Webinar on IFRS 17

Jointly hosted by the International Actuarial Association and the Instituto dos Actuários Portugueses

27 September 2022

Presenters:

Micheline Dionne, IAA President-Elect and past chair of the ISAP 4 Task Force
Derek Wright, Chair - IAA Insurance Accounting Committee
Dora Leal, Senior Manager at EY Portugal

Moderated by Carla Sá Pereira, Partner at EY Portugal
Welcome and Introductions
Carla Sá Pereira (Moderator), Partner at EY Portugal, Insurance Consulting Leader

IAA Model International Standard of Practice 4 (ISAP 4) on IFRS 17
Micheline Dionne, IAA President-Elect and past chair of the ISAP 4 Task Force

IAA Model International Actuarial Note 100 (IAN 100) on IFRS 17
Derek Wright, Chair - IAA Insurance Accounting Committee

Challenges and key lessons learnt in IFRS 17 Implementation
Dora Leal, Senior Manager at EY Portugal

Q&A
IAA Model International Standard of Practice 4 (ISAP 4) on IFRS 17

Micheline Dionne, IAA President-Elect and past chair of the ISAP 4 Task Force
Why support IFRS 17?

IFRS 17 was issued by the IASB in May 2017 and amended in 2020

• Prior to IFRS 17
  – Wide divergence of approach to insurance contracts accounting among jurisdictions
  – Some used assumptions fixed from pricing, did not provide measurement for all the guarantees, lack sufficient disclosure
  – Arbitrage between jurisdictions was common

• IFRS 17 brings
  – A set of common accounting principles
  – Greater comparability between jurisdictions, while leaving room for judgment
  – Extensive disclosure
Why support IFRS 17 with ISAP 4?

- **ISAP 4 complements IFRS 17**
  - The focus of IFRS 17 is to define an accounting basis
  - The focus of ISAP 4 is to address the actuarial aspects of the measurement

- **ISAP 4**
  - Is principle based
  - Complements IFRS 17 and ISAP 1 without repeating the guidance in them
  - Facilitate convergence in standards of actuarial practice
  - Address the complexities related to
    - projecting future cash flows
    - future management actions
    - risk adjustments and
    - discount rates, especially beyond the investment horizon.
Topics covered in ISAP 4

- Specific knowledge requirements
- Treatment of processes like identification, combination, separation and grouping of contracts
- Choice of measurement approaches: General Measurement, Policy Premium, Variable Fee
- Selection of Assumptions
- Updating of Assumptions
- Transition
- Disclosure of judgments
ISAP 4 and ISAP 1 go hand in hand

ISAP 1 is fundamental to ISAP 4 and covers general actuarial practice

• Acceptance of Assignment
• Knowledge of relevant circumstances
• Materiality
• Data Quality
• Reliance on Others
• Assumptions and Methodology
  – Set by actuary, Prescribed or Mandated by law
• Documentation and communication
ISAP 4 Process for adoption

Solid and transparent process

- **1st Exposure draft of ISAP 4 issued February 27th, 2018**
  - Comments from 21 organizations or individuals

- **2nd Exposure draft of ISAP 4 issued February 28th, 2019**
  - Comments from 13 organizations or individuals

- **Final Review of ISAP 4 issued July 17th, 2019**
  - Comments from 6 organizations or individuals, 3 limited changes made

- **Final Adoption by IAA Council on May 7th, 2020**
  - Included last set of changes from IASB on IFRS 17
Why adopt ISAP 4 model standard?

- Aligns with a set of recognized international practice
- Increases the confidence in local actuaries
- Optimizes local standard setting resources but
  - Requires local adoption processes for buy-in and transparency

Local adoption process

- Exposure period amongst stakeholders
- Treatment of comments
- Adjustments for local particularities (legal environment, products…)
- Don’t forget about ISAP 1
Educational tools associated with IFRS 17

Non-authoritative educational material that can help actuaries with IFRS 17

Monograph on Discount Rate

Monograph on Risk Adjustment

Monograph on Stochastic Modelling

International Actuarial Note (IAN) 100
IAA Model International Actuarial Note 100 (IAN 100) on IFRS 17

*Derek Wright, Chair - IAA Insurance Accounting Committee*
What is an IAN

- An educational document on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject by readers of the IAN, including actuaries and others, who use or rely upon the work of actuaries.
- It is not an ISAP and is not intended to convey in any manner that it is authoritative.
- IANs may be issued
  a) To assist actuaries in complying with an ISAP, for example by offering practical examples of ways in which actuaries might implement an ISAP or International Financial Reporting Standard (IFRS) in the course of their work, or
  b) To provide non-binding guidance on an actuarial topic for which the IAA has not developed an ISAP.
International Actuarial Note 100 (IAN 100)

- Written to assist actuaries in complying with IFRS 17 and ISAP 4
- Covers main topics of IFRS 17 in five sections / 17 chapters
- Not a definitive statement of accepted practice and language is not directive
# Introduction & Section A – General Measurement Approach (GMM)

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Key content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>• Scope, classification &amp; measurement</td>
</tr>
<tr>
<td>2. Estimates of future cash flows</td>
<td>• Current estimates, scope of fulfilment cash flows</td>
</tr>
<tr>
<td>3. Discount rates</td>
<td>• Techniques for setting discount rates</td>
</tr>
<tr>
<td>4. Risk Adjustment (RA)</td>
<td>• Requirements and considerations for setting RA</td>
</tr>
<tr>
<td>5. Level of aggregation</td>
<td>• Portfolios, groups and onerous contracts</td>
</tr>
<tr>
<td>6. Contractual Service Margin (CSM) and Loss Component (LC)</td>
<td>• Requirements and considerations for CSM &amp; LC</td>
</tr>
</tbody>
</table>
## Section B – variations to GMM

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Key content</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Premium Allocation Approach (PAA)</td>
<td>• Assessing eligibility for PAA</td>
</tr>
<tr>
<td></td>
<td>• Initial and subsequent measurement using PAA</td>
</tr>
<tr>
<td></td>
<td>• Onerous contract assessment</td>
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<tr>
<td>8. Contracts with participation features</td>
<td>• Requirements and considerations for contracts with different types of</td>
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<tr>
<td></td>
<td>participation features</td>
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<tr>
<td></td>
<td>• Eligibility and measurement using the Variable Fee Approach (VFA)</td>
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<td>9. Reinsurance</td>
<td>• Requirements and considerations for both reinsurance contracts held</td>
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<tr>
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<td>and reinsurance contracts issued</td>
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## Sections C, D & E – other topics

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<thead>
<tr>
<th>Section</th>
<th>Key content</th>
</tr>
</thead>
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| C. Uses of fair value (Chapters 10-12) | • Fair value approaches  
• Business combinations & portfolio transfers  
• Transition |
| D. Other IFRS 17 topics (Chapters 13 & 14) | • Embedded derivatives  
• Contract modification & derecognition |
| E. Presentation and disclosure (chapters 15-17) | • Explanation of key terms  
• Presentation requirements  
• Disclosure requirements |
Next steps……..

Aim: to maintain, and upgrade, if necessary, the educational support for IFRS 17, through

1) **Influencing** relevant global participants

2) Obtaining **assurance** regarding the type and detail of support

3) **Advancing** actuarial practice as needed

This will require the establishment of one or more task forces.
Influence

• Continuing liaison with IASB

• Monitoring the use of the “actuarial model” that acts as the foundation for IFRS17

• Organisation of Webinars and other educational tools to spread the word
Assurance

- Monitor usage of IAN 100 by various IAA member associations
- Maintain the “boundary” between IAN 100 and education produced by individual associations
- Assess additional educational needs for various associations
Advancement

- Production of examples to augment current IAN 100 educational material
- Continuing reflection of developing actuarial practice in IAN 100
- Keeping abreast with the effects of any changes to IFRS17 and actuarial perspective on the Standard
Challenges and key lessons learnt in IFRS 17 Implementation

*Dora Leal, Senior Manager at EY Portugal*
1 IFRS 17 Update

2 Main Challenges

3 Stakeholders' involvement

4 Lessons learnt
Not only is the standard complex and some elements not yet finalised, it also requires a significant investment of both cash and management time.

• IFRS 17 is the new insurance contract accounting standard that will be effective January 1, 2023

• IFRS 17 does not impact the fundamental economics of insurance business

• However, it impacts where, when, and how specific items from insurance contracts are recognized on the financial statements

• One key impact is the timing of expected future profit recognition:
  • Under IFRS 4 and Portuguese local GAAP, new business gains are recognized immediately in income
  • Under IFRS 17, new business gains will be recorded in the CSM and recognized over the life of the contract

• The Actuaries and their systems will be in the center of the IFRS 17 financial statement work
1 IFRS 17 Update
2 Main Challenges
3 Stakeholders' involvement
4 Lessons learnt
At the beginning of the IFRS 17 implementation, most insurers could already foresee the main challenges of IFRS 17 implementation:

- Prepare pro-forma financial statements to identify data requirements and develop improvements to the data model and chart of accounts.
- Develop technical guidelines and accounting policies for each of the requirements of the standard in order to support decisions and serve as a basis for implementation.
- Analyze the implications for the business:
  - Management information
  - KPI’s
  - Business plan
  - Capital and dividends
  - Product changes, etc.
- Prepare a project plan and have a view of required resources and costs.
  - Involve impacted fields early on in decision making (such as policies and system changes).
- Plan and conduct pilot tests and analyzes focused on financial impacts, in order to test transition methods and the impacts of key accounting decisions.

However, the real implementation programs plans have been suffering much higher adjustments that entities involved initially expected.
Main challenges in the implementation of IFRS 17

The adoption date of the new financial reporting standard for insurance contracts (IFRS 17) is drawing near. The closer we get to the finish line, the more challenges we face:

- Large number of systems to align
- The range for budget sizes is wide and depends on the complexity of the business
- Risk in choosing the system and supplier of IFRS 17
- Real data is different to test data
- New mapping between systems requires IT support
- Develop improvements to the data model and chart of accounts
- Many simultaneous developments requiring integration
- Large volume of communications across many teams
- Labour intensive activities
- Large volume of communications at the level of granularity required by IFRS 17
- Sourcing quality data at the level of granularity required by IFRS 17
- Risk in choosing the system and supplier of IFRS 17
- Real data is different to test data
Main challenges in the implementation of IFRS 17

Data and systems were at the forefront of insurers’ minds as they plan their IFRS 17 response

- Large number of systems to align
- Sourcing quality data at the level of granularity required by IFRS 17
- Many simultaneous developments requiring integration
- Risk in choosing the system and supplier of IFRS 17
- Develop improvements to the data model and chart of accounts

- IFRS 17 implementation has significant data requirements and a number of these are still open to interpretation
- One of the significant challenges around data for IFRS 17 is that historical data is required for CSM calculations
- The lack of reliable historic data presents a huge challenge in implementing IFRS 17
- The need to match data flows with systems and processes
- All systems were still very much a work-in-progress as the standard was developed and implementing
- Insurers considered what they wanted from their solution and chose their vendor based on their individual needs

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Main challenges in the implementation of IFRS 17

Data and systems were at the forefront of insurers’ minds as they plan their IFRS 17 response

- Real data is different to test data
- The range for budget sizes is wide and depends on the complexity of the business
- Large volume of communications across many teams
- New mapping between systems requires IT support
- Labour intensive activities

- Most insurers didn’t know yet what exact problem they would have around data as many were not using live data and relying on mock data for testing
- There were a large number of unknowns in IFRS 17 implementation and therefore, spend on IFRS 17 were likely to be much higher than originally estimated
- Project implementation had to be business driven / content based (by Accountants & Actuaries)
- It required technology teams, vendors, as well as the accountants, actuaries and leadership teams all work closely together
- Continuous support from the IT was required
- It is necessary to find the balance between internal and external resources

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Stakeholders' involvement

- ASF regulate and ensure the proper functioning of the insurance market
- Contributes to ensure the protection of policyholders
- Launched a draft local chart of account and have an IFRS 17 implementation program in place to follow the market:
  - qualitative and quantitative questionnaires
  - Public disclosure of results
  - Regular meetings with APS and/or external auditors

- APS promote the interests of insurance market
- Cooperation initiatives and exchange of information
- Specific IFRS 17 qualitative questionnaires and regular meetings with insurers to promote open discussions and experiences sharing during the implementation
- Direct contact to ASF to obtain convergent positions

- IAP represent the actuarial profession in Portugal
- Promote the actuarial profession, its reputation and recognition at the level of the financial sector, competent authorities and the general public
- Contribute to the training and professional development of its members
- Several initiatives in the market in order to promote the importance of actuarial role

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Investors, Insurance market, External Auditors, Consultants, Implementors, Providers

#37 Insurance companies established in Portugal under supervision by ASF

99% of the insurance market in terms of insurance business and human resources employed by the sector is member of APS
1. IFRS 17 Update
2. Main Challenges
3. Stakeholders' involvement
4. Lessons learnt
What we have learned so far

- Setting realistic expectations
- Focus on the final outcomes
- Agility
- Collaboration
What we have learned so far

Setting realistic expectations

Unclear business requirements and data quality issues delay the project. Building substantial contingents to deal with unexpected events, slower-than-expected implementation and changes coming IASB and Regulators is crucial.

Agility

Insurers cannot wait for all the uncertainties and unknown components of IFRS 17 to settle, and an agile approach provides the flexibility to respond to developments and changes as they occur. Implementing IFRS 17 is like trying to cross a bridge while building it. Understanding potential risks and likely responses is key.

Focus on the final outcomes

An accounting standard implementation process is rarely straightforward or linear. Several departments are involved, often with very different perspectives and priorities. The need to keep priorities aligned and everyone heading in the right direction is critical to achieving the desired impact.

Collaboration

Given the complexity of IFRS 17, a collaborative approach is vital. In successful programs, the teams supporting data, technology, and vendors, as well as the accountants, actuaries and leadership teams all work closely together and are structured to achieve collaboration. This requires all participants to understand the context around how policy decisions result in data flows through actuarial and accounting systems to final disclosures.
Thank you!