

8 June 2022

External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
[Via electronic submission](#)

Dear Board

NZASB Exposure Draft 2022-3: Insurance Contracts in the Public Sector

The Earthquake Commission welcomes the opportunity to provide comments to the External Reporting Board on ED PBE IFRS 17 Insurance Contracts.

We have attached our responses to the specified matters for comment.

Yours sincerely



Fraser Gardiner
Chief Financial Officer

UNCLASSIFIED

Sub-grouping of contracts

<p>1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none"> (a) We have limited details on our exposure and the modelling of the perils we cover is not well developed, so any judgements as to whether contracts are onerous or not is highly subjective. (b) Information on onerous contracts does not seem to align with the imperatives of a community rated scheme. (c) It would be significant work for little return to the readers of the financial statements.
<p>2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none"> (a) EQC does not currently have reliable exposure data clarifying coverage periods. (b) Levies are repriced infrequently. (c) This would require significant work for little return to the readers of the financial statements.

Initial recognition when contracts are onerous

<p>3. Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none">(a) EQC does not currently have reliable exposure data clarifying coverage periods, nor can it match levy receipts with clients as they are received in bulk from insurers.(b) Modelling of catastrophe risk is not an exact science and there is significant room for variation in views of the cost of cover being provided, making determination of “onerous” somewhat fraught(c) Therefore, there does not appear to be any benefit arising for readers of the accounts for the extra work involved.
--	---

Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA)

<p>4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards’ proposals to provide guidance that:</p> <ul style="list-style-type: none"> (a) assessing a public sector entity’s practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits; (b) a public sector entity’s monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity’s practical ability to fully price for risks or benefits; (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits; (d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account: <ul style="list-style-type: none"> (i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or (ii) a broad government policy framework that includes considering general economic circumstances and community needs. <p>Please provide your reasons.</p>	<p>Yes, we agree with the proposed guidance in principle.</p> <p>The Earthquake Commission’s legislation provides the ability to reset the levy (reprice the risks) at any time for insurance incepted going forward. In practice, when levies have changed we have given notice periods of year or so as a courtesy to both our customers and to the private insurance companies who collect our levies on our behalf. This could therefore result in debate with the auditor over EQC’s practical ability. We propose additional wording to be included within the guidance about the theoretical ability to fully reprice.</p>
---	---

<p>5. Do you agree with the proposals to:</p> <p>(a) require disclosure of information about the nature of the pricing process, including:</p> <ul style="list-style-type: none"> (i) the manner in which pricing/benefits are determined; (ii) the timeframes for which they are typically determined; and (iii) any other relevant constraints under which an entity operates; <p>when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and</p> <p>(b) permit the disclosure to be located either:</p> <ul style="list-style-type: none"> (i) in the notes to the financial statements; or (ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time? <p>Please provide your reasons.</p>	<p>Our preferred approach fits within these parameters.</p> <p>The methodology to determine levies will be set out in regulations associated with the new Act, and that should be the authoritative source. The calculations underpinning the levy may use different assumptions than those used by the valuation actuaries in determining the outstanding claims liability. We note also that the government will have the prerogative to deliberately set the levy below the cost of provision of services to assist the accessibility of insurance for New Zealanders, if it so desires.</p> <p>For simplicity and ease of readability, we believe it would be best to simply refer the reader to the Act and any related public reports on the setting of the levy rather than include these details alongside the valuation assumptions.</p>
---	---

Risk adjustment

6. The NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

In contrast, the AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

<p>(a) Do you support:</p> <ul style="list-style-type: none"> (i) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims; or (ii) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement? <p>(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.</p>	<p>Historically we have reserved at a 75% probability of sufficiency, and more recently at 85%, at the decision of the Board to take a more conservative approach. Overall, the application of the rebuttable 75% confidence level is more clear cut in application than the alternatives, as the determination of a risk adjustment could be contentious in the public sector.</p> <p>We note Treasury advice that the determination of the EQC levy must follow guidance in respect of compulsory levies; in particular that it must only reflect the cost of services provided, so no profit margin is allowed.</p> <p>Overall, we are supportive of the NZASB approach with the 75% rebuttable confidence level. If this were to be removed, we would work with our colleagues at The Treasury to determine a suitable risk adjustment.</p>
---	---

Scope

<p>7. The Boards propose that the public sector arrangements to which PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG16.1 to AG16.25]:</p> <ul style="list-style-type: none"> (a) similarity of risks covered and benefits provided; (b) identifiable coverage; (c) enforceable nature of arrangement; (d) source and extent of funding; (e) management practices and assessing financial performance; and (f) assets held to pay benefits. <p>Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?</p>	<p>Yes, we agree with the proposed indicators, noting that it is clear that we are captured by the standard.</p>
<p>8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.</p>	<p>No, we agree with the proposed indicators.</p>

<p>9. The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:</p> <ul style="list-style-type: none">(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?(b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?	<p>Yes, we agree with the indicators being considered collectively rather than using a ranking approach (noting that we are not affected by this decision).</p>
--	---

Effective date

<p>10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.</p>	<p>We would prefer a later adoption date for the following reasons:</p> <ul style="list-style-type: none"> (a) Although there are exemptions that could simplify the adoption of this new standard, there will still be a need to update systems and processes to ensure that the standard is embedded within the finance systems rather than being performed outside of the systems in a spreadsheet. (b) NZ IFRS 17 was adopted in August 2017 with an effective date of 1 Jan 2023 to allow the for-profit entities time to update systems and processes. With an effective date proposed of 1 Jan 2025, this does not provide the public sector with the same lead-in time to update the necessary systems. (c) The EQC Act is being repealed, and without clarity on the terms of the replacement, it is difficult for us to complete the preparatory work.
---	---

Other modifications

<p>11. Do you consider there should be any further modifications to PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?</p> <p>Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics:</p> <ul style="list-style-type: none"> (a) specifically exempting ‘captive’ public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC228 to BC236]; (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC237 to BC259]; (c) the measurement of investments backing insurance liabilities [paragraphs BC260 to BC265]; and (d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC266 to BC273]. 	<p>We are still analysing the impact on our catastrophe reinsurance contracts (excess of loss), which are not aligned with our financial year, and in some cases are multi-year.</p> <p>We are also considering non-traditional forms of risk transfer, and have not yet considered the impact of these.</p> <p>We would be grateful to continue to engage with you on these complex issues.</p>
<p>12. Do you have any other comments on the ED?</p>	<p>No</p>