actuarial association of europe

ACTUARIAL ASSOCIATION OF EUROPE
ASSOCIATION ACTUARIELLE EUROPÉENNE

1 PLACE DU SAMEDI
B-1000 BRUSSELS, BELGIUM
(+32) 2 201 60 21
INFO@ACTUARY.EU
WWW.ACTUARY.EU

9 September 2019

SUMMARY OF COMMENTS ON EIOPA'S ANALYSIS OF IFRS 17 INSURANCE CONTRACTS

Today, the AAE has published a review of 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 agrees with the objective and the need for additional analysis on this aspect, and observes that the EIOPA paper is of good quality and there are a lot of similarities between both Solvency II and IFRS 17 valuation frameworks, but considers that the analysis from EIOPA is to some extent too high level to deliver sufficient insight on the objectives.

The comments provided by the AAE in its paper do not aim to deliver more conclusive evaluations. The purpose is rather to highlight the necessary judgements an insurance entity is required to make in order to decide on the extent to which its Solvency II inputs, approaches, and processes are suitable for IFRS 17 reporting.

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. Differences may also emerge in relation to reinsurance, acquisition costs and costs related to contracts which are not classified as insurance contracts.
- *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 and the possible need for multiple discount rates. IFRS17 is also not definitive in relation to UFR definition and guidelines on how to apply discount rates beyond the last liquid point.
- *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. These include the requirement to present the confidence level applying to the IFRS17 risk adjustment, the gross of reinsurance and ceded framework under IFRS 17 and the exclusion of operational and reinsurance counterparty risk in IFRS17.
- *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 reinsurance contracts held which are on a proportionate basis at least for direct insurers.

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

Contact:

Monique Schuilenburg, Executive Assistant, AAE moniques@actuary.eu **Twitter: @InfoAAE**
Esko Kivisaari, Chairperson, AAE esko.kivisaari@financefinland.fi **Twitter: @EskoKivisaari**
