Australian Government
Australian Accounting Standards Board

TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
11 January 2018
12pm-1pm AEDT
Teleconference

Objective: Discuss TRG's first submission on liability for remaining coverage under the PAA.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE/AALC
Stuart Alexander	Deloitte
James Barden	AASB Staff
Brendan Counsell	EY
Ian Elliott	ATO
Karen Foo	Department of Treasury and Finance (Victoria)
Peter Grant	Insurance Australia Group (IAG)
Tommy Kiang	Insurance Council of Australia
Nick Kirwan	Financial Services Council
Chris Maher	AMP
Roger Miles	MIPS
Ian Moyser	KPMG
Kris Peach	AASB Chair
Janri Pretorius	AASB Staff
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Paul Ruiz	Non-executive director
Prashant Shetty	IAG
Warwick Spargo	RSM
Angus Thomson	QBE
Tony Tong	Pacific Life Re

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Topic: Measuring the Liability/Asset for Remaining Coverage under the Premium Allocation Approach (L/AfRC)

The AASB 17 TRG (TRG) reviewed a submission regarding measuring the liability/asset for remaining coverage under the premium allocation approach (L/AfRC) in accordance with AASB 17 paragraph 55. TRG Members posed the following questions and comments in relation to the submission:

1. **Is the submission pervasive across all insurance sectors (general insurance, life insurance, health insurance etc.)**

   The ICA noted it consulted with different types of insurers whilst preparing the submission, through consultation with the Accountants and Actuaries Liaison Committee (AALC), both of which contain members issuing different types of insurance contracts. Further, AASB TRG members represent a wide range of industries, and members agreed that the issue appears to be pervasive across their industries. One member noted that a submission to the IASB should reflect that the issue is pervasive.

2. **Should AASB 17 paragraph 55(a)(i) and 55(b)(i) be amended to include amounts receivable as well as received?**

   The majority of the AASB TRG agreed that only referring to amounts received appeared to be a cash accounting concept, and it would be more appropriate to also include amounts receivable, as:

   (a) this aligns with other Standards, for example:

   (i) AASB 15 *Revenue from Contracts with Customers*, which recognises unconditional rights to consideration separately as a receivable [AASB 15.105]; and

   (ii) AASB 9 *Financial Instruments*, which recognises trade receivables which appear to be similar in nature to insurance receivables;

   (b) as outlined in the submission, where arrangements have the same rights and obligations between policyholder and insurer for the same amount of time, the liability should be the same regardless of when the premium is received.

   However, some members noted that in doing so, the following consequences may arise:

   (a) eligibility for the PAA only exists where the PAA and general model would have a materially similar L/AfRC. As the PAA is designed to work in the same way as the general model, changing the wording may result in different outcomes, and not allow an entity to apply the PAA;

   (b) the issues of measurement of a receivable and contract frequency may become confused. Some TRG members noted that premiums receivable should only reflect premiums which are receivable and due, and exclude premiums not yet due. This is consistent with current practice in the life insurance industry as well as consistent with AASB 17's general model.

3. **Is charging a monthly premium on a 12 month policy (for example) a financing component in accordance with paragraph AASB 17 paragraph 55(b)(iv)?**

   One TRG member presented the view that allowing a policyholder to pay a monthly premium on a 12 month policy was in fact a financing component in accordance with paragraphs 55(b)(iv) and 56, and the premium could therefore be accounted for as if it were received. Some members were receptive of this interpretation, however others were of the view that a financing component only existed where there is charges over and above the premium charged.

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4. **What is the true coverage period where premiums are paid monthly**

   Some TRG members questioned whether the coverage period does in fact extend longer than a month when premiums are paid monthly. For example, if a policyholder does not pay its monthly premium when due, does the insurer have an obligation to provide coverage, or would the policy be cancelled? Where the policy is cancelled when a payment is missed, members were generally of the view that this would indicate an insurance liability should only exist until the next payment is due.

   Members agreed that the specific terms and conditions of a contract, including the rights for parties to cancel the policy, would need to be assessed in determining the contract boundary.

5. **Is payment received when held by a broker?**

   The submission noted common practice in Australia is for a broker to hold premiums paid for 90 days before passing the premium to the insurer. TRG members acknowledged the view that the premium is not "received" for the purposes of paragraphs 55(a)(i) and 55(b)(i) until passed to the insurer by the broker. Upon discussion the TRG agreed there was an alternate view that the premium would actually have been "received" by the insurer paid by the policyholder to the broker. This is because the broker holding the premium for 90 days is a separate side agreement between the insurer and broker whereby, in substance, the insurer simultaneously receives the premium and then lends it to the broker. With regard to the alternate view, members were concerned with the insurer's ability to determine the point at which the premium is received by the broker, but noted this is more an operational issue rather than an issue interpreting the Standard.

6. **What was the IASB's intention in only referring to premiums received?**

   The TRG noted that the IASB proposed in its 2010 Exposure Draft a simplified model similar to the PAA which included both premiums received and receivable. However, in its 2013 Exposure Draft, the PAA no longer allowed premiums receivable. Whilst unable to determine the reasons for this change via available resources, AASB Staff noted that they would reach out to IASB Staff to try and better understand the IASB's rationale in its current wording. The TRG also noted that the other requirements in AASB 17 paragraph 55, including the recognition of expenses, refer only to cash flows. The TRG noted that if paragraph 55(a)(i) were amended to refer to premiums received and receivable, the remainder of paragraph 55 may need to be amended to follow a similar accruals approach.

7. **Next steps**

   The TRG decided to make amendments to the submission in light of this discussion. The ICA agreed to amend the submission and recirculate an updated version via email for review and comment by the TRG members.