

IFRS 17—Financial and Business Impact, and Operating Model Considerations

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SOA Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

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Introducing the speakers



Carlos Arocha

- Carlos is a Managing Partner at Arocha & Associates, in Zurich
- Carlos has more than 25 years of global expertise in life and P&C re/insurance: quantitative risk modeling, ALM, Enterprise Risk Management, IFRS 17, risk-based capital, Solvency II, Swiss Solvency Test and valuation of insurance reserves
- He is a Fellow of the Society of Actuaries and a Member of the Swiss Association of Actuaries



Darryl Wagner

- Darryl is a principal at Deloitte Consulting who leads Deloitte's Global Actuarial & Insurance Solutions practice
- Darryl's areas of specialty include life insurer financial reporting and performance and value measurement and management. He has worked on numerous accounting and valuation frameworks for clients around the world, helping with technical, process-oriented, and organizational aspects of implementation, execution, and evaluation, including US GAAP and statutory reporting, Solvency II, Embedded Value and IFRS 17 for global insurers

Introducing the speakers



Alison Rose

- Alison is a Partner in the Life & Pensions Actuarial Practice of KPMG in Canada
- Her current focus is accounting and regulatory change and the impact on actuarial systems and processes
- She is a member of KPMG's global working group on IFRS 17 accounting change, focusing on the operational, business and financial impacts from an actuarial perspective
- She is currently involved in mandates to assist multiple clients with their IFRS 17 impact assessment and implementation programs as a subject matter specialist

Agenda

- Financial Impact

Carlos Arocha

- Business Impact

Darryl Wagner

- Operating Model Considerations

Alison Rose

Financial Impact



Implications of IFRS 17

Comparability

- International standard
- Currently, IFRS 4 allows the use of local reporting standards
- Better comparability is expected (particularly for insurance groups)

Cash and dividends

- Expected mismatches between IFRS 17 (economic perspective) and statutory accounting (historical perspective)
- Shareholder dividends are usually determined based on statutory accounting

Economic valuation

- IFRS 17 aligned with Solvency II and economic capital
- May create volatility
- Required reconciliations may be more intuitive

Profit

- More transparency expected
- Better insight into profit sources
- More scrutiny regarding the amortisation of the CSM

Effect of changes in estimates of future cash flows

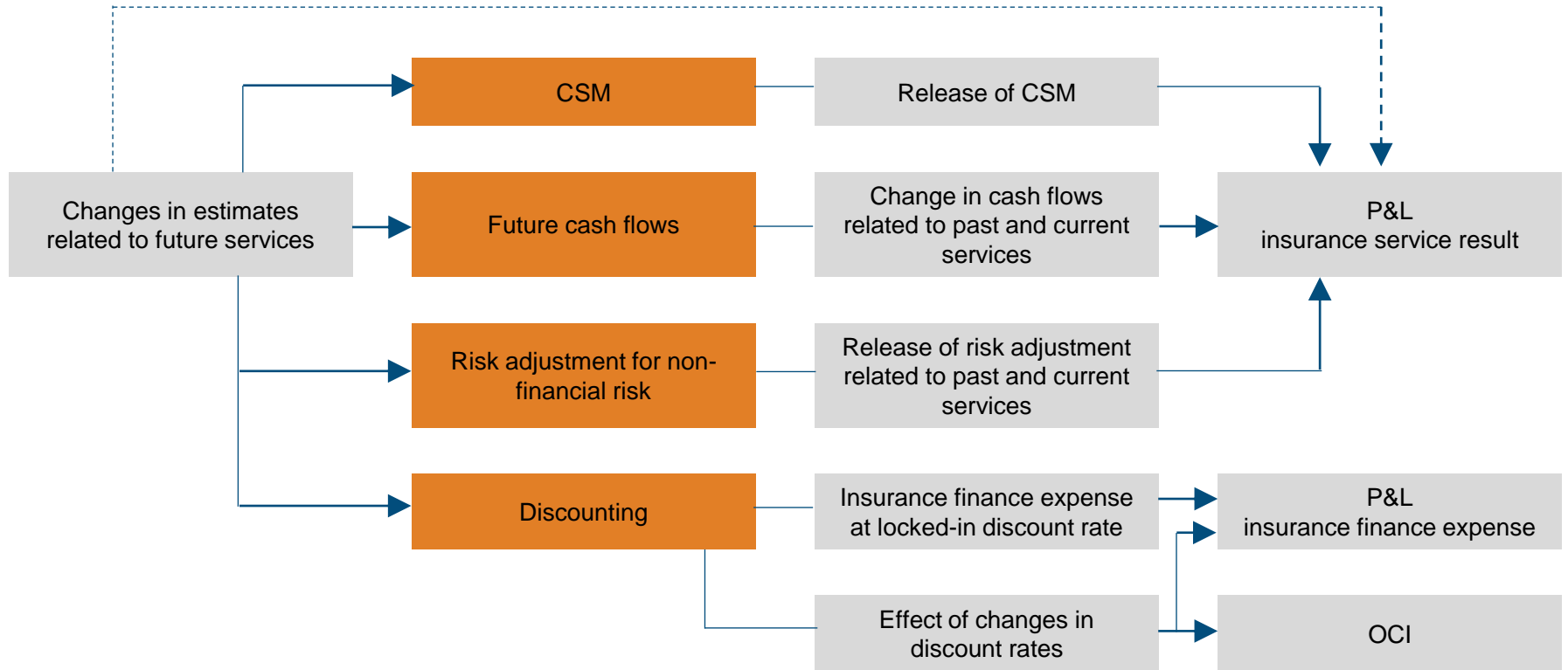
Treatment under IFRS 4

- The full effect of changes is immediately recognised in profit or loss of the year in which estimates change
- As a consequence, there is an immediate change in equity

Treatment under IFRS 17







- Changes in estimates are recognised in profit or loss of all future years through changes of CSM in these periods
- As a consequence, there is a gradual change in equity
- A breakdown of the insurance contract liability is required to be presented in notes to the financial statements

Relationships in the General Model







Expected Impact of IFRS 17

SHORT-TERM CONTRACTS

| Current practice | Insurance contract liabilities | Equity |
|--|---|---|
| Undiscounted liabilities for incurred claims |  |  |
| Discounted liabilities for incurred claims | Depends on the level of discount rates | |
| Risk margin > risk adjustment in IFRS 17 |  |  |
| Risk margin < risk adjustment in IFRS 17 |  |  |





Expected Impact of IFRS 17

LONG-TERM CONTRACTS

| Current practice regarding discount rates | Insurance contract liabilities | Equity |
|---|---|---|
| Historical rates < current rate |  |  |
| Historical rate > current rate |  |  |

Expected Impact of IFRS 17

LONG-TERM CONTRACTS

| Current practice regarding risk margin | Insurance contract liabilities | Equity |
|--|---|---|
| Risk margin $>$ risk adjustment in IFRS 17 |  |  |
| Risk margin $<$ risk adjustment in IFRS 17 |  |  |

Business impact



Business Impact of IFRS 17

IFRS 17 will have broad and profound impacts on all aspects of how insurers conduct business

Accounting Policies , Valuation Methodology and Governance

- New accounting policies and control procedures; interpretation of guidance
- IFRS 17 calculation methodology guidance and reporting instructions
- Actuarial models and assumptions setting and inputs
- Materiality concepts/guidelines

People and Performance

- Potential changes in roles and responsibility between Actuarial and Finance
- Cross-Functional collaboration
- Technical and functional trainings
- Education on how success is measured and presented to the market
- Recalibration of the KPIs used for incentives and remuneration of employees and sales force

Financial Reporting & Management Reporting

- Substantial change in financial reporting
- Additional disclosures and figures to report
- Alignment of risk and financial reporting
- Additional and improved audit procedures
- Improved productivity within finance closing process
- Consolidated group vs entity level reporting

Business Communications

- Better comparability among insurers' financial reports
- Need to prepare for rating agency questions
- Need for articulation of profit emergence
- Investor relations management

Data, Processes and Technology Impacts

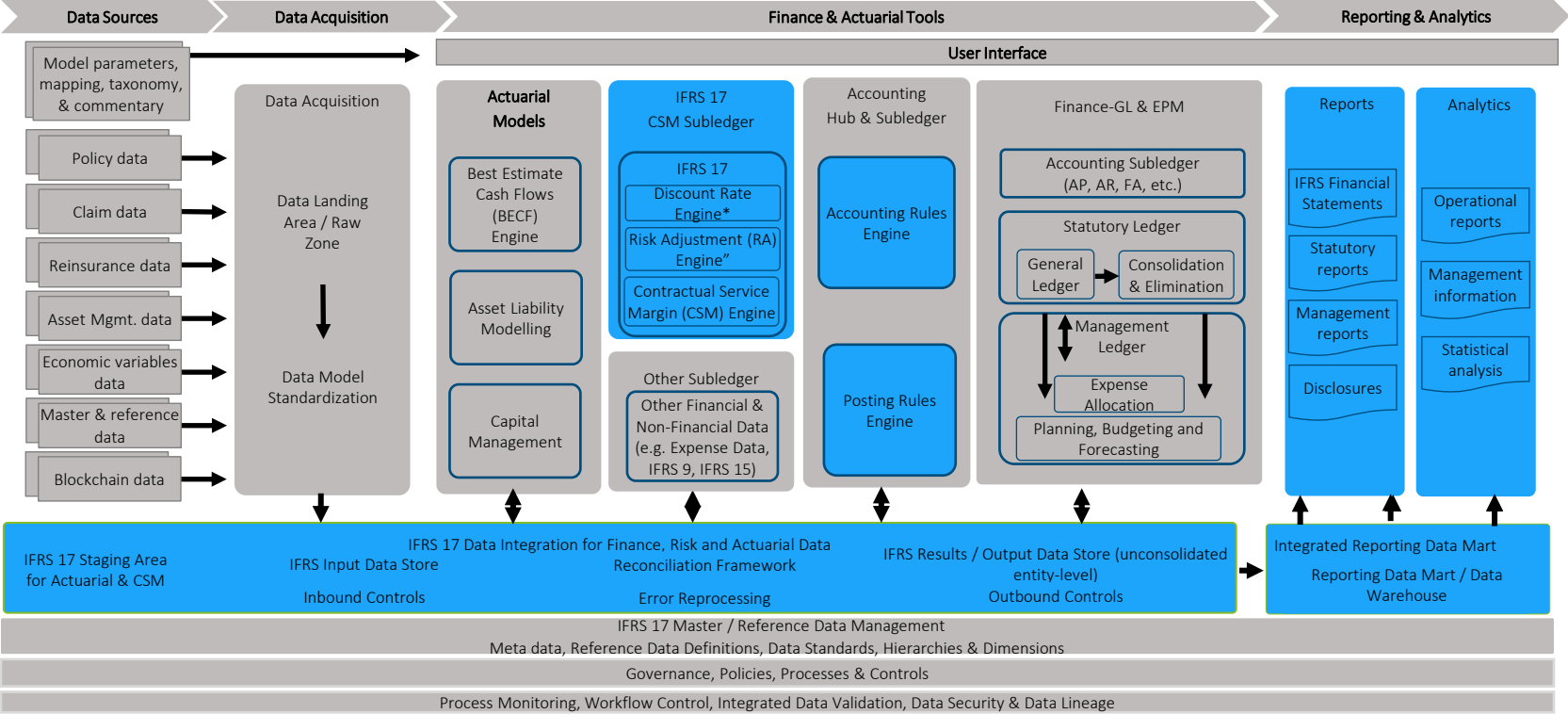
- Disruption of traditional operating models
- Enhanced data management, quality, storage and security requirements; data format updates
- Additional modeling and system enhancements
- Change in general ledger configurations to accommodate new required accounts

Business Strategy

- Insights on product profitability
- Product design, development, pricing and cross-subsidization
- Forecasting and budgeting process
- Impacts on outsourcing
- Risk management

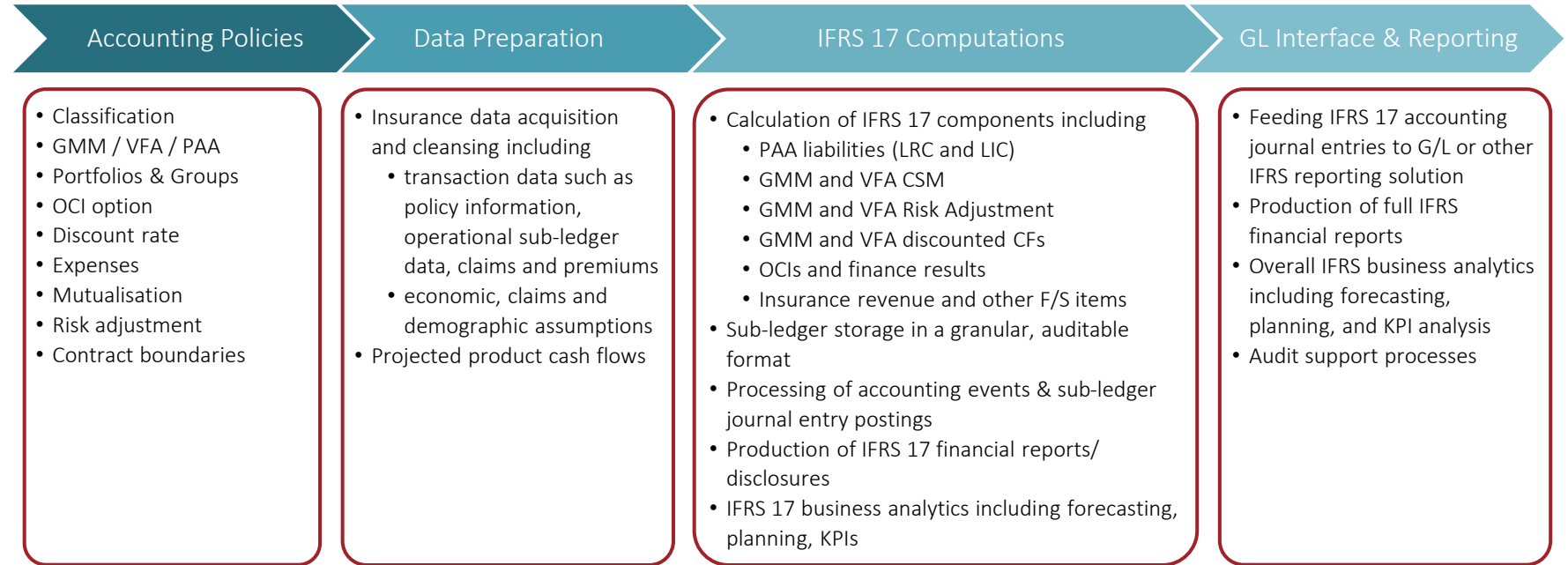
IFRS 17 Process Architecture

A reference end-to-end process framework



IFRS 17 Process Flow

High Level Flow of IFRS 17 implementation



Operating Model Considerations



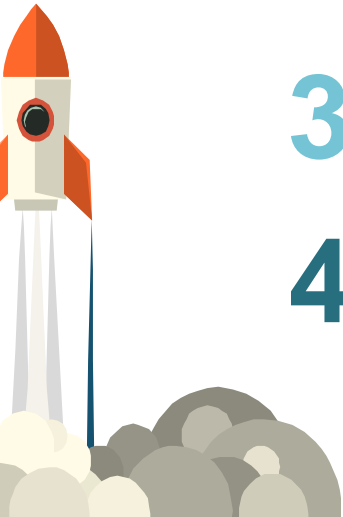
Operating Model Discussion Topics

1 Financial Close – Design Considerations

2 Process, Controls and Governance

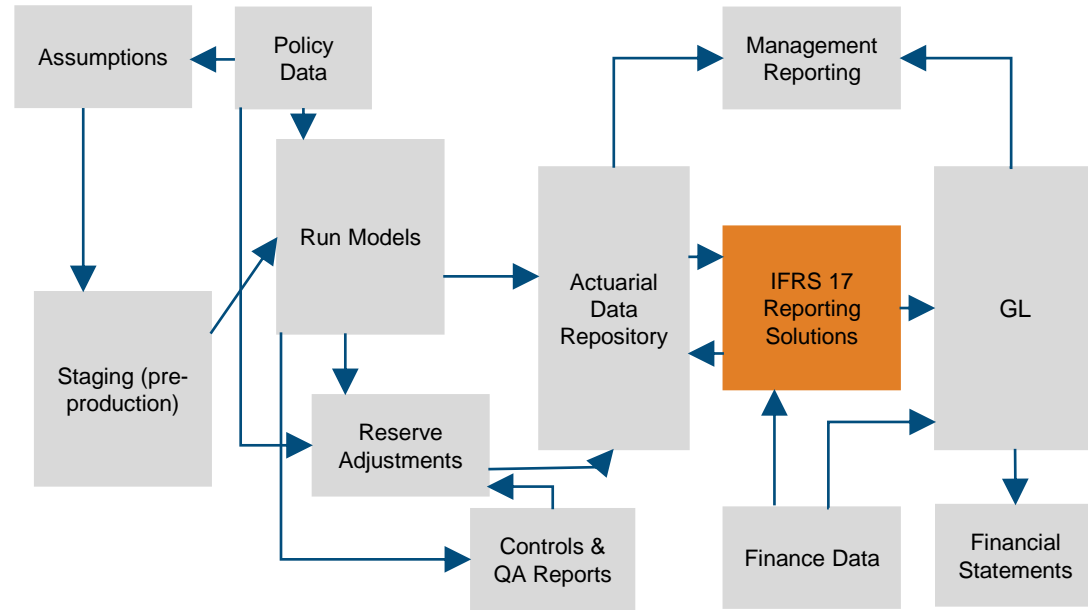
3 Testing

4 People and Change



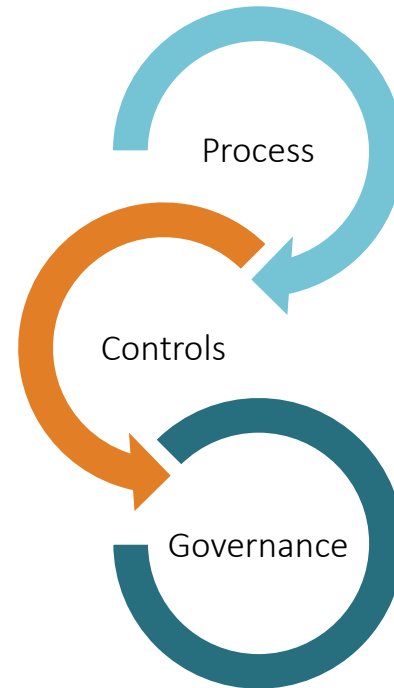
Financial Close – Design Considerations

- Leverage as much of the existing framework as possible, but be alert to opportunities to streamline/automate
- Identify the solutions that will be used in the target operating model early – this will be a key input
- Align on the close period, what needs to be produced and work backwards. Determine how much of the process can be taken off-cycle
- Acknowledge that you may need to define an interim state for your TOM and plan for remediation and optimization post go-live



Process, Controls and Governance

- Make controls an integral part of process design and develop an end-to-end playbook, leveraging automation to manage the operational burden
- Develop overarching controls as well as point to point controls over processes
- When designing the workflow, consider roles and responsibilities (system access, signoffs and supporting analysis)
- Consider any changes needed to risk management and governance frameworks



Testing

- Build appropriate time for the various types of testing into the project plan (functional, end-to-end, user acceptance)
- Test the end-to-end process - not just components - to capture handoffs, downstream impacts and key dependencies
- Dry runs and parallel runs are vital – allow time for re-work and lessons to be learned
- Leverage testing as part of the training for the future process owners



People and Change

- Move to a combined (actuaries and accountants) finance function is likely
- Increasing levels of automation in reporting will drive a shift from producing the numbers to interpreting and communicating the numbers. “Accountaries” combining deep analytical and interpretive powers with excellent communication skills will be in high demand
- Transitioning from the IFRS 17 project team to business resources needs to be carefully planned

CHANGE



Q&A

