Challenges of Financial Statement Projection under IFRS 17

John Overton FSA MAAA CERA

IFRS 17 Projections

Beyond IFRS 17 Compliance

IFRS 17 was introduced in order to:

- Make accounting practices consistent
- Achieve comparability within the Industry
- Transform the Financial Statements to more insightful assets

Application of the Accounting Standard requested:

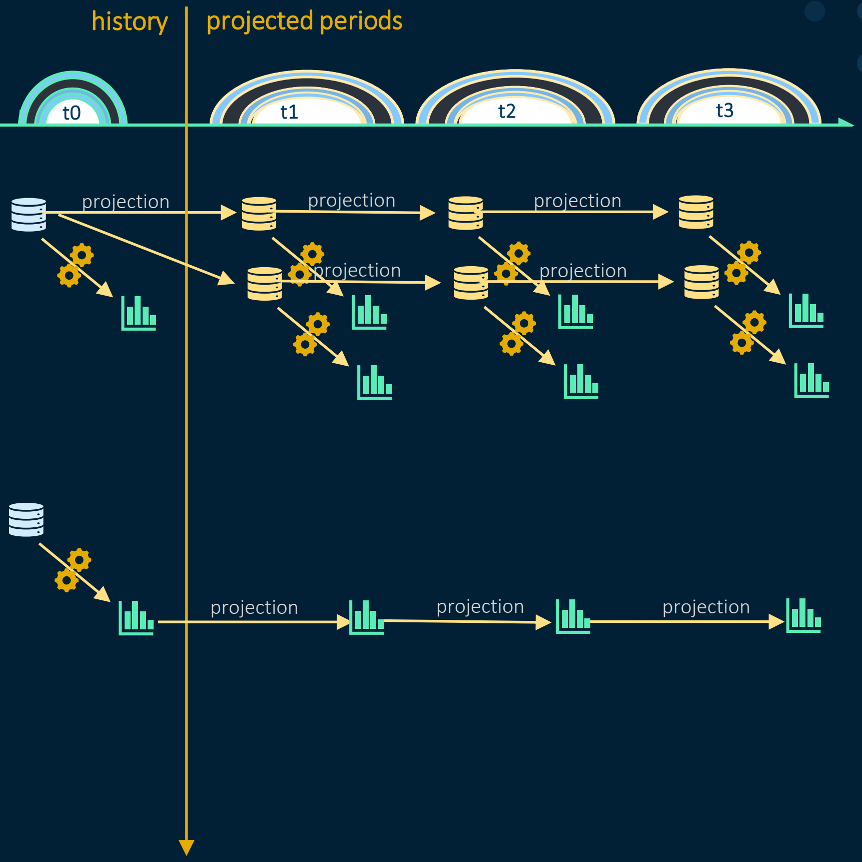
- Modification to the existing Chart of Accounts
- Adaptation of Financial Reporting
- New Approach to the valuation of liabilities
- Enhancements of existing and creation of new KPIs

Such significant changes will:

- Have impact on Profitability Monitoring
- Introduction of new Measurements
- Require comparability with existing practices
- Need further insights as the Accounting Standard evolves

Inevitably, a process that facilitates adaptation to the new era is imperative.

Possible approaches to projections



1 Projection of inputs

Based on inputs (exp cashflows, actual cashflows) at t0, system generates (using predefined logic) the inputs for next reporting period.
System performs the calculations for each of the future periods using the same approach as for t0.

2 Projection of results

Based on BS and SCI at t0, system generates (using predefined logic) the values of accounts of BS and SCI for each future periods

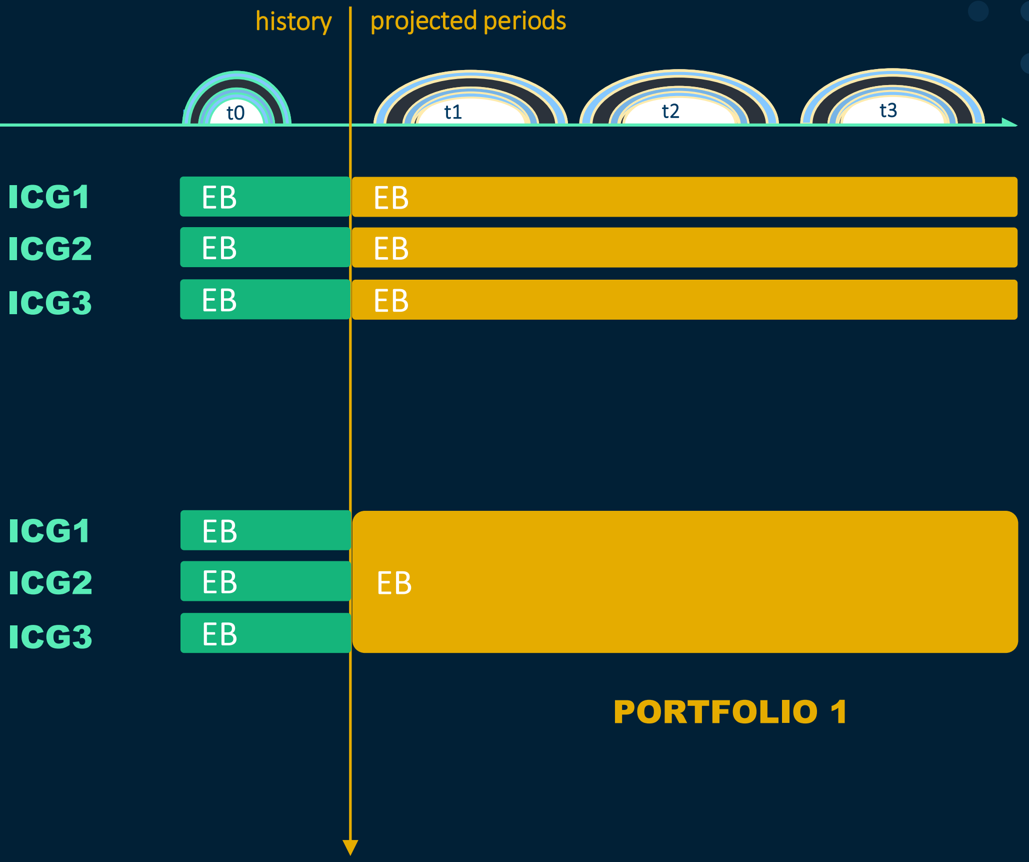
Possible approaches to aggregation

1 Projection at the ICG level

Financial projection results generated at the same level of granularity as that required for financial reporting.

2 Projection at the portfolio level

Financial projection results generated at a higher level of aggregation, such as product or portfolio.



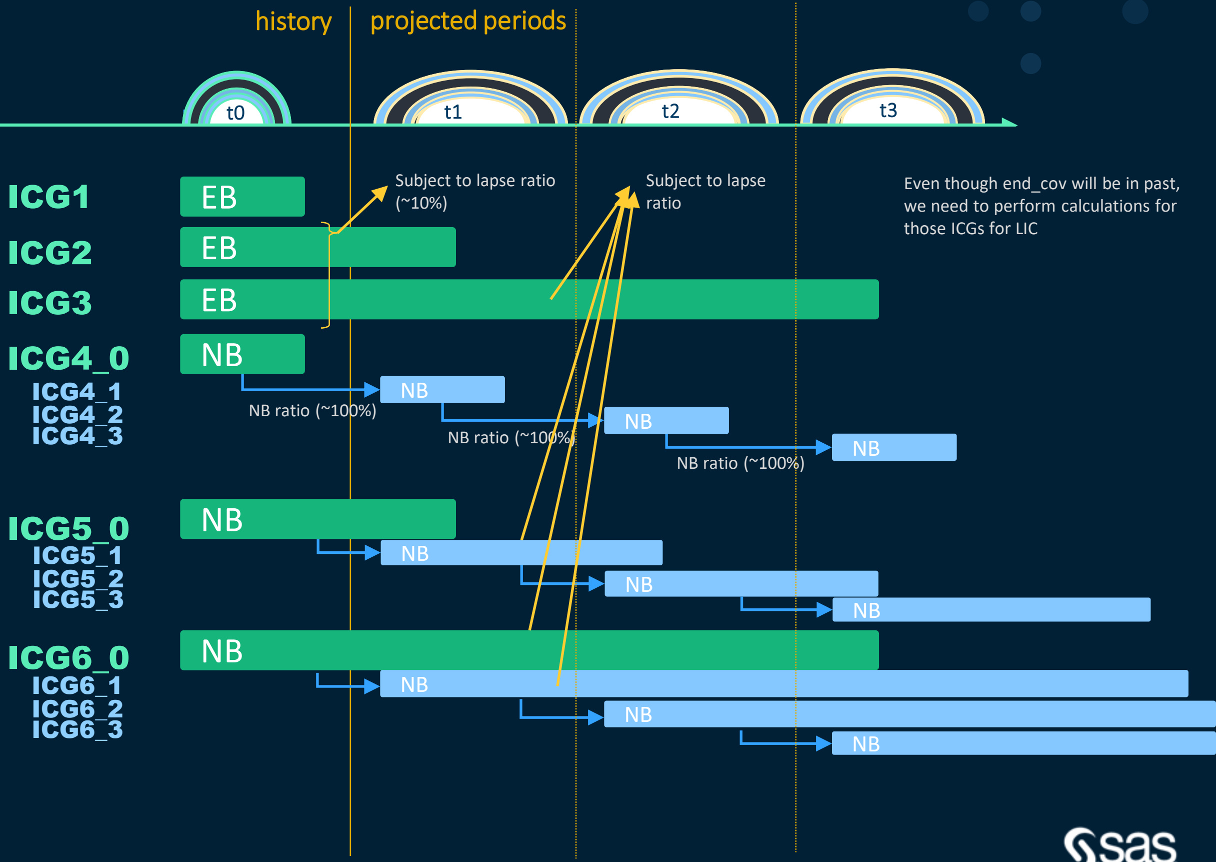
NB – replication of ICGs

Assuming that the NB in the future is similar to the NB at t0 – replication of all ICGs may be performed based on assumption of **NB ratio**.
For that purpose we need to have the information about the beg_cov and end_cov.

For LRC:
- we can copy definition from the parent ICG (premium, acq costs, amortization).
- We can assume cov-unit based amortization

For LIC:
- we can derive ultimate value of claims based on LR (or freq and sev) and then development pattern. These parameters may be defined as driver rates depending on Lob (check whether one can refer to driver rate of parent)
- We can assume that claims happen as expected.
- For EB – we need detailed BE as the start data

One should also assume some of EB (at the opening of future periods) may be the **subject of lapse**. But how to model lapse?



IFRS 17 Projections

Transforming Regulatory Obligation to Competitive Advantage

Insurers should be able to utilize their IFRS 17 solution to help with financial projections, allowing them to:

- Have a smooth transition and adaptation to IRFS 17 Accounting Standard
- Take advantage of analysis of results to fuel strategic decisions to improve future profitability performance
- Effectively accommodate changes as the Accounting Standard evolves
- Revisit assumptions made and improve adaptation to the accounting Standard

THANK YOU

sas.com