UHY Andy Bryan
Certified Public Accountants

i.e. Muhanna & co
Actuaries & Consultants

IFRS 17 Conversion Marathon

UHY

IFRS 17 Partnership- UHY Andy Bryan & Muhanna & Co.

With reference to the IFRS 17 conversion process being the talk of the town nowadays, It goes without saying that it requires joint efforts between financial reporting experts and actuarial specialists from the insurance industry. Having said that, we at UHY Andy Bryan & i.e. Muhanna & Co, have sealed an IFRS 17 partnership/joint venture for serving and supporting insurance companies in Lebanon and in the region from all IFRS 17 perspectives. These two Lebanese firms are key players in their respective fields in the Lebanese Insurance Industry and the region whilst they are supported by UHY International Insurance Working Group (based in London) and FIXAGE – Actuaries et Consultants (based in Paris) for quality assurance purposes.

UHY Andy Bryan a growing and reputable CPA and consulting firm, provides assurance and consultancy services for international and local companies operating in Lebanon and the Middle East.

The firm offers a wide range of experience in a variety of industries and sectors, some of which have unique financial reporting or auditing requirements, such as insurance, banks, private equity funds, not-for-profit organisations.

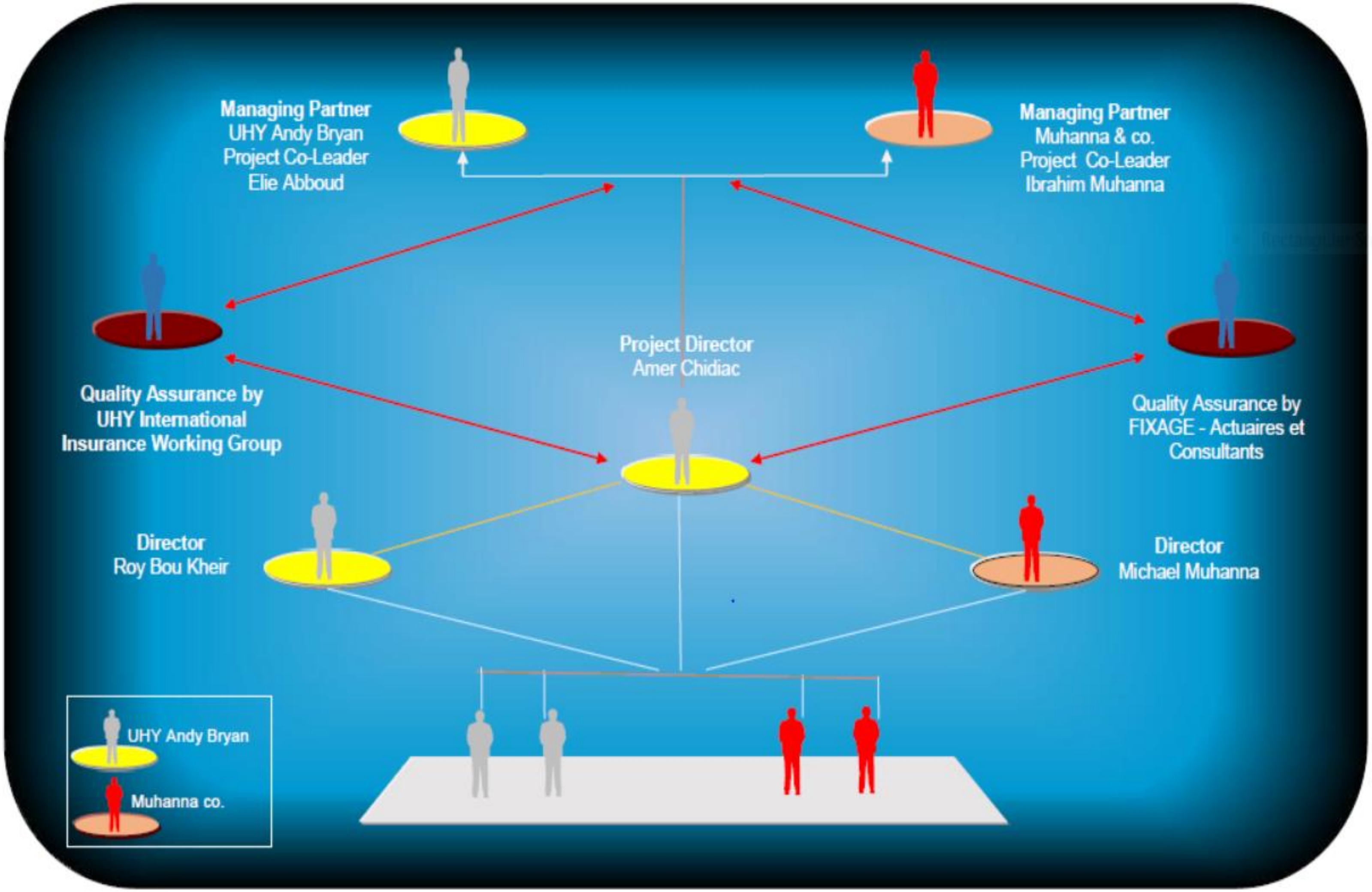
The firm had considerable input in setting the Lebanese Insurance Regulatory Accounting Principles and assisting different Lebanese insurance companies to comply with IFRS 4 requirements. The firm is a leader in providing training programs for the insurance industry in Lebanon and the Middle East such as IFRS 4 implementation, IFRS 17 on insurance contracts, insurance auditing and regulatory reporting, IFRS 7 and IFRS 9.

i.e. Muhanna & co. is the oldest independent actuarial consulting firm in the Arab World and East Africa, the firm has been providing consulting services since 1986.

Muhanna have advised many of the largest insurance and reinsurance companies in the Middle East as well as many of the regulatory bodies that govern the industry.
The firm have experience with companies that write all lines of business: Life Insurance/Family Takaful,

The Muhanna Group of companies' scope of work is not limited to actuarial services but also to compliance, strategic advice, capacity building and rating.

IFRS 17 Partnership- UHY Andy Bryan & Muhanna & Co.

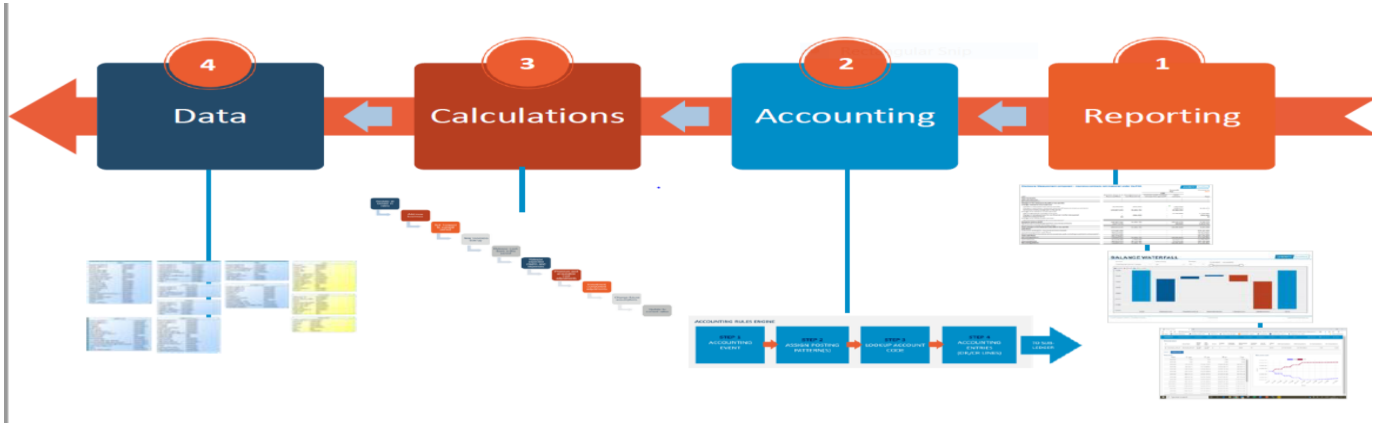


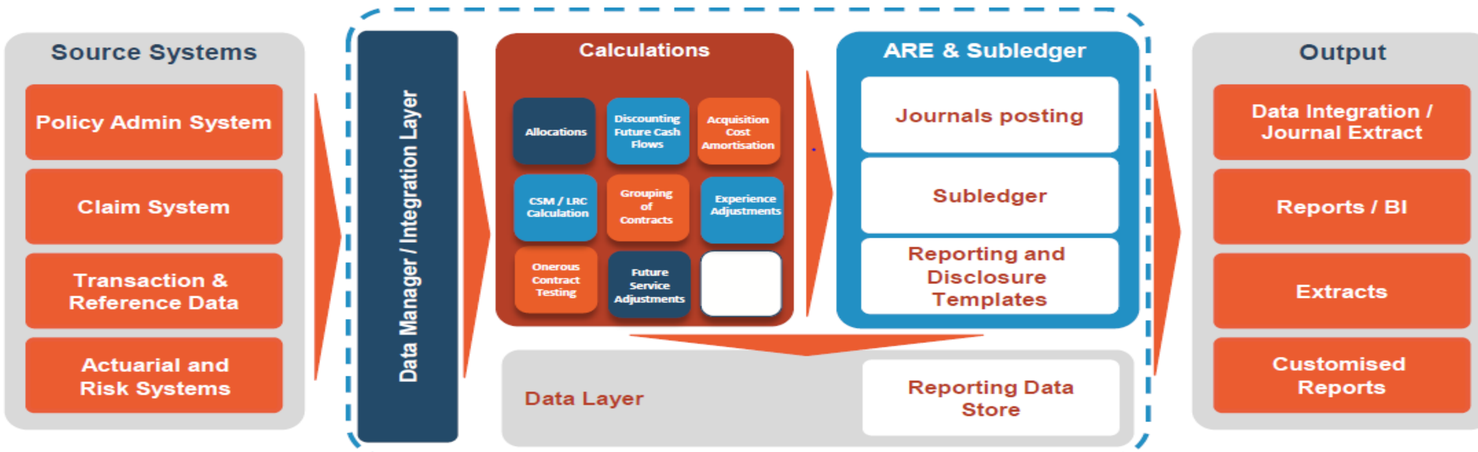
OUR Exclusive Teaming Agreement with Green13- IRIS IFRS 17 Engine for Lebanon

IRIS is a total IT solution that fully embraces and covers the actuarial, financial and accounting dimensions of IFRS 17 from all technical and non-technical perspectives. IRIS is developed by Green13, an IT company heavily specialized in the insurance sector, based in Ireland.

- IRIS - IFRS 17 Engine is currently under the implementation for many insurance companies in different countries such as Ireland, Cyprus, Saudi Arabia, Qatar, the UAE and others for which Deloitte has an exclusive teaming agreement with Green13 for those countries. Last but not least, Green13 is one of the members of the IFRS 17 working group with SAMA, the insurance regulator in the Kingdom of Saudi Arabia.

Required IFRS 17 IT Architecture- IRIS has it all





IFRS 17- Setting up the Scene in Line with Leading Practices

IFRS 17 KEY PHASES

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Gap Assessment	Financial Impact Assessment	Design	Implementation	Post - Implementation

Project Management & Quality Assurance

IFRS 17

Should any insurance/reinsurance company not be up and running from all IFRS 17 perspectives by end of 2022, the following negative consequences will take place:

- Disclaimer audit opinion by the Company's external auditor as IFRS 17 is related to more than 80% of the financial statements line items of any insurance companies from all perspectives be it monetary amount be it presentation of the financial statements be it disclosures and notes thereof;
- Potential withdrawal or suspension of the Company's insurance license by the insurance regulator;
- Credit rating withdrawal by the Company's credit rating agency;
- Possibility of non-renewal of reinsurance treaties by the Company's related reinsurers;
- Potential income tax and other related issues with the MOF due to the fact that the related financial statements are disclaimed by the external auditors and as such there will be penalties being imposed thereby;
- Bad reputation in the insurance market and as such this will shake the trust and confidence of all stakeholders be it internal ones or be it external ones; &
- Many other related consequences.

IFRS 17 Status- Lebanon vs. Countries in the Region

Country	Phase 1	Phase 2	Phase 3	Phase 4 & 5
KSA	Finalized	Finalized	Finalized	Phase 4 has to be finalized by end of 2021 & phase 5 by 2022
UAE, Qatar & Bahrain	Finalized	Finalized	Under progress and has to be finalized by end of 2021	End of 2022
Jordan	Finalized	Under Progress		
Lebanon	Except for the international and regional insurance companies, no serious action has been taken in this regard			

IFRS 17- Exponential & Dynamic Impact on Insurance Companies

- Actuarial reserve estimation and related calculations;
- Accounting process along with the related T-accounts, journal entries, chart of accounts, and mapping;
- Financial Statements Closing Process “FSCP”;
- Financial statements presentation and notes/disclosures thereof;
- Financial/ratio analysis of the business performance of insurance companies;
- Management reporting package, KPIs and KRIs;
- Budgeting process;
- IT architecture along with the new IFRS 17 Engine;
- Insurance regulatory/prudential forms/returns;
- Solvency methodology and related calculation; ***Solvency 2*** is on the cards;
- Recapitalization of insurance companies;
- Income tax returns;
- Credit rating methodology by credit rating agency for insurance companies;
- External and internal audit process for insurance companies;
- Risk management methodology;
- Business model and business strategy;
- Many other impacts.

Crossing the Rubicon with IFRS 17

The below are our key recommendations as this IFRS 17 conversion project cannot be carried out at the eleventh hour:

- Top urgent to walk the talk now;
- To establish internally an IFRS 17 steering committee;
- To nominate internally an IFRS 17 Project Manager;
- To roll out internally a proper change management process;
- To appoint a specialized consulting firm to lead the IFRS 17 conversion project with your company as it entails a lot of financial, actuarial and IT complexities;
- To start scoping for IFRS 17 Engine as it is too late to build it internally due to the fact that all reputable IT firms in Europe most of which we have a lot of virtual meetings therewith whereby they have started developing their related IFRS 17 Engines since more than 5 years.

2 New Kids on the Block for Insurance Companies Apart From IFRS 17

1- IFRS 9- Financial Instruments

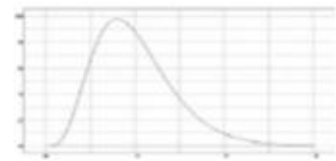
- It is effective by 1 January 2023 for insurance companies with a retroactive impact on the net equity ending 31 December 2022;
- It requires expected loss model using statistical credit risk modelling instead of incurred loss model under IAS 39; &
- It requires different classifications and measurement approaches according to the related business models adopted by the insurance company.

2- IAS 29- Financial Reporting in Hyperinflationary Economies

Back to IFRS 17 & What went wrong with IFRS 4

Lack of comparability between countries

Lack of comparability between companies



Different levels of safety embedded in insurance liabilities calculations

Valuation of insurance liabilities does not have to be cash flow based

Discounting is not always required, typically non-life TPs valued on an undiscounted basis

Insurance liabilities may be calculated based on historical assumptions

IFRS 4 allows for a wide range of insurance liabilities modelling methods that can be applied as long as they satisfy the Liability Adequacy Test.

IFRS 17 Talk of the Town-The Turning Point

One
accounting model for
all insurance contracts
in all IFRS jurisdictions
– replaces IFRS 4

Who is affected?

450
listed insurers using IFRS standards

$13 trillion
total assets of those listed insurers

When?

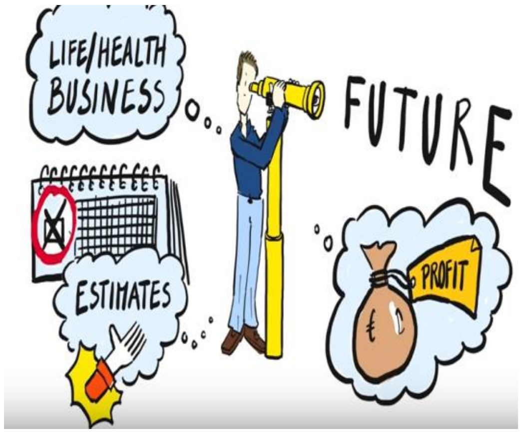
2023
mandatory effective date of IFRS 17

What changes?

More
useful and transparent information

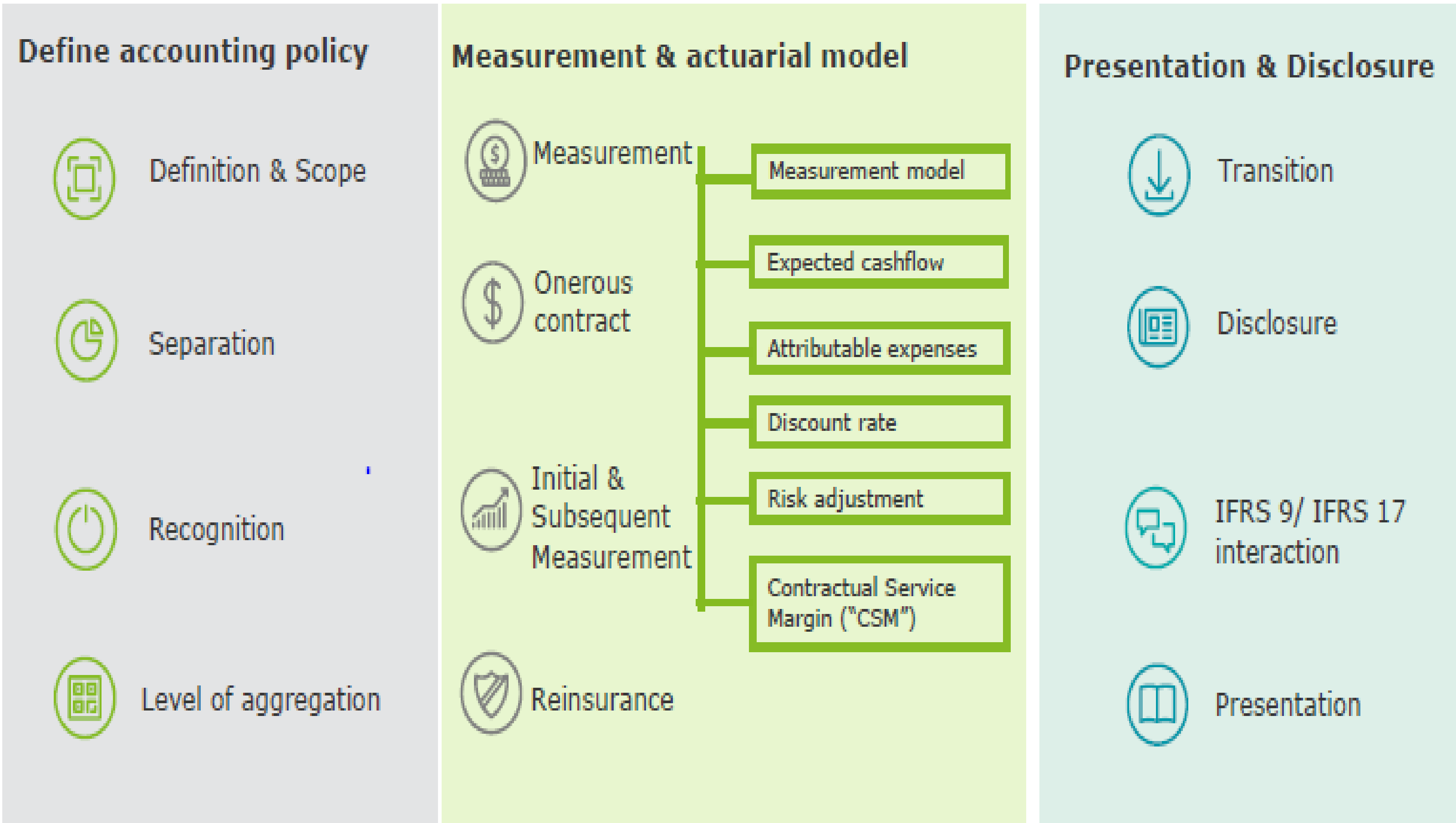
Better
information about profitability

Why IFRS 17- Forward Looking Standard



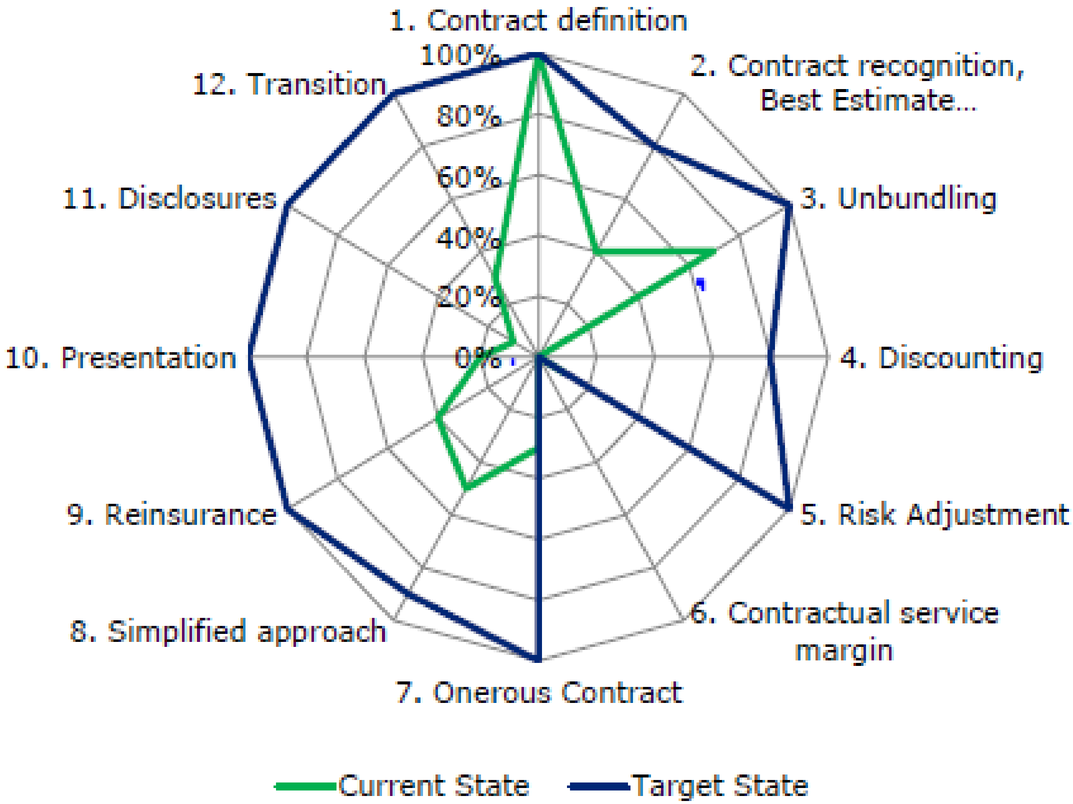
- Following the financial crisis of 2007/2008, banking and insurance regulators, standard setters, Basel committee, IASB and others have realized that the financial statements of financial institutions are not up to the speed with what is going on along with the conclusion that they drew that the provision for impairment of financial assets are too little/too late;
- Having said the above, IFRS 17 & IFRS 9, effective by 1 January 2023, are new kids on the block whereby they are forward looking standards so that the financial performance and the related sustainability of financial institutions will be further reinforced and will be on a more solid ground and most importantly will be as close as possible to the actual financial situation.

IFRS 17- The Big Picture



IFRS 17- On the Radar

The spider diagram below shows a statistical survey representation for the potential major changes that will impact the insurance industry from all perspectives with regards to the full spectrum of IFRS 17:



Insurance Contract Recognition

The **earliest date** of any of the following:*

Typical recognition

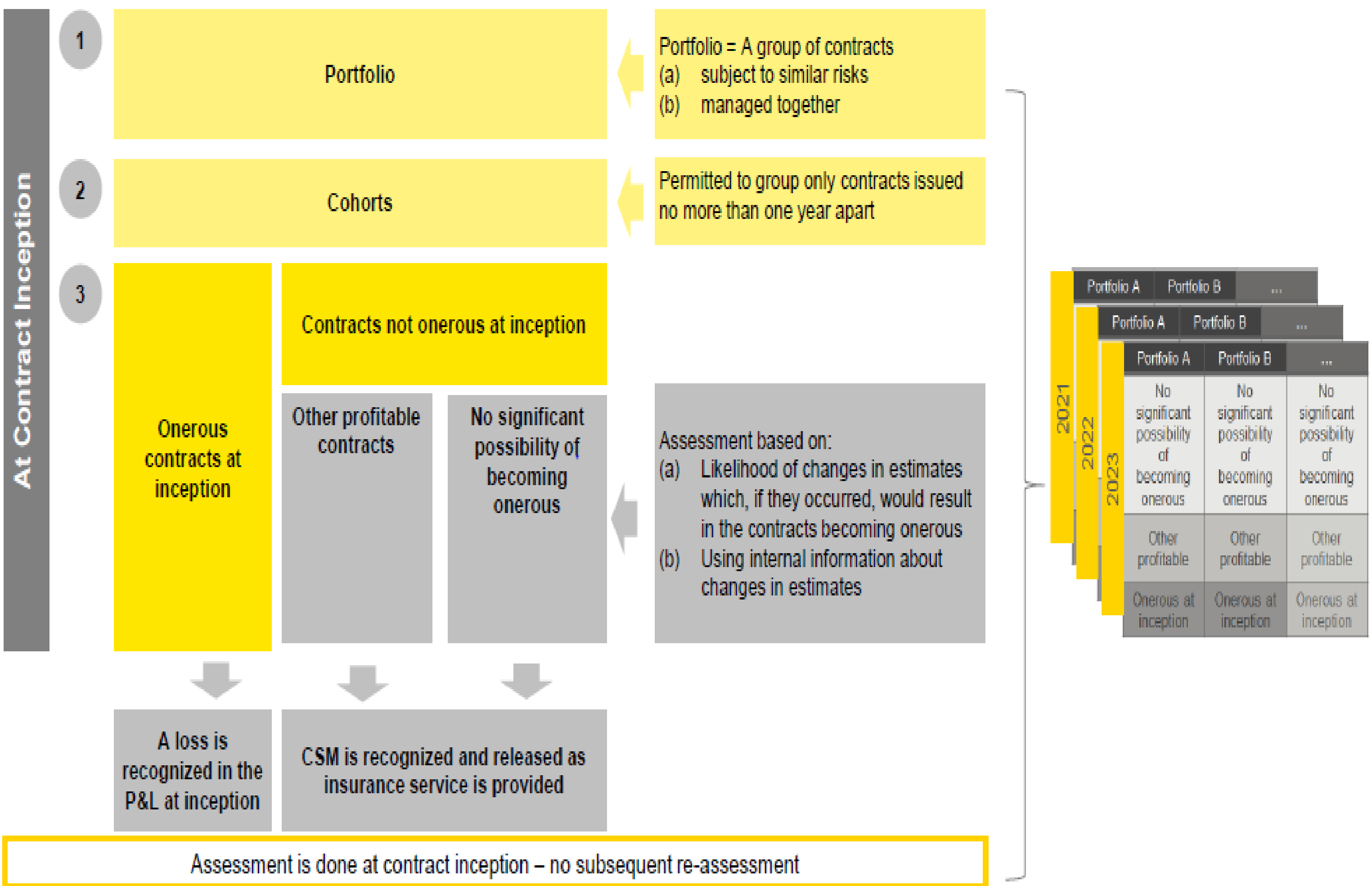
1. the beginning of the coverage period of a group of contracts
2. when first payment due from a policyholder in the group

Early recognition

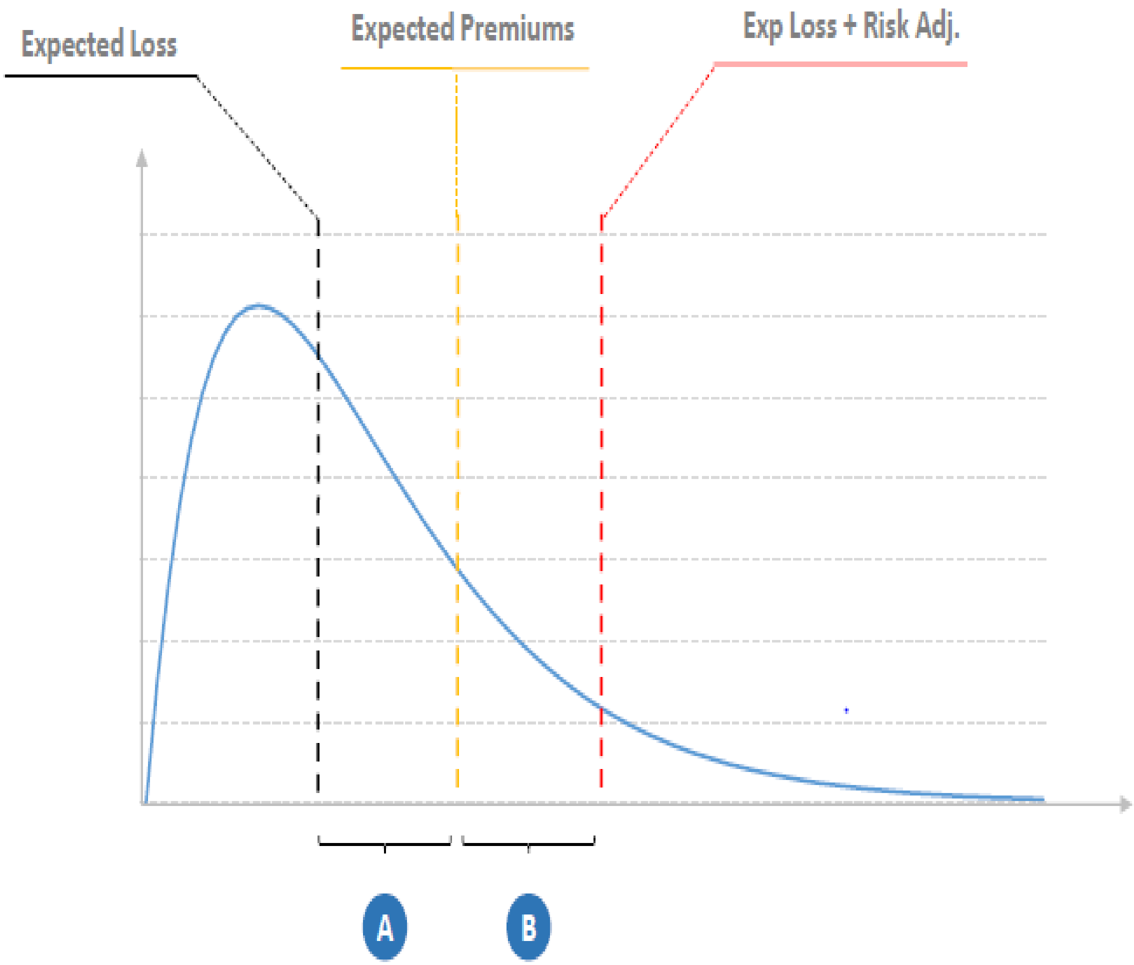
3. when a group of contracts becomes onerous

Setting up the Level of Aggregation of Insurance Business

Level of aggregation



Identification of Onerous Contracts

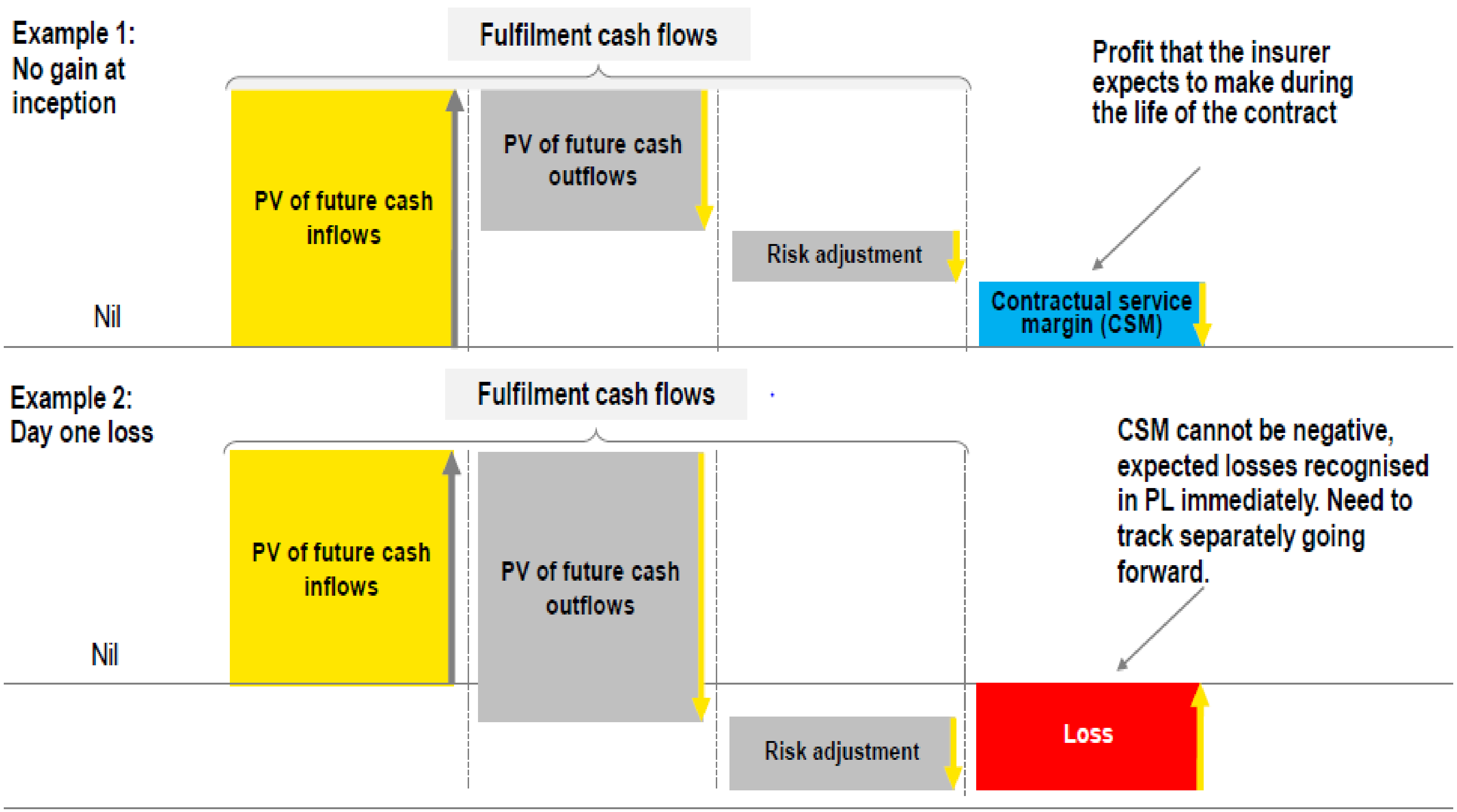


A Contract is profitable because the expected losses are lower than the expected premiums.

B Contract is onerous because the expected losses plus risk adj. are higher then expected premiums.

Insurance Liabilities- Measurement Approach- GMM/BBA

Fulfilment cash flows



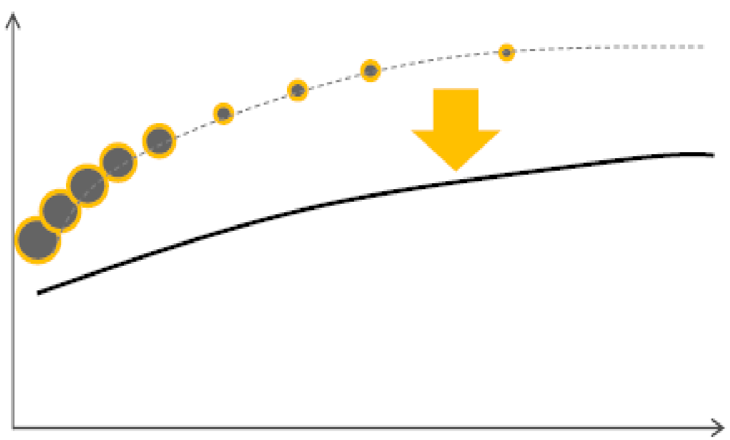
Insurance Liabilities- FCF Discounting Approaches

Time value of money

Top-down approach
Current market rates of returns:
either of own asset portfolio or a reference portfolio

Adjust for **risks that are not relevant to the insurance contract**, e.g., default risk, market risk

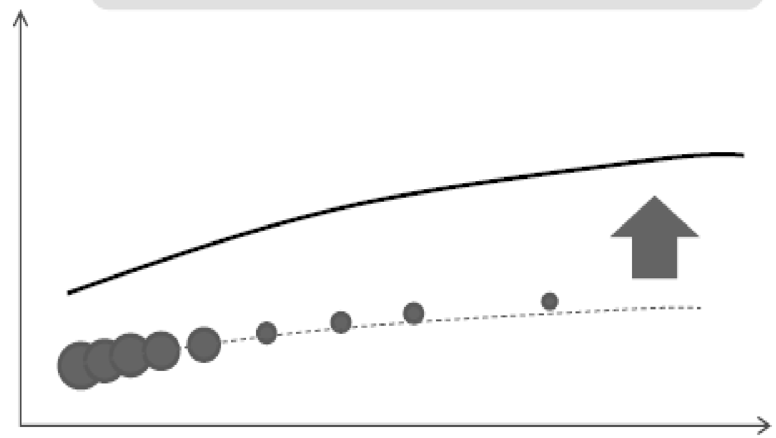
Adjust for **duration differences** if necessary
(No need to adjust for the difference due to liquidity)



Adjust for **other characteristics** of the insurance contracts if necessary

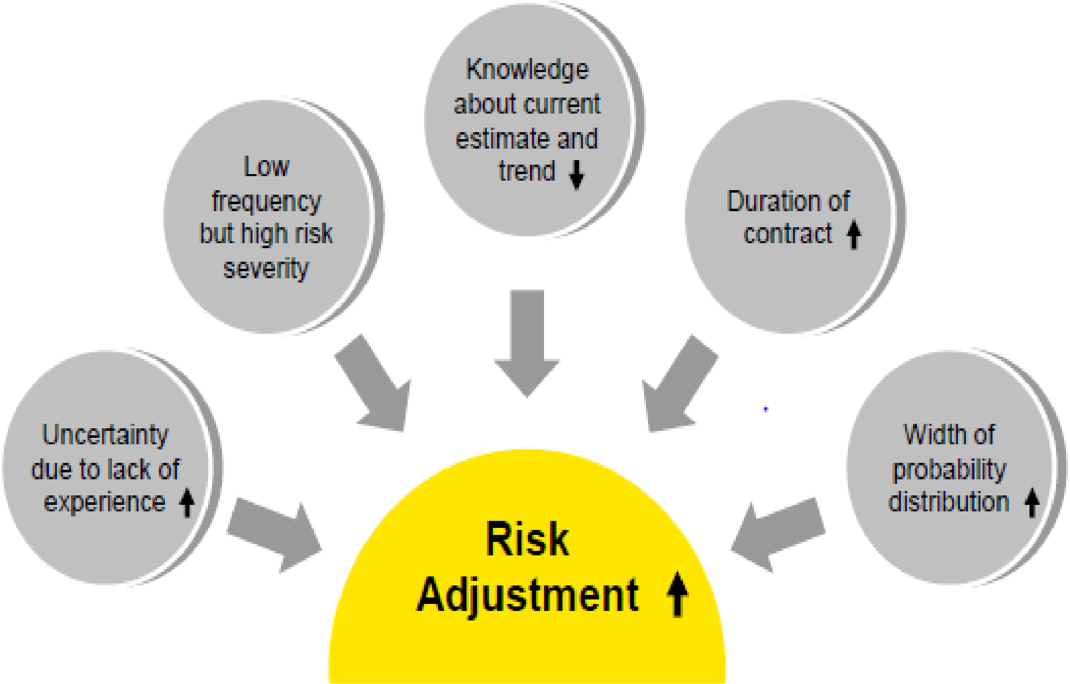
Illiquidity premium: Adjust for liquidity characteristics of the insurance contracts

Bottom-up approach
Risk-free yield curve with similar characteristics (e.g., duration, currency)



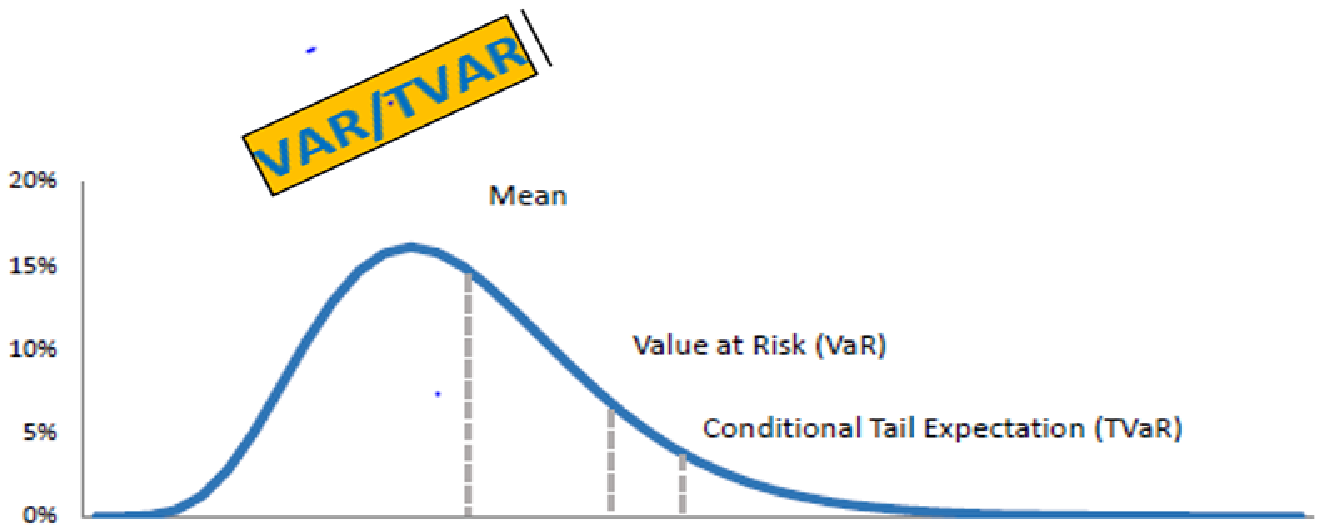
Insurance Liabilities- Risk Adjustment & Related Factors

- Compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract
- RA shall be included in the measurement in an explicit way (i.e. uncertainty should not be included in the future cash flows)
- No prescribed technique so different companies may use different techniques
- Disclosure on the confidence-level is required if the entity uses a technique other than the confidence level technique

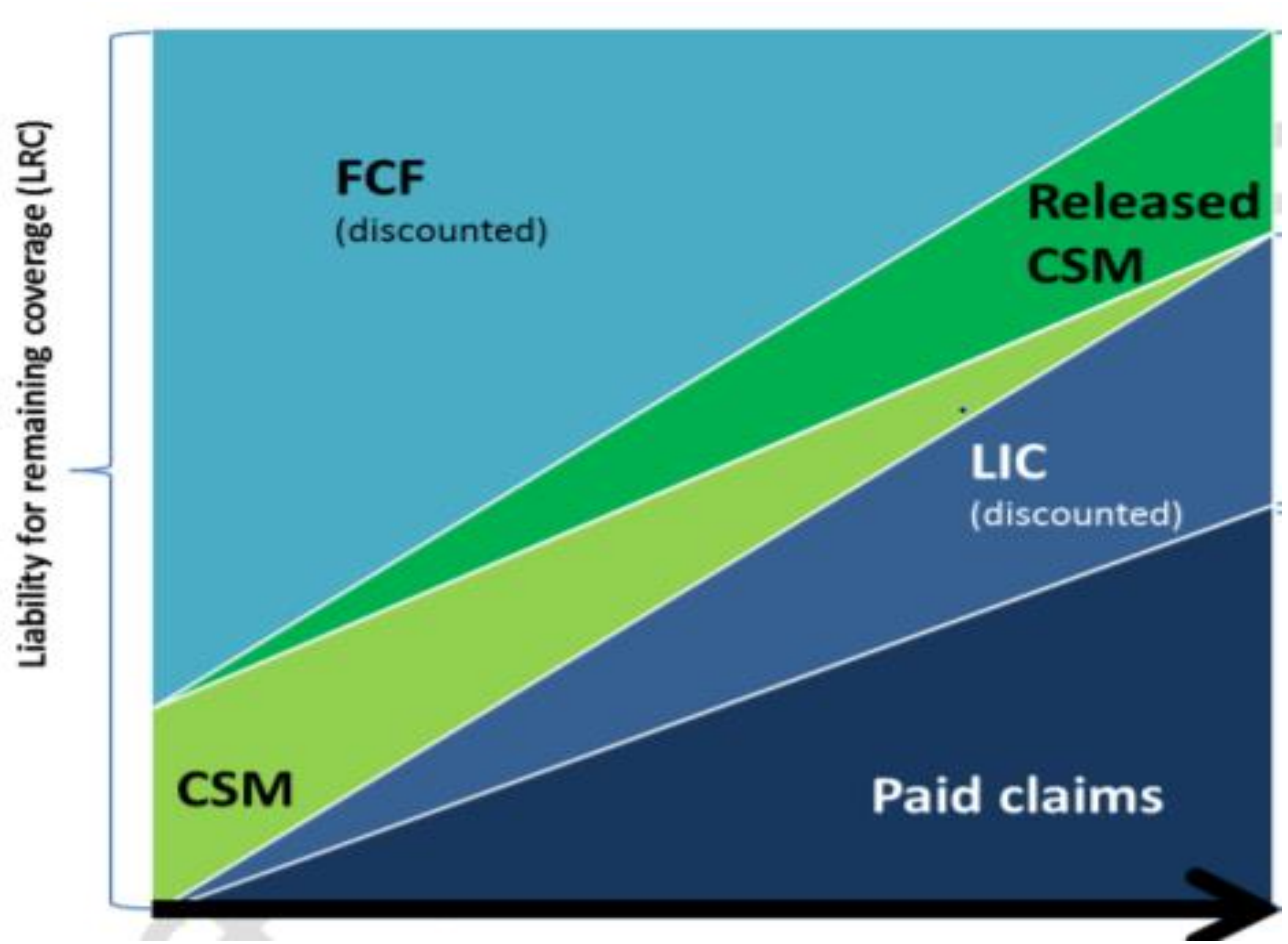


Risk Adjustment Calculation Approaches

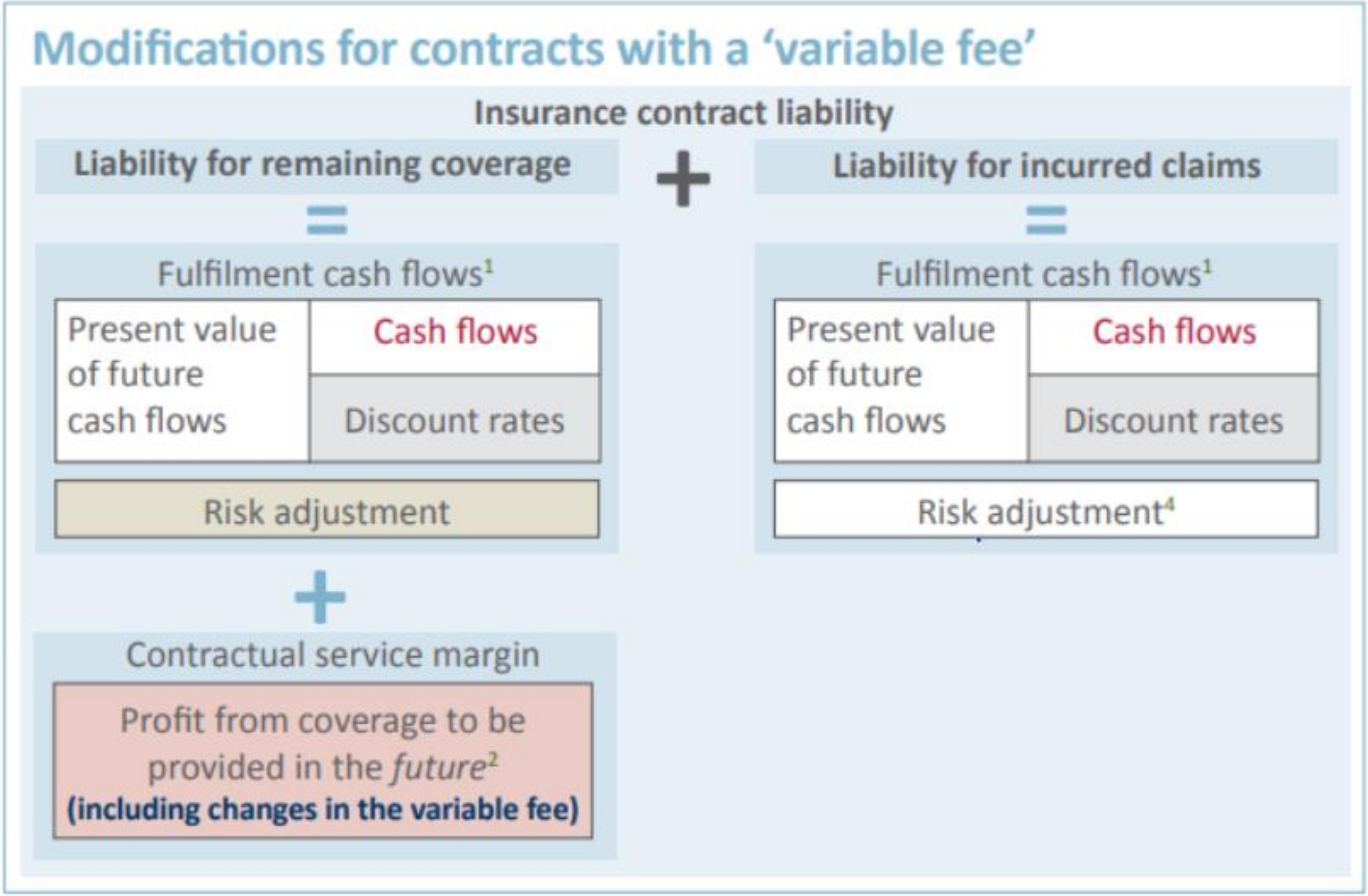
Cost of Capital method



GMM/BBA- Day 1 Onwards



Insurance Liabilities- Measurement Approach- VFA



Insurance Liabilities- Measurement Approach- VFA

Illustrative Cash Value Statement of Account- Life Policies Protection and Savings		
Line Item Description	Amount	Explanation
Opening balance	XXX	
Units allocation & appreciation in FV	XXX	Adding up units in funds bought by the policyholders
COI	(XXX)	Cost of insurance for mortality, morbidity, critical illness, riders and other life insurance coverage
Administration cost	*(XXX)*	*% Min/Max of annual premiums of related life policies*
Subtotal	XXY	Summation of the above
Management fee	(XXT)	% of the sub-total
Interest receipt	XX	In case of units linked in debt funds
Dividends receipt	XX	In case of units linked in equity funds
Ending balance	XXVV	

Insurance Liabilities- VFA vs. BBA

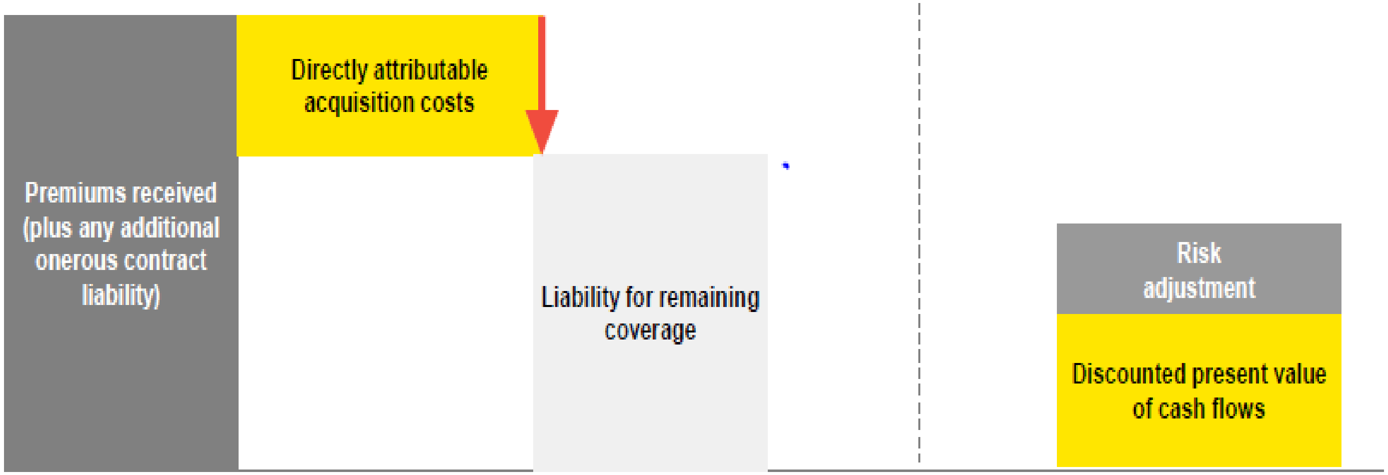
- Different cashflow streams (structure of the life product);
- Different CSM earning patterns (structure of the life product);
- Much more key assumptions;
- Current discount rate vs. locked in discount rate; &
- Other related matters.

Insurance Liabilities- Measurement Approach- PAA

Insurance contract liability split into:

Liability for remaining coverage (LFRC)
simplified approach based on allocation of premium (analogous to existing UPR, net of DAC and premium receivables)

Liability for incurred claims (LFIC)
(analogous to existing claim reserves)



Like Unearned Premium Reserve – but net of DAC and premium receivables

Like best estimate claim reserves – but expected value, discounted and probability weighted

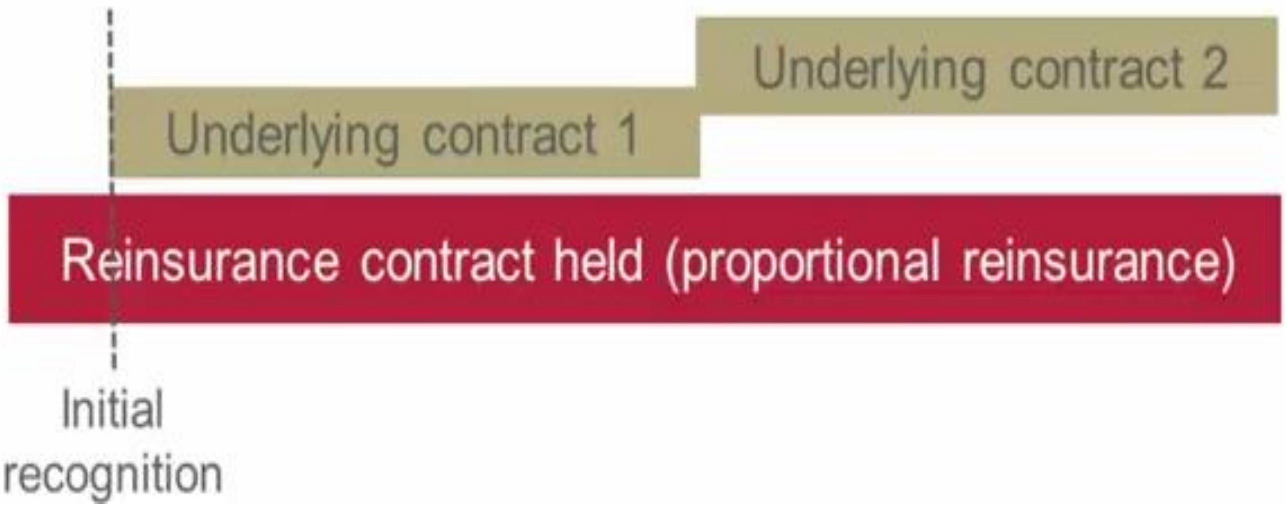
Reinsurance Treaty Recognition (1/2)

Proportional reinsurance — later of:

1) beginning of coverage period of group of reinsurance contracts

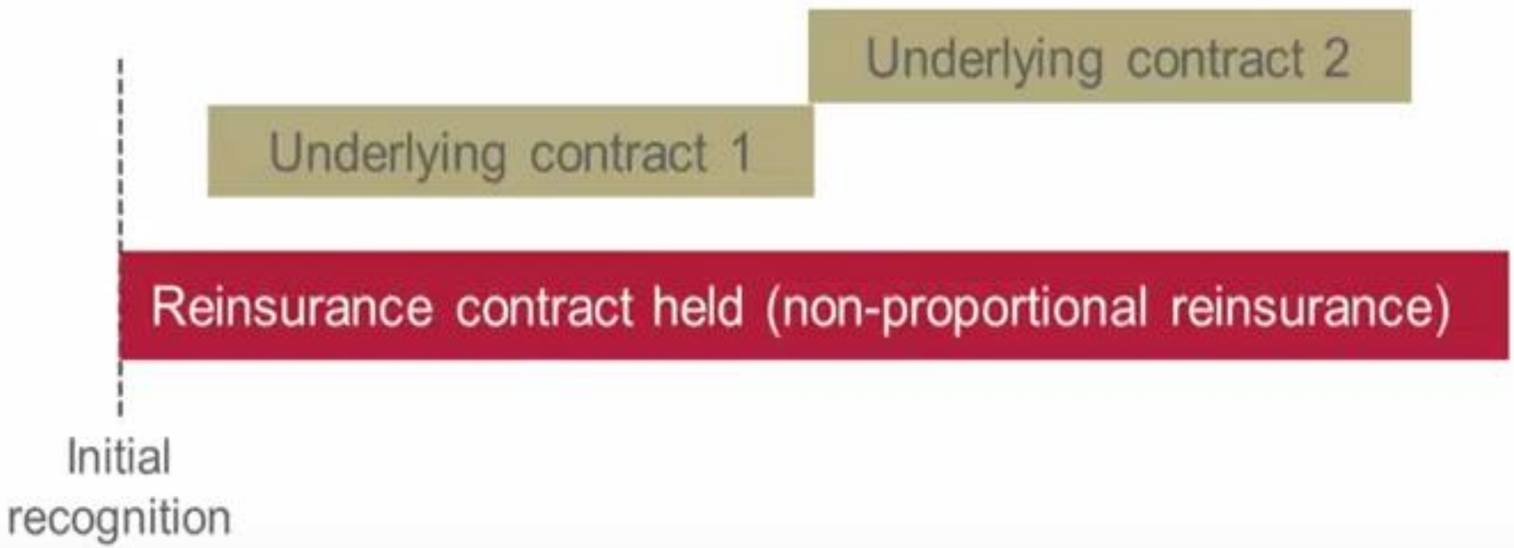
or

2) initial recognition of any underlying insurance contract



Reinsurance Treaty Recognition (2/2)

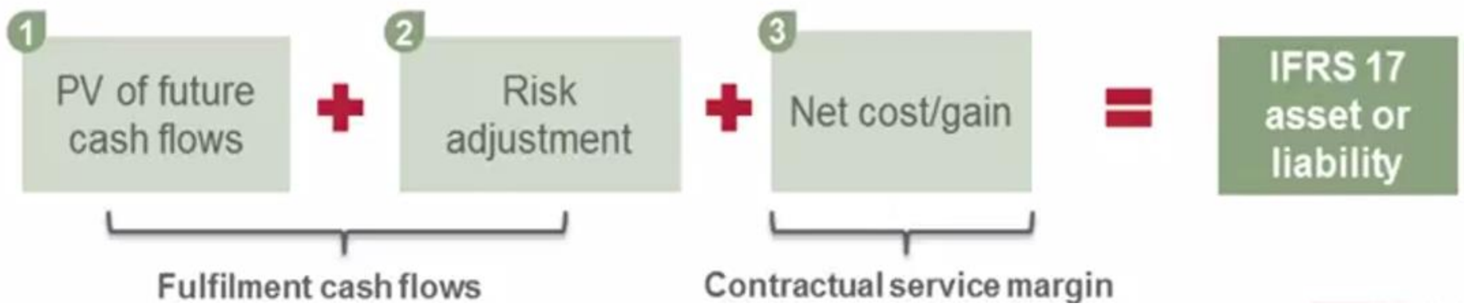
In other cases, beginning of the coverage period of group of reinsurance contracts



Reinsurance Assets- Proportional- GMM/BBA

Reinsurance contracts held measured as the sum of:

- **Fulfilment cash flows (FCF)**
  1. Present value of probability-weighted expected cash flows—reflects financial risk
  2. Plus an explicit risk adjustment for non-financial risk (eg insurance)
- **Contractual service margin (CSM)**
  3. Net cost or net gain on purchasing reinsurance



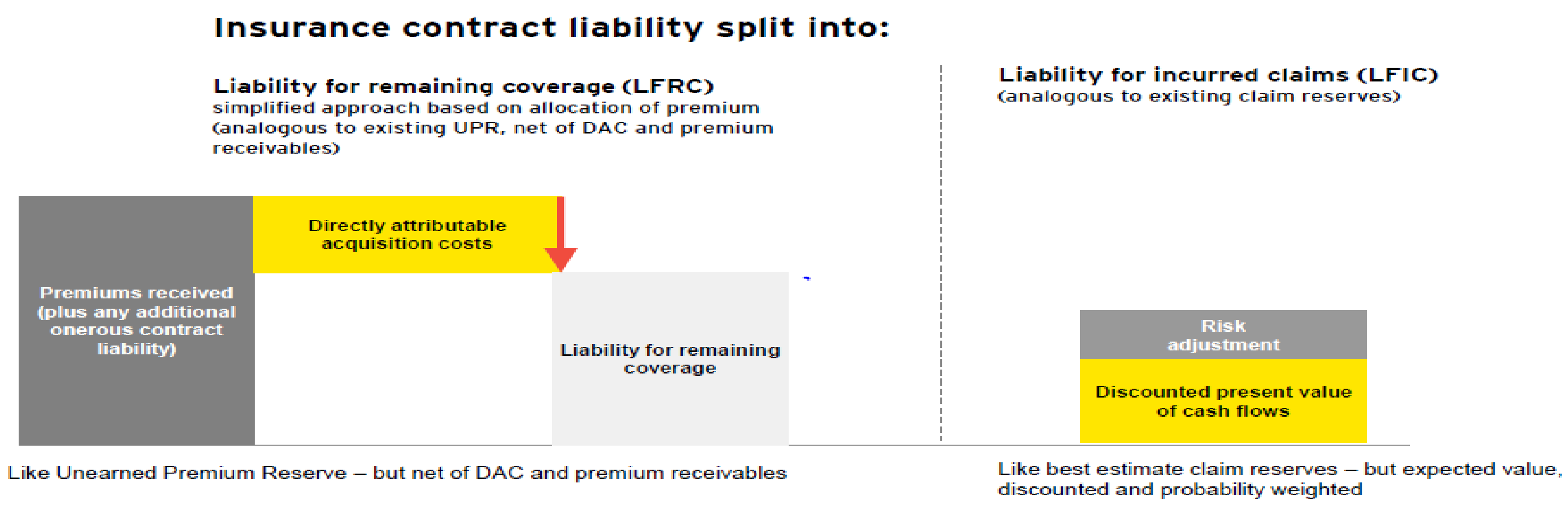
Reinsurance Assets- Non-Proportional- PAA

Reinsurance Assets of LFRC

- ❑ Reinsurance asset is often Nil for unexpired insurance coverage reserve “UPR”; &
- ❑ Reinsurance asset for loss making insurance contracts “Onerous contacts” depends on the priority of the non-proportional treaty as opposed to each single estimated claim monetary amount.

Reinsurance Assets of LIC

- ❑ Reinsurance assets for LIC depends on the priority of the non-proportional treaty as opposed to the risk adjusted for each and every discounted estimated claim.



IFRS 4 vs. IFRS 17 Balance Sheet- "The New Look"

Balance Sheet	2020	2021
Financial assets	X	X
Deferred acquisition costs	X	X
Premiums receivable	X	X
Reinsurance assets	X	X
Other assets	X	X
Total assets	**X**	**X**
Insurance liabilities	X	X
Unearned premium	X	X
Other liabilities	X	X
Equity	X	X
Total liabilities and equity	**X**	**X**

1 PV of future cash flows (current) + 2 Risk adjustment (current) + 3 Unearned profit (non-current) = IFRS 17 liability

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Reinsurance contract assets	20,572	17,882
Other assets	36,002	31,293
Total assets	282,871	245,875
Insurance contract liabilities	205,724	178,818
Other liabilities	51,431	44,705
Equity	25,716	22,352
Total liabilities and equity	282,871	245,875

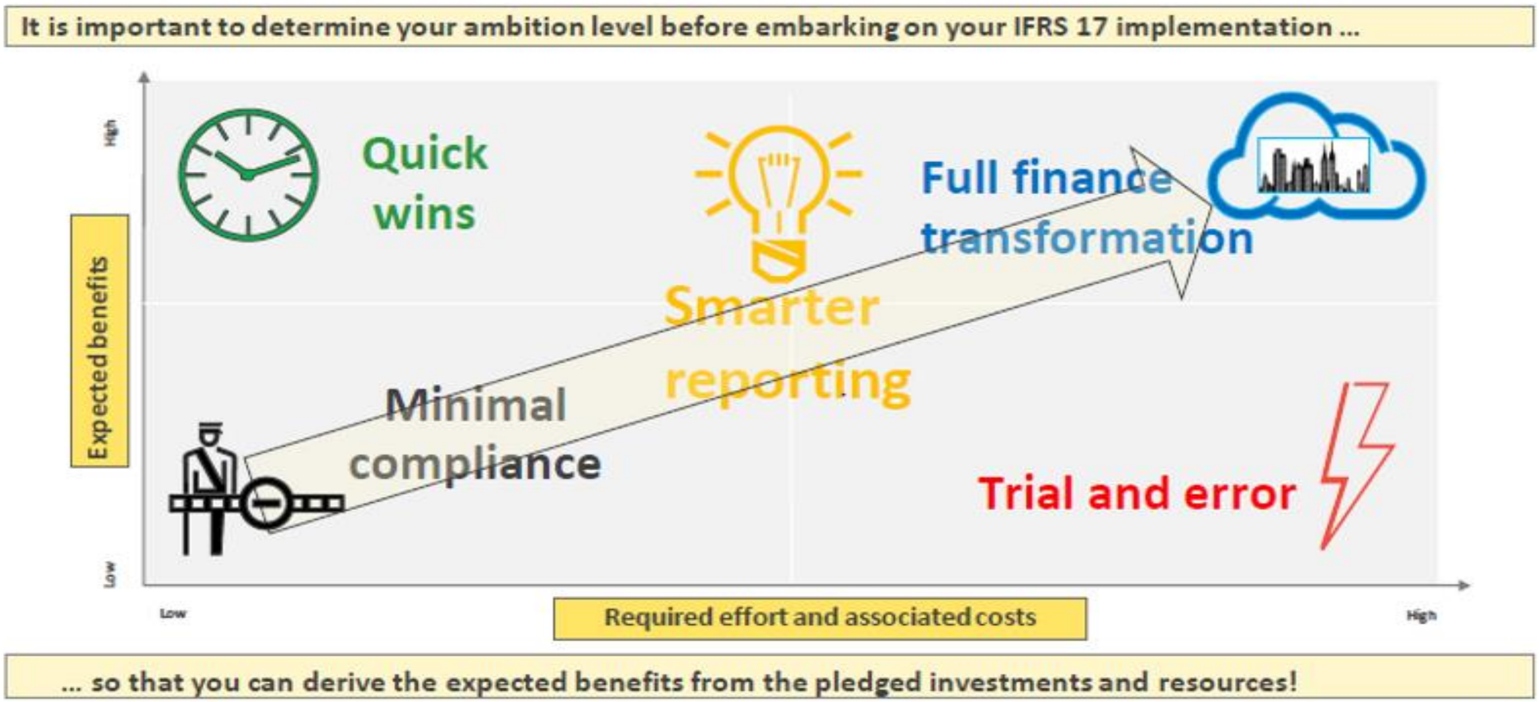
IFRS

IFRS 4 vs. IFRS 17 Income Statement- "The New Look"

Income Statement	2020	2021
Gross premium	X	X
Premium ceded to reinsurers	(X)	(X)
Investment income	X	X
Total Income	**X**	**X**
Gross claims and benefits	(X)	(X)
Claims ceded to reinsurers	X	X
Change In insurance contract liab.	(X)	(X)
Expenses	(X)	(X)
Acquisition costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Profit before tax	**X**	**X**

P&L	20X1	20X0
Insurance revenue	9,856	8,567
Insurance service expenses	(9,069)	(8,489)
Incurred claims and insurance contract expenses	(7,362)	(7,012)
Insurance contract acquisition costs	(1,259)	(1,150)
Insurance service result before reinsurance^	1,235	405
Gain or (loss) from reinsurance	(448)	(327)
Insurance service result	787	78
Investment income	9,902	9,030
Insurance finance expenses	(9,308)	(8,377)
Net financial result	594	653
Profit before tax	1,381	731

Heading to Full IFRS 17 Transformation



THANK YOU