Institute
and Faculty
of Actuaries

IFRS 17 as BAU: A Question of Timing

Neil Bruce

25 September 2019

Agenda

Iteration of assumptions:

- Introduction to IFRS 17
- BAU under IFRS 17
- Prioritising your effort
- Conclusion

Institute and Faculty of Actuaries

Institute
and Faculty
of Actuaries

Introduction to IFRS 17

Application and Progress

04 September 2019

IFRS 17 – the basics

- Common (almost) global standard for reporting to investors, not regulators

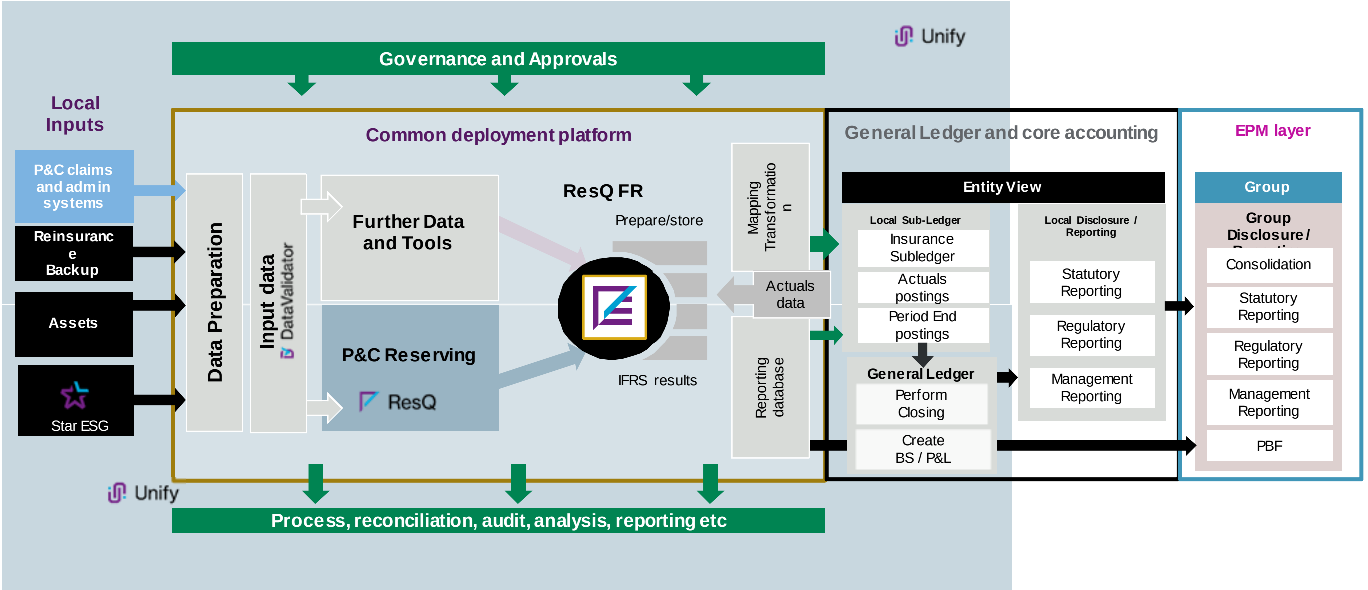
What

- Global* accounting standard covering insurance contracts with a consistent measurement basis
- General purpose financial reporting to meet needs of investors and creditors
- Not designed to meet requirements of supervisors/regulators

Who

- Any entity which issues insurance contracts and reports under IFRS
- May be mandated by (inter)national legislation (e.g. listed entities in EU or insurance entities in some jurisdictions)
- Entities may opt to publish under IFRS alongside national GAAP accounts
- Subsidiaries of such entities will need to report internally under IFRS (via reporting pack or similar simplified mechanism)
- Many large entities (particularly unlisted) will continue to use local GAAP
- US entities will report under US GAAP as now

Potential IFRS 17 architecture



- Usual focus on accounting end of the process
- Many solutions require cashflows to enable the calculation of the Financials
- Derivation of these cashflows in non-trivial
- Actuarial assumptions will be critical in this
- Multiple other data sources required including yield curves, expenses etc.

Institute and Faculty of Actuaries

IFRS 17 – Exposure Draft

- Consultation ends today, timetable indicates final version available mid 2020

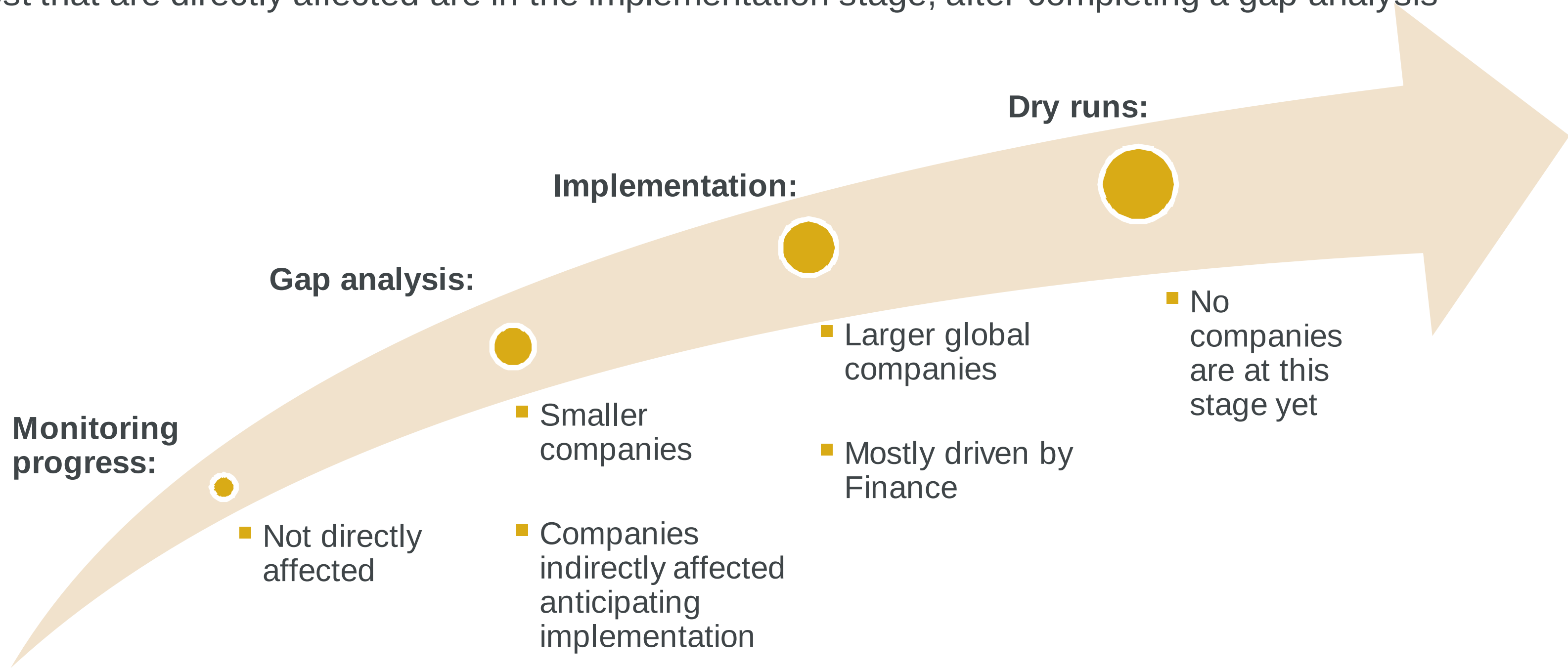
Challenge from multiple insurance associations across the globe (25 topics) +1 from EU (mutuals)

- One year delay
- Presentation at portfolio not group level
- Acquisition costs
- Reinsurance
- CSM
- Further issues will be addressed after initial implementation

Most companies are using the delay to optimise their approach rather than slow down implementation progress

IFRS 17 – market progress

- Most that are directly affected are in the implementation stage, after completing a gap analysis



Companies are not consistent in their progress – depends on own situation

Institute and Faculty of Actuaries

BAU under IFRS 17

An actuary’s perspective

BAU – change in focus

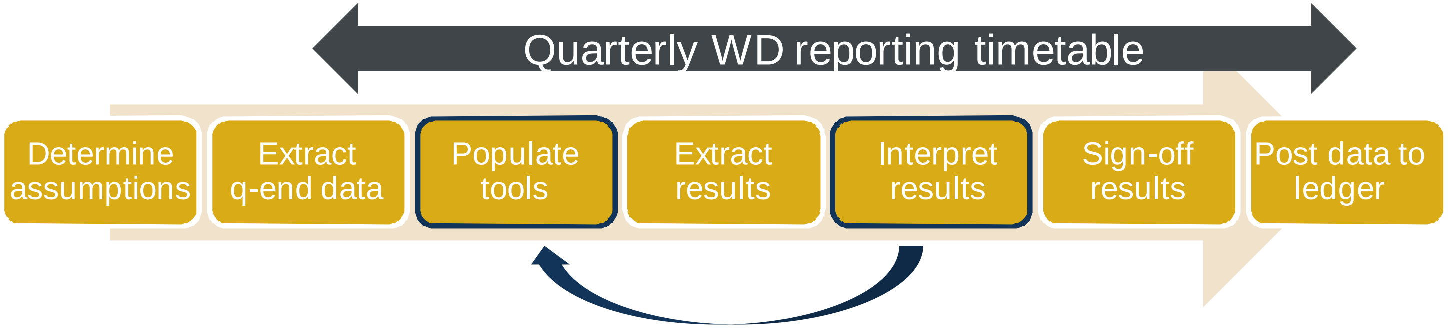
- Focus will change when implementation is complete

Focus of current efforts will largely be complete:

- Accounting systems will be in place
- Pipework tested and mappings in place
- (Initial) accounting choices already defined

Focus will move to more operational issues:

- Hitting timetables
- Feed into other processes (planning, investor metrics, M&A impacts, capital modelling)
- Interaction of Finance and Actuarial teams – controlling information flow and explaining movements



BAU – pinch points

- Which areas are likely to cause particular problems

Main issues: ⚠ = actuarial issue

Particular issue:

Main issues	Actuarial issue	Particular issue
Timeframes for production of numbers and commentary	⚠	Same as current GAAP
Data capture	⚠	New sources and detail
Investor comms		Board responsibility
Planning/ business KPIs	⚠	CFO responsibility, but need actuarial input
Managing effect of change in assumptions	⚠	Significant issue
Managing effect of change in standards		Monitoring rather than pro-active approach

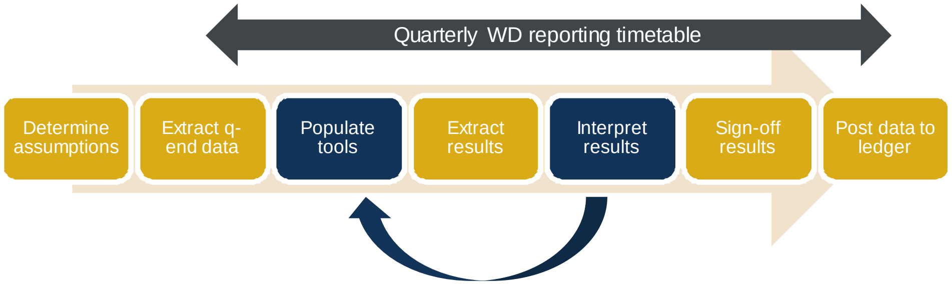
of Actuaries

BAU – pinch points

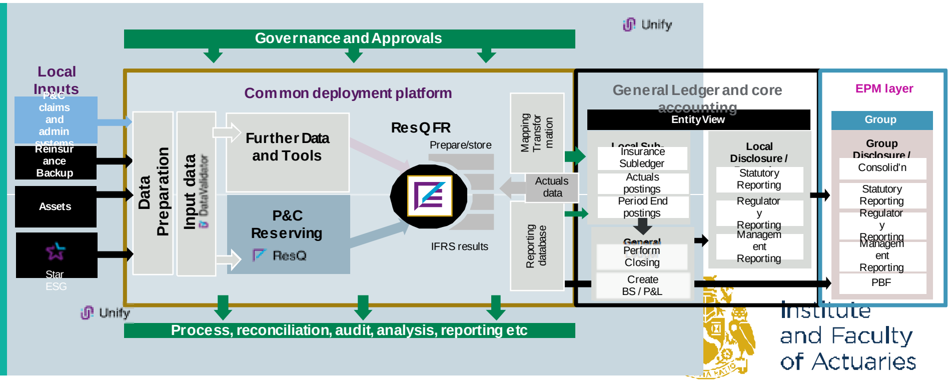
- Where will you be **spending your time?**

Main issues:

- Timeframes for production of numbers and commentary
- Data capture
- Investor comms
- Planning/ business KPIs
- Managing effect of change in assumptions
- Managing effect of change in standards



Absolutely critical to spend time on getting the **right assumptions** into the calculation, and providing **credible and detailed commentary**



Institute and Faculty of Actuaries

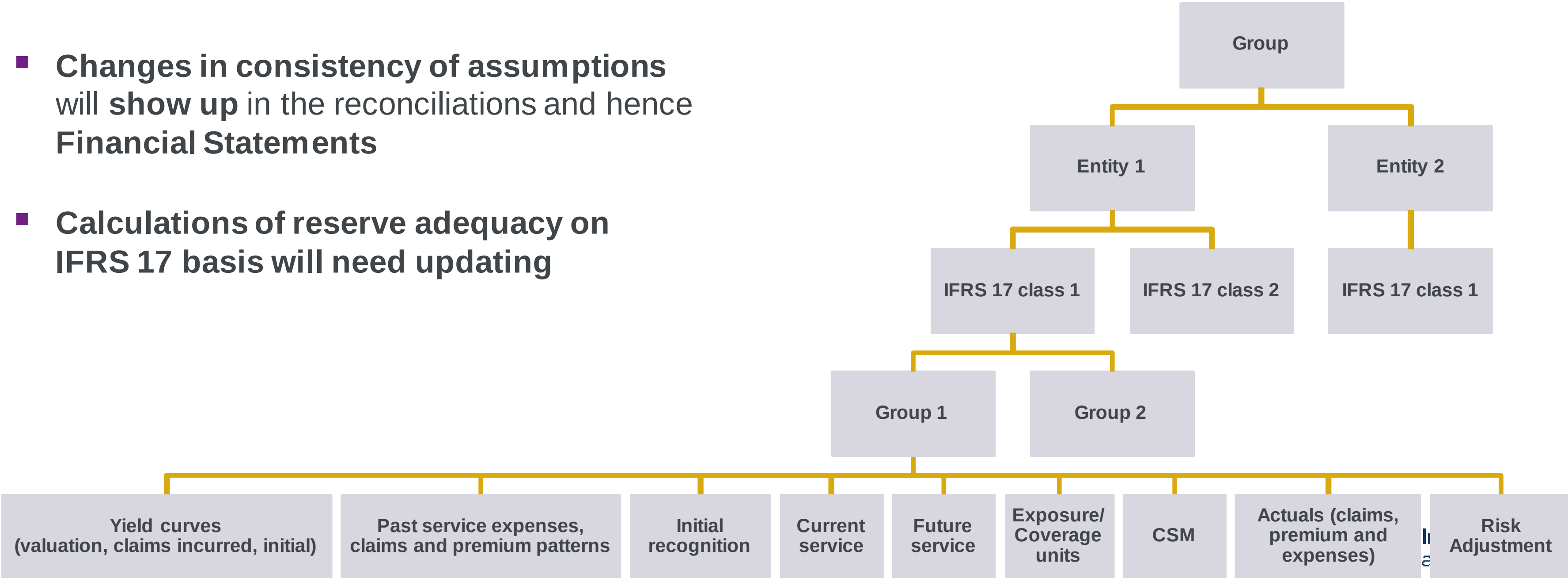
BAU – level of granularity of setting assumptions

- Emphasis will be on ensuring consistent assumptions

- **Assumptions will be at a granular level**

- **Changes in consistency of assumptions** will **show up** in the reconciliations and hence **Financial Statements**

- **Calculations of reserve adequacy on IFRS 17 basis will need updating**



BAU – interpretation of results

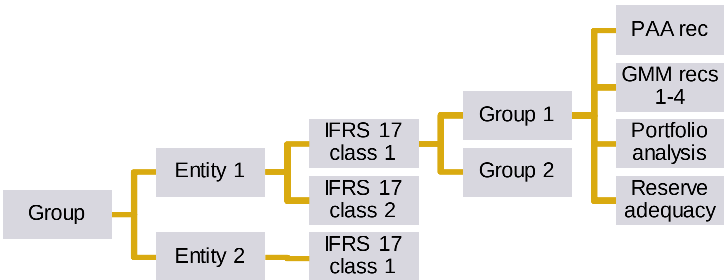
- Analysis of results will need to fit within the reporting timetable

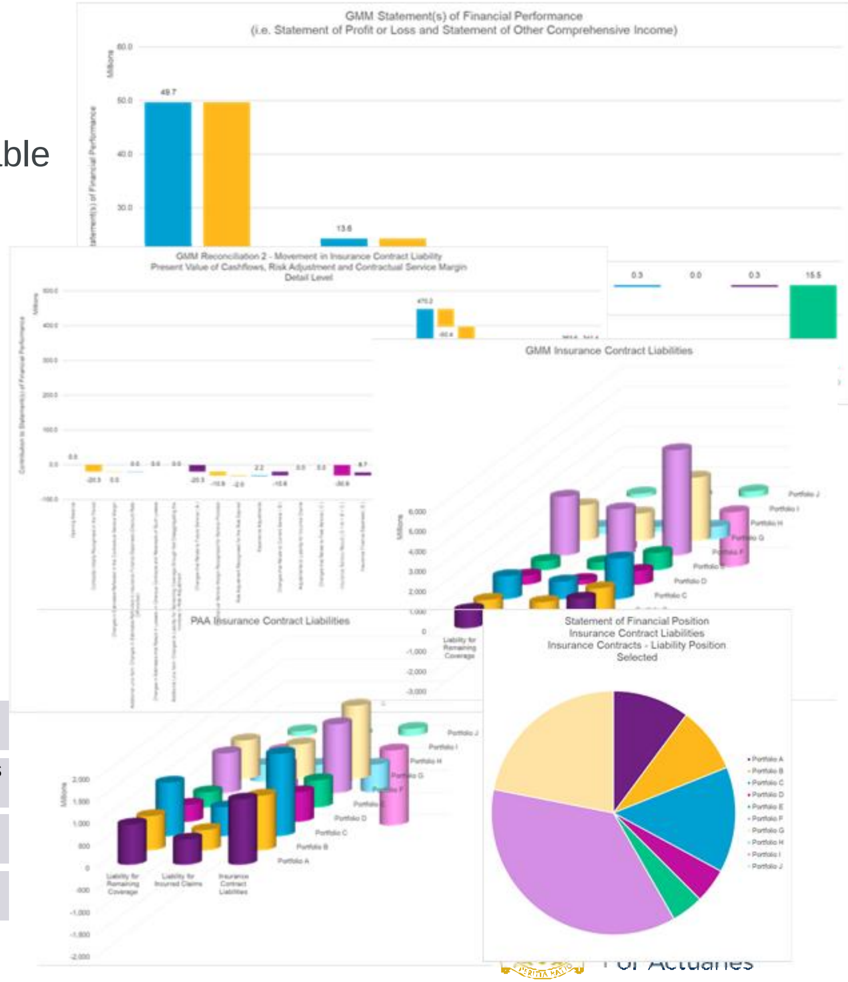
▪ **Vast amount of detail** – need to sift to explain all movements

▪ **Commentary needed** for the financial statements

▪ **Approximations within the assumptions** will result in volatility in the reconciliations

▪ **Yield curve variation** will be a major source of change



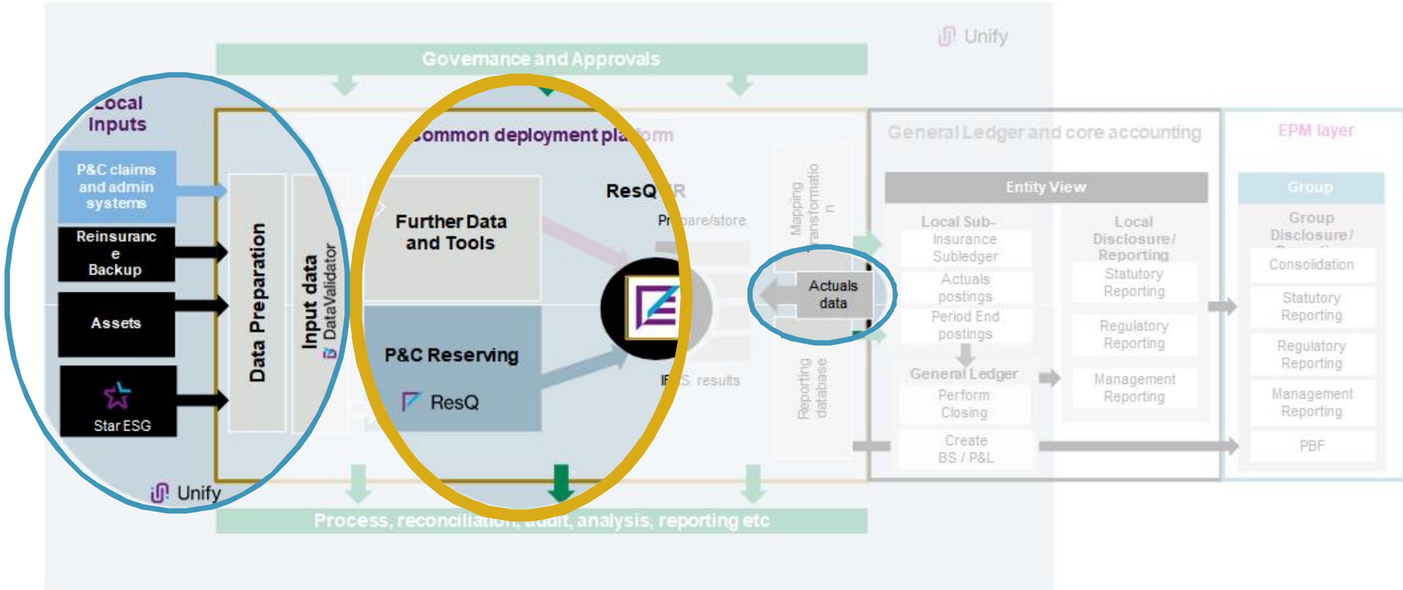


Institute and Faculty of Actuaries

Prioritising your effort

What’s going to be important?

Automate as much as possible



- Data preparation and population automatic
- Automatic production of assumptions based on core reserving process
- Population of IFRS 17 calculations automatically
- Production of MI/ drillable results
- Allow quick review and playback, with potential to adjust assumptions
- Build up story of the quarter

Institute and Faculty of Actuaries

Areas of focus

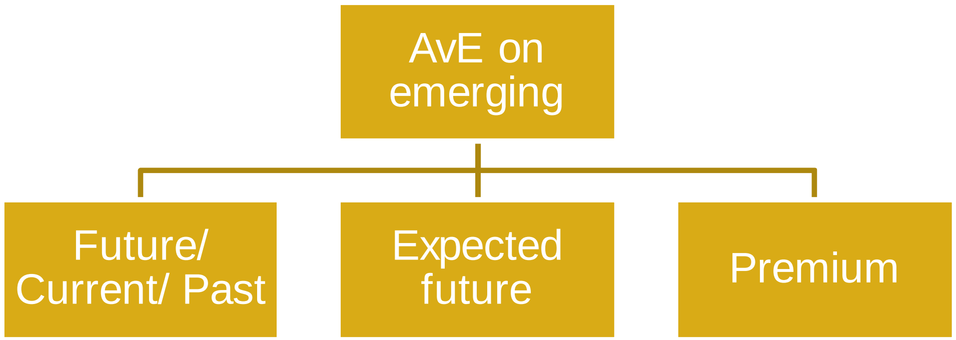
- Some changes will be expected, others will not

Expected changes:	Unexpected issue:
Change in level and shape of yield curves	Split of impact if not produced as part of OCI
AvE on experience in the period	e.g. inconsistent assumptions obvious
Unwind of CSM / LRC	e.g. linear earning, not seasonal
New business adding to a cohort	e.g. RI adjustments for gross new business
Unwind of discount	Changes to initial discount rate over the year
Expense allocations and Risk Adjustment	e.g. impact on expected future profit
Interpretation and reconciliations	e.g. impact of appetite for reserve adequacy

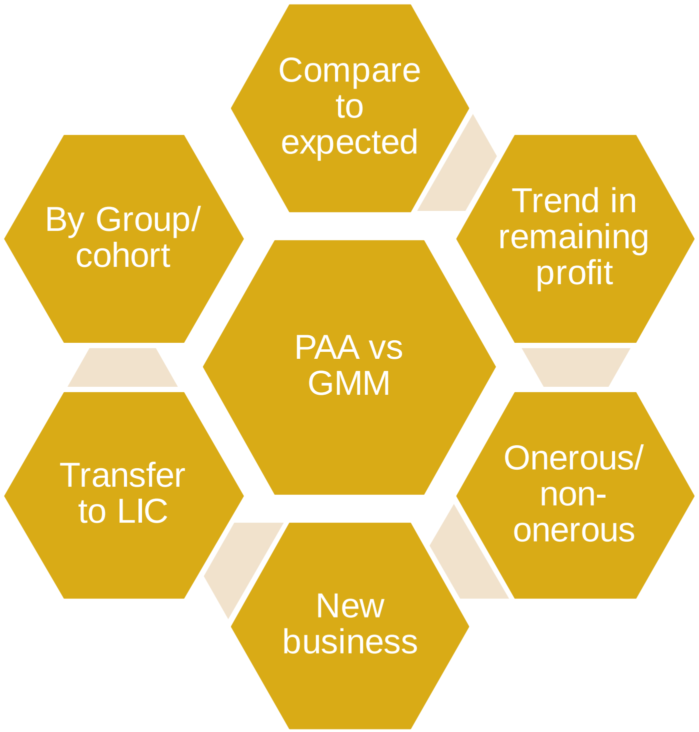
Focus area: AvE experience

As normal but

- Includes more detailed analyses due to moving between future/current/past
- Impact on future profits of changes in expectations of pricing strength
- Additional premiums (RP, AP) and allocation of the associated losses
- PAA revenue dependent on allocated expected (not actual) receipt of premium



Focus area: Unwind of CSM/LRC



Focus area: New business

New business written

- Assign to a cohort
- Reinsurance cohorts may have different timing of new business to gross
- “Proportionate” reinsurance will need to include impact of new gross business

Increase in CSM/LRC

- Split out from run-off of existing business

Change in initial discount rate

- Waterfall of effect of change in discount rate on LRC as well as impact on existing LRC

Interim reporting

- Change in focus depending on seasonality
- May have different seasonality for RI and gross business

Institute and Faculty of Actuaries

Focus area: Expenses and Risk Adjustment

These elements can impact not only past but also future business profitability

- CSM changes leading to changes in expected profitability amount and timing
- Changes in expectations of allocation of RA will impact CSM/ unearned profit

Focus area: interpretation and iteration

Iteration of assumptions:

- Controls in setting, reviewing and signing off assumptions
- Reconciliations to core data and finance systems
- New/ different KPIs
- Reserve adequacy calculations and impact on message
- Bridging to other bases

Institute
and Faculty
of Actuaries

Conclusion

18 September 2019

Conclusions

It’s not going to be easy:

- Efficient processes are critical
- Controls will need to be tighter than is usual at the moment
- Interpreting movements may require significant amounts of analysis
- Not all movements will be easy to explain, particularly if driven from inconsistencies in assumptions
- Bridging to other bases may vastly increase workloads

Institute and Faculty of Actuaries

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 [publication/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 or authors.