



Institute
and Faculty
of Actuaries

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

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

March 2020



Agenda

- Timeline and June 2019 Exposure Draft
- Focus areas for UK Life products
- International Actuarial Association support
- Key IFRS 17 considerations



Institute
and Faculty
of Actuaries

March 2020

2

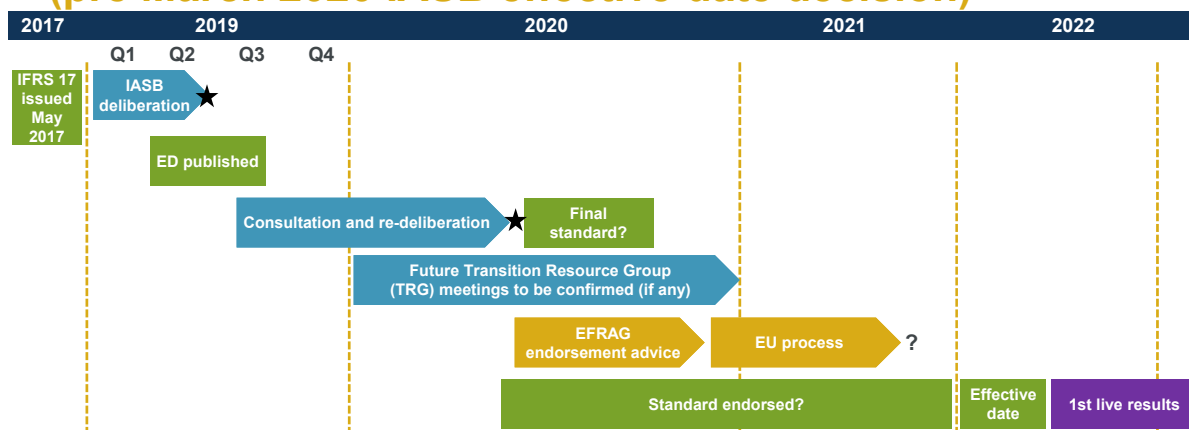


Institute
and Faculty
of Actuaries

Timeline and June 2019 Exposure Draft

March 2020

Planned Timeline – IFRS 17 & EU Endorsement (pre March 2020 IASB effective date decision)



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.

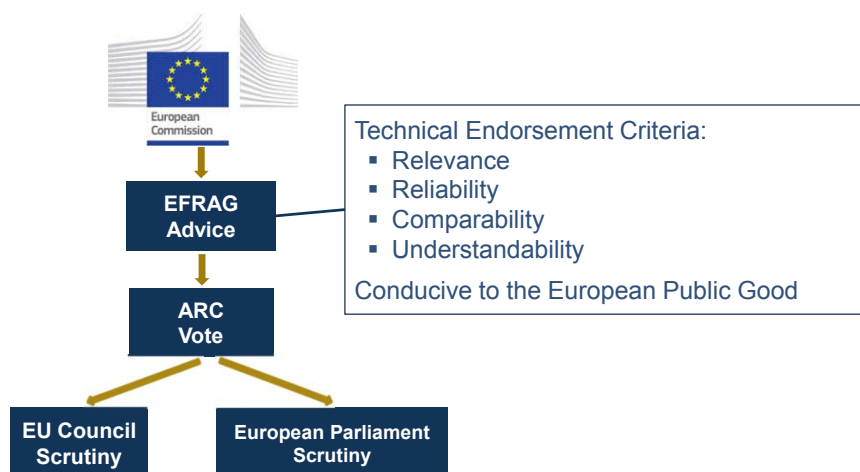


Institute
and Faculty
of Actuaries

March 2020

4

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 once formed
- Endorsement criteria similar to EU process

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



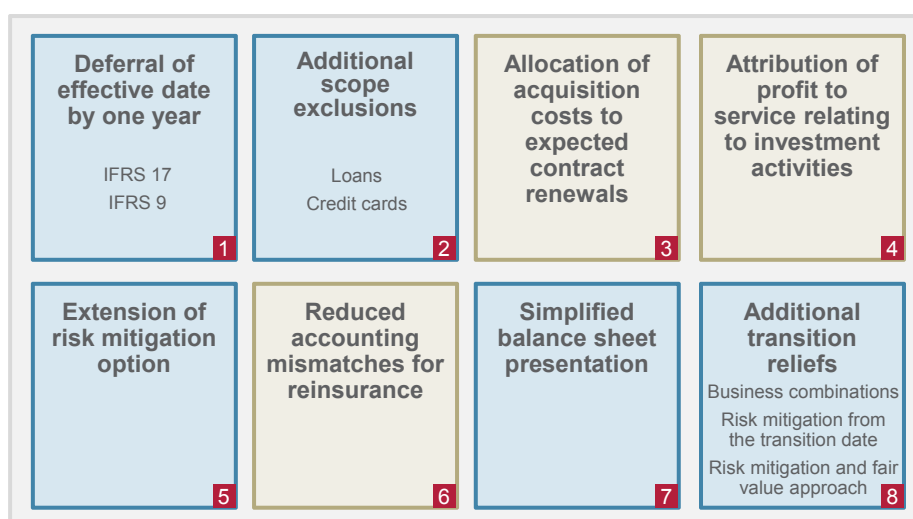
Institute
and Faculty
of Actuaries

March 2020

7

ED: 12 targeted amendments in 8 areas

8



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

March 2020



ED: Not all possible amendments meet the criteria

9

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:

- 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

March 2020



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



March 2020

10

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

March 2020

11

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+



Institute
and Faculty
of Actuaries

March 2020

12

Investment service & profit recognition

General Model

(investment-return service)

B119B conditions:

- Investment component or policyholder can withdraw an amount
- Includes positive investment return
- Investment activity

Plus judgement

Variable fee approach

(Investment-related service)

Impacts CSM/profit recognition

Disclosures

- Provide quantitative disclosure about CSM release
- Disclose weighting of benefits provide by insurance coverage and investment service

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



Institute
and Faculty
of Actuaries

March 2020

13

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).



Institute
and Faculty
of Actuaries

March 2020

14

IASB response to ED (1)

June 2019 ED amendments confirmed	<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
Closed topics not re-considered	<ul style="list-style-type: none"> • 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 (for GMM) • 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



Institute
and Faculty
of Actuaries

March 2020

15

IASB response to ED (2)

Key new developments for UK life insurers

Topic	IASB response
Reinsurance accounting (Dec 20)	<ul style="list-style-type: none"> • Extend the scope to <u>all</u> reinsurance contracts held, rather than only proportionate. • Confirmed reinsurance to be in place before or at the same time as the underlying. • Adjustment based on amounts expected to be recovered under the reinsurance. • No change to day 2 accounting.
CSM release (GMM) (Feb 20)	<ul style="list-style-type: none"> • ED proposal for investment return service plus insurance coverage <u>confirmed</u> (minor changes). No additional guidance or examples. • <u>Greater</u> inclusion of investment expense in the fulfillment cash flows.
Eligibility for VFA (Feb 20)	<ul style="list-style-type: none"> • No changes or new education material (to date). • Reference to 'contract'-level assessment <u>retained</u>.
Level of aggregation (Feb 20)	<ul style="list-style-type: none"> • Annual cohorts <u>retained</u> in VFA (despite where intergenerational sharing of risks such as with-profits).



Institute
and Faculty
of Actuaries

March 2020

16

IASB response to ED (3)

Key new developments for UK life insurers - continued

Topic	IASB response
Risk mitigation option retrospectively (VFA) (Jan 20)	<ul style="list-style-type: none"> Prohibition from applying the risk mitigation option retrospectively on transition to IFRS 17 <u>retained</u>.
GAOs (Feb 20)	<ul style="list-style-type: none"> <u>No changes</u> for products where the 'best' measurement model may change over time or where a contract would be 'better' separated under different models in IFRS 17.
I-E tax (Feb 20)	<ul style="list-style-type: none"> Included in the fulfilment cash flows, where "<i>specifically chargeable to the policyholder under the terms of the contract</i>".
Interim financial statements (Jan & Feb 20)	<ul style="list-style-type: none"> Accounting policy choice <u>introduced</u>. Choice applies to all contracts held and is also permitted for transition under MRA.
Transition relief (Feb 20)	<ul style="list-style-type: none"> Under MRA and FVA on transition, can assess whether a contract has a discretionary participation features at date of <u>transition (rather than inception)</u>. Relevant for UK hybrid contracts.



Institute
and Faculty
of Actuaries

March 2020

17









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

March 2020



19

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

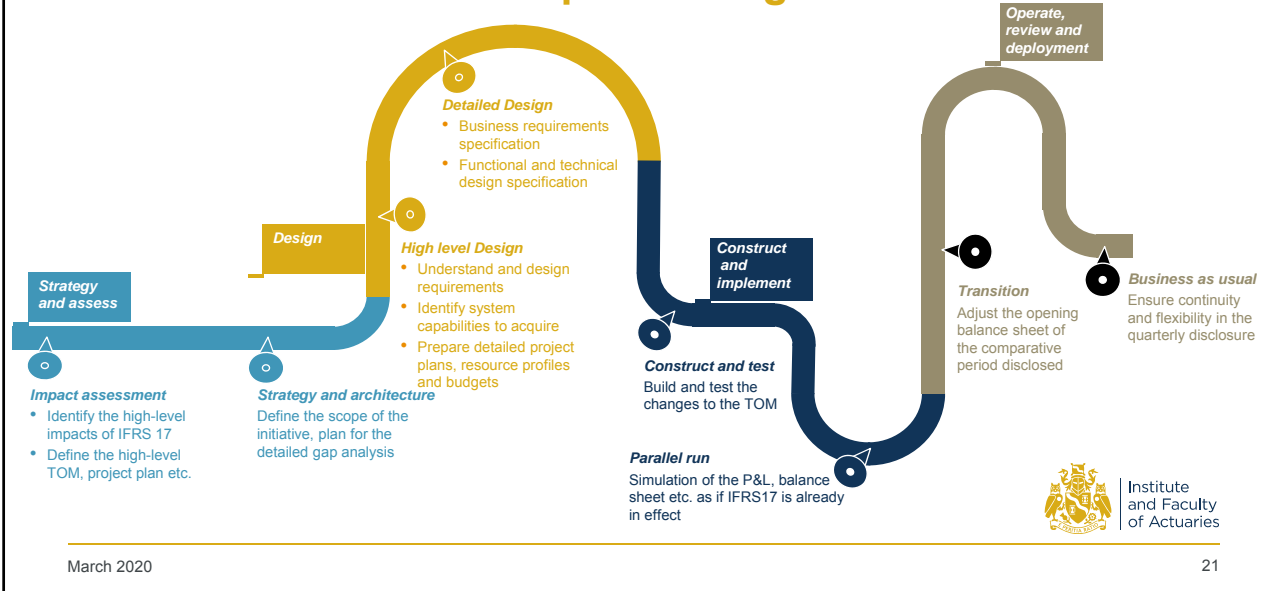


Institute
and Faculty
of Actuaries

March 2019

20

Where are insurers in implementing IFRS 17?



21

International Actuarial Association support

March 2020

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.
- 2nd exposure draft expected at end of Q1 2020 (to be subsequently updated for IASB revisions).

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

March 2020

23



Institute
and Faculty
of Actuaries

Key IFRS 17 considerations

March 2020

Key IFRS 17 considerations

- Are you ready for both a 2022 and 2023 effective date?
- Have you considered the impact of IFRS 17 & 9 on your KPIs?
- Will you use IFRS 17 or UK GAAP for subsidiaries?
- Do you have a vendor solution purchased and setup?
- When will you do your first full dry run?
- When do you expect to announce IFRS 17 impacts to the market?
- What are your programme hot spots?



Institute
and Faculty
of Actuaries

March 2020

25

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

March 2020

26