ACTUARIAL SOCIETY OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

IFRS 17: Panel Discussion on Actuarial Implementations

Reminder - IFRS 17: The New Insurance Contracts Standard

- IFRS 17 (previously known as IFRS 4 Phase II) is an International Financial Reporting Standard developed by the International Accounting Standards Board (IASB) providing new standards for reporting profit emergence from **insurance contracts**, coming into effect from **1/1/2021.**
- The main objective is to **standardise insurance accounting globally** to help users of accounts make sensible comparisons between companies, their past performance, their current financial position and risk exposure
- For the first time, there will be a **single IFRS accounting model** for all types of insurance contracts that will be transparent and **aligned to general IFRS accounting of other industries**

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- It will cover the **methods for calculating the liabilities** for insurance contracts and the resulting **new profit recognition pattern** for these contracts
- The implications of this IFRS transformation initiative are **not just technical calculations**, but will affect amongst others: Actuarial (reserving), Finance (general ledger, reporting processes), Tax (treatment), IT (data storage, finance systems), HR (remuneration) and Investor Relations (presentations)

Objective (as described by IASB)

The objective of IFRS 17 is to ensure that insurance companies **provide relevant information** that faithfully represents insurance contracts. This will allow users of the financials to assess the impact that insurance contracts have on the **financial position, financial performance** and **cash flows**.

Objective (as described by IASB)

On doing this, IFRS will create standards for insurers (and other entities) to:

- **Identify insurance contracts** that fall within the scope of the standard
- **Divide the contracts into groups** that it will recognise and measure
- Recognise for each group the amount relating to the:
  - *Fulfilment cashflows:* the risk adjusted **present value of the future cashflows** that are expected to arise as the entity fulfils the insurance contracts; and
  - *Contractual service margin*: the **unearned profit** in the group of contracts.
- **Remeasure the group** by updating the fulfilment cashflows and the contractual service margin over time

So, what are the practical challenges?

"You'll experience denial, anger, bargaining, depression, acceptance, and finally, stuffing."

Panel Discussion