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Hobart

AASB 17: what does it mean for public sector insurers?

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Applicability



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Applicability: IS IT CAKE?

Step 1: Does it look like cake?



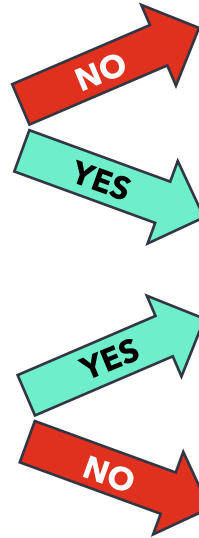
1

Is it judged that both pre-requisites are established?

Is the arrangement enforceable?

AND

Does the arrangement have an identifiable coverage period?



The arrangement is OUTSIDE the scope of the Standard

Proceed to the next step

The arrangement is OUTSIDE the scope of the Standard

Coverage
period
considerations

Agreed
documentation

Premium or levy
cycles

Adjunct to another
insurance contract

Open ended
arrangement based
on eligibility criteria

Pay-as-you-go
type funding

Applicability: IS IT CAKE?

Step 2: Does it cut like cake?



2 To what extent are the two indicators, considered on a collective basis, judged to be met?

The arrangement's funding is sourced from those who stand to benefit from coverage

The arrangement involves accepting risks and benefits the same as, or similar to, those offered by private sector insurers



NOT SIGNIFICANTLY

The arrangement is
LIKELY TO BE
OUTSIDE the scope
of the Standard



TO A SIGNIFICANT EXTENT

The arrangement is
LIKELY TO BE
WITHIN the scope
of the Standard



NOT DEFINITIVE

Proceed to the next
step

Applicability: IS IT CAKE?

Step 3: Does it taste like cake?

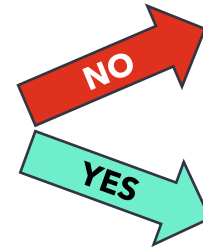
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If Step 2 is not definitive, does a collective assessment of the two other considerations lead to a judgment that the arrangement gives rise to insurance contracts?

Does the entity have objectives, policies and processes for managing risks associated with the arrangement and have its financial performance assessed against those objectives and how successfully it applies those policies and processes?

AND

Does the entity have a separate fund, or earmarked assets, restricted to being used to meet benefits associated with the arrangement?



The arrangement is **OUTSIDE** the scope of the Standard

The arrangement is **WITHIN** the scope of the Standard



The arrangement is **OUTSIDE** the scope of the Standard

Captives

Applicability of AASB 17 to captives

- **Paragraph 6A of AASB 17 public sector standard:** *"When a government department administers the activities of a captive insurer, the government department may elect to apply either AASB 17 Insurance Contracts or AASB 137 Provisions, Contingent Liabilities and Contingent Assets in determining the information to be disclosed about the administered captive insurer activities."*
- **Paragraph BC273 of the same standard** discusses a *"free choice for government departments to apply either standard to prepare administered item information on captive insurers that do not prepare standalone general purpose financial statements."*



Key issues to assess in relation to captives...

Are you a captive?

Do you have
standalone
general purpose
financial
statements?

What standards
does the
consolidated entity
report under?





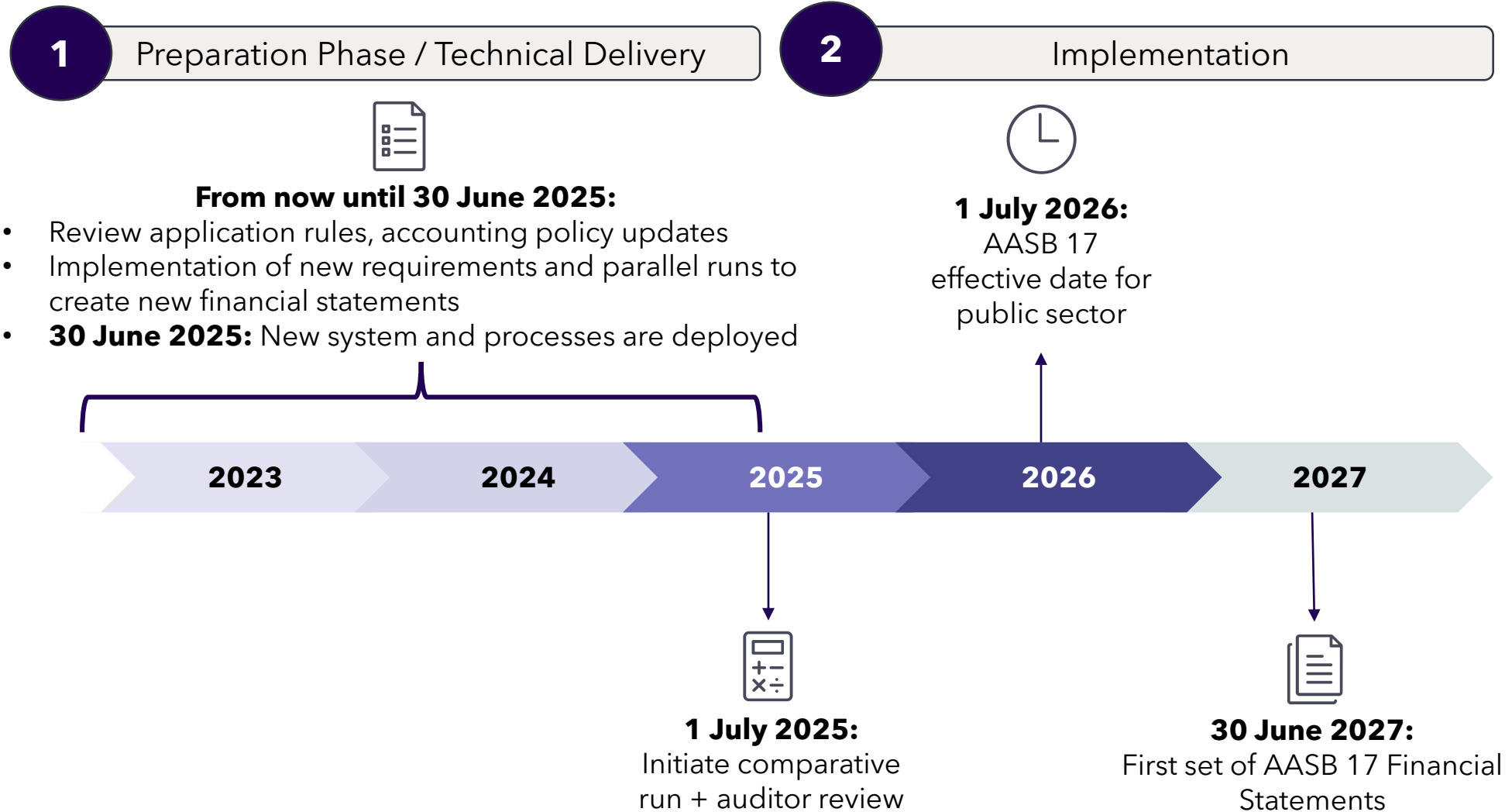
Timeline



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Timeline



Source: [AASB 2022-9 \(Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector\)](#)

Source: [Compiled AASB Standard – Insurance Contracts \(Private Sector\)](#)



Implementation Approach



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Implementation Approach

Part 1 Level of Aggregation



Implementation Approach

Part 2 Measurement approach



What are the two different measurement approaches?

Premium Allocation Approach

General Measurement Model



Public sector entities are **EXEMPT** from applying the GMM approach and have the option to only apply the PAA.



What does this mean for me?

Measurement and presentation is done separately for insurance and reinsurance contracts.

Substantially the same approach as is currently used for unearned premiums and outstanding claims



What are some of the key differences under the AASB 17 compared to existing standards?

What will it be under AASB 17?

What was the standard originally?

1

Outstanding Claims Liabilities / Liability of Incurred Claims

Discounted **central estimate with risk adjustment**

AASB 1023: Discounted central estimate with risk margin
AASB 137: Discounted best estimate

2

Liability for Remaining Coverage / Unearned Premium

Unearned premium based on **premium received** or best estimates of future cash flows with a risk adjustment

AASB 1023: Unearned premium based on premium written
AASB 137: Premium is earned as it is received

3

Discount rates

Discount rate with **illiquidity premium**

AASB 1023 and AASB 137: Risk Free Rates

Implementation Approach

Part 3 Risk Adjustment

What is a risk adjustment under AASB 17?

And...what is the description of risk margin under AASB 1023?

The **compensation an entity requires** for bearing the uncertainty about the **amount and timing of the cash flows** that arises from **non-financial risk** as it fulfils insurance contracts

A risk margin relates to the **inherent uncertainty** in the **central estimate** of the present value of the **expected future payments**

Other risk adjustment considerations?

Are you pricing for profit?

What is the level of variability of your cashflows?

Does it represent the compensation for risk appropriately?



So, what are the main differences between these two definitions?

AASB 1023 includes financial & non-financial risk
AASB 17 only looks at compensation for uncertainty arising from non-financial risk

Notion of compensation is explicit under AASB 17
Under AASB 1023, the risks are regarded as being inherent in the cash flows.

Implementation Approach

Part 4 Onerous Contracts



AASB 17 has a much greater emphasis on identifying onerous contracts and their identification has fundamental impacts on a wide range of accounting outcomes.

The public sector has been relieved from segregating the portfolio into different groups based on their onerousness.

The onerous contracts assessment for public sector can be done at the scheme level, aligned to the level of aggregation discussed earlier

Which group will most public sector schemes land in?

Most public sector schemes will most likely be onerous at initial recognition. Pricing strategy and scheme performance targets need to be considered

What typically needs to occur with onerous contracts?

- **NEW:** A loss component will need to be determined:
- A premium liability valuation will need to be carried out
- This is similar to the current LAT test, but granularity of the test could differ

What will change / be different from AASB 1023?

- Losses are recognized up-front that would otherwise have been recognized over the coverage period

Implementation Approach

Part 5 Expenses

How is cost allocation changing under AASB 17?

The allocation of expenses incurred is more complex under AASB 17 as **costs need to be reviewed for nature** and has to be **appropriately allocated to the different categories** by the **pre-determined unit of account**.

What are the types of expenses that will be measured?

Insurance acquisition cash flows
Includes insurance contract cashflows

Other insurance costs
Includes claims handling, admin, associated taxes, levies

Out of scope costs
Includes product development and training costs

 **Key questions for you to start thinking about after determining cost allocation definitions**

When is the 1st budget cycle where we use cost allocation?

How do we capture the data for the opening balance sheet?

How is this going to be included in the cash flows? Which system is going to perform that (e.g. actuarial, SL, data systems)?



Implementation Approach

Part 6 Presentation of key disclosures (1/2)

Chart of Accounts need to be remapped / recreated to allow for AASB 17 accounts

Balance Sheet

Largely unchanged, except for a few highlighted elements below

Assets	Liabilities
Cash and cash equivalents	Derivatives
Derivatives	Liabilities associated with assets held for sale
...	Financial liabilities at FC through PL
Financial assets at FV through PL	Investment contracts
Loans and receivables	Borrowings
...	Other financial liabilities
Investment property	Insurance contracts liabilities
Investments in associates	Insurance component
Insurance contracts assets	Investment component
Insurance component	Reinsurance contracts liabilities
Investment component	Insurance component
Reinsurance contracts assets	Investment component
Insurance component	Employee benefit liabilities
Investment component	Current income tax liabilities
Property and equipment	Deferred income tax liabilities
Intangible assets	Provisions
Current income tax assets	Other liabilities
Deferred income tax assets	Total liabilities
Other assets	Share capital
	...
	Total Equity
Total assets	Total liabilities and equity

What has changed from AASB 1023 to AASB 17?

1

AASB 1023 Account	AASB 17 Account
Net outstanding claims	Reinsurance contract assets
Net unearned premiums	
Insurance payables	
Recoveries Receivables	Insurance contract liabilities
Deferred acquisition costs	

Implementation Approach

Part 6 Presentation of key disclosures (2/2)



Statement of comprehensive income

New representation seen below

	20XX	20XX
Insurance revenue	X	X
Insurance service expenses	(X)	(X)
Net reinsurance income / (expense)	X	X
Insurance service result	X	X
Net insurance finance income / (expense)	X	X
Net reinsurance finance income / (expense)	X	X
Investment income	X	X
Investment management expense	(X)	(X)
Net investment result	X	X
Profit or loss	X	X
Gains and losses on financial assets at FVOCI		X
Total comprehensive income	X	X

Key callouts:

- Revenue and expense are recognized as services delivered and incurred respectively. Investment components are excluded.
- Insurance finance expenses need to be reported separately under AASB 17

Chart of Accounts need to be remapped / recreated to allow for AASB 17 accounts



What has changed from AASB 1023 to AASB 17?

1

AASB 1023 Account	AASB 17 Account
Gross written premium	Insurance revenue
Unearned premium adjustment	
Gross earned premium	
Hindsight adjustments	
Net earned premiums (a)	

2

AASB 1023 Account	AASB 17 Account
Gross claims expense	Insurance service expenses
Unexpired risk liability	
Net claims expense (b)	
Underwriting and other expenses (c)	

3

AASB 1023 Account	AASB 17 Account
Recoveries	Net reinsurance income / (expense)
Not Applicable	Net insurance finance income (expense) Net reinsurance finance income (expense)



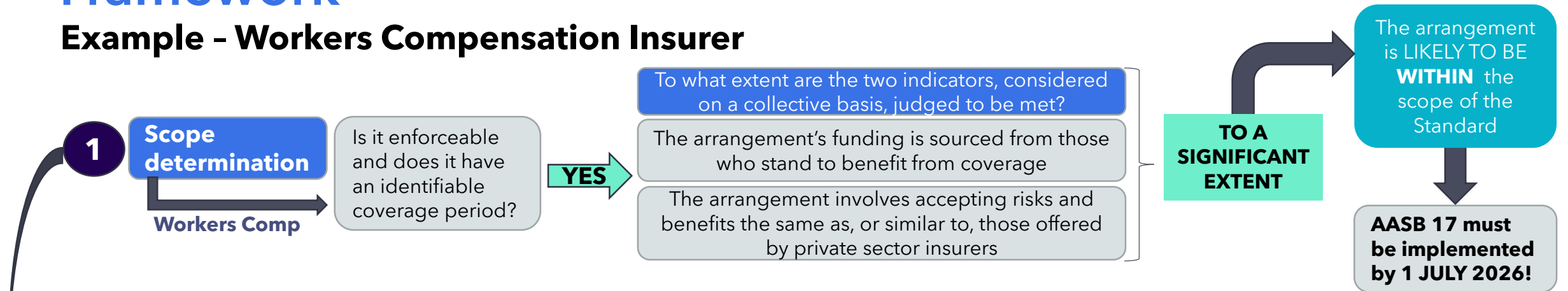
Examples

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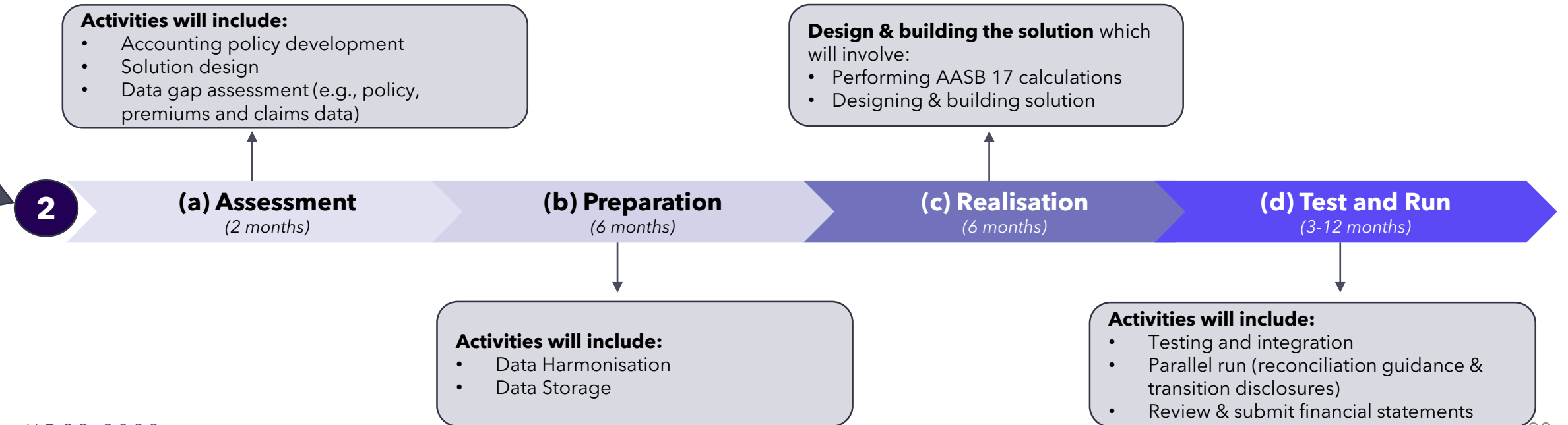


Framework

Example - Workers Compensation Insurer



An example of a framework to **ASSESS, PREPARE, REALISE** and then **TEST & RUN** the AASB 17 solution





Any Questions?



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Thank you

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