ACTUARIAL SOCIETY OF SOUTH AFRICA

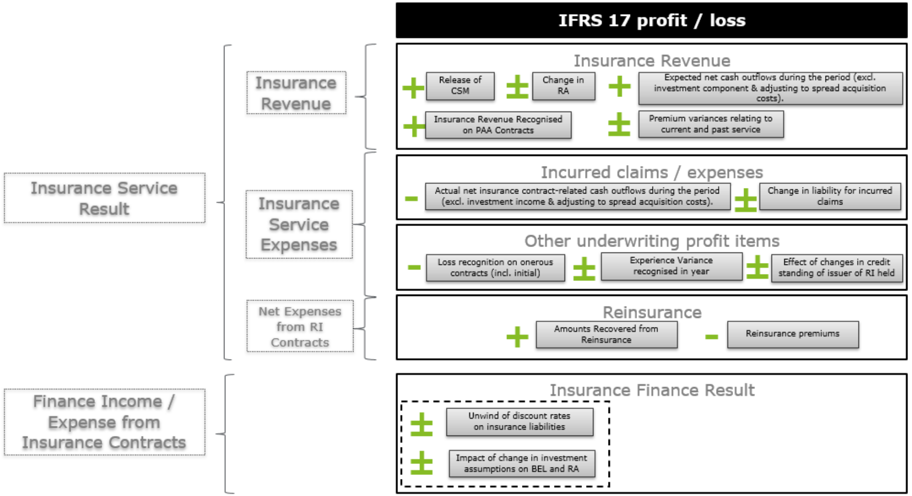
Quantifying Risk, Enabling Opportunity.

IFRS 17 for non-IFRS 17 actuaries

Chair: Andrew Warren
Panel: Lauren Wingrin, Francois Kock, Brendon Thorpe
Date: 12/05/2021

Beyond all the technical details of IFRS 17…

Beyond all the technical details of IFRS 17, the new models and financial reporting metrics will get used by actuaries who were not in the IFRS 17 programme



THREE ACTUARIAL ARCHETYPES ON THE PANEL

Lauren Wingrin

Valuations Actuary – need to prepare the new numbers

Francois Kocks

Reporting Actuary – need to explain the new numbers

Brendon Thorpe

Product Actuary – need to price product to achieve the new number

IFRS 17 for the Valuation Actuary

Lauren Wingrin

IFRS 17 vs. CURRENT

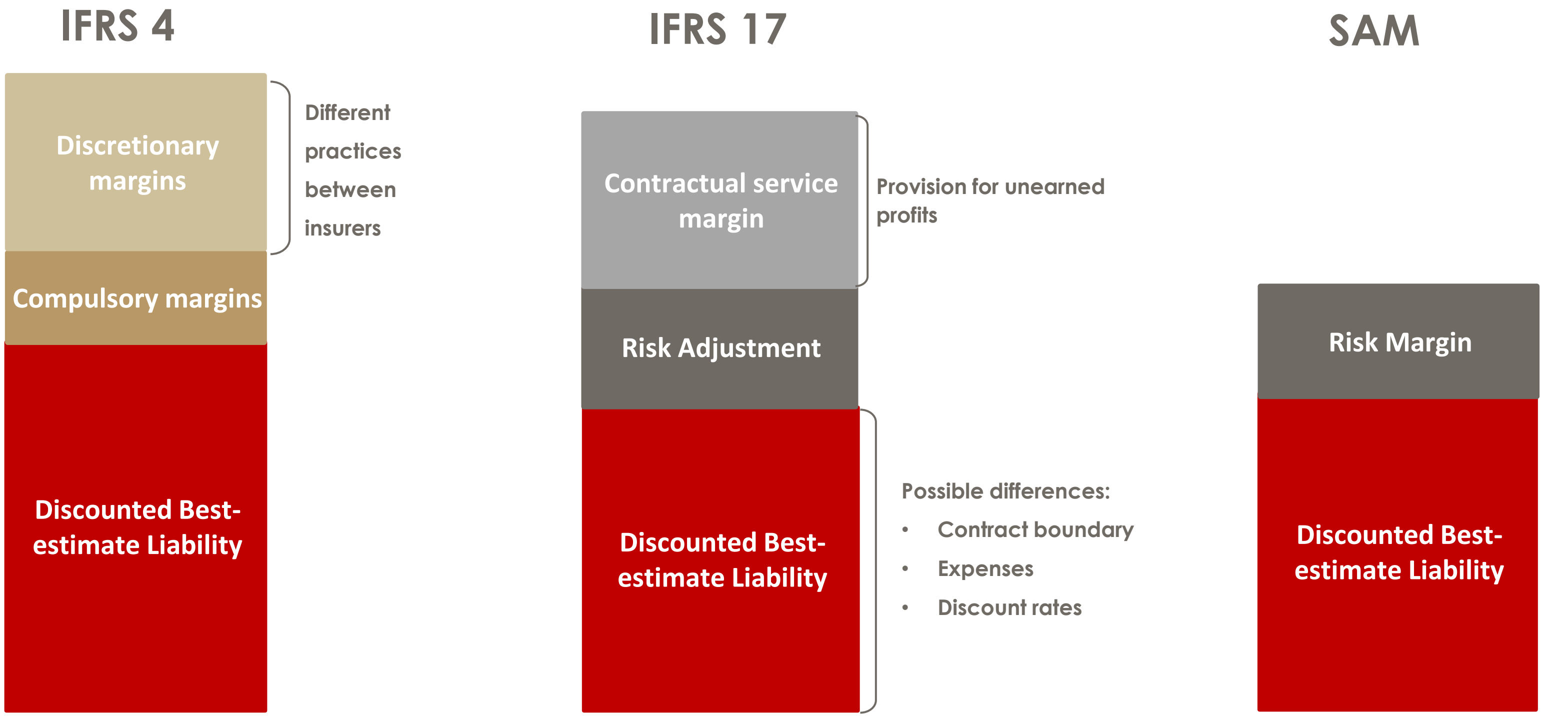
IT'S THE SAME

- It's a basis to value the liabilities and recognise profit over time
- Components of the liability will be familiar (e.g. the BEL)
- The asset valuations don't change
- Besides for running the process, the real focus needs to be on understanding the numbers, developing insights and helping to manage the business

YET DIFFERENT

- Profit recognition is different:
  - Take losses upfront and defer profits through the workings of the CSM
  - Certain basis changes and in-year variances can be absorbed by the CSM, to the extent the CSM is not zero
- There are different components in the liability valuation, e.g. BEL, RA, CSM, loss component
- The income statement is more driven from actuarial inputs
- More detailed level of granularity

INSURANCE LIABILITIES – IFRS 4 vs. IFRS 17 vs. SAM



WHAT THIS MEANS FOR A VALUATION CYCLE

Experience investigations and assumption setting

- Quantifying the impact of proposed basis changes from experience investigations - need to know what will go to PnL and what will be absorbed by the CSM
- Setting directly-attributable expense assumptions and the expense modelling have implications on onerous contracts and profit emergence

Valuation runs and processes

- Need to be able to calculate new business before the CSM can be finalised
- Synergies can be achieved with SAM e.g. on the liability valuations, AoS etc.
- Reinsurance contracts held are valued separately, rather than through a net down in the underlying contracts
- Treatment of manual type reserves

Analysis and Posting of results

- Detailed granular entries will need to be passed to the ledger (not just one number of 'a change in life fund')
- Option in the standard whether to lock-in interim results or not

PREPARING FOR IFRS 17

- Teams may be short on capacity but do what you can to get up to speed
- Read up on IFRS 17 and connect with the project team at work to understand how IFRS 17 is being implemented practically in your company
- Review transition numbers - how big is the BEL, RA, CSM, how does it roll forward from one year to the next, give input into the design and help to improve the processes being built
- Get involved during the parallel run year – 2022
- Learn the tech and the tools
- **It's a journey, particularly to build up an understanding of the numbers**

“You must unlearn what you have learned”

IFRS 17 for the Reporting Actuary

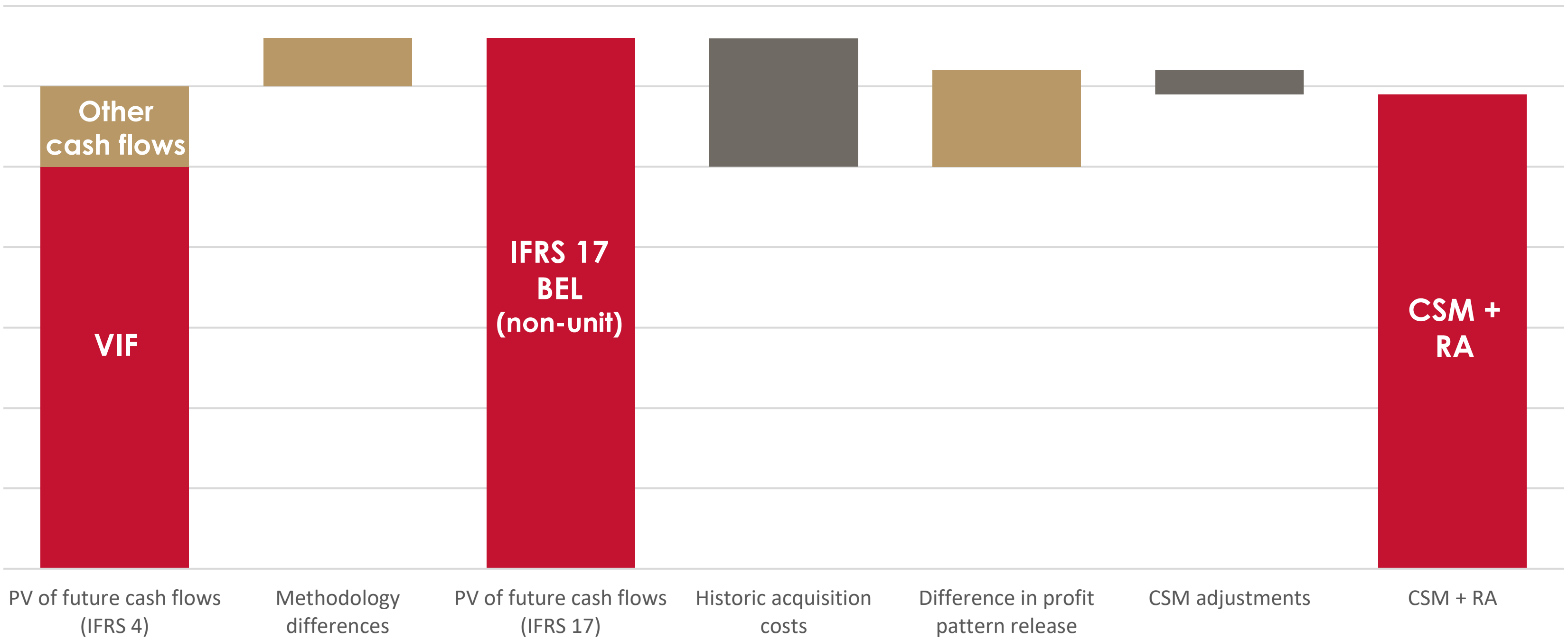
Francois Kocks

“You must unlearn what you have learned”

Suggested ways to make sense of the move from IFRS 4 to IFRS 17

1. Reconciling current metrics to the CSM and RA
2. Comparing the IFRS 4 AoS to the IFRS 17 Income Statement
3. Understand the emergence of profits and its sources

Reconciling VIF to the CSM and RA (savings portfolio)



Note the above is a very simplified reconciliation, there will be more detail to consider.

Comparing AoS to the IFRS 17 Income Statement (risk portfolio)

IFRS 4 AoS (R'm)

New business profit	(73)
Release of margins	170
Experience variance	135
Operating assumption changes	(30)
Economic variance	(56)
Profit & loss before tax	**147**

OLD

IFRS 17 Income Statement (R'm)

Insurance contract revenue	**941**
CSM recognised	111
Release of risk adjustment	30
Expected expenses and claims	800
Insurance service expenses	**(680)**
Expected expenses and claims	(800)
Expenses and claims variance	120
Insurance service result	**262**
Insurance finance income or expense	11
Investment return	27
Finance result	**38**
Other expenses (non-attributable)	(7)
Profit & loss before tax	**300**

Note the above is a simplified version of the income statement, there will be additional items included.

NEW

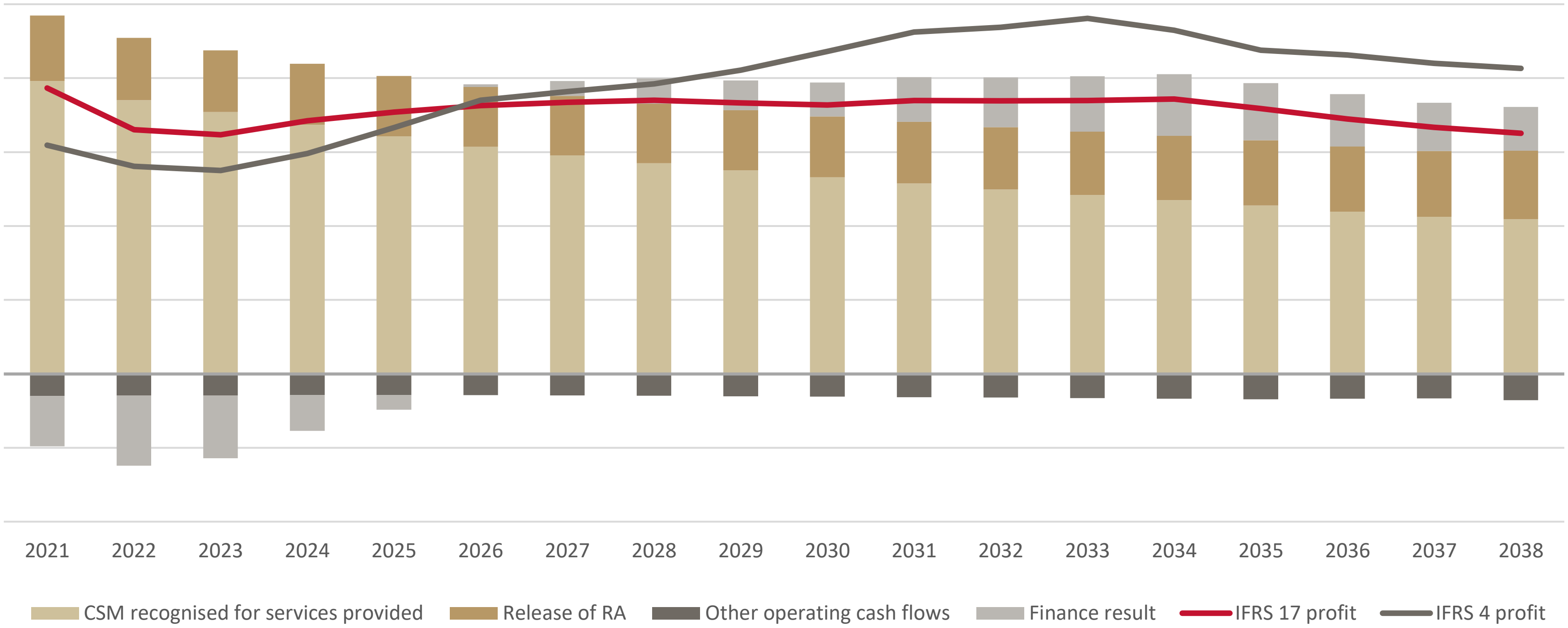
CSM Build-up (R'm)

Opening CSM	**900**
New business	40
Interest accretion	92
Adjustments	(20)
Allocation	(111)
Closing CSM	**901**

COMPARISON

Description	**IFRS 4**	**IFRS 17**
Expected revenue	170	141
Experience variance	135	113
Basis changes and adjustments	(30)	(20)
Economic variance	(56)	38
New business	(73)	40

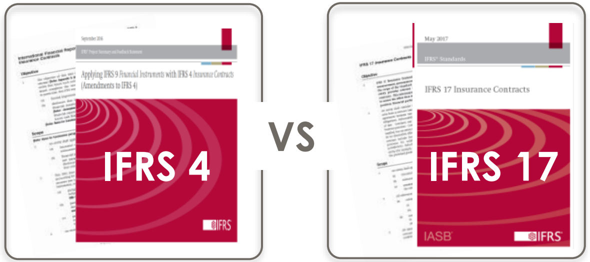
The emergence of profits and its sources (risk portfolio)



IFRS 17 for the Product and Pricing Actuary

Brendon Thorpe

DESIGN PHASE CONSIDERATIONS



Decisions taken at this phase could introduce additional complexity in the valuation process

IFRS 17 considerations:

1. Strictly defined contract boundary
2. Definition of Insurance Contract and policy-level assessment
3. Requirement to separate components
4. Potential additional portfolio and groups of contracts

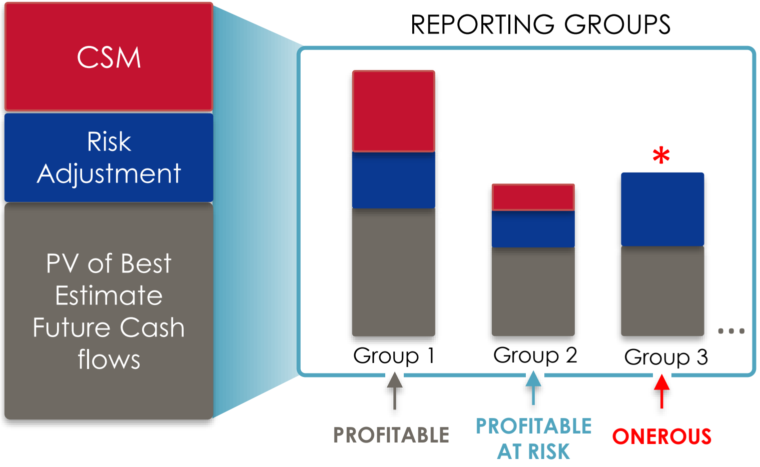
New benefit may affect boundary of entire contract (short-term cashback benefits an example)

Potential change in current treatment; potential different treatment within a product line

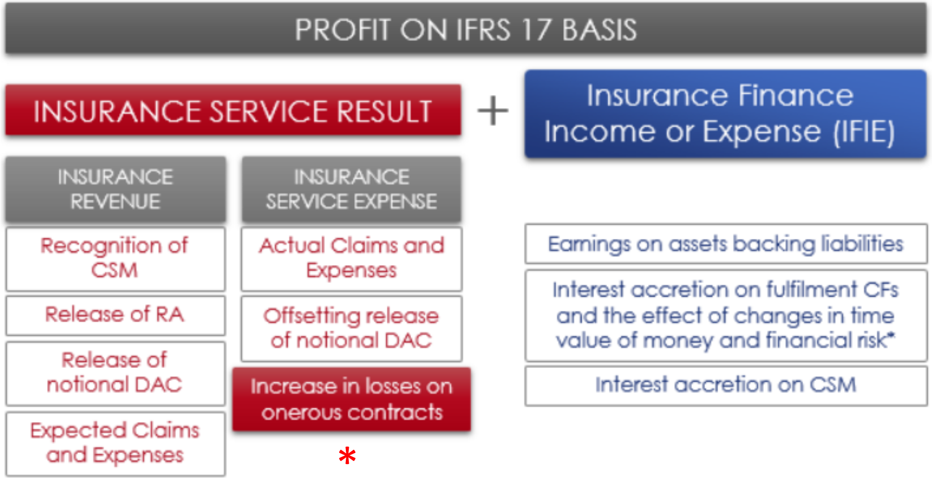
May necessitate systems build / modification to account for components separately

Complexity of additional portfolios; resources required for analysis

REPORTING-GROUP LEVEL CALCULATIONS



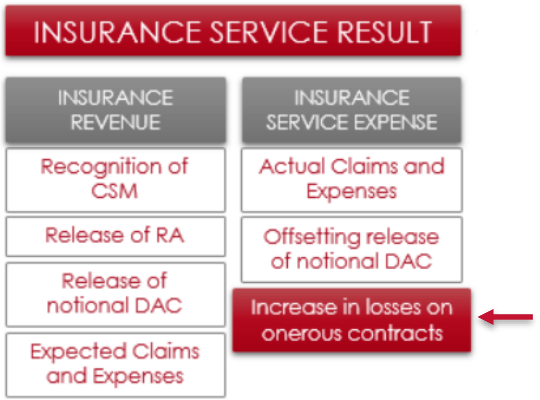
- Reporting groups split at a portfolio and profitability level as well as the inception date (not more than 1 year apart)
- Cross subsidies between groups is prohibited



ONEROUS POLICIES: DELIBERATE AND INADVERTENT

DELIBERATE

- **Strategic decision** to sell a loss leader
- More **transparent disclosure**



INADVERTENT

Policies may be onerous as a result of:

- **Inconsistent assumptions** used in pricing and valuation
- **Granularity** of pricing assumptions and complex interacting factors in valuation modelling
- Relative **level of the Risk Adjustment** vs implicit pricing for risk

Greater alignment of product development and valuation modelling could reduce the extent of inadvertent onerous policies

In Conclusion…

Discussion and Questions