



# **The Economics of IFRS-17**

## Its Implications & Financial Reporting Transformation

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# Agenda

IFRS-17 Implementation Recap

IFRS-17 Transition Impact on Jordanian Insurers

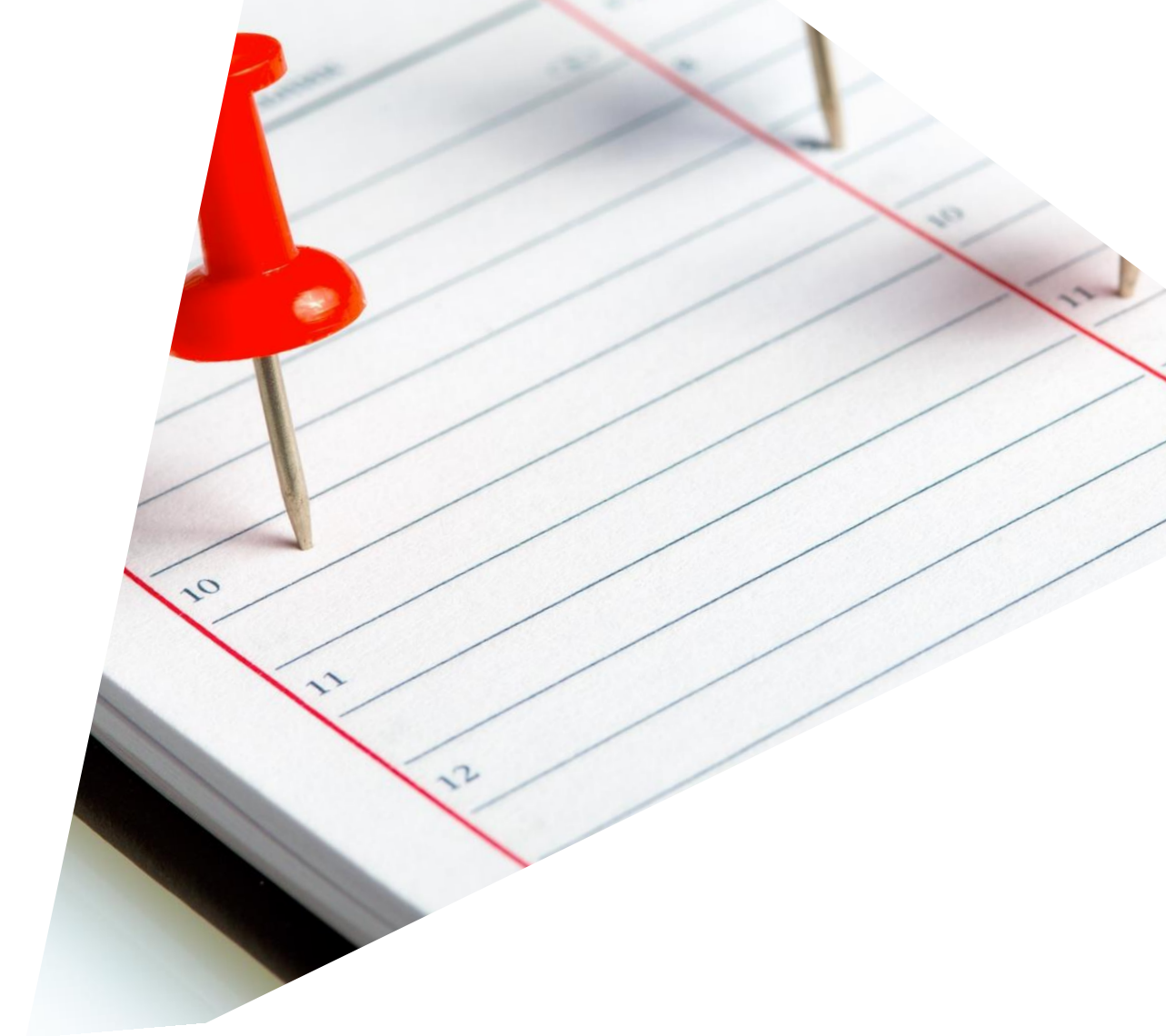
Why Governance Matters?

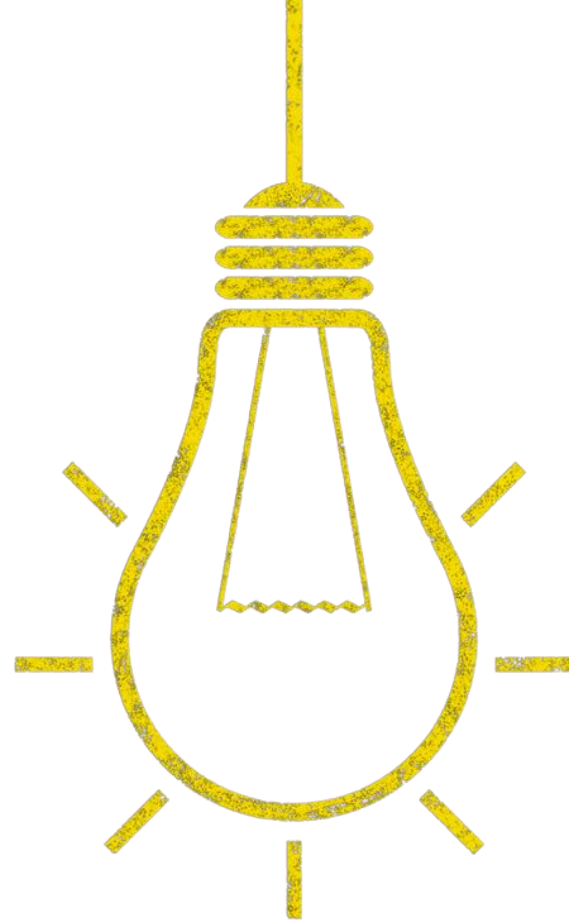
Case Study (General and Life Insurers)

Financial Reporting – New Key Performance Indicators (KPIs)

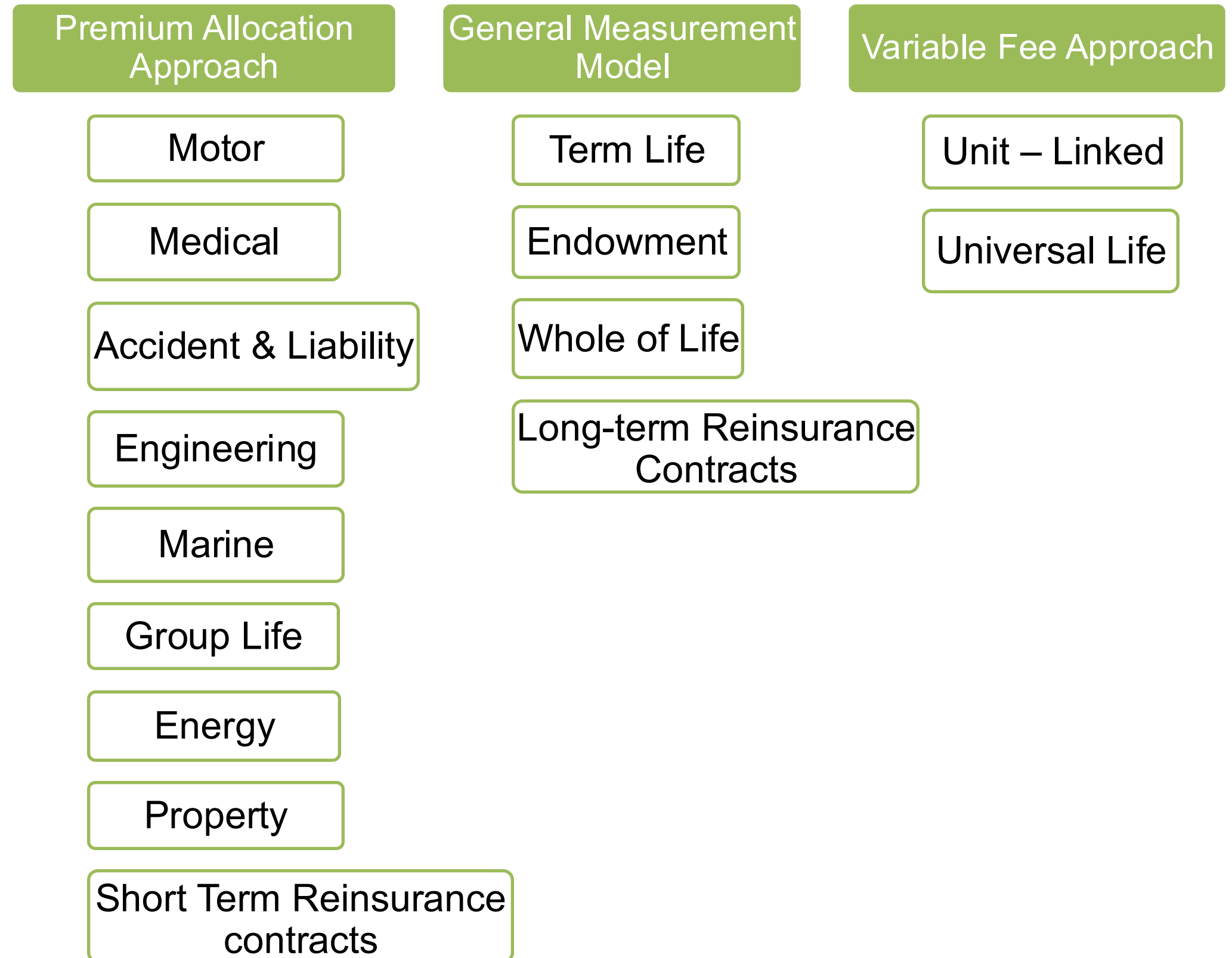
Financial Reporting – Transformation Areas

*Note: In this presentation, the presenter has expressed his views, opinions, and conclusions on the implication and Financial Reporting Transformation on IFRS-17 for insurers, unless stated otherwise.*

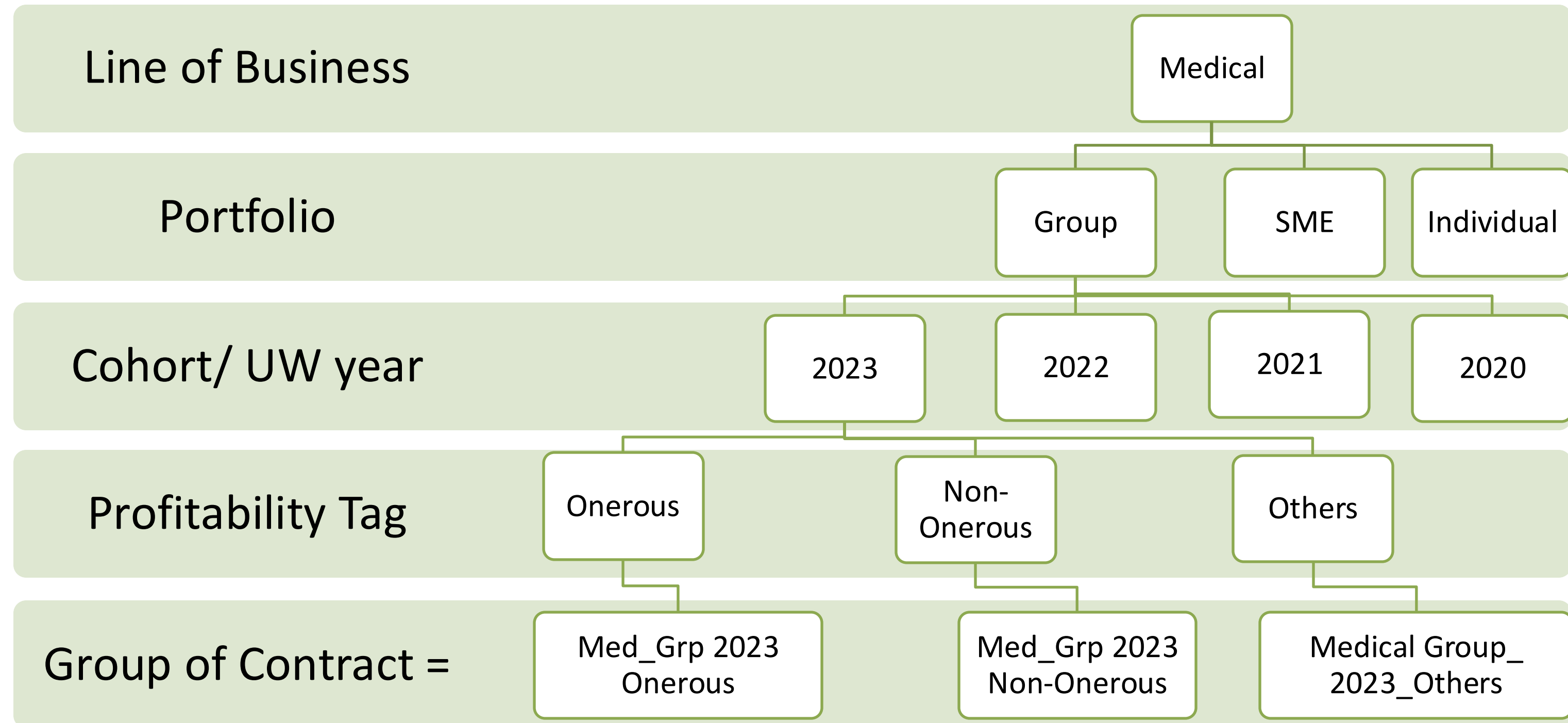




# IFRS-17 Simplified: The Big Picture



# Granularity of Measurement (an example)





# Recap IFRS 17 – Impact on General Insurers (under PAA)

Changes in Financial Statements	Impact	Reasons
Premium Allocation Approach (PAA) – eligibility criteria	Moderate to High	Application for long-term P&C contracts and satisfying the requirements
Value of insurance liabilities: new calculations (such as explicit risk adjustment in Liabilities for Incurred Claims)	Moderate to High	Depends on the PAA or General Measurement Model (GMM)?
No “Day 1” profit: released to P&L over the life of the contract	Moderate	Onerous contracts however need to be recognized immediately at Group of Contracts level.
Revenue recognized reduces liability for remaining coverage attributable for services provided in the period (no Contractual Service Margin)	Low	Due to a similar existing Unearned Premium Approach (UPR) approach
Presentation of P&L and balance sheet: look very different	Moderate	Bottom line will not have a significant impact however presentation will change
Grouping of results (aggregation): impact on systems and processes – including onerous contracts	High	Moving from line of business to Group of Contracts calculations
Yield Curves – New concept of locked-in and current yield curves	High	Discounting Impact and unwinding impact of discount rates

# Recap IFRS 17 – Impact on General Insurers (under PAA)

Changes in Financial Statements	Impact	Reasons
New disclosures: lots of additional information	Moderate	Significantly different from current practice – such as Disclosure 100 and Disclosure 101
Lots of judgments to be made	Moderate	Accounting policy choices (such as expenses, impact of change in yield curve through P&L or OCI etc)
Reinsurance	High	Requires separate calculation of reinsurance contracts
Data Management and IT infrastructure	Moderate	Requires proper implementation of the financial reporting process
Taxation	Moderate	Impact on taxes
Actuarial, Finance, Audit, IT and Compliance	Moderate to High	Key functions use to prepare financial statements
Chart of Accounts (COA)	Moderate	To improve the overall process

# Recap IFRS 17 – Impact on Life Insurers (under GMM/VFA)

Changes in Financial Statements	Impact	Reasons
Value of insurance liabilities: completely new calculations (instead of previous concept of Mathematical Reserves gross and net of reinsurance)	High	Fulfillment CashFlows calculations are significantly different than mathematical reserves
No “Day 1” profit: released to P&L over the life of the contract	High	Impact of Contractual Service Margin (CSM) and Onerous Liabilities
Revenue recognized reduces liability for remaining coverage attributable for services provided in the period	High	Needs to justify Coverage Unit (i.e. unit of revenue recognition)
Presentation of P&L and balance sheet: look very different	High	Linked with Actual vs Expected movements
Grouping of results (aggregation): impact on systems and processes – including onerous contracts	High	Portfolios, Cohorts and Profitability assessment
Payments to policyholders unrelated to insured event (return of ‘deposits’) are not revenue	Moderate	Decrease the life insurers’ top-line (no concept of Gross Written Premium)

# Recap IFRS 17 – Impact on Life Insurers (under GMM/VFA)

Changes in Financial Statements	Impact	Reasons
Data granularity and data quality of cash flows have to be high enough to enable CSM /LC calculations	Moderate	Improper data will result in inaccurate results
Cash Flow view is common practice for life business	High	Projection future cashflows is a must (as opposed to keeping Account Value reserves under IFRS-4)
Implementation of system to process multiple yield curves simultaneously required	Moderate	New concept of locked-in and current yield curves to be maintained for all future years
Implementation of system to compute and store CSM calculations required, history of previous reporting period results required	High	New requirements under IFRS-17
Implementation of solution for complex posting logic required	High	Requires more complex accounting
Major changes to Chart of Accounts	High	Requires significant improvement to COA
Experience Adjustments	Moderate	Comparison of Actual vs expected and accounting policy decisions



# Recap IFRS 17 – Impact on Life Insurers (under GMM/VFA)

Changes in Financial Statements	Impact	Reasons
New disclosures: lots of additional information	High	Significantly different from current practice – such as Disclosure 100 and Disclosure 101
Lots of judgments to be made	High	Accounting policy choices (such as expenses, yield curves, cohorts)
Reinsurance	High	Requires separate calculation of reinsurance contracts (as opposed to UPR credit in IFRS-4)
Data Management and IT infrastructure	High	Requires proper implementation of the financial reporting process
Taxation	High	Impact on taxes are significant
Actuarial, Finance, Audit, IT and Compliance	High	Key functions use to prepare financial statements

# IFRS17 Transition Impact on Equity (Dec 2021 transition date as at 31 Dec 2023)

(Amounts in JOD)



## Applying IFRS 17 – General effects on reported equity

Factors that are expected to impact on the reported equity	Impact on Equity
Acquisition costs are currently expensed as incurred	↑
Insurance Contracts are currently measured using historical interest rates that are lower than market rates	↑
Risk margins currently used are higher than the risk adjustment used to apply IFRS 17	↑
Risk margins currently used are lower than the risk adjustment used to apply IFRS 17	↓
Profits are currently recognized at contract inception (not apply to general insurers – now creation of Contractual Service Margin or Loss Components)	↓
Aggregation of onerous contracts and profitable contracts is currently permitted	↓
Insurance Contracts are currently measured using historical interest rates that are higher than market rates	↓
Deferment of Issuance Fees	11 ↓

# Case Study (General Insurer)

Appointed Actuary has determined the actuarial liabilities and signed off on the actuarial report (without verifying the outcome in the financial statement disclosures)

Due to data issues, the insurer has adjusted some figures, which resulted in differences between the actuarial report and financial statements

The insurer may have used the IFRS-17 engine without its testing and validation (resulting in inaccurate financials as the engine was not ready or insufficiently tested)



The external auditors checked the overall numbers and signed off (without digging deep into its process)

## Outcome:

Lack of Governance in the financial reporting process resulted in the insurer's capability to produce accurate financial reporting, delays in submissions, credibility of submissions, and pending regulatory approvals

Sometimes insurance companies completely rely upon third-party consultants who may not have insights about:

- Local regulatory experience
- The overall processes adopted are prone to manual adjustments / errors
- Limited knowledge of the local insurance market
- Limited know-how about the changes in the Company's recent processes, systems and data



# Case Study (Life Insurer)

How?

**CEO/Board:** Why are different approaches used for transition produce different results – increasing or reducing impact on equity

**Actuaries and CFOs:** key players in determining the Company's Profit and Loss Account and Balance Sheet under IFRS-17.

**Use of assumptions** – determining expected numbers through actuarial models used in the Company's Profit and Loss Account, choice of yield curves etc.

**Methodology** – for the release of Contractual Service Margin, determining the risk adjustment etc.

**Several accounting policy choices** – locked-in vs current yield curves (P&L Or OCI), Expenses, treatment of Wakala (for takaful entities), Experience adjustment etc.



Is it a case that IFRS-17 results have been producing more profitable results throughout (vs IFRS-4) despite having a positive impact on equity at transition, OR Vice versa?

Do our entity contracts become more profitable (or more loss-making) under IFRS-17? (noting that profits or losses will remain the same under IFRS-4 and IFRS-17 over the life of contracts)

# Why Governance Matters?

- ✓ Profits/Losses timings have changed in IFRS-17 (vs IFRS-4), but the total profits/losses will remain the same over the life of the contract.
  - Different transition approaches produce different results – which one was correct?
- ✓ Economics of discounting – yield curves have been playing a significant role (particularly a game changer for life companies). Moreover, an appropriate decision on the payment pattern is required.
- ✓ Loss Component
  - Onerous contracts assessment
  - early recognition of losses (as opposed to Premium Deficiency Reserves in IFRS-4)
  - Calculation granularity for the loss component
- ✓ Role of each stakeholder in Steering Committee (IFRS-17 Project Lead, Appointed Actuary, internal/ external auditors, Finance, Underwriters, Reinsurance, IT, Risk, and Compliance)
  - **Key stakeholders' sign-off is a must !!**
  - Process of financial reporting
  - Must target to reduce reliance on third parties over time
  - Too Costly for any hiccups in the reporting process

# Why Governance Matters?

Review of models, testing, validation and controls

- Untested IFRS-17 engine resulting in inaccurate results
- Unauthorized access to the IFRS-17 engine
- Have we reached the sophisticated level of reporting? Receiving trial balance and automated preparation of financial reporting templates at an entity level?

Completeness and accuracy of data – source of data for financial reporting

- Actuarial tools
- Company's core administrative system
- Company's core financial reporting system
- Third-party Administrator systems (TPAs)
- Why there is a need to do manual adjustments?



Avoiding the conflict of Interest – reviewer and doer should be independent

# Why Governance Matters?

## Risk Adjustment

- The confidence level chosen to set aside the risk adjustment – Board awareness?
- High or low level of risk adjustment – margins are transparent in the financials

## Tax Authority

- For life companies in many countries, local tax authorities still not being able to evaluate the right impact

Internal Control over Financial Reporting – do we maintain this?

Training and Knowledge transfer

Takaful matters – Classification of Wakala fees in IFRS-17  
Cash flows?

Adequacy of Actuarial Liabilities





# Financial Reporting – New Key Performance Indicators (KPIs)

New IFRS-17 KPIs
Gross Risk Adjustment as % of Gross Liabilities for Incurred Claims
Reinsurance Risk Adjustment as % of Reinsurance Assets for Incurred Claims
Attributable Expense vs Insurance Revenue
Acquisition Expense vs Insurance Revenue
Return on Equity
New Business CSM Margin
Inforce Business CSM Margin
Insurance Revenue vs Insurance Expense
Unattributable Expense ratio
New onerous contracts ratio
Reinsurance Loss recovery component ratio
Net gain or cost from the reinsurance contracts

# Financial Reporting – Transformation Areas

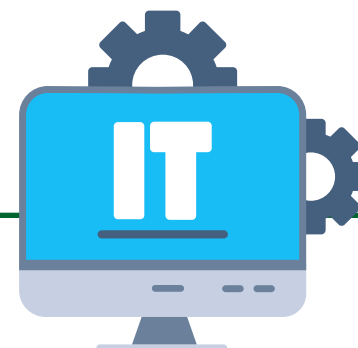
## Governance

- Appropriate Governance should be in place for the financial reporting process
- Define risk appetite statement and link to risk adjustment
- Independent review of methodology, assumptions and accounting policy choices



## IT Automation

- Actuarial models automation
- Should target to completely reduce manual work processes
- Automation of the trial balance at an entity level
- Plan to completely reduce reliance on third parties
- Automated reports at the desired level of aggregation



## Data

- Validated and audited
- Reconciled
- Accurate and appropriate
- Consistent and complete
- Managed in-house



# Financial Reporting – Transformation Areas

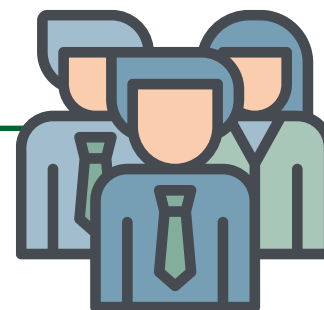
## IFRS-17 Engine

- Fully tested
- Inputs and outputs should be streamlined and automated
- Outputs should be linked to produce an entity-level Financial statement
- All security and IT controls must be in-place



## Key Personnel

- IFRS 17 knowledge sessions and practical experience
- Future planning for Jordanian professionals (actuaries, CPAs, CFAs, Risk Managers, ACCA, CA etc.)
- The Steering Committee of each insurance company should set a clear road map for the financial reporting process in long run



## Audit and Compliance

- The process used in the financial reporting should be agreed, documented and must be independently checked
- Compliance with local regulations is a key
- Audit must be done independently



# THANK YOU

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