

INSURANCE CONFERENCE 2023

**INSURANCE AS A CATALYST FOR ECONOMIC
RESILIENCE AND POSITIVE SOCIAL TRANSFORMATION**

Topic: How to Implement IFRS 17 in 100 Days

Speaker: Rebecca Muriuki, Michael Toms & Musuku Mutoni

Organisation: Deloitte



Agenda

1. Overview
2. IFRS 17 Governance: Key Design Decisions
3. Liability Valuation
4. System evaluation & resource requirements
5. Financial Reporting
6. The 100-Day Roadmap
7. Questions

Meet the Presenters

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Rebecca Muriuki
Associate Director
Actuarial & Insurance Solutions



Michael Toms
Senior Manager
Actuarial & Insurance Solutions



Musuku Mutoni
Senior Manager
Audit & Assurance

Why introduce IFRS 17?

IFRS 4 – Lack of Comparability
Comparability across
countries

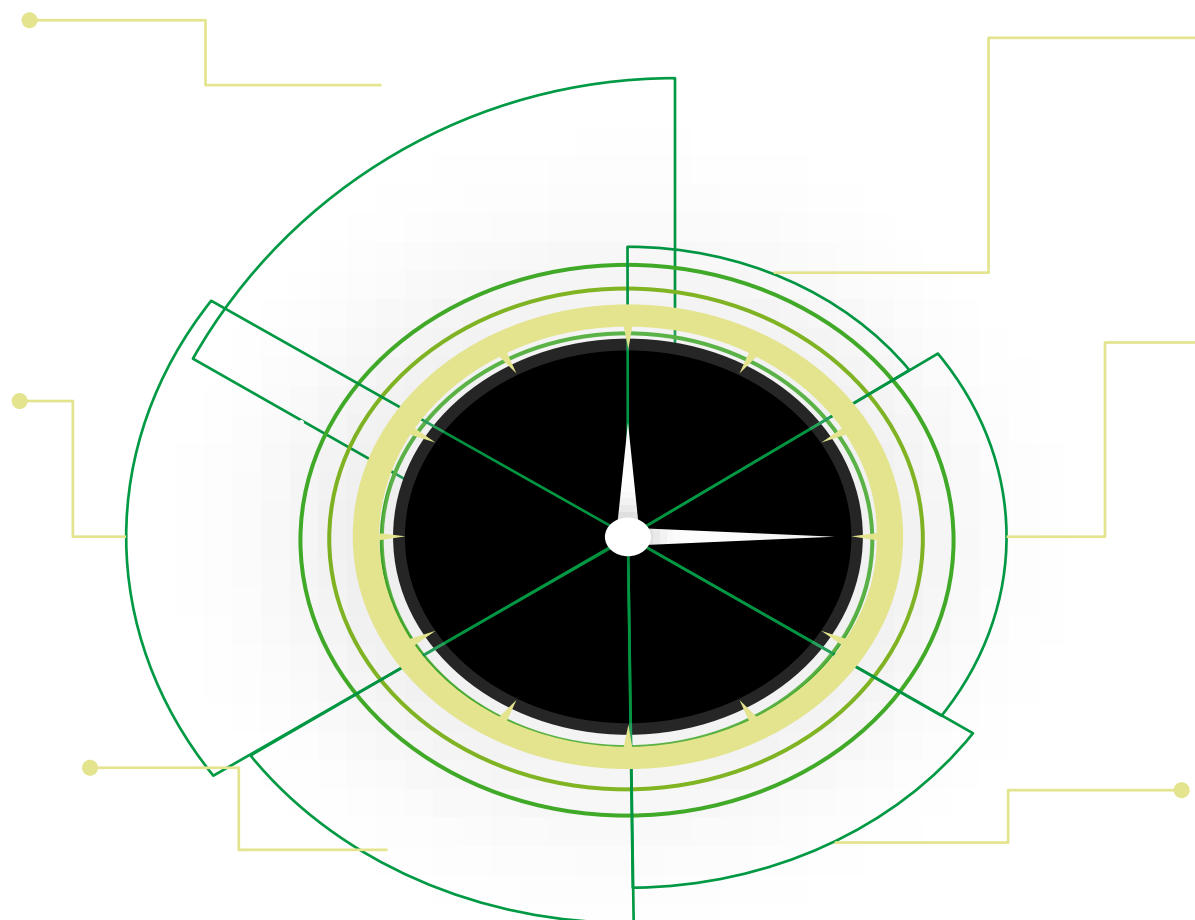
IFRS 17 – A consistent Framework
Comparability across
countries

Comparability among
insurance contracts

Comparability among
insurance contracts

Comparability among
industries

Comparability among
industries



Steps to implementing IFRS 17

The objective of IFRS 17 is to ensure that insurance companies provide relevant information that faithfully represents insurance contracts. This will allow users of the financials to assess the impact that insurance contracts have on the **financial position, financial performance and cash flows**.

On doing this, IFRS 17 create standards for insurers (and other entities) to:

01 Identify insurance contracts

that fall within the scope of the standard

02 Divide the contracts into groups

that it will recognise and measure

03 Recognise for each group

- Fulfilment cashflows: the risk adjusted **present value of the future cashflows** that are expected to arise as the entity **fulfils the insurance contracts**; and
- Contractual service margin: the **unearned profit** in the group of contracts.

04 Remeasure the group

Update the fulfilment cashflows and the contractual service margin over time

Business-wide impact areas

Processes

- Updating closing and reporting processes, actuarial processes, planning procedures, risk management
- Changes to internal and external reporting templates
- Internal controls and audit trail
- Planning, budgeting and forecasting processes

Performance Management

- Changes in Management Information reports and Key Performance Indicators
- Value-based management, scorecards and incentive scheme adjustments

Policy

- New accounting policies/ guidelines and control procedures
- IFRS 17 calculation methodology guidance and reporting instructions
- Actuarial models and assumptions setting and inputs
- General Ledger (GL) Chart of Accounts changes and local account mappings
- Investment policy changes (IFRS 9)

People

- Cross-functional collaboration (Business, Technology, Finance, Actuarial and Risk)
- Technical and functional training
- Project resourcing and budget
- Managing change fatigue

Data

- New financial reporting data requirements (input/output) at more detailed granularity
- Data reconciliations at different levels
- Data quality, storage and archiving
- Data security and controls
- Data governance and master data
- Demand for a single-source of truth for finance and risk data

Systems

- Impacts on core insurance systems, investment systems, actuarial systems, reporting systems
- New posting logic/engines for IFRS 17
- GL, consolidation tool and reporting system changes
- Changes to system interfaces
- Demand for flexibility in the actual system landscape
- New system functionalities/features



How far are you?

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0. Project Management

Have you selected your implementation partner?
Have you developed your roadmap and project plan?



1. IFRS 17 Governance

Have you selected your policies & classified your products as per the IFRS 17 requirements?



2. System evaluation & selection

Have you selected your preferred IFRS 17 engine? Or decided between in-house or managed service?



4. Testing, Transition & Reporting

Have you begun on testing?
Do you have an IFRS 17 compliant chart of accounts?



3. IFRS 17 Liability Valuation

Have you developed the required actuarial models?
Have you carried out a data gap analysis and remediation?



IFRS 17
GOVERNANCE:
DESIGN
DECISIONS

Policy Choices

Policy Choices

Day 1-14

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Measurement Method

Available options

GMM, PAA, VFA for direct insurance & reinsurance contracts

Discount Rate

Bottom-Up Approach and Top-Down Approach

Risk Adjustment

Not prescribed: Cost of capital ; Quantile Approach; Explicit assumption

Grouping

By similar risk characteristics; year of sale & profitability levels

Expense Allocation

Directly vs. Non-attributable expenses; Recognize acquisition costs upfront / defer

Transition policy

Full Retrospective approach, Modified Retrospective Approach and Fair Value Approach

OCI Approach

Impact of interest rate changes to be passed through P&L or OCI

Premium Receivables

Treat as NOT received OR disaggregate between broker-led and direct receivables

Contract definition



IFRS 17 will be applied to :

- Insurance & reinsurance contracts issued by the insurer
- Ceded reinsurance contracts held by the insurer
- Investment contracts with DPF

Recognition



Boundaries : cash flows included if they arise during the period in which the entity:

- Can compel the policyholder to pay the premiums
- Has a substantive obligation to provide coverage

IFRS 17 Scope

Unbundling

- IFRS 17 for insurance components
- IFRS 9 for embedded derivatives or distinct investment components
- IFRS 15 for distinct goods & services



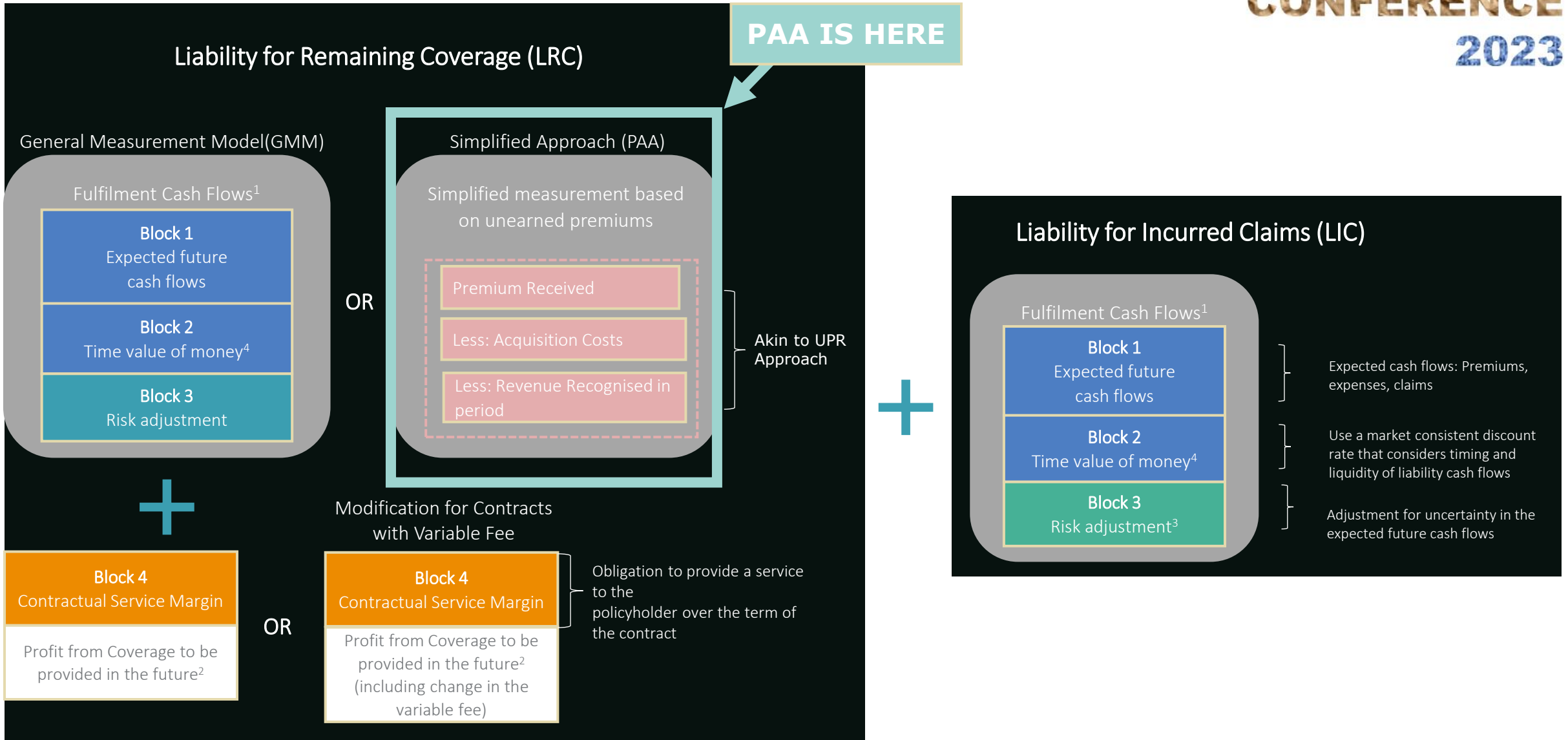
Classification

- A portfolio contains contracts with similar risks and managed together
- Inside a portfolio, contracts are grouped by annual cohort
- Inside a cohort, contracts are group by profitability level





***IFRS 17 LIABILITY
VALUATION***





***SYSTEM EVALUATION &
RESOURCE REQUIREMENTS***

Challenges



IFRS 17 requires more granular data than was previously necessary in estimating policyholder liabilities.

System changes:



- Actuarial models
- CSM Engine
- General ledger

OR You could opt for a managed solution (which has its own challenges)



Solutions



Overhaul finance systems and introduce increased granularity to internal reporting and improve the quality of data management.



Ensure adequate resourcing and upskilling of the internal teams.



Align data remediation with the data requirements of the IFRS 17 systems.

Cost

Core spending areas

Data and system upgrades

Level of reliance on external consultants

Affordability of IFRS 17 solutions

Solutions



Budgeting



Senior level buy-in



Prioritize activities

Day 15-49

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Next steps

Set realistic expectations based on results of the gap assessment.

Ensure that the IFRS 17 budget is flexible.

Engage various IFRS 17 solution vendors to see what best suits your organization. If possible, conduct a POC.

People

Day 15-49

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Core spending areas

Expertise due to the introduction of new complex concepts to be implemented for IFRS 17.

Alignment of expertise of the various multidisciplinary teams in the implementation project.

Adequate resourcing of the staff in the implementation project.

Solutions



Upskilling the staff



Adopting new actuarial software



Senior Level Buy-In



3Cs: Collaboration, coordination and communication

Next steps

Invest in an actuarial software

Talent recruitment

Collaboration of the key IFRS 17 teams -> Accountants & Actuaries now working as one!

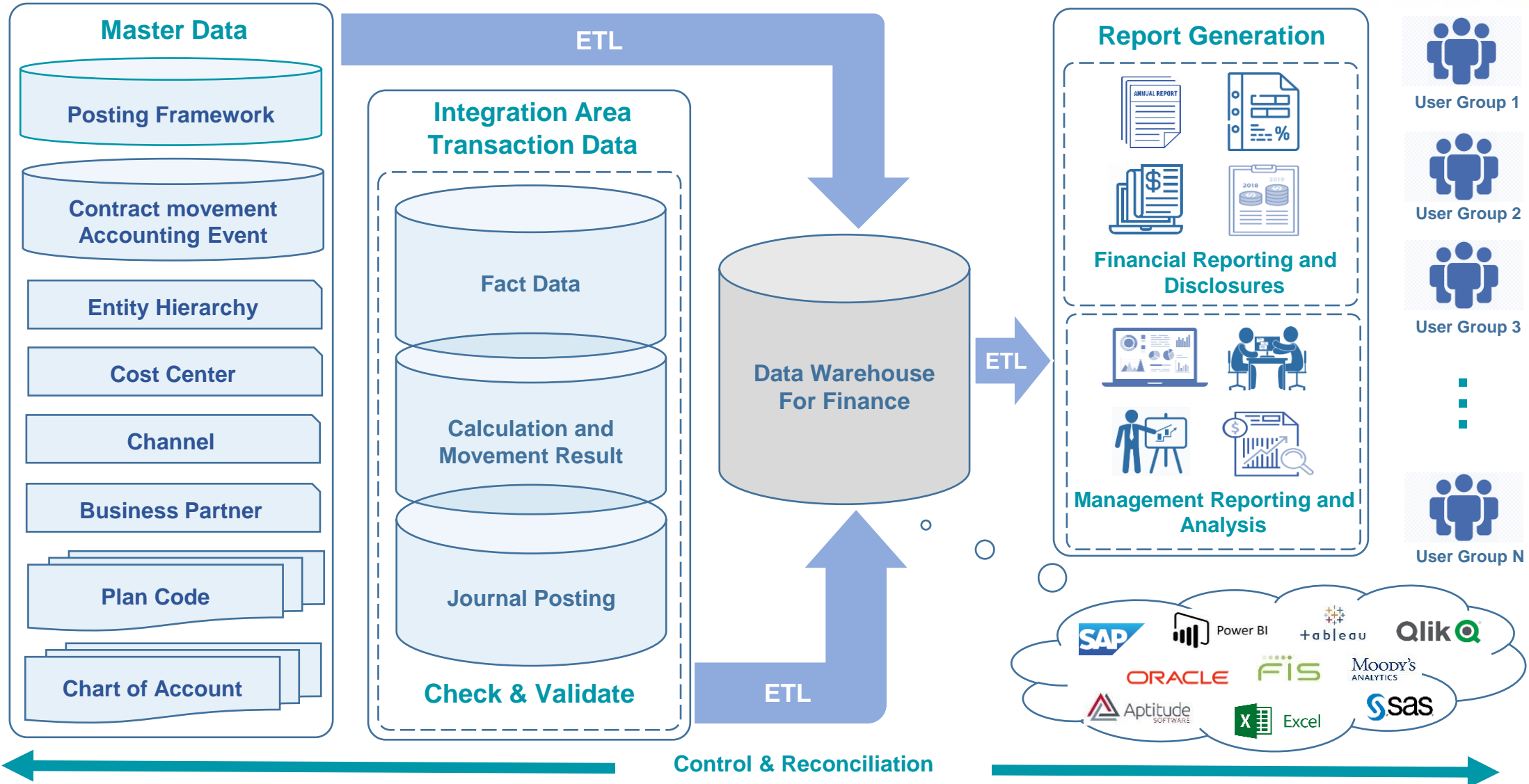
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FINANCIAL REPORTING

Finance Data Architecture

Day 50 - 70

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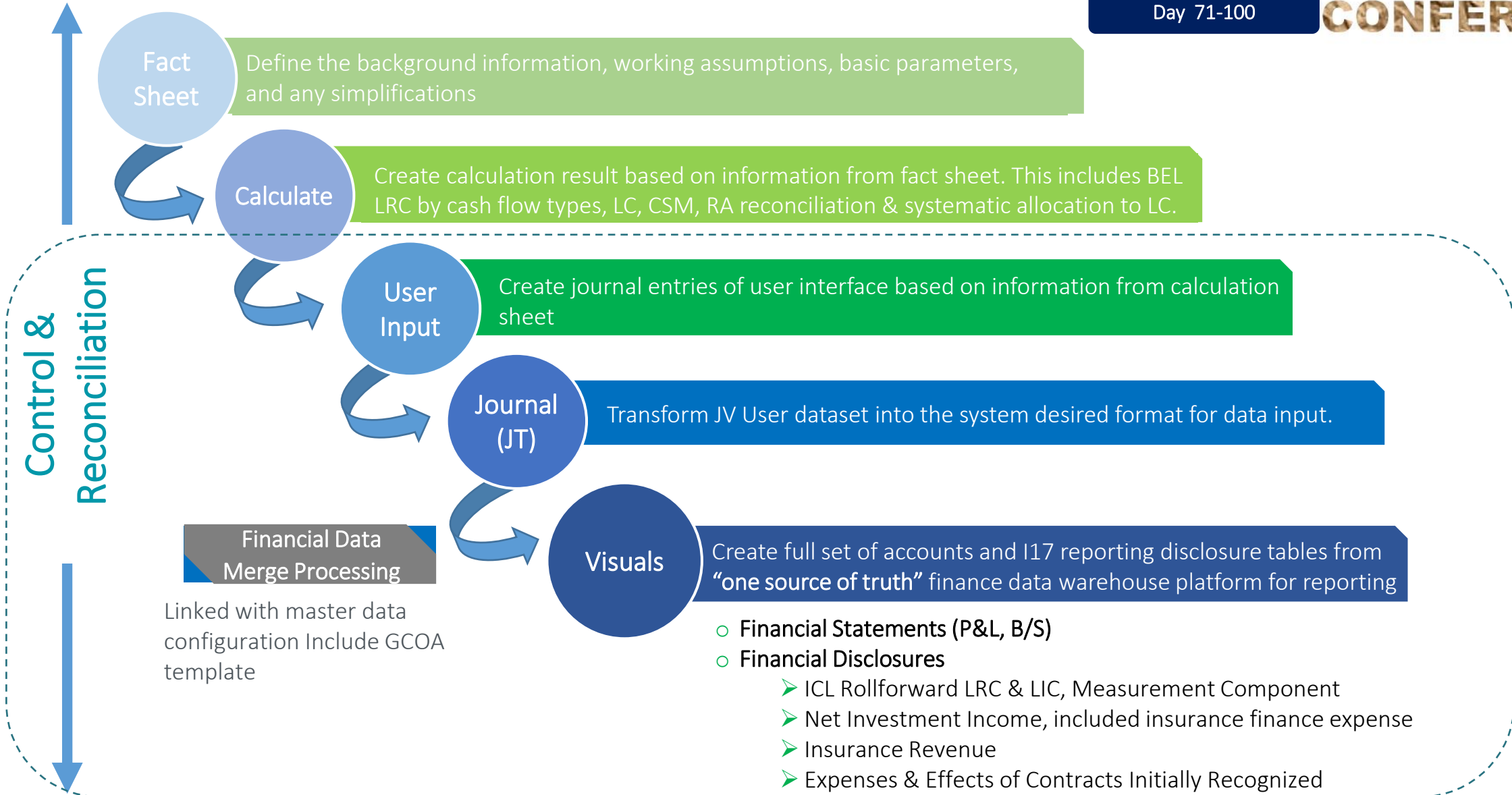
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Finance Process for IFRS 17

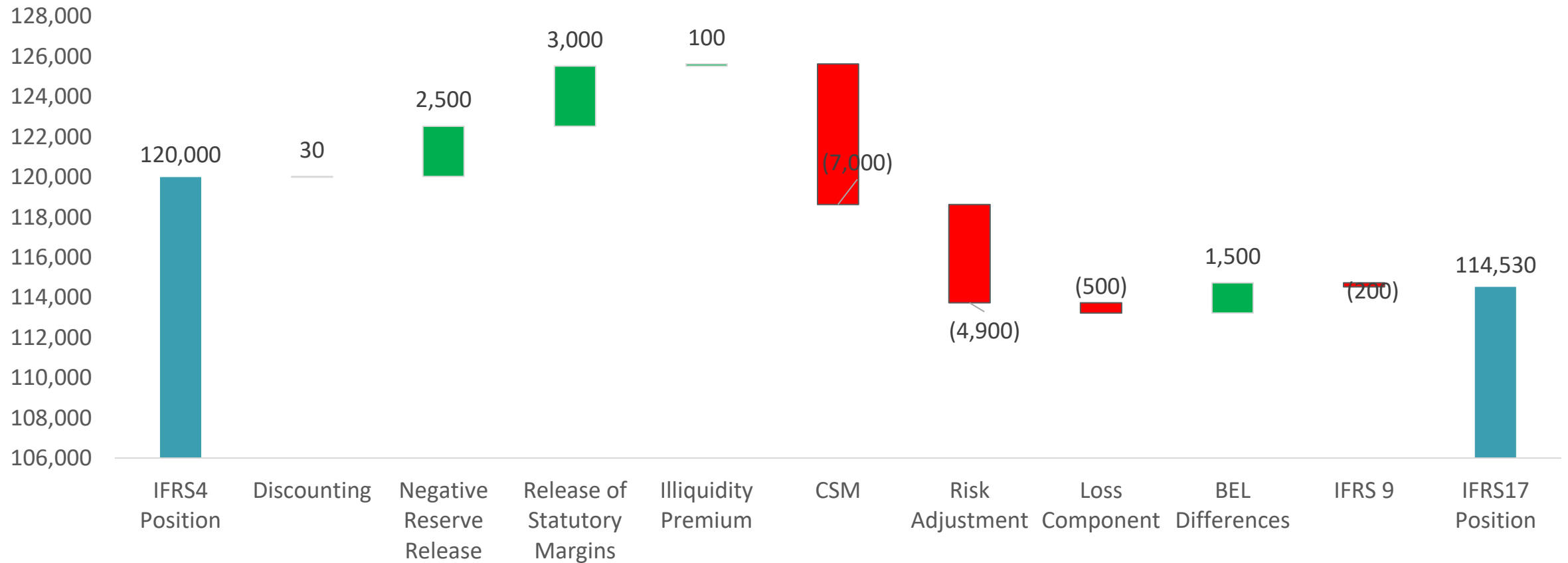
Day 50 - 70

Day 71-100

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Illustrative example of Shareholder's Equity Reconciliation between IFRS 4 & IFRS 17



Profit and Loss Statement Extract

Day 15-49

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Under IFRS 4

Income Statement Line	KES
Earned Premium	X
Investment Income	X
Total Income	X
Claims Expenses	(X)
Commissions	(X)
Expenses	(X)
Total Claims & Exp	(X)
Profit Before Tax	X
Tax	(X)
Profit After Tax	X
Other Comprehensive Income	X
Total Comprehensive Income	X

Under IFRS 17

Income Statement Line	KES
Insurance Revenue from contracts measured under the PAA	X
Insurance Revenue from contracts measured not measured under the PAA	X
Total Insurance Revenue	X
Insurance Service Expense	(X)
Net expenses from reinsurance contracts held	(X)
Insurance Service Result	X
Investment Income	X
Finance expenses from insurance contracts issued	(X)
Finance income from re-insurance contracts held	X
Finance Result	X
Other Profit and Loss	X
Corporate Tax	(X)
Profit After Tax	X
Other Comprehensive Income	X
Total Comprehensive Income	X

• Gross Earned Premium

- Release in CSM
- Change in risk adjustment
- Expected claims in fulfilment CFs
- Expected expenses in fulfilment CFs

- Actual claims paid
- Movement in LIC
- Actual Attributable expenses incurred
- Loss component

- Amounts recovered from reinsurance
- Reinsurance premiums

- Unwinding of discount rate/Interest accretion

- Effect of discount rate changes on fulfilment cash flows (if OCI option is selected)

Statement of Financial Position Extract

Day 15-49

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Under IFRS 4

Statement of financial position

Financial Assets

Deferred acquisition cost

Premium receivable

Insurance contract assets

Other assets

Total Assets

Insurance Contract liabilities

Unearned premiums

Other liabilities

Equity

Total Liabilities and Equity

Under IFRS 17

Statement of financial position

Financial Assets

Insurance Contract assets

Reinsurance Contract assets

Other assets

Total Assets

Insurance contract liabilities

Reinsurance contract liabilities

Other liabilities

Equity

Total Liabilities and Equity

Key presentational changes

- ❖ Groups of insurance and reinsurance contracts in an asset position presented separately from those in a liability position
- ❖ Acquisition cost cash flows, premiums receivable and unearned premiums are included in the measurement of insurance contracts
- ❖ Portfolios of insurance or reinsurance contracts held that is in an asset position are presented separately from portfolios of insurance contracts.
- ❖ Insurance contract liabilities are presented gross of reinsurance and a separate reinsurance asset is recognized. There is no netting.
- ❖ IFRS 17 requires the entity to provide a detailed reconciliation of the movement in insurance contract assets and liabilities, split between the liability for remaining coverage (non-loss and loss components) and the liability for incurred claims.

Levers to pull to manage the impact of IFRS 17 on your balance sheet & performance

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Day 15-49

Expenses

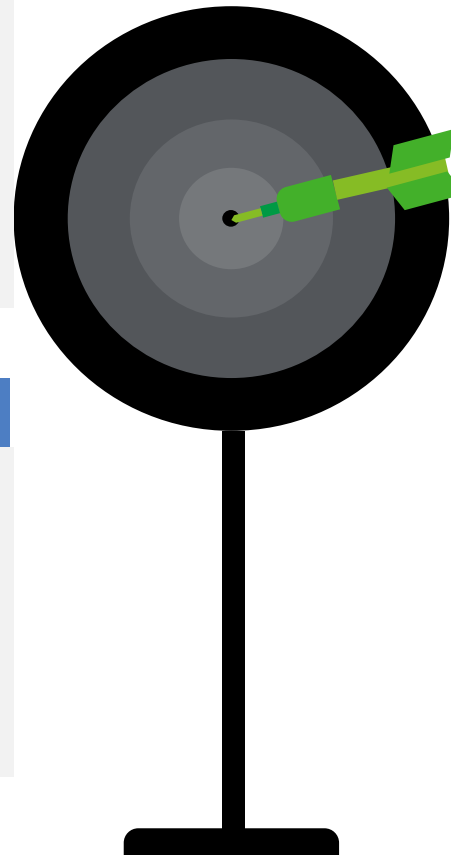


- Non-attributable expenses
- Expense allocation
- Split between initial & renewal (life insurers)
- Allocation between profitable and loss-making groups

Risk adjustment



- Risk adjustment methodology
- Impact of the risk adjustments relative to any regulatory margins required under previous IFRS 4 regime



Discounting



- Discounting of claim liabilities will be applied under IFRS 17.
- The effect of discounting will depend on the length of settlement periods, the size of the claims and the discount rate

CSM and Loss component



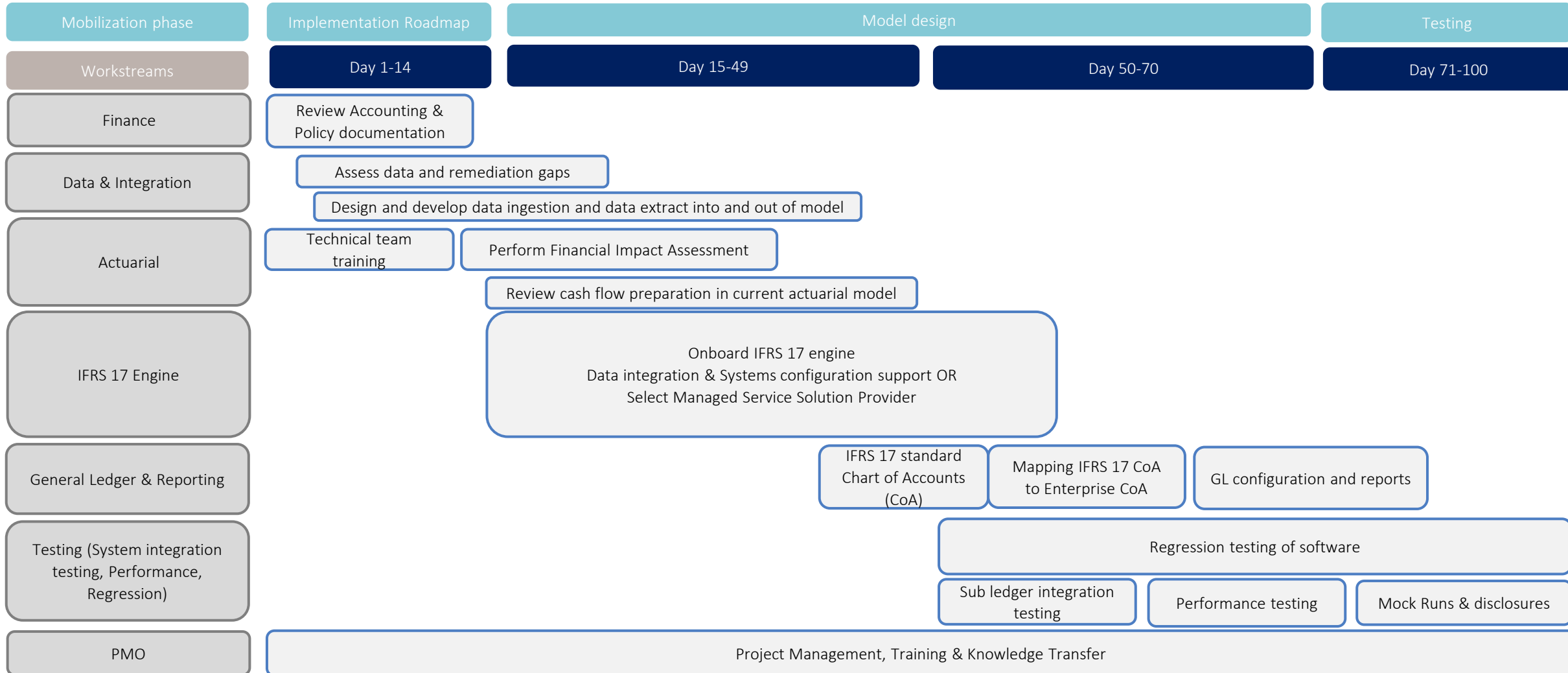
- Grouping methodology (the more granular, the less subsidization)
- CSM amortization method (how fast or slow to release unearned profits – life insurers)



***THE 100-DAY
ROADMAP***

Next steps

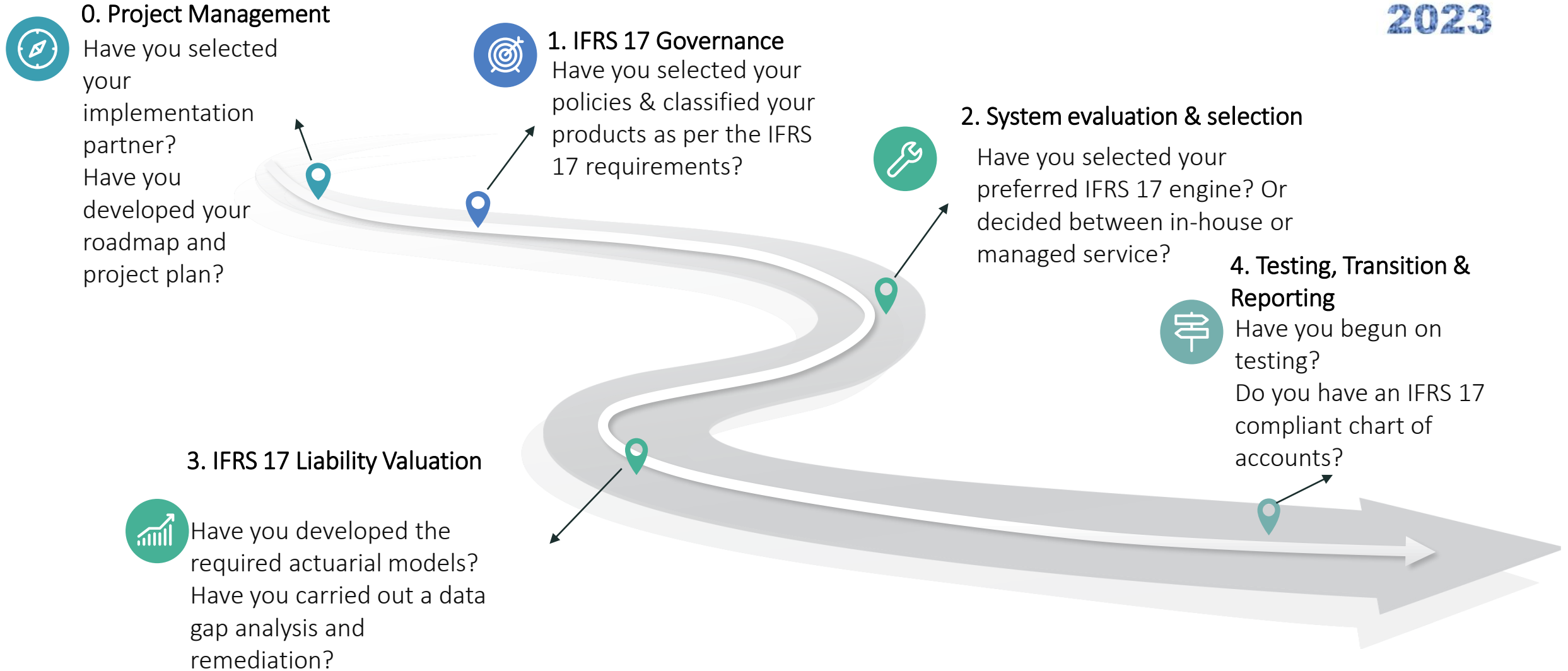
The best time to start was a year ago. The next best time to start is today.



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The Team

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Alice Tembo
Partner
Audit & Assurance
atembo@deloitte.co.zm



Charles Luo
Partner
Financial Institutions Services Team
clu@deloitte.co.ke



Rebecca Muriuki
Associate Director
Actuarial & Insurance Solutions
rmuriuki@deloitte.co.ke



Michael Toms
Senior Manager
Actuarial & Insurance Solutions
mtoms@deloitte.co.zm



Musuku Mutoni
Senior Manager
Audit & Assurance
mmutoni@deloitte.co.zm



Don Omondi
Consultant
Actuarial & Insurance Solutions
domondi@deloitte.co.ke



Kupa Chirwa
Senior Analyst
Audit & Assurance
kchirwa@deloitte.co.zm



Riziki Kitondo
Analyst
Audit & Assurance
rkitondo@deloitte.co.ke

Questions

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