What brings IFRS 17

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Building a better working world

Introduction and agenda

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Agenda: IFRS 17, Solvency 2, MCEV, Due diligence, Life modelling, Pricing, Reserving

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Agenda

1. Quick overview
2. (R)Evolution in insurance accounting
   - Actuarial models
   - New reporting requirements
   - Systems and architecture
3. Practical example comparing IFRS 4 and IFRS 17
4. Summary

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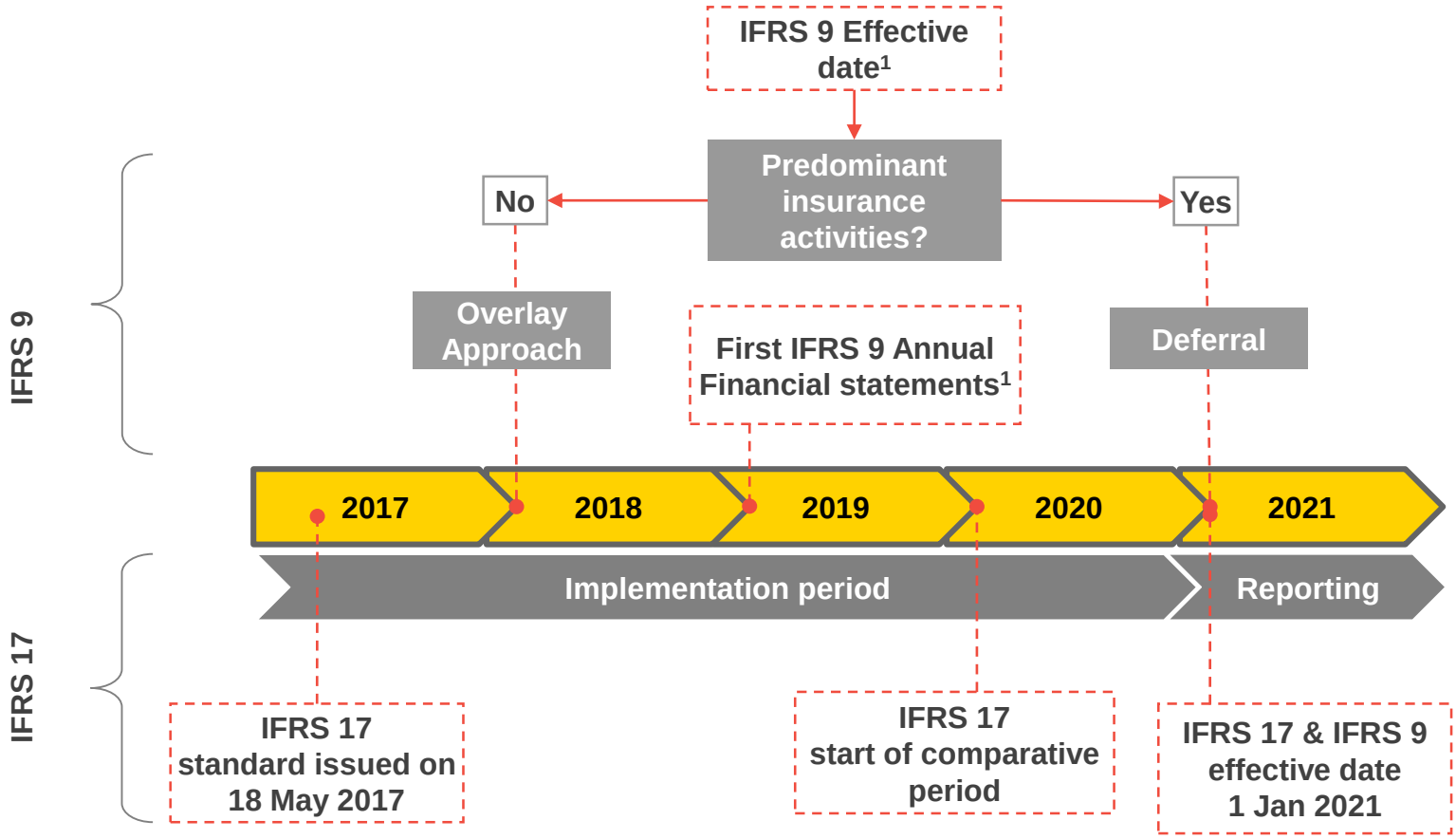
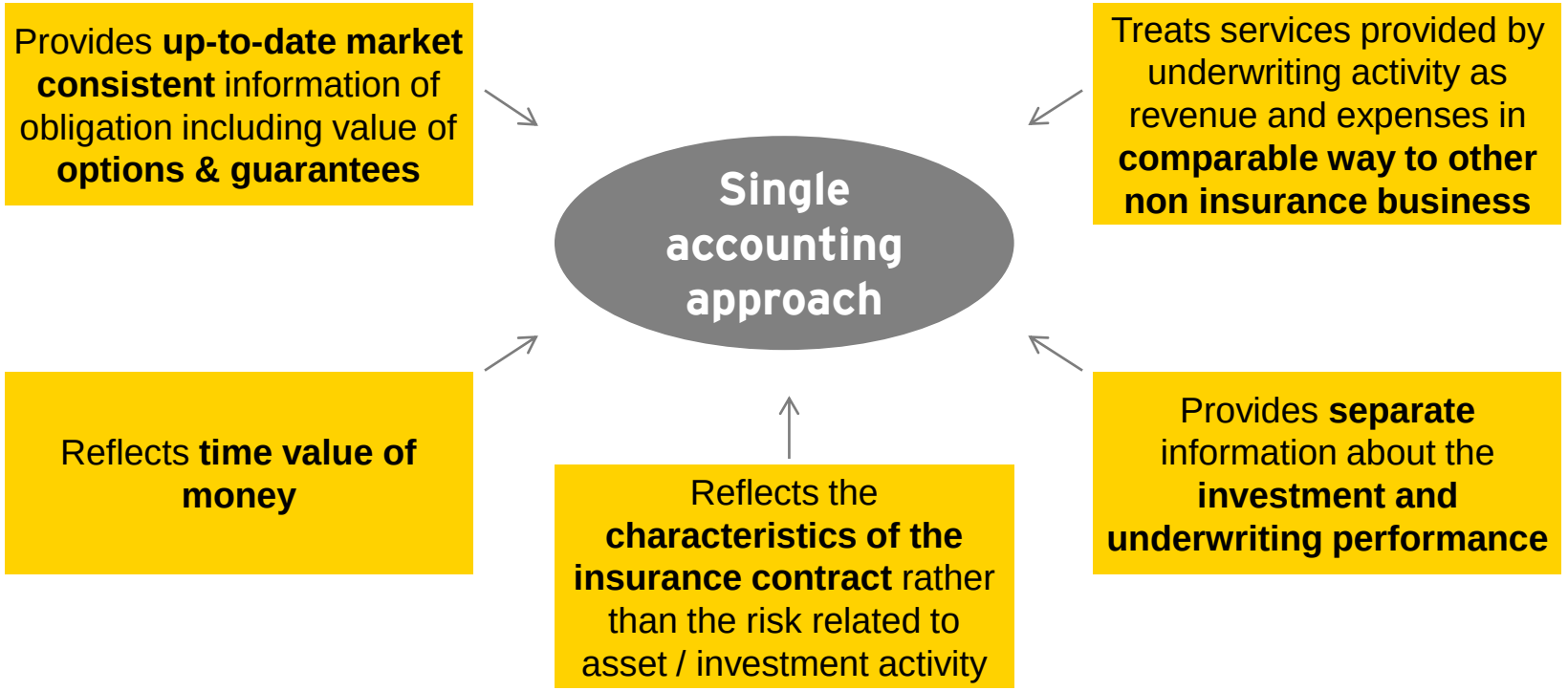
IFRS 17 and IFRS 9 – timeline



[1] IASB has proposed an option to either defer the effective date of IFRS 9 for insurers or to apply a temporary 'overlay' method to mitigate the PL impacts of IFRS 9.

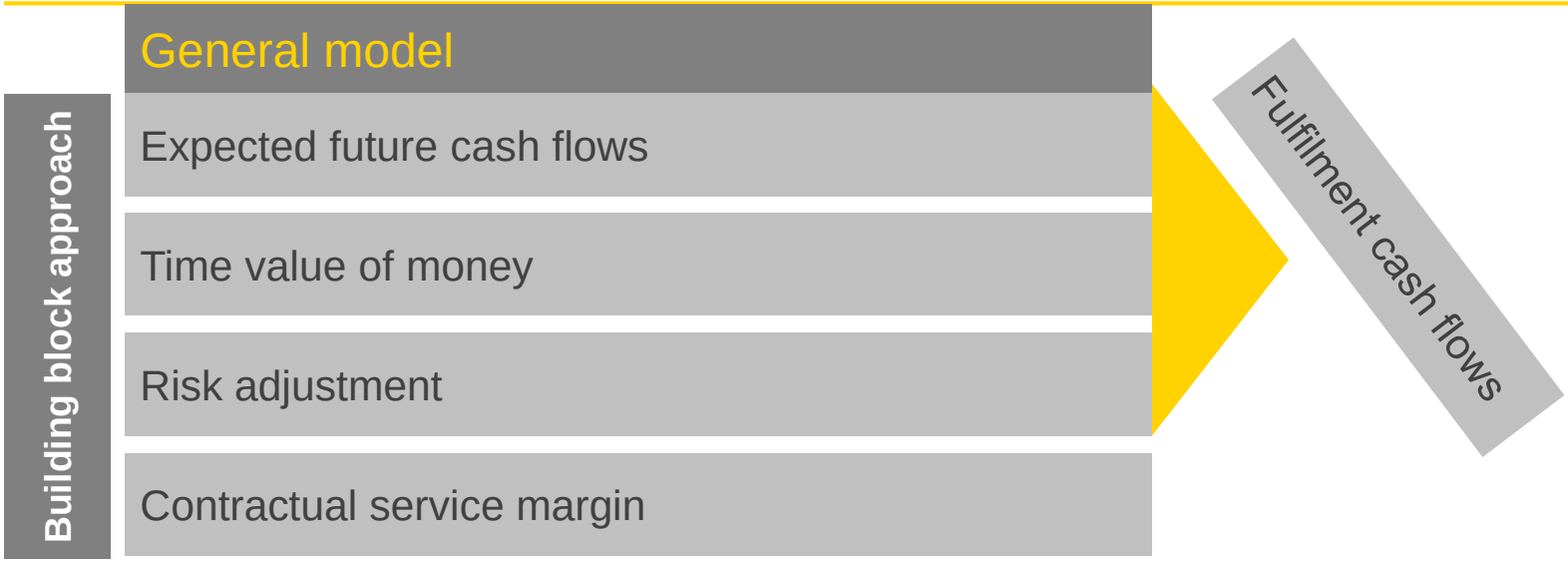
A Standard that better meets the needs of financial statements users

Existing insurance accounting is inconsistent, non uniform and non transparent.



The new standard is expected to improve financial reporting by providing more transparent and comparable information.

Proposed accounting model



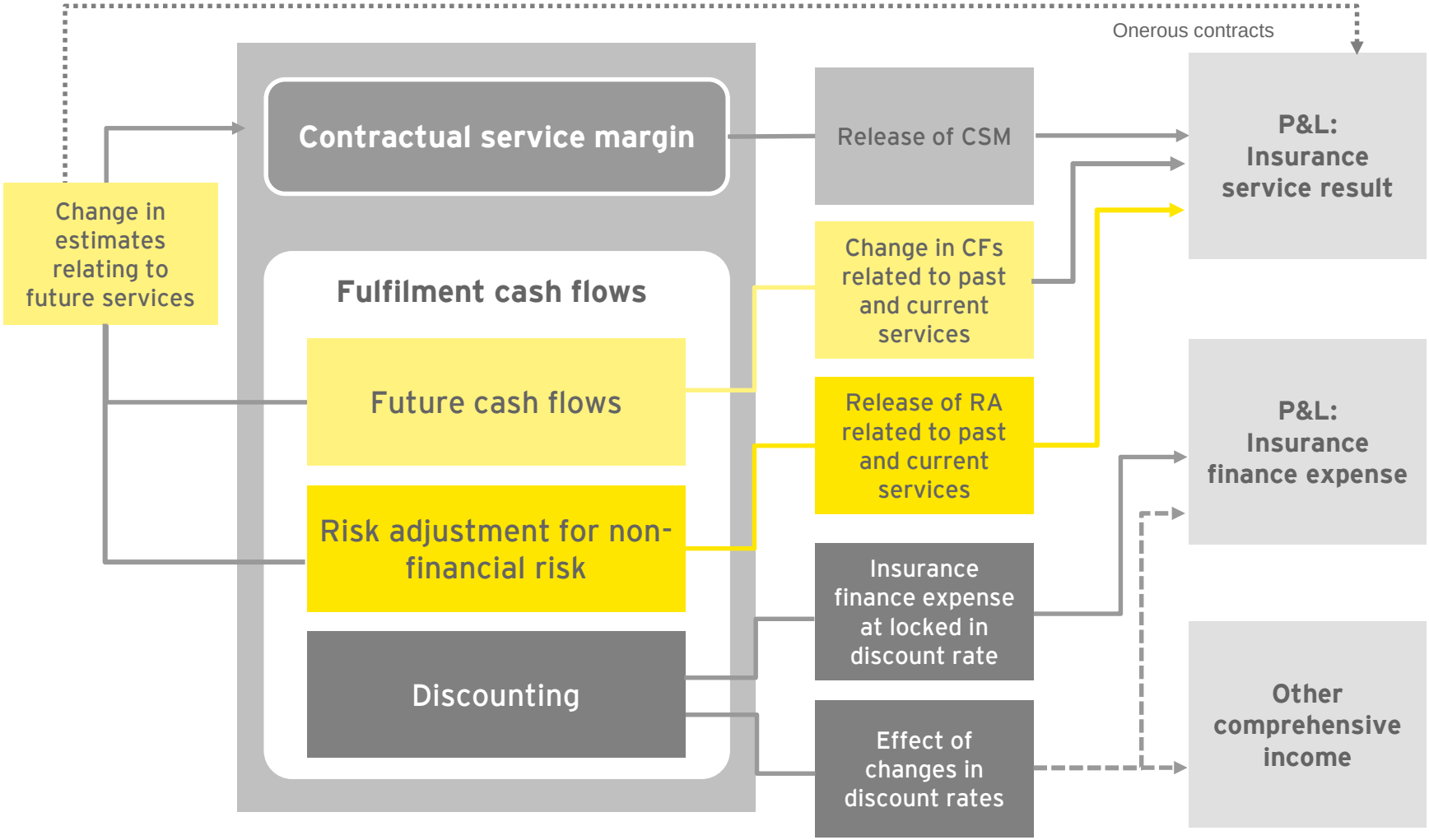
Cash flows	Expected future cash flows within contract boundary
Balance sheet discount rate	Yield curve reflecting the characteristics of the liability
Risk adjustment	Reflecting required compensation for bearing risk plus diversification
CSM at inception	Net difference of fulfilment cash flows, floored to nil
CSM release	Based on coverage unit reflecting number and size of individual contracts in the group of contracts
Level of aggregation	Objective is group of contracts, but it can be individual contract (more information will follow in section Aggregation)
Subsequent measurement Non-market variables	Relating to past coverage: Profit or loss Relating to future coverage: CSM

Overview of measurement models

	Key features	Example products
General model or Building block approach (BBA)	▸Default model in IFRS 17 ▸Probability weighted discounted cash flows ▸Contractual service margin (CSM): to spread recognition of profit and impact of changes ▸Risk adjustment	▸Annuities ▸Protection ▸Traditional saving ▸Long-duration non-life business
Variable fee approach (VFA)	▸Based on the building block approach, but with additional features for direct participating contracts ▸Market volatility passes through CSM vs Statement of Comprehensive Income (P&L/OCI) for building block approach	▸Unit-linked business
Premium allocation approach (PAA)	▸Optional approach for short duration contracts (pre-claims liability) ▸BBA approach used to determine remaining exposure	▸Short-duration contract (mostly non-life insurance)

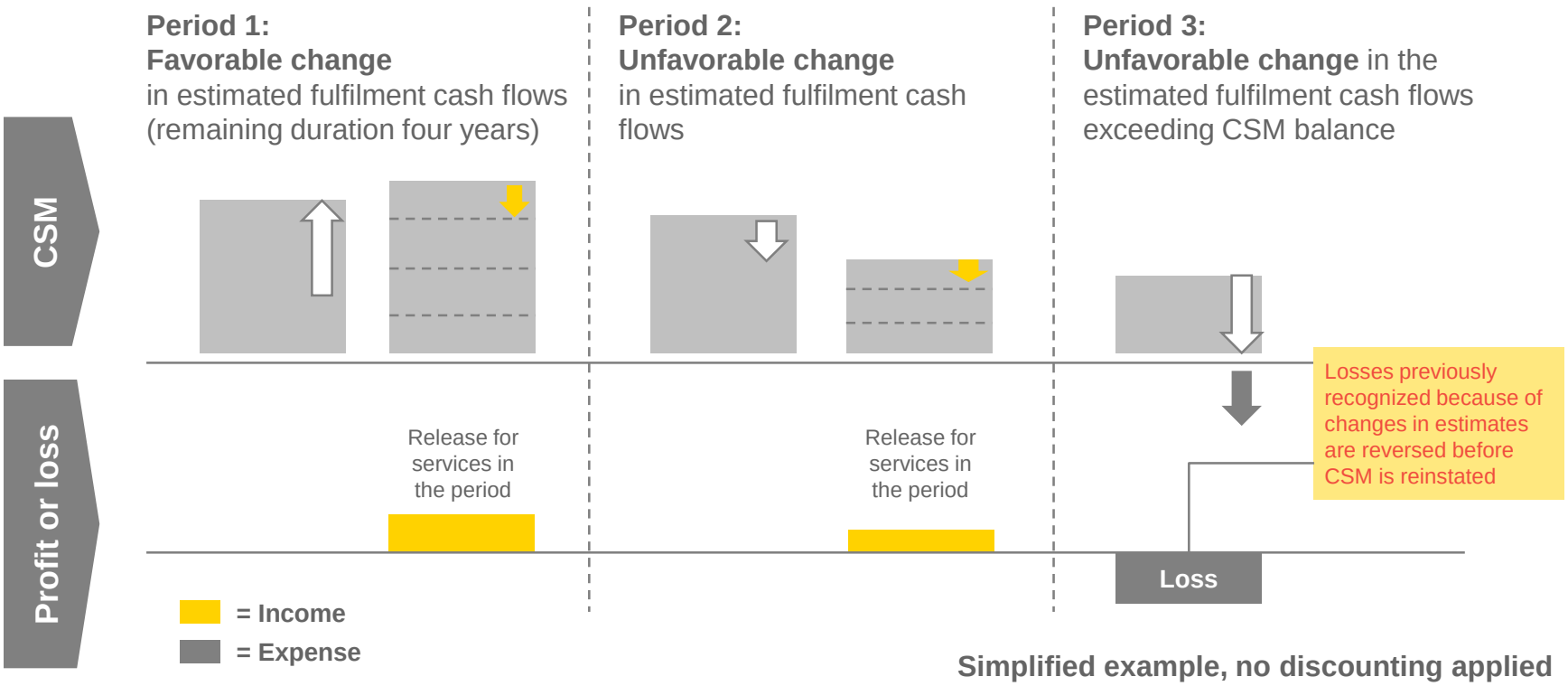
Subsequent measurement

Different recognition based on source of change



Contractual Service Margin

Illustration of unlocking



Simplified example, no discounting applied

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(R)Evolution in insurance accounting

With IFRS 17 there are three Big Bangs in the accounting of insurance industry:

1) Involvement of actuaries;
2) Big Bang in financial reporting;
3) Architecture and interaction of data and systems.

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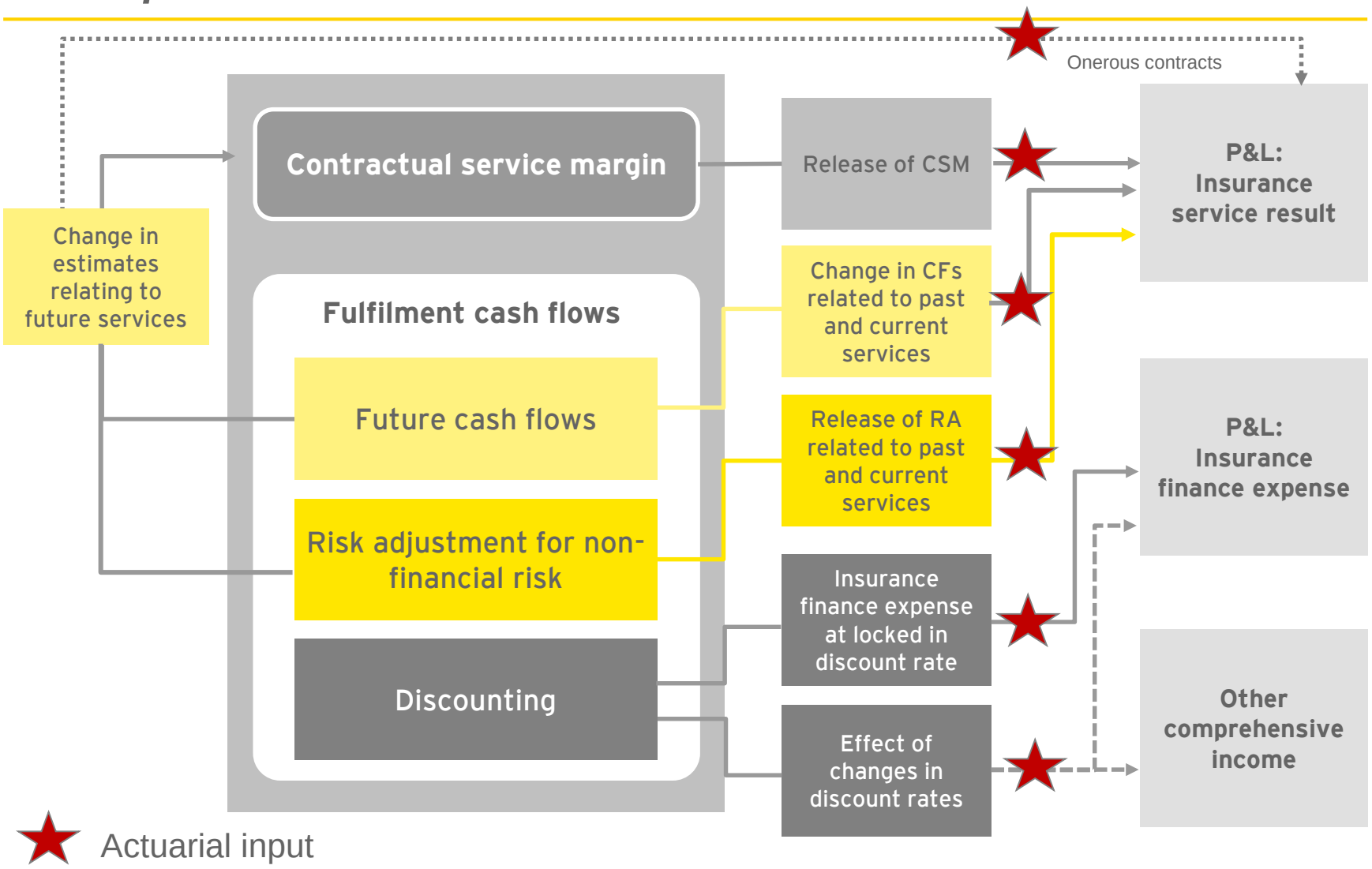
(R)Evolution in insurance accounting
Actuarial involvement

- Under IFRS 4 majority of financial statements are produced automatically with limited direct inputs from actuaries (claim reserves, LAT)
- Solvency II is just warm up lap -> Under IFRS 17 actuarial involvement will be fundamental for majority of financial reports:
  - Criteria for selection of measurement model
  - Onerous test at inception
  - Fulfilment cash flows including all assumptions
  - Risk adjustment calculation
  - Movement analyses and reconciliation
  - …

(R)Evolution in insurance accounting

Subsequent measurement



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(R)Evolution in insurance accounting

Big Bang in financial reporting

Many new requirements and changes in financial reporting:

- Profits recognized over whole duration of contracts
- Annual cohorts for monitoring of portfolio development
- Key focus on the separate accounting for:
  - Insurance and financial revenues and expenses
  - Insurance and reinsurance assets and liabilities
  - Profitable and onerous business
  - Types of liabilities
- Specifics for aggregation of results
- Possibility to select accounting policies
- Much higher impact of expert judgment
- Various types of reconciliations and explanation notes

(R)Evolution in insurance accounting

New disclosure requirements

Under IFRS 17, an entity shall disclose qualitative and quantitative information about:

- The amounts recognized in its financial statements that arise from contracts within the scope of IFRS 17
- The significant judgements, and changes in those judgements made when applying IFRS 17
- The nature and extent of the risks that arise from contracts within the scope of IFRS 17

Amount

Reconciliation by type of liability

Opening balance / Closing balance			
	Net liabilities for remaining coverage	Any loss component	Liabilities for incurred claims

Reconciliation by building blocks (for BBA, VFA)

Opening balance / Closing balance			
	Expected present value of future cash flows	RA for non-financial risk	CSM

More to be disclosed, including but not limited to:

Analysis of insurance contract revenue recognized in the period, comprising:

- CSM release to profit or loss,
- Expected insurance service expense
- RA release
- Recovery of insurance acquisition CFs

CSM and related quantities for in-force business at transition

Amount of insurance finance income or expenses (IFIE)

Judgement

Significant judgements & changes to those include:

- Methods to measure contracts
- Process for estimating the inputs for those methods

- Any changes to the methods and process, reason for each change
- Types of contracts affected

Explanation of methods used to calculate IFIE recognized in P&L

Confidence level used to determine RA for non-financial risk

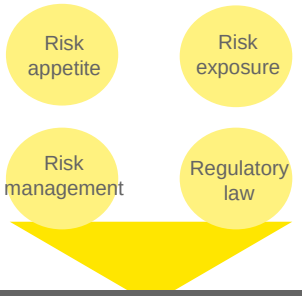
Yield curve(s) to discount cash flows that do or do not vary based on returns of underlying items

The approach to determine:

- how to distinguish changes in estimates of future cash flows from the exercise of discretion from other changes, for contracts without participation features
- composition and fair value of underlying items for contracts with direct participation features
- RA for non-financial risk, discount rates and investment components

Risk

Disclosure for each type of risk



Type and extent of risks

Insurance risks	Financial risks
Risk concentrations	Risk concentrations
Sensitivity analysis concerning insurance risks	Sensitivity analysis concerning market risks
Claims development	Credit and liquidity risks

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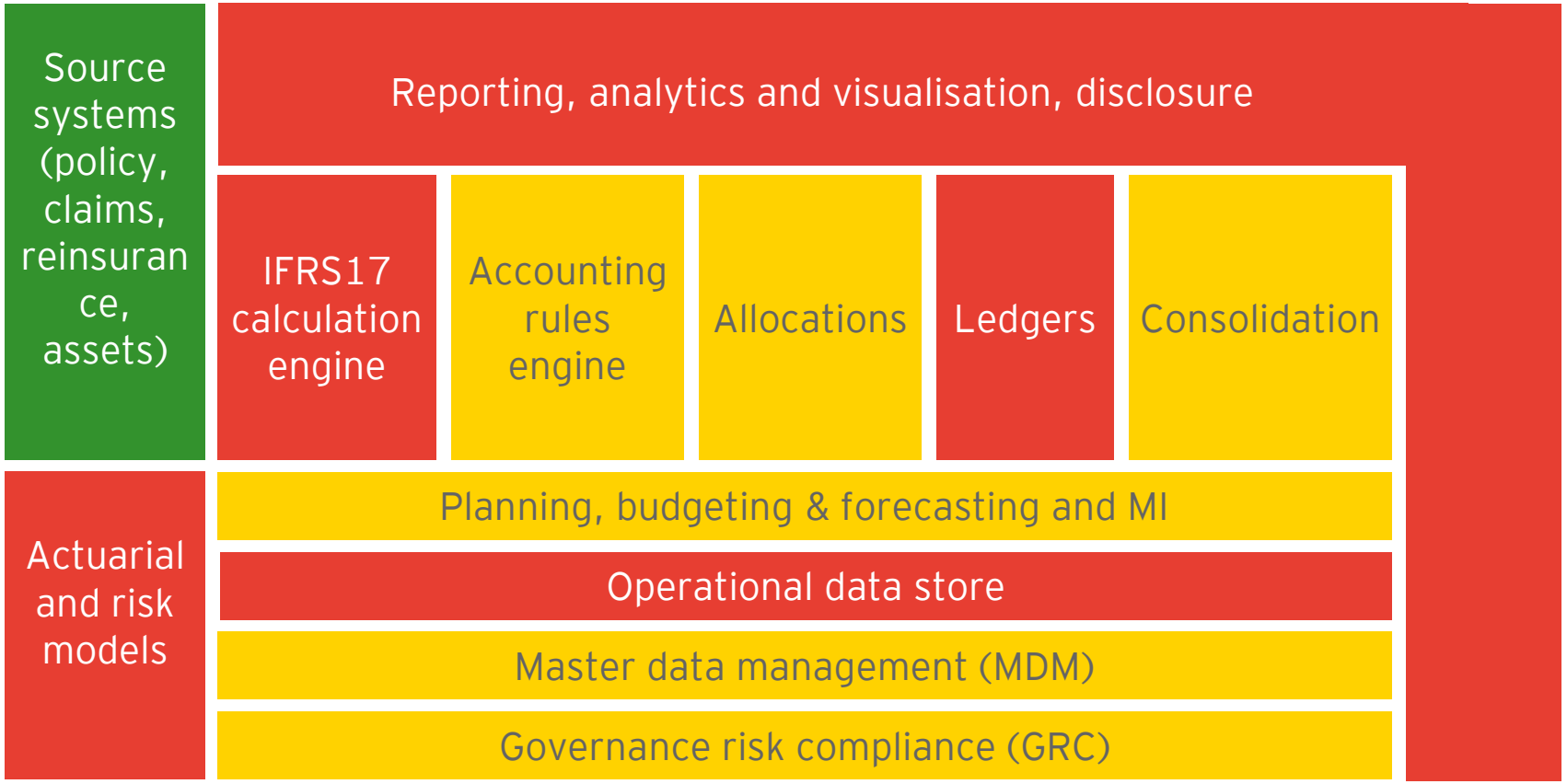
(R)Evolution in insurance accounting

Impact across the entire systems landscape (financial & actuarial & IT) must be understood

High to medium complexity across data, systems and processes



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

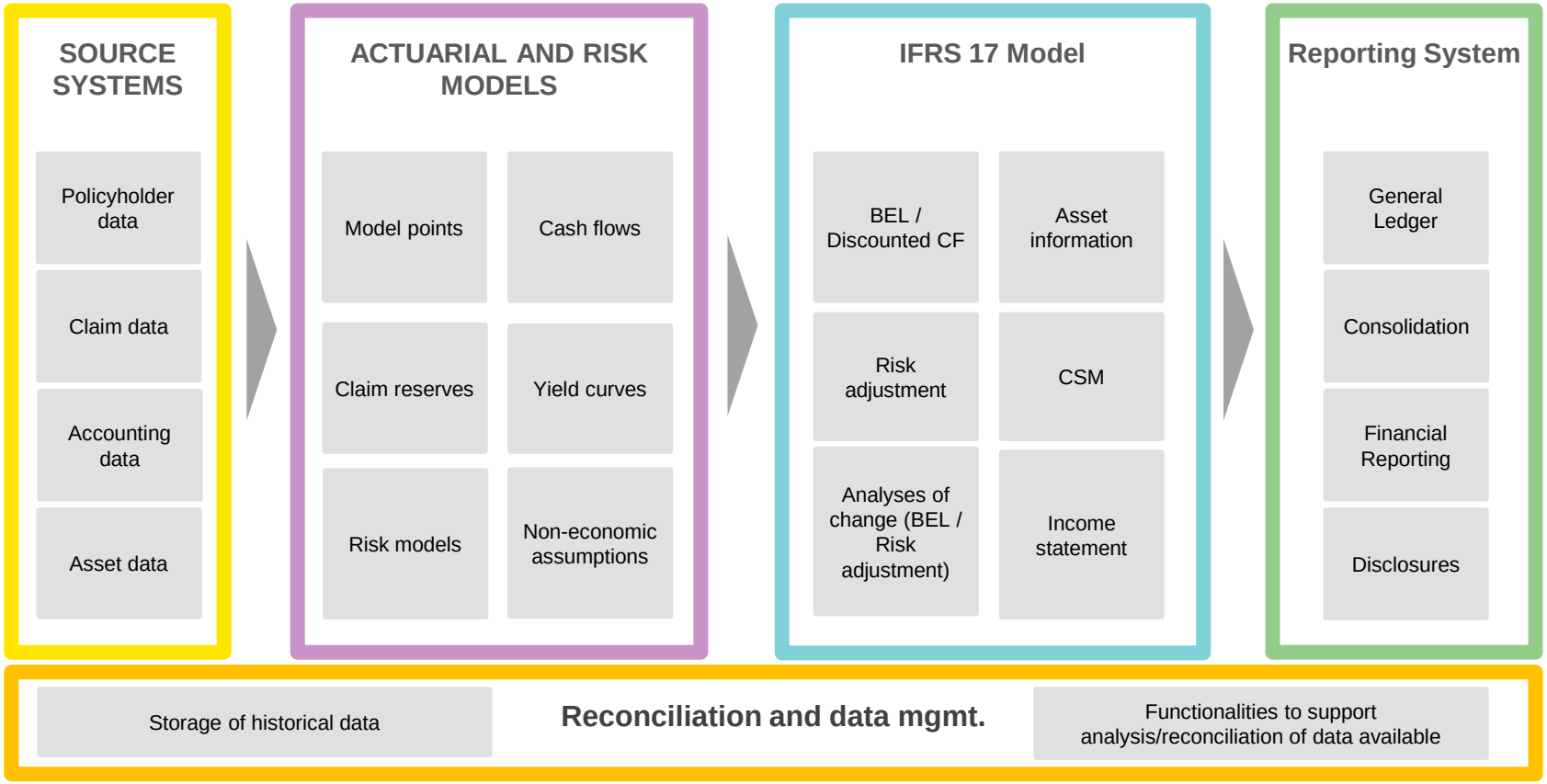
(R)Evolution in insurance accounting

Which of the insurance operations (outside Finance & Actuarial & IT) would probably be most impacted by the implementation of IFRS 17?

(R)Evolution in insurance accounting

IFRS 17 systems architecture

The diagram below shows the end to end systems architecture for IFRS 17 reporting and the various elements involved. The most effective solution would include involvement from Finance as well as Actuarial teams, working together with IT.



- EY presents two alternative approaches: Actuarial driven and Finance driven systems architecture

(R)Evolution in insurance accounting

Basically 2 system solution options available for consideration

	1. Actuarial-driven current system solution	2. Finance-driven new sub-ledger solution
How to do it	▸ Enhance current actuarial system to produce CSM calculations ▸ Build on existing MCEV/Solvency II tools ▸ Enhance existing Finance systems and IT solutions to cover IFRS 17 specific accounting and reporting requirements	▸ Build IFRS 17 capabilities through the introduction of new integrated sub-ledger solution ▸ Include an integrated, pre-configured insurance data model for source data and results data onto one platform that eliminates redundancy ▸ A powerful enterprise data warehouse
Pros	Easiest and fastest solution to implement Built primarily on existing tools and processes Lower investment required	Opportunity to implement a new, more efficient system Shorter time to benefits realization Ancillary benefits in areas outside IFRS
Cons	▸ Less efficient system setup (add-ons) ▸ May not fit the future IFRS 17 reporting ▸ Considerable manual steps	▸ Multiple data sources and complexity of the process means higher implementation risks ▸ Significant upfront investment may be required ▸ Critical path risk (need a “Plan B”)

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Practical example

Fact pattern at inception

- 100 identical term insurance policies with 10 years durations
- Commence on 1 January
- Expect 1 death per year at the end of each year
- Single premium = CU 150,000 per policy
- Sum assured = CU 1,000,000 per policy
- Acquisition costs = CU 5,000 per policy
- Maintenance costs = CU 600 per policy per year
- Discount rate = 2%
- Risk adjustment = CU 10,000 per policy at inception (for comparison we assume 20% prudency in mathematical reserve under IFRS 4)

Practical example
CSM at inception

Item	CU
Premiums	15,000,000
Present value of death outgo	(8,982,585)
Acquisition expenses	(500,000)
Present value of maintenance expenses	(525,894)
Risk adjustment	(1,000,000)
Present value of fulfilment cash flows	3,991,521
Contractual service margin at inception (liability)	(3,991,521)

Practical example

CSM Roll forward to year-end (actual=expected)

Roll forward of CSM	CU
CSM BoP	**-**
Impact of new business	**(3,991,521)**
Accretion of interest (locked in rate)	**(79,830)**
CSM recognised for services provided (release to P&L)*	**444,362**
CSM EoP	**(3,626,990)**

*Coverage provided in year (death outgo) = 1,000,000 (A)

Discounted value of future coverage = 8,162,237 (B)

(A) / [(A) + (B)] = 10.9%

- 10.9% x [(3,991,521) + (79,830)] = 444,362

There may be rounding differences in this table

Practical example

Revenue calculation (year 1) (actual = expected)

Insurance Revenue calculation	CU
Expected claims	1,000,000
Expected maintenance expenses	60,000
Release of risk adjustment	109,000
Release of CSM	444,362
Allocation of acquisition expenses*	55,663
Insurance contract revenue	**1,669,025**

Insurance Expenses calculation	CU
Actual claims	(1,000,000)
Maintenance expenses	(60,000)
Allocation of acquisition expenses*	(55,663)
Insurance service expenses	**(1,115,653)**

Some components will come from actuarial cash flow models.

Revenue in first year no longer = premium.

*Acquisition expenses:

An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

There may be rounding differences in this table

Practical example

Financial income (year 1) (actual = expected)

IFRS 17 Statement of comprehensive income	CU
Insurance revenue	1 669 025
Insurance service expense	(1 115 663)
Insurance service result	553 362
Investment income	288 800
Insurance finance income and expenses	(268 800)
Net financial result	20 000
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	573 362
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	573 362

IFRS 4 Profit and loss account	CU
Net earned premiums	15 000 000
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	(500 000)
Interest, dividend and other investment income	288 800
Change in provisions	(9 794 684)
Other income, expenses	(60 000)
Taxes (ignored for simplicity)	
Net result for the period	3 934 116
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	3 934 116

There may be rounding differences in this table

Practical example
Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0	-	-	-	-
Changes that relate to current services	-	109 000	444 362	553 362
Contractual service margin recognised for services provided			444 362	444 362
Risk adjustment recognised for the risk expired		109 000		109 000
Experience adjustments				
Changes that relate to future services	4 991 521	(1 000 000)	(3 991 521)	-
Contracts initially recognised in the period	4 991 521	(1 000 000)	(3 991 521)	-
Changes in estimates reflected in the contractual service margin				
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	4 991 521	(891 000)	(3 547 159)	553 362
Insurance finance expenses	(188 970)		(79 830)	(268 800)
Total changes in the statement of comprehensive income	4 802 552	(891 000)	(3 626 990)	284 562
Cash flows	(13 440 000)			(13 440 000)
Insurance contract liabilities 20X1	(8 637 448)	(891 000)	(3 626 990)	(13 155 438)

There may be rounding differences in this table

Practical example
Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X0	-			-
Insurance revenue	1 669 025			1 669 025
Insurance service expenses	(55 663)		(1 060 000)	(1 115 663)
Incurred claims and other expenses			(1 060 000)	(1 060 000)
Amortisation of insurance acquisition cash flows	(55 663)			(55 663)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 613 362		(1 060 000)	553 362
Insurance finance expenses	(268 800)			(268 800)
Total changes in the statement of comprehensive income	1 344 562		(1 060 000)	284 562
Cash flows				
Premiums received	(15 000 000)			(15 000 000)
Claims and other expenses paid			1 060 000	1 060 000
Insurance acquisition cash flows	500 000			500 000
Total cash flows	(14 500 000)		1 060 000	(13 440 000)
Insurance contract liabilities 20X1	(13 155 438)		-	(13 155 438)

There may be rounding differences in this table

Practical example

Updated fact pattern at end of first year

- Actual = expected, except maintenance expenses = CU 800 per policy instead of CU 600 (and for upcoming years still assuming CU 600 per policy)
- Assume that discount rates change to 1% pa since year 2 (i.e. no change in discount rates in year 1)

Practical example

Financial income (year 1 update)

IFRS 17 Statement of comprehensive income	CU
Insurance revenue	1 669 025
Insurance service expense	(1 135 663)
Insurance service result	533 362
Investment income	288 400
Insurance finance income and expenses	(690 859)
Net financial result	(402 459)
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	130 903
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	130 903

IFRS 4 Profit and loss account	CU
Net earned premiums	15 000 000
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	(500 000)
Interest, dividend and other investment income	288 400
Change in provisions	(9 794 684)
Other income, expenses	(80 000)
Taxes (ignored for simplicity)	
Net result for the period	3 913 716
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	3 913 716

There may be rounding differences in this table

Practical example
Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0	-	-	-	-
Changes that relate to current services	(20 000)	109 000	444 362	533 362
Contractual service margin recognised for services provided			444 362	444 362
Risk adjustment recognised for the risk expired		109 000		109 000
Experience adjustments	(20 000)			(20 000)
Changes that relate to future services	4 991 521	(1 000 000)	(3 991 521)	-
Contracts initially recognised in the period	4 991 521	(1 000 000)	(3 991 521)	-
Changes in estimates reflected in the contractual service margin				
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	4 971 521	(891 000)	(3 547 159)	533 362
Insurance finance expenses	(611 029)		(79 830)	(690 859)
Total changes in the statement of comprehensive income	4 360 492	(891 000)	(3 626 990)	(157 497)
Cash flows	(13 420 000)			(13 420 000)
Insurance contract liabilities 20X1	(9 059 508)	(891 000)	(3 626 990)	(13 577 497)

There may be rounding differences in this table

Practical example
Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X0	-			-
Insurance revenue	1 669 025			1 669 025
Insurance service expenses	(55 663)	-	(1 080 000)	(1 135 663)
Incurred claims and other expenses			(1 080 000)	(1 080 000)
Amortisation of insurance acquisition cash flows	(55 663)			(55 663)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 613 362	-	(1 080 000)	533 362
Insurance finance expenses	(690 859)			(690 859)
Total changes in the statement of comprehensive income	922 503		(1 080 000)	(157 497)
Cash flows				
Premiums received	(15 000 000)			(15 000 000)
Claims and other expenses paid			1 080 000	1 080 000
Insurance acquisition cash flows	500 000			500 000
Total cash flows	(14 500 000)		1 080 000	(13 420 000)
Insurance contract liabilities 20X1	(13 577 497)		-	(13 577 497)

There may be rounding differences in this table

Practical example
Fact pattern in second year

- Mortality/longevity assumption changed:
- Assume 5 deaths in year 3, instead of 1
- Assume 0 deaths in years 4-7, instead of 1

- Actuarial projection was based on smoothing and new actuary wants to be more precise (same number of expected deaths in years 3-10 but different timing)

- Future assumption change ‘unlocks’ the CSM

Practical example
Roll forward of CSM in year 2

Roll forward of CSM	CU
CSM BoP	**(3 626 990)**
Impact of new business	**-**
Accretion of interest (locked in rate)	**(72 540)**
Adjustment due to future cash flows (locked in rate)	**182 733**
CSM recognised for services provided (release to P&L)*	**413 061**
CSM EoP	**(3 103 735)**

*Coverage provided in year (death outgo) = 1,000,000 (A)

Discounted value of future coverage = 7,513,983 (B) – updated for new assumptions

(A) / [(A) + (B)] = 11.7%

- 11.7% x [(3,626,990) + (72,540) + 182,733] = 413,061

There may be rounding differences in this table

Practical example

Financial income (year 2 update)

IFRS 17 Statement of comprehensive income	CU
Insurance revenue	1 633 892
Insurance service expense	(1 113 831)
Insurance service result	520 061
Investment income	136 490
Insurance finance income and expenses	(70 989)
Net financial result	65 501
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	585 562
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	585 562

IFRS 4 Profit and loss account	CU
Net earned premiums	-
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	-
Interest, dividend and other investment income	136 490
Change in provisions	1 004 106
Other income, expenses	(59 400)
Taxes (ignored for simplicity)	
Net result for the period	81 196
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	81 196

There may be rounding differences in this table

Practical example
Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X1	(9 059 508)	(891 000)	(3 626 990)	(13 577 497)
Changes that relate to current services	-	107 000	413 061	520 061
Contractual service margin recognised for services provided			413 061	413 061
Risk adjustment recognised for the risk expired		107 000		107 000
Experience adjustments				
Changes that relate to future services	(182 733)	-	182 733	-
Contracts initially recognised in the period				
Changes in estimates reflected in the contractual service margin	(182 733)		182 733	-
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	(182 733)	107 000	595 794	520 061
Insurance finance expenses	1 550		(72 540)	(70 989)
Total changes in the statement of comprehensive income	(181 183)	107 000	523 255	449 072
Cash flows	1 059 400			1 059 400
Insurance contract liabilities 20X2	(8 181 290)	(784 000)	(3 103 735)	(12 069 025)

There may be rounding differences in this table

Practical example
Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X1	(13 577 497)			(13 577 497)
Insurance revenue	1 633 892			1 633 892
Insurance service expenses	(54 431)	-	(1 059 400)	(1 113 831)
Incurred claims and other expenses			(1 059 400)	(1 059 400)
Amortisation of insurance acquisition cash flows	(54 431)			(54 431)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 579 461	-	(1 059 400)	520 061
Insurance finance expenses	(70 989)			(70 989)
Total changes in the statement of comprehensive income	1 508 472		(1 059 400)	449 072
Cash flows				
Premiums received	-			-
Claims and other expenses paid			1 059 400	1 059 400
Insurance acquisition cash flows	-			-
Total cash flows	-		1 059 400	1 059 400
Insurance contract liabilities 20X2	(12 069 025)		-	(12 069 025)

There may be rounding differences in this table

Practical example
Fact pattern in third year

- Mortality/longevity assumption changed again
- Assume 1 death in years 4 - 7 instead of 0

- Because in year 3 there was 5 deaths, the assumption about 0 deaths in upcoming 4 years was too aggressive

- Future assumption change ‘unlocks’ the CSM

Practical example
Roll forward of CSM in year 3

Roll forward of CSM	CU
CSM BoP	**(3 103 735)**
Impact of new business	**-**
Accretion of interest (locked in rate)	**(62 075)**
Adjustment due to future cash flows (locked in rate)*	**3 165 810**
CSM recognised for services provided (release to P&L)	**-**
CSM EoP	**-**

*Impact of assumption change on future cash flows at locked in rate = (3,797,769)

Amount available for offset in CSM = 3,165,810

Balance to loss component = (631,959)

There may be rounding differences in this table

Practical example

Financial income (year 3 update)

IFRS 17 Statement of comprehensive income	CU
Insurance revenue	5 373 622
Insurance service expense	(5 872 581)
Insurance service result	(498 959)
Investment income	127 267
Insurance finance income and expenses	(237 128)
Net financial result	(109 861)
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	(608 820)
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	(608 820)

IFRS 4 Profit and loss account	CU
Net earned premiums	-
Insurance claims and benefits (net)	(5 000 000)
Movement in deferred acquisition costs	-
Interest, dividend and other investment income	127 267
Change in provisions	(2 321 772)
Other income, expenses	(58 800)
Taxes (ignored for simplicity)	
Net result for the period	(7 253 305)
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	(7 253 305)

There may be rounding differences in this table

Practical example
Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X2	(8 181 290)	(784 000)	(3 103 735)	(12 069 025)
Changes that relate to current services	-	133 000	-	133 000
Contractual service margin recognised for services provided			-	-
Risk adjustment recognised for the risk expired		133 000		133 000
Experience adjustments				
Changes that relate to future services	(3 797 769)	-	3 165 810	(631 959)
Contracts initially recognised in the period				
Changes in estimates reflected in the contractual service margin	(3 165 810)		3 165 810	-
Changes in estimates resulting in onerous contract losses/(reversal)	(631 959)			(631 959)
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	(3 797 769)	133 000	3 165 810	(498 959)
Insurance finance expenses	(175 053)		(62 075)	(237 128)
Total changes in the statement of comprehensive income	(3 972 822)	133 000	3 103 735	(736 087)
Cash flows	5 058 800			5 058 800
Insurance contract liabilities 20X3	(7 095 313)	(651 000)	0	(7 746 313)

There may be rounding differences in this table

Practical example
Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X2	(12 069 025)			(12 069 025)
Insurance revenue	5 373 622			5 373 622
Insurance service expenses	(181 822)	(631 959)	(5 058 800)	(5 872 581)
Incurred claims and other expenses			(5 058 800)	(5 058 800)
Amortisation of insurance acquisition cash flows	(181 822)			(181 822)
Losses on onerous contracts and reversals of those losses		(631 959)		(631 959)
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	5 191 800	(631 959)	(5 058 800)	(498 959)
Insurance finance expenses	(237 128)			(237 128)
Total changes in the statement of comprehensive income	4 954 672	(631 959)	(5 058 800)	(736 087)
Cash flows				
Premiums received	-			-
Claims and other expenses paid			5 058 800	5 058 800
Insurance acquisition cash flows	-			-
Total cash flows	-		5 058 800	5 058 800
Insurance contract liabilities 20X3	(7 114 353)	(631 959)	-	(7 746 313)

There may be rounding differences in this table

Practical example
Key take aways

- Changes in current period directly in P&L (same as now)
- Changes in future financial assumptions immediately in P&L (**before it happens**)
- Changes in future operating assumptions impact CSM and then indirectly P&L (proportionally to relative release of CSM in current period)
- ….till there is still CSM… when CSM is fully released then immediate loss in P&L with explicit monitoring in financial statements

Agenda

1. Quick overview
2. (R)Evolution in insurance accounting
    - Actuarial models
    - New reporting requirements
    - Systems and architecture
3. Practical example comparing IFRS 4 and IFRS 17
4. Summary

The standard in a page

Key aspects

General model Building Block Approach (“BBA”)

Variable Fee Approach

Premium Allocation Approach (“PAA”)

Leverage on Solvency II

Contractual service margin (“CSM”)

Interaction with IFRS 9

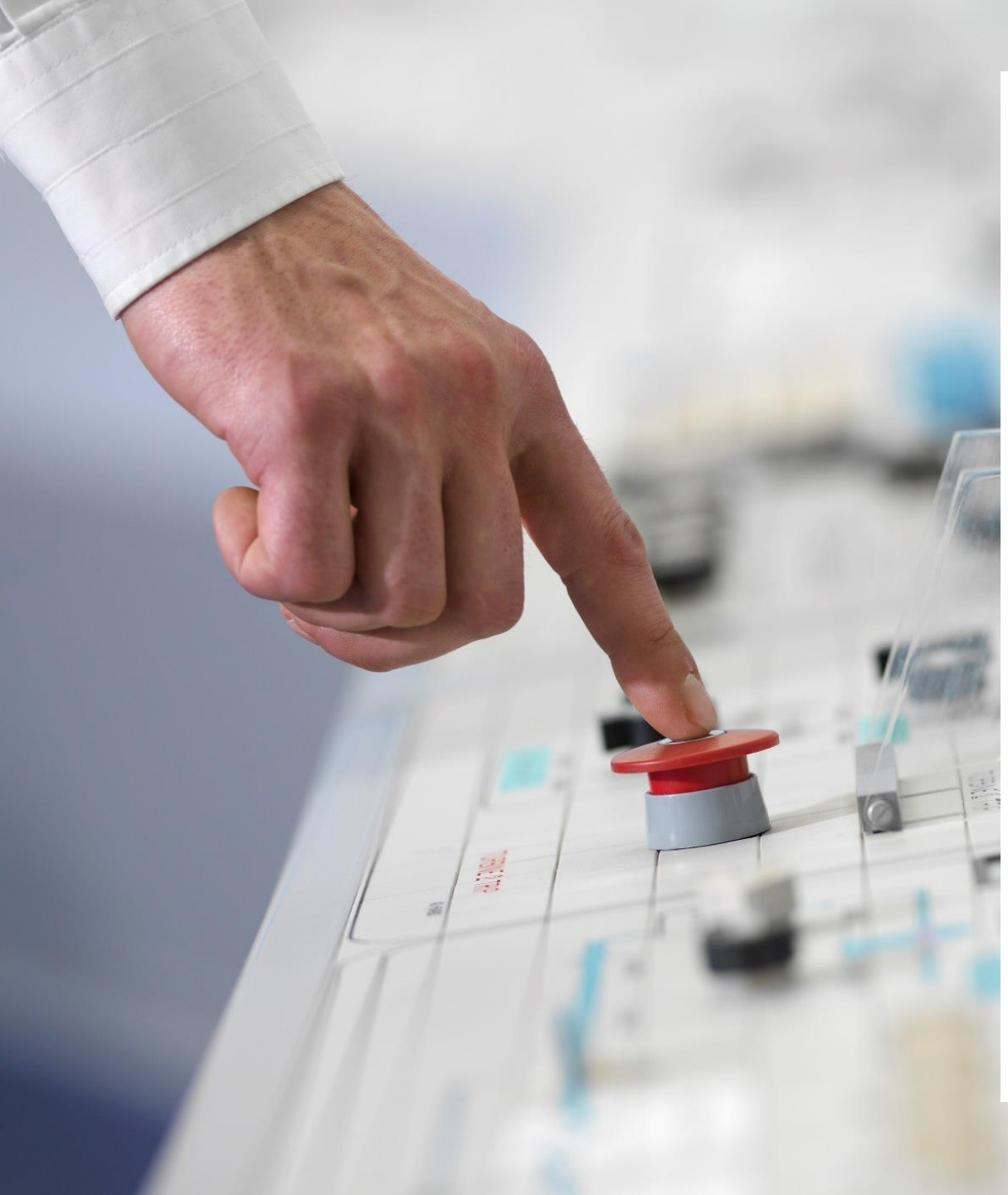
Unit of account for CSM and onerous contract test

New reporting requirements

Key challenges

Experience from running projects

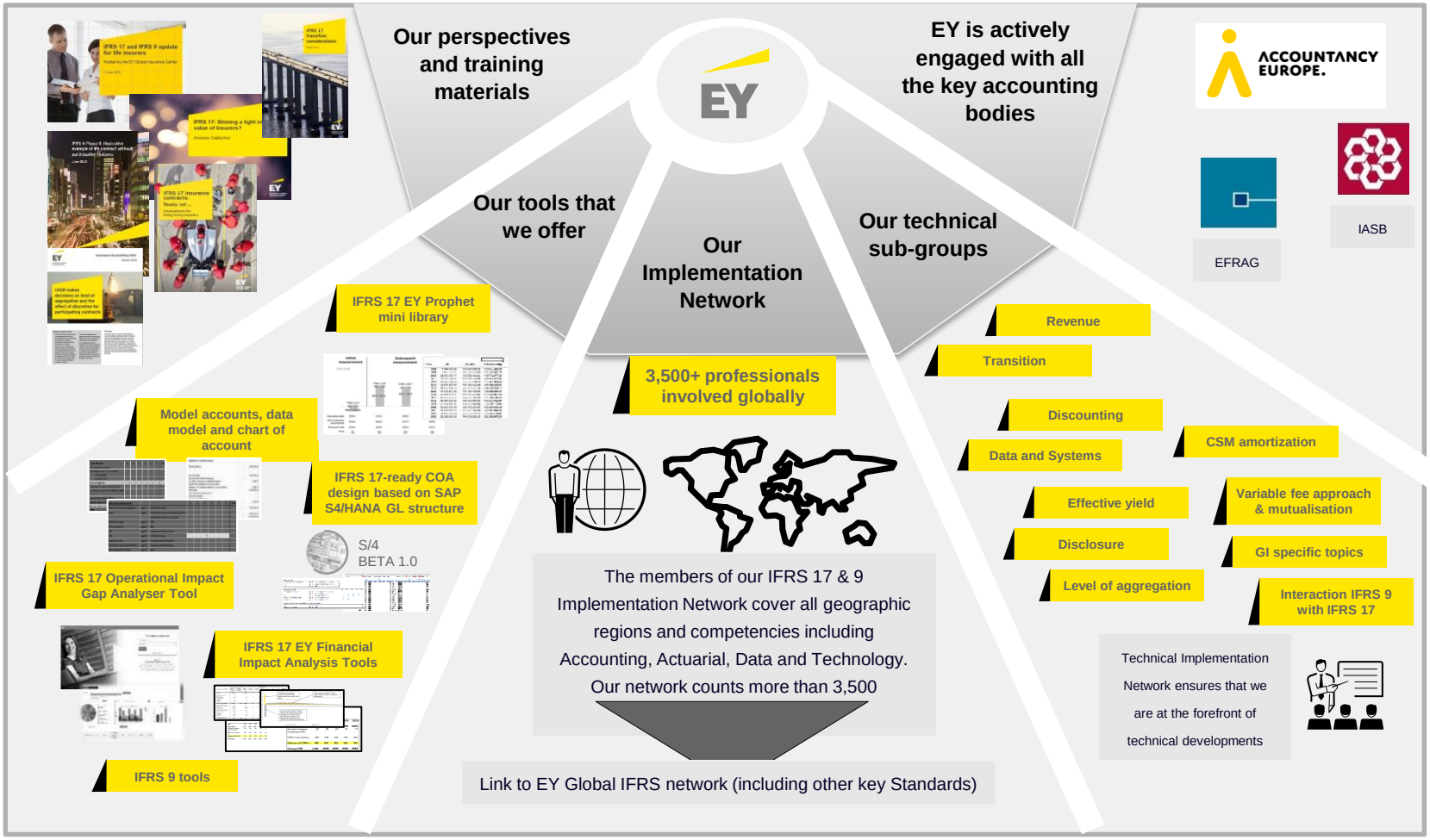
1. **Understanding and explaining commercial impacts:** Interaction between departments
2. **Key decisions:** Unit of account for determining CSM, onerous contract test or appropriate measurement model
3. **Appropriate measurement model:** Premium Allocation Approach vs. Building Block approach vs. Variable fee approach
4. **Producing income statement and notes disclosures:** Calculation and reporting on real portfolio without simplifications
5. **Leverage on Solvency 2:** What can be leveraged? What wanna be leveraged?
6. **How to approach transition:** One off calculation or strategy with further outlook; Volatility vs. initial costs



Summary

- It’s there
- Don’t be afraid of it
- Get the strategic decisions right and build those finance/actuarial communities
- Start playing early to get the right balance sheet at outset
- There is potential for more volatility and complexity – and there is a balance between the two
- 2021 seems a long way into the future, but insurers will need all the time to prepare

EY IFRS 17 network



Final Q&As

Thank you for your attention!

Building a better working world