First Insurance Limited

Financial Statements
For the year ended 30 June 2023

First Insurance Limited

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First Insurance Limited

Company Directory
Financial Statements
For the year ended 30 June 2023

Board of Directors
Steve Nichols (Chair)
Judith Taane (Deputy Chair)
Mark Joblin
Gerard Rennie (appointed March 2023)
John Harvey (appointed March 2023)
Malcolm Blair (ceased March 2023)
Peter Iles (ceased March 2023)
Simon Scott (ceased March 2023)

Chief Executive Officer
Simon Scott

General Manager - Insurance
Michael Cathro

Actuary
Peter Davies BBUS, SC, FIA, FNZSA

Solicitor
Anthony Harper

Banker
Westpac Banking Corporation

Auditor
BDO Wellington Audit Limited

Registered office
111 Collingwood Street, Hamilton

Incorporation Number
6331471

First Insurance Limited

Statement of Service Performance
For the year ended 30 June 2023

Who are we?
First Insurance Limited (FIL) is a fully licensed New Zealand insurance company that is 100% owned by First Credit Union (FCU).

We currently provide loan protection and funeral insurance to members of FCU:
- Funeral Insurance- simple, affordable funeral cover with claims that are paid quickly, this cover can help our members families cope financially at an already stressful time.
- Loan Protection Insurance- protects our member's loans against unforeseen events such as death, disability, critical illness and bankruptcy.

Why do we exist?
The purpose of the insurer is to underwrite and manage the insurance products on behalf of FCU and it's members.

Whilst ensuring we are financially sustainable is an important priority for the Board, we are conscious of delivering benefits to our membership 'family', with our unique approach to claims- looking for ways to approve a claim, rather than decline it.

The close co-operative relationship between FIL and FCU ensures that claims can be managed promptly, and with full knowledge of the Credit Union member's history and current circumstances.

What we intend to achieve- our medium/ long term objectives
- 100% acceptance for all Funeral Insurance claims
- 75%+ net promoter score in Loan Insurance Claimant Survey*

How we measure our performance

	FYE 30 Jun 23	FYE 30 Jun 22
Funeral Insurance		
Claim's accepted	60 (100%)	46 (97.9%)
Loan Protection Insurance		
Claim's accepted	109	116
Loan Insurance- Claimant Survey*		
Net Promoter Score (target 75%)	85%	N/A
Claims		
Amount paid out to members	$1,064,000	$978,500

*Note: Claimant Survey completed for the first time in June 2023 using Survey Monkey. All claimants with a current open Disability claim were surveyed (40 in total, 52.5% responses).

BDO WELLINGTON

First Insurance Limited

Basis of preparation of the Financial Statements
For the year ended 30 June 2023

Reporting entity
First Insurance Limited (the "Insurer") provides loan protection and funeral insurance to members of First Credit Union Incorporated. The Insurer is a wholly owned subsidiary of First Credit Union Incorporated.

The Insurer is domiciled and registered in New Zealand. The registered office and principal place of business is 111 Collingwood Street, Hamilton.

The Insurer is a life and non life licenced insurer under the Insurance (Prudential Supervision) Act 2010. It is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMC Act") and therefore a Tier 1 reporting entity for financial reporting purposes.

Nature of the business
The principal activity of the Insurer is to provide and underwrite loan protection and funeral insurance to members of First Credit Union Incorporated through group policies. The business of the Insurer is managed by it's parent First Credit Union Incorporated under management and agency agreements.

Basis of preparation
For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Insurer is a not-for-profit public benefit entity.

The financial statements are:
- prepared in accordance with the statutory requirements of the FMC Act and the IPS Act
- prepared in accordance with NZ GAAP.
- in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
- presented in New Zealand dollars ($) rounded to the nearest dollar, which is the Insurer's functional and presentation currency.
- stated net of GST, with the exception of receivables and payables, which include GST invoiced.
- prepared on a historical cost basis except insurance contract liabilities, which are measured on an accumulation method basis as described in note 10.

Significant accounting 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 the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.
Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:
- Note 10 Insurance contract liabilities.

Changes in accounting policies
(a) Changes due to the initial application of a new, revised, and amended PBE Standard

(i) PBE IPSAS 41 Financial Instruments
PBE IPSAS 41 Financial instruments are effective from 1 January 2022 and was adopted on that date.
PBE IPSAS 41 introduces a new recognition and measurement requirements for financial assets and restricts the ability to measure financial assets at amortised cost to only those assets that are held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In addition, measurement of financial assets at fair value through other comprehensive revenue and expense is also restricted.

Basis of preparation of the Financial Statements
For the year ended 30 June 2023

PBE IPSAS 41 and the application of the ECL model has had an immaterial impact on the entity measurement and recognition of financial instruments, as financial assets that were recognised as loans and receivables are now recognised as amortised cost.

(ii) PBE FRS 48 Service Performance Reporting
PBE FRS 48 Service Performance Reporting is effective for periods from 1 January 2022 and was adopted on that date.

PBE FRS 48 requires specific disclosures for the reporting of service performance information which have been provided in the statement of service performance.

The financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

First Insurance Limited

Statement of Comprehensive Revenue and Expense
For the year ended 30 June 2023

	Note	2023	2022
Premium revenue	1	1,622,972	1,725,031
Claims expense	2	(971,753)	(908,824)
Underwriting surplus		**651,219**	**816,207**
Investment income	3	244,081	89,523
Operating expenses	4	(892,162)	(901,032)
Net operating surplus before tax		**3,138**	**4,698**
Income tax	5	(879)	(1,315)
Surplus for the year after tax		**2,259**	**3,383**
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the year		**2,259**	**3,383**

First Insurance Limited

Statement of Changes in Net Assets/Equity
For the year ended 30 June 2023

	Note	Share capital	Accumulated revenue and expense	Total equity
Balance as at 30 June 2021		**6,000,000**	**153,172**	**6,153,172**
Total comprehensive revenue and expense		-	3,383	3,383
Balance as at 30 June 2022		**6,000,000**	**156,555**	**6,156,555**
Total comprehensive revenue and expense		-	2,259	2,259
Balance as at 30 June 2023		**6,000,000**	**158,814**	**6,158,814**

First Insurance Limited

Statement of Financial Position
As at 30 June 2023

	Note	2023	2022
Assets			
Cash and cash equivalents	6	70,770	185,893
Premium and other receivables	7	127,782	45,453
Prepayments		26,667	25,000
Investments	8	6,428,752	6,347,263
Total assets		**6,653,971**	**6,603,609**
Liabilities			
Trade and other payables	9	132,044	55,962
Provision for outstanding claims	10	363,113	391,092
Total liabilities		**495,157**	**447,054**
Net assets		**6,158,814**	**6,156,555**
Represented by			
Accumulated revenue and expense		158,814	156,555
Share capital	11	6,000,000	6,000,000
Total equity		**6,158,814**	**6,156,555**

J.a. Taane

Judith Taane, Deputy Chair
16 October 2023

J R Harvey

John Harvey, Director
16 October 2023

First Insurance Limited

Statement of Cash Flows
For the year ended 30 June 2023

	Note	2023	2022
Cash flows from operating activities			
Cash receipts from customers		1,599,600	1,759,957
Cash paid as claims		(999,732)	(911,552)
Cash paid to suppliers		(834,260)	(902,585)
Interest received		244,081	89,523
Taxation paid		(43,325)	3,221
Net cash flows used in operating activities	6	**(33,636)**	**38,564**
Cash flows used in investing activities			
Sale (Acquisitions) of investments		(81,487)	(40,896)
Net cash flows used in investing activities		**(81,487)**	**(40,896)**
Net increase/(decrease) in cash and cash equivalents		**(115,123)**	**(2,332)**
Opening cash and cash equivalents		185,893	188,225
Closing cash and cash equivalents	6	**70,770**	**185,893**

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

1 Premium income

Gross earned premiums from insurance contracts are recognised evenly over the period of cover for the contract.

Revenue is recognised on the date from which the policy is effective. Premiums are received monthly in arrears hence there is no unearned premium liability. Refer to Note 10 for further information on unearned premium liability.

	2023	2022
Life premium revenue	956,631	952,186
Non - life premium revenue	666,341	772,845
Total premium income for the year	**1,622,972**	**1,725,031**

2 Claims expense

The claims expense represents payments made on claims and the movements in the provision for outstanding claims.

Claims expense		2023	2022
Insurance claims paid - Life		566,086	461,618
Insurance claims paid - Non Life		433,646	449,884
Movement in provisions for outstanding claims	Note 10	(27,979)	(2,678)
Total claims expense for the year		**971,753**	**908,824**

Refer to Note 10 for further information on the provision for outstanding claims.

3 Investment income

Investment income is all from interest and is recognised in the surplus or deficit, as it accrues using the effective interest rate method.

	2023	2022
Interest on call accounts and term investments	244,081	89,523
Total investment income for the year - financial assets at amortised cost	**244,081**	**89,523**

4 Operating expenses

	2023	2022
External audit of financial statements - BDO	52,500	51,800
Directors’ fees	64,395	65,000
Policy commission	353,529	375,030
Other operating costs	421,738	409,202
Total operating expenses for the year	**892,162**	**901,032**

5 Taxation

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is provided on any temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. At this stage there are no temporary differences and consequently no deferred tax has been recognised.

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

5 Taxation (continued)

		2023	2022
Income tax recognised in statement of comprehensive revenue and expense			
Net operating surplus before taxation		3,138	4,698
Income tax expense at current rate of 28%		**(879)**	**(1,315)**
Current tax receivable			
Income tax expense		(879)	(1,315)
Resident withholding tax paid		73,414	31,406
Taxation refund	Note 7	**72,535**	**30,091**

6 Cash and cash equivalents

Cash and cash equivalents comprise call deposits that are subject to an insignificant risk of changes in their fair value and are used by the Insurer in the management of its short-term commitments.

Under PBE Standards definition of financial assets, cash and cash equivalents are classified as financial assets at amortised cost.

	2023	2022
Bank balance – on call	70,770	185,893
Total cash and cash equivalents	**70,770**	**185,893**

Reconciliation of surplus/(deficit) with net cash flows from operating activities

Surplus for the year after tax	2,259	3,383
Adjustments for non-cash items included in the surplus after taxation:		
Change in provision for outstanding claims	(27,979)	(2,678)
Changes in assets and liabilities:		
Premium and other receivables	(82,329)	38,304
Prepayments	(1,667)	0
Trade and other payables	76,080	(445)
Net cash flow (to)/from operating activities	**(33,636)**	**38,564**

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

7 Premiums and other receivables

Premium receivables are financial assets initially stated at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method less any impairment losses. Impairment losses for uncollectable premiums are written off against premium receivables in the year in which they are incurred.

Under PBE Standards definition of financial assets, premiums receivables and accrued interest are classified as financial assets at amortised cost.

		2023	2022
Premium receivable (First Credit Union Incorporated)	Note 13	27,846	4,474
Allowance for impairment		0	0
Net premium receivable - financial assets at amortised cost		**27,846**	**4,474**
Tax receivable	Note 5	72,535	30,091
GST receivable		27,401	10,888
Total other receivables		**99,936**	**40,979**
Total premium and other receivables		**127,782**	**45,453**

The fair value of premium receivable approximates the carrying amount. Receivables are a current asset. Policyholders billing and collection of monthly premiums is managed via First Credit Union Incorporated’s banking system. All collected premiums are deposited in First Credit Union Incorporated holding accounts, and subsequently paid to the Insurer. As such there are no receivables directly from the Policyholders themselves, only a receivable from First Credit Union Incorporated. If a policyholder is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy lapses.

8 Investments

The Insurer invests its reserves in term investments with New Zealand banks and financial institutions with an A or better credit rating and these are classified at amortised cost.

Term investments with a term at inception of greater than three months are classified as investments. Investments are initially recognised at fair value plus directly attributable transaction costs and thereafter carried at amortised cost less provision for impairment.

	2023	2022
Investments	6,428,752	6,347,263
Total investments	**6,428,752**	**6,347,263**
Current	6,428,752	6,347,263
Non-current	0	0
Total investments	**6,428,752**	**6,347,263**

All term investments are held with ANZ and Westpac Bank, mature within the next twelve months, and are current assets. Refer to note 12 for further information on the credit risk associated with investments.

First Insurance Limited

Notes to the financial statements

For the year ended 30 June 2023

9 Trade and other payables

Trade and related party payables are categorised as financial liabilities at amortised cost. Trade and related party payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, trade and related party payables are measured at amortised cost, using the effective interest rate method. All liabilities are paid on or before the due date.

		2023	2022
Trade payables		132,044	55,962
Related party payables	Note 13	0	0
Total trade and related party payables		**132,044**	**55,962**

10 Insurance contract liabilities

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Insurer has determined that all loan protection and funeral insurance policies provided to members are insurance contracts. Life Insurance covers the death of a member with benefits paid to a beneficiary. Non life insurance covers other situations such as illness, disability, redundancy and bankruptcy.

Provision for outstanding claims

Provision for outstanding claims has been determined on the basis of assumed claim development patterns for disability claims, and reporting patterns for other claims.

Key assumptions

- Claim development patterns for disability claims have been based on industry experience, adjusted in the early periods for the Insurer's own experience, in quarterly chain-ladder steps.
- Claim provisions for other claims have been derived from the Insurer's recent experience of claim volumes and reporting times.

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

10 Insurance contract liabilities (continued)

The liability for outstanding claim is disclosed below:

	2023	2022
Provision for outstanding claims	363,113	391,092
Total insurance contract liabilities	**363,113**	**391,092**
Central estimate	**363,113**	**391,092**
Opening claims provision	391,092	393,770
Amounts utilised during the year	(247,240)	(336,250)
Additional provision/(reversal of unused provision)	(56,858)	58,869
Amounts provided during the year	276,119	274,703
Total insurance contract liabilities	**363,113**	**391,092**

The above provisions have been included in the total of claims expense in the statement of comprehensive income.

Provision for claims

An actuarial report has been obtained to assess the provision for claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 30 June 2023.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the New Zealand Society of Actuaries.
- Policy Liabilities and the amount of the outstanding claims liability were determined in accordance with Professional Standard no. 20 ("PS 20") of the New Zealand Society of Actuaries.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

Unearned premium liability

Unearned premium liabilities are determined using the Accumulation Method set out in PS 20 in accordance with PBE IFRS 4. In the Actuary's opinion, this method will lead to the even emergence of profit over the life of the Insurer's insurance contracts, in proportion to the services rendered. The unearned premium liabilities equal the unearned premium, which at reporting date is zero, as premiums are received monthly in arrears.

Unexpired risk provision and liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium.

The test is performed on all the policies as a whole, as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in the statement of comprehensive income.

Although the unearned premium at reporting date is zero, with premiums being received monthly in arrears, a liability adequacy test is still performed to determine whether any unearned premium liability would be adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts. The future cash flows are future claims, associated claims-handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows were to exceed the unearned premium liability the unearned premium liability would be deemed to be deficient.

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business, expressed as a percentage of any unearned premium. There is no unexpired risk liability for the year ended 30 June 2023, nor would such a liability be required if there were an unearned premium liability at reporting date.

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

10 Insurance contract liabilities (continued)

Unexpired risk provision and liability adequacy test (continued)

Key assumptions:	LPI 2023	LPI 2022	Funeral 2023	Funeral 2022
Claim ratio	50.0%	50.0%	62.0%	59.0%
Administration allowance	25.0%	25.0%	17.5%	15.0%
Commission allowance	23.0%	23.0%	20.0%	20.0%
Total	**98.0%**	**98.0%**	**99.5%**	**94.0%**

11 Capital and solvency requirement

The Insurer is a wholly owned subsidiary of First Credit Union Incorporated. The Insurer's solvency capital of $6,158,814 is equal to the net assets as disclosed in the financial statements minus deductions from net assets as determined by the Reserve Bank of New Zealand solvency standard ($6,156,555 at 30 June 2022).

As a fully licenced insurer, the Solvency Standard for Life and Non-life Insurance Business issued by the Reserve Bank requires the Insurer to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

The Insurer has been rated issued by Fitch Ratings, as BB with a stable outlook (2022: BB+ negative outlook).

	2023	2022
Actual solvency capital	6,158,814	6,156,555
Minimum solvency capital	5,000,000	5,000,000
Solvency margin	1,158,814	1,156,555
Solvency ratio	123%	123%

During the year ended 30 June 2023, the Insurer complied with the RBNZ imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for policyholders and members of First Credit Union Incorporated and enable the Insurer to conduct its business whilst maintaining financial soundness. The Insurer has embedded in its risk management plan the necessary tests to ensure continuous and full compliance with the solvency standard. The policy in respect of solvency capital is regularly reviewed by the Directors in line with the guidelines issued by the Reserve Bank.

The Insurer's risk management plan targets a buffer above the RBNZ minimum requirement, equal to 100% of one year's expected claims. The target at 30 June 2023 was $5,887,883 (2022: 5,918,581) relative to an actual solvency capital of $6,158,814 (2022: $6,156,555).

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

12 Risk management

The Insurer is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk and interest rate risk. The Board recognise the importance of having effective risk management and have put in place a comprehensive risk management programme.

Insurance risk
The Insurer is exposed to insurance risk through its insurance activities. The key risk is that of claims costs varying significantly from what was assumed in the setting of premium rates and putting pressure on the solvency and liquidity of the Insurer.

The Insurer has adopted a risk management strategy that is set by the Board and managed operationally by First Credit Union Incorporated staff, which provides a holistic view of risk exposure across all levels of the business. Such a strategy will allow the Insurer to run a sustainable and progressive business with a strong future.

The Insurer's objectives regarding the management of risks arising from all insurance contracts is to ensure:
• there is a sufficient financial buffer, in excess of that set by the Reserve Bank, to absorb any claims volatility
• strong underwriting that aligns with industry standards
• a pricing strategy that covers the underlying risk of insurance products
• strong operations through robust claims and member processes.

The Insurer further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity risk represents impact of variables on the Insurer's key metrics. The financial results of the Insurer are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 10. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2023	2022
Base assumptions	363,113	391,092
Claims provision with an assumed development/reporting pattern 10% longer	393,049	462,738
Claims provision with an assumed development/reporting pattern 10% shorter	260,784	301,102

The Insurer's insurance risk is concentrated to within the loan protection and funeral plan insurance sectors.

The Board defines concentration of risk by type of insurance business and geographic region. The Insurer underwrites insurance business in New Zealand and predominantly in the North Island. Therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. There is no significant exposure to individual large claims.

Credit risk
Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations. In the normal course of its business the Insurer incurs credit risk from investment in financial assets.

The Insurer maintains policies which are used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. In addition, the RBNZ has issued concentration risk limits, as part of its solvency standards. The credit quality of counter-parties is assessed based on published credit ratings issued by Fitch Ratings or equivalent ratings agencies. There are no concentrations of credit risk at 30 June 2023 in excess of policy.

The credit quality of investment counterparties is as follows:

	2023	2022
A+ rated	6,499,522	6,533,156
BB rated	27,846	4,474

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

12 Risk management (continued)

Credit risk (continued)
The above $6.5 million is the face value of term investments held. All term investments and cash and cash equivalents are held with two New Zealand trading banks.

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position. These exposures are net of any recognised allowance for impairment losses. The Insurer does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

Premium receivables are due from First Credit Union Incorporated, the Insurer's parent. The details of the premium receivables as disclosed in note 7.

Liquidity risk
The Insurer is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of financial liability obligations may not be met in a timely manner at a reasonable cost.

The portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of investments are as follows:

	2023	2022
Less than 6 months	6,428,752	5,746,867
Between 6 months and 1 year	0	600,396
Investments	**6,428,752**	**6,347,263**
Cash and cash equivalents are available on call	70,770	185,893
Premium receivables are due within one month of the end of the reporting period	27,846	4,474
Financial liabilities are all short term and are due and settled within 1 month of the reporting period	132,044	55,962
Insurance contract liabilities, predominantly short term and settled within 12 month of reporting period	363,113	391,092

Interest rate risk
The Insurer invests in term investments and cash at call held in financial institutions. There is a risk that any movement in interest rates could have an effect on the profitability and cash flows. The Insurer maintains a spread of maturity profiles to mitigate this risk.

Cash flow interest rate risk
The cash flows from the Insurer's investments in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows (based on average investments held).

	2023	2022
Full-year impact of 3% interest rate increase or decrease on interest earnings in the surplus or deficit and equity	131,466	116,733

The Insurer considers that given the large increases in the OCR and interest rates during 2023 to date, that modelling a 3% movement in interest rate risk is within prudent guidelines.

Fair values of financial assets and liabilities
All financial assets and financial liabilities are carried at amounts that approximate fair value.

First Insurance Limited

Notes to the financial statements
For the year ended 30 June 2023

13 Related-party transactions

The only related party dealings the Insurer has are through the management and agency agreements it has with the parent First Credit Union Incorporated.

	2023	2022
The amount of transactions with the parent		
Re-charged administrative costs (people, rent, marketing)	440,185	422,794
Policy commission	353,529	375,030
The outstanding balances with the parent		
Receivables	27,846	4,474
Payables	0	0

All related party balances are payable on normal trade terms and are unsecured. No related party transactions have taken place at nil or nominal value. No related party balances have been written off or forgiven in the period.

Key Management Personnel ('KMP') are those people having authority and responsibility for planning, directing and controlling the activities of the Insurer, directly or indirectly, including any Director (whether executive or otherwise). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. KMP is the 6 Directors and were paid Director fees of $64,395 in 2023 (2022: $65,000).

14 Subsequent events

There are no subsequent events as at 30 June 2023.

15 Accounting standards issued but not yet effective

At the date of authorisation of the financial statements the following Public Benefit Entity Standards applicable to the Insurer were in issue but not yet effective:

PBE IFRS 17 – Insurance contracts effective 1 January 2023. First Insurance will apply the standard for the year ending 30 June 2024. The standard replaces the current guidance in PBE IFRS 4 Insurance Contracts, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. First Insurance is still currently working through what the impact of the new standard will have, however there are expected to be significant changes in the presentation of the financial standards and disclosures. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed.

BDO Wellington Audit Limited

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF FIRST INSURANCE LIMITED

Opinion

We have audited the financial statements of First Insurance Limited ("the Insurer"), which comprise the financial statements on pages 4 to 18 and the statement of service performance on page 3. The complete set of financial statements comprise the statement of financial position as at 30 June 2023 and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements presents fairly, in all material respects:

- the financial position of the Insurer as at 30 June 2023, and of its financial performance, and its cash flows for the year then ended;
- the service performance for the year ended 30 June 2023, in accordance with the entity's service performance criteria,

in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)") and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information (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 Insurer in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Insurer.

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. These matters were addressed in the context of our audit of the service performance information and financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Provision for outstanding claims	How The Matter Was Addressed in Our Audit

The valuation of the provision for outstanding claims is a key audit matter due to the complexity of the calculation and significant judgement required by management and the directors in determining the estimate as at 30 June 2023. The liability as at 30 June 2023 was $363,113. Refer to note 10 for further information.
 	
This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance date are inherently uncertain.
 	
The valuation of the outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.
 	
In particular, there is greater judgement over the estimation of claims that have been incurred at the reporting date but have not yet been reported, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled.
 	
Management engaged their own independent actuary to determine the liability.
	Our audit procedures included, amongst others:
	• We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements.
	• Claims data is a key input to the actuarial estimates. Accordingly, we:
	  ○ evaluated the design effectiveness and tested controls over claims processing;
	  ○ reviewed claims data reconciliations; and
	  ○ inspected a sample of claims paid and claims notifications during the year to confirm that they were supported by appropriate documentation.
	• We engaged an independent actuary to perform the following:
	  ○ Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the claims liability.
	  ○ Assess key actuarial judgements and assumptions, and challenge these by comparing expectations based on their experience of the entity and independently observable industry and economic trends.
	  ○ Reviewed the calculation of the provision for outstanding claims.
	
	Assessed the disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the accounting standards.

Directors' Responsibilities for the Financial Statements

Those charged with governance are responsible on behalf of the Insurer for:

(a) the preparation and fair presentation of the financial statements and service performance information in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board;

(b) service performance criteria that are suitable in order to prepare service performance information in accordance with Public Benefit Entity Standards; and

(c) such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and service performance information 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 Insurer for assessing the Insurer's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Insurer 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, and the service performance information are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 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/standards/assurance-standards/auditors-responsibilities/audit-report-10/

This description forms part of our auditor's report.

Who we Report to

This report is made solely to the Insurer's shareholder, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Insurer and the Insurer's shareholder, as a body, 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 Henry McClintock.

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
16 October 2023

Davies Financial and Actuarial Limited

24th October 2023

To: The Directors
First Insurance Limited

From: Peter Davies
Appointed Actuary

Re: First Insurance Limited ("the Company"): Report as at 30th June 2023 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 the Company as at 30th June 2023. "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 the Company 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, 0632 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 home page: www.actuary.co.nz

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 30th June 2023, the Company's solvency position under the RBNZ Solvency Standard for Life Insurance Business (2014) was as follows:

	30 June 2023	30 June 2022
Actual solvency capital	6,158,813	6,156,552
Total solvency requirement:	5,000,000	5,000,000
Solvency margin:	1,158,813	1,156,552
Solvency coverage:	123.2%	123.1%

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. The Company is also expected to be solvent in terms of the new RBNZ "Interim" Solvency Standard which took effect for the Company from 1st July 2023.

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

Yours sincerely

Peter

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

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay, 0632 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 home page: www.actuary.co.nz