AVÖ comments on Revised Exposure Draft ED/2013/7 - Insurance Contracts

Dear Sirs,

Dear Mr. Hoogervorst,

Referring to the Exposure Draft ED/2013/7 “Insurance Contracts” as issued by the IASB in June 2013, please find enclosed our comments and detailed answers to the questions therein.

We regard the ED/2013/7 as a major step towards a solid and deployable set of principles and therefore we support the following:

- the unlocking of the contractual service margin;
- the recognition of links between assets and liabilities;
- the introduction of OCI offsetting volatility resulting from market movements not affecting the performance of the period.

However, we have identified vital issues that obviate the application of the principles given in the current ED caused by either inconclusiveness or impracticability, foremost:

- inconclusive requirements regarding the grouping of contracts into portfolios;
- blurring of the contractual service margin as it relates to both contract and portfolio level information;
- the need to decompose cash flows of participating contracts into components that are in contradiction to the architecture of the same contracts and so leads to incomprehensible measurements;
- the limitations regarding the unlocking of the service margin being perceived as inconsistent with its definition as future profit and furthermore causing the present ED being practically inapplicable to frequently and regularly changed multi-cover risk contracts.

Please find our suggestions as part of our answers to the questions enclosed.

Having discussed our issues and suggestions with other Actuarial bodies in Europe, we also support the “Alternative Approach” as proposed by the insurance industry (European Insurance CFO Forum and Hub Global Insurance Group).

Sincerely

Christoph Krischanitz  Karin Kührer-Hugo
(Chairman AVÖ)  (Working Group Leader AVÖ)