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IFRS 17 has arrived !

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Financial Reporting Group, IFoA

Agenda

- IFRS 17 summary
- Financial & operational implications
- EU endorsement, wider considerations
- Stephen Cooper's perspective





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IFRS 17 summary

Kamran Foroughi

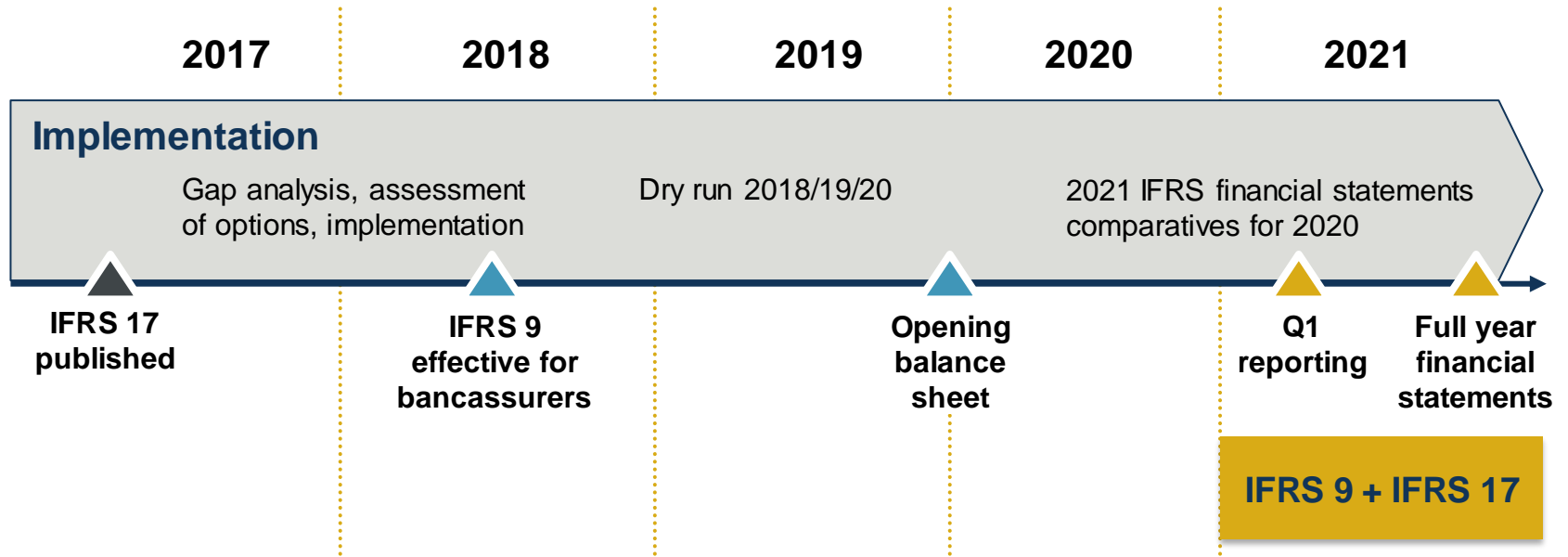
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UK life industry key questions

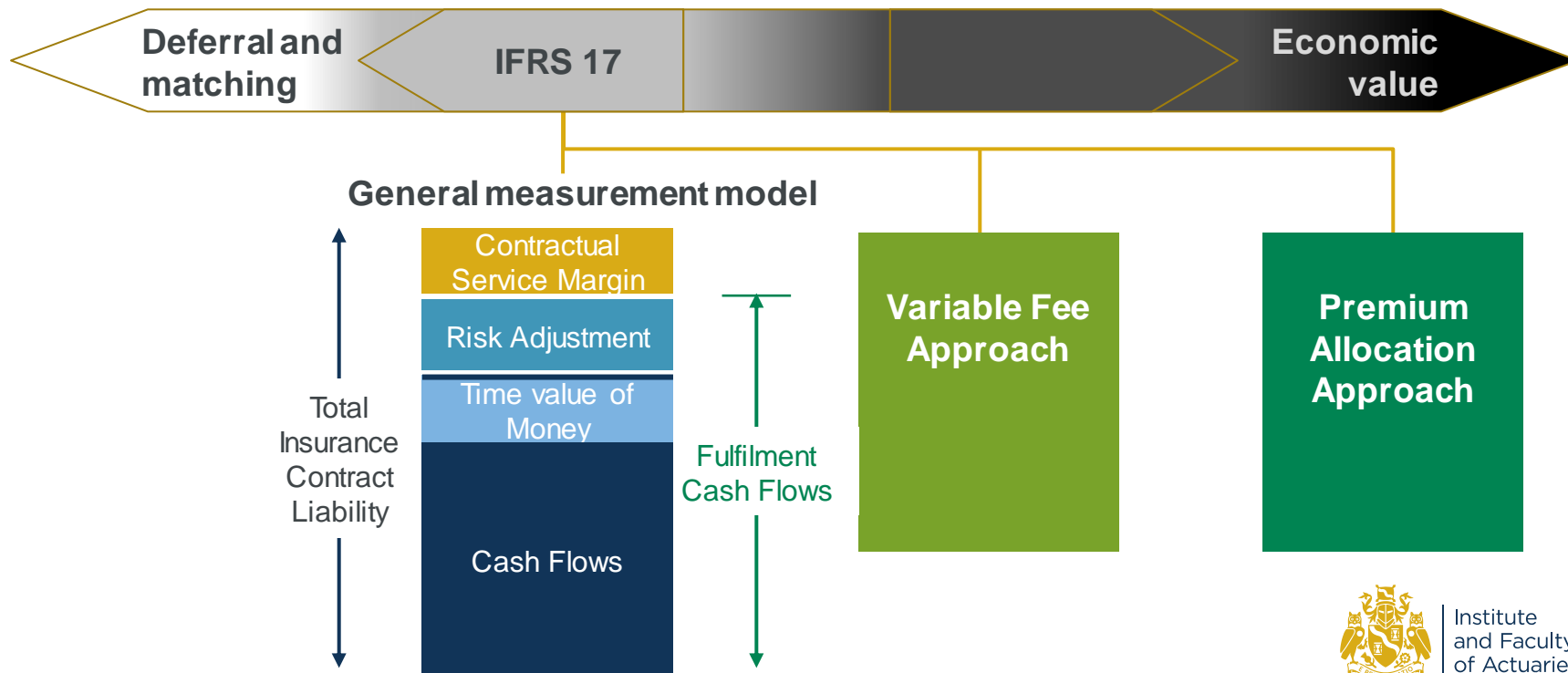
- Why a new standard?
- Does IFRS 17 affect my firm or me?
- Will IFRS 17 affect my firm's business decisions?
- What does my firm need to do and when?



Timetable



IFRS 17 hybrid measurement model



New IFRS 17 Income Statement

Statement of Comprehensive income	
	2021
Insurance contract revenue	x
Insurance service expenses	(x)
Insurance service result	x
Investment income	x
Insurance finance expense	(x)
Net financial result	X
Profit / Loss	x
Discount rate changes on insurance liability (optional)	X
Total comprehensive income	x

- Hybrid between sources of cash flow & surplus approaches – no premiums
- Insurance contract revenue and service expenses exclude any investment components
- Insurance finance expense is excluded from insurance service (underwriting) result
- OCI discount rate option appeals to continental Europeans



What is our Actuarial Profession doing?

- International Actuarial Association participation
- UK FRG and Working Group support
 - Helping develop International Actuarial Notes
- CPD events / roadmap
- Past material, in particular:
 - July & September 2017 Staple Inn seminars
 - 2011 Staple Inn paper critiquing 2010 ED
 - 2013 published IFoA response to 2013 ED
 - Life Conference presentations 2010-2016





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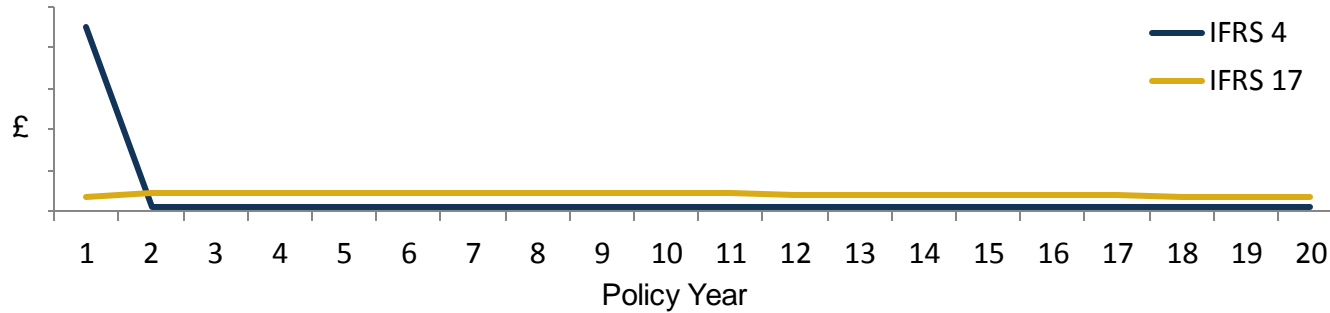
Financial & operational implications

Anthony Coughlan

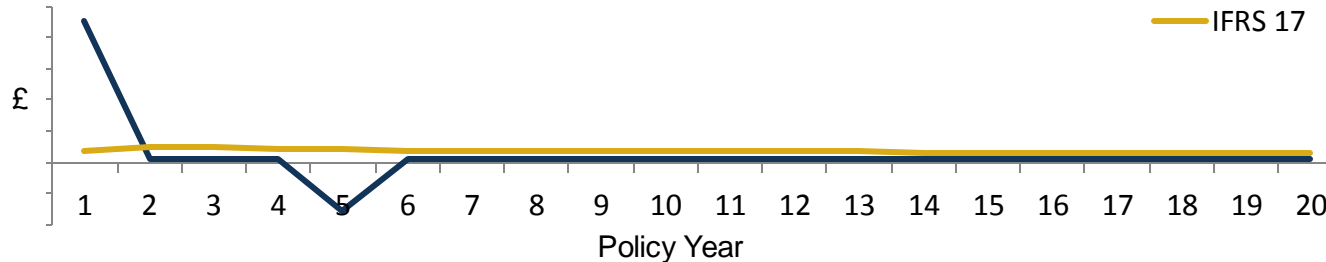
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Profit emergence for a non-profit immediate annuity

Base case

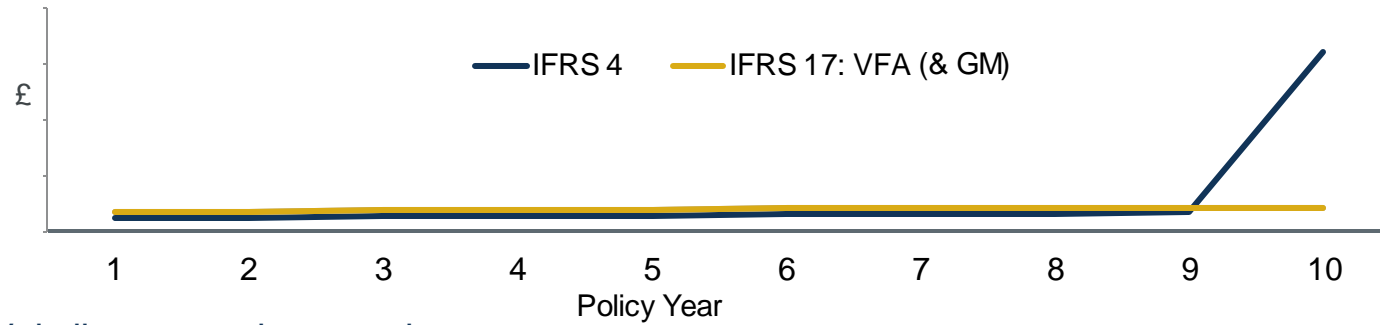


Longevity stress scenario

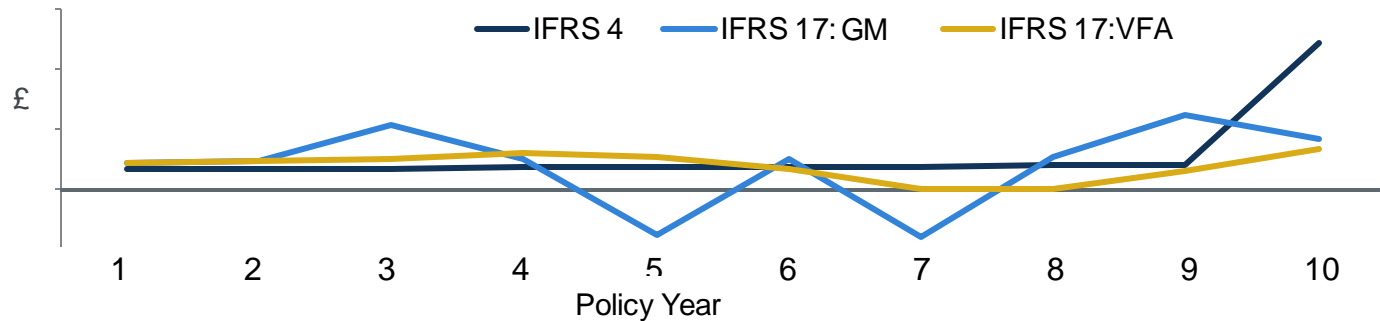


Profit emergence for a with-profit endowment

Base case



Volatile economic scenario



Example of mismatches

Reinsurance	Direct contract	Reinsurance contract held
	Profits deferred through CSM, but losses recognised immediately Under VFA if meet criteria	Net cost/gain deferred through CSM VFA not allowed
Hedging in VFA	Movement in derivative	Movement in hedged item
	Profit or loss	Pre-transition movements taken to CSM
Interest rate in General Model	CSM	BEL, Risk Adjustment & Assets
	Inception rate	Current rate
Entity share of underlying in VFA	CSM	Balance sheet
	Fair value	May not be fair value

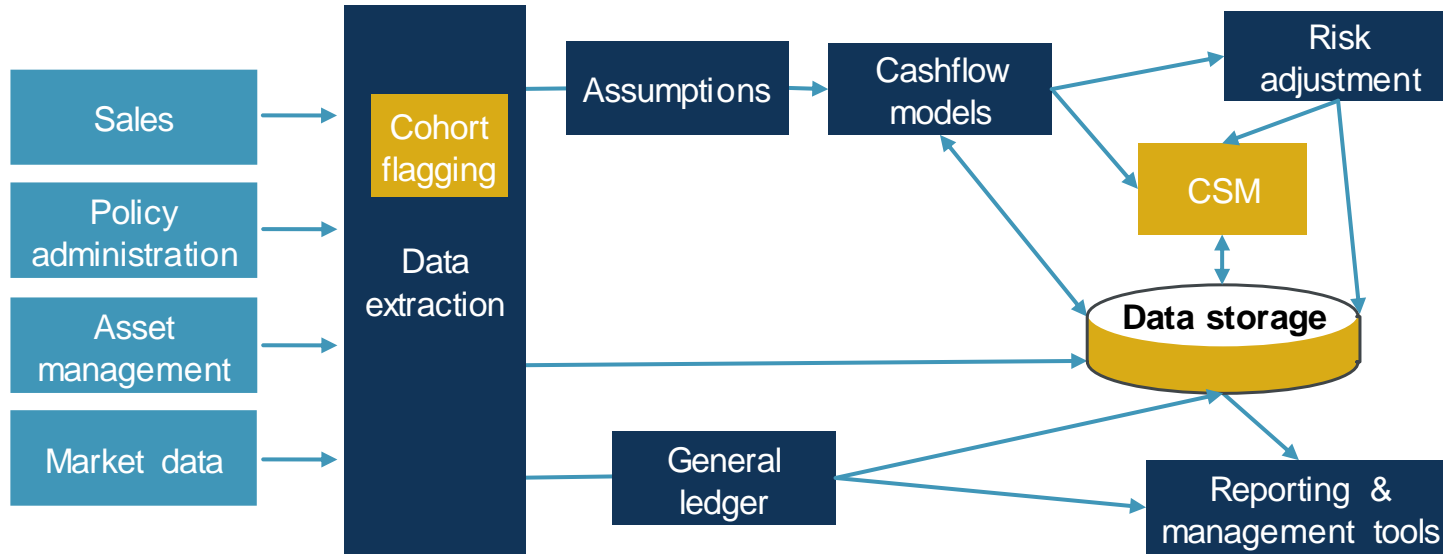


How do IFRS 17 and Solvency II compare?

Topic	Impact	Areas of difference with Solvency II
Definition and scope	●	Unit linked investment contracts & separated components
Profit recognition	●	CSM & transition
Grouping	●	More granular tracking of liabilities movements
Cash flows	●	Certain expense and with-profit cash flows
Discount rate	●	Extrapolation, MA & VA? Inception rates
Allowance for risk	●	Prescribed versus principles
Reinsurance held	●	Does not mirror the underlying direct contracts
Acquisitions & transfers	●	Additional requirements
Disclosures	●	Different (and significant) requirements



What systems may require changing?



■ Systems requiring change ■ New systems required



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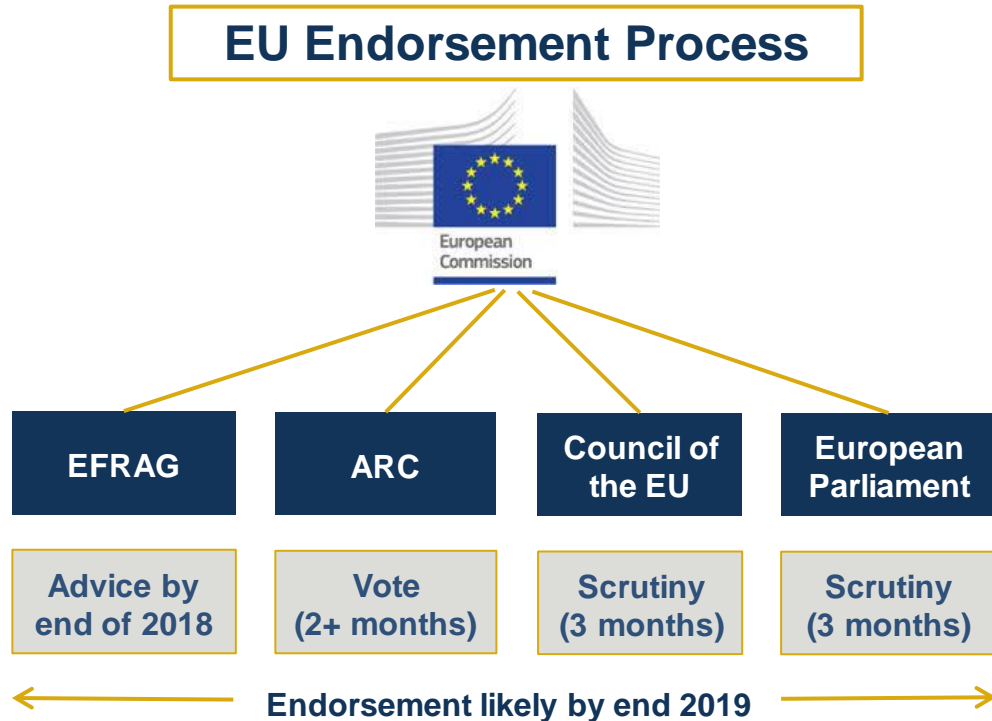
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EU endorsement, wider considerations

Richard Olswang

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Adoption required in the consolidated accounts of publicly traded companies when endorsed



EU endorsement criteria

Technical Criteria

Relevance

Reliability

Comparability

Understandability

**Conducive to the
European public good**

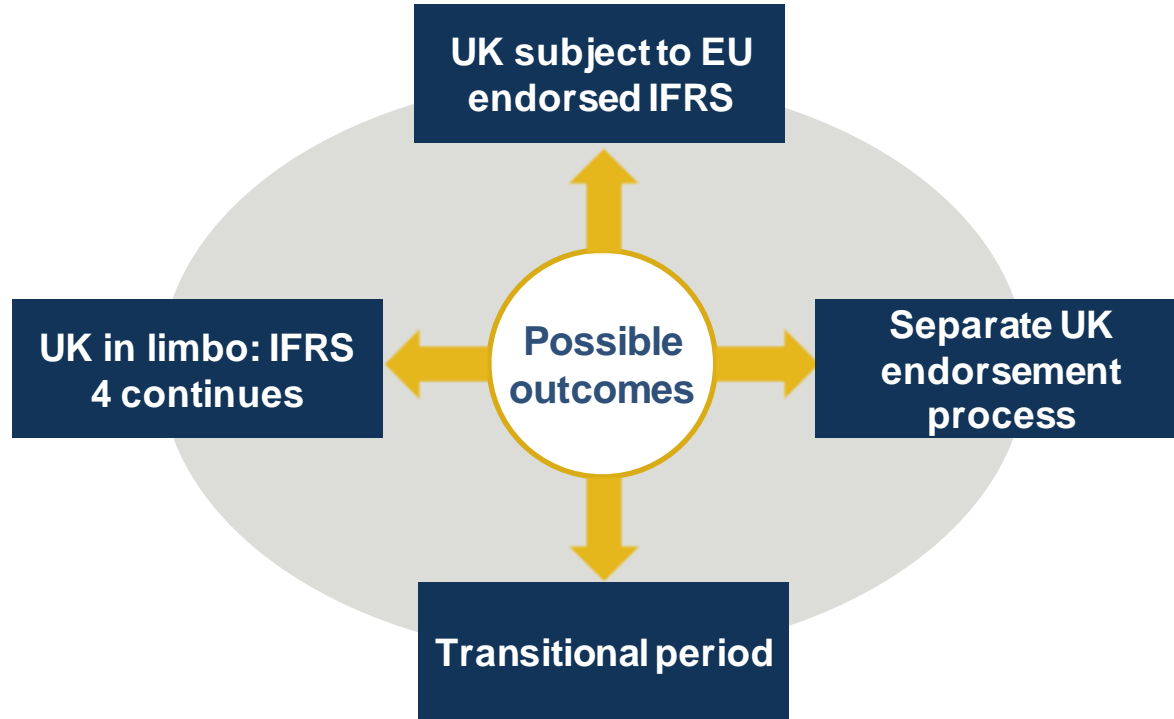
**Impact on stakeholders
Cost/benefit
Financial stability
Economic development
Competitiveness**



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Impact of Brexit on UK companies

IFRS 17 is unlikely to be endorsed by March 2019



Other entities can choose between IFRS and UK GAAP

IFRS unlikely to be incorporated into UK GAAP until IFRS implementation experience available

Implications of IFRS on local entities

Tax

- Computation
- Transition
- What profit will be taxed?
- IFRS/UK GAAP timing differences
- Impact on capital

Distributable profits

- Retained earnings constraint





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Stephen Cooper's perspective

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IFRS 17 due process

Significant amount of consultation

- 3 Public Consultation documents
- 600 comment letters,
- 900 meetings, round tables and discussion forums

Balances requirements of various stakeholders

- Considered and understood views of all stakeholders
- Develop a model that best satisfies those views

IFRSs principle based, so often require significant judgement

- Judgements develop over time



Why IFRS 17?

The answer to a question nobody is asking

OR

A desperately needed standard to bring greater relevance, comparability and transparency to insurance reporting

Fulfillment value

- Updated assumptions
- Options and guarantees at economic value
- Relevant discount rates

Performance reporting

- Profit recognised as services provided
- Revenue consistent with other industries
- Additional metrics



Developing IFRS 17: Difficult issues

- **Economic versus accounting mismatches**
- **Volatility**
 - Discount rates and OCI
 - Changes in assumptions
 - Variable fee approach
- **Choices provided and comparability**
- **Level of aggregation**
 - CSM recognition and onerous contracts
- **Cost of implementation versus benefit**
 - Simplifications and practical expedients
- **Complexity**



What investors think about IFRS 17

45 meetings

19 sell side, 12 buy side, 10 mixed groups, 4 credit rating agencies

250 investors and analysts

31% Global, 31% Asia Pacific, 30% Europe, 8% North America,

Areas of support

- Information about performance
- Consistency with other industries
- Disclosures

Areas of concern

- Company-specific judgements
- Options available
- Will IFRS 17 affect distributions? `



IASB support during implementation

- Endorsement
 - Will remain engaged with industry and with EFRAG
- Educational material
 - Webcasts introducing new Standard, focusing on specific areas
 - Education materials for investors, regulators and national standard setters
- Active webpage
- Transition Resource Group
 - A public forum to discuss implementation related questions
 - Participation: small group, diverse, accountant focused
 - Questions may be raised by any constituent



Questions

Comments

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