

Guidance for Public  
Sector Entities – AASB 17  
*Insurance Contracts*

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## Section 1: About this guide

**Purpose and scope** The Victorian Auditor-General's Office (VAGO) has developed *Guidance for Public Sector Entities – AASB 17 Insurance Contracts* to assist public sector entities in assessing whether arrangements fall within the scope of AASB 17. This guide is limited to scope assessment and does not address measurement, presentation or disclosure requirements. Where an arrangement is determined to be within the scope of AASB 17, entities are required to apply all other applicable requirements of the standard.

The examples included in this guide are provided for explanatory purposes only. Actual facts and circumstances may differ, and the examples should not be relied upon as accounting advice. Entities must exercise professional judgement in assessing the full facts and circumstances of each arrangement and obtain appropriate advice where necessary.

This guide is general in nature and is not tailored to the specific circumstances of any individual entity. It reflects the requirements in effect at the date of publication. Subsequent amendments to accounting standards, other authoritative pronouncements, or legislation may affect its continuing applicability.

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## Section 2: Definition of an insurance contract

### Key concept

An arrangement under which one party accepts significant insurance risk from another party by agreeing to compensate that party if a specified uncertain future event adversely affects them [AASB 17, Appendix A].

In this regard, the form of the arrangement is not determinative; substantive rights and obligations may arise from a contract, law or regulation.

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## Section 3: Terminology in AASB 17 for Public Sector Application

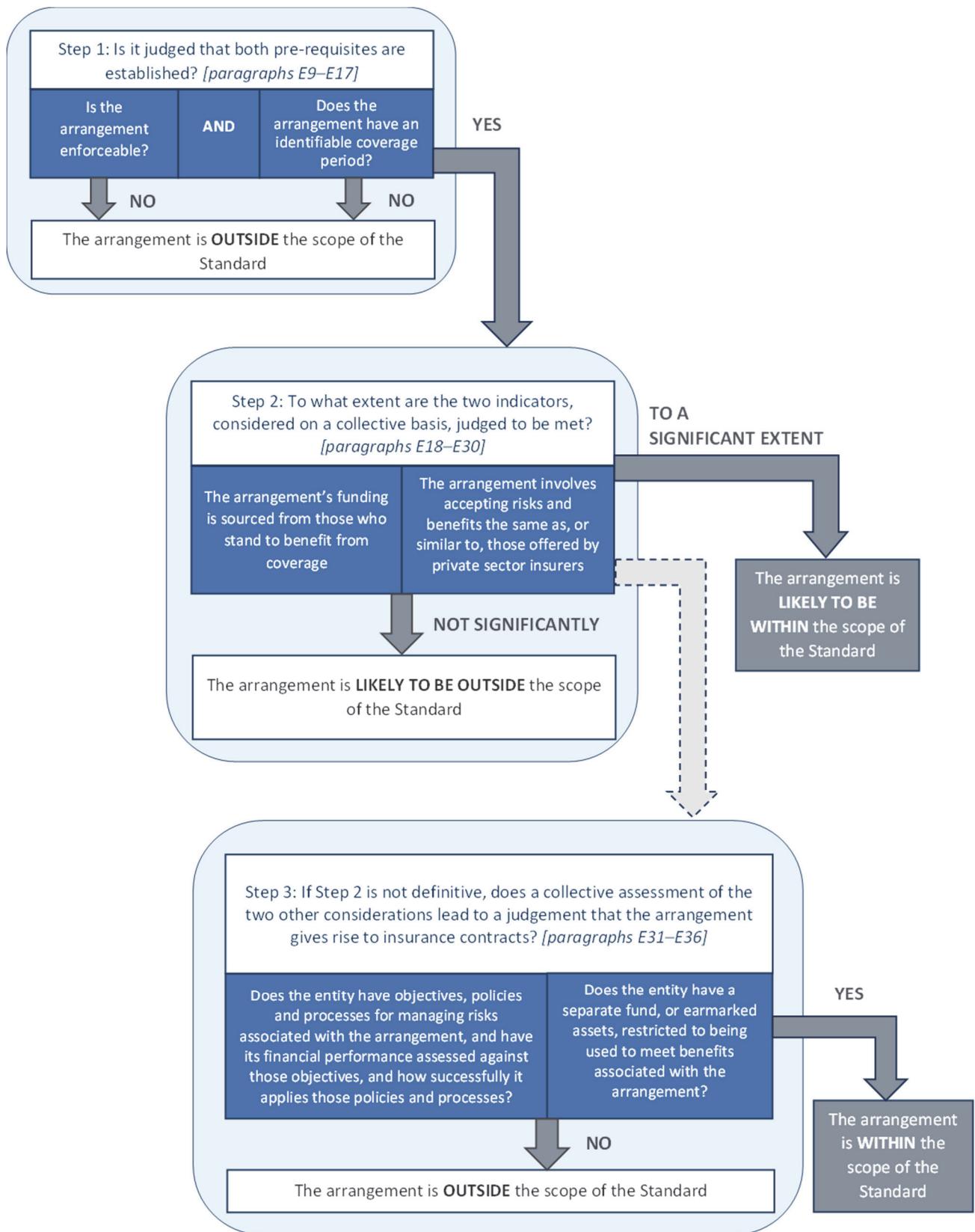
**Use of generic terms and rationale** Appendix E uses the broader terms "arrangement" and "participant" to reflect the nature of public sector activities.

Public sector arrangements may take many forms and are not always entered into through a contract. Consequently, some arrangements will fall within the scope of AASB 17 and be insurance contracts, while others will not.

Likewise, participants in public sector arrangements may not be policyholders in the traditional sense, even where the arrangement is within the scope of AASB 17. The use of this terminology enables Appendix E to apply to the full range of public sector activities that may, or may not, give rise to insurance contracts. [AASB17.E3]

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## Section 4: Criteria for determining whether public sector arrangements fall within the scope of AASB 17



Source: Appendix E to AASB 17.

## Section 5: Guidance on application of the criteria

### Applying the pre-requisites, indicators and other considerations

**Pre-requisites** To summarise the flowchart above, a public sector entity needs to consider whether AASB 17 applies to an arrangement only if, both of the following pre-requisites are met:

- the arrangement is enforceable; and
  - the arrangement has an identifiable coverage period.
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**Indicators** When both pre-requisites are met for an arrangement, an entity applies the following indicators collectively (subject to paragraphs 8 and 8A of AASB 17) to determine whether the arrangement gives rise to insurance contracts within the scope of AASB 17:

- the source and extent of funding; and
- the similarity of risks covered and benefits provided.

Note: Paragraphs 8 and 8A of AASB 17 specify circumstances in which contracts that meet the definition of an insurance contract may instead be accounted for as revenue contracts or financial instruments under AASB 15 *Revenue from Contracts with Customers* or AASB 9 *Financial Instruments*. Entities should refer to those paragraphs and apply the relevant requirements when assessing whether accounting under AASB 15 or AASB 9 is appropriate in their circumstances.

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**Other considerations** When the indicators do not conclusively determine whether an arrangement gives rise to insurance contracts within the scope of AASB 17, a public sector entity applies the following additional considerations collectively to reach a conclusion:

- the management practices and assessment of financial performance applied; and
- the existence of a separate fund, or earmarked assets, that are restricted to being used to meet benefits.

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Criteria	Guidance
<p><b>Pre-requisite 1: Enforceable nature of arrangement</b></p> <p><a href="#">[Appendix E- Paragraphs E9 to E12]</a></p>	<p><b>Context:</b> Under Australian Accounting Standards, a contract is an agreement between two or more parties that creates enforceable rights and obligations. When there is not an enforceable contract in respect of a public sector arrangement, that arrangement is not within the scope of AASB 17. [AASB17.E9]</p> <p><b>Enforceable contract</b></p> <p>For the purposes of AASB 17, an arrangement is indicative of an enforceable contract when, in substance:</p> <ul style="list-style-type: none"> <li>• The public sector entity or its controlling government does not have the practical ability under existing or substantively enacted legislation to deny or change promised benefits or amounts determined by agreed parameters; and</li> <li>• The beneficiary can identify the benefits (or benefits determined by agreed parameters) receivable on the occurrence of specified events. [AASB17.E10]</li> </ul> <p>The form of the arrangement is not determinative. Substantive rights and obligations may arise from a contract, law or regulation.</p> <p><b>Lack of enforceability</b></p> <p>An arrangement is not enforceable where the public sector entity or its controlling government has the practical ability under existing or substantively enacted legislation to retrospectively deny or substantively change promised benefits or compensation, including in relation to past events. In such cases, beneficiaries do not have enforceable rights and the entity does not have enforceable obligations. These arrangements are indicative of conventional social benefit schemes rather than insurance contracts. [AASB17.E11 and AASB 2022-9.BC 175]</p> <p><b>Consider following examples</b></p> <p>Assume a public sector entity under an arrangement has a liability for providing income support for permanently disabled motor accident victims based on paying 50% of Average Weekly Earnings (AWE).</p> <ul style="list-style-type: none"> <li>• <b>Example A:</b> The entity has the power to change the rate of benefits to future participants to less than 50% of AWE. However, the entity has an enforceable commitment to paying 50% of AWE to existing participants, for example, by way of settlements</li> <li>• <b>Example B1:</b> The entity (or the government that controls the entity) has the power to change the rate of benefits to existing participants to less than 50% of AWE but only after obtaining a change to existing legislation.</li> <li>• <b>Example B2:</b> The entity (or the government that controls the entity) has the unilateral power to change the rate of benefits to existing participants to less than 50% of AWE, for example, based on projected budget priorities [AASB 2022-9. BC 173]</li> </ul>

## Analysis

It is noted:

- In relation to Example A: [Enforceability criteria is met] its terms are like those under most insurance contracts issued by private sector entities, therefore the enforceability criteria is met;
- In relation to Example B1: [Enforceability criteria GREY] its terms are unlike those under most insurance contracts issued by private sector entities; however, the fact that a legislative change would be needed to change the benefits is significant [See discussion below];
- In relation to Example B2: [Enforceability criteria is not met] its terms are unlike insurance contracts issued by private sector entities because private sector entities would not be able to arbitrarily change benefits [AASB 2022-9. BC 174]

As we understand, in assessing enforceability, emphasis is placed on practical ability, rather than theoretical or legal power. The mere fact that a government has the capacity to legislate does not, of itself, indicate a lack of enforceability. An arrangement is more likely to be enforceable when benefits can only be changed through a formal legislative process and cannot be altered arbitrarily or retrospectively in practice.

Therefore, in relation to Example B1, changes to benefits would require a legislative amendment, rather than unilateral or administrative action. As a result, the government does not seem to have the practical ability to retrospectively change benefits, therefore, it is likely that the enforceability criteria is met for Example B1. [AASB 2022-9. BC 176-178]

Scenarios similar to Example B1 may require considerable judgement. Accordingly, we recommend carefully considering and documenting all relevant aspects and consulting with appropriate stakeholders.

Pre-requisite 2:  
Identifiable coverage  
period

[\[Appendix E-  
Paragraphs E13 to E17\]](#)

**Context:** An insurance contract has an identifiable coverage period – either the period during which insured events occur (losses-occurring coverage) or the period during which claims become known (claims-made coverage). [AASB17.E13]

- **Loss occurring coverage:** Most insurance contracts provide protection for events that occur during the coverage period – for example, coverage for claims that might arise from an incident over a one-year contract period. The claims may not come to light until after the coverage period has ended. These are sometimes referred to as 'claims incurred' contracts because the time when the event occurs is crucial to identifying valid claims.
- **Claims made coverage:** Some insurance contracts provide protection for claims that arise during the coverage period, regardless of when the incidents that gave rise to the claims have occurred. These are sometimes referred to as 'claims made' contracts because the time when the claim emerges is crucial to identifying valid claims. [AASB 2022-9.BC 164]

### Indicators of an identifiable coverage period

When determining whether a coverage period can be identified, it is important to consider factors such as:

- existence of agreed documentation between the public sector entity and participants that specifies the period over which coverage is provided;

- association of funding arrangements (such as premiums or levies) with coverage for a defined period, including where the coverage period is specified or implied by law or regulation; or
- whether the arrangement operates as an adjunct to an insurance contract issued by another entity, such that the coverage period can be determined by reference to the coverage period of that other insurance contract.
  - **Example:** In simple words, consider a scenario where a private insurer issues home insurance policies covering period from 1 July–30 June. A government scheme charges a levy on those policies, and pays additional benefits if an insured event happens during the policy period. Because the government scheme only applies when the private insurance is active, its coverage period can be determined by the private insurance contract's coverage period. [Note: This is a simple example for explanation purposes] [AASB17.E14-E16]

**Examples where there is no coverage period and therefore such arrangements are likely to be outside of the scope of AASB 17**

[AASB17.E17]

- Social benefit type schemes tend to be open-ended and depend on participants continuing to meet eligibility criteria, which might include, for example, being unemployed, being a student, or being above a certain age. Social benefit are cash transfers provided to:
  - specific individuals and/or households who meet eligibility criteria;
  - mitigate the effect of social risks; and
  - address the needs of society as a whole [IPSAS 42.5]
- Given the social benefit eligibility criteria relate to someone's inherent status, rather than relating to an uncertain future event that occurs within a particular coverage period, these are likely outside the scope of AASB 17. [AASB 2022-9.BC 165]
- Circumstances where people who stand to benefit from an arrangement are eligible for compensation based only on suffering loss from a specified natural disaster
- A public sector entity raises funds (such as through levies) to pay claims on a pay-as-you-go basis. Under a pay-as-you-go approach, the entity focuses on meeting net cash outflows expected to occur in the current period rather than on meeting net cash outflows related to events that arise in a particular coverage period.

**Indicator 1: Source and extent of funding**

[\[Appendix E- Paragraphs E18 to E22\]](#)

**Context: Premiums as the primary source of funding:** Under an insurance contract, a policyholder usually pays premiums to an insurer. In most cases, the premiums are the primary source of funding for the payment of any claims and the costs of operating the insurance business. Likewise, when a public sector entity receives premiums or levies under an arrangement in exchange for accepting risks from those who stand to benefit, it is an indication that an arrangement gives rise to insurance contracts within the scope of AASB 17. [AASB17.E18-19]

**Examples where this criterion may not be met**

- Social benefits such as aged pensions or universal healthcare activities and disability support. These are not insurance-like because they are primarily funded from general taxation rather than by beneficiaries through premiums or levies in a beneficiary-pays model. [AASB 2022-9.BC 195]
- Medicare (included here for context): The standard setters noted a possible complication is that schemes such as Medicare in Australia, at least notionally, have dedicated funding through the Medicare levy on taxpayers. However, the standard setters considered the Medicare levy to probably be sufficiently like a tax to be regarded as not being a beneficiary pays model as intended under this indicator. Accordingly, the significance of the indicator would be on a spectrum relating to the extent to which premiums or levies represented a beneficiary-pays model. [AASB 2022-9.BC 195]
  - Based on this example, AASB 17 provides, when a public sector entity receives a significant portion of funding from sources such as general taxation, this would indicate that an arrangement does not give rise to insurance contracts that fall within the scope of AASB 17. [AASB17.E21]

**Capitalising/recapitalising:** The standard setters noted that some public sector entities might need funding sourced from general taxation from time to time to help capitalise or recapitalise a public sector arrangement. These might be regarded as equity injections in some cases, rather than a source of routine funding. Accordingly, the standard setters observed that periodic injections of funding from general taxation to capitalise or recapitalise a public sector arrangement would not be in conflict with a self-funding or beneficiary-pays model of funding, for the purpose of determining whether an arrangement should be accounted for under AASB 17 [AASB 2022-9..BC 198]

**Who pays the premium:** The greater the extent to which the participant who stands to benefit from an arrangement is providing the funding, the more indicative this would be of a policyholder-insurer relationship and an arrangement that gives rise to insurance contracts that fall within the scope of AASB 17. [[AASB17.E19 and AASB 2022-9.BC 243 (d)]]

**Who is the beneficiary:** The individual or entity from which the public sector entity receives premiums does not need to be a direct beneficiary of the arrangement. Instead, they may be an indirect beneficiary. For example, the person paying the premium does not have to be the one who receives the payout. Sometimes the benefit is indirect. Consider a situation where, a levy is paid by entity A to the government, so that if someone causes damage, the government scheme pays the affected parties. Entity A benefits because they are protected from further claim. [AASB17.E20]

**Extent of funding:** If most or all funding for benefits comes from premiums or levies paid by those whose risks are being covered, this is highly indicative that the arrangement is an insurance contract under AASB 17. On the other hand, a small payment made by a beneficiary does not make an arrangement an insurance contract if:

- the payment is only intended to limit or manage demand for services (that is, to discourage over-use), and
- the payment is not intended to cover the cost or risk of the services provided.

This is because the co-payment does not meaningfully fund the benefits or represent payment in exchange for the transfer of insurance risk. In such cases, the arrangement does not resemble an insurer-policyholder relationship. As a result, it is unlikely to fall within the scope of AASB 17. [AASB17.E21]

**Example** [Note: This is a simple example for explanation purposes]

A public sector health or disability scheme may charge users a small fee per service. That fee is designed to encourage appropriate use of services, not to insure the user against future risk or to fund claims. Most of the funding comes from general taxation. This type of arrangement is not an insurance arrangement for AASB 17 purposes.

**Administrative convenience:** The standard setters noted that some public sector arrangements involve sourcing funds by way of levies on transactions between participants and private sector entities (which may be insurers). They noted that, while there may not be a direct cash transaction between the public sector entity and participants in terms of the collection of funds, this is often due to the need for administrative convenience, which would not affect an assessment of the extent to which funds are sourced from participants. [AASB 2022-9..BC199]

**Pro-rata premium refund if policyholder cancels its coverage prior to the end of the coverage period:** Under most general insurance contracts issued by private sector insurers, in the event that a policyholder cancels its coverage prior to the end of the coverage period, the policyholder would ordinarily receive a pro rata premium refund, possibly adjusted for administrative costs. Although not all contracts issued by private sector insurers allow for refunds, the practice is indicative of insurance contracts. Accordingly, a public sector entity arrangement that allows for a refund of premium when the participant/policyholder terminates the arrangement early is indicative of an arrangement that gives rise to insurance contracts that fall within the scope of AASB 17. [AASB17.E22]

**Indicator 2: Similarity of risks covered and benefits provided**

**[Appendix E- Paragraphs E23 to E30]**

**Context:** Under an insurance contract, significant insurance risk is transferred from an insured to an insurer. Private sector insurers accept a wide range of risks. These include risks relating to, for example, property loss, loss of income, professional and trade indemnity, public and legal liability, medical costs, mortality and disability. In the event that an insured event occurs, to the extent required under a general insurance contract the insurer would typically provide a benefit commensurate with the loss. [AASB 17.E23]. Likewise, if a public sector entity's arrangement that involves accepting risks and providing benefits that are the same as, or similar to, those offered by private sector insurers, it gives rise to insurance contracts within the scope of AASB 17. [AASB 17.E24].

Please note: This is an indicator. Therefore, the greater the level of similarity between the risks accepted and benefits provided by a public sector entity and those offered by any relevant counterpart private sector insurer, the more likely it would be that an arrangement gives rise to insurance contracts that fall within the scope of AASB 17. [AASB 17.E26]

For example, one indicator that a public sector entity is likely providing benefits that are the same as, or similar to, those offered by private sector insurers when it manages claims in order to provide benefits commensurate with participants' losses, rather than simply dispensing a fixed amount of compensation based on participants meeting specified eligibility criteria [AASB17.E30]

**What if the public sector entity is a monopoly in their jurisdictions and there are no relevant counterpart arrangements of private sector entities to consider?**

- **Consider similar arrangements in other jurisdictions:** Consider whether the public sector entity's arrangement involve accepting risks and providing benefits that are the same as, or are similar to, those offered by private sector insurers in other, similar jurisdictions.
- **No exhaustive search required:** In relation to other jurisdictions, only information that is readily available need be considered. That is, public sector entities need not conduct an exhaustive search for counterpart arrangements. [AASB 17.E25]

**Assessing similarity based on the nature of risks and benefits, not the level of riskiness**

Public sector entities often provide coverage where the private sector does not, because the risks involved are higher and may be unprofitable or unsustainable for private insurers.

For example, in Australia, public sector entities that provide compulsory third-party motor insurance include coverage for serious or catastrophic injuries, whereas the counterpart private insurers, typically do not include this level of injury coverage. Instead, this type of high-severity coverage is often provided under a separate public sector arrangement. The standard setters considered this aspect and noted that assessing similarity should involve a broader analysis involving looking at the nature of the risks and benefits and not just whether an identical level of coverage exists. Importantly, the similarity assessment focuses on the nature of the risks and benefits, not the level of riskiness. Accordingly, when assessing similarity between public and private arrangements, the level of riskiness is not determinative. [AASB 2022-9.BC 158-159]

**Example:** [Note: This is a simple example for explanation purposes]

A public sector entity provides insurance coverage for professional indemnity risks for a class of practitioners that private insurers are unwilling to insure, or will insure only on very limited terms, due to the high likelihood and severity of claims. Private insurers offer professional indemnity insurance for the same type of risk to lower-risk practitioners. Although the public sector entity assumes a significantly higher level of risk, the nature of the risk covered (professional indemnity claims) and the benefits provided (compensation for covered claims) are the same as those offered by private insurers. Accordingly, the arrangements may be similar in nature, despite the higher level of riskiness borne by the public sector entity.

### **Similarity of risks is not affected by the identity of policyholders**

The standard setters noted that assessing similarity focuses on the risks transferred (or the amount and timing of cash flows), rather than on who the participants or policyholders are. Therefore, the identity of the participants does not determine whether the risks are similar.

As background, during development of the Standard, stakeholders had differing views on how similarity should be assessed, particularly depending on whether participants were third parties or other public sector entities within the same government. For example, where a public sector entity provides insurance to another government entity (often referred to as a “captive” insurer), stakeholders may question whether the risks are truly comparable to those under private sector insurance.

Nevertheless, the standard setters clarified that from the perspective of the public sector entity preparing stand-alone general purpose financial statements, related-party participants or policyholders are still treated as third parties, and the similarity assessment should still focus on the nature of the risks and cash flows, not the identity of the participants. [AASB 2022-9.BC 161]. See further discussion on captive insurers in section 6 of this guidance.

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#### **Other consideration 1: Management practices and assessment of financial performance**

#### **[Appendix E- Paragraphs E31 to E33]**

**Context:** Consideration is given to the extent to which a public sector entity has objectives, policies and processes for managing risks associated with its arrangements and has its financial performance assessed against those objectives and how successfully it applies those policies and processes in determining whether an arrangement gives rise to insurance contracts that fall within the scope of AASB 17. [AASB 17.E31]

#### **Background and standard setting deliberations**

At the time of setting this standard, stakeholders that applied AASB 1023 generally viewed their entities as established to manage specific risks on a long-term basis. These entities are typically provided with seed capital and the ability to charge premiums or levies, operate with financial independence, and are expected to be self-funding. They usually price risk using commercial principles and manage claims fairly and prudently, consistent with an insurance-like business model. [AASB 2022-9.BC 206(a)]

In contrast, Australian stakeholders that applied AASB 137 generally view their arrangements as compensation schemes. These schemes are often governed by legislation, with limited ability to manage risk or operate in the manner of a private sector insurer. [AASB 2022-9.BC 206(b)]

The standard setters considered that how an entity is managed can be an important indicator to determine which accounting standard should apply, as financial statements aim to reflect the entity’s business model. However, they discussed that management approach alone may be open to interpretation unless supported by specific insurance liability management practices [AASB 2022-9.BC 207]. Therefore, general activities such as monitoring financial performance, internal reporting, and responding to under-performance were not considered useful indicators of whether an arrangement should be accounted for as an insurance contract. [AASB 2022-9.BC 208]. Instead, the standard setters identified that an arrangement is more likely to be accounted for as an

insurance contract where the entity has clear objectives, policies, and processes for managing risk, and where performance is assessed against those objectives.

In this context, the entity that has insurance contracts would be expected to undertake the following activities (directly or through outsourcing):

- underwriting and risk assessment;
- managing the entity's capital based on the measurement of risks and uncertainties relating to coverage and incurred claims and their potential future impacts and
- fair and prudent claims management, including remediation where relevant. [AASB 2022-9.BC 209 and AASB 17.E31]

In general, any public sector entity that is responsible for dispensing compensation (as an insurer or non-insurer) would be expected to have sound practices in respect of risk assessment, managing capital and managing claims. [AASB17.E32]

The standard setters concluded that the presence of all three of these factors indicates that an arrangement is likely to be accounted for as an insurance contract. The fewer of these factors that are present, the less likely the arrangement is to meet that classification. [AASB 2022-9.BC 210]

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**Other consideration 2: Assets held to meet benefits**

**[Appendix E- Paragraphs E34 to E36]**

**Context:** Consideration is given to whether there is a separate fund, or earmarked assets, that are restricted to being used to meet benefits in determining whether an arrangement gives rise to insurance contracts that fall within the scope of AASB 17. [AASB 17.E34]. In this regard,

- The standard setters acknowledged that the existence of assets being held in a separate fund, or otherwise earmarked, and restricted to being used to provide benefits is a feature that can also apply to arrangements which are not in the nature of insurance. For example, a compensation scheme might be established for the victims of a recent disaster and be funded from general taxation, public appeals, or levies on certain suppliers or consumers that are pooled and invested and subsequently applied to help fund recovery efforts. Nonetheless, the Boards considered that this feature is a potentially important indicator because its absence might be indicative of arrangements that should not be accounted for as insurance contracts. [AASB 2022-9.BC214]
- To be relevant, the separate fund or earmarked assets need not be managed by the public sector entity itself. It is the existence of a separate fund or earmarked assets that is considered, not the performance of investing activities. [AASB 17.E36]
  - To elaborate, the standard setters noted that some public sector entities have assets set aside for benefits, but are not actively involved in the management of the underlying investments, which is handled centrally, for example, by a government agency established for this purpose. The public sector entity's role might be limited to advising that agency about its liquidity needs. The Boards consider the existence of assets set aside to meet benefits to be the crucial factor, and do not regard the extent of a public sector entity's active involvement in the management of its underlying investments as affecting the validity of this indicator. [AASB 2022-9.BC 215]

## Section 6: Captive insurance

### Background and context

A captive insurer is a public sector entity that conducts activities which, on a stand-alone basis, fall within the scope of AASB 17 and whose policyholders are part of the same whole of government as the entity. [AASB 2022-9.6B]

The standard setters noted that governments also create captive insurers and the key rationale is typically to:

- centralise the administration of insurable risks across a complex group of entities and coordinate risk management policies and processes;
- charge premiums to other government agencies and, thereby, create incentives for them to manage risks; and
- in some cases, coordinate in a cost-beneficial manner the acquisition of insurance/reinsurance coverage from an external insurer/reinsurer. [AASB 2022-9.BC261]

The standard setters observed that, at the whole-of-government level:

- transactions between the captive insurer and other government agencies are eliminated;
- any (re)insurance contracts between the captive and third-party insurers are treated as insurance contracts in which the government is a policyholder; and
- any remaining liabilities to third parties (for example, to government employees for workplace injuries) would be accounted for by applying AASB 2022-9. [BC262]

The Boards considered whether they should:

- in the context of the requirements imposed on private sector Australian-based captive insurers, explicitly require public sector captive insurers that prepare general purpose financial statements to apply AASB 17; or
- given the eliminations at the whole-of-government level, explicitly scope public sector captive insurers out of applying AASB 17. [AASB 2022-9.BC263]

### Key requirement

After due process and deliberations, AASB concluded:

- No modifications to the application of AASB 17 for captive insurers will be made for the purposes of their stand-alone financial statements, when they control the insurance activities and when their activities would fall within the scope of AASB 17 based on the pre-requisites, indicators and other considerations. For assessing whether the captive insurer controls the insurance activity some guidance is provided in BC 266 of AASB 2022-9.. This is likely to be an area of significant judgement.
- However, a free choice is permitted for government departments to apply either AASB 17 or AASB 137 to prepare administered item information on captive insurers that do not prepare stand-alone general purpose financial statements. This would avoid governments being forced to apply different forms of accounting at the entity and consolidated levels, but not necessarily when there are stand-alone general purpose financial statements as well. This is consistent with the principle that each entity applies Standards based on its own perspective and circumstances in the context of stand-alone general purpose financial statements, but not in an administered items context. [AASB 2022-9.BC 273 and 274]

## Section 7: Other key terms

**Insurance risk** The definition of an insurance contract requires that one party accepts significant insurance risk from another party. AASB 17 defines insurance risk as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract. [AASB17.B7] For more details please refer paragraphs B7–B16 of Appendix B of AASB 17 on distinguishing between insurance risks and other risks.

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**Uncertain future event** Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following should be uncertain at the inception of an insurance contract:

- the probability of an insured event occurring;
- when the insured event will occur; or
- how much the entity will need to pay if the insured event occurs [AASB17.B3]

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**Payments in kind** Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. [AASB 17.B6]

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## Section 8: Key resources

1 [AASB 17 Insurance Contracts](#)

2 [AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector \(includes Appendix E and related basis for conclusions\)](#)

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