CHUBB

CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT

31 DECEMBER 2019

CHUBB INSURANCE NEW ZEALAND LIMITED

FINANCIAL REPORT 2019

CONTENTS

DIRECTOR'S REPORT

The Board of Directors present the annual report of Chubb Insurance New Zealand Limited ("the Company") incorporating the financial statements and the Auditor's report for the year ended 31 December 2019.

In accordance with section 211(3) of the Companies Act 1993, the shareholders have passed a unanimous resolution that the annual report of the Company include only the signed financial statements, the Director's report for the accounting period completed and an Auditor's report.

The Board of Chubb Insurance New Zealand Limited authorised these financial statements presented on pages 9 to 54 for issue on 8 April 2020.

For and on behalf of the Board of Directors

....	....
Graeme Evans	Carol Campbell
20 April 2020	20 April 2020

Independent auditor's report

To the shareholder of Chubb Insurance New Zealand Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Chubb Insurance New Zealand Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

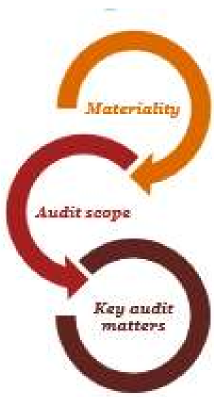
We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm provides an assurance service over the solvency return for the Company. In addition, our Firm has cyber, crime and travel insurance arrangements with the Company. The travel insurance arrangement covers partners and employees within the Firm. Those arrangements were contracted on normal terms within the ordinary course of trading activities of the Company. Subject to certain restrictions, partners and employees of our firm may individually deal with the Company on normal terms within the ordinary course of trading activities of the Company. These matters have not impaired our independence as auditor of the Company.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $1.97 million, which represents approximately 1% of premium revenue.

We chose premium revenue as the benchmark because, in our view, it is a key metric used in assessing the performance of the Company and is a generally accepted benchmark for insurance companies. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue related benchmarks.

We have determined that there is one key audit matter:

- Valuation of outstanding claims

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims *2019 $230,087,000, 2018 $165,792,000* Refer to notes 2.5, 3 (ii), 4(i) and 22 of the financial statements, which also describe the elements that make up the balance. We considered the valuation of outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that the Company makes in determining the balance. We comment on the most judgemental aspects of these elements below. *(a) Central estimate* The estimation of outstanding claims involves significant judgement given the size of the liability and inherent uncertainty in estimating the expected future payments for claims incurred. The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which relatively small changes in assumptions can result in material impacts on the estimate. Claims estimates in respect of catastrophe events and individually significant and complex claims may involve additional uncertainty, particularly those occurring closer to the year end, given the materiality of amounts involved, and the inherent difficulty in initially assessing amounts until further evidence emerges. Judgement also arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Company as there is generally less information available in relation to these claims. Classes of business where there is a greater length of time between the initial claim event and settlement (such as professional indemnity and other liability classes) tend to display greater variability	Our procedures performed in conjunction with our in-house actuarial experts included: (a) Central estimate: • Assessed the design and tested the operating effectiveness of certain controls within the claims function • Tested claims by selecting a sample of case estimates and claim payments, and agreeing the key elements to underlying documentation • Tested the reconciliation of source data to inputs used in the actuarial models • For individually significant and complex claims, we understood the basis of the case estimate made and assessed the judgments made by management for reasonableness using corroborative evidence (including any initial loss estimate reports prepared by independent loss adjusters), the Company's prior experience and our own industry knowledge • Evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods • Assessed key actuarial assumptions used in the model, such as claims and expected loss ratios, and expected frequency and severity of claims. We considered these assumptions by comparing them with our expectations based on the Company's experience, current trends and benchmarks, and our own industry knowledge. (b) Risk margin Assessed the approach to setting the risk margin in light of the requirements of the accounting standards and our expectations based on the Company's experience, current trends and benchmarks and our own industry knowledge. (c) Discounting to present value Tested the discount rates applied for classes of business where there is a greater length of time between the initial claim event and settlement.

between initial estimates and final settlement.

(b) Risk margin

In addition to the central estimate, the outstanding claims balance includes a risk margin which relates to the inherent uncertainty in that estimate.

Management consider the Probability of Adequacy (PoA) in determining the appropriate risk margin. PoA is a measure of the estimated sufficiency of the outstanding claims including a risk margin in light of that variability.

(c) Discounting to present value

The estimate of expected future payments is discounted to present value using a risk-free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle, particularly for those classes of business where there is a greater length of time between the initial claim event and settlement (such as professional indemnity and other liability classes).

We compared the discount rates applied to external market data and the payment patterns to historical settlement trends.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to the shareholder in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 April 2020

Auckland

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Premium Revenue			
Direct		193,531	163,952
Inwards reinsurance		3,659	2,819
Life premium		39	40
		197,229	166,811
Outwards reinsurance expense		(83,625)	(69,291)
Net premium revenue		113,604	97,520
Claims expense		(199,818)	(62,514)
Reinsurance and other recoveries		160,326	22,008
Net claims incurred	9	(39,492)	(40,506)
Other underwriting expenses	5	(43,253)	(34,829)
Other underwriting revenue	6	10,497	9,933
Underwriting result		**41,356**	**32,118**
Investment revenue	7	3,774	3,149
General and administration expenses		(945)	(662)
Profit before income tax		**44,185**	**34,605**
Income tax expense	8	(12,372)	(9,768)
Profit after tax attributable to equity holders		**31,813**	**24,837**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax attributable to equity holders		**31,813**	**24,837**

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

Chubb Insurance New Zealand Limited

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	10	12,817	30,304
Financial assets at fair value through profit or loss	13	124,999	95,209
Receivables including insurance receivables	11	59,915	43,867
Reinsurance and other recoveries receivable	12	194,084	127,565
Reinsurance and other recoveries receivable – Life insurance business		1	9
Reinsurance and other recoveries receivable – Life assurance fund		701	752
Deferred insurance costs	15	43,093	35,039
Right-of-use lease assets	17	2,036	-
Property, plant and equipment	18	1,405	442
Other assets	19	53	58
TOTAL ASSETS		**439,104**	**333,245**
LIABILITIES			
Trade and other payables	20	36,066	19,970
Current tax liabilities	8	2,453	1,976
Outstanding claims	22	230,087	165,792
Outstanding claims – Life insurance business		2	13
Policyholder liabilities – Life assurance fund		1,000	1,074
Provisions	23	469	429
Unearned premiums	21	110,038	93,959
Unexpired risk liability	16	57	275
Lease liabilities	24	2,081	-
Deferred tax liability	8	1,806	1,737
TOTAL LIABILITIES		**384,059**	**285,225**
NET ASSETS		**55,045**	**48,020**
EQUITY			
Contributed capital	25	16,900	16,900
Retained profits	26	38,145	31,120
TOTAL EQUITY		**55,045**	**48,020**

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

Graeme Evans

20 April 2020

Carol Campbell

20 April 2020

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Note	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total $'000
Balance at 1 January 2018		**16,900**	**-**	**26,283**	**43,183**
Total comprehensive income for the year		-	-	24,837	24,837
Total amount attributable to equity holders		16,900	-	51,120	68,020
Dividends paid	26	-	-	(20,000)	(20,000)
Balance at 31 December 2018	25,26	**16,900**	**-**	**31,120**	**48,020**
Adjustment on adoption of NZ IFRS 16 *Leases*	2.23	-	-	212	212
Balance at 1 January 2019		**16,900**	**-**	**31,332**	**48,232**
Total comprehensive income for the year		-	-	31,813	31,813
Total amount attributable to equity holders		16,900	-	63,145	80,045
Dividends paid	26	-	-	(25,000)	(25,000)
Balance at 31 December 2019	25,26	**16,900**	**-**	**38,145**	**55,045**

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	*2019* *$000*	*2018* *$000*
Cash Flows From Operating Activities:			
Premiums received		198,660	181,262
Reinsurance and other recoveries received		93,895	68,060
Interest received		5,295	4,484
Other underwriting revenue		9,206	10,111
Claims paid		(131,542)	(97,253)
Outwards reinsurance paid		(78,538)	(75,213)
Commission expenses paid		(26,699)	(24,649)
Other underwriting expenses		(17,949)	(18,452)
Income tax paid		(11,826)	(7,950)
Interest paid		(66)	-
Net cash inflows /(outflows) from operating activities	31	40,436	40,400
Cash Flows From Investing Activities:			
Proceeds from sale of financial assets		23,745	29,894
Purchase of financial assets		(55,194)	(44,672)
Payments for plant and equipment		(1,169)	(204)
Net cash inflows/(outflows) from investing activities		(32,618)	(14,982)
Cash Flows From Financing Activities:			
Dividends paid		(25,000)	(20,000)
Payments relating to principal element of lease liabilities		(305)	-
Net cash outflows from financing activities		(25,305)	(20,000)
Net increase/(decrease) in cash and cash equivalents held		(17,487)	5,418
Cash and cash equivalents at beginning of year		30,304	24,886
Cash and cash equivalents at end of year	10	**12,817**	**30,304**

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 December 2019

Contents of the notes to the financial statements **Page**

1. GENERAL INFORMATION

The financial statements are for the reporting entity Chubb Insurance New Zealand Limited. The Company is incorporated and domiciled in New Zealand. The address of the registered office is: CU 1-3, Shed 24, Princes Wharf, Auckland, New Zealand.

The principal activities of the Company during the year were the underwriting of general insurance and subsequent payment of claims. It is a for-profit entity registered under the Companies Act 1993, an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and it is a Licenced Insurer under the Insurance (Prudential Supervision) Act 2010.

These financial statements have been authorised for issue by the Board of Directors on 8 April 2020. The Directors have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(2.1) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with International Financial Reporting Standards (IFRS), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for for-profit entities. The financial statements are prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial statements, with the principal exceptions being the measurement of financial assets at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant, are disclosed in note 4.

The financial statements are presented in New Zealand dollars, and values are rounded to the nearest thousand dollars, or in certain cases, the nearest dollar.

(i) New accounting standards adopted by the Company

The Company has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2019:

NZ IFRS 16 Leases
The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. A summary of changes to the Company's accounting policies resulting from the adoption is disclosed in note 2.23.

(ii) Interpretations to published standards that are not yet effective and have not been early adopted by the Company

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts*, which currently permits a wide variety of practices. NZ IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts. It applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. NZ IFRS 17 requires a current measurement model, where estimates are re-measured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit on of the contract. The new standard is effective 1 January 2021 (to be deferred to 1 January 2023). This standard will have a significant impact on the accounting treatment of the Company's insurance contracts and financial statements presentation. The full implications of this standard will be assessed by a local and global implementation team but its final impact will not be determined until interpretations and regulatory responses to the new standard are developed.

Subject to any changes to regulation or legislation which may be made in response to the new standard, there may also be an impact on the determination of capital requirements and income tax.

Definition of Material – Amendments to NZ to IAS 1 and IAS 8

This standard amends NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by primary users. The new standard is effective 1 January 2020.

(2.2) Foreign Currency Translations

(i) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Company's functional currency and presentation currency.

(ii) Transactions and balances
Foreign currency transactions during the year are recorded in New Zealand dollars using the rate of exchange prevailing at the date of the transaction. At balance date, amounts receivable and payable in foreign currency are translated at the exchange rate prevailing at that date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

(2.3) Premium Revenue

Direct premium and inwards reinsurance premiums comprise amounts charged to the policyholders or other insurers, including government levies but excluding amounts collected on behalf of third parties, principally GST, Fire and Emergency levy and Earthquake Commission premium. The earned portion of premiums received and receivable, including unclosed business is recognised as revenue. Premiums on unclosed business are brought to account by reference to the previous year's premium processing delays with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten. Unearned premium is determined by apportioning the premium written in the year on a daily pro rata basis.

(2.4) Outwards Reinsurance

Premiums ceded to reinsurers are recorded as an outwards reinsurance expense and are recognised in the statement of profit or loss and other comprehensive income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance and other recoveries are recognised as revenue within net claims incurred. Recoveries receivable on outstanding claims are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(2.5) Outstanding Claims

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

The expected future payments are discounted to present value using the risk free rate. The details of rates applied are included in Note 4.

A risk margin is applied to the outstanding claims liability and reinsurance and other recoveries, to reflect the inherent uncertainty of the central estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% sufficiency level.

(2.6) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(2.7) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit or loss in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning of the corresponding premium revenue. The components of acquisition costs are outlined in note 5.

(2.8) Unexpired Risk Liability

At each reporting date the Company is required to perform a liability adequacy test and immediately recognise any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future claims costs including risk margins. The liability adequacy test is calculated using 4 portfolios of broadly similar risk based on the clients and product offerings, being Property and Casualty, Accident and Health, International Personal Lines, and Combined Division.

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 to future claims covered by current insurance contracts.

If the present value of the expected future cash flow relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Company applies a risk margin to achieve the same probability of sufficiency for future claims as is applied to the outstanding claims liability (note 2.5 and note 4).

The entire deficiency, if any, is recognised immediately in the statement of profit or loss and other comprehensive income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the balance sheet as an unexpired risk liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.9) Assets Backing General Insurance Liabilities

As part of its investment strategy, the Company monitors the maturity dates of its investment portfolio in comparison with the expected pattern of future cash flows arising from general insurance liabilities.

All financial assets are deemed to back insurance liabilities.

The following policies apply to assets held to back general insurance liabilities.

Financial Assets

The company classifies its financial assets in the following measurement categories:
- Those to be measured subsequently at fair value through profit and loss, and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(i) Financial assets at fair value through profit or loss

The Company's investment strategy is to invest in debt securities and to manage and evaluate the portfolio on a fair value basis. The company is primarily focussed on fair value information and uses that information to assess the assets' performance and to make decisions. Financial assets are not held to collect contractual cash flows, nor is it held both to collect contractual cash flows and to realise proceeds from sale. As required by NZ IFRS 9 Financial Instruments, the Company's portfolio of financial assets is categorised as fair value through profit or loss on initial recognition. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

Investments are initially recorded at fair value being the cost of acquisition excluding transaction costs and are subsequently measured to fair value at each reporting date. Assets that are subsequently measured at fair value through profit or loss are not subject to impairment considerations under the expected credit losses model. Debt securities are valued using independently sourced valuations as described in note 13.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ('regular way' transactions) are recognised at trade date, being the date on which the Company commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(ii) Receivables including insurance receivables

Receivables, being receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts, are recognised at amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment.

Impairment is calculated as a provision for expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Company expect to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The assessment of ECLs reflect judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECLs. For other receivables, the provision is based on the portion of lifetime ECLs that result from possible defaults events within 12 months from reporting date unless there has been a significant increase in credit risk since initial recognition in which case the provision is based on lifetime ECLs.

Any increase or decrease in the provision for impairment is recognised in the statement of profit or loss and other comprehensive income. When a receivable is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credits against expenses.

(2.10) Income Tax

The income tax expense for the year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and changes in unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply in the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(2.11) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other costs, not directly attributable such as repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

- Leasehold improvements – over the period of lease
- Plant and equipment - over 2 to 8 years

An asset's residual value, useful life and amortisation method is reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.12) Impairment of Non-Financial Assets

Assets, other than financial assets, that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(2.13) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Cash and cash equivalents are carried at face value of the amounts deposited. The carrying amounts approximate their fair value.

(2.14) Leases

2019
The Company leases various offices and equipment. Rental contracts are typically made for fixed periods of one to six years but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on the relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Company's leases, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company will use a single discount rate for leases with a tenure of 5 years and less and another for leases with a tenure over 5 years. These discount rates will be determined by reference to risk-free interest rates adjusted for the credit risk of the Company.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to the lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company does not have any low-value leased assets.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

2018
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

(2.15) Investment and other revenue recognition

Investment revenue is measured to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Investment revenue relating to cash is recognised using the effective interest method and bonds using the applicable coupon rate.

Dividends are recognised as income in the profit or loss when the right to receive payment is established.

Commission revenue is recognised in the profit and loss from the attachment date of the associated reinsurance contract over the period of indemnity in accordance with the expected pattern of the incidence of risk ceded.

(2.16) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at cost. Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually settled within 30 days of recognition for unrelated creditors and within 90 days for related parties.

(2.17) Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.18) Employee Benefits

(i) Wages, Salaries and Annual Leave
Liabilities for employees' entitlements to wages and salaries, annual leave and other current employee entitlements expected to be paid within one year are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Payments of non-accumulating sick leave are recognised when the leave is taken.

(ii) Long Service Leave
A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using interest rates at the reporting date on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

(iii) Pension obligations
The Company operates defined contribution pension plans. The scheme is funded through payments to a trust administered fund. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits to employee service in the current and prior periods.

(iv) Share- based compensation
Share-based compensation benefits are provided to employees under the corporate long-term incentive plan which provides for the granting of restricted stock awards and restricted stock options. The grants are for stock in Chubb Limited (the Ultimate Parent entity). For restricted share awards the value of shares on the grant date is expensed over the period that the shares vest.

The fair value of the share options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(v) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(vi) Bonus plans
The Company recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. A provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(2.19) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate.

Make good provision
The Company is required to restore leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.20) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

(a) Operating activities include all transactions and other events that are not investing or financing activities;
(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash;
(c) Financing activities are those activities that result in changes in size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to capital structure are included in financing activities; and
(d) Cash is considered to be cash on hand, current accounts in banks, and deposits on call, net of bank overdrafts.

(2.21) Goods and Services Tax

Revenue, expenses and certain assets are recognised net of the amount of GST, except where the GST is not recoverable. In these circumstances, the GST is included in the related asset or expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as receivable or a payable in the Statement of Financial Position.

(2.22) Comparatives

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures in the current year. Changes to comparative figures were not material.

(2.23) Changes in accounting policies

The Company has adopted NZ IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.14.

On adoption of NZ IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.4%.

Practical expedients applied
In applying NZ IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019, and
- Excluding initial direct costs for the measurement of right-of-use asset at the date of initial application.

The Company has also elected not to reassess whether a contract is, or contains, a lease as at the date of initial application. Instead, for contracts entered before the transition date the Company relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2.23) Changes in accounting policies (continued)

Measurement of lease liabilities

	2019 $000
Operating lease commitments disclosed as at 31 December 2018	2,456
Less GST included in operating lease commitment disclosure	(320)
Discounted using the incremental borrowing rate as at the date of initial application	(194)
Other adjustments	(80)
Lease liability recognised as at 1 January 2019	1,862
To be incurred in no more than 12 months	266
To be incurred in more than 12 months	1,596
	1,862

Measurement of right-of-use assets
The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Adjustments recognised in the balance sheet on 1 January 2019
The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by $1,861,835
- Creditors and accruals – decrease by $211,933
- Lease liabilities – increase by $1,861,835k

The net impact on retained earnings on 1 January 2019 was an increase of $211,933.

(2.24) Life claims provision

The Life Claims provision comprises the estimated cost of reported Life claims at balance sheet date. Claims are recognised when the liability to the policyholder under the policy contract has been established.

(2.25) Policyholder liabilities - Life assurance fund

Life insurance contact liabilities are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles.

(2.26) Life Statutory fund

The company relies on the exemptions in regulations 9(1)(a) and 11(1)(a)(iii) of the Insurance (Prudential Supervision) Regulations 2010 from the requirement to maintain a statutory fund in respect of its life insurance business.

3. RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's operations are exposed to a number of key risks including insurance risk and financial risk. The Company's policies and procedures in respect of managing these risks are set out below.

(i) Financial risk

Cash and cash equivalents, premiums receivable, interest receivable, reinsurance recoveries on paid claims, other receivables, financial assets at fair value through profit or loss, amounts payable to reinsurers and other creditors and accruals are exposed to financial risk.

The Company's operations are exposed to a variety of financial risks including market risk (including currency and interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

The Company's principal investment objective is to ensure that funds will be available to meet its primary insurance and reinsurance obligations. Within this broad liquidity constraint, the investment portfolio's structure seeks to maximise return subject to specifically-approved guidelines of overall asset classes, credit quality, liquidity and volatility of expected returns. As such, the investment portfolio is invested primarily in investment-grade fixed income securities as measured by the major rating agencies. The Investment Committee conducts quarterly reviews with the fund manager on the portfolio's performance and ensures investment mandates as set by the Company are adhered to.

(a) Market Risks
Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments.

i) Market risk - currency risk
The Company's exposure to foreign currency risk is in relation to cash and cash equivalents, insurance receivables, reinsurance and other recoveries receivable and trade and other payables.

At reporting date, the Company has the following financial assets and liabilities exposed to movements in foreign exchange rates.

	2019	2018
	$NZ'000	$NZ'000
Insurance receivables:		
United States dollars	1,315	504
Euro dollars	300	-
Australian dollars	227	193
Canadian dollar	108	61
Fijian dollar	-	84
	1,950	842
Reinsurance and other recoveries receivable:		
United States dollars	9	62
Australian dollar	-	116
Fijian dollar		214
Euro dollars	42	-
	51	392
Trade and other payables:		
Australian dollar	626	840
British pound sterling	66	-
Fijian dollar	52	-
Euro dollars	-	75
United States dollar	-	604
	744	1,519

The Company monitors its exposure to foreign currency risk on a quarterly basis and has a policy of settling all invoices on a timely basis, the majority relating to related parties, thereby reducing exposure to movements in foreign exchange rates.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

The following sensitivity analysis is based on foreign currency risk exposures in existence at year end. At year end, had the New Zealand dollar moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

Judgements of reasonably possible movements:	Profit after tax higher/(lower)		Equity higher/(lower)	
	2019 $NZ'000	2018 NZ'000	2019 NZ'000	2018 $NZ'000
NZD/USD + 10%	(86)	2	(86)	2
NZD/USD - 10%	105	(3)	105	(3)
NZD/EUR + 10%	(20)	(5)	(20)	(5)
NZD/EUR - 10%	24	6	24	6
NZD/AUD +10%	25	34	25	34
NZD/AUD - 10%	(31)	(41)	(31)	(41)

A sensitivity of 10% is considered reasonable with reference to the actual movement in exchange rates over the last 3 years.

The overall increase in the impact on profit after tax between 2019 and 2018 reflects the net increase in the balances at each year end date.

ii) Market risk – interest rate risk
The Company's exposure to market interest rates relates primarily to their impact on market values of financial assets at fair value through profit or loss and on interest earned on cash and cash equivalents and these financial assets. Interest rate risk is disclosed in note 10 Cash and cash equivalents and note 13 Financial assets at fair value through profit or loss.

The Company manages its exposure to interest rate risk through adopting a conservative investment philosophy and investing largely in fixed interest products, predominantly corporate, government and semi-government bonds.

(b) Credit risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents, premiums receivable, interest receivable, reinsurance recoveries on paid and outstanding claims, other receivables and financial assets at fair value through profit or loss. The Company's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company minimises credit risk in relation to premiums receivable by incorporating a credit approval process for Broker appointments and including a credit risk assessment of the majority of insureds in its underwriting guidelines.

Similarly, reinsurance recoveries on paid and outstanding claims are controlled through most reinsurance arrangements being placed with related companies, along with the requirement that reinsurance only be placed with reinsurers approved by the Chubb Global Reinsurance Security Committee. In addition, the Company monitors the credit rating of reinsurers on a continual basis and requires the majority of recoveries be settled within the month following payment of the direct claim by the Company.

Credit risk in relation to cash and cash equivalents, interest receivable and financial assets at fair value through profit or loss is minimised by maintaining a diversified portfolio which minimises the risk of impact from default of a counterparty. The investment mandate places limits on allowable holdings of a single issue and issuers, with reference also to credit ratings.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(b) Credit risk (continued)

The following table provides information on credit risk exposure for cash equivalents, interest receivable, financial assets at fair value through profit or loss and reinsurance and other recoveries receivable. This table classifies assets according to S&P counterparty ratings, with AAA being the highest possible rating. Premiums receivable and other receivables is excluded from this analysis as they comprise smaller balances which would not be individually material and are not able to be readily rated.

	AAA	AA	A	BBB	BB/ Unrated	Total
2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	6,556	2,564	3,697	-	-	12,817
Accrued interest receivable	123	775	72	41	27	1,038
Financial assets at fair value through profit or loss	11,264	99,398	7,448	4,515	2,374	124,999
Total interest-bearing financial assets	17,943	102,737	11,217	4,556	2,401	138,854
Reinsurance and other recoveries receivable	74	188,362	5,474	174	-	194,084
2018						
Cash and cash equivalents	2,763	2,790	24,751	-	-	30,304
Accrued interest receivable	138	647	74	20	20	899
Financial assets at fair value through profit or loss	10,537	72,340	6,934	3,740	1,658	95,209
Total interest-bearing financial assets	13,438	75,777	31,759	3,760	1,678	126,412
Reinsurance and other recoveries receivable	-	127,292	3	91	179	127,565

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet the Company's insurance and reinsurance obligations. The Company's cash position is monitored daily and funding requirements are managed through a structured investment portfolio that allows flexibility in funding.

Liquidity risk controls include quarterly actuarial reviews of insurance reserves, matching asset and liability duration and cash flow monitoring.

The maturity profile of the estimated net discounted outstanding claims liability based on the remaining term to payment at 31 December is provided in the table below.

	1 year or less	1 to 2 years	2 to 5 years	More than 5 years	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
2019	25,560	6,334	7,509	2,162	41,565
2018	32,832	3,820	3,114	840	40,606

The maturity analysis of the Company's financial assets and financial liabilities is included in note 14a.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(ii) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. This includes underwriting, catastrophe, claims concentration and claims estimation risks. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of the outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payments will exceed the carrying amount of the provision established.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability around the expected outcome will be. In addition, a more diversified insurance company is less likely to be affected by a change in any one specific portfolio.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

Risk management forms part of management's responsibilities and is integrated into the Company's planning process.

The Company's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial, likely to be faced by the Company. The Board, aided by the Board Audit and Risk Committee directs and monitors implementation, practice and performance throughout the organisation. Key processes and controls include:

- employment of consistent, disciplined pricing and risk selection in order to maintain a profitable book of business;
- a formal underwriting review process to periodically test compliance standards and guidelines;
- employment of catastrophe loss and risk modelling techniques to ensure that risks are well distributed and those loss potentials are contained within our financial capacity;
- centrally coordinated reinsurance management facilitates appropriate risk transfer and efficient cost-effective use of external reinsurance markets. Reinsurance is placed with a select group of only the most financially secure and experienced companies in the reinsurance industry;
- the maintenance and use of information systems provide up to date and reliable data, thus ensuring integrity of data to management and financial models;
- claims management team ensures there is consistent approach to reserving practices and the settlement of claims;
- all operating units and functional areas are subject to review by a corporate audit team that regularly carries out operational audits; and
- specific guidelines and mandates with respect to investment assets including an independent Investment Committee.

(b) Terms and conditions of insurance and inwards reinsurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The majority of direct insurance contracts written are entered into on a standard form basis. Inwards reinsurance contracts are subject to substantially the same conditions. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(c) Concentration of insurance risks

The Company's exposure to concentrations of insurance risk is mitigated by a diverse portfolio of business written across a broad range of locations and industries.

The Company has a specific concentration risk associated with natural catastrophes, primarily earthquakes. This risk is mitigated through a combination of underwriting strategy, management of risk accumulations and ensuring adequate catastrophe reinsurance cover is in place to limit exposure to any single event.

3. RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

(d) Development of claims
There is a possibility that changes may occur in the estimate the Company's obligations at the end of a contract period. The tables in note 22(d) show the estimates of total claims outstanding for each underwriting year at successive year ends.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) The ultimate liability arising from claims made under non-life insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the reporting date. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported (IBNR), incurred but not enough reported (IBNER) and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements which are based on numerous factors. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure, however, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. Liability and other long tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Claims in respect of property and other short tail classes are typically reported soon after the claim event, and hence tend to display lower levels of volatility. During the year the company incurred a large and complex loss. Given the complexity and limited information available at 31 December 2019, the estimation of the claim is subject to significant valuation judgement. The valuation at 31 December 2019 has been based on the available information to the Company at reporting date and is subject to change as further information becomes available to the Company. The impact of further information could be material. The estimation techniques and assumptions used in determining the outstanding claims provision and the associated reinsurance and other recoveries are described below.

(a) Valuation approach
Outstanding claims provisions are estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine outstanding claims provisions for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and these results are used to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts, and the effect of recent or pending litigation on future claims settlements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) The ultimate liability arising from claims made under non-life insurance contracts (continued)

Central estimate
The central estimate represents the best estimate of the present value of expected future net claims cost, including allowance for claims IBNR and the development of reported claims IBNER. The central estimate represents the best estimate of the mean of the distribution of possible outcomes for the outstanding claim liabilities and hence contains no deliberate bias towards over or under estimation.

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and qualitative information, including the factors referred to above. Projections are based on both historical experience and external benchmarks where relevant.

Central estimates are first calculated gross of any reinsurance and other recoveries. Then a separate estimate is made of the amount recoverable from reinsurers based on the gross outstanding claims provision.

The outstanding claim provision is discounted at risk free rates of return to reflect the time value of money. An allowance for future claim handling expenses is also incorporated in the central estimate of outstanding claims.

Risk margin
As it is impossible to predict future claims outcomes with certainty, a judgement has to be made as to the level of reserves that offers a reasonable probability of adequacy. Setting this level is the responsibility of the Directors. The additional probability of adequacy is provided by the addition of a risk margin. The overall risk margin was determined allowing for uncertainty of the central estimate. Uncertainty was analysed for all classes of business combined taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models and the general insurance environment. The estimate of uncertainty is greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims. The assumptions regarding uncertainty for each class are applied to the gross and net central estimates, and the results are aggregated to arrive at an overall provision which is intended to have a 75% (2018: 75%) probability of sufficiency.

(b) Assumptions

The following assumptions were made in determining the outstanding claims provisions:

	2019	**2018**
Discounted average weighted term to settlement	1.45 years	0.91 years
Indirect claims handling expense rate	2.4%	3.3%
Discount rate	1.3%	1.8%

The processes used to determine these assumptions are as follows:

Discounted average weighted term to settlement
The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns.

Indirect claims handling expense rate
The indirect claims handling expense rate is calculated separately by class of business based on historical indirect claims handling expenses as a percentage of historical payments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Assumptions (continued)

Inflation rate

To reflect future claim payments, allowance must be made, either implicitly or explicitly, for future claim inflation. The inflation rate is implicit in the valuation models used so no explicit inflation rate is required. Superimposed inflation is that component of claims inflation which is over and above economic inflation, for example it may be caused by changes in legislation or judicial attitudes to the size of liability awards. This is also implicitly allowed for in the valuation models, where it is assumed future superimposed inflation will be at the average level experienced in the past.

Discount rate

Projected inflated claims payments are discounted for the time value of money using risk-free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligation.

(c) Sensitivity Analysis

The Company conducts sensitivity analysis to quantify the exposure to changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variables will impact the performance and equity of the Company. The accompanying table shows how a change in each assumption will affect the outstanding claims liabilities net of reinsurance and shows an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions. As no explicit inflation rate is used in the valuation no sensitivity analysis is able to be carried out for a change in the inflation rate.

Impact of changes in key variables

		2019		**2018**	
	Movement in variable	**P&L Net of Reinsurance $'000 increase/ (decrease)**	**Equity $’000 increase/ (decrease)**	**P&L Net of Reinsurance $'000 increase/ (decrease)**	**Equity $’000 increase/ (decrease)**
Variables:					
Discounted average weighted term to settlement	+0.5 years	(259)	186	(354)	255
	-0.5 years	260	(188)	357	(257)
Indirect claims handling expense rate	+1%	2,279	(1,641)	1,620	(1,166)
	-1%	(2,279)	1,641	(1,620)	1,166
Discount rate	+1%	(587)	423	(361)	260
	-1%	602	(433)	368	(265)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(ii) Assets arising from reinsurance contracts

Reinsurance recoverable includes the balances due to the Company from reinsurance companies for paid and unpaid losses and loss expenses based on contracts in force, net of uncollectible reinsurance - determined based upon a review of the financial condition of the reinsurers and other factors.

The recognition of reinsurance recoverable requires two key judgements. The first involves the estimation of the gross IBNR to be ceded to reinsurers. Ceded IBNR is developed as part of the loss reserving process and consequently, its estimation is subject to similar risks and uncertainties as the estimation for gross IBNR. The second judgement involves the estimation of the amount of the reinsurance balance that ultimately will not be recovered from reinsurers due to insolvency, contractual dispute, or for other reasons. Amounts estimated to be uncollectible on unpaid losses are reflected in the reinsurance IBNR.

(iii) Unclosed business

Due to insufficient information available at the end of a reporting period to accurately identify the business written with date of attachment of risk prior to the reporting date, provision is made at the end of the financial year to estimate the Company's unclosed business. Unclosed business is estimated using historical data which measures effective date of the transaction against processing date. From this data patterns are modelled and ultimate written premium projected for months where the full amount of the effective premium is yet to be processed. This estimation is adjusted for the impact of recent trends and events and consistency checks are made against historical written premium.

	2019 $'000	2018 $'000

5. OTHER UNDERWRITING EXPENSES

	2019 $'000	2018 $'000
Acquisition expense	7,043	3,019
Underwriting expense	7,608	6,886
Commission expense	28,819	24,649
(Decrease)/Increase in Unexpired risk liability	(217)	275
	43,253	34,829

6. OTHER UNDERWRITING REVENUE

	2019 $'000	2018 $'000
Commission Revenue	10,497	9,933
	10,497	9,933

7. NET INVESTMENT REVENUE

	2019 $'000	2018 $'000
Interest	5,433	4,516
Investment and other income before fair value losses	5,433	4,516
Net realised and unrealised losses on financial assets	(1,659)	(1,367)
	3,774	3,149

8. INCOME TAX

	2019 $'000	*2018 $'000*
(i) Statement of profit or loss and other comprehensive income		
Current income tax		
Current tax on profits for the year	12,124	8,707
Adjustment for current tax of prior periods	179	55
Total current tax expense	12,303	8,762
Deferred income tax		
Decrease/(increase) in deferred tax assets	(907)	(477)
(Decrease)/increase in deferred tax liabilities	976	1,483
Total deferred tax expense	69	1,006
Income tax expense	12,372	9,768

(ii) Reconciliation of income tax expense to prima facie tax payable

	2019 $'000	2018 $'000
Profit before income tax	44,185	34,605
Prima facie tax payable at 28% (2018: 28%)	12,372	9,689
Expenditure not deductible for tax purposes	13	24
(Over)/Under provision in prior year	(13)	55
Income tax expense	**12,372**	**9,768**

(iii) Deferred tax

	Statement of profit or loss		**Statement of financial position**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Depreciation	18	79	102	84
Accrued expenses	395	400	1,550	1,155
Employee benefits	43	(2)	88	45
Right-of-use assets	341	-	341	-
Lease Liabilities	109	-	109	-
Deferred acquisition cost	(975)	(1,483)	(3,996)	(3,021)
Deferred tax, net	(69)	(1,006)	(1,806)	(1,737)

8. INCOME TAX (continued)

Amounts recognised in the statement of financial position

	2019 $'000	2018 $'000
Total deferred tax assets	2,190	1,283
Total deferred tax liabilities	(3,996)	(3,020)
Deferred tax liabilities, net	(1,806)	(1,737)

Movement in deferred tax:		
At 1 January	(1,737)	(731)
Credited/(Charged) to statement of profit or loss and other comprehensive income	(69)	(1,006)
Closing balance at 31 December	(1,806)	(1,737)

Movements in current tax:		
At 1 January	1,976	1,164
Charged to profit or loss – current year	12,303	8,762
Payments to tax authorities	(11,826)	(7,950)
Closing balance at 31 December	2,453	1,976

Imputation credits		
Balance at the beginning of the year	46,304	37,657
Tax payments (net of refunds)	11,719	7,835
Movement in current tax provision	477	812
	58,500	46,304

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

9. NET CLAIMS INCURRED

	2019			2018		
	Current Year $'000	Prior Year $'000	Total $'000	Current Year $'000	Prior Year $'000	Total $'000
Gross claims expense						
Direct	212,042	(11,954)	200,088	93,143	(31,507)	61,636
Discount movement	(4,013)	3,743	(270)	(878)	1,756	878
Discounted gross claims expense	208,029	(8,211)	199,818	92,265	(29,751)	62,514
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(160,596)	66	(160,530)	(58,802)	37,626	(21,176)
Discount movement	(623)	827	204	10,700	(11,532)	(832)
Discounted reinsurance and other recoveries revenue	(161,219)	893	(160,326)	(48,102)	26,094	(22,008)
Net claims incurred	46,810	(7,318)	39,492	44,163	(3,657)	40,506

The development in the prior year incurred claims has resulted from a reassessment of gross and reinsurance forecast ultimate loss ratios based on actual claims development in the year ended 31 December 2019.

10. CASH AND CASH EQUIVALENTS

	2019 $'000	2018 $'000
Cash at bank and on hand	6,260	27,541
Deposits at call	6,557	2,763
	12,817	30,304

(a) Cash at bank and on hand

These are interest bearing. There is restricted cash balance of $907,852 as at 31 December 2019 (2018: $899,260). This is funds withheld for a foreign reinsurer.

(b) Deposits at call

Deposits at call are bearing floating interest rates averaging 0.90% (2018: 1.75%).

The following sensitivity analysis is based on interest rate risk exposures in existence at reporting date.

At reporting date, if interest rates had moved by 50bps, with all other variables constant, profit after tax and equity would have been affected as follows:

	Profit after tax higher/(lower)		Equity higher/(lower)	
	2019 $'000	2018 $ '000	2019 $'000	2018 $'000
Cash at bank				
+ 50 bps	23	99	23	99
- 50 bps	(23)	(99)	(23)	(99)

This sensitivity was determined by the Company as a fluctuation that could be reasonably expected to occur in the coming year.

The movements in profit after tax in relation to cash at bank are due to expected higher/lower interest on bank account balances as a result of the possible movements in interest rates.

11. RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	2019 $'000	2018 $'000
Premiums and other trade debtors:		
Premiums and other trade debtors receivable – direct insurance	55,925	42,296
Less Provision for impairment	(200)	(200)
	55,725	42,096
Premiums and other trade debtors receivable – inwards reinsurance	1,748	730
Other receivables	2,442	1,041
Total trade and other receivables	59,915	43,867
Receivable within 12 months	59,915	43,867
Receivable in greater than 12 months	-	-
Total	59,915	43,867

Movements in the provision for impairment of receivables are as follows:

Opening balance as at 1 January	200	200
Provision for impairment recognised/(released) during the year	-	-
Total	200	200

a) Fair value

Due to the short-term nature of these receivables, their carrying amount in considered to be the same as their fair value.

b) Past due but not impaired

Other than the provision raised for impaired receivables, there were no past due but not impaired receivables to disclose.

12. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2019 $'000	2018 $'000
Reinsurance recoveries on claims paid	5,562	2,379
Expected future reinsurance recoveries on outstanding claims	190,990	127,449
Discount to present value	(2,468)	(2,263)
Total reinsurance and other recoveries	194,084	127,565
Receivable within 12 months	129,871	101,891
Receivable in greater than 12 months	64,213	25,674
Total	194,084	127,565

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 $'000	2018 $'000
Government bonds	83,965	62,013
Corporate bonds	40,885	33,056
Life insurance policy loans	149	140
Total financial assets at fair value through profit or loss	124,999	95,209
Amounts maturing within 12 months	35,111	23,966
Amounts maturing in greater than 12 months	89,888	71,243
	124,999	95,209

The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

The following analysis illustrates the credit rating of financial assets as at the end of the reporting period.

S&P rating		
AAA	9%	11%
AA	79%	76%
A	6%	7%
BBB	4%	4%
Unrated[1]	2%	2%
Total	100%	100%

[1] This represents financial assets unrated by S&P but rated by Moody's as Aa2.

A sensitivity analysis has been carried out on the portfolio as at the end of the 2018 and 2019 reporting periods. The sensitivity analysis has been performed on the portfolio using a movement in credit spreads. The table below shows the following increases/decreases on the portfolio from a decrease/increase in the interest rates of 100 bps:

	Upgraded Impact on Investments ($)	Downgraded Impact on Investments ($)	Upgraded Impact on Equity ($)	Downgraded Impact on Equity ($)
2019	1,033,076	(1,033,076)	743,815	(743,815)
2018	701,030	(701,030)	504,742	(504,742)

Using portfolio duration as a measure, an upward/downward parallel shift in the yield curve of 1% would result in the following decreases/increases to the portfolio:

	Upward Impact on Investments ($)	Downward Impact on Investments ($)	Upward Impact on Equity ($)	Downward Impact on Equity ($)
2019	(2,278,065)	2,278,065	(1,640,207)	1,640,207
2018	(1,846,374)	1,846,374	(1,329,390)	1,329,390

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company's exposure to interest rate risk is managed primarily through adjustments to existing investment portfolios. The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

			Fixed interest maturing in:							
2019	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 2 years $'000**	**Over 2 to 3 years $'000**	**Over 3 to 4 years $'000**	**Over 4 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets										
Cash and cash equivalents	10	12,817	-	-	-	-	-	-	-	12,817
Receivables	11,12	-	-	-	-	-	-	-	65,477	65,477
Financial assets at fair value through profit or loss	13	-	35,111	39,409	4,518	37,424	4,963	3,574	-	124,999
		12,817	35,111	39,409	4,518	37,424	4,963	3,574	65,477	203,293
Weighted average interest rate		1.59%	1.41%	1.33%	2.09%	1.41%	2.19%	2.04%	-	
Financial liabilities										
Payables	20	-	-	-	-	-	-	-	36,066	36,066
Lease Liabilities	24	-	421	408	388	256	265	343	-	2,081
		-	421	408	388	256	265	343	36,066	38,147
Weighted average interest rate		-	3.31%	3.34%	3.38%	3.38%	3.38%	3.38%		

2018	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 2 years $'000**	**Over 2 to 3 years $'000**	**Over 3 to 4 years $'000**	**Over 4 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets										
Cash and cash equivalents	10	30,304	-	-	-	-	-	-	-	30,304
Receivables	11,12	-	-	-	-	-	-	-	46,246	46,246
Financial assets at fair value through profit or loss	13	-	23,966	19,766	30,148	-	18,638	2,691	-	95,209
		30,304	23,966	19,766	30,148	-	18,638	2,691	46,246	171,759
Weighted average interest rate		1.91%	2.16%	2.24%	1.95%	-	2.04%	2.84%	-	
Financial liabilities										
Payables	20		-	-	-	-	-	-	19,970	19,970
									19,970	19,970
Weighted average interest rate		-	-	-	-	-	-	-	-	

14. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk exposure

The Company is exposed to liquidity risk mainly through its obligations to make payments in relation to insurance activities.

In addition to cash held for working capital requirements, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance obligations. The maturity of the Company's interest-bearing financial assets is included in table in Note 14(a).

(c) Fair value measurement of financial assets and liabilities

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure the fair values as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
Level 2: the fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices), and
Level 3: inputs that are not based on observable market data.

The following table presents information about assets carried at fair value and indicates the level of fair value measurement based on the levels of the input used. The fair value of investments has been determined based on quoted prices in active markets for similar assets or liabilities. There have been no transfers between levels of the fair value hierarchy during the current financial period (2018: nil).

	Fair value hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
As at 31 December 2019:				
Government bonds	-	83,965	-	83,965
Corporate bonds	-	40,885	-	40,885
Life insurance policy loans	-	149	-	149
	-	124,999	-	124,999
As at 31 December 2018:				
Government bonds	-	62,013	-	62,013
Corporate bonds	-	33,056	-	33,056
Life insurance policy loans	-	140	-	140
	-	95,209	-	95,209

The fair value of other financial assets and financial liabilities approximate their carrying amounts.

15. DEFERRED INSURANCE COSTS

	2019 $'000	2018 $'000
Deferred acquisition costs as at 1 January	10,788	5,489
Acquisition costs deferred	14,133	11,076
Amortisation charged to income	(10,393)	(5,489)
Write down for premium deficiency	(256)	(288)
Deferred acquisition costs as at 31 December	14,272	10,788
Deferred reinsurance premiums at 1 January	24,251	20,844
Deferral of reinsurance premiums on contracts entered into in the period	28,266	23,185
Earning of reinsurance premiums on contracts entered into in previous periods	(23,696)	(19,778)
Deferred reinsurance premiums at 31 December	28,821	24,251
Total deferred insurance costs	43,093	35,039

Following a periodic review of costs attributable to acquisition, the deferred acquisition cost basis has been updated leading to more costs being deferred in the current period.

An analysis of the adequacy of the unearned premium as described in note 2.8 has been performed. A deficiency was identified resulting in a deferred acquisition cost write down of $256k for Accident and Health (A&H) and International Personal Lines (IPL) (2018: $288k) and an additional unexpired risk liability of $57k (2018: $275k) for A&H.

	2019 $'000		2018 $'000	
	A&H	*IPL*	*A&H*	*IPL*
Unearned Premium Liability	8,065	981	8,772	740
Deferred reinsurance premium	(5,714)	(28)	(6,185)	(21)
Deferred acquisition costs (DAC)	(246)	(318)	(276)	(284)
	2,105	635	2,311	435
Gross central estimate of the present value of expected future cash flows	3,985	461	4,658	345
Reinsurance central estimate of the present value of expected future cash flows	(2,816)	(49)	(3,285)	(10)
Net central estimate of the present value of expected future cash flows	1,170	412	1,373	335
Claims and policy expenses	925	147	1,117	45
Risk margin – 14.9% (2018: 14.9%)	313	86	372	67
Net present value of expected future cash flows for future claims	2,408	645	2,862	447
Surplus/(Deficiency)	(303)	(10)	(551)	(12)
The components of the deficiency are:				
Write down of DAC for premium deficiency	(246)	(10)	(276)	(12)
Unexpired Risk Liability	(57)	-	(275)	-
	(303)	(10)	(551)	(12)

	2019 $'000	2018 $'000

16. UNEXPIRED RISK LIABILITY

	2019 $'000	2018 $'000
At 1 January	275	-
Movement in unexpired risk liability	(218)	275
At 31 December	57	275

17. RIGHT-OF-USE LEASE ASSETS

	2019 $'000	2018 $'000
Buildings		
Cost	2,322	-
Accumulated amortisation	(306)	-
Net book amount	2,016	-
Equipment		
Cost	30	-
Accumulated amortisation	(10)	-
Net book amount	20	-
Total right-of-use assets		
Cost	2,352	-
Accumulated amortisation	(316)	-
Net book amount	2,036	-
Movements		
Buildings		
As at 1 January (initial application)	1,832	-
Additions	525	-
Disposals	(35)	-
Amortisation charge	(306)	
As at 31 December	2,016	-
Equipment		
As at 1 January (initial application)	30	-
Additions	-	-
Amortisation charge	(10)	-
As at 31 December	20	-
Total Right-of-use assets	2,036	-

18. PROPERTY, PLANT AND EQUIPMENT

Office equipment and fittings

	2019 $'000	2018 $'000
At 31 December:		
Opening net book value	442	352
Additions	1,223	155
Disposal	(8)	-
Depreciation charge for year	(205)	(114)
Work in progress	(47)	49
Closing net book value	1,405	442
At 31 December:		
Cost	3,812	2,644
Accumulated depreciation	(2,407)	(2,202)
Net book value	1,405	442
Total property, plant and equipment	1,405	442

19. OTHER ASSETS

	2019 $'000	2018 $'000
Prepayments	53	58
	53	58

20. TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Outwards reinsurance expense liability – balance due to reinsurers:		
Related companies	8,818	3,790
Non-related companies	8,877	4,249
Other creditors and accruals	18,371	11,931
Total trade and other payables	36,066	19,970
Payable within 12 months	36,066	19,970
Payable in greater than 12 months	-	-
	36,066	19,970

21. UNEARNED PREMIUMS

	2019 $'000	2018 $'000
Unearned premium liability as at 1 January	93,959	71,215
Movement in unearned premium:		
Deferral of premiums on contracts written at year end	106,603	90,144
Earning of premiums deferred in prior years	(90,524)	(67,400)
Unearned premium liability as at 31 December	110,038	93,959
To be earned within 12 months	105,875	90,257
To be earned in greater than 12 months	4,163	3,702
	110,038	93,959

22. OUTSTANDING CLAIMS

	Note	2019 $000	2018 $000
(a) Outstanding claims liability			
Central estimate of outstanding claims liability		206,644	147,712
Risk margin	22(b)	21,758	16,109
Claim handling expenses		4,952	4,968
Total undiscounted claims liability		233,354	168,789
Discount to present value		(3,267)	(2,997)
Total discounted claims liability		230,087	165,792
Less than 12 months		149,234	131,357
Greater than 12 months		80,853	34,435
		230,087	165,792

		2019	2018
(b) Gross risk margins applied		10.3%	10.5%

(c) Reconciliation of movement in discounted outstanding claims liability

	2019 Gross $'000	2019 Reinsurance $'000	2019 Net $'000	2018 Gross $'000	2018 Reinsurance $'000	2018 Net $'000
Brought forward	165,792	125,186	40,606	200,502	167,027	33,475
Effects of changes in FX rate	149	-	149	(4)		(4)
Effect of changes in assumptions	5,983	11,376	(5,393)	(14,738)	(11,476)	(3,262)
Increase in claims incurred/recoveries anticipated over the year	193,709	148,966	44,743	77,190	33,442	43,748
Incurred claims recognised in statement of profit or loss and other comprehensive income [1]	199,841	160,342	39,499	62,448	21,966	40,482
Claims payments/recoveries during the year	135,546	97,006	38,540	97,158	63,807	33,351
Carried forward	230,087	188,522	41,565	165,792	125,186	40,606

[1] This balance is the non-Life business only.

22. OUTSTANDING CLAIMS (continued)

(d) Claims development tables:

The following table shows the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

(i) Gross

Accident year	Prior $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost:												
At end of accident year		6,396	6,106	8,434	7,384	7,008	8,689	8,230	14,588	11,416	21,596	
One year later		5,250	5,296	5,149	7,059	8,326	8,397	7,349	15,605	11,143	-	
Two years later		4,298	4,186	5,729	6,953	6,189	7,063	10,859	13,257	-	-	
Three years later		4,372	4,075	7,485	6,688	4,627	5,547	10,395	-	-	-	
Four years later		7,212	2,959	7,408	5,931	1,752	4,970	-	-	-	-	
Five years later		7,365	3,244	7,585	5,720	1,964	-	-	-	-	-	
Six years later		10,429	2,407	7,845	6,373	-	-	-	-	-	-	
Seven years later		10,785	1,906	8,303	-	-	-	-	-	-	-	
Eight years later		11,085	1,928	-	-	-	-	-	-	-	-	
Nine years later		10,907	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost		10,907	1,928	8,303	6,373	1,964	4,970	10,395	13,257	11,143	21,596	
Cumulative payments		10,887	1,778	7,938	5,512	994	3,223	6,610	7,778	2,694	4,002	
Outstanding claims undiscounted	7,059	20	150	366	860	970	1,747	3,785	5,479	8,449	17,593	46,478
Discount	161	0	3	8	20	22	40	86	125	192	629	1,286
Outstanding claims	6,898	20	147	358	840	948	1,707	3,699	5,354	8,257	16,964	45,192
Short tail outstanding claims												158,620
Claims handling expenses												4,853
Total gross central estimate												208,665
Risk margin												21,422
Total gross outstanding claims per statement of financial position												230,087

22. OUTSTANDING CLAIMS (continued)

(ii) Net

Accident year	Prior $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost:												
At end of accident year		3,278	3,281	3,125	3,482	3,732	4,074	3,225	6,162	6,294	8,238	
One year later		2,604	2,745	2,386	3,284	3,461	4,358	2,894	6,835	6,534	-	
Two years later		2,308	2,252	2,705	3,095	3,155	4,267	5,156	5,411	-	-	
Three years later		2,769	2,617	3,282	3,259	2,960	3,442	5,107	-	-	-	
Four years later		2,754	1,946	3,169	3,260	1,103	3,239	-	-	-	-	
Five years later		2,449	2,036	3,129	3,288	1,256	-	-	-	-	-	
Six years later		2,581	1,632	2,966	3,246	-	-	-	-	-	-	
Seven years later		2,724	1,063	3,654	-	-	-	-	-	-	-	
Eight years later		2,611	961	-	-	-	-	-	-	-	-	
Nine years later		2,595	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost		2,595	961	3,654	3,246	1,256	3,239	5,107	5,411	6,534	8,238	
Cumulative payments		2,583	905	3,837	3,482	1,033	2,694	3,005	2,648	2,554	1,383	
Outstanding claims undiscounted	424	13	56	(183)	(236)	222	545	2,102	2,763	3,980	6,855	16,541
Discount	11	0	1	(5)	(6)	6	14	54	71	103	240	489
Outstanding claims	413	13	55	(178)	(230)	216	531	2,048	2,692	3,877	6,615	16,052
Short tail outstanding claims												16,266
Claims handling expenses												4,853
Total net central estimate												37,171
Risk margin												4,394
Total net outstanding claims per statement of financial position												41,565

23. PROVISIONS

	Note	***2019 $'000***	***2018 $'000***
Employee benefits	(a)	314	274
Leasehold make good	(b)	155	155
		469	429
Current		300	262
Non-Current		169	167
		469	429

Movements		
Employee benefits		
As at 1 January	274	280
Amounts charged to profit and loss during the year	447	351
Amounts utilised during the year	(407)	(357)
As at 31 December	314	274

Leasehold make good		
As at 1 January	155	155
Amounts arising during the year	-	-
As at 31 December	155	155

(a) Employee benefits

The provision for employee benefits includes accrued annual leave and long service leave.

(b) Leasehold make good provision

In accordance with the lease agreement of the office location, the Company must restore the leased premise to the original condition at the end of the lease, which is on 31 March 2026. An estimate of the cost that will ultimately be incurred has been provided for.

24. LEASE LIABILITIES

	2019 $'000	2018 $'000
Buildings	2,061	-
Equipment	20	-
	2,081	-

Movements

	2019 $'000	2018 $'000
Buildings		
As at 1 January (initial application)	1,832	-
Additions	525	
Interest expense	66	-
Lease payments	(362)	-
As at 31 December	2,061	-
Equipment		
As at 1 January (initial application)	30	-
Interest expense	-	-
Lease payments	(10)	-
As at 31 December	20	-
Total Lease liabilities	2,081	-

	2019 $'000	2018 $'000
To be incurred no more than 12 months	422	-
To be incurred in more than 12 months	1,659	-
	2,081	-

25. SHARE CAPITAL

	2019 $'000	2018 $'000
Issued share capital at 1 January	16,900	16,900
Shares issued during the year	-	-
Issued share capital at 31 December	16,900	16,900

As at 31 December 2019, the Company had 16,899,558 (2018: 16,899,558) ordinary shares that were issued for 100 cents per share. All issued shares are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Each share is entitled to one vote.

26. RETAINED PROFITS

	2019 $'000	2018 $'000
Balance at the beginning of year	31,120	26,283
Profit for the year	31,813	24,837
Adjustment on adoption of NZ IFRS 16 Leases	212	-
Dividends paid $1.48 per share (2018: $1.18 per share)	(25,000)	(20,000)
Balance at end of year	**38,145**	**31,120**

27. SOLVENCY CAPITAL REQUIREMENTS

The Company maintains a Minimum Solvency Capital policy that provides guidance to the level of capital maintained and approved by the Board of Directors. The objective of this policy is to hold sufficient levels of capital that is commensurate with the Company's overall risk profile and to maintain a level that enables efficient use of capital and meet minimum solvency requirements.

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by $26,034,000 (2018: $23,278,000).

		2019			2018	
	Non-Life	Life	Entity Solvency	Non-Life	Life	Entity Solvency
	$000	$000	$000	$000	$000	$000
Actual Solvency Capital	54,917	50	54,967	47,970	50	48,020
Minimum Solvency Capital	28,918	15	28,933	24,726	16	24,742
Solvency Margin Excess	25,999	35	26,034	23,244	34	23,278
Solvency Coverage Multiple	1.90	3.32	1.90	1.94	3.09	1.94

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standards for Non-life and Life Insurance Business as published by the Reserve Bank of New Zealand. The Life business is in run-off and not material to the company's overall operation.

28. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure commitments

At year end there is no estimated capital expenditure under contract but not recognised as liabilities in the financial statements of the Company.

(b) Operating lease commitments

The Company leases various offices under non-cancellable operating leases expiring within one to six years. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Company has recognised right-of-use assets for these leases. See note 2.23 for further information.

	2019	2018
	$000	$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	-	319
Later than one year but not later than five years	-	1,342
Later than five years	-	795
Non-cancellable operating leases	-	2,456

29. REMUNERATION OF AUDITORS

During the year the auditors of the Company, PricewaterhouseCoopers, were paid or payable for the following services:

	2019	***2018***
	$	***$***
- Audit and review of financial report	136,122	135,020
- Assurance procedures over regulatory return	20,300	20,000
Total remuneration	**156,422**	**155,020**

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers expertise and experience with the Company are important and these assignments are obtained on a competitive basis. These assignments are principally advisory services and do not impair the independence of the audit.

30. RELATED PARTIES

(a) Parent Entities

Chubb Insurance New Zealand Limited is a wholly owned subsidiary of Chubb INA International Holdings Ltd, registered in Delaware, United States of America. The ultimate holding company is Chubb Limited, whose principal office is located in Zurich, Switzerland.

(b) Directors and key executives

The following persons were directors of Chubb Insurance New Zealand Limited during the financial year: Andrew Brooks (executive director), Jarrod Hill (executive director), Graeme Evans (non-executive Chairman), Scott Pickering (non-executive director) and Carol Campbell (non-executive director).

(c) Key management compensation

Key management personnel include the directors and eleven key roles performed by key executives during the year (2018: eight key roles) with the influence and authority to execute the strategic direction of the Company during the financial year. Total compensation for key management personnel is set out as follows:

	2019	***2018***
	$	***$***
Short term employee benefits	1,237,847	986,242
Post-employment benefits	83,365	94,926
Other long-term benefits	1,509	1,969
Termination benefits	6,983	894
Share based payments	285,813	109,757
Total	**1,615,517**	**1,193,788**

30. RELATED PARTIES (continued)

(d) Transactions with Chubb Tempest Re

	2019	*2018*
	$	*$*
Expenses:		
Reinsurance premiums	57,935,266	51,237,912
Commissions paid	112,612	37,358
Claims paid	-	63,912
Revenue:		
Reinsurance and other recoveries revenue	35,054,555	39,487,478
Commissions received	8,566,450	9,163,084
Premiums assumed	504,838	185,486

(e) Transactions with other related parties *

	2019	*2018*
	$	*$*
Expenses:		
Reinsurance premiums	7,736,874	5,025,968
Management and systems support	8,598,808	7,372,068
Commissions paid	537,046	323,463
Claims paid	660,914	2,621,686
Revenue:		
Reinsurance and other recoveries revenue	3,415,325	322,882
Commissions received	1,072,317	707,574
Premiums assumed	8,519,958	4,273,464
Dividend paid to Parent entity	25,000,000	20,000,000

* Other related parties with significant transactions included above were with Chubb INA International Holdings Ltd, Chubb INA Overseas Insurance Company, Chubb European Group SE, Chubb Asia Pacific Pte Ltd, Cover Direct Inc. and Chubb Insurance Australia Limited.

30. RELATED PARTIES (continued)

(e) Outstanding balances

The Company has balances with related parties at year end in relation to reinsurance and other receivables and payables. The balances outstanding at reporting date in relation to these receivables and payables are:

	2019 $	2018 $
Receivables:		
Chubb Tempest Re	170,670,401	119,909,195
Chubb INA Overseas Insurance Company	14,872,244	6,017,756
Other related parties	4,835,734	2,861,912
	190,378,379	128,788,863
Payables:		
Chubb Limited	1,621,587	1,416,279
Chubb Tempest Re	4,928,715	346,227
Chubb INA Overseas Insurance Company	204,100	122,695
Other related parties	602,513	2,013,776
	7,356,915	3,898,977

No impairment has been recognised in relation to any outstanding balances, and no impairment has been recognised in respect of debts due from related parties.

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

31. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	2019 $000	2018 $000
Profit for the year	31,813	24,837
Adjusted for:		
Depreciation and amortisation	556	114
Fair value change on financial assets	1,659	1,367
Adjustment to Opening retained earnings	212	-
Change in operating assets and liabilities:		
Increase/(Decrease) in unearned premium reserve	16,079	22,744
Increase/(Decrease) in unexpired risk liability	(218)	275
Increase/(Decrease) in outstanding claims	64,210	(34,739)
Increase/(Decrease) in trade and other creditors	16,096	(4,973)
Increase/(Decrease) in employee entitlements	40	(6)
Increase/(Decrease) in deferred tax liabilities	69	1,006
Increase/(Decrease) in tax liabilities	477	812
(Increase)/Decrease in deferred insurance costs	(8,054)	(8,706)
(Increase)/Decrease in receivables including insurance receivables	(16,048)	(8,293)
(Increase)/Decrease in reinsurance and other recoveries	(66,460)	46,020
(Increase)/Decrease in other assets	5	(58)
Net cash inflows from operating activities	**40,436**	**40,400**

32. EVENTS OCCURRING AFTER REPORTING DATE

COVID-19
As at 31 December 2019 a limited number of cases of an unknown virus had been reported to the World Health Organisation. Following the subsequent spread of the virus, on 11 March 2020 the World Health Organisation declared the COVID-19 outbreak to be a pandemic. The identification of the virus post 31 December 2019 as a new coronavirus, and its subsequent spread, is considered a non-adjusting subsequent event. The fair value of investments and insurance contract assets and liabilities as at 31 December reflects the conditions known as at that date and do not factor in the effect of COVID-19 on those valuations.

The Company is taking actions to minimise risk to our employees, including restricting travel and instituting extensive work from home protocols. We seek to minimise any disruption to our clients and operations while ensuring the safety of our employees.

As at the date of this report, it is not possible to reliably estimate the financial effect (if any) of the virus on the Company's operations or future fair value of investments and insurance contract assets and liabilities. However, the Directors have no reason to believe there will be an impact on the ability of the Company to continue as a going concern.

33. CREDIT RATING

The Company is classified as a highly strategically important operating subsidiary of Chubb Limited and has a counterparty credit and financial strength rating of 'AA-/Stable'. This rating was re-affirmed on 19 September 2019 following S&P's review of the local operation.

34. CASH COLLATERAL

Under the Deed of Partial Release executed on 14 June 2013, the Public Trustee maintains cash collateral of $100,000 representing the Company's exposure in relation to workplace accident insurance for policies covering 1 July 1999 to 1 July 2000.

35. SHARE BASED PAYMENT TRANSACTIONS

Chubb Limited has a restricted share grant plan, a restricted share option plan and an employee share purchase plan.

Restricted Share Grant Plan
Under Chubb Limited's long term incentive plan, 1,157 restricted ordinary shares were awarded during the year ended 31 December 2019 (2018: 987) and nil (2018: nil) restricted ordinary shares were transferred to other Chubb entities due to employee transfers during the year ended 31 December 2019. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by Chubb Limited to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current year's expense portion of all restricted share grants issued in the current and prior years and is consistent with the treatment required by NZ IFRS. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of Chubb Limited's common stock in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by Chubb Limited to the eligible employees. The total expense for the year was NZD $163,670 (2018: NZD $148,755).

35. SHARE BASED PAYMENT TRANSACTIONS (continued)

Restricted Share Option Plan

Under Chubb Limited's long term incentive plan, 1,541 restrictive share options were granted to eligible employees of the Company (2018: 1,315). The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by Chubb Limited to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant. The total value of the options granted during the year was NZD $42,588 (2018: NZD $52,232).

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Weighted average exercise price in NZD per share	Options	Weighted average exercise price in NZD per share	Options
At 1 January		6,328		6,067
Granted	-	1,541	-	1,315
Expired	-	-	-	-
Forfeited	211.07	(46)	196.50	(298)
Exercised	190.54	(973)	81.51	(551)
Cancelled	-	(90)	-	(360)
Transferred in	-	-	-	155
At 31 December		6,760		6,328

Out of the 6,760 outstanding options (2018: 6,328 options), 3,703 options (2018: 3,037) were exercisable. Options exercised in 2019 resulted in 973 shares (2018: 551) being issued at 190.54 NZD (2018: 81.51). The weighted average remaining life of the share options outstanding at the end of the period is 8 years (2018: 8 years).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry Year	Exercise price NZD per share	Share options 2019	Share options 2018
2020	74.58	-	-
2021	92.75	82	82
2022	108.60	142	142
2023	126.43	338	338
2024	143.26	326	326
2025	169.94	412	521
2026	175.29	1,037	1,566
2027	205.82	1,663	2,038
2028	211.83	1,219	1,315
2029	203.31	1,541	-
		6,760	6,328

The fair value of stock options granted during the year as estimated on the date of grant at 27.64 NZD (2018: 41.27 NZD) NZD Black-Scholes valuation model option pricing model taking into account the terms and conditions on which the options were granted, with the following weighted average assumptions:

35. SHARE BASED PAYMENT TRANSACTIONS (continued)

	2019	***2018***
Share price at grant date	197.26 NZD	198.76 NZD
Risk-free interest rate	2.56%	2.73%
Expected volatility	16.00%	23.16%
Dividend yield	2.24%	2.04%
Expected average term	5.74 years	5.74 years

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan
The Company collects monies from local eligible employees and acquires ordinary shares in Chubb Limited on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by Chubb Limited and not charged to the Company.

To: Andrew Brooks

CC: Joanna Khoo, Gerard Sitaramayya, Peter Chalkias

From: Stephen Wilson

Date: 17 April 2020

Re: **Chubb Insurance NZ – Section 78 Appointed Actuary's Report**

Introduction and scope

In accordance with section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA), as the appointed actuary for Chubb Insurance New Zealand Limited (CINZL), this report documents my review under section 77 of IPSA.

In particular:

- Section 77 (1) of IPSA specifies that "A licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer and any group financial statements referred to in section 81(1) (of IPSA) is reviewed by the appointed actuary."
- Section 77 (3) specifies that the "review must be carried out in accordance with an applicable solvency standard."
- Section 77 (4) specifies that "For the purposes of this section and section 78, actuarial information means—
  - a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
  - b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
  - c) information specified in an applicable solvency standard as being actuarial information for the purposes of this section."

With respect to section 77 (4)(c) of IPSA, section 130 of the Reserve Bank of New Zealand's (RBNZ) Solvency Standard for Non-Life Business, specifies the actuarial information as:

a) the Premium Liabilities as defined in this solvency standard;

b) the Net Outstanding Claims Liability as defined in this solvency standard;

c) the reinsurance and any other recovery asset(s) relevant to the Reinsurance Recovery Risk Capital Charge;

d) any deferred acquisition cost or deferred fee revenue relevant to the Premium Liabilities; and

e) any other information deemed by the appointed actuary to warrant actuarial review.

With respect to section 77 (4)(c) of IPSA, section 144 of the RBNZ's Solvency Standard for Life Business, specifies the actuarial information as:

a) the Policy Liability;

b) the reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;

c) any deferred or other tax asset relevant to the Policy Liability;

d) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;

e) the unvested policyholder benefits liability; and

f) any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

Each of these items are addressed and documented in detail (to the extent relevant and material) in CINZL's Insurance Liability Valuation Report dated 6 April 2020.

Additional analysis has been performed in the preparation of my Financial Condition Report dated 17 April 2020.

Information required

a) Name: Stephen James Wilson

b) Work done by the actuary:

I confirm that I have reviewed the following in respect of CINZL's financial statements:

- Information relating to an insurer's calculations:
  - **Premiums**
    - Discussions and review of written, earned and unearned premium data with CINZL Finance and PwC Auditors
    - In addition, as part of my Insurance Liability Valuation (ILV) I have calculated an amount of unclosed written, earned and unearned premium, gross and net of reinsurance
  - **Claims** – As part of my Insurance Liability Valuation Report (ILVR) dated 6 April 2020, I have:
    - Reconciled the actuarial claims data with Finance claims data
    - Analysed CINZL's claims data using actuarial techniques

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- **Reserves –** As part of my ILVR I have:
  - Reconciled the actuarial claim reserve data with Finance claim reserve data
  - Analysed the strength of CINZL's claims reserves using actuarial techniques
  - Had detailed discussions regarding large claim reserve with underwriting and claims departments
  - Determined Insurance Liability Reserves (including both Outstanding Claim Liabilities and Premium Liabilities) in accordance with the Reserve Bank of New Zealand's (RBNZ) Solvency Standards for Non-Life Business and Life Business
- **Dividends –** Reviewed the 2019 and proposed future level of dividends in the context of CINZL's current and forecast financial condition as part of my analysis for CINZL's Financial Condition Report (FCR), which will be finalised on 17 April 2020
- **Insurance (and annuity) rates –** Reviewed the adequacy and profitability of CINZL's premium rates as part of my analysis for CINZL's FCR
- **Technical provisions –** Determined and documented as part of my ILVR

- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur
  - An assessment of the probability of uncertain future events has been performed and documented as part of my ILVR
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section.
  - I have reviewed the information (both actuarial and non-actuarial) required under both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.
  - I confirm that my review covered:
    - Net outstanding claims as per NZ IFRS 4 including:
      - central estimate of expected claims and recoveries;
      - discounting at a risk free rate;
      - allowance for claim handling expenses; and
      - a risk margin intended to provide the specified probability of sufficiency;
    - The relevant accounting provisions (unearned premium, deferred acquisition cost, deferred reinsurance expense, deferred reinsurance commissions, and unexpired risk);

- The actuarial estimate of net premium liabilities comprising:
  - determination of the appropriate assessment period for Premium Liabilities;
  - central estimate of expected claims and recoveries;
  - discounting at a risk free rate;
  - allowance for policy administration and claim handling expenses;
  - allowance for the cost of any future reinsurance (i.e. that has not yet been purchased) required to cover unexpired risks; and
  - a risk margin intended to provide a 75% POS.
- Application of the Liability Adequacy Test
- The level of deferred acquisition cost in the financial statements after the application of the Liability Adequacy Test.

c) Scope and limitations of the review

The scope of my review has been to review the information referred to as "actuarial information" in Section 77 (4) of IPSA, and detailed above, namely:

- information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
- information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and
- legal advice provided in conjunction with the compilation of the solvency return.

There have been no limitations placed on my review.

d) The existence of any relationship (other than that of actuary) that the actuary has with, or any interests that the actuary has in, the licensed insurer or any of its subsidiaries

I confirm that I am an employee of a related corporate entity, Chubb Insurance Australia Limited – which is not a subsidiary of CINZL - and I am not a Director of CINZL. I confirm that I do not hold any shares in CINZL but that I hold shares in Chubb Limited, CINZL's ultimate holding company through Chubb Limited's Long Term Incentive Plan.

e) Whether the actuary has obtained all information and explanations that he or she has required

I confirm that I have obtained all information and explanations required to perform my review.

f) Whether, in the actuary's opinion and from an actuarial perspective:

- the actuarial information contained in the financial statements and any group financial statements has been appropriately included in those statements (and if not, the respects in which it has been inappropriately included)
- the actuarial information used in the preparation of the financial statements and any group financial statements has been used appropriately (and if not, the respects in which it has been used inappropriately).

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I confirm that in my opinion, and from an actuarial perspective, the actuarial information contained in CINZL's financial statements has been appropriately included and has been used appropriately.

g) Whether, in the actuary's opinion and from an actuarial perspective, the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) (as at the balance date of the insurer)

I confirm that in my opinion, and from an actuarial perspective, CINZL has maintained the solvency margin in accordance with both the RBNZ's Solvency Standard for Non-Life Business and RBNZ's Solvency Standard for Life Business.

h) In the case of a life insurer, whether, in the actuary's opinion and from an actuarial perspective, the life insurer is maintaining the solvency margins that apply in respect of its statutory funds under a condition imposed under section 21(2)(c) (as at the balance date of the insurer).

Not applicable as CINZL is a non-life insurer and, despite having a small amount of life insurance business (in run-off), CINZL has been given an exemption from holding statutory funds in respect of this life insurance business.

Please do not hesitate to contact me if you would like to discuss any aspect of this memorandum.

Stephen Wilson

Appointed Actuary, Chubb Insurance New Zealand Limited

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