IFRS 17 & Solvency II Workshop
Considerations for the Implementation of IFRS 17

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Agenda

Monday, 15 July

- Recap of IFRS 17 Background
- General Measurement Model
- Reinsurance Held and Contracts Acquired
- Considerations for the Implementation of IFRS 17

Tuesday, 16 July

- Measurement of direct participation contracts
- Illustrative examples of the Premium Allocation Approach
- Presentation of IFRS 17 Results
- Data management and calculation engines
- Background and Scope of Solvency II
- Quantitative Aspects of Solvency II

Wednesday 17 July

- Quantitative Aspects of Solvency II (cont'd)
- Governance under Solvency II
- The Risk Management & Reporting Processes

Transition Rules

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Effective date

IFRS 17 must be applied for annual reporting periods beginning on or after January 1 ~~2021~~ 2022

- If adopted early, the entity shall disclose that fact
- Early adoption is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* before the date of initial application of IFRS 17

18 May 2017

Publication of IFRS 17

1 January 2018

Effective date of changes to IFRS 4 and of IFRS 9

NEW

1 January 2022

Effective date of IFRS 17

Adoption of IFRS 17 at transition date

DERECOGNIZE IFRS 4

ASSETS

~~Reinsurers' share of liabilities~~

~~Deferred acquisition costs~~

~~Value of business acquired~~

~~Premiums receivable~~

~~Policy loans~~

LIABILITIES

~~Insurance contract liabilities~~

~~Unearned premiums~~

~~Claims payable~~

RECOGNIZE IFRS 17

ASSETS

Insurance contract assets

Reinsurance contract assets

LIABILITIES

Insurance contract liabilities

Reinsurance contract liabilities

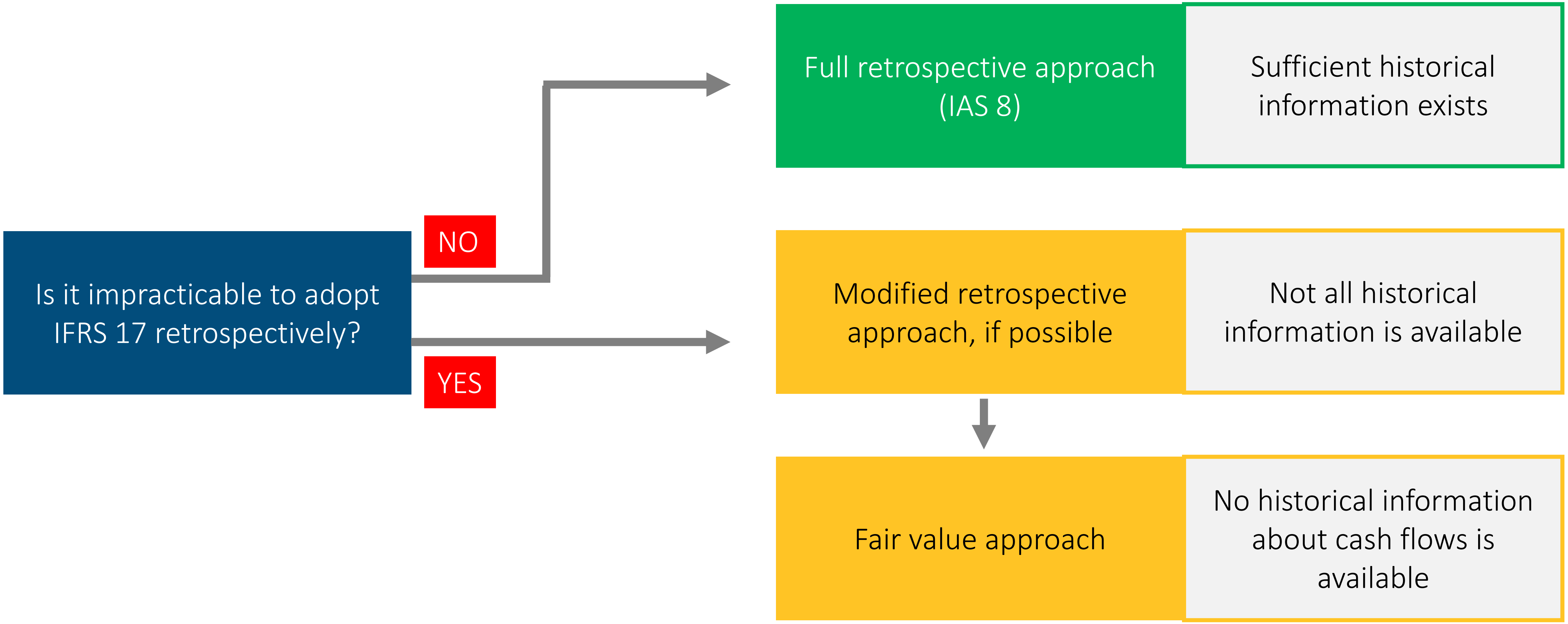
DIFFERENCE IN EQUITY

EQUITY

+/– net difference

Transition

IFRS 17 is applied retrospectively, unless it is impracticable



Full retrospective approach

- At transition, the entity
  - measures each group of insurance contracts as if IFRS 17 had always been applied; and
  - derecognizes any existing balances that would not exist had IFRS 17 always been applied

POSSIBLE CHALLENGES

- determining the fulfilment cash flows on initial recognition to determine the CSM, and identifying all changes since initial recognition that would have adjusted the CSM
- applying the aggregation requirements based on the original expectations about the contract's profitability
- identifying direct participating contracts based on information available on initial recognition
- Determining the cumulative amount of insurance finance income or expense recognized in OCI

Application of the modified retrospective approach

	Simplification
Cash flows	• Actual cash flows up to 1 January 2021 • Expected cash flows after 1 January 2021 with assumptions as at 1 January 2021
Discount rate on initial recognition	• Approximation with the applicable yield curve, if observable; or • Calculation of an average spread over an observable yield curve
Risk adjustment on initial recognition	• Adjustment as at 1 January 2021 with expected release between initial recognition and 1 January 2021
Development of experience between initial recognition and 1 January 2021	• Estimation of the contractual service margin as at 1 January 2021 based on the proportion of units of coverage
Contract grouping	• Grouping is allowed for contracts issued at different years

Example of the modified retrospective approach

Assume that, at transition, an entity estimates the present value of cash flows at $1{,}240$, a risk adjustment at 200, and a contractual service margin at 40. Between initial recognition and transition, the entity receives premium of $2{,}000$ and pays 400 in claims

Analysis on transition date			
	Transition date	**Adjustment to initial recognition**	**Initial recognition**
Estimate of future cash flows	1,540	–1,600	–60
Effect of discounting	–300	–100	–400
Present value of future cash flows	1,240	–1,700	–460
Risk adjustment for non-financial risk	200	40	240
Fulfilment cash flows	**1,440**	**–1,660**	**–220**

positive net outflows are really liabilities

Application of the fair value approach

- Only when it is not possible to apply either the full or the modified retrospective approach, the entity may determine the contractual service margin at transition as follows
- There is no need for retrospective calculations

Contractual service margin = Fair value under IFRS 13 − Fulfilment cash flows

Fair value under IFRS 13 → "Fair value measurements"

Interaction of roles and processes

Impact of IFRS 17 on operations (besides actuarial, finance and IT)

Market analysis	Sales	Channel management	Branding	Marketing	Agent training
Portfolio strategy	Pricing and reserving	Product planning	Product development	Reinsurance strategy	Product maintenance
Underwriting	Client service	Policy processing	Fraud and detection	Claims management	Reserve management
Training	Legal services	Risk management	Internal control	Audit	Performance management

High impact

Moderate or potentially high impact

Little or no impact

Example: activities related to the contractual service margin

- Bookkeeping and updating of the CSM and the risk adjustment
- Calculation of the loss component and the run-off CSM
- Maintenance of the general ledger
- IFRS 17 reconciliations and reconciliations with other systems and methodologies
- Preparation of notes to financial statements
- Update of accounts to reflect the effect of exchange rates

Functional convergence: actuarial, finance and risk management

CLASSICAL MODEL

FINANCE FUNCTION

ACTUARIAL FUNCTION

RISK MANAGEMENT FUNCTION

Trends that motivate the convergence of functions:

- Turbulent macroeconomic conditions
- Regulatory change, including financial reporting and solvency
- Business environment characterized by volatility, uncertainty, complexity and ambiguity
- A globalized insurance market
- Reduced operating margins
- More mergers and acquisitions
- Challenges in recruiting qualified staff

Possible implementation scheme

IT	• Solid knowledge of IFRS 17 • Company’s requirements • Target operational mmodel • Gap analysis • Assessment of operational impact • Definition of implementation plan • Definition of resources • Preparation of budgets	• Systems assessment • Systems implementation • Testing • System migration
Corporate strategy and operations		• Revision of products • Revision of portfilio • Revision of strategy • Performance metrics
Accounting and internal processes		• Accounting framework • Training • Process redesign • Re-expression and comparability
Support	• Change management • Project management and dependencies with other projects • Training • Interaction with regulators and industry	

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