IAA Monograph on IFRS 17 Risk Adjustments

By Douglas Van Dam

In May 2018, the International Actuarial Association (IAA) published a textbook-sized monograph on "*Risk Adjustments for Insurance Contracts Under IFRS 17*." Work on this monograph had begun well before IFRS 17 was finalized in May 2017. IFRS 17 is a principle-based global reporting standard for insurance contracts. The Risk Adjustment (RA) is part of the general measurement model, which applies to both long-duration contracts and to the claim reserves for short-duration contracts. IFRS 17 describes the purpose of the RA, and some characteristics the RA should have, but it does not have any rules on how the RA is to be calculated. One of the purposes of this monograph is to provide some techniques and methods for meeting the obligation to calculate the RA.

This monograph will be an important resource for anyone responsible for calculating the RA under IFRS 17. It is also a valuable tool for anyone who wants to know what the RA represents and how it affects the period-to-period financial reporting of companies subject to IFRS 17. It is suitable for beginners and those with some experience. Even for actuaries familiar with risk margins under Solvency II, it is a good resource for explaining the differences between the risk margin and the RA.

The monograph begins with an introduction and description of the principles underlying the RA. Techniques, effects of risk mitigation, validation, and re-measurement are topics covered. Disclosure is an important aspect of IFRS 17 and RA disclosure has its own chapter.

The final chapter has several very helpful case studies. The spreadsheets to support the case studies come along with the book. As actuaries, we like to get into the numbers, and this is a good way to test some simple examples. The first example is a cost of capital technique applied to a simple 5-year term. The second example is a Wang Transformation applied to a deferred annuity, with a comparison to a cost of capital technique. The next example is a confidence level technique applied to a block of group long-term disability. Next is a Wang Transformation applied to commercial auto liability, and this is again compared with a cost of capital technique for the same block. The final example is an aggregation of risk adjustments using copulas.

The monograph was commissioned by the Insurance Accounting Committee (IAC) of the IAA. The Financial Reporting section provided partial funding for this work. The monograph can be ordered on the IAA website, *www.actuaries.org*, under Publications and Overview. It is available both in print and as an e-book. The other two monographs featured on that page, "Stochastic Modeling" and "Discount Rates," were also commissioned by the IAC and received partial funding from the Financial Reporting Section. ■

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