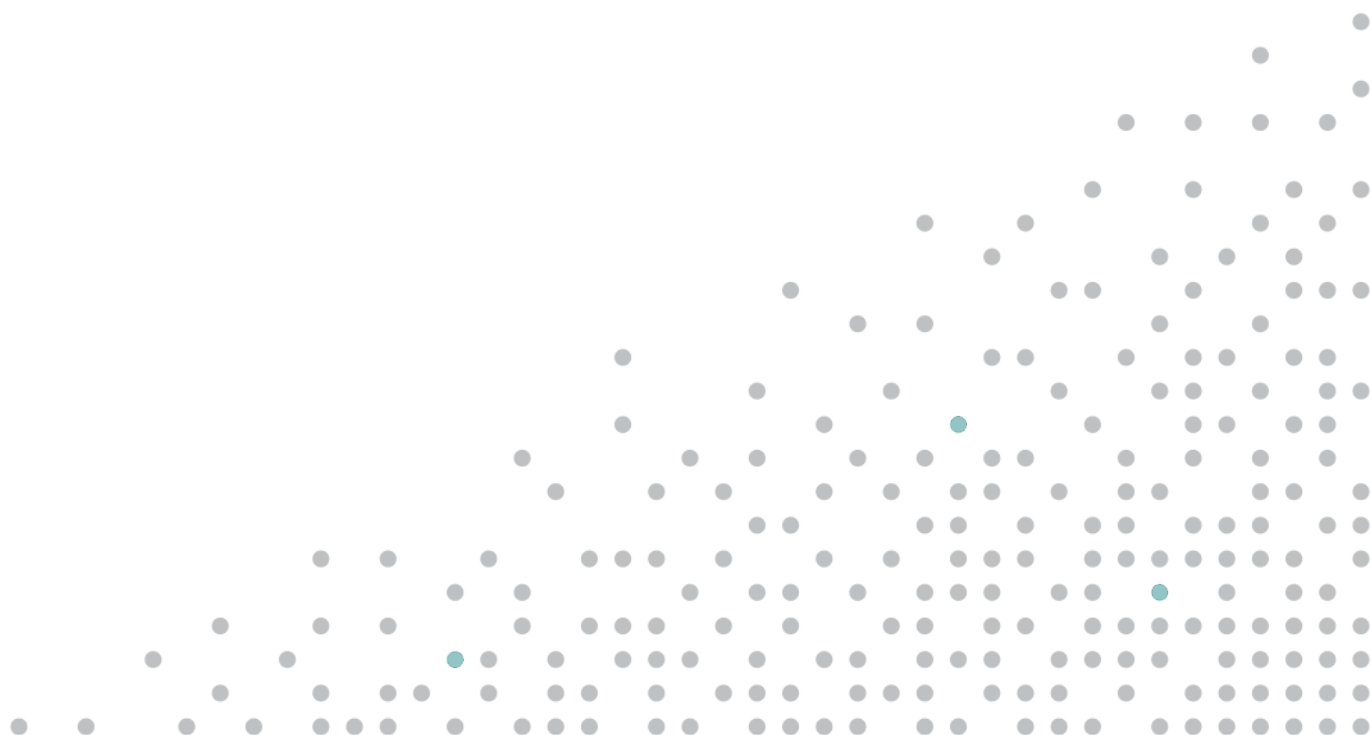




Australian Government
Department of Finance



Identification of general insurance contracts for accounting purposes

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The words **'must'**, **'required'**, **'requires'** and **'requiring'** denote mandatory compliance by accountable authorities/officials. The use of the words 'could', 'may', 'encouraged' or 'consider' convey non-mandatory guidance. The guidance to which these words relate may or may not be applied by accountable authorities/officials in their approach to resource management, depending on the operating circumstances of the entity and its appetite for risk.

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Audience

This guide applies to all officials, particularly chief financial officers and finance teams, in Commonwealth entities that enter into contracts that transfer insurance risk to another party.

Key points

This guide:

- provides guidance for determining whether insurance arrangements established by Commonwealth entities are classified as general insurance contracts (GICs), in the context of *Australian Accounting Standards Board (AASB) 1023 General Insurance Contracts* (AASB 1023)
- only applies to GICs under AASB 1023, even where an entity does not conduct an insurance business
- replaces *Identification of general insurance contracts for accounting purposes* (RMG 112), dated November 2016.

Resources

This guide is available on the Department of Finance ([Finance](#)) website.

Other relevant publications include:

- *Indemnities, guarantees and warranties by the Commonwealth* (RMG 414)
- other relevant *Australian Accounting Standards* (AAS)
- the AASB *Framework for the Preparation and Presentation of Financial Statements*.

Introduction

Commonwealth entities are required to prepare their annual financial statements in accordance with the AAS and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR).

AASB 1023 details the accounting requirements for general insurance contracts (GICs). While there are various types of insurance contracts, for AASB 1023 purposes, a GIC is an insurance contract that is not a life insurance contract.

This guide assists entities in identifying whether a GIC exists for AASB 1023 accounting purposes.

All Commonwealth entities within the General Government Sector (GGS) are required to participate in Comcover for general insurance risks, unless they have been exempted by the Minister for Finance.

Part 1 – General insurance contracts (GICs)

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future insured event adversely affects the policyholder. For an insurance contract to exist, there must be:

- a contract that transfers an insurance risk from the policyholder to the insurer
- an insurance risk that is significant, excluding any risks created by the contract itself such as indemnities, guarantees and warranties, which could adversely affect the policyholder
- agreement that the insurer will pay significant benefits if the insured event occurs.

Under the definitions provided at paragraph 19.1 of AASB 1023, a GIC is an insurance contract that is not a life insurance contract. Any contract that transfers insurance risk from one party to another and is not a life insurance contract could be a GIC.

Under AASB 1023, any entity that issues an insurance contract is an 'insurer', whether or not that entity is regarded as an insurer for legal, regulatory or supervisory purposes.

Example 1: Contracts that are general insurance contracts

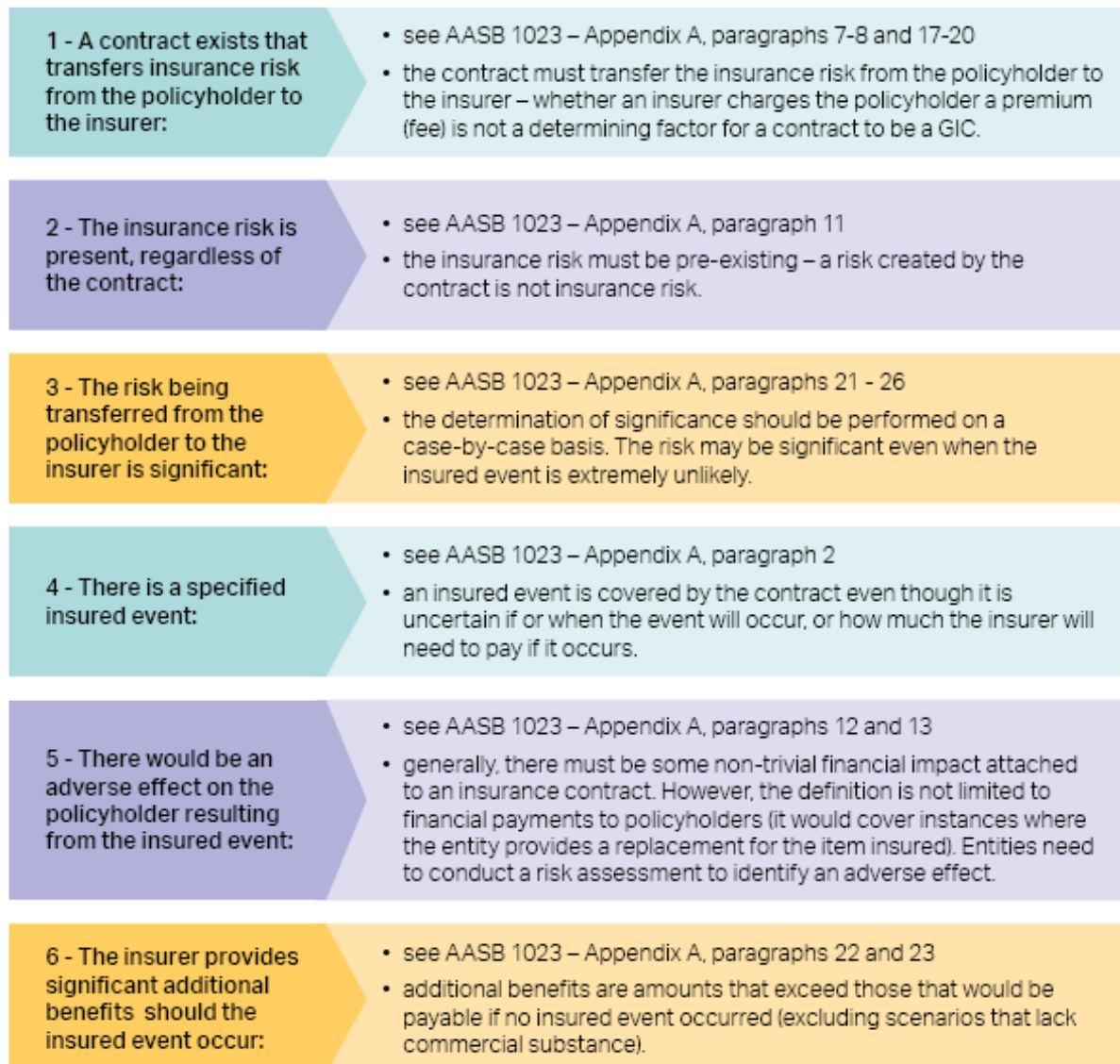
Contracts that are GICs, where the transfer of insurance risk is significant, include:

- insurance against theft or damage to property
- insurance against product or professional liability or legal expenses
- medical cover
- surety bonds, fidelity bonds, performance bonds and bid bonds
- travel assistance (i.e. compensation for losses suffered while travelling)

Part 2 – Determining whether a GIC exists

Figure 1 shows the elements that must all be present for an agreement to be a GIC. References to Appendix A of AASB 1023 are included, however, these do not replicate the appendix. Other paragraphs of AASB 1023 may also be relevant to users of this guide in determining whether a GIC exists.

Figure 1: An insurance contract only exists if all the following elements are present



Entities must advise Comcover as soon as practicable if any risk that is covered by Comcover is also covered under a separate insurance policy.

Assessing the significance of risks and benefits

In determining whether a GIC exists, entities will need to apply professional judgement in assessing whether the:

- insurance risk being transferred from the policyholder to the insurer is significant
- policyholder will derive significant additional benefits from the insurer if the insured event occurs.

The significance of the insurance risk needs to be assessed on a case-by-case basis, in accordance with the entity's risk management policy.

Example 2: Significance of an insurance risk

A Commonwealth company (that is not classified to the GGS) enters into an insurance contract to cover the risk associated with flood or earthquake damage. While the likelihood of the insured event occurring may be low, the consequences of a flood or earthquake could be high.

Example 3: Significance of additional benefit

If the benefit payable is similar to the interest the policyholder would receive if they invested the insurance premium, then the additional benefit would not be significant.

Part 3 – Arrangements that are not GICs

Below are examples of contracts that are not GICs. Also see the examples at Appendix A, paragraph 18 of AASB 1023.

Example 4: Contracts that are not general insurance contracts

Examples of contracts that are not GICs include:

- contracts that pass all significant insurance risk back to the policyholder through non-cancellable and enforceable mechanisms (these are normally non-insurance financial instruments or service contracts)
- self-insurance
- a credit-related guarantee that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due
- a contract that requires a payment based on a climatic, geological or other physical variable that is not specific to the party to the contract
- life insurance contracts (these are outside the scope of AASB 1023).

Appendix A, paragraph 18(b) of AASB 1023 notes that self-insurance is not a GIC. Self-insurance occurs where a risk that could be covered by an insurance contract is retained. Under self-insurance arrangements, there is no insurance contract as there is no agreement to the transfer of an insurance risk to another party.

Other contracts that do not meet the GIC definition

Where a contract does not satisfy the definition of a GIC, the entity should consider whether the following AAS apply:

- AASB 4 *Insurance Contracts* – applies to fixed-fee service contracts that meet the definition of an insurance contract such as maintenance contracts or roadside assistance contracts
- AASB 15 *Revenue from Contracts with Customers* – where a contract does not create financial assets or financial liabilities
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* – in respect to legal and constructive obligations and contingent liabilities, such as product warranties and refund policies issued directly by a manufacturer or retailer
- AASB 9 *Financial Instruments* – where a contract creates financial instruments such as financial guarantees, loans and receivables, and derivatives
- AASB 1038 *Life Insurance Contracts* – in relation to life insurance contracts.

Part 4 – Accounting and disclosure requirements

Where a GIC exists, entities are to:

- account for the GIC in accordance with the requirements in AASB 1023
- disclose the GIC in accordance with the requirements at section 17 of AASB 1023.

Appendix 1 – Definitions

Term	AASB 1023 definition
Financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
General insurance contract	An insurance contract that is not a life insurance contract.
Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Insurance risk	A risk, other than financial risk, transferred from the holder of a contract to the issuer.
Insured event	An uncertain future event covered by an insurance contract which creates insurance risk.
Insurer	The party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.
Life insurance contract	An insurance contract, or a financial instrument with a discretionary participation feature, regulated under the <i>Life Insurance Act 1995</i> , and similar contracts issued by entities operating outside Australia.
Policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.
Weather derivative	A contract that requires payment based on climatic, geological or other physical variables.