

# SIFM

*IFRS 17 – implementation perspectives*

September 2022

# Agenda

## Topic

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1 – Overview of IFRS 17

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2 – Implementation: there is no one-size-fits-all approach

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3 – Implementation: different paths taken

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# 1

## Overview of IFRS 17

# Overview of the guidance

IFRS 17 is the proposed new international accounting standard for insurance contracts which replaces the existing IFRS 4 standard. The new standard provides a single global accounting standard for insurance and reinsurance contracts.

## What is changing?

### Balance sheet

- IFRS 17 requires a current measurement model, where estimates are re-measured in each reporting period.
- The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment, and a contractual service margin ('CSM') representing the unearned profit of the contract.

### Income statement

- Requirements in IFRS 17 align the presentation of revenue with other industries. Investment components are excluded from revenue.
- Under IFRS 17, entities have an accounting policy choice to recognize the impact of changes in discount rates in profit or loss or in other comprehensive income ('OCI') to reduce some volatility in profit or loss.

### Disclosures

- IFRS 17 disclosures will be more detailed than required under current reporting frameworks.
- Disclosures will provide additional insight into key judgements and profit emergence.
- Disclosures are designed to allow greater comparability across entities.

# IFRS 17 – Profit/Loss updates

## Current Profit or Loss

Gross written premium
Unearned premium movement
Gross earned premium revenue
Outward reinsurance premium
Deferred reinsurance premium movement
Outward reinsurance premium expense
Net earned premium (a)
Gross claims expense
Reinsurance and other recoveries revenue
Net claims expense (b)
Gross commission expense
Reinsurance commission revenue
Net commission (c)
Underwriting and other expenses (d)
Underwriting result (a)+(b)+(c)+(d)
Investment income (loss) – policyholders' funds
Investment expenses – policyholders' funds
Insurance profit (loss)
Investment income (loss) – shareholders' funds
Investment expenses – shareholders' funds
Financing and other costs
Loss on sale of entities and businesses
Share of net loss of associates
Restructuring and related expenses
Amortisation and impairment of intangibles
Profit (loss) before income tax
Income tax (expense) credit
Profit (loss) after income tax



## IFRS 17 Profit or Loss

Insurance revenue
Reinsurance expenses
Insurance service expenses
Reinsurance income
<b>Insurance service result</b>
Administrative expenses
<b>Operating profit (loss)</b>
Insurance finance income (expenses)
Reinsurance finance income (expenses)
Investment income
Investment expenses
<b>Investment result</b>
Financing and other costs
Loss on sale of entities and businesses
Share of net loss of associates
Restructuring and related expenses
Amortization and impairment of intangibles
Profit (loss) before income tax
Income tax (expense) credit
Profit (loss) after income tax

## Insurance service result (new underwriting result)

- Gross written premium is no longer shown on the face of the P&L
- Insurance revenue / reinsurance expenses reflect the provision of insurance (and reinsurance) coverage – equivalent to current gross earned premium and reinsurance premium expense.
- Insurance service expenses mainly comprise gross incurred claims (net of initial discount), attributable expenses and onerous contract losses.
- Reinsurance income mainly comprises reinsurance recoveries (net of initial discount), onerous contract recoveries and other reinsurance amounts (such as commissions) that are contingent on claims.

## Outside the insurance service result

- Administrative expenses will comprise other operational expenses that are not directly attributable to fulfilling insurance contracts.
- Insurance / reinsurance finance income (expenses) reflect the effects of changes in discount rates and unwind of discount, and FX on insurance contract balances. Means that changes in risk-free rates impacting both assets and liabilities are reported in the investment result.

# IFRS 17 – Balance Sheet updates

## Current Balance Sheet

Assets
Cash and cash equivalents
Investments
Derivative financial instruments
Trade and other receivables
Current tax assets
Deferred insurance costs
Reinsurance and other recoveries on outstanding claims
Other assets
Assets held for sale
Defined benefit plan surpluses
Right-of-use lease assets
Property, plant and equipment
Deferred tax assets
Investment properties
Investments in associates
Intangible assets
<b>Total assets</b>
Liabilities
Derivative financial instruments
Trade and other payables
Current tax liabilities
Liabilities held for sale
Unearned premium
Outstanding claims
Lease liabilities
Provisions
Defined benefit plan deficits
Deferred tax liabilities
Borrowings
<b>Total liabilities</b>
<b>Net assets</b>



## IFRS 17 Balance Sheet

Assets
Cash and cash equivalents
Investments
Derivative financial instruments
Trade and other receivables
Current tax assets
Insurance contract assets
Reinsurance contract assets
Other assets
Assets held for sale
Defined benefit plan surpluses
Right-of-use lease assets
Property, plant and equipment
Deferred tax assets
Investment properties
Investment in associates
Intangible assets
<b>Total assets</b>
Liabilities
Derivative financial instruments
Trade and other payables
Current tax liabilities
Liabilities held for sale
Insurance contract liabilities
Reinsurance contract liabilities
Lease liabilities
Provisions
Defined benefit plan deficits
Deferred tax liabilities
Borrowings
<b>Total liabilities</b>

Simplified presentation of insurance balances

Separate presentation of assets and liabilities by 'portfolios'

\***Portfolios** of insurance contracts that are assets are presented separately from **portfolios** that are liabilities

- Portfolios = contracts that are of 'similar risks and managed together'

# Measurement objectives and impact

## Building blocks

- CSM to prevent gain on policy inception. **Unearned profits** recognized over coverage period.
- **Reflect compensation entity requires** for uncertainty. Quantifies the value difference between certain and uncertain liability.
- Discounting future cash flows using 'top-down' or 'bottom-up' approach for **discount rates to reflect characteristics of the liabilities**.
- Estimated cash flows – **explicit**, unbiased and probability weighted (over all possible outcomes) expected value of future cash flows.

**Contractual service margin**

**Risk adjustment (non-financial)**

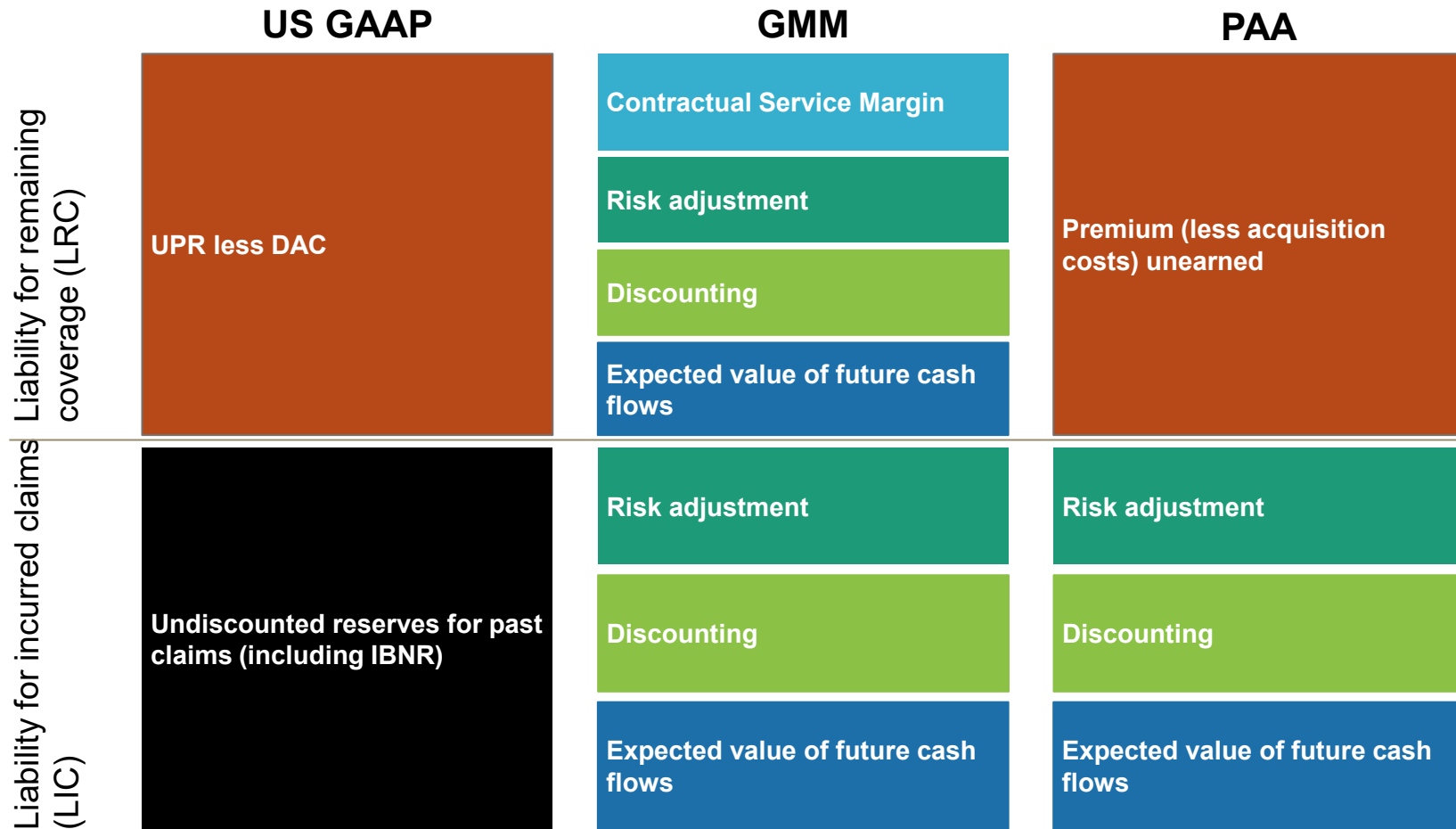
**Discounting**

**Expected value of future cash flows**

## Impact

- **No equivalent today.** Unearned profit in the contract, released based on coverage units.
- **Methodology could be similar to current practices.** Explicit allowance for risk; differences with Solvency II likely.
- Traditional methods could support cash flow projection; **presentation requirements may require additional build / effort.**
- Methodology similar to current practices, differences in assumptions (e.g. expenses or discount rates) and contract boundaries. **Current models and methods can likely be used**, especially for LIC.

# Comparison of measurement models



**(3)** While the PAA is expected to be applicable to most P&C contracts, GMM may be required for certain business and when contracts (groups) are onerous.

**(2)** Risk adjustment must be an explicit building block given rollforward and reconciliation requirements in the disclosures.

**(1)** Even under the PAA, discount and risk adjustment are still required building blocks for the LIC.

\* Size of blocks are for illustrative purposes only



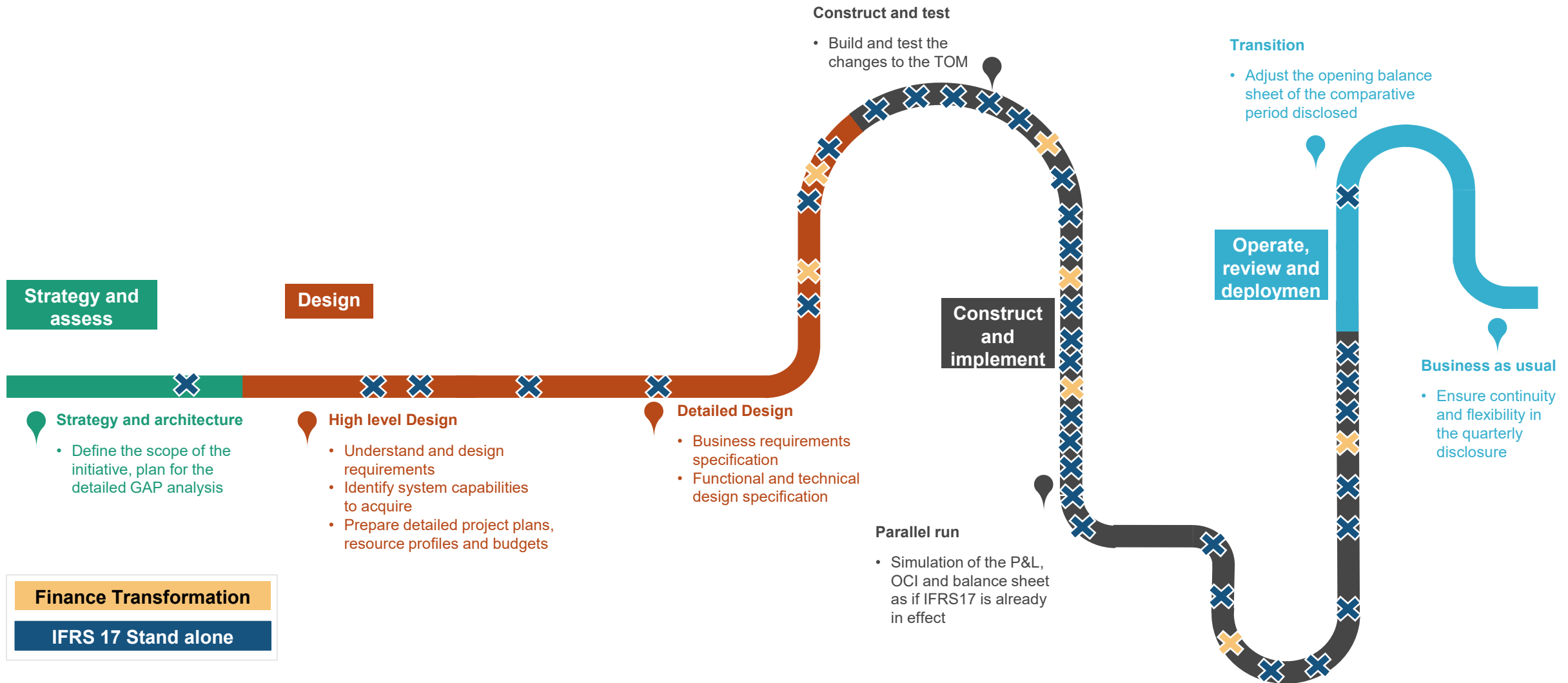
# 2

Implementation: there is no one-size-fits-all approach

# Developments in the landscape

- More simplifications have come to the forefront:
  1. companies (later movers) pushing for more simplifications
  2. more expertise / knowledge as people upskill
  3. industry coming together to produce evidence to support accounting decisions (both companies and audit firms) (e.g., PAA)
- Nuances of the guidance
- Coordination / knowledge-sharing between companies

# Global market progression on IFRS 17 implementation



# Drivers of a variety of approaches

- Data availability
- Systems
- Legacy of business (how far back to you need to go?)
- Complexity of transactions
- When you got started

3

Implementation: different paths taken

# IFRS 17 Implementation Journey

## Key Activities & Considerations

### Phase 1: Strategic Planning

- Partner / vendor selection
- Understanding your data → Aggregation strategy
- Project / Resource Planning
- Accounting methodology strategy → GMM vs. PAA
- Develop Position Papers specific to Toa's application of guidance

### Phase 2: Design

- Business Requirements Documentation
- Technology Platform Selection
- Technical Specification Documentation (calculation, data storage, etc.)
- Source to Target Data Mapping

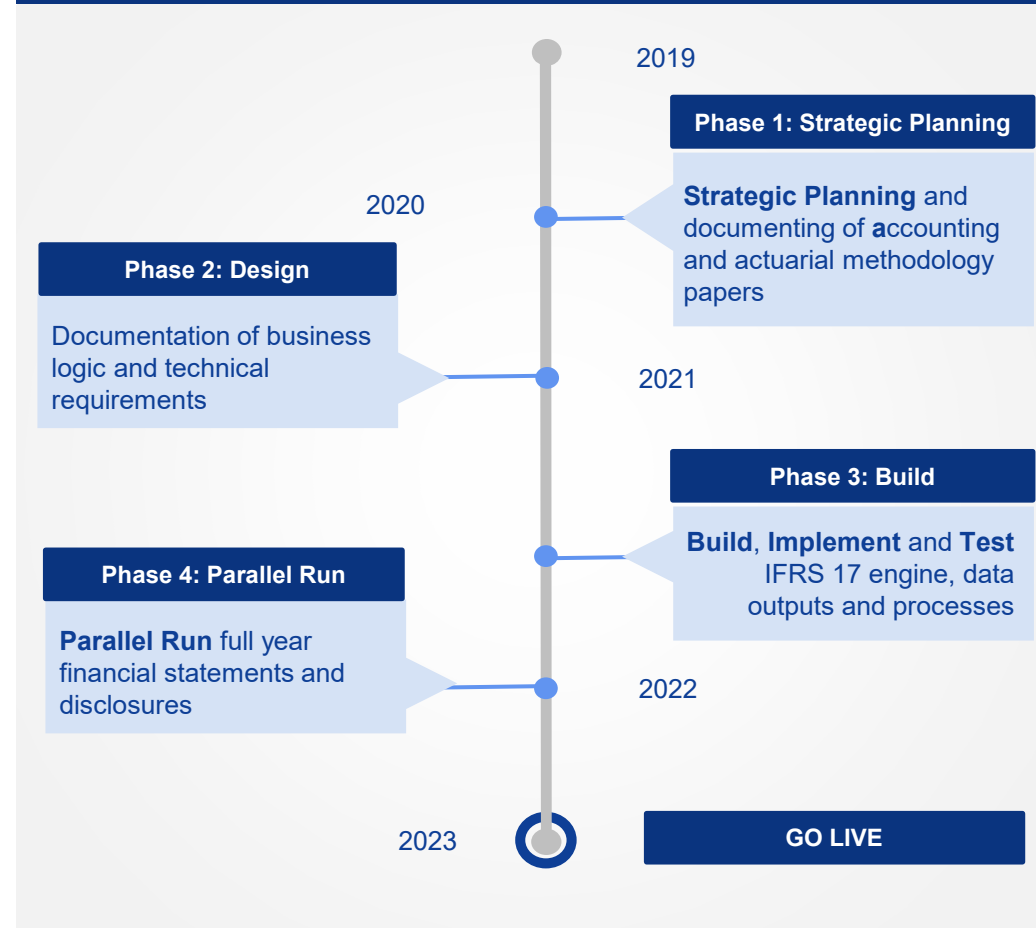
### Phase 3: Build

- Project Management → Status Reporting, Internal Audit
- Process development →
  - Engine inputs
  - IFRS calculation engine development (nominal cash flows, discounted cash flows, finance fees, risk adjustment CSM)
  - Actuarial assumption considerations

### Phase 4 Parallel Run

- Data output testing & review
- Day 1 reporting → Opening balances, transition, initial recognition
- Journal entry mapping and creation
- Financial statement mapping

## Implementation Timeline



# IFRS 17 Implementation Path

## Project Setup

- Onboard team
- Project plan
- Roles / Responsibilities
- Project Budget
- Assess and document risks, dependencies, assumptions, etc.

## Design

- IFRS 17 Adjustment ledger
- Portfolio structure
- System interfaces and data feeds
- Planning & Reporting
- Training

## Parallel Runs, Testing, and Refinement

- First parallel run at Q3 2021
- Connect with peers on items open to interpretation (Crop, Onerous Contracts, Risk adjustment, discount / illiquidity premium)
- Refine GL build and various system updates
- Reiterative planning process on an IFRS 17 basis
- Updating opening balance and transition adjustments as audit feedback is received



## Impact Analysis

- Assess data requirements
- PAA vs. GMM
- Onerous Contracts
- Attributable vs. Non-Attributable expenses
- Tax processes
- Resource Knowledge
- BAU Impacts
- IT impacts

## Build

- IFRS 17 Adjustment ledger allocations
- System interfaces and data feeds
- Adjustment and new financial statement geography mapping
- Actuarial models / calculations
- Various system updates

## Additional considerations leading up to and throughout 2023

- Audit reviews and proposed changes
- Transition from project/implementation to BAU
- Additional IFRS 17 trainings for finance, accounting, underwriting, and actuarial teams
- Continued coordination with Group counterparts
- Updates to market interpretation
- Communications on IFRS 17 across the organization

# Disclaimer

The information in this publication was compiled from sources believed to be reliable for informational purposes only. All sample policies and procedures herein should serve as a guideline, which you can use to create your own policies and procedures. We trust that you will customize these samples to reflect your own operations and believe that these samples may serve as a helpful platform for this endeavor. Any and all information contained herein is not intended to constitute advice (particularly not legal advice). Accordingly, persons requiring advice should consult independent advisors when developing programs and policies. We do not guarantee the accuracy of this information or any results and further assume no liability in connection with this publication and sample policies and procedures, including any information, methods or safety suggestions contained herein. We undertake no obligation to publicly update or revise any of this information, whether to reflect new information, future developments, events or circumstances or otherwise. Moreover, we remind you that this cannot be assumed to contain every acceptable compliance procedure or that additional procedures might not be appropriate under the circumstances.