



26 May 2022

External Reporting Board  
PO Box 11250, Manners St Central,  
Wellington 6142.

Submitted via the online form

Attention: April Mackenzie

Dear April

**NZASB ED 2022-3 *Insurance contracts in the public sector***

Thank you for the opportunity to comment on Exposure Draft NZASB ED 2022-3 *Insurance contracts in the public sector*.

Our comment relates to Question 6 in the *Invitation to Comment* on Risk adjustment. Question 6 states:

**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.

(a) Do you support:

- (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?

Please provide your reasons.

(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

We do not support the NZASB proposed modification to include a rebuttable presumption requiring a risk adjustment that reflects an amount that is estimated to achieve a 75 % confidence level for a liability for incurred claims. We support the principles-based approach that makes no modifications to paragraph 37 of PBE IFRS 17 *Insurance contracts*.

Paragraph 37 allows a public sector entity to adjust the estimate of the present value of the future cash flows to reflect the compensation that it requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. Paragraph 119 of PBE IFRS 17 requires an entity to disclose the confidence level used to determine the risk adjustment for non-financial risk, and if the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk,

it requires disclosure of the technique used and the confidence level corresponding to the results of that technique.

We consider that paragraph 37, together with the disclosure requirements in paragraph 119, is appropriate for public sector entities. We support the AASB's conclusions and reasons for public sector entities to apply AASB 17/PBE IFRS 17 with no modification (see paragraphs BC126-BC127).

Public sector entities that apply insurance accounting often levy the public. These levies should be set at amounts that are necessary to recover the expected costs of meeting outstanding claims. The central estimate is the most relevant amount for these expected costs. If levies are based on the central estimate, it does not make sense to require the entity to report a liability above this amount. Recognising a liability above the central estimate that is based on a conservative estimate of the liability means that the entity will recover levies and other funds at an amount over and above what it requires or expects to pay out in claims. We consider that this is inconsistent with the principle of inter-generational equity.

While we acknowledge the cost-benefit reasons for prescribing the rebuttable presumption in proposed paragraph 37.1, we do not consider the reason to be sufficiently compelling to justify why a public sector entity needs to include a 75 % confidence level, rather than using the central estimate, when measuring a liability for incurred claims.

If a rebuttable presumption was required, it would be preferable for the rebuttable presumption to be that no risk margin is included, and if this is rebutted, then the entity uses a 75% confidence level.

We recommend that:

- A public sector entity be required to apply PBE IFRS 17 without the proposed modification in paragraph 37.1; and
- Application guidance be included in PBE IFRS 17 to assist entities to determine when an estimate other than the central estimate would need to be used.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at [laywee.ng@oag.parliament.nz](mailto:laywee.ng@oag.parliament.nz).

Yours Sincerely,



Todd Beardsworth  
Assistant Auditor-General – Audit Quality