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Grant Thornton

IFRS 17 – The Bigger Picture

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Agenda

Overview of operational impacts

Departmental view of operational impacts:

- Finance
- IT
- Planning
- Tax
- Internal audit
- Risk & compliance
- Reinsurance
- Executive remuneration
- Underwriting

Preparing for 2023



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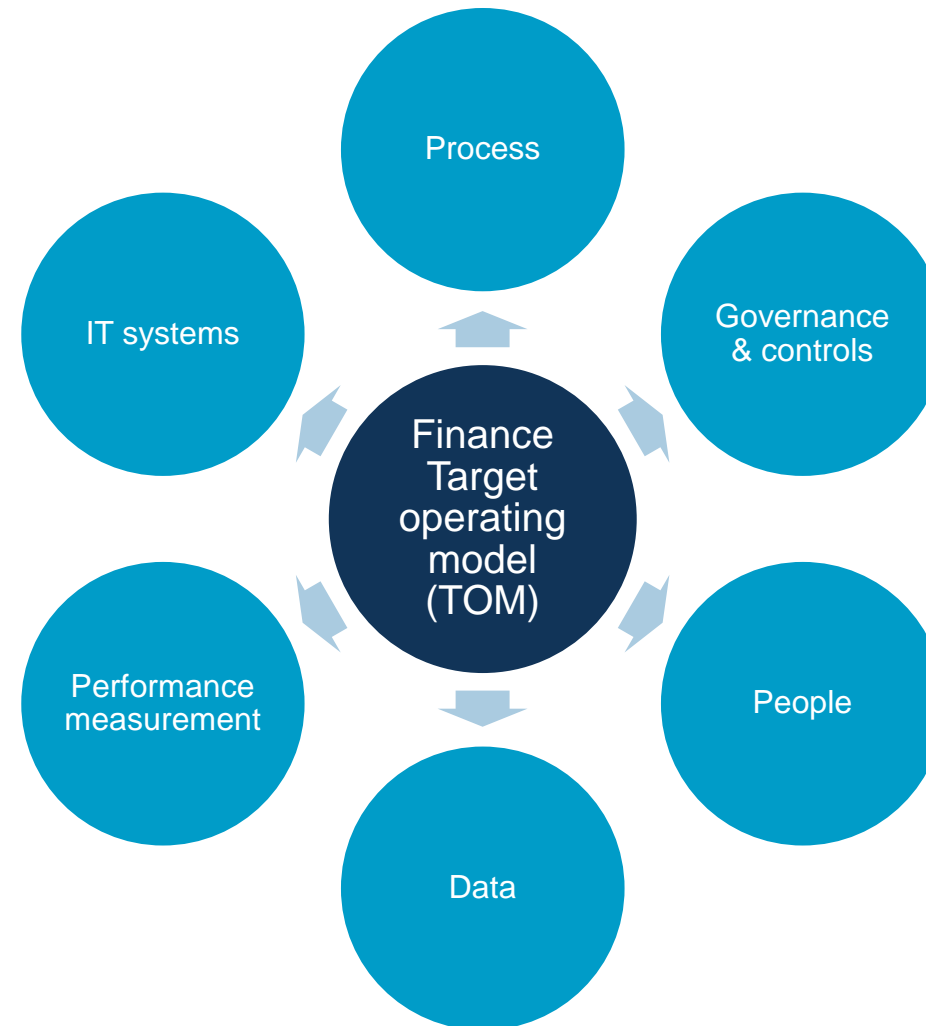
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Operational impacts

Overview

Target operating model

IFRS 17 has created an opportunity to consider transforming the company's finance target operating model:



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Helicopter view of impact of IFRS 17 on entire business

Extensive

- Accounting & reporting
- Actuarial reserving
- IT and Data

High

- Product strategy
- Pricing strategy
- Loss reserve management
- Financial planning and analysis
- Management reporting

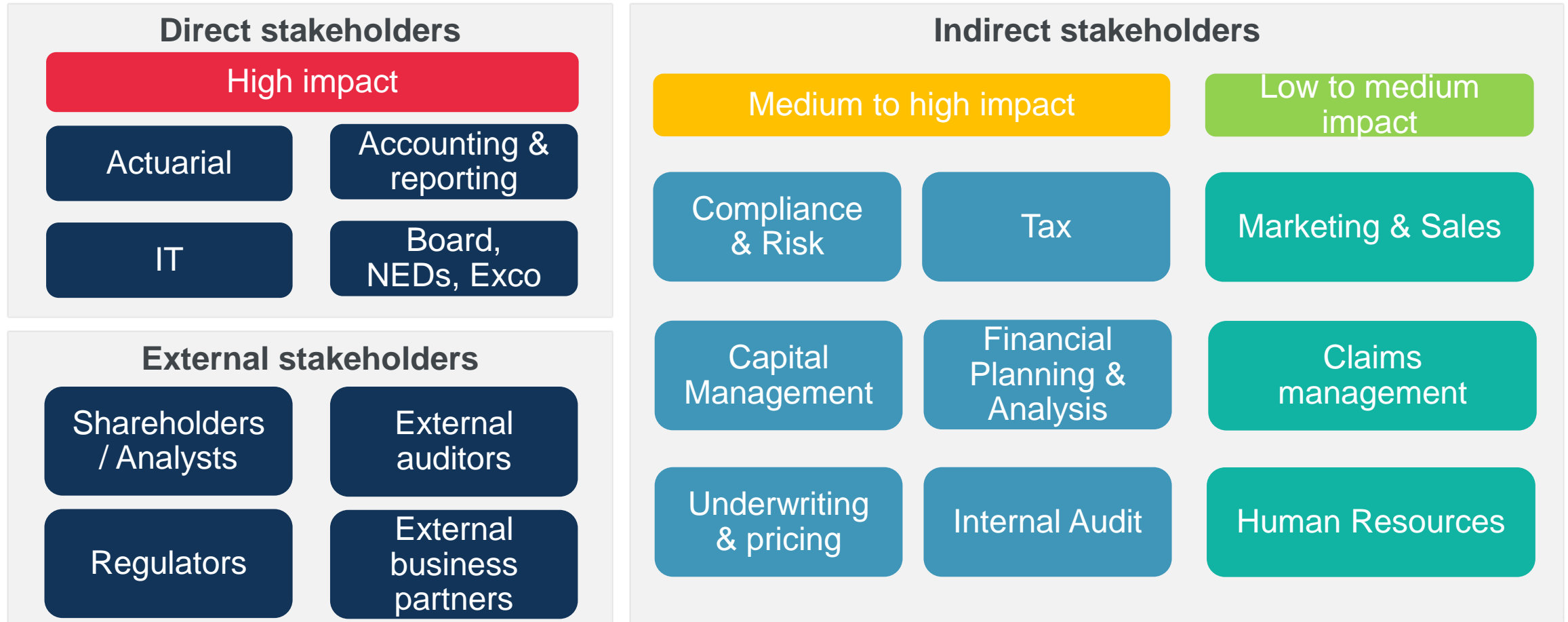
Medium

- Product development
- Underwriting
- Internal audit
- Risk, compliance & legal
- HR, training & education

Minor

- Distribution & sales
- Customer insight
- Marketing
- Claims management
- Customer services
- Dispute management

Training & communication: Have you identified your key stakeholders?





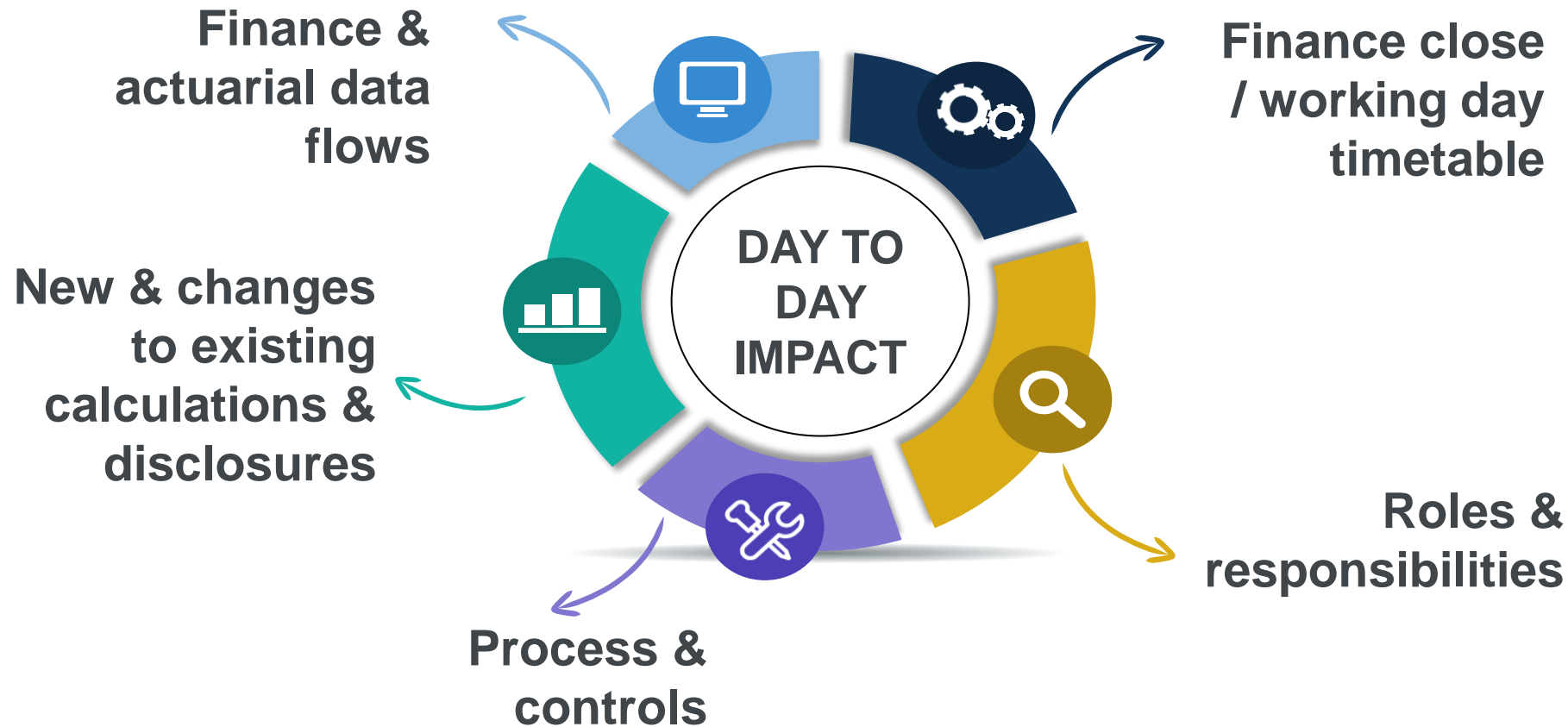
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Operational impacts

Departmental view

Finance: Day to day impact of IFRS 17

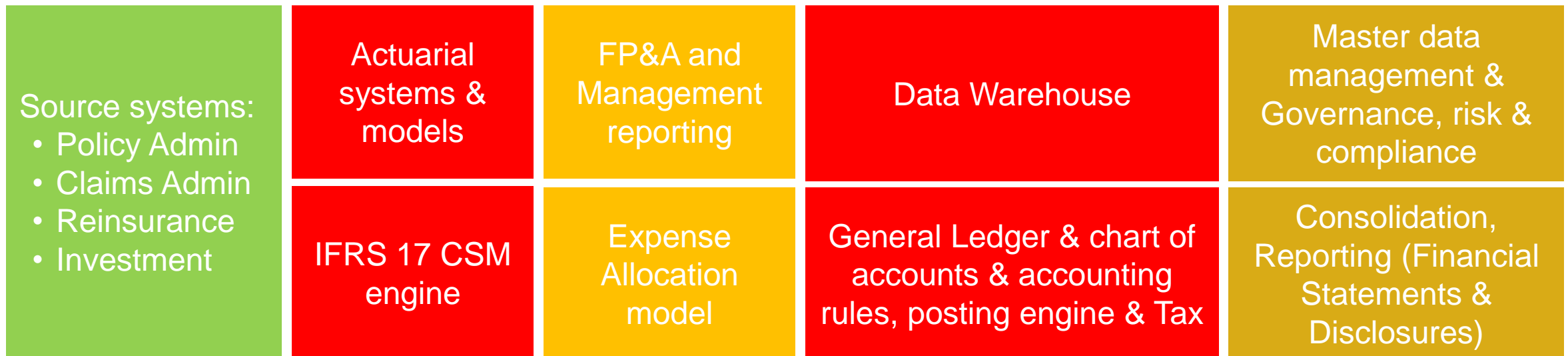
The two areas of Finance where IFRS 17 is expected to have the biggest impact on day-to-day operations are **financial reporting** and **actuarial reserving**.



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Impact of IFRS 17 on the IT architecture: the big picture

IFRS 17 creates business-wide challenges and will impact across different layers of the IT architecture as follows:



Severity & complexity of change



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Planning & budgeting under IFRS17

Are you taking IFRS 17
as an opportunity to :



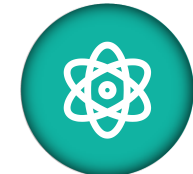
**Reconfigure FP&A
methodology**

Time consuming but provides flexibility to
assess the impact across multiple scenarios.

Ideally consistency is preferred to make
performance more transparent



**Continue with current
regime**



Will need extensive
reconciliation between old and
new basis

Integration of IFRS 17 in FP&A is vital



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Tax impact (UK)

The tax issues that arise from IFRS 17 are complex.

Transition
issues

Profit
recognition
and
measurement
issues

Other issues

- Deferred tax
- OCI recognition
- Business transfers / Part VIIs
- Multi-jurisdiction tax



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What are the implications for Internal Audit?

IFRS 17 calculations require a well governed environment. An effective governance and control framework before, during and after transition are key for IFRS 17 implementation.



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Risk & compliance: understand impact & update processes



Risk Management Framework

Impact on risk tolerance & appetite:

Process, policies and controls



Risk Management Oversight

Active oversight by the Risk Committee:

Better communication & collaboration



Capital management & compliance

Impact on capital management & compliance duties:

New requirements & periodic updates



Asset/Liability Management

Decisions on IFRS 9 and IFRS 17:

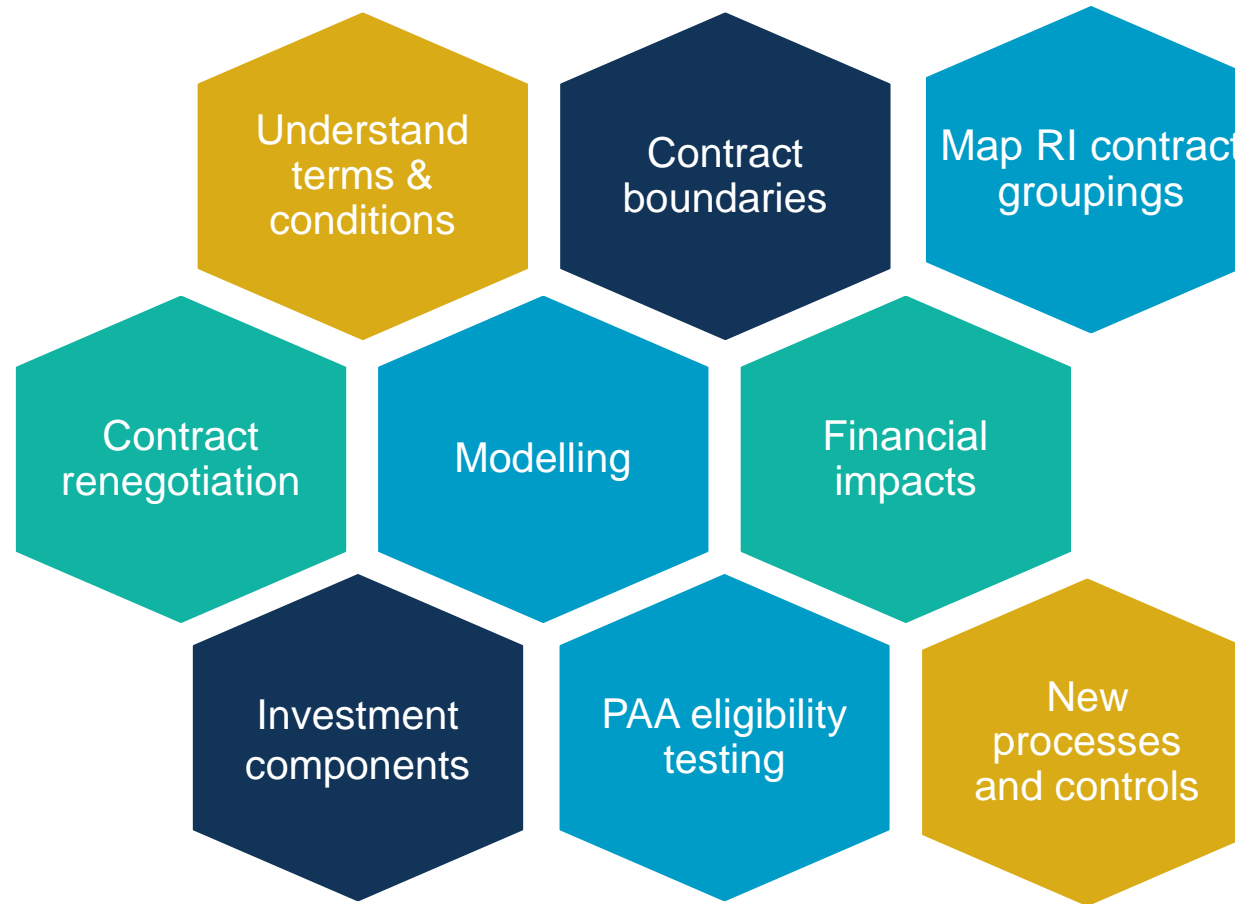
Management of financial risk



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Reinsurance contracts held


The following are expected to be impacted by IFRS 17 most significantly:



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Changes to KPIs

Key Performance Indicators can relate to those reported in annual report or management KPIs



New KPIs
will be
created

- Various CSM-based KPIs
- Insurance service result and margin
- Reinsurance contracts held
- More granularity

Existing
KPIs will be
impacted

- Loss ratio
- Expense ratios
- Combined operating ratio
- GWP
- ROE
- New business value
- Embedded value

It will take
time to
reach
market
consistency

- **No clear view** yet on what will the IFRS 17 metrics be.
- **Early engagement** with various stakeholders is needed.



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Impact on HR (executive remuneration)

The current financial metrics used in the determination of executive remuneration may need to be redesigned under IFRS 17

Examples of most commonly used financial KPIs in industry currently:

- Operating profit
- Business unit profit
- Total Shareholder Return
- Return on equity
- Gross written premium
- Combined ratio

Alignment of remuneration with performance

Consistency with competitors or peer group

Work with finance and actuarial departments

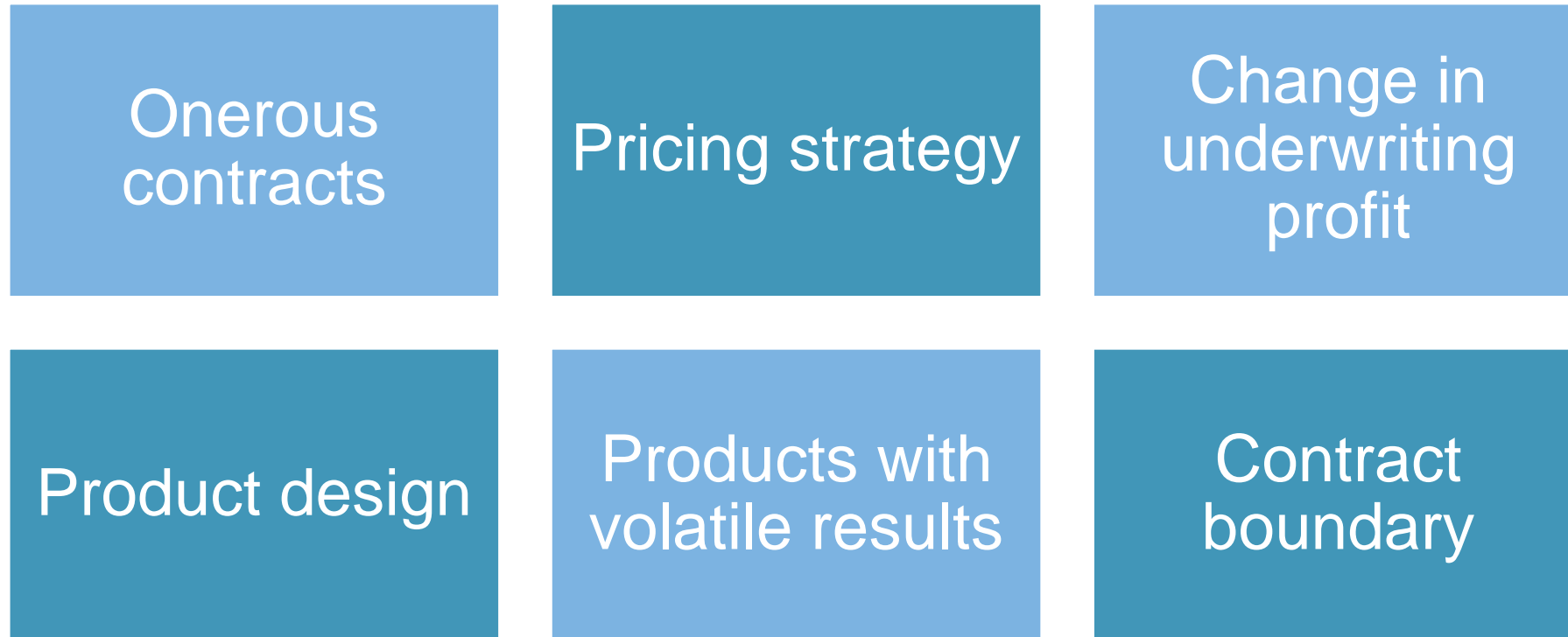
Recruitment & training plan



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Underwriting: Impact on product design & pricing

Total profit is likely to remain the same, but the Standard will change the timing of recognition of profits.



Currently unclear whether insurers will change product design and pricing as a result of IFRS 17



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What should insurers be doing now?

Preparing for 2023



Overall project governance, progress, project budget & transition plan



Financial impact – on transition and ongoing, at product & legal entity level



Business impact – products/ channels, strategy, planning, tax, capital, dividends, underwriting



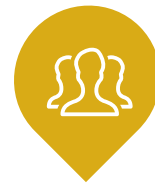
IFRS 17 methodology: key judgements, policy options and assumptions



Significant changes to operations – IT data, systems and processes. Opportunities to simplify and automate processes.



Training & education – to raise stakeholder awareness, both internal and external



Stakeholder communication including auditors, shareholders, analysts



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Questions

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