



## **International accounting and IFRS 17**

IFRS 17 the actuarial view

Helsinki

Thomas Ringsted, 30 November 2017

# Agenda

**Introduction and time line**



**Unit of account**



**Insurance assets and liabilities**



**Insurance revenue and P&L**



**Deloitte products**

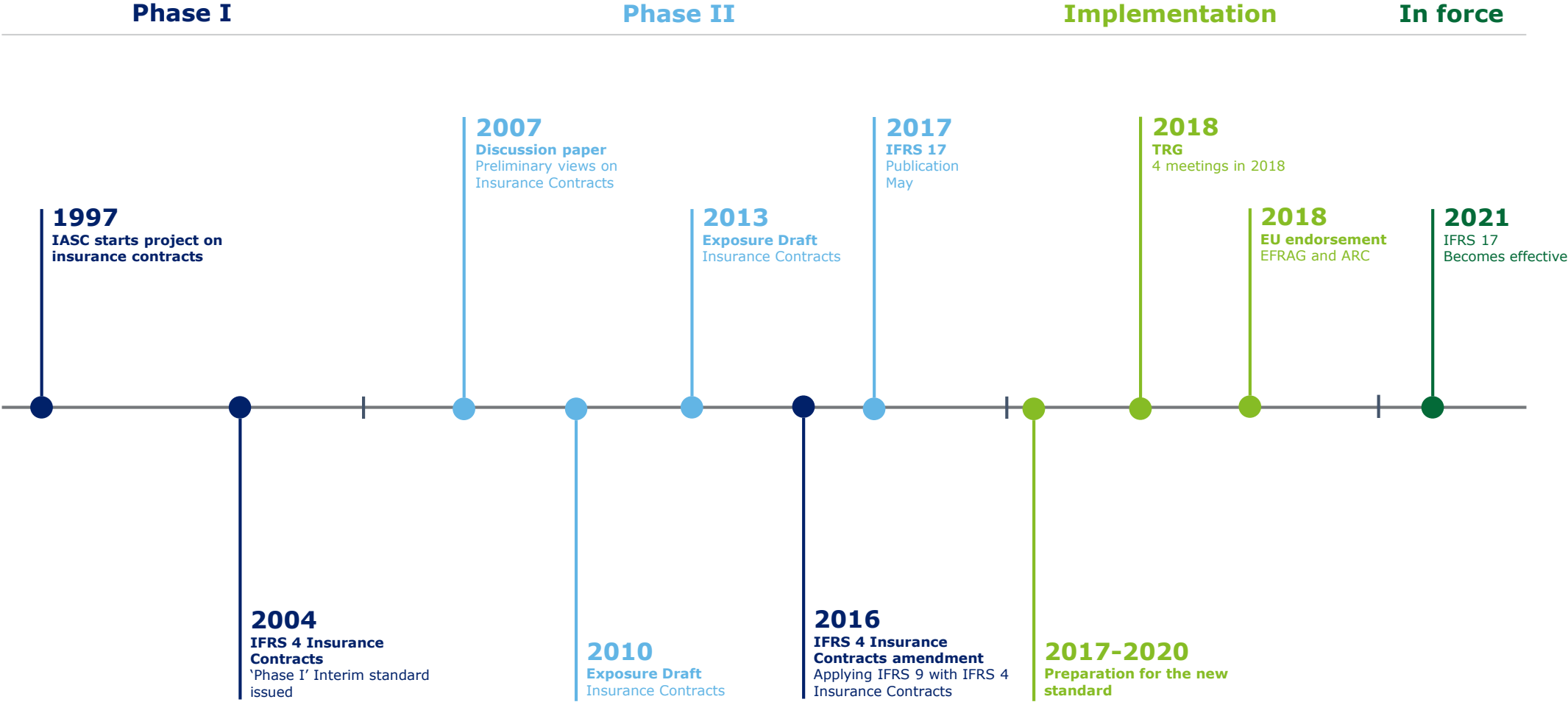


# Agenda

## **Introduction and time line**



# IFRS 17 time line



# European Union endorsement of IFRS 17

## EFRAG provide endorsement advice

### European Union adopts IFRS Standard

- IFRS 17 is **currently being discussed in European Financial Reporting Advisory Group (EFRAG)**
- EFRAG provide endorsement advice on IFRS 17
- The endorsement will then be voted on

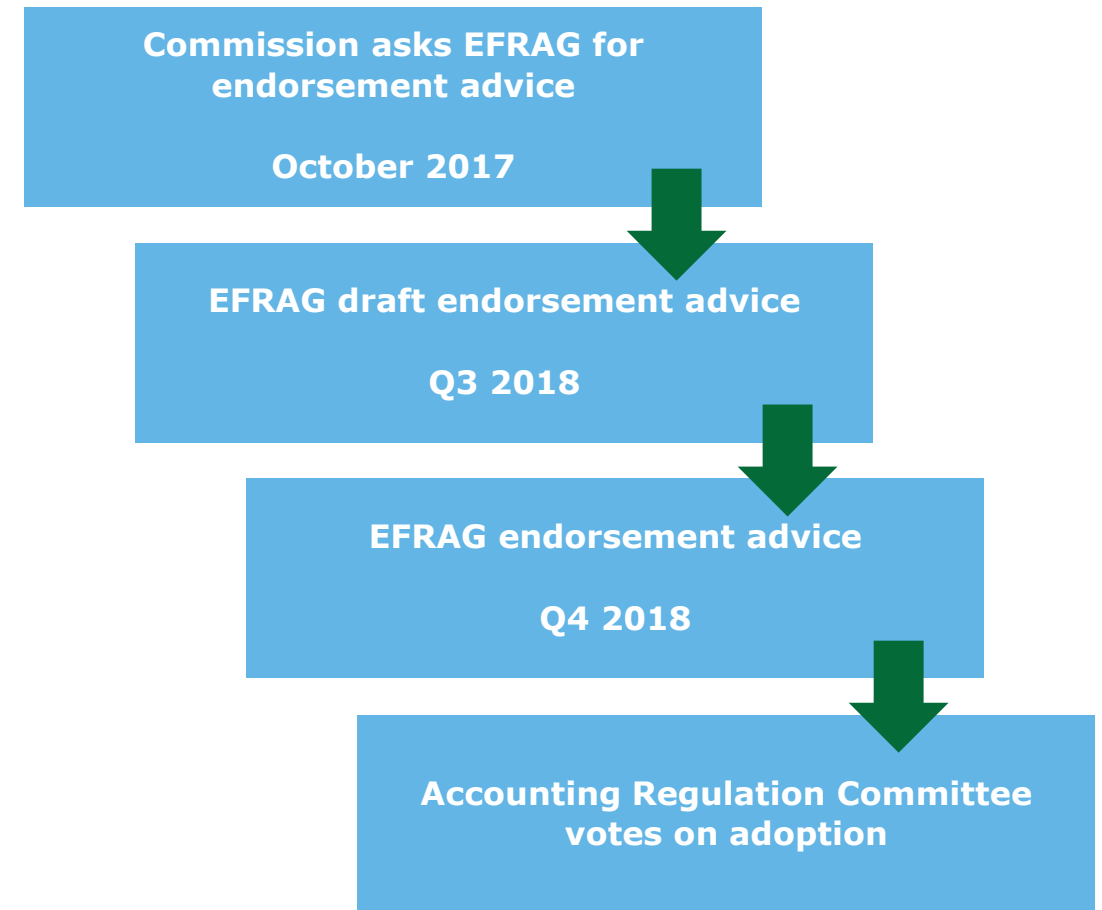
I am a member of EFRAG IAWG.

### Criteria for endorsement

- Give a **true and fair view** of assets, liabilities, financial position and profit or loss
- Conducive to the **European public good**
- Meets criteria of understandability, relevance, reliability and comparability

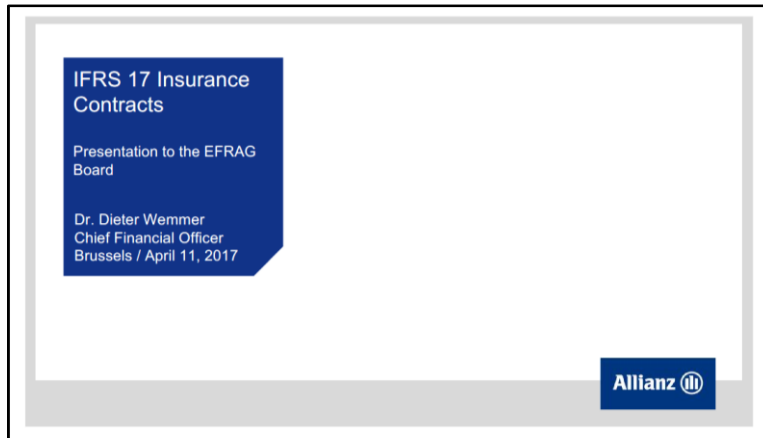
Endorsement advice include an **impact analysis**, cost-benefit analysis and analysis of broader economic impact.

A case study is being prepared to assess the impact of adopting IFRS 17 for the European insurance companies.



# CFO presentations to EFRAG board

## IFRS 17 is an improvement but also some reservations



### Perspective

Life: An opportunity for improvement

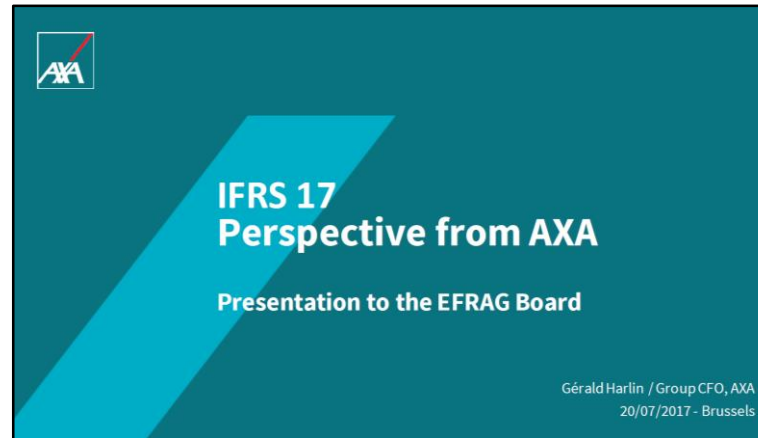
Health: An opportunity for better link to Solvency II

P&C: No need for improvement

### Critical topics

P&C: Granularity of onerous contract test, scope PAA, BS presentation

Life/Health: Level of aggregation CSM, scope VFA, transition rules



### Perspective

Certain elements of IFRS 17 could result in an inadequate reflection of the economics of insurance:

- Risk pooling and mutualisation
- Hedging strategies

### Conclusion

IFRS 17 a unique opportunity for improvement  
Certain key elements needs further refinement



### Perspective

Aspects gives rise to uncertainty over the combined effect

Complex and wide ranging changes

Multiple accounting options and judgements

Operationally complex and expensive

Untried and untested model

### Conclusion

Testing needed in 2018

Implications for endorsement process

# Transition Resource Group (TRG) Initiative from IASB

## Purpose of the TRG

- Provide a **public forum** for stakeholders to follow discussion
- Inform the Board of potential actions required, e.g. providing supporting materials
- Enhance the **quality** and **consistency of implementation**

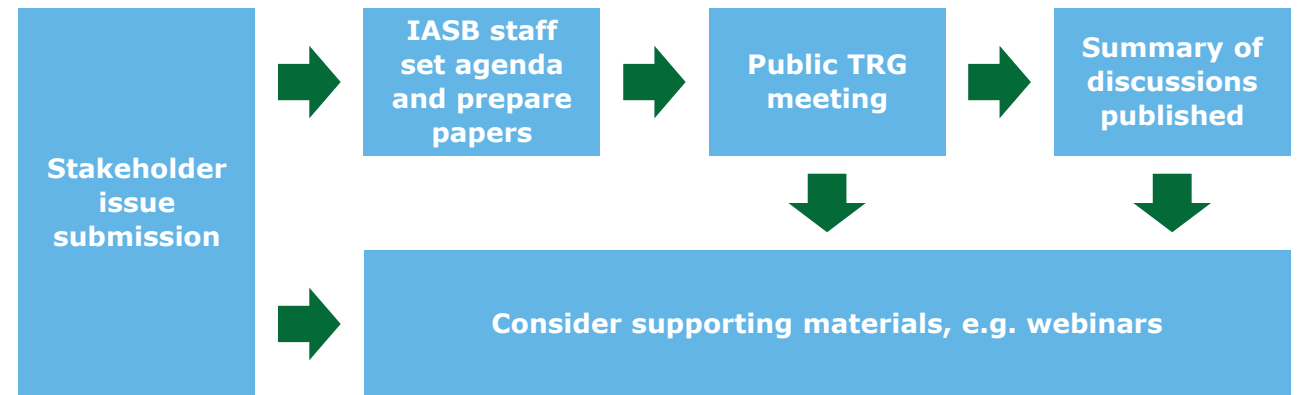
The TRG will **not provide guidance**.

TRG has 15 external members and 3 members from the Board  
Deloitte is represented in the TRG by Francesco Nagari

## Any stakeholder can submit an issue

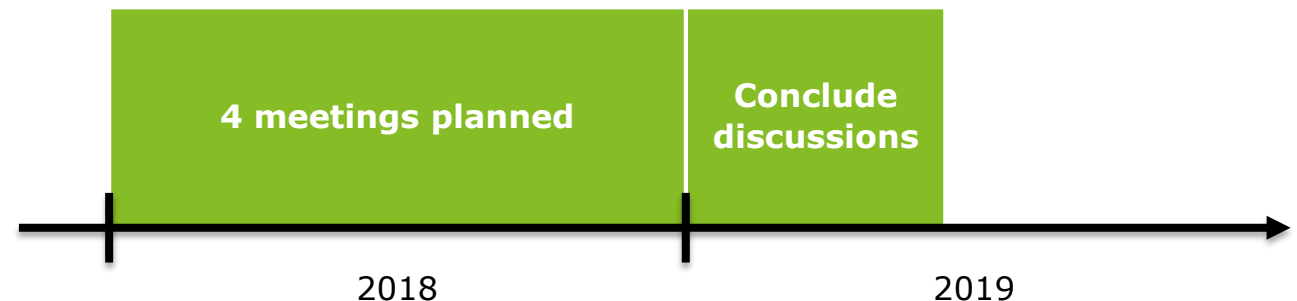
- Must be related to IFRS 17
- May result in possible diversity on practice
- Expected to be pervasive (relevant to a wide group of stakeholders)

## Process of the TRG



Meeting agenda, discussion summaries, submission log published before each meeting

## Time line of the TRG



# IFRS 17 Topics Overview

Close to Solvency II

Different from Solvency II

Specific for IFRS 17





# Agenda

**Introduction and time line**



**Unit of account**



# Unit of account

## Aggregation of contracts

### Portfolio

A **portfolio** is a group of contracts subject to **similar risks** and **managed together** as a single pool

### Groups

The portfolio is then required to be disaggregated into **groups** of insurance contracts that at inception are:

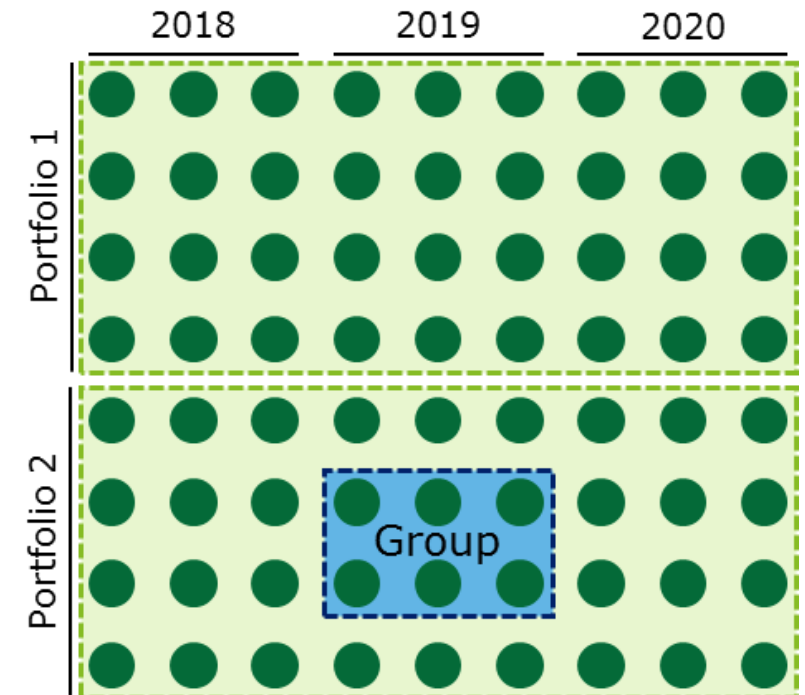
- Onerous,
- Profitable with no significant risk of becoming onerous,
- Other profitable contracts

Only contracts issued **within the same twelve-month period** are permitted to be grouped. Groups for shorter periods are permitted. This period does not need to coincide with the annual reporting period of an entity.

Further disaggregation of the specified groups is permitted.

### Reassessment

An entity shall establish the groups at initial recognition, and **shall not reassess** the composition of the group subsequently.



*Single-premium fixed annuities [and] regular term assurance [are expected to be in different portfolios]*

Unit of account will affect both calculations and the accounting

Processes and systems will require adjustment



# Agenda

**Introduction and time line**



**Unit of account**



**Insurance assets and liabilities**



# Description of case

## Unit link life insurance contract

### 100 similar unit link contracts issued 1 January 2021

Premiums per contract:

- 10,000 EUR in annual premium for 10 years

In case of surrender or death before retirement:

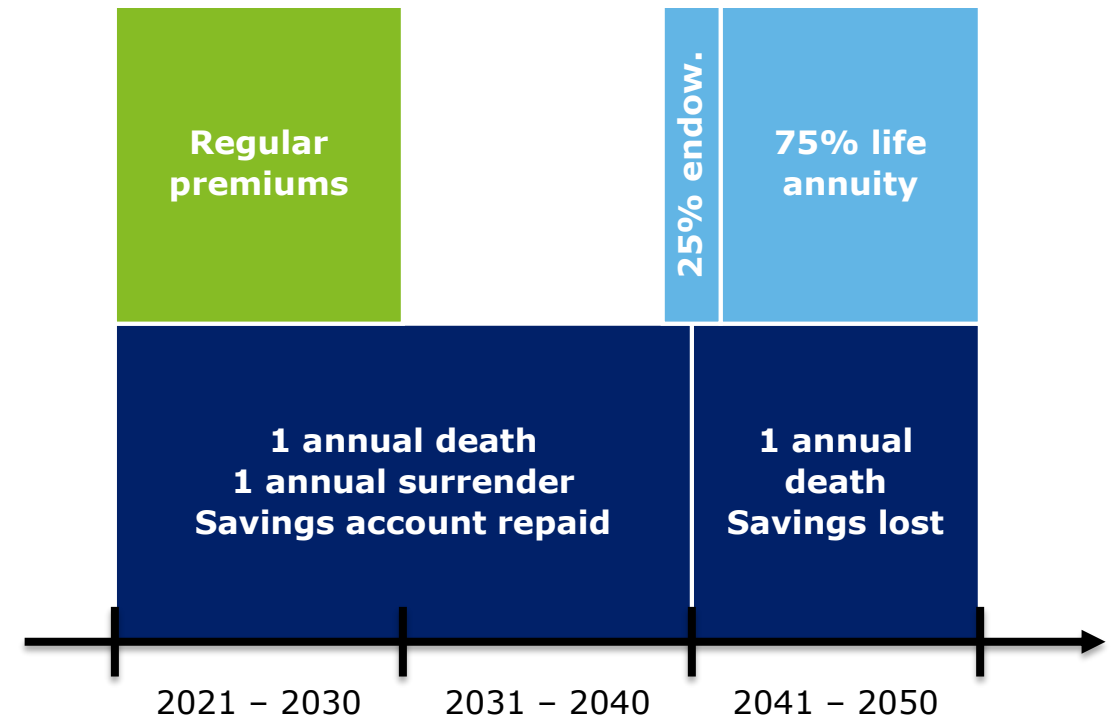
- The savings account is repaid

The benefits are:

- 25% of savings account at retirement: lump sum
- 75% of savings account at retirement: 10-year life annuity

Charges and expenses per contract:

- 0,5% is deducted annually from savings account
- 100 EUR in annual administrative expenses
- 2,000 EUR in acquisition expenses



### Company and interest rates

The company has 300,000 EUR in initial capital

Interest rates are 2%

# Balance sheet

## DK GAAP vs IFRS 17

<b>DK GAAP balance sheet 1,000 EUR</b>	<b>2021– 2030</b>	<b>2031– 2040</b>	<b>2041– 2050</b>
Investment assets	299	748	1.005
Investment assets related to unit link	8.686	7.553	0
<b>ASSETS</b>	<b>8.984</b>	<b>8.301</b>	<b>1.005</b>
<b>SHAREHOLDER EQUITY</b>	<b>299</b>	<b>748</b>	<b>1.005</b>

<b>Life insurance provisions</b>	8.359	7.481	0
<b>Profit margin</b>	326	71	0
<b>INSURANCE LIABILITIES</b>	<b>8.686</b>	<b>7.553</b>	<b>0</b>
<b>LIABILITIES INCL. SHR. EQUITY</b>	<b>8.984</b>	<b>8.301</b>	<b>1.005</b>

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<b>SHAREHOLDER EQUITY</b>	<b>491</b>	<b>732</b>	<b>1.005</b>

### Remaining coverage period:

Best estimate liability	8.308	7.476	0
Risk adjustment	52	5	0
Contractual service margin	135	87	0
<b>Liability for remaining coverage</b>	<b>8.494</b>	<b>7.569</b>	<b>0</b>

### Incurred claims:

<b>Liability for incurred claims</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>INSURANCE LIABILITIES</b>	<b>8.494</b>	<b>7.569</b>	<b>0</b>
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# Balance sheet

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Insurance assets  
are the same

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Insurance liabilities develop differently.  
Difference caused by the CSM release pattern

# Adjustment of the contractual service margin

## Prescribed method for roll-forward for the CSM

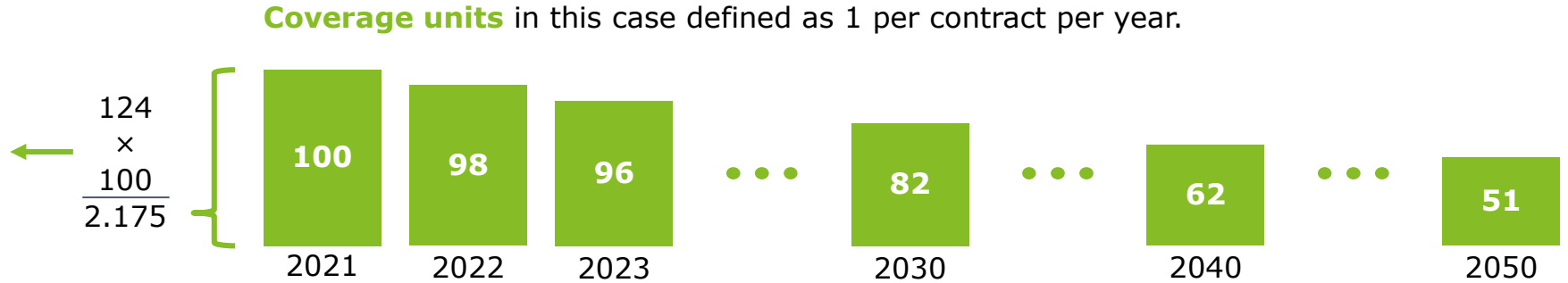
### CSM Period End =

CSM Period Beginning

- + CSM of any contracts added to the group
- + Entity's share of change in underlying items
- + / - Changes in fulfilment cash flows (i.e. BEL + RA) relating to future coverage or other services (both financial and non-financial changes)
- + / - The effect of any currency exchanges differences
- Amount released because of the transfer of services in the period (i.e. amortisation)

### Year 2021 in the case

- Opening CSM 115
- Return on underlying 20
- Interest on BEL + RA -11
- Release of CSM -6
- Closing CSM 118



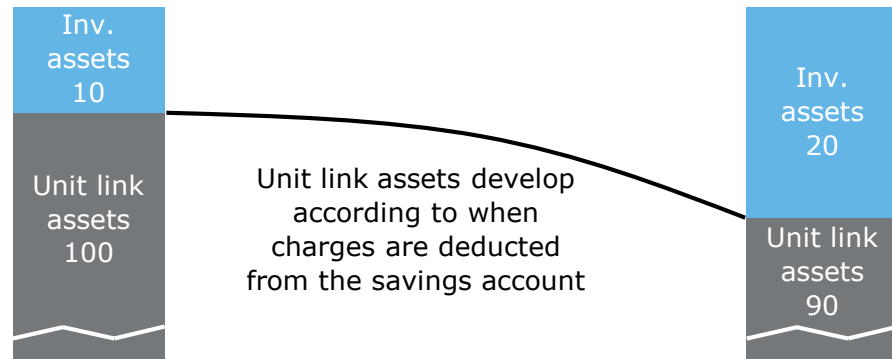


# Liabilities are not synchronized to the value of the underlying assets

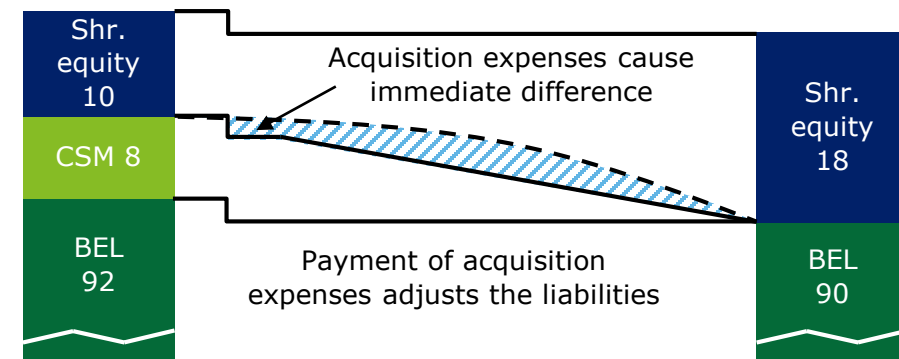
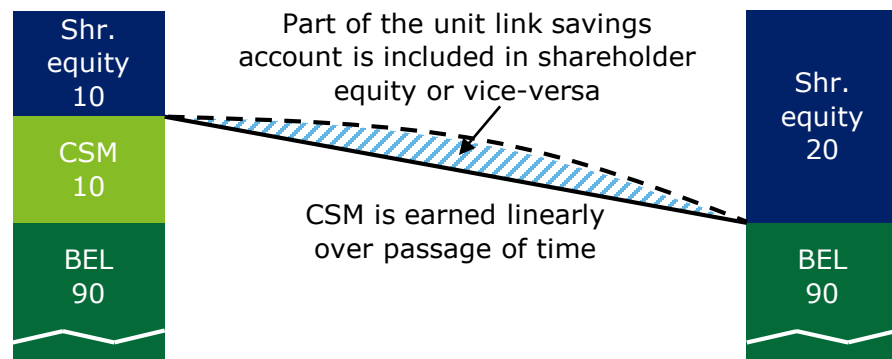
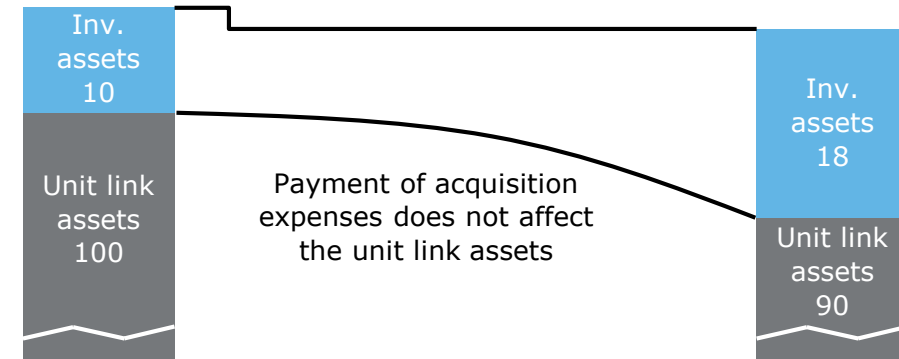
## Liabilities will probably not match the underlying assets

**Equality of the insurance assets and liabilities are only guaranteed at initial recognition and at the end of the coverage**

### Charges deducted from savings account



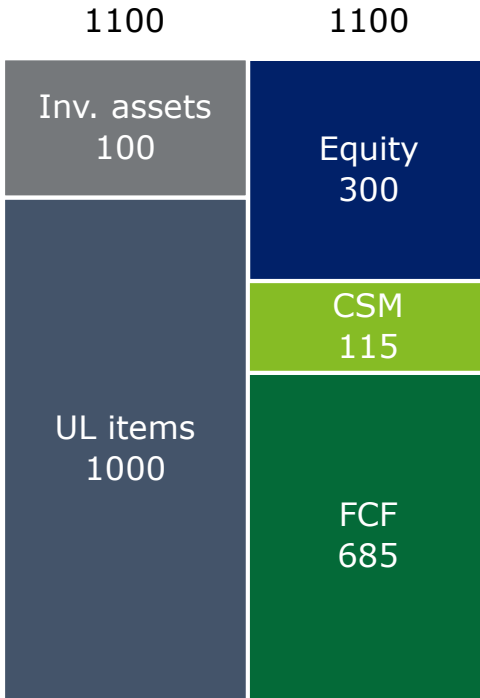
### Acquisition expenses paid immediately



# Investment return on equity

## Underlying items vs. insurance liabilities

**2021**  
**Before investment return and interest on CSM**

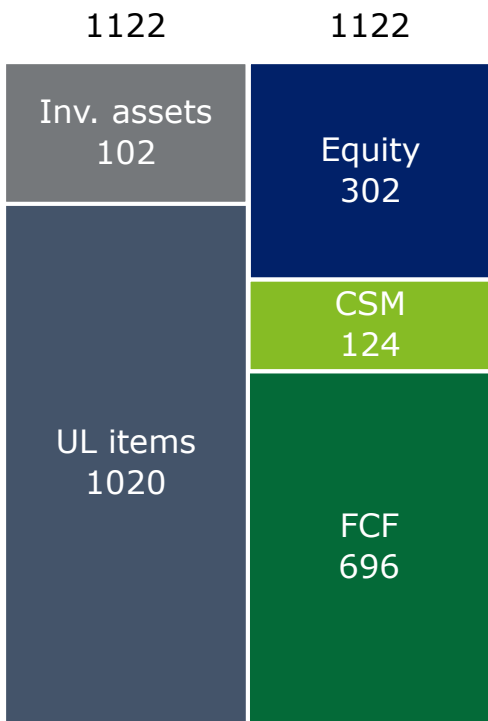


Return on free assets  
 $(2\% * 100 = 2)$  goes to equity directly

Return on UL items  $(2\% * 1000 = 20)$  goes to liabilities.  
 11 funds FCF.  
 9 increases CSM.

or  
 Entity's share of UL  $(1000 - 685 = 315)$  accretes 2% by 6.  
 FCF interest variance  $(2\% * 685 - 11 = 3)$  adjusts CSM.

**2021**  
**After investment return and interest on CSM**



Investment return on shareholder equity is only 0.67%

The remaining 1,33% adjusts CSM, and is later released through revenue

As an amount, 2 is the same investment return as under current DK GAAP

Insurance liabilities may differ from underlying assets



Change in investment return on equity

# Agenda

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**Insurance assets and liabilities**



**Insurance revenue and P&L**



# Income statement

## DK GAAP vs IFRS 17

### DK GAAP income statement 1,000 EUR

2021– 2031– 2041–  
2030 2040 2050

<b>Total premiums</b>	9.100	0	0
<b>Total return on investment</b>	1.041	1.743	707
<b>Total claims and benefits</b>	-1.168	-2.358	-7.948
<b>Change in life insurance provisions</b>	-8.474	878	7.481
<b>Change in profit margin</b>	-211	255	71
Acquisition expenses	-200		
Administrative expenses	-89	-69	-55
<b>Total operating expenses</b>	-289	-69	-55
<b>Transferred investment return</b>	-30	-99	-176
<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	-31	350	81

<b>Return on investment alloc. to equity</b>	30	99	176
<b>PROFIT OR LOSS</b>	-1	449	257

### IFRS 17 income statement 1,000 EUR

2021– 2031– 2041–  
2030 2040 2050

Expected claims and expenses	527	953	6.114
Acquisition expenses	84	65	51
Release of risk adjustment	88	46	5
Release of contractual service margin	72	96	91
<b>Insurance revenue</b>	771	1.161	6.262

Incurred claims and expenses	-527	-953	-6.114
Acquisition expenses	-84	-65	-51
<b>Insurance service expenses</b>	-611	-1.018	-6.165
<b>INSURANCE SERVICE RESULT</b>	161	142	97
<b>Investment income</b>	1.041	1.743	707
<b>Insurance finance income or expenses</b>	-1.012	-1.644	-531
<b>NET FINANCIAL RESULT</b>	30	99	176
<b>PROFIT OR LOSS</b>	191	242	273

# Income statement

## DK GAAP vs IFRS 17

### DK GAAP income statement 1,000 EUR

2021-2030    2031-2040    2041-2050

Timing of revenue changed.  
Total revenue is also reduced.

<b>Total premiums</b>	9.100	0	0
<b>Total return on investment</b>	1.041	1.743	707
<b>Total claims and benefits</b>	-1.168	-2.358	-7.948
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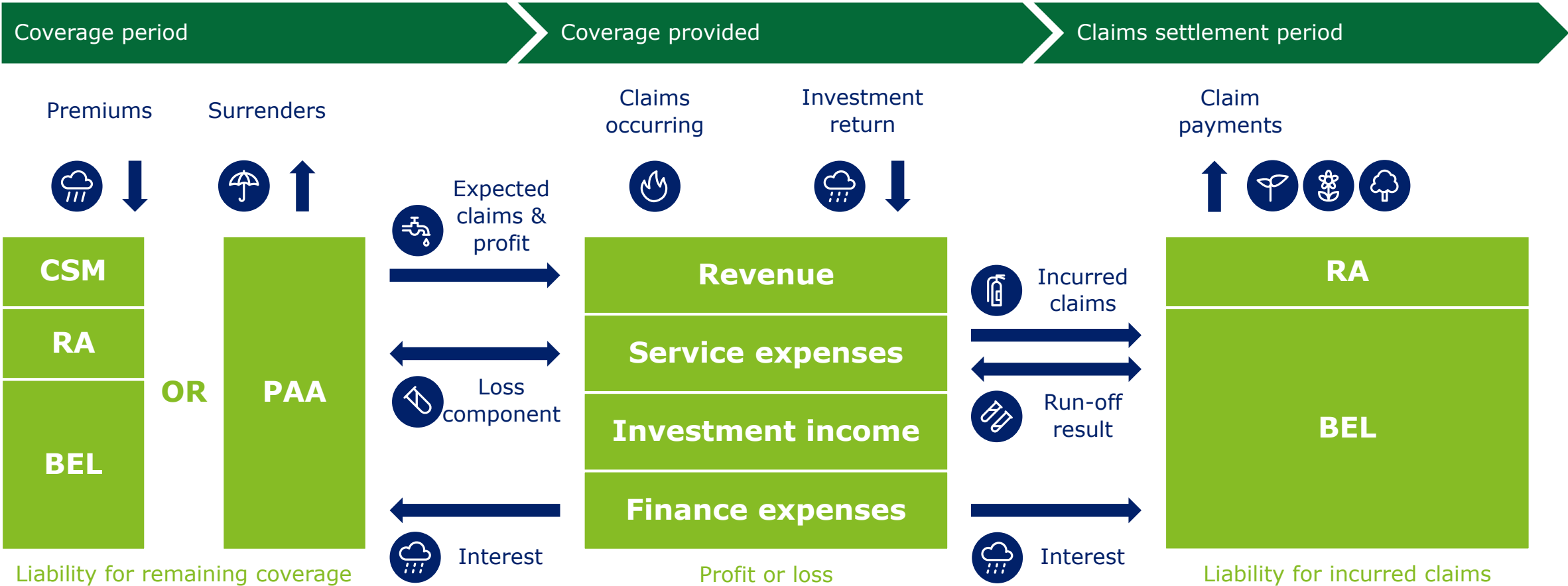
2021-2030    2031-2040    2041-2050

Expected claims and expenses	527	953	6.114
Acquisition expenses	84	65	51
Release of risk adjustment	88	46	5
Release of contractual service margin	72	96	91
<b>Insurance revenue</b>	771	1.161	6.262

Different profit signature.  
Driven by release of RA and CSM.

Incurred claims and expenses	-527	-953	-6.114
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# Cash flows and recognition in income statement



# Investment components

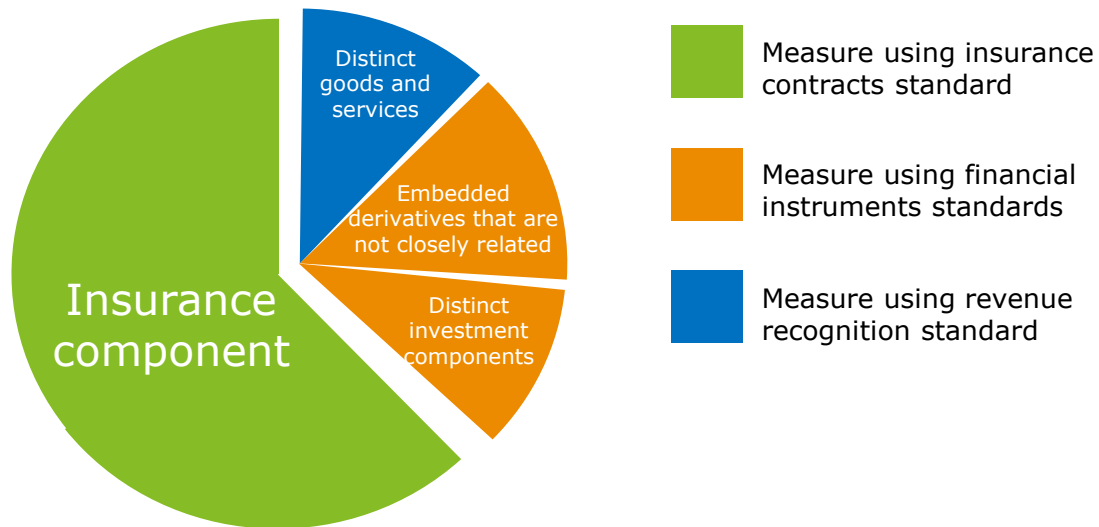
Separated from the host contract or excluded from revenue and service expenses

## Definition of investment component

The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

## Separation of distinct investment component

Separated from the host contract at initial recognition, and accounted for using IFRS 9



## Investment components which are not distinct

Included in the insurance contract and accounted for using IFRS 17

## Investment components are excluded

- From revenue
- From insurance service expenses

I.e. the deposits and repayments goes directly to the balance sheet. The investment component is included in P&L to the extent they give rise to a profit or loss.

A non-distinct investment component is identified only at the time revenue and expenses are recognized.



# Profit signature

Profit driven by release of risk adjustment and contractual service margin

## Earnings by source no longer drives profit

The total expected life-cycle earnings are split between risk adjustment and contractual service margin at inception.

These are then release based on release of risk and passage of time, respectively, yielding a more stable profit signature.

<b>DK GAAP income statement</b> <b>1,000 EUR</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Acquisition expenses</b>	-200		
Charges deducted	5	10	15
Administrative expenses	-10	-10	-9
<b>Expense result</b>	-5	0	6
<b>Investment result</b>	2	2	2
<b>PROFIT OR LOSS</b>	-203	2	8

<b>IFRS 17 income statement</b> <b>1,000 EUR</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Release of risk adjustment	8	9	9
Release of contractual service margin	6	6	6
<b>INSURANCE SERVICE RESULT</b>	14	15	15
<b>NET FINANCIAL RESULT</b>	2	2	2
<b>PROFIT OR LOSS</b>	16	17	17

Under current DK GAAP a typical unit link policy will not be profitable for the first years due to low AUM – even excluding acquisition expenses.

Under IFRS 17 an overall profitable contract will show profit from inception. Present value of profits are equal, only timing has changed.

Revenue is excluding investment components, but includes interest accretions



Profit signature based on release of risk adjustment and contractual service margin

Acquisition expenses are implicitly deferred

# Disclosures

## Reconciliations – Liability roll forward

	Best estimate liabilities	Risk adjustment	Contractual service margin	Total
<b>Beginning of period</b>	<b>163.962</b>	<b>5.998</b>	<b>8.858</b>	<b>178.818</b>
Changes related to:				
- Future service yet to be provided	(784)	1.117	(116)	<b>217</b>
- Current service provided in the period	35	(604)	(923)	<b>(1.492)</b>
- Past service adjustment to past claims	47	(7)	-	<b>40</b>
Insurance service result*	(702)	506	(1.039)	<b>(1.235)</b>
Insurance finance expenses**	9.087	-	221	<b>9.308</b>
Total changes in P&L**	8.385	506	(818)	<b>8.073</b>
Cash flows	18.833	-	-	<b>18.833</b>
<b>End of period</b>	<b>191.180</b>	<b>6.504</b>	<b>8.040</b>	<b>205.724</b>

\* Excl. the effects of reinsurance

\*\* Some insurance finance expenses may be presented in Other Comprehensive Income

# Disclosures

## Reconciliations – Future services

	Best estimate liabilities	Risk adjustment	Contractual service margin	Total
<b>Beginning of period</b>	<b>163.962</b>	<b>5.998</b>	<b>8.858</b>	<b>178.818</b>
Changes related to:				
<b>- Future service yet to be provided**</b>	<b>(784)</b>	<b>1.117</b>	<b>(116)</b>	<b>217</b>
New profitable contracts recognised	(2.344)	969	1.375	-
Estimate changes - profitable contracts	1.452	39	(1.491)	-
New onerous contracts recognised	15	108	-	123
Estimate changes - onerous contracts	93	1	-	94
- Current service provided in the period	35	(604)	(923)	<b>(1.492)</b>
- Past service adjustment to past claims	47	(7)	-	<b>40</b>
<b>Insurance service result*</b>	<b>(702)</b>	<b>506</b>	<b>(1.039)</b>	<b>(1.235)</b>

\* Excl. the effects of reinsurance

\*\* Note: Positive number in total column = increase in liability = loss in P&L

Reconciliations will provide information very similar to embedded value reporting

Contract boundary may still differ



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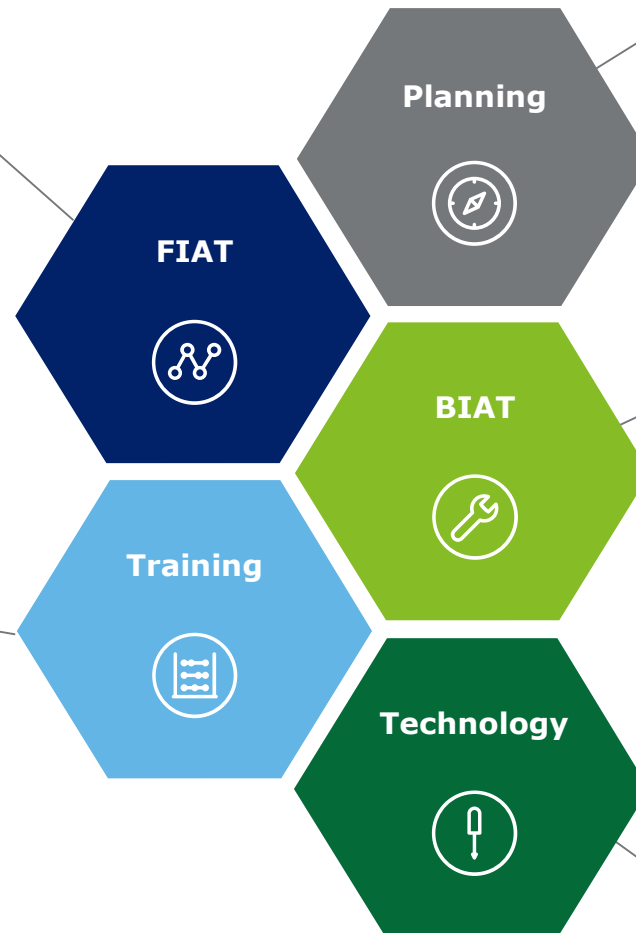
# Deloitte products

## FIAT - Financial Impact Assessment Tool

- Understand the impact of future profits
- Understand the impact of different implementation choices
- Highlight areas of high impact to prioritise efforts

## Training

- IFRS 17 training create awareness and understanding of the reporting requirements and changes across the relevant sections of the organisation and key stakeholders



## Planning

- Development of a group or solo implementation plan
- Secure executive support for an implementation programme
- Development of plans to mitigate impacts identified
- Project Management
- Basis for business case

## BIAT - Business Impact Assessment Tool

BIAT can facilitate a quick evaluation on how the technical and operating model requirements for IFRS 17 impact your business process

The maturity assessment results will allow you to appropriately plan and manage your transition to compliance in a structured, cost effective and holistic manner.

- Data, Process and other Business Functions
- Information Technology and Systems Architecture
- People, Organisation & Culture

## Technology

E.g. Deloitte SAP-Alliance on Insurance Analyzer, Prophet and AFM actuarial models

# Deloitte Nordic IFRS 17 team

## Nordic IFRS Insurance Lead Partner



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