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How will IFRS 17 Impact the Actuarial Industry Post Implementation

29 May 2023

Agenda

- Opening and welcome speech by IFoA
- Presentation by four speakers
- Q&A
- Event ends

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Opening and welcome speech from IFoA

Mark Chau

Regional General Manager, Asia Pacific

29 May 2023

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Our Speaker

Francesco Nagari
Partner
Deloitte China
Hong Kong office

Liza Gonzalo
Director
Deloitte China
Hong Kong office

Choi Ka Hei
Partner
Deloitte China
Hong Kong office

Winnie Sun
Partner
Deloitte China
Shanghai office

Deloitte.

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Our Speaker

Francesco Nagari

Partner of Deloitte China, Deloitte Global IFRS Insurance Leader, Hong Kong Financial Services Industry Leader, Asia-Pacific Assurance Financial Services Industry Leader

Member of the International Accounting Standard Board IFRS 17 Transition Resource Group

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How insurance companies will use the new IFRS 17 financial reporting language to communicate to investors and the new KPI's we expect to emerge in 2023

Francesco Nagari

The IFRS 17 Financial Statements

How to read the new key elements

- The overall change
- Information about the profitability of insurance companies
  - **Insurance service result – mandatory**
  - **Net finance result – optional**
  - **P&L and optional OCI**
  - **The mandatory impact of transition on reported profits**
- Information about the financial position of insurance companies
  - **Two main angles to “slice” the balance sheet: “building blocks” and unexpired coverage**
  - **Important CSM disclosures**
- Conclusion

The adoption of IFRS 17 in over 100 countries in the world from 1 January 2023 will offer a “fresh start” to all insurance companies to present their performance and financial position in a way that benefits from both the consistency and transparency required under IFRS 17

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The overall change

- A consistent way of producing financial reports available to the insurance industry on a scale that has no precedent in its history
  - **Consistency**
  - **Transparency**
    - Only industry to report its expected profit from the main products sold (CSM)
    - Only industry to adopt a consistent configuration for an “operating profit” definition
    - Only industry to handle financial risk volatility systematically
- Focus shifts from balance sheet to P&L

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Information about the profitability of insurance companies

Insurance service result ("ISR")

- Mandatory sub-total – this makes the insurance industry the only industry to adopt a consistent configuration for an "operating profit" definition
- The ISR depicts the profit from insurance activities before the impact of financial variables
  - **Insurance revenue**
  - **Less – insurance service expenses ("ISE")**
  - **Effect of reinsurance contracts held**
- The ISR is common across life and non-life companies
- It represents the underwriting result for the period
- Rich disclosures on the composition of the ISE

(i) incurred claims (excluding investment components) and other incurred insurance service expenses;

(ii) amortisation of insurance acquisition cash flows;

(iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and

(iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.

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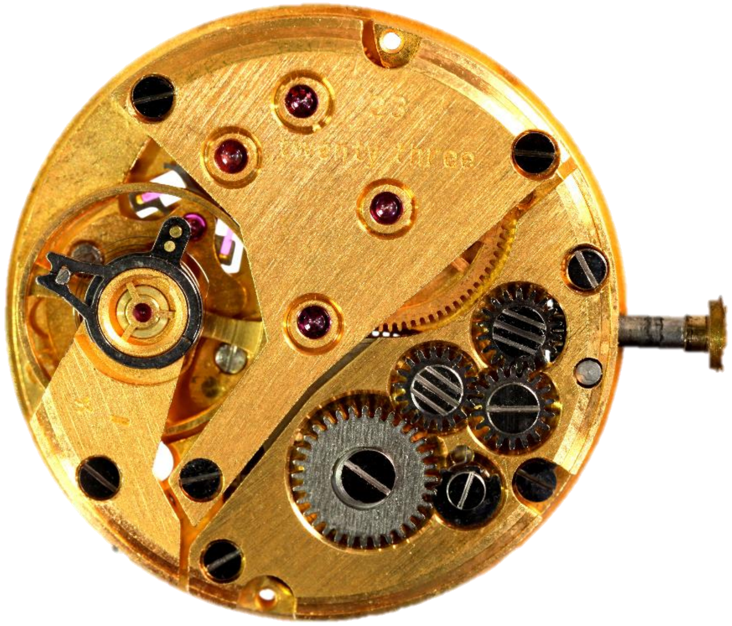
Information about the profitability of insurance companies

Net finance result ("NFR")

- The ISR mandates the separation of the effects of financial variables from the insurance profit or loss
- The effects of financial variables fall in a single P&L line: "Insurance Finance Income or Expenses" ("IFIE")
- The IFIE includes four main elements:
  - **Unwind of the time value of money at locked-in rates;**
  - **Revaluation of the time value of money to current interest rates;**
  - **Foreign exchange gains and losses; and**
  - **Effect of changes in fair value of underlying items under the VFA**
- Many insurers are planning to voluntarily introduce a NFR sub-total that would include the IFIE and the return made from the financial assets held



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Information about the profitability of insurance companies

P&L and OCI

- Entities can elect, on a portfolio-by-portfolio basis, the accounting policy that splits the IFIE between P&L and OCI (“Other Comprehensive Income”)
- The insurance companies under IFRS 17 will be the only ones to handle the reporting of financial risk volatility systematically
- The OCI option moves the financial volatility out of the P&L while maintaining a market consistent balance sheet
- Combined with the IFRS 9 accounting of fair value through OCI for bonds, insurers can split the NFR between a P&L sub-total and an OCI sub-total
- FX gains and losses would follow the P&L/OCI presentation choice

Information about the profitability of insurance companies

The impact of transition on reported profits

- The restatement of the transition balance sheet as at 1 January 2022 creates a major break between old and new accounting
- This creates a major impact on both life and non-life insurance companies future reported profits
  - **The net impact on equity: accretive to future ROE or dilutive?**
    - No single answer can be gauged – IFRS 4 is different country by country
    - Claims liabilities may need to release to equity implicit prudence replaced by a smaller calculated risk adjustment
    - Some life insurance IFRS 4 accounting may be more aggressive than IFRS 17 (reduction of equity at transition) or less (increase of equity at transition)
  - **For life insurance there could be three separate CSM amounts at transition**
    - Fully Restated, Modified Restated and Fair Value Restated CSM
    - Each balance needs to be reported till it is reduced to an immaterial amount

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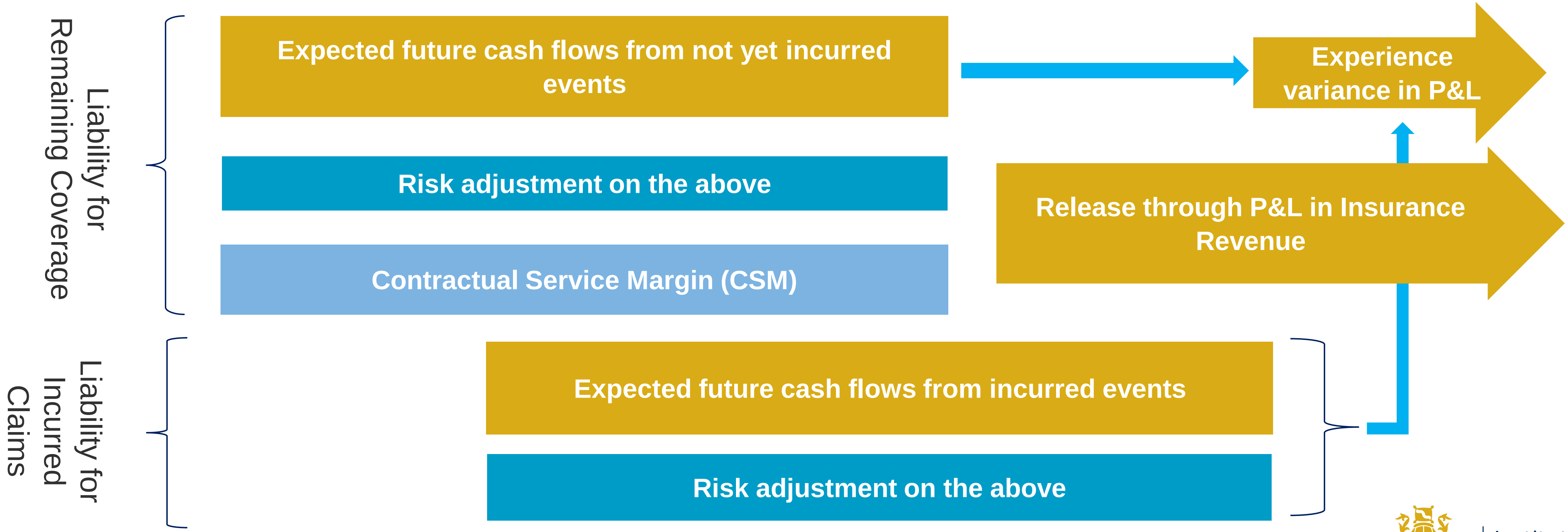
Information about the financial position of insurance companies

Two main angles to "slice" the balance sheet: "building blocks" and unexpired coverage

- The balance sheet transparency of IFRS 17 is extensive through disclosure that links directly to P&L



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Information about the profitability of insurance companies

Important CSM disclosures

- The core of the new accounting under IFRS 17 is that the insurance companies will be the only IFRS entities to report their expected profit from the main products sold (CSM)
- This is of paramount importance in the life insurance sector in particular
- IFRS 17 provides extensive disclosures to explain how CSM contributes to an insurer’s profit or loss. Two are key:
  - **CSM roll-forward table**
  - **CSM multi-year release table**

Information about the profitability of insurance companies

Important CSM disclosures: CSM roll-forward table

Table 3—movements in insurance contract liabilities analysed by components[116]

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0[117]	163,962	5,998	8,858	178,818
Changes that relate to current service	**35**	**(604)**	**(923)**	**(1,492)**
Contractual service margin recognised for service provided			(923)	(923)
Risk adjustment recognised for the risk expired		(604)		(604)
Experience adjustments	35			35
Changes that relate to future service	**(784)**	**1,117**	**(116)**	**217**
Contracts initially recognised in the period[118]	(2,329)	1,077	1,375	123
Changes in estimates reflected in the contractual service margin[119]	1,452	39	(1,491)	–
Changes in estimates that result in onerous contract losses	93	1		94
Changes that relate to past service	**47**	**(7)**		**40**
Adjustments to liabilities for incurred claims	47	(7)		40
Insurance service result	(702)	506	(1,039)	(1,235)
Insurance finance expenses[120]	9,087	–	221	9,308
Total changes in the statement of comprehensive income	8,385	506	(818)	8,073
Cash flows[121]	18,833			18,833
Insurance contract liabilities 20x1	191,180	6,504	8,040	205,724

Source: IASB “IFRS 17 Effects Analysis”, 2017 © IFRS Foundation

Information about the profitability of insurance companies

Important CSM disclosures: CSM multi-year release table

- The illustration in the previous page shows CU 923 being released from CSM to Insurance Revenue in the year
- IFRS 17 requires all insurers to report their expected full run-off of the CSM balance:

109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

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Information about the profitability of insurance companies

Important CSM disclosures: CSM multi-year release table

- Illustration of a possible comparative analysis based on the CSM multi-year release table

Company 1									
$ millions	Prior period	Current period	CSM at the end of current period	Next year	Year 2-5	Year 5-10	Year 10-15	Year 15-20	Over 20 years
CSM in P&L	$154	$165	$1,833	$175	$554	$678	$411	$213	$376
Company 2									
CSM in P&L	$177	$193	$1,756	$175	$489	$591	$378	$299	$288
Company 3									
CSM in P&L	$144	$181	$1,902	$201	$644	$567	$432	$112	$431

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Conclusion

- Strong focus on sources of profit
  - **ISR (Insurance Revenue and ISE) = underwriting margin**
  - **NFR (IFIE) = investment margin**
- Comprehensive reconciliation of balance sheet to P&L via roll forward tables
- Single consistent option to handle the reporting of financial volatility
- Major disclosure focus on CSM and the in-force embedded profit
- Sharp focus on the effects on transition at “go-live” and in subsequent periods
- Fundamental financial analysis for insurance companies (life in particular) will be enhanced materially

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Contact

Francesco Nagari
Partner
Deloitte China
Hong Kong office

Phone: +(852) 2852 1977
Mobile: +(852) 9763 7910
frnagari@deloitte.com.hk

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Questions

Comments

* The views expressed in this presentation are those of the presenter.

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Our Speaker

Liza Gonzalo

Director in the Assurance practice of Deloitte China

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Impact on APAC insurers of the EU-carve out for IFRS 17 annual cohort requirement and the continuing developments in IFRS 17

Liza Gonzalo

EU exemption on annual cohort requirement of IFRS 17

Background

- IFRS 17 aims to establish **a single set of principles** to recognise, measure, present and disclose insurance contracts. It will be applied in more than 100 jurisdictions that have adopted IFRS as a financial reporting framework.
- In the European Union, an EU-endorsed IFRS 17 included an additional provision **to opt out** of one of the IFRS 17's key requirements - the annual cohort requirement that mandates contracts within a group to be issued no more than one year apart.
- EU exemption on applying the IFRS 17 annual cohort requirement:
  - can be **voluntarily applied** in specific circumstances;
  - applies to (a) intergenerationally-mutualised contracts; and (b) cash flow matched contracts;
    - Mutualised contracts – contracts with cash flows that affect or are affected by cash flows from policyholders of other contracts
    - Cash flow matched contracts – contracts where insurers apply, as part of their asset-liability management strategy, cash flow matching techniques across generations of contracts
  - available to firms whose ultimate parent company is **headquartered in the EU**; and
  - requires **additional disclosures** (e.g. as a significant accounting policy, other explanatory notes) in the notes to the financial statements.

EU exemption on annual cohort requirement of IFRS 17

Overview of IFRS 17 requirements on annual cohorts

Portfolio (IFRS 17:14)

1. Subject to **similar risks**.
2. **Managed together** as a single pool.

g.g. contracts within a product line with similar risks and are managed together.

Annual cohorts (IFRS 17:22)

- Contracts issued 12 months (or less) apart.
- **Purpose:** To ensure profits are fully released by the end of the coverage period.
- **Choice of 'annual cohort' period:** might coincide or not with financial reporting periods and might be less than 12 months.

Groups (IFRS 17:16)

A minimum of three groups if they exist: onerous, no significant risk of becoming onerous and other contracts.

Minimum one group per annual cohort (i.e. remaining profitable contracts, if no onerous or significant risk of becoming onerous groups) but **may have more** if have information that distinguishes:

- More detailed levels of possibilities of contracts becoming onerous.
- Different levels of profitability.
- Extent to which contracts are onerous (i.e. more than one onerous group per cohort).

Groups determined at inception and not reassessed

Application of the level of aggregation

- Relevant for the recognition in P&L of profits and losses for insurance services (and aiming to restrict the mutualisation between profitable and loss-making groups of contracts within a portfolio).
- The level of aggregation does not affect the level at which you calculate the fulfilment cash flows (FCFs). An entity may estimate the FCFs at a higher level than the group or portfolio **if it is able to determine an appropriate allocation of those FCFs to groups of contracts.**

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EU exemption on annual cohort requirement of IFRS 17

Results from Deloitte's 2022 Global IFRS Insurance Survey

- Of the 131 respondents from EU-based insurers of the 2022 Global IFRS Insurance Survey conducted by Economist Impact for Deloitte:
  - 82.9% of the participants indicated that they **plan to use** the exemption for annual cohorts in preparing the 2023 IFRS 17-compliant financial statements.
  - nearly 86% of those that plan to use the EU exemption expect that it will have a **material impact** on their financial statements.
- Use of the EU exemption on annual cohort requirement
  - Pros: to report profitability of the qualifying contracts that is **consistent** with their contractual and economic characteristics.
  - Cons: (a) **loss of information** on the profitability of groups of contracts; (b) some regulators outside the EU require full IFRS financials, i.e. IFRS as issued by the IASB, for certain capital market transactions, therefore, would be costly to prepare the required financials only once.

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EU exemption on annual cohort requirement of IFRS 17

Impact on APAC insurers

- Implications to non-EU insurers (e.g. APAC insurers) that are subsidiaries of an EU parent applying the EU exemption on annual cohort requirement:
  - **Consistent accounting policy** on annual cohort for group reporting
    Accounting policy alignment at group teporting level may be required if the EU parent of the entity chooses not to apply the annual cohort requirement for mutualised contracts while the APAC entity must apply it.
    - APAC entities have to deal with different level of aggregation requirements. Actuarial computations must be performed at least twice (three times if local regulatory requirements also mandate a different level of aggregation for related reporting requirements such as local RBC reporting).
  - Potential financial implications
    CSM amortisation pattern based on annual cohort may be **different** from that based on multi-year cohort.
    - Need to look into the determination of the coverage units of an open-ended cohort.
  - Potential implication to business/product management
    CSM grouping with or without annual cohort may produce **materially different** financial performance metrics under IFRS 17. Companies may consider revisiting their business management (e.g. product pricing, dividend management, asset and liability management) for new products going forward.

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Continuing developments in IFRS 17

Continuing developments in IFRS 17

What is an agenda decision?

Agenda decisions are published when the IFRS Interpretations Committee (IFRS IC) decides that a standard setting project should not be added to their work plan. An agenda decision:

Agenda decision

- Explains how the relevant principles and requirements in IFRS apply to the transaction or fact pattern described in the submission sent to the IFRS IC by a stakeholder. Stakeholders' identity is not shared with the public.
- Derives its authority from the IFRS pronouncements and cannot add or change the existing requirements.
- Must be reflected when applying the IFRS/IAS discussed in the AD and may result to a change in an entity's accounting policy.
- Does not include an effective date and judgement should be applied in determining how much time is sufficient to make an accounting policy change (depends on facts and circumstances of the entity).

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Transfer of insurance coverage under a group of annuity contracts

Background

The agenda decision (AD) has been published in July 2022. The AD is applicable to life insurers but not applicable to non-life insurers.

Fact pattern:

Entity A has groups of annuity contracts under which the policyholder of each contract:

- pays the premium up front and has no right to cancel the contract or seek a refund;
- a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policy holder survives); and
- receives no other services under the contract (e.g. no other types of insurance coverage or investment-return service).

Accounting issue:

For a group of annuity contracts, how does an insurer determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract?

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Transfer of insurance coverage under a group of annuity contracts

Agenda decision guidance on the determination of the quantity of benefits

- To determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, it is appropriate to use a method based on the amount of the annuity payment that the policyholder is able **to validly claim** if an insured event occurs **in that period**. Such a method determines the quantity of the benefits of insurance coverage provided:
  - in the current period, based on the annuity payment the policyholder is able to **validly claim** in the current period; and
  - expected to be provided in the future, based on the present value of the annuity payments which the policyholder is expected to be able to **validly claim** in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period for the future expected life of the policyholder)

The use of a method based on the present value of the expected future annuity payments is not considered an acceptable approach as this method does not meet the principle of IFRS 17:B119 of reflecting insurance coverage provided in each period because it also consider amounts the policyholder is able to claim and benefit only in future periods.

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Multi-currency groups of insurance contracts (IFRS 17 and IAS 21)

Background

The AD has been published in October 2022. The AD is applicable to both life insurers and non-life insurers.

There are a number of scenarios that can be observed in the insurance market where insurance contracts have ***cash flows in multiple currencies***:

Scenario 1

Home Office
UK

Branch
Germany

Insurance contracts* have all of their cash flows in **Pound sterling**

Insurance contracts* have all of their cash flows in **Euro**

Scenario 2

Insurance contracts issued have cash flows denominated in multiple currencies, for example:

- Premiums: **Euro**
- Claims:
  - **Euro**
  - **US Dollar**

Scenario 3

Insurance company with **Euro** as functional currency:

issues insurance contracts with premiums and claims in **Euro**

incurs policy administration costs in **Pound sterling**

*Assuming contracts have identical terms and conditions. Only the currencies, as indicated in the fact pattern, are different.

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Multi-currency groups of insurance contracts (IFRS 17 and IAS 21)

Agenda decision guidance on multi-currency groups of insurance contracts

The AD on *Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)* addresses two accounting questions relating to insurance contracts with cash flows in multiple currencies.

Accounting issue	Agenda Decision guidance
Accounting issue 1: *Does an entity considers currency exchange rate risks when applying IFRS 17 to identify portfolios of insurance contracts?*	In **identifying portfolios** of insurance contracts: • all risks, **including currency risk**, shall be considered when identifying portfolios of contracts • portfolios could still include contracts subject to **different currency exchange rate risks**
Accounting issue 2: *How will an entity apply IAS 21 in conjunction with IFRS 17 in measuring a group of insurance contracts with cash flows in more than one currency (a multi-currency group of insurance contracts)?*	When measuring a group insurance contracts with multi-currency cash flows: • apply **all measurement requirements** in IFRS 17 and treat the group of contracts, including the contractual service margin (CSM), as a **monetary item** • there is a **single CSM** for the group of insurance contracts • use judgement **to develop and apply an accounting policy in accordance with IAS 8^** that determines on initial recognition the currency denomination of the group, including the CSM

^ IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

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Multi-currency groups of insurance contracts (IFRS 17 and IAS 21)

Approaches for currency denomination for a multi-currency group of contracts

Below are the two **approaches** considered in the AD for measuring a multi-currency group of insurance contracts:

Approaches	The Agenda Decision guidance
Approach 1: *Single-currency denomination approach*	• A single currency in which the group of contracts is denominated is determined (e.g. currency of the premium, currency of the predominant cash flow). • **All changes in exchange rates between the currency of the cash flows and the currency that denominates the group of contracts are treated as changes in financial risk applying IFRS 17.** • All changes in exchange rates between the currency of the group of contracts and the functional currency are treated as exchange differences applying IAS 21
Approach 2: ***Multi-currency denomination approach***	• CSM is determined for each of the sub-divided fulfilment cash flows at initial recognition. Then, the entity translates each portion of the CSM to the functional currency and aggregates all the portions in a single CSM balance. • All changes in exchange rates between the currency of the sub-divided cash flows, including the foreign currency denominated portions of the CSM, and the functional currency are treated as exchange differences applying IAS 21. • **When necessary to do so, a loss is recognised to prevent the CSM being negative when translated to the functional currency.**

Premiums receivable from an intermediary (IFRS 17 and IFRS 9)

Background

Tentative agenda decision*.   This tentative AD is applicable to life insurers as well as non-life insurers.

Fact pattern:

- An intermediary acts as a link between an insurer and a policyholder to arrange an insurance contract between these two parties.
- The policyholder has paid in cash the premiums to the intermediary.
- There is an agreement between the insurer and the intermediary wherein the intermediary remits the collected premiums to the insurer at a later date. If the intermediary fails to pay the premiums to the insurer, the insurer has no right of recover the premiums from the policyholder or to cancel the insurance contract.
- The policyholder discharges its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder.

Accounting issue	The Agenda Decision guidance
How should an insurer apply the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary?	• The insurer could account for premiums paid by a policyholder and receivable from an intermediary applying either IFRS 17 or IFRS 9. • The insurer is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards (i.e. IFRS 17, IFRS 9), in particular the disclosure required on information about credit risk

*The Tentative Agenda Decision has been published for comments, with the comment period ending 22 May 2023.

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Premiums receivable from an intermediary (IFRS 17 and IFRS 9)

Two views for accounting of premiums receivable from intermediary

	View 1 - IFRS 17 accounting treatment	View 2 - IFRS 9 accounting treatment
When PAA* does not apply	The insurer **includes** the premium receivable from the intermediary in the measurement of a group of insurance contracts **until recovered in cash.**	The insurer **removes** the premium receivable from the measurement of a group of insurance contracts and recognizes a **separate financial asset applying IFRS 9.**
When PAA* does apply	The insurer **does not increase** the PAA liability until the insurer recovers the premiums **in cash from the intermediary.**	The insurer **increases** the PAA liability and recognizes a **separate financial asset applying IFRS 9**.

* PAA – Premium allocation approach

Contact

Liza Gonzalo
Director
Deloitte China
Hong Kong office

Phone: +(852) 2852 5806
ligonzalo@deloitte.com.hk

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Questions

Comments

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* The views expressed in this presentation are those of the presenter.

Our Speaker

Choi Ka Hei

Partner of Deloitte Actuarial Practice, Hong Kong

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Technology and system optimisation trend post IFRS17 implementation including: Business planning & forecasting, Working data timetable optimisation, further transformation initiative driven by IFRS17

Choi Ka Hei

Key Challenges Post IFRS17 Implementation

Key Market Observations during Production Run:

Data Requirements and System Performance

- Most insurers still face challenging heavy data processing issues, mainly due to immature system infrastructure. Existing sub-ledger system and Extract, Transfer and Load (ETL) processes could not cater for the heavy data requirements efficiently, resulting in frequent data related errors and run errors. However, it is practically impossible for multiple roll-back of run processes due to the long run time.
- Best practice to have sufficient **data controls** in place to reduce data errors and ensure sufficient **data storage** are available before runs. In addition, insurers should have **Data Retention Policy** and **Data Management Policy** enforced and ensure that it is strictly followed.

Analysis of Results

- Insurers also face challenges while performing Actual vs. Expected analysis at contract group level with high level of granularity. Common issue faced where **Actual vs. Expected results are reasonable at overall aggregated level but may have variances at contract group level.** These issues generally arise from data input errors at sub-ledger, incorrect mapping of account code, etc.
- Often insurers may have to perform manual adjustments to the results after analysis. Best practice to have a **proper documentation for manual adjustments performed** for audit trail.

Key Considerations for New Business Process:

- **Alignment with other parties** on IFRS17 requirements in the **early stage of product design and pricing**, e.g. determination of contract boundary, measurement model, onerous contract. **Questionnaire or checklists** could be provided in advance.
- **System considerations** on set up of new products for sub-ledger data input, contract group level, etc.
- **Operational capabilities of existing reinsurance system** in supporting the new product design.

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Specific Challenges for MNC Post IFRS17 Implementation

Adoption and implementation timeline varies between countries

- Multinational corporations (MNC) insurers are required to reconsider its business strategy and operational functions due to the issue of **dual reporting** among their local business units where Group and local business units have different IFRS17 implementation timelines. MNC insurers may also face challenges while applying **group wide decisions on IFRS17 related across all local business units** due to the different reporting standards.
- A **clear and transparent transition strategy** is required to be in place post IFRS17 implementation.

Level of Centralization

- Many insurers at Group level currently struggles to manage the IFRS17 data and results at consolidation stage due to the different systems and processes employed by their local business units. As observed in the market, insurers consider **centralizing system and processes** such as **sub-ledger, ETL processes** and **cloud storage system.**
- **Robust management of the centralized systems** is crucial to a smooth reporting process. E.g. without a proper Data Management Policy in place, poor management of cloud storage may cause inconvenience to other local business units as a result of mismanagement of cloud data storage by a single business unit.

Key Market Observations and Considerations:

- Many insurers have dedicated significant amount of resources to the adoption and implementation of IFRS17 and this has resulted in a strain to their existing BAU workforces.
- It is observed that many insurers in the market consider **alternative delivery model** (e.g. outsource their existing reporting processes or setup Centre of excellence offshore or near shore)

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Business Planning and Forecasting

Key Considerations:

Functional Approach

- As observed in the market, there are various approaches to business planning under IFRS17
- Considering the company's business objectives, insurers will have to determine the **design principles** of the business planning approach; to **strike a balance between the complexity / granularity of calculation approach** and the **system run time** (highly dependent on the insurers' **system capabilities and data processes**)
- MNCs insurers may also have to consider **intercompany transactions in Group reporting** as they can no longer simply cancel out if it causes an impact to CSM and initial recognition of NB. Transaction reversals may be required for transactions such as internal reinsurance, investment income within entity.

Platforms to Perform E2E Business Planning Process

- Various platforms used by insurers currently in the market: actuarial projection model, subledger with forecasting capabilities, Enterprise Performance Management (EPM) tool, Microsoft Excel

Alignment of Business Projection End Results and Key Metrics in Management Information

- Ensure the **granularity of projection results are in line with the Management Information reporting metrics**

Business Planning Approach:

- **Top-down approach:** High-level fast approach which can cater effectively for frequent change in assumptions. Setting key KPIs (earnings, operating profit, CSM, etc.) -> Determine key contributors to KPIs (sales, expense, CSM, etc.) -> Applying scalar factor to components
- **Bottom-up approach:** More accurate approach with granular comparison to actual. Similar to production run with certain simplified processes, such as no onerous/ profitability test, following historical cohort, etc. Undergo ETL process to aggregate projected sales to contract group level -> CSM roll-forward
- **Hybrid approach:** Bottom-up (for Year 1-2) and Top-down (for Year 3-5)

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Working Day Timetable Optimisation

Key Issues Observed Impacting Working Day Timetable:

- Insurers faces significant **long process run time** and **disconnected data pipelines** (data errors and manual intervention between data processes)
- Certain issues may only surface during production run but not during UAT, e.g. system crashes, manual adjustment issues, out-of-model calculations, storage of huge data from sensitivity runs, etc.

Dependencies across Processes

- Insurers may **breakdown dependencies across processes** and **enable parallel runs** by having an in-depth understanding on each processes and identifying processes which can be run independently.
- Alternative solutions could also be applied, e.g. approximation of certain components, extraction of data from other sources instead, etc.

Data Quality and Automation of Processes

- **Comprehensive data quality checks** should be performed in advanced, e.g. Group office to be involved in local business unit data quality checks (reasonableness and reconciliation), control on data input parameters, alignment of data output requirement, etc.
- **Automation of data processing between across systems (including straight-through runs of data quality checks)**

Key Market Observations:

- Delays in working timetable partly arises from long waiting time of certain work pending from other parties.

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Contact

Choi Ka Hei
Partner
Deloitte China
Hong Kong office

Phone: +(852) 2238 7866
Mobile: +(852) 9835 3416
kahechoi@deloitte.com.hk

Deloitte.

Institute and Faculty of Actuaries

Questions

Comments

* The views expressed in this presentation are those of the presenter.

Our Speaker

Winnie Sun

Partner of Deloitte Actuarial Practice, Shanghai

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The IFRS 17 data challenge and new benefits beyond compliance, perspectives for non-life insurers

Winnie Sun

Data challenges for non-life insurers (1/2)

Survey result

- Of the 338 respondents who responded to the question for "Which aspects of preparing your technology solutions to support IFRS 17-compliance have given you trouble?", data related issues including data capture, data storage and data quality stands out as areas that insurers found most difficult.

Data challenges

- **Level of granularity**: In the past, non-life insurers usually perform estimation at a higher level such as by line of business. IFRS 17 has introduced new granularity level such as **group** and **portfolio**. Insurers need to prepare cashflows, assumptions etc. at group level or even a lower granularity level based on management need.
- **Availability of historical data:** In order to produce the opening balance sheet compliant with IFRS 17, depending on the transition approach selected, insurers may need to access and leverage data going back many years ago and capture these into system.

Results from Deloitte's 2022 Global IFRS Insurance Survey: Which aspects of preparing your technology solutions to support IFRS 17-compliance have given you trouble?

Response	%
Capturing data inputs at the required level of granularity across data sources	36.4%
Performance of technology solution	33.1%
End-user interface	30.2%
Data storage/management capabilities	27.2%
Calculation capabilities	27.2%
Reporting interface	24.0%
Data quality	19.5%
Cyber-security	18.3%
Controls	13.3%
Other	0.0%
I don't know	0.3%

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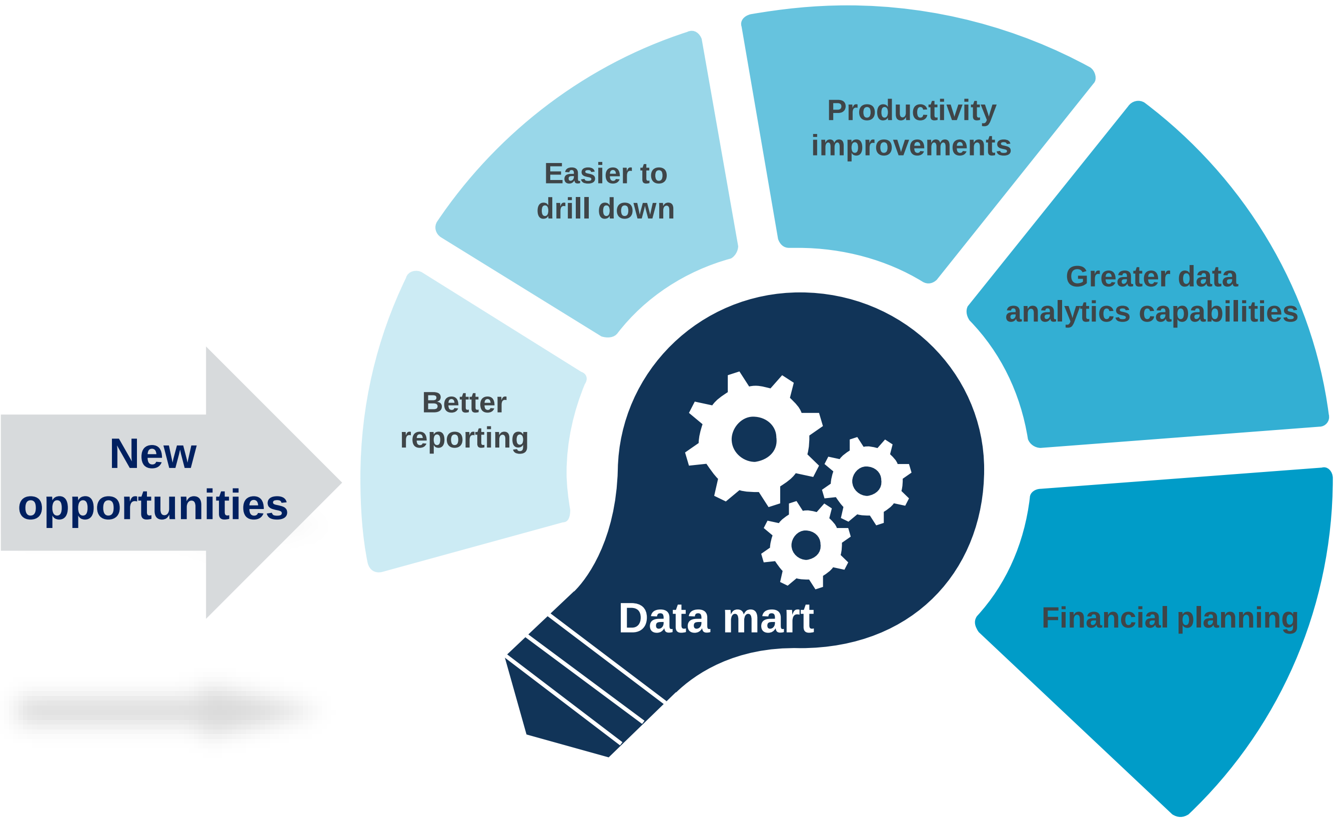
Data challenges for non-life insurers (2/2)

Data challenges

- **Data quality:** Data across different existing system does not reconcile. Missing data fields, duplicate value and inconsistent values were common data issues identified. Significant time were spent to investigate the records and generating solutions during testing.
- **New data required:** IFRS 17 has introduced new data item requirement, such as investment component, recognition date, group ID etc. Some data fields would need to be generated through establishment of a new process. For example, in order to attach the group ID to each policy record, the result of onerous test would need to be available. This will be likely to be an automated process instead of manual recording.



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Potential new benefits

Survey result

- When asked whether adopting IFRS 17 was worthwhile, more than half of respondents felt the benefits of adopting IFRS 17 will outweigh the costs, most of the rest were on the fence of neither agree nor disagree.
- Our survey also shows many insurers expect **easier access to capital** markets for M&A and other fundraising activities (nearly one-third of respondents), **improved operational efficiency** of finance and actuarial functions (29%, with smaller firms more likely to cite this) and financial statements that **better reflect the results of business performance** (29%) .

Results from Deloitte's 2022 Global IFRS Insurance Survey: What benefits do you foresee for your organization once it is IFRS 17- compliant?

Response	%
Easier access to capital markets for mergers and acquisitions and fundraising activities	32.5%
Improved operational efficiency of finance, actuarial and other functions	29.4%
Financial statements that better reflect the results of business performance	28.9%
Better cross-functional collaboration within the company's functions	28.1%
Greater transparency in IFRS financial reporting than currency	25.6%
Improved internal controls over financial reporting	22.8%
Improved forecasting and planning	21.9%
Better risk management	16.4%
Improved technology systems	15.8%
Lower cost of capital	14.7%

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Performance metric and KPI

- Given the breadth and complexity of the reform, it remains to be seen which of these analysts and investors will regard as the most significant KPIs. The below table lists some examples of KPIs expected under IFRS 17.

	Current KPIs	IFRS 17 KPIs
Growth	• GWP • NEP	• GWP • Insurance revenue
Profitability	• Net Combined ratio • Underwriting profit • Earnings per share	• Combined ratio (net basis) • Insurance service result • Earnings per share
Claims	• Net loss ratio	• Loss ratio (net basis)
Expense	• Net expense ratio	• Expense ratio (net basis)
Shareholder return	• Return on equity	• Return on equity
Value creation		• CSM

Contact

Winnie Sun
Partner
Deloitte China
Shanghai office

Phone: +(86) 21 3313 8828
Mobile: +(86) 136 6192 3083
winniesun@deloitte.com.cn

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Feedback Form

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