

AASB 17 adoption

1 December 2022: Helia Group Limited (Helia or the Company) (ASX:HLI) will be adopting AASB 17 Insurance Contracts (AASB 17) for the 2023 annual reporting period (FY23), in accordance with Australian accounting standards.

AASB 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued and replaces the current standard AASB 1023 General Insurance Contracts.

The underlying business economics are not impacted by the new accounting standard. However, there will be changes to revenue and expense recognition in the reported financial results which will impact the timing of profit and magnitude of retained earnings.

On transition to AASB 17 we expect there will be an increase in opening liability and corresponding reduction in net assets, largely due to the need to set up a liability for expected future profits on existing policies. When compared to the current accounting standard, the Company expects the reported financial results under AASB 17 to be of a similar magnitude but less volatile and return on equity to be higher.

Balance Sheet

AASB 17 introduces a Liability for Remaining Coverage (LRC) which will replace the Unearned Premium Liability (UPL). The LRC reflects expected future cashflows and will include the present value of claims, refunds and expenses, a risk adjustment, and an allowance for future profits over the life of insurance contracts written, known as the Contractual Service Margin (CSM).

With the inclusion of the CSM, the LRC will be larger than the previous UPL and consequently lead to an increase in liabilities and a corresponding reduction in net assets. On adoption of the new standard on 1 January 2023, Helia will recognise this reduction as an opening balance sheet adjustment to retained earnings, which is expected to be in the range of \$180 million to \$300 million¹.

Unlike the existing standard, both assets and liabilities will be discounted, reducing the impact of changes in interest rates on reported financial results.

¹ Final net asset impact on transition will depend on 2022 performance and is also subject to finalisation of AASB 17 accounting policies.

Income Statement

AASB 17 introduces the concept of Insurance Revenue which will replace Net Earned Premium (NEP). Insurance revenue for each period will be based on a margin for expected claims and expenses, plus a release of the CSM.

For a cohort of new business, the expected pattern of revenue recognition under AASB 17 is slightly later than the current “earnings curve” used in AASB 1023.

Much like the existing pattern of premium recognition under AASB 1023, new business does not provide a large initial contribution to the current year Income Statement, but instead emerges as revenue and potential profit in future periods.

Revenue from cancellations is spread over a number of years under AASB 17, which differs from the accounting treatment under AASB 1023 where year to year experience variations have an immediate impact on current year earned premium.

AASB 17 Income Statement includes an element for insurance financing expense, which reflects the unwind of the discount rate and the impact of interest rate changes on liabilities and is expected to reduce the impact of changes in interest rates on statutory profit.

Regulatory Capital

APRA is currently updating regulatory capital requirements to align with the new accounting measures.

Based on current draft APRA standards the aggregate capital base is not changing, but the split between net assets and technical surplus² will change. The PCA requirement (and coverage ratio) is also largely unchanged. The draft rules also effectively introduce a new requirement that 120% of net assets plus Tier 2 Capital must exceed the PCA, which is expected to have no impact at transition.

There is expected to be no change to the Board’s targeted PCA capital range of 1.4 to 1.6 times or the Company’s capital management activities, inclusive of forecast sustainable dividends.

Timeline and outlook

Helia will report its FY22 financial results in the current format under AASB 1023. The Company expects to provide pro forma AASB 17 historical financials for analysts and investors in advance of the 1H23 financial result.

² Technical surplus referred to by APRA as ‘Net surplus relating to insurance liabilities’.

ASX Announcement

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Briefing details

A conference call and webcast for analysts, institutional investors and media will be held at 10:00am (Sydney time) on Thursday, 1 December for an AASB 17 Investor Briefing. Details are:

Webcast

To pre-register please visit: <https://s1.c-conf.com/diamondpass/10027226-1nzv0r.html>

The meeting can be followed live here: <https://webcast.openbriefing.com/9362/>

Conference call

Conference name: Helia Group Limited (HLI) AASB 17 Investor Briefing
Conference ID: 10027226

Australia dial-in details:

1800 809 971 (toll free)

02 9007 3187 (toll)

International dial-in details:

These are toll free dial-in numbers for each country listed below. For countries not listed, the Australian participant toll number listed above can be dialled.

Canada/United States	1855 881 1339	Japan	005 3116 1281
China	4001 200 659	New Zealand	0800 453 055
Hong Kong	800 966 806	Singapore	800 101 2785
India	0008 0010 08443	United Kingdom	0800 051 8245

Replay

A replay of the webcast will be available in the Investor Relations section of our website at helia.com.au within 24 hours.

The release of this announcement was authorised by the Board.