Speakers Today

IAA President
Gábor Hanák
(Hungary)

IASB Board Member
Darrel Scott
(South Africa)

Co-Chair, Education & Practice Subcommittee:
Derek Wright
(UK)

Co-Chair, Education & Practice Subcommittee:
Dave Finnis
(Australia)

ISAP 4 Task Force Chair:
Micheline Dionne
(Canada)
Agenda

• Introduction: Gábor Hanák, IAA President
• Background on the Development of IFRS 17 and Status Update: Darrel Scott, Member of the International Accounting Standards Board
• International Actuarial Note 100 – Application of IFRS 17 Insurance Contracts: Derek Wright and Dave Finnis, Co-Chairs, Education and Practice Subcommittee
• International Standard of Actuarial Practice 4 (ISAP 4) – IFRS 17 Insurance Contracts: Micheline Dionne, Chair, ASC IFRS 17 Task Force
• Question & Answer Period
Introduction

Gábor Hanák, IAA President
Background on the Development of IFRS 17 and Status Update

Darrel Scott, Member of the International Accounting Standards Board
Today’s agenda

- IFRS 17 timeline
- Possible amendments to IFRS 17
- Next steps on IFRS 17
- IASB support for IFRS 17 implementation
## IFRS 17 Insurance Contracts

<table>
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<th>Who is affected?</th>
<th>When?</th>
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<td>450 listed insurers using IFRS Standards</td>
<td>2021 mandatory effective date of the new Standard</td>
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<td>$13 trillion total assets of those listed insurers</td>
<td>3.5 years for companies to implement the new requirements</td>
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IFRS 17 timeline

2017
- IFRS 17 issued

2018
- Expected publication of Exposure Draft

2019
- Expected finalisation

2020
- Start of IFRS 17 comparative period*
- Amendments to IFRS 17*

2021
- IFRS 17 is effective (1 January 2022)*
- Early application permitted

2022
- First IFRS 17 compliant annual reports published*

* proposed deferral of effective date to 2022 and other amendments will be subject to public consultation
IFRS 17: Insurance Measurement model

- **Cash flows**
  - Present value of future cash flows

- **Discount rate**
  - Risk adjustment

- **Risk adjustment**
  - Risk adjustment

Current value that incorporates all available information, in a way consistent with observable market information. Updated each period using updated assumptions about cash flows, discount rate and risk.

All insurance contracts are measured as the sum of:
- **fulfilment cash flows**;
- **contractual service margin**

**Unearned profit** of a group of contracts. It is adjusted by changes in estimates and is recognised in profit or loss as insurance coverage is provided.

- **Current value**
  - **Unearned profit**
  - IFRS 17 asset or liability
Possible amendments to IFRS 17
IFRS 17 easing implementation

1. Deferral of the effective date by one year
   - IFRS 17
   - IFRS 9

2. Additional scope exclusions
   - Loans
   - Credit cards

3. Acquisition cash flows relating to expected contract renewals

4. Profit allocation relating to investment components

5. Extension of risk mitigation option

6. Reinsurance contracts held when underlying contracts are onerous

7. Simplified balance sheet presentation

8. Additional transition reliefs
   - Business combinations
   - Risk mitigation—transition date
   - Risk mitigation—fair value approach
Deferral of effective date by one year

Concerns and implementation challenges expressed

- Limitations in the availability of internal or third party experts, particularly actuaries and IT systems providers
- Entities need more time to prepare than they originally expected
- Uncertainty arising from the discussion about possible amendments to IFRS 17 affects planning and budget of entities implementing IFRS17

IASB’s response

- One-year deferral of the effective date of IFRS 17 (based on uncertainty created by possible amendments)
- Extension to 2022 of the expiry date for the temporary exemption from applying IFRS 9 (for some insurers)

Proposal in the forthcoming Exposure Draft
Loans that transfer insurance risk

Concerns and implementation challenges expressed

- A loan contract that transfers significant insurance risk is an insurance contract that contains both a loan and an insurance component.
- Today some entities separate the loans in such contracts and apply IFRS 9 to those loans.
- IFRS 17 does not permit the continuation of this practice.
- Entities need to apply IFRS 17 to the loan contract in its entirety.

IASB’s response

- An entity would be permitted to apply either IFRS 17 or IFRS 9 to ‘insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract’.
- The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio.

Proposal in the forthcoming Exposure Draft
Credit cards that provide insurance

Concerns and implementation challenges expressed

- Some credit card contracts may provide insurance coverage but do not charge a fee to the customer reflecting an assessment of the insurance risk associated with that individual customer.

- Entities that today account for those credit card contracts applying IFRS 9 would need to change the accounting when IFRS 17 is effective, shortly after having incurred costs to comply with IFRS 9.

IASB’s response

- An entity would not apply IFRS 17 to credit card contracts for which the fee charged to the customer does not reflect an assessment of the insurance risk associated with that individual customer.

- The entity would apply other relevant IFRS Standards (e.g., IFRS 9, IFRS 15 or IAS 37).

Proposal in the forthcoming Exposure Draft.
Acquisition cash flows for renewals

Concerns and implementation challenges expressed

- Commissions paid unconditionally on contracts that have been issued cannot be allocated to expected contract renewals
- In some cases, commissions may exceed the premium for the initially written contracts and the contracts could be onerous

IASB’s response

- An entity would allocate part of the insurance acquisition cash flows to expected contract renewals
- The entity would recognise those cash flows as an asset until the entity recognises contract renewals
- The entity would assess the recoverability of the asset each period

Proposal in the forthcoming Exposure Draft
Profit allocation relating to investment components

**Concerns and implementation challenges expressed**

- For insurance **contracts without direct participation** features, an entity recognises the contractual service margin in profit or loss considering only insurance coverage.
- For some contracts the **insurance coverage period differs** from the period in which the policyholder gets return on an investment component.

**IASB’s response**

- For insurance contracts without direct participation features, an entity would recognise the contractual service margin in profit or loss considering both insurance coverage and any investment return service.

Proposal in the forthcoming Exposure Draft.
An entity may use derivatives or reinsurance contracts to mitigate financial risks arising from insurance contracts with direct participation features.

When the entity uses derivatives to mitigate financial risks, the entity can choose to recognise changes in insurance contracts in profit or loss, rather than as adjustments to the contractual service margin, to offset the changes in fair value of derivatives (risk mitigation option).

Proposal in the forthcoming Exposure Draft
Reinsurance contracts held when underlying contracts are onerous

Concerns and implementation challenges expressed

- When an entity initially recognises onerous insurance contracts, the entity recognises losses immediately.
- When those losses are covered by a reinsurance contract held, any corresponding gains are recognised over the coverage period.
- Accounting mismatches may arise.

IASB’s response

- An entity that recognises losses on onerous insurance contracts at initial recognition would also recognise a gain on reinsurance contracts held, to the extent that the reinsurance contracts (i) cover the losses of the underlying contracts on a proportionate basis and (ii) are entered into before the onerous underlying contracts are issued.

Proposal in the forthcoming Exposure Draft
An entity presents groups of insurance contracts in an asset position separately from groups of insurance contracts in a liability position.

To do this, the entity needs to identify premiums received and premiums receivable for each group of insurance contracts.

Better IT systems integration is needed resulting in significant implementation costs.

An entity would present insurance contract assets and insurance contract liabilities in the balance sheet determined using portfolios of insurance contracts rather than groups of insurance contracts.

Proposal in the forthcoming Exposure Draft.
Liabilities for claims settlement are treated as a ‘liability for remaining coverage’ if the contracts were acquired in a business combination and as a ‘liability for incurred claims’ if the contracts were issued by the entity.

Some entities use a single system to manage all liabilities for claims settlement and find difficult to obtain the required data to separate and measure liabilities for claims settlement in two different ways.

At transition an entity would account for liabilities for claims settlement acquired in a business combination as a ‘liability for incurred claims’ if the entity does not have reasonable and supportable information to apply a retrospective approach.

Proposal in the forthcoming Exposure Draft
Risk mitigation—transition date

Concerns and implementation challenges expressed

- An entity cannot apply the risk mitigation option for periods before the date of initial application of IFRS 17—i.e., the beginning of the annual reporting period in which the insurer first applies IFRS 17.

- This prohibition may affect comparative information for the period immediately before the date of initial application.

IASB’s response

- An entity would be permitted to apply the risk mitigation option from the date of transition to IFRS 17—i.e., the beginning of the annual reporting period immediately before the date of initial application—if the entity designates the risk mitigation relationships to which it will apply the risk mitigation option no later than that date.

Proposal in the forthcoming Exposure Draft
Risk mitigation—use of fair value approach at transition

**Concerns and implementation challenges expressed**

- An entity **cannot apply the risk mitigation option retrospectively**
- If risk mitigation activities were in place before the date of initial application of IFRS 17 some stakeholders think that revenue recognised for groups of contracts in future periods and equity on transition might be distorted

**IASB’s response**

- An entity would be **permitted to use the fair value approach** to transition, if it has used derivatives or reinsurance to mitigate financial risk before the date of transition and can apply IFRS 17 retrospectively

Proposal in the forthcoming Exposure Draft
Next steps on IFRS 17
Next steps on IFRS 17

- The Board expects to:
  - complete its discussions on potential amendments to IFRS 17 to help implementation of the Standard around the end of the first quarter 2019
  - publish the consultation document on the proposed amendments around the end of June 2019

- Ongoing activities to support IFRS 17 implementation
  - TRG meeting scheduled on 4 April 2019
IASB support for IFRS 17 implementation
IASB support for IFRS 17 implementation

- Webinars
- Articles and other materials
- Conferences
- Transition Resource Group (TRG)

Education for
- investors
- regulators
- standard-setters
- preparers

IASB discussions
- deferral of effective date to 2022*
- targeted amendments to ease implementation*

Informal technical discussions with
- regulators
- standard-setters
- audit firms
- preparers

* proposed deferral of effective date to 2022 and proposed targeted amendments will be subject to public consultation later this year
IAN 100 Exposure Draft

Application of IFRS 17 Insurance Contracts

Derek Wright and Dave Finnis, Co-Chairs, Education and Practice Subcommittee
IAA Support for Implementation of IFRS 17

- International Actuarial Note
- Educational Monographs
- Seminars & Webinars
International Actuarial Note (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.
15 substantive chapters divided into 4 sections
Format is a series of Questions and Answers

Sections and chapters are:

• **Introduction and Summary of IFRS/IFRS 17 approach**

• **Section A – General Measurement Approach**
  1. Classification of Contracts
  2. Estimates of future cash flows
  3. Discount Rates
  4. Risk adjustment for non-financial risks
  5. Unit of Account
  6. CSM and loss component
• **Section B – Variation to the General Measurement Approach**

  7. Premium Allocation Approach
  8. Contracts with Participating Features and other Variable Cash Flows
  9. Reinsurance

• **Section C – Uses of Fair Value**

  10. Fair Value
  11. Business Combinations and Portfolio Transfers
  12. Transition
• **Section D – Other IFRS17 Topics**

13. Embedded Derivatives  
14. Contract Modifications and Derecognition  
15. Measurement, Presentation and Disclosure
IAN100 – IFRS 17 (4/4)

➢ Anticipated Timeline:

IAN currently out for exposure – Deadline 26th April

Discuss comments during 2019

Final or 2nd Exposure for release by end of 2019

➢ Access via IAA Website (www.actuaries.org → Publications → IAN)
Monograph on Stochastic Modelling

*Stochastic Modelling – Theory and Reality from an Actuarial Perspective* is a guide for practitioners interested in understanding more about this topic. It presents the mathematical and statistical framework necessary to develop stochastic models through theory and practical examples.
Discount Rates in Financial Reporting – a Practical Guide has been written to help practitioners in how to develop and use discount rates for financial reporting including instances where markets are less developed.
Chapters:

- Introduction
- Principles underlying risk adjustment
- Risk adjustment techniques
- Techniques & considerations in quantitative models
- Qualitative assessment & other factors to consider
- Effect of risk mitigation techniques
- Validation of Risk Adjustment
- Disclosure & communication
- Case Studies (7)
Throughout the next few years:

- Focus on IAA support for IFRS 17 implementation
- May partner with other organisations
Access to IAA Materials

Access via IAA Website: www.actuaries.org → Click on scrolling banner
ISAP 4 2nd Exposure Draft
Status of the Exposure Draft and timeline to adoption

Micheline Dionne, Chair of the IAA ISAP 4 Task Force
Progress made – ISAP 4 Exposure drafts

- Final IFRS17 - May 2017
- **1st Exposure Draft of ISAP 4** – February 2018
  - Exposure period ended June 30th, 2018
  - Comments from 21 organizations or individuals
- **2nd Exposure Draft of ISAP 4** – February 2019
  - Exposure period up to April 30th, 2019
  - Numerous changes made to:
    - Improve clarity
    - Avoid repeats of IFRS 17 or ISAP 1
    - Fill gaps identified by commenters
    - But none fundamental
Timeline to Approval

Review of 2nd Exposure draft comments – 2 to 4 months

Fatal Flaw – 1 month exposure

IAA Council approval in Tokyo (Nov 2019) or Brussels (May 2020)

- Impact of IFRS 17 changes on ISAP 4 to be addressed later

➢ Access via IAA Website (www.actuaries.org → Publications → ISAP)
## Current Membership of ISAP 4 TF

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<th>Country</th>
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<td>Tamsin Abbey</td>
<td>United Kingdom</td>
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<tr>
<td>Robert Buchanan</td>
<td>Australia</td>
</tr>
<tr>
<td>Micheline Dionne (Chair)</td>
<td>Canada</td>
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<tr>
<td>Marius du Toit</td>
<td>South Africa</td>
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<td>Luc Farmer</td>
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<td>United Kingdom</td>
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<tr>
<td>Matthias Zerbst</td>
<td>Germany</td>
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Questions ?
Thank you