



UNION MEDICAL BENEFITS SOCIETY LTD



ANNUAL REPORT 2019

It's the security of knowing we're there.

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Direction and Values

VISION:

UniMed Members will continue to access value for money private health care.

MISSION:

UniMed will grow sustainably, providing Members with access to affordable and equitable health care funding.

GUIDING VALUES:

UniMed is guided by its values. Its plans, policies and processes will reflect these values. Members, staff and stakeholders can be expected to be treated with these values:

Care

UniMed cares about its staff and will invest in their development.

Members first

UniMed will design products and services to meet the current and future needs of its Members in a sustainable manner.

Diversity

UniMed recognises the diversity of its Members and their needs. UniMed will develop and provide a range of products and services to meet these needs.

Transparency

UniMed staff, officers and representatives will behave in a transparent and fair manner.

Accountability

UniMed charges realistic premiums. It manages administration costs carefully so that Members receive the maximum value for their premiums.

Ethics

UniMed will manage Members' claims in a fair and equitable manner. It will act with integrity.

Sustainability

UniMed will ensure that its financial management is prudent and sustainable.

Excellence

UniMed will strive for excellence in its service delivery.

Company Directory

As at 30 June 2019

NATURE OF BUSINESS

Medical health insurers
Commercial property owners

REGISTERED OFFICE

165 Gloucester Street
Christchurch 8011

INCORPORATION

Industrial and Provident Societies
Act 1908

BOARD

Glenn Barnes
Jane Huria (Chair)
Ben Kepes
Angus McConnell
Tim McGuinness
David Rowland

BANKERS

Bank of New Zealand
81 Riccarton Road
Christchurch 8011

AUDITOR

PKF Goldsmith Fox Audit
100 Moorhouse Avenue
Christchurch 8011

SOLICITORS

Lane Neave Lawyers
141 Cambridge Terrace
Christchurch 8013
Simpson Grierson
Level 1, 151 Cambridge Terrace
Christchurch 8013

ACTUARY

Peter Davies B.Bus Sc, FIA
Davies Financial and Actuarial Limited
Level 1, Building 1,
61 Constellation Drive,
Mairangi Bay, Auckland

Notice of Meeting

The Annual General Meeting of Members of the Union Medical Benefits Society Limited will be held at the Rydges Latimer Christchurch, 30 Latimer Square, Christchurch 8011 on Thursday 24 October at 6.00pm.

BUSINESS

1. Apologies.
2. To confirm the Minutes of the 2018 Annual General Meeting.
3. To receive and consider the annual financial statements and Auditor's report for the year ended 30 June 2019.
4. To appoint an auditor for the ensuing year.
5. To record the election of two Board members.
6. To fix the remuneration for the Board.

BACKGROUND, RESOLUTIONS AND VOTING

The full notice of meeting, including background to and text of resolutions to be put to the meeting, can be found at <http://www.unimed.co.nz/about-unimed/governance-and-management/>

Any member entitled to attend and vote at the meeting may vote either by being present in person or by proxy. A proxy must be appointed by a signed, written notice. A proxy form is available from the Society or on the Society's website: www.unimed.co.nz. To be effective the proxy form must be deposited at the Society's office (165 Gloucester Street, Christchurch) by 6pm on 23 October 2019.

By order of the Board



E Richardson
Administration Secretary
PO Box 1721
Christchurch 8140
28 September 2019

Board Chair & Chief Executive's Report



"Our aim is to provide cost effective medical insurance while maintaining prudent reserves and solvency, and maintaining the level of service our Members rightly expect."

IN BRIEF

- Members' premium payments increased by 12.6% to \$64.57M
- Claims paid and provided for increased 9.98% to \$51.74M
- Members continued to receive very good value for their premium payment. During the year 80.1 cents of every premium dollar earned was returned to Members by way of claims payments, 10.8 cents to run ourselves leaving 9.1 cents to be added to Members' Funds.
- Total comprehensive income for the year from all UniMed's activities amounted to \$13.05M, all of which is retained within the Society. This provides additional strength to our balance sheet and maintains a strong financial base to offset less than satisfactory underwriting years. It is these reserves that underpin the insurance risk we assume on behalf of all Members.
- Re-confirmation from AM Best of "A" (Excellent) Financial Strength Rating.

FINANCIAL STRENGTH

We are very aware that affordability of health insurance is the number one issue facing not only UniMed, but the whole private health insurance sector. In simple terms, there are three main factors that directly affect premiums:

The cost of administering the Society, UniMed's operational expenses, as a percentage of Members' premiums, are 10.8% - well below that of some of our competitors.

The actual cost of an operation or other medical treatment tend to increase year on year. Costs relating to medical treatment consistently increase at about twice the CPI Index.

The actual number of Members who need to access privately provided medical or surgical treatment. Due to pressures on the public system, our Members are increasingly using their private health insurance entitlements.

UniMed's challenge is to ensure that any premium increases are as modest as possible. Our aim is to provide cost effective medical insurance while maintaining prudent reserves and solvency, and maintaining the level of service our Members rightly expect. Our direction and values are always at the forefront when considering premiums and benefits. "It's the security of knowing we're there" is highlighted by the fact UniMed's total funds are in excess of two years' claims and operational cost requirements.

Growth, however, is a must in the health insurance industry so we will continue actively pursuing opportunities to spread the word about the benefits of UniMed membership.

(continued over page)

Board Chair & Chief Executive's Report (continued)

"Thanks must also go to the HealthCarePlus senior management who were very dedicated to ensuring this transfer proceeded successfully."

HEALTHCAREPLUS

We would like to welcome all our new UniMed Members who previously subscribed to HealthCarePlus, the insurance responsibilities of which were assumed by UniMed on 1 January 2019. This transfer of responsibility proceeded smoothly with minimal subscriber attrition and has contributed to UniMed's operations for half of the financial year under review. Thanks must also go to the HealthCarePlus senior management who were very dedicated to ensuring this transfer proceeded successfully.

UniMed is currently providing access to the traditional benefit mix as provided by HealthCarePlus and concurrently making access available to HealthCarePlus members to an extensive modular "Hospital Select" plan. This plan is based around coverage for costs associated with admission to a private hospital and has been extensively promoted to HealthCarePlus members via their existing insurance network.

HEALTH AND SAFETY

Along with the rest of New Zealand, we were saddened by the tragic events in Christchurch on March 15 2019. UniMed is committed to providing a healthy and safe working environment through training, support, policies, and procedures. On that day, and in line with key policies and practices, our Head Office staff were asked to remain on the premises until the all clear was given and contact was maintained to ensure all staff got home safely. Staff participation in all matters of health and safety is encouraged via regular staff health and safety meetings and support is always available through a confidential Employee Assistance Programme.

TECHNOLOGY

As outlined in 2018, the Society is particularly conscious of the potential future impacts on UniMed of the

speed of change, including digital technologies and digitisation. We are always looking for ways to interact with our Members and make every experience a simple and positive one. We have seen a steady increase in the number of Members using the MyUniMed portal to access information about their cover or submit their claims for reimbursement. This is just the start of the journey to introduce enhancements that we know Members will value and appreciate.

GOVERNANCE

The Board met eight times during the year and was capably supported by the Audit & Risk Committee Chaired by Tim McGuinness, and by both the Nominations and Employment & Remuneration Committees. The Board conducts its affairs under a broad suite of policies and processes, complemented by a Board self-evaluation process and professional development opportunities.

Glenn Barnes and David Rowland will both be retiring at this year's Annual General Meeting in October after three consecutive three year terms as Directors. We are sure all members join us in expressing their thanks to Glenn and David for their contribution to UniMed over the past nine years.

The Board and Senior Management have worked well together over the past year with a strong balance of experience, dedication, and enthusiasm spread throughout the organisation. We would like to thank our respective teams for their commitment and hard work, which has culminated in another satisfactory result for the Society.



Jane Huria
Chair



Dermot H Martin
Chief Executive

2019 Highlights

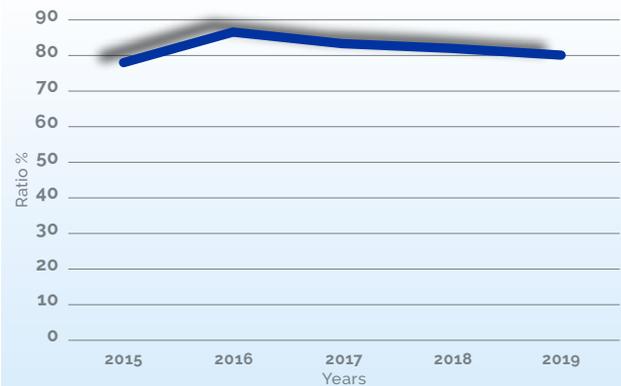
PERFORMANCE

	2018	2019
Premium Income	\$57.39 million	\$64.57 million
Claims Paid	\$47.04 million	\$51.74 million
Operating Costs	\$5.12 million	\$6.94 million

+12.6%
Premium
Income

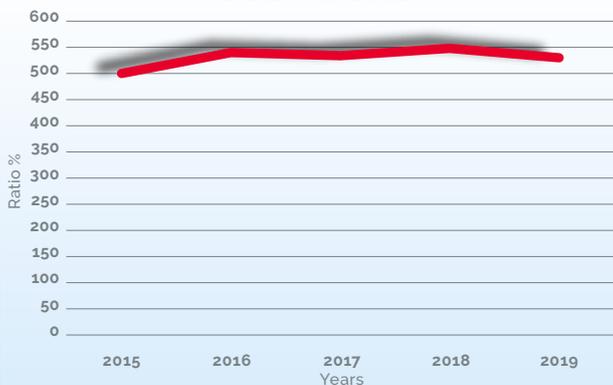
+10.0%
Claims
Paid

ANNUAL CLAIMS LOSS RATIO



SECURITY

SOLVENCY COVERAGE RATIO



	2018	2019
Solvency Margin	\$95.75 million	\$105.54 Million
Investment value	\$116.72 million	\$133.29 million
Investment \$ return	\$6.88 million	\$7.24 million
Investment % return	5.9%	5.4%

+14.2%
Investment
value

5.4%
Return on
Investments

Financial
Strength Rating:
A
(excellent)
from AM Best
Company

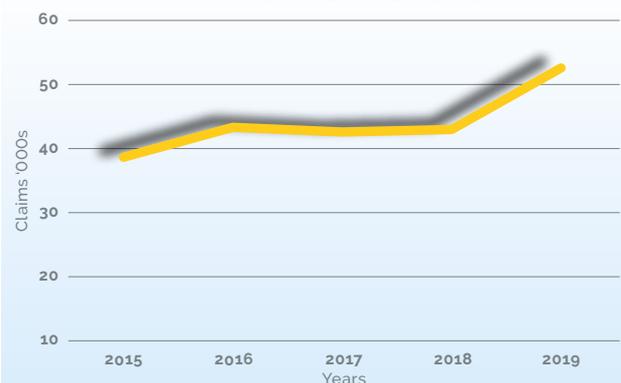
MEMBERSHIP

	2018	2019
Member's funds	\$118.34 million	\$131.38 Million
Lives covered	68,491	92,501

+11.0%
Member's
funds

+35.1%
Lives
Covered

ANNUAL NUMBER OF CLAIMS PAID



Statement of Corporate Governance

The Union Medical Benefits Society Limited (trading as UniMed) is incorporated under the Industrial and Provident Societies Act 1908.

UniMed adheres to principles designed to ensure sound governance of its affairs, including, most recently but not limited to, the provisions of the Insurance (Prudential Supervision) Act 2010, and the specific Reserve Bank of New Zealand Governance Guidelines for Licensed Insurers under that Act.

BOARD OF DIRECTORS

UniMed is governed by a Board of Directors which has been elected by Members of the Society. From 27 October 2015 the Rules of the Society were changed to allow the appointment of three directors in addition to elected members. The maximum number of directors elected and appointed is eight. The control, management and administration of the Society are vested in the Board.

The Board is the Society's overall and final decision making authority.

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.

All current Directors consider and declare themselves to be independent, in that they are free from any associations that could materially interfere with the exercise of independent judgement.

At 30 June 2019 –

The elected Directors are: Glenn Barnes; Angus McConnell; David Rowland

The appointed Directors are: Jane Huria (Chair), Ben Kepes; Tim McGuinness

BOARD ROLE AND CHARTER

The Board operates in accordance with the Industrial and Provident Societies Act 1908 and all relevant legislation, but more specifically the Insurance (Prudential Supervision) Act 2010, the Society's Rules, and the Board Charter which details the Board's role, procedures, areas of focus, and

relationship to management.

In order to provide additional governance transparency to its processes the Board has adopted its own Code of Conduct.

The role of the Board is to effectively represent and promote the interests of Members by continually evaluating and ensuring the ongoing appropriateness of the Society's mission and purpose. Means by which the Board seeks to achieve this include:

- Ensuring the Society's goals are clearly established, and that appropriate strategies and business plans are in place for achieving them.
- Establishing policies for enhancing the performance of the Society.
- Identifying and taking all actions to protect and strengthen the Society's financial position.
- Ensuring the Society has appropriate risk management and regulatory compliance policies and procedures in place.
- Monitoring the performance of the Society.
- Appointing the Chief Executive Officer.
- Acting as the Society's investment committee, and ensuring the ongoing appropriateness of the Society's Statement of Investment Policy and Objectives (SIPO).
- Ensuring the Society's financial statements are a true and fair representation and conform to all legal requirements.
- Ensuring that the Board and management adhere to, and demonstrate, high ethical standards.

As part of its ongoing governance role the Board regularly evaluates the wider



Glenn Barnes



Angus McConnell



Jane Huria



Tim McGuinness



David Rowland



Ben Kepes

economic, political, social and legal issues, and any other relevant external matters that may influence or affect the development of the Society or the interests of its Members.

Together with management, the Board undertakes an annual review of the Society's strategy.

As an external measure of establishing good governance practices, the Board endorses the principles as set out in the Code of Practice for Directors as approved by the Institute of Directors in New Zealand Inc.

Included in those principles is the requirement that:

- All directors operate in a transparent and openly compliant manner.
- All directors compile and regularly update a Statement of Business Interests. This is used to ensure that any actual or potential conflicts of interest are disclosed and steps taken to avoid such conflicts by excusing themselves from debate and where appropriate, being denied access to the relevant Board papers.

DELEGATION FRAMEWORK

Responsibility for the day-to-day operation and administration of the Society is delegated by the Board to the Chief Executive Officer (CEO) and senior management. The CEO is authorised to make decisions in accordance with the strategy plans, budgets and the specific delegation framework approved by the Board.

BOARD COMMITTEES

The Board has three standing committees: Audit and Risk, Nominations, and an Employment and Remuneration committee.

Audit and Risk Committee

The Audit and Risk Committee operates under its own Charter approved by the Board.

The Audit and Risk Committee's objectives are to assist the Board in discharging its responsibilities in relation to oversight of financial and risk assurance matters including internal and external audit and compliance functions.

Specific responsibilities include reviewing the content and disclosure of the Annual Report's financial statements including accounting policies and practices, recommending the appointment of external auditors, reviewing the annual external audit plans, ensuring that adequate internal control systems are in place, and ensuring that management has established a risk management framework to effectively identify, treat, monitor, and report key business risks.

The Audit and Risk Committee comprises Tim McGuinness (Chair), Glenn Barnes and David Rowland.

Nominations Committee

The Nominations Committee operates under its own Charter approved by the Board.

The Nominations Committee's objectives are to assist the Board in planning the Board's composition, evaluating the capabilities required of prospective directors, assessing directors and relevant officers in accordance with the Society's Fit and Proper Person Policy, establishing the degree of independence, and making recommendations to the Board accordingly. The Committee will consult with external advisors including

executive search consultants and other independent sources of information and advice as it considers necessary for carrying out its responsibilities.

The Nominations Committee currently comprises Jane Huria (Chair) and Angus McConnell.

Employment and Remuneration Committee

The Employment and Remuneration Committee's objectives are to assist the Board in the establishment of remuneration policies and practices for remuneration setting of the Society's CEO and Directors.

The Employment and Remuneration Committee currently comprises Jane Huria (Chair) and Glenn Barnes.

EXTERNAL AUDIT INDEPENDENCE

The Board is responsible for appointing the external Auditor subject to Members' approval at the AGM. The Audit and Risk Committee is responsible for making recommendations to the Board concerning their appointment and the terms of their engagement.

APPOINTED ACTUARY INDEPENDENCE

The Board is responsible for the appointment of the independent Appointed Actuary.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the Actuary's appointment and the terms of their engagement.

Profiles of Board of Directors

AS AT 30 JUNE 2018 THE SOCIETY'S DIRECTORS ARE:

Jane Huria LLB, Chair

Jane is a Chartered Fellow of the Institute of Directors and in 2012 she was awarded the CNZM for services to corporate governance. She serves on the boards of Naylor Love, Fortuna Group Ltd, Pegasus Health (Charitable) Ltd, Canterbury Cricket Trust, and the Court Theatre. She is also a Ngāi Tahu appointed member of the Greater Christchurch Partnership Committee. Jane resides in Christchurch.

Glenn Barnes

Glenn was elected as a director in October 2010 and is a member of the Audit & Risk Committee. He has been an Industrial Organiser with the NZ Dairy Workers' Union since 1988 and was formerly Chair of the Hamilton West Labour Electoral Committee. He is currently a member of the New Zealand Institute of Directors. Glenn resides in Hamilton.

Ben Kepes

Ben was appointed as a Director in September 2018. He is a co-founder of a successful workwear and outdoor equipment brand and undertakes significant work in the community, emergency services, and not-for-profit sectors.

He is a technology analyst, commentator, and consultant and has built up a significant following as a globally-recognised

subject matter expert in the areas of cloud computing, enterprise technology, and digital transformation. His commentary has been widely published in such outlets as Forbes, Wired and The Guardian and he has been invited to speak at a large range of technology, business, and general interest conferences.

He has served on the advisory boards of a number of technology startups in New Zealand, Australia, the US, and the UK and is an experienced board member currently sitting on the boards of a number of non-profit, privately held and listed companies in New Zealand and the UK. He has won a number of accolades including being a recipient of the Sir Peter Blake Leadership Award in 2016. Ben resides in Canterbury.

Angus McConnell JP

Angus was elected a director in October 2014. He is the Assistant Secretary of the NZ Dairy Workers' Union (DWU), a position he has held since 2000. He has held governance roles with the Lottery Grants Board and Trust Waikato. Angus resides in Hamilton.

Tim McGuinness BCA

Tim is currently Chairman of the Trustee of the Dairy Industry Superannuation Scheme, a trustee director of the Police Superannuation Scheme, the Westpac New

Zealand Staff Superannuation Scheme, and the NZAS Retirement Fund. He was previously on the Board of the Government Superannuation Fund, the Earthquake Commission, Whai Rawa Rund Limited and a trustee director of the New Zealand Fire Service Superannuation Scheme. These positions followed senior executive and funds management positions with Royal & SunAlliance and Norwich Union / State Insurance for over 15 years. He is a member of the New Zealand Institute of Directors and a licensed independent trustee. Tim resides in Wellington.

David Rowland ANZIV (Ret), SNZPI, NZCQA,

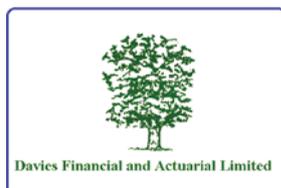
David was elected as a Director in October 2010 and is a member of the Audit and Risk Committee and previously the Chair of the Building Committee. Qualified as a Registered Valuer (Ret) he is the Managing Director of Rowland Consulting Ltd. He is a member of the New Zealand Institute of Directors, retired Associate of the NZ Institute of Valuers, a Senior Member of the NZ Property Institute and an Executive Member of the Canterbury/Westland Branch of the Cancer Society. David was formerly a Property Consultant with the Christchurch City Council and has held a number of senior management positions of large property related businesses including Housing New Zealand and Government Property Services Ltd. David resides in Christchurch.

Director meeting attendance for the year ended 30 June 2019

	Board	AGM	Strategic Planning Workshop	Audit & Risk Committee	Employment & Remuneration Committee	Nominations Committee
Meetings held	8	1	1	3	2	1
Jane Huria	8	1	1	-	2	1
Glenn Barnes	8	1	1	3	2	-
Ben Kepes	7*	1	1	-	-	-
Angus McConnell	8	1	1	-	-	1
Tim McGuinness	7	-	1	2	-	-
David Rowland	8	1	1	3	-	-

*appointed September 2018

Appointed Actuary's Report



11th September 2019

To: The Directors
Union Medical Benefits Society Limited

From: Peter Davies
Appointed Actuary

Re: Union Medical Benefits Society Limited: Report as at 30th June 2018
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 Union Medical Benefits Society Limited as at 30th June 2019. "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 company'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 Union Medical Benefits Society Limited 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. Union Medical Benefits Society Limited exceeded the minimum solvency requirements of the RBNZ solvency standard for non-life insurers as at 30th June 2019 by a substantial margin. The Society 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

INDEPENDENT AUDITOR’S REPORT

To the Members of Union Medical Benefits Society Limited

Opinion

We have audited the financial statements of Union Medical Benefits Society Limited (the Society), on pages 15 to 32, which comprise the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Public Benefit Entity Accounting Standards (Not for Profit).

This report is made solely to the Society’s Members, as a body. Our audit work has been undertaken so that we might state to the Society’s Members those matters which we are required to state to them in the 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’s Members, as a body, for our audit work, for this report or for the opinion we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (“ISAs (NZ)”). 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 (Revised) *Code of Ethics for Assurance Practitioners* 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.

Other than in our capacity as Auditor we have no relationship with, or interests in, 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 statements in the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed each matter is provided in that context.

Why Significant	How our audit addressed the key audit matter
<p>Investments As at 30 June 2019, the carrying value of investments was \$133,293,457. This is a significant balance as it forms 86% of total assets and accordingly we considered it a Key Audit Matter. The most significant component of the above balance is \$128,500,956 of managed investments, treated as liquid and plays an important role in maintaining solvency margins required by the RBNZ.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Verification of existence and ownership of recorded investments with investment managers; • Confirmed market value movements to external sources; • Ensured investment income is appropriately reported in the financial statements; • Obtained the type 2 report for the investment managers noting any key findings relating to the service organisation’s effectiveness of controls.

Why Significant	How our audit addressed the key audit matter
<p>Unearned Premium Provision As at 30 June 2019, there is an unearned provision of \$11,266,827, being 49% of total current liabilities, which comprises of a number of items with the most significant being \$8,845,764 unearned billings, and a \$1,670,458 provision for level premiums above age 60.</p> <p>The unearned premiums provision is an important estimate as the premiums are billed in advance for the period of cover and accordingly we considered the provision a Key Audit Matter.</p> <p>Additionally, the provision for level premiums above age 60 requires the board to exercise significant judgement in estimating future commitments based on the expected number of terminations due to cancellations or death.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Tested the financial reporting system to gain confidence that it was operating effectively; • Performed an ageing analysis for unearned premiums; • Engaged independent actuary to peer view the actuarial report obtained by the Society; • Assessed key assumptions for reasonableness used by the independent actuary; • Ensured the recommended provision is appropriately reflected in the financial statements.
<p>Unreported Claims Provision As at 30 June 2019 there is a provision of \$10,438,651 to provide for unreported claims being 45% of total current liabilities. The provision is considered a key matter as it requires the board to exercise significant judgement in estimating the provision.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Engaging independent Actuary to peer view the actuarial report obtained by the Society; • Assessed key assumptions for reasonableness used by the independent actuary; • Ensured the recommended provision is appropriately reflected in the financial statements.

Information Other than the Financial Statements and Auditor’s Report

The Board is responsible for the Annual Report, which includes information other than the financial statements and Auditor’s report, The Annual Report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Boards’ Responsibilities for the Financial Statements

The Board is responsible on behalf of the Society for the preparation and fair presentation of the financial statements in accordance with New Zealand Public Benefit Entity Accounting Standards (Not for Profit), and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible, on behalf of the Society, for assessing the Society’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 Board either intends to liquidate the Society or cease operations, or have no realistic alternative but to do so.

The Board is responsible for overseeing the Society’s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 ISAs (NZ) 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 statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society'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 statements 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 Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board 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.

We also provide the Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PKF Goldsmith Fox Audit.

Christchurch, New Zealand

17 September 2019

Financial Statements

Union Medical Benefits Society Limited
Statement of comprehensive income
For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Insurance			
Members' premiums		64,572,988	57,369,984
Claims paid and provided for	2	51,737,425	47,044,414
Insurance surplus		12,835,563	10,325,570
Insurance operating expenses	3	6,943,377	5,121,138
Insurance operating surplus		5,892,186	5,204,432
Building			
Rental		135,001	96,651
Net building operating expenses	4	225,469	144,018
Building operating deficit		(90,468)	(47,367)
Investments			
Net investment surplus	5	7,242,896	6,877,906
Operating surplus		13,044,614	12,034,971
Total comprehensive income for the year		13,044,614	12,034,971

These financial statements are to be read in conjunction with the notes to the financial statements.

Financial Statements (continued)

Union Medical Benefits Society Limited Statement of financial position As at 30 June 2019

	Note	2019 \$	2018 \$
Current assets			
Cash and cash equivalents	6	2,430,151	3,448,275
Premiums and other receivables	7	5,572,503	4,582,007
Taxation	8	256,621	202,734
Investments	9	133,293,457	116,721,367
Total current assets		141,552,732	124,954,383
Non-current assets			
Property, plant and equipment	10	11,779,812	11,744,628
Intangible assets	11	935,782	1,239,397
Total non-current assets		12,715,594	12,984,025
Total assets		154,268,326	137,938,408
Current liabilities			
Trade and other payables	12	580,717	804,892
Employee benefits	13	598,660	497,767
Unearned premium provision	14	11,266,827	10,462,533
Unreported claims provision	14	10,438,651	7,834,359
Total current liabilities		22,884,855	19,599,551
Net assets		131,383,471	118,338,857
Members' funds			
Members' capital	15	-	-
Accumulated funds	16	131,383,471	118,338,857
Total members' funds		131,383,471	118,338,857



J Huria
Board Chair
17 September 2019



T McGuinness
Audit & Risk Committee Chair
17 September 2019

These financial statements are to be read in conjunction with the notes to the financial statements.

Financial Statements (continued)

Union Medical Benefits Society Limited Statement of changes in equity For the year ended 30 June 2019

	Note	Members' capital \$	Accumulated funds \$	Total \$
2019				
Opening balance at 1 July		-	118,338,857	118,338,857
Total comprehensive income		-	13,044,614	13,044,614
Members' contribution	15	-	-	-
Closing balance at 30 June		-	131,383,471	131,383,471
2018				
Opening balance at 1 July		69,828	106,303,886	106,373,714
Total comprehensive income		-	12,034,971	12,034,971
Members' contribution		(69,828)	-	(69,828)
Closing balance at 30 June		-	118,338,857	118,338,857

These financial statements are to be read in conjunction with the notes to the financial statements.

Financial Statements (continued)

Union Medical Benefits Society Limited Statement of cash flows For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Cash was provided from:			
Members' contributions		64,386,786	58,791,353
Building rental		135,001	96,651
Investment income		2,977,933	2,877,972
		67,499,720	61,765,976
Cash was applied to:			
Payments for claims		49,133,133	47,000,560
Payments to suppliers for goods and services		4,049,286	2,537,867
Payments to employees		3,233,187	2,968,407
		56,415,606	52,506,834
Net cash flows from operating activities	17	11,084,114	9,259,142
Cash flows from investing activities			
Cash was provided from:			
Sale of fixed assets		-	-
Sale of investments		-	-
		-	-
Cash was applied to:			
Purchase of property, plant and equipment		215,091	13,998
Purchase of intangibles		3,315	211,857
Net payments for investments		11,883,832	7,325,185
		12,102,238	7,551,040
Net cash flows from investing activities		(12,102,238)	(7,551,040)
Net increase/(decrease) in cash held		(1,018,124)	1,708,102
Plus opening cash brought forward		3,448,275	1,740,173
Closing cash		2,430,151	3,448,275

These financial statements are to be read in conjunction with the notes to the financial statements.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2019

1 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society registered under the Industrial and Provident Societies Act 1908. Its principal products and services are health insurance and commercial building ownership. The Society is domiciled and incorporated in New Zealand and is a Public Benefit Entity.

The Society was granted a licence by the Reserve Bank of New Zealand (RBNZ) on 23 May 2013 to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010 (IPS Act). As a consequence of being a licensed insurer the Society is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 (FMC Act).

These financial statements were approved by the Board of Directors on 17 September 2019.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Reporting Standards for Public Benefit Entities (PBE Standards) as appropriate for Tier 1 not-for-profit public benefit entities and the requirements of the IPS Act.

The financial statements have been prepared in accordance with Tier 1 PBE Standards.

Basis of measurement

The financial statements have been prepared on the basis of historical cost, except the following that are stated at their fair value:

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transaction or other events is reported.

The functional and presentational currency is New Zealand Dollars (\$).

- investments (see note 9)
- actuarial quantification of insurance liabilities (see note 14)
- certain financial instruments (see note 23)

Critical estimates and accounting

In the process of applying the Society's accounting policies, management is required to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. They are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The results of these actions form the basis of making the judgements about the carrying value of assets and liabilities of the Society. Actual results may differ from these estimates under different assumptions and conditions.

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 14 Actuarial information
- Note 19 Solvency and capital adequacy
- Note 23 Risk management

Specific accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

Revenue recognition

Premium revenue represents those Members' contributions relating to the year under review. A significant number of our Members pay on a weekly to monthly in advance basis. Premiums billed but unearned are recorded as an unearned premium liability.

Investment income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest rate method. Premiums and discounts that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses on investments, recorded in determining the surplus in the statement of comprehensive income include gains and losses on financial assets classified as financial assets at fair value through comprehensive income.

Repairs and maintenance

Repairs and maintenance costs are accounted for in the period that they are incurred.

Insurance claims

Claims paid and provided for represent payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2019

Adoption of new and revised standards and interpretations

PBE Standards for Tier 1 and Tier 2 Public Benefit Entities - The package of PBE Standards was first issued in May 2013 and subsequently replaced with a revised package (with enhancements for not-for-profit PBEs), and consists of the following standards:

- Standard XRB A1 Accounting Standards Framework, which is the overarching standard that sets out the accounting standards framework;
- A suite of 39 PBE Standards; and
- The Public Benefit Entities (conceptual) Framework.

The new PBE Standards are based on International Public Sector Accounting Standards, which are themselves based on IFRS.

Standards issued but not yet effective and not early adopted

The impact of the following reporting standards on the Society is still to be determined.

PBE IFRS 9 Financial Instruments – Effective for annual report periods beginning on or after 1 January 2021

PBE FRS 48 – Service Performance Reporting – Effective for annual report periods beginning on or after 1 January 2021

PBE IPSAS 39 – Employee Benefits – Effective for annual report period beginning on or after 1 January 2019

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and on demand deposits, and other short-term highly liquid investments with an original maturity of 3 months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Premium and other receivables

Premium and other receivables are recognised initially at fair value less any allowance for impairment. Given the short term nature of most receivables, the recoverable amount approximates the fair value.

Premiums outstanding

Many policyholders elect to spread premium payments over the term of cover. Accordingly, this can result in a large balance of premiums which is outstanding but not overdue. Under the PBE IPAS 29 definition of financial assets the Society's outstanding premiums and other receivables meet the classification of "loans and receivables". Premium and other receivables are stated at their cost less any impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred.

Investments

All purchases of investments are recognised on the date at which they are originated. Transaction costs are recognised as an expense in determining the surplus or deficit in the statement of comprehensive income on transaction date. Investments are derecognised on the date of maturity or sale of an investment.

The Society designates its investments as 'financial assets at fair value through comprehensive income' at inception. That is, changes in fair value are recognised in determining the surplus or deficit in the statement of comprehensive income.

Financial assets at fair value through the statement of comprehensive income are stated at fair value with any resultant gain or loss recognised in the statement of comprehensive income. Fair value is determined in the manner described in note 23.

As the intention is for investments to be held until maturity and then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

Property, plant & equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation rates vary according to the nature of the asset and its economic life and are as follows:

Land and buildings	0.0%
Building fit-out	8.3% - 12.5% SL
Motor vehicles	25.0% - 31.2% DV
Fixtures and fittings	7.5% - 60.0% DV
Office furniture and equipment	14.4% - 50.0% DV
Computer equipment	14.4% - 48.0% DV

The assets' useful life and amortisation methods are reviewed annually and adjusted, if appropriate, at each financial year end. An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from use. Any gains or losses on disposal are determined by comparing proceeds with the carrying amount. These are then taken to the statement of comprehensive income.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2019

1 STATEMENT OF ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets represent software. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised over its expected future life, subject to annual impairment testing.

Additions are initially measured at cost, and thereafter are carried at cost less accumulated amortisation and any accumulated impairment losses. Other development expenditures that do not meet the criteria are recognised as expenses as incurred. Intangible assets with finite lives will be amortised over their estimated useful lives. All intangible assets are tested at least annually for impairment or whenever there are indications that an asset may be impaired. Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful life of the intangible asset, from the date it is available for use (July 2015). The estimated useful life for software is considered to be 7 years.

An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in determining the surplus or deficit in the statement of comprehensive income and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

Impairment of assets

At each reporting date, the Society reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Any impairment loss is recognised in the statement of comprehensive income immediately.

Foreign currency

All foreign currency transactions during the year are brought into account using the exchange rate ruling at the date of the transaction. Monetary assets denominated in foreign currencies are retranslated at the rate of exchange ruling at balance date.

Liabilities and provisions

Current liabilities and provisions are stated at the expected amounts payable and include the following:

Trade and other payables

Trade and other payables are recognised when the Society becomes obliged to make future payments resulting from the purchase of goods and services. Given their short term nature, balances are not discounted as cost approximates amortised costs.

Employee benefits

A liability for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave is accrued and recognised in the statement of financial position when it is probable that settlement will be required and they can be measured reliably. Accruals made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Contributions to defined superannuation plans are expensed when incurred.

Post employment benefits

The Society's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums and historical data with respect to employee departures, periods of service, and mortality rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

Unearned premium provision

At balance date, an adjustment has been made for that portion of premium revenue received which has not been earned. That is, recognising that in general, the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the statement of financial position as an unearned premium provision.

Unreported claims provision

This provision represents the estimated amount of benefits unclaimed as at balance date for accounts incurred but not settled. A provision is made of claims reported but not paid, claims incurred but not reported, and claims incurred but not adequately reported. This provision includes expected claim payments plus associated claims handling costs. A risk margin is added to reflect the inherent uncertainty in the estimates of claims.

Goods and services tax

The financial statements have been prepared on a GST exclusive basis, except where a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of receivables and payables, the amounts are shown inclusive of GST.

Leased assets

Leases are defined as an operating lease where they do not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. All the Society's operating leases are held on a month to month basis.

Taxation

The Society is exempt from income tax due to its status under the Income Tax Act 2007.

The Society met all of its taxation obligations during the financial year.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Comparatives

The comparative information presented is for the period ended 30 June 2018.

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

2 CLAIMS PAID AND PROVIDED FOR

	2019	2018
	\$	\$
Claims incurred relating to risks borne in current and previous years	49,133,133	47,000,560
Movement in provision for unreported claims	2,604,292	43,854
Total claims paid and provided for	51,737,425	47,044,414

3 INSURANCE OPERATING EXPENSES

	2019	2018
	\$	\$
Employee benefit expenses	3,233,187	2,155,404
Auditor's fees - Audit of financial statements	43,740	36,840
Auditor's fees - Other	3,501	3,500
Directors' fees	299,196	245,607
Depreciation	179,908	172,789
Amortisation of intangible assets	306,930	258,606
Rental of external premises	14,829	21,671
Selling expenses	1,146,163	1,052,409
Office expenses	363,757	337,761
Consultancy expenses	187,746	116,316
Other expenses	1,164,420	720,235
Total insurance operating expenses	6,943,377	5,121,138

Auditor's remuneration for other services disclosed above consists of reviewing solvency returns

4 BUILDING OPERATING EXPENSES

	2019	2018
	\$	\$
Property management	15,414	15,147
Building operating expenses	127,872	51,877
Rates	73,383	69,441
Insurance	41,229	33,428
Operating expenses recovered	(32,429)	(25,875)
Total building operating expenses	225,469	144,018

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

5 INVESTMENT INCOME

	2019	2018
	\$	\$
Interest and dividend income	2,977,933	2,877,973
Realised gains/(losses) on fair value investment	-	-
Unrealised gains/(losses) on investments fair value through statement of comprehensive income	4,688,258	4,376,702
Portfolio management fees	(423,295)	(376,769)
Total investment income	7,242,896	6,877,906

6 CASH AND CASH EQUIVALENTS

	2019	2018
	\$	\$
Cash at bank and on hand	538,696	1,043,880
Cash on call	1,891,455	2,404,395
Total cash and cash equivalents	2,430,151	3,448,275

Cash at bank earns interest at floating rates based on daily deposit rates. The carrying amounts of cash and cash equivalents represent fair value. There are no restrictions on cash and cash equivalents.

7 PREMIUM AND OTHER RECEIVABLES

	2019	2018
	\$	\$
Premiums receivable	5,384,331	4,402,345
Interest receivable	1,112	5,676
Prepayments	149,472	143,605
Colliers trust account	37,588	30,381
Total premium and other receivables	5,572,503	4,582,007

During 2019 there were no bad debts (2018: \$Nil) however a provision has been made for bad debts of \$200,000 in 2019 (2018: \$200,000).

8 TAXATION

	2019	2018
	\$	\$
GST receivable	256,621	202,734
Total taxation	256,621	202,734

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

9 INVESTMENTS

	2019	2018
	\$	\$
Cash	45,297,406	40,880,347
Fixed interest	62,957,686	53,598,262
NZ equities	13,779,012	12,241,999
International equities	11,259,353	10,000,759
Total investments	133,293,457	116,721,367

Funds are managed primarily by Nikko Asset Management New Zealand Limited. The Society's investment securities are all financial assets classified as fair value through the comprehensive income. Any changes in the fair value are recognised immediately.

Investments held by Nikko Asset Management Limited are available on demand and have been classified as current assets.

10 PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation.

2019	Freehold land	Buildings	Fixtures fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	1,869,095	9,130,994	1,188,670	95,310	12,284,069
Additions	-	-	215,092	-	215,092
Disposals at cost	-	-	-	-	-
Balance 30 June	1,869,095	9,130,994	1,403,762	95,310	12,499,161
Accumulated depreciation					
Balance 1 July	-	26,170	447,378	65,893	539,441
Current year depreciation	-	13,281	158,979	7,648	179,908
Depreciation on disposals	-	-	-	-	-
Balance 30 June	-	39,451	606,357	73,541	719,349
Total book value	1,869,095	9,091,544	797,405	21,769	11,779,812

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

10 PROPERTY, PLANT & EQUIPMENT (continued)

2018	Freehold land	Buildings	Fixtures fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	1,869,095	9,126,721	1,195,443	95,310	12,286,569
Additions	-	4,273	9,724	-	13,998
Gain on sale	-	-	(16,498)	-	(16,498)
Balance 30 June	1,869,095	9,130,994	1,188,670	95,310	12,284,069
Accumulated depreciation					
Balance 1 July	-	12,931	314,663	55,556	383,150
Current year depreciation	-	13,239	149,213	10,337	172,789
Depreciation on disposals	-	-	(16,498)	-	(16,498)
Balance 30 June	-	26,170	447,378	65,893	539,441
Total book value	1,869,095	9,104,824	741,292	29,417	11,744,628

The Society commissioned Ford Baker Valuation Limited, Registered Valuers, to undertake a valuation of the land and building occupying 165 Gloucester Street dated 6 May 2019. The basis of the valuation is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The land and building was valued at \$11,050,000.

The Society continues to value the land and buildings in the financial statement at historical cost.

11 INTANGIBLE ASSETS

	2019	2018
	\$	\$
Computer software		
Opening cost at 1 July	2,017,728	1,805,871
Additions	3,315	211,857
	2,021,043	2,017,728
Opening accumulated amortisation & impairment	778,331	519,725
Amortisation for the year	306,930	258,606
	1,085,261	778,331
Closing carrying amount at 30 June	935,782	1,239,397

Intangible assets is a non-current asset made up of computer software. There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2019

12 TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
Accounts Payable	580,717	804,892
Total trade and other payables	580,717	804,892

13 EMPLOYEE BENEFITS

Employee entitlements

Employee entitlements represent the current obligations to employees in respect of outstanding salaries, leave entitlements, and other short term benefits.

Post employment benefits

The Society's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums and historical data with respect to employee departures, periods of service, and mortality rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

In the current year the Society has current employment benefits of \$32,434 (2018: \$31,481) and post employment benefits liability for the current year is \$253,633 (2018: \$243,618).

14 ACTUARIAL INFORMATION

	2019	2018
	\$	\$
Provision for unearned premium	11,266,827	10,462,533
Provision for unreported claims excluding HCP policies	7,903,850	7,834,359
Provision for unreported claims on HCP policies incurred post 1 January 2019	1,521,639	-
Provision for unreported claims on HCP policies incurred pre 31 December 2018	1,013,162	-
Provision for unreported claims	10,438,651	7,834,359

Estimates of the outstanding claims as at 30 June 2019 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with NZ IFRS 4 (PBE) 'Insurance Contracts' and Professional Standard No. 4 of the New Zealand Society of Actuaries. The Actuary is satisfied as to the nature, sufficiency, and accuracy of the data used to determine these provisions.

The provisions were determined based on past patterns of claim payments using a chain-ladder method, and include a volatility allowance and a provision for future claim processing.

The provision for unreported claims has not been discounted due to the short-term nature of the claims experienced by the Society. A risk margin has been added to reflect the inherent uncertainty in the estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. This provision includes a 7.5% (2018: 7.5%) allowance for claim management expenses, and a 10% risk margin (2018: 10%), which provides a 90% likelihood of sufficiency (2018: 90%).

On the 1st January 2019 UniMed acquired the policies previously underwritten by The Education Belevant Society Incorporated (EBS) under their brand HealthCarePlus. To recognise the liability for EBS claims incurred before the acquisition date but not received EBS passed to UniMed funds equal to the amount estimated by the Appointed Actuary. Any excess will be refunded to EBS after confirmation by the Appointed Actuary.

UniMed and EBS have entered into a profit share arrangement with respect to the HealthCarePlus products, whereby after appropriate operating costs, solvency charge, and recovery of transition costs a maximum of 1.5% of premium is payable each financial year.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2019

15 MEMBERS' CAPITAL

	2019	2018
This represents the capital paid up by current Members of the Society	\$	\$
Opening balance 1 July	-	69,828
Add additions (repayments) during the year	-	(69,828)
Closing balance at 30 June	-	-
	Shares	Shares
This represents the shares held by current members of the Society		
Opening balance 1 July	36,207	37,057
Add additions (repayments) during the year	12,682	(850)
Closing balance at 30 June	48,889	36,207

The Society's rules require that each policyholder also be a shareholder in Union Medical Benefits Society Limited. This is achieved by issuing each new Member one (1) share when a new policy is underwritten. The Directors resolved to remove the \$2.00 cost for all issued shares. To return these funds to Members the Appointed Actuary took this into account when calculating the the 2018/2019 annual premium review.

16 ACCUMULATED FUNDS

	2019	2018
	\$	\$
Opening balance 1 July	118,338,857	106,303,886
Total comprehensive income	13,044,614	12,034,971
Closing Balance at 30 June	131,383,471	118,338,857

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2019

17 CASH FLOW RECONCILIATION

	2019	2018
	\$	\$
Total comprehensive income	13,044,614	12,034,971
Plus (less) non cash items:		
Net (gains)/losses on investments at fair value through the statement of comprehensive income	(4,742,145)	(4,106,916)
Amortisation of intangibles	306,930	258,606
Depreciation	179,908	172,789
Add items classified as investing activities:		
(Gain)/loss on disposal of property, plant and equipment	-	-
	8,789,307	8,359,450
Plus (less) movements in working capital:		
Increase/(decrease) in trade and other payables	(224,176)	198,523
(Increase)/decrease in accounts receivable	(990,496)	532,900
Increase/(decrease) in employee benefits	100,892	(764,054)
Increase/(decrease) in unearned premium provision	804,295	958,297
Increase/(decrease) in unreported claims provision	2,604,292	43,854
Increase/(decrease) in Members' capital	-	(69,828)
Total movements in working capital	2,294,807	899,692
Net cash flows from operating activities	11,084,114	9,259,142

18 CREDIT RATING

On 11 July 2019 AM Best Company confirmed the Society's Insurer Financial Strength Rating of A (Excellent) and Issuer Credit Ratings a (Excellent).

19 SOLVENCY AND CAPITAL ADEQUACY

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of high importance. At 30 June 2019 the Society's capital of \$131,383,471 (2018 \$118,338,857) is equal to the Members' funds as disclosed in the financial statements.

The Insurance (Prudential Supervision) Act 2010 was enacted in September 2010 from which the Society was granted a full licence by the Reserve Bank of New Zealand (RBNZ) on 23 May 2013. The Society is subject to solvency requirements detailed in the Solvency Standard for Non-life Insurance Business issued by the RBNZ. This standard requires the Society to retain a solvency margin of greater than zero meaning that the actual solvency capital position exceeds the minimum required under the solvency standard. During the period ending 30 June 2019 the Society complied with all externally imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security to Members and enable the Society to conduct its business as a going concern. This policy is regularly reviewed by Directors in line with the guidelines issued by the RBNZ.

	2019	2018
	\$	\$
Actual solvency capital	130,377,182	117,099,460
Minimum solvency capital	24,838,884	21,344,913
Solvency margin	105,538,298	95,754,547
Solvency coverage ratio	526%	549%

There have been no material changes to the Society's policy for management of capital during the financial year.

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

20 CONTINGENT LIABILITIES

There are no contingent liabilities at balance date. (2018: \$Nil).

21 LEASE AND CAPITAL COMMITMENTS

Lease commitments

Leases are defined as an operating lease where they do not transfer substantially all the risks and rewards incidental to ownership. The Society has no lease commitments as at 30 June 2019, (2018: \$Nil)

Capital commitments

There are capital commitments as at 30 June 2019 of \$Nil, (2018: \$Nil)

22 SIGNIFICANT EVENTS AFTER BALANCE DATE

There are no significant events after balance date.

23 RISK MANAGEMENT

The Society is exposed to a number of risks in the normal course of business. There are risks associated with underwriting an insurance business (insurance risk), as well as financial risk (credit and liquidity risk), market risks (foreign currency and interest rate risk), and non-financial risk (compliance and operational risk). The Directors and management of the Society understand and recognise the importance of having a strong risk management policy in place. The Insurance (Prudential Supervision) Act 2010 requires insurers to manage its risk management policy which the RBNZ monitors.

The risks and any objectives, policies, and processes to manage these insurance and financial risks are described below.

Insurance risks

The Society assumes insurance risk through its health insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the morbidity and persistency experience of the portfolio.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the Reserve Bank of New Zealand. The solvency margin ensures the Society is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position.

Sensitivity to insurance risk

The financial results of the Society 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 and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 14. The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of treatment given, and the costs of treatment.

Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The Society transacts health insurance business in New Zealand and therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. Insurance risks are well diversified within the health insurance portfolio with claims costs spread across many different types of surgical and medical events. There is no significant exposure to individual large claims.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2019

23 RISK MANAGEMENT (continued)

Financial risks

Credit risk management

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Society's premium receivables and investments.

The Society does not enter into any off balance sheet debt financial instruments. All financial instruments are recognised in the financial statements. The Society classifies its financial instruments into the following categories at initial recognition:

- Premium receivable from individual policyholders
- Concentrations of credit risk are considered low due to the large number of customers comprising the customer base
- Other

With respect to credit risk arising from the other financial assets of the Society which comprises cash, cash equivalents, and financial assets, the Directors consider the exposure to any concentration of credit risk to be minimal given that the largest financial assets are the Nikko Asset Management NZ Limited investment portfolio and the bank term deposits, which are placed with high credit quality financial institutions.

The following table summarises the underlying investments' credit quality held by the unit trust manager and registered banks

	2019	2018
	\$	\$
Corporate rated		
AAA	16,882,154	673,310
AA	53,939,493	63,129,785
A	30,405,498	19,253,470
BBB	7,027,947	12,095,353
Non-rated	25,038,365	21,569,449
	133,293,457	116,721,367

Liquidity risk management

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. The Society manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the contractual maturities of financial assets and liabilities at balance date on an undiscounted basis. Actual maturities are expected to be the same as contractual maturities.

2019	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Cash and cash equivalents	2,430,151	-	-	-
Trade and other receivables	5,829,124	-	-	-
Investments	133,293,457	-	-	-
Total current assets	141,552,732	-	-	-
Financial liabilities				
Trade, other payables and employee benefits	1,179,376	-	-	-
Total trade, other payables and employee benefits	1,179,376	-	-	-

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2019

23 RISK MANAGEMENT (continued)

2018	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Cash and cash equivalents	3,448,275	-	-	-
Trade and other receivables	4,784,741	-	-	-
Investments	116,721,367	-	-	-
Total current assets	124,954,383	-	-	-
Financial liabilities				
Trade, other payables and employee benefits	1,302,660	-	-	-
Total trade, other payables and employee benefits	1,302,660	-	-	-

The cash and cash equivalents are available on call and are adjusted for un-presented cheques. All trade, other payables and employee benefits are due within one month of the end of the reporting period.

Financial liabilities are all short term or payable on demand. Investments could be liquidated at any time to settle liabilities.

Market risk

Foreign currency risk management

The Society does have investments in international companies within its investment portfolio and is subject to foreign exchange risk. Through its Portfolio Manager the Society has entered into hedging contracts to reduce the impact of changes in foreign currencies. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

A sensitivity analysis has been performed on the impact of a 10% appreciation/depreciation of the NZ dollar relative to unhedged foreign currency financial instruments.

	Net Surplus		Equity	
	Increase	(Decrease)	Increase	(Decrease)
	10%	(10%)	10%	(10%)
2019	(1,023,578)	1,251,039	(1,023,578)	1,251,039
2018	(582,182)	711,556	(582,182)	711,556

Interest rate risk

The Society invests in both fixed and variable rate financial instruments. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Society. The Society maintains a spread of investment types to mitigate this risk. The Society's revenue from investments in the short term is susceptible to changes in interest rates.

However, as the majority of investments are fixed rate term deposits, bonds and capital notes and these investments are generally held until maturity, this exposure is mitigated.

At reporting date, if interest rates had been 100 basis points higher or lower with all other variables held constant, net surplus and equity would have been affected as follows:

	Net Surplus		Equity	
	Increase	(Decrease)	Increase	(Decrease)
	1%	(1%)	1%	(1%)
2019	(3,757,839)	3,757,839	(3,757,839)	3,757,839
2018	(2,805,084)	2,805,084	(2,805,084)	2,805,084

Fair values

The estimated fair values of the Society's financial instruments are considered to be materially the same as their carrying amounts as disclosed in the statement of financial position.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2019

23 RISK MANAGEMENT (continued)

Capital risk management

The Society's policy is to maintain a strong equity base so as to maintain Members', creditor and market confidence. The solvency capital that the Society is required to maintain is the minimum solvency capital amount calculated, in accordance with the solvency standard. The Directors believe that this requirement has been met. The Society's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Society manages liquidity risk by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows, and matching maturity profiles of financial assets and liabilities. The Society also regularly reviews insurance premiums to ensure they are set at an appropriate level to cover insurance claims.

There have been no material changes in the Society's management of capital during the period.

24 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel of the Society include the Board of Directors and the senior managers of the Society. The total remuneration of key management personnel from the Society is:

	2019	2018
Compensation	\$	\$
Salaries and other short-term benefits	1,123,581	943,520
Directors fees paid	299,196	245,607
Post employment benefits	253,633	243,618

Transactions with key management personnel are on normal commercial terms and conditions and there were no loans payable or receivable from related parties at year end (2018: \$Nil).

25 SEGMENT INFORMATION

The Society operates three segments within New Zealand as follows:

2019	Health Insurance	Building	Investments	Total
Segment Assets	10,014,230	10,960,639	133,293,457	154,268,326
Segment Liabilities	22,884,855	-	-	22,884,855
Revenue	64,572,988	135,001	7,666,191	72,374,179
Expenses	(58,680,801)	(225,469)	(423,295)	(59,329,565)
Net Earnings	5,892,186	(90,468)	7,242,896	13,044,614
2018	Health Insurance	Building	Investments	Total
Segment Assets	10,243,121	10,973,919	116,721,367	137,938,408
Segment Liabilities	19,599,551	-	-	19,599,551
Revenue	57,369,984	96,651	7,254,675	64,721,310
Expenses	(52,165,552)	(144,018)	(376,769)	(52,686,339)
Net Earnings	5,204,432	(47,367)	6,877,906	12,034,971

Contact

HEAD OFFICE

Union Medical Benefits Society Ltd
165 Gloucester Street, Christchurch
PO Box 1721, Christchurch 8140

Phone (03) 365 4048
Freephone 0800 600 666

accounts@unimed.co.nz
claims@unimed.co.nz
sales@unimed.co.nz

UniMed is proud to be a participant of the Insurance & Financial Services Ombudsman Scheme and a founding member of the Health Funds Association of New Zealand Inc.

