ACTUARIAL ASSOCIATION OF EUROPE

IFRS 17 expected endorsement process and latest amendments
15 September 2020

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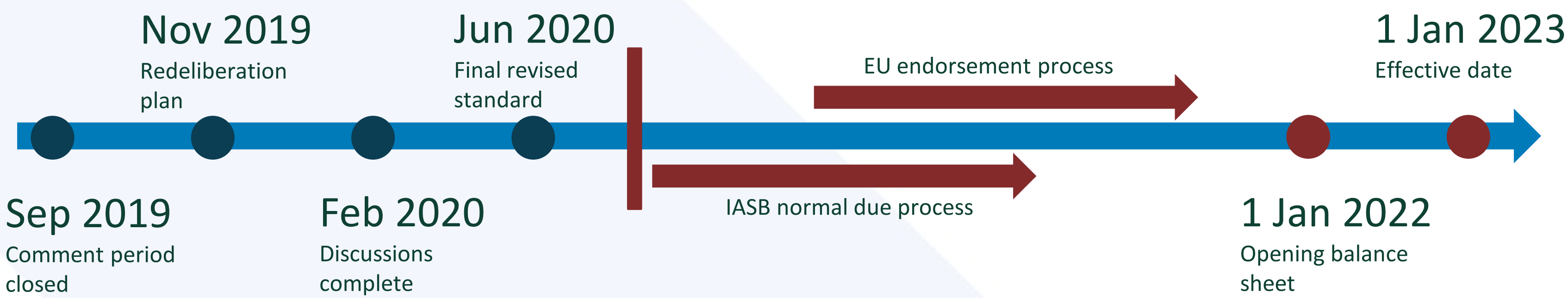
Agenda

1. Expected timeline for the endorsement process
2. Overview of amendments to the Standard since the 2017 version
3. Actuaries and their role

Expected timeline for the endorsement process

IASB amendments timeline



- We should not expect more significant changes to the final revised Standard
- The EU endorsement process has been suspended while the IASB have processed the reactions from IFRS 17 (2017) and worked on the amendments
- Now the process is to be resumed, but exact timeline not published

Overview of amendments since IFRS 17 (2017)

Where are the changes?

General changes

- Presentation at portfolio level
- Reinsurance contracts held
- Acquisition cost
- Interim reporting

Mainly for Life/health insurers

- Coverage units and investment services
- Risk mitigation option
- Level of aggregation
- Use of VFA

Specific situations

- Business combinations/portfolio transfers

Mainly for non-insurers

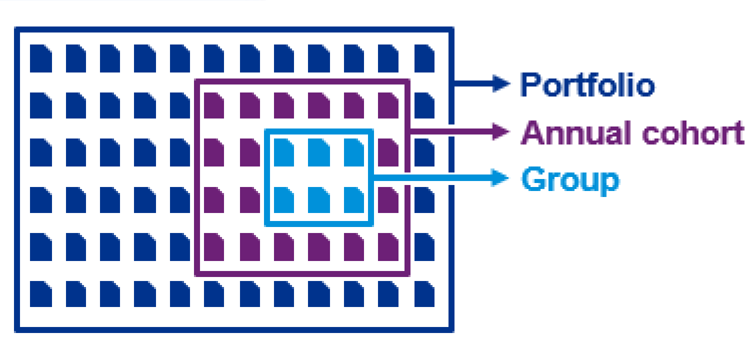
- Scope of IFRS 17 in relation to credit cards and loans

Other small amendments

- Other transition reliefs and minor amendments

Presentation at portfolio level (higher level of aggregation)

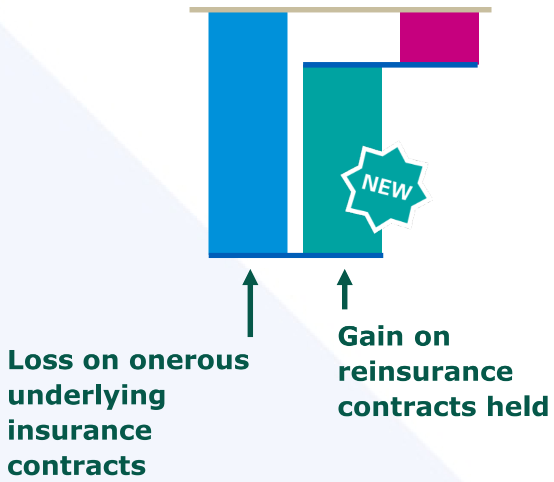
- Separated presentation of contracts that are assets and liabilities is no longer applicable at the group level
- The requirement will now apply at the portfolio level
- Significant practical relief as portfolios of insurance contracts generally are expected to be in a liability position (most of the time)



A simplification 👍

Loss recovery from reinsurance contract held

- An insurer that recognises losses on underlying contracts on initial recognition also recognises a gain at the same time in profit and loss on reinsurance contracts held
- Reduces accounting mismatch



An improvement 👍

Insurance acquisition cash flow

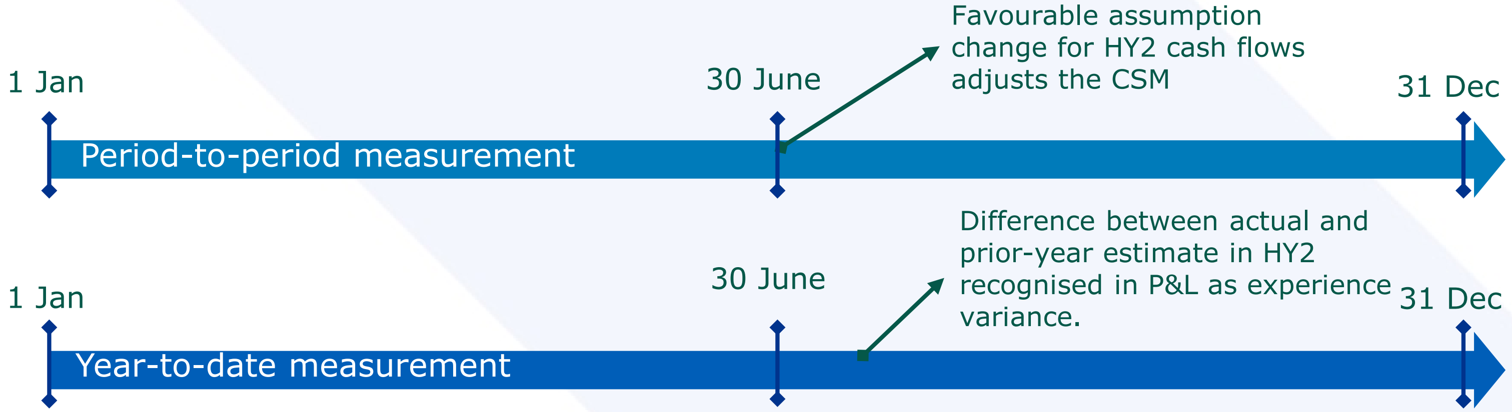
- Relevant in relation to acquisition costs for renewable contracts
- Under IFRS 17 (2017), acquisition costs for a contract had to be within the initial contract boundary cash flows and coverage period
- Now entities should recognise an asset for acquisition costs that are outside the contract boundaries to the extent they relate to future renewals
- Allocation must be rational and systematic
- Subject to recoverability test

- Short term contracts using PAA – reconsider to expense acquisition costs immediately

An improvement 👍

Interim reporting

- IFRS 17 (2017) required an insurer to use a period-to-period approach
  - The frequency of interim reporting had an impact on CSM and revenue in annual financial statements
- The amendments introduced an accounting choice to apply period-to-period or year-to-date measurement
- The choice is to be applied to all contracts issued and reinsurance contracts held



Increased flexibility

Coverage units and investment service

- Some insurance contracts contain both insurance and investment related services
- IFRS 17 (2017) required coverage units to be determined with reference to insurance services only
- New definition of “insurance contract services” includes investment return and investment related service
- CSM is recognised in P/L in respect of these services

An improvement👍

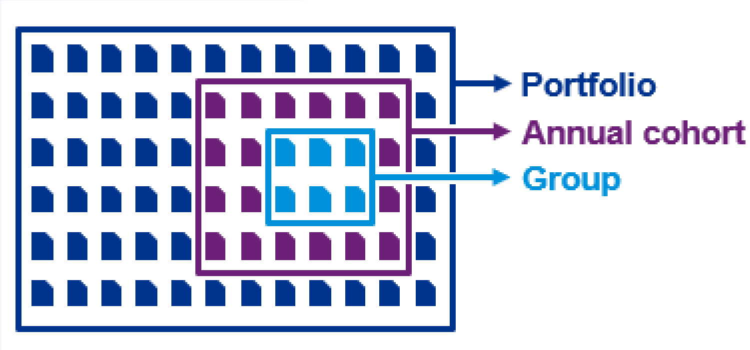
Risk mitigation option

- General principle: IFRS 17 requires applicable changes in financial risk for insurance contracts with direct participation features (VFA contracts) to adjust the CSM, while gains/losses from assets/liabilities held to mitigate that risk may be recognised in profit or loss, resulting in an accounting mismatch if those assets are not underlying items.
- IFRS 17 (2017) permitted to apply the risk mitigation option only for derivatives used to mitigate financial risk arising from VFA contracts
- This option has been extended to reinsurance contracts held and to non-derivatives measured at fair value through P/L
- Some extensions in relation to the transition data as well
- Specifications in relation to risk mitigation option and OCI to avoid accounting mismatch

Increased flexibility 👍

Level of aggregation

- IFRS 17 requires entities to disaggregate contracts into annual cohorts based on issue dates
- No exception or change has been made to the annual cohort requirement
- The IASB confirms that annual cohorts are necessary to provide useful information about profitability of groups over time
- Complex in many aspects especially for products with mutuality features that goes across the annual cohorts etc.



Significant disappointment to the industry 👎

Mainly for Life/Health insurers

Use of VFA

- Under IFRS 17 (2017) it was not sufficiently clear if VFA eligibility assessment could be done at group level
- The IASB confirmed that the VFA eligibility assessment is to be performed at a contract level
- May cause practical complexity when performing the assessment

Increased complexity 👎

Business combinations or portfolio transfers

- The Board decided to retain, unchanged, the requirements in IFRS 17 for insurance contracts acquired in their settlement period.
- However, transitional reliefs were confirmed that allow entities under certain circumstances to classify incurred claims acquired prior to transition as a liability for incurred claims.
- The pre-IFRS 17 exemption to identify insurance contracts based on facts and circumstances at the inception date – rather than at the acquisition date - will no longer be available.

Clarification, but less flexible than hoped for

Credit cards and loans

- Scope of IFRS 17: Clarification in relation to whether certain types of credit card agreements fall under IFRS 17
- For non-insurers, IFRS 17 does not apply for these types of services

Clarification 👍

Transition reliefs and minor amendments

- A number of other specifications have been clarified in relation to transition and minor amendments.

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Clarification 👍

Actuaries and their role under IFRS 17

Under IFRS 17, actuaries do not (yet) have a formal responsibility for the statutory insurance provisions

- “Solvency II equivalent‟ skill sets on fair value of future cash flows is required to establish the balance sheet under IFRS 17
- IFRS 17 implies that actuarial methodologies become an integral part of the statutory reporting process
- Actuaries and accountants need to cooperate in new ways to provide high quality reporting
  - None of the professions can do it by themselves

- Get involved, make an impact, show how you can contribute to the process

Questions?