



Australian Government
Australian Accounting Standards Board

Comparison of Australian- New Zealand GAAP with the revised IFRS 4

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Australia-NZ GAAP	Revised IFRS 4
Contracts that transfer significant insurance risk – direct and reinsurance	Contracts that transfer significant insurance risk – direct and reinsurance
Life investment contracts sold under Australian-NZ insurance regulation	Instruments containing a discretionary participating feature sold by insurers
Application to various fixed fee contracts somewhat unclear	Excludes fixed fee contracts with primary purpose of providing services

Australia-NZ GAAP

Life insurance:

- future cash flows based on expected renewals/lapses (gives contract period)

General insurance:

- coverage period of existing contract used (indemnity period for reinsurance)

Revised IFRS 4

Right or practical ability to:

- reassess a policyholder's risks and reset price/benefits to fully reflect risks; or
- reassess risks for portfolio and reset price/benefits to fully reflect risks AND pricing does not take account of future period risks

Bundling and separation

Australia-NZ GAAP	Revised IFRS 4
<p>Life insurance:</p> <ul style="list-style-type: none">• unbundling permitted if deposit component can be separately measured• prudential regulation drives separation of insurance and investment components	<p>General model:</p> <ul style="list-style-type: none">• unbundle unless highly interrelated (unable to measure one component without considering the other)• investment component distinct if contract with equivalent terms is sold or could be sold separately in same market or same jurisdiction
<p>General insurance:</p> <ul style="list-style-type: none">• not addressed	<p>Simplified model:</p> <ul style="list-style-type: none">• as per general model, but unlikely to be relevant



Overall measurement models

Australia-NZ GAAP	Revised IFRS 4
Current inputs	Current inputs, but inception date discount rate for CSM
Life insurance: <ul style="list-style-type: none">• best estimate net PV expected cash flows incorporating risk plus planned margin	General model: <ul style="list-style-type: none">• PV expected fulfilment cash flows, including risk adjustment and CSM
General insurance: <ul style="list-style-type: none">• pre-claims liability – unearned premium• claims liability – PV of expected fulfilment cash flows plus risk	Simplified model: <ul style="list-style-type: none">• pre-claims liability – unearned premium• claims liability – PV of expected fulfilment cash flows plus risk



Risk margin / adjustment (1)

Australia-NZ GAAP

Life insurance:

- incorporated in net PV of expected cash flows
- has regard to reinsurance

General insurance:

- within unearned premium and claims liability
- reflects inherent uncertainty in central estimate of PV of expected future payments
- has regard to reinsurance

Revised IFRS 4

Margin: compensation required for bearing uncertainty about amount and timing of cash flows arising as entity fulfils contracts

General model:
explicit margin

Simplified model:
within deferred premium and the claims liability



Risk margin / adjustment (2)

Australia-NZ GAAP

Life insurance:

- part of cash flows and planned margins, which are based on contracts with similar terms

General insurance:

- reflects business model
- usually across the entity
- regulatory risk margins may be appropriate, at least as a starting point

Revised IFRS 4

Level of diversification:

- based on the extent to which the entity considers diversification benefits in setting the amount of compensation it requires to bear risk



Profit recognition and CSM (1)

Australia-NZ GAAP	Revised IFRS 4
<p>Life insurance:</p> <ul style="list-style-type: none">• pattern of services• liability changes (including release from risk)• changes to PV of fulfilment cash flows exceeding margin	<p>General model:</p> <ul style="list-style-type: none">• release CSM over passage of time• liability changes (including release from risk)• changes to PV of fulfilment cash flows exceeding margin
<p>General insurance:</p> <ul style="list-style-type: none">• UEP: pattern of release from risk• claim liabilities changes	<p>Simplified model:</p> <ul style="list-style-type: none">• UEP: passage of time or pattern of claims/benefits• claim liabilities changes
<p>Investment contracts</p> <ul style="list-style-type: none">• pattern of services	<p>Investment contracts</p> <ul style="list-style-type: none">• pattern of services



Profit recognition and CSM (2)

Australia-NZ GAAP

Life insurance:

- Impact of difference between actual & assumed experience recognised in PL, except on investment earning assumption for par business
- Impact of assumption changes adjusted against planned margin, except impact of discount rate change in investment markets/economy in PL

Revised IFRS 4

General model:

- Experience differences for past coverage recognised in PL
- Experience differences expected for future coverage adjusted to CSM (unlocked for cash flow but not discount rate changes)
- Par business – impact of market variable changes part of variability of fee for future service, adjusted to CSM



Australia-NZ GAAP

Life insurance:

- Impact of changed discount rates on insurance liability as a whole recognised in PL

General insurance:

- Impact of changed discount rates on insurance liability as a whole recognised in PL

Revised IFRS 4

Choice between impact of changed discount rates on insurance liability as a whole recognised in:

- PL
- OCI

Aggregation – onerous contracts

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Australia-NZ GAAP

Life insurance:

- planned margin, LAT: portfolio of contracts with substantially the same terms and priced using substantially the same assumptions

General insurance:

- LAT: contracts subject to broadly similar risks and managed as a portfolio

Revised IFRS 4

Group to comprise contracts with:

- cash flows expected to respond in similar ways to key drivers of risk
- similar expected profitability (similar CSM as a % of premium), based on information at inception



Australia-NZ GAAP	Revised IFRS 4
<p>Outwards Life & General:</p> <ul style="list-style-type: none">• gross accounting for ceded premiums and recoveries• recoveries receivable are assets that mirror any underlying contract measurement changes	<p>Outwards:</p> <ul style="list-style-type: none">• gross accounting for ceded premiums and recoveries• recoveries receivable are assets that mirror underlying measurement changes, with possible discount rate exception
<p>Inwards Life & General:</p> <ul style="list-style-type: none">• as per direct contracts	<p>Inwards:</p> <ul style="list-style-type: none">• as per direct contracts, with specific requirements re initial recognition etc.