



Dialogues

Accounting Standards & IFRS 17: The Role of Insurance Supervisors

28 January 2021

Speakers and Presenters



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Speakers and Presenters



**Central Bank of
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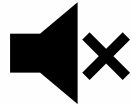
**Central Bank of
Jordan**
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Expert, Insurance
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Central Bank of Jordan

Housekeeping rules



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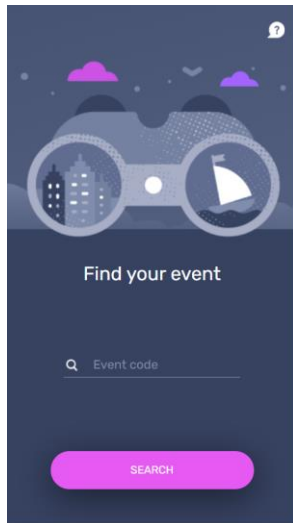
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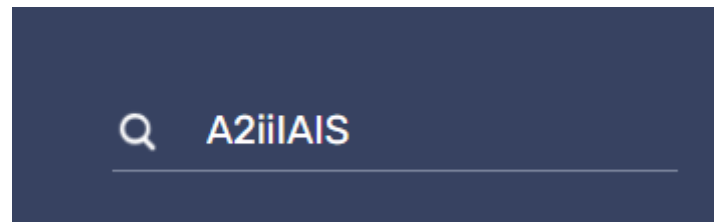
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FSI-IMF paper on accounting standards and insurer solvency assessment

Peter Windsor, IMF

Jeffery Yong, FSI, BIS

Agenda

- **Background of joint FSI-IMF paper**
- Range of existing regulatory approaches
 - Interaction between accounting and regulatory valuation standards
- Use of IFRS 17 for prudential purposes
- Potential impact of IFRS 17 on supervisors and industry
 - Implementation challenges

Background of joint FSI-IMF paper

- **FSI Insights**

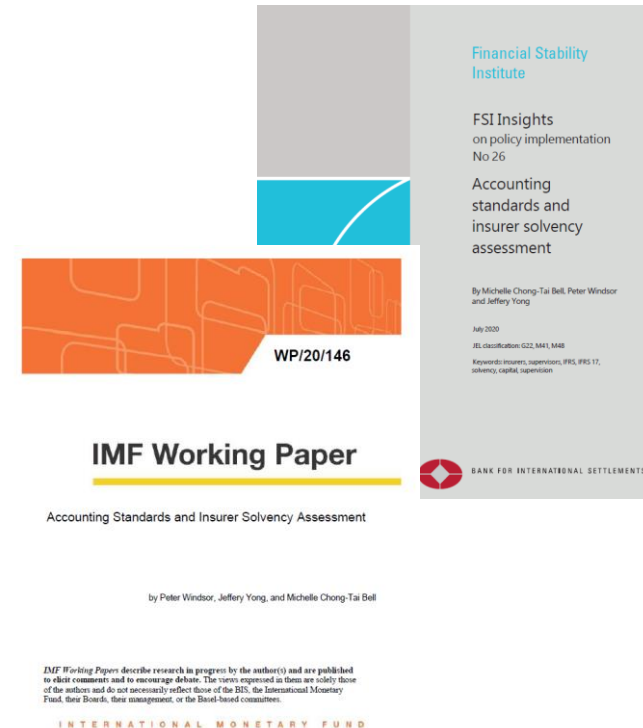
- first launched in August 2017
- focuses on practical financial regulatory and supervisory topics
- aims to contribute to international discussions on policy issues and implementation challenges faced by financial sector authorities

- **IMF Working Paper**

- research in progress by the author(s) and are published to elicit comments and to encourage debate

- **Aim of paper** – identify range of regulatory approaches on use of accounting standards to assess insurers' solvency

- Based on survey of 20 insurance authorities including from Australia, Hong Kong, Japan, Korea, Malaysia, New Zealand, Singapore



Link to paper: [FSI webpage](#), [IMF webpage](#)

Agenda

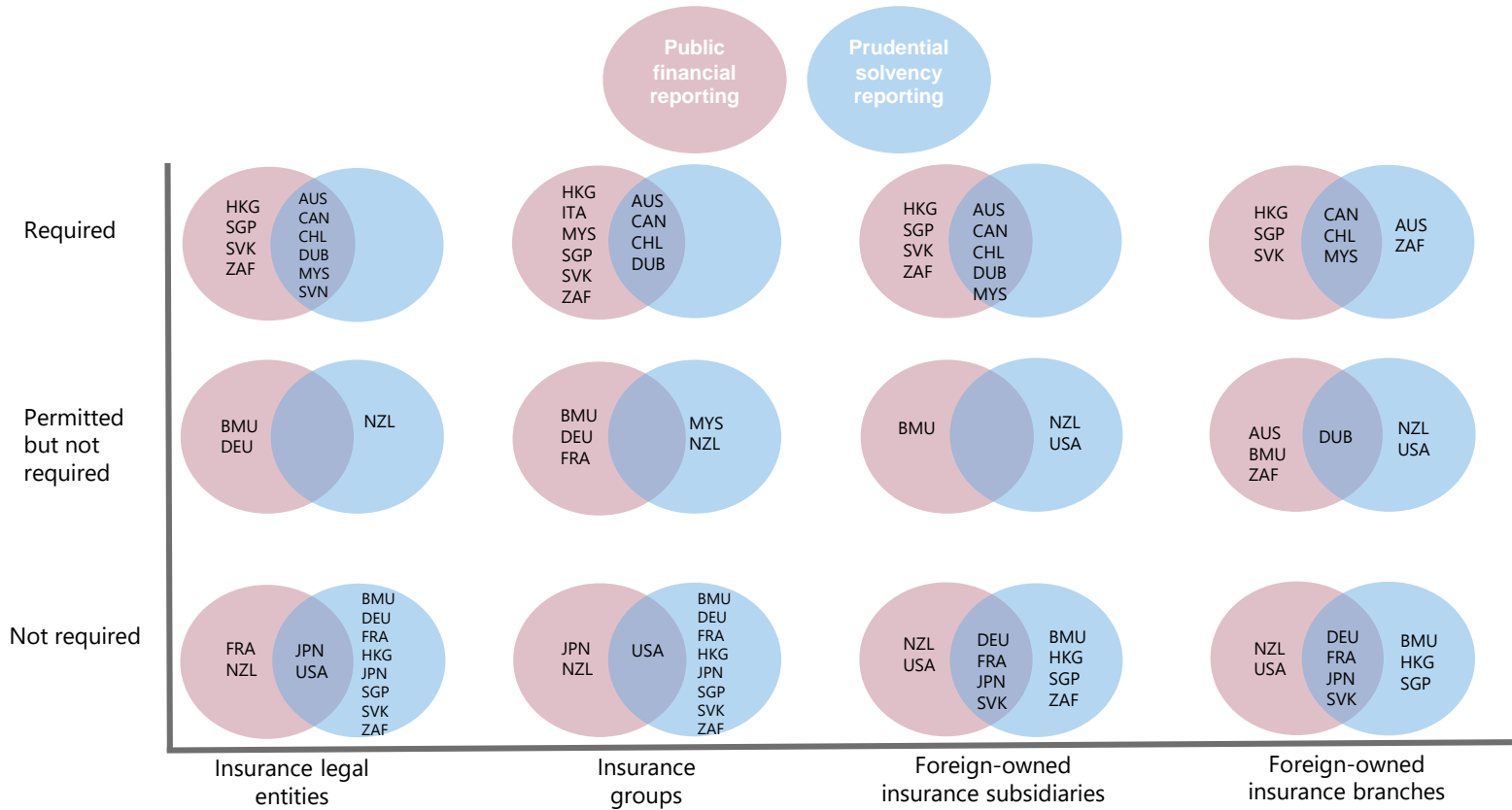
- Background of joint FSI-IMF paper
- **Range of existing regulatory approaches**
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Poll question 1

In your jurisdiction, which of the following best describe regulatory requirements on how insurers should prepare regulatory solvency reports?

- Insurers are required to use accounting standards
- Insurers are not required to use accounting standards
- Insurers can (but are not required) use accounting standards
- None of the above

Applicability of IFRS for public financial reporting and prudential solvency reporting



Key differences between accounting and prudential standards

	Accounting standards	Prudential standards
Primary aim	Provision of useful information to market participants to enable informed decision-making	Protection of policyholders' interests
Focus	Financial performance	Regulatory solvency position
Key stakeholders	Investors, creditors and other stakeholders	Policyholders and supervisors
Key statements	Profit and loss account; and balance sheet	Balance sheet for solvency purposes
Typical form of requirements	Principles-based	Prescriptive

Objectives of accounting and regulatory standards

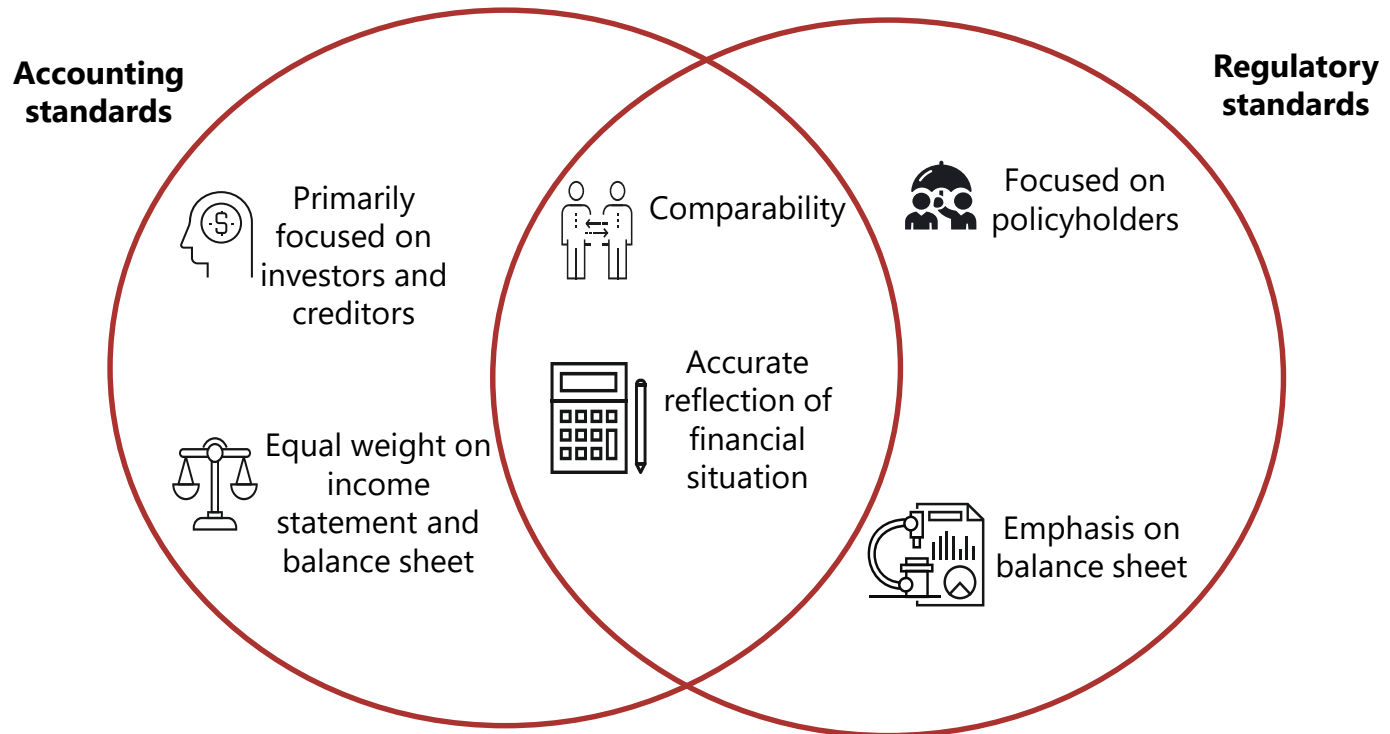
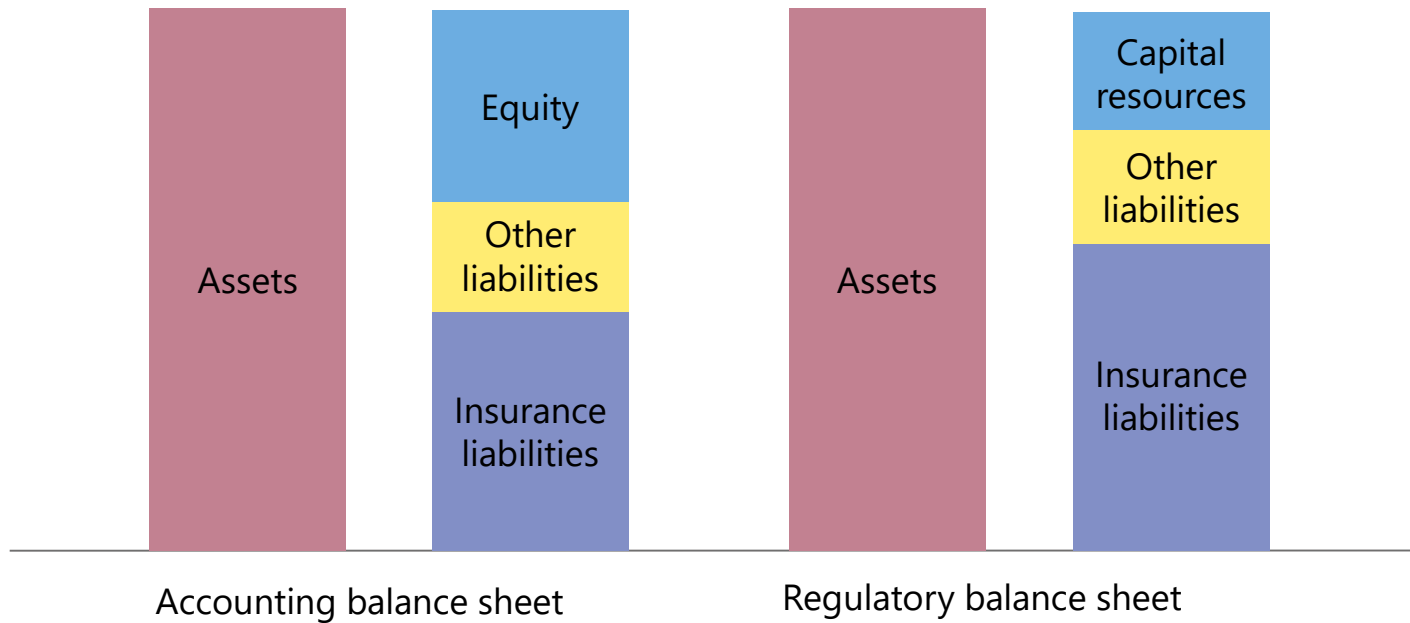


Illustration of accounting and regulatory balance sheets



Multiple “insolvency” triggers



Other areas of interaction between accounting and regulatory standards

**Driver of
strategic
direction of
insurers**

**Coherence
between
solvency
components**

**Going concern
versus gone
concern views**

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Poll question 2

Do you think IFRS 17 is fit-for-purpose to be used for regulatory solvency assessment of insurers?

- Yes
- No

Few surveyed jurisdictions plan to adopt IFRS 17 for regulatory solvency

- Reasons for using IFRS 17 are to avoid multiple financial signals, benefit from auditing controls and reduce cost for insurers
- Some plan to use IFRS 17 as starting point and modify for regulatory solvency purposes
- Two main guiding principles when reviewing capital adequacy frameworks due to IFRS 17
 - provide the right incentives to insurers to manage risks properly
 - achieve appropriate prudential outcomes in terms of policyholder protection
- Examples of potential changes to regulatory solvency requirements:
 - Capital requirements: revise risk factors that are applied to technical provisions
 - Capital resources: adjust calculation of retained earnings

Reasons for not planning to adopt IFRS 17 for regulatory solvency

Comparability

- IFRS 17 is principles-based
- Prefer more prescriptive regulatory requirements

Stability

- Prefer not to require updated valuation assumptions

Differing objectives

- IFRS 17 seen as focusing on earnings measurement
- Prudential objective is safeguarding policyholders interests under wide range of potential scenarios

Cost

- Significant implementation costs outweigh perceived marginal benefits

Materiality

- Not many local insurers are subject to IFRS

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- Use of IFRS 17 for prudential purposes
- **Potential impact of IFRS 17 on supervisors and industry**
 - **Implementation challenges**

Surveyed supervisors generally agree that IFRS 17 is positive for financial stability

Easier performance assessment

More transparent profitability trends

Updated measurement

Ends upfront profit-taking

Comparable financial information

Other potential supervisory implications of IFRS 17

- Impact on policyholders – wide range of views of supervisors from our survey: from no impact to higher premiums and withdrawal of certain products
- Review supervisory reporting – new performance and profitability measures
- Review regulatory approach – proportionality – eg wider application of Premium Allocation Approach as simplified implementation of IFRS 17

Poll question 3

In IFRS jurisdictions where regulatory solvency assessment is not based on accounting standards, insurance supervisors need not care about IFRS 17. Do you agree?

- Yes
- No

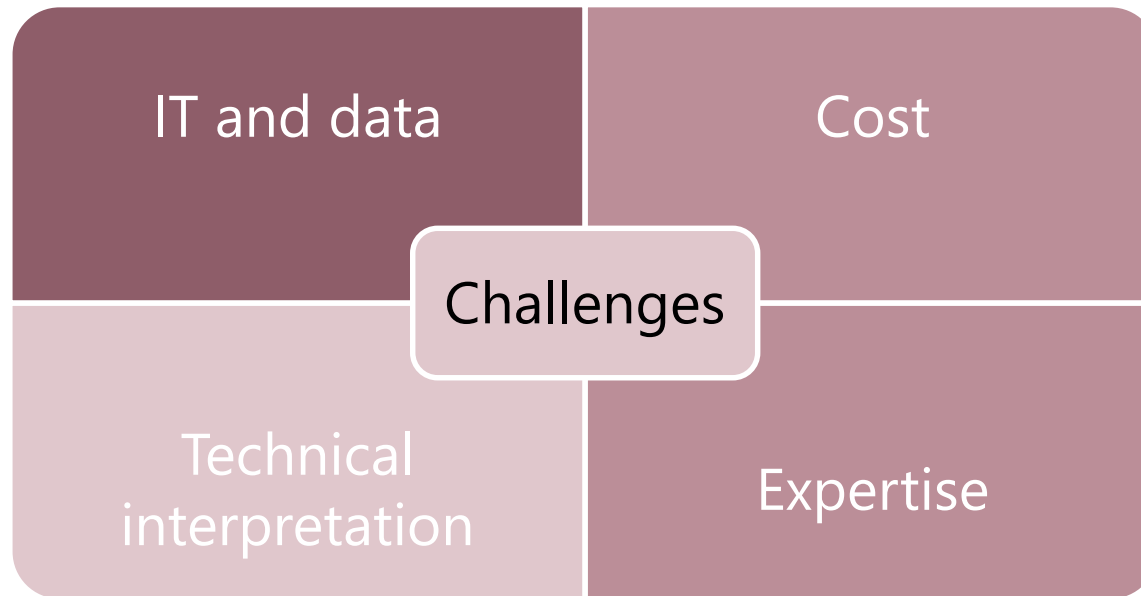
Potential impact on insurers (even if IFRS 17 not used for regulatory purposes)



Other potential impact of IFRS 17 on insurers

- **Not many** supervisors have undertaken impact study (regardless of regulatory approach)
- Impact studies showed **wide range of results** – similar insurance contract values, lower, higher (less impact on non-life insurers)
- Insurers not expected to drastically change **business strategy**
- Positive impact on the **sustainability of insurers' business model** in the longer term - discontinue economically unprofitable products that relied on upfront profit recognition
- Insurers may need to review **asset-liability management** strategy – longer profit emergence
- Potentially better **market conduct** outcomes – incentive to service policy longer as profits emerge more gradually
- Contribute positively to enhancing insurers' **enterprise risk management** frameworks - stronger actuarial function and data governance controls

Implementation challenges



Supervisors can help address some of these challenges

Concluding remarks

- IFRS 17 is expected to bring **positive benefits** to the insurance industry in the long term as well as to financial stability despite significant implementation challenges
- **More work** needs to be done to fully understand the potential impact of IFRS 17 regardless of regulatory approach – **impact study** should start early next year
- There are valid reasons for existing **range of regulatory approaches**
- Those jurisdictions not currently intending to implement IFRS 17 for regulatory solvency purposes should **reconsider** after gaining some experience with IFRS 17
- Greater specification needed for IFRS 17 techniques and inputs for regulatory solvency purposes through **global coordination** to avoid local versions of IFRS 17
- All supervisors should be **engaging with the insurance industry** about IFRS 17 no matter if they intend to use IFRS 17 as a basis for solvency assessment or not
- Supervisors should be organizing or advocating **quantitative impact studies** no later than this year



Arab Union of Insurance Supervisors

IFRS17 Regulatory Preparedness Committee

Jan/2021



Agenda

- AUIS
- IFRS17 Preparedness
- The Current Status
- The Committee Plan
- Outputs
- Next Step



AUIS is a regional Union consisting of (15) Insurance Supervisors from Arab World



UAE (IA)



Egypt (FRA)



Qatar (QCB)



KSA (SAMA)



MOROCCO (ACAPS)



Palestine (PCMA)



Jordan (MITS)



Syria (SISC)



Sudan (MOF)



Tunisia (CGA)



Oman (CMA)



Bahrain (CBB)



Libya (LIS)



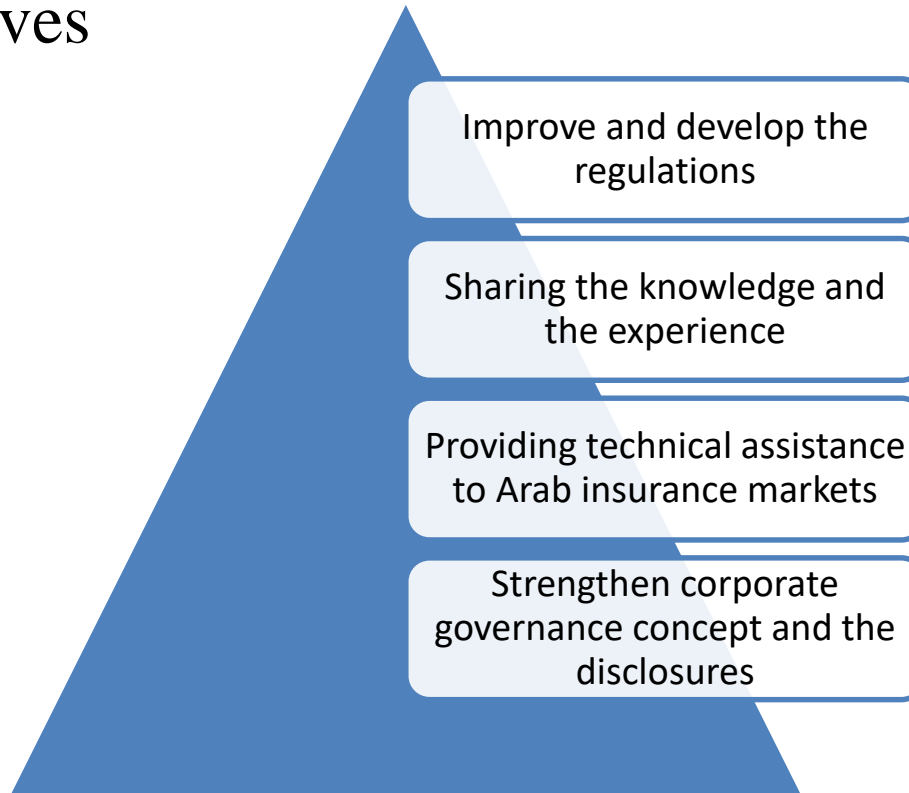
Lebanon (IC)



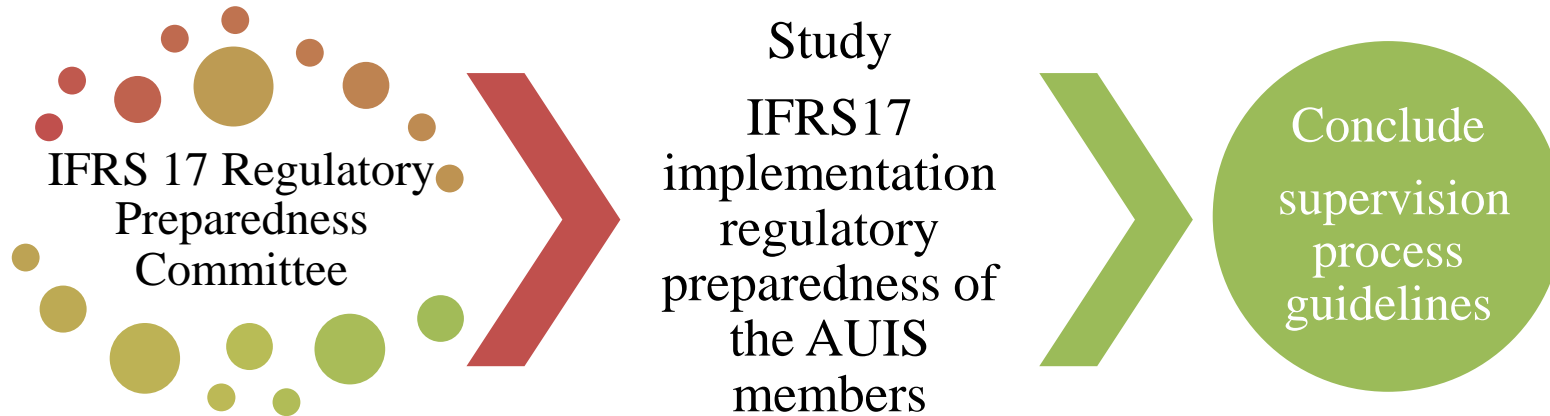
Yamen



AUIS Objectives

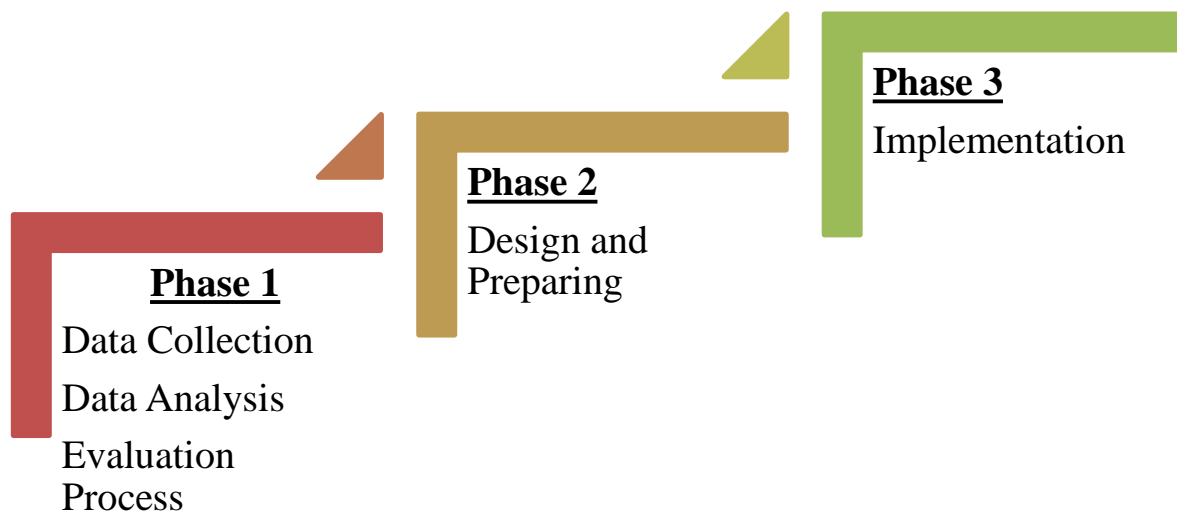


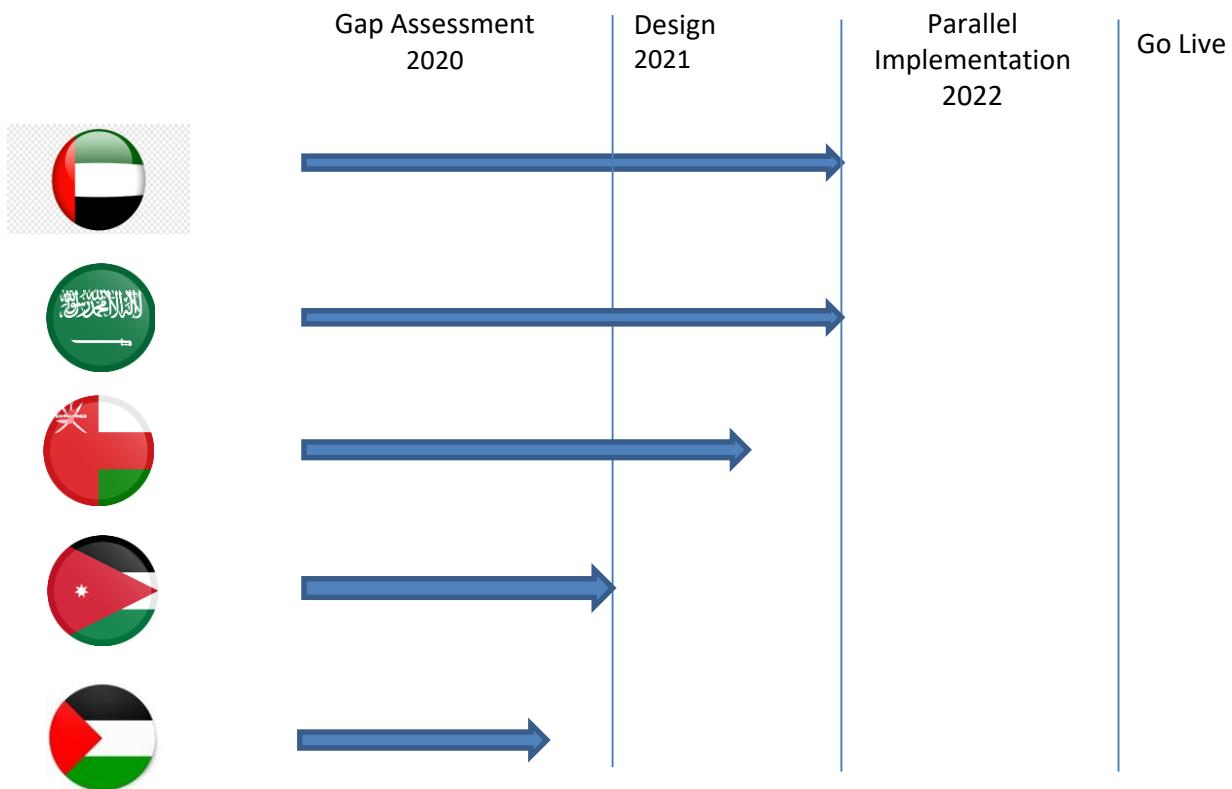
AUIS Initiative





IFRS17 – Regulatory Preparedness





The Committee Plan

Phase 1

Data Gathering
(Questionnaire)

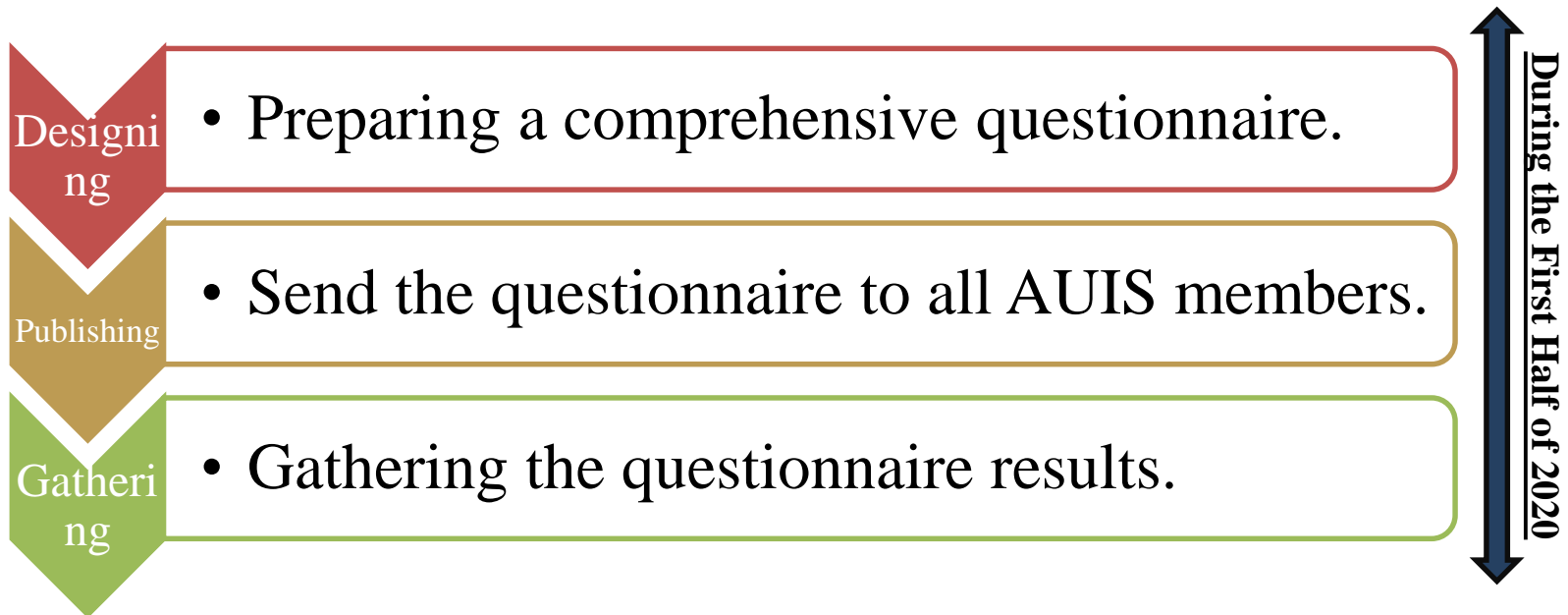
Phase 2

Data Analysis and
Evaluation

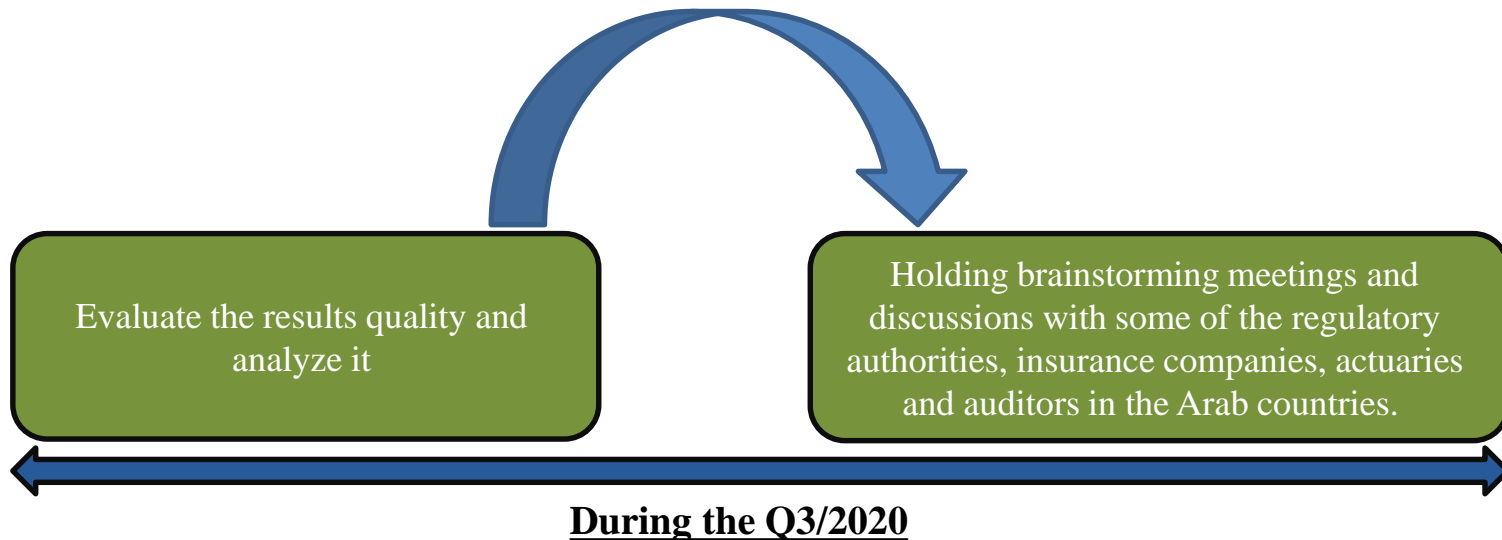
Phase 3

The Conclusions and
Recommendations

The Committee Plan/ Phase One



The Committee Plan/ Phase Two



The Committee Plan/ Phase Three



Prepare a comprehensive regulatory considerations report

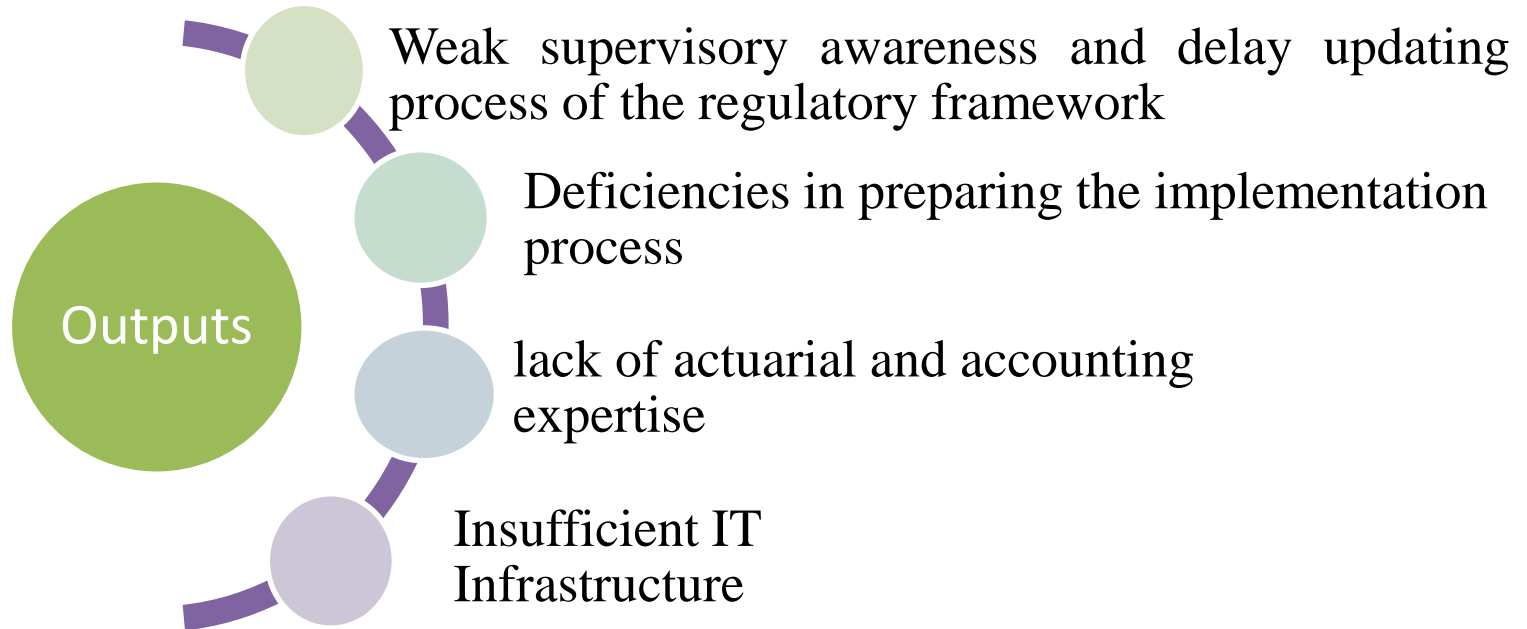


Arranging workshop for the regulatory authorities.



Study the possibility of adopting unified financial statements forms and its disclosures, also unified control reports forms.

During Q2/2021





What is the Next Step ?

New conference
to discuss the
guidance
outlines

Outlines for the
regulatory
manual and
control reports.

Towards implementation of IFRS 17

Supervisory initiatives and observations on the state of preparedness

Chew Hwee Yin
Lim Kuan Hong

28 January 2021



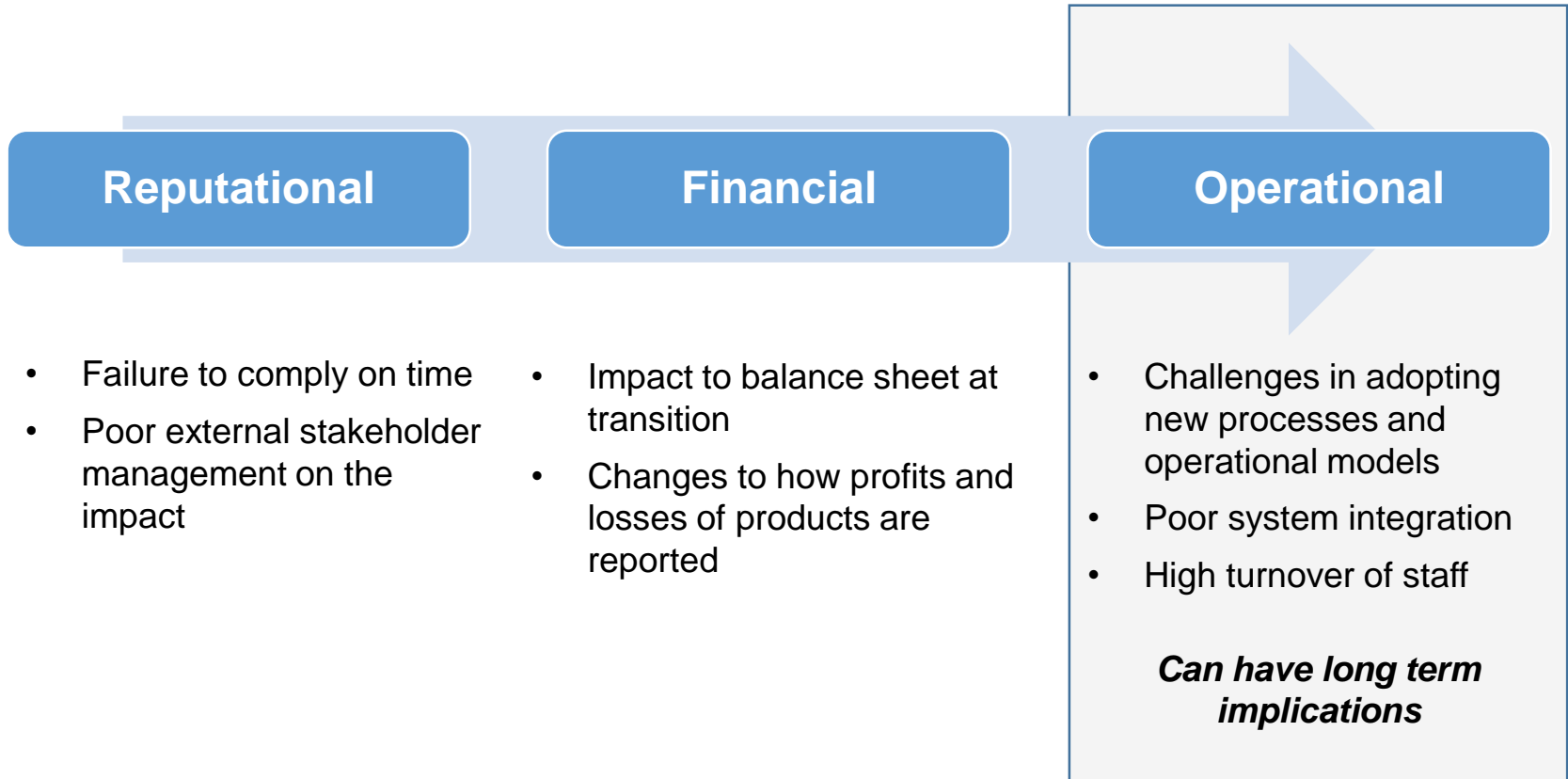
Agenda

1. Key risks and supervisory concerns
2. Supervisory initiatives taken so far
3. Observations on the general state of preparedness



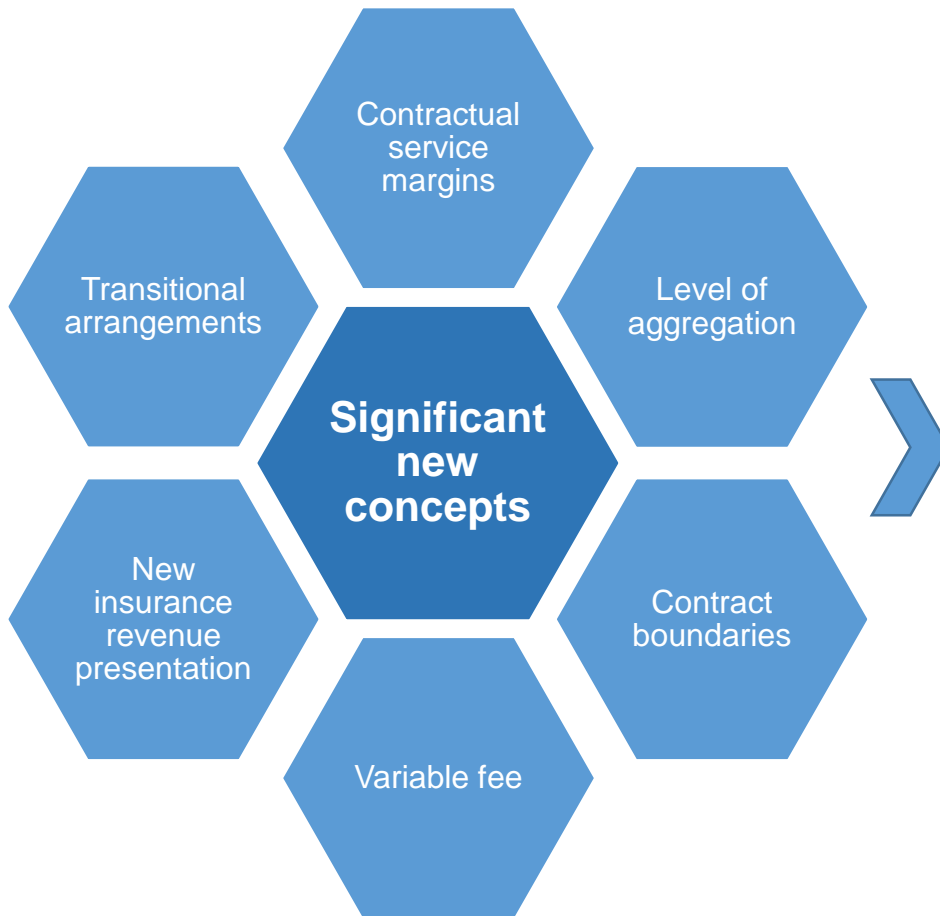
Understanding the key risks informs our supervisory engagements

What are the implementation risks faced by companies?



Complexity of the standard heightens risk

The technical complexities may make engagements with key decision makers within the company more difficult



Lack of effective engagement with board or senior management

- Project accountability
- Decision making processes



Difficulty in resourcing

- Technical expertise
- System solutions

A variety of supervisory tools have been used so far



Mode of engagement

Supervisory letters
Onsite visits
Annual surveys
Regular updates by companies on their progress

Observations on the general state of preparedness

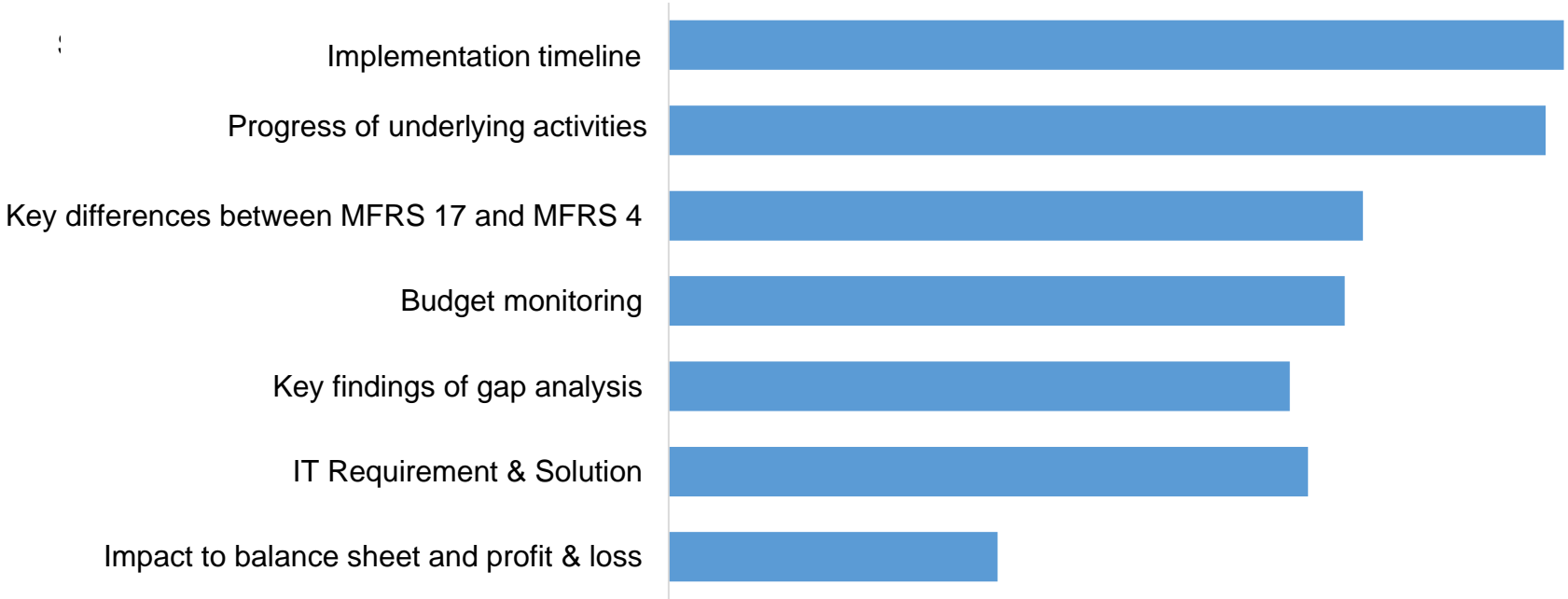
- Engagement with the Board
- Key implementation challenges
- System implementation
- Staff turnover



Engagement with the Board

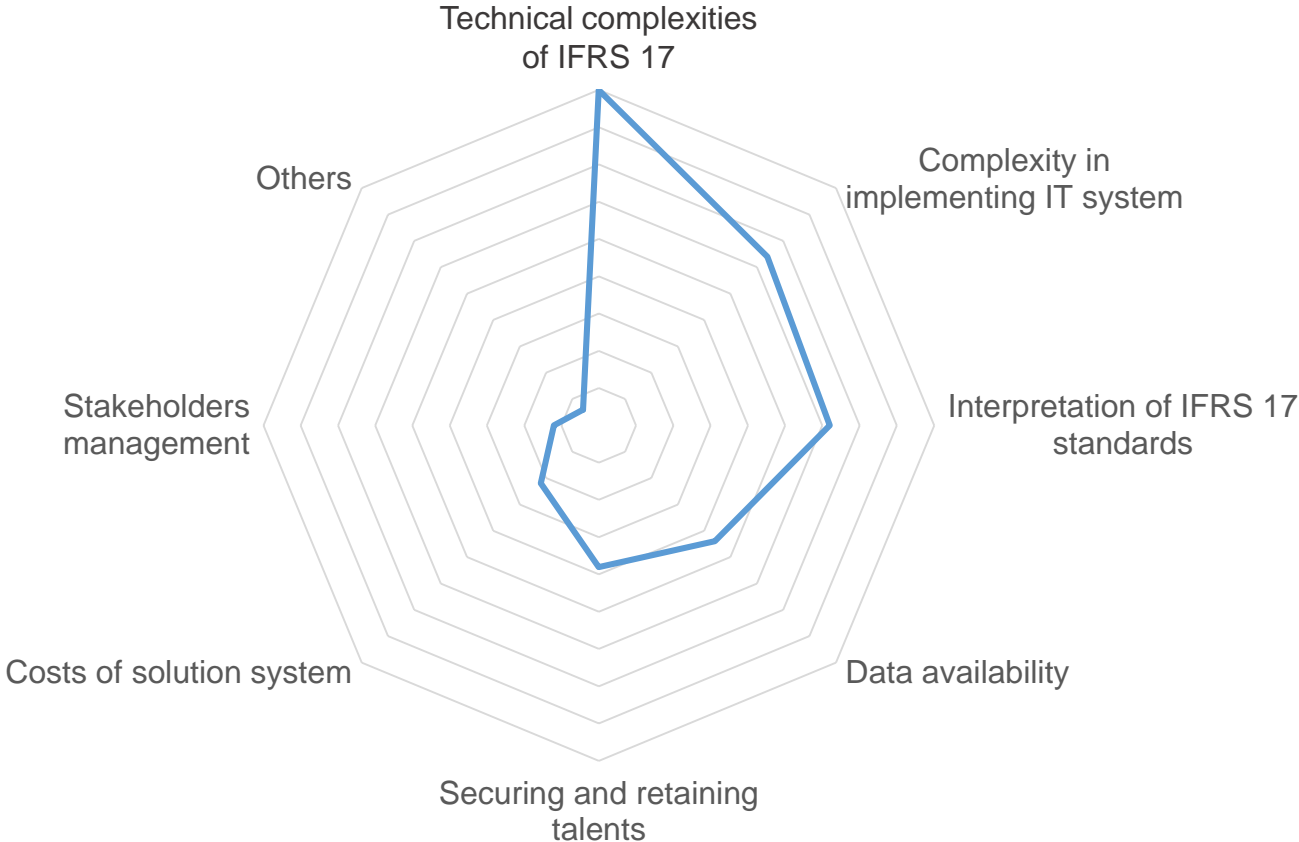
Board oversight is important to maintain momentum of IFRS 17 implementation and preserve accountability in the decision making processes

The majority of the Boards are updated on a quarterly basis on the following topics:



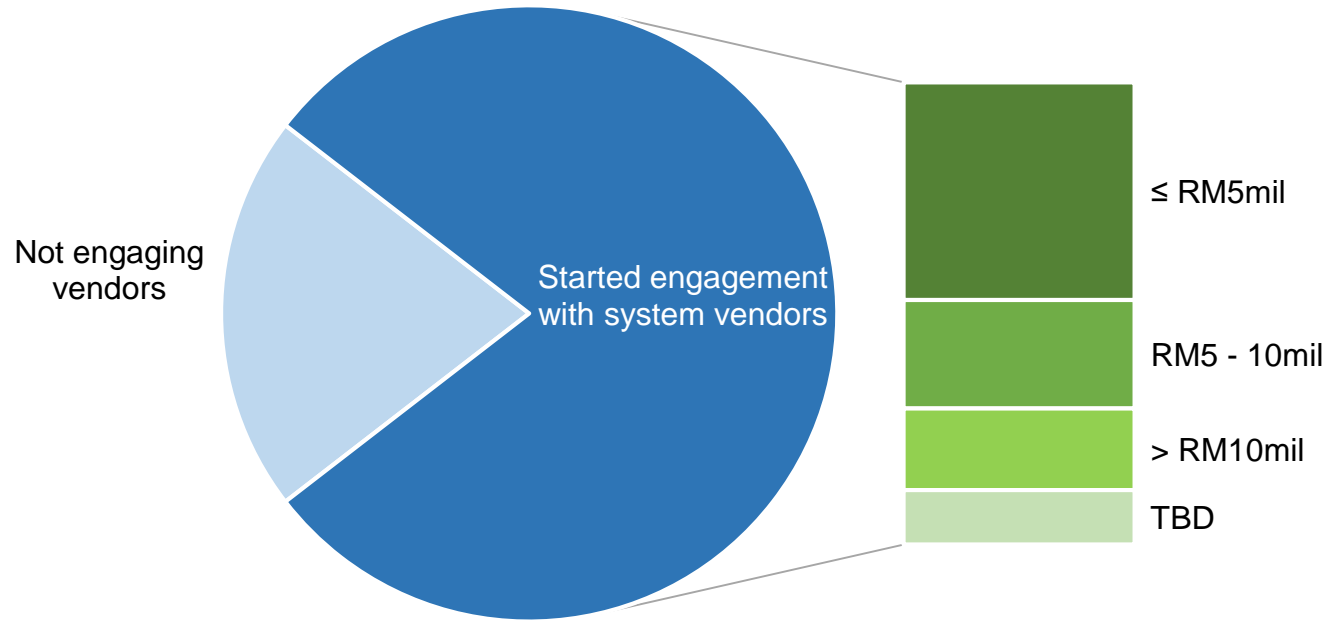
Key implementation challenges

Different challenges at different stages of implementation



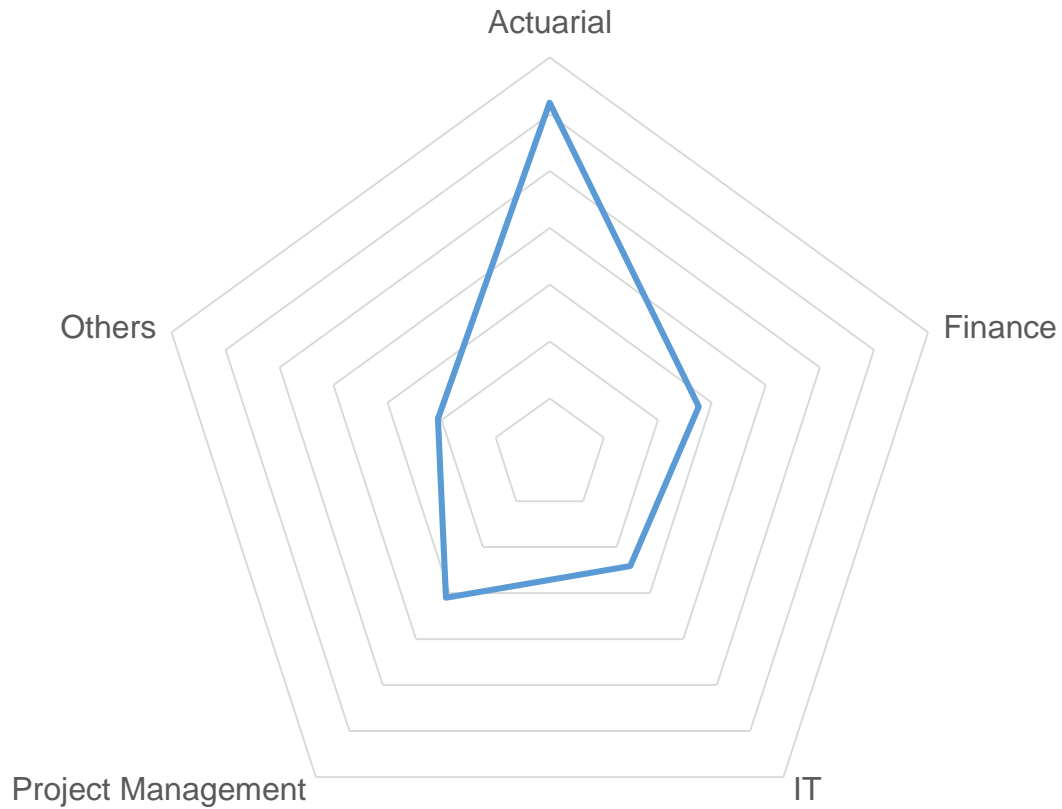
System implementation

Early engagement with vendors is key in managing system implementation



Turnover of a company's IFRS 17 resources

Certain resources are scarce and highly demanded



Where do we go from here?

- The current modes of monitoring will be continued.
- Concerns observed from monitoring will be highlighted to the entities.
- While the timeline for implementation has been extended, there are other variables that could affect the implementation progress, e.g. Covid-19 pandemic. Companies will be engaged on management of those risks.



Q&A Session

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