



CAPE TOWN

24 - 25 October 2018

IFRS 17

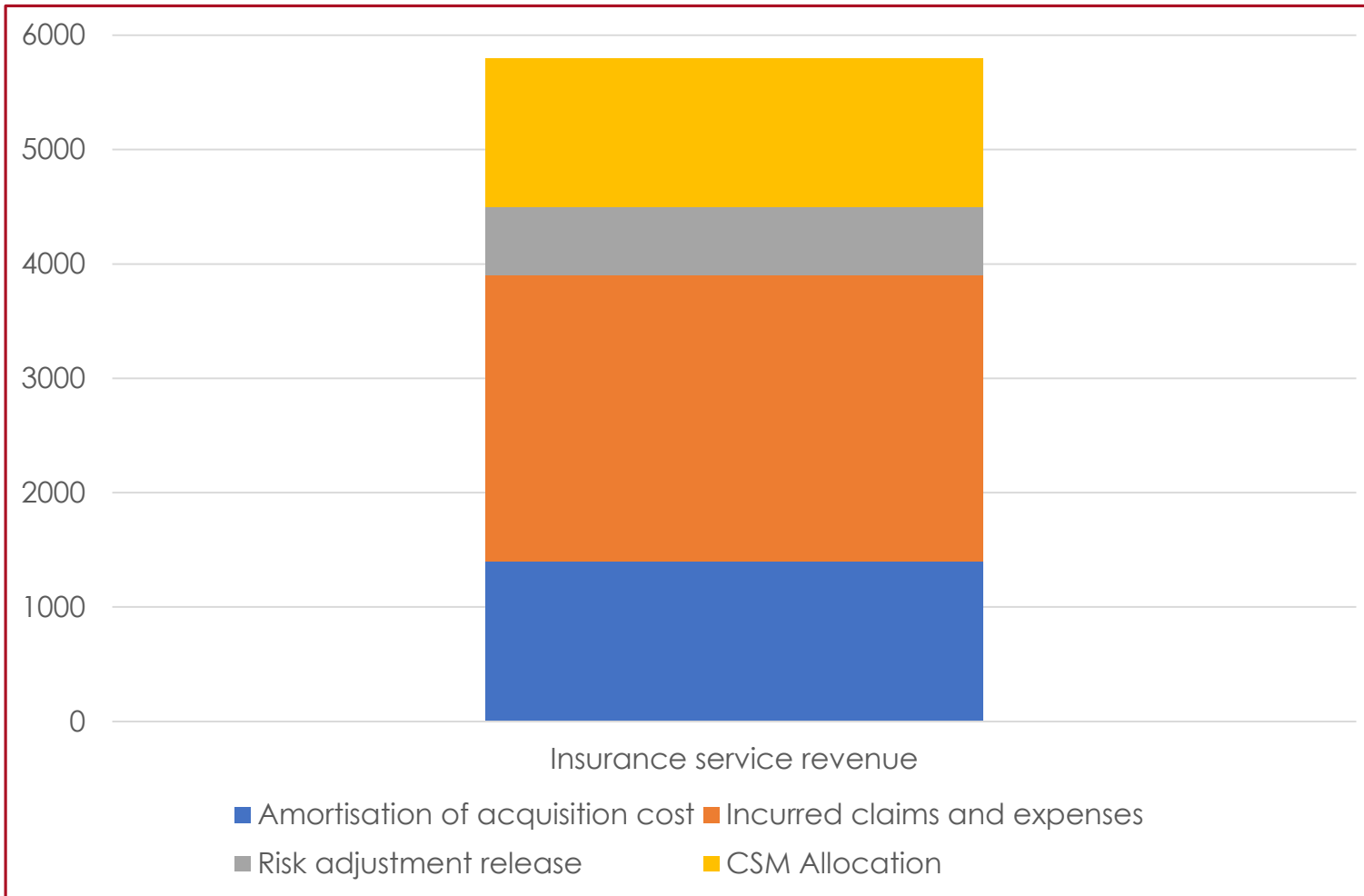
Getting to grips with profit and revenue

1. Revenue
2. Observations and consequences
3. Current hot topics

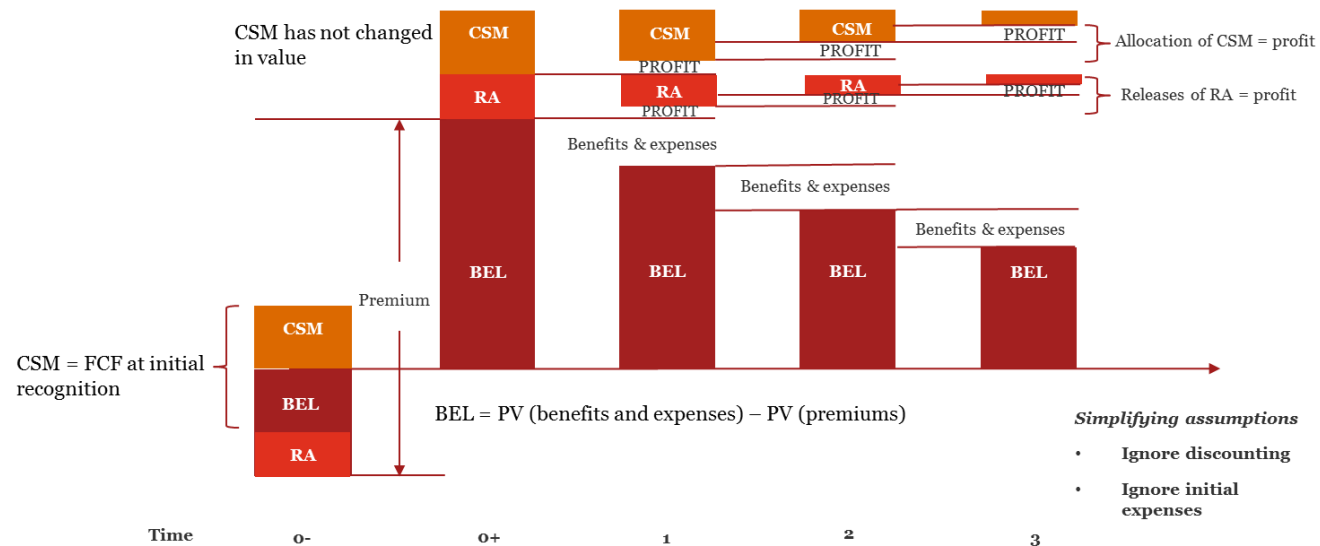
I've heard that actuaries are trying to take over the income statement....

....and this means that we will have to calculate revenue.

Is this true?



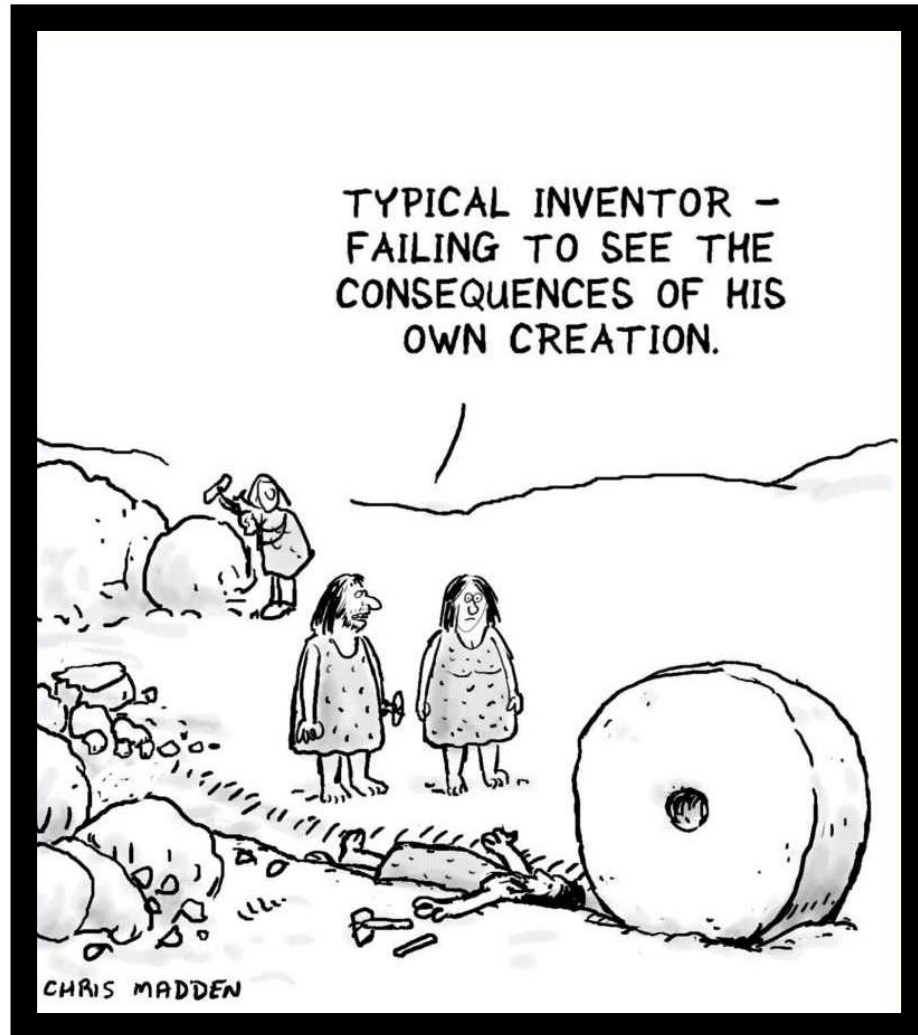
Profitable single premium annuity run-off under IFRS 17



Source: PwC analysis

- $CSM = PV(\text{Premiums}) - PV(\text{Benefits and expenses}) - PV(\text{RA})$
- $PV(\text{Premiums}) = CSM + PV(\text{Benefits and expenses}) + PV(\text{RA})$

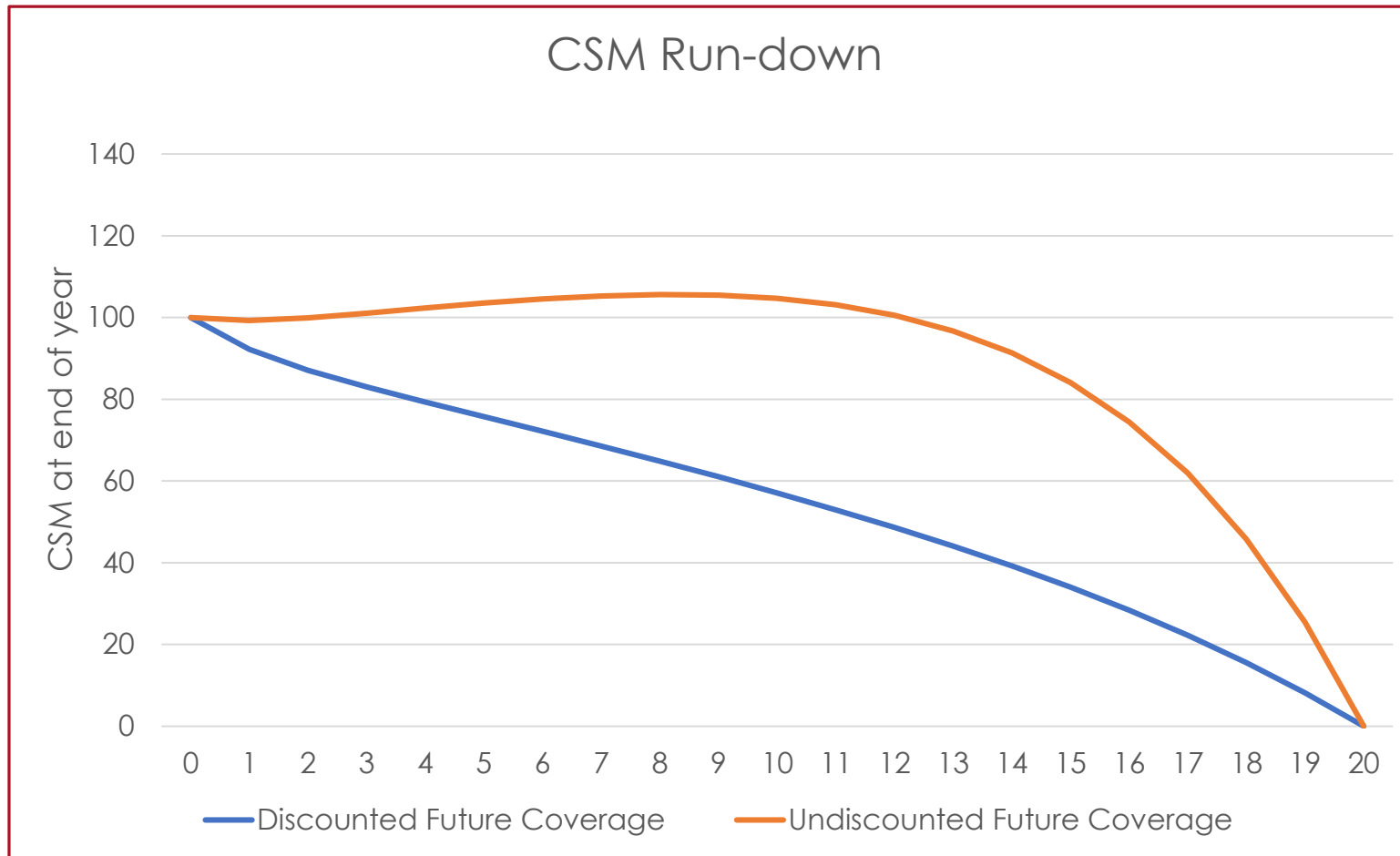
- IFRS4 - premiums = revenue in any reporting period
- IFRS17 - total premiums = total revenue over policy lifetime but the revenue recognition pattern will be different mainly due to:
 - release of CSM as service is provided, and
 - release of RA as risk expires.



To discount or not to discount

- Insurance Finance Income or Expense (**FIE**)
 - CSM increasing for time value each period
- Insurance Revenue (**Revenue**)
 - Allocated for service provided vs. still to be provided
- **Discounted** or **undiscounted**?
- What is the impact of this on **Revenue** and **FIE**?
- What is the impact of this on **Profit**?

02 OBSERVATION – CSM COVERAGE UNITS

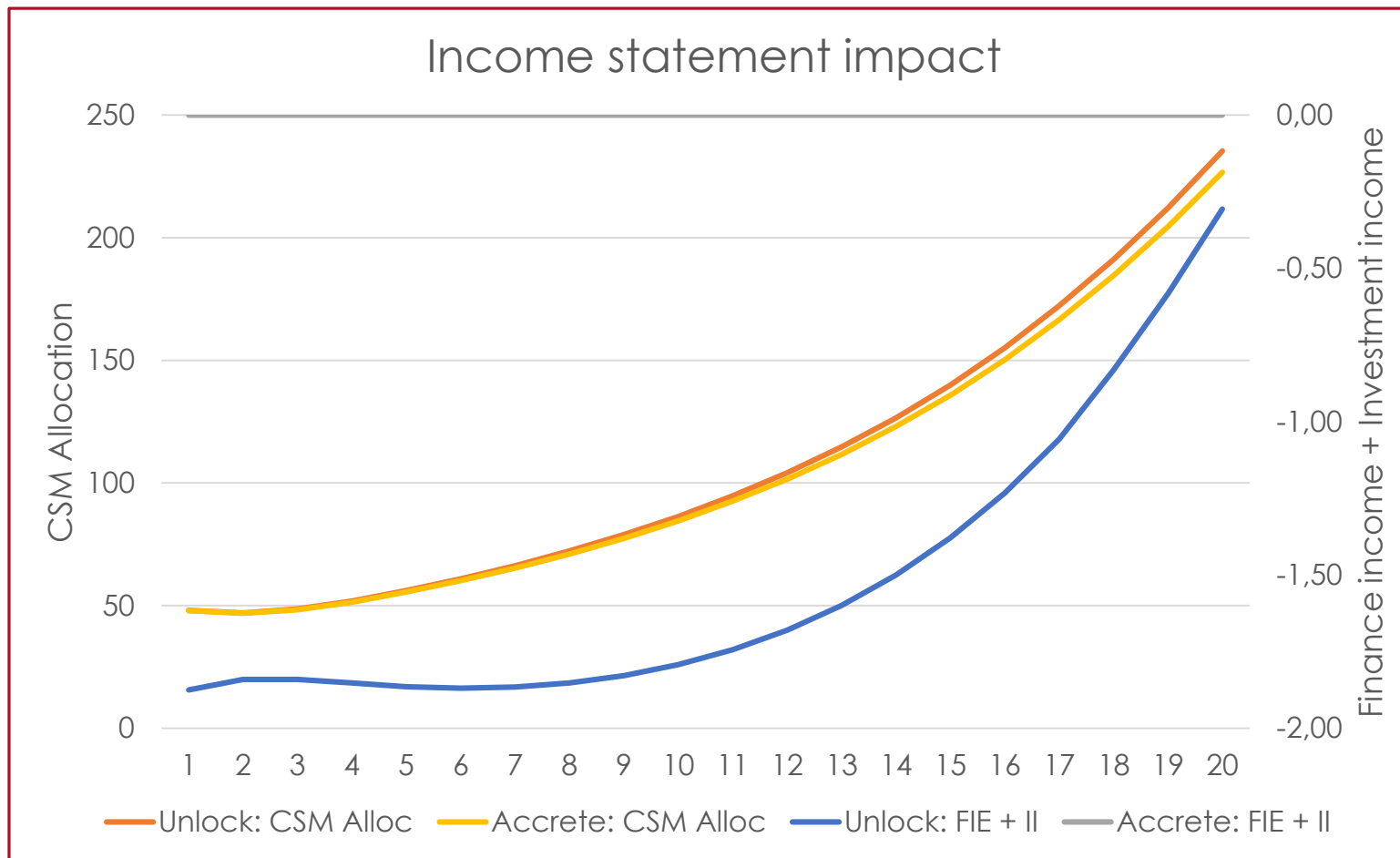


- Assumed R100 of CSM at start
- Coverage unit of number of policies in-force
- Locked-in interest rate of 7.5% at start increasing to 11.5% at end
- Lapse assumption of 20.0% at start reducing to 1.0% after 5 years
- No experience variations

Finance income or expenses vs investment income

- FIE
 - CSM unlocks for unwind of variable fee
- Investment Income (II)
 - Return of assets backing CSM
- CSM disconnected to size of variable fee

- What is the impact of this on **Revenue, FIE and II**?
- What is the impact of this on **Profit**?

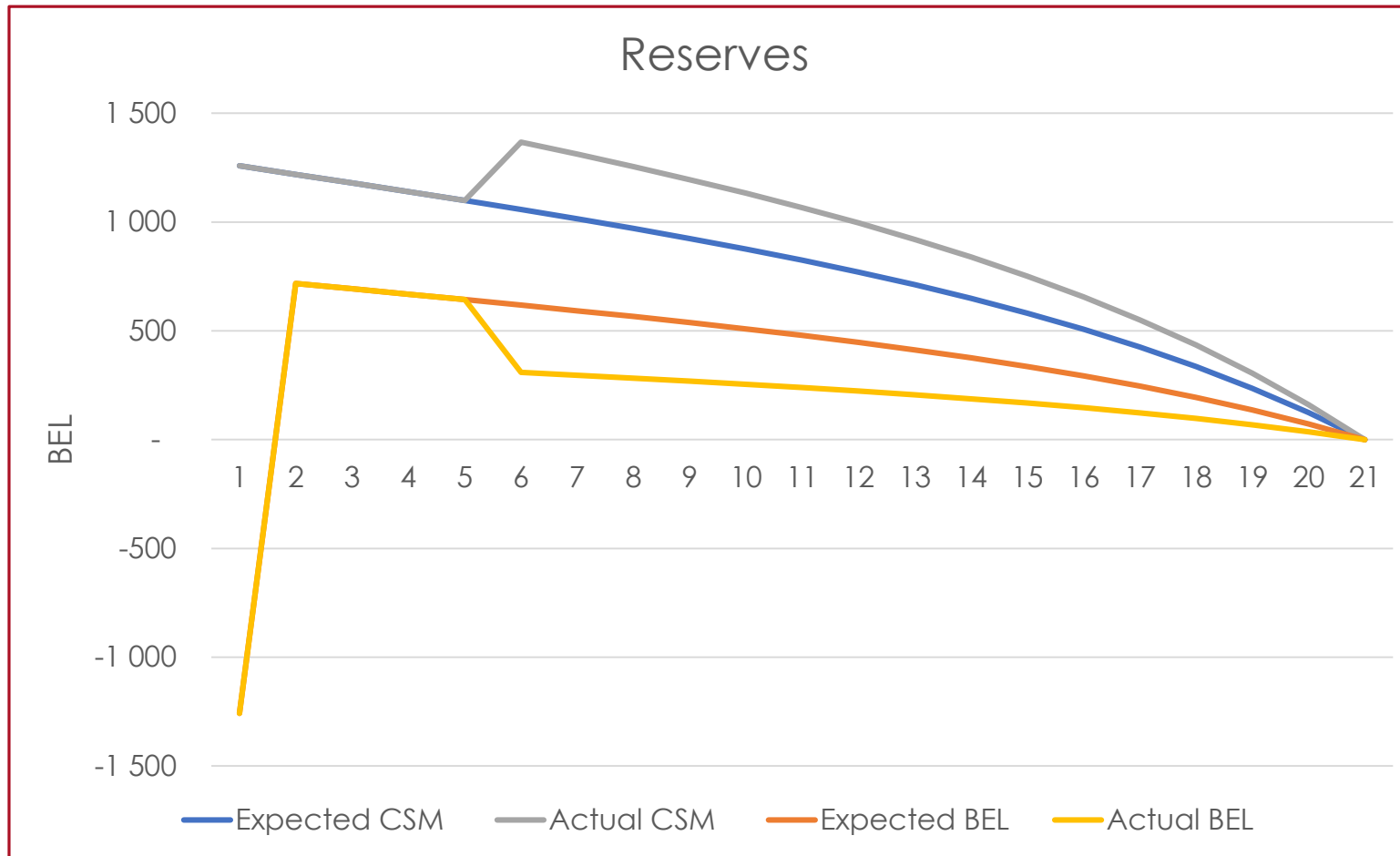


- Whether CSM unlock or accrete has no impact on PV profit (if discounted at projected investment return)
- If CSM accreted, would have no expected mismatch with asset returns

CSM Allocation on AvE Lapse

- CSM unlocks for effect of experience variances on future cash flows
- On lapse event, policy BEL would release fully, unlocking the CSM
- Unlikely that coverage unit allocates unlocking into revenue this period
- Increase in per policy CSM (not a thing!)

- What does this mean for **revenue**?



- Started with 2 policies with no expected lapses
- Lapsed 1 policy after 5 years

Reinsurance and underlying groups

- Reinsurance CSM can be negative or positive
- Reinsurance CSM may only unlock for reinsurance BEL changes if underlying insurance group/s CSM also unlocked
- Enable offsetting impacts in income statement

- What to do when **loss component** is created on underlying group?
- Impacts on **profit**?

Run-order 1	Underlying		Reinsurance	
BEL	Impacts	Total	Impacts	Total
E[Closing]		-200		100
Impact 1	35	-165	-18	83
Impact 2	70	-95	-35	48
Impact 3	-65	-160	0	48

CSM	Impacts	Total	Impacts	Total
Open		30		-20
Accrete	5	35	-3	-23
Impact 3	65	100	0	-23
Impact 2	-70	30	35	12
Impact 1	-35	0	15	27

Run-order 2	Underlying		Reinsurance	
BEL	Impacts	Total	Impacts	Total
E[Closing]		-200		100
Impact 1	35	-165	-18	83
Impact 2	70	-95	-35	48
Impact 3	-65	-160	0	48

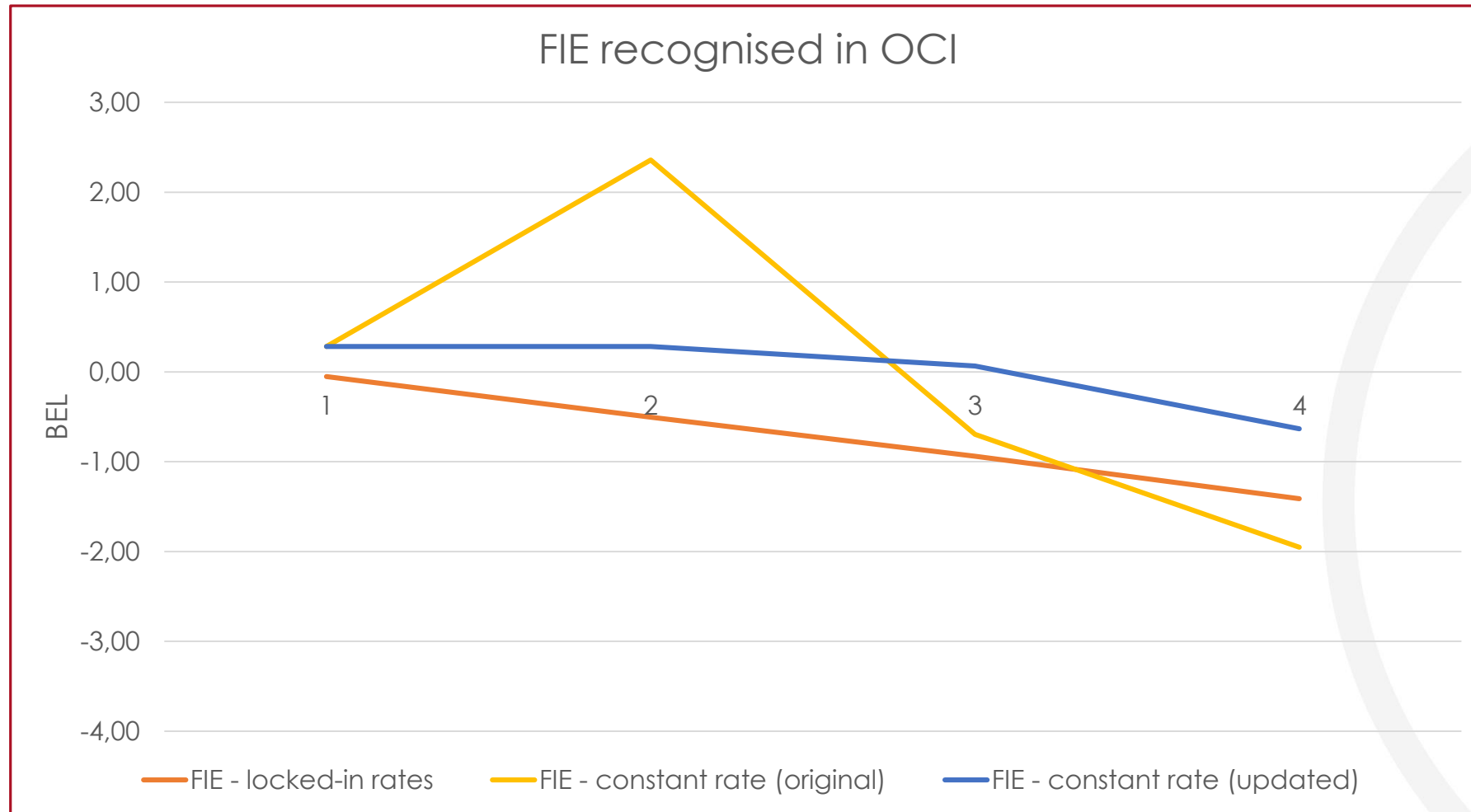
CSM	Impacts	Total	Impacts	Total
Open		30		-20
Accrete	5	35	-3	-23
Impact 1	-35	0	18	-6
Impact 2	-70	0	0	-6
Impact 3	65	0	0	-6

Proportional	Underlying		Reinsurance	
	Impacts	Total	Impacts	Total
BEL				
E[Closing]		-200		100
Impact 1	35	-165	-18	83
Impact 2	70	-95	-35	48
Impact 3	-65	-160	0	48

CSM	Underlying		Reinsurance	
	Impacts	Total	Impacts	Total
Open		30		-20
Accrete	5	35	-3	-23
Impact 1	-35	0	15	-8
Impact 2	-70	0	31	23
Impact 3	65	0	0	23

CSM	35
Unlock	-40
Ratio	88%

- Intention of OCI
- **When only FIE for changes in discount rates go through OCI**
 - FIE recognised in P&L at locked-in rates
 - OCI balance naturally runs down to zero
- **What if changes in inflation rates do not unlock CSM under GM**
 - But inflation rates change as well... what then?



- Cohorting or not for VFA contracts
- Principles-based vs prescribed modifications available on transition
- Level at which the OCI choice or transition approaches can be selected
- Separately disclosing contracts that are assets and liabilities
- Accounting for a net gain at initial recognition on reinsurance contracts

- A deferral of the Standard's effective date...

