Comments on Risk Adjustment Monograph IAA
IFRS 17 working group, Dutch Actuarial Association
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1. Technical Content. The monograph contains detail of the techniques and approaches used in quantifying risk adjustments, based on current practices around the world and the authors' understanding of the future IFRS requirements.
a. Is the breadth and depth of detail appropriate for the monograph?

We think more attention could be paid to the difference between the claims reserves and the premiums reserves. We would also welcome an example for unexpired risks in Chapter 10.

2. Qualitative Approaches. Although qualitative approaches are covered by the monograph in Chapter 5) the coverage is relatively light. The monograph is mainly focused on reflecting "established practice" and it is thought that qualitative approaches to risk adjustment are often used. Is this position appropriate for the Monograph?
(Note: The IAA is also planning the provision of guidance through a separate International Actuarial Note (IAN) on Risk Adjustment)

The topic of allocating diversification benefits to individual LOBs is discussed briefly. Other methods could be used as well (using e.g. marginal sensitivities of the total RA to a change of the RA of an individual LOB). This is important because the diversification causes P&L effects on the level of LOBs. Also the attribution of diversification benefits to new business is a difficult topic that deserves attention.

3. Risk Mitigation. The chapter on risk mitigation (Chapter 6) is focused on the special financial reporting requirements for outgoing (ceded) reinsurance transactions. Other risk mitigation approaches are not discussed in detail. Such other risk mitigation features generally directly affect the fulfillment cash flows arising from insurance contracts. Should the monograph include greater details regarding how other risk mitigation techniques are taken into account (e.g., participation features, premium adjustments) or is the current scope of this chapter sufficient for educational purposes?

We would welcome some attention for non-traditional risk mitigation approaches such as longevity swaps and catastrophe bonds.

4. Balance of Different Approaches. The monograph relies heavily on actions taken to support the Cost of Capital Approach for the discussions of Validation (Chapter 7) and Re-measurement of Risk (Chapter 8). Is this reasonable?

It is required to disclose the confidence level equivalent (CLE). The CLE results should be reliable, so we think this deserves attention.

5. Communication and Disclosure. The monograph uses a relatively narrow definition of "communication and disclosure" (see Chapter 9). Given that the focus of the monograph is on the technical concepts under IFRS, is this definition appropriate for the educational objectives of the monograph?

No comment

6. **Case Studies.** The Exposure Draft includes eight case studies that are designed to expand on and illustrate the concepts presented.

a. Do the case studies provide sufficient detail for the reader to replicate the processes illustrated?
b. Do the case studies cover a sufficient breadth of examples?
c. Are there additional techniques that should be illustrated in any of the case studies?
d. A basic participating life example is included, but the authors would like to have comments about its usefulness. The authors are interested in receiving suggestions regarding how the variable fee approach (rather than a mirroring approach) could be applied in this example. Under typical participating features for life insurance, experience for a pool of policyholders will impact the policyholders' cash flows. To the extent that the fulfillment cash flow risks are insignificant under participating contracts, should such an example simply illustrate that the risk adjustments under participating contracts could be immaterial?

a. yes b. An example for unexpired risks, in combination with the PAA, would be welcome. c. Risk mitigating techniques could also be worked out in Chapter 10. d. no comment