

Milliman IFRS 17 Preparedness Survey

How ready is the insurance industry?

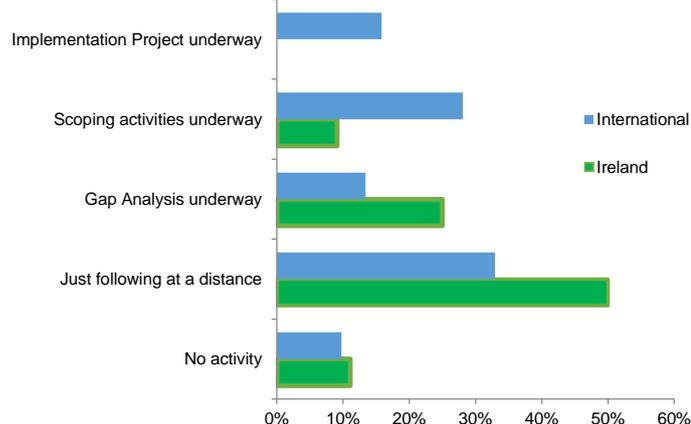
Aisling Barrett, FSAI
 Andrew Kay, FSAI
 Gillian Tucker, FSAI
 Ronan Judge, FSAI



This briefing note summarises key findings from our recent IFRS 17 preparedness survey completed by both local Irish insurers and international insurers.

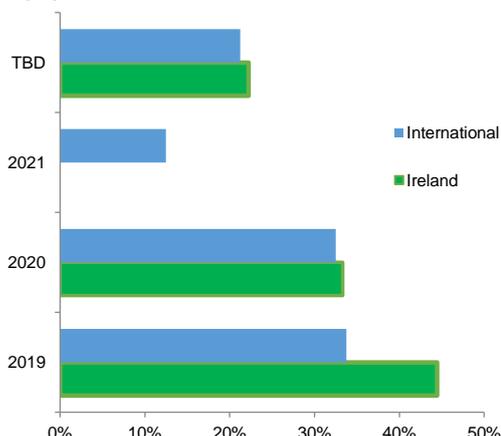
Milliman carried out this survey to measure the level of preparedness for IFRS 17 among insurers. Responses were received from over 90 insurers worldwide, with responses from 9 insurers in Ireland. We have summarised below the responses received to some of the key questions along with our comments and observations.

FIGURE 1: WHAT IS YOUR STATUS OF PREPAREDNESS FOR IMPLEMENTATION OF IFRS 17?



While most Irish participants in the survey (almost 90%) are carrying out some form of IFRS activity, no Irish survey participants have an implementation project underway as yet.

FIGURE 2: WHAT YEAR DOES YOUR COMPANY PLAN TO BE READY FOR SHADOW / DRY RUNS?



The International Accounting Standards Board (“IASB”) published the final IFRS 17 Standard on 18 May 2017 with an effective date of 1 January 2021. Most Irish and international participants are aiming to carry out a dry run of IFRS 17 calculations in 2019. If you have not yet started, an ideal timeline is:

- In 2017, establish a project team, start internal discussions and training around desired objectives for the project, conduct a gap analysis and allocate responsibilities;
- In 2018, begin designing and implementing system changes and conduct an impact assessment;
- In 2019, perform parallel dry runs and iron-out issues identified (especially with regard to the retrospective application); and
- In 2020, prepare full IFRS 17 results and familiarise investors and analysts with the new disclosures, such that you and your stakeholders are ready for full implementation of the Standard in 2021.

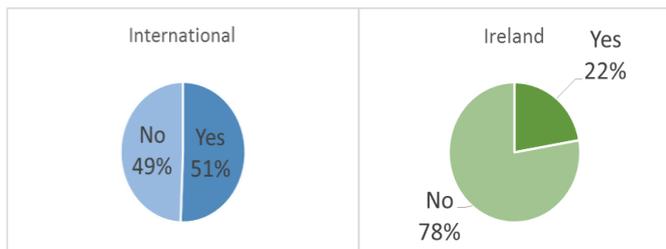
FIGURE 3: IDEAL TIMELINE



Our immediate recommendations include:

- Automate Solvency II calculations and reporting processes now, so as to free up resources for IFRS 17 implementation programmes;
- Establish a project team in the coming months who will determine IFRS 17 data, system and resourcing requirements (through a gap analysis), followed by development and testing of methodologies (e.g. discount rate, risk adjustment and transition approach); and
- Focus on business aspects early on to gain the support of management – changes to earnings patterns, new business strain and Asset and Liability Modelling (ALM) will have fundamental implications for business decision makers and product owners.

FIGURE 4: HAS INITIAL IFRS 17 TRAINING BEEN CARRIED OUT?



Irish insurers are lagging behind their international counterparts in carrying out training. Following the publication of the standard in May 2017, this is an opportune time to begin training or to reinforce any existing training efforts. Common training programmes requested by our clients include:

- Introductory training for key staff members and Board members to highlight the rationale underlying the IFRS 17 Standard and key aspects of the IFRS 17 Standard;
- Workshop facilitation on structuring an implementation plan;
- Cohort selection and policy grouping as well as guidance on tracking and adjusting the Contractual Service Margin;
- Understanding the Variable Fee Approach and implications for hedging;
- Methodologies for deriving the risk adjustment and calculating the equivalent confidence interval for disclosure purposes;
- Performance measurement under IFRS 17 and the role of Embedded Value and Solvency II.

FIGURE 5: EXTENT TO WHICH EXISTING PLATFORMS WILL BE LEVERAGED?



Responses across all components shown above are similar between Irish and international respondents. For many of the components insurers will be able to build upon existing platforms. However, respondents have indicated that significant

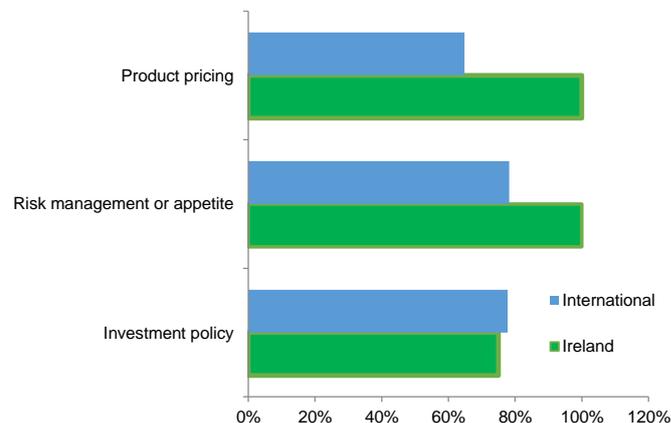
developments to the associated processes and systems will be required in order to meet IFRS 17 requirements.

Existing platforms for modelling the best estimate liability may not require much development, as similar modelling is a feature of Solvency II and embedded value calculations. Irish (and EU) insurers are also likely to adapt their existing Solvency II Risk Margin platforms for the IFRS 17 Risk Adjustment.

Insurers are more likely to require entirely new platforms for the calculation of Contractual Service Margin (“CSM”) and movement attribution analysis (which refers to the liability roll forward that is split between best estimate liability, Risk Adjustment and CSM).

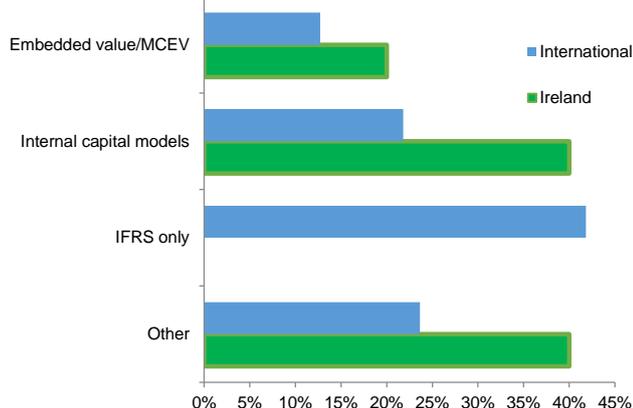
The grouping of contracts and granularity required for CSM calculations, and amortisation thereof, are new valuation requirements. The successful development/adaptation of platforms for CSM purposes is likely to prove quite challenging to implement, particularly for life insurers.

FIGURE 6: WILL IFRS 17 IMPACT YOUR BUSINESS’ PRODUCT PRICING, RISK MANAGEMENT POLICY AND INVESTMENT POLICY?



The overwhelming response from both local and international insurers is that IFRS 17 will lead to a change in product pricing, risk management and investment management.

An example of this is where risk appetites include Earnings-at-Risk measures. These are likely to be recalibrated as the measure itself will change under IFRS 17. There will also be an impact on product pricing and investment policy even though the economic fundamentals and cash flows will not change. For listed insurers, in particular, the focus on earnings, new business strain and variability in earnings may drive different decisions around pricing of products with cross subsidies, and use of sales channels with significant costs not directly related to acquisition of policies. The presentation of results under IFRS 17 will mean investment strategies for at least hedging and ALM will need to be revisited.

FIGURE 7: WHAT WILL DRIVE INSURERS' DECISION-MAKING POST IFRS 17 IMPLEMENTATION

Internationally, for respondents to the survey, IFRS is still the dominant single measure of performance. At a local level, IFRS is more likely to be used in combination with Solvency II metrics. All Irish respondents who responded with “Other” said both IFRS and Solvency II would drive their decision-making post IFRS 17 implementation.

It is worth noting that although it appears that a large proportion of Irish respondents indicated that internal capital models would drive their decision-making, this is due to the fact that only a small number of Irish companies responded to this question and those that did were mostly larger companies who are more likely to use an internal capital model.

Challenges

It is clear that the implementation of IFRS 17 will provide many challenges for insurers in the coming years. The main challenges noted by respondents include:

- Development of systems and processes;
- Resource constraints;
- Training required to upskill staff members;
- Implementation of the Contractual Service Margin and the requirement to have more granular data;
- Disclosure to external stakeholders (consistency with other reports and understanding).

How Milliman can help

An IFRS 17 implementation project should be on the agenda now for insurance companies reporting under IFRS. With our international presence and experience of advising companies on the implementation of new financial reporting and regulatory requirements we are well-suited to assist you across various tasks including:

CONSULTING

- Planning for IFRS 17 implementation
- Development of IFRS 17 methodologies and internal standards
- Advice relative to international best practice
- Gap analysis and readiness monitoring
- Assumption & methodology setting
- Development of performance measures
- Financial impact analysis
- Analysis of interaction between IFRS 17 and IFRS 9

MODELLING

- Development of models
- Development of run schedules to generate the inputs for the income statement, balance sheet and disclosures
- Model testing & documentation
- Data validations
- Development of data interface to projection software

REPORTING

- Assistance with data warehouse solutions and reporting engines
- Reconciliation of EV and other IFRS calculations with IFRS 17 calculations
- Workflow management
- Validation of outputs
- Assessing the impact of the Standard on profitability and opening equity
- Development of dashboards and RAG-tables for high-level monitoring
- Assistance with disclosures and stakeholder communication

For further information please contact the consultants listed below or your usual Milliman consultant.



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CONTACT

Andrew Kay
Andrew.Kay@milliman.com

Gillian Tucker
Gillian.Tucker@milliman.com



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