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Impact of IFRS 17 for the UK Insurance Market

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18 November 2019

IFRS 17 Transversal Working Party - Objectives

1. Support research around IFRS 17 requirements:
 - Impact on UK Life insurance profitability and reporting/disclosure
 - Potential impact of these changes on life business including product design, asset allocation and business management
 - Comparison to and interaction with other financial reporting – Solvency II, Embedded Value and other metrics
2. Act as an advisory group on upcoming consultations



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IFRS 17 Transversal Working Party - Members

Name	Company	Country
Dom Veney (Chair)	PIC	UK
James Isherwood (Deputy Chair)	PwC	UK
John Miller-Jennings	Swiss Re	UK
Alexandra Flynn	Standard Life	UK
Lucinda Partlett	KPMG	UK
Burçin Arkut	Foresters	UK
Teresa Murphy	WTW	UK
Xu Shi	KPMG	Australia
Jokoll Mendy	AIA	Hong Kong
Jennifer Strickland	Milliman	UK
Helen Bowler	Deloitte	UK
Mark Gibbs	L&G	UK
Michael Smith	NN	Netherlands



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Agenda

Background to IFRS 17 in the UK

Key issues for UK insurers

Wider implications of IFRS 17

Summary

Q&A



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Background to IFRS 17 in the UK

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Commonly reported financial measures

Operating Profit

Solvency Capital Ratio

Free Surplus

Adjusted Own Funds

NB Value

Cash Generation

AUM

MCEV

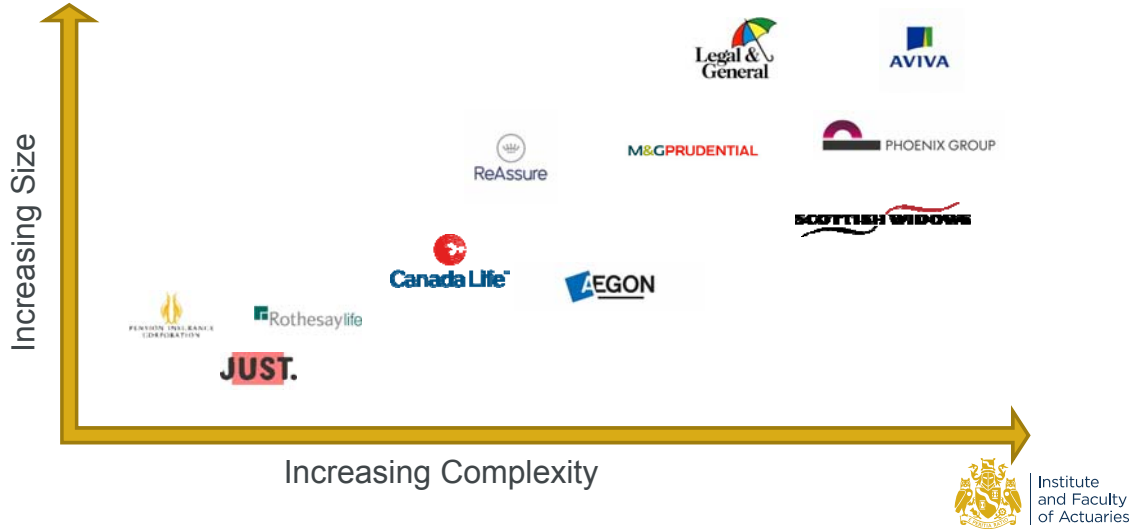


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Overview of the UK Life market (indicative)



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UK Life market types of business



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Aims of IFRS 17

Making the industry more attractive to investors; and
Contributing to long term financial stability

By:

- Consistent accounting for insurance contracts
- Reflect economic changes in timely and transparent way
- Provide improved information about current and future profitability
- Increase global comparability
- Enhance quality of financial information

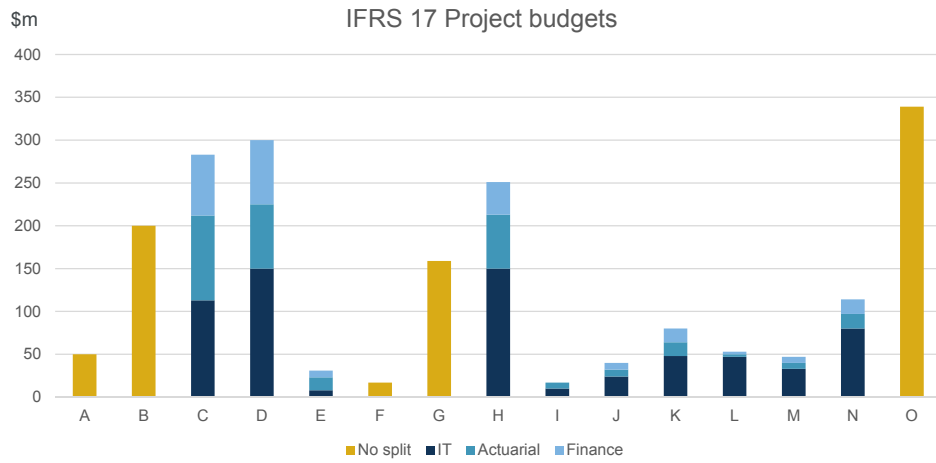


How does IFRS 17 achieve these aims?

Consistency	Single model for all contracts globally
Timely	Economic changes measured immediately through P&L or OCI
Clarity	Profits more aligned to delivery of services under the contract
Comparability	Used globally (except US) & other industries
Quality	Clearer disclosure requirements



Costs



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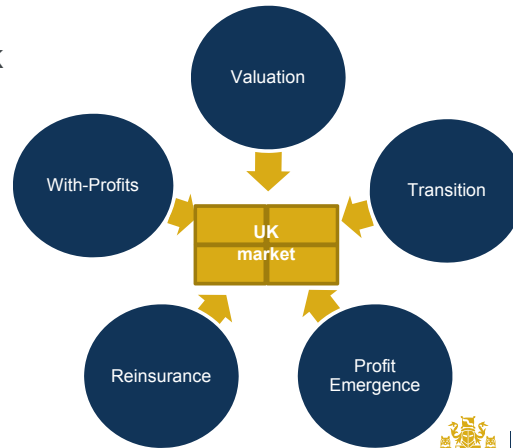
Key issues for UK insurers

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Key issues

IFRS 17 raises a number of key issues for the UK market.

Do these issues move us towards the objectives of the standard or further away?



Valuation

Annuity	Protection
With-Profits	Reinsurance

Valuation changes will affect all products in the UK market in a wide range of areas.

Alignment with aims

- ⑩ Two measurement models
- ⑩ Best estimate valuation
- ⑩ Granular calculation
- ⑩ Interest-rate changes recognised through P&L or OCI

Disparity with aims

- More judgements lie beneath binary model choice
- Judgements in discount rate construction, including liquidity
- Potential contract boundary mismatches for riders
- Subjectivity for renewable contracts

Conclusion: The changes in valuation apparently move towards the aims of IFRS 17. However, more judgements are required once you scratch the surface.



Transition

The length of the UK back-book is likely to make the fully retrospective approach impractical in most circumstances.

Annuity	Protection
With-Profits	Reinsurance

Alignment with aims

- ⑩ Aligns back-book measurement

Disparity with aims

- Variety of choice still available
- Lead to different approaches for in-force and new business

Conclusion: Choices will impact equity, future profit, operational requirements and tax (where potential for significant impacts exist including any restrictions on “lost” and “recycled” profits).



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Profit Emergence

Profit will be spread over the service lifetime as an intended consequence of the CSM design.

Annuity	Protection
With-Profits	Reinsurance

Alignment with aims

- ⑩ Increased transparency
- ⑩ More granular profit disclosure
- ⑩ Comparability with non-insurance industries

Disparity with aims

- Introduces complexities (e.g. risk adjustment, investment expenses)

Conclusion: profit emergence is different to what we have now, but is doing what the standard intended.



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Reinsurance

Annuity	Protection
With-Profits	Reinsurance

Reinsurance is likely to be a bigger issue for the UK than for other markets due to the extensive use for life business.

Alignment with aims

- ⑩ Comparability across international territories

Disparity with aims

- Inconsistent with the economics of reinsurance held
- Significant interpretation needed for reinsurance issued

Conclusion: there remains a great deal of uncertainty around reinsurance, including implications on future practices. The definition and treatment of proportionate reinsurance is a current topic of discussion.



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With-Profits

Annuity	Protection
With-Profits	Reinsurance

Issues related to with profits are likely to be bigger for the UK than for other markets due to the historic prevalence and length of with-profits business.

Alignment with aims

- ⑩ Increase in transparency

Disparity with aims

- Disconnect between profit and cash emergence
- Split of WPSF may not reflect characteristics
- Interpretation needed for non profit business in the WPSF

Conclusion: additional disclosures will be required to tell the complete story. Furthermore, a number of UK with-profits funds are closed, and so firms may have little appetite to spend significant time and effort focusing on IFRS 17.



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Wider implications of IFRS 17

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Life insurer key metrics

Currently IFRS is only one KPI metric used in telling the story of a Life company



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Key metrics under IFRS 17



Cash-type metrics

Will it still be needed?

- An indicator of dividend expectation
- Analysts have publically called for improvement in profit performance / cash generation metrics

New IFRS 17 factors

Reconciliation and disclosure

Investors will need to be taken on the journey of how the cash metrics relate to the disclosed IFRS 17 profit



Adjusted Operating Profit

Will it still be needed?

- Removal of short-term market volatility?
- Exclusion of deal activity?
- Exclusion of items that are one-off in nature?

New IFRS 17 factors

Mismatches

Inconsistent treatment in measurement

CSM Volatility

VFA release will not be predictable and stable

There is no industry-standard AOP.



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Key metrics under IFRS 17



Solvency measures

Will it still be needed?

- Risk adjustment unlikely to be as sophisticated as risk margin, nor consider tail risk
- Information capital consumption is additive to the information provided by IFRS 17

New IFRS 17 factors

Reconciliation and disclosure

Investors will need to be taken on the journey of how the cash metrics relate to the disclosed IFRS 17 profit



Value of New Business

Will it still be needed?

Reported on SII or EV business, along with a volume metric such as new premium

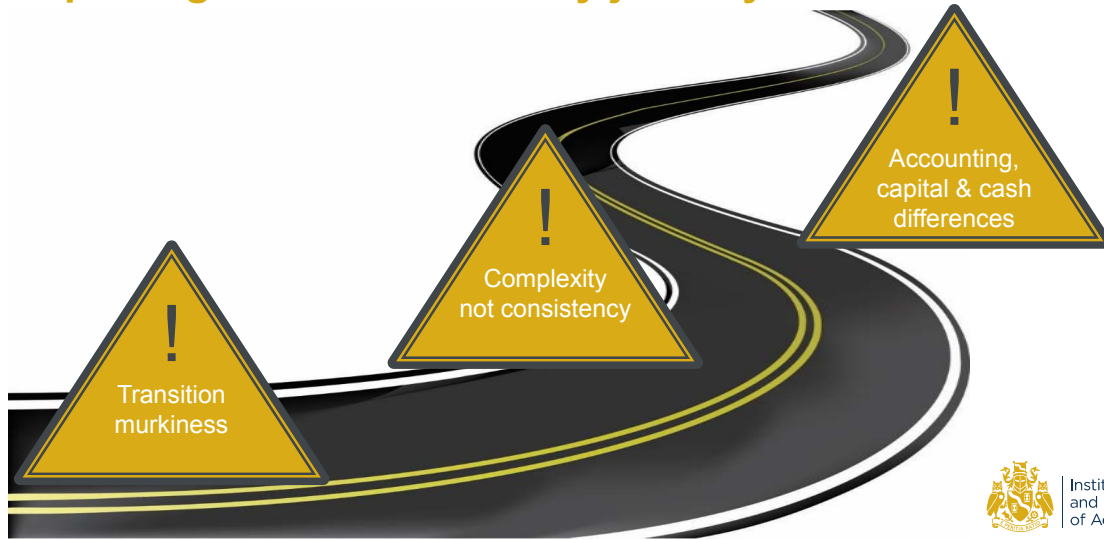
New IFRS 17 factors

New business CSM may become an alternative measure for new business, considered by users to be more comparable



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Reporting will not be an easy journey



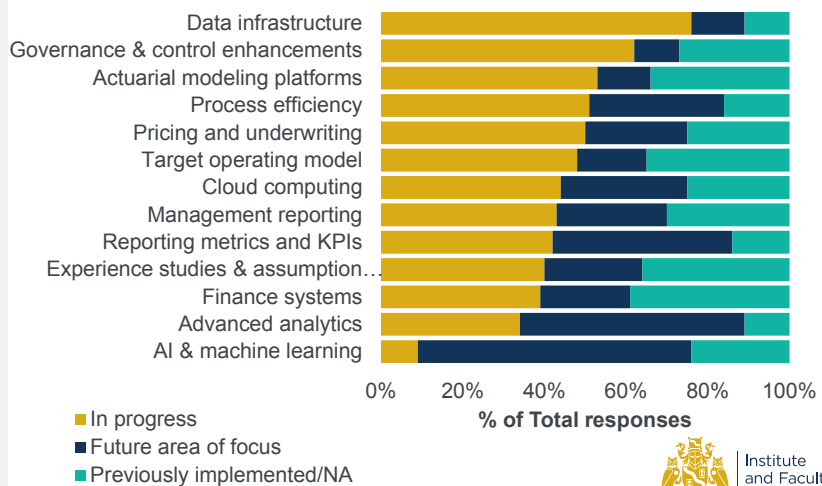
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Are benefits outweighed by costs?

IFRS 17 as a catalyst for change

- Main focus areas are implementation of foundational capabilities, e.g. data infrastructure, governance/controls and actuarial modeling platforms



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Summary

- Scale of change for UK market
- Broadly meeting IASB objectives
- Global context
- Significant cost/benefit challenges for UK legacy business
- Time to bed in
- Ongoing need for supplementary reporting

Questions

Comments

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