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IFRS 17

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IFRS 17

- Overview of IFRS 17
- Workshop objectives
- Constructing the IFRS 17 balance sheet
- Aggregation of contracts and onerous contracts
- Discussions and feedback

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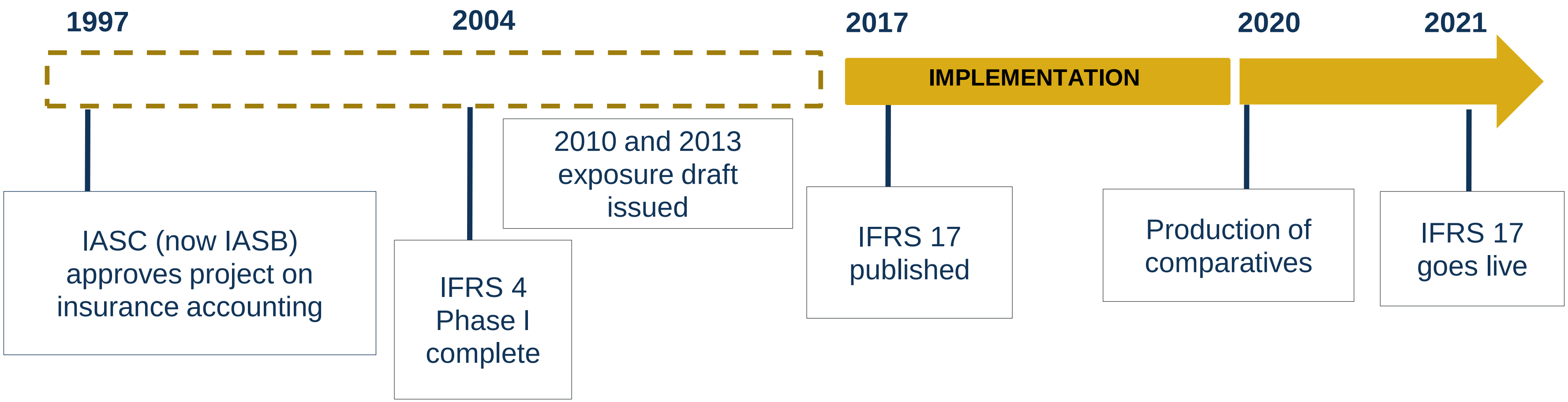
Overview of IFRS 17



- Currently there is no single accounting standard for insurance contracts.
- A range of practices are adopted across different firms/areas.
- IFRS 17 aims to harmonise accounting practices and increase comparability of information for users of financial statements.

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Workshop objectives

Financial Reporting Teams	IT	Actuarial Teams
• Transition • Disclosure requirements • Educating stakeholders • Calculations • Availability of data • Fair value option • De-recognition of previous profits	• Changes to systems • Requirement to store contract groupings and historic financial information	• Assumptions to calculate liability side of balance sheet • Onerous contracts • Level of contract aggregation

- The implementation of IFRS 17 will involve different teams working together.
- Actuarial teams will need to be more involved than under previous accounting standards.
- This workshop will focus on the main areas where Chief Actuaries are likely to be involved

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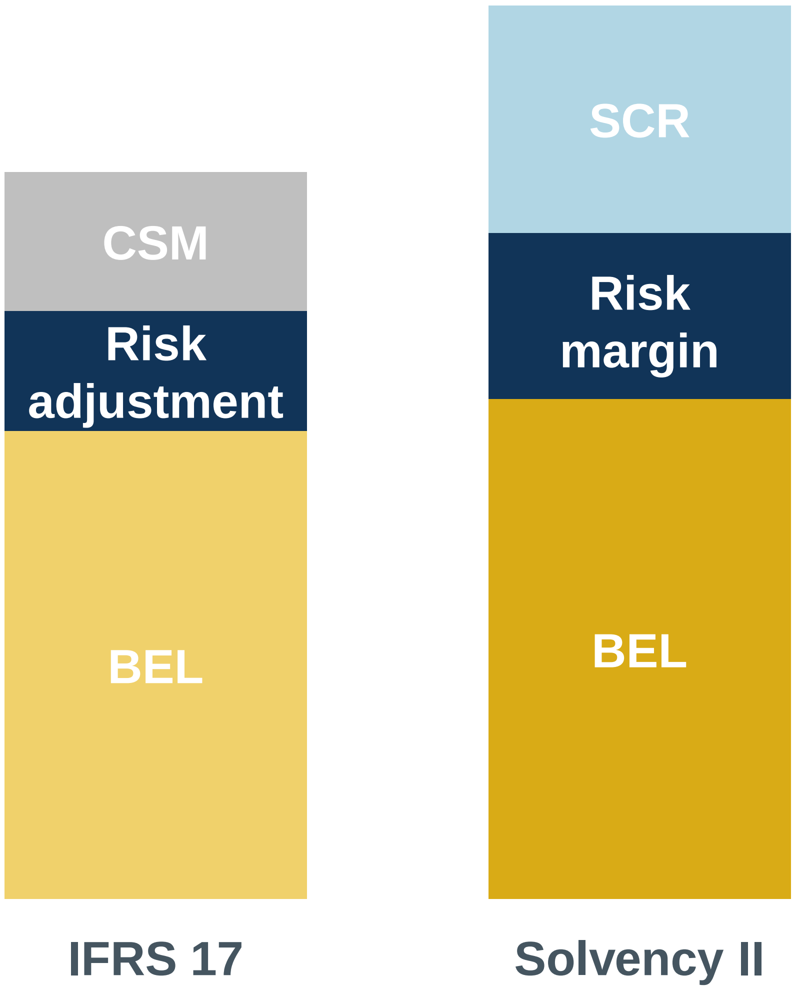
Constructing the Balance Sheet



Diagrams are not to scale

	Solvency II	IFRS 17
Non-financial assumptions	Best estimate assumptions	Best estimate assumptions
Discount rate	RFR + MA or VA (some business lines)	RFR + Illiquidity premium
Risk Margin/ Adjustment	Prescribed cost of capital method	Flexible approach
Profit recognition	Recognised immediately in own funds	Deferred and smoothed

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Calibration and hedging

1. What will be the main differences between IFRS 17 and Solvency II balance sheets?
   - Non-financial assumptions
   - Choice of risk-free rate
   - MA/VA vs illiquidity premium
   - Risk Adjustment methodology and parameters
2. What will hedging programmes focus on?
   - Choice of balance sheet
   - Hedge Risk Margin/Adjustment?
   - No TMTP in IFRS 17
   - Hedge SCR?

Aggregation of contracts

Current standard

	Cohort A	Cohort B	Total
Expected premiums	2,880	3,840	6,720
Expected outgo	(1,250)	(2,800)	(4,050)
Commission	(576)	(768)	(1,344)
Expenses	(400)	(400)	(800)
Profit/loss	654	(128)	526
Reinsurance			
Premium outgo	(1,122)	(2,514)	(3,636)
Expected recovery (95%)	1,188	2,660	3,848
Profit/loss from reinsurance	66	146	212
Net profit/loss day 1	720	18	**738**

- Loss making business is offset by profitable cohorts
- Reinsurance enhances profits due to differences between reinsurance and reserving bases.

IFRS 17

	Cohort A	Cohort B
Expected premiums	2,880	3,840
Expected outgo	(1,250)	(2,800)
Commission	(576)	(768)
Expenses	(400)	(400)
Risk adjustment	(13)	(28)
CSM	(641)	0
Reinsurance		
Premium out	(1,122)	(2,514)
Expected recovery (95%)	1,188	2,660
CSM	(66)	(146)
Net profit/loss day 1	0	(113)

- No offsetting of cohorts/reinsurance
- Risk adjustment reduces CSM

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Figures are for illustrative purposes only

Profit recognition

1. What will be the main differences in profit signatures?
   - No day 1 profit – instead profit is earned over the lifetime of a contract
   - Losses recognised on day 1
   - No offsetting of profitable/non-profitable contracts within a portfolio
   - No offsetting of reinsurance profits
2. What will the impact be on pricing teams?
   - Sensitivity calculations for potentially onerous contracts
   - Greater transparency on pricing and reinsurance structures?
   - Short duration vs long duration contracts?
   - Economics of products not changing?

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Discussions

Q1

- To what extent should IFRS 17 assumptions be aligned with Solvency II?

Q2

- Should pricing and reinsurance structures be changed due to IFRS 17 impacts?

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