

# Annual Report

2017







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 vision & purpose

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	2017	2016	Change	Change %
Premium revenue	468,336	413,937	54,399	13.1%
Gross margin	13,214	22,738	(9,524)	-41.9%
Management expense	(30,146)	(27,527)	(2,619)	9.5%
Management expense ratio	6.4%	6.7%		-0.30%
Net margin	(16,932)	(4,789)	(12,143)	253.6%
Investment and other income	20,873	16,386	4,487	27.4%
Operating surplus	3,941	11,597	(7,656)	-66.0%
Total assets	407,787	381,262	26,525	7.0%
Total liabilities	127,101	104,517	(22,584)	21.6%
Total capital reserves	280,686	276,745	3,941	1.4%
Number of policies	131,733	120,701	11,032	9.1%
Market share	1.90%	1.85%		

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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.

**1.2 million** extras claims processed

**\$114.7 million** extras benefits paid

**47%** in dental  
with 7,141 sets of braces fitted

**205,727** hospital days covered  
up 13.5%



**1,815** babies born  
Charlotte was the most popular name for girls and William for boys



**318,794** phone conversations with members



**60.8%** of these were answered within **20 seconds**  
(down from 76% last year)

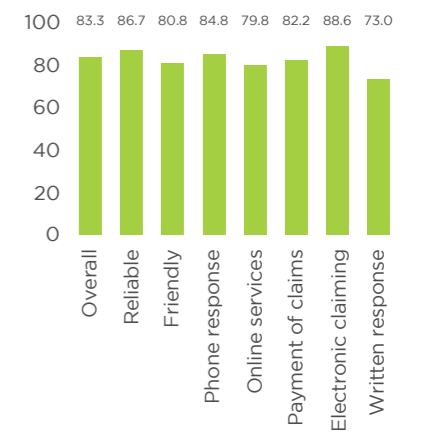


**274** hips replaced  
youngest aged 33, oldest 88, average age 65, average benefit paid \$22,300

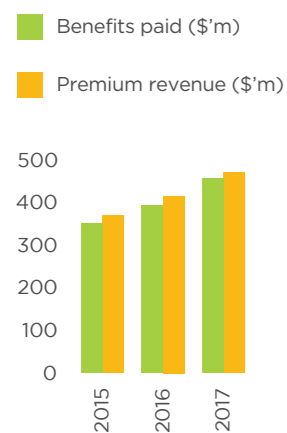
We go the extra mile to deliver outstanding service. And it shows. In the 2017 Member Satisfaction Survey conducted by Discovery Research

**98% of members** said they are satisfied with their membership.

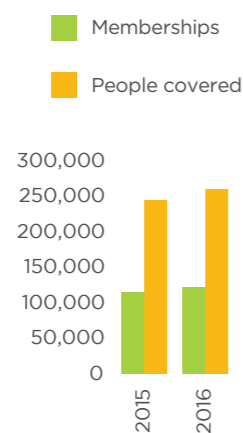
## Satisfaction index



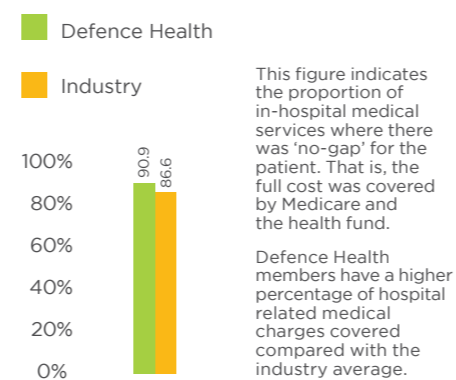
## Benefits and premiums



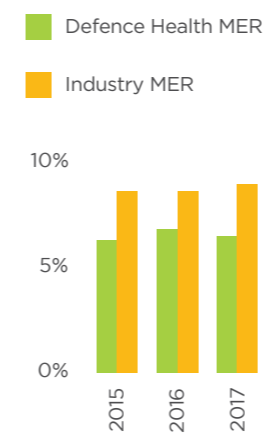
## Coverage



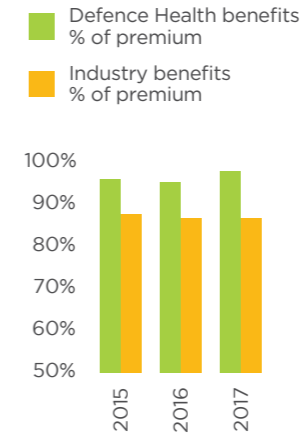
## Hospital related medical services fully covered



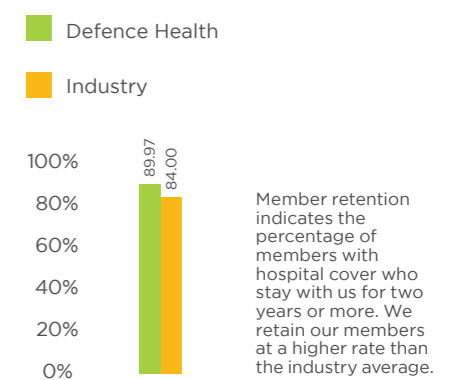
## Management expense ratio



## Benefits



## Member retention (%)



**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.



**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.



**Ownership**

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



**Core values**

Our values define us. They provide the foundation for the way we work with members, providers and each other.



**Trust**

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



**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**

We are committed to our goal to be the health insurer of choice for the serving and ex-serving Defence community.



The financial statements for 2017 reflect the underlying strength of our fund, but also the impact that rising health sector costs are having on operations.

As at 30 June 2017, we held 131,733 policies which provided cover for 295,760 ADF family members and other eligible members of the Defence community. Despite the declining industry membership trend, Defence Health continues to experience significant membership growth at the rate of 9.1%.

As a result, premium revenue increased by 13.1% to \$468.3 million. With intense cost pressures – largely due to the high prices of implantable medical devices and the increasing utilisation of hospital benefits – Defence Health was required to adjust premiums in April by 5.51% (slightly above the industry average of 4.84% but from a much lower-than-industry base premium).

To be the insurer of choice, we realise that premiums must be competitive and that benefits must maintain their relative value. Including the further increases to benefits available to members from 1 April, the fund paid a total of \$455.1 million in benefits during the year (representing a 16.3% increase).

Management expenses were contained at \$30.1 million and the fund produced an operating surplus of \$3.9 million.

To address the volatility of equity markets and low interest rates, the Board approved strategic adjustments to the fund's investment portfolio. I am pleased to report these changes coupled with market conditions almost doubled investment income to \$19.4 million. This welcome boost helped us deliver benefit enhancements and new programs for members.

Prudent financial management resulted in one of the lowest management expense ratios in the industry. With management expenses representing just 6.4% of premium revenue, we were able to return \$0.97 in benefits to members for every \$1.00 of premiums. Our management expense ratio is significantly lower than the industry average of 8.8%.

Better health outcomes and benefits are always front of mind to us. As a not-for-profit, Members Own Health Fund, there are no shareholders – it is our members who benefit.

In this third year of a ten-year strategy, we have substantially progressed the extent of our involvement in our members' health and wellbeing.

During the year, 772 members graduated from one of our targeted chronic disease management programs.

More than 3,500 members are taking advantage of our preferential offer to ex-serving members who have a Department of Veterans' Affairs White or Gold Card.

Members with hospital cover have the opportunity to receive a second medical opinion after the launch of My Medical Expert. The service is provided by the highly regarded organisation, Best Doctors®.

- Flexi-limits on eligible extras cover gives members greater access and control over their general treatment choices.
- ADF and ex-serving members can access our dedicated health navigation service. The service aims to provide additional support and health information for members – particularly when posted to a new area.

These changes are in addition to the added value programs and benefits that are setting the standard for member-centric care in private health insurance.

While members value their health insurance, the inflation of primary health and implantable device costs is impacting on the affordability of insurance and is a large threat to the Australian health system. We will continue to advocate for targeted government reform that will ease the pressure on premiums.

I would like to acknowledge the professionalism of our dedicated staff who worked through a busy and challenging time. On behalf of the Board, I also thank our CEO, Gerard Fogarty and his Executive Management Team who work in a highly competitive environment, but remain true to our purpose.

*Gregory Garde*

**Gregory Garde**  
Chairman



# CEO statement

The dynamics in the private health sector signal a challenging period ahead.



With health inflation continuing to rise in excess of the Consumer Price Index and wages, some people who've battled to retain their private health insurance are finding it is no longer affordable for them.

For the first time in more than a decade, the percentage of the population with private health insurance has declined.

This is an extremely serious issue for our health system. Private health insurers currently pay for almost two thirds of all elective surgery in Australia. Significant changes in the participation rate will place a further burden on an already challenged public system.

Data from the Australian Prudential Regulation Authority shows that in 2016-17, for the first time ever, the majority of people taking out health insurance were older than 65 years. These people are coming to private health, later in life, in anticipation of needing hospital care.

After a brief waiting period, they seek the treatment they need and make extremely costly claims early in their membership.

At the same time, people younger than 35 are leaving private health insurance.

This paints a very grim picture. Every insurer must have a balance of people contributing to the ongoing benefits the fund pays. A top-heavy sector of older, unhealthier people is unsustainable.

This perfect storm has been fuelled primarily by the unreasonable commercial interests and behaviour of some players in the delivery of health.

Against this backdrop, I continue to advocate for government reform of implantable medical device pricing. Private health insurers are forced to pay up to five times more for pacemakers, hips and knees compared with those supplied in the public sector.

I'm working with industry bodies and the Department of Health with proposals to attract new, younger entrants to the market, as well as lobbying for reforms to eliminate waste and inefficiency.

It is these issues - and the practice of private patients being enticed to bill their insurer for treatment in public hospitals - which continues to drive premium increases. And it is rising premiums that are ultimately causing the storm damage in the private health sector.

At Defence Health we've gone to great lengths to buffer our members from the forces that impact their premium. We've tried to keep premiums affordable, while continuing to enhance the benefits paid. We've had to draw on our capital to do this - and realistically, we can't continue to do it forever.

We remain committed to the value of our offering and its competitiveness in the market. But with the financial impact of the older membership profile being felt already, we can no longer afford the rate of benefit enhancements we have funded in the past.

The health and wellbeing of our members will continue to be at the heart of everything we do. Prevention of illness, support for members in their recovery, and fostering health and wellness are the principles that guide our product design, financial decision-making and investments.

We also believe members deserve greater transparency when seeking specialist health care. Just like any other purchase, the privately insured have a right to access information on the quality and the cost of their practitioner before deciding to accept their services.

Despite affordability issues, our annual customer satisfaction research highlights the incredible efforts of our highly engaged and motivated staff in their service to members. In the latest survey, undertaken in February 2017, 98% of members said they are satisfied with their membership.

This is testament to the dedication our staff have for our members - particularly this year when they were faced with trying internal technology issues. It also places us as one of the top performing funds (in terms of overall customer satisfaction) in the industry.

Finally, I'd like to thank the Chairman and directors of the Board for the tireless support they give the Executive Team and me. The entire organisation is committed to our charted course, albeit through more unsettled industry waters.



**Gerard Fogarty**  
Chief Executive Officer



## About us

### Defence Health - a small player with a big impact

Private hospital and extras insurance is an important element of Australia's health system. More than 13 million Australians depend on it.

There are currently 37 registered private health insurers in Australia. Twenty of these funds - including Defence Health - are part of the collective group known as Members Own Health Funds. These not-for-profit funds have been independently audited and found to collectively give more back to members in benefits,

to provide better service, and have more satisfied members than the large for-profit funds.

Defence Health was established in 1953 with the clear purpose of supporting members of the ADF and wider Defence community to manage their personal and family health care.

As at 30 June 2017, 262,747 people were covered by our hospital cover (94% of these had extras cover also) and 33,013 had extras-only cover.

The government recognises the importance of private health insurance to the health sector and has several incentives to encourage people into private cover.

- ▶ Lifetime Health Cover legislation encourages people to take out private hospital cover in their early 30s - or incur an escalating loading for each year they delay.
- ▶ The government contributes a means-tested rebate on private health insurance premiums.
- ▶ People without private patient hospital cover for themselves (and their dependants) may be required to pay extra tax. The Medicare Levy Surcharge is means-tested and is in addition to the Medicare Levy applied to most taxpayers.





About us

# 2016-2017 Strategic achievements



Our five-pronged strategic plan continues to move us closer to our ultimate vision to be the:

Preferred, trusted, active provider of health insurance and health services for the Defence community

- Our preferential offer for ex-serving members is complementing the benefits available to those with a Department of Veterans' Affairs (DVA) entitlement, as well as saving them money on their health insurance. More than 3500 members with a DVA Gold or White card are now taking advantage of a reduced premium.
- The Defence Health dental network is making affordable dental care part of the health regimen of an increasing number of members - 16.5% of all dental visits in June 2017 were to a network dentist (compared with 10% in June 2016). The network has expanded to include 1500 dentists nationally who are delivering real savings through lower treatment fees (and gap-free preventative treatment on Premier, Value and Top Extras and the ADF Total Package).

- The introduction of My Medical Expert gives all members with hospital cover the opportunity to obtain a second medical opinion. It could be that a member is unsure about a diagnosis, treatment plan or proposed surgery. The service, provided by the internationally renowned Best Doctors® group, connects members and their treating doctors with the expert advice of medical specialists from around the world.
- Flexi-limits allow greater flexibility in how members use their extras cover. While the dental and optical categories remain standalone, flexi-limits on eligible extras cover give members the choice to receive more of their favourite included treatment - or a range of included treatment - up to the relevant limit.
- Our recently launched Health Nav service helps serving and ex-serving families to navigate health care, health resources and service providers in their local area.

- All staff undertook offsite mental health awareness training and were supported with a holistic wellbeing strategy. Activities to support wellbeing included online resilience training, a group fitness program, nutrition advice, and information on financial wellbeing is planned for the new financial year. By supporting our people to care for themselves, they are in a better position to care for our members with exceptional customer service.
- Our broad ranging health management programs assist members to make a sound and sustainable recovery after hospital, and to proactively manage their conditions to avoid further hospitalisation. This year, a further 772 members graduated from one of our targeted health management programs and became more empowered to improve their health.

## Hospital cover

With hospital cover, members have access to high quality, timely medical treatment through a network of more than 500 private hospitals around Australia. Our hospital cover also includes uncapped, unrestricted cover for treatment by a state-appointed ambulance service.

Depending on the level of hospital cover, our service and fee agreements with hospitals ensure members have no (or a low) out-of-pocket expense for an admission.

Hospital cover also contributes benefits towards the cost of the medical treatment provided in hospital. And through our Access Gap billing arrangement, medical and surgical specialists may further reduce the out-of-pocket expense our members need to pay for their in-patient treatment.

Access Gap is a feature of our hospital cover and we encourage members to ask their doctor to use it. When doctors agree to use Access Gap, we can pay slightly higher benefits to the doctors in return for them minimising the fee to our members.

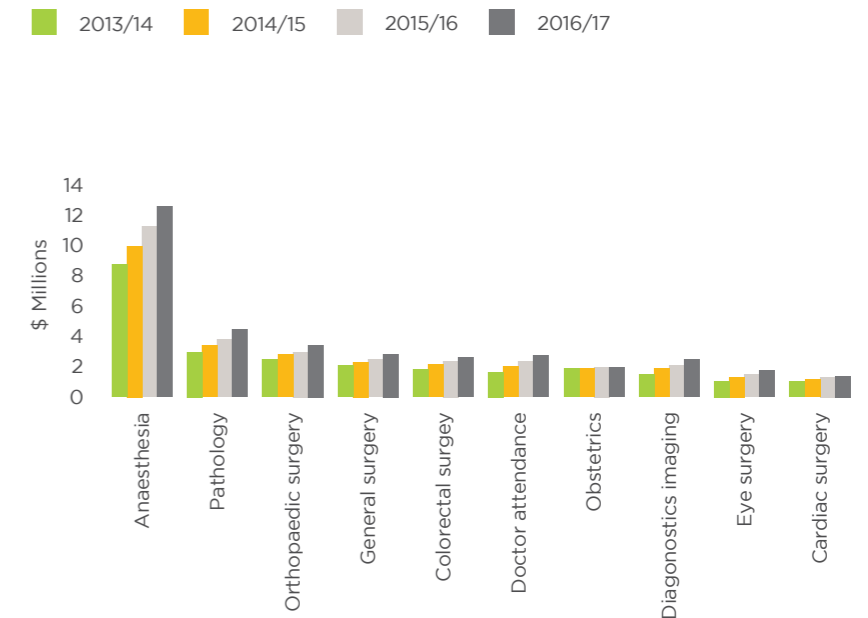
- In 2016-17 90.9% of all hospital related medical services provided to our members were fully covered (compared with the 86.6% industry average).
- We provided funding for 205,727 days of hospital treatment which is a 13.5% increase on the previous year. The hospital and medical benefits paid totalled \$293 million.

## Extras cover

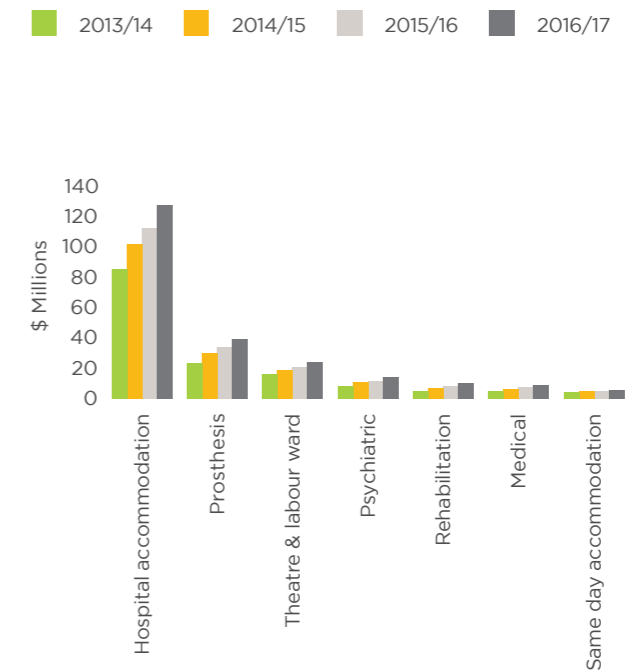
Extras cover - or general treatment insurance - provides benefits for the health care services that are provided out-of-hospital. Medicare does not cover these services, but they include important treatment such as dental, optical care, physiotherapy, speech therapy, occupational therapy and podiatry.

While some funds only offer ambulance cover as part of their hospital cover, Defence Health extras members also receive 100% cover for all state-appointed air, sea and road ambulance services Australia-wide.

## Medical benefits - where do they go?



## Hospital benefits - where do they go?



Extras benefits to June 2017 increased 14.7% to **\$114.7 million**





## Other insurances

### Life insurance

The ClearView Life Solutions product marketed by Defence Health provides unique benefits for permanent ADF members and active Reservists.

ClearView also offers life, trauma, total and permanent disability cover, accident and income protection insurance for the non-serving community.

The ClearView product has been well received since its launch in October 2015 – particularly with serving and ex-serving ADF – with around 20% of quotes resulting in a policy application.

The advantage of the ClearView product is that if serving ADF and Reservists purchase their life insurance and have it in force before notice of deployment, they have the peace of mind knowing they will be covered if they are later deployed to a war zone. They can also continue their cover when they discharge from the ADF.

Reservists also have the option of income replacement and total and permanent disability insurance that will cover their civilian occupation.

We were notified the Asteron Term Life Insurance would close on 30 June 2017 and we ceased writing new applications from 16 March 2017. However, existing policyholders will continue to be supported by Defence Health.

In 2016–17, claims lodged with Asteron for life insurance, critical conditions benefits and terminal illness claims totalled \$4.09 million. The average age of claimants on these policies was 58 years and the average sum insured was \$194,601.

### ADF-only accident insurance

Our D-Pax Accident Insurance is an exclusive product specially tailored for members of the ADF. Underwritten by AIG Australia Limited, it provides benefits for high risk locations – such as a war zone – which can be turned on or off as required.

When the optional extension to high risk cover is turned on, an additional premium is payable and benefits are reduced by 50%.

This insurance product is only available to permanent and Reservist members of the ADF, employees of the Department of Defence (and associated departments) and civilian contractors to Defence.

### Travel insurance

Defence Health Travel Insurance is a competitively priced international and domestic travel insurance and is available to travellers of all ages. Underwritten by Allianz Australia, it includes special features for ADF members and can also be extended to cater for snow, golf, cruise and adventure holidays for all travellers. Members of Defence Health or the ADF receive a special premium on Defence Health Travel Insurance.

Travel insurance policy growth has been fairly flat this year, which may be due to the frequency of terrorist attacks around the world.

In 2016–17, claims paid on travel insurance policies totalled \$1.79 million, with the average claim paid being \$1,326. The largest travel claim paid was \$550,000.



## Financial performance

### Premium revenue

The significant growth in policyholders during 2016–17 contributed to a 13.1% increase in contributions revenue to \$468.3 million.

For the first time in almost a decade, our premium increase was slightly higher than the industry average of 4.84%. Our increase of 5.51% from 1 April 2017 factored in anticipated savings from the government-announced cut in the cost of certain prostheses. However, the premium increase has failed to adequately cover benefit utilisation.

Our pricing philosophy is to keep premiums as low as possible, while delivering valuable benefits to members.

The premium revenue must also ensure sustainable capital reserves are maintained, for the protection of all members. Importantly, as a not-for-profit fund, the premium does not include a margin for shareholder dividends.

### Benefits

In 2016–17 benefit outlays increased by 16.3% to \$455.1 million. The fund has experienced a sustained increase in the demand for both hospital and extras benefits for several years now. While we have continued to enhance benefits to maintain their relative value for members, the combined impact of rising utilisation and cost has had a dramatic impact.

### Administrative expenses

The ‘management expense’ includes costs such as salaries, technology and rental of office space to operate the health insurance business. Defence Health has one of the lowest management expenses, as a percentage of contribution revenue, in the entire private health insurance industry. This year, our total management expenses were \$30.1 million, which represents a drop in the ratio to just 6.4% of premium revenue.

### Surplus

The sustained pressure of benefit outlays has resulted in an operating surplus of \$3.9 million. While this is largely an impact of rising health costs, it is also a reflection of the ageing, higher claiming profile of our membership base, and potentially over-servicing behaviour by some providers.

### Investments, other income and capital

With continuing international equity market volatility and low interest rates, the Board of Directors made some strategic adjustments to the investment portfolio during the year. Performance of the fund improved and investment income increased by \$9.6 million to \$19.4 million. Other revenue includes commissions from other insurances.

Defence Health holds sound capital reserves and assets are valued at more than twice the prudential requirements. This year, total assets increased by \$26.5 million to \$407.8 million. Total liabilities at 30 June 2017 were \$127.1 million. Total capital reserves were \$280.7 million, or \$2131 per policy.

#### Important information:

ClearView LifeSolutions issued by ClearView Life Assurance Limited (ABN 12 000 0021 581 AFSL 227682). ClearView LifeSolutions Super issued by ClearView Nominees Pty Ltd (ABN 37 003 682 175 AFSL 227683), as trustee of ClearView Retirement Plan (ABN 45 828 721 007). AGA Assistance Australia Pty Ltd (ABN 52 097 227 177 AFSL 245631) trading as Allianz Global Assistance issues and managed Defence Health Travel Insurance for the insurer Allianz Australia Insurance Ltd (ABN 15 000 122 850 AFSL 234708). Suncorp Life & Superannuation Ltd (ABN 87 073 979 530 AFSL 229880) is the issuer of Defence Health Term Life Insurance. D-Pax insurance is issued and underwritten by AIG Australia Ltd (ABN 93 004 727 753 AFSL 381686) trading in Australia as AIG. Defence Health receives commission payments from the product issuers of Defence Health and other insurance products in the range of 10% to 20% of the premium you pay to the insurer (excluding GST). The information on Travel, Term Life and D-Pax insurance in this report is of a general nature and does not take into account your personal objectives, financial situation or needs. Defence Health is not the issuer of these products and does not warrant that they are suitable for you. You may wish to obtain Personal Advice. You should consider the relevant Product Disclosure Statement (PDS) in deciding whether to acquire these products. A PDS can be obtained by calling 1800 335 425 or by downloading it from the Defence Health website.





## Member services

The Member Services team at Defence Health is our frontline in service delivery. The team engages with members across multiple channels from our inner-Melbourne office. Our members are spread across Australia – often in remote locations – and they rely on the expertise, empathy and knowledge of our Member Services team. Members are treated like part of the family at Defence Health. We genuinely care for them and earn their trust by consistently delivering a personal experience.

### Member engagement

As member engagement has expanded into the digital and social media spaces, we have made significant investments in technology and security to safeguard member data in new and emerging channels.

Highlights this year include:

- ▶ progress in our omnichannel project with
  - smarter phone menu that gets members to a real person sooner
  - extension of the number of telephony lines available
  - development work on web-chat and web-encryption

- ▶ recruitment of a casual labour pool to help manage higher-than-forecast call demand, new applications and claims processed – in March 2017 we received the highest ever number of new member applications (80% higher than the same time last year)
- ▶ launch of a new website to help ex-serving members navigate the health system when they transition from the ADF.

We receive a low number of complaints from members – and very few result in escalations to the Commonwealth Ombudsman. In 2016–17, the Ombudsman received 35 complaints from Defence Health members. That represents 0.7% of complaints about all health insurers and compares favourably with our market share of 1.9%.

### Customer satisfaction

We formally measure our customer satisfaction each year with a national survey of members. Discovery Research conducts the independent, in-depth online survey with a statistically significant sample of members.

The survey measures key service variables such as our telephone support, payment of claims, online services, as well as our general reliability and friendliness. In this, our 13th year of the research, we once again scored very high levels of member satisfaction.

Since 2006, the satisfaction rating has not dipped below 96% – and for the last three years 98% of members have declared their satisfaction with their membership.

However, we must acknowledge two issues that tested the patience of members this year. Technical problems with the software that houses our membership database had an enormous impact on our service level. This, coupled with an unprecedented increase in the number of claims received resulted in unacceptable delays to our benefit payments. The impact on members was evident in the survey feedback. In response, major technical transformation and claiming process improvements are currently being implemented.



## Our people

It's our people who earn and maintain our members' trust. With an appropriate amount of energy, familiarity, certainty and simplicity, they serve our members with consistency and accuracy. It's therefore critical that we attract and retain highly skilled people who share our passion for customer service and will live by our values.

### Culture

The power of our organisational culture comes down to our five core values: trust, excellence, ownership, respect and community.

Our culture is nurtured from the very first day someone begins working at Defence Health. While our culture sets the tone for conversations with members, it is also a powerful influence on how we treat each other and how we foster our high-performance environment. Our people feel valued and this empowers them to perform at their best and deliver the service and advice that makes a positive difference to our members.

The strength of our culture means our people are more invested in the business. Our ongoing, independent survey of staff once again returned engagement results that place us in the top quartile of highly engaged organisations and well above industry standards. We recognise how a happy, healthy and engaged workforce enhances employee wellbeing and delivers an excellent member experience.

### Employment

At 30 June, our workforce of 192 was comprised of 111 full-time staff, 43 part-timers, 29 casuals and 9 directors on our Board. Women make up 69% of the workforce and this ratio is evenly spread across the business units and is consistently spread across all reporting levels to the CEO.

During the year we had 43 departures representing 22.28% staff turnover. This reflects favourably against the call centre industry rate of 26%. Employee retention is strong with 32% of staff at 30 June having worked with us for five years or more.

For all employees who leave the organisation, we conduct exit interviews to understand the reasons for leaving and identify areas for improvement.

In January we needed to urgently recruit 23 casual staff to meet unprecedented service demands in our contact centre. It was initially difficult to attract highly skilled candidates with the offer of a short-term contract. The solution came with a cohort of high calibre professionals from the United Kingdom who were visiting Australia on a working holiday visa.

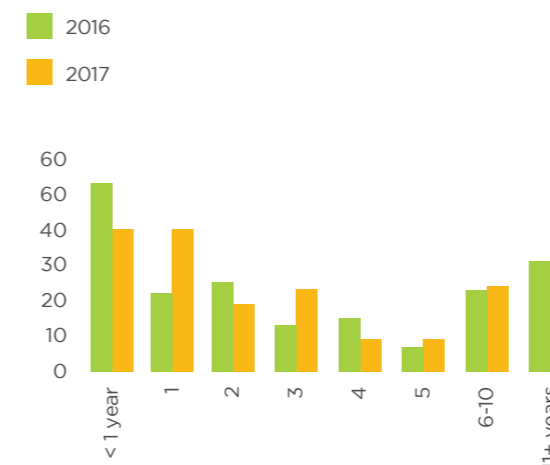
79% level of trust

78% overall staff engagement

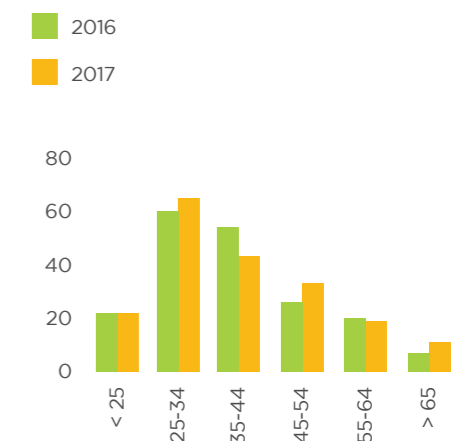
79% organisational priority to wellbeing

91% my manager supports equality between women and men

Number of staff by length of service



Number of staff by age







### Professional development

This year we have developed a framework of the key competencies required for each role. The competency framework provides greater transparency and development opportunities for existing staff. It has also enabled us to attract the right people, who not only align to our values but who excel in providing outstanding customer service.

Development planning is another area we have focused on to ensure staff can work towards developing the skills they need to be successful if they are not yet at the required proficiency level. We have designed a 70/20/10 learning guide aligned to the competency framework to support staff in this process. The 70/20/10 learning model is a blended approach to learning and has helped us to leverage the great skills and experience we have within the business through meaningful on-the-job learning opportunities, mentoring and coaching, and formal training.

### Health and wellbeing

We have continued to make the health and wellbeing of our workforce a priority this year. Everyone from the executive team down participated in an off-site mental health awareness workshop. The aim was to help staff recognise the signs and symptoms of mental ill-health and learn appropriate strategies to support colleagues.

Our holistic wellbeing strategy has focused on an employee's total health. We aim to achieve this through focusing on five key pillars of health: emotional, physical, career, social and financial wellbeing. Activities to support this included online resilience training, a group fitness program supported with external trainers, and nutrition advice. Information on financial wellbeing will be delivered in 2017-18. By supporting our people to care for themselves, they are in a better position to care for our members with exceptional customer service.

### Gender equity

Our recruitment, performance, training and remuneration policies all support our diversity and gender equality. We report annually to the Workplace Gender Equality Agency and our report is available from the Agency website.

### Defence community relationships and support

Our network of regional relationship officers 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 re-investing in our members through support to Defence organisations and community events.

This year we have endeavoured to build and extend our relationships with the Defence community through:

- ▶ connecting with key commanders and Defence stakeholders to ensure we maintain visibility on the needs of ADF members, families and the community
- ▶ developing a partnership with the Defence Community Organisation to align our support to best meet the Defence community's needs
- ▶ support to regional family rooms and community centres and activities conducted to support the community
- ▶ re-investing in ADF members through unit, formation and family activities aligned with health, wellbeing and community
- ▶ support of base family fun days, Christmas, Easter and ANZAC Day events
- ▶ 'welcome' events for Defence families posted to a new location

- ▶ ongoing investment to support the Defence Special Needs Support Group and the families it supports
- ▶ support to remote areas with WiFi in base mess facilities
- ▶ connecting and communicating with our members to educate, advise and listen to how we can best support them.

### Defence Health Foundation

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

Recent research grants are focussing on contemporary veterans' issues such as treatment of PTSD, social networks, identity, mental health and the use of alcohol. The aim is to address the physical and mental health issues that impact this cohort.

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 2016-17, Defence Health Foundation committed to funding five medical research grants totalling \$324,324.

## 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 (Prudential Supervision) Act 2015* 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 is responsible for the governance and performance of the fund.

We have a robust governance structure and a prudent risk and financial management culture.

Under-pinning our goal of best-practice corporate governance are our five core values of trust, excellence, ownership, respect and community. These values, along with our corporate code of conduct guide our governance culture and behaviour.

Defence Health provides regular reports to the Australian Prudential Regulation Authority which is the independent statutory authority that monitors and regulates the private health insurance industry.





## Board of directors

The Board is comprised of eight non-executive, independent directors and since 2015, one associate director. The Board appoints the Chief Executive Officer.

It is a Board of diverse skill and competency and one that truly recognises the needs of the ADF members and ex-serving families we were established to serve.



### Garry Richardson FAICD

Director since February 2011

- Member - Risk, Compliance and Audit Committee
- Member - Investment Committee
- Director - Calvary Ministries Ltd
- Member - Private Health Ministerial Advisory Committee

### Julie Blackburn BNurs GradDip Midwifery GAICD

Director since December 2011

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

### Michael Bassingthwaite AM FAICD

Director since July 2001  
Chairman January 2004 - October 2011

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

### Catherine Walsh

Associate Director since October 2015

- Director - RSPCA (ACT)
- Alternative Director - National Board, Australian Red Cross
- Member - Active Reserve
- Member - Combined Defence /DVA Human Research Ethics Committee

### 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
- Member - Courts Council, Court Services Victoria
- Member - Defence Force Discipline Appeals Tribunal
- Member - Judicial Commission of Victoria

### GPCAPT Susan Stothart CSC B Bus M Mgt, M Def Stud, Grad Dip Applied Finance, GAICD

Director since November 2016

- Appointed Director - Chief of Air Force
- Member - RAAF Active Reserve
- Director - RAAF Welfare Recreation Company
- Member - Risk, Compliance and Audit Committee
- Member - Nomination and Remuneration Committee

### 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 - Dept. Defence Audit and Risk Committee
- Independent Member - Audit Committee of Note Printing Australia
- Director - Meat and Livestock Australia

### 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 - Djerriwarrh Investments Ltd
- Director - Victorian Funds Management Corporation
- Director - Cooper Energy Ltd
- Director - Barristers Chambers Ltd
- Director - Foreign Investment Review Board
- Director - Racing Victoria Ltd
- Member - Felton Bequest Committee

### COL Anthony Hambleton AM CSC GAICD

Director since February 2014

- Chairman - Nomination and Remuneration Committee
- Director - Defence Health Foundation
- Member - Standby Army Reserve
- Appointed Director - Chief of Army

Air Commodore Philip Darcy Byrne, retired from the Board when his term expired on 11 November, 2016.

**Pictured left to right:**  
Garry Richardson, Julie Blackburn, Michael Bassingthwaite, Catherine Walsh, Gregory Garde, Susan Stothart, Alan Beckett, Alice Williams, Anthony Hambleton.



## 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 Financial Officer – Peter Papamihail BBus (Acct)/BBus(IS) CPA
- ▶ Head of Human Resources – Kelly Dickson AssDip HRM
- ▶ Head of Strategy and Actuarial Services – Barry Leung BCom(Hons) FIAA CERA
- ▶ Chief Operating Officer – Joanne Kadlecik AssDip BusMgmt
- ▶ Chief Executive Officer – MAJGEN Gerard Fogarty AO (Ret'd) BBus GradDipMgmt MBA MSS(USA) GAICD
- ▶ Chief Risk Officer – Tanya Haines Dip Tchg AssDip BusMktg GradCertBusMgt
- ▶ Company Secretary and General Counsel – Andrew Guerin LLB BEc FGIA FCIS DipFS(FinPlan)
- ▶ Head of Marketing – Tiffany Conway BA AdvDIP BusMgmt

### 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.

## Consolidated Concise Financial Statements

for the year ended 30 June 2017

Extract from the Financial Statements signed on 12 September 2017

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, 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 2017

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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.

Further details of our corporate governance framework can be found on our website at [defencehealth.com.au/about/corporate-governance/](http://defencehealth.com.au/about/corporate-governance/)

## Directors’ Report for the year ended 30 June 2017

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2017.

### Members

The Members of Defence Health are the Directors, and the officeholders of the Chief of Army and the Chief of Air Force.

Defence Health Limited has one class of Member and each Member is entitled to one vote on matters determined by Members’ votes. 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.

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

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

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 Bassingthwaighe AM FAICD	Appointed to the Board in July 2001. Current term expires at the Annual General Meeting to be held in 2018. Mr Bassingthwaighe 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 2020.
Ms Julie Anne Blackburn BNurs GradDip Midwifery GAICD	Appointed to the Board in November 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 and whose term expired at the end of the Annual General Meeting held in 2016.
Colonel Anthony Gerard 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 Albert Richardson FAICD	Appointed to the Board in February 2011. Current term expires at the Annual General Meeting to be held in 2018.
Group Captain Susan Stothart CSC BBus, Mmgmt, M Def Stud, Grad Dip Applied Finance, GAICD	Appointed to the board in November 2016.
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, with the exception of Air Commodore Byrne and Group Captain Stothart.

Ms Catherine Walsh MMgt MAICD  
The Board appointed an Associate Director, Ms Catherine Walsh, in October 2015. While Ms Walsh is not a Director, she attended 7 Board meetings and 5 Committee meetings.



## 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

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' Meetings	Investment Committee Meetings	Risk, Compliance and Audit Committee Meetings	Nomination and Remuneration Committee Meetings
Chair	G. Garde	A J M Williams	A I Beckett	A Hambleton
Meetings held	7	4	4	4
	<b>Attended</b>	<b>Attended</b>	<b>Attended</b>	<b>Attended</b>
G H Garde	7	3		3
M J Bassingthwaighe	5			4
A I Beckett	7	3	4	
J Blackburn	6		4	
P D Byrne*	3			2
A Hambleton	6			3
G Richardson	7	3	4	
S Stothart	3		2	2
A J M Williams	6	4	2	

\*P D Byrne was Chair of Nomination and Remuneration Committee until his retirement in the 2016 AGM.

## 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* and *Private Health Insurance (Prudential Supervision) Act 2015*. 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.

## Objectives

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

- Be the health insurer of choice for current and ex-serving members of the ADF;
- Represent great value for money private health insurance and excellent service for those with Defence Connections;
- 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.

## Achievement of objectives

- The Company offers competitively priced health insurance that is tailored to appeal to specific market segments.
- The Company appeals to members who seek high quality, personal service and meaningful benefits towards their health care.
- The Company views its role as more than a 'payer of bills' and is actively exploring and introducing health programs in a deliberate move into greater care for its target market.
- The corporate values of the Company are imbedded in all communication and its code of conduct.
- The Company has a robust framework of financial and risk management, with a Chief Risk Officer and Risk Manager supporting all areas of the business with their individual risk controls.

The Company measures its performance against the strategic goals by:

- monitoring its market share, competitiveness of its product offering, and the level of member advocacy in designated target markets;
- offering evidence-based health programs to support members in their health, wellbeing and recovery from illness;
- ensuring organisational values are observed by all staff and that staff feel valued and engaged in their work (measured through independent research);
- striving for best-practice risk and financial management (and acting on any advice from external assessors).

## Review of operations

Defence Health recorded a surplus of \$3.9 million in the 12 months to 30 June 2017, a reduction of \$7.6 million on the prior year.

During the year the number of health insurance policies increased by 9%. Defence Health has 131,733 policies at 30 June 2017. During the year, premium revenue increased by 13.1% to \$468.3 million and net benefits expenses increased by 14.3% to \$448.7 million. The industry continues to experience significant upward pressure on benefits both from increased utilisation and underlying cost.

Total management expenses of \$30.1 million were contained at 6.4% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income increased by 98% from \$9.8 million in the previous year to \$19.4 million due to our equity portfolio. The total return on the investment portfolio was 5.2%.

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 2017 was \$1.45 million, a decrease of \$5.1 million compared to prior year which was related to a legal settlement in favour of Defence Health.

## 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

There were no significant changes in the state of affairs of the Company that occurred during the financial year.

## 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 Full Financial Statements.



## Indemnification of Directors and Officers

During the year, the Company has paid premiums 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 Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, 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  
28 September 2017



.....  
Major General Gregory H Garde AO RFD (Ret'd)  
Director  
28 September 2017

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

550 Bourke Street  
Melbourne VIC 3000  
GPO Box 78  
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000  
Fax: +61 3 9671 7001  
www.deloitte.com.au

28 September 2017

The Board of Directors  
Defence Health Limited  
380 St Kilda Road  
MELBOURNE VIC 3004

Dear Board Members

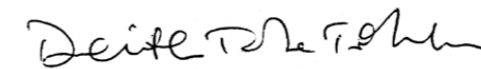
### Defence Health Limited

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 2017, 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 Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited



# Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Premium revenue	4	468,336	413,937
Direct benefits expense		(405,253)	(351,257)
Risk Equalisation Trust Fund expense		(39,574)	(37,769)
State ambulance Levies		(3,903)	(3,585)
<b>Net benefits expense</b>		<b>(448,730)</b>	<b>(392,611)</b>
Unexpired risk reserve		(6,392)	1,412
<b>Underwriting result</b>		<b>13,214</b>	<b>22,738</b>
Employee expenses		(18,260)	(16,439)
Marketing expenses		(2,254)	(2,169)
IT & Computing expenses		(2,585)	(2,083)
Transaction processing costs		(1,576)	(1,394)
Professional fees		(969)	(1,023)
Depreciation and amortisation expenses		(903)	(904)
Occupancy expenses		(921)	(898)
Industry subscriptions		(835)	(772)
Commissions		(212)	(384)
Agency legal costs		(290)	(277)
Other management expenses		(1,341)	(1,184)
Total expenses		(30,146)	(27,527)
<b>Underwriting result after operating expenses</b>		<b>(16,932)</b>	<b>(4,789)</b>
Investment income	4	19,417	9,793
Other revenues	4	1,456	6,593
<b>Surplus for the year</b>		<b>3,941</b>	<b>11,597</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>3,941</b>	<b>11,597</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 \$468.336m increased by 13.1% on prior year, of which 95.8% was provided to members as Benefits of \$448.730m an increase of 14.3%. Number of policies increased by 9.1%. Management expense ratio of 6.4% continues to remain one of the lowest management expense ratios within the industry. The investment portfolio generated an annual return of 5.2% or \$19.417m for the year.

# Consolidated statement of financial position

as at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents		20,942	25,806
Trade and other receivables		16,236	13,009
Financial assets	5	365,245	339,154
<b>Total current assets</b>		<b>402,423</b>	<b>377,969</b>
<b>Non-current assets</b>			
Property, plant and equipment		2,743	1,733
Intangible assets		1,468	1,560
Deferred acquisition costs		1,153	-
<b>Total non-current assets</b>		<b>5,364</b>	<b>3,293</b>
<b>Total assets</b>		<b>407,787</b>	<b>381,262</b>
<b>Current liabilities</b>			
Trade and other payables		55,088	48,834
Claims liabilities	6	54,896	45,175
Provisions		14,219	7,706
<b>Total current liabilities</b>		<b>124,203</b>	<b>101,715</b>
<b>Non-current liabilities</b>			
Trade and other payables		335	422
Provisions		2,563	2,380
<b>Total non-current liabilities</b>		<b>2,898</b>	<b>2,802</b>
<b>Total liabilities</b>		<b>127,101</b>	<b>104,517</b>
<b>Net assets</b>		<b>280,686</b>	<b>276,745</b>
<b>Equity</b>			
Contributed equity		43,346	43,346
Retained earnings		237,340	233,399
<b>Total equity</b>		<b>280,686</b>	<b>276,745</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 \$280.686m an increase of 1.4% on prior year, a surplus of \$3.941m 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 2017

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
<b>Balance at 1 July 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>
Total comprehensive income for the year	-	3,941	3,941
<b>Balance at 30 June 2017</b>	<b>43,346</b>	<b>237,340</b>	<b>280,686</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 year on year at \$11.597m (2016) and \$3.941m (2017) 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 2017

	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>		
Premium receipts	474,377	418,463
Benefits paid to and on behalf of health fund contributors	(396,330)	(347,429)
Government and other levies paid	(3,859)	(3,563)
Payments to Risk Equalisation Trust Fund	(39,461)	(35,474)
Payments to suppliers and employees	(29,178)	(26,627)
Payments for deferred acquisition costs	(1,365)	-
Commission received	1,449	1,433
Settlement of legal claims	291	8,299
<b>Net cash generated by operating activities</b>	<b>5,924</b>	<b>15,102</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(401,482)	(638,209)
Proceeds on sale of investment securities	381,772	623,444
Interest and dividends received	10,743	13,709
Purchase of property, plant and equipment	(1,828)	(1,131)
Payment for intangible assets and deferred acquisition costs	-	(1,159)
Proceeds from disposal of property, plant & equipment	7	12
<b>Net cash (used in) investing activities</b>	<b>(10,788)</b>	<b>(3,334)</b>
Net increase/ (decrease) in cash and cash equivalents	(4,864)	11,768
Cash and cash equivalents at the beginning of the financial year	25,806	14,038
<b>Cash and cash equivalents at the end of the financial year</b>	<b>20,942</b>	<b>25,806</b>

Net cash generated by operating activities of \$5.924m decreased by 60.77% on prior year, driven by receipt of legal claims in prior year.

## 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 Company is a not-for-profit entity. 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*, Australian Accounting Standards and Interpretations, International Financial Reporting Standards and comply with other requirements of law.

The concise financial statements were authorised for issue in accordance with a resolution of the Directors on 28 September 2017.

### 1.2 Basis of preparation

The concise financial statements have been prepared:

- ▶ on a historical cost basis, except for financial instruments which are measured at fair value.
- ▶ and presented in Australian dollars with all values rounded to the nearest thousands unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191.

### 1.3 Key judgements and estimates

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.

### 1.4 Revenue recognition

Revenue is recognised for the major income streams as follows:

- i) Premium revenue consists of contributions from policy holders, inclusive of the government rebate. This is measured at fair value through the consolidated statement of profit or loss from the attachment date 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 income 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 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 policy holders 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 for life, travel and accident insurances and other amounts due to the Company 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 profit or loss (held for trading)

- i) Financial assets are classified as financial assets at fair value through the statement of profit or loss where the financial asset:
  - ii) has been acquired principally for the purpose of selling in the near future; is a part of an identified portfolio of financial instruments that the Company manages
  - iii) together and has a recent actual pattern of short-term profit-taking; or 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 16 to the Full Financial Statements.

#### 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

Investments in fixed income and equity trusts that are not traded in an active market 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 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.

## 1.13 Deferred acquisition costs

Direct acquisition costs incurred in obtaining health insurance contracts, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The company has identified the amortisation period to be 4 years based on average tenure of membership.

## Note 2 – Key judgements and estimates

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

The provision for outstanding claims 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 key judgements and estimates 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 4.5% (2016: 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 to the Full Financial Statements adopted by the Company, on the advice of the Appointed Actuary, is determined with a risk margin of 2.7% (2016: 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 and 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

	2017 \$'000	2016 \$'000
<b>Continuing Operations</b>		
Premium revenue pursuant to a contract of private health insurance	468,336	413,937
<b>Investment revenue</b>		
<b>Interest revenue</b>		
Bank deposits	445	322
Term deposits	5,258	5,746
Interest bearing securities	235	-
	5,938	6,068
<b>Dividends</b>		
Unlisted fixed income trusts	3,125	2,180
Unlisted equity trusts	3,973	3,279
	7,098	5,459
<b>Realised gains/(losses) on disposal</b>		
Unlisted fixed income trusts	(657)	-
Unlisted equity trusts	36	(2,376)
	(621)	(2,376)
<b>Unrealised gains/(losses) of</b>		
Unlisted fixed income trusts	(1,071)	1,483
Unlisted equity trusts	8,073	(841)
	7,002	642
<b>Total Investment Revenue</b>	<b>19,417</b>	<b>9,793</b>
Other revenue		
Life insurance revenue	1,038	1,041
Travel insurance revenue	400	382
Accident insurance revenue	11	10
Other revenue	7	5,160
	1,456	6,593
	<b>489,209</b>	<b>430,323</b>

## Note 5 - Financial assets

	2017 \$'000	2016 \$'000
<b>Current</b>		
Term deposits (i)	203,339	199,339
Interest bearing securities (ii)	10,048	-
Units in fixed income trusts (ii)	65,504	78,756
Units in unlisted equity trusts (ii)	86,354	61,059
<b>Total investments</b>	<b>365,245</b>	<b>339,154</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

	2017 \$'000	2016 \$'000
Gross outstanding claims	49,438	40,927
Risk equalisation cost	3,609	2,825
Claims handling costs	467	436
Risk margin	1,382	987
<b>Gross outstanding claims liability</b>	<b>54,896</b>	<b>45,175</b>
Opening balance	45,175	41,124
Benefits incurred during the year	403,530	351,936
Benefits utilised during the year	(396,400)	(347,410)
Unused provision from prior year	1,381	(834)
Risk equalisation cost	784	144
Claims handling costs	31	52
Risk margin	395	163
<b>Closing balance</b>	<b>54,896</b>	<b>45,175</b>

The risk margin of 4.5% (2016: 4%) has been estimated to equate to a probability of adequacy of at least 75% (2016: 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:

- a) 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;
- b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- c) 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*.

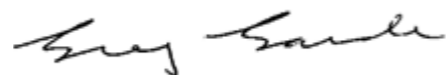
On behalf of the Board of Directors.



.....  
Mr Alan I Beckett

Director

28 September 2017



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

Director

28 September 2017

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

550 Bourke Street  
Melbourne VIC 3000  
GPO Box 78  
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000  
Fax: +61 3 9671 7001  
www.deloitte.com.au

## Independent Auditor's Report to the Members of Defence Health Limited on the Concise Financial Report

We have audited the accompanying concise financial report of Defence Health Limited which comprises the statement of financial position as at 30 June 2017, 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 2017 and the discussion and analysis as set out on pages 19 to 36. 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 2017. We expressed an unmodified audit opinion on that financial report in our report dated 12 September 2017. 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*.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

# Deloitte.

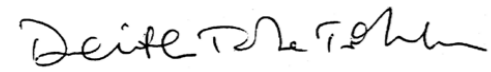
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *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.

## *Opinion*

In our opinion, the concise financial report, of Defence Health Limited for the year ended 30 June 2017 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.



DELOITTE TOUCHE TOHMATSU



Peter A Caldwell  
Partner

Chartered Accountants

Melbourne, 28 September 2017





## Contact Us



### Phone

1800 335 425

Monday to Thursday  
8:30 am to 8:00 pm AEDT/AEST

Friday  
8:30 am to 6:00 pm AEDT/AEST



### Web

[defencehealth.com.au](http://defencehealth.com.au)



[/DefenceHealth](https://www.facebook.com/DefenceHealth)



[healthhq.defencehealth.com.au](http://healthhq.defencehealth.com.au)



### Email

[info@defencehealth.com.au](mailto:info@defencehealth.com.au)



### Fax

1300 665 096



### Post/Street Address

PO Box 7518  
Melbourne, Victoria 3004  
Level 4, 380 St Kilda Road  
Melbourne, Victoria 3004