



# NZ IFRS 17 Insurance contracts

**New Zealand Society of Actuaries**

30 October 2017



# Welcome



**Jamie Munro**  
Head of Insurance, KPMG



We passionately believe that the flow-on effect from focusing on helping **fuel the prosperity** of our clients significantly contributes to ensuring that our communities, and ultimately our country and all New Zealanders, will enjoy a more prosperous future.

# NZ IFRS 17: your presenters



**Jamie Munro**  
Head of Insurance



**Nick Moss**  
Director, Audit

# NZ IFRS 17: agenda for this morning

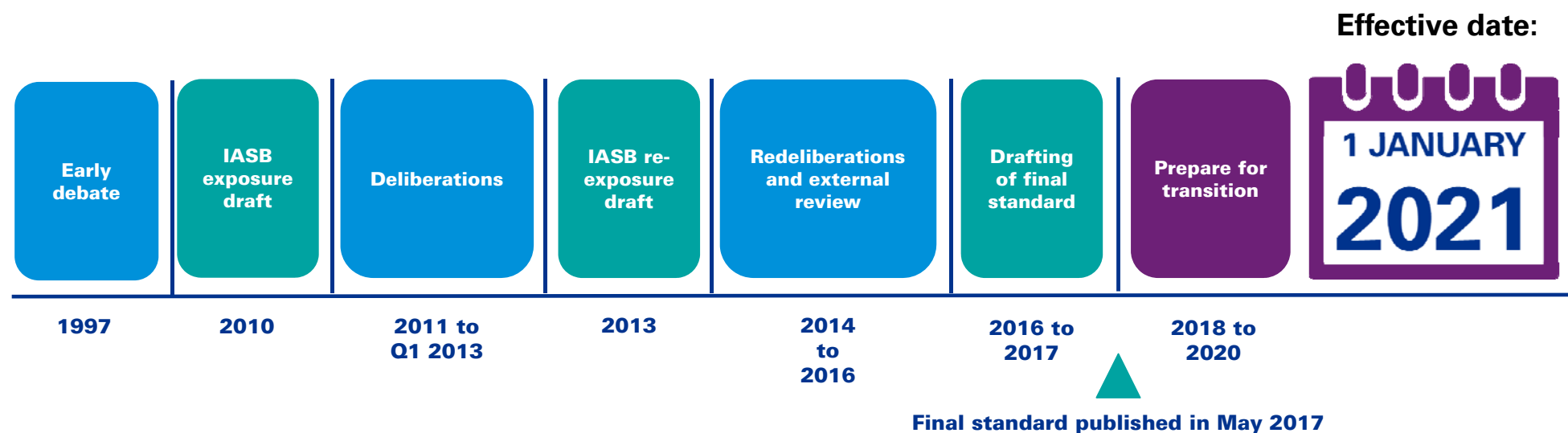
- Introduction and welcome
- The fundamentals... and what has changed?
- Reporting (disclosure and presentation) impacts
- Tax and regulatory considerations
- Q&A – common questions
- Closing remarks

It all started in 1997...



# NZ IFRS 17: project history

- 20 years in the making
- Final standard published by IASB in May 2017
- Ratified by the New Zealand External Reporting Board in August 2017



# Ongoing IASB Support

## IASB implementation support—overview

32

May 2017	3.5 years			2021
Issue of IFRS 17	Support implementation			Mandatory effective date of IFRS 17
	2017 - Early 2019	Late 2019	2020	
	Some entities begin implementation process General questions  Contentious / specific implementation questions	Entities are finalising implementation		

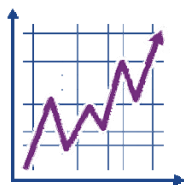
Objective: monitor and proactively support implementation	Objective: provide period of calm for implementation
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Supporting materials: - articles - webinars	TRG, IFRS IC and/or Board discussions	Mostly monitor Light touch on implementation / educational activities
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# NZ IFRS 17: change is coming



**Volatility in financial results**



**Operational performance and measurement**



**Broad business decisions**



**Capital and asset-liability management**



**Systems and processes**



**People**



# NZ IFRS "Wave Two": change is coming

**NZ IFRS 9 *Financial instruments***

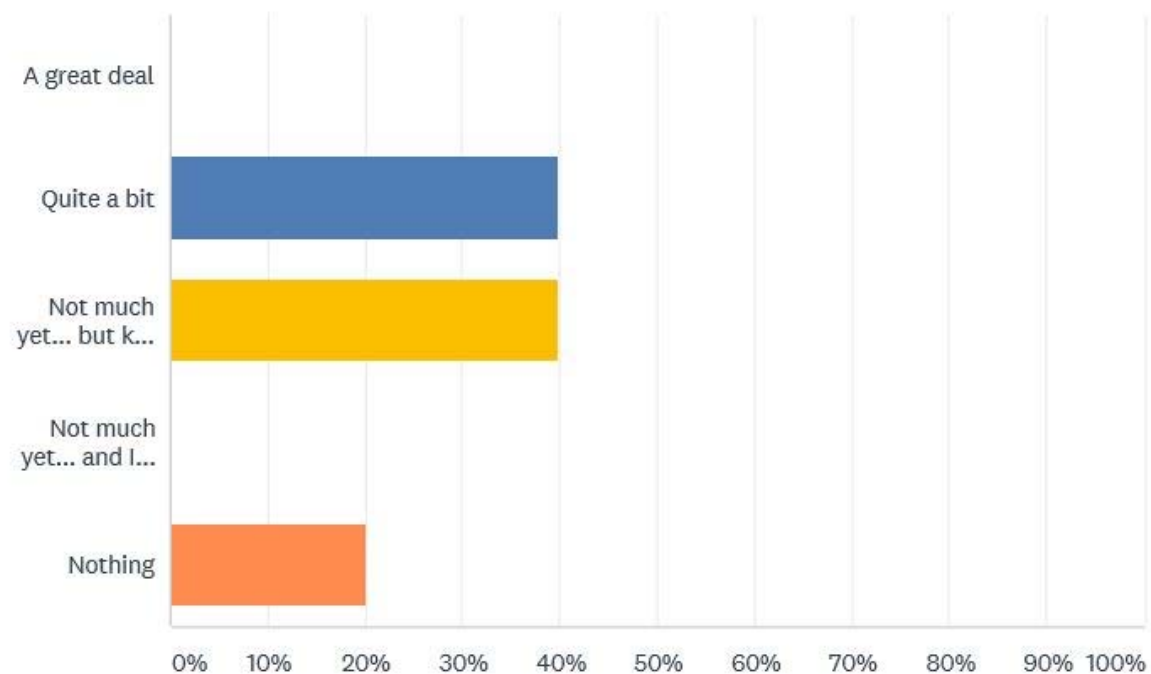
**NZ IFRS 15 *Revenue***

**NZ IFRS 16 *Leases***



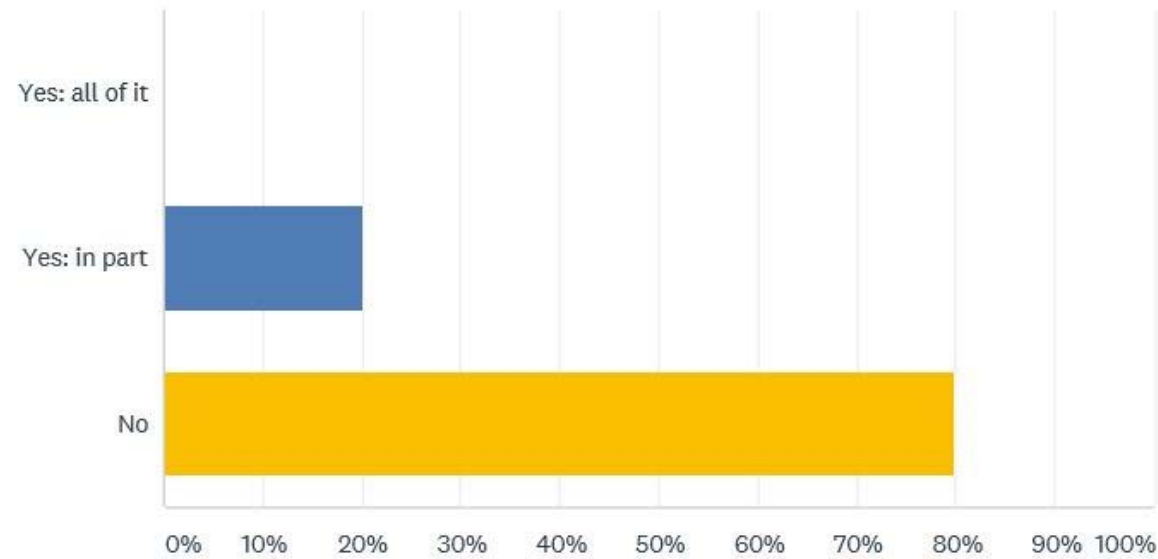
# What did you tell us?

How much do you know about the new IFRS 17 *Insurance Contracts* accounting standard?



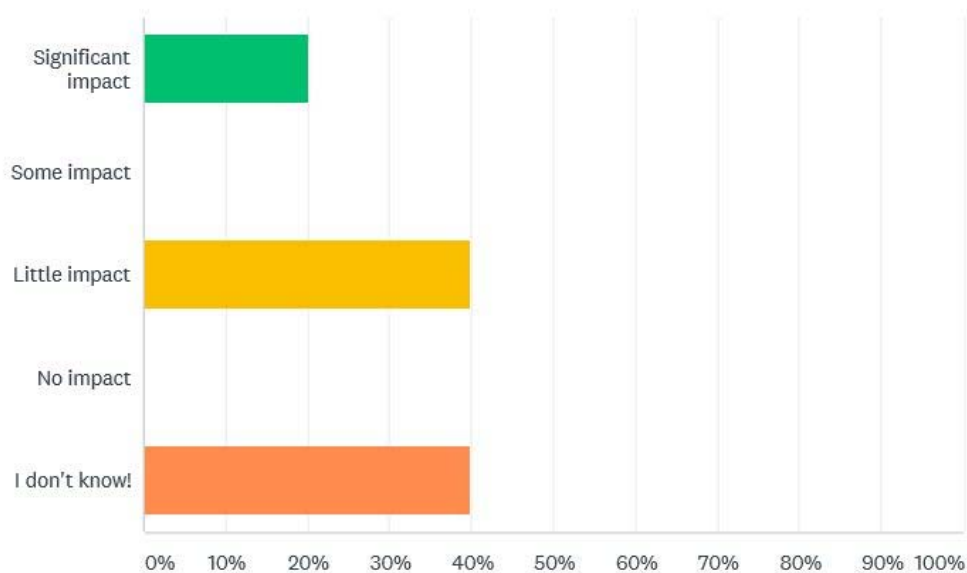
# What did you tell us?

## Have you read the new accounting standard?



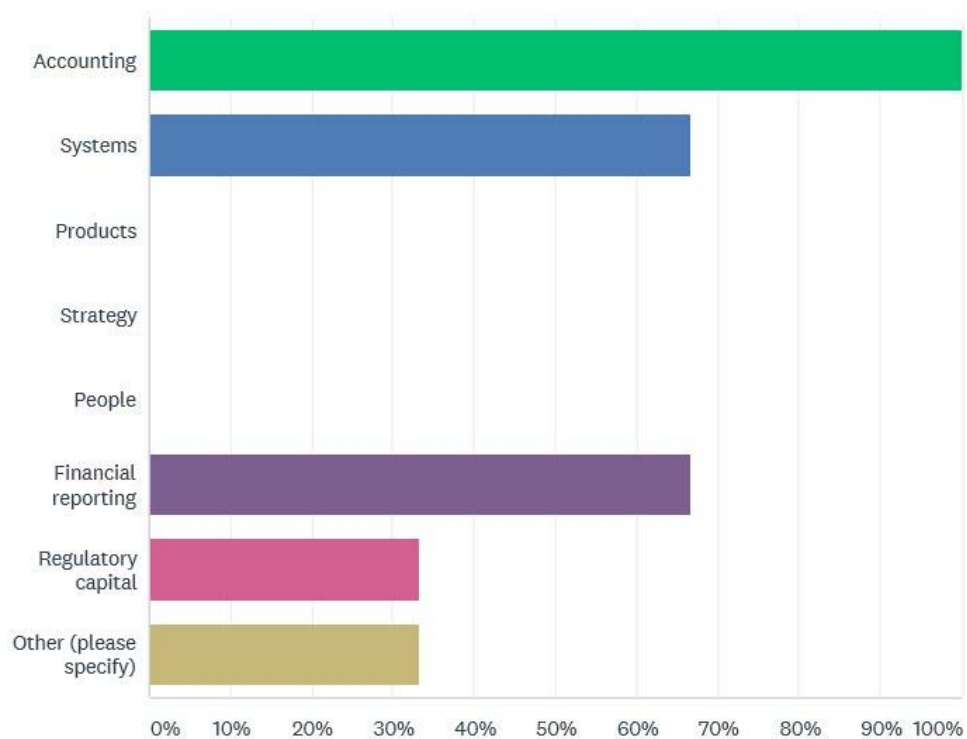
# What did you tell us?

From what you know about the new Insurance Contracts accounting standard, will the accounting change have a big impact on your insurer?



# What did you tell us?

What parts of your business will be affected? (check all that apply)



# NZ IFRS 17: change is coming?



**Nick Moss**

Director, Financial Services Audit



The fundamentals...and  
what has changed?



# Scope



## NZ IFRS 17; Appendix A Definition of an Insurance Contract

A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder**

# One Measurement Model

Fulfilment cash flows \*\*\*

## Expected future cash flows

Explicit, unbiased and probability-weighted future cash outflows less future cash inflows that will arise as the entity fulfills the insurance contract \*

## Time value of money

Discounted using current rates to reflect the time value of money and financial risks \*

## Risk adjustment

To adjust for the effects of uncertainty about the amount and timing of future cash flows (i.e. non-financial risks) \*

## Contractual service margin \*\*

To remove any profit at inception. Released over coverage period based on the passage of time.

One measurement model

\* Remeasured at the end of each reporting period

\*\* Adjust the contractual service margin for changes in estimates relating to future coverage and other future services.

For contracts with direct participation features the changes in estimates of the fee that the entity expects to earn from the contract adjust the contractual service margin.

\*\*\* Probability-weighted, risk adjusted, present value of cash inflows and outflows that will arise as the entity fulfills the contract.

# Level of Aggregation



**More granular  
analysis of  
contracts**

## NZ IFRS 17; Clause 14

An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines would not be expected to have similar risks and hence would be expected to be in different portfolios.

## NZ IFRS 17; Clause 16

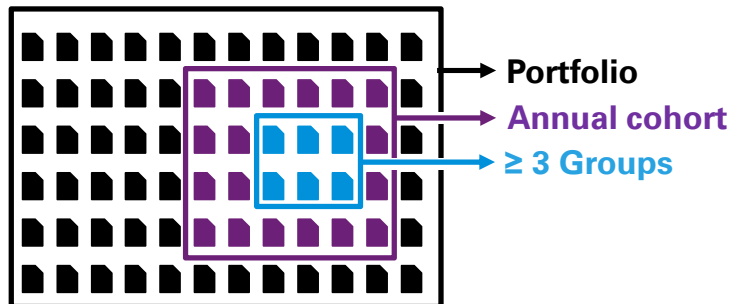
An entity shall divide a portfolio of insurance contracts issued into a minimum of:

- a. A group of contracts that are onerous at initial recognition, if any;
- b. A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any, and;
- c. A group of remaining contracts in the portfolio, if any.

# Level of Aggregation

## GMM

The **CSM** is determined for groups of insurance contracts



Insurers will need to account for their business performance at a more granular level.

## PAA


Final standard provided further simplification with insurers able to assume that all contracts are profitable unless there is management information to the contrary.

# Contract Boundaries

## NZ IFRS 17; Clause 34

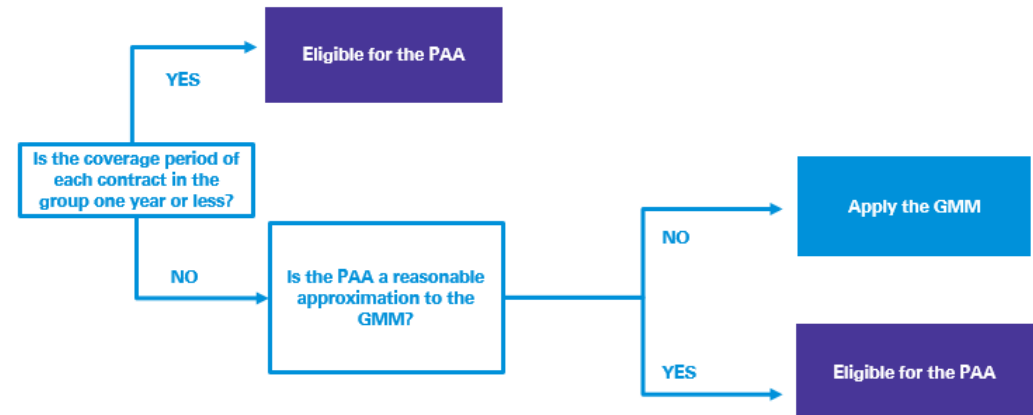
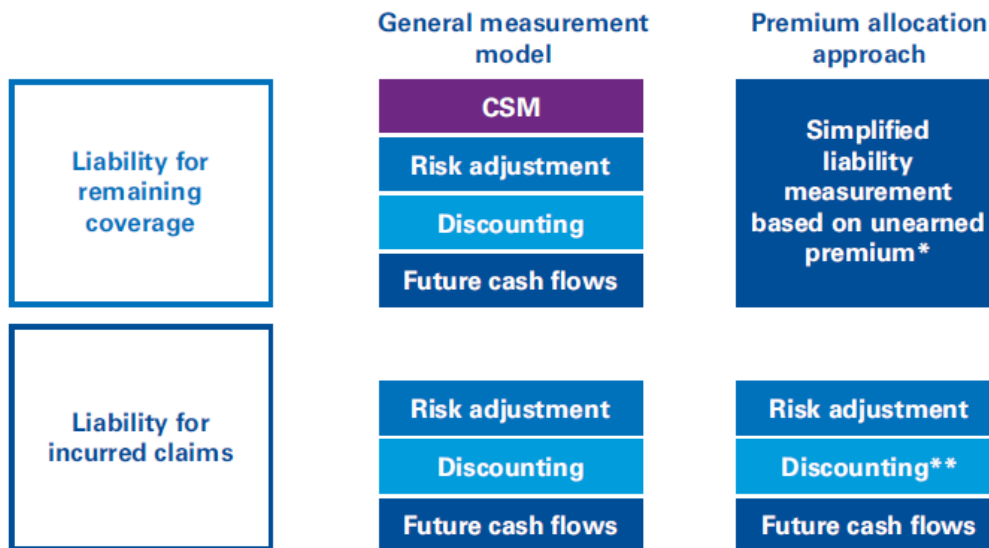
Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- a. The entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- b. Both of the following criteria are satisfied:
  - i) The entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
  - ii) The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.



**Some general insurance contracts may be considered long term**

# Measurement Models



\* Unless the group of contracts is onerous.

\*\* The use of the PAA permits not discounting the claims liability if those cash flows are expected to be paid or received in 1 year or less

# Premium Allocation Approach (PAA)

Liability for Remaining Coverage: Initial measurement

**Initial measurement of liability for remaining coverage**

$$\text{Liability for remaining coverage} = \text{Initial premium} - \text{Directly attributable acquisition costs} + \text{Onerous contract liability}$$

- Similar in many ways to current practice for non-life contracts
- Release of CSM on a systematic basis representing the transfer of services
- Practical expedient – entities would not need to adjust future cash flows for the time value of money if those cash flows are expected to be paid or received within one year (unless there is a significant financing component)
- Entities would not need to accrete interest if coverage period is one year or less
- Directly attributable acquisition costs can be expensed if coverage period is less than 1 year
- Where the entity applies the practical expedient, any onerous contract liability would be measured without adjusting the cash flows for the time value of money

# Premium Allocation Approach (PAA)

Liability for Remaining Coverage: Subsequent measurement

## Subsequent measurement of liability for remaining coverage



**Adjust the carrying amount for changes to current market discount rates for incurred claims**

**Recognise revenue on the basis of passage of time...**

**or...**

**If the expected risk pattern differs from this, the expected timing of incurred claims and benefits**

**Prospective updates to the allocation method are permitted**





# Premium Allocation Approach (PAA)

Liability for Incurred Claims: Risk adjustment

## Characteristics of underlying risks

## Risk adjustment

- Low frequency and high severity risks such as catastrophe losses
- Long-duration contracts
- Wide probability distributions
- Little known about trends and current estimates
- Emerging claims experience increases uncertainty regarding estimates

- High frequency, low severity losses
- Short-duration contracts
- Narrow probability distributions
- More known about trends and current estimates
- Emerging claims experience reduces uncertainty regarding estimates

Gross presentation of the risk adjustment required

Higher


Lower

# Premium Allocation Approach (PAA)

Liability for Incurred Claims: Discount rates

## **Changes in discount rates can be recognised in either OCI or P&L**

Recognising changes in discount rates through OCI rather than P&L can reduce short-term volatility on long-term contracts. However, recognising changes in discount rates through OCI can also obscure the impact of asset-liability mismatches (intended or unintended) on P&L.



**Policy choice  
should be  
considered in  
conjunction with  
NZ IFRS 9**

# For reinsurance contracts held...

The GMM and PAA still apply, with modifications

**The reinsurance contract held is accounted for separately from the underlying direct contract**

**Reinsurance gain or loss is recognised as reinsurance services are received**





# Reporting (presentation and disclosure) impacts

# Presentation & Disclosures

**DAC and Unearned premiums will be replaced with a Liability for Remaining Coverage.**

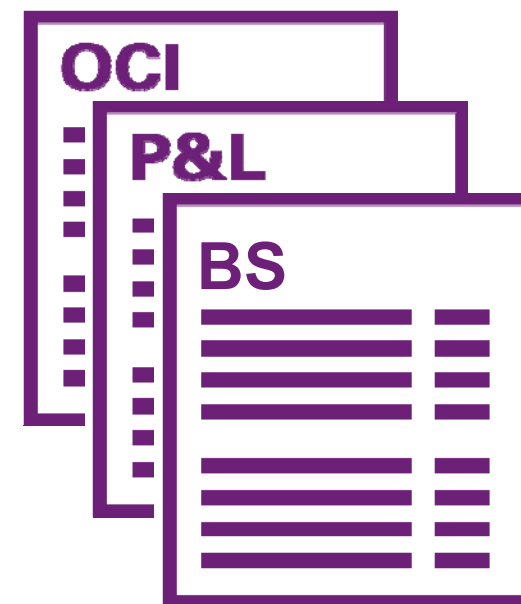
**Carrying amount of groups of contracts in asset and in liability position shall be presented separately.**

**Written and earned premiums will be replaced by a new measure, insurance contract revenue.**

**Investment components are excluded from insurance revenue and service expenses.**

**Entities can choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI to reduce volatility.**

**Multiple new disclosures add complexity.**



# Disclosures

Information should be disclosed at a **level of granularity** that helps users assess the effects contracts have on...



**Financial position**



**Financial performance**



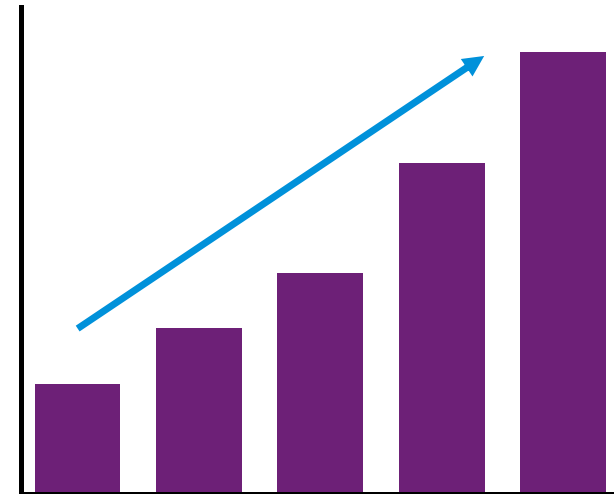
**Cash flows**

**New disclosures relate to expected profitability and attributes of new business**

# Operational performance measurement

**Transparency about expected profitability of contracts in force**

**Level of aggregation may reduce comparability**





# Regulatory and tax considerations



# NZ IFRS 17: regulatory and tax considerations



**Recent APRA request**

**Opportunity/requirement to review tax accounting choices?**

**Tax, financial statement, solvency methods - alignment?**

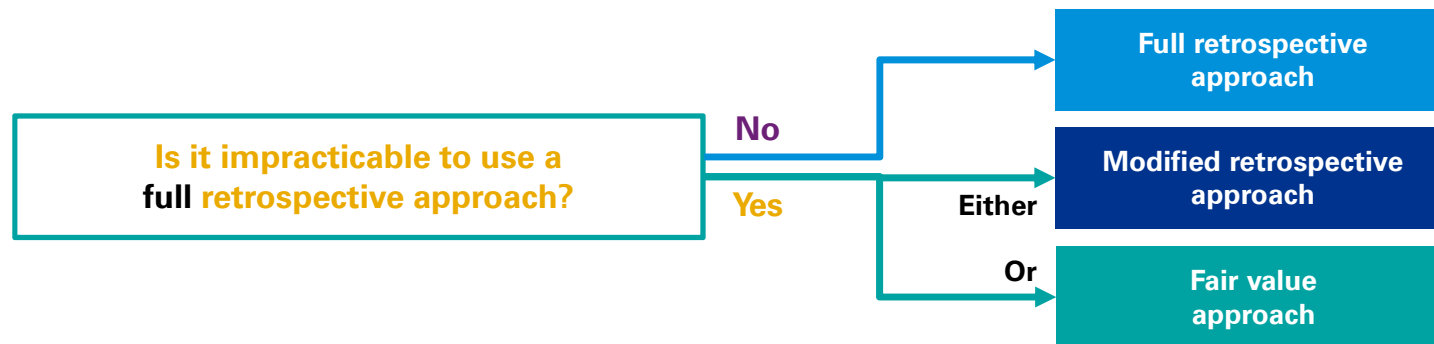




# Transition

# Transition: Full Retrospective Approach Req'd

... but expedients can be used



## A company can apply different approaches for different groups

Expected that PAA will use the full retrospective (most life, GI and health).

It is expected that the fair value approach will give rise to a lower CSM (stronger balance sheet) than the retrospective approaches.



# Q&A: common questions

# NZ IFRS 17: common questions

“ Is this standard likely to change? ”

# NZ IFRS 17: common questions

“ 2021! I’m still not convinced: why worry about NZ IFRS 17 now? ”

# NZ IFRS 17: common questions

“ My business is in the non-life insurance sector. The new standard sounds like a non-story for my business? ”

# NZ IFRS 17: common questions

“ Are there benefits of early adoption? Are any Kiwi or Australian insurers considering going early? ”



# NZ IFRS 17: common questions

“ Do we have to make the additional disclosures in our accounts if they are commercially sensitive? ”

# NZ IFRS 17: common questions

**Other questions from the floor?**



# Closing remarks

# Key messages

- Much more than just an accounting change
- There will be a number of 'industry views' that will need to be formed
- 2021 – start your planning now... what is your action plan?
- Board, Management, other stakeholder education

## Effective date



# Next steps



**Think about your  
implementation  
plan**



**Speak to your  
usual KPMG  
contact**



**Find out more at  
[kpmg.com/ifrs](https://www.kpmg.com/ifrs)**

# Thank you

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