TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
23 September 2021
2pm – 4pm

Objective:

- Update from APRA on AASB 17, including APRA Connect
- Update on the AASB's project on the application of AASB 17 for public sector entities
- Update from the PHI focus group
- Update from the Actuaries Institute Taskforce on recent activities in relation to AASB 17.

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Topic	**Agenda paper**
Introduction and administration of TRG	
Welcome and introduction by TRG Chair. Updates provided regarding changes in the agenda, i.e. Item 4 Insurance Council of Australia presentation deferred to December meeting.	
Updates from APRA on AASB 17, including APRA Connect	**APRA**

APRA representatives provided a summary of the result from their recent implementation survey and also APRA Connect.
• APRA Response Paper Package is on track which is expected to be launched in Q4 2021. Response Paper Package will include draft prudential and reporting standards. A Quantitative Impact Study (QIS) will be launched to all insurers as a part of the Response Paper Package and will only include the Level 1 insurers. The form used will be similar to the last QIS. There will be some changes, including the formatting of the form. Insurers are strongly encouraged to participate. The Response Paper Package will provide more information about the QIS that will be launched in early December 2021. Further, the revised reporting standards have been designed on the APRA Connect platform, which is intended to collect responses for the majority of reporting for the insurance industries from 1 July 2023 (refer to slide 2).
• During the session, members were provided opportunities to ask questions. The following is a summary of questions asked and APRA staff responses:
    ○ whether the 31 March 2022 QIS deadline was negotiable (as 31 March is also the lodgement for current APRA returns)? APRA representative commented that extension would affect APRA timeline to finalise its policies and positions.
    ○ whether the QIS is also on a best endeavours basis and whether APRA expects the QIS submission to be audited? APRA representative responded that the QIS is also on a best endeavours basis. However, possibly consistent with the previous	

QIS, an entity's CFO or appointed actuary will be expected to provide internal sign-off.
  - whether the APRA reporting for the quarter ending Sep 2023 and Dec 2023 will be on an AASB 17 year-to-date basis i.e. will completion of the forms be on an AASB 1023/AASB 1038 basis for Jan/Jun quarters and AASB 17 basis for the Sep/Dec quarters) or a year-to-date AASB 17 basis? APRA representative confirmed that this matter is still under consideration.
  - whether APRA would require full year or quarterly comparatives be provided? APRA representative responded that once the APRA reporting standards take effect from 1 July 2023, there will be no need to provide comparatives as there will be a clear break in the time series.
  - whether specific balance dates will be mandated for QIS reporting? APRA staff responded that insurers could use the most recent full-year financial period. A December reporter can use the prior year's December balance (i.e. December 2020 year-end).
  - whether there will be any exclusions in the QIS, for example participating contracts using the VFA and Friendly Societies (FS)? APRA representative responded that all insurers including FS will be included. The QIS will include participating contracts using the VFA in its scope. FS are strongly encouraged to participate in the QIS. APRA is liaising with the Actuaries Institute Taskforce FS working group to formalize APRA reporting principles for FS benefit funds and management funds.
- While presenting a summary of findings from its implementation survey, APRA representatives shared the following key observations (refer to slides 3-5):
  - implementation survey indicates marginal improvements since 2019. Status of preparations varies by industry. Life and General Insurers seem to be more prepared than other types of insurance entities.
  - some entities have made good progress on implementing system solutions and vendor selections. In particular, larger entities have better progress than smaller entities.
  - There are many implementation challenges, and the findings suggest that there is still significant progress needed for implementation.

  One member asked whether APRA will request individual insurers (that responded in the QIS and/or survey) to provide feedback on their AASB 17 implementation, as part of the Response Paper. APRA representative commented that more information would be provided in the near future.
- An APRA representative also provided an update on APRA Connect with the following key messages (refer to slides 6-7):
  - Production and External Test environments are available for use now.
  - Private Health Insurers are able to update corporate profile data and submit the data for HRS 605 (September Quarter).
  - All other reporting will stay on D2A initially and be transferred to APRA connect later when collection forms are updated.
  - Risk-based collections will predominately be captured use tabular "cube" collections These collections are similar to those used in the HRS 605 and the IDII data collection.

A member asked whether entities would be invited to the APRA workshops to support the new data collections. APRA member responded that APRA would be contacting entities directly by the end of September 2021. • Another member wanted to clarify if the QIS format will continue to be excel worksheets. APRA representative responded that data in the same format (excel) used in the targeted QIS can be uploaded into APRA Connect.	
Report on AASB-NZASB project: Insurance Activities in the Public Sector	**ATT1**

AASB staff provided an update on the progress of the AASB-NZASB project on insurance activities in the public sector, including the following key points:
• The AASB decided to propose:
  ○ extending the mandatory application date of AASB 17 for public sector entities at least until annual reporting periods beginning on or after 1 July 2025, with early adoption to be permitted;
  ○ exempting public sector entities from applying the requirement in paragraph 16 to divide a portfolio of insurance contracts into onerous and non-onerous groups of contracts, but require disclosure about the nature of the pricing process including, for example, any use of standardised pricing and cross-subsidisation that might occur between different groups of contracts;
  ○ exempting public sector entities from applying the requirement in paragraph 22 to divide a portfolio of insurance contracts into annual cohorts based on their issue date;
  ○ modifying paragraph 25 so that the timing of recognition of a group of insurance contracts does not depend on when the group becomes onerous;
  ○ not specifically exempting public sector captive insurers from applying AASB 17 in their separate financial statements; and
  ○ not making public-sector-specific modifications to AASB 17 relating to: (i) the measurement of investments backing insurance liabilities; and (ii) the classification and presentation of risk mitigation programs and other similar costs that are not directly attributable to particular insurance arrangements.
• The AASB confirmed its decision to propose not making public-sector-specific modifications to the requirement to include a risk adjustment for non-financial risk in measuring liabilities for incurred claims. NZASB however made a slightly different decision, which was to include a rebuttable presumption of a 75% probability of adequacy.
• A working draft Exposure Draft is scheduled to be presented to the AASB’s November meeting and the NZAAB’s December meeting. The Exposure Draft is scheduled to be issued for comment in the first quarter of 2022. In the meantime, stakeholders will be asked to road test the Exposure Draft proposals especially in the Australian context in respect of the indicators for determining the scope of activities to which AASB 17 applies.	

Insurance Council of Australia	
Not discussed	

PHI Focus Group	ATT2.1 ATT2.2

Reminder: The AASB and the AASB TRG do not provide accounting guidance. The papers reflect the discussions of the focus group and may be useful in providing other PHI preparers with an understanding of how participants in their industry are considering issues related to the implementation of AASB 17.

The co-ordinator of the focus group provided a reminder of the purpose and function of the focus group:

- Group has been meeting fortnightly since November 2020.
- To date the group has issued 5 papers to the past TRG meetings. The group will be finalising a number of other issues, including risk adjustment and accrued expenses/insurance service expenses. Papers will be tabled in the next TRG meeting.

Two papers are tabled for discussion:

Australian Government Rebate (AGR)

- Slide 3- In terms of AGR, to encourage private health participation in Australia, the Federal Government provides a rebate known as the AGR which reduces the premiums that policyholders pay. The rebate is generally provided with the policyholder paying the premium net of the rebate and the Federal Government then subsequently pays the rebate directly to the insurer.
- Policyholders can elect to receive the rebate either as a future refundable tax offset, or as a reduction in the premium paid, most people select the latter whereby the policyholder would pay their premium net of the rebate, and then the insurer will claim it from the government in arrears.
- The PHI focus group considered whether the rebate should continue to form part of premium revenue under AASB 17. The fulfilment cash flows include premiums from a policyholder and any additional cash flows that result from those premiums. Insurance revenue under the PAA includes expected premium receipts allocated to the period, therefore general consensus was that AGR will continue to be recognised within premium revenue.
- In terms of the balance sheet, there was a discussion as to whether AGR forms part of LIC or LFRC. AGR is only received after the policyholder has paid their share of the premium, hence depending on the policyholder payment profile it is possible for the AGR to be collected after the period of coverage has ended. There was discussion on whether this should therefore be recognised in the LIC. General consensus of PHI preparers was that they are expecting to recognise all AGR receivables in LFRC at this stage but will continue monitor the issue.
- The applicability of AASB 9 to AGR receivables was also considered given that the AGR is a premium due from a third party. However, general consensus of PHI preparers was that they do not expect AASB 9 would apply but will continue monitor the issue.
- One member asked whether there is any implication if a member of a health fund provided incorrect information to the tax office. A PHI member replied that if a member of a health fund provides incorrect rebate information, it is not likely to have any impact on what comes through to the health fund and any over- or underestimation will be adjusted through the personal tax return.
- Another member asked if the AGR is part of premium and, in particular, how are outstanding premiums after the coverage period ends currently being treated. PHI member replied that outstanding amounts are generally recognised as a receivable currently.

Therefore, on the balance sheet it is currently treated as an asset just in the same way as any outstanding premium.

Business Combinations

- Slide 4 provides the background of the issue: Under AASB 17, insurance contracts that are acquired in a business combination, as defined by AASB 3, or through a transfer of insurance contracts are treated as if they had been issued by the acquirer at the date of the acquisition transaction. The treatment of acquisition cashflow assets and other intangible assets can also differ from current practice.
- The presenter provides the summary of discussions (refer to slide 4-5):
    - **Classification of acquired contracts as insurance contracts -** Acquired PHI policies are classified as insurance contracts if there is uncertainty in how insurance risks will eventuate at the date of acquisition. Expected to apply to all PHI contracts where the contract boundary has not ended as members can continue to make incurred but not reported claims (IBNR) after the acquisition date.
    - **The contract is assessed at the acquisition date -**The contract boundary of the acquired contract is assessed from the acquisition date, not the original contract boundary start date. In determining the level of aggregation, an entity will also need to determine the portfolios and groups to which the insurance contracts acquired belong on the acquisition date. It could result in a change in the groups that were previously identified by the acquiree.
    - **Contracts acquired in the claims settlement period** - Cashflows for PHI contracts acquired in the claim's settlement period may transfer insurance risk for IBNR claims or reported claims for which the claims amount can change after the acquisition date, i.e. for treatment that is ongoing or due to claims leakage recoveries. If the claim is fully processed and the remaining liability is only due to the timing of payment, there is potentially no transfer of insurance risk, and the balance is not in scope of AASB 17.
    - A LFRC is set up at acquisition and LIC and insurance service expenses are recognised on determination of the ultimate cost of claims.
  - **Allocation of consideration -** For both transfer of assets/liabilities and for business combinations, identifiable assets and liabilities assumed are measured at their acquisition date fair values. Under AASB 17 there is no longer an option available to split the value of the acquired insurance contracts into two components as was available in AASB 1023. Going forward, it's just a fair value measurement.
  - **Acquisition costs and other intangible assets acquired through a business combination -** The recognition of assets under AASB 17.B95E (a) is a similar concept to the transfer of Deferred Acquisition Costs (DAC) from the seller to the acquirer. Assets in AASB 17.B95E (b) can be interpreted as all other acquisition costs that have been paid by the acquiree which are not captured under AASB 17.B95E (a). Insurers using PAA who acquire insurance contracts are still expected to value DAC assets under AASB 17.B95E(a) & B95E(b) in accordance with AASB 13 even if their policy is to expense DAC. It is possible for the fair value of the DAC asset to be nil as per AASB 13.Other assets which do not meet the requirements of AASB 17 B95E(a) & (b) are accounted for under AASB 138 if recognition criteria of an intangible asset are met.
  - **Onerous**- If contracts acquired are onerous, then the difference between the consideration received/paid and the fulfilment cash flows is:
    - For AASB 3, recognised as part of the goodwill or gain on bargain purchase.

- For the transfer of insurance contracts, recognised as a loss immediately in P&L, and a corresponding Loss Component as part of the LFRC.

A member asked if this has application to other sectors like the GI sector or LI, not just the PHI? The Chair replied that this has interest and relevance to both PHI and other insurance sectors and the intention was to table to TRG members to understand whether similar issues are being considered in other sectors. A member commented that this was consistent with the rest of the market. It was noted this is a topical issue for life insurance at the moment.

Actuaries Institute Taskforce Update

Representative from the Actuaries Institute Taskforce shared the following key messages:

- Actuaries Institute Taskforce has been working with APRA on seeking feedback on the QIS templates. The Taskforce will be collating and providing feedback on the QIS. The Taskforce is also looking into the revised allocation principles and providing feedback to APRA on management reporting metrics.
- There are three working groups under the taskforce:
  - Reinsurance & Regulatory Reporting (RRR) working group;
  - Friendly Society (FS) working group; and
  - VFA working group.

  These working groups will provide feedback on the QIS and reporting forms.
- The Taskforce is having regular liaison meetings with APRA.
- The taskforce is also considering providing additional support to members who are involved in the preparation of AASB 17 by having member discussions, workshops, discussions of topical issues etc.
- In terms of international update, the International Actuarial Association (IAA) has released its International Actuarial Note 100 on IFRS 17 Insurance Contracts. They will also be holding a the following webinars:
  - International Actuarial Note on IFRS 17 Insurance Contracts (IAN 100): October 18 (Webinar) – *For Europe, Africa and Asia-Pacific time zones*
  - International Actuarial Note on IFRS 17 Insurance Contracts (IAN 100): October 20 (Webinar) – *For the Americas and Europe time zones*

AOB

- Two papers related to risk adjustment and treatment of accrued expenses/insurance service expenses are expected to be tabled at the next AASB TRG meeting.
- The ICA discussion is now planed for the next meeting.

Next AASB TRG meeting

- The next meeting will be held on **6 December 2021.**

End Meeting

Attendance

Members	Anne Driver (Chair) Stuart Alexander Anthony Coleman Cassandra Cope David Daniels Jennifer Dwyer Brendan Counsell Fehraz Fallil Scott Hadfield Charles Hett Jeroen Van Koert Chris Maher Louise Miller David Rush Warwick Spargo Paul Stacey Leong Tan Ciara Wasley Leann Yuen Rachel Poo Rob Sharma Rhian Saunsbury
Apologies	Jac Birt Regina Fikkers Karen Foo Alane Fineman Helena Simkova Aiden Nguyen Emily Evitts Frank Saliba Peter Grant Brett Pickett
Other presenters	Angus Thomson Marion Smith Mike Murphy Zhedi Wu
AASB Staff	Eric Lee Patricia Au