



Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
 22 June 2020
 9am – 10.30am

Objective:

- Update from the ATO on the potential impact of AASB 17 on taxation.
- Update from APRA on APRA’s proposed next steps for integrating AASB 17 into the capital and reporting frameworks.
- Update from Institute of Actuaries (IoA) Taskforce on the work performed by the APRA working groups of the Taskforce.
- Update on activities of the AALC.
- Discuss two submissions on implementation questions raised and any actions required:
 - The treatment of premium receivables from intermediaries
 - The presentation of the effects of discounting in profit or loss.

Note: These minutes provide a summary of discussion only and any views or interpretations do not constitute professional advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this document.

Topic	Agenda paper
<p>Update from ATO</p> <p>A member of the ATO provided an update on its status with regards to determining the impact of AASB 17 on taxation:</p> <ul style="list-style-type: none"> • The ATO and Treasury both have different roles in the implementation of AASB 17 on taxation. The ATO supports Treasury by providing their views on the possible implications of AASB 17 on tax law. Treasury has responsibility for decisions on tax policy. • Treasury has not yet made public announcements with regards to tax policy decisions around the possible alignment with AASB 17. • A member asked when the industry might be provided with some clarity around the likely implementation timeframes on possible changes in tax law. The member of the ATO responded that the ATO do not currently have a sense of the implementation timeline or when such a timeline may be available. External factors such as the recent Covid-19 pandemic may have had an impact on Treasury’s considerations. The ATO will share timeframes or related updates from Treasury when these are available. 	
<p>Update from APRA</p> <p>A member from APRA provided an update on its proposed next steps for integrating AASB 17 into the capital and reporting frameworks:</p>	

<ul style="list-style-type: none"> • APRA’s work priorities in the last 2-3 months have been focussed on the impacts of Covid-19. As a result, policy consultations, including formal consultations on AASB 17, have been delayed. APRA will be looking to communicate revised timeframes when these are available. • APRA does not plan to issue a letter to the industry in the near future but acknowledge the need to provide the industry with some certainty. APRA will consider the Amendments that will be issued by the IASB [issued 25 June 2020] when determining next steps, including the impact of the additional delay to 2023 on the implementation timeline for APRA integration. • APRA is currently progressing its work on developing proposed policies in relation to the integration of AASB 17 and are working towards producing a consultation package. • A member asked when preparers are likely to be asked to provide information to APRA and if APRA can indicate a comfort period during which preparers would not be asked to provide information. The member from APRA responded that APRA is mindful of the disruption to business processes resulting from Covid-19 and APRA will consider these impacts in order to provide a reasonable timeframe for preparers to respond to any requests for information. The member from APRA estimated that the current phase of work on policy is expected to be concluded by the end of the year. 	
<p>Update from IoA Taskforce</p>	<p>ATT1</p>
<p>Three sub-groups of the IoA Taskforce (‘working groups’) have been working with APRA in an information and advisory capacity to consider and submit proposals on the implications of AASB 17 for reporting to APRA. Lead representatives from the working groups provided updates on the work performed around their respective focus areas, being Reinsurance, VFA and Risk adjustment.</p> <p><u>Reinsurance working group (ATT1)</u></p> <p>The working group representative introduced the purpose and scope of the group – <i>ATT1 Slide 2</i>:</p> <ul style="list-style-type: none"> • The working group has identified 6 topics for consideration –<i>ATT1 Slide 3</i> - and are currently focussed on topics 2, 4 and 6 due to the complexity and implications for insurers/reinsurers. • Examples are being developed for general and life insurance in relation to Topic 2 which addresses the differences in the application of contract boundary requirements under AASB 1023/1038 and AASB 17. – <i>ATT1 Slide 4</i> • The scope of the working group was expanded earlier in the year to also consider topics which have implications beyond reinsurance where the working group identified a need to analyse the implications for inwards business (including direct insurance) before working on the reinsurance considerations. For example, Topic 4 addresses how AASB 17 statutory balances can be reported at an APRA group level where APRA product groups do not align with AASB 17 portfolios / groups. The working group are currently considering a principles-based approach as a prescribed approach is unlikely to cater for differences in data, processes and product features across different industries (general insurance, life insurance, reinsurance) and entities. • The working group comprises representatives from general insurance, life insurance and reinsurance entities. The representatives comprise of a mix of Actuaries and Accountants. Refer to <i>ATT1 Slide 5</i> for a list of working group members. Members who are interested in participating or contributing to the working group are encouraged to contact the IoA Taskforce. • A member asked if the working group includes representation from Health insurers. The working group representative responded that the scope of the working group includes consideration of the impacts for health insurers - Topic 4 could have significant implications 	

for health insurers but the other topics may be less relevant. The intention of the working group is to assess the proposed solutions for general insurance, life insurance and reinsurance for applicability to health insurance as well. The working group welcomes participation from health insurers in the discussions.

- The working group is working towards producing a final submission to APRA by December 2020. A draft paper will be shared with the IoA Taskforce and socialised with other relevant industry forums for feedback prior to finalising a submission for APRA.

VFA working group

The working group representative provided a progress update on the work performed by the group:

- A position paper had been submitted to APRA in March 2020. Members of the working group have a meeting with APRA to obtain APRA's feedback on the submission.
- A member asked about the extent of the impact of the issues being considered by the working group. The working group representative responded that the issues only impact entities with participating business.
- An update on progress and next steps will be provided at the next IoA Taskforce meeting.

Risk adjustment working group

The working group representative provided a progress update on the work performed by the group:

- The working group is considering the treatment of the risk adjustment for prudential purposes. The working group has been working on two position papers – (1) a paper issued covering application to life insurance was issued 12 months ago and (2) a paper covering application to general and health insurance. The papers identify the changes under AASB 17 compared to current risk margin requirements and the practical challenges for implementation or regulatory supervision.
- The following topics have been identified for consideration by the working group:
 - AASB 17 risk adjustment vs APRA risk margin: conceptual differences and whether they raise issues. An example is the exclusion of financial risks from the AASB 17 risk adjustment – members considered that it is unlikely to have a material impact but recommend that APRA consult with entities to validate this.
 - Probability of Adequacy (PoA): the working group observed that the PoA applied across general insurers is currently not consistent (some apply a 75th percentile and others apply a higher PoA) and, in some cases, a different PoA could be applied for liability adequacy testing. The working group considered how AASB 17 may impact the application of the PoA and if APRA might be required to introduce additional mechanisms to address any differences. The working group notes that APRA currently have a surplus and deficit mechanism to deal with risk margins above and below the 75th percentile and considered if any changes will be required to this to address any differences that may arise under AASB 17.
 - Net vs gross: The working group observed that a number of approaches are adopted across the industry around calculating the reinsurance risk margin and considered what those differences might mean for the net and reinsurance risk adjustment under AASB 17.
 - Diversification across global entities: The working group are considering how local branches and subsidiaries of multinational organisations allow for diversification benefits when determining the risk adjustment.

- Reinsurance contract boundaries and premium allocation approach
- The working group also identified other issues that are not directly related to the risk adjustment – e.g. allowing for reinsurance default risk, reinsurance reinstatement premiums, premium liability and contract boundary for health insurance, risk equalisation reserve for health insurance. The working group has connected with relevant industry members to ensure that these topics are addressed in the appropriate forums.
- The papers are available for circulation upon request.
- The papers are currently with APRA for consideration.

AALC update

ATT2

The Chair of the AALC introduced the objectives and key activities of the AALC:

- The AALC has been established for many years and includes members from the IoA Taskforce and CAANZ but is not formally linked to those organisations. The objective of the AALC is to provide a forum for communication between the professions (Accountants and Actuaries) on areas that are of joint interest – these are not limited to AASB 17.
- The AALC is made up of 22 members but welcome guest speakers to present on topics or submissions.
- Recent topics discussed include Covid-19 and AASB 17 (*Slide 4*). The usual process for discussing issues includes the preparation of a discussion paper which is considered by members and discussed at the meetings.
- The AALC invites members and industry participants to submit topics or questions on AASB 17 for discussion.

Paper for discussion - treatment of premium receivables from intermediaries

ATT3

The preparer of the submission introduced the paper and key considerations:

- The paper considers whether AASB 9 is relevant when accounting for premium receivables from intermediaries and if so, when might AASB 9 be relevant. The paper puts forward two views:
 - **View 1:** Premiums to be received from any potential third party source (including policyholders and intermediaries) will be within the scope of AASB 17 once the insurance contracts are recognised.
 - **View 2:** AASB 9 may be relevant when accounting for receivables from an intermediary where the policyholder has already remitted the premiums to the intermediary.
- In support of View 1:
 - Fulfilment cash flows within the scope of AASB 17 [AASB 17.B65] are not restricted to cash flows from policyholders. Fulfilment cash flows include cash flows expected from third parties (including intermediaries) – e.g. commissions on insurance contracts.
 - The sweep issues discussed in the May 2020 IASB Board meeting which addresses the accounting for costs incurred but not yet paid confirms that any liabilities previously recognised under AASB 9 (due to the costs being incurred prior to the recognition of the insurance contract) would be de-recognised and accounted for under AASB 17 once the insurance contract(s) has been recognised. This supports the view that once an insurance contract is recognised, all related fulfilment cash flows are recognised under AASB 17.

- View 2 considers that if an intermediary is acting on behalf of an insurer, the insurer has a receivable from a third party that arises outside of the insurance contract because the policyholder has discharged his/her obligation to pay premiums (having remitted the premiums to the intermediary) and the insurer is obligated to provide the insurance coverage. The preparer observed that based on research done in Australia and NZ, the intermediary is usually deemed to be acting on behalf of the insurer under regulatory frameworks.
- The preparer noted that mixed views were expressed by members of the AALC.

Members discussed the considerations in the paper:

- A member considered that View 2 seemed logical but expressed concern about requiring entities to apply different approaches depending on the structure of intermediary arrangements / relationships (i.e. whether they are deemed to be acting on behalf of the insurer or the policyholder).
- Another member asked about whether there is an accounting precedence in terms of which Standard should take priority. A member expressed the view that AASB 17 is the Standard that more specifically addresses the cash flows being considered and therefore, AASB 17 should apply on that basis. The member conceded that a supporter of View 2 might have a different view.
- Members discussed the implications for consolidated entities where the premiums have been received by an entity within the Group that is an intermediary but not yet received by the insurance entity within the Group. A member considered that the accounting at the consolidated level could be different from the accounting at the level of the standalone entities in that case.
- A member expressed the following views:
 - In some cases, insurers have agents who are able to bind the insurers and issue insurance coverage on behalf of the insurers to policyholders directly or brokers acting on behalf of policyholders. In those cases, the insurer may be deemed to have a separate contract with the agent. Applying View 2 would acknowledge the fact that there are two contracts in those scenarios – (1) the insurance contract with the policyholder which is accounted for under AASB 17 and (2) a separate contract between the insurer and the agent which is not an insurance contract.
 - There may be situations where the agent never remits the cash but may use the cash to pay claims. Applying AASB 17, the amounts would never be recognised as part of the insurance liability for remaining coverage (LfRC) under the PAA due to not having been received. This would result in the insurer not showing contracts that are bound in that hypothetical situation.
- Another member expressed the following views in response to the above:
 - In terms of viewing the contract with the agent as a separate contract, the same could be said about acquisition costs which could equally arise from separate contracts with intermediaries (e.g. commissions) but these are still considered to be within the scope of AASB 17 once the insurance contract is recognised. That indicates that whether the cash flows arise from contracts that are separate from the insurance contract with the policyholder is not a relevant consideration for whether those cash flows should be within the scope of AASB 17.
 - The same outcomes would be achieved under the PAA and the GM if applying AASB 17 in the example where the premiums are never remitted to the insurer – *(note: premiums expected to be received will be reflected within the fulfilment cash flows under the GM)*

offset by an equivalent amount in the CSM, this is approximated under the PAA as premiums received of nil). Therefore, the fact that the cash may never be remitted to the insurer is not a factor for scoping those cash flows out of AASB 17.

Another member agreed and considered that the cash transmission is separate from the recognition of the contracts.

- A member considered that it was important to highlight the existence of alternative views.
- Another member asked if the two views can co-exist. A member observed that the IASB has not issued explicit guidance on this topic and considered that the IASB is an important stakeholder. The member considered that this is an example of an area of the Standard that is unclear or requires judgment. Members will consider whether there is a need to raise this question to the IASB.

Presentation of discounting

ATT4

The preparer of the submission introduced the paper and key considerations:

- The question originated in the UK market and has been discussed at the AALC. The paper considers the presentation of the effects of discounting in profit or loss. The Standard requires financing effects to be presented within Finance income/expense outside of the insurance service result.
- The paper considers two views:
 - **View 1:** The initial recognition of the effects of time value of money (i.e. initial discount) is included in the insurance service result. The subsequent unwind of the initial discount and movements in discount rates are included in finance income and expenses.
 - **View 2:** The initial recognition of the effects of time value of money, subsequent unwind of these amounts and any movements in discount rates are included in finance income and expenses.

Members discussed the considerations in the paper:

- A member considered that the illustrative examples in the IASB’s Effects Analysis is clear about the treatment of the effects of discounting and supports View 1. Other members agreed and expressed support for View 1.
- A member asked if the two views can co-exist. Members considered that the Standard as currently worded would indicate that the two views are unlikely to be able to co-exist.

Contracts acquired in their claims settlement period - update

ATT5

A member provided a progress update on ‘contracts acquired in their claims settlement period’ which was agreed by the AASB TRG to be a remaining area of concern for the Australian industry.

The AASB TRG is in the process of seeking input from global industry bodies to understand if it is also considered to be an issue in other jurisdictions and to agree on possible solutions.

Refer to ATT5 for details of progress and next steps.

AOB

ATT7

- The Chair of the AASB TRG noted the appointment of the new Chair of the AASB, Dr Keith Kendall and provided an update on the expected continuation of the TRG. It is expected that the next TRG meetings planned for September and December 2020 will proceed as planned.

- Members observed that many implementation projects in Australia have paused or decelerated due to Covid-19 and the delay of IFRS 17 to 2023. Members discussed proposals for circulating implementation issues among local forums, noting that many of these issues may be emerging from overseas. Members suggested that the Big 4 audit firms who have access to global forums that discuss these issues can feed these issues into local forums (and the AASB TRG when relevant) for discussion and assessment of impact for Australian entities.

End Meeting

Participants	Organisation
<i>TRG members and delegates</i>	
Anne Driver (Chair)	QBE (until 3 July and from 6 July 2020 Deloitte)
Stuart Alexander	Deloitte
Jane Clifford (on behalf of Fehraz Fallil)	iCare NSW
Cassandra Cope	HCF
Brendan Counsell	EY
David Faulkner-Tuck	Chair of the Accounting & Actuaries Liaison Committee (AALC)
Karen Foo	Victoria Department of Treasury and Finance
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC
Jeroen Van Koert	AIA
Weldon Luo	ATO
Chris Maher	AMP
Louise Miller	Suncorp
Ian Moyser	KPMG
Aidan Nguyen	Financial Services Council
Grant Robinson	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Rob Sharma	APRA
Michael Sokulski	Medibank
Warwick Spargo	RSM
Paul Stacey	Insurance Council of Australia
Leong Tan	Swiss Re
Robert W Thomson	ATO
<i>Guests and guest speakers</i>	
Abhijit Apte	Suncorp
Anna Donoghoe	PwC
Geoff Leeman	Swiss Re
Richard Lyon	TAL
Thomas Moodie	Deloitte
Rachel Poo	QBE
Richard Sheridan	IAG
Kaise Stephan	Deloitte
Wynne Tan	AIA
Owen Tong	Deloitte
Angus Thomson	QBE
<i>AASB representatives</i>	
Patricia Au	AASB Staff
Helena Simkova	AASB Staff