

4.4 Financial instruments and risk management (continued)

Exposure to credit risk

The carrying amount of financial assets subject to credit risk at reporting date are as follows:

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
Cash and cash equivalents	21,956	33,045
Trade receivables and contract assets	22,989	28,710
Trail commission asset	114,078	102,920
	159,023	164,675

Managing our liquidity risks

Liquidity risk is the risk that we will be unable to meet our financial obligations.

The Group aims to maintain the level of its cash and cash equivalents at an amount to meet its financial obligations. The Group also monitors the level of expected cash inflows on trade receivables and contract assets together with expected cash outflows on trade and other payables through rolling forecasts. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Group's non-derivative financial liabilities consist of trade payables expected to be settled within three months. At 30 June 2019, the carrying amount and contractual cash flows is \$25,153,000 (2018: \$33,978,000).

Valuation and disclosure within fair value hierarchy

The financial instruments included in the statement of financial position are measured either at fair value or their carrying value approximates fair value, with the exception of the trail commission asset and borrowings, which are held at amortised cost.

To determine fair value we use both observable and unobservable inputs. We classify inputs used in the valuation of our financial instruments according to a three level hierarchy as shown below:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair values of all financial assets and liabilities approximates their carrying amounts shown in the statement of financial position.

For financial instruments not quoted in the active markets, the Group used valuation techniques such as present value techniques (which include lapse and mortality rates, commission terms, premium increases and credit risk), comparison to similar instruments for which market observable prices exist, and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Sensitivity of trail commission asset

A combined premium price decrease of 1% and termination rate increase of 1% would have the effect of reducing the carrying value by \$10,434,000 (2018: \$9,838,000). A combined premium price increase of 1% and termination rate decrease of 1% would have the effect of increasing the carrying value by \$9,627,000 (2018: \$8,946,000). Individually, the effects of these inputs would not give rise to any additional amount greater than those stated.