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Operationalizing IFRS 17 – Asian Perspectives

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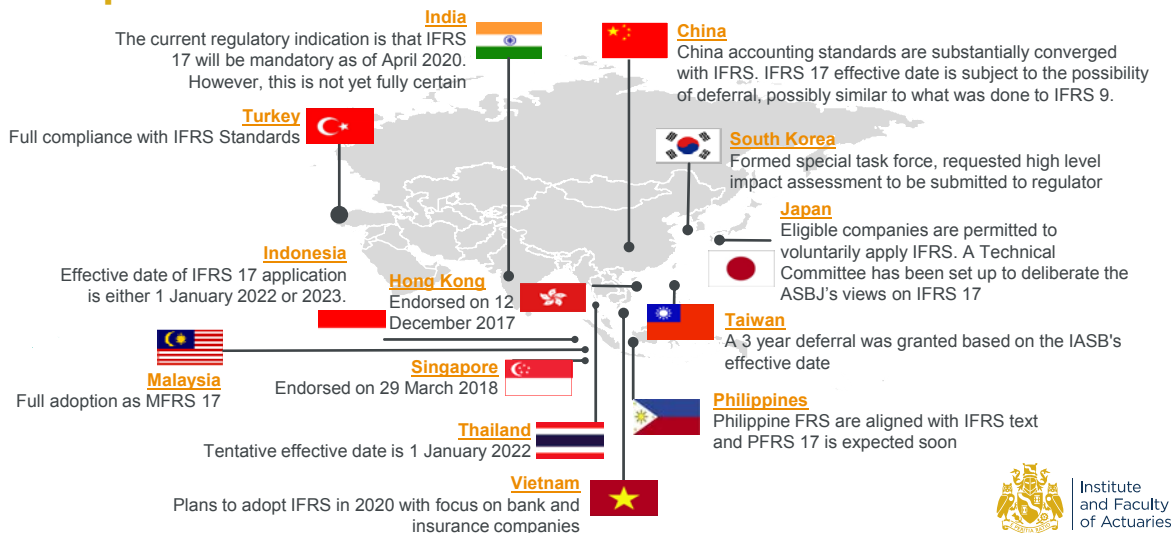


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IFRS 17 – The Asian Perspectives



Adoption of IFRS 17 – Asian Countries



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Asia Insurance Markets

Regulatory Environment

The Asian region has a unique regulatory environment:

- 1 **Regulatory Body**
 - Each market has its own local regulator.
 - The style of insurance regulations of these local regulators are different.
- 2 **Tax System**
 - Each market has a different tax system.
 - Different tax system drives different market behaviors (e.g. product designs and product pricing).
- 3 **Reserving and Capital Requirements**
 - Each market has different requirements on solvency capital and reserving.
 - Some markets have changes in capital regime with similar timeframe as IFRS 17

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Asia Insurance Markets

Insurers

Domestic Players



Each market operates with the existence of large domestic players with substantial market shares in local insurance market, for example:

- China: Ping An Life, China Life
- Japan: Nippon Life
- India: Life Insurance Corporation of India
- Korea: Samsung Life

These domestic and multinational insurance companies can be primitive or sophisticated.

Multinational Corporations (MNC)



There are large-sized multinational players operating insurance business in a number of countries with a large business footprint, for example:

- AXA Group
- Allianz Group
- MetLife
- Assicurazioni Generali

With headquarters located outside of Asia region (e.g. Europe or the U.S.).



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Asia Insurance Markets

Products and Distribution

Products



- The degree of product innovation varies
- The markets are mostly dominated by **saving products**. Some markets are dominated by **with-profit products** and some are dominated by **unit-linked products**.



Distribution

Products are distributed mainly through:

- **Tied-agency force**; or
- **Bancassurance** (Partnership with banks)

Digital channel only starting



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Asia Insurance Market - Challenges



Actuarial Skills

Shortage of actuarial skills in most countries.



Actuarial Transformation

Most companies have not done any major transformation like Solvency II before.



Actuarial Modelling

Lack of stochastic modelling capabilities.



Data Quality

Data quality can be poor (e.g. data availability and credibility) in some emerging markets.



Industry Maturity

For MNC groups, maturity for different BUs varies widely.



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Operationalizing IFRS 17

IFRS 17 – Global Accounting Standard for Insurers

IFRS 17 Background

IFRS 17 is the first truly international, comprehensive accounting Standard for insurance, replacing IFRS 4 – an interim Standard that results in widely divergent practices. The main aim of IFRS 17 is to standardize insurance accounting globally to ensure that users of accounts are able to make more sensible comparisons between companies.

The new standard would improve financial reporting by providing **more transparent, comparable information** about:

- The effect of the insurance contracts that an entity issues on the entity's financial performance
- The way by which entities earn profits, or incur losses, through underwriting services and investing premiums from customers
- The nature and extent of risks that companies are exposed to as a result of issuing insurance contracts



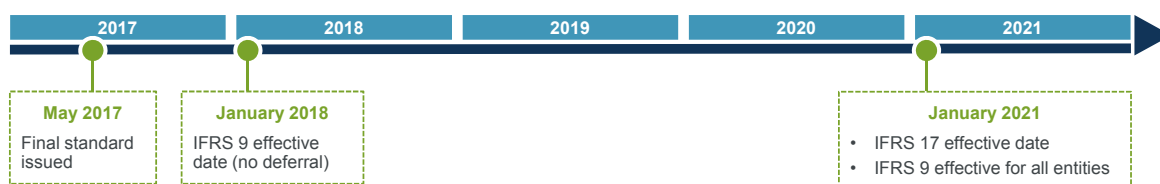
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IFRS 17 – Global Accounting Standard for Insurers

IFRS 17 Timeline

The Standard was completed in May 2017 with an anticipated effective date of 1 January 2021.

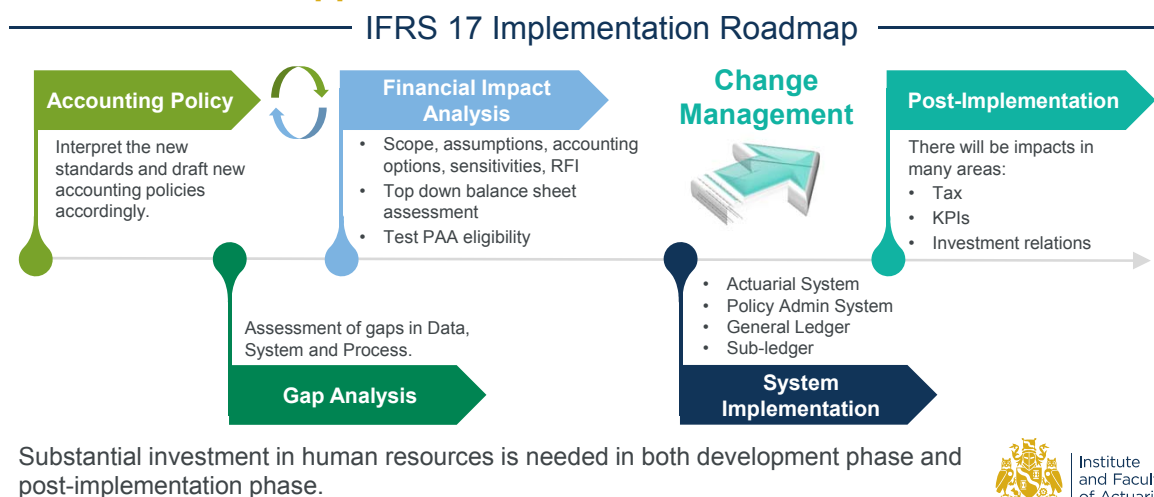


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Journey to IFRS 17 compliance

What needs to happen?

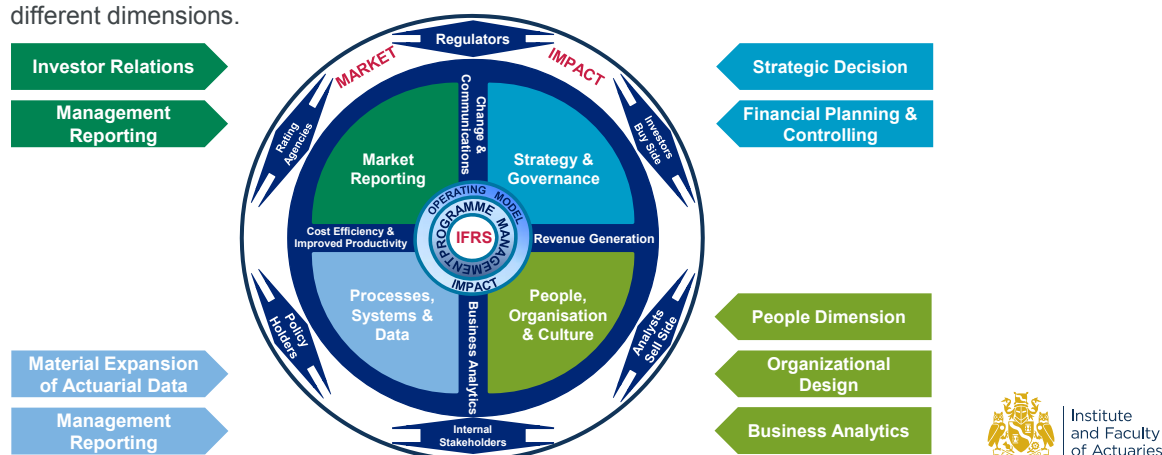


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Considerations of a Large Scale Finance Transformation

IFRS 17 implementation is more than an accounting policy change. There should be considerations in different dimensions.



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IFRS 17 Project Considerations

Cost

Costly and pervasive system implementation:

- Large data volume, complex calculations and cumbersome reporting requirements
- Insurers may need to upgrade their actuarial systems to perform market consistent valuation and stochastic calculations required by IFRS 17.
- Upgrades could include hardware, software and IT infrastructure and are expected to be extremely costly and pervasive to the company's reporting process.

Operational Complexity

- Data warehouse management issues, performance issues and control issues due to changes in data volume and flow
- Local insurers may lack know-how and data for complex calculations like stochastic modelling.
- Redefining reporting timelines or streamlining the reporting process may be needed.
- IFRS 17 might force some general insurance contracts to be valued as long-term products, where the valuation technique is vastly different and complicated.

Governance

- A clear project governance structure needs to be agreed.
- This governance structure needs to exist outside of the BAU reporting or there will be conflicts.

Project Team

- Need a designated project team that is clearly separated from the BAU team.
- Clear scoping needs to be agreed up front:
 - What do we want the project to achieve?
 - Would it be to meet minimum compliance requirements or more than that?

Management Difficulties

- Strains in IT, finance and actuarial resources during the IFRS 17 implementation phase
- The talent in the market will start to run out as all companies are pushing to implement the standard.
- Actuaries and accountants have to work together more closely after implementation, leading to training needs for both roles.
- Communication with senior management.



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Different Interpretation of IFRS 17 Requirements

Below listed the selected IFRS 17 requirements that could be subject to different interpretations.

IFRS 17 Requirement

- Combination of Contracts
- Unbundling
- Investment Component
- Policyholder Options
- Measurement Model
- Level of Aggregation
- Contractual Service Margin
- Reinsurance
- Presentation and Disclosure
- Transition

Interpretation

- Grouping of Contracts
- Choice of Measurement Models
- Reinsurance Treatment
- Transition Approach
- Presentation of Results
- Others

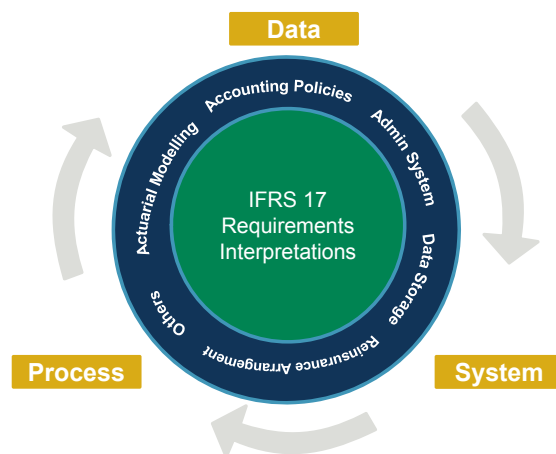


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From Interpretations to Implementations

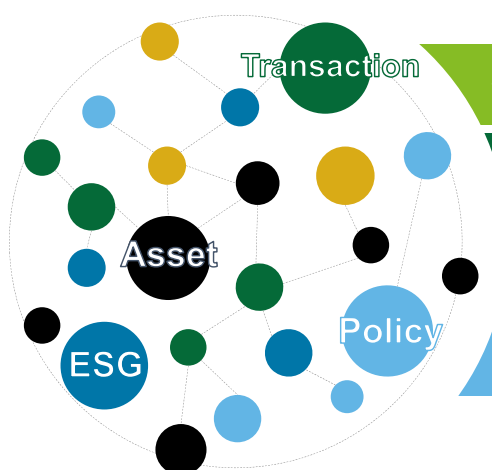
Different interpretations of new IFRS 17 requirements affect an insurer's target business operation model.



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Identify Data Gaps



- What data are required?
- Do we have these data?
- How should we collect and process these data?
- Can our data meet external reporting requirements?

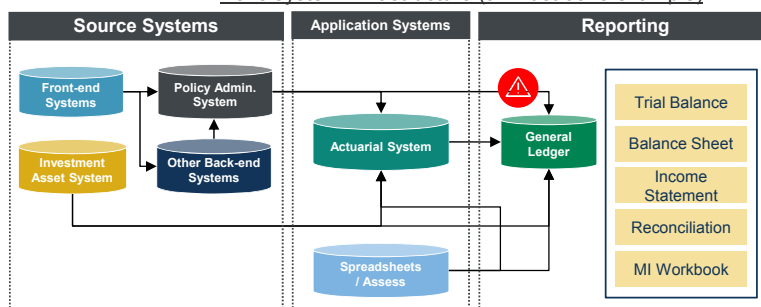


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Identify System Gaps

As-is system infrastructure (an illustrative example)



Issues with current infrastructure

- 1) **Larger amount of data** because reserves are broken down into more granular components
- 2) **More complicated accounting rules** for journal postings that could significantly strain the speed and capacity of the General Ledger

Future System

Companies will need a system to perform two main functions before entries are posted in the General Ledger:

1. **Data management** – More efficiently manage finance and actuarial data and improve auditability.
2. **General ledger posting** – perform sophisticated calculations and reduce the number of entries to be posted to the general ledger.

What would it look like?



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Challenges to Data & System

An illustrative example: Policy Admin System

Challenges to the Policy Admin System

Data required

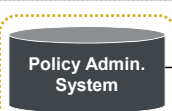
Issue date...

Maturity date...

Product features...

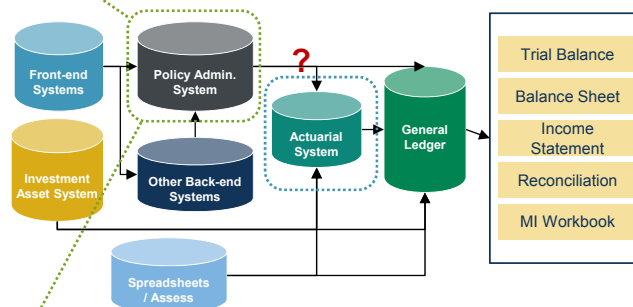
Policy Specific investment component
(life/health) ...

.....



Can the current PAS
meet all potential data
requirements?

Typical Current State System Architecture

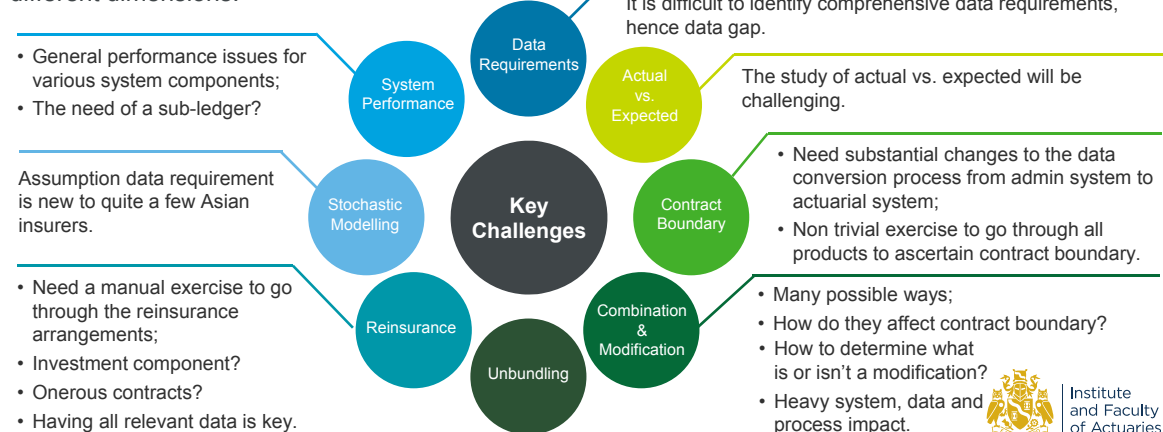


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Key Challenges to IFRS 17 Implementation

IFRS 17 implementation is more than an accounting policy change. There should be considerations in different dimensions.



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Questions

Comments

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