



IFRS 17 Post-implementation review

Insurance sector breakfast

August 2024

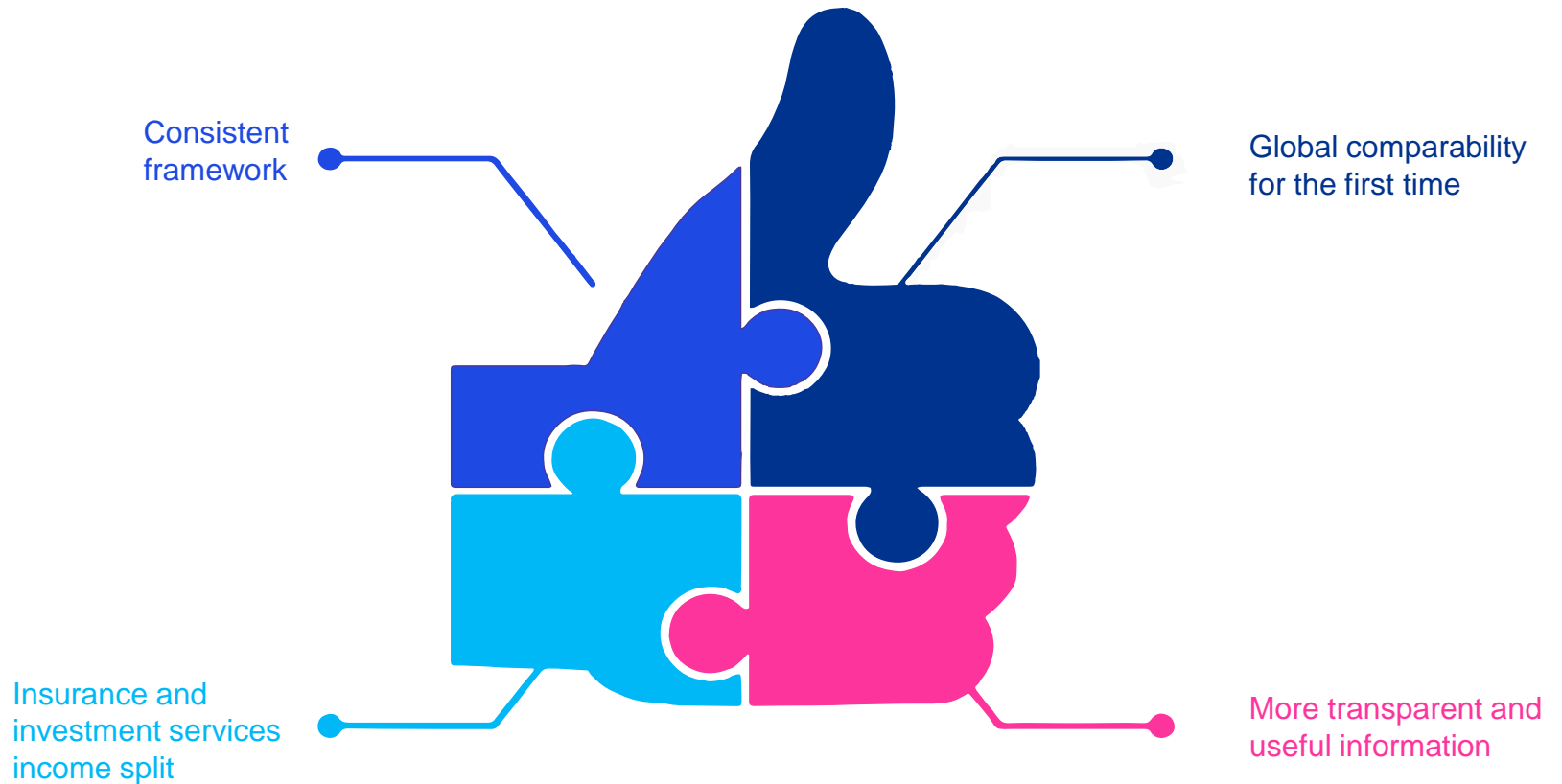
01

Overview of IFRS 17



IFRS 17: One accounting model for all insurance contracts

“ For the first time, insurers will be on a level footing internationally.

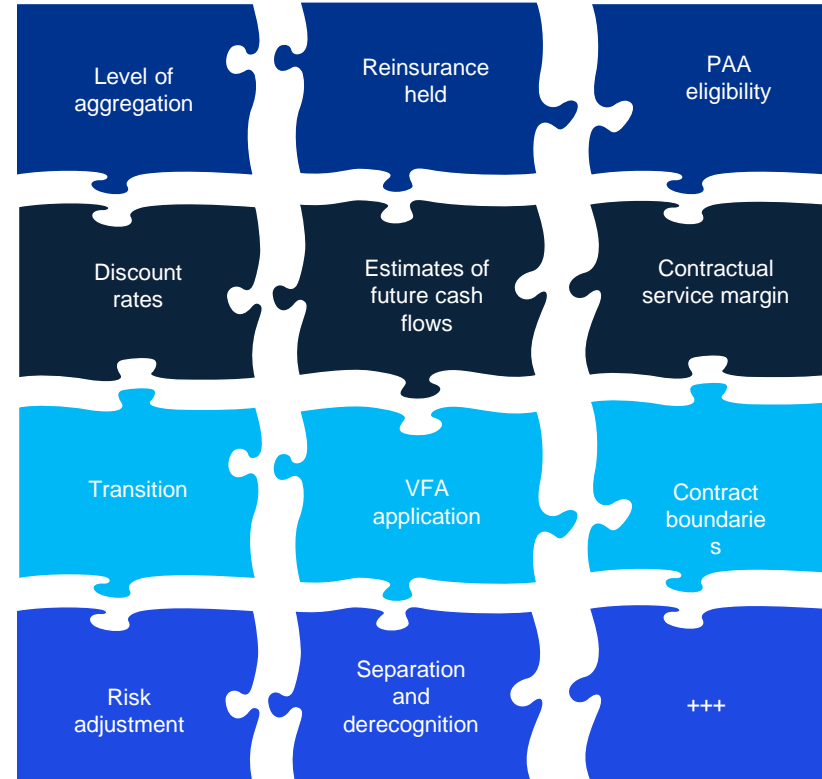


02

Expected changes



Accounting policies that were required



These changes affected....



Presentation and Disclosures



Volatility in financial results and equity



Capital Management & Dividend Policy



Systems and processes



KPIs and performance management



Business decisions



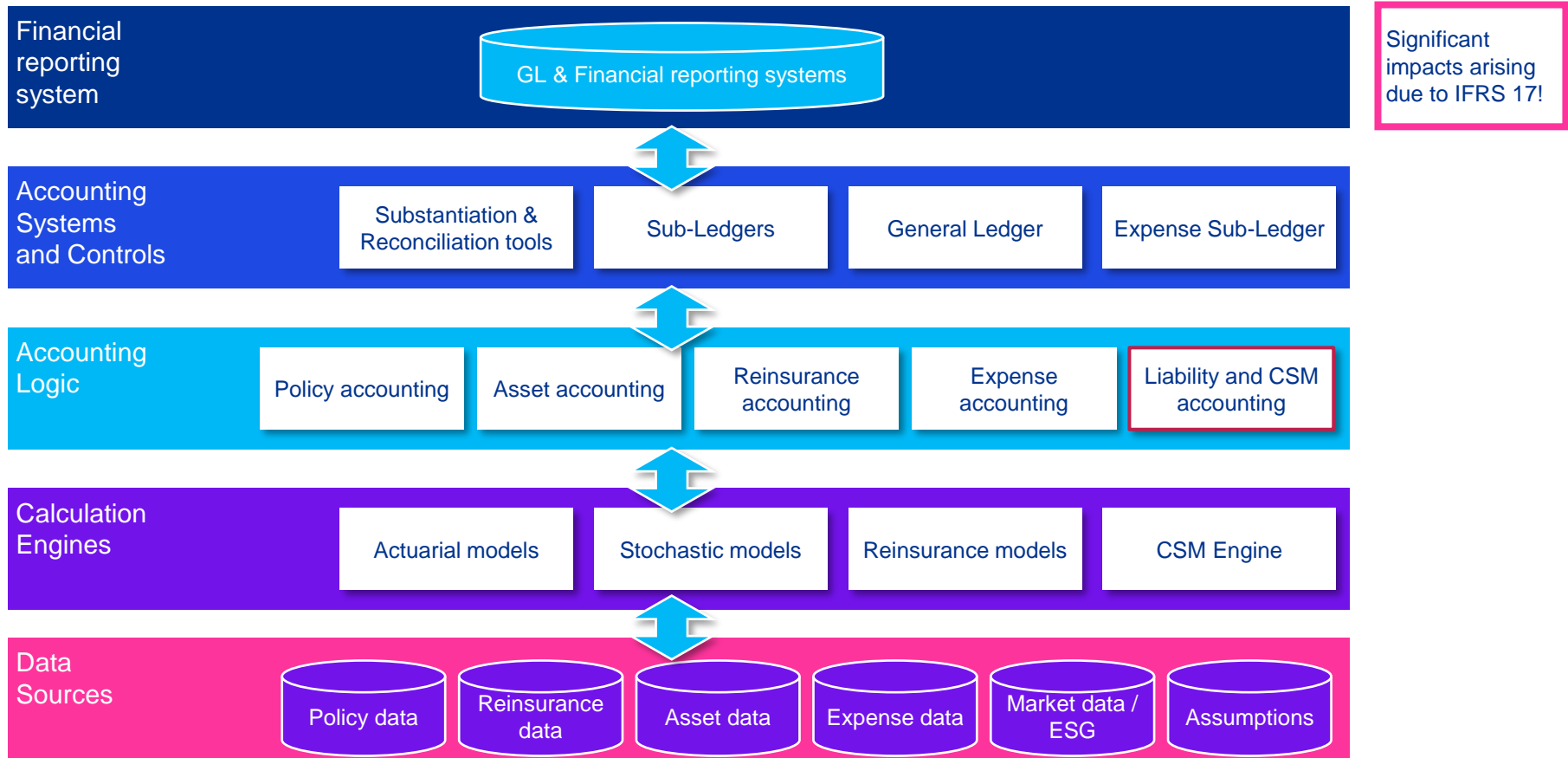
People



Possible internal operational changes?

Impact on financial reporting?

Overhaul of systems and processes



What's the impact you should consider?

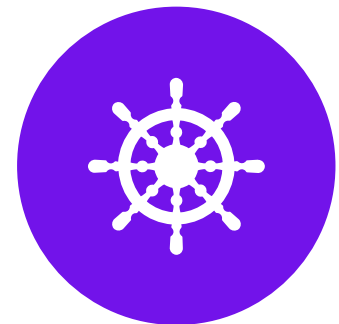
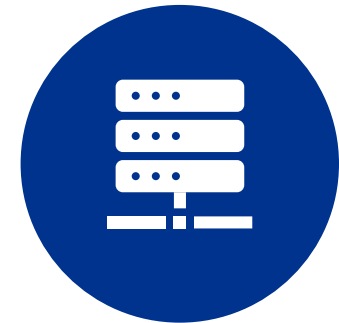
Changes to systems and processes:

Systems and data

- Integration of operations, actuarial and accounting systems
- System changes to store and track data at granular level
- New data requirements in terms of type, attributes and detail

Processes and controls

- How does management ensure the controls overestimates and judgements and data and valuation models are robust?
- What are the new processes and/or updates made to existing processes?
- What are the controls around any system and process changes?
- What are the new controls or upgrade of existing controls for business as usual after transition?



Integration of actuarial and finance team

Collaborative approach to
drive reporting quality

Outsourcing services

Upskilling of all team
members



A close-up photograph of a person's hand holding a black pen, poised to write on a document. The document features a bar chart with several blue bars of varying heights. The background is softly blurred, showing a desk with a stack of books and a pair of glasses. A semi-transparent blue and purple gradient box is overlaid on the left side of the image, containing the text '03 Key observations'.

03

Key observations

IFRS 17 Implementation challenges - technical

01 Transition approaches

Selection of transition approaches, restatement of 2021 and 2022 balances and initial recognition of the CSM

02 Discounting

Discounting—IFRS 17.36, B72–B85 and BC185–BC205

03 Risk Adjustment

Risk Adjustment for non-financial risk—IFRS 17.37, B86–B92 and BC206 –BC214

04 Bow-wave effect

Bow-wave effect calculation techniques – IFRS 17, B119 and BC282

05 Measurement models selection

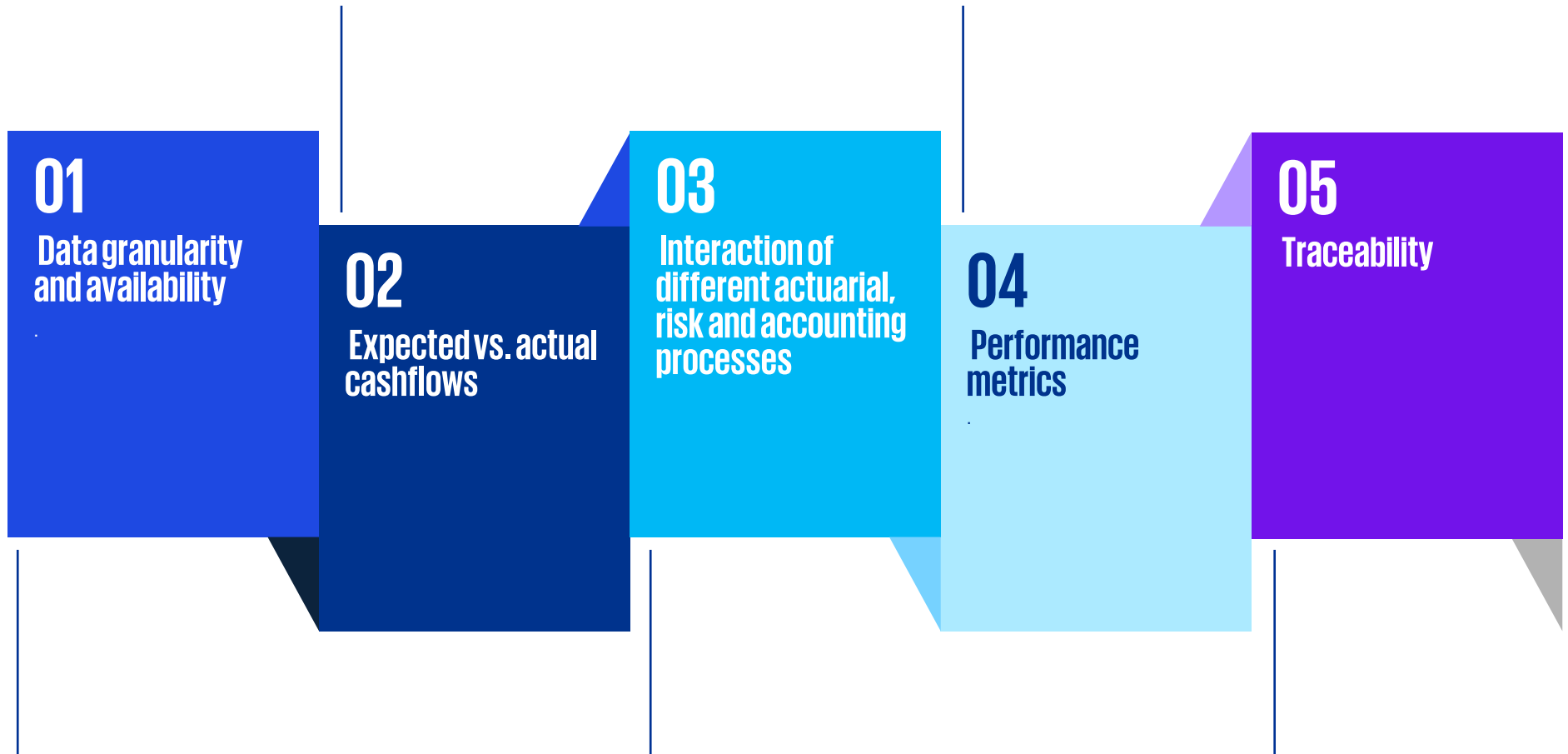
Application of GMM(IFRS 17.32–52), PAA(eligibility) (IFRS 17.53–59) and VFA(IFRS 17.B101)

06 Insurance finance income or expenses

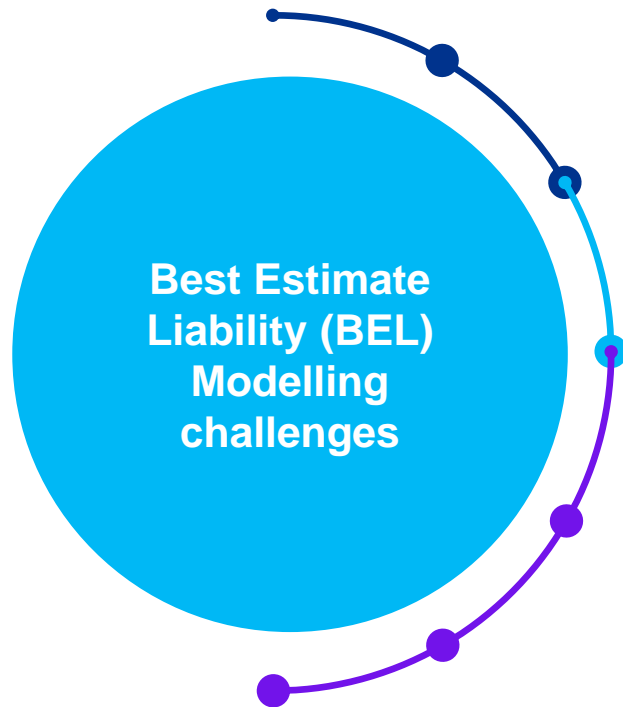
Recognition of Insurance finance income or expenses—IFRS 17.87 and B128–B136



IFRS 17 Implementation challenges - operational



Best Estimate Liability (BEL) Modelling challenges



The present value of future cash flows for the liability for remaining coverage (LRC) and liability for incurred claims (LIC) inappropriately estimated.



Methods/models to determine future cash flows and discount rate inappropriately determined



Assumptions used in estimating future cash flows and discount rate inappropriately determined

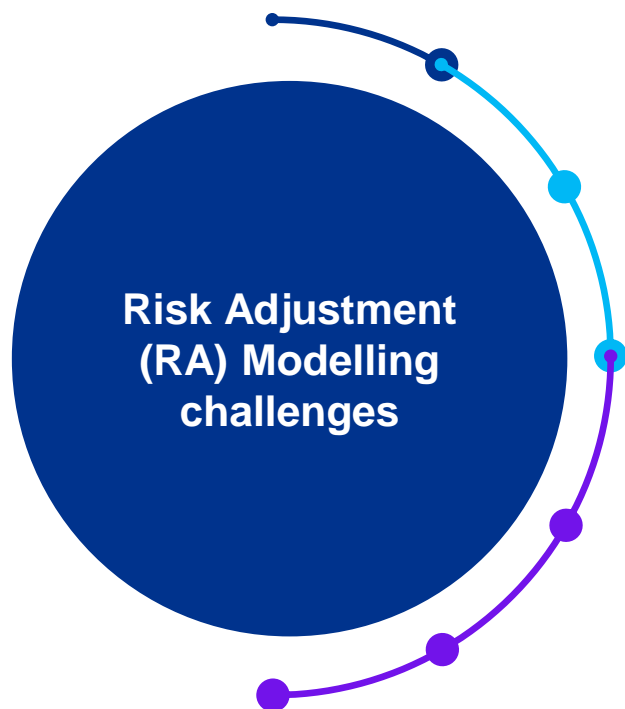


Data used in estimating future cash flows and discount rate inappropriate, incomplete, not relevant or not reliable



The methods/models, assumptions and data inaccurate and inappropriately applied

Risk Adjustment (RA) Modelling challenges



The amount of RA for non-financial risk for the LRC and LIC determined inappropriately



Methods/models, assumptions to determine RA inappropriate



Data used in determining risk adjustment inappropriate, not relevant or not reliable, incomplete or inaccurate



The methods/models, assumptions and data is inappropriately applied



Disclosure of corresponding confidence level to risk adjustment model used inaccurate or not fairly presented

CSM Modelling challenges



The amount estimated and recorded for the CSM (including the release/amortisation of the CSM) inappropriate



Methods/models and assumptions used to determine CSM inappropriate/inappropriately applied



Data used in determining CSM is inappropriate, not relevant or not reliable, incomplete or inaccurate



Subsequent changes to CSM related to new contracts, changes in fulfilment cash flows related to future service and interest accretion inappropriately adjusted



The coverage units inappropriately determined/allocated

The Bow-wave effect of CSM release not considered

Gaps in FS disclosures



Refer to IFRS 17.103 for line items to include in paragraph 100 reconciliation

01

Required disclosures under IFRS 17 incomplete, inaccurate or not fairly presented.

02

Insurance contract liability reconciliations (IFRS 17.100):

- the net liabilities (or assets) for the remaining coverage component, excluding any loss component.
- any loss component (see paragraphs 47–52 and 57–58).

03

the liabilities for incurred claims. For insurance contracts to which PAA has been applied, an entity shall disclose separate reconciliations for:

- estimates of the present value of the future cash flows; and
- the risk adjustment for non-financial risk.

Gaps in FS disclosures (cont.)



Refer to IFRS 17.104 for line items to include in para 101 reconciliation.

04

IFRS 17.101: For insurance contracts not measured under PAA, also disclose reconciliations from the opening to the closing balances:

- the estimates of the present value of the future cash flows;
- the risk adjustment for non-financial risk; and
- the contractual service margin.

05

IFRS 17.105: Items also included to complete para 100–101 recons:

- cash flows in the period, including:
 - (i) premiums received
 - (ii) insurance acquisition cash flows; and
 - (iii) incurred claims/other insurance service expenses paid.
- the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;
- insurance finance income or expenses; and

Gaps in FS disclosures (cont.)

“

Refer to IFRS 17.104 for line items to include in para 101 reconciliation.

07

IFRS 17.106: For insurance contracts not measured under PAA, disclose insurance revenue analysis for the period comprising:

- Amounts relating to the changes in the LRC, showing:
 - (i) the insurance service expenses incurred during the period;
 - (ii) the change in the risk adjustment for non-financial risk;
 - (iii) the amount of the CSM recognised in profit or loss because of insurance contract services provided in the period; and
 - (iv) other amounts, if any, for example, experience adjustments for premium receipts (other than those that relate to future service); and

08

IFRS 17.106: For insurance contracts not measured under PAA, disclose insurance revenue analysis for the period comprising: (Continued)

- Allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows.

04

What next?



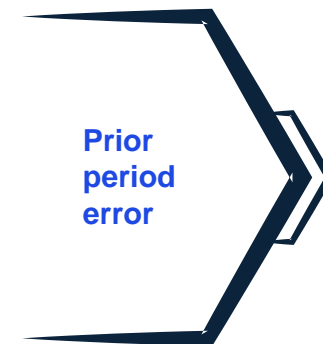
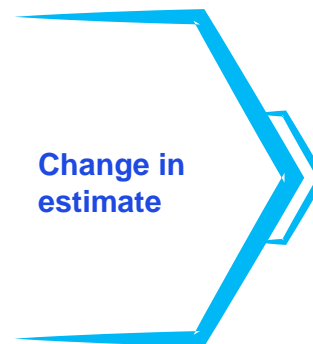
IAS 8 considerations when applying IFRS 17

First time reporting under IFRS 17 completed

What are we seeing now?

- IFRS 17 minimum requirements were met, but enhancement may be needed
- New data may be generated which could require refinement of the IFRS 17 valuation models
- New transactions may reveal limitations of current models

What does this mean?



Side by side comparison: When changes are made

When is something a...



IAS 8
Par 5, 14, 34

Change in accounting policy

If the change is required by IFRS

or

results in the financial statements providing **reliable and more relevant information** about the effects of transactions, other events or conditions

Consider if material – IAS 1

Change in measurement basis

Change in accounting estimate

If **changes** occur in the **circumstances** on which the accounting estimate was based or as a result of **new information, new developments or more experience.**

Consider if material – IAS 1

Change in an input or a change in a measurement technique

Prior period error

Omissions from, and misstatements in, the entity's financial statements for one or more **prior periods** arising from a **failure to use, or misuse of, reliable information.**

Consider if material – IAS 1

Incorrect input / measurement technique / measurement basis

Side by side comparison: Adjusting requirements



IAS 8
Par 19, 22, 36, 42

Change in accounting policy

Transitional provisions or Retrospective application

Restate the **opening balance** of equity for the earliest prior period presented **as if the new accounting policy had always been applied**

Change in accounting estimate

Prospective application

Include **adjustment in profit / loss** in current (and future periods, where applicable) – “**catch-up adjustment**”.

Where applicable, **adjust the carrying amount** of the related asset, liability or equity item in the period of the change

Prior period error

Material:
Retrospective restatement

Not material:
Prospective restatement

If material, restate comparative amounts for the prior period(s); and

If the error occurred before the earliest prior period presented, restate the opening balances of assets, liabilities and equity for the earliest prior period presented

Unless retrospective application or retrospective restatement is impracticable

IAS 8 Considerations

How to think through IAS 8 when you consider making a change



Why is this change necessary? What made you relook at what you had done historically, and made you rethink the approach?



Can the entity demonstrate that there has been **new information, new developments or more experience** derived after year-end to support the change?



Will the change lead to more **relevant and reliable information**?



Does it relate to **monetary amounts** in financial statements that are subject to **measurement uncertainty**?



Could it reasonably have been expected to have been obtained and taken into account in the prior year?



Understand the **quantitative and qualitative impact** – how material (or immaterial) is this change?

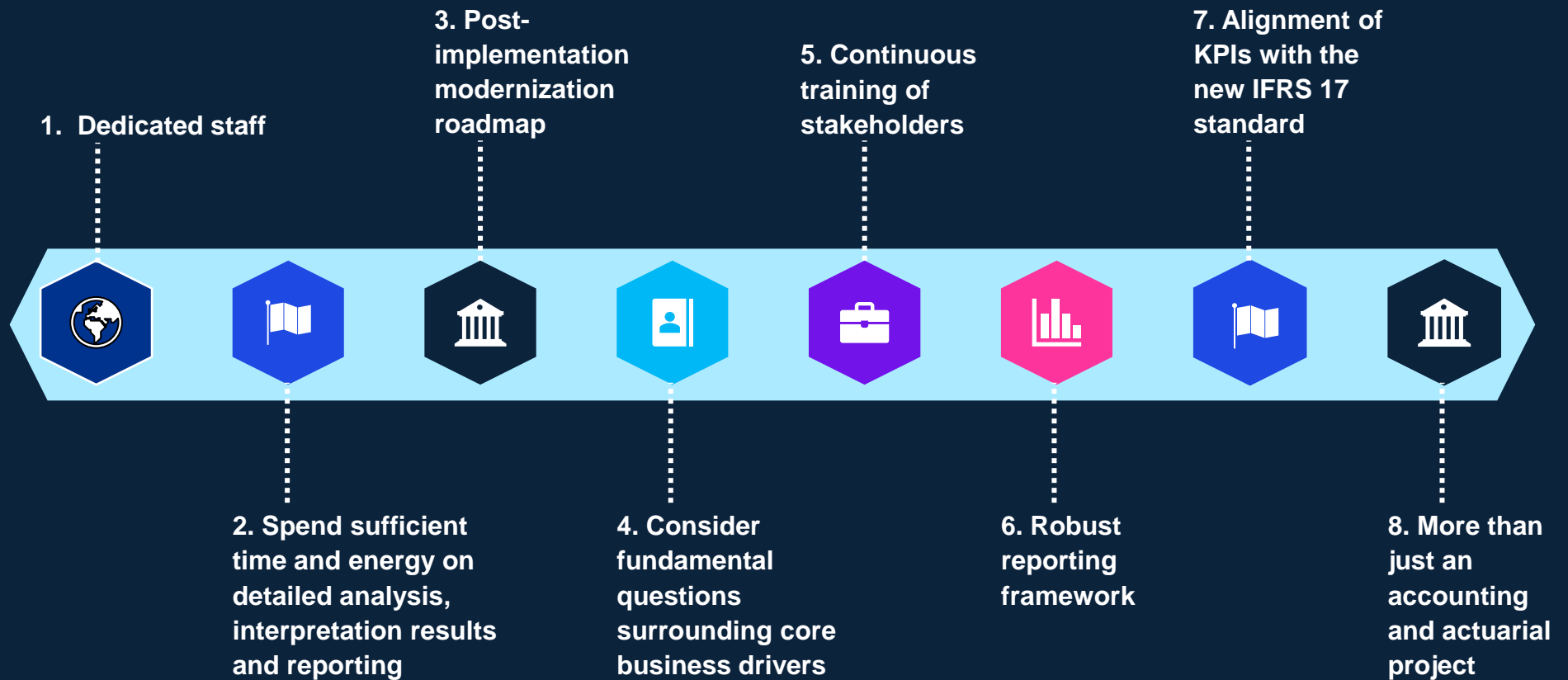


If the change is linked to a system, fully understand the system and where it sits in the system architecture.



If it is difficult to distinguish between a change in estimate vs. a change in accounting policy, IAS 8 requires to account for the change as a change in estimate i.e. prospectively.

Focus areas



What's next?

As part of our real-time IFRS 17 series, we plan to share our analysis of insurers' reporting as they implement IFRS 17 and beyond.



Technology & Data

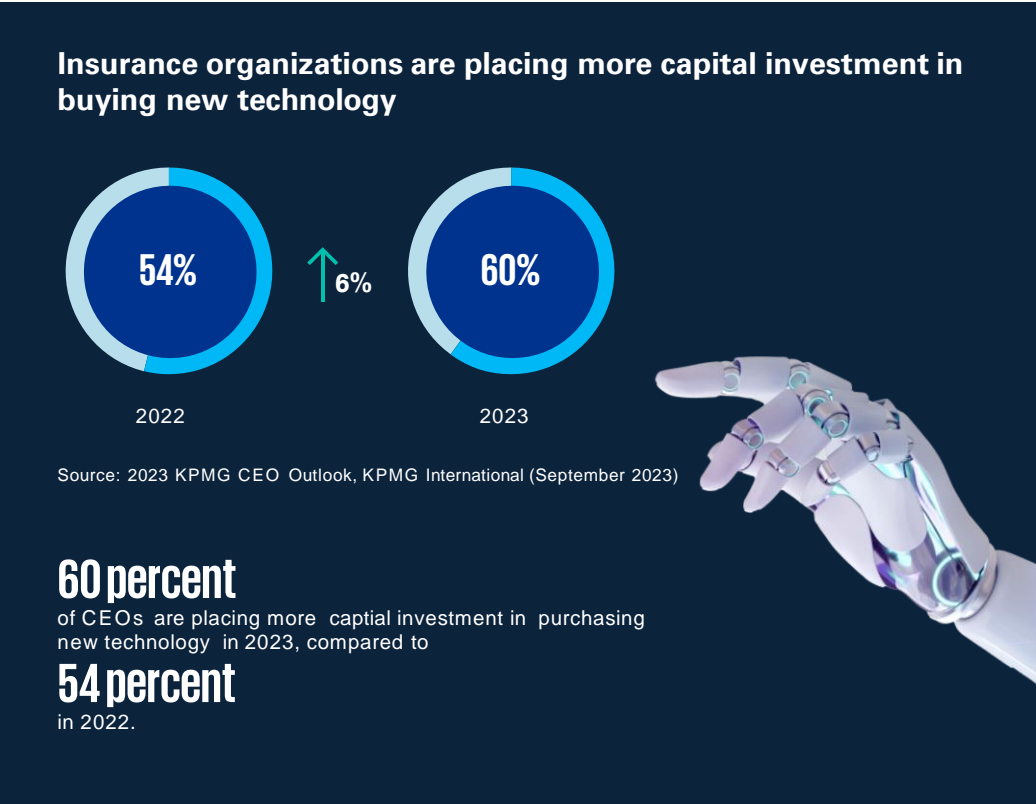


Leveraging technology and AI

“

CEOs recognize that AI and generative AI are technologies with huge potential for their business, because they touch on so many core aspects of what insurers do. AI models can simulate future scenarios, enhance the accuracy of risk estimation, and drive better pricing. They can also identify false claims more effectively. There are powerful AI applications for the insurance industry and it will likely force innovation in many areas.

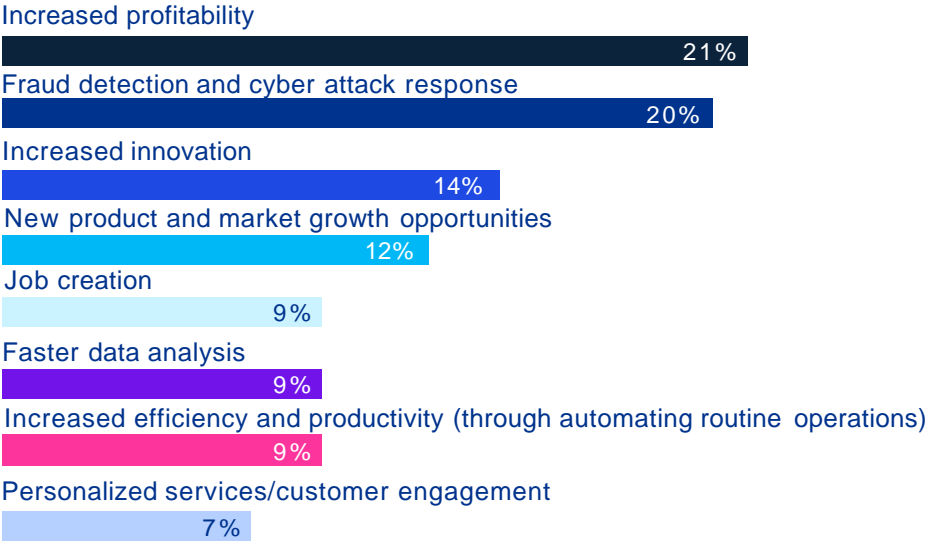
Simona Scattaglia
Global Insurance Technology Lead, KPMG International and Partner KPMG in Italy



Leveraging technology and AI

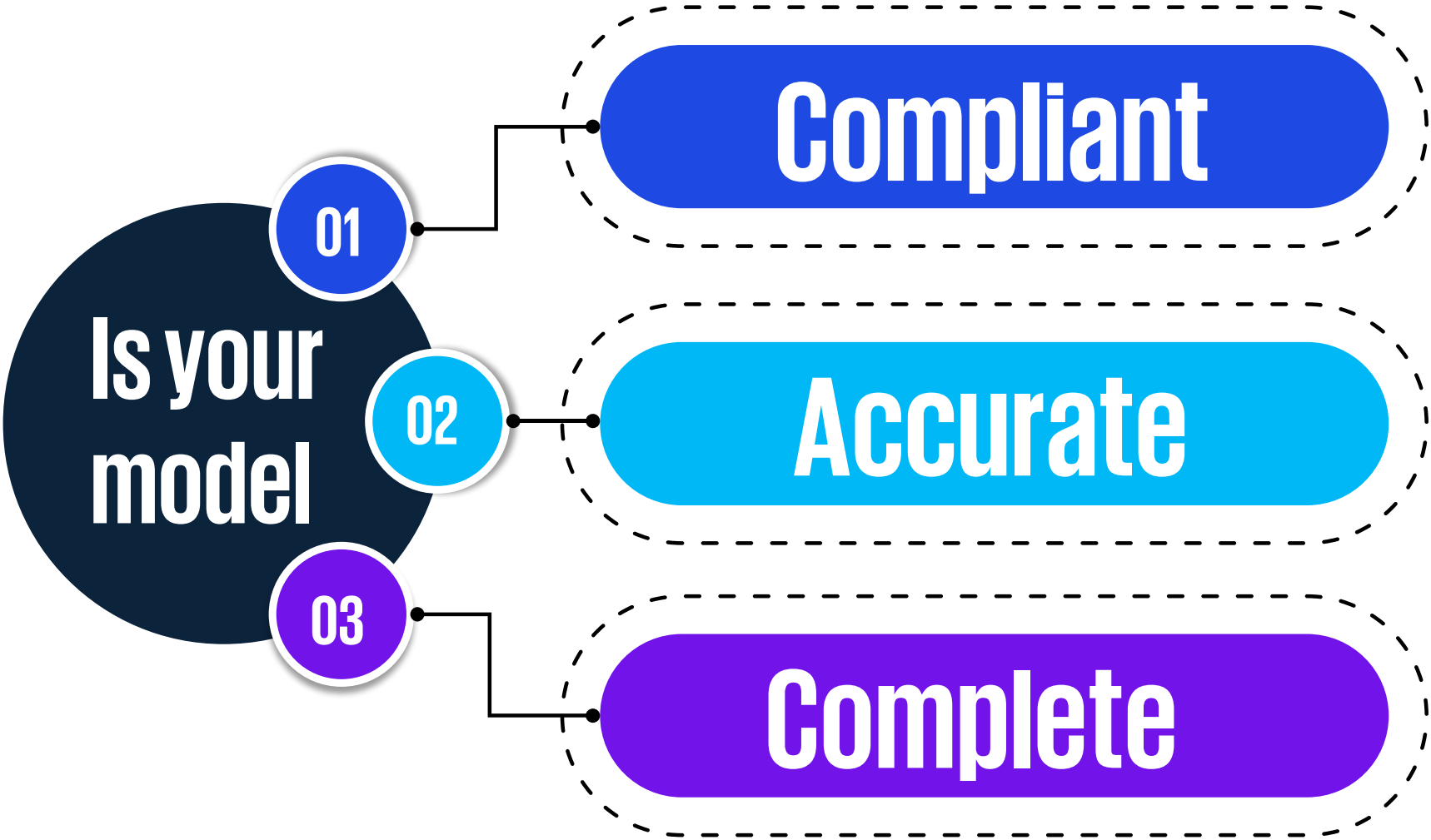
Leaders are putting technology and digitization at the heart of their efforts to modernize their organizations, driving up efficiency, streamlining processes and enabling a more customer-centric approach

Top benefits of implementing gen AI for insurance organizations

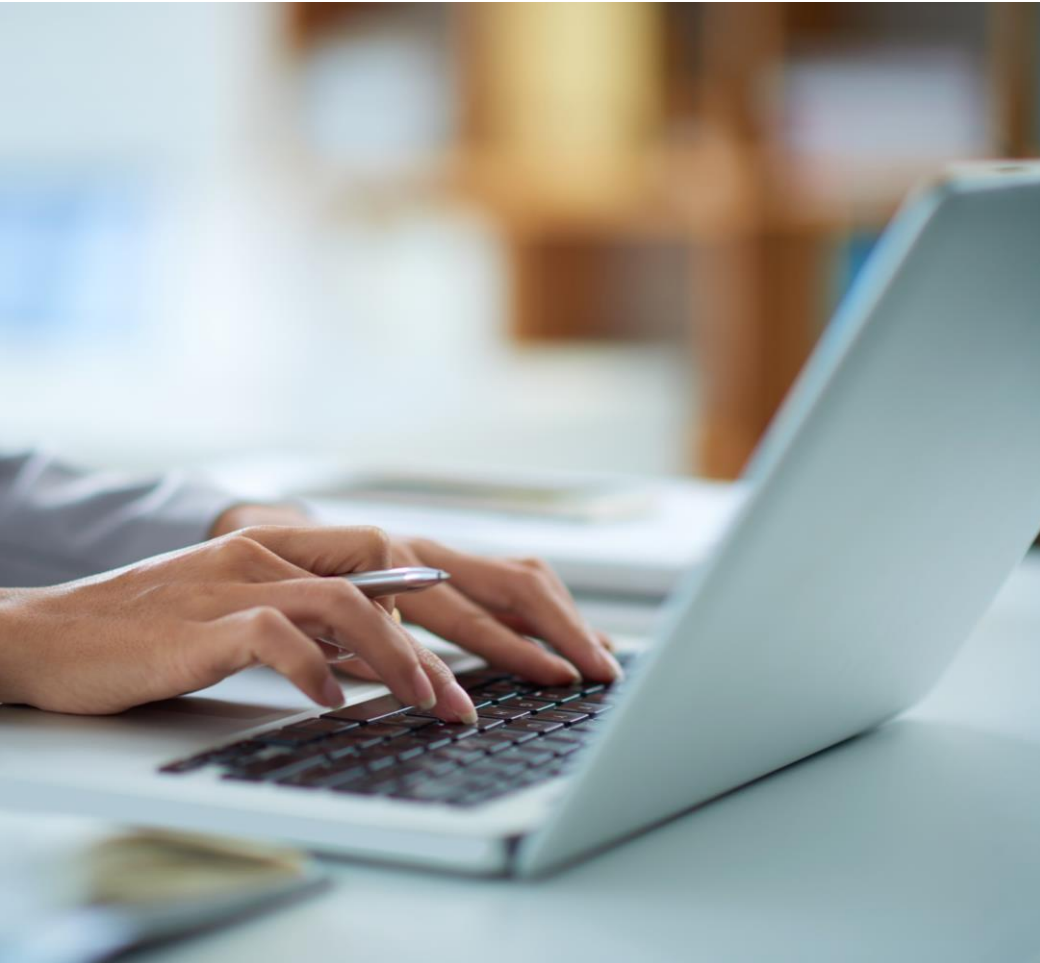


Source: 2023 KPMG CEO Outlook, KPMG International (September 2023)





Current experience in IFRS 17 implementation



Key data challenges in implementation of IFRS 17 models

Data

- Availability of historical data at origination of contracts
- Granularity of data such as claims
- Quality of data
- Data integration

Governance of model assumptions

- Visibility on underlying model assumptions
- Change management on model assumptions

Data management for IFRS 17

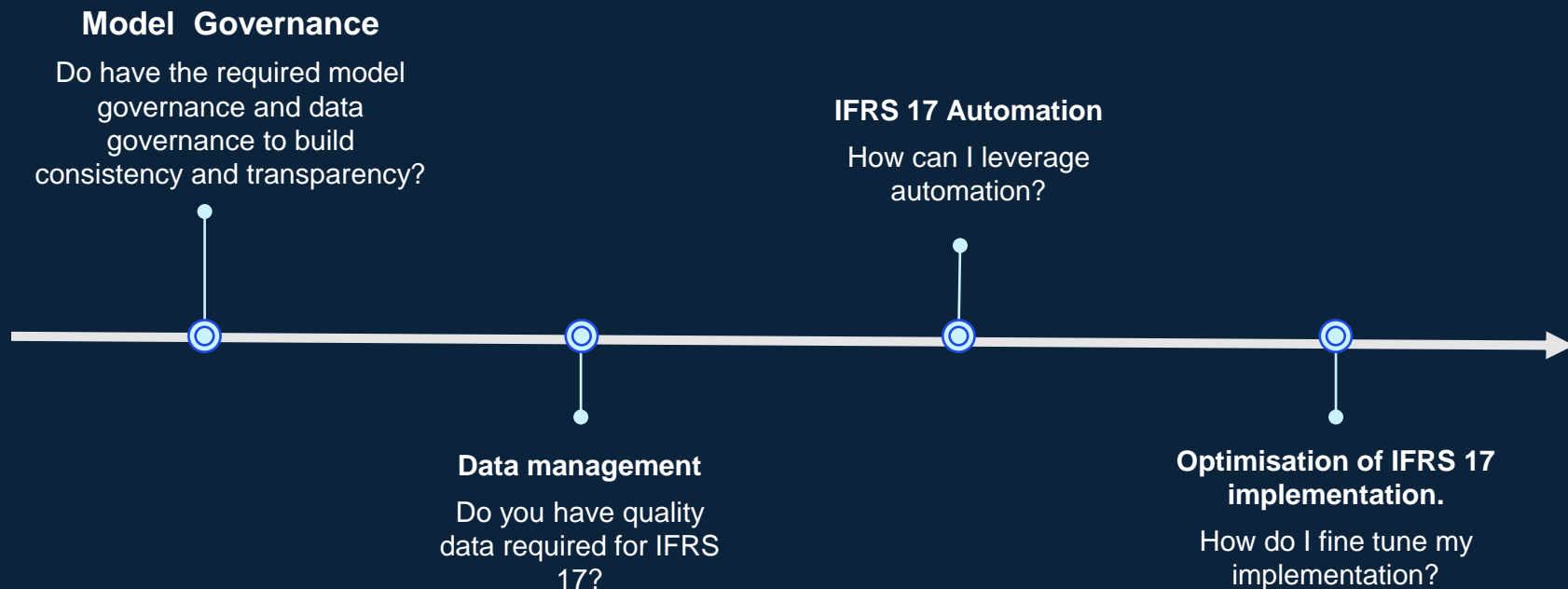
Optimisation of the IFRS 17 implementation needs to be coupled with robust data management practises to ensure availability of quality data for IFRS 17 modelling and manage the model assumptions. This aims to define processes, roles, controls, metrics and technology required attain the ROI in data and technology.

The KPMG Advanced Data Management Framework



How can KPMG help

We support our client enhance their IFRS 17 implementation maturity and walk with them through the journey addressing their business questions leveraging on leading frameworks and technology.



Contact us



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