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Implications of the IFRS 17 Exposure Draft 2019

Keynote speaker: Darrel Scott - IASB Board Member

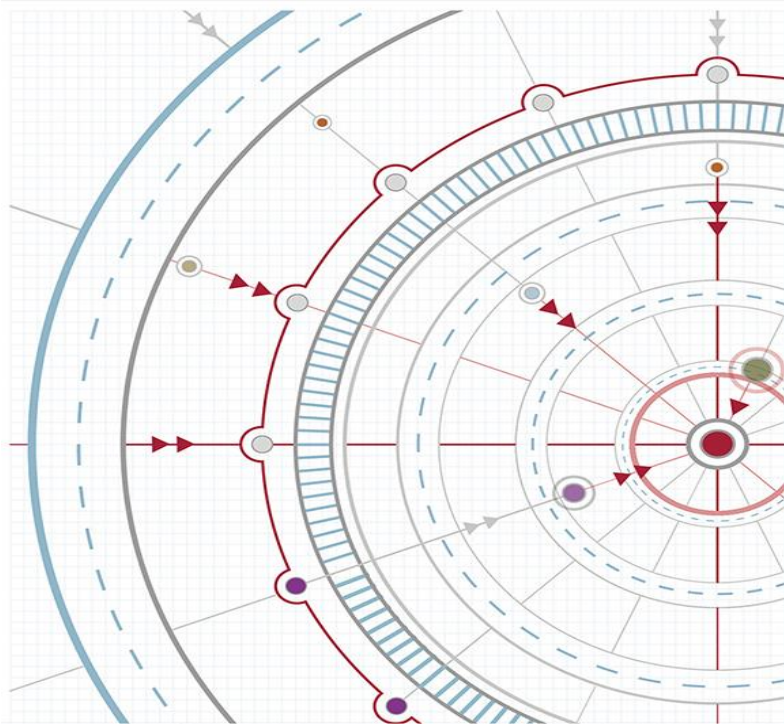
Speakers from IFOA Financial Reporting Group:
Anthony Coughlan, Jamie Grant, Richard Olswang & Derek Wright

Chair: Kamran Foroughi

Agenda

- Overview of the exposure draft
- International perspective
- Implementation complexity & cost: Key issues
- Current focus areas for UK products (GI & Life)
- Closing remarks





Overview of Exposure Draft *Amendments to IFRS 17*

July 2019

Institute and Faculty of Actuaries
Darrel Scott, member
International Accounting Standards Board

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Objectives of the proposed amendments

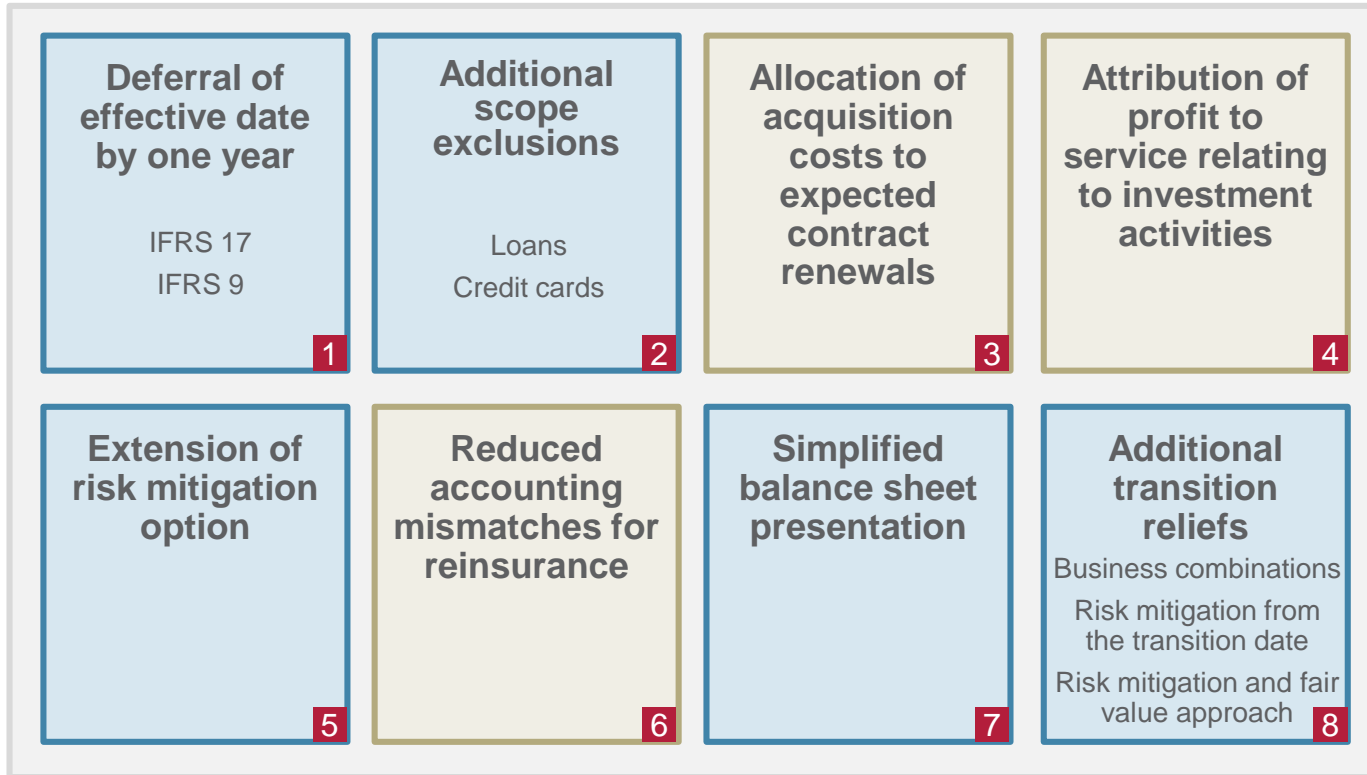
Maintain IFRS 17 improvements

- The targeted amendments
 - do not change the fundamental principles of the Standard
 - will not result in a significant loss of useful information for investors
 - refine the requirements for some topics, in the light of insurers' experience when starting implementation

Aid implementation

- The targeted amendments
 - are narrow in scope but provide meaningful support and address a number of concerns raised by insurers
 - will ease IFRS 17 implementation, without unduly disrupting implementation
 - will make it easier for insurers to explain the results of applying IFRS 17 to investors

12 targeted amendments in 8 areas



Next steps



Proposed amendments set out in an Exposure Draft



90 day comment period (July-September 2019)
Outreach to obtain additional feedback



Comments welcomed from all stakeholders



IASB will finalise amendments to IFRS 17
considering the feedback on the Exposure Draft

Not all possible amendments meet the criteria

Change not justified	or	Significant loss of information	or	Unduly disrupt implementation
Reinsurance contract boundary	Excluding cash flows of reinsurance contracts held relating to underlying contracts not yet issued would go against the fundamental principle in IFRS 17 that all future cash flows are reflected in the measurement of an insurance contract			
Level of aggregation	Suggested changes could result in: <ul style="list-style-type: none">• loss of information about trends in the entity's profitability• delayed recognition of losses on onerous contracts / profit on profitable contracts			
Reducing OCI optionality	Requiring, rather than permitting, insurance finance income or expenses to be presented either entirely in profit or loss or partly in OCI to improve comparability could require significant rework for preparers			



Exposure Draft *Amendments to IFRS 17*—specifies the proposed amendments to IFRS 17 for the accounting for insurance contracts



Basis for Conclusions on the Exposure Draft—summarises the Board's considerations in developing the proposed amendments



Snapshot of Amendments to IFRS 17—provides an overview of the proposed amendments to IFRS 17

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International perspective

Derek Wright

July 2019

International Actuarial Notes (IANs)

- An educational document on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject by readers of the IAN, including actuaries and others, who use or rely upon the work of actuaries.
- It is not an ISAP and is not intended to convey in any manner that it is authoritative.
- IANs may be issued
 - a) To assist actuaries in complying with an ISAP, for example by offering practical examples of ways in which actuaries might implement an ISAP or International Financial Reporting Standard (IFRS) in the course of their work, or
 - b) To provide non-binding guidance on an actuarial topic for which the IAA has not developed an ISAP.



International Actuarial Note 100 (IAN 100) – IFRS 17

- Anticipated Timeline:



- Access via IAA Website (www.actuaries.org) → Publications → IAN)



International Actuarial Association (IAA) initial thoughts

Issue	Initial thoughts of IAA
Q2 – Expected recovery of acquisition expenses	Allow rather than require allocation of acquisition costs to future renewals
Q4 – Reinsurance contracts held	Why only for proportionate reinsurance?
Q6 – Applicability of the risk mitigation option	Why just for Variable Fee Approach?
Q8 – Transition modifications and reliefs	Would like to have seen more on Modified Retrospective Approach





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Implementation complexity & cost: Key issues

Richard Olswang

July 2019

Level of aggregation

Established industry position

Remove requirement to group contracts by annual cohorts:

- Inconsistent with the way firms manage their business
- Introduces significant implementation efforts and undue costs



Priority issues identified by CFO Forum

Remove cohort requirement only where:

- Annual cohorts are most inconsistent with how business is managed, i.e. for VFA business with mutualisation
- There is the largest operational impact for other businesses, i.e. at transition



Transition

Issue	Solution proposed by CFO Forum
Practicability of retrospective approaches	Enable more wide-spread use of modified retrospective approach
Different treatment of acquired & issued contracts	Remove need to distinguish contracts acquired in business combination & own issued contracts
Hedging: Retrospective use of risk mitigation option	Allow retrospective application in certain circumstances
Inconsistency between asset and liability OCI	Extend the 'matching' of cumulative OCI on assets and liabilities from VFA to GMM

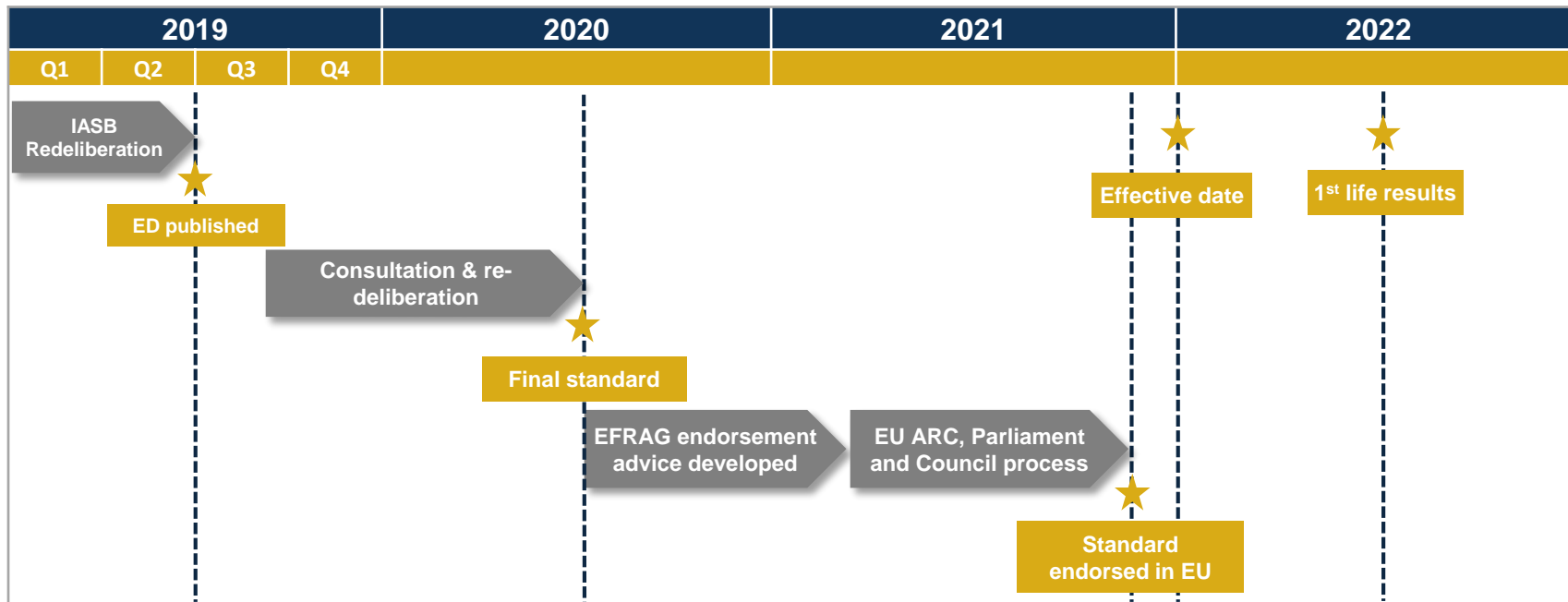


Presentation issues

Issue	Solution proposed by CFO Forum
Dual reporting	Eliminate differences between entity and Group results caused by different reporting frequencies
Comparatives	No requirement to restate the comparative information for IFRS 17 in the first audited financial statements (similar to the existing relief in IFRS 9)



Endorsement timeline



A UK Accounting Standards Endorsement Board is being established to assess reporting standards for endorsement in the UK post Brexit.





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Current focus areas for UK products (GI & Life)

Jamie Grant & Anthony Coughlan



Current topics for non-life products

Personal Lines

- Acquisition costs – expense vs defer ★
- Onerous Contracts ★

Commercial Lines

- PAA Eligibility Testing ★
- Non-distinct investment components – PC/NCBs
- Lloyd's RITC – business combinations

Common

- Level of Aggregation – Gross vs RI ★
- Contract Boundaries – Gross vs RI ★
- Calculation Engine – internal vs external
- LFRC Approach – premium receivables?
- Level of Disclosure
- Discount Rate & Illiquidity Premium
- Management Reporting & KPIs
- Risk Adjustment
 - Interpreting “entity perspective”
 - Allowance for “availability and cost of reinsurance”
 - Group vs entity aggregation
 - Confidence Levels
 - Interaction with margins



Key exposure draft changes for non-life products

Change	Considerations
Deferral of recognition of insurance acquisition cashflows from contract renewals	<ul style="list-style-type: none">• Particularly benefits UK GI personal lines market• Limited “optionality” around application• “systematic and rational allocation”
Reinsurance Contracts Held – recovery of losses on underlying onerous insurance contracts	<ul style="list-style-type: none">• Proportional ceded reinsurance only (direct contractual link)• Mechanics of calculation can give unusual results in some circumstances• Careful consideration of reinsurance contract boundaries needed• Must be applied if material → added complexity to calculations?
Simplified presentation in statement of financial position	<ul style="list-style-type: none">• Simplifies calculation and presentation• Ability now to offset UW cohorts in A/L position• Fewer portfolios disclosed in asset (inwards) / liability (outwards) position



Current topics for life products (1)

Annuities

- Discount rates – Reference portfolio, default allowance & implications
- CSM amortisation: Investment return service & weighting of benefits ★
- Investment expenses ★
- Inflation – locked-in?
- Bulk annuities – ‘buy in’ to ‘buy out’ & tranches
- Savings contracts with GAO
- Non-distinct investment components

Protection

- Reinsurance of onerous contracts (Day 1) – proportionate, formula & timing ★
- Interaction between gross & reinsurance CSM (Day 2+)
- Definition of portfolio & extent of offsetting
- Assessment of the illiquidity premium
- Reinsurance vs. gross contract boundaries
- Transition – gross & reinsured separate

★ Topic arising from June 2019 Exposure Draft



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Current topics for life products (2)

With-profits

- Eligibility for & application of the VFA
- Non-profit contracts within funds
- Hybrid (unit-linked/UWP) contracts
- Definition of underlying item and implications
- Impact from different fund arrangements
- Grouping incl. mutualisation
- Open vs closed funds (incl. equity on transition)
- Illiquidity premium & stochastic modelling

Other topics

- Practical approaches to the risk adjustment and related disclosures
- Tax ('I-E')
- Onerous contracts and profitability groups
- Transition – Boundary of impracticability & what is fair value?
- Dual reporting - Interims, reinsurance & expenses
- Reinsurance followed by Part VII transfer

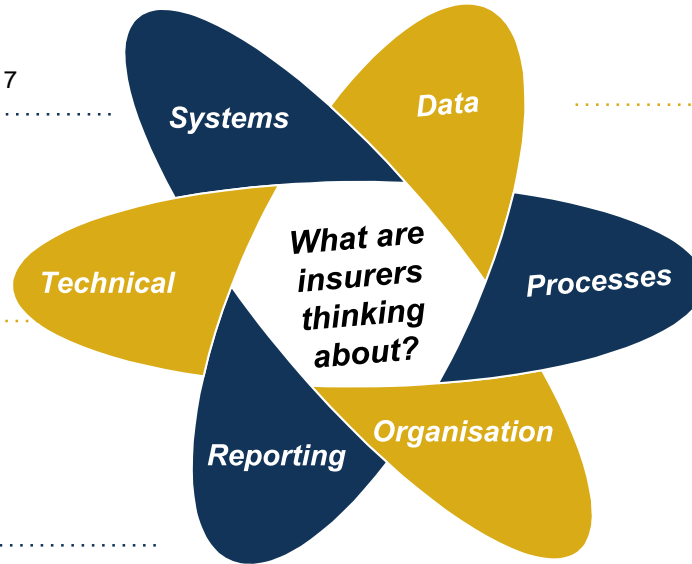


What else are insurers thinking about?

- How tactical should CSM solution be?
- Adapting legacy architecture
- Workarounds need to be translated quickly into BAU and then IFRS17
- Vendors moving on their propositions
- Join finance transformation with IFRS17

- Risk Adjustment – how to set, allocate
- CSM – amortisation patterns
- Reinsurance
- Transition

- Chart of Accounts
- Disclosure requirements
- Dealing with dual accounting
- FP&A - how to run business?
- KPIs/discussions with analysts
- Taxation



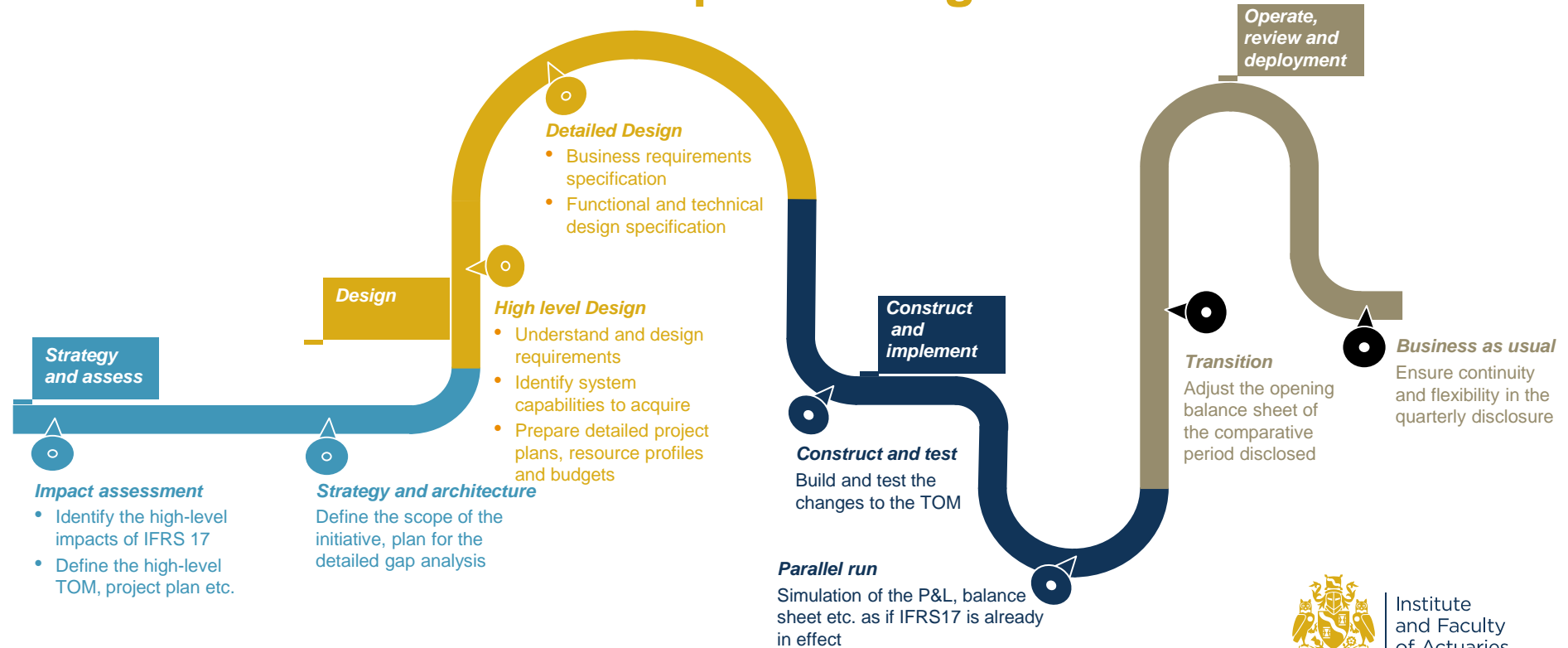
- New data items
- Workarounds
- Data quality issues
- Data previously not used
- Data governance

- 'As is' vs 'To be' controls
- Onerous contract calculations
- Expenses
- Working Day Timetable

- Education & demystifying terminology
- Global vs Functional
- Ownership of assumptions
- Handoffs (actuarial, accounting, FP&A, FinOps)
- Change Management



Where are insurers in implementing IFRS 17?





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Closing remarks

Darrel Scott

July 2019

Questions

Comments

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