Milliman

IFRS 17 in Pratica

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27 November 2017

IFRS 17 – a key challenge for Italian insurers

- IFRS 17 will mean a fundamental change in accounting for insurance companies.
- Current IGAAP and IFRS standards are both based on “passive” valuation bases (e.g. mathematical reserves on original technical bases for liabilities and amortised book value for assets) with some modifications.
- IFRS 17 on the other hand is a fair value standard
- There are several similarities with Solvency II, but also some significant differences
- Being ready for IFRS 17 will be a big challenge and requires careful and timely preparation

3 Key Areas to Highlight:

Systems and processes upgrade and transformation

Methodology

Results analysis

3 Key Areas to Highlight:

Systems and processes upgrade and transformation

- Although current financial models can serve as the basis to develop IFRS 17 reporting, significant modifications are likely to be needed
- Furthermore they need to be able to produce results in a granular and timely way (e.g. to track CSM)
- Interfaces with accounting systems will be important
- Data warehousing is likely to be critical to manage effectively the large volume of results
- Workflow management needs to be very efficient

3 Key Areas to Highlight:

Methodology

- Product classification
- Management of Contractual Service Margin (CSM) will be a critical and delicate issue (e.g. definition of drivers)
- Risk adjustment will influence results
- Valuation of options and guarantees and related issues involved in stochastic valuation (e.g. dynamic management rules)
- Discount rate choice will be important in management of the on-going results
- Assumption setting (including expenses)

3 Key Areas to Highlight:

Results analysis

- Fast close
- Reconciliations and checks and balances
- Importance of a meaningful analysis of causes and drivers of performance
- Definition of performance measures
- Forecast process and predictability of results