# SOUTHERN CROSS BENEFITS LIMITED

## ANNUAL REPORT

## FOR THE YEAR ENDED

## 30 June 2023

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## ANNUAL REPORT DISCLOSURES
## year ended 30 June 2023

The Directors present their Annual Report including the Financial Statements of Southern Cross Benefits Limited (the "Company") for the year ended 30 June 2023.

| | |
|---|---|
| **Dividend** | No dividends were paid during the year ended 30 June 2023 (2022: nil). |
| **Nature of business** | The Company is in the business of providing a range of travel insurance products. The Company has a branch in Australia which provides outbound and domestic travel insurance in Australia.<br><br>The Company is owned by Southern Cross Medical Care Society whom acquired 100% of the shares in the Company from Southern Cross Health Trust on 30 June 2022. |
| **Results** | The Company recorded a net loss before tax of $5,663,000. (2022: $6,423,000 loss). |
| **Register of Directors** | C R Crowley (Chairperson) (appointed 30 December 2022)<br>M L Hewitson (Chair of Audit and Risk Committee) (appointed 30 December 2022)<br>N J Astwick<br>C M Drayton (ceased to be a director on 30 December 2022)<br>G W Gent (ceased to be a director on 30 December 2022)<br>J M Raue (Chair of People and Culture Committee) |
| **Use of Company Information** | The Board received no notices during the year from Directors requesting to use Company information received in their capacity as Directors which would not have been otherwise available to them. |
| **Share Dealings** | No Director acquired or disposed of any interest in shares in the Company during the year. |
| **Directors' Remuneration** | The total value of remuneration paid to Board members for the year ended 30 June 2023 is $78,750 (2022:Nil, due to all directors being paid by the former parent entity, Southern Cross Health Trust). |
| **Indemnity and Insurance** | The Company has insured its Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers. |
| **Auditor** | KPMG, a New Zealand Partnership. |

For and on behalf of the Board

C R Crowley
**Chairperson**
Date: 19 September 2023

M L Hewitson
**Director**
Date: 19 September 2023

## GOVERNANCE STATEMENT

The Directors of the Company ensure that robust corporate governance policies, practices and processes are in place. Responsibility for the day-to-day operation and administration of the Company is delegated by the Board to the Chief Executive Officer (CEO) and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board. The Company maintains a suitable risk culture under the frameworks of formal risk management, compliance, capital, investment, and delegated authority policies. Management report on these and other operational matters to the Board.

The Board delegates certain powers, duties and responsibilities to the Audit and Risk Committee and Remuneration Committee. The Chair of the Board (Cassandra Crowley) and the Chair of the Audit and Risk Committee (Melanie Hewitson) are considered to be independent per Reserve Bank of New Zealand guidelines. Julia Raue (Director) is also a Director of Southern Cross Medical Care Society and Nick Astwick (Director) is the CEO of Southern Cross Medical Care Society, the Company's sole shareholder. No executives of the Company hold a seat on the Board. All Directors and senior managers are required to meet Fit and Proper standards as prescribed by company policy.

Some key functions of the Board include:

- ensuring the Company's goals are clearly established and that strategies and business plans are in place for achieving them
- ensuring the Company's financial statements are true and fair and otherwise conform with legal requirements
- identifying steps necessary to protect the Company's financial position and brand
- appointing the CEO and determination of CEO remuneration on an ongoing basis
- monitoring the performance of management
- ensuring the Board and management adhere to high ethical standards.

The Company employs a Head of Legal, Risk and Compliance, reporting to the CEO, who holds the role of Branch Risk Officer in Australia. The Company's Chief Risk Officer in New Zealand is the CEO. The associated responsibilities with these roles are formally imbedded into the position descriptions. The Company has a Management Risk Committee which meets regularly and consists of the Senior Leadership and Risk Teams. In addition, the Company engaged EY as its Internal Auditor (outsourced) effective from 1 September 2022. The Board and Audit and Risk Committee approve an annual plan for independent review of the key risk areas of the business.

The Company monitors on a monthly basis its compliance with prudential capital requirements in accordance with Reserve Bank of New Zealand (RBNZ) and Australian Prudential Reporting Authority (APRA) regulatory requirements.

Profiles of the Company's Directors are noted below.

**Cassandra Crowley**

LLB, BCA, GradDipProfAccy, FCA, MinstD

Chairperson

Cassandra Crowley joined the Southern Cross Benefits Board and was elected Chair in December 2022. Cassandra is a Chartered Accountant (Fellow), barrister and solicitor of the High Court of New Zealand. She is currently Chair of K.L.C. Limited and Deputy Chair of Waka Kotahi NZ Transport Agency. Cassandra is a Director of Te Matai Water Scheme Limited, Aratu Forests Limited, Ngāti Manawa Development Limited, Silver Fern Farms Limited and Volcanic Wunderflites Limited, and Commercial Manager of Te Arawa Management Limited. She is a Trustee of the Manawa Developments Trust and Skills Foundation Trust, and a Member of the Bledisloe Park Board and Auckland Council Audit and Risk Committee.

**Melanie Hewitson**

MNZN MA BSocSci CMInstD AIF CCB.D

Mel Hewitson was appointed to the Board of Southern Cross Benefits Limited in December 2022 and chairs the Audit and Risk Committee. Mel is a professional director, Chartered Member of the Institute of Directors, Accredited Investment Fiduciary and holds Climate Competent Board Certification. Mel is an Independent Director of Fidelity Life Assurance Limited, Simplicity NZ Limited, Ngāti Whātua Ōrākei Whai Maia Limited, NZGIF Solar Investments Limited and Domain Name Commission Limited. Mel is the Chair of the Waikato-Tainui Nominating Committee for Group Investment Committee and the Active Investor Plus Advisory Panel for New Zealand Trade & Enterprise. She is a Trustee of Foundation North and New Zealand Housing Foundation, and an Independent Member of the FINDEX Advice Services NZ Limited Investment Committee.

**Nick Astwick**

BCom, MInstD

Nick was appointed to the Board of Southern Cross Benefits Limited on 30 June 2022. Nick is CEO of the Southern Cross Medical Care Society and he has more than 28 years' experience in the financial services industry in various leadership and governance roles across retail and investment banking organisations. He is also a Director of the Financial Services Council, WoolAid Limited, the IFHP Council of Management, Southern Cross Pet Insurance Limited and other Southern Cross Medical Care Society subsidiaries.

**Julia Raue**

CMinstD, GAICD

Julia was appointed to the Board of Southern Cross Benefits Limited on 30 June 2022. She has extensive digital, customer, data, information technology, strategy and business transformation experience across a number of sectors including aviation, telecommunications, local government and not-for-profit in New Zealand and Australia. Julia is currently a director of The Warehouse Group Limited, Jade Software Corporation Limited and MOVE Logistics Group Limited. She is Chair of the NZ Rugby Appointments and Remuneration Committee, and a Trustee of Global Women. Julia is also a Trustee of the Southern Cross Health Trust, and a Director of Southern Cross Healthcare Limited and the Southern Cross Medical Care Society.

## STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2023

| | Note | 2023<br>$000 | 2022<br>$000 |
|---|---|---|---|
| **Net premiums** | 6 | 57,803 | 13,381 |
| **Net claims expense** | 5 | (37,747) | (7,136) |
| **Underwriting surplus** | | 20,056 | 6,245 |
| Operating expenses | 8 | (26,854) | (12,889) |
| Other operating income | | 129 | - |
| **Operating loss** | | (6,669) | (6,644) |
| Investment and other income | 7 | 1,829 | 235 |
| Finance Costs | | (823) | (14) |
| **Net (loss) / profit before income taxes** | | (5,663) | (6,423) |
| Income taxes | 15 | 189 | (377) |
| **(Loss) / profit for the Period** | | (5,474) | (6,800) |
| **Other comprehensive income:** | | | |
| Movement on foreign currency translation reserve | 1 | (6) | 186 |
| Deferred income tax relating to currency translation | 15 | 2 | 272 |
| **Net comprehensive loss** | | **(5,478)** | **(6,342)** |

*The accompanying notes form part of these financial statements.*



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## STATEMENT OF FINANCIAL POSITION
as at 30 June 2023

| | Note | 2023<br>$000 | 2022<br>$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 10 | 21,499 | 23,372 |
| Premium receivable and other assets | 11 | 3,662 | 868 |
| Current Tax Asset | 15 | 316 | - |
| Investments | 4,7 | 53,628 | 15,934 |
| Fixed assets | 12 | 336 | 334 |
| Intangible assets | 12 | 1,493 | 2,196 |
| Deferred Tax Asset | 15 | 225 | - |
| **Total assets** | | 81,159 | 42,704 |
| **Liabilities** | | | |
| Payables and other liabilities | 13 | 5,810 | 3,523 |
| Provisions | 14 | 6,151 | - |
| Insurance contract liabilities | 3 | 41,183 | 15,593 |
| Deferred tax liabilities | 15 | - | 95 |
| **Total liabilities** | | 53,144 | 19,211 |
| **Net assets** | | 28,015 | 23,493 |
| **Equity** | | | |
| Share capital | 9 | 14,600 | 4,600 |
| Retained earnings | | 14,119 | 19,593 |
| Foreign currency translation reserve | | (704) | (700) |
| **Equity** | | 28,015 | 23,493 |

**For and on behalf of the Board**

C R Crowley **Chairperson** ________________________ Date: 19 September 2023

M L Hewitson **Director** ________________________ Date: 19 September 2023

*The accompanying notes form part of these financial statements.*



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## STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2023

### 2023

| | Share Capital $000 | Retained Earnings $000 | Foreign Currency Translation Reserve $000 | Total Reserves $000 |
|---|---|---|---|---|
| **Opening balance** | 4,600 | 19,593 | (700) | 23,493 |
| **Total comprehensive income:** | | | | |
| Loss after taxation | - | (5,474) | - | (5,474) |
| **Other comprehensive income:** | | | | |
| Movement in foreign currency translation reserve, net of tax | - | - | (4) | (4) |
| **Total comprehensive income** | - | (5,474) | (4) | (5,478) |
| **Transaction with owners** | | | | |
| Issue of shares | 10,000 | - | - | 10,000 |
| **Closing balance** | 14,600 | 14,119 | (704) | 28,015 |

### 2022

| | Share Capital | Retained Earnings $000 | Foreign Currency Translation Reserve $000 | Total Reserves $000 |
|---|---|---|---|---|
| **Opening balance** | 4,600 | 26,393 | (1,158) | 29,835 |
| **Total comprehensive income:** | | | | |
| Loss after taxation | - | (6,800) | - | (6,800) |
| **Other comprehensive income:** | | | | |
| Movement in foreign currency translation reserve, net of tax | - | - | 458 | 458 |
| **Total comprehensive income** | - | (6,800) | 458 | (6,342) |
| **Closing balance** | 4,600 | 19,593 | (700) | 23,493 |

*The accompanying notes form part of these financial statements.*



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## STATEMENT OF CASH FLOWS
for the year ended 30 June 2023

| | 2023 $000 | 2022 $000 |
|---|---|---|
| **Cash flows from/(to) operating activities** | | |
| Receipt of premiums from customers | 76,318 | 20,620 |
| Receipts of reinsurance recoveries | 169 | 178 |
| Other income received | 130 | - |
| Payment of claims | (26,925) | (5,306) |
| Payment of reinsurance premiums | (1,209) | (325) |
| Payments to employees | (8,740) | (4,604) |
| Payments to suppliers | (14,291) | (6,460) |
| Tax Payments | (461) | - |
| **Net cash flows from operating activities** | 24,991 | 4,103 |
| **Cash flows from/(to) investing activities** | | |
| Interest received | 1,360 | 223 |
| Proceeds from sale of other fixed assets | 12 | 10 |
| Payments for fixed assets | (222) | (158) |
| Payments for intangible assets | (148) | - |
| Net cash flows from/(to) investments | (37,545) | 1,259 |
| **Net cash flows from/(to) investing activities** | (36,543) | 1,334 |
| **Cash flows from/(to) financing activities** | | |
| Shares issued to parent | 10,000 | - |
| Lease Payments | (134) | (509) |
| Receipt of repayment of related party loan | - | 2,000 |
| Dividend paid | - | - |
| **Net cash flows from financing activities** | 9,866 | 1,491 |
| **Net increase in cash and cash equivalents** | (1,686) | 6,928 |
| Opening cash and cash equivalents | 23,372 | 16,229 |
| Effect of exchange rate movement on foreign currency balances | (187) | 215 |
| **Closing cash and cash equivalents** | 21,499 | 23,372 |

## RECONCILIATION OF NET PROFIT WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 2023 $000 | 2022 $000 |
|---|---|---|
| (Loss) / Profit for the period | (5,474) | (6,800) |
| Adjustments for: | | |
| Depreciation and amortisation | 1,065 | 1,436 |
| Loss / (Gain) on sale of other fixed assets and impairment | 24 | (2) |
| Foreign currency exchange movement | 55 | 33 |
| Interest income | (1,829) | (235) |
| Finance lease interest | 2 | 14 |
| Changes in assets and liabilities: | | |
| Receivables | (2,901) | (252) |
| Payables and employee benefits | 2,292 | 1,322 |
| Provisions | 6,151 | - |
| Insurance contract liabilities | 25,606 | 8,587 |
| **Net cash flows from operating activities** | 24,991 | 4,103 |

*The accompanying notes form part of these financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2023

### 1 STATEMENT OF ACCOUNTING POLICIES

#### REPORTING ENTITY

Southern Cross Benefits Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand. It is a wholly owned subsidiary of the Southern Cross Medical Care Society whom acquired 100% of the shares in the Company from Southern Cross Health Trust on 30 June 2022. The Company's primary activity is the provision of travel insurance. The registered office is Level 1, Te Kupenga, 155 Fanshawe Street, Auckland.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

The Company also operates in Australia selling domestic and outbound travel insurance and is regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC"). The Company is also regulated by the Financial Markets Authority ("FMA") under the Financial Markets Conduct Act 2013.

The Company was registered as a charity under the Charities Act 2005 until 30 June 2022, as part of the Southern Cross Health Trust group registration. As of 30 June 2022, the Company was deregistered as a charity.

The Company, with its shareholder's approval, has applied the exemption available under section 211 (3) of the Companies Act 1993.

#### BASIS OF PREPARATION

Under financial reporting standards, the Company is deemed to be a Tier 1 for-profit entity for financial reporting purposes.

The financial statements are:

- presented as at and for the year ended 30 June 2023.
- presented for the Company, including the Australian branch.
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- in compliance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- prepared in compliance with the Insurance (Prudential Supervision) Act 2010, Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.
- prepared on the historical cost basis except that the following are stated at their fair value: Investments, insurance contract liabilities and reinsurance recoveries on outstanding claims.
- presented in New Zealand dollars, which is the functional and presentation currency. The functional currency for the Australian branch is Australian dollars. Transactions in the branch are translated to New Zealand dollars as discussed in the foreign currency transactions accounting policy. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.
- stated net of GST, with the exception of receivables and payables which include GST invoiced.

#### ACCOUNTING POLICIES AND STANDARDS

Accounting policies have been applied on a basis consistent with that used in the audited annual financial statements for the year ended 30 June 2022. There are no new standards or amendments that have a material impact to the Company in the current period.

#### FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The impact of the following reporting standard on the Company is outlined below.

NZ IFRS 17 Insurance Contracts ("NZ IFRS 17") will replace NZ IFRS 4 Insurance Contracts for periods beginning on or after 1 January 2023, becoming mandatory for the Company's financial statements for the year ending 30 June 2024 with comparative financial information being produced from 1 July 2022. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The Company has not early adopted NZ IFRS 17 in preparing these financial statements.

**Transition**

On transition, the Company will apply NZ IFRS 17 to all of its portfolios, as if it always existed, under the full retrospective approach. Under the full retrospective approach, the Company, at 1 July 2022:

(a) Identified, recognised and measured each group of insurance and reinsurance contracts as if NZ IFRS 17 had always been applied;

(b) Identified, recognised and measured any assets for insurance acquisition cash flows as if NZ IFRS 17 had always been applied, except that the recoverability assessment was not applied before 1 July 2022;

(c) Recognised any resulting net difference in retained earnings.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 1 ACCOUNTING POLICIES AND STANDARDS (continued)

The initial application of NZ IFRS 17, measured at 1 July 2022, is expected to have a positive financial impact between the range of $400,000 to $800,000 on the Company's consolidated financial statements:

The significant policy changes, assumptions and areas of judgement, driving the financial impact from the adoption of NZ IFRS 17 are summarised below.

**Measurement of Insurance Contracts**

NZ IFRS 17 permits the use of a simplified approach, the Premium Allocation Approach ("PAA") as an alternative to the standard's general measurement model for either short-term insurance policies or where the results between approaches are not materially different. The Company has completed financial modeling and developed eligibility testing that shows that measurement under the PAA method is not materially different to that under the general model.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The measurement of insurance contract liabilities includes a risk adjustment which replaces the risk margin under NZ IFRS 4. The risk margin reflects the inherent uncertainty in the central estimate of liabilities calculated in terms of NZ IFRS 4, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. The company will apply a "Cost of capital" approach to derive a risk adjustment where the compensation for risk is based on charging a cost to the amount of capital held to support the insurance contracts. This approach was selected as it has a tighter link with the Company's Internal Capital Adequacy Assessment Process (ICAAP) and risk appetite compared to the quantile approach. Results indicate that the risk adjustment will generate an implied probability of sufficiency on net insurance contract liabilities between the range of 69% to 75%.
- The definition of expenses that are attributable to a portfolio is much broader than under NZ IFRS 4 financial reporting with "directly attributable" expenses being allocated between acquisition and maintenance expenses. Insurance maintenance costs are expensed as incurred within insurance service expenses. Acquisition costs reduce the Liability For Remaining Coverage (LFRC) and are recognised as insurance service expenses using a systematic and rational approach to amortise the expense over the coverage period. Expenses which are not directly attributable to a portfolio of insurance contracts must be expensed as incurred. The Company has implemented a model to categorise costs as either acquisition, maintenance or "other" costs.
- The losses on onerous contracts are measured based on the net outflow of expected fulfilment cashflows over the coverage period. The level at which onerous contracts are identified and measured is more granular than the level at which the Liability Adequacy Test ("LAT") is carried out. The LAT is currently performed for both the New Zealand and Australian business as a whole whereas onerous contracts will be identified at a product level amongst contracts with similar characteristics. The Company has developed onerous contract testing against which to identify onerous contracts including sensitivity to loss ratio ranges, and profitability modelling for all contract groups.
- The period of obligation to the customer is determined based on the definition of a 'contract boundary', whereas NZ IFRS 4 did not have a similar definition. The contract boundary is used to determine which cash flows should be considered in the measurement of a contract as well as the coverage period that is used in relation to recognising earned premiums.
- When applying PAA, the Company will not apply a discount rate. Consistent with the approach under current IFRS 4 standards, claims are predominantly short-term in nature and generally settled within twelve months of being incurred.

**Presentation under NZ IFRS 17**

- In the statement of comprehensive income, the insurance service result consists of insurance revenue, insurance service expenses and net income/(expenses) from reinsurance contracts held. Amounts recovered from reinsurers and reinsurance expenses are presented as a single net amount and no longer offset against premiums / claims expense. Expenses that are not considered attributable to portfolios of contracts are reported separately as 'other operating expenses'.
- In the statement of financial position, the deferred acquisition costs asset and insurance-related receivables are now part of insurance contract liabilities and are no longer presented within 'premium receivable and other assets'. Amounts receivable or payable to reinsurers are presented separately from other receivables or payables.

**Implementation progress and status**

The project activities to manage the implementation of NZ IFRS 17 are in the final phase, ready for the implementation date of 1 July 2023. Key milestones delivered are:

- The Company has completed technical accounting papers, in support of its accounting policies under NZ IFRS 17 and actuarial modelling has been performed to review the comparability of the alternate measurement approaches.
- The Company prepared July 2022 transitional adjustments that will be used to produce restated comparative financial information in the 30 June 2024 financial statements.
- The Company modeled and completed financial results under NZ IFRS 17 for the current reporting period, on a parallel basis to NZ IFRS 4 financial reporting. The Company uses these parallel runs to: (a) fully understand the implications and outcomes associated with its NZ IFRS 17 accounting policy choices (b) test methodology decisions that underpin the key areas of measurement, and (c) validate accuracy of data extracts that are being used to populate the IFRS application.

The requirements of NZ IFRS 17 are complex and the expected financial impact has been presented as a range as opposed to a point estimate. The impact to net assets at 30 June 2023 is still to be finalised.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 1 ACCOUNTING POLICIES AND STANDARDS (continued)

**Solvency**
The Reserve Bank of New Zealand ("RBNZ") released the Interim Solvency Standard ("ISS") for insurers which includes changes related to the implementation of NZ IFRS17 which applies to the Company from 1 July 2023. The Company has previously provided feedback to the RBNZ on the impact of the new calculation on the minimum solvency capital requirement for the Company. Solvency calculations at 30 June 2023 will be submitted in accordance with the existing standard along with a parallel solvency return, prepared for comparison purposes, in accordance with the new solvency standard and using balances adjusted for NZ IFRS 17.

**USE OF ESTIMATES AND JUDGEMENTS**
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 amounts recognised in the financial statements relate to note 3 insurance contract liabilities and note 4a insurance risk.

In FY22, New Zealand and Australia borders opened and from March 2022, the Company started to see an increase in sales. Since then, it has been identified that reasons for travel, the timing of purchase of policies pre-travel and the incidence of pre-travel claims have changed. As a result, Management reviewed this new claim experience in the first half of FY23, once sufficient reliable information was available. This analysis supported a change in estimate of the pattern of incidence of risk, which has resulted in the earlier recognition of premium revenue for International comprehensive and Domestic travel policies for both New Zealand and Australia that have some cover in the pre-travel period.

The impact of this change in the current year financial statements is an increase in premium revenue of $1,730,000, a decrease in DAC of $60,000 and an increase in outstanding claims reserves of $260,000. This results in a net increase in profit before tax of $1,410,000 and profit after tax of $1,015,200.

If the previous pattern of incidence of risk continued to be used, this revenue and expense would be recognised in the financial year ending 30 June 2024.

Management have exercised judgement in recognising a provision for customer discount remediations (Note 14). The provision is established based on the outcome of an investigation into prior discounts that have been offered to customers, how these discounts have been communicated and how they then have been applied to customers. Estimates have been made in determining the appropriate amount of expenses to be additionally included as a provision for the purpose of handling the remediation process.

**ECONOMIC UNCERTAINTY**
The Company was heavily impacted by Covid-19 over the prior two financial years due to border closures and international travel restrictions arising from the Covid-19 pandemic. Liquidity was supported throughout these periods by the Company's cash and investment assets and no external funding was sought. In the current period, travel restrictions are lifted and policy sales have returned quickly to a level where the business can operate profitably, notwithstanding the current year provision for discounts remediation of $6.2m (refer note 14).

Management and the Appointed Actuary continue to regularly monitor, assess and value the current Covid-19 claims experience as well as future exposure. On a central estimate basis, the provision for outstanding claims explicitly allows for Covid claims experience of $17,000 AUD for International Comprehensive Australia (2022: $187,000), $195,000 NZD for International Comprehensive New Zealand (2022: $678,000), $9,000 AUD Domestic Travel Australia (2022: $29,000) and $48,000 NZD for Domestic Travel New Zealand (2022: $32,000). The outstanding claims liability risk margin of 16% for New Zealand and 17% for Australia is applied to the central estimate of all claims, including the Covid-19 claims allowance (June 2022: 15% and 19%).

The loss ratios selected for the premium liability also make allowance for Covid-19 claims. The premium liability risk margin of 21% for New Zealand and 22% for Australia is applied to the central estimate of all claims, including the allowance made for Covid-19 claims (June 2022: 20% and 24%).

The Company considers that the impact of COVID-19 is now significantly diminished in relation to forecast performance. In making these assessments, the Board has considered detailed five year cash flow forecasts under a range of potential scenarios which incorporate management's current view of the continual recovery of the travel industry from the Covid-19 pandemic.

The Company has faced extreme weather events during the year with the January floods, followed by Cyclone Gabrielle in February, with both events having a significant impact on the financial results for the year. The costs of the two events are well established with a high level of certainty around expected claims. The net financial impact through the Statement of Comprehensive Income in the current year is $1,932,000.

The Company experienced a backlog of claims emerging during the year, with customer demand and claim volumes consistently rebounding strongly, while there have been constraints in the speed of resourcing. The claims backlog introduces additional uncertainty into the liabilities as claim processing delays could impact the accuracy of emerging claim experience. These delays have been implicitly allowed for by relying on shorter term averages when selecting actuarial chain ladder factors.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 1 ACCOUNTING POLICIES AND STANDARDS (continued)

#### FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the reporting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated to New Zealand dollars at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the profit or loss.

#### Foreign operations

Activities of the Australian Branch are recorded in Australian dollars, its functional currency. Profit or loss items are translated to New Zealand dollars at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to New Zealand dollars at the foreign exchange rate on the date they arise. At balance date, all the assets and liabilities are re-translated at the exchange rate on that date with any foreign exchange differences arising being recognised in other comprehensive income and the foreign currency translation reserve.

In the current period the Company recognised a foreign exchange loss in other comprehensive income of $6,000 (2022: $186,000 gain) on the net assets of the Australian branch due to the recent strengthening of the Australian dollar against the New Zealand dollar.

### 2 FINANCIAL SOUNDNESS

The minimum solvency capital the Company is required to retain under the Solvency Standard for Non-life Insurance Business issued by the RBNZ is per the table below. The Company has adopted a formal capital management plan to maintain a strong capital base and satisfy capital adequacy standards as prescribed by the RBNZ and by APRA for the Australian branch. An additional capital buffer of $3.8 million (2022: $2.6 million) for the Company has been determined by the Directors as sufficient for maintaining financial soundness.

During the year the Company has complied with all externally imposed capital requirements.

Actual solvency capital at 30 June 2023 for the Australia branch was AUD $8.7m (2022: AUD $7.1m) calculated in accordance with APRA requirements. Minimum solvency capital required to be retained by the Branch to satisfy APRA requirements is AUD $5 million.

| Solvency capital requirements for the Company are detailed below. | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Minimum solvency capital | 7,747 | 4,833 |
| Actual Solvency capital | 21,202 | 16,381 |
| **Solvency Margin** | 13,455 | 11,548 |
| **Solvency Ratio** | 2.74 | 3.39 |

In January 2023 Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating of A. This signifies the insurer "has strong financial security characteristics".

### 3 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 Company has determined that all travel insurance policies provided to customers are insurance contracts.

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2023 have been determined by the Company's Appointed Actuary, Win-Li Toh, MA (Oxon) of Taylor Fry Consulting Actuaries, a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia, previously the Chair of the General Insurance Practice Committee in Australia and currently a Director and the Vice President for the Institute of Actuaries of Australia. The calculation of the provision for outstanding claims complies with both NZ IFRS 4: Insurance Contracts and Professional Standard No. 30: General Insurance Business of the New Zealand Society of Actuaries.

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

| **Insurance contract liabilities** | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Provision for outstanding claims (refer note 3a) | 17,399 | 4,828 |
| Provision for unearned premium (refer note 3b) | 23,784 | 10,765 |
| | 41,183 | 15,593 |



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 3 INSURANCE CONTRACT LIABILITIES (continued)

#### a. Provision for outstanding claims

For travel insurance, a standard chain ladder method is used for claims outstanding twelve months or more on International Comprehensive policies and four months or more on non-International Comprehensive policies. Claims outstanding in respect of the most recent twelve months for International Comprehensive policies and most recent four months for non-International Comprehensive policies are determined by first applying an estimated loss ratio and the percentage estimated as unpaid to the gross earned premiums for the month. This result is then blended with the results from the standard chain ladder method. Additional allowance is made in the New Zealand and Australian outstanding claims provisions for large claim case estimates and associated reinsurance recoveries.

A risk margin of 16% (2022: 15%) has been added to the central estimate of the outstanding claim costs for the New Zealand travel business and 17% (2022: 19%) for the Australian business, to take account of the uncertainties inherent in the setting of claim provisions.

The risk margin provides a 75% probability of adequacy.

A further provision of 7% of the central estimate of the outstanding claims has been made for direct and indirect claim management costs for the New Zealand travel business, 8.5% for the Australian business. In the prior year a fixed dollar approach was used for both the New Zealand travel business and the Australian business.

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Central estimate of outstanding claims liability | 13,957 | 3,763 |
| Claims handling costs | 1,017 | 461 |
| Risk margin | 2,425 | 604 |
| Provision for outstanding claims | 17,399 | 4,828 |

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

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Central estimate of reinsurance recoveries on outstanding claims liability | 1,309 | 39 |
| Risk margin | 210 | 7 |
| Reinsurance recoveries on outstanding claims | 1,519 | 46 |

Reinsurance recoveries on outstanding claims liabilities are included in other assets in the statement of financial position.

| **Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries** | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Opening balance | 4,782 | 1,975 |
| Amounts utilised during the year | (4,491) | (933) |
| Additional provision / (reversal of unused provision) | 990 | 12 |
| Amounts provided during the year | 12,425 | 3,597 |
| Increase / (Decrease) in claims handling costs | 556 | (101) |
| Increase in risk margin | 1,618 | 232 |
| Closing balance | 15,880 | 4,782 |

#### b. Provision for unearned premium

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Opening balance | 10,765 | 3,301 |
| Premiums written in the year | 78,445 | 22,407 |
| Premium cancellations | (1,758) | (911) |
| Premiums earned during the year | (63,668) | (14,032) |
| Closing balance | 23,784 | 10,765 |



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 3 INSURANCE CONTRACT LIABILITIES (continued)

| **c. Provision for unexpired risks** | **2023 $000** | **2022 $000** |
|---|---|---|
| Opening balance | - | 729 |
| Additional Provision | - | (729) |
| Closing balance | - | - |

**Unexpired risk provision and liability adequacy test**

The liability for unearned premiums arises from premiums received for risks that have not yet expired. For most products, a small portion of the provision is released uniformly before the start of the travel period to reflect exposure to claims, such as cancellation, that occur before the start of a journey. The remainder of provision is released evenly over the duration of the travel period. As the provision is released it is recognised as premium income.

The Appointed Actuary has reviewed the adequacy of the unearned premium provision at 30 June 2023. In performing this test, an additional margin has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. A further allowance has been made for direct and indirect claim management costs and also policy administration costs.

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. For both the New Zealand and Australian travel insurance businesses, the test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio.

In the Actuary's defined view, the liability adequacy tests (LAT) identified a surplus for both the New Zealand and Australian businesses. Accordingly, there was no write down of deferred acquisition costs (2022: reinstatement of $218k). The unexpired risks provision was assessed at $0 (2022: $0).

If the loss ratio was to increase by 10%, the premium liability will also increase by a similar amount. The margin between the premium liability and the unearned premium provision means that the liability adequacy test in respect of unearned premiums can accommodate such levels of variability in the loss ratio. There was no premium deficiency resulting from the liability adequacy test (2022 deficiency: $0).

| | **2023** | | **2022** | |
|---|---|---|---|---|
| | **New Zealand** | **Australia** | **New Zealand** | **Australia** |
| | **$000** | **$000** | **$000** | **$000** |
| **Sensitivity** | | | | |
| Net Incurred But Not Paid (including margins) | 12,543 | 3,337 | 3,498 | 1,284 |
| 20% increase in the initial claims ratio for recent event months* | 14,766 | 4,147 | 4,031 | 1,577 |
| 20% decrease in the initial claims ratio for recent event months* | 10,320 | 2,526 | 2,965 | 991 |

*Sensitivity is applied to the loss ratios of the product that makes up the largest proportion of the IBNP estimate for the respective countries. For both countries this is the International Comprehensive travel product.

This sensitivity analysis does not indicate upper or lower bounds of all possible outcomes. Future experience could be considerably more adverse (or favourable) than the scenarios presented.

### 4 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (foreign currency risk, interest rate risk and price risk), and non-financial risks (operational risk, compliance risk, conduct risk and regulatory risk). The directors and management recognise the importance of having an effective risk management policy. The risks and any objectives, policies and processes to manage the risks are described below in summary; a detailed risk register and risk management framework underpin this summary.



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## 4 RISK MANAGEMENT (continued)

### a. Insurance risk

The Company assumes insurance risk through its travel insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

I. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

* Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
* Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions and the Delegated Authority Policy.
* Maintaining a reinsurance programme for the business which protects the Company against single large claims in excess of the Company's retention, and against a catastrophic event involving multiple claims.
* A long-term pricing strategy which supports pricing based on underlying risk.
* Monthly monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
* Adherence to a formal capital management plan monitored monthly to ensure minimum prudential capital requirements are complied with.
* Implementation of a risk management strategy, which is in accordance with the prudential standards issued by RBNZ and APRA.

II. Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that assumed when pricing the premiums of the policies. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 3.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit for the travel insurance business involves the reimbursement of losses during travel for medical expenses in addition to the losses relating to personal property, cancellation, personal accident, personal liability, and rental vehicle excesses.

III. Concentration of insurance risk

The Company transacts travel insurance business in New Zealand for inbound, domestic and outbound customers, and in Australia for domestic and outbound customers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. The Company is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, natural disasters and terrorism, which lends itself to a single event resulting in a high volume of relatively low dollar value cancellation / delay claims.

The Company's travel related concentration risks are mitigated by its catastrophe, pandemic and terrorism reinsurance treaties for the travel insurance business, to protect it from high severity losses and catastrophic events. Reinsurance is placed to cover losses in excess of agreed retentions.

### b. Financial risks

I. 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 Company incurs credit risk from its travel insurance operations and from investment in financial assets. There are no significant concentrations of credit risk other than the $17.5 million on deposit with ASB Bank (2022: nil), $12.0 million on deposit with Kiwibank (2022: $2.0 million), $9.5 million on deposit with ANZ Bank (2022: $9.5 million) and $13.4 million AUD (2022: $4.0 million AUD) on deposit with National Australia Bank.

The Company has internal controls in place to manage premium accounts receivable credit risk and an investment policy is also maintained which is used to manage the exposure to credit risk. The Company has a reinsurance management strategy in place to manage the credit risk from its reinsurance programme.

The maximum exposure to credit risk at reporting date is the amount of financial assets reported in the statement of financial position.

These exposures are net of any recognised provisions for impairment losses. There were no impairments at 30 June 2023 (2022: none). The Company does not require any collateral or security to support financial assets due to the quality of the counter-party organisations. The credit quality of counter-parties is assessed based on published credit ratings, issued by Standard & Poor's or equivalent ratings agencies.

**NOTES TO THE FINANCIAL STATEMENTS**
for the year ended 30 June 2023

### 4 RISK MANAGEMENT (continued)

| The credit quality of counter-parties is as follows: | 2023 $000 | 2022 $000 |
|---|---|---|
| AAA | 21 | 19 |
| AA | 75,646 | 39,474 |
| A | 1,520 | 42 |
| BBB | - | - |
| Non-rated | 1,649 | 639 |
| | 78,836 | 40,174 |

The cash and cash equivalents balances are held with counter-parties rated AA - (30 June 2022: AA -).

The non-rated balances are predominantly premium receivables due from a large number of counter-parties and related party balances. Analysing these by credit quality would not be feasible, as the majority of counter-parties will be non-rated. Credit risk for premium receivables is considered low as the Company is able to terminate or suspend policies for non-payment, at the Company's discretion.

II. Liquidity risk

The Company is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The investment policy sets out criteria to ensure funds are available to meet calls to cover claims and expenses at unexpected levels of demand.

For both the New Zealand and Australian operations, invested funds are held in bank term deposits over a range of tenures that are less than one year. Cash and cash equivalents are available on call. The majority of premium accounts receivable, are due within one month of balance date. Substantially all liabilities are payable within one year of balance date.

**c. Market risks**

I. Foreign currency risk

At 30 June 2023, the New Zealand operations had assets of NZD $14,000 and no liabilities denominated in foreign currencies (30 June 2022: assets of $14,000 and no liabilities).

A movement of 100 basis points on these exchange rates would have an immaterial impact on the statement of profit or loss and other comprehensive income (2022: immaterial).

The Company’s Australian branch exposes it to currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $20.6 million and $12.8 million respectively (2022: assets of $13.0 million and liabilities of $6.0 million).

As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. Any movement in the Australian dollar exchange rate is reflected in the foreign currency translation reserve. A movement of 100 basis points on the Australian dollar exchange rate at year end would have an impact of $56,000 (2022: $50,000) on the net assets of the Company and the foreign currency translation reserve.

II. Interest rate risk

During the year, the Company invested in ASB bank, Kiwibank, ANZ bank and National Australia bank deposits. Through the underlying investments in these funds, the Company has indirect exposure to interest rate risk. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains an investment policy to mitigate this risk.

(i) *Cash flow interest rate risk*

The cash flows from investments of the Company in the short term are susceptible to changes in interest rates.

| **Impact of change in interest rates** | 2023 $000 | 2022 $000 | 2023 $000 | 2022 $000 |
|---|---|---|---|---|
| | Increase / (decrease) in cash flows | | Increase / (decrease) in profitability | |
| Increase by 100 basis points | 751 | 393 | (7) | (2) |
| Decrease by 100 basis points | (751) | (393) | 8 | 2 |

## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 4 RISK MANAGEMENT (continued)

#### d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are measured at fair value. The table below analyses financial assets measured at fair at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

**Definition of the fair value hierarchy**

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **30 June 2023** | | | | |
| Bank deposits | - | 53,628 | - | 53,628 |
| | - | 53,628 | - | 53,628 |
| **30 June 2022** | | | | |
| Bank deposits | - | 15,934 | - | 15,934 |
| | - | 15,934 | - | 15,934 |

### 5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

The component of claims expense relating to risk ceded to reinsurers is recognised as reinsurance claim recoveries in the profit or loss and as reinsurance recoveries in the statement of financial position.

| | 2023 | 2022 |
|---|---|---|
| | $000 | $000 |
| Claims expense | 39,452 | 7,167 |
| Reinsurance claims recovery | (1,705) | (31) |
| Net claims expense | 37,747 | 7,136 |
| Claims incurred relating to risk borne in current financial year (gross) | 36,047 | 6,964 |
| Claim recoveries relating to risk borne in current financial year | (1,463) | (36) |
| Claims incurred relating to risk borne in the current financial year (net) | 34,584 | 6,928 |
| Claims incurred relating to risk borne in previous financial year (gross) | 1,027 | 72 |
| Claim recoveries relating to risk borne in previous financial year | (38) | 5 |
| Claims incurred relating to risk borne in previous financial year (net) | 989 | 77 |
| Increase / (decrease) in provision for claims handling cost | 556 | (101) |
| Increase / (decrease) in risk margin | 1,618 | 232 |
| Net claims expense | 37,747 | 7,136 |



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 6 PREMIUM REVENUE

Gross written premiums from insurance contracts are recognised over the period covered by the contract. In the current financial year, the apportionment of revenue was amended to recognise a portion of revenue in the pre-travel period for both Domestic and International Comprehensive travel products (refer note 1). Where a pre-travel earning pattern is recognised, the allocation of revenue is spread evenly over the duration of the pre-travel period while the remaining balance of revenue is recognised evenly across the customers travel period. In the prior period, the earning pattern for all products commenced on the date on which travel commenced.

Premiums written but unearned are recorded as unearned premiums. Premiums are stated net of fire service levies and stamp duty. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as a receivable and unearned premium liability.

Premiums ceded to reinsurers are recognised as reinsurer's share of the premium and deducted from gross premiums. The recognition of the expense in the profit or loss is in accordance with the pattern of reinsurance service received.

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Premium income | 63,668 | 14,032 |
| Refundable customer discounts previously earned (refer note 14) | (4,315) | - |
| Reinsurers' share of premium | (1,550) | (651) |
| Net premiums | 57,803 | 13,381 |

### 7 INVESTMENTS

The Company designates its investments as "financial assets at fair value through the profit or loss" at inception and they are held to match insurance contract liabilities. This eliminates or significantly reduces measurement or recognition inconsistency between assets and liabilities.

The Company is required to hold designated levels of funds in Australia to comply with the capital adequacy requirements of APRA in relation to the activities of the Australian branch (refer note 2).

Interest income is recognised in the profit or loss as it accrues using the effective interest rate method.

| **Investment and other income** | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| Interest income | 1,829 | 235 |
| **Investment and other income** | 1,829 | 235 |

The amount and fair value hierarchies of investments are disclosed in Note 4.

### 8 OPERATING EXPENSES

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| External Auditor's remuneration: | | |
| – Audit of financial statements | 226 | 205 |
| – IFRS 17 transition audit | 50 | 68 |
| – Other related audit services | 89 | 81 |
| Internal Auditor's remuneration | 137 | 88 |
| Depreciation (note 12) | 215 | 585 |
| Amortisation of intangibles (note 12) | 851 | 851 |
| Employee benefits expense | 9,376 | 4,689 |
| Remediation expenses (note 14) | 1,057 | - |
| Rental of premises | 358 | 156 |
| Bank charges | 591 | 221 |
| Agent commissions | 1,041 | 419 |
| Other direct expenses | 8,555 | 2,992 |
| Other overhead expenses | 4,308 | 2,534 |
| **Operating expenses** | 26,854 | 12,889 |

External auditor's remuneration for other related audit services consist of auditing the year end regulatory solvency return to the RBNZ ($45,000; 2022: $41,000) and the annual APRA reporting on the Australian branch ($44,000; 2022: $40,000). Other direct expenses include items such as marketing, actuary fees and underwriting expenses. Other overhead expenses include items such as I.T costs, consultants, legal and regulatory expenses.

## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 8 OPERATING EXPENSES (continued)

For comparative purposes, in the prior period the Company applied for and received New Zealand Government wage subsidy payments in relation to Covid-19. A total of $232,000 was recognised as a reduction of Employee benefits expense.

The Company made no donations during the year (2022: nil).

### 9 SHARE CAPITAL

Share capital comprises 14,600,000 (2022: 4,600,000) authorised, issued and fully paid ordinary shares. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up.

The company issued 10,000,000 shares on the 29th of June 2023, to Southern Cross Medical Care Society, at $1 per share.

No dividends were paid or declared during the year (30 June 22: nil).

### 10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts, which are readily convertible to cash, with original maturities of less than three months, and are carried at "amortised cost" as they are subject to an insignificant risk of changes in value.

### 11 PREMIUM RECEIVABLE AND OTHER ASSETS

The recoverability of reinsurance recoveries receivable is assessed at the reporting date and impairment is recognised where there is objective evidence that the Company may not receive the amounts due to it and these amounts can be reliably measured.

The costs incurred in acquiring insurance contracts are deferred in recognition that they represent future benefits.

Any amounts that give rise to premium income in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectable premiums are recorded as bad debt expense in the profit or loss. Under the NZ IFRS 9 definition of financial assets, premium and other receivables are classified as “financial assets at amortised cost”.

| | **2023** | **2022** |
|---|---|---|
| | **$000** | **$000** |
| Premium accounts receivable | 540 | 139 |
| Reinsurance recoveries receivable (note 11a) | 47 | 3 |
| Reinsurance recoveries on outstanding claims (note 3) | 1,519 | 46 |
| Deferred acquisition costs (note 11b) | 584 | 205 |
| Other assets | 972 | 475 |
| Premium Receivable and Other Assets | 3,662 | 868 |



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 11 PREMIUM RECEIVABLE AND OTHER ASSETS (continued)

| a. Reconciliation of movements in reinsurance recoveries receivable | 2023 $000 | 2022 $000 |
|---|---|---|
| Opening balance | 3 | 12 |
| Gross reinsurance recoveries on claims paid during the year | 231 | 169 |
| Reinsurance recoveries settled by reinsurer during the year | (187) | (178) |
| Closing balance | 47 | 3 |

| b. Reconciliation of movements in deferred acquisition cost | 2023 $000 | 2022 $000 |
|---|---|---|
| Opening balance | 205 | 0 |
| Gross commissions paid during the year | 1,420 | 406 |
| Deferred acquisition cost reinstatement / (write down) | - | 218 |
| Commissions incurred during the year | (1,041) | (419) |
| Closing balance | 584 | 205 |

Premium and other receivables is a current asset. Other assets include expected reinsurance recoveries of $1,519,000 (2022: $46,000) on outstanding claims as well as prepayments and GST balances.

There was no write down of deferred acquisition costs following the Actuary's assessment of the liability adequacy test (refer note 3) (2022: reinstatement of $218,000) .

### 12 FIXED AND INTANGIBLE ASSETS

Fixed assets and intangibles are non-current assets.

| FIXED ASSETS | Right-of-use assets | Leasehold Improvement | Other fixed assets | Work in progress | Total |
|---|---|---|---|---|---|
| **At 30 June 2022** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Cost | 1,360 | 966 | 2,027 | 157 | 4,510 |
| Accumulated depreciation | (1,255) | (934) | (1,987) | - | (4,176) |
| **Opening net book value** | **105** | **32** | **40** | **157** | **334** |
| Additions | 31 | - | 221 | - | 252 |
| Transfers | - | - | 157 | (157) | - |
| Disposals - Cost | (1,360) | (965) | (1,033) | - | (3,358) |
| Disposals - accumulated depreciation | 1,360 | 955 | 1,008 | - | 3,323 |
| Derecognition of leased asset - cost | - | - | - | - | - |
| Derecognition of leased asset - accumulated depreciation | - | - | - | - | - |
| Depreciation | (110) | (22) | (83) | - | (215) |
| **Closing net book value** | **26** | **-** | **310** | **-** | **336** |
| **At 30 June 2023** | | | | | |
| Cost | 31 | - | 1,372 | - | 1,403 |
| Accumulated depreciation | (5) | - | (1,062) | - | (1,067) |
| **Closing net book value** | **26** | **-** | **310** | **-** | **336** |

Other fixed assets include furniture and fittings, office equipment and computer equipment. Capital expenditure on all projects is initially recorded as work in progress. On completion of the project the asset is transferred to the appropriate asset category when the project will generate future economic benefits. Work in progress is not depreciated or amortised.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 12 FIXED ASSETS AND INTANGIBLES (continued)

| INTANGIBLE ASSETS | Computer Software | Work in progress | Total |
|---|---|---|---|
| **At 30 June 2022** | **\$000** | | **\$000** |
| Cost | 11,887 | - | 11,887 |
| Accumulated amortisation | (9,691) | - | (9,691) |
| **Opening net book value** | **2,196** | **-** | **2,196** |
| Additions | - | 148 | 148 |
| Amortisation for the year | (851) | - | (851) |
| **Closing net book value** | **1,345** | **148** | **1,493** |
| **At 30 June 2023** | | | |
| Cost | 11,887 | 148 | 12,035 |
| Accumulated amortisation and impairment | (10,542) | - | (10,542) |
| **Closing net book value** | **1,345** | **148** | **1,493** |

**Recognition and measurement, including impairment**

The carrying amounts of the Company's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the profit or loss. The estimated recoverable amount of assets is the greater of fair value less costs to sell, or value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units ("CGU")). Management consider there to be only one CGU being the travel business as a whole. As such, an impairment test is performed for the whole of the Company using the value-in-use ("VIU") method to test the recoverable amount of the CGU.

***Fixed Assets***

Fixed assets are measured at cost, less accumulated depreciation and impairment losses. Where material parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

Subsequent costs are added to the carrying amount of an item of fixed assets when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of fixed assets. The depreciation rates for the current and comparative periods are as follows:

- Computer equipment 25% - 40% per annum
- Furniture and fittings 15% - 20% per annum
- Office equipment 15% - 20% per annum
- Leasehold improvements 8% - 20% per annum

***Computer Software and Work in Progress***

Most of the computer software and work in progress is internally generated.

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. The useful life of each capitalised asset is assessed by management, taking into account the expected duration that the asset will contribute value to the business. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

Capital expenditure on major projects is initially recorded as work in progress. On completion of the project the asset is transferred to computer software. Work in progress is not depreciated.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 13 PAYABLES AND OTHER LIABILITIES

Payables are measured at cost. Under the NZ IFRS 9 definition of financial liabilities, payables are classified as "other liabilities at amortised cost".

| | Note | 2023<br>$000 | 2022<br>$000 |
|---|---|---|---|
| Accounts payable | | 3,622 | 2,287 |
| Employee benefits | | 1,282 | 646 |
| Lease liability | 13a | 27 | 128 |
| Other liabilities | | 879 | 462 |
| **Payables and other liabilities** | | 5,810 | 3,523 |

Payables and other liabilities are all current liabilities with the exception of the lease liability which in the current year has a non-current portion of $10k (2022: nil).

Employee benefits represent the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

| **a. Lease liabilities** | Motor Vehicle<br>$000 | Premises<br>$000 | Total<br>$000 |
|---|---|---|---|
| **At 30 June 2022** | | | |
| Cost | - | 1,512 | 1,512 |
| Accumulated interest expense and principal repayments | - | (1,384) | (1,384) |
| **Opening net book value** | **-** | **128** | **128** |
| Movement for the year: | | | |
| Additions | 31 | - | 31 |
| Interest expense | 1 | 1 | 2 |
| Derecognition of Lease - cost | - | (1,512) | (1,512) |
| Derecognition of Lease - Accumulated interest expense and principal repayments | - | 1,512 | 1,512 |
| Principal repayment | (5) | (129) | (134) |
| **Closing net book value** | **27** | **-** | **27** |
| | | | |
| **At 30 June 2023** | | | |
| Cost | 31 | - | 31 |
| Accumulated amortisation and impairment | (4) | - | (4) |
| **Closing net book value** | **27** | **-** | **27** |



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 14 PROVISIONS

| | Customer Discount Remediation<br>$000 | Remediation Expenses<br>$000 | Total<br>$000 |
|---|---|---|---|
| **Reconciliation of movement in provision** | | | |
| Provision made during the period | 5,178 | 973 | 6,151 |
| **Closing balance as at 30 June 2023** | **5,178** | **973** | **6,151** |
| | | | |
| Payable within 12 months | 5,178 | 973 | 6,151 |
| **Total** | **5,178** | **973** | **6,151** |

The Company recognises provisions when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the statement of comprehensive income.

Provision for discount remediations has been made to reflect the estimated costs associated with refunding certain of the Company's policyholders. Management has made best estimates of the impact to the premiums charged to the affected policyholders and the time value of money. It is possible that the final exposure could differ from the provision if additional facts emerge over the remediation process. A provision has additionally been made for the costs of the remediation process itself including technology, additional resources and consulting.

A portion of the provision for customer discount remediation has been reclassified from the unearned premium reserve. This adjustment of $42,000 is the value of refundable premiums that had not yet been earned as of the reporting date.

### 15 INCOME TAX

The Company has previously been exempt from New Zealand income tax due to its previous charitable status. The Company deregistered as a charity with effect from 30 June 2022 and as a result is now subject to New Zealand income tax on both New Zealand and Australian activities. As such, whilst in 2022 there was no current New Zealand income tax expense, the prior year balance contains Australian tax payable on domestic Australian Income under s142 of the Income Tax Assessment Act 1936, where the Company is subject to an effective income tax of 3% (being the corporate tax rate of 30% applied to 10% of the domestic Australian premium income).

#### Income Tax

Tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively enacted at balance date.

| | 2023<br>$000 | 2022<br>$000 |
|---|---|---|
| **Components of income tax expense/(credit)** | | |
| Current tax expense/(credit) | | |
| - New Zealand company tax | 116 | - |
| - Australian tax imposed on SCBL's branch income | 15 | 10 |
| Deferred taxation | (320) | 367 |
| Tax expense | **(189)** | **377** |
| | | |
| **Relationship between tax expense and accounting profit** | | |
| Net surplus/(deficit) before tax | (5,663) | - |
| Tax at 28% | (1,586) | - |
| - Plus/(less) tax effect of: | | |
| Non-deductible expenditure | 1,398 | - |
| Deferred tax adjustment | - | 367 |
| Tax expense | **(189)** | **367** |

The following table details the movement in income tax receivable/(payable) during the current and prior year. The prior year income tax liability (2022: $17,000) was disclosed in Payables and Other Liabilities.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 15 INCOME TAX (continued)

**Current Tax Asset/(Liability)**

| | 2023 $000 | 2022 $000 |
|---|---|---|
| Opening balance | (17) | (7) |
| Current year income tax payable | (131) | (10) |
| Tax payments | 461 | - |
| Foreign exchange movement | 3 | - |
| Closing balance | **316** | **(17)** |

**Deferred Tax**

| **Deferred tax assets/(liabilities)** | 2023 $000 | 2022 $000 |
|---|---|---|
| Fixed and intangible assets | (380) | (380) |
| Deferred acquisition costs | (164) | (58) |
| Payables and other liabilities | 495 | 71 |
| Foreign currency translation reserve | 274 | 272 |
| Total deferred tax assets/(liabilities) | **225** | **(95)** |
| Expected to crystallise within 12 months | 188 | 10 |
| Expected to crystallise in greater than 12 months | 37 | (105) |
| Total deferred tax assets/(liabilities) | **225** | **(95)** |

| **Movements in deferred tax assets/(liabilities)** | | |
|---|---|---|
| Opening balance | (95) | - |
| Fixed and intangible assets temporary differences recognised in the statement of comprehensive income | - | (380) |
| Deferred acquisition costs recognised in the statement of comprehensive income | (106) | (58) |
| Other temporary differences recognised in the statement of comprehensive income | 424 | 71 |
| Foreign currency translation reserve recognised in the statement of comprehensive income | 2 | 272 |
| Closing balance | **225** | **(95)** |

Deferred tax on temporary differences has been calculated using the New Zealand company tax rate of 28%.

### 16 RELATED PARTIES

**a. Identity and relationship of related parties:**

| | |
|---|---|
| ♦ Southern Cross Health Trust (“Health Trust”) | Parent of the Company until 30 June 2022 |
| ♦ Southern Cross Healthcare Limited (“Healthcare”) (previously Hospitals) | 100% subsidiary of Health Trust |
| ♦ Southern Cross Medical Care Society (“Society”) | Parent of the Company since 30 June 2022 |
| ♦ Southern Cross Insurance Services Limited | Fellow subsidiary |
| ♦ Southern Cross Ventures Limited | Fellow subsidiary |
| ♦ Southern Cross Health Services Limited | Fellow subsidiary |
| ♦ Southern Cross Pet Insurance Limited ("SCPIL") | Fellow subsidiary |

All these related entities have 30 June balance dates.

The Company, Healthcare and the Society are separate legal entities which work together in certain areas such as legal, payroll and HR, under fully costed service level agreements as well as the secondment of staff between entities. In 2023, such costs to the Company totalled $253,000 (2022: $120,000).

Any other costs incurred by one entity on behalf of another are reimbursed monthly.

The Company purchased health insurance for its employees from the Society, to the value of $182,000 (2022: $50,000).



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 16 RELATED PARTIES (continued)

| *The amount of transactions with related parties* | 2023 $000 | 2022 $000 |
|---|---|---|
| Sales of services | - | 102 |
| Purchase of services | 828 | 187 |
| *The outstanding balances with related parties* | | |
| Receivables | - | 2 |
| Payables | 87 | 2 |

Directors of the Company may have discounted medical insurance policies with the Society, pet insurance policies with SCPIL or travel insurance policies purchased in the ordinary course of business.

### b. Remuneration of Directors

Actual directors' remuneration paid for the year ended 30 June 2023 was as follows:

| Director | Board Amount | Audit & Risk Committee Amount | People & Culture Committee Amount | Total Remuneration Amount |
|---|---|---|---|---|
| C R Crowley[1] | 27,500 Chair | | | 27,500 |
| M L Hewitson[1] | 15,000 | 3,750 Chair | | 18,750 |
| J M Raue | 22,500 | | 2,500 Chair | 25,000 |
| N J Astwick | - | - | - | - |
| C M Drayton[1] | 7,500 | - Chair | | 7,500 |
| Total | 72,500 | 3,750 | 2,500 | 78,750 |

[1] During the year ended 30 June 2023, G W Gent and C M Drayton retired as Directors; and C R Crowley and M L Hewitson were appointed as Directors. G W Gent, the previous Chair of the Board, did not take a fee during the year. The additional fees for committee chairs were introduced from January 2023.

In the prior year to 30 June 2022, all directors were paid by Southern Cross Health Trust, the former parent entity.

The Company provides Directors with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as directors.

| c. **Remuneration of key management personnel** | 2023 $000 | 2022 $000 |
|---|---|---|
| Salaries and other short-term benefits | 1,483 | 1,206 |

Key management personnel include the chief executive officer and senior executives. The Company does not provide loans, advances or post-employment benefits to key management personnel. At each reporting date there are amounts outstanding to key management personnel comprising salaries, earned leave and short-term incentives.



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## NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

### 17 CONTINGENT LIABILITIES

A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable, or where the obligation is probable, but the financial impact of the event is unable to be reliably estimated. If an obligation becomes probable and can be reliably estimated, a provision is recognised.

At the reporting date the Company had a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The arrangement has subsequently been cancelled as it is no longer required. The maximum value of this facility is $200,000 Australian dollars (2022: $200,000 Australian dollars).

The Company has been in communication with the Financial Markets Authority (FMA) in relation to discount remediation. As at 30 June 2023 there are no known contingent liabilities (30 June 2022: nil).

### 18 CAPITAL COMMITMENTS

The Company had no capital commitments at 30 June 2023 (2022: Nil)

### 19 SUBSEQUENT EVENTS

There were no events subsequent to the reporting period which would materially affect the financial statements (30 June 2022: Nil)



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# Independent auditor's report

To the shareholder of Southern Cross Benefits Limited

**Report on the audit of the financial statements**

## Opinion

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2023;
- 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.

In our opinion, the financial statements of Southern Cross Benefits Limited (the "Company") on pages 3 to 24 present fairly, in all material respects, the Company's financial position as at 30 June 2023 and its financial performance and cash flows for the year ended on that date, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). 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 (Including International Independence Standards) (New Zealand)* 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 (including International Independence Standards)* ('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 services to the Company in relation to the audit of the year-end insurer solvency return and annual APRA reporting. 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.

## Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $475,000 determined with reference to a benchmark of the Company's net assets. We chose the benchmark because, in our view, this is a key measure of the Company's solvency and its ability to pay claims which is a primary area of focus for users of the financial statements.

# 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.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| **Valuation of the provision for outstanding claims and reinsurance recoveries on outstanding claims** | |
| Refer to Note 3, Note 4a, and Note 11 to the financial statements.<br><br>Valuation of the Company's provision for outstanding claims (included within insurance contract liabilities in Note 3), and valuation of reinsurance recoveries on outstanding claims (included within other assets in Note 11) requires significant judgement from management and the Company's externally appointed actuarial specialist.<br><br>In addition, premium pricing affects loss ratios and can impact the adequacy of insurance reserves, including unearned premium reserves. | Our audit procedures included:<br><br>- Testing a sample of claim payments to check whether they had the appropriate level of authorisation and support;<br>- Testing the reconciliation of claims data from the underlying claims systems to the data used in the actuary's valuation of outstanding claims and reinsurance recoveries;<br>- Comparing a sample of reinsurance recoveries recognised to the terms of the underlying reinsurance contracts and claims data;<br>- Assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength, based on external sources of information and historical experience; and<br>- With support from our actuarial specialists, assessing the work of the Company's appointed actuary in estimating the future claims costs on claims incurred by 30 June 2023 and associated reinsurance recoveries, including:<br>  — the appropriateness of the valuation methodology, estimates and assumptions, against relevant accounting and actuarial standards;<br>  — the appropriateness of key assumptions including claims frequency, payment patterns and claims inflation against benchmark information;<br>  — separate consideration of the explicit allowance made for the Auckland Anniversary weekend floods and ex-Tropical Cyclone Gabrielle; and<br>  — comparing previous estimates to actual claims development in the current year (i.e. performing a hindsight analysis).<br><br>We did not identify any material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the Company. |

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## Other information

The Directors, on behalf of the Company, are responsible for the other information included in the Company's Annual Report. Other information includes the annual report disclosures, the governance statement, and the appointed actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010. Our opinion on the financial 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 issued by the New Zealand Accounting Standards Board) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is 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 Jamie Munro.

For and on behalf of

KPMG

KPMG
Auckland

20 September 2023

# Appointed Actuary's report to the Directors of Southern Cross Benefits Limited

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## Report in respect of a review of actuarial information in, or used in the preparation of, financial statements

This report is provided under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of Southern Cross Benefits Limited ("SCBL") for the year ended 30 June 2023.

I have been advised by SCBL that the financial statements for SCBL are scheduled to be authorised for issue by the Board of Directors on 19 September 2023 and that the accompanying independent auditors' report is scheduled to be issued as soon as practicable after the issue of the signed financial statements to the auditors.

## Name of Appointed Actuary conducting the review

I, Win-Li Toh, of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries and have conducted this review in my role as appointed actuary to SCBL.

## Work done in relation to actuarial information used in the financial statements

The actuarial information used in the financial statements comprises the following items, determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4") as at 30 June 2023:

- Outstanding claims provision at a 75% probability of sufficiency;
- Unearned premium / unexpired risk provision;
- Deferred acquisition cost asset;
- Solvency capital requirement, calculated in accordance with the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank of New Zealand ("RBNZ").

The Statement of Financial Position consolidates the outstanding claims provision and the unearned premium / unexpired risk provision as a single line item "insurance contract liabilities". The information received, methods, assumptions and limitations of the estimation of insurance liabilities are set out in two reports:

- "Southern Cross Benefits Limited – New Zealand Insurance Liabilities at 30 June 2023" dated 28 August 2023 and
- "Southern Cross Benefits Limited – Australian Branch Insurance Liabilities at 30 June 2023" dated 28 August 2023.

These reports also, amongst other things, set out the results of applying the Liability Adequacy Test.

The components of the solvency capital requirement were advised to SCBL in the form of the Insurer Solvency Return on 29 August 2023. This is to be submitted to the RBNZ.

## Scope and limitations of review

This report is prepared for the Directors of SCBL, solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.

## Confirmation of independence

Other than that of appointed actuary, I confirm that I have no relationship with, or any other interests in SCBL.

## Information received

I consider that I have been provided with all relevant information and explanations from SCBL.

## Opinion

In my opinion:

- SCBL is maintaining the solvency margin that applies under section 21(2)(b) of the Insurance Act at 30 June 2023;
- The actuarial information contained in the financial statements for SCBL has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements for SCBL has been used appropriately.

Win-Li Toh

Fellow of the New Zealand Society of Actuaries

*19 September 2023*