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Implementation of IFRS4 Phase II - Technical and Practical Challenges

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19 November 2015

Agenda

- Introduction and market overview
- Commencing a Phase 2 project
- Technical Challenges
- Operational and Implementation Considerations
- Q&A

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Introduction & Market Overview

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Who does IFRS 4 Phase II impact?

New accounting standard for valuation of actuarial liabilities for both Life and General Insurers...it's different to current accounting and Solvency II

Impacts the Group accounts for all multinational insurers in Europe, Asia and more widely (excluding US) ... but UK accounting rules likely to change as well ... so will impact virtually all in the UK in time

Publication of the IFRS 4 Phase II insurance contracts standard is expected in 2016 ... with an effective date of approximately 2020/21

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Current Phase 2 timeline

IFRS standards	2015	2016	2017	2018	2019	2020
Insurance contracts (IFRS 4 Phase II)	Final standard in 2016					Effective 2020/2021?
Financial asset and liabilities (IFRS 9)	ED to IFRS 4			Effective 1 January 2018 (for non-insurance business models)		
Revenue (IFRS 15)	Targeted amendments to new standard			Effective 1 January 2018		
UK developments						
'New' UK GAAP (FRS 102/103)	Effective 1 January 2015					Long-term future tbc

- All IFRS standards are subject to EU endorsement
- FASB (the US accounting standard setter) decided in 2014 to make only targeted amendments to US GAAP, so there will be no global accounting standard

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Current view of implementation activities

Market leaders

- Forefront of lobbying
- Gap analysis and sizing of implementation completed
- Group-wide technical and financial assessment completed
- Group-wide systems, people, processes and data assessment completed
- Pilot assessments ongoing to investigate solution design options

Market norm

- Supporting the industry on lobbying initiatives
- High level gap analysis and sizing of implementation completed
- Initial group-wide technical assessment completed

Market followers

- Solvency II implementation taking full management focus
- Signification activities are not yet underway

Sceptics

- It'll never happen...

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Starting a Phase 2 project

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Why start a Phase 2 project?

Key Considerations

- Managing uncertainty of timing
- Learning lessons from SII – too early vs. too late
- Securing resource & building expertise – internal and external
- Understanding the impact and influencing the outcome
- Level of group-wide buy-in

What did we want to achieve in this phase?

- Understanding the impact of the Standard
- High level systems design
- Determining resource structure and indicative costs
- Governance structure and project principles
- Influencing the outcome – this can be labour intensive

What does success look like?

- Time to challenge design and costs
- Impact understood throughout the organization
- Effective contribution to industry debate

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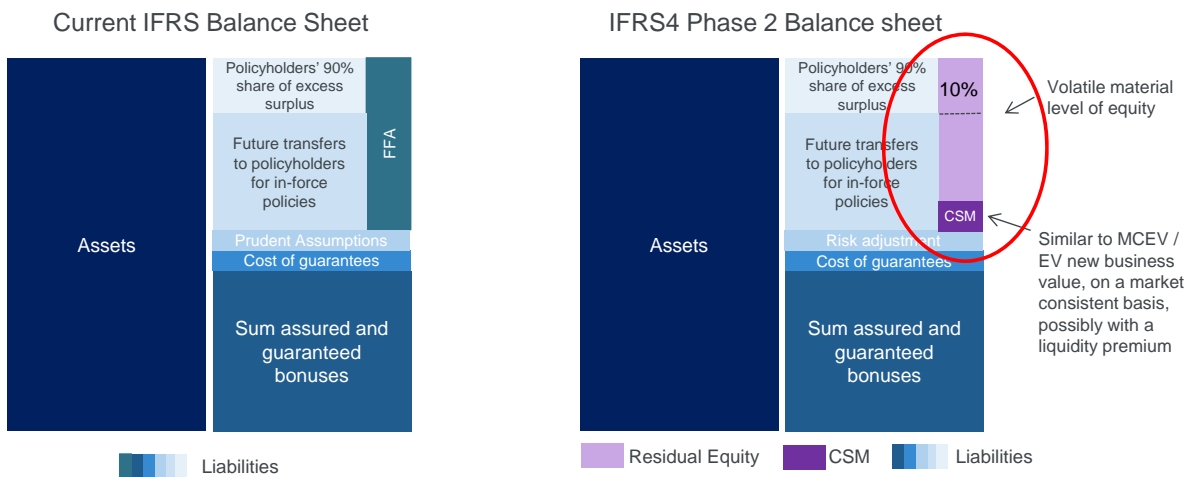


Technical Challenges

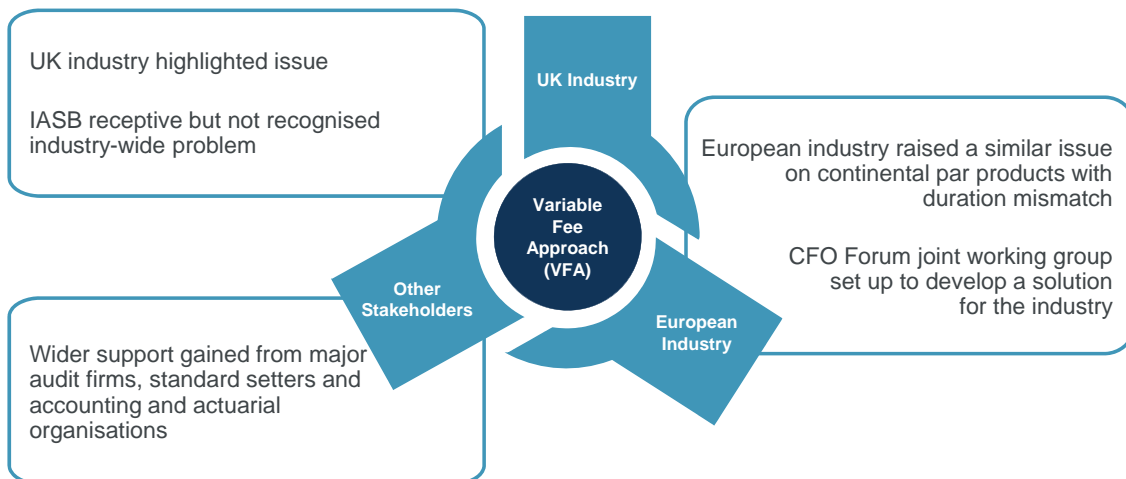
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Sponsorship
 Thought leadership
 Progress
 Community
 Educational Meetings
 Education
 Working parties
 Volunteering
 Research
 Shaping the future
 Networking
 Professional support
 Enterprise and risk
 Learned society
 Opportunity
 International profile
 Journals
 Support

With Profits business under the Exposure Draft



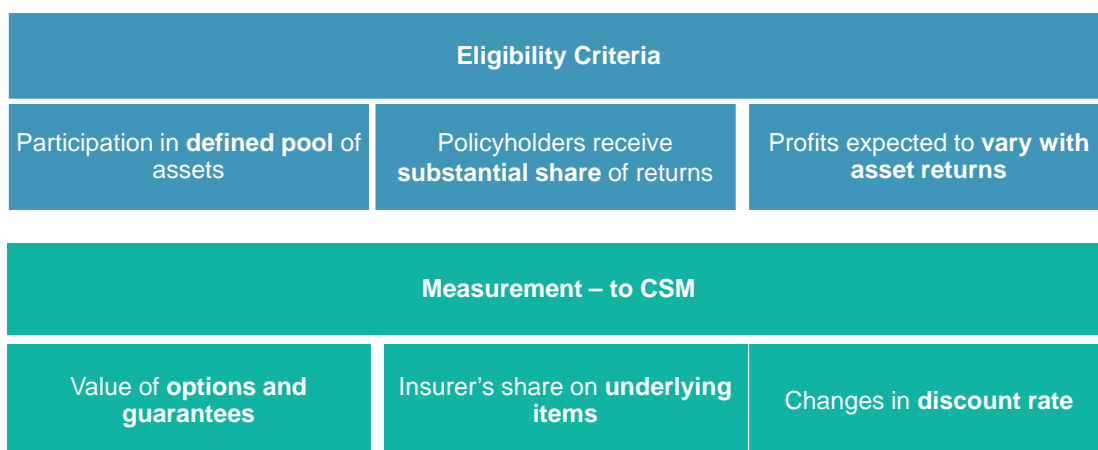
The lobbying process for with profits business



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Variable Fee Approach

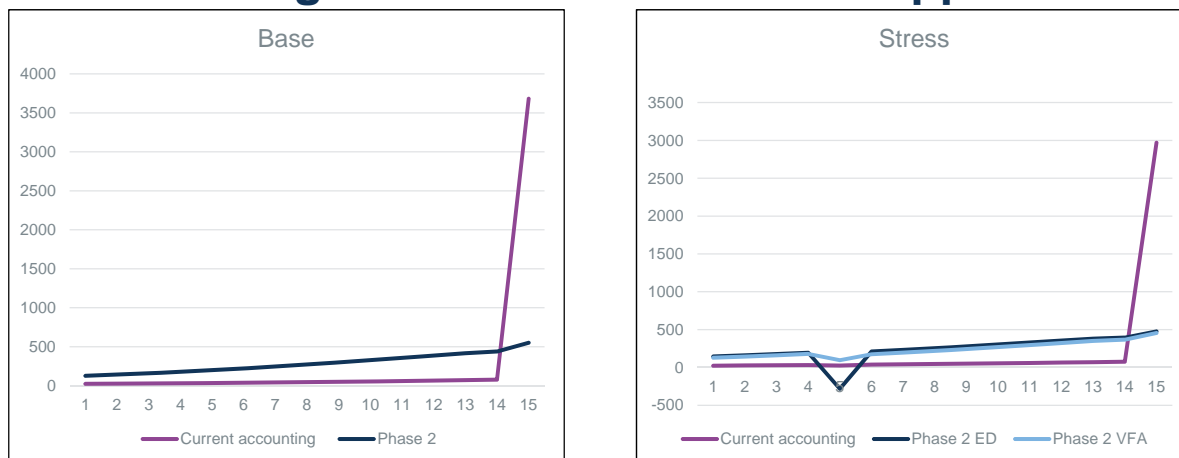


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Example With Profits Contract

Profit emergence under the different approaches



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Other key technical areas of focus

- UK Annuities – Other Comprehensive Income (OCI) is now optional
- Unit of Account – Level of calculation and aggregation
- CSM Discount Rate – Current rate or locked-in rate
- CSM Amortisation – What is a straight line?

OCI - Other comprehensive income is the difference between net income as in the Income Statement (Profit or Loss Account) and comprehensive income, and represents the certain gains and losses of the enterprise not recognized in the P&L Account. It is commonly referred to as "OCI".

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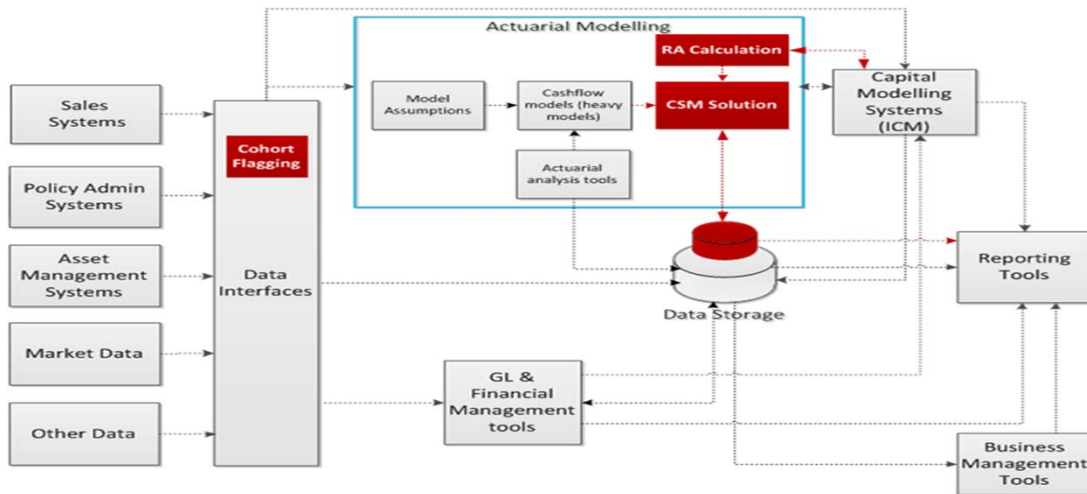
Operational & Implementation Considerations

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Operational impact – key questions

- What will you need to calculate Phase 2 numbers?
- What have you already got that you can leverage?
- How will you build the new items?
- What are the challenges getting to first time reporting?

What do you need to have in place?

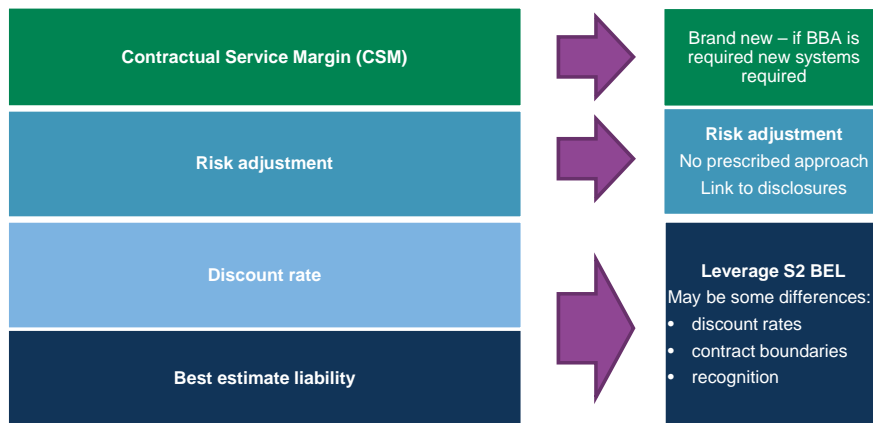


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What can you leverage from S2?

Building Blocks



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Choices around the new components

CSM Engine

- Level of granularity of calculation
- Level of granularity of storage
- Build new or amend existing system
- Local or Group held model
- Local or Group wide implementation
- Ability to change in future

General Ledger

- Considerations around dual running
- How to deal with different local and group reporting

Management Information

- Frequency and granularity of reporting
- Extent of cross metric reconciliation
- What do we do now that we can stop in future?

Further implementation considerations



Impact on future financial reporting



Transition



Restatements



Speed of reporting

Closing message...

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Questions



Comments

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