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Where are we with IFRS 17?

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8 May 2018

Agenda

- Key considerations
- Latest developments



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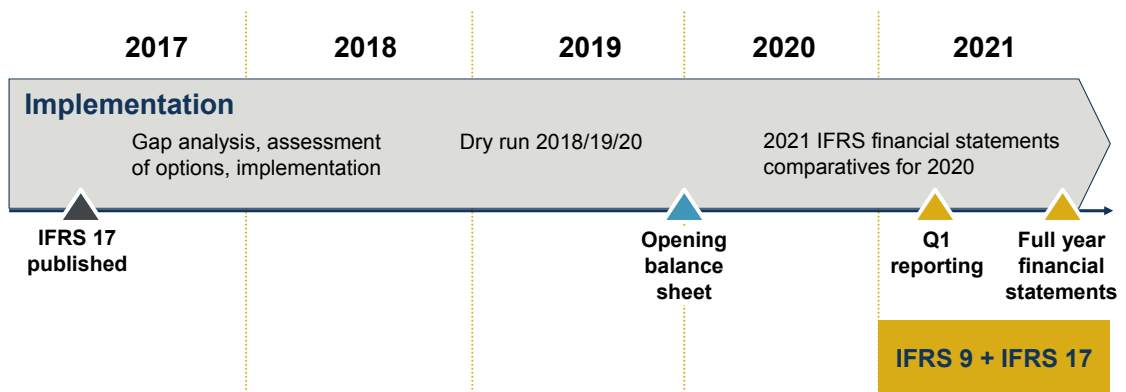
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UK life industry key questions

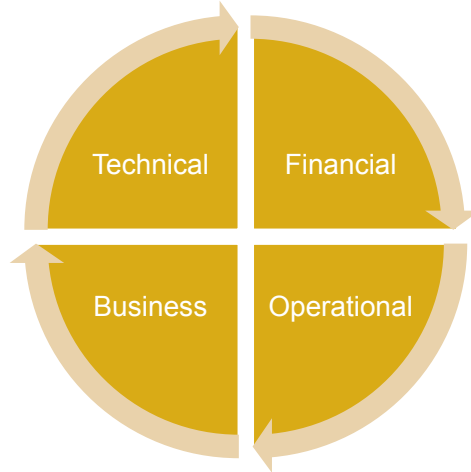
- Why a new standard?
- Does IFRS 17 affect my firm or me?
- What does my firm need to do and when?
- Will IFRS 17 affect my firm's business decisions?



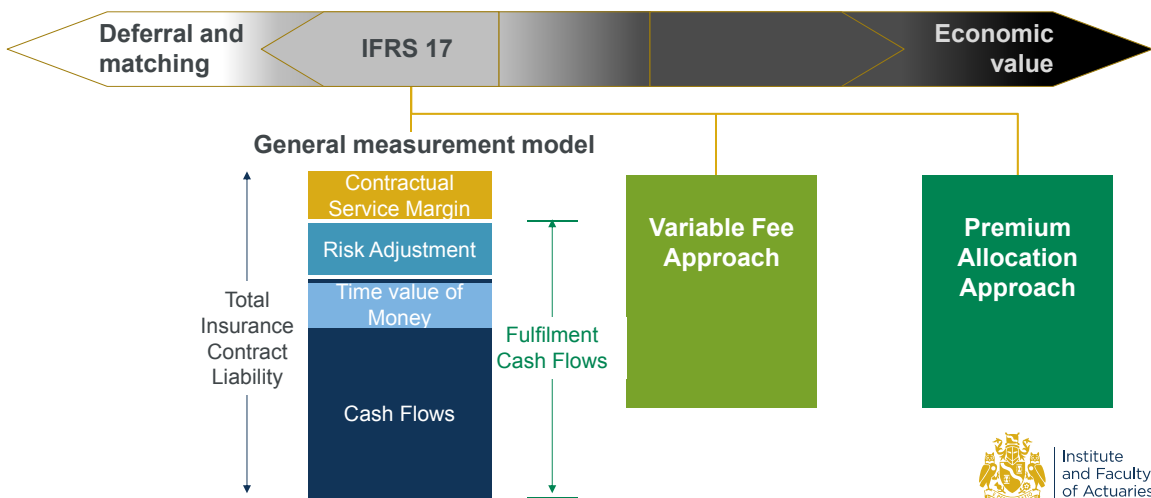
Implementation timetable as at May 2018



Have you completed an Impact Assessment?



IFRS 17 hybrid measurement model



New IFRS 17 Income Statement

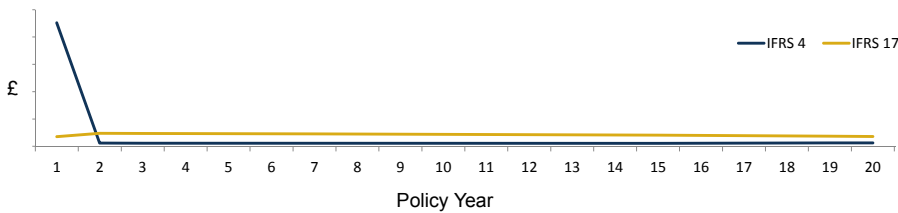
| Statement of Comprehensive income | |
|---|------|
| | 2021 |
| Insurance contract revenue | x |
| Insurance service expenses | (x) |
| Insurance service result | x |
| Investment income | x |
| Insurance finance expense | (x) |
| Net financial result | X |
| Profit / Loss | x |
| Discount rate changes on insurance liability (optional) | X |
| Total comprehensive income | x |

- Hybrid between sources of cash flow & surplus approaches – no premiums
- Insurance contract revenue and service expenses exclude any investment components
- Insurance finance expense is excluded from insurance service (underwriting) result
- OCI discount rate option appeals to continental Europeans

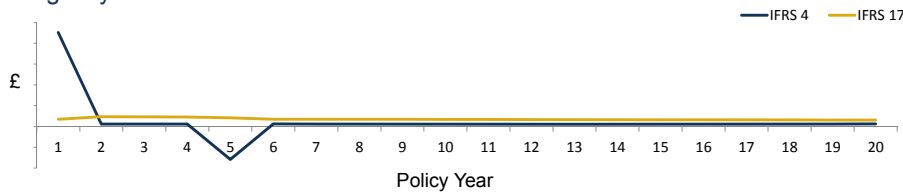


Financial impact Profit emergence for non-profit immediate annuity

Base case

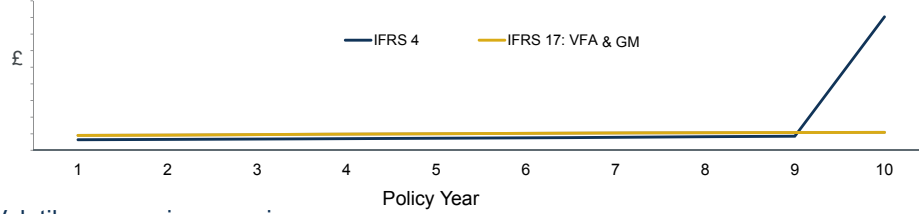


Longevity stress scenario

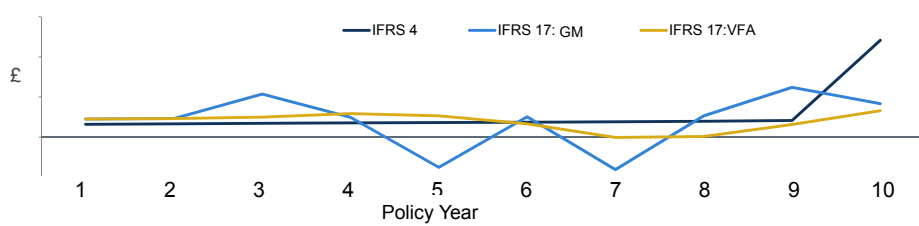


Financial impact Profit emergence for with-profit endowment

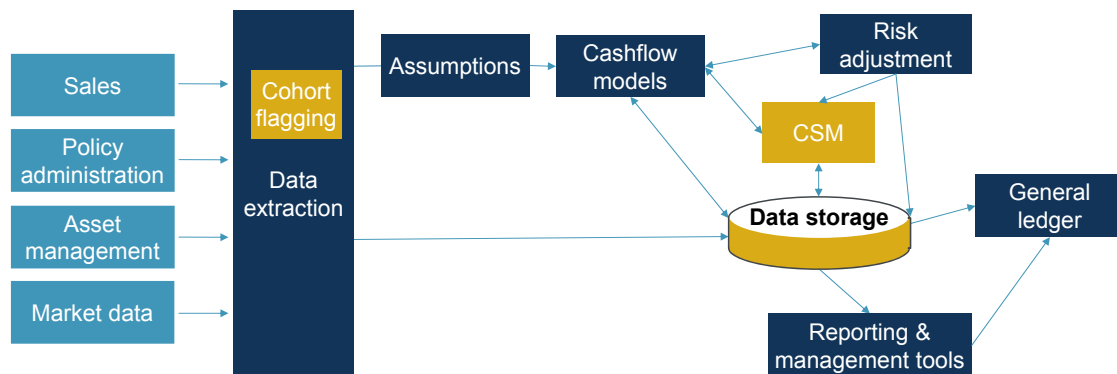
Base case



Volatile economic scenario



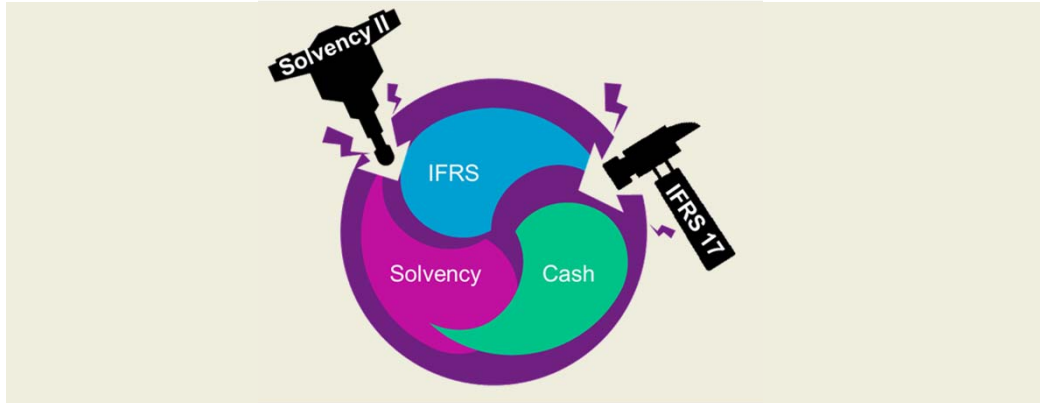
Operational challenges: design to production Example: the CSM engine



Systems requiring change
 New systems required



Business challenges Complicated investor message



Business challenges ALM: which metric to manage to?

Solvency II ratio

Ratio

100% SCR0

Time

Solvency II balance sheet

A L

IFRS Profits

Profit

Time

IFRS Equity / Value

A L

Business challenges

IFRS 17 contains new accounting mismatches

| | | |
|--------------------------------|---|---|
| Reinsurance | Direct contract | Reinsurance contract held |
| | Profits deferred through CSM, but losses recognised immediately | Net cost/gain deferred through CSM |
| | Under VFA if meet criteria | VFA not allowed |
| | In-force business | For open treaties, could include direct contracts not yet written |
| Hedging in VFA | Movement in derivative | Movement in hedged item |
| | Profit or loss | Pre-transition movements taken to CSM |
| Interest rate in General Model | CSM | BEL, Risk Adjustment & Assets |
| | Inception rate | Current rate |



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IASB Transition Resource Group

- Role, membership, process and output

| Topics discussed to date | |
|--|---|
| 6 February TRG | 2 May TRG |
| <ul style="list-style-type: none"> • Separation of insurance components • Boundary of contracts with annual repricing • Boundary of reinsurance contracts held • Insurance acquisition cash flows paid • Insurance acquisition cash flows when using fair value transition • Determining quantity of benefits for identifying coverage units | <ul style="list-style-type: none"> • Combination of insurance contracts • Risk adjustment in a group • Cash flows within the contract boundary • Boundary of reinsurance contracts held • How to determine quantity of benefits for identifying coverage units |

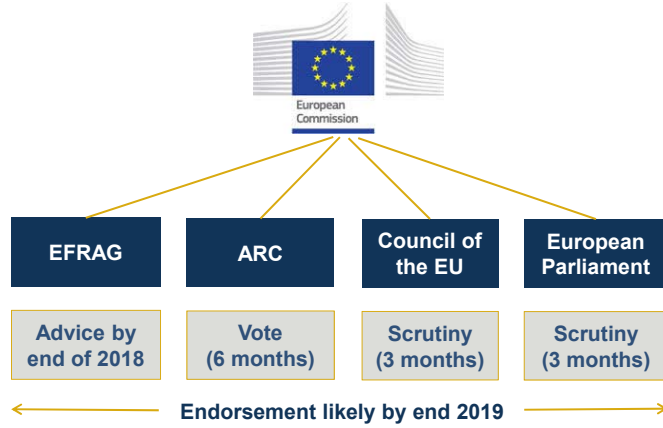


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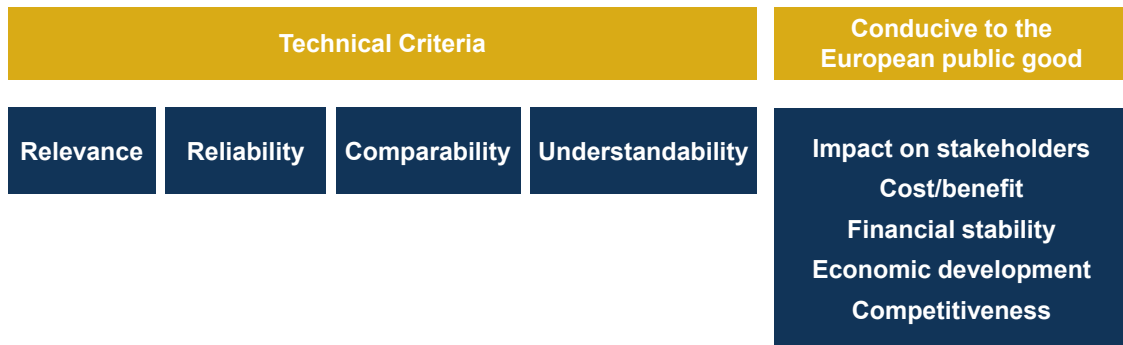
When endorsed, IFRS adoption required in consolidated accounts of publicly traded E.U. companies



- EFRAG activities: outreach, case studies and economic study



EU endorsement criteria



What can UK life firms do to help?

- Detailed field test case study with c.11 E.U. firms, due 15 June

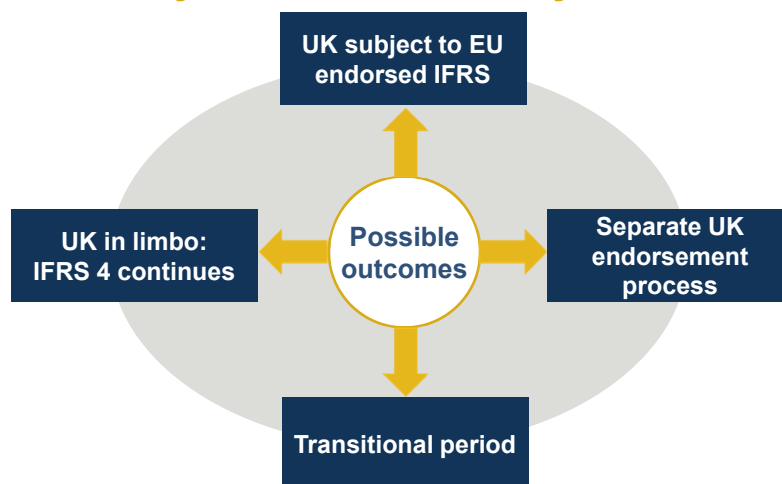
Detailed case study contents

- | | |
|---|---|
| <ul style="list-style-type: none"> • Existing business profit under various scenarios • Projection of liabilities to 2020 (including NB) • Approach to transition and its impact • Other technical issues: unbundling, aggregation, VFA, hedge accounting | <ul style="list-style-type: none"> • Impact of IFRS 17 on pricing • Impact of IFRS 17 on non-GAAP measures • Economic and accounting mismatches • Cost benefit assessment |
|---|---|

- Simplified version open to all, due 31 May
- Respond to EFRAG's draft endorsement advice, due this Autumn



Impact of Brexit on UK companies IFRS 17 is unlikely to be endorsed by March 2019



Other entities can choose between IFRS and UK GAAP

FRC: "UK GAAP change will not be considered until years after IFRS 17 implemented"

Implications of IFRS on local entities

Tax

- Computation
- Transition
- What profit will be taxed?
- IFRS/UK GAAP timing differences
- Impact on capital

Distributable profits

- Retained earnings constraint



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What is our Actuarial Profession doing?

- International Actuarial Association participation
- UK FRG and Working Group support
 - Comments on draft ISAP 4 & IANs
- CPD events / roadmap
- Past material, in particular (for Life):
 - November 2017 Life Conference
 - July & September 2017 Staple Inn seminars
 - 2011 Staple Inn paper critiquing 2010 ED
 - 2013 published IFoA response to 2013 ED
 - Life Conference presentations 2010-2016



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Questions



Comments

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