

What to watch out for in 2018

Michael Culligan

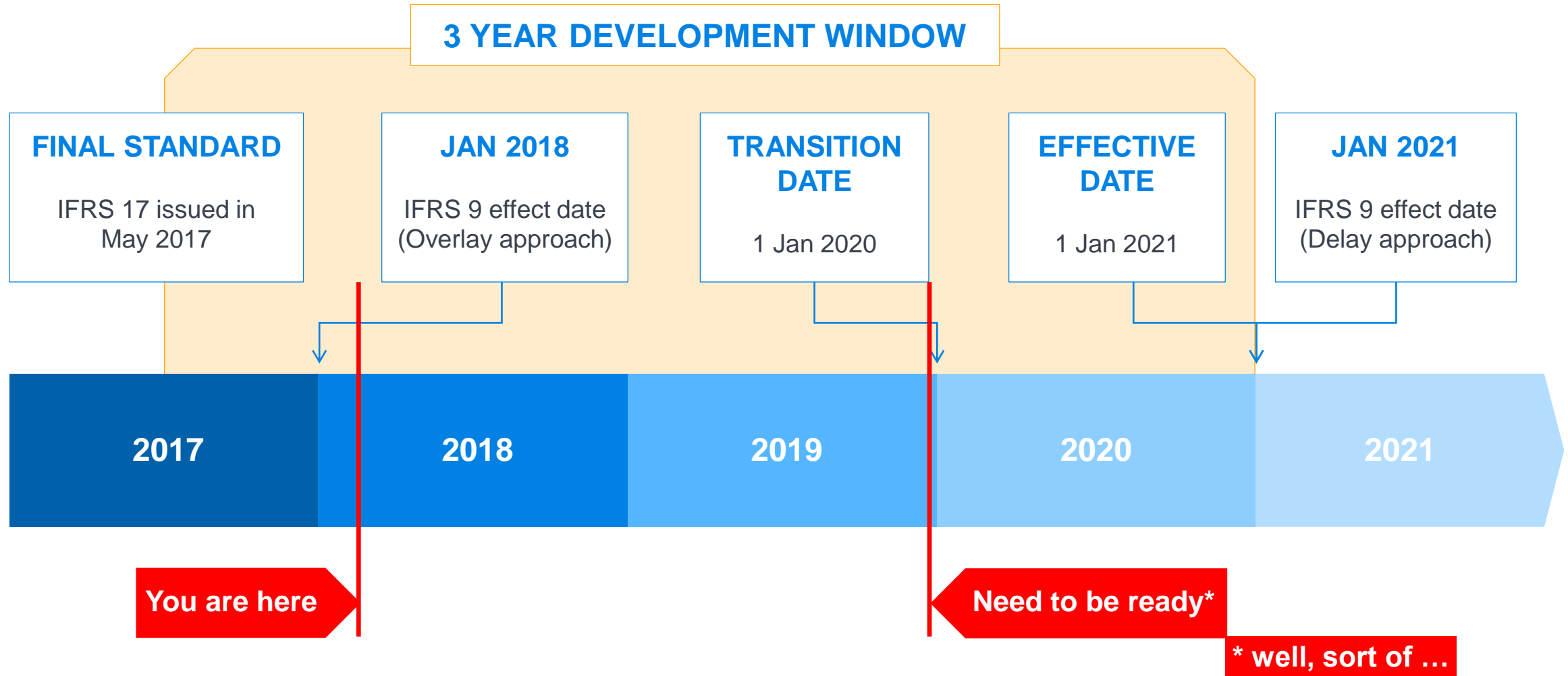
7 MARCH 2018

 Milliman

IFRS 17

There will be no escape in 2018

Timeline for IFRS 17 (and IFRS 9)



Milliman Global IFRS 17 Survey (2017)

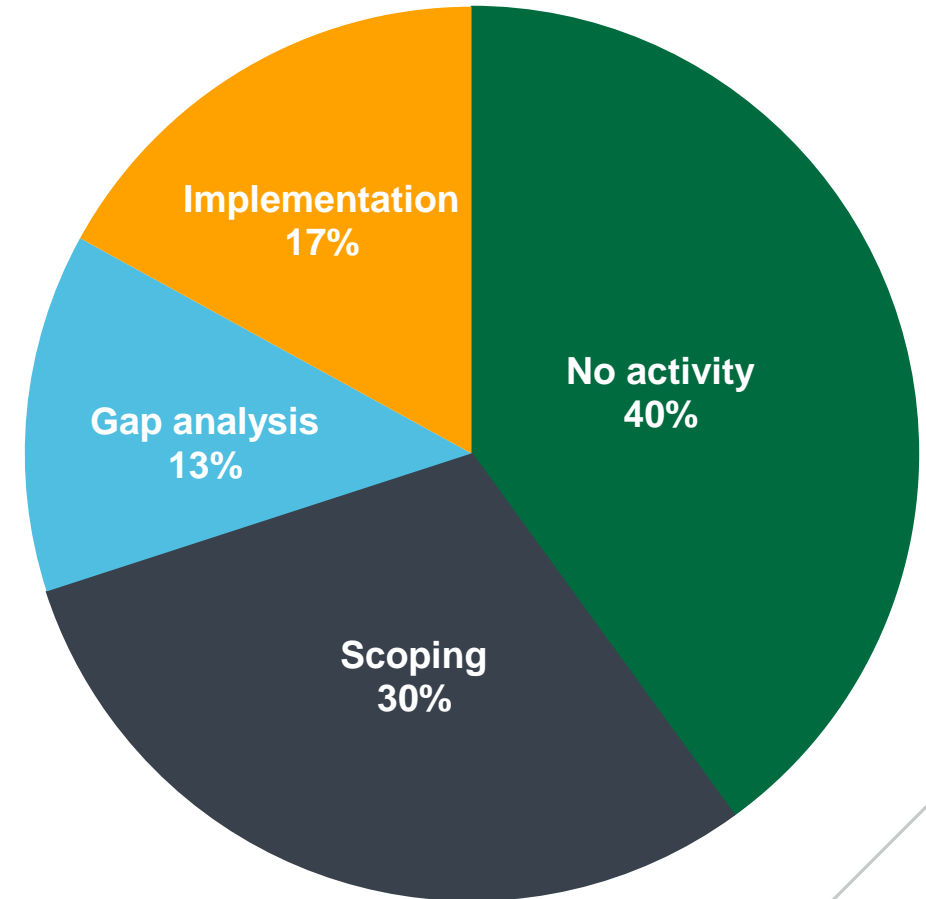
IFRS 17 readiness survey with 93 responses from around the world.

- Wide variation in budget estimates
- Very significant actuarial involvement expected
- No clear consensus on starting point for IFRS 17 models/systems

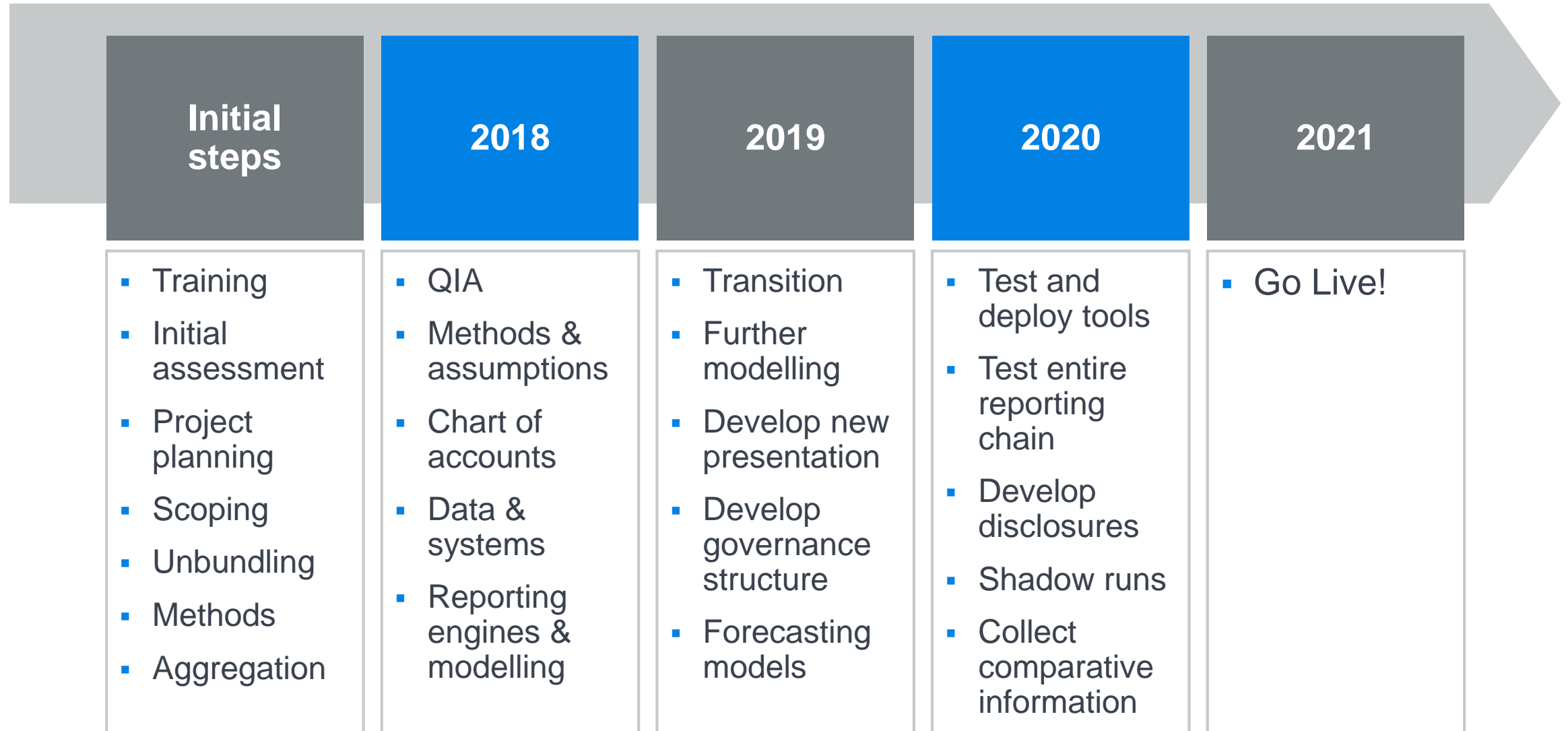
Main concerns of the respondents:

- Determination of the discount rate
- Hedging and the possible accounting mismatch
- Granularity of the calculations
- Determination and validation of the CSM
- Complexity of the income statement and disclosures
- Systems and models – robustness, auditability, integration ...
- Tight timescales and availability of resources

Industry Readiness



IFRS 17 roadmap



Transition Resource Group (TRG)

- Working group – TRG - established by the IASB
 - *“To provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard”*
- First met on 6 February 2018
- Topics covered included:
 - Unbundling
 - Contract boundaries
 - Acquisition costs
 - Coverage units
- Next meeting is on 2 May 2018
- We will continue to monitor closely. Milliman represented at all TRG meetings.

**“Implementation of IFRS 17
will involve operational
burden and therefore
costs.”**

—Chair of the IASB’s TRG on IFRS 17 (taken from summary of 6 Feb 2018 meeting)

Milliman IFRS 17 Readiness Assessment Tool

IFRS 17 Readiness Assessment Tool for XYZ			
Summary		% of questions completed	IFRS 17 Score
General	Background	<div style="width: 80%;"><div>80%</div></div>	Not applicable
	Project management	<div style="width: 75%;"><div>75%</div></div>	Not applicable
Valuation	Methodology	<div style="width: 72%;"><div>72%</div></div>	4.6
	Assumptions	<div style="width: 84%;"><div>84%</div></div>	3.2
	Transition	<div style="width: 78%;"><div>78%</div></div>	2.8
Governance and Strategy	Governance	<div style="width: 84%;"><div>84%</div></div>	2.4
	Data Quality	<div style="width: 52%;"><div>52%</div></div>	1.2
	Strategic Impacts	<div style="width: 81%;"><div>81%</div></div>	4.1
Reporting and Analysis	Reporting and Analysis	<div style="width: 75%;"><div>75%</div></div>	1.7
Other	Actuarial Modelling	<div style="width: 62%;"><div>62%</div></div>	3.3
	IT and Systems	<div style="width: 45%;"><div>45%</div></div>	2.7

Key - Level of readiness	
1	1 = No progress has been made
2	2 = Some progress made but a lot of work still required
3	3 = Partly progressed
4	4 = Significant progress made but some minor work still required
5	5 = Fully implemented to meet all requirements

Milliman IFRS 17 resources

MILLIMAN RESEARCH REPORT
IFRS 17 preparedness
2017 survey feedback

June 2017

William Hines, FSA, MAAA
Cio Zhang, FSA

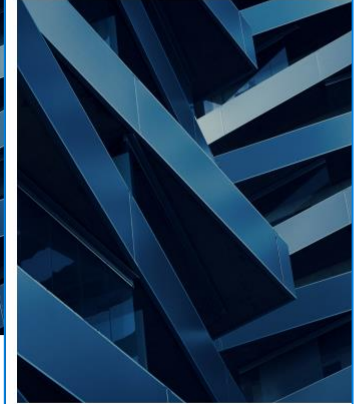


MILLIMAN RESEARCH REPORT
Transition to IFRS 17

June 2017

Sjoerd Brethouwer, MSc, AAG
Andrew Kay, FSA, FIA
Andrew Gilchrist, BSc, PhD, FIA

Aldo Balestrieri
William Hines



MILLIMAN BRIEFING NOTE
Milliman IFRS 17 Preparedness Survey

How ready is the insurance industry?

Aiding Barrett, FSAI
Andrew Kay, FSAI
Gillian Tucher, FSAI
Ronan Judge, FSAI

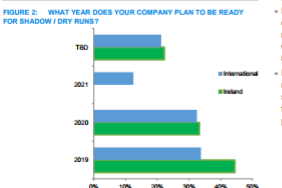
This briefing note summarises key findings from our recent IFRS 17 preparedness survey completed by both local Irish insurers and international insurers.

Milliman carried out this survey to measure the level of preparedness for IFRS 17 among insurers. Responses were received from over 60 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?



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



Milliman IFRS 17 Preparedness Survey 1

MILLIMAN BRIEFING NOTE
Overview and Practical Considerations of the new Insurance Contract Standard: IFRS 17

Gillian Tucher, FSAI
Andrew Kay, FSAI

The new accounting standard for insurance contracts, expected to be called IFRS 17 (previously known as IFRS 4 Phase 2) is currently expected to be issued in the first half of 2017. In this briefing note we discuss some of the key challenges companies will face in adopting and applying this new standard for insurance contracts.

Project Management Timeline

The timeline in Figure 1 illustrates the work which will need to be undertaken by companies between now and the expected implementation date:



Introduction

The International Accounting Standards Board (IASB) continues to work on the Insurance Contracts project. The aim of this project is to provide a single principle-based standard to account for all types of insurance contracts that an insurer holds¹. The project also aims to enhance comparability of financial reporting between companies, jurisdictions, and capital markets.

Phase I of this project was completed in 2004 with the introduction of International Financial Reporting Standard (IFRS) 4: Insurance Contracts. However this was intended only as an interim standard.

Phase II is still underway. In July 2010, the IASB issued an exposure draft of IFRS 4 Phase II. In June 2013, a second exposure draft was issued outlining the draft standard and focusing on key areas for consultation. Currently it is expected that the final standard will be published in the first half of 2017 and it is expected to be called IFRS 17.

The new standard is expected to raise a number of practical challenges for insurance companies. While it is an accounting standard, implementation will require a multi-disciplinary program requiring involvement from accounting teams, risk management teams as well as a heavy actuarial involvement. In this briefing note we identify and discuss some of the most significant practical challenges companies will need to consider.

Valuation of Liabilities

GENERAL MODEL

Under IFRS 17 long-term insurance liabilities without direct participation features² will be calculated using the building

¹ An insurance contract is defined as a contract under which one party accepts significant insurance risk from another party by agreeing to compensate them if a specified uncertain future event adversely affects them.

² Direct participation contracts are contracts where:
• The contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items;
• A substantial share of the return from the underlying items is paid to the shareholders;
• A substantial proportion of the expected cashflows paid to the policyholder vary with the cashflows of the underlying items.

IFRS 17 1 December 2016

- Briefing Notes
- Surveys
- Training
- Readiness Assessment Tool

<http://www.milliman.com/IFRS/>

Regulatory agenda

Ireland and Europe

EIOPA agenda and priorities for 2018

EIOPA – 2018

Continued development of prudential framework

- SCR standard formula review (2018)
- Long-Term Guarantees measures review (2018-2019)
- Contribute to development of International Capital Standards

Recovery and resolution planning

Conduct risk and regulation

Supervisory convergence

Bilateral visits, Colleges, Peer reviews

EU-wide Insurance Stress Test (2018)

InsurTech

- Thematic review on industry's use of 'Big Data'
- Cyber risks: Supervisory approaches and new business opportunities

SCR (standard formula) review (1)

Trigger: Recital 150 of the Solvency II Delegated Regulation

Requires the European Commission to “review the methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement (SCR) with the standard formula” by December 2018

Progress to date

Two calls for advice from European Commission to EIOPA (July 2016 & February 2017)

EIOPA has now provided its advice (October 2017 & February 2018)

Key proposals from EIOPA

SCR (standard formula) review (2)

Key proposals from EIOPA

- Material changes to the **interest rate risk module** (with 3-year transition)
- Set of key principles for **treatment of LACDT** to provide guidance and foster consistency
- No change to the **longevity and mortality risk stress factors** for life business
- Changes to the **non-life premiums and reserve risk factors** for certain lines of business
- Simplifications to the treatment of **look-through to underlying investments**
- Many **other simplifications** to technical aspects of SCR standard formula

CBI agenda and priorities for 2018

Central Bank – 2018

Core supervisory activities

Including focus on business model sustainability

Outsourcing

Recent review and findings will lead to continued focus

Reporting and disclosure

Clear messages from the CBI that standards and quality need to improve

Brexit

Contingency planning and new authorisations

Non-Life pricing and reserving

Will continue to be a key focus in 2018

Cross-border supervision

Ensuring effective co-ordination with supervisors in other Member States

Other hot topics for 2018

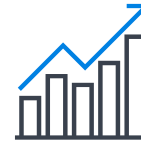
Other hot topics for 2018

InsurTech



- Covers a multitude!
- Everyone's talking ... but activity lags
- Not just a non-life topic

Capital management



- Optimising capital under Solvency II
- ALM, Reinsurance, Product Mix ...
- Some easy wins available

Competition / Consolidation



- Increased M&A activity
- Non-life – pricing pressures
- Life – investment markets

Brexit



- Arrivals (and departures?)
- Contingency planning
- Knock-on implications for all



Thank you

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