

46th India Fellowship Seminar

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Life Insurance Technical Case Study Transition to Ind AS 117

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Life Insurance Technical Case Study

Transition to Ind AS 117



You are Appointed Actuary of large size well established life Insurance company. The Regulator has notified the transition to Ind AS 117 through IRDAI (Actuarial, Finance and Investment functions of Insurers), (Amendment) Regulations, 2026 on 31st March 2026.

One of the provisions of this Regulation for granting forbearance subject to certain conditions as laid out in the extant Regulation. Your company has made a request for forbearance.

Your CEO is very much concerned about the compliance of the forbearance provision as well as smooth transition to Ind AS 117 in the given time frame. He has also been told by the CFO that the role of Actuaries has significantly increased in the new system.

Life Insurance Technical Case Study

Transition to Ind AS 117



The CEO of the company has requested you to prepare a detailed presentation to the Board of the company covering all the aspects of the extant Regulations and its impact.

Your presentation may cover the following:

1. What is the objective of moving Behind IND AS 117 and the advantages thereof?
2. Changes in Role of Appointed Actuary along with other Actuaries working in the company in transition to IND AS 117
3. What are the requirements by Authority in case forbearance is granted and the calculations involved
4. What are the key terms in IND AS 117 (not present in current reporting) and the rationale for the same
5. Expectations from the other domain departments ensuring smooth transition to IND AS 117
6. Any other relevant point

- Objectives & Advantages of moving to Ind AS 117
- Changes in role of Appointed Actuary along with other Actuaries under Ind AS 117
- Key terms under Ind AS 117
- Requirements by Authority in case forbearance is granted and the calculations involved
- Expectations from other domain departments ensuring smooth transition to Ind AS 117
- Other aspects of Ind AS 117

Objectives & Advantages of moving to Ind AS 117

Objectives & Advantages of moving to Ind AS 117



- **Principle-Based Framework:** Professional actuarial judgement is applied over and above stated principles
- **Global Alignment:** Align Indian insurance accounting with IFRS 17 – adopted by 60+ countries
- **Separation of sources of profit:** Insurance service result reported separately from finance result thereby reflecting pure revenue from core insurance business

- **Grouping of contracts:** Enables removal of offsetting impacts between various groups due to the following splits:
 - Portfolios (LOBs)
 - Profitability groups
 - Issuance period groups
- **Transparency:** Uncertainty component is separated from expected cashflows through risk adjustment

Objectives & Advantages of moving to Ind AS 117



- **No upfront recognition of Profits:** Profit recognized only as services are rendered
- **Early Loss Visibility:** Onerous contracts hit P&L upfront
- **Explicit cost of uncertainty** – The uncertainty portion of an insurer's business more comparable than previous implicit component of prudence



Changes in role of the Appointed Actuary along with other Actuaries under Ind AS 117

Change in the Role of Appointed Actuary & other Actuaries



- **IND AS 117 expands and formalizes** the centrality of actuarial judgement across a significantly wider measurement and disclosure
- **Contract scope and grouping methodology:** Identifying insurance contracts within Ind AS 117, contract boundaries, level of aggregation, profitability grouping and onerous contract assessment
- **Measurement Architecture:** Measurement of LRC, LIC, BEL/FCF, Risk Adjustment and Loss Component/CSM

Change in the Role of Appointed Actuary & other Actuaries



- **RA methodology:** Calibration, calculation, movement analysis and disclosure of confidence level or equivalent approach
- **CSM—inception to roll-forward:** Initial recognition of the Contractual Service Margin at point of sale, subsequent period-by-period roll-forward and disclosure analysis
- **Coverage units** – the engine of profit release: Developing the methodology and drivers for coverage unit calculation, determining how and when the CSM releases into revenue each period

Change in the Role of Appointed Actuary & other Actuaries

Appointed Actuary inputs to the Board:

- Onerosity grouping & cohorting of contracts
- Advise on attributable and non-attributable expenses
- Selection of confidence level for Risk Adjustment
- Advise on future release patterns & selection of coverage unit
- Choice of risk free rate
- Advise on treatment of LC

Key terms under Ind AS 117

General Measurement Model (GMM)

DEFAULT

- Default measurement model of Ind AS 117 for long-term contracts (applicable for term assurance and Non-Par savings)
- Values liabilities using discounted future cash flows basis BE assumptions, plus a profit buffer and an explicit risk adjustment

Variable Fee Approach (VFA)

MANDATORY

- For contracts with direct participation (Par & UL) where insurer effectively acts as an investment manager
- Policyholder owns a clearly defined pool of underlying assets, and the insurer takes a "variable fee" for managing it

Premium Allocation Approach (PAA)

OPTIONAL

- A simplified model for short-term contracts (less than a year) relevant for Group OYRT contracts
- Similar to traditional Unearned Premium Reserve (UPR) method

Risk Adjustment (RA)

- A buffer on expected future profits for bearing the uncertainty regarding amount and timing of risks
- Quantifies the variability of risks e.g. mortality or lapse shocks

Fulfillment Cash Flows (FCF)

- Present value of all estimated future cash flows within the contract boundary considering the uncertainty about future cashflows.
- So, Fulfilment Cash Flows = PV of future cashflows + Risk adjustment (RA)

Contractual Service Margin (CSM)

- Represents the unearned profit that insurer expects to recognize as services are rendered over time, ensuring systematic emergence of earnings
- The positive net cashflow between the risk-adjusted present value of expected inflows and outflows at inception

Loss Component (LC)

- An accounting mechanism that tracks the deficit of a group of contracts identified as onerous (loss-making) at inception
- Loss Components are recognized immediately in the income statement and are not deferred or amortized like the CSM

Coverage Units (CU)

- An operational metric used to quantify the benefits over the duration provided under a group of insurance contracts
- Serves as the mathematical basis for systematic amortization and release of CSM into insurance revenue each period

Contract Boundaries (CB)

- Determines which cash flows should be included within the fulfilment cash flows, and hence the value of the CSM
- It is the precise limit defining where our substantive obligation to provide services or collect premiums begins and ends



Liability for Remaining Coverage (LRC)

- Replaces traditional Unearned Premium Reserves. Represents the fund set aside to cover claims and expenses for the period of insurance coverage that has not yet occurred.
- The LRC under Ind AS 117 comprises of best estimate cash flows, CSM & RA

Liability for Incurred Claims (LIC)

- Replaces traditional Incurred but not reported (IBNR) & Reported but not settled (RBNS) reserves
- The LIC under Ind AS 117 includes an adjustment for the time value of money and must include its own RA for the uncertainty in claim settlement sizes and timelines



Requirements by Authority in case
forbearance is granted and the calculations
involved

Expectations during forbearance period



- **Adherence to transition plan:** Board-approved plan with defined timelines – system/data readiness & Actuarial/Finance preparedness must be demonstrated
- **Monthly progress report:** Monthly milestone-wise progress report to be submitted to IRDAI against the board-approved plan
- **Submission of financial information:** Financial information to be prepared & submitted as prescribed under Schedule-II of IRDAI (Actuarial, Finance and Investment Functions of Insurers) (Amendment) Regulations, 2026

Calculations during forbearance (1/2)



Opening Balance Sheet (OBS) & Transition approaches:

Transition date to Ind AS 117 is April 1, 2026 --> Opening Balance Sheet basis one of the following approaches:

- Fully Retrospective
- Modified Retrospective
- Fair Value

Reporting during forbearance period (FY2027): IGAAP will be primary statutory financial statements & Ind AS proforma statements will be called 'financial information'

- Subject to limited review by a CA and certification by an independent actuary
- To be submitted quarterly within three months of end of respective period

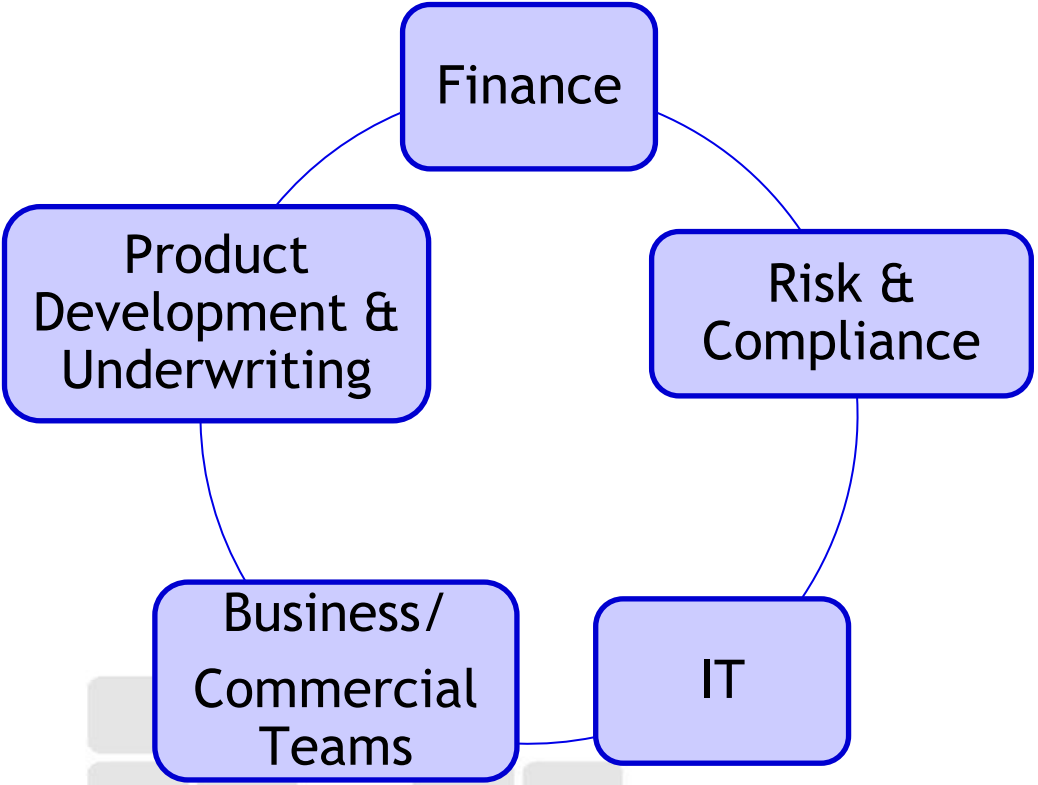
Calculations during forbearance (2/2)



- The ‘financial information’ as per Ind AS 117, includes but is not limited to the following statements and notes falling under minimum disclosure requirements:
 - i. Balance Sheet (Statement of Financial Position)
 - ii. Statement of Changes in Equity
 - iii. Statement of Profit and Loss, comprising:
 - i. Profit & Loss and
 - ii. Other Comprehensive Income (OCI)
 - iv. Receipts and Payments Account (Statement of Cash Flows)
 - v. Revenue Account
 - vi. Notes to the Ind AS Financial Statements including:
 - a. Material accounting policies
 - b. Other explanatory information

Expectations from other domain departments ensuring smooth transition to Ind AS 117

Other domain departments involved in transition to Ind AS 117



- **Accountability:** Lead the financial reporting transformation and ensure integration with existing systems
- **Collaboration:** Work closely with Actuarial on finalizing accounting policy choices, producing and analysing financial results
- **System Implementation:** Oversee the procurement and implementation of GL systems and reporting tools capable of handling Ind AS 117 requirements
- **Training & Change Management:** Drive internal training programs for finance teams

- **Data Infrastructure:** Enhance data architecture to capture and store data required for Ind AS 117 calculations
- **Reinsurance data:** Maintain reinsurance data at the required granularity for Ind AS 117 calculations
- **System Development/Integration:** Develop and / or integrate actuarial and accounting systems to process Ind AS 117 calculations
- **Cybersecurity:** Enhance data security and integrity for increased data volumes

- **Product Design:** Understand how product features impact Ind AS 117 metrics (e.g., CSM, insurance revenue)
- **Data Provision:** Provide additional information for new business policies and claims for calculation inputs
- **Understanding Impact:** Grasp the new profit recognition patterns and how they influence business decision-making
- **Performance Metrics:** Adapt sales KPIs to new performance indicators

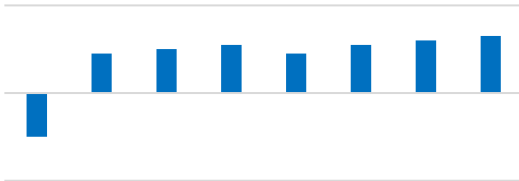
- **Regulatory Liaison:** Support the Appointed Actuary and Finance in communications with IRDAI regarding compliance and forbearance
- **Investment:** Asset classification, fair value measurement and investment disclosures
- **Risk Frameworks:** Integrate Ind AS 117 reporting into overall enterprise risk management
- **Internal Audit:** Independent assurance on controls, processes and regulatory adherence

Other aspects of Ind AS 117

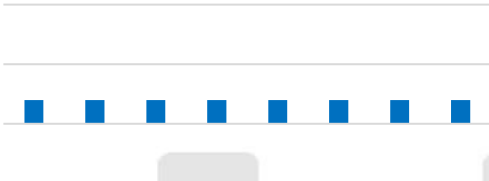
- Reinsurance contracts held are accounted for separately and independently from the underlying insurance contracts.
- A reinsurance contract held can create a net cost or net gain on purchase. This amount is recognized through the reinsurance CSM and released over the coverage period rather than immediately.
- For insurance contracts issued, an insurer must identify onerous groups and recognize a loss immediately. However, for reinsurance contracts held, there is no equivalent onerous contract test

Emergence of profit under

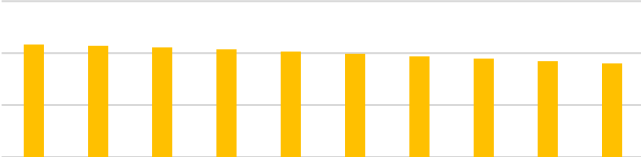
Current Regime



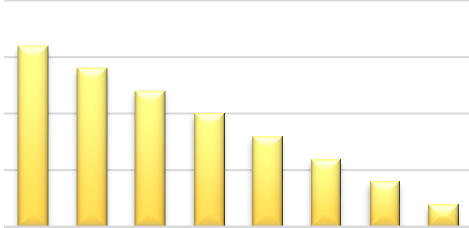
Ind AS 117



CSM allocation to period



Progression of CSM balance over the contract period



Some of the key changes in P&L



- P&L under IGAAP considers all the operating variances whereas in case of Ind AS 117, only mortality and expense variance will flow through P&L
- Impact of assumption changes are absorbed by CSM reducing P&L volatility
- CSM release is expected to be the main driver of Insurance Service Result

Critical Success factors



- **Strong Leadership Buy-in:** Continued support from the Board and CEO
- **Adequate Resource Allocation:** Commitment of sufficient financial, human, and technological resources
- **Robust Project Management:** A well-defined project plan with clear milestones and ownership
- **Effective Communication:** Transparent and continuous communication across all departments

- **Refine Forbearance Implementation Plan:** Finalize detailed action plans for meeting all forbearance conditions
- **System Implementation Progress:** Prioritize and accelerate the development/procurement of required IT systems
- **Regular Reporting to Board:** Provide monthly/quarterly updates on transition progress and forbearance compliance

Thank You !