Private Health Insurance Focus Group ("PHI FG")

AASB 17 TRG Meeting

23 September 2021

Presenters
Marion Smith
Jennifer Dwyer
Zhedi Wu

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	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 the current AASB TRG Meeting
Business combinations	Tabled in the current AASB TRG Meeting
Contractual cashflows and insurance service result	Final draft being prepared – to be tabled at next AASB TRG Meeting
Risk adjustment	Draft prepared – comments being collated

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

Private Health Insurance Focus Group

Australian Government Rebate (AGR)

Implementation Question
How should the Australian Government Rebate (AGR) operating in the Australian PHI industry be treated under AASB 17?

Background
To encourage private health participation in Australia, the Federal Government provides a rebate known as the Australian Government Rebate (AGR) which reduces the premiums that policyholders pay. The rebate is generally provided with the policyholder paying the premium net of the rebate and the Federal Government then subsequently pays the rebate directly to the insurer.

Summary of discussions

• How should the AGR be recognised in the P&L?	• Fulfilment cash flows include premiums from a policyholder and any additional cash flows that result from those premiums. Insurance revenue under the PAA includes expected premium receipts allocated to the period , therefore general consensus of the preparers was that the AGR will continue to be recognised within premium revenue.
• How should the AGR be recognised in the balance sheet?	• AASB 17.55(a) requires the Liability for Remaining Coverage (LFRC) to include any amounts recognised as insurance revenue during the period. • General consensus of the preparers was for the receivable for the AGR due from the Federal Government (but not yet received) to be recognised in the LFRC.
• LIC vs LFRC	• AGR is only received after the policyholder has paid their share of the premium, hence depending on the policyholder payment profile it is possible for the AGR receipt to be post the period of coverage. There was discussion on whether this should be recognised in the Liability for Incurred Claims (LIC). • PHI preparers expecting to recognise all of AGR receivables in LFRC at this stage, but continuing to monitor consensus on how premiums receivable post coverage should be recognised.
• AASB 9 application	• AASB 9 applicability was also considered given that the AGR is a premium due from a third party. However as it arises from the policyholder’s insurance contract and no separate contract exists between the insurer and the government, PHI preparers do not expect AASB 9 would apply. However emerging interpretations being monitored.

Private Health Insurance Focus Group

Business combinations

Implementation Question
How to apply the AASB 17 on transition for PHI contracts acquired as part of a transfer or business combination, as defined in AASB 3 *Business Combinations*

Background
Under AASB 17, insurance contracts that are acquired in a business combination, as defined by AASB 3, or through a transfer of insurance contracts are treated as if they had been issued by the acquirer at the date of the acquisition transaction. The treatment of acquisition cashflow assets and other intangible assets can also differ from current practice.

Summary of discussions	
• Classification of acquired contracts as insurance contracts	• Acquired PHI policies are classified as insurance contracts if there is uncertainty in how insurance risks will eventuate at the date of acquisition. For PHI, this is expected to apply to all contracts where the contract boundary has not ended as members can continue to make incurred but not reported (IBNR) claims after the acquisition date.
• The contract is assessed at the transition date	• The contract boundary of the acquired contract is assessed from the acquisition date, not the original contract boundary start date. • In determining the level of aggregation an entity will also need to determine the portfolios and groups to which the insurance contracts acquired belong on the acquisition date. This may result in a change to the groups previously identified by the acquiree.
• Contracts acquired in the claims settlement period	• Cashflows for PHI contracts acquired in the claim's settlement period may transfer insurance risk for IBNR claims or reported claims for which the claims amount can change after the acquisition date, i.e. for treatment that is ongoing or due to claims leakage recoveries. • If the claim is fully processed and the remaining liability is only due to the timing of payment, there is potentially no transfer of insurance risk and the balance is not in scope of AASB 17 – however note relief provided until AASB 17 application date. • A LFRC is set up at acquisition and LIC and insurance service expenses are recognised on determination of the ultimate cost of claims.

Private Health Insurance Focus Group

Business combinations

Summary of discussions (continued)	
• Allocation of consideration	• For both transfer of assets/liabilities and for business combinations, identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. • Under AASB 17 it appears there is no option available to split the value of the acquired insurance contracts into two components as was available in AASB 1023 13.3.1 - i.e. a liability in accordance with the insurer's accounting policies and an intangible asset representing the difference between fair value and the value of that liability measured by the acquirer. • The fair value of an insurance contract is measured under AASB 13 *Fair Value Measurement*. For measurement purposes, the acquirer treats consideration paid, i.e. fair value, for the insurance contracts as a proxy for the premiums received when calculating the LFRC.
• Acquisition costs and other intangible assets acquired through a business combination	• The recognition of assets under AASB 17.B95E (a) is a similar concept to the transfer of Deferred acquisition costs (DAC) from the seller to the acquirer. • Assets in AASB 17.B95E (b) can be interpreted as all other acquisition costs that have been paid by the acquiree which are not captured under AASB 17.B95E (a). Examples may include fees paid up front to an agent for a sale over the next financial year or call centre costs paid up front. • Insurers using PAA who acquire insurance contracts must still value DAC assets under AASB 17.B95E(a) & B95E(b) in accordance with AASB 13 even if their policy is to expense DAC. It is possible for the fair value of the DAC asset to be nil as determined by the acquirer using the measurement approaches required in AASB 13. • Other assets which do not meet the requirements of AASB 17 B95E(a) & (b) are accounted for under AASB 138 *Intangible Assets* if recognition criteria of an intangible asset are met.

• Onerous contracts	• If facts and circumstances indicate that the contracts acquired are onerous, then the difference between the consideration received/paid and the fulfilment cash flows is:
	  • For AASB 3 business combinations, recognised as part of the goodwill or gain on bargain purchase.
	  • For the transfer of insurance contracts, recognised as a loss immediately in P&L, and a corresponding loss component as part of the LFRC.