Financial assets at fair value through profit or loss.

27 Financial instruments (continued)

	≤ 3 months	>3-6 months	>6-12 months	>1-5 months	>5 months	Total
Health Insurance Fund of Australia	**$**	**$**	**$**	**$**	**$**	**$**
Year ended 30 June 2020						
Financial assets						
Cash and cash equivalents	**16,924,060**	**-**	**-**	**-**	**-**	**16,924,060**
Term deposits	**23,418,999**	**1,090,249**	**-**	**-**	**-**	**24,509,248**
Receivables	**4,502,490**	**-**	**-**	**-**	**-**	**4,502,490**
Held to maturity investments	**-**		**-**	**-**	**-**	**-**
Financial assets at fair value through profit or loss	**62,118,930**	**-**	**-**	**-**	**-**	**62,118,930**
	106,964,479	**1,090,249**	**-**	**-**	**-**	**108,054,728**
Financial liabilities						
Payables	**(3,588,076)**	**-**	**-**	**-**	**-**	**(3,588,076)**
Net maturity	**103,376,403**	**1,090,249**	**-**	**-**	**-**	**104,466,652**
Year ended 30 June 2019						
Financial assets						
Cash and cash equivalents	11,628,104	-	-	-	-	11,628,104
Term deposits	9,681,067	12,252,319	-	-	-	21,933,386
Receivables	4,769,766	-	-	-	-	4,769,766
Held to maturity investments	-	-	-	-	-	-
Financial assets at fair value through profit or loss	61,615,416	-	-	-	-	61,615,416
	87,694,353	12,252,319	-	-	-	99,946,672
Financial liabilities						
Payables	(3,222,275)	-	-	-	-	(3,222,275)
Net maturity	84,472,078	12,252,319	-	-	-	96,724,397

Maturity analysis of the Company's undiscounted outstanding claims liability on insurance contracts is as follows:

	≤ 3 months	>3-6 months	>6-12 months	>1-5 months	>5 months	Total
Year ended 30 June 2020	**14,466,170**	**1,011,852**	**666,678**	**166,670**	**-**	**16,311,369**
Year ended 30 June 2019	17,149,508	1,280,201	843,485	210,871	-	19,484,065

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments (continued)

Liquidity and interest risk tables

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 - 5 years	Non interest bearing	Total
Consolidated 2020	**$**	**$**	**$**	**$**	**$**	**$**
Financial assets						
Cash and cash equivalents	11	16,953,913	-	-	949	16,954,862
Term deposits	13		24,421,715	-	-	24,421,715
Contributions in arrears	12	-	-	-	225,801	225,801
Other receivables	12	-	-	-	4,276,689	4,276,689
Investment income receivable	12	-	-	-	87,534	87,534
Financial assets at fair value through profit and loss	13	-	-	-	62,118,930	62,118,930
		16,953,913	24,421,715	-	66,709,903	108,085,531
Weighted average interest rate		0.69%	1.26%			
Financial liabilities						
Payables	18	-	-	-	(3,588,075)	(3,588,075)
		-	-	-	(3,588,075)	(3,588,075)
Net financial assets		16,953,913	24,421,715	-	63,121,828	104,497,456

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments (continued)

Liquidity and interest risk tables

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 - 5 years	Non interest bearing	Total
Consolidated 2019	$	$	$	$	$	$
Financial assets						
Cash and cash equivalents	11	11,656,683	-	-	985	11,657,668
Term deposits	13		21,805,734	-	-	21,805,734
Contributions in arrears	12	-	-	-	385,122	385,122
Other receivables	12	-	-	-	4,384,990	4,384,990
Investment income receivable	12	-	-	-	127,652	127,652
Financial assets at fair value through profit and loss	13	-	-	-	61,615,416	61,615,416
		11,656,683	21,805,734	-	66,514,165	99,976,582
Weighted average interest rate		1.80%	2.50%			
Financial liabilities						
Payables	18	-	-	-	(3,222,274)	(3,222,274)
		-	-	-	(3,222,274)	(3,222,274)
Net financial assets		11,656,683	21,805,734	-	63,291,891	96,754,308

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments (continued)

Liquidity and interest risk tables

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 - 5 years	Non interest bearing	Total
Health Insurance Fund of Australia 2020	$	$	$	$	$	$
Financial assets						
Cash and cash equivalents	11	16,923,111	-	-	949	16,924,060
Term deposits	13		24,421,715	-	-	24,421,715
Contributions in arrears	12	-	-	-	225,801	225,801
Other receivables	12	-	-	-	4,276,689	4,276,689
Investment income receivable	12	-	-	-	87,534	87,534
Financial assets at fair value through profit and loss	13	-	-	-	62,118,930	62,118,930
		16,923,111	24,421,715	-	66,709,903	108,054,729
Weighted average interest rate		0.69%	1.26%			
Financial liabilities						
Payables	18	-	-	-	(3,588,076)	(3,588,076)
		-	-	-	(3,588,076)	(3,588,076)
Net financial assets		16,923,111	24,421,715	-	63,121,827	104,466,653

27 Financial instruments (continued)

Liquidity and interest risk tables

	Notes	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 - 5 years	Non interest bearing	Total
Health Insurance Fund of Australia 2019	**$**	**$**	**$**	**$**	**$**	**$**
Financial assets						
Cash and cash equivalents	11	11,627,119	-	-	985	11,628,104
Term deposits	13		21,805,734	-	-	21,805,734
Contributions in arrears	12	-	-	-	385,122	385,122
Other receivables	12	-	-	-	4,384,644	4,384,644
Investment income receivable	12	-	-	-	127,652	127,652
Financial assets at fair value through profit and loss	13	-	-	-	61,615,416	61,615,416
		11,627,119	21,805,734	-	66,513,819	99,946,672
Weighted average interest rate		1.80%	2.50%			
Financial liabilities						
Payables	18	-	-	-	(3,222,275)	(3,222,275)
		-	-	-	(3,222,275)	(3,222,275)
Net financial assets		11,627,119	21,805,734	-	63,291,544	96,724,397

b) Credit risk

The credit risk on financial assets of the Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk is mitigated by close management review of outstanding amounts which are regularly followed up and collected.

27 Financial instruments (continued)

The table below provides information regarding the credit risk exposure of the Group at 30 June 2020 by classifying assets according to the Standard and Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

The Group manages credit risk by setting investment limits based on counterparty credit ratings and the duration of investments. The compliance with these limits is reported to the Company's Board of Directors on a monthly basis.

	AAA	AA	A	BBB	Not rated	Total
Year ended 30 June 2020	**$**	**$**	**$**	**$**	**$**	**$**
Consolidated						
Cash and cash equivalents	**-**	**16,953,913**	**-**	**-**	**949**	**16,954,862**
Term deposits	**-**	**24,421,715**	**-**	**-**	**-**	**24,421,715**
Receivables	**3,160,056**	**87,534**	**-**	**-**	**1,342,434**	**4,590,024**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**	**62,118,930**	**62,118,930**
Total	**3,160,056**	**41,463,162**	**-**	**-**	**63,462,313**	**108,085,531**

	AAA	AA	A	BBB	Not rated	Total
Year ended 30 June 2019	**$**	**$**	**$**	**$**	**$**	**$**
Consolidated						
Cash and cash equivalents	-	11,656,683	-	-	985	11,657,668
Term deposits	-	21,805,579	-	-	-	21,805,579
Receivables	3,179,267	127,652	-	-	1,590,845	4,897,764
Held to maturity investments	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	61,615,416	61,615,416
Total	3,179,267	33,589,914	-	-	63,207,246	99,976,427

The AAA rated receivables reflected above are due from Medicare Australia, a body administered and managed by the Federal Government. The Group's policy does not permit investment in any security rated below Standard and Poor's long-term A rating.

27 Financial instruments (continued)

c) Currency risk

All financial assets and liabilities of the Group are denominated in Australian dollars.

Reconciliation of net financial assets to net assets

		Consolidated		Health Insurance Fund of Australia	
		2020 $	2019 $	2020 $	2019 $
Net financial assets	27a)	**104,497,456**	96,754,308	**104,466,653**	96,724,397
Investment in controlled entities	14	**-**	-	**1**	1
Deferred acquisition costs	15	**1,241,276**	288,798	**1,241,276**	288,798
Property, plant and equipment	16	**13,624,793**	14,561,105	**13,624,793**	14,561,105
Investment property	17	**4,000,000**	4,250,000	**4,000,000**	4,250,000
Deferred tax asset		**-**	-	**-**	-
Current liabilities	19,20,21	**(52,175,837)**	(47,896,399)	**(52,175,836)**	(47,896,399)
Non-current liabilities	21	**(116,457)**	(99,232)	**(116,457)**	(99,232)
Net assets per the balance sheet		**71,071,231**	67,858,580	**71,040,430**	67,828,670

Net fair value of financial assets and liabilities per the balance sheet

The net fair value of financial assets and liabilities approximate their carrying value.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements

For the year ended 30 June 2020

27 Financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Year ended 30 June 2020	**$**	**$**	**$**	**$**
Financial assets at fair value through profit or loss	-	**62,118,930**	-	**62,118,930**

	Level 1	Level 2	Level 3	Total
Year ended 30 June 2020	**$**	**$**	**$**	**$**
Financial assets at fair value through profit or loss	-	61,615,416	-	61,615,416

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / financial liabilities	Fair value as at 30 June 2020 $	30 June 2019 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Other financial assets – unit trusts	**62,118,930**	61,615,416	Level 2	Stated at the redemption price quoted by the trust managers as at the reporting date.	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

Notes to the Financial Statements

For the year ended 30 June 2020

28 Operating lease arrangements

The Group owns two properties located at 60-62 Stirling Street and at 100 Stirling Street, Perth. Operating lease receivables at 30 June 2019 relates to both of the two properties owned by the Group and at 30 June 2020 to 60-62 Stirling Street only.

60-62 Stirling Street, Perth, has a lease term of 3 years, which ends on 31 March 2021. The lessee does not have an option to purchase the property at the expiry of the lease period.

The tenancy on the ground level of 100 Stirling Street, Perth, had a lease term of 7 years, with an end date of 14 December 2021. In October 2019 the tenant entered liquidation proceedings and vacated the premises. The lessee did not have an option to purchase the property at the expiry of the lease period.

The property rental income earned by the Group from its properties, which are leased out under operating leases, amounted to $219,373 (2019: $305,038). Direct operating expenses arising on the investment property in the period amounted to $208,738 (2019: $195,912).

Non-cancellable operating lease receivables

	Consolidated		Health Insurance Fund of Australia	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Not later than 1 year	**170,549**	256,281	**170,549**	256,281
Later than 1 year and not longer than 5 years	**-**	188,214	**-**	188,214
Later than 5 years	**-**	-	**-**	-
	170,549	444,495	**170,549**	444,495

29 Subsequent events

There has not arisen in the interval between 30 June 2020 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board of Directors of the Company, to affect significantly the operations of the Group, the results of its operation, or the state of affairs of the Group in future years, other than the matters disclosed in this report.

Health Insurance Fund of Australia
Mail GPO Box X2221 Perth WA 6847
Office 100 Stirling Street Perth WA 6000
Call 1300 13 40 60
Email hello@hif.com.au

HEALTH INSURANCE FUND OF AUSTRALIA LIMITED
DIRECTORS' DECLARATION

The Directors declare that in the Directors' opinion:

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

(b) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* (Cth), including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the group;

(c) the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1 (c).

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R. Homsany
Director

Perth, 30 September 2020

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

Opinion

We have audited the accompanying financial report of Health Insurance Fund of Australia Limited (the "Company", and its subsidiaries (the "Group") 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 Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Groups financial position as at 30 June 2020 and of its financial performance for the year then ended; and
(ii) 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 Group in accordance with the auditor independence requirements of 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 (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 Group, 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 obtained for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Deloitte.

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 Group 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* 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 Group'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 Group 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.

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 Group's internal control.

Deloitte.

- 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 Group'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 Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

John Sibenaler
Partner
Chartered Accountants
Perth, 30 September 2020

We're your health's best friend.

Call, email or visit us online.

hif.com.au
1300 13 40 60
hello@hif.com.au
GPO Box X2221 Perth WA 6847

Find us on:

41201_key2creative_1120