The Ministry of Business, Innovation, and Employment's Submission to the External Reporting Board on Exposure Draft for Public Benefit Entities - IFRS 17 Insurance Contracts

1. The Ministry of Business, Innovation, and Employment (MBIE) is pleased to submit its comments regarding the Exposure Draft (ED) for Public Benefit Entities (PBE) IFRS 17 on Insurance Contracts (ED PBE IFRS 17). The submission is made to the External Reporting Board (XRB) through the New Zealand Accounting Standards Board (NZASB).

Executive Summary

2. MBIE welcomes the opportunity to comment on the ED PBE IFRS 17.
3. This submission recommends that it would be appropriate to exempt PBEs from the risk margin requirement under the proposed PBE IFRS 17 if they do not have the type of future cash flow risks that private sector insurers face. Alternatively, we recommend that it would be appropriate to clarify that a zero risk margin may be suitable for a PBE such as ACC.
4. It may be useful for the XRB to include guidance within PBE IFRS 17 around risk margin issues.
5. This submission recommends that the proposed PBE IFRS 17 is designed in a way that all five accounts are subject to the same accounting standard.
6. This submission recommends that the proposed PBE IFRS 17 is not designed in a way that effectively restricts any potential future policy decisions, including but not limited to, forms of individualised risk assessment.
7. It may be useful for the XRB to include guidance within PBE IFRS 17 regarding terminology, including but not limited to, the term 'fully funded'.

Background

8. MBIE provides advice to the Minister for ACC on accident compensation and administers accident-compensation related legislation.
9. ACC is a material entity in the Crown's financial statements for financial reporting purposes. ACC considers that it issues insurance contracts as defined by NZ IFRS. ACC must comply with NZ IFRS including IFRS 17.
10. Under IFRS 17, an entity's reported claims liability must include, in addition to the central estimate of the present value of the expected future payments, a risk margin to allow for the inherent uncertainty in the central estimate. The accounting standard does not specify any particular level of risk margin or probability of sufficiency.
11. To date, ACC and its auditors have considered that compliance with the accounting standards requires declaration of a risk margin, consistent with other (private sector) users of IFRS 17. Consequently, ACC uses a 75% probability of sufficiency based on equivalency with private sector entities covered by IFRS 17.
12. ACC has five separate accounts, four of which are funded by levies (the levy accounts), and one that is funded through an appropriation from general taxation revenue (the non-earners account).
13. Accident Compensation policy has previously included a form of individualised risk assessment (vehicle risk rating).

Our Submission

Accuracy

14. There is a major difference between private and public sector entities that offer insurance contracts because the government has coercive powers to tax and levy. MBIE submits, therefore, that:

- in some circumstances it would provide more reliable information to users if public sector PBEs did not include a risk margin as required under PBE NZ IFRS 17
- it may be useful to include guidance in PBE NZ IFRS 17 about the application of the risk margin requirements for public sector PBEs.
- it may be useful for this guidance to include explicit clarification that a zero risk margin may be suitable for a PBE such as ACC
- it may be useful for this guidance to include a requirement to include a declaration of purpose of any risk margin included
- it may be useful for this guidance to include examples of appropriate risk margins for PBEs as well as principles and methodologies for PBEs to determine an appropriate level of risk margin

15. The purpose of a risk margin is to reduce the risk of private insurer failure. While this view may be prudent for the private sector it is MBIE's view that it is not appropriate for ACC (and potentially other public sector PBE insurers) because provision for the funding of ACC means that it does not face cash flow uncertainties.
16. As observed in previous MBIE submissions, the readers of public sector entity financial statements have different information needs from readers of private sector financial statements, and focus on holding the PBE to account.
17. Disclosing a risk margin does not assist in keeping ACC and other PBEs accountable for the use and stewardship of public resources. On the contrary, it creates an inaccurate picture of their finances.
18. As a result of the risk margin, ACC's solvency appears to be lower than it otherwise would be, and this does not assist users of ACC's financial statements.

Consistency

19. MBIE submits that all five accounts must be subject to the same accounting standard. Any change that resulted in the non-earners account (or any other account) being treated differently to any other would lead to significant confusion for the user.
20. MBIE submits that policy options, such as forms of individualised risk assessment, must not cause ACC, or any of the individual accounts, to cease to be subject to NZ IFRS 17.
21. MBIE submits that there is the potential for confusion regarding terminology and suggests that it may be useful for the XRB to include guidance within PBE IFRS 17 regarding terminology. This includes but is not limited to, the term 'fully funded'.
22. In policy, the term 'fully funded' refers to the balance of the ACC Scheme's five accounts, and ensures that sufficient levies are collected to cover the lifetime cost of all injuries. This is an

actuarial approach, which calculates the amount needed and apportions it on an annual basis, that is used to determine the amount of levies collected in that year.

23. Fully funded contrasts with the alternative funding approach of 'pay-as-you-go'. Under this approach, the amount required to pay for the cost of claims of that year is calculated, and levies of that amount are collected.

24. In the ED, it appears that the term 'fully funded' is used to describe the intention of government (whether current or subsequent), to meet the future costs of the scheme.

25. As these meanings are not the same MBIE recommends that clarification of terminology be included in the ED and consideration given to using an alternative term.

Timing

26. In order to ensure sufficient time is provided for consultation, and for PBEs to make any necessary changes to processes, we suggest the effective date may need to be deferred beyond 1 January 2022.

Ruth Isaac

General Manager, Labour Market and Immigration Policy

Ministry of Business, Innovation, and Employment

24 / 5 / 19.