

Reinsurance & Regulatory Reporting Working Group

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Quick Recap

- The Reinsurance & Regulatory Reporting Working Group (RRR WG) is a sub-group of the APRA & Actuaries Institute IFRS17 Taskforce.
- The RRR WG identified the following six topics for consideration and analysis:
 - Topic 1 Deferral of Expected RI Losses
 - Topic 2 Contract Boundary Mismatch
 - Topic 3 Reinsurance credit risk
 - Topic 4 APRA Product Group Reporting
 - Topic 5 Non-distinct investment component
 - Topic 6 Changes to Financial Statement Presentations
- Topics 1, 2, and 4 were prioritized to support APRA's QIS preparation. Since June, the RRR WG has been working through these topics and good progress has been made.
- Topic 6 which was also identified as important as it may have implications for insurers' IFRS17 solution design and data interface, was deferred until the draft QIS templates were available.



Progress Update 1/2

- For Topic #2, worked examples were developed for scenarios where a contract boundary mismatch arises. Key findings include:
 - Where expected profitability of the underlying contracts remains constant there is nil or immaterial impact on the accounting balance sheet and profit / loss.
 - Where expected profitability of the underlying contracts varies over time, there are differences in the statutory results. However, the regulatory adjustment within APRA's capital framework (LPS340 and GPS340) offsets these differences, and the projected capital base is not impacted.
 - At initial recognition, however, the APRA Capital Base is impacted due to the different treatment of premiums receivables and reinsurance payables and there is a notional capital strain under AASB 17. This can be resolved through a reporting solution and the group has proposed a solution wherein the components of LfRC can be disclosed (e.g. current and non-current premium receivables) such that the capital base can be calculated as it is today.
 - Another potential impact on APRA Capital Base (depending on tax treatment) which the group is considering is in relation to the tax effect via an impact on the DTA vs DTL as well as a possible impact on PCA (for Life) via the residual DTL.
- For Topic #1 findings are similar i.e. no capital implications given regulatory adjustment. A reporting solution can be developed (if required) to give split the loss reversal and expected RI loss by APRA products.



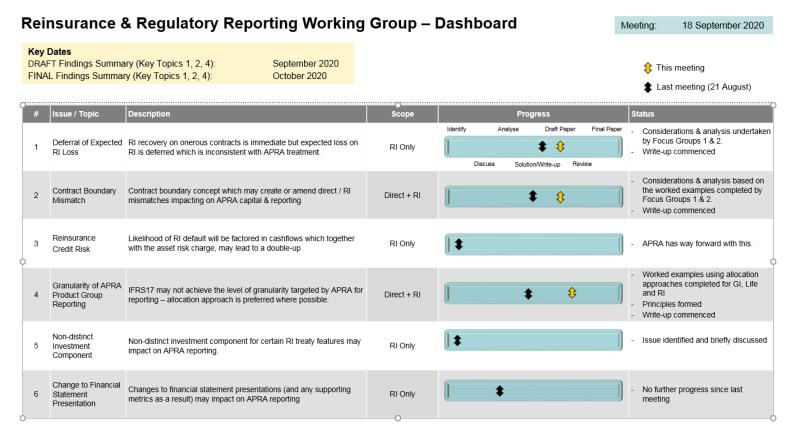
Progress Update 2/2

- For Topic #4, the group has developed some principles which APRA can use to ensure it receives meaningful statutory data across its Product Groups where one AASB 17 group maps to multiple APRA products.
- There are 6 principles currently proposed which include:
 - Principle 1 A systematic and rational approach should be applied.
 - Principle 2 The approach applied should be consistent over time.
 - Principle 3 The approach applied should result in reported CSM (or loss component where relevant) and Insurance Service Result that reflects the **expected relative profitability** of each APRA Product Group – i.e. no offsetting of profit and loss.
 - Principle 4 Amounts reported to APRA should be consistent with amounts reported on a statutory basis.
 - Principle 5 Where the General Model is used, the Contractual Services Margin should be allocated based on the relative benefits for each component.
 - Principle 6 As profit consists of several elements (experience profit, release of CSM, immediate loss recognition / reversal) a separate allocation rule may be necessary for each component to meet Principle 3.
 - The principles have been tested using allocation approaches.



Next Steps

- Complete write-ups for Topics 1, 2 and 4 for October submission to APRA.
- Reopen Topic 6 repurpose focus groups to review and provide feedback on the draft QIS templates & reporting instructions. Include considerations for Topic 5 within this group.





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