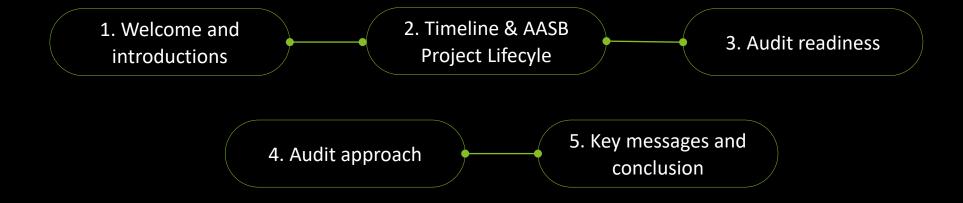
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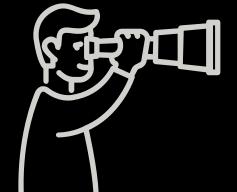


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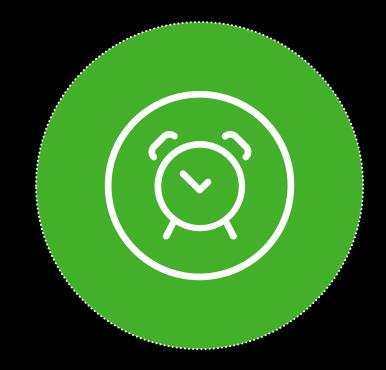
### Agenda





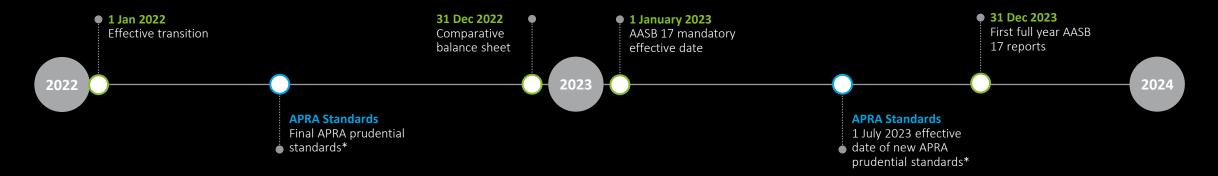


## 1 | Timeline & Challenges ahead



### AASB 17 timeline

The Australian timeline is driven by the requirements of AASB 17 and also by regulator changes and the requirements for disclosure of the impact of AASB 17



#### Timeline milestones to date

- June 2020: finalisation of AASB 17
- 2020 2021: APRA targeted QIS to specific industry participants
- 2021: industry readiness survey from APRA
- 2021: draft APRA prudential standards
- 2021 2022: APRA industry wide QIS

### IASB / AASB

- IASB issued Amendments to AASB 17Insurance Contracts in June 2020 (originally issued in May 2017)
- July 2020, the AASB endorsed these amendments through AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts
- Significant interpretation and issues still under discussion

### **Australian Prudential Regulation Authority (APRA)**

#### Current

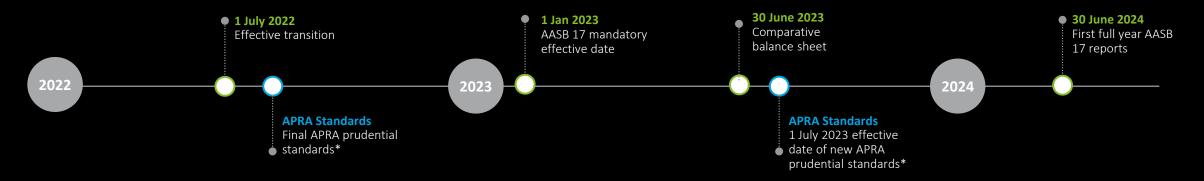
 New APRA forms effective 1 July 2023 – main impact on reporting with more limited impact expected on capital calculations

#### Past

- Industrywide QIS issued December 2021 (includes QIS and draft proforma forms for capital and reporting to APRA) – completed 31 March 2022
- Readiness survey issued mid-2021 and results showed industry progress but still many entities in early stages
- Quantitative Impact Study (QIS) issued 11 industry participants selected – completed 31 March 2021
- Discussion paper issued 25 Nov 2020 for industry comment by 31 March 2021 - sets out changes to prudential framework as a result of AASB 17 and other changes (e.g. new product groups)
- Restarted AASB 17 work in September 2020

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The Australian timeline is driven by the requirements of AASB 17 and also by regulator changes and the requirements for disclosure of the impact of AASB 17



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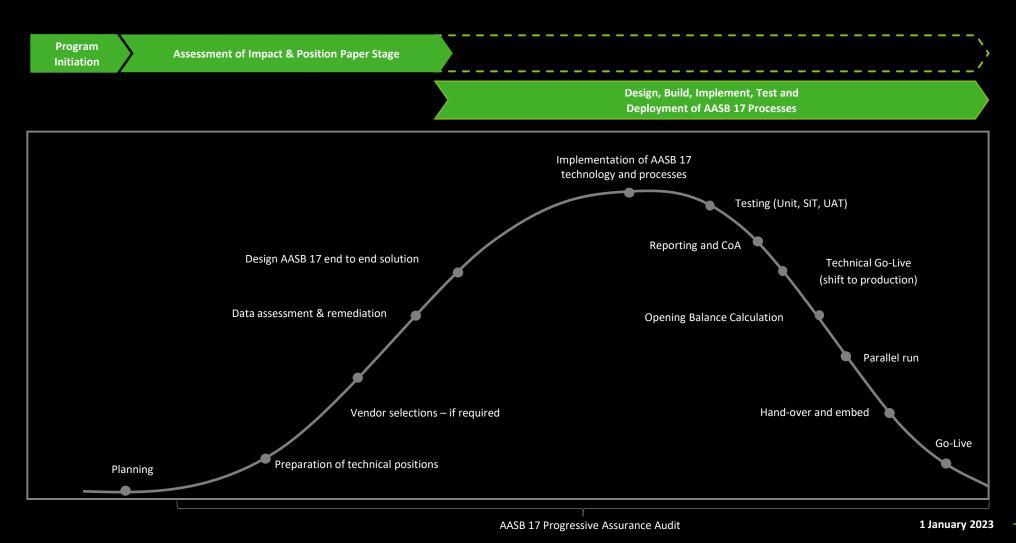
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#### Past

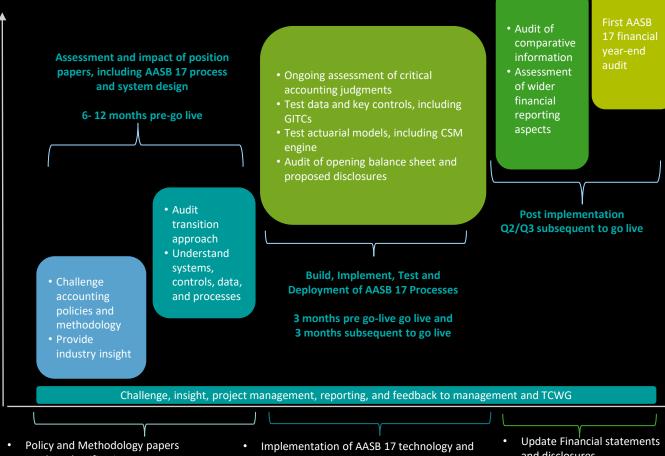
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### AASB 17 Project Lifecycle



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### AASB 17 Project Lifecycle & Interlink with Audit



- Less audit effort during the year in which AASB 17 becomes effective as key judgments will have been concluded on early, avoiding risk of late issues arising.
- Early audit of comparative financial information to identify issues early, challenge positions, and provide insights.
- Assess wider financial reporting implication, involving specialists where appropriate, to avoid late surprises.
- Industry insights through benchmarking of methodologies and assumptions as interpretations of the standard develop.
- Timely feedback to management on key findings regarding process, controls, and data ahead of the comparative year.
- Early audit of the opening balance sheet to identify issues early, challenge positions, and provide insights.
- Understanding of the detailed transition approach, which incorporates the AASB 17 17 project timelines.
- Build early understanding of AASB 17 impact on the business and reporting processes.
- Understanding of management's proposals and product features to refine audit approach.
- Industry insights through benchmarking of methodologies, interpretations, and judgments throughout transition.
- Proactive audit team supported by specialists, able to identify issues, challenge positions, and provide insights from an early stage of transition.

- Product classification assessment
- Vendor selection- if required
- Data assessment & remediation
- Design AASB 17 end to end solution
- processes
- Data inputs, process flow, and key controls
- BEL and RA assumptions and calculations
- CSM assumptions and calculations
- Update chart of accounts & develop proforma FS
- Transition calculations

- and disclosures
- Other impacts, including tax and consolidation.

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## 2 | Audit Readiness



### Areas most likely to increase the risk of material misstatement under the application of AASB 17

# Complex & voluminous disclosure prepared within pressured timelines

- AASB 17 requires more extensive qualitative and quantitative disclosures
- The comprehensive requirements drive additional demands on resourcing
- Key considerations for management in include Accounting policies, areas of judgement and estimation uncertainty
- Alignment with new APRA regulatory capital and financial reporting requirements

# Actuarial models & assumptions underpinning models

- AASB 17 requires models to be calibrated to the requirements of the Standard based on the measurement model applicable and to solve for complex concepts (e.g. NDIC, loss components and loss recovery components.
- Estimates derived from the data, assumption setting processes are susceptible to an inherent lack of precision
- Significant judgement and estimate uncertainty will be pervasive in developing accounting estimates due to the use of multiple assumption which will be layered and combined into the liability models.

## Data volume and granularity

- Key drivers impacting data requirements include:
  - Level of aggregation
  - Measurement of the individual components of both insurance and reinsurance contracts held,
- The requirement to source both historical and current data sets, likely from areas outside current financial reporting systems or from outsourced providers, increase risk
- Determination of measurement models available under the Standard will drive different data requirements that need to be mapped and solved for.

## Information technology changes

- Key risks emanating from IT changes include:
  - Limitations in automation increase the need for manual processes and human intervention
  - Use of outsourced service providers and lack of oversight of control universe

### Interim transition solutions

- Transition calculations performed outside of core architecture.
- Critical for insurers to consider data and process governance

### What can management do to prepare for an AASB 17 External Audit – Communicate & Document

- Starting point for an AASB 17 external audit will be to assess policy and methodology papers. These papers are critical for the auditor to obtain an understanding of the key judgements, accounting policy choices, methodologies and interpretations made.
- Sufficient and appropriate documentation is required to substantiate management's decisions
- Discipline of documenting new policy and methodologies should be embedded within business processes

Apply an "if it's not documented it's not done" rule Engage
Deloitte now
to enable
progressive
and
continuous
assurance

- External audit will be required to re-design their external audit approach to provide assurance on the AASB 17 results.
- Management should provide external audit with a view of project milestones and timelines and schedule frequent touch points to discuss implementation developments as they progress.
- Continuous engagement will allow sufficient time to resolve any differences in opinion and implement remediation plans

 Update existing processes and systems to support additional data and information requirements.
 Management should ideally leverage system processes and changes in support of AASB 17 compliance to inform the changes required for regulatory reporting.

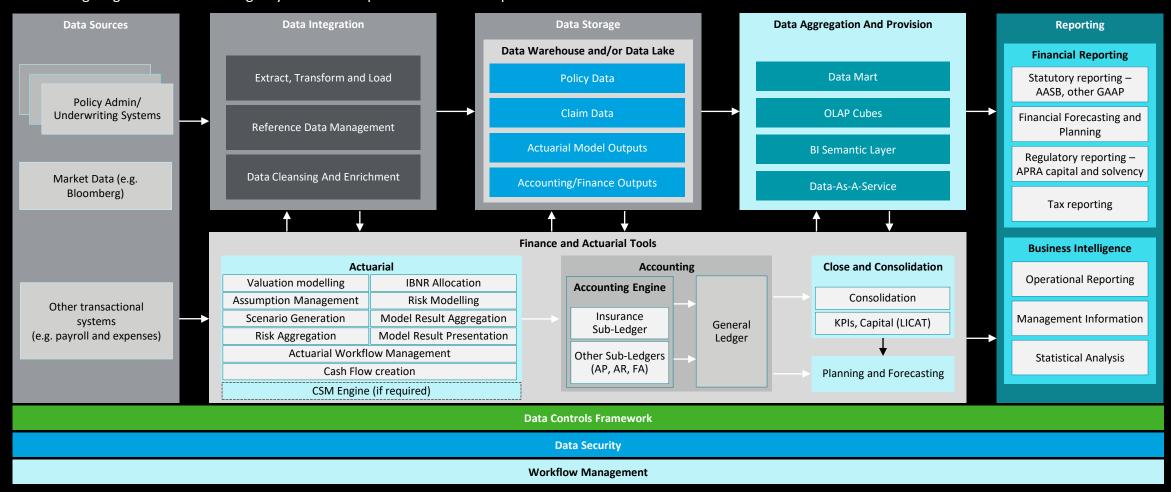
Plan for changes to APRA prudential standards

Bed down management's view of materiality

- Materiality works as a filter by ensuring that transactions that are sufficiently large and could influence the users of financial statements are identified
- Maintaining a log of all materiality judgements made during the implementation activities will facilitate assessment of the overall aggregate impact of these on the financial statements,

### What can management do to prepare for an AASB 17 External Audit – Testing & Controls

The following diagram illustrates a target system landscape for an AASB 17 reporter.



### What can management do to prepare for an AASB 17 External Audit – Testing & Controls

Sub-Ledger

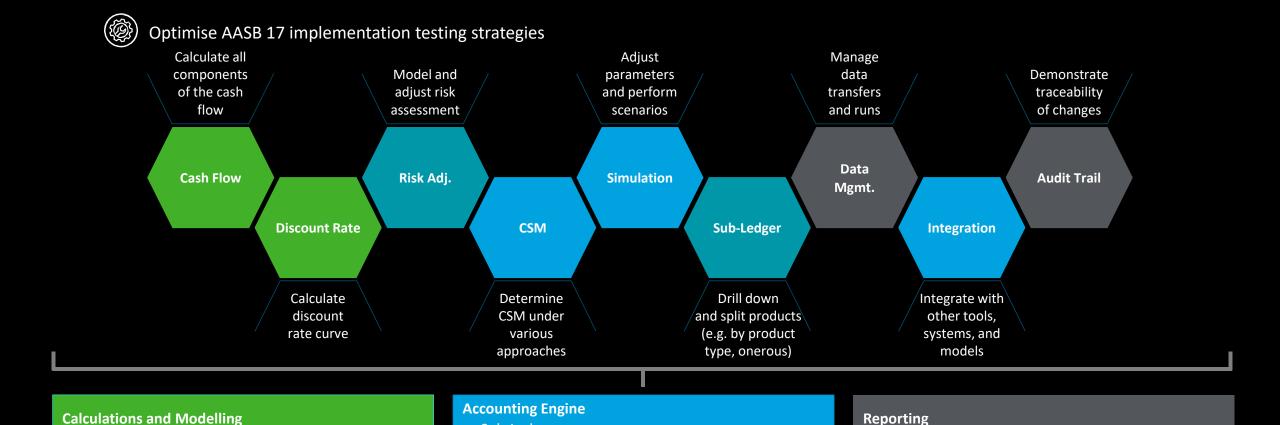
Data Management

CSM

Risk Adjustment

Data Management

Discount Rate



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• Risk Adjustment

Cash flow

Simulation

Data Management

Integration

Audit Trail

### What can management do to prepare for an AASB 17 External Audit – Testing & Controls



02

03

04

05

Prioritise the enhancement, design and implementation of manual and automated internal controls

Inflight-development and post-implementation risk and control reviews

End-to-end process and control documentation

Controls over models

Ensure that the methods, assumptions, and data used are appropriate, judgements made in selecting these are applied consistently and that the calculations are mathematically accurate

Embed controls throughout the journey of data from source systems to models to accounting records and financial statements, to ensure validity, accuracy and completeness

Harmonise controls across source, actuarial and finance reporting systems. This includes adequate general and application computer controls such as information access controls, IT change management controls, input and processing controls, software and physical hardware controls, interface and information security controls.

Ensure inputs, calculations and all changes in manual processes are appropriately controlled through robust management review controls before amounts are approved.

Embed entity-level and group-wide controls to ensure that all controls are operating as intended throughout the financial reporting period, including during the transition and determination of opening balances and restated comparative information

Quality drives efficiency

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Controls over data

technology controls

Manual controls

Monitoring controls

Information

# 3 | Audit Approach



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### Key focus areas for Implementation & Transition

In assessing Implementation – Deloitte will focus on key pretransition activities while the Transition phase will be targeted on opening balances and comparative results



Policy methodology assessment, incl product classification

- Accounting policy and methodology papers
- Governance process and associated internal controls
- Product classification and resultant` measurement models used



Internal controls, including assessment of the IT landscape

- IT landscape and test General IT Controls, including user access and change management controls
- Evaluate OE of internal controls, including the risk management oversight and controls specific to the transition process



Actuarial models, assumptions and areas of judgment

- Risk assessment on the models used, with focus on manual overlays
- New products assess product classification and measurement models
- Substantively test more significant or material model changes.
- Assess and challenge changes in actuarial methodologies



Proforma financial statement templates

- AASB 17 financial statements' presentation and disclosures, including chart of accounts.
- Mapping of the general ledger and subledger accounts to the related disclosures.
- Transition approach and test the accuracy of the underlying calculations and areas of judgment



**APRA** reporting

- New APRA Capital and Financial Reporting forms, in conjunction with Appointed Actuary reporting
- Consistency of information reported between financial statement reporting and APRA Capital and Financial reporting
- Test the accuracy of the underlying calculations and areas of judgment

### Key focus areas for beyond Implementation & Transition - BAU

The audit of the BAU financial reporting of an insurer under AASB 17 will be targeted at the following principles underpinning AASB 17 reporting compliance



#### Data

Test the data used by management to derive the best estimate liability (BEL), CSM, and RA. This will include the following:

- Process-map the end-to-end fulfillment cash flow and reserving processes.
- Perform controls testing on key data recons including operational and automated controls.
- Perform recons on the actuarial data back to the GL and policy systems.
- Substantively test policyholder and asset data as used in the reserving process.



### **Assumptions**

Test the inputs/assumptions used by management to derive the BEL, CSM, and RA. This will include:

- Review the outcomes of the year-end reserving committee meetings.
- Challenge key assumptions through market benchmarking,
- Test experience investigations for highrisk assumptions
- Analyze management's approach and judgment in setting the LRC and the LIC
- Assess whether assumptions have been appropriately input into the model.
- Perform sensitivity analysis on key assumptions



### Methodology & models

- Perform detailed risk assessment on the models used, including assessing complexity, maturity, consistency and the level of management overlay and manual overlays to pinpoint those models with higher risk of material misstatement
- Challenge the actuarial assumptions selected and the methodology applied in arriving at the risk adjustment and discount rates
- Where applicable test logic of the CSM engine, the application of coverage units, and CSM amortization
- Sample testing of model calculations and performing model replications where necessary



#### Results

- Test AASB 17 transaction flows, including, testing journal entry flow from AASB 17 actuarial engines, to the GL system and subsequently into the FS disclosures
- Substantive testing of the roll-forward disclosure notes with reconciliations to the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows.
- Control testing, audit of key inputs, and substantive testing and challenge of management's analysis and conclusions

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## 4 | Key messages



17

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### Three key challenges expected



Readiness: the last stretch (aligning, systems, data and reporting) is always harder than anticipated

- Some areas of standard still subject to interpretation
- Global impact of different interpretations arising and timing of awareness
- Locking down systems, process and change management
- Entities need to internally prepare BAU teams as well as educate Boards and senior management
- Change to monetary amounts impacting multicurrency entities – how report comparatives



Onerous contract recognition: no one will want to go first

- Potential differences in level of aggregation will drive different onerous contracts amounts
- Different interpretations of "facts and circumstances" will drive different onerous contracts amounts
- If subsidiaries disclose onerous contract amounts you can't pretend you don't know
- APRA product groups vs management reporting could drive additional questions on onerous subsets of results



Getting the story right: explaining results, comparatives and expectations to management, investors, analysts and APRA

- Entities need draft results to prepare BAU teams as well as educate Boards, senior management, investors, analysts and regulators
- Aligning performance KPIs and remuneration to AASB 17 results
- Too little interest and too late for some in organisation – APRA and ASIC pushing this along
- What about GWP new Insurance Contract Revenue is different from GWP due to shorter contract boundaries...
- Reinsurance vs underlying results
- Risk adjustment Probability of Adequacy disclosure – Now vs Future

### Implications of not being ready for AASB 17 External Audit



#### Quality

The QUALITY of the AASB 17 transition drives the ability to produce financial statements that are free of material misstatements, not getting this right may lead to:

- Incorrect decision-making by internal and external stakeholders based on incorrect results
- New KPIs are determined incorrectly leading to wrong remuneration decisions
- Qualification and restatements of financial statements by the auditors

## Regulatory

The implementation of AASB 17 will be a key REGULATORY focus area for APRA and ASIC who will be scrutinising both financial statement presentation and disclosure as well as Capital and Financial reporting. Not getting the implementation right may lead to:

- Heightened regulatory scrutiny
- Missing regulatory reporting deadlines
- Breach reporting
- Fines



#### Cost

The COST of implementation is significant due to the pervasive nature of the impact on all areas of the business. Getting it as close as possible to the bullseye the first time will ensure not having to spend additional resources. Not getting the implementation right may lead to:

- Incurring additional consulting fees to rework areas impacted by the implementation
- Taking up time of internal resources to update and correct areas where required, rather than focusing on business-as-usual task or other upcoming focus areas such as ESG reporting



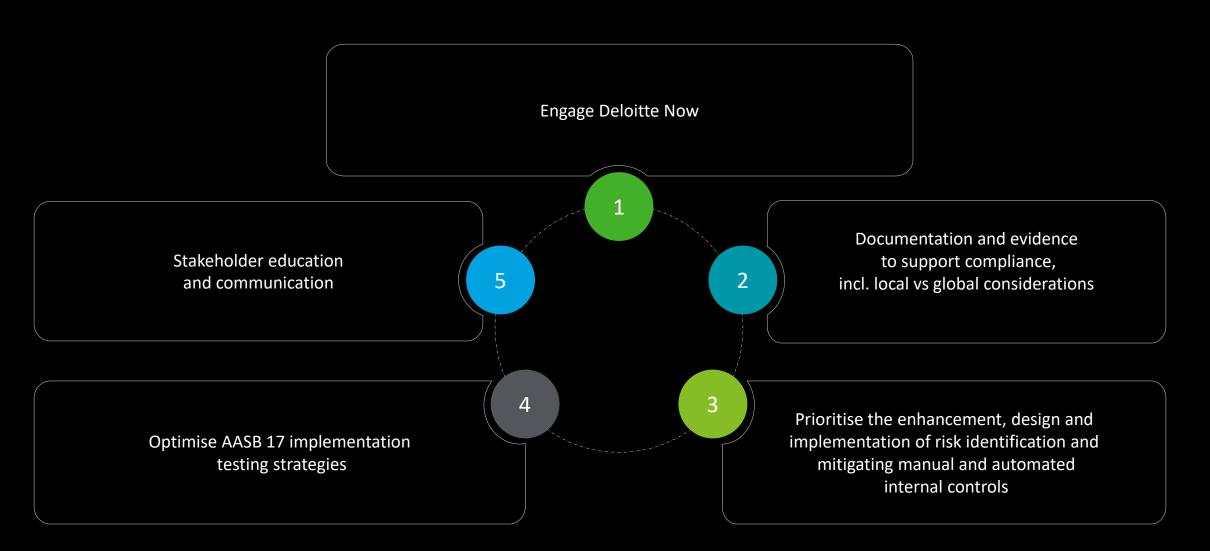
Increased audit effort and corresponding fees

#### Reputation

AASB 17 has been a long time coming and one of the key outcomes of the new Standard is to drive comparability which may enhance of hurt your REPUTATION. Not getting the implementation right may lead to:

- Not being comparable to peers in the market
- Placing strain on finance, actuarial and IT teams to play catch-up which may lead to increased attrition

### AASB 17 External Audit Preparation



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