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# REGULATORY AND FINANCIAL REPORTING STANDARDS FOR THE INSURANCE INDUSTRY

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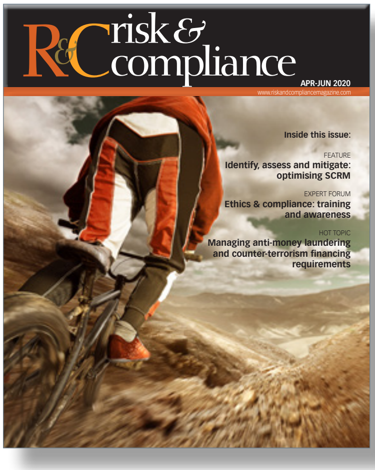




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ONE-ON-ONE INTERVIEW

# REGULATORY AND FINANCIAL REPORTING STANDARDS FOR THE INSURANCE INDUSTRY

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As principal product marketing manager in the risk research and quantitative solutions division at SAS Institute, **Thorsten Hein** specialises in global risk management operations insights in both banking and insurance, focusing on risk and finance integration, international financial reporting standards (IFRS), solvency regulations and regulatory reporting. He helps risk management stakeholders to go beyond pure regulatory compliance and drive value-based management to maximise business performance. By applying experience from more than 20 years in business intelligence and analytics, and supporting financial services and risk management, he ensures business relevance as well as technical coherence. Mr Hein joined SAS Institute in 2004.

**R&C: The insurance industry remains on a journey of continuous regulatory change. What are the current challenges?**

**Hein:** Insurers in the world are currently dealing with International Financial Reporting Standard (IFRS) 17. Its effective date has just been delayed by another year and will now be deferred to annual reporting periods beginning on or after 1 January 2023. However, not all details of the standard have yet been finalised and timelines for implementation are still very tight. The International Accounting Standards Board (IASB) also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time. Looking at insurers reporting under US Generally Accepted Accounting Principles (GAAP), with Long Duration Targeted Improvements (LDTI) the situation does not seem to be that clear. For Securities and Exchange Commission (SEC)-filed insurers, the compliance date still is January 2022. And similar to IFRS 17, LDTI requires a four-quarter parallel run, meaning – if nothing changes – they should all be ready to go by the beginning of 2021. However, it is not yet clear whether the implementation date of LDTI will also be delayed by another year to stay aligned with IFRS 17. The same question applies to the alignment of the Current Expected Credit Losses (CECL) and IFRS 9 effective dates. And of course, there is also a significant number of insurers having to report both under IFRS and US GAAP at the same time, namely international insurance groups with US-based entities. These insurers would definitely benefit from a simultaneous, and therefore efficient, implementation of these standards. From a regulatory point of view, I would mention the EU's Solvency II regulation with its regular updates of the European Insurance and Occupational Pensions Authority (EIOPA) taxonomy and the upcoming Insurance Capital Standards (ICS) 2.0 as part of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame IAIGs) – which is driven mostly by the Asian insurance market.

> **"The number of regulations and standards the insurance industry has to deal with today and in the future will not decrease."**
>
> *Thorsten Hein, SAS Institute*

**R&C: As the insurance market becomes more and more global, insurers need to operate within a large number of regulations and standards. How is this trend affecting their daily business?**

**Hein:** The number of regulations and standards the insurance industry has to deal with today and in the future will not decrease. The fact that somehow they are all influencing each other does not make it easier for insurers to find the right and balanced approach for implementation, while at the same time trying to optimise their operational day-to-day business. Let us not forget that, in addition to international regulatory and reporting standards, insurers also have to deal with regional and local regulations. This makes it even more complicated for large international insurance groups that are trying to 'industrialise' and simplify their offerings and internal processes in order to reduce operational costs and becoming more competitive, while having to comply with a growing number of standards and regulations that sometimes might also contradict each other. What makes life even more difficult for insurers is that financial and regulatory reporting is not, of course, the only thing on their minds. Managing stakeholders is key for any business, not least insurance, and volatility is a key consideration for many. To reduce volatility – and increase stability – it is necessary to plan early and effectively to manage risks and develop a financial impact analysis, taking into account the effects of individual market parameters and likely changes in the external environment. Put more simply, you cannot predict the future, but you can plan for the most likely outcomes.

**R&C: To what extent are regulatory authorities aiming to clarify their requirements as early as possible?**

**Hein:** I am more than convinced that regulatory authorities around the globe are trying hard to finalise their requirements as early as possible. But this is not a one-way street. The insurance industry is, of course, trying to influence this process, but not all players have the same interests and often these negotiations result in further ambiguities and uncertainties. However, it is important that all parties understand the time available versus the time needed to complete the implementation of additional requirements, especially when talking about topic that is relatively new to all of them.

**R&C: As the effective date has been delayed by another year, are firms now fully aligned and on track with IFRS 17?**

**Hein:** At a recent meeting on 17 March 2020, the International Accounting Standards Board (IASB) has finally completed its discussions on the amendments to IFRS 17 Insurance Contracts that were originally proposed for public consultation back in June 2019.

In previous meetings the IASB has already confirmed that it will proceed with the proposals outlined in the June 2019 consultation document albeit with some minor modifications in response to feedback received. The IASB also added some additional amendments, again in response to feedback on those proposals. So, from a market perspective, it is expected that all stakeholders will welcome the conclusion of deliberations on changes to IFRS 17, even if some of the decisions reached do not reflect the wishes of some players in the industry.

**R&C: What does this mean for insurers' implementation projects? Is the situation for US-based insurers comparable?**

**Hein:** The decision to defer the effective date of IFRS 17 by two years from the original date to 2023 will enable insurers around the world to implement the new standard, also addressing the amendments to IFRS 17 that are expected to be published in the second quarter of 2020. However, insurers should not slow down their implementation efforts but use the time gained for even more testing. Additional time offers the opportunity to progress through implementation deliberately and effectively. But more importantly, the delay opens a much-needed window to perform even more adequate tests and dry runs of processes and determine the impact on financials. For US-based insurers having to implement LDTI, I am not yet aware of any concrete plans for a further delay, but it is not an unlikely proposition neither. Since the data, calculation and subledger challenges are just as complex as IFRS 17, time for implementation still is very tight for insurers reporting under US GAAP, too.

**R&C: With the insurance industry currently under pressure, can we expect some relief post-2023?**

**Hein:** In addition to the financial reporting standards, we also need to look at the regulatory reporting standards, especially in terms of international solvency regulations. The International Association of Insurance Supervisors (IAIS) aims to develop ComFrame IAIGs. This incorporates, as one of its key elements, an international standard of capital calculation risk-based regulation: the ICS. Once adopted, the implementation of the latest version, ICS 2.0, would be carried out in two phases. The first phase, a five-year monitoring period, already started in January 2020. This will be followed by an implementation phase starting in 2025. However, it remains unclear how the capital standard will interact with, or function parallel to, existing capital standards such as Solvency II. So, you see, the future has already begun. R&C