

Annual Report

2019



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.

Our Purpose

Financial snapshot

\$'000	2019	2018	Change	Change %
Premium revenue	571,697	528,189	43,508	8.2%
Gross margin	53,758	30,857	22,901	74.2%
Management expense	(36,186)	(35,324)	862	2.4%
Management expense ratio	6.3%	6.7%		-0.4%
Net margin	17,572	(4,467)	22,039	493.4%
Investment and other income	20,882	22,222	(1,340)	-6.0%
Operating surplus	38,454	17,755	20,699	116.6%
Total assets	472,801	426,255	46,546	10.9%
Total liabilities	129,648	127,814	1,834	1.4%
Total capital reserves	343,153	298,441	44,712	15.0%
Number of policies	141,700	138,383	3,317	2.4%
Market share	2.1%	2%		0.1%



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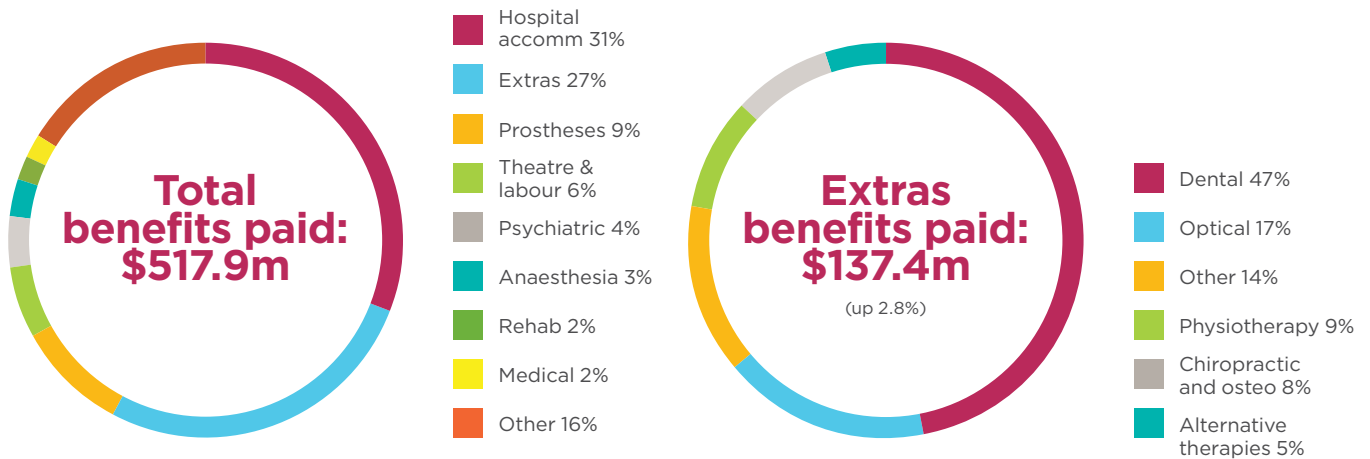


Our vision is to be the preferred, trusted and active provider of health insurance and health services to the Defence community.

Our Vision

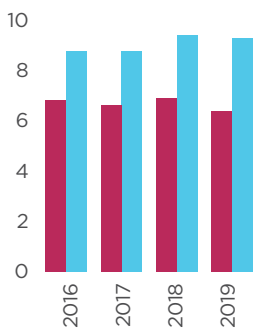
Performance highlights

For Defence Health, family is everything. That's why we've been here – since 1953 – supporting the families of those who defend our country. Through the very best of times and some difficult days, we have a strong and genuine commitment to our community.



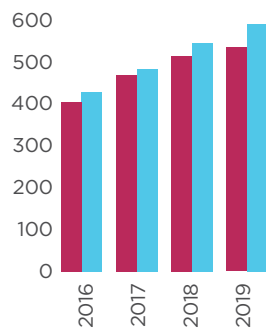
Management expense ratio (%)

- Defence Health MER
- Industry MER



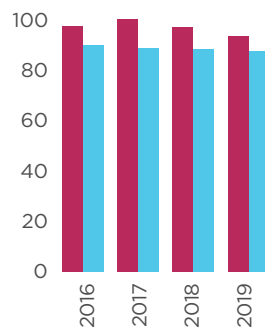
Benefits and premiums (\$'m)

- Benefits paid
- Premium revenue



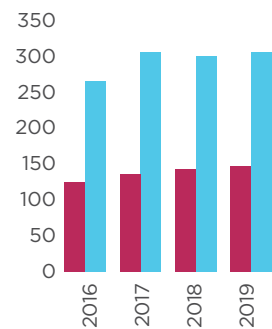
Benefits (%)

- Defence Health benefits % of premium
- Industry benefits % of premium



Coverage ('000s)

- Memberships
- People covered





1894
babies born



732
knees replaced



339
hips replaced



295,570
people covered



2.5 million
extras claims



248,451
hospital days covered



291,235
phone conversations with members

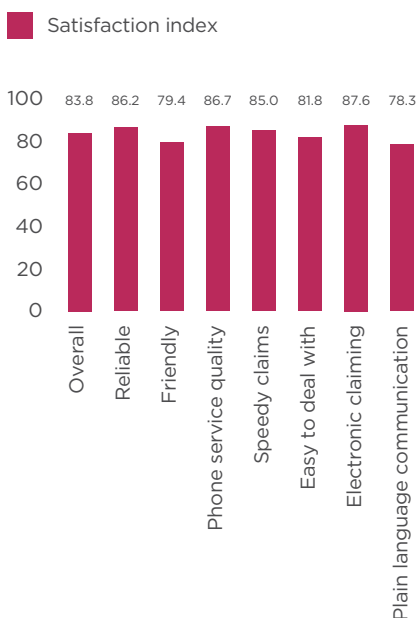


77.3%
of calls answered within 60 seconds

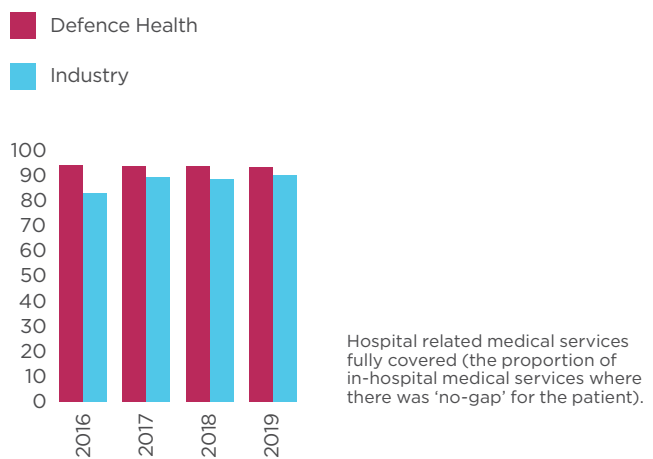


98%
member satisfaction
(2019 Discovery Research)

2019 member satisfaction index



Hospital related medical services fully covered (%)





Chairman's statement

Members of Defence Health can rest assured their fund is soundly managed and secure for the long term.



The financial accounts for 2018-19 reflect the significant work undertaken in recent years to protect the fund's capital and provide outstanding value while maintaining benefit payments for members.

Despite what is occurring elsewhere in the private health sector, Defence Health continues to grow its membership and achieve industry-leading member satisfaction.

At 30 June 2019, we had 295,570 people covered by 141,700 policies. This is a 2.4% increase over the year.

Premium revenue increased by 8.2% to \$571.7 million. Premiums were adjusted by an average of 4.5% on 1 April 2019 in response to rising utilisation of health services by an ageing population, and benefit outlay inflation. It is a fact that we are paying more for our members' health care and that we are paying for it more frequently.

During the year the business prepared for the most significant product reforms since hospital insurance was introduced in the 1950s. On 1 April, all Defence Health hospital products complied with the government's gold, silver, bronze and basic hospital cover framework, with standardised clinical treatment categories within each of these tiers.

The new framework is intended to help members to better understand what is included in their hospital cover,

and to modify their cover as circumstances change. Implementation of the new framework involved extensive behind-the-scenes work; staff training; and communication with members.

The reforms also enabled the fund to launch a new product on 1 April which allowed for a 10% discount for many members under 30. This is a valuable initiative. Importantly, young members receive the discount until they turn 41, after which, the discount gradually phases out.

In February 2019, the Board approved expenditure for a large-scale technology uplift for the business. Oracle Health Insurance has been contracted to build a new operating platform that will transform our members' experience with us and bring greater capability and efficiency to the business. It is anticipated that the new platform will be operational during the 2020-21 financial year.

As a not-for-profit company, the Directors' only interest is to maximise the value we can deliver to every one of our members. We are not beholden to shareholders or the demands of foreign owners. The value proposition for members is always top-of-mind.

The fund paid \$517.9 million in benefits during the year, representing an increase of 4.1% on the previous year.

For every \$1.00 of premiums, \$0.91 was returned in benefits for members. This is a high return to members.

Management expenses were tightly managed and grew by only 2.4% to \$36.2 million. The fund is renowned for the tight rein it holds on management costs. This year the management expense ratio dropped to just 6.3% of premium revenue, and is significantly lower than the industry average of 9.1%.

Improving margin performance and preserving capital for members was a key focus during the year in preparation for future benefit inflation exceeding premium increases. The fund had a surplus of \$38.5 million.

Cyber security incidents in large Australian companies have reinforced the Board's strategic commitment to best-practice risk management and governance. After an external review, management has implemented more robust systems management and staff have received updated training to understand the risk environment and their obligation to manage risk.

I would like to highlight the enthusiastic and genuine passion of Defence Health staff for their work and interactions with members. Staff surveys report very high levels of engagement and satisfaction; and members indicate outstanding levels of satisfaction for the service they receive.

The fund's strong and inclusive management – led by CEO Gerard Fogarty and his Executive Team – saw Defence Health named a winner for Employer of Choice in the 2018 Australian Business Awards. The Board is delighted with this external recognition of the rewarding and stimulating workplace culture at Defence Health.

Members can have confidence in the prudent, ethical and responsible management of their health fund. We have a skilled and experienced Board of Directors which rigorously reviews management's proposals. I am grateful for their dedication and unwavering commitment to the health and wellbeing of our members.



Major General Gregory Garde

AO RFD (Ret'd)
Chairman

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.



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.

CEO statement

We remain focused on keeping premiums affordable for members



The implementation of the next phase of government health reform was a major priority during 2018-19. It might not appear to be an arduous task, but the individual mapping of every Medicare item to a clearly defined treatment category required intense and detailed consultation between health funds; medical specialists; hospitals; and the Department of Health.

Once agreed, systems were reconfigured to support the gold, silver, bronze and basic levels of cover and the treatment included within each tier. I'm delighted that Defence Health was one of the first funds to take the complete suite of these member-centric changes to the market in April 2019.

The reform makes it easier for people to choose the right level of hospital cover for their needs. Comparing the competitiveness of premiums between one insurer and another is more transparent. And as health needs change, the decision to upgrade or downgrade cover can be made with greater confidence.

However, there is no room for complacency on the reform front. We must maintain the momentum and stay focused on keeping premiums down for our almost-300,000 privately insured members.

The work required to cut the cost of implantable medical devices is not finished. We've seen some savings which have been passed on to members

through lower premiums. But there are many millions of dollars still to be cut from the inflated prices of medical prostheses. One of the most common medical devices, the cardiac stent, is still five times the price in Australia compared with New Zealand.

It appears medical device companies have responded to lower prices for their products by driving sales volumes up by 8.6% (industry-wide in the 12 months to June). This is significantly higher than the rate of hospital claims would logically support, and it undermines the initial pricing reforms.

The government is also showing greater awareness of the impact some doctors have on the out-of-pocket expenses for their patients. Defence Health is strongly advocating on behalf of our members for improved transparency about unexpected 'gap fees' charged by medical specialists.

We also want public hospital staff to cease the aggressive pursuit of privately insured patients as they pass through public emergency departments. This behaviour adds unnecessary pressure to health insurance premiums and damages the entire health system.

Private health insurance gives 13 million Australians the choice of where and when they receive medical treatment. It cuts their waiting time and gets them on the road to recovery faster.

And it relieves the pressure on our over-stretched public health system.

In its January 2019 submission to government, the Australian Medical Association said the public health system "would likely collapse" without the contribution of the private sector. On average, 6000 elective surgeries are performed in Australia every day. Two-thirds of these operations take place in a private hospital.

As a not-for-profit fund, we focus our energy every day on delivering our promise to members – not shareholders. You can depend on us to be there when you, or a family member, needs us most. And we will work tirelessly to find innovative solutions in the health sector to keep your premiums affordable and ensure they continue to deliver you value.

I'd like to acknowledge the remarkable staff at Defence Health who embrace our values and help us fulfil our commitment to Defence families and the broader Defence community.

Major General Gerard Fogarty

AO (Ret'd)
Chief Executive Officer



About us

Since 1953, we've been committed to improving the health and wellbeing of the Defence community.

Defence Health was set up well before the days of Medicare and universal access to public health care. In the 1940s and '50s, public hospital patients faced strict means testing. The majority of people who went to hospital had to personally bear the full cost of their treatment.

Even given the high cost for treatment, public hospitals could not cope with the demand for their services. The *National Health Act 1953* was established which allowed the first private health insurers to enter the sector.

Health care has changed enormously in the intervening years. Medical research and technology have had a huge impact on patient outcomes. But private health insurance remains vital in the delivery of

world-leading health care in Australia. It benefits the privately insured through timely access to treatment; and it benefits public patients by relieving demand on elective surgery waiting lists.

The not-for-profit difference

Defence Health is a not-for-profit fund and part of a group known as Members Own Health Funds. These funds have been independently audited and found to collectively give more back to their members in benefits; to provide better service; and have more satisfied members than larger for-profit funds.

Not-for-profit is important to us. It's deeply rooted in our history as well as our modern-day mind-set. It's a badge that signifies our

commitment to members – not shareholders or foreign investors. Generations of members know they can trust the custodial role we play in protecting their contributions to the fund – and ensuring benefits are paid appropriately from the fund when they need them.

Not-for-profit influences our decision-making for the long-term sustainability of the fund. It guides our 'is it good for members?' culture. It keeps us sharp and focused on our core purpose of supporting members to manage their personal and family health care. Not-for-profit means there truly is more for members.

2018-2019

Strategic achievements



Our actions drive us towards our ultimate vision: to be the preferred, trusted and active provider of health insurance and health services to the Defence community.

We make deliberate efforts to fulfill our commitment to our members.

Health insurer of choice for the Defence community

- ▶ One of the most competitive packaged Gold hospital and extras cover in market for serving ADF families and Reservists
- ▶ We take great pride in the service we provide our members and always look for an opportunity to surprise and delight them - 98% of surveyed members report their satisfaction with their membership
- ▶ The privately insured are voting with their feet. While membership at many health funds is stagnant or declining, Defence Health continues to grow. In 2019 membership grew by 2.4%.

Great value and excellent service

- ▶ Competitively priced Gold, Silver Plus, Bronze Plus and Basic Plus hospital cover launched in April 2019. The new Bronze Plus hospital cover with Youth Discount was enthusiastically embraced by new and existing members (at 30 June 2019 it was 15% of applications, with 22% of these attracting a Youth Discount)
- ▶ The Defence Health dental network continues to deliver more affordable dental care. Approximately one in five dental claims were made at one of the 2000-plus dentists in our network. Defence Health members visiting a network dentist were charged an average of 22.1% less for preventative treatment and 18.7% less for general dental treatment



(compared with a non-network dentist). And that's before they receive their dental benefit from us!

Keeping you well

- ▶ Our Healthy Weight For Life health programs help to keep members with chronic conditions in better health and out of hospital. The programs support members with type 2 diabetes, chronic heart disease, and osteoarthritis by helping them lose weight and better manage their condition.

Workplace culture to be proud of

- ▶ Defence Health was named an Employer of Choice winner in the 2018 Australian Business Awards. The Employer of Choice Award celebrates organisations that maximise

the full potential of their workforce through effective recruitment, engagement, training and retention. CEO Gerard Fogarty says, "this accolade reflects our commitment to bring best-in-class performance into our workplace. By giving our people the opportunity to thrive and progress their careers, they are stimulated, engaged and in a great space to provide outstanding service for our members"

- ▶ Staff remain highly engaged and satisfied with their work and committed to the service they provide our members. The annual staff engagement survey had a 91% participation rate, with overall engagement rated at 83%

A new quarterly 'snapshot' survey was launched to identify continuous improvement opportunities. The results of both surveys exceed most internal and external benchmarks

- ▶ Project Delta was launched in March (in partnership with Oracle) to build a new core operating platform, supported by state-of-the-art digital and data platforms. As at 30 June 2019, the analysis and design for all streams of this significant improvement project were completed
- ▶ All managers and team leaders undertook a leadership development program to ensure all staff have a quality and consistent experience of 'leadership'.

Hospital cover

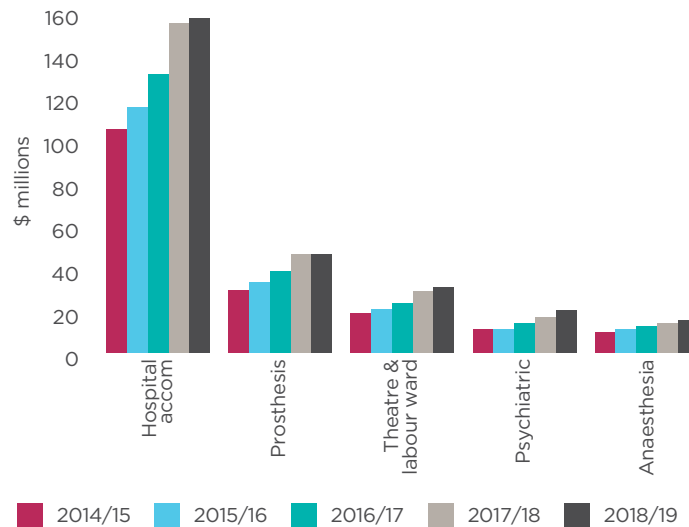
Hospital cover gives people almost immediate access to high quality health care. It also empowers them with the choice of their own doctor or other health care provider.

With the appropriate level of hospital cover, private hospital insurance will pay for private hospital accommodation and theatre fees, and meals, medication and nursing care while in hospital.

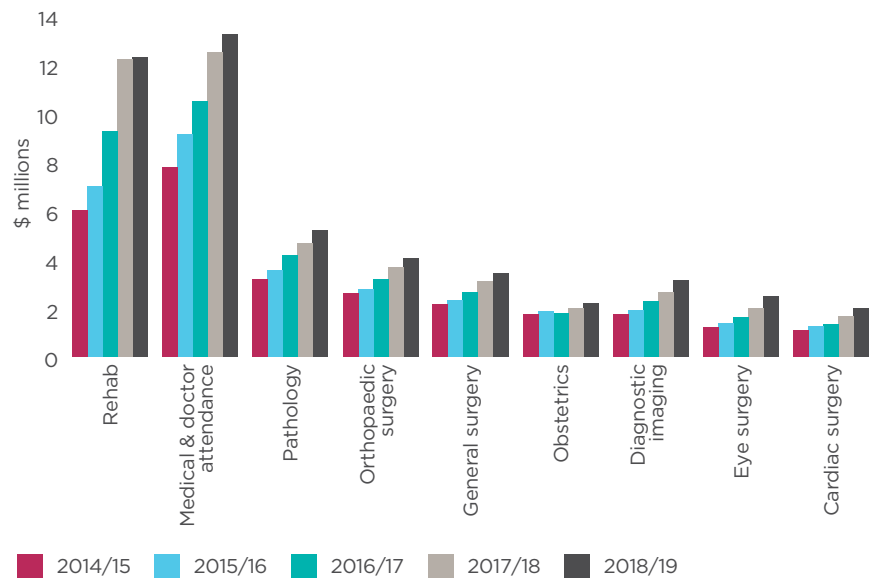
Hospital cover also contributes to the fees charged by the medical specialists treating a patient in hospital.

- ▶ In 2018-19, Defence Health fully covered 90.5% of all hospital related medical services for our members (compared with the industry average of 87.4%)
- ▶ In the same year, we funded 248,451 days of hospital treatment (up 3.6%), totalling \$353 million.

Growth in hospital and medical benefits paid



Growth in hospital and medical benefits paid



Thank God for my health insurance. My teenage daughter developed a serious and chronic mental health condition and was hospitalised for a month at a time on several occasions. Without our private hospital cover, my daughter would likely have been in a mixed gender ward with drug-addicted adult patients.

Dianne

Extras cover

Extras cover provides benefits on a broad range of health care services that are provided out of hospital. Dental treatment, optical care, physiotherapy, speech and occupational therapy and podiatry are a few popular examples.

Unless part of an extended care plan, Medicare does not provide benefits for these services – but extras cover makes a valuable contribution towards the cost.

All Defence Health extras policies also include comprehensive ambulance cover. Members are covered Australia-wide for state-appointed ambulance transport in the air, on the sea or across the land.

Other insurances

Life insurance

Defence Health Term Life insurance is specifically designed to meet the needs of permanent and Reserve members of the Australian Defence Force.

The advantage of the ClearView Life Solutions product sold by Defence Health is that serving members (who have a policy in force before notice of deployment) can be covered if they are later deployed to a war zone.

Term Life, accident and other insurances are no longer available to new civilian members. However we continue to support existing policy holders of these products.

In 2018–19, claims paid by Asteron on Defence Health life, terminal illness and trauma insurance policies totalled \$2.6 million. The average age of claimants was 59.9 years. There were no claims against the ClearView products.

Travel insurance

Defence Health offers competitively priced travel insurance that is underwritten by Allianz Australia Insurance Limited. It is available to people of all ages for domestic or international travel. The cover for international emergency medical or hospital expenses is unlimited and both domestic and international plans provide an extensive schedule of benefits for a range of potentially costly and inconvenient travel events. Add-on cover is available for snow, cruise and adventure holidays.

A special feature is built in for ADF members who may need to commence their travel from outside Australia.

Members of the ADF and all Defence Health members receive a discount on Defence Health Travel Insurance.

Important information:

ClearView Life Solutions issued by ClearView Life Assurance Limited (ABN 12 000 021 581 AFSL 227682). ClearView Life Solutions 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. Defence Health receives commission payments from the product issuers of insurance products. Details of this commission are in our Financial Services Guide. The information on Travel and Term Life 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.

Financial performance

Premium revenue

In 2018-19, contributions revenue grew by 8.2% to \$571.7 million. As a not-for-profit insurer, our pricing policy reflects our commitment to optimise the value of benefits payable to members; maintain prudential and sustainable capital reserves; and keep premiums as low as possible.

Benefits

The value of benefits paid to, or on behalf of members, increased by 4.1% to \$517.9 million. There was a slight easing in claims utilisation during the year. However, as noted across the industry, there is an increasing number of hospital admissions where the episode of care costs more than \$10,000.

Management expenses

Management expenses include the costs of doing business, such as salaries, rent, heat, light, power and depreciation. Defence Health manages these expenses tightly. The management expense in 2018-19 grew by just 2.4% to \$36.2 million. When compared with premium revenue, Defence Health has one of the lowest management expense ratios in the industry (6.3% against the industry average of 9.1%).

Surplus

Improving margin performance and preserving capital was a key focus during the year in preparation for future benefit inflation exceeding premium

increases. The fund produced a surplus of \$38.5 million in 2018-19 (or 6.7% of premium revenue).

Investment income and capital

The investment portfolio performed well during the year, producing income of \$20.3 million. Other income of \$0.6 million was consolidated into the fund's capital reserves, which closed the year at \$343.2 million. This is within prudential requirements and represents a reserve of \$2422 per policy.



Member Services

Located in Melbourne, the Defence Health Member Services team engages with members, hospitals and health providers; and manages the payment of claims. The team demonstrates genuine care and empathy for members in what is often a vulnerable time of their lives.

Thank you for your most helpful assistance during our telephone discussion. Score: 10 out of 10.

I'm not sure that I've ever been as impressed after speaking to any customer service person...ever!"

My contact with Defence Health has always been 10 out 10! I have found your telephone staff to be quick, friendly and helpful with the right knowledge and advice.

Hi Gerard, I want to acknowledge the outstanding member service I received today. Cristina and Gwen are both a great credit to Defence Health and speak to the culture of service in the organisation. They make members feel special and cared for.

Satisfied members

Member satisfaction is measured annually by independent researchers at Discovery Research. Our members are our best advocates and we can proudly say they are among the most satisfied in the health insurance industry.

The annual survey measures service areas such as how we handle discussions over the phone; the payment of claims; our reliability and friendliness; and the services we make available online. The results are weighted and ranked against another 15 funds involved in the research.

In 2019, our Customer Satisfaction Index was 83.8 (up from 79.9) with 98% of members saying they are satisfied with their membership.

If a member has a complaint about our service we work very hard to resolve it on the spot. A very small number of complaints about Defence Health are taken to the Commonwealth Ombudsman. In 2018-19, the Ombudsman received just 37 complaints from our members. This represents 1.1% of all complaints received by the Ombudsman and is favourable compared with our market share of 2.12%.

Trust

In an era of corporate scandals and poor service, it's good to know our members trust and depend on our service. In 2019, research by industry body Members Health Fund Alliance has found Defence Health (and other Members Health funds) are rated highly for their trustworthiness (84.7) compared with other Australian companies. The group of Members Health funds scored almost 10 points higher for trust than highly regarded companies like Qantas and Bunnings.

Once again I would like to commend you on your exceptional customer service. You were very helpful as always and extremely easy to talk to.

Our people

The strong values-based culture at Defence Health is evident from the moment you walk in the door (or pick up the phone).

Health insurance is a highly regulated and complex product. It's vital that we have highly skilled people to help our members understand their cover and maximise its value. But it's also vital for our people to live our values while demonstrating their expertise.

Culture

Organisational culture impacts everything we do - from how we engage with members, collaborate with each other, innovate and develop. It defines our personality and character. Our high-performance workforce is engaged and motivated to do the best work for our members every day.

This year we took the opportunity to link the staff engagement survey questions to our values to gauge how well we are living our values every day. The results overall were pleasing and there was particularly strong alignment for respect with a score of 87%.

Management and staff were delighted Defence Health was recognised as an Employer of Choice winner in the 2018 Australian Business Awards.



Employment

At 30 June 2019, the workforce of 224 people was comprised of 144 full-time staff; 48 part-timers; 22 casuals and 10 directors. Women make up 62.6% of the workforce and 80% of promotions were awarded to women. Five of our 10 directors are women, including the Associate Director who is part of the Board's traineeship program focussed on women.

More detailed gender statistics are available in our report to the Workplace Gender Equality Agency.

Staff retention is strong, and turnover during the year dropped significantly to 23%. The majority of resignations occur in the contact centre with people moving on for personal reasons, travel and different roles elsewhere.

At 30 June 2019, 33% of employees had been working with the fund for five years or more.

Development

Continuous improvement is a strategic objective of the Board of Directors. It is embedded in daily processes, and is an achievable and real experience for staff.

The business responded to a large and complex tender in 2018. A multi-disciplined team was formed, with six staff members directly seconded to the team for challenging project management and organisational roles.

In a major technical project that commenced in 2019, another diverse team was established, with 11 roles (69%) filled internally. These internal appointments also enabled a similar number of back-fill opportunities for other staff.

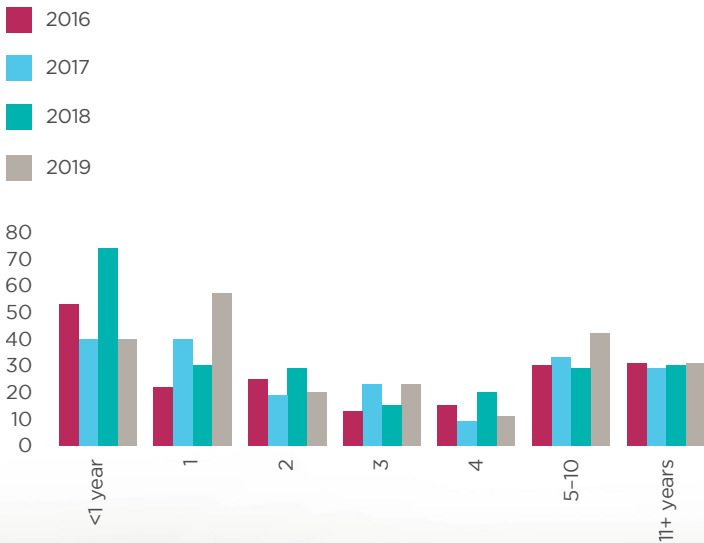
During 2019, 46 managers and team leaders undertook a tailored leadership development program. By developing our leaders we aim to drive higher engagement and performance and tight alignment with our values.

I feel a part of the family. My team leader and colleagues are very supportive and always willing to assist. My team consistently celebrate and recognition is provided on a regular basis.

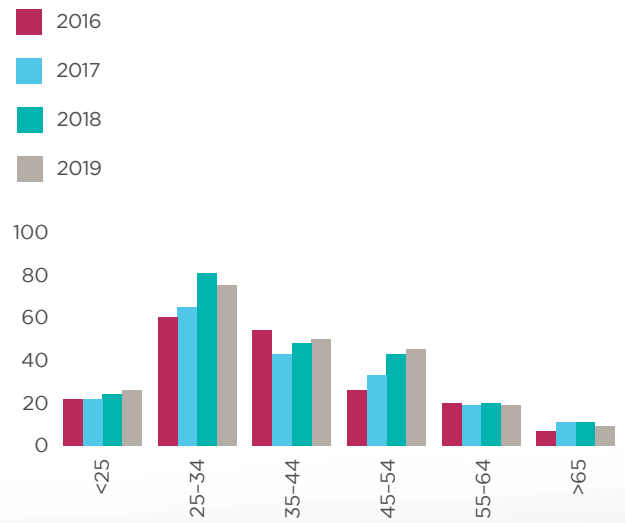
I find that working at Defence Health I am engaged, trusted and respected - both as an employee and as a person."

People are made to feel valuable at all levels of the business and the business is committed to genuinely caring for its employees.

Number of staff by length of service



Number of staff by age



Staff engagement highlights

87% recommend as a good place to work

80% level of trust

87% level of respect

98% get along with their team

90% proud to work at Defence Health



Health and wellbeing

Fostering a safe, healthy, happy and inclusive work environment is a key priority for Defence Health. The Wellbeing Strategy encompasses five pillars of health, being financial, career, physical, mental and social to promote a culture of total health. Activities to promote wellbeing included becoming more active through 'Steptember', encouraging staff sporting teams, financial wellbeing seminars and mental health and resilience training.

Staff have access to flexible working arrangements through adjustment to the structure of the working day, as well as ad hoc and ongoing work-from-home options. Health is also fostered through several free in-office health checks; dietitian sessions; skin checks; and flu shots.

Other initiatives to encourage health and wellness include:

- fresh fruit supplied in the office
- comprehensive health insurance for full-time and part-time employees
- employee assistance program
- availability of five days paid leave for employees experiencing domestic violence
- an additional 'wellbeing day' of annual leave for all staff.

Defence community support

Our network of Defence Community Relationship Officers raises brand awareness and understanding of health care in the Defence Community through its reach across all major Defence locations in Australia.

This year the team delivered education and awareness through:

- attendance at 30 Defence transition seminars nationally for Defence personnel preparing to leave full-time service
- engagement with key Defence stakeholders to ensure we understand current issues impacting the community
- connection and consultation with Open Arms and DVA to maintain awareness of ongoing needs of ex-serving veterans
- support to the Defence Community Organisation through Welcome Days, festive events and regional community centre events
- support to ADF Commanders and Units including access to education sessions and fostering local inclusion at family fun days on base, festive activities and other military specific events

- engagement with the Reserve community to enhance awareness and consideration of our ADF specific products
- ongoing consultation with ADF Financial Consumer Services Centre to align with ADF member needs
- partnership with the Defence Specials Needs Support Group and support funding for the Computers for Kids program and other regionally based family activities
- sponsorship of The Oasis Townsville, to increase awareness and support of the ex-serving community.

Ongoing connections and support at national and regional levels to community related organisations including Legacy, Working Spirit, Kookaburra Kids, Women Veterans Network Australia, and Australian Military Wives Choir.



Supporting ADF families at community events



Defence Health Foundation

The Defence Health Foundation has one clear purpose: to fund medical research that specifically benefits serving and ex-serving members of the Australian Defence Force and their families.

Established in 2011, the Foundation identifies target areas of research with input from Joint Health Command and the Department of Veterans' Affairs. The research that attracts funding focuses on contemporary and older veterans' issues, such as treatment of post-traumatic stress disorder, social networks, identity and ADF women's health.

Establishment grants of between \$30,000 and \$60,000 are made 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 2018, Defence Health Foundation committed to funding four medical research grants totalling \$160,000.

Governance

Defence Health is a company limited by guarantee, registered under the *Corporations Act 2001*. It is also registered under the *Private Health Insurance (Prudential Supervision) Act 2015* as a restricted 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 prudent risk and financial management culture. The governance culture and goal of best-practice corporate governance is underpinned by the five core values of trust, excellence, ownership, respect and community.

Defence Health is supervised by 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 of Directors is comprised of nine non-executive, independent directors and one associate director. The Associate Director Traineeship program was introduced in 2015 as an initiative to improve the representation of women in corporate Australia. The program gives talented women in the Defence community Board exposure and it has been recognised by senior leadership in the Australian Defence Organisation.

The Chief Executive Officer is appointed by the Board.

Directors' interests and committee memberships, as at 30 June 2019, are detailed below.



Carolyn Ireland MBA (Executive), CA, GAICD

Director since
October 2018

- Member – Investment Committee
- Executive – Australian Pharmaceutical Industries Ltd

Robin Burns FAICD

Director since
October 2018

- Member – Investment Committee
- Member – Risk Committee
- Member – Audit Committee
- Chairman – Indue Ltd
- Director – Weary Dunlop Rugby Foundation Ltd
- Director – 8IP Emerging Companies Ltd
- Independent member – External Compliance Committee, PIMCO Australia Ltd

Julie Blackburn BNurs GradDip Midwifery GAICD

Director since
December 2011

- Member – Risk Committee
- Member – Audit Committee
- Director – Karralika Programs Inc
- Chair – Defence Health Foundation

Garry Richardson FAICD

Director since
February 2011

- Member – Risk Committee
- Member – Audit Committee

WGCDR Amy Beck BE (Hons) LLB GAICD MIEAust

Associate Director
since October 2017

- Full-time serving member of the Royal Australian Air Force



**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
- Reserve Justice - Supreme Court 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 - Trigea Pty Ltd
- Member - Risk Committee
- Member - Audit Committee
- Member - Nomination and Remuneration Committee

**Alan Beckett
BEc FCA GAICD**

Director since
January 2006

- Chairman - Risk Committee
- Chairman - Audit Committee
- Member - Nomination and Remuneration Committee
- Director - Westbourne Capital Pty Ltd
- Director - Westbourne Credit Management Ltd
- Independent Member - Audit Committee of Note Printing Australia
- Director - Meat and Livestock Australia Ltd
- Director - Integrity Systems Company Ltd
- Director - MLA Donor Company Ltd

**Alice Williams
BComm FCPA
FAICD CFA
ISFA AIF**

Director since
February 2010

- Chairman - Investment Committee
- Director - Equity Trustees Ltd
- Director - Djerriwarrh Investments Ltd
- Director - Cooper Energy Ltd
- Director - Foreign Investment Review Board
- Director - Tobacco Free Portfolios 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



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.



➤ **Head of Human Resources** – Kelly Dickson AssDip HRM

➤ **Chief Financial Officer**
– Peter Papamihail
BBus (Acct)/ BBus
(IS) CPA

➤ **Chief Operating Officer** – Joanne Kadlecik AssDip BusMgmt GAICD

➤ **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

➤ **Head of Strategy and Actuarial Services**
– Barry Leung BCom
(Hons) FIAA CERA

➤ **Chief Marketing Officer** – Candice Liew (from July 2019) BBM (Mktg)

➤ **Company Secretary and General Counsel**
– Andrew Guerin
LLB BEc FGIA FCIS
DipFS(FinPlan)

Pictured left to right:

Kelly Dickson, Peter Papamihail, Joanne Kadlecik, Gerard Fogarty, Tanya Haines, Barry Leung, Candice Liew, Andrew Guerin.

Consolidated Concise Financial Statements

for the year ended 30 June 2019

Extract from the Financial Statements signed on 17 September 2019

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

Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Financial Statements

for the year ended 30 June 2019

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Corporate Governance Statement

Defence Health Limited (“Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company reports to the Australian Prudential Regulation Authority (APRA), which regulates and monitors the private health insurance industry. The Company also reports to the Australian Securities and Investments Commission which regulates its corporate and financial services obligations. The Company’s subsidiary, Defence Health Foundation Pty Ltd, is the trustee of Defence Health Foundation. Collectively, the Company and subsidiary are referred to as the “Group”.

Directors' Report for the year ended 30 June 2019

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2019.

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 details 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) LLM	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 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.
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 2021.
Mr Garry Albert Richardson FAICD	Appointed to the Board in February 2011. Current term expires at the Annual General Meeting to be held in 2022.
Group Captain Susan Stothart CSC BBus, Mmgmt, M Def Stud, Grad Dip Applied Finance, GAICD	Appointed to the board in November 2016. Current term expires at the Annual General Meeting to be held in 2020.
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 2021.
Ms Amy Beck WGCDR	The Board appointed an Associate Director, Ms Amy Beck in October 2017. While Ms Beck is not a Director, she attended three Board Meetings and two Risk and Audit Committee meetings.

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

Mr Michael John Bassingthwaighte AM FAICD	Appointed to the Board in July 2001. Current term expired at the Annual General Meeting held in 2018. Mr Bassingthwaighte was appointed Chairman in January 2004 and retired as Chairman in October 2011.
Mr Robin Buick Orr Burns FAICD	Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022.
Ms Carolyn Ireland MBA (Executive), CA, GAICD	Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022.

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 attendance by each Director are shown below.

	Board of Directors' Meetings		Investment Committee Meetings		Risk, Compliance and Audit Committee Meetings *		Risk Committee Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings	
Chair	G.H Garde		A J M Williams		A I Beckett		A I Beckett		A I Beckett		A Hambleton	
Meetings held	7		4		2		2		2		5	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
G H Garde	7	7	4	4							5	5
A I Beckett	7	7	2	2	2	2	2	2	2	2	3	3
J Blackburn	7	7			2	2	2	2	2	2		
A Hambleton	7	6									5	5
G Richardson	7	7	2	2	2	2	2	2	2	2		
S Stothart	7	7			2	2	2	2	2	2	5	5
A J M Williams	7	7	4	4								
R Burns	4	4	3	3			2	1	2	1		
C Ireland	4	4	3	3								
M J Bassingthwaighte	3	2									2	2

* This committee was split into the risk committee and audit committee from the November 2018 meeting.

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.

Objectives of the Company

The core purpose is to support members of the ADF and the 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 to:

- 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 embedded 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); and
- ▶ 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 \$38.5 million in the 12 months to 30 June 2019, an increase of \$20.7 million on the prior year.

During the year the number of health insurance policies increased by 2.4%. Defence Health has 141,700 policies at 30 June 2019. During the year, premium revenue increased by 8.2% to \$571.7 million and net benefits expenses increased by 3.1% to \$521.9 million. Improving margin performance and preserving capital was a key focus during the year in preparation for future benefit inflation exceeding premium increases.

Total management expenses of \$36.2 million were contained at 6.3% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income increased by 20.4% from \$16.8 million in the previous year to \$20.2 million due to our equity performance. The total return on the investment portfolio was 4.9%.

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 2019 was \$0.6 million, a decrease of \$5.6 million compared to prior year which was related to a legal settlement in favour of Defence Health as well as amendments to the accounting standards for revenue recognition of life insurance commission.

Dividends

As a company limited by guarantee, Defence Health 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.

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 materially exposed to any environmental regulations.

Directors' benefits

Directors' fees are disclosed in Note 20 and related party transactions disclosed in Note 19 to the full set of Financial Statements.

No Director received any benefit as a result of a contract made by the Company with the Director, or with a firm associated with the Director or in which the Director has a substantial financial interest.

Indemnification of Directors and Officers

The Company has paid premiums to indemnify each of the Directors and executive officers against any liability, claim, expense or cost which may arise as a result of work performed in their respective capacities, to the extent permitted by law.

Auditor's independence declaration

The auditor's independence declaration is included on page 27.

Rounding 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 to the nearest thousand dollars, unless otherwise indicated.


.....

Mr Alan I Beckett
Director
3 October 2019


.....

Major General Gregory H Garde AO RFD (Ret'd)
Director
3 October 2019

3 October 2019

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 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants

Consolidated income statement and other comprehensive income

for the financial year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Premium revenue	4	571,697	528,189
Direct benefits expense		(485,516)	(471,855)
Risk Equalisation Trust Fund expense		(31,861)	(30,051)
State ambulance levies		(4,501)	(4,311)
Net benefits expense		(521,878)	(506,217)
Unexpired risk reserve		3,939	8,885
Underwriting result		53,758	30,857
Employee expenses		(21,455)	(20,542)
Marketing expenses		(1,774)	(2,208)
IT and computing expenses		(4,198)	(2,895)
Transaction processing costs		(2,039)	(1,814)
Professional fees		(1,205)	(2,320)
Depreciation and amortisation expenses		(1,337)	(1,286)
Occupancy expenses		(1,157)	(1,079)
Industry subscriptions		(916)	(873)
Commissions		(404)	(370)
Agency legal costs		(304)	(297)
Other management expenses		(1,397)	(1,640)
Total expenses		(36,186)	(35,324)
Underwriting result after operating expenses		17,572	(4,467)
Investment income	4	20,257	16,831
Other revenues	4	625	6,209
Other expenses		-	(818)
Surplus for the year		38,454	17,755
Other comprehensive income		-	-
Total comprehensive income for the year		38,454	17,755

This consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents		21,167	22,505
Trade and other receivables		18,940	16,941
Contract assets		990	-
Financial assets	5	418,332	381,424
Total current assets		459,429	420,870
Non-current assets			
Contract assets		4,278	-
Property, plant and equipment		7,083	3,063
Intangible assets		1,285	1,376
Deferred acquisition costs		726	946
Total non-current assets		13,372	5,385
Total assets		472,801	426,255
Current liabilities			
Trade and other payables		58,145	55,352
Claims liabilities	6	66,757	63,665
Provisions		2,133	5,722
Total current liabilities		127,035	124,739
Non-current liabilities			
Trade and other payables		101	283
Provisions		2,512	2,792
Total non-current liabilities		2,613	3,075
Total liabilities		129,648	127,814
Net assets		343,153	298,441
Equity			
Contributed equity		43,346	43,346
Retained earnings		299,807	255,095
Total equity		343,153	298,441

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

Consolidated statement of changes in equity

for the financial year ended 30 June 2019

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
Balance at 1 July 2017	43,346	237,340	280,686
Total comprehensive income for the year	-	17,755	17,755
Balance at 30 June 2018	43,346	255,095	298,441
Adjust to opening balance due to adopting AASB 15	-	6,258	6,258
Total comprehensive income for the year	-	38,454	38,454
Balance at 30 June 2019	43,346	299,807	343,153

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

Consolidated statement of cash flows

for the financial year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Premium receipts	1	572,954	531,046
Benefits paid to and on behalf of fund members		(483,534)	(461,673)
Government and other levies paid		(4,488)	(4,280)
Payments to Risk Equalisation Trust Fund		(30,715)	(34,087)
Payments to suppliers and employees		(34,725)	(34,774)
Payments for deferred acquisition costs		(183)	(165)
Commission received		1,615	1,552
Settlement of legal claims		-	3,954
Net cash from operating activities		20,924	1,573
Cash flows from investing activities			
Purchase of investment securities		(262,214)	(328,225)
Proceeds on sale of investment securities		231,255	314,906
Interest and dividends received		13,964	14,823
Purchase of property, plant and equipment		(5,267)	(1,514)
Proceeds from disposal of property, plant and equipment		-	-
Net cash used in investing activities		(22,262)	(10)
Net increase/ (decrease) in cash and cash equivalents		(1,338)	1,563
Cash and cash equivalents at the beginning of the financial year		22,505	20,942
Cash and cash equivalents at the end of the financial year		21,167	22,505

This consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 of the Group for the year ended 30 June 2019 have been prepared in accordance with the Corporations Act 2001 and Accounting Standard 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 full financial statements were authorised for issue in accordance with a resolution of the Directors on 17 September 2019.

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 and rounded to the nearest thousand dollars.

1.3 Key judgements and estimates

The preparation of the financial statements requires management to make judgements, 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 income statement 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 not earned at the reporting date is recognised as an unearned premium liability.
- ii) Dividend and interest revenue from investments is recognised when the right to receive income is 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.

Under AASB 118, commission was recognised at a point when it could be measured with reasonable certainty (when a submission is lodged by the Company with the underwriter of the insurance policies), which was in some cases later than under AASB 15.

Under AASB 15, revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer (net of refunds) and excludes amounts collected on behalf of third parties. The Company typically satisfies its performance obligations at a point in time, and recognises revenue as and when the life, travel and accident insurance products are sold and the Company transfers control of the good to a customer.

Variable consideration

The Company applies judgement in estimating the related variable consideration, which is measured on a best estimate basis using the ‘expected value’ method, and which is recognised to the extent that a significant reversal will not occur (a constraint).

In making the estimate, the Company uses historical, current and forecast information that is reasonably available to it.

A higher constraint is applied when the results underlying these arrangements are highly susceptible to factors outside the Company’s influence or when the Company’s experience has limited predictive value.

Estimates of the variable consideration are assessed at the end of each reporting period to determine whether they need to be revised. The estimated commission is recognised as a contract asset and is reclassified to trade and other receivables when the underlying insurance premiums are determined.

The company has used the following assumptions:

- Lapse rates – use of a combination of historical and current data to forecast
- Commission rates – assumption that there is an increase based on inflation
- Discount rate used – risk free rate based on inflation plus risk margin.

1.5 Receivables

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.

Health insurance rebates receivable represents the amount claimed by the Company from the Government for members' entitlement to the Private Health Insurance Rebate.

Other receivables include prepaid expenses, commissions for life, travel and accident insurances, and other amounts due at the balance sheet date. These 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

Revenue, expenses and assets are recognised net of the goods and services tax (GST), except where GST on a purchase is not recoverable from the Australian Taxation Office (ATO). In such a case, the GST is recognised as part 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 reported on a gross basis in the statement of cash flows. 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 are recognised on an accruals basis.

1.9 Investments and other financial assets

The Company manages its investment portfolio to ensure adequate liquidity exists to match future health insurance liabilities, also having regard to operational cash flows. 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)

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 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 16 to the Full Financial Statements.

Held-to-maturity investments

This type of investment has fixed or determinable payments and fixed maturity dates (where the group has the positive intent and ability to hold to maturity). 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

This includes fixed income and equity trusts that are not traded in an active market; are 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. They 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 are designated as “at fair value through profit or loss”. Fair value is based on independent valuation for all assets for which a secondary market exists. Cash at bank and deposit products are 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 contract’ means a contract under which one party (the insurer) accepts significant 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 classified as such, it remains an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during this period.

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 sheet 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 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 cash flows relating to future claims, plus the additional risk margin, 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 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 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 future premium revenue. 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 (Note 11 to the Full Financial Statements) 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; and costs which the Company expects to incur in settling the incurred claims.

The expected payments to the Risk Equalisation Trust Fund 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 for outstanding claims, on the advice of the Appointed Actuary, is 6.0% (2018: 6.0%) and determined to give at least a 75% probability of adequacy.

The unexpired risk reserve in Note 12 to the Full Financial Statements was adopted on the advice of the Appointed Actuary and is determined with a risk margin of 2.7% (2018: 2.7%), and a 75% probability of adequacy.

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 *Private Health Insurance Act 2007* prohibits the Company from discriminating against an existing or prospective contributor on the basis of health, age, or claims history.

This 'community rating' principle means the Company cannot charge risk related premiums. However the individual risks are absorbed within the total portfolio which presents a relatively consistent and predictable total risk.

Concentration risk

Due to community rating, the Company is exposed to a possible concentration of insured people 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 where the risk exists. Past predictions are regularly measured against actual experience to gauge their effectiveness. The concentration risk is mitigated through the "high cost claims pool" administered by APRA, whereby high cost claims are partially funded by all insurers.

Claims management and claims provisioning risks

Note 2 explains how the Company determines the outstanding claims provision. Adequacy of the provision is also informed by the following controls:

- Regular review of payment patterns to ensure the timeliness of claims notification and payment remains within the assumed 12-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 forecasts to ensure the factors considered remain appropriate and effective.

b) Financial risks arising from insurance contracts

The Company is exposed to the risk of medical services inflation being greater than expected in relation to setting the contribution rates and schedule of benefits. This risk is substantially reduced through contracts between the Company and the majority of hospitals and medical practitioners which establish set charges for hospital and medical services.

c) Capital and regulatory risks

Prudential regulations designed to protect contributors require the Company to maintain adequate capital reserves. 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 the regulator (APRA) and monitors any developments that could impact 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. More than 95% of all claims are settled within 90 days. Once lodged and assessed, claims are generally subject to little variation.

Therefore, processed health insurance claims are not sensitive to inflation, interest rates or other time-value of money factors. Accordingly, no sensitivity analysis has been presented.

Note 4 – Revenue

	2019 \$'000	2018 \$'000
Continuing Operations		
Premium revenue pursuant to a contract of private health insurance	571,697	528,189
Investment revenue		
Interest revenue		
Bank deposits	621	503
Term deposits	4,693	4,941
Interest bearing securities	814	658
	6,128	6,102
Dividends		
Unlisted fixed income trusts	2,359	1,949
Unlisted equity trusts	5,822	5,919
	8,181	7,868
Realised gains/(losses) on disposal		
Unlisted fixed income trusts	(23)	(209)
Unlisted equity trusts	(539)	169
	(562)	(40)
Unrealised gains/(losses) of		
Unlisted fixed income trusts	2,458	(132)
Unlisted equity trusts	4,052	3,033
	6,510	2,901
Total Investment Revenue	20,257	16,831
Other revenue		
Life insurance revenue	-	1,021
Travel insurance revenue	437	400
Accident insurance revenue	5	6
Other revenue	183	4,782
	625	6,209
	592,579	551,229

Note 5 – Financial assets

	2019 \$'000	2018 \$'000
Current		
Term deposits (i)	211,962	192,462
Interest bearing securities (ii)	19,836	19,940
Units in fixed income trusts (ii)	78,852	72,942
Units in unlisted equity trusts (ii)	107,682	96,080
Total investments	418,332	381,424

(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

	2019 \$'000	2018 \$'000
Gross outstanding claims	62,073	58,603
Risk equalisation cost	2,336	2,651
Claims handling costs	435	435
Risk margin	1,913	1,976
Gross outstanding claims liability	66,757	63,665
Changes in the gross outstanding claims liabilities can be analysed as follows:		
Opening balance	63,665	54,896
Benefits incurred during the year	488,419	466,759
Benefits utilised during the year	(482,104)	(462,085)
(Unused)/over provision from prior year	(2,846)	4,491
Risk equalisation cost	(315)	(958)
Claims handling costs	0	(32)
Risk margin	(62)	594
Closing balance	66,757	63,665

The risk margin of 6.0% (2018: 6%) has been estimated to equate to at least 75% probability of adequacy (2018: 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:

- i) in the Directors' opinion, there are reasonable grounds to believe the Group is able to pay its debts as and when they become due and payable;
- ii) the attached financial statements and notes thereto have been derived from the full financial report of the company; and
- iii) in the Directors' opinion, the attached financial statements and notes thereto are in compliance with Accounting Standard 1039 'Concise Financial Reports'; and

Signed in accordance with a resolution of the Directors.

On behalf of the Board of Directors.



Mr Alan I Beckett

Director

3 October 2019



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

Director

3 October 2019

Independent Auditor's Report to the Members of Defence Health Limited

Opinion

We have audited the accompanying concise financial report of Defence Health Limited (the "Entity") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and related notes, derived from the audited financial report of the Entity for the year ended 30 June 2019.

In our opinion, the concise financial report of the Entity for the year ended 30 June 2019 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

The Financial report and Our Report Thereon

We expressed an unmodified audit opinion on the financial report in our report dated 17 September 2019.

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, in all material respects, complies with AASB 1039 *Concise Financial Reports*, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

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 Entity would be in the same terms if given to the directors as at the time of this auditor's report.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 3 October 2019

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