IFRS Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG)

Supplementary paper to submissions on implementation questions (Australian industry views)

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Introduction

We submitted three papers to the IASB in response to the IASB's questions on implementation challenges identified as a result of applying the IFRS 17 measurement requirements in respect of:

(i) Topic 1: Presentation of groups of insurance contracts in the statements of financial position (S03 in Agenda paper 7 of the February TRG meeting)

(ii) Topic 2: Premium received applying the premium allocation approach (S23 of Agenda Paper 7 of the February 2018 TRG meeting)

(iii) Topic 3: Subsequent treatment of contracts acquired in their settlement period (S04 in Agenda paper 7 of the February TRG meeting)

These papers were discussed at the Australian Transition Resource Group (AASB TRG) on 13 March 2018. Set out below are the wider industry comments on the papers submitted which we believe are relevant to the IASB's considerations of these issues.

Topic 1

Presentation of groups of insurance contracts in the statements of financial position (S03 in Agenda paper 7 of the February TRG meeting)

Industry members agreed with the issues and recommendations presented in the QBE submission.

Industry members were supportive of using the entity as the unit of account for presentation of the balance sheet (QBE proposed solution) but were of the view that portfolio as a unit of measurement is a possible alternative. However, preparers using the PAA approach reiterated that there would still be significant costs and effort associated with using this alternative approach.

Industry members also noted the following additional observations:

Lack of meaningful information

It was noted that where the general model is applied, the requirement is not expected to create additional operational issues because disaggregation of data by groups will be required for measurement purposes. However, all life industry participants expressed agreement that the disaggregation of groups of assets and liabilities does not provide information that is meaningful, both internally for management purposes and to users of financial statements.

It was also noted that groups of insurance contracts are the net balance[1] of cash inflows and outflows (and gains and losses) of individual contracts within the group. Therefore, disaggregation at a portfolio level on the balance sheet will not provide less useful information but will be less burdensome to apply operationally.

Nature of insurance contract assets as negative liabilities

The fundamental substance of an insurance contract is an obligation to provide insurance coverage and therefore, is by nature, a liability. Insurance contract assets only arise from time to time during the period of coverage driven by the timing of premium receipts. This does not change the underlying nature or function of the obligation under the insurance contract.

In essence, both insurance contracts assets and liabilities derived under IFRS 17 are of the same nature and therefore, should not be presented separately on the balance sheet. Consequently, the requirement to disaggregate groups of assets from groups of liabilities on the balance sheet **does not reflect the substance** of insurance contract assets which are by nature, negative liabilities.

Note: In setting out the rationale for requiring separate presentation of asset and liability groups, paragraph BC238 of IFRS 17 makes reference to the requirement in IAS 1 which prohibits an entity from offsetting assets and liabilities. However, IAS 1 states that an entity shall not offset assets and liabilities "**except when offsetting reflects the substance of the transaction or other event**" [IAS 1.33]. IAS 1 also requires items to be presented separately if they are **of a dissimilar nature or function** [IAS 1.29].

Capital frameworks unlikely to adapt

It was also noted that capital regulators are unlikely to adapt their frameworks to require IFRS 17 groups to be presented as the proposed unit of account.

[1] *Effects Analysis page 16 (emphasis added): A company issuing insurance contracts assesses the rights and obligations arising from groups of contracts and **reflects them net** on its balance sheet.*

Topic 2

Premium received applying the premium allocation approach (S23 of Agenda Paper 7 of the February 2018 TRG meeting)

Industry members agreed with the issues and recommendations presented in the QBE submission.

It was emphasised that cash receipts are not used as the basis of any current financial accounting, regulatory or tax reporting and therefore, underwriting and reporting systems are not designed to identify and extract cash receipt balances at the required level of granularity (i.e. groups).

All participants agreed that this issue affects all members of the industry including Life, Health and General insurers.

Topic 3

Subsequent treatment of contracts acquired in their settlement period (S04 in Agenda paper 7 of the February TRG meeting)

Industry members recognised the operational complexities that will result from the IFRS 17 requirements applicable to acquired claims liabilities. However, they acknowledged the rationale for the measurement principles being applied as being similar to the recognition of revenue by the different entities within a value chain.