

International Financial Reporting Standards

Darryl Wagner
Chair, Asia Subcommittee
(of the Advice and Assistance Committee)

Institute of Actuaries of Korea
IFRS Seminar
November 10, 2015



Agenda

- Implications of IFRS Phase 2 for Actuaries
- Actuarial Modernization



Implications of IFRS for Actuaries

- Technical challenges
- Broader roles
- Business/strategic challenges
- Challenge = Opportunity!



Broader Actuarial Roles

- Asset management
- Risk management
- Accounting
- Business/strategic management
- “Do more AND make the most of it”



Asset Management

- Different effective dates for IFRS 9 and IFRS x
- IFRS 9 is for Financial Instruments (covers most insurer investments) and is effective 2018
- IFRS X is the standard for insurance contracts – maybe effective 2020
- So major reporting change in 2018 without coordinated liability change
- Another change in 2020, hopefully aligned with IFRS 9



Asset Management-Implications

- Traditional roles continue (i.e. ALM)
- IFRS 4 Phase II is “independent” of assets
- However, asset/liability linkage is key to insurance business model
- Actuaries are uniquely positioned to ensure consistency between asset and liability accounting...
- And to tell the story of the results-communication!



Risk Management

- Assumptions and model governance
- You will need blue-ribbon assumptions governance as both the Best Estimate Liability (BEL) and its partner Risk Adjustment (RA) will be based on actuarial judgement
- A wide variety of methods may be used to generate both the BEL and RA



Risk Management-Implications

- IFRS risks to be managed-assumptions, models
- RA should be linked with enterprise view of risks
- Opportunity to find synergy between ERM processes/models and those needed for RA
- And again to tell the story-basis/meaning of RA, changes in RA



Accounting

- Income statement items, disclosures
- Days of plucking from General Ledger are over
- Items such as revenue will largely come from actuarial processes and systems
- Items will be more like source of earnings: an expected amount and an actual amount



Accounting-Implications

- Actuarial fingerprints all over the balance sheet, income statement, reconciliations
- Partnership with accounting/finance will be broader and more important than ever
- Impacts processes/systems/governance
- We tell the story...together



Business/Strategic Management

- Into the unknown, limited field testing
- Uncertain impact on products, businesses
- Will need to overhaul planning, budgeting and forecast functions
- Challenge to forecast future judgment e.g. RA
- Linkage to performance measurement and incentive comp



Business/Strategic-Implications

- New framework and language for everyone
- Opportunity for actuaries to tell the story and go beyond...
- Reconcile IFRS results with other measures
- Understand/explain IFRS impacts such as O&G vs. business mix
- Provide strategic insights



How do we “Do more AND make the most of
it?”

Actuarial Modernization



What is Actuarial Modernization?

Vision

Improving business value and effectiveness of actuarial functions

Goals

To establish a strategically oriented actuarial organization that helps drive the overall company strategy by effectively utilizing and grooming top actuarial talent, efficient processes, and best-in-class tools and analytics capabilities

What is Actuarial Modernization?

- Assessing **actuarial processes**, based on industry leading practices, in order to measure efficiency and effectiveness
- Establishing an **end-state vision** and working to implement that vision
- “Freshening up” systems and related data and processes with state of the art tools and **end-to-end solutions**:
 - Fixing the foundation
 - Transforming the function
 - Enabling strategic capabilities
- Enhancing **data availability** and the effectiveness of supporting technology
- **Optimizing** actuarial **information** provided to management
- Redefining **actuarial talent** strategies
- Building and embedding an **enhanced governance structure** around actuarial systems



Why is Actuarial Modernization Needed?

There are numerous drivers for the need for Actuarial Modernization, both internally-generated as well as in response to regulatory requirements

Why is Actuarial Modernization Important?

- Senior management demand for *greater and more timely analysis*
- *Pressure on growth* initiatives and capital demands
- *Emerging regulatory change*, such as IFRS, ORSA, Fed SIFI requirements, PBR
- Failure to align the Actuarial and Risk functions with *enterprise IT frameworks*
- Lack of *standardization, automation, and efficiency*
- Historic *under-investment in actuarial systems and processes* and supporting technology
- The typical actuarial function *one-off projects will not achieve* broader company business needs



Common Key Issues to Address

Technology

- Outdated systems with limited functionality do not support changes in valuation methodology
- Capabilities and tools cannot efficiently respond to senior management requests
- Heavy reliance on manual processes and end-user computing (e.g., spreadsheets)
- Computing power to support actuarial projection systems is insufficient
- Decentralized and segregated actuarial systems lead to redundancies and inefficiencies

Processes

- Current processes are manually intensive due to inefficiencies in the models and data
- A lack of technology tools results in manual processes
- Wasted time spent reconciling and/or explaining results
- Risk management prioritization varies across business units and functional areas
- Actuarial staff spend a material amount of time on data capture, validation and production, instead of analysis
- Lengthy valuation run times and actuarial close process

Common Key Issues to Address (cont'd)

Data & Reporting

- Intensive data collection process requires significant resources
- The lack of consistent data definitions undermines consistency, drives inefficiency and creates reconciliation requirements
- Sourcing and storage of data is performed inconsistently across actuarial processes
- Plan-to-actual variance analysis is not sufficiently granular, undermining the ability to explain movements in results

Governance

- Limited controls of coding changes in modeling systems result in integrity issues
- Decision rights, risk ownership, and venue for risk oversight discussions are unclear
- Limited governance of models and modeling production leads to inconsistency
- The process for risk oversight is informal and inconsistent
- Lack of documentation (e.g., undocumented controls)

Addressing these challenges will require an integrated approach with long-term view



What are the Benefits of Actuarial Modernization?

The benefits of a successful modernization program span:

- *People*
- *Process*
- *Technology*
- *Governance*

What are the Organizational Benefits?

- Timely results to inform *strategic decision making*
- *Flexibility to analyze* “what if” scenarios on a timely basis
- *Enhanced quality* and consistency of actuarial results
- Enhanced *risk awareness* capabilities and culture
- *Shift of focus* from operational to strategic activities
- More *effective teaming* between the company’s Actuarial and Technology functions
- Improved ability to *attract, manage and develop* top talent globally



What are the Benefits of Actuarial Modernization?

Organization & Governance

People & Skills

Process

Technology

Reporting / Modeling

Close Cycles
Forecasting / Projections
Internal Reporting

Profitability Analytics

Product Lines
Distribution Channels
Customers

Performance Management

Business Strategy
Key Performance Indicators

ALM / Risk Management

Analytics
Solvency Modernization
Asset Management

Growth & M&A

Integration
Divestiture
Restructuring

Operating Model

Centers of Excellence
Shared Services
Geographical Locations

Capital Management

Excess Capital Decisions
Capital Requirement

Stakeholder Management

Regulators
Rating Agencies
Investors / Analysts
Customers

Improved Efficiency

- **Accelerate benefit realization** through standardized processes and integrated system environment
- **Standardize reports and metrics** to improve the management information need to accelerate the close process
- **Reduce manual processing** through automation and improve the effort needed to complete tasks
- **Reduce overall costs**

Increased Effectiveness

- **Improve execution of business strategy**; enhance decision making capabilities
- **Provide timely, accurate, and meaningful insights** delivered across the enterprise to enable strategic partnering with the business
- **Improve financial forecasting predictability**
- **Improve confidence in information** produced by Actuarial functions

Enhanced Controls

- **Provide “Single Version of the Truth”** for financial information
- **Reduce financial reporting and audit related risk** and decrease the potential for material misstatements
- **Improve risk awareness and capital management**; Increase accountability through governance, incentive mechanisms
- **Shift away from manual processes** to reduce the risk and improve the control environment

Improved Talent Management

- **Improve ability to attract, manage and develop** top talent globally
- **Provide effective talent management** programs for professionals
- Provides Actuarial talent the opportunity to **focus on development of analytic skills** and reduce the time spent on manual processes



Where Should Actuaries Spend Their Time?

Actuarial Modernization seeks to shift the Actuarial function from Operational roles into more Strategic roles for the business.

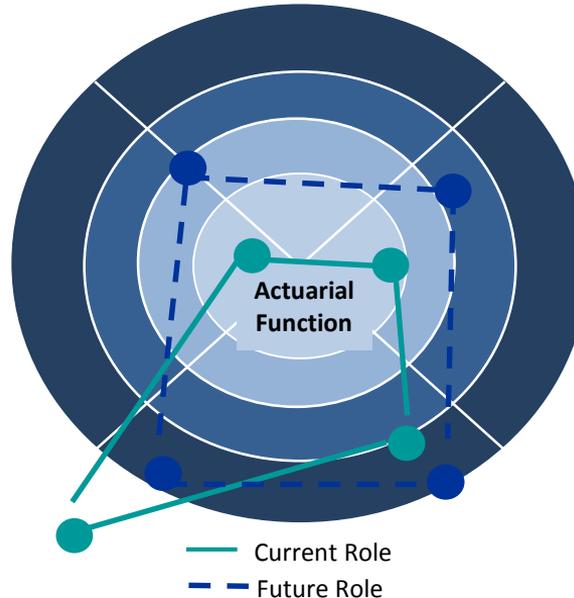
Drive Strategy

- Identify strategic market opportunities
- Identify new product opportunities
- Set long term capital objectives
- Assess strategic fit of M&A opportunities

Measure Risk & Financial Metrics

- Value actuarial assets and liabilities
- Conduct ALM and hedging
- Develop actuarial cashflows to support the development and updating of the financial plan
- Calculate economic capital and other risk metrics
- Identify and measure risk
- Foster risk culture

“Four Faces of Actuarial Capabilities”



Embed Strategic Behaviors

- Embed disciplined behaviors to execute strategic and financial objectives
- Create a risk-intelligent culture with appropriate risk oversight
- Optimize capital strategy based upon capital objectives
- Monitor experience against expectations to assess progress against plan
- Monitor and report source of earnings, changes in actuarial assets and liabilities, and overall experience to management

Carry Out Operations

- Balance capabilities, talent, costs and service levels to efficiently fulfill the actuarial organization's core responsibilities
- Maintain actuarial models, process, and reporting tools
- Set economic and experience assumptions

Goal for improvement is to provide more robust analysis and strategic business insight



Suggested Next Steps

- Get up to speed on proposed/final standard
- Analyze the impact on your business
- Prepare for people/process changes
- Develop and execute implementation plan
- Forge partnerships in and out of your organization
- Begin using the new language-speak up!



Resources

- IASB website (<http://www.ifrs.org>)
- IAA monographs (<http://www.actuaries.org>)
 - Discount Rate in Financial Reporting
 - Stochastic Modeling
 - Risk Adjustment (coming soon)



Thank you



www.actuaries.org

Moving the profession forward internationally