



AASB Transition Resource Group for AASB 17 *Insurance Contracts* Submission form for potential implementation question

In addition to the form, attachments (such as memos) may be included with the submission.

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Submission date	15/03/2020
Name	Stephane Segal
Title	Head of Statutory Reporting
Organisation	Genworth Mortgage Insurance Australia
Address	Level 26, 101 Miller Street, Sydney, Australia
Telephone	0414 212 192
Email address	Stephane.segal@genworth.com
Stakeholder group	Preparer
Do you wish to present to the TRG?	If required

Potential implementation question

How to interpret the requirements of AASB 17.B65 as they relate to the inclusion of transaction-based taxes and different expense items in the fulfilment cash flows?

Question 1 in this submission is about transaction-based taxes. It focuses on GST and Stamp Duty on premium, claims and expenses.

Arguably, how the requirement of AASB 17.B65(i) is to be interpreted is likely to inform the treatment of other transaction-based taxes (e.g. non-resident withholding tax), and GST / Stamp Duty on premium refunds not addressed in this submission.

Question 2 in this submission focuses on expense items.

Paragraph of IFRS 17 *Insurance Contracts*

AASB 17.32, AASB 17.38, AASB 17.100 to 105, AASB 17 Appendix A, AASB 17.B65, AASB 17.B120, AASB 17.B123, Interpretation 1031 Accounting for Goods and Services Tax (paragraphs 6, 7, 8 and 9), AASB 15.47, AASB 1023.4.2.3



Analysis of the question

The analysis of the question should include a detailed description of the different ways the new Standard may be applied, resulting in possible diversity in practice.

AASB 17.32 states that a group of insurance contracts shall be measured on initial recognition as the sum of the fulfilment cash flows and the contractual service margin.

Fulfilment cash flows are defined by Appendix A as “an explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk”.

So, as also mentioned by **AASB 17.32**, the fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and other financial risks; and
- a risk adjustment for non-financial risks.

Further guidance is provided on the estimates of future cash flows at paragraphs **B36 to B71** (particularly **AASB 17.B65(i)**, for the purpose of Question 1). Conceptually, for the measurement of a group of insurance contracts, the future cash flows include future premiums, future claims and future expenses.

This submission intends to present different views on the basis to be used for the preparation of the fulfilment cash flows:

Question 1 (interpretation of **AASB 17.B65(i)**): generally, should the fulfilment cash flows include or not the cash flows related to transaction-based taxes?

The analysis of question 1 also raises the following interrogations:

- How to interpret “consideration for the contracts” in **AASB 17.B120** (i.e. inclusive or exclusive of transaction-based taxes)?
- If View B applies, should the cash flows required to be presented in the roll forward tables by **AASB 17.105(a)(i)** be disclosed net of transaction-based cash flows, or should the transaction-based cash flows be disclosed as separate items?

Question 2: how to interpret **AASB 17.B65** and **AASB 17.3(b)** in the context of identifying what expenses to include in the fulfilment cash flows?



Question 1: how to interpret the requirement of **AASB 17.B65(i)**, that the cash flows within the boundary of an insurance contract “include transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies [...] that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis”?

For the purpose of Question 1, below is a set of illustrative cash flows:

Cash flows

	Inception	Year 1	Year 2	Year 3	Total
Inflows					
Premium (including GST and Stamp Duty)	1,199.00				1,199.00
GST (claims) - recouped from ATO		4.50	7.80	6.00	18.30
GST (admin expenses) - recouped from ATO		11.00	11.00	11.00	33.00
GST (acqu. cash flow) - recouped from ATO		9.00			9.00
Outflows					
Claims (excl. GST)		-75.00	-130.00	-100.00	-305.00
GST (claims)		-4.50	-7.80	-6.00	-18.30
Acquisition cash flow (excl. GST)	-90.00				-90.00
GST (acquisition cash flow)	-9.00				-9.00
GST (premiums)			-100.00		-100.00
Stamp Duty (premiums)			-99.00		-99.00
Admin expenses (excl. GST)		-110.00	-110.00	-110.00	-330.00
GST (admin expenses)		-11.00	-11.00	-11.00	-33.00
Total expected cash flows at inception	1,100.00	-176.00	-439.00	-210.00	275.00

This submission considers that GST and Stamp Duty are both transaction-based taxes **for General Insurers** and are therefore treated the same way under AASB 17 by General Insurers (see **Appendix B** for more detail).

Today, life insurers and general insurers account for Stamp Duty in a different way. This submission does not go further than stating that fact, and the specific circumstances of life insurers vis-a-vis Stamp Duty have not been considered.

The **assumptions underpinning the illustrative example** presented in **Question 1** are as follows:

- Premium excluding taxes: 1,000
- Stamp Duty rate: 9% (amounting to 99 in this example)
- GST on premium and expenses: 10% (amounting to 100 in this example)
- Premium including taxes: 1,199 = 1,000 + 100 + 99
- Claims (excl. GST): Yr1 = 75; Yr2 = 130; Yr3 = 100 (paid as incurred)
- Admin expenses (excl. GST): Yr1 = 110; Yr2 = 110; Yr3 = 110 (paid as incurred)
- Acquisition cash flow (excl. GST): At inception = 90 (paid as incurred)
- GST recoverable on claims: 6%
- Cover period: 3 years
- No difference between initial expectation and actuals
- No discounting has been reflected to illustrate Question 1
- No risk adjustment has been reflected to illustrate Question 1



View A - “The cash flows within the boundary include transaction-based taxes” is interpreted as:

- the premium, claims, expenses and acquisition cash flows to include in the fulfilment cash flows are **inclusive of their GST and Stamp Duty components**, where applicable.
- the cash flows relating to the remittance of the GST and Stamp Duty to the taxation authorities and any refunds of GST and Stamp Duty from the taxation authorities are **excluded from the fulfilment cash flows**

Under this view, the items shaded in yellow, which represent the transaction-based specific cash flows, are excluded from the fulfilment cash flows. This equates to determining the fulfilment cash flows gross of transaction-based taxes.

This is consistent with **Interpretation 1031 Accounting for Goods and Services Tax (GST)** issued by the AASB in June 2014 (Interpretation 1031 is not industry specific and applies to Australian insurance companies and other Australian companies).

Interpretation 1031.8 – “Receivables and payables shall be stated with the amount of GST included.”

To meet the requirement of **Interpretation 1031.9**, that the net amount of GST shall be included as part of receivables or payables in the statement of financial position, on initial recognition, in addition to measuring the insurance contract using cash flows gross of transaction-based taxes, the entity would need to accrue for the tax specific net cash flows in a separate item of the balance sheet.

Using the above example:

Fulfilment cash flows:	debit balance of 413.70
GST and Stamp Duty accrual:	credit balance of 138.70
Contractual Service Margin (CSM):	credit balance of 275.00

AASB 17.38 requires that, unless contracts are onerous, the initial recognition of a group of insurance contracts results in no income and no expenses. Therefore, the CSM above has been determined as the opposite balance of the fulfilment cash flows net of the liability for transaction-based taxes recognised outside of the insurance contract liability.

Under this option, the insurance contract liability at initial recognition is not NIL. This creates additional challenges for the preparation of the roll forward disclosures (see below) required by **AASB 17.100 to 105**.

Balance sheet (Signs: + / - = debit / credit)	01/01/20X0 Inception	31/12/20X0 Year 1	31/12/20X1 Year 2	31/12/20X2 Year 3
Cash	0.00	924.00	485.00	275.00
Other assets / (liabilities)	-138.70	-163.20	17.00	0.00
Fulfilment cash flows	413.70	-485.80	-227.00	0.00
Risk adjustment	0.00	0.00	0.00	0.00
CSM	-275.00	-183.33	-91.67	0.00
Insurance contract asset / (liability)	138.70	-669.13	-318.67	0.00
Retained earnings		-91.67	-183.33	-275.00
<i>Check</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>



P&L (Signs: + / - = debit / credit)	31/12/20X0 Year 1	31/12/20X1 Year 2	31/12/20X2 Year 3	Cumulative
CSM release	-91.67	-91.67	-91.67	-275.00
Expected incurred - claims (excl. GST)	-75.00	-130.00	-100.00	-305.00
Expected incurred - admin exp. (excl. GST)	-110.00	-110.00	-110.00	-330.00
Expected incurred - GST on premiums	0.00			0.00
Expected incurred - Stamp Duty on premiums	0.00			0.00
Risk adjustment	0.00	0.00	0.00	0.00
Allocation of acqu. cash flows (excl. GST)	-30.00	-30.00	-30.00	-90.00
Insurance revenue	-306.67	-361.67	-331.67	-1,000.00
Actual claims incurred (excl. GST)	75.00	130.00	100.00	305.00
Actual expenses incurred (excl. GST)	110.00	110.00	110.00	330.00
Actual GST on premiums	0.00	0.00	0.00	0.00
Actual Stamp Duty on premiums	0.00	0.00	0.00	0.00
Amortisation of acqu. cash flows (excl. GST)	30.00	30.00	30.00	90.00
Insurance service expenses	215.00	270.00	240.00	725.00
Insurance service result	-91.67	-91.67	-91.67	-275.00

Comments:

- All the items making up the insurance revenue and the insurance service expense exclude transaction-based taxes, which is in line with **Interpretation 1031.6**
- The cumulative insurance revenue of 1,000 represents the premium received from the policyholder, excluding its GST (100) and Stamp Duty (99) components, given no discounting and no investment components have been factored in this example:

$$\text{Gross premium less GST less Stamp Duty} = 1,199.00 - 100.00 - 99.00 = \mathbf{1,000.00}$$

This is in accordance with **AASB 17.B120** which requires that (emphasis added) “the total insurance revenue for a group of insurance contracts is the **consideration for the contracts**, ie the amount of premiums paid to the entity adjusted for a financing effect and excluding any investment component”, to the extent that the words “consideration for the contracts” is to be interpreted as “consideration for the contracts excluding transaction-based taxes collected on behalf of third parties”, as suggested in **AASB 17.B123(a)(iii)**.

If effectively, the word “consideration” is to be understood as exclusive of transaction-based taxes, clarifying this in AASB 17.B120 would be useful, in a similar way as what is done in AASB 15:

AASB 15.47 (emphasis added) - “An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of **consideration** to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, **excluding amounts collected on behalf of third parties** (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both”.



Disclosure - Roll forward 1 (Year 1 only) Signs: + / - = debit / credit	Future CF	Risk adj	CSM	Total
	AASB 17.101(a)	AASB 17.101(b)	AASB 17.101(c)	
Beginning of Year 1	0.00	0.00	0.00	0.00
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
<i>Changes that relate to future service</i>				
Contracts initially recognised in the period	275.00	0.00	-275.00	0.00
Insurance service result	275.00	0.00	-183.33	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)	-1,199.00			-1,199.00
Claims and other expenses paid (incl. taxes)	200.50			200.50
Acquisition cash flows (incl. taxes)	99.00			99.00
Total cash flows	-899.50	0.00	0.00	-899.50
Other movements	138.70			138.70
End of Year 1	-485.80	0.00	-183.33	-669.13

Disclosure - Roll forward 2 (Year 1 only) Signs: + / - = debit / credit	LfRC			Total
	Excl. loss	Loss portion	LIC	
	AASB 17.100(a)	AASB 17.100(b)	AASB 17.100(c)	
Beginning of Year 1	0.00	0.00	0.00	0.00
Insurance revenue	306.67			306.67
Incurred claims and other expenses (excl. taxes)			-185.00	-185.00
Amortisation of acqu. cash flows (excl. taxes)	-30.00			-30.00
Insurance service result	276.67	0.00	-185.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)	-1,199.00			-1,199.00
Claims and other expenses paid (incl. taxes)			200.50	200.50
Acquisition cash flows (incl. taxes)	99.00			99.00
Total cash flows	-1,100.00	0.00	200.50	-899.50
From initial recognition (set up GST / SD accrual)	138.70			138.70
Movement of the year	15.50		-15.50	0.00
Other movements	154.20	0.00	-15.50	138.70
End of Year 1	-669.13	0.00	0.00	-669.13

Comments:

- The above tables only show the roll forward disclosures for the first year. The roll forward disclosures for Year 2 and Year 3 have been presented in **Appendix C**
- In the first roll forward, the future cash flows on initial recognition have been split into 2 components to ensure the initial recognition of the group of insurance contracts (**AASB 17.104(a)(iii)**) does not contribute to any insurance service result on day 1, given the group is not expected to be onerous on initial recognition. The second component is presented in "Other movements", which is allowed under **AASB 17.105(d)**
- In the second roll forward, given the amount of claims and expenses incurred for the period in the Liability for incurred claims (LIC) are exclusive of GST (requirement of **Interpretation 1031.6**), but the cash flows for these items include GST, a transfer of the GST component included in the payments to the Liability for remaining coverage is needed, so that after the payment of the claims and expenses incurred, the balance of the LIC is NIL.



View B – “The cash flows within the boundary include transaction-based taxes” is interpreted as:

- the premium, claims, expenses and acquisition cash flows to include in the fulfilment cash flows are **inclusive of their GST and Stamp Duty components**, where applicable.
- the cash flows relating to the remittance of the GST and Stamp Duty to the taxation authorities and any refunds of GST and Stamp Duty from the taxation authorities are **included in the fulfilment cash flows**

Under this view, the fulfilment cash flows at inception represent the total cash flows expected, including the remittance and recovery of GST and Stamp Duty, and no accrual for the net GST and Stamp Duty payable is recognised outside of the insurance contract liability. This makes the insurance contracts liability net of transaction-based taxes.

Considering the fulfilment cash flows net of transaction-based taxes seems more in the spirit of AASB 17, as insurers are likely to consider net cash flows when pricing their products and assessing their profitability. However, this does not seem consistent with Interpretation 1031.8 which requires receivables and payables to be stated with the amount of GST included (unless insurance contracts liabilities / assets are not considered “payables” / “receivables”, despite including future cash flows).

As all the components related to the insurance contracts are included in the measurement of the contract, the CSM at inception is the equal and opposite of the fulfilment cash flows:

Fulfilment cash flows: debit balance of 275.00
CSM: credit balance of 275.00

Below is a summarised balance sheet, over the life of the insurance contract, using the same illustrative example as above:

Balance sheet (Signs: + / - = debit / credit)	01/01/20X0 Inception	31/12/20X0 Year 1	31/12/20X1 Year 2	31/12/20X2 Year 3
Cash	0.00	924.00	485.00	275.00
Fulfilment cash flows	275.00	-649.00	-210.00	0.00
Risk adjustment	0.00	0.00	0.00	0.00
CSM	-275.00	-183.33	-91.67	0.00
Insurance liability	0.00	-832.33	-301.67	0.00
Retained earnings		-91.67	-183.33	-275.00
<i>Check</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>

Given the CSM and the cash flows are the same, and the P&L under View A was on a net of transaction-based taxes basis (even if the fulfilment cash flows were on a gross basis), the P&L under View B is the same as under View A.

Comments on the roll forward disclosures below:

- The below tables only show the roll forward disclosures for the first year. The roll forward disclosures for Year 2 and Year 3 have been presented in **Appendix D**
- As the fulfilment cash flows include the transaction-based taxes cash flows (i.e. remittance of GST and Stamp Duty and refund from the taxation authorities), the cash flow section of the disclosures also includes those cash flows, as they occur
- In the tables below, the transaction-based taxes cash flows have been presented separately from the gross cash flows, to make comparability easier between View A and View B. In practice, there is a question around presenting the cash flows (**AASB 17.105(a)(i)**) gross or net
- As no cash flows are accounted for outside of the insurance contract liability, and the claims and expenses incurred are both on a net basis, no “Other movements” item is required.



Disclosure - Roll forward 1 (Year 1 only) Signs: + / - = debit / credit	Future CF	Risk adj	CSM	Total
	AASB 17.101(a)	AASB 17.101(b)	AASB 17.101(c)	
Beginning of Year 1	0.00	0.00	0.00	0.00
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
<i>Changes that relate to future service</i>				
Contracts initially recognised in the period	275.00	0.00	-275.00	0.00
Insurance service result	275.00	0.00	-183.33	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)	-1,199.00			-1,199.00
Claims and other expenses paid (incl. taxes)	200.50			200.50
Acquisition cash flows (incl. taxes)	99.00			99.00
Other - GST and stamp duty paid on premiums	0.00			0.00
Other - GST recouped on Claims and Admin exp.	-15.50			-15.50
Other - GST recouped on Acquisition cash flows	-9.00			-9.00
Total cash flows	-924.00	0.00	0.00	-924.00
Other movements	0.00			0.00
End of Year 1	-649.00	0.00	-183.33	-832.33

Disclosure - Roll forward 2 (Year 1 only) Signs: + / - = debit / credit	LfRC			Total
	Excl. loss	Loss portion	LIC	
	AASB 17.100(a)	AASB 17.100(b)	AASB 17.100(c)	
Beginning of Year 1	0.00	0.00	0.00	0.00
Insurance revenue	306.67			306.67
Incurred claims and other expenses			-185.00	-185.00
Amortisation of acquisition cash flows	-30.00			-30.00
Insurance service result	276.67	0.00	-185.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)	-1,199.00			-1,199.00
Claims and other expenses paid (incl. taxes)			200.50	200.50
Acquisition cash flows (incl. taxes)	99.00			99.00
Other - GST and stamp duty paid on premiums			0.00	0.00
Other - GST recouped on Claims and Admin exp.			-15.50	-15.50
Other - GST recouped on Acquisition cash flows	-9.00			-9.00
Total cash flows	-1,109.00	0.00	185.00	-924.00
Other movements	0.00	0.00	0.00	0.00
End of Year 1	-832.33	0.00	0.00	-832.33



Question 2: how to interpret **AASB 17.B65** and **AASB 17.3(b)** in the context of identifying what expenses to include in the fulfilment cash flows?

Premiums and claims are insurance items in nature, and are therefore not addressed by other accounting standards, to the extent they relate to insurance contracts within the scope of AASB 17. However, this is not the case for expense items which can be subject to specific accounting standards, which may require the recognition of specific balance sheet items (e.g. employee liabilities recognised under AASB 119 *Employee Benefits* or lease liabilities / asset under AASB 16 *Leases*).

For some expenses, there might not even be a cash flow involved (e.g. equity settled schemes accounted under AASB 2 *Share-based Payment*), or expenses recognised overtime with an upfront cash payment (e.g. amortisation expense recognised under AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* from the depreciation of an asset).

Share-based payment

A company recognises expenses for share-based payment programmes which are equity settled, but there are no expected cash outflows.

AASB 17.3(b) states that “an entity shall not apply AASB 17 to employers’ assets and liabilities from employee benefit plans (see AASB 119 *Employee Benefits* and AASB 2 *Share-based Payment*).

How should AASB 17.3(b) be interpreted?

View A - This could be interpreted as the expenses arising from the application of AASB 2 are to be excluded from the fulfilment cash flows

View B - This could be interpreted more as it is written, which is that plans falling under AASB 2 are not to be accounted under AASB 17, which does not mean that the expenses arising from the application of AASB 2 are not allowed to be included in the fulfilment cash flows.

If View B applies, as there would not be an actual cash flow to settle the liability, it is unclear how such expense, once incurred in the liability for incurred claims would be dropped from that liability, and more broadly from the insurance contract liability.

AASB 17.B65(I) (see below), by mentioning “depreciation”, allows non-cash items to be included within the fulfilment cash flows.

Depreciations

AASB 17.B65(I) allows building depreciations to be included within the fulfilment cash flows (emphasis added):

“The cash flows within the boundary include [...] (I) an allocation of fixed and variable overhead (such as costs of accounting, human resources, information technology and support, **building depreciation, rent**, and maintenance and utilities) [...].”

It is not clear why AASB is specifically calling out building depreciations, as opposed to allowing depreciations in a wider sense. However, including non-cash items in the fulfilment cash flows creates operational challenges:

- Given the physical cash flow has already occurred, that element of the fulfilment cash flows, arguably, should not be discounted, which would trigger these expense items to be treated differently from expense items with expected future cash flows
- As it is a non-cash item, the allowance made for this item at initial recognition will not be cleared by a physical cash flow. This might trigger the underlying asset to be included within the insurance contract liability, which may not be allowed by the accounting standard requiring the recognition of the asset



Leases

Under AASB 16, a company is required to recognise a lease liability representing the discounted value of future rent payments. As emphasised in the extract of **AASB 17.B65(I)** quoted above, the fulfilment cash flows include an allowance of overhead, which includes rent.

Including future rent payments within the fulfilment cash flows would be double counting those cash flows: once in the lease liability required by AASB 16 and once in the insurance contract liability as part of the fulfilment cash flows. However, only one of those future payments will be cleared when the rent is effectively paid.

Clarification of the basis to include rent in the fulfilment cash flows is therefore needed, to ensure appropriate understanding of this requirement. An illustrative example of how this could be done would be useful.

Another thing to consider is the fact that the accounting standard for *Leases* has changed from AASB 117 to AASB 16, for accounting periods starting on or after 1 January 2019. This change in accounting standard creates more complexity on transition, in the context of applying AASB 17 retrospectively, as operating leases are accounted on a different basis before and after 2019.

Disclaimer

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Is the question pervasive?

Explain whether the question is expected to be relevant to a wide group of stakeholders.

Question 1 is relevant to all insurers which receive GST and Stamp Duty from their policyholders and remit transaction-based taxes to tax authorities, and to users of financial statements.

Question 2 is relevant to all insurers who do not account for expenses on a simple accrual or cash basis.



Extracts from Australian Accounting Standards and Interpretations

AASB 17 Insurance Contracts

AASB 17.32 – On initial recognition, an entity shall measure a group of insurance contracts at the total of:

- (a) the fulfilment cash flows, which comprise:
 - (i) estimates of future cash flows (paragraphs 33-35);
 - (ii) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows (paragraph 36); and
 - (iii) a risk adjustment for non-financial risk (paragraph 37).
- (b) the contractual service margin, measured applying paragraphs 38-39.

AASB 17.38 - The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) applies, results in no income or expenses arising from:

- (a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32-37;
- (b) the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 27; and
- (c) any cash flows arising from the contracts in the group at that date.

AASB 17.100 - An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

- (a) the net liability (or assets) for the remaining coverage component, excluding any loss component.
- (b) any loss component (see paragraphs 47-52 and 57-58).
- (c) the liability for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53-58 or 69-70 has been applied, an entity shall disclose separate reconciliations for:
 - (i) the estimates of the present value of the future cash flows; and
 - (ii) the risk adjustment for non-financial risks.

AASB 17.101 - For insurance contracts other than those to which the premium allocation approach described in paragraph 53-59 or 69-70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balance separately for each of:

- (a) the estimates of the present value of the future cash flows;
- (b) the risk adjustment for non-financial risk; and
- (c) the contractual service margin.

AASB 17.102 - The objective of the reconciliations in paragraphs 100-101 is to provide different types of information about the insurance service results.

AASB 17.103 - An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to insurance services, if applicable:

- (a) insurance revenue.
- (b) Insurance service expenses, showing separately:
 - (i) incurred claims (excluding investment components) and other incurred insurance service expenses;
 - (ii) amortisation of insurance acquisition cash flows ;
 - (iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and



- (iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.
- (c) investment components excluded from insurance revenue and insurance service expense.

AASB 17.104 - An entity shall separately disclose in the reconciliation required in paragraph 101 each of the following amounts related to insurance services, if applicable:

- (a) changes that relate to future service, applying paragraphs B96-B118, showing separately:
 - (i) changes in estimates that adjust the contractual service margin;
 - (ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and
 - (iii) the effects of contracts initially recognised in the period.
- (b) changes that relate to current service, ie:
 - (i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;
 - (ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and
 - (iii) experience adjustments (see paragraphs B96(a), B97(c) and B113(a)).
- (c) changes that relate to past service, ie changes in fulfilment cash flows related to incurred claims (see paragraphs B97(b) and B113(a)).

AASB 17.105 - To complete the reconciliations in paragraphs 100-101, an entity shall also disclose separately each of the following amounts not related to insurance services provided in the period, if applicable:

- (a) cash flows in the period including:
 - (i) premiums received for insurance contracts issued (or paid for reinsurance contracts held);
 - (ii) insurance acquisition cash flows; and
 - (iii) incurred claims and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.
- (b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;
- (c) insurance finance income or expenses, and
- (d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

AASB Appendix A Defined items

Fulfilment cash flows - An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

Investment component - The amount that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

Insurance acquisition cash flows – Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to a portfolio of insurance contracts which the group belongs. Such cash flows include cash flows that are not directly attributable to individual groups of insurance contracts within the portfolio.

AASB 17.B65 - Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

- (a) premiums (including premium adjustments and instalment premiums) from policyholder and any additional cash flows that result from those premiums.
- (b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).
- (c) payments to (or on behalf of) a policyholder that depend on returns on underlying items.



- (d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).
- (e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.
- (f) claim handling costs (ie costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).
- (g) costs the entity will incur in providing contractual benefits paid in kind.
- (h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example conversion and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.
- (i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.
- (j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.
- (k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.
- (l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overhead are allocated to groups of insurance contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.
- (m) any other costs specifically chargeable to the policyholder under the terms of the contracts.

AASB 17.B120 - The total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity:

- (a) adjusted for a financing effect; and
- (b) excluding any investment component.

AASB 17.B123 – Applying AASB 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying AASB 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

- (a) changes that do not relate to services provided in the period, for example:
 - (i) changes resulting from cash inflows from premiums received;
 - (ii) changes that relate to investment components in the period;
 - (iii) changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));
 - (iv) insurance finance income or expenses;
 - (v) insurance acquisition cash flows (See paragraph B125); and
 - (vi) derecognition of liabilities transferred to a third party.
- (b) changes that relate to services, but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage (see paragraph 47-52).

Note: the extracts of AASB 17 above do not include the proposed amendments from the Exposure Draft ED/2019/4. It is not expected that these proposed changes impact the rationale outlined in this paper.



AASB 15 Revenue from Contracts with Customers

AASB 15.47 - An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

AASB 1023 General Insurance Contracts

AASB 1023.4.2.3 - In most States, stamp duty is charged on individual general insurance contracts and is separately identified by insurers on policy documents. The insurer is normally required to collect and pass on to the government an equivalent amount. Because such stamp duty is a tax collected on behalf of a third party and there is no choice on the part of the insurer but to collect the duty from the insured, it is not income of the insurer. Similarly, Goods and Services Tax (GST) is not income of the insurer.

Interpretation 1031 Accounting for Goods and Services Tax

Paragraph 6 - Revenues, expenses and assets shall be recognised net of the amount of goods and services tax (GST), except where paragraphs 7 and 8 apply.

Paragraph 7 - The amount of GST incurred by a purchaser that is not recoverable from the taxation authority shall be recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Paragraph 8 - Receivables and payables shall be stated with the amount of GST included.

Paragraph 9 - The net amount of GST recoverable from, or payable to, the taxation authority shall be included as part of receivables or payables in the statement of financial position.



Transaction-based taxes: GST and Stamp Duty

AASB 17.B65 states that (emphasis added): “Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount and timing. The cash flow within the boundary include: (a) [...] (i) **transaction-based taxes** (such as **premium taxes**, value added taxes and **goods and services taxes**) and levies (such as fire service levies and guarantee fund assessments) that arise directly from the existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis (j) [...]”.

Goods and Services Tax

GST is specifically listed in **AASB 17.B65(i)**, so it is clear it is a transaction-based tax.

The current treatment of GST in Australia is dictated by **Interpretation 1031 Accounting for Goods and Services Tax** (the “Interpretation”), issued by the AASB. The current version of the Interpretation was prepared in June 2014. The Interpretation applies to all companies in Australia, and not just insurance companies. The relevant extracts of the Interpretation are listed below:

Interpretation 1031.6 - “Revenues, expenses and assets shall be recognised net of the amount of goods and services tax (GST), except where paragraphs 7 and 8 apply.”

Interpretation 1031.7: “The amount of GST incurred by a purchaser that is not recoverable from the taxation authority shall be recognised as part of the cost of acquisition of an asset or as part of an item of expense.”

Interpretation 1031.8: “Receivables and payables shall be stated with the amount of GST included.”

Interpretation 1031.9: “The net amount of GST recoverable from, or payable to, the taxation authority shall be included as part of receivables or payables in the statement of financial position.”

Stamp Duty

Stamp Duty is not specifically mentioned by **AASB 17.B65(i)**, but this submission considers it as a premium tax, and therefore also as a transaction-based tax.

GST and Stamp Duty are applied in a similar way to the premium (application of a specific rate to an amount of premium). From a general insurer’s perspective, treating them the same way under AASB 17 (i.e. considering that both fall under AASB 17.B65(i)) makes sense.

The similarity between GST and Stamp Duty (for general insurers) is acknowledged by AASB 1023:

AASB 1023.4.2.3 (emphasis added) – “In most States, stamp duty is charged on individual general insurance contracts and is separately identified by insurers on policy documents. The insurer is normally required to collect and pass on to the government an equivalent amount. Because such **stamp duty** is a tax collected on behalf of a third party and there is no choice on the part of the insurer but to collect the duty from the insured, it is not income of the insurer. **Similarly, Goods and Services Tax (GST) is not income of the insurer**”.

To note:

- Stamp Duty is currently treated differently by General Insurers (balance sheet item) and Life Insurers (gross up of premium revenue and operating expenses). In this submission, the specificities of Stamp Duty in a Life Insurance context have not been considered further.
- There is no equivalent of **Interpretation 1031** for Stamp Duty



Question 1 – Roll forward disclosures (Years 2 and 3) of [View A](#)

Disclosure - Roll forward 1 (Years 2 and 3 only) Signs: + / - = debit / credit	Future CF AASB 17.101(a)	Risk adj AASB 17.101(b)	CSM AASB 17.101(c)	Total
End of Year 1	-485.80	0.00	-183.33	-669.13
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
Insurance service result	0.00	0.00	91.67	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)	258.80			258.80
Acquisition cash flows (incl. taxes)				0.00
Total cash flows	258.80	0.00	0.00	258.80
End of Year 2	-227.00	0.00	-91.67	-318.67
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
Insurance service result	0.00	0.00	91.67	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)	227.00			227.00
Acquisition cash flows (incl. taxes)				0.00
Total cash flows	227.00	0.00	0.00	227.00
End of Year 3	0.00	0.00	0.00	0.00



	LfRC			Total
	Excl. loss AASB 17.100(a)	Loss portion AASB 17.100(b)	LIC AASB 17.100(c)	
Disclosure - Roll forward 2 (Years 2 and 3 only)				
Signs: + / - = debit / credit				
End of Year 1	-669.13	0.00	0.00	-669.13
Insurance revenue	361.67			361.67
<i>Insurance service expenses</i>				
Incurring claims and other expenses			-240.00	-240.00
Amortisation of acquisition cash flows	-30.00			-30.00
Insurance service result	331.67	0.00	-240.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)			258.80	258.80
Acquisition cash flows (incl. taxes)				0.00
Total cash flows	0.00	0.00	258.80	258.80
Other movements	18.80		-18.80	0.00
End of Year 2	-318.67	0.00	0.00	-318.67
Insurance revenue	331.67			331.67
<i>Insurance service expenses</i>				
Incurring claims and other expenses			-210.00	-210.00
Amortisation of acquisition cash flows	-30.00			-30.00
Insurance service result	301.67	0.00	-210.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)			227.00	227.00
Acquisition cash flows (incl. taxes)				0.00
Total cash flows	0.00	0.00	227.00	227.00
Other movements	17.00		-17.00	0.00
End of Year 3	0.00	0.00	0.00	0.00



Question 1 – Roll forward disclosures (Years 2 and 3) of [View B](#)

Disclosure - Roll forward 1 (Years 2 and 3 only) Signs: + / - = debit / credit	Future CF AASB 17.101(a)	Risk adj AASB 17.101(b)	CSM AASB 17.101(c)	Total
	-649.00	0.00	-183.33	-832.33
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
Insurance service result	0.00	0.00	91.67	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)	258.80			258.80
Acquisition cash flows (incl. taxes)				0.00
Other - GST and stamp duty paid on premiums	199.00			199.00
Other - GST recouped on Claims and Admin exp.	-18.80			-18.80
Other - GST recouped on Acquisition cash flows				0.00
Total cash flows	439.00	0.00	0.00	439.00
End of Year 2	-210.00	0.00	-91.67	-301.67
<i>Changes that relate to current service</i>				
Recognition of CSM			91.67	91.67
Risk adjustment for risk expired		0.00		0.00
Insurance service result	0.00	0.00	91.67	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)	227.00			227.00
Acquisition cash flows (incl. taxes)				0.00
Other - GST and stamp duty paid on premiums				0.00
Other - GST recouped on Claims and Admin exp.	-17.00			-17.00
Other - GST recouped on Acquisition cash flows				0.00
Total cash flows	210.00	0.00	0.00	210.00
End of Year 3	0.00	0.00	0.00	0.00



	LfRC			Total
	Excl. loss	Loss portion	LIC	
	AASB 17.100(a)	AASB 17.100(b)	AASB 17.100(c)	
End of Year 1	-832.33	0.00	0.00	-832.33
Insurance revenue	361.67			361.67
<i>Insurance service expenses</i>				
Incurred claims and other expenses			-240.00	-240.00
Amortisation of acquisition cash flows	-30.00			-30.00
Insurance service result	331.67	0.00	-240.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)			258.80	258.80
Acquisition cash flows (incl. taxes)				0.00
Other - GST and stamp duty paid on premiums	199.00			199.00
Other - GST recouped on Claims and Admin exp.			-18.80	-18.80
Other - GST recouped on Acquisition cash flows				0.00
Total cash flows	199.00	0.00	240.00	439.00
Other movements	0.00		0.00	0.00
End of Year 2	-301.67	0.00	0.00	-301.67
Insurance revenue	331.67			331.67
<i>Insurance service expenses</i>				
Incurred claims and other expenses			-210.00	-210.00
Amortisation of acquisition cash flows	-30.00			-30.00
Insurance service result	301.67	0.00	-210.00	91.67
<i>Cash flows</i>				
Premiums received (incl. taxes)				0.00
Claims and other expenses paid (incl. taxes)			227.00	227.00
Acquisition cash flows (incl. taxes)				0.00
Other - GST and stamp duty paid on premiums				0.00
Other - GST recouped on Claims and Admin exp.			-17.00	-17.00
Other - GST recouped on Acquisition cash flows				0.00
Total cash flows	0.00	0.00	210.00	210.00
Other movements	0.00		0.00	0.00
End of Year 3	0.00	0.00	0.00	0.00