



## Staff Paper

<b>Project</b>	<b>Insurance Activities in the Public Sector</b>	<b>Meeting</b>	AASB February 2022 (M185) NZASB February 2022
<b>Topic</b>	Feedback on field test of proposed indicators of activities within the scope of AASB 17/PBE IFRS 17	<b>Agenda item</b>	AASB 6.2 NZASB 7.2
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		<b>Project priority</b>	Medium
		<b>Decision-making</b>	High
		<b>Project status</b>	Consider stakeholder feedback

### Objective of this paper

1. The objective of this paper is for the AASB and the NZASB to be briefed on the field testing conducted among key stakeholders on applying the proposed indicators to be considered in determining whether an entity's arrangements fall within AASB 17/PBE IFRS 17 *Insurance Contracts* or a different Standard (such as AASB 137/PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*).
2. The revised draft Exposure Draft *Insurance Contracts in the Public Sector – Proposed Amendments to AASB 17/PBE IFRS 17 Insurance Contracts* (AASB Agenda paper 6.3 and NZASB Agenda Paper 7.3) includes staff recommended amendments based on the feedback.
3. There are two questions for Board members on page 8 of this paper.

### Field test approach

4. Staff requested feedback on applying the proposed indicators to the activities undertaken by a range of entities that may fall within the scope of AASB 17/PBE IFRS 17. Most of the 25 stakeholders contacted are members of the Public Sector Focus Group of the AASB 17 Transition Resource Group (which includes Australian and New Zealand stakeholders).
5. Nine responses were received – some of which were joint responses from among the 25 stakeholders contacted. Accordingly, the response rate was roughly 50%. Some stakeholders noted they were unable to respond due to other commitments at this time of year.
6. A suggested format for providing feedback was tailored to the circumstances of each stakeholder. Board members wishing to read the material sent to stakeholders are welcome to contact staff who will provide copies for the relevant entities.
7. Based on stakeholder feedback on the proposed indicators, it appears that there are some arrangements for which stakeholders did not have consensus as to whether AASB 17/PBE IFRS 17 would apply. The following table outlines, in general terms, the types of arrangements:
  - (a) stakeholders regard as being clearly within scope of AASB 17/PBE IFRS 17;



- (b) stakeholders regard as being clearly outside the scope of AASB 17/PBE IFRS 17; and
- (c) on which stakeholders have differing views in terms of whether AASB 17/PBE IFRS 17 would apply.

<b>Clearly within AASB 17/PBE IFRS 17</b>	<b>Clearly not within AASB 17/PBE IFRS 17</b>	<b>Lack of consensus</b>
<ul style="list-style-type: none"> <li>• Workers' compensation arrangements relating to <i>non-government employees</i></li> </ul>	<ul style="list-style-type: none"> <li>• Compensation arrangements for victims of a disaster with the funds sourced from appropriations/donations</li> </ul>	<ul style="list-style-type: none"> <li>• Workers' compensation arrangements relating to <i>government employees</i></li> <li>• Industrial diseases risks – <i>no underwriting performed</i> [typically serious disease/disability]</li> </ul>
<ul style="list-style-type: none"> <li>• Compulsory Third Party personal transport accident relating to <i>non-government vehicles – some underwriting performed</i> [typically non-serious/non-catastrophic injury]</li> </ul>	<ul style="list-style-type: none"> <li>• Public hospital systems</li> </ul>	<ul style="list-style-type: none"> <li>• Compulsory Third Party personal transport accident relating to <i>non-government vehicles – no underwriting performed</i> (levy-based) [typically serious/catastrophic injury]</li> </ul>
<ul style="list-style-type: none"> <li>• Schemes covering <i>non-government parties</i> funded from proportionate levies on insurance contracts issued by private sector insurers [typically property risks]</li> </ul>		<ul style="list-style-type: none"> <li>• Property and liability risks relating to <i>government property damage or malpractice by government employees</i></li> </ul>
<ul style="list-style-type: none"> <li>• Domestic builders' insurance (risk of faults)</li> </ul>		

- 8. In general, the lack of consensus is on schemes that involve no underwriting of specific risks and risks associated with a government's own assets/employees.
- 9. The staff suggested changes to the draft ED noted in the table below are expected to clarify the manner in which certain indicators would be applied, which may assist in assessing the arrangement types noted in the third column of the above table.

**Key points received from field test feedback**

- 10. The table below shows the key points received from field test feedback and the suggested changes to the draft ED (or reasons for not making changes) suggested by staff.



Indicators	Response	Staff suggestions
<p><b>Overall approach:</b> Proposed that indicators be considered collectively so that a balanced judgement can be made</p>	<p>There was general support for this proposal. Support appears to have been stronger among entities that had little doubt their activities are within AASB 17/PBE IFRS 17. Some noted there can be an element of conflict when interpreting individual indicators, and a collective assessment gives the best chance of achieving a balanced view.</p>	<p>Suggest no change</p>
<p><b>Overall approach:</b> Proposed that individual indicators would not necessarily be regarded as definitive in determining whether public sector arrangements would be accounted for as insurance contracts</p>	<p>There was general support for this proposal. Support appears to have been stronger among entities that had little doubt their activities are within AASB 17/PBE IFRS 17. While agreeing with considering indicators collectively, some consider it would be helpful if there was guidance on which indicators are considered to be ‘core/primary’ indicators – that is, some form of weighting. Two stakeholders favoured an explicit ranking of the indicators. One stakeholder considered some indicators should be identified as pre-requisites for applying AASB 17/PBE IFRS 17. The comments below highlight various views on which indicators should be regarded as the most significant.</p>	<p>Staff note that there is a reasonable consensus on the relative significance of some indicators and mixed views on others. Staff think there is merit in considering identifying the relative significance of indicators, but are reluctant to include this in the ED proposals. Instead, staff suggest noting the views already obtained via the field test in the Basis for Conclusions and specifically asking in the ED, if you disagree with not assigning a relative significance to the indicators: (i) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why? (ii) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?</p>
<p><b>Similarity of risks covered and benefits provided</b> [B16.4 to B16.9]</p>	<p>Some considered this to be either the most significant indicator, or one of the most significant indicators. This is particularly the case for arrangements that cover risks met by public sector</p>	<p>Suggest no change to the ED proposals on the basis that: (i) there are mixed views; and (ii) the focus is wider than the Australian market.</p>



Indicators	Response	Staff suggestions
	<p>entities in some (Australian) states and private sector insurers in other states.</p> <p>Others considered this to not be a significant factor either because:</p> <p>(i) there are examples of similar risks and benefits being addressed via insurance or compensation schemes; and/or</p> <p>(ii) there are some forms of insurance (e.g. builder’s warranty) that are currently exclusively issued in the public sector in Australia, yet they are clearly insurance contracts.</p>	<p>Suggest mentioning the feedback received in the ED Basis for Conclusions.</p>
<p><b>Identifiable coverage period</b> [B16.10 to B16.12]</p>	<p>Some considered this to be either the most significant indicator, or one of the most significant indicators.</p> <p>Some considered the most important aspect of this indicator is the contrast between an identifiable period of cover, relative to an open-ended compensation or benefit scheme based on eligibility criteria. They saw this as more important than whether the benefit relates to the occurrence of one or more particular events.</p> <p>Some considered that clarification should be provided that periods identified for the purposes of raising levies to fund a compensation scheme is not an example of a ‘coverage period’.</p>	<p>Suggest no change to ED proposals.</p> <p>Suggest mentioning the ‘funding period’ example as being different from a coverage period in the ED Basis for Conclusions.</p>
<p><b>Enforceable nature of arrangement</b> [B16.13 to B16.16]</p>	<p>Some consider there should either be:</p> <p>(i) a separate indicator being whether or not a ‘contract’ exists between each participant and the entity; or</p> <p>(ii) this existing indicator should place more emphasis on the need for a ‘contract’ to exist that creates a direct relationship between each participant and the entity. This is on the basis that ‘indirect’ relationships between participants and the entity are likely to be indicative of compensation schemes.</p>	<p>Suggest no change to ED proposals, other than adding a clarifying reference to ‘promised amounts’ in explaining the indicator.</p> <p>The issue around whether the existence of a ‘contract’ is significant in its own right seems adequately addressed in the ED Basis for Conclusions discussion on ‘Contract versus statute’.</p> <p>‘Practical ability’ is extensively explained in the ED proposals and the ED Basis for Conclusions.</p>



Indicators	Response	Staff suggestions
	<p>Some consider this to be either the most significant indicator, or one of the most significant indicators.</p> <p>For some circumstances, some found this indicator provided ‘mixed’ signals. In particular, they consider ‘enforceability’ to be a different notion from being ‘bound’ by particular terms and conditions (for promised amounts). For example, each participant might have an enforceable right to benefits under an arrangement, but the entity might still be able to retrospectively adjust benefits for a cohort of participants.</p> <p>Some asked for a definition of ‘practical ability’.</p>	
<p><b>Source and extent of funding</b> [B16.17 to B16.21]</p>	<p>For some respondents, this is a key indicator, particularly when there is a clear line of connection between a participant paying an amount and being covered for one or more identifiable perils.</p> <p>Some consider this indicator should be used to distinguish between direct and indirect participant-entity relationships, with indirect relationships being less indicative of insurance contracts . For example, levies collected by insurers and passed on to an entity imply only an indirect relationship between the participants (who pay the insurers) and the public sector entity.</p>	<p>Suggest no change to proposals, other than adding a clarifying sentence about the directness of the relationship between the receipt of funding and the bearing of risks.</p> <p>Also suggest mentioning in the ED Basis for Conclusions that payment arrangements can be for administrative convenience rather than indicating anything substantive about the relationship between participants and entities.</p>
<p><b>Management practices and assessing financial performance</b> [B16.22]</p>	<p>Some thought it might be worth specifically mentioning as a factor in considering management practices whether capital management requirements apply (that might, for example, emulate APRA-style prudential requirements). Capital management is central to pricing, benefits, reserving and reinsurance decisions.</p> <p>Some commented that public sector insurers need to settle each claim fairly and in accordance with enabling legislation and this would be unaffected by, for example, a lack of funds. Accordingly, financial performance is primarily subject to the events that occur, rather than handling of claims.</p>	<p>Suggest adding a reference to ‘capital’ management to the proposed indicator, which helps associate the entity’s management with coverage and incurred claims that is typical of an insurer.</p> <p>Suggest adding an acknowledgement in the ED Basis for Conclusions that, while public sector insurers do not have the same imperatives a commercial insurer might have on managing claims in a manner that permits them to keep trading, they are required to act fairly and would typically be required to act prudently. Accordingly, while the need to act fairly</p>



Indicators	Response	Staff suggestions
	<p>Some consider this to be one of the less significant indicators because it does not relate to the arrangement itself, but relates more to the entity that oversees the arrangement.</p> <p>Some consider this to not be a relevant indicator on the basis that the practices mentioned are typical of sound management practices that should be generally applied across a range of activities and are not unique to insurance activities.</p>	<p>and prudently might be important in identifying arrangements that would be accounted for as insurance contracts, it's presence could also be indicative of a broader range of compensation schemes.</p>
<p><b>Assets held to pay benefits</b> [B16.23 to B16.25]</p>	<p>Some consider this to be one of the less significant indicators because it does not relate to the arrangement itself, but relates more to the asset management practices of the entity. For example, an entity may be able to meet claims as they fall due without holding assets to pay out all existing claims. To some extent, this comment contrasts with the comments received on the significance of 'capital management'.</p> <p>Others consider this to be a less significant factor on the basis that it is a standard operating procedure for many types of compensation schemes to be established with a pool of assets to pay commitments/obligations.</p>	<p>Suggest more clearly acknowledging in the explanation of the indicator in the ED and the ED Basis for Conclusions that assets can be held to pay benefits in arrangements not related to insurance contracts (with the sources of those assets possibly being appropriations and/or public appeals).</p>
<p><b>Other comments:</b> <i>Illustrative Examples</i></p>	<p>One stakeholder commented that examples would help illustrate how the indicators should be applied and help achieve greater uniformity of reporting.</p>	<p>Given the limited number of potentially-affected entities and the variety of circumstances applying to specific entities, it would be difficult to design helpful examples that would be generically useful (and would not be identified with particular entities).</p> <p>There is a danger that examples would (for some entities) become de facto requirements rather than illustrations.</p> <p>Suggest no change to ED proposals or the ED Basis for Conclusions.</p>



Indicators	Response	Staff suggestions
		Also please see the notes in paragraph 7 above on the spectrum of public sector arrangements.
<b>Other comments:</b> <i>Government guarantees</i>	Some stakeholders commented that the existence of an explicit government guarantee to pay benefits should be included as an indicator that risk has not been transferred and the arrangements should not be accounted for as insurance contracts.	Suggest no change to ED proposals on the basis that: (i) the guarantee does not affect risk transfer from participants; and (ii) substantive guarantees could be explicit or implicit.
<b>Other comments:</b> <i>captive entities</i>	Mixed views on whether a bulk purchaser of insurance coverage (or centralised manager of insurance risks) for the state that on-charges to government entities for bearing risk is an intermediary or an insurer.  Similarly, some consider public sector schemes for government employer risks to be service provision arrangements (e.g. claims handling and return to work management) rather than insurance arrangements.	Suggest no change to ED proposals, but suggest mentioning the mixed views that were considered in the ED Basis for Conclusions, including some brief analysis of the difference between (non-insurance) service provision and providing insurance services.  In particular, the ED Basis for Conclusions should note that an entity only providing non-insurance services would probably be applying AASB 15/PBE IPSAS 9 (not AASB 137/PBE IPSAS 19).
<b>Other comments:</b> <i>arrangements in run-off</i>	Some indicated that arrangements in run-off, particularly when they are close to being wound up, should be automatically excluded from applying AASB 17.	Suggest no change to proposals.  Each jurisdiction would need to determine whether an entity that is managing arrangements in run-off (and is not providing further coverage) would need to report, consistent with its policies on identifying entities that need to prepare stand-alone GPFS.
<b>Other comments:</b> <i>uniformity</i>	Uniformity across the jurisdictions is needed and use of AASB 137 should be actively discouraged as, in most cases, it is the liability calculation, not the income stream, that drives government decision-making and is the focus of their attention. The more consistently this is calculated using accepted actuarial practices, the better.	Suggest no action.  One of the aims of the project is to achieve a 'principle-based' consistent application of the Standards in similar circumstances.



**Questions to Board members**

Q1: In respect of the overall approach, regarding the stakeholder comment about assigning a relative significance to the indicators, do Board members agree with staff's suggestions as follows?

- (a) Note the views obtained via the field test in the Basis for Conclusions.
- (b) Add a specific matter for comment in the ED asking stakeholders whether they agree with not assigning a relative significance to the indicators or having any other form of ranking? If they disagree:
  - (i) which indicators they would identify as being most significant, or how they would otherwise rank the indicators and why?; and
  - (ii) whether they would identify some indicators as pre-requisites for applying insurance accounting and, if so, which ones, and why?

Q2: Do Board members agree with the other suggested changes to the draft ED (or reasons for not making changes) suggested by staff noted in the third column of the above table?