



Australian Government

Australian Accounting Standards Board

# Private Health Insurance Focus Group (“PHI FG”)

AASB 17 TRG Meeting  
17 June 2021

## Presenters

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# Private Health Insurance Focus Group (“PHI FG”)

- 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   | 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 current AASB TRG Meeting       |
| PAA Eligibility                   | Tabled in current AASB TRG Meeting       |
| Annual cohorts                    | Final draft circulated                   |
| Premium reduction scheme          | Draft prepared – comments being collated |
| Risk adjustment                   | Draft prepared – comments being collated |
| Business Combinations             | Draft prepared – comments being collated |
| Insurance service expenses        | To be allocated                          |
| Loyalty schemes                   | To be allocated                          |
| Acquisition costs                 | To be allocated                          |

- Cadence of meetings: Fortnightly beginning 17th November 2020
- More information: Contact Marion Smith: marion.smith@ey.com.au



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## PAA Eligibility

### Implementation Question

- Under AASB 17 the default method is the General Measurement Model (GMM), but the simplified Premium Allocation Approach (PAA) can be used under specific circumstances
  - Will PHI Complying Health Insurance Products (CHIP) and overseas visitors contracts automatically qualify for PAA?
  - Will PHI overseas student contracts be able to use the PAA?

### Summary of discussions (Eligibility)

|                            |  |
|----------------------------|--|
| PAA Eligibility            | <ul style="list-style-type: none"><li>• AASB17.53(b) allows for contracts with 1 year or less of coverage to use the PAA</li><li>• AASB17.53(a) allows for contracts with more than 1 year of coverage to use the PAA if the Liability for Remaining Coverage (LRC) is materially the same under the GMM and PAA</li></ul>   |
| Coverage period < one year | <ul style="list-style-type: none"><li>• General consensus that CHIP products usually have coverage period of less than one year</li><li>• General consensus that overseas visitor and overseas student products with a coverage period of 12 months or less qualify for PAA</li><li>• Therefore most PHI Fund products’ are automatically eligible for the PAA</li></ul>   |
| Longer term products       | <ul style="list-style-type: none"><li>• Although some funds allow prepayment of CHIP policies for periods greater than 12 months, these are generally not material. Each fund will need to make an assessment of the materiality based on their own facts and circumstances</li><li>• General consensus that overseas student products covering more than one year will need to be assessed and potentially tested for PAA eligibility</li></ul> |



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## PAA Eligibility

| Summary of discussions (Testing) |  |
|----------------------------------|--|
| Testing methodologies            | <ul style="list-style-type: none"><li>• Testing needs to show that the Liability for Remaining Coverage under the GMM and PAA approaches would not differ materially</li><li>• Several testing methodologies of the equivalence between the GMM and PAA have been included in the paper as examples</li><li>• These are also in line with methods being put forward by general insurers</li></ul>          |
| Materiality                      | <ul style="list-style-type: none"><li>• Ultimate materiality be in line with overall materiality for the financial report as a whole (as defined in AASB 101 Presentation of Financial Statements and Practice statement 2: Making Materiality Judgements)</li><li>• Entities are also setting materiality thresholds for PAA eligibility to identify if not material in the PAA testing process</li></ul> |
| Ongoing testing                  | <ul style="list-style-type: none"><li>• It was proposed a PAA assessment could be either done annually, or with less frequency</li><li>• If there is qualitative information indicating a material change PAA eligibility testing will be required</li></ul>   |

### Industry view

That only some niche products won't automatically be eligible for the PAA

That the components testing methodology is most likely to be used, which requires further retesting only when facts and circumstances indicate circumstances have changed for that component



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## Risk Equalisation

### Implementation Question

How should the Risk Equalisation Scheme (the Scheme) operating in the Australian PHI industry be treated under AASB 17?

### Summary of discussions

|  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Should the Scheme be treated as reinsurance?</li></ul>   | <ul style="list-style-type: none"><li>• The scheme does <b>not</b> meet the definition of an insurance contract and therefore should not be separately accounted for as a reinsurance contract</li></ul>   |
| <ul style="list-style-type: none"><li>• Should the net risk equalisation amount arising under the Scheme be considered as part of fulfillment cashflows?</li></ul> | <ul style="list-style-type: none"><li>• The nature of risk equalisation cash flows relate to insurance contracts within the scope of AASB 17. The cash flows are directly attributable to the issuance of insurance contracts and settlement of related claims. The amounts should be considered part of fulfillment cash flows within the boundary of an insurance contract</li></ul>                             |
| <ul style="list-style-type: none"><li>• How should the net risk equalisation amount be disclosed and accounted for when the PAA is applied?</li></ul>              | <ul style="list-style-type: none"><li>• Given that any amounts payable or receivable under the scheme relate to past service for contracts in issue at the reporting date they should be included in the Liability for Incurred Claims (LIC)</li><li>• The net risk equalisation amount meets the definition of an insurance service expense and should be accounted for as such in the income statement</li></ul> |

