



IFRS17 update session

10 december 2020

*Disclosure requirements and
Analysis of Change*

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Agenda

- Introduction
- Disclosure requirements
- Analysis of change
- Experience Variance



Introduction

IFRS4	2020
Premiums	15,000
Investment income	1,500
Incurred claims and other expenses	-170
Changes in insurance contract liabilities	-16,048
Profit or loss	282
Other comprehensive income	-
Comprehensive income	282

IFRS17	2020
Insurance revenue	320
Incurred claims and other expenses	-8
Insurance service result	312
Investment income	1,500
Insurance finance expense	-1,500
Net financial result	-
Profit or loss	312
Other comprehensive income	-
Comprehensive income	312

- IFRS17 leads to several new disclosure requirements, including:
 - Reconciliations of insurance contract liabilities, and
 - Includes actual cash flows
- How to derive this information?



Disclosure requirements

- Two disclosure tables that explain movement of insurance liabilities
 - IFRS 17.100: liability movement detailed for liability for remaining coverage and liability for incurred claims
 - LRC: Present Value of Cash Flows and Risk Adjustment related to future service and CSM
 - LIC: PVCF and RA related to past service

	Liability for Remaining Coverage	Liability for Incurred Claims	Total
Opening balance			
Revenue	<ul style="list-style-type: none"> ▪ Expected claims and expenses ▪ Change in Risk Adjustment for risk expired ▪ CSM recognised 	X	
Insurance expenses	<ul style="list-style-type: none"> ▪ Incurred claims and expenses 	<ul style="list-style-type: none"> ▪ Adjustments to LIC 	
Finance expenses	<ul style="list-style-type: none"> ▪ Accrual plus economic variance 	<ul style="list-style-type: none"> ▪ Accrual plus economic variance 	
Cash flows	<ul style="list-style-type: none"> ▪ Premium received 	<ul style="list-style-type: none"> ▪ Claims and expenses 	
Closing balance			

- Changes on PVCF and RA related to future service that impact CSM are not reflected in this table, as it is a change within LRC
- This table is simplified, e.g. acquisition expenses, investment components and loss component are not reflected here



Disclosure requirements

- Two disclosure tables that explain movement of insurance liabilities
 - IFRS 17.101: liability movement detailed by past, current and future services. Liability split into PVCF, RA and CSM
 - This disclosure is not required for Premium Allocation Approach

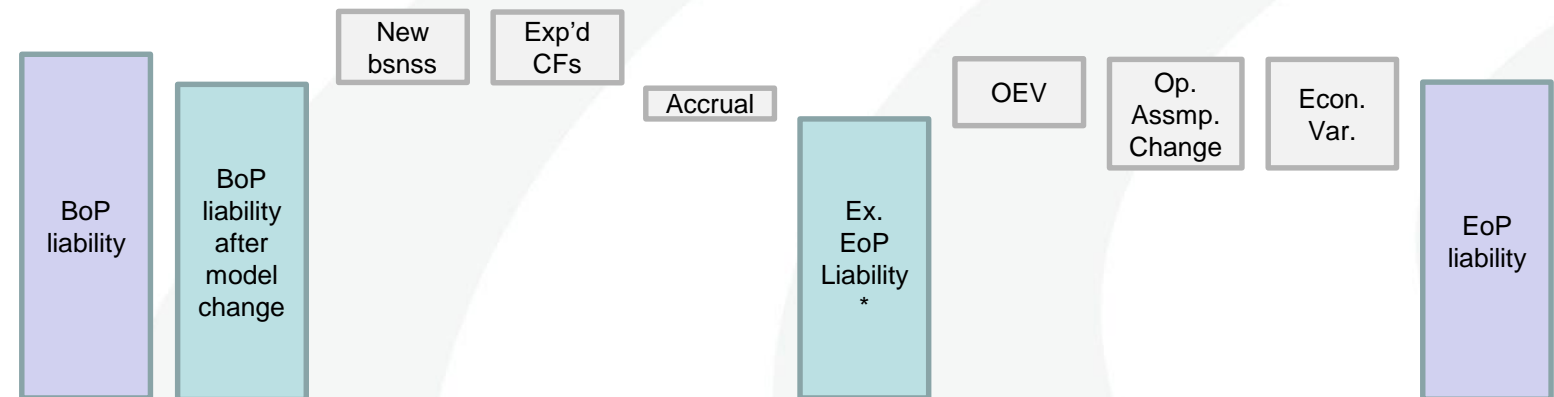
	Present Value of Future cash flows	Risk Adjustment	CSM	Total
Opening balance				
Current services	<ul style="list-style-type: none"> ▪ Experience adjustments 	<ul style="list-style-type: none"> ▪ Change in Risk Adjustment for risk expired 	<ul style="list-style-type: none"> ▪ CSM recognised 	
Future services	<ul style="list-style-type: none"> ▪ New contracts ▪ Changes that adjust CSM 	<ul style="list-style-type: none"> ▪ New contracts ▪ Changes that adjust CSM 	<ul style="list-style-type: none"> ▪ Changes that adjust CSM <i>offsetting impact on PVCF and RA</i> 	
Past services	<ul style="list-style-type: none"> ▪ Adjustments to LIC 	<ul style="list-style-type: none"> ▪ Adjustments to LIC 	x	
Finance expenses	<ul style="list-style-type: none"> ▪ Accrual plus economic variance 	<ul style="list-style-type: none"> ▪ Accrual plus economic variance 	<ul style="list-style-type: none"> ▪ Accrual / economic variance 	
Cash flows	<ul style="list-style-type: none"> ▪ Premium received ▪ Claims and expenses 	x	x	
Closing balance				

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Liability movement

- Typical explanation of movement from opening to closing balance. Detail and order of the steps is not prescribed in IFRS 17.
- The reporting base of these changes can either be period-to-period or year-to-date, depending on the companies reporting policy
- The movements steps have to be split into changes for past, current and future services for IFRS 17.101. Also, actual cash flows and finance expenses have to be allocated to

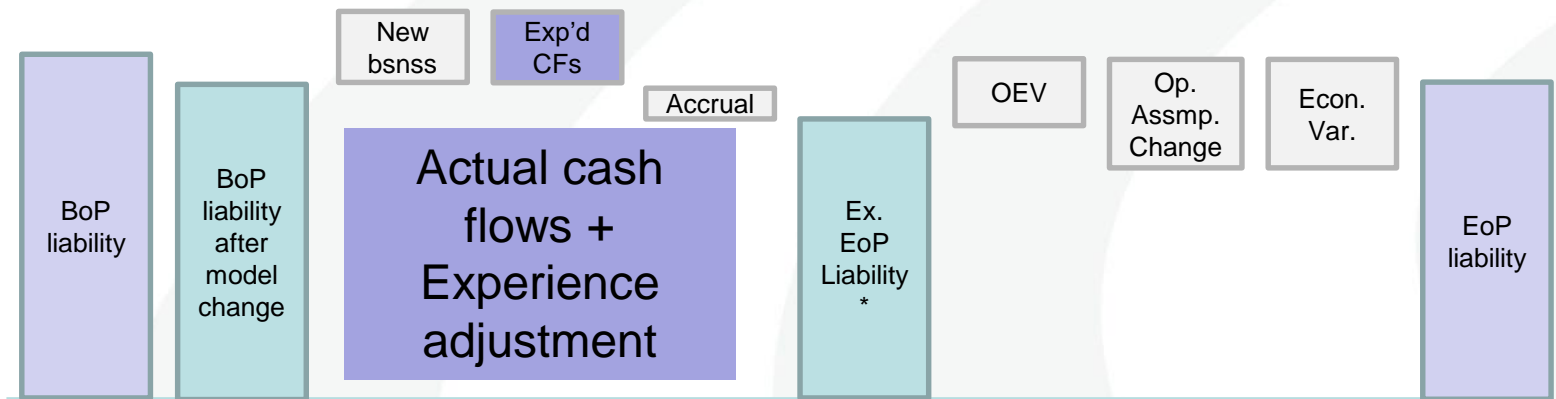


Timing	BoP	BoP		EoP	EoP	EoP	EoP	EoP
Portfolio	BoP	BoP		BoP	EoP	EoP	EoP	EoP
Economic assumptions	BoP	BoP		BoP roll-forward	BoP roll-forward	BoP roll-forward	EoP	EoP
Non-econ. assumptions	BoP	BoP		BoP	BoP	EoP	EoP	EoP



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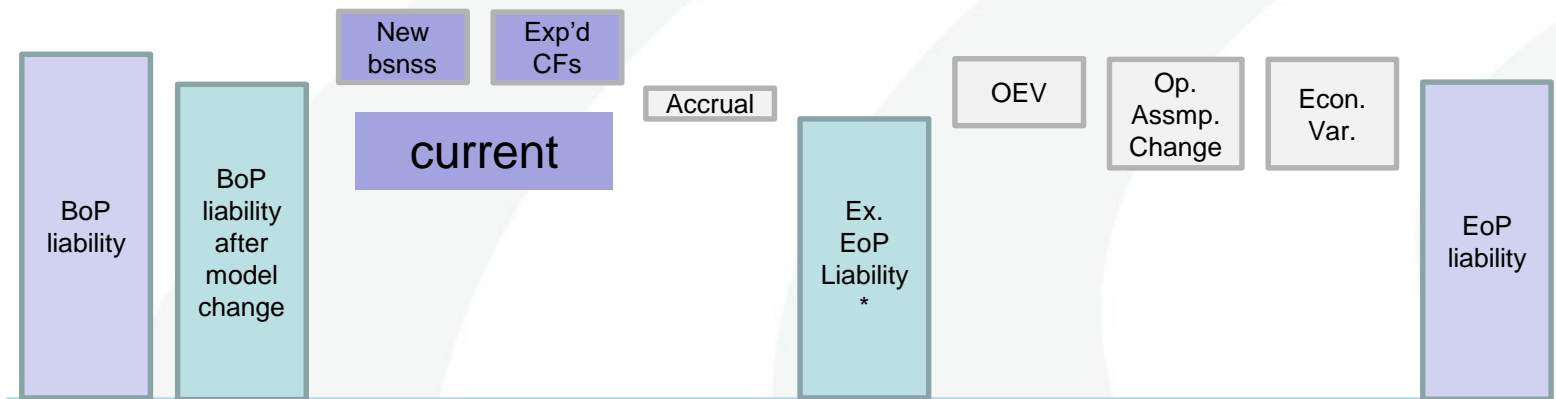


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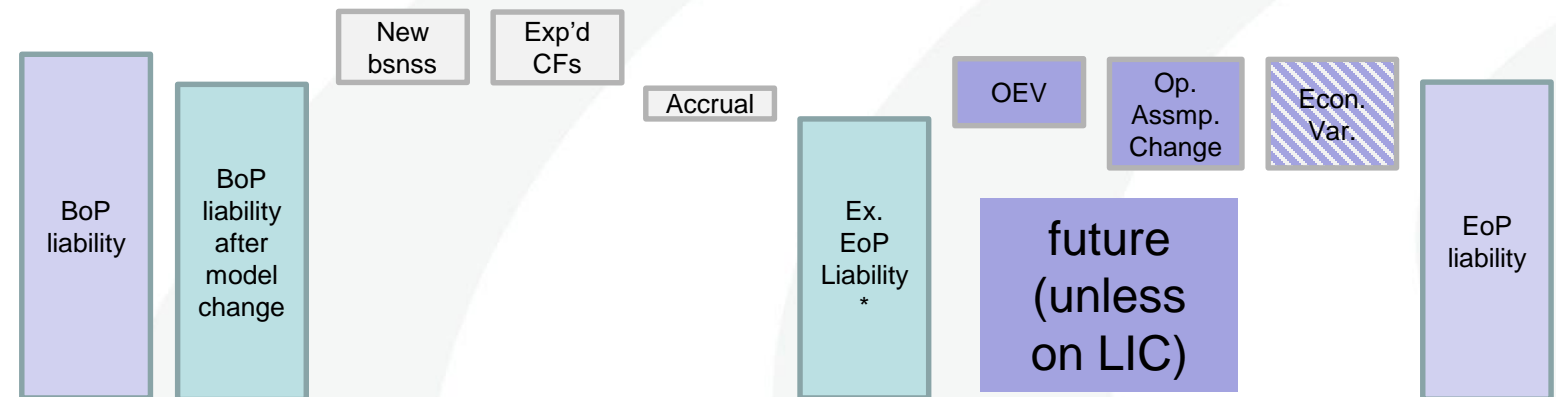


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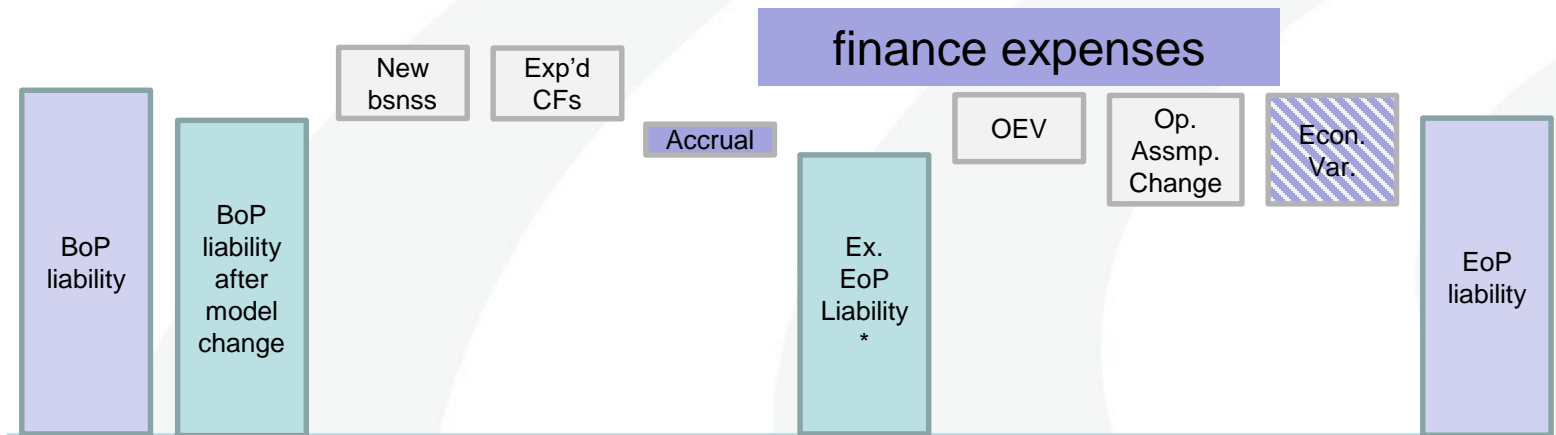


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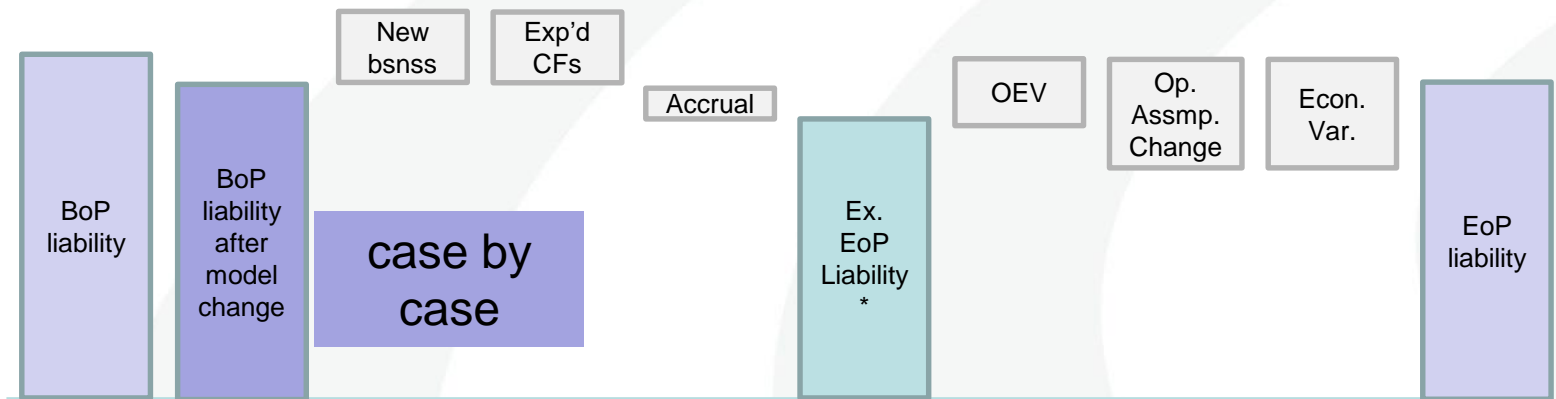


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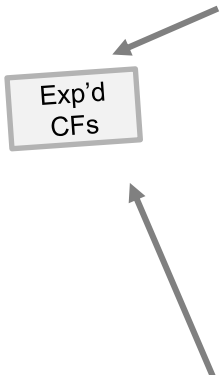
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Disclosure requirements

- Summary: liability movement steps plotted on IFRS 17.101 disclosure table

	Present Value of Future cash flows	Risk Adjustment	CSM	Total
Opening balance				
Current services	<ul style="list-style-type: none"> Experience adjustments Model change New business 	<ul style="list-style-type: none"> Change in Risk Adjustment for risk expired 	<ul style="list-style-type: none"> CSM recognised 	
Future services	<ul style="list-style-type: none"> Model change 	<ul style="list-style-type: none"> Operating Experience Variance Operating Assumption Change 	<ul style="list-style-type: none"> Changes that adjust CSM <i>offsetting impact on PVCF and RA</i> 	
Past services	<ul style="list-style-type: none"> Model change Adjustments to LIC 	<ul style="list-style-type: none"> Adjustments to LIC 	x	
Finance expenses	<ul style="list-style-type: none"> Accrual Econ. Var. 	<ul style="list-style-type: none"> Accrual plus economic variance 	<ul style="list-style-type: none"> Accrual / economic variance 	
Cash flows	<ul style="list-style-type: none"> Premium received Claims and expenses 	x	x	
Closing balance				





Example: order of AoC

- Choice of order impacts IFRS17 disclosures, e.g. revenue (=expected claims)

	PVCF	CSM
Opening balance	750	250
Expected claims	-50	
Experience variance	+100	-100
Assumption change	+100	-100
Release CSM		-5
Closing balance	900	45

	PVCF	CSM
Opening balance	750	250
Assumption change	+125	-150 <i>(part related to future period changes)</i>
Expected claims	-25	
Experience variance	+50	-50
Release CSM		-5
Closing balance	900	45

- Reporting frequency has a consequence on how to measure changes: in-period changes versus future period changes



Operating Experience Variance

EV

EEV (2004)

MCEV (2008)

SII (2016)

IFRS17

IFRS17

- Actuarial projection systems have never been designed to analyse policy by policy movements for a past reporting period
- OEV requires mutations of policies rather than policy data files per reporting period
- The missing link between policy files and mutations make it difficult to analyse results on a policy level
- IFRS17 does not require explicitly general ledger information nor a variance analysis on the level of group of insurance contracts, as differences in actual and expected cashflows do not unlock the CSM. However, more detailed information provides useful management information.



Operating Experience Variance

- Variation causes an impact on both sides of the balance sheet:
 - Impact on assets: difference between the expected cash flow (for example considering mortality) and the actual cash flow (for example considering mortality) Current service: Experience Adjustment
 - Impact on liabilities (for example caused by mortality): difference between the expected value of the insurance liabilities and the actual value of the insurance liabilities when actual mortality is considered Future service : Operating Experience Variance

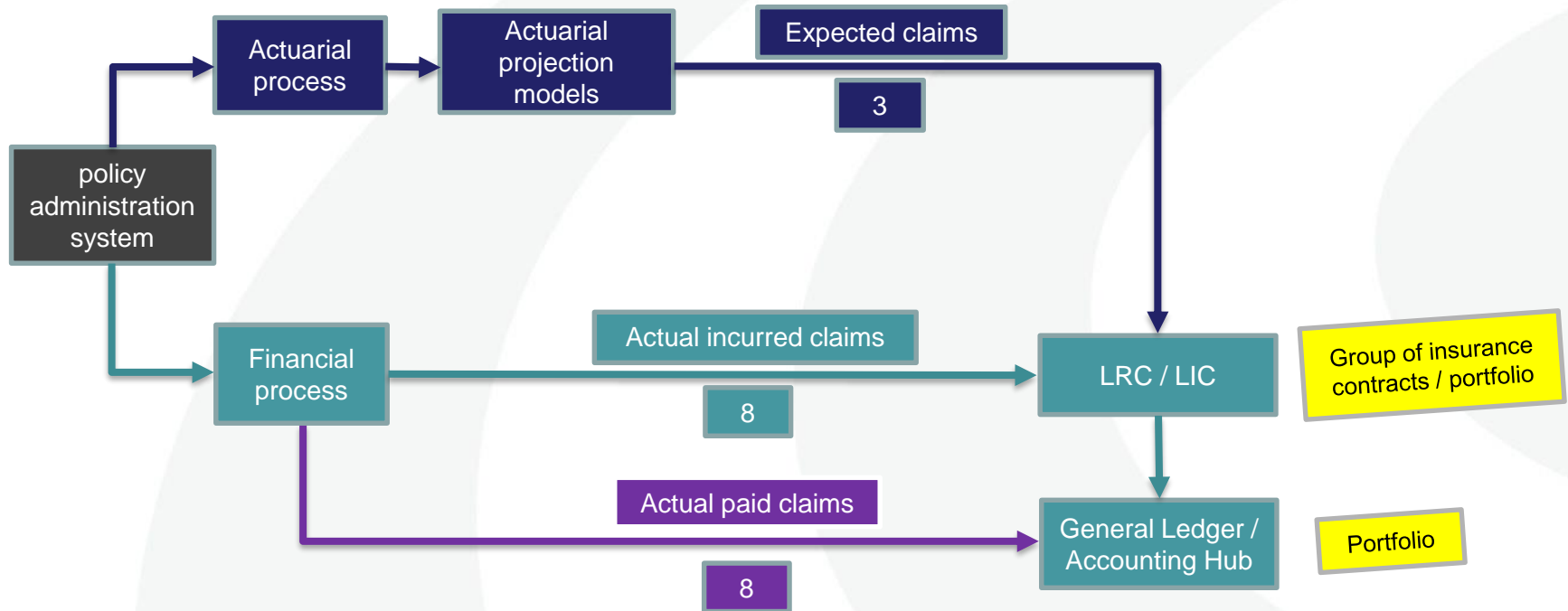
	Assets (cash)		Liabilities
Opening position	100		100
Expected CF (roll forward)	(-3)	←	(-3)
Operating Variance, of which:	-5		+1
Current period	(-5)		n/a
Future periods	n/a		+1
Closing position	92		98



Operating Experience Variance

Experience adjustment

AoC		
	LRC	LIC
Opening balance		
Expected claim	-3	
Actual incurred claim		8
Paid claim (cashflow)		-8
Closing balance		0





Operating Experience Variance

Liability variance

BoP policies expected EoP (BoP assumptions)		
OEV	Number of policies	Mortality
		Lapse/surrender
		Paid up
		Renewals
		New business
	Policy variances	Salary increases
		Indexations
EoP policies valued EoP (BoP assumptions)		

Assumption changes (from BoP to EoP) and OEV both relate to future service and therefore unlock the CSM



Operating Experience Variance

OEV in disclosure table IFRS17.101

	PVCF
Opening position	100
Experience adjustment (current period)	+5
Changes in estimates (future service)	+1
Cash flows	-8
Closing position	98

OEV in disclosure table IFRS17.100

	PVCF
Opening position	100
To: Insurance revenue (=expected claim)	-3
To: Insurance service expense (=actual claim)	+8
To: Insurance service result	+5
Changes related to future service (not part of disclosure)	+1
Cash flows	-8
Closing position	98

- Required granularity:
 - For changes with an impact on CSM : group of insurance contracts
 - Actual cash flows : portfolio



Operating Experience Variance

- Benefits:
 - Insight in the causes of variances, eg. mortality, surrender, paid up
 - Detailed management information by group of insurance contracts
 - Backtesting of non-economic assumptions
 - Stand alone method calculations provides information to determine P&L Attribution in case of (partial) internal models
 - Replacement of traditional profit by sources analysis by market value analysis