IFRS17 – Doing the Hard Work
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Agenda

• Background
• Approach to IFRS17 implementation
• Key challenges:
  – Model development and data
  – CSM and Loss component
• Conclusions
Group reports on US GAAP, but:

IFRS (or similar standards) impact on MetLife:
> 36 out of 46 Countries

Plus local regulation following IFRS17
IFRS 17 in the context of wider reporting

- Solvency II vs IFRS 17 vs US GAAP vs EV
  - Technical framework is broadly consistent
  - US GAAP is less consistent
  - There is an opportunity to leverage consistencies in the frameworks
  - However, there are many elements where granular application of the technical requirements will differ
IFRS – Impact Beyond Local Reporting

• IFRS Financial Statements are prepared at a legal entity level on an annual basis.
• IFRS reporting influences many other aspects of our businesses:
  • Distributable profits (dividend capacity)
  • Regulation
  • Income taxes
IFRS 17 Implementation Roadmap

The typical top-down implementation of IFRS 17 can be divided into three main phases.

Phase 1
Financial and Operational Impact assessment

- Agree key methodology and design decisions;
- Assess commercial impacts of IFRS 17;
- Provide a high level solution design to meet the IFRS 17 operational changes; and
- Develop an implementation roadmap with resource estimates, clear decision points and priority areas.

Phase 2
Detailed Methodology and Design

- Augment the solution design from Phase 1 with detailed methodology and functional design papers; and
- Detailed plan and implementation activities development.

Phase 3
Implementation and Testing

- Build the IFRS 17 solution; Any of the system components, would expect to build using prototype;
- Provide a tested fit-for-purpose system, data, and WDT solution for the business;
- Carry out a number of dry runs;
- Assess outcome and refine solution; and
- Assess transition impacts.
IFRS17 Implementation Roadmap – Accelerated initial phase

2017

Prototype (Pilot countries)
- Complete end-to-end solution - accelerated
- Development of methodology, models and capability
- Full results and disclosures

2018

Roll out and refine
- Roll out of models and tools to other countries
- Implement technology end state solution
- Refinement of methodology
- Validation of results

2019

Complete implementation
- Parallel running of models
- Embedding and finalise accounting policies
Model development

• Primary objectives to define the modelling approach to be used for IFRS 17 modelling across the Group and understand scale of challenge

• Discussions between MetLife, KPMG, FIS valuable for providing feedback and resolving issues – often common to all needs

• Prototype provided further understanding into model implementation and resource requirements. Significant difference where building models from scratch versus leveraging existing Solvency II models.
Model Development Observations

• Typical drawbacks of starting ‘early’.

• Needed modelling functionality not yet implemented within Prophet, e.g. explicitly quantifying CSM for reinsurance, some aspects of VFA, a consistent view of CSM run-off.

• Impact on modelling efforts of having differing views.

• Implications on levels of granularity

• Although some customisation was required, due to the central management of the models, mapping to IFRS 17 library was straight forward.

• Using modelling as a facilitator for education and internal decision making.
Quick refresher - Building Block Approach

**Profitable Contract**
- Expected cash inflows
- Discounting
- Risk adjustment
- Contractual service margin
- Expected cash outflows

**Onerous Contract**
- Expected cash outflows
- Discounting
- Risk adjustment
- Loss component

Expected profits at initial recognition are deferred and recognised over the life of the contract.

Expected losses at initial recognition are recognised immediately in the income statement.
Contractual Services Margin

**Expected CSM run-off**
Run-off pattern determined by accretion of interest and expected release.

**Actual CSM carry-forward**
Actual change in CSM determined by accretion of interest, adjustment and release.

**CSM Adjustment**
Reflects changes in BEL and Risk adjustment due to change in estimates of FCFs as well as variance in current period premium income.
Loss component

Loss Component run-off

Expected LC run-off by period over coverage period of contracts.

Systematically allocated

- Release of RA
- Release of expected claims and expenses
- Unwind of discount rate on liabilities
- Impact of systematic change in allocations on future cashflows

Solely allocated

- Prem. Income
- Exp. Variance
- Assump. Change
- Change in RA
- Solely Allocated

Loss Component Policy Year

LC @ inception

LC @ SoP

System. Alloc.

LC @ EoP

Solely Alloc.
Level of aggregation

- Granularity matters

Product 1 – modest positive variance

Product 2 – significant negative assumption change

Product 3 – modest negative assumption change

Aggregate group

CSM maintained – no loss component
Lessons Learnt

• Availability of the appropriate data
• Difficult decisions regarding Modelling/Methodology
• Significant overhead addressing the educational gap
• Satisfying IFRS 17 Disclosures
Conclusions

• Was it the right approach to take?
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