# Beneficial Insurance Limited

## Annual Report 2020

for the year ended 31 March 2020

# Contents

Beneficial Insurance Limited

# Statement of Comprehensive Income

for the year ended 31 March 2020

| $ thousands | note | 2020 | 2019 |
|---|---|---|---|
| Premium revenue | 3 | 13,151 | 11,766 |
| Claims expense and related insurance charges | 5 | (4,500) | (4,365) |
| Net insurance income | | 8,651 | 7,401 |
| Investment revenue - finance receivable | 4 | - | 50 |
| Investment revenue - bank | | 357 | 370 |
| Other income | | 115 | 122 |
| Other operating revenue | | 472 | 542 |
| **Net operating income** | | **9,123** | **7,943** |
| Employee benefits expense | 6 | (2,630) | (1,889) |
| Operating lease expenses | | - | (268) |
| Depreciation | 12, 22.1 | (469) | (23) |
| Finance costs | | (92) | - |
| Loss on sales of finance receivable | 19.1 | - | (149) |
| Profit / (loss) on sale of fixed assets | | - | (3) |
| Audit fees - audit of financial statements | | (52) | (52) |
| Audit fees - other assurance services | | (3) | (3) |
| Other operating expenses | | (1,598) | (1,726) |
| **Total expenses** | | **(4,844)** | **(4,113)** |
| Profit / (loss) before income tax | | 4,279 | 3,830 |
| Income tax (expense) / credit | 7 | 22 | (185) |
| **Profit / (loss) after income tax** | | **4,301** | **3,645** |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income** | | **4,301** | **3,645** |

The above statement should be read in conjunction with the accompanying notes



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Beneficial Insurance Limited

# Statement of Financial Position

as at 31 March 2020

| $ thousands | note | March 2020 | March 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | 186 | 257 |
| Short term investments | 19.2 | 12,632 | 11,300 |
| Insurance premiums receivable | 10 | 7,197 | 6,262 |
| Other assets | | 163 | 246 |
| Current tax asset | 7 | 238 | 170 |
| Deferred tax assets | 7 | 60 | 38 |
| Property and equipment | 12 | 175 | 104 |
| Right-of-use assets | | 1,180 | - |
| Deferred acquisition costs | 11 | - | - |
| Total assets | | 21,831 | 18,377 |
| **Liabilities** | | | |
| Trade and other payables | 13 | 1,723 | 1,254 |
| Lease liabilities | 22.2 | 1,246 | 6 |
| Outstanding claims liabilities | 15 | 816 | 709 |
| Unprocessed claims | | 49 | 54 |
| Unearned premium liabilities | 15 | 7,760 | 7,018 |
| Total liabilities | | 11,594 | 9,041 |
| **Net Assets** | | 10,237 | 9,336 |
| **Equity** | | | |
| Retained earnings | | 9,562 | 8,661 |
| Contributed equity | 17 | 675 | 675 |
| Total equity | | 10,237 | 9,336 |

The above statement should be read in conjunction with the accompanying notes

The financial statements were approved for issue by the Board on 15 September 2020.

Stephen R Tietjens
Chairman

Grant W McCurrach
Director



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# Statement of Changes in Equity

for the year ended 31 March 2020

| | Attributed to the owners of the company | | |
|---|---|---|---|
| $ thousands | Contributed Equity | Retained earnings | Total Equity |
| **Year ended 31 March 2020** | | | |
| At the beginning of the year | 675 | 8,661 | 9,336 |
| **Comprehensive income** | | | |
| Profit for the year | - | 4,301 | 4,301 |
| Total comprehensive income | - | 4,301 | 4,301 |
| **Transactions with shareholder, recorded directly in equity** | | | |
| Other contributed equity | - | - | - |
| Dividends | - | (3,400) | (3,400) |
| Total transactions with the shareholder | - | (3,400) | (3,400) |
| At the end of the year | 675 | 9,562 | 10,237 |
| **Year ended 31 March 2019** | | | |
| At the beginning of the year | 675 | 7,058 | 7,733 |
| **Comprehensive income** | | | |
| Profit for the year | - | 3,645 | 3,645 |
| Total comprehensive income | - | 3,645 | 3,645 |
| **Transactions with shareholder, recorded directly in equity** | | | |
| Dividends | - | (2,042) | (2,042) |
| Total transactions with the shareholder | - | (2,042) | (2,042) |
| At the end of the year | 675 | 8,661 | 9,336 |

The above statement should be read in conjunction with the accompanying notes



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Beneficial Insurance Limited

# Statement of Cash Flows

for the year ended 31 March 2020

| $ thousands | note | March 2020 | March 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (fee and insurance income) | | 12,959 | 12,422 |
| Interest received | | 425 | 281 |
| Other income received | | 116 | 115 |
| Payments to suppliers and employees | | (8,206) | (8,529) |
| Tax paid | | (54) | (29) |
| Net cash inflow from operating activities | 9 | 5,240 | 4,260 |
| **Cash Flows from Investing Activities** | | | |
| Sale of property and equipment | | - | 2 |
| Purchase of property and equipment | | (147) | (78) |
| Receipts from finance receivable | | - | 198 |
| Term deposits | | (1,332) | (2,800) |
| Sale of finance receivable | | - | 572 |
| Net cash (outflow) from investing activities | | (1,479) | (2,106) |
| **Cash Flows from Financing Activities** | | | |
| Net proceeds from / (payments to) finance leases | | - | (23) |
| Interest and principal payments of lease liabilities | | (432) | - |
| Dividends paid | 16 | (3,400) | (2,042) |
| Net cash (outflow) from financing activities | | (3,832) | (2,065) |
| Net increase (decrease) in cash and cash equivalents | | (71) | 89 |
| Cash and cash equivalents at beginning of the year | | 257 | 168 |
| Cash and cash equivalents at the end of the year | | 186 | 257 |

The above statement should be read in conjunction with the accompanying notes



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# Notes to the Financial statements

for the year ended 31 March 2020

## 1. Summary of general accounting policies

### Entity reporting

The reporting entity is Beneficial Insurance Limited (the "Company"). It is profit orientated, incorporated and domiciled in New Zealand. Its registered office is level 3, 445 Karangahape Road, Newton, Auckland.

The Company's primary activity is providing insurance by way of Consumer Credit Indemnity ("CCI"), Guaranteed Finance Protection ("GFP"), Mechanical Breakdown Insurance ("MBI"), and Pet Insurance. The Company's parent entity is Beneficial Holdings Limited, a company incorporated in New Zealand. The Company is ultimately owned by one of the directors.

### Statutory base

The Company is a company registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated regulations.

### Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Company is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for-profit orientated entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, Companies Act 1993, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. The financial statements have been prepared on the historical cost basis unless the application of fair value measurement are required by the relevant accounting standards.

The preparation of financial statements in accordance with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the accompanying notes.

### Presentation of financial statements

The financial statements are presented in accordance with NZ IAS 1 *Presentation of Financial Statements*. The Company has elected to present the Statement of Comprehensive Income in one statement. The Statement of Comprehensive Income discloses the analysis of expenses under the function of expense method. This clarifies expenses according to their function as part of cost of insurance sales, operating or as administration activities.

The statement of financial position discloses assets and liabilities using the liquidity format of presentation.

### Significant judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out as follows:

- outstanding claims liability – note 15
- impairment of the finance receivable – note 19.1
- going concern – note 28

### Functional and presentation currency

The financial statements are presented in New Zealand dollars ($), which is the Company's functional and presentation currency. All financial information is rounded to the nearest thousand dollars unless otherwise stated.

### Comparatives

The financial statements are for the year ended 31 March 2020. Comparatives are for the 12 months ended 31 March 2019.
Certain amounts and presentations in the comparative information have been restated (or reclassified) to conform to changes in the current financial year.

### Changes in accounting policies

There have been no significant changes in accounting policies except for the adoption of NZ IFRS 16 as detailed below.

## 2. Impact of amendments to IFRS

### (i) New or amended accounting standards adopted during the financial year:

**NZ IFRS 16** The Company applied NZ IFRS 16 Leases retrospectively from 1 April 2019. NZ IFRS 16 supersedes NZ IAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard eliminates the distinction between operating and finance leases for lessees and resulted in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets.

### (ii) Standards, amendments and interpretations to existing standards that are relevant to the Company, not yet effective and have not been early adopted by the Company.

At the reporting date, the following relevant Standards and Interpretations were in issue but not yet effective and have not been applied in preparing these financial statements. The Company is currently assessing the impact of these standards on the financial statements, including the impact on presentation and disclosure:

**NZ IFRS 17** Insurance Contracts is effective for accounting periods beginning on or after 1 January 2023. The Company will apply the standard for the year ending 31 March 2024. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. Due to the complexity of the requirements within the standard, management has yet to determine the final impact until global interpretations and regulatory responses to the new standard are developed.

Other Standards and Interpretations in issue at the reporting date but not yet effective are not expected to have an impact on the financial statements of the Company in the period of initial application.



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### 3. Premium revenue

| $ thousands | 2020 | 2019 |
|---|---|---|
| Pet insurance | 11,766 | 10,795 |
| Autolife | 1,138 | 794 |
| Consumer credit insurance | 171 | 126 |
| Guaranteed asset protection | 76 | 51 |
| Premium revenue | 13,151 | 11,766 |

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Premium revenue comprises supplying consumer credit indemnity insurance, finance protection insurance, mechanical breakdown Insurance, and pet insurance protection.
- Gross premium is recognised from the attachment date for all indemnity insurance policies issued over the life of the policy.
- The portion of premiums not earned in the statement of comprehensive income at the reporting date is recognised in the statement of financial position as unearned premium liabilities.

### 4. Investment revenue

Investment revenue – finance receivable comprises the amortisation of the fair value discount until its sale in February 2019 – refer note 19.1.

Investment revenue – bank comprises interest received from short term bank deposits. This is recognised on an accrual basis using the effective interest rate method.

### 5. Claims expense and related insurance charges

| $ thousands | 2020 | 2019 |
|---|---|---|
| Claims expense | 4,234 | 3,828 |
| IBNR allowance | 107 | 120 |
| Other related insurance charges | 159 | 417 |
| Claims expense and related insurance charges | 4,500 | 4,365 |

Insurance claims which arise during the reporting period and are settled during the same period are expensed in the Statement of Comprehensive Income.

Insurance claims which arise during the reporting period but which are not settled at the reporting date are recognised based on the present value of expected future payments.

Insurance claims incurred but not reported (IBNR) are recognised by way of an estimation made by the Company's registered Actuary and is based upon historical claims data. The IBNR allowance represents the movement in the outstanding claims liabilities.

### 6. Employee benefits expense

| $ thousands | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 2,526 | 1,778 |
| Other employee benefits | 104 | 111 |
| Total employee benefits | 2,630 | 1,889 |

Short term employee benefits, including holiday entitlement, are current liabilities included in payables, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

### 7. Tax

Income tax expense comprises current and deferred tax.

| $ thousands | 2020 | 2019 |
|---|---|---|
| Current tax | - | - |
| Deferred tax | (22) | 185 |
| Tax expense (credit) | (22) | 185 |

The relationship between the expected tax expense based on the domestic effective tax rate of the Company at 28% (2019: 28%) and the reported tax expense in the Statement of Comprehensive Income can be reconciled as follows:

| $ thousands | 2020 | 2019 |
|---|---|---|
| Profit before tax | 4,279 | 3,830 |
| Tax at statutory tax rate 28% (2019: 28%) | 1,198 | 1,072 |
| Tax loss offset with related entities | (982) | (887) |
| Other | (238) | - |
| Income tax (benefit) expense | (22) | 185 |

Current tax is the tax payable to Inland Revenue on taxable profit for the period using existing tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is calculated using the balance sheet method on temporary differences between the carrying amount of assets and liabilities and their tax base.

Any tax losses available have no expiry date but are subject to shareholder continuity requirements being met from the time the tax losses arose until their utilisation. They are also subject to approval of the Inland Revenue Department.

There are no further claims / charges expected from related entities on the tax loss offset utilised in the current year.

**Deferred tax liability**

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Balance at beginning of the period | 38 | 223 |
| Movement in deferred tax | 22 | (185) |
| Balance at end of the period | 60 | 38 |
| | | |
| Comprising | | |
| Employee benefits | 31 | 16 |
| Other provisions | 29 | 22 |
| Balance at end of the period | 60 | 38 |

Deferred tax assets and liabilities are carried at the tax rates expected to apply when the assets are recovered or liabilities settled and they are not discounted. Deferred tax assets and liabilities are offset only when the company has a legally enforceable right and intention to set off current tax assets and liabilities from the same tax authority. Deferred tax assets and liabilities are carried on the basis that the Company expects future profits to exceed and reversal of existing temporary differences.

**Imputation credit account**

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Balance at beginning of the period | 220 | 699 |
| Resident withholding tax | 146 | 93 |
| Dividends paid | - | (572) |
| Balance at end of the period | 366 | 220 |



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## 8. Cash and cash equivalents

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Cash on hand | 1 | 1 |
| Cash at bank | 185 | 256 |
| Cash at bank and in hand | 186 | 257 |

Cash and cash equivalents are on-call funds with the Company's trading bank, Westpac, current / cheque accounts, and cash on hand. The Company has an undrawn MasterCard credit card facility of $40,000 (2019: $10,000).

## 9. Reconciliation of Profit after tax to cash inflow from operating activities

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Net profit (loss) after tax | 4,301 | 3,645 |
| **Add non-cash items** | | |
| Depreciation | 76 | 24 |
| Depreciation on right to use assets | 393 | - |
| Interest paid on lease liabilities | 92 | - |
| Income from finance receivable | - | (50) |
| Disbursements to finance receivable | - | 21 |
| (Profit) loss on sales of assets | - | 152 |
| **Add movements in other working capital items** | | |
| Insurance receivables | (935) | (462) |
| Deferred tax asset | (22) | 185 |
| Other assets | 83 | (21) |
| Insurance premiums in advance | 742 | 753 |
| Current tax liabilities | (68) | (38) |
| Claims provisions | 107 | 120 |
| Payables and accruals | 471 | (69) |
| Cash Inflow from operating activities | 5,240 | 4,260 |

## 10. Receivables

**Aging of premiums receivable**

| $ thousands | not past due | 0-3 mnths | 3-6 mnths | 6-12 mnths | over 12 mnths | Total |
|---|---|---|---|---|---|---|
| **March 2020** | | | | | | |
| Premiums receivable | 7,110 | 73 | 13 | 1 | - | 7,197 |
| **March 2019** | | | | | | |
| Premiums receivable | 6,186 | 63 | 11 | 2 | - | 6,262 |

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method less any allowance for credit losses and impairment.

## 11. Deferred acquisition costs

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Balance at the beginning of the period | - | - |
| Acquisition costs deferred | - | - |
| Amortised to statement of comprehensive income | - | - |
| Balance at the end of the period | - | - |

Acquisition costs incurred in obtaining new insurance business mainly relates to commission paid to internal and external parities. These costs would have been deferred and recognised as assets where they can be reliability measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent periods. However, as most of the premiums are earned over a 12-month period management has assessed the potential deferred acquisition costs to be immaterial and have therefore not been recognised.

## 12. Property, plant and equipment

| $ thousands | Furniture & fittings | Leasehold improvement | Office & computers | Motor vehicles | Total |
|---|---|---|---|---|---|
| **March 2020** | | | | | |
| **Cost** | | | | | |
| Opening balance | 17 | 9 | 184 | 51 | 261 |
| Additions | 5 | 21 | 100 | 21 | 147 |
| Disposals | - | - | - | - | - |
| Closing balance | 22 | 30 | 284 | 72 | 408 |
| **Accumulated depreciation** | | | | | |
| Opening balance | (5) | (6) | (120) | (26) | (157) |
| Depreciation | (2) | (2) | (62) | (10) | (76) |
| Eliminated on Disposals | - | - | - | - | - |
| Closing balance | (7) | (8) | (182) | (36) | (233) |
| **Closing balance** | | | | | |
| At cost | 22 | 30 | 284 | 72 | 408 |
| Accumulated depreciation | (7) | (8) | (182) | (36) | (233) |
| Net book value | 15 | 22 | 102 | 36 | 175 |
| **March 2019** | | | | | |
| **Cost** | | | | | |
| Opening balance | 7 | 9 | 128 | 51 | 195 |
| Additions | 10 | - | 56 | 11 | 77 |
| Disposals | - | - | - | (11) | (11) |
| Closing balance | 17 | 9 | 184 | 51 | 261 |
| **Accumulated depreciation** | | | | | |
| Opening balance | (4) | (6) | (107) | (23) | (140) |
| Depreciation | (1) | - | (13) | (10) | (24) |
| Eliminated on Disposals | - | - | - | 7 | 7 |
| Closing balance | (5) | (6) | (120) | (26) | (157) |
| **Closing balance** | | | | | |
| At cost | 17 | 9 | 184 | 51 | 261 |
| Accumulated depreciation | (5) | (6) | (120) | (26) | (157) |
| Net book value | 12 | 3 | 64 | 25 | 104 |

Certain assets with a carrying value of $12,581 as at 31 March 2020 (2019: $212,581) are pledged as security over finance lease obligations.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.



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When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is provided on leasehold improvements, computers and software, office furniture and equipment and motor vehicles. Depreciation is recognised in the Statement of Comprehensive Income to write off the cost of an item of property, plant and equipment, less any residual value, and is calculated using the diminishing value method to allocate the cost of assets over their expected useful life, at the following rates:

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

| Asset class | Method | Depreciation % |
|---|---|---|
| Leasehold Improvements | diminishing value | 10% |
| Furniture and Fittings | diminishing value | 13% - 25% |
| Office Furniture and Equipment | diminishing value | 13% - 40% |
| Motor Vehicles | diminishing value | 30% |

There were no impairment losses for the Company for the year ended 31 March 2020 (2019: $nil).

### 13. Payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

GST is recognised on insurance contracts as they are written. The GST is accounted for to the Inland Revenue Department according to the timing of the insurance receivable debt due.

### 14. Employee benefits

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Employee entitlements | 133 | 78 |
| Total provisions | 133 | 78 |

Employee benefits comprise holiday pay entitlements in accordance with individual employment contracts.

### 15. Insurance liabilities

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Unearned premiums | | |
| Balance at beginning of the year | 7,018 | 6,265 |
| Net premiums written | 13,893 | 12,519 |
| Premiums earned during the year | (13,151) | (11,766) |
| Unearned premiums at end of the year | 7,760 | 7,018 |
| Outstanding claims | 816 | 709 |
| Unexpired risk premium | - | - |
| Total insurance liabilities | 8,576 | 7,727 |

All insurance liabilities are measured at amortised cost using the effective interest method.

#### Liability adequacy test

The liability adequacy test (LAT) which was performed as at 31 March 2020 identified a surplus for the company (31 March 2019: a surplus).

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed in accordance with NZ GAAP to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit or loss within the Statement of Comprehensive Income by setting up a provision for premium deficiency.

The LAT has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio. The process of determining the overall risk margin, including the way in which diversification of risk has been allowed for. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy (2019: 75%).

The Actuary has determined from his review that the full unearned premium provision net of deferred acquisition costs is recoverable and the provision meets the LAT prescribed by NZIFRS 4 "Insurance Contracts". A further provision at 31 March 2020 is therefore not required (March 2019: $nil).

#### Unearned premiums

Unearned premiums represent that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. It is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Unearned premiums are calculated on a daily pro rata basis, and the proportion attributable to subsequent periods is deferred as unearned premiums.

#### Outstanding claims

Outstanding claims comprise claims received but not settled at the reporting date. Outstanding claims also include a provision for the cost of claims incurred but not yet reported to the company at the reporting date.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Significant estimates and judgements are made by the Company's approved actuary to arrive at certain key liability amounts disclosed in the financial statements. These estimates are determined by a qualified and experienced practitioner with reference to historical data and reasoned expectations of future events. These estimates are then reviewed by the Directors. The key areas in which critical estimates and judgements are applied are described below.

The Company's process for establishing the outstanding claims provision involves consultation with the appointed actuary. This process includes a bi-annual and annual review and calculation of provision for claims by Peter Davies who is a fully accredited member of the New Zealand Society of Actuaries.



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Actuarial process used to determine the outstanding claims provision is as follows:

- Assumed loss ratios - Assumed loss ratios were determined from a consideration of observed historical loss ratios.
- Risk margin - The risk margin was determined for each portfolio. The risk margin is determined after assessing the uncertainty in the central estimate of the outstanding claims estimate for each portfolio. The risk margin results in an overall probability of sufficiency for the outstanding claims liabilities of 75% (2019: 75%).
- Claims handling costs allowance - This allowance is determined after analysing claims related expenses incurred, adjusted for the expected pattern of payment of claim handling expenses during the life of the claim.
- Future settlement patterns and weighted average term to settlement - The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claim settlement patterns.
- Inflation and discounting - since the term of the liabilities is less than 12 months no allowance for inflation or discounting has been incorporated.

The Company takes all reasonable steps to ensure it has appropriate information regarding its claims exposure. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the costs of settling claims already notified to the Company, where more information about the claim event is generally available.

The key assumptions used in determining outstanding claims liabilities are as follows:

| | March 2020 | March 2019 |
|---|---|---|
| Claims handling expense ratio | 15% | 15% |
| Risk margin - Pet insurance | 6% | 6% |
| Risk margin - MBI, CCI & GFP | 50% | 50% |
| Probability of sufficiency | 75% | 75% |

The outstanding claims liabilities as at 31 March 2020 was $816,117 (2019: $708,868).

The outstanding claims liabilities includes a risk margin as at 31 March 2020 of $51,303 (2019: $43,514).

### Unexpired risk premium

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate, net of Deferred Acquisition Costs, by using an existing liability adequacy test in accordance with NZ GAAP. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, are used.

## 16. Distributions to shareholder

Directors declared and paid the following dividends to the shareholder; Beneficial Holdings Limited. The two independent directors signed the Solvency certificates.

| $ thousands | | payment date | value |
|---|---|---|---|
| Dividend | special | 15/04/2019 | 400 |
| Dividend | special | 17/04/2019 | 500 |
| Dividend | special | 24/04/2019 | 500 |
| Dividend | special | 2/05/2019 | 500 |
| Dividend | special | 8/05/2019 | 500 |
| Dividend | special | 17/05/2019 | 300 |
| Dividend | special | 24/05/2019 | 300 |
| Dividend | FY2020 interim | 28/10/2019 | 400 |
| Total dividends to shareholder | | | 3,400 |

The dividend paid in the prior year was $2,042,000

## 17. Contributed equity

The Company does not have authorised capital or par value in respect of the one share issued. The share is fully paid. The share entitles the holder to dividends and the residual assets of the Company. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Contributed equity also includes capital contributions of $675,000 by the shareholder in March 2016 to meet the cash flows relating to the settlement of an outstanding tax liability at the time.

Retained earnings include all current and prior period retained profits and losses. All transactions with the owner of the company including other capital commitments are recorded separately within equity.

## 18. Insurance business disclosures

### 18.1 Solvency Standard

Under Section 55 of the Insurance Prudential Supervision Act 2010, "IPSA", the Company is regulated by a Solvency Standard. Under this standard, Beneficial is required to maintain a Solvency Margin whereby the company's Actual Solvency Capital must be in excess of the minimum Solvency Capital as defined under the standard. Beneficial's independent Actuary performs this calculation based on the Financial Statements.

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Actual solvency capital | 8,977 | 6,298 |
| Minimum solvency capital requirement | 3,000 | 3,000 |
| Solvency margin | 5,977 | 3,297 |
| Solvency ratio | 299% | 210% |

### 18.2 Credit rating

On 27 September 2019 credit rating agency, AM Best reaffirmed the Company's Financial Strength Rating at B++ (Outlook Stable).



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## 19. Financial instruments

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 186 | 257 |
| Insurance premium receivables | 7,197 | 6,262 |
| Finance receivable | - | - |
| Short term investments | 12,632 | 11,300 |
| Long term investments | - | - |
| Total financial assets | 20,015 | 17,819 |
| | | |
| **Financial Liabilities** | | |
| Other amortised cost: | | |
| Payables | 380 | 332 |
| Total financial liabilities | 380 | 332 |

The carrying amounts approximate fair value.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For financial instruments traded in active markets, the quoted market prices or dealer price quotations are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at the reporting date. Financial assets and financial liabilities are measured subsequently as described below.

### 19.1 Financial assets – under NZ IFRS 9

The Company classifies its financial assets in the following categories:

- Financial assets at fair value trough profit or loss
- Measured at amortised cost

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

Given all of the Company's financial assets have been held with a business model to collect contractual cash flows that represent solely payments of principal and interest all were measured at amortised cost.

#### Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The Company applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected losses for all trade receivables. Given the low risk of default on other financial assets (primarily short-term deposits with financial institutions with a strong credit rating), other expected credit losses have been assessed to be immaterial.

Finance receivables and other receivables were considered for impairment when there is objective evidence that the Company was not able to collect all expected amounts, and having regard to the Company's credit risk assessments.

#### Finance Receivable

The finance receivable comprised the right to collect cash flows as security holder from a stream of cash flows represented by an underlying number of consumer loans. This right was acquired from Broadlands Finance Limited (BFL), a related entity, on 30 March 2012.

BFL agreed to lend up to $20 million to MRL Finance Limited (now known as Mordarth Limited) (MRL) under a Master Assignment and Facility Agreement dated 21 August 2006. Under the facility agreement, MRL assigned certain qualifying customer loans to Broadlands as security for periodic advances of the loan. The repayment of advances and payment of interest was guaranteed by the principals of MRL (guarantors). Under a General Security Agreement dated 29 March 2006, MRL granted BFL a security interest over all its present and after acquired property (which included the customer loans) as security for the loan. Following default by MRL, BFL filed court proceedings against the guarantors for the repayment of the loan and payment of interest in early 2008. These proceedings were eventually discontinued after one of the guarantors was adjudicated bankrupt in August 2008.

BFL assigned its rights and interest in the MRL loan and supporting securities to the Company under an agreement relating to the transfer of certain assets dated 30 March 2012. The General Security Agreement provides collection rights on the customer loans to the security holder. As owner of these rights, the Company continued to collect the amounts payable under the customer loans until sold to a related party.

During FY2019, until its sale on 28 February 2019, cash flows from the Finance receivable approximated the expectations established at 31 March 2018.

The finance receivable was sold to BFL, a related entity, on 28 February 2019. The finance receivable was sold for $572,000 following an independent valuation. The sale proceeds realised a loss of $149,423 to the carrying value of the asset at 28 February 2019.

### 19.2 Bank Deposits

Deposits are classified as at amortised cost under NZ IFRS 9.

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Bank deposits | | |
| Maturity from balance date | | |
| 0 - 3 months | 4,307 | 4,000 |
| 4 - 6 months | 4,425 | 2,000 |
| 7 - 9 months | 1,600 | 2,800 |
| 10 - 12 months | 2,300 | 2,500 |
| Total bank deposits | 12,632 | 11,300 |

All short-term investments are bank deposits with Westpac, Kiwibank, Bank of New Zealand, ASB and Bank of China with maturity dates within 12 months of balance date.

## 20. Risk management

The financial condition and operational results of the company are impacted by a number of risks:

- Financial – market risk, credit risk, financing and liquidity risk
- Non-financial – insurance risk, compliance risk, operational risk

The Board's objective is to satisfactorily manage these risks in line with the Board approved Risk Management Policy. Procedures are in place to control, mitigate, and report on risks faced by the Company in a timely matter to the Board. Managers are responsible for understanding and managing their operational and compliance risks.

The Board is actively involved in reviewing the effectiveness and efficiency of management processes, risk management and financial controls to ensure adequate oversight and compliance. Assets are regularly monitored to ensure there are no material asset and liability mismatching issues and exposure to risks including liquidity and credit risks are maintained within acceptable limits.

### 20.1 Market risk

Market risk is the risk arising from adverse movements in equity market prices, exchange rates and interest rates or in related derivatives.

- Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates. The Company manages its exposure by holding predominately short-term deposits with the major NZ trading banks – refer note 20.3. An investment sub-committee of the Board regularly establishes and monitors concentration and maturities. Interest rates on the term deposits are fixed at inception and paid at maturity.
- The Company's assets and liabilities are denominated in NZ dollars, with only domestic operations, therefore is not exposed to exchange rate risk.
- Price risk arises from changes in the prices of equity instruments. The Company does not invest in equities so is not currently exposed to this risk.

### 20.2 Credit risk

Credit risk is the risk of loss arising from a party to a contract or transaction not being able to meet its obligations or defaulting on its commitments.

The Company was exposed to credit risk through its finance receivable, insurance premium receivables and term deposits. The underlying loans were subject to significant write down prior to acquisition and their current cash flow supports the purchase valuation. The Board monitors ongoing performance of these loans on a monthly basis and conducts an impairment review at each reporting date – refer note 20.1.

There are otherwise very limited credit or other counterparty exposures. Arrears of insurance premiums are closely monitored and reported on. Payment default will also result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance.

#### Concentration of risk

The Company's exposure is principally through the term deposits held with four major trading banks in New Zealand.

### 20.3 Financing and liquidity risk

#### Maturity analysis

| $ thousands | 0-6 mnths | 7-12 mnths | 13-24 mnths | 25-60 mnths | over 60 mnths | Total |
|---|---|---|---|---|---|---|
| **March 2020** | | | | | | |
| **Insurance assets** | | | | | | |
| Deferred acquisition cost | - | - | - | - | - | - |
| **Financial assets** | | | | | | |
| Cash and equivalents | 186 | - | - | - | - | 186 |
| Short term investments | 8,881 | 3,992 | - | - | - | 12,873 |
| Premium receivables | 7,110 | 73 | 13 | 1 | - | 7,197 |
| Long term investments | - | - | - | - | - | - |
| | 16,177 | 4,065 | 13 | 1 | - | 20,256 |
| **Insurance liabilities** | | | | | | |
| Lease liabilities | 229 | 229 | 458 | 458 | - | 1,374 |
| Provision for claims | 655 | 110 | 51 | - | - | 816 |
| Unexpired risk premium | - | - | - | - | - | - |
| Unearned premium liabilities | 5,124 | 2,177 | 295 | 164 | - | 7,760 |
| | 5,779 | 2,287 | 346 | 164 | - | 8,576 |
| **Financial liabilities** | | | | | | |
| Payables | 380 | - | - | - | - | 380 |
| **March 2019** | | | | | | |
| **Insurance assets** | | | | | | |
| Deferred acquisition cost | - | - | - | - | - | - |
| **Financial assets** | | | | | | |
| Cash and equivalents | 257 | - | - | - | - | 257 |
| Short term investments | 6,204 | 5,486 | - | - | - | 11,690 |
| Premium receivables | 6,186 | 63 | 11 | 2 | - | 6,262 |
| Finance receivable | - | - | - | - | - | - |
| Long term investments | - | - | - | - | - | - |
| | 12,647 | 5,549 | 11 | 2 | - | 18,209 |
| **Insurance liabilities** | | | | | | |
| Provision for claims | 620 | 63 | 26 | - | - | 709 |
| Unexpired risk premium | - | - | - | - | - | - |
| Unearned premium liabilities | 4,611 | 1,819 | 233 | 355 | - | 7,018 |
| | 5,231 | 1,882 | 259 | 355 | - | 7,727 |
| **Financial liabilities** | | | | | | |
| Payables | 386 | - | - | - | - | 386 |

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

The Company mitigates these risks by actively managing its operational risks. These include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- The use of actuarial models based on historical data to calculate premiums and monitor claim patterns.
- The management of assets and liabilities is closely monitored to match the expected pattern of liability payments with the maturity dates of assets.
- Terms and conditions of insurance contracts. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.
- Active claims management by analysing experience, trends and other relevant factors.



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## 21. Capital risk management

The Company's capital includes its share capital and retained earnings.

The Company's policy is to maintain a strong capital base to ensure it continues to operate as a going concern, to maintain policyholder, supplier and market confidence and to sustain future development of the business. The Board regularly monitors current and future capital requirements and costs.

The Company also manages capital in accordance with the requirements of the Act and the solvency standard for non-life insurance businesses issued by the Reserve Bank of New Zealand.

Outside the solvency requirements detailed in note 19.1, there are no externally imposed financial covenants arrangements that must be observed.

There has been no change in the Company's management of capital during the periods ended 31 March 2019 and 31 March 2020.

## 22. Right of use assets and lease liabilities

From 1 April 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease liability is the net present value of the lease payments. The right of use asset is measured at cost comprising the amount of the initial measurement of the lease liability.

Adjustments recognised on adoption of NZ IFRS 16
The Company has elected to use the modified retrospective approach for adopting NZ IFRS 16, therefore has not restated the comparatives. On adoption of NZ IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019.

A reconciliation of operating lease commitments at 31 March 2019 to the lease liability recognised at 1 April 2019 is shown below:

| $ thousands | |
|---|---|
| Operating lease commitments at 31 March 2019 | 1,074 |
| Discounted at the date of initial application | (219) |
| Inclusion of renewal rights | 450 |
| Lease liabilities recognised as at 1 April 2019 | 1,573 |
| Classified as: | |
| Less than one year | 327 |
| One to five years | 1,246 |
| More than five years | - |
| Lease liabilities recognised as at 1 April 2019 | 1,573 |

The Company's lease consists of an office premise lease and the agreement contains an initial term of 2 years with a right of renewal of another 2 years, which the Company expects to exercise upon renewal.

On 1 April 2019 the Company exercised its option to renew its lease arrangements with Executive Trustees Limited, a related party, and also expanded its lease space. The annual increase from these changes was $189,119. There was no change to the term of the lease.

### 22.1 Right of use assets

| $ thousands | March 2020 |
|---|---|
| **Cost** | |
| Opening balance | 1,573 |
| Additions | - |
| Depreciation for the year | (393) |
| Closing balance | 1,180 |

### 22.2 Lease liabilities

The maturity of the contractual undiscounted cashflows is as follows:

| $ thousands | March 2020 |
|---|---|
| Less than one year | 458 |
| One to five years | 915 |
| More than five years | - |
| Total undiscounted lease liabilities | 1,373 |

The maturity of the lease liabilities included in the balance sheet is as follows:

| $ thousands | March 2020 |
|---|---|
| Less than one year - current | 389 |
| One to five years | 857 |
| More than five years | - |
| Total lease liabilities | 1,246 |

### 22.3 Amounts recognised in the statement of comprehensive income

| $ thousands | March 2020 |
|---|---|
| Depreciation on right to use assets | 393 |
| Interest on lease liabilities | 92 |

### 22.4 Sublease

Within the shared services agreement (refer to note 24) the Company subleases part of the office premises to Broadlands Finance Limited. The leased payments are payable monthly and are reviewed on annual basis depending on the office space leased by Broadlands Finance Limited. The Company has elected to classify the sublease as an operating lease, on the basis that it does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset at the end of the lease term. Shared services rent recharge income for the year ended 31 March 2020 was $115,732 (2019: $114,591) and is included in "Other income" in the statement of comprehensive income.

### 22.5 Under NZ IAS 17 Leases

Until the financial year ended 31 March 2019, leases were classified as operating or finance leases.

In the comparative period, the amount of $6k related to a motor vehicle finance lease that has expired during the financial year ending 31 March 2020.

As a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in statement of comprehensive income on a straight-line basis over the term of the lease.



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## 23. Operating leases

| $ thousands | March 2019 |
|---|---|
| Within one year | 268 |
| 1 - 5 years | 1,074 |
| More than five years | - |
| Total | 1,342 |

The Company has adopted NZ IFRS16 Leases retrospectively from 1 April 2019. The Company has recognised a right to use asset and corresponding lease liability for which was previously classified as an "operating lease" under IAS 17 leases. Therefore, there is a nil balance for the financial year ended 31 March 2020.

## 24. Transactions with related parties

| $ thousands | Transaction | March 2020 Income (Expense) | March 2020 Receivable (Payable) | March 2019 Income (Expense) | March 2019 Receivable (Payable) |
|---|---|---|---|---|---|
| **Goods and services** | | | | | |
| Broadlands Finance Limited | Shared services | 27 | 35 | (296) | (31) |
| | Insurance commission | (43) | 28 | (89) | - |
| Executive Trustees Limited | Rent | (426) | - | (268) | - |
| Natwest Finance Limited | Leases | (6) | - | (31) | (6) |
| Penrose Enterprises Limited | Insurance commission | (17) | - | (94) | - |
| **Fixed assets and investments** | | | | | |
| | Sale of finance receivable | - | - | 572 | - |
| Penrose Enterprises Limited | Fixed asset purchases | - | - | (11) | - |
| | Fixed asset sales | - | - | 2 | - |
| **Funds collected and remitted from related parties** | | | | | |
| Broadlands Finance Limited | Insurance premiums | 194 | - | 182 | - |
| | Finance receivable | - | - | 20 | - |
| Penrose Enterprises Limited | Insurance premiums | 48 | - | 207 | - |

The parent company of Beneficial Insurance Limited is Beneficial Holdings Limited, a company incorporated in New Zealand.

Broadlands Finance Limited, Executive Trustees Limited, Natwest Finance Limited, and Penrose Enterprises Limited are related to the Company by way of common shareholding.

On 1 October 2019 Beneficial Insurance Limited and Broadlands Finance Limited entered into a new shared services agreement which included the change of shared employees changing from being employed by Broadlands Finance Limited to Beneficial Insurance Limited. The shared services agreement covers rental and salary oncharge costs and during the financial year ended 31 March 2020 these amounted to $115,732 and $117,069 respectively. The salary oncharge costs of $117,069 have been offset against Employee Benefits expense on the statement of comprehensive income.

The amounts receivable / (payable) are unsecured and no guarantees are in place. No interest is charged on amounts owing between related entities. No receivables or payables are impaired as at 31 March 2020 (2019: $Nil).

In the 2019 year the finance receivable balance was transferred for a cash consideration of $572,000 incurring a loss on sale of $149,423.

### Directors remuneration

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| S. R. Tietjens | 45 | 45 |
| A. S. Radisich | 45 | 45 |
| G. W. McCurrach | 45 | 45 |
| Total directors remuneration | 135 | 135 |

Key management personnel remuneration

| $ thousands | March 2020 | March 2019 |
|---|---|---|
| Short term benefits | 138 | 199 |

## 25. Contingent liabilities

There are no contingent assets or liabilities at the reporting date (March 2019: $Nil).

## 26. Capital commitments

There are no capital commitments at the reporting date (March 2019: $Nil).

## 27. Subsequent events

On 28 May 2020 the directors resolved to pay a final dividend of $1.2 million to its shareholder, Beneficial Holdings Limited. The solvency calculation reflects this distribution – refer to note 18.1.

### Distributions to shareholder

| $ thousands | | payment date | value |
|---|---|---|---|
| Dividend | final dividend | 22/06/2020 | 1,200 |
| Total dividends to shareholder | | | 1,200 |

In August 2020, Beneficial Insurance Limited launched a new insurance product branded CyberProtect - www.cyberprotect.co.nz. CyberProtect is a free-standing New Zealand Personal Cyber Insurance product. CyberProtect will cover individuals and families for cyber fraud, restoration costs, cyber extortion and identity theft.

Other than the disclosures in note 28, the Directors are not aware of any other matters or circumstances since the end of the reporting period, not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the Company (2019: none).

## 28. Impact of COVID-19

As a result of COVID-19, New Zealand declared a state of emergency on 25 March 2020 and the country was moved to Alert Level 4 and put into lockdown. By this date the Company had fully implemented its business continuity plan to ensure the impact on our customers and the Company's operations were minimised.

On 8 June the country was moved to Alert Level 1 and remained here until 12 August where Auckland was moved to Alert Level 3 and the rest of the country was moved to Alert Level 2. During this period of a rise in the alert levels the impact on our customers and the Company's operations was not significant.

To date, while the impact of COVID-19 has had a downward effect principally on new policies issued and investment returns, the overall impact of COVID-19 on the Company's operations, financial performance and financial position has not been material.

The Directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks of COVID-19. In the director's assessment they considered the impacts of COVID-19 on sales, profits and cash flows on the business for the next 12 months and the longer term.



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# Corporate governance and disclosures

## Statement of responsibility for financial statements

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information.

The Directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial statements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year ended 31 March 2020.

In the opinion of the Directors:

- the Statement of Comprehensive Income is drawn up so as to present fairly, in all material respects, the results of operations of the Company for the year ended 31 March 2020;
- the Statement of Financial Position is drawn up so as to present fairly, in all material respects, the state of affairs of the Company as at 31 March 2020;
- the Statement of Cash Flows is drawn up so as to present fairly, in all material respects, the cash flows of the Company for the year ended 31 March 2020; and,
- there are no reasons to believe that the Company will not be able to pay its debts as and when they fall due.

Signed on behalf of the Board by:

Dated: 15 September 2020

SR Tietjens

Stephen R Tietjens
Chairman

Grant W McCurrach
Director

# Annual report to the shareholder of Beneficial Insurance Limited for the year ended 31 March 2020

Pursuant to sections 208 and 209 of the Companies Act 1993, the directors present their annual report comprising these audited Financial Statements for the year ended 31 March 2020 and the independent auditor's report thereon.

This report is to be read in conjunction with the Financial Condition report for the year ended 31 March 2020 from the appointed Actuary.

With the agreement of the shareholder, the Company has taken advantage of reporting concessions available to it under section 211 (3) of the Companies Act 1993. The information required by paragraphs (a) and (e) to (j) of section 211 (1) of the Companies Act 1993 is therefore not disclosed.

Directors further advise that certain of the above waived disclosures appear in the respective statements.

Signed in accordance with a resolution of the directors:

Dated: 15 September 2020

| | |
|---|---|
| Stephen R Tietjens | Grant W McCurrach |
| Director | Director |

# Company Directory

| | |
|---|---|
| **Date of Incorporation** | 20 March 2002 |
| **Nature of Business** | The Company is an insurance provider of consumer credit indemnity, finance protection, mechanical breakdown, and pet insurance products. |
| **Registered Office** | Level 3, 445 Karangahape Road<br>Newton<br>Auckland 1010<br><br>PO Box 68-548<br>Wellesley Street, Auckland 1141 |
| **Company Number** | 1196170 |
| **Directors** | Stephen R Tietjens (Chairman)<br>Anthony S Radisich<br>Grant W McCurrach |
| **Auditors** | RSM Hayes Audit<br>PO Box 9588<br>Newmarket, Auckland 1149 |
| **Appointed Actuary** | Davies Financial and Actuarial Limited<br>PO Box 35-258<br>Browns Bay<br>Auckland |
| **Financial disputes resolution service** | FairWay Resolution Limited<br>PO Box 2272<br>Wellington 6140 |
| **Solicitors** | Glaister Ennor<br>PO Box 63<br>Auckland 1140 |
| **Bankers** | Westpac New Zealand Limited<br>Otahuhu, Auckland |
| **Shareholder** | Beneficial Holdings Limited |
| **Place of Business** | Level 3, 445 Karangahape Road<br>Newton<br>Auckland 1010 |
| **Tax Accountants** | nsaTax Limited<br>P O Box 3697<br>Auckland 1140 |

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**RSM Hayes Audit**

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# Independent Auditor's Report

# To the shareholder of Beneficial Insurance Limited

## Opinion

We have audited the financial statements of Beneficial Insurance Limited (the company), which comprise:

- the statement of financial position as at 31 March 2020;
- 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 flow for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

In our opinion, the financial statements on pages 2 to 14 present fairly, in all material respects, the financial position of the company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). 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 are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. The key audit matter identified below was 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 this matter.



RSM Hayes Audit is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

## Valuation of outstanding claims liabilities

**Why we considered this to be a key audit matter**

The estimation of outstanding claims as detailed in note 15 involves significant judgement given the inherent uncertainty in estimating the expected future payments for claims incurred. The valuation of outstanding claims involves estimation of all claims incurred but not settled at a given date, regardless of whether these have been reported to the Company.

The insurance claims incurred but not yet reported at the reporting date (IBNR) are recognised through an estimation made by a Registered Actuary and are based upon historical claims data and other assumptions as detailed in note 15.

The valuation of the outstanding claims liability requires a higher level of estimation and judgement in determining the appropriateness of the assumptions used in valuing the liability. This includes estimating the payments for claims incurred at the reporting date but not reported, given there is generally less information available in relation to these claims, as well as estimating the period over which claims are expected to settle thereby impacting the estimation of expected future payments.

A risk margin, relating to the inherent uncertainty in the estimation of the present value of expected future payments, is determined by making judgments on the volatility to the business written.

**How our audit addressed the key audit matter**

We have evaluated and assessed the design effectiveness and implementation of relevant key claims controls, including the reconciliation of data inputs to both the underlying ledger and historical data.

Historical claims data is a key input to the actuarial estimates. Accordingly, we tested the operating effectiveness of controls over claims handling and performed tests of detail on a sample of claims paid during the year to confirm they were supported by appropriate documentation and approved within delegated authority limits.

We performed tests of details around the cut off of the insurance claims process and relative to actual claims paid subsequent to year end.

We evaluated the capabilities, competencies, and objectivity of management's appointed actuary. We engaged our own auditor's expert (also an independent registered actuary) to assist us in our evaluation of the methodologies and assumptions utilised by management's actuary. This included:

- Considering the work and findings of management's appointed actuary;
- Developing an understanding of and evaluating the risk margin applied;
- Evaluating whether actuarial methodologies were consistent with those used in the industry and in prior years; and
- Assessing the reasonableness of key actuarial assumptions and judgements.

We also evaluated the related disclosures within Note 15 relating to the insurance activities.

We have no matters to report from the procedures performed.

## Other information

The directors are responsible for the other information. The other information comprises the Statement of Responsibility, Annual Report and Company Directory on pages 15 to 17 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 on behalf of the company for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) 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 decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the financial statements is located at the XRB's website at:

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

## Who we report to

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

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

RSM

**RSM Hayes Audit**
Newmarket

16 September 2020

Davies Financial and Actuarial Limited

14th September 2020

To: The Directors
Beneficial Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: Beneficial Insurance Limited ("BIL"): Report as at 31st March 2020 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for BIL as at 31st March 2020. "Actuarial information" includes the following:

    - claim provisions and unexpired risk / unearned premium provisions;
    - solvency calculations in terms of the RBNZ Solvency Standard;
    - balance sheet and other information allowed for in the calculation of the company's solvency position; and
    - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

3. I am independent with respect to BIL as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay, 0630 Telephone (09) 489 3551 e-mail: pdavies@actuary.co.nz
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5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. As at 31st March 2020, BIL's solvency position under the RBNZ Solvency Standard for Non-Life Insurance was as follows:

| | **March 2020** | **March 2019** |
|---|---|---|
| Solvency capital | 8,977,338 | 6,298,000 |
| Calculated minimum capital requirement | 1,570,852 | 1,431,491 |
| Surplus on calculated minimum capital requirement | 7,406,485 | 4,866,509 |
| Solvency coverage ratio on calculated margin: | 571.5% | 440.0% |
| | | |
| Overall minimum capital requirement per standard | 3,000,000 | 3,000,000 |
| Surplus on overall minimum capital requirement | 5,977,338 | 3,298,000 |
| Solvency coverage ratio on overall margin | 299.2% | 209.9% |

The solvency coverage ratio has increased from 210% to 299%, arising from the strong level of after-tax profit for the year.

Assuming that the Company's business plans are realised and claims occur as projected, the Company is projected to exceed the minimum RBNZ requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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