IFRS 17 as BAU: A Question of Timing

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Agenda

**Iteration of assumptions:**

- Introduction to IFRS 17
- BAU under IFRS 17
- Prioritising your effort
- Conclusion
Introduction to IFRS 17
Application and Progress
## IFRS 17 – the basics

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

<table>
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<th>What</th>
<th>Who</th>
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<td>▪ Global* accounting standard covering insurance contracts with a consistent measurement basis</td>
<td>▪ Any entity which issues insurance contracts and reports under IFRS</td>
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<td>▪ General purpose financial reporting to meet needs of investors and creditors</td>
<td>▪ May be mandated by (inter)national legislation (e.g. listed entities in EU or insurance entities in some jurisdictions)</td>
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<td>▪ Not designed to meet requirements of supervisors/regulators</td>
<td>▪ Entities may opt to publish under IFRS alongside national GAAP accounts</td>
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<td>▪ Subsidiaries of such entities will need to report internally under IFRS (via reporting pack or similar simplified mechanism)</td>
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<td>▪ Many large entities (particularly unlisted) will continue to use local GAAP</td>
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<td>▪ US entities will report under US GAAP as now</td>
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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 is non-trivial
- Actuarial assumptions will be critical in this
- Multiple other data sources required including yield curves, expenses etc.
IFRS 17 – Exposure Draft

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

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

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

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
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

Quarterly WD reporting timetable:

1. Determine assumptions
2. Extract q-end data
3. Populate tools
4. Extract results
5. Interpret results
6. Sign-off results
7. Post data to ledger
### BAU – pinch points

- Which areas are likely to cause particular problems

#### 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

#### Particular issue:
- Same as current GAAP
- New sources and detail
- Board responsibility
- CFO responsibility, but need actuarial input
- Significant issue
- Monitoring rather than pro-active approach

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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
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
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
### Areas of focus

- Some changes will be expected, others will not

**Expected changes:**

- Change in level and shape of yield curves
- **AvE on experience in the period**
- **Unwind of CSM / LRC**
- New business adding to a cohort
- Unwind of discount
- Expense allocations and Risk Adjustment
- Interpretation and reconciliations

**Unexpected issue:**

- Split of impact if not produced as part of OCI
  - e.g. inconsistent assumptions obvious
- e.g. linear earning, not seasonal
- e.g. RI adjustments for gross new business
- Changes to initial discount rate over the year
  - e.g. impact on expected future profit
  - 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

- Compare to expected
- Trend in remaining profit
- Onerous/non-onerous
- New business
- Transfer to LIC
- By Group/cohort
Focus area: New business

- 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
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
Conclusion
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
Questions

Comments

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