Australian Government
Australian Accounting Standards Board

TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
13 March 2018
10am-1.00pm

Objective: The IASB has requested input on particular topics (listed below) to assist in the development of papers for its May 2018 meeting. Some TRG members have drafted responses to the IASB, and we request that the AASB TRG meet to discuss the papers and provide feedback before they are provided to the IASB.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE
James Barden	AASB Staff
Stephen Burton (via teleconference)	Suncorp
Brendan Counsell	EY
Regina Fikkers	AASB Board Member
Karen Foo (via teleconference)	Department of Treasury and Finance Victoria
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC/AALC
Charles Hett (via teleconference)	NZASB
Tommy Kiang	ICA
Nick Kirwan	Financial Services Council
Chris Maher	AMP
Ian Moyser	KPMG
Rachel Poo (observer)	QBE/Deloitte
Janri Pretorius (via teleconference)	AASB Staff
Grant Robinson	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Tony Tong	Pacific Life Re
Jeroen van Koert	AIA

Topic	Agenda paper
Presentation of groups of insurance contracts in the statement of financial position (IASB S03)	**AP01**

- In summary, the group largely supported the proposals in AP01, and identified three main issues:
    - regardless of whether an entity is using the general model or premium allocation approach, the information provided by presenting disclosures at a group level is meaningless to users;
    - whether a debit carrying amount is in fact a negative liability instead of an asset, and the practical implications of treating it is a negative liability; and
    - that the information would be better presented at entity and, if not entity, at portfolio as a unit of account.
- Members using the general model noted that although the costs of deriving the proposed balance sheet aggregation for groups was a minimal increase in costs, as they need groups for measurement purposes, the lack of meaningful information disclosed by aggregating groups of assets and groups of liabilities was a major concern when explaining results internally and to users of financial statements.
- Members noted that the IASB introduced the requirement for separate presentation of groups as either assets or liabilities to be consistent with their conceptual framework which prohibits the 'netting off' of asset and liability items. However, members were of the view that the requirement to disaggregate asset and liability groups does not reflect the nature of insurance contracts as liabilities. Members were of the view that when the carrying amount of insurance contracts is in a debit position, they should be 'netted off' against the insurance contract liability to reflect the substance of the insurance contract "assets" as negative liabilities.
- Some members raised a concern that 'netting off' the asset and liability may reduce the information available about credit risk. However members agreed that this was not an issue, as:
    - insurance contract assets arise largely due to the timing of cash flows and is not reflective of the level of credit risk; and
    - if users require information about credit risk, it may be more appropriate to separate all cash inflows from cash outflows
- Some members argued that the balance sheet presentation issue exists for accounting under both the general model and the premium allocation approach (PAA). In response to this, members acknowledged that whilst the issue may exist regardless of the model used, the issue is exacerbated under the PAA due to the following:
    - operationally, the information needed for the disaggregation of groups of assets and liabilities is expected to be readily available under the general model as they are required for measurement purposes, but;
    - under the PAA, because an entity is only required to extract the information by group for groups of contracts that are onerous, the information is not readily available.
- Whilst members supported the use of the entity level as the unit of account for presentation of the balance sheet, they considered that presenting the information at a portfolio level would also significantly reduce the difference between cost of preparing the information and the benefit of meaningful information to users. However, members applying the PAA approach noted that this would only partly reduce implementation costs and would not resolve the issue of meaningful output.

Premium received applying the premium allocation approach	**AP02**
- The Chair noted that this topic had been subject to lengthy discussion by the Australian TRG at prior meetings. In light of this, members were invited to raise any further comments or issues. - Members generally agreed with AP02, and noted a fundamental issue is that a 'cash receipts' basis of accounting appears to have been adopted, which is inconsistent with other IFRS Standards. - One member considered whether AP02 should be provided to the IASB TRG as a replacement to the paper on the same topic previously endorsed by the AASB (S27), however members agreed that S27 is still relevant and AP02 should be used to further emphasise and explain the issues. - Members questioned the IASB's rationale in focussing on premiums received under the PAA. AASB Staff noted that the decision was made in light of aligning the general model and PAA, but nonetheless proposed to reach out to IASB Staff to further clarify their decisions. - One member noted that in Q1 point (ii), it should be noted that this is an example of the complexity of applying the PAA as written, not that preparers are unaware of the premiums for their specific products. One member also suggested that it should be emphasised that cash receipts are not used as the basis of any current financial accounting, regulatory or tax reporting and therefore, the level of granularity at which cash information will be required under IFRS 17 would not currently be available.	
Subsequent measurement of acquired claims liabilities	**AP03**

- Members supported the IASB's approach to this issue, and acknowledged that despite this issue posing significant operational complexities, the outcome is consistent with the measurement principles of the Standard.
- In forming this view, members noted:
    o in respect of 'grossing up revenue' (page 2, para 2), this appears similar to other value chain scenarios. Members noted that an insurer's business model may in fact be to acquire claims liabilities and make revenue from them.
    o one member noted that an operational challenge is where an insurance group acquires an insurance company, due to having two different sets of accounts which have to be treated as an acquired portfolio at a group and then at a subsidiary level.
    o that an entity should ensure that what it has acquired is indeed an insurance contract within the scope of AASB 17 and not within the scope of another Standard.	

Coverage Units – General insurance examples	[AP04]
- Members generally agreed that a representation of benefits to policyholders that takes into account policyholder's insurable interests and the capacity of the policyholder to make a valid claim should be used in determining: o the quantity of benefits and coverage units; and o expected coverage duration. - One member expressed the view that expected cash flows for both life and general insurance is made of two components: expected size of claims and expected chance of claims. The member also noted that under AASB 17, only the expected size of claims can be taken into account in determining coverage units. However, the group noted that the focus would more appropriately be on the severity and frequency of claims. In this regard, it was noted: o in terms of frequency, the IASB has acknowledged that likelihood of insured events can be a consideration to the extent that it affects expected duration of coverage, for example when no further claims can be expected beyond a certain point (akin to lapses); and o that the coverage units should be determined based on the expected scale of the benefits – the quantity of the potential benefits if a claim were made – not what the claims are expected to be based on risk considerations. - In relation to the content of AP04.1 and the examples contained within, members raised the following observations: o under the LMI example, that determining the house price appreciation element could be an operational challenge and a simpler basis needed; and o under the worker's compensation example, it is unclear whether a specified payout period is assumed.	
Coverage Units – Life insurance examples	**[AP04]**
- The author of AP04.2 noted that the analysis of AASB 17 requirements parallel AP04.1, but highlighted AP04.2 paragraphs 10 and 11 related to AASB17.BC280 which discusses coverage for insurance contracts with investment components and the concern that the allocation based on coverage units could bring early profit recognition if only applied to the risk component. - The author noted that there is an interpretation question around the definition of "insurance services" noted in IFRS 17.BC280. There is an argument that as the investment component is not defined as part of insurance and is excluded from the insurance service result, "insurance services" does not include consideration of the investment services in a hybrid insurance contract. The author stated that AP04.2 expresses the view that where the investment service is not considered to be distinct and is not required to be unbundled from the insurance contract, the investment service is considered to be part of the insurance service described in para BC280 but noted that members should be aware that there is an alternative view. - In relation to AP04.2 example 4, members debated the approach to determining coverage units. Three views were expressed: o 'maximum payment x maximum period'/total benefit payable on death (IE4.10); o 'maximum payment x expected period'/the sum at risk (IE4.13); and o 'expected payment x expected period' (not included in AP04.2, but to be added	

before providing paper to IASB). - Members generally supported using the maximum payment/benefits as the quantity of benefits for determining coverage units. However, there was differing views and support for other approaches. - One member noted that the total benefit payable approach is attempting to demonstrate that this approach effectively allows for what an entity will pay, analogous with the fact that property prices changing is changing the level of benefit. - In relation to the example on reinsurance held presented in AP04.2, members agreed that it would be more appropriate to remove this example and revisit it when reinsurance measurement is being considered more holistically.	
Contract boundary (IASB Feb 2018 AP02)	**AP05**
In summary, TRG members generally supported the following aspects of AP05, but requested that the IASB clarify the interpretation: - Question 1, View A – that "risks" in AASB 17.34(b) refers only to those insurance and financial risks transferred from the policyholder to the entity. It does not refer to broader risks to which the entity is exposed, such as a lapse or expense risk; and - Question 3, View B – that "pricing" in AASB 17.34(b)(ii) means the mechanical pricing structure, such as the premium rate table, which prima facie aligns to the expected pattern of risk. It is assumed that this structure broadly reflects the risk profile of the portfolio (though in practice it may not exactly mirror the portfolio risk). However, the TRG intends to further consider the following questions at a later meeting, as members were unable to reach a position on the preferred views: - Question 2 – what is meant by the term "practical ability to reassess….and set a price or level of benefits that fully reflects the risks of that portfolio" in paragraph 34(b)(i); and - Question 4 – does guaranteed renewability represent a substantive obligation to the entity? Points raised on Q2: - one member noted that commercial considerations always exist in pricing, and that they shouldn't be considered here (supporting view A); - one member noted that if the approach in view B is adopted, it may result in some health or compulsory third party products having contract boundaries greater than 12 months, arguably wrongly; - some members emphasised that an entity should focus on whether it has the practical ability to reprice, rather than considering what the entity has historically done in this regard Points raised on Q4: - one member noted in support of view B that there may be a substantive obligation for a single contract, but not necessarily a portfolio; - one member noted that the ability to reprice would be linked to guaranteed renewability – i.e. provided an entity can adequately reprice, it would seem that this would be the end of the contract boundary. - one member noted that guaranteed renewability is a significant issue for life insurance, given that if a policyholder did not have guaranteed renewability, the insurer could cancel the policy as soon as the policyholder becomes ill. Members agreed to submit a paper on this topic to the IASB, highlighting the above discussion.	