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IFRS 17: It is here, but will we make it?

Anthony Coughlan and Kamran Foroughi, IFOA Financial Reporting Group

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Agenda

- Latest IFRS 17 developments
- Timeline for IFRS 17 reporting and KPIs
- IFRS 17 disclosures to date and market reaction
- What lies ahead for insurers to first formal IFRS 17 reporting in 2023?
- UK and International IFRS 17 support

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Latest IFRS 17 developments

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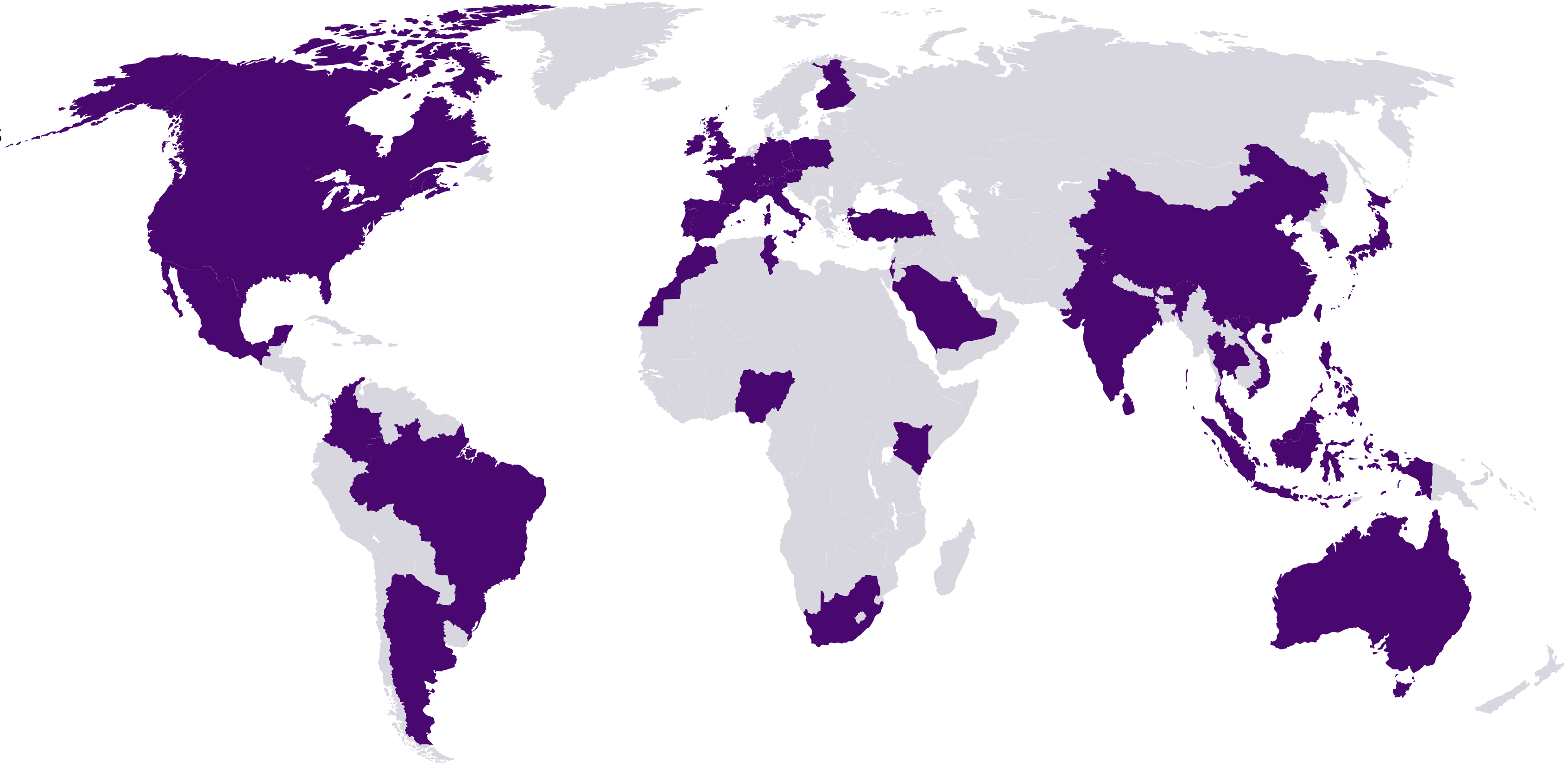
2022 WTW survey of IFRS 17 programmes, conducted April/May

Participants 270 insurers (26 large MNs) in 45 markets/countries from all inhabited continents

Argentina
Australia
Austria
Belgium
Bermuda
Brazil
Canada
China
Colombia
Czech Republic
Finland
France
Germany
Hong Kong
India
Indonesia
Ireland
Israel
Italy
Japan
Kenya
Kuwait
Malaysia
Malta
Morocco
Mexico
Nigeria
Philippines
Poland
Portugal
Saudi Arabia
Singapore
South Africa
South Korea
Spain
Sri Lanka
Switzerland
Taiwan
Thailand
The Netherlands
Tunisia
Turkey
United Kingdom
USA
Vietnam



2022 WTW IFRS 17 survey

Key findings

Programme progress concerning

Disclosures & KPIs

Business as usual concerns

Cost estimate now US $18-24bn

Business implications

Dry-run learnings

Source: 2022 WTW IFRS 17 survey and associated press release 16 June 2022

Biggest challenge to be IFRS 17 compliant by the effective date

Resource availability, IT, systems / tools and data among the major and growing challenges

Challenges	% of the participants 2022	2021
Availability of qualified resources	24%	15%
IT, systems and tools	21%	12%
Data	15%	10%
Methodology	12%	10%
Testing, Validation and Audit	8%	10%
Impact analysis / business implications	7%	10%

Source: 2022 WTW IFRS 17 survey

UK Endorsement Board (UKEB)

- IFRS 17 was adopted for use in the UK from 1 January 2023 , without amendment, on 16 May 2022:
  - IFRS 17 Insurance Contracts (issued by the IASB in May 2017); Amendments to IFRS 17 (issued by the IASB in June 2020); and Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17) (issued by the IASB in December 2021).
- 17 November UKEB IFRS 17 implementation update included two (life) topics based on outreach:
  - Deferred Annuity CSM: *“acceptable compromise”* based on a *“target CSM”*
  - Hybrids: *“ … to the extent the issue is material, insurers have been able to develop models … appropriately.”*
- UKEB will carry out a review of the impact of IFRS 17 and publish its conclusions by 1 January 2028.
  - Note: IASB typically begins a post implementation review c30–36 months after the effective date (so 2025-2026 for IFRS 17).

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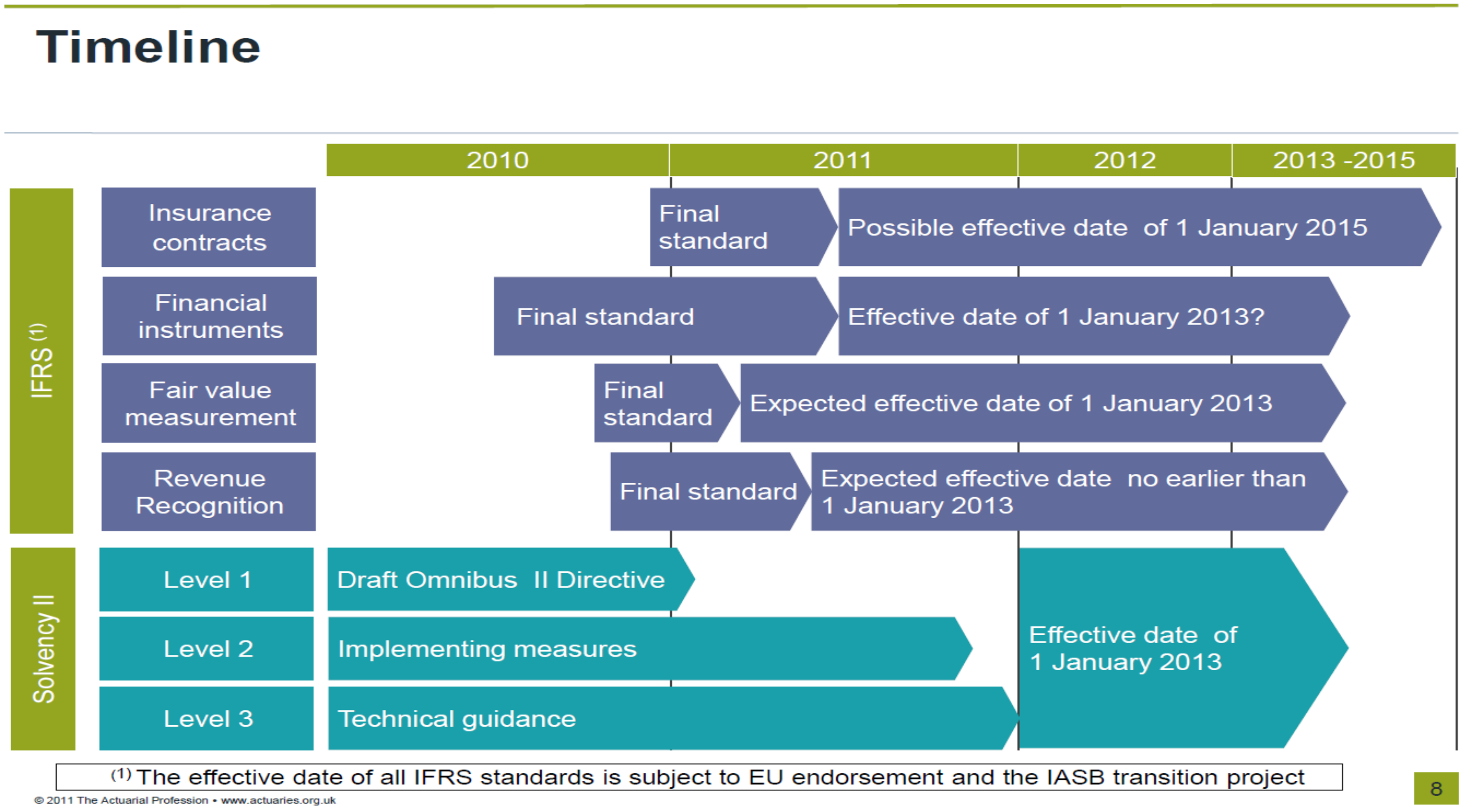
Recall: Sessional research event - April 2011

Insurance accounting: A new era?



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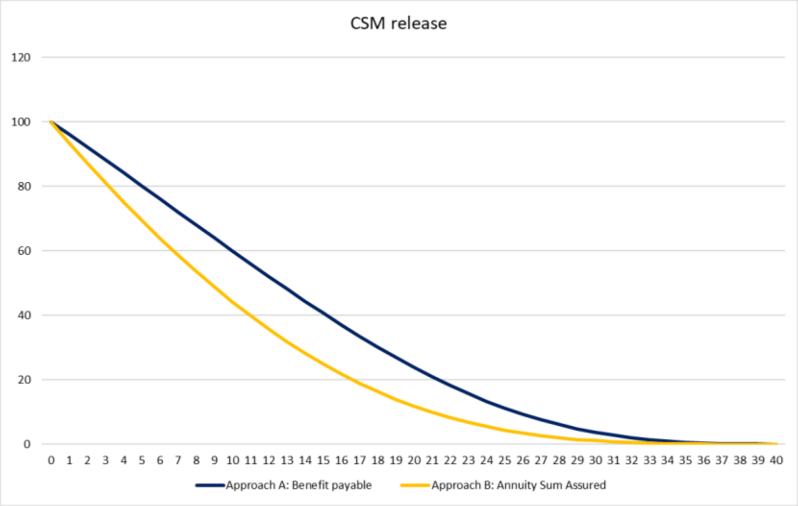
IASB Interpretations Committee (IFRIC)

How is the CSM released (profit emergence) for an immediate life contingent annuity? – June 2022

Immediate annuities

- Initiated by ICAEW letter to IASB (November 2021).
- Two approaches considered (as illustrated adjacent):
  1. "Benefit payable" per 2018 TRG: For a level annuity this results in a level pattern of coverage & CSM release (ignoring discounting).
  2. "Annuity sum assured": Policyholder is buying protection against surviving each year & the Benefit = Payment in period + Remaining payments at the end of the period. Coverage decreases over time as the value of the remaining annuity decreases.
- IFOA (FRG) response to IFRIC consultation: https://www.actuaries.org.uk/system/files/field/document/IFOA%20Response%20to%20IFRIC%20Annuity%20CSM.pdf
- Final IFRIC position is Approach 2 is not permissible: https://www.ifrs.org/news-and-events/updates/ifric/2022/ifric-update-june-2022/
- Why does it matter?
  - Pace of earning profits and impact on distributable reserves?
  - Implications for other products?



Deferred annuities

- Remaining topic of significant market focus is the weighting between investment-return service (deferred period) & insurance coverage (vesting). This was not directly considered by IFRIC.
- What could be permissible weightings/considerations ... Target CSM vs. weighting? Pricing? Reflect TFC/TVs? Expected return? Time? Expected outflows? Cost of service?
- Impact of mixed portfolios (immediate & deferred).

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IASB Interpretations Committee (IFRIC)

September & November 2022

Sept 2022	Interpretation of "similar risks"	Treatment of multi-currency cash flows
Question	Do you consider currency risks when identifying portfolios?	For cash flows in different currencies, how does IFRS 17 and IAS 21 interact?
Answer	• All risk should be considered • 'Similar' does not mean 'identical'	• Accounting policy choice • Certain interactions with CSM and OCI

Nov 2022	Submission on accounting for premiums receivable via an intermediary (IFRS 17 vs IFRS 9)

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New HMRC rules on adoption of IFRS 17

Main areas where IFRS 17 can impact the tax position of an insurer:

1. **Transition (new HMRC rules):**
   - Impact of adopting IFRS 17 as at 1/1/23 will be brought into tax in 2023 except for life business where the transitional amount will be spread over 10 years (straight line) – new HMRC rule !
   - New rules apply for those moving from IFRS 4 or UK GAAP to IFRS 17 and will apply whenever IFRS 17 is adopted.
   - Legislation to implement the spreading rule due to be substantially enacted in Q4 2022.
   - Potential for substantial deferred tax balances in 1/1/23 especially for annuity business.

2. **Deferred tax asset (DTA) recognition:** From 2023, where DTAs are supported using future profit forecasts this will be based on IFRS 17 forecasts. IFRS 17 forecasts cannot be used as at 31/12/22, but the impact would need to be disclosed in the 2022 accounts, if material.

3. **Tax in IFRS 17 fulfilment cashflows (BEL):** IFRS 17 requires certain taxes to be included/excluded in the cash flows. Policyholder tax arising on BLAGAB business is more complex and requires judgements on whether the tax is "specifically chargeable" to the policyholder.

Other matters:

- **Comparatives** will also need to be restated for tax as for other amounts. Tax balances up to the point that new legislation is enacted will be based on the existing rules that do not include spreading (so specifically, IFRS 17 comparatives at 1/1/22 and HY22 will be on the 'old' tax rules).

- **IFRS 9** - The tax impact of IFRS 9 will also be spread over 10 years for tax purposes.

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Timeline for IFRS 17 reporting and KPIs

Timeline for external market disclosure

2021	2022	2023	2024

IFRS 17 and IFRS 9 Timeline

- **1/1/22** IFRS 17 transition
- **Q4 2022 Investor Comms**
- **FY 22 Annual report**
- **1/1/23** IFRS 17 live
- **Q1 2023 Investor Comms**
- **Q2 2023 First interim (HY23) IFRS 17/9 report**
- **FY 23 First Annual IFRS 17/9 report**
- **Early 2024** Preparation and communication of IFRS 17 and IFRS 9 results

LTIPs

Timing and extent of IFRS outputs required for Long-Term Incentive Plan calculations.

Investor Comms Q4 2022

- Narrative disclosure on key messages on transition & future state.
- Extent of numerical disclosures: range or indications for NAV (1/1/22), future earnings & dividend / capital impacts (incl. KPIs)?

2022 Financial Statements

- IAS 8 minimum requirements vs. full 2022 comparative position (OBS, I/S, FY22 BS).
- 1st public comparison to peers.

Investor comms Q1 2023

Will depend on prior disclosures:
- 1/1/22 and FY22 comparatives in advance of HY23.
- Comparison to IFRS 4 & Solvency II to aid generating market consensus for 2023.

Interim reporting Q2 2023

- 2022 comparative position (including HY22) required to the extent not disclosed already
- Minimum interim disclosures vs. fuller set of financials

2023 Financial Statements

- Full IFRS 17 and IFRS 9 accounts and comparatives.
- Additional disclosures for first time adoption of IFRS 17 and IFRS 9.

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Focus on IAS 8 disclosure at FY22

IAS 8 requires disclosure of "known or reasonably estimable information" on the possible impact from IFRS 17 and IFRS 9 in the period of initial application.

What does this mean in practice for disclosures for FY22 reporting (in March 2023)?

It will dependent on specific facts and circumstances of each insurer, but what might/will be disclosed:

- Disclose that IFRS 17 / IFRS 9 has not yet been applied
- Information about the structure & status of implementation
- Description of the key judgements / polices /estimates made for IFRS 17 implementation
- Quantification of the expected impact e.g.:
  - 1/1/22 NAV impact and other related balances?
  - Range vs estimate?
- Estimated quantum or qualitative explanation of the effect on key metrics (e.g. operating profit, solvency etc.)?
- Any quantitative or qualitative information as at FY22 or P&L over 2022?

IAS 8 disclosure are in scope of audit !

ESMA "recommendations" on IFRS 17 disclosure (May 2022):

2022 IFRS annual financial statements:

28. ESMA notes that the annual financial statements for 2022 will be published after IFRS 17 becomes effective. Consequently, ESMA expects that the 2022 annual financial statements provide the quantitative impact of the application of IFRS 17 and explain the changes compared to the amounts reported under IFRS 4, disaggregated as appropriate. The quantification of the impacts may include (but is not limited to) the expected impact on issuer's equity and the size of the CSM at the transition date of 1 January 2022 and at the initial application date of 1 January 2023 as well as profit or loss for the comparative period 2022.

29. For the purpose of the 2022 annual financial statements, ESMA recommends that issuers incorporate the considerations in paragraphs 18-22 of this Public Statement. Moreover, ESMA expects that the information already provided in the 2022 interim financial statements will be further developed and elaborated on, considering the actual implementation of IFRS 17.

HSBC Group R&A IFRS 9 extract at FY17 (page 187):

Transitional impact

With the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017, the requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. IFRS 9 includes an accounting policy choice to continue IAS 39 hedge accounting, which HSBC has exercised, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. HSBC does not intend to restate comparatives. For the consolidated financial statements of HSBC, adoption is expected to reduce net assets at 1 January 2018 by \$1.0bn, with the classification and measurement changes increasing net assets by \$0.9bn and impairment reducing net assets by \$2.2bn, net of deferred tax of \$0.3bn. As a consequence, common equity tier 1 capital is expected to increase by \$1.2bn, applying regulatory transitional arrangements, and by \$0.2bn on a fully loaded basis. For the separate financial statements of HSBC Holdings, adoption is expected to increase net assets at 1 January 2018 by \$0.9bn, net of deferred tax, as a result of classification and measurement changes. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2018.

How may KPIs evolve under IFRS 17?

Existing KPIs that will be impacted

- *Adjusted operating profit:*
  - Different adjustments are likely to be required compared to today (e.g. IFRS 17 ‘mismatches’), but balance between economics & complexity.
  - Margin-based analysis of results likely to be retained (with different explanatory items).
- *Earnings per share (EPS) & Return on equity (ROE):* Expected to remain key, but may be rebased or further adjusted given impact from transition to IFRS 17 (e.g. CSM)
- *Reconciliations of IFRS equity to Solvency II own funds:* Similar to today, but different explanatory items. Likely to be an important anchor.

Existing KPIs that may be unaffected

- *Cash / dividend / free surplus metrics:* Similar level of focus to today. Impact from IFRS 17 (if any) will depend on legal entity position.
- *Solvency-based (e.g. ratio) metrics:* Similar level of focus to today also. May be second order IFRS 17 impacts.

Potential new KPIs & disclosures

- *New business CSM:* Comparison to VNB metrics today based on Solvency II? Extent of adjustments (e.g. reinsurance, onerous, investment contracts etc.)?
- *CSM analysis of movements and maturity analyses:* To demonstrate the expected release of future CSM into profits & ability to replenish (e.g. ‘stock’ of value). At what level of granularity?
- *Insurance contract revenue:* How will this be used versus GWP or PVNBP today (if at all)?

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IFRS 17 disclosures to date and market reaction

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Timetable of Life / composite large insurers' publications to date which (will) include mention of IFRS 17

Companies publishing some info on IFRS 17	Date of publication / expected publication
HSBC and Lloyds Banking Group	25 and 28 October 2021
Canada Life, Manulife and Sun Life of Canada	April 2022 joint and May/June 2022 individual
Munich Re	9 August 2022
Prudential	10 August 2022
Zurich	27 September 2022
AIA	1 November 2022
AXA	3 November 2022
SCOR	9 November 2022
Allianz	22 November 2022
Ageas / Generali / Aegon / Munich Re	December 2022

Others plan disclosures in 2022 but have not yet publicly disclosed date

Source: Kamran's analysis of company publications and communications to analysts / investors

Examples of insurers' IFRS 17 communications

ZURICH

GROUP

Key messages

ZURICH

No major impact given nature of our business	Adoption of IFRS 17 not expected to significantly change the Group's earnings; ~75% of Group BOP is either unaffected or subject to the simplified approach (PAA)
Shareholders' equity impacts	Classification of risk adjustment and Contractual Service Margin (CSM) as liabilities, partially offset by other adjustments
Limited changes for P&C	P&C accounting will primarily be based on the PAA, with limited changes versus IFRS 4, bringing better comparability across lines of business
Improved Life disclosures	Overall earnings level remains largely unchanged. However, profit signatures may vary from IFRS 4. IFRS 17 will improve visibility on profit emergence
Farmers largely unaffected	Farmers' fee business unaffected by IFRS 17; Farmers Life and Farmers Re will be treated consistently with the Group's Life and P&C businesses, respectively
Cash and capital generation remain strong	No impact on cash remittances and SST ratio. No change to dividend policy

September 27, 2022 IFRS 17 at Zurich 2

AXA

Key accounting choices ensuring continuity and limited volatility in earnings

	Alternative Options	AXA's choice	Rationale
Discount rates	**Top-down approach** *Portfolio yield less allowance for unexpected losses*	**Bottom-up approach** *Risk-free rates + illiquidity premium*	▸ Framework similar to Solvency II
Changes in discount rates (excl. VFA)	**Through P&L** *Changes in rates to be recorded '1 for 1' in P&L*	**Through OCI** *Changes in rates to be recorded in OCI then amortized in P&L over time*	▸ Mitigation of earnings sensitivity to market rates
Risk Adjustment	**No prescriptive approach**	**Percentile Approach** *Risk Adjustment based on 62.5th-67.5th percentile*	▸ Approach reflects adequate level of prudence on underlying reserves
Measurement of listed Equity investments	**Fair Value through P&L** *Mark-to-market and realized gains/losses to flow through P&L*	**Fair Value through OCI** *Mark-to-market to flow through OCI, with no recycling in P&L*	▸ Mitigation of Net Income sensitivity to movements in equity markets
Transition approach	**3 Transition approaches** *Full/modified retrospective, or fair value approach*	**Retrospective approach ca. 80% of L&S** *Fair value approach ca. 20%*	▸ Default approach used across L&S ▸ Fair Value used only on a limited basis to manage risk of onerous contracts

Manulife

Manulife

Key *implications* of IFRS 17 on Manulife's financial results and KPIs

1. A **CSM will be established on in-force business** at transition, which will **represent unearned profits. The CSM will be treated as available capital under LICAT**[1]. The transition impact of the standards is expected to lead to a decrease in equity of approximately 20%.
2. Our **growing and profitable insurance sales** will drive CSM growth, which will be an important contributor to **future core earnings growth.** Given the importance of the CSM, **we will establish "new business CSM" and "CSM balance growth" targets.**
3. Upon transition, **core earnings are expected to decline by approximately 10%**, driven mainly by the recognition of new business gains in the CSM and the timing of earnings from investment-related activities
4. We expect IFRS 17 to improve the stability of both core earnings and net income
5. Our capital position will remain strong under IFRS 17 and we expect our LICAT ratio to be more stable
6. Some of our **medium-term financial and operating targets will be increased** upon transition, and we are **confirming the remaining targets**
   - Core ROE target will increase to 15%+
   - We do not anticipate material changes in remittances. As a result, there is no expected impact to the dividend or its trajectory upon transition, and the dividend payout ratio target range will increase to 35% – 45%

4 Note: See "Caution regarding forward-looking statements" above. [1] As indicated in OSFI's revised draft *Life Insurance Capital Adequacy Test (LICAT)* 2023 guideline issued on June 21, 2021.

SCOR
The Art & Science of Risk

Content

- a SCOR has retained the Building Block Approach in IFRS 17 for its businesses
- b IFRS 17 captures the Economic Value of SCOR's portfolio, closely aligned with Solvency II
- c CSM and shareholders' equity define the IFRS 17 Economic Value
- d IFRS 17 Insurance Revenue is a better reflection of the volume of insurance risk exposure
- e IFRS 17 technical profitability is a key indicator of the conversion of Economic Value into shareholders' equity growth
- f Different impacts on technical profitability for P&C and L&H in the transition
- g SCOR is on track for the transition to IFRS 17

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General messages from Life IFRS 17 disclosures to date

- No significant plans to run business differently as a result of IFRS 17
- No change to Solvency II capital (UK and EU HQ insurers)
- No change to dividend paying capacity (so far)
- Impact on Transition Equity and Profits depends on existing IFRS 4 method and transition approach
- Adding CSM to IFRS equity gives a measure of Economic Equity
- CSM roll forward analysis helpful for “investment story”
- Choice of KPIs unchanged
- Definition of IFRS related KPIs varies by company e.g. add back / do not add back CSM

Analysts’ reactions to recent IFRS 17 publications

AXA 3 November 2022

Andrew Crean (Autonomous): “AXA's bean counters are to be congratulated on a really clear explanation of IFRS 17 - even I could understand it (I think?)…On top of this, the new way of life reporting reverts back in many ways to the old EV methodology (hooray!). Life reporting should be more insightful and results more stable. Over time this should contribute to a higher multiple for life after two decades of devaluation. For AXA, the continuity between IFRS 4 and IFRS 17 and the maintenance of the old targets for 2023 is all part of the new paradigm - no drama.”

Andrew Sinclair (Bank of America): “Little impact from IFRS 17: Targets reaffirmed. AXA released its [IFRS 17] materials...and the message is comforting.”

Zurich 27 September 2022

Andrew Ritchie (Autonomous): “there were messages in their presentation of relevance more broadly to peers and the sector which, on balance, were reassuring in our view. Probably, most importantly, we were reminded that IFRS 17 is closer to an 'economic' view which will mean the transitional impact on equity is much less dramatic than feared (with this year's rise in interest rates). The approach to leverage, appears pragmatic, and there are plenty of features of the new regime to 'manage' operating profit volatility.”

Themes / Q&A from Kamran's investor training sessions

November 2021 Autonomous training for investors	Ad hoc discussions with investors	November 2022 Autonomous training for investors
• Will this increase focus on IFRS or Solvency II metrics for value, cash? • Understanding transition impacts on equity and profit • Understanding of programme costs by year • Any production synergies? • Possible impact on business incl. M&A, products, pricing	• Focus on business strategy • Implications of inflation / credit / economic shocks? • Greater focus on costs? • How will transformational / process benefits arise?	[Planned for 21 November 2022]

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What lies ahead for insurers to first formal IFRS 17 reporting in 2023?

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What are the likely key challenges in 2023 and thereon?

Immediate

- Dealing with ‘crunch’ in H1 2023 (resource capacity, time & volume)
- ‘Finalisation’ –
  - Remaining judgments and optimisation
  - Data and E2E systems challenges
  - Dealing with the ‘unexpected’
  - Audit !
  - Explaining IFRS 17 movements (HY22 and FY22)
  - Extent of external disclosure (narrative & tabular)
  - Impact of recent macroeconomic conditions
- Evolution of story to the market

Longer-term

- ‘Living with’ IFRS 17 –
  - Transitioning to ‘BAU’ and resource redeployment
  - Remediation after Day 1 and extracting value (tactical/hybrid -> strategic)
  - Ongoing tracking/maintenance of implementation simplifications
  - Increasing alignment on key judgements over time?
  - Implication for business (ALM, pricing, reinsurance)
- Post Implementation Reviews (IASB, UKEB, EU)
- Future of UK GAAP?

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UK and International IFRS 17 support

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UK and International IFRS 17 support

UK resources:

- IFRS 17 Life Long Learning: https://www.actuaries.org.uk/learn-and-develop/lifelong-learning/lifelong-learning-ifrs-17
- Financial Reporting Group: https://www.actuaries.org.uk/practice-areas/financial-reporting-group
- IFRS 17 Discount Rate working party: https://www.actuaries.org.uk/practice-areas/life/research-working-parties/ifrs-17-future-discount-rates
- IFRS 17 CSM working party: https://www.actuaries.org.uk/practice-areas/life/research-working-parties/ifrs-17-contractual-service-margin-csm
- IFRS 17 Transversal: https://www.actuaries.org.uk/practice-areas/life/disbanded-research-working-parties/ifrs-17-transversal

IAA resources:

International Standard of Actuarial Practice 4 (ISAP 4):

- Purpose to increase confidence that IFRS 17 related actuarial services are carried out professionally & with due care.
- c10 pages covering: Relevant knowledge requirements, GMM, VFA, disclosures and transition.

International Actuarial Note 100 (IAN 100):

- Non-binding educational document with practical examples (c250 pages). Drafted in helpful Q&A format.
- 17 chapters divided into 5 sections: GMM, Model variations, Uses of fair value, other related topics and presentation & disclosure.

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

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

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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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Thank you

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