

IFRS17

The AAE has provided comments to EFRAG on its proposed comments relating to the proposed IASB amendments. The AAE input is broadly supportive of the changes, but notes that:

- The proposed changes do not act to reduce the complexity of the Standard
- The AAE does not consider there to be a need for definition of insurance contract renewals
- More clarity is needed in relation to definition of investment services and investment services costs
- The annual cohort requirement may require to be revisited in certain circumstances
- The AAE does not support the separate presentation of the premium receivable, on the basis that premium receivable is not defined and is not cash flow based
- The AAE does not support the IASB's tentative decision not to amend IFRS 17 for the contract boundary of reinsurance contracts held, primarily on the basis of the asymmetry of cedant and reinsurer rights and obligations

The AAE intends to continue to contribute to EFRAG's considerations with technical insight and analysis.

The AAE has also reviewed EIOPA's analysis of IFRS17, particularly as it relates to Solvency II. EIOPA's objective from this part of the analysis was to conclude on potential efficiency gains in the implementation of IFRS17 by European insurers which could be derived from Solvency II inputs and approaches. The AAE considers that the analysis from EIOPA is to some extent too high level to deliver sufficient insight on the objectives.

The review looked at a number of key areas covered in the EIOPA analysis, performing a detailed analysis of the requirements and definitions of Solvency II and IFRS 17 in order to validate the high level conclusions provided by EIOPA. Review findings were as follows:

- *Definition of cash flows.* AAE considers that there are likely to be differences in treatment of costs between Solvency II and IFRS17. Ambiguity in definitions of expenses is likely to lead to different approaches in establishing expenses which are directly attributable to insurance portfolio.
- *Grouping and aggregation of contracts and contract boundaries.* AAE considers that differences in requirements relating to aggregation, initial recognition of liabilities and contract boundaries may lead to different outcomes.
- *Determination of the appropriate discount rate.* Specific or general differences could emerge between the frameworks arising from the potential under IFRS17 for product specific adjustments. the possible need for multiple discount rates, and potential differences relating to UFR and LLP.
- *Risk adjustment.* There are a number of elements under IFRS17 which could lead to differences in the IFRS17 risk adjustment from the Solvency II risk margin.
- *Reinsurance.* The AAE considers that, with the change to the treatment of reinsurance included in the recent IASB release, there is likely to be a high and appropriate level of consistency in both IFRS17 and SII between direct insurance contracts and proportionate reinsurance contracts.

The AAE will monitor and provide commentary on differences in emerging approach between the two frameworks as the implementation of IFRS17 continues.

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