Cigna

Cigna Life Insurance New Zealand Limited

Annual Report
For the year ended 31 December 2019

Cigna Life Insurance New Zealand Limited

ANNUAL REPORT

FOR THE 12 MONTHS ENDED 31 DECEMBER 2019

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ANNUAL REPORT

The address for service for Cigna Life Insurance New Zealand Limited (the Company) is Level 24, Majestic Centre, 100 Willis Street, Wellington.

Pursuant to section 211(3) of the Companies Act 1993 (the Act), the shareholder of the Company has agreed that the Annual Report need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the 12 month period ended 31 December 2019 and the audit report on those financial statements.

Signed for and on behalf of the Board of Directors:

Steven Fyfe
Director
23 April 2020

Anne Urlwin
Director
23 April 2020

Cigna Life Insurance New Zealand Limited
Governance Statement

ABOUT THE COMPANY

Cigna Life Insurance New Zealand Limited (the **Company**) is wholly-owned by a subsidiary of Cigna Corporation, a Fortune 500 insurance and financial services company, and is part of Cigna's International division. The Company underwrites and issues various insurance products including life, income protection, trauma, travel and funeral cover to the New Zealand market, and provides financial adviser services as a Qualifying Financial Entity under the Financial Advisers Act 2008.

The Company adheres to all published requirements, standards and guidelines of the Reserve Bank of New Zealand (**RBNZ**), including the RBNZ's Governance Guidelines (**the Guidelines**) for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010. The Company also endeavours to embrace relevant non-mandatory governance guidelines or recommendations of the RBNZ, Financial Markets Authority and other relevant regulatory and governmental bodies.

On 31 January 2020, the Company acquired the insurance business of its sister company, OnePath Life (NZ) Limited, and continues to operate as a substantially larger insurer licensed under the Act.

THE BOARD AND ITS ROLE

The Company is governed by its Board of Directors who collectively exercise effective oversight of the Company's activities through the implementation of the Guidelines, its Board and Committee programmes and ongoing, regular dialogue with the Chief Executive Officer, Senior Management and other key personnel.

The role of the Board is to provide leadership, strategic guidance and effectively represent the interests of the stakeholders, including the shareholder, with the intention of achieving the Company's goals in a manner best serving the stakeholders as a whole.

The Board operates in accordance with applicable law, the Company's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management, the shareholder and other stakeholders.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. The Board reviews its own performance annually, incorporating the performance of its established Committees.

BOARD COMPOSITION AND MEMBERSHIP

In accordance with the Guidelines, all current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy to have the appropriate fitness and propriety to properly discharge their responsibilities as a director and have been certified as meeting the RBNZ's Fit and Proper Standard for directors of licensed insurers. Directors are also required to abide by the Cigna Group's Code of Ethics and Principles of Conduct.

Those directors identified as independent are considered to meet the criteria for independence as set out in the Guidelines.

The Board is considered to be of sufficient size and, collectively, considered to hold the full range of skills, knowledge and experience necessary to provide effective, independent governance over the affairs and operations of the Company. The Board assesses its performance annually through an established performance assessment procedure.

As at 31 December 2019 the Board's membership consisted of six directors: three of whom are independent non-executive directors; one of whom is a non-executive director; and two of whom are executive directors. Information about each the directors is set out below:

Steven Fyfe
BCA, CA, FINSIA (Fellow), IOD (Chartered Member)
Board Chair and Independent Non-Executive Director

Steven has considerable senior leadership and governance experience in the banking and insurance sectors, and currently holds governance roles in a wide range of sectors including insurance, property, public services, charitable and the arts.

Mary Jane Daly
MBA, BCom, GAICD, INFINZ (Fellow), IOD (Fellow)
Independent Non-Executive Director
Chair of Audit & Risk Committee and Human Resources and Remuneration Committee

Mary Jane is an experienced director with diverse business and governance experience across a range of sectors including insurance, banking, transport and property.

Michael Hartley
BSc
Independent Non-Executive Director

Michael was the Founder and Managing Director of an independent strategic consultancy providing consulting services to banks and financial services companies across Asia and the Pacific.

Patrick Graham
BA (Hons)
Non-Executive Director

Patrick is based in the Hong Kong SAR and is the Chief Executive Officer of Cigna Asia Pacific. He also holds the position of Head of Innovation, Analytics and Strategy for Cigna International.

Patrick has broad experience in Asia and Europe in the insurance and financial services industries in both senior leadership and governance roles.

Gail Costa
BCA, CA
CEO and Executive Director

Gail is the Chief Executive Officer of Cigna New Zealand and has over 30 years' experience in the insurance industry in senior leadership and governance roles in New Zealand, Turkey, the Hong Kong SAR and the United Kingdom.

Michael Burrowes
LLB (Hons)
Executive Director

Michael is the Head of Legal & Governance for Cigna New Zealand, with considerable experience in both legal and governance roles in sectors including insurance, banking, regulatory, and the charitable sector.

Since 31 December 2019, the following changes to the Board's composition have taken place:

(a) Michael Hartley, Independent Non-Executive Director, resigned from Board and ceased his directorship on 31 January 2020;
(b) Anne Urlwin, Independent Non-Executive Director, was appointed to the Board with effect from 31 January 2020.

Anne June Urlwin
BCom, FCA, CFInstD, MAICD, FNZIM, ACIS
Independent Non-Executive Director and Audit and Risk Committee Chair

Anne has considerable governance experience in a wide range of sectors including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry, sports administration and the arts.

BOARD COMMITTEES

As at 31 December 2019, the Board had established the following Committees to act for, and/or make recommendations to, the Board:

(i) Audit and Risk Committee

The Audit and Risk Committee provides independent oversight of the effectiveness of the Company's financial reporting, internal audit, risk management programme (including its Risk Management Framework and Risk Strategy), and compliance assurance activities.

The Committee assists the Board to discharge its responsibilities in relation to financial, risk and compliance matters, including internal and external audit functions.

The Audit & Risk Committee has adopted its own Charter approved by the Board and reports directly to the Board. The Chair of this Committee is Mary-Jane Daly, independent, non-executive director of the Company.

The members of this Committee at 31 December 2019 are Mary-Jane Daly (Chair), Steven Fyfe, Michael Hartley, Gail Costa and Patrick Graham.

(ii) Conduct and Culture Committee

The Conduct and Culture Committee assists the Board to provide focused oversight of activities specifically connected with the themes and findings arising out of both the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Australian Royal Commission) and the Thematic Review of Conduct & Culture in Life Insurers by Financial Markets Authority (FMA) and RBNZ (Conduct & Culture Review). In particular, the Committee monitors and provides oversight of the delivery of action plans arising out of the Conduct & Culture Review.

The Committee has adopted its own Charter approved by the Board and reports directly to the Board. It is chaired by Steven Fyfe, independent non-executive director of the Company.

The members of this Committee as at 31 December 2019 are Steven Fyfe (Chair), Mary-Jane Daly Patrick Graham and Michael Hartley.

[(iii) Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee has adopted its own Charter approved by the Board and reports directly to the Board. It is chaired by Mary-Jane Daly, independent, non-executive director of the Company.

This Committee's purpose is to assist the Board in establishing remuneration and incentive policies and practices for staff, including in relation to incentive schemes, performance objectives and remuneration outcomes, in addition to providing governance oversight of Human Resources, Health, Safety and Well-being strategy, policies and practices.

The members of this Committee are Mary-Jane Daly (Chair), Steven Fyfe, Michael Hartley and Patrick Graham.

Since 31 December 2019, the following changes to the Committees' chairmanship and composition have taken place:

(a) Anne Urlwin, Independent Non-Executive Director from 31 January 2020, was appointed on 18 February 2020:
   (i) A member and Chair of the Audit & Risk Committee
   (ii) A member of the Conduct and Culture Committee
   (iii) A member of the Human Resources and Remuneration Committee

(b) Michael Hartley, Independent Non-Executive Director to 31 January 2020, ceased to be a member of the Audit and Risk Committee, the Conduct and Culture Committee, and the Human Resources and Remuneration Committee from 31 January 2020.

BOARD PROGRAMME AND SCHEDULE

The Board currently meets at least six times each calendar year. Additional Board meetings are held as and when required.

The Board approves for both itself and its Committees, an annual work programme for each calendar year that acts as a guide to the preparation of the agenda for each scheduled Board meeting. Agenda items may be added, deferred, brought forward or removed as necessary for each scheduled meeting.

The Board also participates in workshops and other sessions on various subject-matter with the Company's Senior Leadership as the circumstances require.

GOVERNANCE POLICIES

The Board regularly reviews and assesses its governance policies, processes and practices to identify opportunities for enhancement and to ensure they reflect the Company's operations, culture and stakeholder environment. As a wholly-owned indirect subsidiary of its ultimate parent company, Cigna Corporation, the Company complies with Cigna Enterprise policies and requirements, except where they are inconsistent with New Zealand law or regulatory requirements, or where the Board considers that those policies or requirements are not in the best interests of the Company.

The Board has adopted a number of Cigna Enterprise policies (amended or supplemented to meet or otherwise reflect New Zealand, and/or the Company's, requirements) and has adopted other policies specific to the Company where warranted or required.

MANAGING CONFLICTS OF INTEREST

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to the Company and their own interests. The Board maintains an Interests Register for each director which records their other interests and directors are required to notify any changes to that register.

Where potential conflicts of interest do exist, a Director must disclose this interest. The other members of the Board can then determine the most appropriate way of mitigating any actual or perceived conflicts of interest. Directors and staff are required to avoid or otherwise minimise any potential conflicts in line with the Company's Conflicts of Interest Policy.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has effected liability insurance for its directors and officers.

Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	GROUP 2019 $'000	GROUP 2018 $'000
Premium revenue			
Premium revenue from insurance contracts	2	100,821	100,164
Outwards reinsurance expense	2	(5,815)	(5,713)
Net premium revenue		**95,006**	**94,451**
Other revenue			
Investment revenue	11	8,078	6,869
Fee and other revenue	3	1,620	1,760
Net other revenue		**9,698**	**8,629**
Payments under policies			
Claims expense	4	(43,598)	(35,131)
Inwards reinsurance	4	2,122	1,715
Net claims expense	4	**(41,476)**	**(33,416)**
Change in life insurance contract liabilities	7	(41,300)	(5,084)
Finance cost		(154)	(1,904)
Other expenses	5	(55,509)	(53,767)
Net claims and operating expenses		**(138,439)**	**(94,171)**
(Loss) / Profit before tax		**(33,735)**	**8,909**
Income tax credit / (expense)	13	65,053	1,042
Profit after tax		**31,318**	**9,951**
Other comprehensive income		**-**	**-**
Total comprehensive income attributable to the owners of the Company		**31,318**	**9,951**

The notes on pages 12 to 52 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Statement of Changes in Equity
For the year ended 31 December 2019

	Contributed equity $'000	Retained earnings $'000	Total $'000
Opening balance as at 1 January 2018	**500**	**62,977**	**63,477**
Total comprehensive income 2018	-	9,951	9,951
Balance at 31 December 2018	**500**	**72,928**	**73,428**
Total comprehensive income 2019	-	31,318	31,318
Balance at 31 December 2019	**500**	**104,246**	**104,746**

All 500,000 ordinary shares (2018: 500,000) are ranked equally with one vote attached to each fully paid up ordinary share. There is no par value attached to the shares.

The notes on pages 12 to 52 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Statement of Financial Position
As at 31 December 2019

	Note	Group 2019 $'000	Group 2018 $'000
Assets			
Cash and cash equivalents		24,249	27,155
Financial assets at fair value through profit or loss	12	97,467	69,388
Insurance receivables	6	5,673	7,600
Other receivables	14	3,665	8,463
Policy loans		183	188
Term deposits	12	-	900
Right-of-use assets	15	6,778	-
Life insurance contract assets	7	-	26,770
Property, plant and equipment	16	1,357	1,829
Intangible assets	17	1,498	1,186
Deferred tax asset	13	30,729	-
Total assets		**171,599**	**143,479**
Liabilities			
Accounts payable	18	9,077	9,884
Employee entitlements	19	11,085	8,358
Other liabilities		207	282
Lease liabilities	15	7,033	-
Provision	20	7,591	-
Outstanding claims	8	17,330	17,203
Life insurance contract liabilities	7	14,530	-
Deferred tax liability	13	-	34,324
Total liabilities		**66,853**	**70,051**
Net assets		**104,746**	**73,428**
Equity			
Contributed equity		500	500
Retained earnings		104,246	72,928
Total equity		**104,746**	**73,428**

These financial statements were authorised for issue on behalf of the board by:

Steven Fyfe
Director
23 April 2020

Anne Urlwin
Director
23 April 2020

The notes on pages 12 to 52 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows

For the year ended 31 December 2019

	Group 2019 $'000	Group 2018 $'000
Cash flows from operating activities		
Premiums received	100,895	100,053
Reinsurance received	3,970	2,165
Interest received	3,189	5,351
Dividends received	24	23
Fees and other income	1,620	1,760
Claims expenses	(43,445)	(34,706)
Reinsurance paid	(6,917)	(6,446)
Payments to suppliers and employees	(24,837)	(39,568)
Commissions paid	(12,596)	(9,813)
Net cash inflow from operating activities	**21,902**	**18,819**
Cash flows from investing activities		
(Outflow) from purchase of property, plant and equipment	(68)	(329)
(Outflow) from purchase of intangible assets	(450)	(301)
Inflow from the sale of property, plant and equipment	13	-
Inflow from sale of investments	2,500	85,884
(Outflow) from purchase of investments	(24,756)	(42,565)
Net cash (outflow) / inflow from investing activities	**(22,761)**	**42,689**
Cash flows from financing activities		
Dividend payment	-	(45,000)
Payment of lease liabilities	(2,048)	-
Net cash (outflow) from financing activities	**(2,048)**	**(45,000)**
Net (decrease) / increase in cash and cash equivalents	**(2,906)**	**16,508**
Cash and cash equivalents at beginning of year	**27,155**	**10,647**
Cash and cash equivalents at end of year	**24,249**	**27,155**
Cash is represented by:		
Cash at bank and in hand	24,249	27,155
Cash and cash equivalents at end of year	**24,249**	**27,155**

The notes on pages 12 to 52 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows (continued)
For the year ended 31 December 2019

	Group 2019 $'000	Group 2018 $'000
Operating activities reconciliation		
Profit after tax	31,318	9,951
Non-cash items		
Depreciation expense	2,492	620
Fair value adjustment of dividend payable	-	1,904
Amortisation expense	138	95
Deferred tax liability	(65,053)	(1,042)
Net unrealised fair value losses/(gains) on financial assets at FVTPL	(4,923)	(1,514)
Remediation provisions	7,591	-
Finance cost	338	-
Change in policyholder liabilities	41,300	5,084
Changes in working capital items		
Receivables	6,725	(2,816)
Payables	1,844	6,992
Insurance liabilities	127	428
Policy loans	5	(9)
Items classified as investing activities		
Net realised fair value (gains) on financial assets at fair value through profit and loss	-	(874)
Net cash inflow from operating activities	**21,902**	**18,819**

The notes on pages 12 to 52 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Notes to the Financial Statements
For the year ended 31 December 2019

These are the Consolidated Financial Statements of Cigna Life Insurance New Zealand Limited and its subsidiary (the Group).

Cigna Life Insurance New Zealand Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand. It was incorporated on 13 December 1967.

The Company is a Limited Liability Company. The address of its registered office is Level 24, Majestic Centre, 100 Willis Street, Wellington, New Zealand.

These consolidated financial statements for the Company and its subsidiary (together "the Group") cover the financial year ended 31 December 2019.

The Company is part of a New Zealand Group of Companies that includes OnePath Life (NZ) Limited. Both Companies are 100% owned by Cigna New Zealand Holdings Limited. The Company is the sole employer of staff for the New Zealand Group of Companies, and has service contracts and recharge arrangements in place to appropriately allocate the expenses incurred, in relation to people and other costs, amongst the New Zealand Group.

The Company's principal products and services comprise the selling and administration of health and life insurance, life investment and travel insurance contracts. The Company also acts as a reinsurer for certain life insurance and credit card insurance contracts.

The Company was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 12 August 2013 to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010 ("IPSA"). As a consequence of being a licensed insurer, the Company is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with 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 comply with the International Financial Reporting Standards ("IFRS"). Unless necessary to explain accounting policy choices or to add further information, we have not included accounting policy wording where it is otherwise consistent with the standards.

These financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

Unless otherwise stated, all amounts are rounded to $000's and are expressed in New Zealand Dollars, which is the presentation currency of the Group and the functional currency of the Company and its subsidiary.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Accounting for Life Insurance Business

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts. Contracts that include both investment and insurance elements are separated, where practicable, into those two elements and reported accordingly. For example, for investment products that include a life insurance rider, figures relating to the investment portion (such as deposits) are reported under 'life investment' whilst figures relating to the insurance portion (such as claims) are reported under 'life insurance'. Where it is not practicable to separate the two elements, the contract will be recognised as a life insurance contract and the value of the life insurance contracts will be set to the value of the supportable assets.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an Insurer to pay significant benefits in any scenarios, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by the Group, and the financial risks are substantially borne by the Group.

Critical Accounting Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at period end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and judgements have been made based upon facts and circumstances that existed as at balance date. Since this time a major event (COVID-19) has occurred. This could materially impact upon the judgements and estimates made by management. The Company continues to assess the impact of COVID-19, refer to note 30 for further details.

The Covid-19 event continues to be monitored but at the date of signing these accounts, any impact is yet to be determined. The critical accounting judgements that may materially impact the financial statements are detailed together with the associated critical accounting estimates over the remainder of these notes.

The subsequent notes are set out in the following main categories:

a Insurance Profit
b Insurance Liabilities
c Investments
d Non Financial Assets and Liabilities & Taxation
e Risk
f Unrecognised Items & Other Information

a Insurance Profit

This note provides information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

- an analysis of net profit
- a breakdown of revenue by type
- a breakdown of claims expenses by type
- other expenses split between acquisition cost and maintenance cost
- premium income still owing at balance date
- specific accounting policies where relevant.

1 Analysis of net profit

This note compares the planned profit margin release (on existing business as at 31 December 2018 and new business written over 2019) with the actual profit.

	Note	Group 2019 $'000	Group 2018 $'000
Item:			
Planned profit margin (net of tax)		8,220	9,045
Experience profit		17,138	(2,719)
Assumption Change (Economic)		(1,066)	(2,776)
Methodology Change		21	
Investment earnings on retained profit		7,005	6,401
Net profit after tax		**31,318**	**9,951**

The planned profit after tax for 2019 was $8.220m compared to actual profit of $31.318m.

The $17.1m of experience profits were mainly due to the recognition of $29.5m of tax losses brought onto the balance sheet. This was partly offset by higher than expected commission and operating expenses incurred in the Statutory Fund.

The $1.1m of losses from assumption changes is due to lower valuation discount rates (driven by lower long term bond yields), partly offset by a lower assumed future rate of inflation. This results in a net increase in policyholder liabilities.

The profit from investment earnings on retained profits does not form part of planned profit margins, so provides a positive variance of $7.0m.

2 Premium revenue

Revenue is categorised and recognised using the methods outlined below.

	Note	Group 2019 $'000	Group 2018 $'000
Insurance premium revenue			
Life insurance premiums		83,214	79,784
Life reinsurance premiums		4,344	5,988
Travel insurance premiums		13,264	14,392
Life premiums recognised as revenue		**100,821**	**100,164**
Outwards reinsurance premiums		(5,815)	(5,713)
Net premium revenue from insurance contracts		**95,006**	**94,451**

Accounting for revenue from major business activities

Life premium revenue

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised on a due date basis. Deposit components of life insurance contracts are not revenue and are treated as movements in life insurance contracts. Where it is not practicable to split out the insurance and investment elements of a contract, all premiums have been recognised as revenue.

Life reinsurance revenue

Life reinsurance premiums are recognised when due. Premiums with a regular due date are recognised on a due date basis and any irregular premiums are recognised as per the specific terms of their contracts.

Travel premium revenue

Premium revenue from travel insurance contracts are recognised over the period the policyholder travels.

Unearned premium

The proportion of premiums not recognised in profit or loss at the reporting date is recognised in the Statement of Financial Position as unearned premium liability within life insurance contracts balance.

3 Fee and other revenue

	Note	Group 2019 $'000	Group 2018 $'000
Inwards reinsurance commission		1,016	1,125
Other		604	635
Total fee and other revenue		**1,620**	**1,760**

Inwards reinsurance commission

Inwards reinsurance commission is recognised over the period the Group provides reinsurance services.

4 Payment under policies

	Note	Group 2019 $'000	Group 2018 $'000
Claims expense			
Life insurance claims (net of reinsurance)		32,536	26,566
Travel insurance claims (net of reinsurance)		8,940	6,850
Total claims (net)		**41,476**	**33,416**
Inwards reinsurance recoveries		2,122	1,715
Total gross claims through profit and loss		**43,598**	**35,131**

Accounting for claims from major business activities

Life insurance contracts

Claims incurred relate to life insurance contracts and are treated as expenses. Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Claims in respect of with-profit business are recognised when the policies concerned ceases to participate, in whole or in part, in the earnings of the relevant fund. Where it is not practicable to split out the insurance and investment elements of the contract, all claims have been recognised as an expense. Provision has been made for the estimated cost of all claims notified but not settled at balance date, with allowances for the probability of declinature and the associated operating costs to administer these claims. Provision has also been made for the estimated cost of claims Incurred But Not Reported ("IBNR") at balance date. IBNR is recognised within Insurance Liabilities.

Travel insurance contracts

Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated.

Reinsurance

Reinsurance premiums and recoveries are recognised separately as deductions to revenue and expenses in profit or loss over the period of indemnity of the reinsurance contract. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

5 Other expenses

Other expense are also incurred for the operation of the business in relation to the acquisition and maintenance of life insurance contracts. This is 45.89% (2018: 56.40%) for acquisition and 54.11% (2018: 43.60%) for maintenance and non-life insurance costs. Allocation is based on expense surveys of staff time and costs that are directly attributable to the acquisition of new policies.

5 Other expenses (continued)

	Note	Group 2019 $'000	Group 2018 $'000
Policy acquisition costs – life insurance contracts			
Commission		902	1,260
Other solicitation and acquisition costs		16,267	25,694
Total policy acquisition costs		**17,169**	**26,954**
Policy maintenance costs			
Commission		10,632	9,934
Life insurance contracts		19,255	15,589
Remediation costs		7,700	-
Total maintenance expenses		**37,587**	**25,523**
Investment management costs		16	119
Total investment management costs		**16**	**119**
Non-life insurance costs			
Other administrative costs		737	1,171
Total non-life insurance costs		**737**	**1,171**
Total other expenses		**55,509**	**53,767**

Acquisition costs are the costs of acquiring new business, including commissions, distribution costs and costs of accepting, issuing and initially recording policies. Maintenance costs are the costs of administrative policies subsequent to sale, and maintaining the Group's operations such that they are sufficient to service in-force policies. See note 21 for an analysis of expense by nature. Non-life insurance costs relate to administrative costs of the Group's subsidiary. These costs do not relate to the acquisition or maintenance of life insurance contracts.

Any deferred acquisition costs are expected to be recovered through renewal premiums base on the expected future lifetime of the underlying products.

6 Insurance receivable

Insurance receivables relate to amounts due to the Group in the ordinary course of business. The carrying value of insurance receivables approximates their fair value as they are settled within a short period.

	Note	Group 2019 $'000	Group 2018 $'000
Outstanding premiums		2,543	2,623
Related party reinsurance recoveries	26	992	2,561
Reinsurance recoveries		2,138	2,416
Total insurance receivables (current)		**5,673**	**7,600**

6 Insurance receivable (continued)

Insurance receivables past due but not impaired

The Group considers that insurance receivables are past due if payment has not been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Group is $1,358k (2018: $738k). The aging of these amounts is shown below.

	2019 $'000	2018 $'000
Days past due		
0-30 days	270	332
31-60 days	719	380
61-90 days	41	13
90+ days	328	13
Total	**1,358**	**738**

In addition to the above past due balances, the Group has fully impaired assets of $45k (2018: $47k).

Premium amounts that are due and do not have surrender values to offset the premium are lapsed after three months of non-payment. Lapsed outstanding premiums are written off to profit or loss, as a debit against premium revenue.

b Insurance Liabilities

This note provides information about the Group's contract liabilities, including:
- estimates and judgements used
- life insurance contracts calculations and components
- disaggregated information of the Statement of Comprehensive Income and the Statement of Financial Position
- insurance liability breakdown and assumption
- Statutory fund breakdown
- Solvency margin

7 Critical accounting estimate: Life insurance contracts

Life insurance contract liabilities are calculated by the actuarial team and reviewed and signed off by the Appointed Actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

Actuarial assumptions and methods

The Group's actuarial reports for the year ended 31 December 2019 was prepared by the Appointed Actuary, Michael Bartram BSc. (Hons), FIAA, FNZSA. The Appointed Actuary is satisfied as to the accuracy, nature and sufficiency of the data and methods upon which the policy liabilities have been determined.

7 Critical accounting estimate: Life insurance contracts (continued)

(a) Disclosure of methods
Life insurance contracts consist of life insurance contract liabilities (including unvested policyholder benefits) and non-life liabilities.

The Group has made a number of changes to the estimates and methodology used to value the life insurance contract liabilities. These changes were made to align methodology practices with the recently acquired OnePath business (refer to subsequent event note 30). For each change, the Group concluded that the changes were not representative of previous errors, and represented a change in accounting estimate, rather than a change in accounting policy. The changes made are shown in Note 7bxi.

Life Insurance contract liabilities
The value of life insurance contract liabilities is calculated using the Margin on Service (MoS) methodology in accordance with the New Zealand Society of Actuaries Professional Standard 20 (PS20), Determination of Life Insurance Policy Liabilities, using either the Projection method or the Accumulation Method, depending on the product group.

Margin on Services – Projection Method
The "projection method", recommended under Appendix C of NZ IFRS 4, uses expected cash flows, (premiums, investment income, redemptions or benefit payments, taxes, expenses and profits) based on best estimate assumptions, to establish the value of policy liabilities. This includes an allowance for planned profits. Profit margins are released over each reporting period in line with the services that have been provided.

Accumulation Method
Under the accumulation method, for risk policies the policy liability is the sum of the unearned premiums, outstanding claims reserves plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs.

The Revolving Credit, Travel and Other Non-Life product groups have been valued using the accumulation method. The results from using the accumulation method rather than the projection method are not expected to be materially different.

(b) Disclosure of assumptions
Actuarial assumptions about future experience are required for calculating policy liabilities. The assumptions used for the accumulation method are the same as those used for the projection method where they are required. For the deferred acquisition cost, the key assumption is the lapse rate, which drives the rate at which the reserve runs off. In addition, the unearned premium reserve used in the accumulation method assumes that premiums are recognised half way through the premium billing period.

The assumptions used were best estimate assumptions approved by the Appointed Actuary for the Company. The key assumptions were:

i Profit Carriers
Where the policy liability is determined by the projection method, Appendix C of NZ IFRS 4 and actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The profit carriers used for the related product groups ("RPG's) in order to achieve the systematic release of planned margins were as follows:

7 Critical accounting estimate: Life insurance contracts (continued)

Life RPG's	**2019**	**2018**
Traditional With-Profit	Value of bonus	Value of bonus
Traditional Non-Profit – Regular Premium	Expected premium	Expected claims
Individual Lump Sum – Regular & Level Premium	Expected premium	Expected claims
Individual Lump Sum – Single Premium	Expected claims	Expected claims
Funeral Cover	Expected premium	Expected claims
Individual Disability – Regular & Level Premium	Expected premium	Expected claims
Group Lump Sum	Expected premium	Expected claims
Group Disability	Expected Premium	N/A

With the exception of the Traditional With-Profit product group, the profit carriers for 2018 were based on expected death claims. The profit carrier for the Traditional With-Profit has remain unchanged from 2018. The profit carrier was changed to expected premium at 31 December 2019 for all other RPG's except Individual Lump Sum – Single Premium which remains as expected claims. Changes to profit carriers have no impact on the profit and loss. The effect is the change in the pattern of the release of future profits. Refer to paragraph x where the table discloses the effect on future profits.

ii Risk Discount Rates

RPG's	**Discount Rate Basis**	**Risk Discount Rates (p.a.)** *(after tax and investment fees)*	
		2019	**2018**
Traditional With-Profit	Earnings *	2.22%	2.70%
Traditional Non-Profit	Risk Free	1.42%	1.95%
MRI Term Life	Risk Free	0.93%	1.25%
Level & Decreasing Term Life	Risk Free	1.14%	1.63%
Yearly Renewable Term (YRT) Life	Risk Free	1.14%	1.63%
Funeral Cover	Risk Free	1.14%	1.63%
Accident & Health, Revolving Credit	Risk Free	0.93%	1.25%
Income Protection	Risk Free	0.93%	1.25%

** The current asset mix is assumed to continue into the future.*

The 2019 net of tax discount rates above were used to determine the economic impact on life insurance contracts over 2019.

The Group moved from using gross of tax discount rates to net of tax discount rates, and also changed the methodology for calculating the forward yield curves. There was only a residual impact on life insurance contract liabilities from changing yield curve methodology.

Gross of tax discount rates were used to determine the final policy liabilities for all products except for Traditional With-Profit which continues to use net of tax discount rates. The gross of tax discount rates used to determine life insurance contracts were determined from the inter-bank swap rate curve. This curve is then extended for longer durations with New Zealand long-term risk free rates from the European Insurance and Occupational Pensions Authority. The risk free rate (before tax) varied by duration between 1.0% and 3.9% on this basis.

7 Critical accounting estimate: Life insurance contracts (continued)

iii Expense Inflation & Benefit Indexation Rates

Allowance for future expense inflation of 2.5% p.a. (2018: 3.0% p.a.) is assumed.

Some life insurance contracts have indexation benefits that provide a level of protection against inflation. Where increases are not fixed or set equal to CPI, they are assumed to increase cover levels at a rate of 2.0% p.a (2018: 2.0%). The assumption reflects best estimate assumptions about future experience.

iv Expenses

PS20 states that maintenance expense assumptions must be sufficient in total across all business assumed to be in force in the year following the valuation date to cover expenses estimated to be required in that year to fully support the administration of that business as a going concern. Expenses considered to be “one-off” may be excluded.

Future maintenance expenses have been assumed at current levels, increased by the rate of expense inflation set out above (2.5% p.a.; 2018: 3.0% p.a.). Projected expenses for 2020 are consistent with the latest business plan.

Future investment expenses have been assumed to be at the same percentage of assets under management as applies at the balance date. The rates for the last two years are shown in the table below:

Asset Class	Investment Management Fee Assumptions (p.a) 2019	2018
Cash	0.00%	0.00%
Fixed Interest	0.06%	0.11%
NZ Equities	1.05%	1.05%
Overseas Equities	1.02%	1.12%

Acquisition costs are based on actual experience incurred in the year for new business and do not include any costs of general growth and developments.

v Tax Rates and Basis

Policy liabilities have previously been determined on a net of tax basis assuming a tax rate of 28% for future years. For 2019, a gross of tax approach has been used to determine policy liabilities with the exception of Traditional With-Profit business which continues to use a discount rate that is net of tax and investment management fees. Moving to a gross of tax approach has not impacted net assets. The Group’s view is this is a change in accounting estimate, not accounting policy, and therefore the prior year’s policy liabilities have not been restated.

vi Mortality and morbidity

Term Life Excluding Funeral Cover

The projected rates of claims reflect current experience and are based on the latest New Zealand standard mortality tables released by Gen Re and the NZ Society of Actuaries in 2012 (NZSA 08-10). The proportion of each table adopted was based on recent actuarial investigations carried out by the actuarial personnel of the Group.

7 Critical accounting estimate: Life insurance contracts (continued)

Funeral Cover and Other Individual
The projected rates of claims reflect current experience and are based on actual experience where possible and referenced against New Zealand standard mortality tables NZSA 08-10, NZ95, NZ97 (insured lives) and NZLT 12-14 (population lives).

Processes
An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the Group's business over the most recent four years (at least) is performed and statistical methods are used to adjust the rates reflected in the base table to a best estimate of mortality experience for the valuation. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. The actuarial investigations have been carried out by the Valuation Actuary and has been reviewed and signed off by the Appointed Actuary.

vii Rates of discontinuance
Future rates of discontinuance from lapses, cancellations or surrenders assumed for the major classes of individual business are primarily based on investigations of the Group's own experience. The valuation assumptions by duration were last reviewed for 31 December 2019 and are summarised in aggregate below with the comparative figures for 2018.

RPG's	**2019**	**2018**
Traditional With-Profit	5.5%	6.5%
Traditional Non-Profit	13.5%	8.0%
Individual Lump Sum – Regular & Level Premium	10.9%	11.7%
Individual Lump Sum – Single Premium	0.06%	0.04%
Funeral Cover	6.8%	5.9%
Individual Disability – Regular & Level Premium	22.7%	20.6%
Revolving Credit	12.7%	12.7%
Group Lump Sum	6.7%	6.7%
Group Disability	6.7%	6.7%
Travel Insurance	-	-
Other Non-Life	11.8%	11.8%

Lapse rate assumptions are also dependant on the customer's age for yearly renewable term products where premiums generally become more expensive with age. Lapse rates are assumed to be 100% at the next policy anniversary date when customers reach the maximum age assumption. For 2019 the maximum age assumption is generally 70 years (2018: 70 years), but 80 years for one legacy product (2018: 80 years).

viii Surrender value
Future policy surrender values for life insurance contracts are only applicable for Traditional products and are projected using the sums assured, mortality assumptions based on the UK Life Table A49-52 Ult (permanent assurances 1949 to 1952 ultimate) and an interest rate of 5% (2018: 5%). The numbers or surrenders are projected using best estimate lapses assumptions as shown above.

ix Future participating benefits
Assumed future supportable reversionary bonus rate for the major classes of conventional Traditional With-Profit individual participating business was calculated to be 1.90% p.a. (2018: 2.70% p.a.). This rate is in addition to contractual returns on participating policies.

7 Critical accounting estimate: Life insurance contracts (continued)

For discretionary participating business, it is policy to set bonus rates such that over long periods the returns to policyholders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. In applying the policyholders' share of distributions to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force, in particular minimum guarantees for business transferred.

Assumed future bonus rates included in policy liabilities were set such that the present value of policyholder benefits including future assumed bonus is equal to the value of the assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in distributions.

The declared bonuses for participating policies are also determined based on underlying returns on assets and notional asset allocation.

x Changes in actuarial assumptions

Effects of changes in actuarial assumptions from 31 December 2018 to 31 December 2019

Assumption Category	Effect on Future Profit Margins $'000 Increase/(decrease)	Effect on Policy Liability* $'000 Increase/(decrease)
Mortality and Morbidity rates	(324)	-
Lapse (cancellation) rates	(5,511)	-
Economic assumptions – discount rates	5,470	5,843
Economic assumptions – expense inflation	-	(2,121)
Expense level	4,903	-
Methodology Change	27,195	(21)
Total	**31,733**	**3,702**

** Note that the effect on policy liability excludes the impact from the change in the supportable bonus rate that would offset the impact from the assumption changes for Traditional With-Profit business.*

The increase in profit margins from methodology changes is driven mainly by the change from net of tax discount rates to gross of tax discount rates used in the calculation of policy liabilities. The increase in policy liabilities is mostly driven by lower risk discount rates as a result of a reduction in NZ government bond yields over 2019.

7 Critical accounting estimate: Life insurance contracts (continued)

xi Change in accounting estimates

Estimation	Nature	Impact on net assets ($m)
Unearned Premium Reserve	Implicit allowance in UPR for PHL	Nil
Discount rates	Discount rates applied gross of tax	Nil
RDR yield curve	Yield curve matched to duration of underlying cash flows	Nil
Profit carriers	PV of future premium (rather than claims) profit carrier	Nil
Related product groups	Related product groups of CLINZ and OPL combined	Nil
Projection Method	A single projection method as built for the combined business	Nil

Policy liabilities have previously been determined on a net of tax basis assuming a tax rate of 28% for future years. For 2019, a gross of tax approach has been used to determine policy liabilities (with the exception of Traditional With-Profit business). Moving to a gross of tax approach has not impacted net assets.

xii Sensitivity Analysis

The Group conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables such as the valuation interest rate, mortality, morbidity and inflation. The valuations included in the reported results are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group's business and as such represent a risk.

Variable	Impact of movement in underlying variable
1. Expense Risk	An increase in the level or inflationary growth of renewal or maintenance expenses over assumed levels will decrease profit and shareholder equity.
2. Market (Interest/Discount Rate) Risk	Depending on the profile of the investment portfolio, the investment income will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative movement in assets and liabilities, to the extent that these are not matched. Sensitivity testing performed measures the impact from the liability side only. For assets which are not contractually linked to policy liabilities, the business is exposed to market risk through changes in interest rates and discount rates.
3. Mortality & Morbidity Risk	For insurance contracts providing death benefits and those providing disability benefits, greater mortality rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity. For insurance contracts providing disability benefits, a greater morbidity rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
4. Lapse (Cancellation) Risk	The impact of the lapse rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier duration of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in lapse rates.

7 Critical accounting estimate: Life insurance contracts (continued)

For life insurance contracts, which are accounted for under MoS, amounts of liabilities, income or expenses recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins. The table below illustrates how changes in key variables as at 31 December 2019 would have impacted the reported profit and equity of the business.

Changes in Variable	Movement	Increase in Policy Liabilities $'000	Decrease in Shareholder Profit Before Tax $'000
1. Expenses Per Policy (Maintenance)	Increase by 10%	-	-
2. Discount Rate	Increase by 1 percentage point (net of taxes, fees)	(9,128)	9,128
3. Mortality/morbidity	Increase by 10%	-	-
4. Lapse (Cancellation) Rates	Increase by 10%	912	(912)
	Decrease by 10%	(962)	962

The impacts shown above are not necessarily linear. Note that the calculated impact of the discount rate change focuses solely on the policy liability and does not capture any potential offsetting change in the value of the investment assets. In the normal course of events a compensatory but not necessarily equal change would occur in the market value of assets and thus to the shareholder profit. We have assumed there is no change to the supportable bonus rate for Traditional With-Profit business in the sensitivity results shown.

Life insurance contracts consist of life insurance contract liabilities (including unvested policyholder benefits) and non-life contract liabilities.

The net outflows below are the present values of future premiums less the future policy benefits, transfers and non-investment linked business.

7 Critical accounting estimate: Life insurance contracts (continued)

	Note	Group 2019 $'000	Group 2018 $'000
Movements in life insurance contracts			
Net life insurance contracts at the end of the year		14,530	(26,770)
Net life insurance contracts at the end of the previous year		(26,770)	(31,854)
Net change in life insurance contracts		**41,300**	**5,084**
Net change in life insurance contracts as above		41,300	5,084
Net change in life insurance contracts as per Statement of Comprehensive Income		**41,300**	**5,084**
Components of life insurance contracts			
Life insurance contract liabilities			
- Value of future profits		132,766	106,098
- Value of future policy benefits, transfers & non-investment linked business		480,409	469,504
- Value of future charges for acquisition cost		(11,215)	(19,700)
- Value of future expenses		132,485	125,020
- Value of DAC tax separately recognised[1]		-	(47,297)
- Value of (balance of) future premiums		(719,915)	(660,395)
Net life insurance contracts as per Statement of Financial Position		**14,530**	**(26,770)**
Value of policy benefits subject to capital guarantees included in policy liabilities			
- In respect of contracts with discretionary participation features		5,162	5,372
- In respect of any other contracts not addressed above, the amount of the current termination values		695	641
Total		**5,857**	**6,013**
Life Insurance Contract Liabilities Future Net Inflows			
- Under one year		37,067	31,661
- Between one and five years		103,179	88,965
- Greater than five years		99,261	70,264
Total		**239,507**	**190,890**

[1] DAC tax is no longer separately recognised in 2019 due to moving to a gross of tax basis. There is no longer a tax cash flow in the policy liability that feeds the Profit before tax number.

xiii Liability adequacy test

At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used.

Liabilities are grouped into related product groups and each group is tested against the best estimate of future cash flows. If the liability of the related product group is less that the best estimate, the liability is increased with the expense being booked directly through profit or loss. The test was passed.

8 Critical accounting estimate: Outstanding claims

A provision is made at the period end for the estimated cost of claims reported but not settled at balance date and the cost of claims Incurred But Not Reported ("IBNR") to the Group. The estimated cost of claims includes some allowance for direct expenses to be incurred in settling claims and allows for any material reinsurance or other recoveries. The outstanding reported claims reserve is based on case estimates at the individual policy level with allowances for the probability of declinature and the associated operating costs to administer these claims.

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 Group, where more information about the claim event is generally available.

In calculating the estimated cost of claims reported but not settled, the Group uses case estimates where possible. For IBNR claims reserves, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which, subject to the points made below, assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to reduce when compared with the cost of previously settled claims, including:

- Changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- The effects of changes in foreign exchange rates (travel business)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions where material.

	Group 2019 $'000	Group 2018 $'000
Claims under policies in the process of settlement	10,631	13,584
Claims incurred but not reported	6,699	3,619
Total insurance liabilities (current)	**17,330**	**17,203**

The carrying value of insurance liabilities approximate the fair value, as they are settled within a short period.

9 Statutory fund

As required by the Insurance (Prudential Supervision) Act 2010 ("the Act"), the Group has established a statutory fund in respect of its life insurance business – Cigna Statutory Fund Number 1 ("The Fund").

The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the Fund are only available for the life insurance business. In addition the assets of the Fund enjoy certain protections under the Act which are designed to ensure that the interests of holders of the life insurance policies are given certain priority over the interests of other parties, such as unsecured creditors.

As at 31 December 2019 there are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

The Statement of Financial Position and Statement of Comprehensive Income as split by fund, are broken down as follows:

	2019 – Group			2018 – Group		
	Statutory Fund $'000	Shareholder Fund $'000	Total $'000	Statutory Fund $'000	Shareholder Fund $'000	Total $'000
Statement of Financial Position						
Assets						
Cash and cash equivalents	9,065	15,185	24,249	9,130	18,025	27,155
Financial assets at fair value through profit or loss	86,070	11,397	97,467	68,567	821	69,388
Insurance receivables	5,318	355	5,673	7,245	355	7,600
Other receivables	1,050	2,654	3,704	1,006	7,457	8,463
Policy loans	183	-	183	188	-	188
Term deposits	-	-	-	-	900	900
Right-of-use assets	-	6,778	6,778	-	-	-
Life insurance contract assets	-	-	-	29,716	(2,946)	26,770
Property, plant and equipment	-	1,357	1,357	-	1,829	1,829
Intangible assets	-	1,498	1,498	-	1,186	1,186
Deferred tax asset	(8,162)	38,891	30,729	-	-	-
Less Liabilities						
Accounts payable	2,632	6,484	9,116	4,334	5,550	9,884
Employee entitlements	-	11,085	11,085	634	7,724	8,358
Other liabilities	146	61	207	305	(23)	282
Lease liabilities	-	7,033	7,033	-	-	-
Provision	7,591	-	7,591	-	-	-
Outstanding claims	15,036	2,294	17,330	15,207	1,996	17,203
Life insurance contract liabilities	11,691	2,839	14,530	-	-	-
Deferred tax liability	-	-	-	47,297	(12,973)	34,324
Net Assets	**56,428**	**48,318**	**104,746**	**48,075**	**25,353**	**73,428**
Opening Equity	48,075	25,353	73,428	42,938	20,539	63,477
Distributions to Shareholder Fund	-	-	-	(5,500)	5,500	-
Profit	8,353	22,965	31,318	10,637	(686)	9,951
Closing Equity	**56,428**	**48,318**	**104,746**	**48,075**	**25,353**	**73,428**

9 Statutory fund continued

	2019 – Group			2018 - Group		
	Statutory Fund $'000	Shareholder Fund $'000	Total $'000	Statutory Fund $'000	Shareholder Fund $'000	Total $'000
Statement of Comprehensive Income						
Income						
Net premium revenue	82,134	12,872	95,006	80,351	14,100	94,451
Fee and other revenue	1,016	603	1,619	1,125	635	1,760
Investment revenue	7,700	378	8,078	6,598	271	6,869
Less Expenses						
Net claims, change in reserves & operating expenses	121,632	16,805	138,437	78,479	15,692	94,171
Loss / (profit) before tax	**(30,782)**	**(2,952)**	**(33,734)**	**9,595**	**(686)**	**8,909**
Less income tax expense	(39,135)	(25,917)	(65,052)	(1,042)	-	(1,042)
Loss / profit after tax	**8,353**	**22,965**	**31,318**	**10,637**	**(686)**	**9,951**
Add Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss)	**8,353**	**22,965**	**31,318**	**10,637**	**(686)**	**9,951**

10 Solvency margin

Solvency requirements

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the statutory fund enjoy certain protections under the IPSA, which are designed to ensure that the interests of holders of life insurance policies are given priority over the interests of other parties, such as unsecured creditors.

The Group maintains a separate solvency margin for each of its Statutory and Shareholder funds, which is calculated as the difference between actual solvency capital and the minimum solvency capital, as shown below. The methodology and bases for determining the solvency margin are in accordance with the Solvency Standards for Life Insurance Business and Non-Life Insurance Business issued by the Reserve Bank of New Zealand. The actual solvency capital for each fund and for the consolidated entity exceeds the minimum requirements.

		Statutory Fund $'000	Shareholder Fund $'000	Group $'000
As at 31 December 2019				
Actual solvency capital	(A)	54,298	7,934	62,232
Minimum solvency capital	(B)	43,400	4,538	47,938
Solvency Margin	**(A)-(B)**	**10,898**	**3,396**	**14,294**
Solvency Ratio	**(A)/(B)**	**125%**	**175%**	**130%**
As at 31 December 2018				
Actual solvency capital	(A)	48,075	11,194	59,269
Minimum solvency capital	(B)	30,047	6,470	36,517
Solvency Margin	**(A)-(B)**	**18,028**	**4,724**	**22,752**
Solvency Ratio	**(A)/(B)**	**160%**	**173%**	**162%**

10 Solvency margin (continued)

No dividend has been declared for 2019. Capital surplus levels remain within the Group's long term target operating range.

c Investments

This note provides further information about the investments held by the Group, outlining the return received and the categorisations of these assets, including:

- a breakdown of the investment revenue streams
- specific accounting policies where relevant
- disaggregated information for those instruments considered to be most significant in the context of the Group's operations
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

11 Investment revenue

	Group 2019 $'000	Group 2018 $'000
Dividend income	24	23
Interest income	3,132	4,458
Net fair value gains on financial assets designated at fair value through profit or loss	4,923	2,388
Total investment revenue	**8,078**	**6,869**
Total investment revenue by contract type:		
Life insurance contracts		
Income from:		
Managed investment funds	436	(54)
Fixed interest securities and cash	7,642	6,923
Total life insurance contracts investment revenue	**8,078**	**6,869**

Accounting for investment income from major activities

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income

Dividend income from financial assets is recognised in profit or loss as part of investment income when the Group's right to receive payment is established.

Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

12 Financial instruments by categories

The Group has determined that financial assets are all assets held backing life insurance contracts with the exception of property, plant and equipment, intangible assets and deferred tax assets. Such assets have been divided into two different categories; Amortised cost and fair value though profit or loss. All financial liabilities are measured at amortised cost except for investment contract liabilities which are measured at fair value.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

The analysis of financial assets and liabilities into their categories is set out in the table below:

	Amortised cost	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Group Total
As at 31 December 2019 – Group	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	24,249	-	-	24,249
Financial assets held at fair value through profit or loss	-	97,467	-	97,467
Insurance receivables	5,673	-	-	5,673
Other receivables (excl. prepayments)	1,952	-	-	1,952
Policy loans	183	-	-	183
Accounts payable	-	-	(9,076)	(9,076)
Employee entitlements	-	-	(11,085)	(11,085)
Other liabilities	-	-	(207)	(207)
Insurance liabilities	-	-	(17,330)	(17,330)
Provisions	-	-	(7,591)	(7,591)
Total	**32,057**	**97,467**	**(45,289)**	**84,235**
As at 31 December 2018 – Group				
Cash and cash equivalents	27,155	-	-	27,155
Financial assets held at fair value through profit or loss	-	69,388	-	69,388
Insurance receivables	7,600	-	-	7,600
Other receivables (excl. prepayments)	6,798	-	-	6,798
Policy loans	188	-	-	188
Term deposits	900	-	-	900
Accounts payable	-	-	(9,884)	(9,884)
Employee entitlements	-	-	(8,358)	(8,358)
Other liabilities	-	-	(282)	(282)
Insurance liabilities	-	-	(13,584)	(13,584)
Total	**42,641**	**69,388**	**(32,108)**	**79,921**

Refer to note 22 for considerations on interest rate risk.

12 Financial instruments by categories (continued)

Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined and measured as follows:

Level 1 – The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 2 financial instruments in the fair value hierarchy are recorded base on broker quotes and unit prices as supplied by Interactive Data Corporation (2018: the same).

Level 3 – If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Group's financial assets and liabilities that are measured at fair value.

	2019				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Recurring measurements								
NZ Government Bonds	-	90,738	-	90,738	-	67,007	-	67,007
NZ Corporate Bonds	-	2,926	-	2,926	-	514	-	514
European Corporate Bonds	-	1,063	-	1,063	-	307	-	307
Canadian Corporate Bonds	-	757	-	757	-	-	-	-
NZ Managed Funds	-	1,006	-	1,006	-	770	-	770
European Managed Funds	-	977	-	977	-	790	-	790
Total	**-**	**97,467**	**-**	**97,467**	**-**	**69,388**	**-**	**69,388**

d Non-financial Assets and Liabilities and Taxation

This note provides further information about those non-financial assets, liabilities and taxation position that the Directors consider significant for an understanding of the Group's financial position and performance, including:

- income tax expense and deferred tax asset and liability breakdown;
- relevant accounting policies;
- estimates and judgements made in determining these items;
- explanation of the calculation basis for each type of non-financial assets and liabilities; and
- individually significant items.

13 Taxation

	Group 2019 $'000	Group 2018 $'000
Income tax recognised in profit or loss		
Comprising:		
Current tax	-	-
Deferred tax	(65,053)	(1,042)
Income tax expense	**(65,053)**	**(1,042)**
(Loss) / profit before tax	(33,735)	8,909
Income tax at 28%	(9,446)	2,495
Permanent differences		
- Effect of pre-2010 life tax regime	(720)	(767)
- other tax permanent difference	604	598
Non-deductible policyholder income and expenses	(25,305)	(1,042)
Income tax under / (over) provided in prior years	(401)	-
Tax effect of unrealised investment income	-	(103)
Recognition of tax losses	(29,785)	(2,223)
Income tax (credit)/expense	**(65,053)**	**(1,042)**

Deferred tax assets and liabilities

	2019 - Group			2018 - Group		
	Opening balance $'000	Movement charged to profit or loss $'000	Closing balance $'000	Opening balance $'000	Movement charged to profit or loss $'000	Closing balance $'000
Movements in deferred taxation assets						
Available tax losses	12,973	21,677	34,650	12,973	-	12,973
Other provisions and accruals	-	6,366	6,366	-	-	-
Total deferred tax assets	**12,973**	**28,043**	**41,016**	**12,973**	**-**	**12,973**

13 Taxation (continued)

Movements in deferred taxation liabilities						
Life insurance contracts	(47,297)	37,010	(10,287)	(48,339)	1,042	(47,297)
Total deferred tax liabilities	**(47,297)**	**37,010**	**(10,287)**	**(48,339)**	**1,042**	**(47,297)**
Total deferred tax	**(34,324)**	**65,053**	**30,729**	**(35,366)**	**1,042**	**(34,324)**

Accumulated tax losses are recognised in the Statement of Financial Position to the extent that they are expected to be used in the foreseeable future. Given the transaction described in note 30: Subsequent events, the Group has now recognised all tax losses on balance sheet and has no unrecognised losses. Recognition of these tax losses was justified by the forecast profit that the combined entities will generate.

The realisation of the tax benefit of the balance of these losses is dependent on the Group meeting the requirements of the Income Tax Act 2007.

Accounting for taxation relation to the Group's tax position

Current tax

Current tax is calculated in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax assets are recognised to the extent that it is probable that profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Life insurance contracts

The Group shifted from calculating Life Insurance Contracts on a net of tax basis to a gross of tax basis during the year. The impact of this on business that existed at the beginning of the year is summarised below.

	Net Basis $'000	Existing Business Impact $'000	Gross Basis $'000
Life Insurance Asset/(Liability) excluding DTL	(14,265)	40,784	26,519
Deferred Tax Asset/(Liability)	46,772	(40,804)	5,968
Life Insurance Asset/(Liability) including DTL	**32,507**	**21**	**32,487**

14 Other receivables

	Note	Group 2019 $'000	Group 2018 $'000
Sundry debtors		745	783
Accrued interest income		669	542
Prepayments		1,713	1,665
Related party loans and receivables	26	538	5,473
Total other receivables (current)		**3,665**	**8,463**

14 Other receivables (continued)

Other receivables past due but not impaired
The Group considers that other receivables are past due if payment has not been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Group is $114k (2018: $365k).

15 Leases

NZ IFRS 16: Leases (NZ IFRS 18) has been adopted this year, effective from 1 January 2019.

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of carparks and motor vehicles (i.e. those leases that have a lease term of 12 months or less and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to operating costs for building leases. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to six years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassess the lease term if there is a significant event or change in circumstance that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

15 Leases (continued)

Amounts recognised in the statement of financial position and profit and loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period.

	Right-of-use assets				Lease liabilities
	Buildings	Motor vehicles	Photocopiers	Total	Total
	$'000	$'000	$'000	$'000	$'000
As at 1 January 2019	**7,082**	**456**	**68**	**7,606**	**7,606**
Additions	592	562	7	**1,161**	1,161
Termination	(19)	(5)	-	**(24)**	(23)
Depreciation expense	(1,660)	(267)	(38)	**(1,965)**	-
Interest expense	-	-	-	-	338
Payments	-	-	-	**-**	(2,049)
As at 31 December 2019	**5,995**	**746**	**37**	**6,778**	**7,033**

The Group recognised rent expense from short-term leases of $79k and leases of low-value assets of $176k for the financial year.

16 Property, plant and equipment

	Group Leasehold Improvements	Group Office Equipment	Group Furniture and Fittings	Group Computer Equipment	Group Work in Progress	Group Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 January 2018						
Cost	1,484	210	637	1,812	38	4,181
Accumulated depreciation and impairment	(426)	(124)	(286)	(1,225)	-	(2,061)
Net book amount	**1,058**	**86**	**351**	**587**	**38**	**2,120**
Year ended 31 December 2018						
Opening net book amount	1,058	86	351	587	38	2,120
Additions – acquisitions	-	6	7	379	12	404
Transfers	-	-	-	38	(38)	-
Disposals	-	-	(96)	(7)	-	(103)
Depreciation charge	(165)	(39)	(43)	(345)	-	(592)
Closing net book amount	**893**	**53**	**219**	**652**	**12**	**1,829**
As at 31 December 2018						
Cost	1,484	216	409	2,183	12	4,304
Accumulated depreciation and impairment	(591)	(163)	(190)	(1,531)	-	(2,475)
Net book amount	**893**	**53**	**219**	**652**	**12**	**1,829**

16 Property, plant and equipment (continued)

Year ended 31 December 2019						
Opening net book amount	893	53	219	652	12	1,829
Additions – acquisitions	-	-	21	47	-	68
Transfers	-	-	-	12	(12)	-
Disposals	(5)	-	(8)	-	-	(13)
Depreciation charge	(165)	(34)	(36)	(292)	-	(527)
Closing net book value	**723**	**19**	**196**	**419**	**-**	**1,357**
As at 31 December 2019						
Cost	1,473	216	408	2,224	-	4,321
Accumulated depreciation and impairment	(750)	(197)	(212)	(1,805)	-	(2,964)
Net book amount	**723**	**19**	**196**	**419**	**-**	**1,357**

Depreciation is calculated using the straight-line method to allocate asset cost or revalued amounts, net or residual values, overestimated useful lives.

Computer equipment	4 years SL
Leasehold improvements	9 years SL
Furniture and fittings	12-16 years SL
Office equipment	5 years SL

17 Intangible assets

	Group Goodwill $'000	Group Other intangible assets $'000	Group Work in Progress $'000	Group Total $'000
As at 1 January 2018				
Cost	750	7,703	-	8,453
Accumulated amortisation and impairment	-	(7,473)	-	(7,473)
Net book amount	**750**	**230**	**-**	**980**
Year ended 31 December 2018				
Opening net book amount	750	230	-	980
Additions – acquisition	-	301	-	301
Amortisation charge *	-	(95)	-	(95)
Closing net book amount	**750**	**436**	**-**	**1,186**
As at 31 December 2018				
Cost	750	8,004	-	8,754
Accumulated amortisation and impairment	-	(7,568)	-	(7,568)
Net book amount	**750**	**436**	**-**	**1,186**
Year ended 31 December 2019				
Opening net book amount	750	436	-	1,186
Additions – acquisition	-	-	450	450

17 Intangible assets (continued)

Amortisation charge *	-	(138)	-	(138)
Closing net book amount	**750**	**298**	**450**	**1,498**
As at 31 December 2019				
Cost	750	8,004	450	9,204
Accumulated amortisation and impairment	-	(7,706)	-	(7,706)
Net book amount	**750**	**298**	**450**	**1,498**

* Amortisation expenses are included in 'Other Expenses' of the Statement of Comprehensive Income

Amortisation methods and useful lives

Intangible assets with a limited useful life are amortised using the straight-line method. The rates are as follows:

Acquired computer software licences	2-4 years SL

Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business or shares in a subsidiary. Goodwill is allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed.

Goodwill of $750k was recognised on acquisition of the Grown Ups subsidiary which has now been integrated into Cigna Life Insurance New Zealand. This is now allocated to Cigna Life Insurance New Zealand CGU.

Impairment considerations

In assessing the goodwill for impairment the Group has considered the cash flows generated from the business as a whole. The operating cash flows of the CGU for 31 December 2019 year and the financial year 2020 budget significantly exceeded the carrying value of goodwill. No impairment has been recognised.

18 Accounts payable

	Note	Group 2019 $'000	Group 2018 $'000
Sundry creditors and accruals		4,013	2,762
Reinsurance premiums payable to related parties	26	707	131
Other reinsurance premiums payable		465	2,143
Amounts due to related parties	26	1,666	1,554
Deposits held for policies not issued		83	89
Payable to agents		2,146	3,205
Total accounts payable		**9,077**	**9,884**

19 Employee entitlement

	Note	Group 2019 $'000	Group 2018 $'000
Annual leave		2,664	2,020
Long service leave		2,357	2,191
Bonus		5,826	4,113
Other		239	34
Total employee entitlement		**11,085**	**8,358**

Employee entitlements include all employees of the New Zealand Group.

20 Provisions for Remediation

	Group 2019 $'000
Opening balance	-
Provision raised	7,700
Provision utilised	(109)
Closing balance	**7,591**

Indexation Provision

The Group has recognised a provision of $7.7m for customer remediation payments. While the remediation exercise is currently in progress and may take up to 12 months to complete, the remaining provision of $7.6m represents the Group's best estimate of the liability as at 31 December 2019.

In determining the provision recognised, the Group has made an assessment (best estimate) of the level of customer take up (that is, customers who elect a remediation payment). The level of customer take up is a key assumption in determining the overall expected payments – the greater the number of customers who elect a remediation payment, the greater the cost of remediation to the Group. The range of reasonably possible take up percentages would indicate a lower and upper provision range of $6.4m to $12.9m. If the take up rate for remediation payments was 10% higher than expected, then the estimated cost would increase by approximately $1.3m.

21 Analysis of expense by nature

	Group 2019 $'000	Group 2018 $'000
Amortisation expense	138	95
Depreciation expense	499	620
Depreciation expense right-of-use asset	1,965	-
Directors' fees	184	159
Employee benefit expense	53,044	26,419
Employee share options & restricted stock expense	-	51
Fees paid to auditors PwC New Zealand		
- Audit fees*	365	198
- Half year financial statement review	41	35
- Capital benchmarking**	50	-
Foreign exchange loss / (gain)	16	26
Legal expenses	212	1,746
Rental expense	132	1,195
Superannuation contributions	2,797	1,668
Termination expenses	718	194
Recharge of OnePath expenses	(37,490)	(6,810)

* This includes the assurance engagement over the annual solvency return and is inclusive of GST.
** Providing benchmarking services in relation to the Group's capital policy review.

The Company incurs a number of expenses for the New Zealand Group of companies (Cigna Life Insurance New Zealand Limited, OnePath Life (NZ) Limited and Cigna New Zealand Holdings Limited). These expenses are allocated and recharged as appropriate on a monthly basis.

Where such costs have been incurred, they are reported gross in the above note. However, on the Statement of Comprehensive Income and the Statement of Cash Flows the recoveries are shown against the underlying costs. The recovery billed to related parties at 31 December 2019 was $37,490k (31 December 2018 $6,810k).

e Risk

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

22 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Financial risks are generally monitored and controlled by selecting appropriate assets to back life insurance contracts. The assets are regularly monitored by the Investment Management Committee and reported to the Board monthly to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits as detailed in the Group's relevant policies.

22 Financial risk management (continued)

Financial risk management objectives

Financial instruments are fundamental to the Company's business, constituting the core element of its operations. Accordingly, the risk associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Company's balance sheet. These risks and the Company's policies and objectives for managing such risk are outlined below. 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 Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk management policies and procedures

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk.

(a) Risk management objectives and policies for mitigating risk

The Group's objective is to satisfactorily manage the risks in line with the Group's Risk Strategy and Risk Policy, the relevant details of which are included below.

(b) Strategy for managing risk

Risk strategy

The Group has put in place a strategy to ensure that the risks underwritten satisfy policyholders' risk and reward objectives, whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the determination of a risk appetite for each relevant risk, the implementation of processes and controls to mitigate the risks (in accordance with our appetite), and continuous monitoring and improvement of procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital requirements are measured using the regulatory reporting requirements to which the Group is subject.

Allocation of capital

The Group is required to hold a certain level of assets (capital) in order to prudently meet its liabilities to policyholders, fulfil its new business plans and meet regulatory capital requirements. Capital is held partly in the Statutory Fund based on management's assessment of the risk that each line of business is exposed to, and its views on the profitability of the products that are sold, on the regulatory capital requirements and its own views about a suitable margin above the regulatory requirement. At no stage during the year was the Group in breach of the minimum solvency capital requirements or its internal target framework. Refer Note 10 for disclosures on the Group's solvency requirements and margins.

(c) Methods to monitor and assess risk exposures

Exposure to risk

In an effort to protect and enhance shareholder value, the Group actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments.

Management reporting

The Group reports monthly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Board and to Cigna's Asia Pacific Regional Management Committee.

22 Financial risk management (continued)

(d) Methods to limit or transfer risk exposure

Reinsurance

The Group's reinsurance activities and needs are monitored and directed by the Board, based upon recommendations from the Appointed Actuary. The Appointed Actuary can call on the support of the ultimate Parent Company's Division Reinsurance and Underwriting Department based in the United States. Reinsurance programmes are put in place to mitigate the impact on the Group's exposure to risk and to ensure the achievement of an appropriate choice of type of reinsurance and retention levels.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is monitored by the internal quality control personnel to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques

Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed pay out patterns. Sensitivity analyses help to indicate how certain market fluctuation scenarios would affect future cash flows and fair values. For non-discretionary participatory insurance products, such as unit-linked products, the interest and market risks are passed on to the policyholder.

(e) Concentration of insurance risk

Insurance risks associated with human life events

The Group aims to maintain an appropriate solvency margin in excess of the minimum requirements for any given in force business mix. The Group determines insurance risk concentrations based on the levels of sum assured as well as age and gender profiling of the policyholders. The Group uses reinsurance to manage the impact of insurance risk concentrations.

Financing and liquidity risk

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Group maintains sufficient liquid assets to ensure that the Group can meet its obligations and other cash outflows on a timely basis. The Group is required to monitor its own liquidity position and reports monthly to the Board of Directors its liquidity ratio.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding management requirements.

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in Note 12 Financial instruments by categories

22 Financial risk management (continued)

Quantitative liquidity risk

The table below summarises the Group's financial liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash outflows that include interest payments and exclude the impact of netting agreements.

2019 - Group	**Less than 1 year $'000**	**>1 year $'000**	**Total $'000**
Financial liabilities			
Payables	9,077	-	9,077
Employee entitlements	11,085	-	11,085
Other liabilities	207	-	207
Lease liabilities	1,930	8,135	10,065
Insurance liabilities	17,330	-	17,330
Provisions	7,591	-	7,591
Letters of credit and guarantees issued	2,550	-	2,550
Total	**49,770**	**8,135**	**57,905**

2018 – Group	**Less than 1 year $'000**	**>1 year $'000**	**Total $'000**
Financial liabilities			
Payables	9,884	-	9,884
Employee entitlements	8,358	-	8,358
Other liabilities	282	-	282
Insurance liabilities	13,584	-	13,584
Letters of credit and guarantees issued	2,550	-	2,550
Total	**34,658**	**-**	**34,658**

As at 31 December 2019, the Group does not expect the guarantees to be called. The guarantee is $2,500k for Payroll Letter of Credit and $50k over the Grown Ups credit cards. Subsequent to balance date, the Payroll Letter of Credit was released on 31 January 2020.

Market risk

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies for these short term products.

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk through its fixed interest investments and cash holdings. The Group manages its exposure through the use of an experienced investment manager operating within the confines of a Board approved investment mandate. The Group's exposure to interest rate risk is shown by the below sensitivity analysis.

22 Financial risk management (continued)

Sensitivity analysis interest rate risk
As at 31 December if interest rates on cash deposits and interest bearing investments had been 100 bpts higher or 100 bpts lower with all other variables held constant the impact on post tax profits and equity would have been as follows:

	Group 2019 +100bpts/(100bpts) $'000	Group 2018 +100bts/(100bpts) $'000
Effect on profit and equity		
Cash and cash equivalents	242/(242)	272/(272)
Financial assets at fair value through profit or loss	975/(975)	678/(678)
Leases	3/(3)	-

Foreign currency risk
Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency. The Group has no material exposure to any foreign currency risk and as such any sensitivity on the exposure is considered immaterial.

Exposure to price risk
Price risk is the risk of loss resulting from the decline in prices of equity securities or managed investment trusts. The Group is exposed to the price risk because of its investments in managed investment trusts.

The price risk is managed by diversification of the Investment portfolio, which is done in accordance with the limits set by the Investment mandates and monitored by the Group's internal Management Investment Committee and the Board of Directors.

Sensitivity analysis price risk on managed investments trusts
As at 31 December if prices were to increase or decrease by 10% with all other variables held constant the impact on post tax profits and equity would have been as follows:

	Group 2019 +10%/(10%) $'000	Group 2018 +10%/(10%) $'000
Effect on profit and equity	198/(198)	156/(156)

Credit risk exposure
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit exposure in respect of the Group's cash deposit balances is limited to banks with minimum A credit ratings. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group of 'A'. Independent ratings are used for customers that are rated by rating agencies. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

22 Financial risk management (continued)

The maximum credit risk for financial assets is the carrying amount less, where applicable, any provision for impairment. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, term deposits, insurance receivables and investment debtors, sundry debtors and related party loans and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

No financial assets are held as collateral, security or other credit enhancements.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings. The table below sets out the equivalent Standard and Poor's credit rating for cash and cash equivalents, short term investments, fixed interest securities, managed investment funds, insurance receivables and other receivables designated at fair value through profit or loss.

	2019 - Group		2018 - Group	
	%	$'000	%	$'000
Cash and cash equivalents				
AAA	-	-	-	-
AA+	-	-	5.9%	1,597
AA	-	-	-	-
AA-	96.74%	23,458	92.5%	25,134
A+	3.26%	791	1.6%	424
Total cash and cash equivalents	**100.0%**	**24,249**	**100.0%**	**27,155**
Term investments				
AA-	-	-	100.0%	900
Total term investments	**-**	**-**	**100.0%**	**900**
Financial assets at fair value through profit or loss				
Fixed interest				
AAA	1.9%	1,820	0.4%	307
AA+	88.4%	86,163	96.7%	67,007
AA	4.7%	4,575	-	-
AA-	3.1%	2,927	0.7%	514
A+	-	-	-	-
A	-	-	-	-
Total fixed interest	**98.0%**	**95,485**	**97.8%**	**67,828**
Managed investment funds				
No external rating	2.0%	1,982	2.2%	1,560
Total financial assets at fair value through profit or loss	**100.0%**	**97,467**	**100.0%**	**69,388**

22 Financial risk management (continued)

	2019 - Group		2018 - Group	
	%	$'000	%	$'000
Insurance receivables				
AA+	10%	595	17.4%	1,324
AA-	29%	1,617	19.0%	1,446
A+	-	-	10.2%	776
A	7%	413	6.5%	497
A-	2%	123	-	-
No external rating	52%	2,925	46.9%	3,557
Total insurance receivables	**100.0%**	**5,673**	**100.0%**	**7,600**
Other receivables				
AAA	0.2%	5	0.1%	5
AA+	15.3%	561	5.6%	478
AA-	1.3%	48	0.1%	9
A+	1.4%	50	4.7%	399
A	-	-	4.1%	347
AA-	10.4%	383	-	-
No external rating	71.4%	2,615	85.4%	7,225
Total other receivables	**100.0%**	**3,665**	**100.0%**	**8,463**

The financial strength ratings for the Group's major reinsurers are shown in the table below:

	Credit Rating Agency	2019	2018
BNZ Life	AM Best	A	A
Swiss Reinsurance Co. (Australian Branch)	S&P	AA-	AA-
Westpac Life	S&P	A+	AA-
RGA Reinsurance Co. (US)	S&P	AA-	AA-
General Reinsurance Life Australia Ltd. (Gen Re)	S&P	AA+	AA+
Swiss Re (Hong Kong)	S&P	AA-	AA-
Lloyds	S&P	A+	A+
Hannover Life Reassurance of Australia Ltd	S&P	AA-	AA-
Cigna Global Reinsurance Company Limited	Not Rated		

f Unrecognised Items and Other Information

This section provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance but not included as they do not satisfy the recognition criteria.

23 Operating lease commitments

The Group leases premises, equipment and vehicles. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low value leases, see note 15 for further information:

23 Operating lease commitments (continued)

	Group 2019 $'000	Group 2018 $'000
Payable no later than one year	-	2,158
Payable later than one year and not later than five years	-	6,218
Payable later than five years	-	1,343

24 Contingent liabilities

At 31 December 2018 the Group had commenced a complete product review as part of its response to the RBNZ/FMA review into the culture and conduct of the Life Insurance Industry. A response including the product review and any action plan was supplied to the regulators in June 2019. At 31 December 2018 there was a potential risk that the Group had a material contingent liability. As at 31 December 2019 a provision has been recognised in respect of this review. No contingent liabilities exist as of 31 December 2019.

25 Capital commitments

The Group had no material capital commitments at balance date (2018: Nil).

26 Related party information

The Group is a wholly owned subsidiary of Cigna New Zealand Holdings Limited. Its ultimate parent company is Cigna Corporation. All members of the Group are considered to be related parties of the Group.

On 25 October 2017, a dividend was declared and authorised by the Board of $60 million ($120 per share). Of this $60 million, $15 million was paid in October 2017 with the remaining paid in September 2018. This was discounted to fair value due to the length of the payable period.

On 30 November 2018 Cigna New Zealand Holding Company, completed the purchase of OnePath Life (NZ) Limited from ANZ Bank. This transaction resulted in approximately 220 staff being offered employment terms in Cigna Life Insurance New Zealand and with a shared management team operating across both insurance entities. The two entities have entered into a recharge agreement to appropriately allocate costs between the two entities.

(a) Key management personnel compensation

	Group 2019 $'000	Group 2018 $'000
Salaries and other short term benefits	5,444	4,111
Post employment benefits	537	502
Termination benefits	189	-
Directors fees	184	159

26 Related party information (continued)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise). The Group considers the Directors and Senior Management team as Key Management Personnel (KMP).

In addition to benefits provided by the Company it is noted that the Company's ultimate parent Cigna Corporation administers a Long Term Incentive Scheme issuing various awards to local KMP. The company is recharged the costs of the scheme and has recognised these costs within employee expenses in profit or loss. The associated cost in the current year was $292,000 (2018: $152,000).

The overall increase in Salaries and other short term benefits payments to Key Management Personnel reflects the increase in headcount in 2019.

(b) Transactions with other related companies

		Group 2019 $'000	Group 2018 $'000
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services	80	298
OnePath Life (NZ) Limited	Recharge of goods and services	64,646	8,359
Cigna New Zealand Holdings Limited	Recharge of goods and services	15	9,491
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	-	63
Cigna Global Holdings, Inc	Recharge of goods and services	(2,260)	(948)
Cigna Global Reinsurance Company Limited	Reinsurance premium paid	(1,629)	(1,573)
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt	314	311
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	421	2,356
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(1,106)	(734)
Cigna International Corporation – Hong Kong Branch	Recharge of goods and services	342	7,627
Cigna Hong Kong Holdings Limited	Dividend paid	-	(45,000)

(c) Related party balances outstanding

	Note		Group 2019 $'000	Group 2018 $'000
Receivables				
Cigna Global Reinsurance Company Limited		Reinsurance commission earnt	130	26
Cigna Global Reinsurance Company Limited		Reinsurance claims recovery	863	1,087
Cigna Global Reinsurance Company Limited		Profit share reinsurance	-	1,448
	6		**992**	**2,561**
Cigna International Corporation – Hong Kong Branch		Recharge of goods and services	479	185
Cigna Global Holdings, Inc		Recharge of goods and services	45	16
OnePath (NZ) Limited		Recharge of goods and services	-	4,359
Cigna New Zealand Holdings Limited		Recharge of goods and services	15	913
	14		**539**	**5,473**

26 Related party information (continued)

	Note		Group 2019 $'000	Group 2018 $'000
Payables				
Cigna Global Reinsurance Company Limited	18	Reinsurance premiums	(707)	(131)
Cigna Global Holdings, Inc		Recharge of goods and services	(309)	(360)
Cigna International Corporation – Hong Kong Branch		Recharge of goods and services	(21)	(1,164)
Cigna HLA Technology Services Company Limited		Recharge of goods and services	(590)	(30)
OnePath Life (NZ) Limited		Recharge of goods and services	(817)	-
	18		**(1,737)**	**(1,554)**

27 Changes to comparatives

The 2018 comparative period has been amended to ensure consistency with the current presentation. The Dividend Discounting of $1.9m as at 31 December 2018, which was previously included within Other expenses, is now shown in Finance Costs as at 31 December 2019 on the Statement of Comprehensive Income. There were no changes in the profit before tax as a result of the amendment.

	Previously stated $'000	Adjustment 2019 $'000	Reclassified 2018 $'000
Finance costs	-	(1,904)	(1,904)
Other expenses	(55,671)	1,904	(53,767)

28 New standards adopted by the Group

The Group has adopted NZ IFRS 16 *Leases* which supersedes NZ IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The new standard requires all leases, other than short-term leases, to be measured and accounted for as if they are finance leases, with lease assets and liabilities being recognised in the Statement of Financial Position.

NZ IFRS 16 has been applied by the Group using the modified retrospective approach. As at 1 January 2019 the right-of-use assets are measured at the amount equal to the lease liability. Prior periods have not been restated and are presented as previously reported under NZ IAS 17.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from NZ IAS 17 and NZ IFRIC 4 and has not applied NZ IFRS 16 to arrangements that were previously not identified as a lease under NZ IA 17 and NZ IFRIC 4.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application

28 New standards adopted by the Group (continued)

- Applied short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

On transition to NZ IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under NZ IFRS 16 was 4.49%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to lease liabilities recognised at 1 January 2019:

	$'000
Operating lease commitments at 31 December 2018	**9,719**
Weighted average incremental borrowing rate as at 1 January 2019	4.49%
Discounted operating lease commitments at 1 January 2019	**8,140**
Less:	
Commitments relating to short-term leases	(67)
Commitments relating to low-value assets	(467)
Lease liabilities as at 1 January 2019	**7,606**

29 New standards not yet adopted

The following relevant new standards, amendments or interpretations to existing standards are not yet effective and have not been early adopted by the Group:

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces NZ IFRS 4 Insurance Contracts. In contrast to the requirements in NZ IFRS 4, which are largely based on grandfathering previously local accounting policies for measurement purposes, NZ IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the Statement of Comprehensive Income based on the concept of services provided during the period

29 New standards not yet adopted (continued)

- Amounts that the policyholder will always receive, regardless of whether an insured event happens (no distinct investment components) are not presented in the income statement, but are recognised directly on the Statement of Financial Position
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from contracts.

IFRS 17 has an effective date for annual reporting periods beginning on or after 1 January 2023 (The NZ XRB are considering a proposal to defer the effective date of NZ IFRS17 to align with IFRS17). Early application is permitted, provided the entity also applies NZ IFRS 9 and NZ IFRS 15 on or before the date it first applies NZ IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

A contract was signed by Cigna International Markets with Deloitte in Hong Kong in January 2019 for the design phase. A business impact assessment was completed for Cigna Life Insurance New Zealand in 2018 which involved a qualitative gap analysis to help identify major gaps in the entity against technical requirements. Cigna International Markets, working in conjunction with Deloitte, are leading a centralised project to support the locally driven implementation of IFRS 17 across the affected Cigna Asia-Pacific business. Cigna Life Insurance New Zealand will continue to work closely with Cigna International Markets and its implementation partner. The focus of 2019 was on the design phase of the process which involved agreeing the methodology, deciding on the technological solutions, streaming of models and identifying the data flows and requirements.

The majority of 2020 will be focussed on the build phase of the process which will involve detailed design, data architecture roadmap, solution selection and functional specifications and will be mainly executed locally.

30 Subsequent events

OnePath Life (NZ) Limited

On 31 January 2020, all of the assets and liabilities of OnePath Life (NZ) Limited were transferred to the Company in exchange for consideration of $716 million, after obtaining necessary consents and approvals, including from the RBNZ. In conjunction with the transfer, OnePath Life (NZ) Limited distributed $716 million to its parent company Cigna New Zealand Holdings Ltd. Post the transfer and distribution, OnePath Life (NZ) Limited no longer has continuing business operations and the insurance license with RBNZ has been cancelled. The transaction was between two sister subsidiary companies (The Group and OnePath Life (NZ) Limited). For accounting purposes this represents a transaction under common control. The Group's accounting policy choice for such transactions is to recognise the assets and liabilities being transferred at the previous book values.

30 Subsequent events (continued)

The carrying amount of the identifiable assets and liabilities of OnePath as at the date of acquisition were:

		Carrying amount recognised on acquisition $000
Assets		
Cash and cash equivalents		7,848
Financial assets at fair value through profit or loss		151,327
Insurance receivables		8,399
Other receivables		2,720
Life insurance contract assets		824,236
Property, plant and equipment		6,252
Intangible assets		103,348
Total assets		1,104,131
Liabilities		
Accounts payable		3,735
Other liabilities		668
Current tax liability		2,747
Insurance receivables		3,398
Life insurance contract liabilities – reinsurance		160,159
Deferred tax liability		217,160
Total liabilities		387,867
Total identifiable net assets at carrying amount		**716,264**
Purchase consideration	-	**716,264**

Covid 19 Pandemic

Post year end, both the Company and the wider NZ and global economy were impacted by the Covid-19 Pandemic. The impact upon the future operations of the Company are still being assessed and as at the date of these financial statements are too early to quantify with certainty. However, the immediate impacts include:

- Significant volatility in interest rates driving large changes in asset and life insurance (policyholder) liability valuations
- All staff working from home for the self-isolation period consistent with Government directives;
- A larger than normal (for this time of year) volume of travel claims received relating to cancellation of travel following the unprecedented disruption in the travel industry globally.

The volume of travel claims received post year end, and the short term outlook in respect of travel insurance sales while the economy recovers has led to a transfer of $5m of capital from the Statutory Fund to the Shareholder Fund during March 2020. This transfer is reflected in the year-end solvency positon as a future distribution from OnePath life (NZ) Limited's Statutory Fund of $5m.

Cigna Life Insurance New Zealand Limited

Appointed Actuary's Report
For the year ended 31 December 2019

Section 78 Report in respect of Cigna Life Insurance New Zealand Limited
As at 31 December 2019

- This report is prepared for the Directors of Cigna Life Insurance New Zealand Limited ("CLINZ") under Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").
- As Appointed Actuary to CLINZ, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of CLINZ for the year ended 31 December 2019. For this purpose the actuarial information referred to is the information referred to in Section 77(4) of the Act.
- I have obtained all information and explanations that I have required to complete the review.
- In my opinion and from an actuarial perspective:
    i. The actuarial information contained in the financial statements has been appropriately included in those statements;
    ii. The actuarial information used in the preparation of the financial statements has been used appropriately in those financial statements.
- New IFRS17 accounting standards will take effect from 1 January 2023 and I have assumed no impact on CLINZ's projected solvency position from that date on the basis that the impact is still uncertain and that CLINZ, through its own entity or parent company would ensure appropriate solvency levels are maintained.
- In my opinion and from an actuarial perspective, as at 31 December 2019, Cigna is maintaining the required solvency margins imposed by the conditions of its licence under Section 21 of the Act.
- In addition to the 'Appointed Actuary' role for CLINZ, I am an employee of CLINZ, receiving remuneration in the form of a fixed salary with eligibility for performance bonuses. I have a small number of shares in Cigna Corporation, as part of an employee share scheme.

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Michael J Bartram. BSc (Hons), FIAA, FNZSA 23 April 2020

Independent auditor's report

To the shareholder of Cigna Life 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 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 significant accounting policies.

Our opinion

In our opinion the financial statements of the Group comprising Cigna Life Insurance New Zealand Limited (the Company) and its subsidiary present fairly, in all material respects, the financial position of the Group 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 Group 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 carries out other services for the Group in relation to the review of the interim financial information, benchmarking services related to the Company's review of capital policies, and other assurance services over the regulatory solvency return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview

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

Overall materiality: $0.948 million, which represents approximately 1% of premium revenue from insurance contracts for the year.

We chose premium revenue as our benchmark for materiality because, in our view it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark within the life insurance industry.

We have determined that there are two key audit matters:

- Valuation of life insurance contract liabilities, and
- The valuation of a provision to remediate policy indexation matters.

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 Group 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 Group, the accounting processes and controls, and the industry in which the Group 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 for the 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.

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Key audit matter	How our audit addressed the key audit matter

Valuation of life insurance contract liabilities

As detailed within note 7, as at 31 December 2019 the Group has life insurance contract liabilities of $14.53 million (31 December 2018: asset of $26.8 million).

We consider the valuation of life insurance contract liabilities as a key audit matter due to:

- the subjective judgements around key material assumptions required to be made by the Directors, and
- the sensitivity of the life insurance contract liabilities valuation to changes in these judgements and assumptions.

These key actuarial assumptions represent best estimate assumptions at reporting date and include the expected future cash flows to be generated by the policies. This includes estimates of future:

- premium payments adjusted for likely rates of discontinuance,
- investment returns, mortality and morbidity, and
- maintenance expenses and claims.

These forecast cash flows are then adjusted to present day values using long term economic assumptions including discount rates and inflation rate.

Life insurance policy data is used as key input to the actuarial estimates.

The Group made changes to the valuation methodology used to measure the life insurance contract liability. The most significant of these methodology changes were to value life insurance contract liabilities on a gross of tax basis (previously net of tax) and to change the methodology used to calculate the discount rate yield curves. These changes were applied prospectively and treated as a change in an accounting estimate.

We used PwC actuarial experts to assist with the audit of this area. Specifically, together we:

- assessed the reasonableness of the key assumptions including those for rates of discontinuance, mortality and morbidity rates, investment and maintenance expenses, discount rates and inflation rates. Our assessment of the assumptions included:
  - obtaining an understanding of, and testing, the controls in place to determine the assumptions,
  - assessing the approach (including changes to underlying estimates) used by management to derive the assumptions by applying our industry knowledge and experience, and
  - challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
- Assessed the reasonableness of the analysis of profit to consider whether assumption changes are consistent with experience and whether the movement in life insurance contract liabilities from the prior reporting period have been adequately explained.
- assessed the valuation methodologies used by applying our industry knowledge and experience
- in relation to changes to the valuation methodology, compared whether the methodologies, and any changes to those methodologies are consistent with recognised actuarial and accounting practices and expectations derived from market experience.

Policy data is a key input to the actuarial estimates. Accordingly, we tested the completeness and accuracy of data between source and actuarial valuation systems.

pwc

The valuation of a provision to remediate policy indexation matters

As at 31 December 2019 the Group has recognised a provision of $7.59 million for customer remediation payments (31 December 2018: Nil).

The determination of the provision requires management to exercise judgement. This judgement, particularly with respect to take up rates, has a material impact on the financial statements. For these reasons, we consider the valuation of the remediation provision to be a key audit matter.

In determining the value of the provision, the Group has used actuarial models to estimate the range of possible outcomes required to remediate the matter. These models use data (sum assured, age, indexation elections) obtained from underlying policy administration systems. The Group has then used judgement to estimate the level of customer take up (that is, customers who elect a remediation payment).

Remediation of the matter may occur through policyholders electing to retain insurance cover at current levels, or reducing insurance cover and receiving a premium refund. The Group has recognised a provision based on their best estimate of the amount of premiums expected to be refunded (take up rate) and the costs associated with remediating the matter.

The matters being remediated extend back over several years. The Group has determined that the recognition of the provision was a current year expense and did not represent a prior period error.

Refer to note 20 in the Group's financial statements.

Our procedures to address this key audit matter included:

- reviewing Board minutes, confirming the Group's intention, and therefore obligation, to remediate the matter
- assessing management's processes to identify impacted policyholders
- together with our actuarial experts, assessing the underlying methodology implemented to determine the indexation provision. We did this through applying our industry knowledge and experience. We also assessed the mathematical accuracy of the valuation models used by management to estimate the remediation amount.

We applied our industry knowledge and experience to assess management's judgement of take up rate and also performed sensitivity analysis to assess the impact of reasonable changes to this key judgement.

For a sample of policyholders, we confirmed the key information attributes (sum assured, age, election to take or not take indexation adjustments) to underlying policy records.

We considered whether the remediation provision was appropriately recognised in the current period, or whether it represented a prior period error.

Finally, we considered the appropriateness of financial statement disclosures, including sensitivities to key assumptions.

We have no matters to report from the procedures performed.

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, and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, if other information is included in the annual report, 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 Group'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 Group 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-1/

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 them 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 Kevin Brown.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 April 2020

Wellington