TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
22 March 2021
9am – 11am

Objective:

- Update from APRA on its recently issued discussion paper and quantitative impact study on integrating AASB 17 into the capital and reporting frameworks.
- Update on the AASB's project on the application of AASB 17 for public sector entities.
- Discuss papers on the treatment of:
    - Credit losses on premium receivables; and
    - Impairment of acquisition costs
- Update from the Actuaries Institute Taskforce on recent activities in relation to AASB 17, including the work performed by the working groups supporting APRA in their work on AASB 17.
- Update on:
    - VFA focus group – a subgroup of the AASB TRG
    - PHI focus group – a subgroup of the AASB TRG

Topic	Agenda paper
APRA – current status on QIS and discussion paper	
In November 2020, APRA issued a quantitative impact study (QIS), for completion by selected insurers, and a discussion paper outlining APRA's proposals for integrating AASB 17 into the capital and reporting frameworks and other updates to LAGIC (link to discussion paper and QIS). Submissions are due to APRA by 31 March 2021. A member from APRA provided an update on the status of the consultation and feedback received: • A number of entities have approached APRA to seek clarification on the population of the QIS. The QIS should be populated on a best endeavours basis. APRA requests that preparers of the QIS articulate assumptions applied in a cover sheet. • APRA is currently working through how to analyse the data that will be received as part of the submissions. APRA expects to communicate findings once the internal analysis has been completed. • A member asked if APRA has received any feedback in relation to the discussion paper. ○ The member from APRA responded that APRA has received some comments but are awaiting formal responses as most industry participants are still formulating their views. The member from APRA noted that some entities have raised questions on the approach to allocation of amounts to APRA reporting classes, but APRA is not yet aware of the	

specific nature of the issues. The member from APRA encouraged industry participants to propose solutions as part of their submissions to APRA.

- A member from Insurance Council Australia (ICA) noted that the ICA is preparing a submission to APRA based on feedback received from its members. The submission will reflect feedback from a range of preparers including those who are well progressed on implementation and those who are at the start of their implementation journey. The member from APRA considered that APRA would be interested in understanding which segments (e.g. smaller/medium sized vs large insurers) the issues raised relate to.

- A member asked if smaller / medium sized insurers who were not selected to participate in the QIS would have the opportunity to provide feedback on the QIS. A member considered that those who did not participate in the QIS would still have an opportunity to comment on the proposals in the discussion paper.
- APRA is also considering issuing another survey on implementation readiness of insurers in H1 2021.

Report on AASB project: Insurance Activities in the Public Sector	ATT1

A representative of the AASB staff provided an update on the work in relation to AASB 17 for public sector entities.

- This is a joint project between the NZASB and AASB (collectively referred to as 'the Boards'). The project team is currently considering in relation to the public sector, which entities should apply AASB 17 and what specific issues might arise in order to determine if modifications to AASB 17 will be required for application by these entities.
- The Boards met in February and identified 7 issues for consideration. The first issue on scope of activities that will apply AASB 17 is due to be discussed at the April Board meeting. The Board is interested in determining a set of principles to guide decision making by public sector entities on when to apply AASB 17. Risk adjustment will also be discussed at the April Board meeting.
- A consultation document setting out the proposals for public sector entities is expected to be issued sometime next year. At this stage, it is unclear whether the effective date of the new public sector Standard will align with the AASB 17 effective date of 1 January 2023.
- It is proposed that a focus group of the AASB TRG is set up which will consist of public sector participants in Australia and some representatives from the NZ public sector. Interested participants are encouraged to reach out to the AASB staff.
- A member asked if the Boards are considering feedback received from the previous consultations. The AASB staff representative confirmed that the NZASB and AASB have frameworks for reviewing public sector issues and as part of this process are considering feedback received from previous consultations as well as recent learnings from the implementation of AASB 17 by the private sector.
- A member asked whether it is likely that any delay to the implementation date beyond 2023 would impact the public sector entities that currently apply AASB 137 but not those that currently apply AASB 1023. The AASB staff representative responded that the implementation date and related implications are still being considered but even if the effective date is delayed beyond 2023, early adoption will likely be permitted. The AASB staff representative expressed the view that entities which choose to early adopt are likely to be those that are currently applying AASB 1023.

- A member asked about the scope of the project in relation to not-for-profit entities. The AASB staff representative responded that the scope of the project is currently focussing on public sector entities, but it was considered whether the determination of scope (i.e. whether entities are in scope of the new public sector Standard) should be based on whether entities are for-profit or not-for-profit – the current view is that this is not a relevant distinction. The AASB staff representative expressed the view that the not-for-profit sector was not separately addressed on the basis that the IASB considered that IFRS 17 would apply in a not-for-profit context (e.g. mutuals), however, it is possible that the outcomes of the public sector project might inform views on how aspects of AASB 17 might be applied by private sector not-for-profit entities.

Credit losses on premium receivables	**ATT2**

A member presented a paper on the AASB 17 treatment of credit losses on premium receivables where they relate to expired coverage, specifically where they should be presented in profit or loss. The paper proposes the following views:

- View 1: Credit losses on premium receivables are presented as part of insurance revenue
- View 2: Credit losses on premium receivables are presented as part of insurance service expenses
- View 3: Credit losses on premium receivables are presented as part of insurance finance expenses
- View 4: Credit losses on premium receivables are presented as part of either insurance revenue, insurance service expenses or insurance finance expenses based on an accounting policy choice

A member commented that the application of the above views would not impact the ultimate insurance result, but would determine where amounts are presented in profit or loss. Another member agreed and noted that the application of View 1 or View 2 will result in the same insurance service result but the application of View 3 will result in a different insurance service result from Views 1 and 2 but will produce the same total insurance result. Another member considered that the different views would have an impact on how much insurance revenue is recognised and might therefore, impact performance metrics.

A member considered that Views 1 and 2 appear to have merit and asked about the outcome of discussions on this topic at the AALC. The member presenting the paper responded that the majority of participants at the AALC supported View 1 but a few participants were supportive of View 2.

Members considered that credit losses do not represent financial risk and were therefore of the view that View 3 was unlikely to be appropriate. All members supported View 1. A member observed that the discussion had not fully considered whether View 2 was also acceptable, but the acknowledged that View 1 had more general support.

Impairment of acquisition costs	**ATT3**

The paper tabled discusses the application of the impairment test for acquisition costs required by AASB 17.28E. The preparer of the paper summarised the contents of the paper:

- AASB 17 requires the following:
    - a group level impairment test required by AASB 17.B35A (referred to as the first impairment test); and

  - an additional impairment test specific to acquisition cash flows allocated to renewals required by AASB 17.B35B (referred to as the second impairment test)
- The paper expresses the following views in relation to the first impairment test:
  - View 1 – the test should be performed at the level of a group of contracts
  - View 2 – the test should be performed at the level of a portfolio

  When discussed at the AALC, most participants expressed support for View 1 because of the reference in AASB 17 to 'groups'. No additional views were put forward at the AASB TRG. It was noted that AASB 17.B35B allows for the reallocation of acquisition cash flows between groups before impairment testing which appears to indicate that whilst View 1 could be applied the ability to reallocate could deliver a similar outcome to View 2.
- The paper expresses the following views in relation to the second impairment test:
  - View 1 – the test is performed at each group for the net cash inflows from renewals expected to be in that group
  - View 2 – the test is performed for the total insurance acquisition cash flow asset originating from each past group, or renewal group
  - View 3 – the insurance acquisition cash flow asset is an expected future allocation amount that needs to be tested only against the net inflows of the relevant future group of contracts

  Most of the participants at the AALC meeting supported View 2 and did not support View 1. However, the discussions at the AALC noted that few preparers at the AALC would be impacted by this topic and that entities impacted are likely to primarily be life insurers in their growth phase. No additional views on a preferred approach were put forward at the AASB TRG.

Actuaries Institute Taskforce update	**ATT4**

The Chair of the Actuaries Institute Taskforce ('Taskforce') provided an update on the key activities of the Taskforce:

- *Slide 2* - The Taskforce released version 3 of the Information Note in February. The main changes from the previous version were to incorporate the Amendments to IFRS 17 issued by the IASB in June 2020. Changes were also made to improve clarity on matters that were previously uncertain, and to reflect comments on the Draft International Actuarial Association (IAA) International Actuarial Note 100 on IFRS 17. The Information Note will be periodically updated, including to reflect any relevant updates from the work on public sector, APRA regulatory changes and any tax activity. The Information Note will be complemented by a new Practice Guideline (PG4) that is currently being drafted by the Actuaries Institute professional guidance working group. An appendix is expected to be included in PG4 that will outline key principles and guidance for application by the Health sector.
- *Slides 3 -4* - The Taskforce is drafting the Actuaries Institute submission to APRA on the discussion paper. The submission will consist of three attachments – one for each sector (life, general and health). Please refer to the slides for key topics expected to be included in the submission.

  Expenses proposed for inclusion within the capital calculation was noted as a key issue raised by general insurers. A member from APRA encouraged preparers to provide clarity in their submissions on the issues arising from the proposed changes and the extent of the impact, including any unintended consequences.

The abolishment of the 2/6 month rule for reinsurance contracts was noted as a material issue for general insurers. The member from APRA encouraged preparers to articulate the issues in their submissions to APRA.

A member asked if the Actuaries Institute submission will be made available to industry participants that might be interested in reading it. The Chair of the Taskforce responded that all submissions to APRA (unless marked as private and confidential) will be published.

- *Slide 5* provides details on the upcoming Actuarial Virtual Summit on 20 May. The APRA QIS will be one of the topics on the agenda and will include feedback from participants of the QIS on key learnings.

  A member asked whether interested parties are able to attend the summit and if yes, who to contact to do so. Action: The Chair of the Taskforce to investigate and revert.

Private health insurance (PHI) focus group	**ATT5, ATT5a, ATT5b, ATT5c**

It was noted by the chair that the AASB and the AASB TRG do not provide accounting guidance. The papers reflect the discussions of the focus group and may be useful in providing other PHI preparers with an understanding of how participants in their industry are considering issues related to the implementation of AASB 17. Participants of the PHI focus group include representatives from the Big 4 but the papers are not to be taken as endorsed by the Big 4. Preparers are encouraged to engage with their advisors and auditors on the implementation of AASB 17.

- The co-ordinator of the focus group provided an update on the PHI focus group. Please refer to ATT5 slide 2 for a list of the topics being discussed and status of the related papers. A number of papers were tabled for information.
- ATT5 slide 3 summarises the contents of the paper on contract boundary (ATT5c). The preparer of the paper presented the key considerations and views discussed by the focus group. The working group considered that the determination of the contract boundary in relation to PHI products may be open to interpretation due to the regulated nature of the PHI market and the way in which the industry operates. Two views were discussed and the appropriate view would depend on the specific facts and circumstances of the relevant entities.
- ATT5 slide 4 summarises the views of the focus group in relation to level of aggregation (portfolios) – refer to ATT5a for more detail. Key views include the following:
  - All ‘health risks’ are considered to be similar risks. Products that include hospital/ancillary or domestic/overseas cover are considered to be ‘health risks’.
  - Managed together is generally expected to be determined based on the level of information used by senior management to evaluate the performance of the business. However, the focus group considered that the way in which management reports are presented may not always represent the way the business is managed in practice – both factors (management reporting and how the business is managed in practice) should be considered when assessing how contracts are ‘managed together’ for the determination of portfolios.

- When determining 'groups', PHIs may determine based on their specific facts and circumstances that there are no contracts that 'at initial recognition have no significant possibility of becoming onerous subsequently'.

- ATT5 slide 5 summarises the discussions of the focus group in relation to onerous contracts under the premium allocation approach (PAA) – refer to ATT5b for more detail. Key views include the following:
  - 'Facts and circumstances' that indicate the existence of onerous contracts would arise from information that is readily available such as reports produced internally (e.g. management reporting) and externally (e.g. Financial Condition Report).
  - Due to laws and regulations applicable to PHIs in support of community rating, PHIs are precluded from refusing cover, or charging differential pricing based on age, health condition or health history. AASB 17.20 which provides an exemption from dividing contracts into separate groups would apply to contracts that are affected by those laws and regulations. The exemption is not applicable where shortfalls in pricing do not result from legal or regulatory requirements.

- A member asked how material the risk adjustment is expected to be for PHIs. Another member considered that it would vary between PHIs depending on their risk appetite. A member asked about the probability of the risk adjustment resulting in contracts being onerous for PHIs. A member noted that a paper on risk adjustment is planned to be tabled by the PHI focus group and suggested that the question may be addressed in that paper.

Variable Fee Approach (VFA) focus group	**ATT6, ATT6a, ATT6b, ATT6c**

It was noted by the chair that the AASB and the AASB TRG do not provide accounting guidance. The papers reflect the discussions of the focus group and may be useful in providing other VFA preparers with an understanding of how participants in their industry are considering issues related to the implementation of AASB 17. Participants of the VFA focus group include representatives from the Big 4 but the papers are not to be taken as endorsed by the Big 4. Preparers are encouraged to engage with their advisors and auditors on the implementation of AASB 17.

- The co-ordinator of the focus group provided an update on the VFA focus group. Please refer to ATT6 slide 1 for a list of the topics being discussed and status of the related papers. A number of papers were tabled for information.

- The following papers were tabled:
  - VFA cohorts on transition (ATT6a) – The paper considers whether annual cohorts will be required on transition to AASB 17 for contracts applying the VFA. The paper concludes that where the full retrospective approach can be applied, annual cohorts are required from inception. However, where the full retrospective approach is determined to be impracticable, transition relief from determining annual cohorts is available under the modified retrospective and fair value approaches. The full retrospective approach is more likely to be impracticable where a portfolio has been closed to new business for an extended period of time. Each entity should consider the facts and circumstances applicable to their participating business.
  - VFA eligibility (ATT6b) – The paper considers whether Australian participating business can be eligible for the VFA and sets out the focus groups' discussion of the eligibility criteria and issues and challenges arising in determining eligibility,

application at transition and the potential impact of transfers of insurance contracts and business combinations. The key issues and views are summarised on slide 3 of ATT6**c**.

A member asked about the outcome that the focus group aims to achieve in relation to this topic. The preparer of the paper responded that the paper is not intended to promote a specific outcome and that the outcomes would depend on the specific facts and circumstances of the entities. The preparer considered that certain business (e.g. participating business) would generally be expected to be eligible to apply the VFA, and that the aim of the paper is to promote a common understanding of the requirements of AASB 17 in relation to this topic and how they might be applied in practice.

AOB

- A member of the AASB staff noted that the IASB is planning to do a post-implementation review (PIR) of the classification and measurement requirements in AASB 9 *Financial Instruments* and that the consultation document is expected to be issued in H2 2021. The member of the AASB staff suggested that this could be a topic for discussion at a future AASB TRG meeting if members have views on the consultation document once issued.
- The Chair of the AASB TRG encouraged members that have questions related to AASB 17 and taxation to coordinate industry views on this topic via their industry representatives (ICA for general insurers, FSC for life insurers) in order to facilitate engagement with the ATO and Treasury.

End Meeting

ATTENDANCE	ORGANISATION
AASB 17 TRG Members	
Anne Driver (Chair)	Deloitte
Patricia Au	AASB staff
Chris Maher	Resolution Life
Stuart Alexander	Deloitte
Paul Stacey	Insurance Council of Australia
Louise Miller	SunCorp
Karen Foo	Victorian Department of Treasury and Finance
Casandra Cope	HCF
Anthony Coleman	Lonergan Edwards
Brett Pickett	TAL/Chair of the Institute of Actuaries IFRS 17 Implementation Task Force
Jennifer Dwyer	Medibank
Emily Evitts	Allianz
Rob Sharma	APRA
Ciara Wasley	NIB
Leann Yuen	KPMG / Co-Chair of the Accounting & Actuaries Liaison Committee (AALC)
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Anna Donoghoe (on behalf of Regina Fikkers)	PwC
Brendan Counsell	EY
Victoria Smith	QBE
Scott Hadfield	PwC
Guest Speakers	
Angus Thomson	QBE/AASB Consultant
Alane Fineman	Bupa
Tom Moodie	Deloitte
Guy Elliott	AIA
Marion Smith	EY
Jane Coleman	Teachers Health
Secretary	
Rachel Poo	QBE
AASB representatives	
Patricia Au	AASB staff
Eric Lee	AASB staff