Our vision

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

Our 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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium revenue</td>
<td>528,189</td>
<td>468,336</td>
<td>59,853</td>
<td>12.8%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>30,857</td>
<td>13,214</td>
<td>17,643</td>
<td>133.5%</td>
</tr>
<tr>
<td>Management expense</td>
<td>(19,824)</td>
<td>(20,286)</td>
<td>462</td>
<td>2.2%</td>
</tr>
<tr>
<td>Management expense ratio</td>
<td>6.7%</td>
<td>6.4%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Net margin</td>
<td>(4,467)</td>
<td>(16,932)</td>
<td>12,465</td>
<td>73.6%</td>
</tr>
<tr>
<td>Investment income and other revenue and expenses</td>
<td>22,222</td>
<td>20,873</td>
<td>1,349</td>
<td>6.5%</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>17,755</td>
<td>14,443</td>
<td>3,312</td>
<td>23.0%</td>
</tr>
<tr>
<td>Total assets</td>
<td>426,255</td>
<td>407,787</td>
<td>19,468</td>
<td>4.5%</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>127,814</td>
<td>127,101</td>
<td>713</td>
<td>0.6%</td>
</tr>
<tr>
<td>Total capital reserves</td>
<td>298,441</td>
<td>280,686</td>
<td>17,755</td>
<td>6.3%</td>
</tr>
<tr>
<td>Number of policies</td>
<td>138,383</td>
<td>131,733</td>
<td>6,650</td>
<td>5.0%</td>
</tr>
<tr>
<td>Defence share</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>
While we provide valuable health benefits to members, we also care about the quality of our service and the value of the cover we provide. 96% of members say they are satisfied with their membership. (2018 Member Satisfaction Research)

96% of members

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.

$133.6 million extras benefits paid  up 16.5%
67,758 emails responded to
20,000+ Facebook fans
– almost 125,000 interactions on this social media platform
239,812 hospital days covered  up 16.6%
681 knees replaced  youngest age 21; oldest 89; average age 66
330 hips replaced  youngest age 21; oldest 92; average age 65
1.4 million extras claims processed

Defence Health
Industry

Benefits and premiums
Defence Health Benefits
% Premium
Industry Benefits
% Premium
Benefits
Defence Health
Industry

Coverage
Memberships
People Covered

Satisfaction index
Overall
Reliable
Friendly
Phone response
Online services
Payment of claims
Electronic claiming
Written response

Hospital related medical services fully covered
Defence Health
Industry

Extras benefits paid: $133.6m
Dental 47%
Optical 16%
Chiropractic and osteo 8%
Alternative therapies 5%
Physiotherapy 9%
Other 15%

1951 newborns
joined the Defence Health family – Charlotte and Ella were the most popular names for girls; William and Jack for boys

324,268 phone conversations with members
66.6% of calls were answered within 60 seconds

1.4 million extras claims processed
681 knees replaced
youngest age 21; oldest 89; average age 66
330 hips replaced
youngest age 21; oldest 92; average age 65
2018 satisfaction index
79.9 83.5
77.6 84.6 79.8 77.8
87.6
71.7

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.
Chairman’s statement

Ours is an unwavering commitment to the health and wellbeing of the Defence community.

The financial statements for 2017–18 demonstrate the continuing focus within the fund on the management of costs in a volatile environment.

Despite the heightened awareness of affordability issues in the private health sector, Defence Health has recorded strong membership growth. Defence families, Reservists and eligible Defence community members continue to find that Defence Health offers them the best value cover and service in the market.

At 30 June 2018, we had 291,221 people covered by 138,383 policies. While many larger funds are experiencing a loss of membership, the number of policies held by Defence Health increased by 5% over the year.

The inflow of new members boosted our premium revenue by 12.8% to $528.2 million. The average Defence Health premium increased by 5.97% on 1 April 2018 and this also contributed to this revenue growth.

The fund’s products and premiums are highly competitive against like-for-like products in the market. Defence Health continues to offer a comprehensive product range, and updates its products to optimise value to members and families.

A new comprehensive hospital product with some higher benefits was launched on 1 December and a range of hospital and extras product changes took effect from 1 April 2018.

The Board regularly reviews the adequacy of the capital reserves held by the fund on behalf of all members. As a not-for-profit company, the Board’s only interest is to maximise value to members. Defence Health does not distribute any dividends to shareholders.

The fund paid a total of $497.3 million in benefits during the year – an increase of 9.3% on the prior year.

Management expenses grew by $5.2 million to $35.3 million, primarily due to an increase in staff required to maintain service levels for the growing membership and professional IT expenses to strengthen the business’ core software platform.

Although slightly higher this year, our management expenses represent just 6.7% of premium revenue, with $0.94 for every $1.00 of premiums returned in benefits to members. Our management expense ratio continues to be significantly lower than the industry average of 9.1%.

The fund produced an underwriting loss (after management expenses) of $4.5 million. After investment income of $16.8 million and other revenue and expenses, the fund had a surplus of $17.8 million at balance date.

While managing the fund for a sustainable future using best-practice risk management and governance, we are also delivering life-changing benefits and health programs for members. The Healthy Weight For Life programs launched in April are an example of our commitment to make a positive difference to the health of members with chronic conditions.

These programs improve lives and may avoid the need for invasive medical procedures – and they are delivered at no cost to the member. Our industry will continue to face headwinds in the coming years. Political uncertainty exacerbates our challenges. However, Defence Health has a strong reputation and substantial capital base, and will continue to provide its unique brand of customer service and outstanding quality products.

Our staff and leaders are committed to the goal of being health insurer of choice for Defence families. The company has the agility and strength to respond to changing circumstances. The Board of Directors and I have complete confidence in our CEO, Gerard Fogarty and the Executive Management Team to lead us through the economic, commercial and political challenges that lie ahead.

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CEO statement

Keeping costs and premiums down.

Premiers increase every year because we’re paying more for our members’ health care and because our ageing membership needs more health treatment. Rising costs are impacting affordability and growth across the entire sector.

The federal Health Minister, Greg Hunt, announced some important health reforms in October 2017 that aim to increase affordability and transparency of private health insurance. Many of these reforms are set for implementation in 2019.

I remain positive that with further focused reform, we can restore the health sector to a more sustainable and affordable position. Both private and public patients must demand an effective reform agenda because private health is of public benefit.

As part of this reform agenda, extensive work is underway to improve the transparency of health insurance products for consumers. Across the entire industry, products will be categorised as gold, silver, bronze or basic in 2019.

The treatment covered in each category and the terminology will be consistent across all funds. Like-for-like comparisons will be easier for everyone.

Although affordability is a real concern across the sector, the membership of Defence Health continues to grow. That’s because people recognise the value we represent and our genuine commitment to the Defence community.

They also appreciate the outstanding service they receive from our dedicated and motivated staff. The annual member satisfaction ratings (96% in the latest survey) demonstrate the effort we put into our service and the respect we have for our members.

At Defence Health we seek to empower our members to have conversations with their doctors about medical fees. Members should not need to incur high out-of-pocket costs after discharge from hospital. Access Gap is a valuable feature of our hospital cover as it helps cap or eliminate out-of-pocket medical charges.

And our Healthshare digital directory helps members to find a doctor who is willing to use Access Gap.

I’m grateful to the Chairman and the Board of Directors for their prudent oversight of the company’s affairs. We have a diverse and skilled Board and me with a rigorous appraisal of our management proposals and clear strategic direction.

Major General Gerard Fogarty, AO (Ret’d)
Chief Executive Officer

About us

Defence Health – a small player punching above our weight

Defence Health is a private health insurer, providing hospital and general treatment (extras) insurance for Australian Defence Force (ADF) families and the wider Defence community.

In the years following World War II, public hospitals were struggling to cope with the increase in demand for health care. The National Health Act 1953 was established and private health insurers started entering the sector to help meet demand. In September 1953, Defence Health was registered with £27,000 in financial backing from the Army Canteens Service.

Today, more than 60% of elective surgery in Australia is funded by the 37 registered private health insurers. Instead of joining the lengthy public hospital waiting list, patients with private health insurance can have their surgery performed almost immediately in a private hospital.

Along with 19 other not-for-profit health funds, Defence Health is part of the 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 customers than the large for-profit funds.

As at 30 June 2018, 254,939 people were covered by Defence Health hospital cover (81% also held extras cover) and 36,282 had extras-only cover.
2017–2018

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.

The Defence Health dental network continues to provide members with more affordable access to quality dental care. In June 2018, 18.6% of all dental claims were at a network dentist. The network has almost 1700 dentists nationally and delivers savings to members through lower fees and no-gap for a check-up or clean (on most extras cover). On average, Defence Health members are charged 21% less for preventative treatment at a network dentist (compared with a non-network dentist).

Health Nav continues to help serving and ex-serving families in navigating health care, health resources and service providers. Health Nav can also guide ex-serving members in accessing Non-Liability Health Care and other entitlements from the Department of Veterans’ Affairs.

We’ve added another communication channel with the launch of webchat interaction for our sales team.

Our staff remain highly engaged at work and committed to delivering excellent service that has a tangible impact for members. In October 2017, Defence Health was one of five category finalists in the Australian Service Excellence Awards and recent survey results reveal industry-leading levels of staff engagement.

A new comprehensive hospital product, with some higher benefits, was launched on 1 December 2017.

This year we launched a digital directory of medical specialists – Healthshare – which identifies specialists who are willing to cap out-of-pocket expenses for their patients. This powerful tool helps members talk to their doctors about using Access Gap and cutting or eliminating unnecessary costs from their treatment.

Healthy Weight For Life complements our other health programs and is helping members with chronic conditions such as type 2 diabetes, chronic heart disease, and osteoarthritis to lose weight and better manage their condition.

We implemented government reform to allow immediate upgrade for members needing mental health treatment.

In all my dealings over the years with other organisations, I can honestly say that this has been the best experience I have had with customer service staff. They very much made me feel like I was a part of the Defence Health family.

Marilyn

Thank you for your assistance with changing my lifestyle habits. I have already had a follow up appointment with my specialist and he stated that my progress was impressive and there was now no need to have a knee operation.

Healthy Weight For Life graduate

Emily

I was put straight into hospital and got my hip fixed. It’s truly amazing what my cover has done for me – it has made my life so much better. I’m walking around without crutches and even cleaning the windows again!

Luisa

Defence Health staff are delighted to be among the best of the best in the 2017 Australian Service Excellence Awards.
Hospital cover

Private hospital cover ensures you can access day-surgery or overnight medical treatment as soon as you need it. The alternative is the public system, where it can take almost a year just to see a specialist, before being placed on a lengthy waiting list for public hospital treatment.

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

Hospital cover also contributes towards the fees charged by your medical practitioners for your in-hospital treatment. By using our Healthshare medical search engine, members can find a doctor (or ask their GP to refer them to one) who will use Access Gap to cap or eliminate their out-of-pocket medical expenses.

Defence Health negotiates competitive service and fee agreements with hospitals and we encourage all doctors to use Access Gap to help maximise the value of health insurance to our members.

In 2017–18, we fully covered 90.6% of all hospital related medical services provided to our members (compared with the 88.7% industry average).

In the same period we provided funding for 239,812 days of hospital treatment – up 16.6%. The hospital and medical charges totalled $363.7 million.

The payment of hospital benefits for the treatment of psychiatric conditions has almost doubled since 2013-14. And the benefits paid are typically for younger people requiring multiple hospital visits. For many families, they need their hospital cover when they least expect it.

Extra health benefits

Thanks to 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

Dental treatment, optical care, physiotherapy, audiology, podiatry, speech and occupational therapy are all examples of the general treatment that is included under extras cover. Unless part of an extended care plan, Medicare does not provide benefits for these services – but extras cover does make a valuable contribution.

Defence Health extras members also receive 100% cover for all state-appointed air, sea and road ambulance services nationally.

Extras benefits paid this year increased by 16.5% to $133.6 million.

Extra health benefits

Defence Health Travel Insurance is competitively priced and is available to travellers of all ages. Cover for emergency medical or hospital expenses when travelling overseas is unlimited. In addition, both the international and domestic travel plans provide an extensive schedule of benefits to cover a range of potentially costly and inconvenient events while travelling.

The cover is underwritten by Allianz Australia and includes special features for ADF members who may need to commence their travel from a location outside Australia. Both the international and domestic plans can also be extended to include snow, golf, cruise and adventure holidays.

Members of Defence Health or the ADF pay a lower premium for Defence Health Travel Insurance.

Extras benefits paid to June 2018 increased 16.5% to $133.6 million.
Financial performance

Premium revenue
Defence Health is in the fortunate position of maintaining strong membership growth. An additional 6,650 policies (5%) and a premium increase in April of 5.97% contributed to a 12.8% increase in premium revenue to $528.2 million.

Our pricing philosophy is to keep premiums as low as possible. The premium on our exclusive ADF Total Package achieves our objective of being the best offer in market for serving ADF families and Reservists.

Being a not-for-profit fund, Defence Health can deliver maximum premium value for members, with no margin necessary for shareholder dividends.

Benefits
In 2017-18, the value of benefits paid to or on behalf of members increased by 9.3% to $497.3 million. A high number of ‘switchers’ have been attracted to Defence Health for not only the competitive hospital and extras premiums, but also the generous extras benefits payable (extras benefits totalled $133.6 million, an increase of 16.5%).

Management expenses
Management expenses include all the costs of running the business, such as salaries, office space, heat, light, power, depreciation and equipment repairs. These expenses increased by $5.2 million to $35.3 million, but are still just 6.7% of premium revenue (compared with 6.4% last year). The main drivers of the increase are the recruitment of a significant number of additional staff in the contact centre and substantial IT expenditure required to strengthen the core software platform that manages our membership data and transactions.

Surplus
For 2017-18 the fund had a net loss of $4.5 million on the private health insurance business and an operating surplus of $17.8 million (largely due to the impact of investments and other income). The operating environment is extremely competitive, with intense claims cost pressure from an ageing population.

Investments, other income and capital
The fund’s investment portfolio returned income of $16.8 million over the year, $2.6 million lower than the prior year. The earnings represent a 4.3% return (last year 5.2%), largely due to lower performance from the growth assets in the portfolio.

Other income of $6.2 million includes a 4.3% return (last year 5.2%) largely due to lower performance from the growth assets in the portfolio.

Member services
The contact centre in our Melbourne office is the engine room of our private health insurance business.

We engage with our members who are spread right around Australia. Our members rely on the expertise, empathy and knowledge of our Member Services team – especially our ADF members who are often on the move and in remote locations.

Members can engage with us over the phone, through the post or email, or online. Whatever channel of communication they choose, we ensure it’s a personal experience and that members feel like they’re part of the family.

Member satisfaction
Defence Health is renowned for its industry-leading member satisfaction ratings. Satisfaction is measured independently each year by Discovery Research. Around 15 other insurers participate in the research which gathers the responses of approximately 20,000 members collectively.

The survey measures key service variables, such as telephone service, payment of claims, online services, reliability and friendliness, which are weighted and reported as an index. In 2018, our Customer Satisfaction Index was 79.9 with 96% of members saying they are satisfied with their membership.

We look at every conversation, letter, email and direct payment of health benefits as an opportunity to delight our members.

Defence Health is also seen as a highly trustworthy private health insurer. In the latest Roy Morgan Net Trust Score industry survey (March 2018), Defence Health ranked fourth in terms of the net trust the respondents had in the fund.

As reported by the Commonwealth Ombudsman, the percentage of complaints made about Defence Health is very low, relative to other funds. In 2017-18, the Ombudsman received 52 complaints from Defence Health members. That represents 1.3% of the complaints about all health insurers and is lower than our share of the market (2%).

In October 2017, Defence Health was recognised by the Customer Service Institute of Australia as a finalist in the Australian Service Excellence Awards.
Our people

They’re a passionate and committed bunch. And they know their stuff. Government regulation of health insurance demands a high level of expertise and attention to detail from the customer-facing staff. Given they are often dealing with people at vulnerable times of their lives, they must also demonstrate their empathy and knowledge of how the health system works. So it’s vital that we attract and retain highly skilled people who can deal with the detail and earn our members’ trust.

Culture

Defence Health has a genuine commitment to maintaining its highly engaged, inclusive and diverse workplace. There is a culture of respect and excellence which is nurtured from the first day someone joins the company.

The cultural value proposition extends beyond posters on the walls and the badges of honour worn by staff. It is a thoroughly embedded culture which extends from the top down.

Staff engagement is also prominent within the workplace culture. A more engaged and motivated workforce is happier about coming to work – and in a good headspace to deliver excellent customer service.

Formal assessment of staff engagement is undertaken annually and the externally managed survey receives a high rate of participation – 93% in 2018. Overall staff engagement scored 73% in the 2018 survey.

Employment

At 30 June, our workforce of 227 had grown by 19% on the prior year. This figure is made up of 138 full-time staff (where most of the growth occurred), 48 part-time, 32 casuals and 9 directors on the Board. Overall, the gender composition of the workplace is 65% women and of all promotions during the year, 89% were awarded to women. Our Board of Directors has also met its target, with 50% of directors being women and its Associate Director Traineeship program targeting women.

During the year there were 69 employee departures, representing a turnover rate of 30%. Retention remains strong with 26% of staff at 30 June having worked with us for five years or more.

Our recruitment, performance, training and remuneration policies all support our diversity and gender equality. Staff are specifically questioned on the issue of gender equality in the engagement survey, and all staff received equal opportunity and anti-harassment training in November 2017. We report annually to the Workplace Gender Equality Agency and our report is available from the Agency website.

Staff engagement highlights

- 78% level of trust
- 81% organisational priority to wellbeing
- 91% my manager supports equality between women and men
Health and wellbeing
The holistic wellbeing strategy at Defence Health focuses on total health through five key pillars: emotional, physical, financial, social and career health. During the year staff engaged in activities and initiatives to support the strategy, such as after-work sporting teams, financial counselling seminars, cooking demonstrations by trained dietitians, and free in-office skin checks, health checks and flu shots.

Additional wellness modules have been incorporated in the online learning platform, Learn Connect, and staff continue to take advantage of the Mindfulness At Work online resilience training.

Staff can also access flexible working arrangements to help them achieve work, life and family balance. The policy allows for flexibility in how working hours are structured, and also for ad hoc or ongoing work-from-home arrangements.

We’re extremely confident about our progress and performance in the wellbeing space. At year end we were awaiting the outcome of a submission to the Australian Business Awards to be formally acknowledged as an Employer of Choice.

Defence community relationships and support
Our network of regional representatives is on the ground in all major Defence locations in Australia. Apart from promoting Defence Health to eligible members of the Defence community, the team builds relationships with members and provides support to Defence organisation and community events.

Wherever we go, we continue to reinforce the message that ‘Defence community’ includes the extended family of a serving member. Parents, brothers, sisters and even grandchildren of a serving member are all pleasantly surprised when they learn they are eligible to join the fund.

This year we have engaged with the Defence community through:
- support to regional family rooms and community centres, and the activities hosted in these facilities to foster a strong sense of belonging and support
- re-investment in ADF members through unit, formation and family activities aligned with health and wellbeing
- support to base family fun days, Christmas, Easter and ANZAC Day to foster local inclusion
- ‘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
- leading engagement with the Reserve community at all levels
- authentic connection with our members to listen to their needs and inform them about our products and private health care.

I just want to send a quick ‘thank you’ for attending our centre today and providing morning tea. I love that we could introduce you to our Defence families, who you have provided such wonderful support to in the past. I would like to acknowledge the professional, yet casual way you show that Defence Health is part of our community.”

Stephanie – Coordinator, Robertson Barracks Family Group, Northern Territory

Defence Health Foundation
The Defence Health Foundation was established eight 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 for PTSD, diagnosis and follow-up of concussion after mild traumatic brain injury, and longitudinal pathways in the development of physical and psychological disorders in military personnel and veterans.

The Foundation encourages research that will address the physical and mental health issues that impact current and ex-serving ADF members and of equal importance, the impact on their families.

As an example of funded research, N-acetylcysteine, a precursor to antioxidant glutathione and common antidote to paracetamol overdose, shows great promise as a treatment antidote to paracetamol overdose, antioxidant glutathione and common antidote to paracetamol overdose, shows great promise as a treatment for PTSD. It offers the hope of a truly effective treatment to the many thousands of current and former service personnel who are still suffering with PTSD. The Foundation is providing a significant booster grant to continue the research over the next three years.

Prevention, treatment and rehabilitation are especially important to the Foundation. 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 2017-18, Defence Health Foundation committed to funding three medical research grants totalling $306,448.

Governance
Defence Health is a registered 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 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 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 of Directors is comprised of eight 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.

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 Bassingthwaighte
AM FAICD
Director since July 2001
Chairman January 2004 – October 2011
Member – Nomination and Remuneration Committee
Director – Illawarra Retirement Trust
Director – Coordinaire Ltd

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 – Risk, Compliance and Audit Committee
Member – Nomination and Remuneration Committee
Hon Justice – Supreme Court of Victoria
Member – Defence Force Discipline Appeals Tribunal

GPCAPT Susan Stothart CSC B Bus M Mgt, M Def Stud, Grad Dip Applied Finance, GAICD
Director since November 2016
Member – Nomination and Remuneration Committee
Member – Investment Committee
Director – Westbourne Capital Pty Ltd
Director – Westbourne Credit Management Ltd
Deputy Chair – Dept. Defence Audit and Risk Committee
Member – RAAF Active Reserve
Director – Trigea Pty Ltd

Alan Beckett
BEc FCA GAICD
Director since January 2006
Chairman – Risk, Compliance and Audit Committee
Member – Investment Committee
Director – Westbourne Investments Ltd
Director – Victorian Funds Management Corporation
Director – Cooper Energy Ltd
Director – Integrity Systems Company Ltd
Director – MLA Donor Company Ltd

Alice Williams
BComm FCFA FAICD CFA ISFA AIF
Director since February 2010
Chairman – Investment Committee
Director – Equity Trustees Ltd
Director – Djerrinwarrh Investments Ltd
Director – Standby Army Reserve
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

Pictured left to right:
Garry Richardson, Julie Blackburn, Michael Bassingthwaighte, Amy Beck, 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
- Chief Operating Officer - Joanne Kadlecik AssDip BusMgmt
- 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

Consolidated Concise Financial Statements
for the year ended 30 June 2018

Extract from the Financial Statements signed on 19 September 2018

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 2018

Contents
- Corporate Governance Statement 22
- Directors’ Report 23
- Auditor’s Independence Declaration 27
- Consolidated Income Statement and Other Comprehensive Income 28
- Consolidated Statement of Financial Position 29
- Consolidated Statement of Changes in Equity 30
- Consolidated Statement of Cash Flows 30
- Notes to the Financial Statements 31
- Directors’ Declaration 36
- Independent Auditor’s Report 37

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

Pictured left to right:
Peter Papamihail, Kelly Dickson, Barry Leung, Joanne Kadlecik, Gerard Fogarty, Tanya Haines, Andrew Guerin, Tiffany Conway.

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.
Directors’ Report for the year ended 30 June 2018

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2018.

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 Michael John Bassingthwaighte AM FAICD
  Appointed to the Board in July 2001. Current term expires at the Annual General Meeting to be held in 2018. Mr Bassingthwaighte was appointed Chairman in January 2004 and retired as Chairman in October 2011.

- Mr Alan Ian Beckett BEc FCA, GAICD
  Appointed to the Board in January 2006. Current term expires at the Annual General Meeting to be held in 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 2018.

- Group Captain Susan Stothart CSC BBus, Mmgt, 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. Group Captain Stothart is a Director of Trigea Pty Ltd.

- Ms Alice Joan Morrice Williams BComm FCFA FAICD CFA ISFA AIF
  Appointed to the Board in February 2010. Current term expires at the Annual General Meeting to be held in 2021.

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

Ms Catherine Walsh MMgt MAICD

Ms Amy Beck WGCDDR

The Board appointed an Associate Director, Ms Catherine Walsh, in October 2015. Retired as Associate Director on 10 September 2017.

The Board appointed an Associate Director, Ms Amy Beck in October 2017. Whilst Ms Beck is not a Director, she attended five Board Meetings and three Risk, Compliance & Audit Committee Meetings.
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 $17.8 million in the 12 months to 30 June 2018, an increase of $13.8 million on the prior year.

During the year the number of health insurance policies increased by 5.0%. Defence Health has 138,383 policies at 30 June 2018. During the year, premium revenue increased by 12.8% to $528.2 million and net benefits expenses increased by 12.8% to $506.2 million. The industry continues to experience significant upward pressure on benefits both from increased utilisation and underlying cost.

Total management expenses of $35.3 million were contained at 6.7% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income decreased by 13.3% from $19.4 million in the previous year to $16.8 million due to our equity portfolio. The total return on the investment portfolio was 4.3%.

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 2018 was $6.2 million, an increase of $4.8 million compared to prior year which was related to a legal settlement in favour of Defence Health.

**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.

**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
2 October 2018

Major General Gregory H Garde AO RFD (Ret'd)
Director
2 October 2018

2 October 2018

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 2018, 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

Peter A. Caldwell
Partner
Chartered Accountants
Consolidated statement of financial position
as at 30 June 2018

<table>
<thead>
<tr>
<th>Notes</th>
<th>2018 $'000</th>
<th>2017 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>22,505</td>
<td>20,942</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>16,941</td>
<td>16,236</td>
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<tr>
<td>Financial assets</td>
<td>389,424</td>
<td>365,245</td>
</tr>
<tr>
<td>Total current assets</td>
<td>420,870</td>
<td>402,423</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,743</td>
<td>3,063</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,468</td>
<td>1,376</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>1,153</td>
<td>946</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>5,364</td>
<td>5,385</td>
</tr>
<tr>
<td>Total assets</td>
<td>426,255</td>
<td>407,787</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>55,088</td>
<td>55,352</td>
</tr>
<tr>
<td>Claims liabilities</td>
<td>54,896</td>
<td>63,665</td>
</tr>
<tr>
<td>Provisions</td>
<td>14,219</td>
<td>2,792</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>124,203</td>
<td>124,739</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,563</td>
<td>283</td>
</tr>
<tr>
<td>Provisions</td>
<td>1,291</td>
<td>2,792</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>3,894</td>
<td>3,075</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>127,101</td>
<td>127,814</td>
</tr>
<tr>
<td>Net assets</td>
<td>280,686</td>
<td>298,441</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributed equity</td>
<td>43,346</td>
<td>43,346</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>237,340</td>
<td>255,095</td>
</tr>
<tr>
<td>Total equity</td>
<td>280,686</td>
<td>298,441</td>
</tr>
</tbody>
</table>

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 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 $'000</th>
<th>2017 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 July 2016</td>
<td>43,346</td>
<td>233,399</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>3,941</td>
</tr>
<tr>
<td>Balance at 30 June 2017</td>
<td>43,346</td>
<td>237,340</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>17,755</td>
</tr>
<tr>
<td>Balance at 30 June 2018</td>
<td>43,346</td>
<td>255,095</td>
</tr>
</tbody>
</table>

Contributed Equity Retained Earnings Total Equity

$'000 $'000 $'000

Balance at 1 July 2016 43,346 233,399 276,745
Total comprehensive income for the year - 3,941 3,941
Balance at 30 June 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

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 2018

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 consolidated general purpose financial statements of the Group for the year ended 30 June 2018 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 financial statements were authorised for issue in accordance with a resolution of the Directors on 15 September 2018.

1.2 Basis of preparation

The general purpose 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 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

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, or paying for, 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.
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-takings;

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 in 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 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 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% (2017: 4.5%) and determined to give at least a 75% probability of adequacy.

The unexpected 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% (2017: 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

<table>
<thead>
<tr>
<th></th>
<th>2018 $’000</th>
<th>2017 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium revenue pursuant to a contract of private health insurance</td>
<td>528,189</td>
<td>468,336</td>
</tr>
<tr>
<td>Investment revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>503</td>
<td>445</td>
</tr>
<tr>
<td>Term deposits</td>
<td>4,941</td>
<td>5,258</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>658</td>
<td>235</td>
</tr>
<tr>
<td>Investment revenue</td>
<td>6,102</td>
<td>5,938</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlisted fixed income trusts</td>
<td>1,949</td>
<td>3,125</td>
</tr>
<tr>
<td>Unlisted equity trusts</td>
<td>5,919</td>
<td>3,973</td>
</tr>
<tr>
<td>Dividends</td>
<td>7,868</td>
<td>7,098</td>
</tr>
<tr>
<td>realised gains/(losses) on disposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlisted fixed income trusts</td>
<td>(209)</td>
<td>(657)</td>
</tr>
<tr>
<td>Unlisted equity trusts</td>
<td>169</td>
<td>36</td>
</tr>
<tr>
<td>Realised gains/(losses) of</td>
<td>(40)</td>
<td>(621)</td>
</tr>
<tr>
<td>Unlisted fixed income trusts</td>
<td>(132)</td>
<td>(1,071)</td>
</tr>
<tr>
<td>Unlisted equity trusts</td>
<td>3,033</td>
<td>8,073</td>
</tr>
<tr>
<td>realised gains/(losses) of</td>
<td>2,901</td>
<td>7,002</td>
</tr>
<tr>
<td>Total Investment Revenue</td>
<td>16,831</td>
<td>19,417</td>
</tr>
<tr>
<td>Other revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance revenue</td>
<td>1,021</td>
<td>1,038</td>
</tr>
<tr>
<td>Travel insurance revenue</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Accident insurance revenue</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Other revenue</td>
<td>4,782</td>
<td>7</td>
</tr>
<tr>
<td>Other revenue</td>
<td>6,209</td>
<td>1,456</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>551,229</td>
<td>489,209</td>
</tr>
</tbody>
</table>

Note 5 – Financial assets

<table>
<thead>
<tr>
<th></th>
<th>2018 $’000</th>
<th>2017 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term deposits (i)</td>
<td>192,462</td>
<td>203,339</td>
</tr>
<tr>
<td>Interest bearing securities (ii)</td>
<td>19,940</td>
<td>10,048</td>
</tr>
<tr>
<td>Units in fixed income trusts (ii)</td>
<td>72,942</td>
<td>65,504</td>
</tr>
<tr>
<td>Units in unlisted equity trusts (ii)</td>
<td>96,080</td>
<td>86,354</td>
</tr>
<tr>
<td>Total investments</td>
<td>381,424</td>
<td>365,245</td>
</tr>
</tbody>
</table>

(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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross outstanding claims</td>
<td>58,603</td>
<td>49,438</td>
</tr>
<tr>
<td>Risk equalisation cost</td>
<td>2,651</td>
<td>3,609</td>
</tr>
<tr>
<td>Claims handling costs</td>
<td>435</td>
<td>467</td>
</tr>
<tr>
<td>Risk margin</td>
<td>1,976</td>
<td>1,382</td>
</tr>
<tr>
<td>Gross outstanding claims liability</td>
<td>63,665</td>
<td>54,896</td>
</tr>
</tbody>
</table>

Changes in the gross outstanding claims liabilities can be analysed as follows:

- Opening balance: 54,896
- Benefits incurred during the year: 466,759
- Benefits utilised during the year: (462,085)
- Unused provision from prior year: 4,491
- Risk equalisation cost: (958)
- Claims handling costs: (32)
- Risk margin: 594

Closing balance: 63,665

The risk margin of 6.0% (2017: 4.5%) has been estimated to equate to at least 75% probability of adequacy (2017: 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) 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; and

ii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and

iii) in the Directors’ opinion, the attached financial statements and notes 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.

[Signature]

Mr Alan I Beckett
Director
2 October 2018

[Signature]

Major General Gregory H Garde AO RFD (Ret’d)
Director
2 October 2018
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 statements of Defence Health Limited for the year ended 30 June 2018 complies with Accounting Standard AASB 1039 Concise Financial Reports.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 2 October 2018
Contact Us

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