



20 February 2020

TO: ALL LIFE INSURERS, GENERAL INSURERS, LEVEL 2 INSURANCE GROUPS AND PRIVATE HEALTH INSURERS

INDUSTRY PREPAREDNESS FOR AASB 17 INSURANCE CONTRACTS

In October 2019, APRA wrote to all Life Insurers, General Insurers, Level 2 Insurance Groups and Private Health Insurers (insurers) requesting information on their readiness for implementing AASB 17 Insurance Contracts (AASB 17). Based on the information received, APRA considers that a number of insurers have made limited progress with the implementation. APRA encourages all insurers to accelerate their operational readiness for implementing AASB 17.

The accounting treatment for insurance contracts will be substantially impacted by the introduction of AASB 17. APRA anticipates the new standard will have major impacts on the operational aspects of the insurance business including, but not limited to, business planning and forecasting, key performance indicators (KPIs), performance reporting, actuarial and accounting models, and expense allocation. Early preparedness to adapt individual insurers' existing IT systems and personnel will be important in addressing these challenges.

APRA acknowledges that some uncertainty remains as the International Accounting Standards Board (IASB) has not finalised the final form of the accounting standard, nor the implementation date (which currently is proposed as 1 January 2022). Nonetheless, sufficient certainty regarding much of the form of the standard is available, and APRA encourages insurers to focus on implementation as soon as possible. A rushed implementation would heighten operational risks and is likely to increase implementation costs, especially if system modification or additional external resources are required.

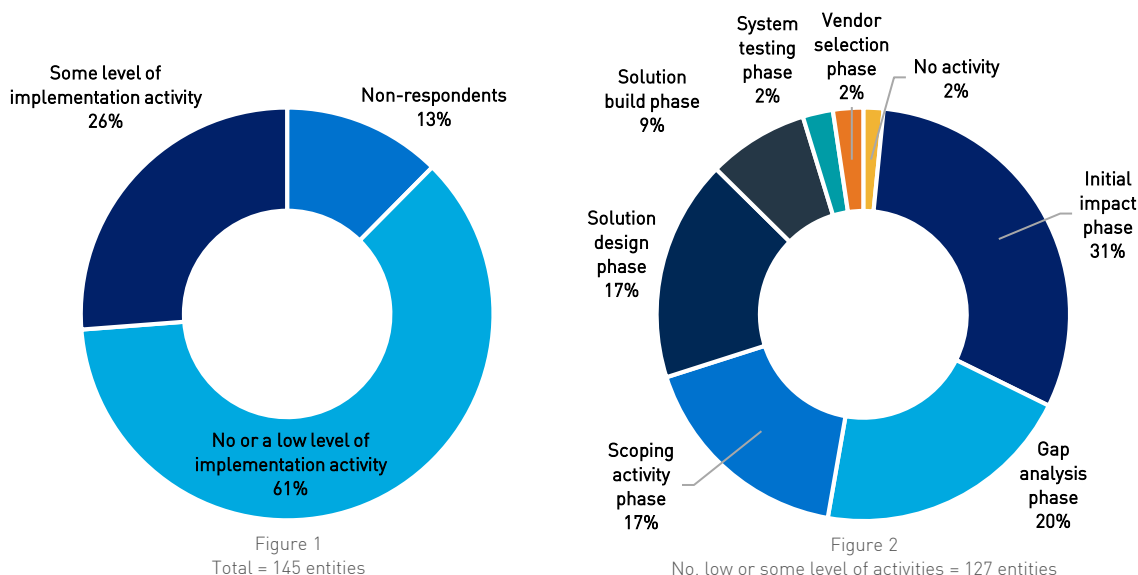
APRA will continue to monitor insurers' progress in implementation and will be issuing a further information request in August 2020. This will be used to compare with the results of the October 2019 survey and track progress in preparedness. APRA will individually engage with insurers that have not adequately progressed the implementation process.

Initial findings

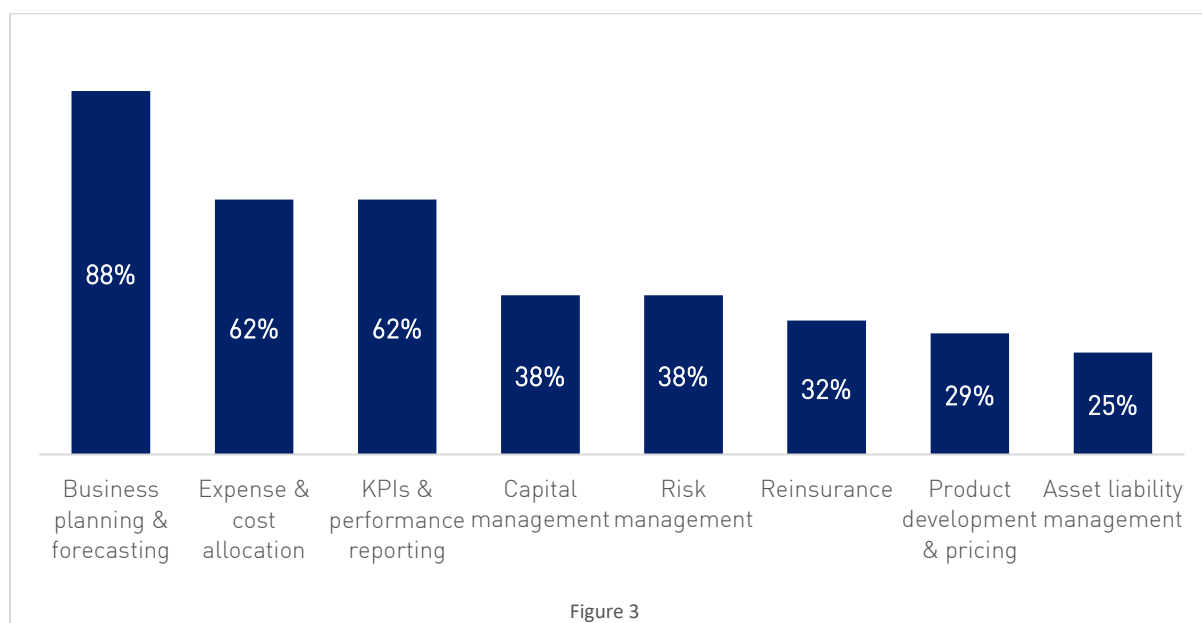
The October 2019 survey considered the preparedness of insurers across a range of dimensions (e.g. planning, governance, external resources engaged and implementation budget). While APRA welcomes the strong response from industry with an 87 per cent response rate out of 145 entities, the results indicated that the majority of insurers who responded have made very limited implementation progress. APRA will separately engage with insurers that have not responded to the survey.

The key takeaways from the survey results are that a majority of insurers (61 per cent as per Figure 1) have undertaken no, or only a low level of, implementation activities.

Figure 2 is a further breakdown of each respondent's implementation phase from the 127 entities that have provided responses. From the 127 entities, 31 per cent are at the initial impact phase, 20 per cent are at the gap analysis phase, and 17 per cent are at the scoping activity phase. APRA considers these phases all to be at a low level of implementation activities.



Overall, insurers recognise that AASB 17 will have significant impacts on the operational aspects of the insurance business. Figure 3 shows that out of the 65 entities who provided responses on the areas of operation they believe will be impacted, 88 per cent selected business planning and forecasting, 62 per cent selected expense and cost allocation, and 62 per cent selected KPIs and performance reporting.



As a guide, APRA found that insurers that are further progressed in the implementation process have:

- an established governance structure with the Chief Financial Officer as the person responsible for the implementation;
- an established implementation budget and dedicated team resources;
- an established implementation timeframe with the planning phase completed, the solution design phase underway and the system change testing begun;
- completed the implementation risk assessment framework and have an established risk register; and
- determined whether external resources are required and have begun procurement processes (if external resources are required).

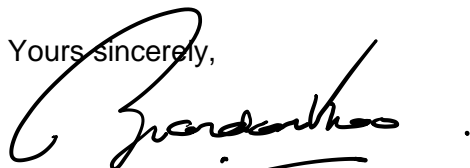
Quantitative Impact Study

A number of respondents to APRA's letter suggested that APRA bring forward its timeframe for the Quantitative Impact Studies (QIS) from 2021 to 2020. Based on the level of industry preparedness for implementing AASB 17, it is unlikely that all insurers could provide the necessary quantitative information within the earlier timeframe.

A detailed understanding of the quantitative impacts is necessary to inform APRA's development of reporting and prudential standards. At this stage, APRA intends to seek QIS information from selected insurers in the second half of 2020. It is in all insurers' interests to accelerate their implementation in order to participate in the QIS.

Please engage with your APRA supervision contact if you wish to discuss any of the matters raised in this letter or other matters related to the AASB 17 implementation.

Yours sincerely,



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