IFRS 17 – where to from here?

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The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.
Introduction

• Recap on latest developments and next steps

• Deep dive into “Transition”

• Practical issues to consider with implementation
## Proposed amendments to IFRS 17

<table>
<thead>
<tr>
<th></th>
<th>Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Deferral of the effective date by one year (IFRS 17 and IFRS 9)</td>
</tr>
<tr>
<td>2</td>
<td>CSM release for investment services under the General Model</td>
</tr>
<tr>
<td>3</td>
<td>Acquisition cash flows for expected future renewals</td>
</tr>
<tr>
<td>4</td>
<td>Mismatches arising from reinsurance held on onerous underlying contracts</td>
</tr>
<tr>
<td>5</td>
<td>Changes to the transition requirements</td>
</tr>
<tr>
<td>6</td>
<td>Excluding credit cards and loans with a transfer of insurance risk from scope</td>
</tr>
<tr>
<td>7</td>
<td>Allowance of reinsurance held as a risk mitigation option</td>
</tr>
<tr>
<td>8</td>
<td>Changes to the level of aggregation for reporting purposes</td>
</tr>
</tbody>
</table>
3 Acquisition cash flows for expected future renewals

Issues raised by the industry

• Commissions paid unconditionally on contracts that have been issued are not able to be allocated to expected future renewals
• Commissions can exceed the initial premium resulting in onerous contracts
• This does not reflect the economics of the contract and is inconsistent with the treatment of similar contracts under IFRS 15

Discussion points

• There is an economic exposure if the commission is paid unconditionally
• Expected renewals are outside the contract boundary
• This is consistent treatment with loss-leading contracts

IASB decision

• Extend Paragraph 27 to also apply to unconditional commissions
• Requires an impairment test to ensure the acquisition costs asset is supported by sufficient renewals
## Issues raised by the industry

- Where an group of insurance contracts are onerous at initial recognition they are recognised as a loss in the P&L
- Where such contracts are reinsured, any gain on the reinsurance contract is recognised over the coverage period of the reinsurance contract
- Mismatches arise as a result

## Discussion points

- Changes to the treatment of reinsurance contracts held could lead to disruption of implementation projects
- Paragraph 66(c)(ii) allows an insurer to recognise an offsetting profit from a reinsurance contract should the underlying contracts become onerous after initial recognition

## IASB decision

- Extend Paragraph 66(c)(ii) to allow the same offset for underlying contracts that are onerous at outset, for proportional reinsurance contracts only
- Only applies in the reinsurance contract was entered into at the same time, or prior, to the underlying contracts
## Allowance of reinsurance held as a risk mitigation option

### Issues raised by the industry

- Entities may use derivatives or reinsurance contracts to mitigate the financial risk associated with contracts with direct participation features.
- Reinsurance contracts held (or issued) are specifically excluded from the scope of the variable fee approach.
- Risk mitigation option applies for entities that have used derivatives but it does not apply for reinsurance contracts held.

### Discussion points

- The scope of the variable fee approach could be extended to allow its application to reinsurance contracts or the risk mitigation option could be extended.
- Reinsurance contracts held/issued do not meet the requirements of the variable fee approach.

### IASB decision

- For contracts with direct participation features, the risk mitigation option can be extended to include reinsurance contracts held that mitigate financial risks.
### Industry perspective - CFO Forum presentation to EFRAG

<table>
<thead>
<tr>
<th></th>
<th>Complexity &amp; Cost</th>
<th>Financial Reporting</th>
<th>Comparability</th>
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</thead>
<tbody>
<tr>
<td>Transition</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Aggregation</td>
<td>X</td>
<td></td>
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<tr>
<td>CSM Amortisation</td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Reinsurance</td>
<td>X</td>
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<td>X</td>
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<td>Presentation</td>
<td>X</td>
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<td>Valuation model</td>
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<td>X</td>
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<td>Discount rates</td>
<td>X</td>
<td></td>
<td>X</td>
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<tr>
<td>Hedging adjustment</td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Business combinations</td>
<td>X</td>
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IFRS 17 Timeline

**IFRS 17 Issued**
18th May, IFRS 17: Insurance Contracts is issued

**Exposure Draft**
20th June 2013, the IASB issue the Revised Exposure Draft ED/2013/7

**Proposed Transition date**
Start of the comparative period

**Proposed Effective date**
IFRS 17 is effective from 1/1/2022

**Expected Exposure Draft**
IASB to issue Exposure Draft

**Revised Standard Issued (latest)**
IASB expected to have issued Revised Standard

**2013**

**2017**

**2018**

**2019**

**2020**

**2021**

**2022**

**2023**

**Transition Period**

**Reporting**
Deep dive on Transition
Transition – three approaches recap

- Full retrospective approach
- Modified retrospective approach
- Fair value approach
### Changes to the transition requirements

<table>
<thead>
<tr>
<th>Transition issues raised by the industry</th>
<th>IASB decision</th>
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</table>
| 23. Optionality                        | • Risk mitigation option can be applied from the date of transition (rather than implementation date)  
• An entity can use the fair value approach to transition if it has used derivatives or reinsurance to mitigate financial risk before the transition date |
| 24. Modified retrospective approach: further modifications | X | ✓ |
| 25. Fair value approach: OCI on related financial assets | X |
Retrospective challenges

- Complexity
- Inflexibility
- Resources
- Time
- Methodology needed first?
- Availability of past data, assumptions, models
- Granularity
- Allocation of past cashflows
Fair Value vs Fulfilment Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>FCF</th>
<th>FV</th>
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<tbody>
<tr>
<td>Standard</td>
<td>IFRS 17</td>
<td>IFRS 13</td>
</tr>
<tr>
<td>Renewals</td>
<td>Not included</td>
<td>May be included i.e. different contract boundaries</td>
</tr>
<tr>
<td>Expenses</td>
<td>Directly attributable</td>
<td>All</td>
</tr>
<tr>
<td>Non-performance risk</td>
<td>Not included</td>
<td>Must be included</td>
</tr>
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- **Others**
  - Discount rates
  - Risk adjustment, diversification benefits, cost of capital rate
  - Investment expenses

- Most companies using some form of **Embedded Value** for Fair Value

- Lots of levers
Transition outcomes

CSM + RA

OR

CSM + RA

Retained earnings

Retained earnings

?
Transition outcomes

- No simple approach!

- Frustration with inflexibility of retrospective approaches

- Most companies will pick a mix of approaches:
  - Apply full retrospective for business written between now and transition date and generally business written in last few years too
  - Modified retrospective / fair value for older business, especially if materiality relatively low

- Some just using fair value
Milliman IFRS 17 survey results – Full retrospective

Portion of business – full retrospective approach?

Source: Milliman IFRS 17 preparedness survey 2018
Milliman IFRS 17 survey results – Modified retrospective

Portion of business – modified retrospective approach?

Source: Milliman IFRS 17 preparedness survey 2018
Milliman IFRS 17 survey results – Fair value

Portion of business – fair value approach?

Source: Milliman IFRS 17 preparedness survey 2018