

IFRS 17: Lessons Learned From Initial Implementation

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Sgt. Pepper's lonely hearts club band



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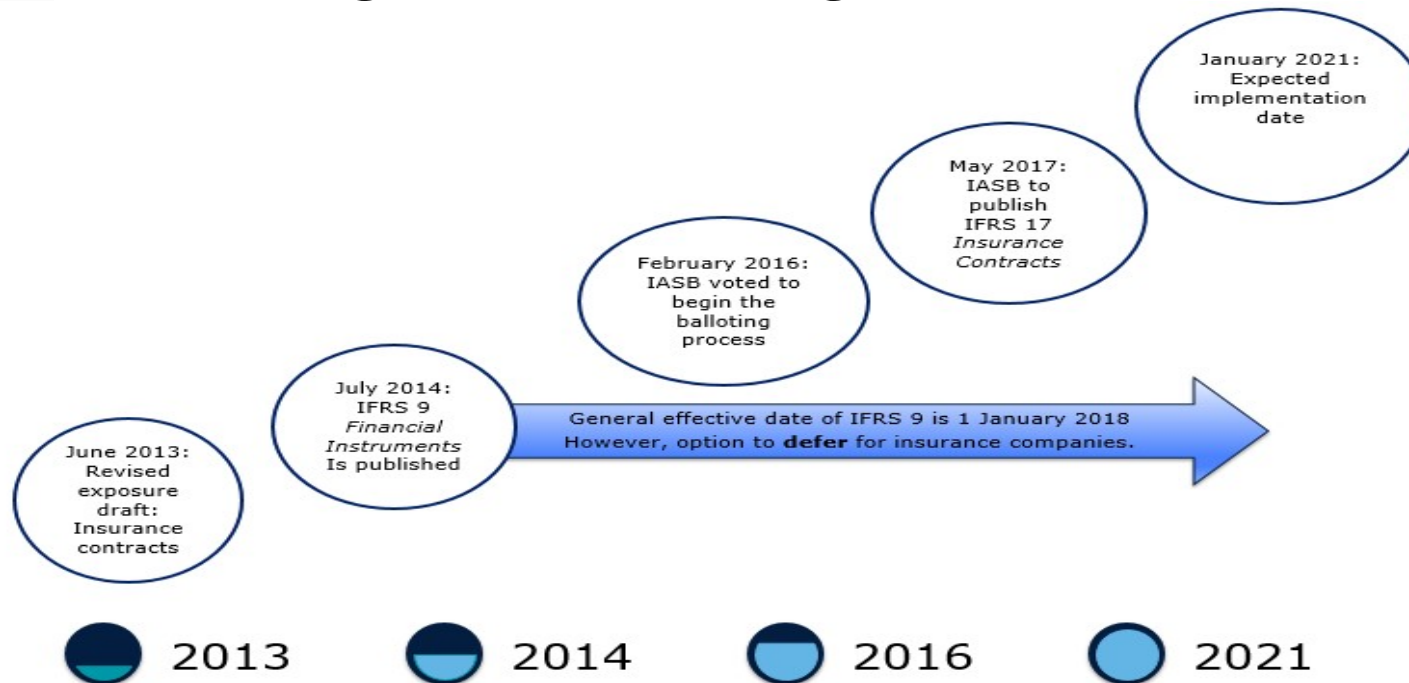
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IFRS Insurance Contracts project update

The long and winding road



IFRS Insurance Contracts project

Latest changes since November 16



Being for the Benefit or Mr. Kite!

1. Simplified transition options

- Allows new options, makes things simpler

2. Revised levels of aggregation

- Essentially, three groups – always profitable, always onerous and the rest

3. Variable fee approach refinements

- Basically, wording refinements to make things clearer

4. Tweaks to CSM mechanics

IFRS Insurance Contacts

A journey from 1997 - ?



IFRS Insurance Contacts

A lot can happen in 20 years...





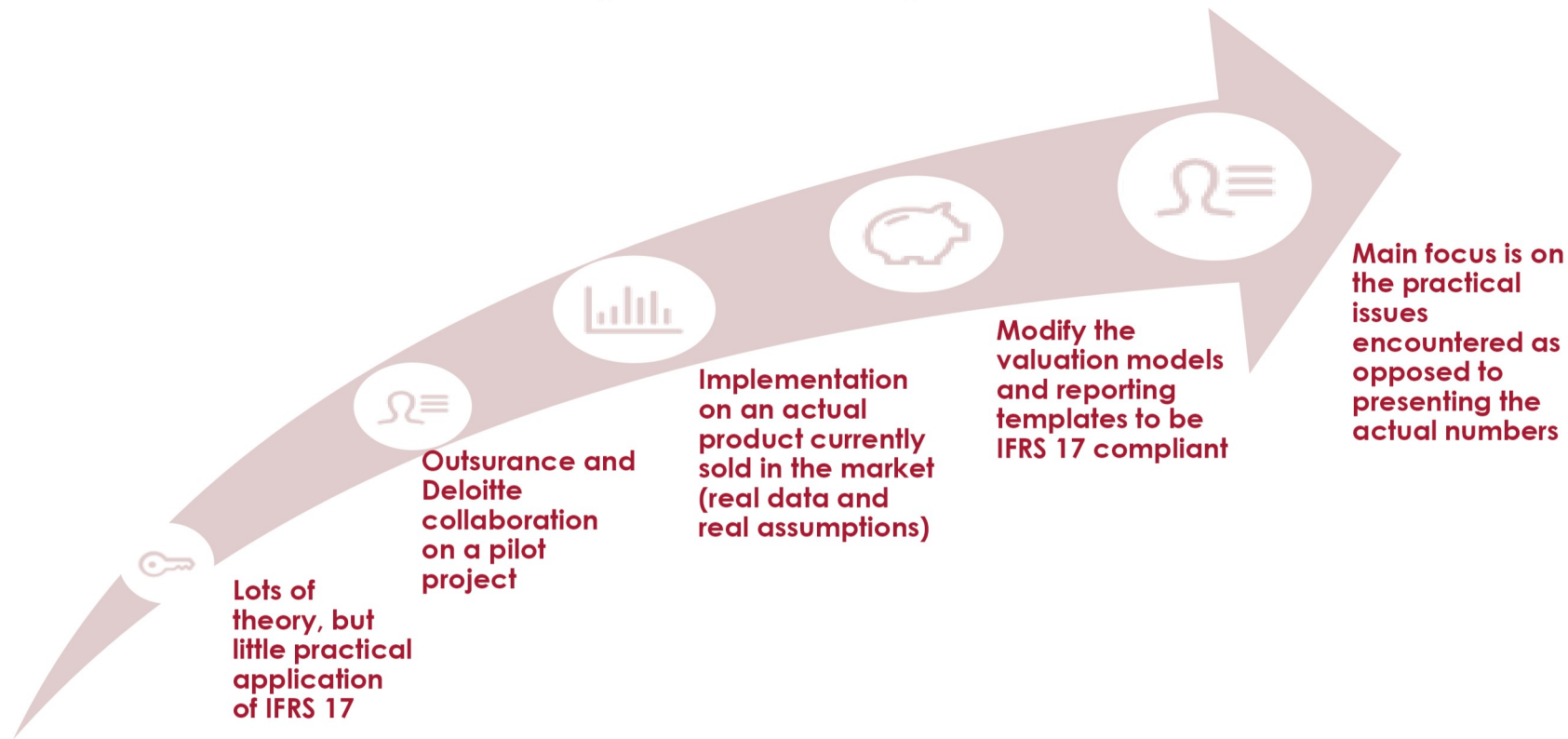
**„there's a difference
between knowing the path
and walking the path“**

Morpheus, Matrix

What have we done?



With a little help from my friends

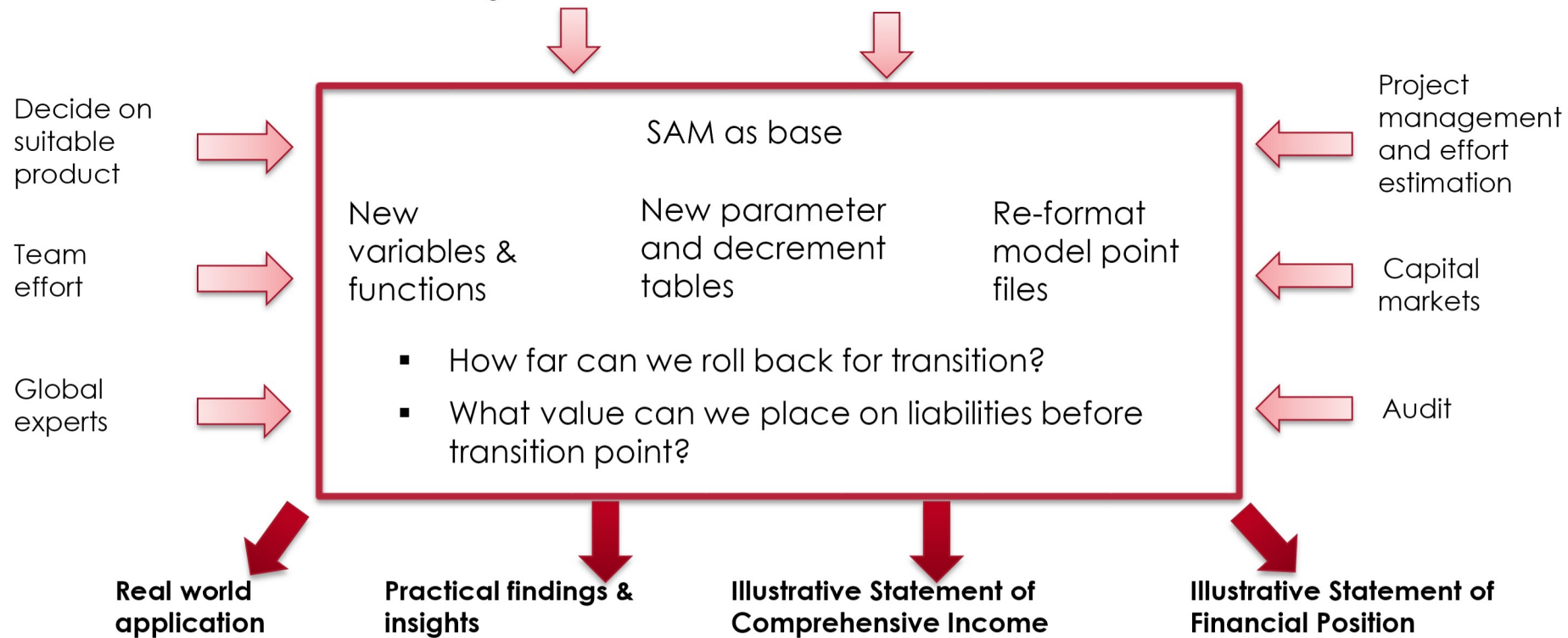


The mechanism – Inputs, process & outputs



Help!

Existing valuation model Existing model point and data files



Key findings from the implementation



Come together

- The key findings are categorised into the following areas:

1

**Recognition and
contract boundaries**

2

**Best estimate
cashflows**

3

Discount rates

4

Risk adjustment

5

**Contractual service
margin**

6

Reinsurance

7

**Presentation and
disclosure**

8

Transition





I feel fine

- Started with the SAM definition of contract boundaries considered any differences between SAM and IFRS 17 definitions.



- Here, SAM really does help
- Got lucky – could use SAM boundaries as is
- But this is not guaranteed in other cases - IFRS17 definition not 100% same as SAM



Best Estimate Cashflows



Ticket to ride

- Start with the best estimate cashflows under SAM, consider any adjustments necessary (expenses!)



- Were able to use SAM cashflow modelling with no adjustments
- Attributable versus non-attributable expenses - new consideration to SAM
- Overall – could lean on SAM models but had to do some assumption work



Discount rates



We can work it out

- IFRS discusses two approaches – a top down and bottom up approach
- SAM was a big help



- Top down – start with asset returns and remove credit risk
- Bottom up – start with risk free returns and add an illiquidity premium
- Concept of illiquidity premium and top-down approach is a new headache
- Two approaches allowed – top down and bottom up
- Used the SAM risk-free as base with no illiquidity adjustment



Discount rates



We can work it out

Practical issues:

- Alternate yield curves for specific product features
- Modelling considerations using three curves
- Availability and consistency of curves going back in time



Risk Adjustment



Twist and shout

- No prescribed method, but confidence level disclosure is required
- We set the RA using a specified confidence level, but there are other approaches.



- Used SAM SCR methodology as our basic starting point
- Recalibrated the Life SCR to a 1 in 4 event (75% confidence level)
- How large should the RA be?
- Should you use the SAM Risk Margin?

Contractual service margin



A hard day's night

- Significant model revamp required to make this work
- Reporting templates on top of existing models need to be adjusted as well



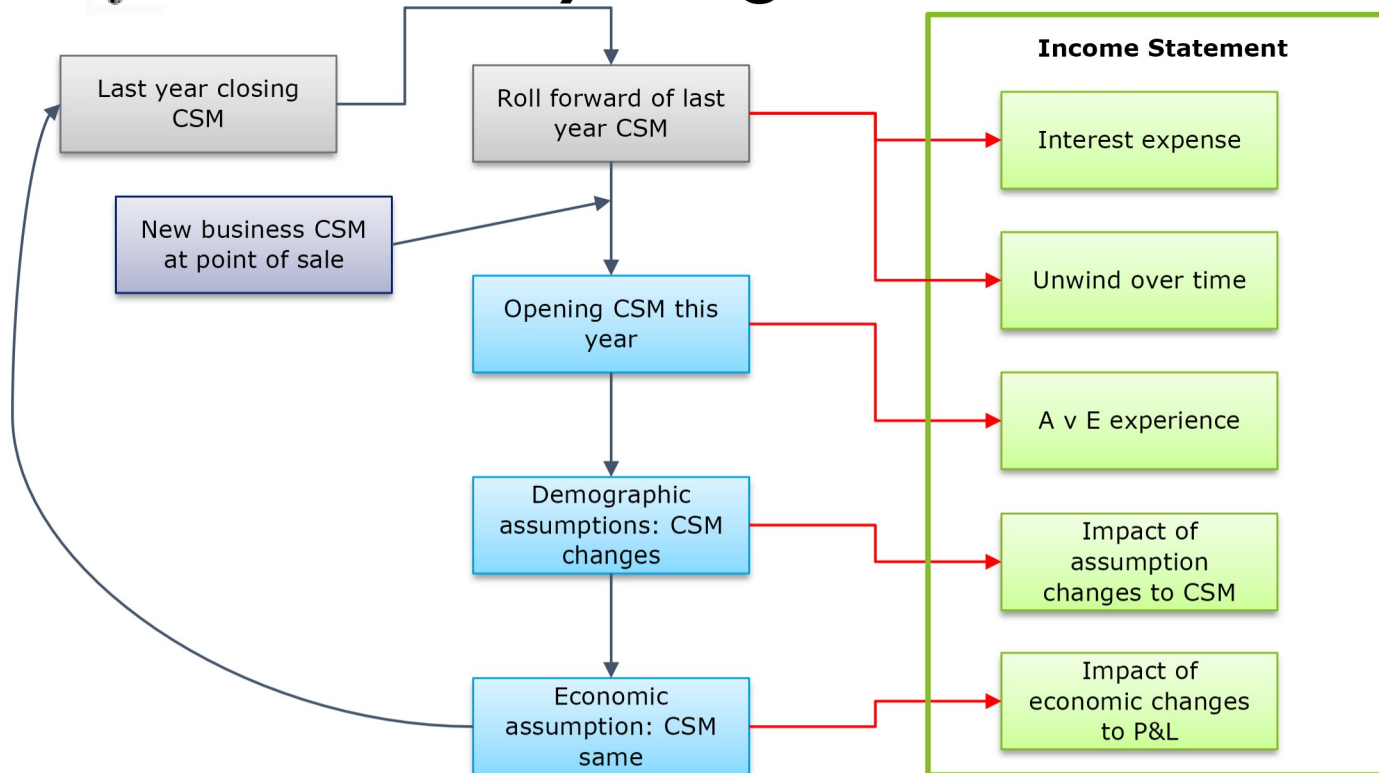
- Key feature is passing data between runs
- Track data at unit of account level
- The consistency of data and analysis of change is important
- Track and report positive CSM, negative CSM
- Reinsurance!



Contractual service margin (cont.)



A hard day's night



Reinsurance



Don't let me down

- Need to track reinsurance liability, Risk Adjustment and CSM
- Allow for reinsurance default



- SAM methodology is in line with IFRS requirements
- Additional unit of account and contract boundary considerations apply
- Keep track of the reinsurance CSM
- Impair all reinsurance or only if reinsurance is an asset?



Presentation and disclosures

Lucy in the sky with diamonds

- Took current IFRS financials, adjusted balance sheet, but re-built income statement (quite a mission!)



- Balance sheet not too different, income statement fundamentally changed!
- IFRS standard very principle-based, vague guidance and examples
- What “profit” means and how it comes about is fundamentally changed
- Effectively, actuarial AoS becomes the income statement – increased levels of precision?

CLASSIFIED

Revolution

- Project focussed mostly on calculation models, but we have not even **started** scratching around the surface with many other items which will be affected by the new IFRS financial disclosures!



Source: Deloitte





Eight days a week

- At first, tried a direct, full look-through, starting at product launch. Had to quickly settle for something more approximate!



- Model changes accumulated over time? How do you deal with that?
- Modelpoint/data changes – roll back vs upgrade? Unit of account field?
- Assumption table changes – same considerations, roll back vs upgrade?
- How far back is far enough?
- What's a fair value for a liability if you can't go back any further?

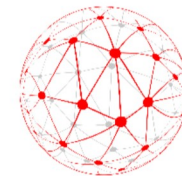


Closing remarks



Let it be

- LOTS of effort, took FAR longer than our most pessimistic estimates
- Also, just scratched the surface on all the wider area implications (IT system, admin system, finance and accounting, etc.)
- Can lean on **some** SAM aspects, but definitely NOT to the extent initially anticipated.
- **Start early, start small, but know it's a long-haul and a massive project!**



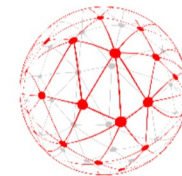


Now this is not the end. It is not even the
beginning of the end. But it is, perhaps, the end
of the beginning.

(Winston Churchill)

Questions?

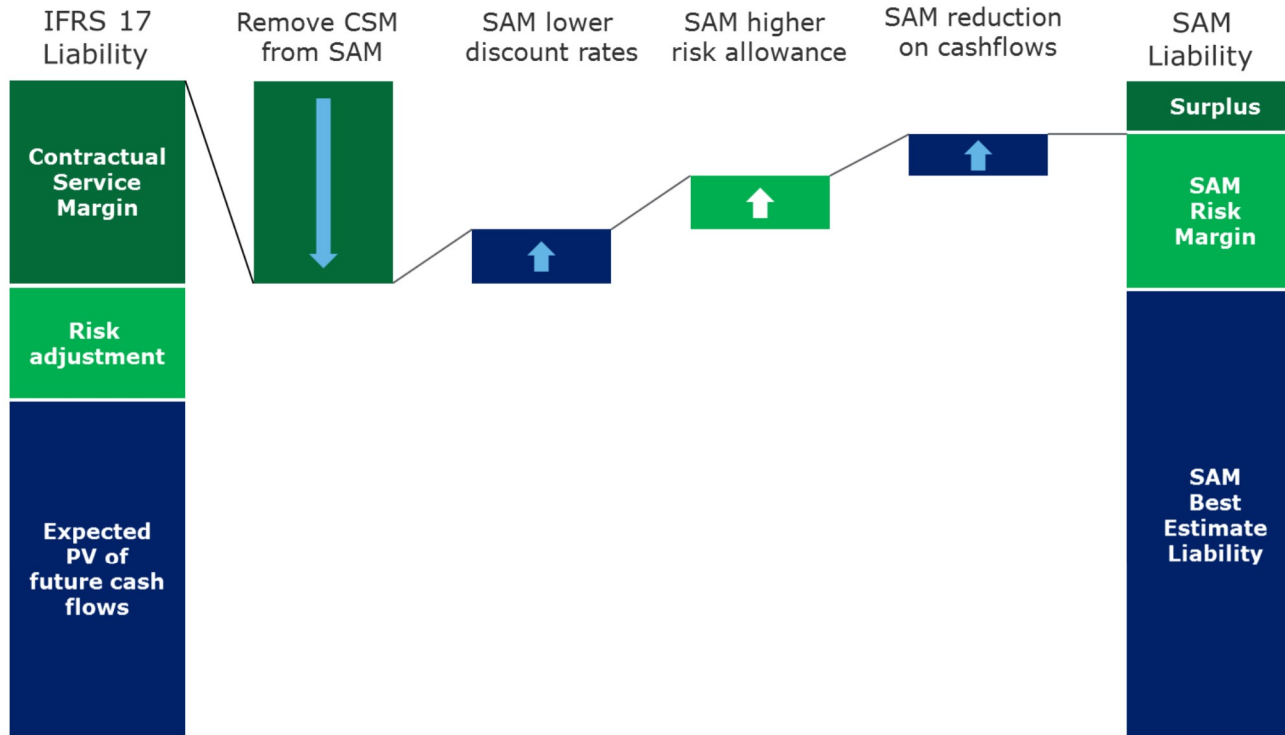
 **Hello, goodbye**



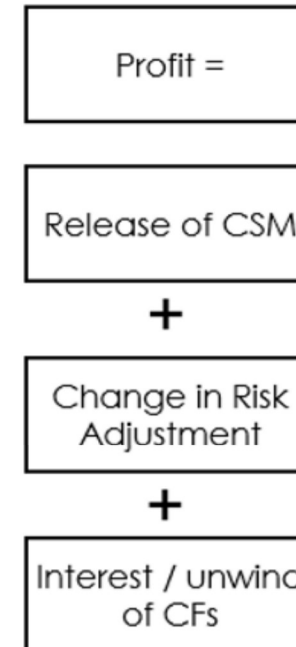
Comparing IFRS to SAM



Magical mystery tour



How are profits earned
under IFRS 4 Phase II?



Comparing IFRS to EV

Spotlight on the reconciliation items between the two bases

