



Public Sector Focus Group meeting – February 2024

- 1 The Group met virtually on 28 February 2024 and discussed the matters outlined below.

Scope

- 2 The Group focused mainly on one of the pre-requisites for having an insurance contract being an 'identifiable coverage period', including cases when:
- judgement might be needed to determine whether a coverage period is based on a levy period [AASB 17, Appendix E.14(b)] or by reference to another contract's coverage period [AASB 17, Appendix E.14(c)]
 - entities have a mix of business, some funded on a pay-as-you-go basis indicating no identifiable coverage period, but the claim liabilities are essentially the same as for cases with clearly identifiable coverage periods and whether viewing them as 'claims made' contracts might help achieve a consistent outcome.

Risk adjustments and skewed distributions

- 3 Members noted many distributions are skewed and 'central estimates' are sometimes well above a 50% level of confidence, which might in theory lead to a negative risk adjustment.
- 4 In the course of discussion, members noted:
- an entity might deliberately subsidise risks to use up surplus over a period, which may imply an entity is 'risk-seeking' for that period – however, it seems wrong in principle to have negative compensation
 - government guarantees might facilitate risk-seeking transactions
 - AASB 17.33 implies the estimated fulfilment cash flows (without a risk adjustment) is the minimum liability, ruling out a negative risk adjustment
 - if there is some other form of compensation an entity is receiving to subsidise risk, that other compensation could be among the estimated fulfilment cash flows, indicating there would no negative risk adjustment
 - the view that an entity might have a zero risk adjustment or (possibly a negative risk adjustment), but at a minimum disclosure about confidence level [AASB 17.119] would be expected
 - additional disclosure about risk adjustments when distributions are skewed might most usefully be presented in the sensitivity disclosure note,
- 5 The Group also discussed the whole of government reporting context when there are multiple entities with insurance contracts being consolidated and whether a (different) whole of government perspective on the risk adjustment might be needed.

'Group' versus 'portfolio'

- 6 The Group expressed a general level of comfort with applying AASB 17 on a portfolio basis.

Government guarantees

- 7 The Group discussion focused on the impacts from a risk adjustment perspective.

Possible future topics

- 8 Possible topics for discussion at any future Group meeting included:
- illiquidity premiums for discount rates applied in a public sector context
 - further discussion on coverage periods

- further discussion on risk adjustments.