

Annual Report 2023

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Company Directory

Board of Directors

Marion Guy (Chair) (elected)
Gareth Fleming (Deputy Chair) (appointed)
Robyn Byers (elected)
Erica Hodgson (elected)
Karolyn Kerr (elected)
Richard Kirkland (appointed)
Joy Tracey (appointed)

Chief Executive Officer

Lance Walker

Actuary

Peter Davies B.BUS.Sc., FIA, FNZSA

Solicitor

Mahony Horner Lawyers

Banker

Westpac Banking Corporation

Auditor

EY, Wellington

Registered office

Level 3, 17 Whitmore Street
Wellington

Incorporation

Industrial and Provident Societies Act 1908

From the Chair



On behalf of the Board and Management of Accuro, I am pleased to present this report for the year ended 31 August 2023. It will be no surprise to anyone that I open this report by reflecting on what has been a very challenging year for the Accuro team.

At the end of November 2022 we were the victim of a cyber incident which impacted our then IT supplier. This had massive ramifications for our service levels, with all of our key systems affected in some way. We know that many of our members have suffered delays and been inconvenienced as a result. I would like to sincerely thank you for your patience and support as we have worked through those issues.

While it has been frustrating for all concerned, I am also very proud of the way our team has responded. Most importantly, despite having our systems down, we were able to continue paying claims – manually initially and then via our new policy admin system which we were in the process of building at the time. The resilience, tireless effort and “can-do” attitude displayed by the whole Accuro team during this period was exemplary. The result was that we ended the year with our claims processing turn around times back to within our usual standards, and ahead of where we were at the start of the year.

While we have now completed most of our core recovery work there are still some residual issues that we are working through. We hope to have these resolved before Christmas. There have also been some financial consequences for the Society as result of these events. We have had to incur additional costs, many of which were covered by our insurance but not all, and we have not been in a position to maintain our usual sales volumes. As a result our net membership growth for the year is negative, having started the year with 34,416 members, and ending with 32,632. Our premium revenue is therefore lower than expected and our costs higher, which has led to a deficit for the year and a reduction in our net assets from \$11,772 to \$10,575.

As we look ahead into the 2024 financial year, our attention has turned to how we rebuild for the future – both financially and from a member growth perspective. The Board has been reviewing options to achieve this and will be engaging with Members in the latter half of this calendar year. Our focus as always is on ensuring we take actions that are in the best long-term interests of our members, so that when our Members need us to assist with a health event, we are able to respond. We remain committed to the not-for-profit, mutual member Society model that has served Accuro so well for the last 50 years. We also acknowledge the need to keep growing to ensure we have the scale to manage the rising cost of healthcare and resulting premium affordability issues, and provide us with the resilience to cope with events such as we have experienced this year.

On behalf of the Board, I would like to once again thank the Accuro team for their efforts over the past year, and thank our Members for sticking with us as we have worked through this challenging period.

Marion Guy
Chair of the Board

Board of Directors



Marion Guy | Chair

RN, BN, PG Dip, MN, QSO, MInstD

Marion is the current chair of Accuro Health Insurance. She has had 2 terms on the board of Accuro holding positions of director and deputy chair during this time.

Marion has had 30 years of experience in governance covering a range of small, medium and large boards across the health sector in private, public and not-for-profit entities. These include being a member of the National Health Board, President of the New Zealand Nurses Organisation, Board member of the Bay of Plenty DHB and Board member of the International Council of Nurses.

As a registered nurse Marion has a broad knowledge of New Zealanders health requirements and health needs that could benefit from easier and early access to health care. Marion was awarded the Queens Service Order in 2010 for her services to Nursing.

Board of Directors

Gareth Fleming | Deputy Chair

BA, DipBanking, MBA, MInstD

Gareth is Chief Financial Officer at Wellington based investment management group Implemented Investment Solutions (ISS), following a 20+ year career as a senior executive in the banking and insurance industry. This included 9 years at the customer owned Co-operative Bank where he played a leading role in the transformation of PSIS to The Co-operative Bank and also led the Life insurance business. Somewhat uniquely, Gareth has a background in strategy, product and marketing leadership as well as finance. He uses this diverse background to help grow the ISS Group businesses from start-up to their currently successful scale.

Robyn Byers

BA, MA (Hons), DipClinPsych,
DipEd, Cert Health Mgmt, MInstD

Robyn is a registered Clinical Psychologist with extensive experience as a clinician, manager and auditor in Mental Health, Addictions and Mental Health of the Older Person. As General Manager, she was responsible for planning and funding, service provision, monitoring and audit for Mental Health Promotion, Primary Mental Health, Specialist Mental Health and Non-Government Organisations in Nelson Marlborough.

For fourteen years she taught Health Management at Nelson Marlborough Institute of Technology, and Social Sciences at its School of Nursing. She also ran her own quality consultancy business. Robyn is currently General Manager of the DAA Group, a designated audit agency who audit the clinical quality of health services throughout the country. She has extensive regional, national and international involvement speaking at Conferences, and on various working parties and reference groups for the Ministry of Health and regional governance bodies. She was a Deputy Chair and a Trustee of the Mental Health Foundation for twelve years.

Joy Tracey

CA, MBA (Dist), CMIInstD, FGNZ

Joy is a director and business consultant specialising in governance, business strategy and performance improvement. With a wealth of experience as a CFO and company secretary, she has been actively engaged with a diverse range of organizations, including not-for-profit entities, Crown agencies, primary sector organizations, and commercial manufacturing and service industries. Joy is a Chartered member of the Institute of Directors and a Fellow of the Chartered Governance Institute. Her expertise is not limited to a single sector; she has served in key roles as a commercial chair and director. Additionally, she has effectively chaired Audit and Risk committees across both private and not-for-profit sectors. Beyond her corporate responsibilities, Joy has also been involved in various governance positions within community, membership, arts, and health organizations.

Erica Hodgson

BA, BHSc(OT), PGCert Management, CMIInstD

Erica is an Occupational Therapist with 20 years experience working in the mental health sector. Moving from frontline work to clinical education, project management and becoming Professional Advisor for NZ's largest mental health service, she has extensive experience in service delivery and quality process systems. Roles in organisational development have informed good knowledge of the healthcare sector and the diverse needs of staff and the community.

Her business Work Better Together provides training, supervision and coaching to develop reflective practice and build expertise in managers and leaders in healthcare and social services. She has extensive governance experience as board chair and also led quality assurance and remuneration subcommittees for Connect Supporting Recovery, Ember Services Ltd and the Occupational Therapy Board. Her most recent appointment is to the Lotteries Commission, bringing a harm minimisation lens.

Board of Directors

Karolyn Kerr

PhD, RGON, MInstD

Karolyn is director and owner of Illuminare. Illuminare provides digital health, data management, data governance and data quality strategic planning services to a range of clients, including government and private organisations. Karolyn is currently working for IHC Group developing their data engineering and business intelligence programme to a more mature state, alongside consultancy in data governance to commercial enterprises. Karolyn began her career as a nurse, training in New Zealand and the UK and specialised in Coronary Care nursing and research before studying Health Informatics. Having completed a Masters in Telehealth, Karolyn began working at the Ministry of Health. Here she completed a PhD in data quality, developing a national strategy for data quality for the health sector. Karolyn was Chair of Health Informatics New Zealand and a Fellow of the Australasian Institute for Digital Health.

Richard Kirkland

CA, CFA, MBA, MInstD

Richard is a seasoned risk professional, and adviser to boards and executive management. His consulting experience spans multiple jurisdictions, including Australia, New Zealand and wider Asia-Pacific in the fields of strategic risk, regulation (prudential and conduct), Enterprise Risk Management, credit, liquidity and operational risk, capital and solvency management, policy and corporate governance. He has held senior management positions in banking, development finance, insurance and reinsurance. He is a member of the XRB's NZ Auditing and Assurance Standards Board ([NZAuASB](#)), a director of Booster Investment Management Limited, and a company specialising in financial markets regulation.

Statement of Corporate Governance

Board of Directors

The Board of Directors is the governing body of Accuro and consists of four elected Directors and up to three co-opted/appointed Directors. Directorships are for three-year terms, with a maximum of three terms.

The two key establishing and guiding documents for Accuro are the Rules of the Society (which establishes the Board and its powers) and the Governance Charter (which regulates and guides its function). Subject to these, the Board's functions are to manage, direct, and supervise the operation and affairs of the Society

As at 31 August 2023, the Board comprised of: elected Directors Marion Guy (Chair), Robyn Byers (People and Culture (PCC) Committee Chair), Karolyn Kerr, Erica Hodgson; and appointed Directors Gareth Fleming (Deputy Chair), Joy Tracey (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), and Richard Kirkland.

All current Directors have been assessed by the Board in accordance with the Society's Fit and Proper Person policy and have been certified as meeting the Reserve Bank of New Zealand's Fit and Proper standard for Directors of Licensed Insurers.

Governance Framework

In conjunction with management, the Board operates under a number of statutory obligations. The primary legislative requirements for Accuro are contained in, but not limited to, the Industrial and Provident Societies Act 1908, the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013, and the Insurance (Prudential Supervision) Act 2010.

The Board has adopted a governance framework that is appropriate for the size and nature of the Society's operations. The Board seeks to ensure that its principles, policies and practices are consistent with the Reserve Bank of New Zealand's Governance Guidelines for licensed insurers, the Financial Markets Authority Corporate Governance Principles and Guidelines, and Code of Practice for Directors from the Institute of Directors.

The governance framework in association with Accuro's risk management framework ensure that Accuro's processes and policies are aligned to ensure compliance with legislative requirements.

The Board and Management Team are governed by the overarching Governance Charter (2022). The Governance Charter represents a transparent set of standards under which Accuro operates and includes the Code of Ethics, Fit and Proper Policy, Conflicts of Interest and Delegations.

Board meetings and standing committees

The Board meets at least once per financial quarter to review and discuss Accuro's affairs, monitor performance and strategic developments.

The Board has established two standing committees:

A Risk, Audit, Investment and Compliance (RAIC) Committee, which is tasked with risk and investment oversight, regulatory compliance, and conduct monitoring. The RAIC Committee also functions as the audit committee for Accuro. The RAIC Committee operates on a quarterly basis, in between Board meetings. The RAIC Committee is responsible for informing the Board of all matters arising from its remit and is governed by its responsibilities as set out in the Governance Charter and the RAIC Committee Terms of Reference.

A People and Culture Committee (PCC), which meets at least twice per year. It is responsible for overseeing human resources strategies, policies and practices and ensuring these are appropriate and fit for purpose. The PCC is also responsible for assisting the Board with the employment, performance management and remuneration of its Chief Executive Officer. The PCC responsibilities are set out in the Governance Charter and the PCC Terms of Reference.

In addition, an Appointments Committee (AC) meets from time to time to assist the Board in carrying out its responsibilities with regards to the appointment of fit and proper and appropriately qualified elected and co-opted/appointed Directors. The AC's responsibilities are set out in the Governance Charter and the AC Terms of Reference.

Board and Standing Committee meeting attendance

The individual attendances of Directors at Board and Standing Committee Meetings for the 2023 financial year are as follows:

	BOARD	RAIC	PCC
Marion Guy	6	4	2
Joy Tracey	6	4	–
Robyn Byers	6	–	2
Karolyn Kerr	6	3	–
Erica Hodgson	6	–	2
Gareth Fleming	6	–	2
Richard Kirkland	6	4	–
Total meetings held	6	4	2

Statement of Service Performance

Accuro Health Insurance Society Ltd (Accuro) is a not-for-profit Society registered under the Industrial and Provident Societies Act 1908. We were established in 1971, initially to provide comprehensive health insurance cover to health care professionals working in New Zealand's hospitals. Today we provide those services to over 32,000 members across New Zealand.

Success for Accuro is being a sustainable, financially robust Society that consistently delivers great outcomes for our members, and is recognised as being the best.

OUR PURPOSE

To help our members get well and stay well.

OUR MISSION

To give New Zealander's the power of healthcare choice.

OUR ASPIRATION

To be New Zealand's best health insurer.

OUR VALUES

Understanding.
Simplicity.
Flexibility.
Proactivity.

Service Performance Measures

In the early part of the 2023 financial year, Accuro's external IT provider was the victim of a cyber incident which had a major impact on Accuro's operations. This has affected both the service results in the 2023 financial year, and the data available to track those results.

		FY23 ACTUAL	FY22 (UNAUDITED)
1. Member Growth	Member Numbers (member growth lower than FY 22 as new sales were not accepted during cyber incident period and Accuro not marketing actively in balance of year to counteract cancellations)	32,632	34,416
	Retention Rate	87%	89%
2. Claims	Value of claims paid for every dollar of premium earned (known as claims ratio)	77c	71c
	Percentage of claims approved	92.43%	95.45%
	Number of claims paid	20,241	17,319
3. Service	Number of Members registered for Active Benefits (including Accuro Virtual Clinic, Accuro Mental Health, Accuro Wellness, Accuro Preventative Care)	5,113 (15.67%)	4,752 (13.8%)
	Number of times Active Benefits used	1263	1705
	Member Net Promoter Score (percentage of customers who rate 9 or 10 for recommending Accuro, less those who score 6 and below)	42.4 (For the period 1 Sep 2022 to 31 Dec 2022)*	54.2
	Member Satisfaction (0–100%)	85% (For the period 1 Sep 2022 to 31 Dec 2022)*	89%
	Customer Effort Score (how easy was it to interact with Accuro)	5.9 (For the period 1 Sep 2022 to 31 Dec 2022)*	6.1

* Surveys are automatically sent to members 3 days after they activate a trigger in our system. Without a functioning system following the cyber incident on 29 Nov 2022, surveys were unable to be generated. Scores are calculated based on the date we received the returned survey. Therefore, the period for assessment goes beyond the cyber incident as we were still able to receive completed surveys post this date despite not being able to send new ones from 29 November onwards.

In preparing the Statement of Service Performance there were no judgements or estimates made as the metrics were derived from internal systems based on finalised year-end figures or data from an independent third party.

Financial statements

Statement of comprehensive revenue and expenses

For the year ended 31 August 2023

	NOTES	2023 \$000	2022 \$000
Premium revenue		41,920	39,273
Claims expense	5, 13c	(32,467)	(27,705)
Underwriting surplus		9,452	11,568
Operating expenses	2	(8,002)	(6,751)
Acquisition cost		(3,212)	(3,013)
Investment income/(expense)	3	415	(314)
Other income	4	148	166
Surplus / (deficit)		(1,198)	1,656
Other comprehensive revenue or expense		-	-
Total comprehensive revenue or expense		(1,198)	1,656

Statement of changes in equity

For the year ended 31 August 2023

	2023 \$000	2022 \$000
Opening retained earnings	11,772	10,116
Total comprehensive revenue or expense	(1,198)	1,656
Closing retained earnings	10,575	11,772

Statement of financial position

As at 31 August 2023

	NOTES	31 August 2023 \$000	31 August 2022 \$000
Assets			
Cash and cash equivalents	6	2,366	4,925
Inventory		-	2
Premium and other receivables	7	3,259	2,149
Investments	8	11,777	12,082
Plant and equipment	9	139	158
Intangible assets	10	3,837	3,556
Total assets		21,378	22,872
Liabilities			
Trade and other payables	11	767	1,056
Employee benefits	12	310	258
Unearned premium liability	13d	5,796	5,451
Provision for outstanding claims	13b	3,931	4,334
Total liabilities		10,803	11,099
Net assets		10,575	11,772
Represented by			
Retained earnings		10,575	11,772



Marion Guy

Chair

10 November 2023



Joy Tracey

RAIC Chair

10 November 2023

Statement of cash flows

For the year ended 31 August 2023

	NOTES	2023 \$000	2022 \$000
Cash flows from operating activities			
Cash receipts from customers		41,608	39,934
Cash paid as claims		(32,870)	(26,423)
Cash paid to suppliers and employees		(10,630)	(8,755)
Net GST Movement		(1,249)	(962)
Insurance claims received		273	-
Investment income		633	287
Investment management expenses		(70)	(68)
Net cash flows from operating activities	16	(2,306)	4,013
Cash flows from investing activities			
Proceeds from sale of investments		3,274	3,479
Acquisitions of investments		(3,024)	(4,482)
Acquisitions of software		(471)	(2,358)
Acquisitions of plant and equipment		(32)	(101)
Net cash flows used in investing activities		(253)	(3,462)
Net increase/(decrease) in cash and cash equivalents		(2,559)	551
Opening cash and cash equivalents		4,925	4,374
Closing cash and cash equivalents		2,366	4,925

Notes to the financial statements

For the year ended 31 August 2023

1. Statement of accounting policies

Reporting entity

Accuro Health Insurance Society Limited, trading as Accuro Health Insurance (Accuro) is registered under the Industrial and Provident Societies Act 1908. Accuro is incorporated in New Zealand and is exempt from income tax.

Accuro is domiciled in New Zealand. The registered office and principal place of business is Level 3, 17 Whitmore Street, Wellington.

The financial statements of Accuro have been prepared according to the Financial Markets Conduct Act 2013. Accuro is an FMC Reporting Entity for the purposes of the Financial Market Conduct Act 2013. Accuro is required to be fully licensed under section 19 of the Insurance (Prudential Supervision) Act 2010. On 11 June 2013, Accuro was licensed by the Reserve Bank of New Zealand (RBNZ).

Accuro is a Tier 1 entity for reporting purposes.

Nature of the business

The purpose of the Society as stated in the Society Rules is to help members get well and stay well by carrying on an insurance business for the benefit of its members. The principal activity of Accuro is to provide hospital, surgical, specialist and medical benefits and bereavement grants to members.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements comply with Public Benefit Entity Accounting Standards (PBE Standards), as appropriate for Tier 1 not-for-profit public benefit entities.

The financial statements were approved by the Board of Directors on 10 November 2023.

When presentation or disclosure of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impractical to do so.

New and amended accounting standards adopted

PBE IPSAS 41 Financial Instruments is effective for reporting periods from 1 January 2022 and was adopted by Accuro from 1 September 2022. This has not had a material effect on the financial position or performance of Accuro. The adoption of PBE IPSAS 41 has changed Accuro's accounting for impairment losses for financial assets by replacing PBE IPSAS 29's incurred loss approach with a forward looking expected credit loss (ECL) approach. PBE IPSAS 41 requires Accuro to recognise an allowance for ECLs for all debt instruments not held at fair value through surplus or deficit.

Under the PBE IPSAS 41 Standards definition, financial assets are subsequently measured at amortised cost, fair value through other comprehensive revenue and expense or fair value through surplus or deficit on the basis of both:

- Accuro's management model for financial assets; and
- The contractual cashflow characteristics of the financial asset.

Accuro continued measuring at fair value through surplus or deficit all investments previously measured at fair value through surplus or deficit under PBE IPSAS 29.

Cash and cash equivalents, financial assets included in premiums and other receivables classified as loans and receivables as at 31 August 2022 are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are classified and measured as debt instruments at amortised cost beginning on 1 September 2022.

PBE FRS 48 "Service Performance Reporting" is effective for reporting periods from 1 January 2022 and was adopted by Accuro from 1 September 2022. PBE FRS 48 requires specific disclosures for the reporting of service performance information which have been provided in the statement of service performance.

Accounting standards issued but not yet effective

PBE IFRS 17 "Insurance Contracts" replaces PBE IFRS 4 Insurance Contracts and becomes effective for Accuro from 1 September 2023. PBE IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. Accuro is currently working on implementing the standard and requires changes to the Society's accounting policies. The full financial effects have not been assessed but the following determinations have been confirmed.

- **Classification and Measurement:** Accuro has reviewed the contract period associated with the insurance policies in force and has determined that contracts cover periods of 12 months or less, therefore PBE IFRS 17 allows adoption of the measurement of its insurance contracts using the Premium Allocation Approach (PAA). The PAA uses expected premium receipts that will be amortised over time.
- **Onerous Contracts:** PBE IFRS 17 requires identification of groups of onerous contracts at a greater level of detail than the current liability adequacy test. Contracts measured using the PAA method are assumed not to be onerous unless specific facts and circumstances indicate otherwise. Accuro will assess the operating ratio of each product to identify levels of onerousness.
- **Risk Adjustment:** When measuring insurance contract liabilities, a risk adjustment will be required, replacing the current risk margin. This adjustment reflects the compensation an insurer requires for bearing the uncertainty that future cash flows might exceed the expected value

- **Discount Rates:** PBE IFRS 17 requires the expected future cash flows from insurance contract liabilities to be discounted using a risk-free interest rate, with the addition of an illiquidity premium when relevant.
- **Presentation and Disclosure:** PBE IFRS 17 changes the presentation and disclosure of insurance items in the financial statements. This includes new line items on the financial statements and increased disclosure requirements compared to the current standard.
- **Transition:** The standard is effective retroactively to insurance contracts in place as of 1 September 2022 and all required changes to comparative figures will be presented in the annual report for the year ending 31 August 2024.

The XRB issued an amendment to PBE IPSAS 1 regarding the Disclosure of Fees for Audit Firms' Services in May 2023, this is effective from September 2024. The amendment required enhanced disclosure about fees paid to auditors. There will be no material impact on the financial statements.

RBNZ issued the new Interim Solvency Standard (ISS) in September 2022 and this is effective from 1 September 2023. The new standard applies a single standard to both life and non-life business. Accuro has assessed the impact of the ISS on the solvency position and operational/system requirements and are expected to exceed the minimum capital requirement of the new standard.

Basis of measurement

The financial statements are prepared on a historical cost basis except the following; insurance contract liabilities, which are measured on an actuarial basis described in note 13 and Financial Instruments which are measured at fair value as described in the Investments notes 3 and 8.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is Accuro's functional and presentation currency. All amounts have been rounded to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and the occurrence of a cyber incident has led to an increased reliance on estimation when developing the financial statements for the FY23 results, particularly with regards to the deferred acquisition costs (see Note 7). Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 13 Insurance contract liabilities
- Note 10 Intangibles
- Note 15 Classification of financial instruments
- Note 7 Premium and other receivables

Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently by Accuro to all periods presented in these financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits that are subject to an insignificant risk of changes in their fair value and are used by Accuro in the management of its short-term commitments.

Under the PBE Standards definition of financial assets, cash and cash equivalents, premiums and other receivables are measured at amortised cost if both the following conditions are met:

- The financial asset is held within a management model whose objective is to hold assets and collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

Premiums and other receivables

Premiums and other receivables are financial assets which are recognised initially at fair value plus any directly attributable transaction costs, less any impairment losses. Impairment losses for uncollectable premiums are expensed in the year in which the impairment occurs.

Investments

Accuro invests a significant portion of its reserves in a number of fixed interest and equity investments through Jarden Securities Limited in line with the Board approved Statement of Investment Policy Objectives (SIPO).

FINANCIAL ASSETS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT (FVTSD)

Fixed interest assets (including term deposits) and investments in equities are recorded in the Statement of financial position at fair value and are subsequently measured at fair value and the changes in fair value are recognized in the surplus or deficit. Fair value gain or loss excludes interest and dividend income.

The fair values of financial assets designated at fair value through surplus or deficit are determined as;

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Where no market price is available, a yield to maturity valuation is done based on securities of a similar type or duration.

Plant and equipment

Items of plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

Plant and equipment is predominately leasehold improvements, office furniture and IT equipment such as laptops and phones.

Depreciation of plant and equipment is recognised in the Statement of comprehensive revenue and expenses on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Computer equipment
17–40% per annum, 2.5–6 years
- Other fixed assets
17–33% per annum, 3–6 years
- Leasehold improvements/furniture
Based on the remaining lease term, 2–9 years

The estimated useful life of assets, their residual value and depreciation method are reassessed annually.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

Intangible assets (software) are currently amortised over the expected economic life of the software which is 2.5–10 years (10–40%) (2022: 2.5–5 years (20–40%)) on a straight-line basis.

INTERNALLY DEVELOPED SOFTWARE

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when Accuro can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention and ability to complete and use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of the expected future benefit. During the period of development, the asset is tested for impairment annually

Inventories

Inventories are stated at cost, determined on a first-in-first-out basis, and includes expenditure incurred in acquiring the inventories, conversion costs or other costs incurred in bringing them to their existing location and condition.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

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

Accuro has determined that all health insurance policies provided to members are insurance contracts.

Impairment of non derivative financial assets

Accuro recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Accuro measures loss allowances at an amount equal to lifetime ECLs, except for the following which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at reporting date; and
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

Loss allowances for premiums and other receivables are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, Accuro consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis, based on Accuro's historical experience and informed credit assessment and including forward-looking information.

Accuro considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full or the financial asset is more than 90 days past due.

Accuro considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The current designation of ratings are disclosed in Note 14.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount is written off when Accuro has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of non-financial assets

Accuro assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Accuro estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in the Statement of comprehensive revenue and expenses in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, Accuro estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of comprehensive revenue and expenses.

Income recognition

PREMIUMS

Gross earned premiums from insurance contracts are recognised evenly over the period of cover for the contract.

Revenue is recognised on the date from which the policy is effective. Premiums billed but unearned are recorded as an unearned premium liability in the Statement of financial position.

FEES AND OTHER INCOME

Fees and other income are recognised as income at the point at which the related services are performed.

INVESTMENT INCOME

Investment income includes fair value change of fixed interest and equity investments at fair value through the surplus or deficit. Dividend revenue is recognised when the right to receive payment has been established.

Leases

Accuro as a lessee classifies its leases as operating leases where they do not substantially transfer all the risks and rewards incidental to ownership.

Payments made under operating leases are recognised on a straight-line basis over the term of the lease in the surplus or deficit.

Any inducement payments received as part of an operating lease agreement are deferred and recognised on a straight-line basis over the term of the lease.

Policy acquisition costs

Acquisition costs incurred in obtaining and recording 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 surplus or deficit in subsequent reporting periods. Deferred acquisition costs are amortised systematically over the life of the contract in accordance with the expected pattern of incidence of risk under the related insurance contracts.

Trade and other payables

Trade and other payables are categorised as other financial liabilities. Trade and other payables are recognised initially at fair value net of any directly attributable transaction costs. Subsequently, trade and other payables are measured at amortised cost, using the effective interest rate method. All liabilities are paid on or before the due date.

Accuro derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Claims expense

The claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

Provisions

A provision is recognised when Accuro has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

A central estimate is made of claims reported but not paid and claims incurred but not received.

The liability for outstanding claims includes expected claim payment plus associated claims handling costs as disclosed in note 13.

Unexpired risk provision and liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium.

The test is performed on all the policies as a whole, as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. The total is compared with the unearned premium liability less related deferred acquisition costs. Any deficiency is recognised as an expense in the Statement of comprehensive revenue and expenses.

Employee entitlements

Employee entitlements represent an accrual for the current obligation to employees in respect of outstanding salaries, leave entitlements and other short-term benefits. Short-term employee benefits are measured at the undiscounted amount expected to be paid in exchange for the employees' services received.

Income tax expense

Accuro is registered under the Industrial and Provident Societies Act 1908 with rules approved and an acknowledgement of registration dated 26 March 1991. As a not-for-profit entity operating on the principles of mutuality for its members, Accuro is recognised by Inland Revenue as being exempt from income tax.

Goods and services tax (GST)

The Statement of comprehensive revenue and expenses and the Statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2. Operating expenses

Operating expenses include:

	2023 \$000	2022 \$000
Depreciation	51	39
Amortisation of intangible assets	191	59
Directors' fees	245	239
Employee benefits expense	4,168	3,466
Contributions to KiwiSaver	207	200
Rental of premises	184	173
Impairment of receivables	244	25
Other operating costs	2,713	2,550
Total operating costs	8,002	6,751

Independent Audit Firm's remuneration – EY

	2023 \$000	2022 \$000
Audit of financial statements	58	46
Audit of solvency return	6	6
Audit of Service Performance reporting	–	4
Provision of remuneration data	–	1
Agreed upon procedures	9	–
Total auditor's remuneration	73	57

	2023 \$000	2022 \$000
Directors' fees and expenses (refer note 19)	\$000	\$000
Directors' fees	245	239
Directors' expenses	3	11
	248	250
Health insurance premium subsidy received by Directors	15	11
Health insurance claims paid to Directors	1	10

3. Investment income

	2023 \$000	2022 \$000
Fixed interest investments – at Fair Value through surplus or deficit	439	289
Dividend income – at Fair Value through surplus or deficit	73	78
Interest Expense	(1)	–
Investment management expenses	(70)	(68)
Realised gains / (losses) from revaluations and disposal	120	(80)
Unrealised gains / (losses) from revaluations	(146)	(533)
Net Investment Income	415	(314)

4. Other income

	2023 \$000	2022 \$000
ACC recoveries	148	166
Total other income	148	166

5. Claims Expense

	2023 \$000	2022 \$000
Claims relating to risk in current year	(33,064)	(28,693)
Claims relating to risk in previous years	597	988
Total claims relating to risk	(32,467)	(27,705)

6. Cash and cash equivalents

	2023 \$000	2022 \$000
Held in operating bank accounts on rates ranging from 0.3–5.4% (2022: 0.1–0.3%). All cash and cash equivalents are held on call	2,366	4,925

7. Premium and other receivables

	2023 \$000	2022 \$000
Premium receivables	2,477	1,399
Allowance for impairment	(314)	(70)
Net premium receivables	2,163	1,329
GST receivable	399	12
Prepayments	149	152
Deferred acquisition costs	443	656
Other receivables	105	-
Premium and other receivables	3,259	2,149

Deferred acquisition costs in 2023 are calculated on historical average as opposed to the systematic allocation of detailed payments applied in 2022.

The fair value of premiums and accrued interest approximates the carrying amount. Receivables are a current asset. When a member is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy and membership lapses and the premium receivable is provided for. The exception is where a payment plan is in place.

	2023 \$000	2022 \$000
Analysis of premium receivables impairment		
Opening allowance for impairment	71	47
Financial assets impaired	243	24
Closing allowance for impairment	314	71

8. Investments

	2023 \$000	2022 \$000
Financial instruments at fair value through surplus or deficit		
Term Deposits	1,233	3,071
Equity Investments	2,007	2,541
Fixed Interest Investments	8,538	6,470
Total investments	11,777	12,082

As at 31 August 2023 the average interest rate for term deposits was 2.71% (2022: 2.28%) and the average interest rate for fixed interest investments was 3.33% (2022: 3.16%). The portfolio duration of Fixed Interest investments is 2.95 years (2022: 2.99 years).

9. Plant and equipment

	31 August 2023			31 August 2022		
	Computer and equipment \$000	Other assets \$000	Total \$000	Computer and equipment \$000	Other assets \$000	Total \$000
Cost	159	175	334	150	172	322
Accumulated depreciation	(113)	(81)	(194)	(104)	(57)	(164)
Closing book value	46	94	139	43	115	158
Opening balance	43	115	158	35	61	95
Additions	29	3	32	29	72	101
Depreciation	(26)	(24)	(51)	(21)	(18)	(39)
Closing book value	46	94	139	43	115	158

10. Intangible assets

	Internally developed Software	Acquired software	Work in Progress	Total
	\$000	\$000	\$000	\$000
Cost				
At 1 September 2021	1,286	97	1,188	2,571
Additions	–	–	2,358	2,358
Transfer to/(from) WIP	–	–	–	–
At 31 August 2022	1,286	97	3,546	4,929
Additions	18	–	453	471
Transfer to/(from) WIP	3,962	–	(3,962)	–
Disposal	(699)	(77)	–	(776)
At 31 August 2023	4,567	20	37	4,624
Amortisation				
At 1 September 2021	1,217	97	–	1,314
Amortisation	59	–	–	59
At 31 August 2022	1,276	97	–	1,373
Amortisation	191	–	–	191
Disposal	(699)	(77)	–	(776)
At 31 August 2023	768	20	–	788
Net book value				
At 31 August 2022	10	–	3,546	3,556
At 31 August 2023	3,800	–	37	3,837

Internally developed software and work in progress consists of software development of the policy administration system which went live in March 2023.

Intangible includes fully depreciated assets having a gross carrying amount of \$606k (2022: \$1,350k)

11. Trade and other payables

	2023 \$000	2022 \$000
Trade payables	506	657
Other payables	261	399
	767	1,056

Trade payables includes balances owing to agents and suppliers in the ordinary course of business.

12. Employee benefits

	2023 \$000	2022 \$000
Employee entitlements	68	46
Annual leave	242	212
	310	258

13. Insurance contract liabilities

	2023 \$000	2022 \$000
Provision for outstanding claims (refer to note 13b)	3,931	4,334
Unearned premium liability (refer to note 13d)	5,796	5,451
	9,727	9,785
Assets backing insurance contract liabilities	11,777	12,082

Accuro holds a number of investments in a number of term deposits/fixed interest investments and equity investments through Jarden Securities Limited and short term deposits in financial institutions, as security over their insurance contract liabilities. The carrying value of investments that back insurance contract liabilities approximates the fair value of those assets. Assets backing insurance liabilities have been determined to be term deposits/fixed interest investments due to the similar nature of their contractual maturities and equity investments which are invested in liquid securities with minimal impact on market price.

	2023	2022
	\$000	\$000
13a		
Outstanding claims liability		
Central estimate	3,405	3,760
Expense margin	136	149
Risk margin	390	425
	3,931	4,334

13b		
Opening claims provision	4,334	3,052
Amounts utilised during the period	(3,163)	(1,669)
Reversal of unused provision	(597)	(988)
Amounts provided during the year	3,404	3,713
Movement in risk margin	(35)	186
Movement in expense margin	(13)	40
Closing Claim Provision	3,931	4,334

13c		
Claims expense		
Insurance claims paid	32,870	26,423
Movement in provisions	(403)	1,282
	32,467	27,705

13d		
Opening unearned premium liability	5,451	4,749
Premiums written during the year	42,264	39,975
Less premiums earned during the year	(41,920)	(39,273)
Closing unearned premium liability	5,796	5,451

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

Capital and solvency requirement

Accuro is a registered Industrial and Provident Society. As a consequence of its legal structure, Accuro has no recourse to external capital. Accuro's solvency capital of \$6.7 million (2022: \$8.2 million) is equal to the net assets as disclosed in the Statement of financial position minus deductions from capital as determined by the RBNZ Solvency Standard for Non-Life Insurance Business 2014 (Solvency Standard).

As a consequence of being a fully licensed insurer, the Solvency Standard requires Accuro to retain a solvency margin of greater than zero, meaning that the actual solvency capital held exceeds the minimum solvency capital required.

	2023 \$000	2022 \$000
Actual solvency capital	6,738	8,217
Minimum solvency capital	4,618	4,688
Solvency margin	2,120	3,529
Solvency ratio	146%	175%

During the year ended 31 August 2023, Accuro complied with all externally imposed capital requirements.

The actual solvency capital has reduced in 2023 due to the ongoing development of the new policy administration system (this intangible is deducted from capital as per the Solvency Standard), and a one-off remediation payment made to members resulting from resolution of a discount communication issue and increased expenditure as a result of the cyber incident impacting Accuro in November 2022, both of which have contributed to the deficit result.

The Directors' policy for managing capital is to have a strong capital base to establish security for members and enable Accuro to conduct its business whilst maintaining financial soundness. Accuro has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the Solvency Standard.

The Capital Management Policy is regularly reviewed by the Directors in line with the guidelines issued by the RBNZ. It was last updated in May 2022 to include an Internal Capital Adequacy Assessment Process (ICAAP), which incorporates an internal buffer above the RBNZ minimum.

Provision for claims

An actuarial report has been obtained to assess the provisions for claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 31 August 2023.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the New Zealand Society of Actuaries.
- The standards of the New Zealand Society of Actuaries were used to determine the amount of the outstanding claims liability.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

Outstanding claims liabilities are assessed as the central estimate of the present value of expected future payments for claims incurred but not settled at 31 August 2023, whether reported or not, together with expected related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

The decrease in the provision for outstanding claims compared to the previous year, arises from a lower backlog in 2023. There was significant uncertainty over outstanding claim payments at August 2022 due to the higher backlog and uncertainty over hospital capacity in the post-COVID recovery period

An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed due to uncertainty that arises from experience and disruptions over the past twelve months. A risk margin of 11% of the central estimate was established at 31 August 2023 (31 August 2022: 11%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the outstanding claims provision.

A hindsight analysis of the provision shows:

	2023 \$000	2022 \$000
Central estimate in previous years	3,713	2,704
Total claims made in hindsight	(3,116)	(1,716)
Margin within central estimated, with hindsight	597	988

KEY ASSUMPTIONS

- Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
- Processing of claims will continue to be consistent at Accuro.
- Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims.
- Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be 4% (31 August 2022: 4%) of the underlying claims amounts based on an analysis of administration expenses.
- The expected settlement date for 93% of claims included in the liability is less than 90 days for hospital claims (31 August 2022: less than 90 days for 93% of hospital claims) and less than 11 months for 90% primary/medical claims (31 August 2022: less than 11 months for 91% of primary claims). Accordingly, expected future payments are not discounted due to the short-tail nature of the liabilities.
- The above provisions have been included in the total of claims paid and accrued in the Statement of comprehensive revenue and expenses.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs, the unearned premium liability is deemed to be deficient.

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 September 2023. There is no unexpired risk liability for the year ended 31 August 2023 (2022: nil). As at 31 August 2023, the liability adequacy test identified a surplus, therefore no deficiency in the unearned premium liability has been recognised.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 7% of the present value of expected future cash flows has been applied at 31 August 2023 (31 August 2022: 7%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

KEY ASSUMPTIONS

- An average loss ratio for the remaining deferred revenue period of 75% (2022: 74%).
- An expense allowance of 10% (2022: 10%).
- A commission component of 8% of the unearned premium (2022: 8%).
- Expected future payments are not discounted due to the short-tail nature of the liabilities.

14. Risk management

Insurance risk

Accuro has adopted a risk management strategy that is set by the Board and managed operationally by Accuro staff, which provides a holistic view of risk exposure across all levels of the business. Such a strategy has allowed Accuro to run a sustainable and progressive business with a strong future.

Accuro's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- There are sufficient capital reserves, over and above those set by the RBNZ, to absorb any claims volatility or solvency shocks.
- Strong underwriting that aligns with industry standards.
- A pricing strategy that covers the underlying risk of insurance products and cost of claims.
- Strong operations through robust claims and member processes.

Accuro further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity risk represents impact of variables on Accuro's key metrics. The financial results of Accuro are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 13. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2023	2022
	\$000	\$000
Base assumptions	3,931	4,334
Claims settlement time + 10%	4,885	5,360
Claims settlement time - 10%	2,903	3,094

Accuro's insurance risk is concentrated to that within the health insurance sector.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Accuro. Accuro's tolerance for credit quality is set out in its SIPO.

The credit quality of investment counterparties is as follows:

	2023	2022
	\$000	\$000
AAA	1,942	631
AA	1,924	1,094
AA-	2,261	3,627
A+	340	335
A	399	915
A-	874	745
BBB+	989	992
BBB	767	919
Unrated	275	282
	9,771	9,540

The above \$9.8 million is the fair value of the fixed interest and term deposit investments with Jarden Securities Limited.

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in note 15.

These exposures are net of any recognised allowance for impairment losses where relevant. Accuro does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

Premium receivables are due from a very large number of counterparties, ranging from corporates to individual members. The premium receivable book is very diversified with no significant concentrations except for health professionals.

Liquidity risk

Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost.

Accuro is exposed to daily calls on its available cash resources from claims and administration expenses.

Liabilities relating to non-insurance activities are of a short-term nature and are covered by cash and cash equivalents.

The portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand. Liquidity risk and exposure is reviewed on an ongoing basis via Accuro's Liquidity Management Policy.

Maturity Profile of Investments

	2023 \$000	2022 \$000
Less than 1 Year – financial instruments at Fair Value through surplus or deficit	3,757	4,702
1–5 Years – financial instruments at Fair Value through surplus or deficit	6,661	6,725
5–10 Years – financial instruments at Fair Value through surplus or deficit	1,360	655
Total	11,778	12,082
In addition to the above investments, Accuro has on-call funds of:	2,366	4,925
The contractual maturity of financial liabilities are as follows:		
Trade and other payables Less than 1 Year	506	686

Interest rate risk

Accuro holds term deposits and cash at call held in financial institutions. There is a risk that any movement in interest rates could have an impact on the returns from these holdings. Accuro therefore maintains a spread of maturity profiles to mitigate this risk.

Accuro also invests in fixed interest securities, with the intention to hold the investments to maturity. Therefore interest rate sensitivity is limited to changes in interest rates earned on these investments solely for the impact of fair value. Each 1% movement in interest rates up or down will equate to an increase/decrease in net surplus attributable to members of \$97,709 (2022: \$95,407).

Equity price risk

Accuro invests in equity securities, to enable some diversification and longer-term capital growth. As a consequence, there is some exposure to equity price sensitivity. Each 10% movement in equity prices up or down will equate to an increase/decrease in net surplus attributable to members of \$200,655 (2022: \$254,142).

Fair Value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. The determination of the fair value of term deposits is based on discounted cash flows. The key assumption taken into consideration is the discount factor.
- **Level 3** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

For the purpose of fair value disclosures, Accuro has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The following table provides the fair value measurement hierarchy of Accuro's assets and liabilities.

Hierarchy

	2023 \$000	2022 \$000
Level One		
Fixed Interest Investments	8,538	6,470
Equity Investments	2,007	2,541
Total Level One	10,545	9,011
Level Two		
Term Deposits	1,233	3,071
Total Level Two	1,233	3,071

15. Classification of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of financial position, are as follows.

2023	Fair value through surplus or deficit	Amortised cost	Total carrying amount
Assets			
Cash and cash equivalents	–	2,366	2,366
Premium and other receivables	–	2,163	2,163
Investments	11,777	–	11,777
Total assets	11,777	4,529	16,360
Liabilities			
Trade and other payables	–	506	506
Total liabilities	–	506	506

2022	Fair value through surplus or deficit	Amortised cost	Total carrying amount
Assets			
Cash and cash equivalents	–	4,925	4,925
Premium and other receivables	–	1,329	1,329
Investments	12,082	–	12,082
Total assets	12,082	6,254	18,336
Liabilities			
Trade and other payables	–	686	686
Total liabilities	–	686	686

16. Reconciliation of surplus / (deficit) with net cash flows from operating activities

	2023 \$000	2022 \$000
Reported surplus (deficit)	(1,198)	1,656
Non-cash items	–	–
Movement in impairment of receivables	244	25
Depreciation/amortisation expense	242	97
Movement in outstanding claims liability	(403)	1,282
Net (gains)/losses on investments at fair value through surplus or deficit	146	533
	(969)	3,593
Movements in working capital		
Premiums and other receivables	(1,058)	(276)
Premiums in advance	344	703
Trade and other payables	(289)	(14)
Employee benefits	51	52
Inventory	2	–
(Decrease)/increase in net GST	(387)	(45)
	(1,337)	419
Net cash inflow/(outflow) from operating activities	(2,306)	4,013

17. Operating lease obligations

	2023 \$000	2022 \$000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	257	195
1–5 years	1,028	1,028
Later than 5 years	749	1,007
	2,034	2,230

The major component of Accuro's non-cancellable leases above relates to a five-and-a-half-year lease at a fixed rate for the third floor of 17 Whitmore Street. This lease runs until August 2025, at which stage Accuro has one further right of renewal until the lease expires on 31 July 2031.

Capital commitments

	2023 \$000	2022 \$000
Capital commitments at period end	–	224

The 2022 capital commitments represented capital expenditure on the policy administration system contracted for at balance date but not yet incurred.

18. Rating

Accuro's financial strength rating issued by A M Best is B (2022: A M Best B +).

19. Related-party transactions

Accuro's staff are all members of the Society as part of a subsidised Accuro group staff health scheme. The four elected Directors and two of the co-opted Directors are also members of the Society and receive a subsidy on their policies.

Key management personnel included the Chief Executive Officer and the senior leadership team in 2023. This is 6 FTE in 2023 (2022: 6.6 FTE).

	2023 \$000	2022 \$000
Remuneration of key management personnel		
Remuneration	1,209	1,248
KiwiSaver contributions	77	74
Health insurance premium subsidies paid	27	35
Health insurance claims paid	8	22

Accuro does not provide loans or advances to key management personnel. At each reporting date, the amounts outstanding to key management personnel comprise salaries and earned annual leave.

20. Subsequent events

On the 29th of July 2023 the Society's Board agreed to progress with a proposal to transfer the Accuro insurance portfolio and operations to Union Medical Benefits Society Ltd (UniMed). This proposal and any subsequent agreement is contingent upon receiving approval from Accuro members at two Special General Meetings to be held in October and November 2023, and then obtaining the necessary approvals from the Reserve Bank of New Zealand. As at 31 August 2023 there is therefore no certainty over whether the proposal will progress or not.

This announcement triggered a rating review by AM Best which is assessing the impact of the planned transaction on Accuro's rating fundamentals. While the rating itself has not changed from B (fair) at this time, the outlook has been changed to "developing". The rating will remain under review until AM Best can assess the post-transaction rating fundamentals of Accuro.

21. Definitions related to the financial statements

Amortisation

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the market under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Public Benefit Entity

Public benefit entities (PBEs) are entities whose primary objective is to provide goods or services for community or social benefit, and where equity has been provided with a view to supporting that primary objective, rather than for a financial return to equity holders.



Independent Auditor's Report

To the members of Accuro Health Insurance Society Limited

Opinion

We have audited the general purpose financial report of Accuro Health Insurance Society Limited ('the Society') on pages 8 to 34, which comprises the service performance information, the statement of financial position of the Society as at 31 August 2023, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year then ended of the Society, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial report presents fairly, in all material respects:

- ▶ the financial position of the Society as at 31 August 2023 and its financial performance and cash flows for the year then ended
- ▶ the service performance for the year ended 31 August 2023 in accordance with the Society's service performance criteria

in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

This report is made solely to the Society's members, as a body. Our audit has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) and the audit of the service performance information in accordance with NZ AS 1 *The Audit of Service Performance Information* ("NZ AS 1"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Society in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide other assurance services to the Society in relation to the Society's Solvency Return and agreed upon procedures. We have no other relationship with, or interest in, the Society. Partners and

employees of our firm may deal with the Society on normal terms within the ordinary course of trading activities of the business of the Society.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Provision for outstanding claims

Why significant

The Society's provision for outstanding claims amounts to approximately \$3.9 million at 31 August 2023 and represents 36% of total liabilities.

The estimation of the provision for outstanding claims involves significant judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date as required by PBE IFRS 4 *Insurance contracts*.

Assumptions included in the model can generally be categorised as either economic assumptions, such as inflation and discount rates, or non-economic assumptions relating to claims development and cost. Non-economic assumptions are often based on historical data relating to the volume, amount and pattern of claims settlement.

Disclosures relating to the provision for outstanding claims, including key assumptions, are included in Note 13 to the financial statements.

How our audit addressed the key audit matter

Our procedures over the provision for outstanding claims included:

- ▶ Understanding the claims assessment and settlement process;
- ▶ On a sample basis, validating the costs recorded for claims closed in the year;
- ▶ Comparing the historical claims data used by the appointed actuary to the Society's systems on a sample basis;
- ▶ Using our actuarial specialists to consider the provision for outstanding claims valuation report prepared by the appointed actuary and evaluate the appropriateness of the methodologies and assumptions used in the valuation;
- ▶ Evaluating the objectivity, competence and capability of the appointed actuary; and
- ▶ Considering the adequacy of disclosures for the provision for outstanding claims.

Other matter

The corresponding figures in the service performance information of the Society, being those measures related to the year ended 31 August 2022, were not audited.

Information other than the financial report and auditor's report

The directors of the Society are responsible for the Annual Report, which includes information other than the financial statements, service performance information and auditor's report.



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 during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

Directors' responsibilities for the financial report

The directors are responsible, on behalf of the Society, for:

- ▶ the preparation and fair presentation of the financial statements and service performance information in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board;
- ▶ service performance criteria that are suitable in order to prepare service performance information in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board; and
- ▶ such internal control as the directors determine is necessary to enable the preparation of financial statements and service performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing on behalf of the Society, its 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 Society or 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 statements as a whole, and service performance information are 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 International Standards on Auditing (New Zealand) and NZ AS 1 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 these financial report.



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working world**

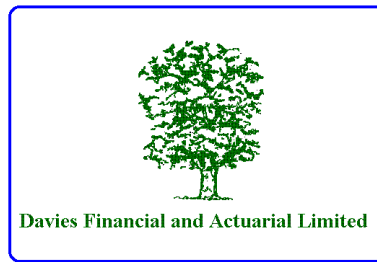
A further description of the auditor's responsibilities for the audit of the financial report is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Chartered Accountants
Wellington
10 November 2023

accuro
HEALTH INSURANCE



1st November 2023

To: The Directors
Accuro Health Insurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Accuro Health Insurance Society Limited: Report as at 31st August 2023 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Accuro as at 31st August 2023. “Actuarial information” includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the Society’s solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

3. I am independent with respect to Accuro as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Accuro exceeded the minimum solvency margin required under the RBNZ Solvency Standard for Non-life Insurance Business 2014 as at 31st August 2023, and it exceeded the margin required under the new Interim Solvency Standard when this new Standard took effect on 1st September 2023. Based on the Society's financial forecasts, it is projected to exceed the minimum requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary