



# Annual Report

2016



**(MEMBERS OWN)**  
HEALTH FUND





# Our Vision & Purpose

Our vision is to be the preferred, trusted and active provider of health insurance and health services to the Defence community.

Our core purpose is to support members of the ADF and wider Defence community to manage their personal and family health care.

## Financial Snapshot

\$'000	2015	2016	Change	Change %
Premium revenue	367,746	413,937	46,191	12.6%
Gross margin	17,810	22,738	4,928	27.7%
Management expense	(22,948)	(27,527)	4,579	20.0%
Management expense ratio	6.2%	6.7%		0.4%
Net margin	(5,138)	(4,789)	349	-6.8%
Investment and other income	27,846	16,386	(11,460)	-41.2%
Operating surplus	22,488	11,597	(10,891)	-48.4%
Total assets	359,870	381,262	21,392	5.9%
Total liabilities	94,722	104,517	(9,795)	10.3%
Total capital reserves	265,148	276,745	11,597	4.4%
Number of policies	113,327	120,701	7,374	6.5%
Market share	1.8%	1.85%		0.05%



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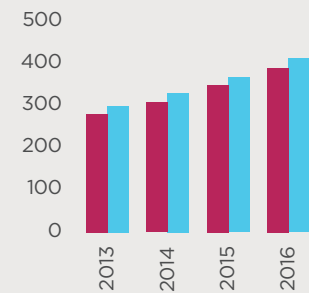


# Performance Highlights

For more than 60 years we've been here to support the families of those who defend our country. To us, our members are like family. And our commitment to family is stronger than ever.

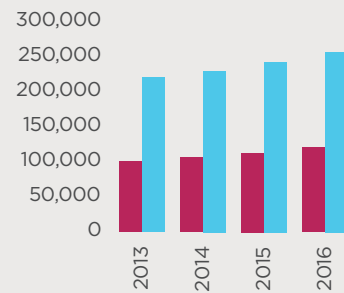
### Benefits and premiums

Benefits paid (\$'m)  
Premium revenue (\$'m)



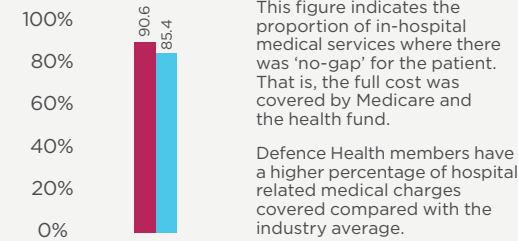
### Coverage

Policies  
People covered



### Hospital related medical services fully covered

Defence Health  
Industry

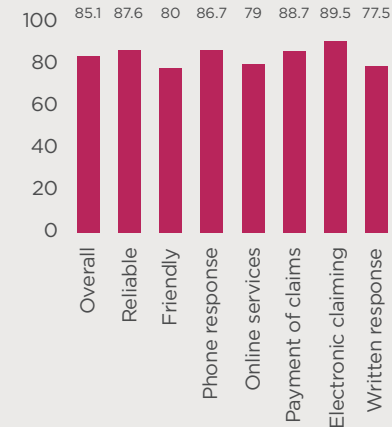


### Member retention (%)

Defence Health  
Industry



### Satisfaction index



1,923 babies born



296,471 phone conversations with members



76% of these were answered within 20 seconds

38,567 emails in response to member enquiries

1.06 million extras claims processed  
99,024 of which came through our mobile claiming app

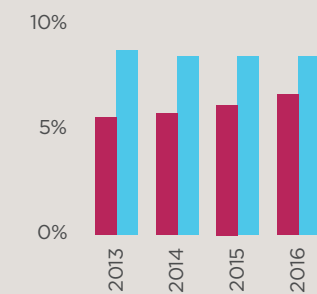
181,245 hospital days covered up 6.3%



experience family value

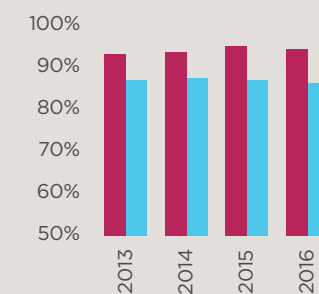
### Management expenses

Defence Health management expense % of premium  
Industry management expense % of premium



### Benefits

Defence Health benefits % of premium  
Industry benefits % of premium





# Core Values



## Trust

we earn your trust by consistently delivering personal service that meets your needs. We're as good as our word - every time.



## Excellence

we're proud to serve you and will provide service and experience that others won't or can't. We actively seek ways to continuously improve our offer to you.



## Ownership

we're part of the ADF family. So we accept responsibility, act with initiative and follow through. We won't let you down.



## Respect

we're friendly and here to help you make good choices. We listen with intent and offer clear explanations, to provide you with peace of mind and support.



## Community

we're here for people, not profit. We are committed to making a positive difference to the health and wellbeing of the Defence community.



# Chairman's Statement

The past year has seen continuous progress in accordance with our strategic plan and enhanced support for our members.



Gregory Garde  
Chairman

The financial statements for the 2016 financial year reflect the robust financial strength and management of Defence Health within a highly competitive operating environment.

As at 30 June 2016, a total of 120,701 policies were held, covering 257,404 ADF family members and people from the broader Defence community. The fund experienced a year of steady growth with policies growing by 6.5%. This is a significant achievement when compared to the average industry growth rate of 1.9%.

This growth contributed to a 12.6% increase in premium revenue to \$413.9 million. For the sixth successive year, Defence Health delivered an average premium increase to members below the industry average (5.48% compared with 5.59%).

The fund is highly mindful of affordability and seeks at all times to maximise the value it provides to members. This year the benefits paid to members totalled \$391.2 million. After management expenses of \$27.5 million, the fund produced an operating surplus of \$11.6 million.

The financial result was within the forecast. It was a planned outcome to buffer members against higher premiums while also delivering on commitments to return higher and new benefits.

Investment income fell to \$9.8 million reflecting lower prevailing interest rates and global sharemarket volatility.

We continue to invest in operational and management capability. Despite this investment, our management expense ratio continues to be one of the lowest in the health insurance industry.

With management expenses representing just 6.7% of premium revenue (compared with the industry average of 8.5%) we return \$0.95 in benefits to members for every \$1.00 of premiums.

As a Members Own Health Fund, the interests of members (rather than shareholders) are our priority. We do not return dividends to shareholders as do some other funds. We continue to invest in health programs and deliver benefits that will improve the health and wellbeing of our members.

In this, the second year of a ten-year strategy, we have realised several significant initiatives.

The dental network we launched in October 2015 delivered savings to members, and increased our members' utilisation of dental benefits.

- Targeted health coaching programs are helping members manage serious chronic conditions.
- An enhanced value proposition is benefiting ex-serving members who have Department of Veterans' Affairs entitlements.
- New product enhancements and increases in benefits paid are providing greater value and coverage for members.
- The appointment of a Chief Risk Officer is strengthening our risk management and compliance.

Once again, significant product and benefit enhancement has been delivered this year. On behalf of the Board, I thank our CEO, Gerard Fogarty, our Executive Management team and outstanding staff for their diligence, expertise and shared vision.





# CEO Statement

**We've had another big year of change aimed at delivering great value and better health outcomes for our members.**

We've been tackling this objective in a climate of negative media sentiment towards private health insurers and pressing affordability concerns for consumers.

Unfortunately, the negative commentary does not address the real cost drivers that continue to fuel premium increases. Only meaningful government reform, which limits the excessive cost burdens placed on insurers and members, will deliver the savings the industry and our members so desperately need.

While I continue to urge the government to address the cost drivers which are outside our control, we are also looking at affordability through the lens of better preventative health management support.

This year we added another provider network to our extras cover which has significantly enhanced the value of the dental benefits we pay. And through new targeted health programs we are empowering our members in their own health management.

By proactively managing members' health, we have the opportunity to lower the incidence of hospitalisation - and ideally prevent illness occurring in the first place.

Our suite of health management programs can result in life-changing improvements to health. It's no secret that achieving and sustaining better health will relieve the pressure on member premiums.

We're also keen to get a 'bigger bang' from our benefit spending. New health screening benefits (for tests such as mole mapping, kidney and bowel checks) introduced in April support our active health



**Gerard Fogarty**  
Chief Executive Officer



management agenda. And we're closely examining certain types of treatment to ensure there is clinical evidence to support the payment of benefits.

We very much take the view that we're not here just to pay the bills. Ours is a relationship in which we share responsibility for the health and wellbeing of our members.

Despite the financial pressures on members, the independent customer research we undertake in February each year delivered our highest ever customer satisfaction result. In the latest survey, 98% of members said they are satisfied with their membership.

The survey explores key service areas such as telephone support, payment of claims, online services, as well as our general reliability and friendliness.

The result is especially impressive given that we were one of only three participating funds whose satisfaction score increased.

I'd like to thank our energetic and talented staff for the attention they give to their work and respect they have for our members. I'd also like to thank the Chairman and directors of the Board for their encouragement and support for our strategic direction.

# About Us

**Defence Health in the health sector. With more than 13 million Australians privately insured at 30 June 2016, private hospital and extras insurance is an important pillar of our health care system.**

We have an outstanding public health system which operates through Medicare. However, that system is under intense financial and capacity pressures, with the only relief being the private hospital and medical network.

The government acknowledges the importance of the private sector. It encourages people to take out private hospital insurance through a number of financial incentives and penalties.

- ▶ The Lifetime Health Cover rules add to the cost of private hospital insurance for people who take out cover later in life.
- ▶ Depending on income, the government imposes an additional means-tested tax (Medicare Levy Surcharge) on people who do not hold an appropriate level of private patient hospital cover. This surcharge is in addition to the Medicare Levy applied to most taxpayers.
- ▶ A sliding-scale rebate on health insurance premiums is provided by the government to those who privately insure.

Defence Health is one of 34 registered private health insurers. When it comes to our market share (1.85%) we are a small player. But when you consider our single-minded focus on caring for the families of serving and ex-serving ADF personnel, their extended families and the people who support Defence, we are the best-on-field.

For more than 60 years we've had these groups at the heart of everything we do. Being not-for-profit allows us the freedom to concentrate our efforts and resources for the benefit of members rather than shareholders.

In 2015 we joined with 15 other member-focused funds to form the Members Own Health Fund group. These funds have been independently audited and found to collectively give more back to members, provide better service, and have more satisfied members than large for-profit funds.

Through our supportive industry alliances, competitive supplier and hospital contracts and effective provider-network agreements, we have the economic scale and ability to maximise value for members.







# Strategic Achievements

2015-2016

We continue to realise significant milestones in our 10-year strategic plan. Our goals are clear and stand-out achievements this year deliver additional value for members.

- ▶ Launch of a special offer for our ex-serving members. Department of Veterans' Affairs (DVA) Gold or White card holders can receive a 5% premium reduction on some of our hospital and combined products to recognise the contribution DVA makes to the members' ongoing health care.
- ▶ Real dental savings for members through the launch of our dental network. The national network of 1,145 smile.com.au dentists provides lower treatment fees and gap-free preventative treatment (depending on level of cover).
- ▶ Expansion of targeted health management coaching for members with chronic conditions. The programs are delivered by qualified clinicians at Remedy Healthcare with a view to empowering members in the management of their health and reducing the incidence of hospitalisation and poor health outcomes. The programs come at no additional cost to participating members.
- ▶ Launch of *MyBaby Support Program* to support new parents during pregnancy and the first year after their child's birth. The program comes at no cost for serving and ex-serving families and at a discounted rate for all other members. Maternity support coaching through Remedy Healthcare is also available to members on our ADF Total Package.
- ▶ New investment in technology to build a robust platform for meaningful engagement with members. The initial stage of the development became operational in February and, when complete, it will enhance the quality of our conversations and understanding of needs for new and current members.
- ▶ The rigour of our business continuity plan passed a real-time test in June. This important exercise ensures our ability to maintain operations and data security if disaster strikes.
- ▶ We expanded our life and trauma insurance offering by partnering with ClearView LifeSolutions to provide insurance with unique benefits for serving ADF and active Reservists.

## Hospital insurance

Private hospital insurance gives our members access to more than 500 private hospitals around Australia. Through the service and fee agreements negotiated by the Australian Health Service Alliance, Defence Health members can receive high quality, timely health care. They also have uncapped, unrestricted cover for treatment by a state-appointed ambulance service.

Depending on the level of hospital cover held, our members have no (or low) out-of-pocket expense for their hospital admissions.

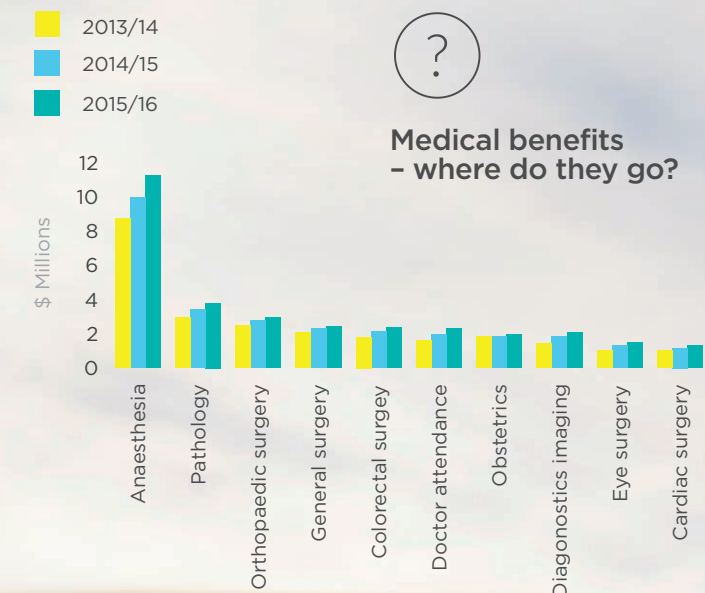
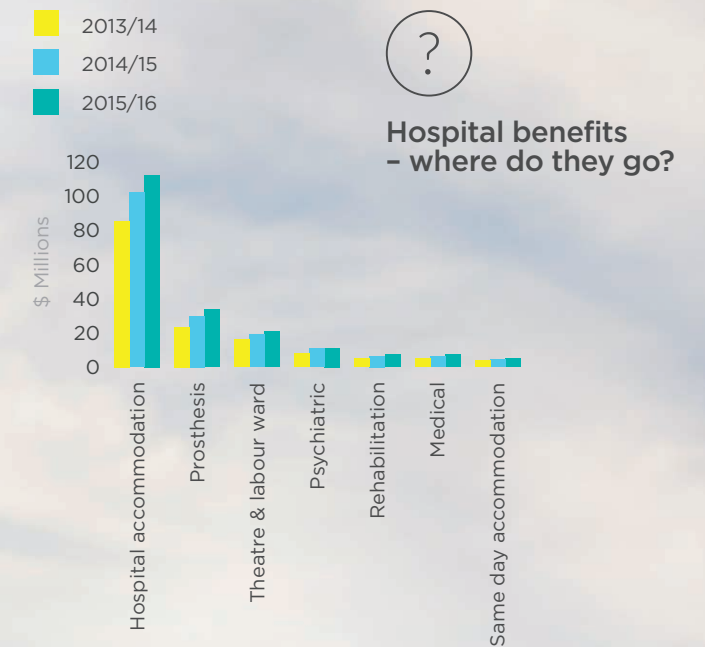
Our hospital cover also provides benefits towards the cost of the medical specialists, surgeons, anaesthetists and diagnostic technicians involved in a member's in-hospital treatment. Through our Access Gap billing arrangement, doctors may further reduce the 'gap' our members need to pay for their medical treatment.

Access Gap is a valuable feature of our private hospital insurance and we actively encourage doctors to use it when treating our members. With the federal government continuing the freeze on Medicare

benefits to doctors, Defence Health continued the indexation of Access Gap benefits to maintain the incentive for doctors to use it and lower the cost to members.

At 30 June 2016 we had more than 230,000 members with private hospital cover and 90.6% of their hospital related medical expenses were fully covered (compared with the 85.4% industry average).

We provided funding for 181,245 days of hospital treatment which is a 6.3% increase on the previous year. The hospital and medical benefits totalled \$255 million.







About Us

## Extras cover

Extras cover, or general treatment insurance, covers the everyday health care that does not attract a benefit from Medicare. Dental treatment, optical care, physiotherapy and podiatry are just a few of the most popular options.

Some funds do not include ambulance cover on their extras policies. Defence Health extras cover includes 100% cover for all state-appointed air, sea and road ambulance services Australia-wide.

In line with our preventative health management strategy, we enhanced our extras cover this year with:

- ▶ new health screening benefits (for services such as mole-mapping, mammograms and kidney checks) when members have combined hospital and extras cover and a benefit is not payable by Medicare
- ▶ the launch of our dental network, giving all members access to lower cost dental treatment
- ▶ a reduction in the initial waiting period for hearing aids (from three years to 12 months)
- ▶ new appliance maintenance benefits for members who use health appliances such as CPAP machines
- ▶ extended orthotics benefits to include Foot Leveler and Step Forward branded products.

Extras benefits paid to June 2016 totalled

**\$100 million**  
– an increase of  
**13.3%** on the  
previous year

## Other insurances

### Life insurance and accident insurance

In October 2015 we added ClearView LifeSolutions insurance to our product range. This product provides unique benefits for permanent ADF members and active Reservists – many of which are available at no additional cost.

Specifically, these members are covered if they purchase life insurance before notice of deployment and are later deployed to a war zone. They can also continue their cover after discharge from the ADF. And Reservists may choose income replacement and total and permanent disability insurance that covers their civilian occupation only.

ClearView LifeSolutions also offers life, trauma, total and permanent disability cover, accident and income protection insurance for the broader Defence community. It sits on our approved product list alongside the Defence Health Term Life insurance which is provided by Asteron and underwritten by Suncorp Life and Superannuation Limited.

In 2015–16, claims lodged with Asteron for life insurance, critical conditions benefits and terminal illness claims totalled \$3.97 million. The average age across all claims was 56 years and the average sum insured was \$210,386 (life) and \$109,789 (trauma).

### ADF-only accident insurance

D-Pax Accident Insurance is underwritten by AIG Australia Limited and provides benefits for 'high risk locations' which can be turned on or off when required.

There is a premium increase when the high risk cover is activated and benefits are reduced by 50%. This insurance product is only available to members of the ADF (permanent and reservists), employees of the Department of Defence (and associated departments) and civilian contractors to Defence.

### Travel insurance

Our comprehensive travel insurance is underwritten by Allianz Australia Insurance Limited. It is competitively priced (and discounted for Defence Health and ADF members) and available to travellers of all ages. It also includes special features only available to ADF members and can include additional extras for all snow, golf, cruise and adventure travellers.

The period in review has been one with major global issues that have impacted travellers and the incidence of travel insurance claims. These events include several volcanic ash clouds in Bali, floods in Fiji, multiple cyclones and hurricanes, acts of terror and earthquakes. The resulting travel warnings led to a higher number of enquiries and a decline in Allianz's normally high and prompt service during these events.

In 2015–16, claims paid on travel insurance policies totalled \$1.4 million with the average claim paid being \$1,039.

This year our payment of benefits increased by

**11.8%**  
to  
**\$391.2 million**

## Financial performance

### Premium revenue

During 2015–16, contributions revenue grew by 12.6% to \$413.9 million.

As a not-for-profit health insurer, our focus is to maximise benefits members receive in return for an affordable premium.

We maintain prudential and sustainable capital reserves to protect member funds, and your premium does not include a margin for the payment of dividends to shareholders. In our annual pricing submission to the federal government, we struck a fine balance between the need to cover rising health costs and our goal to keep premiums low. This year our annual premium increase was again lower than the industry average.

Year	Defence Health	Industry
2010	4.90%	5.78%
2011	3.98%	5.56%
2012	3.93%	5.06%
2013	4.02%	5.60%
2014	5.34%	6.20%
2015	5.62%	6.18%
2016	5.48%	5.59%

### Benefits

We continue to experience significant upward pressure on benefit expenses – both in the rate of claims being made and the cost. Our payment of benefits has increased by 11.8% to \$391.2 million.

### Administrative expenses

The 'management expense' relates to the cost of running the health insurance business. Defence Health has one of the lowest management expenses, as a percentage of contribution revenue, in the industry. This year, our total administrative management expense was \$27.5 million. This represents a ratio of 6.7% of premium revenue.

### Surplus

The cost of health care is increasing at a rate faster than premium revenue and more than inflation. There is also a greater frequency and number of people going to hospital. The decision was made this year to draw on some of the capital reserves and absorb some of the rising costs and protect members from a higher

than average premium increase. The final operating surplus of \$11.6 million compares with \$22.5 million last year. Our business is also exempt from income tax.

### Investments, other income and capital

The investment performance of the fund was affected by the low-earnings environment. Investment income reduced to \$9.79 million due to the volatility of domestic and international equity markets and the low yielding fixed income markets. Other revenue includes commissions from other insurances and settlement of legal claims of \$6.59 million. Investment and other income totalled \$16.4 million.

Defence Health is in a sound financial position with strong capital reserves. The fund holds assets valued at more than twice the prudential requirements. This year, total assets increased by \$21.4 million to \$381.3 million. Total liabilities increased to \$104.5 million. Total capital reserves as at 30 June 2016 were \$276.7 million, or \$2,293 per policy.





## Member services

We engage with members through multiple channels from the one office on the edge of Melbourne's CBD. Our service and genuine care for members is recognised through independent research as well as member feedback. Our members are strong advocates and we can proudly say they are among the most satisfied in the health insurance industry.

- ▶ mobile app for claims
- ▶ social media - Facebook
- ▶ Health HQ blog.

We receive a low level of member complaints - and more often than not a complaint is resolved on-the-spot by our member services team. For complaints that cannot be resolved we encourage members to contact the Commonwealth Ombudsman for independent investigation of the grievance.

In 2015-16 the Ombudsman received 26 complaints from Defence Health members. That represents 0.7% of complaints about all private health insurers and compares favourably with our market share of 1.85%.

### Member engagement

We have continued to invest in technology to enhance the service experience for members. Affectionately known to us as ARCHIE, our new customer relationship platform has improved our ability to analyse health needs and provide relevant information to members.

Our communication channels include:

- ▶ telephone
- ▶ standard letters, increasing use of email, and tailored content through the Member Update
- ▶ secure Online Member Services where members can claim, download important documents, make payments and maintain their personal details

### Customer satisfaction

This year our annual member satisfaction research delivered the highest ever score in the 11 years we've conducted the research. It also earned us recognition from peak industry group (hirmaa) with the award for overall improvement in member satisfaction.

The survey reported 98% of Defence Health members are satisfied with their membership.

The research measures services such as telephone support, payment of claims, online services, as well as our general reliability and friendliness.

Apart from the feel-good fact that we are providing excellent service, the research also informs our product development team to ensure we provide product innovations that deliver outstanding cover and better health outcomes for members.

## Our people

We recognise that the quality of our products and service relies on the expertise, empathy and capability of our people. It's our staff who earn and maintain our members' trust.

The ability to attract and retain highly skilled people is a must. They must also live our values to sustain our success and enable our agility to meet changing market demands.

### Culture

Our organisational culture is a powerful influence on how we collaborate, innovate and foster a high-performance environment. When our people feel valued and empowered to perform at their best, they can deliver the service and advice that makes a positive difference to the health and wellbeing of our members.

Our culture is underpinned by the five core values of trust, excellence, ownership, respect and community.

### Employment

As at 30 June, our workforce of 189 was comprised of 114 full-time staff, 38 part-timers, 28 casuals and 9 directors on our Board. Females make up 68% of the workforce and we have a healthy diversity of age.

During the year we had 39 departures. We have retained a depth of experience and reliability; 33% of our people have been with us for 5 years or more.

### Professional development

In 2016 we invested \$227,400 in professional training and development of our people. This included certified training of our customer-facing leaders to the internationally recognised Customer Operations Performance Centre (COPC) Standard. Training to this Standard helps us optimise our operations and ensure our customer experience is seamless, consistent and efficient. This is vital as we move closer to omnichannel member engagement.

Our training philosophy also aims to enhance job mobility and provide our staff with a satisfying career path within their field of interest and skill-set. We are currently analysing all our job roles and related competencies and this will identify further professional development opportunities for our people.

### Health and wellbeing

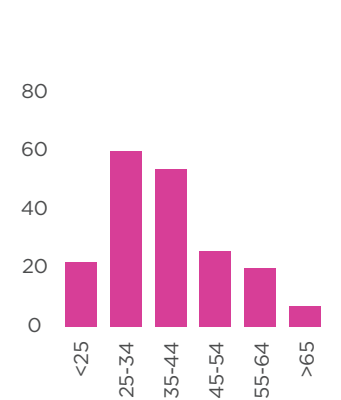
A major focus this year was to raise awareness of mental health with the aim of improving the health and wellbeing of team members. This has involved training for our Human Resources staff, training our first aid officers and a workshop for our Executive team on how we can provide support for staff who may be victims of domestic violence.

We also plan for all staff to attend mental health awareness workshops to better recognise signs and symptoms of mental ill-health and understand appropriate support strategies for colleagues.

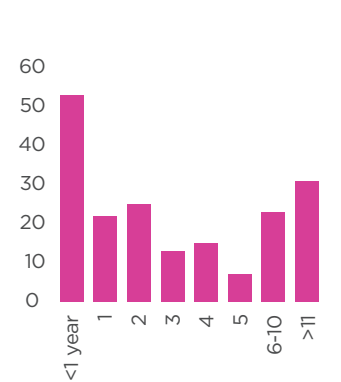
### Gender equity

A fair and equitable workplace is more innovative, productive and resilient. It's also more attractive to current and prospective employees. Our recruitment, performance, training and remuneration policies all support our diversity and gender equality. We report annually to the Workplace Gender Equality Agency and the report is available from the Agency website.

Number of staff by age



Number of staff by length of service



**\$227k** invested in professional training in 2016







### Special recognition

Our Head of Business Relationships, Chris Grigsby, is also an active Lieutenant Colonel with the Army Reserve. This year he was awarded his second Vice Chief of Defence Force Commendation. Chris was recognised for his tireless efforts in protecting Reservists against discrimination in their civilian workplace as a result of their service.



*Pictured right: Chris Grigsby*

Our Victorian Regional Representative, Claire Baker, is also an active Lieutenant Colonel with the Army Reserve. In January she was deployed to command a specialist unit providing communications across the Middle East operational area. This was a huge feather in the cap of Lieutenant Colonel Baker.

### Community support and sponsorship

Our network of Regional Representatives covers all major Defence locations in Australia. Apart from promoting Defence Health to eligible members of the Defence community, the team is on the ground supporting many Defence community events.

This year we have supported the Defence community through:

- ▶ funding to the Defence Special Needs Support Group for the Computers 4 Kids program
- ▶ refurbished family room facilities at Williamtown RAAF base
- ▶ competition prize to mark the 100th anniversary of the Army and Air Force Canteen Service
- ▶ sponsorship and entertainment at family fun days, Christmas, Easter and ANZAC Day events on base
- ▶ support for the Military Art Program which provides a creative outlet for soldiers dealing with post-traumatic stress disorder

- ▶ sponsorship of significant Defence awards
- ▶ 'welcome' events for Defence families posted to a new location
- ▶ sponsorship of key Defence events such as the Air Power and Sea Power conferences and the Australasian Military Medicine Association.

### Defence Health Foundation

Six years ago we established the Defence Health Foundation with the purpose of funding medical research that would specifically benefit serving and ex-serving members of the ADF and their immediate family.

Research areas have included acute knee injuries, chronic pain and the repair of skin damaged from explosions and burns.

In recent years the focus has moved away from laboratory-based scientific research to clinical applications that impact health outcomes.

The Foundation encourages research that will address the physical and mental health issues that impact current and ex-serving ADF

members. Prevention, treatment and rehabilitation are especially important. So too, is the ability for new research findings to complement existing therapies or programs.

The Foundation funds establishment grants of between \$25,000 and \$50,000 to assist new research to the proof-of-principle stage. Booster grants of up to \$300,000 can be made to help established research expand in scope or duration.

The Foundation is wholly funded by Defence Health and is further evidence of our commitment to the health and wellbeing of Defence families. In 2015-16, Defence Health Foundation committed to funding seven medical research grants totalling \$397,054.

## Governance

Defence Health is registered as a company limited by guarantee under the Corporations Act 2001. It is also registered under the Private Health Insurance Act 2007 as a not-for-profit health insurer with no shareholders or borrowings.

The Statutory Members of the fund are the Chief of Army, Chief of Air Force and the Board of Directors. The Board of Directors is responsible for the governance and performance of the fund.

The fund is strategically driven by the goals of best-practice risk management, prudent financial management and best-practice

corporate governance. Underpinning these goals are our five core values of trust, excellence, ownership, respect and community. These values, along with our corporate code of conduct guide our organisational culture and behaviour.

Defence Health provides regular reports to the Australian Prudential Regulation Authority which is the independent statutory authority responsible for monitoring and regulating the private health insurance industry.







Board of Directors

## Board of Directors

The Board is comprised of eight non-executive, independent directors and currently includes one associate director. The Board appoints the Chief Executive Officer.

It is a Board of diverse skill and competency, and also one that has a strong affinity with the needs of serving and ex-serving families in Australia.



### Michael Bassingthwaighe AM FAICD

Director since July 2001  
Chairman January 2004 – October 2011

- Chairman – Business Strategy Committee
- Member – Nomination and Remuneration Committee
- Chairman – HAMB Systems Ltd
- Director – Australian Health Service Alliance Ltd
- Director – Members Own Health Funds Ltd
- Director – Illawarra Health and Medical Research Ltd
- Director – Coordinare Ltd
- CEO – Peoplecare Health Ltd
- CEO – National Health Benefits Australia Pty Ltd
- CEO – Reserve Bank Health Society Ltd

### Alan Beckett BEc FCA GAICD

Director since January 2006

- Chairman – Risk, Compliance and Audit Committee
- Member – Investment Committee
- Director – Westbourne Capital Pty Ltd
- Director – Westbourne Credit Management Ltd
- Deputy Chair – Defence Audit and Risk Committee
- Independent Member – Audit and Risk Committee of Note Printing Australia
- Director – Meat and Livestock Australia

### Julie Blackburn BNurs GradDip Midwifery GAICD

Director since December 2011

- Member – Business Strategy Committee
- Member – Risk, Compliance and Audit Committee
- Director – Karralika Program Inc
- Chairman – Defence Health Foundation

### MAJGEN Gregory Garde AO RFD (Ret'd) BA (Hons) LLM – Chairman

Director since April 2004  
Chairman since October 2011

- Member – Investment Committee
- Member – Nomination and Remuneration Committee
- Justice – Supreme Court of Victoria
- President – Victorian Civil and Administrative Tribunal
- Director – Judicial College of Victoria
- President – Council of Australasian Tribunals (Victorian Chapter)
- Member – Courts Council, Court Services Victoria

### COL Anthony Hambleton AM CSC GAICD

Director since February 2014

- Member – Nomination and Remuneration Committee
- Member – Business Strategy Committee
- Director – Defence Health Foundation
- Member – Army Standby Reserve
- Appointee Director – Chief of Army

### Garry Richardson FAICD

Director since February 2011

- Member – Risk, Compliance and Audit Committee
- Member – Investment Committee
- Director – Calvary Ministries Ltd

### Alice Williams BComm FCPA FAICD CFA ISFA AIF

Director since February 2010

- Chairman – Investment Committee
- Member – Risk, Compliance and Audit Committee
- Director – Equity Trustees Ltd
- Director – Guild Group
- Director – Djerriwarrh Investments Ltd
- Director – Port of Melbourne Corporation
- Director – Cooper Energy Ltd
- Director – Barristers Chambers Pty Ltd
- Director – Foreign Investment Review Board
- Director – Victorian Funds Management Corporation
- Member – Felton Bequest Committee

### AIRCDRE Philip Byrne BA FACDSS MAICD

Director since April 2005

- Chairman – Nomination and Remuneration Committee
- Member – Business Strategy Committee
- Director – Defence Health Foundation
- Appointee Director – Chief of Air Force
- Member – Air Force Active Reserve

### Catherine Walsh

Associate Director since October 2015

Pictured left to right:

Michael Bassingthwaighe, Alan Beckett, Julie Blackburn, Gregory Garde, Anthony Hambleton, Garry Richardson, Alice Williams, Philip Byrne, Catherine Walsh.





## Executive Management Team

The Chief Executive Officer is responsible to the Board for the overall management and performance of the company. He is supported in this task by an Executive Management Team.



### The Executive consists of:

- ▶ Chief Operating Officer  
- Joanne Kadlecik  
AssDip BusMgmt
- ▶ Chief Financial Officer  
- Peter Papamihail  
BBus (Acct)/ BBus(IS)  
CPA
- ▶ Head of Human Resources  
- Kathryn Woolridge  
BBus DipSuperMgmt  
(to 18 May 2016)

- ▶ Head of Strategy and Actuarial Services -  
Barry Leung  
BCom(Hons) FIAA  
CERA
- ▶ Chief Executive Officer  
- MAJGEN Gerard  
Fogarty AO (Ret'd)  
BBus GradDipMgmt  
MBA MSS(USA) GAICD
- ▶ Head of Marketing  
- Tiffany Conway  
BA AdvDIP BusMgmt

- ▶ Chief Risk Officer  
- Catherine Mulcare  
BEc FCA MAICD
- ▶ Company Secretary and General Counsel  
- Andrew Guerin  
LLB BEc FGIA FCIS  
DipFS(FinPlan)

Also pictured is the Defence Health Foundation CEO, Alison Teale  
BA GradDipA(Ph)  
PGradDipA(Hist)  
DipFS(FinPlan).

### Code of conduct

Our corporate code of conduct conveys clear guidelines on the ethics and behaviour expected of our employees. We are also a signatory to the industry based Private Health Insurance Code of Conduct.

Under both of these codes, we commit to:

- ▶ communicate with members in plain English

- ▶ provide relevant information to help members and prospective members in their decision making
- ▶ ensure our staff are thoroughly trained and know what they are talking about
- ▶ provide members with easy access to an effective dispute resolution process.

The company undertakes a regular audit of our compliance under the industry code.

#### Pictured left to right:

Joanne Kadlecik, Peter Papamihail, Kathryn Woolridge, Barry Leung, Alison Teale, Gerard Fogarty, Tiffany Conway, Catherine Mulcare, Andrew Guerin.

## Consolidated Concise Financial Statements

### for the year ended 30 June 2016

Extract from the Financial Statements signed on 26 September 2016

The Consolidated Concise Financial Report is derived from the full financial report and cannot be expected to provide as full an understanding of the financial position, financial position and financial and investing activities of the Company as the full financial report which is available at [defencehealth.com.au](http://defencehealth.com.au)

## Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

### Financial Statements

#### for the year ended 30 June 2016

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## Corporate Governance Statement

Defence Health Limited (referred to as "Defence Health" or the "Company") is a company limited by guarantee, incorporated and domiciled in Australia. The Company provides regular reports to the Australian Prudential Regulation Authority (APRA) which regulates and monitors the private health insurance industry. The Company and its subsidiary, Defence Health Foundation Pty Ltd, together are referred to as the "Group". Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation.

## Members

The Members of Defence Health are the Directors and the persons who hold the offices of the Chief of Army and Chief of Air Force.

The Members are briefed on the Company's performance on a regular basis and on significant financial, operational and strategic issues as they arise.

# Directors' Report for the year ended 30 June 2016

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2016.

## Members

Defence Health Limited has one class of Member. Each Member is entitled to one vote on matters determined by Members' votes and is eligible to be appointed as a Director of the Company. If the Company is wound up, each person who is a Member at the time or who was a Member within the preceding year, is liable to contribute up to one hundred dollars as necessary to meet the debts and liabilities of the Company. The total amount which Members are liable to contribute collectively is one thousand dollars.

## Directors

The names and detail of the Directors of Defence Health Limited who held office during the financial year are:

Name	Particulars
Major General Gregory Howard Garde AO RFD (Ret'd) BA(Hons) LL.M	Appointed to the Board in April 2004 and appointed Chairman in October 2011. Current term expires at the Annual General Meeting to be held in 2019.
Mr Michael John Bassingthwaighte AM FAICD	Appointed to the Board in July 2001. Current term expires at the Annual General Meeting to be held in 2018. Mr Bassingthwaighte was appointed Chairman in January 2004 and retired as Chairman in October 2011.
Mr Alan Ian Beckett BEc FCA, GAICD	Appointed to the Board in January 2006. Current term expires at the Annual General Meeting to be held in 2016.
Ms Julie Anne Blackburn BNurs GradDip Midwifery GAICD	Appointed to the Board in December 2011. Current term expires at the Annual General Meeting to be held in 2019.
Air Commodore Philip Darcy Byrne BA FACDSS MAICD	Appointed to the Board in April 2005. Current term expires at the end of the Annual General Meeting to be held in 2016.
Colonel Anthony Hambleton AM GAICD	Appointed to the Board in February 2014. Current term expires at the end of the Annual General Meeting to be held in 2017.
Mr Garry Richardson FAICD	Appointed to the Board in February 2011. Current term expires at the Annual General Meeting to be held in 2018.
Ms Alice Joan Morrice Williams BComm FCPA FAICD CFA ISFA AIF	Appointed to the Board in February 2010. Current term expires at the Annual General Meeting to be held in 2017.

The above named Directors held office during the whole of the financial year.

Ms Catherine Walsh

The Board appointed an Associate Director, Catherine Walsh, in October 2015. Whilst Ms Walsh is not a Director, she attended 7 Board meetings and 1 Committee meeting.



## Company Secretary

Mr Andrew Guerin LLB, BEc, FGIA was appointed Company Secretary in September 2005. Mr Guerin is also the Company Secretary of Defence Health Foundation Pty Ltd.

## Directors' meetings

During the financial year, 24 meetings were held: 9 Board meetings, 6 Investment Committee meetings, 4 Risk, Compliance and Audit Committee meetings, 4 Nomination and Remuneration Committee meetings and 1 Business Strategy Committee meeting.

The number of Board and Committee meetings held during the financial year and the number of meetings attended by each Director (while they were a Director or a committee member), are shown below.

	Board of Directors		Investment Committee		Risk Compliance and Audit Committee		Nomination and Remuneration Committee		Business Strategy Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
G H Garde*	9	9	6	5			4	4		
M J Bassingthwaighte	9	7					4	4	1	1
A I Beckett	9	9	6	6	4	4				
J Blackburn	9	9			4	4			1	1
P D Byrne	9	9					4	4	1	1
A Hambleton	9	8					4	4	1	1
G Richardson	9	8	6	6	4	4				
A J M Williams	9	8	6	6	4	3				

\* Chairman

## Principal activities

The principal activity of Defence Health during the financial year was to operate a registered health benefits fund in accordance with the *Private Health Insurance Act 2007*. The Company provided health insurance and complementary products to members and families of the Australian Defence Force (ADF) and the wider Defence community. There were no significant changes in the nature of the Company's activities during the financial year.

## Strategy

The Company's core purpose is to support members of the ADF and wider Defence community to manage their personal and family health care. The organisation seeks to be the preferred, trusted and active provider of health insurance and health services to the Defence community. The goals for achieving this outcome over the period were:

- ▶ Be the health insurer of choice for current and ex-serving members of the ADF;
- ▶ Represent great value for money PHI and excellent service for those who have never served in the ADF;
- ▶ Fulfil our responsibility for the health and wellbeing of the Defence community;
- ▶ Be a values based organisation that continually improves; and
- ▶ Be a prudent manager of members' funds now and into the future.

The Company measures its performance against the strategic goals.

## Review of operations

Defence Health recorded a surplus of \$11.59 million in the 12 months to 30 June 2016, a reduction of \$10.8 million on the prior year.

During the year the number of health insurance policies increased by 6.5%. Defence Health has 120,701 policies at 30 June 2016. During the year, premium revenue increased by 12.6% to \$413.9 million and net benefits expenses increased by 13.2% to \$392.6 million. The industry continues to experience significant upward pressure on benefits both from increased utilisation and underlying cost.

Total management expenses of \$27.53 million were contained at 6.7% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income reduced by 55% from \$21.92 million in the previous year to \$9.79 million due to the volatility of domestic and international equity markets and the low yielding fixed income markets. The total return on the investment portfolio was 2.9%.

The Company continues to invest in technology, staff, and brand to maintain a strong platform to ensure a continuation of the high standard in our service delivery in the future.

Other revenue in the 12 months to 30 June 2016 was \$6.59 million, an increase of \$0.6 million compared to prior year. Other revenue includes commissions from life, accident and travel insurance products and \$5.1M relating to a legal settlement.

## Dividends

Defence Health Limited is a company limited by guarantee and is prohibited by its constitution from paying dividends.

## Significant changes in the state of affairs

The Company revised the product suite in 2014 and closed the previous product suite to new members.

## Future developments

The company intends to continue to build capability to tailor its product and service offerings to meet the needs of the Defence Community. Directors expect operating conditions in the immediate future to remain substantially unchanged.

## Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of financial year that has significantly affected, or may significantly affect, the operations of the Group.

## Environmental regulation

The Company's operations are not significantly impacted by any environmental regulation under a law of the Commonwealth, a State or a Territory.

## Directors' benefits

During the year, no Director received or became entitled to receive any benefit by reason of a contract made by the Company with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, other than for Directors' fees disclosed in Note 20 and related party transactions disclosed in Note 19 to the Financial Statements.

## Indemnification of Directors and Officers

During the year, the Company paid a premium in respect of insurance covering each of the Directors and executive officers of Defence Health against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law.



## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307 of the *Corporations Act 2001* is set out on page 25.

## Rounding-off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with the Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

.....  
Mr Alan I Beckett  
Director  
3 October 2016

.....  
Major General Gregory H Garde AO RFD (Ret'd)  
Director  
3 October 2016



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The Board of Directors  
Defence Health Limited  
380 St Kilda Road  
MELBOURNE VIC 3000

3 October 2016

Dear Board Members

### Defence Health Limited

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

As lead audit partner for the audit of the financial statements of Defence Health Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

**Peter A Caldwell**  
Partner  
Chartered Accountant

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# Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Premium revenue	4	413,937	367,746
Direct benefits expense		(351,257)	(308,296)
Risk Equalisation Trust Fund expense		(37,769)	(35,318)
State ambulance Levies		(3,585)	(3,258)
Net benefits expense		(392,611)	(346,872)
Unexpired risk reserve		1,412	(3,064)
<b>Underwriting result</b>		<b>22,738</b>	<b>17,810</b>
Employee expenses		(16,439)	(13,256)
Marketing expenses		(2,169)	(2,108)
IT & Computing expenses		(2,083)	(1,836)
Transaction processing costs		(1,394)	(1,352)
Professional fees		(1,023)	(999)
Depreciation and amortisation expenses		(905)	(417)
Occupancy expenses		(898)	(888)
Industry subscriptions		(771)	(761)
Commissions		(384)	-
Agency legal costs		(277)	(267)
Other management expenses		(1,184)	(1,064)
Total expenses		(27,527)	(22,948)
<b>Underwriting result after operating expenses</b>		<b>(4,789)</b>	<b>(5,138)</b>
Investment income	4	9,793	21,920
Other revenues	4	6,593	5,926
Donation to / pledge to Defence Health Foundation		-	(220)
<b>Surplus for the year</b>		<b>11,597</b>	<b>22,488</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>11,597</b>	<b>22,488</b>

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

The Group's premium revenue of \$413.937m increased by 12.6% on prior year, of which 95% was provided to members as Benefits of \$392.611m an increase of 13.2%. Number of policies increased by 6.5%. Management expense ratio of 6.7% continues to remain one of the lowest management expense ratios within the industry. The investment portfolio generated an annual return of 2.9% or \$9,793m for the year.

# Consolidated statement of financial position

as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents		25,806	14,038
Trade and other receivables		13,009	17,790
Financial assets	5	339,154	326,124
<b>Total current assets</b>		<b>377,969</b>	<b>357,952</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,733	1,398
Intangible assets		1,560	520
<b>Total non-current assets</b>		<b>3,293</b>	<b>1,918</b>
<b>Total assets</b>		<b>381,262</b>	<b>359,870</b>
<b>Current liabilities</b>			
Trade and other payables		48,834	41,718
Claim liabilities	6	45,175	41,124
Provisions		7,706	9,244
<b>Total current liabilities</b>		<b>101,715</b>	<b>92,086</b>
<b>Non-current liabilities</b>			
Trade and other payables		422	486
Provisions		2,380	2,150
<b>Total non-current liabilities</b>		<b>2,802</b>	<b>2,636</b>
<b>Total liabilities</b>		<b>104,517</b>	<b>94,722</b>
<b>Net assets</b>		<b>276,745</b>	<b>265,148</b>
<b>Equity</b>			
Contributed equity		43,346	43,346
Retained earnings		233,399	221,802
<b>Total equity</b>		<b>276,745</b>	<b>265,148</b>

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

The Group's financial position continues to remain strong with assets exceeding liabilities by \$276.745m an increase of 4.4% on prior year, a surplus of \$11.597m for the period. There are no significant changes in the composition of assets and liabilities in the financial year.



## Consolidated statement of changes in equity

for the financial year ended 30 June 2016

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
<b>Balance at 1 July 2014</b>	<b>43,346</b>	<b>199,314</b>	<b>242,660</b>
Total comprehensive income for the year	-	22,488	22,488
<b>Balance at 30 June 2015</b>	<b>43,346</b>	<b>221,802</b>	<b>265,148</b>
Total comprehensive income for the year	-	11,597	11,597
<b>Balance at 30 June 2016</b>	<b>43,346</b>	<b>233,399</b>	<b>276,745</b>

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

The Group's changes in equity continue to increase consistently year on year at \$22.488m (2015) and 11.597m (2016) primarily driven by investment income. The Group's equity is limited by guarantee.

## Consolidated statement of cash flows

for the financial year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Premium receipts		418,463	371,685
Benefits paid to and on behalf of health fund contributors		(347,429)	(302,507)
Government and other levies paid		(3,563)	(3,217)
Payments to Risk Equalisation Trust Fund		(35,474)	(37,527)
Payments to suppliers and employees		(26,627)	(21,814)
Commission received		1,433	1,426
Settlement of legal claims		8,299	-
<b>Net cash generated by operating activities</b>		<b>15,102</b>	<b>8,046</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(638,209)	(310,130)
Proceeds on sale of investment securities		623,444	292,320
Interest and dividends received		13,709	16,156
Purchase of property, plant and equipment		(1,131)	(1,201)
Payment for intangible assets		(1,159)	(535)
Proceeds from disposal of property, plant & equipment		12	-
<b>Net cash (used in) investing activities</b>		<b>(3,334)</b>	<b>(3,390)</b>
<b>Net increase in cash and cash equivalents</b>		<b>11,768</b>	<b>4,656</b>
Cash and cash equivalents at the beginning of the financial year		14,038	9,382
<b>Cash and cash equivalents at the end of the financial year</b>		<b>25,806</b>	<b>14,038</b>

Net cash generated by operating activities of \$15.102m increased by 87.7% on prior year, driven by settlement of legal claims.



## Note 1 – Summary of significant accounting policies

Defence Health Limited (referred to as “Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company and its subsidiary, the Defence Health Foundation Pty Ltd, together are referred to as the “Group”. The paid up capital of Defence Health Foundation Pty Ltd is one dollar. Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation. The address of its registered office and principal place of business is Level 4, 380 St Kilda Road Melbourne Victoria 3004.

### 1.1 Statement of compliance

The concise financial statements have been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 ‘Concise Financial Reports’. The concise financial statements are an extract from the full financial statements. The concise financial statements and specific disclosures included in the concise financial statements have been derived from the full financial statements of Defence Health Limited.

The financial statements were approved by the board and authorised for issue by the Directors on 26 September 2016.

### 1.2 Basis of preparation

These concise financial statements have been prepared on the basis of historical cost, except for the revaluation of financial instruments which are measured at fair value. All amounts are presented in Australian dollars with all values rounded to the nearest thousands unless otherwise stated.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

### 1.3 Critical accounting judgements and key source of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions in applying the Group’s accounting policies which are disclosed in note 2. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

### 1.4 Revenue recognition

Revenue is recognised for the major income streams as follows:

- i) Premium revenue is recognised in the consolidated statement of profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. The proportion of premiums received or receivable not earned at the reporting date is recognised as an unearned premium liability.
- ii) Dividend and interest revenue from investments is recognised when the Company’s right to receive payment has been established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, through the expected life of the financial asset to that asset’s net carrying amount.
- iii) Other revenue includes Life, Travel and Accident insurance commissions and is recognised when a submission is lodged by the Company with the underwriter or agent of the insurance policies. All other revenue is measured at the fair value of the consideration received or receivable.

### 1.5 Receivables

- i) Unclosed business premiums – earned (contributions in arrears) represent amounts owing by contributors in relation to health insurance policies. Contributions in arrears are recognised when they become receivable. After 63 days the policy is cancelled.
- ii) Interest receivables represent an accrual calculation of interest income receivable from interest bearing securities as at balance date.
- iii) Health insurance rebates receivable represents the amount claimed by the Company from Medicare Australia for the Government Private Health Insurance Rebate.
- iv) Other receivables represent prepaid expenses and commissions due to the Company for life, travel and accident insurances and other amounts owing where a contractual and enforceable right to receive the amounts recognised at balance date. Amounts are usually received within 90 days.

### 1.6 Income tax

The Company is a not for profit entity. Its Constitution prohibits it from paying dividends and returning capital to its members. Accordingly, the Company is exempt from income tax.

### 1.7 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### 1.8 Provision for Risk Equalisation

Under the provisions of the *Private Health Insurance Act 2007*, all health insurers must participate in the Risk Equalisation Trust Fund.

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

### 1.9 Investments and other financial assets

As part of Capital Management Plan and investment strategy, the Company manages its investment portfolio to ensure that adequate liquidity exists within the portfolio to match the expected pattern of future cash flows arising from health insurance liabilities, having regard to regular cash flows from operations. Investments comprise assets backing insurance liabilities.

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The classification of financial assets depends on the nature and purpose of the financial asset and is determined at the time of the initial recognition. Financial assets are classified into the following specified categories:

#### Financial assets at fair value through the statement of profit or loss (held for trading)

Financial assets are classified as financial assets at fair value through the statement of profit or loss where the financial asset:

- i) has been acquired principally for the purpose of selling in the near future;
- ii) is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- iii) is a derivative that is not designated and effective as a hedging instrument.

Net gains or losses recognised in the statement of profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 5.

#### Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity dates where the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

#### Available-for-sale financial assets

The Company has investments in fixed income and equity trusts that are not traded in an active market and are classified as available for sale financial assets and stated at fair value, and are highly liquid. Gains and losses arising from changes in fair value are recognised through other comprehensive income.

#### Loans and receivables

Fixed or determinable payments that are not quoted in an active market are classified as “loans and receivables” and are measured at amortised cost using the effective interest method less impairment.



### 1.10 Assets backing insurance liabilities

Financial assets held by the Group have been determined to be assets backing insurance liabilities and accordingly are designated as "at fair value through the statement of profit or loss". These are initially recorded at cost and subsequently re-measured at fair value. Fair value has been assessed based on independent valuation for all assets held for which a secondary market exists. Cash at bank and deposit products held have been valued at cost. All related realised and unrealised gains or losses are included in investment income. Interest earned or dividends received are included in interest and dividend income respectively.

### 1.11 Product classification

Insurance contracts means a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

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

The Company has determined that all current contracts with policyholders are insurance contracts.

### 1.12 Insurance contract liabilities

#### Health insurance outstanding claims liabilities

Health insurance outstanding claims liabilities are measured as the central estimate of the present value of expected future payments against claims incurred but not settled at the balance date, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central estimate.

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.

Outstanding claims liabilities are generally fully settled within one year and are substantially settled within three months of the insurable event. Therefore, the effective discount rate is zero.

#### Provision for unearned premium and unexpired risks

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the statement of profit or loss in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

The adequacy of the unearned premium liability in respect of each class of business is assessed by considering current estimates of all expected future cash flows relating to future claims covered by current insurance contracts.

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

The entire deficiency is recognised immediately in the statement of profit or loss and recorded in the statement of financial position as an unexpired risk liability.

## Note 2 – Critical accounting estimates and judgements

The Company estimates certain assets and liabilities, the most material being the provision for outstanding claims liabilities.

The provision for outstanding claims (Note 11) is based on a central estimate of the present value of the expected future payments for claims incurred, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

As approximately 95% of claims are settled within three months of the reporting date, the expected future payments do not differ materially from the present value of those payments. Therefore a zero discount rate has been applied.

The expected future payments include amounts in relation to: reported and unpaid claims; claims incurred but not reported; claims incurred but not reported in their entirety; risk equalisation payments in respect of the foregoing; and costs, including claims handling costs, which the Company expects to incur in settling the incurred claims.

The expected payments to the Risk Equalisation Trust Fund in relation to outstanding claims are separately recognised in the financial statements.

The critical estimates and judgements are the:

- i) Central estimate which is the mean of all the possible values of expected future payments.
- ii) Risk margins which reflect the variability of the underlying insurance risk, the reliability and volume of data available and the robustness of the valuation models.

The risk margin adopted by the Company in respect to the provision for outstanding claims, on the advice of the Appointed Actuary, is 4% (2015: 4%) and was set so as to give at least a 75% probability that the provision will be adequate.

The Unexpired risk reserve in Note 12 adopted by the Company, on the advice of the Appointed Actuary, is determined with a risk margin of 2.7% (2015: 2.7%), and a 75% probability that the provision will be adequate.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.



## Note 3 – Insurance contracts; risk and risk management

An important part of the Company's overall risk management framework is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. These risks include insurance risks, financial risks and other risks such as capital and regulatory risk.

### a) Insurance risk

#### Underwriting risks

##### *Risk selection and pricing*

The Company is prohibited by the *Private Health Insurance Act 2007* from taking any actions which discriminate against an existing or prospective contributor on the basis of medical condition, gender, age or any other characteristic that is likely to result in an increased requirement for services. Prohibited discriminatory actions include selecting the amount of contributions payable by the contributor, whether benefits are payable, the amount of benefits payable and whether a contributor can move between products.

Although the Company is not able to be selective in accepting individual risks and in charging risk related premiums, the individual risks are absorbed within the total portfolio which presents a relatively consistent and predictable total risk.

##### *Concentration risk*

Private health insurance is 'community-rated'. This means that everyone is entitled to buy the same product, at the same price and is guaranteed the right to renew their policy. The Company cannot refuse to insure on the basis of a person's health or likelihood of a person claiming. The Company therefore has an exposure to a possible concentration of insured persons who have a higher than average likelihood of requiring frequent or high cost health care. The concentration risk is managed by regularly predicting future expected claiming patterns and where a significant change is identified, making appropriate changes to the terms or the premium or both for all insurance policies of the type in respect of which the concentration risk exists. The effectiveness of the predictive models are regularly reviewed by comparing past predictions with actual experience. The risk of a concentration of high cost claims is mitigated by the Company having access to the "high cost claims pool" administered by APRA, whereby high cost claims are partially funded by all insurers.

##### *Claims management and claims provisioning risks*

The Company's approach to determining the outstanding claims provision is set out in Note 2. The Company seeks to ensure the adequacy of its provision for outstanding claims by reference to the following controls:

- ▶ Regular reviews of incurrence and payment patterns to ensure that the timeliness of claims notification and payment remains within the assumed twelve month period.
- ▶ External quarterly reviews by the Appointed Actuary of the financial conditions of the Company with a formal Financial Conditions Report delivered to the Board annually.
- ▶ Reviews of the effectiveness of forecasts to ensure the factors considered in making forecasts remain appropriate.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to uncertainty for the reasons outlined in Note 2.

### b) Financial risks arising from insurance contracts

The Company is exposed to the risk that inflation within the medical services industry may be greater than that expected by the Company in setting its contribution rates and schedule of benefits. This risk is substantially reduced, however, by the existence of contracts between the Company and the majority of hospitals and medical practitioners which establish fixed charges for hospital and medical services.

### c) Capital and regulatory risks

The Company is subject to prudential regulations designed to protect contributors, primarily by ensuring the maintenance of adequate capital reserves having regard to the risks assumed by the Company. Regulations include solvency and capital adequacy requirements and continue to evolve in response to economic, political, demographic and industry developments. The Company works closely with regulators (APRA) and monitors regulatory developments to assess their potential impact on the prudential management of the Company.

### d) Sensitivities

The interval between the provision of an insured service and the presentation of a claim is generally less than one year. Analysis of historical patterns indicates that in excess of 95% of claims for all claim types are settled within 90 days. Moreover, the nature of health insurance claims is that, once lodged and assessed, they are generally subject to little variation.

The consequence is that processed health insurance claims are not sensitive to factors such as inflation, changes in official interest rates or other time-value of money factors. Accordingly, no sensitivity analysis has been presented.

## Note 4 – Revenue

	2016 \$'000	2015 \$'000
<b>Continuing Operations</b>		
Premium revenue pursuant to a contract of private health insurance	413,937	367,746
<b>Investment revenue</b>		
<b>Interest revenue</b>		
Bank deposits	322	302
Term deposits	5,746	6,434
Floating rate notes	-	5
	6,068	6,741
<b>Dividends</b>		
Unlisted cash trusts	2,180	3,616
Unlisted equity trusts	3,279	5,507
	5,459	9,123
<b>Realised gains/(losses) on disposal</b>		
Fixed income trusts	-	(154)
Unlisted equity trusts	(2,376)	(320)
	(2,376)	(474)
<b>Unrealised gains/(losses) of</b>		
Unlisted cash trusts	1,483	(745)
Unlisted equity trusts	(841)	7,275
	642	6,530
<b>Total Investment Revenue</b>	<b>9,793</b>	<b>21,920</b>
<b>Other revenue</b>		
Commission pursuant to the sale of life and trauma insurance	1,041	1,036
Commission pursuant to the sale of travel insurance	382	380
Commission pursuant to the sale of accident insurance	10	10
Other revenue	5,160	4,500
	<b>6,593</b>	<b>5,926</b>
	<b>430,323</b>	<b>395,592</b>

## Note 5 – Other financial assets

	2016 \$'000	2015 \$'000
<b>Current</b>		
Term deposits (i)	199,339	192,339
Units in fixed income trusts (ii)	78,756	56,972
Units in unlisted equity trusts (ii)	61,059	76,813
<b>Total investments</b>	<b>339,154</b>	<b>326,124</b>

(i) Investments held to maturity and carried at amortised cost

(ii) Investments held for trading and carried at fair value through the statement of profit or loss



## Note 6 - Claims liabilities

	2016 \$'000	2015 \$'000
Gross outstanding claims	40,927	37,235
Risk equalisation cost	2,825	2,681
Claims handling costs	436	384
Risk margin	987	824
<b>Gross outstanding claims liability</b>	<b>45,175</b>	<b>41,124</b>
Changes in the gross outstanding claim liabilities can be analysed as follows:		
Opening balance	41,124	35,774
Benefits incurred during the year	351,936	308,303
Benefits utilised during the year	(347,410)	(302,198)
Unused provision from prior year	(834)	(242)
Risk equalisation cost	144	(789)
Claims handling costs	52	14
Risk margin	163	262
<b>Closing balance</b>	<b>45,175</b>	<b>41,124</b>

The risk margin of 4% (2015: 4%) has been estimated to equate to a probability of adequacy of at least 75% (2015: 75%) refer to Note 2.

## Note 7 - Contingent liabilities and contingent assets

There are no material contingent liabilities and contingent assets at reporting date.

## Note 8 - Subsequent events

There have not been any matters or circumstances occurring subsequent to the end of financial year that have significantly affected, or may significantly affect, the operations of the Company.

## Directors' Declaration

The Directors of Defence Health Limited declare that:

- in the Directors' opinion, there are reasonable grounds to believe that the Group is able to pay its debts as and when they become due and payable;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Board of Directors.



.....  
Mr Alan I Beckett

Director

3 October 2016



.....  
Major General Gregory H Garde AO RFD (Ret'd)

Director

3 October 2016





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## Report of the Independent Auditor on the concise financial report to the members of Defence Health Limited

We have audited the accompanying concise financial report of Defence Health Limited which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Defence Health Limited for the year ended 30 June 2016 and discussion and analysis as set out on pages 26 to 37. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

### Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of the concise financial report.

### Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Defence Health Limited for the year ended 30 June 2016. We expressed an unmodified audit opinion on that financial report in our report dated 16 September 2016. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts discussion and analysis and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039 *Concise Financial Reports*.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of The Defence Health Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Liability limited by a scheme approved under Professional Standards Legislation.  
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### Opinion

In our opinion, the concise financial report, of Defence Health Limited for the year ended 30 June 2016 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

DELOITTE TOUCHE TOHMATSU

**Peter A Caldwell**  
Partner  
Melbourne, 3 October 2016

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