

IFRS 17 – Insurance Contracts

ICAI Seminar on Actuarial Accounting

Hiten Kothari & Shaunak Bhatt

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IFRS 17 – A brief Introduction

IFRS 17 Objectives



IFRS 17 is an opportunity to rethink and revolutionize accounting and steering in the Insurance industry

IFRS 17 aim to achieve:

- Better perception of Risk and uncertainty for Companies
- Standardized practices across Industry
- Analysis of Surplus
- Embedded value of contracts already written
- Consistency between valuation of assets and liabilities
- Parallels with Solvency II

IFRS 17 and Current GAAP

IFRS 17 vs Current GAAP (1)

Line of Business	
Current GAAP	IFRS 17
Industry Specific, determined by regulations	Entity specific, Similar risk and managed together.

Profit and loss on Contracts	
Current GAAP	IFRS 17
Plausible loss to be recognised at entity level.	Plausible Loss on group of contracts charged on inception

Insurance v Ancillary Service	
Current GAAP	IFRS 17
Everything recognized as revenue.	Insurance related service part of revenue.

Period of Recognition of Revenue	
Current GAAP	IFRS 17
Policy Duration	Coverage Period/Contract Boundary

IFRS 17 vs Current GAAP (2)

Deferred Acquisition Costs	
Current GAAP	IFRS 17
Not Allowed	Acquisition CF's allocated on a systematic basis.

Contractual Service Margin	
Current GAAP	IFRS 17
No explicit recognition	CSM to be calculated and presented separately

Risk Adjustment	
Current GAAP	IFRS 17
No explicit recognition	Insurance related service part of revenue.

Discounting of Liabilities	
Current GAAP	IFRS 17
Not Allowed	Required

IFRS 17 vs Current GAAP (3)

Reinsurance	
Current GAAP	IFRS 17
Recognized immediately	Insurance and RI contracts have separate treatment.

Presentation	
Current GAAP	IFRS 17
Insurance Results and investment results presented together	Separation of profits from insurance and investment activity

Measurement principle	
Current GAAP	IFRS 17
Recording Transactions	Estimating values using stated principles

Disclosures	
Current GAAP	IFRS 17
As specified by regulation	Yet to be finalized. Expected to be more granular

Premium Allocation Approach

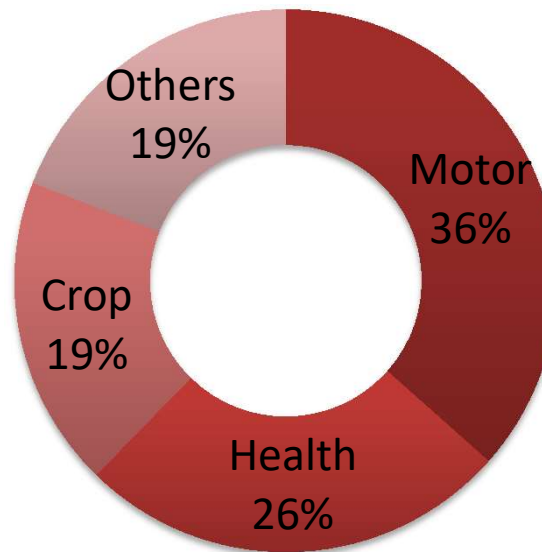
- Optional Approach
- Applicable for Contracts for 1 yr or less
- For both insurance and Reinsurance contracts



Indian General Insurance Market and IFRS 17




Indian General Insurance Market

Share in GDPI upto Sep-18



- Total Gross Direct Premium Income (GDPI) for FY 2018-19 up to Sep-18 is ~ Rs. 81,700 Cr.
- Motor & Health account for approx two third of the total business written.
- Increased penetration expected in Health and Crop insurance due to government initiatives.

GI business and IFRS 17

			
Recognition	<ul style="list-style-type: none"> • Add on Services 	<ul style="list-style-type: none"> • Add on Services 	<ul style="list-style-type: none"> • Nature of Contract
Classification	<ul style="list-style-type: none"> • OD/TP – in same group? • Effect of tariff in grouping • Internal Reporting, risk and rating factors • Method of Sale 	<ul style="list-style-type: none"> • Health Regulations • Guaranteed Renewability • Method of Sale • Internal Reporting 	<ul style="list-style-type: none"> • Need to go more granular • Data availability • Identification of Onerous contracts on initial recognition
Measurement	<ul style="list-style-type: none"> • Increase in long term policies • Volatile Legal environment • Reporting and settlement delays • Catastrophe claims 	<ul style="list-style-type: none"> • Contract Boundary • Renewal/ Lapse rate assumption • Coverage units 	<ul style="list-style-type: none"> • Derivative contract • Multi Year Tenders • Premium Refund
Presentation and Disclosure	Detailed quantitative and qualitative information expected		

IFRS 17 for us



IFRS 17 for us



In India Ind AS 117 the Equivalent of IFRS 17 is expected to be effective from 1st April 2020.



1. Data and Process Alignment
2. Staff Training
3. Governance
4. Application of Judgment in Principle based Standard
5. Transition to the New Standard
6. New metrics for measurement of business performance
7. Managing Stakeholder Expectations

And So on....

To meet these obligations one thing is absolutely essential....

Accountants

Actuaries



Seamless integration of the efforts of Accountants and actuaries.

Thank You!!



Happy to Take Questions, if any?