IFRS17 Insurance Contracts @ Generali

Prevedibili impatti dal punto di vista di Generali

Massimo Tosoni, Head of Group Accounting Policy and Reporting

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Agenda

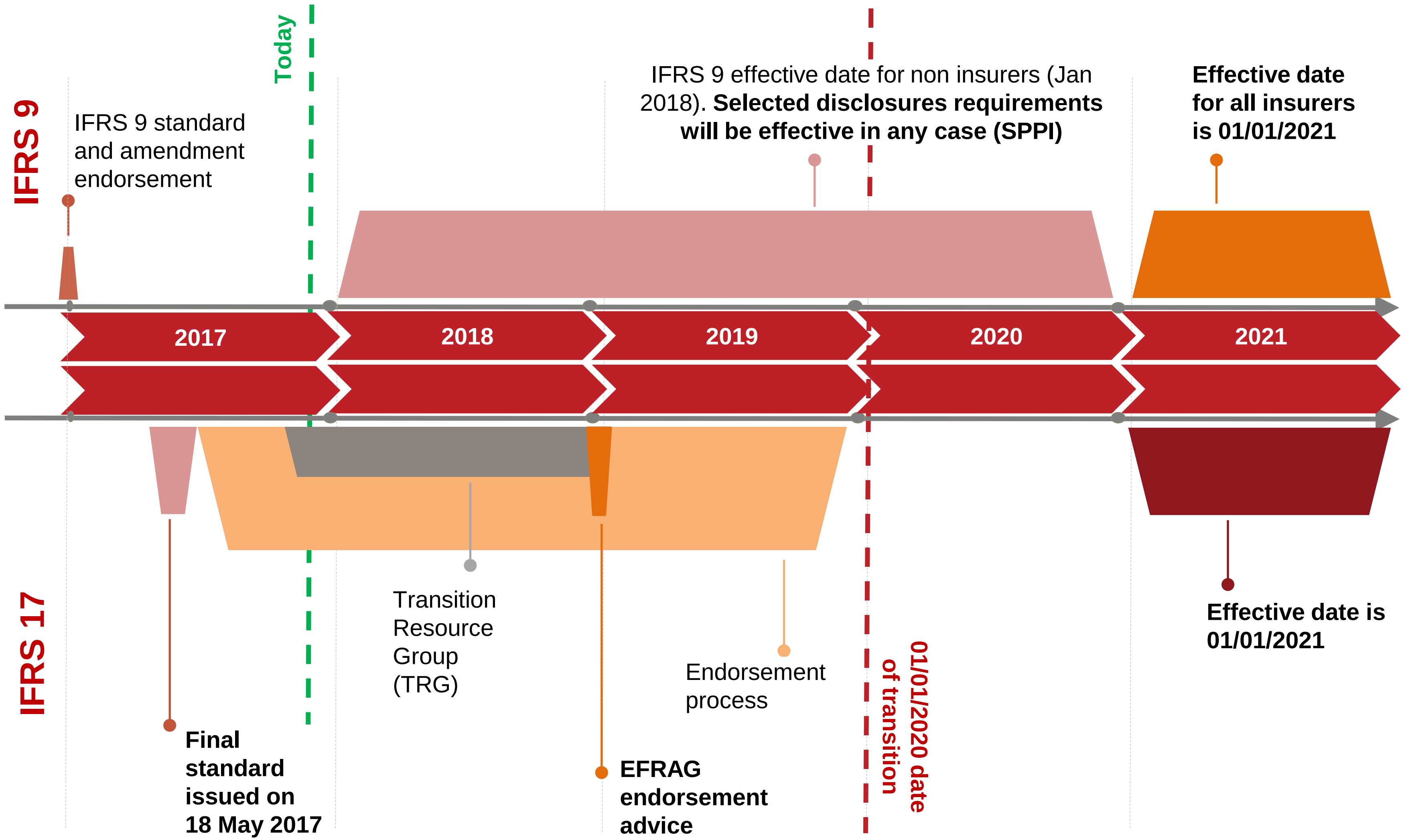
Generali at a glance

Generali is one of the **leading insurers** in the world, offering an **extensive line of products**, with a business mix mostly exposed to **retail** and **Life**. In a nutshell:

- >60 Countries in the world
- 55 million customers
- 70 billion Euro in premiums (2016)
- 530 billion Euro of AUM
- >400 consolidated entities belonging both to EU and non-EU Countries

Given the scale of our Group, all evaluation models set-out by IFRS 17 will be applied in a complex operational environment

IFRS upcoming landscape



Our financial reporting journey

AS IS

Current measurement models

IFRS 4 – IAS 39

Liabilities measured according to applicable Local GAAPs.
Financial instruments mainly at FV-OCI (with recycling).
Shadow accounting mitigates accounting mismatch

Solvency II

Prospective current measurement of insurance liabilities, focus on capital

No global and consistent standard to explain insurer performance.
Solvency II disclosures are evolving (beyond the Regulation) to satisfy the market needs to understand capital and cash generation

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Financial reporting evolution

IFRS 17 – IFRS 9

Prospective current measurement of liabilities (expected different from SII).
Financial instruments mainly at FV-OCI.
New income statement

Solvency II

Prospective current measurement of insurance liabilities, focus on capital

IFRS 17 is a fundamental change in financial reporting and it should become the **reference metric to explain the performance of insurers**

IFRS 17 Overview (1/3)

Key changes and impacts on insurers

	Current Accounting Practice	IFRS 17
Recognition and Measurement	• Reserves based on local statutory GAAP, based on locked-in assumptions (subject to Liability Adequacy Test) • Undiscounted reserves in P&C • Level of granularity mainly based on line of business/portfolios	• Use of **current estimates** • Explicit disclosure of **risk margin** • Reserves discounted at market rates • **Higher level of granularity** required (annual cohorts, onerous and likely to be onerous contracts identification) • Simplified approach closer to current accounting practice in P&C for premium reserves
Profit Patterns	• Different patterns in use	• Should **reflect the pattern of services rendered** • Introduces the "**contractual service margin**" concept (reserve for future profits)
Presentation	• Inclusion of investment component in insurance revenues (GWP)	• **Exclusion of investment component** from insurance revenues • New Income Statement based on a new concept of revenues and costs

IFRS 17 is a fundamental change in financial reporting and it should become the **reference metric to explain the performance of insurers**

IFRS 17 Overview (2/3)

Measurement models

Measurement models	Key features	Generali's business examples	Expected applicability of models to our business (Low–High)
General Model **Default model for all insurance contracts**	**Contractual service margin** **Risk adjustment** **Discounting** **Best estimate of fulfilment cash flows** ..a **building block** methodology	• Multi-year P&C • Protection business • All other saving products not eligible for VFA models	✓ (3rd of 6 levels from Low)
Simplified Approach **To simplify for short term contracts with little variability**	**Premium (less acquisition costs) unearned** Permitted **for short duration contracts** or where a 'reasonable approximation' of general model	• Most of P&C business (both Motor and Non-Motor) with duration <=12 months	✓ (5th of 6 levels from Low)
Variable Fee Approach (VFA) **Direct participating business**	As per General model with additional features, notably: • Changes in **insurers' share of underlying assets recognised in CSM** • P&L movement in **liabilities mirrors treatment on underlying assets**	• Traditional saving business run by EU-based entities. As a preliminary estimate, >80% of Italian, German and French Life technical provisions are eligible for the VFA approach • Unit-linked business	✓ (6th of 6 levels, High)

IFRS 17 Overview (3/3)

Performance Reporting – Focus on Income Statement Presentation

Income Statement (illustrative representation)

	20XX	20XX
Insurance Revenue	X	X
Insurance Service Expenses	(X)	(X)
Insurance Service Result	X	X
Insurance Finance Income	X	X
Insurance Finance Expenses	(X)	(X)
Insurance Finance Income or expenses	X	X
Profit or loss	X	X
Gains and losses on financial assets at FVOCI	X	X
Effect of discount rate changes on insurance liability (optional)	(X)	(X)
Total comprehensive income	X	X

Key implication of IFRS 17 standard

- **Premiums disappears from P&L and Revenues** from insurance contracts include
  - the amount of **insurance expenses expected** to be incurred in the period (excluding investment component)
  - Release of Risk Adjustment
  - the amount of **CSM recognized in profit or loss for the period**
- Performance will be mainly affected by
  - Differences between **expected vs (incurred) actual cash flows**
  - Release pattern for **Risk Adjustment**
  - Release pattern of the **CSM**
- Separation of **investment component**

IFRS 17 Main (technical) areas of concern

Risk pooling & Portfolio management

- Potential issue with **current grouping requirements**
  - **P&C: a top down grouping** based on **current internal financial information** is workable. Excessive granularity based on a bottom up approach would result in an operational burden, change in pricing strategy and potential social impacts with no tangible benefits for the users
  - **L&H**: **annual cohorts requirement** (for instance in Italy – Gestioni Separate) **is not reflecting the intergenerational mutualisation of participating business,** leading to artificial and costly reallocation of mutualized business into annual groups

Performance reporting

- **Coverage units approach need to be tested** in practice
  - The **risk**, **especially for VFA business, is to disclose a linear profit pattern**:
    - Inability to connect with the internal analysis of profit by source used for business steering
    - Lack of connection with cash flow generation
    - We would like to test alternative amortization drivers, better linked with the investment management service and the expected recognition pattern of the VFA

Impact assessment outcomes (1/2)

Main Findings & Challenges

We had a preliminary assessment of the IFRS 17 requirements along four different dimensions: data, people, processes and systems. Impacts were evaluated both at a parent company and at a pilot subsidiaries

Data

- **Data granularity** for grouping management
- Management of **non-distinct investment components**
- **Transition** (historical data); full retrospective unrealistic
- **Data quality** issues

People

- **Workforce staffing** and **skills** to be enriched to properly manage new financial reporting
- **Integration** between actuarial and accounting people/skills
- **Several functions** to be trained and involved due the impact on their business as usual

Processes

- **Timing: acceleration** in order to meet current reporting deadlines despite the higher complexity
- Increased valuation **frequency** for business steering and external disclosure

Systems

- **New calculations** (e.g. CSM) require **new IT systems**
- **Interfaces** between actuarial and accounting to be enhanced or created
- **Current actuarial platform needs to be enhanced or changed due to** the higher granularity and the different requirements compared to Solvency II and MCEV

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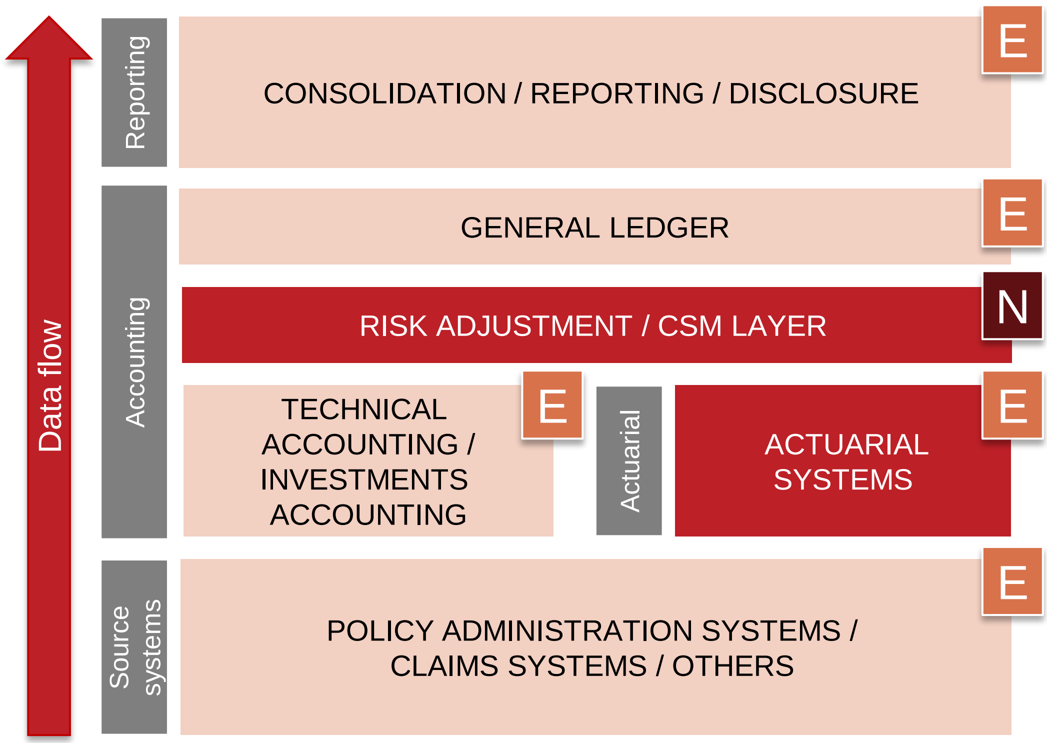
Impact assessment outcomes (2/2)

Impacts on Systems Architecture

Illustrative IFRS17 application architecture



- **Large number of systems** impacted
- As per today **no IT end-to-end solution exists** and offering is still **not mature. Lack of skilled resources for the implementation**
- Granularity and accuracy needs are more demanding than Solvency 2, **investments on actuarial platforms** likely to be very substantial
- Opportunity to **standardize and centralize** closing processes

Legenda Impact: High | Medium — Type of intervention: E nhancement | N ew module

Target Operating Model

Design of the new Target Operating Model

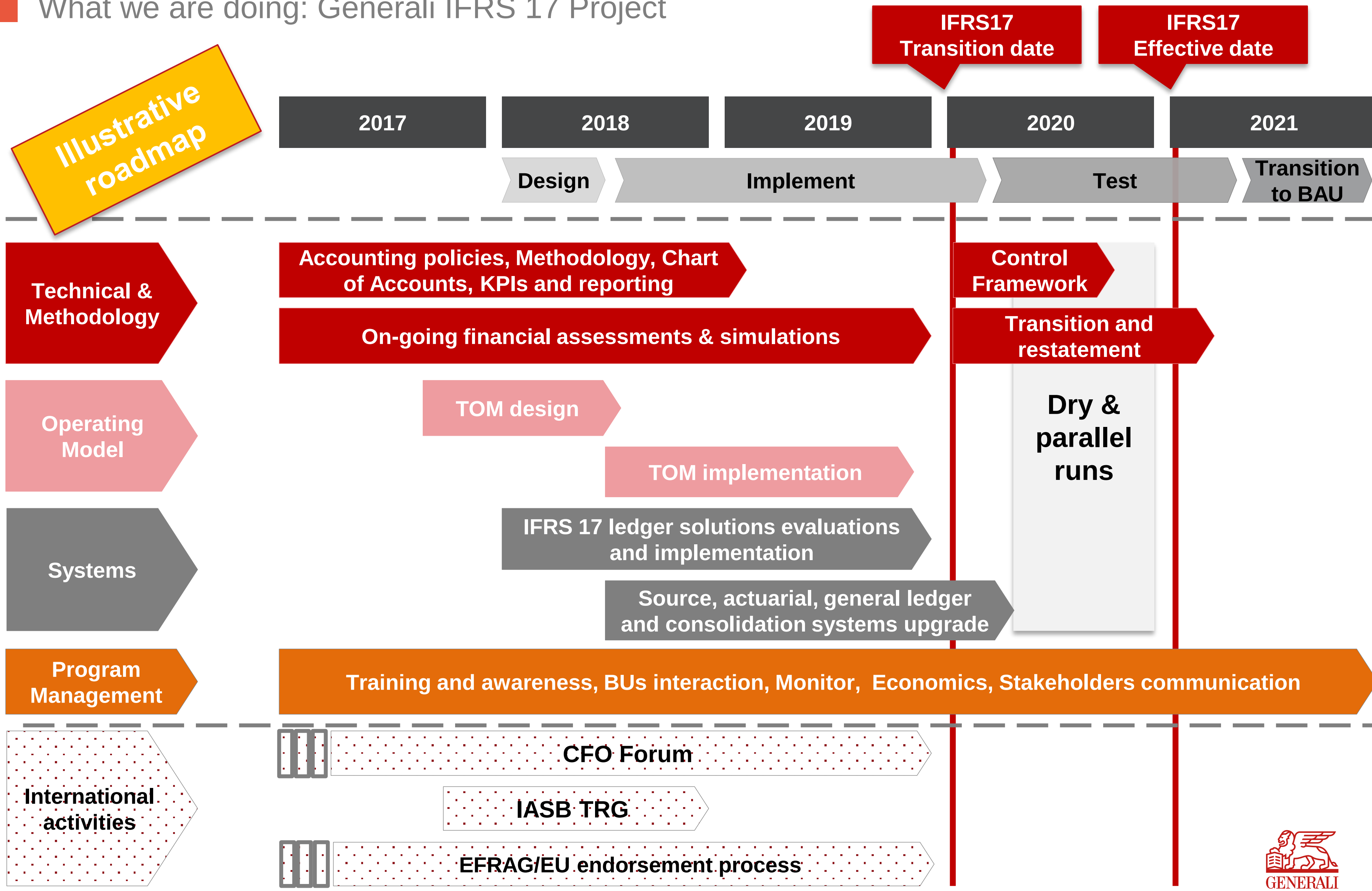
- New **process and IT architecture**
- Review of **service delivery model** (e.g. global vs local responsibilities)
- Evaluation of **organizational impacts** at a Group and Local level

Main drivers for development

- **Leverage on Solvency II investment** unless explicit benefits are coming from a different approach
- New level of **interaction between accounting and actuarial functions**
- **New professional profiles** on accounting and management control and steering roles, which shall require an actuarial expertise
- **Communication** with external stakeholders to get familiar with the new model, when possible

IFRS 17 Project roadmap and International activities

What we are doing: Generali IFRS 17 Project



Conclusions

1	IFRS 17 is a significant step towards a **greater transparency and comparability** across the insurance industry
2	**Some key elements of IFRS 17 need to be further explored** before its application together with the key stakeholders (auditors, users, etc.) also through an **appropriate testing phase** (i.e. EFRAG case study)
3	Considering the implementation challenges and the interrelation with other processes (e.g. Solvency II), a **brand new Target Operating Model for the finance process** shall be developed, fully integrated with investment, actuarial and risk processes

Thank you