Zoomerang Survey Results

Survey on IASB Exposure Draft on Insurance Contracts

Response Status: Completes | Partials
Filter: No filter applied
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Definition, scope, recognition

1. Overall measurement objective (expected present value of the future cash flows that will arise as the insurer fulfils the insurance contract) - Do you agree with the ED's objective? (Q2a)

Yes	26	100 %
No	0	0 %
Total	26	100 %

2. Does the requirement (B25) that there must be one scenario that has commercial substance in which the present value of net cash outflows paid can exceed the present value of the premiums to qualify as an insurance contract cause difficulty?

Yes	7	28 %
No	18	72 %
Total	25	100 %

Comments

1 - Creditor insurance often have such high profitability, there may not be a scenario with commercial substance.

2 - Some proportional life reinsurance contracts, although covering original risk, on a portfolio level a loss is highly unlikely

3 - Not that I have come across

4 - Might lead to reclassification of certain annuity contracts compared to current IFRS 4.

5 - Too lenient a description - p/c companies could manage leverage ratios by entering into reinsurance transactions with substantively no risk

3. Any other changes needed in the current IFRS 4 definition of an insurance contract?

Yes	2	8 %
No	22	92 %
Total	24	100 %

Comments

1 - The definition assumes the policyholder is the life insured which is often not the case.

2 - B24 requires a clarification that the "scenario" applies to single contracts, not to portfolios by

3 - Reduce role of insured interest

4. Portfolio - is the definition of a portfolio (a group of contracts that are subject to similar risks and managed together as a pool) adequate considering the different purposes that portfolio is used for (expenses, risk adjustment, residual margin)?

Yes	17	65 %
No	9	35 %
Total	26	100 %

Comments

1 - Use portfolios at the level in which the company is managing the business.

2 - Para.20's partition into sub-portfolios for setting initial residual margins: management's view would be more relevant than partition by "similar date of inception [..] and coverage period".

3 - The definition is fine, but using only the word "portfolio" may cause confusion (for instance, when you talk about a "replicating portfolio for the portfolio" I suggest to talk about an "insurance portfolio"

4 - We need to consider how this definition may be interpreted differently by different insurers and reduce the potential for a range of definitions to a minimum.

5 - Reference for risk adjustment to risks rather than contracts, reference to contracts administered together for cash flows, reference to contracts in case of residual margin

6 - The portfolio need not be the same for each purpose. Their can be a heirachy of portfolios

7 - Needs clarification (probably in application guidance) that this does not imply business units, that can change from time to time, but to underlying risks.

8 - Not adequate for risk adjustment - should be reporting entity.

9 - It is not clear what managed together as a pool means. Sometimes post claim liabilities are grouped and managed based on when the claim occurs rather than on what contract the claim came from.

10 - Risk adjustment should be calculated at a much broader level, perhaps as high as segment level in some cases, since the entire point of insurance is diversificaiton. for UEP onerous contract testing, my suggested would be the calculation would be at a marketing division level, where multiple products are sold to the same customer base.

5. Scope of project - should any types of contracts scoped out in the ED be included (in paragraph 4) or should any contracts scoped into the ED be scoped out? (Q11)

No - okay as is	24	96 %
Yes - I suggest the following change:	1	4 %

Comment

1 - Include all par contracts (investment and service), more guidance on fixed-fee service, if actually insurance it should be in

6. Should all or certain investment contracts with DPF be within scope? (Q10c)

All within scope	14	61 %
None within scope	1	4 %
Certain ones should be within scope	5	22 %
Comment	7	30 %

Comments

1 - Sharing fund with par-business is good criterion

2 - Unnecesary complexity is added with the new requirement "the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity?"

3 - Not my area

4 - The concern for South Africa is that the defintion now in place has the potential to show balances on the balance sheet (positive and negative) to which the entity has not rights - only the polocyholders have a right to the DPF balance.

5 - Those with DPF

6 - I can not figure out what is exactly included in investment contracts with DFP.

7. If only certain investment contracts with DPF should be within scope, what changes would you suggest to the rule that there has to be insurance contracts with DPF in the same asset pool the right distinction to make in deciding which contracts should be within the scope?

5 Responses

1 - No changes.

2 - Exclude it.

3 - Not my area

4 - Significant volume of insurance contracts

5 - This is equivalent to the fact that these DPFs could share in the pooled experience of life insurance contracts.

8. If investment contracts with DPF are within scope, do you agree with described measurement approach? (para 64 and 65) (Q10d)		
Yes	16	100 %
No	0	0 %
Total	16	100 %

9. When should a contract be initially recognized?		
A - The earlier of the beginning of the coverage period and date the contract was agreed to into effect (as in the ED)	14	54 %
B - The date the coverage period begins	8	31 %
C - The date the contract was agreed to	2	8 %
D - Other, please specify in comment box below	1	4 %
Comment	6	23 %

1 - From practical viewpoint

2 -Option A only adds unnecessary operational complexity.

3 - No strong view

4 - For losses C, otherwise if residual margin locked-in, when any service starts, otherwise it does not matter

5 - A is conceptually the right answer, but I am concerned about the determination of the basis for the residual margin being dependent on the yield curve in effect on day 1.

6 - Will often be difficult to know when entered into until late in process

Unbundling (Q12)

10. Should any unbundling that meets the requirements for unbundling be:		
Required	12	48 %
Permitted	7	28 %
Not used at all	5	20 %
Comment	3	12 %

1 - Only if legal contract artificial bundle of independent components

2 - It depends on the difference of measurement.

3 - Permitted for measurement.

11. Is the principle for unbundling reasonable and clearly stated (not closely related to the insurance contract)? (para 8)		
Yes	13	52 %
No	12	48 %
Total	25	100 %

Comments

1 - The term of 'closely' should be more specified.

2 - Yes, if one reads BC, not in the standard text itself.

3 - Universal Life contracts where the death benefit is the insured amount less the reserve, are excluded although the so called "account balance" performs as the reserve of a traditional insurance contract, except for the mechanism for crediting interest. Reference to Universal Life should be excluded or limited to contracts where the account balance is added to the insured amount in the event of death.

4 - There is much confusion as to tne meaning of "That crediting rate must pass on ....all investment performance net of contract fees and assessments" It is ambiguous whether a UL policy meets this condition.

5 - In certain contracts in South Africa the explicity stated example in 8(a) seems to contradict the 'closely related' situation. These are contracts where the cost of risk is based on the difference between the unit acccount and the sum assured and the amount changes with teh expereince of the unit acocunt and the premium payment pattern.

6 - Merely reference to substance over form

7 - "closely related" needs discussion and clarification

8 - Although I don't mind the closely related principle, it needs to be further clarified, particularly in the case of account-value driven contracts. The key is whether there are any differences in methods applicable.

9 - changed so thatr just components that are not interdependent with insurance coverage to be unbundled

10 - It seems like it applies to variable annuities, but it isn't clear how it applies to fixed contracts with account values

12. Should derivatives embedded in insurance contracts but that are not closely related be unbundled?		
All	5	23 %
None	3	14 %
Only those not involving insurance coverage	12	55 %
Comment	4	18 %

1 - This topic should not be reviewed before at least the direction of Phase 3 of IFRS 9 is clear

2 - As well participating would be closely related

3 - examples may be needed, for the determination of their fair values, and in practical application

4 - No - they should be measured appropriately within the context for current fulfillment value.

13. Should the account value of unit-linked (variable) contracts be separately accounted for (unbundled)?		
Yes	12	63 %
No	7	37 %
Total	19	100 %

Comments

1 - not my area

2 - Except unbundling requirement are fullfilled.

3 - See question 11

4 - Where the unit accoutn and the risk potions of the contrcat are closely related they should NOT be unbindled. The administrative complexity to separate the values for the 'flow' elements will be practically difficult.

5 - Issue properly solved within ED, unbundling superfloous

6 - only if that is how contracted administered and understood by policyholder

7 - Should not be required but should be permitted.

14. Should other account value based contracts (e.g., universal life, fixed deferred annuities) be unbundled (those with an explicit account value, all investment performance transferred)?		
Yes	5	23 %

No	17	77 %
Total	22	100 %

Comments

1 - not my area

2 - Except unbundling requirement are fullfilled.

3 - Materiality is always a consideration. It should be very clear that the insurance component of a deferred annuity where the annitization option is seldom exercized may not need to be unbundled.

4 - See above

5 - No. Guidance in ED is sufficient to avoid all problems usually used to argue unbundling.

6 - too complex, and a minimum liability equal to the account value, that is not necessarily related to expected future cash flows.

7 - it should be made clear that experience accounts in p/c contracts should be unbundled

15. Do you believe that all investment performance is transferred under non-unit linked (variable) account value based contracts?		
Yes	5	31 %
No	11	69 %
Total	16	100 %

Comments

1 not my area

2 EIAs transfer only a contractual percentage, e.g., 80% of investment performance.

3 On the surface, it does not seem that all investment performance is transferes in a UL policy, where management has broad discression in deciding the amount of spread on each credition date.

4 - If not all performance is transferred in all cases, the measurement of the fund depends on the remaining contract

5 - I cannot see the point of this Question.

6 - The question is unclear.

16. Should other contracts or features be unbundled?		
Yes	2	9 %
No	20	91 %
Total	22	100 %

Comments

1 - not my area

2 - The ED's "not closely related" principle is consistent with its new P&L-scheme, the "summarized margin approach", in that from a measurement point of view, companies will probably want to unbundle exactly any non closely related components.

3 - Reinsurance premiums held on deposit by the cedant

4 - if clearly no relation to insurance contracts

17. If unbundled, are you concerned about how unbundling should be done?		
Yes	14	88 %
No	2	12 %
Total	16	100 %

Comments

1 not my area

2 Deposit type non-life insurance contracts in Japan.

3 Unbundling of saving component and insurance component could be subjective, artifical and onerous.

4 Unbundling of a closely-related component would be a concern, but that is not being suggested in the ED..

5 Universal Life contracts with death benefit = insured amount less account balance

6 The method for unbundling the insurance component from the deposit component in a deferred annuity with an annuitization option at a guaranteed purchase rate does not seemed to be clearly specified.

7 There are a number of "grey" areas which may be subject to different interpretations

8 Especially where the elements are clkosely related and interlinked
9 With any, necessary to unbundle components which have all features of a reasonable contract

10 account value unbundling
11 I'm ok if unbundling is for balance sheet geography, but if it impacts the total measrement, I'm against it.
12 I would prefer to measure the entire contract be measured at CFV and present the liability in two pieces; 1) the account balance and 2) the remaining portion of CFV.
13 Depending on the definition of "significant insurance risk"

18. For account value separation, should:		
A - the building block approach be used for the entire contract, with the account value simply being subtracted?	10	59 %
B - the insurance element be measured on a margin approach? (e.g., cost of insurance margin, expense margin, surrender charges)	5	29 %
C - Other way, please specify	3	18 %

1 not my area
2 Initially A with residual margin determined, subsequent B, account value independent
3 A only if absolutely necessary - I don't think it would provide much additional information

19. Should a claim service and stop-loss health insurance contract when offered at the same time and with the same counterparty be unbundled?		
Yes	6	40 %
No	9	60 %
Total	15	100 %

Comments
1 not my area
2 not closely related
3 Not my area
4 If unbundling generally applied, yes.
5 note this issue is common in the US workers compensation market as well

Contract boundaries

20. Is the principle to be used to determine the terminal contract boundary (an insurer is no longer required to provide coverage or has the right or the practical ability to reassess the risk of the particular policyholder and, as a result, can set a price that fully reflects that risk) stated reasonably? (Q9) (para 27)		
Yes	20	80 %
No	5	20 %
Total	25	100 %

Comments
1 however, clause B61(g) seems to imply a converted policy is included, however, I would have thought a converted policy would be a new contract.
2 almost OK. Should allow for underwriting restrictions that apply equally to new and existing policyholders (non-discrimination, etc.)
3 Risk assessment on portfolio basis as criterion (e.g. non-guaranteed annuity factors).
4 Almost, but not quite. The current rule could arguably catch cases where underwriting is constrained by legislation or regulation (e.g. anti-discrimination). Something like “that reflects risk to the same extent as is allowed for new policyholders” would be better.
5 "fully reflects" is insufficient, the insurer needs to be virtually free to price (i.e. ability to choose prohibitive prices) However: That is ultimately not more than guaranteed insurability. We should get more.
6 Not "the particular policyholder" but "the insured" may be the better.

21. Does the automatic reclassification of an insured's rating class from, say, single to married, as in some health insurance forms, or geographic move of an automobile insured if the geography of the insured affects rates, be considered to be a reassessment of the risk of the particular policyholder?		
Yes	7	37 %
No	12	63 %
Total	19	100 %

Comments

1 but the issue is restrictions

2 these events give rise to experience adjustments and changes in estimates

3 The assessment (procedure and criteria to determine the risk class of the insured object) is the same, the risk class changes because the characteristics changed.

4 But only if the insures can has the ability to reset the rate with little or no constraints after the change in status.

5 Only if virtually the entire risk is reassessed, i.e. if the initial underwriting is only on the same level (e.g. accident, if simply is asked for profession, subsequent changes need to be reported and result in repricing, but repricing need to be free, not according tariff)

Measurement model – expected cash flows

22. Is the use of "probability-weighted" acceptable?		
Yes	19	76 %
No	6	24 %
Total	25	100 %

Comments

1 I have a problem determining what the probability weighted cash flows are for a portfolio of long term insurnace contracts would be given the many risks involved (mortality, morbidity, lapse, expense, etc.) and the possible co-relations between some of these. Reference to a best estimate or mean at a risk level rather than a portfolio level would be better.

2 Not acceptable if probability-wighted is understood equivalent to "stochastic in any case".

3 The emphasis should be on obtaining an UNBIASED estimate of fulfillment amounts.

4 This defins the meaning of "expected value". For some types of coverage there will be simpler or other commonly used methods for estimating expected values. Distribution functions are usually not known for P&C claim reserves.

5 but should specify that stochastic models not required for all analyses

6 Should be clarified that "probability-weighted" is only to explain what an expected value means.

7 It should be probability weighted present values to allow for scenario specific discounting

8 This simply means statistical mean, not that each scenario has to be ascertained and probabilities assigned.

9 Reference only to expected value would be sufficient.

10 Expected value would be sufficient.

11 no - the measurement objective should be defined, and then it is up to the practitioner to determine the most appropriate way to meet that objective.

23. Is it reasonably clear how to allow for measurement using a probability-weighted method in situations in which all possible scenarios and their probabilities are not appropriate / desirable / possible?		
Yes	9	38 %
No	15	62 %
Total	24	100 %

Comments

1 see comments in question 22

2 May require education for those without a statistical background.

3 not sure I u/stand Q: if some scenarios are not appropriate/possible, you just give them p=0.

4 See above comment.
5 However, I think this will be worked out in practice
6 Guidance should be more clear what is explanation what expected value is and what estimation guidance is.
7 but more clarification might be added; otherwise auditors may become quite uncomfortable with the use of judgment.
8 The question is not clear to me.
9 this is why the measurement objective only should be stated

24. If YES to the previous question, is the level of guidance regarding when scenarios (e.g., probability distributions) should be used reasonable?

Yes	6	55 %
No	5	45 %
Total	11	100 %

Comments
1 the problem is determining the probability distribution at a portfolio level or even at a contract level. see question 22 comments.
2 Para. B38's "general statements" requirement may be reasonable, but it isn't very precise..
3 Again see comments in 22 & 23. Common sence should prevail.
4 need more specific commentary that stochastic analysis not always required
5 needs further clarification
6 The question is not clear to me.

25. Is inclusion of only initial incremental (to the contract) acquisition expenses (B62d) in the building block 1 (expected cash flows) reasonable? (Q7)

Yes	9	35 %
No	17	65 %
Total	26	100 %

Comments
1 Ideally, should be policy loading for acquisition expenses, if avaible. Failing this,should at least be at the portfolio level and preferably include appropriate overheads.
2 Incremental on portfolio and annual new business basis, e.g. annual sales bonus should be included.
3 To reduce the occurance of non-economic losses at issue, other direct non-variable costs should allocated to contracts using reasonable methods. (such as underwriting and policy issue)

4 Most of non-incremental expenses should also be included in the building block 1, allocated to each portfolio as if they were incremental expenses.
5 Ideally, the acquisition expense loading in the premium calculation should be used. This would allow an immediate gain or loss acccording to how loaded and actual expenses compare. Failing this, and where there is no explicit formula, all expenses that would properly be allowed in an explicit premium calculation should be used.
6 In Life business the nature of the contract structure involves large up front costs recovered over the contract life time. The exlcusion of these costs will increase losses in issue years and generate profit in later years. The ruling also impacts severely where there is salry based intermediary remuneration od direct writing models and the risk is that the acocunting rules will drive business modles.

7 as in US-GAAP for the portfolio considered, otherwise expensed
8 s/b incremental to the portfolio
9 need incremental to the portfolio acquisition costs as well.
10 should be looked at at portfolio level - ie look at all acquisition costs; risk otherwise is companies might be forced to change operational model just to suit accounting standard
11 They should be included in the expected cash flows.
12 Include all acquisition costs in the cash flows.
13 should use new US GAAP definition in EITF
14 As contract expenses

15 Included in the cash flows.
16 Non-incremental expenses should be also included in BB1.

26. Should incremental expenses for unsuccessful sales efforts be included?		
Yes	14	54 %
No	12	46 %
Total	26	100 %

Comments

1 not for financial reporting, but for solvency and capital purposes yes.

2 see above

3 Those are marketing expenses, the agent only gets an (incremental) commission, if the policy is sold

4 Otherwise direct response products would show large losses when mailing costs are incurred. Or, if another standard deals with these products, the accounting would be inconsistant with agent or broker sold prodictrs.

5 consistent with pricing concept

6 See 25

7 But pre-contract cost of successful sales, even if they would have occurred if the contract would not have been issued

8 because it should be a portfolio-based measurement, not a contract-based one

27. Should incremental (to the portfolio) acquisition expenses in excess of incremental (to the contract) acquisition expenses (e.g., career agent salaries, web expenses) be included in BB1 (expected cash flows), therefore reducing the initial loss for insurance contracts with acquisition expenses greater than their incremental acquisition costs?		
Yes	21	88 %
No	3	12 %
Total	24	100 %

Comments

1 see above

2 Annual sales bonus depending on the volume of the annual new business; general sales overhead should not be included.

3 Acquisition expenses incremental to the portfolio should be includable, but only if they are conditional meeting sales targets formulated in terms of portfolio. Web expenses, being unconditional on sales targets, therefore shouldn't be included.

4 Everything paid to the sales force.

5 Otherwise, the earnings pattern for identical products will vary depending on the distribution system.

6 See above

7 See 25

8 as in US-GAAP

9 Bonuses, costs of direct sales (eb, advertising or mailing)

10 All normal expenses which are covered by the premium should be included.

11 underwriting

12 any that aqre identifiable.

28. Should the following expenses be excluded? For example:		
A - Abnormal amounts of wasted labor or abnormal amounts of other resources used to fulfil the contract (B62e)	9	60 %
B - Non-contractual related such as overhead (B62f)?	10	67 %
C - Other, please specify	5	33 %

Comments

1 contract related overheads should be included - eg superannuation, amortised policy development, share of human resources, etc.
2 Unallocated Loss Adjustment Expenses
3 Only overheads that are not properly allocable to the contract (e.g. supperannuation, human resources department, management up the line should all be included).
4 I don't know what wasted labor or abnormal... means - if appropriate, need to include examples; prefer to exclude one-time observations
5 I do not know

29. Should overhead be reflected as a period cost and not be included in building block 1 (expected cash flows)?		
A - Yes, as period costs	9	38 %
B - No, included in BB1 (expected cash flows), at least to the extent included in the price	11	46 %
Comment	4	17 %
Total	24	100 %

1 but for solvency and capital purposes it should be included in the cash flows

2 Excluding administration overhead in BB1 one lead to huge reconciliation items in each period

3 Covered by residual margin of portfolio, needs therefore be released over service period, not only risk coverage period

4 A unless not expected to be linear in proportion to time.

Discount rates (see Participating / Unit-linked products / Non-guaranteed elements section for further questions on discount rates)

30. Should discount rates be based on observable market prices for instruments whose cash flows are consistent with the characteristics of the liability? (Q3a)		
Yes	22	92 %
No	2	8 %
Total	24	100 %

Comments

1 but this is an impossible task since there will be no assets which the same characteristics as the liabilities, in particular the liquidity characteristics.

2 Not liability, but of cash flows to be discounted, otherwise risk of double counting of features considered in other building blocks

3 Discount rate should be the one intrinsic to the contract

31. For contracts whose obligation is not based on a designated set of assets, what should the discount rate be based on:		
A - Risk free + liquidity adjustment	15	65 %
B - Risk-free	3	13 %
C - Expected return	1	4 %
D - Index of some kind	0	0 %
E - Other, please specify	4	17 %

1 representative portfolio is a possibility.

2 Expected return of hypothetical investment grade portfolio with cash flows matching the scenario.

3 Internal rate of return (IRR)

4 high quality corporate bond

32. If used, what should the basis of risk-free rates be? Prices from:		
A - Government securities	10	43 %
B - Swap instruments	8	35 %
C - The most liquid securities whose prices are observable	4	17 %
D - No specific guidance should be given	4	17 %
E - Other, please specify	4	17 %

1 there is a real problem for most countries where there is no or a very limited Government securities market (eg. Trinidad and Tobago) or where soverign debt is not really risk free (e.g. Greece or Argentia). The whole ED assumes a robust risk free market exists!

2 depends on what is available

3 This depends very much on what is available in a particular market. Guidance should be indicative, rather than prescriptive.

4 It may depend on the market of each country.

33. Are there any circumstances (other than when not material) where discount rates should not be applied?		
Yes	4	18 %
No	18	82 %
Total	22	100 %

Comments

1 but test should be turned around for short duration pre-claims liability. no discount unless material.

2 claim reserves when effect of discounting is small relative to confidence interval, discounting is not relevant

3 If obligations do not refer to cash flows (like collective obligations in some participation features)

4 if an approximation to premium allocation for short duration contracts are applied, it should not be material - if it is, then it may not be appropriate for the normal building block approach to be applied.

5 Residual margin

34. Treatment of (il)liquidity adjustment - is it clear what this is for? (para 34 indicates that an insurer shall take account of any differences between the liquidity characteristics of the instruments underlying the rates observed in the market and the liquidity characteristics of		
Yes	14	64 %
No	8	36 %
Total	22	100 %

Comments

1 should be clarified by academic or professional literature. IFRS 4 should not specify how.

2 not my area

3 It must be clarified that the discount rate must be higher than the risk free rate, because insurance liabilities are less liquid than financial instruments. It is not clear enough in the pargraph.

4 look at actuarial educational guidance for further details as to approaches

5 Liquidity characteristics of the cash flows to be discounted within the considered scenario

6 All features including taxation to the contract holder.

7 possibly an example could be given

8 There needs to be guidance from an "authorative" body so as to stop opinion shopping

9 ?????

35. Do you believe that the (il)liquidity adjustment will be practical to measure/calculate? (Q3b)		
Yes	7	32 %
No	13	59 %

It should not be reflected	2	9 %
If NO, should the IAA provide assistance?	14	64 %

1 yes. Hopefully the Discount Rate book will address liquidity premiums in great detail.

2 not my area

3 Yes. But illiquidity premium should be avoided in IFRS X to increase transparency.Then assistance by IAA would be unnecessary.

4 yes, but needs a viable conceptual background

5 IAA should provide gudiances to determine the iliquidity adjusment.

6 Yes

7 yes

8 the IAA should provide assistance - discount rate monograph

9 Yes

10 yes

11 Yes

12 Yes!!!

13 Yes

36. Does the ED adequately reflect concerns about discount rates for long-duration or heavy savings contracts (Q3c) which, even after (il)liquidity adjustment, may result in accounting losses?

Yes	9	56 %
No	7	44 %
Total	16	100 %

Comments

1 use of a long term ultimate discount rate (long term being from the end of the locally availble yield curve). This could be a rolling average or some other estimate that moves with market conditions but is not highly volitile.

2 not my area

3 Non-performance risk, understood as own credit risk, is no option. Instead, a stable long-term interest rate for non-liquid markets beyond 20 years should be adopted. Furthermore in subsequent measurement not all changes in estimates should be p&l relevant.

4 discount at high quality corporate bond rate

5 ????

6 i do not know

37. Is it sufficiently clear how currency risk should be reflected?

Yes	13	68 %
No	6	32 %
Total	19	100 %

Comments

Not my area

38. Paragraph 32 indicates that for insurance contracts that depend wholly or "partly" on the performance of specific assets, the measurement shall reflect that dependence. Should this affect the discount rates applicable to contracts such as universal life where benefits in part result from such performance?

Yes	11	50 %
No - please indicate whether discount rates should be different if there is no such dependency,	6	27 %
Comment	12	55 %

1 the dependency should be reflected in the cash flows.

2 not my area

3 Discounting should reflect performance of specific assets only if a participation feature is included.

4 discount rate in replicating portfolio is implicit

5 Not different.

6 No difference.

7 Not my area
8 Can be but can be reflected as well by other means.
9 I don't know how to determine the discount rate if there is a dependency, particularly if only partial
10 Discount rate of non "unit" bebefits should be as for other contracts
11 There is no yes or no, it needs to be market consistent.
12 discount rates for universal life type contracts should be equal to expected asset earnings rate

Risk adjustments

39. Should explicit risk adjustments be included? (Q4)

Yes (i.e., risk adjustment + residual margin)	21	88 %
No (i.e., composite margin)	2	8 %
Comment	7	29 %

1 Although, I would prefer to allow a gain at issue after a reasonable risk margin.

2 I can live without a residual margin

3 No final opinion now. Guidance for risk adjustment is unclear.

4 onerous contracts should always include identifiable risk margins, for profitable contracts it is merely a question of allocation total margin and whether there is remeasurement

5 for claims and as a minimum liaiblity

6 risk adjustment should be relatedto each assumption, i.e. separate adjustment for expenses, martality, morbidity, etc.

7 Should be consistent with solvency.

40. Is the stated objective for risk adjustments clear and operational (the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected)? (Q5a)

Yes	17	74 %
No	6	26 %
Total	23	100 %

Comments

1 how will the maximum be determined? This will be very subjective. Professional guidance on the range of risk adjustment (e.g 5%-20%) and disclosure of where in the range the company is, may be more useful to uses of the financial statements.

2 but it is wrong. The risk margin should be the difference between the amount that the insurer would rationally pay to be relieved of the whole contract and the EPV of cash flows

3 To introduce 'Current risk-based pricing approach '

4 Timing of cashflow is also risky; maximum amount has to be translated to operational criterion (e.g. 60%-70% quantile).

5 "rationally pay" is not operational. It forces the insurer into going through a mental exercise and hypothesize about the conditions of a transfer. The hoped for discipline is counterproductive and subject to abuse by legal systems. An approach "through the eyes of managament" is much more workable and relevant to users, provided year-over-year changes are adquately documented in the disclosures.

6 But I am not sure that this is what is intended. I also believe that it is not an appropriate objective. The stated objective is based on a one-sided test for uncertainty. In effect, the liability value (before residual margin) is the expected value plus a stop-loss premium. This is NOT how prices are set. Prices are set using a two-sided test, allowing for the possibility of costs less than, as well as more than expected. In principle, the liability value (before residual margin) should be what the insurer requires to expect to make an appropriate profit in the course of fulfilling the liability. That is, it is the amount needed to provide an appropriate rate of return on the capital that the insurer needs to support the liability, in accordance (on an entity-specific basis) with the insurer’s appetite for risk. The margin should be the difference between this value and the expected present value.

7 but what is not clear is the linkage to the methods mentioned, or to any method for that matter

8 or at least as clear as it could be
9 Delete "maximum".

41. Should the acceptable methods be limited? (Q5b)		
Yes	3	12 %
No	21	88 %
Total	24	100 %

Comments

1 The three methods are all difficult to implement (for many products, VA's excepted) and subject to significant judgement.

2 acceptable methods should be listed (CoC, CTE, CI in that order) and some methods could be banned

3 The rational decision-maker applying CoC bases its decision on the highest risk margin and that may be actual solvency requirement given by the supervisor and not any of those 3 allowed methods. Methods can be developed.

4 But there should be some mechanism for adding new techniques, if these emerge and are at least as good.

5 Methods that meet key principles should be allowed - as it stands the standard will have to be amended if new techniques emerge that meet the requirements

6 At least rebuttable presumption, permitting to use other approaches with disclosure

7 should show 3 methods as examples but allow other methods which can be demonstrated to meet criteria

8 Better methods may be invented in the future, so why limit these? Just include principles and state that these 3 would be acceptable as examples.

9 Better methods can appear in the future.

42. If the acceptable methods should be limited, are the three methods described the right ones (CI, CTE, CoC)?		
Yes	8	53 %
No	7	47 %
Total	15	100 %

Comments

1 CoC is not consistently defined in academic or professional literature. Nor are the parameters (which capital, how it can change over time)

2 new methods should be justified and disclosed and subject to endorsement by an appropriate professional or regulatory body

3 Simpler approaches should also be allowed but equivalent (approximate) quantile should be disclosed.

4 But they are in the wrong order. CoC is the only method that can be directly calibrated to anything better than “It seems about right”. Both amounts of capital and rates of return can be observed in the market for a range of insurers. CTE is a reasonably robust rule of thumb, if calibrated on the basis of CoC. If there is full allowance for reinsurance and internal diversification, CTE levels should be fairly stable and nearly uniform across different lines of business. If allowance for diversification is artificially constrained, then CTE levels will vary but should be fairly stable within a particular line of business. VaR (CI) is a rather less robust rule of thumb. VaR levels will vary between lines of business but should be fairly stable within a particular line of business. Once calibrated to CoC for a particular insurer and mix of business, CTE and/or VaR should be stable enough to be used while conditions (market expectations, volume and mix of business) remain stable.

5 Add higher moment based approaches, since all three are ultimately based on quantiles.

6 but the family of each should be acceptable, rather than just the specific techniques included.

7 need to allow for new developments

8 if they meet the principles in ED

43. If the acceptable methods should not be limited, should description of these methods be included in the ED anyway, for guidance?		
Yes	19	83 %
No	4	17 %
Total	23	100 %

Comments

1 it is a rule and IASB wishes to be principles based.

2 Complexity and variability of insurance contracts; lacking availability of assumptions and full distribution; assumption-driven distribution guessing is onerous and provides no decision-useful information to users.

3 Consistency of an insurer's financial reports over time, and transparency of methodology are the essential elements.

4 The rational decision-maker applying CoC bases its decision on the highest risk margin and that may be actual solvency requirement given by the supervisor and not any of those 3 allowed methods. Methods can be developed.

5 Risk margin is a work in progress. with IFRS working, we will have more input on vices and virtues of the suggested methods and new, better ideas may arise.

6 Examples of the use of a wider range of approaches

7 Prohibition of technical development and covers only one step of three, not identification of risk pattern and calibration

8 They need to hear from us how we would price a contract to take over the risk of adverse develpment

9 the IAA should develop some form of technique guidance.

10 argue future ones might be invested, which might be even better, so why limit the methods?

11 require disclosure of a particular method and confidence level.

12 leave it to the experts -- the actuaries!!

13 explaining that limiting the methods does not accomplish their goal

44. Are the three methods properly described in the ED?		
Yes	14	82 %
No	3	18 %
Total	17	100 %

Comments

1 the e.g. is a good one. The CI is described as being easy to implement when in fact it will be very difficult to implement.

2 Generelal objective of risk adjusttment and specific guidance which risks are covered by cost of capital and which risks are not to be included are contradictory/artifical (e.g. lapse risk with guaranteed surrender values is a severe risk in life and should not be out of scope).

3 I found the description of CoC hard to follow

4 they are fine as is

5 There are numerouls cost of capital methods, the ED described the one approach they used as THE way it is done - there are more common CoC approaches including those that do not involve beginning with a probability distribution.

45. At what level should the risk adjustment be determined? (Q6e)		
A - On a portfolio level	16	67 %
B - On a portfolio / cohort level	3	12 %
C - On a contract level	2	8 %
Comment	9	38 %

1 depending on the risk (mort, lapse, etc.) the level at which it is determined should/could vary.

2 If the objective is applied correctly, the values are not affected by this choice

3 on a entity level to allow for diversification benefits

4 Management's view

5 If the CoC level is used, or if CTE or CI is calibrated to CoC, then this is a matter of operational convenience. While there is a degree of variation, largely based on particular insurers' appetites for risk, required risk margins are not greatly affected by volume of business. This may be seen in the fact that insurers are competitive over a wide range of sizes. Broadly speaking, insurers equalise their risk margin needs through reinsurance. Smaller insurers generally reinsure a greater proportion of their risk than larger ones.

6 On a reporting entity level (subject to capital transferrability)

7 on an assumption level.

8 at a much higher level than portfolio, but no higher than segment

46. Should cross-portfolio diversification be reflected?		
Yes	14	64 %
No	8	36 %
Total	22	100 %

Comments

1 do not know yet but it is a good idea.

2 If the objective is applied correctly, diversification IS reflected. Should does not come into it

3 determine capital on entity level and allocate it to portfolios. Allocation mechanism should be disclosed.

4 reinsurance

5 In Europe Solvency II gives rules that a rational decision-maker must take into account.

6 The fact that this is an issue displays a profound lack of understanding of the nature of insurance. If the CoC approach is used, then capital is determined on a whole insurer basis. net of reinsurance. (In some jurisdictions, parts of some insurance entities may be "ring-fenced" in separate statutory funds. In such cases, the statutory fund should be seen as the "insurer".) Diversification is fully allowed for at the entity level. This total capital needs to be apportioned, firstly between insurance and other risks and then, within reinsurance, to whatever level is convenient. This apportionment should recognise differences and correlations (or lack of correlation) between risks. Because it is an apportionment, the individual parts are additive. If CTE or VaR is used, then the CTE or VaR level needs to be found by calibration to CoC, either for that insurer or by observation of other insurers, and depends on the extent to which diversification is reflected. If cross-portfolio diversification and reinsurance are fully reflected, then values for a particular class of business will be directly transferrable between insurers, with adjustment only for differences in risk appetite. If cross-portfolio diversification is artificially restricted, then comparisons between insurers will need to allow also for differences between the diversification and reinsurance levels of the different insurers.

7 On any basis that is fully disclosed

8 because they are reflected in pricing

9 Depends on definition of portflio.

10 through the risk margins.

11 Under considering.

12 by performing the risk adjustment at a much higher level of aggregation

47. How should the risk adjustments be calibrated? (in, for example, confidence level, cost factor in CoC methods)		
A - No, disclosure can be depended upon for this purpose	12	52 %
B - By Specific rules set in the IFRS	3	13 %
C - By rules set by a regulator or the local actuarial association	5	22 %

D - Other means, please describe in comment box below	3	13 %
Comment	9	39 %

1 the facts and circumstances of differenct portfolios require different levels at different times. This is comtemplated by B79, B83, etc.

2 CoC can be related to market capitalisation and rates implied by market prices. An entity-specific basis necessarily implies some scope for differences from market averages. CI and CTE can be calibrated to CoC

3 year-over-year consistency

4 As discussed above, CTE and VaR need to be calibrated to CoC, either directly or by comparison with premium profit margins or market practice. Disclosure is essential both to enable indirect calibration and to impose market discipline.

5 actuarial guidance developed internationally

6 There is a risk that there will not be suitable comparability at the outset on this aspect.

7 No guidane actually suitable, disclosure is the only but poor solution

8 by calculation of the subset of cash flows that are the adverse scenarios

9 IAA should take this on

48. Can/should a CI level be determined/disclosed if the CTE and CoC are used? (Q5c)

Yes	12	55 %
No	4	18 %
I am concerned about the practicality of this requirement	15	68 %
Comment	5	23 %

1 Both CoC and CTE should be based on analysis that makes this disclosure easy

2 CTE and, even more, CI can be affected with the "Black Swan" syndrome

3 VaR is the least method of these three. It shall not be a yardstick. It cannot be required that the company is prepared to use 2 methods, eg. CoC and VaR.

4 Disclosure will not be meaningful without substantial manipulation, unless VaR levels are shown on a basis allowing fully for cross-portfolio diversification and reinsurance.

5 Guidance by IAA recommended

Margins (residual / composite)

49. Are they needed? (Q6a) and (Q6b)

Yes, I am in favour of a no gain at issue rule	11	48 %
No, I do not mind a gain at issue if appropriate	11	48 %
If NO, how should possible abuse of overstatement of initial gain at issue be controlled?	9	39 %

Comments

1 disclosure, professional guidance and/or standards,

2 "Gain at issue" up to amount of excluded acquisition costs is wholly acceptable, as is a difference between explicit premium loadings and the corresponding expenses. Any larger amount should be assessed on a credibility basis.

3 Comment on question: also nil gain at inception can be abused!

4 Yes, but I have no specific proposal

5 There should be a presumption of no gain at issue, rebuttable on a credibility based approach.

6 In South Africa there are differing views on the principle of no gain at inception. It is not uncommon in the current local valuation approach to make an additional adjustemnt to the risk margins included in the valuation in order to prevent signficnat up-front release of profit.

7 not current estimates, not especially meaningful

8 it will be by the market

9 Disclosure

50. Should the margins be measured at the: (Q6e)		
A - Portfolio level	12	50 %
B - Cohort level (initial recognition date and duration)	10	42 %
C - Contract level	4	17 %
D - Other, please specify in comment box below	3	12 %
Comment	7	29 %

1 depending on the circumstances different levels. The question should be at what level should the margin be disclosed. That should be at a portfolio level or even higher.

2 It will often be most convenient to do the calculations at the contract level. What matters is the level to which these values are aggregated, before eliminating negative values. I would prefer cohorts that do not distinguish duration.

3 If residual margins are not calculated on contract basis, subsequent measurement will be onerous due to tracking of changes of policy changes.

4 Management's view, probably comes down to issue year, but not "B"

5 There are two issues here. Calculation and aggregation for LAT purposes. Calculation needs to be on a contract or cohort basis. The LAT should be applied on a portfolio basis for short-duration contracts. For other contracts, I favour a portfolio based LAT but would also accept portfolio split between current year and older.

6 Similar circumstances (affecting assumptions) basis for "similar date"

7 margins applied by assumption as in Canada today

51. Should interest be accreted on them? (expressed in terms of present value or nominal values) (Q6f)		
Yes	15	62 %
No	9	38 %
Total	24	100 %

Comments

1 since the discount rate is locked in, this just becomes a timing of the emergence of profit. Since the residual margin is artifical anyway, accredting interest is spurious accuracy.

2 Otherwise p&l and b/s reconciliation items in each period would occur even if everything is realized as expected as at initial recognition.

3 The margin is an artificial item, not related with the substance of the contract and thus should be as simple as possible.

4 If material

5 Current interest, purpose simply to modify release properly

6 Interest should relate to items that represent future cash flows

7 Conceptually yes but should be simple.

8 would occur naturally.

9 generally no, not worth the effort for a plug

52. Should they be re-measured in subsequent periods?		
Yes, please specify how in comment box below	15	65 %
No	4	17 %
Modified based on actual driver (like in residual margin in the ED if contract persistency worse than expected)	4	17 %
Comment	15	65 %

1 its artificial anyway, remeauring it offers it some (undeserved) legitimacy

2 split premium into (EPV + risk) and residual components at issue. As each premium is paid, residual component is locked in. At each valuation, residual is reassessed on the basis of (actual past experience and premiums less residual) and (assumed future experience and premiums including residual)

3 Can only be answered together with BEL subs. measurement
4 residual margin should be a shock absorber
5 Recalibrated so that the total liability doesn't change except BE+RM exceeds the liability before the calibration.
6 If liability + risk margin is greater than the unearned premium, residual margin should be zero.
7 Either by reassessing ab-initio on the basis of actual past and assumed future experience. OR Express margin as a percentage of premium. Lock in margin for each premium is paid, to be released over longer of premium and subsequent coverage period. Reassess percentage for future premiums on the basis of (accumulated (premiums less margins) less costs) and assumed future experience. OR As in MoS
8 on most recent information
9 In the curretn South African approach additional margins based on a key driver of a product are loaded into the product (e.g. an additional mortality margin) and when base assumptions change these can be changed as well. The margin is often determined at an overall level (based on limiting initial profit in current new business) and applied to the total book of relevant policies. This brings computational efficiencies and with appropriate disclsoure would provide users with useful information.
10 Off-setting any change in measurement of contracts part which cannot be matched in markets
11 To offset changes in assumptions, perhaps excluding changes in discount rates
12 based on changes in driver
13 need to "write off" if adverse experience
14 Consistent approach to initial measurement
15 reassess the assumptions each reporting point.

53. If a residual margin is used, is the method of subsequent release reasonable? (Q6d)		
Yes	12	55 %
No	10	45 %
Total	22	100 %

Comments
1 Recalibrated so that the total liability doesn't change except BE+RM exceeds the liability before the calibration.
2 Residual margin should the maximum of zero and the difference of the unearned premium and the present value of fulfillment cash flows
3 The proposed approach will result in significant manual calcuation overlays especially for long duration contracts. See comment in 52 for current local approach.
4 Should be based on service provided, not on coverage
5 probably OK, but 'benefits' should be clarified - could include dividends and expenses to the extent not consistent with the contract
6 should be impairment test each year
7 No, but acceptable as a simple method.
8 residual margin is silly.

54. What should the starting point of release be?		
A - Initial recognition (earliest of contract agreement and coverage effective date	4	17 %
B - Contract agreement date	3	13 %
C - Coverage effective date	13	57 %
D - Other, please specify	4	17 %

1 not materiall different is it.
2 consistent application of a "profit carrier"
3 Start of any service or activity
4 shouldn't be

55. If the starting point of release depends upon the coverage effective date, in the case of some deferred annuities, should it be:		
A - The start of the payout period (that could be decades after issue)	3	30 %
B - Other, please specify in comment box below	5	50 %
Comment	8	80 %

1 date of issue of the contract. the pattern however may be skewed to the payout stage

2 not my area

3 first premium due date (obviously a deferral of annuities is an insurance service customers are willing to pay for).

4 if substantial investment guarantees given, then release starts with effective date

5 Not my area

6 Start of service or any activity

7 Deferred annuities should be unbundled. Contract should be treated as a financial instrument with a purchase option. If not in the money the option has no value, so accounting should fall under IAS 39 as amended or modified; ie either amortized cost or fair value. So the release of margin is not applicable

8 see 54

56. If a composite margin method, as proposed by the FASB, is the method used, is the approach taken for allocation/subsequent measurement appropriate (allocation of nominal premiums and benefits/claims, re-estimated at each reporting period)? (Note that the formula given in the Basis for Conclusion in the ED is wrong; the upcoming FASB discussion paper will correct it.)		
Yes	9	56 %
No	7	44 %
Total	16	100 %

Comments

1 There needs to be a LAT including a risk margin

2 Re-estimation including retrospective periods is onerous.

3 But the LAT needs a risk margin

4 should be principle based and use any knowledge about release-of-risk as available.

5 needs to reflect time value of money

6 it is an approach, no matter how it is done it will be an arbitrary amount.

57. For composite margin,is the premium factor as a driver reasonable?		
Yes	9	53 %
No	8	47 %
Total	17	100 %

Comments

1 but it needs to be clear how premium is allocated to each period

2 Depends on the contract.

3 it is an approach, no matter how it is done it will be an arbitrary amount.

58. For composite margin, is the benefits/claims factor as a driver reasonable?		
Yes	11	61 %
No	7	39 %
Total	18	100 %

Comments

1 Pro: It is simple and increases comparability but does not reflect profit/risk over time in each case.

2 Provided it reflects current assumptions. Claims can diverge dramatically from expected claims

3 but needs to be clarified as to what is included in the benefits/claims
4 But depends on contract.
5 it is an approach, no matter how it is done it will be an arbitrary amount.

59. Should these drivers for the composite margin be re-estimated / re-measured?		
Yes	13	76 %
No	4	24 %
Total	17	100 %

Comments
1 as for residual margin
2 Same as at issue, at least once a year
3 Premiums on basis of actual in-force and current assumed lapses. Claims on basis of actual and current expected costs
4 to offset changes in assumptions.
5 uncertain
6 Consistent approach to initial measurement
7 cumulative catchup technique
8 LAT may be applicable.
9 amortization should be updated based on cumulative experience

Participating / Unit-linked products / Non-guaranteed elements

60. Is the method (reflect the dependence on the performance of specific assets) to be used to determine discount rates appropriate for contracts whose obligations are a function of a specified set of assets appropriately indicated?		
Yes	12	67 %
No	6	33 %
Total	18	100 %

Comments
1 reflect the dependence in the cash flows.
2 More guidance is needed, esp. with respect to real world vs. risk-neutral/market-consistent
3 for participating contracts the ED says nothing about the applicable discount rate for BB2
4 Not my area
5 There is no indication at all, just that dependencies have to considered in measurement (not necessarily in discount rates)
6 expressed OK, but further guidance is needed
7 Dependence should be reflected but I would not call that statement a method.

61. In the case of the prior question, what should the discount rates be based on?		
A - Credited /dividend rate	2	12 %
B - Expected earned rate	6	35 %
C - Risk free + liquidity and appropriately modified cash flows	5	29 %
D - Replicating portfolio - if so, what should this be? Please specify in comment box below	2	12 %
E - Other, please specify in comment box below	2	12 %
Comment	9	53 %

1 To be clarified if expected earned rate is real-world or risk-neutral based. In any case actual underlying financial assets should be taken into account to cover leverage if fin.assets > ins.liabilities.

2 DPFs don't fit well with the ED's accounting model
3 Not my area

4 Depend on circumstances, but no increase of profit by using earned rates, in that case credited rate

5 IRR

6 If consistently determined, all can be acceptable.

7 Market consistent

8 Expected earned rate with appropriate risk adjustment for how much investment risk is retained by insurer.

9 without liquidity

62. Should expected asset performance be reflected?		
Yes	9	56 %
No	7	44 %
Total	16	100 %

Comments

1 Expected asset performance should be reflected as in risk-neutral valuation to cover leverage effects (assets <> ins. liabilites). So credit risk margins do not emerge.

2 Not my area

3 Can be but need not

4 rates reduced for expected defaults. reinvestment based on stochastic modelling of interest rates

5 I am not sure it should be reflected or not. If should be reflected, as a starting point, reflect those of assets held at the reporting date.

6 see answer in 63

7 Expected earned rate with appropriate risk adjustment for how much investment risk is retained by insurer.

63. How should coordination between expected dividends, expected experience and investment earned rates and expected cash flows be made?

11 Responses

1 reflect in the timing and uncertainty of the cash flows.

2 Either by allocation of projected future earnings generated from all fin. assets to individual policies or by gross allocation of certain (e.g. equity) movements to policyholders and excluding these certain assets in the projection of the future earned rate.

3 Leave it up to the insurer, main thing is to avoid double counting.

4 I do not think I understand the question. Each scenario for the portfolio should consider its effect on the three components and with that, the coordination is achieved.

5 financial modelling - disclosed

6 Any considered assumptions should be fully consistent, as well to any amount reported under IFRS

7 Internally consistent based on documented policies and practices with disclosures and disclosures of effects due to changes in practices

8 uncertain, but assumptions should be consistent

9 Assuming such as risk-neutral scenario for all assumption.

10 "credited rate" = investment earned rate - pricing spread; discount rate should be equal to investment earned rate; therefore, not critical how defaults are reflected, i.e., as either best estimates or based on credit default swaps from assets

11 All need to based on expected earned rates.

64. How should collective obligations be considered? (i.e., obligations to forward a specific share of surplus to current and future policyholders without obligation to provide any specific amount to a specific policyholder at a specific time)		
A - On a collective basis without anticipating future gains from distribution	7	58 %

B - On a collective basis with anticipating future gains from expected distributions to current policyholders only	4	33 %
C - Other basis	0	0 %
Comment	3	25 %

1 A seems to be a good idea to avoid p&l vola. I am not sure whether it is feasible (split of cashflows/reserves from future participation seems necessary).

2 The bonus fund should be accounted for consistently with respective market practice - typically the bonus fund not split between current and future policyholders

3 Not my area

65. How should non-guaranteed elements be measured when insurer discretion is permitted? (e.g., current interest rate whole life premium, cost of insurance and expense margins)

A - Current expectations, consistency with expected cash flows	14	88 %
B - Matches competition or experience - If so, how should that be done? Enter response in comment box below	1	6 %
C - If neither of these, how should insurer discretion be reflected? Enter response in comment box below	1	6 %
Comment	3	19 %

1 Insurer discretion o.k. - accounting objective should be to show how insurer splits (and has split in the past) surplus between shareholders and policyholders

2 Not my area

3 If the insurer believes to upheld dividends for competition even if not earned, that should be considered.

66. If certain investment DPF contracts are within scope, is the proposed method of measurement reasonable?

Yes	12	100 %
No	0	0 %
Total	12	100 %

Short-duration measurement approach

67. Should this method (an unearned premium approach with incremental acquisition costs deducted from the gross premiums, with present value/accretion of premiums within the contract boundary, subject to an onerous contract test) be: (Q8a)

A - Mandatory	4	18 %
B - Optional	16	73 %
C - Prohibited (i.e., not used)	3	14 %
Comment	5	23 %

1 ISAB states that this approach leads to similar results as normal approach and can be integrated into the same presentation. Insurers should have the option to use one measurement approach for all business.

2 Interest accretion fails the cost-benefit test

3 There is little point in having a short-duration basis with accretion of interest.

4 Should be applicable only as proxy if it is one, but than not need to be mandatory

5 if similar contracts greater than 12 months in length

68. Is the criteria for scope of application of this method reasonable, e.g., approximately 12 months? (Q8b)		
Yes	16	80 %
No	4	20 %
Total	20	100 %

Comments

1 The shortage should not be judged on a contracts basis but on a portforlio basis.

2 With “wriggle room”. E.G. term to 65 at age 64 should not be separated.

3 With the current compulsory method it is possible that a portfolio of contracts will have to be split into 2 parts and valued differently.

4 Some designated class of portfolio which is appoximately 12 months or something like that is preferred.

5 There might be non-life contracts of slightly longer term, which also should be included.

6 a much longer term (eg, 24 or 36 months)

69. Should a more simple version be applied?		
Yes	8	47 %
No	9	53 %
Total	17	100 %

Comments

1 No interest accretion

2 No interest

3 No discounting and no prospective approach, i.e. traditional unearned premiums with adjustment to expected pattern of coverage

4 if used, don't mess with present values.

5 The same as 68.

6 pro rata temporis

7 limit seasonality, reflection of discounting to only unusual circumstances

70. Should discounting/accreting be applied to future premiums and outstanding balance?		
Yes	11	58 %
No	8	42 %
Total	19	100 %

Comments

1 May be immaterial in practice

2 Otherwise we get reconciliation items in each period's p&l wihtout any economic basis.

3 Interest accretion fails the cost-benefit test

4 It's not anymore a simplification.

5 But only if it is discounted before, using a consistent discount rate for all parts, if interest considered at all

6 Not necessarily. Depends on materiality.

7 No in the vast majority of cases unless some unusual trigger is met

71. Should additional liabilities be established if onerous contract testing fails?		
A - Yes, it should be based on the building block method	18	86 %
B - Yes, but it should not be based on the building block method	4	19 %
C - No, please specify what method should be used in comment box below	0	0 %
Comment	4	19 %
1 Question unclear; probably: Yes.		
2 although approximations might be used		
3 Without residual margin		

4 I do have some concern about the practicality of applying/updating the BB approach with explicit risk adjustments in the pre claim period

72. If a composite adjustment approach is used, how should claims liabilities be measured?		
A - Explicit risk adjustment should be applied	9	64 %
B - Add no risk adjustment	3	21 %
C - Other method, please specify	4	29 %

1 Consistency with newly-proposed IAS37

2 Minimum risk adjustment should be required as well under composite

3 Composite margin should extend to claims period

4 some portion of the composite margin should be allocated to the post claim period

Reinsurance (Q16b)

73. Is the financial statement presentation of ceded reinsurance reasonable (separately displayed)? (para 77)		
Yes	19	95 %
No	1	5 %
Total	20	100 %

Comments

Gross and net amounts as to reinsurance should be shown, since many p/c companies manage their business and profitability on a net basis.

74. Is treatment of ceded reinsurance commissions (offset to premium) reasonable?		
Yes	20	100 %
No	0	0 %
Total	20	100 %

Comments

Is a contractual cash flow but not ceded

75. Is the determination of residual margin reasonable?		
Yes	16	84 %
No	3	16 %
Total	19	100 %

Comments

1 I presume this means for the reinsurance asset.

2 Res.margin of re-ins.contract should be checked against res.margin of direct insurance contract: It should be lower or equal.

3 See comments on Residual margins.

4 For certain deals (risks attaching contracts), it requires the projection of cash flows on ceded contracts before the direct contracts are written. Having a matching of reinsurance with direct business would provide more meaningful info.

76. Is the expected non-performance risk (of the reinsurer) on an expected cash flow basis reasonable? (Q16A)		
Yes	17	85 %
No	3	15 %

Total	20	100 %

Comments

1 Conceptually yes, but not practicable

2 I am concerning about if its feasibility.

77. When a reinsurance treaty is initially recognized, how should the premium be recognized by the assuming company for future direct contracts yet to be written?

A - At inception of the treaty on an expected basis	8	44 %
B - As the direct insurance contracts are initially recognized by the direct insurer	8	44 %
C - As premium is received and paid	1	6 %
D - Other, please specify	1	6 %

Same approach as direct without actual tie to ceding company practices

78. Other ceding or assuming reinsurance issues?

6 Responses

1 If the principle of nil gain at inception is applied for direct insurance it should also be applied for reinsurance contracts. Otherwise accouting arbitrage is possible.

2 Mirror accounting of internal reinsurance versus accounting between ceding co and cedent for equivalent external reinsurance external to the group

3 It is important to ensure that the net risk margin is appropriate. Ideally, margins should be determined either: Net and ceded, with gross as the sum -OR- Net and gross, with ceded as the difference

4 Possible 'arbitrage' oportunities to use Reinsurance to circumvent the no profit at inception by using reinsurance.

5 Net cost of reinsurance should be presented in profit and loss

6 no

Other contract types

79. Are there any areas for which health contracts need special treatment? (e.g., contract boundaries)

Yes	1	11 %
No	8	89 %
Total	9	100 %

Comments

1 no, according to my knowledge but I may know too little.

2 Not my area

3 clarify who is the policyholder (group or individuals) is

80. Are there any other contract-type specific issue that should be considered?

3 Responses

1 creditor insurance

2 no

3 Practical issue on group (life) policy. This contract-type policy may not have enough data for individual risks.

Presentation

81. The liability measurement is used as the basis of the Statement of Comprehensive Income. Is that reasonable?		
Yes	14	74 %
No	5	26 %
Total	19	100 %

Comments

1 too complex. users will not understand it.

2 The liability measurement is not the basis, that was a misunderstanding. The estimation technique is overemphasized.

82. What changes in the approach described should be made, for example, use an expanded margin approach instead? (Q13a)
10 Responses
1 Presentation should be consistent between long-term contracts and short-term contracts. Since Japanese P&C companies write both long-term contracts and short-term contracts for certain kinds of products, such as fire, personal accident, it is very hard to split them into long-term ones and short-term ones as IASB proposed. For example, it is almost impossible for us to split IBNR into long-term ones and short-term ones.
2 Provide information about premiums and claims.
3 Expanded margin approach
4 expanded margin approach
5 Risk business should present premium income and claim cost.
6 Expanded margin, i.e. just eliminating actual deposits
7 Use expanded margin with revenue based on expected (not actual) benefits.
8 better integration with the simplified method - see 83
9 It should be based on traditional (life) model approach. Margin approach can be a good expanded disclosure.
10 maintaining traditional presentation for p/c contracts

83. Does the inconsistency in presentation of contracts' performance in the Statement of Comprehensive Income that could use the short-duration approach (in comparison with the shown for measurement by the building block approach) create difficulties or should it somehow be changed?		
A - Reasonable	8	47 %
B - Unreasonable	8	47 %
If unreasonable, what changes should be made?	5	29 %

1 To introduce earned permiums concept into long-term contracts presentation. They are release of insurance liability estimaed on the beggining point of the comprehensive income statement.

2 full risk and cost premiums to be reported everywhere

3 Use expanded margin based on unwind of building blocks for all contracts

4 See 82.

5 consistent with presentation for other contracts/liabilities

84. Is the treatment of ceded reinsurance in the presentation reasonable?		
Yes	16	94 %
No	1	6 %
Total	17	100 %

Comments

1 should also present net cost of reinsurance for the period

2 Gross and net amounts as to reinsurance should be presented

85. Is the method of incorporating variable (unit-linked) contracts' in the balance sheet and Statement of Comprehensive Income reasonable? para 71 and 78		
Yes	12	80 %
No	3	20 %
Total	15	100 %

Comments

1 Not my area

2 Unbundled parts are presented according to IAS 39, replicating portfolio no guidance, except that reasonable.

3 Yes, for balance sheet. No for income. Should present fees and expenses, not just single line net

4 but could be clarified somewhat

5 Should be a separate line of business within the statement.

86. Should any element related to insurance contracts be included in "other comprehensive income"?		
Yes	4	27 %
No	11	73 %
Total	15	100 %

Comments

1 1. Changes in estimate?! 2. Policyholder participation in equities through OCI.

2 Any part which is directly linked (cession or participation) to a movement of another item in the OCI

3 It depends on the consisitency of measurement between assets and liabilities.

4 Any change in liability driven by other items already reported in OCI.

5 remeasurements because of market fluctuations

87. Do you have any concern about combining results of insurance contracts with other operations, e.g. unbundled financial instruments?		
Yes	5	36 %
No	9	64 %
Total	14	100 %

Comments

1 Should not be combined

2 Not my area

3 Fully inconsistent, presentation not comparable

4 seems like a hodgepodge of different entries.

5 If traditional model is adopted, I have less concern.

88. We have earlier emphasized the importance of avoiding accounting mismatches between assets and liabilities. Are there any further ways in which this can be achieved?		
Yes	2	18 %
No	9	82 %
Total	11	100 %

Comments

1 have the discount rate, especially the liquidity premium vary over time and trend to an ultimate level that is reasonably stable but moves slowly over time to reflect changing market conditions.

2 Use stable long-term interest rate for non-liquid markets, e.g. beyond 30 years; interpolate via forward rates between available market information (e.g. 15y) and this stable interest rate (e.q. 30y).

3 Require assets backing insurance liabilities to use fair value option

4 don't know, but need to do more in this area.

Disclosure

89. Is the disclosure principle used in the ED reasonable (quantitative and qualitative information about amounts recognized arising from insurance contracts and nature and extent of risks arising from insurance contracts)? (para 79) (Q14)

Yes	19	86 %
No	3	14 %
Total	22	100 %

Comments

1 Proposed disclosure of change in insurance contracts is too much detailed.

2 Some concern that the disclsoure will result in significnat cost for little or no benefit to the user - especially if too high a level of granularity is used.

3 Except B/S should not show all portfolios separately as this is too many figures - details by portfolio s/b in segment disclosures

4 Yes, but the principle should be applied under the cost benefit consideration.

5 It is a bit much for the financial statements, the md&a might be a better place to keep such disclosure

90. Is the required information regarding measurement reasonable? For example, reconciliations (para 86 and 87) and measurement uncertainty analysis (para 90d)

Yes	16	89 %
No	2	11 %
Total	18	100 %

Comments

1 complex. some will be difficult to calculate and hard to explain

2 Reduce to relevant information. Otherwise pseudo-accuracy may be constructed.

3 need to provide an example of a measurement uncertainty analysis

4 It seems there may be burdensome cases. Simplification should be permitted.

91. Is claims development information to be provided reasonable? (para 92eiii and 101)

Yes	17	94 %
No	1	6 %
Total	18	100 %

Comments

1 as long as only for short duration contracts (ie P&C)

2 It should be under materiality and cost benefit consideration.

92. Should anything else be required or permitted to be disclosed? e.g. premiums?

Yes	6	40 %
No	9	60 %
Total	15	100 %

Comments

1 Actual premiums, actual claims.

2 Earned premium and incurred claims (split between current and development) for short-term business

3 Basis for adjustments and amounts of adjsutments to observed rates used in determining discount rates

4 See 82.

5 Volume information, reconciliation to a full economic (market-consistent) balance sheet
6 sources and uses of cash

Transition, Effective date

93. What measurement approach should be taken at the earliest reported date under the new IFRS 4 and why? (Q17a)		
A - No residual margin for inforce (the ED approach)	5	24 %
B - Full retrospective adoption	4	19 %
C - Existing net liability as basis for residual margin, not less than the present value of future fulfilment cash flows	9	43 %
D - Other, please specify	6	29 %

1 Calculate residual margin percent of all premiums, based on current assumptions for current in-force. Residual margin is this percentage of expected value of future premiums.

2 Of the options above option C is the most practical if the residual margin approach in the ED is followed. If an alternative method that retains some margins for release over the life of the contract is applied the transition isses would differ. As it currently stands one issue that will arise is there will be a gain in equity to the extent of the present value of the non-direct future mainenance costs (e.g. overhead and CEO costs that cannot be put into the renewal expense assumption) which will later emerge as losses into the future. At least a level of residual margin of some sort would prevent this.

3 Choice, C only if B impracticable

4 full, if it can be done; otherwise approximations might be used.

5 allow companies to go for retrospective if they wish so as not to penalise those with profitable existing business

6 Alternative C at the reporting entity level

94. Should assets be allowed to be reclassified at initial adoption? (Q17c)		
Yes	19	90 %
No	2	10 %
Total	21	100 %

Comments
Should be mandatory

95. When should it be first effective (assuming June 2011 adoption)? (Q17d)		
A - January 1, 2013	3	14 %
B - January 1, 2014	12	55 %
C - January 1, 2015	6	27 %
D - Early adoption should be permitted	10	45 %
E - Early adoption should not be permitted	2	9 %
Comment	3	14 %

1 I would recommend consistency with other changes - e.g. Solvency related matters

2 Current IFRS 4 allows to change accounting policies, hence early adoption is always possible.

3 Companies will need the time to develop and implement the requirements at least two year

Other items

96. How should policy loans be treated?		
A - As an asset	8	44 %
B - As a component of liability measurement	10	56 %
Comment	3	17 %

1 asset if loan is not included in insurance contract

2 Not my area

3 Depending whether a contractual option or not

97. Should a negative outcome of the calculation for a portfolio be reported as an insurance contract asset as currently provided in the ED?		
Yes	15	88 %
No	2	12 %
Total	17	100 %

Comments

1 as a negative liability

2 On the reporting entity basis

98. Other issues that should be addressed by the IAA?
3 Responses

1 - 1. Focus on practical feasibility and usefullness. 2. Be realistic about availability of full distribution

2 - Some potential risks of the ED as it stands is that there will be multiple valuations for differnet

3 - Contract changes under a locked-in residual margin

Educational books/monographs/papers/international actuarial notes

99. The IAA has published a book on stochastic modeling and is working on a monograph on discount related issues. What other issues should we develop in the form of a book or monograph related to implementation of the ED?		
A - Risk adjustment methods	14	70 %
B - Cost of capital methodology and case studies	10	50 %
C - Quantification and disclosure of risk and uncertainty	9	45 %
D - Business combinations / fair value	1	5 %
E - None	1	5 %
F - Other, please specify	3	15 %

100. What International Actuarial Notes should the Committee work on?		
A - General ones covering all of IFRS 4. Please specify topics in comment box below.	12	71 %
B - Expected cash flows	8	47 %
C - Unbundling	7	41 %
D - Specialized products, e.g., participating, unit-linked, health, takaful	3	18 %
E - Other, please specify in comment box below	0	0 %

Comment or expand if your answer is D or E	4	24 %
1 Not my area		
2 risk margin, contract changes, discount rate		
3 Expected cash flows, adjsutment for risk, Discoutning, unbundling, presentation and disclosure,		
4 Illiquidity premiums - how to determine		

Identification

101. Your practice area: (check all that apply)		
Life insurance	16	70 %
Property and casualty (general) insurance	9	39 %
Health insurance	3	13 %
Funds management	1	4 %
Other, please specify	0	0 %

102. What best describes your employer? Check all boxes that are relevant.		
Insurance company	8	35 %
Reinsurance company	1	4 %
Consulting firm	8	35 %
Audit firm	8	35 %
Regulator / supervisor	0	0 %
Retired or semi-retired	1	4 %
Other, please specify:	0	0 %

103. Your region:		
A - Europe	8	35 %
B - North America	7	30 %
C - Asia	4	17 %
D - Oceania	2	9 %
E - Other, please specify	2	9 %
Latin America		
Africa		