Actuarial & Insurance Solutions
Optimizing your transition to IFRS 17

IFRS 17 Strategic Considerations

Growth

- How have IFRS profitability metrics been impacted?
- How has the shareholder story changed?

Financial Resilience

- How has IFRS 17 impacted solvency?
- What is the impact of IFRS 17 be on credit ratings?

Pricing and Business Intelligence

- How can improvements made to data systems be leveraged to enhance the understanding of the business?
- 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 reporters have concluded their IFRS 17 implementation projects. Given the significant work involved, most insurers focused on the key aspects and applied simplifications where permissible. While we understand that minimum compliance was the priority, we see benefit in placing emphasis on aligning implementation with your company's strategic goals. Key focus areas include:

1. KPIs and management reporting. Since IFRS 17 has impacted profitability, the interpretation of IFRS 4 metrics has changed. There is also a need for new metrics to better reflect performance. Our team's experience with implementation projects and external audits provide us with a solid understanding of industry best practice.
2. Regulatory reporting and financial resilience. Our team works on a variety of regulatory solvency engagements in Bermuda and the Caribbean. We are well placed to 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 leverage our industry insights to advise you on the impact of IFRS 17 on pricing and underwriting.
4. Business intelligence. We see the increased data requirements under IFRS 17 as an opportunity to streamline your data flows and create a centralized data warehouse. IFRS 17 can act as the catalyst for a full finance transformation to improve current processes, data and 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 determination of appropriate KPI targets and development of any new KPIs
4. Advising on IFRS 17 impacts to pricing and improvements to pricing process
5. Actuarial and finance transformation

The IFRS 17 Journey

To make IFRS 17 work for you, its important to consider the progress made to date and to look at what will be required for your business in the future.

	2017 - 2022	2023	2028
	Pre-adoption	Adoption date	5 years post adoption
Communication	Planning of your market communication strategy	What will investors be basing decisions on after adoption?	What will you have to explain to investors in the future?
Results	Design solutions and analysing results		How will your transition balance sheet affect your ongoing results?
Optimisation	Use results iteration to optimise balance sheet. Start understanding the potential impact to credit ratings.		Did you make the right optimisation decisions on transition?

The current industry focus is on better understanding IFRS 17 impacts on KPIs and the investor story.

IFRS 17 impacts current KPIs and introduces 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 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 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 LRC 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

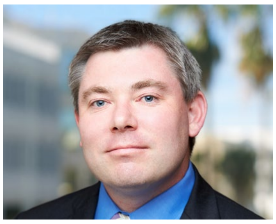
Solvency:

- 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 reflects this.
- Insurers may want to update their dividend policy to reflect new drivers of earnings, for example, by reviewing their dividend payout ratio target range.

Deloitte Bermuda | IFRS 17 Advisory Team



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Eric has over 15 years of experience working with (re)insurance and financial services entities on internal and external audit and advisory projects.

He has a range of experience across the (re)insurance industry covering external audit and various accounting advisory projects.

Specifically, Eric leads the external audits of several Bermuda based life and annuity reinsurers, including several U.S. facing block life reinsurers. Eric's accounting advisory experience covers a range of topics including consolidation, share-based compensation, purchase accounting, tax accounting analyses, and IFRS 17 accounting implementation.

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Alistair is a Director in the Actuarial & Insurance Solutions practice specializing in advisory services in P&C (re)insurance and has been 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 Director 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 a Senior 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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