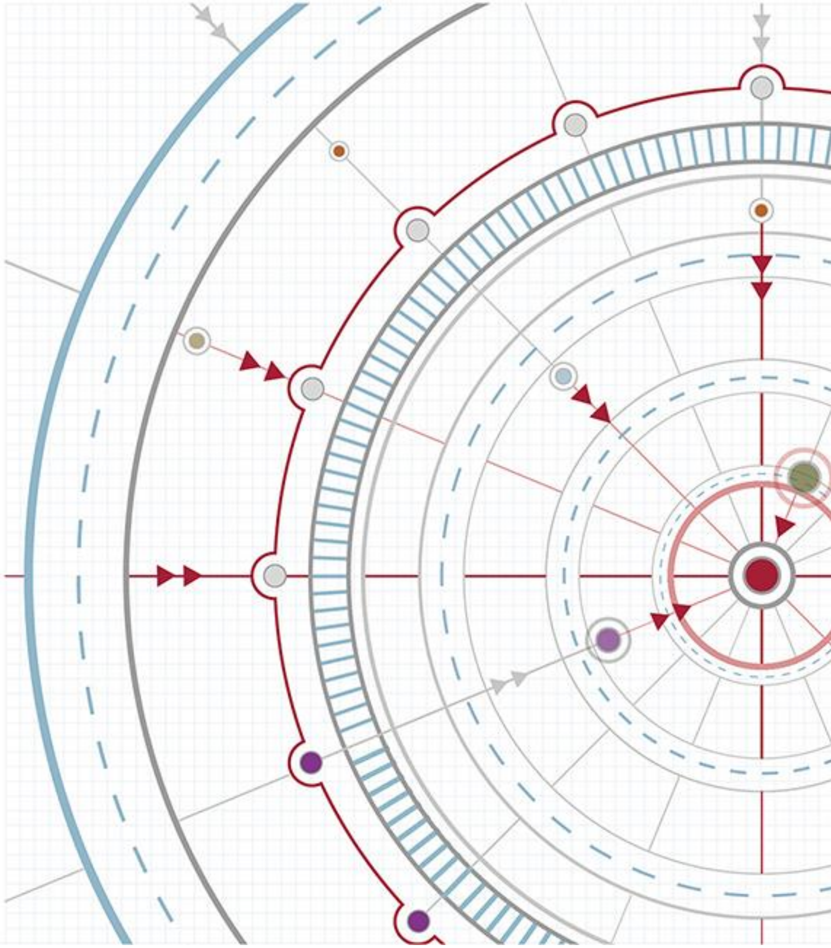

How IFRS 17 works
&
What this means for investors

Milan, 18 September 2017

Fred Nieto, IASB, Head of Investor Engagement

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not necessarily those of the International Accounting Standards Board (the Board)
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IFRS 17 *Insurance Contracts*

- IFRS 17 issued on 18 May 2017
  - replaces an interim Standard—IFRS 4
  - requires consistent accounting for all insurance contracts, based on a current measurement model
  - will provide useful information about profitability of insurance contracts
- Effective on 2021
  - early application permitted
  - one year comparative information

Today's agenda

- Why has IFRS 17 been developed
- Overview of how IFRS 17 works, including
  - Sources of earnings approach in P&L
  - New disclosures that enhance transparency
  - Supporting investors analysis (eg Embedded Value)
  - Understanding the line item for Revenue
  - How the change could affect Life versus Non Life insurance

Why has IFRS 17 been developed?

Economics of business poorly depicted

- Lacking relevant and transparent information from some accounting today

Issues today	How this undermines analysis
Lack of useful information • Use of old or outdated assumptions • Options and guarantees not fully reflected in measurement of insurance contracts • Use of 'expected return on assets held' as discount rate	• Fundamental economics are not necessarily reflected in the reported IFRS numbers
Lack of transparency about profitability • Profits recognised at different points • Use of many non-GAAP measures	• Comparing companies by source of profitability is a needlessly difficult task

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Little comparability

- Lack of comparability today is a multi-level problem

Issues today	Solution / Benefits
Lack of comparability among insurers • IFRS companies report insurance contracts using different practices **Non-uniform reporting within groups** • Insurance contracts of subsidiaries are consolidated using different practices	• New framework will replace huge variety of accounting treatments
Inconsistency with other industries • Revenue include deposits • Revenue reported on a cash basis	• Revenue will reflect the services provided, and exclude deposits, like any other industry

Overview of how IFRS 17 Works

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IFRS 17 Income Statement

P&L	20X1	20X0
Insurance revenue	9,856	8,567
Insurance service expenses	(9,069)	(8,489)
Incurred claims and insurance contract expenses	*(7,362)*	*(7,012)*
Insurance contract acquisition costs	*(1,259)*	*(1,150)*
Insurance service result before reinsurance^	1,235	405
Gain or (loss) from reinsurance	*(448)*	*(327)*
Insurance service result	**787**	**78**
Investment income	9,902	9,030
Insurance finance expenses	(9,308)	(8,377)
Net financial result	**594**	**653**
Profit before tax	**1,381**	**731**

^ Sub-total not required – presented here to reconcile with numbers presented in next slides

Richer information content
With amounts that will be more relevant and more comparable

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IFRS 17 Balance Sheet

Balance sheet	20X1	20X0
Financial assets#	226,297	196,700
Reinsurance contract assets*	20,572	17,882
Other assets	36,002	31,293
Total assets	**282,871**	**245,875**
Insurance contract liabilities**	205,724	178,818
Other liabilities	51,431	44,705
Equity	25,716	22,352
Total liabilities and equity	**282,871**	**245,875**

IFRS 17 does not affect the measurement of financial assets as they are measured applying IFRS 9

* 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

Measuring insurance liabilities

1 PV of future cash flows (current) + 2 Risk adjustment (current) + 3 Contractual Service Margin (non-current) = IFRS 17 liability

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Reinsurance contract assets	20,572	17,882
Other assets	36,002	31,293
Total assets	**282,871**	**245,875**
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Total liabilities and equity	**282,871**	**245,875**

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Insurance contract liability roll forward

		Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
	BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
	Changes related to:				
❶	*- Future service yet to be provided*	*(784)*	*1,117*	*(116)*	*217*
❷	*- Current service provided in the period*	*35*	*(604)*	*(923)*	*(1,492)*
❸	*- Past service adjustment to past claims*	*47*	*(7)*	*-*	*40*
	Insurance service result^	(702)	506	(1,039)	(1,235)
❹	Insurance finance expenses[1]	9,087	-	221	9,308
	TOTAL CHANGES IN P&L[1]	8,385	506	(818)	8,073
❺	CASH FLOWS	18,833	-	-	18,833
	END OF PERIOD	191,180	6,504	8,040	205,724

^ Excl. the effects of reinsurance

[1] Some insurance finance expenses may be presented in Other Comprehensive Income—see later

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❹ Insurance finance expenses

- Discount unwind plus effect of changes in discount rates and other financial assumptions
- Recognise as gain or loss in period; option to present part in OCI

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Etc …				
Insurance finance expenses	9,087	-	221	9,308
Accretion at historical rate – P&L*	*7,170*	*-*	*221*	*7,391*
Assumption changes (P&L or OCI)	*1,917*	*-*	*- ***	*1,917*
Etc …				

* Systematic allocation of finance cost using 'locked-rate' accretion applies to non-par, for par contracts the allocation allows for participation effects

** CSM adjusted for 'variable fee' effect for certain par contracts

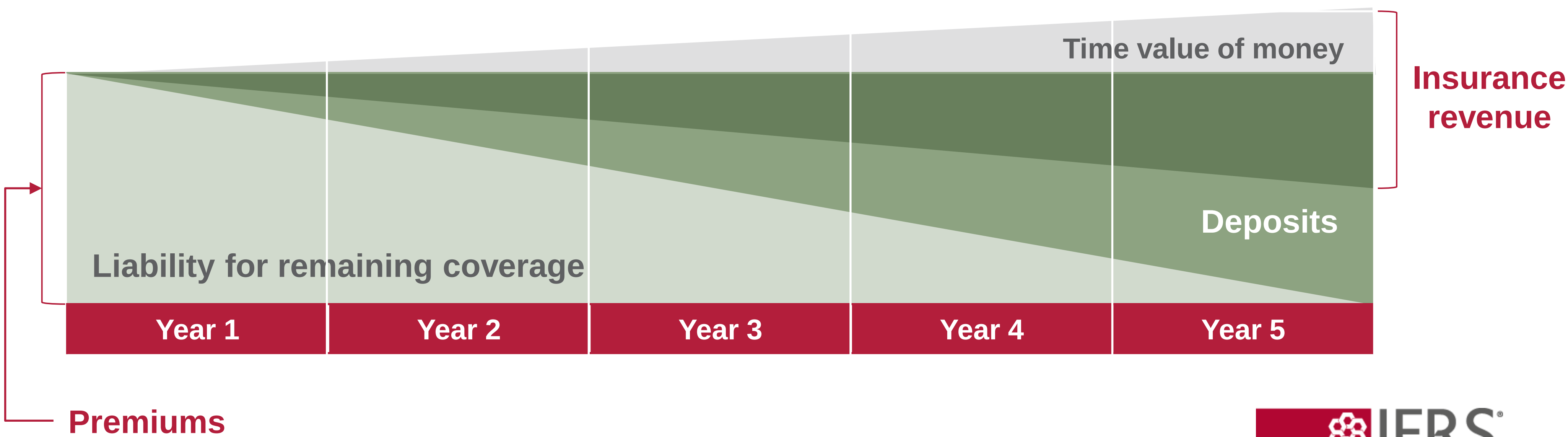
❺ Cash flows

- Gross premiums received still reported as part of the liability roll-forward
  - – But not in profit and loss as 'revenue'

Etc …	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Cash flows	18,833			18,833
Premiums received	*33,570*			*33,570*
Claims, benefits and other expenses paid	*(14,336)*			*(14,336)*
Insurance acquisition cash flows	*(401)*			*(401)*
END OF PERIOD	191,180	6,504	8,040	205,724

Insurance revenue

- Revenue recognised reduces liability for remaining coverage
- Equals premiums received (adjusted for time value of money) attributable to services provided in the period
- Payments to policyholders unrelated to insured event (return of 'deposits') are not revenue



Revenue and expenses reconciliation

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding onerous contracts component	Onerous contracts component		
Insurance contract liabilities 20X0	161,938	15,859	1,021	178,818
Insurance revenue*	(9,856)			(9,856)
Insurance service expenses				
Claims incurred in the period			7,985	7,985
Onerous contracts losses and (reversals)		(623)		(623)
Insurance acquisition costs expensed*	1,259			1,259
Investment components	(6,465)		6,465	0
Insurance service result^	(15,062)	(623)	14,450	(1,235)
Insurance finance expenses	8,393	860	55	9,308
Total changes in the statement of comprehensive income	(6,669)	237	14,505	8,073
Cash flows				
Premiums received	33,570			33,570
Claims, benefits and other expenses paid			(14,336)	(14,336)
Insurance acquisition cash flows	(401)			(401)
Total cash flows	33,169	-	(14,336)	18,833
Insurance contract liabilities 20X1	188,438	16,096	1,190	205,724

^ Excl. the effects of reinsurance

* Insurance revenue includes recovery of insurance acquisition costs

Life versus Non-Life

Companies issuing long-term / life insurance contracts		• Changes in insurance contract liabilities for companies that today do not use current assumptions or do not fully consider options and guarantees • Reduction in revenue and expenses for companies that report premiums as revenue and cash surrenders as expenses
Non-life companies with short-term contacts		• Liabilities for claims discounted • Explicit risk adjustment • No significant change in revenue

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Supporting Embedded Value style analysis

Commonly used existing term	Existing common interpretation	The impact of IFRS 17	Equivalent measure post IFRS 17
Present value of new business premiums	Potential non-GAAP metric generally associated with embedded value reporting. Equals the present value of all premiums expected to be received as a result of new contracts written in the period.	Required disclosure as part of the insurance contract liability roll forward.	Present value of new business premiums
Present value of new business profit	The additional shareholder value created through writing new business. Generally not included in the IFRS results, but may be separately given as an alternative performance measure as part of embedded value disclosures.	Included as a disclosure and measured consistently with the other IFRS data. Two versions available; the PV of expected profit from new business (CSM plus risk adjustment for new business) and the risk adjusted PV of new business profit (CSM of new business only). This measure is not available where the entity adopts the simplified approach (PAA).	New business CSM and risk adjustment disclosures

Supporting Embedded Value style analysis (cont'd)

Commonly used existing term	Existing common interpretation	The impact of IFRS 17	Equivalent measure post IFRS 17
Value in force (VIF)	The value (NPV) of future profits from existing contracts. Equals the difference between the balance sheet liability and the risk adjusted PV of future cash flows	Equivalent to the CSM under IFRS 17, although the measurement principles differ.	Contractual service margin
Embedded value (EV)	May be provided as a non-GAAP measure although measurement varies. Equals NPV of all cash flows related to insurance liabilities and assets backing those contracts. Also equals shareholders equity (adjusted to report all assets at fair value) plus the value in force. VIF is the excess of the insurance liability reported over the (market consistent) best estimate liability. Embedded value also subject to frictional costs adjustment for required capital.	The equivalent of embedded value is provided by IFRS 17 (although precise measurement may differ, for example there is no adjustment for 'frictional costs'). Equals shareholder's equity (although may also need to adjust if any assets are measured at cost) plus accumulated but not yet recognised CSM. Could also include the risk adjustment if measured before allowing for non-financial risks.	Not a separate metric, but the equivalent can easily be derived using IFRS 17 information
Other capital and solvency related metrics	Various depending on the regulatory capital approach in the jurisdiction	Not affected by IFRS 17	Not an accounting metric

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Summary of benefits of IFRS 17

Summary: the benefits of IFRS 17

- Global comparability for the first time
- Relevant and updated measurement of liabilities
- Financial risks and economic mismatches revealed
- Source of earnings approach to performance
- Value of new business integrated with the accounting
- Enhanced disclosure and greater transparency
- Existing KPIs remain, but more relevant and comparable
- New KPIs available
- Intuitive accounting that will be more understandable

IFRS 17: a game changer for the global insurance industry?

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Disclosure Requirements

Thinking about segment information and lines of business

IFRS 17 Disclosures - Disaggregation

- Excerpt from IFRS 17 – disclosure requirements:
- 95 An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.
- 96 Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:
  - (a) type of contract (for example, major product lines);
  - (b) geographical area (for example, country or region); or
  - (c) reportable segment, as defined in IFRS 8 *Operating Segments*.

Modifications to the general model

Simplified approach and approach for contracts with a variable fee

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Modifications to the general model

IFRS 17 measurement model (general model)

+ Optional simplifications = Optional simplified approach for short-term contracts

+ Required adjustments for direct participating features = Variable fee approach

Simplifications for short-term contracts

A Liability for remaining coverage

PV of future cash flows | Risk adjustment | Contractual service margin

Split in three blocks not required

+

B Liability for incurred claims

PV of future cash flows | Risk adjustment

=

IFRS 17 liability

A Simplified measurement

B Measurement under the general model, but discounting of claims to be settled within 1 year not required

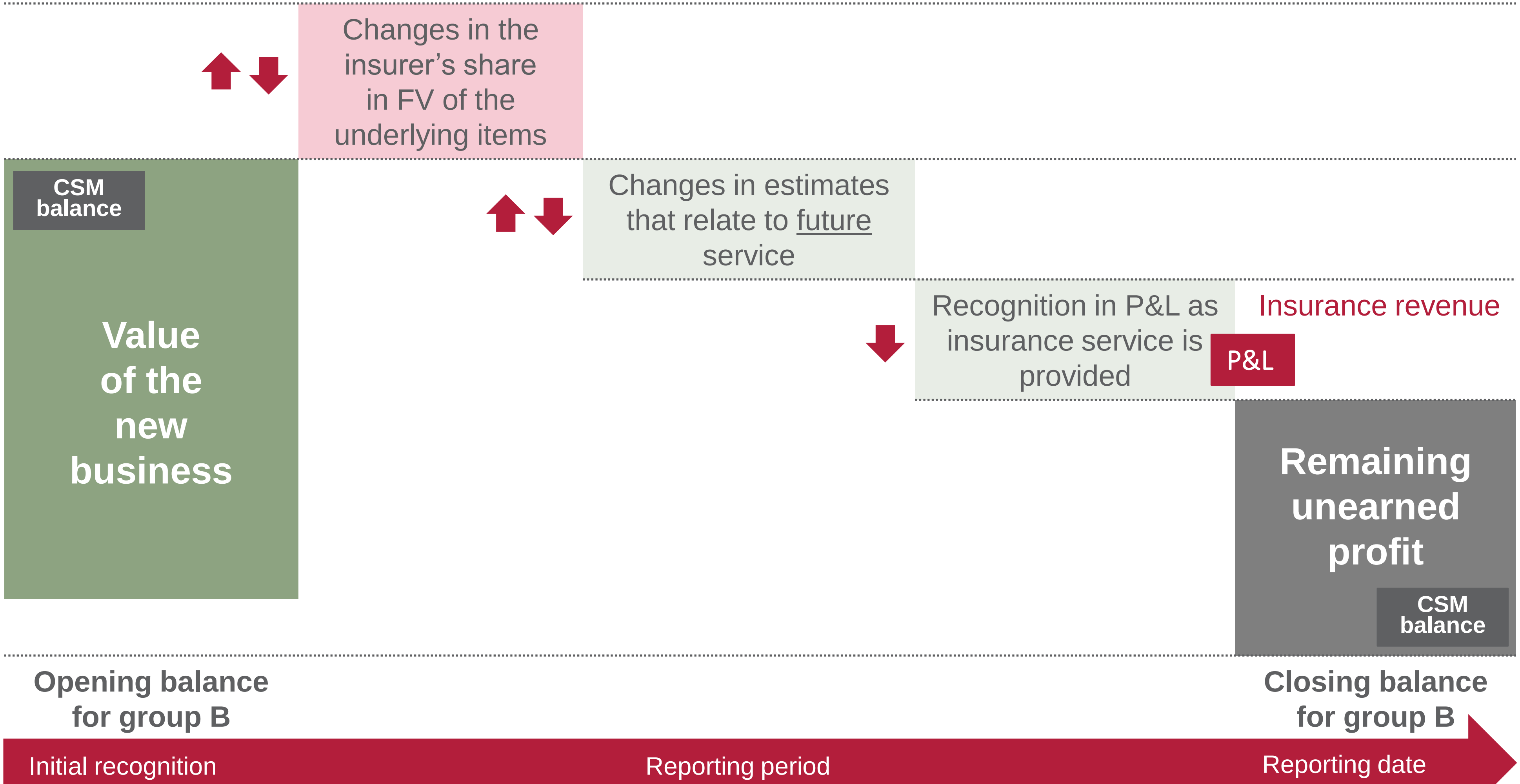
Variable fee approach compared with general model

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Initial recognition	✓ No difference	✓ No difference	✓ No difference
Subsequently	✓ No difference	✓ No difference	× Difference in how CSM is adjusted for changes in financial variables

Additional CSM adj. for some contracts

- ‘Variable fee’ approach applicable to contracts with ‘direct participation features’
- CSM balance adjusted for the shareholders’ share of the change in underlying items
  - In effect a remeasurement of CSM for changes in financial variables (in addition to the non-financial variables applicable to all contracts)
  - Change in value of options and guarantees adjusts CSM and hence future release of CSM
- Does not affect the structure of P&L or roll forwards, just the numbers

CSM for direct participating features



Transition and implementation support

Applying IFRS 17 for the first time

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Existing contracts (eg contracts written before 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	× Transitional measures
New business (eg contracts written after 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

- Transitional measures (by group of contracts)
  - Full retrospective approach
  - Modified retrospective approach—proxy of full retrospective approach
  - Fair value approach
- Separate disclosures for each transition method

IASB implementation support—overview

May 2017	3.5 years			January 2021
	Support implementation			
	2018 – Early 2019	Late 2019	2020	
Issue of IFRS 17	**Some entities begin implementation process** **General questions** **Contentious / specific implementation questions**	Entities are finalising implementation		**Mandatory effective date of IFRS 17**

Objective: **monitor and proactively support implementation**	Objective: **provide period of calm for implementation**

Supporting materials: **- articles** **- webcasts** **- webinar** **TRG, IFRS IC and/or Board discussions**	Mostly monitor Light touch on implementation / educational activities

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IFRS 9 and insurance

	2017	2018	2019	2020	2021
Financial instruments	IAS 39	**IFRS 9**			
Insurance contracts	IFRS 4	IFRS 4 as amended in September 2016			**IFRS 17**

Overlay approach	**Temporary exemption from IFRS 9**
• Available to all issuers of insurance contracts	• Available to companies whose activities are predominantly connected with insurance (assessment at reporting entity level)
• Available until IFRS 17 is applied	• Available until 2021 (or until IFRS 17 is applied if that is earlier)
• Recognises in OCI, rather than P&L, the volatility that could arise when IFRS 9 is applied before IFRS 17 (for assets moved to FVPL)	• IAS 39 is applied rather than IFRS 9 • Additional disclosures are provided to enable some comparisons with companies applying IFRS 9

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