Operationalizing IFRS 17 – Asian Perspectives
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Adoption of IFRS 17 – Asian Countries

- **India**: The current regulatory indication is that IFRS 17 will be mandatory as of April 2020. However, this is not yet fully certain.
- **China**: Accounting standards are substantially converged with IFRS. IFRS 17 effective date is subject to the possibility of deferral, possibly similar to what was done to IFRS 9.
- **Hong Kong**: Endorsed on 12 December 2017.
- **Taiwan**: A 3 year deferral was granted based on the IASB’s effective date.
- **Turkey**: Full compliance with IFRS Standards.
- **Indonesia**: Effective date of IFRS 17 application is either 1 January 2022 or 2023.
- **Singapore**: Endorsed on 29 March 2018.
- **South Korea**: Formed special task force, requested high level impact assessment to be submitted to regulator.
- **Japan**: Eligible companies are permitted to voluntarily apply IFRS. A Technical Committee has been set up to deliberate the ASBJ’s views on IFRS 17.
- **Philippines**: Philippine FRS are aligned with IFRS text and PFRS 17 is expected soon.
- **Vietnam**: Plans to adopt IFRS in 2020 with focus on bank and insurance companies.
- **Malaysia**: Full adoption as MFRS 17.
- **Thailand**: Tentative effective date is 1 January 2022.
- **Japan**: Effective date of IFRS 17 application is subject to the possibility of deferral.

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.
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

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.).

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
### Asia Insurance Market - Challenges

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Skills</td>
<td>Shortage of actuarial skills in most countries.</td>
</tr>
<tr>
<td>Actuarial Transformation</td>
<td>Most companies have not done any major transformation like Solvency II before.</td>
</tr>
<tr>
<td>Actuarial Modelling</td>
<td>Lack of stochastic modelling capabilities.</td>
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<tr>
<td>Data Quality</td>
<td>Data quality can be poor (e.g. data availability and credibility) in some emerging markets.</td>
</tr>
<tr>
<td>Industry Maturity</td>
<td>For MNC groups, maturity for different BUs varies widely.</td>
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</tbody>
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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

IFRS 17 Timeline

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

- May 2017: Final standard issued
- January 2018: IFRS 9 effective date (no deferral)
- January 2021: IFRS 17 effective date
  - IFRS 9 effective for all entities
Journey to IFRS 17 compliance
What needs to happen?

Substantial investment in human resources is needed in both development phase and post-implementation phase.

Considerations of a Large Scale Finance Transformation

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

Different Interpretation of IFRS 17 Requirements

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

<table>
<thead>
<tr>
<th>IFRS 17 Requirement</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combination of Contracts</td>
<td>Grouping of Contracts</td>
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<tr>
<td>Unbundling</td>
<td>Choice of Measurement Models</td>
</tr>
<tr>
<td>Investment Component</td>
<td>Reinsurance Treatment</td>
</tr>
<tr>
<td>Policyholder Options</td>
<td>Transition Approach</td>
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<tr>
<td>Measurement Model</td>
<td></td>
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<td>Level of Aggregation</td>
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<tr>
<td>Contractual Service Margin</td>
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<tr>
<td>Reinsurance</td>
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<td>Presentation and Disclosure</td>
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<td>Transition</td>
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</table>
From Interpretations to Implementations

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

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?
Identify System Gaps

As-is system infrastructure (an illustrative example)

<table>
<thead>
<tr>
<th>Source Systems</th>
<th>Application Systems</th>
<th>Reporting</th>
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<tbody>
<tr>
<td>Front-end Systems</td>
<td>Policy Admin. System</td>
<td>Trial Balance</td>
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<tr>
<td>Investment Asset System</td>
<td>Actuarial System</td>
<td>Balance Sheet</td>
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<td></td>
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<td>Income Statement</td>
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<td>Reconciliation</td>
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<td>MI Workbook</td>
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<td>Spreadsheets / Assess</td>
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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?

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?
Key Challenges to IFRS 17 Implementation

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

- General performance issues for various system components;
- The need of a sub-ledger?

Assumption data requirement is new to quite a few Asian insurers.

- Need a manual exercise to go through the reinsurance arrangements;
- Investment component?
- Onerous contracts?
- Having all relevant data is key.

It is difficult to identify comprehensive data requirements, hence data gap.

The study of actual vs. expected will be challenging.

- Need substantial changes to the data conversion process from admin system to actuarial system;
- Non trivial exercise to go through all products to ascertain contract boundary.

- Many possible ways;
- How do they affect contract boundary?
- How to determine what is or isn’t a modification?
- Heavy system, data and process impact.

Questions

Comments

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