



Project

Insurance contracts

Topic

Cover note for risk adjustment education sessions

Objective

1. At the joint February meeting, the boards tentatively decided that if there are techniques that could faithfully represent the risk inherent in insurance liabilities, the inclusion of an explicit risk adjustment in the measurement of those liabilities would provide relevant information to users. The boards did not consider at that meeting whether a risk adjustment could be determined in a verifiable way that promotes comparability of financial statements, nor whether making the risk adjustment explicit would pass a cost-benefit test.
2. The purpose of this session is to provide input on the questions of verifiability, comparability and cost-benefit, by helping the boards understand how practitioners determine the risk adjustment in jurisdictions where they are already used. It responds to the request made by the boards during the February discussions that we should provide an education session that discusses whether a requirement to include a risk margin in insurance liabilities would be viable for all insurers to implement (including small ones) and will produce reliable and consistent outcomes that are useful, especially to users.

Presenters

3. We have invited the following presenters to present their views on the practical considerations in determining risk adjustments:

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- (a) On 15 March: Joachim Oechslin, Munich Re
- (b) On 22 March:
 - (i) Tony Coleman, Lonergan, Edwards & Associates
 - (ii) Mark Swallow, Swiss Re

Their biographies are in paragraphs 7-20.

Content

- 4. We have asked the presenters to draw on their experience of practical implementation of risk adjustments in addressing some of the following topics during their presentations. We noted that this list is not meant to be exhaustive and that the topics need not be covered in each presentation:
 - (a) **Use of risk measures in current practice** eg purpose of risk measures, whether and why they are explicit or implicit, types of risks being captured by these measures.
 - (b) **Ability to calculate an explicit risk adjustment** eg existing techniques to calculate explicit risk adjustments, how to choose what technique is more suitable for which risk, comparison with approaches that calculate risks implicitly.
 - (c) **Discount rate, expected value estimates and explicit risk adjustment** eg whether risk is also reflected in the discount rate or in the expected value estimates and if so how to avoid double-counting.
 - (d) **Application to different types of insurance business** eg whether there are any different considerations in determining the risk adjustment for typical life insurance contracts compared to typical property and casualty contracts and health contracts.
 - (e) **Usefulness and practicability considerations** eg comparability and understandability of the information provided by different techniques, availability of any practical expedients, usefulness of risk information for portfolios of contracts for accounting purposes, ability to

determine diversification benefits attributable to individual portfolios of contracts, costs involved in determining explicit risk adjustments.

5. In addition, we expect that the presentations will also cover the point raised by Board members in February about how risk adjustments can be set when many traditional actuarial projections of claims estimates often depend upon single point estimates, without necessarily having the objective of determining the expected value and the shape of the distribution of outcomes around that expected value.
6. We are not asking for any decisions at this meeting. We plan to continue to discuss whether there should be an explicit risk adjustment in the measurement of an insurance contract further both in agenda paper 3H (objective of the risk adjustment) and in future meetings.

Presenters' biographies

Jo Oechslin

7. Joachim Oechslin is Group Chief Risk Officer and Head of Integrated Risk Management at Munich Re, which he joined on 3 September 2007.
8. A Swiss citizen, he studied electro-technics and mathematics in Zurich and Winterthur, followed by a university teaching position at HTL Winterthur.
9. He started his professional career in 1998 as a consultant at McKinsey & Company in Zurich. In 2001, he joined Winterthur Life & Pensions. Subsequently, in 2003, he was appointed Chief Risk Officer and, in 2006, Member of the Executive Committee of the Winterthur Group, which was acquired by the AXA Group in December 2006. In 2007, he took over the position of Deputy Chief Risk Officer of the AXA Group in Paris.
10. Joachim Oechslin is Munich Re's representative in the European Chief Risk Officer Forum and a member of the IFRI (International Financial Risk Institute), as well as a member of the GDV Risk Management Subcommittee.

Tony Coleman BA MBA FIA FIAA FAICD

11. Tony is currently a Non Executive Director and Chairman of the Audit Committee of AMP Life Limited, one of the largest life insurers operating in Australia and New Zealand.
12. He is also a Non-Executive Director of Max BUPA Health Insurance Limited in India.
13. From 2000 until 2008 he was Chief Risk Officer and Group Actuary of Insurance Australia Group (IAG), reporting to IAG's CEO. IAG is the largest provider of property & casualty insurance in Australia and New Zealand. During his tenure in that role, Standard & Poors recognised the quality of the risk management function lead by Tony by rating IAG as one of only 7

insurers in the world (out of some 250 rated globally) to have “Excellent” risk management processes, the highest rating possible.

14. Prior to joining IAG, Tony was a Partner of PricewaterhouseCoopers (PwC) in Australia. His 15 year career at PwC included management roles leading large teams and building significant businesses of the firm, as well as a diverse range of business valuation, corporate finance and advisory work for clients in both the public and private sector covering a wide range of industries.
15. Tony is a former President of the Institute of Actuaries of Australia (IAAust) and a former winner of the IAAust’s “Actuary of the Year” award. He has also been active internationally having held various leadership roles in the International Actuarial Association (IAA), including Chairing the IAA Enterprise & Financial Risk Committee from 2007 to 2010 and leading the IAA’s response to the Global Financial Crisis in discussions with the Bank of International Settlements (BIS), the International Association of Insurance Supervisors (IAIS) and the International Monetary Fund (IMF).
16. Tony has also been a member of the IASB Insurance Working Group since 2004.
17. Tony is also a Non-Executive Director of the Australian Carbon Trust, a Member of the Advisory Board of the Macquarie University Business & Economics Faculty and a Director of Lonergan Edwards & Associates Limited, a corporate advisory firm based in Sydney.

Mark Swallow

18. Mark Swallow has recently taken up a new role as CFO of Swiss Re’s European reinsurance business.
19. Prior to that he held a number of roles in Finance at Swiss Re, most recently co-head Finance Operations and P&C CFO for the group. He has also served in the past as Chief Accounting Officer and was previously a member of the IASB's insurance working group.
20. Before joining Swiss Re, Mark worked for KPMG in audit and advisory in the UK, France and Switzerland.