

INSURANCE CONFERENCE 2024

**ADAPTING TO THE CHANGING LANDSCAPE
OF ECONOMIC, ENVIRONMENTAL
AND SOCIAL RISKS**

Name: IFRS 17, lessons and challenges – The Zambian case

Speaker: Michael Toms, Kevin Makokha

Organisation: Deloitte Touche Tohmatsu Limited



Meet Your Presenters



Kevin Makokha
Manager, Financial Institutions Services
Team, Deloitte Kenya

Actuary (FIA)
10+ years' experience

Professional bodies:
Institute and Faculty of Actuaries (IFOA)
The Actuarial Society of Kenya (TASK)



Michael Toms
Senior Manager, Deloitte Zambia

Actuary (FASSA, FIA)
11+ years' experience

Professional bodies:
Fellow of the Institute and Faculty of Actuaries
Fellow of the Actuarial Society of South Africa
Fellow and council member of the Actuarial
Society of Zambia



Agenda

1. Overview
2. Implementation Challenges – Globally
 1. Methodology
 2. Technical
 3. Operational
 4. Regulatory
3. Overview of the Zambian Insurance Landscape
4. Implementation Challenges – The Zambian Case
5. Solvency Calculations based on IFRS 17 Liabilities
6. Conclusion and Key Takeaways
7. Questions



Executive Overview

- Implementation timeline: December 2023
- Scope: All insurance companies in Zambia
- First reporting cycle completed

Key Implementation Challenges Globally



IFRS 17 Methodology Challenges

Contract Boundary
Risk Adjustment
Discount Rate
Contractual Service Margin and Loss Component
Coverage Units



Technical Challenges

Data Quality and Management
Systems and Technology
Actuarial Modeling



Operational Challenges

Resource Constraints
Process Adaptation
Cost Impact



Regulatory Environment

IFRS 17 Methodology Challenges



Contract
Boundary



Risk
Adjustment



Discount Rate



Contractual
Service Margin



Loss
Component



Coverage Units

IFRS 17 Methodology Challenges



Contract
Boundary



Risk
Adjustment



Discount Rate



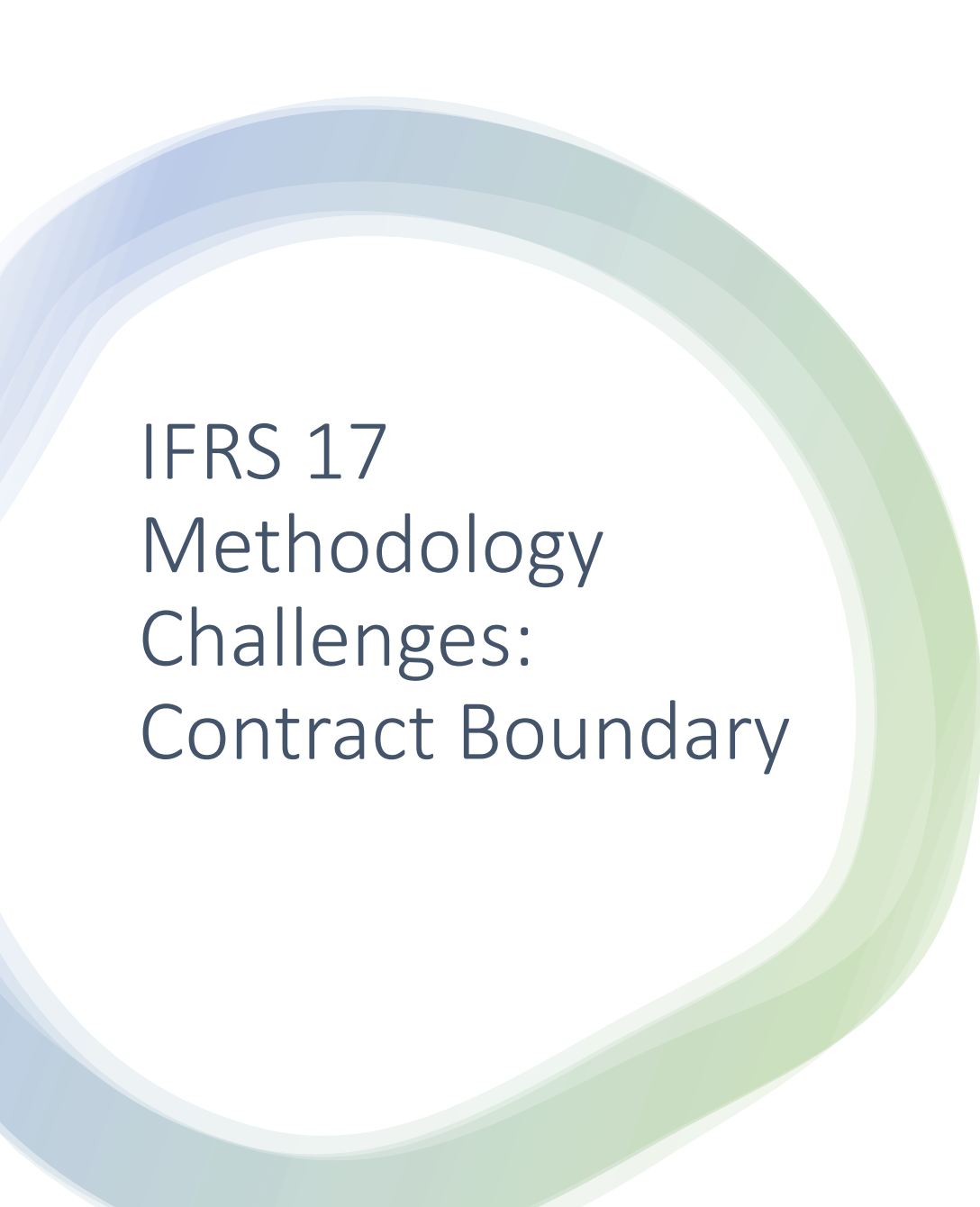
Contractual
Service Margin



Loss
Component



Coverage Units



IFRS 17 Methodology Challenges: Contract Boundary

Group Life Products:

- Annual renewable terms with informal continuation expectations
- Multiple premium payment patterns
- Embedded renewal options
- Discretionary pricing practices

South African Market:

- Complex group scheme arrangements
- Multiple benefit options
- Dynamic pricing structures
- Profit-sharing features

Nigerian Market:

- Informal renewal practices
- Limited pricing data
- Mixed payment terms
- Complex group structures

IFRS 17 Methodology Challenges: Risk Adjustment

Historical Volatility

- Limited claims history
- Inconsistent data quality
- Missing exposure data
- Incomplete risk factors

Market Considerations

- Limited market data
- High inflation environments
- Currency volatility
- Economic uncertainty



Simplified Approaches:

- Percentile methods
- Factor-based approaches
- Simplified CoC calculations
- Industry benchmarks

IFRS 17 Methodology Challenges: Discount Rate

Illiquid Markets

- Incomplete yield curves
- Illiquid long-term bonds
- Limited market depth

High Inflation Environments

- Real versus nominal rates
- Inflation adjustment methods
- High inflation environments
- Currency considerations
- Economic volatility



- Government bond based
- Expert judgement framework

IFRS 17 Methodology Challenges: CSM and Loss Component

Contractual Service Margin

- **Experience Adjustments**
 - Identification Framework:
 - Past vs future service
 - Direct attribution
 - Systematic allocation
- **System Requirements**
 - Tracking mechanisms
 - Allocation engines
 - Documentation tools
 - Audit trails



Loss Component

- **Identification Challenges**
 - Group definition
 - Allocation methods
 - Timing differences
- **Measurement Complexity**
 - Initial recognition
 - Subsequent measurement
 - Release patterns
 - Group transitions

IFRS 17 Methodology Challenges: Coverage Unit Considerations

Life Products

- **Traditional products**
 - Multiple benefits
 - Varying coverage levels
 - Benefit combinations
- **Investment products**
 - Unit-linked considerations
 - Investment components
 - Service elements
 - Mixed contracts



General Insurance

- **Multi-year contracts**
 - Exposure based
 - Claims expectation
 - Seasonality adjustments
- **Group Contracts**
 - Member level data
 - Benefit variations
 - Dynamic membership



Data Quality and Management

- Historical data gaps in policy records
- Inconsistent data formats across legacy systems
- Missing or incomplete claims data
- Difficulty in establishing cohorts for contracts
- Challenge in tracking contract modifications



Systems and Technology

- High cost of specialized IFRS 17 software
- Integration issues with existing accounting systems
- Performance bottlenecks during calculation runs
- Limited local technical support
- System reliability during peak reporting periods



Actuarial Modelling

- Complexity in determining risk adjustment
- Challenges in setting appropriate discount rates
- Difficulty in contract boundary determination
- Limited actuarial expertise in the market
- Complex reinsurance contract modelling

Technical Challenges

Operational Challenges

Resource Constraints



- Limited qualified personnel
- High cost of external consultants
- Training budget limitations
- Time pressure on existing staff
- Knowledge retention issues

Process Adaptation



- Complex workflow changes
- Increased documentation requirements
- Longer closing and reporting cycles
- Manual interventions needed
- Audit trail maintenance

Cost Impact



- Higher than expected implementation costs
- Ongoing system maintenance expenses
- Training and development costs
- External expertise fees
- Additional staffing requirements

Regulatory Environment Challenges

- Varying levels of regulatory readiness across jurisdictions
- Different interpretation of standards
- Multiple reporting requirements
- Limited regulatory guidance



South African Market

- Strong regulatory framework
- Early adoption support
- Detailed implementation guidelines
- Regular industry engagement

Nigerian Context

- Evolving regulatory requirements
- Multiple reporting frameworks
- Capacity building needs
- Industry coordination challenges

East African Community

- Regional harmonization efforts
- Cross-border considerations
- Varying implementation timelines
- Regulatory cooperation frameworks

Overview of the Zambian Insurance Landscape

PIA – Pensions and Insurance Authority is the regulatory body responsible for overseeing compliance

Predominantly smaller, growing insurers with limited resources

Profit margins are under pressure

Shortage of local actuarial and IFRS 17 expertise

Positive Outlook

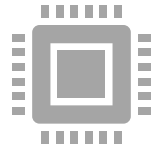
- Low insurance penetration rate indicating untapped market potential
- Expanding middle class
- Regulator is taking steps to strengthen solvency of insurance companies and protect policyholders

Implementation Challenges – The Zambian Case



Resource Constraints

Technical Expertise
Financial Constraints



Technology, systems and data

Legacy systems with limited support for IFRS 17's data and reporting demands
High costs associated with upgrading or replacing outdated systems
Data Quality
Data Granularity
Data Governance



Project Management and Planning

Delayed Start
Underestimated Complexity
Ambitious Timelines
Reliance on external consultants



Regulatory and Compliance issues

Increased difficulty for the regulator
Regulatory Uncertainty and Guidance
Other recent changes to regulatory landscape
Need for timely, clear communication

Solvency Calculations based on IFRS 17 Liabilities



Solvency calculations will now be based on IFRS 17 liabilities.



Potential problem

IFRS 17 Liability = BEL + RA + CSM

CSM represents unearned future profits

Inclusion of CSM increases liabilities as compared to IFRS 4

Could deteriorate the solvency position of many companies

Even though future profits could realistically cover liabilities and solvency



Different objectives

IFRS Balance Sheet: reflects the true financial position and performance over the contract's lifetime

Solvency Balance Sheet: adjusts the values to reflect risks and align with the capital adequacy framework

Solvency Calculations based on IFRS 17 Liabilities

Treatment of CSM in other regions

- Mauritius: CSM is included in available capital for solvency purposes
- South Africa, Zimbabwe, Europe: solvency approach similar to Solvency II, where CSM is not included in the liabilities
- Some countries are still reporting solvency on an IFRS 4 basis

Recommendation

- The CSM is a margin that represents unearned future profits that will be available in the future and realistically these can be used to cover the liabilities and solvency. Either:
 - Exclude CSM from solvency liability definition
 - Alternatively, add CSM to the available capital.

Conclusion and Key Takeaways

Summary of Key Challenges

Methodology
Systems and Technology
Data Quality Management
Operational
Resource Constraints
Project Management and Planning
Regulatory Uncertainty
Treatment of CSM for solvency purposes

Path Forward

Collaboration
Continuous Capacity Building

- Invest in technology, systems and processes
- Process Automation / Data Pipelines

Develop internal capacity and actuarial skills
Comprehensive data governance framework
Clear and Timely Communication from Regulator



Call-To-Action



Guidance from the regulator on the treatment of the CSM component of the IFRS 17 liability for solvency reporting purposes would be highly valuable



Invest in actuarial skills by supporting actuarial employees in their professional development, including assistance with exam fees and study leave for exams

Questions?

Thank you!

Kevin Makokha
Manager, Deloitte Kenya
kmakokha@deloitte.co.ke

Michael Toms
Senior Manager, Deloitte Zambia
mtoms@deloitte.co.zm