

# The Key Role of Actuaries in Steering IFRS 17 KPIs



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# About the speakers



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- Member of the French Institute of Actuaries
- Partner at Deloitte Conseil - Actuarial



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- 10 years experience in IFRS4 phase 2 / IFRS17
- Member of the French Institute of Actuaries
- Director at Deloitte Conseil - Actuarial

# Agenda

- Introduction to IFRS 17
- KPIs under IFRS 17
- Investors and analysts points of view
- Global Survey
- IFRS 17 levers
- Key learnings points



# Introduction to IFRS 17

What is IFRS 17 Insurance Contracts ?

## One

Accounting  
model

IFRS 17 represents a **consistent accounting standard** for all insurance and reinsurance contracts across most jurisdictions around the world



Who is affected ?



~450

Insurers are  
using IFRS  
Standards

The new accounting  
standard has to be  
applied by all insurers  
using IFRS Standards



~12 000

bn€  
of assets  
under  
management

Insurers in scope  
manage large  
amounts of assets

Why ?



More

Uniformity  
and  
transparency

to improve  
uniformity of insurers  
financial statements,  
to improve  
transparency



Better

Reporting of  
profitability

better reflection of  
insurers and  
reinsurers profits

When ?



2023

Starting date

In March 2020, the  
IASB decided to differ  
the effective date to  
2023



2,5

Years to be  
compliant

Still 2,5 years to go  
for companies to be  
compliant

IASB and FSB



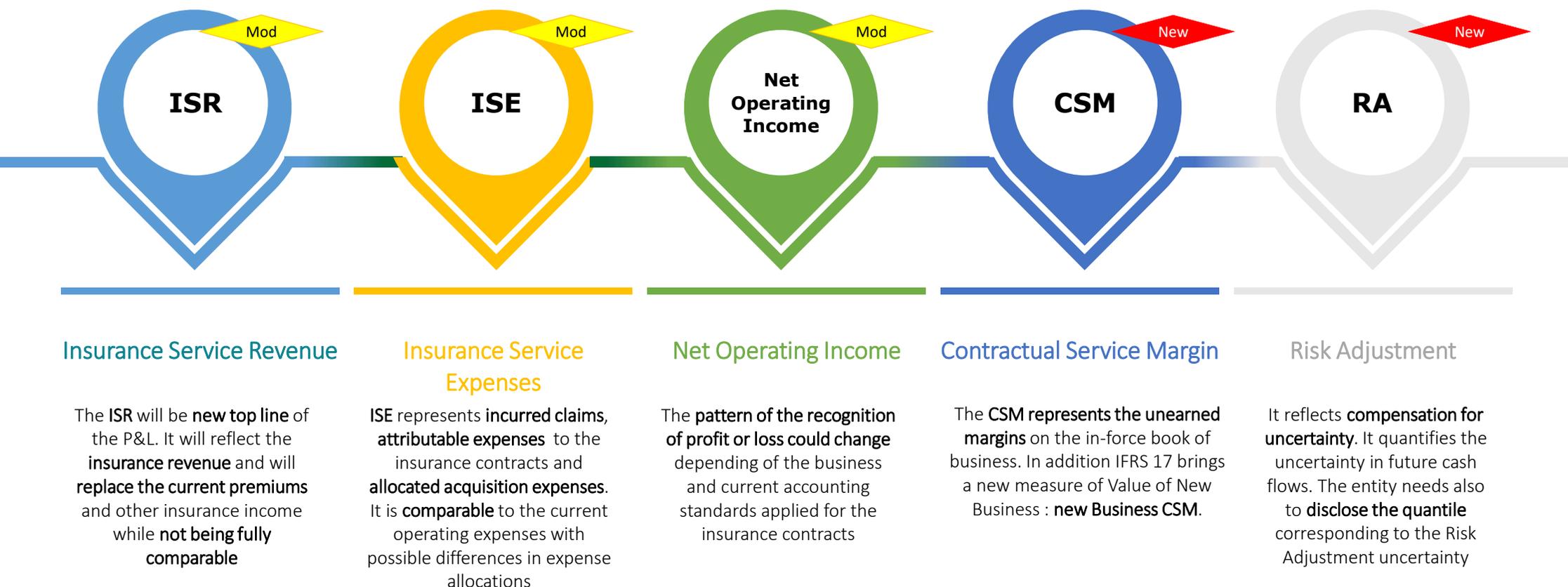
The International  
Accounting Standards  
Board (**IASB**) is the  
independent,  
accounting standard-  
setting body of the  
IFRS Foundation



The Financial Stability  
Board (**FSB**) is an  
international body  
that makes  
recommendations  
about the global  
financial system

# KPIs under IFRS 17 (1/2)

IFRS 17 will affect most **all the insurers KPIs**



The Key Role of Actuaries in Steering IFRS 17 KPIs

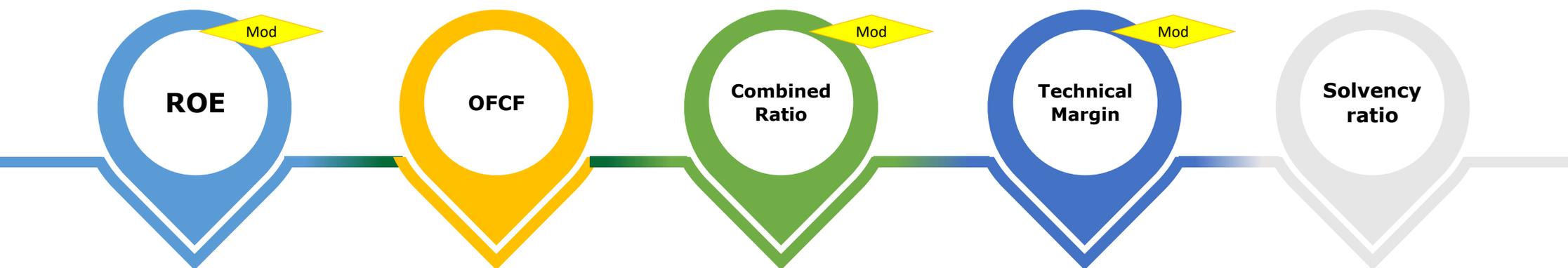


*New KPI*



*Existing KPI impacted by IFRS 17*

# KPIs under IFRS 17 (2/2)



## Return on Equity

Transition to IFRS 17 standard may impact the **equity**. In the same way, the **new pattern of the revenue** could be different

## Operating Free Cash Flows

Measured according to different approaches (eg. operating income less the variation of required capital over the period), the operating free cash flows represents the **cash available to invest or pay dividends**

## Combined Ratio

The combined ratio is a KPI mainly used for **P&C business**. It **could be impacted** depending on how far combined ratio elements are revisited, e.g. changes in expense allocation, inclusion of risk adjustment, changes in contract boundaries, etc.

## Cost Ratio

Overall costs will not change, the difference will be triggered by the **allocation between attributable and non attributable expenses** as well as the **amortization of attributable acquisition costs**

## Solvency Ratio

Although harmonization with the international accounting developments is expected to increase. We expect **differences to remain between the financial and prudential frameworks**



# Investors and analysts points of view

Example of investors and analysts' expectations

<b>Volume of business</b>	Information on sales volumes Examples of alternative measures: annual premium equivalent (APE) and present value of new business premiums (PVNBP)
<b>Return on Equity (RoE)</b>	Information on the equity at transition
<b>New Business Value</b>	Information on new business value The New Business CSM could replace the New Business Value for life business
<b>Analysis of Changes in the CSM</b>	Information on the changes of the CSM from one period to the next
<b>Differences with SII</b>	Information on the differences between IFRS equity and Solvency II own funds

IFRS 17 could reduce the impression of current « **black box** »

A **principle based approach** could limit the comparability between insurers

Sensitivity analysis and a clear explanation of sources of profits between **past and new business** are key

# Global Survey

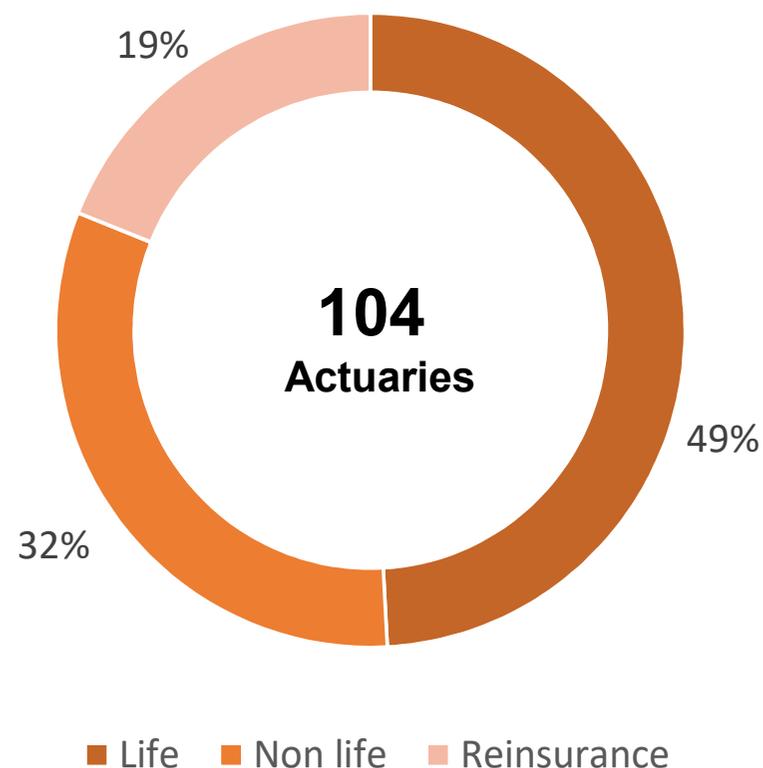
## Overview

**104** actuaries participated to this global survey

Respondents included actuaries involved in IFRS 17 projects, working in insurance companies, reinsurance companies as well as Deloitte, covering Life, Health and P&C activities across all of EMEA, APAC and Americas

The answers collected were collected from 25/02 to 06/03/2020. They reflect views of respondents at the time of the survey and could change as IFRS17 projects are moving forward

Distribution of participants by activity



# Global Survey

## Approach

### 1. LIST OF TOPICS

**LIST OF 17 TOPICS**  
Where actuarial judgement could be involved

### 2. LEVEL OF ACTUARIAL JUDGEMENT

**QUESTION A**  
For each topic, Level of actuarial expert judgment that could be applied, from Low to High

### 3. LEVEL OF DIVERGENCE EXPECTED

**QUESTION B**  
Expectation of divergence in practices between companies, from no divergence to high divergence

### 4. COMBINATION OF RESULTS AND RANKING

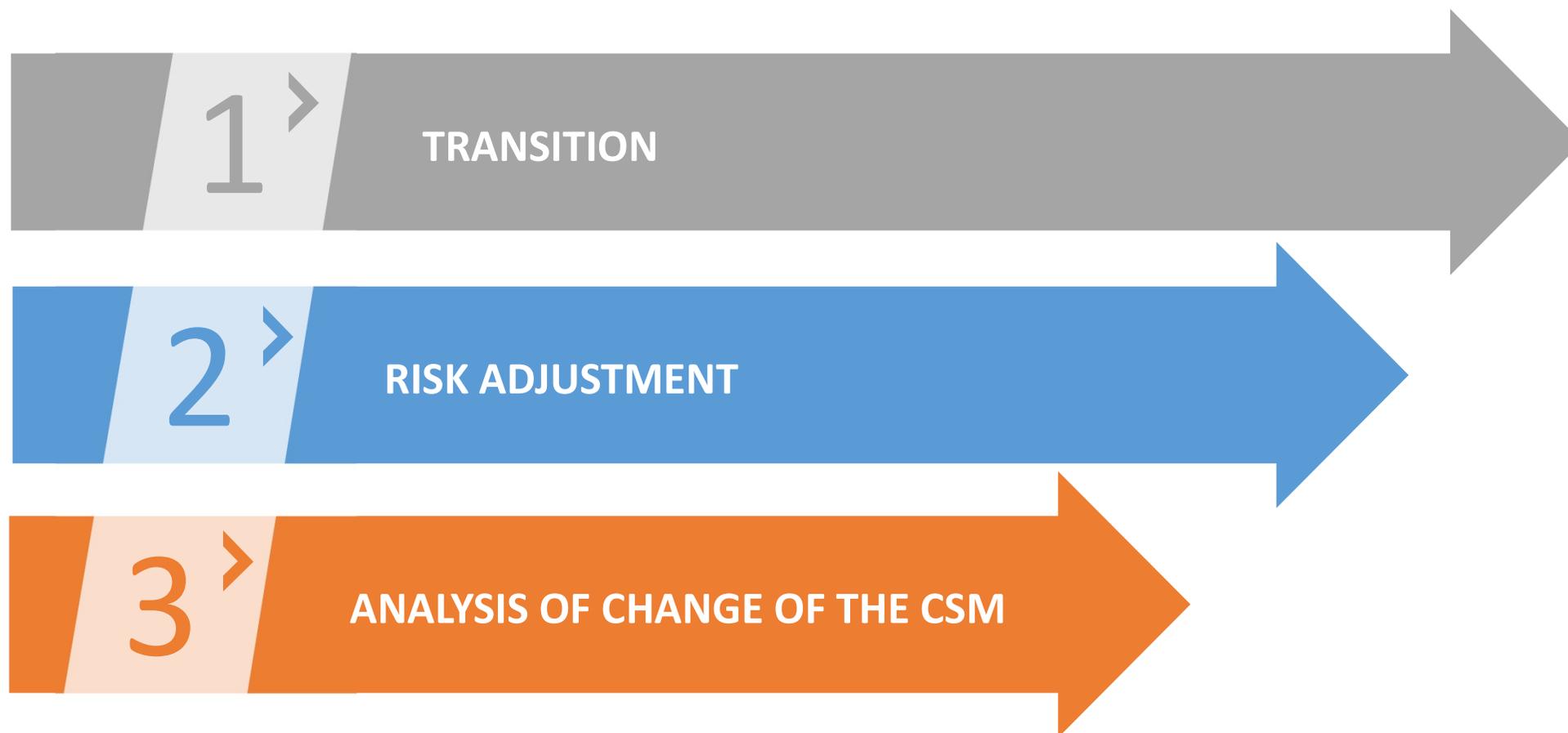
#### COMBINATION OF RESULTS

We combined the results over the two questions to rank the topics into Low, Medium or High Actuarial Judgment Impact

Podium

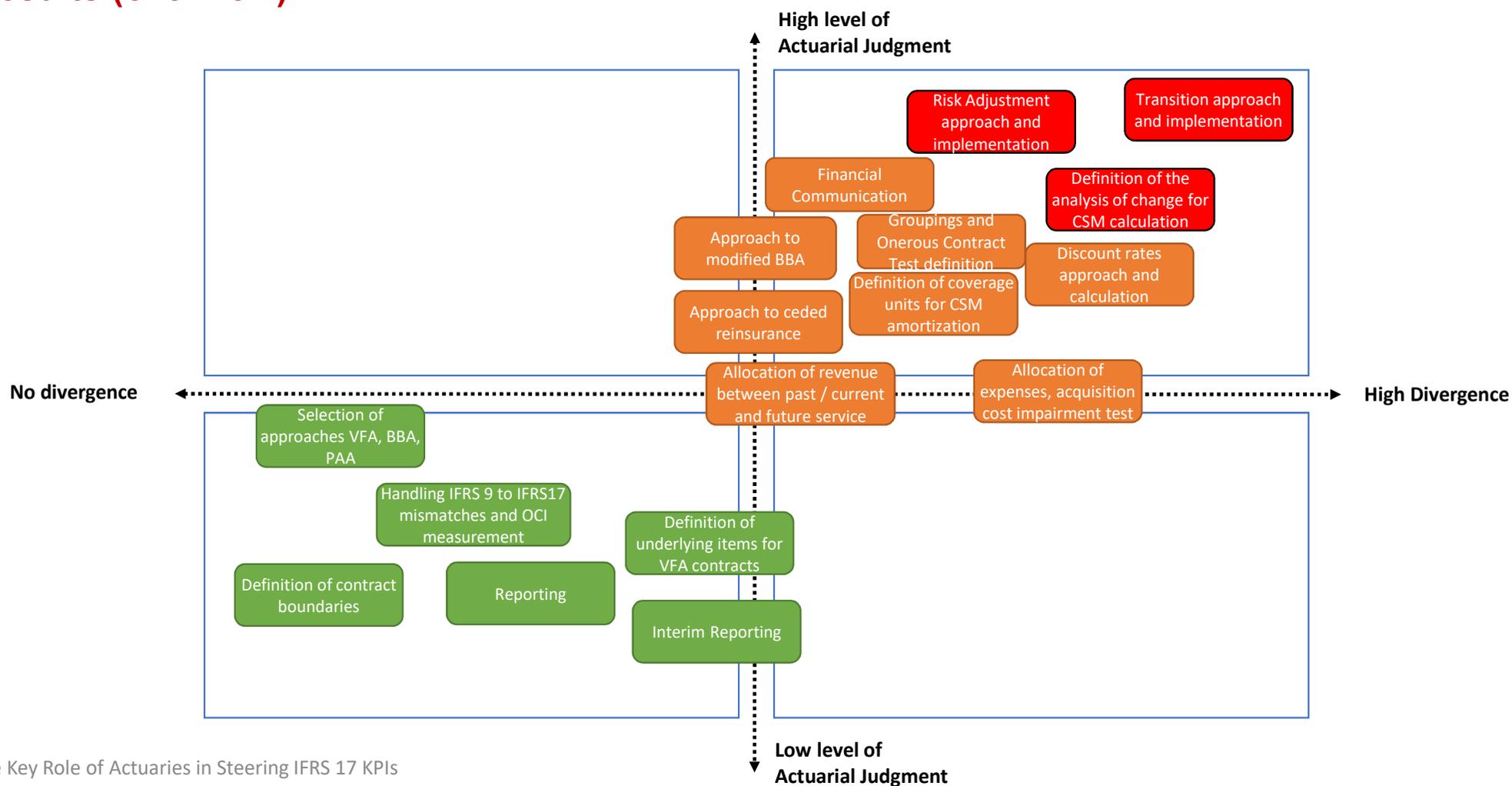
# Global Survey

## Podium



# Global Surey

## Results (overview)



# Global Survey

## Results (extract)

### IFRS 17 topics

Assessment of the level of actuarial expert judgment that will be involved in each area

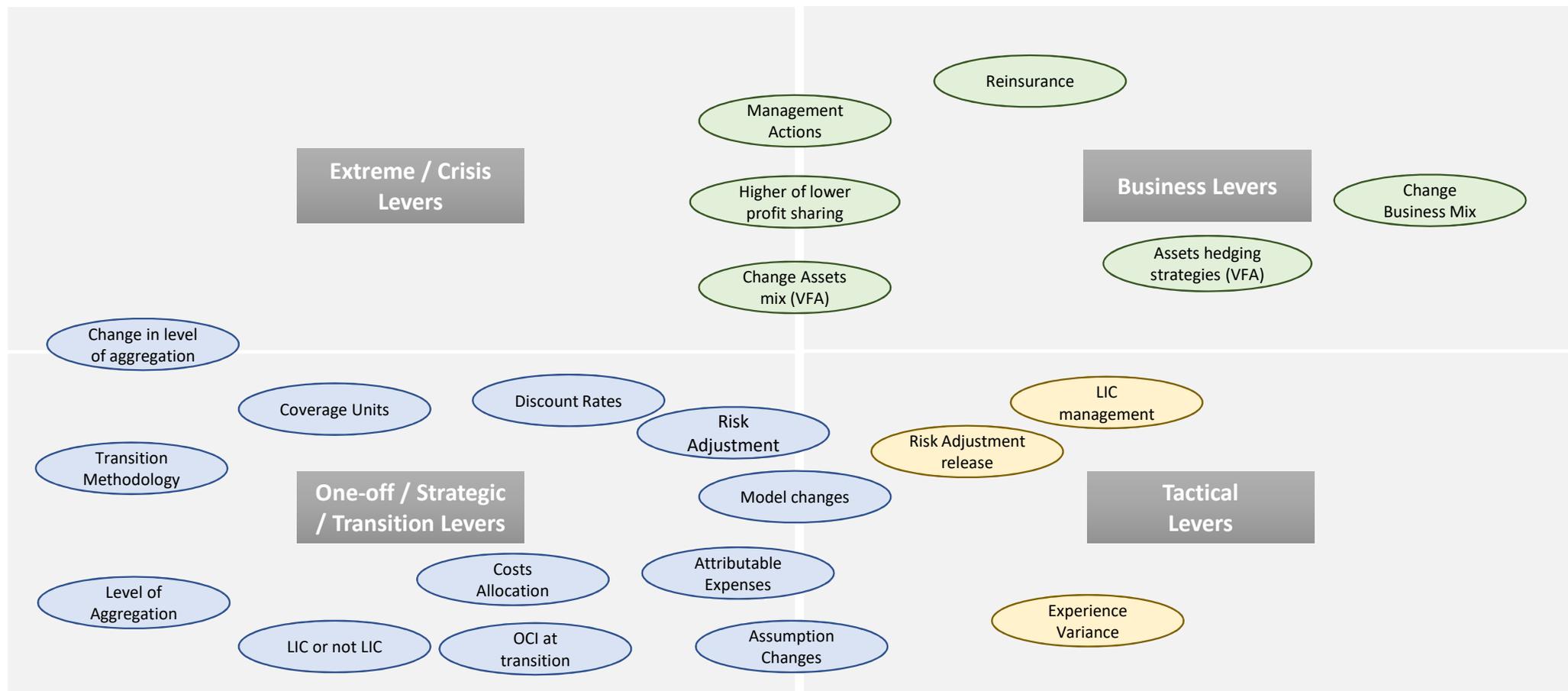
Assessment of how far it is expected practices will be different between stakeholders

Actuarial Judgment Impact



# IFRS 17 Levers

The graphic below presents different levers grouped in 4 categories



# Key Learnings

IFRS 17 introduces new KPIs and has an impact on existing KPIs

Analysts and investors have expectations that IFRS 17 will improve financial information

IFRS17 includes multiple areas of actuarial expert judgement

Different types of levers exist to steer IFRS17 and need to be identified and tested

# Thank you for your attention



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# Appendix

Survey on IFRS17 & actuarial expert judgment

# Global Survey

## Detailed results (1/2)

### IFRS 17 topics

Assessment of the level of actuarial expert judgment that will be involved in each area

Assessment of how far it is expected practices will be different between stakeholders

Actuarial Judgment Impact



# Global Survey

## Detailed results (2/2)

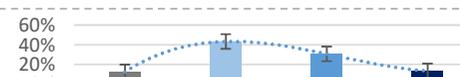
### IFRS 17 topics

9. Allocation of revenue between past / current and future service

Assessment of the level of actuarial expert judgment that will be involved in each area



Assessment of how far it is expected practices will be different between stakeholders

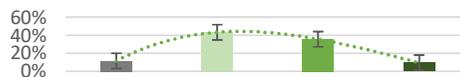


Actuarial Judgment Impact



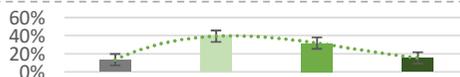
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10. Allocation of expenses between attributable and non attributable expenses, acquisition cost impairment test



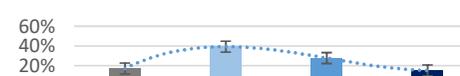
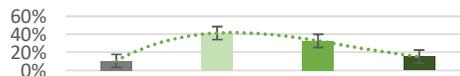
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11. Definition of underlying items for VFA contracts



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12. Handling IFRS 9 to IFRS17 mismatches and OCI measurement



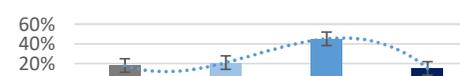
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13. Approach to ceded reinsurance



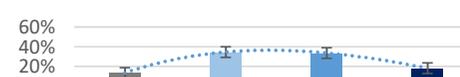
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14. Approach to modified BBA



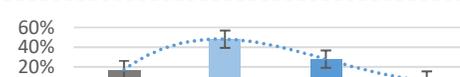
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15. Interim reporting



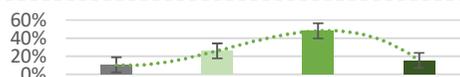
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16. Reporting



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17. Financial communication



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