



Society of Actuaries in Ireland

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# **A Deeper Dive on IFRS 17: Reinsurance and Transition**

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19 June 2020

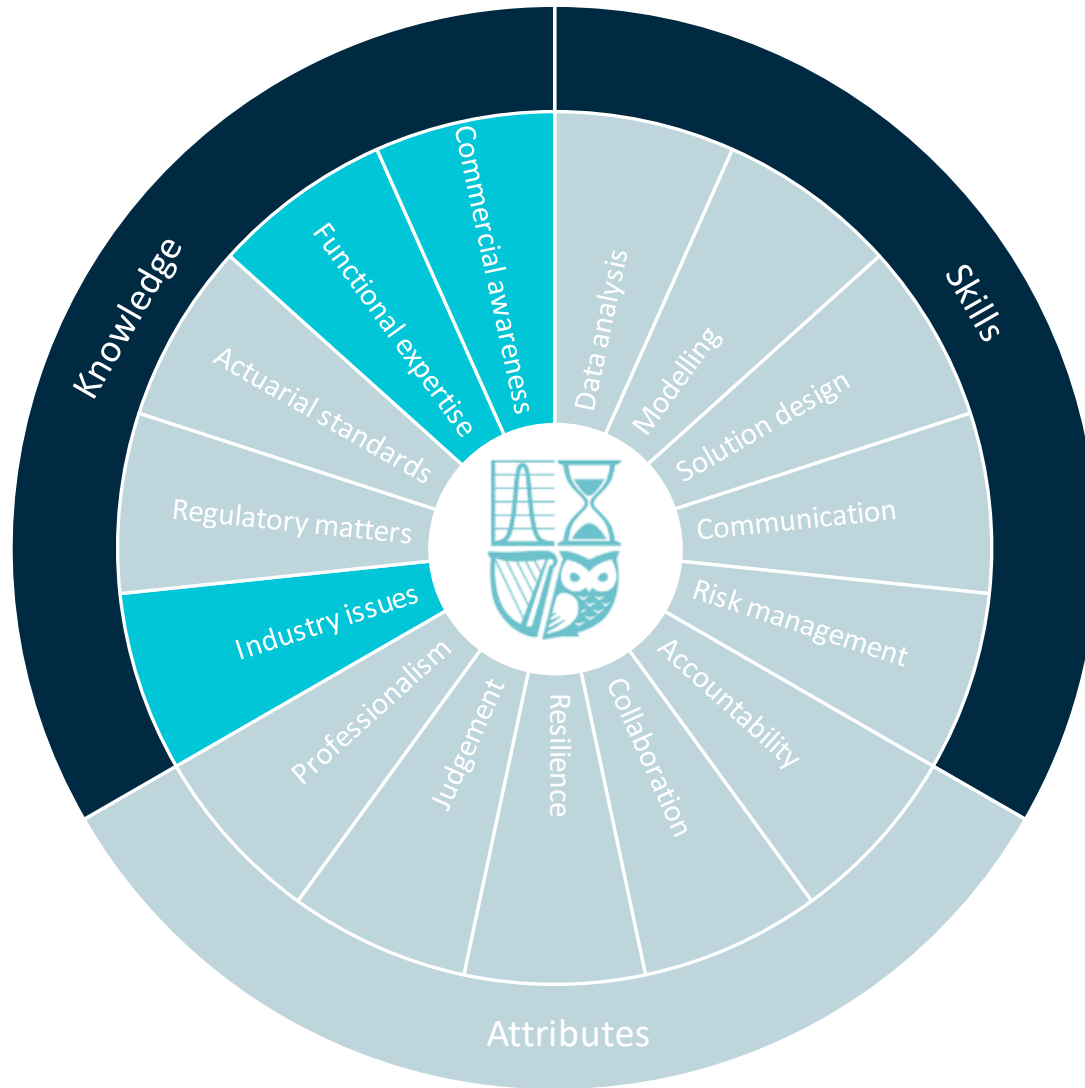
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# Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily of the Society of Actuaries in Ireland or of their employers.**

# Competency Framework



# Agenda

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- Introduction
- Reinsurance
- Transition
- Q&A



# IFRS 17 working groups – current members

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## **Life WG**

Aileen Murphy

Andrew Kay

Caroline Lynch

Ciara Fitzpatrick

David MacCurtain

Francis Furey

Miriam King

Niall Naughton (chair)

Paraic Byrne

## **Non-life WG**

Brian Walsh

Cecilia Cheuk (chair)

Deirdre O'Brien

Joanne Lonergan



# Working group activities

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## Slides and podcasts

Introduction: <https://web.actuaries.ie/events/2018/10/introduction-ifs17>

GMM: <https://web.actuaries.ie/events/2019/02/deeper-dive-ifs17>

VFA & PAA: <https://web.actuaries.ie/events/2019/09/deeper-dive-ifs-17-vfa-and-paa>

Financial reporting emerging issues:

<https://web.actuaries.ie/events/2019/11/financial-reporting-emerging-issues>

## Other

- Responding to IFRS 17 consultations (IAA and AAE)
  - AAE discussion paper on role of actuaries in relation to IFRS 17
- SAI IFRS 17 webpage (in development)

# IFRS 17 - recent developments

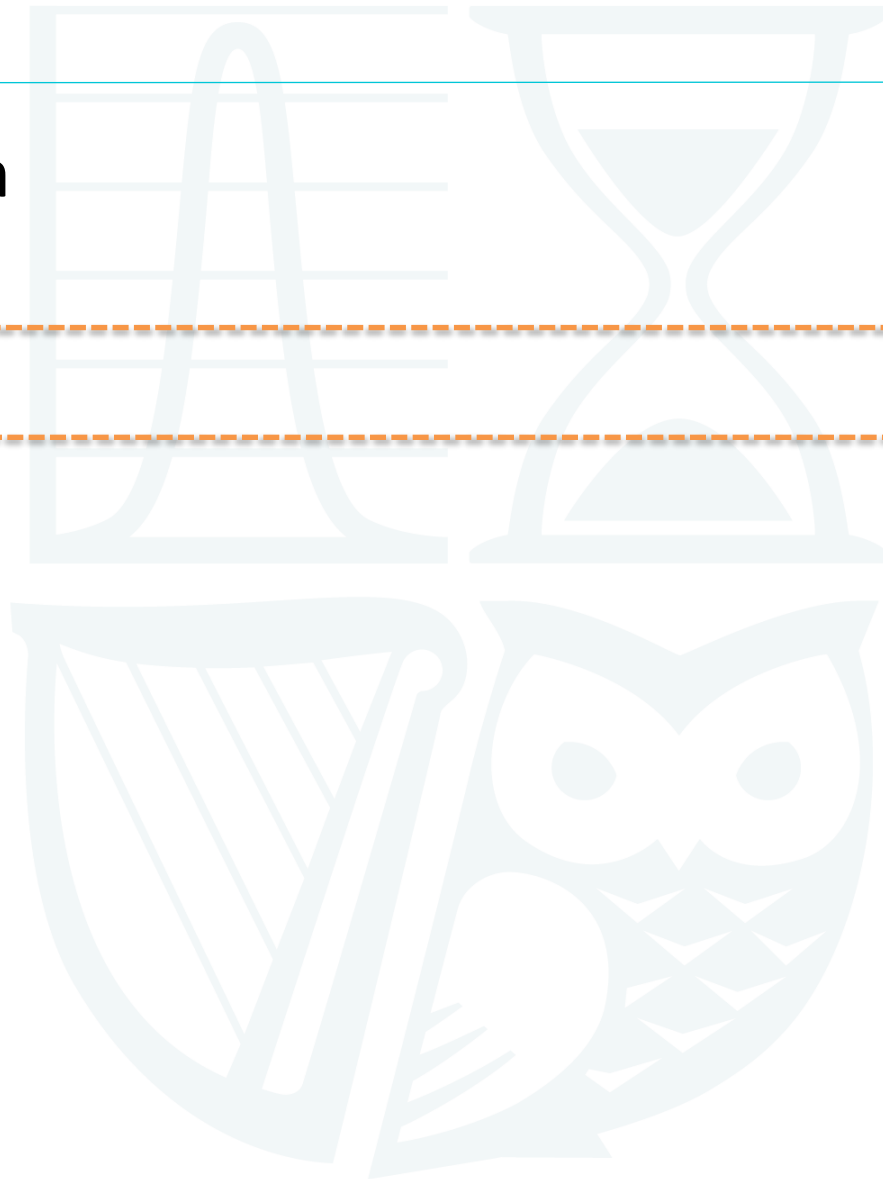
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- IASB extended IFRS 17 effective date and IFRS 9 exemption to 1 January 2023.
- Technical discussions on the proposed amendments concluded in February, following several IASB meetings.
- EFRAG sent a letter to IASB in March expressing regret at the decision to retain the annual cohort requirement.
- IASB considered the possibility of an exemption for certain contract types, but concluded that this would add unwanted complexity to the standard.
- Final standard to be issued in June 2020, following final technical considerations at the May IASB meeting.

# Agenda

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- Introduction
- Reinsurance
- Transition
- Q&A







# Reinsurance - Agenda

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- Recap – Reinsurance under IFRS 17
- Key IFRS 17 issues specific to Reinsurance
- Latest IASB Developments
- Deep Dive – Level of Aggregation
- Deep Dive – Profit Commission
- Deep Dive – Contract Boundaries

# Recap - Reinsurance under IFRS 17

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IFRS 17 applies to:

- (a) insurance contracts issued (including reinsurance contracts issued);
- (b) reinsurance contracts held; and
- (c) investment contracts with discretionary participation features issued by an entity that also issues insurance contracts.

IFRS 17 requires a reinsurance contract held to be accounted for separately from the underlying insurance contracts to which it relates.

- Potential to have significant impact on the balance sheet
- Not common practice at the moment
- Traditional simplified approaches may no longer be helpful
- Consideration of the structure of reinsurance programmes

# Recap - Reinsurance under IFRS 17

Topic	Description of Difference versus Treatment for Insurance Contracts Issued	RI Contract Issued	RI Contract Held
<b>Recognition Date</b>	<ul style="list-style-type: none"> <li>Requirements for the recognition of a group of reinsurance contracts differ depending on whether the contract held is on a proportionate or non proportionate basis.</li> </ul>		✓
<b>Level of Aggregation</b>	<ul style="list-style-type: none"> <li>RI Contract held cannot be onerous.</li> <li>Profitability groups are therefore defined by whether they are in a net cost or net gain at initial recognition.</li> </ul>		✓
<b>Measurement of Future Cash Flows</b>	<ul style="list-style-type: none"> <li>Consistent assumptions as the underlying insurance contracts covered</li> <li>Adjustment for non performance risk</li> <li>All cashflows within the contract boundary of the RI contract to be included</li> </ul>		✓
<b>Risk Adjustment for non financial risk</b>	<ul style="list-style-type: none"> <li>Risk adjustment for non-financial risk represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the reinsurer.</li> </ul>		✓
<b>CSM</b>	<ul style="list-style-type: none"> <li>Represents cost of purchasing reinsurance and recognised as services are received under the RI contract held</li> <li>Exceptions: 1. If RI contract covers events already occurred; 2. Onerous Loss on the Assumed</li> <li>Principle of coverage units is the same</li> </ul>		✓

# Recap - Reinsurance under IFRS 17

Topic	Description of Difference versus Treatment for Insurance Contracts Issued	RI Contract Issued	RI Contract Held
<b>Premium Allocation Approach</b>	<ul style="list-style-type: none"> <li>• May be used for reinsurance contracts held or issued</li> <li>• Separate eligibility assessment</li> </ul>	✓	✓
<b>Variable Fee Approach</b>	<ul style="list-style-type: none"> <li>• VFA model not permitted to be used for reinsurance contracts held or issued</li> </ul>	✓	✓
<b>Presentation &amp; Disclosures</b>	<ul style="list-style-type: none"> <li>• Groups of reinsurance contracts held are presented separately in the Statement of Financial Position (SoFP)</li> <li>• Income/expenses presented separately to the income/expense from underlying insurance contracts</li> <li>• Income/expenses for RI contracts – gross or net presentation</li> <li>• Separate reconciliations in the disclosures</li> </ul>		✓

# Key IFRS 17 Issues specific to Reinsurance



## CSM

Coverage period,  
coverage units



## Foreign Exchange

Inconsistency with underlying  
direct contracts

## Data Latency

Time delays in receipt  
of information



## Contract Boundaries

Inconsistency with underlying  
direct contracts

## Recognition Points

Proportional vs Non  
Proportional  
Inconsistency with  
underlying contracts



## Linkage between assumed and reinsurance contracts

Consistency of assumptions

## Loss Component

How to offset the  
assumed loss component?



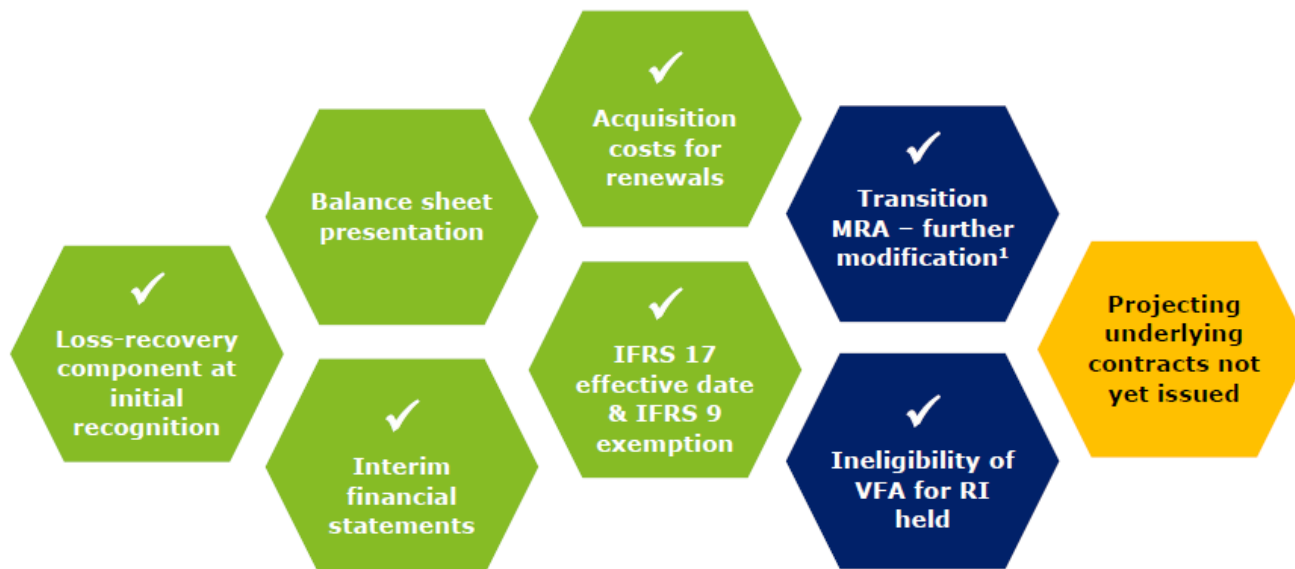
## PAA Eligibility

Inconsistency with  
measurement model of  
underlying assumed contracts

# Latest IASB Developments – Reinsurance Focus

- At its October 2018 meeting the IASB identified 25 concerns raised by various stakeholders for potential amendments to IFRS 17.
- 15 concerns were not originally considered valid for potential amendments.
- However 3 out of those 15 concerns (e.g. interim reporting) were then reconsidered following the feedback received on the Exposure Draft.
- Out of the 25 concerns there were 8 related to reinsurance.

■ Addressed by amendments   
 ■ Indirectly addressed by amendments   
 ■ Not addressed by amendments   
 ✓ To be discussed today



# Latest IASB Developments – Reinsurance Focus (cont.)



Loss Recovery Component at Initial Recognition



Where RI Held is proportionate and relates to an underlying issued group that is onerous on initial recognition, the RI Held CSM at initial recognition is adjusted to recognise the expected loss recovery from the RI Held in the same reporting period as the expected loss from the onerous issued group.

This is an extension the treatment that was in place for RI Held where underlying issued non-onerous groups that subsequently become onerous due to change in estimates of fulfilment cashflows related to future service.

## Simple Example – Onerous Initial Recognition and Reinsurance Held Adjusted CSM

### Insurance Contracts Issued Group - Initial Recognition Is Onerous:

Premiums	100
Claims	-160
Expected Loss	-60 Recognise Immediately

*Assume the entity has reinsured the product line with 75% of claims recoverable*

### Proportionate Reinsurance Held Group - Initial Recognition:

Reinsurance Premiums	-130
Reinsurance Claims Recovery	120
CSM - Net Cost (before adjustment)	-10

*Expected Claims Recovery of 120 may be split:*

<i>Recovery of expected loss (75% of 60)</i>	<i>45 Recognise Immediately</i>
<i>Remaining Claims Recovery</i>	<i>75</i>

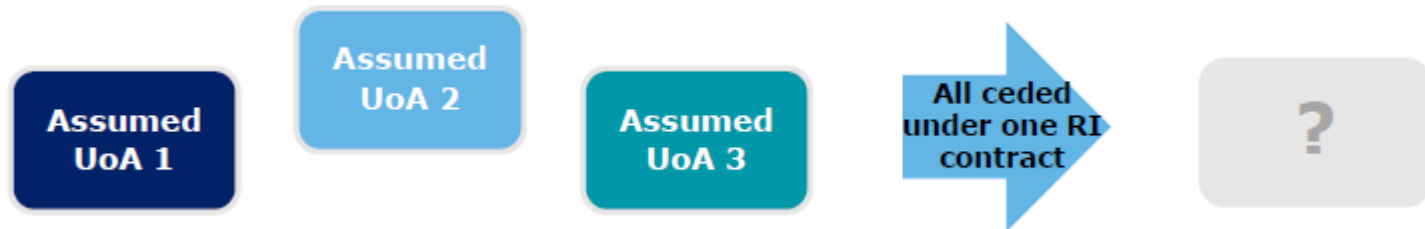
CSM Adjusted Net Cost -55 Recongise over time

# Latest IASB Developments – Reinsurance Focus (cont.)

<p>Interim Financial Statements</p>	<p>→ An accounting policy choice at a reporting entity level is provided as <b>to whether to change the treatment of accounting estimates made in previous interim financial statements.</b></p> <p>This allows an entity performing interim IFRS reporting a choice whether to 'lock' the interim estimates or to amend for future interim and annual reporting. The CSM balance and amortisation (timing of earnings recognition) will vary depending upon the period over which subsequent measurement occurs.</p>
<p>RI Held – Ineligibility for the VFA</p>	<p>→ Whilst the RI contracts remain ineligible for VFA, the <b>risk mitigation option is extended to permit reinsurance contracts held</b> and financial instruments measured at fair value through profit or loss as hedging instruments.</p> <p>Under the risk mitigation option some or all of the changes in the effect of financial risk on VFA insurance contracts that usually adjust the contractual service margin are recognised immediately in profit or loss. In other words, the risk mitigation option 'switches off' VFA to the extent that financial risk is mitigated by appropriate hedging instruments.</p>
<p>Acquisition Costs relating to expected contract renewals</p>	<p>→ Acquisition costs are recognised across coverage periods (initial contract and expected future renewals). Additional guidance has been provided regarding the accounting for pre-coverage acquisition assets, including impairment tests and related disclosures.</p> <p>If it is impracticable to apply the amendment retrospectively, then applying MRA, the amendment could be applied using information available <b>at the transition date.</b> If such information is not available on the transition date, acquisition costs paid prior to the transition date that cannot be rationally allocated to groups existing at the transition date and to future 'contract renewals' will be assumed to be <b>nil and MRA could still be applied.</b></p>



# Deep Dive – Level of Aggregation



- Reinsurance contracts held can cover multiple assumed units of account UoA. Whilst there is no mutualisation benefit for ceded business, when determining the level of aggregation for reinsurance contracts held an entity needs to consider how they can best determine the gross and net positions for any assumed UoA.
- For instance, by identifying each reinsurance contract held as its own UoA this may have the following unintended consequences:
  - (1) The assumed UoAs may have a different recognition pattern to the retrocession contract which means the net position of an assumed unit of account will be difficult to interpret
  - (2) Without clear lineage between the assumed fulfilment cash flows and corresponding retroceded cashflows, the calculation of the CSM offset becomes less straight forward

# Deep Dive – Level of Aggregation (continued)

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The following slide shows an example of the mismatch you will get in CSM amortisation patterns and net results when the proportional reinsurance contracts held are not split into their sub-assumed counterparts.

## Example to consider:

- Say you have two assumed contracts – one covering non standard annuities and the other covering long term mortality. Each assumed contract will be in a separate unit of account.
- Given a proportional reinsurance contract held that covers both of these contracts – 65% on the long term mortality treaty and 30% on the non standard annuities treaty.
- Assume that recognition date, contract boundaries and currency are the same under all contracts.
- Assume no expenses on either the assumed or the reinsurance contracts held.

# Deep Dive – Level of Aggregation (continued)

Assumed Treaties		UoA 1	CSM	UoA 2	CSM
		Long Term Mortality Treaty		Non standard annuities Treaty	
31.03.2019	Opening balance	EUR	40,000	EUR	35,000
	New business		1,200		
	Interest accretion	1.0%	412	1.0%	350
	Treaty prem/claims cash flow	EUR	-1,000	EUR	-1,500
	Treaty commissions	EUR	0	EUR	0
	Treaty expenses	EUR	0	EUR	0
	Amortisation p.q.	7.4%	-3,008	34.2%	-11,580
30.06.2019	Closing balance	EUR	37,604	EUR	22,270
<b>Coverage units in period</b>			8,000		13,000
<b>Future expected coverage units</b>			100,000		25,000

**NOTE:** This is a very simple example. The mismatches will be even greater when we bring in differences in contract boundaries, recognition points, expenses etc.

## Example 1: Retrocession Treaty is broken down into the sub assumed components

Retrocession Treaty		Sub assumed retro 1	CSM	Sub assumed retro 2	CSM
			65%		30%
		Long Term Mortality Treaty		Non standard annuities Treaty	
31.03.2019	Opening balance	EUR	26,000	EUR	10,500
	New business	EUR	780	EUR	0
	Interest accretion	1.0%	268	1.0%	105
n/a	Treaty prem/claims cash flow	EUR	-650	EUR	-450
0	Treaty commissions	EUR	0	EUR	0
0	Treaty expenses	EUR	0	EUR	0
	Amortisation p.q.	7.4%	-1,955	34.2%	-3,474
30.06.2019	Closing balance	EUR	24,442	EUR	6,681
			65.0%		30.0%
<b>Coverage units in period</b>			5,200		3,900
<b>Future expected coverage units</b>			65,000		7,500

## Example 2: Retrocession Treaty is not broken down into the sub assumed components

Retro Treaty	CSM
<b>Retrocession Treaty</b>	
EUR	36,500
EUR	780
1.0%	373
EUR	-1,100
EUR	0
EUR	0
12.6%	-4,588
EUR	31,965
	53.0%
<b>Coverage units in period</b>	9,100
<b>Future expected coverage units</b>	72,500



# Deep Dive – Level of Aggregation (continued)

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## Why might you consider splitting the proportional reinsurance treaty into sub-assumed treaties?

- Greater transparency and traceability between assumed treaty and proportional reinsurance treaty counterparts.
- Ease of tracking the offset of the assumed loss component.
- Improved relationship between assumed and reinsurance treaties, albeit still some noise which can occur e.g. not all treaties in assumed UoA transferred via reinsurance.
- Greater certainty around impact of reinsurance on financial position - important due to ability to predict tax impacts in local legal entities or branches.
- Dividing the reinsurance treaty into its sub-assumed counterparts may make it easier for the calculation engine to identify and apply the relationship between the assumed and reinsurance contracts.

## What are the downsides of this approach?

- Greater complexity because of splitting data / tagging etc.
- Need actuals at cedent or 'sub-assumed' level of granularity for this to work.
- Greater data volumes so pressure on processing.
- Greater granularity introduced into level of aggregation (LoA).



# Deep Dive – Profit Commission

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The September 2018 TRG meeting highlighted that where profit commission results in a minimum amount that is always returned to the cedent, **this is equivalent to charging a lower premium.**

Applying Para B123, insurance revenue and service expenses should be reduced by this **‘amount not contingent on claims’** as it does not reflect consideration for the performance of services.

There is a subsequent question as to whether this amount not contingent on claims should be disclosed as an **investment component** or not.

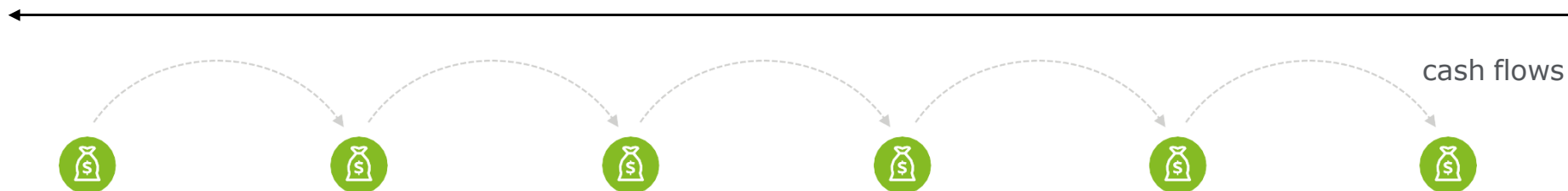
If profit commissions are settled net with premiums and claims, then there is an argument that the amount is not *repaid* and is therefore not an investment component per the definition in the standard.

However, the April 2019 TRG states that just because payments are settled gross or net should not affect the outcome of the assessment of whether an investment component exists.

# Deep Dive – Contract Boundaries

## Within the boundary

The policyholder is obliged to pay the premium



## Substantive obligation

An (re)insurer needs to provide coverage or other services to policyholders

**Contract Boundary**  
(beginning)

1

Reinsurer has the right or practical ability to reassess the risks **for a particular cedent** and, as a result, can set a price or level of benefits to fully reflect the risks. (see p B64 for detailed explanation)

**Contract Boundary**  
(end)

**Contract recognized the earliest of:**

- the beginning of coverage; or
- the date on which the first premium is due; or
- (onerous contract)

2a

Reinsurer has the right or practical ability to reassess the risks **for the portfolio of reinsurance contract** and set a price or level of benefits to fully reflect the risks, and;

2b

Pricing for coverage up to the date that the risks are reassessed **does not take into account the risks that relate to future periods.**

Need to consider all Bound But Not Incepted (BBNI) contracts here

# Deep Dive – Contract Boundaries (continued)

## Scenario;

- Treaty issued 1 January.
- Covers a proportion of all risks arising for underlying insurance contracts issued by the cedent.
- Contract has no end date.
- Contract can be unilaterally cancelled by either party at 3 months notice.

At initial recognition (1 Jan), the reinsurer would conclude that cash flows within the 'new business' contract boundary are those arising from underlying contracts expected to be issued and ceded within the next 90 days.



- Since either party can terminate the contract at 90 days notice, the reinsurer does not have a substantive obligation to provide service or compel the cedent to pay premiums.
- Therefore, at initial recognition, cash flows relating to new business attaching after 31/3 are not within the 'new business' contract boundary.

# Deep Dive – Contract Boundaries (continued)



## At March 31;

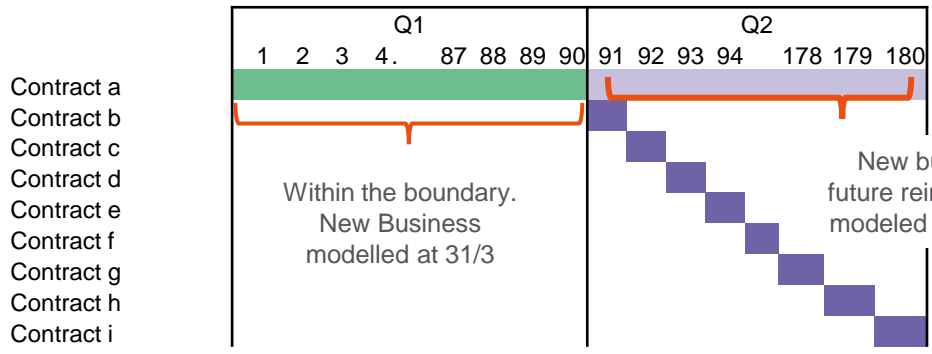
- Neither the reinsurer nor the cedent has given notice to terminate the contract with respect to new business ceded.
- Applying B64 (practical ability to reprice) of IFRS 17 would not cause a reassessment of the contract boundary as boundary set at initial recognition was not based on ability to reprice.
- Applying p.35, the cash flows relating to underlying contracts expected to be issued in the next 3 month period are outside the existing contract boundary and related to future reinsurance contracts.
- The future reinsurance contract would be recognized applying p.25.

p.35. An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

p.25. The earlier of :

- The beginning of coverage; or
- The date on which the first premium is due; or
- When the facts and circumstances indicate that the contract will belong to an onerous group

An illustration:



**Does this mean we recognise daily contracts?**

- TRG staff observed that contracts would only be recognised in line with p.25.
- In this fact pattern, it would be April 1 or later.
- At April 1 (Initial recognition), you would then determine contract boundary which would then include cash flows relating to next 3 months.



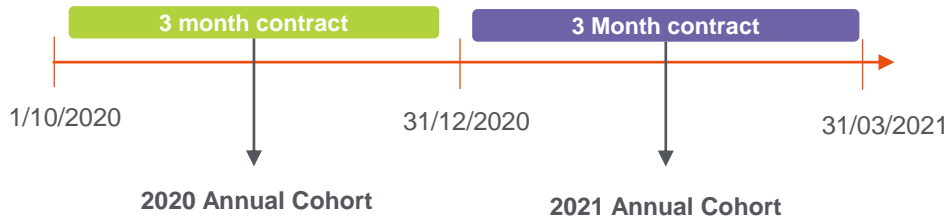
# Deep Dive – Contract Boundaries (continued)



## How do we split the three month contracts into annual cohorts?

- The TRG example provided an example where the 3 month periods relate to separate contracts where there are unilateral cancellation rights.
- This would require each 3 month contract to be allocated to the annual cohort

### Example 1 – Policy UWYR



- This is aligned with the UWYR of policy approach.

### Example 2 - cedent accounting year – assume cedent treaty starts on 1<sup>st</sup> July.



- In a situation where the cedent does not provide the information to allow you to allocate by UWY of the underlying policies, you could alternatively allocate per the UWY of the treaty.

# Agenda

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- Introduction
- Reinsurance
- Transition
- Q&A





# Transition - Agenda

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- Two Important dates
- Steps at transition date
- Overview and approaches
- Approaches in detail:
  - Full Retrospective Approach
    - Steps required/Practical issues
  - Modified Retrospective approach
    - Simplifications allowed
    - Practical issues
  - Fair Value approach
    - Simplifications allowed
    - Practical issues
    - Example
  - Choosing a method?
- Transition disclosures requirements



# Transition: Two Important Dates

- On 17<sup>th</sup> March 2020, IASB deferred the initial date of application for another year to 1 January 2023.
- However, the transition date is considered to be 1<sup>st</sup> January 2022, to provide one year of comparative information.

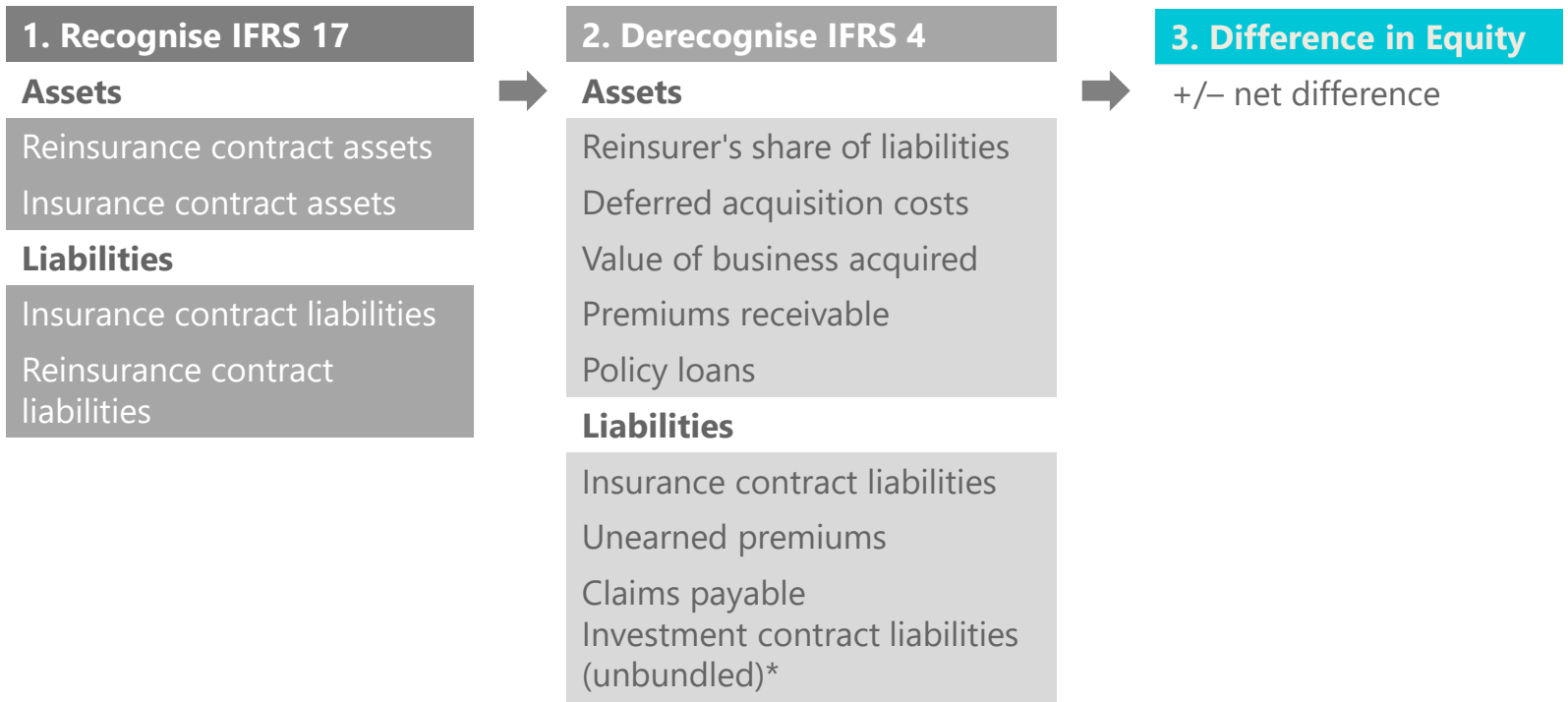




# Transition: Steps At Transition Date

(Paragraph C4):

**To apply IFRS 17 retrospectively, an entity shall at the transition date:**





# Transition: Three Approaches

## Full retrospective approach

When historical data exists and hindsight is not required

### If impracticable

- (a) Amounts are not determinable
- (b) Requires assumptions about past management's intent (hindsight)
- (c) Requires significant past estimates (hindsight)



## Modified retrospective approach

When not all historical information is available but information about historical cash flows is available or can be constructed

OR

## Fair value approach

When no historical information about cash flows is available to determine the CSM

*Insufficient reasonable and supportable information available*

**If impracticable**



# Transition: Full Retrospective Approach (FRA)

Some of the steps to think off:

- Obtaining the cash flows at the date of initial recognition;
- Calculating the risk adjustment for non-financial risk at the date of initial recognition and on subsequent measurement;
- Calculating the discount rates at the date of initial recognition and on subsequent measurement;
- Calculating the changes in estimates that would have been recognised in profit or loss for each accounting period because they did not relate to future service, and the extent to which changes in the fulfilment cash flows would have been allocated to the loss component;
- Calculating the amounts charged to policyholders;
- Calculating the amounts paid that would not have varied based on the underlying items;
- Calculating subsequent measurement of CSM at the right level of aggregation;
- Tracking of the experience adjustments on investment components;
- Calculating the changes in future cash flows;
- Calculating the changes in the fair value of the underlying items for insurance contracts with direct participation features.

→ IASB developed the modified retrospective approach and the fair value approach



# Transition: Alternative Approaches to FRA

## If FRA is impracticable, choice between MRA and FV

### Option 1 - Modified retrospective approach (MRA)

- The objective of the MRA is to achieve the closest outcome to retrospective application possible
- The standard sets out permitted modifications, subject to the above point.
- If companies cannot obtain reasonable and supportable information, it must use FV approach.

### Option 2 – Fair Value Approach (FV)





# Transition: MRA permitted simplifications

Modification in paragraphs C9–C19 of the standard can be used only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

**Para C9 - C10: Assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition.**

An entity can determine the following at the transition date:

- ▶ Whether a contract is eligible for VFA
- ▶ How to identify groups of insurance contracts
- ▶ How to identify discretionary cash flows for insurance contracts subject to the GMM



# Transition: MRA permitted simplifications

Para C11 - C16: Amounts related to the contractual service margin or loss component for insurance contracts without direct participation features

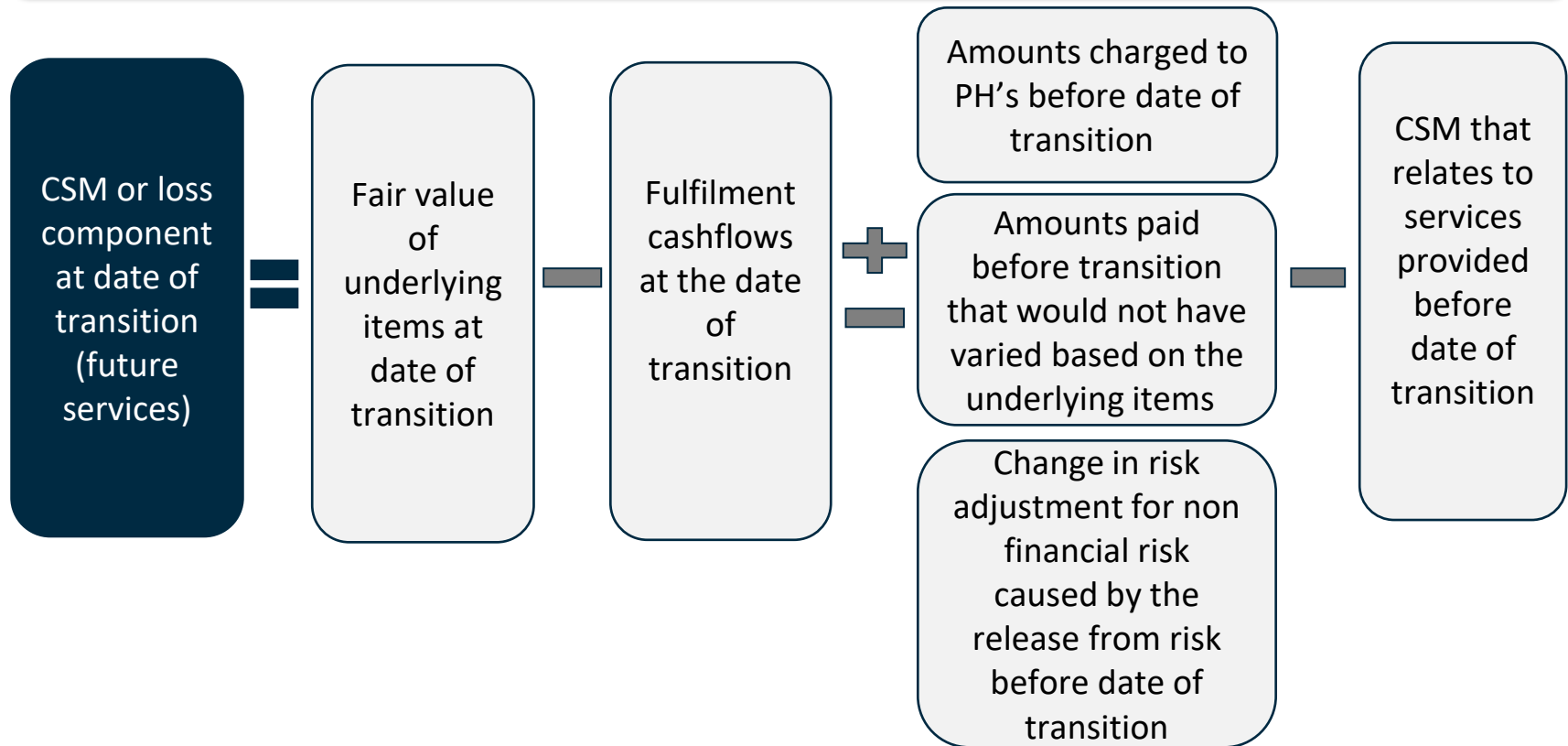
When an entity is determining the contractual service margin or loss component for the liability for remaining coverage at the transition date, the following simplifications can be made:

- ▶ **The future cashflows at the date of initial recognition**
- ▶ **The discount rate at the date of initial recognition**
- ▶ **The Risk adjustment for non-financial risk**
- ▶ **The CSM on initial recognition**
- ▶ **The Loss component**



# Transition: MRA permitted simplifications

Para C17: Amounts related to the contractual service margin or loss component for insurance contracts with direct participation features





# Transition: MRA permitted simplifications

Para C18- C19: Insurance finance income or expenses.

**Disaggregation of insurance finance income or expenses:**

- ▶ The cumulative amount of insurance finance income or expense recognised in “Other comprehensive Income” at the transition date is determined using a set of rules depending on whether the group of contracts are issued more than one year apart or not.
- ▶ Rules not expanded on here for sake of time



# Transition: MRA Practical issues

What are the practical issues to applying the modified retrospective approach?

- ▶ **Availability of historic cash-flows:**
- ▶ **Grouping of contracts**
- ▶ **Allocation of expenses**
- ▶ **Significant timing differences from grouping of contracts**
- ▶ **Application of yield curve at high rates**
- ▶ **Stochastic runs for profit sharing contracts**



# Transition: Alternative Approaches to FRA

## If FRA is impracticable, choice between MRA and FV

### Option 1 - Modified retrospective approach (MRA)

- The objective of the MRA is to achieve the closest outcome to retrospective application
- The standard sets out permitted modifications, subject to the above point.
- If companies cannot obtain reasonable and supportable information, it must use FV approach.

### Option 2 – Fair Value Approach (FV)

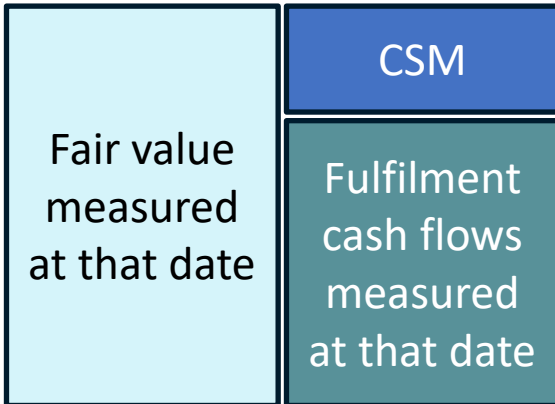
- The CSM (or loss component) is determined as follows:
  - Fair value of liabilities - Fulfilment cash flows
  - If  $> 0$ ; CSM
  - If  $< 0$ ; Loss component (not commonly expected but still possible)



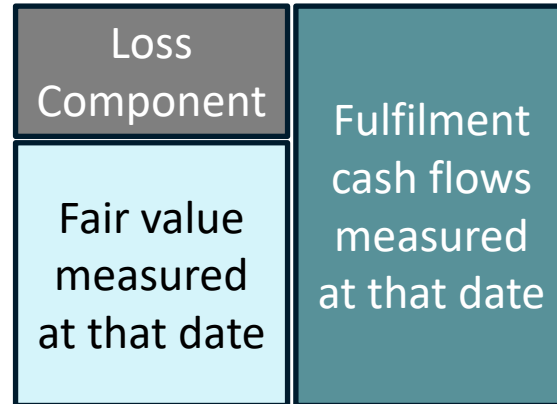
# Transition: Fair Value Calculation Approach

- CSM or loss component at the transition date is calculated the fair value of the liabilities for a group of contracts (applying IFRS 13), less the fulfilment cash flows for that group (applying IFRS 17) at that date.
- At **transition date** for a group of insurance contracts:

### Group A (Profitable)



### Group B (Onerous)





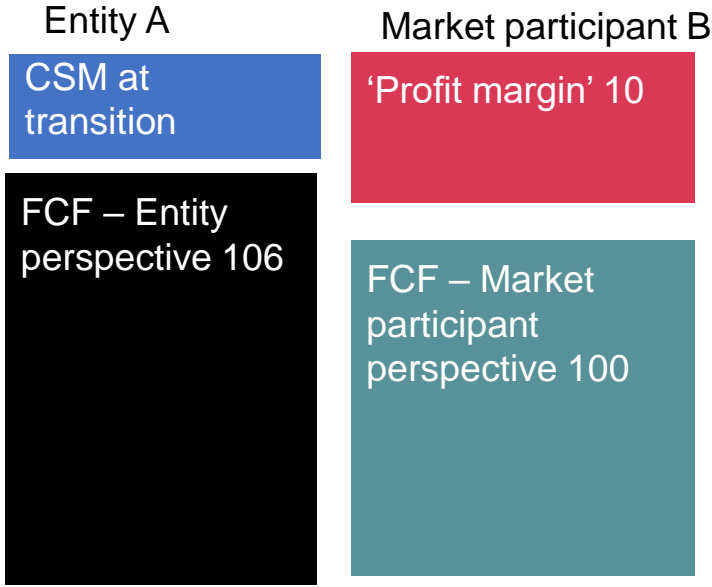
# Transition: Fair Value Approach Example

## Illustrative example

- Entity A values fulfilment cash flows at 106.
- A market participant B would value at 100 and would require a 10 profit margin.

### Resulting CSM at transition:

$$\text{Delta (B -/- A)} = \left\{ \begin{array}{l} 110 - 106 = 4 \end{array} \right.$$



**Note:** The relative size of the diagram is purely for illustration purposes and could differ significantly by product line and company.





# Transition: Fair Value Calculation Approach

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$$\text{CSM at transition date} = \text{Fair value of underlying items at date of transition using IFRS13} - \text{IFRS17 Fulfilment cashflows at the date of transition}$$

## Potential approaches being proposed to calculate the Fair Value:

- ▶ Adjusted SII Technical Provisions
- ▶ Adjusted fulfillment cashflow
- ▶ CoC based on pricing margins
- ▶ CoC calibrated to transactions
- ▶ Adjusted Market Consistent Embedded Value (MCEV)

Potentially different approaches for different types of business.



# Transition: Fair Value Approach Simplifications

The following simplifications can be used at transition if reasonable and supportable information is not available

- Aggregation of insurance contracts into groups;
- Definition of an insurance contract with direct participation features;
- Discretionary cash flows for insurance contracts without direct participation features;
- Insurance contracts issued more than one year apart can be grouped together;
- The discount rate at the date of transition when determining the insurance finance income or expense for periods after the date of transition;
- The discount rates for incurred claims for PAA;
- Disaggregation of insurance finance income or expenses



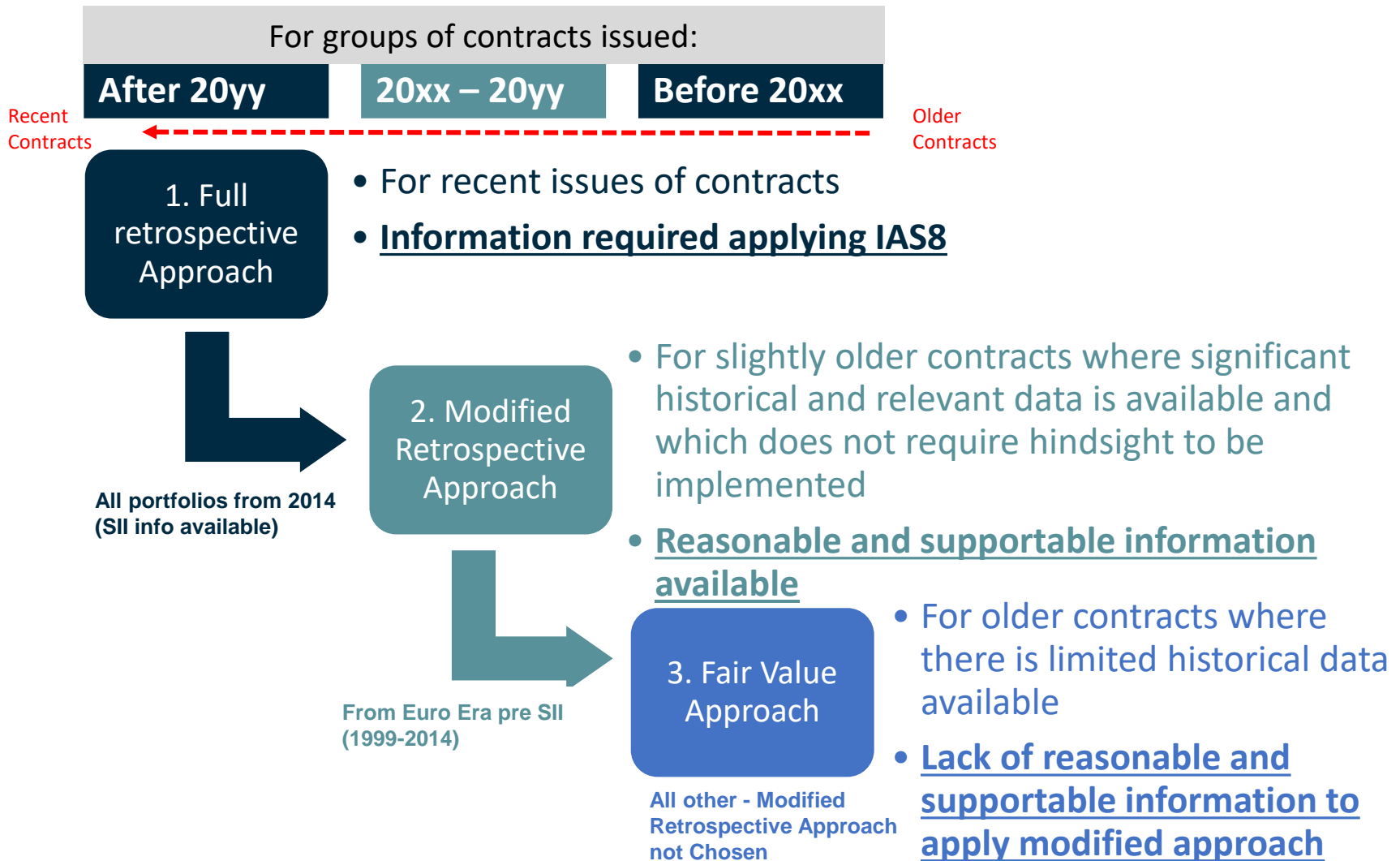
# Transition: Fair Value Approach Practical Issues

What are some of the practical issues in applying the fair value approach?

- **IFRS13 v IFRS17:**
  - **Liabilities not actively traded**
  - **Non-performance risk**
  - **Overhead expenses**
  - **Discount curves**
  - **BE cash flows and the RA reflect the entity's perception of risks,**
  - **Contract boundaries**
- **Unintended effect is options can be used to optimise the CSM**



# Transition: Progression of Methods



Note: PAA has less complex transition requirements due to its nature



# Transition: Disclosures

## What are the transition disclosures that need to be provided?

The following transition disclosures need to be provided:

- ▶ Identification of the **effects of different methods used** on CSM and insurance revenue in future periods
- ▶ Reconciliation of the **CSM using the three approaches** - (IFRS 17, paragraph 114).
- ▶ Disclosures when using **FVA and MRA**, - (IFRS 17, paragraph 115)
- ▶ **Disaggregation** of insurance finance income or expenses between profit or loss and other comprehensive income. - IFRS 17, paragraph 116).



# Transition Disclosures – Roll forward of CSM using GMM

	PV of Cash Flows	Risk Adj'	Contractual Service Margin			Total	Grand Total
			Modified Retrospective Approach	Fair Value Approach	FRA		
Insurance contract liabilities 20X0	9,068	148	100	200	300	600	9,816
<b>Changes that relate to current services</b>	<b>(330)</b>	<b>(33)</b>	<b>(25)</b>	<b>(50)</b>	<b>(239)</b>	<b>(314)</b>	<b>(677)</b>
Contractual service margin recognised for services provided			(25)	(50)	(239)	(314)	(314)
Risk adjustment recognised for the risk expired		(33)					(33)
Experience adjustments	(330)						(330)
<b>Changes that relate to future services</b>	<b>(674)</b>	<b>52</b>	<b>15</b>	<b>20</b>	<b>557</b>	<b>592</b>	<b>(30)</b>
Contracts initially recognised in the period	(325)	62			266	266	3
Changes in estimates reflected in the contractual service margin	(317)	(10)	115	20	291	326	-
Changes in estimates resulting in onerous contract losses/(reversal)	(32)	(1)					(33)
<b>Changes that relate to past services</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3)</b>
Adjustments to liabilities for incurred claims		(3)					(3)
Insurance service result	(1,004)	16	(10)	(30)	318	278	(710)
Insurance finance expenses	569	-	1	2	10	13	582
Total changes in the statement of comprehensive income	(434)	16	(9)	(28)	328	291	(143)
Cash flows	611						611
Insurance contract liabilities 20X1	9,244	164	91	172	628	891	10,299



# Transition Disclosures – Analysis of Insurance Revenue

## Analysis of insurance revenue

Amounts related to liabilities for remaining coverage		<b>1,667</b>
- Expected incurred claims and other expenses		1,320
- Risk adjustment for the risk expired		33
- Release of contractual service margin for the service provided		
Modified retrospective transition approach	25	
Fair value transition approach	50	
Other / full IFRS 17	<u>239</u>	
		314
Recovery of acquisition cash flows		<b>15</b>
Insurance Revenue		<u><b>1,682</b></u>



# Transition: Three Approaches

## Full retrospective approach

When historical data exists and hindsight is not required

### If impracticable

- (a) Amounts are not determinable
- (b) Requires assumptions about past management's intent (hindsight)
- (c) Requires significant past estimates (hindsight)



## Modified retrospective approach

When not all historical information is available but information about historical cash flows is available or can be constructed

OR

## Fair value approach

When no historical information about cash flows is available to determine the CSM

*Insufficient reasonable and supportable information available*

**If impracticable**



# Agenda

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- Introduction
- Reinsurance
- Transition
- Q&A

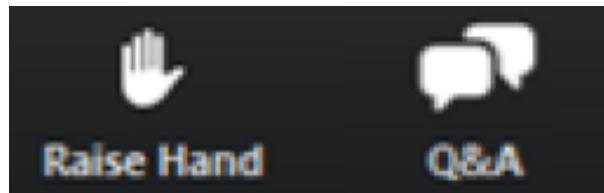




# Questions

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**Please click on the Hands Up icon  
to ask a question  
and  
wait to be unmuted  
or  
Use the Q&A function**





# Society of Actuaries in Ireland

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Thank you

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