IFRS 17
Data and disclosure requirements

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IFRS 17 : Background

What is it and why was it developed?

1

What is IFRS 17?

A comprehensive standard to account for insurance contracts applicable to companies that prepare financial statements under IFRS. It replaces IFRS 4, which was not a comprehensive standard

2

Why was IFRS 17 developed?

To bring consistency to financial reporting around the globe for companies reporting under IFRS 17, and to better compare those insurance companies to those operating in other sectors of industry

3

What is the most fundamental element of change that IFRS 17 brings?

Closer alignment of the accounting to the underlying economics of insurance

IFRS 17 : Background

Improvements brought to the existing standards

Existing issues	How IFRS 17 improves accounting
Variety of treatments depending on type of contract and company	Consistent accounting for all insurance contracts by all companies
Estimates for long-duration contracts not updated	Estimates updated to reflect current market-based information
Discount rate based on estimates does not reflect economic risks	Discount rate reflects characteristics of the cash flows of the contract
Lack of discounting for measurement of some contracts	Measurement of insurance contract reflects time value where significant
Little information on economic value of embedded options and guarantees	Measurement reflects information about full range of possible outcomes

The information was prepared by IFRS Foundation.
http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/2016/project-overview-Feb-2016.pdf

IFRS 17 : Background
What is changing?

1 Balance sheet

- IFRS 17 requires a current measurement model, where estimates are re-measured in each reporting period.
- The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment, and a contractual service margin ('CSM') representing the unearned profit of the contract.

2 Income statement

- Requirements in IFRS 17 align the presentation of revenue with other industries. Investment components are excluded from revenue.
- Under IFRS 17, entities have an accounting policy choice to recognize the impact of changes in discount rates in profit or loss or in other comprehensive income ('OCI') to reduce some volatility in profit or loss.

3 Disclosures

- IFRS 17 disclosures will be more detailed than required under current reporting frameworks.
- Disclosures will provide additional insight into key judgements and profit emergence.
- Disclosures are designed to allow greater comparability across entities.

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IFRS 17 : Disclosure requirements

Overview

Under IFRS 17, an entity shall disclose qualitative and quantitative information about:

- The amounts recognized in its financial statements that arise from contracts within the scope of IFRS 17
- The significant judgements, and changes in those judgements made when applying IFRS 17
- The nature and extent of the risks that arise from contracts within the scope of IFRS 17

Amount

Reconciliation for insurance service

Opening balance → Closing balance

Net liabilities for remaining coverage	Any loss component	Liabilities for incurred claims

Reconciliation for liabilities valued by General model

Opening balance → Closing balance

Expected present value of future cash flows	RA for non-financial risk	CSM

More to be disclosed, including but not limited to:

Analysis of insurance contract revenue recognized in the period, comprising:

- CSM release to profit or loss,
- Expected insurance service expense
- RA release
- Recovery of insurance acquisition CFs

CSM and related quantities for in-force business at transition

Amount of insurance finance income or expenses (IFIE)

Judgement

Significant judgements & changes to those include:

- Methods to measure contracts
- Process for estimating the inputs for those methods
- Any changes to the methods and process, reason for each change
- Types of contracts affected

Explanation of methods used to calculate IFIE recognized in P&L	Confidence level used to determine RA for non-financial risk	Yield curve(s) to discount cash flows that do or do not vary based on returns of underlying items

The approach to determine:

- how to distinguish changes in estimates of future cash flows from the exercise of discretion from other changes, for contracts without participation features
- composition and fair value of underlying items for contracts with direct participation features
- RA for non-financial risk, discount rates and investment components

Risk

Disclosure for each type of risk

Risk appetite

Risk exposure

Risk management

Regulatory law

Type and extent of risks

Insurance risks	Financial risks
Risk concentrations	Risk concentrations
Sensitivity analysis concerning insurance risks	Sensitivity analysis concerning market risks
Claims development	Credit and liquidity risks

IFRS 17 : Disclosure requirements

Explanation of recognized amounts

01

Roll forward reconciliations of the carrying amounts of contracts within the scope of IFRS 17

100;12, 12.1.1

101;12.1.2

02

Analysis of insurance revenue

106; 6 & 7

03

Analysis of the effect of contracts initially recognised in each period

107-108;12.1.4/2.3

04

Explanation of expected CSM recognition in profit or loss

109;12.3

05

Information about contracts to which the entity applies the premium allocation approach

06

Explanation of the total amount of insurance finance income or expenses in each reporting period

110; 8

07

Transition amounts

114;12.1.3.1

IFRS 17 : Disclosure requirements
Significant judgements in applying IFRS 17

Under IFRS 17, an entity shall disclose information about the inputs, assumptions and estimation techniques used for significant judgements and information about changes in judgements.

The Standard generally require from entities to disclose the following items for all significant judgments made to measure insurance contracts in scope of IFRS 17:

- The methods used to measure insurance contracts
- The processes for estimating the inputs to those methods; and
- Any changes in the methods and processes for estimating inputs used to measure contracts

Methods

Methods used to measure insurance contracts shall be disclosed

An entity has to disclose information about the methods used to measure insurance contracts within the scope of IFRS 17.

An entity shall further disclose an explanation of the methods used to determine the insurance finance income or expenses recognized in P&L, if it has chooses to disaggregate insurance finance income or expenses into amounts presented in P&L and amounts presented in OCI.

	Key features	Example products
Building block approach (BBA)	▸ Default model in IFRS 17 ▸ Probability weighted discounted cash flows ▸ Market-based valuation of options and guarantees ▸ Contractual service margin (CSM): to spread recognition of profit and impact of changes ▸ Risk adjustment	▸ Annuities ▸ Protection ▸ Long-duration non-life business
Variable fee approach (VFA)	▸ Based on the building block approach, but with additional features for direct participating contracts ▸ Market volatility passes through CSM vs Statement of Comprehensive Income (P&L/OCI) for building block approach	▸ With-profit business ▸ Unit-linked business
Premium allocation approach (PAA)	▸ Optional approach for short duration contracts (pre-claims liability) ▸ BBA approach used to determine remaining exposure	▸ Short-duration contract (mostly non-life insurance)

Inputs

Disclosure of the process for estimate inputs used

An entity has to disclose the processes for estimating the inputs to the methods used and shall further provide quantitative information about these inputs, if practicable.

An entity has further to disclose the approach used:

- To determine the risk adjustment for non-financial risk, including:
  - Whether changes in the risk adjustment for non-financial risk are presented in full in the insurance service result or are disaggregated in components
  - Disclosure on the confidence-level if the entity uses a technique other than the confidence level technique
- To determine discount rates, including:
  - The yield curve (or range of yield curves) used to discount cash flows
  - The discloser can be aggregate for a number of contract, but than weighted averages, or relatively narrow ranges should be used.
- To determine investment components

Changes

Any changes in methods or input estimation shall be explained

An entity has to disclose any changes in the methods and processes for estimating inputs used to measure contracts.

Qualitative requirements:

- The reason for each change, and
- The type of contracts affected

An entity has further to disclose the approach used:

- To distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features

	Relating to future services (adjusting the CSM)	Relating to past and current services (to PL as insurance service result)
Experience adjustments in the period (*)	Experience adjustments arising from premiums that relate to future services	All other experience adjustments
Effect of experience adjustment on the remaining ('in-force') business	Changes in liability for remaining coverage	Changes in liability for incurred claims
Changes in assumptions	Changes in liability for remaining coverage	Changes in liability for incurred claims

(*) An experience adjustment is the difference between:

- For premiums (and related cash flows)- estimate of the cash flows at the beginning of the period and the actual cash flows
- For insurance service expenses - estimate of the incurred amounts at the beginning of the period and the actual incurred amounts

IFRS 17 : Disclosure requirements

Disclosure about the nature and extent of risks

Under IFRS 17, an entity shall disclose information about the nature, amount, timing, and uncertainty of future cash flows.

The Standard mentions financial risk explicitly and asks for the disclosure of quantitative information. The entity should also disclose how financial risks are managed. Items to be disclosed:

- The exposure to risks and how they arise
- The entity's objectives, policies and processes for managing the risks and the methods use to measure the risks; and
- Any changes from the previous periods

Financial risks include, but are not limited to, market risk, credit risk, and liquidity risk

Market risk

Risk mitigation by insurance contracts issued

An entity has to disclose information about sensitivities to changes in risk exposure that arise from contracts in scope of IFRS 17.

Quantitative disclosure requirement:

Sensitivity analysis showing how P&L and equity are affected by changes in risk exposures in a way that explains the relationship between the sensitivities to changes in risk exposures arising from insurance contracts and those arising from financial assets held by the entity

Qualitative disclosure requirements:

Methods and assumptions used in preparing the sensitivity analysis and changes to previous periods (if applicable)

Examples:

- Interest rate risk – due to market interest rate changes
- Equity risk – due to market changes

Credit risk

Disclosure of amount and information required

An entity has to disclose credit risk that arises from contracts in scope of IFRS 17.

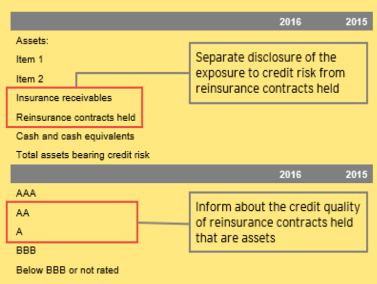
Quantitative disclosure requirement:

The amount that represents the maximum exposure to credit risk separately for

- Insurance contracts issued
- Reinsurance contracts held

Qualitative disclosure requirements:

Credit quality of reinsurance contracts held



Liquidity risk

Managing liquidity risk and maturity analysis

An entity has to disclose liquidity risk that arises from contracts in scope of IFRS 17.

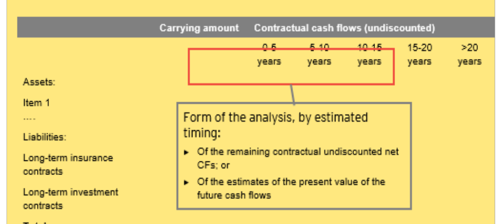
Quantitative disclosure requirement:

Maturity analysis of the single net cash flows for years 1-5, and aggregate beyond year 5:

- Group of insurance contracts issued
- Group of reinsurance contracts held that are liabilities

Qualitative requirements:

Description on how the entity manages the liquidity risk



… as well as for non-financial risks

According to the disclosure requirements for financial risks, shall entities disclose qualitative and quantitative information about non-financial risks. In this regard, IFRS 17 explicitly requires to disclose information about insurance risk:

- Sensitivity analysis
- Claims development

Beside the insurance risk the standard mentions other non-financial risks for example the lapse and the expense risk.

Insurance risk – sensitivity analysis

Risk mitigation with reinsurance contracts held

For all contracts in scope of IFRS 17 an entity shall disclose information about sensitivities to changes in risk exposure by means of a sensitivity analysis.

Quantitative disclosure requirements:

- Show the effect for insurance contracts issued before and after risk mitigation by reinsurance contracts held, how P&L and equity would have been affected by reasonably possible changes in the insurance risk exposures.
- If an entity decided to disclose and use alternative amounts affected by the insurance risk exposure to manage the risk, it has to explain the method, the main parameters, the assumptions, the objectives and the limitations.

Qualitative disclosure requirements:

- Methods and assumptions used in preparing the sensitivity analysis
- Changes to previous periods and reasons for such changes (if applicable)

Insurance risk – claims development

Comparison of actual and previously estimated claims

An entity has to disclose the claims development for all contracts within the scope of IFRS 17. A comparison of actual claims with previous estimates of the undiscounted amount of the claims needs to be shown.

Quantitative discloser requirements:

- Discloser of the claim(s) development starts at the point when the earliest material claim(s) arose & if there is uncertainty about the amount and timing of the claims payments.
- Reconciliation of the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts

Quantitative discloser of the risk exposure through the claims development is not required when:

- The claims payments are typically resolved within one year.

Content

IFRS 17 : Data implications

Why data, systems and processes are important to IFRS 17?

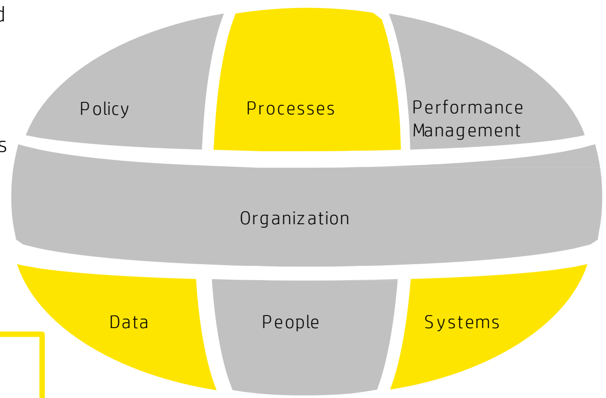
The implementation of IFRS 17 will have profound impacts on all aspects of your organization, from front- to-back office.

Processes

- Setting materiality concepts/guidelines
- Updating closing and reporting processes, actuarial processes, planning procedures, risk management
- Changes to internal and external reporting templates including group reporting packages
- Internal controls and audit trail
- Planning, budgeting and forecasting processes

Policy

- New accounting policies/ guidelines and control procedures
- IFRS 17 calculation methodology guidance and reporting instructions
- Actuarial models and assumptions setting and inputs
- General Ledger (GL) Chart of Accounts changes and local account mappings
- Investment policy changes (IFRS 9)



Performance Management

- Changes in Management Information reports and Key Performance Indicators
- Value-based management, scorecards and incentive scheme adjustments

Organization

- Roles and responsibility changes (especially between Actuarial and Finance)
- Technical provisions assumptions /expert judgment committee
- Impacts on outsourcing contracts
- Consolidated group vs entity level reporting

Data

- New financial reporting data requirements (input/output) at more detailed granularity
- Data reconciliations at different levels
- Data quality, storage and archiving
- Data security and controls
- Data governance and master data
- Demand for a single-source of truth for finance and risk data

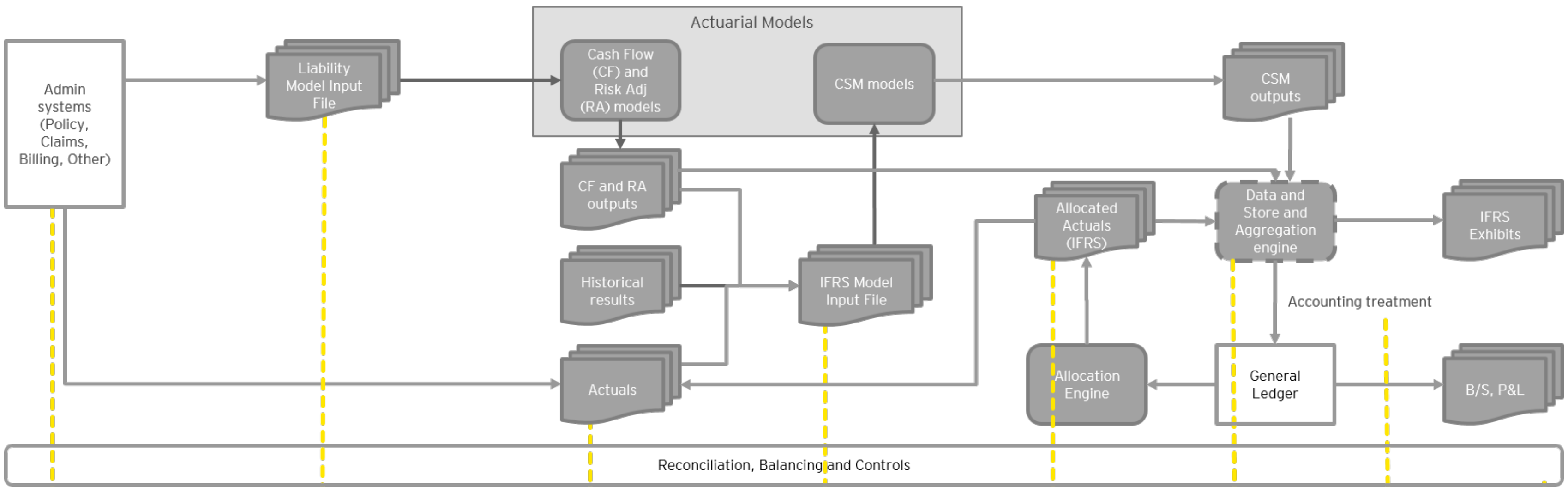
People

- Technical and functional training
- Cross-functional collaboration (Business, Technology, Finance and Risk)
- Project resourcing and budget
- Managing change fatigue

Systems

- Impacts on core insurance systems, investment systems, actuarial systems, reporting systems
- New posting logic/engines for IFRS 17
- GL, consolidation tool and reporting system changes
- Changes to system interfaces
- Demand for of flexibility in the actual system landscape
- New system functionalities/features

IFRS 17 : Conceptual data flow



- Source of data at lowest grain available
- Source of historical data
- Source for data feeds to GL and Actuarial Models

- Country and Product specific
- Contains Policyholder and Contract information at Seriatim level

- Actuals for the Period (Premiums, Acquisition Costs, Investment Benefits) to unlock CSM
- Actuals will be used to create the IFRS model input file

- Input file for CSM unlocking
- IFRS Group level granularity
- Contains 3 key types of information:
  - CF and RA model outputs
  - Results from previous runs
  - Actuals for the Period

- Actuals required for IFRS derived attribute calculation
- Will be rolled up at an aggregate level required to create disclosures

- Used for creating the IFRS exhibits
- Stores Actuals, and aggregated results from Actuarial model outputs and Allocation engines

- Accounting treatment at Chart level to create Balance Sheet and Income statement form GL

- Used to reconcile data when multiple data sources are used to ensure consistency
- Provides balancing and controls reports to ensure audit trail and data quality is maintained

IFRS 17 : High level data requirement

Cash Flow (CF) and Risk Adjustment (RA) Modeling	Contractual Service Margin (CSM) Modeling	Aggregation and Grouping requirements	IFRS Exhibits

Data Input requirements

Cash Flow (CF) and Risk Adjustment (RA) Modeling

- Liability Model Input file (Country and Product specific)
  - Policyholder information
  - Contract information

Contractual Service Margin (CSM) Modeling

- IFRS Model input file
  - Previous CSM results
  - Current CF and RA Model outputs
  - Actuals from Admin systems
  - Actuals from Allocation Engine outputs (E.g. Acquisition cost)
  - Accruals

Data Outputs

Cash Flow (CF) and Risk Adjustment (RA) Modeling

- Seriatim level results containing projected
  - Premiums
  - Expenses
  - Benefits
- Associated risk adjustment by group (or policy)

Contractual Service Margin (CSM) Modeling

- Group Level CSM results
- Outputs used for financial reporting and exhibits e.g.
  - Release of CSM
  - Insurance finance income or expense

Data requirements

Aggregation and Grouping requirements

- Aggregation requirements
  - Mapping tables
  - Profitability grouping
  - Chart of Account for IFRS
  - Disclosure Requirements

IFRS Exhibits

- Actuals from Admin systems
- Actuals from Ledger/Sub Ledger
- Actuals from Allocation Engine outputs (E.g. Expenses)
- Historical outputs from previous valuations
- Actuarial Model outputs
  - CF and RA Model outputs
  - CSM Model outputs
- Business rules / Logic for creating exhibit line items

IFRS 17 : Data implications

Generic (1/2)

1 Source systems

- Policy systems –extract additional information from source including policy inception date and policy duration
- Append/extract data to include CSM value ranges if existing at policy level

2 Actuarial and riskmodels

- Embed CSM methodology in actuarial/risk/capital models based on revised cohort drivers
- Implement assumptions management to allow reconciliation between local GAAP/MCEV/Solvency II to IFRS 17
- Update modelled results output to reflect IFRS 17 grouping and CSM

3 Reporting layer

- Update reporting/disclosure tools based on IFRS taxonomy
- Add new analysis of movement/change steps to capture CSM amortization impacts
- Capture notes to business rules used to build homogenous cohorts and CSM accretion

4 IFRS 17 calculationengine

- Require calculation engine to calculate, amortize and adjust CSM, either as a part of actuarial, finance systems or a separate application

  Build the integration to GL system

5 Accounting rules engine

- Update accounting rules to post to new accounts and cohorts

6 Allocations

- Change some allocations to be done at cohort level not policy
- Update allocation rules to exclude certain costs such as non-incremental acquisition costs

IFRS 17 : Data implications

Generic (2/2)

7 **Ledgers**

- Enhance GL Chart of Accounts to capture CSM on the balance sheet and CSM amortization on the profit and loss statement
- Potentially capture product cohorts

8 **Consolidation**

- Update consolidation and group reporting to include additional CSM reporting requirements

9 **Planning, budgeting and forecastingand MI**

- Bring business planning and forecasting models into line with the new external reporting basis
- Update internal and external KPIs to reflect CSM and the levers available to manage

10 **Operational Data Stores**

- Update to capture policy inception date, duration and CSM value ranges
- Capture historical amortization of CSM per cohort
- Create link between policies and cohorts
- Capture market and non-market data to update assumptions required for CSM

11 **Master Data Management**

- Update and enhance product hierarchies or product attributes to link to cohort

12 **Governance Risk Compliance**

- Capture business rules / policy used to build homogenous cohorts

Thank You!