

**Accounting Standard**

**AASB 2005-2**

June 2005

# **Amendments to Australian Accounting Standard**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## **Obtaining a Copy of this Accounting Standard**

This Standard is available on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).  
Alternatively, printed copies of this Standard are available for purchase by contacting:

The Customer Service Officer  
Australian Accounting Standards Board  
Level 4  
530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

**Postal address:**  
PO Box 204 Collins St West  
Melbourne Victoria 8007  
AUSTRALIA

Phone: (03) 9617 7637  
Fax: (03) 9617 7608  
E-mail: [publications@aaasb.com.au](mailto:publications@aaasb.com.au)  
Website: [www.aasb.com.au](http://www.aasb.com.au)

### **Other enquiries:**

Phone: (03) 9617 7600  
Fax: (03) 9617 7608  
E-mail: [standard@aaasb.com.au](mailto:standard@aaasb.com.au)

### **COPYRIGHT**

© 2005 Commonwealth of Australia

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, no part may be reproduced by any process without prior written permission of the Commonwealth available from the Department of Communications, Information Technology and the Arts. Requests and enquiries concerning reproduction and rights should be addressed to The Manager, Copyright Services, Department of Communications, Information Technology and the Arts, GPO Box 2154, Canberra, ACT 2601.

ISSN 1036-4803

## CONTENTS

PREFACE

**ACCOUNTING STANDARD**  
**AASB 2005-2 AMENDMENTS TO AUSTRALIAN ACCOUNTING**  
**STANDARD**

	<i>Paragraphs</i>
Objective	1
Application	2 – 6
Amendments to AASB 1023	7 – 19

Australian Accounting Standard AASB 2005-2 *Amendments to Australian Accounting Standard* is set out in paragraphs 1 – 19. All the paragraphs have equal authority.

## **PREFACE**

### **Standard Amended by AASB 2005-2**

This Standard amends Australian Accounting Standard AASB 1023 *General Insurance Contracts*.

The AASB has responded to significant concerns, raised by the insurance industry, with the liability adequacy test in AASB 1023 issued in July 2004.

### **Main Features of this Standard**

#### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005 with early adoption not permitted.

#### **Main Requirements**

The Standard:

1. requires the liability adequacy test to be performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. Under AASB 1023, issued in July 2004, the liability adequacy test is performed at the reporting entity level by class of business;<sup>1</sup>
2. permits insurers to adopt a different probability of adequacy in performing the liability adequacy test, to that which is adopted in determining the outstanding claims liability. Under AASB 1023, issued in July 2004, insurers were required to adopt the same or similar probabilities of adequacy;
3. requires insurers to provide additional disclosures in relation to the liability adequacy test, namely:
  - (a) where a deficiency has been identified, the amounts underlying the calculation performed, that is:
    - (i) unearned premium liability;

---

<sup>1</sup> For general insurers registered with the Australian Prudential Regulation Authority (APRA), a class of business is determined using the Prescribed Classes of Business used by APRA. For general insurers not registered with APRA, the test is performed using the APRA Prescribed Classes of Business or an equivalent level of aggregation.

- (ii) related reinsurance asset;
  - (iii) deferred acquisition costs;
  - (iv) intangible assets;
  - (v) present value of expected future cash flows for future claims, showing expected reinsurance recoveries separately;
  - (vi) deficiency;
- (b) in relation to the present value of expected future cash flows for future claims:
- (i) the central estimate of the present value of expected future cash flows;
  - (ii) the component of present value of expected future cash flows related to the risk margin;
  - (iii) the percentage risk margin adopted in determining the present value of expected future cash flows (determined from (i) and (ii) above);
  - (iv) the probability of adequacy intended to be achieved through adoption of the risk margin; and
  - (v) the process used to determine the risk margin, including the way in which diversification of risks has been allowed for;
- (c) where the probability of adequacy adopted in determining the outstanding claims liability is not the same or similar to the probability of adequacy adopted in performing the liability adequacy test, the reasons for the difference; and
- (d) where a surplus has been identified, disclosure that the liability adequacy test identified a surplus.

## **ACCOUNTING STANDARD AASB 2005-2**

The Australian Accounting Standards Board makes Accounting Standard AASB 2005-2 *Amendments to Australian Accounting Standard* under section 334 of the *Corporations Act 2001*.

Dated 3 June 2005

D.G. Boymal  
Chair – AASB

## **ACCOUNTING STANDARD AASB 2005-2**

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARD***

#### **Objective**

1. The objective of this Standard is to make amendments to AASB 1023 *General Insurance Contracts*.

#### **Application**

2. **This Standard applies to:**
  - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
  - (b) **general purpose financial reports of each other reporting entity; and**
  - (c) **financial reports that are, or are held out to be, general purpose financial reports.**
3. **This Standard applies to annual reporting periods beginning on or after 1 January 2005.**
4. **This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**
5. **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

6. This Standard will be registered on the Federal Register of Legislative Instruments together with its Explanatory Statement, in accordance with the *Legislative Instruments Act 2003*.

### **Amendments to AASB 1023**

7. Paragraph 5.1.10 is amended to read as follows:
  - 5.1.10 For the purposes of the liability adequacy test, required by section 9, the risk margin for the entity as a whole is apportioned across portfolios of contracts that are subject to broadly similar risks and are managed together as a single portfolio.
8. Paragraph 9.1 is amended to read as follows:
  - 9.1 The adequacy of the unearned premium liability shall be assessed by considering current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts. If the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deficient. The entire deficiency shall be recognised in the income statement. In recognising the deficiency in the income statement the insurer shall first write-down any related intangible assets and then the related deferred acquisition costs. If an additional liability is required this shall be recognised in the balance sheet as an unexpired risk liability. The liability adequacy test for the unearned premium liability shall be performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.**
9. Repeal paragraph 9.1.1.
10. Re-number paragraph 9.1.2 to be paragraph 9.1.1.
11. Add the following paragraph after paragraph 9.1.1:
  - 9.1.2 Whilst the probability of adequacy adopted in performing the liability adequacy test may be the same or similar to the probability of adequacy adopted in determining the outstanding claims liability, this Standard does not require the same or similar probabilities of adequacy. However, the users of

financial reports need to be presented with information explaining any differences in probabilities of adequacy adopted, and insurers are required to disclose the reasons for any differences in accordance with paragraph 17.8(e).

12. Paragraph 9.1.5 is amended to read as follows:
  - 9.1.5 The related intangible assets referred to in paragraph 9.1 are those that arise under paragraph 13.3.1(b). As the liability adequacy test for the unearned premium liability is performed at the level of portfolios of contracts that are subject to broadly similar risks and are managed together as a single portfolio, the intangible asset is allocated on a reasonable basis across these portfolios.
13. Repeal paragraphs 17.1(a), 17.1(b) and 17.1(c).
14. Re-number paragraph 17.1(d) to be paragraph 17.1(a).
15. Re-number paragraph 17.1(e) to be paragraph 17.1(b).
16. Re-number paragraph 17.1(f) to be paragraph 17.1(c), amended to read as follows:

**17.1 . . . . .**

  - (c) **in respect of 17.1(b)(i) and 17.1(b)(ii), the following components shall be separately disclosed:**
    - (i) **gross claims incurred – undiscounted;**
    - (ii) **reinsurance and other recoveries – undiscounted; and**
    - (iii) **discount movements shown separately for (i) and (ii).**
17. Paragraph 17.2 is amended to read as follows:

**17.2 The financial report shall disclose in relation to the outstanding claims liability:**

  - (a) **the central estimate of the expected present value of future payments for claims incurred; and**
  - (b) **the component related to the risk margin;**

- (c) **the percentage risk margin adopted in determining the outstanding claims liability (determined from (i) and (ii) above);**
- (d) **the probability of adequacy intended to be achieved through adoption of the risk margin; and**
- (e) **the process used to determine the risk margin, including the way in which diversification of risks has been allowed for.**

18. Add the following heading after paragraph 17.7.4:

### **Liability Adequacy Test**

and insert the following paragraph after this heading:

**17.8 In relation to the liability adequacy test in section 9 the financial report shall disclose:**

- (a) **where a deficiency has been identified, the amounts underlying the calculation performed, that is:**
  - (i) **unearned premium liability;**
  - (ii) **related reinsurance asset;**
  - (iii) **deferred acquisition costs;**
  - (iv) **intangible assets;**
  - (v) **present value of expected future cash flows for future claims, showing expected reinsurance recoveries separately; and**
  - (vi) **deficiency;**
- (b) **any write-down of deferred acquisition costs under the liability adequacy test;**
- (c) **any write-down of intangible assets under the liability adequacy test;**
- (d) **in relation to the present value of expected future cash flows for future claims:**

- (i) the central estimate of the present value of expected future cash flows;**
  - (ii) the component of present value of expected future cash flows related to the risk margin;**
  - (iii) the percentage risk margin adopted in determining the present value of expected future cash flows (determined from (i) and (ii) above);**
  - (iv) the probability of adequacy intended to be achieved through adoption of the risk margin; and**
  - (v) the process used to determine the risk margin, including the way in which diversification of risks has been allowed for;**
- (e) where the probability of adequacy disclosed in paragraph 17.2(d) is not the same or similar to the probability of adequacy disclosed in paragraph 17.8(d)(iv), the reasons for the difference; and**
  - (f) where a surplus has been identified, the fact that the liability adequacy test identified a surplus.**

19. Re-number paragraph 17.8.1 to be paragraph 17.9.1.