

# **Key Issues Emerging from the Consultation on a Statement of Intent to Issue an International Standard of Actuarial Practice in relation to IFRS X for Insurance Contracts (ISAP [4])**

Prepared by the Insurance Accounting Task Force of the Actuarial Standards Committee (ASC) and endorsed by the ASC

28 MAY 2014

## Submission

The Insurance Accounting Task Force of the Actuarial Standards Committee (IATF) is pleased to submit this report to the Actuarial Standards Committee (ASC). It summarizes:

- Key issues arising from consultation on a draft Statement of Intent (SOI) to issue an International Standard of Actuarial Practice (ISAP) in relation to IFRS X for Insurance Contracts
- The ASC IATF's responses to those issues

We would like to record our thanks to associations and organizations commenting on the draft SOI.

## Exposure of Draft SOI

A [draft SOI](#) was exposed for comment on 18 November 2013 with a comment deadline of 28 February 2014. We received comments from 10 associations, two standard boards and 2 regulators, listed in the Appendix.

A comment template was provided to facilitate content submission and was used by 12 respondents. The survey asked three questions:

- Do you agree an ISAP is needed on actuarial services in relation to IFRS X?
- Are any of the proposed topics inappropriate for inclusion in ISAP [4]?
- What other topics should be included in ISAP [4]?

It also provided a space for additional comments. All comments received are published on the [IAA website](#).

The other two respondents addressed the same questions but through a letter format.

## Key issues arising from consultation

### **Broad support for developing a model ISAP**

A clear majority of respondents supported the development of a model ISAP on actuarial services in relation to IFRS X:

- The 10 member associations, the two regulators and one standards board were in favor although one of the member associations envisages a rather narrow scope for the ISAP (limited to data quality and system adequacy issues).
- One standards board was opposed, considering that there was not enough evidence provided for the need of a standard and favoring further work with the IASB to eliminate uncertainties and ambiguities and develop clear and consistent application guidance, instead of a separate standard for actuaries. It also expressed a view that it is the board of an insurer that needs to make a judgment and that ISAP 1 is a sufficient standard for actuaries in this practice area.

- One Member Association requested that the ISAP should comply with all IAA governance documents and make a clear statement that the ISAP will not violate the subsidiarity principle.
- One of the regulators and the one standard-setter urged the IAA to liaise with the auditing profession in relation to the proposed ISAP.

## **Principles-based**

Many respondents expressed a desire for the ISAP to stick to principles, to not extend beyond IFRS X, and to avoid prescribing methods and procedures and inadvertently restraining development of new methodologies.

Some commenters stressed the importance of facilitating convergence of actuarial practice and increasing confidence in actuarial services.

One commenter asked the ISAP not to conflict with current common or accepted practices while another one pleaded for a narrowing of the range of practice.

It was also suggested that the ISAP address the complexity concern through appropriate guidance and high level principles that would allow, for instance, for simplification or use of judgment in appropriate circumstances.

## **Urgency**

Many commenters urged the IATF to proceed diligently so that quality standards are available well in advance of the IFRS X implementation date, allowing for enough time for proper implementation, in order to avoid unintended results and implement systems and model changes in time. The desire to proceed quickly expanded also to the development of IANs both in terms of reconsidering existing IANs in relation to IFRS reporting to be aligned with the new ISAP and developing new IANs.

## **Alignment with final IFRS X standard**

It is important that the ISAP reflects the final IFRS X standard. Communication on how it is done is equally important.

## **Anticipation of interpretations and implementation challenges**

One commenter indicated that this was something that the IATF should take into consideration.

## **Suggestions on content**

Respondents provided a variety of suggestions on the content of the model ISAP.

The following general topics were raised for consideration:

- Process and model governance
- Quality and completeness of data
- Role of materiality especially from a group reporting point of view
- Trade-off between costs and benefits
- Professionalism issues; i.e., actuarial oversight, peer review, actuarial opinion, report, communication with the auditor

Others suggested special attention to topics that were already covered by the SOI:

- Clarification of the scope of the ISAP

- Clarification of the roles of the actuary working with the preparer, the auditor, and the regulator
- Tagging the knowledge requirements to parts one is responsible for
- Amount of insurance risk needed to classify as insurance
- Definition of portfolio and level of aggregation
- Contract boundaries
- Considerations related to participating contracts and any “pass-through” contracts where contract values are fully or partially related to an underlying investment return (e.g., where a mirroring approach is appropriate); definition of “participating contracts”.
- Applicability of the Premium Allocation Approach
- Onerous contracts and related CSM considerations
- Treatment of multi-currency contracts
- Special considerations for reinsurance issued, especially where data are scarce
- Changes causing CSM to un-lock and issues generated when doing so
- Definition of a claim liability vs. regular liability, for CSM purposes
- Accretion interest rate for CSM
- Determination of the discount rate when linked with the credited rates
- Determination of the discount rate when sparse information is available or even non-observable
- Measurement of amounts to be recognized or transferred to OCI
- Interpretation of disclosure requirements (only) where relevant for actuaries
- Translation of the confidence level for the risk adjustment

Throughout the responses, the IATF received comments to improve the wording or provide clarification. Although not listed here, those were noted and reflected where appropriate.

## IATF Response to Consultation

### **Responses to the high-level comments received**

The broad support from the respondents for developing ISAP [4] does provide evidence of its need. Broad support was also expressed by the members of the IAA Insurance Accounting Committee representing a substantial section of the global actuarial profession. We also understand that IASB staff sees the development of an ISAP and IANs as important in bringing consistent application of IFRS X Insurance Contracts.

In writing ISAP [4], the IATF intends to keep in mind the desire to stick to principles, to not extend beyond IFRS X and to avoid prescribing methods and procedures and inadvertently restraining development of new methodologies.

The IATF received conflicting comments regarding the need to narrow the range of practice. The IATF intends to balance the need for consistent and sound practice and the need to adapt to improvements in sound practices.

The SOI has been revised to address the complexity concern by clarifying that appropriate guidance and high level principles are intended to allow, for instance, for simplification in appropriate circumstances and use of judgment.

The IATF would like to reassure the commenters that it intends to proceed diligently to produce a high quality standard, aligned with the final IFRS X, and allow, to the extent

possible, time for proper implementation. It would also attempt to anticipate interpretations and implementation challenges.

### **Responses to the suggestions on content**

Regarding the general topics, the IATF will review the extent in which these are already covered by ISAP 1 and either add to ISAP [4] to provide for standards specific to insurance accounting or recommend to ASC to expand ISAP 1, if such standard would benefit actuaries practicing in all fields not just insurance. The professionalism issues (actuarial oversight, peer review, actuarial opinion, report, communication with the auditor) have potentially broader application than just insurance accounting and hence are being referred to ASC to be considered.

Regarding the specific topics, a number of them were already referenced within the SOI topics. They will be taken into consideration when developing the standard. Here are the sections where they belong:

- Clarification of the scope of the ISAP (Scope)
- Clarification of the roles of the actuary with preparers, auditors, and other organizations (Role section)
- Tagging the knowledge requirements to parts one is responsible for (Knowledge)
- Amount of insurance risk needed to classify as insurance (Classification of contractual obligation)
- Definition of portfolio and level of aggregation (Aggregation)
- Contract boundaries (Measurement approaches)
- Considerations related to participating contracts and any “pass-through” contracts where contract values are fully or partially related to an underlying investment return (e.g., where a mirroring approach is appropriate); definition of “participating contracts” (Measurement approaches)
- Applicability of the Premium Allocation Approach (Measurement approaches)
- Onerous contracts and related CSM considerations (Measurement approaches)
- Treatment of multi-currency contracts (Assumptions and methods)
- Special considerations for reinsurance issued, especially where data are scarce (Assumptions and methods)
- Changes causing CSM to un-lock and issues generated when doing so (Assumptions and methods)
- Definition of a claim liability vs. regular liability, for CSM purposes (Assumptions and methods)
- Accretion interest rate for CSM (Assumptions and methods)
- Determination of the discount rate when linked with the credited rates (Current interest rates)
- Determination of the discount rate when sparse information is available or even non-observable (Current interest rate)
- Measurement of amounts to be recognized or transferred to OCI (Presentation)
- Interpretation of disclosure requirements (only) where relevant for actuaries (Disclosure)
- Translation of the confidence level for the risk adjustment (Disclosure)

## Recommendation

The IATF recommends that, based on this analysis, the ASC approves the proposed final SOI and that the ASC recommends to the Executive Committee the approval of the proposed final SOI, subject to ratification by Council, to issue an International Standard of Actuarial Practice (ISAP [4]) in relation to IFRS X for Insurance Contracts, thus authorizing the ASC to develop the ISAP.

## Appendix – Respondents to the Draft SOI

<b>Association/Organisation</b>	<b>Name of person completing response</b>	<b>e-mail address</b>
Deutsche Aktuarvereinigung (Germany)	Brigit Kaiser	international@aktuar.de
Casualty Actuarial Society	Cynthia Ziegler	ctieglcr@casact.org
Society of Actuaries in Ireland	Yvonne Lynch	Yvonne.Lynch@actuaries.ie
Hungarian Actuarial Society	Gabor Borza	"Borza Gábor" <president@actuary.hu>
The Institute of Actuaries of Australia	Anne Peters	Anne.peters@actuaries.asn.au
Institute of Actuaries of Japan	Yoshiaki Maebayashi	General.secretary@actuaries.jp
Institute and Faculty of Actuaries (UK)	David Hare / Helena Dumycz	Helena.dumycz@actuaries.org.uk
Canadian Institute of Actuaries	Jacques Lafrance	president@cia-ica.ca
Institute of Actuaries of Korea	Jinwon Kim	Jinwon.Kim@mail.inglife.co.kr
Istituto Italiano degli Attuari	Marco Pirra	Marci.pirra@italian-actuaries.org
The Financial Reporting Council (UK)	John Instance	j.instance@frc.org.uk
Actuarial Standards Board (Canada)	Jim Christie	jchristie@sympatico.ca
OSFI (Canada)	Stuart Wason	Stuart.Wason@osfi-bsif-gc.ca
L'autorité des marchés financiers (Québec, Canada)	Catherine Tremblay	Catherine.tremblay@lautorite.qc.ca