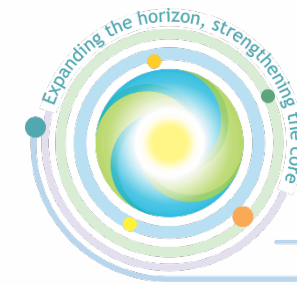




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4<sup>th</sup> - 6<sup>th</sup> March, 2019 | Mumbai, India

## IFRS 17: An overview of business implications and implementation complexities

P9&10 Round Table  
20<sup>th</sup> Global Conference of Actuaries

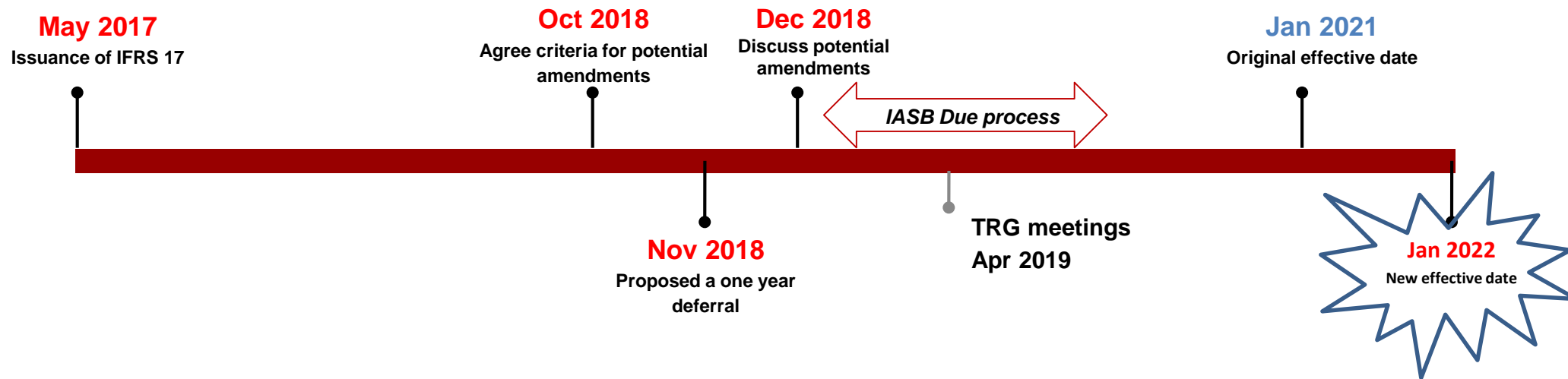
Maurizio Busti

Session 9 & 10

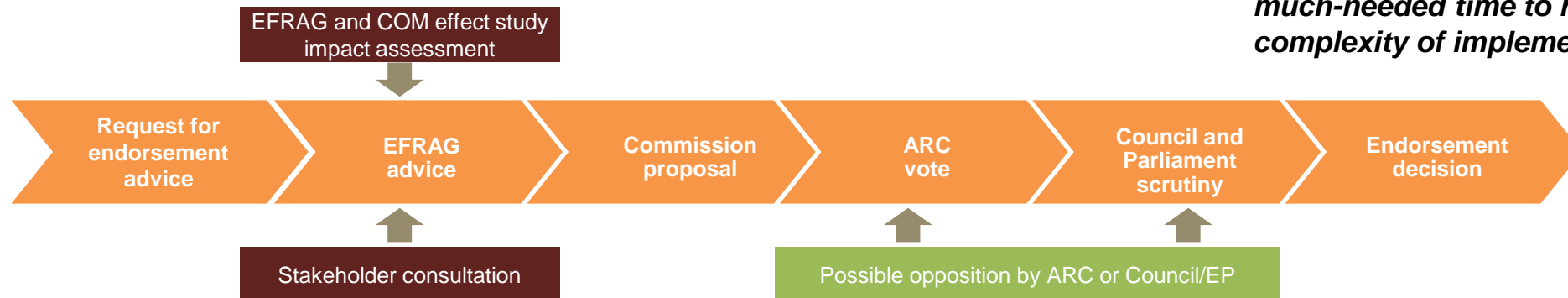
6-March 2019

# IFRS 17 has been a long journey so far...

... and it is not yet finished...



## IFRS17 Endorsement Process

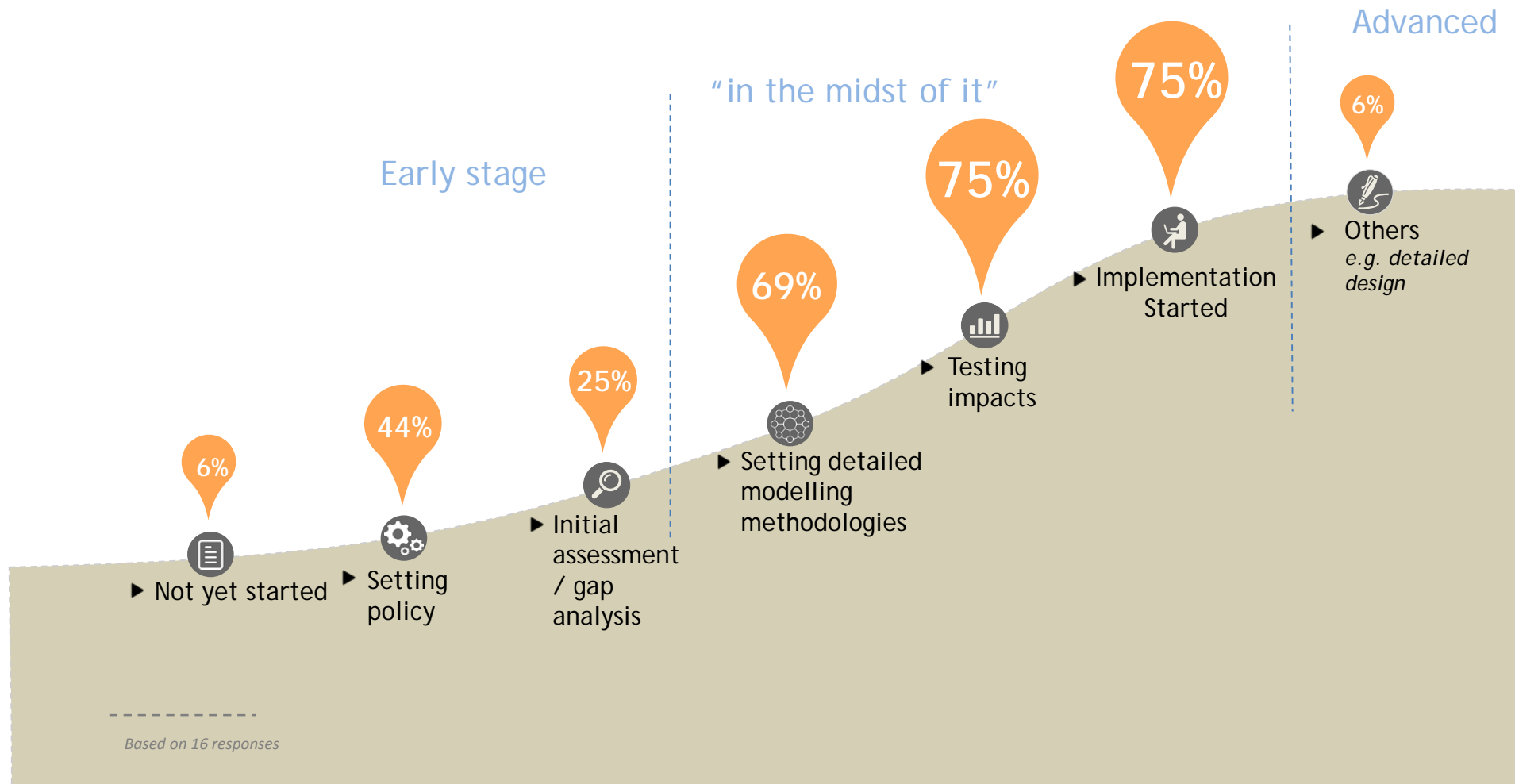


*The 1-year delay provides much-needed time to handle complexity of implementation*



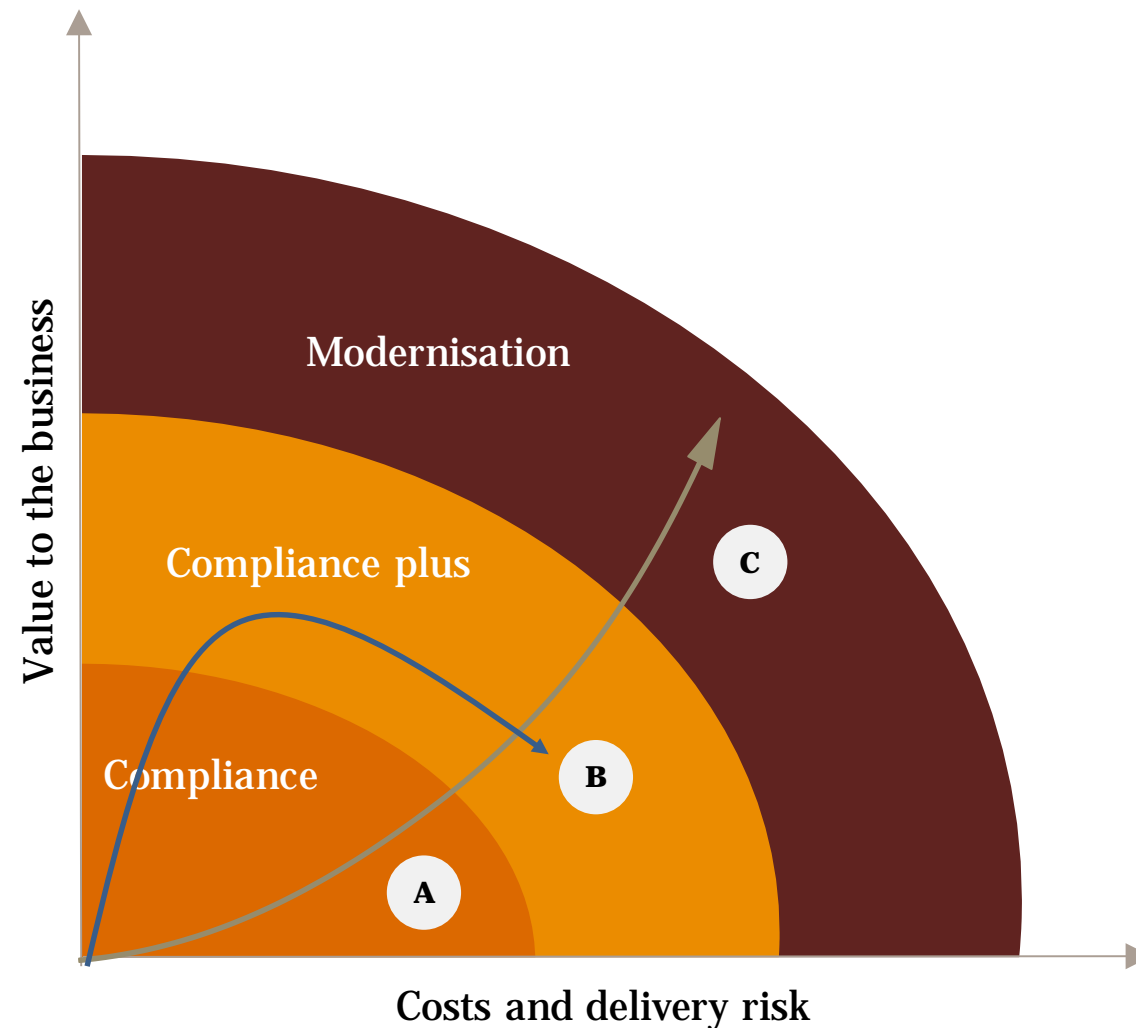
# Which stage of the IFRS 17 journey are Companies at?

PwC survey covering 16 large Insurers with their regional or global operations in Canada, EU, China and South Africa



# There are different approaches used for meeting the new IFRS requirements

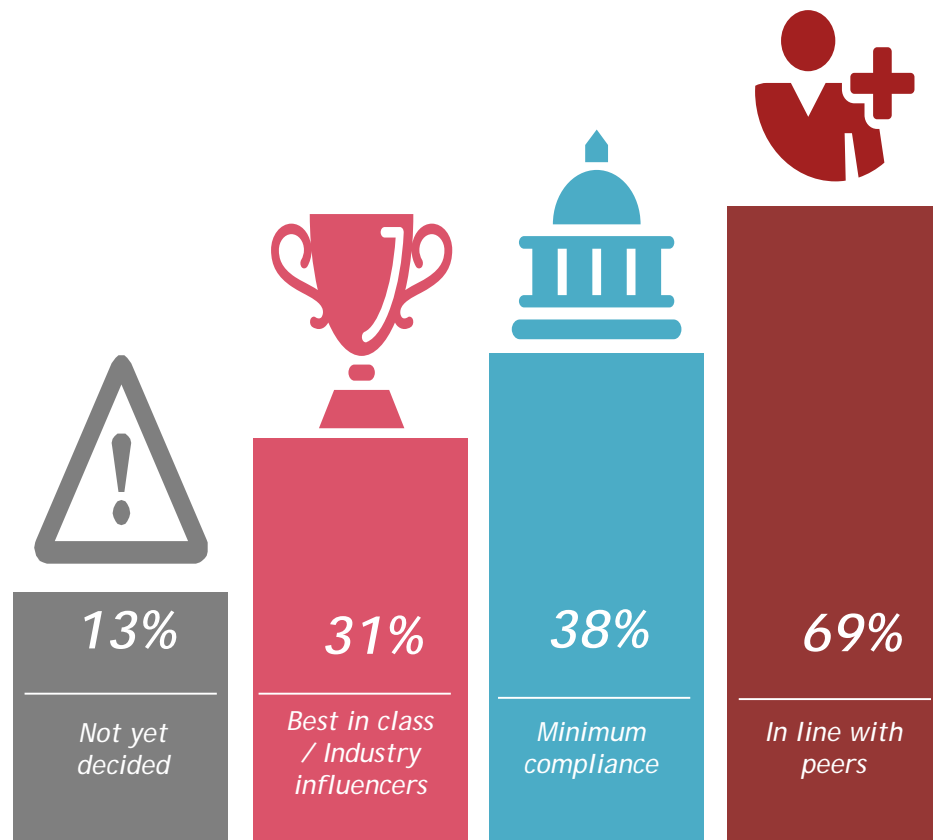
Potential approaches to implementing IFRS 17 differ depending on ambition level and desired target state



- **Path C - Strategic.** Some firms are taking this opportunity to transform their finance function, establishing a new operating model, tools and capabilities to support the business
- **Path B - Compromise:** companies are realising minimum compliance is not sufficient to meet new requirements, or lowering Modernisation targets and implementation costs
- **Path A: Compliance:** Some firms may seek to address the requirements in a low-cost compliance manner, either through work-around solutions or by increasing resources

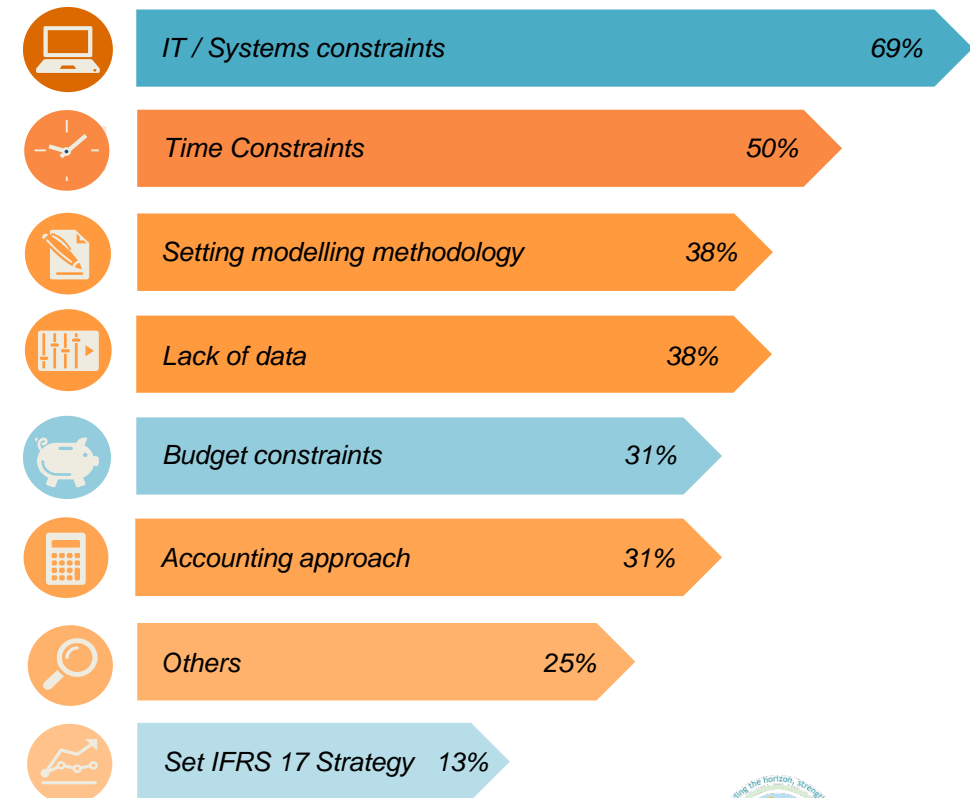
# What is the project strategy for IFRS 17?

What is the strategy for IFRS 17 implementation?



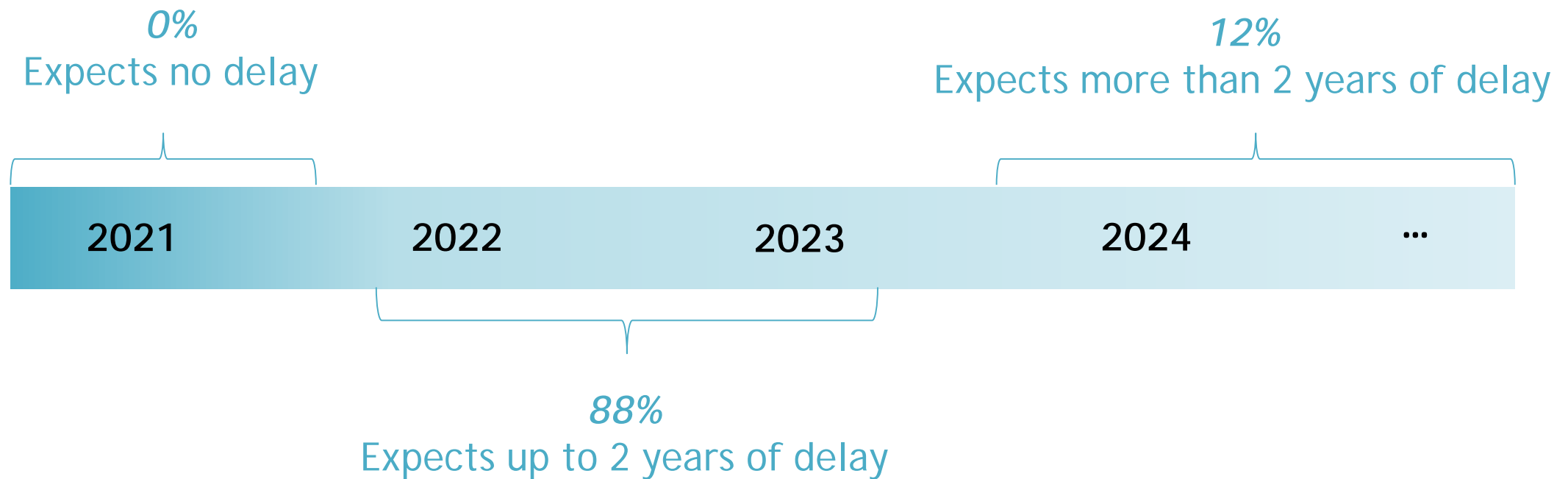
Based on 16 responses

What are the top IFRS 17 challenges?



# Are you ready for IFRS17?

Do you expect a delay in IFRS 17 implementation date?



-----  
Based on 16 responses

# Challenges for IFRS 17 implementation in Asia

Not only an accounting system implementation...



## Local concerns in Asian markets

- **Systems** require substantial investments even at minimum compliance level
- **Data** quality and granularity is the real issue when implementing IFRS 17
- Getting Opening Balance Sheet and **transition right**, across multiple options and data limitations
- Possibility of **onerous contracts** and significant negative impact to equity at transition
- Change in **product classification** under IFRS 17 resulting in more investment contracts and P&L volatility
- **Shortage of local talent:** actuarial, accounting and IT experts on IFRS 17

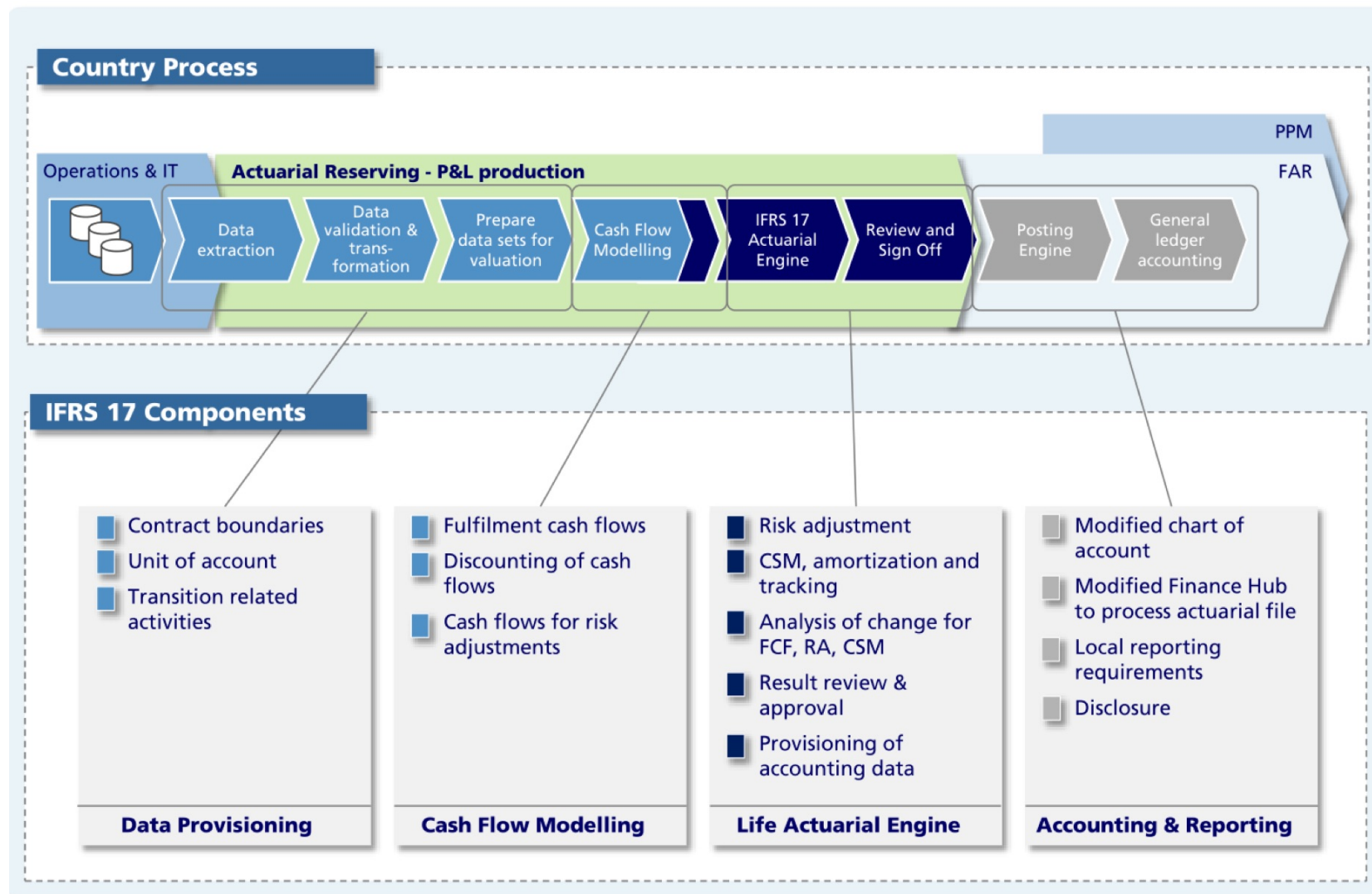


## Upcoming Challenges

- Not only an accounting change! It will also have **business implications:** e.g. product design
- **Local adoption** required for IFRS 17, differences with Group Reporting for international players
- Alignment liability valuation under refined solvency regulations and new **capital requirements** (e.g. RBC) with IFRS 17
- Unclear direction on local **tax** regulation amendment
- Rethink **business performance**, targets, set new KPI's
- Educate and communicate with **investors**

# Actuarial is the new core!

Actuaries will become the pivotal resource to processing timely and accurate IFRS 17 figures





# IFRS 17: What are the key changes?

There are **three central ideas** underpinning reporting under IFRS 17

Estimates of future cash-flows on **current assumptions**, rather than “locked-in” assumptions (discounted best estimates of fulfillment cash-flows)

Allowance for risk and uncertainty (**risk adjustment**)

Reported Earnings reflect the **service provided**, rather than the cash received, through the release of the Contractual Service Margin

# Implementation perspective: decisions to be made!

From an implementation perspective, there are many important areas to consider now and make decisions on:

## Measurement model

- What is the approach to profit recognition under the general model?
- Should PAA be considered?

## Level of aggregation

- What is the required level of aggregation for computation?
- How to comply with new requirements?

## Contract boundaries

- Will contract boundaries apply? Is it beneficial or costly?
- Potential to adjust policy conditions?

## Managing Volatility

- Understand the behavior of General Model to interest rate movements
- Predicting Operating Variances (EV) vs. CSM true up

## Discount rates

- What levers are there to influence profit recognition?
- Profitable vs. Onerous contract can depend on choice of discount rate

## Transition Approach

- Understand profit signature in order to understand opening position
- Challenge in retrieving all necessary information for opening position

## Operational considerations

- Data availability, existing systems and models
- Align with Solution Design and local requirements

## Presentation and Disclosure

- Understand new disclosure (via Transition and Impact Assessment)
- Link Actuarial work into Accounting domain



# What is the level of complexity?

The mechanics required to calculate and disclose insurance liabilities and earnings result in complex modelling and data challenges

## Scale of practical impact

Key component	Minimal	Low	Medium	High
1 Scope	●			
2 Contract boundary		●	●	
3 Unbundling		●		
4 Best-estimate cash flows			●	
5 Acquisition costs			●	
6 Discount rate			●	
7 Risk adjustment			●	
8 Contractual service margin				●
9 Participating (asset linked) contracts				●
10 Reinsurance			●	
11 Premium allocation approach			●	
12 Transition				●
13 Presentation & disclosure				●



# Business implications

## What other business implications do we expect for Insurers?

### Earnings for service provided

- Smoother pattern for earnings than today (e.g. upfront charges)
- Still subject to accounting mismatch

### New Business Strain

- Ability to defer acquisition costs under current IFRS
- NBS likely to reduce under IFRS 17, although certain overheads will have to be expensed as incurred

### Product Strategy

- Best estimate basis will highlight the cost of options and guarantees
- Low interest rate environment is critical
- Contract boundaries will affect profit timing, and indirectly distribution costs

### Mergers & Acquisitions

- Change in liability valuation under IFRS 17 will expose weak balance sheet
- IFRS 17 will affect inorganic expansion plans

### Business Insight

- Even minimum compliance requires significant investment
- Opportunity to deploy new technologies in Financial Reporting
- Concurrent changes in regulatory capital regimes

### Investment Strategy

- Duration gap issue in emerging markets will become more transparent
- Volatility of earnings to potentially increase
- Implications to SSA's

### Telling the story to the market

- Great deal of complexity in IFRS 17. **Transition is key!**
- Different measurement of liabilities, but also different reporting of profit, and unfamiliar format. **Educating investors is key!**





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THANK YOU!