



IFRS 17: Getting to Implementation

May 13, 2019

Agenda

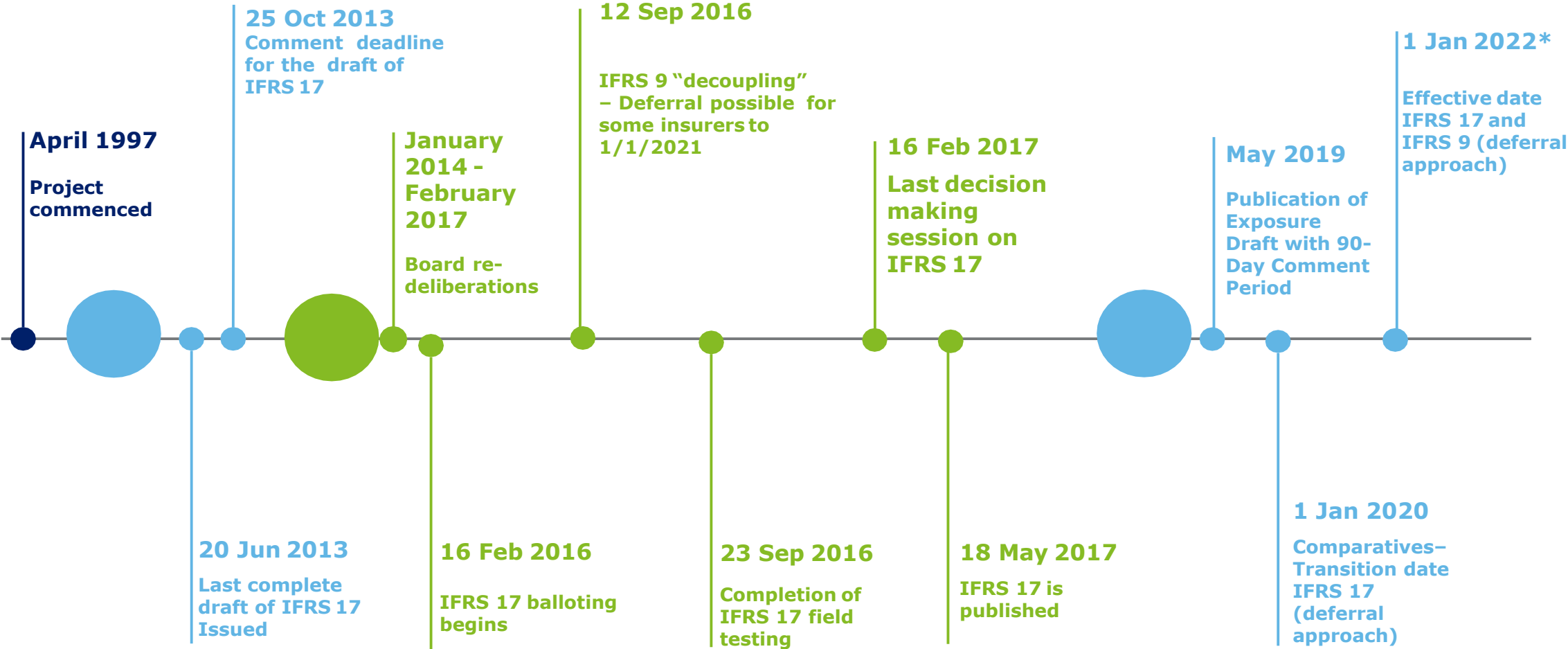
Theme	Detail	Timing
IFRS 17 Implications for Insurers	<ul style="list-style-type: none">• Development Timeline• General Measurement Model• Transition	4:40 – 4:55 p.m.
IFRS 17 Implementation Insights	<ul style="list-style-type: none">• Implication for Compliance• Data Management Considerations• Technology Solution Landscape• Major Phases in the Journey• Strategic Benefits	4:55 – 5:10 p.m.

IFRS 17 Implications for Insurers



IFRS 17 – Development Timeline for the New Accounting Standard

Two decades in the making

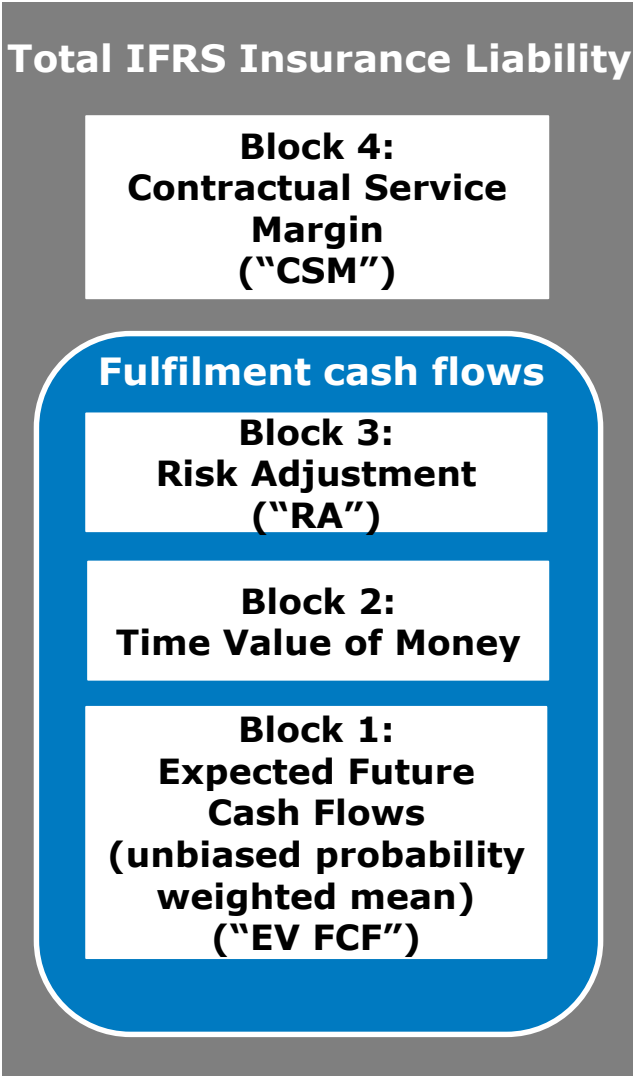


* On 14 Nov 2018 the IASB voted to propose a one-year deferral of IFRS 17 to 2022. The Board also decided to propose extending to 2022 the temporary exemption for insurers to apply IFRS 9, so that both IFRS 17 and IFRS 9 can be applied at the same time

IFRS 17 - General Measurement Model

Often referred to as the Building Block Approach ("BBA")

- Principles**
- Measurement uses **current estimate** assumptions
 - Contracts are grouped by **portfolio, year of sale** and **possible profitability levels**
 - Profit measured and reported based on the delivery of the **"insurance coverage service"**
 - CSM absorbs assumption changes for future coverage (**"Unlocking"**)
 - Discount rates based on **market interest rates** (currency, duration, liquidity)
 - **CSM from participating contracts revalued** based on assets



Measured at inception as the expected contract profit to be earned as services are fulfilled. It is **adjusted for changes in non-financial variables** affecting future coverage cash flows. It **accretes interest based on day 1 discount rate** (locked-in rate)

An entity-specific assessment of the uncertainty about the amount and timing of future cash flows

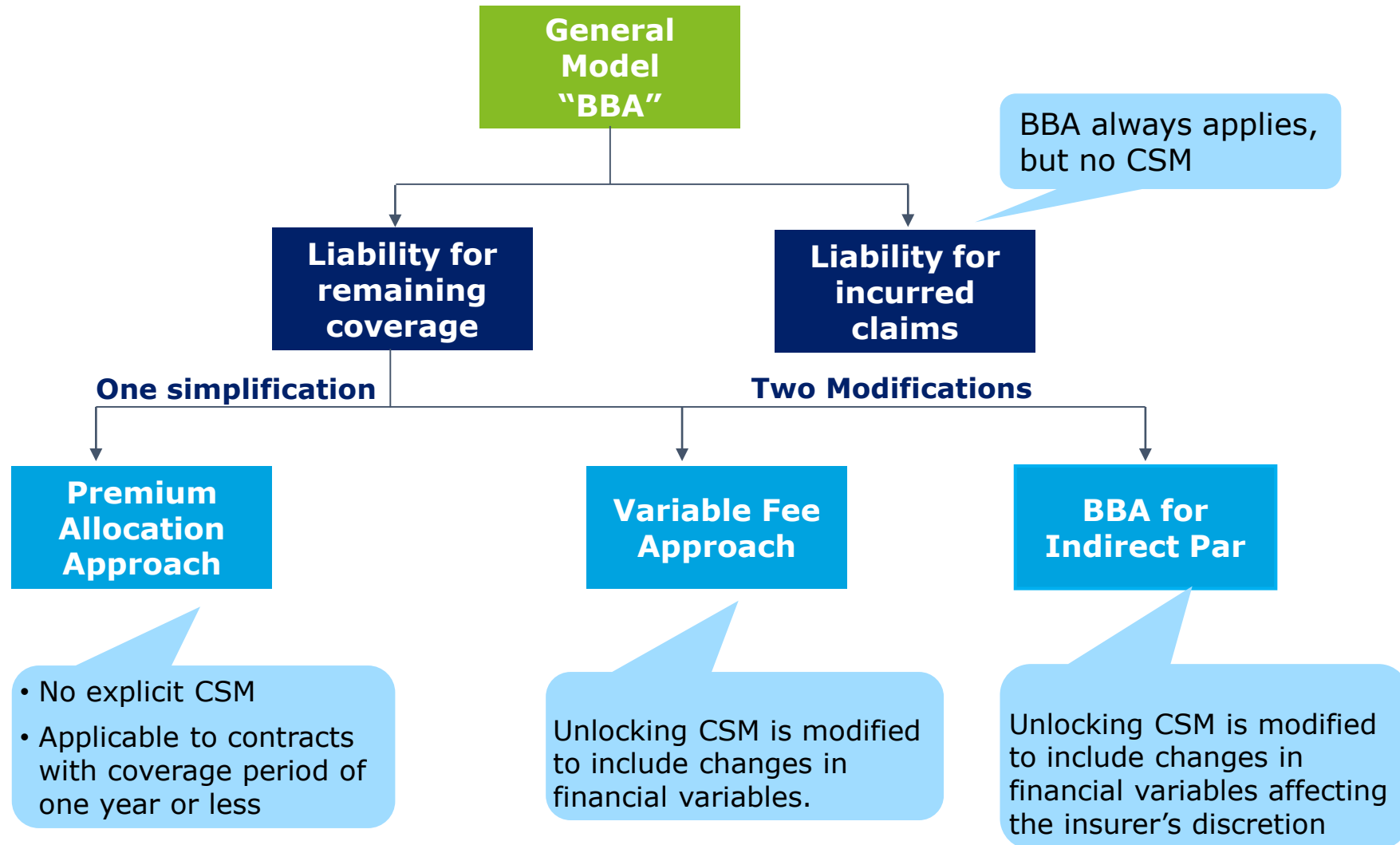
An adjustment that converts future cash flows into current amounts

Expected (probability-weighted) cash flows from premiums, claims, benefits, expenses and acquisition costs

How are profits earned under IFRS 17?



IFRS 17 - Modification and simplification of the General Model



IFRS 17 – Transition

Proving impracticability could involve a lot of effort

Definition of "impracticable" is in IAS 8: "when the entity cannot apply it after making **every reasonable effort** to do so".

Impracticability arises if insurers cannot produce objective estimates based on:

- Management's intent in prior periods,
- Circumstances that existed at the time of the transactions, and
- Information that would have been available at the time of the prior financial statements.

Decide transition method by group of contract

Full retrospective approach (IAS 8)

If impracticable

Modified retrospective approach

- Objective is to achieve closest outcome to retrospective application
- Modifications available if necessary given reasonable and supportable information
- Maximise use of information needed for full retrospective approach

or

Fair value approach

Determine CSM at date of initial application as the difference between:

- Fair value of insurance contract
- Fulfilment cash flows

If using OCI, estimate the interest expense in P&L and the related amount of comprehensive income accumulated in equity by estimating the discount rate at initial recognition as prescribed in the modified retrospective approach.

If impracticable

IFRS 17 Implementation Insights



IFRS 17 Implementation – Implications for Compliance With the New Standard

This regulatory change provides an opportunity for insurers to evaluate the need for a comprehensive finance transformation

Processes

- Materiality concepts/guidelines
- Closing and reporting
- Actuarial processes, planning procedures, risk management
- Changes to reporting templates
- Internal controls and audit trail
- Planning, budgeting and forecasting

Expertise

- New accounting policies / guidelines and control procedures
- IFRS 17 calculation methodology guidance and reporting instructions
- Actuarial models and assumptions setting
- General Ledger (GL) Chart of Accounts changes



Systems

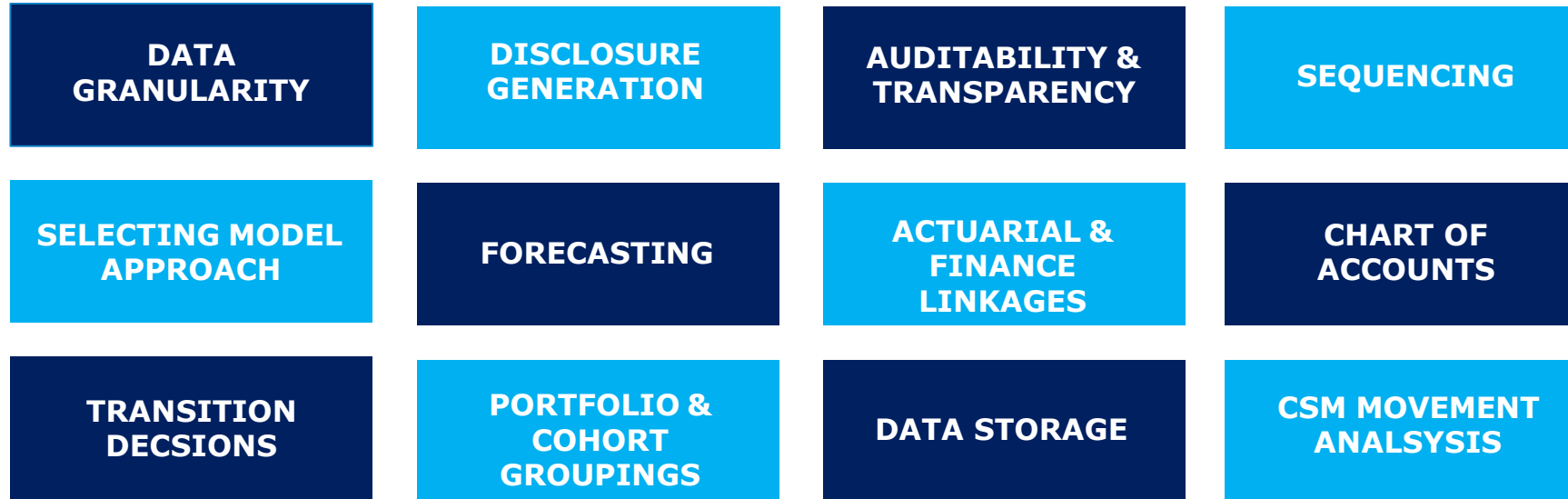
- Core insurance systems, investment systems, actuarial systems, reporting systems
- New posting logic/engines for IFRS 17
- Consolidation tool and reporting system changes
- Changes to system interfaces
- New system functionalities/features

Data

- New financial reporting data requirements at detailed granularity
- Data reconciliations at different levels
- Data quality, storage and archiving
- Data security and controls
- Data governance and master data
- Demand for a single-source of truth for finance and risk data

IFRS 17 Implementation – Technology, Accounting, and Data Implications

Impacts on business processes, systems, and accounting policy across the organization



While IFRS 17 poses several challenges, it also represents a once in a generation opportunity to realize a common information landscape – to upgrade and optimize key systems and processes, and closely align the actuarial, finance, and business control functions.

IFRS 17 Implementation – Data Management Considerations

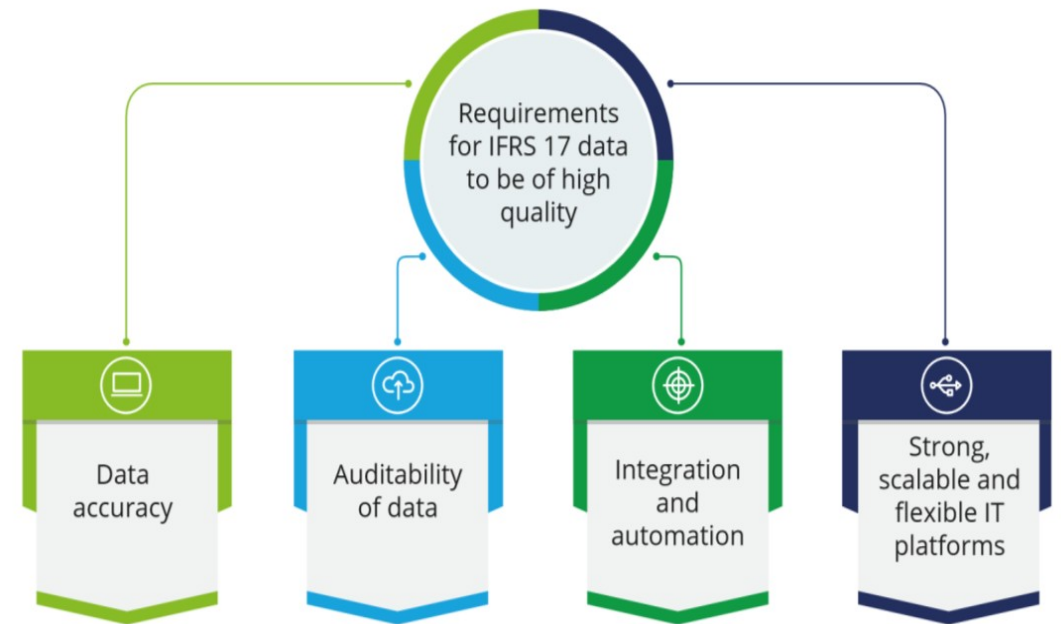
Data management is critical to the implementation exercise

Insurers will need to deal with increased data volumes and data quality requirements due to:

- Increase in granular valuation requirements
- Restatement of prior year numbers
- Greater granularity of disclosure and reporting capabilities
- Increase in the use of market data
- Segmentation of portfolios in annual profitability groups

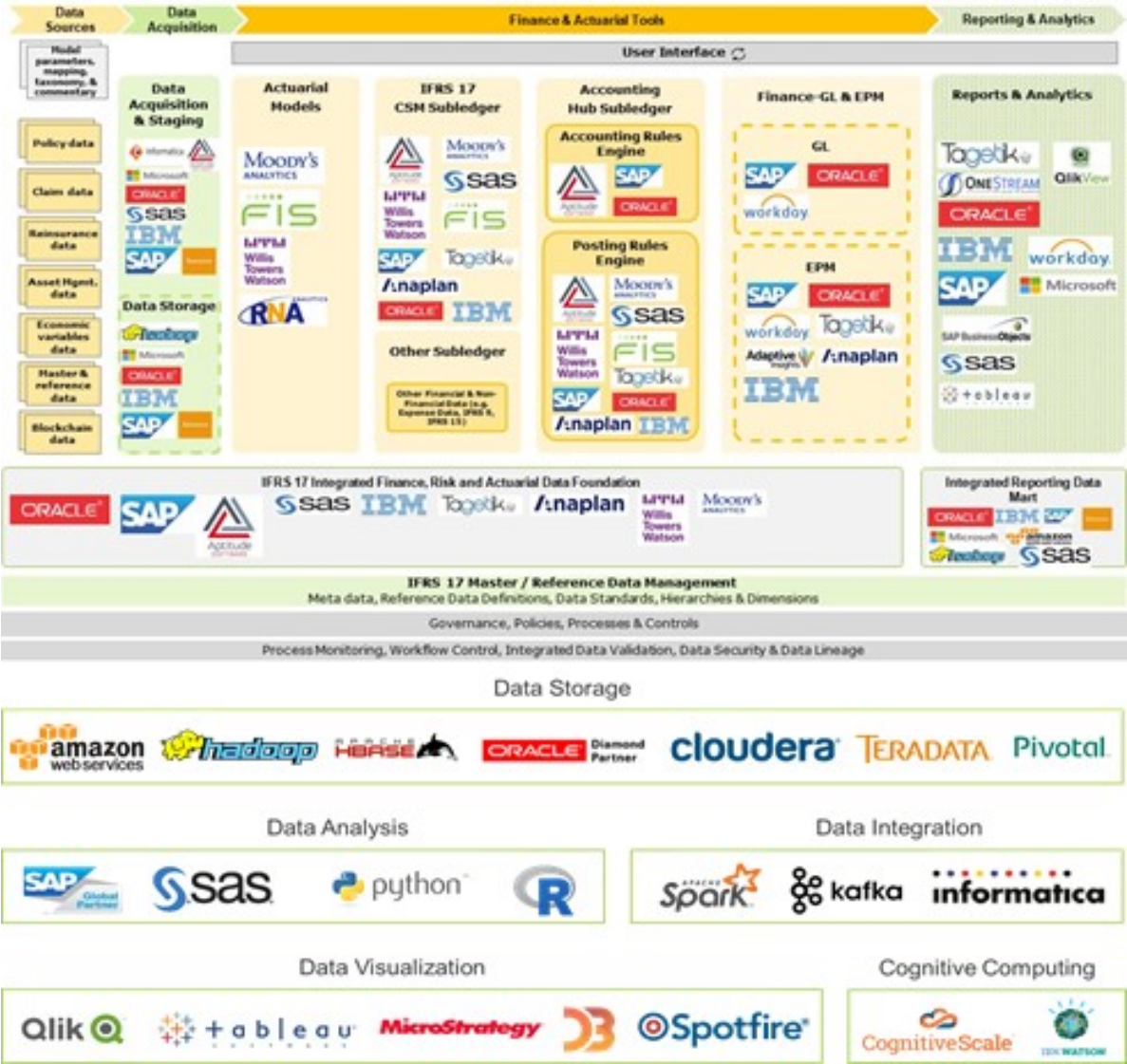
Insurers will have to modernize fragmented and complex legacy Finance and IT infrastructure. They should start by answering these key questions:

1. What business needs does an insurer have to address as a result of IFRS17?
2. How can an insurer leverage its current IT infrastructure to address business and compliance needs?
3. What data management solutions can an insurer build or buy to address both business and compliance needs?



IFRS 17 Implementation – Technology Solution Landscape

Multiple technology vendor solutions are emerging

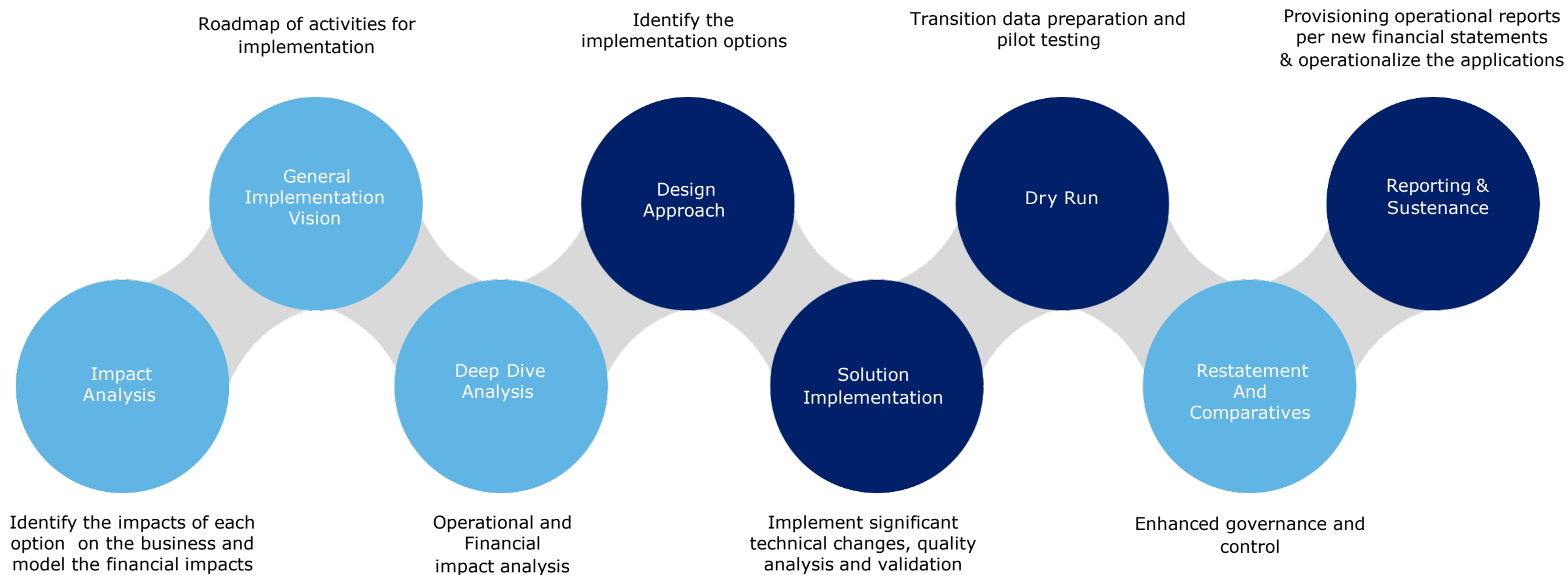


Considerations

- The technology market has attracted **lots of hype and accelerated investment** by software vendors.
- Other accounting and regulatory regime changes (e.g., PBR, LDTI) are adding to the urgency but also represent opportunities for smart compliance and efficiency as insurers evolve their **integrated finance, risk and compliance** capabilities.
- Features and functionalities of most solutions are in development.
- **There is no single “off the shelf” solution.** The path to success will be a well architected, well integrated solution implemented with fit-for-purpose tools.
- Assessing the capabilities of each solution against your specific requirements (guidance interpretation, current technology footprint) will be critical.

IFRS 17 Implementation – Major Phases in the Journey

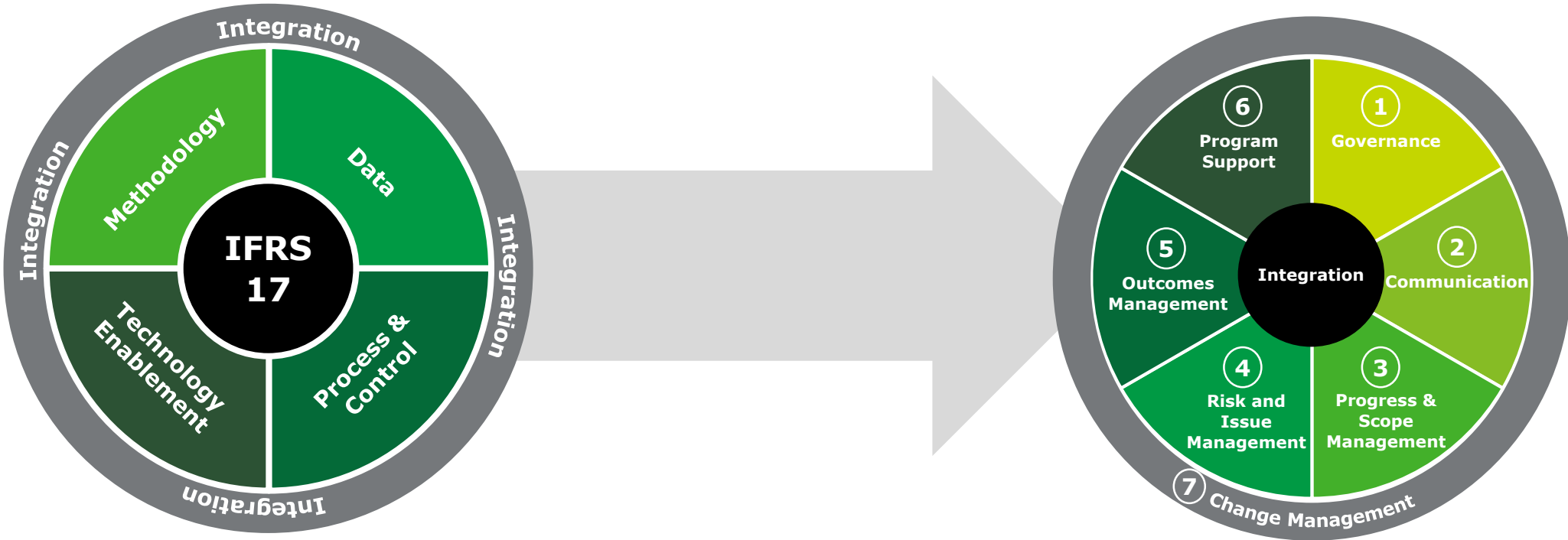
The transformation journey often involves significant complexity and requires multiple areas of expertise



IFRS 17 Implementation – Integration of a Multi-Disciplinary Team

Strategically bringing together the entire IFRS 17 implementation program

A strong project management team is the glue that holds together the overall IFRS 17 implementation program



IFRS 17 Implementation – Strategic Benefits of Compliance



Benefit

- Alignment of internal teams and processes

Benefit

- Increased financial control and streamlined reporting

Benefit

- Better information at a lower cost

Benefit

- Understand and explain changing balance sheet numbers

Benefit

- Lower cost of capital

Benefit

- More easily compare multiple GAAPs

Benefit

- More granular data foundation

Benefit

- Opportunities to deploy next-generation technologies

Thank you!

Visit our dedicated [IFRS 17 homepage](#) for more info

Contact: **David Ogloza**
Senior Manager
Email: daogloza@deloitte.com
Phone: +1 313 324 1460



IFRS 17 – Build for Future

Jim Zhang, *ACIA, ASA*

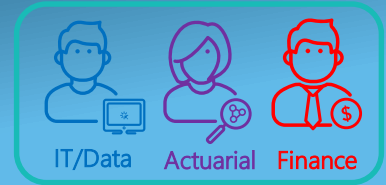
Wansi (James) Xu, *FCIA, FSA, FNZSA*



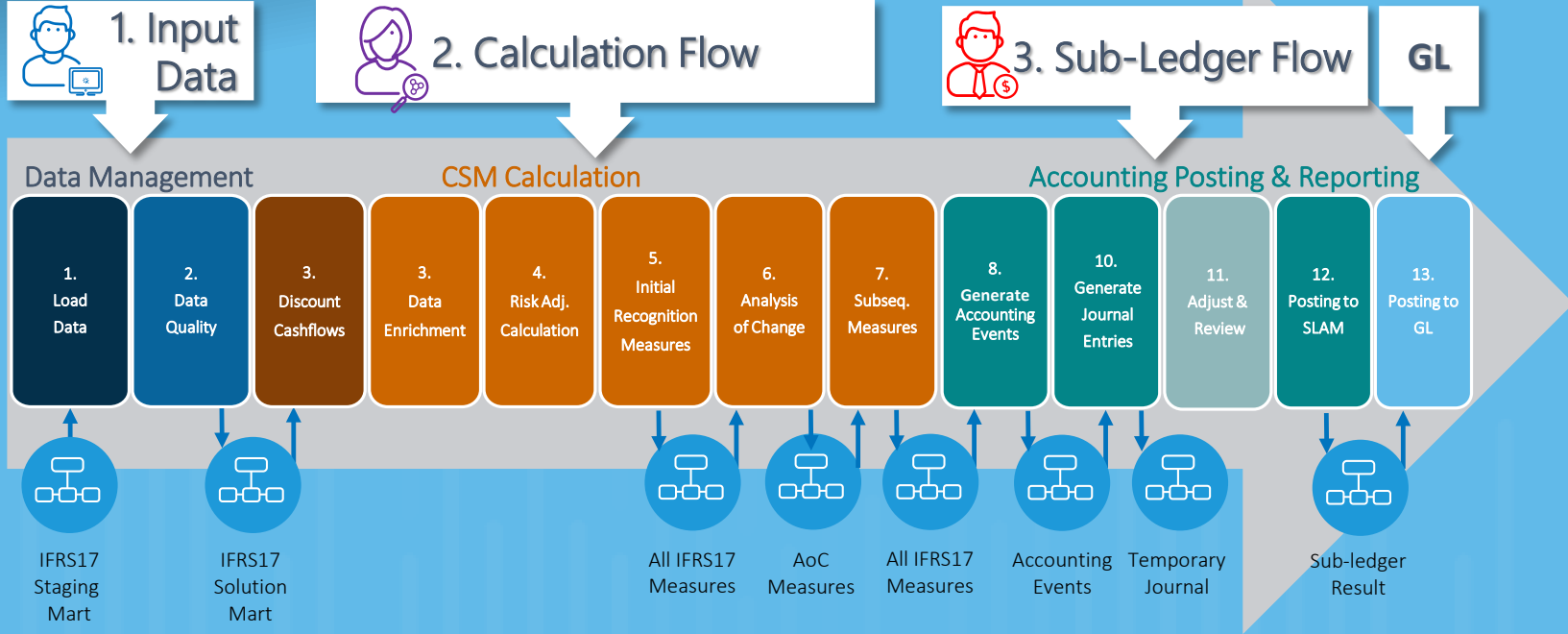
We need an end-to-end process for IFRS 17

Process overview

End-to-End Process

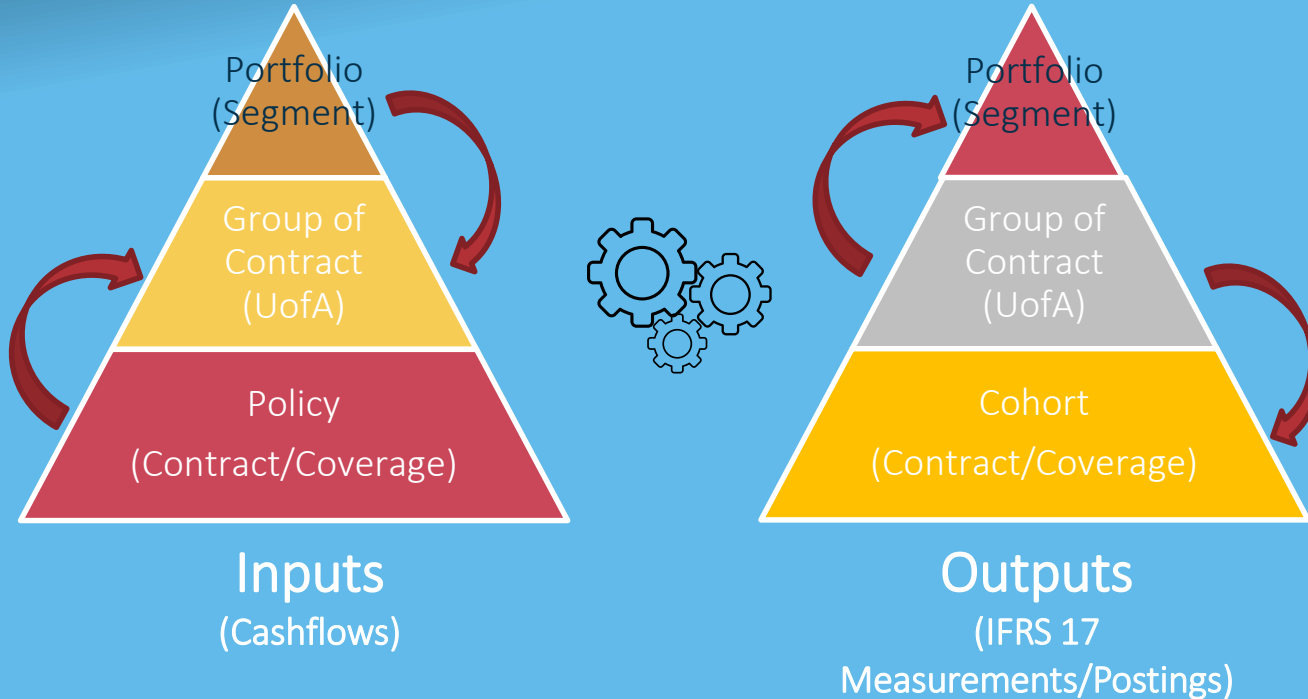


Accounting Cycle



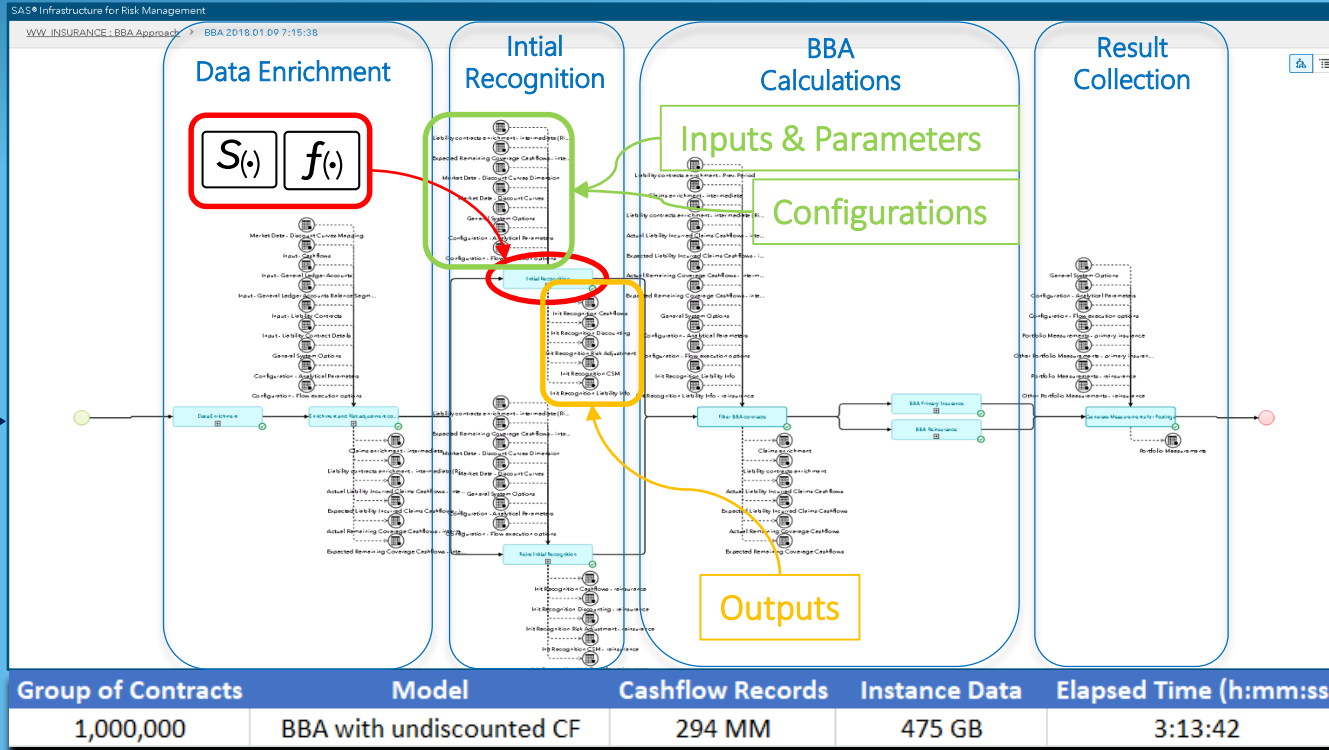
Data Management

Data Aggregation/De-aggregation



Execution Engine

Open Box & High Performance



Input



Subledger features

Posting Framework

IFRS 17 Calculator



IFRS 17 Measurement

ex. CSM Release
REL_SERVICE_MARGIN_AMT



IFRS 17 Accounting Event

ex. CSM Release
LRC.CSM.RL

Generate Journal Entries

Configure Chart of Accounts

Map Accounting Event to Posting Rules (D/C)

Sub-ledger Configuration



xx/xx
xx/xx
xx/xx
xx
xx
xx

Journal Entries

ex. CSM Release
LRC.CSM.RL

Debit	Credit
IFRS17_COA_LE_InsCov_CSM	IFRS17_COA_PL_IR_CSM_CSMRel

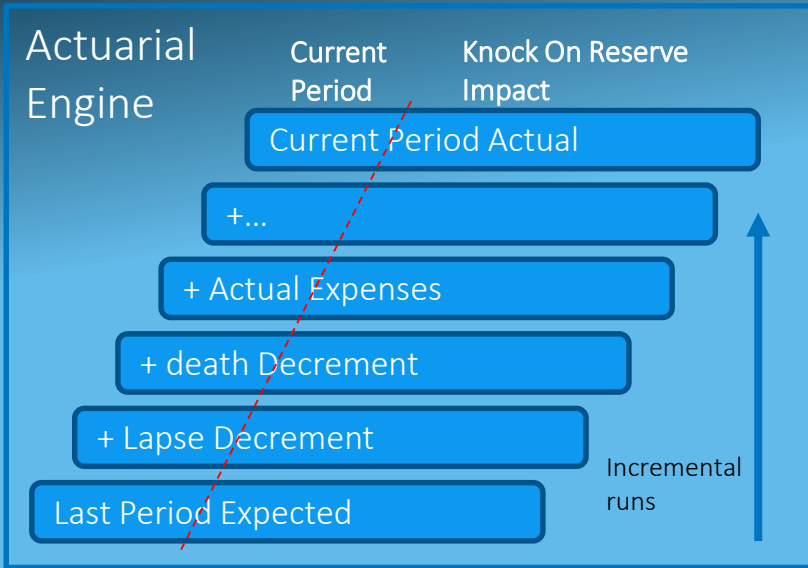




Integrating with Actuarial Tools

Multiple/incremental runs

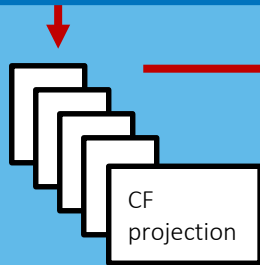
Data Integration with Actuarial Engines



Architectural Considerations

- Granularity of P&L requirement - > process change
- Configurability for the Order of runs
- Onerous vs Profitable

This is a 2-dimensional Business Requirement

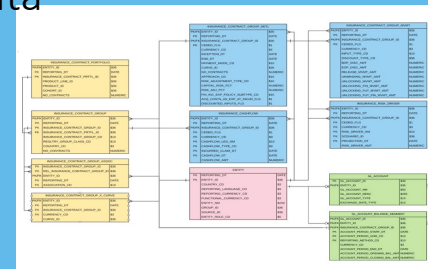


Data Transformation Considerations

- Discounted VS Undiscounted input
- Seriatim VS grouped input

This is a 1-dimensional 1-time mapping exercise

SAS Data Model



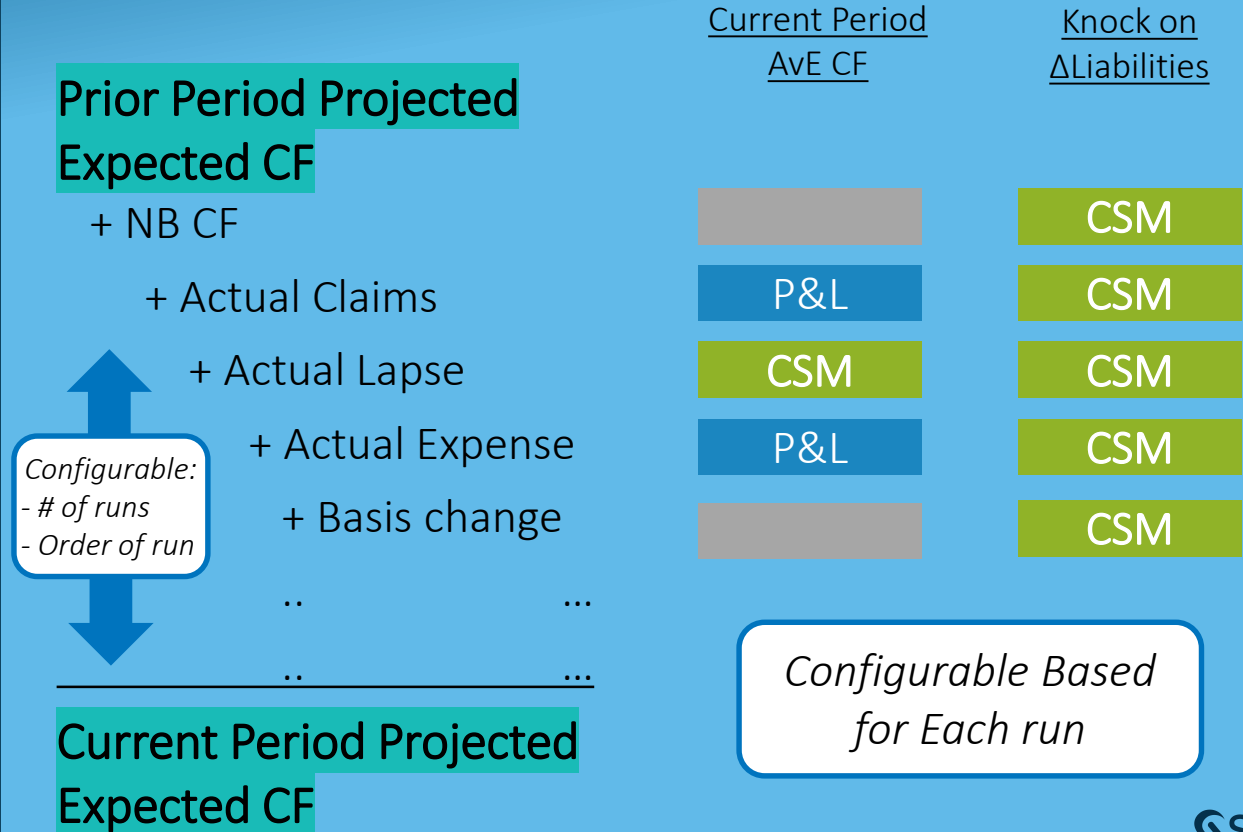
Configurable Breakdown Reserve movement

Flexibility to configure:

- Order of runs
- # and nature of runs
- CSM VS P&L Allocation
- Current Period Impact VS Future Reserve Impact
- Number of incremental runs

Value prop for potential client

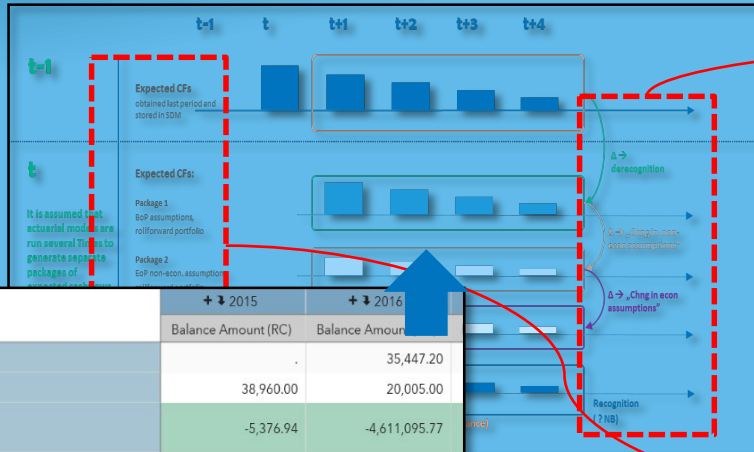
- Detailed breakdown for CSM movement
- Mapping to existing SOE and RMA
- Fully configurable



IFRS17 Solution

Analysis of Changes - Overview

Flexible Configuration Driven Change Analysis



	+ 2015	+ 2016
	Balance Amount (RC)	Balance Amount
Opening Balance	.	35,447.20
Current Period Cash Flows	38,960.00	20,005.00
Changes that relate to future service	-5,376.94	-4,611,095.77
Initial Recognition	-5,376.94	-4,608,719.71
Changes in estimates reflected in the contractual service margin	.	-2,390.06
(missing)	.	-0.30
Changes on operating variance and assumption	.	-2,445.76
(missing)	.	1,209.90
PV of Future Claims - Insurance components	.	-715.66
PV of Future Expenses	.	-512.00
PV of Future Premiums	.	-2,428.00

Scenario dim	Restatement	Initial recognition	Unwinding 1	Unwinding 2	Derecognition	Experience variance	Non economic Assumptions change	Economic Assumptions change	Updated discount curve	Updated Fx Risk	Actuals vs Expected
SCEN1	-1										
SCEN2	1		1								
SCEN3		-1	-1								
SCEN4		1	1								
SCEN5		1	1	-1							
SCEN6		1	1								
SCEN7			-1								
SCEN8			-1								
SCEN9				1	-1						
SCEN10				1	-1						
SCEN11						1	-1				
SCEN12							1	-1			
SCEN13								1	-1		
SCEN14									1		
SCEN15										1	
SCEN16											-1

Insurance_AoC_Calc

PostingDetails



New Business – Introduction of Subgroup

Treatment of open groups of contract with NB issued in the reporting period

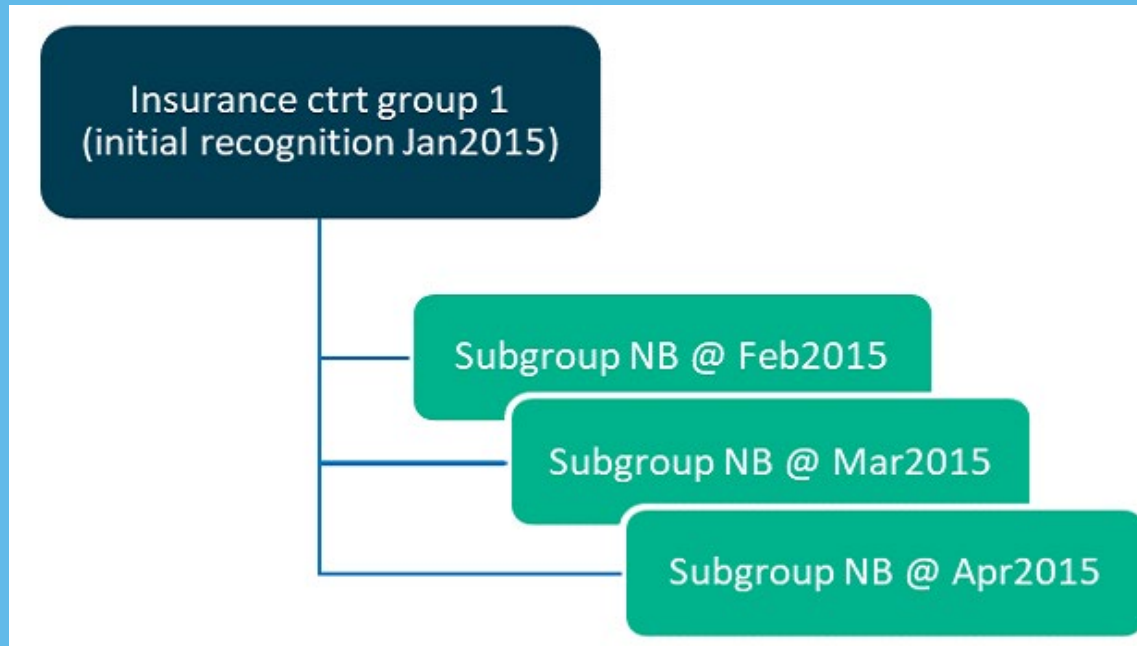
Initial Recognition: Insurance Contract Group VS Sub-Group

Concept of Sub Group

The monthly cohort is a subgroup of the initially recognised group

Multiple Sub Group -> insurance Contract Group

Th subgroups are associated with the main insurance contract group through the INSURANCE_CONTRACT_GROUP_ASSOC table with ASSOCIATION_CD = NB



- Each monthly cohort will be loaded as a separate subgroup with recognition date and Discount Rate for the specific month
- CSM calculation is performed on a subgroup level and then aggregated to the group level

Topics of interest on Subgroup implementation

Sub group setup introduces other operational challenges

Drivers for CSM (per ¶44)	Working Assumption / Hypothesis
A) Initial Recognition	<ul style="list-style-type: none">✓ Main driver for the introduction of subgroup, calculated at the subgroup level Separate DR rate for the NB issued in the particular reporting period? CSM offsetting between different subgroups?
B) Interest Accrued C) Unlocking	<ul style="list-style-type: none">? Is there additional value to evaluate the impact of unlocking based on the same “locked in rate” that was used to quantify CSM at initial recognition? How to allocate impact of unlocking between multiple sub-groups / individual unlocking calculation
D) Impact of Currency	<ul style="list-style-type: none">? Varying practices across region / companies
E) CSM release	<ul style="list-style-type: none">? How to allocate impact of CSM release between multiple sub-groups

There is “room” for interpretation and the wide range of acceptable practices.
Looking to hear your feedback on topics such as these



Talk to your IT

Miscommunication



Additional Info:

Please contact:

Jim.Zhang@sas.com, or
Wansi.Xu@sas.com.





Thank You!