1st Capacity Building Seminar on IFRS 17
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IFRS 17: preparing for take-off

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IFRS 17 in numbers

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2020
years months
in development to implement

In India, Ind AS 117 is expected to apply effective **1 April 2020**
- Exposure Draft

€ **50-320** mn
Per member estimate of IFRS 17 implementation costs - **CFO Forum, July 2018**

12 Global insurance groups included in 2016 field testing of draft IFRS 17

2,520 European (re)insurers participated in QIS 5 (as well as 167 groups)

3

3 measurement models:

- Building block approach
- Premium allocation approach
- Variable fee approach

3 transition choices:

- Full retrospective approach
- Modified retrospective approach
- Fair value approach

3 basic reading material to go through:

- IFRS 17 Standard
- Basis for Conclusions
- Illustrative Examples

→ **322 pages only! (cumulative)**

Why is IFRS 17 such a significant transition?

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Revenue account: current

Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
Premiums earned – net			
(a) Premium (b) Reinsurance ceded (c) Reinsurance accepted-	1		
Income from Investments			
(a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loss on sale/ redemption of investments) (d) Transfer/Gain on revaluation/change in fair value*			
Other Income (to be specified)			
TOTAL (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
Other Expenses (to be specified)			
Provisions (other than taxation)			
(a) For diminution in the value of investments (Net) (b) Others (to be specified)			
TOTAL (B)			
Benefits Paid (Net)	4		
Interim Bonuses Paid			
Change in valuation of liability against life policies in force (a) Gross** (b) (Amount ceded in Reinsurance) (c) Amount accepted in Reinsurance			
TOTAL (C)			
SURPLUS/ (DEFICIT) (D) =(A)-(B)-(C)			
APPROPRIATIONS			
Transfer to Shareholders' Account Transfer to Other Reserves (to be specified) Transfer to Funds for Future Appropriations			
TOTAL (D)			

Transactional entries

computed entries

IFRS 17 statement of profit and loss

Part III

Statement of Profit and Loss of .... (Name of insurance company)

for the year ended ....

Particulars		Note	Current Year			
			Policyholders (Revenue A/c)	Shareholders (P & L A/c)	Total	Policyl (Rev A/
Insurance Revenue		15				
Insurance Service Expenses		16				
Net expenses from reinsurance contracts **		-				
Insurance Service Result	**(A)**					
Interest revenue on financial assets not measured at FVTPL		17				
Other investment revenue (including fair value changes)		18				
Net impairment loss on financial assets		19				
Investment return	**(B)**	-				
Net finance expenses from insurance contracts		20				
Net finance income from reinsurance contracts						
Movement in investment contract liabilities						
Net Investment Result	**(C)**	(A)+(B)				
Revenue from investment management services						
Other income		21				
Other operating expenses		16				
Other Finance costs		22				
Sub-total	**(D)**					
Profit /(Loss) before Exceptional Items	**(E)**	**(C)+(D)**				
Exceptional Items	**(F)**					
Profit / (Loss) before tax	**(G)**	**(E)-(F)**				
Income tax expense	**(H)**					
Profit/ (Loss) from continuing operations						
Profit/ (Loss) from discontinued operations Tax expense of discontinued operations **Profit / (Loss) from discontinued operations (after tax)** **Profit/(loss) for the period**	**(I)**					
Other Comprehensive Income						
1 (i) Items that will not be reclassified to profit or loss (specify items and amounts)						
(ii) Income tax relating to items that will not be reclassified to profit or loss						
Sub-total						
2 (i) Items that will be reclassified to profit or loss (specify items and amounts)						
(ii) Income tax relating to items that will be reclassified to profit or loss						
Sub-total						
Total Other Comprehensive Income	**(J)**					
Total Comprehensive Income	**(K)= (I) +(J)**					

illustrative only

Key implementation challenges:

More than just a compliance exercise

Getting the numbers right

Getting the numbers on time

Business implications

- Applying judgement in a principles-based standard
- Setting-up and running complex actuarial cash-flow models
- Complexity of implementation within a tight timeframe
- Aligning processes, including increased automation
- Dealing with multiple metrics
- Managing stakeholder expectations

Getting the numbers right:

Applying judgement in a principle-based standard

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Separation

Unbundling investment components – no longer optional – mandatory or prohibited. Unbundling insurance components within a single contract?

Aggregation

Aggregation of contracts into portfolios and disaggregation into groups core to all initial and subsequent measurement

Onerous contracts

Level of granularity required for assessment? Ability and effort required to identify "sets". Impact on profit recognition

Contract boundaries

Different to Solvency reporting? Potentially significant impact on life contracts with riders.

PAA or not PAA?

Use is optional if conditions are met. How to assess contracts over one year? What is variability in cash flows?

Reinsurance contracts held

Explicit treatment of contracts, cash flows and liabilities. Potential mismatch issues?

Direct participating features

Are criteria for VFA met? Do product bonus rules satisfy conditions?

CSM

Major area of complexity. Calculation, unlocking and amortisation. Where to perform calculations and track movements?

Discounting

Top down or bottom up? Need to update discount rates for each period. OCI or P&L for unwinding? Parallel use of historical and current

Interaction with IFRS 9

Potential mismatches? Option to defer adoption. Impact on results with/without OCI option?

Acquisition costs

Attributable acquisition costs may be different to current deferrable. Expense or not (PAA only)?

Risk adjustment

Determined at which level? Set by group? How to recognise diversification benefits? Not a "prudence buffer"!

Presentation

What will the P&L look like? What is the impact of excluding investment components? What is impact on KPIs?

Disclosures

Onus on the entity to meet the overall requirements. Reconciliation tables more granular than current disclosures

Transition

Is a retrospective approach practicable? Which data do I need to collect and when? What are the alternatives?

Applying judgement in a principle-based standard

e.g. Building Block 3: Risk Adjustment

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Building Block 1:
Estimation of expected value of uncertain future cash flows

Building Block 2:
Discounting

Building Block 3:
Risk Adjustment

Building Block 4:
Contractual Service Margin

What it is: <u>**compensation**</u> for bearing uncertainty from non-financial risk
NOT a margin for prudence / MAD

the risk adjustment would measure the compensation the entity would require to make it indifferent between:

Pay-off A ⟷ **indifference** ⟷ **Pay-off B**

Pay-off A:

₹50

Probability = 1

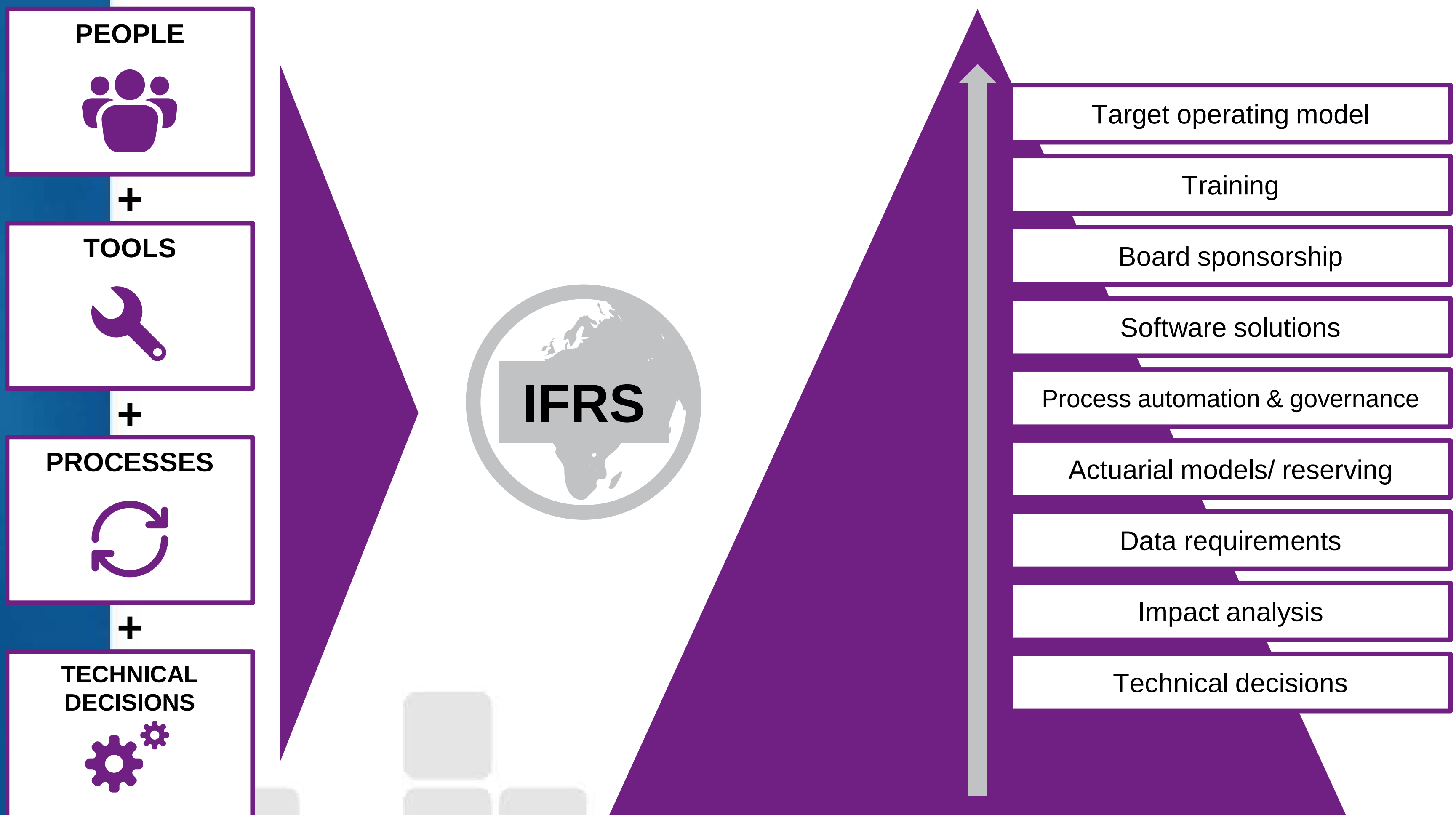
Pay-off B:

Probability = 0.5 **₹100**

Probability = 0.5 **₹0**

Getting the numbers on time:

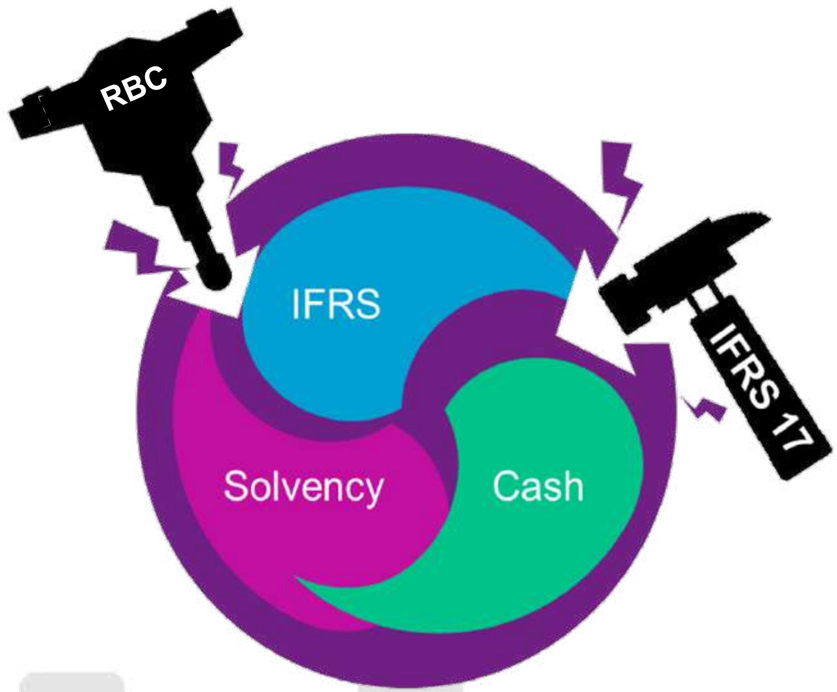
Implementation would require a holistic approach



Business implications

Dealing with multiple metrics – impact on KPIs

In the current environment, implementation could lead to de-coupling of the regulatory balance sheet and the accounting balance sheet



Business implications

Possible multiplicity of liability measurements

Degree of alignment between regulatory and accounting balance sheets:

	Current	Expected (?)
Canada	✓	desirable
UK	✗	✗
Continental Europe	✗	✗
Japan	✓	IFRS 17 not mandatory
South Korea	✓	✗
Hong Kong	✓	✗
Singapore	✓	✗
Malaysia	✓	✓ (?)

Implementation risk:

Too late shouldn't end up like this: