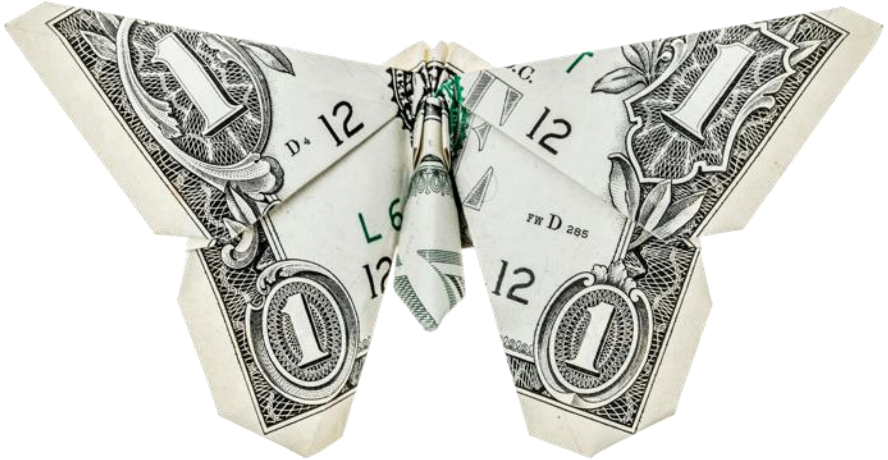
Business Planning: Insurance Conference 2024

Contents

- Contents and examination format
- Changes to syllabus and learning materials for exams in 2024
- Industry developments
- Role of technology
- IFRS and UK GAAP
- A few suggestions to pass on to students
- Summary of examiners’ observations on sessions in 2023
- Questions and answers

Business Planning: Insurance paper

- Professional Level module
- Introduced in 2016, evolutionary change since
- 2½ hour computer-based exam; in centre or remote
- 3 scenario based questions with multiple requirements (Q1 c.40 marks)
- 55% pass mark
- Access to all learning materials in the exam
- Students are strongly advised to complete FAR and AA before attempting BP:I
- A bridge between Professional and Advanced levels



Changes to syllabus and learning materials

2024 syllabus and material changes – overview

- Major change is the withdrawal of IFRS 4 and IAS 39
- No additional examinable elements of IFRS 17
- Major changes to the learning materials chapter 4

Syllabus changes

Section 1

a. demonstrate an understanding of the principles, practices and functions of the insurance sector and its related markets and the responsibilities of insurers to their stakeholders (eg sustainability responsibilities);

b. explain the nature of general (non-life) insurance and demonstrate an understanding of the issues and practices for different classes of insurance having regard to the impact that climate change may have on dynamic risks, including but not limited to: property, motor, health, catastrophe and casualty;

Section 2

a. explain the nature and consequences of corporate governance requirements relating to insurance companies, including those arising from the UK Corporate Governance Code and Solvency II, and demonstrate an understanding of how good governance can contribute to the management of risk and creation of value in a variety of scenarios, including having regard to stakeholders' legitimate expectations about responses to sustainability issues;

b. identify and explain the key operational risks experienced by an insurance company in a given scenario, for example IT failure, cybercrime, sustainability risks and fraud, and provide advice in the context of uncertainty;

Section 3

Removal of all references to IFRS 4 and IAS 39

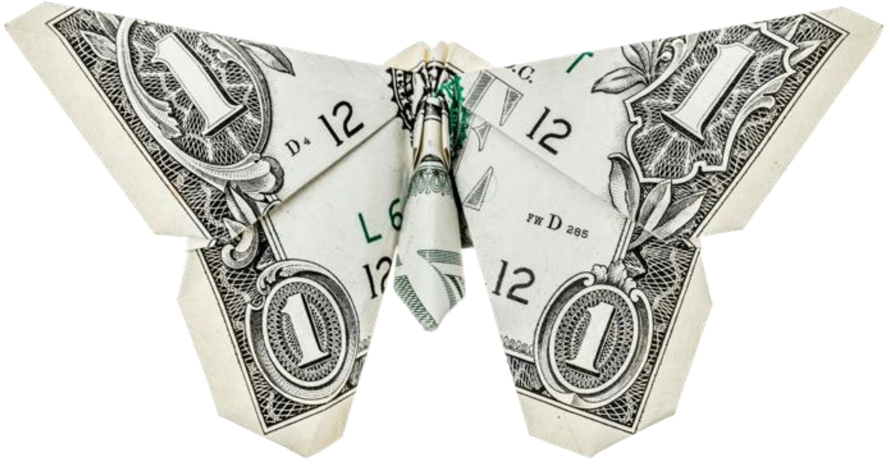
Section 4

~~g.~~ demonstrate an understanding of the circumstances in which an insurer, broker or pension provider may hold client money and a basic understanding of the consequences for the insurer and the auditor of holding client money;

Section 5 – no changes

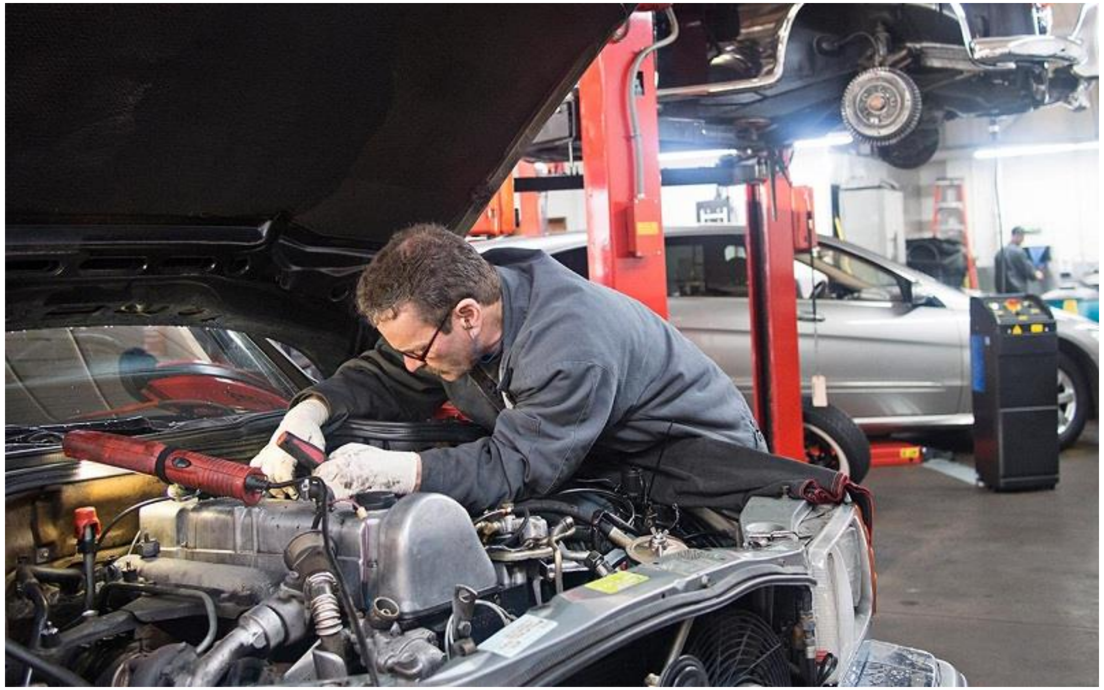
Examinable documents

Audit and Assurance	
Practice Note 20 - The Audit of Insurers' in the United Kingdom	A
IAPN 1000/Practice Note 23 – Special Considerations in Auditing Financial Instruments	A
ISA 540 – Audit of Accounting Estimates	A
The review actuary	B
Audit and assurance procedures for an insurer's regulatory returns	B
Identification of client money	C
Section 166 FSMA reports (and the role of a skilled person)	C
Ethics	
Recognition and explanation of ethical and legal issues	A
Appropriate ethical actions	A
Ethical safeguards	A
Ethical issues to be notified to regulators	A



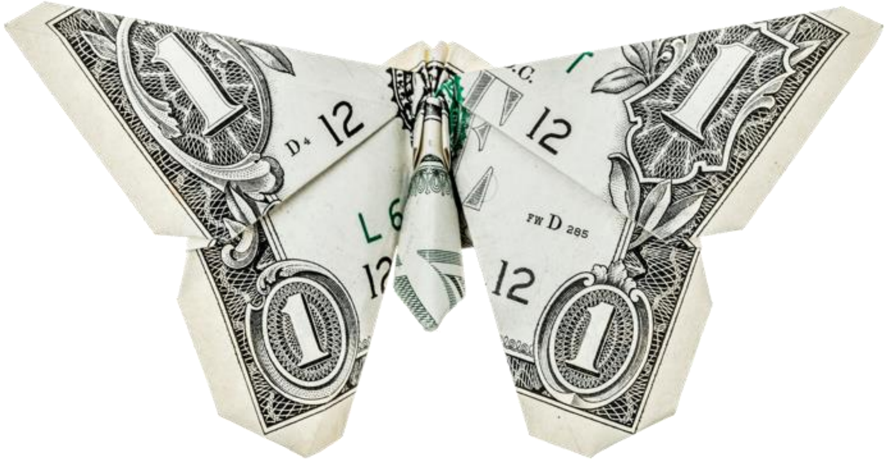
Industry developments

Insurance and pension industry developments



This Photo by Unknown Author is licensed under CC BY-SA-NC

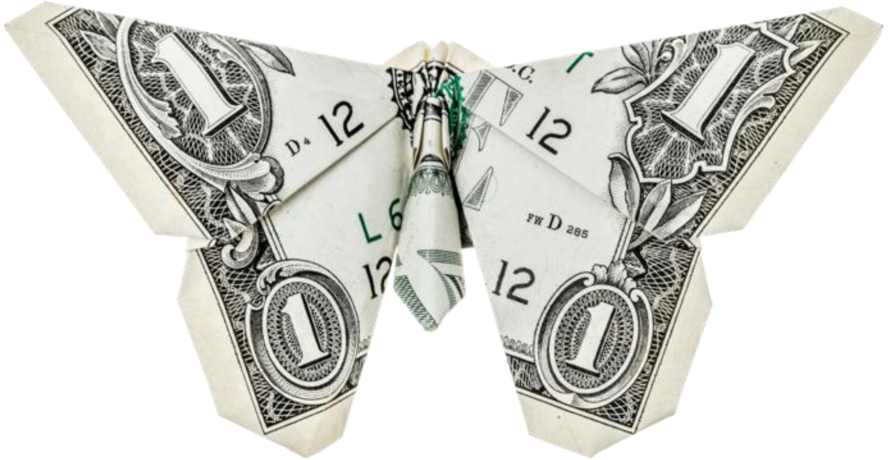
- IFRS 17 mandatory for listed UK insurers for periods starting from 1 January 2023
- Interest rate rises and volatility
- Increasing cost of claims, linked to cost of living crisis and labour shortages
- New technologies, especially generative AI
- Climate change and catastrophes (size and predictability of claims)
- Useful resource: https://www.pwc.com/us/en/industries/financial-services/library/insurance-industry-trends.html



Role of technology in the BP:I exam

Technology in the BP:I exam

- BP:I has often included technology (eg telematics, process automation, use of big data).
- Technology is now more embedded into the Professional Level syllabus.
- Pervasive to the insurance industry, but likely to be focused in one of the three questions in the BP:I exam.
- No marks directly in the syllabus, so tends to be part of scenario, eg telematics falls within “insurance products” part of syllabus.
- Expert technology moderator as part of the exam development process.



IFRS and UK GAAP

Approach to IFRS 17 in 2023 and beyond

- Candidates continue to perform very well on numerical IFRS 17 requirements
  - Maybe performing well in marks but less well with time allocation?
  - Full marks not uncommon, which could be overkill?
  - Candidates may be spending too long ‘perfecting’ their answer
- In 2023 and beyond:
  - IFRS 17 is the standard for listed companies in the UK, so will always feature
  - Candidates should be aware of “get-outs” from using GMM and if credible arguments (PAA, FRS 103, MCEV)
  - The PAA is very important – can’t “bank on” a GMM reconciliation
  - An increasing emphasis on <u>application and understanding</u> of IFRS 17
  - Understanding of meaning of GMM numbers still seems rather variable
  - We don’t guarantee preparation of a GMM reconciliation; nor FS extracts

Insurers and UK GAAP

- FRS 103 is part of UK GAAP
- Possibly confusing pick and mix:
  - UK GAAP allows “import” from IFRS 9 if complex fin instruments
  - But otherwise still must be in UK GAAP regime, eg can’t mix FRS 103 and IAS 40
- Be careful with FRS 103 and PAA of IFRS 16, including terms (useful summary of differences in Chapter 4)
- Likely to examine UK GAAP at a slightly lower level than IFRS 17

Beware assuming FRS 103 and IFRS 17 PAA are the same

2.18 Comparison of IFRS 17 to IFRS 4/FRS 103

There are very significant differences between the way in which IFRS 17 and the standard it replaced, IFRS 4, account for insurance contracts. As a consequence, IFRS 17's adoption by insurers has led to significant differences in the way that their financial statements are presented.

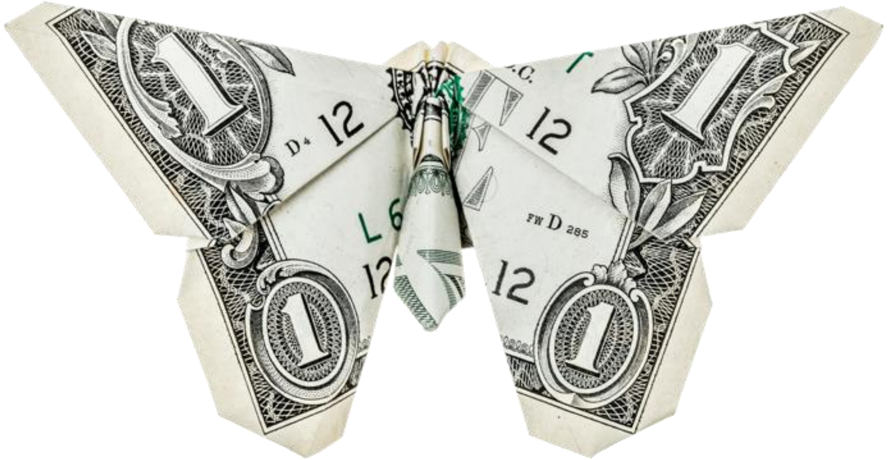
As mentioned previously, **IFRS 4** as an interim measure was a **very permissive standard** encompassing a variety of pre-existing financial reporting practices in different jurisdictions. **IFRS 17 is far more prescriptive**, which is intended to lead to greater **consistency and comparability** of the financial statements of insurers.

As we saw above the **premium allocation approach** is **broadly similar** to the way in which short-term insurance contracts are generally accounted for under **IFRS 4**. However, it should be noted that there are differences as shown below.

Additionally, although IFRS 4 has been replaced by IFRS 17, its requirements are still reflected in UK GAAP through **FRS 103**. Therefore, this comparison is equally relevant to those unlisted UK insurers that choose to prepare their financial statements under UK GAAP. FRS 103 is covered later in this chapter.

Differences between IFRS 17 and IFRS 4/FRS 103 for short-term insurance contracts		
	IFRS 4/FRS 103	IFRS 17 (PAA)
Onerous contracts	Permits, but does not require, insurers to create an unexpired risk provision where expected claims and directly related costs of an insurance contract exceed the amount of unearned premium	Requires that expected losses from onerous contracts are recognised in profit or loss and insurance liability increased by this amount
Insurance acquisition costs	Deferred acquisition costs recognised as an intangible asset and amortised to profit and loss over life of contracts	Acquisition costs are either: • deducted from the liability; or • written off to profit or loss as incurred (provided contract [illegible] not exceed 12 months)

- Terminology for UK GAAP
  - Gross written premiums
  - Net written premiums
  - Deferred acquisition costs
  - Provision for unexpired risks
- Terminology for IFRS (PAA and GMM):
  - Insurance revenue
  - LIC/ LRC



A few suggested key messages to pass on to students

Tip 1: Read all the information in each question.

READ EACH QUESTION IN FULL, INCLUDING ALL EXHIBITS, BEFORE STARTING TO ANSWER.

MUCH OF THE ANSWER IS GIVEN IN THE QUESTION, IN THE KEY FEATURES OF THE SCENARIO!

Tip 2: Remember that insurance is all about estimated liabilities.

BUILD AN UNDERSTANDING OF THE DURATION OF LIABILITIES BEFORE CONSIDERING INVESTMENT STRATEGY.

AVOIDS BOILERPLATE STATEMENTS ABOUT INVESTMENT STRATEGY THAT EARN FEW MARKS.

Tip 3: Identify each specific type of risk.

IFRS 17 CATEGORIES:

- CREDIT
- MARKET
- LIQUIDITY

ALSO CONSIDER:

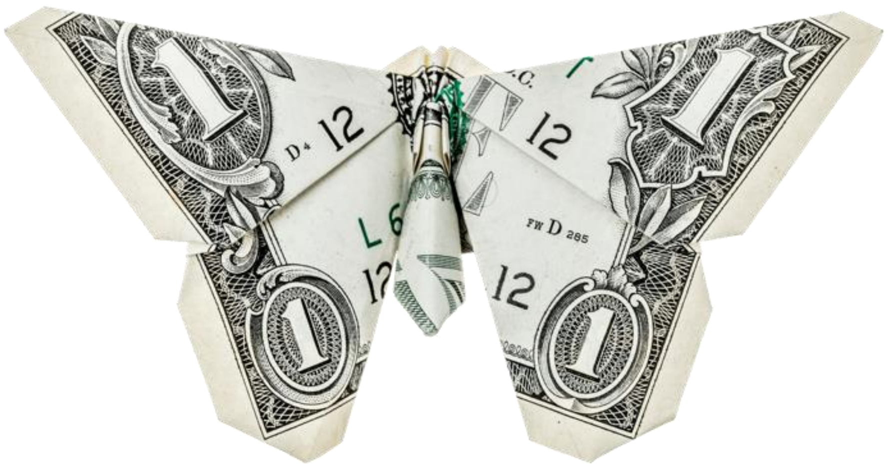
- INTEREST RATE SENSITIVITY
- FOREIGN CURRENCY
- INFLATION

Tip 4: Ration time carefully.

IFRS 17 GMM RECONCILIATION QUESTIONS CAN BE A DISTRACTION IN TIME USAGE.

GIVE QUESTION 3 AN APPROPRIATE AMOUNT OF TIME: IT'S NOT MEANT TO BE HARDER THAN THE OTHER TWO QUESTIONS.

PAY CLOSE ATTENTION TO THE VERBS IN REQUIREMENTS.



Review of candidates' performance in 2023 exams

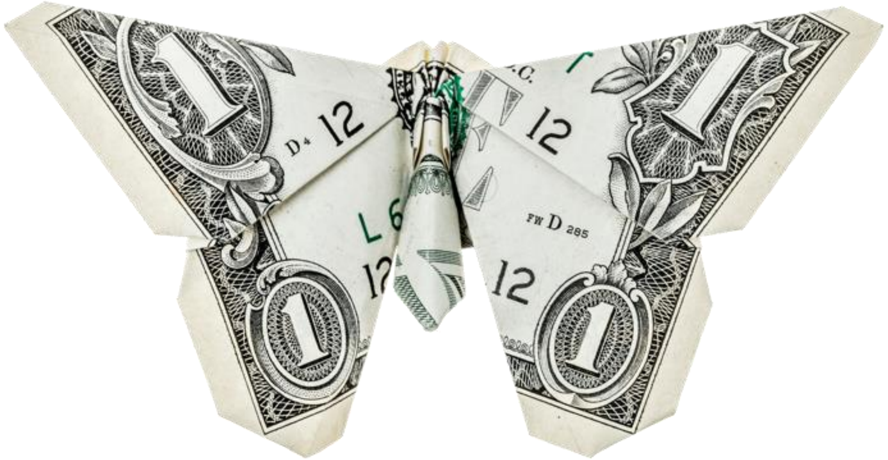
2023 exam sessions – numbers and pass rates

SESSION	JUNE	SEPTEMBER	DECEMBER
OVERALL PASS RATE	75%	100%	76.9%
NUMBER OF CANDIDATES	36	6	13
FIRST ATTEMPT	26	3	8
FIRST ATTEMPT PASS RATE	73.1%	100%	61.5%
RE-SIT	10	3	5
RE-SIT PASS RATE	80.0%	100%	38.5%

2022 exam sessions – average mark by question

	JUNE	SEPTEMBER	DECEMBER
QUESTION 1	61.4% *	54.0% *	54.1% *
QUESTION 2	65.1%	66.3%	66.3%
QUESTION 3	44.4%	47.7%	47.6%
OVERALL	57.7%	64.3%	56.0%

* Question with significant IFRS 17 General Measurement Method content



Summary of examiners' observations on sessions in 2023

Examiner’s observations on June 2023

Overall this sitting exhibited some pleasing features:

- There were only two instances of a non-response to a requirement and few instances where a meaningful attempt to answer a requirement was not made. This was lower than is typical and suggests candidates managed their time well and were well-prepared.
- The IFRS 17 requirement in question 1 was quite challenging as it required candidates to use information to complete only the more complex elements of a part-completed reconciliation of liability for remaining coverage. Despite this, candidates generally did well.
- The exam produced a number of very strong scripts, including one that achieved a mark of 90% and produced excellent answers to all requirements.

The principal weaknesses observed were:

- An apparent gap in knowledge for many candidates related to financial reinsurance exhibited in the last requirement. A topic well covered in the LMs.
- A continuing tendency for candidates to produce weak answers when discussing the impact of inflation and interest rates on an insurer’s bond holdings. It is unclear whether this is lack of understanding or an inability to express the relevant relationships clearly, but answers in this area are unconvincing.
- Some candidates appeared to react to key words and produce answers that did not address the actual requirement set. This may reflect candidates reproducing answers to the requirements that they expect and over-relying on answers to questions in the learning materials. However, it was positive that this tendency was less common than in recent sittings.

Examiner’s observations on September 2023

Question 1 was a little different to previous IFRS 17 General Measurement Method questions. In the past, candidates have mostly been asked to prepare figures, but this exam provided the reconciliation, a narrative scenario and asked candidates to identify where the most probable errors lay. This was answered pleasingly well; perhaps better than the examiners had expected it to be answered.

Question 2 was well answered. This question focused on risk management and its style was similar to previous exam sessions. Although the content is not easy, it presented no surprises for candidates and they answered the questions well.

The least well answered requirement was the first requirement of question 3. This asked candidates to identify which figures in the financial statements would be most likely to be impacted by errors and omissions arising from the scenario.

The scenario mostly had potential for cut-off errors in reporting, impacting on multiple line items in profit or loss and the statement of financial position.

This was intentionally the most open-ended requirement, to balance a relatively directive set of requirements in question 2. It was still a little surprising that no candidates answered this requirement well. Had they mentally run through a statement of profit or loss and statement of financial position whilst reading the scenario, it ought to have been fairly easy to work out where the errors and omissions were most likely to appear.

Examiner's observations on December 2023

This was a very small session which limits the significance of comments here, however:

- Candidates struggled with the FR components of the exam; 1.1 covering IFRS 17 and 3.2 covering IFRS 9. Elements of these requirements focused on issues with some degree of complexity, but are nonetheless well-covered by the learning materials. This suggests that some candidates may not be studying these key standards for insurers in sufficient detail.
- The IFRS 17 requirement 1.1 was similar in form to that set in June 23. However, this requirement particularly tested candidates' understanding of the use of the appropriate discount rates in measuring insurance contracts. Candidates were not confident in this area resulting in a weaker performance than was achieved in June 23.
- One positive feature of this session was that candidate answers typically contained less generic content than has often been observed. For example, when discussing audit procedures in question 1, changes to investment strategy in question 2, or going concern in Q3 nearly all candidates related their answers to the relevant information provided in the questions and their exhibits.

ICAEW

icaew.com