Actuarial & Insurance Solutions

Optimizing your transition to IFRS 17

IFRS 17 Strategic Considerations

Growth

- How will IFRS profitability metrics be impacted?
- How does the shareholder story change?

Financial Resilience

- How will IFRS 17 impact solvency?
- What will the impact of IFRS 17 be on credit ratings?

Pricing and Business Intelligence

- How can the IFRS 17 data requirements be translated into an opportunity to improve data, processes and systems?
- Can this improved data be used in pricing?

Deloitte's approach: Moving forward from minimum compliance

Across both the Life and P&C space, most IFRS reporting insurers are well underway with their IFRS 17 implementation project. Given the significant requirements, most insurers are simply focusing on getting over the line. While we understand minimum compliance is the priority, there are tangible benefits to be gained from aligning implementation with strategic goals. Key focus areas include:

1. KPIs and management reporting. As the interpretation of current IFRS metrics may change, your understanding of profitability will need to also evolve with IFRS 17. There may also be a need for new metrics to better reflect performance. Our team's experience with numerous implementation and advisory projects have allowed us to benchmark the leading industry practices.
2. Regulatory reporting and financial resilience. Our team works on a wide range of regulatory solvency engagements in Bermuda and the Caribbean. We can advise you on the interplay between IFRS reporting and solvency requirements.
3. Pricing and underwriting. Through our experience on IFRS 17 implementation projects and market (re)insurance transactions, we can advise on the impact of IFRS 17 to your company's pricing and underwriting processes.
4. Business intelligence. We see the increased data requirements under IFRS 17 as an opportunity. IFRS 17 can act as the catalyst for a full finance transformation to achieve process improvement, refine your data management capabilities, and upgrade your systems.

How can Deloitte help your business?

We appreciate that every insurer is unique and does not require the same IFRS 17 solution. Wherever you are on your IFRS 17 journey, we can provide you with the following services to move beyond minimum compliance:

1. Education on IFRS 17 KPI impacts
2. Quantitative KPI impact assessment
3. Assistance with the determination of appropriate KPI targets and development of any new KPIs
4. Advise on the IFRS 17 impacts to pricing and improvements to pricing processes
5. Guide your actuarial and finance transformation

The IFRS 17 Journey

How do you make IFRS 17 work for you and your company? Develop an early view of how your information will be used across the industry.

	2021	2022	2023	2028
	1 year to transition	Transition date	Adoption date	5 years post transition
Communication	Plan your market communication strategy	What is your investor story on transition? How will your organization improve from IFRS 17?	What will investors be basing decisions on after adoption?	What will you have to explain to investors and stakeholders in 5 years?
Results	Design solutions and iterate results	Parallel run – First time seeing live results produced from an end-to-end process	How does your opening results compare with your competitors?	How will your transition balance sheet affect your ongoing results?
Optimisation	Use results iteration to optimize balance sheet Understand impacts to credit ratings and solvency	Last chance to optimize results before they are released for consumption by stakeholders	What policy decisions do you need to consider refining in order to further improve?	Did you make the right optimization decisions since transition?

The industry is currently focused on understanding the standard, designing, and testing solutions.

IFRS 17 will impact current KPIs and will introduce the need to develop new KPIs. IFRS performance metrics are currently embedded in business decision making and are used by analysts and credit rating agencies. The impact of IFRS 17 on current KPIs should be reflected in targets and thresholds for these metrics.

Growth Metrics

Traditional growth metrics are likely to remain relevant under IFRS 17, however their interpretation may change, and insurers may need to define updated target ranges.

- Profitability drivers may change under IFRS 17. CSM amortization and risk adjustment release may not align with current earnings drivers.
- The ability to drive RoE through new business will be more constrained than currently is the case under IFRS 4.
- Use of the OCI disaggregation option may warrant the need for RoE to be adjusted to include some OCI items to create an “adjusted” RoE.
- Gross Written Premium (GWP) does not appear directly on the IFRS 17 income statement but will likely remain of interest to analysts. Other knock-on impacts of the loss of certain IFRS 4 line items include distortions in loss ratios. This may not be as simple as the insurance service expense divided by the insurance service revenue of an entity.
- Return on Risk Adjusted Capital (“RoRAC”) is a useful KPI for capturing how efficiently insurers are taking on risk. IFRS 17’s granularity may provide the opportunity to track RoRAC at a more granular level to drive strategic decision making.
- New reinsurance disclosures bring increased granularity and a host of new line items to consider. However, a consensus is yet to emerge on what new reinsurance KPIs will look like and how these will impact growth.

The New P&Ds

The new Presentation and Disclosures (P&Ds) allow fresh metrics to be considered and compared between insurers.

- KPIs may need to change to reflect deferred profits measured by the Contractual Service Margin – 'New Business CSM' could be used as a metric analogous to Value of New Business (“VNB”). The CSM generated from new business over a period could also be compared to the CSM amortization. This would be an indicator of sustainable earnings.
- Detailed disclosure will be needed around the CSM coverage units used as analysts try and better understand the CSM as a source of earnings generation.
- The requirement to disclose margins to reserves explicitly as a Risk Adjustment allows multiple new KPIs to be considered. Most apparently, there is the Confidence Level disclosure which can be compared between insurers. However, more sophisticated measures may emerge over time. For example, the ratio of Risk Adjustment to Best Estimate Cashflows within the Liability for Incurred Claims may be illustrative when methods for establishing the disclosed confidence level vary significantly. Similarly, a similar ratio for the Liability for Remaining Coverage may be used as a basis for comparing insurers, specifically for products such as annuities.
- Onerous Contracts are those which are considered unprofitable (i.e. a net outflow from the insurer at recognition) under IFRS 17 and must be disclosed explicitly in the P&Ds. Understanding the onerous premium volume written as a proportion of an insurer's total book will be increasingly important from an underwriting, planning and reserving perspective.

Other Metrics

Solvency:

- Solvency coverage will remain an important metric for measuring insurers’ financial resilience. Solvency coverage is not expected to significantly change under IFRS 17.
- In some solvency regimes, such as Bahamas’ long term insurance capital adequacy framework, the capital adequacy balance sheet includes IFRS 17 balance sheet components. IFRS 17 could therefore directly impact solvency position in such regimes.

Dividends and cash generation:

- Cash generation would not likely be impacted by a change in accounting regime. It should be noted, however, that the relationship between cash generation and IFRS earnings will likely change under IFRS 17. Insurers may revise cash dividend payout ratio targets to reflect this.
- The CSM’s deferral of profits may mean cash is generated before earnings reflect anticipated financial performance.
- Insurers may want to update their dividend policy to reflect new drivers of earnings. For example, companies may want to review their dividend payout ratio target range.

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Alistair is a Senior Manager in the Actuarial & Insurance Solutions practice specializing in advisory services in P&C (re)insurance currently involved in multiple IFRS 17 implementation projects for both global and local insurers.

He has extensive experience in IFRS 17 at the Gap Analysis, policy development, Financial Impact Assessment and implementation phases for global insurers and reinsurers based in UK and Bermuda.

In addition to the standard policy areas, he has experience with modelling onerous contracts under IFRS 17 and with calculating the financial impact of IFRS 17 on complex outwards reinsurance arrangements.

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Nina is a Senior Manager in Deloitte's Actuarial & Insurance Solutions practice. She currently serves Bermuda and international Life (re)insurance clients on a variety of actuarial functions including IFRS 17 readiness, actuarial valuations, transaction pricing and restructuring and audits of long-term (re)insurers and pension funds.

Prior to joining Deloitte, Nina held roles in capital and risk management, IFRS 17 application, solvency reporting and statutory valuations at a South African-based consulting firm. She has experience in a broad range of long-term insurance products and services.

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Paul is an Assistant Manager in the Actuarial & Insurance Solutions practice with advisory and in house experience in the non-life insurance industry in the UK and Bermuda.

Paul's experience includes actuarial modelling, reserving and IFRS 17 consulting. Paul also has experience working within the actuarial function of a Lloyd's of London Managing Agent.

Paul has experience working with captive insurers on IFRS 17 and specialist knowledge within the PAA eligibility aspect of IFRS 17.

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Paul is an Assistant Manager in the Actuarial and Insurance Solutions practice. He serves local and international (re)insurers, supporting on IFRS 17 implementation and other actuarial projects such as audit support.

Before joining Deloitte, Paul worked in actuarial consulting in South Africa where he performed similar actuarial work, focusing on IFRS 17 implementation.

Paul specializes in IFRS 17 implementation for life insurers and has varied experience across products.

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