ICAEW
REPRESENTATION 41/22

TENTATIVE AGENDA DECISION: TRANSFER OF INSURANCE COVERAGE UNDER A GROUP OF ANNUITY CONTRACTS (IFRS 17)

Issued 23 May 2022

ICAEW welcomes the opportunity to comment on the Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17) published on 23 March 2022, a copy of which is available from this link.

For questions on this response please contact the ICAEW Financial Reporting Faculty at frf@icaew.com quoting REP 41/22.

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KEY POINTS

1. We thank the IASB staff and the members of the Interpretation Committee (the Committee) for the time taken to analyse and interpret the question raised regarding the quantity of benefits provided under a group of annuity contracts.

2. The Committee has tentatively reached the view that Method 1 (and not Method 2) meets the principle described in paragraph 119 of IFRS 17. During our discussions of the Tentative Agenda Decision, some of our members expressed concerns, set out in paragraphs a-c below, about this conclusion. We would urge the Committee to consider these points when finalising their decision. In addition, we believe these points should be considered by the IASB when it conducts the post-implementation review of IFRS 17:

    a. Some of our members believe that Method 2 would yield less diversity in application, particularly for deferred annuities, as they believe it allows insurers to use the same profile of coverage units for the insurance and investment return services and that this profile would be related to the economics of the contract and result in improved decision useful information for users. They believe that Method 1 will create diversity in practice that would be undesirable and have the potential to result in notable comparability issues for users.

    b. Method 2 is likely to be operationally simpler for preparers while still meeting the needs of users. This is true particularly in the context of Bulk Purchase Annuities, where a single contract may provide insurance coverage services for many thousands of individuals. It is common in this type of contract for there to be numerous services, including death benefits, spouse and other dependents benefits, and some individuals will have annuities in payment, while others will be in the pre-retirement phase. Application of Method 1 to such complex contracts is operationally very challenging, whereas supporters of Method 2 believe the insurance services and investment return service are reflected appropriately using the method during both the deferred and pay-out periods. In addition, there is a concern that the tentative agenda decision as it currently stands will cause costly disruption to entities’ implementation of IFRS 17 by not permitting Method 2.

    c. Finally, the interpretation concludes that the ‘service provided’ is linked only to the period in which valid claims can be paid. Some of our members consider that the interpretation made by the Committee of the services provided by an annuity contract does not capture adequately the value of surviving to the end of the period, which includes both the annuity payment as well as the benefit of a guaranteed income for life at the rates agreed at inception of the contract. If the interpretation of the ‘service provided’ were to include the value of survival, this may affect the tentative decision that Method 2 is not appropriate under IFRS 17.

3. In summary, we believe that the concerns set out above should be considered carefully during the finalisation of the agenda decision and during the eventual post-implementation review of IFRS 17.