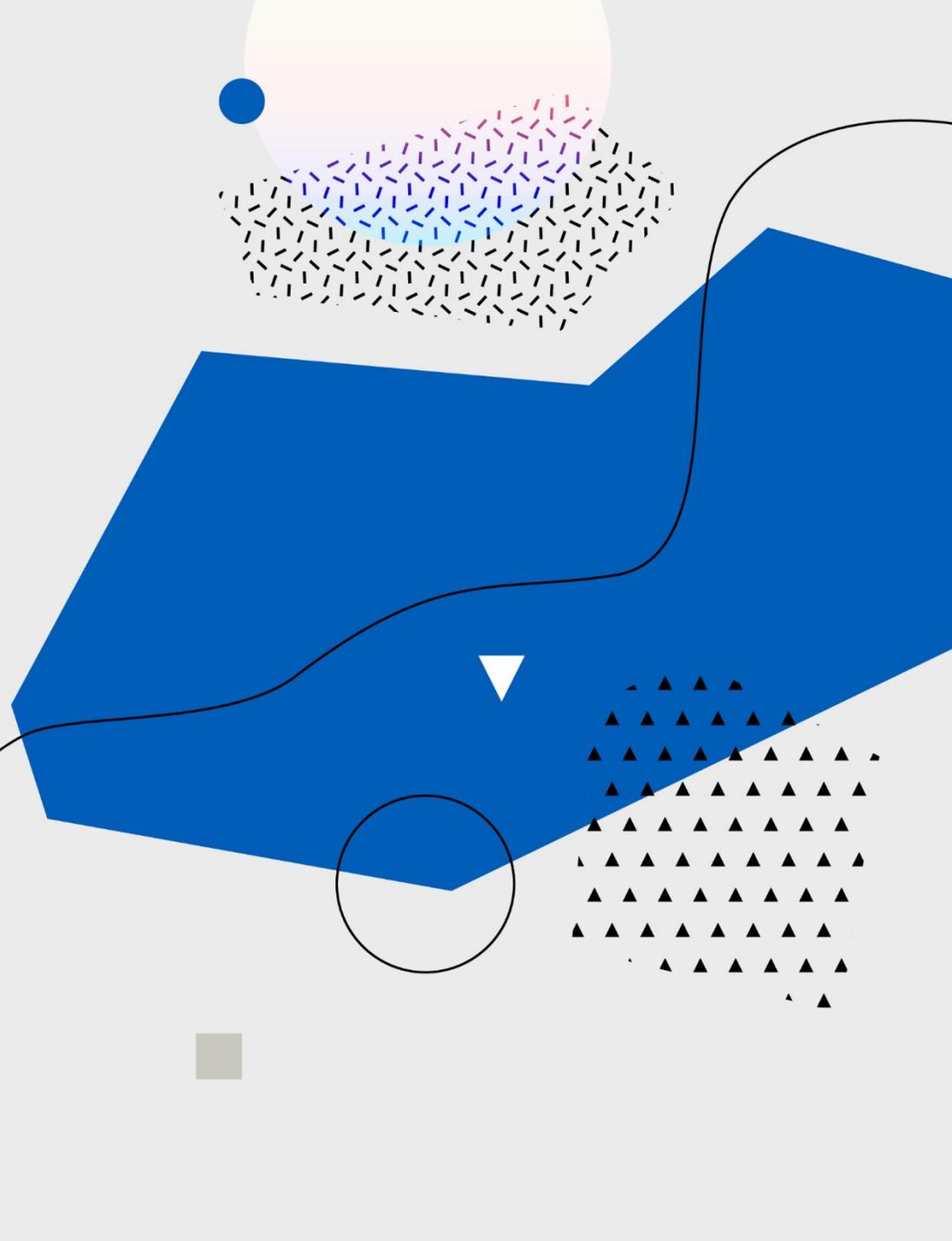




2019 Insurance Conference

# IFRS 17: Keeping pace to the finish



# IFRS 17 Status Update

The Board has already proposed to...

- defer IFRS 17's effective date by a year, and
- extend the temporary exemption from applying IFRS 9, granted to insurers meeting certain criteria

**IFRS 9**  
for insurers

**IFRS 17**

You are here

Redeliberations

January 1  
2020

Final  
Standard  
expected

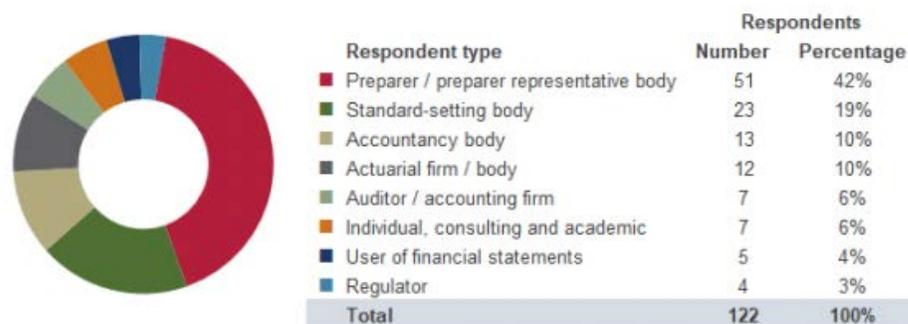
January 1  
2021

Is an additional year  
of deferral possible?

January 1  
2022

# Feedback on the Proposed Amendments

Overview of the comment letters by type of respondent



Source: IASB Agenda Paper 2A (November 2019)

*EFRAG welcomes the IASB's decision to defer the effective date of IFRS 17. However, EFRAG disagrees with 1 January 2022 as the effective date. EFRAG considers that 1 January 2023 is a realistic effective date, with early application permitted*

Source: EFRAG final comment letter on the IASB exposure draft ED/2019/4 (September 2019)

*Almost all respondents supported the Board's proposal to defer the effective date of IFRS 17. The remainder of respondents did not express a view on the proposal but commented on the importance of entities in jurisdictions around the world applying IFRS 17 for the first time at the same time.*

Source: IASB Agenda Paper 2B (November 2019)

# Proposed amendments: To be confirmed

The Board tentatively decided that it will confirm at a future meet, the proposed amendments on the following topics without substantive redeliberation:

Scope exclusion for  
loans

CSM attributable to  
investment services  
– Coverage units  
for VFA

Presentation –  
Portfolio instead of  
group level

Applicability of the  
RMO –  
Reinsurance  
contracts held

Transition relief –  
Business  
combinations

Transition relief –  
RMO

# Proposed amendments: Feedback to be considered

The Board tentatively decided that it will consider further the feedback on the following topics

Scope exclusion for credit cards	Expected recovery of insurance acquisition cash flows	CSM attributable to investment services — Coverage units for GMM contracts, disclosures and terminology	Reinsurance contracts held—recovery of losses	Applicability of the RMO —non-derivative financial instruments at fair value through profit or loss
Effective date of IFRS 17	Extension of the IFRS 9 <i>Financial Instruments</i> temporary exemption in IFRS 4 <i>Insurance Contracts</i>	Transition — Prohibition from applying the RMO retrospectively	Proposed minor amendments	Level of aggregation — Annual cohorts for mutualized contracts
	Business combinations — Contracts acquired in their settlement period	Interim financial statements	Additional specific transition modifications and reliefs	

# Proposed amendments: Not to be discussed

The Board tentatively decided that it will not consider further feedback on the following topics:

Balance sheet presentation — receivable and claims payable

RMO for non-VFA contracts

Effective date — comparative information

Level of aggregation — Annual cohorts for all other contracts

Cash flows in the boundary of a reinsurance contract held

Subjectivity in determining discount rates and the risk adjustment

Risk adjustment in a consolidated group of entities

Discount rate used to determine adjustments to the contractual service margin

The OCI option

Business combinations — Classification of contracts acquired

Scope of the VFA — reinsurance contracts held and issued

Mutual entities

Transition — General optionality and flexibility in the MRA

Transition — Reliefs in the FRA

# Actuarial hot topics in IFRS 17 implementation



Full stochastic, market consistent models may be needed - requiring new models and/or new data sources

**Market Consistent Measurement**



Guidance from the CIA (CLIFR/PCFRC) and the IAA needs to be closely monitored.

**CIA Guidance**



Design and implementation of the future state actuarial financial reporting process. Both internal and external reporting needs should be considered.

**Actuarial Financial Reporting Process**

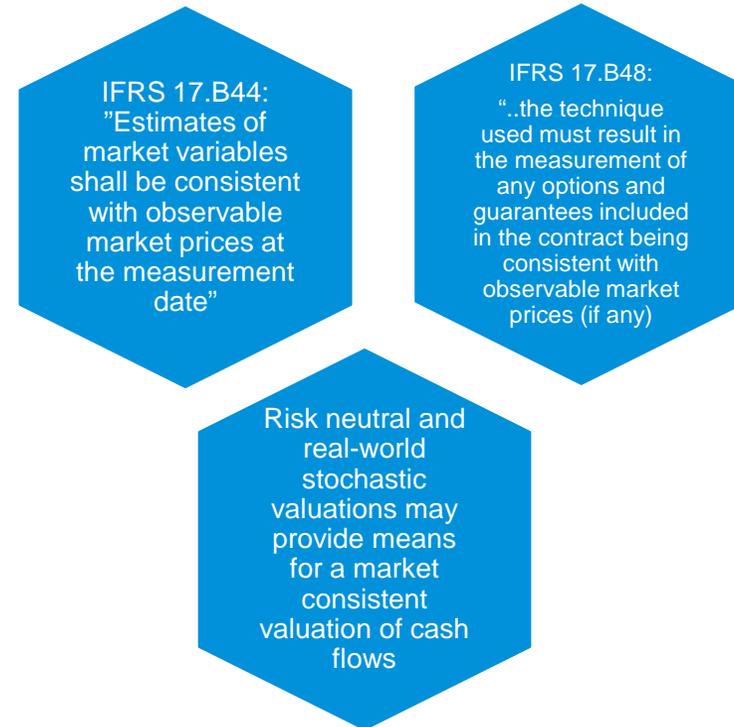
# Financial Options and Guarantees – Market Consistent Valuation

Contracts within the scope of IFRS 17 may contain terms and conditions which provide options and guarantees related to financial risk, e.g.

- Segregated fund minimum benefit guarantees
- Guaranteed minimum credited rates on UL fund accounts
- Zero dividend floor on participating policies

Companies not currently using stochastic modeling techniques to evaluate financial options and guarantees need to reconsider in light of IFRS 17 requirements.

Currently no requirement for market consistent evaluation of financial options and guarantees.



# CIA update - IFRS 17 guidance

Draft EN (Sep 2018): Comparison of IFRS 17 to Current CIA Standards of Practice

Draft EN (Feb 2019): Application of IFRS 17 Insurance Contracts (same as draft IAN 100)

Draft EN (Mar 2019): Transition from CALM to IFRS 17 Valuation of Canadian Par Insurance Contracts

## CLIFR

Draft EN (Sept 2019): IFRS 17 Estimates of Future Cash Flows for Life and Health Insurance Contracts

Draft EN (Jul 2019): IFRS 17 Risk Adjustment for Non-Financial Risk for Life and Health Insurance Contracts

In progress: (Q4 2019?) IFRS 17 Discount Rates

In progress: (2020?) Par

In progress: (Q4 2019?) Market Consistent Valuation of Financial Guarantees for Life and Health insurance contracts

In progress: (Q4 2019?) IFRS 17 Coverage Units and CSM

## PCFRC

In progress: (Q1 2020?) PAA Eligibility

In progress: Reinsurance

In progress: Discount Rates

Draft EN: (Aug 2019) IFRS 17 Estimates of Expected Loss Ratios for the Minimum Capital Test

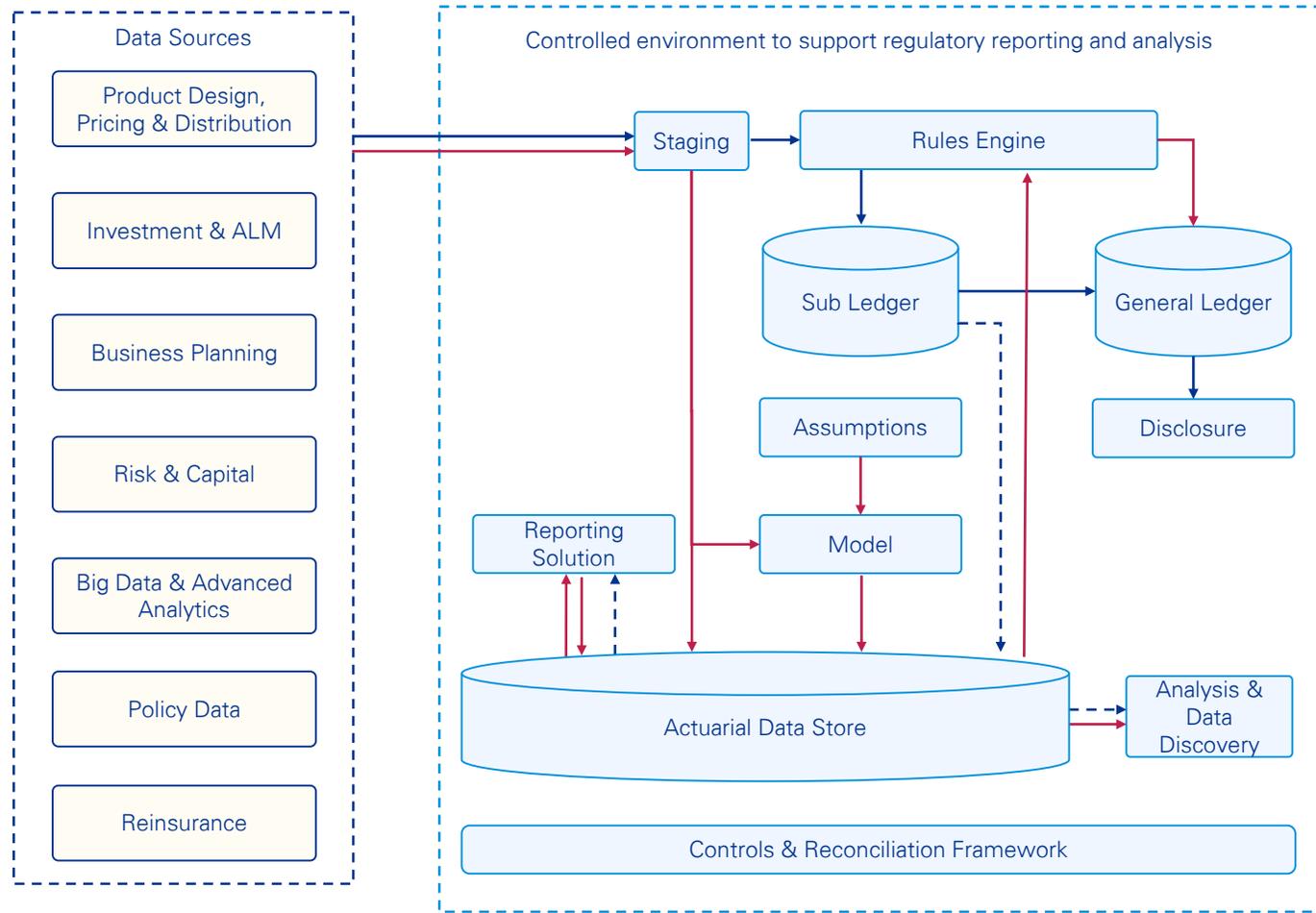
In progress: Risk Adjustment

In progress: LRC



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# Actuarial Financial Reporting Process and Dataflow



## Things to watch out for

- 3<sup>rd</sup> party reporting solutions and actuarial calculators are still undergoing development. It is important to be aware of dependencies on these timelines
- Push data end-to-end as soon as possible
- Solidification of working hypotheses – when is the “point of no return”
- Automation and controls will be key
- Allow sufficient time for testing and parallel runs. Understanding the results, testing the implemented calculation regimes and systems requires practice, practice, practice!

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# Making the most of IFRS 17

**The potential additional year brings not only more time—but an opportunity to better understand results and optimize performance on an IFRS 17 basis.**

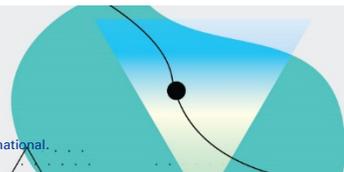
**The extra time also brings the prospect of delivering greater value from finance, by developing a roadmap to a better financial reporting capability and, as a minimum, containing future costs.**

**To position themselves to unlock the opportunities, insurers should have a sharp focus on accelerating the pace of the implementation and use the potential additional year to “make the most of IFRS 17”.**



# Well-prepared insurers need to think about...

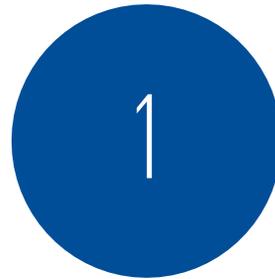
- **The specific impact of the proposed changes on their results**
- **What new data will need to be collected?**
- **How processes and systems designs will need to change?**
- **Updating testing and implementation plans**
- **Communicating changes to those charged with governance**
- **Stepping up the pace of their IFRS 17 implementation**



# When opportunity comes calling

**From a business perspective**, there are a number of areas you can focus on to help maximize the opportunity presented by the deferral of IFRS 17.

Present your Business Plan on an IFRS 17 basis, carry out what-if scenarios to really understand the implications to your results.



Analyze transition options and methodology choices, and reprice short-term onerous contracts, to show the business in the best light. Develop a better appreciation of how you then tell your story to your stakeholders: how will your IFRS 17 results appear compared to your IFRS 4 results and how you've been communicating these externally?

# When opportunity comes calling

Understand how will you revise KPIs and performance metrics to reflect IFRS 17?  
Will CSM generation tell your growth story or will you continue to use existing metrics like premium volumes, embedded value (EV) and value of new business (VNB)?



Use the time to make more deeply researched policy choices to identify the best outcomes for your business to depict your growth strategy and reflect your markets, products and distribution strategy.

Develop an improved understanding of the drivers of your future results and potential sources of volatility, reflecting the mix of your products and which of IFRS 17 models and approaches they fit within. Understand how future product changes and product mix could impact your results.



# It's time to step up the pace of implementation

“The amendments are helpful, but implementing IFRS 17 is still a complex and significant undertaking requiring substantial effort, and new or upgraded systems, processes and controls.

It's vital that insurers make good use of the extra year. Many insurers will need to step up the pace of their implementation efforts to reach the finish line with systems and processes tested and results understood by management and investors.”

Mary Trussell,  
KPMG's global lead, insurance accounting change





# Thank you



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