Application of IFRS 17 for

Workers Compensation Boards in Canada

(including Auto Insurance Schemes with similar contract characteristics)

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Disclaimer

The views presented herein are strictly on an individual basis from a practicing actuary interested in getting a clear understanding of the impact of IFRS 17 on WCBs in Canada. They are the author's views based on his own review of the issues related to this topic. They **do not represent the views** of his employer, his clients or any other group he is involved in as a volunteer with CIA.

The purpose is not to provide definitive answers as these are the responsibility of the accounting profession. It should be read as an attempt to make certain important determinations under IFRS 17 based on a review of the requirements of the accounting standard and the insurance contract issued by WCBs in Canada (and public auto insurance programs with similar contract characteristics). These determinations can then hopefully be used to generate a meaningful debate to arrive at the final determinations that the accounting profession will support and that reflect the nature of insurance contracts issued by WCBs.

The author is well aware that the result of his determinations lead to financial statements that likely will be of limited use to the readers. This is not a result that the author would advocate or desire, but it is the result he arrived at by following the requirements under IFRS 17 in relation to this type of insurance contract. The author offers some initial thoughts on potential disclosures/approaches to make the financial statements for WCBs more meaningful and useful under IFRS 17.

Furthermore, the standard itself could be seen as allowing a fair amount of room for interpretation as it relates to WCBs and the intent is to present one such interpretation and not advocate for that interpretation. It is merely an honest review of the IFRS 17 requirements as understood by the author using the the features of the insurance contracts issued by WCBs that require measurements under IFRS 17. Misinterpretations of IFRS 17 requirements, if any, are my own and are not intentional or influenced by any preconceived ideas as to what the outcome ought to be.

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Executive Summary

WCBs (and some public auto insurance schemes with similar insurance contracts, notably the one in the province of Quebec) have unique features that require careful consideration in determining how IFRS 17 requirements are to be applied to their operations. I have attempted to define how IFRS 17 could be applied to WCBs in Canada and this summarizes the important factors considered conclusions reached.

WCBs in Canada were set up in each jurisdiction (currently 12 WCBs) over a period ranging from 1914 to the 1970s. They all follow the Meredith principles established by Sir William Meredith in 1913, who was asked to review the concerns that the private tort liability system was not providing injured workers in Ontario with a fair opportunity to be compensated adequately for injuries (and illnesses) suffered in the workplace.

Parties to these systems often refer to the historical compromise where workers gave up their right to sue their employer in the event of a work related injury or illness in exchange for employers to fund a multi-party, no fault system of workers compensation operated by an Independent Board operating at arms length from government. Naturally, there has been considerable evolution with these systems, but the Meredith Principles are still adhered to today.

The following table summarizes the various relationships before and since WCBs were created.

Period	Description	Workers and their families	Employers	Issuer
Pre WCBs	**Description of insurance relationship**	At risk of pecuniary loss resulting from a work related injury or illness. Right to sue employer for damages.	Subject to the tort system with liability for the pecuniary loss when fault accepted or proven. Employers (not all) purchased individual insurance contract from private insurer, others self-insured, some leaving injured workers and their families with nothing.	Private insurers via third party liability insurance contracts. Pays injured workers directly in exchange of premiums received from employers. Insurer drafted terms of contract and sold it to employers with appropriate premiums and then administered all claims and accepted to pay up to policy limits based on coverage subscribed.
	Status under IFRS 17 definitions	**Workers are paid benefits directly on behalf of employer**	**Policyholders individually**	**Private insurer**

Period	Description	Workers and their families	Employers	Issuer
Since WCBs	**Description of insurance relationship**	Relinquished right to sue employer in exchange for right to legally prescribed compensation on a no fault basis.	Immune from litigation in exchange for accepting the responsibility for funding the pecuniary costs of work related injury or illness.	WCBs are an arms length, not for profit entity that is tasked with administering a legislation prescribing benefits and giving them authority to collect required premiums from employers. No contracts are issued, or negotiated. All employers and workers subject to same legislation. Some employers, referred to as self-insured, or deposit accounts, allowed to be subject to a different funding arrangement.
	Status under IFRS 17 definitions	**Workers are paid benefits directly on behalf of employer (or perhaps policyholders)**	**Employers are the policyholder, individually or collectively (or no real insurance status other than paying for the WCB system)**	**WCBs are issuer (or provider of administrative services only)**

WCBs have the duty under the Acts that created them to collect sufficient premiums from employers to ensure the systems can continue to operate on a sound financial basis over the long term. They also have an obligation to pay injured workers benefits as prescribed by their respective Acts. All WCBs have a funding policy, which guides them as to the level and timing of premium adjustments for funding purposes. All of these policies use a going concern measurement basis. All WCBs operate a diversified portfolio of assets, developed to balance risk and return and with the belief that the expected additional returns will assist in supporting the benefits defined under the Act, at a premium rate that is deemed fair and affordable over time. When experience deviates from expected, adjustments are made to the premiums in both directions. There also have been legislative changes to benefits in both directions. The Acts and the history supports this mode of operation.

There is no solvency requirements, nor has there ever been a closure. In addition, none is expected in the long-term future on a best estimate basis. These systems have demonstrated a strong resilience to the economic volatility and an ability to adapt to a changing socio-economic environment. Furthermore, these systems operate on a not-for-profit basis.

The critical questions that arise in trying to clarify and define the application of IFRS 17 are:

- Who is the policyholder? Workers, Employers individually, Employers collectively
- What is the contract boundary?

The answer to the first question could influence the answer to the second question and, to a certain extent, whether IFRS 17 even applies. Each of the possibilities were analysed and

conclusions were reached based on the nature of WCBs in Canada and the terms of the insurance contract (i.e., Workers Compensation Act), as understood by the author and as supported by the evidence in the form of legislation. The analysis was conducted using the Workers Compensation Act of the Province of New Brunswick (NBWCA) as a guide. The focus was limited to areas where WCBs differ from private insurance.

There are no individual contracts issued by the WCBs. The Act is the only document that can be deemed to be the insurance contract. Unlike private insurance, workers get benefits regardless of the premium paying status of the employer. In addition, the availability of benefits to injured workers is open ended, in that the Acts cover any future complications arising from the workplace injury or illness. The Acts also provide **decisive authority** to the WCBs to **establish required premium rates**, to **include adjustments for prior year experience losses** in the future and the mechanism to **compel employers to pay** the required premiums (see NBWCA 54, 61 and 72 at http://laws.gnb.ca/en/ShowPdf/cs/W-13.pdf). In addition, both the WCBs and the policyholders are bound by the terms of the contract for as long as the employers (i.e., policyholders) continue to operate a business.

The WCBs have a **monopoly** on providing workers compensation coverage to employers who meet the requirements of the Act to be covered. **Employers** meeting the requirements for coverage **must register, must pay premiums** as set by the Board and **cannot opt out** of coverage at any time. **The WCBs are bound to provide services to employers and workers and** have **legal authority to compel** the employers to pay premiums. Employers are bound by the Acts and must pay the required premiums for as long as they operate their business.

Employers are **collectively liable** for the all the cost of claims including those from employers who went out of business or who did not pay their premiums. They are **also individually responsible** in the sense that their rate depends on the industry they belong to and for some employers, their own cost experience. It is also clear that individual employers do transfer significant risk to the WCBs. However, the WCB itself charges for that risk to all employers.

Workers are only covered if they work for an employer in a covered industry. They cannot get coverage unless their employer is covered, or choses to get coverage voluntarily where the employer's industry is not covered by the Act. **Entitlement to benefits are triggered by a work related incident (injury or illness) and is open-ended**. Finally, there are accepted intergenerational transfers as new employers are treated the same as renewing employers.

A careful review of IFRS 17 requirements and the nature of the insurance contract (assuming there is one) led to the following conclusions. These are from an actuary's perspective and accountants may reach different conclusions.

WCBs operate a self-correcting insurance contract that has the following features for purposes of IFRS 17:

Elements	Who?	Key Underlying Rationale
Issuer	WCBs	Entity set up by legislation to administer the workers compensation program. They have full authority to operate the system and make related decisions on entitlement to benefits and required premiums.
Insurance Contract	Workers Compensation Act and Regulations, in two groups of contracts (premium paying and self-insured, as the terms for premium payment are different)	Only document that contains the terms of the program (governance, prescribed benefits, premiums and collection etc.)
Policyholder	Employers individually (an argument could be made that it is the employers collectively and if true, then there would be no transfer of risk and IFRS 17 would likely not apply)	• Purpose of Act is to replace liability that would arise under tort insurance, where employer could be held liable for work related injuries or illnesses. • Workers are only covered if they work in a covered industry, as defined by the Acts. • Employers in covered industries must register and fund the system and cannot opt out (bound by the Act) • Each employer transfers significant insurance risk to the WCBs, and then provide the capital by way of future premium adjustments to cover that risk collectively. • Shortfalls from employer bankruptcies absorbed by all employers in an industry or collectively over all industries. • Coverage extends to the point in time where employer ceases to operate completely (business closed or bankrupt).
Benefit payments	Directly to injured workers and families and to service providers	Benefits paid directly by WCBs on behalf of covered employers. No different from third party liability coverage or group insurance.
Aggregation	Three groups of policyholders: Premium paying employers, Self-Insured employers and GECA.	Benefits are the same for all employers. No negotiation possible. Funding arrangement is different among the three groups of policyholders.

Elements	Who?	Key Underlying Rationale
Service or Insurance	Premium paying employers – insurance Self-Insured employers – insurance or service depending on liability for benefits to injured workers as specified in the WCA GECA – Administrative services only	Based on earlier decision by accounting profession that WCBs issued insurance contracts as defined under IFRS 17. See Appendix 1 for further discussion on this point.
Onerous contract	Not Onerous	Net outflow without accompanying financial corrections is impossible on a best estimate basis, as per the funding requirements of the Acts and authority given to WCBs to collect sufficient premiums from policyholders who cannot opt out.
Contract Boundary	Very long	WCBs have a decisive authority to compel current and future employers to pay for past losses, are bound by the contract to provide services to employers and injured workers and the employers are bound by the contract to remain covered and pay the required premiums.

Application of the above conclusions would lead to liabilities equal to assets at all measurement dates. This result brings into question the usefulness of financial statements for the readers. Furthermore, there could be unintended consequences since assets that are relatively high or low when compared the present value of benefit outflows would lead the reader to the same conclusions in relation to the funding status of the entity. This could lead to decreased funding discipline, as poor performance would not produce a different funding balance.

Alternatively, actuarial standards could introduce disclosure requirements or limits to ensure that the funding basis and related status is appropriately disclosed or recognized.

In light of this conclusion, it may be useful to revisit the question of whether WCBs issue insurance contracts as defined under IFRS 17. An analysis is provided in Appendix 1 to this document. If the conclusion to this question is no, then another standard would need to be found with possibly other complications given the unique features of theses systems.

Much needs to be clarified for WCBs as it relates to IFRS 17, and this document was prepared with the intent to foster focused and meaningful discussion to arrive at the best outcome possible in relation to the nature of these entities and the goals underlying IFRS 17.

Introduction

This document has been prepared based on a review of the IFRS 17 Standard, the Basis for Conclusions as they relate to the contract boundary, two TRG papers, the discussion draft IAN 100 and the CIA's Educational Note – Comparison of IFRS 17 to Current CIA Standards of Practice (Document 218117).

The primary purpose is to attempt to define how IFRS 17 could be applied to public workers compensation in Canada and public auto insurance systems providing benefits similar to workers compensation in the same jurisdiction (i.e., covering personal injuries only on a monopolistic basis), assuming WCBs issue insurance contracts as defined under IFRS 17. I refer to these as WCBs in this document. The comments may have application for other public insurance systems operating on the same basis as the above, but these were not specifically considered in this document.

The goal is to focus specifically on areas where insurance contracts issued by WCBs differ from traditional insurance in Canada (Life and P&C) so as not to duplicate work already done for IAN 100. Background information on the legal structure and related operations of WCBs in Canada is provided to assist the reader who may not be fully familiar with the operations of WCBs in Canada. As a result, there may be areas that are not covered, or covered only briefly, because they are already covered in IAN 100 or the CIA document referred to above.

Application of IFRS 17 requirements for Workers Compensation Boards in Canada, including auto insurance schemes with the same insurance contract characteristics, was examined using a step by step approach, as listed below:

1. Purpose and Focus
2. Scope
3. Portfolio of Contracts
    a. Service only or Insurance Contract
    b. Aggregation
    c. Onerous or not
    d. Boundary
4. Measurement
    a. Criteria
    b. Fulfillment cash flows
    c. Risk Adjustment

d. Contractual Service Margin

5. Premium Allocation Approach (PAA)
6. Reinsurance
7. Modification and Derecognition
8. Application of IFRS 17 to WCBs in Canada

For each element, I provided a high-level summary of the IFRS requirements. Where appropriate, I have inserted extracts from the IFRS 17 Standard in the body of the report for convenience. The New Brunswick Workers Compensation Act (NBWCBA) was used as the underlying evidence to assist in defining the terms of the insurance contract, interpreting IFRS requirements and identifying how these requirements could be applied in practice for WCBs.

In Section 8, in addition to summarizing the findings in the report, I included a brief discussion on possible application of IFRS 17, and use of actuarial standards to assist in providing meaningful disclosures in the financial statements, if deemed appropriate by both the actuarial and accounting professions.

The views expressed in this document are my own, based on my understanding of IFRS 17 and my experience in providing actuarial, financial and other advice to WCBs in Canada over 30 plus years. During that period, I have done regular or one-off project work for 10 of the 12 WCBs in Canada and the SAAQ in Quebec.

Ultimately, I hope that this document can help generate more discussions and better define how IFRS 17 should be applied to WCBs in Canada.

1. Purpose and Focus

Summary of IRFS 17

IFRS 17 is a principle-based standard whose objective is to ensure that entities who issue insurance contracts provide relevant information in their financial statements in a way that “faithfully represents those contracts (IFRS 17.IN1)”.

One of the reasons underlying the introduction of this standard is the need for improved comparability of financial statements of entities who issue insurance contracts worldwide.

IFRS 17 recognizes that some insurance contracts have a significant investment component and some have features that are both a financial instrument and a service contract.

Interpretation for WCBs

IFRS 17 is not focused on the legal structure of the entities that issue insurance contracts. Instead, it is focused primarily on the insurance contracts and the related features that require measurement on a consistent basis. As a result, IFRS 17 does not distinguish between issuers (Life Insurance, P&C, WCBs, and others) but require that insurance contracts with similar features be measured consistently using the principles stated under the IFRS 17 standard. As a result, the terms of the insurance contract is the driver to all measurement decisions.

This interpretation is very important because it drives all other interpretations in this document.

2. Scope (IFRS 17.3 to .8)

IFRS Requirements

Insurance contracts under IFRS 17 are defined as:

A contract under which one party (the issuer) 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**.

The standard applies to all contracts that are deemed to meet the definition above, regardless of the nature of the entity who issues such contracts.

The accounting profession in Canada has determined that WCBs were administering benefits in a manner that met the above definition and consequently were subject to financial measurement under IFRS 17.

Interpretation for WCBs

While arguments could be made that the nature of insurance contracts issued by WCBs does not fit the definition above, this issue may have been resolved already. However, there could be a need to revisit this issue based on the analysis presented in this document. There is a very real question as to whether the WCBs "**accept** significant insurance risk" (my highlight and underline), given how these systems were established and the operational guidelines specified in the Acts of legislatures that created them. Without drawing specific attention to this issue in the analysis on the application of IFRS 17 to WCBs, the information provided in this document may cause the reader to want to revisit this question. A further discussion on this point is provided in Appendix 1 of this document, using the definitions and narrative contained in IFRS 17.

WCBs administer an Act of the legislature with the administrative powers conferred to it under the Act. WCBs do not write the terms of the insurance contract, they are created for the specific purpose of administering the Act as defined by a legislature. In addition, they do not issue contracts or insurance certificates to policyholders (other than issuance of certificates of compliance where bidders must show proof they are covered by WCBs). Some discussion is required on who the policyholder is for purposes of IFRS 17. WCBs are authorized to adopt policies to implement the requirements of the legislation.

The accounting profession in Canada has already determined that WCBs issue insurance contract. This question may need to be revisited with the benefit of more detailed information on the potential application of IFRS 17 to WCBs in Canada.

This document has been prepared on the presumption that WCBs issue insurance contracts as defined under IFRS 17. I then added a brief discussion in Appendix 1 to allow for reconsideration of the earlier determination by the accounting profession, if deemed necessary. This is as far as I could take it because I do not know how the accounting profession would weigh the evidence to determine if WCBs issue insurance contracts as defined by IFRS 17.

Insurance Contract

There are no insurance contracts, certificates, booklets or any other similar document produced by the WCBs and distributed to employers and workers that could be even closely construed to be the insurance contract.

Employers are mandated to register for coverage by law if they belong to industries that are covered by the Act, or are not otherwise exempted from coverage because of size or other reasons. Employers are also bound by the Act to remain covered and are collectively responsible to fund the system.

Employers have no choice in the matter. Benefit features are uniform for all covered workers and are not subject to negotiation with individual industries or employers. From time to time, there are statutory reviews and worker and employer groups have an input in the process. Alternatively, they may petition the government to alter the Act outside the review process. However, they do not get to choose the coverage once Government has established it under the Act. There are provisions in some Acts to allow certain excluded employers to elect voluntary coverage. These typically represent an inconsequential portion of the premiums collected in any given year and are largely ignored in this document. Even in those arrangements, it is all premium-paying employers collectively that may benefit from any gains, or are responsible for any losses arising from voluntary coverage.

The only document that can be deemed "the insurance contract" is the Workers Compensation Act and regulations (Act or Acts).

The New Brunswick Workers Compensation Act (NBWCA) was used to demonstrate the features that establish the requirements imposed by the Act and the effect these features may have on the decisions required for measurement of obligations under IFRS 17.

What are the Benefits to Injured Workers?

Sections 38 to 48 of the NBWCA describe and define the benefits available to workers who suffer work related injuries or illnesses. These benefits, along with administration expenses, would form the outflows arising from the best estimate of fulfilment cash flows. These benefits are usually grouped as follows (note some WCBs separate Rehabilitation services out of Short-term Disability):

- Short-term Disability (including rehabilitation services)
- Long-term Disability
- Health (hospitals, doctors, various allowances, physiotherapists, appliances, prescribed drugs etc.)
- Survivor benefit

The fulfillment cash flows for each of these benefits are calculated separately at present and would presumably continue to be under IFRS 17. However, they would likely be aggregated under one contract as they form part of one contract (see IFRS 17.14 and related discussion later in this document). The nature of these benefits are similar to those provided under an auto

insurance third party liability policy, except that lump sum settlements are the exception rather than the norm, and future changes to an injured worker's condition, or to the Act, lead to the re-assessment of benefit entitlements (see example in next paragraph).

An important feature of workers compensation coverage in Canada is that an injured worker remains entitled to benefits under the Act at any time, for any condition arising out of the initial work injury or illness, whether it occurs immediately at the time of injury or 50 years later. A common example might be an injury from which the injured worker recovers sufficiently to be mobile without assistive devices, but through the passage of time becomes less mobile and requires a wheel chair, and all other adjustments this may entail (e.g., home modifications). As long as the need for a wheel chair is attributable to the initial injury, then the worker is eligible to be compensated for one at any time in his or her life for as long as the need exists.

This feature points to the long-term nature of the benefits provided to injured workers, for certain treatment and services. Note that wage loss benefits (i.e., long term disability benefits) typically cease at age 65 but some pension awards and health care coverage continue for life.

How are Premium Rates determined?

All Acts have provisions dealing with the authority of the WCBs to determine premium rates annually, to establish classification systems, to implement experience rating systems and to be responsible for the financial stewardship of the system. In effect, an employers own rate is set annually and is dependent on three factors as follows:

1. Total amount WCBs determine they need to meet the funding requirements under their respective Act including surcharges for past deficits and rebates for past excess funding;

2. The industry to which each employer belong. The range in rates from the lowest to the highest risk industries ranges from less than $1.00 per $100 of covered payroll to more than $10.00 per $100 of covered payroll; and

3. Individual rate adjustments for employers participating in experience rating programs. Most experience rating programs are prospective in nature and lead to a rate adjustment for the following year as opposed to a direct refund or surcharge for past experience. The programs vary by jurisdictions. Two WCBs do not have experience rating programs. The rate adjustments can be substantial in both directions for larger employers.

While there are classification, rate setting and experience rating systems, these are designed primarily to allow for a more equitable distribution of costs among groups of employers and individual employers, and to promote best practices in prevention and return to work. In the end, the WCBs establish a target revenue each year, and the total collected from all employers after all adjustments for classification and experience rating must be expected to add up to the target revenue. The process involves an aggregate assessment of revenue requirements as a first step and then a distribution to industries via the classification system and to employers individually via the classification, rate setting and experience rating systems.

Paragraphs 54(1) and 54(1.1) of the NBWCA addresses responsibility and authority to set premium rates (referred to as assessments in NB) and read as follows:

Annual assessment of employer

54(1) The Commission shall every year assess and levy upon and collect from the employers in each class, by an assessment rated upon the payroll, or otherwise as the Commission may deem proper

(a) sufficient funds to meet all claims for compensation incurred during that year;

(b) the estimated cost of those claims in paragraph (a) payable during subsequent years; and

(c) such sum as the Commission considers appropriate for the administrative expenses of the Commission.

Assessment respecting deficit

54(1.1) Despite subsection (1), in the event the Commission incurs a deficit in any fiscal year, the Commission shall take the necessary steps following the occurrence of the deficit to assess, levy and collect sufficient funds to fund the deficit within the period of time determined to be reasonable and prudent by the Commission in the circumstances, to a maximum of 15 years.

The above shows that under the NBWCA, not only is the WCB responsible for setting premium rates, but it has a duty to do so and to adjust such rates to recover deficits arising from all prior year claims experience, when required (word "shall" used in both Sections). In addition, all employers do bear the cost of the system based on the level of insurance risk their industry represents and some employers see their rate adjusted based on their own cost experience relative to the premiums paid or their performance relative to the average for their industry.

Who is the Issuer? And who is the Policyholder?

A WCB is the entity set up to administer workers compensation (or public auto insurance as described in Section 1) and produce Annual Reports on the obligations arising out of the Act. As a result, they are the entity who would presumably be deemed the issuer under the IFRS 17 definition of Insurance Contract. While an argument could be made that the Government is the issuer because they write the terms of the insurance contract, it seems that would be a stretch because WCBs are intended to operate at arms-length from the Government.

The various Acts do not use the term policyholder. In workers compensation, the terms employer and workers are used to refer to the parties covered under the Act (note that I did not check public auto insurance schemes to determine the terms used there). As for employers, there are two distinct categories, namely premium paying employers and self-insured employers. Alternative terms may be used to describe these groups depending on the jurisdiction (e.g., Assessed Employers and Deposit Accounts).

Leaving aside the two groups of employers for now, the policyholder could conceivably be the workers covered under the Act or the employers under one or two groups of contracts as defined further below.

A unique feature of workers compensation systems is the fact that workers in covered industries, as defined by the Act, are entitled to benefits regardless of the premium-paying status of the employer. In fact, if an employer in a covered industry fails to register, its workers are still entitled to benefits if injured at work. Certain provisions in the Act deal with the powers of the Board to recover for unpaid premiums (see more detailed discussion below). In addition, the worker receives benefits on a no fault basis, meaning they do not need to prove that the employer is at fault. As long as the injury or illness meets the requirements of the Act, then workers are eligible for compensation. In that context, an argument could be made that the Board issues individual insurance contracts to each worker or injured worker.

However, workers compensation systems in Canada are intended to act in lieu of the Tort System. In practice, **employers must register** for coverage in the industries covered by the Act. Employers do not receive a written policy or certificate, do not select the terms of coverage but must pay the premiums as determined annually by the WCBs for as long as they are active and covered under the Act. Under the Tort System the worker would have to prove the employer is liable and it would be the employers who would purchase liability coverage to protect against the financial losses that could occur.

In order to answer the questions above, it is useful to go back to the definition under IFRS 17 and deconstruct it so as to focus on relevant elements for each question.

Part 1 – "A contract under which one party (the issuer) accepts significant insurance risk…"

The party responsible for administering the provisions of the insurance contract, and the party with whom employers and workers deal with for the operation of the contract is the WCB. A WCB may present recommendations to Governments when they want to see changes to the Act, but the insurance operations and reporting of its results is the responsibility of the WCBs. As mentioned earlier the question of whether WCBs accept significant insurance risk is discussed at a high level in Appendix 1 to this document. With respect to the question of who is the issuer, Section 31(1) of NB WCA reads as follows:

Jurisdiction of Commission

31(1) The Commission has jurisdiction to inquire into, hear and determine all matters and questions of fact and law necessary to be determined in connection with compensation payments under this Part and the administration thereof, and the collection and management of the funds therefor; but no decision or ruling of the Commission is binding upon it as a precedent for any other decision or ruling, and each case shall be decided upon its own merits.

The above strongly support the notion that the WCB is the issuer under IFRS 17.

Part 2 – "…from another party (the policyholder)…"

Workers do not seek coverage, nor do they have to under the Canadian workers compensation systems. The implicit agreement workers have with employers is to obtain protection on a no-fault basis in exchange for the funding of the system by the employer. WCBs were created to replace third party liability that employers were, or were not purchasing, for the risk that a worker could sue the employer as liable for the cost of a work related injury or illness.

Furthermore, workers cannot apply for coverage. In order to be covered they must be employed by an employer who is covered under the Act (either compulsory or voluntary coverage).

If we focus strictly on this portion, the employer would more than likely be the policyholder.

Part 3 – "…by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

This is where it may get unclear and we need to look elsewhere for assistance. The employer does not receive direct compensation for loss, the worker does. However, in absence of WCBs and under Canadian law, the employers would need third party liability protection. Furthermore, the payments made to injured workers could be seen as payments on behalf of the employer, who, in absence of WCBs, could be liable to make such payments.

The actual insurance risk transfer, assuming one exists under IFRS 17, is the combined effect of a transaction, fundamental to the creation of WCBs in Canada. The table below describes the transaction that occurred from the status prior to the creation of WCBs to the status that now exists.

Period	Description	Workers and their families	Employers	Issuer
Pre WCBs	**Description of insurance relationship**	At risk of pecuniary loss resulting from a work related injury or illness. Right to sue employer for damages.	Subject to the tort system with liability for the pecuniary loss when fault accepted or proven. Employers (not all) purchased individual insurance contract from private insurer, others self insurer, others self insured, some leaving injured workers and their families with nothing.	Private insurers via third party liability insurance contracts. Pays injured workers directly in exchange of premiums received from employers. Insurer drafted terms of contract and sold it to employers with appropriate premiums and then administered all claims and accepted to pay up to policy limits based on coverage subscribed.
	Status under IFRS 17 definitions	**Workers are paid benefits directly on behalf of employer**	**Each Employer is a Policyholder**	**Private Insurer**

Period	Description	Workers and their families	Employers	Issuer
Since WCBs	**Description of insurance relationship**	Relinquished right to sue employer in exchange for right to legally prescribed compensation on a no fault basis.	Immune from litigation in exchange for accepting the responsibility for funding the pecuniary costs of work related injury or illness.	WCBs are arms length not for profit entity that is tasked with administering a legislation prescribing benefits and giving them authority to collect required premiums from employers. No contracts are issued, or negotiated. All employers and workers subject to same legislation. Some employers, referred to as self-insured, or deposit accounts, allowed to be subject to a different funding arrangement.
	Status under IFRS 17 definitions	**Workers are paid benefits directly on behalf of employer (or perhaps policyholders)**	**Employers are policyholder individually or collectively (or no real insurance status other than paying for the WCB system)**	**WCBs (or provider of administrative services only)**

Are workers the policyholder?

The arguments raised that a worker may be the policyholder are interesting and probably could be defended on logic using IFRS 17.

The factors that would support workers as policyholders are:

1. they are the ones who incur a pecuniary loss and require compensation under some form of protection arrangement;
2. the coverage is available on a no fault basis;
3. they are entitled to benefits regardless of the premium paying status of their employer and receive benefits directly from the WCBs; and
4. In a situation that could be seen as related, the IASB staff in TRG 08, determined that in the case of a group association contract and group creditor policy, the certificate holder was the policyholder.

In response to argument 1 above, under the tort system, workers would not typically purchase liability insurance to protect against loss they may suffer if a potential third party was not able to pay. In fact, under tort law, personal insurance bought by an individual does not absolve the third party's responsibility to pay for damages. In effect, the injured party can get the benefit of both personal insurance and compensation from the third party. Usually, personal insurance offsets any amounts received from a third party and not the other way around. **By making this link, argument 1 above could be seen as carrying less weight.**

With respect to the "no fault" aspect under argument 2, all that this means is that the worker does not have to prove that the employer was responsible for the work injury or illness. Therefore, there would be no need to sue other than for quantum of loss, which, in the case of WCBs, is defined by law. **Employers technically are liable, in the sense that they are collectively the sole funder of the WCBs.**

The fact that workers are covered even though their employer was negligent in registering or paying premium under argument 3 is likely offset by the fact that WCBs have recourse against such employers based on the powers conferred to them in the Act. They can effectively seize employer assets to cover for the workers losses. An example of the powers of the WCBs can be seen in section 72 of the NBWCA below which illustrates the priority status of amounts owed by an employer to the NBWCB. Other decisive authority is conferred under Section 61 of the NBWCA which is presented in the next section when discussing contract boundary, as it is very relevant to that item.

Insolvency

72(1) There shall be included among the debts which under the Winding-up Act and the Devolution of Estates Act, are, in the distribution of the property in the case of death or in the distribution of the assets of a company being wound up under those Acts respectively, to be paid in priority to all other debts, the amount of any assessment the liability whereof accrued before the date of the death, or before the date of the commencement of the winding-up, and those Acts shall have effect accordingly.

Assessment and other amounts to be a fixed charge

72(2) Notwithstanding any other Act, any amount due to the Commission by an employer
(a) pursuant to an assessment made under this Act,
(b) in respect of any amount that the employer is required to pay to the Commission under this Act, or
(c) on any judgment for an amount referred to in paragraph (a) or (b), creates a fixed, specific and continuing charge in favour of the Commission (d) on the property or proceeds of property, whether real or personal, of the employer in New Brunswick, including money payable to, for or on account of the employer, whether the property, proceeds or money is acquired or is to be acquired by the employer before or after the amount becomes due, and
(e) on any property or proceeds of property, whether real or personal, in New Brunswick that is used by the employer in or in connection with, or produced by the employer in, the industry with respect to which the employer is assessed or the amount becomes due, whether the property is used or produced before or after the amount becomes due.

Priority of fixed charge

72(2.1) Subject to the Employment Standards Act, the Revenue Administration Act and the Real Property Tax Act, the charge created under subsection (2) is payable in priority over all writs, judgments, debts, liens, charges, security interests as defined in the Personal Property Security Act, rights of distress, assignments, including assignments of book debts, and other claims or encumbrances of whatever kind of any person, including the Crown, whether legal or equitable in nature, whether absolute or not, whether specific or floating, whether crystallized or otherwise perfected or not and whenever created or to be created.

It is clear from the above (and Section 61 presented further below) that negligence from an employer in registering or paying premiums (referred to as assessments under NBWCA) does not absolve it from the requirement to pay the required premiums.

The case under TRG 08 was about debtors requiring life or disability income to repay their debt to the lending institution. In this particular situation, it could be argued that in order to get a loan, the certificate holder had to secure coverage to protect the lender in the event of default caused by the death or disability of the borrower. The fact that the coverage is obtained under an association or group basis is probably somewhat irrelevant. In this particular case, the certificate holder secures coverage individually under an association or group arrangement to be able to get a loan. There are two conditions to secure coverage, namely, to be a member of the group covered under the policy and to individually apply for coverage. In absence of the loan, the certificate holder would not get coverage even if he/she was an eligible member of the group entitled to purchase coverage. Consequently, the certificate holder triggers the transaction, pays for it directly or indirectly and is clearly the policyholder.

Under WCBs, or even in absence of WCBs, a worker would not be required to secure coverage in order to get a job. It is the employer that requires coverage in the event that they are found liable for the injury, illness or death of a worker. Another relevant factor in relation to WCBs is the fact that **workers cannot access coverage unless their employers are covered** under the Acts. **The type of relationship under argument 4 does not appear to exist for WCBs.**

In my view, the arguments in favour of the workers being the policyholders are weak at best. That said, it is the accounting profession that would ultimately make this determination.

Are employers the policyholders? Individually? Collectively?

Having already expressed the view that the arguments in favor of workers being the policyholders are weak at best, this leaves only one other party as possible policyholder under IFRS 17 definitions, namely the employers.

The factors that would support employers as policyholders are:

1. WCBs serve as a replacement to third party liability insurance under tort law and are the result of a bi-partite de-facto agreement between workers and employers with both groups actively involved in defining legislative changes;

2. Employers in covered industries are required to register for coverage. Other employers, where applicable, can usually subscribe to coverage on a voluntary basis by making application to the WCB.

3. The employers are the sole funder of the system to protect workers based on conditions determined by Government via legislation and as administered by WCBs;

4. They are responsible to fund past deficits and can benefit from better than expected financial experience of the WCBs;

5. They share the cost of the system based on the risk their industry represents and the range of premium rates can be very wide; Their own experience can affect their own premium rate and the adjustment, positive or negative, can be material for larger employers; and

6. Individual employers must register with the WCB and do transfer insurance risk to the WCBs.

For argument 1, there is no doubt that in absence of WCBs, it is the employers who would seek insurance coverage to protect against losses resulting from work related incidents (fatality, injury or illness) affecting the workers health. The fact that given the choice, some may not seek insurance coverage is somewhat irrelevant because they would still be liable.

While the WCBs can compel employers to pay premiums as discussed in the next section, the Acts still require employers to register implying under argument 2 that they are applying for coverage.

Argument 3 clearly establishes that there is no one else funding the WCBs. That alone may not be a strong argument. However, it is still relevant when taken along with the other arguments.

Argument 4 introduces a risk and reward element (or insurance risk), which affects how much each employer has to pay on premiums over time.

The fact that premium rates vary by relative risk that each industry, and in some cases the employer's own cost experience affect the premium rates paid by each employer, makes each industry and employers a significantly interested party in reducing risk, as per Argument 5.

Finally employers must register with the WCBs. Section 53.1(1) of NBWCA reads as follows:

Notices by employer

53.1(1) Every person shall, within fifteen days after commencing or recommencing a business or undertaking, notify the Commission of such commencement or recommencement.

Based on the foregoing, I would argue that the employers are the policyholder (or policyholders) under IFRS 17.

A further question is whether each employer is a policyholder or the policyholder is all employers collectively under one contract (the Act). This one is not easy to delineate in a definitive manner.

Self-insured employers also pay for their coverage but not in the same manner as premium paying employers. They operate on a pay as you go basis, but are still responsible for funding the cost of insurance for their workers. Furthermore, certain Acts may explicitly absolve the WCB of any liability with respect to these self-insured arrangements. Others may imply that the WCB is responsible for the liabilities if the self-insured employer does not pay or has provided insufficient security. This factor may influence how the obligations are reported.

Some self insured arrangements may fall under IFRS 17.8 and be categorized as administrative services only contracts. GECA (the Federal Government Employees Compensation Act) is a clear example. The WCBs provides administrative services only in these cases, similar to ASO group contracts that private insurers offer. **The Federal Government is clearly the guarantor under GECA.**

Worker compensation boards provide coverage/service in three broad groups as presented in Table 3.1 in the next section.

Section 2(1) of NBWCA reads as follows:

2(1) Subject to subsections (3) and to section 6, this Part applies to all employers and workers in or about any industry in the Province**.**

There are sections of the NBWCA that require employers to register (NBWCA 53.1(1) above) and others that allow for penalties for failure to do so, when required. Some WCBs link up to the system used for CPP and EI to ensure compliance.

There are **no provisions to opt out for employers** who are mandated to register. In addition, as mentioned previously and somewhat unique to this industry, **workers are covered for work related injuries independently of the registration or premium payment status of their employer**. In other words, an injured worker working for an employer mandated to register is entitled to benefits even if his or her employer has failed to register or has not paid the required premiums.

In traditional insurance relationships, coverage ceases if premiums go unpaid for a certain period. As a result, each policyholder, while they form part of the insurance pool, can only benefit from the protection if they pay the premiums. For WCBs (did not check public auto insurance schemes), **all employers are collectively liable for the injuries to workers who are eligible for coverage but for whom premiums have not been paid.**

This feature of these systems seems to suggest that the policyholder is "all employers collectively". This is also consistent with the foundational principles (referred to as Meredith principles) of the workers compensation systems in Canada. Reference is often made to the historical compromise between employers and workers, in that, workers gave up their right to sue the employer, in exchange for the employers being collectively liable for the cost of work related injuries and illnesses on a no fault basis, as defined by an Act of a legislature and as administered by an arms-length board.

However, the fact that each individual employer transfers significant insurance risk to a WCB probably overrides the argument above as this feature is a key part of the definition of Insurance contract under IFRS 17.

It seems to me that each employer would be the policyholder under IFRS 17 because they, when viewed as individual entities, transfer significant risk to the WCBs. The alternative of deeming all employers collectively as the single policyholder would also likely imply that WCBs do not accept significant insurance risk and that IFRS 17 does not apply to WCBs.

3. Portfolios of Contracts

IFRS Requirements

There are four contract features under IFRS 17 that influence the approach (BBA-Building Block Approach or PAA-Premium Allocation Approach) and the elements to be considered in the measurement of fulfillment cash flows. There are:

1. Service only or Insurance Contract (see Table 2.1)
2. Aggregation (see Table 2.1)
3. Contract Onerous or Not
4. Contract Boundary

Interpretation

The grouping of the features above in one section is intentional. I wanted to address all of the relevant measurement features of a workers compensation insurance contract in one place, to avoid going back and forth on provisions of WCAs that define those features.

Service Contract

IFRS 17.8 covers specific situation where a contract has the features of an insurance contract but the primary purpose is to provide services for a fixed fee. There are three conditions that must be met to qualify under 17.8.

For WCBs, as discussed in the previous sections, there are certain contracts that may fall in that category in the sense that the primary purpose is to provide services. In these situations, the WCB is reimbursed for payments made to or on behalf of injured workers and paid administrative fees for the services provided (may be fixed based on number of transactions or as a percentage of the payments). I believe the three conditions set out under 17.8 would be met for self-insured employers and GECA.

The potential contract types arising from the discussion in Section 2 are presented in Table 3.1 below.

Table 3.1 – WCB Coverage/Service

Category	Approach	Interpretation
Premium Paying Employers	Pay premiums and all employers are collectively responsible for funding the cost of the insurance contracts over time (A very small proportion can elect coverage if they are excluded from the compulsory coverage requirements of the Act - i.e., employers certain excluded industries or employers with fewer than a certain number of employees in some jurisdictions)	Meets the definition of IFRS 17
Self-Insured Employers	Pay as you go plus expenses, with two alternative approaches to the determination of who is liable to the injured workers: 1. Workers covered under WCA regardless of premium/funding payment status of employer 2. Self-insured employers explicitly liable under Act (i.e. Board not liable to workers)	1. May meet definition of IFRS 17. Could also be seen as a credit risk. 2. Service only, as per IFRS 17.8.
Government Employees Compensation Act	Federal government engages individual WCBs to provide benefits to their employees and assumes all insurance risk.	Service only as per IFRS 17.8.

Under the workers compensation system, the self-insured employers pay premiums equal to benefit cash flows on a monthly basis. There are no assets backing the obligations other than a small reserve or formal IOUs or in some cases letters of credit. Viewed this way, cash inflows equal cash outflows all the time. Therefore, the fulfillment cash flows in these self-insured arrangements would presumably be zero, on a best estimate basis, if the contract boundary is far enough in the future.

With respect to self-insured employers, it seems pertinent to determine whether they transfer significant insurance risk to WCBs, or only present a credit risk. Since they pay the costs on a monthly pay as you go basis, and since they are obligated to do so by law, the liability at all times would be zero, assuming the contract boundary is deemed to be far into the future. In that circumstance, do the WCBs need to assess the credit risk associated with these employers, in light of the actions they already take to protect against that risk?

Since the focus of this document is premium-paying employers who represent by far the largest part of the business, I did not elaborate further on the self-insured employers in this document.

Aggregation

The first part of IFRS 17.14 on aggregation reads as follows:

> An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together.

From this text, where it can be established that the contracts have similar risks (clear for WCBs as only one Act, or policy terms) and the entity manages those contracts together (and WCBs do so), then IFRS 17 requires aggregation of those contracts under one contract for measurement purposes. There probably is not much room for debate here. **The Act is the contract and there is only one Act. The only issue to address is that there are three types of policyholders, who have different funding arrangements with the WCBs.**

It seems logical that each of these types would represent a group of contracts, as per Table 3.1 above.

Onerous contract

The first part of IFRS 17.47 on onerous contracts reads as follows:

> An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow.

Stated another way, a contract is onerous at inception, or becomes onerous, if it is expected that future inflows will be insufficient to cover future outflows.

The response for WCBs is discussed further below as it seems to be linked to the determination of the contract boundary.

Contract Boundary

IFRS 17.34 on Contract Boundary reads as follows (my highlights and additions in brackets):

> Cash flows are within the boundary of an insurance contract if they arise from substantive **rights and obligations** that exist during the reporting period in which **the entity can compel the policyholder to pay the premiums (part 1)** or in which **the entity has a substantive obligation to provide the policyholder with services (part 2)** (also see paragraphs B61–B71).
>
> **(Part 3) A substantive obligation to provide services ends when**:
>
> (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
>
> (b) both of the following criteria are satisfied:
>
> (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
>
> (ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

I understand from the above that if the entity has the substantive right to adjust future inflows or an obligation to pay future outflows, and if that right exists in the reporting period for which financial reporting applies, then the boundary would be at the end of the period for which these adjustments can be made, which may extend beyond the reporting period.

Furthermore, I take the second part of IFRS 17.34 as describing when a substantive obligation ends (part 2), which presumably means that the boundary of the contract would end at the same point in the situation where the entity has an obligation to provide services but does not have a right to compel the policyholder to renew or pay the required re-priced premiums. Based on this understanding, the interpretation of the conditions that lead to the end of an obligation to provide services would only become relevant if the ability to compel (part 1) was not met.

Are Contracts Onerous? What is the Contract Boundary?

It seems that in this particular case, these two features need to be considered together, as in the case of WCBs they may well be mutually inclusive.

As stated above, a contract under IFRS 17 is onerous if it is expected that future inflows when combined with assets will be insufficient to cover future outflows (see IFRS 17.47). Since the WCBs have the ability to adjust future premiums for prior year claims in any future year where that adjustment is required under the Act, then by definition, the contracts cannot be onerous. In effect, the contract is written in a way that over the long term there can be no profits nor deficits (i.e., WCBs are not-for-profit and must collect sufficient premiums to pay for benefits over time). As a result, the contract cannot be onerous if interpreted in this manner.

However, if the Contract Boundary was to be deemed to be very short, like one year renewable term insurance, then it seems that unless an allowance was made to recognize future pricing adjustments, all WCB contracts would have to be onerous in the current interest rate environment because premiums are set on a going concern basis using a best estimate discount rate from a diversified portfolio of assets, in lieu of market consistent rates as required by IFRS 17. The argument for a short duration for the contract boundary could become circular because as discussed further below, WCBs have a right to adjust future premiums to recover from past deficits and can compel policyholders to pay, implying the contract boundary is not short. If the boundary is short, then the contracts are onerous but for this to happen one would have to ignore the re-pricing features of the systems run by WCBs. If these re-pricing features are recognized, then we may well get back to a longer boundary, or the same measurement result as a long boundary.

The contract boundary under IFRS 17 is focused on the terms of the contract. For example, for a level premium whole life insurance policy, the contract boundary would be the end of life of the policyholder. For a five-year level premium term life contract, the contract boundary would be five years from issue.

There are two criteria established under IFRS 17.34 to guide the determination of the contract boundary. As for the definition of insurance contract, it may be instructive to deconstruct the definition of contract boundary into its important parts.

Part 1 - …the entity can compel the policyholder to pay the premiums…

Using NBWCA 54 as a guide, it is clear that the WCB has the **right and obligation** to set premium rates.

NBWCA 54(1) covers the **estimated** cost of new injuries expected to occur in the year for which rates are set, including the cost of administering the system and **estimated** future cash flows arising from such new injury claims.

NBWCA 54(1.1) relates to the adjustment in future premium rates for experience in prior years. Both subsections use the word “shall” making it unequivocal that rates must be set to cover current year costs and any shortfalls arising from prior year experience.

Sections 61 and 72 of the NBWCA addresses the ability of the WCBs to compel employers to pay. Section 72 was reproduced in the previous section of this document.

NBWCA 61(1) and 61(2) are reproduced below.

Duty of employer to pay assessment

61(1) Notwithstanding any provisions of this Part respecting estimates or payrolls and notice to employers, an employer shall, without demand from the Commission, cause to be paid to the Commission the full amount of every assessment assessed or levied in accordance with this Part in respect to workers in his employ who are entitled to compensation hereunder, and every assessment, whether the employer has notice thereof or otherwise, is a debt unliquidated until the amount thereof is ascertained by adjustment as provided by this Act and payable by the employer to the Commission.

Action to collect assessment

61(2) The Commission has a right of action against an employer in respect of any amount unpaid, with costs of such action.

When funding shortfalls occur using the funding policy measurement basis, the WCBs, according to the Acts that created them and their funding policies, will include a surcharge in the premium rates to recover from such shortfalls. The employers have no choice in the matter; they are bound by the Acts, they must pay the premiums as set by the WCBs and cannot opt out, unless they are covered as a result of having elected voluntary coverage (voluntary coverage is a miniscule part of the operations of a WCB and is only for employers in industries or categories excluded (or not included) in covered industries). The employers, as a party to the system, may influence the level and timing of the surcharge with their input in the funding policy development, but cannot avoid it.

Again the word “shall” is used in NBWCA 61(1) to make matters clear with respect to the employers’ obligation to pay. Furthermore, the WCB is given the right of action to collect from employers under NBWCA 61(2). This combined with NBWCA 72 covered earlier, reinforces the **substantive right** of the WCB to **compel the employer (i.e., policyholder) to pay the premiums.**

WCBs do have a **substantive and unalienable right** to adjust future premiums to cover experience losses from prior year claims (see NBWCA 54(1.1), 61(1) and (2) above and Section 72 covered earlier). The need for adjustments to premiums from prior year’s experience (i.e., based on the funding level of the WCBs at the previous year-end) is determined annually. These adjustments can be positive or negative.

Of perhaps greater importance here is that there are no annual renewals required under the Acts. Both the individual policyholder and the WCBs are bound by the contract for as long as the employer continues its business activity. As a result the contract boundary on a per policyholder basis can vary. If looked at on a best estimate basis based on premiums paid, the contract boundary would be very long (at least 25 years and perhaps much more, based on data I have seen from one of my clients).

The next question, although perhaps not relevant given the discussion above, is to determine if WCBs also have a substantive obligation to provide services to policyholders.

Part 2 -...the entity has a substantive obligation to provide the policyholder with services…

While an exhaustive extraction of sections of the NBWCA may be required to support unequivocal arguments in relation to part 2, I only extracted one subsection to review this point. For example, the Act gives the WCB full authority to decide on claims, subject to a right to appeal to an independent tribunal by both the injured workers and employers. However, NBWCA 38.11(1.1) is relevant to part 2 above and to the earlier discussion about the workers entitlement to compensation. This subsection is reproduced below for convenience.

38.11(1) Where a worker is injured or suffers a recurrence of an injury on or after January 1, 1998, the compensation payable under this Part shall be awarded as set out in this section.

Again the word "shall" makes it clear that the WCBs have an **obligation** to pay the injured workers. WCBs also have the obligation to provide coverage to employers who are in covered industries regardless of the risk they may represent. **There are no terms under the contract (Acts) that allow WCBs to stop providing coverage to employers in covered industries or to stop paying benefits to injured workers of premium paying employers.** The obligation is there for as long as benefit payments are required for a given cohort of claimants and also for the future years of coverage for employers who will remain active or will become active in the future.

That said, with respect to obligations there still may be a question as to when that substantive obligation ends as per the requirements of **part 3** of IFRS 17.34. I included the discussion below for completeness, in case my interpretation above on part 1 is incorrect.

Part 3 – ….**A substantive obligation to provide services ends when…..**

It is clear that IFRS 17.34 (a) does not apply to WCBs as it relates to premium paying employers because reference is made to a policyholder as opposed to a group of contracts. WCBs only have one contract for all premium paying employers. Note this subparagraph may apply to self-insured accounts in some circumstances but these accounts are not the subject of this discussion.

In addition, I believe that with respect to premium paying employers, WCBs meet the requirements under IFRS 34 (b) (i) given the authority they have under their Acts to compel

payments of premium adjustments. Therefore, only IFRS 17.34 (b) (ii) seems to be subject to interpretation here.

In trying to better understand how to interpret this subsection I reviewed the TRG paper on "Boundary of contracts with annual repricing mechanisms". This paper provides a review of two types of insurance contracts, one using a step rate approach, and the other being a participating arrangement. Details of these arrangements are not relevant to the discussion that follows. In both cases there were differing views as to whether the contract boundary was one year or longer. An important distinction with WCBs is that both contracts were subject to a renewal in which the policyholder could have opted to cancel coverage. There are no renewals in WCBs. As mentioned earlier, policyholders cannot opt out so they are bound by the contract for as long as their business activity continues.

In its analysis, staff made the following observation which is relevant to WCBs (**my highlights**):

"The staff believe that the underlying principle of the determination of the contract boundary is that a **contract renewal** with the same premium that would be available to a new policyholder should be treated as a new contract because the **existing contract does not confer on the existing policyholder any further substantive rights**."

Under WCBs, existing policyholders do not have any substantive rights relative to new policyholders. Focusing only on that part of the comment and in absence of the understanding expressed earlier about my understanding of how IFRS 17.34 is to be interpreted, then the boundary would be one year. However, the comment also refers to contract renewal. Presumably a contract renewal involves at least one party being able to accept or decline the renewal. For WCBs, there are no renewals because both parties are bound by the contract. If this interpretation is correct, and if contract renewal is important, one could argue that WCBs do not meet the requirements of IFRS 34.17 (b) (ii) and that the contract boundary is long.

Obviously, since this is an accounting standard, I am not qualified to make definitive interpretations and only the accounting profession can arrive at a definitive conclusion is a on this matter.

Looking at the construct of the insurance contract for WCBs as described above and based on my understanding of IFRS 17.34, it seems that the evidence would suggest that the boundary is very long. Furthermore, if that is correct, I believe the contracts cannot be onerous because it is entirely reasonable to expect, on a best estimate basis, that over the long term, the inflows from future premium adjustments with respect to claims experience on claims incurred combined with the cash flows from assets held at a certain measurement date, will match the cash outflows for benefits and the cost of administration for those claims when assessed over the long term.

The above is particularly true for self-insured employers, where they make monthly deposits equal to the cash outflows on a monthly basis.

Unfortunately, approaching financial reporting in this manner could have important unintended consequences in terms of the financial stability of WCBs, particularly since these systems are not immune to political interference, which can and does occur from time to time.

In summary, insurance contracts issued by WCBs and measured under IFRS 17 have the following features (using NBWCA as a guide):

1. WCBs have a monopoly on providing workers compensation coverage to employers who meet the requirements of the Act to be covered and are also obligated to provide coverage to all employers who qualify under the Acts.
2. Employers meeting the requirements for coverage must register once when they start their business activity, must pay premiums as set by the WCBs and cannot opt out of coverage at any time (no contract renewal contemplated by the Acts).
    - WCBs have required authority to compel them to do so; and
    - Once an employer is covered in a required industry, they remain covered until they cease to operate, which can be many years in the future.
3. Individual employers transfer significant insurance risks to WCBs.
4. Employers are collectively liable for the cost of claims of employers who went out of business and of employers who did not pay their premiums.
5. Employers are also individually responsible in the sense that their rate depends on the industry they belong to and for some employers, their own cost experience.
6. Workers cannot seek coverage on their own. They must be employed by a covered employer to be covered under the Acts
7. Entitlement to benefits are triggered by a work related incident (injury or illness) and the worker is entitled to all benefits covered by the Act for life or the age set by the Act for wage loss and survivor benefits.
8. WCBs “shall” set rates annually to cover the cost of new claims expected to occur along with administrative expenses.
9. WCBs “shall” increase premiums and recover past deficits over a reasonable period.
10. WCBs have a funding policy in place and have a history of annual adjustment to rates below and above the rate required for new claims costs in a given year that spans a period of at least 20 years for many WCBs.
11. There are accepted intergenerational transfers as new employers are treated the same as renewing employers.
12. Contracts appear to have a long boundary and by definition cannot be onerous.

4. Measurement

1. Criteria

The IFRS requires the **measurement to be both unbiased and current** among other requirements. These two are the most important for purposes of this document.

2. Fulfillment Cash Flows

The fulfillment cash flows include all **expected cash inflows and outflows within the boundary of contract**. The standard requires the inclusion of estimates of future cash flows, an adjustment for the time value of money and a risk adjustment margin.

3. Risk Margin

The risk margin for non-financial risk is defined as:

> The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils **insurance contracts**.

The risks to be considered exclude all economic type risks (rate of return, inflation for WCBs). More details are provided at IFRS 17.B86 to B92. Some of the key elements to consider are the need:

- to provide users with information that reflects how much the entity is adding to its liabilities for uncertainty;
- to reflect the diversification the entity includes when assessing the risk adjustment and both favorable and unfavorable outcomes in a way that reflects the degree of risk aversion; and
- to reflect the adjustment separately.

4. Contractual Service Margin

The contractual service margin is defined as:

> A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides services under the insurance contracts in the group.

Interpretation

WCBs must measure all cash flows that are within the boundary of the insurance contract. This includes recognition of future premium inflow where the issuer can compel the policyholders to pay the required premiums it determines appropriate based on its substantive rights to do so

(IFRS 17.34 and appendix IFRS 17.B61 to IFRS17.B71). An entity is not allowed to recognize cash flows that fall outside the boundary of the insurance contract. An argument could be made that a measurement of the liabilities for remaining coverage (LRC) could be considered here. This would involve projecting future years of operations for employers expected to remain in business. Assuming the contract boundary is long and that the liabilities are equal to the assets, such an exercise would appear to be of limited value, as future outflows will be offset by future inflows.

The four items are examined together below.

WCBs are not-for-profit organizations. Therefore, there is no margin for profit ever considered in rate setting. As a result, **the CSM is clearly zero**.

Interpreting IFRS 17 for the risk margin for non-financial risk for WCBs, could be subject to debate.

1. One argument, which I favor, is that when considering potential variation of experience around the best estimate of all possible outcomes one would have to consider both favorable and unfavorable outcomes. In addition, the unalienable right to increase premiums in the future to address such variations should presumably also be considered. On that basis, it would be very reasonable to assume that the potential additional outflows would be offset by potential additional gains or inflows. Furthermore, it could reasonably be expected that entity with such an authority, would not want to overcharge now for something they are covered for via offsetting potential gains and the right to adjust future premiums, if needed.
2. It could also be argued that WCBs are subject to constant pressure for expansion of coverage, and often this affects all historical claims. Such changes have occurred and can at times result in a rapid change in financial outcomes. One could argue that a Risk Margin is required because of the wide range of potential future outcomes for certain benefits, particularly since some of the outflows extend far into the future. However, there is a very limited body of data readily available to carry out such estimates. Finally, some Boards may wish to include margins to reduce the risk of significant rate increases in the future. It is debatable whether these should be included in the fulfillment cash flows or in funding targets (capital for private insurers). One possibility is to consider a trend adjustment, which could be reported as a risk margin. Cost trends (positive or negative) can change rapidly and the actuary is often faced with the challenging task of determining whether the experience is a blip or is expected to continue for a certain period, without really knowing when it will stop and whether it will revert itself. A trend factor could be used for this purpose.

An unbiased view of the risk would allow for consideration of the right to manage the risk via premium adjustments and would likely lead to the conclusion that the risk margin is zero.

The current actuarial standards for WCBs also require an unbiased estimate of cash flows. It does allow for margins for adverse deviation, but if used these must be disclosed as such. In that respect, current practices are already aligned with IFRS requirements as it pertains to cash outflows.

5. Premium Allocation Approach (PAA)

IFRS 17

IFRS 17 allows for the use of a simplified measurement approach if certain conditions are met.

IFRS 17.53 specifies the conditions that must be met and reads as follows:

> An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the 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 requirements in paragraphs 32–52; or
>
> (b) the coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

Interpretation

WCBs issue contracts that have the potential for having variable cash flows owing to the nature of the promises made under the Acts and the period over which changes to the claim could occur. From the example given earlier, once open, a claim can lead to expenditures for any complications arising at any time in the injured workers lifetime, if such complications is deemed to be related to the work injury. This last factor alone could lead to situations where the criterion under (a) above would not be met.

In addition, the nature of the obligations of the WCBs, including its unalienable right to impose premium adjustments for prior years' experience combined with the employers obligation to remain covered effectively means that the contract is longer than one year. If that interpretation is correct, then this would fail criterion (b) above.

Based on these views, the use of PAA for WCBs would not be allowed under IFRS 17, unless one could conclude or presume that the contract boundary is one year.

6. Reinsurance

IFRS 17

IFRS 17 provides standards on how to measure the impact of reinsurance on an entity's financial operations.

Interpretation

WCBs do not currently use reinsurance for any element of their business. There has been at least one instance in the past where an employer for a large project obtained reinsurance to cover its obligations to a WCB. However, the WCB was not party to this arrangement. Furthermore, there is no indication at this time of WCBs looking into reinsurance.

As a result, at this time, reinsurance aspects of IFRS 17 are not applicable to WCBs.

7. Modification and Derecognition

IFRS 17

IFRS 17 provides standards on how to address modifications to insurance contracts and on how to address derecognition in situations where a block of business is extinguished. IFRs 17.72 defines the conditions for a change to be considered a modification for purposes of IFRS 17. IFRS 17.74 defines when a derecognition applies.

Interpretation

Insurance contracts issued by WCBs are modified from time to time when a Government makes changes to an Act. Some of these modifications could have retroactive implications. The cost impact of such changes (positive or negative) are reflected in future premium rate adjustments and its business as usual after that. However, of the many modification made in some jurisdictions in recent years, none had the effect of modifying the insurance contract to the extent required under the definition of Modification under IFRS 17.72.

There has never been any situations where derecognition would have applied. Some WCBs have considered, and at least one implemented, a special arrangement for large projects. While the contract with a large project employer specified the amount the large employer would be required to pay in premiums while the project was ongoing and the settlement at the end of the project, all of the financial transactions associated with the project were absorbed in the operations of the WCB. As such, while this situation may have passed the first test for derecognition, it would not have met the conditions listed in IFRS 17.72.

As a result, neither of these situations are relevant to the WCBs measurement process at this time.

8. Application of IFRS 17 to WCBs in Canada

The purpose of this section is to capture the conclusions reached earlier in this document and explain how they would impact the WCBs. The focus here is solely on the balance sheet.

Discount Rate

The discount rate is discussed as part of this section because IFRS 17 is clear that the discount rate has to be current and low risk. Furthermore, the actual methodology to determine the discount rate is the subject of actuarial educational notes that are in the process of being developed.

Currently, the discount rate for WCBs is an average long term best estimate rate of return for a diversified portfolio of investments. IFRS 17 requires a market-based discount rate adjusted for illiquidity of contracts. This element on a standalone basis is the most significant difference between current measurement practice and the measurement practice required under IFRS 17.

The discussion that follows is not related to the technique for determining a discount rate under IFRS 17. Instead the focus is on the application of IFRS 17, including the discount rate requirements, based on the findings presented in this document.

Summary Nature of WCBs Business

WCBs operate a self-correcting insurance contract (model probably more appropriate than contract) that has the following features for purposes of IFRS 17:

Issuer: Workers Compensation Board

Insurance Contract: Workers Compensation Act and Regulations, in two groups of contracts (premium paying and self-insured, as the terms for premium payment are different)

Policyholder: Each employer based on requirement to register and transfer of substantial individual risk to WCBs

Payments: Injured workers of covered employers and service providers, whether the employer has registered or not.

Aggregation: Premium paying employers, Self-Insured employers and GECA

(no cross subsidy among these groups- treat as three separate groups of contracts on the basis of funding requirements and obligations under the WCA)

Service or Insurance: Premium paying employers – insurance

Self-Insured employers – insurance or service depending on who is liable for benefits to injured workers as specified in the WCA

GECA – Administrative services only

Onerous: Not onerous as a net outflow is impossible as per the Act (WCB must charge the cost of the system to employers collectively with new employers assuming premium payment responsibility on same basis as all previously registered employers)

Contract Boundary: Long as per the right of WCBs to make future premium adjustments for past deficits, ability to compel the policyholder to pay and obligation to continue to provide services to policyholders combined with the policyholders obligation to remain covered.

Application of IFRS 17

IFRS 17 focuses on the terms of each group of contracts and requires that fulfillment cash flows be measured on a best estimate basis. Fulfilment cash flows include benefit payouts, administration expenses attributable to the contract and future premiums including adjustments to premiums for past coverage where the issuer has an unalienable right to adjust either coverage or premiums in the future.

WCBs in Canada were set up in each jurisdiction (currently 12 WCBs) over a period ranging from 1914 to the 1970s. They all follow the Meredith principles established by Sir William Meredith in 1913, who was asked to review the concerns that the private tort liability system was not providing injured workers with a fair opportunity to be compensated adequately for injuries (and illnesses) suffered in the workplace. Parties to these systems often refer to the historical compromise where workers gave up their right to sue their employer in the event of a work related injury or illness in exchange for employers to fund a multi-party system of workers compensation operated by an Independent Board operating at arms length from government. Naturally, there has been considerable evolution with these systems, but the Meredith Principles are still adhered to today.

WCBs have the duty and authority under the Acts that created them to collect sufficient premiums from employers to ensure the systems can continue to operate on a sound financial basis over the long term. All WCBs have a funding policy, which guides them as to the level and timing of premium adjustments. All of these policies use a going concern measurement basis. All WCBs operate a diversified portfolio of assets, developed to balance risk and return and with the belief that the expected additional returns over the long term will assist in supporting the benefits defined under the Acts, at a premium rate that is deemed fair and affordable over time. When experience deviates from expected, adjustments are made to the premiums in both directions. The history supports this mode of operation.

There is no solvency requirements, nor has there ever been a closure. In addition, none is expected in the long term future on a best estimate basis. These systems have demonstrated a strong resilience and an ability to adapt to a changing socio-economic environment. These systems operate on a not-for-profit basis.

A simple characterization of the reported obligation (i.e., liabilities) on the financial statements could be characterized as follows:

Obligations = PV of benefit and expense outflows + Risk Margin + CSM – PV of Inflows

The **remaining capital or funding position would be the Assets minus the Obligations** (simplified here to remove other items measured such as receivables, payables etc.).

For WCBs, there is clearly no CSM as they operate on a not-for-profit basis. It is also debatable as to whether there can be a Risk Margin as defined under IFRS 17. For purposes of the discussion below, I have set it at zero.

Under IFRS 17, the measurement of cash outflows for benefits and expenses are defined, at least in principle, and the current practices of WCBs in Canada, other than those who use margins for adverse deviations, are in my view well aligned with the requirements of IFRS 17. WCBs use best estimate assumptions to project required cash flows based on past experience and future expectations (including a provision for expenses and accrued exposure to long latency occupational diseases). The methods employed vary by benefit types. They include loss-development, annuity cash flow projections, an approach similar to case type estimates and probability distributions of cash flows based on expected duration of claims.

Assets are valued at market value and are known at the measurement date. No change required for these items under IFRS 17.

From the analysis presented in this document, it is clear that the WCBs have an unalienable right (and duty) under the insurance contract (i.e., Acts) to adjust future premiums to offset the deviations in actual versus expected costs of prior year claims. It is also clear that they have an obligation to provide services for a very long period to employer of insurance coverage and to workers in respect of claims. Finally, employers are also bound by the Acts to register and remain covered until they cease their business activity. This was taken to that the contract boundary is far enough in the future to produce material amounts for the present value of future premium adjustments for prior year claims. Under IFRS 17, and assuming the earlier conclusion is correct, WCBs must consider the present value of future premium adjustments in determining the amount of the Obligations to appear on their balance sheets. This could give rise to consideration of alternative methodologies to be used to measure the present value of future premium adjustments.

For purposes of this document, I comment on three alternatives that could be considered with respect to the application of IFRS 17 to WCBs in Canada. All of these are based on the assumption that earlier conclusions are correct as it relates to the contract boundary. Each of these is examined separately below. The last two alternatives go outside the content of IFRS 17. One adds actuarial standards and the other combines actuarial standards and presentation of results. The three alternatives examined here are addressed in the form of questions and are as follows:

1. What are the implications of a **strict application of IFRS 17**?
2. Should there be an **actuarial standard** limiting the fulfillment cash flows as it relates to future premium adjustments?

3. Is there an alternative approach to the **balance sheet presentation** that would preserve the principles underlying IFRS 17 but be adapted to the reality of workers compensation systems in Canada?

There may be other alternatives that could be considered. The list above represents the alternatives that I thought were more relevant to the nature of WCBs in Canada. Other actuaries, or accountants, may have other views on the matter which could be equally or more valid. My expertise is actuarial and WCBs, not accounting or private insurance.

I also refer to IFRS 17.IN4 as a basis to assess whether each of the options below, meet the reasons underlying the development of IFRS 17 in the first place. This is reproduced below for convenience. The highlights are mine to focus attention on key elements.

Reasons for issuing the Standard

IN4 The previous IFRS Standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. The **differences in accounting treatment across jurisdictions and products made it difficult for investors and analysts to understand and compare insurers' results**. Most stakeholders, including insurers, agreed on **the need for a common global insurance accounting standard** even though opinions varied as to what it should be. Long-term and complex insurance risks are difficult to reflect in the measurement of insurance contracts. In addition, insurance contracts are not typically traded in markets and may include a significant investment component, posing further measurement challenges. Some previous insurance accounting practices permitted under IFRS 4 did not adequately reflect the true underlying financial positions or the financial performance of these insurance contracts. To address these issues, the International Accounting Standards Board (the Board) undertook a project to make **insurers' financial statements more useful and insurance accounting practices consistent across jurisdictions**.

It seems that comparability of results, consistency in measurement and usefulness of presentation are key underpinnings of IFRS 17. In that context, the application of IFRS 17 to WCBs, who issue unique insurance contracts, should also consider these three objectives.

Each of the alternatives presented in this document are discussed separately below. Option 2 imposes an actuarial restriction on the amount that could be considered as the present value of future premium adjustments. Option 3 introduces a further adjustment by suggesting a way to present results in the balance sheet.

1. Strict Application of IFRS 17

A strict application of IFRS 17 leads to the conclusion that WCBs liabilities equal assets at all times because any unfunded liability would be offset by the present value of future premiums or adjustment to benefits, the timing of which could be highly variable. This would apply to all groups of insurance contracts.

In the case of self-insured employers, the Obligation would be zero as there are no assets backing these benefits. Instead, self-insured employers pay the claim on a pay as you go basis. There may be a small amount on deposit for cash flow management purposes, but other than that everything is paid when owed on a cash basis. On a best estimate basis these cash flows

would be expected to net out to zero. There may be a credit risk to consider with respect to self-insured accounts since the WCB would rely on the related employers ability to pay. Where the Act absolves the WCBs of any liability with respect to self-insured employers, this may be irrelevant.

For premium paying employers, a strict application of the rules, would lead to the Obligation equal to the Assets, at all times, because it would be expected that the premium adjustments over the long term would lead to that result. Calculating a present value of future premium adjustments almost becomes irrelevant because one would always get to an amount that offsets the difference between cash flows from assets and cash flows from premium adjustments.

While having all WCBs showing their obligation equal to assets would make the measurement very consistent, the results would not necessarily be comparable (higher relative assets lead to higher relative obligations and vice versa) nor would they prove particularly useful for assessing the financial position of the WCBs, or the premium rates they should be charging.

From my perspective, strict application of IFRS 17, while supported by the principles underlying IFRS 17, would not lead to a valuable exercise in terms of informing the readers of the financial performance of WCBs. It could also lead to unintended consequences via deferral of required rate action: positive (hold huge surplus which are then used to improve benefits beyond initial intent under tort), or negative (build huge deficits requiring benefit cuts to levels below initial intent under tort). In the long run, some potential scenarios are that:

- the readers would no longer pay attention to the financial statements because the answer is known in advance, except in circumstances where one party may want to convince a government to act in a certain direction, as it could have limited reported financial consequences;
- the WCBs may need to present two sets of financial statements, one for satisfaction of IFRS 17 and one to support operational decision making, or
- the WCBs decide to adjust the investment and rate setting strategy to an IFRS like environment with huge consequences for the workers compensation systems as we know them today.

Given this outcome, the other two alternatives discussed below are intended to address the concerns raised above.

2. Actuarial Standards

We noted above, some of the potential challenges with a strict application of IFRS 17. Assuming the interpretation of IFRS 17 for WCBs above is correct, as presented in this document to this point; two questions arise from an actuarial perspective:

1. What actuarial methodology and assumptions should be used to calculate the present value of future premium adjustments (positive or negative) for prior year claims?
2. Should there be a limit as to what actuaries should consider as a best estimate of the present value of future premium adjustments (positive or negative) for prior year claims?

To answer these questions, it may be useful to consider how WCBs establish premium rates and consider the potential implications of their premium rate setting process on the potential need for actuarial standards that, combined with IFRS 17, lead to an outcome that meets both accounting and funding goals.

Background

All WCBs operate under a funding policy (most are explicit in the form of a published policy document, and some are imbedded partly or fully in the legislation that establishes the system). Typically, the funding policies define the measurement basis as going concern valuation of the liabilities. They also establish triggers and targets for rate rebates or surcharges, as and when required. In effect, and setting aside claims experience, WCBs expect to achieve a best estimate rate of return on their diversified portfolios. The decision to adopt a diversified investment approach is a conscious one, based on extensive analysis of potential outcomes for different alternative asset mixes and sensitivity tests (stochastic modelling with stress tests) and the risk tolerance of the WCBs Boards of Directors.

WCBs use a disciplined approach to maintaining the sustainability of the system on a going concern basis and there is a rich history to support this fact (rebates, surcharges, benefit changes, policy changes etc.). Whenever something gets out of hand in one direction or the other, something is done about it.

Now for the discussion on the measurement of the premiums component of the formula above. Both IFRS17.34 and IFRS 17.B64 refer **to practical ability to reassess risks or reset the price**. It may not be practical to assume that the price would be set at the level that would make WCBs 100% funded at all times under IFRS 17.

It is unlikely, that WCBs would be expected to set prices that would support that result at all times. However, WCBs will react in their pricing if the assumed going concern rate of return is not earned in the future. This is an important element in the determination of future adjustments to premiums and merits some consideration. Furthermore, WCBs operate as a long term going concern entity. They are not subject to regulatory financial supervision, are not-for-profit and are not required or expected to hold capital and do not face a risk of closure anytime in the future.

Finally, history demonstrates the adaptability of these systems to a changing work environment and the ups and downs of economic cycles. Some WCBs have operated with large unfunded liabilities on a going concern basis for a long time, but benefits continued to be paid. Benefit adjustments have been made in both directions in some WCBS to address changing needs or costs. These systems are ever evolving and have imbedded mechanisms, such as statutory reviews, to keep them in reasonable balance over time, but not necessarily at every measurement date.

Actuarial Methodology and Assumptions?

Developing an appropriate methodology and acceptable underlying assumptions is very challenging in this case. The WCBs use going concern financial results to determine the timing and level of premium rate adjustments in both directions. This calculation is performed annually. There is no set schedule that one could rely on to develop premium increase assumptions. In

fact, there is an almost infinite set of possible future outcomes. It is not realistic to consider all of these, although some of the stochastic modelling would provide answers as it relates to the impact of investment returns, inflation and payroll growth. In any event, other than to illustrate the validity of the limit discussed below, the exercise likely would have no meaningful purpose.

Limit?

Limits would make sense because history tells us that while there is no hard and fast number, when the premiums exceed a certain level, there usually is some adjustment made to change the cost structure to arrive at a level that the WCBs workers and employers accept as more appropriate. For example, if in order to get to a result where Obligations = Assets the rate increase required is say 150% of premiums (i.e., 2.5 times current premiums). Is it realistic to consider such an increase in the relatively short term, if at all? While there are historical circumstances where this has happened, they could conceivably be deemed unrealistic by informed readers.

Furthermore, under the current funding policies, WCBs use going concern results (essentially a going concern best estimate discount rate with the same fulfillment cash outflows as under IFRS 17). Given this, it would seem reasonable to at least consider a target funding level of 100% on a going concern basis, for purposes of estimating the present value of future premium adjustments. WCBs are setting their premium rates based on a certain best estimate return on their assets. If these returns are not realized, rate increases are expected to occur, and vice versa. In that context, would it be reasonable to assume that premium adjustments would go beyond that contemplated by their own funding policies?

For purposes of this document and the state at which IFRS 17 implementation discussion are at this stage, I believe it would be realistic to consider the present value of future premium adjustment as the difference between the present value of fulfillment outflows using the IFRS 17 discount rate and the same value using a going concern discount rate.

The advantage of this proposed approach is that it is simple, it respects the principles of IFRS 17 subject to an actuarial limit and allows for the presentation of financial statements that would be meaningful to the readers. Such an approach, while not necessarily leading to full disclosure of all the components, would achieve the goals of comparability, consistency and usefulness.

Some thought would be required to how this would be presented in the financial statements, which leads to the alternative below.

Financial Statement Presentation

One of the main objectives of IFRS 17 is to enhance comparability of financial statements for different entities accepting significant insurance risk. Furthermore, private insurers achieve their security via a combination of a prudent assessment of the value of the promises made and sufficient capital to absorb the inevitable swings that markets cause.

I also believe there is value to the readers of the WBCs' financial statements to gain an appreciation of the value that the WCBs structure provides relative to private insurance by presenting a balance sheet that reflects those two goals.

Considering these concepts, it may be possible to combine 1 and 2 above by allowing for presentation of the present value of future premium adjustment as a credit (or charge) to the capital account of WCBs, leaving the balance in the capital account as the true measure of the funding position for these organisations. This would also serve as an important buffer against the volatility that will arise from a measurement basis that is not aligned with the funding basis (long-term view with diversified assets versus market consistent discount rates).

This approach meets all of the objectives of IFRS 17 and provides full disclosure of all relevant items to assess the financial position of WCBs. However, given my lack of expertise in these matters, it is conceivable that the proposed approach would fail other important accounting principles.

A simplified balance sheet for the three options above is presented in the table below.

Balance sheet Illustration			
Items	**1. Strict Application of IFRS 17**	**2. Overlay of Actuarial Standards**	**3. Financial Statement Presentation**
Assets	$ 1,451	$ 1,451	$ 1,451
Liabilities	$ 1,451	$ 1,423	$ 1,864
Capital account			
Policyholder obligation	$ 0	$ 0	$ (441)
Net capital	$ 0	$ 28	$ 28

A summary of my assessment of each approach relative to the objectives stated above is provided in the table below.

Balance sheet Illustration			
Objective	**1. Strict Application of IFRS 17**	**2. Overlay of Actuarial Standards**	**3. Financial Statement Presentation**
Comparability	Yes	Yes	Yes, with more details
Consistency	Yes/No	Yes	Yes
Usefulness	No	Yes	Yes, with more details

Of course, there would be income statement and disclosure requirements to consider. There was no point for me to go beyond this at this time, first and foremost, because it is outside my area of expertise, and also because the two alternatives presented above may not be acceptable to the accounting profession.

Please consider this document as a humble attempt to try to align WCBs practice and operational underpinnings to the requirements of IFRS 17.

APPENDIX 1

Do WCBs in Canada accept significant Insurance Risk?

The questions as to whether WCBs accept significant insurance risk merits a review. We need to first define "significant insurance risk" for purposes of IFRS 17 and then assess whether the WCBs qualify under that definition. I doubt there is a clear-cut and unassailable answer to this last point but revisiting the issue if only to arrive at the same conclusion is a worthwhile exercise.

What is the definition of "significant insurance risk" under IFRS 17?

Appendix B of IFRS 17 provides definitions of **insurance risk** from B7 to B16 and **significant insurance risk** from B18 to B23. Paragraphs B26 to B30 are also relevant as they provide examples of insurance contracts. Only the paragraphs, or portions thereof, deemed relevant to this discussion have been copied below.

B7 The definition of an insurance contract requires that one party accepts significant insurance risk from another party. IFRS 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.

B11 Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.

B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. …..

B16 An entity can accept significant insurance risk from the policyholder only if the entity is separate from the policyholder. In the case of a mutual entity, the mutual entity accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

B17 A contract is an insurance contract only if it transfers significant insurance risk……

B18 Insurance risk is significant if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance (i.e. no discernible effect on the economics of the transaction)……

B19 In addition, a contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis……

B22 An entity shall assess the significance of insurance risk contract by contract. Consequently, the insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.

B26 The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:

(a) ……

(b) insurance against product liability, professional liability, civil liability or legal expenses.

(c) life insurance ……

(d) life-contingent annuities and pensions, …..

(e) insurance against disability and medical costs.

(f) ……

B27 The following are examples of items that are not insurance contracts:

(a) ….

(b) contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses. …..

(c) self-insurance (i.e. retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. …

(d) ……

B28 An entity shall apply other applicable Standards, such as IFRS 9 and IFRS 15, to the contracts described in paragraph B27.

Do WCBs accept significant insurance risk?

There are several factors to consider here.

Some aspects would support the notion that they do so while others point in the other direction. In the end, someone with authority will need to weigh these factors to determine if the substance of the arrangement leads to accepting significant insurance risk. The most relevant factors are presented in the Table 8.1 below. This table is dependent on earlier conclusions on issuer, policyholder etc.

Factors to consider in the determination of whether WCBs accept significant risk or not?

Factor	Accepts - Yes	Accepts - No
WCBs absolve individual employers of the significant financial risk an individual employer would otherwise be subject to from lawsuits from its workers under Tort.	Yes. See IFRS 17. 11, B18 and B19	
WCBs operate under an Act of a legislature that defines the benefits to be paid to workers for injuries and illnesses arising from a workplace incident or exposure and requires employers to pay premiums to fund the system	Yes. See IFRS 17.B12	
WCBs are separate entities from the policyholder, as defined in this document.	Yes. See IFRS 17.B16	

Factor	Accepts - Yes	Accepts - No
Employers are collectively liable to fund the system.		No. See IFRS 17.B17. WCBs manages the system but funding source are employers collectively.
Individual employers must register with WCBs and do transfer insurance risk to the WCBs	Yes	
WCBs offer life, disability and health insurance benefits to injured workers, and operate the claims functions in a manner similar to private insurers offering similar benefits.	Yes. See IFRS 17.B26	
WCBs have an unalienable right to charge the required amounts to fund the system under the Act. As a result, they effectively do not take the risk; they only provide orderly management of the funding of the risk on behalf of all employers collectively.	Yes if you view each employer as a policyholder. Risk is transferred to WCBs who then can charge for shortfalls.	No if you view employers collectively as one policyholder. See IFRS 17.B27 (b)

There is no doubt that funding the benefits provided by WCBs carries risks that are similar to those under many other types of insurance contracts. Several of the factors support a conclusion that WCBs accept significant financial risk. However, the structure of WCBs also contain factors that would not meet the definitions of accepting significant insurance risk under IFRS 17. The most important is the fact that WCBs have a statutory obligation to manage the system and an unalienable right to adjust premiums in the future for experience on prior year claims. Assuming employers collectively are the policyholder, this feature implies that WCBs fit under IFRS 17.B27(b) and this would exclude them from meeting the requirement of IFRS 17. What is unclear to me is whether the exclusion has more weight than the factors that support inclusion (i.e., do exclusions under IFRS 17.B27 override inclusions under IFRS 17.B26 and other parts of the standard?).

Another possibility is that each employer is a policyholder which would tilt the balance to making WCBs subject to IFRS 17 because the policyholder transfers significant insurance risk to the WCBs.

Furthermore, if employers collectively are the policyholder, then IFRS 17.B28 points to the need to use IFRS 9 or IFRS 15 if WCBs are excluded from IFRS 17. I have not yet reviewed these standards and cannot attest as to whether they would be better or worse in terms of allowing for a fair and meaningful presentation of WCBs financial statements to the readers.

There may be a need to review whether the WCBs would fit under captive or mutual insurance. <u>While there may be similarities between WCBs, captives or mutual, I do not believe WCBs fit into those arrangements.</u> Captives and mutuals have owners who benefit from the profits generated by the entity, or suffer from the losses. Employers may fit the definition of policyholders but they clearly do not own the WCBs.