



2018 SOA Asia-Pacific Annual Symposium

Session 7, Industry Leader's Roundtable: IFRS 17 Insights

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The SOA Asia Pacific Annual Symposium

25 May 2018



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IFRS 17 implementation challenges & opportunities

Tze Ping Chng



What are the approaches for IFRS 17 implementation?

It is important to determine your ambition level before embarking on your IFRS 17 implementation ...



... so that you can derive the expected benefits from the pledged investments and resources.

The impact across the entire system architecture needs to be considered

High to medium complexity across data, systems and processes

Source systems
(Policy, claims, reinsurance, assets)

Reporting, analytics and visualisation, disclosure

IFRS 17 calculation engine

Accounting rules engine

Allocations

Ledgers

Consolidation

Planning, budgeting, forecasting and MI

Actuarial and risk models

Operational data store

Master data management (MDM)

Governance risk compliance (GRC)

-  High severity and complexity of change, significant additional investment
-  Medium severity and complexity of change, limited additional investment
-  Low severity and complexity of change, leverage current change/transformation initiatives

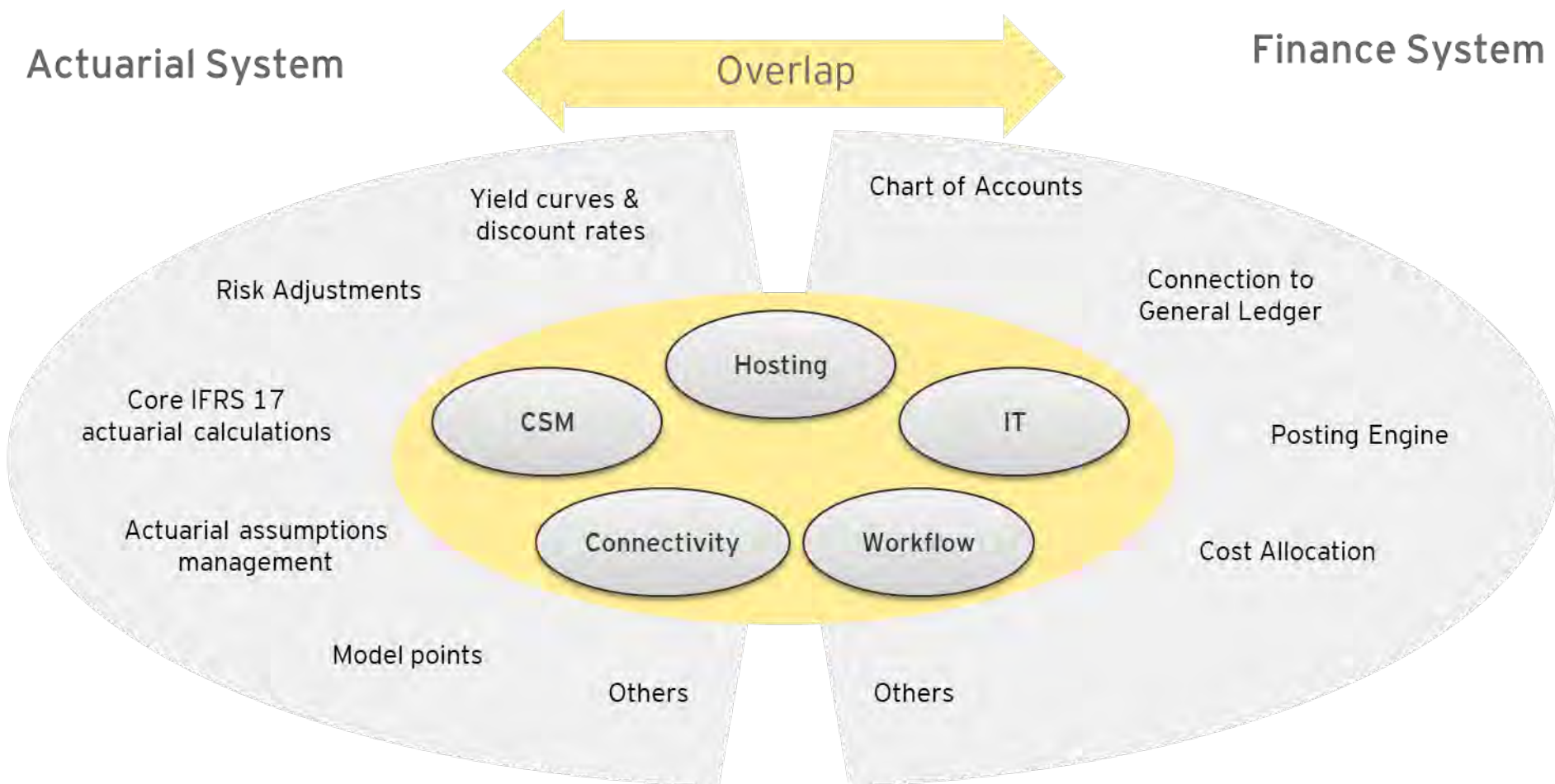
IFRS 17 system implementation options and their pros and cons

	Actuarial driven approach	Sub-ledger solution	General ledger led solution
How to do it	<ul style="list-style-type: none"> Build on MCEV/ Solvency II/ existing cash flow projection tools whenever sensible Leverage existing data, processes and systems Embed data management solutions and workflows Enhance existing finance system and IT solutions to cover accounting specific IFRS 17 elements (e.g. IASB unit of accounts) 	<ul style="list-style-type: none"> Build IFRS 17 capabilities through the introduction of a sub-ledger Include an integrated, pre-configured insurance data model for source data and results data onto one platform and eliminates redundancy A powerful enterprise data warehouse can be built to provide flexible reporting and analysis tools 	<ul style="list-style-type: none"> Central Finance system with enhanced IT solutions to provide multi-ledger, multi-client, multi-currency IFRS 17 platform Use of database and open source programming to support historic data storage and cohort granularity and IFRS 17 specific calculations Existing actuarial and risk modelling enhanced to cohort view
Pros	<ul style="list-style-type: none"> Easiest to implement Built primarily on existing reserving, MCEV and Solvency II tools and processes Lower investment required 	<ul style="list-style-type: none"> Opportunity to implement the most efficient system setup Shortest time to benefits realization Ancillary benefits in areas outside IFRS 	<ul style="list-style-type: none"> Higher flexibility of the implementation Enables addition of new subprojects (e.g. IFRS 9) Lower critical path risk
Cons	<ul style="list-style-type: none"> Less efficient system setup May not fit the future IFRS 17 reporting timelines Considerable manual steps = higher costs 	<ul style="list-style-type: none"> Complexity of the process leads to higher implementation risks Large upfront cost Critical path risk 	<ul style="list-style-type: none"> Takes longer to realize benefits from migration Likely to have some manual steps and solutions resulting in higher cost

Considerations to make during the selection process:

Consistency across the global finance organization	Enhanced data analytics and performance reporting	Improved consistency and comparability of results	Leverage options and arbitrage opportunities
			

It is a matter of finding the right balance based on your circumstances, preferences, and priorities



Several key finance processes will also be impacted

Need to redesign your closing process

- ▶ Deadlines to publish results remain unchanged or may even shorten
- ▶ More complex calculations need to be done in same time
- ▶ Potentially greater demand for manual activities on an interim basis (until full system solution is in place)
- ▶ Additional time required for analysis (based on new IFRS 17 measurement framework and new KPIs)

Major changes to reporting processes

- ▶ New format of balance sheet and P&L
- ▶ New Chart of Accounts and Accounting Logic (posting rules)
- ▶ Significant additional disclosure requirements will require system and process changes
- ▶ Content and structure of data to be captured by reporting systems will change significantly
- ▶ Local stat/reg/tax reporting changes

Planning and performance management

- ▶ Planning, budgeting and forecasting processes need to be adjusted to the new IFRS 17 framework
- ▶ Provision of new management information and KPIs that make financial performance under IFRS17 transparent and consistent with external reporting requirements (published results)

Control and audit processes

- ▶ Adoption of new processes will require the design of specific internal controls to ensure quality and robustness and integration into existing control frameworks
- ▶ Auditability of reported figures across the entire financial reporting value chain
- ▶ Management of historic data for reported figures and input/source data (sub-ledger system)



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Challenges in IFRS17 Preparation

Korean Insurers' Perspectives

by Woosoon Bae, EVP, Kyobo Life Insurance Co.



A. Financial Impact

- upon transition to IFRS17

- Equity = Asset – Liability
 - Is equity going to be sufficient under IFRS17?
 - Liability is expected to increase
- Reasons for increase in liability
 - BEL
 - Considerable portion of high fixed interest rate legacy block
 - Low discount rate environment
 - RA
 - Long duration products
 - CSM
 - Level of Aggregation
 - Fair value approach impact

B. Operation

- Meeting year-end reporting timeline
 - Increased run time: stochastic / serial runs
 - Increased time to validate results due to the complexity
- Earning forecast
 - Market consistent valuation of liability
 - increased volatility of financial results and equity
 - Requires more advanced forecasting and simulation capabilities to provide reliable financial forecasts
- People and resources
 - Needs for skilled resources in actuarial, finance, IT, etc.
 - Training and education are needed

C. System and Technology

- required for liability calculation

- Computing Power
 - Stochastic + Seriatim + P&L attribution
 - $\text{Run \#} = \text{No. policies} \times \text{No. scenarios} \times \text{No. movement}$
 - Efficient S/W and powerful H/W required
- Automation and control
 - Minimize Human errors through automation
 - Change Management - Production environment separation
- Data Storage
 - Data storage for audit purposes
 - Which data to store? / How long to store?

D. Governance and Control

- Model governance
 - Model has a significant impact on liability
 - Separate team to manage all the cashflow models
 - One model and one platform throughout the entire company
- Assumption governance
 - Assumption has huge impact on liability
 - Separate assumption team to ensure accurate and stable assumption setting
 - Assumption setting and approval process should be formalized

E. Strategy

- for Asset and Liability

- Product Strategy
 - Lower guarantees
 - Shorter duration
 - More participating features
- Risk Management
 - ALM/Hedging
 - Alignment of assets with liabilities: Asset segmentation
 - Long duration bonds / derivatives are not readily available
 - Monitoring experiences
 - Actual vs. Expected



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Jeong Hyeok Park



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May 2018

TRG Key Issues & Conclusion



May TRG Meeting Agenda

1. Combination of insurance contracts

2. Determining the risk adjustment for non-financial risk in a group of entities

3. Cash flows within the contract boundary

4. Boundary of reinsurance contracts held with repricing mechanisms

5. Determining quantity of benefits for identifying coverage units

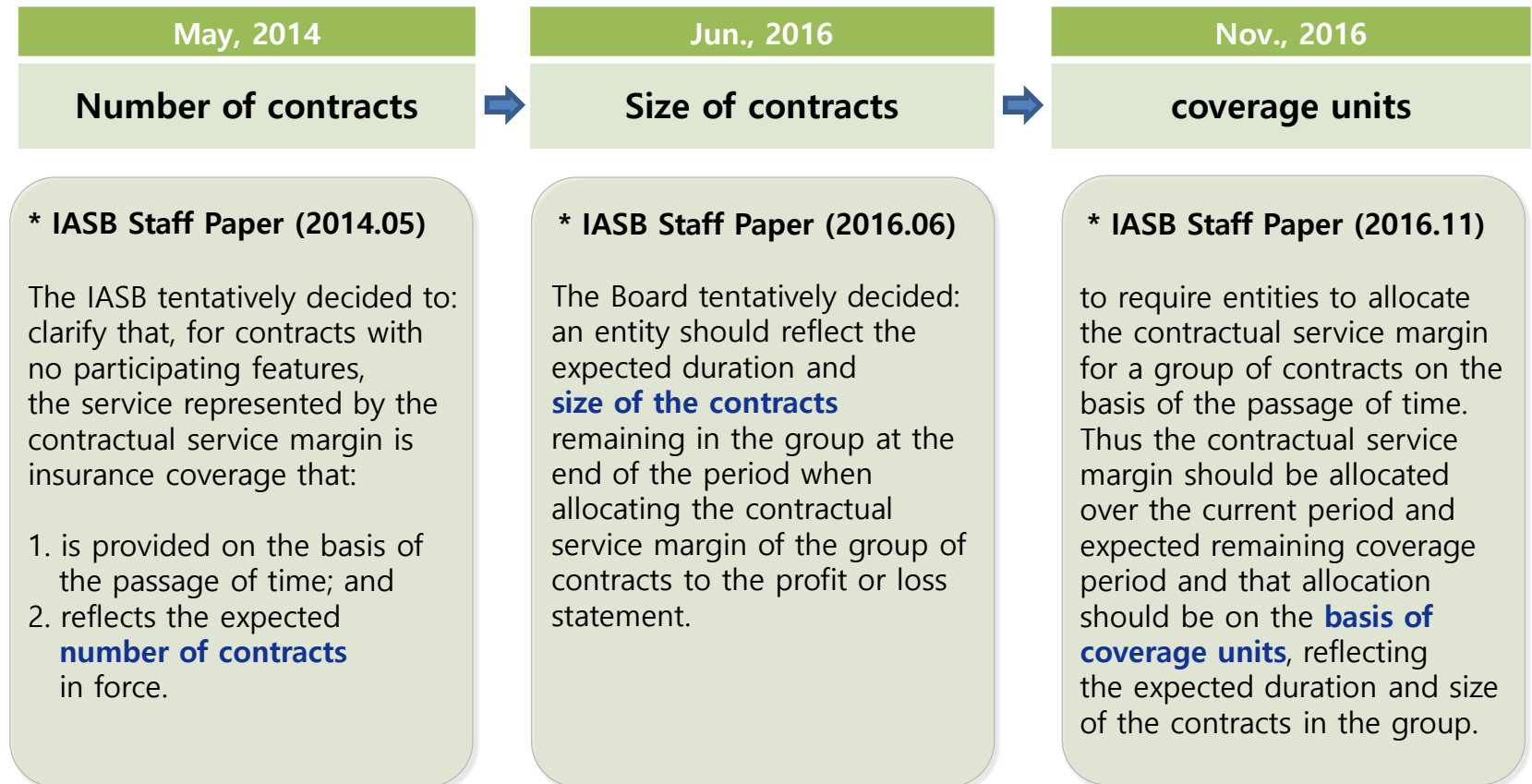
6. Implementation challenges outreach report

7. Reporting on other questions submitted

Coverage Unit

☐ Coverage unit is a basis of how CSM is recognized, it is an important index in determining profit/loss.

- IASB has decided to use coverage unit as a unit of CSM release following the process below



1. Insurance contracts without investment components

- (1) The maximum contractual cover in each period
- (2) The amount that the entity expects the policyholder to be able to validly claim in each period if an insured event occurs.

* IASB provided descriptive comments on 13 examples (e.g. credit life loan insurance, etc.).

2. Insurance contracts with investment components

- Coverage units differ by accounting models:

- (1) VFA Model : determine considering both insurance and investment services
- (2) General Model : determine considering only insurance services due to the absence of investment-related services

* IASB provided 3 examples (e.g. Endowment policy, etc.).

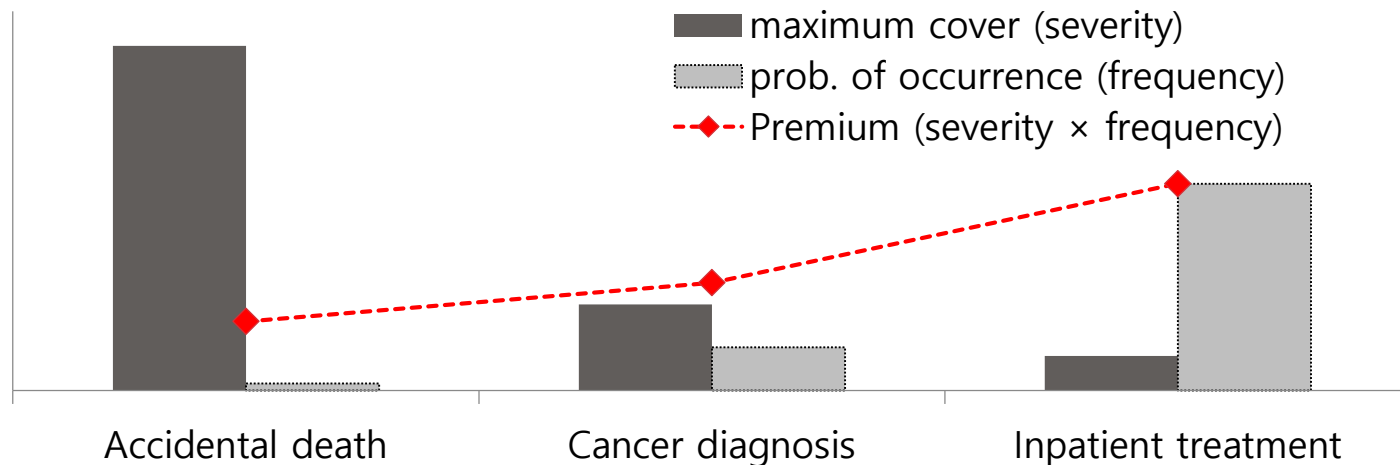
Samsung Life Insurance's Proposal

❑ South Korea proposed “premium” as a proxy, because there are many coverages within a single Korean insurance contract.

- For complex insurance contract that provides many coverages:

“premium” method reflects future claims, taking into consideration both severity and frequency of the insured event.

→) Principle-based approach is more appropriate instead of deciding on a specific and uniform guideline on coverage unit



- ☐ **Most TRG members disagreed to the IASB's specific guideline.**
 - They requested to allow for different approaches because insurance products vary by jurisdictions.
- ☐ **TRG members were concerned about accounting cliff from using different coverage units by accounting models (rule-based).**

Insurer	Opinions of TRG members
Allianz (Germany)	Need a principle-based approach (passage of time) instead of a uniform method
SunLife (Canada)	Need to consider both insurance and investment services
China Pacific (China)	Concerned about restrictive interpretation of the principles in the Standard
QBE (Australia)	Need to consider various factors, such as timing and amount of CSM release

□ IASB - May 2018 TRG Meeting Summary

The following methods might achieve the objective *if they are reasonable proxies for the services provided under the group of insurance contracts in each period*:

- i) **straight-line** allocation over the passage of time, but reflecting the number of contracts in a group.
- ii) **maximum contractual cover** in each period.
- iii) **amount the entity expects the policyholder to be able to validly claim** in each period if an insured event occurs.
- iv) **premiums**. However, premiums will not be reasonable proxies when comparing serviced across periods if they are receivable in different periods to those in which insurance serviced are provided, or reflect different probabilities of claims for the same type of insured event in different periods rather than different levels of service of standing ready to meet claims. Additionally, premiums will not be reasonable proxies when comparing contracts in a group if the premiums reflect different levels of profitability in contracts. The level of profitability in a contract does not affect the services provided by the contract.
- v) **expected cash flows**. However, methods that result in no allocation of the contractual service margin to periods in which the entity is standing ready to meet valid claims do not meet the objective.

IASB's Conclusion

☐ IASB will consider **narrow amendment** of IFRS17 on coverage units

- The IASB staff recommended a **narrow amendment** to the standard to modify the definition of 'coverage period' for VFA contracts to clarify that it includes the period in which investment-related services are provided.
- The IASB staff would give an update to the Board of both the proposed **narrow amendment** and the outcome of the discussion of contracts with investment components that **fail VFA**. Whether these matters will be subject to further discussion by the TRG will depend on the Board's view.



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IFRS 17 – Implications to Product & Pricing



Summary of Implications

Insurers have gone through the stage of **understanding the standard** and are now working on **assessing the implications**:

1. Need **holistic consideration** along with local capital regime changes, e.g. HK RBC, Korea K-ICS effective 2021
2. IFRS 17 will change how we see **accounting profitability** of products*
3. The standard is there but “not quite there” – still **rooms for choices** requiring further actuarial analysis*
4. May trigger **further utilization / re-structuring of reinsurance**, e.g. GM for VFA business, lock-in rate for CSM per treaty

* Examples in later slides



Examples on #2 – Impact of IFRS 17 on Accounting Profitability of Products

- a. **Separation of components / unbundling:** e.g. preventative / lifestyle benefits
- b. **Contract boundary:** e.g. some YRT products may become onerous due to high acquisition costs
- c. **Unit of account:** With “onerous” classified at contract level, do insurers have to price every “pricing cell” of a product to be profitable?
- d. **Probability of cash flows:** Explicit requirement on reflecting probability of cash flows may make long-term and/or high guarantee products look less profitable?
- e. **Reinsurance:** CSM asymmetrical only to direct business, so 100% reinsurance can't rescue a loss-making product?
- f. **Expense definition:** CSM can only defer direct expenses, so what can be DACed will look less (unlike US GAAP)

Examples on #3 – Room of Choices

Choice of Granularity in Unit of Account	<ul style="list-style-type: none">• How granular do we want the unit of account to be?<ul style="list-style-type: none">➤ More granular means more onerous upfront, but less chance of having more onerous to kick in later• Which one is better for us?
Choice between GM vs VFA	<ul style="list-style-type: none">• Many products (e.g. par, UL) can be argued either way, so need to see which gives better results• May also need to change dividend / crediting rate management philosophy for optimized results
Other Choices in Methodology	<ul style="list-style-type: none">• Discount rate• Risk adjustment• “Probability weighted” cash flows• “Coverage units” for amortizing CSM• ...