CASE STUDY

Behind the Numbers: Comparative Analysis of IFRS 17 Calculation using IFRS Assess

CHALLENGE

A large South African bancassurer approached MBE to perform an impact assessment of IFRS 17 for their life and short-term insurance products to compare the calculation requirements and results of IFRS 4 and IFRS 17, under both the General Measurement Model (GMM) and Premium Allocation Approach (PAA).

The impact assessment was set up to examine four products, two life and two short-term. This was to ensure that the range of different factors which could impact results would be captured in the assessment. Two goals were set:

- Compile a gap analysis to understand the model, systems and methodology requirements of IFRS 17 and assign priorities in the IFRS 17 programme.
- Investigate the expected profit signatures under IFRS 17 since the chief areas of concern were profit emergence under IFRS 17 and the associated tax implications.

APPROACH

MBE used their in-house, Excel-based simulation and modelling tool, IFRS Assess, to assist the client in achieving their goals.

Data Collection

The first step was to collect all of the cashflow data, which indicated that gaps existed in the current models under IFRS 17. Based on this the following decisions were made and fully documented:

Transitional approach: the available data showed that the best approach would be the Modified Retrospective Approach.

IFRS 17 groups: Cohorts were split into yearly groups for simplicity and profitability groups were assigned by calculating the VNB of each contract at the transition date.

Discount rates: for simplicity, the IFRS 4 discount rates were used.

Risk Adjustment: A cost of capital method, based on stressed BELs, was selected.

Customising IFRS Assess

The data was sourced and formatted and MBE configured IFRS Assess to ensure that all material assumptions, data gaps and product features were taken into account. For greater granularity the model was converted to produce quarterly calculations.

RESULTS

The initial results also gave an indication of what effect the IFRS 17 methodology, mainly the Risk Adjustment and coverage units, could have on the results. These methodologies could then be adjusted by the client.

After all the necessary changes were made to the data and model, numbers were generated for the GMM and the PAA that could be compared to the current results from IFRS 4 for different scenarios.

AT A GLANCE

Challenges

- Complexity of comparing calculations for IFRS 4 and IFRS 17 for both the GMM and the PAA.
- Multiple factors need to be analysed.
- Looming IFRS 17 deadline.
- No suitable Excel-based simulation and modelling tool to speed up analysis and ensure accuracy.

Results

- Full impact assessment and analysis showing IFRS 17 impact on results.
- BAU work was uninterrupted.
- Produced granular quarterly report of results.
- Full comparison between the GMM and the PAA for both IFRS 4 and IFRS 17.

> I am extremely satisfied with the outcome of our collaboration with MBE. The initial results provided valuable insights into the impact of the IFRS 17 methodology on our business and allowed us to make the necessary adjustments. The final numbers for the GMM and the PAA were very promising and I'm confident that we'll be able to achieve our goals using this approach.
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> Head of Actuarial