



International Actuarial Association
Association Actuarielle Internationale

20 May 2022

Mr. Bruce Mackenzie
Chairperson
The IFRS Interpretations Committee

Dear Mr. Mackenzie,

RE: Consultation on the IFRIC tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

In response to the International Financial Reporting Standards Interpretations Committee's request for feedback on their tentative agenda decision regarding the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17), I am pleased to submit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the IAA Insurance Accounting Committee.

If you wish to discuss any of our feedback, please do not hesitate to contact Derek Wright Chair of the IAA's Insurance Accounting Committee, via the [IAA Secretariat](#).

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'RHarris'.

Roseanne Harris
President

Attachment: [IAA Comments](#)

The International Actuarial Association

The International Actuarial Association (IAA) represents the global actuarial profession. Our seventy-four Full Member actuarial associations, listed in [Appendix A](#), represent more than 95% of all actuaries practising in over 115 countries around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

The Insurance Accounting Committee (IAC) of the International Actuarial Association is pleased to respond to a request from the IFRS Interpretations Committee (IFRIC) to comment on a possible interpretation of IFRS 17, the International Financial Reporting Standard for Insurance Contracts (“the Standard”). The issue in question is the Tentative Decision made by IFRIC regarding the release of the Contractual Services Margin (CSM) for groups of immediate and deferred annuity contracts under the Standard.

As you are aware, the IAA has worked closely with the IASB on the development of the Standard and we are grateful to note that our input has been recognised, and often acted upon, over the many years of progress in the production of the Standard and its imminent application. We trust that the comments in this letter will continue to receive the attention of the IASB.

This response has been subject to the due process required for it to constitute a formal view of the IAA. The current members of Insurance Accounting Committee are listed in [Appendix B](#).

Our comments are as follows:

The Tentative Decision (TD) “Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)” is clearly set out. The IAC discussed the background to the decision and its consequences in our recent meeting in Brussels. Whilst many points were discussed we believe it is important to raise the following three matters at this juncture.

First, and dealing specifically with the annuity contracts that were the subject of the TD, we believe that the coverage units defined in the chosen “Method 1” (as described in the TD) do not reflect the full insurance coverage services provided under the contracts.

When the TD narrows down the interpretation of “benefits” in B119(a) to the periods where there is an obligation to pay valid claims, the recognition of CSM in profit or loss would no longer reflect the insurance contract services (cf. first section of B119), in the way the latter are being defined in Appendix A of the Standard as coverage of an uncertain future event.

The fundamental purpose of insurance business is the sharing of risk between policyholders, facilitated by the insurance entity. This means that policyholders do not need to be prepared to cover the maximum costs that the possible insured event could cause. The insurance contract converts uncertain future costs to the policyholder to certain costs, the premiums, and thus the

policyholder can avoid collecting sufficient monies to cover the worst-case scenario. The insurance contract gives the service of certainty to the policyholder, and we believe that the insurance services perceived and provided to a policyholder are a relevant consideration under the principles of B119.

In our view, the benefits provided in any period under an insurance contract are a combination of payments made under the contract and other benefits /services provided during that period. Using such a complete view of services would result in a more appropriate determination of coverage periods and release of the CSM.

We are concerned that the way the TD interprets paragraph B119 of IFRS17 may lead to unintended consequences. For example, the word “benefits” in B119(a) refers to the full “benefits provided under a contract and its expected coverage duration”, not to the sum of purely the Liability for Remaining Coverage (LRC) and the Liability for Incurred Claims (LIC). The allocation of the CSM to profit and loss should “reflect the services provided in the period”. We believe that paragraphs BC140 and BC141 of IFRS17 (in the Basis for Conclusions) relate to the date of recognition of a group of insurance contracts issued by an entity, not to the services within an insurance contract, or to those which are only paid in cash or investigated within a period. In particular, we do not believe that the definition of the LRC indicates that a future cash flow which is still subject to the incurrence of a (further) insured event and is therefore included in the LRC might not have already served in the past to provide benefits to the policyholder. This is because the insurer already covered insurance risk in the past related to the future cash flow.

Example: Consider an annuity covering a pension liability of an employer such as a deferred annuity which promises certain annuity payments for a limited term (e.g., for three years) where the purpose is the early retirement or could be for life. The deferral period for collecting premiums for the liability for the annuity payments may be several decades. The contract is an insurance contract and gives the policyholder the certainty during the whole deferral period that the insured person receives the agreed payment as long as s/he lives during the contract term. This benefit should be recognised on an accounting basis.

Secondly, the narrow approach of identifying benefits as proposed by IFRIC may well, in our opinion, result in equally inappropriate patterns of CSM release and perhaps other unintended consequences (e.g., in other types of insurance contracts where events triggering unconditional payments cannot occur at any time). Relevant product categories to investigate in this regard include, but are not necessarily restricted to, pure endowment contracts, certain types of Credit Insurance and types of reinsurance (including some stop loss contracts and retroactive reinsurance). For instance, Credit insurance covering the loans of a bank which pays cash if a loan, due to be repaid in two years, is not repaid on the due date. The bank benefits over the full loan period from being covered throughout the lifetime of the loans since it can recognize an asset from the insurer in the amount of any impairment of the own loan asset (adjusted for the default risk of the insurer).

In some stop loss and retroactive reinsurance contracts the valid claims can be presented only after the coverage period when in the LIC there is no CSM.

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We believe that the definition of “insurance contract services” in Appendix A of the Standard, as coverage for an uncertain future end, prevails here over the non-defined term “benefits”.

Thirdly, we believe that at this stage, before the implementation of the Standard, it is inappropriate to restrict interpretation of the (principles-based) standard before it is subjected to the true test of practical application that will be available next year.

In a principles-based approach, entities should be allowed to interpret “benefits” in B119(a) in line with the Standard’s definition for the items mentioned in the first section of B119, “insurance contract services in a period”.

In general, we are comfortable with a principles-based standard. With such a standard the industry relies on the scope of coverage and skills of accountants and other experts. Any narrowing of interpretation must be considered carefully before going ahead. Therefore, we recommend that IFRIC does not confirm this TD in its current form but amends it to reflect our, and others, comments.

Appendix A

Full Member Associations of the IAA (74 members)

May 2022

Argentina	Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires
Australia	Actuaries Institute Australia
Austria	Aktuarvereinigung Österreichs (AVÖ)
Belgique	Institut des Actuairens en Belgique
Bosnia and Herzegovina	Aktuarsko Društvo U Bosni I Hercegovini
Brazil	Instituto Brasileiro de Atuária (IBA)
Bulgaria	Bulgarian Actuarial Society
Canada	Canadian Institute of Actuaries/Institut Canadien des Actuairens
Caribbean	Caribbean Actuarial Association
Central America	Asociación Centroamericana de Actuarios (ACEA)
China	China Association of Actuaries
Chinese Taipei	Actuarial Institute of Chinese Taipei
Colombia	Asociación Colombiana de Actuarios
Côte D'Ivoire	Institut des Actuairens de Côte d'Ivoire
Croatia	Hrvatsko Aktuarsko Društvo
Cyprus	Cyprus Association of Actuaries
Czech Republic	Ceská Společnost Aktuárů
Denmark	Den Danske Aktuarforening
Ecuador	Ecuadorian Actuarial Association
Egypt	Egyptian Society of Actuaries
Estonia	Eesti Aktuaaride Liit
Finland	Suomen Aktuaariyhdistys
France	Institut des Actuairens
Germany	Deutsche Aktuarvereinigung e. V. (DAV)
Ghana	Actuarial Society of Ghana
Greece	Hellenic Actuarial Society
Hong Kong	Actuarial Society of Hong Kong
Hungary	Magyar Aktuárius Társaság
Iceland	Félag Islenskra Tryggingastærðfræðinga
India	Institute of Actuaries of India
Indonesia	Persatuan Aktuaris Indonesia
Ireland	Society of Actuaries in Ireland
Israel	Israel Association of Actuaries
Italy	Istituto Italiano degli Attuari and Ordine degli Attuari
Japan	Institute of Actuaries of Japan
Japan	Japanese Society of Certified Pension Actuaries
Kazakhstan	Actuarial Society of Kazakhstan

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Kenya	The Actuarial Society of Kenya
Latvia	Latvijas Aktuaru Asociacija
Lebanon	Lebanese Association of Actuaries
Lithuania	Lietuvos Aktuaru Draugija
Malaysia	Persatuan Aktuari Malaysia
Mexico	Colegio Nacional de Actuarios A. C.
Morocco	Association Marocaine des Actuaires
Netherlands	Het Koninklijk Actuarieel Genootschap
New Zealand	New Zealand Society of Actuaries
Nigeria	Nigeria Actuarial Society
North Macedonia	Macedonian Actuarial Association
Norway	Den Norske Aktuarforening
Pakistan	Pakistan Society of Actuaries
Philippines	Actuarial Society of the Philippines
Poland	Polskie Stowarzyszenie Aktuariuszy
Portugal	Instituto dos Actuários Portugueses
Romania	Asociatia Romana de Actuariat
Russia	Russian Guild of Actuaries
Serbia	Udruzenje Aktuara Srbije
Singapore	Singapore Actuarial Society
Slovakia	Slovenska Spolocnost Aktuarov
Slovenia	Slovensko Aktuarsko Drustvo
South Africa	Actuarial Society of South Africa
South Korea	Institute of Actuaries of Korea
Spain	Col.legi d'Actuaris de Catalunya
Spain	Instituto de Actuarios Españoles
Sri Lanka	Actuarial Association of Sri Lanka
Sweden	Svenska Aktuarieföreningen
Switzerland	Association Suisse des Actuaires
Thailand	Society of Actuaries of Thailand
Turkey	Actuarial Society of Turkey
United Kingdom	Association of Consulting Actuaries Limited
United Kingdom	Institute and Faculty of Actuaries
United States	American Society of Enrolled Actuaries
United States	Conference of Consulting Actuaries
United States	Casualty Actuarial Society
United States	Society of Actuaries

Appendix B

Members of the Insurance Accounting Committee

(May 2022)

Chair	Derek Wright
Co-Vice-Chairs	Brendan Counsell Maximilian Happacher Tara Wolf
Members	Tamsin Abbey - Institute and Faculty of Actuaries Gunn Albertsen - Den Norske Aktuarforening Subhendu Bal - Institute of Actuaries of India Daniel Barron - Israel Association of Actuaries Joaquin Benavides - Instituto de Actuarios Españoles Robert Berendsen - Canadian Institute of Actuaries Simone Brathwaite - Caribbean Actuarial Association Steve Cheung - Actuarial Society of Hong Kong Antonella Chiricosta - Istituto Italiano degli Attuari and Ordine degli Attuari Brendan Counsell - Actuaries Institute Australia Leticia Doherty - Instituto Brasileiro de Atuária (IBA) Alexander Dollhopf - Svenska Aktuarieföreningen Ann Duchêne - Institut des Actuares en Belgique Boatema Kakra Duffuor-Nyarko - Actuarial Society of Ghana Stefan Engeländer - Deutsche Aktuarvereinigung e. V. (DAV) Andrew Gallacher - Association Suisse des Actuares Rokas Gylys - Lietuvos Aktuaru Draugija Judit Hauer - Magyar Aktuárius Társaság Armand Ibo - Institut des Actuares de Côte d'Ivoire Changwon Im - Institute of Actuaries of Korea Dragica Jankovic - Udruzenje aktuara Srbije Gareth Kennedy - Casualty Actuarial Society Christoph Krischanitz - Aktuarvereinigung Österreichs (AVÖ) Mustapha Lebbar - Association Marocaine des Actuares Kristine Lomanovska - Latvijas Aktuaru Asociacija Ana Maria Martins Pereira - Instituto dos Actuários Portugueses Maaz Mushir - Society of Actuaries in Ireland Yoshio Nakamura - Institute of Actuaries of Japan Andreja Radic - Hrvatsko Aktuarsko Drustvo Jenny Rée - Den Danske Aktuarforening Jaanus Sibul - Eesti Aktuaaride Liit Mateja Slapar - Slovensko Aktuarsko Drustvo John Smith - New Zealand Society of Actuaries

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Pentti Soininen - Suomen Aktuaariyhdistys
Petr Sotona - Česká Společnost Aktuárů
Pierre Therond - Institut des actuaires
Arseny Timakov - Russian Guild of Actuaries
Tatiana Tkáčová - Slovenska Spoločnosť Aktuarov
Ernst Visser - Het Koninklijk Actuarieel Genootschap
Andrew Warren - Actuarial Society of South Africa
Tara Wolf - Society of Actuaries
Jeng-Shiu Ye - Actuarial Institute of Chinese Taipei
Yuanhan Zhang - China Association of Actuaries
Jesús Zuñiga San Martín - Colegio Nacional de Actuarios A. C.