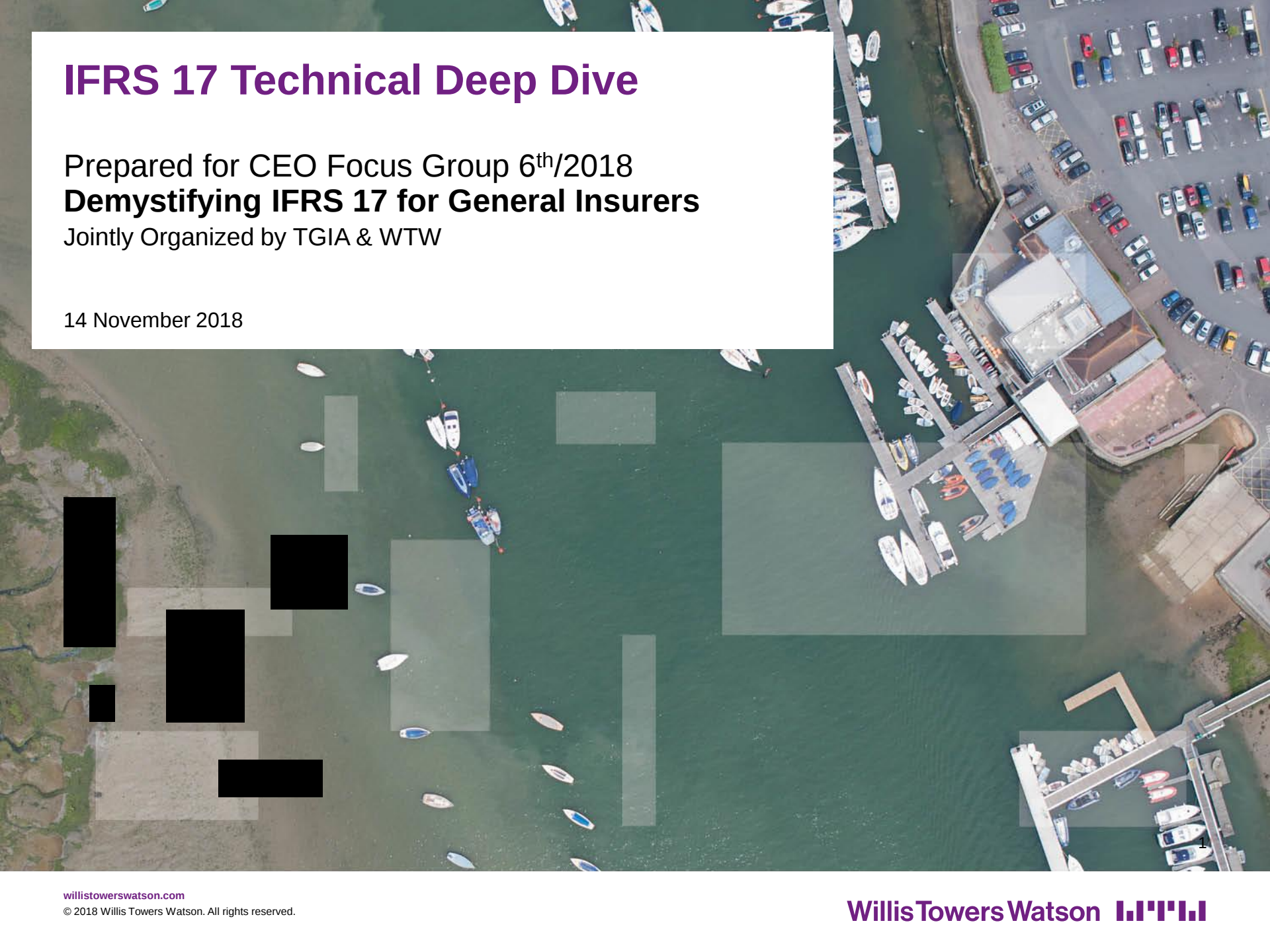


An aerial photograph of a marina. In the foreground, several small boats are anchored in the water. To the right, a larger building with a flat roof is situated on the shore, with a parking lot filled with cars. More boats are docked at a pier extending from the building. The water is a dark greenish-blue, and the sky is not visible.

IFRS 17 Technical Deep Dive

Prepared for CEO Focus Group 6th/2018
Demystifying IFRS 17 for General Insurers
Jointly Organized by TGIA & WTW

14 November 2018

Scope of IFRS 17

What is an insurance contract?

Transfer of significant insurance risk



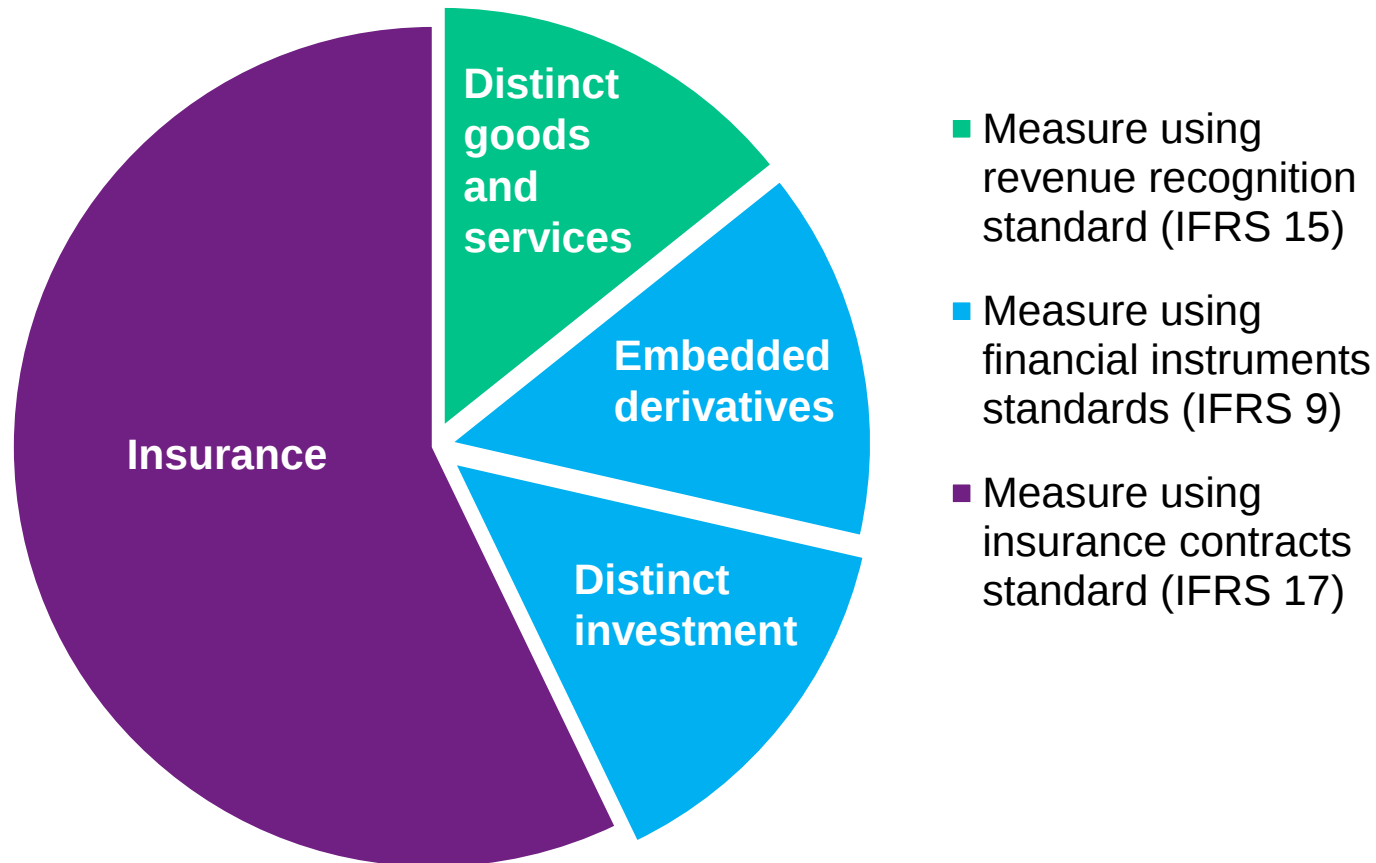
The definition in IFRS 17 refers to some traditional features of insurance contracts, distinguishing them from financial instruments

“a contract under which one party (the issuer) accepts **significant insurance risk** from another party (the policyholder) by agreeing to compensate the policyholder if a specified **uncertain future event** (the insured event) **adversely affects the policyholder**”

- "Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional amounts in any [single] scenario, excluding scenarios that lack commercial substance [...]"
- Assessment contract by contract – risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.
- Requirement to treat a set or series of contracts with the same or related counterparty which achieve, or are designed to achieve, an overall commercial effect as one contract
- Once insurance, always insurance!

Requirement to separate components of insurance contracts

“...an entity **shall separate** from a host insurance contract an investment component if, and only if, that investment component is distinct”



Scope of IFRS 17

Inclusions	Exclusions	Separation
• Insurance and reinsurance contracts issued • Reinsurance contracts held • Investment contracts with a discretionary participation feature	• Contracts covered under other standards	• Embedded derivatives • Distinct investment component • Distinct obligation to provide goods or services

Level of Aggregation

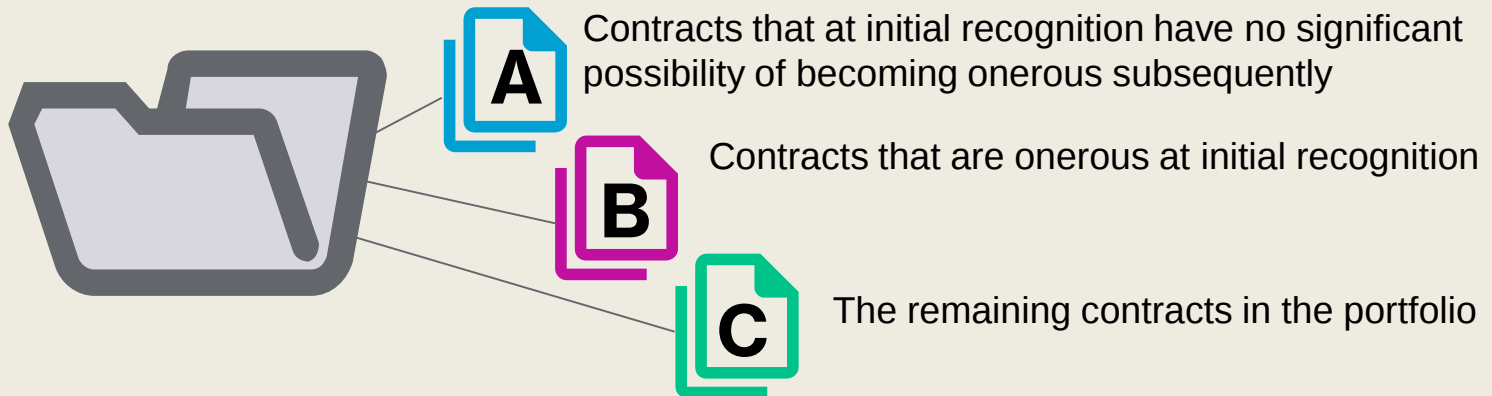


Level of aggregation

- 1** Contracts initially to be split into “portfolios”, meaning contracts that are subject to **similar risks** and **managed together**.

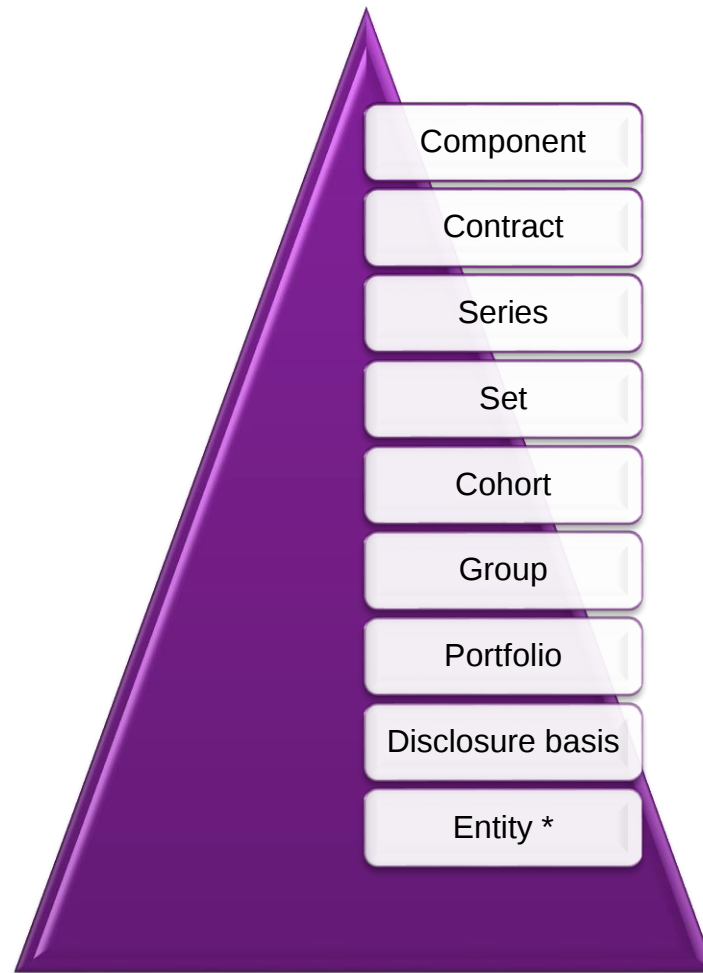


- 2** Each portfolio is then divided into three groups:



- 3** Contracts in each group need to be sub-divided into annual cohorts

Aggregation – 9 Levels



** Identity of entity may be different for subsidiaries issuing stand-alone IFRS and groups*

Identification of Onerous Contracts

Identifying onerous contracts



An insurance contract is **onerous** at the date of initial recognition if the fulfillment cash flows, any previously recognized acquisition cash flows and any cash flows at the date of initial recognition are a **net outflow**

In practice, for a contract or set of contracts to be onerous at initial recognition is likely to be the result of an intentional pricing strategy, and therefore relatively infrequent.

IFRS 17.BC135

Assessment made **using existing information** provided by entity's internal reporting system. Not required to not gather additional information in order to make assessment.

For contracts measured under PAA, an entity shall **assume that no contracts** in the portfolio **are onerous** at initial recognition, **unless facts and circumstances** indicate otherwise.

The assessment of whether a contract is onerous is made on a **gross basis** – i.e. without consideration of the effect of reinsurance

Reinsurance contracts held cannot themselves be onerous

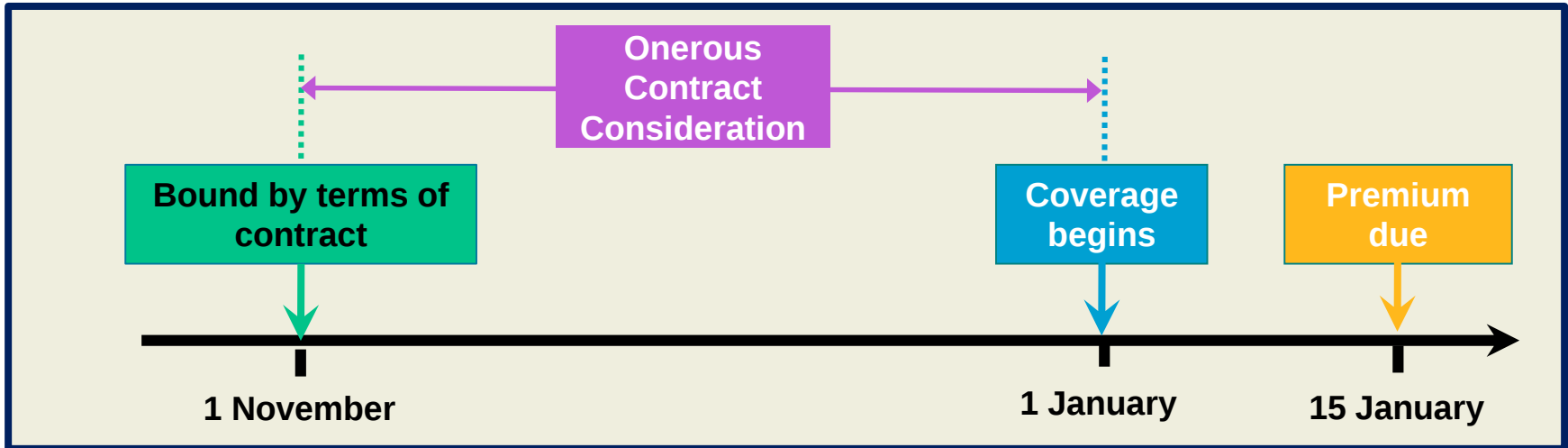
This may result in a mismatch where loss on a contract written is offset by a gain on reinsurance

Recognition and Contract Boundaries



Recognition

Inception, unless premium is due earlier, unless it is onerous at inception...



An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- (a) the beginning of the *coverage period* of the group of contracts;
- (b) the date when the first payment from a policyholder in the group becomes due; and
- (c) for a group of onerous contracts, when the group becomes onerous.

Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity:

- Can **compel** the policyholder to pay the premiums; or
- In which the entity has a **substantive obligation** to provide the policyholder with services.

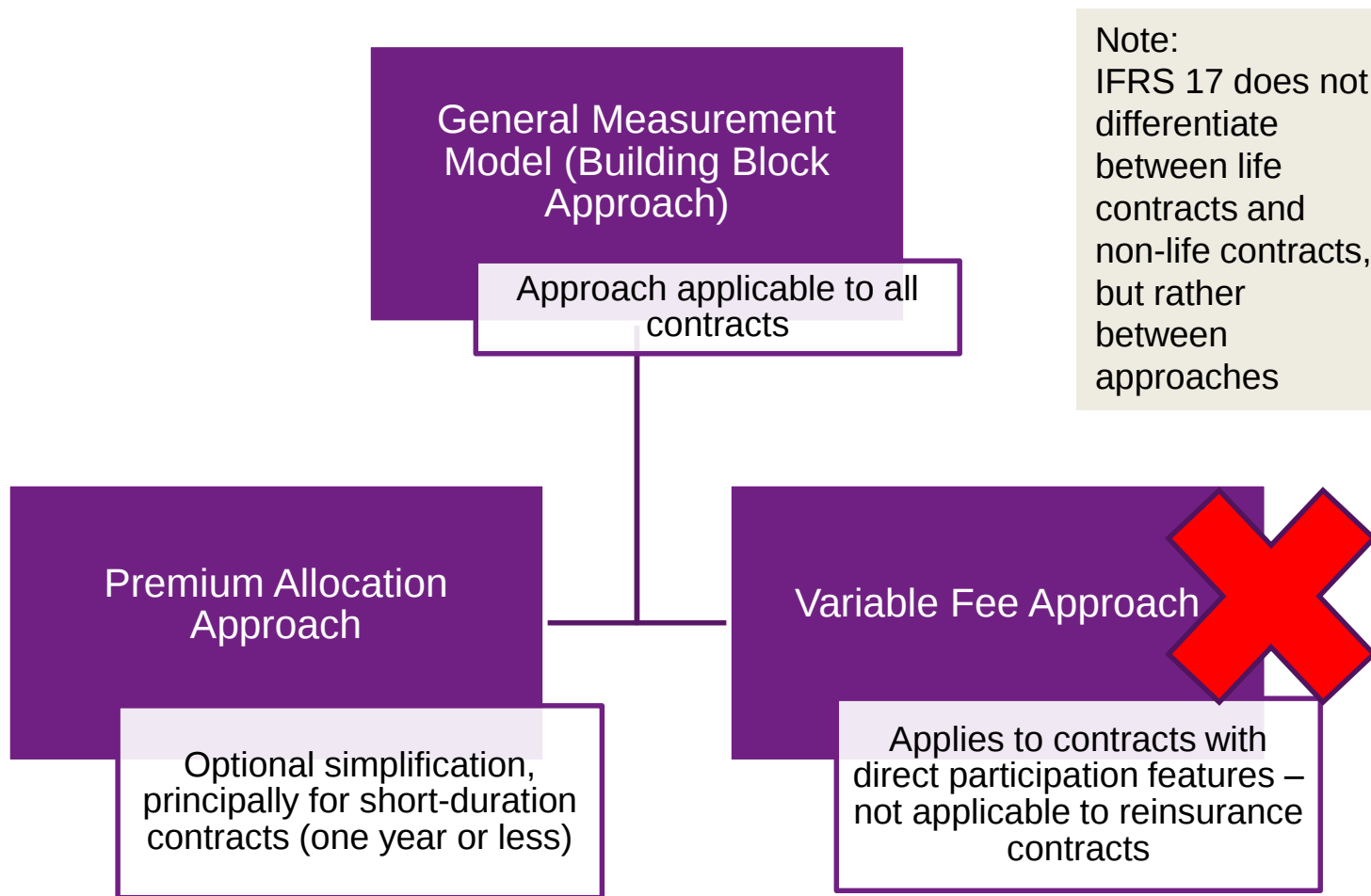
A substantive obligation to provide services ends when:

- the entity has the **practical ability** to **reassess the risks** and, as a result, **can set a price or level of benefits that fully reflects those risks**

Measurement Models

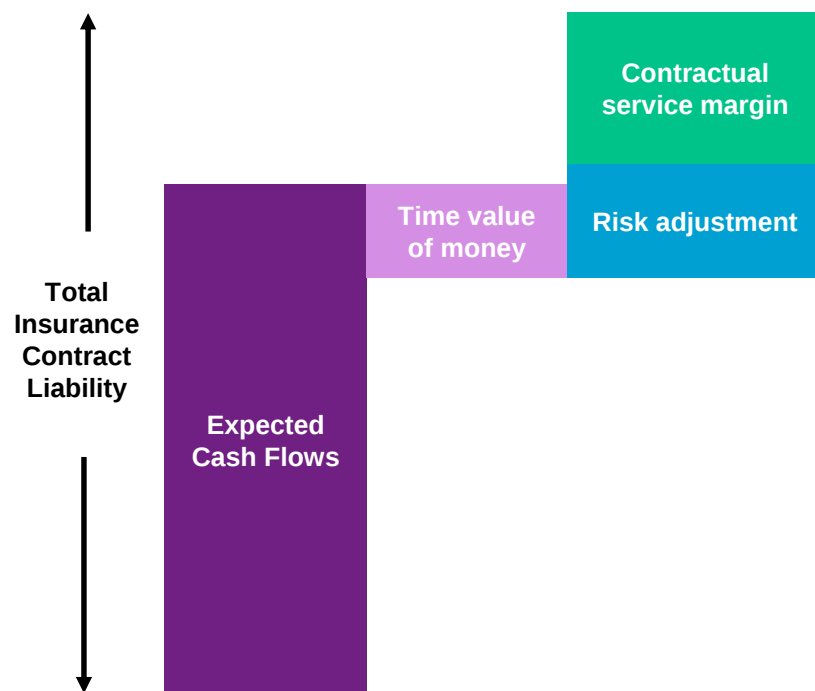
Different approaches to select from – GMM vs PAA

Selecting the right model is fundamental – and may not be straightforward



General Measurement Model (GMM)

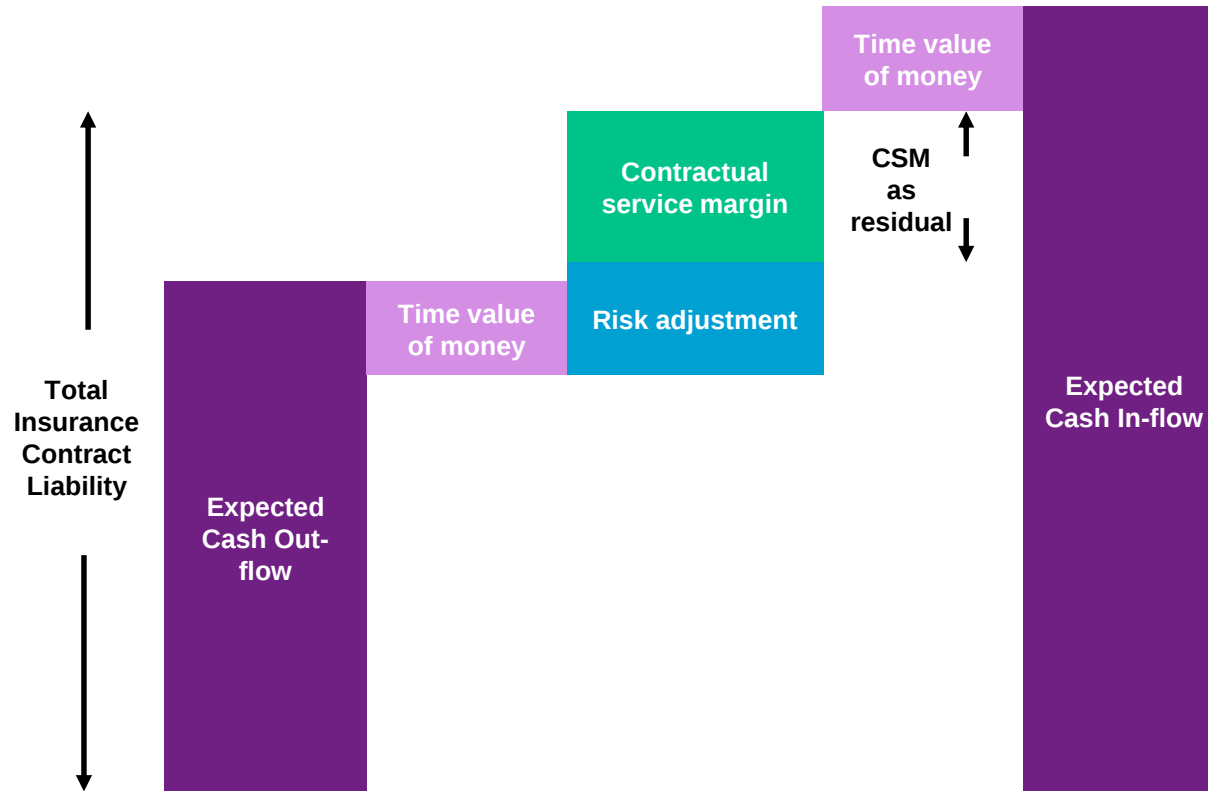
Liability for remaining coverage



Cash Flows	Time value of money
- Unbiased (eg. probability-weighted mean) - Entity perspective - Current (reflects existing conditions) - Explicit	- Reflect characteristics of cash flows and liquidity of insurance contracts - Consistent with observable market prices in terms of timing, currency and liquidity - Exclude factors not relevant to the cash flows - Top-down and bottom-up approaches may be used
Risk Adjustment	Contractual Service Margin (CSM)
- Compensation the insurer requires for bearing uncertainty about amount and timing of the cash-flows arising from non-financial risk - May reflect diversification effect within and between portfolios - Disclosure of confidence level	- Quantifies the unearned profit the insurer expects to earn as it fulfils the contract - Ensures no gain at initial recognition - Allocated over coverage period

General Measurement Model (GMM)

Initial Measurement

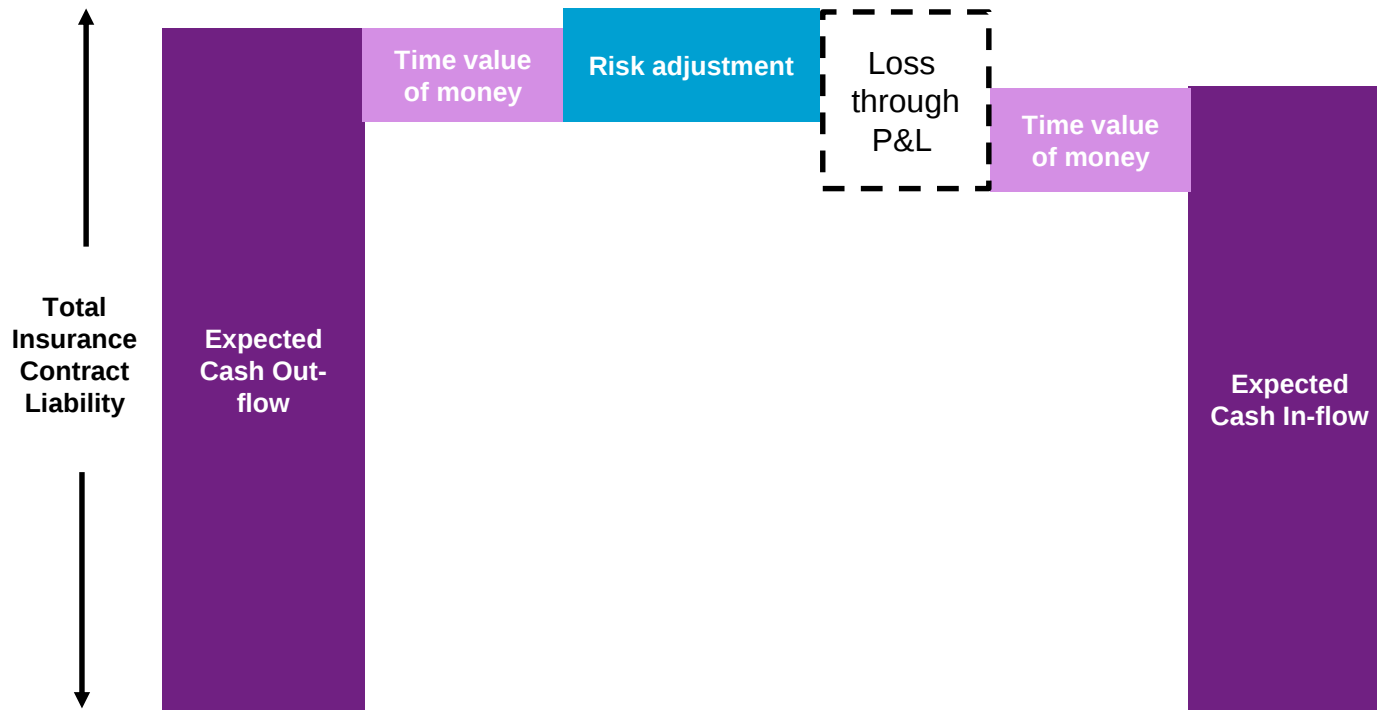


Relevance for non-life insurers?

- Most will seek to apply simplified premium allocation approach
- GMM will be difficult to entirely avoid for most non-life carriers
- For onerous contracts (and the onerous contract test), most components will still be needed

General Measurement Model (GMM)

Initial Measurement



Initial measurement t=0

- When a group is expected to be onerous (loss-making), the loss needs to be recognized immediately
- Dependent on the level of aggregation

What happens to this portfolio at a later point?

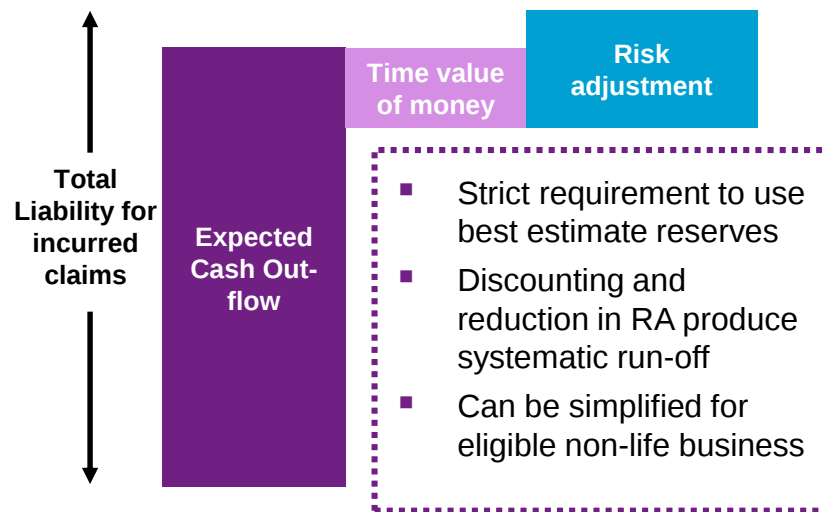
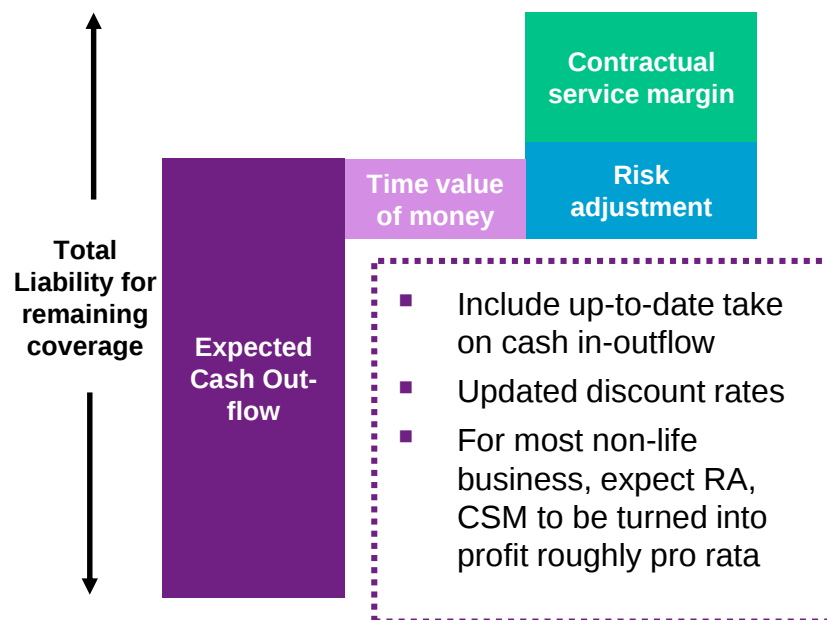
Subsequent measurement of liabilities for remaining coverage and incurred claims

Liability for remaining coverage

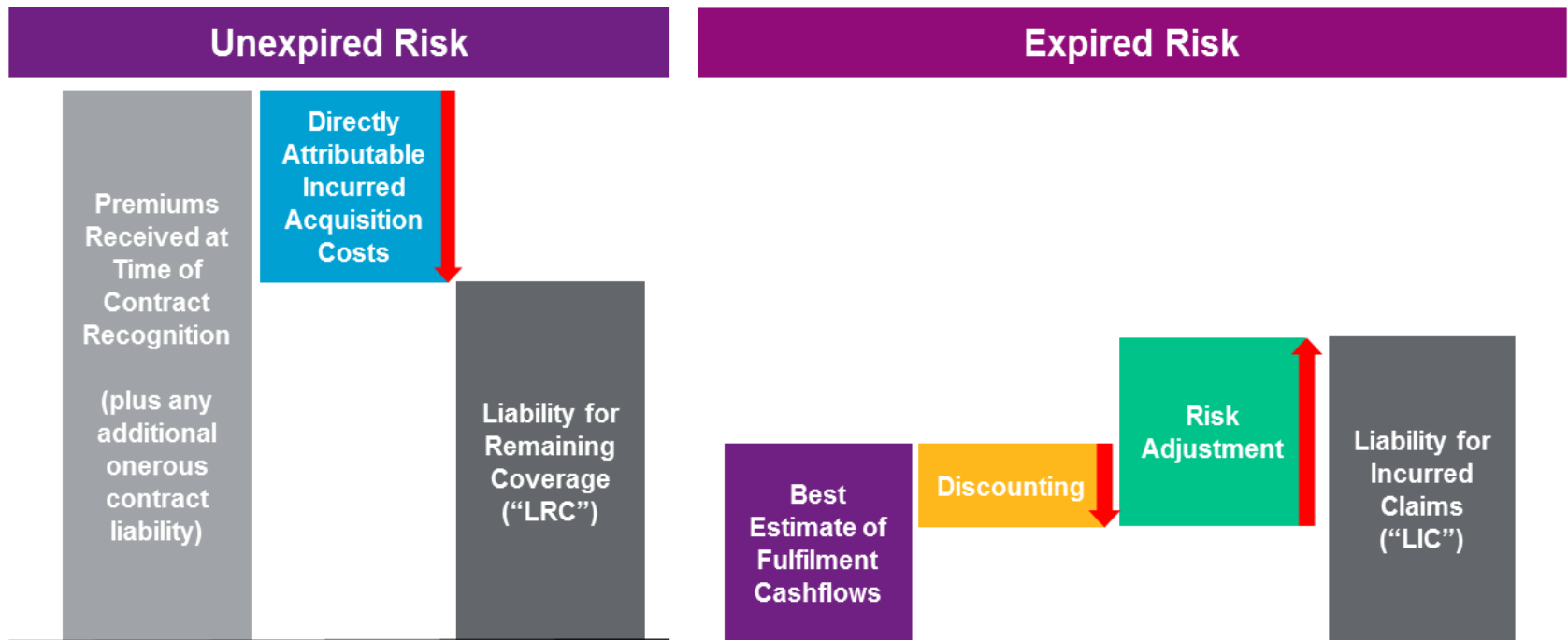
- Similar to initial management – fulfilment cash flow and (unearned portion of) CSM
- All relevant assumptions updated
- Apply appropriate earnings pattern to CSM and risk adjustment

Liability for incurred claims

- For earned exposure, no more CSM is left
- For incurred claims, discounted best estimate reserves plus risk adjustment
- Similar to SII treatment



Premium Allocation Approach (PAA) - Overview

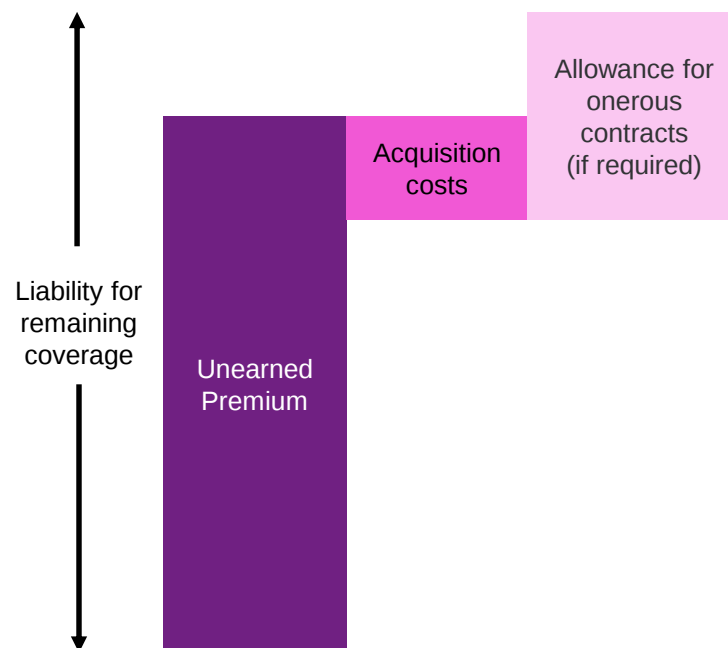


Premium Allocation Approach (PAA)

Optional simplified approach intended primarily for short-duration contracts

Simplified approach for measuring the liability for the remaining coverage, similar to UPR

- An entity may simplify the measurement and apply the Premium allocation approach for liability for remaining coverage
- Permitted but not required if either:
 - It is reasonable approximation to the general measurement model; or
 - The coverage period is one year or less
- Onerous contract test
- Adjust for time value of money
 - If significant financing component
 - Not required if coverage period is one year or less
- The application of the PAA cannot produce a reasonable approximation if, at contract inception, the entity expects significant variability in the fulfilment cash flows during the period before a claim is incurred.
- Variability in the fulfilment cash flows increases:
 - With the extent of future cash flows relating to any options (which are not separable anymore)
 - With the length of the coverage period of the contract.



Discount Rate

Discount rate



The discount rates applied to the estimates of future cash flows [...] shall

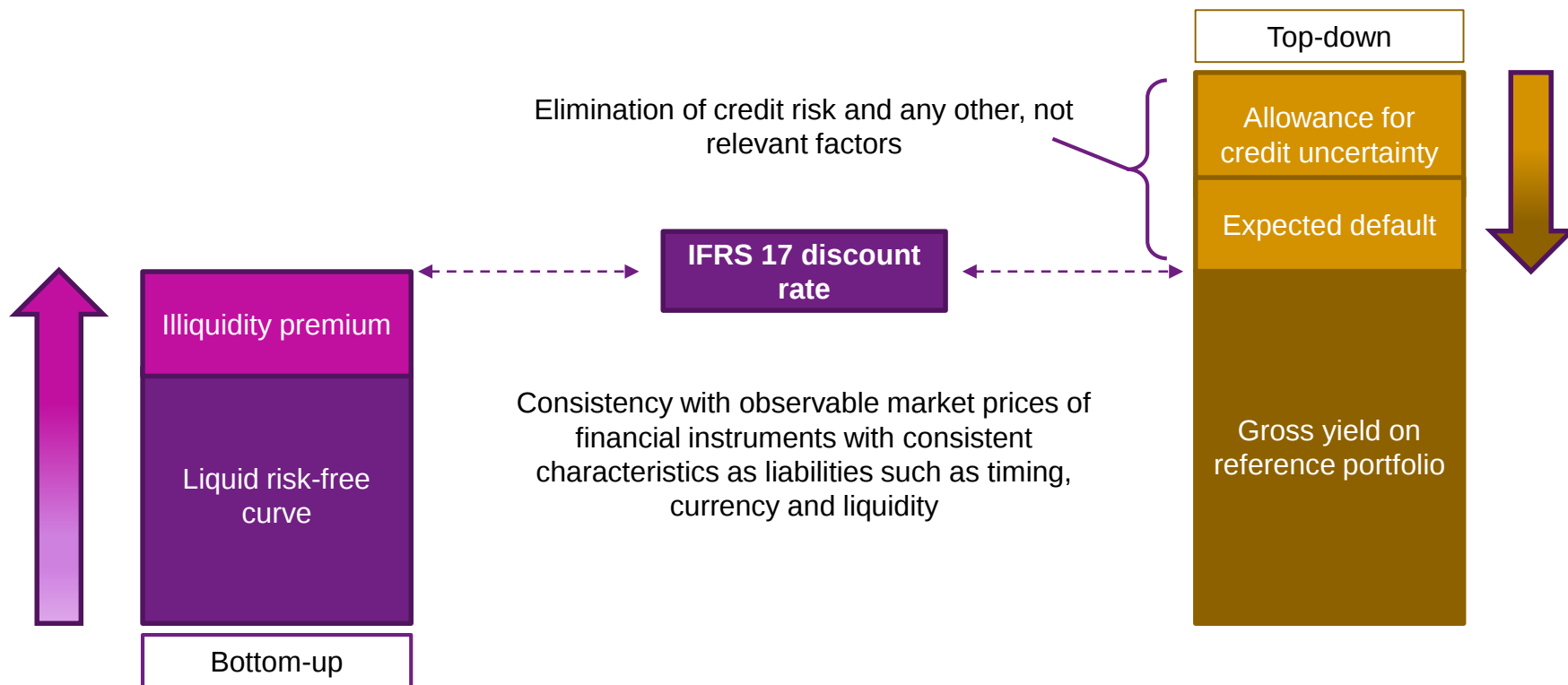
- a) reflect the **time value** of money, the **characteristics** of the cash flows and the **liquidity** characteristics of the insurance contracts;
- b) be consistent with observable current market prices (if any) for financial instruments with [similar cash flows]; and
- c) **exclude** the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts



Companies should use discount rates, for example,

- to measure fulfilment cash flows: use current discount rate
- to determine interest on the CSM and to measure changes to the CSM
- at initial recognition: may use weighted-average discount rates in cohort

Discount rates – Choice of technique is not prescribed explicitly



The different approaches will result in DIFFERENT discount rates / curves

Discount rate

Bottom-up approach

Key interpretation questions

Liquid risk-free rate

- Use Government bonds, Swaps, ...?

Illiquidity premium

- No obvious source of current market inputs to derive an illiquidity adjustment
- Likely to involve significant qualitative judgement
- Common practice used by UK annuity writers: percentage of spread based on historic credit loss data
- BoE: structural approach (2007 paper)

Discount rate

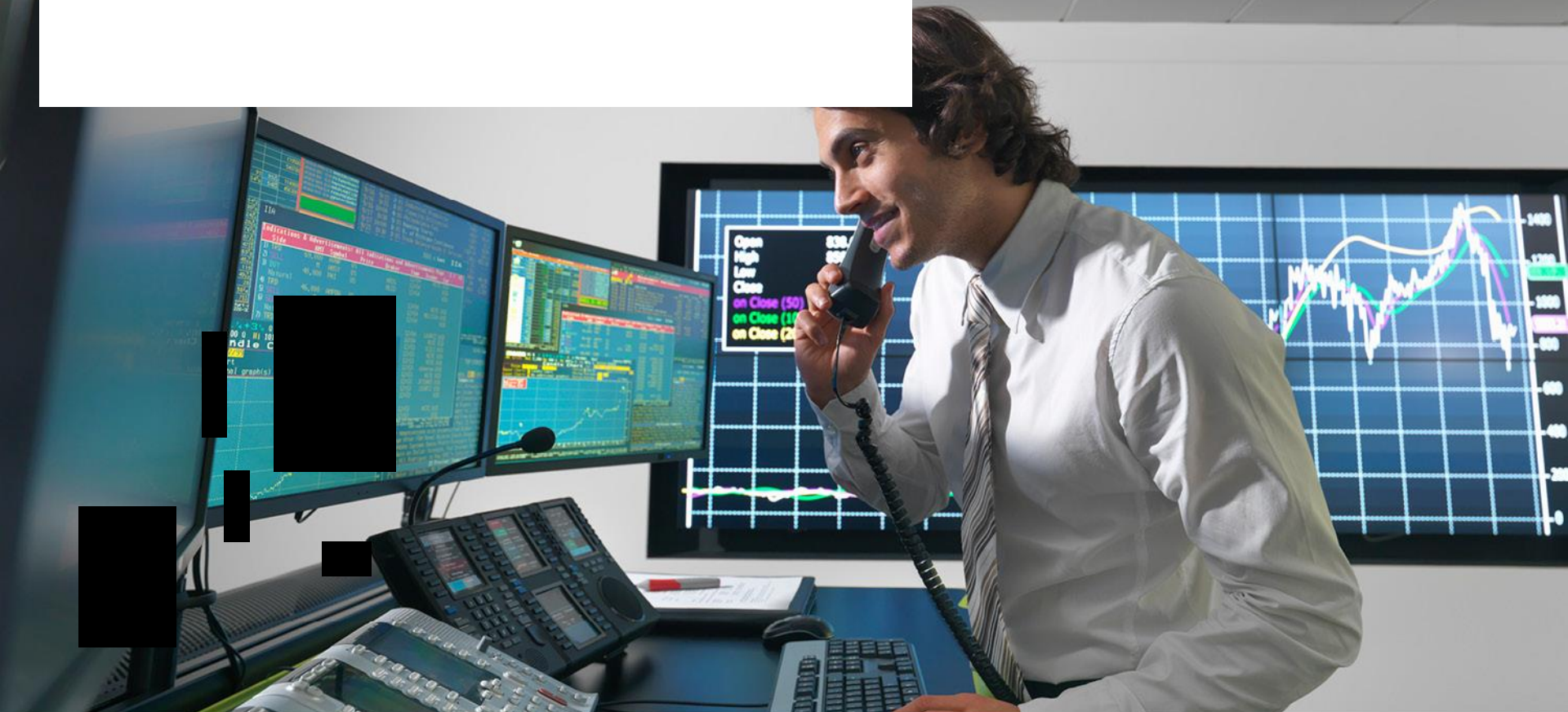
Top-down approach

Key interpretation questions

Adjustments for “*non-relevant components*” in reference portfolio

- Need to adjust for differences in amount, timing and uncertainty; fewer adjustments necessary if portfolio cash flows are matching closely
- Credit risk – IFRS standard refers to possible use of credit derivatives
 - Are they available for all bonds in reference portfolio?
 - Post the Financial Crisis, banks’ appetite for writing such instruments reduced significantly; how much of the prices is down to supply vs demand?
- No need to adjust for illiquidity?
- Other (tax treatment, callable, convertible, acceptance as collateral, ...)

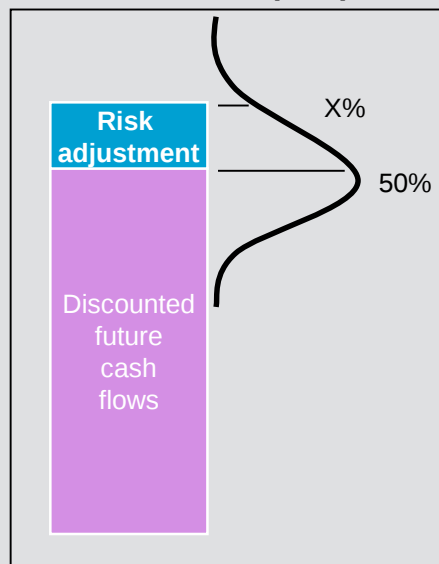
Risk Adjustment



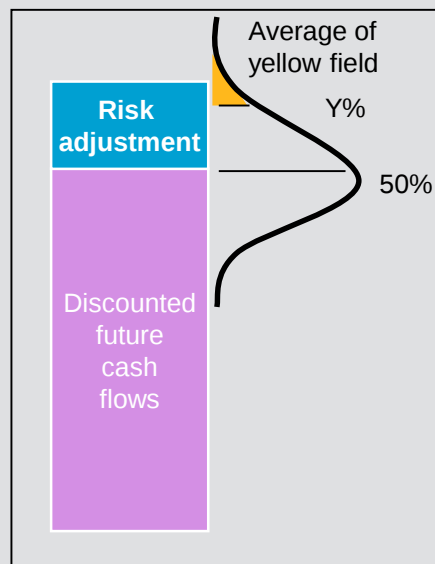
Risk adjustment – Choice of technique is not prescribed

- **Risk adjustment** reflects the compensation that the entity requires for bearing the uncertainty about the **amount** and **timing** of the cash flows that arises from non-financial risk
- Compensation to make entity **indifferent** between:
 - range of possible outcomes arising from non-financial risk; and
 - fixed cash flows with the same expected present value
- Can allow for diversification benefits

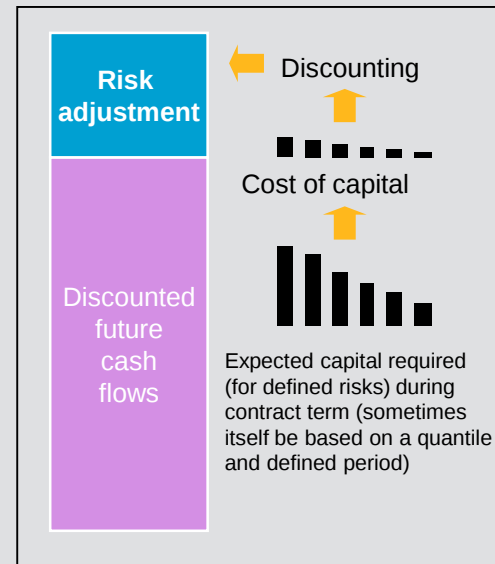
Confidence level (VaR) at X%



Conditional tail expectation (TVaR) at Y%

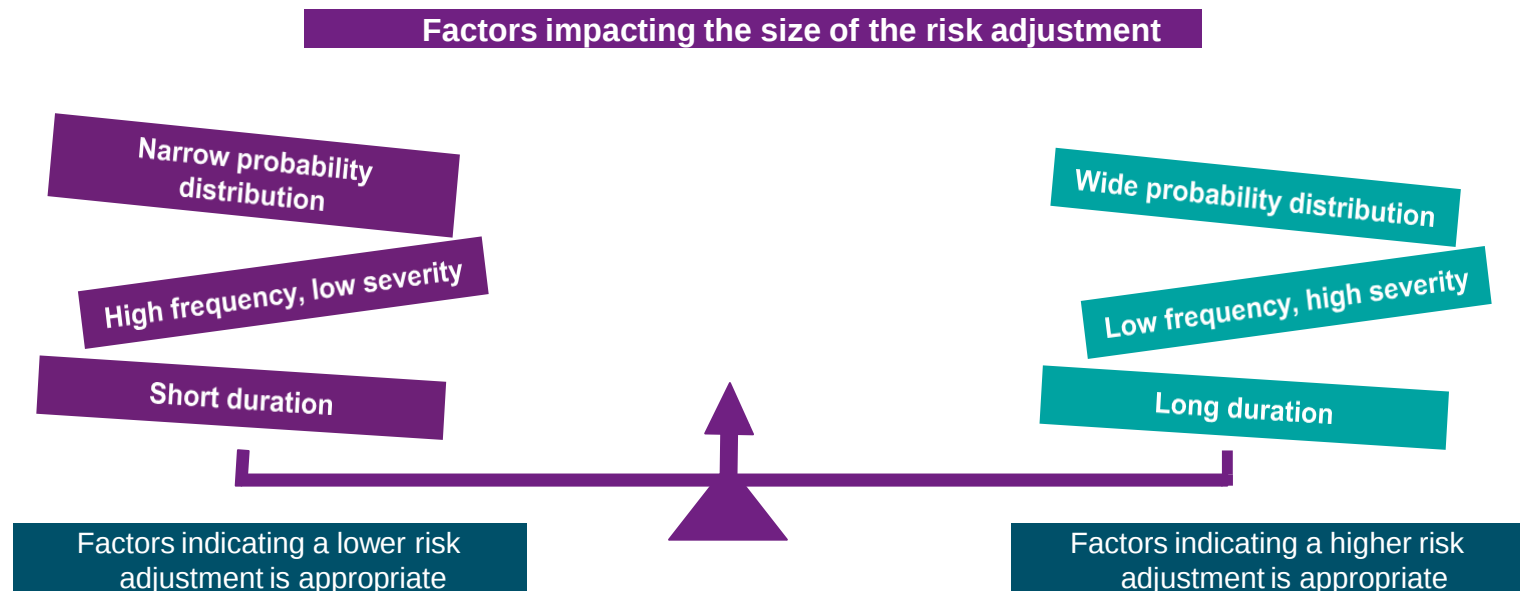


Cost of capital



Risk adjustment

Purpose	The compensation that the insurer requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract.
Prescription	Principle-based, no prescribed calculation technique.
Methodology	Potential techniques include: Confidence level (VaR), Conditional tail expectations (aka TVaR)

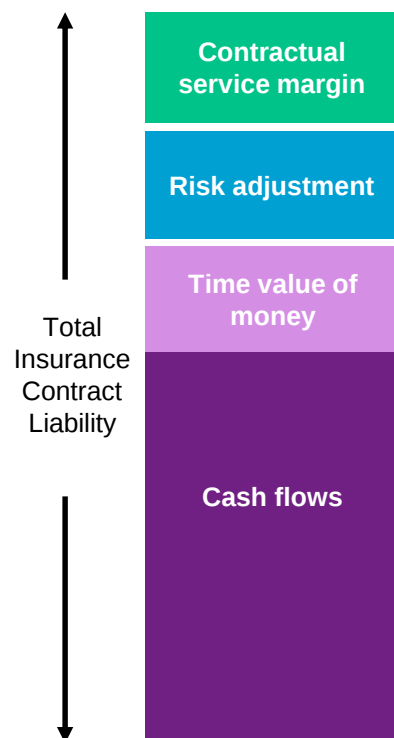


Calculation of CSM



Calculation of the CSM drives complexity

Initial determination to ensure “no gain at issue”



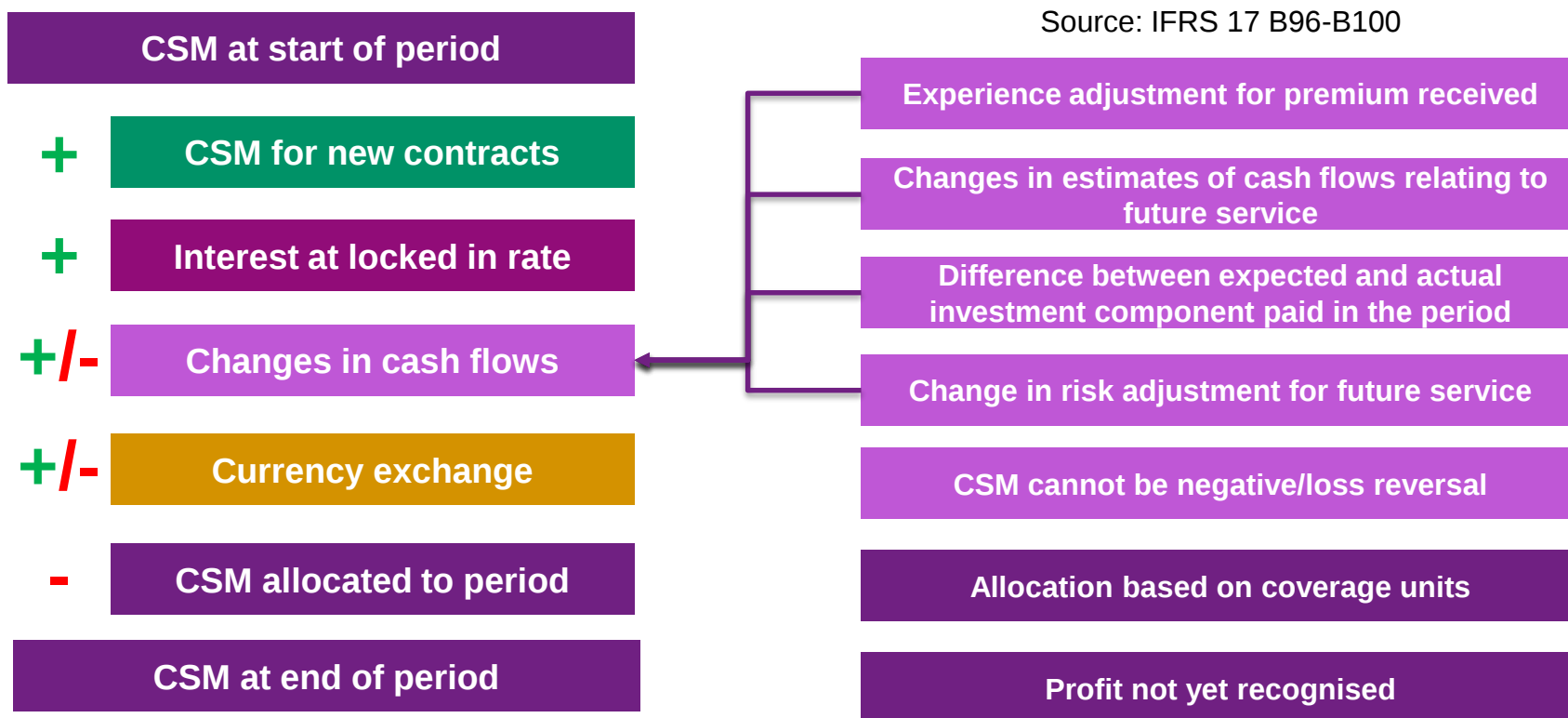
Contractual Service Margin and loss component

- The contractual service margin represents the unearned profit, which will be recognized over the coverage period
- It is not itself a cash flow, but is calculated as the residual between cash in- and out-flows
- It ensures no gain at initial recognition of insurance contracts
- The CSM cannot be negative. In case of an expected loss from an insurance portfolio (i.e. the portfolio being onerous), the expected loss is recognised as a loss immediately
- Emergence of CSM profit to be spread out over the term of the contract
- CSM is adjusted for changes in assumptions, premiums and risk adjustments at each valuation date

The CSM for contracts w/o direct participation features

Subsequent measurement of the CSM depends on the product classification

Contractual Service Margin



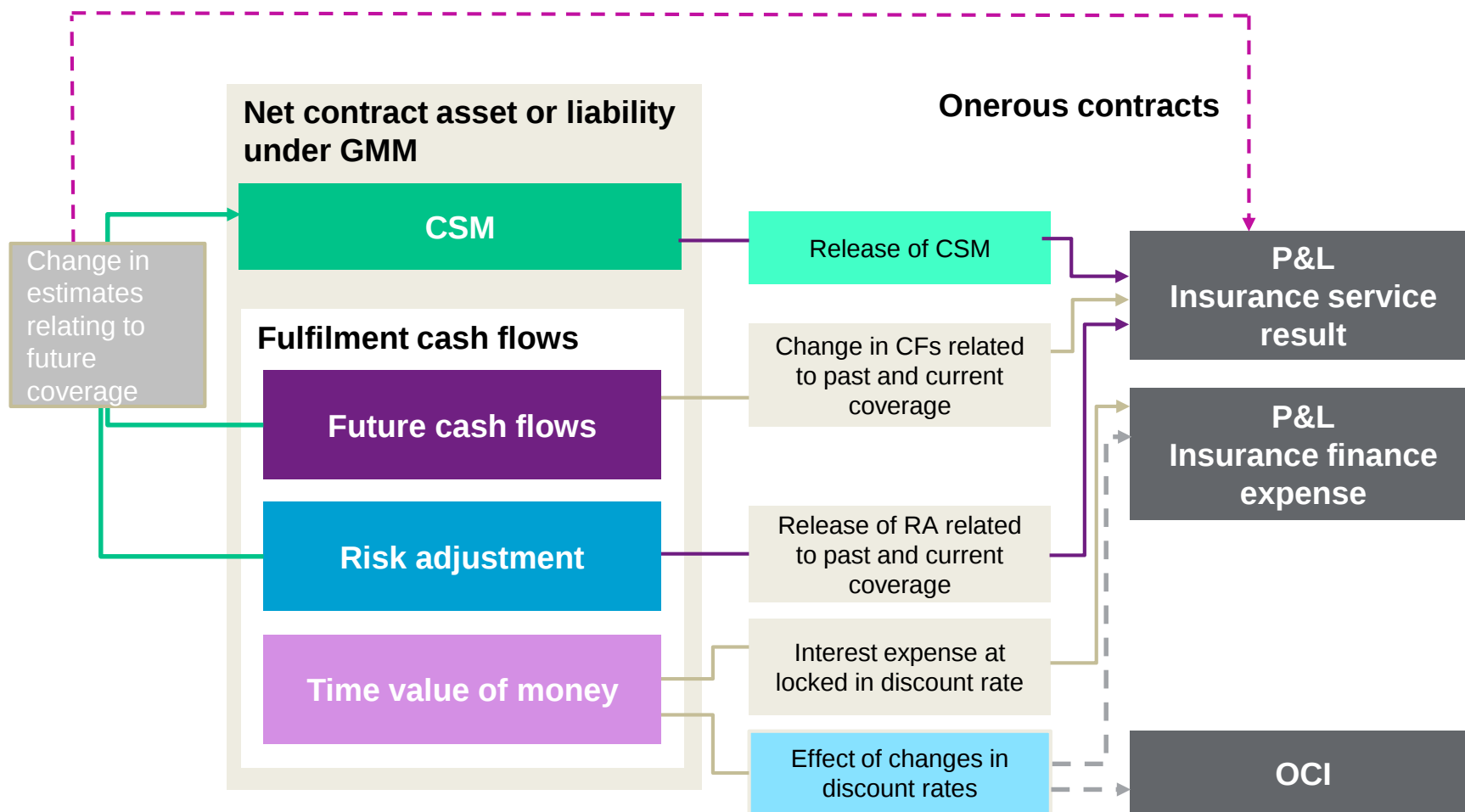
Source: IFRS 17 44

Allocation for Changes in Discount Rate

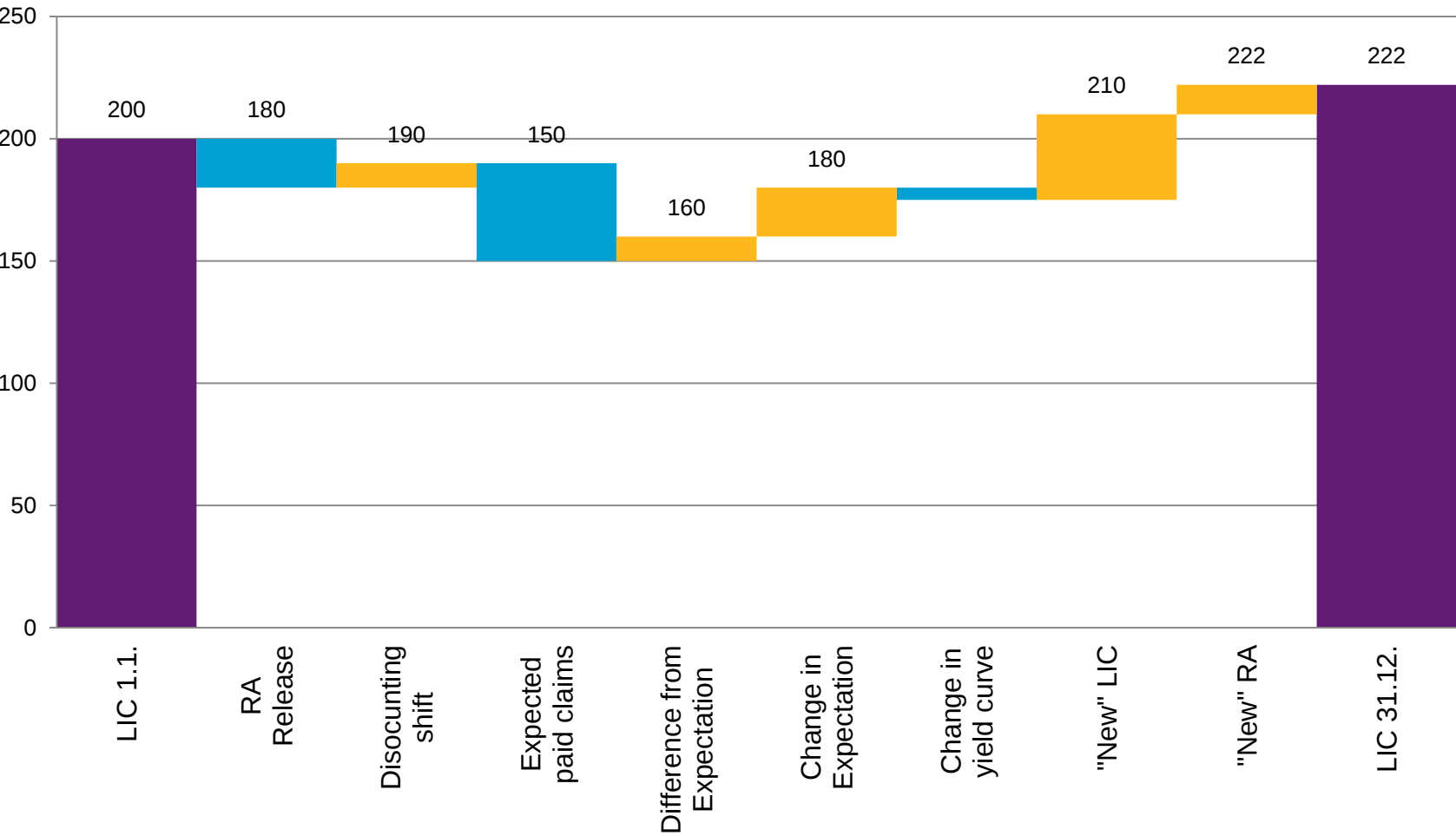


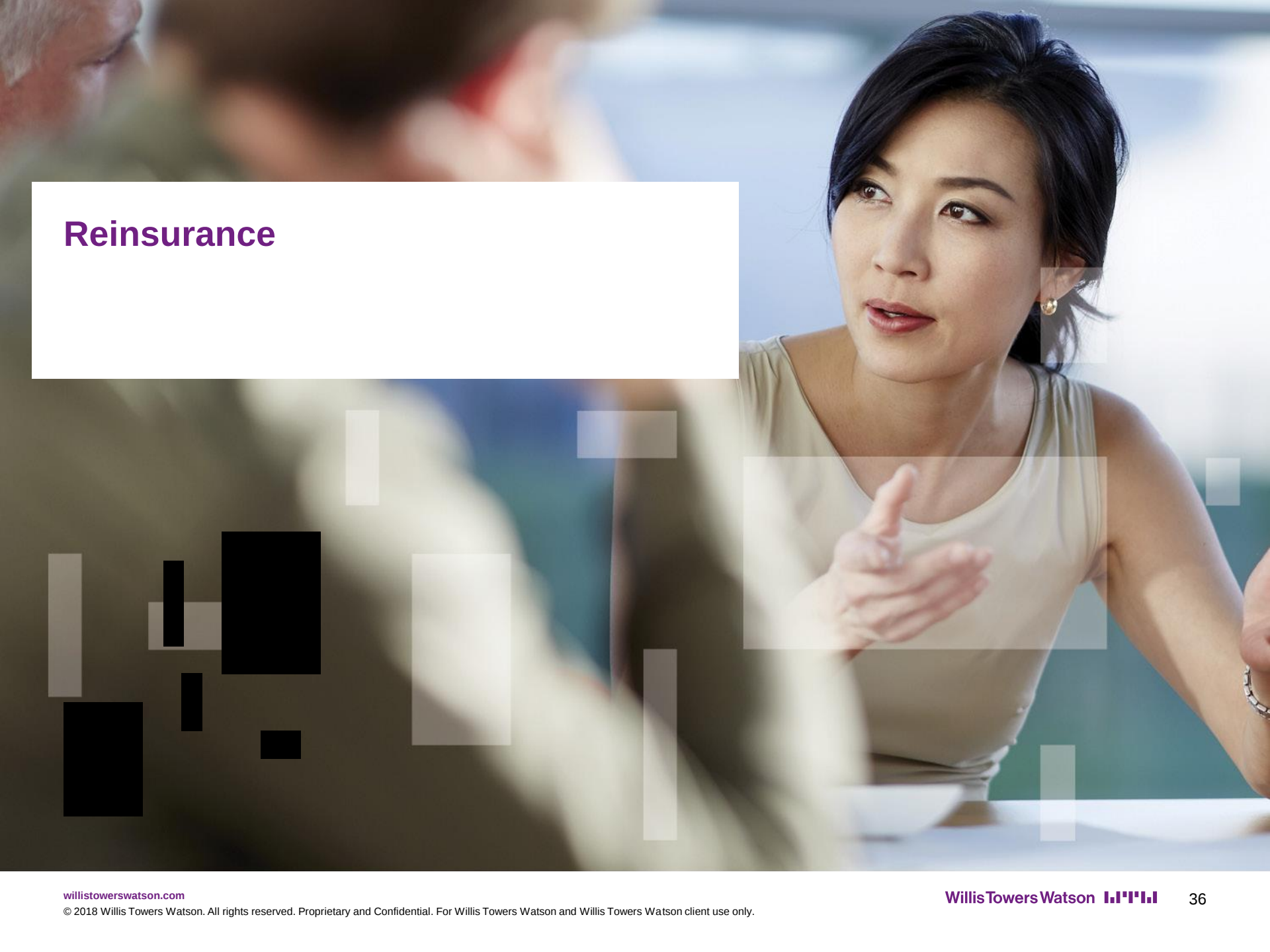
Change in discount rates - choice of allocation

Insurers can choose where to allocate the effect of moving discount rates



What happens to run-off results?



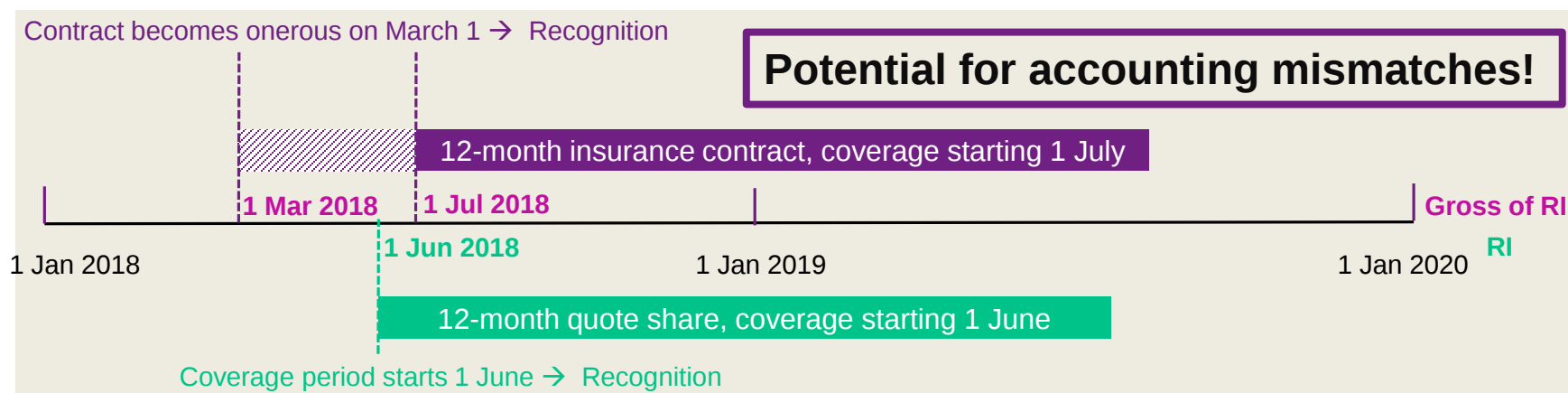
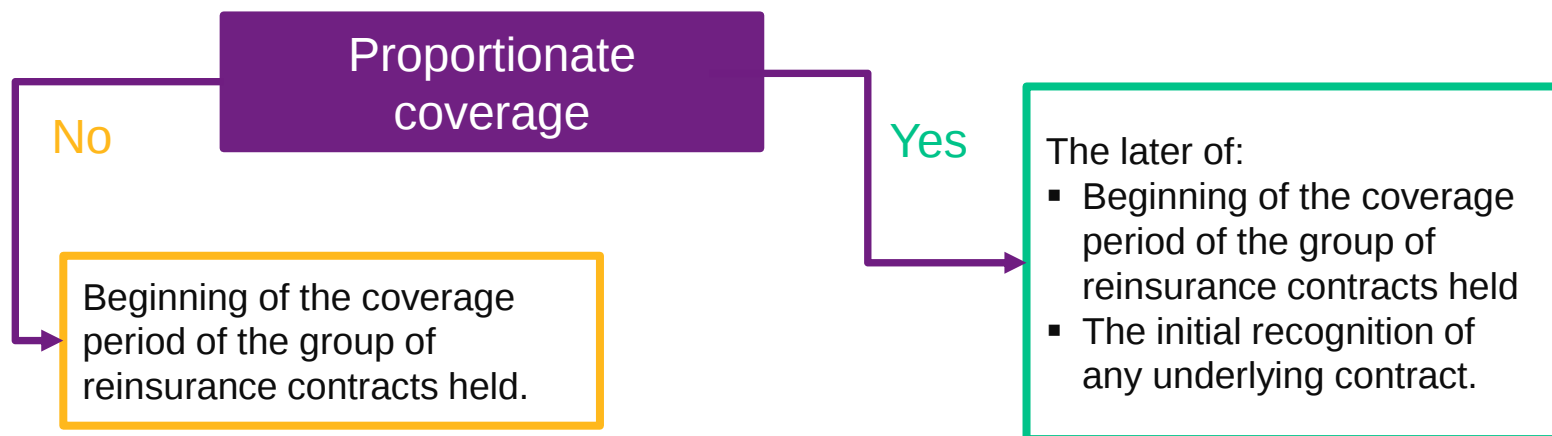
A woman with dark hair, wearing a light-colored sleeveless top, is gesturing with her hands while speaking in a business meeting. Other people are blurred in the background.

Reinsurance

Recognition of reinsurance contracts held



Identical coverage periods for insurance contracts and RI contracts held can result in different contract boundaries





PAA Criteria

- Resulting measurement is reasonably expected not to differ materially from GMM.*

OR

- Coverage period of each reinsurance contract in the group including coverage from all premiums within the contract boundary determined at that date is one year or less.

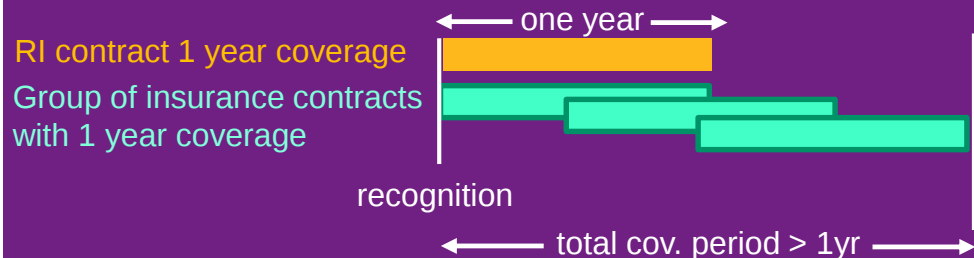


Consequences

- For reinsurance contracts held, usage of PAA may be harder to justify
- Typically the total coverage period as defined in second criteria will exceed one year.

Example

1yr **Reinsurance contract** covering group(s) of 1 year **insurance contracts** on a risk attaching basis

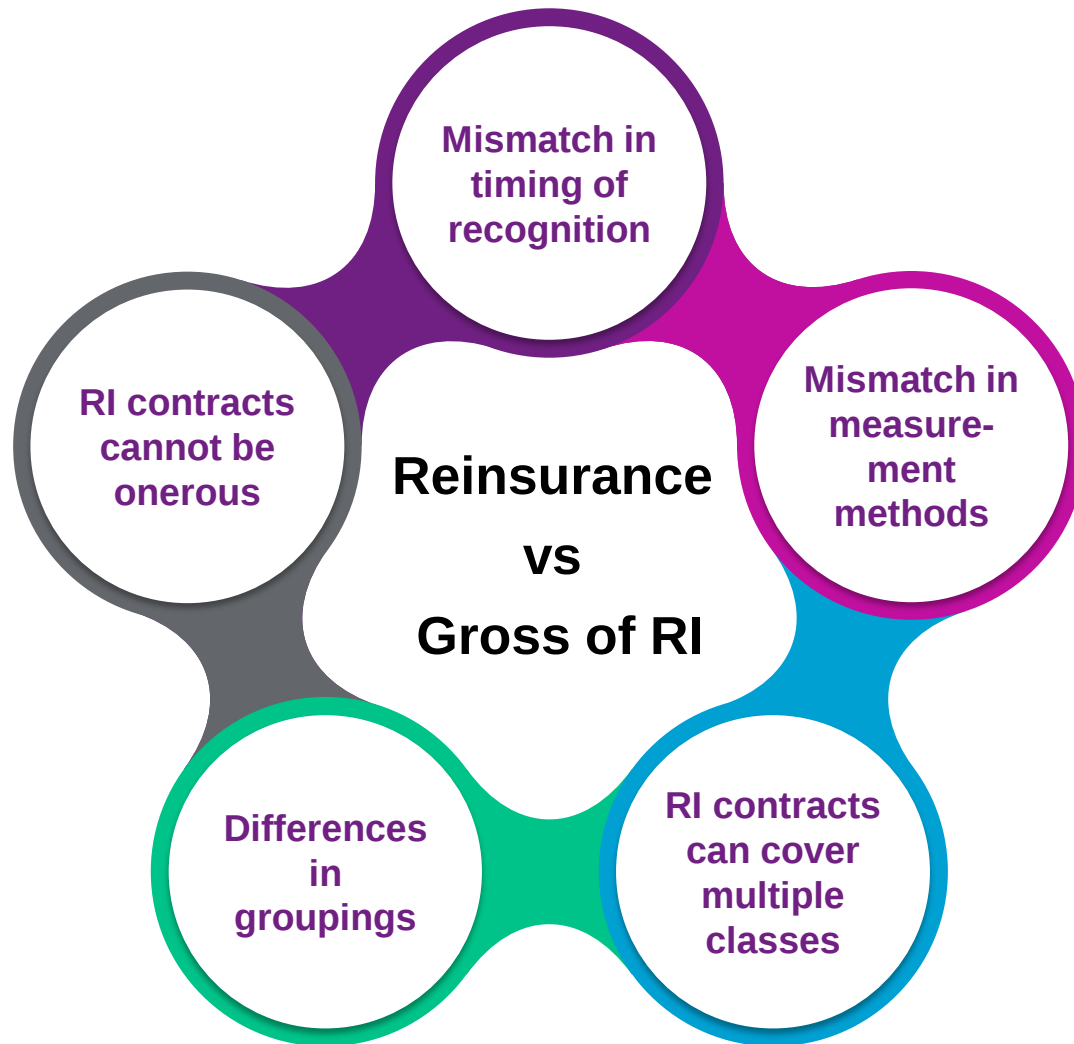


Second criteria for PAA not fulfilled.
PAA might still be applicable via first criteria

*This condition cannot be met if at inception of the group the "entity expects significant variability in the fulfilment cash-flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred"

Reinsurance

Summarising the new challenges and mismatches to the reserve estimates



Q1. What impact do you think IFRS 17 will have on your financial year profits?

1. No impact

2. More profitable

3. Less profitable

4. Just a timing difference in profit recognition

5. Others

Presentation and Additional Disclosures



Statement of Comprehensive Income

So what happened to written premiums?

Statement of Comprehensive Income	
	2021
Insurance contract revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income	X
Insurance finance expense	X
Net financial result	X
Profit/Loss	X
Discount rate changes on insurance liability (optional)	X
Total comprehensive income	X

- Investment components are excluded from insurance contract revenue and service expenses
- Revenue and expense are recognised as earned or incurred
- Insurance contract revenue represents the transfer of promised services and comprises:
 - Expected claims and expenses
 - Risk adjustment
 - CSM
 - Acquisition cash flows
- Insurance finance expense is excluded from insurance service (underwriting) result
- Accounting policy choice to present insurance finance expense either
 - fully in P&L or
 - in P&L and OCI

Statement of Comprehensive Income

Underwriting Year	2011	2012	2013	2014	2015	2016	Total
Insurance Contracts							
...Insurance Revenue (A)	940	1,914	27,571	146,547	1,168,728	1,218,937	2,564,637
...Insurance Service Expenses (B)	-787	-1,269	-194,757	-292,113	-514,455	-349,047	-1,352,428
...Insurance Service Result (C = A + B)	153	644	-167,186	-145,566	654,273	869,890	1,212,209
...Investment Income (D)	30,604	2,449	15,568	27,481	15,188	-2,014	89,276
...Insurance Finance Expenses (E)	-27	-57	-923	-7,638	-59,580	-39,436	-107,661
...Net Financial Result (F = D + E)	30,578	2,392	14,645	19,843	-44,393	-41,450	-18,385
Reinsurance Contracts...(Additional Line Items Required (G))							
Profit or Loss (H = C + F + relevant elements of G)	30,731	3,036	-152,541	-125,723	609,880	828,440	1,193,824
...Insurance Contracts - Other Comprehensive Income (I)	27	57	923	7,638	-4,711	-87,055	-83,122
...Reinsurance Contracts - Other Comprehensive Income (J)	0	0	0	0	0	0	0
Comprehensive Income (K = H + I + J)	30,758	3,093	-151,618	-118,085	605,169	741,385	1,110,701

Source: ResQ Financial Reporter

Statement of Balance Sheet

Assets	2021
Reinsurance contract assets	X
Insurance contract assets	X
Other assets	X
Total assets	X
Liabilities	2021
Insurance contracts liabilities	X
Reinsurance contract liabilities	X
Other liabilities	X
Total Liabilities	X
Equity	X
Total Equity and Liabilities	X

Groups of insurance (or reinsurance) contracts that are in an asset position presented separately from groups of insurance (or reinsurance) contracts that are in a liability position. Separate presentation of insurance and reinsurance contracts

Other assets measured in accordance with relevant IFRS consistent with other entities/sectors

Deferred acquisition costs and premium receivables are included within the measurement of the insurance contract liability

Other liabilities measured in accordance with relevant IFRS consistent with other entities/sectors

Statement of Balance Sheet

Underwriting Year	2011	2012	2013	2014	2015	2016	Total
Financial Assets (A)	30,604	2,449	-171,536	-264,604	75,581	1,592,800	1,265,294
Insurance Contract Liabilities - Insurance Contracts - Asset Position (B)	0	0	0	0	0	0	0
<i>Present Value of Cashflows</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Risk Adjustment for Non-financial Risk</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Contractual Service Margin</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Insurance Contract Liabilities - Insurance Contracts - Liability Position (C)	-981	-1,689	-15,073	-93,751	-239,655	-720,254	-1,071,404
<i>Present Value of Cashflows</i>	<i>-893</i>	<i>-1,536</i>	<i>-13,710</i>	<i>-85,298</i>	<i>-218,025</i>	<i>492,884</i>	<i>173,422</i>
<i>Risk Adjustment for Non-financial Risk</i>	<i>-89</i>	<i>-153</i>	<i>-1,363</i>	<i>-8,452</i>	<i>-21,630</i>	<i>-3,216</i>	<i>-34,904</i>
<i>Contractual Service Margin</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-1,209,922</i>	<i>-1,209,922</i>
Insurance Contract Liabilities - Reinsurance Contracts - Asset Position (D)	0	0	0	0	0	0	0
<i>Present Value of Cashflows</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Risk Adjustment for Non-financial Risk</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Contractual Service Margin</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Insurance Contract Liabilities - Reinsurance Contracts - Liability Position (E)	0	0	0	0	0	0	0
<i>Present Value of Cashflows</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Risk Adjustment for Non-financial Risk</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Contractual Service Margin</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Equity (F = A + B + C + D + E)	29,623	759	-186,610	-358,355	-164,074	872,546	193,890

Source: ResQ Financial Reporter

Disclosures

- **Level of detail** of the disclosure should be sufficient for users to assess the effects that the contracts have on the entity's financial position, financial performance and cash flows
- Disclosures to include both qualitative and quantitative information about:
 - Amounts recognized;
 - Significant judgements and changes in these judgements; and
 - Nature and extent of the risks
- Expands the disclosure requirements of IFRS 4

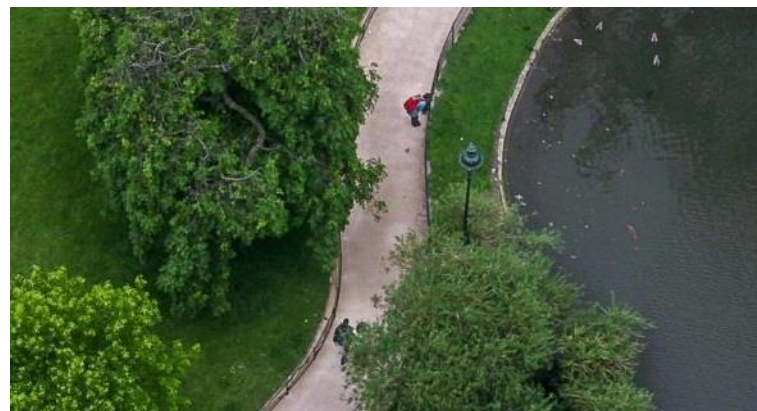
Onus on entity to determine extent of disclosure, respective emphasis and level of (dis)aggregation necessary to meet the overall disclosure objective

Reconciliation of CSM movement and financial statements

IFRS 17 Income statement	Year	2016	2017
Insurance service result		790	1,361
Insurance revenue		1,203	2,217
Expected claims Death		68	131
Expected maintenance expenses		97	168
Allocation of recovery of insurance acquisition cash flows		313	557
Release of contractual service margin to P&L		617	1,151
Release of risk adjustment to P&L		108	211
Insurance service expense		413	856
Incurred claims Death (excl. investment component)		-	131
Incurred insurance service expenses		100	168
Allocation of insurance acquisition cash flows		313	557
Net Finance result	-	3,079	-
Investment income	-	322	- 595
Insurance finance expense (or income)		2,757	- 595
Interest expense	-	322	- 595
Change in Discount Rates		3,079	
Profit or loss for the year	-	2,289	1,361

Balance sheet			
Best estimate liability (incl. O&G)	- 17,537	356,369	305,355
Discounted future cash flows (det.)	- 17,537	356,369	305,355
Options and Guarantees	-	-	-
Risk adjustment	2,946	3,100	2,884
Contractual Service margin	14,591	15,067	13,897
Total insurance liabilities	-	374,536	322,136

CSM Roll Forward	2016
Opening CSM	-
New business CSM	14,591
Accrete interest	-13
Experience adjustments	
Change in CF	- 27,639
Inv comp / Premiums exp adjustment	28,741
Change in RA	- 240
Change in assumptions	
Change in CF	244
Change in RA	-
CSM pre allocation	15,684
Allocation to the period	617
Closing CSM	15,067



Reconciliation of insurance contract assets and liabilities

Between liabilities for remaining coverage and incurred claims [IFRS 17.100]

	Insurance Contract Liability	Liability for Remaining Coverage - Excluding Loss Component	Liability for Remaining Coverage - Loss Component	Liability for Incurred Coverage
Opening Balance	769,243	693,650	0	75,593
Insurance Revenue (A)	-1,168,728	-1,168,728	0	0
Insurance Service Expenses (B)	514,455	144,633	0	369,822
...Incurred Claims and Other Incurred Insurance Service Expenses	148,059	0	0	148,059
...Amortisation of Acquisition and Related Initial Expenses (including Experience Adjustment)	144,633	144,633	0	0
...Changes that Relate to Future Service: Changes to Liability for Remaining Coverage through Not Disaggregating the Increase in Risk Adjustment	0	0	0	0
...Changes that Relate to Future Service: Losses on Onerous Contracts and Reversals of Such Losses	0	0	0	0
...Changes that Relate to Past Service: Changes to Liability for Incurred Claims	221,763	0	0	221,763
Investment Components (C)	0	0	0	0
Insurance Service Result (D = A + B + C)	-654,273	-1,024,096	0	369,822
Insurance Finance Expenses (E)	64,292	67,689	0	-3,397
Effect of Changes in the Risk of Non-Performance by the Issuer of Reinsurance Contracts Held (F)	0	0	0	0
Total Changes in the Statement of Comprehensive Income (G = D + E + F)	-589,981	-956,407	0	366,425
Cashflows (H)	60,394	275,299	0	-214,906
Closing Balance (= Opening Balance + G + H)	239,655	0	0	227,112
Closing Balance from Main Calculation	239,655	0	0	239,655
Difference	0	0	0	0

Source: ResQ Financial Reporter

Reconciliation of insurance contract assets and liabilities

Between different components of the fulfillment cashflow and CSM

	Insurance Contract Liability	Present Value of Future Cashflows	Risk Adjustment for Non-financial Risk	Contractual Service Margin
Opening Balance	769,243	-543,835	14,254	1,298,824
Changes that Relate to Future Service (A)	0	0	0	0
...Contracts Initially Recognised in the Period	0	0	0	0
...Changes in Estimates Reflected in the Contractual Service Margin	0	0	0	0
...Changes in Estimates that Result in Losses on Onerous Contracts and Reversals of Such Losses	0	0	0	0
...Changes to Liability for Remaining Coverage through Not Disaggregating the Increase in Risk Adjustment	0	0	0	0
Changes that Relate to Current Service (B)	-876,036	493,680	-6,600	-1,363,116
...Contractual Service Margin Recognised for Service Provided	-1,363,116	0	0	-1,363,116
...Risk Adjustment Recognised for the Risk Expired	-699	0	-699	0
...Experience Adjustments	487,779	493,680	-5,901	0
Changes that Relate to Past Service (C)	221,763	207,787	13,976	0
...Adjustments to Liability for Incurred Claims	221,763	207,787	13,976	0
Insurance Service Result (D = A + B + C)	-654,273	701,467	7,376	-1,363,116
Insurance Finance Expenses (E)	64,292	0	0	64,292
Effect of Changes in the Risk of Non-Performance by the Issuer of Reinsurance Contracts Held (F)	0	0	0	0
Total Changes in the Statement of Comprehensive Income (G = D + E + F)	-589,981	701,467	7,376	-1,298,824
Cashflows (H)	-60,394	-60,394	0	0
Gross Premiums (including Taxes and Levies)	-355,907	-355,907	0	0
Taxes and Levies	41,279	41,279	0	0
Acquisition and Related Initial Expenses	39,329	39,329	0	0
Other Policy Admin Expenses	26,693	26,693	0	0
Share of Fixed and Variable Overheads (Premiums)	1,780	1,780	0	0
Share of Fixed and Variable Overheads (Claims)	531	531	0	0
Claims and Related Expenses	185,902	185,902	0	0
Closing Balance (= Opening Balance + G + H)	239,655	218,025	21,630	0
Closing Balance from Main Calculation	239,655	218,025	21,630	0
Difference	0	0	0	0

Source: ResQ Financial Reporter

Reconciliation of insurance contract revenue

	Insurance Revenue
Amounts Related to Changes in the Liability for Remaining Coverage ($A = B + C + D$) -	1,323,569
...Expected Incurred Claims and Other Expenses (B)	113,647
...Contractual Service Margin for the Service Provided (C)	1,209,922
...Risk Adjustment for the Risk Expired (D)	0
Recovery of Acquisition and Related Initial Expenses Cashflows (E)	204,765
Experience Adjustment for Gross Premium and Tax and Levies (F)	-309,397
Insurance Revenue ($G = A + E + F$)	1,218,937

Source: ResQ Financial Reporter

Disclosures

Time-consuming and data intensive reconciliations required

Liability for remaining coverage, showing loss components separately

Liability for incurred claims (PAA: BE and RA separately)

Criteria for use of PAA

Accounting policy choices

Confidence level for risk adjustment

Claims development triangles (10 years)

Yield curve used to discount FCFs

Disaggregation of finance income (if applicable)

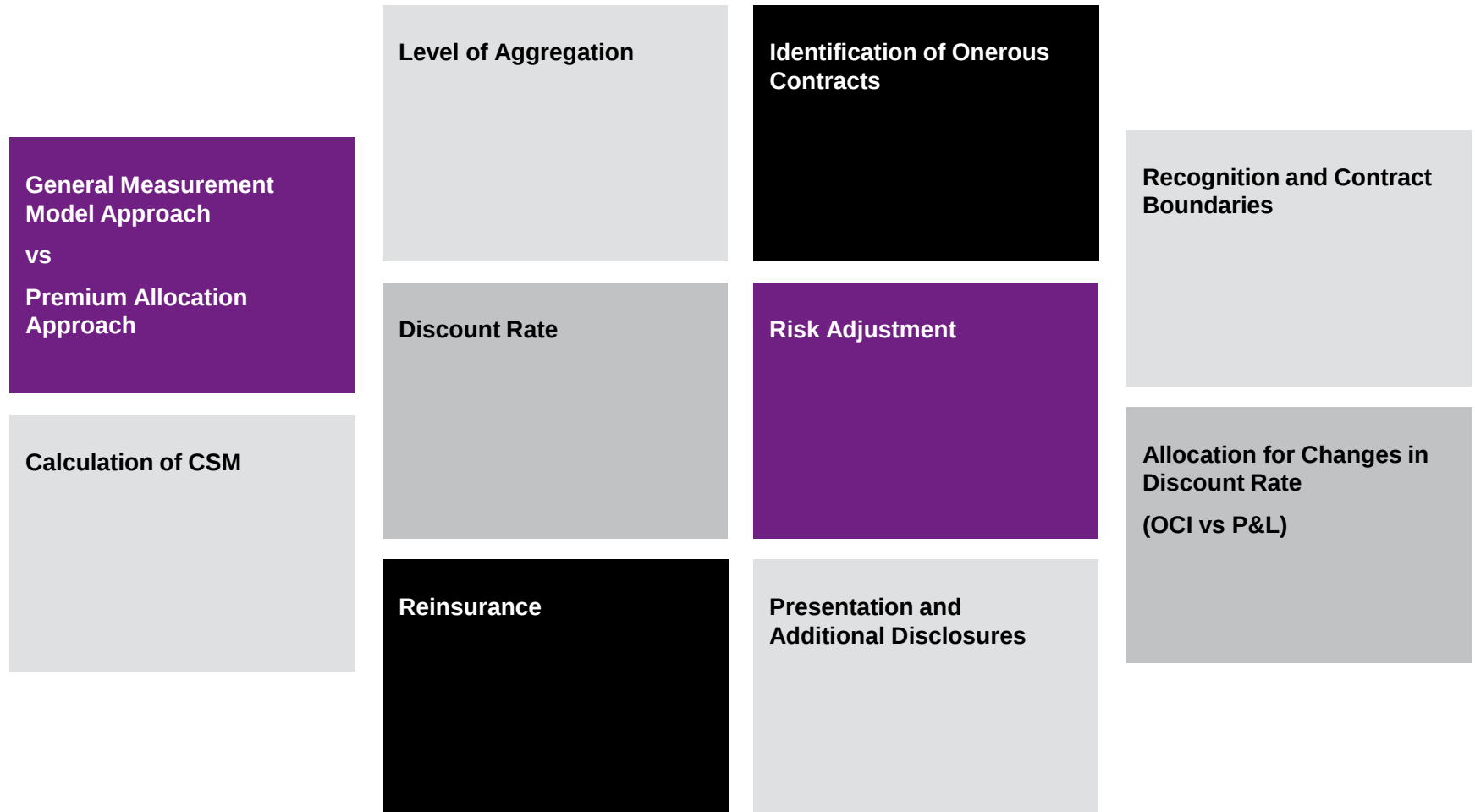
Analysis of insurance revenue (GMM only)

Components of FCFs – PV, risk adjustment and CSM (GMM only)

Timing of recognition of remaining CSM (GMM only)

Impact of new business on P&L by building block (GMM only)

Summary - what do P&C insurers need to consider?



Q2. What do you foresee as the biggest technical challenge for P&C insurer?

1. Level of Aggregation

2. CSM Calculation and Tracking

3. GMM versus PAA

4. Reinsurance Calculation

5. Risk Adjustment

6. Discount Rate

Q3. Which line of business do you expect to be the most challenging during the transition to IFRS 17?

1. Fire

2. Marine

3. Motor

4. Miscellaneous

Summary – what are the key gaps for P&C insurers?

IFRS 17 Key Requirements	Gap	Impact	Effort
Level of Aggregation			
1. Level of Aggregation – Unit of Account			
Identification of Onerous Contracts			
2. Onerous Contract Liability			
Measurement Models			
3. Measurement – General Measurement Model			
4. GMM – Contractual Service Margin			
5. GMM – Expected Cash Flows			
6. GMM – Discounting / Time Value of Money			
7. GMM – Risk Adjustment			
8. Measurement – Premium Allocation Approach			
9. Other Measurement Considerations			
Reinsurance			
10. Portfolio Transfer / Business Combination			
11. Reinsurance Contracts			
Identifying Scope of Insurance Contracts			
12. Scope and Unbundling			
13. Financial Instruments with DPFs			
Recognition and Contract Boundary			
14. Recognition / Derecognition			
Presentation and Disclosures			
15. Statement of Financial Position			
16. Statement of Comprehensive Income			
17. Disclosure – Amounts			
18. Disclosure – Judgements			
19. Disclosure – Risks			
Acquisition Costs			
20. Acquisition Costs			
Transition			
21. Transition			

Large Gap

Significant gap between current practice and IFRS 17 requirements. Fundamental to address this area

Medium Gap

Some ability to implement IFRS 17 requirements. Opportunity for further development exists

No Gap

Current practice is consistent with IFRS 17 requirements. Limited need for further development

Reliances and Limitations

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