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ANALYTICS



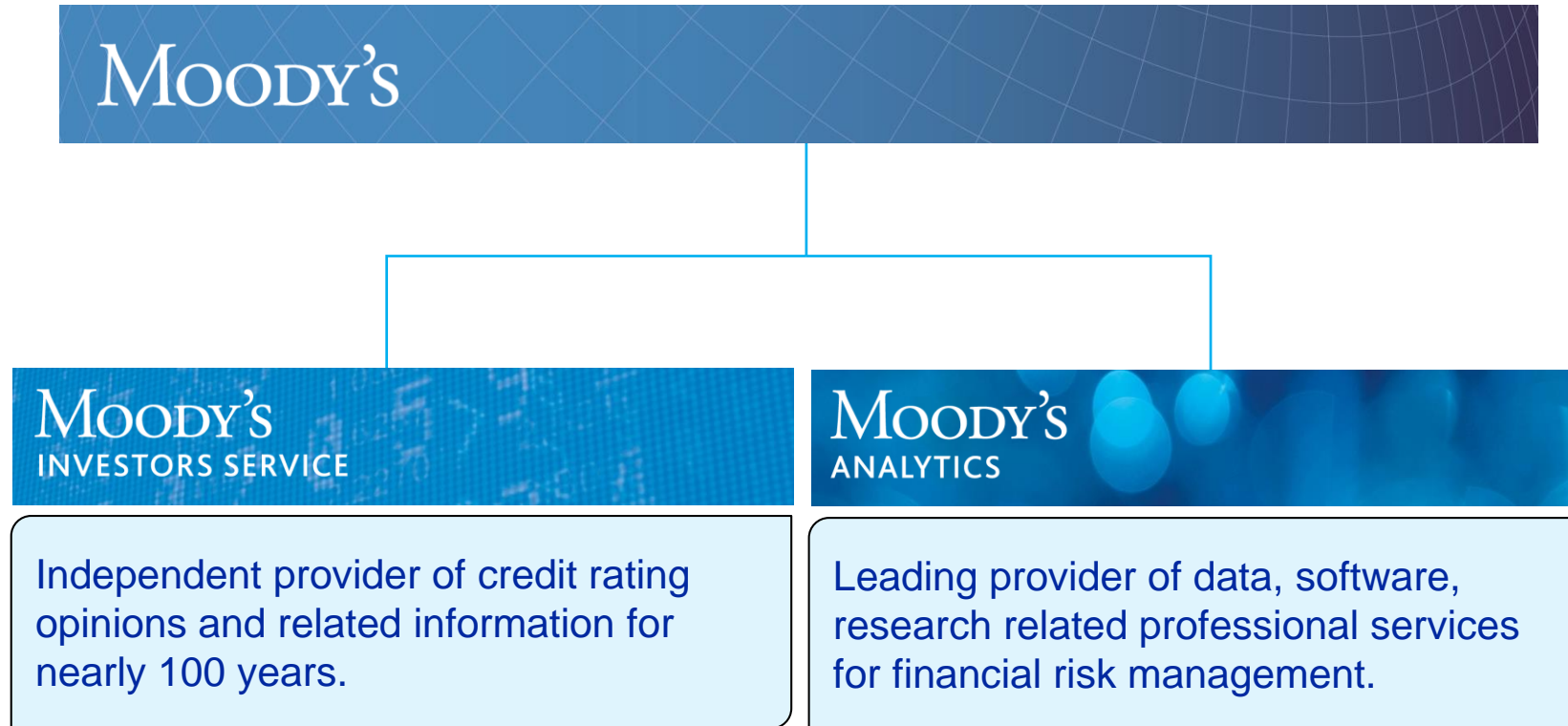
EY

Building a better
working world

IFRS 17 Implementation: Best Practices and Opportunities

Jun 25, 2019

Moody's Analytics helps our global clients measure, understand, and mitigate risk – beyond ratings



Moody's Analytics

A Trusted Advisor to the Global Insurance Market



350+

Professionals

- » Actuaries (100+)
- » Accountants
- » Economists
- » Software Engineers
- » Product Managers
- » Researchers
- » Business Analysts



400+

Customers

- » Insurers
- » Re-Insurers
- » Life, P&C, Composite
- » Asset Managers
- » Pension funds
- » From large multinationals to small institutions



30+

Countries

- » Africa
- » Americas
- » Asia Pacific
- » Europe
- » Middle East

IFRS 17 /
LDTI

IFRS 9 /
CECL

Internal
Models

Proxy
Modeling

Actuarial
Modeling

Scenario
Generation

Capital
Management

Solvency II



Today's Presenters

Moderator: **Trevor Howes**
Director, Actuary
Moody's Analytics

Speakers: **Daniel Willmann**
Senior Manager, Financial Accounting Advisory Services
Ernst & Young LLP

Srinivasan Iyer
Senior Director, Solutions Specialist
Moody's Analytics

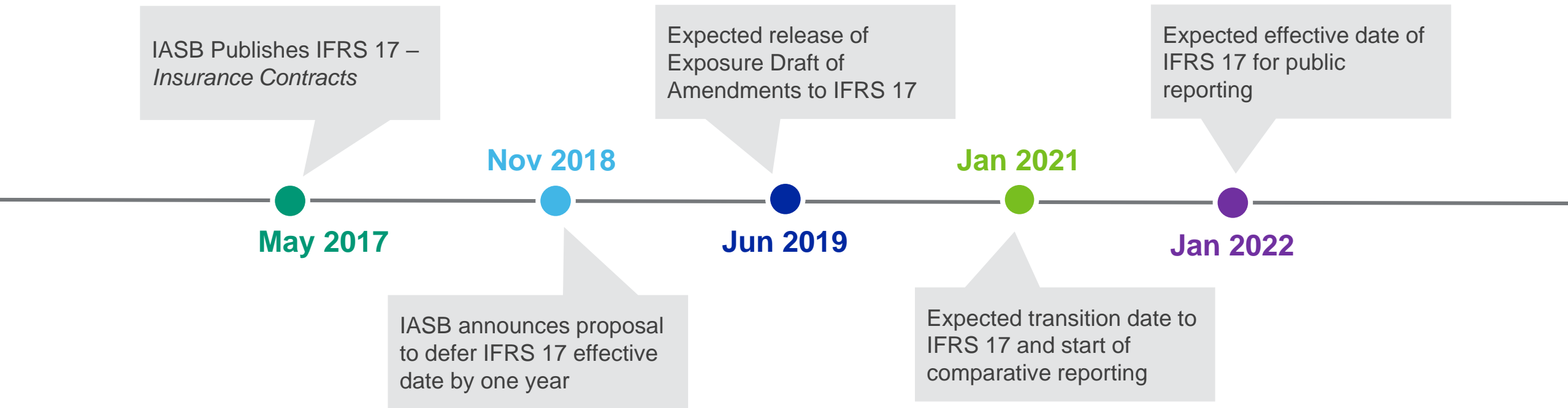
Agenda

1. Overview of IFRS 17
2. Implementation Challenges Facing P&C Insurers
3. IFRS 17 Implementation and Solution Approach

1

Overview of IFRS 17

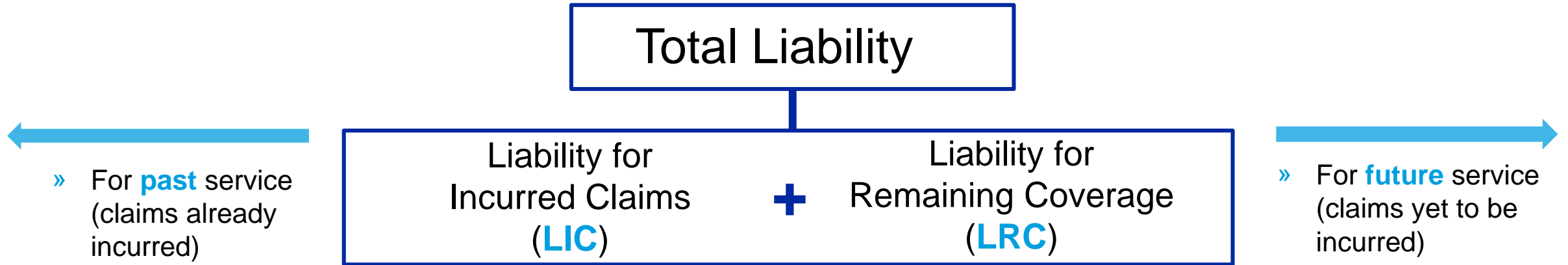
IFRS 17 - Insurance Contracts



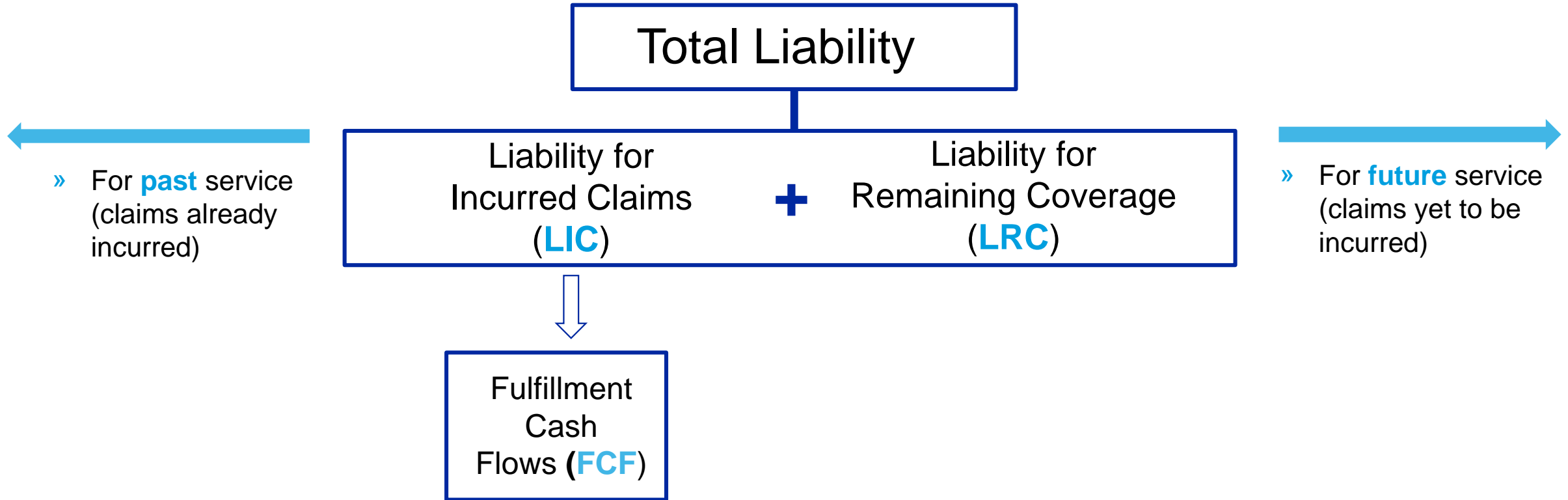
Poll: What is the current status of your IFRS 17 preparation?

1. Early Stages – Getting familiar with the standard and requirements
2. Planning Stage – Initial Impact analysis is complete. Starting with technical solution design
3. Solution Selection – Reaching out to Vendors
4. Solution Selection - Looking at internal build options
5. Implementation is underway
6. Parallel Run with existing accounting approach

IFRS 17 Liability Measurement by Contract Group

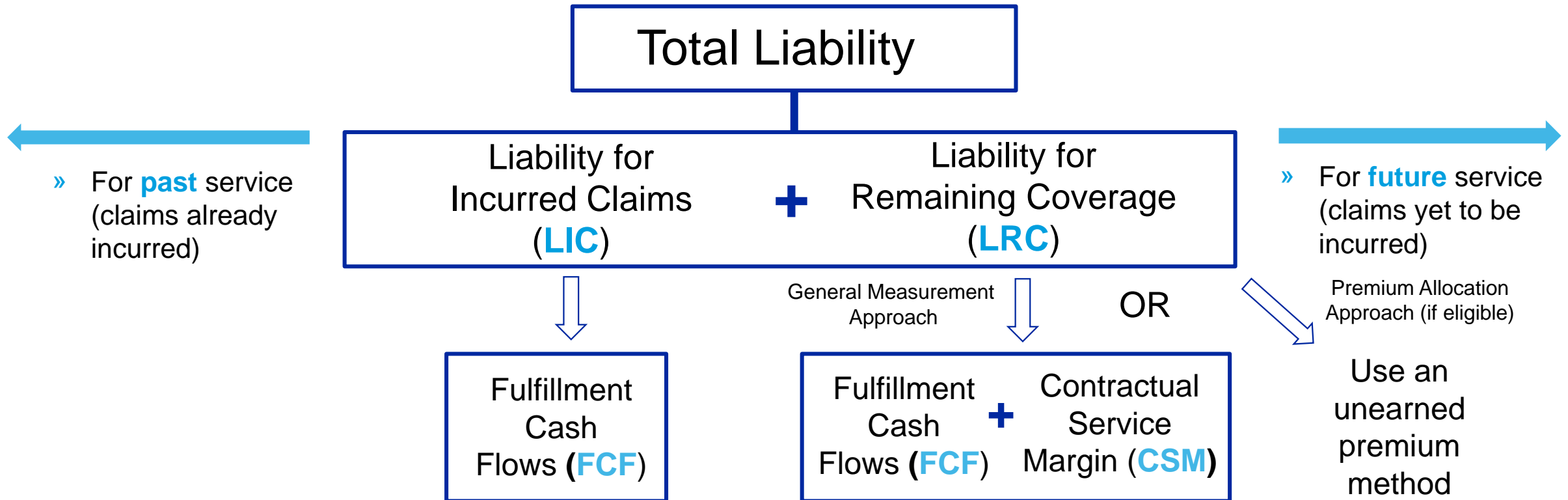


IFRS 17 Liability Measurement by Contract Group



FCF = unbiased estimate of future cash flows
adjusted for time value (discounting)
+ explicit risk adjustment

IFRS 17 Liability Measurement by Contract Group

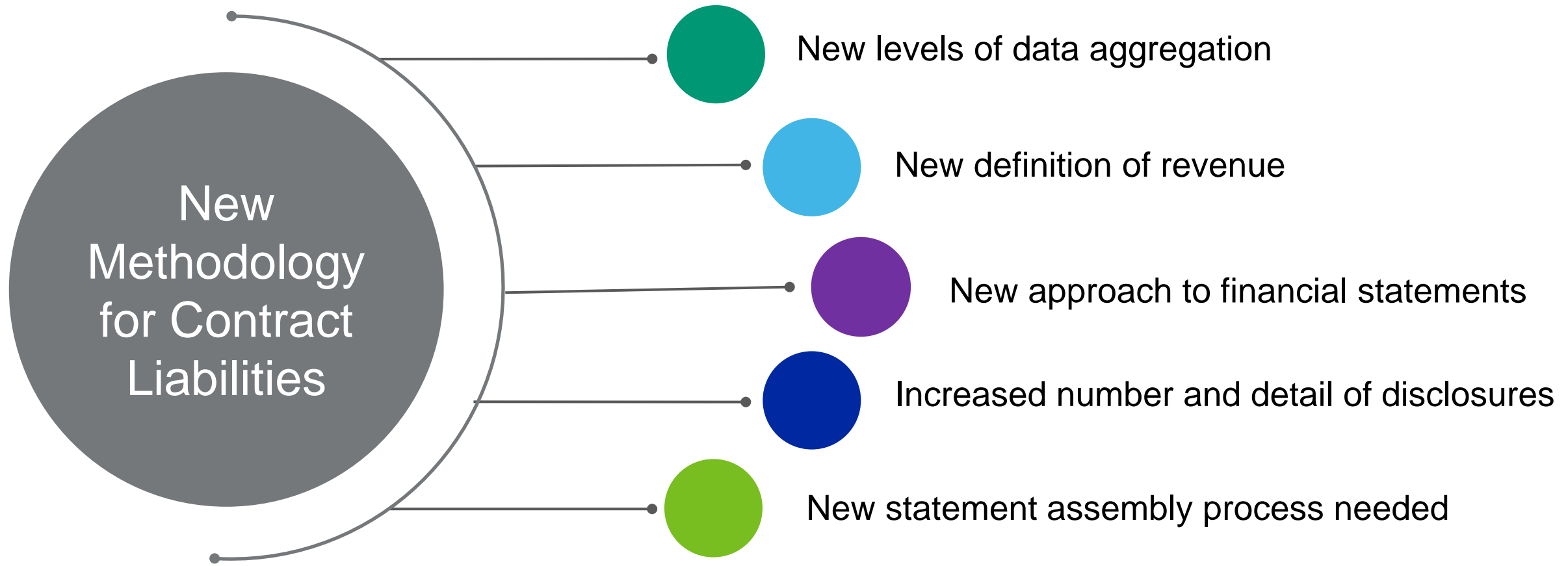


FCF = unbiased estimate of future cash flows
adjusted for time value (discounting)
+ explicit risk adjustment

CSM is rolled forward by group,
adjusted and amortized into income
over term of future service

The Challenge of Supporting IFRS 17

A comprehensive and fundamental change in financial reporting



2

Implementation Challenges Facing P&C Insurers

IFRS 17 Grouping Requirements and Data Challenges

- ▶ Level of aggregation
 - ▶ IFRS 17 requires contracts to be organized into Portfolios, Cohorts, and Groups.
 - ▶ Requires policy admin, general ledger, or other source system to be capable of XYZ (i.e. portfolio, cohort, and group) for each contract. This capability is not widely available in today's systems.
- ▶ Onerous contract determination
 - ▶ PAA assumes all contracts are not onerous unless 'facts and circumstances' indicate the contract is onerous.
 - ▶ Challenge relates to determining what those 'facts and circumstances' are and at what level to perform the assessment.
- ▶ Expense allocation
 - ▶ The definition of insurance acquisition cash flows is more broad under IFRS 17 and there is a new requirement under IFRS 17 to separate fulfilment cash flows from 'other' cash flows (i.e. those not included in service service result).
 - ▶ Requires a methodology for categorizing expenses into acquisition, fulfilment and other as well as the ability to allocate expenses to insurance groups.

2021	Portfolio A		
	Portfolio B		
	...		
	...		
2022	Portfolio A		
	Portfolio B		
	...		
	...		
2023	Portfolio A		
	Portfolio B		
	...		
	...		
2024	No significant possibility of becoming onerous		
	No significant possibility of becoming onerous		
	No significant possibility of becoming onerous		
	No significant possibility of becoming onerous		
2025	Other profitable		
	Other profitable		
	Other profitable		
	Other profitable		
2026	Onerous at inception		
	Onerous at inception		
	Onerous at inception		
	Onerous at inception		

Key Takeaways

1. System change needed for XYZ tagging
2. Onerous contract triggers to be identified
3. Expense allocation methodology to be developed and operationalized.

IFRS 17 Grouping Requirements and Data Challenges (continued)

- ▶ Investment component
 - ▶ IFRS 17 requires insurers to separately record investment components (e.g. no claims bonuses, experience refunds etc.)
 - ▶ Challenge relates to systems not adequately tracking the information needed in order to identify, measure, and record the investment components within each contract.
- ▶ Reinsurance (Gross vs net)
 - ▶ We currently view results as gross (direct business written) and net (gross business written less reinsurance held).
 - ▶ Under IFRS 17 reinsurance portfolios will need to be valued separately similar to direct business written. We will therefore need to view our results as gross (direct business written), ceded (reinsurance held), and net (gross business written less reinsurance held).
 - ▶ Many reinsurance programs today are measured outside of our policy systems and manually recorded. As a result of system and process changes planned as part of the IFRS 17 implementation program we can take this opportunity to migrate reinsurance into our policy or source systems.



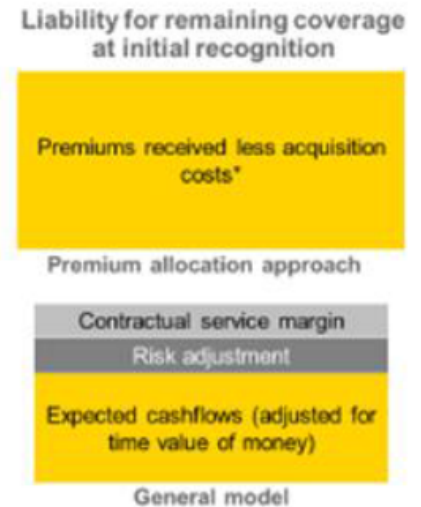
Key Takeaways

1. Investment components should be identified for each contract.
2. Reinsurance will be separately valued

Accounting Policy and Methodology choices

► Measurement options

- PAA is not a requirement, it is a policy option. For those insurers with contracts that meet the criteria to apply PAA, should consider all relevant benefits and costs before deciding on the measurement model to apply.
- Is modelling required to support eligibility for PAA (i.e. is the contractual boundary greater than one year to three years)
- Considerations include: are all contracts eligible for PAA (risk of requiring dual models), are new products expected to be issued in the future which may not be eligible for PAA (need to be flexible), are the capital benefits under GMM worth the added complexity (capital considerations), etc.



► P&L vs OCI

- IFRS 17 includes a policy option to allow for the impacts from changes in financial variables (e.g. discount rate) to be recorded within OCI (OCI option) or to flow through the P&L (P&L option).
- While the OCI option potentially helps to reduce income statement volatility it will likely require a significant investment in systems.
- A key consideration in which option to choose, aside from system implications, is how the insurance liabilities will interact with the assets measured under IFRS 9.

Key Takeaways

1. PAA is a policy option
2. Change in discount rate can be disaggregated between P&L and OCI to limit volatility.

Accounting Policy and Methodology choices (continued)

- ▶ Gross up of assets and liabilities
 - ▶ IFRS 17 originally required insurance contract assets to be separated from insurance contract liabilities, assessed at the group level.
 - ▶ During the December 2018 IASB meeting, it was proposed that IFRS 17 be amended to require the gross up of assets and liabilities to be performed at the portfolio level. Impact results in a simplified implementation for P&C insurers.
- ▶ Discount rate and risk adjustment methodology
 - ▶ Policy options are available under IFRS 17 when determining the discount rate (top down vs bottom up) and risk adjustment (no prescribed method but options could include margin, cost of capital, or statistical approaches) to use.
 - ▶ Industry is awaiting further guidance on how these variables will be determined.
 - ▶ There are no significant system implications related to these choices.
- ▶ Transition
 - ▶ IFRS 17 requires full retrospective approach on transition, unless it is impracticable to do so.
 - ▶ Should consider today if information is available to perform full retrospective application.



Key Takeaways

1. Assets and liabilities to be aggregated by portfolio.
2. Discount rate and risk adjustment guidance is pending from industry
3. Should assess ability to perform full retrospective approach on transition.

Subledger and GL implications

- ▶ General Ledger vs. Sub-ledger
 - ▶ IFRS 17 requires more data to populate financial statement disclosures which include more tabular reconciliations of the insurance liabilities compared to the requirements of IFRS 4.
 - ▶ Insurers should consider where that data will be stored and how they want their financial statement close process to be structured.
 - ▶ Should we take this opportunity to define a target state that improves financial reporting, including opportunities for automation?
- ▶ Data complexities
 - ▶ Additional disclosures requires the insurers to manage more data, aggregated at a different level than previously held (i.e. XYZ tagging).
 - ▶ Financial statements today may draw from multiple source systems. Opportunity to automate may be limited.
 - ▶ Ability to aggregate and disaggregate information to the right level will be required.
 - ▶ Insurers reporting in multiple GAAPs or reporting bases (e.g. IFRS and US GAAP), need to understand the data required to satisfy multiple reporting requirements.

Balance sheet
Assets
Reinsurance contract assets
Insurance contract assets
Liabilities
Insurance contracts liabilities
Reinsurance contracts liabilities
Income statement
Insurance contract revenue
Incurred claims and expenses
Insurance service result
Investment income
Insurance finance expense
Net financial result
Profit or loss
Discount rate changes on insurance liability (optional)
Total comprehensive income

Poll: What in your assessment is the most challenging aspect of IFRS17 implementation?

1. Grouping and Aggregation
2. Measurement and Methodology
3. Sub-ledger and Integration with General Ledger
4. Generating the Financial Statements and Disclosures
5. Automation of the end-to-end IFRS17 process
6. Other

3

IFRS 17 Implementation

Recap of Core Requirements



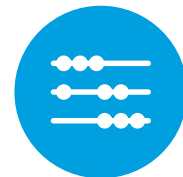
Grouping and Aggregation

- Develop complete list of all data items needed for grouping, measurement and disclosures
- Provide option to aggregate contract level data or leverage pre-grouped data for Insurance groups



Data Pre-processing

- Derivation of cashflows based on patterns such as claims payment pattern, premium pattern
- Support multiple methodologies to bucket costs, expenses, fees, premiums to Insurance groups



Measurement Options (PAA, GMM)

- Calculation and roll-forward of LRC and LIC
- Support ability to take in non-linear patterns for acquisition cost, Revenue, Claims
- Discounting and Risk Adjustment for LIC



PAA Eligibility and Onerosity Testing

- Ability to run GMM and PAA models for eligibility testing – alternately take in GMM PvCF as input
- Model and track Onerous contracts – track losses and loss reversals



SubLedger

- Comprehensive CoA to support the new financial statement and disclosure requirement
- Robust subledger capabilities – CoA, Journal Creation, Soft and Hard Postings, Trial Balance



Reporting and Disclosures

- Generate all required financial statements and disclosures – Movements, B/S, Rollforward
- Ability to disaggregate of IFRS 17 results to reserving segments or other levels for internal reporting

Key Concerns with IFRS 17 implementation

1

Evolving nature of the standard

Grouping, methodology, accounting, disclosures and transition

2

Data is the “new oil”; but its difficult to find

Availability of appropriate data poses a critical risk on implementation and transition

3

Cost of Compliance

Minimum Viable Compliance vs Transformational

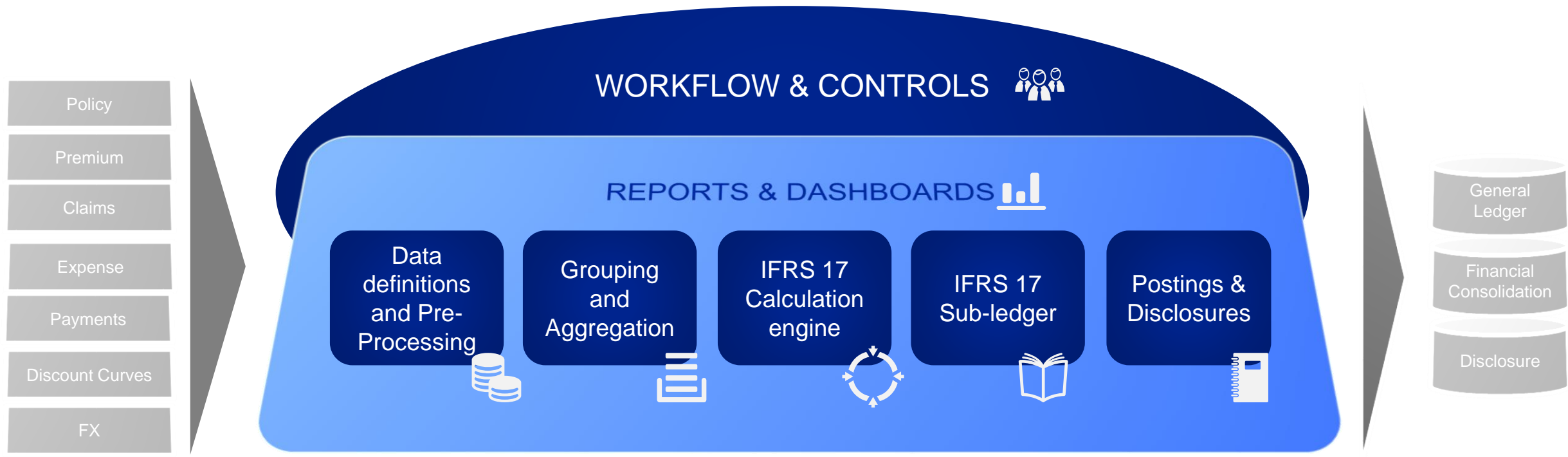
4

Broad scope of impact – tight coordination

Financial, Business and Operational impact of accounting and actuarial choices

Moody's approach to IFRS17

Vendor maintained cloud software with clear integration points and workflows



Application Homepage

Landing page with one click links to all modules









Data Dashboard

Setup of all critical reference/support data elements

RiskIntegrity™ IFRS 17 [Home](#) > [Projects](#) > [PAA Hands on \(Dec 31, 2017 - Dec 31, 2018\)](#) > [Supporting Data](#)

Supporting Data Dashboard
Import and setup core information such as the business hierarchy

CASHFLOW TYPES  No cashflow types imported yet IMPORT	CASHFLOWS MAPPING  No cashflows mapping imported yet IMPORT	BUSINESS HIERARCHY  Count: 2 RE-UPLOAD APPEND
PORTFOLIOS  Count: 1	PRODUCT TYPES  Count: 1	RUNS  Count: 1

Supporting Data

- » Business Hierarchy
- » Portfolios
- » Cashflow Types
- » Cashflow Mapping
- » Product Types
- » Runs

Data Import

Import data using UI, API's, ETL or Batch load

Variables
Filter by Run
Not related to any run

DOWNLOAD

Search

IFRS 17 Group	Underlying IFRS 17 Group	Variable
<input type="checkbox"/>	Surety_EUR_2018	P_PAID
<input type="checkbox"/>	Surety_EUR_2018	AQE_PAID
<input type="checkbox"/>	Surety_EUR_2018	AQE_DEREC
<input type="checkbox"/>	Surety_EUR_2018	TOTAL_EPR
<input type="checkbox"/>	Surety_EUR_2018	UNEARNED_EPR
<input checked="" type="checkbox"/>	Surety_EUR_2018	A_AQE_PERCENT
<input type="checkbox"/>	Surety_EUR_2018	REVENUE_PERCENT
<input type="checkbox"/>	Surety_EUR_2018	BEL_IFRS17_GMM
<input type="checkbox"/>	Surety_EUR_2018	RA_GMM
<input type="checkbox"/>	Surety_EUR_2018	EPR_NB

Variables
Filter by Run
10 - Rollforward - PAA

DOWNLOAD

Search

IFRS 17 Group	Variable
<input checked="" type="checkbox"/> PAA_Group	B
<input type="checkbox"/> PAA_Group	B_P
<input type="checkbox"/> PAA_Group	RA_LIC

Details

Time Period	Value
Dec 31, 2017	18727454.25

Accounting Process

Manage all activities related to Accounting process

RiskIntegrity™ IFRS 17 [Home](#) > [Projects](#) > [PAA_test_MB \(Dec 31, 2017 - Jan 31, 2018\)](#) > [Accounting](#)

DASHBOARD

Dashboard

DATA MANAGEMENT

Imports

PROCESSES & RESULTS

Processes

Transactions

Journal Entries

Trial Balance

Reports

CONFIGURATION

Chart Of Accounts

Exchange Rates

Transaction Scope


Posting Rules

Journal Types

Accounting Dashboard

Manage accounting setup, soft postings and results


CHART OF ACCOUNTS



No chart of accounts imported yet


IMPORT

EXCHANGE RATES



No exchange rates imported yet


POSTING RULES



No posting rules imported yet


IMPORT

TRANSACTION SCOPE



Count: 89

PROCESSES



1. Transaction Generation	Not Started
2. Journal Generation	Not Started

PROCESS ABORT

Accounting Dashboard

- » Chart of Accounts
- » Exchange Rates
- » Posting Rules
- » Transaction Scope
- » Processes (Accounting)

Accounting Engine

- » Reports
- » Transactions
- » Journal Types
- » Journal Entries
- » Trial Balance

Comprehensive set of Reports



Actuarial Results



Accounting/Postings



Disclosures/Statements



Control/Audit Logs

RiskIntegrity™ IFRS 17

PAA_non_Life_Fidea (Dec 31, 2016 - Dec 31, 2017)

Hui, Fengting

Reports

COLLAPSE EXPAND

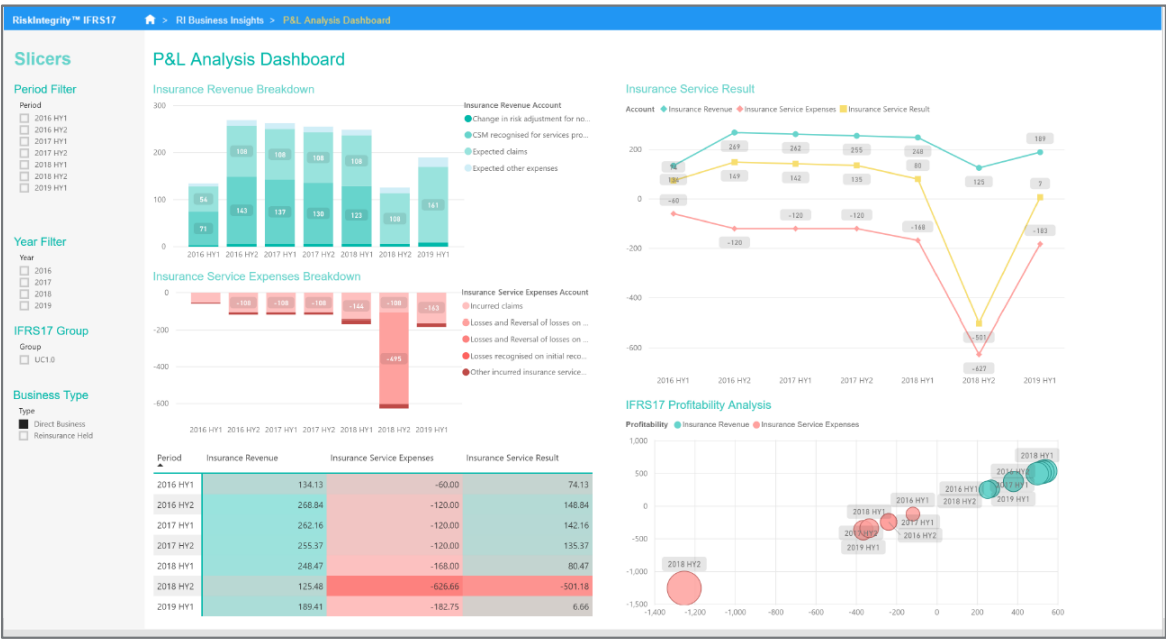
Search

Fidea - Parent Branch

- Fidea - Life Branch
- Fidea - Non Life Branch

Movement in Carrying Amounts (PAA) / CU

		Liability for Incurred Claims	
		Present Value	Future CF
Opening Liabilities		-	-
Changes in the statement of profit or loss and OCI			
Insurance revenue	33,441,882.58		
Incurd claims and other insurance service expenses		18,727,454.25	
Amortisation of insurance acquisition cash flows	1,469,502.26		
Losses and reversal of losses on onerous contracts			
Adjustments to liabilities for incurd claims			
Insurance service expenses	1,469,502.26	18,727,454.25	
Insurance service result	31,972,380.32	(18,727,454.25)	
Net finance expenses from insurance contracts	-		
Effect of movements in exchange rates			
Total changes in the statement of profit or loss and OCI	-		
Cash flows			
Premium received	44,801,348.61		
Claims and other insurance service expenses paid		(8,424,060.67)	(421,203)
Insurance acquisition cash flows	(1,968,659.59)		
Total cash flows	42,832,689.02	(8,424,060.67)	(421,203)



Our Approach

Design a solution that helps streamline IFRS 17 compliance

Core Capabilities

Controlled environment to manage the end-to-end process



Robust Accounting Engine



Single Platform for multiple business lines



End User friendly UI built using industry input



Supports all methodologies (PAA, GMM, VFA)



Full set of Financial Statements & Disclosures



Support for Accounting Options in the standard



Cloud / SaaS



Implementation Approach

Focus on Configuration – Not Customization



Use Case based Agile approach



Strong Partner Ecosystem



Vendor maintained updates



Questions and answers



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