



**Asia-Pacific
Economic Cooperation**



APFF

Asia-Pacific Financial Forum

Conference on

Insurance Regulations and Accounting Possible Impact of IFRS 17 and New Solvency Regimes

Monday, 26 November

Hosted by:

Deloitte.

In collaboration with:



Agenda

- | | |
|-------------|--|
| 09:00-09:30 | Opening remarks |
| 09:30-10:30 | KEYNOTE ADDRESS: Mr. Darrel Scott, Board Member, IASB |
| 10:30-11:00 | Refreshment break |
| 11:00-13:00 | SESSION 1: IFRS 17 and key issues in the Asia-Pacific region |
| 13:00-14:00 | Lunch |
| 14:00-15.30 | SESSION 2: Impact of and preparation for IFRS 17 |
| 15.30-16.00 | Refreshment break |
| 16:00-17:30 | SESSION 3: Solvency regime and key issues in Asia-Pacific |
| 17:30-18:00 | Closing session |

Opening remarks

Mr. Francesco Nagari, Global IFRS Insurance Leader, Deloitte; IFRS 17 TRG member

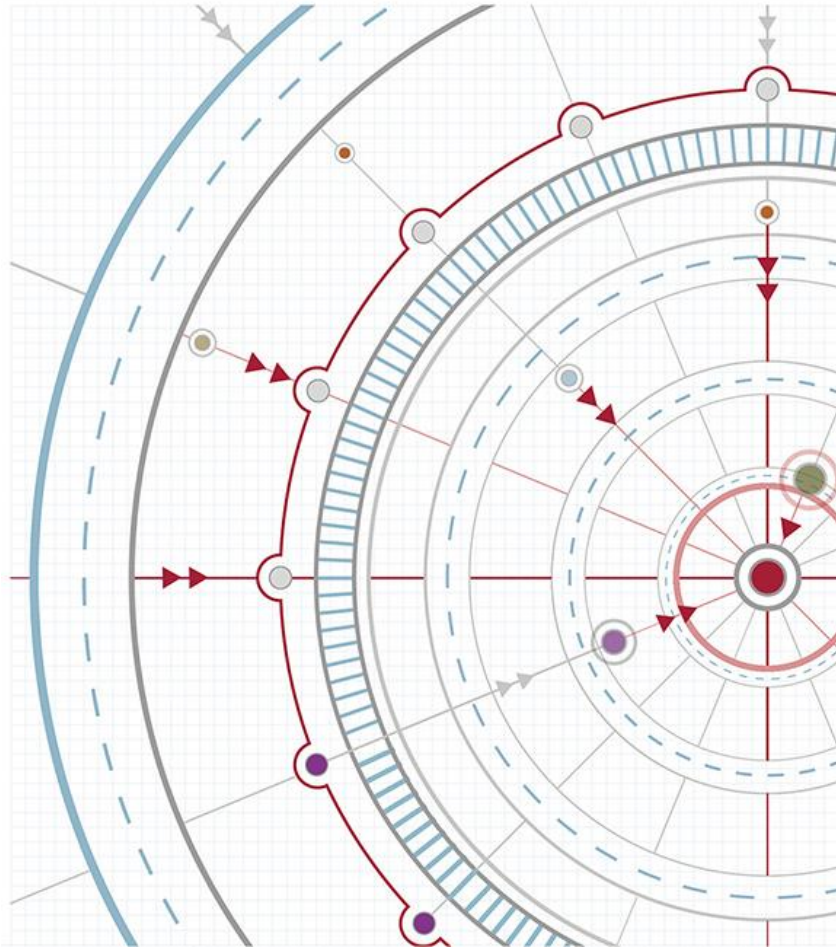
Mr. Clement Cheung Wan-ching, GBS, JS, Chief Executive Officer, Hong Kong Insurance Authority

Mr. Sai-Cheong Foong, Group Chief Actuary, AIA Group; IFRS 17 TRG member

Mr. Makoto Okubo, Sherpa, APFF Insurance and Pension Group; General Manager, Nippon Life Insurance Company

Keynote address

Mr. Darrel Scott, Board Member, International Accounting Standards Board (IASB)



IFRS 17 *Insurance Contracts* Implementation update

APFF Conference
Hong Kong, 26 November 2018
Darrel Scott
International Accounting Standards Board

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.

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Today's agenda

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- IFRS 17 timeline and IASB support for IFRS 17 implementation

- Overview of TRG and submissions received

- Current deliberations

- Next steps

- Supporting materials

Timeline



IFRS 17 timeline

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| | | | | | | | | | |
|---------------------|--|--|----------------------|-----------------------------|------------------------|----------------------------------|---|---------------------------|------------|
| | | Companies disclose the expected impacts of IFRS 17 | | | | | | | |
| 2017 | | 2018 | | | 2019 | | 2020 | 2021 | |
| Issuance of IFRS 17 | IASB support for IFRS 17 implementation | | | | | | | IFRS 17 is effective | |
| 18 May 2017 | H2 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q1 2019 | Q2 2019 | H2 2019 | 1 Jan 2020 | 1 Jan 2021 |
| | | TRG Meeting 6 February | TRG Meeting 2 May | TRG Meeting 28 September | TRG Meeting 4 April | Potential additional TRG Meeting | | Comparative period begins | |
| Expected | Some companies begin implementation process General questions Contentious / specific implementation question | | | | | | Companies are finalising implementation | | |
| Objective | Monitor and proactively support implementation | | | | | | Period of Calm | | |

Overview of TRG and submissions received



Purpose of Transition Resource Group

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Public forum for discussion
of submitted questions

Helps companies to
implement IFRS 17

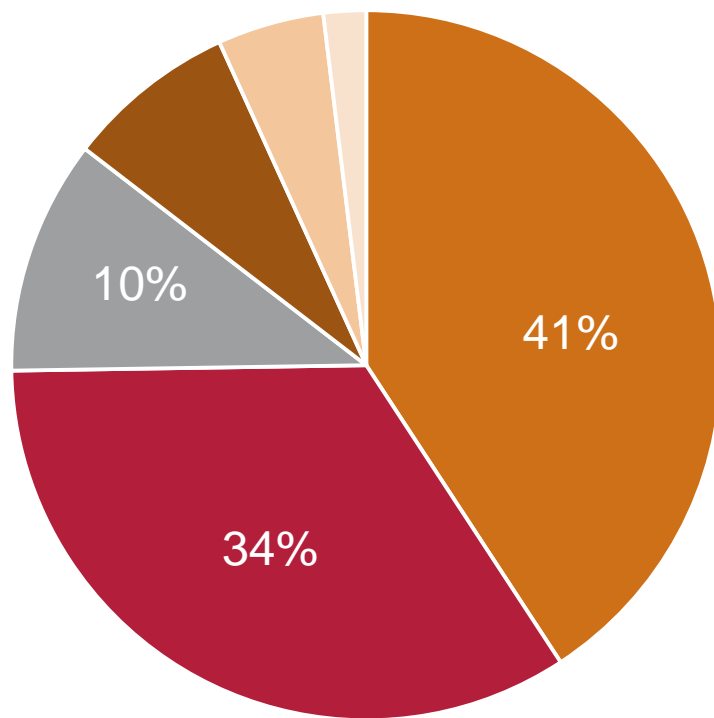
Helps the Board to identify if
more support is needed

3 meetings held

Webcasts, papers and summaries available for
each meeting

Overview of submissions received

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- 42 - Topic Specific TRG Papers
- 35 - Answered applying only words of IFRS 17
- 11 - Did not meet the submission criteria
- 8 - Board process (Implementation challenges)
- 5 - Board process (Educational, editorial, AIP)
- 2 - Future TRG Paper


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submissions as at November 2018

TRG discussions

First half of 2018

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|  | Topics discussed |
|---|---|
| ① | Scope of IFRS 17 |
| ② | Cash flows within the contract boundary |
| ③ | Coverage units for allocating the CSM |
| ④ | Risk adjustment in a group of entities |
| ⑤ | Boundary of reinsurance contracts held |
| ⑥ | Insurance acquisition cash flows |

Does IFRS 17 permit the separation of different insurance components of a single contract for measurement purposes?



TRG observations

- **Lowest unit of account** is **the contract** that includes all insurance components
- A contract with **legal form** of a single contract would generally be considered a **single contract in substance**
- Separation could be appropriate **if legal form** of a contract **does not reflect substance** of contractual rights and obligations
- Assessment of **all relevant facts** and circumstances, **not** policy choice
- Reinsurance contract held: fact that **underlying contracts** are included **in different groups** is **not sufficient** to conclude that accounting as a single contract does not reflect its substance

When may it be necessary to treat a set or series of insurance contracts as a single contract?



TRG observations

- Judgement and consideration of all relevant facts and circumstances
- A set or series of insurance contracts with the same counterparty entered into at the same time is not, in itself, sufficient to conclude that those contracts should be combined
- The existence of a discount, in itself, does not mean that a set or series of contracts should be combined
- The principles combining and separating are consistent

What constraints are relevant in assessing the practical ability of an entity to reprice contracts to reflect their reassessed risks?



TRG observations

- A constraint that equally applies to new contracts and existing contracts would not limit an entity's practical ability to reprice existing contracts to reflect their reassessed risks
- IFRS 17 does not limit pricing constraints to contractual, legal and regulatory constraints
- A constraint that limits an entity's practical ability to price or reprice contracts differs from choices that an entity makes (pricing decisions)
- Apply judgement to decide whether commercial considerations are relevant

2 Annual repricing mechanisms

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Which risks are relevant when determining the boundary of contracts with annual repricing mechanisms?



TRG observations

- Extension of the reassessment of the policyholder risk from individual to portfolio level does not extend policyholder risks to all types of risks
- Policyholder risk includes both the insurance risk and the financial risk transferred from the policyholder to the entity
- All relevant facts and circumstances need to be considered
- for example, if the entity has the practical ability to reassess risks only at a general level (eg for a general community rather than for the specific portfolio) the contract boundary would be longer than one year

2 Options to add insurance coverage

17

Are cash flows related to premiums after an option exercise date within the contract boundary?



TRG observations

- An option to add insurance coverage at a future date is a feature of the contract; unless considered to be a separate contract, the option is not measured separately from the remainder of the contract
- Cash flows from the option would be within the contract boundary if the entity does not have the practical ability to reprice the whole contract when the policyholder exercises the option
- If the option is in the contract boundary, the measurement of the group of contracts reflects, on an expected value basis, estimates of how the policyholders in the group will exercise the option

3 Quantity of benefits

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How does an entity determine the quantity of benefits for identifying coverage units?



TRG observations

- Judgement and estimates required to best achieve the principle of reflecting the services provided in each period; not an accounting policy choice
- An entity should:
 - reflect different levels of services across periods
 - consider the benefits expected to be received by the policyholder, not the costs of providing those benefits
- Different methods can be used as long as they achieve the objective of reflecting the insurance services provided in each period

3 Quantity of benefits (VFA)

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How does an entity determine the quantity of benefits for identifying coverage units? (variable fee approach)



TRG observations

- IFRS 17 identifies variable fee approach (VFA) contracts as contracts that provide both insurance services and investment-related services
- For those contracts:
 - services: insurance and investment-related services
 - benefits: insurance and investment-related benefits
 - coverage duration: duration of insurance and investment-related services
- Different views on whether it is necessary to clarify that coverage period for VFA includes the period in which investment-related services are provided



In June 2018 the Board decided to make that clarification as part of the annual improvements to IFRS Standards

At which level should the risk adjustment be determined in the individual and consolidated financial statements?



TRG observations

- IFRS 17 does not specify the level at which to determine the risk adjustment
- Issuing entity reflects, in risk adjustment, risk diversification available at group level if, and only if, diversification is considered when determining the compensation for bearing non-financial risk related to the contracts it issues
- For a group of insurance contracts, the risk adjustment at consolidated group level is the same as the risk adjustment at individual issuing entity level
- Some TRG members thought there could be different risk adjustments at different reporting levels in the group (less practical to implement)
- Consistent application across groups of contracts

5 Boundary of reinsurance held

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How do contract boundary requirements apply to reinsurance contracts held by insurers?



TRG observations

- Cash flows are within the boundary of a reinsurance contract held when the entity has an obligation to pay amounts to the reinsurer or a substantive right to receive services from the reinsurer
- This substantive right ends when the reinsurer
 - has the practical ability to reassess the risks transferred to it and
 - can set a price or level of benefits that fully reflects the reassessed risks
- The boundary of a reinsurance contract held could include cash flows from underlying contracts covered by the reinsurance contract that are expected to be issued in the future

5 Reinsurance held with repricing

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How does an insurer determine the boundary of a reinsurance contract held when the reinsurer can reprice remaining coverage?



TRG observations

- The insurer must consider whether either:
 - it has a substantive right to receive services or
 - it is compelled to pay amounts to the reinsurer
- Both rights and obligations need to be considered when assessing the boundary of a contract
- A right to terminate coverage that is triggered by the reinsurer's decision to reprice the reinsurance contract is not relevant when considering whether a substantive obligation to pay premiums exists

How should unconditionally paid insurance acquisition cash flows be accounted for when the entity expects future renewals?



TRG observations


- Insurance acquisition cash flows that are directly attributable to individual contracts (or a group) should be included only in the measurement of the group to which the individual contracts belong (or of that group) and not to other groups within the same portfolio
- If a commission is paid unconditionally on the initially written contract it cannot be allocated to future groups recognised on renewal or other groups that do not contain these contracts
- the commission is included in the measurement of the group to which the initially issued contract belongs

Are insurance acquisition cash flows that occurred before transition required to be identified and recognised as revenue and expenses?



TRG observations

- When applying the fair value approach on transition, the measurement of the contractual service margin does not include insurance acquisition cash flows that occurred before the date of transition
- These cash flows are not included in insurance revenue and expenses in reporting periods after the date of transition

|  | Selected topics |
|---|--|
| ① | Insurance risk consequent to claims |
| ② | Commissions and reinstatement premiums in reinsurance contracts issued |
| ③ | Cash flows within the contract boundary |
| ④ | Premium waivers |
| ⑤ | Annual cohorts |

Should an entity record its obligation as a liability for incurred claims or a liability for remaining coverage?

TRG observations

- For example, are annuity payments made as a result of the policyholder's disability considered a liability for incurred claims or a liability for remaining coverage
- It is an accounting policy
 - use judgement, based on the specific facts and circumstances, considering which interpretation provides the most useful information about the nature of the services provided
 - apply consistently for similar transactions and over time
- The accounting policy does not impact the fulfilment cash flows but does impact subsequent accounting for the CSM

2 Reinsurance revenue and expenses

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How should ceding commissions due to a cedant and reinstatement premiums paid to the reinsurer be presented by a reinsurer?

TRG observations

- Reinsurer should look at the economic effect of the exchanges with the cedant to determine the appropriate presentation, regardless of whether cash flows are described as ‘commissions’, ‘premiums’ or ‘claims’
- Cash flows not contingent on claims
 - same economic effect as charging lower (or higher) premiums
 - part of the insurance revenue
- Cash flows contingent on claims
 - same economic effect as reimbursing higher (or lower) claims
 - part of the insurance service expense

3 Options to add insurance coverage

28

Are cash flows related to premiums after an option exercise date within the contract boundary?

TRG observations

- An option to add insurance coverage at a future date is a feature of the contract; unless considered to be a separate contract, the option is not measured separately from the remainder of the contract
- Cash flows from the option would be within the contract boundary if the entity does not have the practical ability to reprice the whole contract when the policyholder exercises the option
- If the option is in the contract boundary, the measurement of the group of contracts reflects, on an expected value basis, estimates of how the policyholders in the group will exercise the option

This question was discussed by the TRG in May 2018

3 Exercising a renewal option

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How should an insurer account for the exercise of a renewal option if cash flows related to renewal periods were outside the contract boundary on initial recognition?

TRG observations

- If cash flows outside the contract boundary on initial recognition (eg insurer has a right to reprice premiums) subsequently occur, they arise from the substantive rights and obligations of a new contract
 - cash flows relating to the same legal contract could fall into more than one group of insurance contracts
- Cash flows may be outside the contract boundary on initial recognition because constraints to reprice the contract had no commercial substance. If circumstances change, contract boundaries are reassessed and the CSM of the existing group of contracts is adjusted

Is a premium waiver an insurance risk transferred to the entity by the policyholder or a new risk created by the contract?

TRG observations

- Premium waivers relate to a pre-existing risk; for example, disability is a pre-existing risk in a life insurance contract that waives premium if the policyholder becomes disable
- A premium waiver in an investment contract makes the contract an insurance contract
- An entity considers the associated insurance benefit (the waiver benefit) in determining the coverage units used to allocate the contractual service margin to profit or loss

When would measuring the CSM at a higher level than an annual cohort level (eg portfolio level) achieve the same accounting outcome as measuring it at an annual cohort level?

TRG observations

- When contracts share in 100 percent of the returns of a pool of underlying items, the CSM would be zero
 - measuring the CSM at a level higher than the annual cohort would achieve the same outcome as applying annual cohorts
- When contracts share less than 100 percent of the returns of a pool of underlying items, a CSM is recognised for each group
 - need to determine whether measuring the contracts at a higher level than the annual cohort would still result in the same outcome as applying annual cohorts

Current deliberations



Criteria for possible amendments

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- Would **consider at a future meeting** whether concerns and implementation challenges indicate a need to amend IFRS 17
- Board decided any amendment must
 - **Be needed**, and
 - Must not result in **significant loss of useful information**, and
 - Must **not unduly disrupt** implementation
- A **significant loss of useful information** occurs if there is:
 - a reduction in **relevance and faithful representation**;
 - **reduced comparability** or the introduction of internal inconsistency; or
 - **increased complexity** for users

Concerns and implementation challenges

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- Discussed **overview** of concerns and implementation challenges
- High level:
 - Scope: Loans and VFA
 - Level of aggregation: Cohorts
 - Measurement:
 - risk adjustment,
 - coverage units,
 - discount rates and
 - reinsurance
 - Presentation: Gross versus net
 - Effective date and transition

- Given plans to consider whether to explore amendments, Board tentatively decided that:
 - The mandatory effective date should be deferred to 2022;
 - the fixed expiry date for applying IFRS 9 should be amended so that insurance entities would be required to apply IFRS 9 in 2022

Next Steps

Possible amendments

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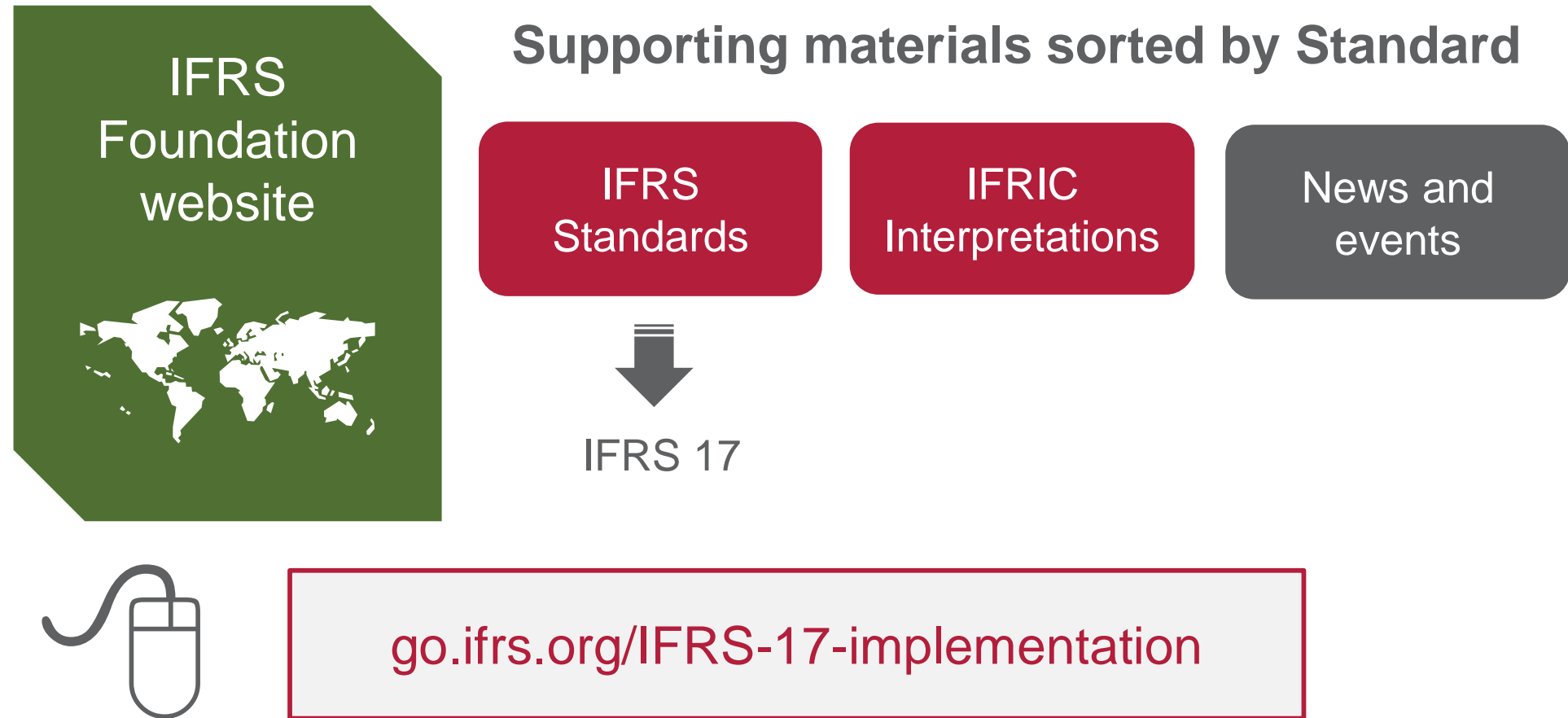
- Possible amendments identified in October 2018 will be measured against Board criteria identified at same meeting
- Expected staff will bring possible amendments to board over 3 or 4 tranches
- First papers expected in December

Supporting materials

Supporting materials on the website

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Series of IFRS 17 webinars and webcasts

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2017

1

Introduction to IFRS 17

2

Scope of IFRS 17

3

Measurement essentials of IFRS 17

4

Simplified accounting for contracts with short coverage periods

5

Reinsurance contracts held

6

Recognition and derecognition

7

Transition to IFRS 17



2018

8

Level of aggregation

9

Recognising the contractual service margin in profit or loss

10

Insurance contracts with participation and other features

Supporting materials for investors

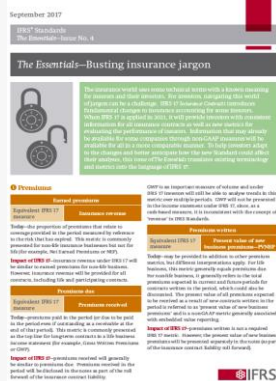
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IFRS 17 for investors

How does IFRS 17 work and what does it mean for investors?

Available on IFRS Foundation website and on IFRS Foundation YouTube channel



The Essentials for investors—
translates existing terminology and metrics into the language of IFRS 17



Investor Perspectives:
Accounting to reflect economics—why the unit of account matters to investors

Other supporting materials

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Video explaining three ways the IFRS Foundation supports implementation of IFRS 17



Board members **articles**

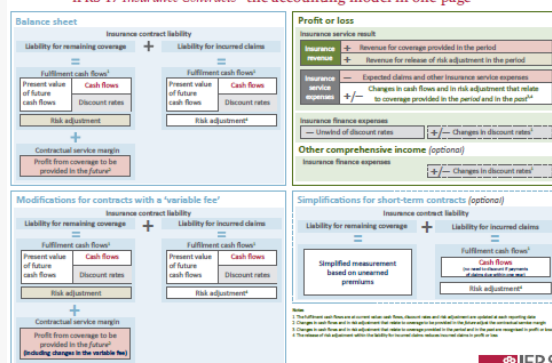
What investors asks about IFRS 17

IFRS 17—Help is at hand

Transitioning to the new IFRS Standard for insurance contracts

Reducing the gap between insurance and other industries

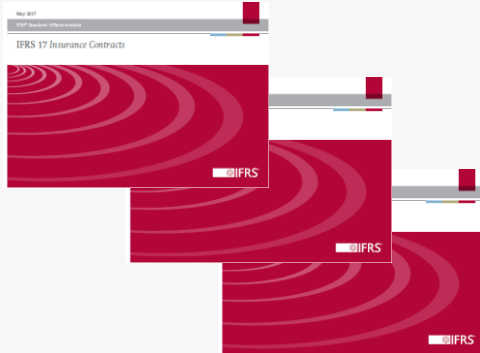
IFRS 17 Insurance Contracts—the accounting model in one page



Summary of the IFRS 17 accounting model in **one page**

Materials published in May 2017

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- **IFRS 17 Insurance Contracts**—specifies requirements for accounting for insurance contracts
- **Basis for Conclusions on IFRS 17**—summarises the Board’s considerations in developing the requirements in IFRS 17
- **Illustrative Examples on IFRS 17**—illustrate aspects of IFRS 17 but provide no interpretative guidance
- **Effects Analysis on IFRS 17**—describes the likely costs and benefits of IFRS 17
- **Project Summary of IFRS 17**—provides an overview of the project to develop IFRS 17
- **Feedback Statement on IFRS 17**—summarises feedback on the proposals that preceded IFRS 17 and explains the Board’s response

Keep up to date

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Refreshment break

SESSION 1: IFRS 17 and key issues in the Asia-Pacific region

Address

Mr. Makoto Okubo, Sherpa, APFF Insurance and Pension Group;
General Manager, Nippon Life Insurance Company



**Asia-Pacific
Economic Cooperation**



Asia-Pacific Financial Forum (APFF)

APFF work and key issues on IFRS17 in the Asia-Pacific

Makoto Okubo, Nippon Life Insurance Company

Sherpa, APFF Insurance and Pension Group

26 November 2018, Hong Kong

Diversity in use of IFRS around the globe



(United States)



(France)



(Germany)



(Switzerland)



(Italy)



(United Kingdom)



(Australia)



(Canada)



(Mexico)



(Chile)



(Russia)



(Kenya)



(Egypt)



(Singapore)



(Malaysia)



(Thailand)



(China)



(Korea)



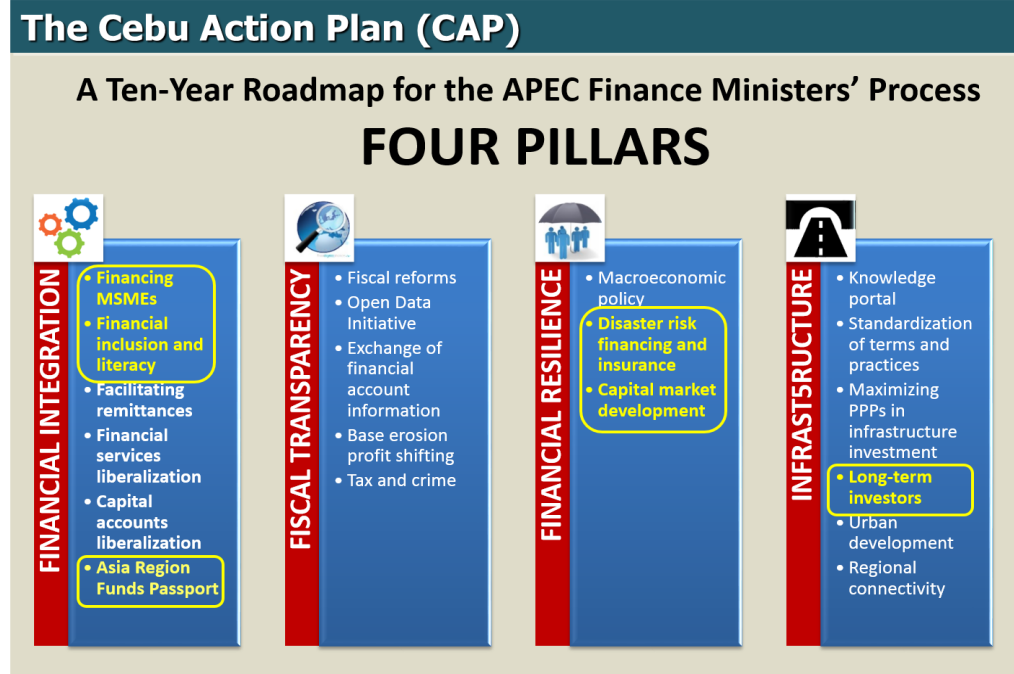
(Japan)



(India)

What is APFF?

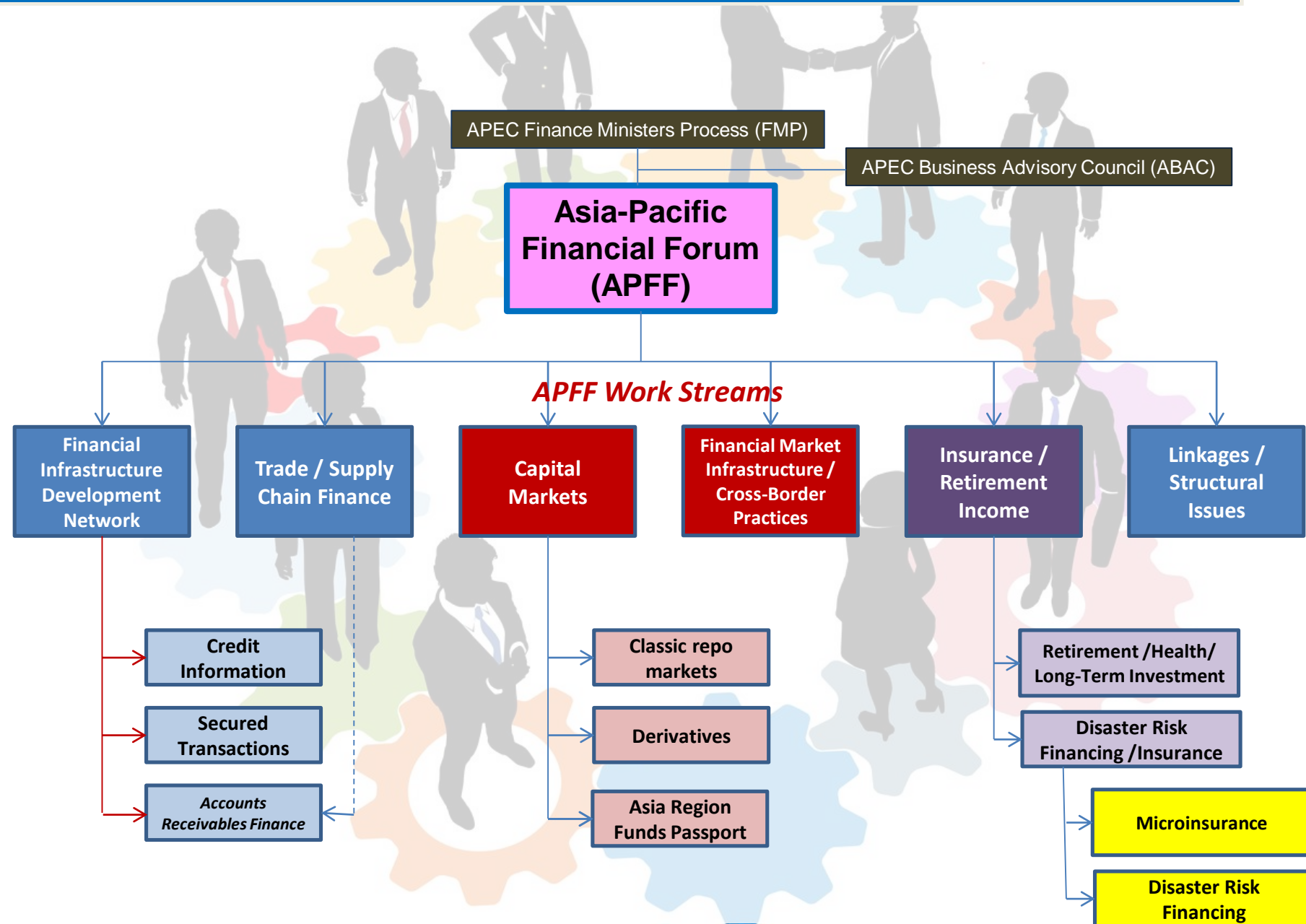
- APFF is a regional platform for **collaboration among public sector, private sector and multilateral institutions** to help accelerate the development and integration of financial markets and services in the APEC region.
- APFF is an official policy initiative under the **APEC Finance Ministers' Process**. It has been tasked to support the implementation of the Ministers' **Cebu Action Plan** (a 10-year roadmap for the development and integration of financial markets in the region).
- The management of APFF has been entrusted by the Finance Ministers to the private sector through the **APEC Business Advisory Council (ABAC)**, which reports its progress to APEC senior finance officials and ministers regularly throughout the year.



The APFF Network



The APFF Structure



Financing the Expansion of the Region's Infrastructure

- Development of Bankable Infrastructure PPP Pipeline
- Advancing The Islamic Infrastructure Investment Platform (I3P)
- Expanding the Region's Long-Term Investors Base
 - *Promoting insurers' and pension funds' roles to support **sustainable, resilient and inclusive growth and development** of the Asia-Pacific region*
 - **Infrastructure Investment:** Continue dialogue with policymakers and authorities to expand quality infrastructure investments by insurers and pension funds, and examine possible improvement including **financial vehicles, sustainable investing** and **regulatory changes**.
 - **Regulation and accounting:** Continuous outreach with policymakers, regulatory authorities and accounting standards setters, focusing on **the adoption of solvency and accounting regimes that do not discourage insurers from engaging in long-term business and making long-term investment in infrastructure and capital markets**. (i.e. **IFRS17** and **IFRS9**, including its impact on **solvency assessment**)
- Developing Deep and Liquid Capital Markets

Regulatory issues and recommendations

1. Bank-centric regulations

- ❑ *Standards should reflect long-term nature of insurers*
- ❑ *Insurers should be allowed to invest in assets with **long-term growth opportunities**, such as infrastructure investments*



(Photo – Beijing, China)

2. Short-term oriented economic regime

- ❑ *Economic regime should have a long-term vision*
- ❑ *Insurers and investors should be encouraged to make decisions to **be good in the long-run rather than looking good at a given moment***



(Photo – All Nippon Airways)

3. “One-size-fits-all” models

- ❑ *Standards should be principle-based and aim to achieve comparable outcome by taking into account **the diversity in different jurisdictions***



(Photo: New York, USA)

Accounting issues and recommendations

■ Volatility in the balance sheet

- *Short-term fluctuation should be avoided*
- *Assets-liabilities interaction should be reflected for a wide range of products sold in the region*
- *Discount rate should reflect the business*



(Photo: Salsa @ Tokyo, Japan)

■ Volatility in the income statement

- *The optional use of OCI for insurance liabilities and corresponding assets*
- *and items of income and expenses presented in OCI should be permitted to be recycled*
- *The treatment of changes in estimated cash flows and that of discount rates should be consistent*



■ Other issues

- *Standards should reflect how an entity conducts its business in terms of (a) the unit of account, (b) the selection of a measurement basis, (c) presentation and disclosure*
- *Flexibility should be given in adopting transition requirements (i.e. prospective approach)*

IFRS17 and recent development

- On May 18 2017, the IASB published IFRS17, which would require fulfillment value and provide consistent and principle-based accounting requirements for insurance contracts, which supersedes IFRS4 and its effective for periods beginning on and after **1 January 2021**, with earlier adoption permitted if both IFRS15 and IFRS9 have also been applied.
- APFF held meetings and dialogues and as a result observed some improvements in the final IFRS17 from the previous versions including:
 - **Permission of optional OCI**
 - **Introduction of VFA**
 - **Alternative approach for CSM at transition**
- There are some technical and practical aspects yet to be addressed. APFF intends to be involved in the interpretation and implementation process in collaboration with other bodies (i.e. **Technical Resource Group, Hug Group, GCG, European stakeholders**)
- On October 24 2018, the IASB decided to consider at a future meeting whether any concerns and implementation challenges indicate **a need to amend the requirements of IFRS 17**.
- During its November Board Meeting, the IASB voted to postpone the effective date of IFRS 17 and the temporary exemption to IFRS 9 in IFRS 4 to **January 1, 2022**.

Remaining issues for discussion (examples in Europe)

■ CFO Forum (3 July 2018)

Measurement Issues

- ☐ Acquisition cash flows
- ☐ CSM amortisation
- ☐ Discount rates
- ☐ Multi-component contracts
- ☐ Reinsurance
- ☐ Scope of hedging adjustment
- ☐ Scope of the VFA vs GMM and PAA
- ☐ Transition

Operational complexity

- ☐ Business combinations
- ☐ Level of aggregation
- ☐ Presentational issues

Other implementation challenges

- ☐ Pressure on implementation timeline

■ EFRAG (3 September 2018)

- ☐ Acquisition costs
- ☐ CSM amortisation
- ☐ Reinsurance
- ☐ Transition
- ☐ Annual cohorts
- ☐ Balance sheet presentation

■ Insurance Europe (3 October 2018)

- ☐ IFRS17 must be re-opened to address the 11 issues identified during the testing
- ☐ Implementation needs to be delayed by two years



(Source: Bellemaison.jp)

25 Topics for discussion listed by the IASB Staff

- Scope of IFRS17
 - ☐ Loans and other forms of credit that transfer insurance risk
- *Level of aggregation of insurance contracts*
- Presentation in the statement of financial position
 - ☐ Separate presentation of groups of assets and groups of liabilities
 - ☐ Premiums receivable
 - ☐ OCI option for insurance finance income or expenses
- Defined terms
 - ☐ Insurance contract with direct participation features
- Interim financial statements
 - ☐ Treatment of accounting estimates
- Effective date
 - ☐ Date of initial application of IFRS 17
 - ☐ Comparative information
 - ☐ Temporary exemption from applying IFRS 9
- Transition
 - ☐ Optionality
 - ☐ Modified retrospective approach: further modifications
 - ☐ Fair value approach: OCI on related financial assets
- Measurement
 - ☐ Acquisition cash flows for renewals outside the contract boundary
 - ☐ Use of locked-in discount rates to adjust the contractual service margin
 - ☐ Discount rates and risk adjustment
 - ☐ Risk adjustment in a group of entities
 - ☐ Contractual service margin: coverage units in the general model
 - ☐ Contractual service margin: limited applicability of risk mitigation exception
 - ☐ Premium allocation approach: premiums received
 - ☐ Business combinations: classification of contracts
 - ☐ Business combinations: contracts acquired during the settlement period
 - ☐ Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous
 - ☐ Reinsurance contracts held: ineligibility for the variable fee approach
 - ☐ Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued

Other issues on IFRS17 implementation

- IASB issued an education material “***Insurance contracts issued by mutual entities***”, including the following points. Some clarification may be needed to reflect the diversity of mutual entities in different economies.
 - Contracts with policyholders with a residual interest in the mutual entity will result in no CSM
 - Conventional insurance contracts (i.e. **non-participating policies**) are expected to have a CSM
 - For a mutual entity, there should normally be no equity remaining, but accounting mismatch may result in reported equity for financial reporting purposes, which likely to be negative
 - **Risk adjustment** for contracts with policyholders with a residual interest in a mutual entity reflects the compensation the mutual entity requires for bearing the uncertainty from the non-financial risk in those contracts
- A number of jurisdictions may use IFRS17 as basis for solvency assessments and in such cases impact of IFRS17 would go beyond financial reporting. Areas which may need attention include:
 - Contract Services Margin (CSM)
 - Scope and definition of insurance
 - Grouping of contracts and separation of components
 - Cash flows and discount rate
 - Reinsurance contracts

IFRS17 status in the Asia Pacific



Australia: IFRS included in Australian Accounting Standards



Canada: IFRS adopted in Canadian Accounting Standards



Chile: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17



China: Local GAAP is usually converged to IFRS. Ongoing discussion on IFRS17



Chinese Taipei: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 2024



Hong Kong: IFRS17 endorsed and adopted into Hong Kong Financial Reporting Standards



Indonesia: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 1 or 2 years after 2021



Japan: IFRS permitted for consolidated statement for publicly traded companies. JMIS (Japan Modified International Standards) to be issued based on IFRS with minimal changes after an endorsement process.



Korea: IFRS adopted in Korean Financial Reporting Standards

IFRS17 status in the Asia Pacific (*cont.*)



Malaysia: IFRS17 endorsed by Malaysian Accounting Standards Board



Mexico: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17



New Zealand: NZ IFRS issued as substantially identical to IFRS. IFRS17 ratified by the New Zealand External Reporting Board



Peru: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17



Philippines: Local GAAP is usually converged to IFRS. Ongoing discussion on IFRS17



Russia: IFRS endorsed by the Russian Government



Singapore: IFRS17 endorsed and adopted into Singapore Financial Reporting Standards



Thailand: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 2022



United States: Domestic public companies must use US GAAP. Target improvements for non-participating long-duration contracts



Vietnam: IFRS is not permitted, but local GAAP is converged with some changes to IFRS

Some words from Taoism - yin and yang

- **Have a holistic vision**
- **Be aware that the world is cyclical**
- **Don't go to the extreme, otherwise you will fall**
 - Bring the balance of yin and yang to the universe
- **In order to get inside, you need to go outside**
- **In order to manage the world, you should control yourself**
 - In order to implement international standards, you should first know your own country



(Photo – Tao Garden, Chang Mai, Thailand)


Asia Pacific Financial Forum (APFF)

APFF work and key issues on IFRS17 in the Asia-Pacific

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ASIA-PACIFIC

ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016

September 5, 2016

ABAC submitted the 2016 Progress Report of the APFF (Asia Pacific Financial Forum) to APEC Finance Ministers. This Progress Report covers the following areas to provide information and high-level recommendations to support Cebu Action Plan in the Asia Pacific: Advancing ...

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Recent Posts

- ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016 September 5, 2016
- Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26 August 29, 2016
- Mack participated in the APFF Roundtable and the ABAC meetings in Shenzhen, August 1-4, 2016 August 28, 2016

ASIA-PACIFIC

Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26

August 29, 2016

The National Association of Insurance Commissioners (NAIC) hosted the Third Annual Asia-Pacific International Forum on August 24-25.

NAIC NEWS RELEASE: NAIC HOSTS THIRD ANNUAL ASIA-PACIFIC INTERNATIONAL FORUM

Mack made remarks to share the APFF activities, issues and recommendations during the panels on Retirement Security, FinTech, and Cyber Security.

Members Only

- APFF Insurance and Retirement Income Workstream

Resources

- APEC Business Advisory Council(ABAC)
 - APFF Page
- National Center for APEC (NCAPEC)

*For more details on the APFF, visit **mackglobe.com** or email **Makoto Okubo (m-okubo@nipponlifeglobal.com)***

Panel discussion

Moderator: Mr. James d'Haussonville, Partner, Deloitte China

Mr. Francesco Nagari, Global IFRS Insurance Leader, Deloitte; IFRS 17 TRG member

Mr. Sai-Cheong Foong, Group Chief Actuary, AIA Group; IFRS 17 TRG member

Ms. Christina Ng, Director, Hong Kong Institute of Certified Public Accountant

Lunch

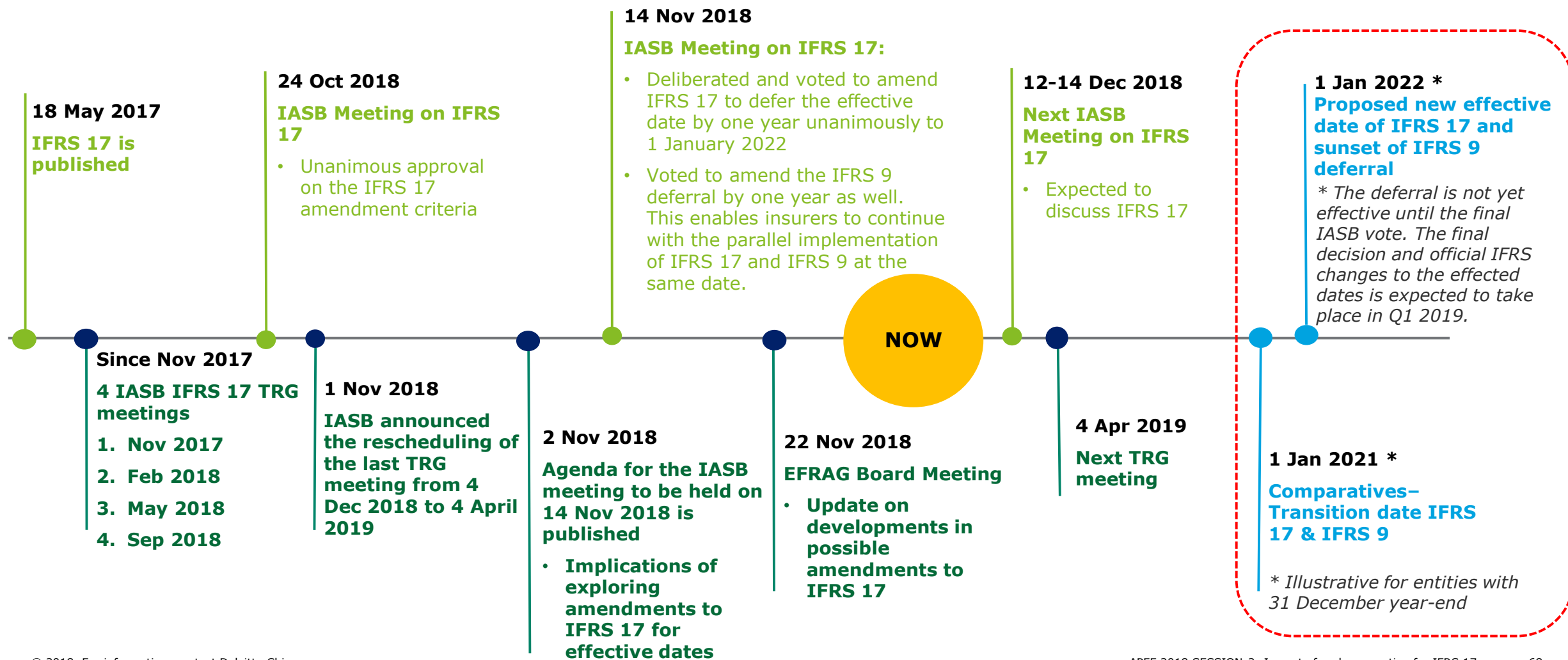
SESSION 2: Impact of and preparation for IFRS 17

Address

Mr. Francesco Nagari, Global IFRS Insurance Leader, Deloitte; IFRS 17 TRG member

The IFRS 17 timeline

The complexity of the new requirements will require significant time to design and implement any necessary finance and actuarial solution to deliver compliant financial statements.



Highlights of the IASB meeting on 24 October 2018

The Board had previously indicated that it would consider whether additional action is needed to address matters arising during IFRS 17 implementation.

IASB approved unanimously the criteria to amend IFRS 17 from Agenda Paper 2C. These criteria are sufficient to identify amendments but they do not determine if the amendment is necessary.



Highlights of the IASB meeting on 24 October 2018

A paper was tabled which contained 25 issues regarding IFRS 17. Three of those issues were resolved by the subsequent vote on 14 November to delay the effective date of the standard. The remaining 22 issues may be progressed as follows.

The Staff tentatively suggested a favourable amendment for 6 issues out of 22.

Scope, credit cards

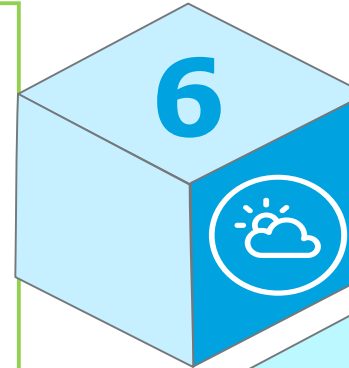
Acquisition cash flows

CSM: coverage units in the general model

Measurement of Reinsurance held at initial recognition

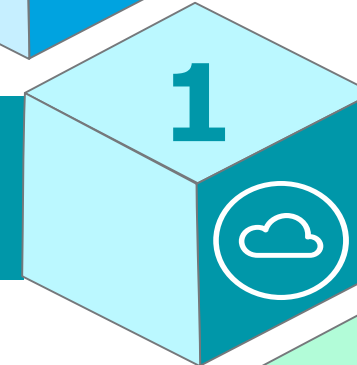
Presentation of insurance contract asset/liabilities at the level of groups of insurance contracts

Modified retrospective approach restrictions

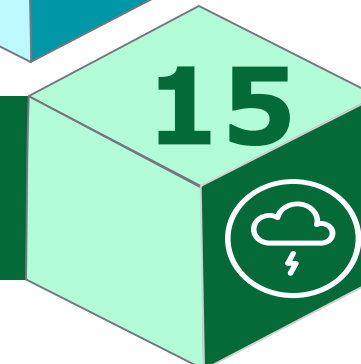


In one case the amendment would clarify rather than change IFRS 17

Measurement of the RA at group and subsidiary level



The Staff were tentatively contrary to amend IFRS 17 for the remaining 15 issues



How will IFRS 17 impact insurers?

IFRS 17 will have a significant impact on the operating model of insurers. Six groups of stakeholders will be affected and insurers need to manage these relationships effectively to ensure the overall market impact is beneficial.

1 Impact: Market reporting

Market reporting has the greatest impact upon compliance with IFRS 17

- Accounting – substantial change in financial reporting
- Management Reporting – KPIs adapted to new external measurements
- Investor Relations to drive a journey for investors to receive and use effectively the new IFRS information

2 Impact: Processes, Systems & Data

- Risk - Risk reporting and IFRS reporting need to be aligned. Differences need to be reconciled and explained
- Actuarial - Existing models need to be adapted to the new regulations
- Operations and IT - New requirements need to be designed, implemented, tested, brought into production, maintained and operated

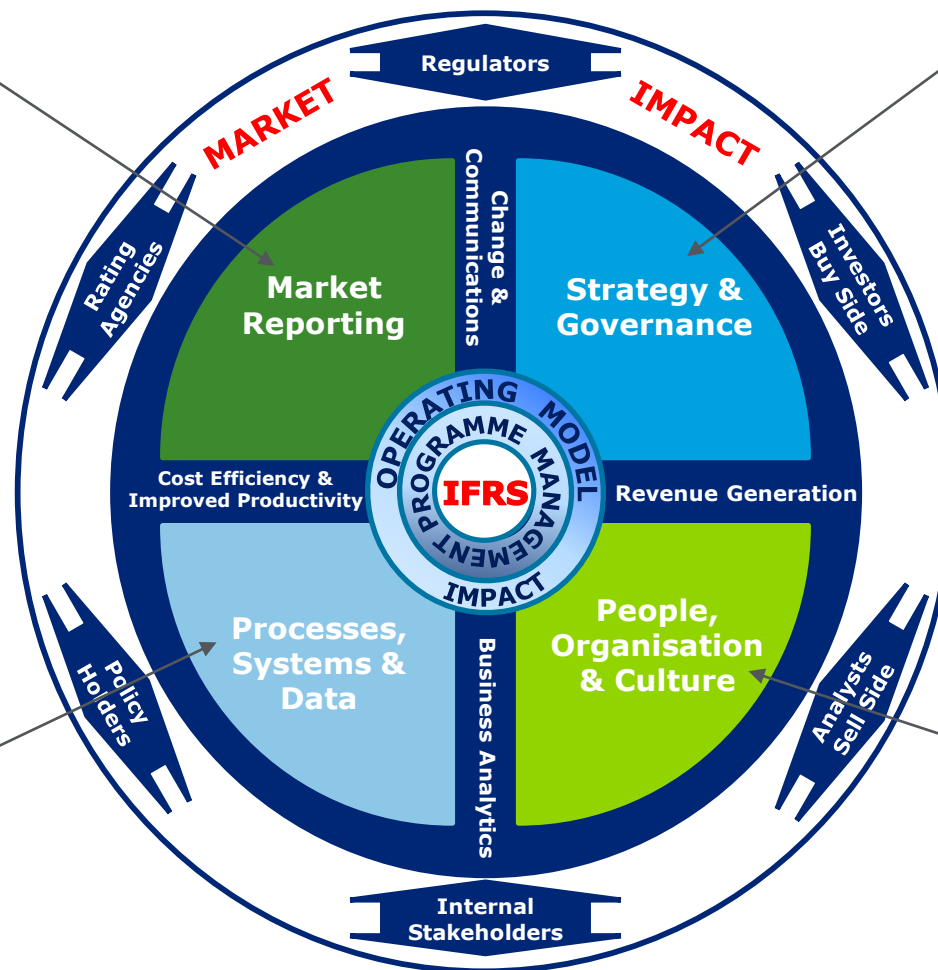
3 Strategy & Governance

Compliance vs. transformation induced by IFRS 17

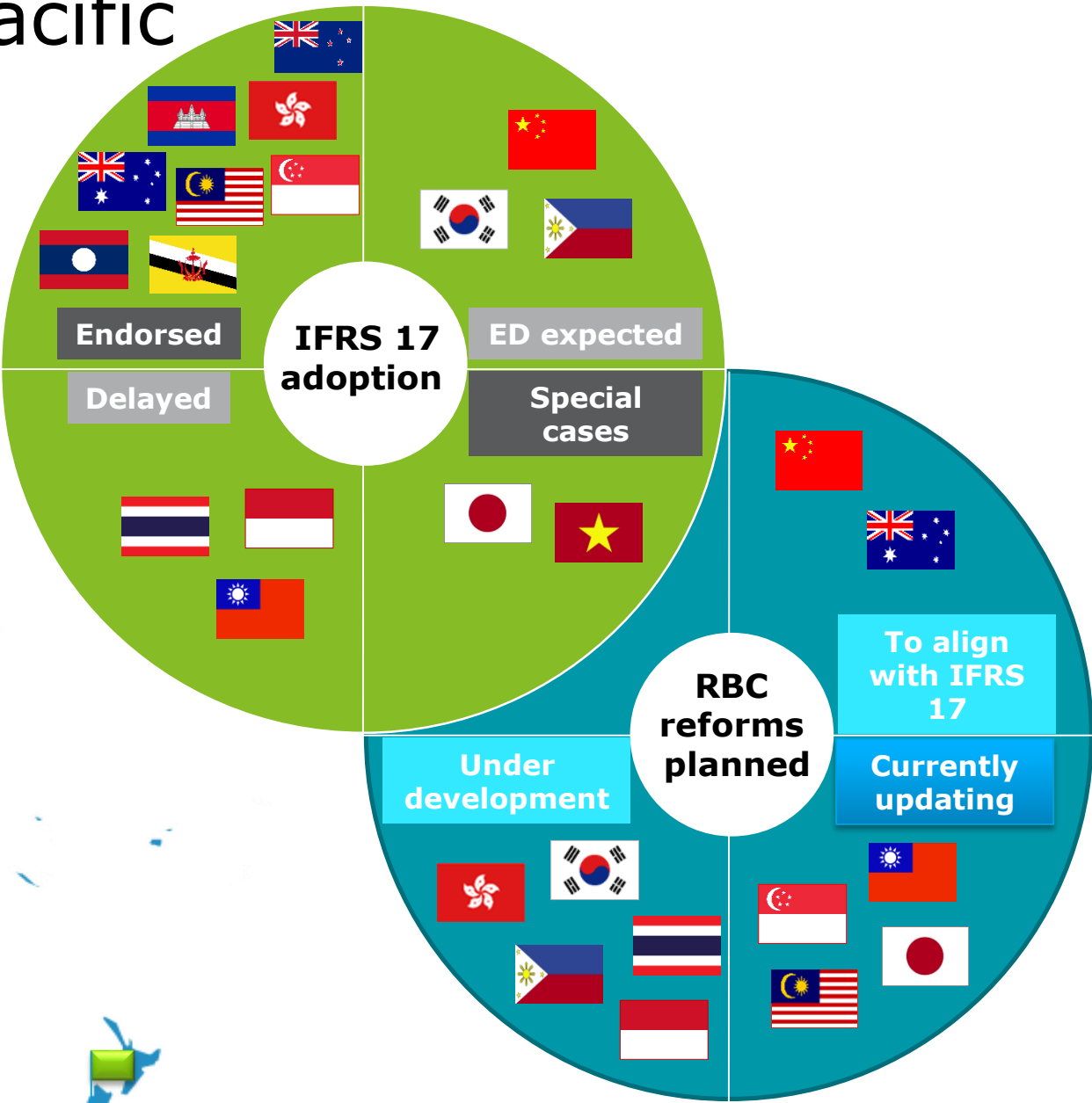
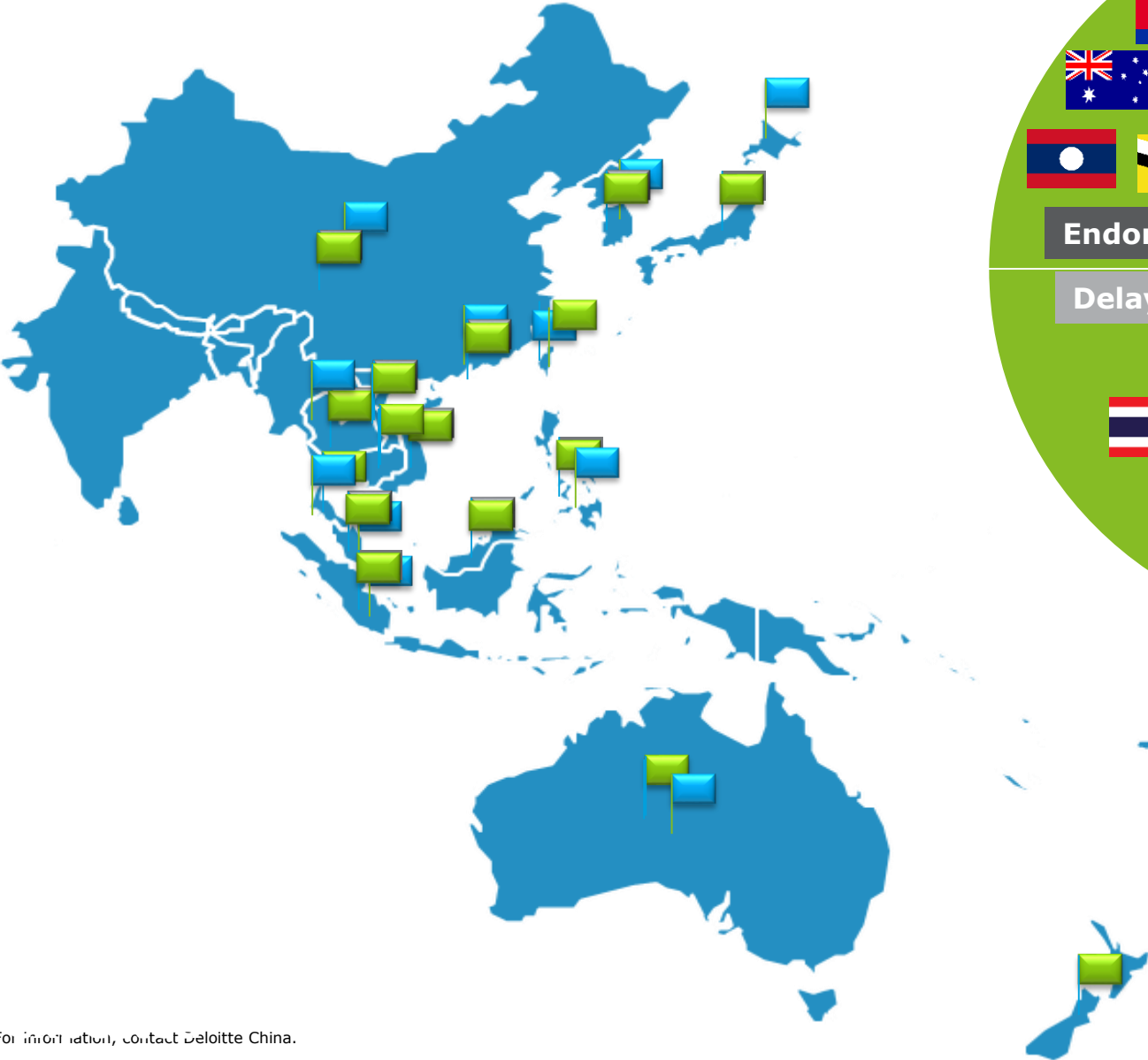
- Product development impact
- Planning and forecast processes have to be adjusted to the new metrics arising from IFRS 17
- Asset Allocation - ALM will be under the spotlight

4 People, Organisation & Culture

- Human Resources - Educating an entire organisation on how the group's success is measured and presented to the market under the new IFRS, recalibrating KPIs for incentives and remuneration.
- Control environment and organisational design - Greater external transparency and interaction between finance, risk and actuarial are expected.



Regulatory Reform in Asia Pacific



IFRS 17: Key technology/data impacts

External regulatory changes and increased focus on technological innovation are driving a change initiative cycle

Key drivers

Localised Finance & Actuarial landscape

Localised structures and systems landscapes pose challenges to achieving the level of uniformity that IFRS 17 mandates (e.g. disparate Policy Admin systems, localised models with limited integration)

Future-proofing new reporting requirements

Implementation of IFRS 17 has a major impact on the financial, actuarial reporting processes and systems (e.g. considerable time spent on manual adjustments for IFRS reporting)

Non-integrated Actuarial/Finance processes

IFRS 17 requires the breaking up of silos (actuaries/accountants), which implies an integration of actuarial processes in the financial reporting chain.

Expected outcomes



Meeting IFRS compliance requirements with greater efficiency and capacity in end-to-end processes



Options to create uniformity in the Actuarial & Finance landscape and enabling technologies to achieve compliance with regulatory requirements



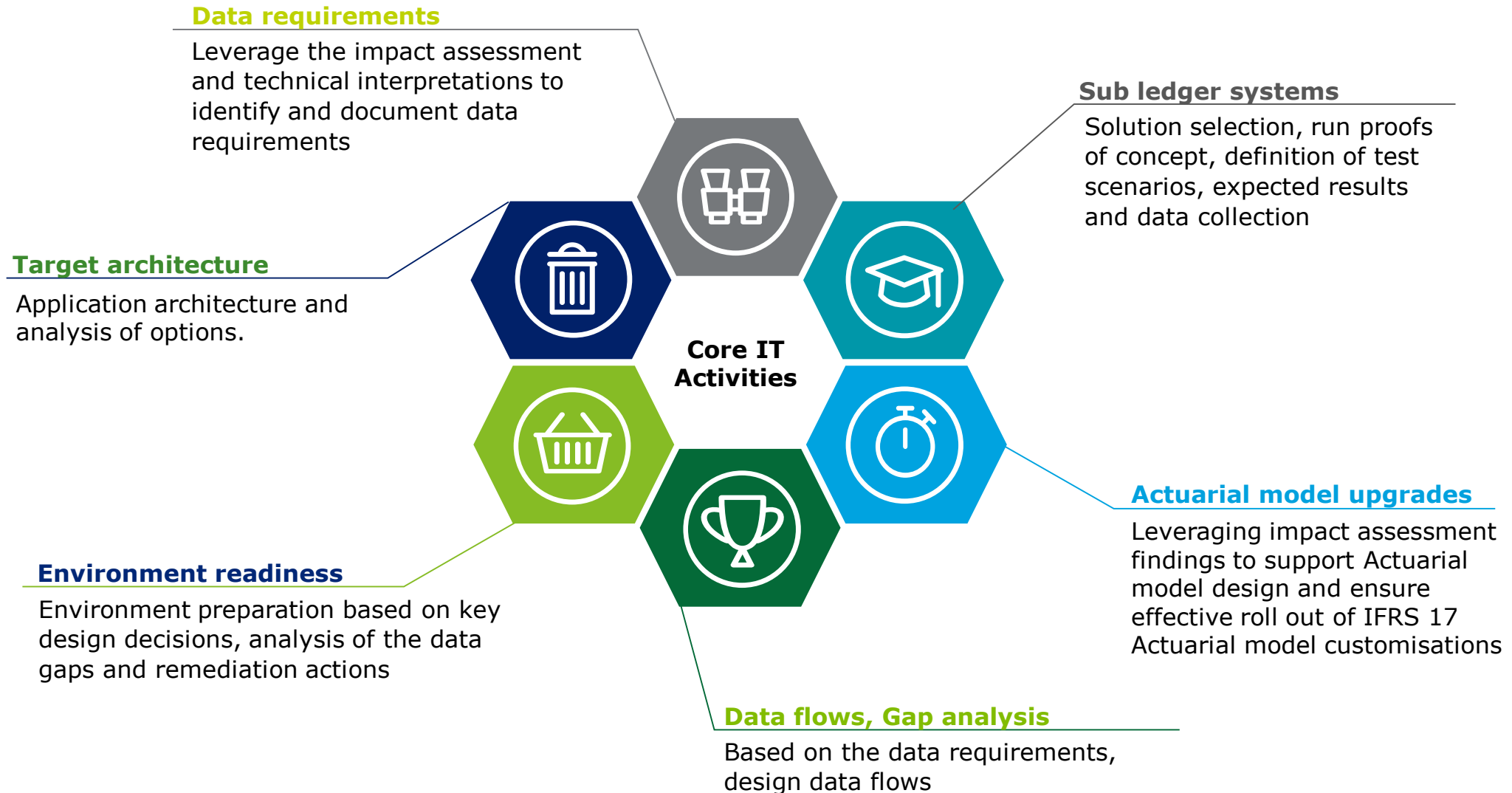
Clear and aligned definition of objectives and expected outcomes



Meeting requirements and changes to financial, insurance and valuation data and systems

IFRS 17: Key technology/data impacts

Implementation technology impacts



Panel discussion

Moderator: Prof. Veronique J A Lafon-Vinais, Associate Professor of Business Education, Department of Finance, The Hong Kong University of Science and Technology

Mr. Bob Owel, Technical Lead IFRS 17 and 9 Implementation

Mr. Matt Lawrence, Strategic Finance Director, Prudential Singapore

Refreshment break

SESSION 3: Solvency regime and key issues in Asia-Pacific

Address

Mr. Simon Dai, Partner, Deloitte China

Mr. Henry Cheung, Director, Deloitte China



Solvency regime and key issues in Asia-Pacific

Simon Dai, Partner, Deloitte Consulting
Henry Cheung, Director, Deloitte Consulting

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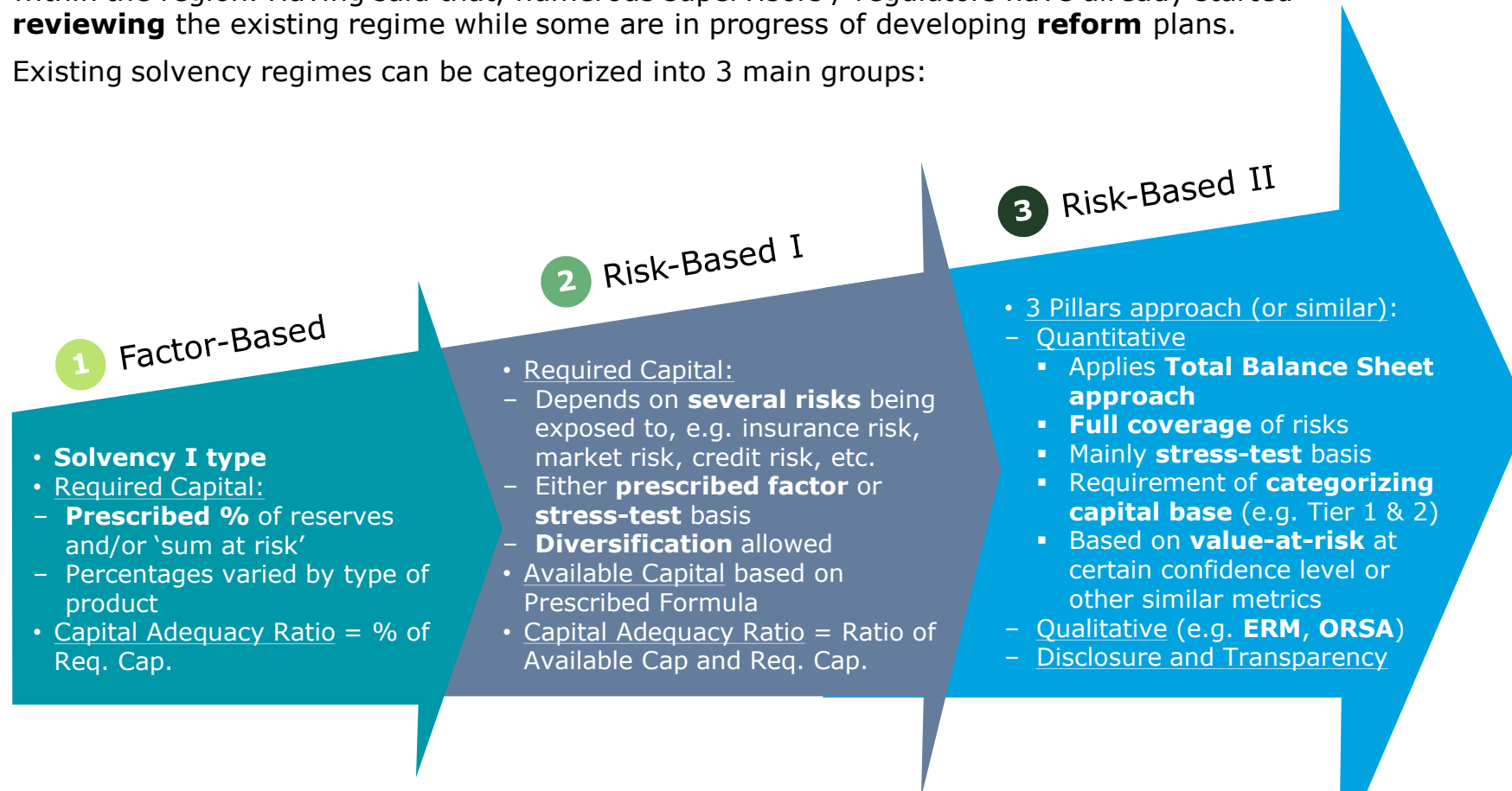
Current Solvency Regime in Asia Pacific

Current Solvency Regime in Asia Pacific

Overview

Each jurisdiction in Asia Pacific has its own pace on developing solvency regime in the past decades. In absence of standardized principles, there are still **different regimes effective** within the region. Having said that, numerous supervisors / regulators have already started **reviewing** the existing regime while some are in progress of developing **reform** plans.

Existing solvency regimes can be categorized into 3 main groups:



Current Solvency Regime in Asia Pacific Overview



Factor-Based and Risk-Based I are still the majority in Asia Pacific.

- Factor-Based
- Risk-Based I
- Risk-Based II

Reform in Progress

Reform in Progress

Standardized principles and standard

ICP 17 framework:



Total balance sheet approach

- based on consistent measurement of assets and liabilities



Solvency control levels and group-wide capital adequacy assessment

- Trigger different degrees of intervention by the supervisor
- Define the relationship between group and legal entity level



Address all relevant and material categories of risk

- Solely in technical provisions, solely in regulatory capital requirement or if addressed in both



Appropriate target criteria for calculation of regulatory capital requirements

- Underlie the calibration of a standardized approach where the level is set to reflect the risk tolerance of the supervisor



Regulator flexibility to increase capital requirements

- Have the flexibility to increase the regulatory capital requirement



General provision on the use of an internal model to determine regulatory capital requirements

- Modelling criteria, level of regulatory capital requirements, validation, approval, use test and governance of the use.

IAIS has issued **Insurance Core Principles ("ICP") Statements 17 on Capital Adequacy** for insurance supervision, which describes a general framework and sets fundamental requirements for implementation

Building around this foundation, **Insurance Capital Standard ("ICS")** was initiated as a more specific solvency standard for Internationally Active Insurance Groups (IAIGs), and Global Systemically Important Insurers (G-SIIs).

Reform on solvency regime has now been greatly relied on ICP/ICS, which encourage the maintenance of consistently high supervisory standards around the globe. **Risk-Based II**, one of the existing solvency regime type, **largely complies with ICP 17.**

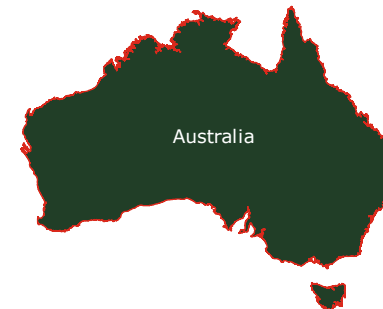
Reform in Progress

Asia Pacific



Jurisdictions are working towards Risk-Based II (or ICS compliant). Significant changes are expected in near future.

- Factor-Based
- Risk-Based I
- Risk-Based II
- Towards Risk-Based II or ICS (Details yet to release)
- Reform expected in next few years

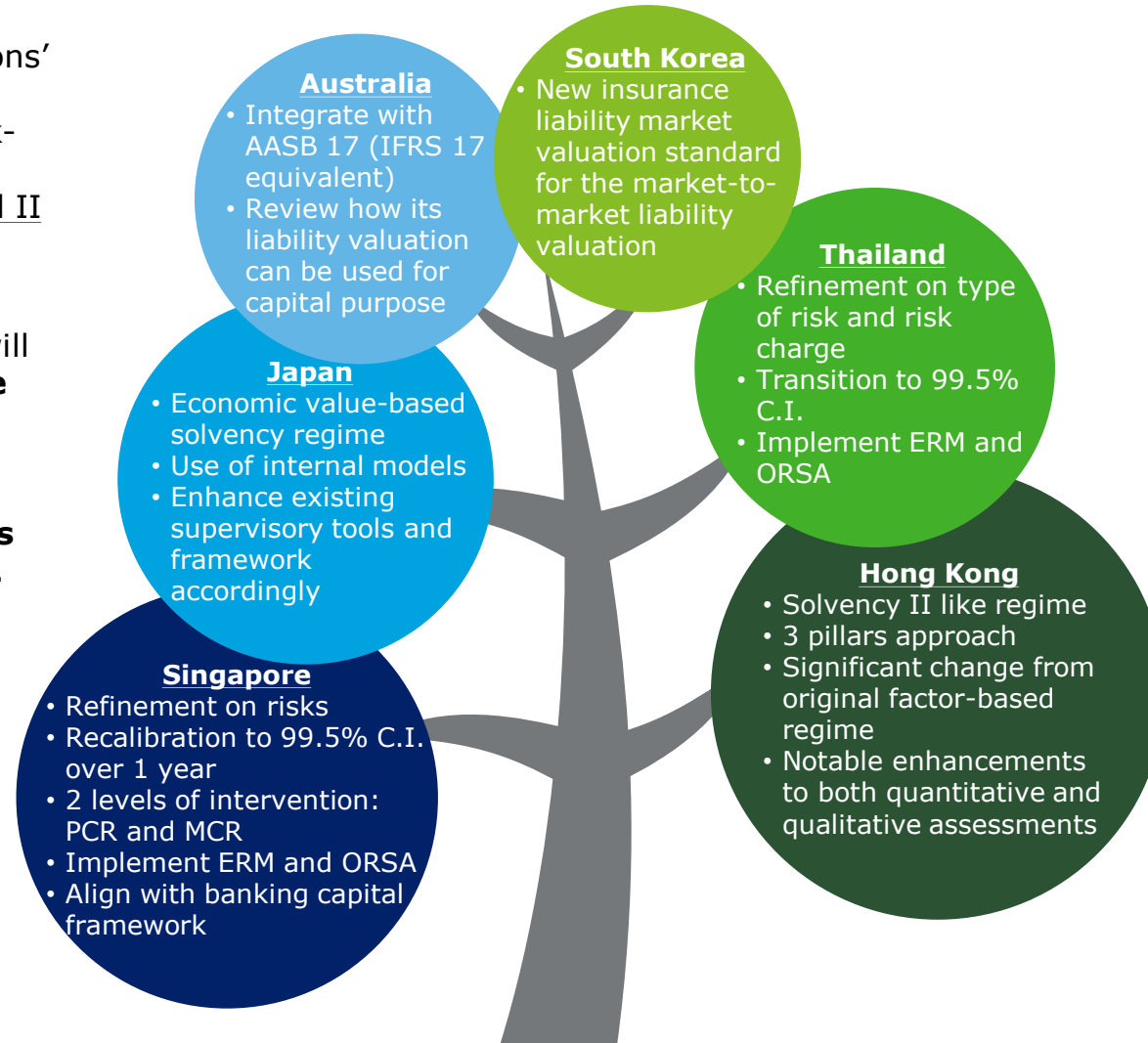


Reform in Progress

Highlights of planned changes

Except Hong Kong, all jurisdictions' changes are **refinements or enhancements** from existing risk-based I, or close to risk-based II, approach towards a full risk-based II or ICS-compliant approach.

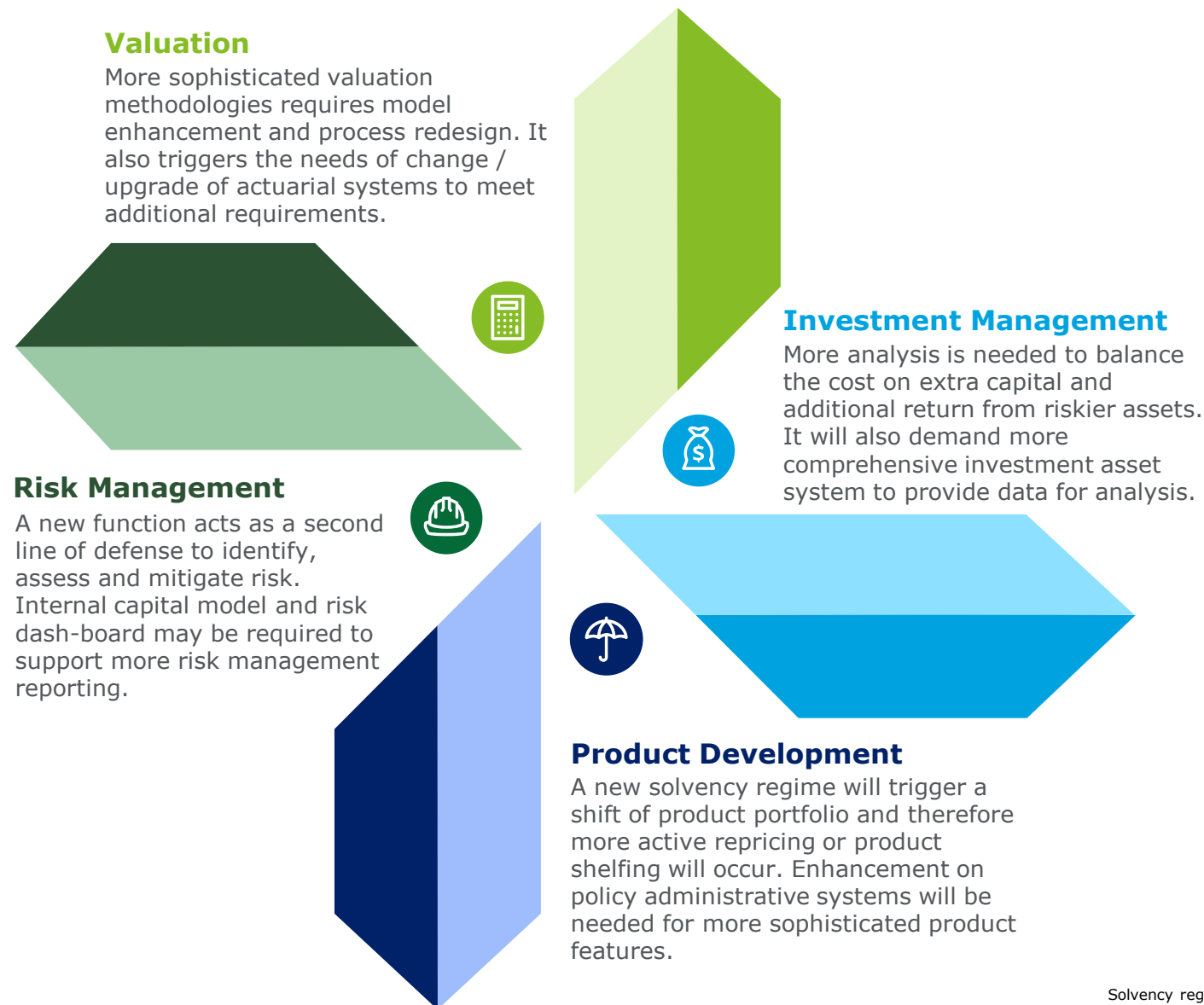
For Hong Kong, the old and outdated factor-based approach will be replaced by a **Solvency II like** regime, which certainly implies a **greater impact** to the investors, insurers, supervisor and policyholders. **Substantial efforts** have been paying for such reform.



Key Issues

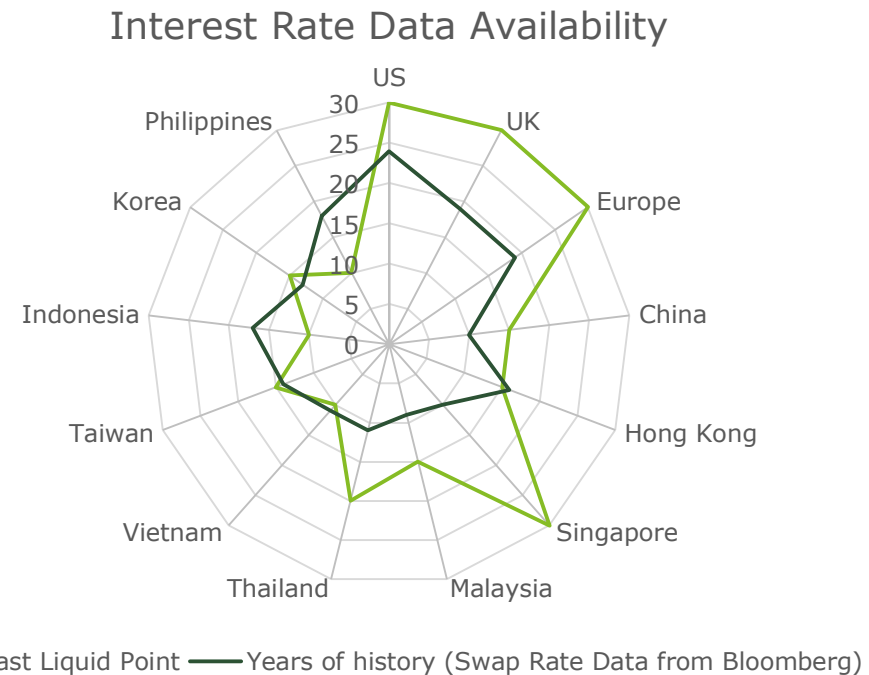
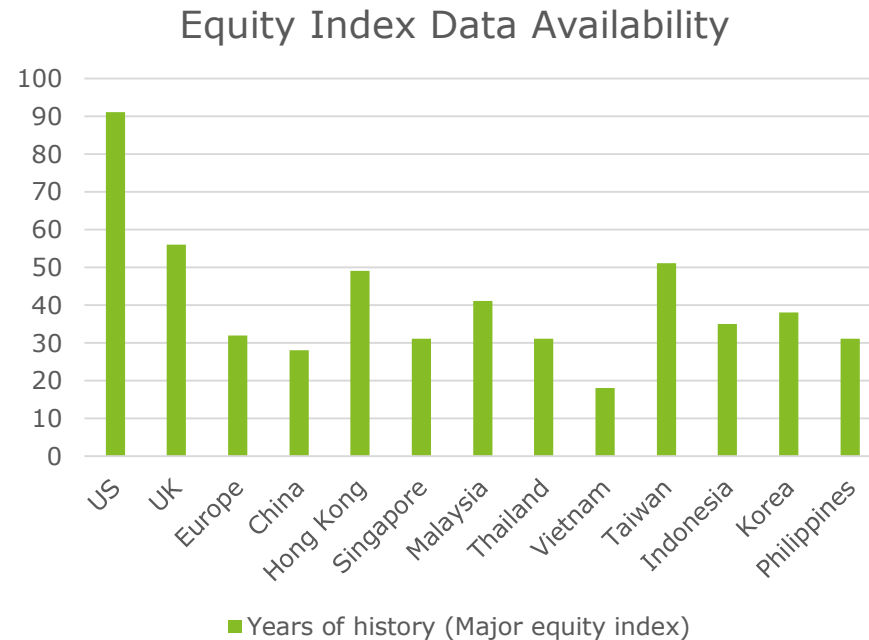
Key Issues – (1/4)

Spike in demand for both professionals and new systems.



Key Issues – (2/4)

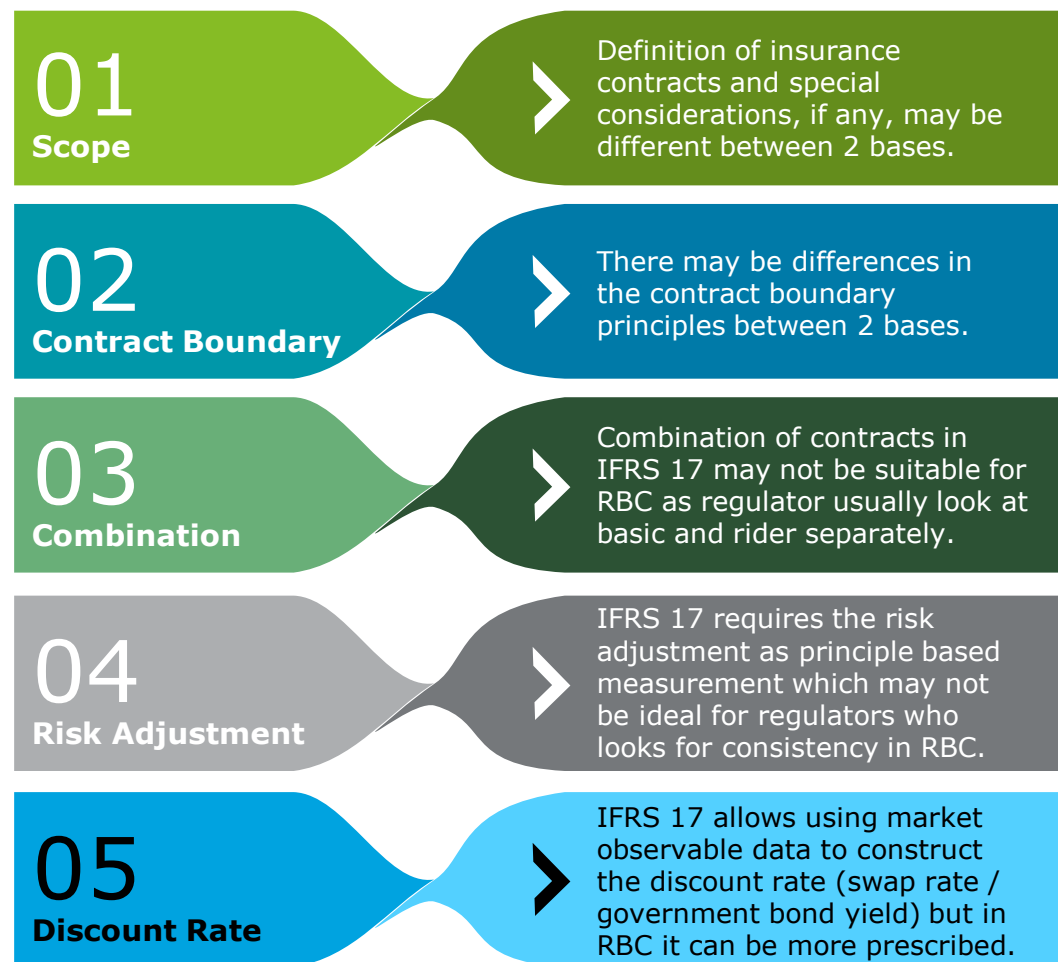
With less market data, expert judgement is needed in the calibration of extreme event probabilities and associated risk charges.



- Market data for some countries are scarce, considerations need to be given to the relevance of historic data. This involves expert judgement.
- What about insurance risk data like claims and lapse?

Key Issues – (3/4)

While IFRS 17 and RBC own fund are economic value basis, alignment is still required to ensure comparability between financial reporting basis and statutory basis.



Key Issues – (4/4)

Asia is a developing and fast growing market, protection and growth will need to be balanced.

Protection

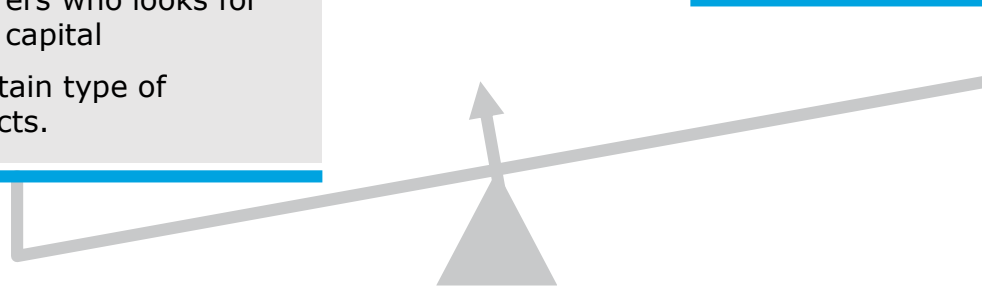
Risk Based Capital aims to ensure insurers have sufficient capital to pass the adverse extreme risk events. However, over charging on capital may not be ideal because:

- Cost on capital will be paid by policyholders eventually
- Drive away insurers who looks for better return on capital
- Extinction of certain type of insurance products.

Growth

In Asia, most of the countries are developing countries and therefore the capital charge and framework has to take into consideration of below:

- Does the local capital market provide sufficient high quality bonds or other investment assets?
- Are certain invested assets more suitable for developing countries, e.g. property and infrastructure?
- How to avoid over-stringent capital requirement compared with other financial industries?



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Panel discussion

Moderator: Mr. Makoto Okubo, Sherpa, APFF Insurance and Pension Group; General Manager, Nippon Life Insurance Company

Dr. Peter Duran, Group Senior Actuary, AIA Group

Mr. Tetsuya Taniguchi, General Manager, Daiichi-Life Holding Inc.

Mr. Raymond Tam Wai-man, Executive Director, Policy and Development, Hong Kong Insurance Authority

Using IFRS 17 for solvency

Peter Duran, Group Senior Actuary, AIA Group Limited

26 November 2018

Asia-Pacific Financial Forum (APFF)

Session 3: Solvency Regime and key issues in Asia-Pacific



USING IFRS17 FOR SOLVENCY

POTENTIAL TO ALIGN ACCOUNTING & SOLVENCY REGIMES

Across Asia-Pacific, regulators are considering whether to adopt IFRS 17 for solvency purposes, should they?

- **IFRS 17 is a principle-based accounting standard**, typically solvency regimes are rules based.
- IFRS17 could be used to determine the best estimate liabilities and risk margin, but **required capital framework would still need to be separately defined**.
- By introducing a principle based regime there would be **more flexibility** in how firms apply, leading to materially different results and **lack of comparability**.
- **No known principle based solvency regimes** in Asia-Pacific.



Are insurance Regulators comfortable with a principle based regime and the flexibility it brings?

USING IFRS17 FOR SOLVENCY

POTENTIAL ADJUSTMENTS TO IFRS 17

What are the areas where IFRS17 would need to be adjusted before being used for solvency assessment?

- **Contractual Services Margin (“CSM”)** - The CSM does not represent an obligation to pay benefits or expenses but rather is an accounting device for spreading profits.
- **Best Estimate Liability (“BEL”)** – Flexibility in determination needs to be addressed.
- **Risk Adjustment (“RA”)** – flexibility in determination needs to be addressed.



USING IFRS17 FOR SOLVENCY

CONTRACTUAL SERVICES MARGIN (“CSM”)

Should the CSM be included in the solvency assessment?

- CSM represents the expected present value of future profit rather than policy cash flows that present a risk to solvency position. **CSM should therefore be removed.**
- The CSM represents a core component of IFRS17 and is the root cause of many areas of debate and challenge including measurement models, aggregation level, presentation.



Removing the CSM is a divergence from IFRS 17!

USING IFRS17 FOR SOLVENCY

BEST ESTIMATE LIABILITY (“BEL”)

What is the flexibility in the BEL and how can it be addressed?

- Under IFRS17, there is **flexibility in the determination of the discount rates** used to calculate the BEL.
- The flexibility could lead to **significantly different results and so lack of comparability** amongst firms.
- This could be addressed by **prescribing a yield curve for solvency assessment**.



Prescribing the discount rate yield curve is a divergence from IFRS 17!

USING IFRS17 FOR SOLVENCY

RISK ADJUSTMENT (“RA”)

What is the flexibility in the RA and how can it be addressed?

- Under IFRS17, there is **the method used to determine the RA is not prescribed nor is the confidence level.**
- The flexibility could lead to **significantly different RA and so lack of comparability** amongst firms.
- The interplay between the RA and required capital should be addressed. This could be addressed by **prescribing the calculation of the RA.**



Prescribing the calculation of the RA is a divergence from IFRS 17!

USING IFRS17 FOR SOLVENCY

CONCLUSION

To be used for solvency purposes, either material adjustments to IFRS 17 are required, or the new solvency regime will need to be much more principle-based than existing regimes

- Most solvency regimes in Asia are converging or have converged to a valuation of liabilities based on discounting best estimate cash flows using current discount rates.
 - Either the rates themselves or the calculation methodology is prescribed.
- Would the adjustments required to IFRS 17 result in anything materially different from existing regimes?
- Are we ready for a principle based liability valuation that will need to be overlaid with prescribed capital requirements?



Closing remarks

Mr. Darrel Scott, Board Member, IASB

Mr. Francesco Nagari, Global IFRS Insurance Leader, Deloitte; IFRS 17 TRG member

Prof. Veronique J A Lafon-Vinais, Associate Professor of Business Education, Department of Finance, The Hong Kong University of Science and Technology

Dr. Peter Duran, Group Senior Actuary, AIA Group

Mr. Makoto Okubo, Sherpa, APFF Insurance and Pension Group; General Manager, Nippon Life Insurance Company