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**Supporting material**

Australian Government

Australian Accounting Standards Board

# AASB RESEARCH REPORT 18

# AASB 17 *Insurance Contracts*

# Presentation, Disclosure, Transition and Other Accounting Policy Decisions:

# A Survey on Australian Insurance Entities

March 2023

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## Disclaimer

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## AASB Research Reports and Suggested Citation

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# Key Findings and Observations

The Report provides a snapshot of insurers' planned approaches to applying AASB 17 *Insurance Contracts* on a range of matters relating to judgements, presentation and disclosure policy choices available under the standard.

The key overall findings are:

- the level of aggregation for a range of disclosures and presentation varies, although the responses indicate a tendency to apply those disclosure and presentation requirements at an aggregated level (for example, a whole-of-entity level), which may be conditioned by existing practice;
- some insurers plan to apply presentation choices differentially in their insurance liability reconciliations (roll-forward tables) compared with the face of the financial statements (for example, in respect of single or disaggregated amount(s) for reinsurance held);
- the amounts presented in reconciliations for a liability for remaining coverage or a liability for incurred claims may differ between insurers based on judgements made about whether and, if so, when it is appropriate to transfer cash flows related to unexpired coverage between the two liabilities (for example, when coverage expires or never), and whether some expected cash flows might be subject to other standards (for example, AASB 9 *Financial Instruments* for some types of premiums receivable via intermediaries); and
- many of the presentation choices that insurers make understandably appear driven by the relevance to their circumstances and, accordingly, to their stakeholders (for example, the form in which claims development disclosures are presented, or the basis for disclosing concentrations of risk).

The principal authors wish to highlight the following observations.

- The extent of judgements and accounting policy choices, both explicit and implicit, that need to be made in applying AASB 17 are extensive in their volume and variety. The Report's results should provide some context to assist the industry in making those judgements and accounting policy choices.
- The different circumstances facing insurers are likely to lead to them to applying judgement and exercising presentation choices differentially and, therefore, could reasonably be expected to result in a level of diversity in practice. To assist users in understanding financial statements prepared under AASB 17, it will be important for insurers to provide explanations about, and context for, the judgements and choices they have made. There is a specific requirement for insurers to disclose the significant judgements and changes in judgements made in applying AASB 17 [AASB 17.93(b) and 117 to 120], noting that many of those judgements and choices are implicit in AASB 17, rather than explicit, and they relate to the interpretation of a new standard applied across multiple products and geographies.
- A follow-up survey and report based on the final judgements and choices made by Australian insurers in applying AASB 17 to their first financial statements beginning on or after 1 January 2023 would be expected to be useful. The principal authors observe that such a follow-up could help to facilitate the Australian industry's ongoing application of AASB 17 and possible adjustments to the judgements and choices made, as well as further contribute to any post-implementation review of AASB 17.

Please note that the respondents to the survey shared their planned approaches to applying AASB 17 in late 2022, and those planned approaches may change and evolve as insurers continue to work through the practical application issues and engage with their key stakeholders including investors, auditors and advisors.

Furthermore, as experience with applying AASB 17 further develops, it is expected that more areas will be identified on which insurers will need to make judgements when applying the standard. Accordingly, while this Report addresses a wide range of implicit and explicit judgements and policy choices that need to be made in applying AASB 17, it is not held out as being exhaustive.

# List of Abbreviations

| | |
|---|---|
| CDT | Claims Development Table |
| CSM | Contractual Service Margin |
| FVA | Fair Value Approach |
| FRA | Full Retrospective Approach |
| GMM | General Measurement Model |
| IASB | International Accounting Standards Board |
| LIC | Liability for Incurred Claims |
| LRC | Liability for Remaining Coverage |
| MRA | Modified Retrospective Approach |
| PAA | Premium Allocation Approach |
| P/L | Profit or Loss |
| TRG | Transition Resource Group |
| VFA | Variable Fee Approach |

# 1. Introduction

AASB 17 *Insurance Contracts*, which incorporates the requirements of IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB), is effective for annual reporting periods beginning on or after 1 January 2023 for private sector entities in Australia, except when the entity is a superannuation entity applying AASB 1056 *Superannuation Entities*. AASB 17 is effective for public sector entities from 1 July 2026.[1] It supersedes AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The new insurance accounting standard provides the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of the standard is to provide users of financial statements with sufficient information to assess the effect that insurance contracts have on an entity's financial position, financial performance and cash flows.

To ensure that users of financial statements comprehend the effects of insurance contracts on entities' financial position and performance, the standard requires entities to disclose extensive qualitative and quantitative information. Furthermore, some requirements under the new standard provide entities with disclosure or presentation policy choices. In some cases, the standard does not provide detailed disclosure or presentation requirements on certain information, allowing entities to exercise sound judgement to decide how information should be disclosed or presented.

This study aims to shed light on the choices expected to be made by Australian insurance entities in the private sector that prepare general-purpose financial reports regarding some of the presentation, disclosure, transition and other accounting policy decisions related to implementation of AASB 17.

The findings of this research will contribute to the post-implementation review process, enabling standard setters to understand decisions made on disclosing or presenting information in accordance with AASB 17 that meet its disclosure objective. In particular, the findings demonstrate that during the implementation planning phase, the principal-based standard provides preparers with the necessary flexibility to determine how relevant information should be presented to meet user needs.

This study is focused on the decisions made by entities. It should, however, be noted that respondents answered the survey during their AASB 17 implementation period based on expectations at that point in time. As such, the answers provided should not be considered as the final decisions made by entities. The research does not investigate the question of '*why'* certain decisions were made. Nonetheless, implications can be drawn from the findings that could serve as a basis for future research.

[1] In Australia, AASB 17 applies to all entities, except an entity is a superannuation entity applying AASB 1056. The mandatory application date of AASB 17 for all public sector entities is annual reporting periods beginning on or after 1 July 2026, with early adoption permitted. There are a number of public-sector-specific modifications to AASB 17 that are explained in AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*.

## 1.1 Methodology

As the financial reports prepared in accordance with AASB 17 are yet to be published, we developed a survey questionnaire to obtain data. The questions are drawn from accounting standards and primarily focus on requirements related to presentation and disclosure.

The survey questionnaire was developed with the support of practitioners with extensive experience in the insurance sector. Some AASB 17 *Insurance Contracts* Transition Resource Group (TRG) members reviewed and pilot-tested the questionnaire.

50 insurance entities, based on the size and nature of their insurance products, were selected to conduct the survey.[2] In total, 21 entities responded to the survey. All selected entities prepare general-purpose financial reports and are implementing AASB 17.

Table 1 and Table 2 below summarise the primary business and size (based on net earned premium[3]) in the most recent financial year) of the entities that responded to the survey.

**Table 1 Primary business of the respondents**

| Primary business | Number of respondents |
|---|---|
| Life insurance (direct) | 6 |
| Life insurance (reinsurer) | 3 |
| Non-life insurance (direct) | 5 |
| Non-life insurance (direct and reinsurer) | 1 |
| Health insurance | 5 |
| Composite (reinsurer) | 1 |
| **Total** | **21** |

[2] The selection of entities for surveys was not based on a scientific approach. Rather, we chose large insurance entities in Australia and reached out to several insurance entities with whom we had direct contact in their reporting or financial department responsible for preparing financial reports. Our focus was on entities whose primary activity is providing insurance products, thereby excluding financial institutions that offer insurance products.

[3] Typically identified under existing Australian Standards as the total premium on insurance contracts issued during a specified period after the deduction of premium applicable to reinsurance held and, in the case of general insurers, adjusted by the change in net unearned premium.

**Table 2 Size of the respondents**

| Net earned premium in the most recent financial year ended | Number of respondents |
|---|---|
| Less than AUD$100 million (m) | 1 |
| AUD$100m–AUD$500m | 5 |
| AUD$500m–AUD$1 billion (bn) | 5 |
| AUD$1bn–AUD$5bn | 6 |
| More than AUD$5bn | 4 |
| **Total** | **21** |

Furthermore, the insurance operations of 19 entities are predominantly based in Australia. One respondent's operations are across Australia and New Zealand; and another has operations in the Australia-Pacific region, North America, Europe and Asia.

# 2. Questionnaire Responses

## 2.1 Reinsurance Held

| Question 5 [Reference: AASB 17.86][4] |
| --- |
| An entity has a choice of how to present in profit or loss (P/L) income or expenses from reinsurance contracts held. Does the entity plan to present:<br>a) A single amount; or<br>b) Separately the amounts recovered from the reinsurer and an allocation of the premiums paid that sum to the single amount? |

Nineteen of the 21 entities in the survey responded to this question. The results in Figure 1 below demonstrate that, while seven entities plan to present a single amount, most entities (12) opted instead to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that sum to the single amount.

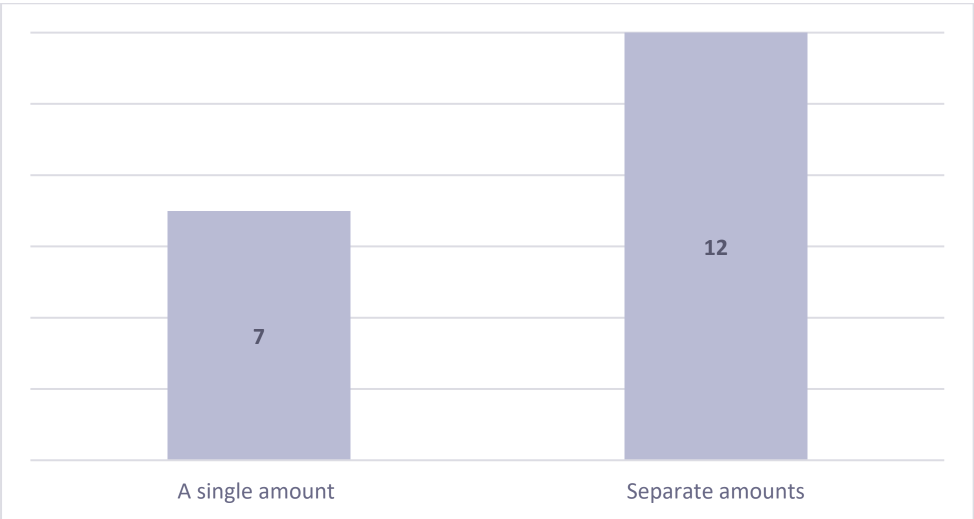


**Figure 1 Question 5**

As shown in Figure 2 below, a majority of health insurance providers that responded (3 out of 5) plan to present a single amount. Additionally, Figure 3 below reveals that 12 entities, encompassing both life and non-life insurance entities – but not health insurance entities – plan to report separately the amounts received from the reinsurer as well as an allocation of the premiums paid that sum to the single amount. it is noted that health insurance entities generally do not have significant and material reinsurance transactions.

[4] Question 1-4 obtain demographic information about the respondent.

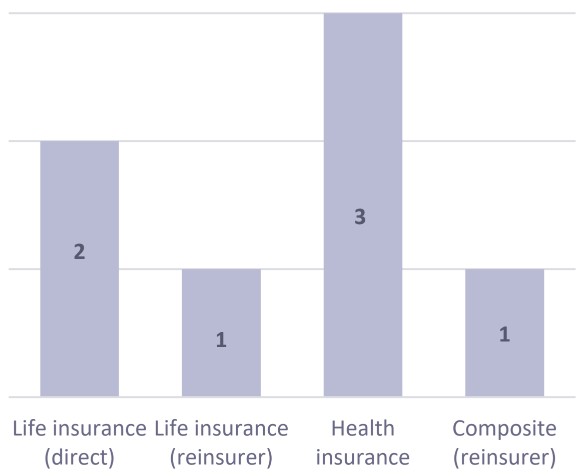


**Figure 2 Primary business of entities that chose 'single amount'**

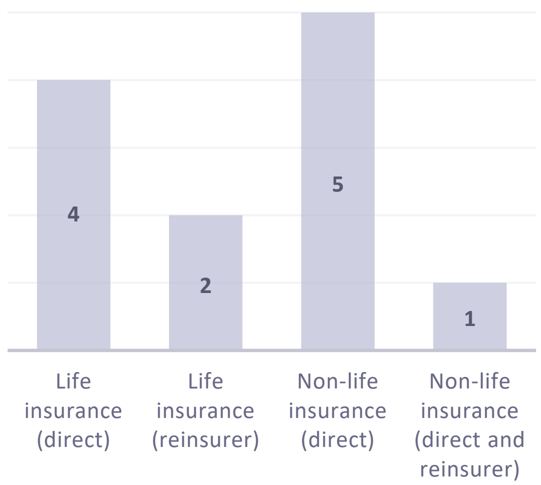


**Figure 3 Primary business of entities that chose 'separate amounts'**

| **Question 6 [Reference: AASB 17.86, 98 and 100]** |
|---|
| Is the entity planning to present income or expenses from reinsurance contracts held in the roll-forward reconciliation tables as:<br>○ A single amount<br>○ Separately related amounts that reconcile to the single amount in the P/L<br>○ N/A |

AASB 17.98 requires entities to provide reconciliations showing how the net carrying amounts of contracts within its scope changed during the period due to cash flows, and income and expenses recognised in the statement(s) of financial performance. Separate reconciliations need to be disclosed for insurance contracts issued and reinsurance contracts held, respectively. Additionally, entities are required to adapt AASB 17.100-109 when considering providing reconciliation information of reinsurance contracts held that differs from information on insurance contracts issued.

Nineteen of the 21 entities in the survey responded to this question. Figure 4 below shows that most of the respondents (11) plan to provide separately related amounts that reconcile to the single amount in the P/L (where the option to present a single reinsurance held amount on the face of the P/L is expected to be applied).


**Figure 4 Question 6**

| **Question 7 [Reference: AASB 17.42, 86, B123, B126 and BC346]** |
| --- |
| When presenting separate amounts per AASB 17.86 in its P/L, does the entity also plan to split out amounts contingent on claims and not contingent on claims for any other purposes e.g. financial statement note disclosures and management reporting?<br>o Insurance/reinsurance issued (Yes or No)<br>o Reinsurance contracts held (Yes or No) |

AASB 17.86 requires those entities that present separately the amounts recovered from the reinsurer and an allocation of the premiums paid to:

(a) treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer;

(ba) treat amounts recognised relating to recovery of losses applying AASB 17.66(c)(i)–(ii) and 66A–66B as amounts recovered from the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

However, AASB 17 is not definitive about whether the entity also needs to show separately amounts contingent on claims and not contingent on claims for any other purposes.

As shown in Figure 5 below, the majority of entities plan not to separately disclose the amounts contingent on claims and not contingent on claims for any other reporting purposes.

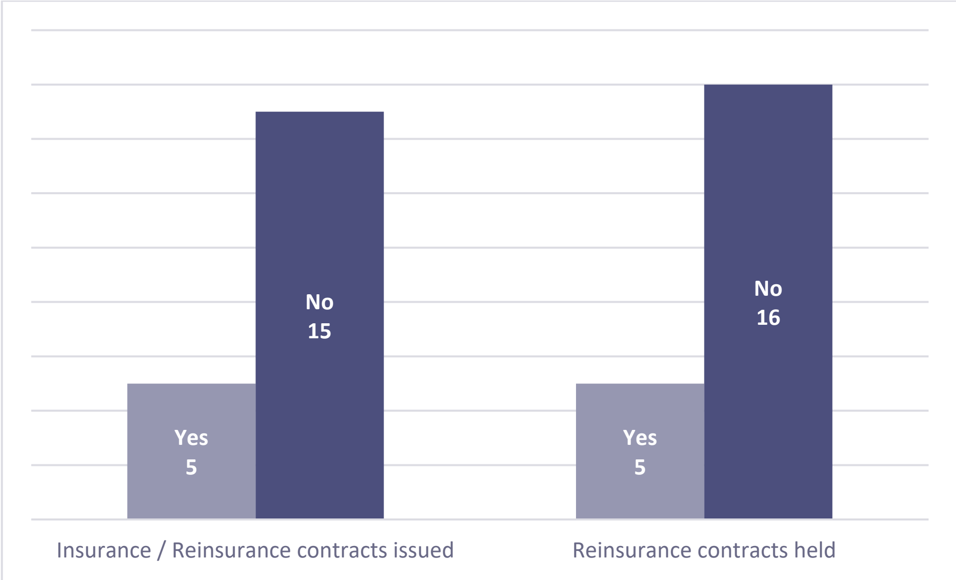


**Figure 5 Question 7**

| **Question 8 [Refer to Question 7]** |
|---|
| If you have chosen 'yes' in question 7, please provide details. |

Those entities that plan to show separately the amounts contingent on claims and not contingent on claims for other reporting purposes, such as management reporting purposes, commented that the disclosures will be made in the notes of the financial statements.

## 2.2 Balance Sheet and Roll-forward Reconciliation Tables

**Question 9 [Reference: AASB 17 Appendix A Defined terms]**

In the balance sheet and roll-forward reconciliation tables for *insurance/reinsurance contracts issued*, at what point is it planned that cash flows related to the unexpired portion of the coverage period be transferred from the liability for remaining coverage (LRC) to the liability for incurred claims (LIC)? Please select from the following options:

- When the coverage for the contract has ended
- When the coverage for the group has ended
- No amounts are transferred from LRC to LIC
- Accounting policy choice based on the nature of the case flows (provide details about these cash flows in the text box)
- Other (specify in the text box)

| Question 10 [Reference: AASB 17 Appendix A Defined terms] |
|---|
| In the balance sheet and roll-forward reconciliation tables for *reinsurance contracts held*, at what point is it planned that cash flows related to the unexpired portion of the coverage period be transferred from the liability for remaining coverage (LRC) to the liability for incurred claims (LIC)? Please select from the following options:<br>o When the coverage for the contract has ended<br>o When the coverage for the group has ended<br>o No amounts are transferred from LRC to LIC<br>o Accounting policy choice based on the nature of the case flows (provide details about these cash flows in the text box)<br>o Other (specify in the text box) |

Table 3 below reveals the various accounting policies planned to be applied by entities when allocating cash flows related to the unexpired portion of the coverage period transferred from the liability for remaining coverage (LRC) to the liability for incurred claims for insurance/reinsurance contract issued (Question 9) and for reinsurance contracts held (Question 10).

**Table 3 Questions 9 and 10**

| **Choices** | **Insurance/ Reinsurance contracts *issued* (Question 9)** | **Insurance/ Reinsurance contracts *held* (Question 10)** |
|---|---|---|
| When the coverage for the contract has ended | 5 | 4 |
| When the coverage for the group has ended | 2 | 2 |
| No amounts transferred from LRC to LIC | 9 | 7 |
| Accounting policy choice based on the nature of the cash flows | 2 | 2 |
| Other | 3 | 6 |
| **Total** | **21** | **21** |

Two entities that responded “Other” provided the following comments:

- Their policy on this matter is yet to be finalised.
- Cash flows will be moved from LRC to LIC when the insured events are expected to occur or when contract coverage has ended.

## 2.3 Roll-forward Reconciliation Tables

| **Question 11 [Reference: AASB 17.28B and 105A-B]** |
| --- |
| In the roll-forward reconciliation tables for insurance/reinsurance contracts *issued*, does the entity plan to include a separate column to show the reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised before the related group of insurance contracts is recognised (the "pre-coverage asset") under AASB 17.28B? Please select from one of the options below:<br>o Yes<br>o No<br>o N/A i.e. the entity does not expect to recognise a “pre-coverage asset” under AASB 17.28B<br>o Other e.g. footnote or separate note (please specify in the text box) |
| **Question 12 [Reference: AASB 17.28B and 105A-B]** |
| In the roll-forward reconciliation tables for *reinsurance contracts held*, does the entity plan to include a separate column to show the reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised before the related group of insurance contracts is recognised (the "pre-coverage asset") under AASB 17.28B? Please select from the options below:<br>o Yes<br>o No<br>o N/A i.e. the entity does not expect to recognise a “pre-coverage asset” under AASB 17.28B<br>o Other e.g. footnote or separate note (please specify in the text box) |

AASB 17.28B states that an entity that does not apply AASB 17.59(a), that is does not choose to recognise any insurance acquisition cash flows as expenses, shall recognise insurance acquisition cash flows paid as an asset. In terms of related disclosures, according to AASB 17.105A, entities shall disclose a reconciliation from the opening to the closing balances of assets for insurance acquisition cash flows recognised applying AASB 17.28B.

Figure 6 below shows that, for insurance contracts issued, six entities plan to include a separate column to show the reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised. Four entities plan not to include a separate column to show the reconciliation. For reinsurance contracts held, the large N/A response (16 out of 21) may infer that material pre-coverage amounts are typically not expected to arise.

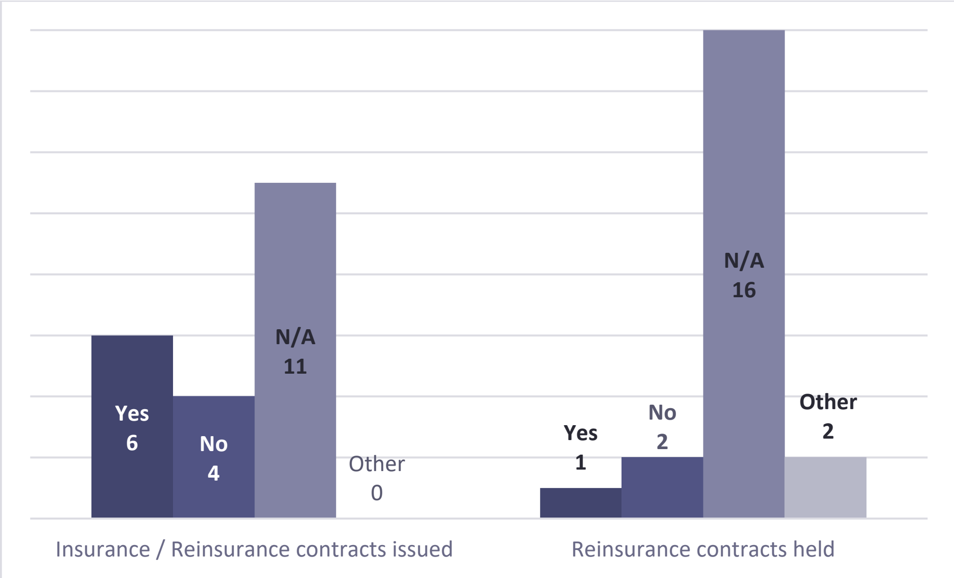


**Figure 6 Questions 11 and 12**

| Question 13 [Reference: AASB 17.96] |
|---|
| What is the planned level of aggregation applied in the roll-forward reconciliation tables for *insurance/reinsurance contracts issued* by the entity (select one option below and provide specific examples as applicable in the text box):<br>○ Reporting entity level<br>○ Operating segments<br>○ Geographical areas<br>○ Portfolios of contracts<br>○ Other |
| **Question 14 [Reference: AASB 17.96]** |
| What is the planned level of aggregation applied in the roll-forward reconciliation tables for *reinsurance contracts held* by the entity (select one option below and provide specific examples as applicable in the text box):<br>○ Reporting entity level<br>○ Operating segments<br>○ Geographical areas<br>○ Portfolios of contracts<br>○ Other |

When deciding what information to disclose, entities should consider AASB 17.95 which requires entities to aggregate or disaggregate information so that useful information is not obscured by including a large amount of insignificant detail or aggregating items. In addition, AASB 17.96 refers entities to Paragraph 29-31 of AASB 101 *Presentation of Financial Statements*, which sets out the relevant requirements for materiality and aggregated information with practical examples of suitable aggregation bases.

Table 4 below indicates that most entities plan to use the reporting entity as the level of aggregation for insurance/reinsurance contracts issued and held.

**Table 4 Questions 13 and 14**

| **Choices** | **Insurance/ Reinsurance contracts *issued* (Question 13)** | **Insurance/ Reinsurance contracts *held* (Question 14)** |
|---|---|---|
| Reporting entity level | 15 | 13 |
| Operating segments | 3 | 2 |
| Geographical areas | 0 | 0 |
| Portfolios of contracts | 2 | 2 |
| Other[5] | 1 | 4 |
| **Total** | **21** | **21** |

| **Question 15 [Reference: AASB 17.96]** |
|---|
| Is the planned level of aggregation applied re responses to questions 13 and 14 above, different to the level of aggregation applied to financial statement note disclosures for current reporting? (Select one option below and if the response is 'Yes', provide more details in text box):<br>○ Yes (please specify the level of aggregation in the text box)<br>○ No |

As illustrated by Figure 7, the majority of entities (17) plan not to use a different level of aggregation in their roll-forward reconciliation tables compared with the level of aggregation applied to financial statement note disclosures for current reporting.

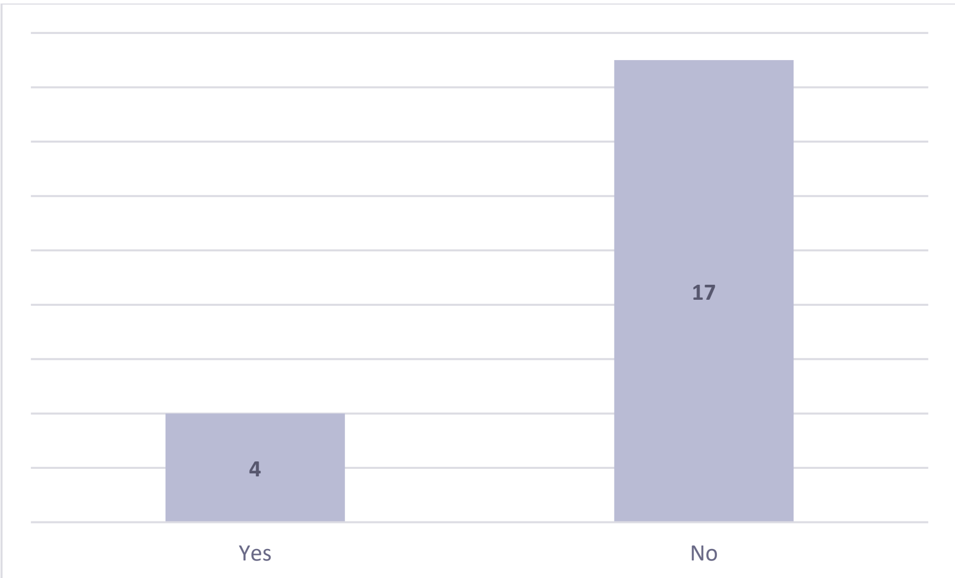


**Figure 7 Question 15**

[5] The respondents who opted “Other” did not provide further details.

Two respondents (from life insurance (direct)) answered 'Yes' and commented that:

- current reporting granularity differs for each financial disclosure note; and
- the level of aggregation in current reporting is based on product-level aggregations whereas, under the new accounting standard AASB 17, the aggregation is based on the contract boundary and the onerous contract test.

## 2.4 Segment Disclosures

| **Question 16 [Reference: AASB 8.20]** |
| --- |
| Is the entity planning to change the level of disaggregation of its reportable segments (as defined in AASB 8 *Operating Segments*) when AASB 17 becomes effective? (Select one option below):<br>o Yes<br>o No |

Figure 8 below shows that the majority of entities are not planning to change the level of disaggregation of their reported operating segments when AASB 17 becomes effective.

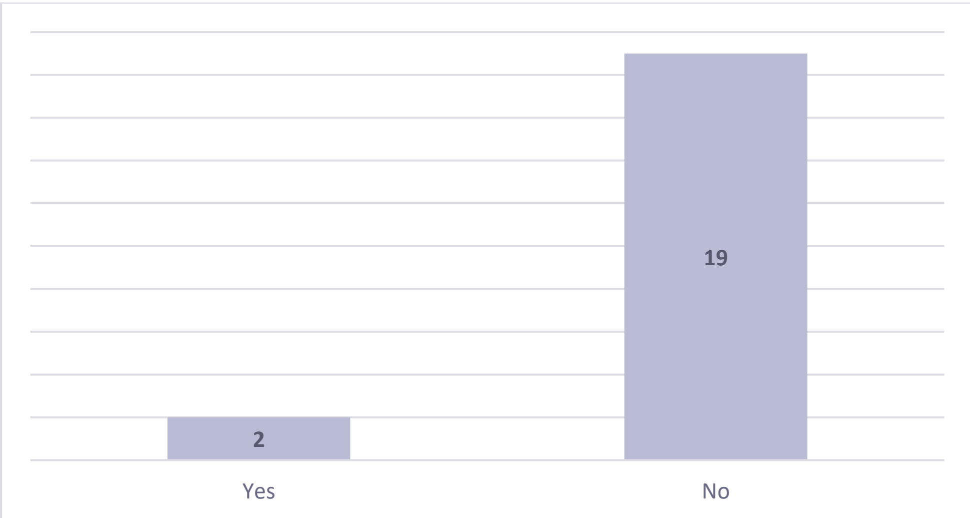


**Figure 8 Question 16**

## 2.5 Claims Development Tables

| **Question 17 [Reference: AASB 17.130]** |
| --- |
| On what basis is the claims development table (CDT) planned to be disclosed (select one option below and provide more details in text box):<br>o Two tables – one gross and one net of reinsurance<br>o Two tables – one gross and one showing reinsurance<br>o One table – net of reinsurance<br>o Other (please specify) |

AASB 17.130 requires entities to disclose actual claims compared with previous estimates of the undiscounted amount of the claims, consistent with the requirement currently in AASB 4.39(a)(iii). The

paragraph also provides guidance on how the disclosure should be made. However, AASB 17 does not provide guidance on how information related to reinsurance should be presented in the claims development disclosures.

As illustrated by Figure 9 below, most entities indicated that they plan to present the information with one table net of reinsurance held.

Five of the respondents who chose “Other” noted that this question was not applicable to them, while two others stated they had yet to make a decision.

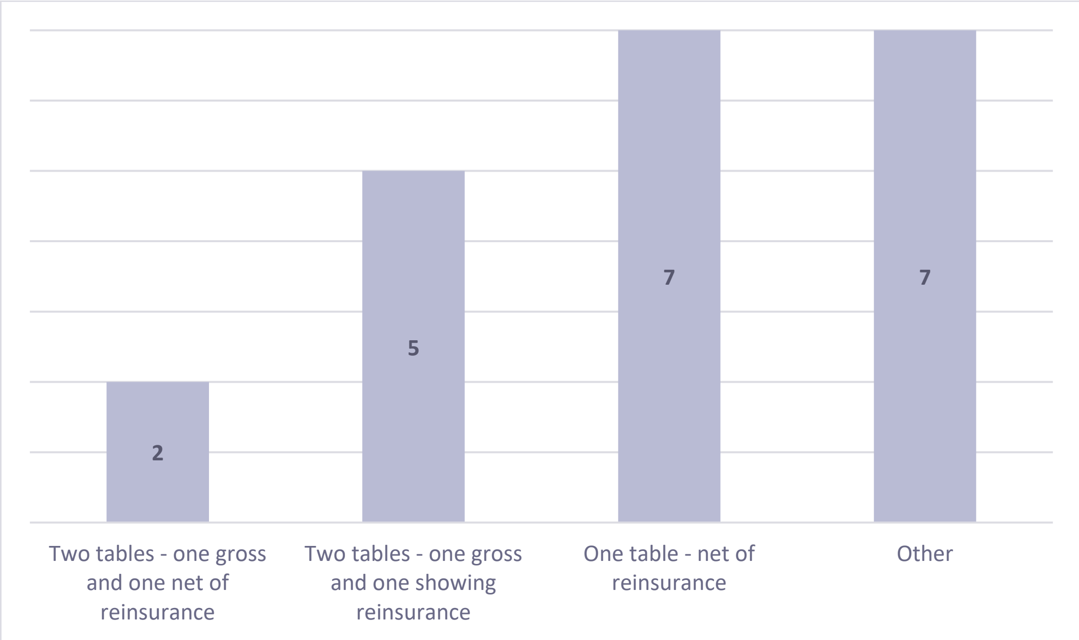


**Figure 9 Question 17**

| **Question 18 [Reference: AASB 17.100(c) and 130]** |
|---|
| What does the entity plan to include as reconciling items in the CDT disclosures to reconcile to the liabilities for incurred claims? Please select all that apply from the following list and provide details of these items in the text box provided.<br>○ Risk adjustment<br>○ Effects of discounting<br>○ Claims handling expenses<br>○ None – all amounts are included in the claims estimates and in the claims cash flows in the CDT<br>○ Other (specify) |

Figure 10 below provides a summary of the reconciling items in the CDT disclosures that are relevant to the entities. The entities that chose “Other” either stated they had not made a decision yet or indicated the question did not apply to them.

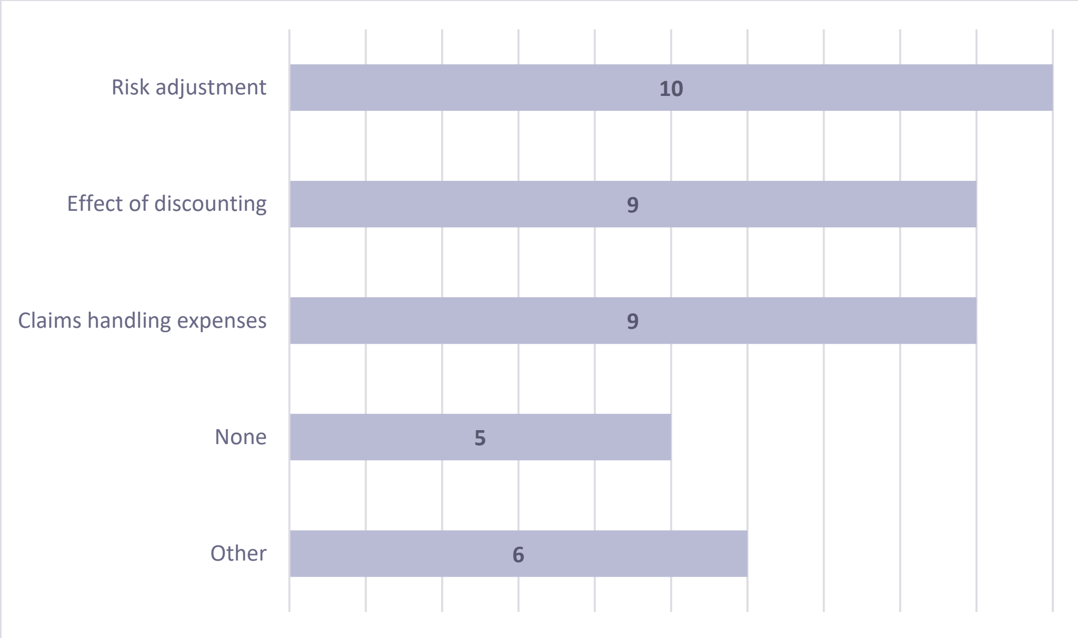


**Figure 10 Question 18**

## 2.6 Risk Adjustment

AASB 17.119 requires entities to disclose the confidence level used to determine the risk adjustment for non-financial risk. If a technique other than the confidence level technique is used for determining the risk adjustment for non-financial risk, the entity must disclose the technique used and the corresponding confidence level.

| Questions 19 – 22 [Reference: AASB 17.119] |
|---|
| Does the entity plan to disclose the confidence level represented by the risk adjustment for non-financial risk (select one option below):<br><br>**[Question 19]**<br>○ Separately for different measurement models e.g. General Measurement Model (GMM), Variable Fee Approach (VFA) and Premium Allocation Approach (PAA)<br>○ Combined for all measurement models<br>○ N/A – entity has only one measurement model<br>○ Other (please specify in the text box)<br><br>**[Question 20]**<br>○ At reporting entity level<br>○ At a more granular level than the reporting entity (please specify in the text box)<br>**[Question 21]**<br>○ Separately for insurance/reinsurance contracts issued and reinsurance contracts held<br>○ Net of reinsurance only<br>○ Other (please specify) |

**[Question 22]**

- Separately for LIC and LRC
- For LIC only
- For both LIC and LRC combined

Figure 11 below shows that six entities plan to disclose the confidence level represented by the risk adjustment for non-financial risk for measurement models combined. The majority of entities (14) that responded noted that they only plan to apply one measurement model.

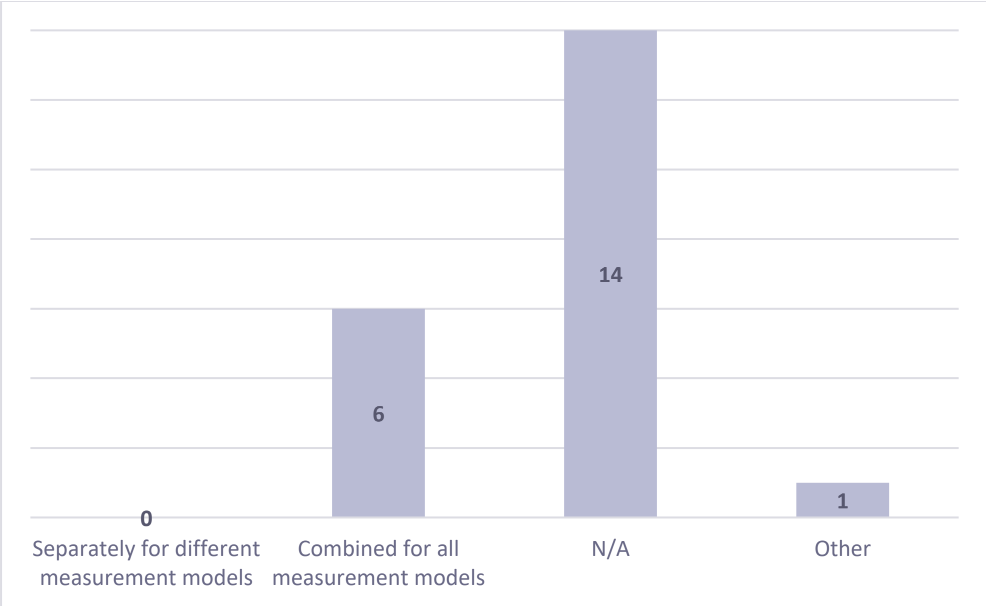


**Figure 11 Question 19**

Figure 12 below shows that all entities plan to disclose the information related to the confidence level at the reporting entity level.

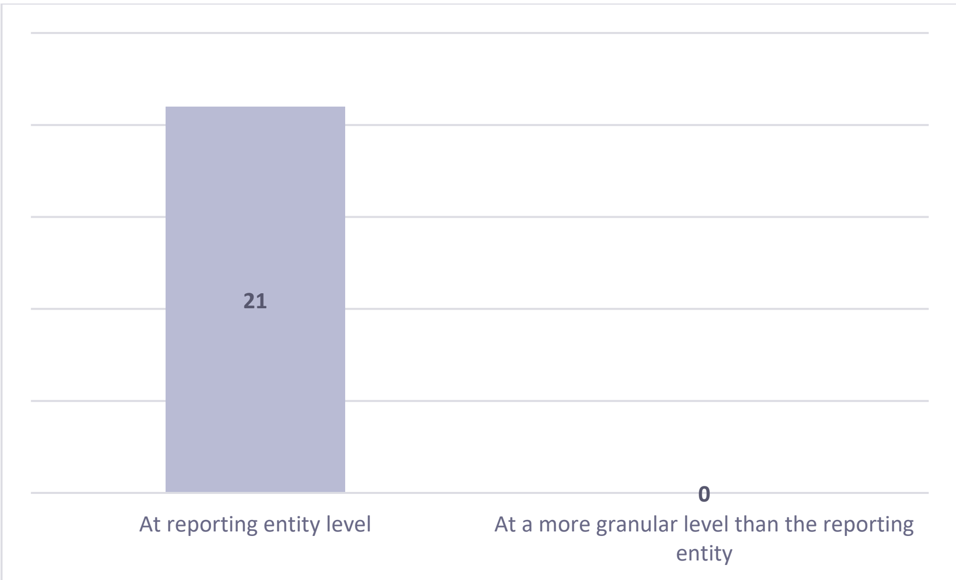


**Figure 12 Question 20**

Figure 13 below shows that the majority of entities (16) plan to disclose the confidence level net of reinsurance only.

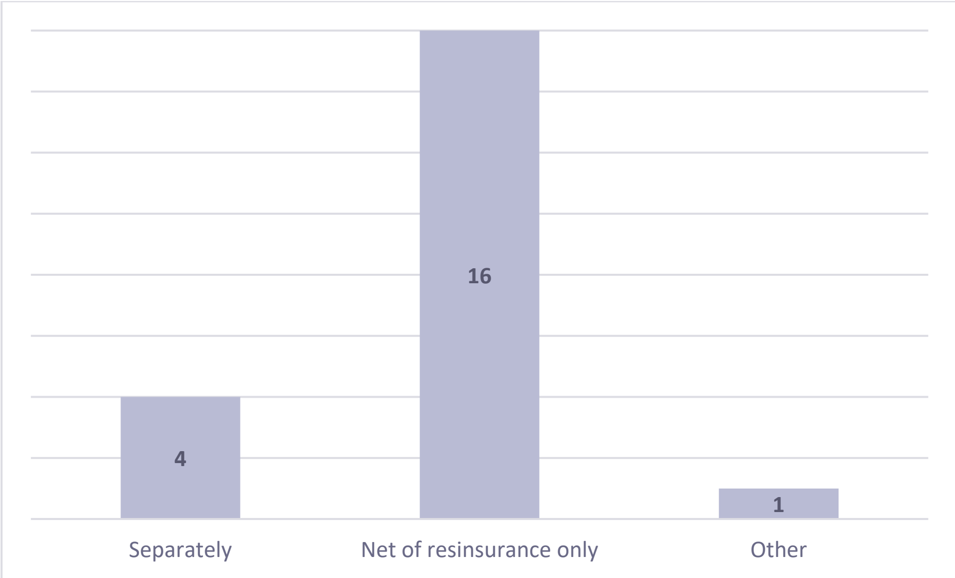


**Figure 13 Question 21**

As illustrated by Figure 14 below, 10 entities plan to disclose the confidence level of both LIC and LRC combined.

The industry analysis of responses to Question 22, as reported in Table 5 below, shows that a majority of life insurance entities plan to disclose the confidence level of both LIC and LRC combined, whereas most health insurance and non-life insurance entities plan to disclose the confidence level separately for LIC and LRC.

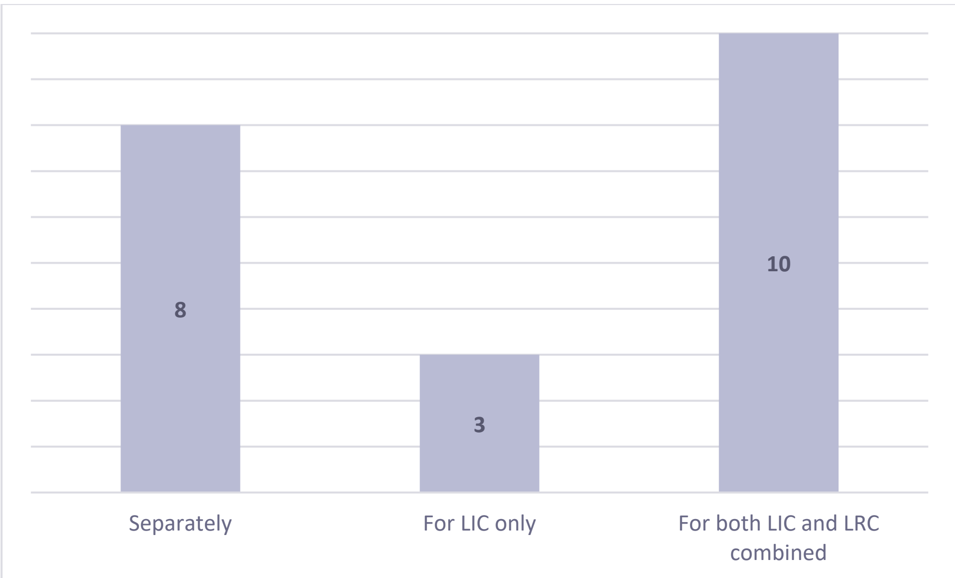


**Figure 14 Question 22**

**Table 5 Industry analysis for Question 22**

| Industry | Separately | For LIC only | For both LIC and LRC combined |
|---|---|---|---|
| Life insurance (direct) | 0 | 1 | 5 |
| Life insurance (reinsurer) | 0 | 0 | 3 |
| Non-life insurance (direct) | 4 | 1 | 0 |
| Non-life insurance (direct and reinsurer) | 1 | 0 | 0 |
| Health insurance | 3 | 1 | 1 |
| Composite (reinsurer) | 0 | 0 | 1 |
| **Total** | **8** | **3** | **10** |

**Question 23 [Reference: AASB 17.81]**

Does the entity plan under AASB 17.81 to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses? (Select one option below):

- Yes
- No

AASB 17.81 provides an accounting policy choice to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. Those that choose not to disaggregate must include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.

Figure 15 below illustrates that the majority of the entities (15) plan not to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.
The industry analysis of responses to Question 23, as reported in Table 6 below, shows that a minority of life insurance and health insurance entities plan to disaggregate the change in the risk adjustment, whereas all the non-life insurance entities plan not to disaggregate.

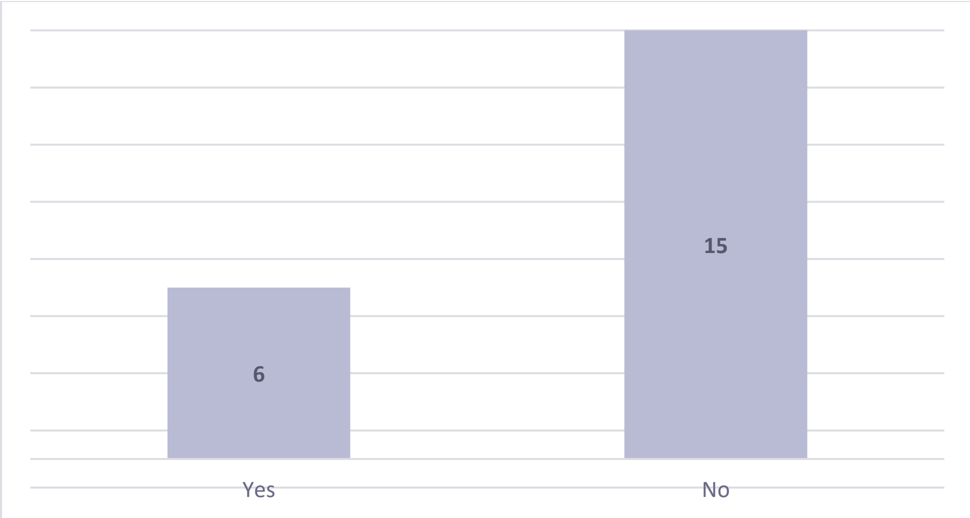


Figure 15 Question 23

Table 6 Industry analysis for Question 23

| Industry | Yes | No |
|---|---|---|
| Life insurance (direct) | 2 | 4 |
| Life insurance (reinsurer) | 1 | 2 |
| Non-life insurance (direct) | 0 | 5 |
| Non-life insurance (direct and reinsurer) | 0 | 1 |
| Health insurance | 2 | 3 |
| Composite (reinsurer) | 1 | 0 |
| **Total** | **6** | **15** |

## 2.7 Insurance and Market Risks — Sensitivity Analysis

| **Question 24 [Reference: AASB 17.128(a)]** |
|---|
| How does the entity plan to apply the sensitivity analysis required by AASB 17.128(a)? Does the analysis distinguish *insurance/reinsurance contracts issued* measured under each of the measurement models (PAA/GMM/VFA) (select one option below):<br>o Yes<br>o No |
| **Question 25 [Refer to Question 24]** |
| Does the entity plan to show the sensitivity analysis referred to in the previous question on contracts issued on both gross of and net of reinsurance bases (select one option below):<br>o Yes<br>o No |
| **Question 26 [Reference: AASB 17.128(a)]** |
| What key variables does the entity plan to include in the sensitivity analysis? Please select all the applicable options below:<br>o Discounted expected fulfilment cash flows<br>o Discount rate<br>o Risk adjustment<br>o Inflation rate<br>o Coefficient of variation<br>o Confidence level<br>o Weighted average term to settlement<br>o Other (provide more details in the box) |

AASB 17.128(a) requires entities to disclose "a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk variables that were reasonably possible at the end of the reporting period". The standard, however, does not provide details on whether such analysis should distinguish insurance/reinsurance contracts issued, measured under different measurement models. Figure 16 below shows that the majority of entities (16) plan to provide one analysis for all measurement models.

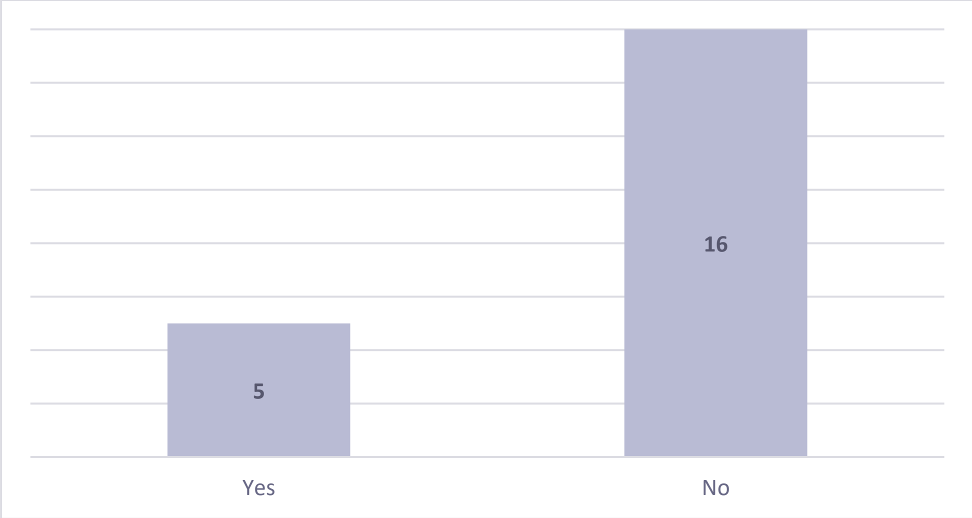


**Figure 16 Question 24**

Further, as illustrated by Figure 17 below, a slim majority of all respondents indicated that they plan to disclose the effect of insurance risk on contracts issued on both gross of and net of reinsurance bases.

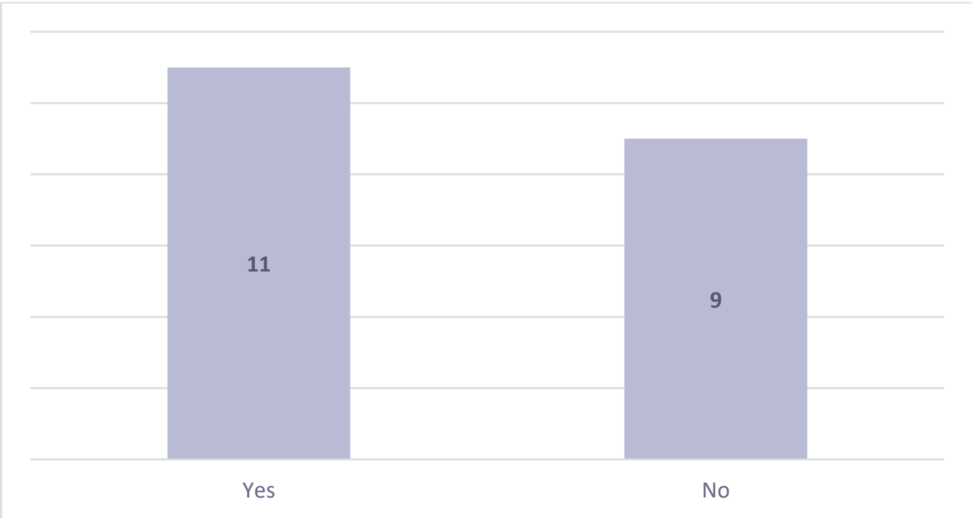


**Figure 17 Question 25**

Figure 18 below provides a summary of the key variables planned to be shown by the entities in the sensitivity analysis. Discount rate and discounted expected fulfillment cash flows are identified as the most common key variables.

Respondents that chose “Other” identified the following variables:

- Loss ratio
- Termination rate
- Incurred but not reported item
- Claims handling expenses.

The limited number of variables mentioned may reflect the monoline nature of some of the responding insurers.

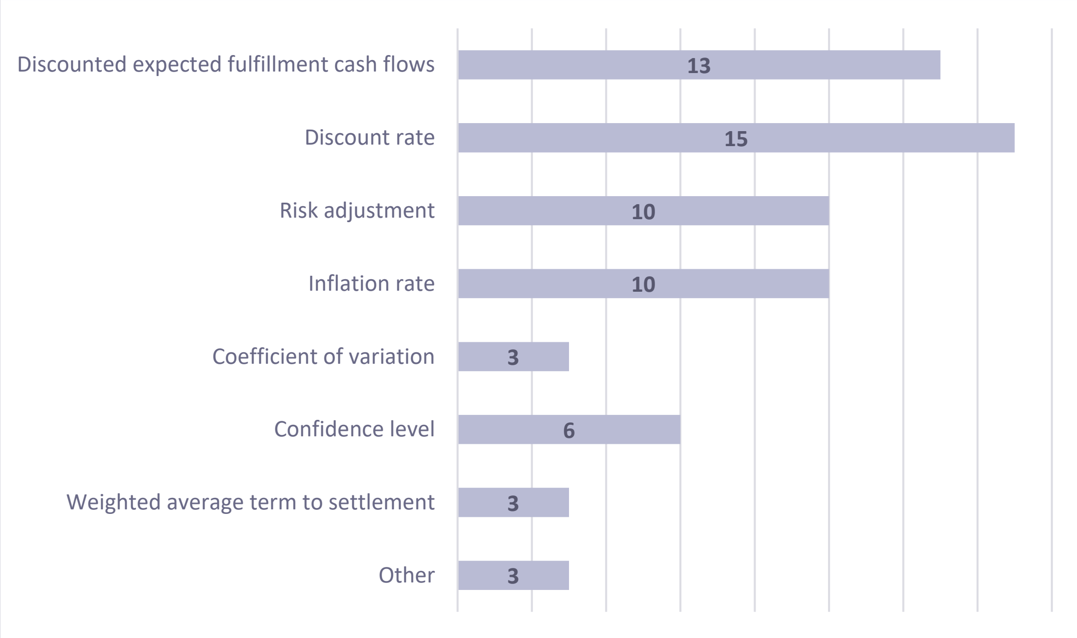


**Figure 18 Question 26**

## 2.8 Credit Risk — Other Information

| **Question 27 [Reference: AASB 17.131(a)]** |
|---|
| Under AASB 17.131(a), entities are required to disclose the amount that best represents the maximum exposure to credit risk at the end of the reporting period separately for insurance/reinsurance contracts issued and reinsurance contracts held. What balances does the entity plan to disclose? Select from one of the applicable options below:<br>o Balances for insurance/reinsurance contracts issued and reinsurance contracts held for all portfolios including those in a liability position<br>o Only balances for insurance and reinsurance portfolios in an asset position (excess of recoveries receivable over reinsurance amounts payable)<br>o Other (please specify) |

Figure 19 below shows that the majority of entities plan to disclose only the balances for insurance and reinsurance portfolios in an asset position.
Respondents that chose “Other” have not determined how to disclose the balances.

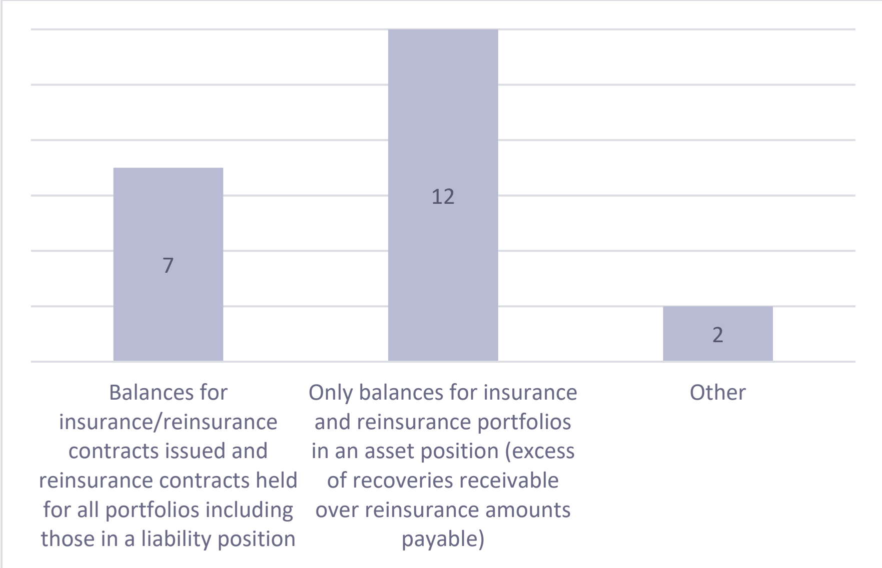


**Figure 19 Question 27**

| Question 28 [Reference: AASB 17.131(b)] |
| --- |
| Under AASB 17.131(b), entities are required to disclose information about the credit quality of reinsurance contract held assets. What balances for reinsurance contract held assets are planned to be disclosed by the entity? Select from one of the applicable options below:<br>○ Balances for reinsurance recoveries for all reinsurance contracts held, including those in portfolios in both an asset and a liability position<br>○ Only balances for reinsurance recoveries for portfolios in an asset position (excess of recoveries receivable over reinsurance amounts payable)<br>○ Other (please specify) |

Figure 20 below shows that the majority of entities plan to disclose only the balances for reinsurance recoveries for portfolios in an asset position.
Respondents who chose "Other" either noted that this question was not applicable to them, or stated they had yet to make a decision.

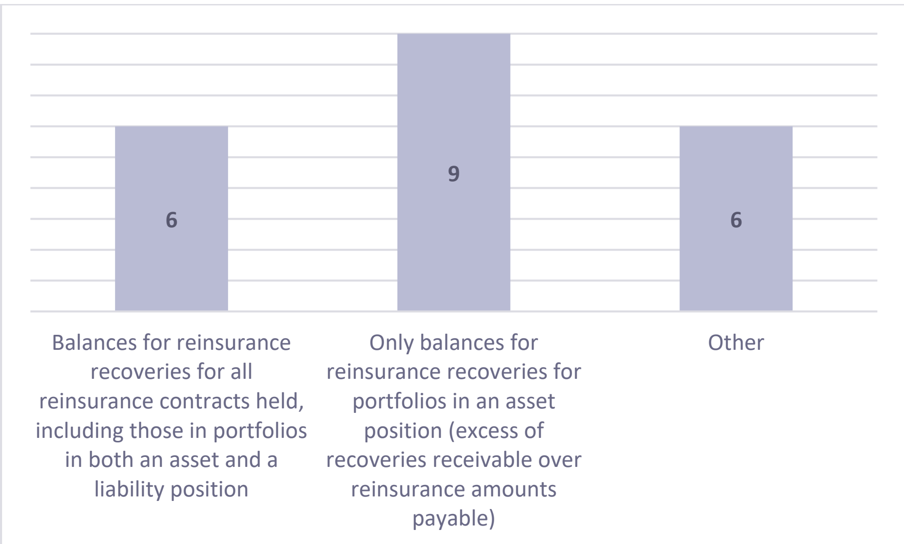


**Figure 20 Question 28**

## 2.9 Liquidity Risk — Other Information

| Question 29 [Reference: AASB 17.132] |
|---|
| AASB 17.132 requires a separate liquidity risk maturity analysis be disclosed for insurance contract issued liabilities and reinsurance contract held liabilities. Is the entity also planning to disclose liquidity risk maturity analysis for insurance contract issued assets and reinsurance contract held assets in a separate table? Please select from one of the options below:<br>○ Yes<br>○ No<br>○ Undecided |

Figure 21 below shows that two entities plan to disclose liquidity risk maturity analysis for insurance contract issued assets and reinsurance contract held assets in a separate table. Ten entities plan not to, while nine entities have not yet decided.

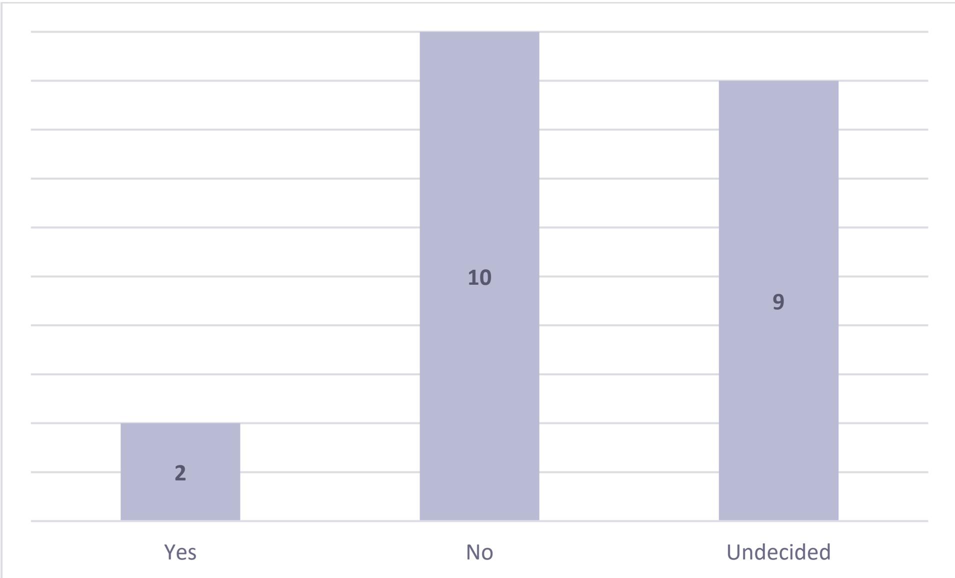


**Figure 21 Question 29**

## 2.10 Transition

| Question 30 [Reference: AASB 17.C3, AASB 108.28] |
|---|
| What type of information on the impact of adopting AASB 17 on the financial statements will the entity disclose in the final set of financial statements before AASB 17 becomes effective? Select one option below:<br>○ Qualitative information only<br>○ Quantitative information on the impact on retained earnings in total<br>○ Quantitative information on the impact on retained earnings including material components e.g. onerous contracts<br>○ Quantitative information on the impact on the comparative AASB 17 profit and loss in total |

- Quantitative information on the impact on the comparative AASB 17 profit and loss including material components e.g. onerous contracts
- Additional historical quantitative information

Figure 22 below summarises the type of information on the impact of adopting AASB 17 on the financial statements that entities plan to disclose in the final set of financial statements before AASB 17 becomes effective. One third of the respondents plan to only disclose qualitative information, while the others plan to disclose some quantitative information.

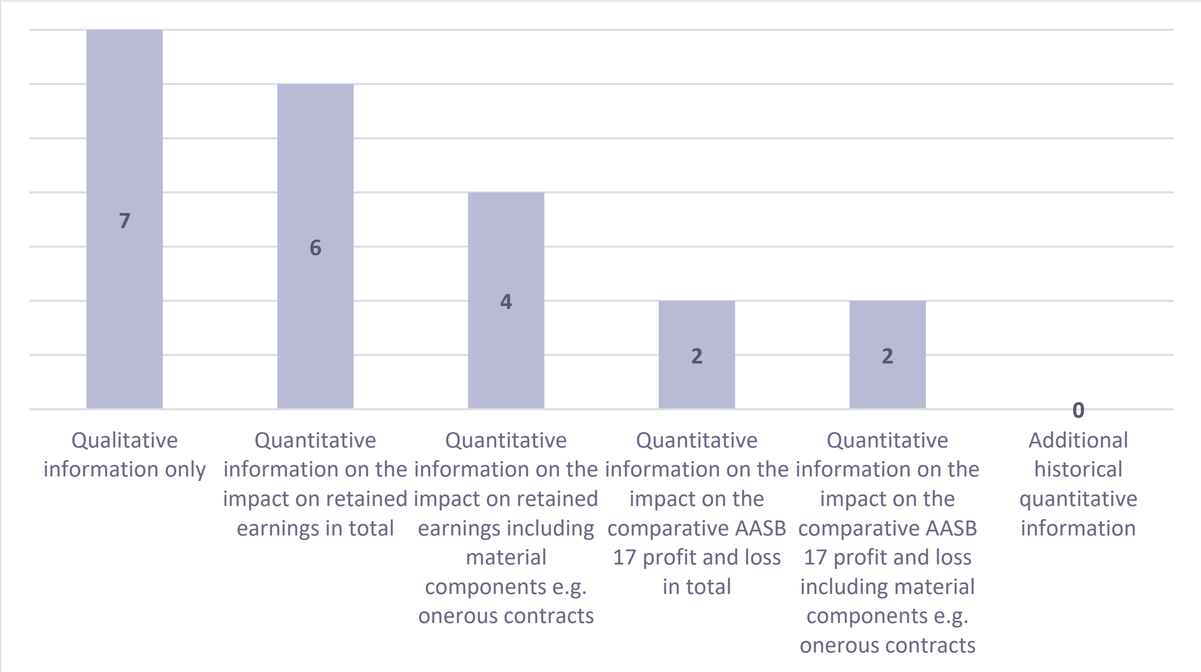


**Figure 22 Question 30**

| **Question 31 [Reference: AASB 17.C3, AASB 108.28(f)]** |
|---|
| AASB 17.C3(a) exempts entities from having to present in the first reported financial statements under AASB 17, the amount of the adjustment resulting from applying AASB 17 affecting each financial line item to either the current period or each prior period presented (as required by AASB 108.28(f)). Despite this exemption, does the entity expect to choose to present adjusted comparative information for each line item applying AASB 17 for periods beginning earlier than the beginning of the annual reporting period immediately preceding the date of initial application? Please select from one of the options below:<br>○ Yes<br>○ No<br>○ Undecided |

Figure 23 below shows that two thirds entities (14) decided not to present adjusted comparative information for each line item, applying AASB 17 for periods beginning earlier than the beginning of the annual reporting period immediately preceding the date of initial application.

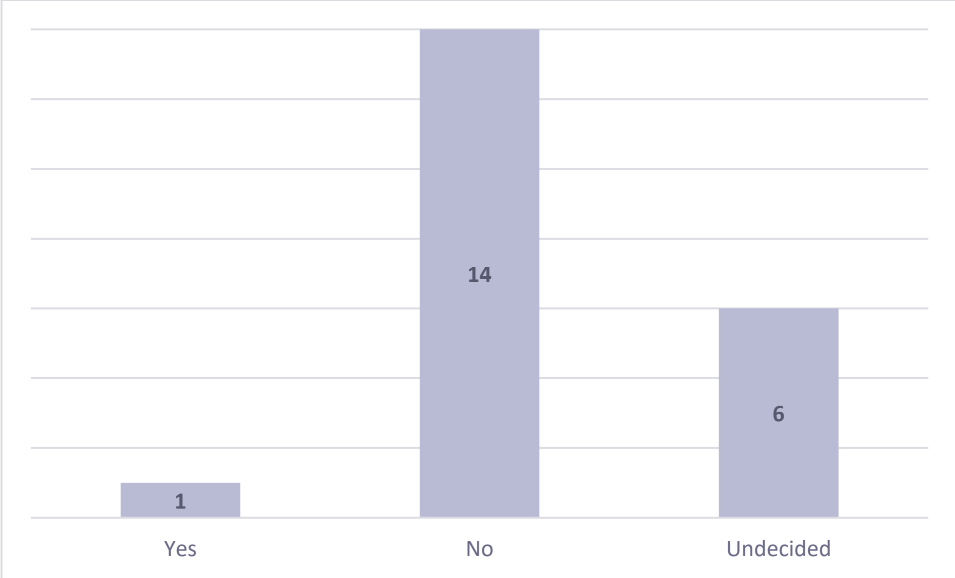


**Figure 23 Question 31**

| Question 32 [Reference: AASB 17.C2, C25] |
| --- |
| AASB 17.C2 requires that entities present one comparative period in their AASB 17 financial statements for the annual reporting period immediately preceding the date of initial application. Will the entity be presenting more than one comparative period in their annual financial statements? Please select from one of the options below:<br>○ Yes<br>○ No |

Figure 24 below shows that all entities do not plan to present more than one comparative period in their annual financial statements.

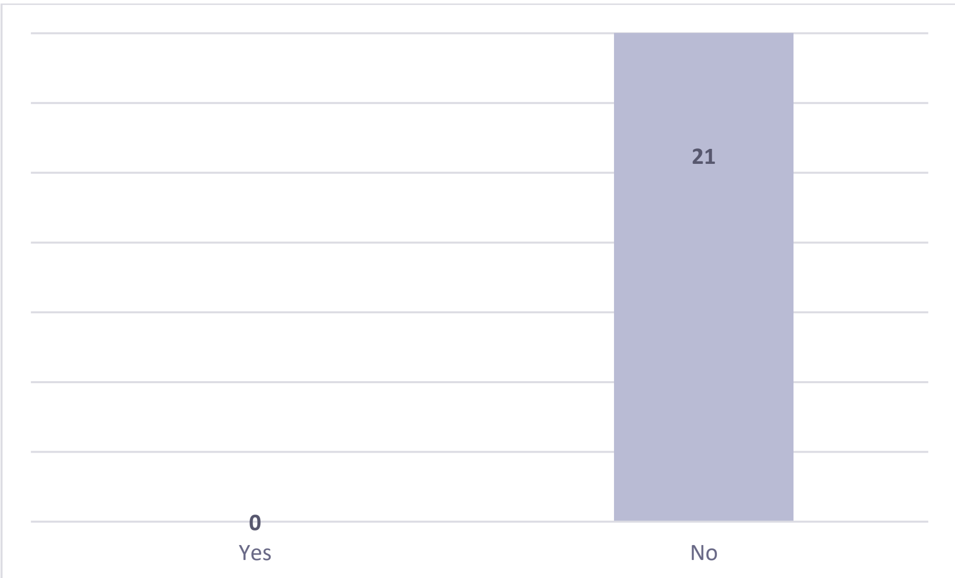


**Figure 24 Question 32**

| Question 33 [Reference: AASB 101.10(a), (ea)-(f), 17(c), 38-38A, 38D, 40A-40B] |
|---|
| In the circumstances described in AASB 101.40A (i.e. the entity is restating prior period information and this has a material effect on the statement of financial position at the beginning of the comparative period) an entity is required to present a third statement of financial position as at the beginning of the preceding period (i.e. at the transition date/start of the comparative period) in addition to the minimum comparative financial statements required in AASB 101.38A (two statements of financial position as at the end of the current period and the end of the preceding period). Will the entity be presenting a third statement of financial position in its AASB 17 financial statements? Select one option below:<br>○ Yes<br>○ No |

Figure 25 and Table 7 below show that most of the entities do not plan to present a third statement of financial position in the first financial statements that apply AASB 17. Given this requirement, in AASB 101.10(f), respondents may still be in the process of considering their materiality assessment (AASB 101.40A(b)). Materiality considerations would include both quantitative and qualitative factors as set out in Practice Statement 2 *Making Materiality Judgements*.

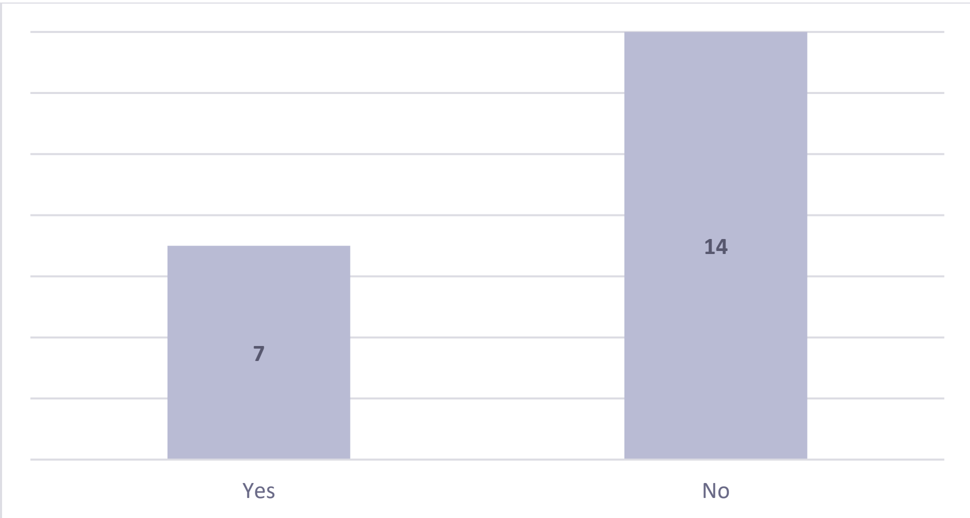


**Figure 25 Question 33**

**Table 7 Industry analysis for Question 33**

| Industry | Yes | No |
|---|---|---|
| Life insurance (direct) | 2 | 4 |
| Life insurance (reinsurer) | 0 | 3 |
| Non-life insurance (direct) | 3 | 2 |
| Non-life insurance (direct and reinsurer) | 0 | 1 |
| Health insurance | 2 | 3 |
| Composite (reinsurer) | 0 | 1 |
| **Total** | **7** | **14** |

| Question 34 [Reference: AASB 17.115, C3, C5, C5A, C6 and C20] |
| --- |
| What transition approaches are the entity planning to apply to identify and measure its *insurance/reinsurance contracts issued* on transition to AASB 17? Please select all the applicable transition methods used:<br>○ Full retrospective approach (please provide details on groups)<br>○ Modified retrospective approach (please provide details on groups)<br>○ Fair value approach (please provide details on groups) |
| **Question 35 [Reference: AASB 17.115, C3, C5, C5A, C6 and C20]** |
| What transition approaches are the entity planning to apply to identify and measure its *reinsurance contracts held* on transition to AASB 17? Please select all the applicable transition methods used:<br>○ Full retrospective approach (FRA) (please provide details on groups)<br>○ Modified retrospective approach (MRA) (please provide details on groups)<br>○ Fair value approach (FVA) (please provide details on groups) |

As shown in Figure 26 below, most entities plan to use a full retrospective approach for insurance/reinsurance contracts issued and reinsurance contracts held on transition to AASB 17.

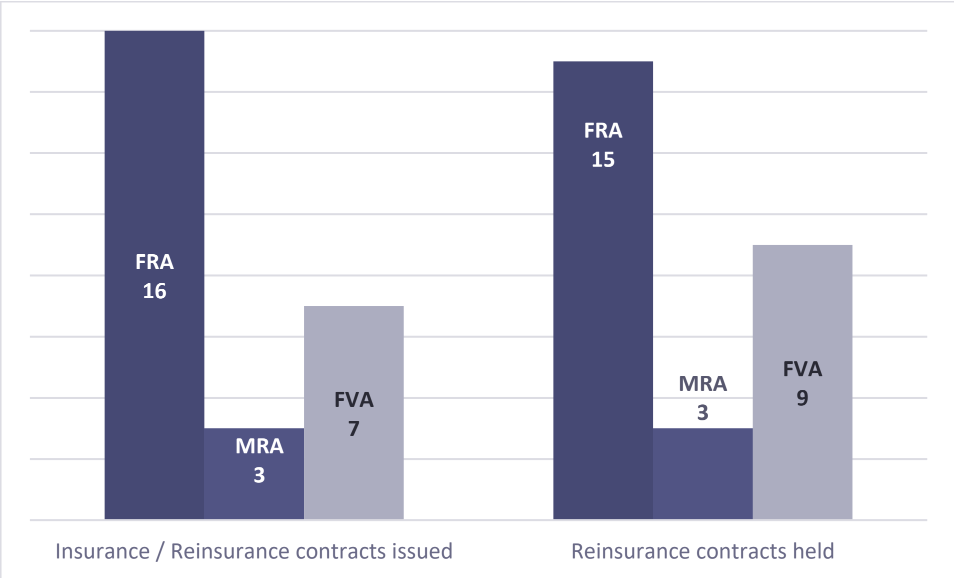


**Figure 26 Questions 34 and 35**

## 2.11 General Questions

| Question 36 [Reference: AASB 9, AASB 17] |
| --- |
| What accounting presentation does the entity plan to adopt for premium received by external brokers where the brokers are acting on behalf of the insurer and have yet to pass on the premium to the insurer. Please provide details and cite the applicable AASB references (e.g. AASB 17 *Insurance Contracts* or AASB 9 *Financial Instruments*) in the text box provided. |

In its June and September 2020 meetings, AASB 17 *Insurance Contracts* TRG members discussed issues related to the accounting treatment for the presentation of the premium received by external brokers, where the brokers act on behalf of an insurer and the insurer has yet to pass the premium to the insurer .[6, 7]

Following is a summary of comments received from the respondents to the questionnaire:

- Six entities indicated that they plan to apply AASB 17 for the premium received by external brokers.
- One respondent mentioned that the entity plans to apply AASB 17 where the broker/intermediary is acting on behalf of a customer but apply AASB 9 where the broker/intermediary is acting on behalf of an insurer.
- One respondent mentioned that an estimation will be made to measure premiums that brokers and agents may have collected but not passed on to the entity. The amount, however, will be disclosed under AASB 9.
- One entity noted that it is waiting for input from the process underway at the IFRS Interpretations Committee.
- One entity mentioned that it is working through the issue.
- Eleven (11) entities noted that they do not have brokers that act on their behalf to collect premiums from customers and, as such, this question is not relevant to them.

| **Question 37 [Reference: AASB 17.105(a)(i)]** |
|---|
| Does the entity plan to change the terminology used in its Cash Flow Statement to reflect AASB 17 cash flows e.g. 'premiums received for insurance contracts issued' and 'premiums paid for reinsurance contracts held'? Select one option below:<br>○ Yes<br>○ No |

AASB 17.105(a)(i) requires entities to disclose within their reconciliations cash flows related to 'premiums received for insurance contracts issued' or 'premiums paid for reinsurance contracts held' that do not relate to services provided in the period.

Figure 27 below shows that most of the entities (16) plan to use those, or similar, phrases (i.e. 'premiums received for insurance contracts issued' and 'premiums paid for reinsurance contracts held') in their cash flow statements.

[6] https://www.aasb.gov.au/admin/file/content102/c3/ATT7_Memo_PremiumsRec_Intermediaries.pdf
[7] https://www.aasb.gov.au/admin/file/content102/c3/ATT3_Premium%20receivables.pdf

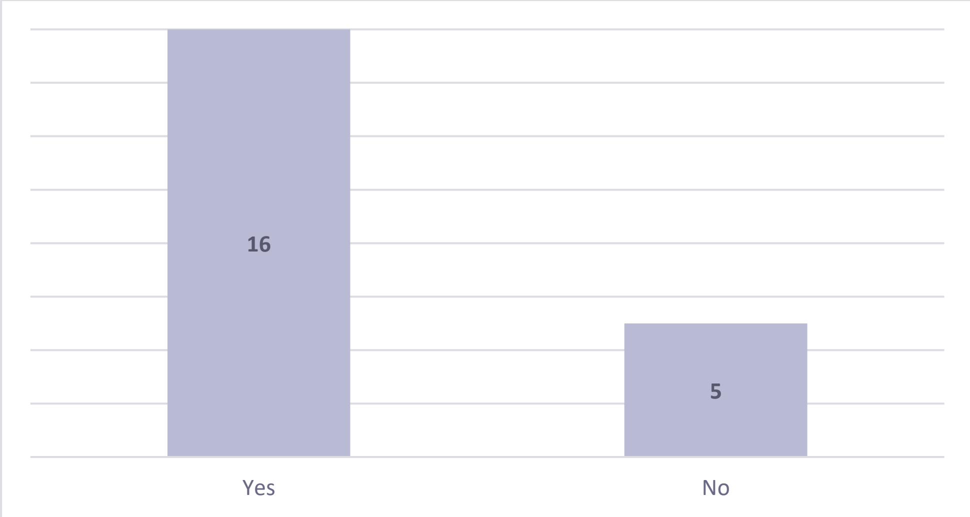


Figure 27 Question 37

| Question 38 [Reference: AASB 124.18] |
| --- |
| Does the entity plan to change the terminology used in its related party transaction disclosures to reflect AASB 17 terminology? Select one option below:<br>○ Yes<br>○ No<br>○ N/A i.e. the entity has no related party transactions |

As shown in Figure 28 below, 11 entities plan to change the terminology used in their related party transaction disclosures to specifically reflect AASB 17 terminology, rather than using the terminology in AASB 124 *Related Party Disclosures*. Eight entities, however, plan not to do so.

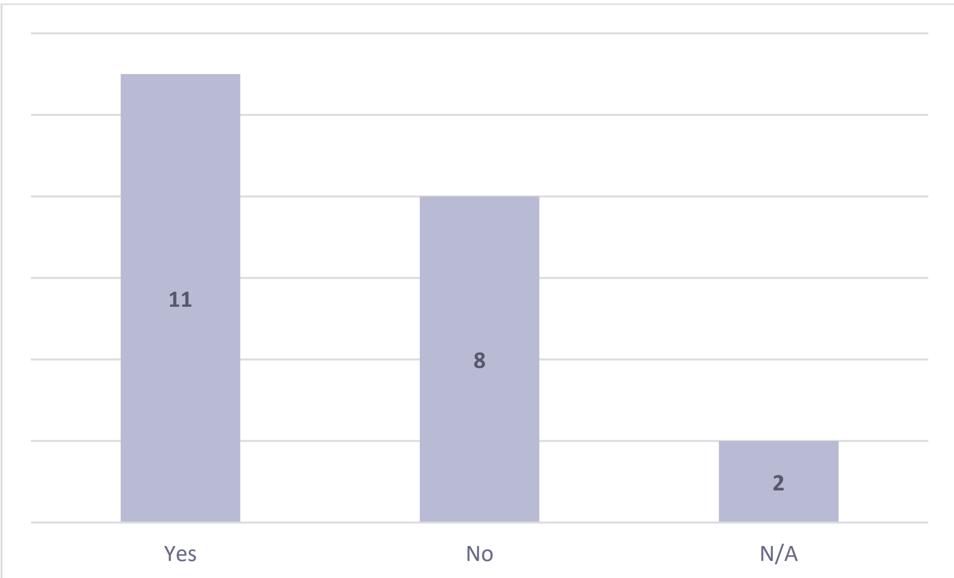


Figure 28 Question 38

## *2.12 Premium Allocation Approach (PAA)*

| **Question 39 [Reference: AASB 17.59(a)]** |
| --- |
| For *insurance/reinsurance contracts issued* which have coverage of less than 12 months, does the entity plan to recognise any insurance acquisition cash flows as expenses when it incurs those costs?<br>o Yes<br>o No |
| **Question 40 [Reference: AASB 17.59(a)]** |
| For *reinsurance contracts held* which have coverage of less than 12 months, does the entity plan to recognise any insurance acquisition cash flows as expenses when it incurs those costs?<br>o Yes<br>o No |

AASB 17.59(a) allows entities that apply the premium allocation approach to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year. As shown in Figure 29 below, seven entities indicated that they plan to recognise such insurance acquisition cash flows immediately as expenses. However, most of the entities plan not to do so.

The industry analysis in Table 8 and Table 9 shows that most of life insurance entities responding to the survey plan to recognise the insurance acquisition cash flows immediately as expenses, whereas most of the non-life insurance entities plan not to do so.

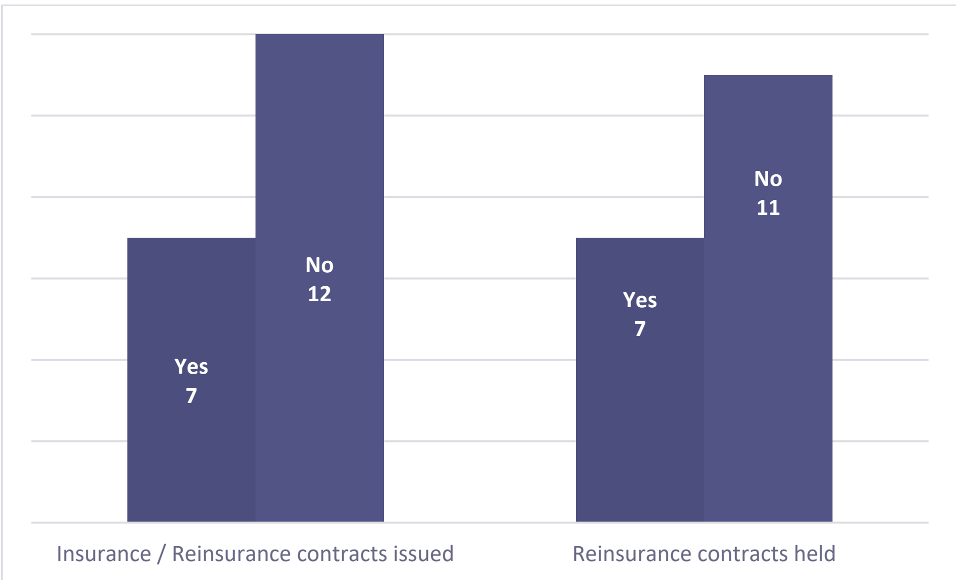


**Figure 29 Questions 39 and 40**

**Table 8 Industry analysis for Question 39**

| Industry | Yes | No |
|---|---|---|
| Life insurance (direct) | 4 | 2 |
| Life insurance (reinsurer) | 0 | 1 |
| Non-life insurance (direct) | 0 | 5 |
| Non-life insurance (direct and reinsurer) | 0 | 1 |
| Health insurance | 3 | 2 |
| Composite (reinsurer) | 0 | 1 |
| **Total** | **7** | **12** |

**Table 9 Industry analysis for Question 40**

| Industry | Yes | No |
|---|---|---|
| Life insurance (direct) | 4 | 2 |
| Life insurance (reinsurer) | 0 | 1 |
| Non-life insurance (direct) | 0 | 5 |
| Non-life insurance (direct and reinsurer) | 0 | 1 |
| Health insurance | 3 | 2 |
| Composite (reinsurer) | 0 | 0 |
| **Total** | **7** | **11** |

**Question 41 [Reference: AASB 17.59(b)]**

Regarding the measurement of the LIC for *insurance/reinsurance contracts issued* to which the PAA has been applied, does the entity plan to discount cash flows that are expected to be paid or received in one year or less from the date the claims are incurred? Select one option below:

- Yes
- No
- N/A i.e. cash flows are expected to be paid or received more than one year from the date the claims are incurred

**Question 42 [Reference: AASB 17.59(b)]**

Regarding the measurement of the LIC for *reinsurance contracts held* to which the PAA has been applied, has the entity chosen to discount cash flows that are expected to be paid or received in one year or less from the date the claims are incurred? Select one option below:

- Yes
- No
- N/A i.e. cash flows are expected to be paid or received more than one year from the date the claims are incurred

Under AASB 17.59(b), the liability for incurred claims for the group of insurance contracts must be reflected in its fulfilment cash flows, as outlined by AASB 17. 33–37 and B36–B92. Furthermore, financial risk adjustments or time value of money considerations are not required when those cash flows are expected to be paid or received within one year from claim incurrence.

Figure 30 below shows that seven entities plan to discount cash flows due in one year or less from the date the claims are incurred when measuring LIC for insurance/reinsurance contracts to which the PAA has been applied. Conversely, nine entities plan not to do so. Further, regarding the measurement of the LIC for *reinsurance contracts held* to which the PAA has been applied, seven entities plan to discount cash flows that are expected to be paid or received within one year from the date the claims are incurred. However, equally, seven entities plan not to do so.

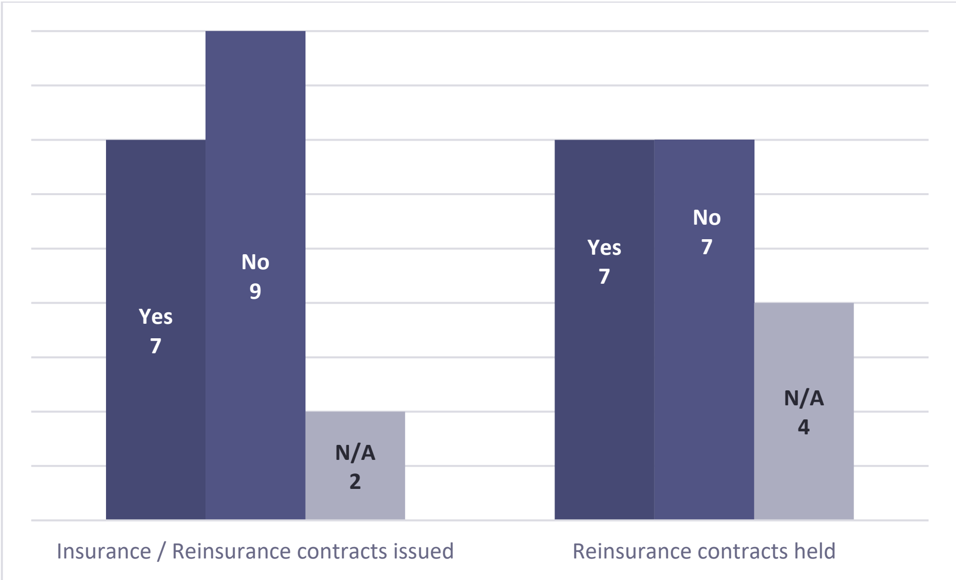


**Figure 30 Questions 41 and 42**

| **Question 43 [Reference: AASB 17.29]** |
|---|
| For *insurance/reinsurance contracts issued* to which the PAA may be applied, has the entity chosen to apply the GMM? Select one option below:<br>o Yes<br>o No |
| **Question 44 [Reference: AASB 17.29]** |
| For *insurance/reinsurance contracts held* to which the PAA may be applied, has the entity chosen to apply the GMM? Select one option below:<br>o Yes<br>o No |

Figure 31 below shows that approximately three quarters of entities plan not to apply GMM when PAA may be applied to insurance contracts.

Some life insurance entities that plan to apply GMM even if the PAA may be applied commented that GMM provides better insights and understanding of liability movements and better consistency in regulatory reporting across the life insurance industry.

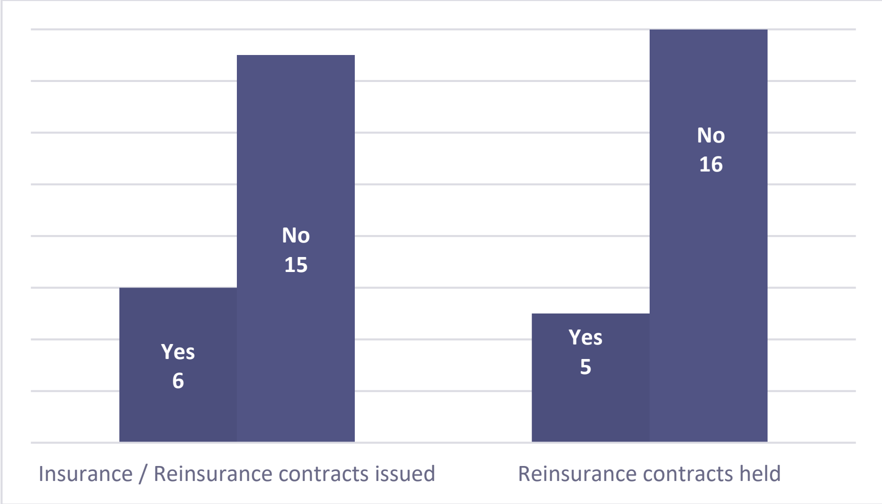


**Figure 31 Questions 43 and 44**

## *2.13 Insurance Finance Income*

| **Question 45 [Reference: AASB 17.118, 88(b)]** |
|---|
| Does the entity plan to disaggregate insurance finance income or expenses into amounts presented in P/L and amounts presented in other comprehensive income? Select one option below:<br>○ Yes<br>○ No |

In applying AASB 17.87A(b), unless AASB 17.89 applies AASB 17.88(b) allows an entity to disaggregate insurance finance income or expenses for the period to include in P/L an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts, by applying AASB 17. B130–B133.

Figure 32 below shows that most (14) entities plan not to disaggregate insurance finance income or expenses into amounts presented in P/L and amounts presented in other comprehensive income. The six entities that responded “Yes” are health insurers (2), direct life insurers (3) and a composite reinsurer.

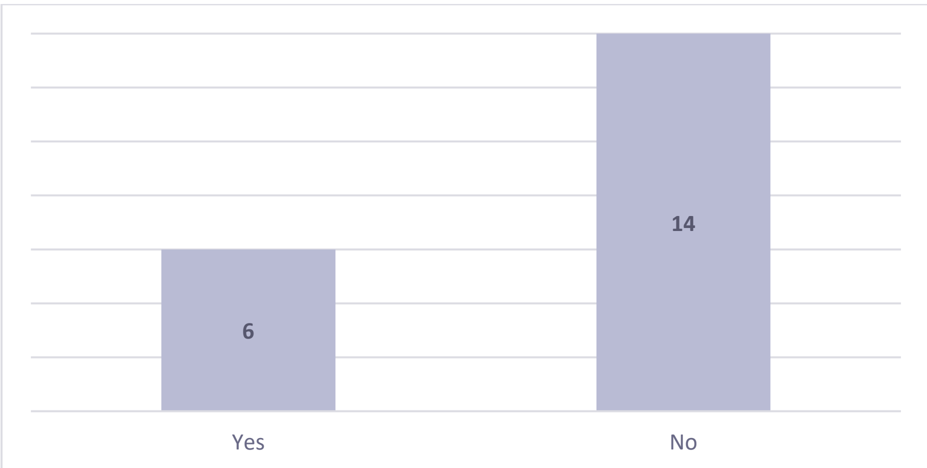


**Figure 32 Question 45**

## *2.14 Contractual Service Margin*

| **Question 46 [Reference: AASB 17.109]** |
|---|
| What is the entity's planned approach to determining the time bands used to explain when the contractual service margin (CSM) remaining at the end of the reporting period for *insurance/reinsurance contracts issued*, is expected to be recognised in P/L? |
| **Question 47** |
| What is the entity's planned approach to determining the time bands used to explain when the contractual service margin (CSM) remaining at the end of the reporting period for *reinsurance contracts held*, is expected to be recognized in P/L? |

If the PAA described in AASB 17.53-59 or 69-70A has not been applied, AASB 17.109 requires entities to disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in P/L quantitatively, in appropriate time bands. This information is required to be separately disclosed for insurance contracts issued and reinsurance contracts held.

The summarised overview of the responses is as follows:

- two entities plan to use annual period ends
- one entity plans to use "average duration"
- two entities plan to use "1 year" and "more than 1 year"
- one entity plans to use "1 year or less", "2 to 5 years" and "more than 5 years"
- nine entities mentioned that they are only planning to apply PAA (i.e. not required to disclose such information).

| **Question 48 [Reference: AASB 17.112, B115, B116]** |
|---|
| For contracts with direct participation features, assuming that the entity meets the conditions specified in AASB 17.B116 (regarding a documented risk-management objective and strategy for mitigating financial risk), does the entity plan to apply AASB 17.B115? Applying AASB 17.B115 means that the entity plans to recognise changes in the amount of its share of the fair value of underlying items (see AASB 17.B112) and the fulfilment cash flows set out in AASB 17.B113(b) in P/L and not to adjust the CSM.<br>○ Yes<br>○ No<br>○ N/A |

Figure 33 below shows that almost all entities do not have contracts with direct participation features. One entity indicated it plans not to apply AASB 17.B115.

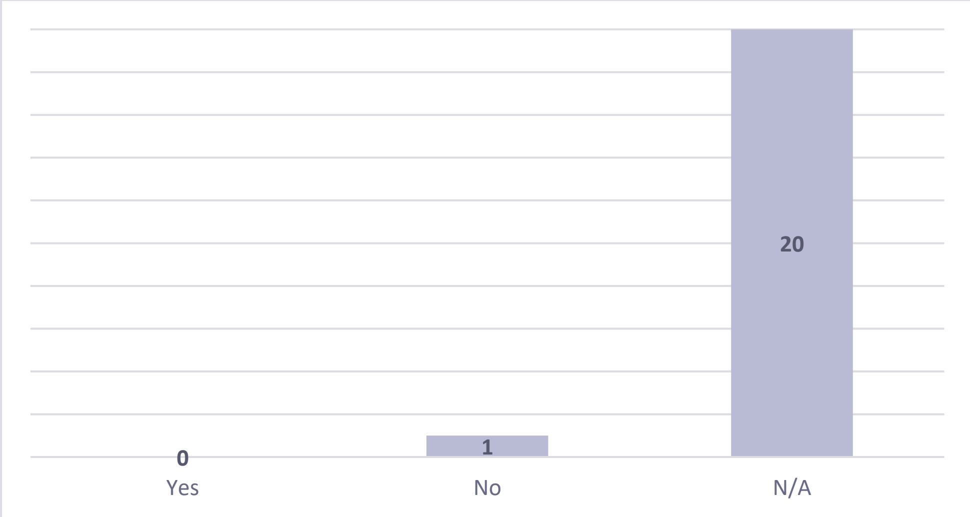


**Figure 33 Question 48**

## 2.15 Concentration Risk

| Question 49 [Reference: AASB 17.127] |
|---|
| What type of information about concentrations of risk arising from contracts within the scope of AASB 17 are entities planning to disclose?<br>○ Concentration by type of insured event<br>○ Concentration by industry<br>○ Concentration by geographical area<br>○ Concentration by currency<br>○ Other (please provide more information in the text box) |

AASB 17.127 requires entities to disclose information about concentrations of risk arising from contracts within the scope of AASB 17. Figure 34 below provides a summary of the information that the entities have decided to disclose. More than one third of the responses plan to disclose concentration by type of insured event. Within "Other", two non-life insurance entities commented that they plan to disclose:

- concentration by investment portfolio
- concentration by reinsurance recoveries
- concentration by class of business.

Four entities noted that they have not yet decided.

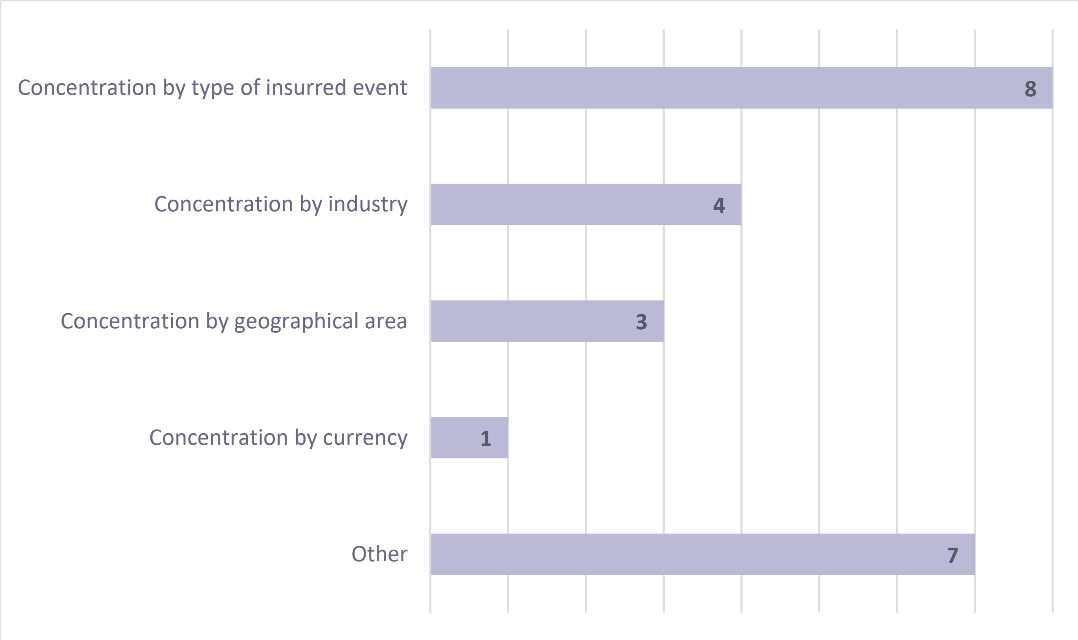


**Figure 34 Question 49**

## 2.16 Other Question

| Question 50 |
|---|
| Is the entity planning to provide additional or more granular detail than currently required under AASB 17 financial reporting requirements to reflect its management reporting approach?<br>○ Yes (please specify)<br>○ No |

As shown by Figure 35 below, most entities (18) noted that they plan not to provide additional or more granular detail than currently required under AASB 17 to reflect their management reporting approach. However, the responses may have been in the context of providing information within the financial statements, while it would be expected that information reflecting a management reporting approach might accompany the financial statements.

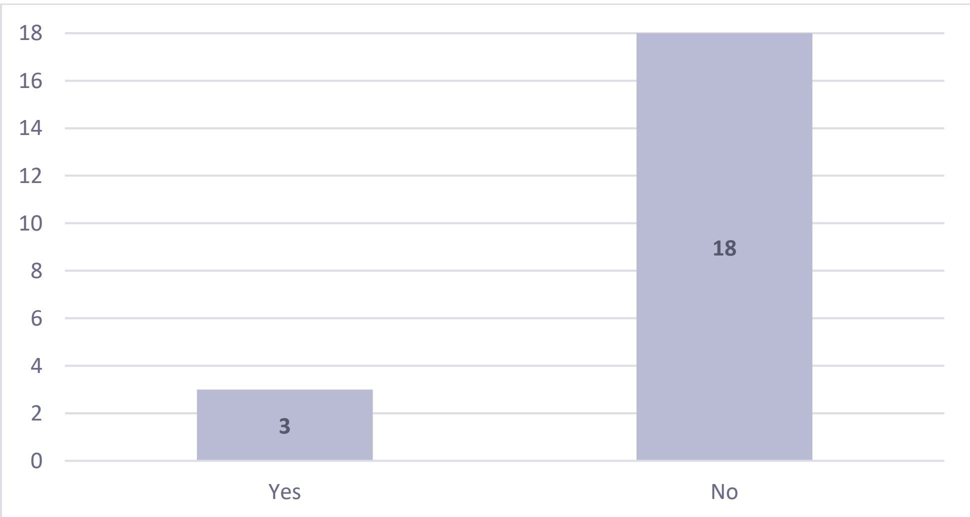


**Figure 35 Question 50**

# 3. Concluding Comments

Overall, the survey indicates that the application of AASB 17 involves significant judgement and accounting policy choices, and that approaches could vary widely across the insurance industry. This highlights the importance of clear disclosure of judgements and accounting policy choices applied in the determination of reported amounts.

It should be noted that the respondents to the survey provided their intended approaches for implementing AASB 17 in late 2022, but these approaches are subject to change and refinement as insurers navigate practical application issues and consult with key stakeholders such as investors, auditors and advisors.

As insurers gain more experience with applying AASB 17, it is anticipated that more areas will emerge requiring judgement in applying the standard. While this Report covers a comprehensive range of implicit and explicit judgements and policy choices that need to be made when implementing AASB 17, it is not intended to be exhaustive.

Further research, such as a follow-up survey based on the final judgements and choices made by Australian insurers when applying AASB 17 to their first financial statements, could be useful. The findings will contribute to the future post-implementation review of AASB 17.