ASTIN | IAA NON-LIFE INSURANCE SECTION
SECTIONS ASSURANCE NON-VIE DE L'AAI

TERMS OF REFERENCE

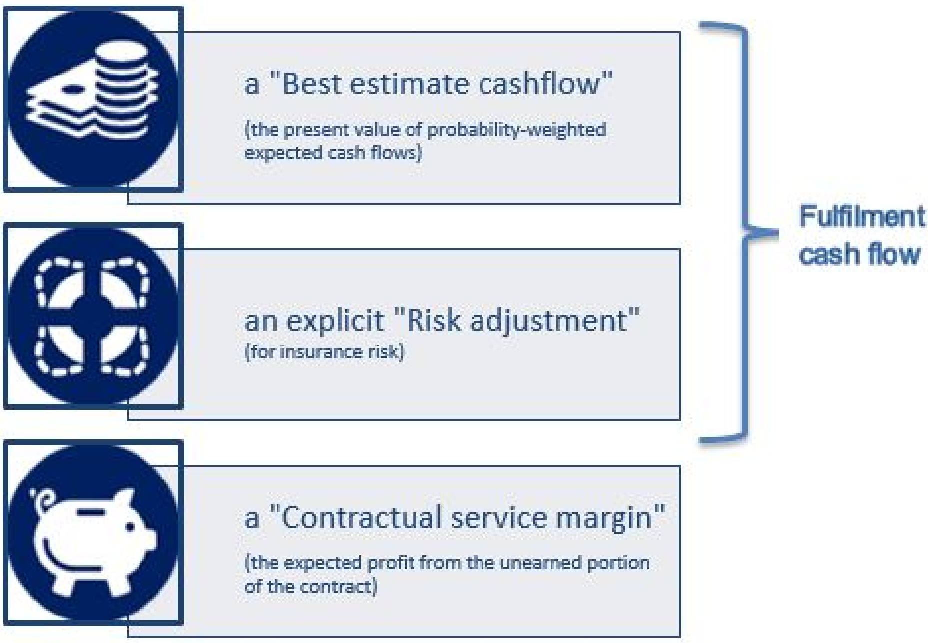
ASTIN WORKING PARTY ON "THE PAA UNDER IFRS17"

Author: Kirsten Sasady

Background

The IASB has recently published the accounting standard for insurance contracts, IFRS 17, which will come into effect on 1st January 2021. The standard brings significant changes to the recognition and valuation of insurance contracts. It will not only influence general insurers' operations, but also introduce changes to the presentation of results in the financial statements and potentially even affect the financial results themselves.

Under IFRS17 liabilities are calculated using "The general measurement model" known as the building block approach (BBA), where all (re)insurance contracts are measured as the sum of:



Under this approach, the contractual service margin (CSM) is amortised and profits are recognised over the coverage period of the contract, whereas losses from onerous contracts will be recognised immediately. Any future profit or loss from the run-off of the liabilities will flow directly through into the income statement at the end of the coverage period.

There is however a simpler alternative to the BBA known as the “Premium allocation approach” (PAA), which is interesting especially for general insurers. This simplification can only be used for unexpired risks (the incurred claims liabilities must still follow the BBA model) and only for contracts, where

“THE PERIOD OF COVER IS ONE YEAR OR LESS, OR WHERE THE MEASUREMENT OF THE LIABILITY FOR REMAINING COVERAGE WOULD NOT DIFFER MATERIALLY FROM THAT ESTIMATED USING THE BBA”

The standard specifies, that the latter requirement is not met, if a significant variability in the fulfilment cash flows during the period before a claim is incurred is expected (and as a default this is believed to increase with the length of coverage period of the contract). Companies who wish to use the PAA approach has to justify the usage and agree on the appropriateness of it with their auditors.

Under the PAA approach no CSM is required, since the “liability for the remaining coverage” is measured as the premiums received less associated acquisition costs. The liability for the remaining coverage is then updated continuously to reflect the profit that has been recognised in the income statement (i.e. premium earned over the period). As in the BBA, losses from non-profitable contracts must be recognised immediately at inception and future profit or loss from the run-off of the liabilities will end up directly in the income statement after the end of the coverage period.

Specific Aims

The aim of the ASTIN Working Party on “PAA under IFRS17” is determine when and how general insurers can use the simplified premium allocation approach to measure their liabilities for unexpired risks. This will be done with practitioners in mind and the intention is to arrive at simple, easy-to-use guidelines for the use of PAA.

Timeline / Milestones

1. 15th October – 15th November 2017:
   Recruit volunteer ASTIN Working Party members. The candidates are kindly requested to send an email with a short resume to the following address: PAA_IFRS17@actuaries.org.

2. 15th November – 1st December 2017:
   Agree on relevant studying for group members and distribute it between each other.

3. 1st December 2017 – 15th January 2018:
   Self-study of the material + develop initial ideas for the next stage.

4. 15th January – 1st April 2018:
   Work together to define main areas to cover and start writing subsections.

5. 1st April – 1st May 2018:
   Assemble subsections into a coherent report.

6. June 2018:
   Presentation at the ICA in Berlin.

ASTIN Working Party Members

PAA_IFRS17 Champion: Ms Kirsten Sasady
For more information, please feel free to contact him at kir@pwc.dk.

Other volunteers for contributing to any of the above tasks are kindly requested to send an email with a short resume to the following address: PAA_IFRS17@actuaries.org.