

INTRODUCTION TO IFRS 17

2017 Insurance IFRS Seminar

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Session 2



History of Project - Objectives

- To provide information to users of financial statements that is relevant for economic decision-making
- To eliminate inconsistencies and weaknesses in existing practices
- To provide comparability across entities, jurisdictions and capital markets

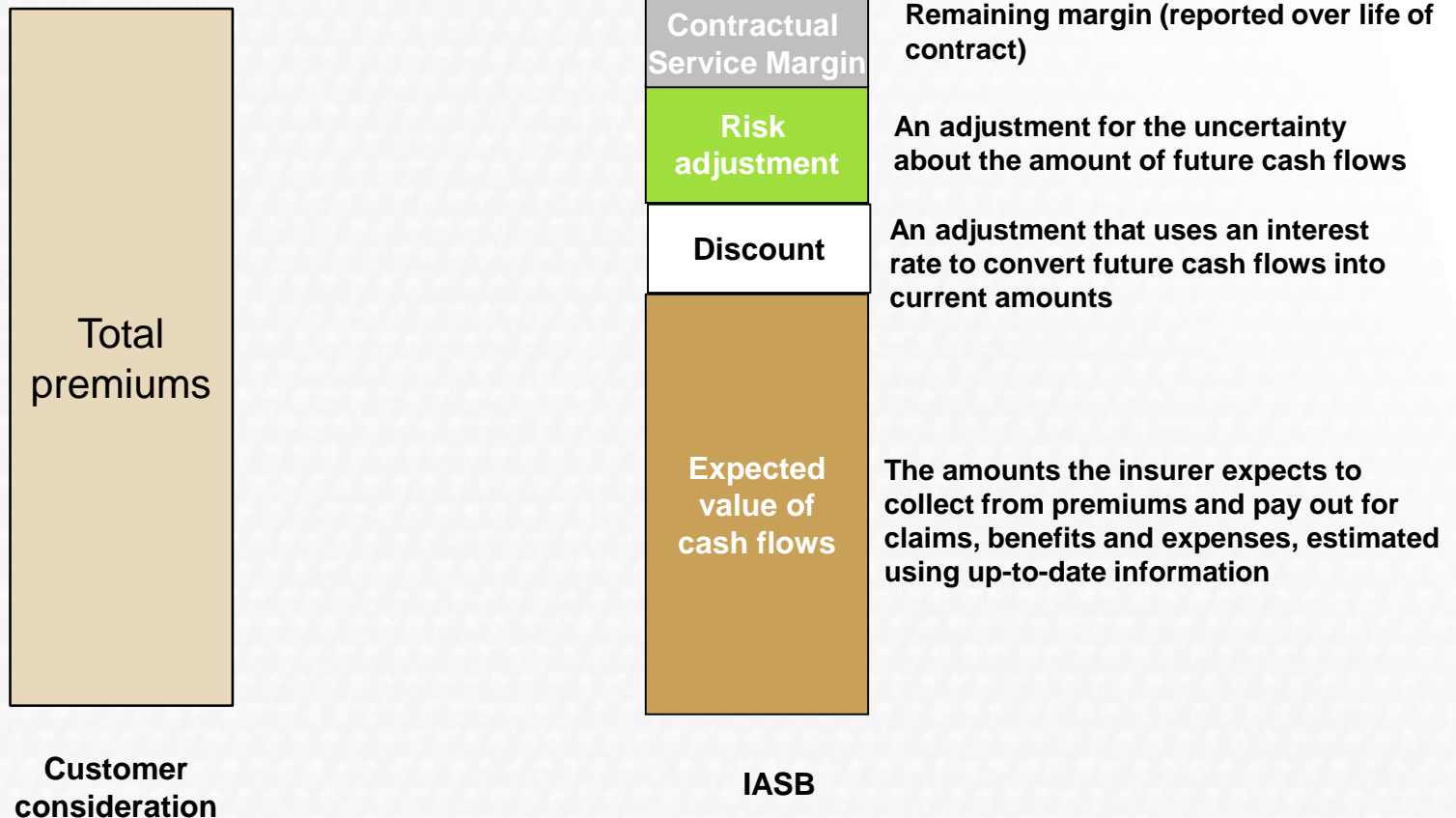
What is New and What is Not – from IFRS 4

- What Has Not Changed;
 - Definition of Insurance
 - DPF Investment Contracts issued by Insurance Companies are Insurance
 - Simplified claim triangle disclosure at transition
 - “Unearned Premium” type reserve approach for short duration contracts
 - Extensive disclosures

What has changed

- Explicit General Model (GM) for insurance liabilities introduced
 - Simplified Premium Allocation Approach (PAA) for short duration contracts
- “Margin” type presentation of insurance P&L
- “Roll forward” reconciliation of opening and closing actuarial balances
- Current estimates with either
 - Actual investment results in P&L
 - Difference between actual and expected investment results in Other Comprehensive Income (OCI)

General Model: Current fulfillment value



Example (10 year level term)

Year	Premium	Expense	Commission	Benefits	Cash Flow
1	502	(112)	(452)	(141)	(203)
2	416	(9)	(42)	(172)	193
3	357	(8)	(36)	(195)	118
4	319	(7)	(32)	(208)	72
5	290	(7)	(29)	(215)	39
6	264	(6)	(13)	(218)	27
7	243	(6)	(12)	(221)	4
8	224	(6)	(11)	(223)	(15)
9	208	(5)	(10)	(227)	(35)
10	100	(3)	(5)	(122)	(30)

Basic Reserve

Year	Cash Flow	PVFCF	Profit
0		170	170
1	(203)	373	0
2	193	180	0
3	118	61	0
4	72	(10)	0
5	39	(50)	0
6	27	(76)	0
7	4	(80)	0
8	(15)	(65)	0
9	(35)	(30)	0
10	(30)	-	0

Risk Margin (RM)

Year	Cash Flow (CF)	Risk Margin	Adj Cash Flow (CF + RM)	PVFCF	Profit
0				39	39
1	(203)	(22)	(225)	264	22
2	193	(19)	175	89	19
3	118	(16)	102	(13)	16
4	72	(15)	57	(69)	15
5	39	(14)	26	(95)	14
6	27	(13)	14	(109)	13
7	4	(12)	(8)	(101)	12
8	(15)	(11)	(26)	(75)	11
9	(35)	(10)	(45)	(30)	10
10	(30)	(0)	(30)	-	0

Contractual Service Margin (CSM)

Year	CF w/ RM	CSM	CF w/ RM+CSM	PVFCF	Profit
0				-	0
1	(225)	(7)	(231)	231	29
2	175	(6)	169	62	24
3	102	(5)	97	(35)	21
4	57	(4)	53	(87)	19
5	26	(4)	22	(109)	18
6	14	(4)	10	(119)	16
7	(8)	(3)	(11)	(108)	15
8	(26)	(3)	(29)	(79)	14
9	(45)	(3)	(47)	(32)	13
10	(30)	(1)	(32)	-	1

Increasing Complexity of Reserves

v = discount
P = premium
B = benefit

E = expense
RM = risk margin
CSM = contractual service margin

$$\text{NLP} \quad \sum_n v^n {}_{n-1} p_x (P_n - q_{x+n} B_n)$$

$$\text{US GAAP} \quad \sum_n v^n {}_{n-1} p_x (P_n - \sum_t q_{x+n,t} B_{n,t} - E_n - RM_n)$$

$$\text{IFRS} \quad \sum_s \sum_n v_s^n {}_{n-1} p_{x,s} (P_n - \sum_t q_{x+n,t,s} B_{n,t,s} - E_{n,s} - RM_{n,s} - CSM_{n,s})$$

n = duration
t = benefit type
s = scenario

New “Margin” Presentation

- Eliminated from Income Statement
 - Paid premium
 - Increase in reserve
 - Paid commission & other acquisition costs
 - Increase in DAC
- Replaced with
 - Earned revenue (expected benefits + RM + CSM + earned Acquisition cost)
- Eliminated from Balance Sheet
 - DAC
- Replaced with
 - Reserve reduced by acquisition costs paid

“Margin” Presentation Example

- 1 year level term insurance
- Issued 7/1/2017
- 100 premium
- 30% commission
- Expected claims = 0

- 2017 P&L

IFRS “Margin” Presentation (vs. US GAAP)

	US GAAP	IFRS
Revenue	100	50
Commission	-30	-15
DAC change	15	
Reserve change	-50	
Profit	35	35
Cash	70	70
DAC	15	
Reserve	-50	-35
Equity	35	35

IFRS 17 Effective Date

- January 1, 2021
- Earlier adoption permitted

Transition Resource Group (TRG)

- The aim of the TRG is to facilitate a public discussion to provide support for stakeholders and information to the Board on implementation questions arising from the application of IFRS 17.
- Questions discussed by the group should meet the following criteria:
 - must be related to, or arise from, IFRS 17;
 - may result in possible diversity in practice; and
 - are expected to be pervasive, ie relevant to a wide group of stakeholders.
- During meetings, TRG members will be expected to share their own views on the questions submitted. *The group will not be expected to discuss questions that are solely actuarial in nature.* The group will not issue any guidance

Thank You



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