



IFRS 17 Update Webinar
3 February 2021

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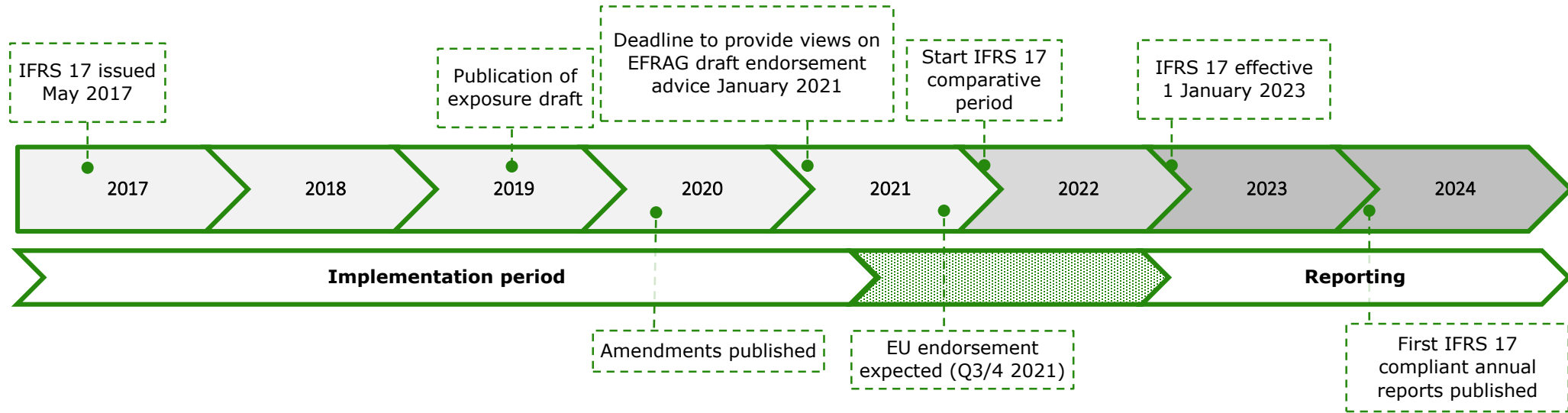
Agenda for this morning

| Topic | Timing |
|------------------------------------|---------------|
| Welcome and IFRS 17 current status | 9:00 – 9:05 |
| IFRS 17 hot topics | 9:05 – 9:20 |
| The new closing process | |
| Increased cooperation | 9:20 – 9:35 |
| Closing process steps and calendar | 9:35 – 9:50 |
| New IFRS 17 controls | 9:50 – 9:55 |
| Questions and closing | 9:55 – 10:00 |

IFRS 17 current status

IFRS 17 current status

Timeline from 2017 till 2024



From the EFRAG Endorsement Status Report:

IASB/IFRIC documents not yet endorsed

[Revisions to this schedule are marked in bold and steps marked in green have been completed]

| | EFRAG draft endorsement advice | EFRAG endorsement advice | ARC Vote | When might endorsement be expected | IASB Effective date | Expected to be endorsed before the effective date |
|----------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------|----------|------------------------------------|---------------------|---------------------------------------------------|
| IFRS STANDARDS¹ AND INTERPRETATIONS | | | | | | |
| IFRS 17 <i>Insurance Contracts</i> (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020) | √ 30/09/2020 | | | | 01/01/2023 | |

Next step

Not indicated

Last update on January 14th 2020

IFRS 17 hot topics

IFRS 17 hot topics

Current technical discussions in the market



1 Financial assumptions in fulfilment cash flows

Standard reference

IFRS 17:87
IFRS 17:B128

Related discussion

- Under the General Model, changes in financial assumptions are not adjusting the CSM and are recognised in the insurance finance income and expense
- Additional guidance for inflation assumptions is provided in B128
- In practice, there are circumstances where an entity may have inflation assumptions using an index +/- a certain amount

Questions under discussion:

- Should **any** adjustments to the index and the additional percentage be treated in the same manner (i.e. as financial risks) and therefore never adjust the CSM?
- Which other factors may be relevant for the conclusion (explicit vs implicit connection to inflation, index vs specific price)?



2 Changes in credit risk of insurance premiums (collectability)

Standard reference

IFRS 17:106(a)(iv)
IFRS 17:124(d)
IFRS 17:B120
IFRS 17:B126

Related discussion

- In case the expected collectability of premiums changes, where should such change be reflected?

Options under discussion:

- Insurance revenue
- Insurance finance income or expenses
- Accounting policy choice

IFRS 17 hot topics

Current technical discussions in the market



3 Impairment tests for insurance acquisition cash flows (IACF)

Standard reference

IFRS 17:B35D(a)
IFRS 17:B35D(b)
IFRS 17:BC148B

Related discussion

The Amendments to IFRS 17 published in June 2020 substantially revised the accounting for insurance acquisition cash flows. One of the key changes was introducing a two-step impairment test to be carried out when facts and circumstances indicate that the IACF asset may be impaired.

Questions under discussion:

- Should the first-level impairment test be at a group or portfolio level?
- Should the second-level impairment test for future renewals be at a group level or “renewal group” level?



4 Cost of acquiring reinsurance contracts held

Standard reference

IFRS 17:63
IFRS 17:B65
IFRS 17:BC314

Related discussion

Currently, for non-life companies it is not uncommon to allocate the costs of acquiring and setting up a reinsurance programme as acquisition costs.

Questions under discussion:

- Can such costs be treated as part of fulfilment cash flows under B65?
- Can B65 (h) – administration & maintenance costs or B65 (e) - allocation of insurance acquisition cash flows be applied?

IFRS 17 hot topics

Current technical discussions in the market



5 Determination of coverage units under VFA

Standard reference

IFRS 17.B119
IFRS 17 Defined terms
BC 17.283K

Related discussion

- IFRS 17 provides principle-based guidance on determination of the coverage units under the VFA model, which needs to be interpreted for the local insurance products.

Questions under discussion:

- Eligible components and how these relate to policyholder benefits
- Weighting of the components
- Treatment of spreads included in investment return but not in discount rate (“Bugwelle”)



6 Definition of underlying items

Standard reference

IFRS 17.B101-106

Related discussion

- At the early stages of IFRS implementation, tied assets were often used for determining underlying items.
- This approach is now being challenged

Questions under discussion:

- Treatment of surplus coverage (“Überdeckung”)
- Treatment of changes in composition of tied assets
- Compliance with B106(a)

The new closing process

Increased cooperation

The new closing process

Example of division of responsibilities for line items, IFRS 4 versus IFRS 17

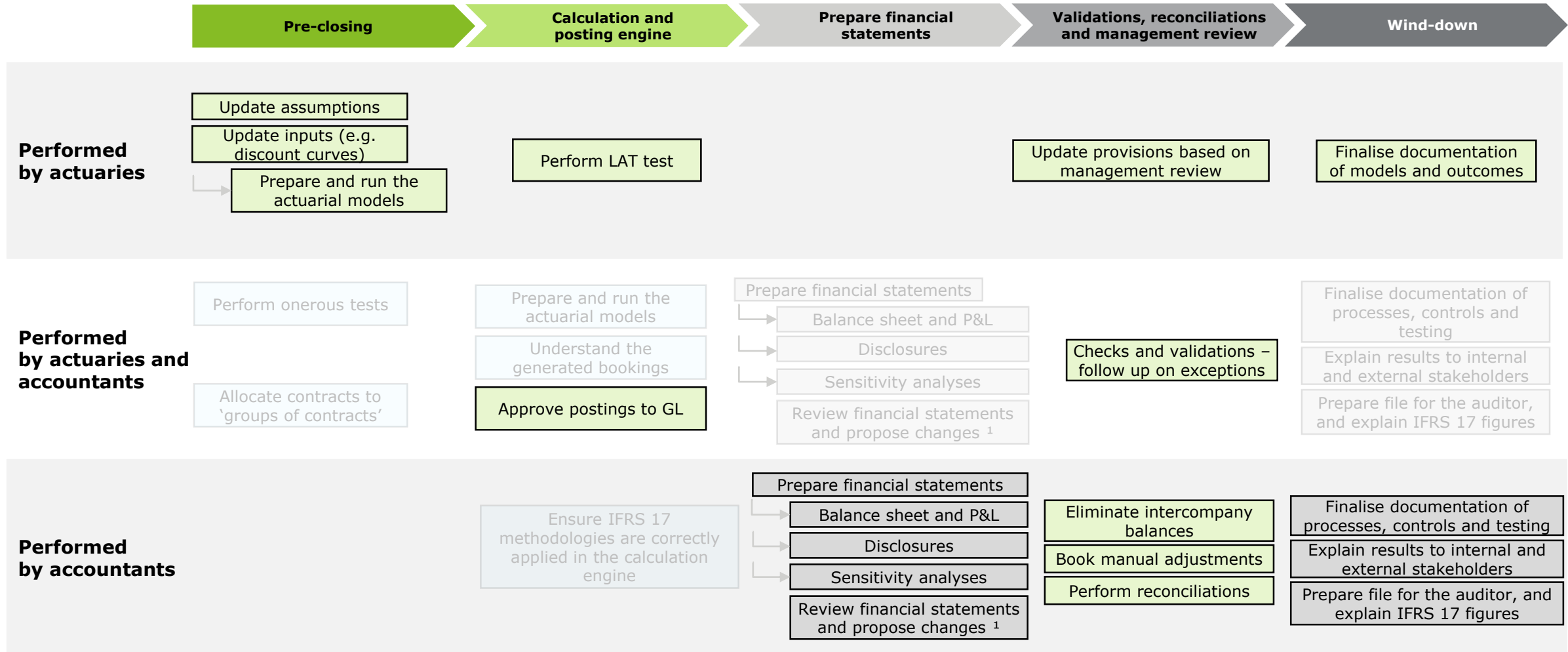
| IFRS 4 P&L | | IFRS 17 P&L | |
|--------------------------------------------------------------------|-------------|--------------------------------------------------------------------------------------------|-------------|
| Insurance premiums revenue | Accountants | Insurance contract revenue | Both |
| Premiums on investment contracts with discretionary participation | Accountants | Insurance service expenses from insurance contracts issued | Both |
| Insurance premiums ceded to reinsurers | Accountants | Net expenses from reinsurance contracts held | Both |
| Net insurance revenue | | INSURANCE SERVICE RESULT | |
| Commissions received on outward reinsurance | Accountants | Investment revenue | Investments |
| Fee income | Accountants | Net gains/losses on financial instruments at fair value through P&L | Investments |
| Investment income | Investments | Net gains/losses on financial instruments at fair value through other comprehensive income | Investments |
| Net fair value gains on financial assets | Investments | Net impairment loss on financial assets | Investments |
| Net fair value gains on financial assets at fair value through P&L | Investments | Investment return | |
| Other income | Accountants | Net finance expenses from insurance contracts issued | Both |
| TOTAL INCOME | | Net finance income from reinsurance contracts held | Both |
| Insurance benefits and claims | Accountants | Changes in investment contract liabilities | Both |
| Insurance claims recovered from reinsurers | Accountants | NET INVESTMENT RESULT | |
| Net insurance benefits and claims | | Non attributable operating expenses | Accountants |
| Commissions expenses | Accountants | Other income and expenses | Accountants |
| Operating and administrative expenses | Accountants | RESULT FROM OPERATING ACTIVITIES | |
| Investment management expenses | Investments | Financing expenses | Accountants |
| Change in insurance contract provisions | Actuaries | PROFIT BEFORE TAX | |
| Changes in investment contract liabilities | Both | Income tax | Accountants |
| Other expenses | Accountants | NET PROFIT | |
| TOTAL EXPENSES | | | |
| RESULT OF OPERATING ACTIVITIES | | | |
| Financing expenses | Accountants | | |
| PROFIT BEFORE TAX | | | |
| Income tax | Accountants | | |
| NET PROFIT | | | |

Both = Actuaries & Accountants

These income statements are purely for illustrative purposes

The new closing process

IFRS 4: Limited cooperation between actuaries and accountants



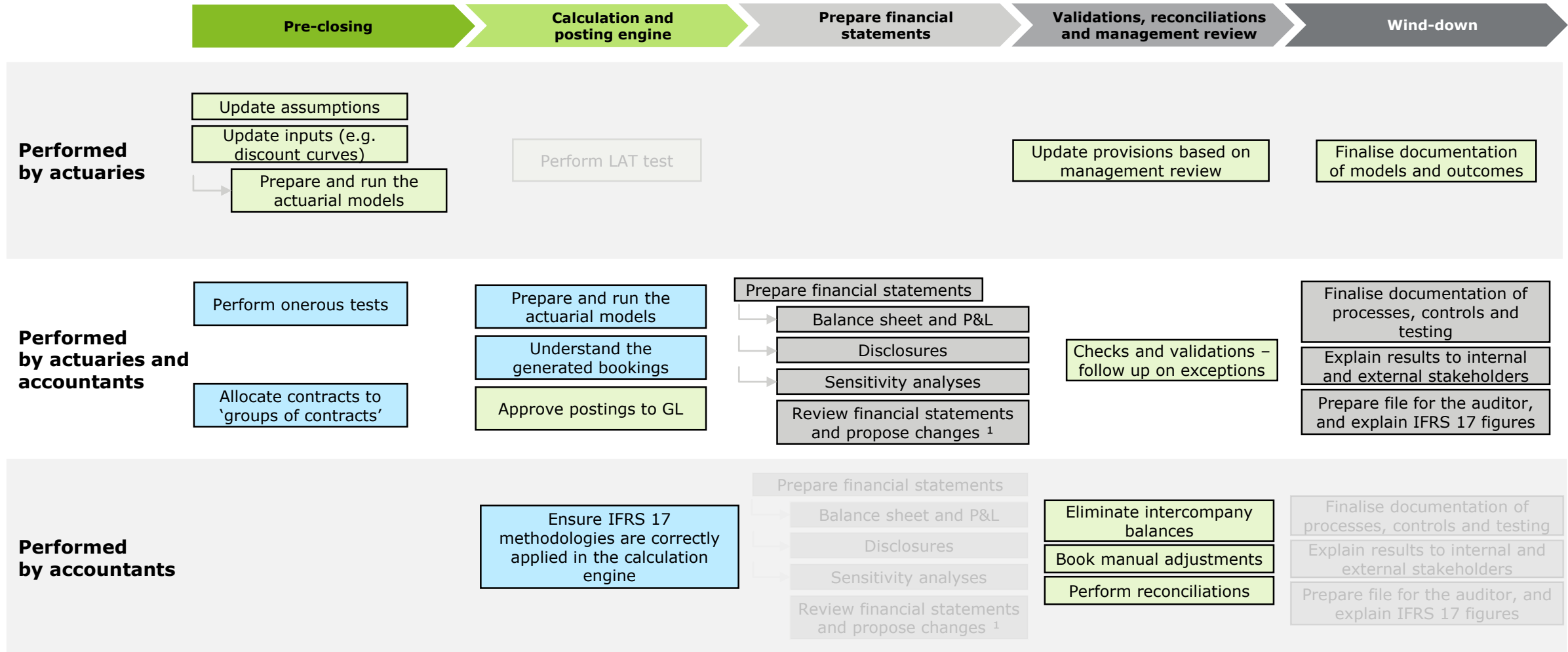
Legend

Unchanged
 More cooperation under IFRS 17

1) Together with senior management

The new closing process

IFRS 17: Extensive cooperation between actuaries and accountants



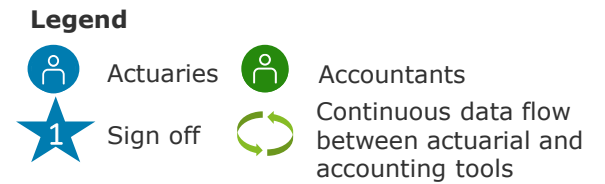
Legend

Unchanged
 More cooperation
 New step

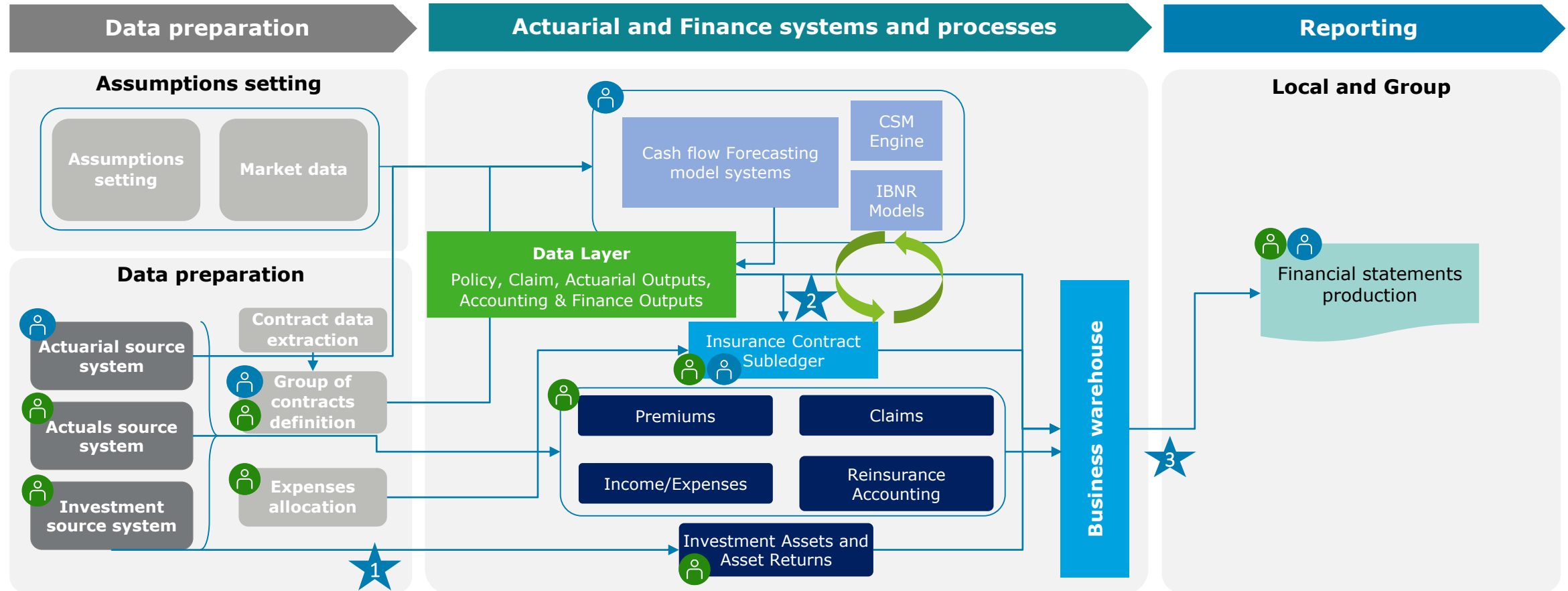
1) Together with senior management

The new closing process

IFRS 17 example: Actuarial process drives the revenue recognition



The to be data flow requires more checkpoints compared to IFRS 4 and also require actuaries, accountants and IT analysts to work closely together



1 Data from feeders are final and can be used for actuarial calculations and the accounting entries

2 Results from actuarial calculations are posted in the insurance contract subledger

3 All the postings are booked and included in the business warehouse that can feed required reporting

Voting

Increased cooperation between actuaries and accountants

How will the increased cooperation between the actuaries and accountants be taken into account in your organisation?

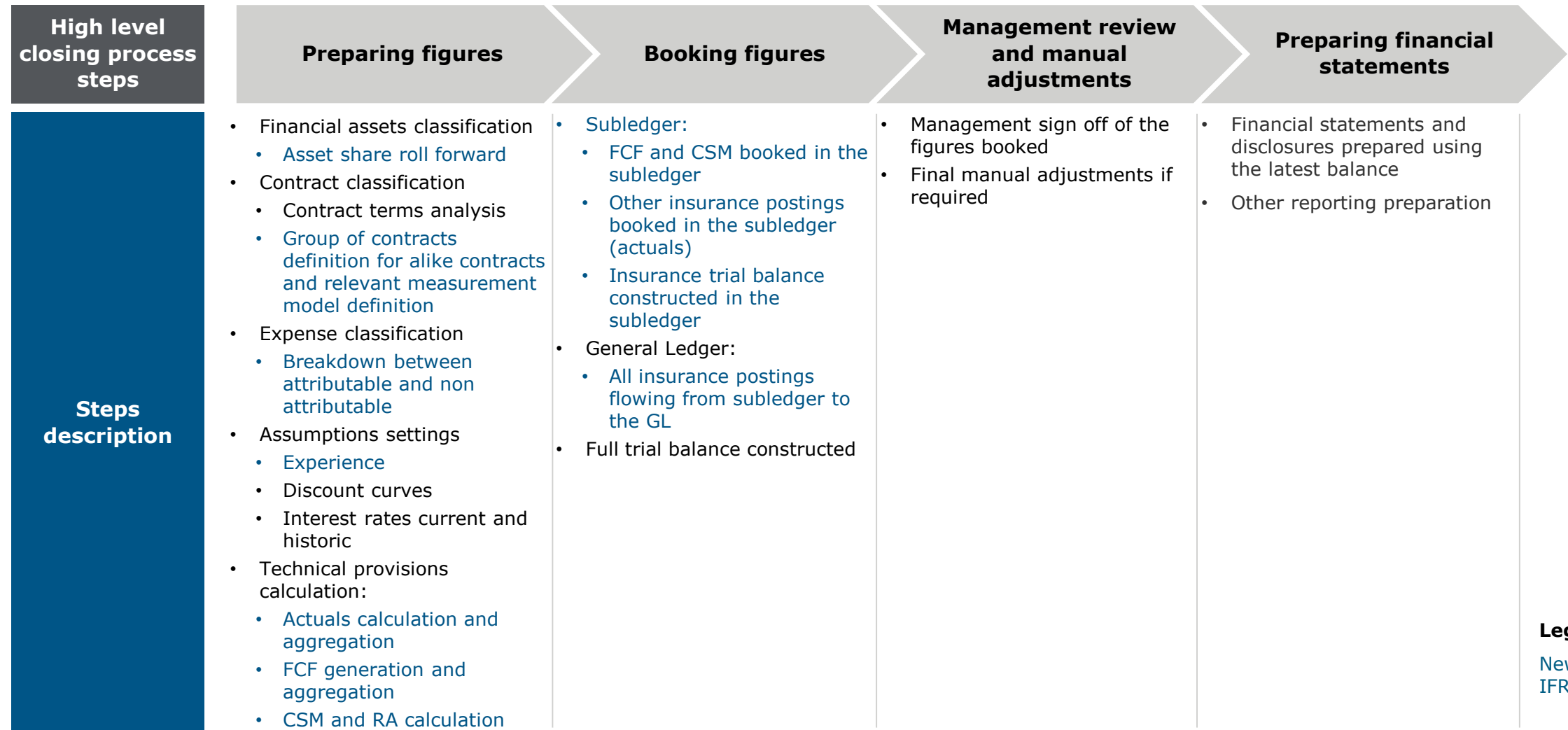
- Actuaries and accountants will both be in the same Finance team
- Actuaries and accountants in separate teams, but an additional 'mixed core team' to promote cooperation
- Actuaries and accountants in separate teams but extended cooperation
- Other
- Have not decided yet

The new closing process

Closing process steps and calendar

The new closing process

IFRS 17 requires new steps to be performed during the closing process

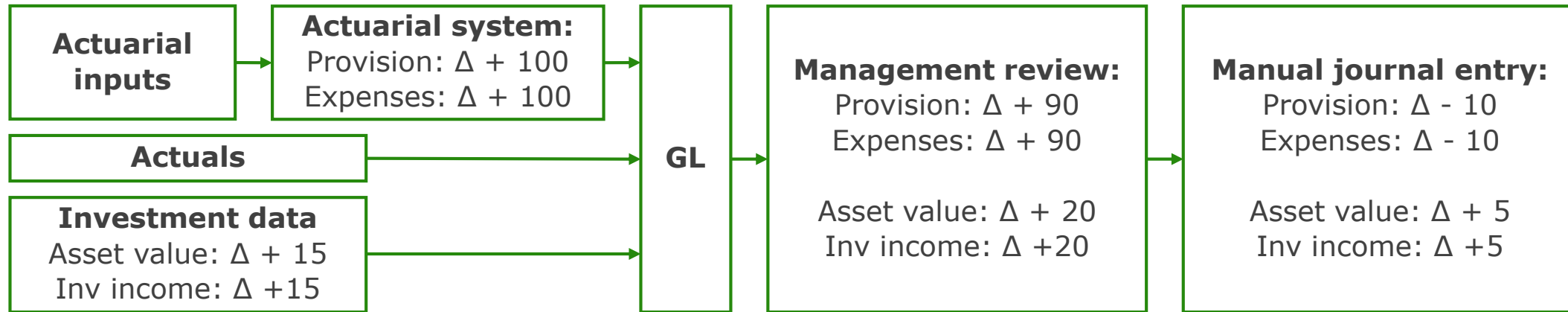


Legend:
New under IFRS 17

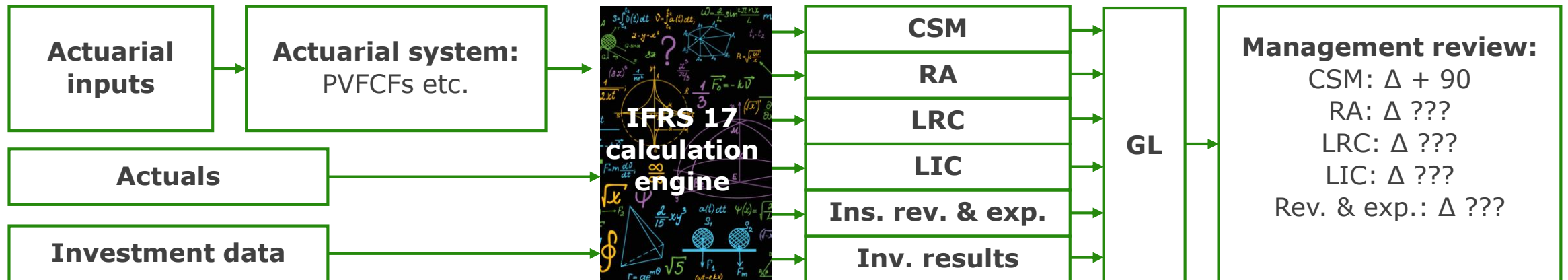
The new closing process

Manual journal entries: IFRS 4 versus IFRS 17

IFRS 4




IFRS 17




The new closing process

With more tasks to be performed with IFRS 17, the closing calendar becomes more challenging

 **Observation**


- More tasks need to be performed under IFRS 17
- Will need to prepare the figures in the same timetable as with IFRS 4, or even earlier, in order to meet existing reporting deadlines




 **Issue**

- When calculating backwards from the desired publication date, it becomes clear not all tasks fit within the current timetable



 **Project impacts**

- Redefine the closing process
- Use the Dry Runs to identify room for optimisation during the business as usual (BAU) process

 **Focus areas**

- Automation of parts of the process: reconciliations, controls, ...
- Analysis of tasks that could be anticipated: assumptions settings, data preparation, etc.
- Optimisation of the data structure
- Well-rehearsed Finance team

Voting

Closing timetable

Have you already set up the new closing timetable for your organisation?

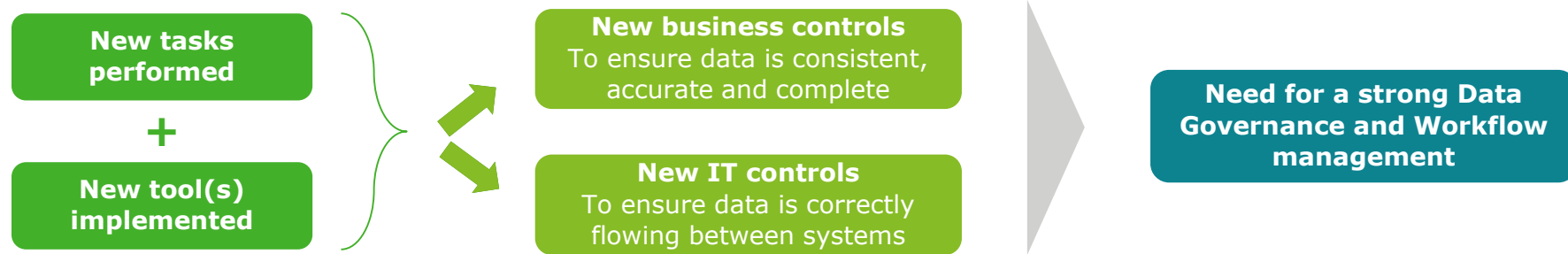
- Yes, done
- Working on it
- Not yet started

The new closing process

New IFRS 17 controls

The new closing process

A complete review of the risk and control matrix need to be performed and new IFRS 17 specific controls created



Examples of controls type relevant with IFRS 17:

| Type of controls | Description |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Validation of input data | More thorough validation of input data, due to the decrease ability to correct errors using manual journal entries |
| IT controls | <ul style="list-style-type: none"> • Controls around new IFRS 17 engine and to ensure data is flowing as expected between systems • Controls on the format of data • All the required fields are populated • Access rights controls (only defined persons have access to certain data) |
| First time adoption of IFRS 9 and IFRS 17 | More reconciliations – and more complex reconciliation, due to the differences between Local GAAP / IFRS 4 and IFRS 17 |
| Reconciliation of data throughout the systems | Controls at each step of the closing process to ensure the audit trail exists (i.e. input data can be traced from each system – example: actuals) |
| Data consistency | Ensure data remains above/below a threshold – Changes compared to previous period is consistent |
| Business controls | Ensure data is consistent with the standard (i.e. sign of the data – ex: loss component is negative, ...) |

The new closing process

Illustrative examples of IFRS 17 controls

| Control | Nature of the control | Control objective | Existing control | Team in charge of the control | Control description |
|------------------------------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------|------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| Expenses reconciliation | Reconciliation of data between systems | Accuracy and completeness of data | No | Accounting / Actuarial | Reconcile the sum of the non-attributable and the attributable expenses in the GL to the expenses coming from the data layer |
| Premiums reconciliation | Reconciliation of data between systems | Reconcile the amount of premiums from the feeders with the amount disclosed in the reporting | No | Accounting | Reconcile the amount of premiums coming from the data layer to the amounts displayed in the IFRS 17 disclosures |
| Data flowing from subledger to general ledger | Data flow | Ensure data is flowing correctly and completely | No | IT | Check that all the postings booked in the insurance contract subledger flowed into the general ledger |
| Sign consistency | Validation | Ensure the sign is correct | Yes | Accounting / Actuarial | Check that expenses are negative and the income positive |



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