



IFRS 17 Contractual Service Manual Working Party - Draft Terms of Reference

Background

IFRS 17 has been a long time in the making. The rules are now sufficiently clear that it makes sense for the industry to take a view on some of the key technical aspects of relevance for life insurance firms. Actuaries have a key role to play in driving the industry debate and a working party could be useful in driving some of the debate systematically.

Purpose

The purpose of the working party is to:

- compile and review current literature in the life insurance arenas to ensure access to up to date information
- analyse the impact of different approaches to calculating the CSM at initial recognition and subsequent measurement, with respect to:
 - life insurance products under the Building Block Approach (i.e. Annuities and Protection) and the Variable Fee Approach (i.e. With-Profits)
 - existing and new business
- consider the operational implications of the different approaches to ensure that recommendations are proportionate
- provoke thought leadership and innovation within the industry through presentations and forums to gain wider input.

Approach

A working party is proposed to be formed under the sponsorship of the Life Research Sub-committee (LRC) to take this work forwards. The working party should work closely alongside the IFRS 17 and the Discount Rates working parties.

Composition of working party

We recommend a working party of ten members of the actuarial profession working within life insurance to perform this research. We recommend that members cover consulting, pricing and financial reporting experience.

Specific goals and areas to be investigated

- a summary of existing research material performed by the actuarial profession, European bodies, regulators and consultants on the topic
- analysis of the impact of different approaches to calculating the CSM at initial recognition and subsequent measurement, with respect to:
 - 'Locked-in' assumptions
 - unit of account
 - accretion
 - changes in fulfilment cash flows (including FX changes)
 - coverage units and CSM runoff
 - reinsurance contracts
- analyse the impact of different approaches to calculating the Loss Component at initial recognition and subsequent measurement, Loss Component run-off and the interaction of the Loss Component with the CSM

- the working party is also expected to liaise with regulators and lobbying bodies (e.g. ABI) where possible.

Research methods

The working party will perform a literature review to avoid reinventing prior thought. The expectation is that the body of the work will focus on developing some interesting modelling studies and presenting the analysis of the modelling.

Output

Informal material will be developed to provoke thought and generate input over the course of the working party. The ultimate aim will be to develop a sessional paper presenting the results of the work.

Recommendations

The working party is expected to recommend the advantages and disadvantages of different CSM mechanisms.

Potential timetable

- working party to be created - July 2018
- first meeting and finalisation of scope – July 2018
- literature review and summary – September 2018
- initial analysis and provocative output – short notes on social media or Actuary article – Autumn 2019 (note that this date is very important as this working party needs to make progress quickly to be of use to the industry)
- collation of analysis and feedback – Spring 2019
- presentation of sessional paper – Summer 2019.

Funding

No expectation of external funding.