Practice Guideline 4

AASB 17 Insurance Contracts

1 January 2023

Contents

Preface to Practice Guideline 4

Practice Guideline 4 (PG 4) is the Australian adaptation of International Standard of Actuarial Practice 4: IFRS 17 Insurance Contracts (ISAP 4) as approved by the International Actuarial Association (IAA) Council in [November 2019].

ISAP 4 is intended to:

- Facilitate convergence in standards of actuarial practice in connection with IFRS 17;
- Increase public confidence in actuarial services provided in connection with IFRS 17; and
- Demonstrate the IAA's commitment to support the work of the International Accounting Standards Board (IASB) in achieving high quality, transparent and comparable financial reporting internationally, as envisaged by the Memorandum of Understanding between the IAA and the IASB.

In adapting ISAP 4 to create PG 4 for application by Members, the aim has been to follow ISAP 4 as far as possible given local circumstances.

Based on the nature and extent of the differences between PG 4 and ISAP 4, the Institute has assessed that there is "strong convergence" between PG 4 and ISAP 4 i.e. PG 4 materially conforms to international standards of the IAA, with allowance for local modification to fit local conditions. However, given the differences, it should be noted that compliance with PG 4 will not necessarily result in compliance with ISAP 4. Therefore, where a Member is required to perform work in conformity with ISAP 4 (e.g. because the work is being undertaken in an overseas jurisdiction) the Member should refer to the specific requirements of ISAP 4.

The principles and requirements of PG 4 are consistent with ISAP 4 with the exception of the following.

1. Section 1.3 Scope (was Section 1.2 of ISAP 4).

   ISAP 4 states that it *applies to actuaries when performing* ***actuarial services*** *related to International Financial Reporting Standard 17 Insurance Contracts (**IFRS 17**) for the preparation of an entity's actual or pro-forma IFRS financial statements*.

   In contrast, PG 4 applies to Members when performing **Applicable Services** related to Australian Accounting Standard 17 *Insurance Contracts* (**AASB 17**) for the preparation of an entity's actual or pro-forma AASB financial statements**.**

   AASB 17 is almost identical to IFRS 17, the principal exception being it does not apply for not-for-profit entities. PG 4 is an Applicable Professional Practice Document (Applicable PPD). The Glossary defines:

   - Applicable Services as Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services; and
   - an Applicable PPD as a Professional Standard or Practice Guideline that covers Applicable Services.

2. Section 1.3 Relationship to PG 1 (was Section 1.2 of ISAP 4):

   ISAP 4 states that *compliance with ISAP 1 is a prerequisite to compliance with this ISAP*. In contrast, PG 4 states that compliance with PG 1 is a prerequisite to compliance with PG 4.

3. Section 1.4 Relationship to AASBs (was Section 1.3 of ISAP 4):

   ISAP 4 states that *this ISAP relates to the content of IFRS 17 and other relevant IFRSs, including any interpretations from the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee, as issued through 16 August 2019. The guidance in this ISAP therefore complements the guidance in IFRS 17, which is not repeated in this ISAP*.

   PG 4 states that this PG relates to the content of AASB 17 and other relevant AASBs, including any interpretations from the AASB. The guidance in this PG complements the guidance in AASB 17, which is not repeated in this PG.

4. Section 2.1 Relevant Knowledge Requirements

   Reference is made to the need for Members to consider any specific guidance for their practice area to reflect specific Australian features of different types of insurance

5. Appendix A Compilation of Differences Between PG 4 and ISAP 4.

   In addition to items 1-3 above, a number of other minor changes have been made to ISAP 4 principally for consistency with local conditions and for clarification purposes. A full tabulation of the differences between PG 4 and ISAP 4 is set out in Appendix A to this PG.

6. Appendix B Private Health Insurance (PHI) Guidance

   An Appendix B is included to provide additional guidance to Members working in the PHI sector in relation to AASB 17 given certain unique Australian features of that sector.

1. General

1.1. Purpose of PG 4

This Practice Guideline (PG) provides guidance to Members when performing Applicable Services in connection with AASB 17. Its purpose is to increase Intended Users confidence that:

- Applicable Services are carried out professionally and with due care;
- The results are relevant to their needs, are presented clearly and understandably, and are complete; and
- The assumptions and methodology (including models and modelling techniques) used are disclosed appropriately.

It is not the responsibility of the actuary to interpret accounting standards but rather to support the Principal or entity in their preparation or audit. Accordingly, PG 4 is guidance for Members providing actuarial services in the context of AASB 17, and this does not extend to providing guidance or interpretation of AASB 17 itself.

Similarly, 'accounting services' are not automatically excluded from the scope of PG 4 – they may involve 'actuarial considerations', and so would be Applicable Services covered by this PG. However, if they do not involve actuarial considerations then they would not be subject to this PG.

1.2. Classification of PG4

1.2.1 This PG has been prepared in accordance with Council's Policy for Developing Professional Practice Documents, as varied from time to time. It must be applied in the context of the Institute's Code.

1.2.2 This PG is not mandatory.

1.2.3 Nevertheless, if the Services provided by a Member are covered to any extent by this PG, a Member should consider explaining any significant departure from this PG to the Principal, and record such explanation.

1.2.4 Work performed under this PG is designated as an Applicable Service. As such, the Member's attention is directed towards the requirements of PG 1 (General Actuarial Practice).

1.3. Scope of PG4

This PG applies to Members when performing Applicable Services related to AASB 17 for the preparation of an entity's actual or pro-forma AASB financial statements.

Members performing other Applicable Services in connection with AASB 17 (for example: an actuary advising a third party such as an auditor or a regulator, or advising a potential buyer regarding an acquisition) should apply the guidance in this PG to the extent relevant to the assignment.

This Practice Guideline does not constitute legal advice. Any interpretation or commentary within this Practice Guideline regarding specific legislative or regulatory requirements reflect the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

1.4. Relationship to PG 1

Compliance with PG 1 is a prerequisite to compliance with this PG.

1.5. Relationship to AASBs

This PG relates to the content of AASB 17 and other relevant AASBs, including any interpretations from the AASB. The guidance in this PG complements the guidance in AASB 17, which is not repeated in this PG.

1.6. Defined Terms

This document uses various capitalized terms whose precise meaning is defined in the Glossary of General Defined Terms Used in Practice Guidelines, or is defined in the Code.

This PG also uses key terms from AASB 17, in which case they have the meaning as used in AASB 17.

1.7. Subsequent changes

If AASB 17, or any other AASB referenced in this PG, is subsequently amended, restated, revoked or replaced by the AASB, or interpreted by AASB, the Member should consider the extent to which guidance in this PG is still applicable and appropriate.

1.8. Effective Date

This PG is effective for Applicable Services performed on or after 1 January 2023. If an entity adopts AASB 17 from an earlier date then this PG will apply from that adoption date.

2. Appropriate Practices

2.1. Relevant Knowledge Requirements

In applying PG 1 paragraph 2.2, the Member should have or obtain sufficient knowledge and understanding of information necessary to perform the assignment, such as:

a) AASB 17, applicable sections of other relevant AASBs (e.g., AASB 13 when measuring Fair Value), the subject of the Applicable Services' accounting policies and the relevant processes that are applied in the preparation of AASB financial statements;

b) The business environment in which the subject of the Applicable Services operates, including the financial market(s) from which it obtains Data;

c) The subject of the Applicable Services' appetite for risks that have an impact on the measurement under AASB 17;

d) The subject of the Applicable Services' products and operations;

e) The methodologies and assumptions used by the subject of the Applicable Services in other relevant contexts and the rationale for any differences;

f) How law affects the application of AASB 17;

g) The relevant auditing standards; and

h) Any items that need to be considered to reflect specific Australian requirements for each insurance practice area. The specific requirements for health insurance are listed in Appendix B.

2.2. Materiality

The Member should understand the distinction between materiality with respect to the Applicable Services, the preparation of AASB financial statements and the auditing of those financial statements.

2.2.1. When appropriate for the Work, the Member should seek guidance from the Principal or the subject of the Applicable Services regarding materiality.

2.2.2. In applying PG 1 paragraph 2.4, with respect to the preparation of AASB financial statements the Member's threshold of materiality with respect to the Applicable Services should not be greater than the subject of the Applicable Services' threshold of materiality.

2.2.3. In all following paragraphs of this PG, any use of "material" or "materiality" is with respect to the Applicable Services carried out in accordance with this PG.

2.3. Proportionality

In applying PG 1 paragraph 1.6, and in particular paragraph 1.6.2, the Member should take into account materiality. In addition, the degree of refinement in specific assumptions or methods recommended by the Member should be proportionate to their possible impact on the results of the Applicable Services.

2.4. Identification, Combination, Aggregation, Separation, Recognition, Derecognition and Modification

The Member should treat the processes of:

a) Identification of insurance contracts;

b) Combination of insurance contracts;

c) Determination of the level of aggregation (refer to 2.6.14.);

d) Separation of components from an insurance contract for treatment under a different standard;

e) Separation of components of an insurance contract for different treatment under AASB 17 (if and to the extent permitted);

f) Recognition of groups of contracts and derecognition of insurance contracts; and

g) Treatment of insurance contract modifications

as being subject to PG 1 paragraph 2.7 or 2.8.

The Member should disclose in the report changes in the above processes, including the rationale for and impact of the changes.

2.5. Measurement Approach

The Member should treat the processes of selecting the appropriate measurement approach to be applied to each group of insurance contracts, whether it is the general measurement approach, the premium allocation approach (PAA) or the variable fee approach, as being subject to PG 1 paragraph 2.7 or 2.8.

The Member should disclose in the report changes in the above processes, including the rationale for and impact of the changes.

2.6. The General Measurement Approach

2.6.1. General Approach for Selection of Assumptions – In applying PG 1 paragraph 2.7, when advising the Principal or the subject of the Applicable Services on actuarial assumptions, the Member should consider matters such as:

a) Combining similar risks based on the nature of the insurance obligation, without being constrained by the actual grouping of insurance contracts that is used for measurement purposes;

b) Whether assumptions developed in other contexts, for example pricing assumptions, may be inappropriate for AASB 17 purposes;

c) Links as necessary to ensure consistency between assumptions (e.g., assumptions related to option exercise patterns should be linked to the economic scenarios);

d) The potential asymmetrical distribution of the current estimates (e.g., assumptions to deal with extreme events like tail events or options and guarantees that are triggered by market conditions);

e) The credibility of Data when combining information from various sources or time periods; and

f) Long-term trends and seasonal variations, and other changes in the environment (e.g., applicable law, economic, demographic, technological and social).

2.6.2. Process for Updating Assumptions – If the Member considers it appropriate to change the process, including the methodology, used to update a recommended assumption, the Member should discuss the change with the Principal, including whether it would constitute a change in accounting policy or just a change in an accounting estimate as defined in Australian Accounting Standard 108 (AASB 108) *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Member should disclose in the report changes in such processes, including the rationale for and impact of the changes.

2.6.3. Insurance Risk – When advising the Principal or the subject of the Applicable Services on assumptions to measure insurance risk, the Member should consider factors including the following:

a) Characteristics of the insurance contract including the risks being insured;

b) Characteristics of the policyholder and the way the contract was sold;

c) Past experience of incurred claims including patterns of delays in reporting and payment and the relevance to expected future experience; and

d) Practices of the entity, such as underwriting procedures and claims management.

2.6.4. Policyholder Options – When advising the Principal or the subject of the Applicable Services on assumptions for the exercise of options by policyholders, the Member should consider factors such as the following:

a) Past experience of how policyholders have exercised options;

b) Likely behaviour of policyholders, taking into account factors such as anti-selection, the effects of non-financial considerations, and the relative advantages to the policyholder of exercising any options;

c) Characteristics of how the insurance contracts are sold and serviced;

d) Significant scheduled changes in premiums, charges, benefits or terms and conditions; and

e) Any short-term spikes in cancellation rates created by the exercise of certain options.

2.6.5. Subject of the Applicable Services Discretion – When advising the Principal or the subject of the Applicable Services on assumptions which consider the exercise of discretion by the entity, the Member should take into account expectations or limitations that may arise from sources such as:

a) The subject of the Applicable Services' marketing and promotional materials;

b) The subject of the Applicable Services' past practices;

c) The subject of the Applicable Services' current policy;

d) Market practices; and

e) Laws and rulings of relevant authorities.

2.6.6. Reinsurance Contracts Held – When advising the Principal or the subject of the Applicable Services, on the measurement of reinsurance contracts held, the Member should:

a) When estimating amounts recoverable under multiple reinsurance arrangements, consider the order in which the reinsurance contracts apply;

b) When estimating non-recoverable amounts:

i. Consider the financial condition of the reinsurer, the existence of collateral and the extent to which default by one reinsurer may affect the amounts recoverable from other reinsurers; and

ii. In the estimates of future cash flows to be received from reinsurance contracts, allow for the uncertainty caused by the potential of non-performance by reinsurers;

c) When estimating fulfilment cash flows, consider the extent to which each reinsurance counterparty exercises its control over recapture, cancellation or commutation to its advantage; and

d) Consider the impact of reinstatement of reinsurance contracts following claims.

2.6.7. Reinsurance Contracts Issued – When advising the Principal or the subject of the Applicable Services, on the measurement of reinsurance contracts issued, the Member should consider circumstances such as:

a) The expected behaviour with respect to the available options of the policyholders, the issuer of the underlying insurance contracts and all intermediate reinsurers;

b) The underwriting and management practices, including the underwriting for facultative placements, and the claim management processes impacting the reinsurance contracts issued;

c) Reinstatement of reinsurance contracts following claims; and

d) Default by the issuer of the underlying insurance contracts and all intermediate reinsurers.

2.6.8. Currency Exchange – When advising the Principal or the subject of the Applicable Services on the estimation of the fulfilment cash flows in multiple currencies, the Member should reflect current market expectations of future currency exchange rates.

2.6.9. Discount Rates – When advising the Principal or the subject of the Applicable Services on the derivation of:

a) Discount rates for periods beyond those for which observable Data from an active market are available, the Member should consider how current rates are expected to evolve over time using the best information available in the circumstances, including such market prices as are observable;

b) Discount rates for cash flows of insurance contracts, that vary with the returns of the subject of the Applicable Services' invested assets, the Member should consider the subject of the Applicable Services' investment policy, as applied in practice, taking into account the subject of the Applicable Services' communications to various stakeholders and, where applicable, anticipated policyholder behaviour;

c) Illiquidity and credit or default adjustments for determining the discount rates, the Member should consider:

i. Approaches that are robust and that should be able to be applied reliably over time and under a variety of market conditions, to reflect the illiquidity of the cashflows underlying the relevant liabilities; and
ii. The possible methods for calculating such adjustments to observed market rates. Methods include market-based techniques, structural model techniques and expected / unexpected credit loss techniques.

2.6.10. Contracts with Cash Flows that Vary with Returns on Underlying Items - When advising the Principal or the subject of the Applicable Services on contracts whose cash flows vary with returns on underlying items, the Member should:

a) Select discount rates used to calculate the present value of the cash flows to measure the fulfilment cash flows that are consistent with the investment returns anticipated in the estimates of the future cash flows. Returns on assets should be estimated using prospective expectations consistent with current market expectations of future economic conditions; and

b) For cash flows which are subject to a floor or a cap, consider the associated impact, if any, on the estimates of future cash flows, the risk adjustment for non-financial risk and the discount rates in the projection.

2.6.11. Maintenance Expenses – When advising the Principal or the subject of the Applicable Services on the estimation of cash flows for maintenance expenses such as policy administration and claim handling costs, and attributable overheads, the Member should consider factors such as:

a) The subject of the Applicable Services' cost-accounting and expense allocation policies;

b) Expenses expected to arise from fulfilling insurance obligations existing on the measurement date. This estimate should consider factors such as the subject of the Applicable Services' past experience and current business plans, and the impact of future inflation; and

c) Terms of any outsourcing arrangements.

2.6.12. Insurance Acquisition Cash Flows – The Member should be satisfied that the allocation of insurance acquisition cash flows to each portfolio of insurance contracts is made on a consistent basis.

2.6.13. Risk Adjustment for Non-Financial Risk – When advising the Principal or the subject of the Applicable Services on the risk adjustment for non-financial risk, the Member should:

a) Understand the non-financial risk inherent in the insurance contracts;

b) In assessing what the subject of the Applicable Services requires as compensation for bearing the non-financial risk:

i. Reflect the diversification benefit that the subject of the Applicable Services recognizes at the relevant level of consolidation; and
ii. Consider sources of relevant information, such as the subject of the Applicable Services' capital management, risk management and pricing policies.

c) Select a methodology that, at the chosen level of aggregation:

i. Uses assumptions that are consistent with those used in the determination of the corresponding estimates of future cash flows;
ii. Reflects the risk differences between the portfolios of insurance contracts; and
iii. Allows for the diversification that the subject of the Applicable Services recognizes.

d) Make appropriate allowance for mechanisms that result in risk being passed to the policyholder (e.g., contracts with participation or adjustment features);

e) Consider whether the difference between the total of the calculated gross risk adjustment for non-financial risk and the total of the ceded risk adjustment for non-financial risk fairly reflects the compensation that the subject of the Applicable Services requires for bearing the uncertainty of its net exposure; and

f) When advising on the confidence level disclosure required by AASB 17, where risk adjustment for non-financial risk has not been determined using a confidence level approach, consider:

i. The ability to diversify non-financial risk over the subject of the Applicable Services' consolidated business; and
ii. The inherent uncertainty in the translation to a confidence level and the need to describe such uncertainty in the report.

2.6.14. Aggregation and Contractual Service Margin (CSM) – The Member should treat the processes of:

a) Identification of portfolios of insurance contracts;

b) Allocation of individual insurance contracts into portfolios of insurance contracts, and division of each portfolio of insurance contracts into groups of insurance contracts;

c) Treatment of the loss component on onerous contracts;

d) Determination of the coverage units; and

e) Roll forward of the CSM

as being subject to PG 1 paragraph 2.7 or 2.8.

The Member should disclose in the report changes in the above processes, including the rationale for and impact of the changes.

2.7. The Premium Allocation Approach (PAA)

When advising the Principal or the subject of the Applicable Services in relation to the use of the PAA for a group of insurance contracts, the Member should:

2.7.1. At initial recognition if the coverage period is longer than one year, consider:

a) Differences between the expected patterns of insurance revenue under the general measurement approach and under the PAA;

b) Differences between the expected timing of cash flows under the general measurement approach and the insurance revenue under the PAA, resulting in different adjustments for the time value of money; and

c) Whether future assumption changes under the general measurement approach would render the simplification invalid

when assessing whether material differences between the respective carrying amounts of the liabilities for remaining coverage under the PAA and the general measurement approach are reasonably expected to arise;

2.7.2. Assess whether insurance contracts in the group have a significant financing component, advise the Principal or the entity, and measure the liability accordingly;

2.7.3. Be aware of whether the subject of the Applicable Services has chosen in accordance with AASB 17 to recognize insurance acquisition cash flows as expenses when it incurs those costs and determine the liability in accordance with the subject of the Applicable Services' choice;

2.7.4. Be aware of whether the subject of the Applicable Services has chosen to reflect the time value of money and the effect of financial risk, when not required to do so, and determine the liability in accordance with the subject of the Applicable Services' choice; and

2.7.5. Consider whether facts and circumstances indicate that the group of insurance contracts is or has become onerous and advise the Principal or the subject of the Applicable Services accordingly.

2.8. The Variable Fee Approach

In using the variable fee approach, the Member should apply the guidance in paragraph 2.6, except for 2.6.6. (Reinsurance Contracts Held) and 2.6.7. (Reinsurance Contracts Issued), as the variable fee approach does not apply to reinsurance.

2.9. Financial Statement Presentation and Disclosure

2.9.1. Where the information provided by the Member will be used in financial statement presentation and disclosure:

a) The Member should provide the related information needed to comply with the relevant presentation and disclosure requirements of AASB 17 and the subject of the Applicable Services' accounting policies; and

b) If the Member becomes aware that such information is used in the presentations and/or disclosures incorrectly or inappropriately, the Member should discuss and report these issues to the Principal.

2.9.2. In providing advice on the disclosures of reconciliations where the order of calculations alters the information disclosed, the Member should apply a consistent order of calculation across all reconciliations and from period to period, or disclose any change, including the rationale for and impact of the change, in the report.

2.10. Transition

When advising the Principal or the subject of the Applicable Services on whether a full retrospective application of AASB 17 at transition is impracticable, the Member should take into consideration factors such as:

a) The availability and integrity of the past Data that are required to determine the fulfilment cash flows;

b) The availability and integrity of information on past products;

c) The availability, without the benefit of hindsight, of sufficient Data to determine the initial assumptions and subsequent changes that the subject of the Applicable Services would have adopted over the lifetime of the insurance contracts;

d) The method that would have been used to adjust past known interest rates to achieve the rates that reflect the characteristics of the insurance contracts; and

e) The difficulty, without the benefit of hindsight, in evaluating the past risk adjustment for non-financial risk and the subject of the Applicable Services' use of discretion.

3. Communication

3.1. Disclosures

In addition to complying with PG 1 Section 3 (Communication), the Member should disclose in the report:

3.1.1. Information regarding a change in assumptions or method, whether arising from a consistent or changed process;

3.1.2. Changes in processes, together with the rationale for and impact of the changes, related to:

a) The identification, combination, aggregation, separation, recognition, derecognition and modification (2.4.);

b) The selection of the measurement approach (2.5.);

c) The process for updating assumptions (2.6.2.);

d) Aggregation and CSM (2.6.14.); and

e) The order of calculation on reconciliations provided for financial statement presentation and disclosure (2.9.2.); and

3.1.3. When the risk adjustment for non-financial risk has not been determined using a confidence level approach, the uncertainty inherent in the translation to a confidence level (2.6.13.f.).

Appendix A: Compilation of Differences Between PG 4 and ISAP 4

i. Hyperlinks removed and replaced with capitalised terms.

ii. Formatting and paragraph number changes made.

iii. References to ISAP changed to Practice Guideline (PG) or Applicable PPD. Applicable PPD defined in the Glossary as: A Professional Standard or Practice Guideline that covers Applicable Services.

iv. The term "actuary" changed to "Member".

v. The term "Actuarial Services" changed to "Applicable Services". Applicable Services defined in the Glossary as: Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

vi. Added wording in Section 1.1 "Purpose of PG 4" outlining the relative responsibilities of actuaries and accountants in providing guidance or interpretation of AASB 17 itself.

vii. Added a new Section 1.2 "Classification of PG4", which sets out the basis on which the PG was prepared, that it is not mandatory and that a Member should consider explaining any significant departure from the PG to the Principal and record such explanation, and that work performed under the PG is designated as an Applicable Service..

viii. Added a new paragraph to section 1.3 to explain that this Professional Guideline does not constitute legal advice.

ix. Added a new Section 1.6 "Defined Terms" explaining that various capitalized terms are defined in the Glossary of General Defined Terms Used in Practice Guidelines, or in the Code.

x. Added Appendix B "Private Health Insurance (PHI) Guidance to provide additional guidance to Members working in the PHI sector in relation to AASB 17 given certain unique Australian features of that sector.

Appendix B: Private Health Insurance (PHI) Guidance

Australian PHI Complying Health Insurance Products (CHIP) have a number of features which create ambiguity in the interpretation of the application of AASB 17 to CHIP insurance policies. This appendix provides guidance to Members on issues to consider when performing Applicable Services in connection with AASB 17 for portfolios of insurance contracts including CHIP policies.

The areas Members should consider when performing Applicable Services in connection with AASB 17 for CHIP policies are listed below.

- Contract Boundary: CHIP policies do not have an end-date and policyholders have the right to renew policies for ongoing products. An entity with CHIP policies must therefore define the contract boundary, with several approaches potentially being appropriate. The choice of contract boundary has implications for the initial assessment of onerous contracts, calculation of the Liability for Remaining Coverage, the loss component and formation of annual cohorts. Members should take account of the fund's contract boundary when performing Applicable Services.
- Community Rating and Facts and Circumstances: CHIP policies are restricted in the degree of underwriting that can be performed by the Australian Community Rating system, and that customers cannot be refused coverage on open products. This impacts the evaluation of facts and circumstances when determining if there are onerous contracts and grouping contracts. Members should take account the allowance in AASB 17 for legislated or regulatory restrictions on underwriting when considering facts and circumstances indicating onerous contracts.
- Risk Equalisation Scheme: CHIP policies are required to participate in the risk equalisation scheme as a matter of law. The risk equalisation scheme payments should be considered within the fulfilment cash-flows and treated as gross costs. Payables or receivables to the Risk Equalisation Special Account should be included in the Liability for Incurred Costs.
- Loyalty Schemes: CHIP products may include explicit loyalty schemes, or implicit loyalty benefits (such as increasing limits for loyal policyholders). Explicit loyalty schemes are accounted separately to AASB 17. Implicit loyalty schemes (if material) may need special consideration.
- Premium Reduction Scheme: Policyholders who are eligible for the Australian Government Rebate may elect to pay a reduced premium through the Premium Reduction Scheme. Funds receive part of the premium from the policyholder, and part from the Australian Commonwealth Government. Payments from the Australian Commonwealth Government are often delayed and may be received after the coverage period concerned has been earned. Treatment of premium outstanding in respect of past service is not clear in the AASB 17 standard; they may fall into the Liability for Incurred Costs or the Liability for Remaining Coverage. Members should take account of the expected cash flows relating to the premium reduction scheme when performing Applicable Services.

- Risk Adjustment for non-financial risk: Many entities selling CHIP policies are not-for-profit entities. This may have implications for the risk adjustment for non-financial risk. All private health insurance funds should ensure that the Pricing Philosophy required under HPS 110 and the risk adjustment for non-financial risk are consistent.

Further information is provided in the Actuaries Institute's AASB 17 Insurance Contracts Information Note.

End of Practice Guideline