

IFRS 17 Insurance contracts – Lessons learned to date

November 2017



IFRS 17 for insurers – Overview

IFRS 17 standard has been finalized on 18th May 2017 as a much needed, robust standard. It serves to address the challenges related to reporting under current IFRS 4, which allows a myriad of different accounting policies, thus resulting in a lack of comparability even within insurance groups. Implementation of the standard will be challenging for insurers, companies should be planning how to assess the impact for their organisation.



Background

- IFRS 17 will be introduced effective January 1, 2021. The lead time to January 2021, however is a reflection of the complexities anticipated around the implementation.
- The new reporting standard shares parallels with the European Solvency II Capital model, for which insurers in Europe have undergone major implementation projects and made significant investments in systems and processes. Ideally, these and elements of other existing systems will be used as a starting point for IFRS 17. In the meantime, differences between the two Frameworks exist, notably the contractual service margin concept under IFRS 17.
- Explaining the impact of IFRS 17 on performance prior to the adoption of new measurement requirements for insurance contracts may be challenging for some insurers.



Who does it affect?

IFRS 17 standard will be applicable to all type of insurance contract (i.e., life, non-life and reinsurance), as well as to certain guarantees and investment contracts with discretionary participation features. Some products issued by non-insurers might fall in scope of IFRS 17 (if they issue contracts that meet the definition of 'insurance' contracts in IFRS 17).



3 Central ideas underpinning reporting under IFRS 17

- Estimates of future cash flows should be based on current assumptions rather than historic "locked-in" assumptions.
- Liability measurement includes an allowance for risk and uncertainty ("a risk adjustment").
- Insurers should report earnings that reflect the services being provided, rather than the cash received through contractual service margin.

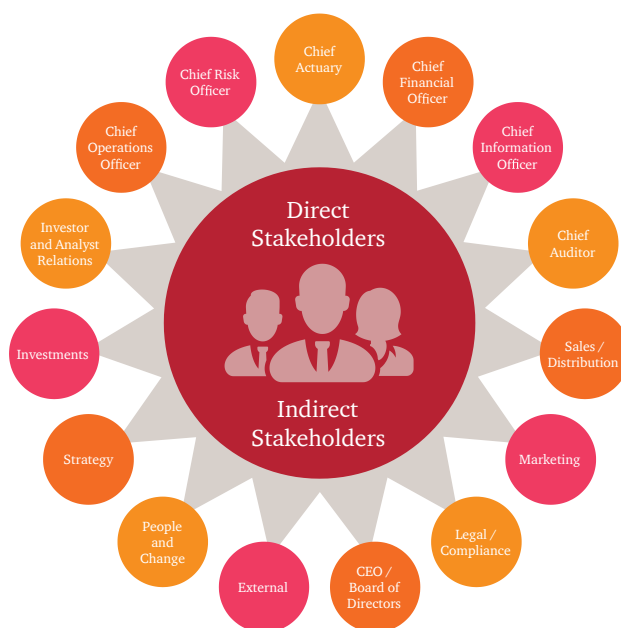


Fundamental changes brought about by IFRS 17

The financial and operational implications from adoption of IFRS 17 will vary by entity. However, the new standard is expected to bring about pervasive changes for insurers, especially in the areas of:

- Liability measurement
- Operations and systems
- Profit recognition
- Reporting timetable
- Data requirements
- Product Strategy

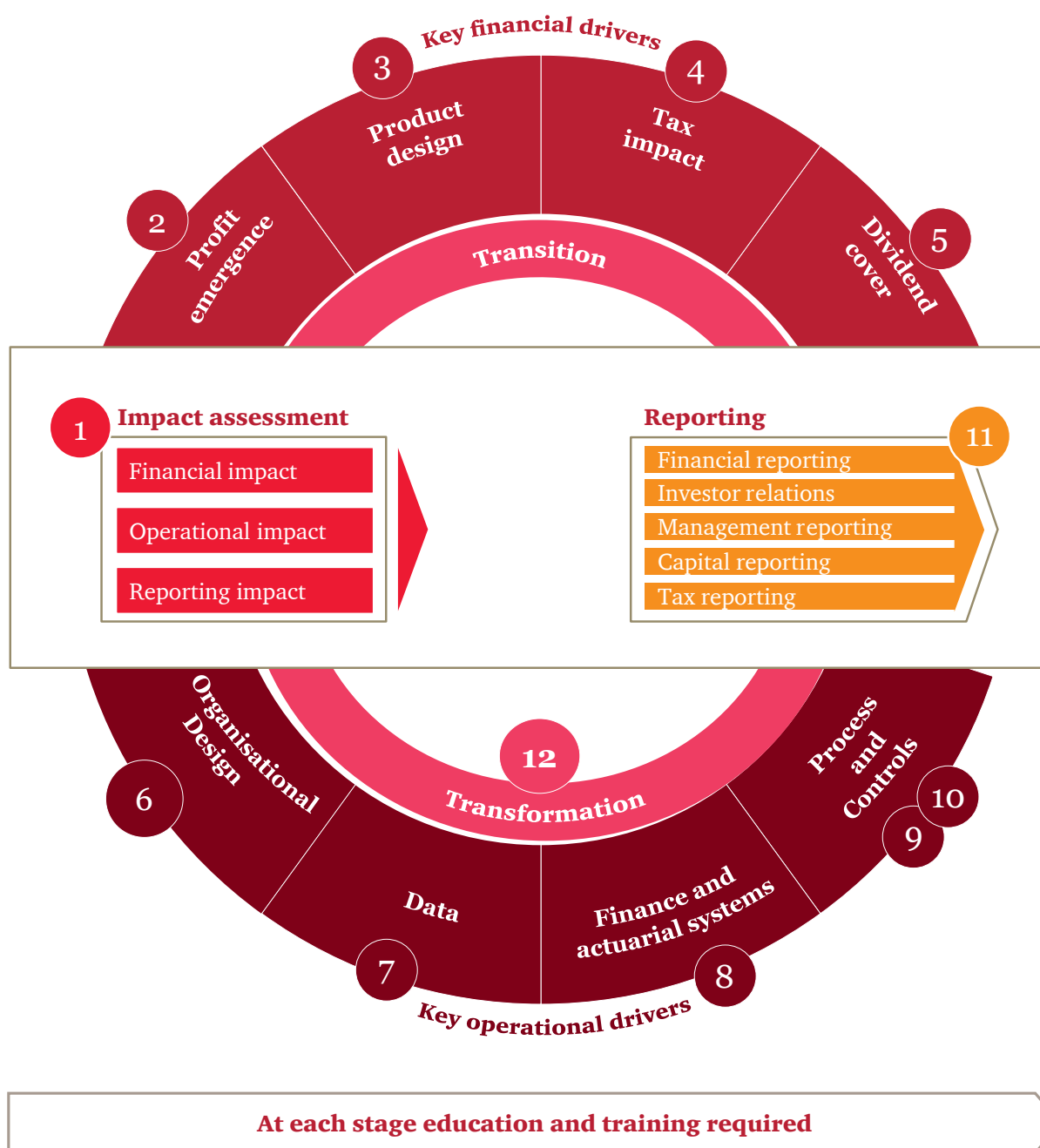
Nearly every stakeholder is impacted



IFRS 17 Project – A truly cross line of services global proposition

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. Which in-flight projects could potentially address IFRS 17 requirements and when is the right time to assess those projects? To what extent are data models, systems and processes designed and built at Group vs Segment vs Reporting Unit levels?. There are many strategic and tactical decisions to be made.

How it will impact your business



IFRS 17 — Implementation lessons learned to date

PAA legibility

Potential for reinsurance, acquired business and multi-year contracts not to qualify for simplified model. The alternative model will require significant system investment to deal with the CSM.

Profit recognition timing

Depending on the unit of account this could rise to earlier recognition of loss making contracts. Timing of profit recognition may also be different on expired risks compared to current IFRS – discounting and risk adjustment methodology.

Capacity to leverage SII may require faster close process

We can't currently prepare SII numbers in accordance with our GAAP timetable. Potential for further early close processes being implemented.

Policyholder data

Increased front-end system data capture requirements (e.g premium received dates and installment premium details) required.

General Ledger

New disclosure requirements will require enhancements to the general ledger and consolidation reporting systems. Greater analysis of our reported result will demand stronger MI.

New KPIs and Income Statement

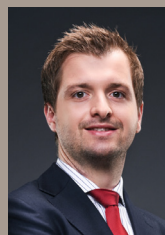
Written premiums no longer reported in the income statement. We will need to develop different metrics for external and internal performance measures.

Where to go for further information



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Our Jakarta-based team contains insurance, actuarial and accounting professionals specialising in IFRS17. Our local actuarial team consists of more than 10 actuarial professionals.

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