(d) Life insurance risk

During the comparative financial year the Group was exposed to life insurance risks through the subsidiary IOOF Life Ltd. These risks related to pricing, acceptance and management of mortality, morbidity and longevity risks from policyholders. The life policies of IOOF Life Ltd were transferred effective 1 September 2010 to Tower Australia Ltd. The Group had no exposure to life insurance risks as at 30 June 2012.

Insurance risks were controlled through the use of underwriting procedures, adequate premium rates and policy charges, and sufficient reinsurance arrangements; all of which were reviewed by the Appointed Actuary. Tight controls were also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Financial risks were monitored and controlled by selecting appropriate assets to back policy liabilities. The assets were regularly monitored by the Investment Committee to ensure there are no material exposures and that liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Refer to Note 40 Statutory Funds for further details.

The Group's insurance operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held. Procedures are in place to monitor compliance with these requirements.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market (such as share buy-back liabilities) is determined using valuation techniques. Valuation models have been established in consultation with professional accounting firms, using generally accepted valuation methodologies. These include estimated discounted cash flows. Certain assumptions are made that are based on market conditions existing at each balance date. Assumptions used included terminal growth rates of 5% which do not exceed the long-term average growth rate for each of the businesses and pre-tax discount rates in the range of 17-24%. The estimated fair values resulting from the valuation techniques are reasonable and the most appropriate at the balance date.

For details regarding the fair value of available-for-sale assets and assets carried at fair value, refer to Note 13 Other financial assets.

The carrying value of receivables, net of impairment provisions, and payables are assumed to approximate their fair values due to their short-term nature.

Loans and other receivables are carried at amortised cost using the effective interest method and closely approximate their estimated fair value. Refer to Note 13 Other financial assets for further details.

Units in unlisted trusts are carried at the current unit price for redemption of those units with the trust.