

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. INSURANCE CONTRACTS

Certain transactions are entered into by the group as insurer which falls within the definition of insurance contracts per IFRS 4 Insurance Contracts. Significant items included are the following:

- Credit life, warranty, personal accident and motor products sold with vehicles in the Automotive segment
- Specific portions of maintenance contracts on equipment and vehicles sold in the Equipment and Handling and Automotive segments
- Guaranteed residual values on equipment and vehicles in the Equipment and Handling and Automotive segments.

	2013	2012	2011
	Rm	Rm	Rm
Income	2 355	1 981	1 851
Expenses	1 589	1 525	1 377
Cash inflow/(outflow)	411	188	(63)
Gains recognised on buying reinsurance			(4)
Liabilities			
At beginning of period	658	483	491
Amounts added	1 278	1 331	1 322
Amounts used	(1 050)	(1 111)	(1 205)
Amounts reversed unused	(128)	(131)	(103)
Fair value adjustment on discount effect	(11)	4	(41)
Acquisition of subsidiaries	33	116	
Disposal of subsidiaries	(9)	(35)	
Translation difference	32	1	19
At end of period	803	658	483
Maturity profile			
Within one year	491	390	273
Two to five years	301	267	207
More than five years	11	1	3
	803	658	483
Assets			
At beginning of period	404	297	219
Amounts added	1 589	1 162	933
Amounts used	(1 677)	(1 155)	(857)
Acquisition of subsidiaries	7	99	
Translation difference	11	1	2
At end of period	334	404	297
Age analysis of items overdue but not impaired			
Overdue 30 to 60 days		1	2
Overdue 60 to 90 days	2	7	3
Overdue 90+ days	8		4
	10	8	9

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. **INSURANCE CONTRACTS** continued

Significant assumptions and risks arising from insurance contracts

Credit life, warranty, personal accident and motor products

The sale of credit life and extended warranty products in the Automotive segment is conducted through Cell Captive arrangements. The principal risk that the group faces under these insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amounts of claims and benefits will vary from year to year from the estimate determined using statistical techniques.

The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance contracts and includes credit risk, interest rate risk, currency risk, and liquidity risk. All risks are managed on behalf of the group by an outside insurance company.

The risks are spread over a large variety of clients in the South African market.

Personal accident – provides compensation arising out of the accidental death, permanent or temporary total disability of the renter and passengers in the vehicle.

Automotive – provides indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only.

The critical accounting judgements made in applying the group's accounting policies relate to the estimation of the ultimate liability arising from claims made under insurance contracts. The group's estimate for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in the profit or loss. The process relies upon the basic assumption that past experience adjusted for the effect of current developments, is an appropriate basis for predicting future events.

Maintenance contracts

Maintenance contracts are offered to customers in the Equipment and Handling and Automotive segments. The contracts are managed internally through ongoing contract performance reviews, review of costs and regular fleet inspections. Risks arising from maintenance contracts includes component lives, component failure and cost of labour. The contracts consist of a variety of forms but generally include cover for regular maintenance as well as for repairs due to breakdowns and component failure which is not covered by manufacturers' warranties or other external maintenance plans. The amounts above include the estimated portion of contracts that meet the definition of an insurance contract. Revenue is recognised on the percentage of completion method based on the anticipated cost of repairs over the life cycle of the equipment/vehicles.

Financial risk mainly relates to credit risk but credit quality of customers is generally considered to be good and similar to the rest of the group's operations. Risks are spread over a large diversity of customers, fleets of equipment and vehicles and geographically in southern Africa and Europe.

Guaranteed residual values

Guaranteed residual values on repurchase commitments are periodically given with the sale of equipment/vehicles in the Equipment and Handling and Automotive segments. The principal risk relates to the likelihood of the repurchase commitments being exercised by the customer which is dependent on the used equipment and vehicle market conditions at the time when the repurchase option is exercisable as well as terms of the repurchase agreements regarding age and condition of the equipment/vehicles. Risks are spread over a large diversity of customers and geographically in southern Africa and Europe. The likelihood of the repurchase commitments being exercised is assessed at inception as well as on an ongoing basis and determines the accounting applied. The charge to customers for the repurchase commitment is generally included in the sales price at the time of sale and is not measured separately. Refer to note 30 for the gross value of repurchase commitments.
