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External Reporting Board
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17 May 2019

NZASB Exposure Draft 2018-7 PBE IFRS 17 Insurance contracts

Dear Michele

The New Zealand Accounting Standards Board (NZASB) has sought comments on Exposure Draft *NZASB 2018-7: PBE IFRS 17 Insurance contracts* (ED 2018-7). PwC New Zealand is pleased to present its comment letter.

PwC New Zealand supports the development of a new PBE standard based upon the principles outlined in NZ IFRS 17 *Insurance contracts*. We agree with the view expressed in ED 2018-7 that without this change, at the point that NZ IFRS 17 becomes effective there will be significant differences between NZ IFRS and PBE Standards. We further agree with the proposals in ED 2018-7 (for the reasons provided in the Invitation to Comment). However, we do have some observations as set out below.

Whether a risk adjustment is appropriate for certain PBEs

The measurement of the risk adjustment is entity specific, reflecting the “compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk” (PBE IFRS 17. 37). We can foresee a situation where for some PBEs, applying this guidance could result in the risk margin being near to or even at zero, as referred to in the Invitation to Comment.

However, we do not believe that this possibility should lead to a decision to include a PBE-specific modification in respect of the risk adjustment. The guidance is sufficient for a PBE to determine an appropriate risk adjustment and the disclosure requirements under PBE IFRS 17.117 would ensure sufficient disclosure of the assumptions made in through that process.

Whether the contract boundary is clear for PBEs that are funded through levies

If levies payable under a Scheme are not set on an annual basis, this could result in the Scheme determining that the contract boundary is longer than 12 months. The Scheme will need to carefully consider whether at the time levies are reset, they are able to fully reprice for all insurance risks within the portfolio of insurance contracts. We can foresee complexities in making this determination since in some cases, the setting of levies may be restricted by legislation to ensure the broader objectives of the Scheme.

In addition, a Scheme applying the definition of insurance contracts (PBE IFRS 17.13.1) may form a view that there is a single insurance contract. This may further complicate the process for determining the contract boundary.



However, we consider that the guidance on applying the contract boundary for PBEs is clear in the standard, as supported by the additional analysis provided through the Transition Resource Group for IFRS 17 Insurance Contracts. We do expect that applying this guidance will likely result in some Schemes not being eligible to apply the Premium Allocation Approach. This will be a change to their current measurement model, but we consider that the benefits of applying the principles laid out in ED 2018-07 would outweigh the costs.

Onerous contracts

We agree that PBEs may determine they have to recognise onerous contracts as a consequence of broader policy decisions, as outlined in ED 2018-07. The degree of impact this may have is intrinsically linked with the determination of the contract boundary. We do not have any direct comments from specific entities within the sector, but agree that this area may require further consideration before issue of the final standard.

Apart from the above, we have no comments in response to the specific questions for respondents in the invitation to comment on ED 2018-7.

Should you wish to discuss the above, please do not hesitate to contact Richard Day on 021 870 572.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L Crooke', written in a cursive style.

Lisa Crooke
Partner
Assurance Leader