هيئة التأمين
Insurance Authority

United Arab Emirates

Insurance Authority
United Arab Emirates

IFRS 17 Financial Impact Assessment

Guidelines & Industry Comments

Federal Authority | هيئة اتحادية
TEL +971 2 4990 111 هاتف • FAX +971 2 5572 111 فاكس • ABU DHABI, UNITED ARAB EMIRATES أبوظبي، الإمارات العربية المتحدة • P.O. BOX 113332 ص.ب
www.ia.gov.ae

Table of Contents

Guidelines

In order to help with consistency in regard to the approach and methods followed by all companies, the following guidelines are recommended:

1. The assessment should be done such that all in force business as at 31 December 2018 is reasonably represented. The company should focus on underwriting year 2018 and strive to give a complete view of the impact including starting values as at 1 January 2018 and prior in force business. It is not a requirement to include 100% of the business, but the company should provide a reasonable assessment of 100% of the business.

2. The company should comment on the rationale behind selecting the PAA measurement model for an insurance contract that doesn't automatically qualify for PAA.

3. Companies should also provide a reasoning for the selection of the assumptions (e.g., Discount Rates, Risk Adjustment, etc.).

4. Companies should conduct a sensitivity analysis on the key assumptions and provide a minimum of 4 scenarios as follows:

    a. Scenario 1 – Best Estimate Assumptions

    b. Scenario 2 – Low Impact Assumptions – Use assumptions and methods that illustrate sensitivities that you expect will decrease the financial impact,

    c. Scenario 3 – High Impact Assumptions – Use assumptions and methods that illustrate sensitivities that you expect will increase the financial impact,

    d. Scenario 4 – 15% of the contracts becoming onerous by 10%

    e. Scenario 5 – Other Assumptions – Use any other assumptions and/or methods that you feel should be tested as part of a complete sensitivity analysis of the financial impact, and

    For each scenario, clearly specify all the key assumptions and methods used in the impact assessment report.

5. The final results should present the reconciliation of an IFRS 17 income statement and balance sheet with corresponding items as per IFRS 4. This should be done by filling in the "IFRS 17 - FIA Template.xlsx" file, from the IA website and distributed by email. The income statement comparison should be made for all the subsequent years until the liabilities are run off. *For segments that take more than 10 years to run off, all years beyond year 10 can be grouped together*.

Industry Comments & Questions

The questions and comments are grouped by topic. The responses from the Insurance Authority are in blue. Questions that are similar and only need a single response are grouped together.

Applicability to Takaful Companies

1. Kindly assist with the clarification for the treatment of Takaful contracts for the purpose of the FIA.

   Absent specific IFRS guidance to the contrary, it should be assumed that all the provisions of IFRS 17 are applicable to the Takaful companies as well.

Certificate of Review

1. A Certificate of Review duly signed by the General Manager and the CFO is required. Will a standard template be provided?

   There is no standard template. The certificate should be signed by the General Manager/ equivalent and the CFO/equivalent.

Discounting

1. Discounting can be done on a bottom up or top down approach. This is a policy and methodology decision that will require analysis and the short time frame to complete the FIA may not allow sufficient time to build this functionality.

   The IA understands that both the approaches should arrive at approximately at the same answer. The purpose of FIA is not to build the final functionality into your processes but rather assess the financial impact. As such, we would only expect companies to approximate the impact using Excel or other similar means to come up with the expected assessment.

Expense Allocation

1. Are we required to split out expenses by underwriting year 2018?

   No. The goal of the exercise is not to do a detailed expenses study/allocation, rather a reasonable assessment on the calendar year 2018. Underwriting year 2018 is included as a guide to make sure you include all business originating in FY 2018 and covers the in-force business as well.

   See “Scope” section for more details.

Extension of Deadline

1. Extension of Deadline by 3 months till 30 Jun 2020, as the first quarter for the insurance company is overly packed toward regulatory annual and first quarter reporting requirements for IFRS 4. The extension will help ease the complexity in compliance and duly allow us to focus aptly on each submission without rushing on the same.

2. Life insurance module requires more extensive work and so we request the deadline of 30 June 2020 for General Insurance and 30 Nov 2020 for Life Insurance, particularly where there are significant life portfolios.

   The deadline will not be extended.

   It is important to complete this in a timely fashion so that companies can continue to make progress on implementing the new standard.

FIA Report

1. The circular does not include any details about what to include in the report. The IA should recommend the broad contents of the report at a minimum from both a qualitative and quantitative perspective. Certain suggested heads are: Scope (which LOBs and measurements models have been selected and why), Modelling Approach, Assumptions/Simplifications, Results (income statement and balance sheet).

2. Qualitative requirements are not provided in the Circular, for example, disclosure and rationale for methodology and assumptions used, policy details, etc.

3. To ensure consistency at industry level, it may be useful to provide instructions for what needs to be covered in the FIA report at a broad level..

   The IA is flexible with respect to the format of the report. The overall goal of the report should be to highlight all the important issues to the management and communicate them effectively. While your suggested headings are reasonable, the IA doesn't envision creating a report template as many companies may then consider this as a tick box exercise.

   The companies need to make sure that every assumption, approach, simplification, rationale, etc. are adequately disclosed and aptly presented. The companies need to make sure that the reports are qualitatively and quantitatively sufficient. Any deficient report is likely to be rejected.

4. Some companies have already finalized their Financial Impact Assessment, but did not cover all these details and points mentioned in the assessment template. The circular says that for companies that have already done FIA they should submit the report to the IA. Does that mean that companies who may not necessarily meet the IA phase 2 requirements and may not have the numbers as per the FIA

template need not perform the exercise again? What does the IA expect from companies who've already done some form of FIA?

The need to update an already completed FIA report would depend on the scope in relation to the requirements. The most important aspect is to make sure that the FIA template is completed in a timely fashion so that IA can assess the impact on the industry. For already completed reports, the key consideration is whether enough of the requirements are met to adequately convey all the relevant impacts and issues to management and IA. If not, then an updated report or addendum to the report would be required.

FIA Template

1. The Authority may consider adding an additional sheet for key/common assumptions for core products that may help in sharing benchmarking data across the industry. At present there is no place in the template that captures discount rate and/or any additional assumptions. However, the circular does mention that the company has to provide the reasoning behind the selection of assumptions used. We assume that these elements and reasoning will go in an accompanying document/report with the template.

   It's a useful suggestion to create a benchmarking of assumptions, however adding a reporting element may inadvertently bias the responses. Thus, the plan is to collate the key assumptions from the reports.

   Yes, your assumption is correct. The reasoning and assumptions should be documented in the FIA report.

2. Deferred acquisition costs have not been disclosed separately in the financials.

   Under IFRS 17, the deferred acquisition costs are a part of Net Insurance contract assets/liabilities. Kindly refer to IFRS 17 for guidance.

3. Reinsurance UPR is not listed in the Insurance Service Assets section. Where is reinsurance UPR under IFRS 4? Can it be netted off under Unearned premium reserve?

   Under the "Financial Position" tab in the FIA template, all the Insurance related assets / liabilities as per IFRS 4 are on the left side, whereas all the Insurance related assets / liabilities as per IFRS 17 are on the right side. The reinsurance UPR is a part of the Reinsurance recoverable (similar to the eForms).

4. Should recoveries from third party insurance companies be treated as ICA for incurred claims or should it be netted off in ICL for incurred claims?

   Refer to IFRS 17 for guidance.

5. Should premiums received pertaining to future periods (on policies written in 2018 with inception date in 2019), be included in ICL for Remaining Coverage - Future Cash Flows? There isn't a separate line item for other liabilities.

Refer to IFRS 17 for guidance.

6. Does the company need to show cash flows for 2018 in the respective columns or the present value in 2018 itself? Discounting impact to be shown separately in Financial position tab.

   Refer the Instructions in the FIA template for guidance.

7. What do the references in column D e.g. 80, 83 refer to?

   The references in the column refer to IFRS (IFRS 17, IFRS 7). The references are updated in the template.

8. The reference 20 provided against item "Investment Returns". The referenced article from IFRS 17 does not refer to Investment returns.

   The referenced article is from IFRS 7. The references are updated in the template.

9. The template says 'In the "Profit & Loss" sheets, all revenue / income values should be entered as a positive number and all expense / loss values should be entered as a negative value.' The template does not include instructions for sign convention for reinsurance figures. We recommend the protected white cells should greyed out.

   The template should be filled in such a way that the Profit / (loss) numbers are fully reconciled. The formulas calculating the Profit/(loss) are embedded in the sheet. The template has been updated to address the protected cells.

10. The template says "In the "Financial Position" sheet, only the P&L Impact is considered, so all other balance sheet impacts can be ignored." Does this mean only the insurance items are considered and the non-insurance items are ignored?

    Yes.

11. The table for 'Reconciliation of Net Liabilities as per IFRS 4 and IFRS 17' refers to "Net Liabilities" which is not a standard term. Please clarify what is meant by "Net Liabilities". The IA should clarify what this term refers to. We think this may mean, for the line of business, the net result of gross insurance liabilities and reinsurance assets under IFRS 4.

    The term "Net Liabilities" is just to indicate the net position in the balance sheet due to the insurance operations. In other words, it just a generic term used to reference all the items summed in the balance sheet.

General

1. Financial impact will be more visible if some KPIs are added to this template comparing IFRS 17 and IFRS 4.

   The companies may choose to show other KPIs in their FIA report, but the template will not include any such details.

IFRS 17 Amendments

1. IASB is yet to finalize amendments to IFRS 17 over 8 main areas and final amendments are scheduled to be issued by mid-2020. Kindly provide clarification with respect to how the proposed amendments are to be considered? The IA should clarify which version of IFRS 17 standard (exposure draft or amendment to IFRS 17) is to be used for FIA? For the FIA, shall all changes accepted till submission date of FIA (i.e., 31 Mar 2020) need to be considered or shall the originally issued version (May 2017) be used. The Authority should note that the ED amendments consider certain changes which can be significant from reporting standpoint, e.g. recognition of RCA in line with underlying Onerous ICL to limit identified mismatches.

   The companies should follow the latest IFRS 17 publication, including any proposed changes, as and when issued by the IFRS Foundation. The IFRS 17 version used should be disclosed in the FIA report.

IFRS 9

1. Insurance finance income or expenses impacts can be recognized through other comprehensive income statement also. Impact over other comprehensive income due to IFRS 17 is not considered for this analysis.

   In the FIA template, the total impact should be shown in the P&L. However, if the company feels that it may have a significant portion being shifted to the OCI, this should be highlighted in the report.

2. The impact of IFRS 9 can be kept separate from this exercise.

   No, the IA intends to understand how IFRS 17 along with IFRS 9 will impact the industry.

3. IFRS 9 only impacts an insurer's insurance liabilities when it's a Life company with investment type contracts (in which case the value of the insurance contracts would change as a result of IFRS 9 being implemented). Please can IA confirm this is the only IFRS 9 impact that you expect to see in the "Financial position" tab, row 60, 112 etc.? We are not aware of any other potential IFRS 9 impacts that could be shown here for insurance contracts. We recommend IA confirms our understanding, or provides clarification of what is expected to be shown here if reflecting the impact of IFRS 9 on insurance contracts.

   Refer to IFRS 17 and IFRS 9 for guidance.

4. The template provided requires IFRS 9 impairment provision to be assessed at the LOB level, assuming financial assets are held and allocated at LoB level. For scenarios where this is not the case and financial assets are held at company level, is it ok if the impairment provisions are assessed at Consolidated level.

Yes, this approach is acceptable as long as the company is using realistic estimates and periodically adjusting them as per the actual experience.

Level of Aggregation

1. The standard requires the insurers disclose information bases on group of contracts. A group is a managed group (often a product) of contracts which are profitable, onerous, or may become onerous (decided at inception) with a certain inception year. Can different channels of generating business be considered for grouping and accordingly listed in the template as each channel could result in contracts being onerous or profitable. The template requires information on the line of business and not on the basis of the Grouping of contracts as required under IFRS 17.

2. INFO sheet: The template is set up to be filled on LOB basis with a list of pre-filled LOBs. However, if a company has decided the level of aggregation (creation of cohort) other than LOBs, e.g., products (especially for Life business where different products may be run with different methodologies like VFA, GMM) or grouping insurance contract based on risk profile of products, then the template needs to be updated to provide flexibility to capture such a scenario. We recommend to not restrict the cells to include only specific lines of business.

3. For the IFRS 17 v IFRS 4 comparisons, the LOB criteria presented in the FIA template may not be mapped one to one, e.g., Motor Comprehensive and Motor TPL may be in separate portfolios under the IFRS 17 requirements for a Company. **Clarification required**: For accurate representation and full reconciliation, IA should confirm that the LoB entered in the info sheet can be repeated such that the "portfolios" identified by the Company for IFRS 17 purposes are entered into the "specific LOB or Product description" sections. We understand that the LOBs included in the FIA Template are similar to the eForms LOBs. **Question**: If the answer to above is No, then can the Authority clarify that the LOB's presented in the FIA template can be used a proxy for the IFRS 17 acceptable "Portfolios"

   The LOB options are just a convenient way for the IA to analyze the impact on various types of business and on the whole industry. The IA is in no way binding the companies to decide the level of aggregation on this criterion, nor providing any standard guideline. The FIA template needs to be filled in with a specific description of how you group the contracts. In other words, you could have multiple groups within a LOB and groups that include multiple LOBs. In the latter case, the company should just select the LOB with the largest percentage of business.

4. Is the IA line of business the expected level at which modelling should be undertaken or should the modelling be performed at the IFRS 17 insurance group level (i.e., the IFRS 17 insurance group per Para 29 of the Standard) and aggregated to the IA line of business? Or, to ask the question another way, what is the minimum level of granularity at which IA expects the modelling to be undertaken?

   Going forward, the company management may use their professional judgement to decide upon these things, as long as it is following IFRS 17. The intention behind this exercise is to make companies better prepared for the upcoming challenges relating to IFRS 17 implementation and also provide companies and the IA an overview of the estimated impact of IFRS 17 implementation.

5. As per IFRS 17 Reinsurance portfolios requirements, a single contract can emerge as a result of applying all aggregation requirements. **Question**: In the FIA template the Reinsurance mapping is made on the same level as the Gross IFRS 17 "Portfolio/Group". Does the authority expect Reinsurance Portfolios to be separate even if they emanate from a single contract, e.g., a single QS Treaty covering Liability, Fire, Engineering Portfolios, on a Gross Level?

   While the IA doesn't expect to interpret IFRS 17 for companies, we do understand that some reinsurance contracts would map to the contract groups and others would not. Thus, companies should feel free to report both Gross and Ceded as within one "LOB" and/or use separate “LOBs” for Gross and Ceded.

PAA

1. As per Point 2 of the Appendix, will the motor line automatically qualify under PAA approach due to the uniqueness of the product in UAE?

2. The circular mentions that the rationale behind selecting a PAA model for an insurance contract that doesn’t qualify automatically for PAA needs to be given. Would the following be valid rationale for policies qualifying for the PAA method:

   a. A very low proportion of policies. How much of a particular LOB should be <= 1 year to consider PAA for that LOB in its entirety? For example, there is only 1 fire policy out of 1150 fire policies underwritten in 2018 that has a term greater than one year (a 13 month or 395 day policy).

   b. What constitutes one year or less? Most of the Marine & Motor policies underwritten in 2018 which has a term greater than one year are 13-month policies. Would the extra effort needed to build a GMM model for these cases be recommended to evaluate if PAA approach produces similar results?

   Refer to IFRS 17 for guidance.

3. When PAA is chosen as the measurement method, within the Balance Sheet in which line of ICL for remaining coverage should the LRC be presented?

   For each approach, the company should populate the relevant cells and ignore others. (for example - if CSM is not relevant, it should be entered as zero).

4. When completing the Financial Position tab for a line of business that is PAA only and is expected to be onerous should the total liability for remaining coverage under PAA including the loss component be inputted into the line item ICL for Remaining Coverage - Future Cash Flows or should this be split between this item and the ICL for Remaining Coverage - Risk Adjustment. For example, suppose we have a contract where the PAA liability for reaming coverage is 95, but under the general model we have a best estimate liability of 100 and a risk adjustment of 5

and would thus need to set up a loss component of 10. Would we need to put the total 105 under ICL for Remaining Coverage - Future Cash Flows or only 100 in that line item and 5 in ICL for Remaining Coverage - Risk Adjustment.

Refer to IFRS 17 for guidance.

5. The circular requires the company should comment on the rationale behind selecting PAA for an insurance contract not automatically eligible for PAA. We assume this is the rationale for the modelling exercise, rather than the rationale for a formal accounting policy choice. Formal accounting policy decisions are unlikely to have been made at this point in time. We also note that eligibility is assessed at the group of contracts level. We recommend that IA allows the insurance company to use judgement in this area and can make a "working assumption" about how Para 53(b) shall be interpreted for this exercise. We also recommend that IA confirms it is not expecting a formal PAA eligibility exercise to take place or for accounting judgements to be made.

6. For companies that may be able to apply the simplification from Para 56 and not discount their claim liabilities, will this be acceptable to IA? We recommend that the IA allows the insurance company to use judgement in this area and can make a "working assumption" about eligibility for this simplification.

   A working assumption is acceptable as long as it is fully documented and explained in the FIA report. The management should disclose the rationale used to arrive at the assumption (for example - explain features of the contract).

Reconciliation

1. Point 5 of appendix A states that “The final results should present a reconciliation of an IFRS 17 income statement and balance sheet with corresponding items as per IFRS 4”. The point mentions that this should be done by filling the FIA template. Does that mean filling the template will complete the requirement automatically?

   Populating the template is just a part of the exercise. The FIA report should cover all the details, reconciliations, etc.

2. Reconciliation of Net liabilities as per IFRS 4 to IFRS 17. All other impacts other than discounting and risk adjustment would be overlapping and it would not be possible to disintegrate them into individual impacts such as impacts of Best Estimate Basis, impact of recognizing onerous contracts, etc. as these are more because of methodology change in IFRS 17. Hence, we will recommend IA to keep the key reconciling item as: 1) Impact of discounting; 2) Impact of Risk Adjustment; 3) Impact of Methodology change including Reinsurance mismatch. The companies can provide a commentary to explain each of these impacts to provide further details.

3. We believe that doing a reconciliation between IFRS 4 to IFRS 17 providing details of the reconciliation items is a good way of understanding the factor for the change in Statement of financial position. However, breaking the reconciliation to each individual future cash flows, RA impact, Discounting and CSM will be very difficult

task as these aspects could have an overlapping effect. We will suggest to just to keep reconciliation of IFRS 4 to IFRS 17 (which is included within this Tab) and not further break it down to one on one mapping as currently suggested.

This is a good suggestion. The Template has been updated.

Risk Adjustment

1. As the purpose of the guidelines are to ensure comparability of the FIA within the market, is there a specific requirement for the Confidence Interval to be used for the calculation of the RA?

   Refer to IFRS 17 for guidance.

2. Risk adjustment and discounting will be developed during the solution designing phase. We recommend providing high level assumptions at this stage depending upon the term of the contracts and volatility of claims which would be used during the financial impact assessment. Once the solution designing phase is over, the detailed reasoning for the selection of assumptions can be shared with IA as an update.

   The IA agrees that the building a solution is not required at this stage. Accordingly, high-level assumptions and estimates to reasonably approximate the impact are acceptable. However, the assumptions, estimates, and report should discuss the expected solutions so that the companies have a starting point for the design phase.

Scope

1. Point 1 of Appendix 1 says 'the company should provide reasonable assessment of 100% of the business although it is not a requirement to include 100% of the business' where instructions in 'IFRS 17 – FIA Template' says at least 60% of the business. We are assuming that the instructions in 'IFRS 17 – FIA Template' of using at least 60% of the Template would serve the purpose of 'Financial Impact Assessment' exercise even though it may or may not provide reasonable assessment of 100% of the business. Kindly advise if our assumption is in order. The circular states the company should provide a reasonable assessment of 100% of the business. How should "reasonable assessment" be interpreted?

2. 'Data for certain Contracts that may be fully reinsured and constitute a significantly material amount of business UW for 2018 may not be directly available. **Question**: Can such segments be excluded from FIA?

3. 'IFRS 17 – FIA Template' mentions that only business written in Underwriting Year 2018 shall be considered whereas point 1 of Appendix 1 states otherwise.

4. If only U/W 2018 business is considered, then the reconciliation (point 5 of Appendix 1) between the reported numbers (Financials for year ended 2018) under

IFRS 4 and IFRS 17 will be difficult to prepare as financials under IFRS 4 considers business earned in 2018 (and not just written in U/W 2018).

5. The Appendix within the Circular makes a reference to all business in-force as at 31 December 2018. Clarification is required on whether only business underwritten as active and in-force as at 31st December 2018 needs to be considered or the business underwritten in 2018 needs to be considered?

6. The Financial Impact Assessment template states lines of business selected to represent at least 60% of the business written by the company during UWY 2018. Should business be interpreted as Gross written premium?

7. We believe that using the 2018 figures is too early for the quantitative impact of IFRS 17. Once we adopt IFRS 17 in 2022 as required by the standard, we will be presenting 3 balance sheets (As of 31 December 2022, 31 December 2021 and 1 January 2021). Hence, we believe that quantitative impact assessment is more crucial for the year 2020. Nevertheless, although the standard would only require IFRS 17 comparatives as of 1 January 2021 (31 Dec 2020), however the present requirement can be accommodated for both 2019 and 2020. However, impact assessment for 2018, 2019 and 2020 would be burdensome especially as the implementation effort will already cause a significant strain on our resources.

8. The assessment should be done such that all in force business as at 31 December 2018 is reasonably represented. The company should focus on underwriting year 2018 and strive to give a complete view of the impact including starting values as at 1 January 2018 and prior in force business. Please confirm whether the assessment should be performed on underwriting year 2018 rather than financial year 2018. Our concerns regarding underwriting year are as follows:

    a. The financials for selected line of businesses will not agree to 2018 year-end financials previously submitted to IA as the basis for preparation differ.

    b. Our assumption is that only the P&L is to be prepared on an underwriting year basis because for the balance sheet, 2018 underwriting year items would need to be stripped out of closing cumulative balances which would require considerable effort and prove very challenging in the prescribed time frame.

    c. What is the rationale to perform the FIA on an underwriting year basis? Preparing the FIA on a 2018 financial year basis would enable us to compare the IFRS 17 numbers with the IFRS 4 reported result and would mirror the process to be adopted going forward.

9. Should the endorsement premium received in 2019 in respect of policies written in underwriting year 2018 be shown in the 2019 column?

10. Appendix 1.1: It is difficult to provide a reasonable assessment of 100% of business without running financial impact on all lines of Business. However, the percentage difference of impact due to IFRS 17 obtained by running major lines (as required say 70% / 80%) may give an approximation of likely impact on the overall book (100%). Does that suffice the requirement?

11. In Appendix 1, the requirement to "reasonably represent" is contradictory to the FIA Template instructions to include only 60% of business. For Companies where only a very small segment qualifies for the GMM Approach - the FIA impact for that segment may be significantly different from existing IFRS 4 perspective. **Clarification required**: The FIA Impact assessment report and template both will be considering only the overall impact and not the impact on the IFRS 4 LoB vs the IFRS 17 Portfolio/Group level. **Suggestion**: In order to accurately represent information relating in particular to segments where PAA is not applicable the Authority may consider adding the requirement to include at least all Portfolios/Groups such that all relevant Measurement Approaches applicable to the Company are captured.

12. The requirements set out in the circular will require a significant effort from insurers as a number of key items have will have to be completed to assist in these calculations. Based on overall project timelines companies are already falling behind in terms of the overall implementation of IFRS 17. Focusing efforts on the completion of a significant financial impact assessment will further delay the next phases. Consideration should be made to simplify the scope of the exercise to allow companies to complete this exercise and continue with their implementation journey.

13. The requirement to produce a reasonable projected balance sheet is very onerous in our view given the capabilities that are currently available. These projections will need to be based on high-level assumptions as for example asset and liability models are not available to project assets and liabilities at present. Current IFRS 4 practices do not cater for a projection of a balance sheet and is the intention to perform additional calculations on IFRS 4 financials - please clarify. It will be useful to understand the rationale behind this request as well as any simplifications that companies are allowed to make. In addition, given the absence of models to produce these results the timeframe to complete this exercise could potentially be lengthened or the requirements introduced in phases.

14. Kindly advise guidelines on whether any simplifications can be applied. For instance, for long-term life portfolio which transition approach will be applied?

15. One of the main purposes of the FIA is to help the relevant stakeholders assess the high-level impacts of implementing the standard. Does this mean it would be acceptable to perform the assessment at a high-level and allocate down? We recommend IA clarifies what approaches would be deemed acceptable.

    The inconsistencies have been removed from the template.

    The companies are provided certain flexibility with respect to how to interpret this. The company should use a method which would mirror the (income statement) of the year 2018 and would also provide a fair representation of the in-force block of business. The business underwritten in 2018 should be given more preference for this approximation. However, if the company feels that the business underwritten in the year 2018 is not presenting the correct picture, the company may use a different approach and adequately disclose in the FIA report.

Reasonable assessment means that the company should **approximate** 100% of the business.

The main goal of this exercise is to help the companies briefly understand how the new IFRS financials would look like and how the numbers would be changing so that they are better prepared for the upcoming challenges relating to the full implementation. This exercise would also help IA to have a brief overview of the impact on the whole Industry.

16. Does IA expect the IFRS 4 position for 2018 to reflect: a) the actual numbers that formed part of the IFRS 4 audited results (adjusted to reflect the sub-set of business being modelled), or b) a 'modelled' result? When performing this kind of modelling exercise, it is not always possible to reproduce the actual precise IFRS 4 numbers due to several factors - e.g., manual adjustments that were made under IFRS 4 and trying to precisely reproduce the IFRS 4 numbers may be burdensome for little additional value. We recommend that given the IFRS 4 position needs to be projected into the future, that a modelled result would be appropriate for 2018 (in line with the approach for all future years), and it shall be noted that this may not precisely reconcile to the 2018 results.

    The audited results may be used, but not mandatory as this is not a reconciliation exercise. The company is free to use any approach, as long as it reasonably represents 100% of the business.

17. We request to reconsider the requirement for comparison of IFRS 4 and 17 from 2023 to 2027 since this will add operational costs (actuary cost, staff costs, etc.) and IFRS 4 data would be obsolete / irrelevant by then.

18. The Company is not equipped with doing the impact assessment for all in-force business as at 31st December 2018. It is mentioned that 100% of business need not be included & a reasonable assessment of 100% of business may be done. Since the Company is offering wide range of products with variable terms & benefits, practically the assessment would be required to be done for 100% of the business underwritten during year 2018 or year 2019. This would require up gradation in the existing IT system which may prove to be cumbersome for past data.

    A working assumption with adequate rationale is acceptable as long as it is fully documented and explained in the FIA report.

19. Point 5 states that take more than 10 year to run off, all years beyond year 10 can be grouped together. More clarity would be required to understand if this is for life contracts.

    Yes, it is mainly for Life contracts. The FIA template is designed keeping in mind both Life and Non-Life businesses. Hence, if certain items are not applicable for a company, they should input '0' in the relevant fields.

20. How many years are required to be populated? What do the columns 2019 and onwards represent in an IFRS 4 context? 2018 would show the closing P&L position under IFRS 4.

The company needs to show the income statement till the policies run-off. For some policies, this may be quick.

21. Should the workings be based on the numbers as if we were at 2018 YE or should we actual 2019 developments for 2018?

    Incorporating actual developments is not mandatory, but could be done if it simplifies the process or provides valuable insights.

22. Should the movement in reserves, including UPR for YE 2018 position be reflected in columns representing 2019 and onwards?

    Yes.

23. For completing the P&L IFRS 17 tab, we appreciate the value of seeing the runoff of profits on longer term business. However, for short term business, this projection would run off very quickly. We would thus just like to confirm that there should be no allowance for new business in these profit projections?

    New business is not to be considered.

24. We assume that the income statement is intended to cover the 2018 calendar year, i.e., in order to work out the 2018 income statement this will use 1 Jan 2018 as the opening balance sheet and 31 Dec 2018 as the closing balance sheet.

    Yes.

25. Existing Accounting Practice may account for certain contracts that would be excluded from scope of IFRS 17 e.g. certain insurers may be reporting and accounting for self-insurance and ASO contracts as insurance under existing reporting structure, whereas these shall henceforth be reported under different accounting standards. **Clarification requested**: Can such contracts be excluded from IFRS 4 and 17 estimates for accurate comparisons or do the IFRS 4 estimates need to fully reconcile with the statements for 2017 & 2018.

    The company should include the impact due to such contracts. The FIA report should clearly mention how the Income statement and financial position will be impacted due to these.

26. Please can you share the timings of the remaining phases of the IFRS 17 Implementation timeline. This will assist us in planning for the full journey to ensure we meet IA and IASB requirements.

    The timing of IFRS 17 is governed by the IASB.

Sensitivity Scenarios

1. Clarification is required regarding type of best estimate sensitivity and more detailed description of each of the scenarios prescribed Scenario 2, 3, and 4. An example will be helpful.

2. We recommend IA circular or template to set out the assumptions that should be sensitivity tested along with the % change used for the testing. This would ensure consistency between the sensitivity testing performed across different the companies.

   Scenario 2, 3 and 4 test the sensitivity. The scenario assumptions should be based on the professional judgement of the management. Each company may have different factors to which their business is particularly sensitive. Hence, the companies should use those factors which they believe would have the maximum impact. The factors should be adequately disclosed along with a brief rationale as to why a certain sensitivity factor was used or not used.

3. Is Scenario 1 in sensitivities the base scenario?

   Scenario 1 is the base scenario. The assumptions which the company feels would be most applicable to them going forward should be used.

4. Sensitivity scenario 4 states that 15% of contracts should become onerous by 10%. Does this mean that at least 15% of the portfolio should have a combined loss ratio over 110%? What measure should be used to determine 15% of the business? For example, premiums, number of policies in-force, etc.

   A combined ratio over 110% could be how the company defines onerous by 10%, but the company should disclose how they determine whether a policy becomes onerous as this will depend on various factors. To determine 15% of the portfolio, companies may assume 15% of premiums/no of policies/in-force block, whichever best represents their situation. Adequate disclosures and rationale should be provided in the FIA report, which would help the reader to develop an accurate understanding.

5. Should one Excel template be completed per scenario?

   The template has been updated with the sensitivity scenario requirements.

6. Will the results of the scenarios go in an accompanying report? We assume that the sensitivity analysis would only apply to IFRS 17 results and not to the IFRS 4 results which would remain constant across all scenarios?

   Yes, the sensitivity scenarios should be part of the FIA report. All sensitivities would apply to IFRS 17 results. If the assumption is not a part of IFRS 4, then it can be ignored for IFRS 4 results (e.g., Risk Adjustment). But if the assumption could affect IFRS 4 results, then it should not be ignored (e.g., loss ratio deterioration). The "Sensitivity" sheet within the template needs to be populated accordingly.

7. The Sensitivity analysis to key assumptions on different scenarios (Best Estimate Assumption, Low Impact Assumptions, High Impact Assumptions, 15% contracts becoming onerous by 10% or use of any assumption) as mentioned in the Circular (20) would require modification / up gradation in the existing IT System. It may be possible to do it for the year 2019 onwards, but it would be challenging to do it for the business as at 31st December 2018.

8. Appendix 1.4: Scenario 4 – Assuming 15% of the contracts becoming onerous will lead to subdivision of lines of business into onerous and non-onerous, where the onerous group will need to be run through cash flow methodology. Based on our initial understanding, for profitable lines of business which are currently automatically eligible for PAA and where facts and circumstances do not suggest that the group of contracts is onerous, creating a cohort of Onerous contract which need to be run through cash flow methodology will be costly and time consuming. We request the IA to keep this scenario as optional for group of contracts which are running at combined ratio of 95% or less.

   The company can use working assumptions for the sensitivity analysis (scenarios 2 to 4), as long as the assumptions are adequately disclosed and the rationale explained in the FIA report.

9. The circular states, for Scenario 2, to use the assumptions and methods that illustrate sensitivities that can be expect to decrease the financial impact. Does this mean using values that can be lower or higher than the best estimate assumptions such that they result in decreasing the financial impact gap between IFRS 4 and IFRS 17?

   Yes.

10. The circular states, for Scenario 3, to use the assumptions and methods that illustrate sensitivities that can be expect to increase the financial impact. Does this mean using values that can be lower or higher than the best estimate assumptions such that they result in increasing the financial impact gap between IFRS 4 and IFRS 17?

    Yes.

11. Should the sensitivities be applied at inception, or at a particular point during the run off the liabilities? Should the same sensitivities be applied at a gross level and a reinsurance level? Should the sensitivities be applied in relative or absolute terms? In particular, absolute terms may produce unexpected results.

    The sensitivity may or may not apply at inception. The company should document how they expect each sensitivity would impact the results.

    Sensitivity should be consistent between gross and ceded, but not necessarily identical. (e.g., Excess of Loss cover)

    Sensitivities should be set up in a realistic manner.

12. The treatment of onerous contracts could be done in line with the current approaches to the PDR assessments. This however will not consider the granularity of the assessment required for IFRS 17 and will be indicative and understated overall. Alternatively our suggestion is to move this to a later phase which provides time to explore any changes to the current expense allocation framework and build this functionality which should then allow companies to determine the existence of onerous contracts.

The company can use a working assumption for the sensitivity analysis (scenario 4), as long as the assumption is adequately disclosed and the rationale explained in the FIA report.

The company should also specify any particular challenges they might be facing in this regard.

Template Issues

1. INFO tab, under drop down list in “Reinsurance” VFA (Variable fee approach) was included as a selection where IFRS 17 specifically mentioned that VFA cannot be used for measuring of Reinsurance contracts.

   The Template has been updated.

2. Financial Position tab – As per IFRS 17 all cash flows related to insurance contracts will be considered when measuring insurance assets or liabilities, some expenses which were classified as “General expenses” will no longer be general expenses and will be a part of relevant cash flows. Balance sheet impact of those expenses were classified currently under other payables as per IFRS 4. Therefore, it seems that impact over other payables (in some cases other receivables impact) also need to consider when analyzing balance sheet comparison.

   Template is updated with "Other Receivables" and "Other Payables". The amounts under these heads should only be related to Insurance Operations and nothing else. The heads are added just to ensure that there is a like to like comparison between IFRS 4 and IFRS 17.

3. "Premium collected in advance" is formed part of Insurance Service Assets under Financial Position tab. It is not clear as to why this line item is treated as an asset.

   The Template has been updated.

4. Under "Profit & Loss Impact" tab, the item, "Impact of changes in assumptions" seems to be capturing the impact of changes in the methodology rather than just assumptions, since currently the companies do not use discounting on the non-life side.

   The Template has been updated.

5. There is a typo in the spelling of VFA.

   The Template has been updated.

VFA

1. The entire range of models may not be implemented, assuming the Company has a very small life portfolio (which may require VFA) as compared to the general

business. In other words, should the company use VFA approach despite a particular line of business being immaterial in terms of size?

2. If a company has not yet determined VFA eligibility, is it still required to use the VFA model for products that may require a VFA eligibility assessment (but may turn out to not be VFA eligible)? We recommend that IA allows the insurance company to use judgement in this area and can make a "working assumption" about what is VFA eligible. We also recommend that IA should confirm that is not expecting a formal VFA eligibility exercise to take place and accounting judgements to be made.

   A working assumption with adequate rationale is acceptable as long as it is fully documented and explained in the FIA report.

Workshops

1. Considering the complexity involved in implementation of IFRS-17, the Insurance Authority should conduct periodic comprehensive training programs for the industry. This will enable the companies to share their experiences with each other which will help in addressing the common issues faced by the industry.

   The IA is considering ways to address training and help coordinate how to address common issues.