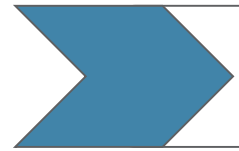


IFRS 17

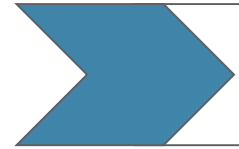
Insurance contracts

Darrel Scott, IASB Board Member
Asian Actuarial Conference, Singapore

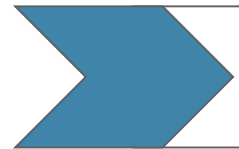
The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.



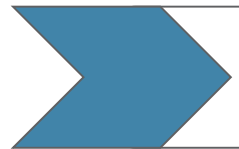
IFRS 17 and IFRS 9



Asian adoption of IFRS 17



Implementation plans and progress



Systems

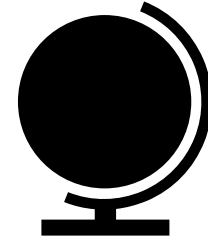


Transition

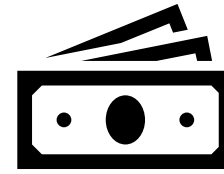
IFRS 17 and IFRS 9

IFRS 17 *Insurance contracts*

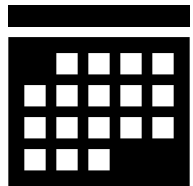
One accounting model for
all insurance contracts



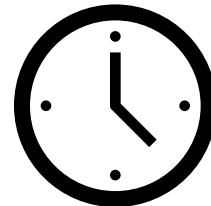
450 listed insurers
using IFRS Standards



\$13 Trillion of assets

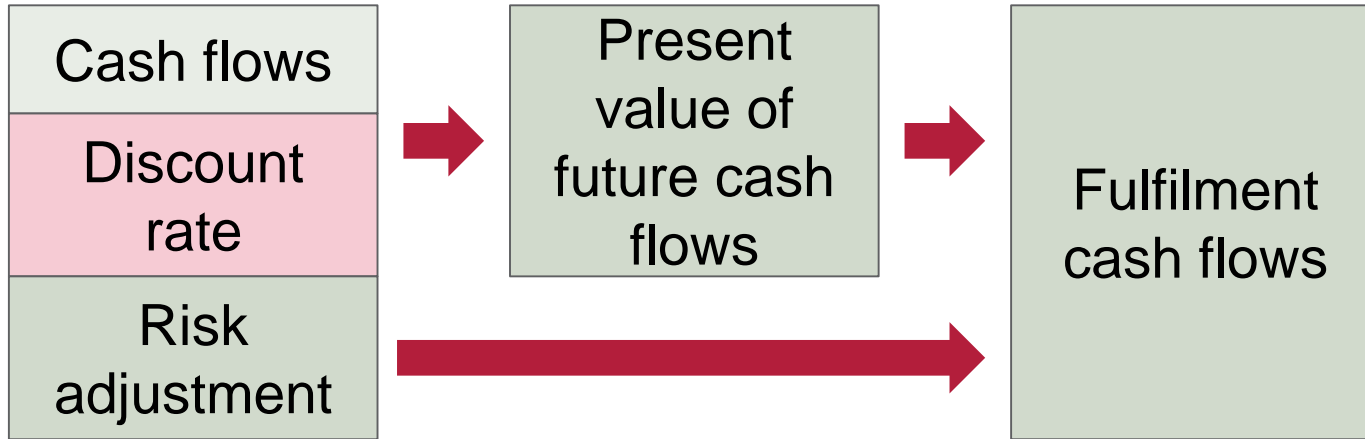


2021(22) mandatory
effective date



3.5 (4.5) years to
implement

IFRS 17 *In a nutshell*



All insurance contracts are measured as the sum of:

- **fulfilment cash flows**; and
- **contractual service margin**



Current value that incorporates all available information, in a way consistent with observable market information. Updated each period using updated assumptions about cash flows, discount rate and risk.

Unearned profit of a group of contracts. It is adjusted by changes in estimates and is recognised in profit or loss as insurance coverage is provided.

General model

Variable fee approach

Direct participation – reflect assets management service

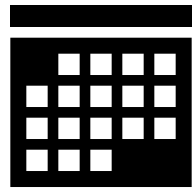
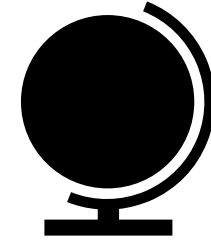
Premium allocation approach

Simplified approach for simple and short term contracts

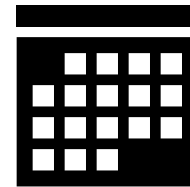
Reinsurance held

Core model adapted for **asset/expense** accounting

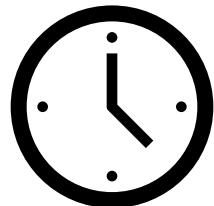
International standard for
Financial Instruments
Replaces IAS 39



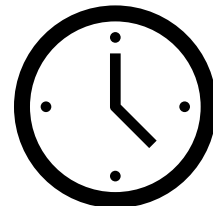
Effective date 1
January 2018



Insurance Effective 1
January 2021/22



3.5 years to
implement



6.5 years to
implement

Classification and measurement

Business Model

Cash Flow
characteristics

Measurement
outcomes

Forward Looking expected loss model

Stage 1
Performing

Stage 2
Underperforming

Stage 3
Non performing

- IFRS 17 **predominantly Liability** side accounting
 - **Current measurement updated** for changes in market and contract expectations
- IFRS 9 **both asset and liability** accounting for Financial instruments except insurance contracts
 - **Current measurement updated** for changes in market and contract expectations, and/or
 - **Amortised cost** with impairment model (SPPI test)
- Together account for **predominantly the whole** of an insurers balance sheet



- Both standards **allow certain options**:
 - IFRS 9 allows Fair value if doing so **reduces a mismatch**
 - IFRS 9 **Business model** captures objective of managing assets
 - IFRS 17 allows **use of OCI**

Easier (but not critical) for entities to consider the two standards in tandem



Jurisdictional Adoption

- Approximately **82% of jurisdictions** in the Asia Oceania region require or permit use of IFRS
- Indications are that **IFRS jurisdictions will adopt IFRS 17**
 - Most **when it becomes effective**, but
 - Some considering **staggered approaches for smaller** entities
 - Some considering **delayed implementation** consistent with general approach to IFRSs
 - Some planning immediate or staggered **alignment of regulatory regime** with IFRS 17



Approach to implementation

- Project
 - Actuarial and Finance staff
 - Early involvement of external experts
 - Significant Data and Systems work (separate streams?)
 - Some upgrade of systems for internal reporting purposes
- Product design
 - Some changes to product design (risk sharing)
 - Typically in jurisdictions with ‘old school’ regulations

Systems

- Mixed messages
- **Inhouse programs** seem to be on target
 - Resistance to further extensions of date
 - Cost considerations
- Other bigger insurers think '22 is **doable but tight**
 - Would prefer longer
 - But can achieve implementation
- **Smaller companies** struggling

Transition

Full retrospective approach unless impracticable

Then either

Modified retrospective

Or

Fair Value

- Approach dependent on **availability of historical data**, which depends on
 - **Duration** of inforce contracts
 - **Previous accounting** approach and
 - Current **regulatory** requirements

- **Inconsistent existing accounting** under IFRS 4
- Combined with likely **inconsistent transition** arrangements (data), and
- Different jurisdictional **markets**
- Means that day 1 **likely to differ** from entity to entity

Effects on the balance sheet

When IFRS 17 is first applied

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Expected effects of IFRS 17 for short-term insurance contracts

Existing accounting practices used	Insurance contract liabilities	Equity
Liabilities for incurred claims are not discounted	↓ Decrease	↑ Increase
Liabilities for incurred claims are discounted	Depends on the length of settlement periods and on the discount rates used	
Risk margin higher than risk adjustment in IFRS 17**	↓ Decrease	↑ Increase
Risk margin lower than risk adjustment in IFRS 17**	↑ Increase	↓ Decrease

** Similar expected effects for long-term insurance contracts

Effects on the balance sheet

When IFRS 17 is first applied

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Expected effects of IFRS 17 for long-term insurance contracts

	Existing accounting practices used	Insurance liability	Equity
Current discount rate	Historical rate < current rate	↓ Decrease	↑ Increase
	Historical rate > current rate	↑ Increase	↓ Decrease
Current value of guarantees	Not fully reflected in measurement	↑ Increase	↓ Decrease
	Fully reflected in measurement	↔ Low effect	↔ Low effect
Existing acquisition costs	Expensed as incurred	↓ Decrease	↑ Increase
	Deferred and amortised	Depends	

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small organisation
with a big impact



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