Private Health Insurance Focus Group (“PHI FG”)

AASB 17 TRG Meeting
6 December 2021

Presenters
Anna Donoghoe
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Australian Government
Australian Accounting Standards Board

Private Health Insurance Focus Group

- A focus group of the AASB TRG
- The purpose and function is to provide a forum for communication and discussion of PHI specific topics or issues
- Preparers will drive problem statements for discussion, and where such problems may be deadlocked, the focus group can facilitate discussions with the AALC and AASB 17 TRG

Membership	Role
HCF, HBF, BUPA, Medibank, Teachers Health, NIB, GMHBA, Australian Unity, Finity Consulting	Preparers
Big 4 participants and Grant Thornton	Provides input
Anne Driver	Chair of the AASB TRG
Marion Smith / Anna Donoghoe	Co-ordinator

Issue/topic	Status
Contract boundary	Tabled in March 2021 AASB TRG Meeting
Level of Aggregation / Portfolios	Tabled in March 2021 AASB TRG Meeting
Onerous contracts	Tabled in March 2021 AASB TRG Meeting
Risk equalisation scheme	Tabled in June 2021 AASB TRG Meeting
PAA Eligibility	Tabled in June 2021 AASB TRG Meeting
Annual cohorts	Final draft circulated
Premium reduction scheme	Tabled in September 2021 AASB TRG Meeting
Business combinations	Tabled in September 2021 AASB TRG Meeting
Contractual cashflows and insurance service result	Tabled in the current AASB TRG Meeting
Risk adjustment	Tabled in the current AASB TRG Meeting as a broader industry paper

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Cadence of meetings: Fortnightly beginning 17th November 2020. Reduced cadence going forward

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Contractual cashflows and insurance service result

Implementation Question
What cashflows are included within the boundary of an insurance contract and how are these allocated to the liability for remaining coverage (LFRC), liability for incurred claims (LFRC) and the insurance service result (ISR).

Background
Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract. The following outcomes were determined with reference to paragraph B65 (for cashflows to be included) and B66 (for cashflows to be excluded).

Summary of discussions	

• Insurance Service Result	• All cashflows that are directly attributable to fulfilling insurance contracts are included in the insurance service result in the income statement.
	  • For a pure insurance entity (assuming no other business operations), all cashflows other than those described in B66 would be expected to be in the insurance service result.
	• Entities with both insurance and non-insurance businesses will need to disclose
	  • operational expenses for insurance operations within other insurance expenses in the ISR; and
	  • operational expenses for non-insurance operations in other expenses.

• Liability for Remaining Coverage	• The measurement of the LFRC under the PAA is similar to existing accounting under AASB 1023 *General Insurance Contracts*. • For contracts that are not onerous, the LFRC may be calculated, using a practical expedient, as unearned premium, less premium receivables, less deferred insurance acquisition cashflows (if deferred). There is no direct inclusion of other forecast cashflows in calculation of the LFRC. • In subsequent periods, the LFRC is amortised to recognise the revenue and insurance acquisition costs accordingly.
• Onerous Contract Testing	• Where groups of contracts are considered to be onerous, all future cashflows within the boundary of relevant group of insurance contracts are included in the onerous contract assessment and recorded in the loss component of the LFRC.

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Contractual cashflows and insurance service result

Summary of discussions (continued)	
• Liability for Incurred Claims	The analysis of movements (i.e. reconciliations tables required under AASB 17.100) in the LFIC should include insurance service expenses incurred and insurance service expenses paid. Simplifications for the treatment of cash and non-cash expenses can be applied to the allocation depending on the facts and circumstances of the insurer. • It is generally accepted that for non-cash items, such as depreciation and other costs which are captured by other standards (e.g. leased assets, property, plant and equipment, intangible assets), the accounting can be simplified to assume cash settlement of the expense has occurred (even when it has not) and treat this as a "quasi cash" settlement in the analysis of movements. • However, rights and obligations arising under an insurance contract within the scope of AASB 17 are excluded from AASB 9 *Financial Instruments*. Therefore, it could be implied that balances accounted for under AASB 9 (ie trade receivables, payables, accrued expenses) which form part of the insurance cashflows are required to be allocated to the LFIC. Based on PHI Forum discussions, accounting firms have not reached a consensus for how this requirement is applied. • AASB 9 also poses complexities due to different classification rules which may apply depending on when the expense is incurred relative to the insurance contract boundary. PHI preparers were of the view that a simplified approach, where all costs (whether cash or non-cash and including AASB 9 assets and liabilities) are accounted for in the balance sheet based on their 'originating standard' can be adopted if each year, the release of accruals and the take up of the new allocations related to the ISE in the LFIC would be relatively consistent. • This provides operational simplicities as the LFIC can be limited to direct costs of insurance contracts, ie claims provisions, risk equalisation, risk adjustment and claims handling costs. • This would simplify the liability roll forward disclosure by excluding payables and accrual balances from the roll forward and remove the need for complex balance sheet allocations. • For some insurers with non-insurance businesses, this will improve the understanding of the balance sheet as balances of the same nature are presented consistently, instead of both in payables and in LFIC.