



IFRS 17

Insurance Contracts

Focus of today's presentation

1. Status of IFRS 17 globally
2. Global IFRS 17 readiness
3. Local TRG discussions (issues being raised)
4. Snapshot of IASB remaining activities
5. Staff observations
6. Group discussion and sharing

Status of IFRS 17 globally

Endorsed?
2021

Monitoring?

In progress of
endorsement?

Endorsed?
After 2021

Not Endorsed

Global IFRS 17 readiness

KPMG	Deloitte
160 respondents from over 30 countries	340 respondents from over 12 countries
Keen to seize the opportunity to transform their business	Will benefit from complying with the standard
90% foresee difficulties in securing sufficient skilled people to do the job	High demand in actuarial, accounting and collaboration skills
70% have not yet selected an IT vendor	87% need to be upgrade systems
35% will find it challenging to meet their planned implementation date	90% at least somewhat confident in being ready by the effective date

Key takeaways:

- Still challenging to secure specialists/talent and system solutions
- Mixed confidence levels in meeting the effective date

Key Hong Kong issues raised

Coverage units for multiple risks

- **Policyholders are allowed to attach different types of riders to an insurance contract with basic coverage**
 - How should the coverage unit for such contracts be determined?
 - How should the coverage period for such contracts be determined?

CSM amortisation for indirect participating contracts

- **Indirect participating contracts where the sum assured is payable at any point throughout the entire term of the contract**
 - What is the expected coverage duration?
 - What is the quantity of benefits?
 - Why, conceptually, are indirect participating contracts accounted for differently when they are economically similar to direct participating contracts?

Loss component of onerous contracts

- **Experience adjustments arising from premiums received that relate to future service**
 - Would these experience adjustments to the loss component be recognised as insurance service expense or adjust the liability for remaining coverage?

Reinsurance

Key Canadian issues raised

Reinsurance

- **Mismatch on initial recognition**
- **Contract boundary leading to recognition of contracts not yet written**
- **Risk mitigation when underlying contract is VFA**

Mutual Entities

- **Treatment of surplus as liability versus equity**
- **Lack of recognition of a contractual service margin**

Balance Sheet Presentation

- **Cost benefit considerations of the requirement in IFRS 17.78 to separately present insurance contract assets, liabilities, reinsurance assets and reinsurance liabilities.**

CSM Amortization

- **Contracts containing insurance and investment components that do not meet VFA**

Key Korean issues raised

Coverage units

- How should coverage units be determined for insurance contracts with multiple risks?
- How should coverage units be determined for insurance contracts that fall under the general model but provide investment components?

Risk mitigation

- Risk mitigation is not available for insurance contracts under the general model.
- What should be the risk management strategy to mitigate financial risk arising from insurance contracts?

IBNR cash flows

- How should IBNR cash flows be determined on the level of a group of insurance contracts?

Feedback on the usefulness of IASB TRG

1. IASB TRG has been helpful to understand the standard
2. Concerns that IASB TRG only has one meeting left for 2018 and there may not be enough time to discuss all remaining issues
3. Appreciation for a balanced level of detail in papers/summaries/discussions, but:
 - a) TRG paper "Reporting on other questions submitted" not overly helpful in terms of answering the question
 - b) TRG paper "Implementation Challenges Report" not clear in terms of next steps

Snapshot IASB remaining activities

IASB TRG

- One more TRG meeting in December 2018
- Expected to conclude discussions at the beginning of 2019
- **Will more TRG meetings be required in 2019?**

IASB Board

- Open issues still to be discussed
- Expects narrow scope amendments at end of 2018 (via AIP)
- Aware that effective date may be a challenge
- **What will be the direction taken by the IASB Board on open issues?**
- **Will there be more narrow amendments?**

What does this mean?

Hong Kong, Canada and Korea are committed to one global effective date

However, combining the implementation efforts observed so far, the ongoing resource and technology concerns, and remaining IASB activities:

1. Is the period of stability before the effective date (1 January 2021), sufficient for insurers?
2. Does a longer period of stability* lead to a higher quality of adoption?

*IFRS 15 also allowed for a longer period of stability after IASB TRG discussions were completed

Common staff observations

Implementation status and effort

- Insurers are engaged in implementation—level of readiness can differ greatly
- Lack of system solutions, expertise and resources are key concerns
- Interdependencies of the various processes cannot be underestimated
- Local TRGs created which have regular meetings
- Meetings with industry sub-groups, local regulators, IASB members and other national standard setters
- Still open issues and resource challenges to be resolved before 2021

Common industry suggestions to IASB

Clarity needed to resolve uncertainties on the possibility of amendments and effective date

Consider companies implementation progress

Address implementation timeline and implementation issues separately

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