



Governance Structure

November 2017

Defence Health Governance Structure

The Board comprises eight non-executive Directors including a non-executive Chairman, and one associate Director. The Board has assessed that all Directors are independent.

Our Directors are appointed for a four-year term, after which they may be reappointed.

The Board of Directors is responsible for the governance and performance of the company and must ensure that its activities are carried out in compliance with all contractual, legal and regulatory obligations.

The powers and duties of the Board are specified in the company's Constitution, the *Corporations Act 2001*, the *Private Health Insurance Act 2007*, the *Private Health Insurance (Prudential Supervision) Act 2015* and other relevant legislation and law. The Board has developed and adopted a Board Charter which sets out:

- its specific powers and responsibilities
- the matters reserved to the Board and those delegated to the Chief Executive Officer, Company Secretary, Chief Risk Officer and Committees
- procedures aimed at ensuring the effective operation of the Board.

Key responsibilities of the Board include:

- participating in the development, and ultimate approval, of the strategic plan, budget and performance objectives
- overseeing the control and accountability systems
- agreeing on an appropriate risk management framework for our operations and maintaining a Board-approved risk appetite statement
- maintaining the risk management strategy
- shaping the risk culture of the company and identifying any desirable changes to the risk culture and ensuring they are actioned
- having an independent internal audit function with clearly documented processes and unfettered access to all areas of the business
- approving the business plan for implementation of strategic objectives
- ensuring senior management monitor and manage all material risks consistent with the strategic objectives, risk appetite statement and company policies
- complying with [the Australian Prudential Regulation Authority \(APRA\) Prudential Standard CPS 220 Risk Management](#);
- notifying APRA of any significant breach of, material deviation from, or inadequacy of the risk management framework
- approving and monitoring financial and other reports
- approving and monitoring the progress of major capital expenditure and divestitures and capital management

- maintaining a liquidity management plan and at least every two years, reviewing it to ensure compliance with the Solvency Standard
- maintaining a capital management policy and at least every two years, reviewing it to ensure compliance with the Capital Adequacy Standard
- monitoring senior management's performance and implementation of strategy, and ensuring that appropriate resources are available
- appointing and removing the Chief Executive Officer (CEO), Company Secretary and other members of the Executive team
- determining the remuneration and incentives for the Executives
- considering the appointment and removal of Directors to and from the Board and, where appropriate, through the Chairman, making recommendations to the Constitutional Members
- considering the amount of Directors' remuneration and, through the Chairman, making recommendations to the Constitutional Members
- ensuring the business is conducted ethically and transparently and that all decisions give priority to the interests of contributors.

The Chairman is responsible for ensuring the Board receives accurate, timely and clear information to enable it to evaluate the performance of management and the company and to make informed decisions.

The Company Secretary is responsible for ensuring compliance with Board procedures and provides advice to the Board, via the Chairman, on governance matters.

Director induction and continuing education

Directors are provided with detailed briefings by management on corporate strategy and current issues affecting the company and the private health insurance industry generally. All Directors are encouraged to meet with employees from all areas of the business.

In a commitment to continuous improvement, all Directors are encouraged to undertake ongoing professional development. Directors are provided with the resources and training to address skill gaps where they are identified.

Conflicts of interest

The Board maintains a register of Directors' interests that could potentially conflict with those of the company.

Directors who may have, or may be perceived to have, a material personal interest in a matter before the Board do not participate in discussions and abstain from voting on that matter.

Independent professional advice and access to company information

With the approval of the Chairman, Directors may independently (or collectively) seek advice from independent experts to assist with the discharge of their responsibilities.

The Directors also have access to all relevant company information and to the Executive management team.

Directors' remuneration

Directors' remuneration is determined each year. No retirement benefit, other than superannuation, is payable when a Director leaves office. The aggregate amount of Directors' and specified executives' remuneration is advised by the Constitutional Members and set out in the notes to the annual financial statements.

Defence Health Board committees

Each Board committee is comprised of four non-executive Directors, with the Chief Executive Officer and other executives attending meetings by invitation.

Risk, Compliance and Audit Committee

The role of the Committee is to assess:

- business exposure to risks and the effectiveness of the risk management processes
- the capacity of internal controls to ensure legal and regulatory compliance; the safeguard of assets; and integrity of financial information
- the financial condition of the fund
- the annual financial statements, including the suitability of the accounting policies adopted by the company.

Investment Committee

The primary role of the Committee is to set the investment strategy and to monitor its effectiveness in achieving targeted returns within the Board's risk appetite. The Investment Committee oversees compliance with the liquidity management requirements of the Capital Management Plan.

Nomination and Remuneration Committee

The Committee's role is to assist the Board and the Chairman on matters including Board composition and renewal; skill development; remuneration; and the appointment and remuneration of the CEO and executive managers.

Accountability

External audit

Deloitte Touche Tohmatsu audits the statutory financial report of the company in accordance with the *Corporations Act 2001*.

The Risk, Compliance and Audit Committee meets with the external auditors to:

- review the external audit plan, with regard to any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements
- consider the results and findings of the auditor, the adequacy of accounting and financial controls, and progress in implementing recommendations of the auditor
- review the financial report and any significant adjustments resulting from the external audit process.

Internal control framework

The Board is responsible for the overall internal control framework and for reviewing its effectiveness. While no internal control system will preclude all errors and irregularities, the systems provide appropriate assurance on:

- accuracy and completeness of financial reporting
- safeguarding of assets
- maintenance of proper accounting records
- compliance with applicable legislation, regulation and best practice
- identification and mitigation of business risks.

The key features of our control environment include:

- charters for the Board and each of its Committees
- clearly understood organisational structure with documented delegations of authority from the Board to executive management
- defined procedures for the approval of major transactions and capital expenditure.

Certification by Chief Executive Officer, Chief Financial Officer and Chief Risk Officer

The Chief Executive Officer, Chief Financial Officer, and Chief Risk Officer provide the Board with a self-assessed certification of the controls and activities of the company. The certification includes a statement on the integrity of the company's financial statements; that Board policies are adhered to; and that the company's risk management, compliance and control systems are operating efficiently and effectively in all material respects.

Internal audit and risk management

The internal audit function is performed by KPMG Audit & Risk Advisory Services in accordance with a risk-based internal audit plan. This plan is reviewed and approved annually by the Risk, Compliance and Audit Committee. All audit reports are reviewed by the Committee.

The risk management methodology in place is based on Australian and New Zealand Risk Management Standards AS/NZS ISO 31000:2009 Risk Management. A key component of the strategic risk management planning and operational reviews is the identification and evaluation of potential business risks.

Each year a full risk assessment and mitigation plan is prepared and endorsed by the Board. The risk assessment process includes input from the Board, executive and management.

The Board regularly receives updates on the status of key business risks.

Ethical standards

Our ethical conduct policy provides clear guidance on expected standards of behaviour, including:

- acting within the law
- maintaining consistency in dealings
- respect and dignity for others
- confidentiality and privacy
- honesty and fairness in the promotion of products and services
- fairness in competing
- equal opportunity
- harassment
- misuse of substances
- conflicts of interest
- gifts and entertainment
- social responsibility.

All employees understand they are personally responsible for:

- awareness of laws, regulations and policies that apply to their role
- not compromising our values or standards, regardless of pressure from internal or external forces
- directing their concerns to the appropriate person and offering suggestions for improvements where appropriate
- seeking advice and assistance regarding the application of ethical standards.

Managers are responsible for:

- acting as a positive role model
- ensuring others have the knowledge and resources they need to adhere to our standards and enforcing them fairly and consistently
- setting clear, measurable and challenging goals that promote ethical behaviour
- responding appropriately to those who have questions and concerns
- being personally accountable for their own integrity and shortcomings as well as those of the people they lead.