



# IFRS 4 Insurance Contracts Phase II

**Preparing for action**

**24<sup>th</sup> Annual Insurance  
Issues Conference**

Monday, November 30, 2015



# Agenda

**1** Forthcoming accounting changes

**2** High-level overview of the insurance proposals

**3** The latest on participating contracts

**4** IFRS 9 *Financial Instruments*

**5** Measurement and other impacts

**6** Preparing for action

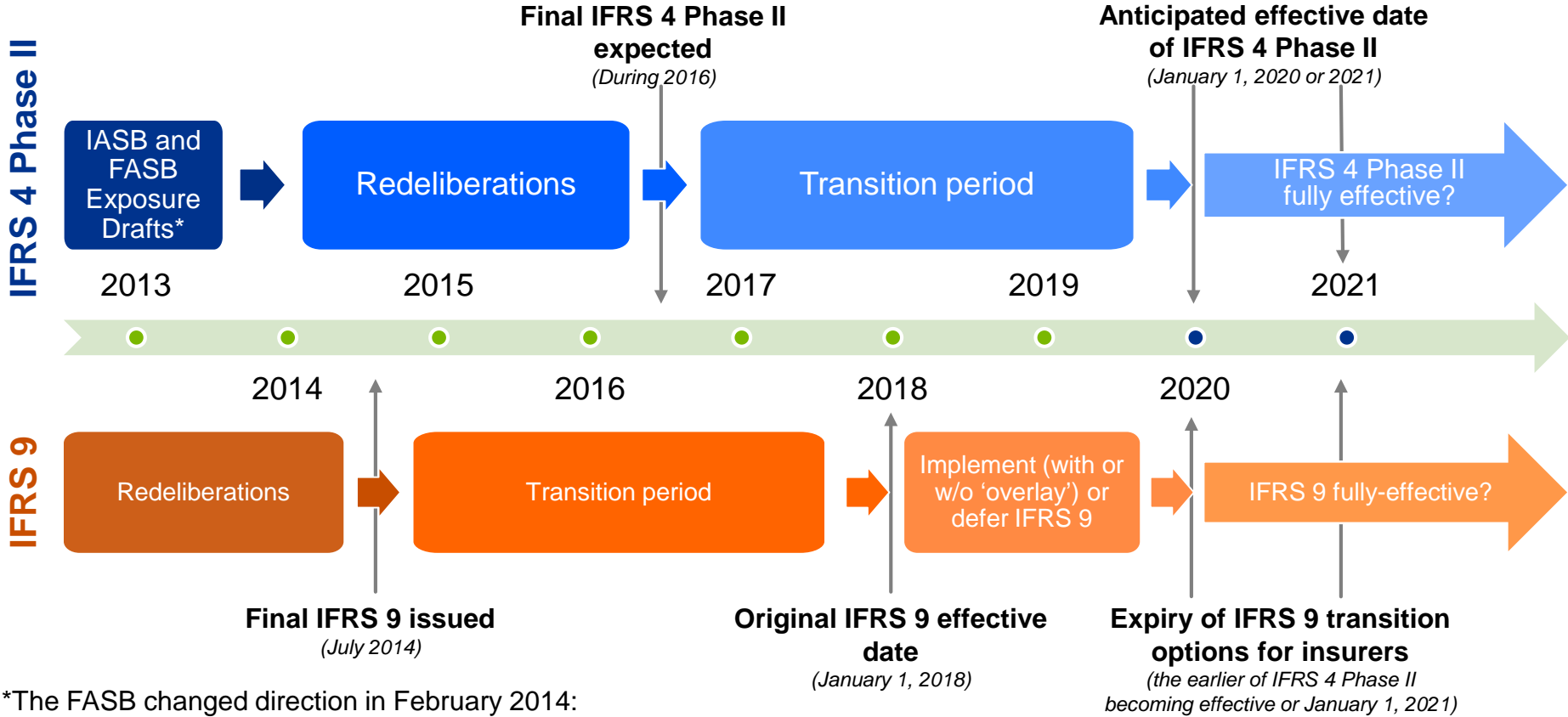


# Forthcoming accounting changes



# Status of forthcoming accounting changes

The effective date of the forthcoming insurance contracts standard is expected to be approximately three years after the standard is issued



- \*The FASB changed direction in February 2014:
- Short duration contracts – no measurement change; and
  - Long-duration contracts – “targeted improvements”

# What remains?

## Remaining IASB discussions/activities on IFRS 4 Phase II

- Due process steps to be reviewed (*January 2016*)
- How to specify the effect of discretion that would be recognised in the CSM under the general model
- Mandatory effective date (*when publication date is more certain*)

## Remaining IASB discussions/activities on current IFRS 4

- Publish ED to amend IFRS 4 (*December 2015*)
- Comment period (*60 days from ED being published*)
- Re-deliberate the proposals in the ED (*Q2 2016*)
- Issue IFRS 4 amendments (*Q3 2016*)

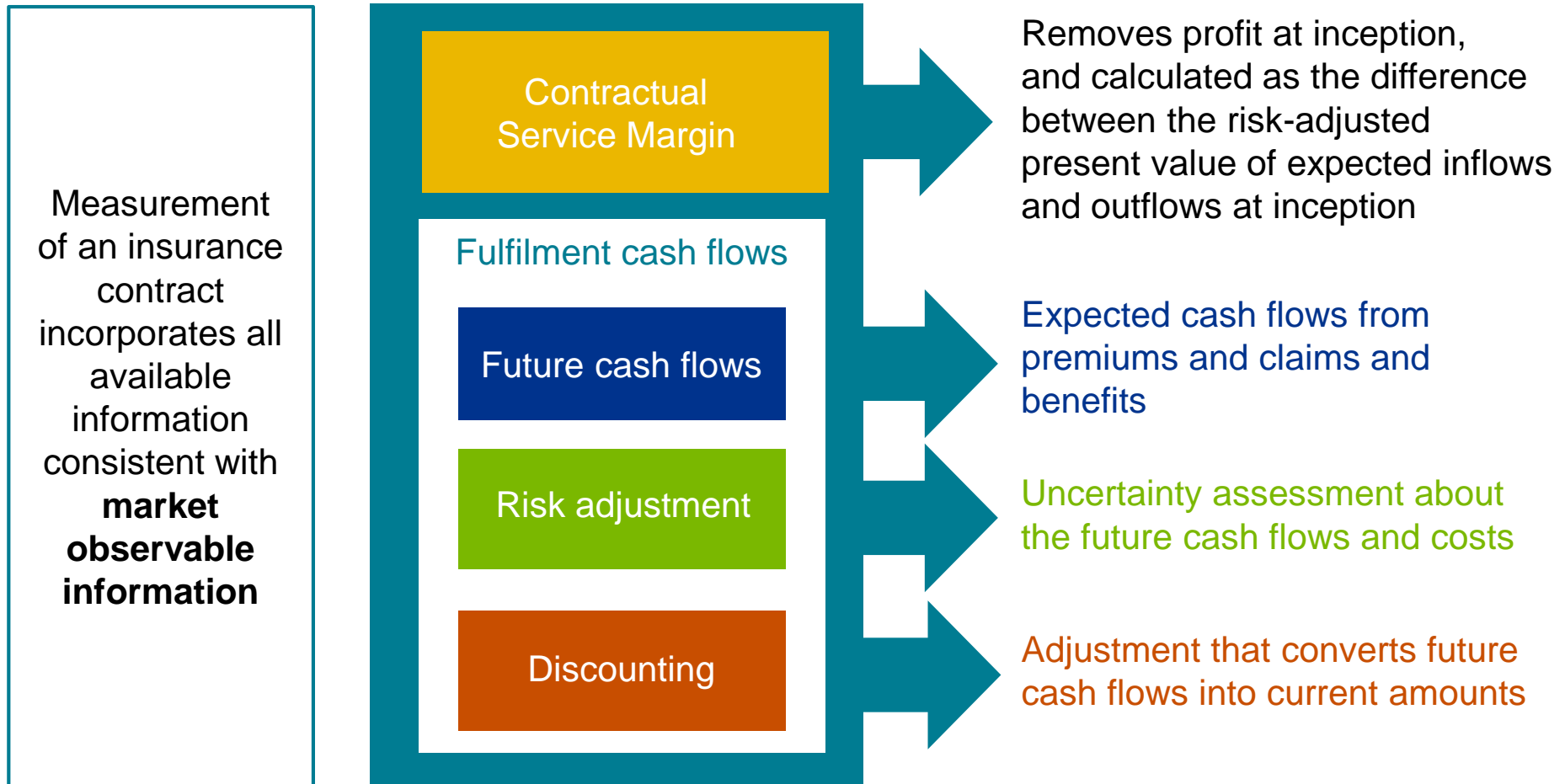


# High-level overview of the insurance proposals



# The general model: an overview

## Initial recognition



# The general model vs CALM

## Canadian life insurance basis (CALM)

No counterpart in CALM

Starts with a probability-weighted estimate of future cash flows, but excludes tax cash flows and some expenses

“Provisions for adverse deviations” are higher under CALM as they include margins for asset risks, such as default

Reflects an insurer’s own asset portfolio returns, which are normally higher than low or no risk interest rates

## IASB general model (BBA)

Contractual Service Margin

Fulfilment cash flows

Future cash flows

Risk adjustment

Discounting

## Impacts for Canadian life insurers

No income tax cash flows to be considered

“Probability weighted” will reflect customer behaviour, but will not require use of stochastic methods

Unit costs should shrink – fewer indirect costs to be included in liabilities

Significant amount of current asset-related PfADs will disappear

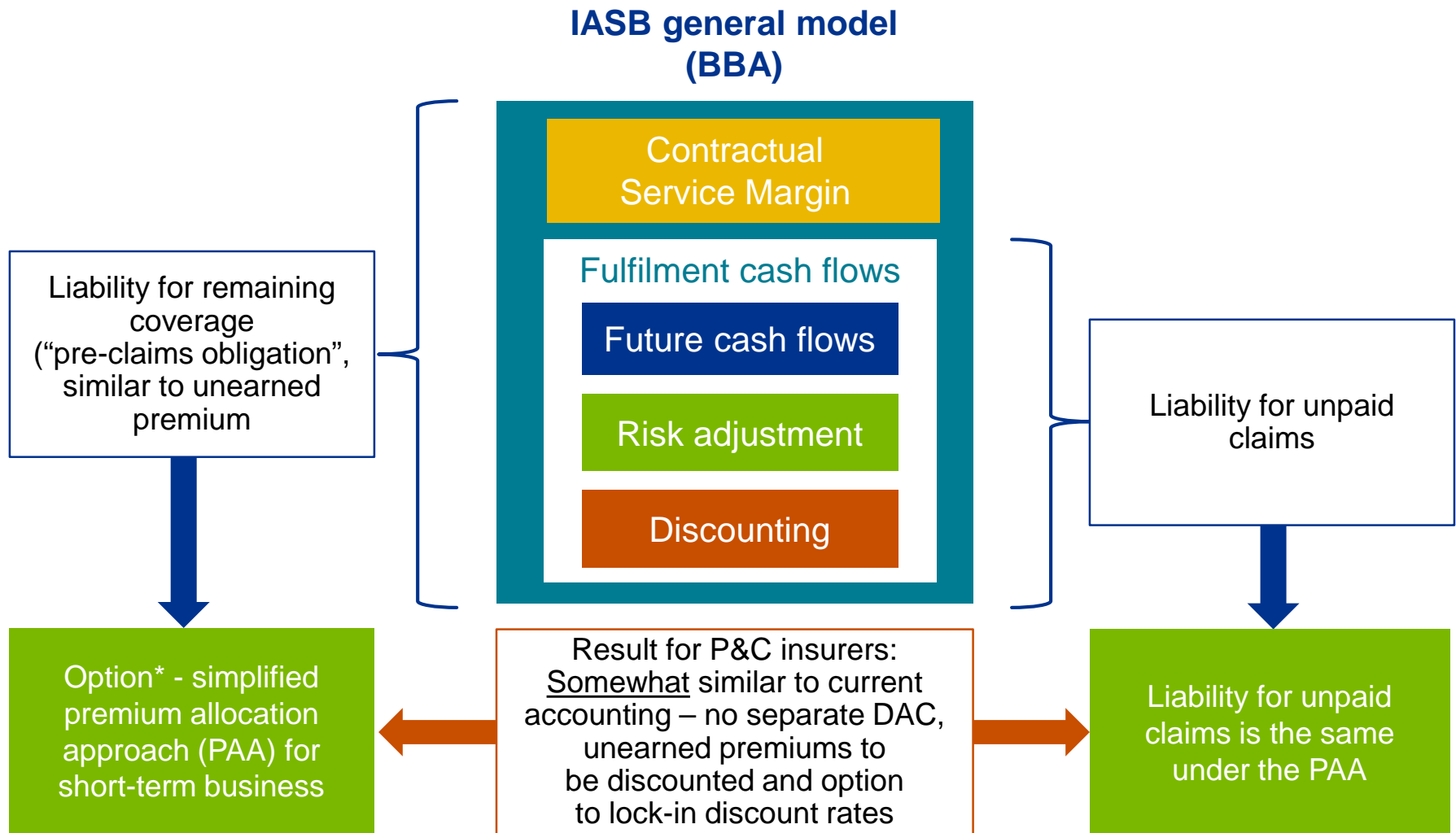
Choice of methods available, but equivalent of ‘confidence level’ to be disclosed

Less change in volatility at long durations

Expect discount rates to be lower than the current PfADed valuation rates



# The general model vs PAA



\* Option to use the PAA - most P&C products would be eligible for PAA, as would most short term life and health products

## Retrospective application

- Includes margin for in-force contracts at date of transition
- Full retrospective application with the following hierarchy:
- Apply the retrospective approach in accordance with “IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors unless is impracticable
- When retrospective approach is impracticable, apply the simplified approach with a modified risk adjustment
- When the simplified approach is impracticable, apply fair value approach

## Limited redesignation of some financial assets

- Fair value option to eliminate or significantly reduce accounting mismatches
- Election of OCI category for investments in certain equity instruments

**Early adoption permitted**

# The latest on participating contracts





# What's the issue?

## Participating products vary significantly by jurisdiction



...respondents sympathetic to the IASB's intention of eliminating accounting mismatches ... proposals in the ED widely criticized for being **unduly complex** and many constituents **question whether they could be made workable**<sup>1</sup>

<sup>1</sup> January 2014 Board Agenda paper

# The solution

## In 2014 and 2015, the IASB has changed course ...

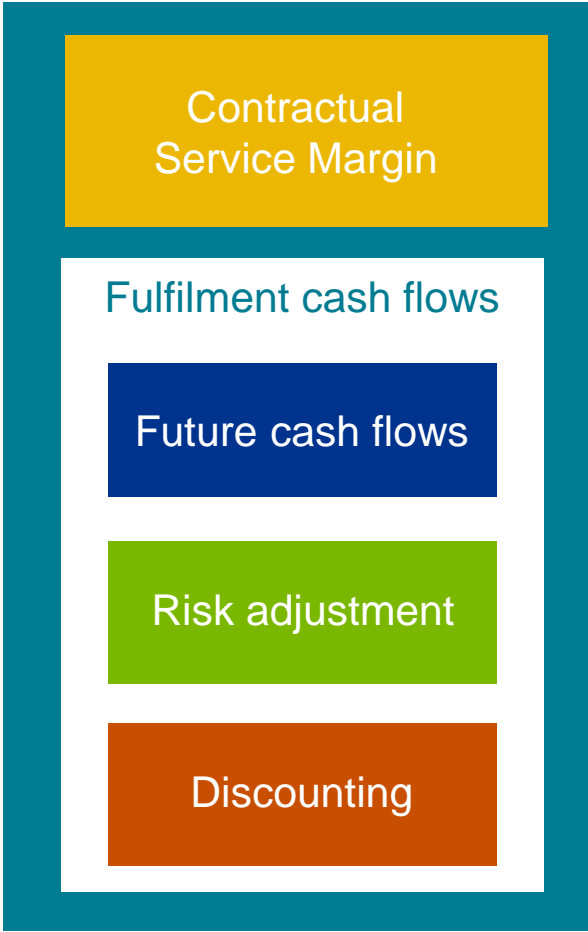
- Mirroring approach proposed in 2013 ED **OUT**
- Targeted adjustments to general model including:
  - Unlocking the contractual service margin for the shareholders' share of underlying items; but
  - Providing an exemption for entities that use derivative instruments to hedge financial risk of embedded guarantees; and
  - Amending the objective of presenting insurance investment expense for contracts for which there is no economic mismatch
- Finding a solution has been challenging - a number of concepts have been introduced and rejected – e.g.
  - Indirect participating contracts; and
  - Multiple drivers for the release of CSM into profit or loss



# Participating contracts

## Initial recognition (It's the same!)

Measurement of an insurance contract incorporates all available information consistent with **market observable information**



Removes profit at inception, and calculated as the difference between the risk-adjusted present value of expected inflows and outflows at inception

Expected cash flows from premiums and claims and benefits

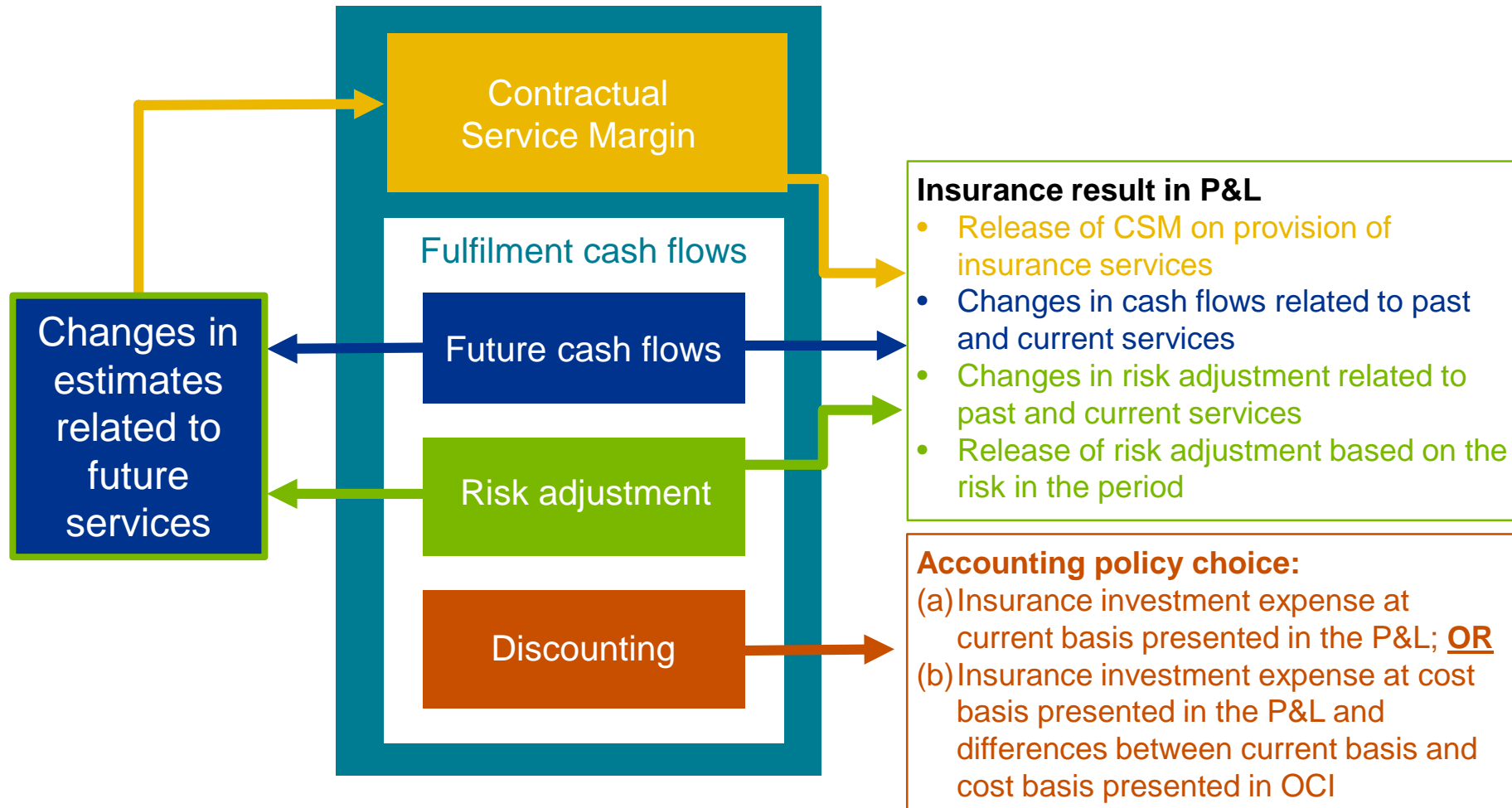
Uncertainty assessment about the future cash flows and costs

Adjustment that converts future cash flows into current amounts



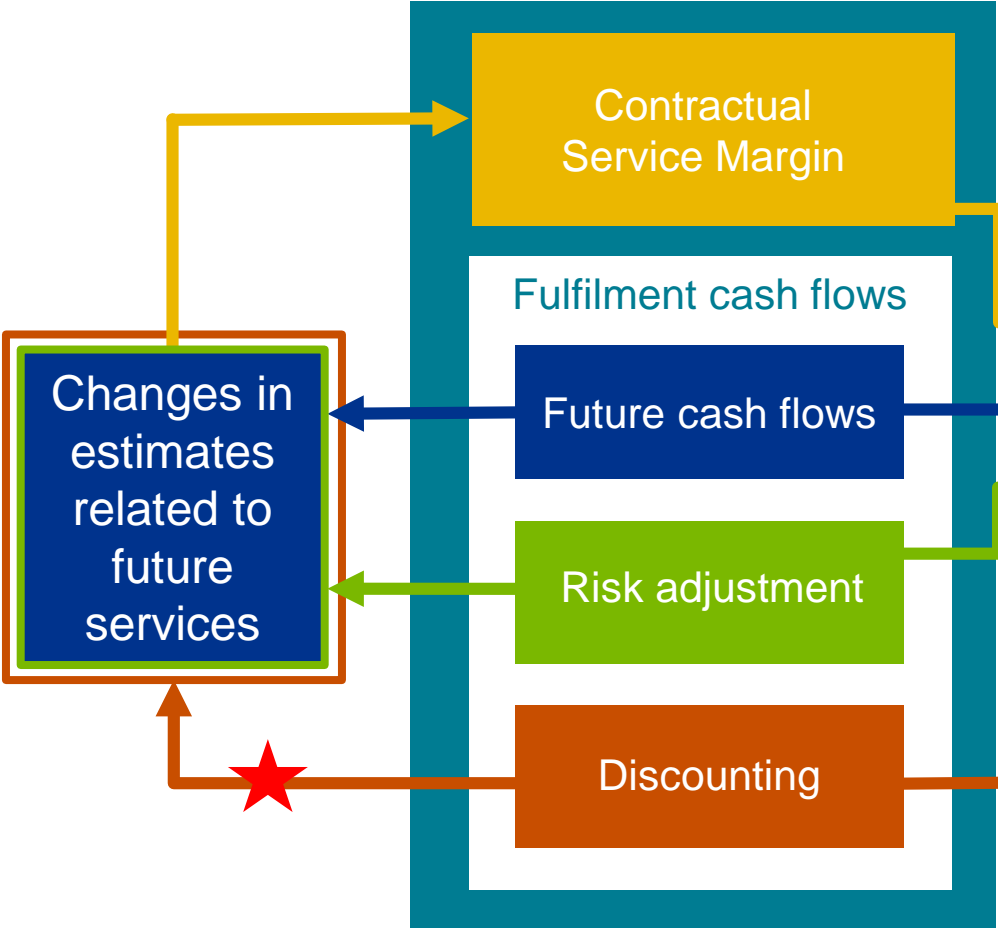
# The general model

## Subsequent measurement



# Participating contracts

## Subsequent measurement



★ Indicates an adjustment to the general model to accommodate participating features

- Insurance result in P&L**
- Release of CSM on provision of insurance services
  - Changes in cash flows related to past and current services
  - Changes in risk adjustment related to past and current services
  - Release of risk adjustment based on the risk in the period

**Accounting policy choice:**

(a) Insurance investment expense at current basis presented in the P&L; **OR**

(b) Insurance investment expense at cost basis presented in the P&L and differences between current basis and cost basis presented in OCI ★

# The variable fee approach

## Changes in the estimates of market variables are treated as follows:

### Under the general model

Treated as unrelated to service and recognized in the Statement of Comprehensive Income

### For direct participating contracts

Some are treated as part of the variable fee for service and adjust the CSM

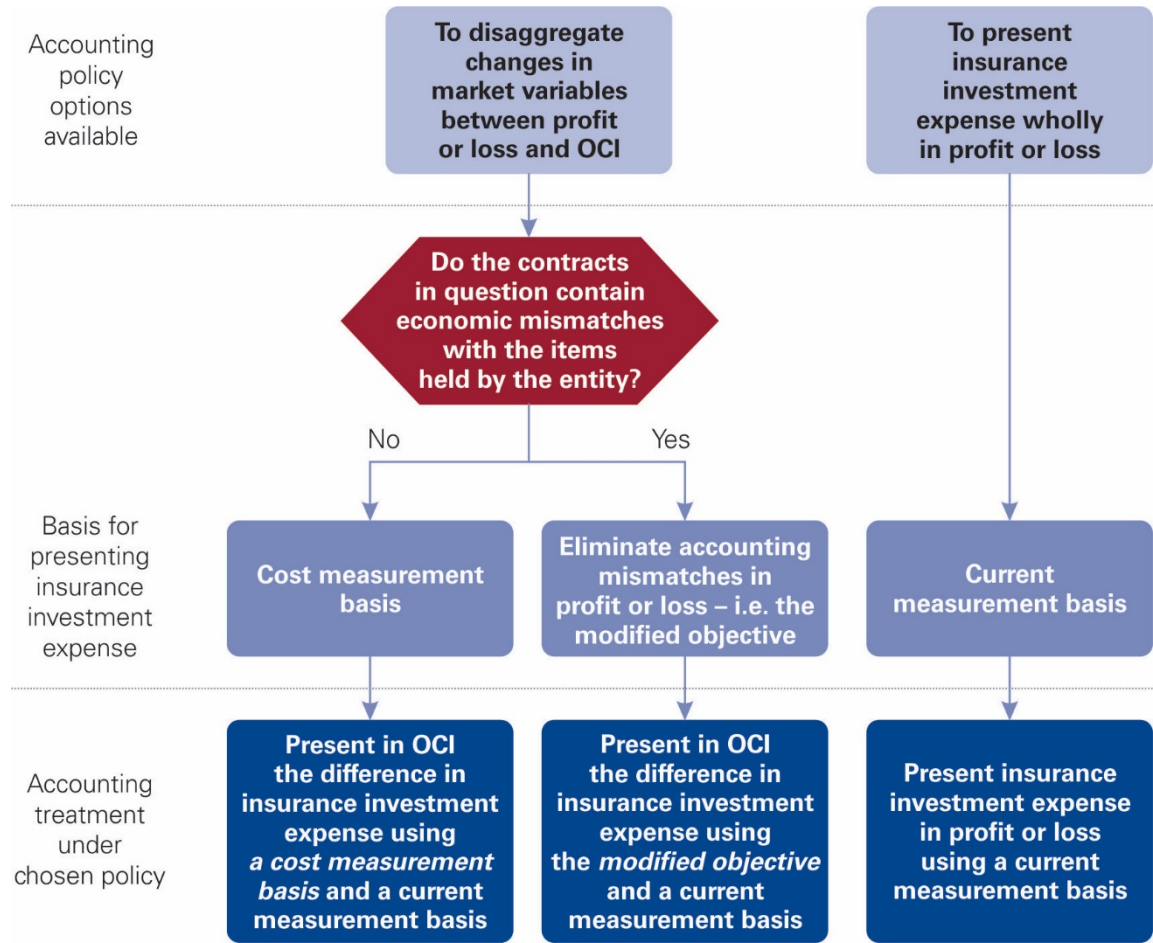
In other words, for direct participating contracts, the entity's share of changes in market variables will adjust the CSM and be taken into income as the CSM is released, rather than immediately being reported in profit or loss or in OCI

**HOWEVER**, this causes an issue where an entity uses a derivative instrument to protect itself from financial risk arising from guarantees or options embedded within a product.

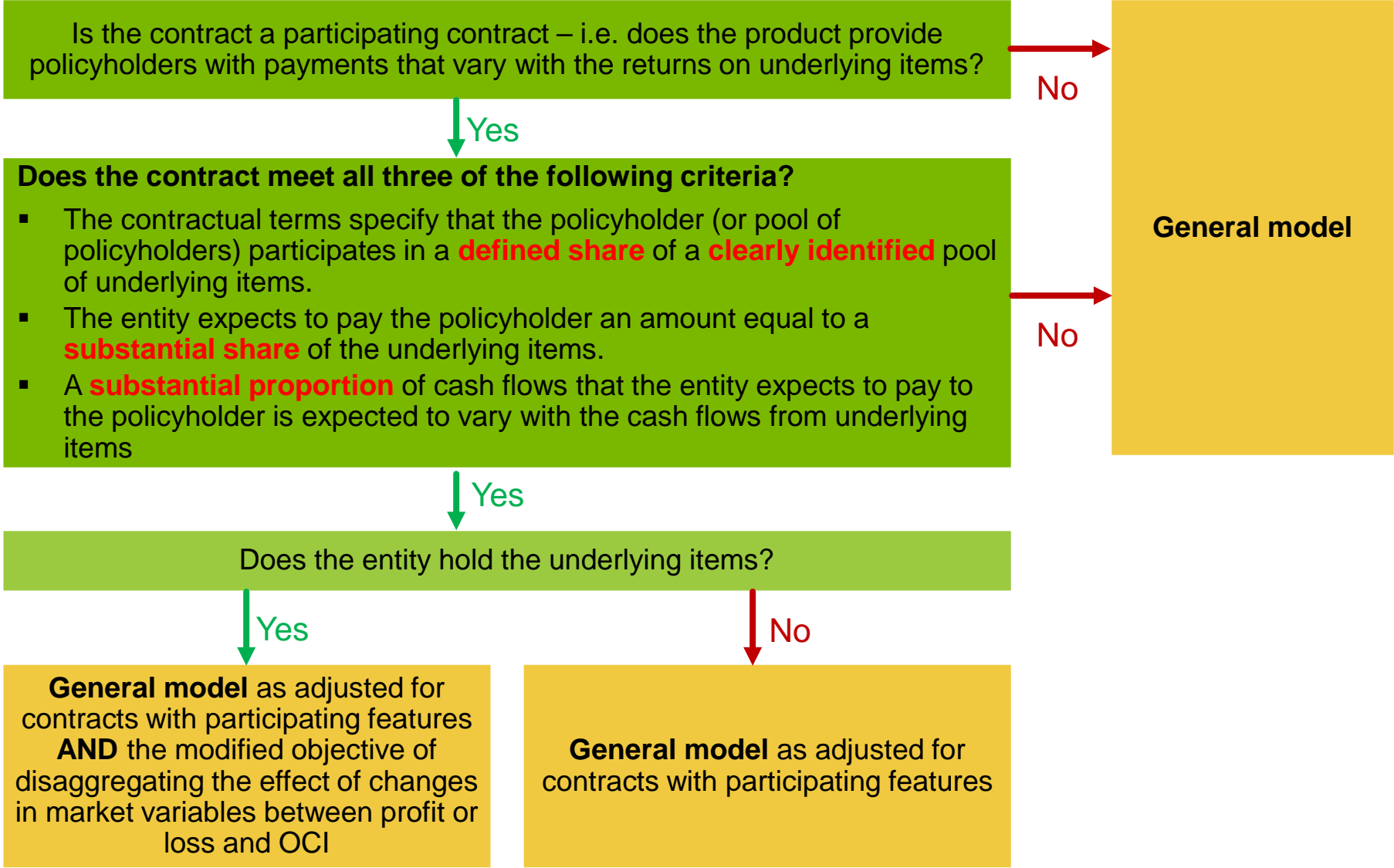


# Presenting insurance investment expense

First an entity chooses whether to present changes in market variables (e.g. interest rate) in profit or loss, or in OCI...



# Classifying participating contracts



# Typical Canadian products

	Segregated fund	Universal life	Traditional par
Is the product a participating contract – i.e. does the product provide the policyholder with payments that vary with the return on underlying items?	✓	✓	?
Do the contractual terms specify that the policyholder (or pool of policyholders) participates in a defined share of a clearly identified pool of underlying items?	✓	✓	✓
Does the entity expect to pay the policyholder an amount equal to a substantial share of returns from the underlying items?	✓	✓	?
Are a substantial portion of the cash flows that the entity expects to pay to the policyholder expected to vary with the cash flows from the underlying items?	✓	✓	?
Does the entity hold the underlying items?	✓	?	✓



**IFRS 9**  
*Financial  
instruments*



# Classification and measurement

## Classification – Financial Assets

### Measurement categories

- The measurement categories are similar:

IFRS 9	IAS 39
FVTPL*	FVTPL
Amortised cost	Loans and receivables/ HTM*
FVOCI*	AFS*

- Significant changes in criteria for classifying assets.

Derivatives embedded in a financial asset are not separated – the whole asset is assessed for classification

Reclassification of financial assets is subject to strict conditions and expected to be very infrequent

\* FVTPL – fair value through profit or loss, FVOCI – fair value through other comprehensive income, HTM – held to maturity, AFS – available for sale



# Classification and measurement

## Business Model Assessment

Business model	Key features	Measurement category
Held-to-collect	<ul style="list-style-type: none"> <li>▪ The objective of the business model is to hold assets to collect contractual cash flows</li> <li>▪ Sales are incidental to the objective of the model</li> <li>▪ Typically lowest sales (in frequency and volume)</li> </ul>	Amortised cost*
Both held to collect and for sale	<ul style="list-style-type: none"> <li>▪ Both collecting contractual cash flows and sales are integral to achieving the objective of the business model</li> <li>▪ Sales are integral to the objective of the model. Typically more sales (in frequency and volume) than held-to-collect business model</li> </ul>	FVOCI*
Other business models, including: <ul style="list-style-type: none"> <li>▪ Trading</li> <li>▪ Managed on a fair value basis</li> <li>▪ Maximising cash flows through sale</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business model is neither held-to-collect nor held to collect and for sale</li> <li>▪ Collection of contractual cash flows is incidental to the objective of the model</li> </ul>	FVTPL**

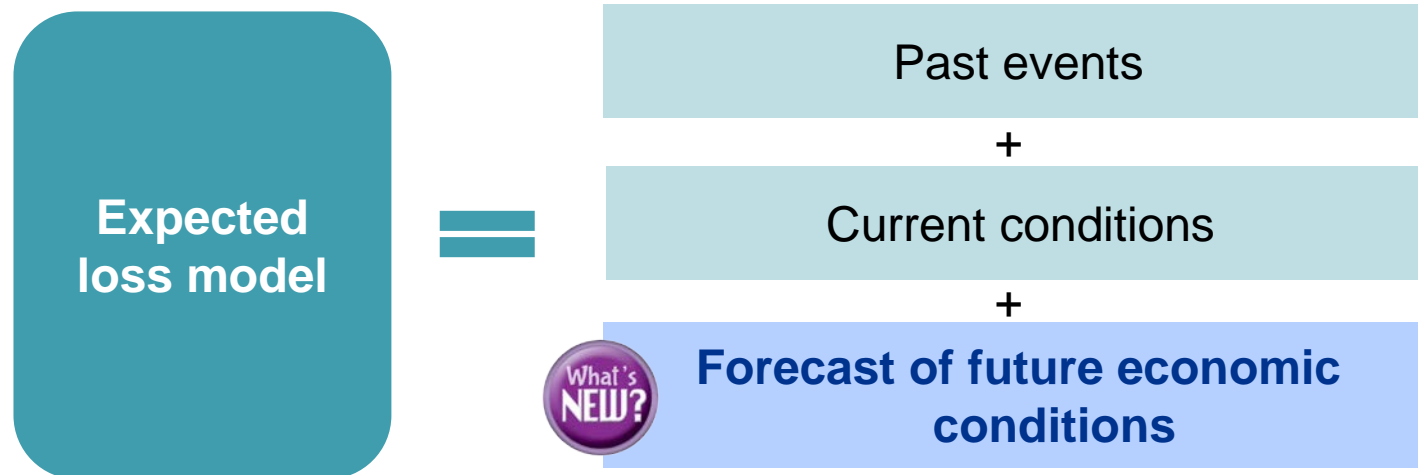
\* Subject to meeting the SPPI criterion and the fair value option

\*\* SPPI criterion is irrelevant – assets in all such business models measured as at FVTPL



# Impairment

## The new model



- Financial assets carried at either amortized cost or FVOCI will carry an impairment allowance. No triggering event is required.
- Life insurers currently include “expected loss” provisions for investments as part of actuarial liabilities - these will change:
  - IFRS 9 effective in 2018 – new IFRS 9 provisions for assets currently held, which should reduce actuarial liability asset default provisions beginning in 2018
  - When new IFRS 4 becomes effective - actuarial liability asset default provisions will disappear entirely
  - Overall, impairment provisions will be lower since IFRS 9 will not result in asset default provisions for future assets (reinvestments over product term)

# Asset designations – P&C insurers

- Currently, Canadian P&C insurers reflect volatility from the discounting of claims in the P&L, but if assets are accounted for as available for sale, interest rate changes affecting assets do not affect income, resulting in a mis-match
- The proposals could reduce this problem for many P&C insurers

	Current P&C accounting	New IFRS proposals	
		<i>OCI option</i>	<i>Fair value option</i>
	<b><i>Change in interest rates reflected in:</i></b>	<b><i>Change in interest rates reflected in:</i></b>	<b><i>Change in interest rates reflected in:</i></b>
<b>Discounted claims liabilities</b>	Profit and loss	OCI	Profit and loss
<b>Bonds accounted for through OCI</b>	Other comprehensive income (OCI)	OCI	
<b>Bonds accounted for as fair value through P&amp;L</b>	Profit and loss (less common choice)		Profit and loss
<p><i>Common problem in current P&amp;C accounting is unmatched discounting of claims liabilities in P&amp;L</i></p>		<p><i>Proposals would allow effect of interest rate changes to go through either P&amp;L or OCI – your choice!</i></p>	

Possible mis-match



# IFRS 9 asset designations – life insurers

➔ - anticipated changes from current practice

Asset	Current prevailing designation	Designation under IFRS 9 – 2018 <sup>3</sup>	Designation under IFRS 9 – IFRS 4 phase 2	Comments
Bonds backing insurance contracts	FVTPL (fair value through profit and loss)	FVTPL	FVTPL	<i>Unchanged</i> – expect Cdn lifecos to use FVTPL rather than OCI
Bonds backing surplus	AFS <sup>1</sup> (available for sale)	FVOCI <sup>1</sup> (fair value through OCI)	FVOCI <sup>1</sup>	<i>Unchanged</i> - FVTPL option not available for bonds backing surplus
Stocks backing insurance contracts	FVTPL	FVTPL	FVTPL	<i>Unchanged</i> – expect Cdn lifecos to use FVTPL rather than OCI
Stocks backing surplus	AFS <sup>1</sup>	➔ FVTPL	FVTPL	<i>FVOCI unattractive for equities<sup>1</sup></i>
Loans and receivables	Amortized cost	Amortized cost	➔ FVTPL (for assets backing insurance contracts) <sup>2</sup>	<i>Without CALM, likely require FVTPL to improve matching</i>
Mortgages	Amortized cost	Amortized cost	➔ FVTPL (for assets backing insurance contracts) <sup>2</sup>	<i>Without CALM, likely require FVTPL to improve matching</i>

1 – AFS and FVOCI both reflect income on an amortized cost basis, and unrealized market value changes in other comprehensive income (OCI). However, FVOCI is unattractive for equities since realized gains are not recycled through income.

2 – FVTPL available for loans, receivables and mortgages under IFRS; use of FVTPL dependent on final OSFI decision to remove the prohibition of FV in Guideline D-10

3 – Unless proposed option to defer implementation of IFRS 9 is taken.



# IFRS 9 transition options for insurers

## Deferral Approach

**Defer application of IFRS 9 and continue applying IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) until the earlier of 2021 or adoption of the forthcoming insurance contracts standard**

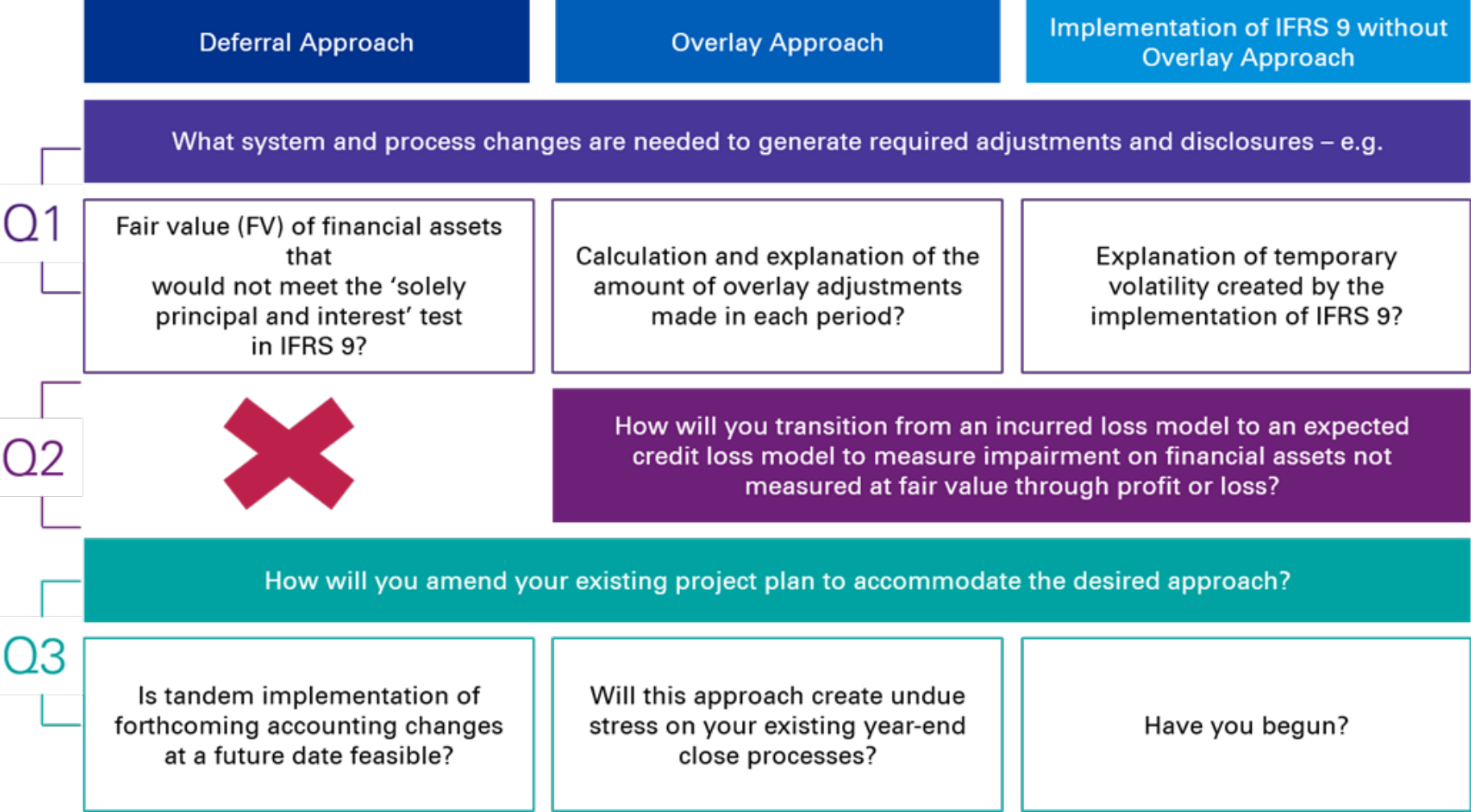
## Overlay Approach

**Implement IFRS 9 and reclassify the difference between amounts recognized in profit or loss under IAS 39 and IFRS 9 to OCI**

## Implement IFRS 9 without Overlay Approach

**Apply IFRS 9 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified.**

# Choosing the right approach



# Measurement and other impacts





# Measurement and other impacts

## P&C insurance

### **Acquisition costs definition changed**

Little impact on many companies; some may actually have somewhat higher acquisition costs recognized against UPR than are in their current DACs, and hence higher equity and capital available

### **Deferred acquisition costs no longer an asset (included in liabilities)**

Effectively nets DACs against unearned premium liability – mostly a geography issue, easily solved through recalibration of OSFI capital model

### **Premium allocation approach definition of “unearned premium”**

Expect minimal net measurement impact on income and equity. Note application of time value of money, however

# Measurement and other impacts

## P&C insurance (2)

**Onerous contracts more likely to be identified, as a result of using a portfolio definition**

More likely to see write-offs and decline in available capital when a portfolio is determined to be loss-making (think auto insurance when there is a combination of high claims costs and regulatory constraints)

**Transitional impact on capital expected to be significant for P&C?**

Overall, impacts on asset and liability valuations are not zero, but appears unlikely that the net impact on equity at transition would be dramatic for most P&C insurers

**Emergence of income**

Where premium allocation approach applies, emergence of income likely to be similar to current unearned premium model  
Optional use of OCI to capture interest rate volatility in liabilities could reduce P&L volatility – but so would use of fair value option

# Measurement and other impacts

## Life insurance

**BB1 – expenses as defined may be lower for some**

Future expenses will be lower for some, reducing this element of policy liabilities. Also need to consider changes in acquisition expenses.

Discounted future tax liabilities will be excluded from insurance liability measurement. **Overall impact** – perhaps mildly reducing policy liabilities

**BB2 – lower discount rate could overwhelm all other changes**

Overall, expect that a “top down” discount rate will still be lower than current valuation rates, and below the rates typically priced into many products – resulting in potentially large increases in liabilities for some products, possibly with losses at inception

Disconnect between liability and asset rates will result in greater volatility

**BB3 – risk margins would not cover some areas of current PfADs**

Risk margins similar for some elements, but will not cover asset-related PfADs such as asset default risk and mis-matches, reducing policy liabilities.

(Note that some asset default provisions will reappear in assets under IFRS 9)



# Measurement and other impacts

## Life insurance (2)

**BB4 –  
Contractual  
Service Margin  
precludes Day 1  
gains for new  
business**

CSM would soak up any reserve reductions from BBs 1 and 3. If not overwhelmed by the effect of lower discount rates, CSMs represent a new liability component

Where we have had Day 1 gains in the past, the CSM moves those profits out of retained earnings

**Disclosures**

Risk margin – need to disclose confidence level inherent in the risk margin, even if that is not the method used

Revenue – change from “premiums due” to the new definition will be complex and require significant changes to reported revenue

**Volatility from  
discounting**

Without CALM’s asset-liability valuation linkage, volatility from discount rate changes will be much greater

The use of the OCI option would reduce interest rate volatility in the P&L, but it would still exist in equity through accumulated OCI.

**Volatility from  
other liability  
measurement  
changes**

Other re-measurements, favourable and unfavourable, will be smoothed out through adjusting (“unlocking”) the Contractual Service Margin, rather than immediate recognition in income

Capital impacts would be both positive and negative, but regulators might be inclined to focus on adverse changes

# Measurement and other impacts

## Life insurance (3)

### Emergence of income

Profit from new business will be lower – new business strain (losses at inception) might be lower for some products, but for other products there will be no profits at inception

Similarly, no immediate gains from reinsurance ceded. On balance, the new CSM may result in slower recognition of *changes* in profitability

### Transitional impact on capital expected to be significant for life?

Lower discount rates (BB2) and CSMs (BB4) could significantly exceed other measurement changes and result in a significant reduction in retained earnings on transition

### Taxation

Will taxation authorities continue to follow accounting reserves? Will measurement changes be transitioned in over several years? Deferred tax balances may be created

Deferred tax assets may increase and result in valuation concerns for IFRS accounting, and may not count fully for regulatory capital purposes

# Expected impacts for various life products

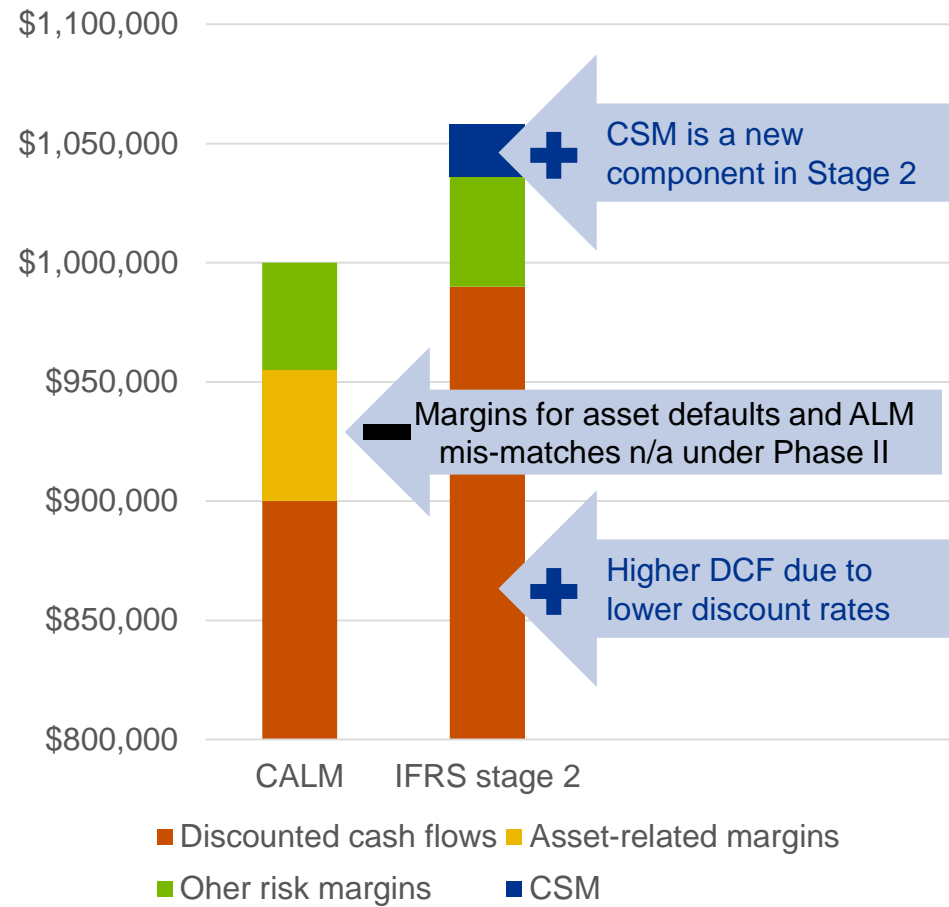
Product characteristics	Examples	Impact on equity at transition	Impact on income emergence	
			Timing	Volatility
Products with gains at inception	Term insurance	Decrease - deferral of initial gains into CSM will increase liabilities at transition	Slower - initial gains deferred into CSM rather than immediate - effects of growth and profitability changes spread over time	Lower for assumption changes (deferred in CSM) Higher for interest rate changes
Products with losses at inception) but little interest sensitivity		Minimal	Minimal – losses at inception still recognized in income immediately	Minimal - assumption changes still recognized in income immediately, until a CSM is established
Products with significant interest sensitivity	Annuities	Decrease – lower discount rates and deferral of initial gains into CSM will increase liabilities at transition	Slower - initial gains deferred into CSM rather than immediate - effects of growth and profitability changes spread over time	Lower for assumption changes (deferred in CSM) Higher for interest rate changes
Direct participating products where the underlying items are held	Segregated funds	None or minimal	None or minimal	Unchanged – relates to market guarantees
Fee-based products	ASO, inv. contracts	None or minimal	None or minimal	None or minimal

# Product illustration – transitional impact, payout annuities

## Illustration of transitional impacts of IFRS 4 Phase II

- Increased liability resulting from lower discount rates (largely in years 1 to 20)
- Decreased liability for risk margins – no margins for asset default or asset-liability mis-match in Phase II; other risk margins may reduce somewhat under alternate methods
- Contractual Service Margin (CSM) to defer profits new under Phase II
- Overall difference in the illustration, on \$1B of CALM liabilities – increase in policy liabilities of \$58M, and decrease in retained earnings of \$41M (net of tax) on transition

*Liability for annuities – current vs IFRS Phase II basis*





**Preparing  
for action**



# Issues for planning and implementation

## Can you afford to start?

- Repeated delays in finalizing the project, and uncertain implementation date
- Some major items are still being re-deliberated
- Risk of changes in the “settled” proposals
- Uncertainties in interpretation of some aspects of the proposals

# Issues for planning and implementation

## Can you afford to wait?

- Time required to complete analysis, decide between alternatives, and execution (and testing!)
- Time required to renovate and organize source data
- IT investments – planning, approvals, execution
- Internal and external competition for resources
- Managing sequencing and dependencies of steps within the conversion project
- Co-ordination with related projects – within the accounting change projects, and with other projects
- Impacts on other financial management issues, such as capital management and income tax accounting



# Issues for planning and implementation

***If, as some in the insurance industry argue, implementation might well require more than the proposed 3 years, how can you afford to wait?***



# Wide Impact

## Other implications and program decisions

### Strategy and strategic position

- Measurement basis used by competitors and its effect on P&L
- Measurement basis used by Group or other subsidiaries, (non-IFRS)

### Communication

- What communication will have to be provided to staff, Business Units, Board, Group and financial statements users?
- How expected changes to financial statements and reporting metrics will be explained?

### Effects on other processes

- Product design and pricing
- Management reporting and MIS
- Capital management processes and models
- Metrics used in bonus schemes? Covenants in legal agreements?

### IFRS 4 implementation

- Will IFRS 9 and IFRS 4 implementation be integrated into one program, or will they be run separately?
- How will the budget and resources be split?
- How will be the timing aligned?




### Programme plan

- Who will own the process?
- How long will be the program?
- What budget will be required for implementing the programme?




### IT strategy

- Opportunity to rationalize legacy data, systems and models?
- Needs to maintain legacy data and systems?
- Time horizon needed for new IT projects



# Key decisions for life insurers

Key Decision	Changes	Now or later?
<b>Cash flows</b>	<ul style="list-style-type: none"> <li>• Probability-weighted estimate of FCF (may not change in practice)</li> <li>• Classification of attributable and non-attributable expenses.</li> <li>• Exclude income tax cash flows</li> </ul>	 <ul style="list-style-type: none"> <li>• No reason to wait – and needed for many future steps</li> </ul>
<b>Determination of discount rates</b>	<ul style="list-style-type: none"> <li>• Generally, not asset-based rates</li> <li>• Bottom-up or top-down approach?</li> <li>• Determine reference portfolio (remove credit risk and liquidity risk premium)</li> <li>• Approach to modelling rates for longer durations (with less- or unobservable market rates)</li> </ul>	 <ul style="list-style-type: none"> <li>• No reason to wait – and needed for many future steps</li> <li>• Time to analyze alternatives will likely be useful</li> </ul>
<b>Optional choice: locked-in discount rates and OCI, or FVTPL approach?</b>	<ul style="list-style-type: none"> <li>• Do some business types might behave better with locked-in rates?</li> <li>• Preliminary view: FVTPL will often give better matching</li> </ul>	 <ul style="list-style-type: none"> <li>• No reason to wait – and needed for many future steps</li> <li>• Time to analyze alternatives will likely be useful</li> </ul>

# Key decisions for life insurers




Key Decision	Changes		Now or later?
<b>Risk margin approach</b>	<ul style="list-style-type: none"> <li>Establish approach and level of aggregation</li> <li>Determination of confidence level for disclosures (if different approach used for RM)</li> <li>Remeasurements reflected by unlocking CSM</li> </ul>		<ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> <li>Time to analyze alternatives will likely be useful</li> </ul>
<b>Determination of portfolios</b>	<ul style="list-style-type: none"> <li>New standard's definition of portfolios may differ from current practice</li> <li>Cost determination level</li> <li>AXIS is creating a cell name tag</li> </ul>		<ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> <li>Time to analyze alternatives will likely be useful</li> </ul>
<b>Use Premium Allocation Approach for any policy types?</b>	<ul style="list-style-type: none"> <li>Option to use PAA may be attractive for business where unearned premiums approach may or could have been used</li> </ul>		<ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> </ul>

# Key decisions for life insurers



Key Decision	Changes	Now or later?
<b>Contractual service margin (CSM)</b>	<ul style="list-style-type: none"> <li>• Separation of onerous contracts at inception (no offsetting with profitable contracts)</li> <li>• Level of CSM determination</li> <li>• Unlocking of CSM for future remeasurements</li> <li>• Tracking previously recognized losses</li> <li>• How will CSM(t) be calculated, stored and updated? Administration system?</li> <li>• Release of CSM over time/number of contracts o/s, and reflecting discounting</li> </ul>	 <ul style="list-style-type: none"> <li>• Analysis at this point would be sensible, but requires discounted cash flows and risk margins</li> <li>• IASB position is somewhat unclear – expect examples on aggregation</li> <li>• Possibility that industry pressure may lead to changes</li> </ul>
<b>Contracts with participating features</b>	<ul style="list-style-type: none"> <li>• Different approaches apply depending on the participating product – classification criteria seem complex</li> <li>• Differences between the proposed variable fee approach and the standard building block model</li> </ul>	 <ul style="list-style-type: none"> <li>• IASB deliberations are incomplete, some risk of changes from current proposals</li> <li>• Need to make a start on contract classification process</li> </ul>






# Key decisions for life insurers

Key Decision	Changes	Now or later?
<p><b>Transition</b></p>	<ul style="list-style-type: none"> <li>• Overall revaluation of liabilities and redesignation of assets, applied retroactively</li> <li>• Possible use of practical expedients</li> </ul>	 <ul style="list-style-type: none"> <li>• Time to analyze alternatives will likely be useful</li> </ul>
<p><b>IFRS 9</b></p> <ul style="list-style-type: none"> <li>• transitional relief options prior to the new insurance standard</li> </ul>	<ul style="list-style-type: none"> <li>• Option to defer if you meet the “predominantly insurance” test</li> <li>• Option to implement along with an “overlay approach”</li> </ul>	 <ul style="list-style-type: none"> <li>• Time to analyze alternatives will likely be useful</li> </ul>
<p><b>IFRS 9 implementation</b></p> <ul style="list-style-type: none"> <li>• Asset classification</li> <li>• Impairment</li> </ul>	<ul style="list-style-type: none"> <li>• Redesignation of financial instruments</li> <li>• Decisions linked to optional use of locked-in discount rates</li> <li>• Complex new impairment model applicable to amortized cost and FVOCI debt instruments</li> </ul>	 <ul style="list-style-type: none"> <li>• Time to analyze alternatives will likely be useful</li> </ul>

# Key decisions for P&C insurers




Key Decision	Changes	Now or later?
<p><b>Use of Premium Allocation Approach</b></p>	<ul style="list-style-type: none"> <li>• Option to use PAA will be available for most non-life business (some exceptions for long duration business)</li> <li>• Reflecting discounting in the pre-claims obligation</li> <li>• Current unearned premiums reduced by recognition of premiums to cover acquisition costs</li> </ul>	 <ul style="list-style-type: none"> <li>• No reason to wait – and needed for many future steps</li> <li>• Should confirm any possible exceptions to use of PAA</li> </ul>
<p><b>Definition of policy acquisition costs</b></p>	<ul style="list-style-type: none"> <li>• Diversity in current practices will be reduced by definition of acquisition costs</li> </ul>	 <ul style="list-style-type: none"> <li>• No reason to wait – and needed for many future steps</li> </ul>

# Key decisions for P&C insurers


Key Decision	Changes	Now or later?
<b>Risk margin approach</b>	<ul style="list-style-type: none"> <li>Establish approach and level of aggregation</li> <li>Determination of confidence level for disclosures (if different approach used for RM)</li> </ul>	 <ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> <li>Time to analyze alternatives will likely be useful</li> </ul>
<b>Determination of portfolios</b>	<ul style="list-style-type: none"> <li>New standard’s definition of portfolios may differ from current practice</li> </ul>	 <ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> <li>Time to analyze alternatives will likely be useful</li> </ul>
<b>Onerous contracts</b>	<ul style="list-style-type: none"> <li>More likely to see write-offs and decline in available capital when a portfolio is determined to be loss-making (e.g. auto insurance when there is a combination of high claims costs and regulatory constraints)</li> </ul>	 <ul style="list-style-type: none"> <li>Time to analyze alternatives will likely be useful</li> </ul>



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Key Decision	Changes	Now or later?
<p><b>IFRS 9</b></p> <ul style="list-style-type: none"> <li>transitional relief options prior to the new insurance standard</li> </ul>	<ul style="list-style-type: none"> <li>Option to defer if you meet the “predominantly insurance” test</li> <li>Option to implement along with an “overlay approach”</li> </ul>	 <ul style="list-style-type: none"> <li>Time to analyze alternatives will likely be useful</li> </ul>
<p><b>IFRS 9 implementation</b></p> <ul style="list-style-type: none"> <li>Asset classification</li> <li>Impairment</li> </ul>	<ul style="list-style-type: none"> <li>Redesignation of financial instruments</li> <li>Complex new impairment model applicable to amortized cost and FVOCI debt instruments</li> </ul>	 <ul style="list-style-type: none"> <li>Time to analyze alternatives will likely be useful</li> </ul>
<p><b>Optional choice: locked-in discount rates and OCI, or FVTPL approach?</b></p>	<ul style="list-style-type: none"> <li>Analysis needed – will your portfolio behave better with locked-in rates? Is the additional work of locked-in rates worth it?</li> <li>Preliminary view of many is that FVTPL will often give better matching</li> </ul>	 <ul style="list-style-type: none"> <li>No reason to wait – and needed for many future steps</li> <li>Time to analyze alternatives will likely be useful</li> </ul>

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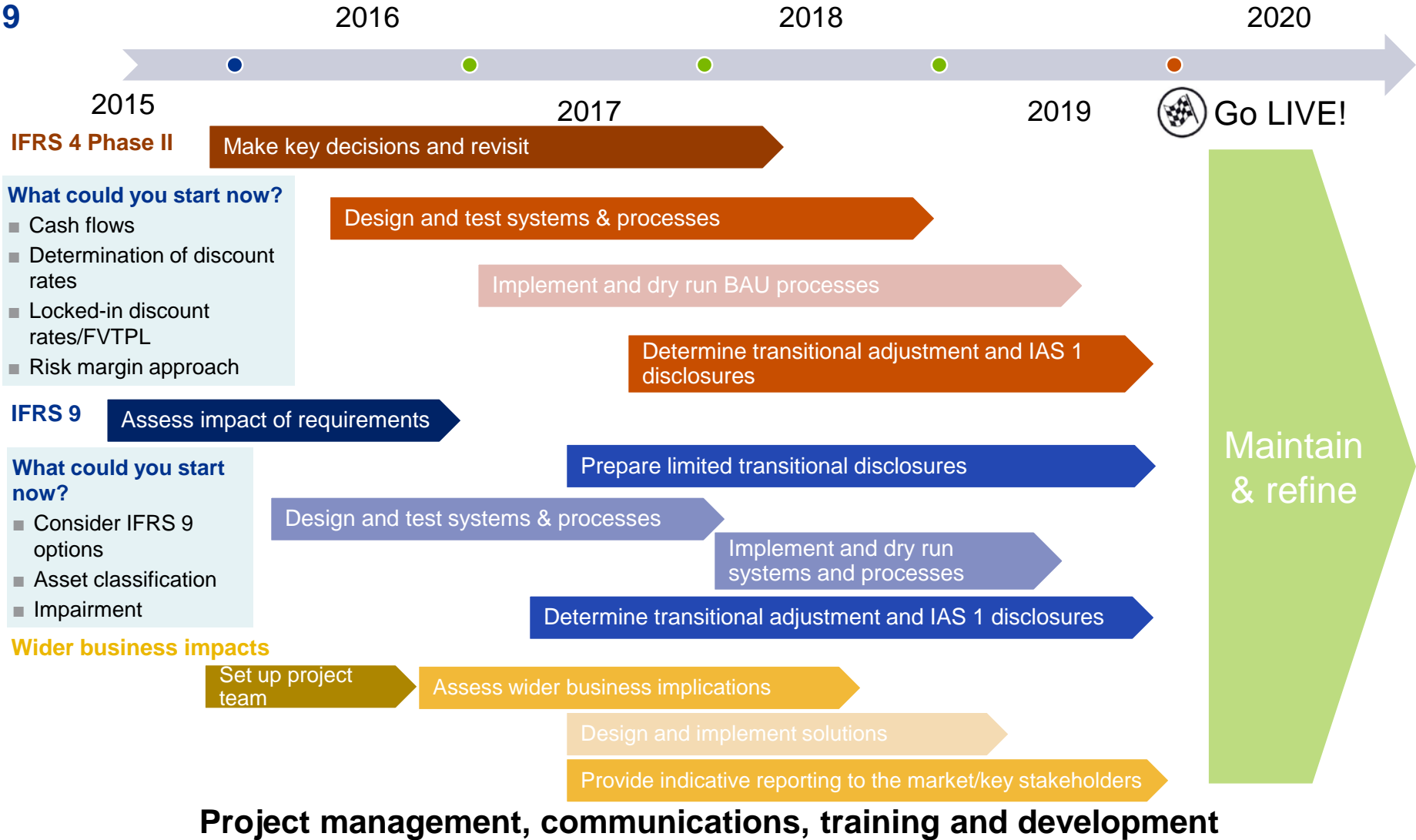
Key Decision	Changes	Now or later?	
<b>Transition</b>	<ul style="list-style-type: none"><li>• Overall revaluation of liabilities and redesignation of assets, applied retroactively</li><li>• Possible use of practical expedients</li></ul>		<ul style="list-style-type: none"><li>• Time to analyze alternatives will likely be useful</li></ul>

# For insurers, changes will be more complex than the initial adoption of IFRS



# High-level implementation plan

This plan assumes 2020 implementation of IFRS 4 Phase II and a deferral approach for IFRS 9





# Thank you!

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