

Nigerian Actuarial Society (NAS)

2021 Virtual Industry Conference

IFRS 17 Implementation in Kenya and Middle East – Lessons and Challenges

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ABOUT LUX

ABOUT LUX

- Lux Actuaries and Consultants is a global consultancy with an office in Kenya and worldwide offices in:
 - Dubai
 - Mexico
 - Greece
 - India
 - Cyprus
 - Abu Dhabi
 - Bahrain



CLOSER LOOK AT IFRS 17

IFRS 17 CONSULTING EXPERIENCE



SAUDI ARABIAN COOPERATIVE
INSURANCE COMPANY



ADAMJEE INSURANCE
COMPANY LIMITED



DAR AL TAKAFUL PJSC



ARABIAN SCANDINAVIAN
INSURANCE (PLC)



ALLIANCE INSURANCE PSC



AL DHAFRA INSURANCE
COMPANY P.S.C.



AAR INSURANCE COMPANY
LTD

LEARNINGS AND CHALLENGES FROM KENYA



Current Status

Department	Status
TRAINING	Most companies have done training of some sort.
GAP ANALYSIS, PRODUCT AND REINSURANCE CLASSIFICATION	<ul style="list-style-type: none"> - Less than 20% of the companies in the industry have done GAP analysis - Mostly companies with foreign ownership, especially South African owned companies have made progress. Some have started implementation - Several companies are more focused on meeting RBC solvency requirements - The regulator will get more involved from Q3
PROJECT PLAN	
DECISION ON SOFTWARE	
IMPLEMENTATION	

Learnings

Department	Learning
TRAINING	<ul style="list-style-type: none">- Quite a number do not fully understand the standard- Meaning that the effort required to comply with IFRS 17 has been underestimated- GAP analysis is not viewed as being important- Some think they can build an IFRS 17 calculation engine internally- Costs are underestimated

Key Issues Causing Delay in Implementation

- Capital strain - due to the introduction of Risk Based Capital (RBC):

- ✓ Significant increase in capital requirements
- ✓ Systems may not have been updated
- ✓ IFRS 17 came shortly after introduction of RBC



- Cost of implementation:

- ✓ Most companies compare it to the cost of current systems
- ✓ Lack of understanding of the requirements – both data and systems

- Wait and See?

- ✓ Delays from 2021 to 2023
- ✓ Compare themselves to their peers
- ✓ Impact of Covid



Industry and Professional Bodies initiatives

- **Insurance Regulatory Authority :**
 - ✓ **Will start updating their solvency templates to be consistent with IFRS 17**
 - ✓ **Aim to train boards on the effort and requirements to comply with IFRS 17**
- **The Actuarial Society of Kenya (TASK):**
 - ✓ **IFRS 17 Working Party**
 - ✓ **Trainings for Regulators**
 - ✓ **High-level trainings for Senior Management**
 - ✓ **Aim to issue guidelines on IFRS 17**
- **ICPAK (Institute of Certified Public Accountants of Kenya):**
 - ✓ **Industry training**
 - ✓ **More members than TASK**
- **AKI (Association of Kenyan Insurers):**
 - ✓ **Hosted Trainings for IFRS 17**





LEARNINGS AND CHALLENGES FROM UAE AND KSA



Company's Growth

It is a process to allow an and achieve the company's over other competitors, a analysis of a company's seeks to assessing and i

A marketing step your sales volume

Opportunity

Year	2015	2016	2017
Revenue	100000	120000	150000
Profit	50000	60000	75000
Market Share	10%	12%	15%

Year	2015	2016	2017
Revenue	100,000	120,000	150,000
Profit	50,000	60,000	75,000
Market Share	10%	12%	15%
Customer Satisfaction	85%	88%	90%
Employee Retention	90%	92%	95%

LEARNINGS FROM UAE AND KSA

Department	Learnings
MEDICAL	Dependence on TPAs and lack of integration leads to reporting delays.
	If cross subsidization exists across all rating factors and all the rating factors are not captured, it will impede the identification of onerous contracts.
	If individual medical policies are not priced through experience rating or a credibility-based approach it will impede aggregation procedures.
	Outstanding claims postings performed at batch level will impair correct calculation of technical provisions at a policy level.
MOTOR	Profitability assessment will be adversely affected by: <ol style="list-style-type: none">1. Subjective fleet pricing2. Subjective individual pricing3. Inability to capture all the adjustments made to base or technical rates (profit loading, risk adjustment, expense loading etc.)

LEARNINGS FROM UAE AND KSA

Department	Learnings
MOTOR	Aggregating multiple claims emanating from one accident will overestimate long tailed claims.
GENERAL INSURANCE	Market driven pricing can impair profitability assessment.
	Dummy claims are booked where the expected loss amount is unknown.
	If pricing models are not linked to the system and pricing factors exist outside the systems, automation of profitability assessment will be adversely affected.
REINSURANCE	Manual booking of Excess Of Loss(XOL) recoveries will lead to an inability in obtaining accurate gross and reinsurance policy level data.
	Absence of reinsurer level data for treaties will adversely affect the aggregation processes.

LEARNINGS FROM UAE AND KSA

Department	Learnings
REINSURANCE	Absence of cashflow projections will impair aggregation processes.
LIFE	Evaluation of linkage between guarantees and host insurance contracts must be performed.
	In the absence of claim statuses, it will be difficult to differentiate between settled and outstanding claims.
	Absence of product wise segregation of Life investments will impair VFA measurement.
IT	Lack of integration between multiple systems could lead to disruption in data consolidation for aggregation and measurement.
	Systems not robust enough to compute key IFRS 17 parameters (CSM, onerousness, discounted present value of future cashflows).

LEARNINGS FROM UAE AND KSA

Department	Learnings
IT	High dependence on IT vendors for development/upgradation of software to accommodate IFRS 17 requirements.
	Data storage and warehousing poses a significant issue in most of the companies.
FINANCE	Current aggregation methodologies(LOB-wise) used for valuation of insurance contract liabilities are insufficient .
	Initial recognition of policies is based on the policy issuance date rather than policy inception date.
	The top line in P&L i.e. gross premium written will no longer be the top line as per IFRS 17.
	Risk adjustment for non-financial risk is not defined.

LEARNINGS FROM UAE AND KSA

Department	Learnings
FINANCE	Advances such as deposit premium for Marine Cargo policies currently recognised as revenue must be recognised as liabilities rather than as part of GPW.
	Expected claim settlement date must be captured in the system.
	An assessment must be performed of the impact of IFRS 17 on quarterly reporting via E-forms.
	Expected cash inflows and outflows must be forecasted at a policy or LOB level.
	Companies must use discount rates to incorporate time value of money and financial risk adjustments for contracts with coverage period greater than 12 months.
	Extraction of prior period data poses to be a challenge and will adversely affects the transition computation.

LEARNINGS FROM UAE AND KSA

Department	Learnings
FINANCE	There is lack of clarity in assessing the level of materiality while choosing between PAA and GMM approach for 13 months motor and marine hull policies.
	The opening equity balance and earnings would be significantly impacted by the following factors: <ol style="list-style-type: none">1. Transition approach2. Choice of measurement model3. Incorporation of risk adjustment4. Early recognition of losses5. Discounting liabilities
	Disbursement of surplus must be forecasted or estimated at initial recognition.
	Admin expenses must be <ol style="list-style-type: none">1. Allocated at a policy level2. Forecasted at initial recognition3. Discounted

LEARNINGS FROM UAE AND KSA

Department	Learnings
FINANCE	Premium experience adjustment should be recognised based on the measurement model rather than routing it through premium receivable or claim payable account.
OUTSOURCED FUNCTIONS	The role of external appointed actuary is limited to performing quarterly technical reserving.
	Contracts with third parties (Brokers, TPAs and the Appointed Actuary) must be altered to align with IFRS 17 requirements.
BOARD OF DIRECTORS	Although, risk management has to be formalized, as per regulations, risk appetite is not fully defined and non-financial risk are not anticipated.

Regional update



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Company's Growth

It is a process to allow an organization to achieve the company's goals over other competitors. It involves a combination of marketing and sales. A marketing strategy is a plan that outlines the organization's marketing goals and the actions it will take to achieve them. Sales is the process of selling products or services to customers.






Year	2015	2016	2017
Revenue	100,000	120,000	150,000
Profit	20,000	25,000	30,000
Market Share	10%	12%	15%

Opportunities






Category	2015	2016	2017
Product A	100,000	120,000	150,000
Product B	50,000	60,000	70,000
Product C	30,000	35,000	40,000
Product D	20,000	25,000	30,000
Product E	10,000	12,000	15,000

Year	2015	2016	2017
Revenue	100,000	120,000	150,000
Profit	20,000	25,000	30,000
Market Share	10%	12%	15%
Product A	100,000	120,000	150,000
Product B	50,000	60,000	70,000
Product C	30,000	35,000	40,000
Product D	20,000	25,000	30,000
Product E	10,000	12,000	15,000






Regional update

COUNTRY		REGULATOR	PROGRESS UPDATE					
			GAP ANALYSIS	FINANCIAL IMPACT ASSESSMENT	OPERATIONAL IMPACT ASSESSMENT	DESIGN	IMPLEMENTATION	GO LIVE 2023
	UNITED ARAB EMIRATES	CENTRAL BANK UAE (CB UAE)						
	KINGDOM OF SAUDI ARABIA	SAUDI CENTRAL BANK (SAMA)						
	OMAN	CAPITAL MARKET AUTHORITY (CMA)						
	KUWAIT	KUWAITI INSURANCE REGULATORY UNIT (KIRU)						
	BAHRAIN	CENTRAL BANK OF BAHRAIN (CBB)						

Regional update (continued)

COUNTRY		REGULATOR	PROGRESS UPDATE			
			IFRS 17 WORKING GROUPS	GAP ANALYSIS	FINANCIAL IMPACT ASSESSMENT (FIA)	OPERATIONAL IMPACT ASSESSMENT
	UNITED ARAB EMIRATES	CENTRAL BANK UAE (CB UAE)	Monthly/weekly meetings	Completed March 2019	1st FIA completed in April 2020 2 nd and 3 rd FIA due in March 2021 and March 2022	Being considered along with 2 nd and 3 rd FIA
	KINGDOM OF SAUDI ARABIA	SAUDI CENTRAL BANK (SAMA)	• Monthly/weekly meetings	Completed March 2019	Completed April 2020	Completed April 2020
	OMAN	CAPITAL MARKET AUTHORITY (CMA)		Completed September 2019	Completed September 2019	
	KUWAIT	KUWAITI INSURANCE REGULATORY UNIT (KIRU)		Completed		
	BAHRAIN	CENTRAL BANK OF BAHRAIN (CBB)		Completed	Completed	

Regional update (continued)

COUNTRY		REGULATOR	PROGRESS UPDATE ----->			
			IFRS 17 PROGRESS REPORTS	DESIGN PHASE	IMPLEMENTATION	GO LIVE 2023
	UNITED ARAB EMIRATES	CENTRAL BANK UAE (CB UAE)	<ul style="list-style-type: none"> Required quarterly 	Broad guidelines issued	Broad guidelines issued	
	KINGDOM OF SAUDI ARABIA	SAUDI CENTRAL BANK (SAMA)	<ul style="list-style-type: none"> Required quarterly 	Guidelines issued	In progress	
	OMAN	CAPITAL MARKET AUTHORITY (CMA)	<ul style="list-style-type: none"> Required half-yearly 	Broad guidelines issued	Broad guidelines issued	
	KUWAIT	KUWAITI INSURANCE REGULATORY UNIT (KIRU)				
	BAHRAIN	CENTRAL BANK OF BAHRAIN (CBB)	Action plan on implementation to be submitted by May 2021	Timelines issued	Timelines issued- Initiate the implementation	

Proposed implementation plan

Activities Covered	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Implementation- Preparation, Design and Dry Run						
Level of aggregation						
Discount rate and risk adjustment policy						
Expense allocation basis						
Recognition and derecognition criteria						
Measurement models of insurance and reinsurance contracts						
Develop data requirement						
GL Chart of Accounts						
IFRS 17 policies						
Transition approach selection						
PAA Eligibility Assessment						
Quantitative reconciliation with IFRS-4						
Financial impact assessment						



Systems and vendors

Business Company

It's a process to allow an and achieve the company's over other competitors, a analysis of a company's sales by assessing and i

A marketing strategy your sales volume

Opportunity

Category	Actual	Target
2015	244,55	244,55
2016	244,55	244,55
2017	244,55	244,55
2018	244,55	244,55
2019	244,55	244,55
2020	244,55	244,55

Company's Growth

Year	Revenue	Profit	Growth
2015	100,000	20,000	0%
2016	120,000	24,000	+20%
2017	140,000	28,000	+17%
2018	160,000	32,000	+14%
2019	180,000	36,000	+13%
2020	200,000	40,000	+11%

Office

Department	May	June
Sales & Marketing	24,760	45,536
Production	204	1,070
Design	111	190
Production	134	134
Customer Service	25,899	47,796



Year	2015	2016	2017
Revenue	100,000	120,000	140,000
Profit	20,000	24,000	28,000
Operating Expenses	80,000	96,000	112,000
Capital Expenses	10,000	12,000	14,000
Depreciation	10,000	12,000	14,000
Income Tax	10,000	12,000	14,000
Net Income	10,000	12,000	14,000

IT VENDOR SELECTION PROCESS

- A detailed RFP was prepared with the following evaluation criterion:
 - Data Management
 - Calculation engine
 - Posting component / sub-ledger functionality
 - MIS Reporting and Budgeting
 - Reporting and analysis component

- The purpose of the RFP was to assist the client in selecting a comprehensive, but modular, solution for IFRS 17 requirements, which include:
 - Data storage
 - Calculations of insurance contract valuations in accordance with the IFRS 17 requirements
 - Preparation of disclosures, and reporting

- Currently, an evaluation of the RFPs is being performed and a decision will be made in this regard by the Management by 30 June 2021.

VENDOR EVALUATION CRITERIA

- Cost of the Solution, including the following
 - Implementation fee
 - Ongoing licensing fee
 - Additional Software fee (if needed)
 - Hardware upgrade fee (if needed)
 - Cost of integrating with the existing System(s)

- The Solution usage, consideration include the following:
 - Will the software be run internally or external
 - How will the Solution integrate with Appointed Actuary function (will this stay external or be brought internal?)

- Solution structure (is the Solution end to end or is it modular)

- Resourcing requirements- specific considerations for differences between Life and Non-Life

- Ease of Integration with existing System(s) (i.e.TPA etc.)

- Length of the contract

- Accessibility and ownership including:
 - Is the software installed onsite?
 - Does the firm “rent” the Solution or purchase it?
 - Number of users granted access
 - Is it available on the cloud as a SaaS (software as a service)?

THOUGHT QUESTIONS



Business Company

Category	Q1	Q2	Q3	Q4	Annual
Revenue	100	120	150	180	550
Expenses	80	90	110	130	410
Profit	20	30	40	50	140

Company's Growth

It is a process to allow an organization to achieve its goals and objectives over other competitors. It involves a company's sales to existing and new customers.

A marketing strategy is a plan that outlines the company's approach to reaching its target market and achieving its business objectives.

Month	Q1	Q2	Q3	Q4
Jan & Marketing	24,760	45,536		
Production	204	1,070		
Design	111	190		
Production	140	134		
Customer Service	25,894	47,796		



Year	2015	2016	2017
Revenue	100,000	120,000	150,000
Expenses	80,000	90,000	110,000
Profit	20,000	30,000	40,000

Company's target

Year	2015	2016
Revenue	100,000	120,000
Expenses	80,000	90,000
Profit	20,000	30,000

HIGH-LEVEL IMPACTS

Impacted Entity	Non-Life	Life
Investor	Potential additional Capital requirement (due to impact of transition to IFRS 17) Potential impact on the future Dividends	Volatility of Revenue Potential additional Capital requirement (due to impact of transition to IFRS 17) Potential impact on the future Dividends
Business	Revision to KPIs (change in perception) Potential change to products pricing and management Onerous testing might indicate loss making portfolios due to cross-subsidies within GI Lobs	Financial performance actual vs budgeted Revision to KPIs (change in perception) Potential change to products pricing and management Onerous testing might indicate loss making portfolios
Operational	Actuarial (Outsourced vs Inhouse) Finance (Resourcing and Training) Underwriter (Pricing vs Profitability management) IT (Data warehousing, resourcing and upgrading)	Actuarial (Outsourced vs Inhouse) Finance (Resourcing and Training) IT (Data warehousing, resourcing and upgrading) Risk (top line and bottom-line stability)
Preparer	Potential Localised GAAP Statutory vs GAAP Reporting	Potential Localised GAAP Statutory vs GAAP Reporting

THOUGHT QUESTIONS

What will be the role of rating agencies?

How do you identify contracts that are profitable or onerous contracts at inception?

Will companies be ready to recognise loss making business upfront?

Do insurance & reinsurance contracts have separate measurement approaches?

How can reinsurance offerings change to avoid BBA?

THOUGHT QUESTIONS

How will the misalignment of annual RI treaties with duration of policies on risk attachment basis be accounted for under IFRS 17?

Is it possible to price Non Motor Non-Medical lines on a purely mathematical basis?

How will IFRS 17 impact capital measurement?

What will be the impact of risk adjustment and discounting on 2022 reserves?

Will regulators define contract types and their measurements approaches?

How can shareholder value increase through this exercise?

THOUGHT QUESTIONS

Costs vs Benefits for small companies?

Will the market move towards technical pricing?

How will contract recognition affect operations and brokers?

THOUGHT QUESTIONS: TAKAFUL

What will be the treatment of Takaful contracts? (Variable Fee Approach applicability)

Will the classification of loss-making contracts at inception conflict with the concept of Takaful.

Will Qard-Hasan cash flows be incorporated as part of FCF computation?

Will Shariah board provide guidance on quantification methodology for margins that are over and above the Wakala loading?

Will Shariah board provide guidance in drafting policy for recognition of the risk adjustment?

Will Sharia board provide guidance on the acceptable level of profits which can be earned from a group of contracts and the impact of mutual help principle on concepts of onerousness and CSM?



Q&A



No.	Marketing Budget	Categories	Unit	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
10460	Benefits	1-Personal	0	12,034	13,565	10,674	13,095	16,392	12,357	20,775	24,782
35246	Payroll taxes	1-Personal	0	345	347	154	1,953	374	534	-	133
76745	Salaries	1-Personal	0	521	434	178	519	1,850	643	248	348
76023	Commissions and bonuses	1-Personal	0	0	2,300	189	90	23	456	25,328	28,599
23674	Personnel Total	1-Personal	1	12,900	16,646	11,195	15,657	18,639	13,890	26,366	31,563
14678	Web Research	2-Marketing	2	6,000	2,300	5,000	1,500	1,500	1,500	1,500	1,500
10567	Independent Research	2-Marketing	1	2,000	5,120	3,000	2,100	1,200	1,200	1,200	1,200
96643	Firm Research Fees	2-Marketing	0	8,200	4,900	2,000	8,000	1,200	1,200	1,200	1,200

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THANK YOU