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# GI and Reinsurance in the Age of IFRS 17

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Chengdu IFoA Asia Conference 2019  
9-10 May, Chengdu, China

# IFRS 17 in a Glance

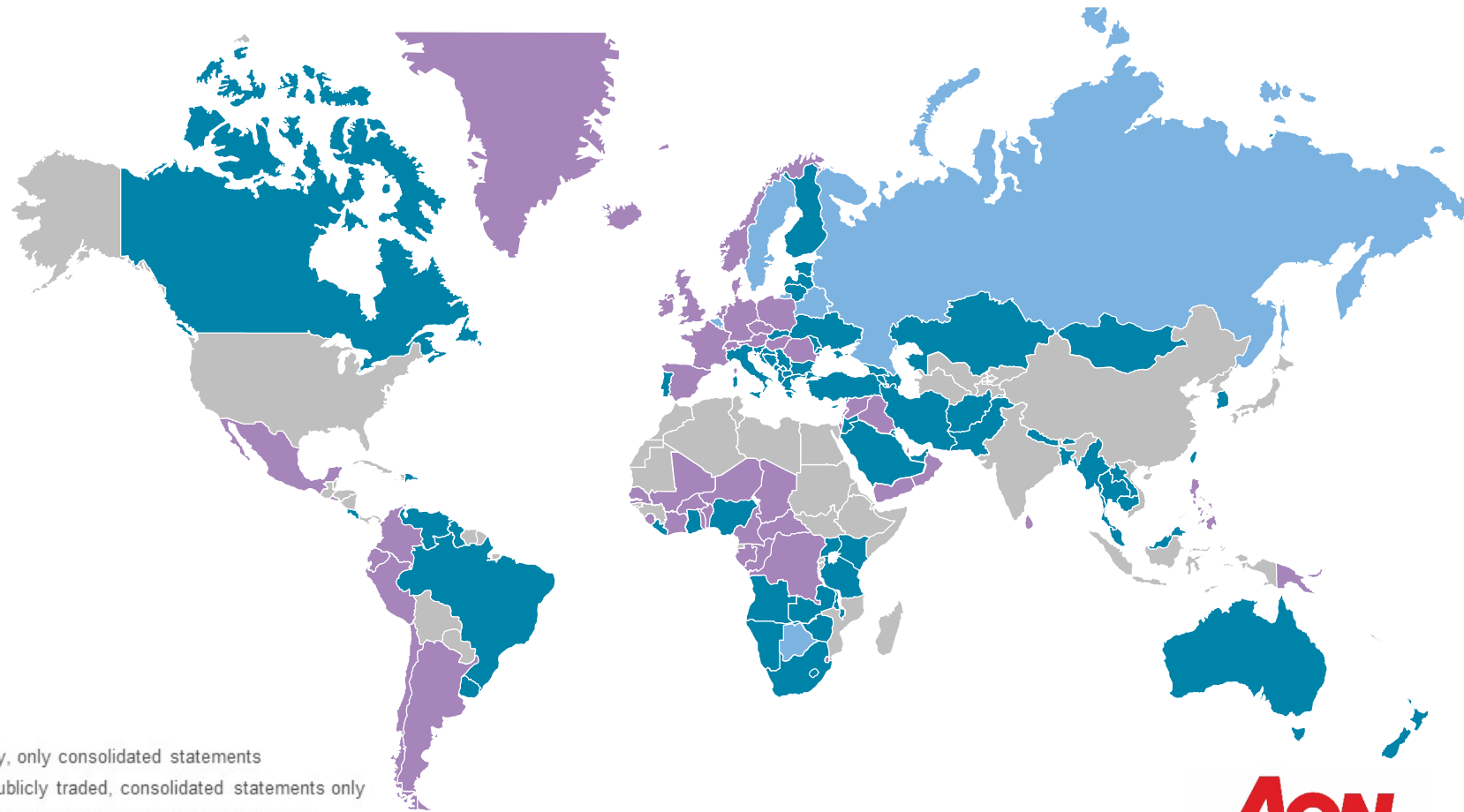


Source: Allianz SE, October 2017



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# Who Should Care



Key:   
■ Publicly traded only, only consolidated statements   
■ Publicly and non-publicly traded, consolidated statements only   
■ Publicly and non-publicly traded, consolidated + separate

Source: 2017 Pocket Guide to IFRS



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# APAC Use of IFRS Standards by Jurisdiction

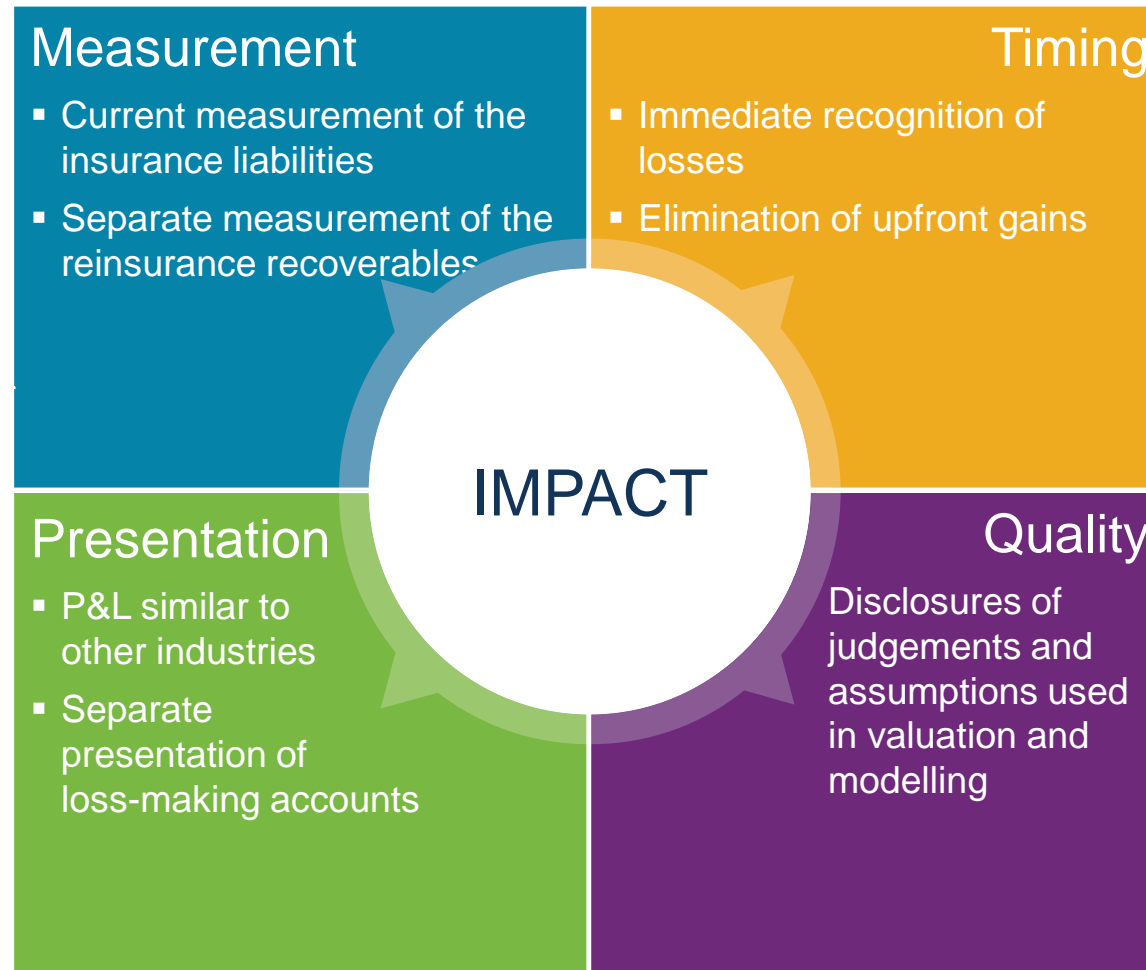
IFRS Standards are required for domestic public companies	IFRS Standards are permitted but not required for domestic public companies	IFRS Standards are required or permitted for listings by foreign companies	The IFRS for SMEs Standard is required or permitted	The IFRS for SMEs Standard is under consideration
Australia	Japan	Australia	Hong Kong	Brunei
Brunei		Hong Kong	Malaysia	Thailand
Hong Kong		Japan	Papua New Guinea	
Korea		Korea	Philippines	
Malaysia		Malaysia		
New Zealand		New Zealand		
Papua New Guinea		Papua New Guinea		
Philippines		Philippines		
Sri Lanka		Taiwan		
Taiwan		Thailand		

Source: Aon Reinsurance Solutions, Evolving Criteria Asia Pacific, October 2018

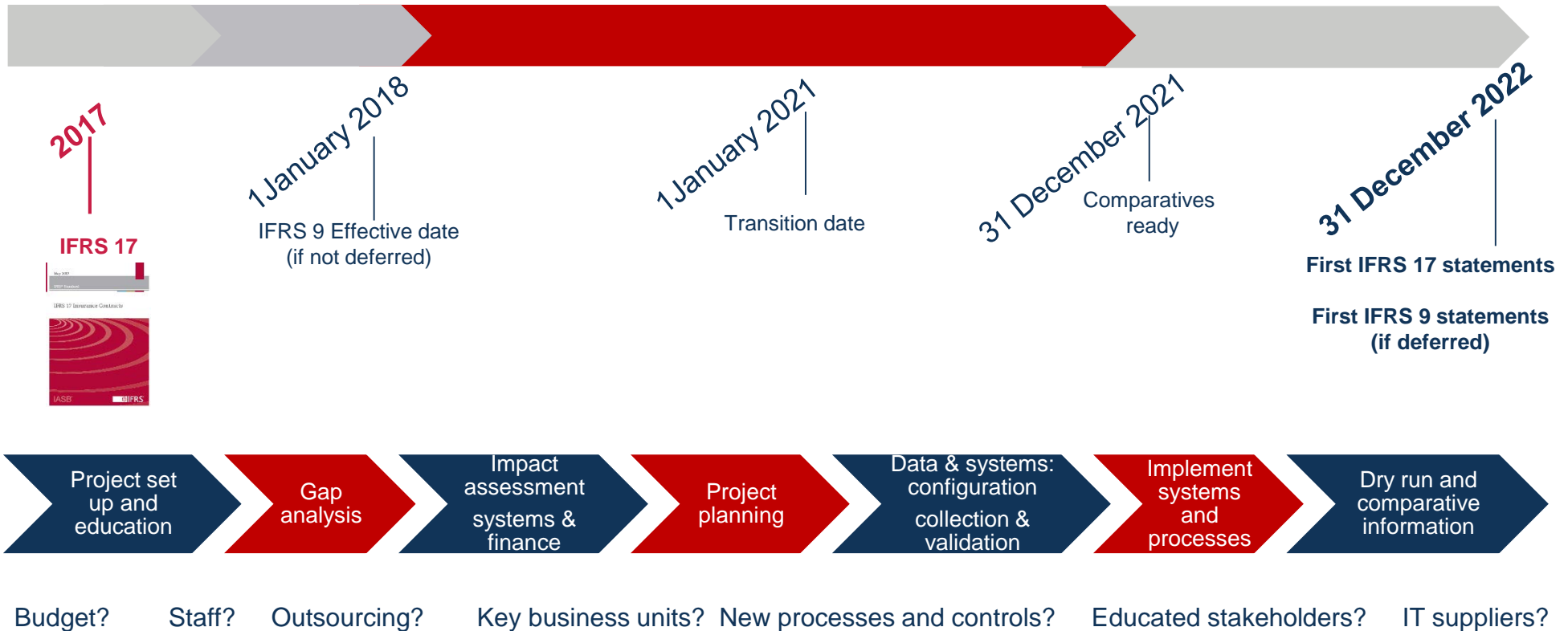


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# What IASB is Looking For



# What Are the Challenges Moving Forward



# Existing vs IFRS 17 P&L

## Changes to the presentation of performance

31

IFRS 4*	IFRS 17	Key changes
Premiums	Insurance revenue	- Two drivers of profit
Investment income	Incurred claims and expenses	
Incurred claims and expenses	<b>Insurance service result</b>	- Fewer key changes compared to life insurers
<b>Profit or loss</b>	Investment income	
	Insurance finance expenses	
	<b>Net financial result</b>	
	<b>Profit or loss</b>	
	Insurance finance expenses <i>(optional)</i>	
<b>Total comprehensive income</b>		

(\*) Common presentation in the statement of comprehensive income applying IFRS 4



Source: IFRS Foundation



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# Existing vs IFRS 17 Balance Sheet

## Changes to balance sheet presentation

30

IFRS 4*	IFRS 17	Key changes
<b>Assets</b>		<ul style="list-style-type: none"> <li>- Contracts that are assets are separately presented from those that are liabilities</li> <li>- Simplified presentation is consistent with the economics</li> </ul>
Reinsurance contract assets	Reinsurance contract assets	
Deferred acquisition costs	Insurance contract assets	
Value of business acquired		
Premiums receivable		
Policy loans		
<b>Liabilities</b>		
Insurance contracts liabilities	Insurance contract liabilities	
Unearned premiums	Reinsurance contract liabilities	
Claims payable		

(\*) Common presentation in the balance sheet applying IFRS 4



Source: IFRS Foundation

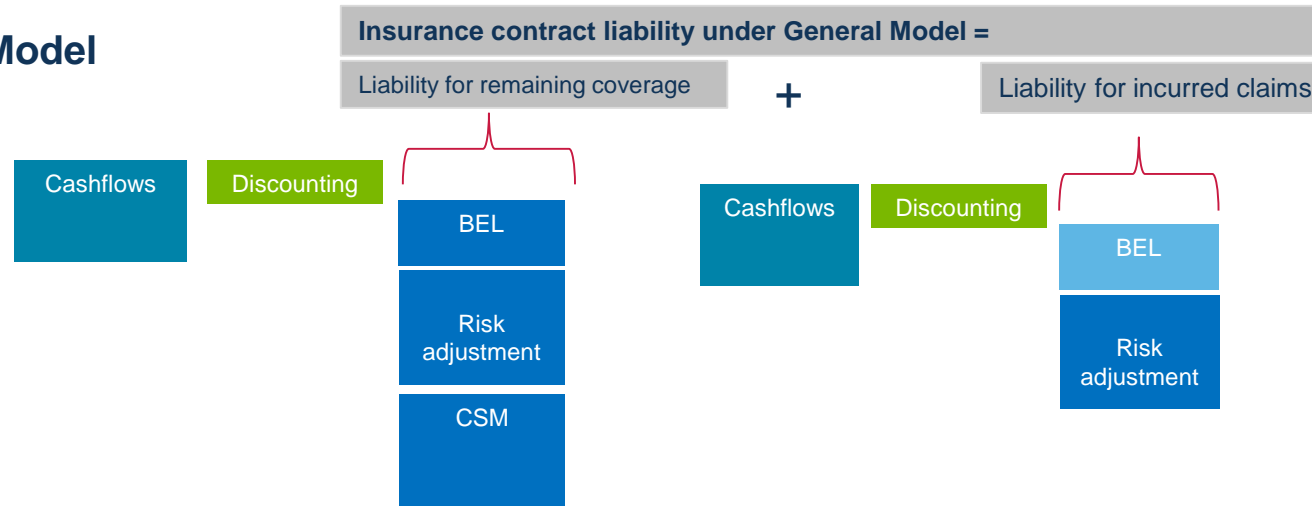


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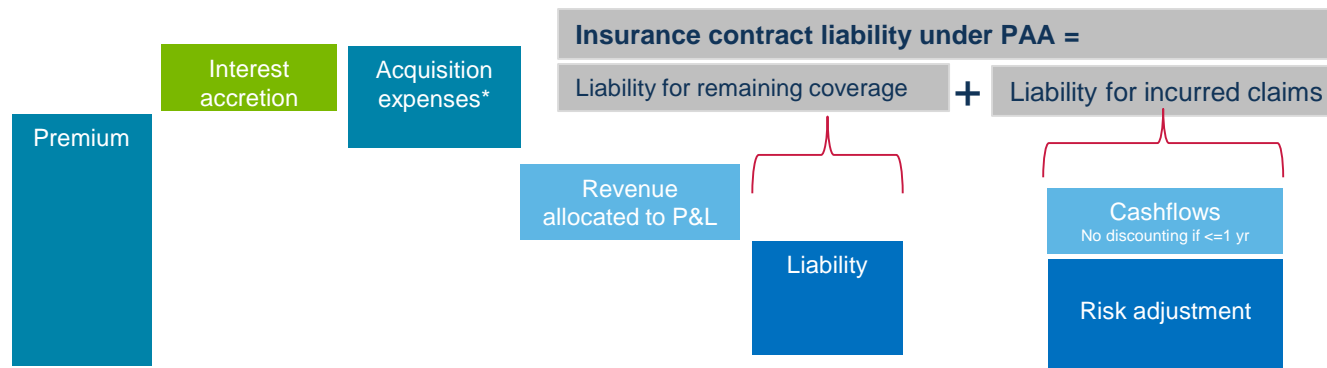


# Overview of IFRS 17 Liability Measurement Models

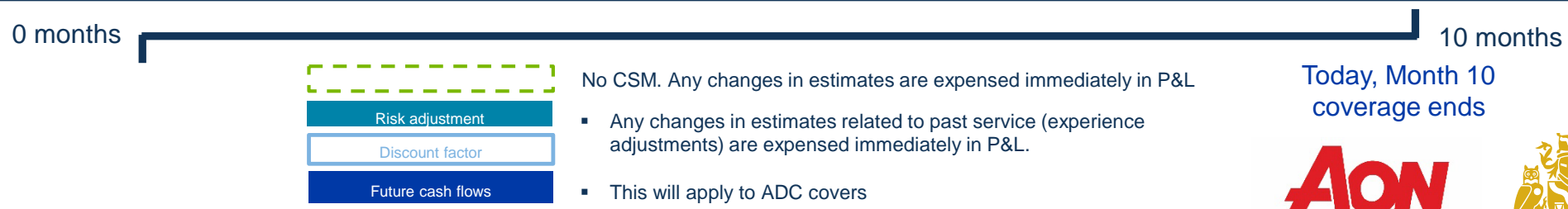
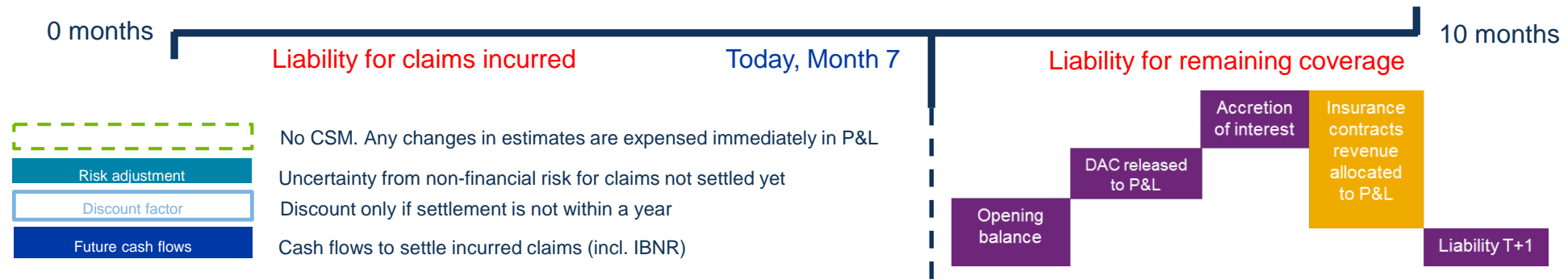
- General Model



- Simplified Model - Premium Allocation Approach (PAA)

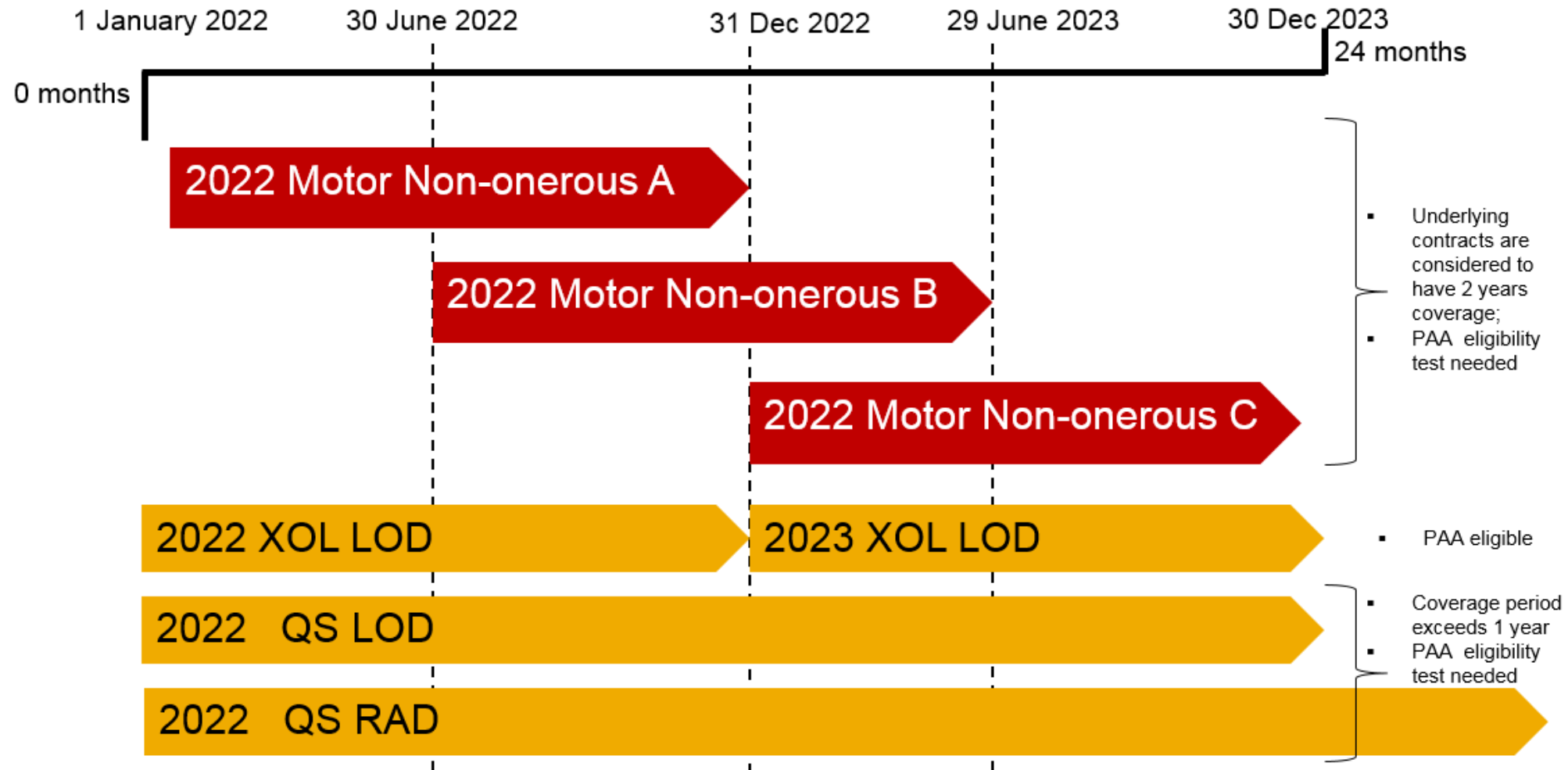


# Premium Allocation Approach (PAA), Overtime



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# Insurance and Reinsurance Contracts Groups



# IFRS 17 Reinsurance Considerations

1

Reinsurance measured separately from direct contracts

2

Length of coverage period is key for PAA eligibility

3

Reinsurance does not qualify for the VFA

4

Reinsurance may not hide onerous direct contracts , depending on the type of reinsurance purchased

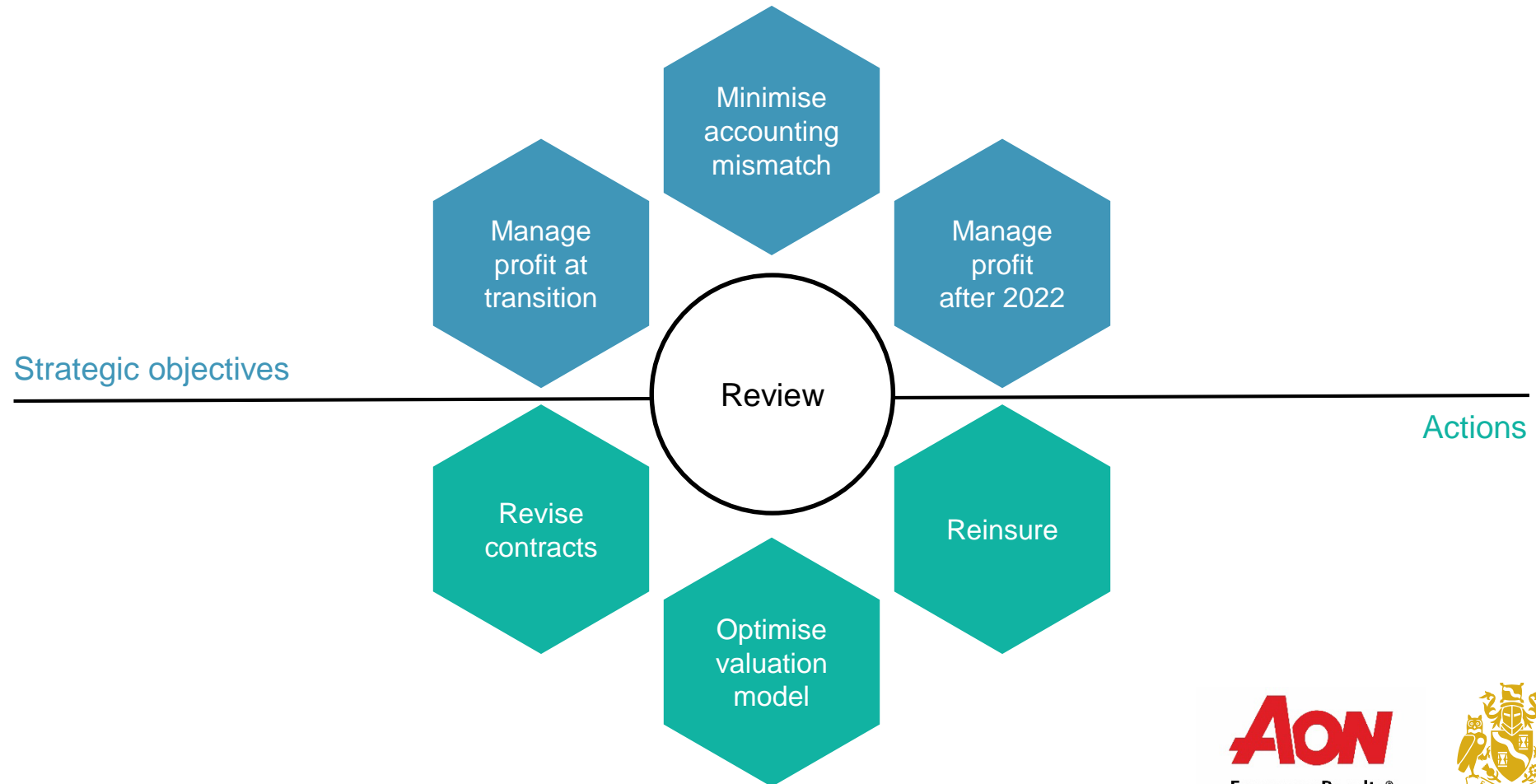
5

CSM of the reinsurance asset works differently

6

Losses from reinsurance can be deferred (except for retrospective covers)

# Reinsurance Strategy in IFRS 17 World



# Objective: Minimise Accounting Mismatch

## Balance sheet

Liabilities		Assets	
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00
Xxxxxxxxxx	000,000.00	Xxxxxxxxxx	000,000.00

### Insurance contracts

IFRS 17	General model	CSM accretion	Locked-in rate
	PAA	LRC accretion LIC discount	Locked-in rate
	Variable fee approach	CSM accretion	Current rate

### Reinsurance recoverables

IFRS 17	General model	CSM accretion	Locked-in rate
	PAA	LRC accretion LIC discount	Locked-in rate



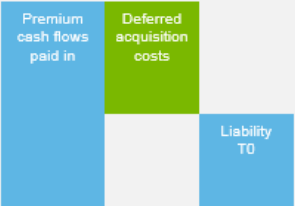
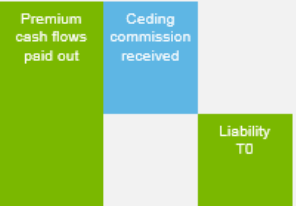
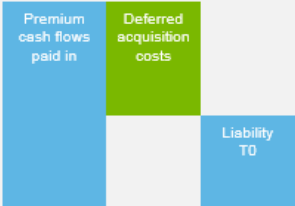


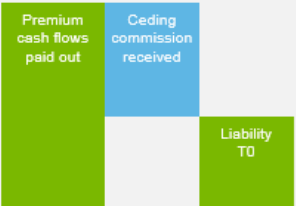
### Financial investments

IFRS 9	Amortised cost	Bonds and loans meeting SPPI test	Locked-in rate
	Fair Value OCI	Equities and others	Current rate
	Fair Value P&L	Derivatives and others	Current rate

Reinsurance mismatch

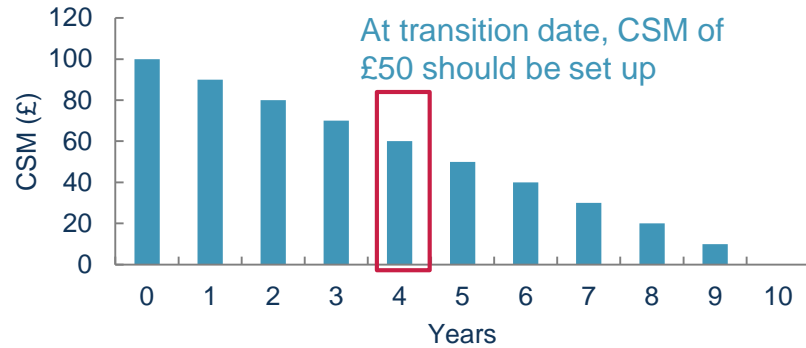
No mismatch in hedging

# Action: Optimise Valuation Model

	Underlying business	Reinsurance cover
<ul style="list-style-type: none"> <li>Different assumptions for cash flows, risk and discount rate</li> <li>Reinsurance CSM can be negative or positive (costs of reinsurance can be deferred)</li> <li>Different profit release patterns based on risk</li> </ul>		
<ul style="list-style-type: none"> <li>No accounting mismatches from the liability for remaining coverage</li> <li>Mismatches still probable from the liability for remaining claims (see first bullet of the above)</li> </ul>		
<ul style="list-style-type: none"> <li>Risk attaching reinsurance contracts may not be eligible for the simplified approach because duration of actual coverage is longer than one year</li> </ul>		
<ul style="list-style-type: none"> <li>Use of two different models will result in greater differences between the values of underlying and reinsurance contracts, even for proportional covers</li> </ul>		

# Objective: Manage Profit at Transition

IFRS 17 CSM pattern in retrospective application



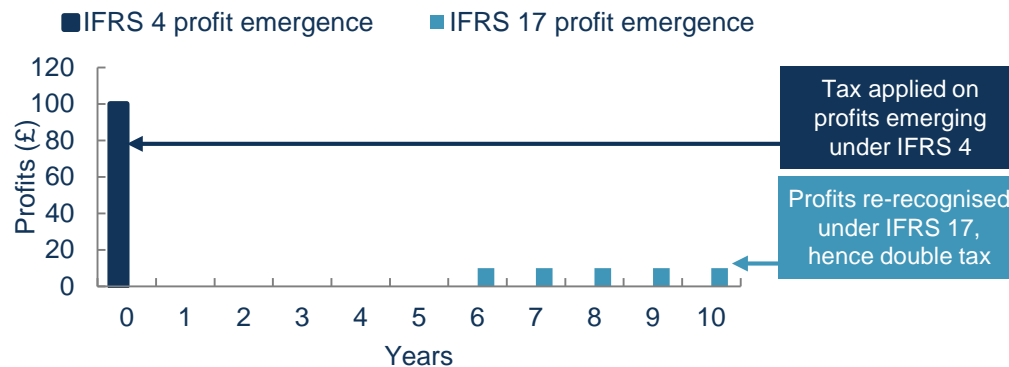
Illustrative problem

Under IFRS 4 insurer had already released profits. At IFRS 17 transition, insurer has a positive CSM, with IFRS 17 profits to be re-recognised. This could cause the following issues:

- Set up of CSM means a decrease in equity under IFRS 17
- Re-recognising profits could result in double taxation

The greater the CSM, the more severe the issue.

Profit emergence of in-force business



Consider the following product:

- Expected profits at inception = £100
- Coverage period = 10 years
- Inception date = Year 0, transition date = Year 5
- Ignore interest accretion for CSM and changes in future services



# Action: Reinsure

- Reinsure the in-force book of business using a quota share structure
- Negative CSM is set up to reflect the net cost of reinsurance
- This offsets the overall net CSM balance
- Example below assumes 100% Quota Share. The lower the %, the greater the CSM amount retained under a net position (and hence the less effective the solution)
- **Outcome:** Net CSM is at transition is extinguished, resulting in the removal of the double taxation issue and reduced equity

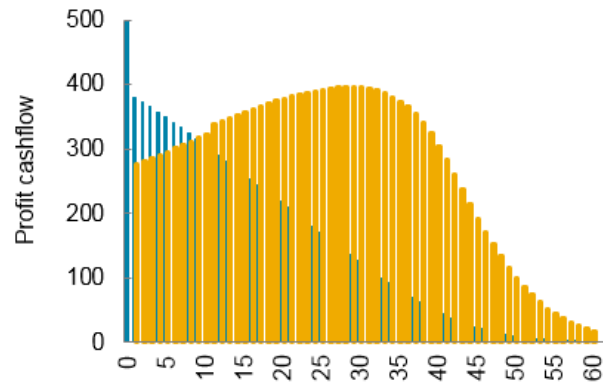
## Illustrative quota share reinsurance structure

Insurer		Reinsurer		Net	
Insurance	£	Reinsurance	£		£
Inflows (Policyholder premium)	-280	Inflows (Recoverables)	-150	Cash inflows	-430
Outflows (claims + expenses) +	150	Outflows (Reins premium)	280	Cash outflows	430
BEL	-130	BEL	130	BEL	0
Risk adjustment	30	Risk adjustment relief	-30	Risk adjustment	0
<b>Insurance CSM</b>	<b>100</b>	<b>Reinsurance CSM</b>	<b>-100</b>	<b>Net CSM</b>	<b>0</b>

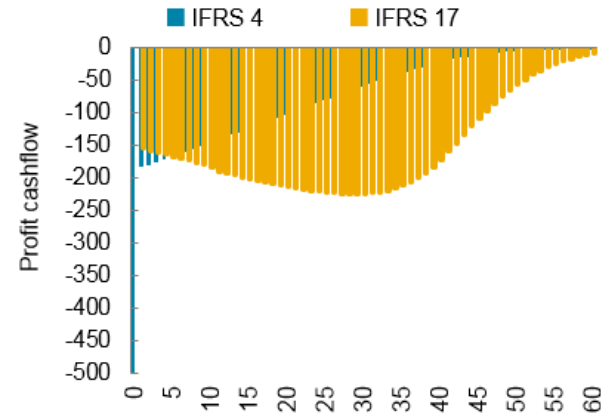
# Objective: Manage Profit after 2022

## Action: Revise Contracts

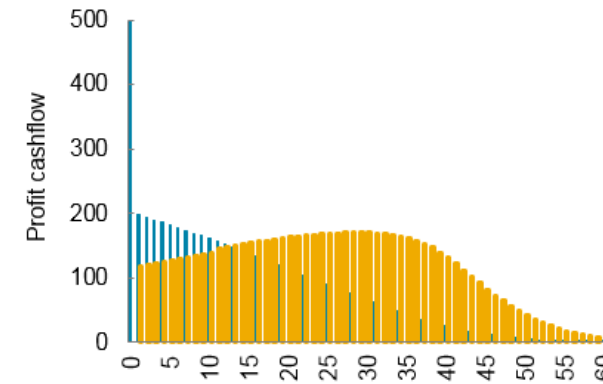
IFRS 4 vs. IFRS 17 Gross



IFRS 4 vs. IFRS 17 Reinsurance



IFRS 4 vs. IFRS 17 Net



### Excess of loss

Excess of loss contracts will not be able to offset losses on the underlying business at initial recognition, while proportional covers will.

### Risk attaching

Profit from reinsurance contracts will be spread over longer period if the cover is risk-attaching as opposed to loss-occurring.

### Termination clauses

Clauses on renewals, notice periods, reinsurer's practical ability to reset the premiums will affect contract's boundaries and the coverage period, and by that, the valuation model and profit amortisation.

### Net cost of ADC cover

Cedant will have to expense immediately in P&L the net cost of adverse development covers (unlike other covers where cost is deferred). May impact pricing.

# How Aon Can Help

## Trainings

- We can propose providing trainings on the standard and its requirements
- The trainings can cover all of the requirements or focus on reinsurance implications

## High level impact assessment

- Using our Aon-developed impact assessment tool, we can help clients understand the impact on gross and reinsurance contracts
- This can be done using minimal amount of data, model points, assumptions

## Alternative reinsurance solutions

- We can propose alternative reinsurance solutions where the results of the impact assessment show that current reinsurance structures are not optimal
- We can then run a quotation program for reinsurance re-capture and purchases

## Tools

- Pathwise
- ReMetrica

# Pathwise™



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# The Pathwise Story

## Speed

30x  
to  
300x



improvement in runtime  
leads to faster decision making

## Proven

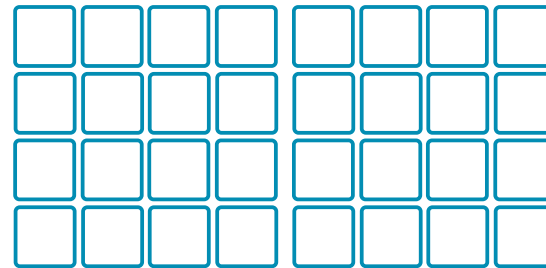
\$500  
billion+



Retirement Product Risks  
managed through **PathWise™**

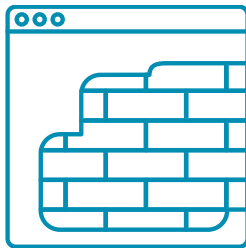
## Scalable

easily scalable to  
**1 million+**  
computational cores



**100%  
code  
transparency**

for increased confidence



## Hedging

Real time  
calculations deliver reduced  
basis risk and improved hedge  
program performance



**90%  
reduction**

in manual  
processing time  
**for actuarial users**



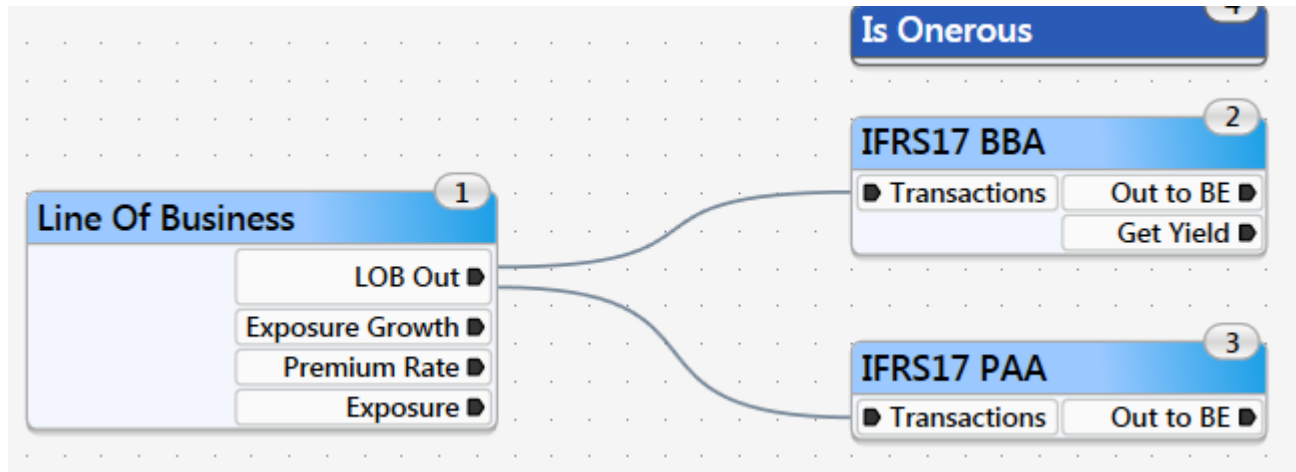
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# ReMetrica™

- 3 components in total, to be released in June/July 2019:
- PAA component
- BBA component
- IFRS 17 Report component
- PAA and BBA are designed to calculate several figures of interest under the reporting framework (see output properties; not finalized yet unit release)
- Can be used for Onerous Liability Testing and Eligibility Testing
- IFRS 17 Report is an integral part of capital modeling once IFRS 17 is “live”
- The IFRS 17 Reporting component is meant to stochastically project the IFRS 17 P&L and balance sheet into the future for better business planning
- Components will be part of standard palette (no additional licensing fee to use components for current licensees)



# 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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