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# IFRS17 for GI Working party update: Becoming BAU

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#GiroConf22

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## Agenda

With the effective date weeks away we will reflect on:

- Challenges still being addressed and to look for in the first year
- Market scan of announcements made to date
  - Financial impact
  - Changes to KPIs
- Q&A

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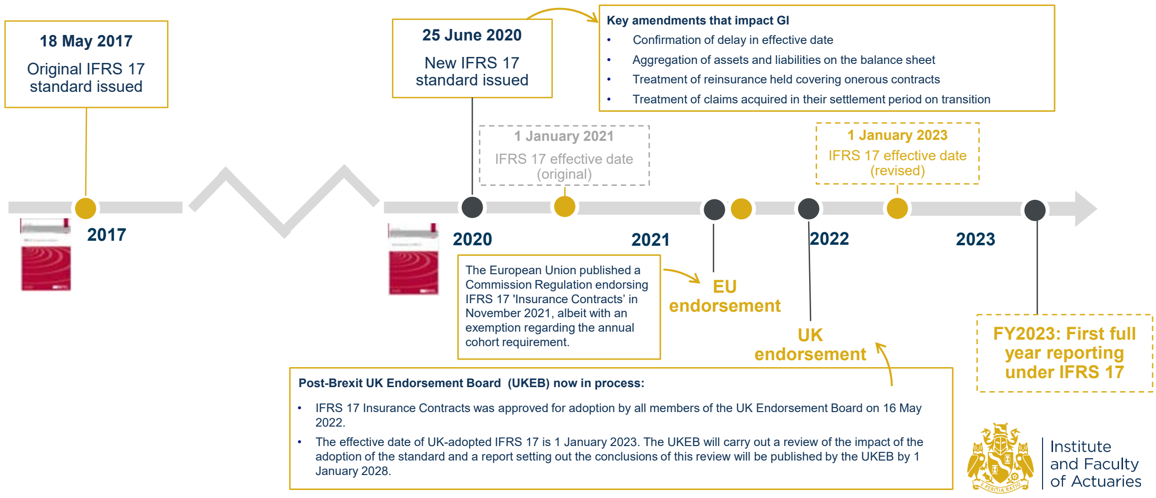
# Transition to BAU…

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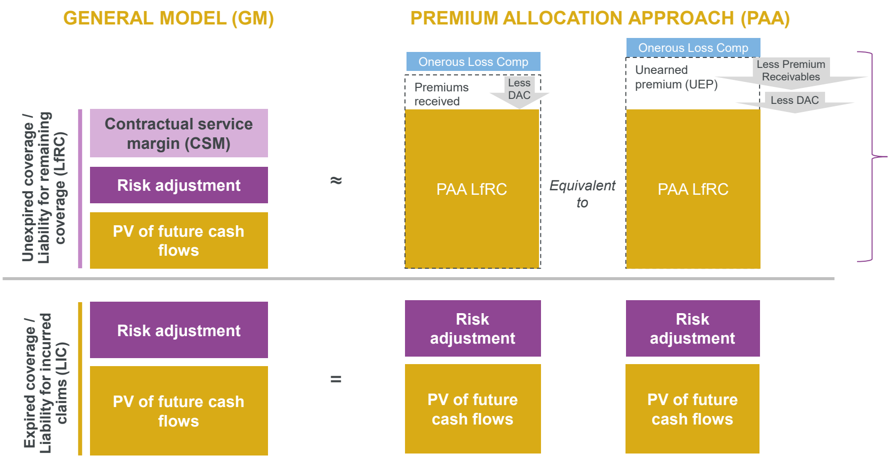
# Reminder of the IFRS 17 measurement models




Simplification that may be applied if **PAA eligibility criteria** is met.

***The chart shows the IFRS 17 PAA LfRC on initial recognition**

The LfRC at the end of each subsequent reporting period is:

1. the LfRC at the start of the reporting period; *plus*
2. premiums received in the period less DAC; *minus*
3. Premiums recognised as insurance revenue in the period less DAC amortisation.

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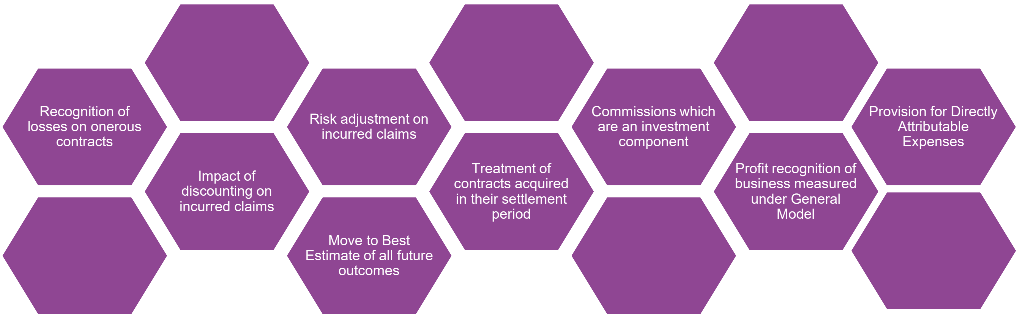
# Recap on expected impacts on Day 1 for General Insurers

**Complexity of transition is expected to be less for general insurers given majority of business likely to fall under the PAA, but challenges remain…**

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# Current Pressures on GI Programmes

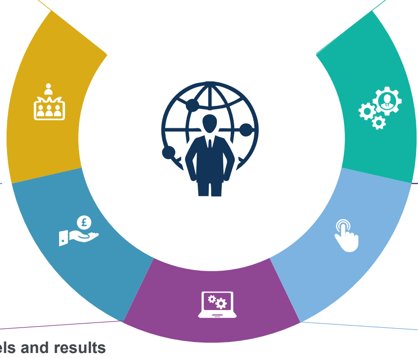
**Complexity of transition is expected to be less for general insurers given majority of business likely to fall under the PAA, but challenges remain…**

**Completion of build**

Programmes remain at different stages in market, with many still building key components and testing ongoing. Typically main PAA solutions have been built and tactical models are in place for ad hoc books requiring GMM

**Communication of impacts**

Insurers are looking to communicate impact to market at an early stage to control message but with appropriate confidence (and audit oversight in some cases). Some market announcements have been seen to date as seen later in presentation.



**Modelling refinements**

Insurers still working through the modelling for IFRS17 impact in some cases, as well as factoring in latest market conditions and potential impacts.

**Embedding in BAU**

With focus being on Opening Balance Sheet (OBS) at this stage, less thought has been given to embedding within the BAU reporting process. Some strategic solutions have been setup to enable this from beginning but most have prioritized other elements of programme

**Auditing of models and results**

Full audit sign off required, with opening balance sheet reviews being carried out in late 2022. Accounting Policy review typically carried out already, with systems and controls to follow later.

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# Next steps for GI Actuarial teams

**As implementation moves to completion for IFRS17, what are the likely activities that will keep GI teams busy over next twelve months?**

**Strategic solutions in place**

Getting IAS8 and Opening Balance Sheet already completed, efforts may be placed to remove any tactical solutions in place for production in numbers. This may include delayed go live on full calculation engine, further strengthening on controls and governance on any EUCs in workflow, automation in reporting etc

**Financial Planning and Analysis**

Updating of Business planning and Management insights to an IFRS17 basis – may be an adjustment to current reporting, or more fundamental changes to calculations. Actuaries may be driving change or changing inputs supplied to business planning process

**Working Day Timetable and Reporting**

Firms typically looking to keep to current (already challenging) reporting timelines in long term with some delays allowed for initial IFRS17 reporting. Acceleration required on both the new IFRS17 calculations and undiscounted reserving (end to end)

**Operational Design - Handover to Non-Actuarial teams?**

Given the resource constraints in most actuarial teams, is it more appropriate to handover the reporting (or parts of it) to Finance team and have Actuaries as inputs rather than carrying out calculations

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# Menti – how prepared is your firm?

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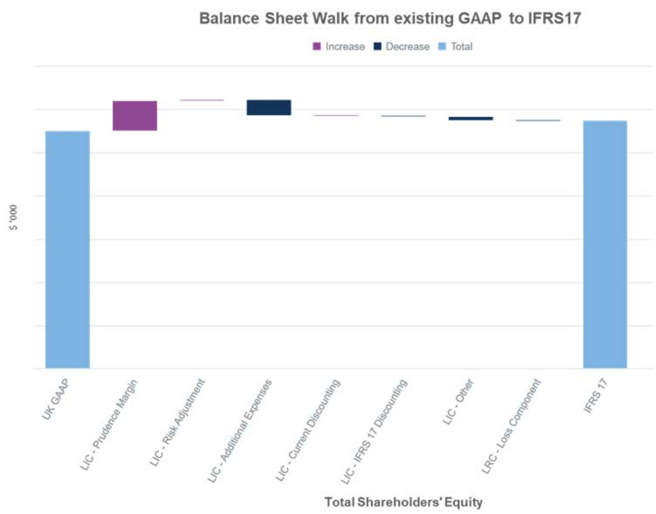
# Menti – key pinch points?

**What are your firm's current main area of focus?**





# Example: PAA (Opening) BS impacts




**Balance sheet impacts are fairly consistent across insurers mainly driven by a few key items**

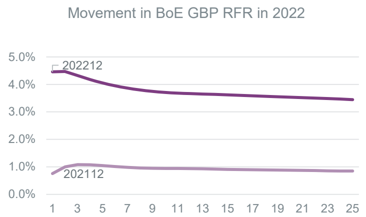
- Insurers are removing any prudence from current claims reserves and replacing with explicit risk adjustment
- Additional discounting applied for previously non-discounted reserves, with updated discounting applied to previously discounted reserves (eg PPOs)
  - Impact on opening balance sheet (Q4 2021) could be very different from latest year-end (Q4 2022)
- Insurers typically adding ENID loading to LIC reserves to update best estimate to IFRS17 definition of best estimate (expected value of the full range of possible outcomes)
- Recognition of onerous contracts means addition of Loss Component

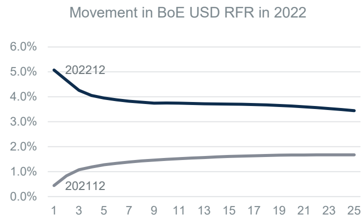
Although the changes at a total level appear to be quite simple, the additional granularity required for both the disclosures and the calculations means that it can get complicated

# Impact of Current Economic Environment

**The current economic environment means higher discount rates and higher inflation:**

- PAA Eligibility
  - Discounting one of key drivers for failing eligibility
  - Level of stresses eligibility tested on now too weak?
- Onerous contracts
  - Additional discounting may reduce risk of onerous contracts?
- LIC valuation
  - Reduces claims liability, likely to partially offset unrealised losses on investments
- P&L impacts
  - Additional volatility if interest rates are more volatile
  - Any material "financial risk" inflation that should be booked through IFIE?

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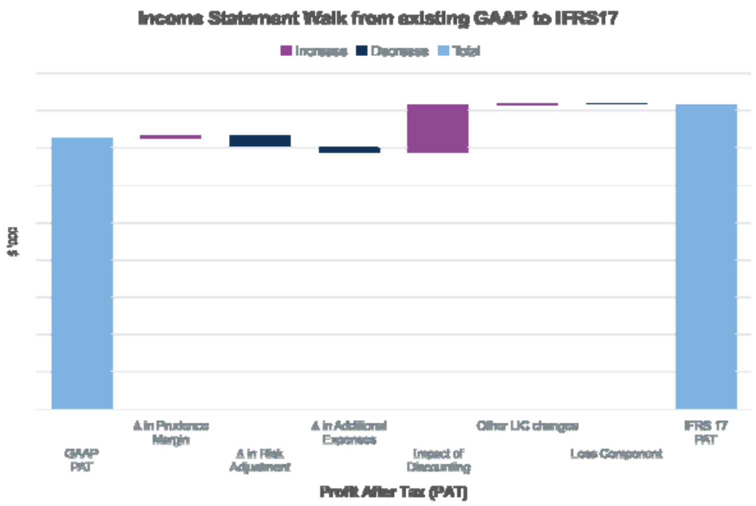
# Example: PAA Income Statement impacts




**Income statement bridge is largely consistent with the balance sheet bridge with the biggest change relating to the shape and measurements on the income statement itself.**

The new measurement approach brings additional volatility to the P&L.

Similar to balance sheet, although the changes at a total level appear to be quite simple, there may be additional complexity in understanding changes in income statement owing to:

- Granularity changes
- Changes to disclosure statements
- Accounting policy decisions

Whilst there is a big swing by introducing discounting and particularly given high rates this year, this will likely offset by movements in asset valuations.

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# Who has published impacts so far?

**Our market scan identified the following major P&C carriers who have published significant updates on the impacts of IFRS 17 for their reporting:**

- Admiral
- Ageas
- Aviva
- Generali
- Hiscox
- Zurich
- Talanx
- AXA
- Munich Re

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# Financial impacts published

**Our market scan identified the following major P&C carriers who have published significant updates on the impacts of IFRS 17 for their reporting:**

| Insurer | Date | Measurement model | Discounting option | Risk Adjustment | P&L impact | Equity impact |
|---|---|---|---|---|---|---|
| Admiral | Nov 22 | PAA for short-term contracts;<br>GMM for the rest | OCI option | Confidence level approach, corridor around 90th percentile | • No impact on ultimate profitability of business written | • Expected one-off reduction in equity on transition |
| Ageas | Dec 22 | PAA for majority; GMM/BBA for contracts with >1 year coverage | OCI option preferred for non-VFA business | Confidence level method at 75th percentile (both for life/non-life) | • Deterioration by ~1.5pp due to movement to gross while improvement by ~2.5pp due to discounting of all new claims<br>• Positive impact of discounting of new claims, partially offset by lower investment result | • Limited impact of transition on equity excluding unrealised gains and losses |
| Aviva | Dec 22 | PAA for GI and Health business (c35% of Aviva's operating profit) | Not commented but will use FV for assets under IFRS 9 | Leverages Solvency II view of risk but allows for diversification and considers lifetime (vs. one year) view | • Limited financial impact | • Including CSM broadly equivalent to Solvency II own funds |
| Generali | Dec 22 | 99% PAA, 1% GMM | Changes in discount rates reported through OCI | Percentile approach: 75th percentile | • Limited financial impact for GI business so current profit drivers remain relevant | • Broadly stable as a group, reduction in life offset by increase in P&C |
| Hiscox | Dec 22 | PAA | Not commented | Value at risk (percentile) and scenario (sensitivities on a range of outcomes) approach | • Reduced volatility as changes to investment return arising from interest rate movements are now partially offset by discount rate on net insurance liabilities | • Marginal increase expected on transition due to discounting |

**Note: all information is based on publicly available disclosures and is not necessarily a complete list of insurers who has disclosed impacts to date.**

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## Financial impacts published (cont.)

**Our market scan identified the following major P&C carriers who have published significant updates on the impacts of IFRS 17 for their reporting:**

| Insurer | Date | Measurement model | Discounting option | Risk Adjustment | P&L impact | Equity impact |
|---|---|---|---|---|---|---|
| Zurich | Sept 22 | PAA for P&C | Applied disaggregation approach including for RA | Value at risk (percentile) and scenario (sensitivities on a range of outcomes) approach | • Profit not expected to be materially different | • Shareholders equity decrease mainly driven by introduction of CSM and discounting of long-term liabilities |
| Talanx | Oct 22 | PAA for short-term business (35%); GMM for long-term business (60%); VFA long-term direct participating business (5%) | Changes in discount rate to be recorded in OCI | Percentile approach in primary insurance (65-75%); Pricing margin approach for reinsurance (non-financial risk loadings in premium) | • Expected to increase, driven by lower claims due to discounting and lower allocation of technical cost | • Expected to be stable for P&C due to consistent discounting of assets and liabilities |
| AXA | Nov 22 | PAA for 99% of P&C | Applied disaggregation approach | Percentile Approach Risk Adjustment based on 62.5th - 67.5th percentile | • Future profitability to be determined by combination of CSM and risk adjustment release | • Decrease when including OCI;<br>• Stable at transition when including OCI. |
| Munich Re | Dec 22 | PAA for all P&C | Separation of the effect of changes in discount rates between income statement and OCI | Cost-of-capital approach based on Solvency II risk capital | • Generally stable<br>• Currently benefitting from increasing interest rate | • Decrease due to shift of unrealised gains to CSM |

**Note: all information is based on publicly available disclosures and is not necessarily a complete list of insurers who has disclosed impacts to date.**

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## Some other snippets

- Beazley – currently set reserves within corridor 5-10% above actuarial estimate, new approach will set the Risk Adjustment at a Confidence Level above the Best Estimate which they expect will be lower than the current range
- LBG – using PAA for GI
- SCOR – will use GMM and OCI, with Cost of Capital approach for Risk Adjustment
- Lancashire – intends to use PAA and put change in yield curves through P&L

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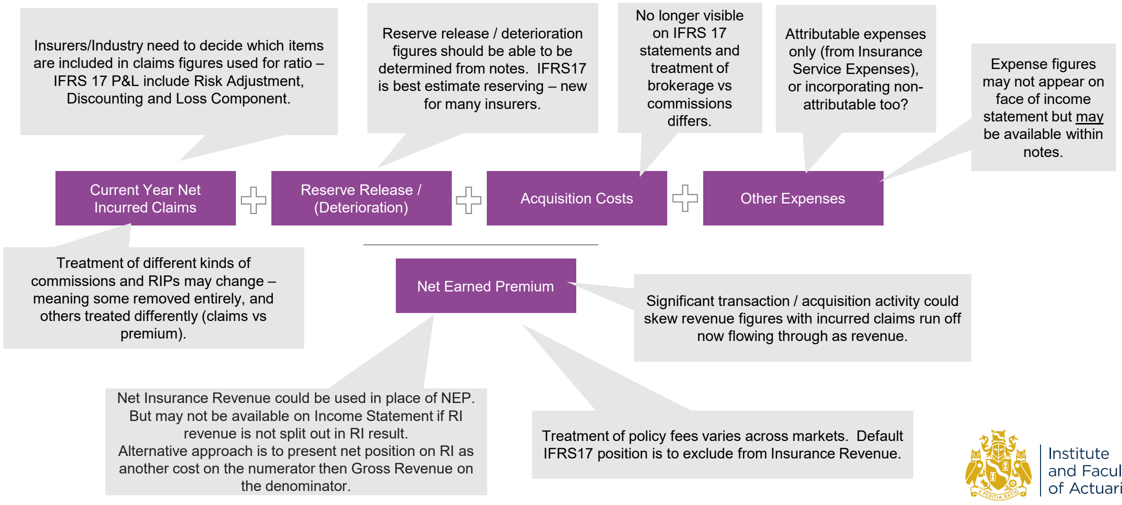
# Combined Operating Ratios will change

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# Proposals for IFRS 17 KPIs

- Mixture of definitions used for Combined Ratio:
  - A mixture of gross and net denominators meaning many ratios will not be comparable, seems to be a majority of players moving reinsurance costs from denominator to numerator
  - Some people moving more to a profit margin type approach, particularly in the personal lines space
  - Most players seem to be including all IFRS 17 balances in the COR (e.g. discounting, RA etc) but a few cases where discounting will be presented separately
- Generally noted that KPIs won’t move move dramatically but they are expected to be more volatile
- Confidence level disclosures are going to vary dramatically, not yet clear how these will be used / understood by analysts

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## Conclusions so far

- Very few public disclosures available so far
  - Limited benefit to being first
  - Should see more disclosures in 2022FY accounts given IAS 8

> *30. When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:*
> *…*
> *(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.*

- Limited convergence in approach or disclosures
  - Comparisons **amongst IFRS 17 reporters and with non-IFRS 17 reporters** will be more challenging

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**Questions** Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

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## Sources


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