Australian Government

Australian Accounting Standards Board

AASB 17 TRG Meeting

22 August 2019

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3.2 Allocation of acquisition costs

- Amendment will assist delivering sensible financial reporting outcomes for a number of products (e.g. Australian yearly renewable term (YRT)) and is therefore welcomed
- A number of areas that could be clarified in the wording:

  Allocate directly attributable acquisition cash flows to that group and to groups that include contracts expected to arise from future renewals

  - "Future renewals" looks to be a broader scope that BC39 sets out (recovery of acquisition costs may not, in many cases, be via future renewals)
  - Appears to be a tighter definition of acquisition costs allocation i.e. by group rather than attributable to "portfolio"
- Allocation basis is to be systematic and rational – solves a number of issues
- Is there a single DAC asset to be tested for recoverability (i.e. as per snapshot) or separate DAC assets for each potential future group?
- Identified need for transition requirements – i.e. for modified retrospective approach

3.3 CSM attributable to investment service

- We support inclusion of investment service for recognition of CSM
- We support assertion that there may be an investment-return service without an investment component being present
- However, the definition of an investment-return service requires a ‘positive investment return’:
  - What is a ‘positive investment return’?
  - Is it OK to have an investment component that doesn’t provide an investment return service (because no ‘positive investment return’)?
  - Implies retrospective calculation of investment component value – yet a typical surrender value is calculated prospectively – what is the inclusion then?
- Define investment-return service (where no investment component) similar to investment-related service or service provided by a funds management contract
- B119B(c) is not sufficient – to provide a service, investment activity needs to be **for the policyholder** (all insurers perform investment activity)
- We support the revised disclosures

3.3 Terminology

- The definition of ‘insurance contract services’ is incomplete – it only includes insurance and investment services, but should also include ‘other services’ (e.g. non-distinct service components)

- As recognition of CSM now refers to the delivery of ‘services’, not just insurance coverage, the change from ‘coverage’ to ‘service’ makes sense

3.4 Comments on the proposed amendment on reinsurance held

Agree with amendment to allow the recognition of reinsurance recovery income when the entity recognises losses on onerous underlying contracts.

Scope of the proposed amendment (limitation to “proportionate coverage”) is too narrow

Results in **accounting that does not represent the economics**:

- Different accounting treatment of reinsurance transactions that have the same economic effect
- Inconsistent treatment across reinsurance contracts of the same nature and substance
- Inconsistent with the subsequent measurement requirement set out in IFRS 17.66(c)(ii)
- Possible inconsistent interpretations as the proposed amendment adds a new distinction (‘proportionate’ vs ‘non-proportionate’) that may be difficult to apply

3.4 Comments on the proposed amendment on reinsurance held

Reinsurance recoveries that relate to an onerous underlying loss recognised can be determined **without making arbitrary assumptions** and by using a simple methodology that can be **applied consistently** by all entities for all types of reinsurance contracts.

Insurance contracts issued	
Premiums	**100**
Claims	**(150)**
Expected loss (recognised immediately)	**(50)**

XOL reinsurance contract which will pay recoveries for all claims above a deductible of CU30 for reinsurance premiums of CU125:

XOL reinsurance contract held	
Reinsurance premiums	**(125)**
Claims recovered from reinsurance	**120**
Net cost	**(5)**
Recovery % = 120/150	**80%**
Recovery that corresponds to the onerous loss = 80% x CU50	**40**

The recovery percentage is the allocation of the insurer's right to recover under the reinsurance contract to each reinsurance contract to each underlying claim (including the claims that make up the underlying loss of CU50).

6. Actuaries Institute Activities

Information Note – draft (March 2018)

– ver 1.1 (July 2018)

– ver 1.2 (Dec 2018)

– ver 2.0 (following response to ED)

Addendum (Feb 2019) - changes to IFRS 17 tentatively agreed by the IASB in Jan and Feb 2019.

Response to ED – workshop on 19 August

6. Actuaries Institute Activities (cont’d)

Have assisted APRA through:

– sub-group addressing VFA (par business) and

– sub-group addressing risk adjustment (initially for Life Insurance) and capital requirements

– liaison meetings

– identification of ‘low-hanging fruit’