Exposure Draft 319: Insurance Contracts in the Public Sector

Insurance Commission of Western Australia Comments

Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45]

1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.

Yes, agree.

Unlike for-profit insurers where granular risk information is collected to inform premium setting for sub-groups of policy holders, which in turn contributes to insurer profit margins, this granular level of information is less relevant in the public sector. In the public sector, insurance (or self-insurance) pricing is often performed at a portfolio level with limited information captured in internal systems on the risk profile of sub-groups within the portfolio. In a public sector context, premium cross-subsidisation or community based pricing is generally applied across a portfolio.

2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.

Yes, agree.

The Insurance Commission's motor injury insurance and government self-insurance arrangements are issued with a maximum of one year of coverage (whether that be accident year or financial year). Sub-grouping of contracts issued more than one year apart are therefore not as relevant when compared to for-profit insurers who issue multi-year coverage and wish to identify trends in profitability.

Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50]

3. Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.

Yes, agree.

Systems are not currently established to capture this information and the results are unlikely to be useful for users of the Insurance Commission's financial statements.

Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85]

4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:

(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;

(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;

(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;

(d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:

> *(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or*
>
> *(ii) a broad government policy framework that includes considering general economic circumstances and community needs.*

Please provide your reasons.

> Yes, agree.
>
> The proposed guidance should remove any ambiguity for public sector entities applying the premium allocation approach methodology (in particular associated with contract and coverage periods) that may have arisen from unique public sector specific situations such as Ministerial involvement in premium setting, monopoly situations and obligations to provide various insurance products. This will help avoid having lengthy justification discussions with auditors on the interpretation of what is the coverage period which forms the basis of the eligibility to apply the premium allocation approach.

5. Do you agree with the proposals to:

(a) require disclosure of information about the nature of the pricing process, including:

> *(i) the manner in which pricing/benefits are determined;*
>
> *(ii) the timeframes for which they are typically determined; and*
>
> *(iii) any other relevant constraints under which an entity operates;*

when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

(b) permit the disclosure to be located either:

> *(i) in the notes to the financial statements; or*
>
> *(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?*

Please provide your reasons.

> Yes, agree. This disclosure information may be useful to users of financial statements and should be already disclosed by public sector entities (whether that be in the financial statements or via other documents) or be readily available.

Risk adjustment [paragraphs BC86 to BC122]

6. The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.

The proposed paragraph 37.1 in the NZASB's Exposure Draft states:

37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

(a) Do you support:

(i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or

(ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?

Please provide your reasons.

> The Insurance Commission support no modifications to AASB 17 regarding the risk adjustment requirement. The addition of a risk margin on claim liabilities recognises the inherent risk in the valuation of future claim costs and that such liabilities are not risk-free.
>
> The Insurance Commission intends to continue to apply a risk margin that will achieve a 75% probability of sufficiency across all its insurance portfolios.
>
> The disclosures requirements of AASB 17 will enable users of public sector financial statements to understand the risk margin assumptions of the entity and provide the ability to compare the underlying assumptions of different public sector entities.

(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

> No.

Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]

7. The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:

(a) similarity of risks covered and benefits provided;

(b) identifiable coverage;

(c) enforceable nature of arrangement;

(d) source and extent of funding;

(e) management practices and assessing financial performance; and

(f) assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

> Yes, the Insurance Commission agrees with all the proposed scope indicators.

8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.

> The Insurance Commission has no suggested alternative indicators.

9. The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?

(b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?

The Insurance Commission agrees with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators.

Application date [paragraph AusC1.1 and paragraphs BC212 to BC215]

10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.

Agreed.

Other modifications

11. Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?

No.

Please provide your reasons.

Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:

(a) specifically exempting ‘captive’ public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];

(b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246];

(c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and

(d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

General matters for comment

The AASB would also particularly value comments on the following general matters, to the extent they have not already been provided in response to specific matters for comment above.

12. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

> Not that the Insurance Commission is aware of. Claims liabilities are excluded from government net debt calculations.

13. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

> Not that the Insurance Commission is aware of.

14. Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?

> Unlikely that AASB17 will be any more useful to users than the existing AASB 1023. However, hopefully the new standard will ensure greater consistency of accounting treatment (and therefore increased comparability) in public sector entities across Australia.

15. Whether the proposals are in the best interests of the Australian economy?

> Unsure whether AASB 17 will have any impact on the Australian economy, but hopefully the new standard will ensure greater consistency of accounting treatment in public sector entities across Australia.

16. Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).

> As the Insurance Commission applies AASB1023 for the majority of its Funds, the cost of implementing AASB 17 is considered to be immaterial.