



## Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)  
29 January 2018  
9am-1.30pm

**Objective:** The AASB 17 TRG was asked to review the IASB's TRG for IFRS 17 February 2018 agenda papers and provide their comments on the issues to be shared at the IASB's meeting. TRG members reviewed all agenda papers prior to the meeting so that the meeting could be devoted to in-depth discussion of the issues. Each agenda paper was introduced by specific TRG members, who presented the TRG with an overview of the relevant issues and the expected impacts.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE/AALC
Stuart Alexander	Deloitte
James Barden (via teleconference)	AASB Staff
Alice Boreman	QBE (observer)
Stephen Burton (via teleconference)	Suncorp
Brendan Counsell	EY
David Daniels	NSW Audit Office
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC (on behalf of Regina Fikkers)
Charles Hett (via teleconference)	NZASB
Toby Langley (via teleconference)	Merrill Lynch
Chris Maher	AMP
Ian Moyser	KPMG
Janri Pretorius	AASB Staff
Grant Robinson	AMP
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Paul Ruiz	Non-executive director
Frank Saliba	ATO (on behalf of Ian Elliott)
Tony Tong	Pacific Life Re
Jeroen van Koert	AIA

Topic	IASB Agenda ref.
Separation of insurance components of a single contract	<a href="#">AP01</a>
<ul style="list-style-type: none"> <li>- Members agree that the contract being the lowest unit of account is appropriate for most contracts, and this should remain.</li> <li>- Members agreed that requiring separation was not appropriate.</li> <li>- Members were of the view that, subject to appropriate judgement, entities should be permitted to separate components of an insurance contract (View C). Reasons for this include:               <ul style="list-style-type: none"> <li>o consistency with the principle of the IASB’s [draft] Conceptual Framework, where a single contract creates two or more sets of rights and obligations that are ‘distinct’ from one another – ie the components would have been identical if each set had been created through separate contracts; and</li> <li>o consistency with the principle in IFRS17.9, which acknowledges it may be necessary to aggregate contracts to report their substance.</li> </ul> </li> <li>- Members agreed with the staff recommendation in paragraph 22 of the IASB TRG paper that overriding the presumption of a single contract could be necessary after “significant judgement and careful consideration of all relevant facts and circumstances”.</li> <li>- Members’ consensus was that no change in wording to IFRS 17 was required and the issue of this paper was sufficient to allow interpretation of IFRS 17.</li> <li>- It was also noted that in certain scenarios, Australian regulators request information on insurance contracts on a disaggregated basis.</li> </ul>	

## Boundary of reinsurance contracts held

[AP03](#)

- Members generally supported the IASB Staff analysis in AP03 that the contract boundary of the reinsurance contract held should be determined based on the reinsurers ability to reprice or set benefits and agreed that IFRS17.34 can be applied to reinsurance contracts held.
- There was considerable debate around the potential asymmetry that could occur in accounting for underlying insurance contracts issued and reinsurance held where the substantive rights of the reinsurer extended to future underlying contracts not yet issued (paragraph 14 of the IASB TRG paper). This was also noted to be inconsistent with the requirements of IFRS 17.63 relating to measurement of reinsurance contracts held and which would indicate future contracts not yet issued should not be included in the measurement of reinsurance contracts held.
- Members discussed the potential for this to result in significant mismatches arising from say a proportion reinsurance contract with a long coverage period (where the cedant doesn't have the opportunity to reprice) and underlying contracts of shorter duration. Such mismatches were considered potentially misleading to users of the financial statements.
- Members also noted that given the contract boundary is based on the reinsurer's right to reprice, cash flows under some existing contracts will need to be projected for a shorter period than current practice. Examples provided were existing life reinsurance contracts where coverage is very long, but the reinsurer has the right to reprice, thus the contract boundary will become much shorter.
- Members considered this topic worthy of further discussion to provide more clarity around the implications of paragraph 14 and what the most appropriate recognition and measurement criteria should be for reinsurance contracts held as there was likely to be diversity in practice.

Boundary of contracts with annual repricing mechanisms	<a href="#">AP02</a>
<ul style="list-style-type: none"><li>- Members agreed that, from a general insurance perspective, the staff views presented in paper AP02 come across as very logical and reached a reasonable outcome. However, the products and examples were very simplified and in practice the scenarios would be much more complicated and complex.</li><li>- It was agreed that in practice it is important to consider the economic substance of each product and that there could and should be different outcomes regarding contract boundary for similar products but with different features.</li><li>- Members noted that IASB Staff believe the context for IFRS 17.34(b) is policyholder risks. Members noted and accepted this clarification as being helpful to reach decisions over the contract boundary of a number of products.</li><li>- Members agreed that insurance risk was the most appropriate approach and did not want to see the scope of risks widened given the implications this had for the Australian Health Insurance Industry in particular.</li><li>- Members noted that the following sentence was included in the 2013 Exposure Draft but was deleted from the final IFRS 17: “An entity shall determine the boundary of an insurance contract by considering all of the substantive rights that are held by the policyholder, whether they arise from a contract, law or regulation.”</li><li>- Members were of the view that the wording in the deleted paragraph was very sensible and it would be very helpful to be re-instated in IFRS 17 to make it clear that paragraph IFRS17.34(b) is from the view of the policyholder. Members noted an amendment to the Standard is not essential, but that the IASB has the option to make this clearer in some other way. One member suggested that inserting the word “policyholder” or “insurance” in front of the word “risks” in paragraph 34(b).</li><li>- Certain members reiterated their support for the widening of the contract boundary test from individual contract to portfolio in the 2013 Exposure Draft and noted this was essential for products such as Australian Health Insurance and Compulsory Third Party Insurance to be treated as short term products.</li><li>- Members noted the links between the consideration of contract boundary in this paper and the implications it had for the determination of acquisition cost deferral in paper AP04.</li></ul>	

Insurance acquisition cash flows paid on initially written contract	<a href="#">AP04</a>
<ul style="list-style-type: none"><li>- Members agreed that View A appears to be in line with the way IFRS 17 is written. But they acknowledged a number of concerns with this approach:<ul style="list-style-type: none"><li>o The proposed treatment of large upfront costs (eg commission to advisor/referrer) may lead to misalignment with other Standards, eg IFRS 15.</li><li>o Large upfront acquisition costs will often result in contracts being “onerous” in the first period but profitable in subsequent periods. This may result in significant divergence between “economic view of value of contract” and the “accounting view”. Members noted that this wouldn’t be such a big issue for an established business, but for a start-up business the accounts may reflect a potentially unsustainable business.</li><li>o Members also discussed the considerable practical difficulties arising from the need to segregate new and renewal business into different groups where there were differential commissions or expenses.</li></ul></li><li>- Members drew the comparison with funds management or insurance broking relationships who would, under IFRS 15, spread the commission over the full tenure of the expected customer relationship rather than the specific contract.</li><li>- Members considered whether users of financial statements would make a different investment decision if the wording of view A was adopted, instead of the wording of view B (which is more aligned with IFRS 15). Members agreed that consistency with the IFRS 15 approach was preferable.</li><li>- Members noted certain situations where upfront costs are capitalised as intangible assets – however, these situations usually relate to customer relationships (say an exclusive distribution agreement with a bank for a number of years). This would be a 3-way contract involving (1) the bank, (2) the party that has the insurance contract with the bank, and (3) the insurance entity. The contract between the bank and the insurance entity would be a customer relationship and not an insurance contract.</li><li>- Members also discussed the potential for the accounting rules in View A to drive changes in business practice and the desire for this not to be the case.</li><li>- Members noted that paper AP04 does not address exactly what is included in the acquisition costs, but that this is a separate matter.</li></ul>	

Determining quantity of benefits for identifying coverage units	<a href="#">AP05</a>
<ul style="list-style-type: none"> <li>- Members support the wording of IFRS 17 as it is, but were not comfortable with the IASB TRG paper AP05.</li> <li>- Members were of the view that some of the examples provided in paper AP05 did not reach sensible conclusions:               <ul style="list-style-type: none"> <li>o Australian LMI products are long coverage products (potentially 20 to 30 years). Whilst the nature of the Australian products were different to the example (being a relationship with the mortgage provider and insurer), if the approach taken in AP05 were applied there would potentially be unrecognised contractual service margin (CSM) carried forward into periods where no valid claims would arise. Members agreed that consideration had to be given to the insurer’s ability to pay a valid claim as a reflection of service.</li> <li>o The ADC example would also carry unrecognised CSM into future periods where there would be very minimal service provided as the majority of claims would be expected to be settled early in the contract period. Members agreed that the overall outcome of this example was inappropriate.</li> <li>o For construction insurance there would be a period where there was no opportunity to pay the maximum under the contract as there was no insurable asset built. Members agreed that recognition needed to be made of the existence of the insurable asset and ability of the insurer to pay a valid claim. The IASB example was considered an inappropriate reflection of the nature of construction contracts. Members agreed that the release of the CSM should reflect the economics of the scheme – ie that the insurer is providing more coverage as the insurable asset is built.</li> </ul> </li> <li>- Members considered more generally whether the CSM should be released based on a ‘standing ready to meet the contractual maximum cover’ approach, or an ‘expected pattern of claims’ approach i.e. the expected risk pattern over the coverage period.</li> <li>- Members agreed that ‘expected pattern of claims’ approach was not permitted by IFRS 17 but that stand ready did not necessarily amount to a “maximum cover” approach and that stand ready had to take into account the insurers ability to pay a valid claim and the duration over which the service was likely to be provided. Members noted that judgement would be required to ensure that different contracts are accounted for to reflect the economics of the stand ready principle.</li> <li>- In summary, members raised concern with the interpretation in AP05, noting that:               <ul style="list-style-type: none"> <li>o It interpreted the requirements of IFRS 17 appeared to be applied in a way that only allows release of the CSM on a flat line ‘standing ready’ basis. Some members noted that they interpret the IFRS 17 wording differently.</li> <li>o It did not consider more complex contracts (such as coverage for a building under construction or ADC) where a ‘standing ready’ CSM release does not reflect the economics of the insurance cover provided.</li> </ul> </li> <li>- Members preference was for the IASB to retract paper AP05 and reissue after further consideration.</li> </ul>	

Insurance acquisition cash flows when using fair value transition	<a href="#">AP06</a>
<ul style="list-style-type: none"> <li>- Members were supportive of the analysis of this issue in AP06, acknowledging that the fair value approach is designed to be a ‘fresh start’ transition, and different outcomes will arise depending on the transition approach taken.</li> <li>- One member raised wider concern with IFRS17.B125, stating that a technically correct allocation of acquisition costs would be to recognise them wholly as revenue in the first period after transition.</li> </ul>	
Reporting on other questions submitted	<a href="#">AP07</a>
<ul style="list-style-type: none"> <li>- Members reviewed AP07 and noted that they generally agreed with the responses to issues provided by IASB Staff but noted it was difficult to ascertain the full extent of the question and therefore whether the answer provided by IASB staff was adequate.</li> <li>- Members were in agreement that two submissions warranted further discussion given their significance for users practically applying the standard and wanted these issues to be table for debate: <ul style="list-style-type: none"> <li>o S03 – members acknowledged the requirement of IFRS17.78 and the consistency with other IFRS Standards, for example construction contracts, but noted the differences in the type of business given that insurance requires pooling of contracts. Members were also concerned that the cost of separately presenting insurance assets and liabilities at a “group” level and then re-aggregating for the balance sheet disclosure far outweighed the benefit to the users of financial statements.</li> <li>o S23 – members discussed the similarities between S23 and the <a href="#">submission related to the same paragraph</a> (S27) endorsed by the AASB TRG. Members highlighted that, based on the summary of S23 in AP07, S27 focused on the conceptual and practical implications of the issue, rather than seeking clarification of the IASB’s intended wording. Members agreed the IASB should open this issue for debate.</li> </ul> </li> <li>- In addition members had concerns with: <ul style="list-style-type: none"> <li>o S25 – members noted that the questions raised are valid and the IASB may like to further consider the submission.</li> <li>o S06 – members suggested further understanding the details of the particular issues and the timing of the annual improvements project.</li> </ul> </li> <li>- Members agreed to monitor the following issues on the IASB TRG submission log: <ul style="list-style-type: none"> <li>o S13</li> <li>o S21</li> <li>o S27</li> </ul> </li> </ul>	
<b>End meeting</b>	