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# IFRS17 for GI Working party update: It's almost here!

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**#GiroConf22**



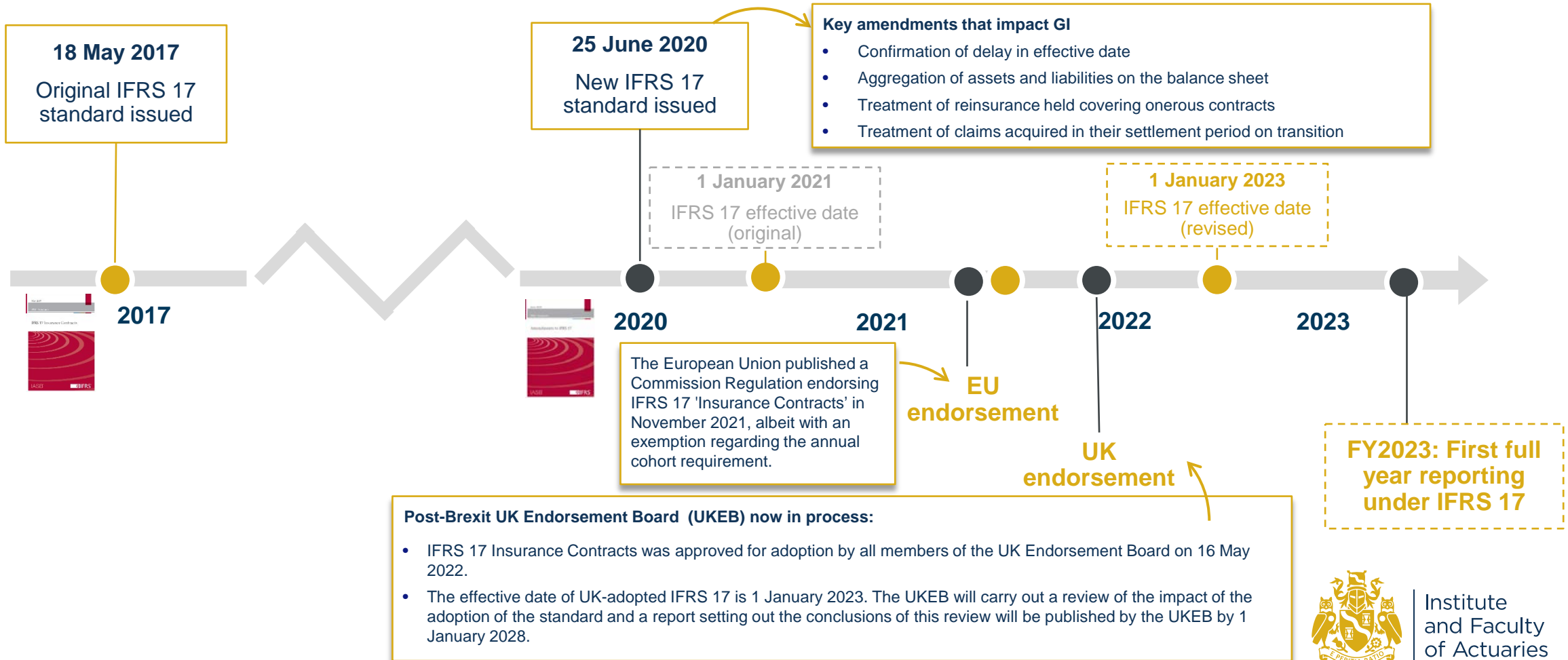
# Agenda

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
- Impact of current economic environment on IFRS 17 reporting
- Q&A

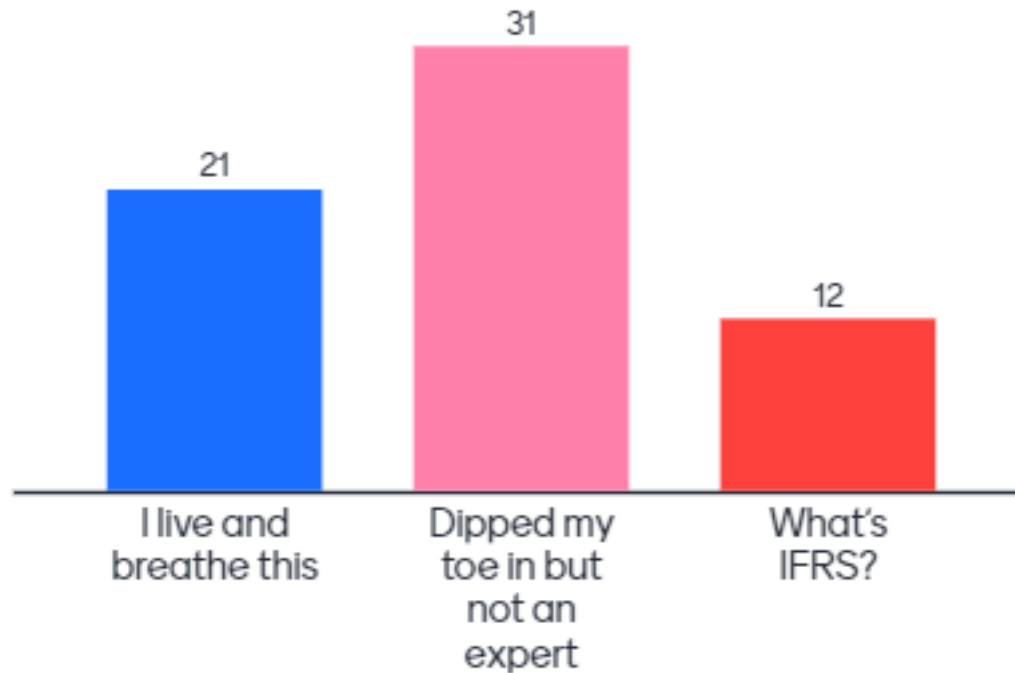


# The long journey is nearly over...

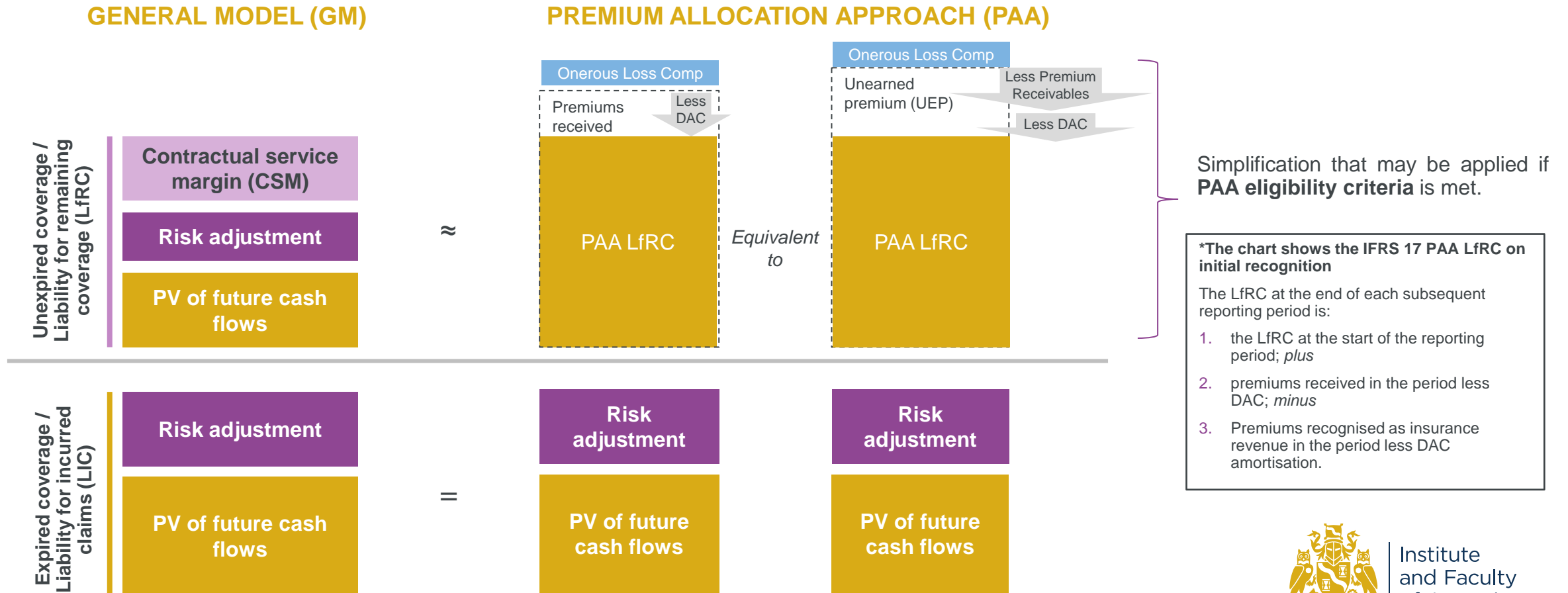


# Menti – time for audience participation

## What is your experience of IFRS 17?



# Reminder of the IFRS 17 measurement models



# 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...



# 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

## 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.

## 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.

## 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.

## Embedding in BAU

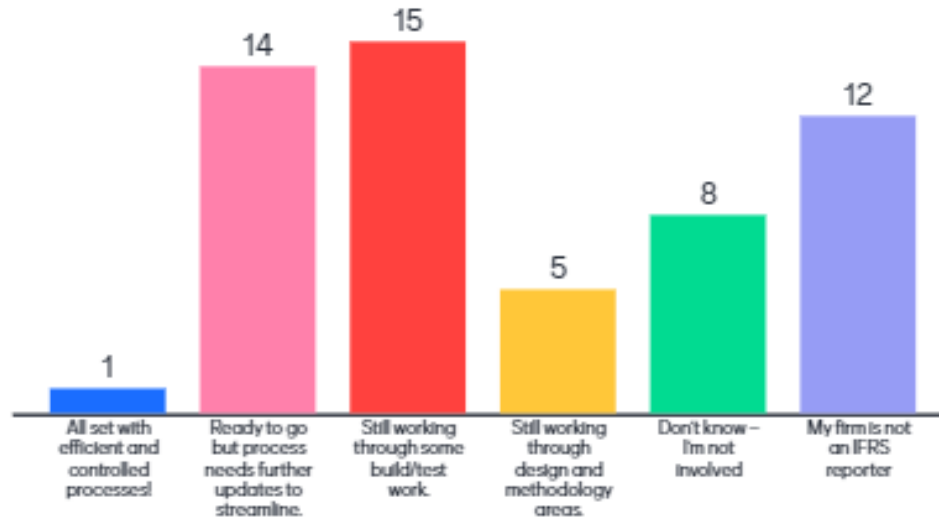
With focus being on Opening Balance Sheet (OBS) at this stage, less thought has been given to embedding within the BAU reporting process. Some strategic solutions have been setup to enable this from beginning but most have prioritized other elements of programme



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# Menti – how prepared is your firm?

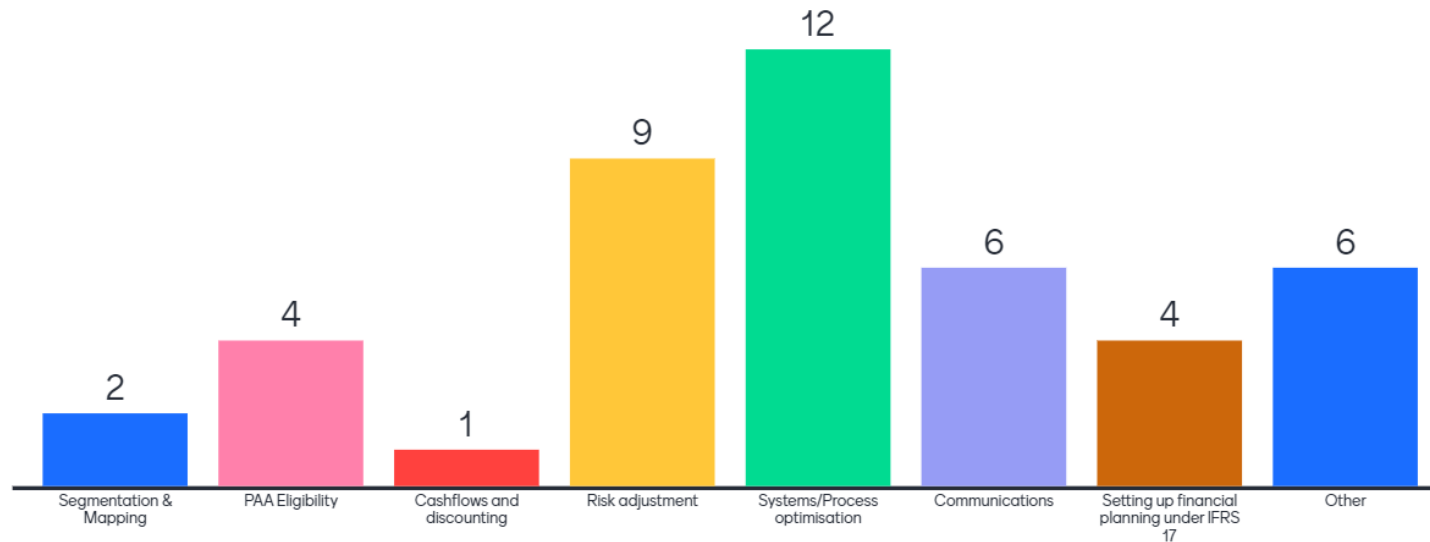
How prepared is your firm?



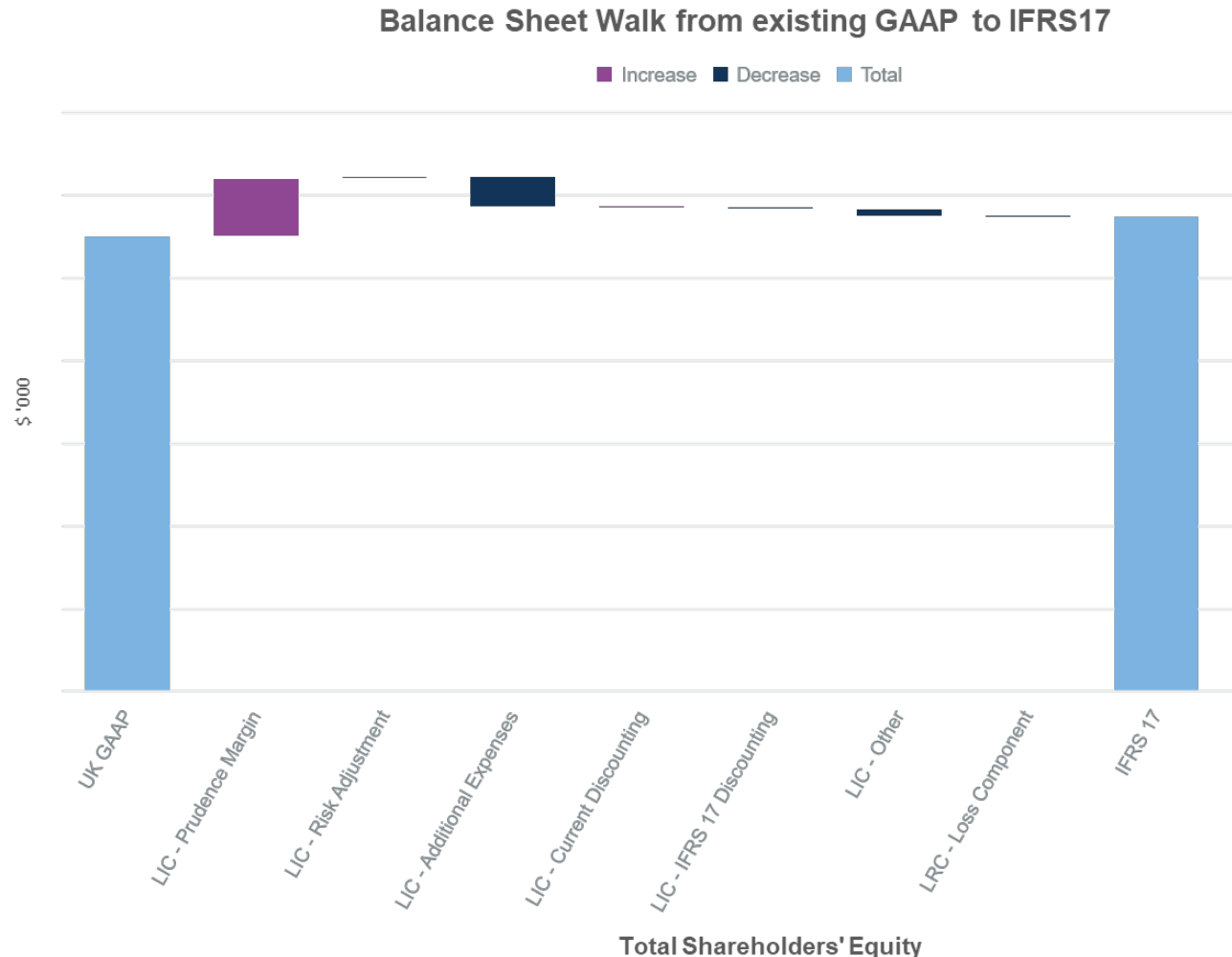


# Menti – key pinch points?

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



# Example: PAA BS impacts



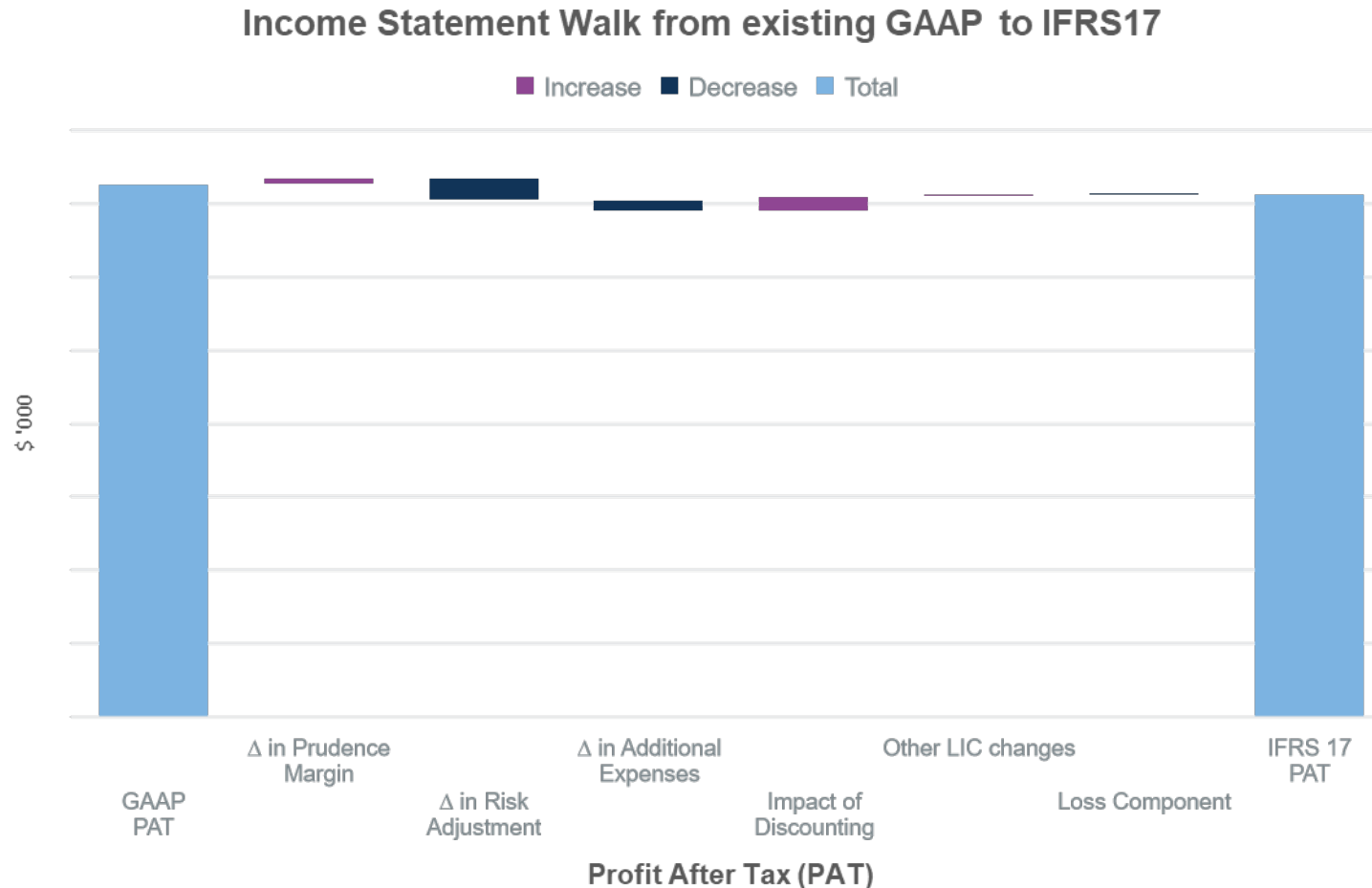
## Balance sheet impacts are fairly consistent across insurers mainly driven by a few key items

- 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)
- 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



# 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



# 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:**

- Zurich
- Talanx – HDI
- Talanx – Hannover Re
- Trygg
- AXA



# 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
Zurich	Sept 22	99% of P&C under PAA	OCI	Percentile approach, similar reserve strength to under IFRS 4	<ul style="list-style-type: none"> <li>Profit not expected to be materially different</li> <li>GWP lower due to captives being treated on net basis</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders equity increases marginally due to discounting of reserves, partially offset by RA</li> </ul>
Talanx – HDI	Oct 22	PAA	OCI	Not disclosed	<ul style="list-style-type: none"> <li>P&amp;C only not disclosed, but marginally up overall</li> </ul>	<ul style="list-style-type: none"> <li>Discounting of reserves and initial recognition of unrealized gains on investments result in increased equity</li> </ul>
Talanx – Hannover Re	Oct 22	GMM	OCI	Prudent reserving level maintained within LIC (resiliency reserves) plus establishment of RA	<ul style="list-style-type: none"> <li>Not disclosed – but notes CSM and RA will lead to sustainable earnings levels</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder equity reduced due to impact on L&amp;H business, small offsetting increase for P&amp;C</li> </ul>
Tryg	Apr 22	PAA	Discounting as per current, inflation swaps move to investment result	Confidence level 99%	<ul style="list-style-type: none"> <li>Insurance Revenue increases (versus GEP) due to bonus and premium rebates that move to insurance service expense</li> <li>Technical result improves due to movement of some education and development costs to “other income and expenses”</li> </ul>	<ul style="list-style-type: none"> <li>No impact</li> </ul>
AXA	Nov 22	99% P&C and short-term Protection and Health on PAA	OCI	Percentile Approach Risk Adjustment based on 62.5th - 67.5th percentile	<ul style="list-style-type: none"> <li>Largely unchanged in aggregate</li> <li>P&amp;C earnings to be more sensitive to interest rates</li> <li>Lower combined ratio expected under IFRS17, partly offset by lower investment result</li> </ul>	<ul style="list-style-type: none"> <li>Limited impact</li> </ul>

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



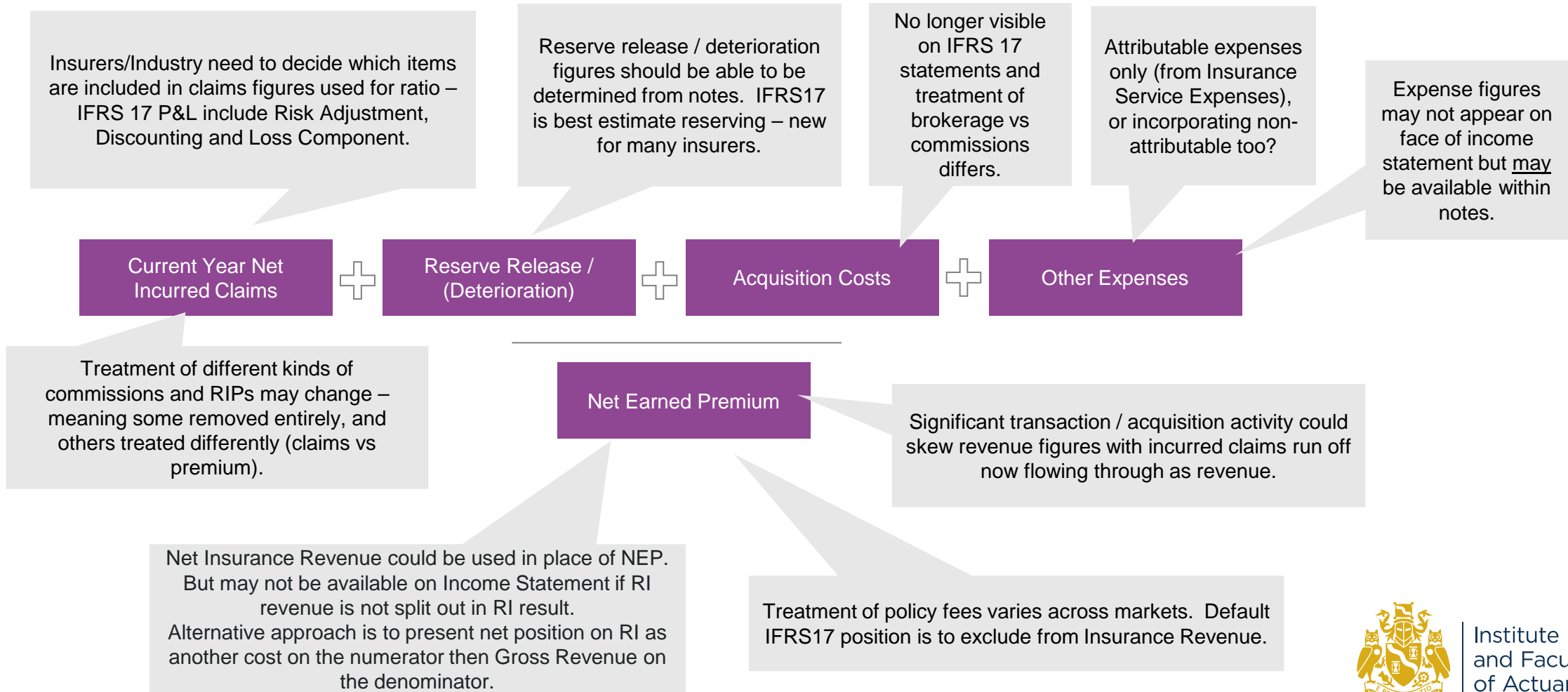
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# Some other snippets

- 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
- Hiscox – will use the PAA measurement model
- 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



# Combined Operating Ratios will change



# Proposals for IFRS 17 KPIs

- Zurich change from CoR from:
  - $(\text{Net Losses} + \text{Net Expenses}) / \text{Net Earned Premium} \Rightarrow 93\%$ ; to
  - $(\text{Gross Losses} + \text{Gross Expense} - (\text{RI premium} - \text{RI recoveries})) / \text{Gross Insurance Revenue} \Rightarrow 95\%$
- Talanx:
  - Net technical result / Net premiums earned; to
  - Insurance service result (Net) / Insurance revenue (Gross)
- Tryg has decided to keep the KPIs currently in use for group reporting, including retaining IFRS 4 terminology. When comparing IFRS 17 to IFRS 4, the premiums will be higher as the bonus and premium rebates will be stripped out from “Insurance Revenue”. However, as certain education and development costs are moving out of the technical result, the expense ratio will decrease, leaving the combined ratio with only minor changes. Key figures will be restated accordingly.
- Axa: Technical profitability to continue to be reported by Current and Prior Year, and combined ratio to remain on a Gross Earned Premiums basis.





# 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

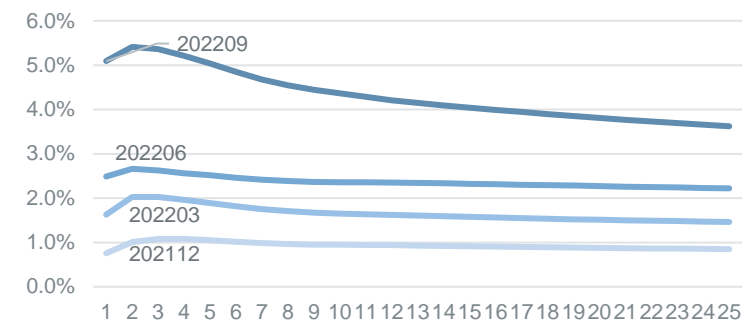


# Impact of Current Economic Environment

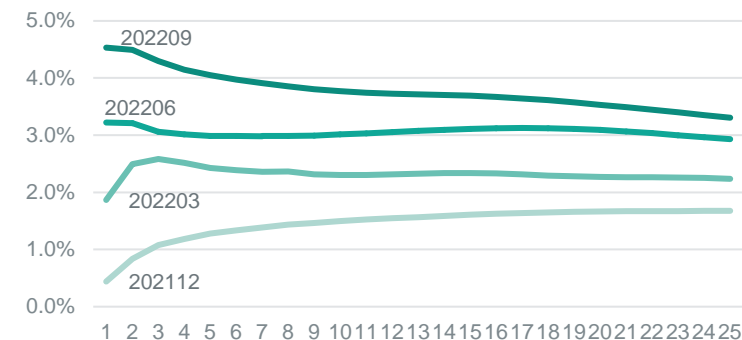
The current economic environment means higher discount rates and higher inflation:

- 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?

Movement in BoE GBP RFR in 2022



Movement in BoE USD RFR in 2022



# 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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# Thank you



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