



Institute
and Faculty
of Actuaries

IFRS 17: Where are we and what are the key issues facing the UK and Irish life industries?

Anthony Coughlan & Kamran Foroughi,
members of IFOA Financial Reporting Group

Guest Speaker: Tony O'Riordan, New Ireland & AAE

November 2019

Agenda

- Timeline and June 2019 Exposure Draft
- Focus areas for UK Life products
- International Actuarial Association support
- A perspective on managing implementation



Institute
and Faculty
of Actuaries

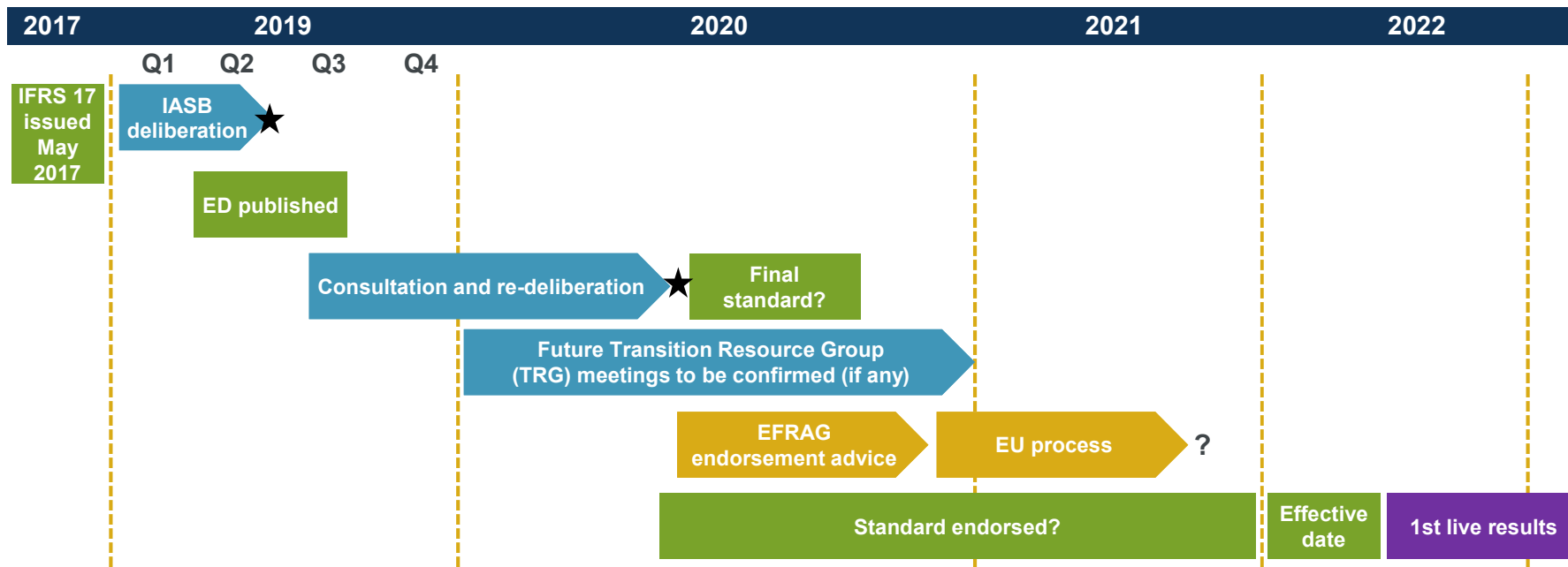


Institute
and Faculty
of Actuaries

Timeline and June 2019 Exposure Draft

November 2019

Planned Timeline – IFRS 17 & EU Endorsement



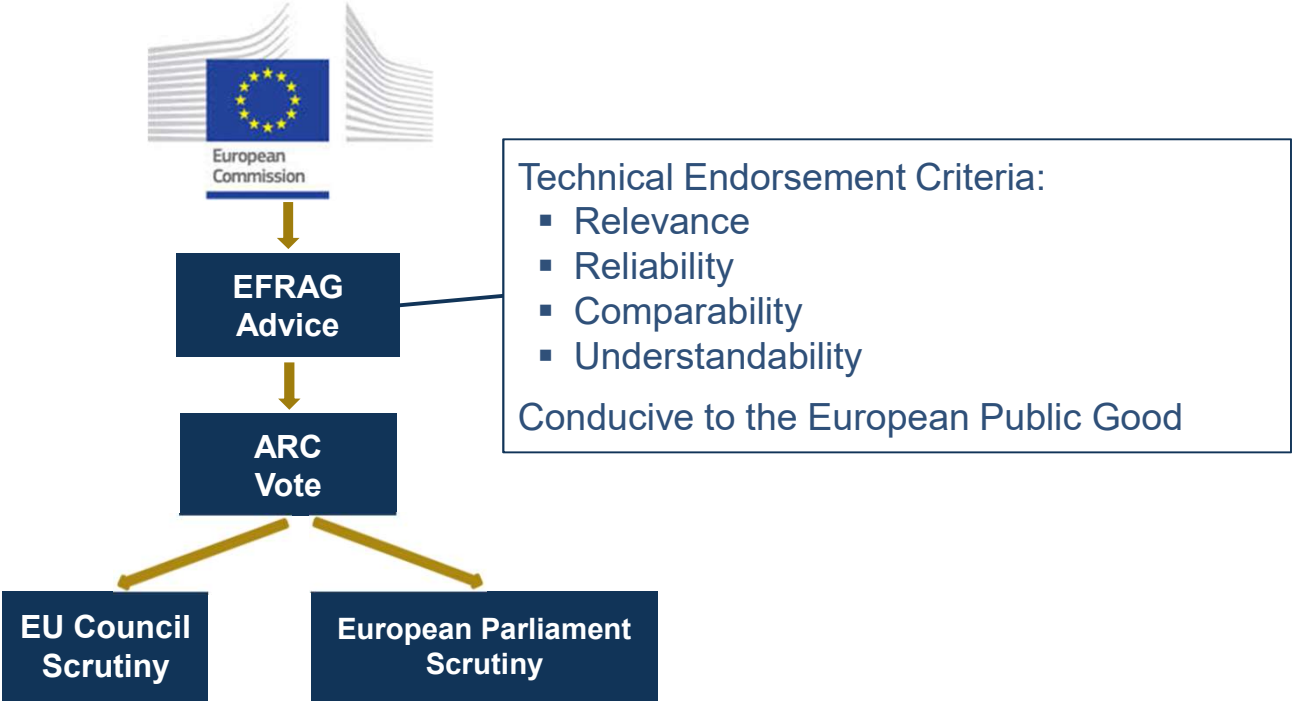
Key: ■ IASB process ■ EU endorsement process

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



Institute and Faculty of Actuaries

IFRS 17 required in the consolidated accounts of publicly traded companies once endorsed by the EU



UK post Brexit

The International Accounting Standards and European Public Limited-Liability Company (Amendment Etc.) (EU Exit) Regulations 2019

- EU-adopted IFRS brought into UK law, frozen at exit day
- National framework for endorsement and adoption of IFRS after exit
- Secretary of State for BEIS provided with delegated powers
- Powers will be sub-delegated to UK IFRS Endorsement Board
- Endorsement criteria similar to EU process



Institute
and Faculty
of Actuaries

ED: Thank you to volunteers helping IFOA response

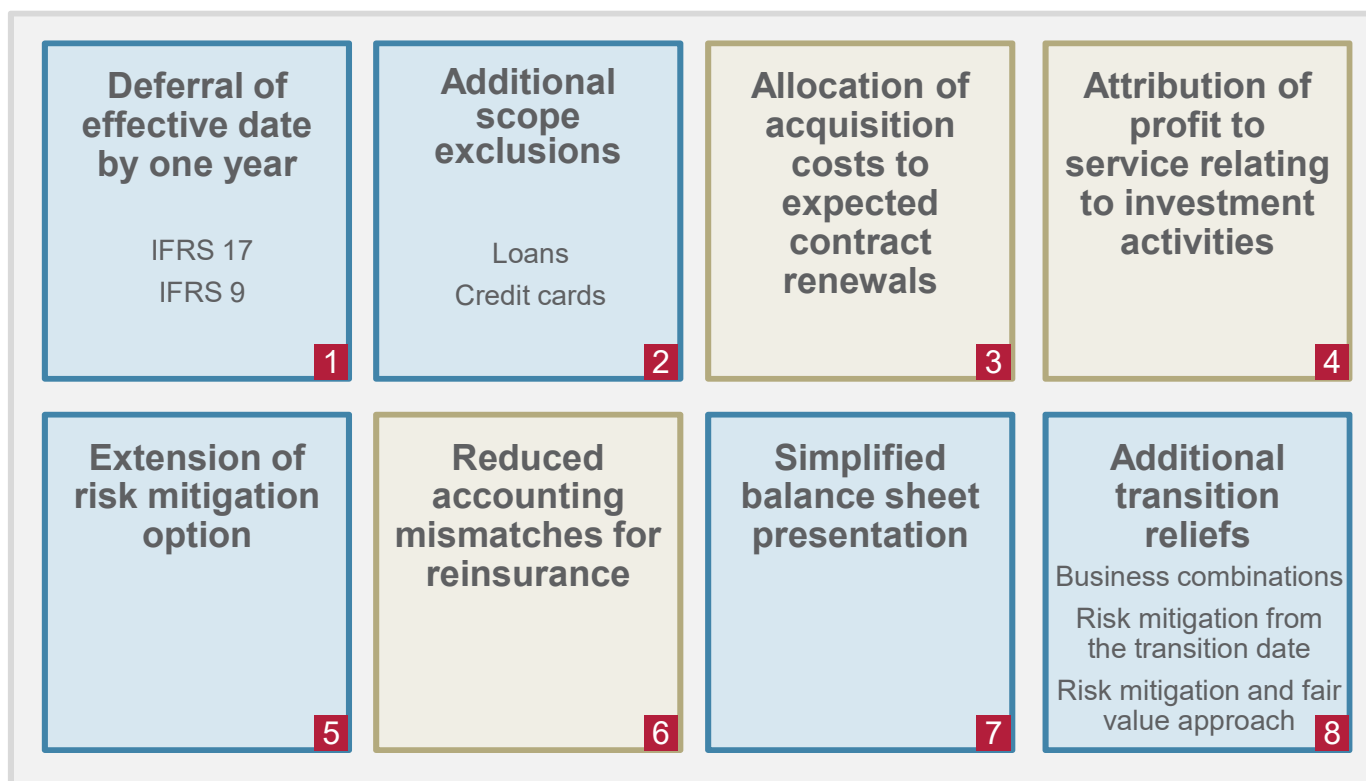
- In particular:

FRG members	Other IFOA members	IFOA staff
Anthony Coughlan	Alice Boreman	Steven Graham
Jamie Grant	Darren Clay	Leisha Watson
Richard Olswang	Lucinda Parlett	Emma Burns
Derek Wright	Wijdan Yousuf	

- And all others who supported including the members of the various IFOA Boards



ED: 12 targeted amendments in 8 areas



Source: IASB Board member Darrel Scott presentation at Staple Inn, 24 July 2019

ED: 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				

Source: IASB Board member Darrel Scott presentation at Staple Inn, 24 July 2019

Comment letters key points outside scope of ED

IFOA	ICAEW	IAA	EFRAG	CFO Forum
With-profits/mutual	With-profits/mutual			
Group & subsidiary	Group & subsidiary		Group & subsidiary	Group & subsidiary
MRA transition	MRA transition		MRA transition	MRA transition
'I-E' tax	'I-E' tax			
Perspective of risk				
		Annual cohorts	Annual cohorts	Annual cohorts



IFRS 17 effective date

Welcome 2022	2022, more for SME / mutual	2022, may need more time	2023
IAA	IFOA	ICAEW	EFRAG
Big 4	Japanese industry	WTW	ABI
EIOPA			“Many” CFO Forum insurers
IAIS			Insurance Europe
Larger insurers: “Some” CFO Forum, 6 HQ outside Europe			Australia / Canada / New Zealand / US mutual

Note:

1. Implications of IFRS 17 deferral on IFRS 9
2. US GAAP recently delayed adoption of its revised long duration measurement model to 2022 L, 2024 SME



Institute and Faculty of Actuaries

Reinsurance accounting

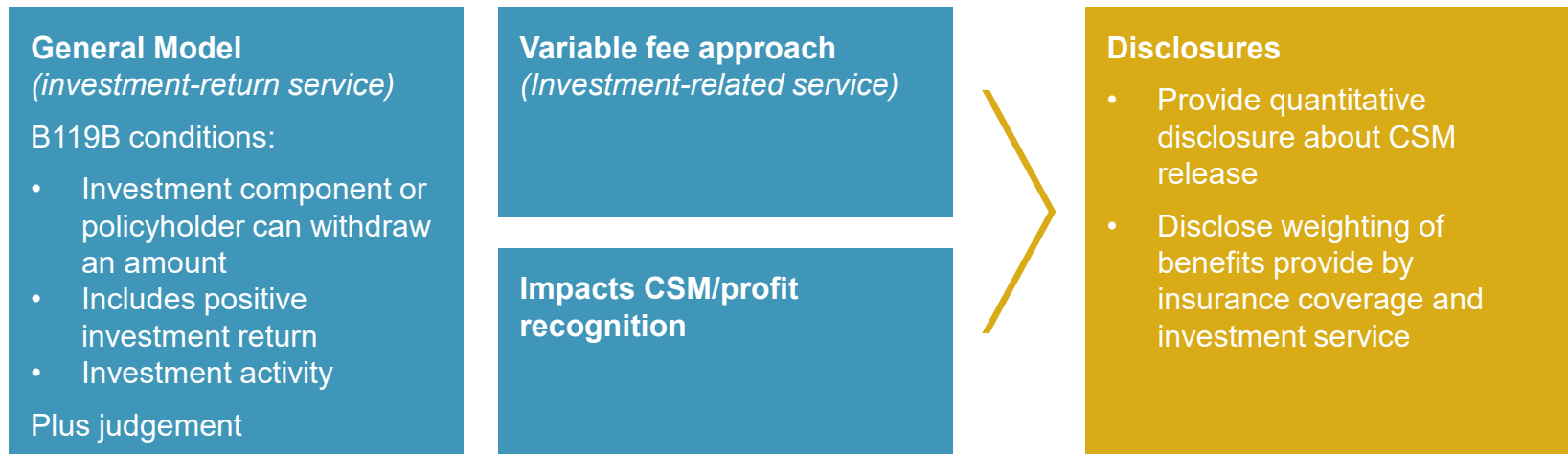
	As originally issued	Proposed amendment
Day 1 – Initial measurement		
Underlying onerous contracts	Losses recognised immediately	
Corresponding reinsurance contract held:	P/L recognised over coverage period (para 65(a))	For 'proportionate' contracts: <ul style="list-style-type: none"> • Reinsurance profit recognised immediately. • Calculated as: Loss on the underlying group multiplied by the percentage of claims the entity has the right to. • Any residual profit or loss is recognised over the coverage period of the contract.
Day 2+ – Subsequent measurement		
Changes to fulfilment cash flows:	Adjustment to reinsurance CSM linked to changes in underlying group (para 66(c)(ii) & TRG).	No change proposed. Applicable to all contracts not just proportionate.

Comments:

- Limited applicability
- 'Unusual' results from prescribed calculation
- Day 1 vs. Day 2+



Investment service & profit recognition



Comments:

- Applicability to deferred annuities
- Multiple services: How to weight between types of insurance coverage and investment service?
- Implications from partial inclusion of investment expenses cash flows



Other areas exposed

Topic	Comments
Scope exclusions	<ul style="list-style-type: none">• Welcome option to account for equity release mortgages under IFRS 9.
Recovery of acquisition expenses over renewal period	<ul style="list-style-type: none">• Primarily GI and welcomed, but 'permit' versus 'require'?
Balance sheet presentation	<ul style="list-style-type: none">• Higher level of aggregation in balance sheet presentation welcomed.
VFA risk mitigation option extend to reinsurance	<ul style="list-style-type: none">• Welcome, but doesn't address other reinsurance issues (e.g. use of VFA) or other types of risk mitigants.
Additional transitional reliefs	<ul style="list-style-type: none">• Limited applicability of 3 additional simplifications.• No general widening of permitted MRA simplification.• No risk mitigation option retrospectively (VFA).



20 November 2019 IASB Board meeting (1)

June 2019 ED amendments proposed to be confirmed by IASB	<ul style="list-style-type: none">• Scope exclusion for loans• CSM for investment service (VFA)• Balance sheet presentation• VFA risk mitigation option extend to reinsurance• Certain additional transition relief
Topics from 2019 ED responses to be considered further by IASB	<p><u>Exposed</u></p> <ul style="list-style-type: none">• Scope exclusion for credit cards• Expected recovery of insurance acquisition cash flows• CSM for investment service (GMM)• Reinsurance contracts held• Effective date (IFRS 17 & 9)• Minor amendments (e.g. group vs contract for VFA eligibility) <p><u>Other topics</u></p> <ul style="list-style-type: none">• Applicability of the risk mitigation option (non-derivatives)• Transition – prohibition from applying the risk mitigation option retrospectively• Level of aggregation – annual cohorts where intergenerational sharing of risks• Business combinations – contracts acquired in their settlement period• Interim financial statements• Additional specific transition modifications and reliefs.• New topics: I-E tax, GAOs, certain parts of the VFA application

e
culty
aries

20 November 2019 IASB Board meeting (2)

'Closed' topics not to be re-considered by the IASB

- Balance sheet presentation – premiums receivable and claims payable
- Risk mitigation option for GMM
- Effective date – comparative information on initial application of IFRS 17
- Level of aggregation (other than on last slide)
- Cash flows in the boundary of a reinsurance contract held
- Subjectivity in determining discount rates and the risk adjustment for non-financial risk
- Risk adjustment for non-financial risk in a consolidated group of entities
- Discount rate used to determine adjustments to the CSM (e.g. locked-in for GMM)
- OCI option
- Business combinations – classification of contracts acquired
- Scope of the variable fee approach (reinsurance held & issued)
- Mutual entities
- Transition – optionality & flexibility in MRA and reliefs in the full retrospective approach

Proposed project plan: Deliberations from December 2019 to February 2020, and finalisation mid-2020.



Institute
and Faculty
of Actuaries







Institute
and Faculty
of Actuaries

Focus areas for UK Life products




November 2019

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





Topic discussed at the Transition Resource Group




Institute
and Faculty
of Actuaries

Current topics for life products (2)

With-profits

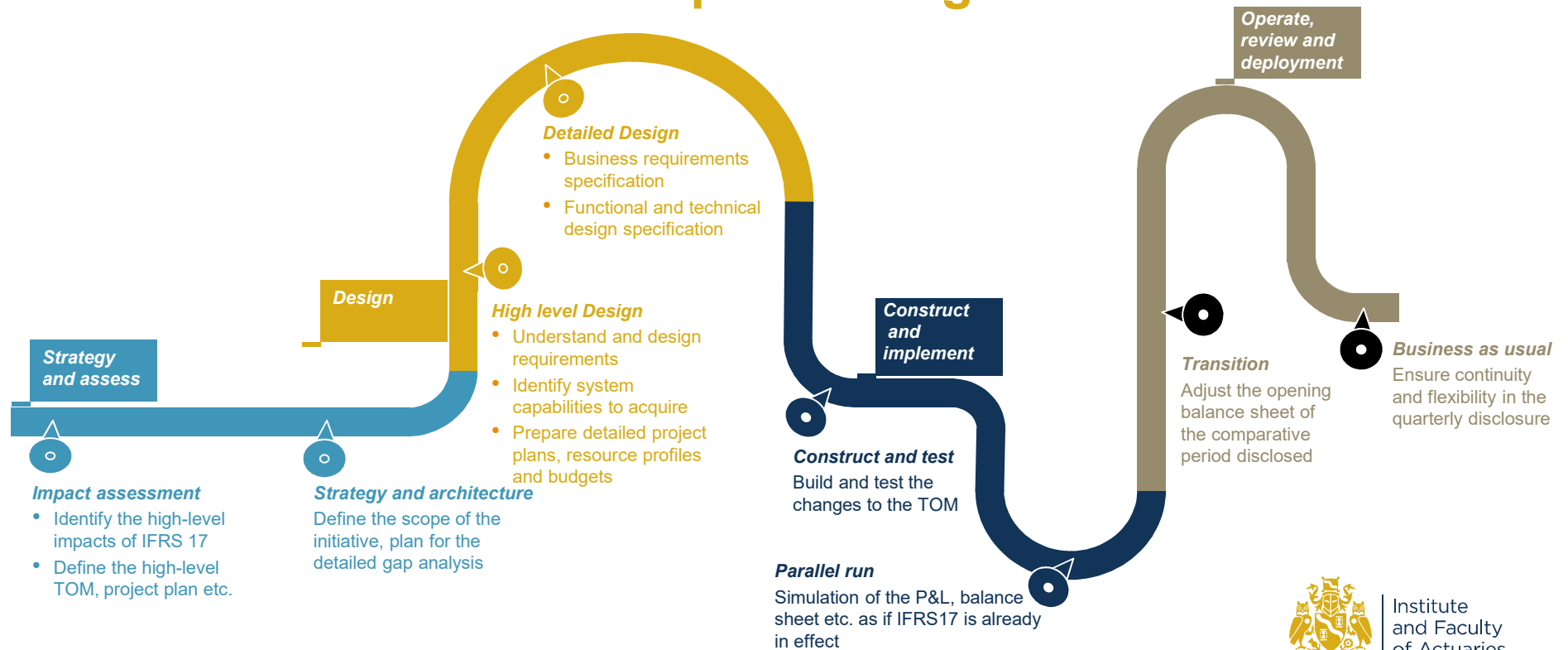
- Eligibility for & application of the VFA 
- Non-profit contracts within funds
- Hybrid (unit-linked/UWP) contracts
- Definition of underlying item and implications
- Impact from different fund arrangements
- Grouping incl. mutualisation 
- Open vs closed funds (incl. equity on transition)
- Illiquidity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



Where are insurers in implementing IFRS 17?





Institute
and Faculty
of Actuaries

International Actuarial Association support

November 2019

IAA IFRS 17 support

International Standard of Actuarial Practice 4:

- Purpose to increase confidence that IFRS 17 related actuarial services are carried out professionally & with due care.
- c10 pages covering: Standards across knowledge requirements, GMM, VFA, disclosures and transition.
- Two exposure drafts (most recently closing in August 2019) with final publication November 2019.
- Implications of IASB revisions to IFRS 17, if any, to be addressed later.

International Actuarial Note 100:

- Non-binding educational document with practical examples (c250 pages). Drafted in helpful Q&A format.
- 15 chapters divided into 4 sections: GMM, Model variations (PAA, participating, reinsurance), Uses of fair value and other related topics.
- Final or 2nd exposure draft for release end of 2019 / early 2020 (to be confirmed this month)

Other publications: Risk Adjustment, Discount rate and Stochastic Modelling monographs

Location: Access via IAA Website (www.actuaries.org) → Publications → IASP or IAN)



Institute
and Faculty
of Actuaries



Institute
and Faculty
of Actuaries

A perspective on managing implementation

November 2019

Challenges in managing implementation (1)

Project management

- Strong manager(s) needed
 - multi dimensional
 - reconciliation of different interests
 - key driver should be preparer priorities
 - resource conflicts
- Ownership and governance structure
- Skilled resource availability and mix (vendors, consultants, contractors, internal)
- Cost
 - getting budget through governance
 - control in complex, multi-year project
- Contracts and licences
- BAU operating model definition, transition

Technical elements

- Interpretations and policy creation
- Data gathering, preparation and storage
- Software – integration with existing architecture
- Cross functional (IT, actuarial, accounting, data)
- Audit considerations
- Group v subsidiary
- Solvency II considerations



Challenges in managing implementation (2)

Stakeholder management

- Education
 - getting up to speed gradually
 - multiple iterations
 - tailor to audience
- Presentation of business progress
 - need for projections
 - identification of KPIs
 - it's not all about profit!
 - return on capital measures
- Strategic implications
- Alignment of business and finance

Dealing with uncertainty

- Projection of IFRS17 profitability and balance sheet
 - but the standard isn't final!
 - are the numbers reasonable?
- Chicken and egg – decision v impact



Questions

Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the IFoA.



Institute
and Faculty
of Actuaries