



Dialogues

Accounting Standards & IFRS 17: The Role of Insurance Supervisors

28 January 2021

Speakers and Presenters



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**Financial Stability
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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

Poll question 2

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

- Yes
- No

Poll question 3

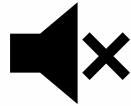
In IFRS jurisdictions where regulatory solvency assessment is not based on accounting standards, insurance supervisors need not care about IFRS 17. Do you agree?

- Yes
- No

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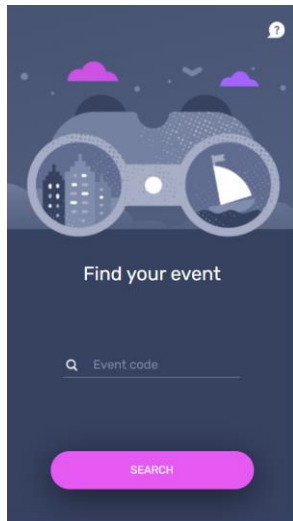
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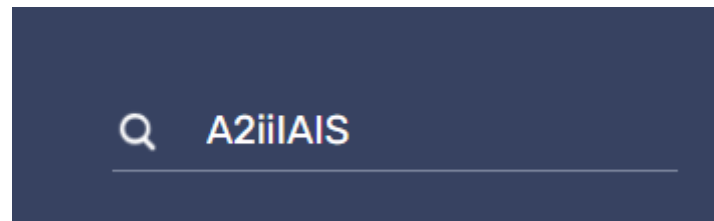
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FSI-IMF paper on accounting standards and insurer solvency assessment

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**

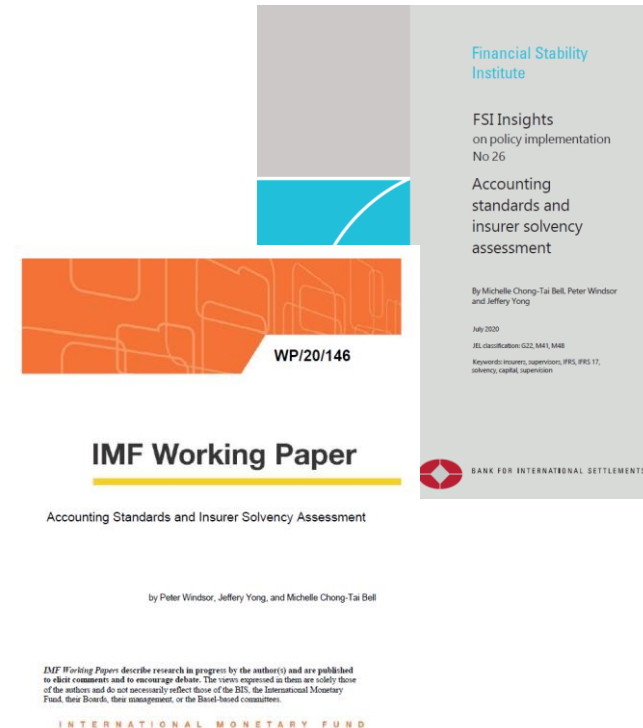
- first launched in August 2017
- focuses on practical financial regulatory and supervisory topics
- aims to contribute to international discussions on policy issues and implementation challenges faced by financial sector authorities

- **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

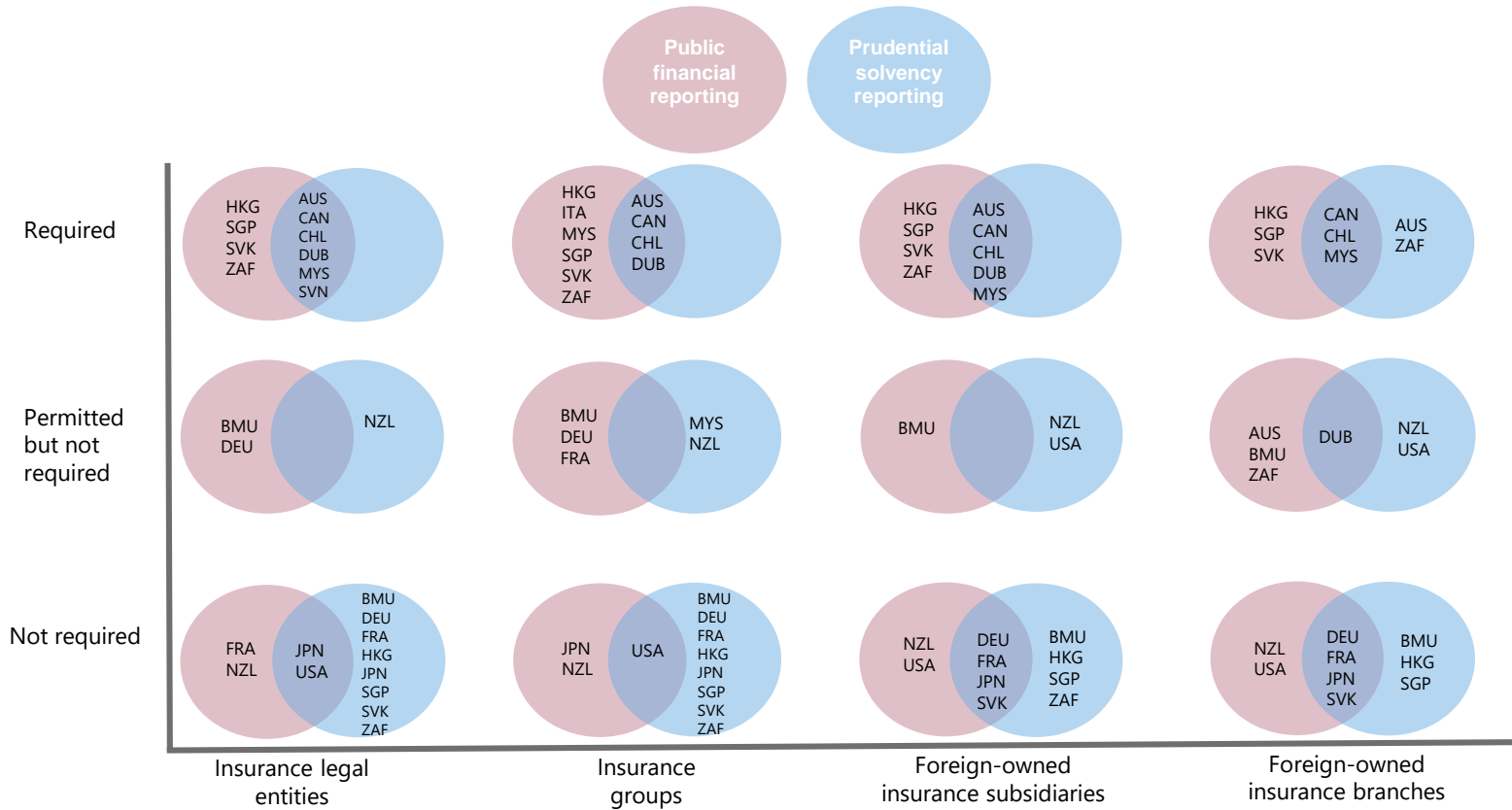


Link to paper: [FSI webpage](#), [IMF webpage](#)

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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

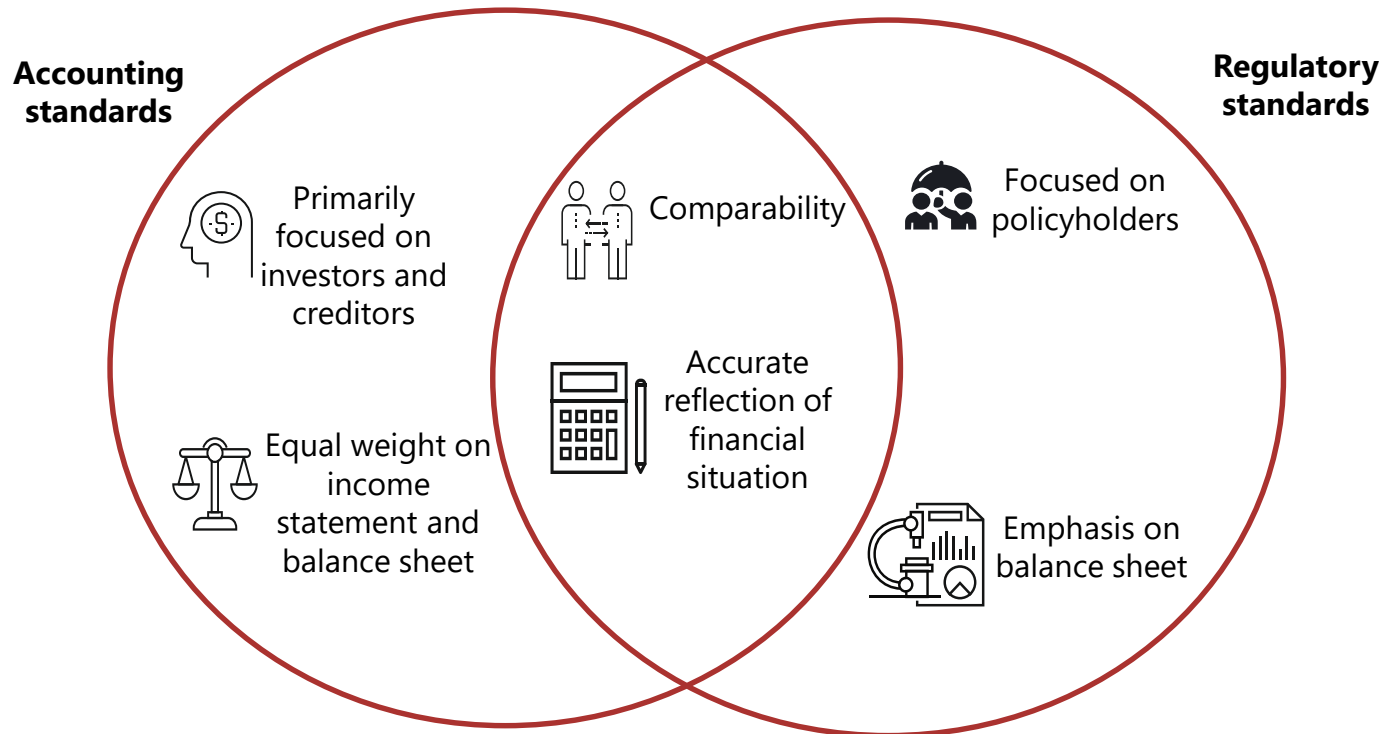
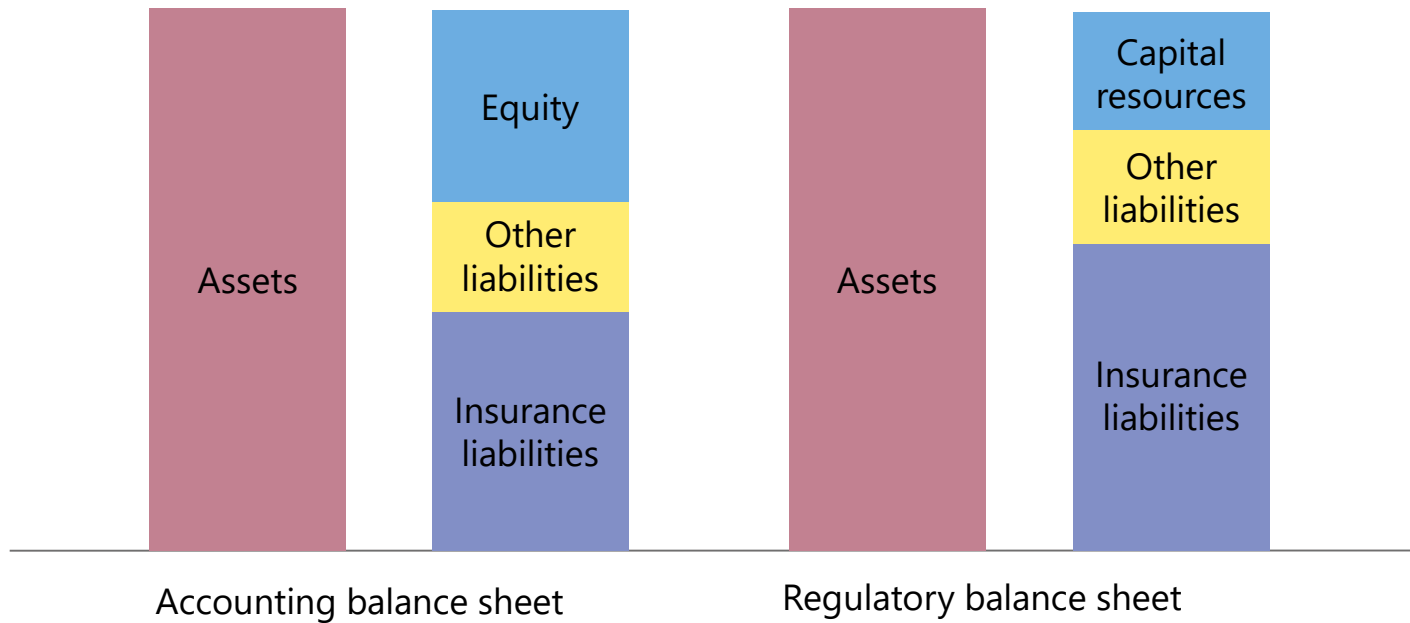
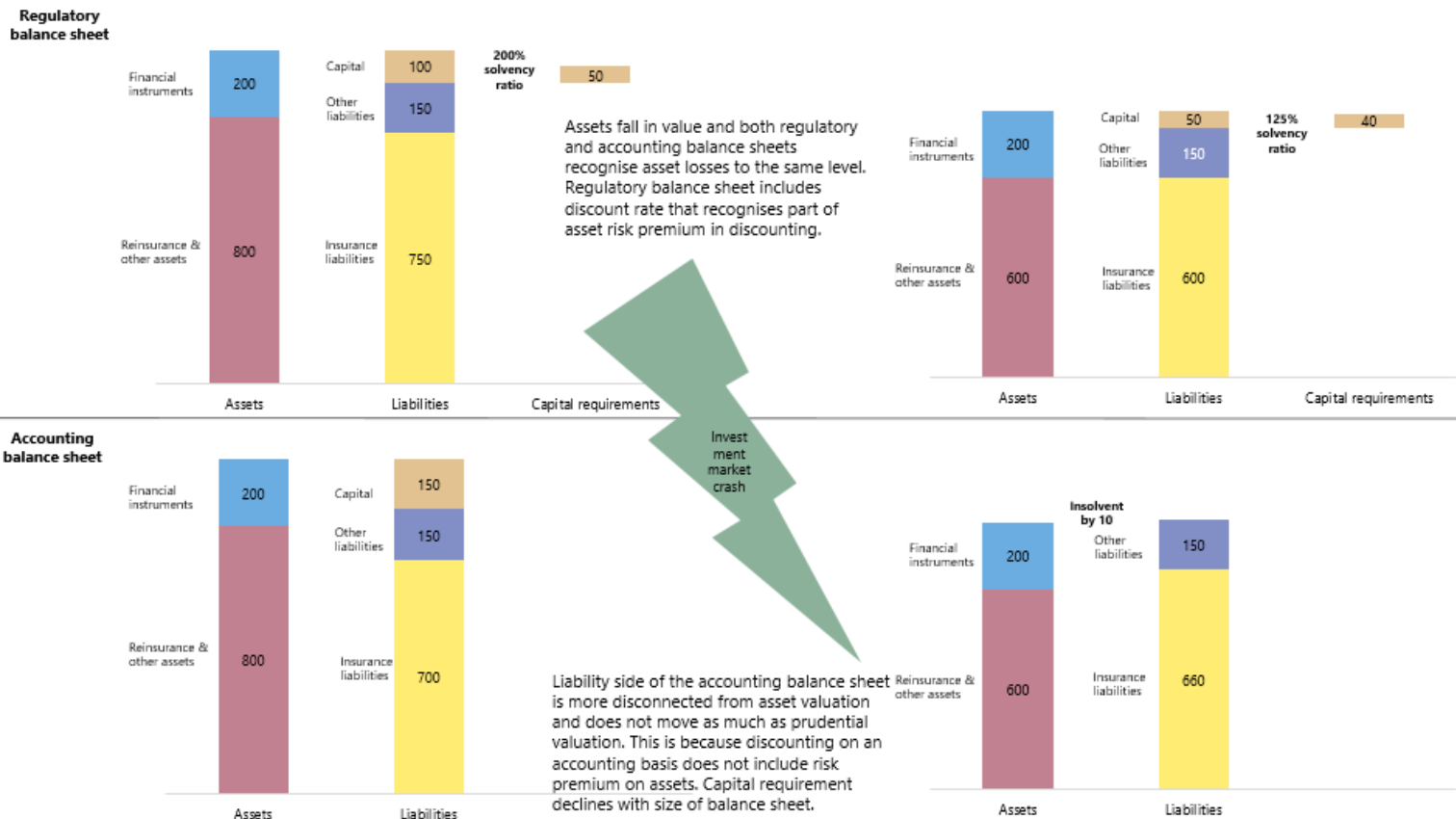


Illustration of accounting and regulatory balance sheets



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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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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- **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

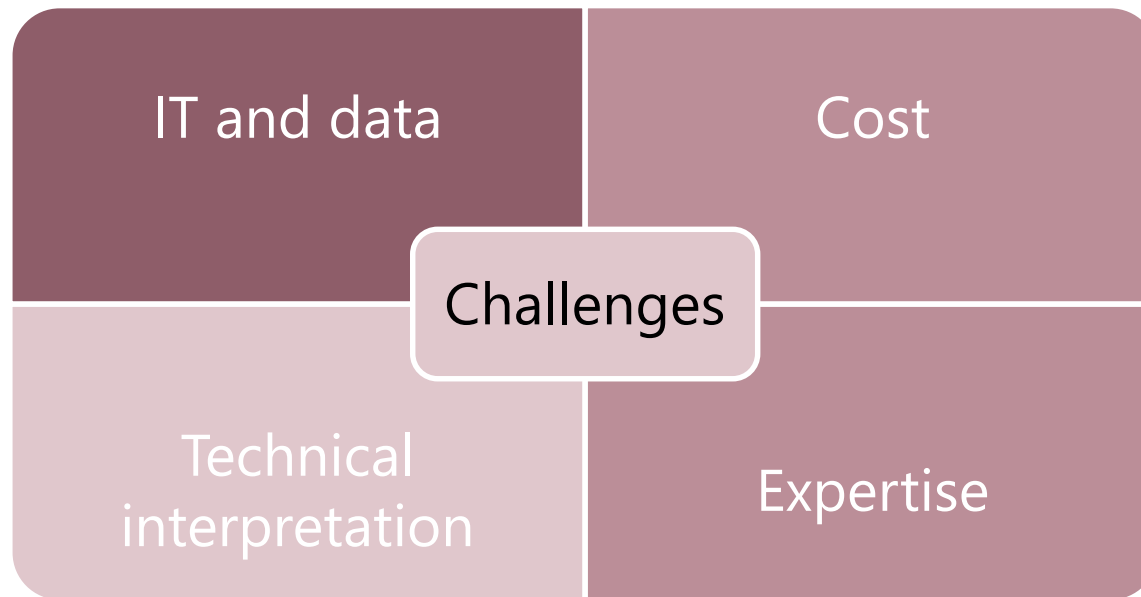
Potential impact on insurers (even if IFRS 17 not used for regulatory purposes)



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

Supervisory Exchange



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Q&A Session

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