

APAC GI Webinar – PAA Eligibility

1 September 2021

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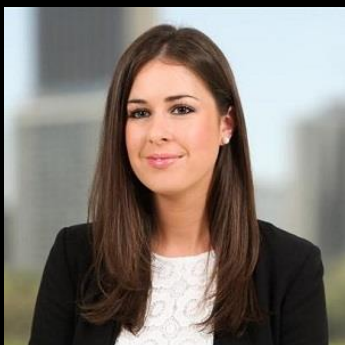
## Your Deloitte expert presenters today



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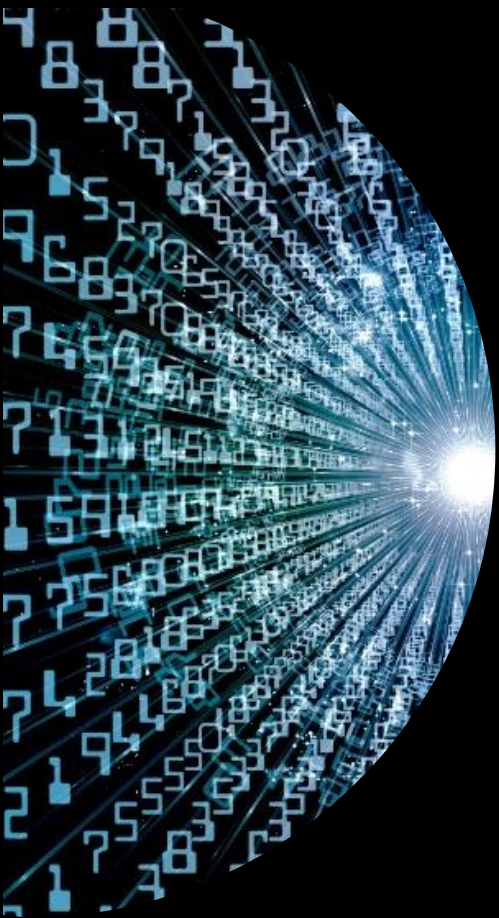


**Amy Li**  
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# Agenda



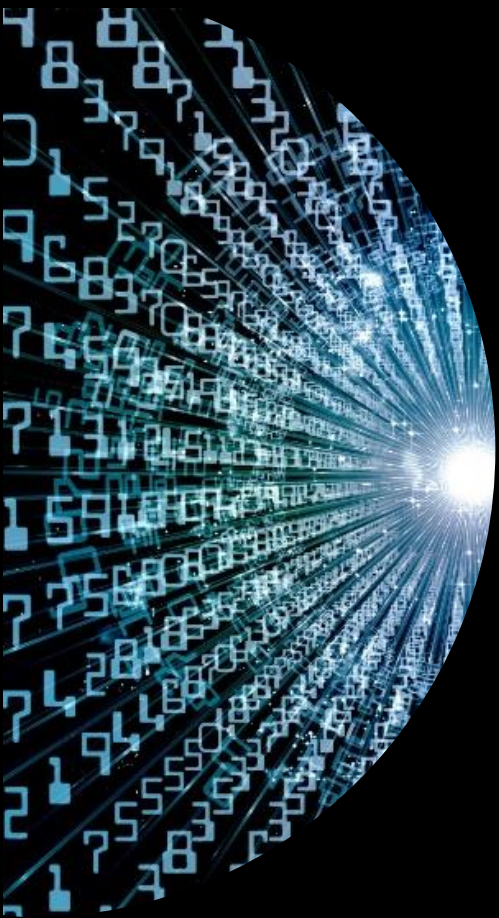
Topic	Speaker
Introduction	Anne Driver
PAA Eligibility Presentation	Nicola Eiffe & Amy Li
Industry Panel and Q&A	Kaise Stephan & guests
Close	Anne Driver



# Introduction

## Polling questions

1. For those with contracts of coverage periods > one year - Have you already tested for PAA eligibility?
  - a) Yes
  - b) No
  - c) N/A
2. If you answered 'yes' to the previous question - Have you obtained sign off by your auditors?
  - a) Yes
  - b) No
  - c) N/A



# PAA Eligibility

## What is PAA and what does the standard say?

An entity **may** simplify the measurement of **a group** of insurance contracts using the premium allocation approach ... if, and only if, **at inception** of the group:

- (a) the entity **reasonably expects** that such simplification would produce a measurement of the liability for remaining coverage for the group that **would not differ materially** from the one that would be produced applying the General Measurement Model; or
- (b) the coverage period of each contract in the group... is **one year or less**



\*Premium Allocation Approach ('PAA')

## Why bother using PAA?



Less data requirements to identify and track the Contractual Service Margin ('CSM')



Similar to current general insurance accounting approach for a number of Asia Pacific countries

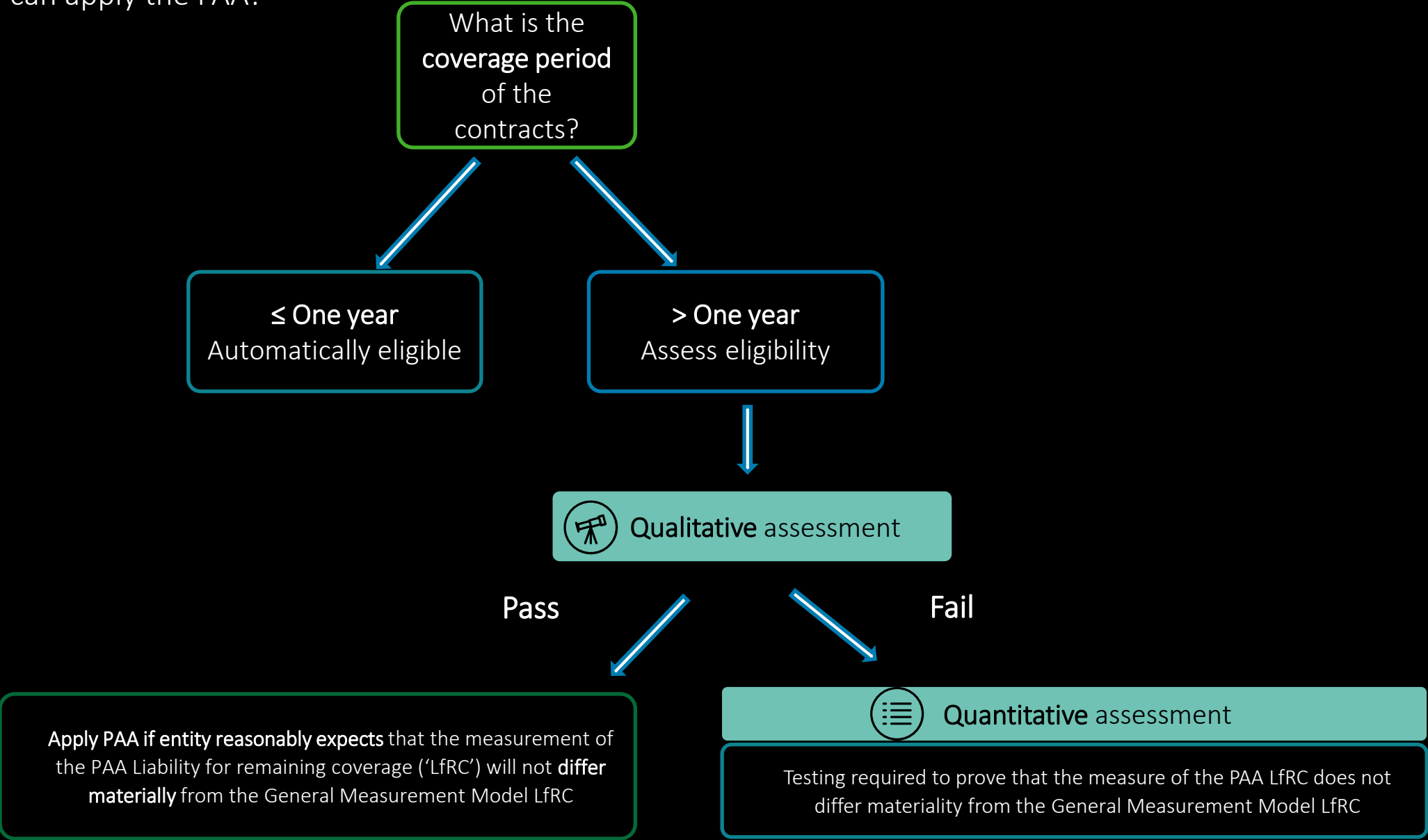
Reduced disclosures in Financial Statements



Better reflects many general insurance products as it's a one margin model



How do I know if I can apply the PAA?



## How do I determine the materiality thresholds to be used?

“The entity **reasonably expects** that such simplification would produce a measurement of the liability for remaining coverage for the group **that would not differ materially** from the one that would be produced applying the General Measurement Model”

### Test 1: % threshold (each reporting date)

$$\frac{\text{PAA LfRC} - \text{General Measurement Model LfRC}}{\text{General Measurement Model LfRC}} \leq X\%$$

### Test 2: Absolute threshold

$$\frac{\text{PAA LfRC} - \text{General Measurement Model LfRC}}{\text{Initial General Measurement Model LfRC}} \leq X\%$$



Watch out for aggregation risk!

Illustrative example – Assess if materially different

Test 1: % threshold

$$\frac{\text{PAA LfRC} - \text{GMM LfRC}}{\text{GMM LfRC}} \leq 10\%$$

Test 2: Absolute threshold

$$\frac{\text{PAA LfRC} - \text{GMM LfRC}}{\text{GMM LfRC}} \leq 5\%$$

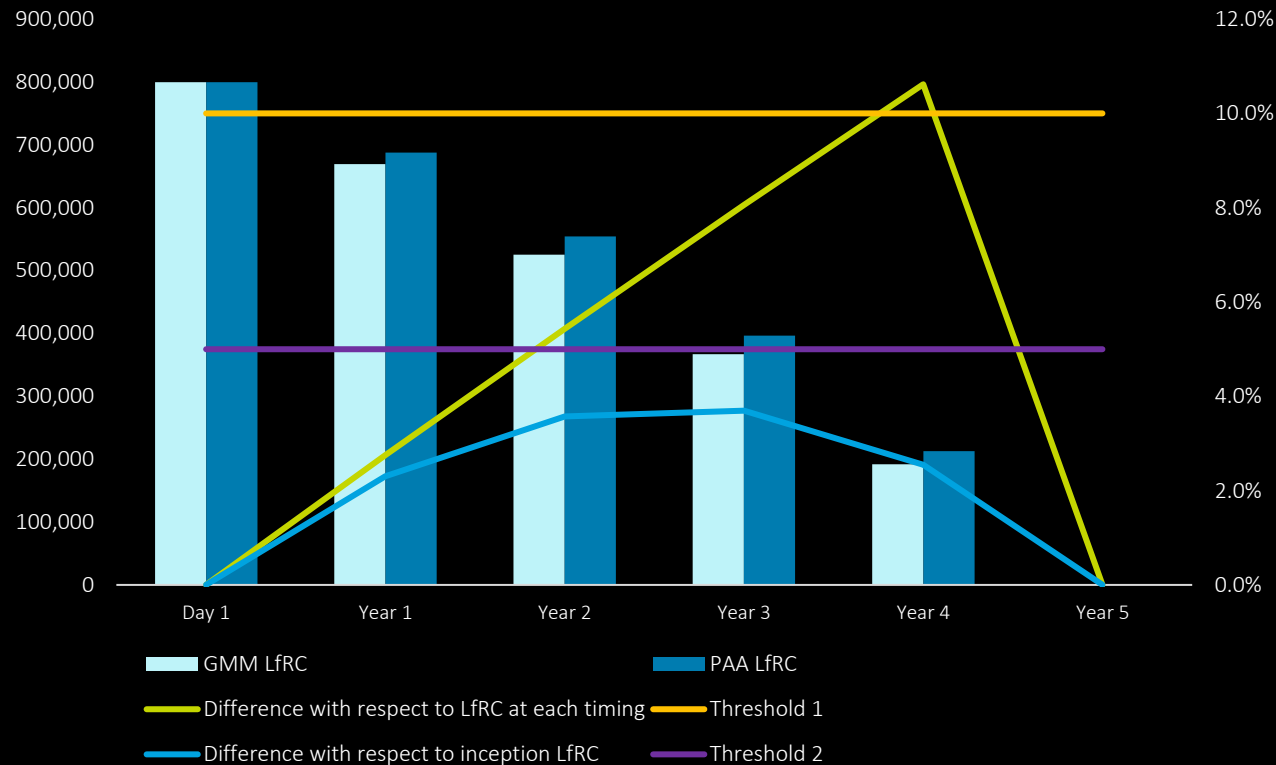
Illustrative materiality threshold

Illustrative only and not to be used in any other context.

Other methodologies may be more appropriate for your business.

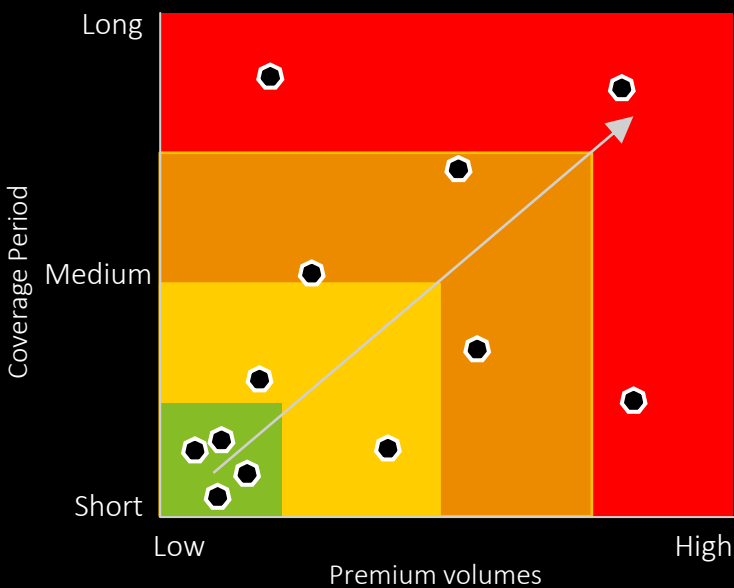
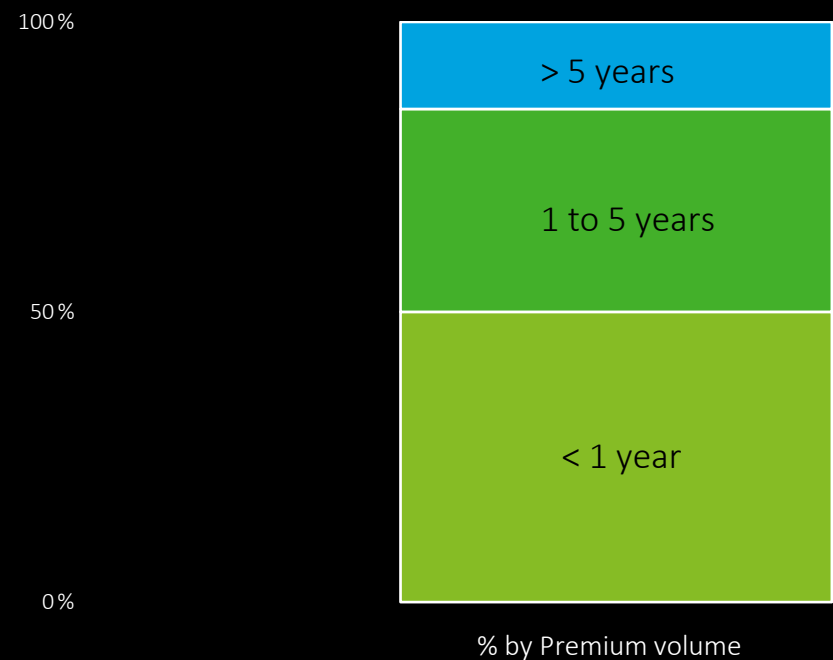
The methodology applied should be discussed with your auditor.

Liability for Remaining Coverage



Timing	GMM LfRC	PAA LfRC	Difference: (A-B)/A	Test 1 Result after change	Difference: (A-B)/\$A	Test 2 Result after change
Day 1	800,000	800,000	0.0%	Pass	0.0%	Pass
Year 1	669,589	688,000	2.7%	Pass	2.3%	Pass
Year 2	525,590	554,160	5.4%	Pass	3.6%	Pass
Year 3	366,843	396,406	8.1%	Pass	3.7%	Pass
Year 4	192,096	212,495	10.6%	Fail	2.5%	Pass

# Qualitative Assessment



1

Segment contracts by coverage period

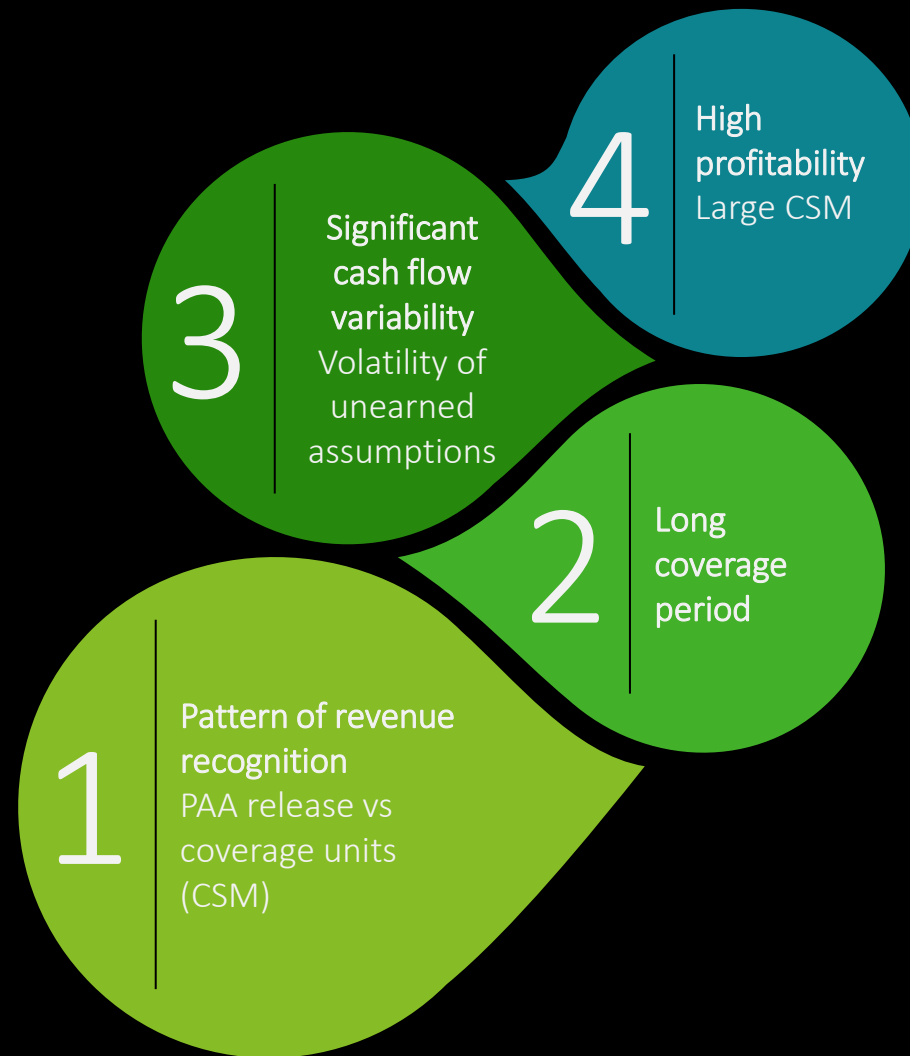
2

Product/IFRS17 group level stratification

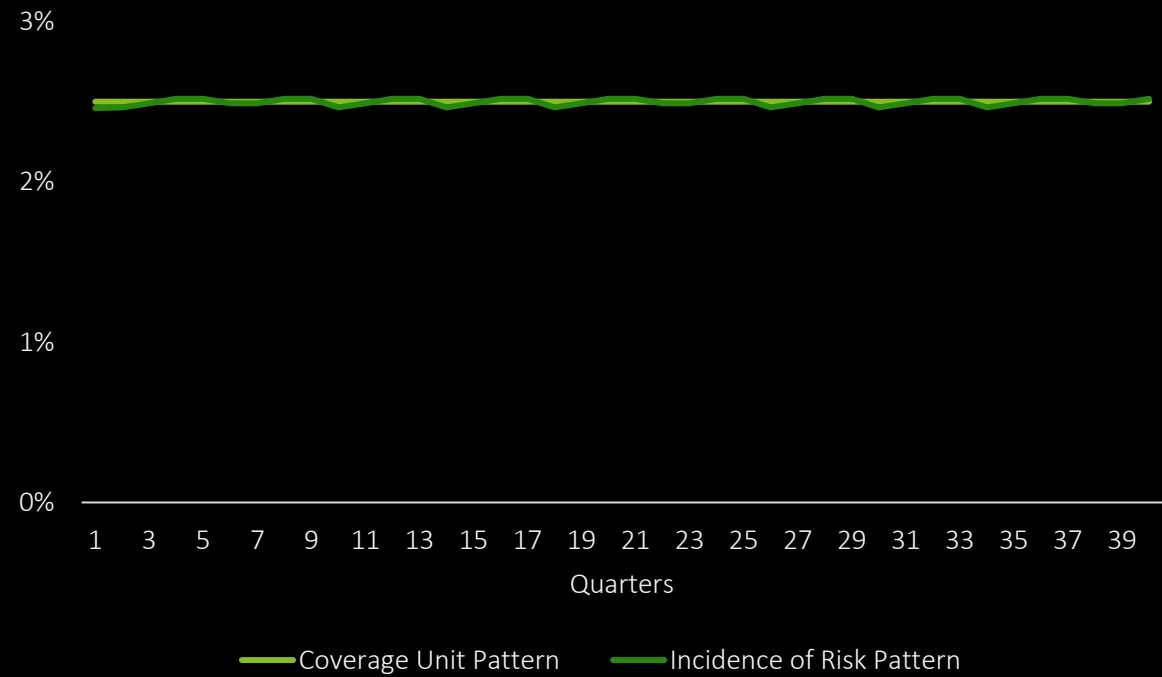
# Quantitative Assessment



## Potential drivers of variability between GMM and PAA

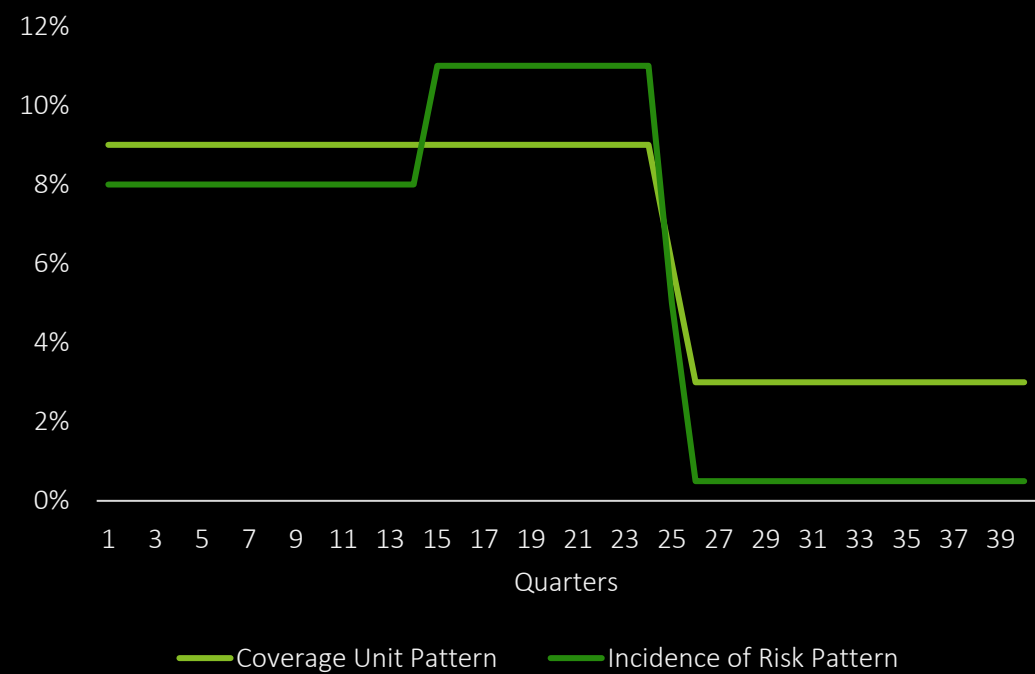


What types of risks are we seeing **pass** in the market?

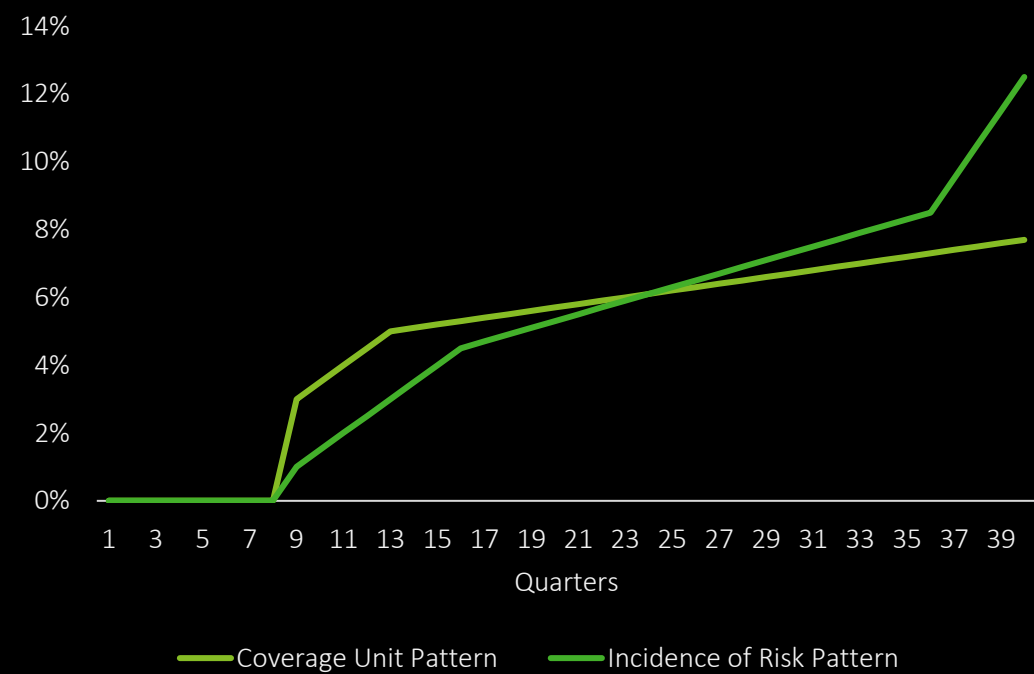


What types of risks are we seeing **pass** in the market?

Cargo

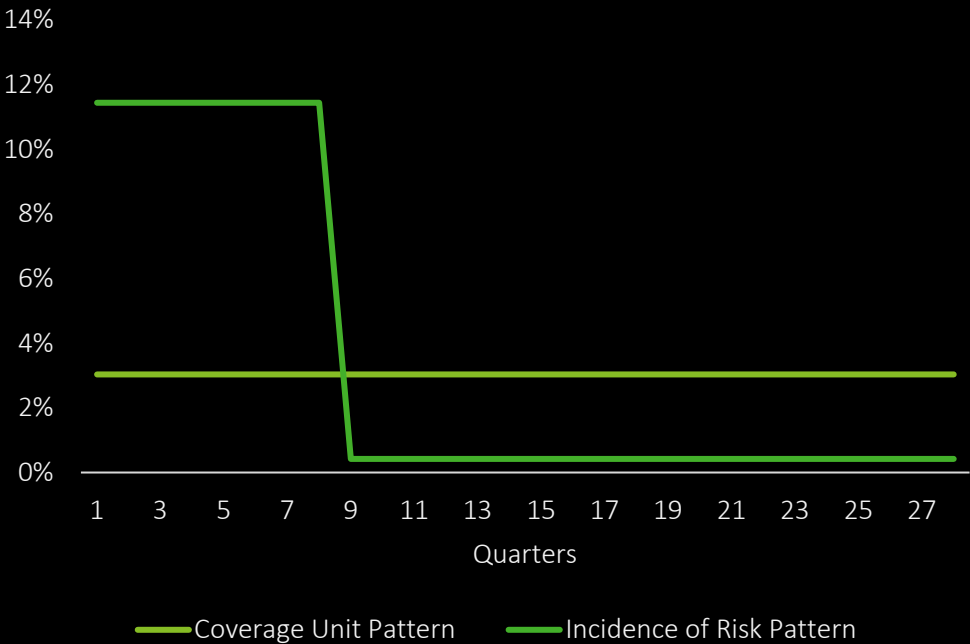


Extended Warranty

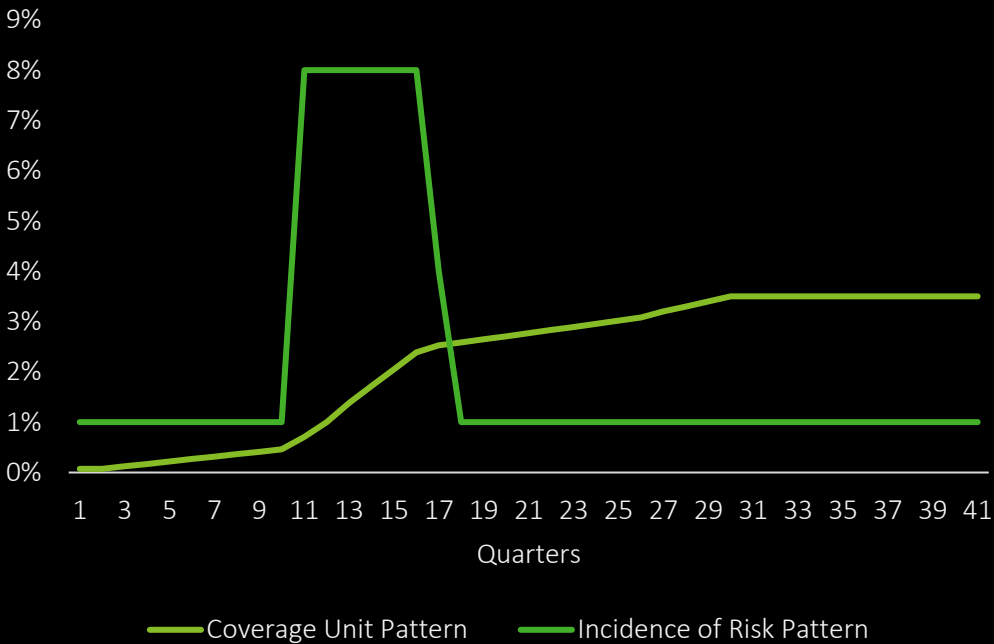


What types of risks are we seeing **fail** in the market?

Transaction Liability

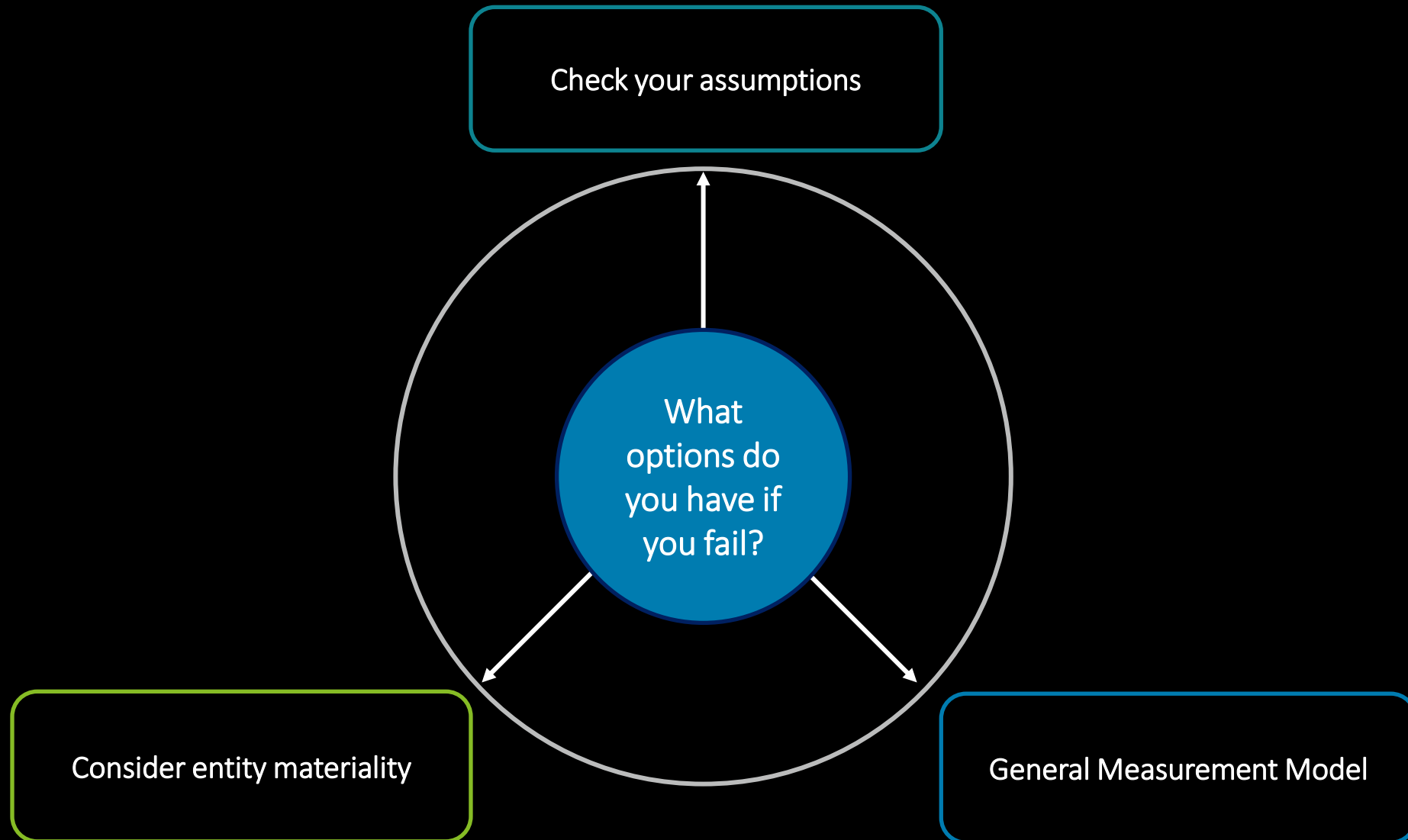


Construction\*

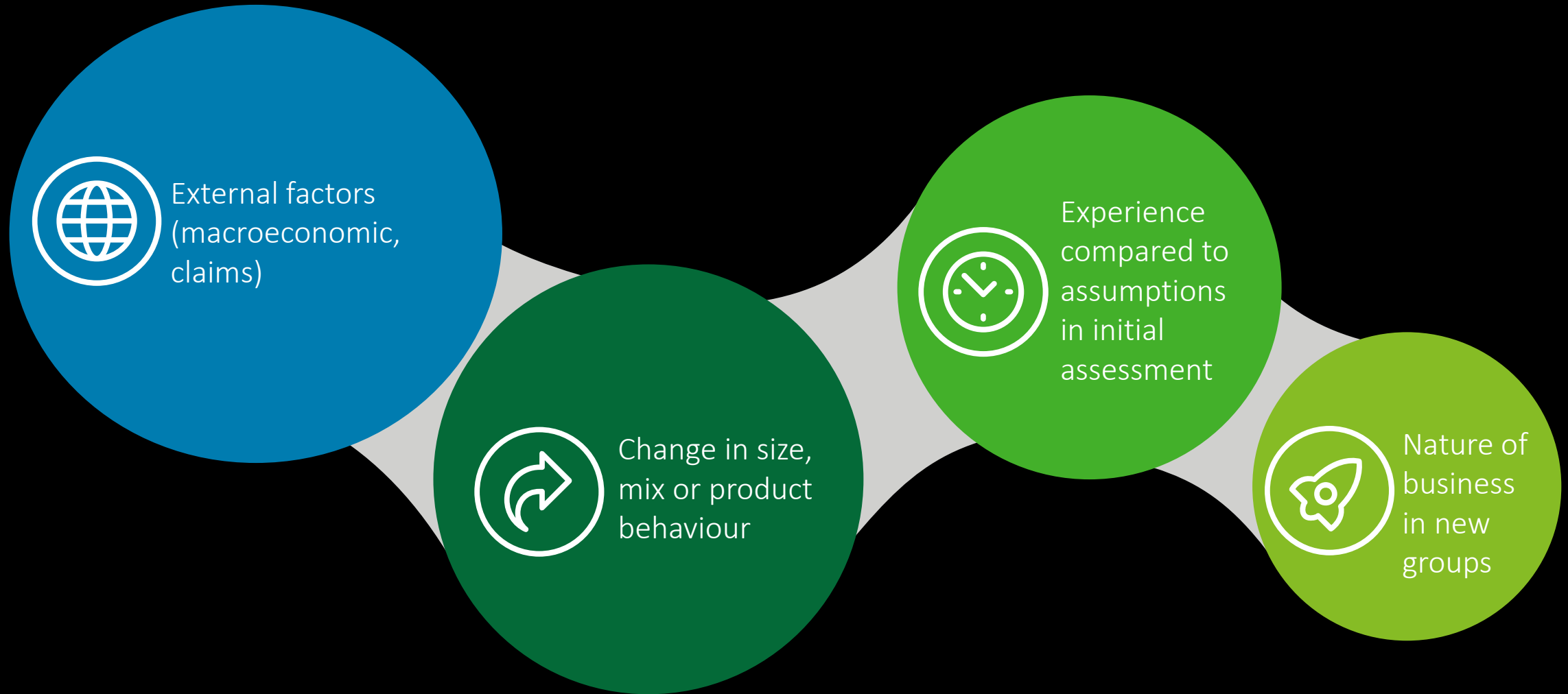


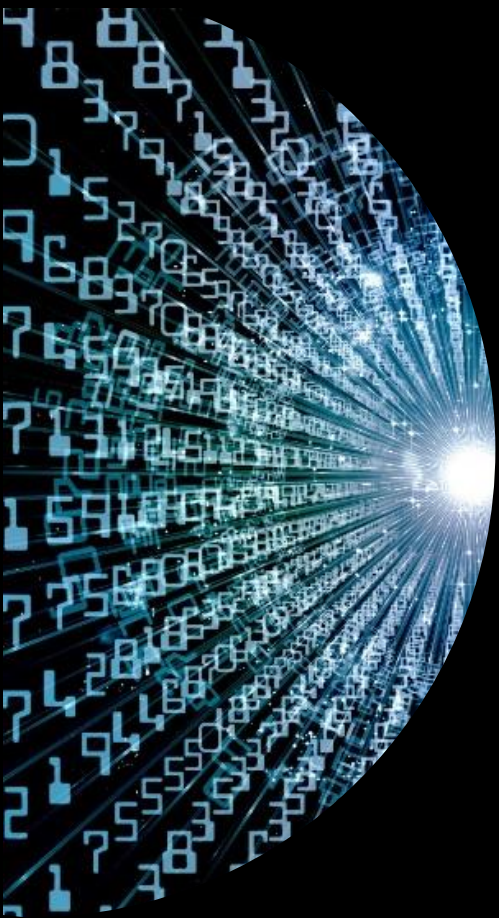
*\*Certain construction contracts only*

What options do you have if you fail?



## Considerations for PAA Eligibility in a post implementation environment





# Industry Panel

## Your industry panel members



**Anna Mo**

Senior Actuary  
Liberty Speciality Markets  
Asia Pacific



**Owen Tong**

IFRS 17 Actuary  
QBE Insurance  
Australia



**Victoria Tidmas**

Executive Manager Actuarial IFRS17  
Suncorp Group  
Australia

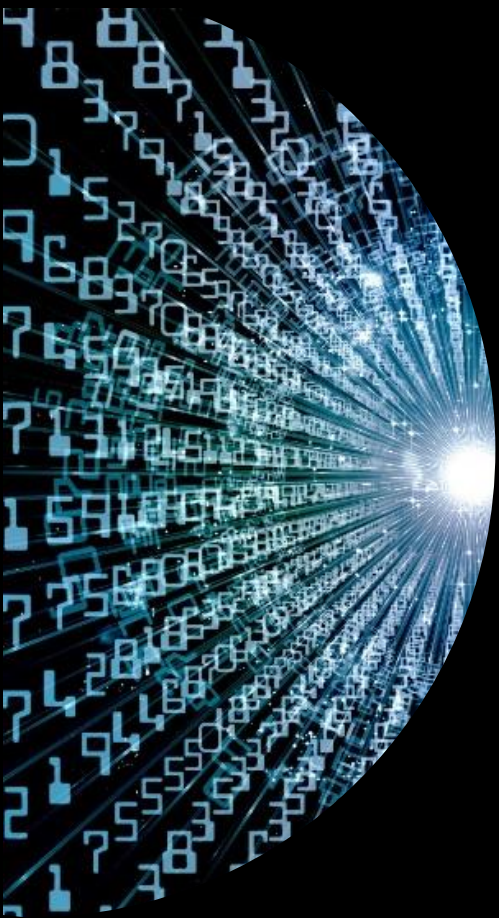


**Rhian Saunsbury**

Group Technical Accounting & Policy Manager  
CFO Group Finance Statutory & Regulatory  
IAG  
Australia

## Polling questions

1. Did you find today useful?
  - a) Yes
  - b) No
2. Would you like to hear more on PAA eligibility?
  - a) Yes
  - b) No



**Close session**



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