

IIZ Conference 2019

IFRS 17

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IFRS 17 - why a new standard?

IFRS 4: interim
measure, flexible

Comparable

Clear
sources of
profit

Transparent

Suitable
health
check

Overview

- * Insurance **contracts**, not insurance companies
- * Recognise profits over term of contract / take losses upfront
- * Appropriate grouping of contracts
- * Detailed disclosures
- * Will require input from a range of stakeholders

Key terms

Contractual Service Margin (CSM)

- Unearned profit

Onerous

- Contracts expected to make losses

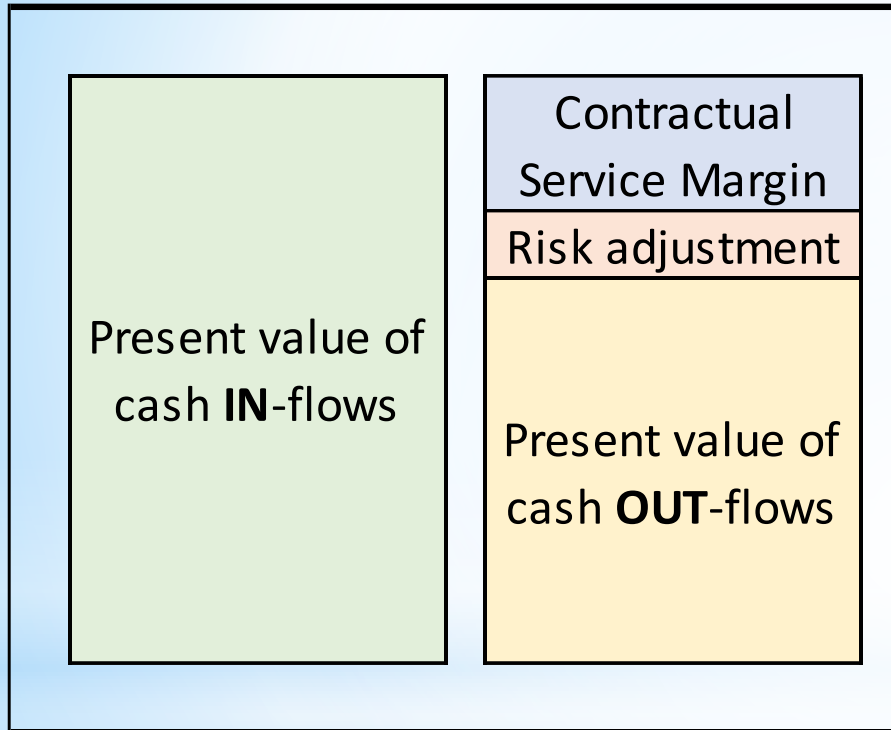
Fulfilment cash flows

- Current value of net cash flows adjusted for risk

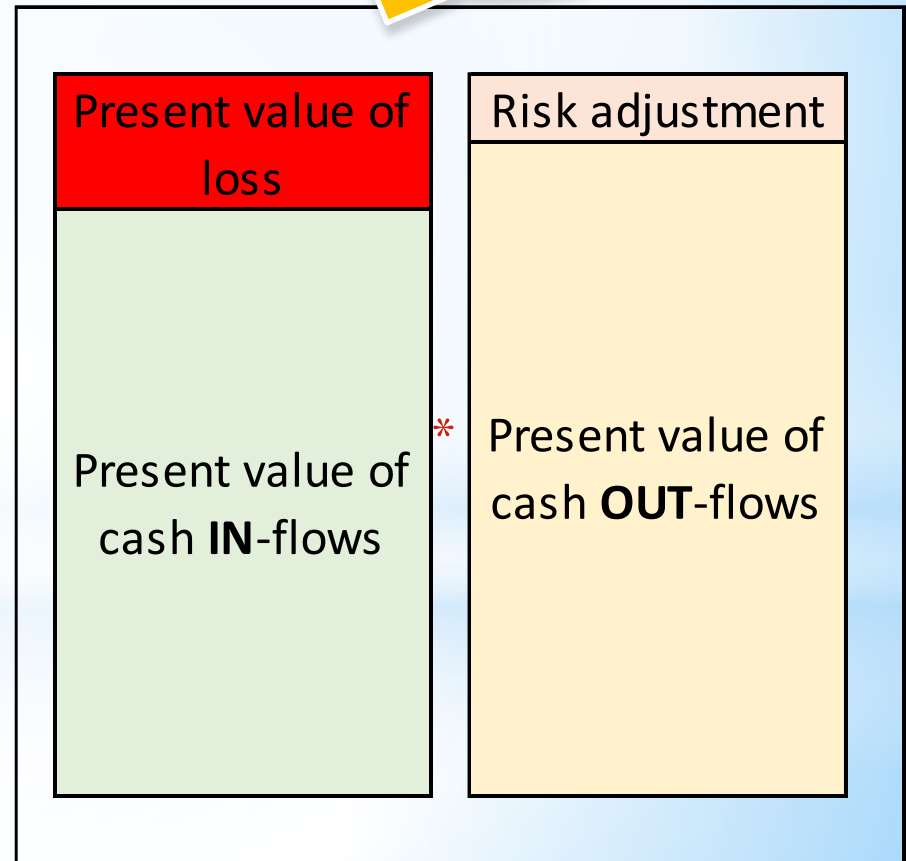
Contract boundary

- (Start &) end of contract term, when premium rate can be changed

Measurement



Onerous -
recognize loss
upfront



Reporting models

General model

- Typically, long-term contracts
- Building block approach

Variable
fee model

Premium Allocation approach

- Conditions must be met
- One year or less
- Simpler, but still different from IFRS 4

Complexity

- * Contract grouping requirements



Less of an issue for short-term

- * Roll forward and re-measure each year

- * Level of detail for disclosures

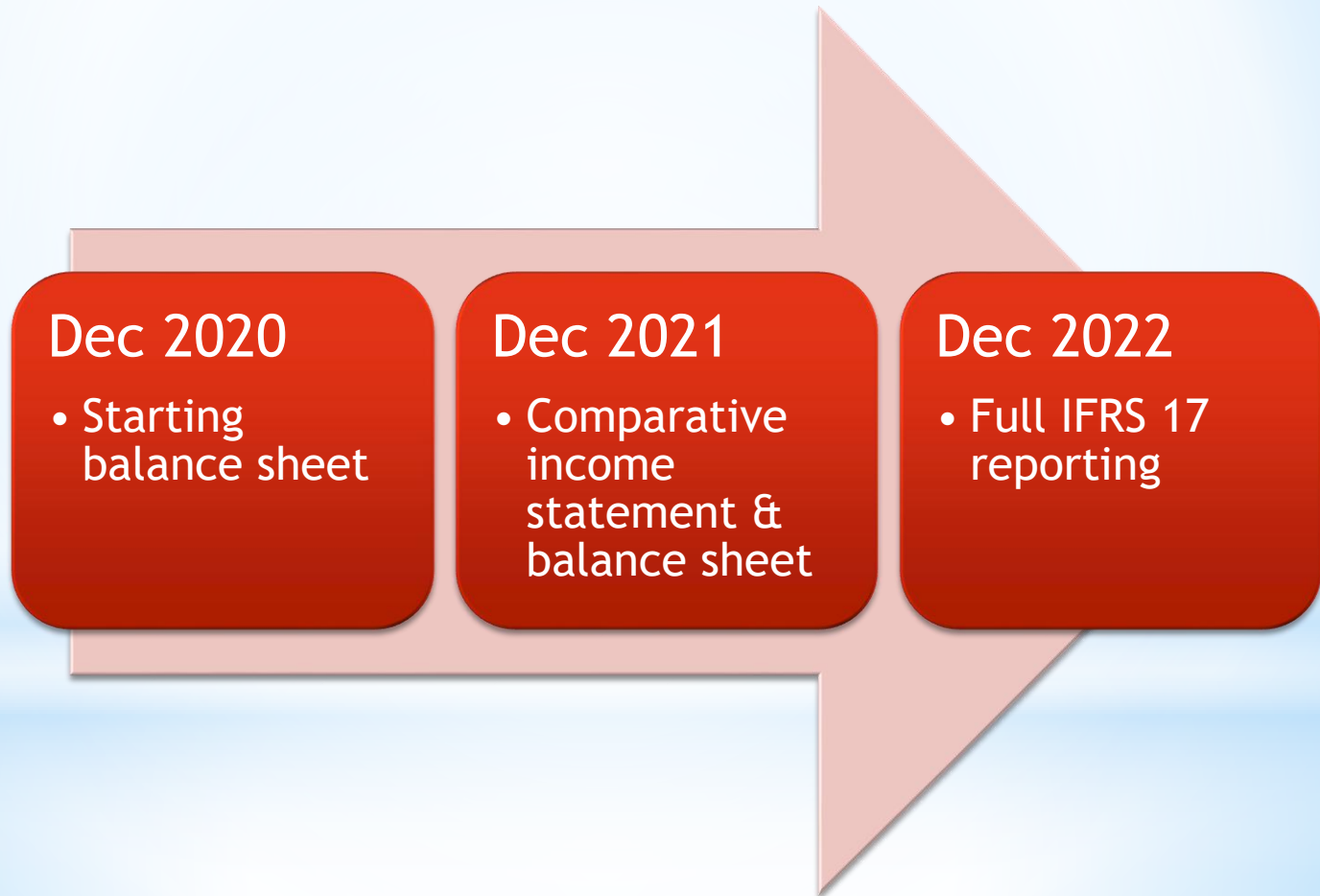
- * Transition approach – full retrospective application



Simplifications allowed

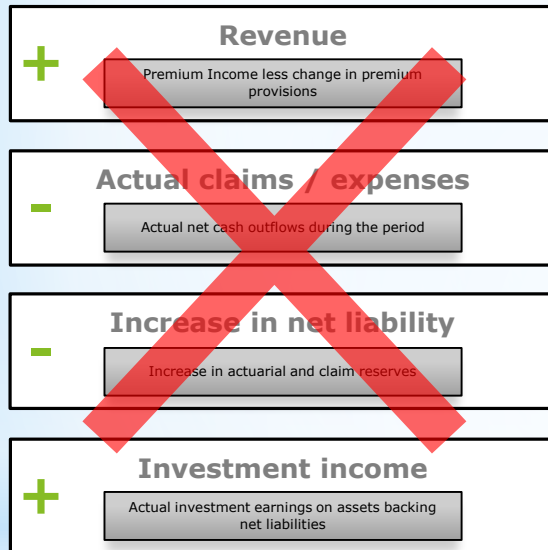
- * Business impacts

Implementation - 2022

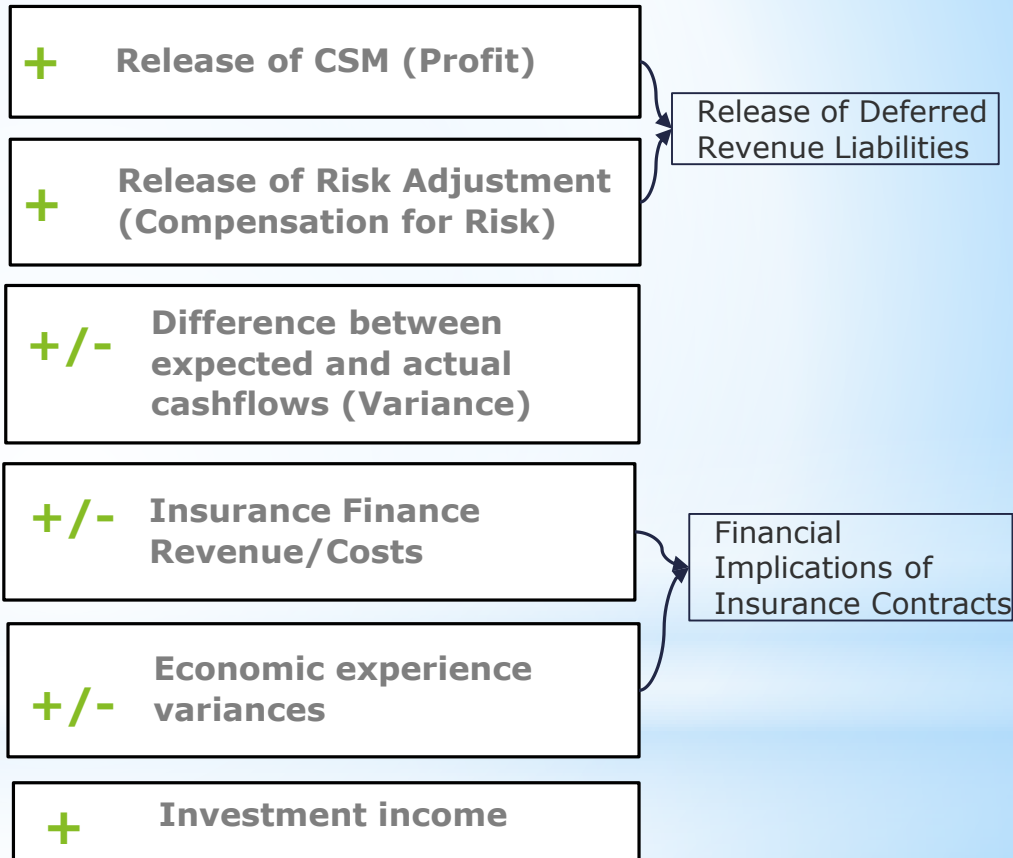


New-look profit & loss

Current IFRS 4 profit / loss



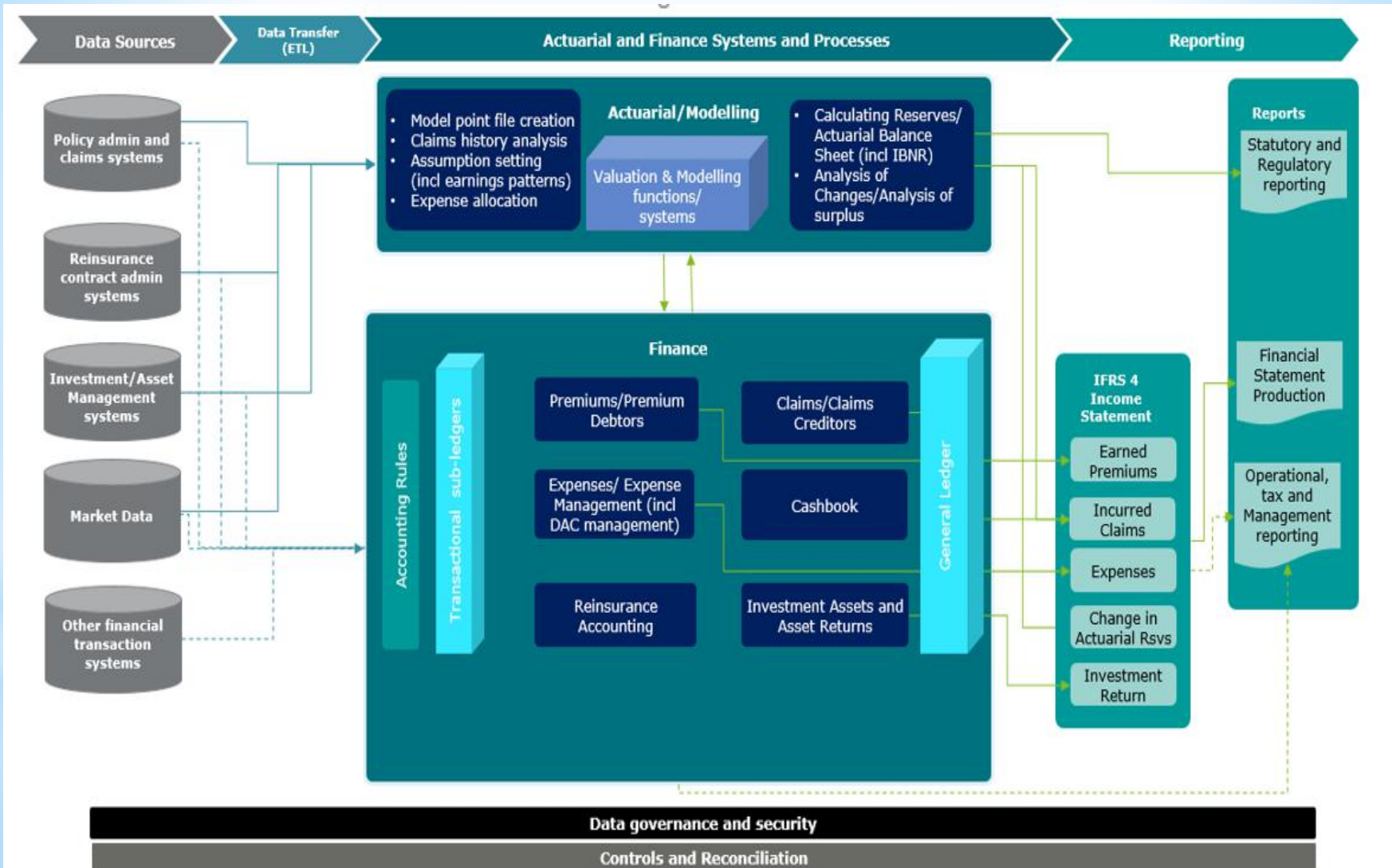
IFRS 17 profit / loss



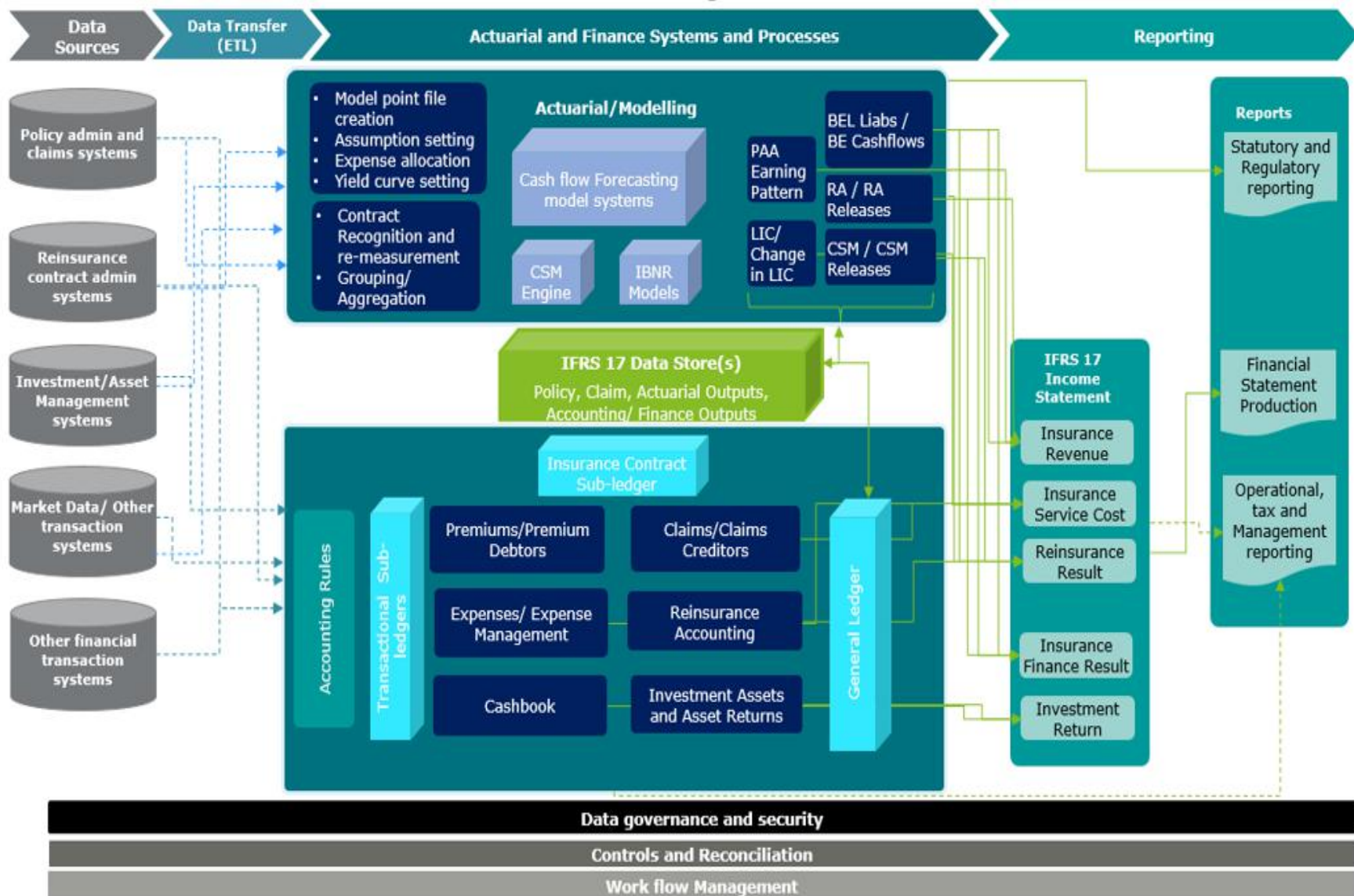
Disclosures overview - quantitative & qualitative

1. Explanation of recognised amounts	The amounts recognised in F/S that arise from insurance contracts	New IFRS 17 requirements
2. Significant judgements	The significant judgements, and their changes	Some requirements brought forward from IFRS 4
3. Risks	The nature and extent of risks that arise from insurance contracts	Most requirements brought forward from IFRS 4

IFRS 4 reporting “framework”



IFRS 17 reporting “framework”



Hot topics

Different income statement and balance sheet.

This will result in new KPIs, strategy, incentives, etc. Training and education will be required at all levels. Statutory and Management bridges may become more complex.

1. Presentation and Disclosure

2. Simplified approach (PAA)

PAA used as 100% measurement basis is a significant simplification operationally.

Premiums receivable from policyholders will no longer be presented within the receivables line.

Current **profit profiles will be impacted** giving rise to potential strategic or business decisions. Longer tail and riskier business will be more affected by the IFRS 17 valuation model.

3. Contractual service margin

4. Best estimate cash flow

SAM best estimate cash flows can be leveraged for IFRS 17. However, **attributable expenses** need to be revisited under IFRS 17.

OCI solution provides a vehicle to protect from volatility in profit or loss (P&L) due to change in yield curve. This comes at a potentially higher operational cost.

5. Discounting

6. Risk adjustment

The **disclosure of the confidence interval** for risk adjustment will introduce a new level of transparency and constrain how insurers use margins in their reserves.

More **granular** measurement of **onerous losses**. With-profit business could potentially be calculated at a more aggregated level due to mutualisation.

7. Level of aggregation/ onerous contract

8. Reinsurance measurement

Generally, **the requirements for reinsurance are the same for direct business**. The direct and ceded business both need to be presented and disclosed separately.

Alternative valuation and consolidation rules for material acquired business (internal or external).

9. Business Combinations

10. Transition

New balance sheet position needed as at 31/12/19 rolled forward to 31/12/20 under IFRS 17. **Financial Impact and operational challenges both** need to be considered when selecting the approach at transition.

Implementation challenges



Business units - synergies

- IFRS 17 IS AN ACCOUNTING STANDARD RELYING ON ACTUARIAL CALCULATIONS
 - ALIGNMENT OF FINANCE, ACTUARIAL AND IT



Continued challenges to address

