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## IFRS 17

### Impact on contracts issued in different jurisdictions

Dominic Veney, James Norman  
and Vincent Gibrais



## Introduction



Dom Veney  
PwC UK



James Norman  
PwC Switzerland



Vincent Gibrais  
PwC France



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## Agenda

- Introduction and objectives
- Overview of UK, Swiss and French markets
- Current and future measurement models
- Technical, operational and strategic considerations
- Other global concerns



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## Objectives

- To give an overview of the life insurance markets in UK, Switzerland and France – including:
  - Types of business sold
  - Size and maturity of market
  - Current reporting regime
- To discuss some of the key likely impacts of IFRS 17 on these markets, highlighting similarities and differences
- To share some high level thoughts on other territories



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## Market Overviews



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## UK Market



65m inhabitants

Over 300 life insurance companies

120m policies in force

Reserves: £500bn

£14.2bn revenue as at 2016 excluding pension scheme premiums



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Sources – ABI and ONS data

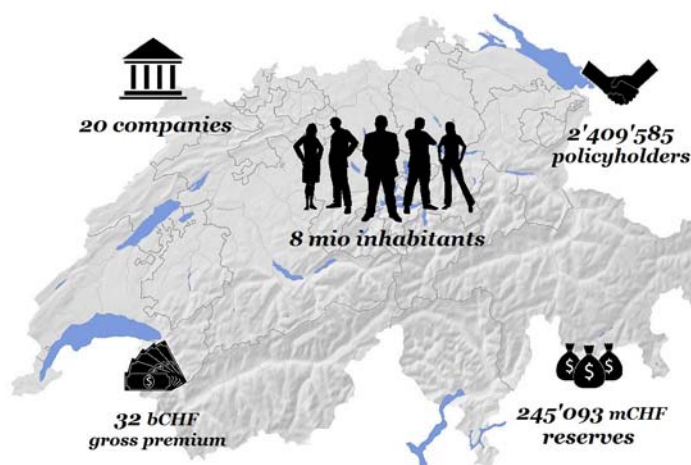
Total Premiums, £m				
	2013	2014	2015	2016
Life & Annuities	9,500	10,000	10,500	12,500
Individual Pensions	25,000	23,500	35,000	29,500
Occupational Pensions	80,000	71,000	76,000	75,500
Income Protection & Other Business	1,500	1,500	1,500	1,500
Total premium income	116,800	106,000	123,000	119,500

Source: ABI

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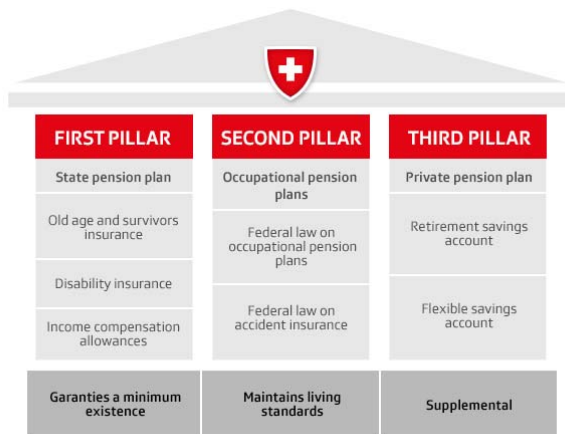
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## Swiss Market

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### 3 Pillar system of coverage



- Pillar I covers mortality, disability, income protection and longevity risk at a minimum existence level
- Occupational pension cover most insurance risks (similar to Pillar I) with regulated conversion rates
- These Pension trusts often reinsure certain risks (mortality, investment, disability, longevity) to insurance companies
- Supplementary saving products are available through banks and insurance companies offering additional savings plans



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### Limited product mix driven by 3 Pillars

Total (mCHF)	2013	2014	2015	2016	
Group life insurance	24,500	24,500	25,000	24,500	77%
Conventional individual life	5,500	6,000	5,500	5,000	16%
Endowments	4,500	5,000	4,500	4,500	
Annuities	500	500	500	400	
Incapacity to work and disability	400	400	400	400	
Other single life insurance	40	50	3	3	
Unit-linked life insurance	2,500	1,500	2,000	1,500	5%
Other	400	400	400	300	1%
Total premium income	32,500	32,500	32,500	32,000	

- Mainly Group Life business from Pillar 2
- Insurance companies provide group life contracts covering mortality, longevity, disability, and income protection
- Group life typically provides participation in the underwriting profits, tied assets and expense management
- Legal quote mechanisms require sharing of 90% of the gross insurance revenue with policyholders
- Other contracts provide sharing but not as clearly defined



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Source: Swiss Financial Market Supervisory Authority (Finma)

## French Market



67m inhabitants

774 insurance companies, mutual and provident institutions

Of which 253 within life operations

Life Reserves: €2000bn

€169bn revenue as at 2016



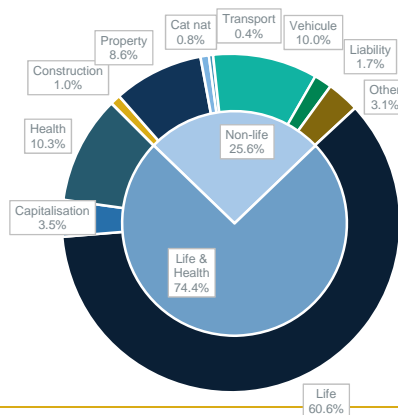
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Sources – ABI and ONS data

## Market overview

- Life and health insurance represents 74.4% of the French insurance market including:

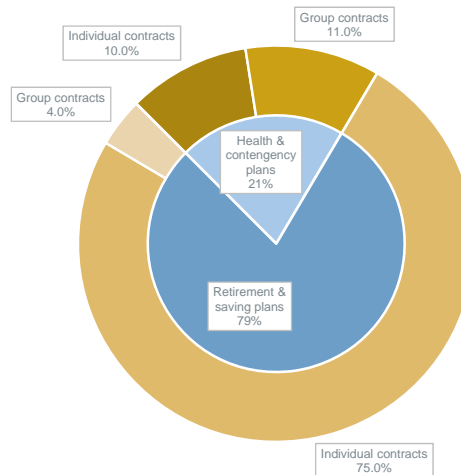
- Life insurance : 60.6%
- Health insurance : 10.3%
- Capitalisation : 3.5%



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## Overview of the market

- Types of business written



## Current and future measurement models

## Overview of current liability measurement (IFRS 4 reporting)

UK	Switzerland	France
<ul style="list-style-type: none"> <li>• Linked to old PRA basis</li> <li>• Broadly discounted cash flow approach</li> <li>• Prudent assumptions</li> <li>• Assumptions updated for recent experience</li> <li>• Economic assumptions linked to assets held</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-nationals adopted "frozen" version of US GAAP for their life insurance products</li> <li>• Adopted modified FAS 120 for participating business</li> <li>• Broadly consistent with Swiss statutory accounting</li> <li>• Few companies use Swiss GAAP FER</li> </ul>	<ul style="list-style-type: none"> <li>• Circa 20 / group-companies reporting under IFRS</li> <li>• Statutory as a basis</li> <li>• Locked-in assumptions/ amortised cost</li> <li>• Regulatory assumptions overruled by prudence as necessary</li> <li>• Prospective valuation</li> <li>• No discounting for P&amp;C</li> <li>• Adjustment for preferred "accounting" methods</li> </ul>



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## Measurement models under IFRS 17

	<b><i>Building block Approach ('BBA')</i></b>	<b><i>Premium allocation approach (PAA')</i></b>	<b><i>Variable fee approach</i></b>
<b><i>Why is it needed?</i></b>	Default model for all insurance contracts	To simplify for short term contracts	To deal with participating business where payments to policyholders are linked to underlying items like assets
<b><i>Typical contracts expected in each model</i></b>	<ul style="list-style-type: none"> <li>• Long-term and whole life insurance, protection business</li> <li>• Certain annuities</li> </ul>	<ul style="list-style-type: none"> <li>• General insurance</li> <li>• Short-term life and certain group contracts</li> <li>• Some long term care</li> <li>• Creditor insurer</li> </ul>	<ul style="list-style-type: none"> <li>• Unit-linked contracts, US variable annuities and equity index-linked contracts</li> <li>• Continental European 90/10 contract</li> <li>• UK with profits contracts</li> </ul>



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## Technical considerations

### Applicability

Whether or not IFRS 17 is to be adopted – is there a choice and is the cost worth it?

### VFA eligibility

Whether or not contracts are eligible for VFA

### Unit of account

How much grouping is acceptable and how does this relate to mutualisation principle?

### Basis of taxation

Some territories have tax calculated with reference to IFRS – how will this impact?



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## Operational considerations

### Existing reporting

To what extent can existing reporting processes be leveraged

### Data availability

Ability to collect/access legacy data and manage data going forward

### Systems strategy

Current state of systems and interest in/capacity to modernise

### Availability of skilled resource

Do companies have enough resources to implement the changes and to run the business post implementation



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## Strategic considerations

Comparison to existing metrics

Which metrics are considered by the analysts/investors – how to explain the disconnect to existing reporting

Transition strategy

What is an optimal transition position, how is that influenced by current circumstances such as low interest environment

External communication

How do you tell the story to the market, including more granular split of information, specifically risk adjustment and treatment of onerous contracts

Reinsurance

How will reinsurance operate, and how does that impact reinsurance strategy



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## Other jurisdictions



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**Questions****Comments**

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