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# *IFRS for insurance contracts is coming, are you prepared for it?*

2 March 2017



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# Agenda

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# 1

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## *Introduction*

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## *How old will the IASB's insurance project be when IFRS 17 is issued?*

1. 10 years
2. 15 years
3. 20 years
4. It will never be issued



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## *How long do you think it will take to implement the standard for your company?*

1. 1 year
2. 3 years
3. 5 years
4. Never going to happen!



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## *How prepared do you think your company is?*

1. Read to implement now
2. Well progressed with understanding the impact and have started to think about solutions
3. Have a project team set up and have started to work to understand the impacts
4. Haven't started any work yet





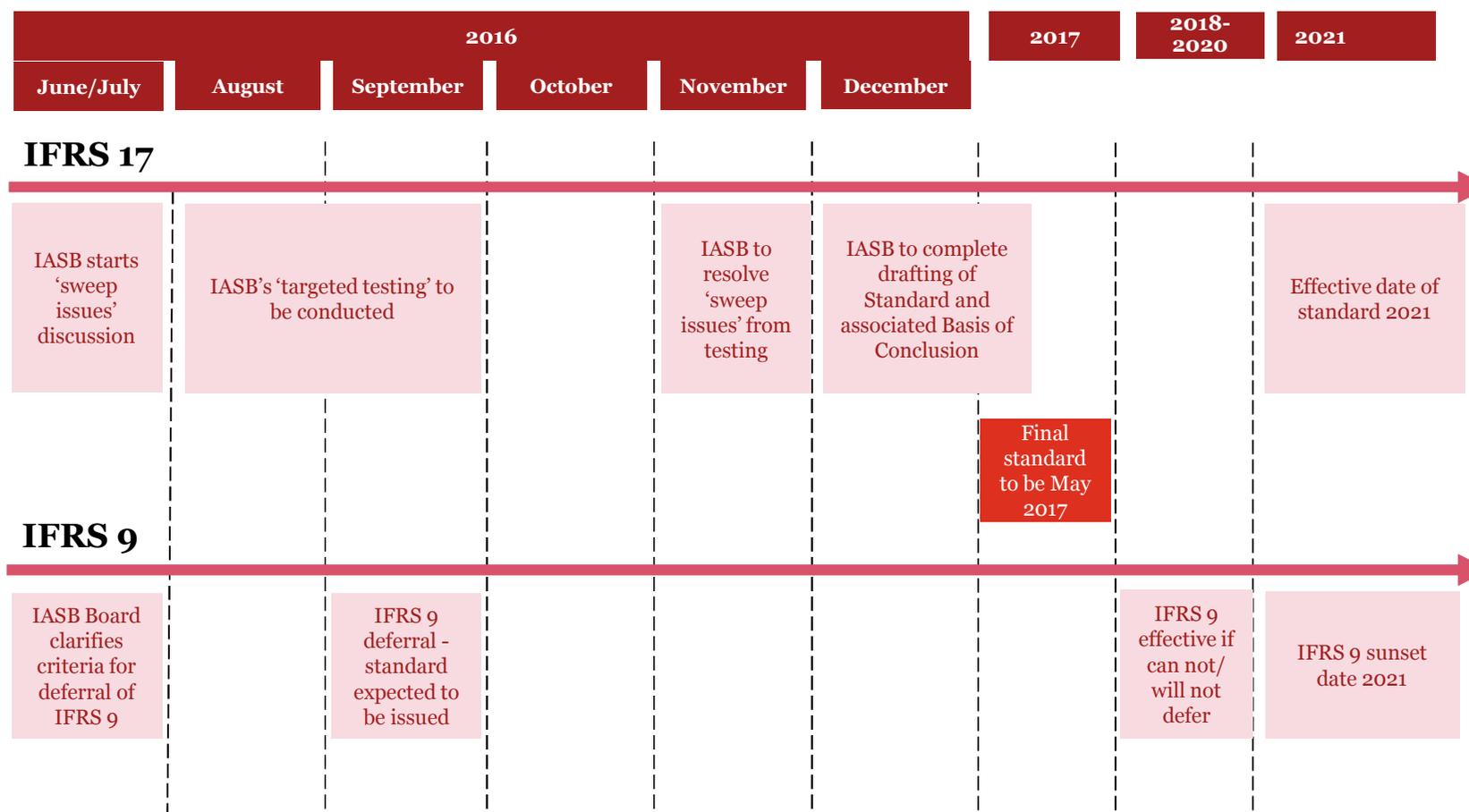
# 2

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## *An overview and status of IFRS 17*

# Update on status of the standards

## The IASB's Current IFRS 17 & IFRS 9 Timeline



## Overview of IFRS 17

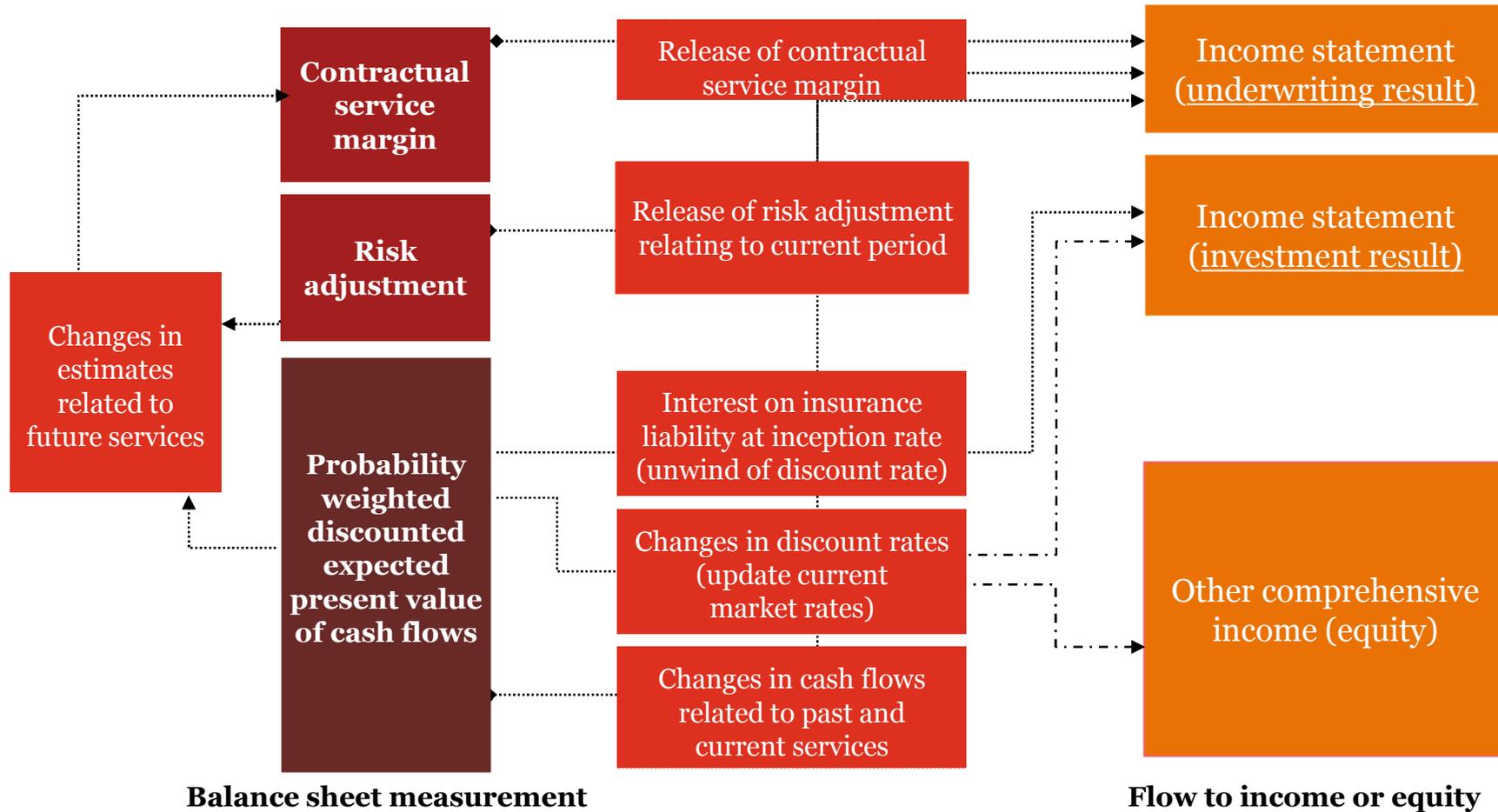
	<b>Building block Approach (BBA)</b>	<b>Premium allocation approach (PAA)</b>	<b>Variable fee Approach (VFA)</b>
<b>Why is it needed?</b>	Default model for all insurance contracts	To simplify for short term contracts with little variability	To deal with participating business where policyholder liability is linked to underlying items
<b>Types of contract</b>	<ul style="list-style-type: none"> <li>• Long-term and whole life insurance, protection business</li> <li>• Certain annuities</li> <li>• US style universal life</li> <li>• Reinsurance written               <ul style="list-style-type: none"> <li>• Certain general insurance contracts</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• General insurance</li> <li>• Short-term life and certain group contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Unit-linked contracts, US variable annuities and equity index-linked contracts</li> <li>• Continental European 90/10 contract</li> <li>• UK with profits contracts</li> </ul>

# Overview of the measurement models

	Current IFRS/GAAP	BBA	PAA
<b>Unexpired risk</b>	Discounted value of prudent cashflows/UPR less DAC	Contractual Service Margin Risk adjustment Discounting Best estimate of fulfilment cash flows	Premium unearned (less acquisition costs)
<b>Expired risk</b>	Undiscounted reserves for past claims (including IBNR)	Risk adjustment Discounting Best estimate of fulfilment cash flows	Risk adjustment Discounting Best estimate of fulfilment cash flows

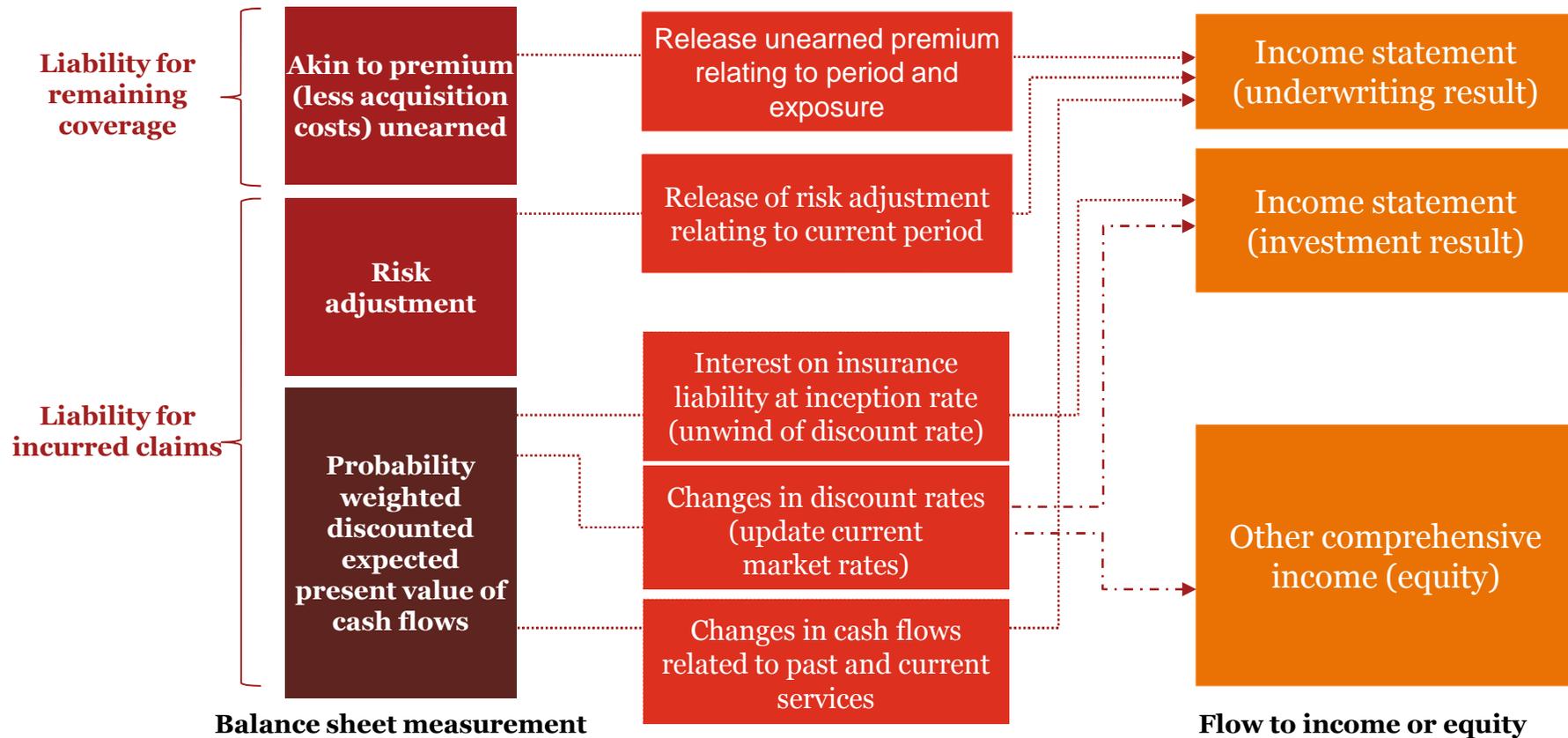
- Eligibility
- Different models for same products type
- Mismatches with reinsurance
- Underwriting vs accident year basis

# Profit and Loss Recognition - BBA



-----> Elected options

# Profit and Loss Recognition - PAA



## *Key topics of discussion*

Aggregation of contracts:

- Similar profitability
- Future cash flows respond similarly to changes in key assumptions
- Mutualisation

Locked-in discount rates

Eligibility for PAA

Mismatches between assets and liabilities

Business acquisitions and portfolio transfers

Transition:

- Full retrospective approach
- Simplified approach
- Fair value approach

Participating contracts:

- Scope
- Discount rate

# *Level of aggregation: measurement and presentation*

## **Objective**

**Profitable vs onerous contracts**

**No CSM at the end of coverage period**

## **Aggregation requirements**

**Top-down approach: start at portfolio level (similar risks, managed together).**

**At least 3 groups at inception:**

- onerous,
- profitable with no significant risk of becoming onerous, and
- other profitable contracts.

**Risk of contracts becoming onerous:**

- Internal reporting
- Sensitivity of fulfilment cash flows.

**Permitted to group only contracts issued within the same year.**

## **CSM allocation**

**based on coverage units, reflecting the expected duration and size of the contracts in the group**

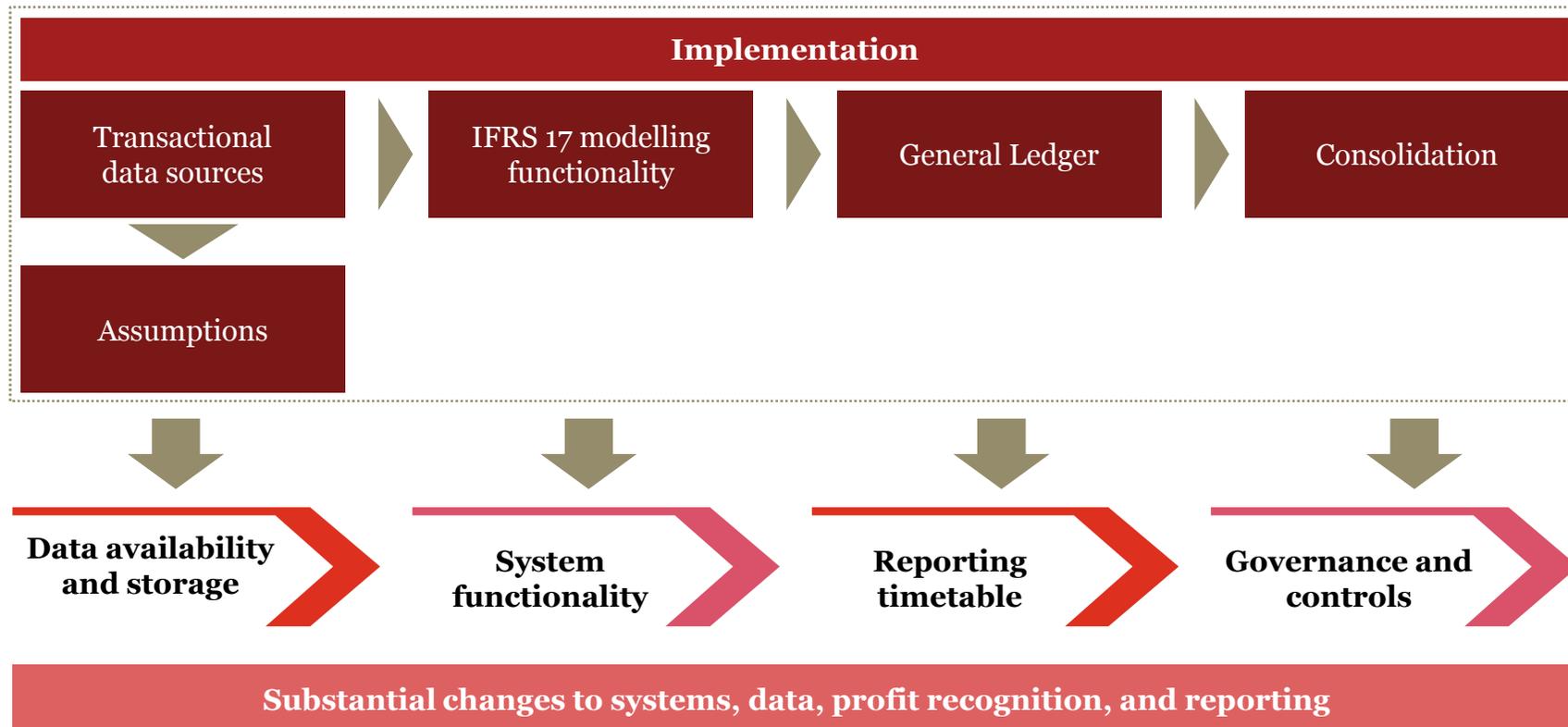


# 3

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*Areas of challenge and lessons learnt so far*

# *Financial and operational implications of IFRS 17*



# Building on Solvency II investment?

## BBA

**Contractual service margin**

## Ability to use SII

Brand new calculations  
New systems and processes required

**Risk adjustment**

Approach is not prescribed  
Potential to leverage SII Risk Margin

**Discounting**

Rates used may differ but some similarities to SII

**Best estimate of fulfilment cash flows**

Closely aligned to SII best estimate liabilities – may be certain specific differences, e.g. expenses



## CSM Implementation Considerations:

- **Unit of account – Calculation level**
- **Storage requirements**
- **Build new or amend existing system**
- **Local or Group held model**
- **Need to change in future?**

# Transition

## Approach

### Full retrospective

- Have to apply where not 'impracticable'
- Requires day 1 data and assumptions and full history to date of transition

*If impracticable, entity can choose either modified retrospective or fair value approach*

### Modified retrospective approach

- Retrospective with prescribed simplifications to address data gaps
- Simplifications can be applied on a piecemeal basis
- IASB believes that a generous approach has been given to industry

### Fair value

- Comparison of fulfilment value to 'fair value'
- Could result in limited CSM and hence future profits. However, onerous contracts could have CSM
- Fair value of insurance contract unclear
- Given data requirements, may end up here in some cases

## Implementation considerations

Data collection

Materiality

One off calculation

Risk of 'double' transition

Recycle/lost profits

Resourcing

When to start

Which approach to use



# 4

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## *Discussion in table groups*

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## *Questions for table discussion*

1. How ready are you for IFRS 17?
2. What operational, systems, technical complexities do you expect on transition to IFRS 17?
3. How can you leverage existing systems in preparation for IFRS 17 implementation?
4. What do you do now that you can stop in future?

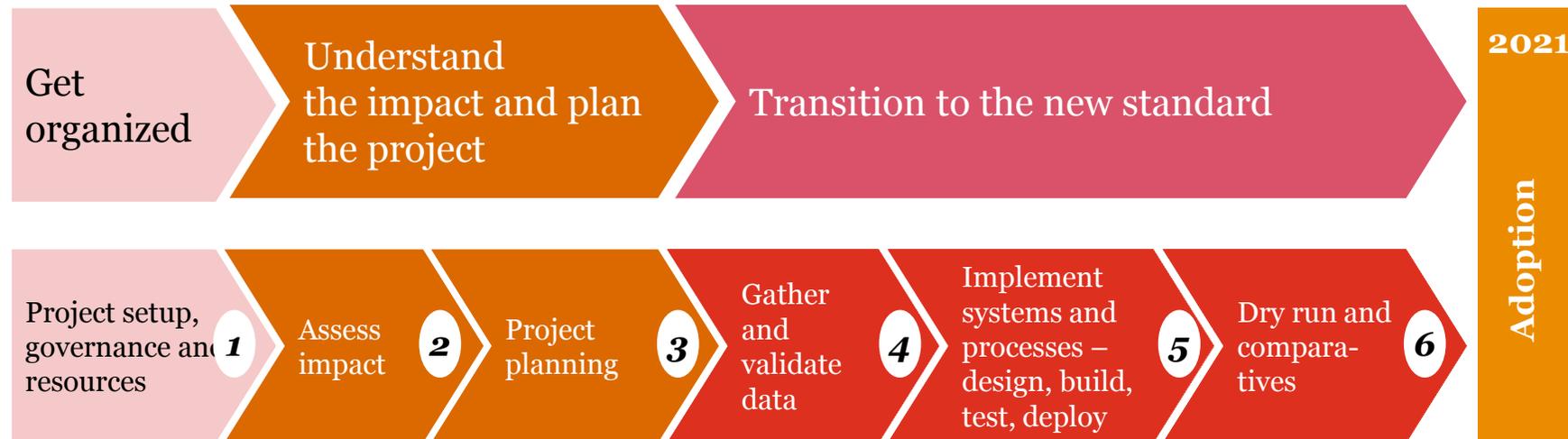


# 5

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*Next steps –  
Approaching IFRS 17  
implementation with  
confidence*

# Steps to consider up to expected IFRS 17 adoption date



## Key activities in an impact assessment:

1. Vision, principles and requirements
2. Training
3. Gap analysis
4. Systems impact assessment
5. Financial impact
6. Roadmap, detailed planning and budget

## *Tactical and strategic decisions to be made*

	<b>Strategic</b>	<b>Tactical</b>
<b>1</b>	How do you ensure optimal delivery of IFRS 17 - learning and leveraging from Solvency 2?	Have you got all of the relevant stakeholders buy in to the project?
<b>2</b>	Which in-flight projects could potentially address IFRS 17 requirements and when is the right time to assess those projects?	Should investment in system architecture extend beyond the minimum required?
<b>3</b>	What KPIs will you use to manage the business? How will you develop a strong investor story through the transition?	What current limitations do you have in terms of data availability and what will you put in place now for 2021?
<b>4</b>	What is your vision for the operating model for Actuarial, Risk and Finance?	To what extent are data models, systems and processes designed and built at Group vs Segment vs Reporting Unit levels?



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*Questions*

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# Thank you



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