



16 November 2018

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

ROADMAP FOR INTEGRATION OF AASB 17 INSURANCE CONTRACTS INTO THE CAPITAL AND REPORTING FRAMEWORKS FOR INSURERS

This letter updates stakeholders on APRA's planned approach to integrating *AASB 17 Insurance Contracts* (AASB 17) into the capital and reporting frameworks applicable to life insurers and general insurers, and outlines the next steps.

Background

The Australian Accounting Standards Board (AASB) has released AASB 17, which requires all insurance contracts to be accounted for in a consistent manner, thereby facilitating comparisons across similar insurance companies. The requirements are designed to help users of financial statements better understand an insurer's exposure, profitability and financial position.

AASB 17 is effective for annual reporting periods beginning on or after 1 January 2021. However, the International Accounting Standards Board voted on 14 November 2018 to propose a one-year deferral of the effective date of IFRS 17 *Insurance Contracts* (IFRS 17), the international equivalent of AASB 17, to 1 January 2022. This proposed deferral is subject to public consultation in 2019.¹

APRA has undertaken a survey of insurers regarding the impacts of AASB 17 and published the aggregate results in a letter dated 31 May 2018.

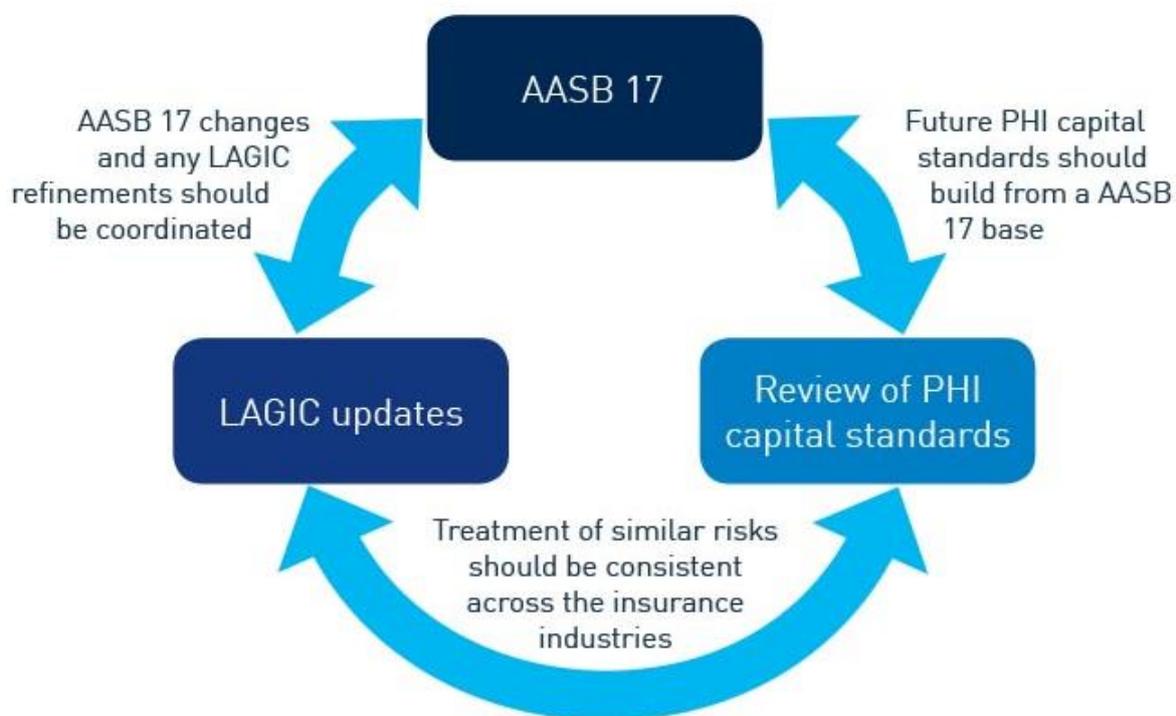
APRA has a capital framework for life insurers and general insurers (commonly referred to as the Life and General Insurance Capital, or LAGIC, framework), which was last substantively reviewed in the lead up to 1 January 2013. APRA's preference is to align capital treatment with accounting standards, unless departure is justified on prudential grounds.

APRA has commenced a review of how to integrate AASB 17 into the LAGIC framework. Given the likelihood that most or all of the relevant capital prudential standards will be amended as part of the review, APRA intends to consider whether any further amendments should be made to the LAGIC framework in light of experience with the framework since its implementation.

Finally, APRA is also reviewing the capital framework for private health insurers. APRA has written separately to that industry, outlining a process for that review which aligns with the integration of AASB 17 discussed in this letter.

¹ <https://www.ifrs.org/news-and-events/2018/11/iasb-to-propose-one-year-deferral-of-insurance-contracts-standard>.

There are important interactions between implementation of AASB 17, updates and refinements to the LAGIC framework and the review of private health insurance capital standards that need to be taken into account, as illustrated in this diagram:



Principles for the review

The following principles underpin APRA's approach to the review.

- APRA intends to explore how it can continue to build the capital framework from the accounting standards, and will consider the adjustments needed in the capital framework to ensure a sound prudential outcome.
- APRA will only move away from the current capital framework if satisfied that the revised treatment continues to lead to prudent outcomes.
- APRA considers that the fundamental structure of LAGIC continues to be fit-for-purpose.
- APRA considers that the overall calibration of the LAGIC framework is appropriate and does not intend to use the review as an opportunity to generally increase or reduce capital levels.
- The approach will need to result in appropriate treatment of participating policyholders for the purposes of the *Life Insurance Act 1995* (Life Act).
- The review provides an opportunity to consider, consult on and address issues that have been identified by APRA and other stakeholders regarding the operation of the LAGIC framework.

Scope of the review

APRA intends that the review will cover:

- the extent to which the AASB 17 liability valuation can, with adjustments, be used for capital purposes, including the definition of the capital base;
- the treatment of participating policyholders under the Life Act, including whether the Variable Fee Approach, General Model and/or Premium Allocation Approach can form the basis (with adjustments) for determining profits for that purpose;
- amendments to any part of the LAGIC framework necessary to address the integration of AASB 17 into the framework or to address other identified issues with the framework; and
- any necessary amendments to APRA reporting requirements.

Process for the review

The process for the review will be consistent with APRA's general approach to policy development, and will include extensive consultation. In particular, it will include ongoing close engagement with insurers and the accounting and actuarial professions (via the AASB Transition Resource Group and the Actuaries Institute's AASB 17 Task Force).

The attachment to this letter contains indicative timeframes for the key steps of the review.

The timeframes in the attachment reflect two rounds of consultation and one quantitative impact study. If significant issues arise during consultation that would benefit from further exploration, APRA will consider whether an additional round of consultation is necessary.

The timeframes also have dependency on the timeframes for overall implementation of AASB 17. Once a final position is reached on the deferral of IFRS 17, APRA will assess whether amendments to the timeframes are necessary and whether to address the LAGIC refinements separately from the AASB 17 integration.

Next steps

APRA will continue to engage closely with stakeholders as thinking progresses on the direction of the review.

The next formal step in the process will be the release of a discussion paper that outlines the proposed approach at a principles level, including industry specific adjustments where assessed as appropriate and necessary. APRA is currently engaging with the Actuaries Institute's AASB 17 Task Force to build understanding of technical issues and potential options for addressing them in the prudential framework. The options developed through this process will inform APRA's development of a discussion paper currently planned for release towards the end of the 2019 calendar year.

APRA welcomes feedback from insurers on their timing and approach to adopting AASB 17 including, in particular, any quantitative estimates of the impact and pro-forma accounting statements. APRA also welcomes initial feedback on matters that it should consider when designing amendments to the LAGIC framework and specific areas of the framework where earlier indications of APRA's approach would assist insurers in their AASB 17 planning, or help estimate the capital impact.

Please feel free to contact Peter Kohlhagen (peter.kohlhagen@apra.gov.au or 02 9210 3363) or Brett Pickett (brett.pickett@apra.gov.au or 02 9210 3696) if you wish to discuss any of the matters raised in this letter.

Yours sincerely,



Geoff Summerhayes
Executive Board Member

Attachment – indicative outline for the integration of AASB 17

