



Insurance Contracts – Australian specific amendments

Project summary

AASB 17 *Insurance Contracts* was issued in July 2017, and replaces existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The AASB is now considering Australian-specific issues, including:

- AASB 17 excludes from its scope arrangements created by statute rather than contract. The AASB is concerned that this will cause diversity in accounting practice between arrangements that have economically and in substance similar insurance risk.
- Whether application guidance is warranted for public sector entities
- Whether regulatory disclosures which were not carried forward from AASB 1038 should be retained.

A Discussion Paper was issued in November 2017.

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Project priority: Low

Issued documents

- AASB 17 *Insurance Contracts*
- Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*

Project status

- To conduct further field testing

- [Link to IASB project page](#)
- [Link to AASB 17 project page](#)
- [Link to Discussion Paper](#)
- [Link to AASB 17 TRG page](#)

AASB outreach

- Public sector outreach
- Submissions received on Discussion Paper

Board deliberations

- AASB Action Alert Update and AASB Board papers

AASB communications

- Media Release *Insurance Contracts – more transparency for investors*

Project news

Date

News

4 September 2018

[September 2018 Action Alert](#)

11 October 2017

[October 2017 Action Alert](#)

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

AASB Action Alert Update, Minutes and Board Papers

Meeting Date Update

September 2018 The Board considered a summary of constituent feedback on the Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* and decided to carry out the following activities:

- (a) conduct further field testing of the ‘insurance-like’ criteria;
- (b) based on the field testing, consider whether clarifications of the ‘insurance-like’ criteria are required, particularly the ‘funding’ criteria;
- (c) consider the assumptions used in determining discount rates for public sector entities; and
- (d) consider the assumptions used in determining risk margins for public sector entities.

[8.1](#) Staff Paper: Summary of comments on Insurance Discussion Paper

[8.2](#) For noting: Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*

October 2017 The Board agreed that the proposed amendments to AASB 17 *Insurance Contracts* to include insurance risk created by statute rather than contract should apply to both for-profit and NFP public sector entities, as insurance-like arrangements arising from statute are sufficiently prevalent in both sectors.

To finalise the Discussion Paper proposals, the Board decided to clarify that:

- (a) in determining whether an arrangement is insurance-like, criteria that are classified as ‘mandatory’ must be satisfied, but this is not sufficient to conclude that an arrangement is insurance-like (ie the non-mandatory indicators must also be considered); and
- (b) guidance should specify that a public sector entity’s risk adjustment for non-financial risk should reflect the specific risk appetite and cost of capital of the entity in line with the general principles of AASB 17, and therefore it may be necessary to consider aspects such as government guarantees supported by taxing powers or monopoly status.

In addition, the Board decided in relation to Australian-specific amendments to AASB 17:

- (a) a project timeline, which includes both a discussion paper and exposure draft, with a view to completing the project by November 2018;
- (b) to include illustrative examples as an appendix to the discussion paper to help entities determine when arrangements are insurance-like;
- (c) to expose in the discussion paper regulatory disclosures currently required in AASB 1038, which were not carried forward when superseded by AASB 17, with a recommendation to not carry forward the disclosures to AASB 1054 Australian Additional Disclosures; and
- (d) to do no further work on the interaction between AASB 17 Insurance Contracts and AASB 1056 Superannuation Entities when a superannuation entity has to consolidate an subsidiary issuing insurance contracts.

AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
	<p>8.0 Cover Memo: Insurance Contracts</p> <p>8.1 AASB Discussion Paper <i>Australian specific insurance issues – regulatory disclosures and public sector insurers</i> [DRAFT]</p> <p>8.2 Analysis of Arrangements Against Insurance-like Criteria [DRAFT]</p> <p>8.3 Staff collation and analysis of regulatory disclosures being considered for retention</p> <p>8.4 Meeting minutes of September 2017 Insurance Project Advisory Panel Meeting</p>
June 2017	<p>The Board considered the application of the forthcoming Accounting Standard AASB 17 Insurance Contracts to NFP entities and decided that:</p> <ul style="list-style-type: none"> (a) where a NFP entity issues an insurance contract (as defined in AASB 17), the Board's policy of transaction neutrality will apply and the entity would be required to account for that contract as required by AASB 17; (b) the prevalence and magnitude of non-contractual NFP 'insurance-like' arrangements warrants NFP-specific modifications; (c) 'insurance-like' arrangements should be defined in relation to the manner in which they are managed, for example: <ul style="list-style-type: none"> (i) whether an arrangement's obligations to the insured parties, including those arising from statutory obligations, is estimated similarly to that of an insurance contract as defined in AASB 17; and (ii) whether the funding for the arrangement is calculated so as to replace premium collections, or whether the funding is calculated on some other basis; (d) where the 'insurance-like' arrangement is managed in a similar manner to that of an insurance contract, the entity should apply AASB 17 to account for that arrangement despite not meeting the definition of an insurance contract; and (e) apart from the necessary modifications to achieve the above, no other NFP-specific modifications should be made to AASB 17. <p>In developing the amendments noted above, the Board will have regard to the International Public Sector Accounting Standards Board's continuing work on its Social Benefits project. To the extent possible, that work will be incorporated into the NFP-specific amendments.</p> <p>3.1 Staff Paper: Public sector scope and modifications</p> <p>3.2 IPSASB Criteria for insurance contracts</p>
May 2017	<p>The Board received a presentation on the latest developments regarding the forthcoming IFRS 17 Insurance Contracts. In addition, the Board reviewed tentative project timelines to issue IFRS 17 in Australia, initially for for-profit entities, and to consider any further guidance necessary for not-for-profit entities in both the private and public sectors.</p>
August 2016	...

AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
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Public sector insurers

The Board decided that it will clarify the scope of the forthcoming new AASB insurance standard for public sector entities, to ensure similar activities are treated similarly. The Board asked staff to:

- (a) conduct more thorough outreach through HoTARAC members and with the affected entities directly; and
- (b) prepare a possible exposure draft that would make proposals about the types of arrangements to be accounted for using insurance standards, which would be intended to take effect under the forthcoming AASB standard.

The Board noted there may be a need to address the interaction of the likely contract boundary and onerous contract requirements. If the impact of the forthcoming new AASB insurance standard would be to require public sector insurers to account for some sub-groups of annual contracts as if they were long-term (possibly perpetual) contracts using the 'general model' for liability measurement, there should be a public sector-specific paragraph to avoid this consequence. The Board asked staff to draft a relevant paragraph in case it is needed.

The Board also noted that similar issues around the interaction of the likely contract boundary and onerous contract requirements may arise for health insurers because of the Australian regulatory regime of 'community rating'.

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4.3 Staff Paper: Analysis of key issues arising from forthcoming IFRS 17 in context of AASB's *Process for Modifying IFRS for NFP*

June 2016

The Board noted that the IASB has completed its substantive decision making on a forthcoming revised IFRS 4 Insurance Contracts that, if adopted, would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Board:

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- (c) noted issues of potential significance to the public sector; and

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The Board asked staff to:

- (a) prepare a more detailed paper for presentation at the next Board meeting on whether any differences from the revised IFRS 4 might be justified for public sector insurers, following more stakeholder engagement with that sector;

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10.4 Staff paper: Implications for public sector insurers of a revised IFRS 4