

4th

INDONESIAN ACTUARIES SUMMIT 2019

"ACTUARY AND BUSINESS ETHICS"

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IFRS 17 for General Insurers

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Agenda

- 1. Technical areas of impact**
- 2. What changes are expected to the reporting process**
- 3. The IFRS 17 Journey**
- 4. Impact Assessment Deep Dive**

**Specific technical areas
need to be worked out for
General Insurers**

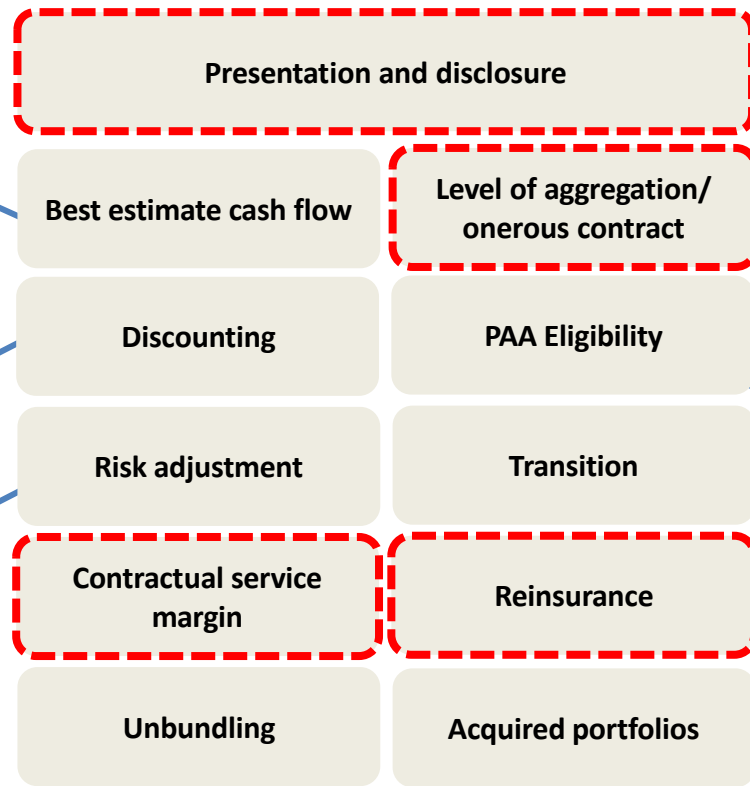
Technical areas of impact from IFRS 17

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.

Discounting not as rigorous of embedded concept for GI companies

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.

These IFRS 17 technical requirements will be important for GI companies



Underwriting result and finance result will have a new 'feel' and presentation. New KPIs, strategy, incentives and education are required as well as system changes.

Greater rigour in measuring and reporting **onerous losses** at inception.

PAA is expected to be the measurement basis for GI Companies, except in a small number of possible cases, including reinsurance.

Reinsurance cashflows will need to be separately modelled. Usually tricky for most companies

Practical Implications

Level of Aggregation

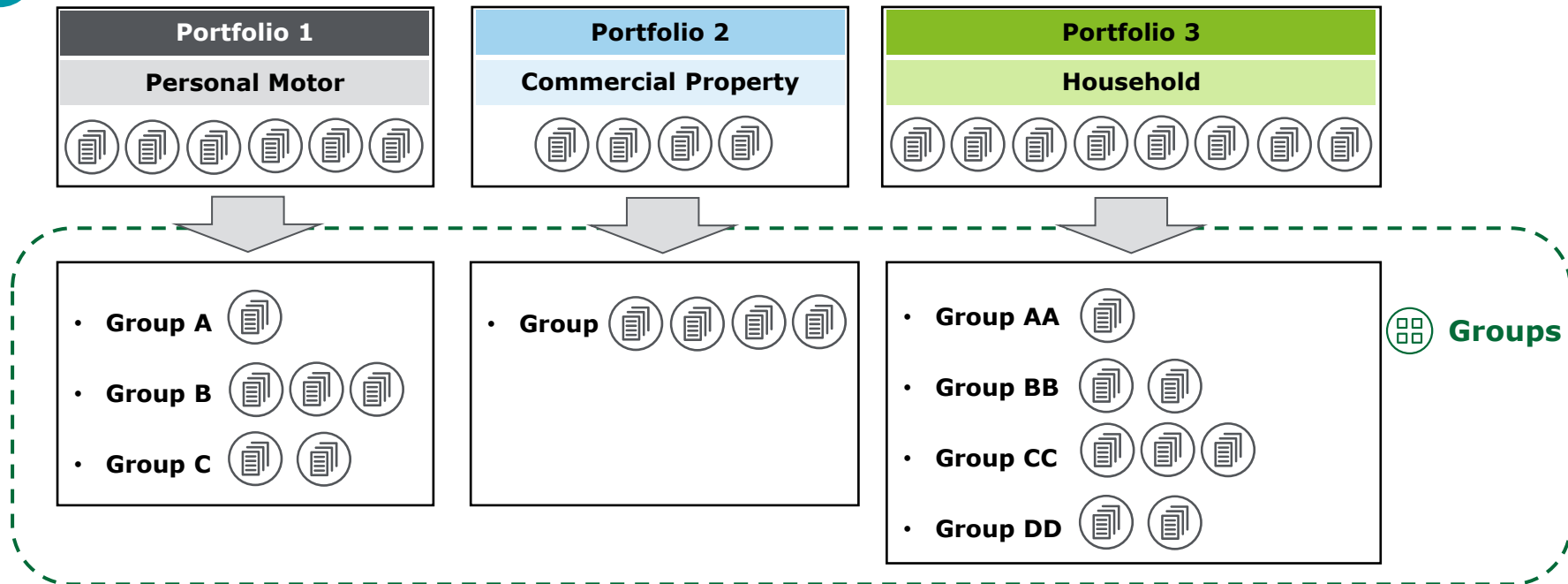
1 Identify **portfolios** of contracts

1) Subject to **similar risks**

2) Managed together

E.g. contracts within a product line expected to have similar risks and be in the same portfolio if managed together.

2 Divide each portfolio into **groups** based on expected profit levels



Practical Implications

Level of Aggregation

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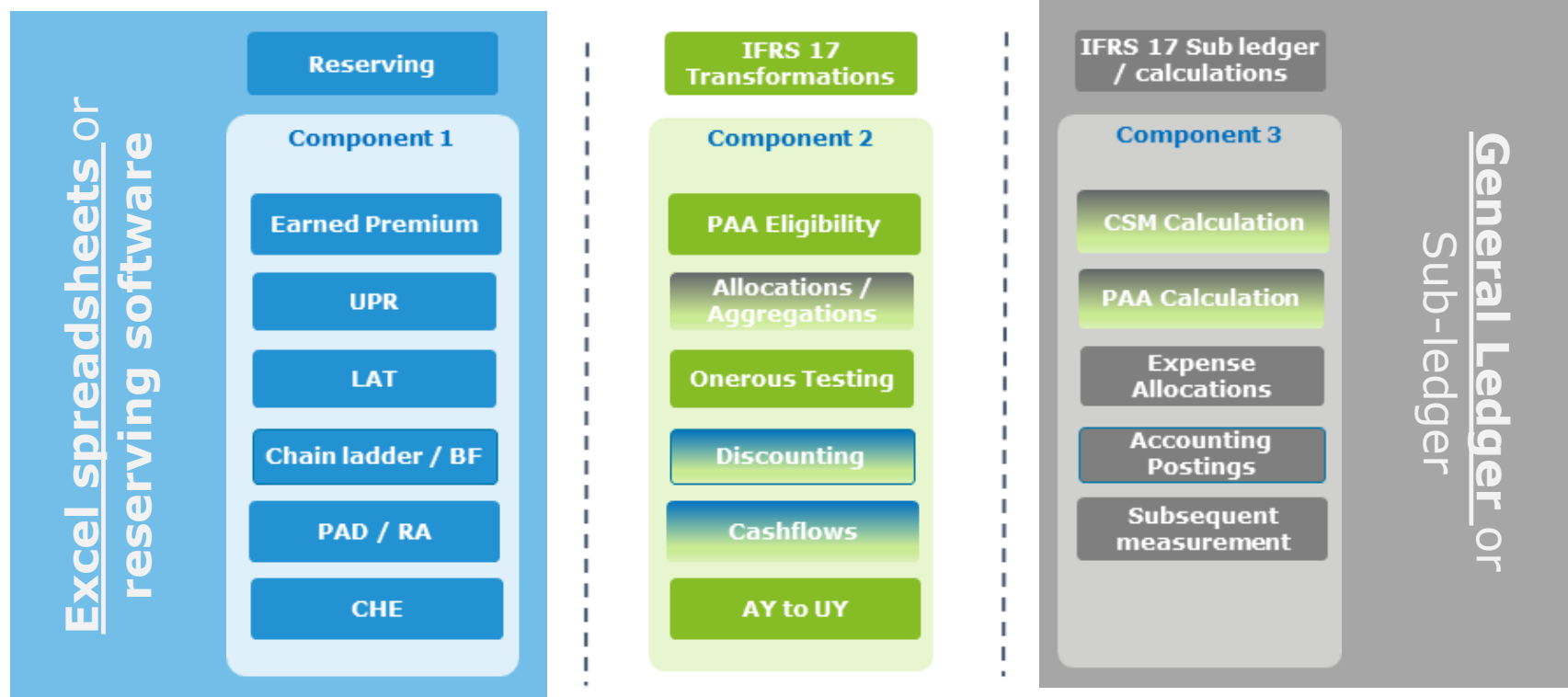
Considerations:

2 Divid

- Similar risks – ok pretty simple to distinguish
- Managed together – what basis? Reserving, management, regulatory?
- How to determine profitability? COR, pricing LR?
- Where is cross-subsidy ok?
- Group by rating factor?!?

**What changes should we
expect?**

The Components of GI IFRS 17 reporting



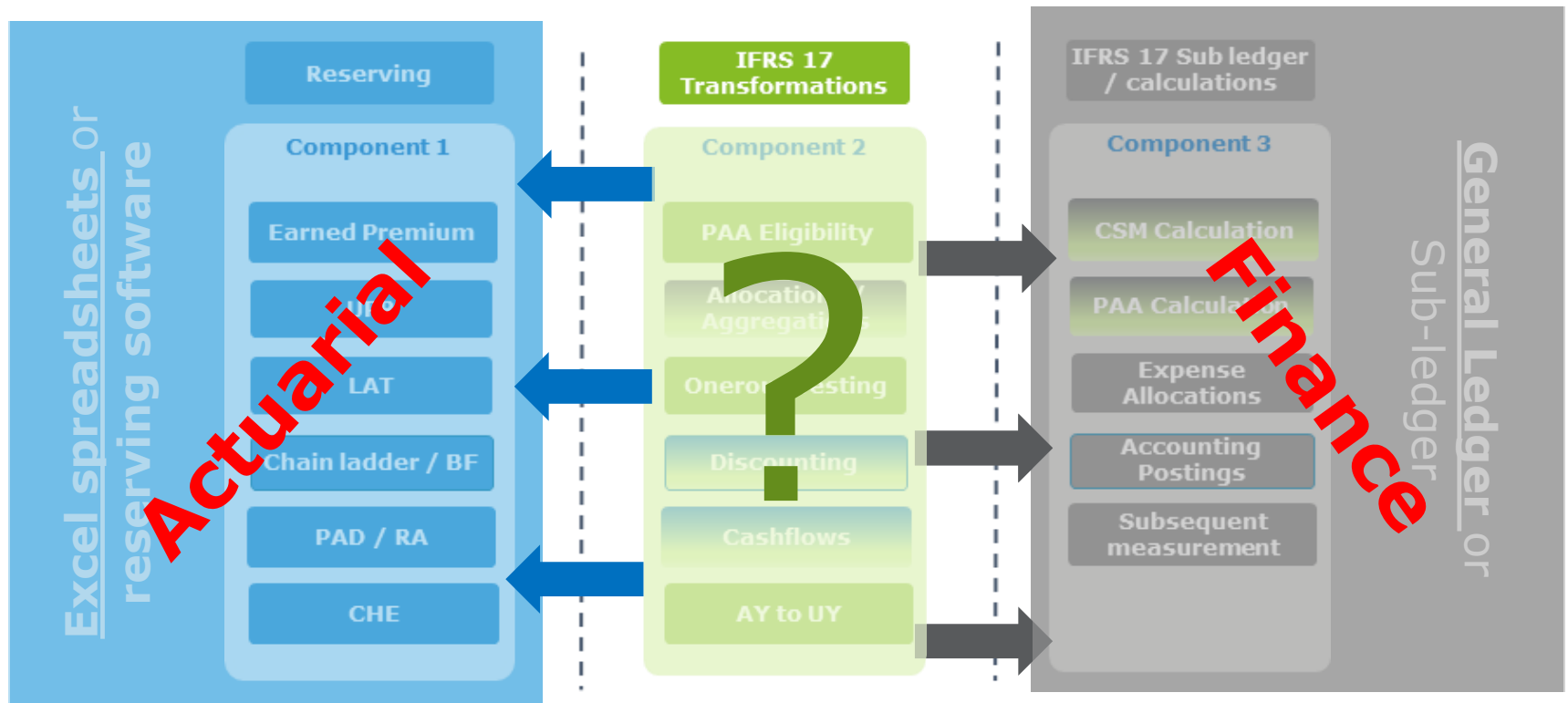
What changes under IFRS17?

1. **Cashflows**, discounting
2. **RI modelling** complexity
3. **Aggregations**
4. Increased data
5. **Risk Adjustment**

1. New processes for **testing**
2. Conversions / **allocations**
3. Redesign of **where** calculations happen

1. Greater rigour on **expenses**
2. **Postings** and connection to GL
3. **CSM** calculation and tracking

The Components of GI IFRS 17 reporting



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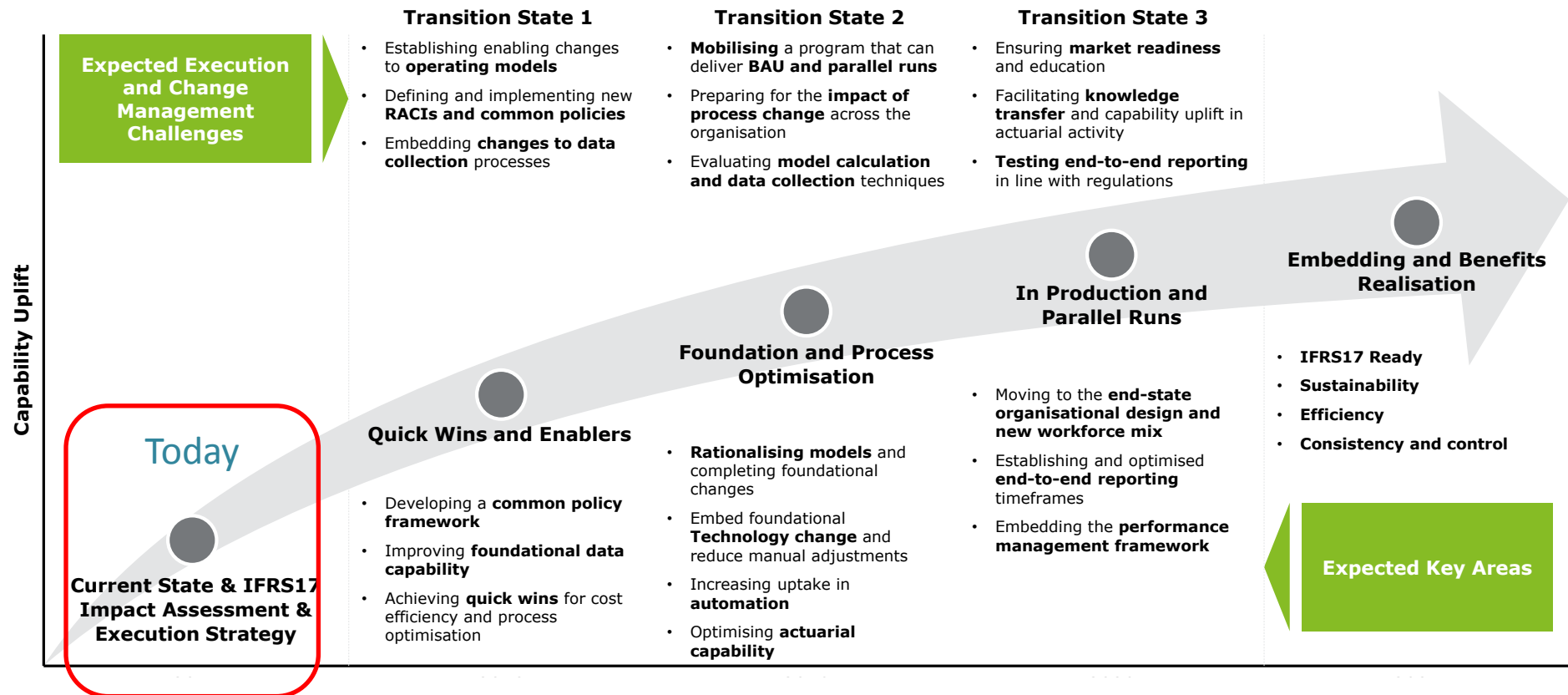
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**How do we go about this
journey?**

Strategic Choices and Roadmap

Journey to IFRS17 readiness



Deep dive into Impact Assessment & Example

Impact Assessments

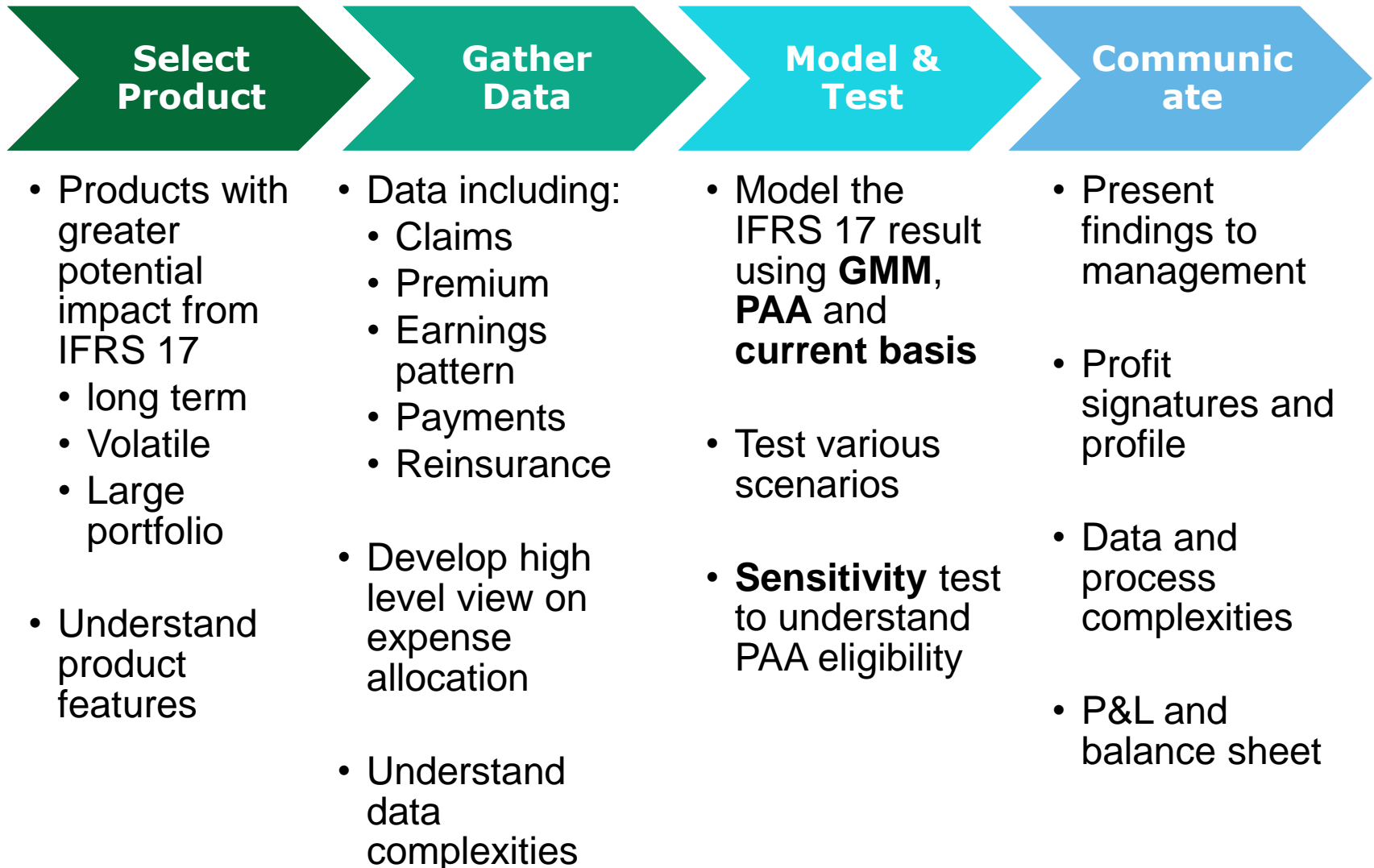
Important **Business** and **Financial** questions that need answers:

- What information needed to be captured and reported?
- How should such information be captured, processed and reported?
- When are the information needed to be captured and reported?
- Who should be responsible for preparing, reviewing and approving such information?

- What will the day 1 balance sheet look like?
- Where will data for transition be sourced from?
- Are my products eligible for PAA?
- What will the profit signature of my products look like?

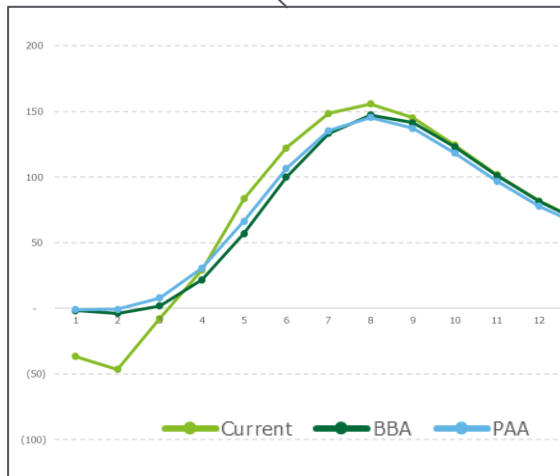
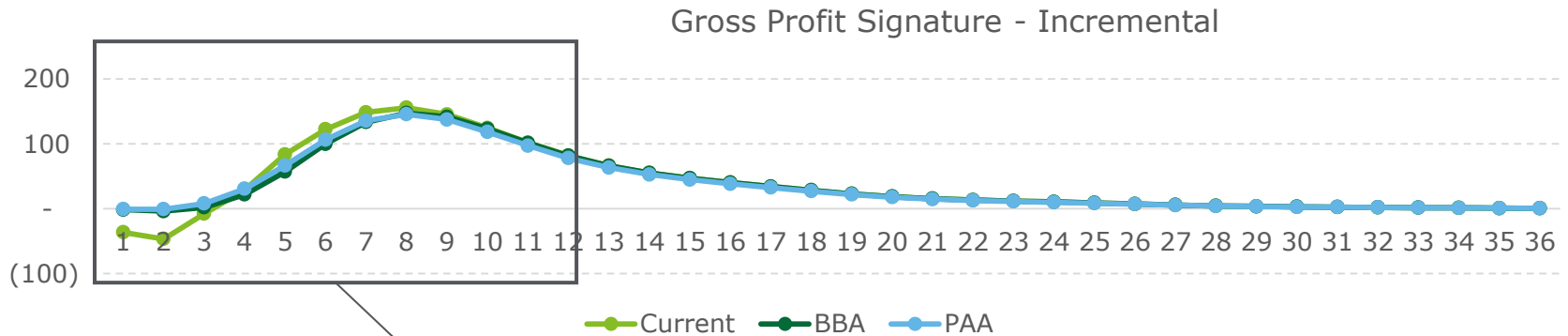
Financial Impact Assessment

What is involved



Sample outputs

Non-onerous long duration product



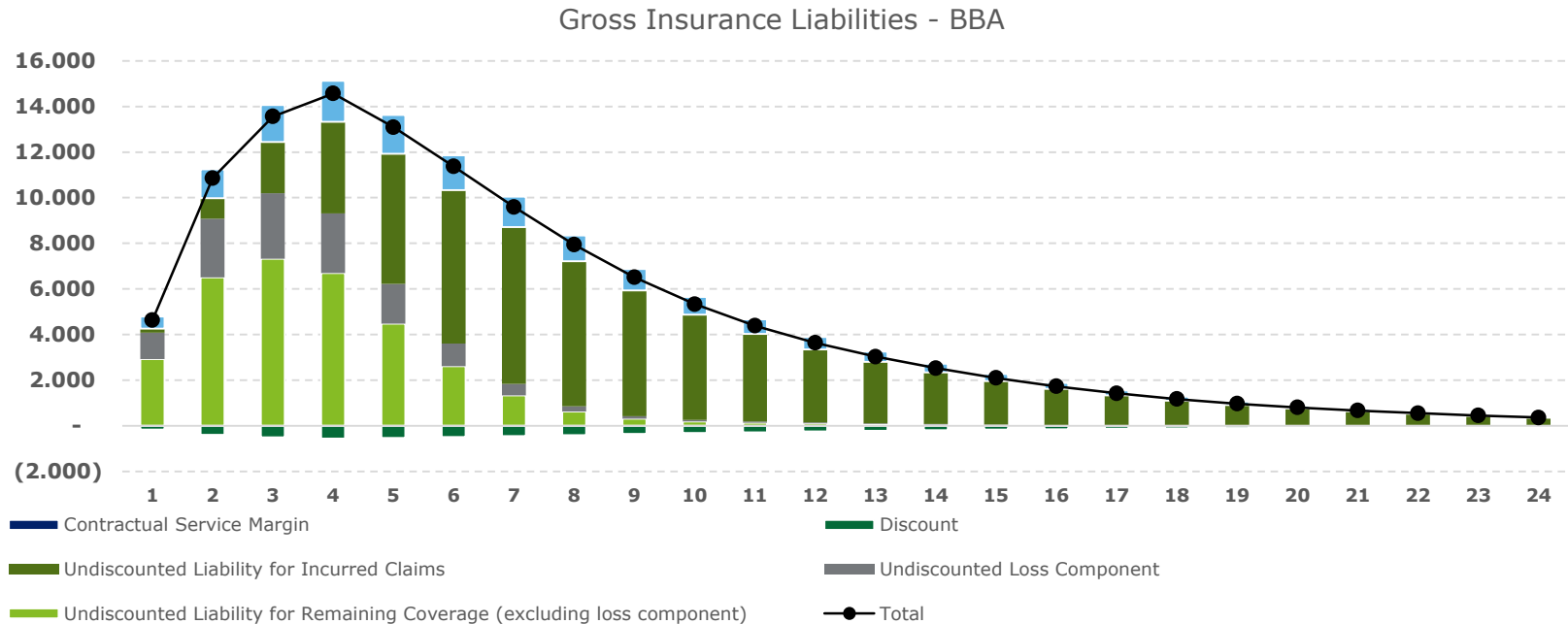
- Profitable product shows positive overall profit
- Convergence across all three methods
- Acquisition costs expensed in current basis versus IFRS 17 accounting policy choice to amortise.
- PAA and BBA result very close

PAA Eligible??

well that depends...

Sample outputs

Non-onerous long duration product



Total liability consists of **five** components:

1. Undiscounted BEL
2. Risk Adjustment
3. Discounting

4. CSM

AND....

5. Liability for incurred claims

Premium Allocation Approach

The group of contracts are issued on July 1st 2015. The entity received premium of **USD 1,200,000**; There is also directly attributable acquisition cash flow of **USD 50,000**.

Question: What is the liability amount at the initial recognition?

Liability for
Remaining
Coverage



Liability for
Incurred Claims

Accounting policy choice for the entity

Amortize insurance acquisition cash flows

Liability for Remaining Coverage =
1,200,000 – 50,000 = 1,150,000

Recognize any insurance acquisition cash flows as expenses

Liability for Remaining Coverage =
1,200,000

The coverage period is no more than one year

Scenario: annual reporting time – 31 December 2015

(USD thousands)						
Issue Date	Valuation Date	Annual Premium	Liability for incurred claims	Liability for incurred claims Risk Adjustment	Actual claims	Acquisition CF
01/07/2015	31/12/2015	1,200	600	40	0	50

- **6 months** – half of the coverage period has passed by 31December 2015
- Still no indication that this group of contract become **onerous**
- Assuming no significant financing component and thus **NO DISCOUNTING / UNWIND of DISCOUNT** for liability for remaining coverage
- Liability for incurred claims and corresponding risk adjustment has already been calculated by actuarial department by magic!
- There are no actual claims expected to be paid within 6 month
- The entity decides to amortise the acquisition cash flow as an accounting policy choice

Summary of Liability for Remaining Coverage

Liability for Remaining Coverage (USD thousands)	31-Dec-15		
Opening balance	-		
Cash inflows	1,200	1	Cash
Insurance revenue	(600)	2	Ins Revenue
Acquisition cash flow	(50)	3	Cash
Amortisation of acquisition cash flow	25	4	Ins Ser. Exp.
Closing balance	575		

1 Cash Inflows

- Premium received.

2 Insurance revenue

- Insurance revenue for the period is the amount of expected premium receipts allocated to the period.

3 Acquisition Cash Flow

- Initial acquisition cash flow.

4 Amortisation of acquisition cash flow

- Acquisition cash flow allocated to the period. The allocation basis is the passage of time in this example.

Summary of Liability for Incurred Claims

Liability for Incurred Claims (USD thousands)	31-Dec-15
Opening balance	-
Estimates of the present value of future cash flows related to past service	600
Risk adjustment for non-financial risk	40
Cash outflows	-
Closing balance	640

1

Ins Ser. Exp.

2

Ins Ser. Exp.

3

1

Incurred Claims

- the fulfilment cash flows for claims and expenses already incurred but not yet paid.

2

Risk adjustment for non-financial risk

- The risk adjustment on liability for incurred claims.

3

Cash outflows

- Actual claims paid.

Statement of Comprehensive Income

Statement of Comprehensive Income Items (USD thousands)	31-Dec-15
Insurance revenue	1 600
Insurance service expenses	2 (665)
- Incurred claims during the period	(600)
- Change in risk adjustment for incurred claims	(40)
- Amortisation of acquisition cash flow allocated to the current period	(25)
Insurance Service Result	(65)

1

Insurance revenue

- Insurance revenue is the amount of expected premium receipt allocated to the period.

2

Insurance service expenses

- Include the claim related insurance expenses as well as the deferrable acquisition cost allocated to the current period.

Thank you!
Q&A