IFRS 17
Redefining insurance contract accounting

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Financial reporting developments

Start of '17

Start of '18

Start of '19

Start of '20

Start of '21

IFRS 17

May'17: IASB final standard issued

EU endorsement process?

Effective date: 2021

IFRS 9

EU: IFRS 9 deferral endorsement?

IFRS 9 effective (if not deferred)

2021 IFRS 9 sunset date

Key mile stones

Significant impact on income statement, disclosures & measurement

1 Jan 2020, June 2020 & 31 Dec 2020
Opening and closing IFRS 17 balances required

1 January 2021
IFRS 17 becomes effective for annual reporting periods beginning on or after this date

30 June 2021
IFRS 17 compliant interim financial statements during 2021 (with comparative figures for 2020)

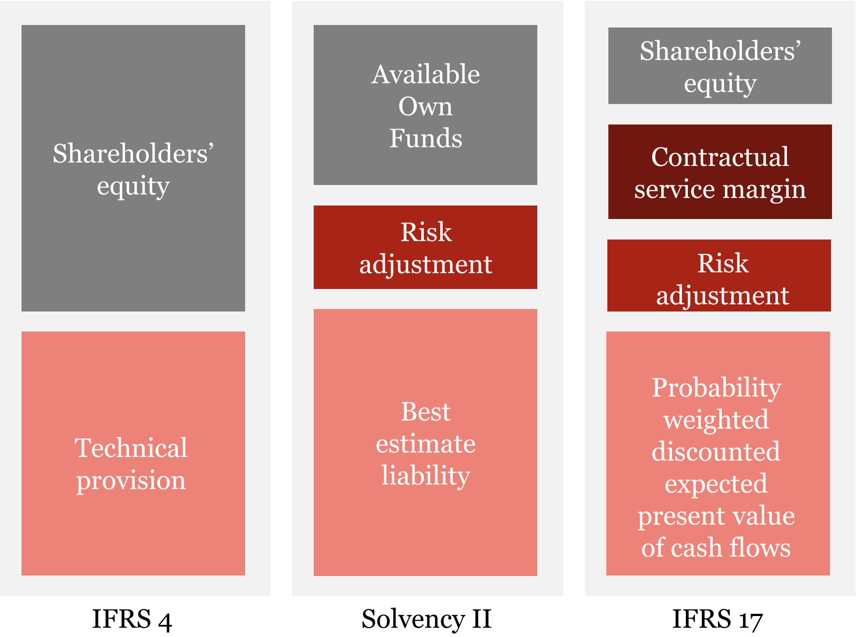
IFRS 17 – Key features

IFRS 4 shortcomings according to the IASB	What are the key features of IFRS 17 to address these?
IFRS 4 is an interim standard.	Current estimates of future cash flows. Market consistent discount rates.
No transparent information for users	Explicit allowance for risk. Profit recognised as services are provided.
Existing policies make comparison across products, companies and jurisdictions difficult	Greater depth and transparency in disclosures. Revenue excludes deposits.

Overview of the measurement approaches

	General Approach (GA)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
Why is it needed?	**Default model** for all insurance contracts.	To **simplify for short term contracts** with little variability.	To deal with **participating business** where payments to policyholders are linked to underlying items like assets.
Types of contract	• Long-term insurance, protection business. • Annuities. • Reinsurance written. • Long-term general insurance contracts.	• General insurance, short term. • Short-term life and certain group contracts. • Reinsurance written.	• Unit-linked contracts. • Certain profit sharing contracts.
Mandatory?	Mandatory	Optional	Mandatory

Long term insurance – Liability comparison with other metrics



Note: The relative size of the diagram is purely for illustration purposes and could differ significantly by product line and company

Impact

Complex reconciliation between metrics

Multiple differences:

- Discount rates applied
- Other assumptions applied
- Risk adjustment or risk margin added to provisions
- Expected future profits in own funds (Solvency II) or in liabilities (IFRS 17 CSM)
- IFRS 17 and Solvency II: different goals for the measurement: own financial position versus prudential supervision

Composition of the liability side of the balance sheet will change

- As a result of the items above, the balance sheet amounts will change

Level of aggregation – The requirements

What are the requirements?

A portfolio of insurance contracts are contracts:

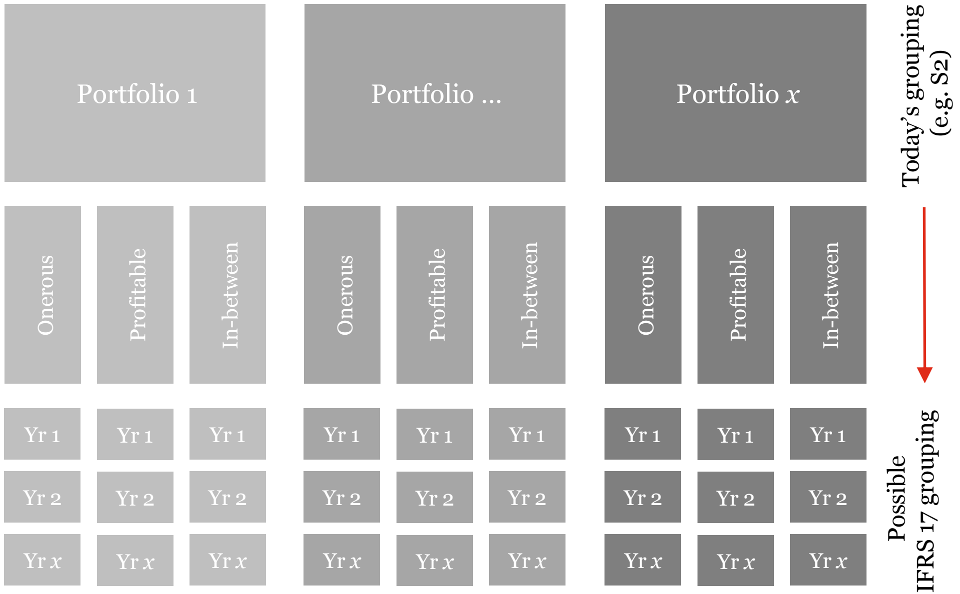
- Subject to similar risks.
- Managed together as a single pool.

And then apply grouping below the portfolio: a group of contracts

- that are onerous at initial recognition.
- that at recognition have no significant risk of becoming onerous.
- remaining contracts in the portfolio.

An entity shall not include contracts issued more than one year apart in the same group.

Example:



Note that aggregation occurs on inception and that it never changes.

Performance reporting – Income statement changes significantly

IFRS 4		IFRS 17
Premiums written		Insurance revenue
Investment income		Incurred claims and expenses
Income		**Insurance service result**
Incurred claims and expenses		Investment income
Change in insurance liability		Insurance finance expenses
Outgo		**Net financial result**
Profit or loss	≠	**Profit or loss**
		Insurance finance expenses (optional – OCI option)
		Total comprehensive income

Insurance revenue significantly changes. It includes:

- Expected claims and expenses
- Release of Contractual Service Margin
- Release of the Risk Adjustment

Experience adjustments through profit or loss

Changes in non-financial assumptions do not affect current period profit or loss (flow through CSM)

Changes in discount rates affect profit or loss or OCI (option)

Where is the impact?

Adoption will have wide-ranging, significant impacts on investor education, underlying processes, systems, internal controls, valuation models, and other fundamental aspects of the insurance business.

Business	Operational	Systems
• Identify new performance targets. • Investor education and market story. • Reconsider product design. • Planning, budgeting and forecasting functions. • Update investment strategy? • Acquisitions and disposals?	• External reporting timelines in combination with actuarial models. • New controls and processes for financial reporting, IT and actuarial. • Education and people strategy.	• Record, process and report a greater volume of data with an increased level of complexity. • Enhance actuarial models. • Redesign or replace source, feeder and reporting systems. • Additional load on infrastructure (processing and storage capacity).

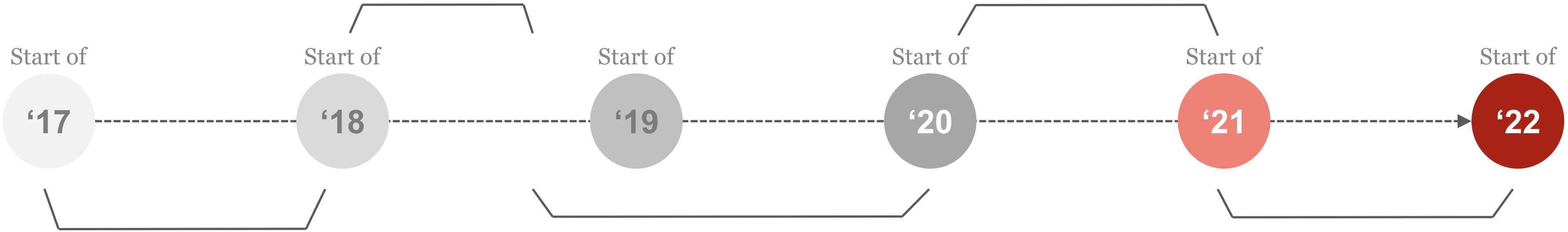
Next steps in preparation of 2021

Gather and validate data

- Validate business decisions.
- Build or adjust systems.

Dry-runs and comparatives

- Parallel runs, dry runs and comparatives.
- IFRS 17 comparison reporting period.



Awareness, planning and analysis

- Awareness building/ training.
- Assess impact.
- Planning and budgeting.
- Portfolio analysis.

Implement systems and processes

- Design approach and strategy.
- Validate business decisions.
- Prototyping.
- Build or adjust systems.

Adoption

- IFRS 17 adoption reporting period.

Thank you!