



# Insurance Activities in the Public Sector

## Project summary

AASB 17 *Insurance Contracts* is effective for annual reporting periods beginning on or after 1 January 2023. It replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The AASB decided to work jointly with the New Zealand Accounting Standards Board (NZASB) to consider how AASB 17 should be applied to public sector entities.

In March 2022, the AASB and the NZASB issued Exposure Drafts AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* to propose public-sector-specific modifications to AASB 17/PBE IFRS 17. The Boards are expected to consider the comment letters received on the Exposure Drafts at their August and September 2022 meetings.

## Project contact

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**Project priority: Medium**

## Issued documents

- ED 319 *Insurance Contracts in the Public Sector* (2022)
- Fatal-Flaw Review Draft AASB 2022-X Amendments to *Australian Accounting Standards – Insurance Contracts: Consequential Amendments for Public Sector Entities* (2022)
- Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (2017)
- Media Release *Insurance Contracts – more transparency for investors* (2017)

## Project status

- Deliberating comments received on ED 319

## AASB outreach

- Informal targeted outreach conducted in 2020–2022
- 2 May 2022 virtual roundtable to discuss ED 319/ED 2022-3

## Board deliberations

- AASB Action Alert Update and Board papers

## Project news

Date	News
3 August 2022	<a href="#">August 2022 Action Alert</a>
23-24 February 2022	<a href="#">February 2022 Action Alert</a>
10–11 November 2021	<a href="#">November 2021 Action Alert</a>

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

## AASB Action Alert Update, Minutes and Board Papers

### Meeting Date

### Update

#### August 2022

The Board considered the feedback received in submissions on Exposure Draft AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* from both Australian and New Zealand stakeholders.

In respect of the indicators for identifying public sector arrangements within the scope of AASB 17 *Insurance Contracts*, the Board decided to rank the six indicators proposed in ED 319 by:

- (a) making the existence of an 'identifiable coverage period' and the 'enforceable nature of an arrangement' pre-requisites for applying AASB 17;
- (b) identifying 'source and extent of funding' and the 'similarity of risks covered and benefits provided' as primary indicators that would usually have relevance on a sliding scale; and
- (c) identifying 'management practices and assessing financial performance' and 'assets held to pay benefits' as secondary indicators that might help an entity determine whether AASB 17 applies when the other indicators are not definitive.

In addition, the Board decided to include the following further guidance in AASB 17 regarding indicators:

- (a) the 'similarity of risks covered and benefits provided' indicator – explain that similarity between the risks and the benefits themselves is the focus, not the level of riskiness;
- (b) the 'identifiable coverage period' indicator – add guidance regarding a person's inherent status in meeting eligibility criteria for participation in a scheme versus the existence of an identifiable insurance coverage period;
- (c) the 'enforceable nature of an arrangement' indicator – extend the existing guidance in AASB 17 about the place of law and regulation as a part of an insurance contract; and
- (d) the 'management practices and assessing financial performance' indicator – place more emphasis on underwriting, which is a key feature of insurance.

The Board will consider examples of applying the indicators with a view to assessing whether they would assist stakeholders.

In respect of risk adjustments for measuring insurance liabilities, the Board decided:

- (a) consistent with its proposal in ED 319, not to modify the requirements in AASB 17;
- (b) not to give guidance on whether a public sector entity could conclude that it can have a zero risk adjustment for measuring insurance liabilities, on the grounds that:
  - (i) there is sufficient guidance in AASB 17 – Appendix A explains that a risk adjustment for non-financial risk is the compensation an entity seeks for bearing risk and paragraph B87 explains that whether an entity will have a positive risk adjustment would depend on its level of indifference between certain cash flows and uncertain cash flows with the same central estimate; and
  - (ii) any additional guidance could be perceived as a modification of AASB 17; and
- (c) not to add any public-sector-specific disclosure requirements.

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	<p>The Board decided to monitor two emerging issues: adverse development covers and investment components that might arise in the public sector.</p> <p>The Board noted that the due process for finalising the project might require the exposure of a Fatal-Flaw Review Draft Standard or possibly a revised ED. The Board will consider responses to other proposals in ED 319 at its next meeting and will also then address the next steps and timeline for completing the project.</p> <p><a href="#">4.1</a> Cover Memo: Insurance Activities in the Public Sector</p> <p><a href="#">4.2</a> Indicators for determining which arrangements are within the scope of the Standard</p> <p><a href="#">4.3</a> Risk adjustments in measuring insurance liabilities</p> <p><a href="#">4.4</a> Emerging issues: adverse development covers, investment components</p> <p><a href="#">4.5</a> Comment letters received on AASB ED 319 and NZASB ED 2022-3</p> <p><a href="#">4.6</a> Bank depositor compensation schemes</p>
<b>February 2022</b>	<p>The Board decided to issue an Exposure Draft that proposes:</p> <p>(a) modifications to AASB 17 <i>Insurance Contracts</i> for application by public sector entities; and</p> <p>(b) deferring the mandatory application date of AASB 17 for all public sector entities until annual reporting periods beginning on or after 1 July 2025, with early adoption permitted.</p> <p>In approving the Exposure Draft, the Board considered the information gathered from stakeholder field testing of the proposed indicators for determining whether a public sector entity's arrangements would be within the scope of AASB 17.</p> <p>The Board also decided to issue a Fatal-Flaw Review (FFR) draft version of a Standard proposing consequential amendments to various AASB pronouncements that would:</p> <p>(a) amend AASB pronouncements that refer to AASB 17, AASB 4 <i>Insurance Contracts</i> and AASB 1023 <i>General Insurance Contracts</i> to continue to apply AASB 4 and AASB 1023 to public sector entities for annual periods beginning on or after 1 January 2023 but before 1 July 2025; and</p> <p>(b) repeal AASB 1038 <i>Life Insurance Contracts</i> and supersede Interpretation 1047 <i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i>, which are no longer needed for annual periods beginning on or after 1 January 2023 for either private sector or public sector entities.</p> <p>The Exposure Draft and the FFR draft Standard are expected to be issued in March 2022 for a 90-day comment period.</p> <p><a href="#">6.1</a> Cover Memo: Insurance Activities in the Public Sector</p> <p><a href="#">6.2</a> Staff Paper: Feedback on field test of proposed indicators of activities within the scope of AASB 17</p> <p><a href="#">6.3</a> Draft Exposure Draft – Public sector modifications to AASB 17</p>

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	<p><a href="#">6.4</a> Draft Fatal-Flaw Review version of amending Standard – Consequential amendments</p>
<b>November 2021</b>	<p>The Board considered a draft Exposure Draft that would propose modifications to AASB 17 <i>Insurance Contracts</i> for application by public sector entities. With a few clarifications, the draft ED reflects the decisions made at the Board’s meetings in April, June and September 2021.</p> <p>The Board noted that the NZASB will consider the draft ED at its December 2021 meeting. The plan is for both Boards to approve the Exposure Draft at their respective February 2022 meetings. Some stakeholder outreach on the draft ED will be conducted during November and December 2021, with a particular focus on the proposed indicators for identifying arrangements that would be scoped into AASB 17, which may lead to some amendments to the draft ED for the Board to consider in February 2022.</p> <p>The Board also noted an issue regarding whether confidence levels for risk adjustments in liabilities for remaining coverage and liabilities for incurred claims should be aligned. The Board decided to note the issue in the Basis for Conclusions of the Exposure Draft but not to propose any public sector guidance on the matter.</p> <p><a href="#">5.1</a> Cover Memo</p> <p><a href="#">5.2</a> Staff paper: Working draft ED</p> <p><a href="#">5.3</a> Staff paper: Risk adjustment – alignment of confidence levels</p>
<b>September 2021</b>	<p>The Board continued its consideration of issues relating to the application of AASB 17 <i>Insurance Contracts</i> to public sector entities. The Board decided to propose:</p> <ol style="list-style-type: none"><li>(a) extending the mandatory application date of AASB 17 for public sector entities at least until annual reporting periods beginning on or after 1 July 2025, with early adoption to be permitted;</li><li>(b) exempting public sector entities from applying the requirement in paragraph 16 to divide a portfolio of insurance contracts into onerous and non-onerous subgroups of contracts, but require disclosure about the nature of the pricing process including, for example, any use of standardised pricing and cross-subsidisation that might occur between different groups of contracts;</li><li>(c) exempting public sector entities from applying the requirement in paragraph 22 to divide a portfolio of insurance contracts into annual cohorts based on their issue date;</li><li>(d) modifying paragraph 25 so that the timing of recognition of a group of insurance contracts does not depend on when the group becomes onerous;</li><li>(e) not specifically exempting public sector captive insurers from applying AASB 17 in their separate financial statements; and</li><li>(f) not making public-sector-specific modifications to AASB 17 relating to:<ol style="list-style-type: none"><li>(i) the measurement of investments backing insurance liabilities; and</li><li>(ii) the classification and presentation of risk mitigation program and other similar costs, which are not directly attributable to particular insurance arrangements.</li></ol></li></ol>

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The Board confirmed its decision to propose not making public-sector-specific modifications to the requirement to include a risk adjustment for non-financial risk in measuring liabilities for incurred claims. The Board decided that its Basis for Conclusions in the forthcoming consultation document should note the range of other possible approaches considered by the Board, including providing a rebuttable presumption for a risk adjustment based on a 75% probability of adequacy.

The Board confirmed its earlier decisions to propose the following as useful indicators, amongst other indicators, for identifying whether an arrangement should be accounted for under AASB 17:

- (a) the extent to which an arrangement is binding on the public sector entity is determined (in part) by whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively. The Board decided that practical ability is determined by reference to existing or substantively enacted regulation without consideration of political issues; and
- (b) the public sector entity adopts liability management practices normally associated with insurance contracts. The Board decided that this indicator should include, as an example, claims management practices that involve consideration of the extent to which claims are assessed to cater specifically for a beneficiary's losses, rather than being broadly-determined standardised amounts.

[11.1](#) Cover Memo

[11.2](#) Staff paper: Identifying and accounting for onerous contracts and related unit of account issues

[11.3](#) Staff paper: Redeliberation of Scope and Risk adjustment topics

[11.4](#) Staff paper: Measurement of investments backing insurance liabilities

[11.5](#) Staff paper: Risk mitigation program costs and other similar costs

[11.6](#) Staff paper: Captive insurers

### June 2021

The Board continued its consideration of issues relating to the application of AASB 17 *Insurance Contracts* to public sector entities.

In respect of the measurement of insurance liabilities, the Board decided to propose that there should be no public-sector-specific modifications to AASB 17 regarding:

- (a) the discounting of fulfilment cash flows; and
- (b) the requirements for presenting the impacts of inflation in the statement of profit or loss and other comprehensive income.

In respect of assessing eligibility for applying the premium allocation approach to measure the liability for remaining coverage, the Board decided to propose including the following public-sector-specific guidance in AASB 17 or the Board's Basis for Conclusions to AASB 17:

- (a) clarification that, when applying paragraph 34(b), assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the managerial capacity of its controlling government, including any relevant Ministers, to determine pricing or benefits;

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- (b) clarification that, where a public sector entity has a legislated obligation to stand ready to insure future policyholders, that obligation would not affect the coverage period; and
- (c) guidance to assist a public sector entity to evaluate when it has the practical ability to fully price for risks or benefits under paragraph 34(b)(ii) when a long-term view is taken on setting pricing and benefits.

In relation to (c), the Board also decided to propose that a public sector entity would be required to disclose information about the manner in which long-run pricing is determined when that pricing takes into account risks relating to future coverage periods.

[14.1](#) Cover Memo

[14.2](#) Staff paper: Discounting and inflating under AASB 17/NZ IFRS 17 by public sector entities

[14.3](#) Staff paper: Eligibility for the PAA under AASB 17/NZ IFRS 17 for public sector entities

### April 2021

#### Scope

The Board decided that it would be helpful to set out clear indicators in AASB 17 *Insurance Contracts* to assist public sector entities in identifying whether their arrangements should be accounted for under AASB 17.

The Board considered the following factors would be useful indicators for that assessment:

- (a) the public sector arrangement covers similar risks and provides similar benefits as those provided by private sector insurers;
- (b) the extent to which an arrangement is binding on the public sector entity, determined (in part) by whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively. An entity may currently have the right to make a retrospective change or a substantively enacted right to make the change;
- (c) the public sector arrangement has an identifiable coverage period;
- (d) there is a stand-alone binding arrangement, which might incorporate elements contained in statutes or regulation related to the public sector entity's activities;
- (e) the arrangement involves contributions from scheme participants that are related to the risks covered;
- (f) the public sector entity adopts liability management practices normally associated with insurance contracts (such as underwriting and reinsurance of risks accepted from participants); and
- (g) assets are held in a separate fund, or an entity has access to earmarked assets, in order to satisfy benefits when due.

The Board considered the following factors are unlikely to be useful indicators for determining whether a public sector entity has arrangements that should be accounted for under AASB 17:

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|  | <ul style="list-style-type: none"><li>(a) classification of an entity as a for-profit entity or a not-for-profit entity;</li><li>(b) the nature of the coverage as fault-based or no-fault-based;</li><li>(c) the practice of an entity in generally assessing the financial performance and financial position of an arrangement on a regular basis; and</li><li>(d) the extent to which claims are assessed to cater specifically for a beneficiary's losses, rather than being broadly determined standardised amounts.</li></ul> |
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The Board noted that:

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|  | <ul style="list-style-type: none"><li>(a) it should not be necessary for the Board to specifically identify particular public sector schemes as being within or outside the scope of AASB 17; and</li><li>(b) it may be useful at some stage to include examples in helping to clarify how the indicators might be applied.</li></ul> |
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In respect of arrangements with a bundle of services (where some services might be insurance and some might not be insurance), the Board reached the view that AASB 17 includes sufficient guidance to address whether a contract should be unbundled and any distinct services should be accounted for under another Standard.

### ***Risk adjustment for non-financial risk in measuring liabilities for incurred claims***

The Board decided that the risk adjustment requirements in AASB 17 did not require any specific public sector modifications. The Board noted that judgement would need to be applied by public sector entities to determine the level of compensation they require for bearing the risk of uncertainty associated with liabilities for incurred claims.

The Board also decided that public-sector-specific guidance was not required regarding accounting for risk adjustments at the consolidated group level.

[10.1](#) Cover Memo

[10.2](#) Staff paper: Scope of application of AASB 17/NZ IFRS 17 to public sector entities

[10.3](#) Staff paper: Risk adjustments for non-financial risk

## February 2021

The Board confirmed the objective of this project is to consider whether it would be appropriate to apply AASB 17 *Insurance Contracts* to public sector entities in accordance with the *AASB Not-for-Profit Entity Standard-Setting Framework* and its transaction neutrality principle; and as far as possible to achieve a consistent accounting outcome in the Australian and New Zealand public sectors.

The Board instructed staff to address the following issues for deliberation at future meetings:

- identifying relevant 'insurance-like' activities that should be accounted for under AASB 17;
- identifying insurance entities that should prepare financial statements;
- eligibility for the 'simplified' premium allocation approach to measuring liabilities for remaining coverage;
- discount rates;

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- the relevance and measurement of risk adjustments for the liability for incurred claims;
- the classification of 'non-insurance' cost;
- the recognition of onerous contracts; and
- the measurement of investments backing insurance liabilities.

The Board's decisions are broadly consistent with the decisions made by the NZASB at its February 2021 meeting.

[3.1](#) Staff Paper: Scope of application of AASB 17/ PBE IFRS 17 to public sector entities

[3.2](#) Staff paper: Joint AASB-NZASB project objectives and next steps

**September 2018** The Board considered a summary of constituent feedback on the Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* and decided to carry out the following activities:

- (a) conduct further field testing of the 'insurance-like' criteria;
- (b) based on the field testing, consider whether clarifications of the 'insurance-like' criteria are required, particularly the 'funding' criteria;
- (c) consider the assumptions used in determining discount rates for public sector entities; and
- (d) consider the assumptions used in determining risk margins for public sector entities.

[8.1](#) Staff Paper: Summary of comments on Insurance Discussion Paper

[8.2](#) For noting: Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*

**October 2017** The Board agreed that the proposed amendments to AASB 17 *Insurance Contracts* to include insurance risk created by statute rather than contract should apply to both for-profit and NFP public sector entities, as insurance-like arrangements arising from statute are sufficiently prevalent in both sectors.

To finalise the Discussion Paper proposals, the Board decided to clarify that:

- (a) in determining whether an arrangement is insurance-like, criteria that are classified as 'mandatory' must be satisfied, but this is not sufficient to conclude that an arrangement is insurance-like (ie the non-mandatory indicators must also be considered); and
- (b) guidance should specify that a public sector entity's risk adjustment for non-financial risk should reflect the specific risk appetite and cost of capital of the entity in line with the general principles of AASB 17, and therefore it may be necessary to consider aspects such as government guarantees supported by taxing powers or monopoly status.

In addition, the Board decided in relation to Australian-specific amendments to AASB 17:

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- (a) a project timeline, which includes both a discussion paper and exposure draft, with a view to completing the project by November 2018;
- (b) to include illustrative examples as an appendix to the discussion paper to help entities determine when arrangements are insurance-like;
- (c) to expose in the discussion paper regulatory disclosures currently required in AASB 1038, which were not carried forward when superseded by AASB 17, with a recommendation to not carry forward the disclosures to AASB 1054 Australian Additional Disclosures; and
- (d) to do no further work on the interaction between AASB 17 Insurance Contracts and AASB 1056 Superannuation Entities when a superannuation entity has to consolidate an subsidiary issuing insurance contracts.

#### 8.0 Cover Memo: Insurance Contracts

8.1 AASB Discussion Paper *Australian specific insurance issues – regulatory disclosures and public sector insurers* [DRAFT]

8.2 Analysis of Arrangements Against Insurance-like Criteria [DRAFT]

8.3 Staff collation and analysis of regulatory disclosures being considered for retention

8.4 Meeting minutes of September 2017 Insurance Project Advisory Panel Meeting

### June 2017

The Board considered the application of the forthcoming Accounting Standard AASB 17 Insurance Contracts to NFP entities and decided that:

- (a) where a NFP entity issues an insurance contract (as defined in AASB 17), the Board's policy of transaction neutrality will apply and the entity would be required to account for that contract as required by AASB 17;
- (b) the prevalence and magnitude of non-contractual NFP 'insurance-like' arrangements warrants NFP-specific modifications;
- (c) 'insurance-like' arrangements should be defined in relation to the manner in which they are managed, for example:
  - (i) whether an arrangement's obligations to the insured parties, including those arising from statutory obligations, is estimated similarly to that of an insurance contract as defined in AASB 17; and
  - (ii) whether the funding for the arrangement is calculated so as to replace premium collections, or whether the funding is calculated on some other basis;
- (d) where the 'insurance-like' arrangement is managed in a similar manner to that of an insurance contract, the entity should apply AASB 17 to account for that arrangement despite not meeting the definition of an insurance contract; and
- (e) apart from the necessary modifications to achieve the above, no other NFP-specific modifications should be made to AASB 17.

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In developing the amendments noted above, the Board will have regard to the International Public Sector Accounting Standards Board's continuing work on its Social Benefits project. To the extent possible, that work will be incorporated into the NFP-specific amendments.

[3.1](#) Staff Paper: Public sector scope and modifications

[3.2](#) IPSASB Criteria for insurance contracts

### May 2017

The Board received a presentation on the latest developments regarding the forthcoming IFRS 17 Insurance Contracts. In addition, the Board reviewed tentative project timelines to issue IFRS 17 in Australia, initially for for-profit entities, and to consider any further guidance necessary for not-for-profit entities in both the private and public sectors.

### August 2016

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#### **Public sector insurers**

The Board decided that it will clarify the scope of the forthcoming new AASB insurance standard for public sector entities, to ensure similar activities are treated similarly. The Board asked staff to:

- (a) conduct more thorough outreach through HoTARAC members and with the affected entities directly; and
- (b) prepare a possible exposure draft that would make proposals about the types of arrangements to be accounted for using insurance standards, which would be intended to take effect under the forthcoming AASB standard.

The Board noted there may be a need to address the interaction of the likely contract boundary and onerous contract requirements. If the impact of the forthcoming new AASB insurance standard would be to require public sector insurers to account for some sub-groups of annual contracts as if they were long-term (possibly perpetual) contracts using the 'general model' for liability measurement, there should be a public sector-specific paragraph to avoid this consequence. The Board asked staff to draft a relevant paragraph in case it is needed.

The Board also noted that similar issues around the interaction of the likely contract boundary and onerous contract requirements may arise for health insurers because of the Australian regulatory regime of 'community rating'.

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[4.3](#) Staff Paper: Analysis of key issues arising from forthcoming IFRS 17 in context of AASB's *Process for Modifying IFRS for NFP*

### June 2016

The Board noted that the IASB has completed its substantive decision making on a forthcoming revised IFRS 4 Insurance Contracts that, if adopted, would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Board:

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- (c) noted issues of potential significance to the public sector; and

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The Board asked staff to:

- (a) prepare a more detailed paper for presentation at the next Board meeting on whether any differences from the revised IFRS 4 might be justified for public sector insurers, following more stakeholder engagement with that sector;

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[10.4](#) Staff paper: Implications for public sector insurers of a revised IFRS 4