



International Actuarial Association
Association Actuarielle Internationale



IAA Quality Assurance and Governance Initiatives on IFRS 17

An IAA Paper issued in September 2020

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Coordination Task Force

on 30 September 2020

Background



Background – Why 1

- The Executive Committee of the IAA created the IFRS 17 Coordination Task Force (CTF) in January 2018
- Main roles include
 - coordinate the IFRS 17 related activities of the various bodies of the IAA
 - facilitate discussions on matters of common interest in order for the IAA to deliver its output by using the most efficient means and in a coordinated manner
 - proposing marketing and promotional activities, by the IAA, in relation to IFRS17 and the role of the actuary under IFRS17
- Membership includes leaders of IAA entities that deal with IFRS 17



Background – Why 2

- The CTF felt that the role of the actuary should be explained, emphasized, promoted and recognized as a key contributor to the very complex exercise of reporting under IFRS 17
- Advising the insurer (the preparer of the financial statements) and its auditor on key issues when reporting under IFRS 17 will be critical
- Such services by an actuary will be a very complex task and needs special treatment; to be
 - well established in a professional manner
 - clearly communicated to the decision makers so that they fully understand their own role and the role of the actuary in the process



Background – To whom 1

- The intended audiences are the international organizations that may have an impact on the quality assurance and governance applied to the systems, functions and processes that are relevant when reporting under IFRS 17
- Such organizations include
 - preparers; i.e. (groups of) insurers reporting under IFRS
 - auditors that audit the reporting of the entities mentioned above
 - standard setters, authorities and associations whose terms of reference include activities in relation to reporting under IFRS 17 at an international level
- Individual actuaries or members of the IAA are not among the direct audience but it is important that they are also aware of this initiative of the IAA



Background – To whom 2

- List of entities the paper has been sent to
 - International Financial Reporting Standards Foundation – for information only
 - International Association of Insurance Supervisors
 - International Federation of Accountants, International Auditing and Assurance Standards Board
 - World Bank
 - International Monetary Fund
 - Bank for International Settlements, Financial Stability Institute, Financial Stability Board
 - Actuarial Association of Europe
 - CFO Forum
 - CRO Forum
 - Organisation for Economic Co-operation and Development
 - Global Federation of Insurance Associations
 - Insurance Europe
 - Deloitte, EY, KPMG, PWC



Background – How 1

- The TF decided to work out a paper on quality assurance and governance initiatives of the IAA in 2018
- The TF received a huge support from the Actuarial Association of Europe that, in the meantime, worked out a similar paper to be used in a European environment
- The first draft was developed in 2018 and was submitted to Full Member Associations of the IAA on November 1, 2018 with the comment deadline of December 31, 2018



Background – How 2

- Many comments were received
- The paper was further improved and the CTF consulted those Full Member Associations that raised substantial comments
- Finally when all such comments were incorporated to the extent reasonable the CTF sent the draft to the Communications Subcommittee of the Executive Committee for their review
- Having incorporated most of the suggestions of the Communications Subcommittee, the Executive Committee approved the paper for release

Key elements of the paper



Sections of Paper

- Introduction
- Background
- Improving Quality, Credibility and Public Confidence and Serving the Public Interest
- Conclusions
- About the IAA



How to access the paper:
www.actuaries.org → **Publications** → **Papers**



Actuaries and IFRS 17

- Types of services actuaries typically asked to provide
 - Advice on selection of methods, assumptions data
 - Perform movement analyses and explain drivers for changes
 - Perform calculations and sensitivity analysis
 - Review calculations and supporting information
- Actuaries can provide services to preparers of and auditors of financial reports



Recommended Good Practice

When providing services in relation to IFRS 17, good practice would include:

- Preparing and issuing a report on work performed under IFRS 17
- Sign off on the report by an appropriately qualified actuary
- Reports of preparer's actuary and auditor's actuary serving as audit evidence for auditor

Reporting and sign-off enhances credibility of financial statement/audit opinion



Role of standards of actuarial practice

- Standards of practice lead to more professional practices
- Appropriately qualified actuaries would follow standards of practice stipulated by relevant actuarial body
- Work performed by actuaries complying with relevant standards are likely to be more reliable than work performed where no standards apply



Role of standards of actuarial practice (continued)

- IAA has developed a model standard of practice on IFRS 17 (ISAP 4)
- ISAP 4 is a model standard and not binding
- IAA encourages relevant actuarial standard setters to adopt and maintain a standard substantially consistent with ISAP 4



Conclusions

- Good practice involves preparing and sign-off of a report on actuarial services provided by actuaries
- Actuarial practice is more professional when standards of actuarial practice apply
- The IAA has developed a model standard for when performing services under IFRS 17 and encourages standard setters to adopt a consistent standard.
- Some jurisdictions and some insurance groups require reporting that is similar to IFRS 17 be signed off by an appropriately qualified actuary and be subject to independent review that is also signed off by a qualified actuary
- Paper advocates this practice be followed internationally.

The IAA's work on ISAP 4 and IAN 100



ISAP 4 - IFRS 17 Insurance Contracts

- ISAP – International Standard of Actuarial Practice
- The IAA develops ISAPs which are model standards of practice. The IAA encourages its member associations to have in place standards of practice that are substantially consistent with these standards. ISAPs are model standards of actuarial practice and, as such, are not binding on any actuary. All ISAPs are principles based and not prescriptive
- The **Purpose** of the ISAP 4 is to increase intended users' confidence that:
 - Actuarial services in connection with IFRS 17 are carried out professionally and with due care;
 - Results are relevant to the needs, are presented clearly and understandably, and are complete;
 - Assumptions and methodology used are disclosed appropriately.



ISAP 4 - Scope

- Actuarial services related to IFRS 17
 - for the preparation of IFRS financial statements,
 - when advising a third party such as an auditor or regulator,
 - when advising a potential buyer.



ISAP 4 – Section 2 Appropriate Practices

1. Relevant Knowledge Requirements
2. General Measurement Approach
3. Variations to the general method - PAA & VFA
4. Presentation and Disclosures
5. Transition



ISAP 4

- **Access via IAA Website: www.actuaries.org → Publications → ISAP**
- Approved and published in November 2019
- Reviewed after publication of amendments to IFRS17 and agreed no changes needed.



International Actuarial Note (IAN)

- An educational document on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject by readers of the IAN, including actuaries and others, who use or rely upon the work of actuaries.
- It is not an ISAP and is not intended to convey in any manner that it is authoritative.
- IANs may be issued
 - a) To assist actuaries in complying with an ISAP, for example by offering practical examples of ways in which actuaries might implement an ISAP or International Financial Reporting Standard (IFRS) in the course of their work, or
 - b) To provide non-binding guidance on an actuarial topic for which the IAA has not developed an ISAP.



IAN100 – IFRS 17 (1/4)

- 17 substantive chapters divided into 5 sections
- Format is a series of Questions and Answers

Sections and chapters are:

- **Introduction and Summary of IFRS/IFRS 17 approach**
- **Section A – General Measurement Approach**
 1. Classification of Contracts
 2. Estimates of future cash flows
 3. Discount Rates
 4. Risk adjustment for non-financial risks
 5. Unit of Account
 6. CSM and loss component



IAN100 – IFRS 17 (2/4)

- **Section B – Variation to the General Measurement Approach**
 7. Premium Allocation Approach
 8. Contracts with Participating Features and other Variable Cash Flows
 9. Reinsurance

- **Section C – Uses of Fair Value**
 10. Fair Value
 11. Business Combinations and Portfolio Transfers
 12. Transition



IAN100 – IFRS 17 (3/4)

- **Section D – Other IFRS17 Topics**
 - 13. Embedded Derivatives
 - 14. Contract Modifications and Derecognition
- **Section E – Measurement, Presentation & Disclosure**

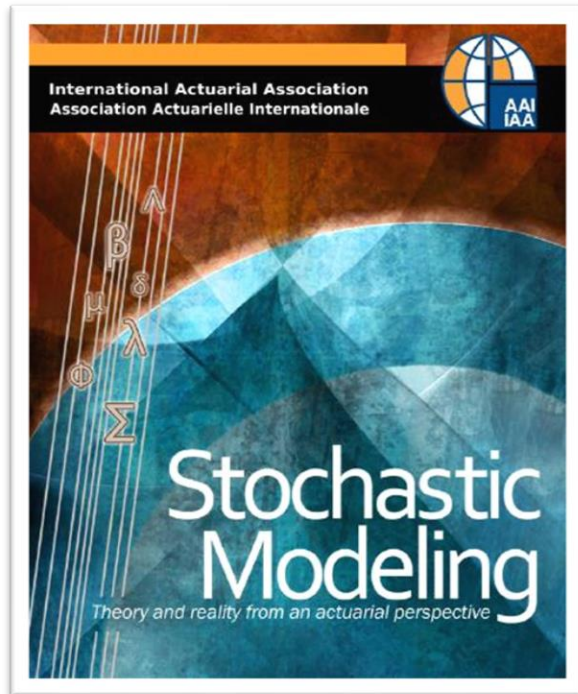
This section will discuss these three subjects – final format still to be agreed



IAN100 – IFRS 17 (4/4)

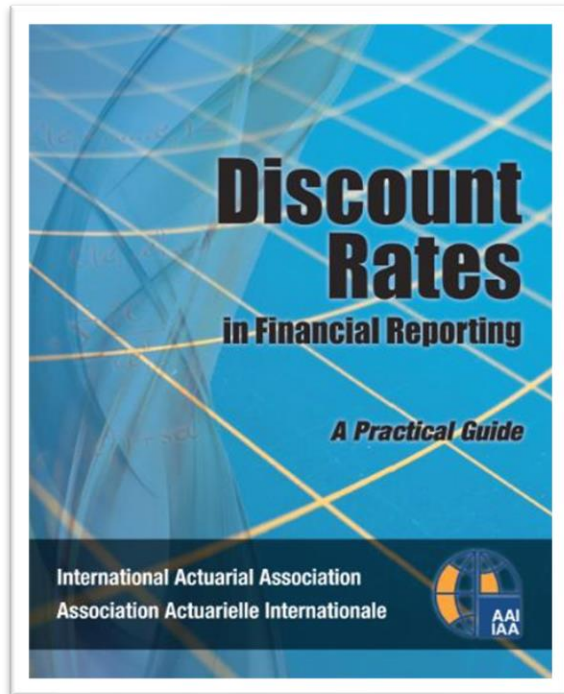
- Currently working through comments from internal governance and updating to reflect IFRS17 amendments published by IASB in June 2020.
- Aim to have final version approved late 2020 / early 2021
- **Access via IAA Website: www.actuaries.org → Publications → IAN**

Monograph on Stochastic Modelling



Stochastic Modelling – Theory and Reality from an Actuarial Perspective is a guide for practitioners interested in understanding more about this topic. It presents the mathematical and statistical framework necessary to develop stochastic models through theory and practical examples.

Monograph on Discount Rates



Discount Rates in Financial Reporting – a Practical Guide has been written to help practitioners in how to develop and use discount rates for financial reporting including instances where markets are less developed.

Risk Adjustments for Insurance Contracts under IFRS17



Chapters:

- Introduction
- Principles underlying risk adjustment
- Risk adjustment techniques
- Techniques & considerations in quantitative models
- Qualitative assessment & other factors to consider
- Effect of risk mitigation techniques
- Validation of Risk Adjustment
- Disclosure & communication
- Case Studies (7)

All Monographs available for purchase on IAA Website



Q&A



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Thank you



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