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## IFRS 17 - Only <sup>3</sup>~~2~~ years to go, where are we and what are the key issues for the UK market?

Speakers: Richard Olswang, Gail Tucker and Anthony Coughlan

Chair: Kamran Foroughi

Members of the Financial Reporting Group, IFoA

November 2018

### Agenda

- Industry developments
- IASB & TRG developments
- Current focus areas for UK Life products
- IFoA and IAA response to IFRS 17

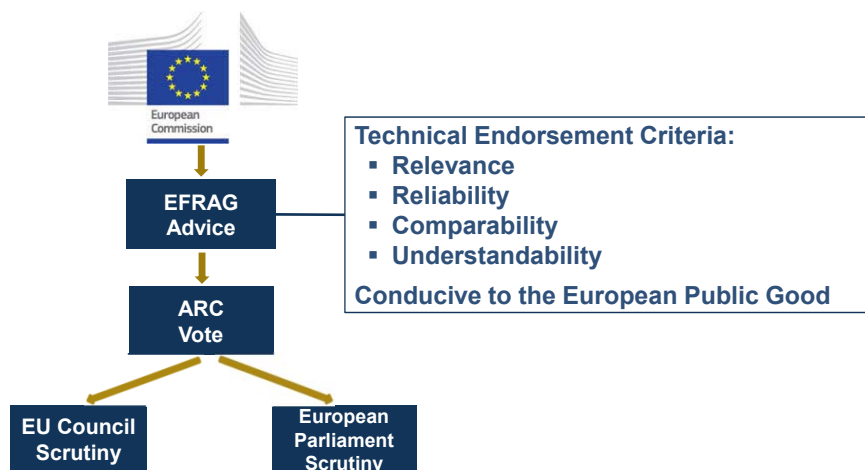


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## IFRS 17 required in the consolidated accounts of publicly traded companies when endorsed by the EU



## EFRAG Process

Evidence gathering	
Detailed case study	11 submissions, of which 9 CFO Forum
Simplified case study	49 submissions, of which 11 CFO Forum
User outreach	27 users
Economic study	<ul style="list-style-type: none"> <li>▪ Competition</li> <li>▪ Products &amp; pricing</li> <li>▪ Asset allocation</li> <li>▪ Funding of insurance undertakings</li> </ul>
Presentations to EFRAG Board	<ul style="list-style-type: none"> <li>▪ CFOs, users, audit profession, actuarial profession, reinsurers</li> <li>▪ CFO Forum Chairman presented summary of case study results</li> </ul>
Development of advice	
<ul style="list-style-type: none"> <li>▪ Draft endorsement advice</li> <li>▪ Two month public consultation period</li> <li>▪ Final advice then sent to European Commission</li> </ul>	

## CFO Forum findings

- Testing provided evidence of **11 significant issues** and **their impact**:

Measurement

Operational  
complexity

Implementation  
challenges



These issues need to be resolved in IFRS 17 before endorsement

- In addition, the **implementation timelines are very challenging**

Total **implementation** cost for **12 companies**  
providing estimates of **€1.9 bn**



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## EFRAG response: Letter to IASB

- EFRAG preparing draft endorsement advice on IFRS 17
- EFRAG has conducted significant outreach
- Constituents have raised a number of concerns
- EFRAG has not yet determined impact of issues on draft endorsement advice
- EFRAG Board identified 6 issues that merit further consideration by IASB



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## Concerns & implementation challenges (1)

		CFO Forum finding	In EFRAG letter
<b>Scope of IFRS 17</b>	Loans that transfer insurance risk	✓	✓
<b>Level of aggregation</b>	Annual cohorts, profitability groups	✓	✓
<b>Acquisition cash flows</b>	Allocation to future renewals	✓	✓
<b>Discount rate</b>	Locked in rate under General Model	✓	✗
	Prescribed approach	✗	✗
<b>Risk adjustment</b>	Assessment at group level vs. entity level	✗	✗
<b>CSM: Coverage units</b>	Allowance for investment services outside VFA	✓	✓
<b>CSM: Hedging</b>	Scope of hedge adjustment	✓	✗
<b>Premiums received</b>	Identification for groups of contracts	✗	✗



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## Concerns & implementation challenges (2)

		CFO Forum finding	In EFRAG letter
<b>Business combinations</b>	Classification of contracts	✓	✗
	Contracts acquired during settlement period	✓	✗
<b>Reinsurance</b>	Asymmetry in profit recognition	✓	✓
	Ineligibility for VFA	✓	✗
	Inconsistent contract boundaries	✓	✓
<b>Presentation</b>	Separation of contracts in asset / liability position	✓	✓
	Cash paid vs. received	✓	✓
	Permitting OCI accounting	✗	✗
	Exclusion of investment component from revenue <sup>1</sup>	✓	✗
	Offsetting liability by funds withheld <sup>1</sup>	✓	✗

<sup>1</sup>Not included in IASB Board papers



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## Concerns & implementation challenges (3)

		CFO Forum finding	In EFRAG letter
<b>Scope of VFA</b>	Inconsistent treatment of economically similar products	✓	✗
<b>Interim accounts</b>	Leads to dual accounting	✗	✗
<b>Effective date</b>	Implementation challenges	✓	✗
	Requirement for comparatives	✗	✗
	Deferral of IFRS 9	✗	✗
<b>Transition</b>	Optionality	✗	✗
	Modifications to the Modified Retrospective Approach	✓	✓
	OCI balance under the Fair Value approach	✓	✓



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## Other developments in October 2018

<b>European Parliament</b>	Adopted IFRS 17 motion
<b>CFO Forum</b>	Letter to IASB proposing solutions to issues identified
<b>Global insurance industry</b>	<ul style="list-style-type: none"> <li>Letter from 9 insurance associations</li> <li>Supports issues raised by CFO Forum and calls for 2 year delay</li> </ul>
<b>EIOPA/ESMA/EBA</b>	<ul style="list-style-type: none"> <li>Calls for transparency in endorsement process</li> <li>Reiterates need for implementation in 2021</li> </ul>
<b>EIOPA</b>	<ul style="list-style-type: none"> <li>IFRS 17 beneficial to European public good</li> <li>Options in IFRS 17 may lead to lack of comparability</li> <li>Reinsurance and level of aggregation require further consideration</li> </ul>
<b>EFRAG</b>	Letter to EIOPA/ESMA/EBA clarifying its approach to the endorsement process



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## IASB response

- Concerns and implementation challenges discussed at October IASB meeting:
  - IFRS 9 for insurers link and status key Board concern
- Board agreed criteria to assess whether there is a need to amend IFRS 17:
  - a) amendments would not result in significant loss of useful information
  - b) amendments would not unduly disrupt implementation processes already under way
  - c) New evidence required to justify changes to previous decisions
- Board agreed at November 2018 meeting to defer IFRS 17 & IFRS 9 to 2022
- From December 2018 onwards:
  - Staff will assess how each issue stacks up against the criteria for change.
  - Board will be asked for direction on what to do next.

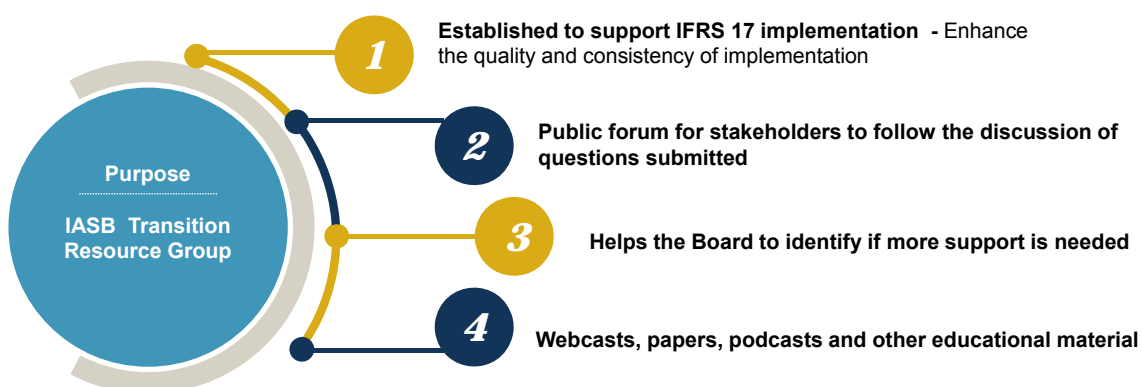


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## Purpose of the TRG



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## TRG meetings

Meetings 6 February, 2 May, 26-27 September 2018, 4 April 2019 and ...

### Guidance

- TRG does not issue guidance, but assists Board in identifying actions to take
- Very high hurdle for amendments

### Membership

- 6 auditors and 9 preparers. Preparers: 4 from Europe, 3 from Asia, 1 each from Canada / Australia
- Observers from IAA, IAIS and IOSC

### Papers and minutes

- IASB papers available 2 weeks in advance. Minutes and podcast on IASB website

### Submissions

- Anyone can submit an issue if it relates to IFRS 17, may result in diversity in practice and expected to be pervasive



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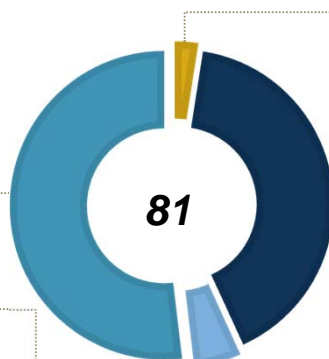
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## TRG Submissions and discussions

42 submissions (20 technical papers) subject to detailed TRG discussions

4 submissions reported to Board as operational challenges

- Presentation of assets and liabilities
- Premiums received in applying PAA
- Treatment of contracts acquired in settlement period



2 submissions related to mutuals led to educational material

33 submissions not subject to detailed discussions –reported to the TRG and commented by exception only:

- 24 answered by applying the words in the standard
- 6 do not meet the submission criteria
- 3 resulted in proposed annual improvements

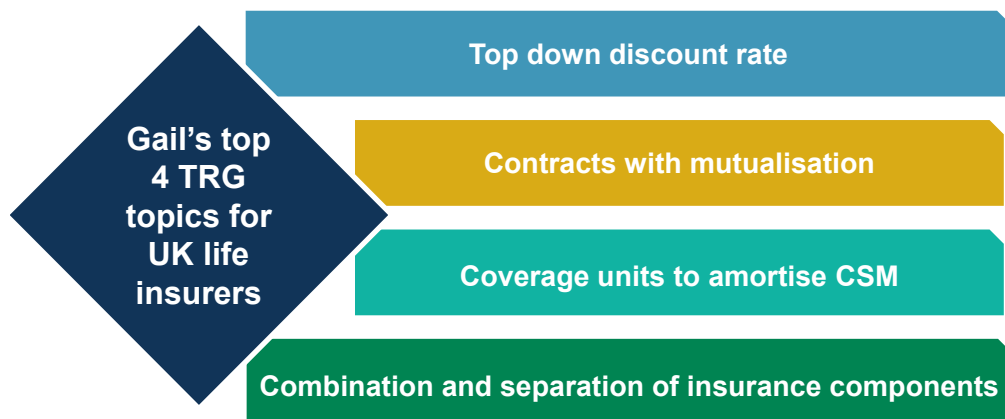


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## Some TRG discussions relevant for life insurers



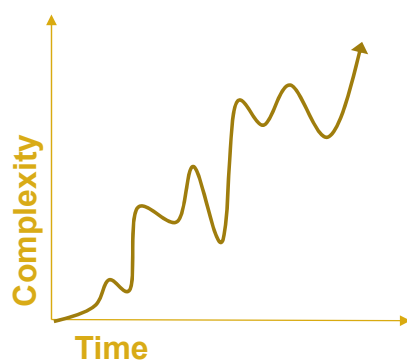
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## Other considerations

### Ongoing implementation



### Frequency of financial crises



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## Current topics for UK life products (1/2)

### Annuities

- Discount rates – Reference portfolio, default allowance and implications
- CSM/profit released over deferred period
- Treatment of annuity guaranteed periods – distinct investment component?
- Investment expenses – excluded?
- Bulk transfers from 'buy in' to 'buy out' – new contract(s)?
- Reinsurance mismatch – longevity risk

### Protection

- Reinsurance – Mismatches and P&L volatility
- Mismatch from day 1 lock-in for CSM
- Definition of portfolio and extent of offsetting
- Assessment of the illiquidity premium
- Transition – Separate consideration of gross and reinsured CSM



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## Current topics for UK life products (2/2)

### With profits

- Practical application of the variable fee approach
- Definition of underlying item and implications
- Aggregation and grouping including mutualisation
- Illiquidity premium and stochastic modelling
- Treatment of non-profit contracts within funds – mismatches?

### Other topics

- Practical approaches to the risk adjustment and related disclosures
- Transition – Application of FRA & MRA and what is fair value?
- Onerous contracts and profitability groups
- Dual reporting – Interims, expense look-through etc.
- Approach to hybrid (unit linked/with profit) contracts
- Eligibility for the variable fee approach



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## IFoA cross-practice Financial Reporting Group

### Current focus:

- Steering IFoA activity related to financial reporting
- Supporting IAA ISAP 4 / IAN 100 development & IFoA response
- Engaging with external stakeholders (IASB, EFRAG, FRC, HRMC etc.) as appropriate

### Past materials:

- Life Conference presentations 2010-2018
- July & September 2017 Staple Inn seminars
- 2011 Staple Inn paper critiquing 2010 ED
- 2013 published IFoA response to 2013 ED

### Current membership:

- Kamran Foroughi (Chair)
- Anthony Coughlan
- Nick Dexter
- Richard Olswang
- Tony Silverman
- Gail Tucker
- Martin White
- Derek Wright
- Murray Wright



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## IFoA Life IFRS 17 working parties recently established

**Future of  
discount rates**

*Chair:*  
Richard Olswang

**Contractual  
Services Margin**

*Chair:*  
Rebecca Brown

**Transversal  
issues**

*Chair:*  
Dom Veney



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## IFoA support & response to ISAP 4 & IAN 100

- **International Standard of Actuarial Practice 4:**
  - Purpose to increase confidence that IFRS 17 related actuarial services IFRS 17 carried out professionally and with due care
  - Less than 10 pages covering: Standards across knowledge requirements, GMM, VFA, disclosures and transition.
  - Exposure draft period in H1 2018 with revised (final) draft expected February 2019 for publication in 2019.
- **International Actuarial Note 100:**
  - Non-binding educational document c. 100-200 pages.
  - 17 chapters divided into 4 sections: GMM, Model variations (PAA, participating, reinsurance), Uses of fair value, Other
  - Includes Q&A
  - All chapters drafted with exposure draft targeted late 2018.

### Current volunteers:

- Anthony Coughlan (Chair)
- Derek Wright (IAA)
- Tamsin Abbey
- Darren Clay
- Greg Douglas
- Sophia Ch'ng Sok Heang
- Joanne Loneragan
- Natalia Mirin
- Erica Nicholson
- Ainsley Normand
- Michael Reid
- Lucinda Parlett
- Mark Sweetenham
- Nick Walker
- Martin White



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# Questions

# Comments

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