

14 October 2020

Mr Graham Harris  
CFO  
Brightsideco Insurance Limited  
Suite 1, Building B  
34-46 Brookhollow Avenue  
BAULKHAM HILLS NSW 2153  
AUSTRALIA

Dear Graham

## **Review of Actuarial Information contained in the 2020 Financial Statements**

Finity Consulting Pty Limited (Finity) has been asked by Brightsideco Insurance Limited (Brightsideco) to carry out a review of the 30 June 2020 actuarial information contained in the financial statements and to provide an opinion as to its appropriateness. This letter sets out the findings of our review, as required under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

Andy Cohen is an employee of Finity and is the Appointed Actuary of Brightsideco. Andy Cohen and Finity have no relationship with Brightsideco apart being a provider of actuarial services.

Brightsideco's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in the financial statements. We confirm that the financial statements as at 30 June 2020 have been prepared in accordance with this policy, and as such satisfy the requirements of the Act.

The actuarial information (and use thereof) that I have reviewed is as follows:

- The gross written premium information I received for liability valuation purposes
- The unearned premium reserve (UPR) booked by Brightside compared to the UPR calculated by Finity
- The net outstanding claims liability provision that Brightsideco has estimated and which, as part of my actuarial valuation process, I have reviewed for reasonableness.

My review process is as follows:

- I have checked that the gross premium information that I have received in the course of my liability valuation reconciles adequately with the information shown in the financial statements.

- I have checked that the unearned premium reserve that Brightsideco has adopted in the financial statements is consistent with my estimates of the unearned premium reserve. Note that, this year, there is a surplus of unearned premium over my estimates of the premium liabilities. As a result, the premium liabilities are not booked explicitly in the financial statements.
- I have checked that Brightsideco's estimates of the net claim liabilities have been used appropriately in the financial statements.

Having carried out my review, my opinion from an actuarial perspective is as follows:

- The actuarial information contained in the 2020 financial statements of Brightsideco has been appropriately included in those statements.
- The actuarial information used in the preparation of the 2020 financial statements of Brightsideco has been used appropriately.
- Brightsideco is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b), noting that the required margin is \$0.

I am not aware of any limitations placed on me in performing my review, and all data requested was provided. This report is based on the audited accounts of Brightsideco for the year ending June 2020.

This report is being provided for the sole use of Brightsideco for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on the purpose for which it is intended.

Yours sincerely

A handwritten signature in black ink that reads 'Andrew Cohen'.

Andrew Cohen  
Appointed Actuary  
**Fellow of the Institute of Actuaries of Australia**

Brightsideco Insurance Limited  
Registration Number 3315009

Annual Report for the year ended 30 June 2020

Brightsideco Insurance Limited

Annual report

For the year ended 30 June 2020

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## Brightsideco Insurance Limited

### Directors' Report

The Board of Directors present the annual report of Brightsideco Insurance Limited (the "Company") incorporating the financial statements and auditor's report for the year ended 30 June 2020.

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.

### Directors

The following persons were Directors of the Company during the financial year unless otherwise stated:

Simon Cook  
Anthony Jones  
David Goodsall  
David Whyte

The following persons acted as alternate Directors for Simon Cook and Anthony Jones during the financial year:

Chantelle Lawes (alternate for Anthony Jones)  
Graham Harris (alternate for Simon Cook)

### Registered Office

Grant Thornton Auckland Limited  
L4, Grant Thornton House  
152 Fanshawe Street  
Auckland

### Auditors

KPMG  
18 Viaduct Harbour Ave  
Auckland

### Company details

Company incorporation number	3315009
Inland Revenue Department (IRD) number	106 701 792

### Holding company

ICF Holdings (NZ) Limited RN 1695428

### Bankers

ANZ Banking Group (NZ) Limited  
15 Mercari Way  
Albany, Auckland

### Solicitors

DLA Piper New Zealand  
205 Queen Street  
Auckland

## Brightsideco Insurance Limited

### Directors' Report (continued)

#### Principal activities

The Company provided warranty underwriting services during the course of the financial year. There has been no significant change in the nature of these activities during the year. From 1 August 2020, the Company's License under the Insurance (Prudential Supervision) Act 2010 was extended to allow coverage of Accidental Damage Insurance in addition to Extended Warranty Insurance. The Company intends to commence providing cover for Accidental Damage insurance in the financial year ending 30 June 2021.

#### Review of operations

The net profit after income tax for the year ended 30 June 2020 was \$781,000 (2019: \$675,000).

#### Matters subsequent to the end of the financial year

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- a) the Company's operations in future financial years;
- b) the results of those operations in future financial years; or
- c) the Company's state of affairs in future financial years

#### Information on Directors in office at the date of this report

##### David Goodsall

David Goodsall is an Australian resident and was appointed to the Board of Directors on 1<sup>st</sup> April 2013. He is the chairman of the Audit Risk and Compliance Committee. Mr Goodsall is an actuary with extensive experience in the financial and risk management aspects of a wide range of Financial Services companies. He led the Actuarial Practice at Ernst & Young in Australia for many years before starting his own firm in 2009. David now advises Boards and management on strategic governance and is a Member of the Life Code of Conduct Committee in Australia.

##### David Whyte

David Whyte is a New Zealand resident and was appointed to the Board of Directors on 1<sup>st</sup> April 2013. He is the chairman of the Board of Directors. Mr. Whyte was a non-executive Director of Southern Response Ltd (2012 – 2014); CEO and Executive Director of Ginger Group Financial Services Ltd (2010 – 2012); Non-executive Director of Fidelity Life Assurance Ltd (2009 – 2010); Managing Director of AIG Life Australia (2002 – 2006). Mr. Whyte is a member of the Financial Disputes Resolution Advisory Council, Chairman of Lifetime Group Ltd, Non-executive Director of Home Run Partners Ltd, and is a Chartered Member of the NZ Institute of Directors. He has a post-graduate master's degree in Management, and a post-graduate qualification in Corporate Governance & Leadership.

##### Anthony Jones

Anthony Jones is the Chairman of the Board and also Managing Director for ICF Holdings Pty Ltd and is a New Zealand resident. He was appointed to the Board of Directors in April 2011. ICF Holdings Pty Ltd is the ultimate parent entity of the ICF Group which is head-quartered in Sydney, Australia. The ICF Group has operations throughout Australia, New Zealand, Singapore, Malaysia, Ireland, Slovenia and Croatia and operates in the warranty administration and insurance underwriting business segments. Brightsideco Insurance Limited ("BIL") is a 100% owned subsidiary of the ICF Group.

## Brightsideco Insurance Limited

### Directors' Report (continued)

#### Information on Directors in office at the date of this report (continued)

##### Anthony Jones (continued)

In addition, Mr Jones also holds executive functions as General Manager of Operations for Abbott NZ Holdings Limited and Managing Director for Brightsideco Insurance Limited ("BIL") and South Pacific Warranty Services Limited ("SPWS"). Mr Jones's experience includes underwriting, risk management and surveying, national account management and broking gained in international companies such as Vero Insurance, FAI Insurance, HIH Insurance and QBE Insurance.

Mr Jones has a Diploma of Financial Insurance from the ANZ Institute of Insurance & Finance.

##### Simon Cook

Simon Cook is a director of ICF Holdings Pty Limited and was ICF Group CEO for 8 years ending in 2015. He is an Australian resident. He was appointed to the Board of Directors on 1 April 2011. Mr Cook has more than 25 years' experience in the insurance industry having worked for insurance companies, insurance agencies and then the ICF Group from 2004.

Mr Cook has a Diploma of Financial Insurance from the ANZ Institute of Insurance & Finance.

Mr Cook also performs honorary work for a major Australian trade association in the marine environment. Mr Cook is currently a partner with Aviso All Points Insurance Solutions, an Australian Financial Service licensed business in Australia.

This report is made in accordance with a resolution of the Directors.

The Board of the Company authorised these financial statements for issue on 15<sup>th</sup> October 2020.

On behalf of the Board



David Whyte

Director

Date : 16/10/20



David Goodsall

Director

Date : 16/10/20



## Brightsideco Insurance Limited

### Corporate Governance Statement

Brightsideco Insurance Limited ("the Company") is incorporated in New Zealand. The Company is a wholly owned subsidiary of ICF Holdings (NZ) Limited. ICF Holdings (NZ) Limited's ultimate parent is ICF Holdings Pty Ltd, an Australian privately owned company.

There are two independent directors, David Whyte and David Goodsall, one non-executive director, Simon Cook and one executive director, Anthony Jones who have been appointed to the Board of Directors ("the Board"). In addition, Graham Harris and Chantelle Lawes act as alternate directors for non-independent directors.

The primary role of the Board is to provide effective governance of the Company's affairs and to protect the interests of its shareholder, whilst having regard for the interests of all stakeholders including policyholders, suppliers and the wider community.

The Board is accountable to its shareholder for the performance of the Company and has overall responsibility for the Company's operations.

This statement contains an outline of the principles, policies, procedures and practices that the Board and Management have implemented to govern the operations of the Board and the Company.

In establishing this corporate governance framework, the Board has had regard to its responsibilities at law and various governance standards, including the Governance Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand in June 2011.

The Board has adopted a Board Charter, which sets out the principles for the operation of the Board of Directors and provides a description of the functions and responsibilities of the Board and the functions delegated to management.

The key functions of the Board are summarised below:

- ☐ Approve the strategic direction and related objectives of the Company;
- ☐ Consider and approve the Company's annual budget including revenue, profit, capital expenditure and cash flows, as proposed by management, ensuring appropriate resources are available to achieve the business objectives;
- ☐ Monitor the financial performance in the implementation and achievement of strategic and business objectives;
- ☐ Review and approve the Company's capital management policies and plans, having regard for the various liquidity, solvency and capital adequacy regulatory requirements applying to the Company;
- ☐ Approve and oversee the process developed by management to ensure business risks are identified;
- ☐ Approve systems of risk management, risk appetite, regulatory compliance and control and associated Company policies to manage those risks;
- ☐ Monitor management's implementation of, and compliance with, these systems and controls;
- ☐ Manage and assess the performance of the Managing Director, Anthony Jones;
- ☐ Assess the performance of the Managing Director and approve the Managing Director's assessment of the performance of each Executive; and
- ☐ Determine and approve the level of authority to be delegated to the Managing Director in respect of operating expenditures, capital expenditures, credit facilities, and risk-taking and approve the further delegation of those authorities to management by the Managing Director.

## Brightsideco Insurance Limited

### Corporate Governance Statement (continued)

The Board may also delegate certain powers, duties and responsibilities to one or more committees of the Board.

The Board is committed to the highest standards of ethical behaviour.

Board members are appointed in accordance with a documented process and all appointments are subject to shareholder approval. There is a formal procedure in place for evaluating the performance of the Board.

The Board has established an Audit Risk and Compliance Committee ("ARCC") to assist and support the Board in the conduct of certain of its duties and responsibilities. The primary role of the ARCC is to assist the Board in verifying and safeguarding the integrity of the Company's financial reporting, reviewing the solvency return and evaluating and improving the effectiveness of the control, risk management and governance processes. The terms of reference of the ARCC are contained in a separate Board-approved charter. The members of the ARCC are two independent directors, David Whyte and David Goodsall, one non-executive director, Simon Cook, and the one executive director, Anthony Jones, with full participation from the Company Secretary, General Manager of NZ and Group Risk Manager.

Various internal policies which form part of the Company's compliance framework also apply to Directors.

Brightsideco Insurance Limited

Statement of comprehensive income

For the year ended 30 June 2020

*In thousands of NZD*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Premium revenue	5	10,372	7,861
Outwards reinsurance premium expense	11	(5,186)	(3,927)
<b>Premium</b>		<b>5,186</b>	<b>3,934</b>
Claims expense	18	(11,193)	(10,720)
Reinsurance and other recoveries	5	5,895	5,798
<b>Net Claims incurred</b>		<b>(5,298)</b>	<b>(4,922)</b>
Unexpired risk reserve movement	20	909	1,572
Underwriting expenses		(295)	(318)
<b>Underwriting result</b>		<b>502</b>	<b>266</b>
Operating expenses	6	(141)	(138)
Other Income /(expense)		(8)	6
Investment income	7	732	803
<b>Profit before income tax expense</b>		<b>1,085</b>	<b>937</b>
Income tax expense	8	(304)	(262)
<b>Profit after income tax expense</b>		<b>781</b>	<b>675</b>
Other comprehensive income		-	-
<b>Total Comprehensive income for the year</b>		<b>781</b>	<b>675</b>
<b>Total Comprehensive income attributable to:</b>			
Equity holders of the parent		781	675
<b>Total Comprehensive income</b>		<b>781</b>	<b>675</b>

The notes on pages 10 to 34 are an integral part of these financial statements.



# Brightsideco Insurance Limited

## Statement of financial position

As at 30 June 2020

*In thousands of NZD*

	Note	2020	2019
<b>Current assets</b>			
Cash and cash equivalents	9	2,030	1,581
Trade and other receivables	10	1,616	1,293
Deferred reinsurance expense	11	5,139	5,256
Reinsurance receivable	13	1,646	1,309
Investments	14	13,500	9,258
Income tax receivable	16	-	178
<b>Total current assets</b>		<b>23,931</b>	<b>18,875</b>
<b>Non-current assets</b>			
Deferred reinsurance expense	11	8,359	9,251
Deferred tax asset	12	-	255
Investments	14	6,838	12,000
<b>Total non-current assets</b>		<b>15,197</b>	<b>21,506</b>
<b>Total assets</b>		<b>39,128</b>	<b>40,381</b>
<b>Current liabilities</b>			
Trade and other payables	15	1,148	1,282
Income tax payable	17	49	-
Outstanding claims liability	18	1,781	809
Unearned premium reserve	19	10,289	10,522
Unexpired risk reserve	20	-	329
<b>Total current liabilities</b>		<b>13,267</b>	<b>12,942</b>
<b>Non-current liabilities</b>			
Unearned premium reserve	19	16,738	18,517
Unexpired risk reserve	20	-	580
<b>Total non-current liabilities</b>		<b>16,738</b>	<b>19,097</b>
<b>Total liabilities</b>		<b>30,005</b>	<b>32,039</b>
<b>Net assets</b>		<b>9,123</b>	<b>8,342</b>
<b>Equity</b>			
Issued capital	21	7,000	7,000
Retained earnings		2,123	1,342
<b>Total equity</b>		<b>9,123</b>	<b>8,342</b>

The notes on pages 10 to 34 are an integral part of these financial statements.

Brightsideco Insurance Limited  
Statement of changes in equity  
For the year ended 30 June 2020

*In thousands of NZD*

**2020**

Balance at 1 July 2019

**Total comprehensive income for the period**

Profit for the year

**Total Comprehensive income**

Balance at 30 June 2020

	Share capital	Attributable to equity holders of the Company Retained earnings	Total Equity
Balance at 1 July 2019	7,000	1,342	8,342
Profit for the year	-	781	781
<b>Total Comprehensive income</b>		<b>781</b>	<b>781</b>
Balance at 30 June 2020	<b>7,000</b>	<b>2,123</b>	<b>9,123</b>

*In thousands of NZD*

**2019**

Balance at 1 July 2018

**Total comprehensive income for the period**

Profit for the year

**Total Comprehensive income**

Balance at 30 June 2019

	Share capital	Attributable to equity holders of the Company Retained earnings	Total Equity
Balance at 1 July 2018	7,000	667	7,667
Profit for the year	-	675	675
<b>Total Comprehensive income</b>	-	<b>675</b>	<b>675</b>
Balance at 30 June 2019	<b>7,000</b>	<b>1,342</b>	<b>8,342</b>



# Brightsideco Insurance Limited

## Statement of cash flows

For the year ended 30 June 2020

*In thousands of NZD*

	Note	2020	2019
<b>Cash flows from operating activities</b>			
Cash receipts from customers and others		13,574	13,429
Cash paid to policy holders and suppliers		(14,968)	(15,733)
Cash utilised in operations		(1,394)	(2,304)
Income taxes received/(paid)		178	(34)
<b>Net cash outflows from operating activities</b>	9	(1,216)	(2,338)
<b>Cash flows from investing activities</b>			
Decrease/(Increase) in investments		920	(1,008)
Interest income received		745	803
<b>Net cash inflows/(outflows) from investing activities</b>		1,665	(205)
<b>Net increase/(decrease) in cash and cash equivalents</b>		449	(2,543)
Cash and cash equivalents at beginning of year		1,581	4,124
<b>Cash and cash equivalents at 30 June</b>	9	2,030	1,581

# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 1. Reporting entity

Brightsideco Insurance Limited ("the Company") is a company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993. With the implementation of the Insurance (Prudential Supervision) Act 2010 all insurance entities undertaking insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Company was granted a full license on 1 June 2013. As a result of being a licensed insurer, the Company is deemed to be an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

The Company was established to provide warranty underwriting services. These services commenced from 1 June 2013.

The financial statements of the Company are for the year ended 30 June 2020 and were authorised for issue by the Directors on 15 October 2020.

### 2. Basis of preparation

#### a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for Tier 1 for-profit entities, and other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The Company is a profit-oriented entity. The financial statements also comply with International Financial Reporting Standards (IFRS). The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and the FMCA and its financial statements comply with these Acts. The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated Regulations.

#### b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets and outstanding claims liabilities and reinsurance receivables as detailed in Note 3.

#### c) Functional and presentational currency

The financial statements are presented in New Zealand Dollars, which is the Company's functional currency. All financial information presented in New Zealand Dollar have been rounded to the nearest thousand dollars unless otherwise stated.

#### d) Use of estimates and judgements

The preparation of a financial report in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised. Information about significant assumptions and estimates uncertainty are disclosed in Note 4 - actuarial methods and assumptions.

Brightsideco Insurance Limited  
Notes to the financial statements  
For the year ended 30 June 2020

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**a) Classification of warranty contracts**

Warranty contracts under which the Company accepts risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts and are therefore accounted for using insurance accounting principles. Insurance risk is risk other than financial risk.

**b) Revenue**

**i) Premium revenue**

Premium revenue from warranty underwriting business includes amounts charged to the policyholders, excluding amounts collected on behalf of third parties.

Premium revenue is recognised in the Statement of comprehensive income when it has been earned, that is, on a straight-line basis from the attachment date distributed evenly over the period of the contract.

The proportion of premium received or receivable not earned in the Statement of comprehensive income at the reporting date is recognised in the Statement of financial position as an unearned premium reserve.

**ii) Reinsurance and other recoveries**

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

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

Reinsurance recoveries are presented as part of reinsurance receivable net of any provision for impairment based on objective evidence for individual receivables. Reinsurance and other recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

**iii) Reinsurance profit commission**

Profit commission on certain reinsurance arrangements is recognised in the Statement of comprehensive income when it is probable that a commission will be payable by the reinsurers under the relevant reinsurance contract and the amount of that commission can be reliably measured.

**iv) Investment income**

Interest income is recognised in the Statement of comprehensive income when it accrues, using the effective interest method.



Brightsideco Insurance Limited  
Notes to the financial statements  
For the year ended 30 June 2020

**3. Significant accounting policies (continued)**

**c) Assets backing underwriting liabilities**

The assets backing warranty underwriting liabilities are those assets that, in the opinion of the directors would be required to cover the warranty underwriting liabilities plus an allowance for uncertainty.

Warranty underwriting liabilities are assessed by the directors utilising actuarial valuations and estimates to include liabilities for unearned premium reserve, outstanding claims and unexpired risk (if required). (Notes 18, 19 and 20).

Underwriting assets are detailed in the accounts and include:

- Cash on hand via banks with an AA- credit rating per Standard and Poor's, a credit rating agency
- Term deposits via banks with an AA- credit rating per Standard and Poor's, a credit rating agency
- Reinsurance assets through reinsurers with an AA- credit rating per Standard and Poor's, a credit rating agency

**d) Trade and other receivables**

Trade and other receivables are initially measured at the transaction price, unless they contain significant financing components, when they are recognised at fair value, and are subsequently measured at amortised cost. Loss allowances on trade and other receivables are measured at an amount equal to lifetime expected credit losses.

**e) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and term deposits where the initial maturity is less than three months. Term deposits with an initial maturity of three months and more are classified as investments.

**f) Impairment**

The Company recognises loss allowances for expected credit losses on financial assets. Loss allowances are measured at an amount equal to lifetime expected credit losses. The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the asset. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

**g) Fair value measurement**

The Company's investments comprise term deposits which fall under Level 2 of the Fair Value hierarchy; as described below:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 3. Significant accounting policies (continued)

#### h) Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate computed at initiation recognition of these financial assets. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

#### i) Reversals of impairment

An impairment loss for an asset is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in the profit and loss, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

#### ii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of comprehensive income.

#### i) Share capital

Ordinary shares are classified as equity. Any dividends are recognised as a liability in the financial period in which they are declared.

#### j) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium reserve and is conducted at each reporting date.

Provision is made for unexpired risks arising from warranty underwriting business where the expected present value of claims and expenses attributed to the unexpired periods of policies in force together with a risk margin ("premium liabilities") exceeds the unearned premium reserve in relation to such policies after the deduction of any deferred acquisition costs. The premium liabilities are calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio to achieve a probability of adequacy of 75%. Any deficiency arising from the test is recognised immediately in the Statement of comprehensive income firstly through the write down of deferred acquisition costs, with any remaining balance being recognised on the Statement of financial position as an unexpired risk reserve.



# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 3. Significant accounting policies (continued)

#### k) Outstanding claims liability

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is a critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting year in which the estimates are changed.

#### l) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims are recognised as income. Recoveries receivable on paid claims are presented net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on paid claims are measured as the present value of the expected future receipts. Reinsurance does not relieve the Company of its liabilities to policy holders.

#### m) Provisions

A provision is recognised in the Statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### n) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

#### o) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense on a straight-line basis from the attachment date distributed evenly over the period of indemnity of the reinsurance contract, consistent with the treatment of premium revenue. Accordingly, a proportion of outwards reinsurance premium is treated as prepaid and disclosed as deferred reinsurance expense in the Statement of financial position.

# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 3. Significant accounting policies (continued)

#### p) Income tax

Income tax on the profit or loss for the financial period comprises current and deferred tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous financial periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company is part of a tax consolidated group with members as at 30 June 2020 being ICF Holdings (NZ) Limited, South Pacific Warranty Services Ltd and Product Care Administration Services (NZ) Ltd.

#### q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as a current asset or liability in the Statement of financial position.

#### r) New standards and interpretations in issue not yet effective

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) is a new accounting standard for all types of insurance contracts and replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 was issued in August 2017 by the New Zealand External Reporting Board and incorporates International Financial Reporting Standard 17 Insurance Contracts (IFRS 17) issued by the International Accounting Standards Board (IASB).

Amendments to IFRS 17 were approved by the IASB in June 2020 to address implementation issues identified, and the effective date of IFRS 17 was revised to be applicable for reporting periods beginning on or after 1 January 2023. These amendments are expected to be adopted in NZ IFRS 17 in due course, which means this new standard is expected to be mandatory for the Company's financial statements for periods starting from 1 July 2023.



## Brightsideco Insurance Limited

### Notes to the financial statements

#### For the year ended 30 June 2020

#### 3. Significant accounting policies (continued)

##### r) New standards and interpretations in issue not yet effective (continued)

NZ IFRS 17 introduces new measurement models and significant changes to the presentation and disclosure of insurance contracts. Under the general model, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period). NZ IFRS 17 also permits the use of a simplified model in certain circumstances, which is similar to the current measurement model for general insurance contracts. A detailed impact assessment has not yet been completed.

#### 4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation of liabilities is 30 June 2020. The liability valuation is documented in a report prepared by Mr Andrew Cohen of Finity Consulting Pty Ltd, the Appointed Actuary for the Company. Mr Cohen has no financial interest or dealings with the Company other than fees paid in respect of the actuarial valuation. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the premium liabilities and outstanding claims liability. The key assumptions used in the compilation of the reserves as at 30 June 2020 have been outlined in Note 18 and Note 19.

The outstanding claims liability disclosed for the Company have been calculated in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard No. 30 "*Valuation of General Insurance Claims*".

Section 77(1) of the Insurance (Prudential Supervision) Act 2010 requires the Appointed Actuary to review the actuarial information contained in, or used in the preparation of, the financial statements. The Appointed Actuary is satisfied that he has obtained all of the information and explanations required. He is satisfied that the actuarial information has been used appropriately in the preparation of the financial statements and included appropriately in the financial statements.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

##### a) Unearned premium reserve and unexpired risk reserve

In accordance with the recognition of premium revenue (see accounting policy 3 b(i)) the consequent unearned premium reserve at the end of the year is based upon the straight-line earning of revenue plus the addition of premiums written during the year.

In undertaking the liability adequacy test to assess the carrying amount of the unearned premium reserve allowance is made through the application of a risk margin for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of future claims to increase or reduce when compared with the cost of previously settled claims.

Analysis of the unearned premium reserve is provided in Note 19 together with the application of the Liability Adequacy Test including the assessment of the need for an unexpired risk reserve. The estimation of premium liability includes a number of key assumptions. The Company takes all reasonable steps to ensure it has appropriate information on which to base this estimate.



# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 4. Summary of significant actuarial methods and assumptions (continued)

#### a) Unearned premium reserve and unexpired risk reserve (continued)

However, given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The level of uncertainty around the eventual cost of claims relating to the unexpired portion of policies is significant given both the extended time period over which the claims may be reported (up to 7 years from the date of purchase of the underlying service plan/extended warranty arrangement) and the potential change in the underlying assumptions as set out in Note 19 C (i).

#### b) Deferred reinsurance expense

Deferred reinsurance expense is also determined using the above methods, with the consequent deferred reinsurance expense at the end of the year being based upon the straight-line expensing of reinsurance plus the addition of outwards reinsurance premium expense ceded during the year.

#### c) Outstanding claims liability

The outstanding claims liability is determined by estimating the ultimate cost of settling a claim, including direct and indirect costs of settling a claim, based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size, frequency and other relevant factors. The provision for outstanding claims contains a risk margin to reflect the inherent uncertainty in the central estimate, the central estimate being the expected value of outstanding claims. Reinsurance recoveries are similarly determined using the prevailing rate of recovery.

### 5. Revenue

*In thousands of NZD*

	2020	2019
Gross written premium	8,360	7,732
Movement in unearned premium	2,012	129
Premium revenue	10,372	7,861
Reinsurance recoveries	5,237	4,925
Other recoveries	658	873
Reinsurance and other recoveries revenue	5,895	5,798
Underwriting revenue	16,267	13,659

### 6. Operating expenses

*In thousands of NZD*

	2020	2019
<b>Operating expenses</b>		
Audit fees	75	72
Credit rating fees	63	60
Accounting and secretarial fees	3	6
	141	138

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Notes to the financial statements  
For the year ended 30 June 2020

**7. Investment income**

*In thousands of NZD*

Interest income

2020	2019
732	803
732	803

**8. Income tax expense**

**Numerical reconciliation between tax expense and pre-tax net profit**

*In thousands of NZD*

Profit/(loss) before tax  
Income tax using the domestic corporation  
tax rate of 28%

2020	2019
1,085	937
304	262

**Recognised in the Statement of comprehensive income**

*In thousands of NZD*

**Current tax expense**

Current year

2020	2019
49	(178)

**Deferred tax expense**

Origination and reversal of temporary  
differences  
Total income tax expense/(benefit) in  
Statement of comprehensive income

255	440
304	262

**Imputation credit account**

The Company is a member of a New Zealand tax consolidated Group.

The imputation balance as 30 June 2020 available to the Group is \$513,755 (2019: \$513,659).

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**9. Cash and cash equivalents**

*In thousands of NZD*

	2020	2019
Bank balances	2,030	1,581
	2,030	1,581

**Reconciliation of cash flows from operating activities**

*In thousands of NZD*

	Note	2020	2019
Profit before income tax		1,085	937
Adjustments for:			
Investment income	7	(732)	(803)
<b>Operating profit before changes in working capital and provisions</b>		353	134
Increase in reinsurance receivables	13	(337)	(285)
(Increase)/decrease in trade and other receivables	10	(336)	178
Decrease in deferred reinsurance expenses	11	1,009	65
Decrease in trade and other payables	15	(134)	(595)
Decrease in unexpired risk reserve	20	(909)	(1,572)
Increase/(decrease) in outstanding claims liability	18	972	(100)
Decrease in unearned premium reserve	19	(2,012)	(129)
Income taxes received/(paid)		178	(34)
<b>Net cash outflows from operating activities</b>		<b>(1,216)</b>	<b>(2,338)</b>

**10. Trade and other receivables**

*In thousands of NZD*

		2020	2019
<b>Current</b>			
Trade receivables due from related parties	23	1,086	850
Other receivables		530	443
		1,616	1,293

Brightsideco Insurance Limited  
Notes to the financial statements  
For the year ended 30 June 2020

**11. Deferred reinsurance expense**

*In thousands of NZD*

	2020	2019
Current	5,139	5,256
Non-current	8,359	9,251
	13,498	14,507
Opening balance	14,507	14,572
Reinsurance premiums incurred in the year	4,177	3,862
Reinsurance premiums expensed in the year	(5,186)	(3,927)
Balance as at 30 June	13,498	14,507

**12. Deferred tax assets and liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

**2020**

*In thousands of NZD*  
Unexpired risk reserve

Net tax assets

Assets	Liabilities	Net
-	-	-
-	-	-

**2019**

*In thousands of NZD*  
Unexpired risk reserve

Net tax assets

Assets	Liabilities	Net
255	-	255
255	-	255

**Movement in temporary differences during the period**

**2020**

*In thousands of NZD*

Unexpired risk reserve

Opening Balance	Recognised In Income	Closing Balance
255	(255)	-
255	(255)	-

**2019**

*In thousands of NZD*

Unexpired risk reserve

Opening Balance	Recognised In Income	Closing Balance
695	(440)	255
695	(440)	255



Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**13. Reinsurance receivable**

*In thousands of NZD*

**Current**

Recoveries on claims paid  
Recoveries on outstanding claims liability

2020	2019
813	931
833	378
1,646	1,309

**14. Investments**

*In thousands of NZD*

**Current**

Non-current

2020	2019
13,500	9,258
6,838	12,000
20,338	21,258

**15. Trade and other payables**

*In thousands of NZD*

Payables due to related parties  
Other trade payables including reinsurance  
premiums payable

23

2020	2019
12	175
1,136	1,107
1,148	1,282

**16. Income tax receivable**

*In thousands of NZD*

Income tax receivable

2020	2019
-	178
-	178

**17. Income tax payable**

*In thousands of NZD*

Income tax payable

2020	2019
49	-
49	-

The current tax payable for the Company represents the amount due to the Inland Revenue Department.

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**18. Outstanding claims reserve**

*In thousands of NZD*

	2020	2019
Central estimate	1,687	766
Risk margin	94	43
<b>Gross outstanding claims – current</b>	<b>1,781</b>	<b>809</b>
<b>Reconciliation of movement in claims liability:</b>		
Balance at the beginning of the year	809	909
Claims incurred in the current year	11,193	10,720
Claims costs paid	(10,221)	(10,820)
Balance at end of year	1,781	809
Reinsurance and other recoveries receivable	(833)	(378)
Net outstanding claims liability at the end of the year	948	431

The outstanding claims liability is determined by estimating the ultimate cost of settling a claim, including direct and indirect costs of settling a claim, based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size, frequency and other relevant factors.

The risk margin is an additional allowance for uncertainty in the cost of claims over and above the central estimate, determined on the bases set out in Note 4. Factors considered in setting the risk margin include variability of claims experience, quality of historical data, uncertainty to future economic conditions and future legislative changes.

A risk margin for outstanding claims of 11.0% (2019: 11.0%) of net central estimate has been assumed and is intended to achieve a 75% probability of sufficiency (2019: 75%).

**Sensitivity Analysis**

The valuation of outstanding claims is based on historical patterns of payments applicable at the balance date, as well as past experience and trends on claims size and other relevant factors. The impact on the profit and loss before income tax to changes in key actuarial assumptions is set out below.

*In thousands of NZD*

	Change in Variable 2020	Impact on OCL 2020
Discount Rate	+1.0%	(2)
	-1.0%	2
Expenses	+1.0%	9
	-1.0%	(9)
Risk Margin	+1.0%	9
	-1.0%	(9)

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**19. Unearned premium reserve**

**A. Reconciliation of movements**

*In thousands of NZD*

Current  
Non-current

	2020	2019
Current	10,289	10,522
Non-current	16,738	18,517
	27,027	29,039
<b>Reconciliation of movement in unearned premium liability</b>		
Opening balance	29,039	29,168
Written premium in the period	8,360	7,732
Premium earned during the year	(10,372)	(7,861)
	27,027	29,039

**B. Liability Adequacy Test**

The liability adequacy test identified a deficit of nil as at 30 June 2020 (2019: deficit of \$909,000). For the purposes of the test, the present value of expected future cash flows for future claims, net of reinsurance recoveries, including the risk margin for the Company is \$12,534,000 (2019: \$15,441,000), comprising the central estimate of \$11,251,000 (2019: \$13,911,000) and a risk margin of \$1,283,000 (2019: \$1,530,000). The risk margin is intended to achieve a probability of sufficiency of 75% (2019: 75%). The risk margin was increased from 11% in 2019 to 11.4% this year as a response to Covid-19 as determined by the actuary appointed by the Company, using the framework proposed by the Actuaries Institutes' Risk Margin Task Force.

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**19. Unearned premium reserve (continued)**

**C. Composition of unearned premium reserve**

The adequacy of the Unearned Premium Reserve (UPR) is assessed by determining the central estimate of expected future cash flows in respect of claims associated with unexpired risks together with a risk margin to reflect the inherent uncertainty in the estimate and then comparing this amount to the unearned premium liability.

The valuation assumptions were derived using data to 31 March 2020. Updated exposure data (i.e. the number of contracts sold in the three months to 30 June 2020) was incorporated and the projected cash flows were discounted using the yield curve at 30 June 2020.

The central estimate was modelled using the Payments per Claim Finalised (PPCF) method, where the number of claims and the average claim size are modelled separately. Separate PPCF models were developed for the key warranty categories (i.e. Brown Goods: Vacuums & Coffee Machines, Brown Goods: Other, Computers, White Goods: Laundry, White Goods: Other, and Miscellaneous).

The following assumptions have been made in assessing adequacy of the unearned premium liability:

**(i) Assumptions**

	30 June 2020	30 June 2019
Undiscounted mean term (years)	1.58	1.72
Discounted mean term (years)	1.58	1.70
Indirect expense ratio	1.00%	1.00%
Risk margin	11.40%	11.00%
Claims inflation	2.00%	2.00%
Discount rate	0.30%	1.21%



Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**19. Unearned premium reserve (continued)**

**C. Composition of unearned premium reserve (continued)**

The table below summarises the sensitivity of the premium liabilities calculation for the purpose of the Liability Adequacy Test.

<i>In thousands of NZD</i>	Movement in variable	Net premium liabilities increase/(decrease) \$000's (Note A)	
		2020	2019
Net premium liabilities		12,534	15,441
Average Claim Size	+10.0%	1,253	1,544
	-10.0%	(1,253)	(1,544)
Claim Frequency	+10.0%	1,253	1,536
	-10.0%	(1,253)	(1,536)
Cancellation Rate	+10.0%	(159)	(189)
	-10.0%	159	189
Inflation Rate	+1.0%	222	299
	-1.0%	(219)	(294)
Discount Rate	+1.0%	(190)	(256)
	-1.0%	196	265
Expenses	+1.0%	122	151
	-1.0%	(122)	(151)
Risk Margin	+1.0%	113	139
	-1.0%	(113)	(139)

Note A: This change would have an equivalent effect on net profit/loss before tax and shareholder's equity (net of tax effect).

**D. Concentration of insurance risk**

The Company writes warranty contracts predominantly covering retail electrical products. The portfolio is spread across a diversified range of manufacturers.

Regular reviews are undertaken to monitor the accumulation exposure to any particular product and/or manufacturer. Quota share reinsurance has been purchased to share the accumulated exposure in accordance with commercially available terms.

**E. Covid-19 impact**

Covid -19 has impacted these accounts due to the lockdown of trading during the June 2020 quarter. The key impacts can be summarised as:

- A higher outstanding claims liability as at 30 June 2020 arose due to a backlog of claims arising from the lockdown in April 2020
- The risk margin used in valuing premium liabilities was temporarily uplifted from 11% to 11.4% to allow for the potential future impact of Covid-19. The risk margin used in valuing the outstanding claims liability remains unchanged at 11%.
- Gross written premium was minimal in April 2020 during the lockdown of retail operations in New Zealand, but overall gross written premium income for the year was consistent with expectations.

Brightsideco Insurance Limited  
Notes to the financial statements  
For the year ended 30 June 2020

**20. Unexpired risk reserve**

**A. Reconciliation of movements**

*In thousands of NZD*

Current  
Non-current

**Reconciliation of movement in  
unexpired risk reserve**

Opening balance  
Total recognised income

	2020	2019
Current	-	329
Non-current	-	580
	-	909
Opening balance	909	2,481
Total recognised income	(909)	(1,572)
	-	909

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**21. Equity**

**Share capital**

*In thousands*

	2020	2019
On issue at 1 July	7,000	7,000
Issued for cash (number of shares)	-	-
On issue at 30 June	7,000	7,000

Issued at NZ\$1.00 per share.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

The Company meets all capital adequacy requirements specified by the Reserve Bank of New Zealand.

**Capital Management**

The capital management strategy of the Company is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the entity's ability to continue as a going concern. The Company's capital policy is to hold all surplus capital in bank deposits with bank credit ratings of a minimum of AA-.

The Company's capital includes contributed equity on the statement of financial position of \$7,000,000 (2019: \$7,000,000).

There were no changes in the Company's approach to capital management during the year.

The Company has embedded in its capital management framework the necessary tests to ensure compliance with the Solvency Standard for Non-Life Insurance Business issued December 2014 by the RBNZ and updated November 2018.

The Company's Audit and Risk Committee oversees the computations and capital solvency is carefully monitored against the Company's capital management plan. In addition, the Company manages the required level of capital through maintaining its investment strategy and its reinsurance quota share.

The Company manages its capital by considering regulatory requirements. The primary source of capital used is total equity attributable to owners. Total equity attributable to owners equates to "capital" as defined in the solvency standard and shown below.

The parent entity ICF Holdings (NZ) limited has provided a guarantee to the Company in that if the solvency margin falls below 115% it will automatically inject new capital of up to \$1m. The guarantee is for a five year term expiring on 30 August 2023.

Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**21. Equity (continued)**

**Capital Management (continued)**

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital, with the difference representing the solvency margin. The calculation of the solvency margin for the Company is detailed below:

**Summary of Solvency position**

*In thousands of NZD*

	2020	2019
Balance Sheet capital	9,123	8,342
Deductions	-	(255)
Actual solvency Capital	9,123	8,087
Risk Based Charges		
Insurance Risk	2,109	2,518
Catastrophe Risk	656	853
Reinsurance Recoveries Risk	305	317
Asset Risk	474	597
Interest Rate Risk	59	324
Minimum Solvency Capital	3,603	4,609
Solvency Margin	5,520	3,478
Solvency Ratio	2.53	1.75



# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 22. Financial instruments & risk management

#### A. Financial Risk Management

The activities of the Company expose it to the following financial risks:

- Credit risk
- Liquidity risk
- Operational risk
- Market risk (include currency risk, cash flow and fair value interest rate risk)

The Company has developed, implemented and maintains Investment and Capital Management Strategies to minimise potential adverse impacts upon the financial performance of the Company arising from financial market volatility.

The key objective of the Company's asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities.

#### Credit Risk

Credit risk relates to the possibility of default by transactional counterparties as well as the loss of value of assets due to the deterioration in credit quality. The Company's credit risk arises predominantly from investments, policyholder premium debtors and reinsurance recoveries.

#### Trade and other receivables

The credit risk exposure of the Company is non-repayment of the carrying amounts of the financial assets. For underwriting and warranty services, the balance due from Product Care Administration Services (NZ) Ltd (PCASNZ) is \$1,085,600 (2019: \$851,000). This balance is expected to be settled within 30 days of the balance date.

#### Reinsurance Recoveries

The credit risk exposure on reinsurance recoveries is reduced by only dealing with AA- rated reinsurers as rated by Standard & Poor's or Moody's.

#### Investments and cash

The Company limits its exposure to credit risk by only investing in term deposits and only with counterparties that have a credit rating of at least AA- from Standard & Poor's or Moody's equivalent. The counterparty banks with which these term deposits are held are rated AA-.

#### Trade and other receivable ageing

<i>In thousands of NZD</i>	<b>0 to 30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91+ Days</b>	<b>Total</b>
<b>2020</b>					
Trade receivables	1,086	-	-	-	1,086
Other receivables	177	6	6	341	530
Reinsurance recoveries	338	1,308	-	-	1,646
<b>Total Trade Receivables</b>	<b>1,601</b>	<b>1,314</b>	<b>6</b>	<b>341</b>	<b>3,262</b>
<b>2019</b>					
Trade receivables	851	-	-	-	851
Other receivables	30	6	6	400	442
Reinsurance recoveries	453	856	-	-	1,309
<b>Total Trade Receivables</b>	<b>1,334</b>	<b>862</b>	<b>6</b>	<b>400</b>	<b>2,602</b>

Based on the aging shown above and allowing for cash received after reporting date, no impairment was required against trade and other receivable balances.

# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 22. Financial instruments & risk management (continued)

#### A. Financial Risk Management (continued)

##### Credit Exposures

The table below provides information regarding the credit risk exposure of the Company by classifying investments according to Standard and Poor's credit ratings of the counterparties. Trade and other receivables are not rated because of their short term nature and the lack of any singularly material debtors. AAA is the highest possible rating. As at 30 June 2020 the Company did not hold any rated financial assets with a Standard and Poor's credit rating below AA-.

2020	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	2,030	-	2,030
Investments	20,338	-	20,338
Deferred reinsurance	13,498	-	13,498
Reinsurance receivable	1,646	-	1,646
Trade and other receivables	395	1,221	1,616
	37,907	1,221	39,128
2019	AA- rated	Not rated	Total
<i>In thousands of NZD</i>			
Financial Assets			
Cash and cash equivalents	1,581	-	1,581
Investments	21,258	-	21,258
Deferred reinsurance	14,507	-	14,507
Reinsurance receivable	1,309	-	1,309
Trade and other receivables	408	885	1,293
	39,063	885	39,948

# Brightsideco Insurance Limited

## Notes to the financial statements

For the year ended 30 June 2020

### 22. Financial instruments and risk management (continued)

#### A. Financial Risk Management (continued)

##### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist predominantly of cash deposits. The assets are managed so as to principally match the maturity profile of the assets with the expected pattern of claims payments or liability settlements.

##### Maturity Profiles

The table in below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance contracts, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousands of NZD	Maturity Periods In Years				
	1	2	3	4-10	Total
<b>2020</b>					
<b>Financial Liabilities</b>					
Trade and other payables	(1,148)	-	-	-	(1,148)
Unearned premium liability	(10,289)	(8,828)	(5,417)	(2,493)	(27,027)
Outstanding claims liability	(1,781)	-	-	-	(1,781)
	(13,218)	(8,828)	(5,417)	(2,493)	(29,956)

In thousands of NZD	Maturity Periods In Years				
	1	2	3	4-10	Total
<b>2019</b>					
<b>Financial Liabilities</b>					
Trade and other payables	(1,282)	-	-	-	(1,282)
Unearned premium liability	(10,522)	(9,213)	(5,899)	(3,405)	(29,039)
Outstanding claims liability	(809)	-	-	-	(809)
Unexpired Risk Reserve	(329)	(289)	(185)	(106)	(909)
	(12,942)	(9,502)	(6,084)	(3,511)	(32,039)

##### Market Risk

Market risk is the risk that changes in security market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Company has no material exposure to market revaluation of financial instruments.



Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**22. Financial instruments and risk management (continued)**

**A. Financial Risk Management (continued)**

Cash flow sensitivity analysis for interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The impact of a 1% uplift or reduction in market interest rates would impact pre-tax profit as follows:

In thousands of NZD		Movement in market interest rates	
		Minus 1.0%	Plus 1.0%
Pre-tax impact on profit	2020	414	(420)
Pre-tax impact on profit	2019	484	(493)

**B. Risk management objectives and policies for mitigating insurance risks**

**(i) Objectives**

The Company's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk so as to ensure that pricing and claims management reduce any risk of loss.
- Measuring the frequency and severity of possible Insurance risk loss events.
- Treating insurance risk with controls designed to assure that any changes in trends or loss patterns are identified at the earliest time via rigorous analysis of detailed monthly claim and loss ratio data.
- Protecting the Company by holding at least 50% reinsurance with AA- rated reinsurers.

**(ii) Concentrations of insurance risk**

Please refer to Note 19 (d).

**(iii) Exposure to risk**

The Company manages claims in order to mitigate insurance risk primarily through:

- Detailed monthly management reporting on claims costs which may identify a need for changes to pricing or claim management processes
- Detailed analysis of claims cost by manufacturer, model and fault type to identify at the earliest time any recurrent problem that may be recoupable from manufacturers or require discontinuation of future warranty sales for that particular product
- Monthly reporting of all loss ratios including analysis of frequency and severity which may identify a need for changes to pricing or claim management processes.



Brightsideco Insurance Limited

Notes to the financial statements

For the year ended 30 June 2020

**23. Related parties**

For the year ended 30 June 2020 the Company had an agreement with a related party, Product Care Administration Services (NZ) Limited (PCASNZ) to administer premium revenue collection and settle warranty claims on behalf of the Company, as part of its warranty services business. These balances are non-interest bearing and will be settled in cash.

For the year ended 30 June 2020, PCASNZ, a related entity, received written premiums of \$8,354,381 excluding GST (2019: \$7,731,842) on behalf of the Company and subsequently transferred these monies on receipt from the insured party to the Company. At the statement of financial position date, the Company was owed \$1,085,600 including GST (2019: \$850,277) by PCASNZ.

At the statement of financial position date, the Company owed \$11,500 (2019: \$11,075) to PCASNZ.

For the year ended 30 June 2020 warranty claims settled gross of reinsurance on behalf of the Company by PCASNZ totalled \$10,534,894 (2019: \$9,448,995).

The Company paid a related entity, SPWS for managerial services during the year ended 30 June 2020 the amount of \$24,000 (2019: \$24,000) and for finance and actuarial services the amount of \$185,000 (2019: \$185,004). As at 30 June 2020, \$Nil (2019: \$Nil) remained payable from the Company to SPWS.

At the statement of financial position date, the Company owed its parent entity, ICF Holdings (NZ) Limited \$49,098 (2019: \$163,963) in relation to tax obligations payable by the parent as the head of the tax-consolidated group.

**24. Auditor's remuneration**

*In thousands of NZD*

**Audit services**

Statutory financial statements audit

**Other services**

Other assurance service

	2020	2019
	66	64
	66	64
	9	8

Other assurance services relate to the audit of the Company's 30 June 2020 Insurer Solvency Return.

**25. Commitments**

There were no commitments as at 30 June 2020 (2019: nil).

Brightsideco Insurance Limited  
Notes to the financial statements  
For the year ended 30 June 2020

**26. Subsequent events**

From 1 August 2020, the Company's License under the Insurance (Prudential Supervision) Act 2010 was extended to allow coverage of Accidental Damage Insurance in addition to Extended Warranty Insurance. The Company intends to commence providing cover for Accidental Damage insurance in the financial year ending 30 June 2021.

**27. Economic dependency**

Harvey Norman Holdings Limited ("Harvey Norman") and its related companies constitute 99% (2019: 99%) of the Company's underwriting revenue earned.

An agreement between Harvey Norman and the ultimate parent entity is in force until 31 March 2021. This includes the underwriting business included in these accounts. Management are currently in negotiations with Harvey Norman, and believe based on the current status of the negotiations and the close working relationship with Harvey Norman, it is probable that this contract will be renewed. The Board remains confident that the Company would continue trading, even in the event of non-renewal of the contract with Harvey Norman.

# Independent Auditor's Report

To the shareholder of Brightsideco Insurance Limited

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of Brightsideco Insurance Limited (the 'Company') on pages 6 to 34:

- i. present fairly in all material respects the Company's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2020;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other professional services to the Company being a reasonable assurance engagement in respect of the Company's 30 June 2020 Annual Insurer Solvency Return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.



### 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 in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion.





Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

## Key changes in the assessment of audit risks

### COVID-19

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the outstanding claims liabilities and associated reinsurance. The expected claims experience is inherently more uncertain due to changes in claims incidence and potential delays in receipt of claims notifications from insureds. While the key audit matter "Valuation of Insurance Contract Liabilities", detailed below, is unchanged from what would have been disclosed without COVID-19, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather, specifically in relation to the key actuarial assumptions and judgements applied.

### The key audit matter

### How the matter was addressed in our audit

#### Valuation of Insurance Contract Liabilities

The valuation of insurance contract liabilities comprises:

- Unearned premium reserve (UPR) \$27,027k; and
- Outstanding claims liability (OCL) \$1,781k.

The valuation of insurance contract liabilities represents a significant estimate requiring the following judgements:

- Claims assumptions. These include, claims frequency, cancellation rates, repair ratio, average repair sizes and average replacement sizes;
- Economic assumptions. These include, inflation rate, discount rate and indirect expense ratio; and
- Risk margin assumptions

The robustness and accuracy of the valuation is dependent on the above assumptions as disclosed in Notes 18 to 20 of the financial statements.

Given the long-tail nature of the business, premium revenue is recognised over multiple periods and so there remains judgement in determining the premium earnings and in calculating UPR.

The Company's insurance contract liabilities are calculated by the Company's Appointed Actuary.

We involved our actuarial specialists and performed audit procedures, which included the following:

- We obtained and reviewed the Insurance Liabilities Valuation Report ("ILVR") as at 30 June 2020 prepared by the Appointed Actuary;
- We reconciled premiums and claims data used in the ILVR back to the Company's underlying accounting records, with material differences investigated;
- With the assistance of our Actuarial Team, we assessed the reasonableness of the valuation methodologies and underlying key assumptions and any changes thereto, including changes due to COVID-19, used to calculate outstanding claims liabilities;
- We obtained the data underlying management's UPR calculation for the Product Care Replacement ("PCR") product, and re-performed the calculation, investigating any material differences;
- We obtained and audited the 30 June 2020 Liability Adequacy Test ("LAT") calculation and agreed key inputs to underlying accounting records and the ILVR. With the assistance of our Actuarial Team, we assessed management's methodology and assumptions underlying the LAT calculation; and
- We obtained a breakdown of the outstanding claims liability as at 30 June 2020, and through review of bordereaux statements and claims payments made post Balance Sheet date, assessed the reasonableness of the year end liability.

## The key audit matter

## How the matter was addressed in our audit

### Valuation of reinsurance recoveries on outstanding claims - \$0.8m

Refer to Note 13 to the financial statements.

The Company has reinsurance cover in the form of a Quota Share agreement.

Reinsurance recoveries represents the Company's estimate of the reinsurers' share of the costs to settle all claims that have occurred up to and including 30 June 2020. These claims may either be known to the Company (reported), or unknown (not yet reported).

Reinsurance and other recoveries on outstanding claims is a function of outstanding claims liabilities and is therefore subject to the same valuation uncertainties as outstanding claims liabilities.

Valuation of reinsurance and other recoveries on outstanding claims is significant to our audit due to the size and the uncertainties discussed above.

We involved our actuarial specialists and performed audit procedures, which included the following:

- We formed our own expectation of reinsurance recoveries on outstanding claims based on our understanding of the key terms of the Quota Share reinsurance agreements and compared our expectations to the Company's estimate, investigating any material differences;
- We assessed the recoverability of balances owed by reinsurers by considering their credit worthiness and capital strength based on external sources of information such as Standard and Poor's credit ratings and payment history; and
- We reconciled the actuarial financial statement disclosures back the ILVR prepared by the Appointed Actuary.



## Other information

The directors, on behalf of the Company, are responsible for the other information included in the entity's annual report. Other information includes the directors' report and corporate governance statement. Our opinion on the statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, 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.



## Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent 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 shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.





## Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



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

Our objective is:

- 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 independent 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. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.

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

For and on behalf of



KPMG  
Auckland

20 October 2020