AASB Transition Resource Group for AASB 17 *Insurance Contracts*

Submission form for potential implementation question

In addition to the form, attachments (such as memos) may be included with the submission.

Any public discussion of issues submitted will be without the identification of the submitter's name. Although the submission forms will remain private, please do not include any confidential information in your submission.

Email a PDF of the completed (including any attachments) form to standard@aasb.gov.au.

Submission date	30/11/2021
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Stakeholder group	Preparer
Do you wish to present to the TRG?	Paper for noting – to discuss if needed

Potential implementation question

FYI: Treatment of government imposts

Paragraph of IFRS 17 *Insurance Contracts*

IFRS 17.B65 and B120 to B136

Analysis of the question
The analysis of the question should include a detailed description of the different ways the new Standard may be applied, resulting in possible diversity in practice.

Please see the Appendix

Is the question pervasive?
Explain whether the question is expected to be relevant to a wide group of stakeholders.

Various government imposts affect particular sectors of the whole industry
The Appendix outlines three common examples.

Appendix – government imposts

November 2021

By way of illustration, three government imposts are considered and tentative conclusions are made on accounting for them as revenues and expenses, receivables/payables, 3rd party collections, and/or reinsurance under IFRS 17 *Insurance Contracts*.

- New South Wales Emergency Services Levy (NSW ESL)
- Goods and Services Tax (GST)
- Australian Reinsurance Pool Corporation (ARPC).

1. NSW ESL

1.1 The NSW ESL is designed to help fund emergency services in NSW. The government sets the annual budget (Contribution Target) for emergency services and, in general, the insurance sector provides a large portion of the funding via levies.

1.2 Insurance companies estimate their contributions based on their premiums for insurance contracts on relevant property[1] business they are expected to write.[2] The actual amount of the ESL for an insurer is only known once the insurer's relevant premium is divided by the industry's total premiums to determine each insurer's share of the Contribution Target.

1.3 An insurer might choose to:

(a) explicitly show on its insurance contracts an amount relating to the ESL; or

(b) not show the expected impact of the ESL on its insurance contracts.

In either case, the insurer is responsible for paying the levy to NSW State Revenue.

1.4 An insurance company's estimate of its contributions will typically be different from the actual amount that must be paid – and might be more or less that the total of any amounts shown on insurance contracts.

1.5 **Tentative conclusions:**

(a) The NSW ESL is a cost of writing property insurance business in NSW. It could be regarded as being akin to a licence to operate in the property insurance business in NSW.

1 'Property' has a broad definition under the legislation and includes:
- any insurance of property, including consequential loss
- house owners and householders, however designated (buildings or contents, or both)
- personal jewellery and clothing, personal effects and works of art
- motor vehicle and motor cycle
- marine and baggage.

2 Different legislated percentages apply to different categories of property insurance.

(b) Any amounts either explicitly or implicitly collected as levies would be regarded as the insurer's revenue under IFRS 17 and the levies paid (or owed) would be an expense under IFRS 17. The relevant cash flows would also appear in an insurer's statement of cash flows. Amounts receivable from policyholders include any allowance for the ESL and any ESL owed to NSW State Revenue would be a payable of the insurer.

2. GST

2.1 The amount of GST varies directly with the premium charged and the amounts collected must be passed onto the ATO (adjusted for any other relevant GST amounts). In that respect, insurance contracts are no different from other contracts for goods and services.

2.2 The AASB Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* Consensus includes:

(a) revenues are recognised net of the amount of GST

(b) receivables and payables are stated with the amount of GST included

(c) cash flows are included in the statement of cash flows on a gross basis.

2.3 **Tentative conclusions:**

(a) GST is accounted for under IFRS 17 as an amount collected on behalf of a 3rd party and treated in accordance with AASB Interpretation 1031.

(b) Based on IFRS 17.B65(i),[3] GST relevant to the liability for remaining coverage (LRC) would be included in the LRC and GST relevant to the liability for incurred claims (LIC) would be included in the LIC.

3. ARPC

3.1 The Scheme provides eligible insurance contracts with terrorism cover for any Declared Terrorist Incident (DTI). Eligible insurance contracts are defined in the *Terrorism Insurance Act 2003*. The Minister, in consultation with the Attorney-General, determines whether a DTI has occurred in Australia.

3.2 Eligible contracts include those for commercial property and large residential property insurance contracts. The declaration of the DTI renders terrorism insurance exclusion clauses within eligible contracts of insurance invalid.

3 B65 … The cash flows within the boundary include:

(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.

3.3 Through ARPC terrorism insurance coverage, insurers have three options – they can:

(1) carry the underwritten risk of terrorism losses following a DTI; or

(2) reinsure the risk through the commercial insurance market, paying terrorism reinsurance premiums; or

(3) reinsure the risk with ARPC by entering into a reinsurance contract and paying terrorism reinsurance premiums.

3.4 Commercial businesses that are insured with ARPC's insurer customers and which hold eligible insurance policies are covered by the Scheme in the event of a DTI.

3.5 Insurers are required to meet claims in accordance with the other terms and conditions of individual policies. Insurer and industry retentions (deductibles or excesses) apply before claiming against the Scheme. Claims against the Scheme will be met once an individual insurer's retention is exhausted. That is, the Scheme requires insurers to retain the first portion of any loss.

3.6 **Tentative conclusion:** The ARPC scheme operates as a form of XOL reinsurance for commercial insurers writing commercial property and large residential property insurance contracts and should be accounted for as reinsurance under IFRS 17.