

IFRS17

The Actuarial Association of Europe (AAE) welcomes many aspects of the new regime including its market consistency, allowance for risk, greater anticipated consistency and comparability across the accounts of different insurers and reinsurers, and release of profits in line with the underlying earnings profile. The AAE however recognises many complexities in the new regime and calls for a prominent role for qualified actuaries in undertakings required to comply with IFRS 17.

The AAE presented its views, as collated from a comprehensive survey of its Member Associations, at a meeting with the EFRAG Board earlier in the year. Concerns expressed by the AAE were as follows:

- The inconsistent treatment of direct insurance and reinsurance in the accounts of reinsurers;
- The complexity of the regime; and
- The level of interpretations required to be made across many different elements of the standard which could put the aims of consistency and comparability at risk.

The AAE intends to contribute to the ongoing development and implementation of IFRS17 by:

- responding to technical issues raised by EFRAG
- providing actuarial input to the up-coming exposure process from IASB
- responding to the implementation analysis of EIOPA
- producing an educational note to support European actuaries in their work on IFRS17
- reaching out to affected organisations, e.g. Accountancy Europe, to share views and potentially cooperate on technical points.

We recognise that, of the 25 concerns raised by industry about IFRS 17, it is expected that the IASB focus will be on 6 issues where amendment to the standard is considered most likely, i.e.

- Scope of IFRS 17 for loans
- Acquisition cash flows for renewals outside the contract boundary
- CSM: coverage units in the general model
- Reinsurance contracts held: initial recognition when underlying contracts are onerous
- Separate presentation of groups of assets and liabilities
- Transition: Modified Retrospective Approach

There are also significant issues in the other 19 topics, many of which relate to issues of potential inconsistency or complexity, e.g. level of aggregation, discount rates, risk adjustment. We would urge that these issues not be forgotten about as IASB continues its work.

We recognise that one way of securing a more harmonised approach is to use standardised methodologies and actuarial principles in assessing the value of insurance contracts. We consider that the actuary is central to the preparation of IFRS17 accounts and should be required to have a statutory role in preparing and auditing accounts under the new standard.

1. Obligations on the actuary in the company:

In our view, in order to allow the management of the insurer to have the necessary insight and understanding of the work of the actuary in relation to IFRS 17, the actuary who is responsible for the work should be required to prepare an internal report to the management of the insurer covering at least the applied methodology, the assumptions used, the data used, identification of the judgments applied, and the results including their sensitivities.

2. Obligations on the actuary at the auditor:

Further, in making judgements and drawing conclusions in order to perform audits of financial statements prepared under IFRS17, the auditor should be required to have a report prepared by the auditor's actuarial expert in order to ensure that the nature and complexity of the actuarial contribution to the audit work is fully reflected. This report should reflect the auditor's requirements and should cover at least the areas mentioned in 1 above.

The actuaries in 1 and 2 above should in our view be required to meet fit and proper requirements, e.g. as per Solvency II Directive, Article 42.

In our view, such reporting and sign-off would enhance the credibility of the audit opinion on financial statements of insurers prepared under IFRS 17 and contribute to the public good as well as providing support for the work of the supervisor. They would also increase quality and consistency in the reporting and thereby mitigate some of the concerns raised by European regulators.

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