

4th Capacity Building Seminar on IFRS17

Holiday Inn, Mumbai

6 November 2019

Initial Impact Analysis Results

– Indian Life Insurers

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Agenda



- A) Financial Statements
- B) Implementation Issues
- C) Accounting Policy Choices




Disclaimer

Items covered under each section are only indicative and do not represent an exhaustive list




Conclusions might vary for specific products and for different insurers depending on individual accounting policy choices

Financial Statements



Liability

- $\text{Liability} = \text{BEL} + \text{RA} + \text{CSM}$
- Will depend on risk adjustment and transition methodology (for existing business)
- Expected to:
 - Non-par Non-linked 
 - Participating 
 - Unit-linked 

New Business Strain

- Excludes impact of solvency capital
- Will depend on risk adjustment
- Expected to:
 - Non-linked Saving 
 - Unit-linked 
 - Non-par Protection 

Surplus

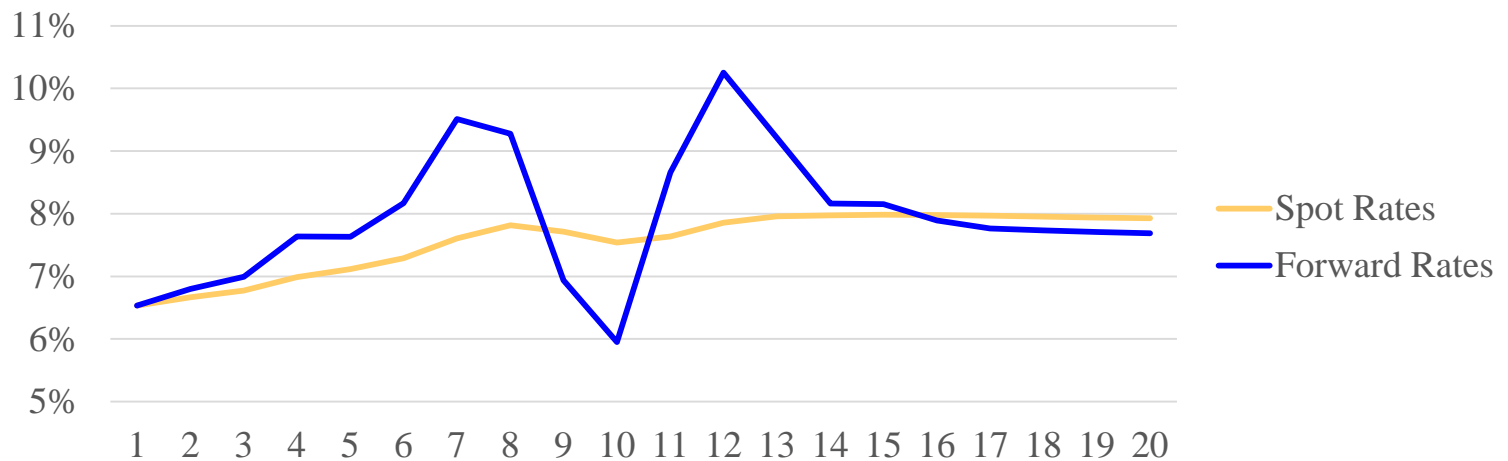
- Surplus emergence accelerated
 - Amortisation of expenses via CSM
 - Lower liability
 - Par business unchanged
- Lower surplus from existing business
 - Will depend on transition methodology
- Volatility expected to:
 - Asset liability mismatch 
 - Demographic assumptions 

Revenue

- Insurance Contract Revenue Vs Premium
- Reduction for all lines of business except pure protection products

Implementation Issues

FBIL G-Sec Curve 31 March 2019



- Government bond yield curve not smooth due to market imperfections
- High forward rates may result in projected negative investment surplus
- Reliance on external party for setting interest rate assumption
 - Risk of changing methodology used for constructing the curve

Risk Margins

- Similar to current statutory reserving methodology
- Easier to implement
- May not result in smooth progression - Direction of MAD can change

Cost of Capital

- Similar to current CRNHR methodology
- Difficult to implement as requires projections at each calculation step
- Results in smooth progression

Order of CSM Roll-forward Steps



IFRS 17.44 / 17.45 lists following key steps for roll-forward of CSM

Effect of new contracts

Interest accretion / Change in fair value

Changes in fulfilment cashflows relating to future service

Run-off for the period basis coverage units

No prescribed ordering except run-off being last step
Selected ordering can have significant operational impacts

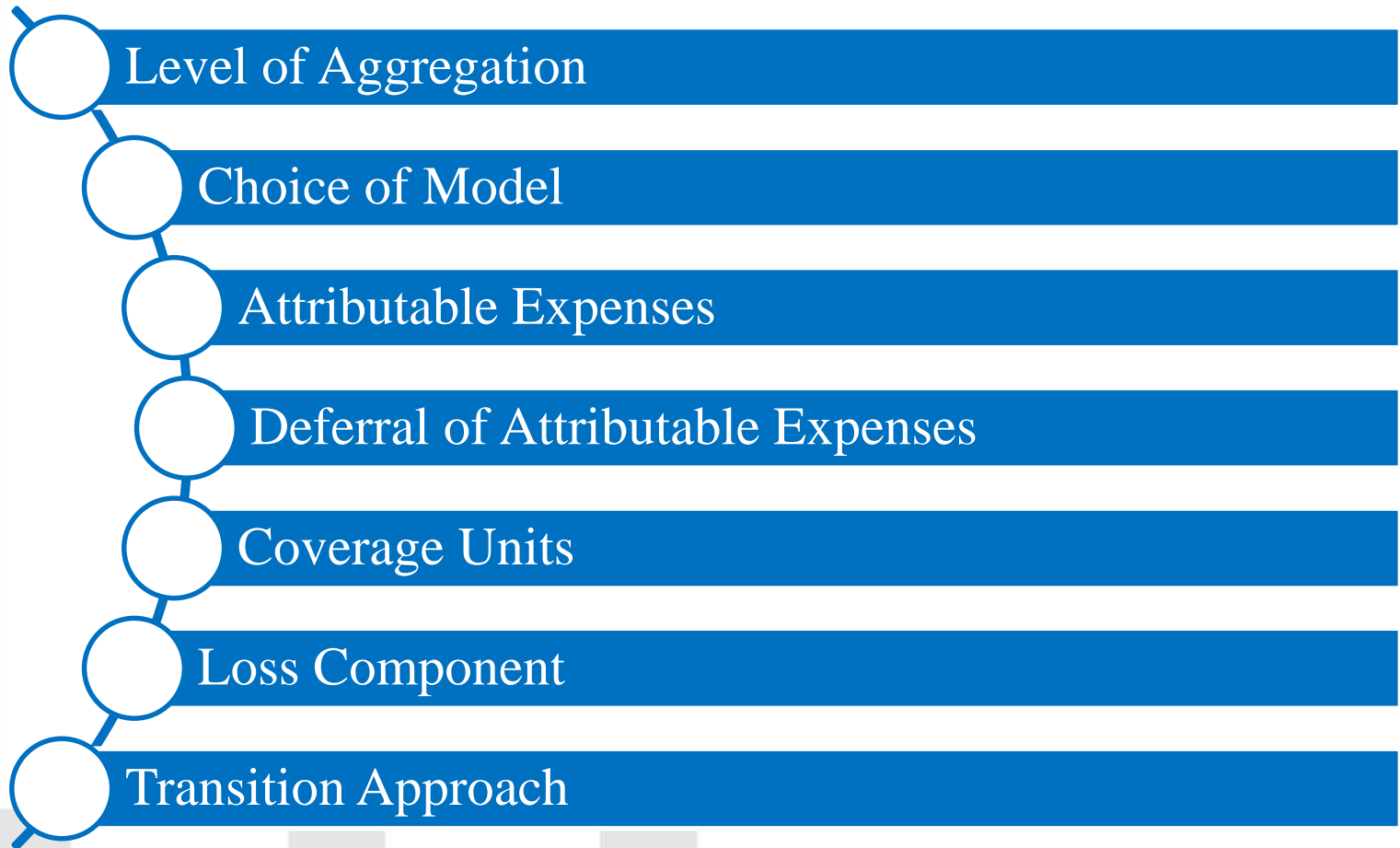
Open Cohorts

- Can arise if “group” end date is different than reporting date
- Challenges in setting locked-in rates for an open cohort
- Balance between accuracy and complexity from an implementation perspective

Reporting Frequency

- IFRS 17.B137 can be interpreted as requiring CSM reported for interim period to be kept unchanged
- Multiple possible reasons due to which CSM can vary basis reporting frequency due to this limitation
- Appears to contradict IAS 34 and IFRS 17.28

Accounting Policy Choices



Thank you