Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
14 November 2019
10am – 12pm

Objective:

- Discuss APRA's indicative directions for integrating AASB 17 into the capital and reporting frameworks as outlined in their letter issued in September 2019.
- Table the paper drafted by the AASB TRG Reinsurance working group on the possible methods for considering reinsurance in determining the risk adjustment of underlying contracts (outcome of the IASB April 2019 TRG AP02 S118).

Note: These minutes provide a summary of discussion only and any views or interpretations do not constitute professional advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this document.

Topic	Agenda paper
APRA's proposed approach to integration of AASB 17 into the prudential framework	**Attachment 1**
• A member from APRA introduced the consultation letter which was issued on 27 September 2019 and noted the following: ○ APRA are aware that the IASB are in the process of reviewing amendments to IFRS 17. ○ APRA's intention is for the accounting outcomes of AASB 17 to be the starting point for determining capital. However, APRA is keen to understand the implications of the changes introduced by AASB 17 on APRA reporting and capital measurement to determine what, if any, changes need to be made to AASB 17 amounts. ○ APRA requires that information provided should enable early identification of loss-making products/risks ('early warning signals'). ○ APRA has received varying feedback from industry on the indicative directions in the letter. ○ APRA is open to considering alternative proposals to the indicative directions set out in the letter if they support APRA's objective of achieving sound prudential outcomes. APRA therefore, encourages all respondents to provide constructive feedback and suggestions in their responses to the letter. ○ APRA's tentative plan is to communicate the outputs of the readiness survey in Q1 2020. However, APRA is keen to engage early with entities which are not adequately prepared for implementation of IFRS 17 (if possible, by the end of 2019). • A member asked about the extent of alignment of APRA's intended approach with other regulatory bodies globally. The members from APRA responded that: ○ APRA is in communication with a number of regulators to discuss proposed approaches to IFRS 17 integration.	

  - The level of progress varies across the different jurisdictions – e.g. the Canadian regulator had issued a quantitative survey which required entities to provide a full set of IFRS 17 financials, whilst other regulators are in a less progressed stage.
  - Each regulator is starting from a different base i.e. the starting point for their considerations are commonly the regulatory frameworks currently being applied by their jurisdiction – e.g. Solvency II or LAGIC etc.

APRA's guiding principles (slide 4 of Attachment 1)

- The member from APRA requested for respondents to keep in mind the guiding principles set out in slide 4 (Attachment 1) when drafting their comment letters.
- A member asked if the intention is for LAGIC to be from a single consistent base with adjustments to take into account the specific differences between general, life and health insurers. The member from APRA agreed and responded that APRA's intent is to use the accounting base as a starting point with modifications where needed to achieve sound prudential outcomes.

Overview of the APRA letter (slide 5 of Attachment 1)

- The member from APRA noted the following key points:
  - Data granularity and profitability: APRA is keen for the granularity of data provided to enable early identification of 'warning signals' where products are not performing well.
  - Implementation readiness: APRA recognises that late implementation will result in increased operational risk, in particular due to the potentially limited supply of resources (e.g. consultants, actuaries and accountants) with the required skills.

Transition (slide 6 of Attachment 1)

- A member from APRA noted the following key points:
  - APRA has considered the different balance dates applied by entities across the industry.
  - APRA is proposing a single transition date of 1 July 2023 for all entities to apply an AASB 17 basis for reporting to APRA. This is to enable APRA to review/analyse information that is prepared on a consistent basis.
  - APRA acknowledges that the proposed date of 1 July 2023 is 18 months later than the effective date of AASB 17. This reflects APRA's consideration of past experiences in relation to the application of AASB 9 where APRA observed movements in the amounts disclosed by preparers during the initial periods of application. APRA recognises that the proposed transition date will mean that many preparers will likely need to maintain two basis of accounting for a period of time (depending on their balance dates) – one on a current basis for APRA reporting, and another on an AASB 17 basis for preparing statutory reports.
  - In order to assist APRA's understanding of the amounts provided during the transition period, APRA's intention is to issue transition templates or information requests to preparers in the period(s) prior to 1 July 2023.
- A member noted that during the transition to IFRS in 2005, the changes were implemented on a rolling basis. The member questioned why a similar approach could not be adopted for the transition to AASB 17 for APRA reporting. A member from APRA responded that a rolling basis could be considered if APRA has a clearer understanding of the likely impacts of transitioning to the new Standard. Another member from APRA added that one of the reasons for selecting a transition date of 1 July 2023 is to allow sufficient time for APRA to obtain data in order to understand the potential impact of AASB 17 on capital.

- A few members suggested that APRA could issue a mandatory information request in H2 2020 to enable APRA to obtain the quantitative information required to assist their understanding. Those members also suggested that APRA should flag early any intention to request mandatory quantitative information so that entities can incorporate it into their project plans in order to ensure that they are prepared to provide this information by the required date. A member expressed the view that such a request may encourage smaller preparers to start their implementation projects. Another member agreed and expressed the view that most preparers are likely to be assessing the quantitative impacts over the next year for the preparation of comparative amounts under AASB 17. A member considered that a requirement to produce quantitative information for APRA may trigger the need for quantitative disclosures in the financial statements for listed entities (due to ASIC requirements to disclose the impact of new standards).
- A member noted that the feedback expressed at the meeting held by the Insurance Council of Australia (ICA) on 15 October 2019 indicated a consensus that the requirement to perform dual reporting is likely to result in inefficiencies.

Indicative directions (slides 7-11 of Attachment 1)

Product groupings (slide 7)

- A member from APRA noted the following key points:
  - The objective of APRA's directions are to obtain better information about profitability and sustainability; and encourage prudent behaviours in terms of insurance risk management.
  - Insurers are not currently required to perform the LAT test at an APRA class level. APRA considers that there is an opportunity to encourage prudential behaviour and more transparent reporting of profitability.
- Some members expressed concern that APRA's indicative directions around the level of granularity for identifying onerous losses could impact the way onerous losses are determined for statutory reporting. Those members considered that it is not appropriate for APRA to provide guidance which impact accounting in the statutory financial statements.
- Members asked if it is possible to perform the onerous contracts test based on the AASB 17 requirements and allocate the onerous losses calculated on an AASB 17 basis to APRA classes on a "fair and reasonable" basis. The member from APRA responded that this could be considered if sound principles for allocation can be developed. The member considered that allowing an allocation on a "fair and reasonable" basis is too broad – more concrete principles are required in order to ensure a consistent approach.
- A member noted that APRA had indicated an intention to increase the granularity of some APRA reporting classes but had not yet released any information on the level of granularity they intended to adopt. The member expressed concern that an increased granularity of APRA reporting classes could have implications for IFRS 17 implementation project plans as they may have to incorporate additional work to enable reporting at that extended level of granularity. A member from APRA noted the following:
  - For life insurance, APRA are concerned about lump sum products which comprise a number of different benefits. For example, APRA consider that total and permanent disability (TPD) and death cover have different risks but are often sold together.
  - For general insurance, APRA is keen on visibility over cyber risk and directors & officers (D&O) risk.

- APRA is currently consulting on the level of granularity they will require preparers to provide and will ensure that any developments will be communicated early.

- Members agreed that early communication of APRA's intentions will assist preparers in preparing for implementation. A member from APRA stated that APRA is aware of the need to communicate their intentions early. APRA's intention is to communicate a proposal for the industry in their next consultation paper which is expected to be released in H1 2020. APRA's consideration is ongoing but based on their current discussions, it is not expected that APRA will require a large number of additional product groupings.

Discount rates (slides 8-9)

- A member from APRA noted that APRA's intention is to allow discounting on an AASB 17 basis (including illiquidity premiums if applying bottom up) for reporting to APRA but not for determining capital. Discount rates used for capital calculations will need to exclude illiquidity premiums.

- A member expressed concern that this requirement will have operational implications due to the need to perform two sets of discounting. Another member asked if the inclusion of an illiquidity premiums will likely have a large impact on capital. The member from APRA noted that APRA does not have enough information to express a view but considered that the use of a risk-free rate is a fundamental construct of the LAGIC framework. The member added that illiquidity premiums are allowed in exceptional cases for life insurers but these are considered by some to be more conservative compared to those used by commercial actuaries.

Acquisition costs

- The member from APRA noted that APRA intends to continue to disallow acquisition costs as an admissible asset for LAGIC.

Reinsurance default charge

- A member suggested that APRA could provide guidance on the expected minimum reinsurance default charge to be used in the capital calculations. The member considered that some preparers may choose for operational simplicity to adopt the same reinsurance default charge for AASB 17.

Coverage period

- The member from APRA noted that APRA expects that PHI insurers are likely to have contracts with very short coverage periods (possibly < 1 year) under AASB 17. APRA is likely to assume a one year coverage period for PHI insurers for capital purposes. Members requested for APRA to consider aligning the coverage periods with those used under AASB 17. A member from APRA expressed the view that this may be considered if preparers can provide APRA with more information to support the view that aligning the contract coverage periods for APRA and AASB 17 accounting is appropriate.

Reinsurance mismatches

- A member considered that regardless of the outcomes of the IASB Exposure Draft, there will be accounting mismatches between reinsurance contracts and the underlying contracts they cover. The member asked if APRA has developed their thinking on how those might be addressed for APRA reporting. A member from APRA responded that APRA will set up a Reinsurance working group through the Institute of Actuaries Taskforce to consider this issue and other issues relating to reinsurance accounting. A member expressed concern that if APRA mandates a different coverage period to be applied to reinsurance contracts for APRA reporting (compared to those required by AASB 17), this will result in a need for preparers to maintain two accounting records to report on reinsurance contracts under the two basis.

Conclusion and planned next steps

- A member from APRA noted the following:
  - APRA recognises that there are a number of areas that are being worked through and some critical areas which the industry is looking for guidance on.
  - A discussion paper is planned to be released in H1 2020 to communicate more detail on areas where APRA is able to provide more detailed guidance.
  - APRA will continue to communicate to the industry after the release of the discussion paper on areas they are looking for more information on in order to form a view of their direction on those areas. APRA intend to continue to use the industry forums to maintain those conversations and lines of communication.
  - Assuming a transition date of 1 July 2023, APRA plan to release a final set of Standards in Q2 2022. A set of drafts will be released prior to that.
  - APRA welcomes constructive feedback and recommendations on their indicative directions.

AASB TRG Reinsurance Working Group paper on risk adjustment	**Attachment 2**

- The Reinsurance Working Group of the AASB TRG has developed a discussion paper which proposed possible methodologies for determining the risk adjustment of underlying issued contracts by taking into accounting the cost and availability of reinsurance (as clarified in the April 2019 IASB TRG). This paper has been provided to the Institute of Actuaries Taskforce and has been considered in the drafting of their Information Note 2.0 and is being considered in the joint APRA and Institute of Actuaries Taskforce on risk adjustment. This paper will also be available on the AASB TRG website.

End Meeting

Participants	Organisation
TRG members and delegates	
Anne Driver (Chair)	QBE
Stuart Alexander	Deloitte
Lilian Chong (on behalf of Tony Tong)	Pacific Life Re
Jane Clifford (on behalf of Fehraz Fallil)	iCare NSW
Cassandra Cope	HCF
Brendan Counsell	EY
Graham Duff (on behalf of Grant Robinson)	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC
Weldon Luo	ATO
Chris Maher	AMP
Cathy Marquis (on behalf of Jeroen Van Koert, via teleconference)	AIA
Louise Miller (on behalf of Jenna Cooke)	Suncorp
Ian Moyser	KPMG
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Rob Sharma	APRA
Michael Sokulski (via teleconference)	Medibank
Warwick Spargo (via teleconference)	RSM
Wain Yuen	Insurance Council of Australia
Leong Tan	Swiss Re
Glenn Treadwell	NIB
Guests and guest speakers	
Jason Bain	EY
David Chan (via teleconference)	APRA
Yeok Cheong (via teleconference)	APRA
Antony Claughton (via teleconference)	Finity
Briallen Cummings	KPMG
Kaveh Daemi (via teleconference)	APRA
Shellie Davis	APRA
Roger Dollman	QBE
Nen He (via teleconference)	ATO

Participants	**Organisation**
Tiffany Kiang	Pacific Life Re
Binh La	ASIC
Geoff Leeman (via teleconference)	Swiss Re
Thaddeus Lim (via teleconference)	Mercer/Friendly Societies
Matthew Maddern (via teleconference)	RAA Group
Arti Naidu	ASIC
Rene Niekerk	AMP
Jun Oh	APRA
Rachel Poo	QBE
Richard Sheridan	IAG
Waynne Tan (via teleconference)	AIA
Owen Tong	Deloitte
AASB representatives	
Patricia Au	AASB staff
Helena Simkova (via teleconference)	AASB staff