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A Calculated Risk

An Industry-Wide
Investigation into the
IFRS 17 Risk Adjustment
and Confidence Level

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Introduction

IFRS 17 introduces the concept of a risk adjustment for non-financial risk, a metric which will have a significant impact on how profit is recognised under the new accounting standard.

The International Accounting Standards Board (IASB) defines the risk adjustment as

"The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts."

IFRS 17 Insurance Contracts - Appendix A: Defined Terms

Along with choice of coverage units, the run-off of the risk adjustment will be a key driver of an insurer's profit signature. Yet, despite its pivotal role in IFRS 17 reporting, there still seems to be an air of mystery around the risk adjustment and its corresponding confidence level, which also forms part of the IFRS 17 disclosures.

Possible explanations for this lack of certainty are that firstly, the risk adjustment is one of the more complex components to calculate and understand, and secondly, there is very little official guidance around how it should be calculated.

While the risk adjustment must satisfy certain conditions, the method for its calculation is not prescribed. This means that an insurer can select an approach that accurately reflects its risk profile, providing it has the data, models and modelling resources to maintain its chosen methodology.

As a result, different insurers may determine different risk adjustments for similar groups of insurance contracts, making like-for-like comparisons difficult. The requirement to disclose the confidence level used to determine the risk adjustment aims to mitigate this, but it also introduces another layer

of complexity, as insurers decide between choosing a confidence level and then deriving a risk adjustment or using another technique to calculate a risk adjustment and then translating this into an associated confidence level.

Amid unresolved questions regarding methodology, insurers may also be delaying making any final decisions until they have a solid idea of what market practice is likely to be – in an industry that relies on convention and collaboration to set the accepted standards, no-one wants to be the odd one out.

We approached insurers in the UK, Europe and South Africa to share their current thinking and actions regarding the risk adjustment. We wanted to get a snapshot of where the insurance industry currently stands to enable individual organisations to benchmark their progress against their peers.

Our researchers conducted the benchmarking exercise in May and June 2020. Respondents completed a survey to assess their current thoughts around their risk adjustment and confidence level methodology, as well as their readiness for this aspect of IFRS 17 implementation.

In the absence of further guidance from the IFRS 17 Standard itself, MBE Consulting launched a benchmarking exercise to establish an industry-wide understanding of the IFRS 17 requirements around risk adjustment.

In addition, they submitted their capital calculations as of December 2019, or the nearest available date. These values were processed using MBE Consulting's **Risk Analyser** tool to determine corresponding risk adjustment confidence levels.

The enthusiasm with which the industry embraced this exercise validates our belief that the risk adjustment is, as yet, far from resolved for most insurers.

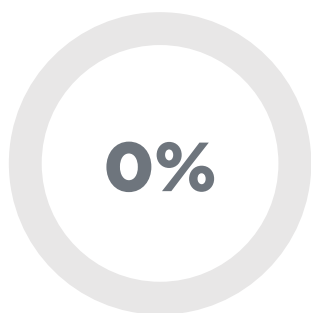
We received responses from organisations representing close to 60% of gross written premiums in the UK and South African insurance industries, demonstrating an evident willingness to collaborate for mutual benefit and the good of the industry as a whole.

We are grateful to everyone who took part.

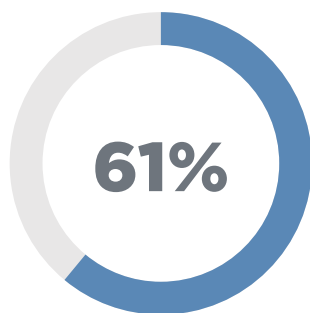
This paper summarises our analysis of the responses and presents a benchmark against which future progress can be assessed. We find an industry in which a balance of caution and pragmatism reflects the lack of clarity about the risk adjustment and its confidence level that still exists for many companies. With 2023 fast approaching, we hope to help bring greater certainty through this report and the application of our **Risk Analyser** confidence level calculation tool.

We hope you find this report interesting and would be pleased to discuss our findings with you.

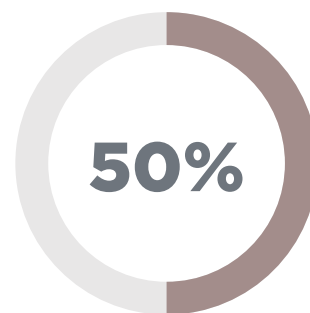
Key findings



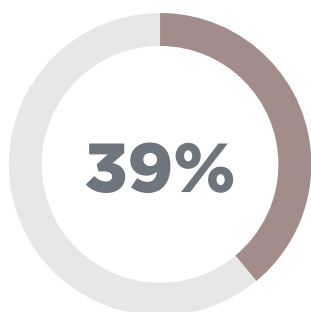
Not one of our respondents has yet agreed their final approach to measuring risk adjustment or confidence level.



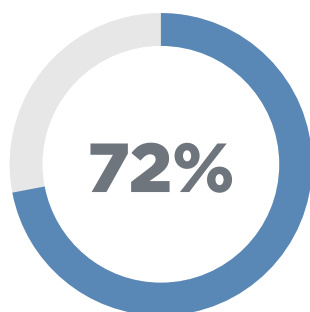
61% have started to consider an approach for risk adjustment and produced indicative numbers, with a further 22% already engaging with auditors.



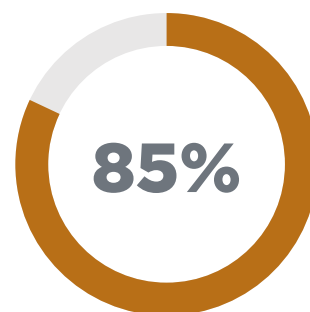
Less impressively, 50% of respondents are still stuck at the internal discussions stage for confidence level.



Almost two-fifths (39%) intend to use the Cost of Capital approach to measure IFRS 17 risk adjustment



Nearly three-quarters (72%) of organisations have not yet measured their risk adjustment confidence levels.

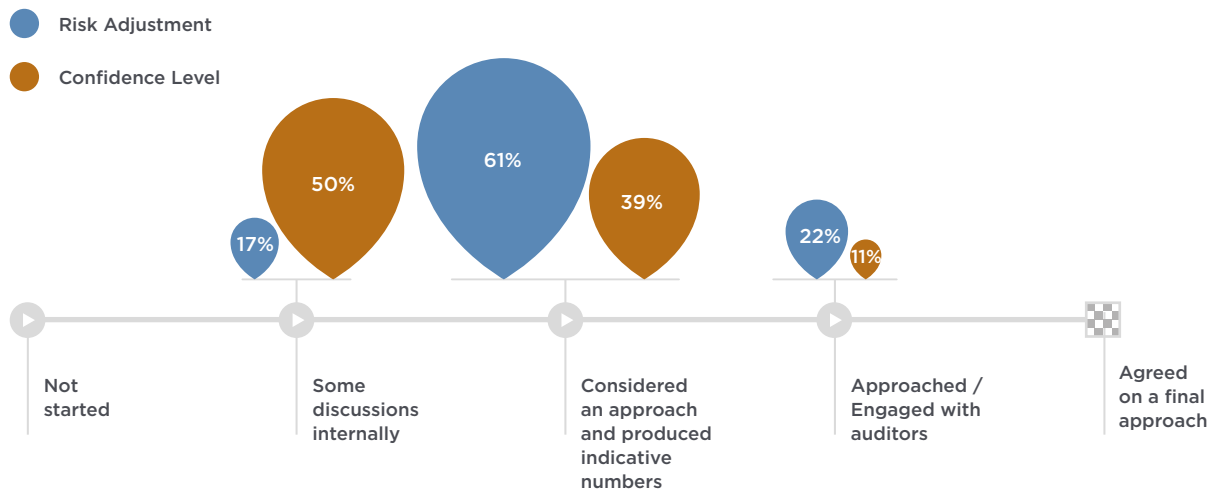


The most popular confidence level being targeted by organisations using the VaR approach is 85%.

Readiness for measuring risk adjustment and confidence level

We asked respondents to identify the progress they have made to date towards measuring their IFRS 17 risk adjustment and corresponding confidence level.

Q1: What best represents your progress on the measurement of your risk adjustment and confidence level?



All respondents told us that they have started discussions on both the risk adjustment and the confidence level, though no-one has, as yet, agreed a final approach for either.

As expected, more progress has generally been made on the risk adjustment than on the confidence level, with more than **80%** in both regions having progressed beyond initial discussions. With just over two years to go until implementation, only **30%** of respondents in South Africa and **20%** in the UK/Europe have started engaging with auditors on the risk adjustment.

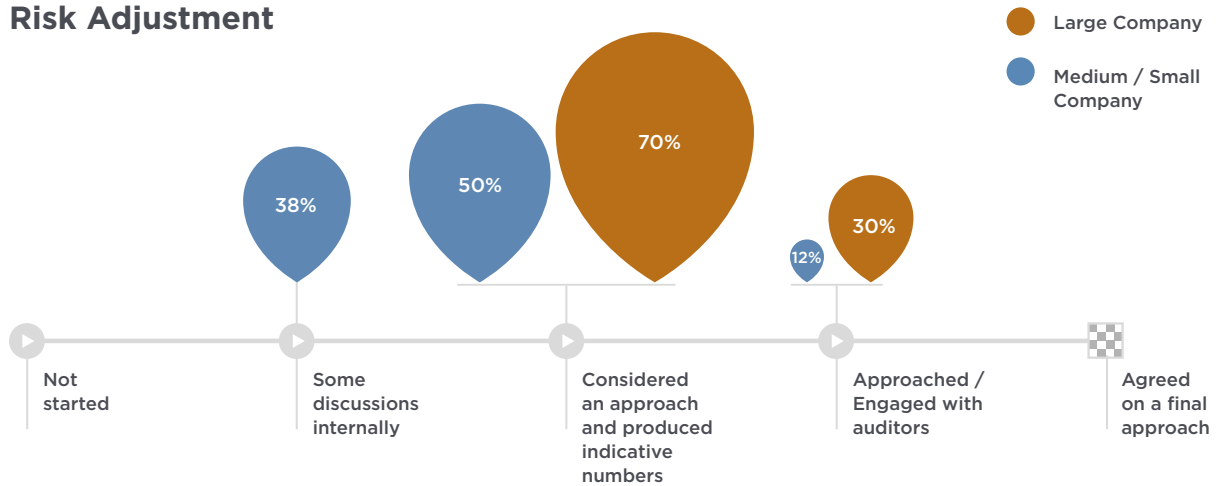
UK/European respondents seem to be further progressed than their South African counterparts on the confidence level, with almost **20%** having started engaging with auditors. South African companies are either still conducting internal discussions (around **70%**) or testing a provisional approach (around **30%**).

This could be due to the more extensive use of internal models in the UK/Europe, which means that those companies may already have operational stochastic models in place with which to derive confidence levels.

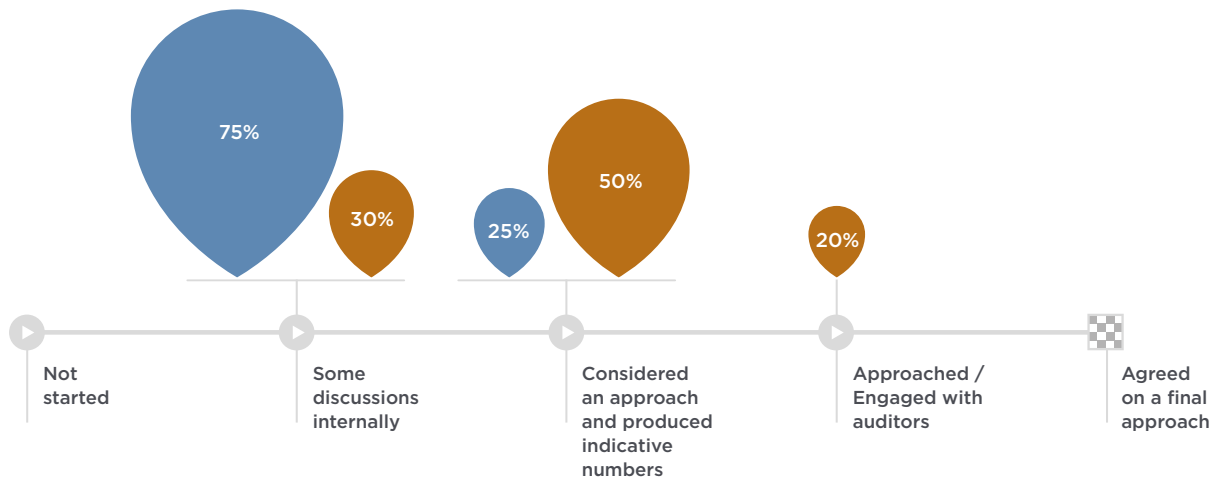
The discrepancy between progress made on the risk adjustment and its associated confidence level suggests that the latter has been reserved for later discussion and will be addressed once the major IFRS 17 elements have been decided. This thinking may indicate that insurers are waiting to see whether there will be more guidance forthcoming on this area of the standard, or what the rest of the industry will be doing.

Q1: What best represents your progress on the measurement of your risk adjustment and confidence level? (Analysed by size of company)

Risk Adjustment



Confidence Level



Readiness also appears to vary by company size, with larger organisations being further advanced in agreeing the methodology for measuring both the risk adjustment and the associated confidence level.

As will be highlighted throughout this paper, the methodologies selected for risk adjustment and confidence level will depend on each other to a large extent, and may sometimes produce conflicting views. What is tractable, practical

and accurate for the one may not be so for the other.

It is therefore essential that insurers start thinking of these two requirements in parallel. The fact that none of our respondents reported having agreed a final approach for either measure means that there is still scope to do so. Current ideas on the risk adjustment may shift based on further research, advice, or the behaviour of other players in the market.

Preferred risk adjustment methodology

Selecting a suitable methodology for the risk adjustment calculation is one of the more complex decisions insurers need to make in their IFRS 17 preparation and depends on many factors, including:

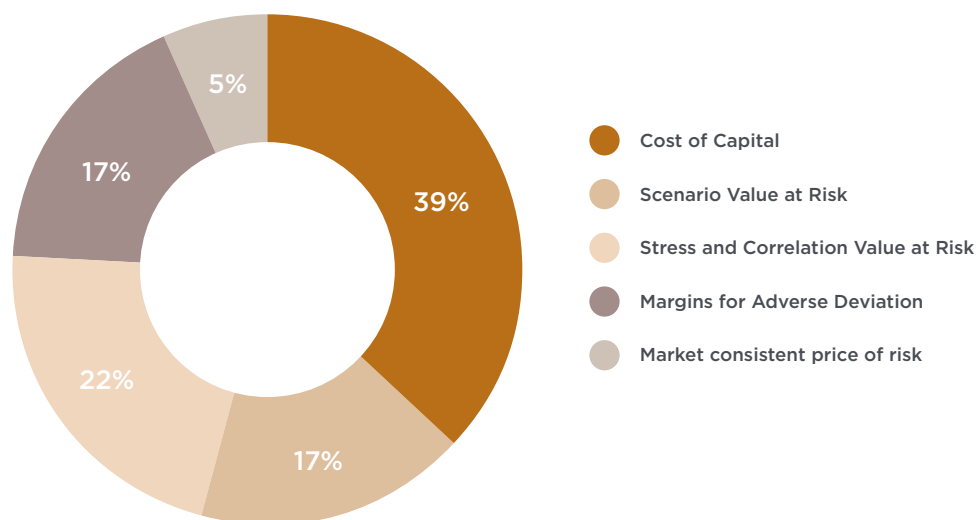
- IFRS 17 requirements
- Accuracy, complexity, and ease of communication
- Use of existing assumptions and processes
- Availability of data, models and modelling resources
- Consistency with other reporting bases
- Stability of results
- Underlying risk profile
- Impact on IFRS 17 profit signature

An additional factor to consider is the requirement to disclose the corresponding confidence level.

Insurers may calculate the risk adjustment and then the corresponding confidence level using, for example, a Cost of Capital approach. Alternatively they may choose a confidence level based on their risk profile and derive the corresponding risk adjustment using a Value at Risk (VaR), Margins for Adverse Deviation, or similar approach.

We asked our sample to indicate their preferred risk adjustment methodology from a list of options.

Q2: Which methodology does your organisation intend to use to measure IFRS 17 risk adjustment?



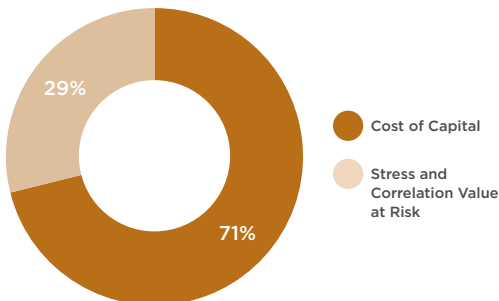
Nearly two-fifths (**39%**) of respondents intend to use the Cost of Capital approach, with almost all the remainder preferring Stress and Correlation VaR (**22%**), Scenario VaR and Margins for Adverse Deviation (both **17%**).

Participants were asked if they would use a different methodology for less material

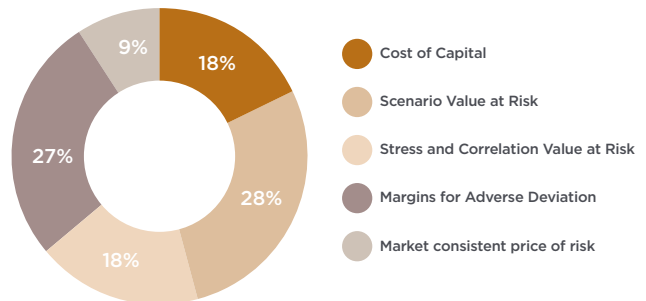
products. One respondent said a simpler approach is being investigated, while another, which plans to use the Cost of Capital approach for their main product lines, will use Value at Risk for their less material product lines. The remainder do not intend to use different approaches.

Q2: Which methodology does your organisation intend to use to measure IFRS 17 Risk Adjustment? (Analysed by region)

South Africa



UK/Europe



Analysing the responses by region reveals some notable differences. The majority of South African insurers surveyed (**71%**) plan to use the Cost of Capital approach, with the remainder opting for a Stress and Correlation VaR approach.

Responses from participants in the UK and Europe were more varied. Scenario VaR and Margins for Adverse Deviation were the most popular methodologies, selected by **28%** and **27%** of respondents respectively. The remainder selected Cost of Capital, Stress and Correlation VaR (**18%** each) and Market Consistent Price of Risk (**9%**).

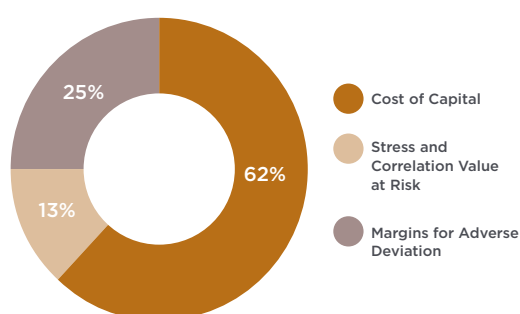
Again, this discrepancy may partly be explained by the fact that many UK/European

insurers developed internal models for their Solvency II calculations, and hence may already have the stochastic models to allow a Scenario VaR or Margins for Adverse Deviations approach. Also, the low interest rate environment in the UK/Europe results in relatively large Cost of Capital results for annuities, which would make this approach less popular.

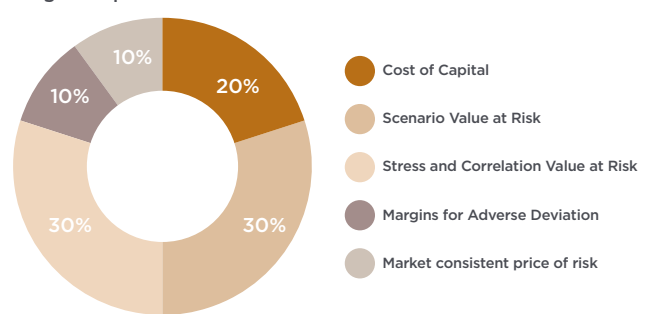
South African companies, on the other hand, have mostly adopted the Standard Formula for SAM, and the conceptual proximity of the Cost of Capital-based SAM risk margin to the IFRS 17 risk adjustment may explain the preference for a Cost of Capital approach.

Q2: Which methodology does your organisation intend to use to measure the IFRS 17 Risk Adjustment? (Analysed by size of company)

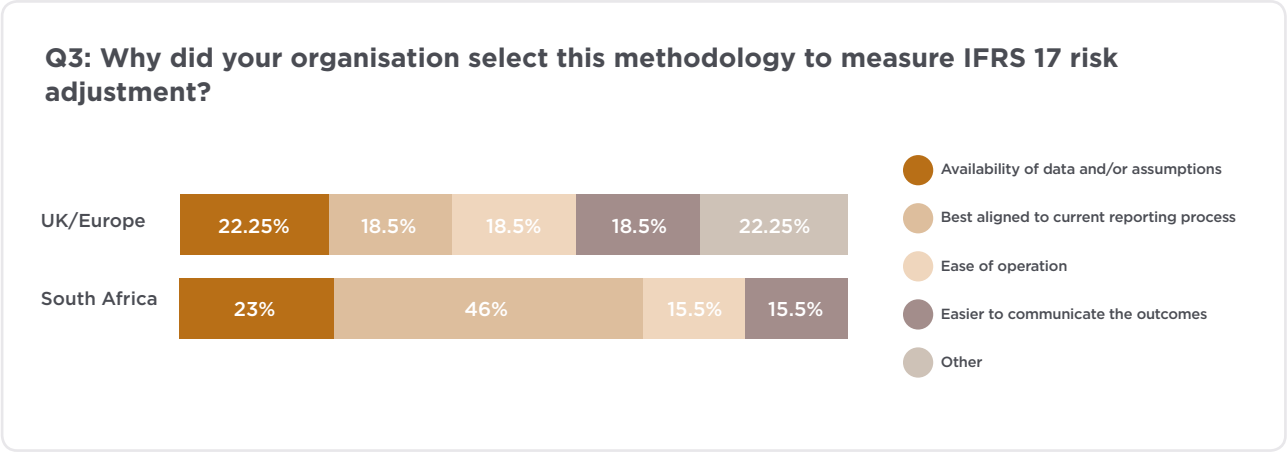
Small / Medium companies



Large companies



Cost of Capital was also the most popular choice for small and medium companies which, again, may be reflective of these companies' preference for the Solvency II or SAM standard formula as opposed to an internal model. We then asked respondents to explain the rationale for their preferred methodology by choosing from a range of options.



Organisations' preference for the Solvency II or SAM standard formula is also reflected in the reasons respondents gave for their chosen methodology.

Stress and Correlation VaR tended to be selected for its ease of operation and communication of outcomes. A variety of reasons were cited for choosing Scenario VaR and Margins for Adverse Deviation, including some not offered in the standard responses provided.

These 'other' reasons were: for the Scenario VaR, consistency (with group methodology and between life and non-life business), and Cost of Capital being seen as too volatile.

This may hint at a further explanation of the current difference in approach between the two regions. UK/European insurers, perhaps being further advanced in their methodology discussions, might have considered and then dismissed Cost of Capital as a viable approach

once its drawbacks became clear. It is possible that some South African companies will follow a similar thought pattern.

Across the board, insurers seem to prioritise pragmatism in their risk adjustment methodology. Alignment to current reporting processes, availability of data and assumptions, and ease of communication were commonly cited as reasons for selecting a given approach.

No respondents indicated that a methodology was chosen specifically to reflect the company's underlying risk profile, or due to its impact on their profit signature.

Preferred approach to allocation of risk adjustment

The Solvency II or SAM risk margin only needs to be measured and disclosed for each line of business. The risk adjustment, however, needs to be measured at least at an IFRS 17 group level to allow calculation of the Contractual Service Margin (CSM) or Loss Component at initial recognition, and so enable the disclosure of its run-off over time.

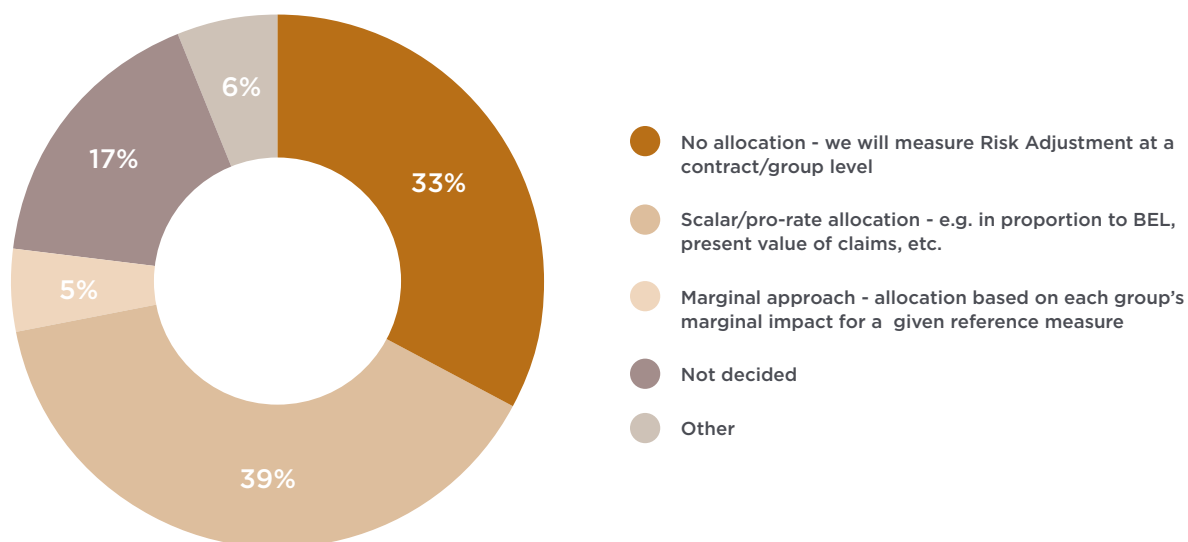
The risk adjustment may also need to be measured at a contract level in order to calculate fulfilment cash flows and CSM, and hence assess contract profitability, at initial recognition.

Those insurers considering using existing models to calculate a Cost of Capital-based IFRS 17 risk adjustment will need to ensure that the results are produced at the correct level of granularity, or that a technique to allocate the risk adjustment has been agreed.

Insurers opting for other approaches may also need to consider this question, as their selected approach may not naturally lend itself to producing results at the required level of granularity.

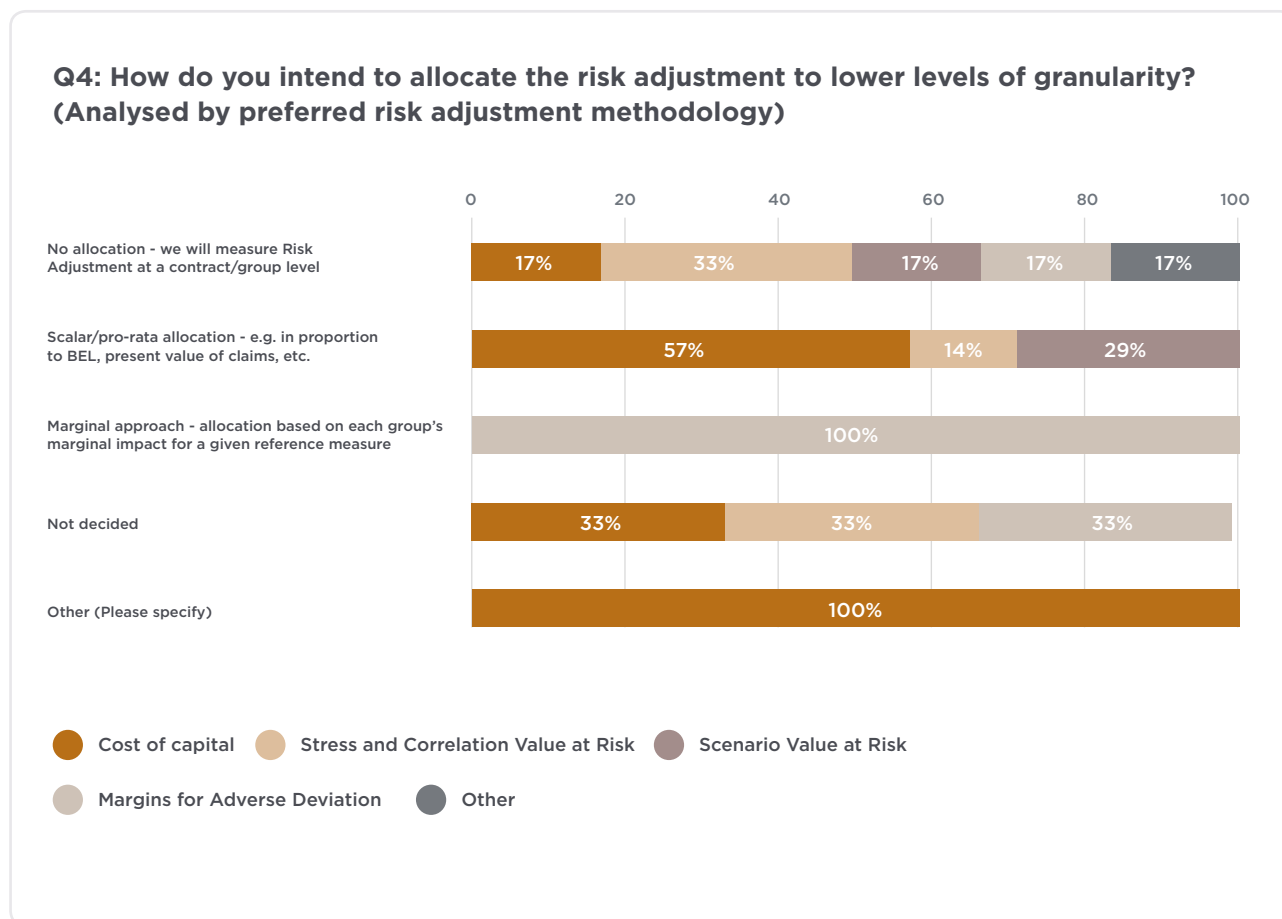
The implications of this methodology decision may be far-reaching. Because the risk adjustment forms part of the CSM calculation at initial recognition, the size of the risk adjustment for a particular contract will be a deciding factor when assigning a profitability grouping. An allocation which is not properly thought through may see profitable contracts subsidising onerous contracts and spillover effects on the organisation's financial statements.

Q4: How do you intend to allocate the risk adjustment to lower levels of granularity?



We asked respondents to select the methodology which best matched their current preference for the allocation of the risk adjustment.

Most respondents are either calculating their risk adjustment at the appropriate level already (**33%**) or using a pro-rata allocation to scale the risk adjustment down (**39%**).



Insurers who do not need an allocation approach, i.e. who will measure their risk adjustment at the appropriate level, are mostly those who plan to use a VaR or Margins for Adverse Deviation approach for their risk adjustment.

Most of those using a Cost of Capital or a Scenario VaR will use some form of pro-rata allocation, such as using the proxy values already utilised in the risk margin calculation.

The marginal approach was not as popular as the others, probably because allocation may be cumbersome to execute for the entire business for each reporting period.

Confidence level

Organisations' initial preparations have focused on measurement. However, disclosure requirements, and in particular the risk adjustment confidence level, are also essential to ensure compliance with IFRS 17¹.

Although this requirement may not seem, given its brief mention in the Standard, as significant as the risk adjustment itself, the confidence level and the risk adjustment are dependent on each other.

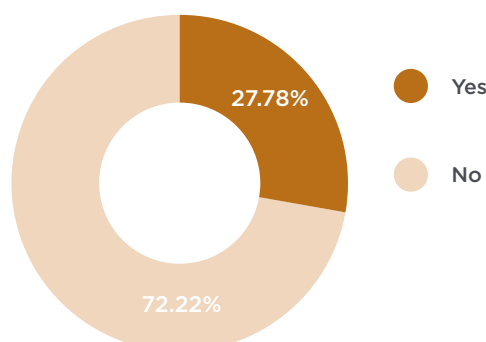
The confidence level may be interpreted as the probability that the change in the present

value of future cash flows over a defined time horizon will be lower than the risk adjustment.

Once insurers start discussing how to approach the confidence level, they may find themselves needing to rethink their work on the risk adjustment.

A tractable, pragmatic risk adjustment methodology may result in a volatile confidence level result over time. It is therefore important that insurers consider the confidence level disclosure requirement in conjunction with any work being done on the risk adjustment and related methodology.

Q5: Has your organisation measured the confidence level corresponding to your risk adjustment, as required by IFRS 17 paragraph 119?



Nearly three-quarters (**72%**) of survey respondents said that their organisations had not yet measured their risk adjustment confidence level. These results were consistent across all regions, which is interesting given the variance in progress and readiness described above, but may be due to organisations preferring first to finalise their risk adjustment methodology, or waiting to see what the rest of the industry will do, before fully committing to a confidence level.

For insurers using a VaR approach for their risk adjustment, the confidence level would have been known from the outset (however that confidence level has been determined).

Those using other approaches, such as the Cost of Capital technique, need to find a method to determine the associated confidence level. If it transpires that the calculations to do this are too onerous, or the results produced too volatile, they may need to rethink their risk adjustment approach altogether.

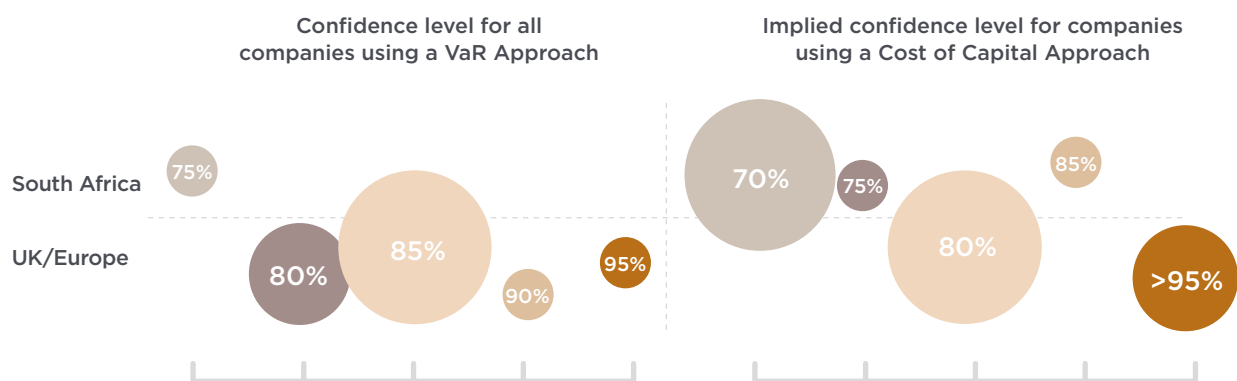
¹ "An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique." IFRS 17 Insurance Contracts – Paragraph 119

Because the confidence level will form part of financial reporting disclosures, it will be considered and analysed by both internal and external stakeholders, who will interpret it as an indication of the variability of the organisation's cash flows. It is likely that business analysts, shareholders, investors and executives will value disclosures that are consistent over time and easy to understand.

As such, any volatility in the reported figure will raise concerns, and so the confidence level

targeted is an important decision for insurers. We asked survey respondents using the VaR approach what confidence level they intended to use for their measurement of risk adjustment. For comparison we calculated the implied confidence levels for those organisations using the Cost of Capital approach by processing their capital requirement values through MBE's *Risk Analyser*² tool.

Q6: What confidence level do you intend to use for the measurement of the risk adjustment?



In the graph above, the percentage value within each circle represents the confidence level. The size of the circle represents the number of respondents targeting that confidence level, with the position representing geographic region.

All values in the graph are based on a one-year time horizon, with the exception of one UK/European VaR respondent in the **85%** bracket who provided an ultimate run-off confidence level. The one-year confidence level would be higher due to the higher degree of uncertainty

over the longer time period of the ultimate run-off.

Three-quarters (**75%**) of respondents using the VaR approach are targeting a confidence level of between **80%** and **90%**, with the remainder going for **75%** or **95%**. Confidence levels were mostly set based on current industry benchmarks and on the results of the testing and scenarios performed as part of IFRS 17 transition work. The most popular confidence level is currently around **85%**.

² For the purposes of this exercise Risk Analyser was used to calibrate a stochastic distribution using the underlying Solvency II/SAM assumptions.

By way of comparison, the implied confidence levels under the Cost of Capital approach at valuation date are generally lower than those aimed for by those using a VaR approach, with the bulk of the results being in the **70%** to **80%** range. Insurers using the Cost of Capital approach will need to decide whether this is desirable. The implied confidence levels tended to be higher for UK/European respondents, possibly due to the low interest rate environment and the longer average durations of contracts in this region. There were some very high implied confidence levels of around **99%**. This was due to risk drivers used in the Cost of Capital calculation that do not run off as quickly as actual capital would do.

Given the limited progress on the confidence level reported to date (see Question one), we believe that the responses to this question will change as methodology decisions evolve and market practices develop, with the final confidence level eventually targeted by insurers most likely being decided by industry consensus over time.

Respondents using a VaR approach were asked to explain their reasoning for targeting their selected confidence level. The responses indicated a strong desire from insurers to be consistent with what the rest of the market is doing, once again reinforcing the potential value of industry-wide collaboration.

Confidence level measurement and disclosure

Confidence levels need to be qualified by the period over which they apply. For example, the Solvency II regime aims for each insurer to have at least a **99.5%** probability of surviving the next year (i.e. having assets in excess of its liabilities in one year's time). This is the basis on which the Solvency Capital Requirement (SCR) is calculated.

The IFRS 17 Standard, however, does not provide clear guidance regarding time horizons. This is reflected in the ambivalence insurers report about choosing between a one-year or ultimate (lifetime) run-off for the distribution of losses for their risk adjustment.

In addition, there may be uncertainty around what this concept actually means and how best to communicate it to stakeholders.

There is a general desire in the market that the confidence level be measured and disclosed over a one-year time horizon, with insurers

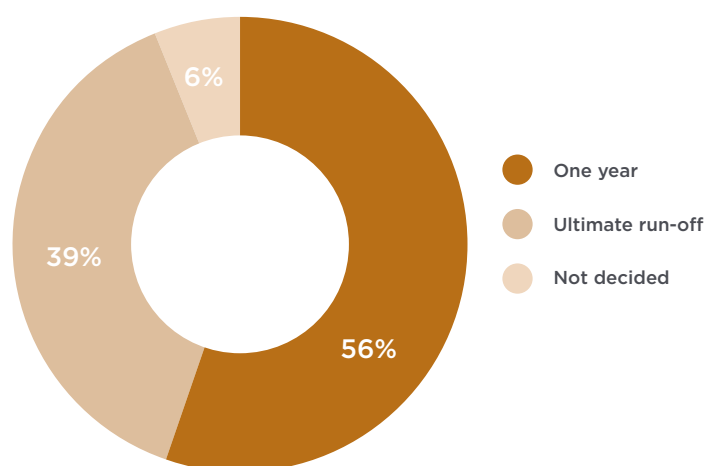
hoping for an indication from their auditors and the IASB that this will be permissible.

And for good reason. A lifetime run-off is difficult to measure, as it requires stochastic modelling over the full term of the business, including relevant path dependencies. A one-year confidence level, on the other hand, can be calculated more easily using techniques that are already well understood within the industry.

Some insurers may therefore choose to measure the confidence level over one-year and translate this into a confidence level that applies to the lifetime of the business, e.g. a **90%** confidence level over a one-year period may equate to a **75%** confidence level over the lifetime.

For this to work, a standard industry methodology would need to be agreed, an exercise that would be far from straightforward.

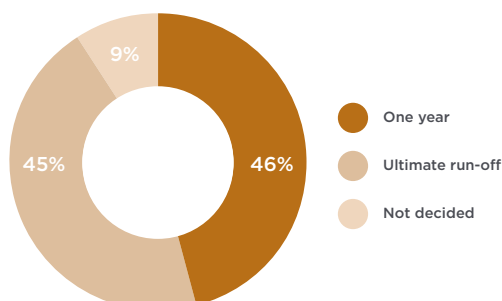
Q7: What time horizon is being considered in the distribution of losses when measuring and disclosing the risk adjustment?



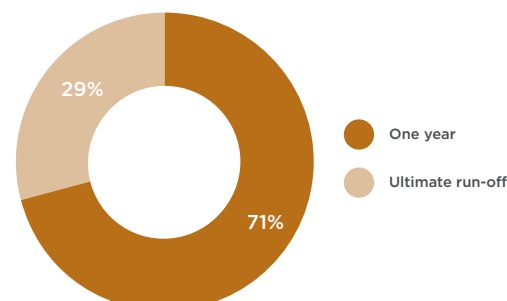
The industry's preference for a one-year time horizon is reflected in our survey respondent's answers. The majority have opted for the pragmatic approach of a one-year confidence interval.

Q7: What time horizon is being considered in the distribution of losses when measuring and disclosing the risk adjustment?

UK/Europe



South Africa



There is a division of opinion about the preferred approach between South Africa and the UK/Europe, with the former clearly favouring the pragmatic one-year approach and the latter equally divided. A small number of UK/European respondents plan to have different approaches between measurement and disclosure (i.e. one-year for measurement and ultimate run-off for disclosure or vice versa).

There is, however, general consistency in time horizon between the measurement and disclosure of the risk adjustment and its confidence level.

Some respondents expressed a desire to disclose over a one-year basis, but said they would be open to providing additional disclosures or an ultimate run-off depending on what the rest of the market plans to do.

In both regions this uncertainty regarding the appropriate time horizon could be reflective of the lack of clarity in the IFRS 17 Standard.

The fact that the methodology used to calculate the risk adjustment is at the discretion of each insurer impairs the ability of users of financial statements to compare insurers. Disclosing the corresponding confidence level, in theory, should solve this problem by making insurers more comparable. The higher proportion of UK/European respondents aiming to measure and disclose

the confidence level over an ultimate run-off time horizon may be influenced by their relatively higher level of engagement with auditors. Seemingly, the IASB, via auditors, is conveying the message that an ultimate run-off time-horizon measurement is preferable.

While the original intention of the IASB was to use the confidence level to increase comparability, a requirement to disclose it on an ultimate run-off basis dilutes this intention. There is not a clear or straightforward methodology to perform such a calculation, which, as with the risk adjustment, leaves the methodology choice to the discretion of the insurer. So, in addition to being complex to calculate and difficult to communicate, a confidence level calculated on an ultimate run-off basis does not facilitate comparability across insurers.

The general desire in the market to use a one-year run-off for the confidence level is not only rooted in pragmatism, but also reflects the original intention that the IASB had when introducing the confidence level as a metric which enables comparison across insurers.

Point estimate

Paragraph 119 of the IFRS 17 Standard states that, “[a]n entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk”.

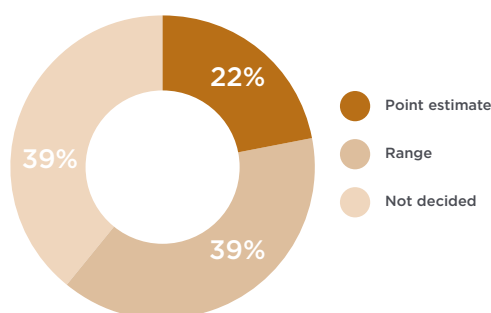
Insurers are questioning whether that means that the confidence level should be disclosed as a point estimate or a range.

A point estimate creates the impression of a higher degree of accuracy than a range. Insurers may prefer to present their confidence level as a range to reflect the uncertainty present in the disclosure or to give themselves some leeway in their confidence level measurement. But they

may also be led by further guidance from the IASB, the requirements of analysts, and market practice.

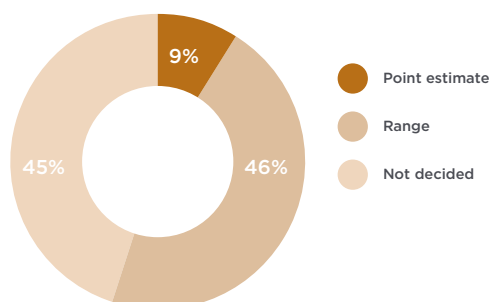
When we asked our respondents which approach they intended to adopt, a range was preferred by **39%** with the same proportion undecided, and **22%** intending to use a point estimate.

Q8: Do you intend disclosing the risk adjustment confidence level as a point estimate or as a range?

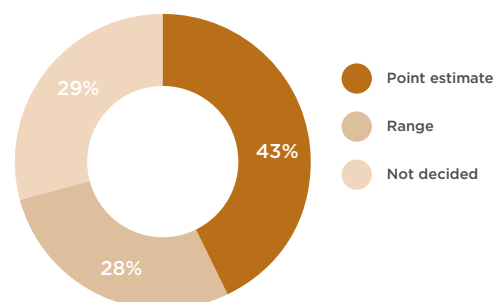


Q8: Do you intend disclosing the risk adjustment confidence level as a point estimate or as a range? (Analysed by region)

UK/Europe



South Africa



Analysing by region revealed some interesting differences. In the UK/Europe, responses were more or less evenly split between range (**46%**) and undecided (**45%**), with a small proportion (**9%**) having decided to disclose a point estimate.

In South Africa, on the other hand, almost half the respondents (**43%**) have decided to disclose a point estimate, with **28%** opting for a range and the remaining **29%** still undecided.

It seems, as with much in IFRS 17, the jury is still out as insurers await further clarity from IASB and the emergence of an industry-wide agreement on a standard approach.

We hope this report helps to kick-start the conversations and collaborations required and look forward to MBE Consulting playing a central role in making them happen.

Conclusions and recommendations

Insurers are adopting a wait and see approach

Insurers have yet to make their final decisions regarding the risk adjustment and its associated confidence level as they await further guidance from regulatory organisations and indications of what their industry peers have decided.

Some insurers may also be delaying committing to a particular approach until they've made decisions regarding other components of their IFRS 17 methodology.

Pragmatism is key

Given the complexity of the risk adjustment concepts alone, insurers seem to be prioritising methodologies and calculations that use existing models and processes and that are easy to communicate with stakeholders.

This approach is likely to be a pragmatic decision, based on the availability of resources and recognises the needs of the audience for the eventual disclosures, e.g. auditors, business analysts etc., who value consistency and user-friendliness.

Alongside choice of coverage units, the risk adjustment run-off is the primary driver of an insurer's IFRS 17 profit signature. This will need to be borne in mind when final methodology decisions are made.

The Cost of Capital approach is popular...for now

The Cost of Capital approach remains popular, especially in South Africa and for small and medium-sized insurers who may not have access to an internal model.

As the confidence level calculations come to the fore, however, the Cost of Capital approach may become less attractive as insurers struggle to calculate and explain confidence levels which fluctuate over time and which may be lower than the industry average.

The confidence level is not yet fully understood

There is still uncertainty about the confidence level as a concept and how it should be measured and disclosed. This uncertainty is reflected in the level of progress seen in this area.

The uncertainty is driven - at least in part - by the lack of guidance provided in the IFRS 17 Standard. Insurers using a VaR approach have not finalised their targeted confidence level, and those using other methods may still be seeking a solution to help them translate their risk adjustment into its associated confidence level.

It is also not clear whether the confidence level should apply to a single year or the ultimate run-off of the business. Trying to measure and disclose the latter is both computationally onerous and conceptually difficult to understand and communicate. If this decision is to be determined by market consensus rather than regulatory guidance, we would urge companies to lobby for a one-year approach.

Patterns differ by region and size

There are differences in progress and methodology between the UK/Europe and South Africa, as well as between large and small to medium-sized insurers. These differences are likely to be related to the availability of internal stochastic models.

There is an appetite for industry-wide collaboration

The willingness of many of the most prominent insurance companies in the UK/ Europe and South Africa to participate in our survey demonstrates an openness to sharing knowledge, experience and questions with the rest of the industry.

We encountered remarkable enthusiasm from respondents to understand and align with the methodologies adopted by their peers. We believe there is an appetite for greater industry collaboration in the lead up to 2023 and look forward to playing our role in facilitating that.

2023 is approaching, but there is still time to find the best solution

Even with the recently announced changes to the timetable, IFRS 17 implementation is fast approaching. But there is still time for insurers to investigate and finalise the most appropriate risk adjustment methodology for their business.

There are also user-friendly tools available to perform the calculations required. MBE can provide advice and resources for each aspect of your IFRS 17 implementation programme, and our **Risk Analyser** tool was custom-built to address the confidence level calculation.

If you would like to discuss this report or find out how we can help you with your IFRS 17 implementation and risk adjustment decisions, please get in touch with your nearest MBE Consulting office.

| About MBE Consulting

MBE Consulting is an actuarial consultancy with a focus on transforming actuarial performance in the life insurance sector.

With offices in the UK and South Africa and a global presence, we have become trusted advisors to small, medium and large insurance and reinsurance firms in the UK, Europe, South Africa, the Middle East, Australia and Asia.

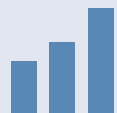
Our unique approach blends actuarial expertise, lean process development and extensive knowledge of relevant actuarial technology to offer holistic and sustainable solutions to our clients.

A diverse, high-performing team



22

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254

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11

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We transform actuarial performance in the insurance sector

**Improve
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models and systems**



**Maximise accuracy and
reduce operational risk**

**Assess the impact
of regulatory changes**



**Ensure regulatory
compliance**

| Thought leaders in IFRS 17

Since 2017, we have been thought leaders in the IFRS 17 space, contributing to numerous industry publications and helping clients around the world prepare for IFRS 17 implementation.

We have created two flexible, spreadsheet-based IFRS 17 tools which can be customised to your organisation's risk profile and product offering.

IFRS Assess is MBE Consulting's modelling and simulation tool that helps you understand the impact of IFRS 17 on your business. It can be configured for both the General Model and Variable Fee approaches and provides valuable insights to teams affected by the regulatory changes.

Risk Analyser helps you construct confidence intervals for the risk adjustment calculated under IFRS 17. It uses statistical techniques to produce a total loss distribution function based on your inputs. **Risk Analyser** can be customised to your organisation's risk profile.

You can use these powerful and intuitive tools individually or as one integrated package.

For more details visit our [website](#) or contact your nearest MBE Consulting office.



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| Appendix

Definitions used in this document

Cost of Capital: calculated as the product of a cost of capital rate and the sum of the present values of the capital requirement for non-financial risk at each future point in time. Insurers based in countries with capital-based reporting regimens (e.g. Solvency II or SAM) may find this approach appealing due to its similarity to their existing Risk Margin calculations; hence helping to ensure consistency and save resources.

Stress and Correlation Value at Risk: calculated as the aggregation, via a correlation matrix of the differences between the PVFCFs including margins and best estimate PVFCFs. This method may be used by an insurance company which already reports its economic capital using a similar approach, again ensuring consistency and saving resources.

Scenario Value at Risk: an alternative VaR approach, where a combination of assumptions is changed simultaneously. Under this approach a single extra run would be required on each contract group rather than a series of stress tests. This would be an attractive approach in cases where modelling resource and capacity are scarce, although determining an appropriate scenario would be a key consideration.

Margins for Adverse Deviation: explicit margins are added to all assumptions, and the amount of the margin over the best estimate is explicitly calculated. This method can be applied in various ways, some of which can be considered for the IFRS 17 risk adjustment.

Market Consistent Price of Risk: the risk adjustment is calculated as the difference between the insurer's best estimate liability and the price for which an independent third party would take on the risk.



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