IFRS 17 Benchmarking Survey

Series 2

Q3

2023

insight | life solutions

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1. Executive Summary

1. Executive Summary

Insight Life Solutions conducted a series of five surveys between February and May 2023 to seek South African life insurers' views on specific IFRS 17 topics. The surveys aimed to summarise the progress made to date on IFRS 17 implementation and industry thinking on topics where the Standard allows discretion. From May to July, Insight Life Solutions conducted detailed discussions with almost all of the respondents to obtain further clarity and commentary on their survey responses.

A total of 16 entities, mostly life insurers and bancassurers, participated in the series, with between 7 and 13 respondents to each question.

It is hoped that participants will use the results to benchmark their approach against the rest of the market, as well as against their own future decisions as IFRS 17 implementation matures, discussion around these topics settles, and industry consensus is reached. The results collected from these surveys have been compared to the corresponding 2022 results where applicable. The respondents were not exactly the same between our 2022 and 2023 surveys, so the longitudinal comparison is not precise, but we hope that it will give an indication of trends in the market.

This report sets out the survey responses. In summary:

Progress

For most topics, respondents were generally between having produced indicative numbers and finalising an approach internally. All respondents had made a start on each of the topics applicable to them. Most respondents were comfortable with their progress on the calculations required by the standard and are now starting to consider other reporting metrics, like their KPIs, embedded value and business planning. Generally, as expected, larger insurers and those with a December year-end were further progressed in their IFRS 17 implementation than smaller insurers and those with later financial year-ends.

Transition

Progress on transition appears more advanced compared to 2022 with just under 60% of respondents having finalised an approach internally or received sign-off from external auditors. Over half of those surveyed expect equity to be higher under IFRS 17 at transition than under IFRS 4.

Risk Adjustment

Over 60% of respondents have selected a Value at Risk (VaR) approach (single equivalent scenario or stress and correlation), up from less than 40% in 2022. The most popular targeted confidence levels are 75% and 80%, with the extremes lying at 60% and 90%. There seems to be a general trend downwards from 2022 when the most popular targeted confidence level was 85%.

Discount Rates

A third of the respondents are using the SARB published risk free rates as their risk-free rates for IFRS 17. Insurers associated with banks tend to derive their own curves for this purpose. The majority (over 60%) of respondents plan to use the start of period yield curves as their locked in yield curves rather than a weighted average. Operational simplicity seems to be the driving factor for this decision.

Reinsurance

No respondents expect major changes to their reinsurance arrangements, with changes being restricted to things like updating treaty terms. Most respondents are calculating the risk adjustment for reinsurance as the difference between the gross and net risk adjustment. This year, half of those surveyed did not report experiencing any challenges in accounting for the loss-recovery component for the purpose of valuing reinsurance contracts (compared to less than 20% in 2022).

KPIs

Most respondents foresee Operating Profit, Return on Equity and VNB being their top KPIs under IFRS 17. They tend to be focusing on the same KPIs they had under IFRS 4 and explaining any differences from the old standard.

EV

All respondents who plan to report on embedded value (EV) under IFRS 17 and have decided on methodology will base EV on an IFRS 17 balance sheet (the remainder are unsure or will not be producing EV at all).

Business Planning

More than 80% of respondents have either performed some kind of business plan or plan to do so within the next year. More than 70% of respondents expect to be able to use existing business planning tools and methodologies in an IFRS 17 environment to a reasonable degree.

Respondents' Choice

Expenses

Most respondents are using number of policies as a measure of expense allocation. No respondents plan to hold an asset for insurance acquisition cash flows.

CSM and LC

Almost all respondents were comfortable with their choices of coverage units for their various portfolios.

There are mixed views regarding the use of discount rate (locked-in or current) to measure impacts to the loss components of basis changes.

OCI

One third of respondents are planning to take up the OCI option.

Tax

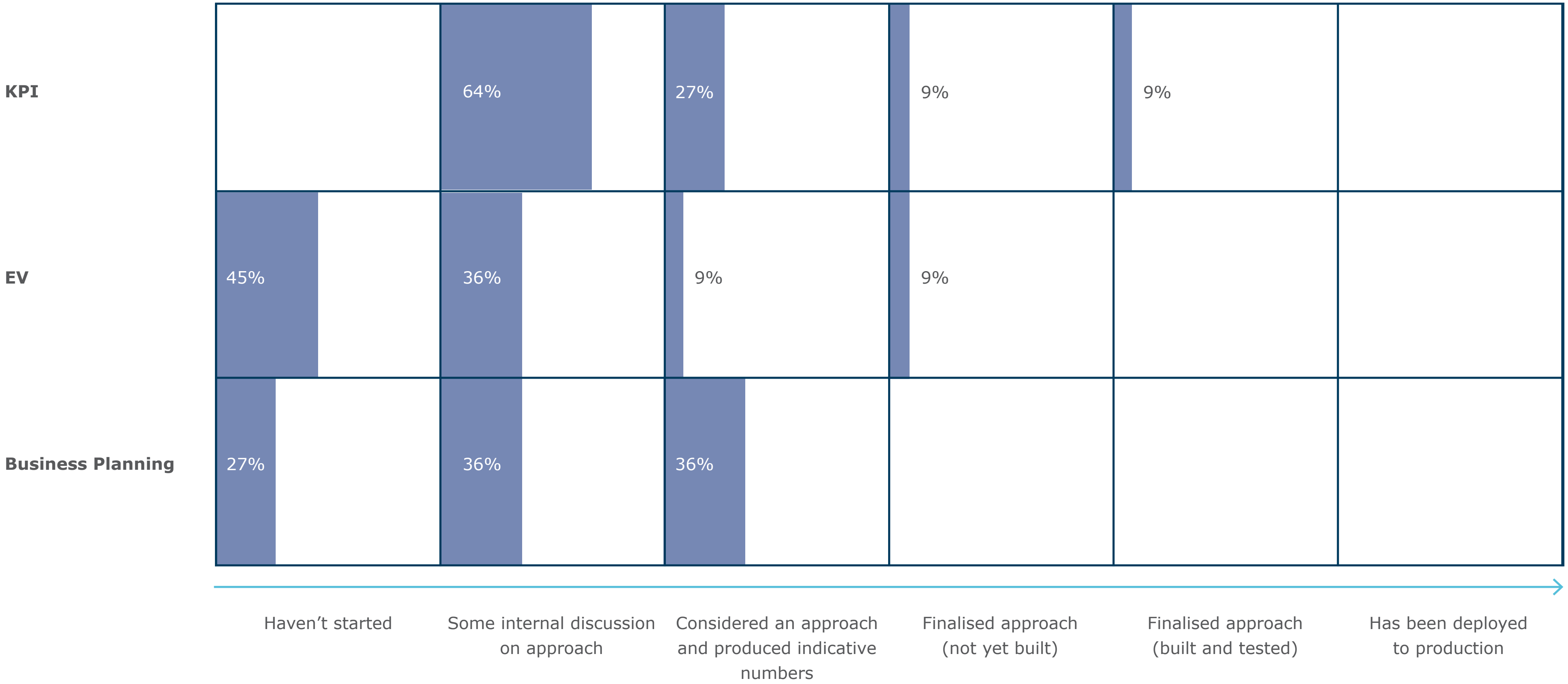
Overall, the Taxation Laws Amendment Bill of 2022 has provided clarity to respondents, with the proposed six-year phasing-in period not being a concern. There is still some uncertainty regarding additional tax expected to be paid on the IFRS 17 transitional opening balance adjustment, as well as the expected impact on SAM deferred tax asset.

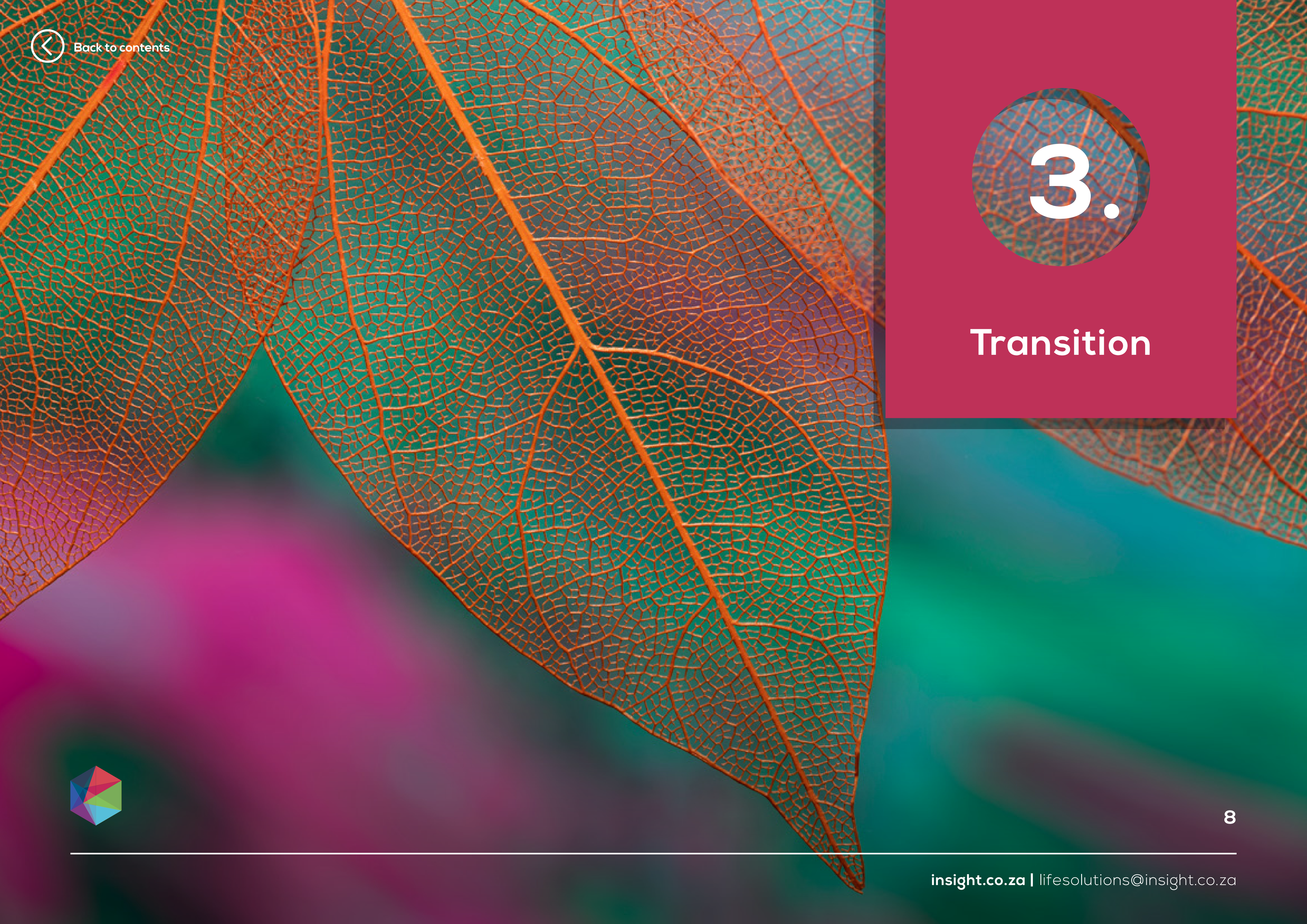
2.

Progress

2. Progress

	Haven't started	Some internal discussion on approach	Considered an approach and produced indicative numbers	Finalised approach internally/Dry run completed	Sign-off by external auditors
Transition			31%	46%	23%
Risk Adjustment			33%	33%	33%
Discount Rates				67%	33%
Reinsurance		18%	18%	36%	18%
Expenses		14%		43%	43%
CSM & LC		14%		71%	14%


KPI
64%
27%
9%
9%
EV
45%
36%
9%
9%
Business Planning
27%
36%
36%
Haven't started
Some internal discussion on approach
Considered an approach and produced indicative numbers
Finalised approach (not yet built)
Finalised approach (built and tested)
Has been deployed to production



3. Transition

3. Transition

Treatment Of Model Errors

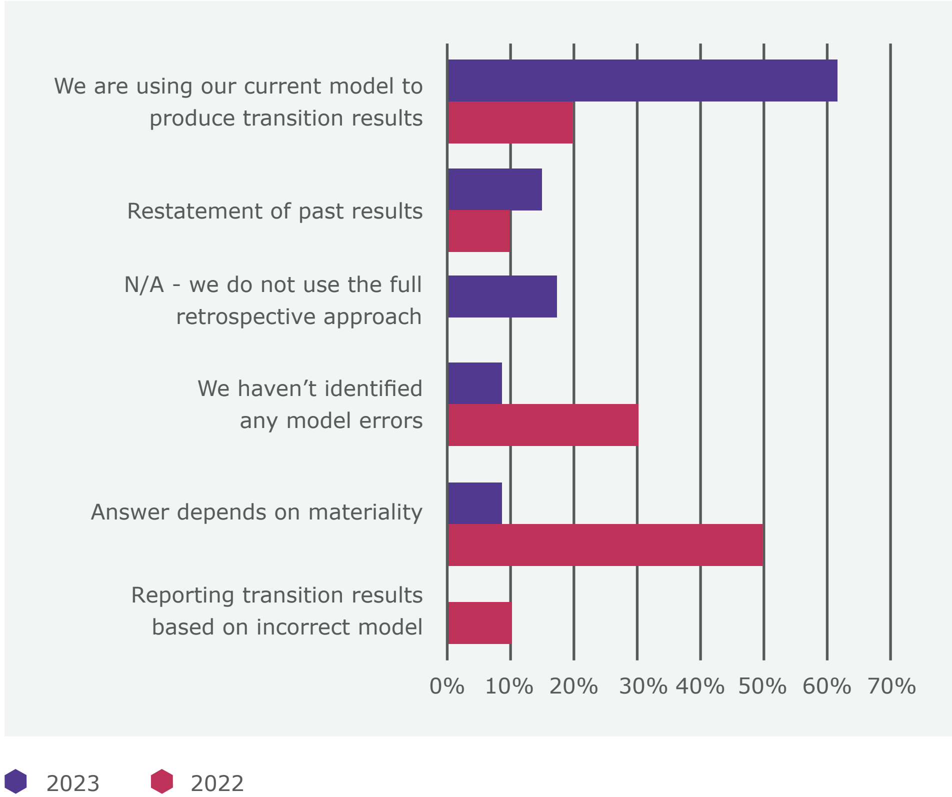
Q How are you dealing with model errors identified when applying the full retrospective approach?

Par 42 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that, to the extent that it is practicable, "an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by…restating the comparative amounts for the prior period(s) presented in which the error occurred."

Between 2022 and 2023 the focus seems to have shifted towards producing correct results, either by using current models or by restating past results where errors have been identified. By contrast, in 2022, more respondents based their actions on materiality or had not yet identified model errors.

13 Respondents

TREATMENT OF MODEL ERRORS



One respondent not using the full retrospective approach is a mutual insurer. The approach is only applied to groups of contracts recognised in the transitional period. For these contracts, no model errors have been identified.

IFRS 4 vs IFRS 17 Balance Sheets

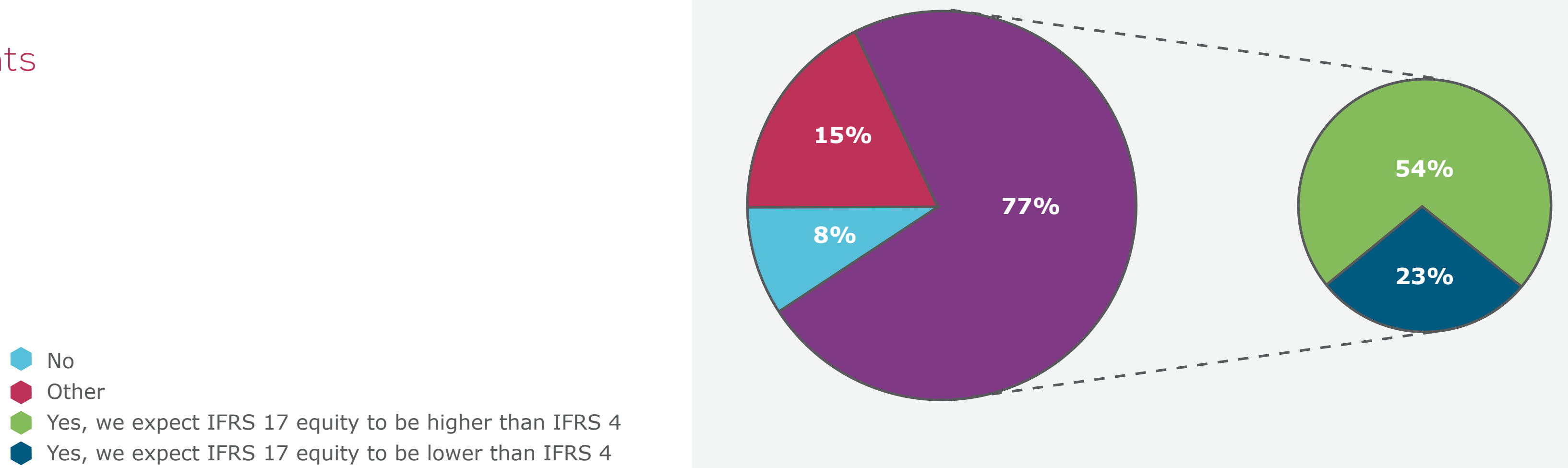
Q Have you found material differences between your IFRS 4 closing and your IFRS 17 transition balance sheets?

Almost 80% of respondents have seen material differences between the IFRS 4 closing and IFRS 17 transition balance sheets, with most of these recording a transition credit (i.e. IFRS 17 equity being higher than that of IFRS 4).

Those who responded "other" were a mutual insurer (where the concept of shareholder equity does not exist, but who will be removing margins to move from IFRS 4 liabilities to the IFRS 17 present value of future cash flows) and a cell provider (where the difference will vary depending on the client).

13 Respondents

DIFFERENCES IN TRANSITION BALANCE SHEETS



IFRS 4 vs IFRS 17 Balance Sheets

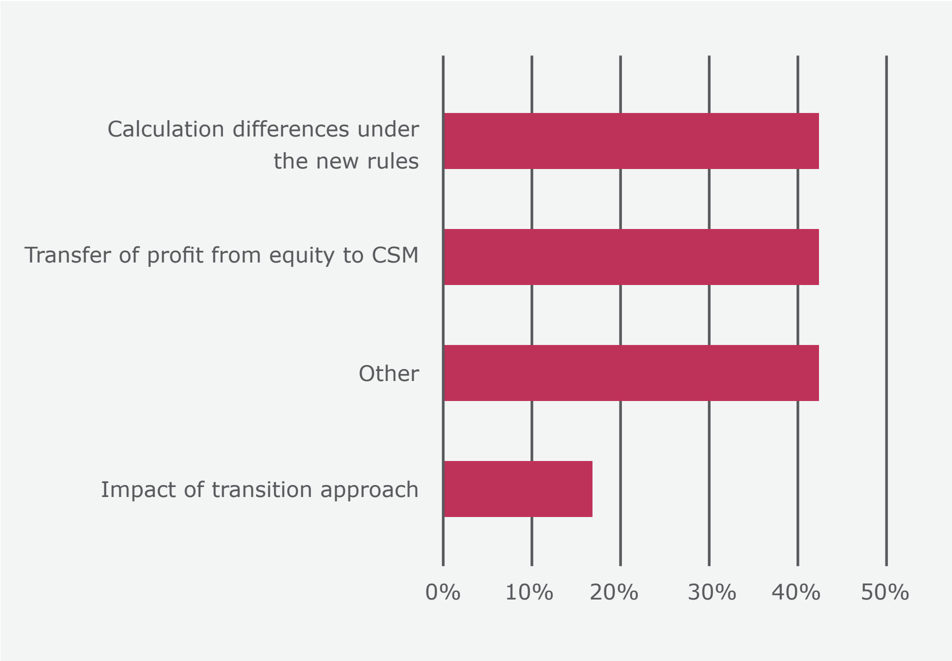
Q **What is the reason for material differences found between your IFRS 4 closing and your IFRS 17 transition balance sheets?**

The reasons for these differences varied between insurers. The most common reasons were differences in results due to the new IFRS 17 rules and a transfer of profit from equity to CSM. Those expecting a higher equity value under IFRS 17 are generally companies that held high discretionary margins under IFRS 4, which will form part of IFRS 17 equity.

Respondents also mentioned differences like the explicit risk adjustment methodology required by IFRS 17, resulting in a lower liability compared to the IFRS 4 compulsory margins, and moving from zeroising negative liabilities under IFRS 4 to recognising negative liabilities under IFRS 17 (i.e., where PVFC + RA + CSM < 0 for the in-force book).

12 Respondents

REASON FOR DIFFERENCE BETWEEN IFRS 4 AND IFRS 17 EQUITY



The values in this graph are expressed as a percentage of those respondents (10 in total) who found material differences between IFRS 4 closing and IFRS 17 transition balance sheets. The responses of the remaining two participants have been excluded.

Material Changes

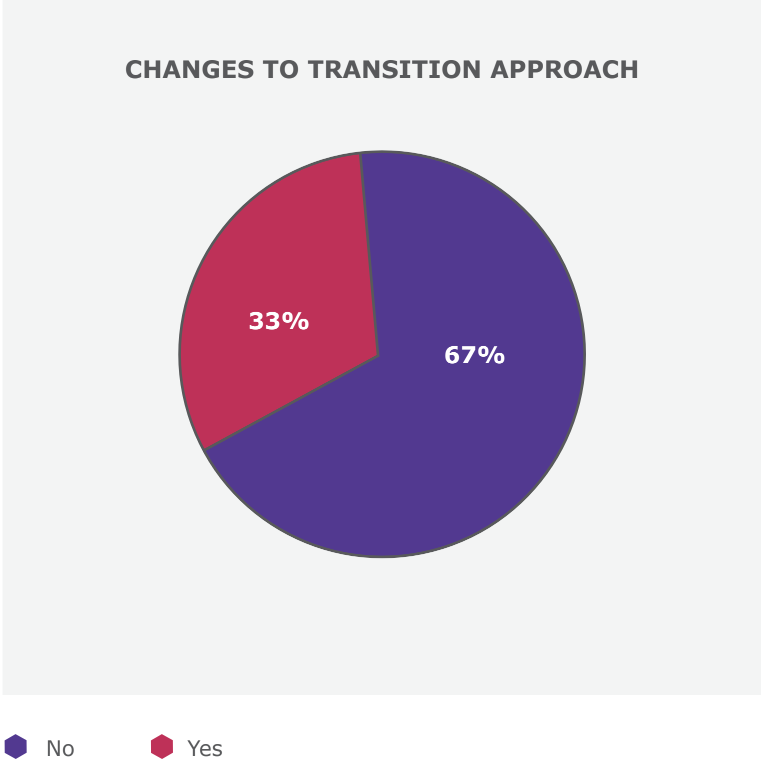
Q Have there been any material changes to your transition approach in the last 12 months?

Most respondents have not seen material changes in their transition approach in the last 12 months.

Those respondents who have made material changes stated the reasons for these changes as follows:

- Changes in the fair value approach methodology
- Transition approach was reconsidered based on financial impact
- Modified retrospective approach methodology was still under development

12 Respondents



4.

Risk Adjustment

13 Respondents

4. Risk Adjustment

Definitions Used:

Cost of Capital:
The sum of discounted future required capital values multiplied by a chosen cost of capital rate.

Value at Risk (Stress test and aggregation VaR):
Present value of future cash flows is calculated for each stress, calibrated at the desired confidence level. The differences between these runs and the best estimate run are aggregated using a correlation matrix.

Value at Risk (Single Equivalent Scenario VaR):
A combination of assumptions calibrated to a desired confidence level is changed simultaneously and the present value of future cash flows is calculated. The difference between this run and the best estimate run is the risk adjustment.

Margins for Adverse Deviation:
Margins obtained from an external source (e.g., SAP 104 margins) are added to best estimate assumptions and the present value of future cash flows is calculated. The difference between this run and the best estimate run is the risk adjustment.

Proportional allocation:
Allocated by a proportion based on some metric, e.g., premium.

Discrete marginal contribution:
Calculated as the difference between the risk adjustment of the whole book including the contract/group/portfolio in question and the risk adjustment of the whole book excluding it.

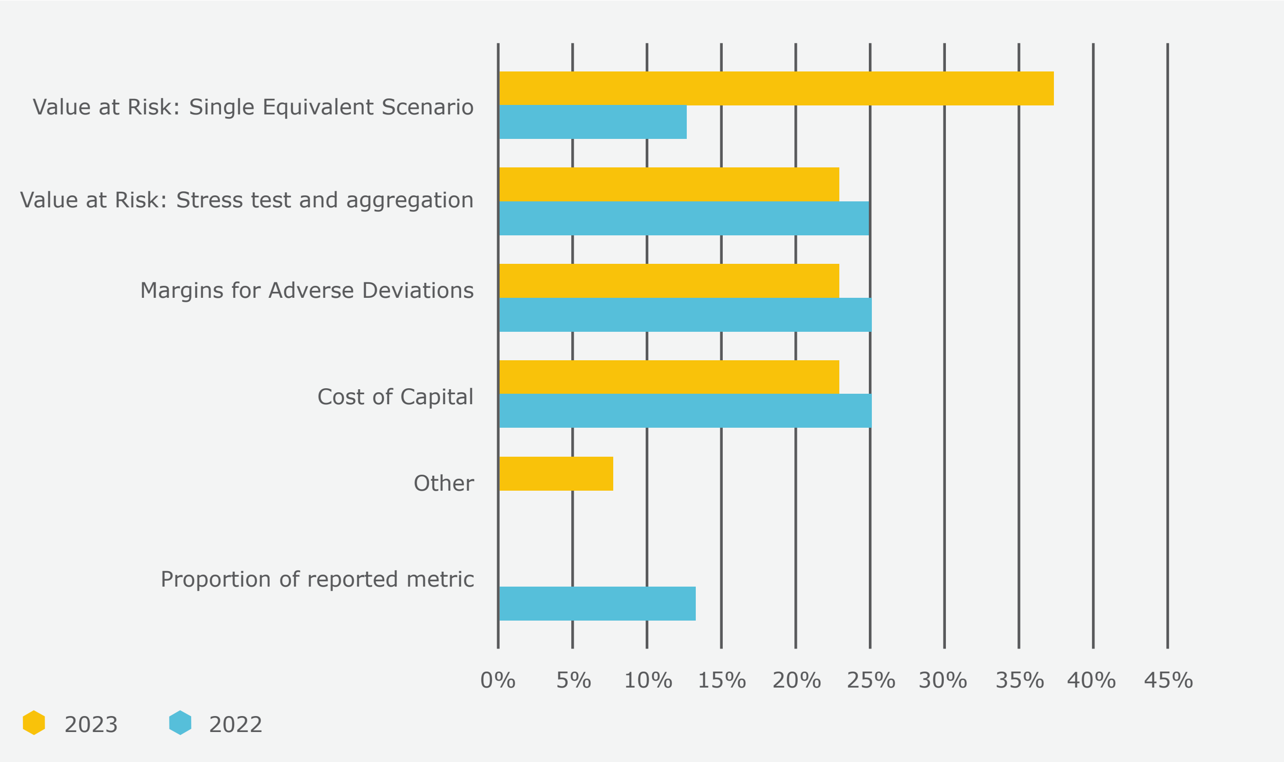
Continuous marginal contribution:
Measures the sensitivity of the total risk adjustment to a very small additional exposure of a new component (contract/group/portfolio). Once the derivative for the new component is calculated, it is multiplied by the risk measures of each component to arrive at the continuous marginal contribution.

4. Risk Adjustment

Methodology

Q Which methodology do you plan to use for the risk adjustment calculation?

RISK ADJUSTMENT METHODOLOGY CHOICE



Over 60% of respondents have selected a Value at Risk (VaR) approach (single equivalent scenario or stress test and aggregation).

This was a substantial increase from 2022 results, when the cost of capital, stress test and aggregation VaR and proportional approach were more popular than in 2023. The change may be due to market trends, but also due to a slightly different respondent profile between 2022 and 2023.

Most respondents using the VaR approach are assuming a normal distribution for all the risks included. They are generally excluding mass lapse and catastrophe risks, arguing that such events are immaterial or will not occur time frame implied by the confidence level selected.

To calibrate the stresses to be applied, most respondents are scaling the SAM stress percentages down to the appropriate confidence level.

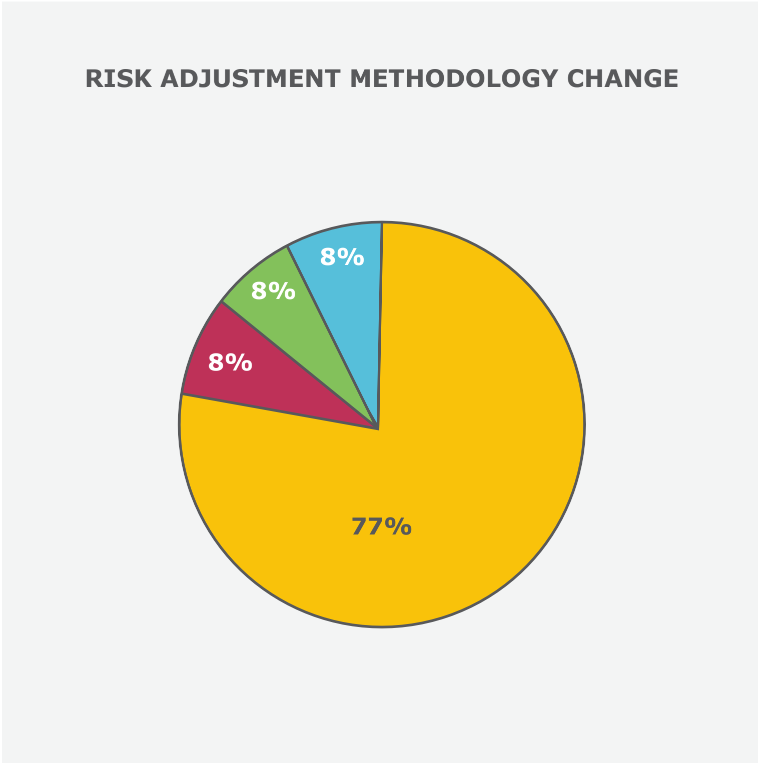
Methodology Changes

Q Has your risk adjustment methodology changed in the last 12 months? If so, why?

Almost 80% of respondents stated that there had been no change in their risk adjustment methodology in the past year.

Of the three respondents who did change their methodology, one did so to provide a better reflection of their risk profile, another did so because their previous methodology was too time consuming to perform in cycle, and the last was advised by an auditor to tweak their existing SES methodology.

No other material changes to the risk adjustment approach or calculation were reported.



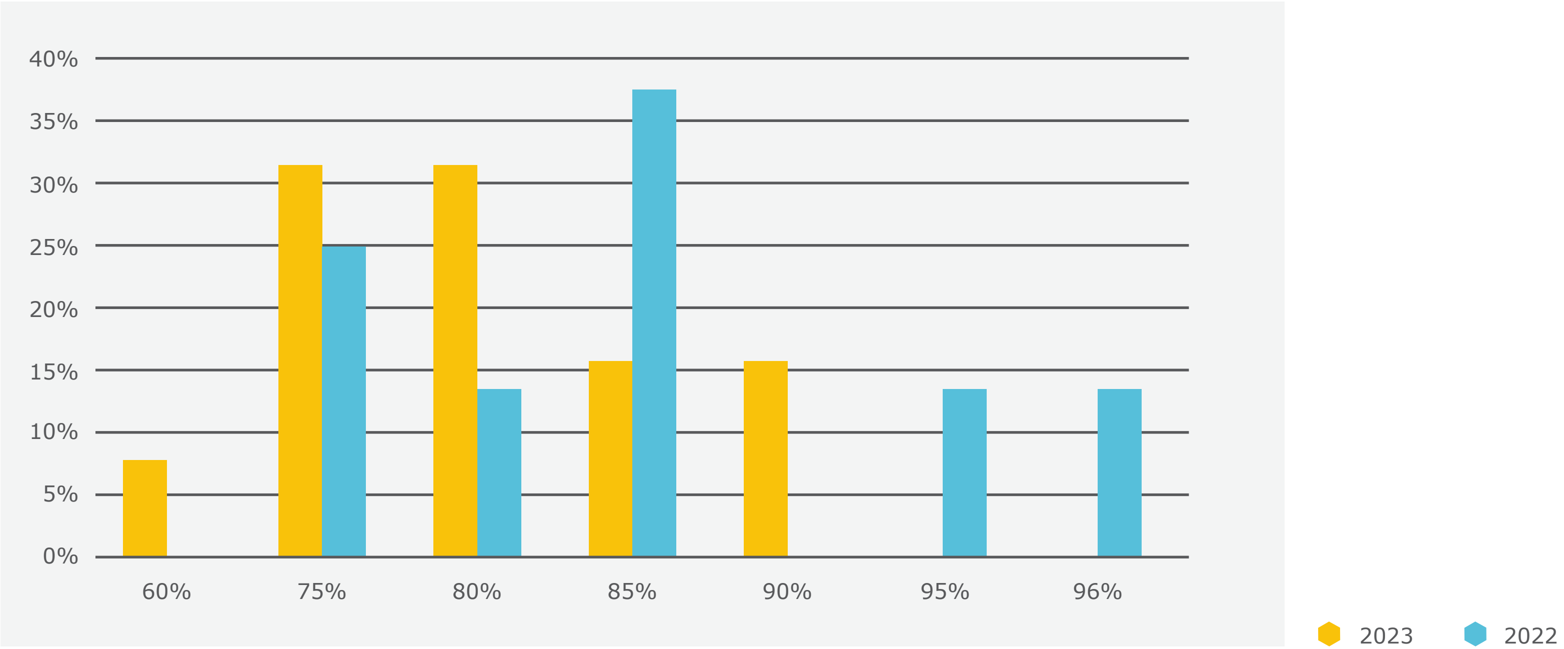
- No
- Yes - better reflection of risk profile
- Yes - previous method was too time consuming
- Other

Targeted Confidence Level

Q At what confidence level does your company expect to set the risk adjustment? If you are not using VaR, what is the confidence level that will be disclosed?

Almost 80% of respondents are targeting confidence levels between 75% and 85% for their life business, with the most popular confidence level having decreased from 85% to 75% and 80% over the last year. The highest recorded confidence level was 90% (down from 96% last year).

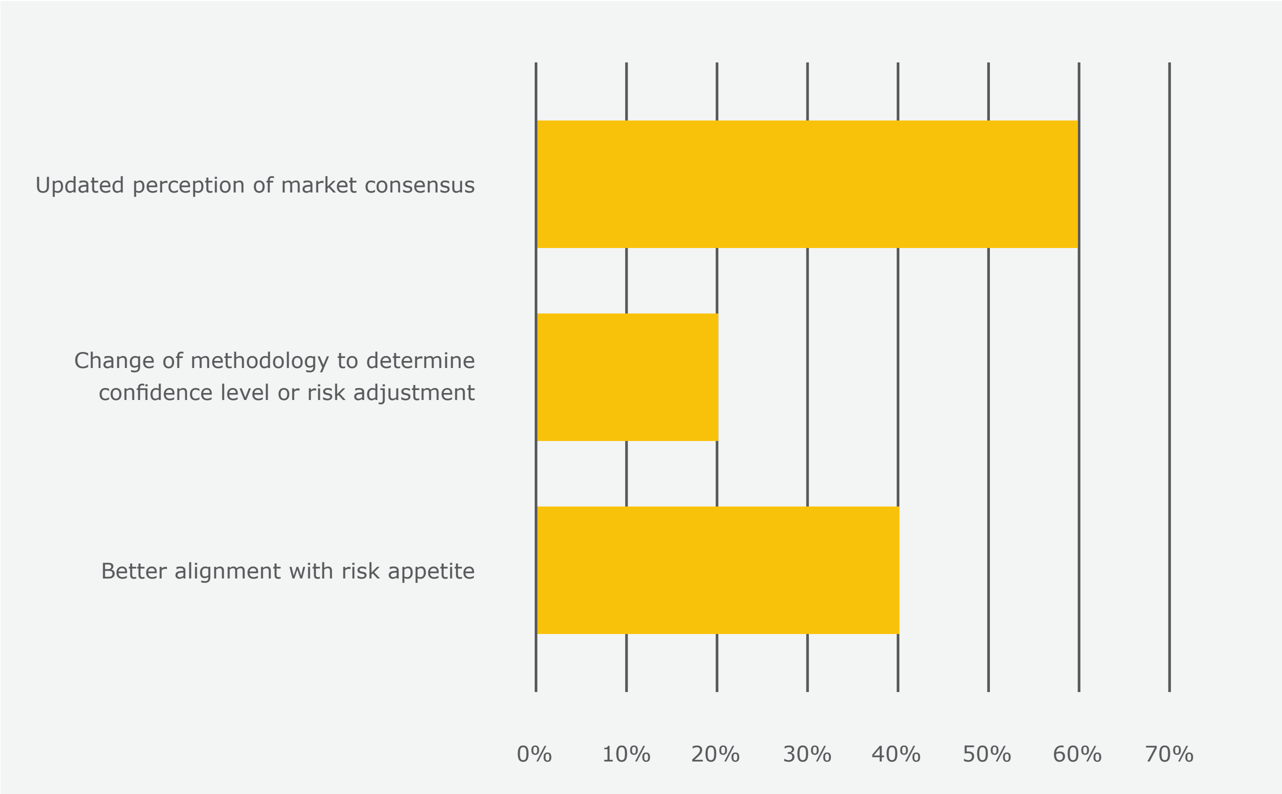
TARGETED CONFIDENCE LEVEL



Targeted Confidence Level Change

Q Has your targeted confidence level changed over the last 12 months? If so, why?

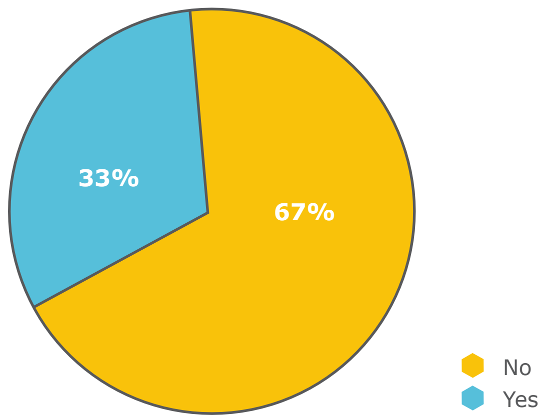
REASONS FOR CHANGE IN CONFIDENCE LEVEL



One third of respondents indicated that their targeted confidence level had changed over the last year, which is consistent with the downward trend seen between 2022 and 2023 in the previous slide.

Most respondents (60%) who changed their confidence level indicated a desire to be consistent with market consensus. Others cited a desire for better alignment with risk appetite and a change in their risk adjustment/ confidence level methodology.

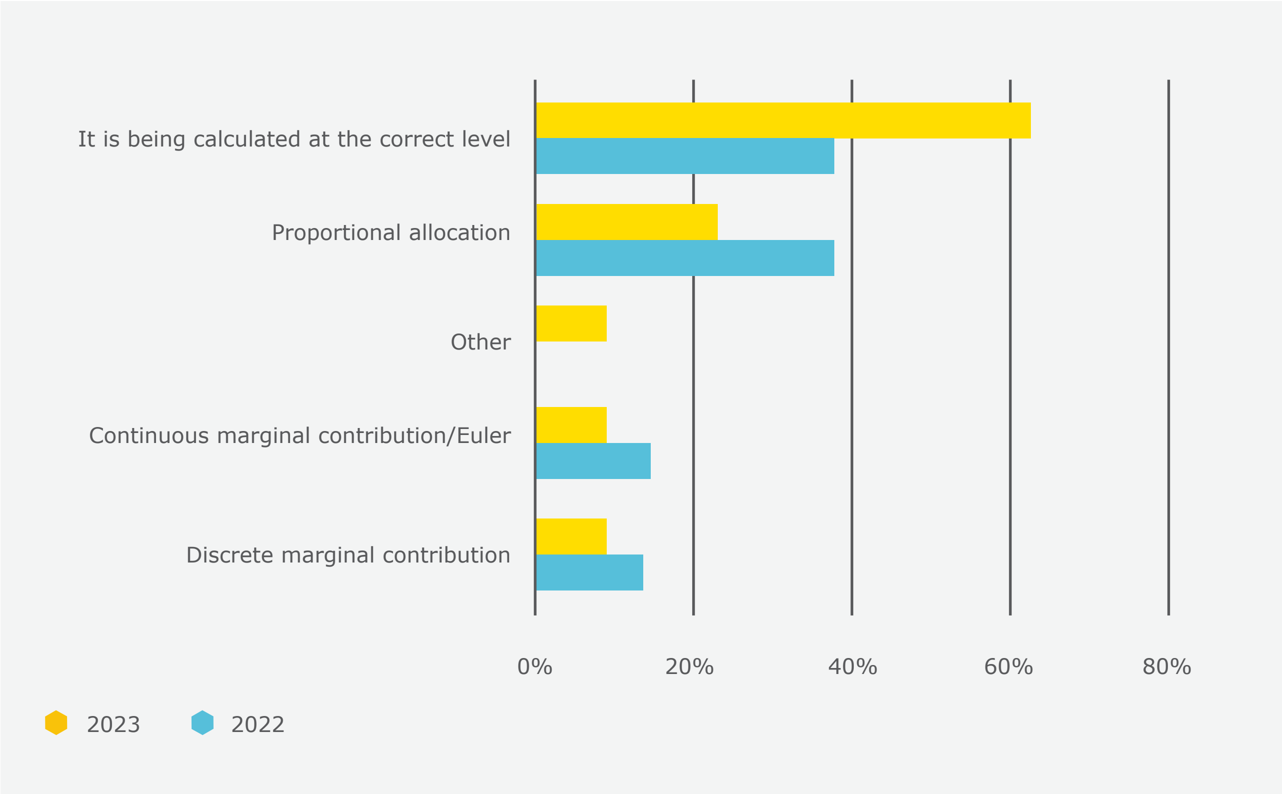
CHANGE IN CONFIDENCE LEVEL



Allocation Approach

Q How are you allocating your risk adjustment to the required level of granularity (e.g. to individual contract level or IFRS 17 group level)?

RISK ADJUSTMENT ALLOCATION



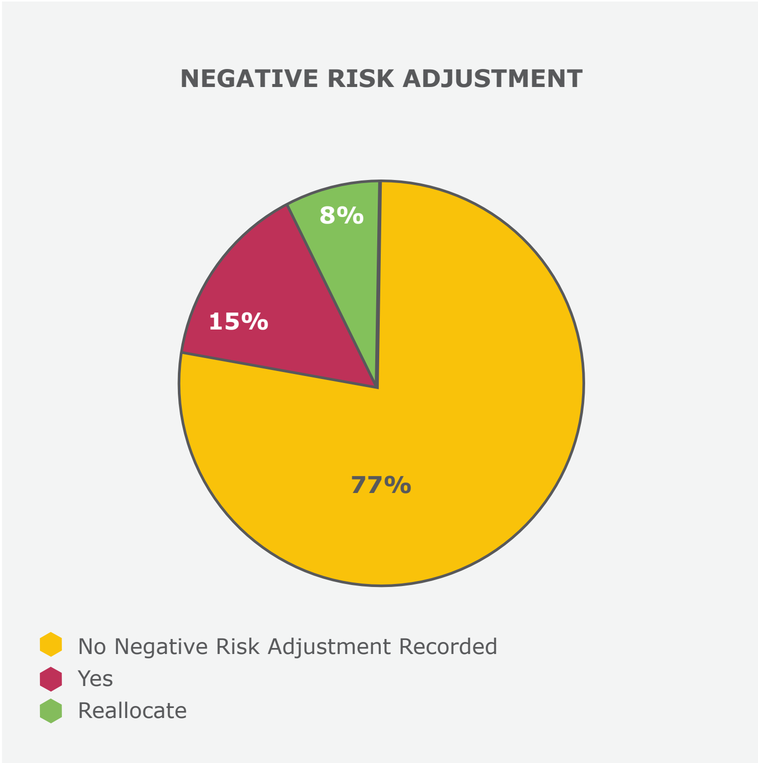
Respondents generally either already calculate the risk adjustment at the correct level of granularity (62%) or are using a proportional allocation (23%). The respondent who chose "other" stated that once they have calculated an aggregated VaR, they solve for product-specific margins for adverse deviation to match the VaR. As these margins are applied at a contract level, the risk adjustment does not require allocation.

Negative Risk Adjustment

Q Do you intend to allow a negative risk adjustment at a unit of account level?

Almost 80% of respondents employ a risk adjustment methodology that does not result in negative risk adjustments.

Two of the remaining respondents said that they do currently allow for negative risk adjustments as this is immaterial for the IFRS 17 groups that are in this position. There are ongoing internal discussions about whether this will be allowed in future. One respondent is reallocating the negative risk adjustments to other insurance groups.



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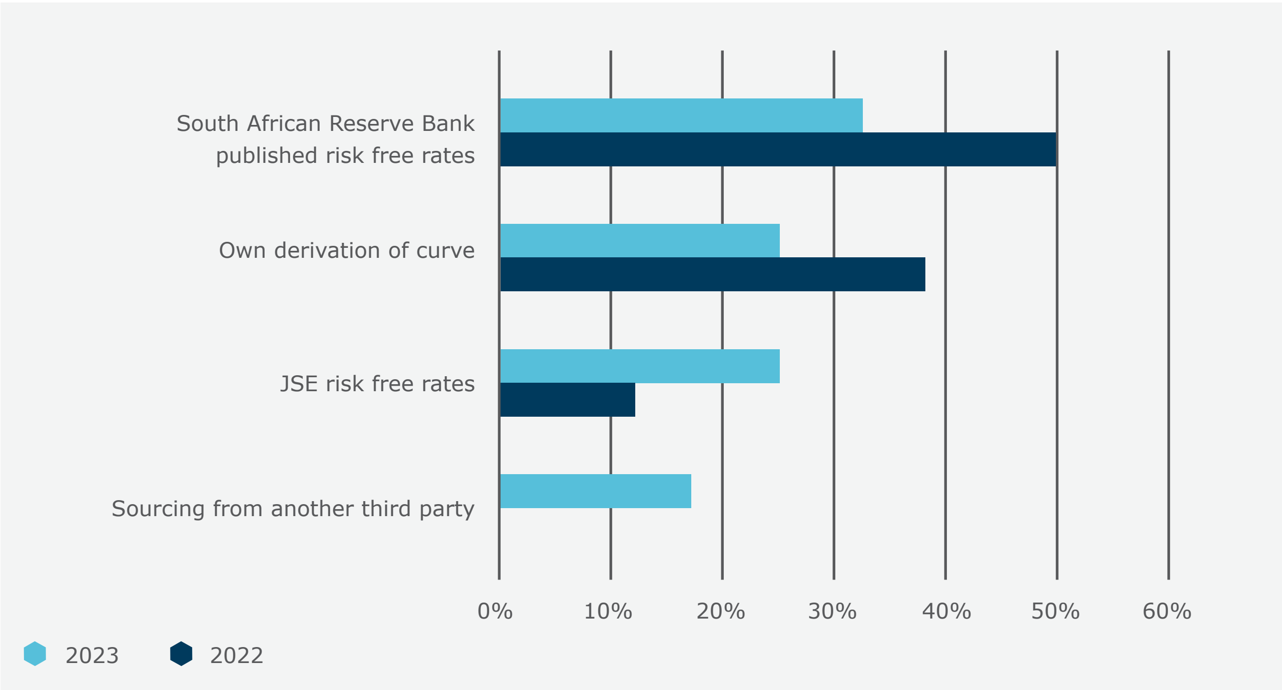
5. Discount Rates

5. Discount Rates

Risk-Free Rate Source

Q For the portfolios for which you will be using a bottom-up discount rate, what will your benchmark be for the risk-free curve underlying the discount curve?

BENCHMARK FOR RISK-FREE CURVE



One third of respondents are using the SARB published risk-free rates in 2023. There is an equal number of respondents deriving their own curves and using JSE risk-free rates. Those insurers associated with a bank tend to be deriving their own curves. Some insurers are obtaining risk-free curves from third parties, such as their parent companies.

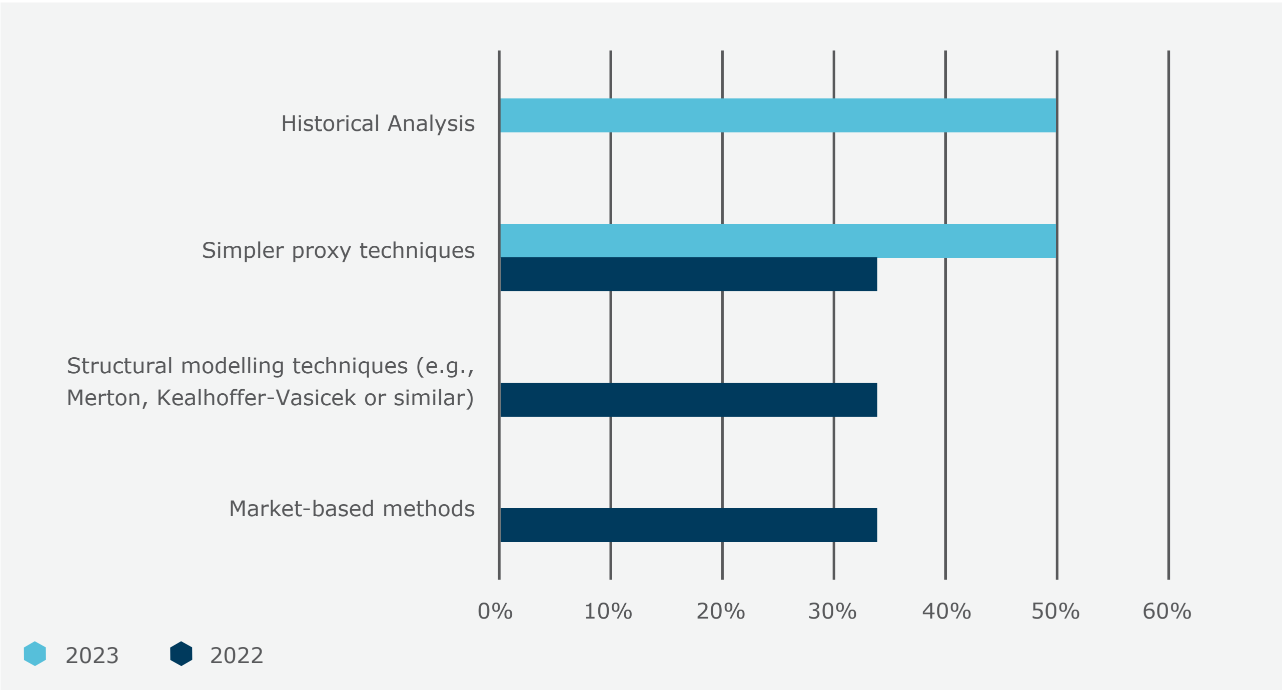
All but one respondent recorded no change in their methodology when selecting their benchmark for the risk-free curve underlying the discount curve in the last year. That respondent changed their methodology to better reflect their liability profile.

12 Respondents

Credit Risk

Q For those portfolios for which you are using a top-down approach to derive discount rates, what approach are you applying to remove credit risk components?

APPROACH TO REMOVAL OF CREDIT RISK COMPONENTS



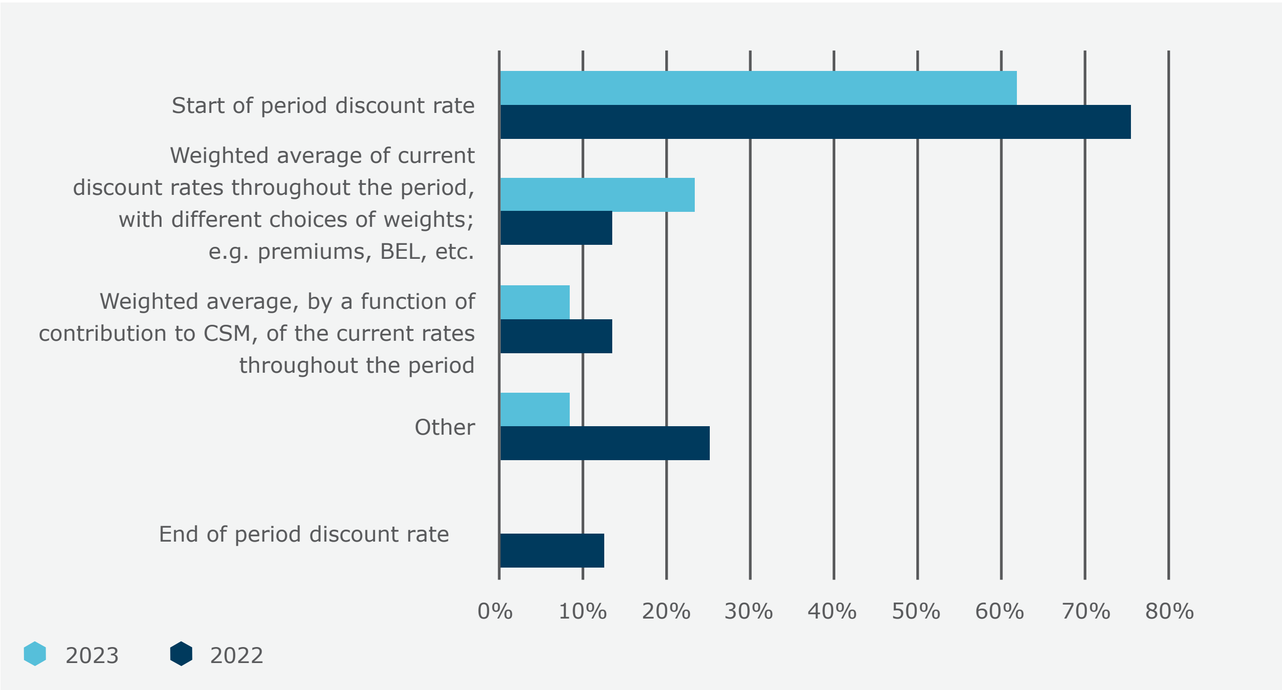
Of the two organisations applying the top-down approach, one is using historical analysis and the other is using structural modelling techniques (e.g., Merton, Kealhoffer-Vasicek or similar) to remove credit risk.

*Only 2 respondents use top-down portfolio.
These figures are calculated using those 2 respondents

Approach to Locked-in Yield Curves

Q Which discount rate will you assign to groups at initial recognition, i.e., how will you set your locked-in yield curves?

LOCKED-IN YIELD CURVE METHODOLOGY



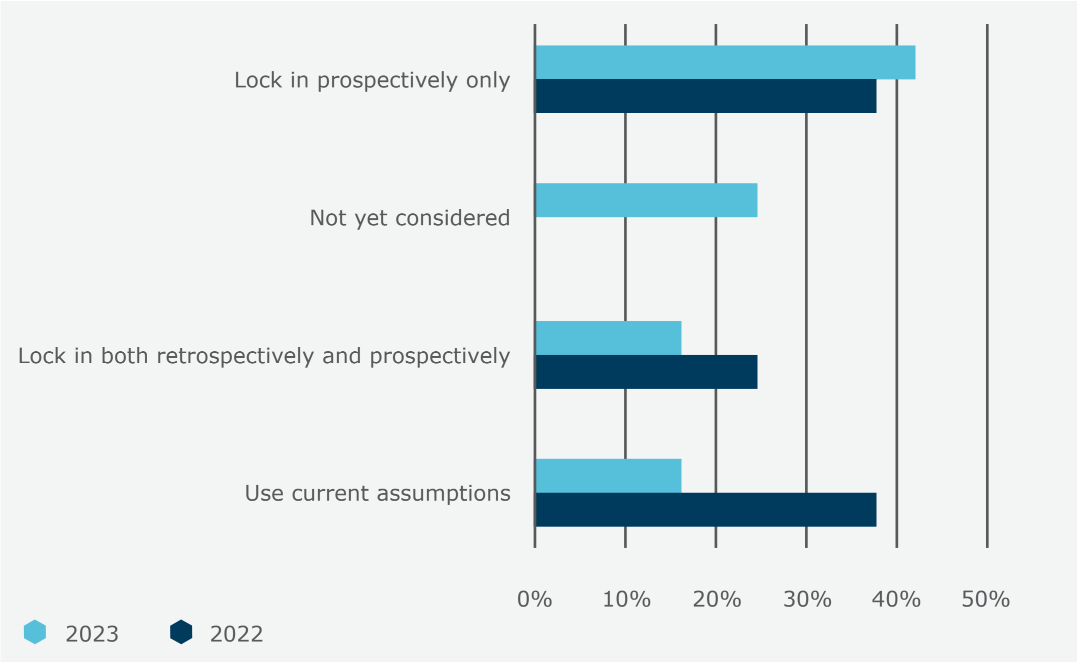
Similar to 2022, most respondents in 2023 are using the start of period discount rate for their locked-in yield curves. None of the respondents indicated that their approach had changed in the last year. The remainder are using a weighted average approach, with the respondent who selected "other" using the yield curve in the month of sale of each policy as locked-in rates.

13 Respondents

Approach to Inflation Assumptions

Q Are you locking in inflation assumptions?

LOCKING IN OF INFLATION ASSUMPTIONS



IFRS 17 is clear that the effect of financial risk and changes in financial risk on fulfilment cash flows should not adjust the CSM (paragraph B97). However, for changes in non-financial risk that do adjust the CSM, it only specifies that they should be measured using locked-in discount rates (paragraph B96c) and does not explicitly refer to other financial assumptions.

This gives rise to differing views on the locking in of inflation assumptions when adjusting the CSM.

In 2023 more than 40% of respondents are locking in inflation assumptions prospectively only. Seventeen percent are locking inflation in both retrospectively and prospectively, i.e. they will maintain a "shadow" measurement of fulfilment cash flows at the locked-in rates of inflation. The remainder are split between using current assumptions for inflation; i.e., they are not treating inflation as a financial risk or they have not yet considered these assumptions.

12 Respondents

Of the two respondents who are not locking in inflation, i.e. using current assumptions, one is doing so because their inflation assumptions are not related to a market index. The other is doing so because they do not believe inflation, as a financial assumption, needs to be locked in.

No respondents are locking in any other assumptions (apart from interest rates and, in some cases, inflation).

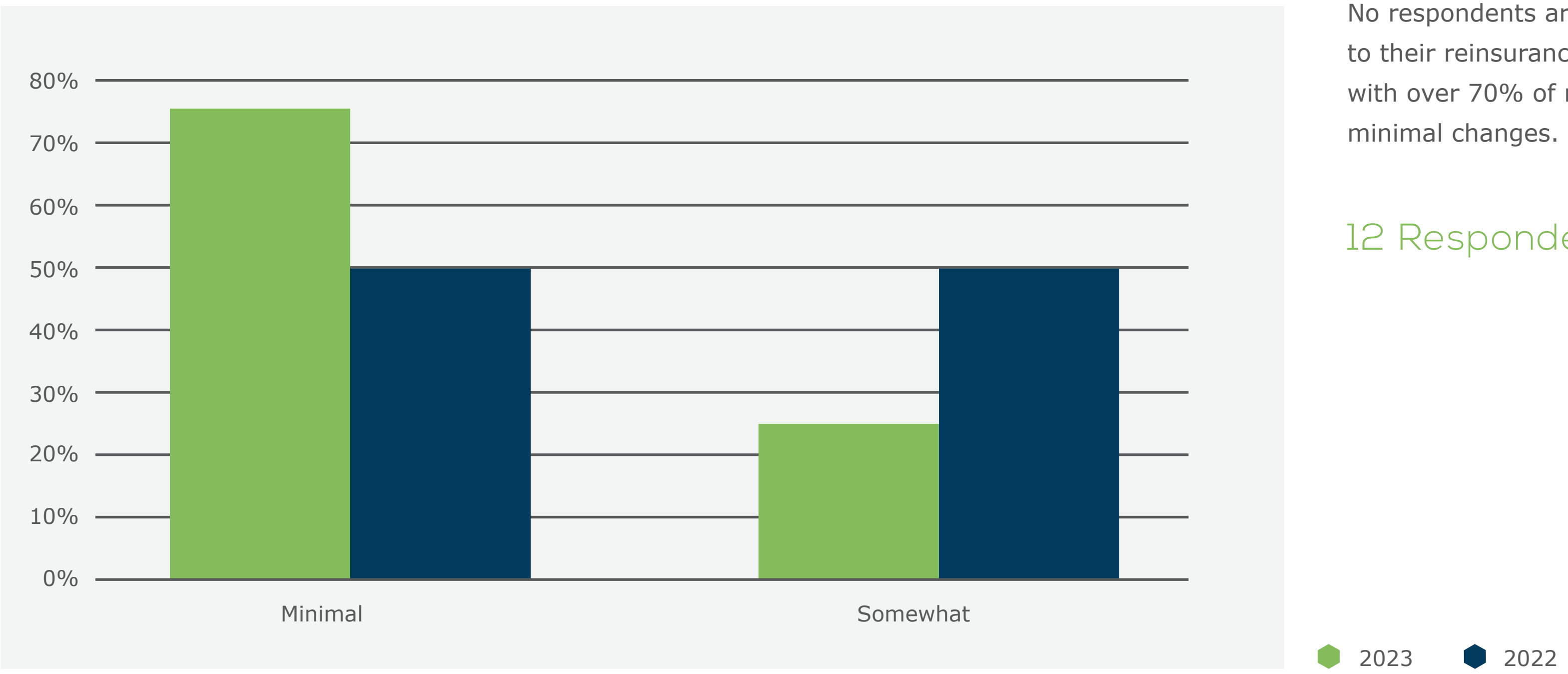
6. Reinsurance

6. Reinsurance

Extent of Changes to Reinsurance Arrangements

Q To what extent have IFRS 17 requirements with respect to reinsurance led to a change in your reinsurance arrangements?

EXTENT OF CHANGES TO REINSURANCE ARRANGEMENTS



No respondents are expecting to make major changes to their reinsurance arrangements due to IFRS 17, with over 70% of respondents expecting to make minimal changes.

12 Respondents

Changes to Reinsurance Arrangements

Q In what way have you changed/do you plan to change your reinsurance arrangements due to IFRS 17?

One respondent is planning to consolidate their reinsurance arrangements because the overhead involved in keeping smaller/older treaties open increases significantly with IFRS 17.

Six respondents plan to make minor adjustments to their treaty terms and four respondents state that there are no changes to their reinsurance arrangements.

Examples of Expected Changes to Treaty Terms

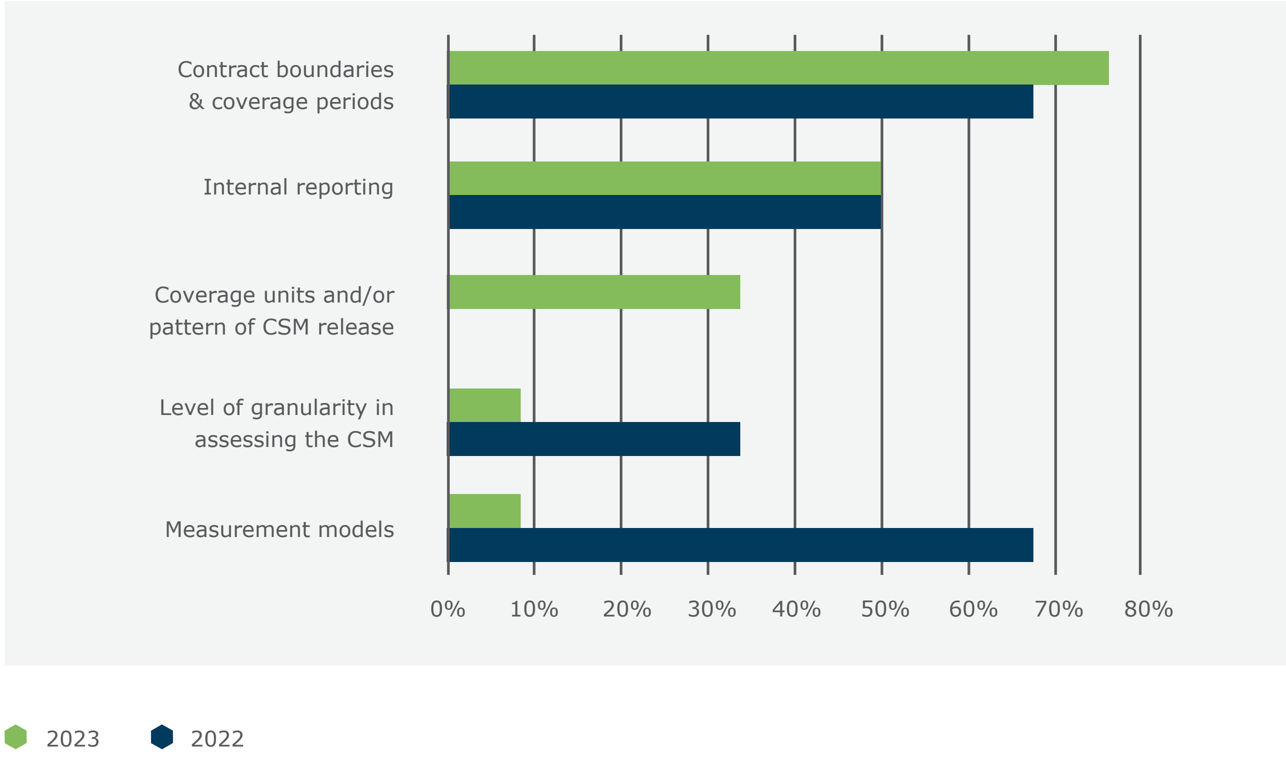
- Adjustment of cancellation period to simplify modelling and avoid/reduce requirement of projecting expected future new business.
- Changed treaty from risk-attaching to loss-occurring.
- Amendment of effective date of reinsurance contract modifications.
- Modification of treaty terms to align contract boundaries of gross and reinsurance business

11 Respondents

Accounting and Methodology Mismatches

Q **Which of the following mismatches between your insurance contracts issued and reinsurance contracts held do you expect to encounter?**

ACCOUNTING/METHODOLOGY MISMATCHES



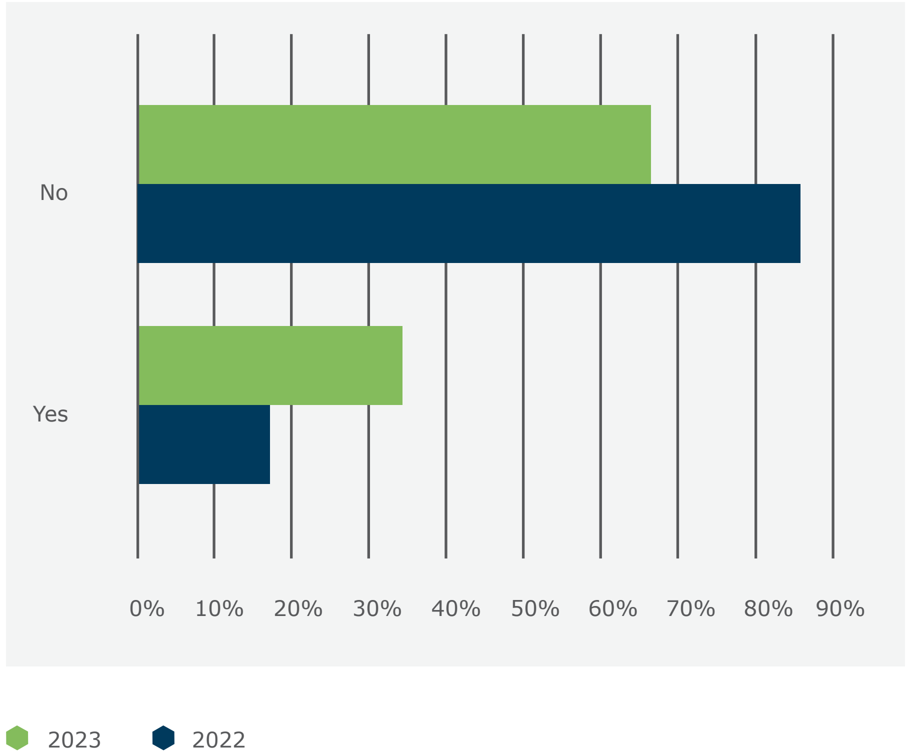
Similar to 2022, many respondents expect mismatches regarding contract boundaries and coverage periods. Some respondents also expect mismatches in internal reporting, e.g. where internal reporting is required on a net basis, and in their coverage units/pattern of CSM release.

12 Respondents

Catastrophe Reinsurance Modelling

Q Are you modelling reinsurance anywhere other than where your insurance contracts are modelled, e.g. catastrophe treaties?

MODELLING CATASTROPHE REINSURANCE ELSEWHERE?



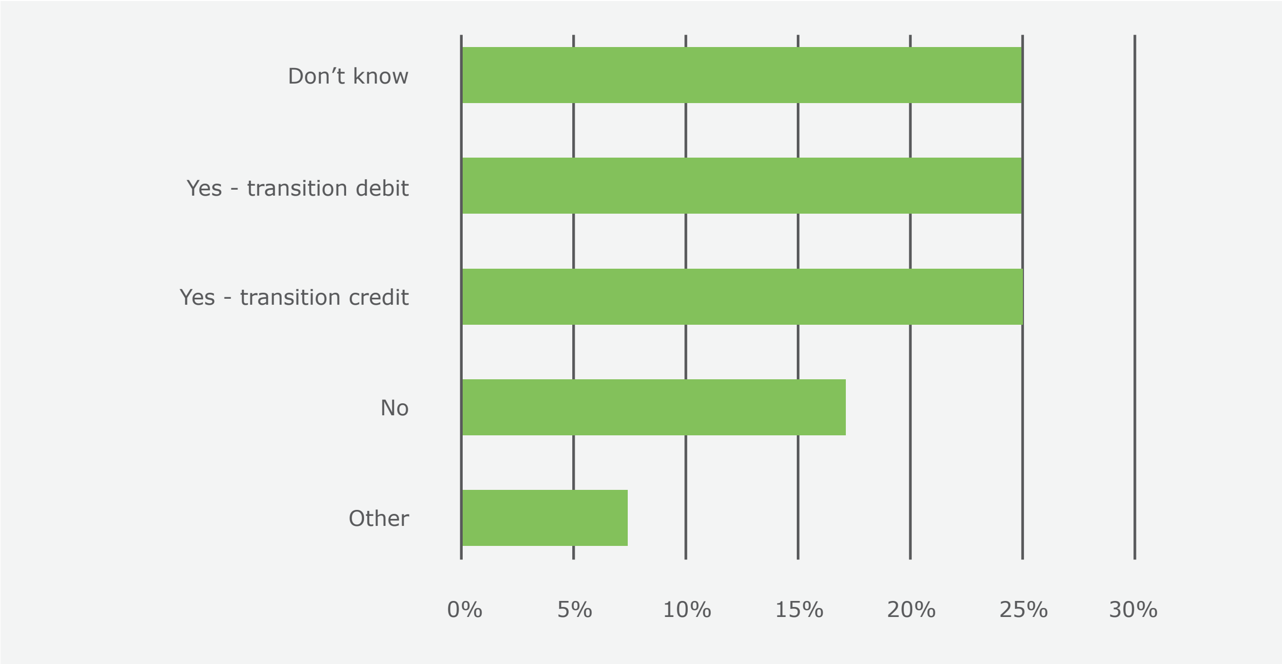
Four of the 12 respondents are modelling their catastrophe reinsurance treaties separately from their other treaties, usually due the treaties having different contract boundaries.

12 Respondents

IFRS 4 vs IFRS 17 Balance Sheets

Q Has the IFRS 17 reinsurance calculation contributed to material differences between your IFRS 4 closing and your IFRS 17 transition balance sheets?

IFRS 4 VS IFRS 17 BALANCE SHEETS



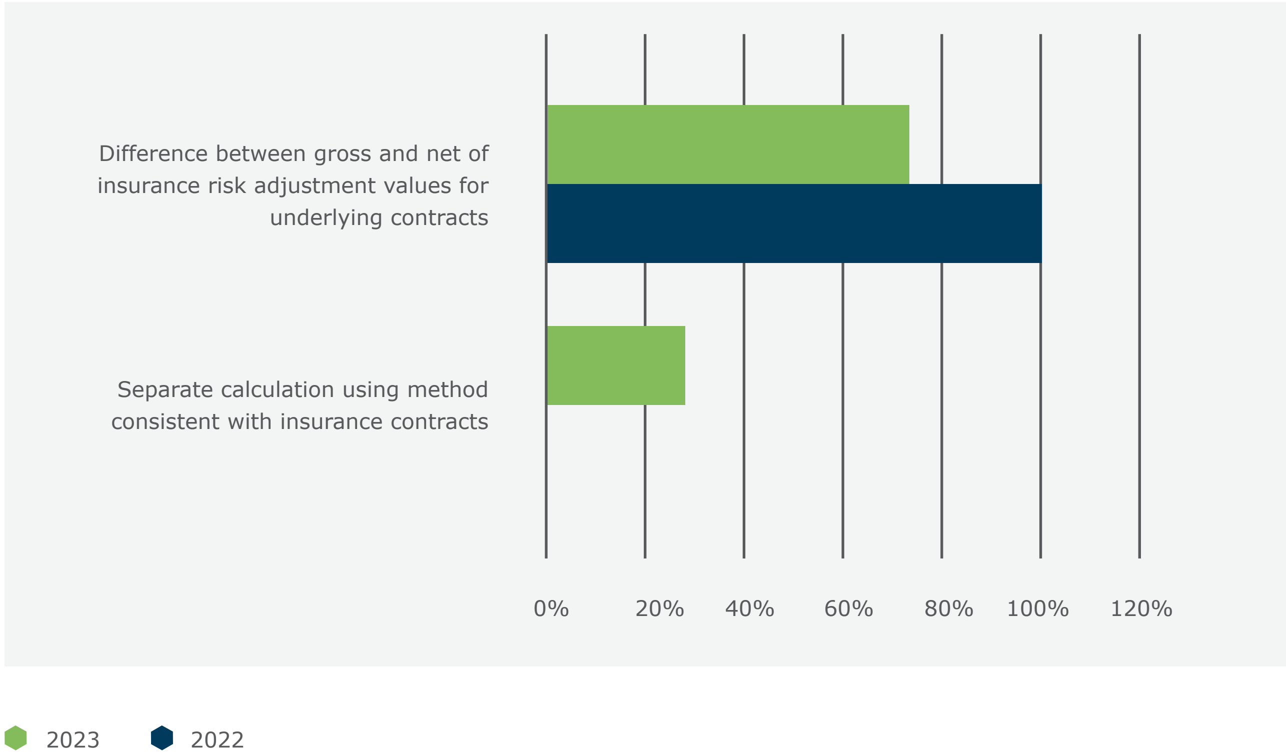
There does not appear to be a clear pattern with respect to the impact of IFRS 17 reinsurance accounting on insurers' balance sheets, with equal numbers of respondents seeing transition debits, seeing transition credits and being unsure at this stage. The respondent who selected "other" was seeing a minimal impact on one of their life licences and was expecting to see an impact on the other, but was not yet sure of the direction.

12 Respondents

Risk Adjustment

Q What approach are you taking to calculating the risk adjustment for your reinsurance contracts held?

REINSURANCE RISK ADJUSTMENT METHODOLOGY



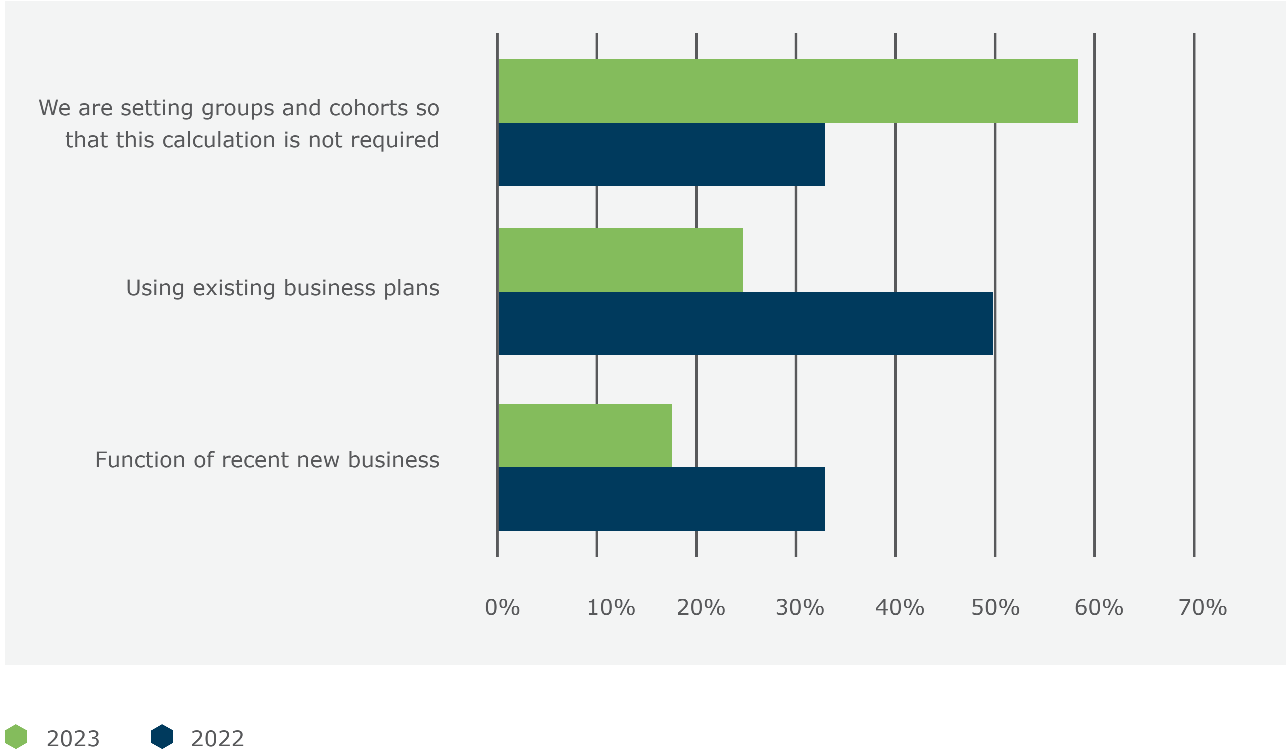
Over 70% of respondents plan to calculate their reinsurance risk adjustment as the difference between their gross and net risk adjustment results, rather than calculating the reinsurance risk adjustment independently. The remainder will calculate their reinsurance risk adjustment using a method consistent with insurance contracts.

11 Respondents

Projection of Future New Business

Q For the purpose of measuring reinsurance contracts, are you valuing expected future new business? If so, how are you calculating future new business?

FUTURE NEW BUSINESS CALCULATION



In their February 2018 staff paper, the Transition Resource Group for IFRS 17 Insurance Contracts (TRG) said that "...the boundary of a reinsurance contract held could include cash flows from underlying contracts covered by the reinsurance contract that are expected to be issued in the future."

Insurers therefore need to consider whether and how to measure the cash flows of underlying contracts that have not yet been issued.

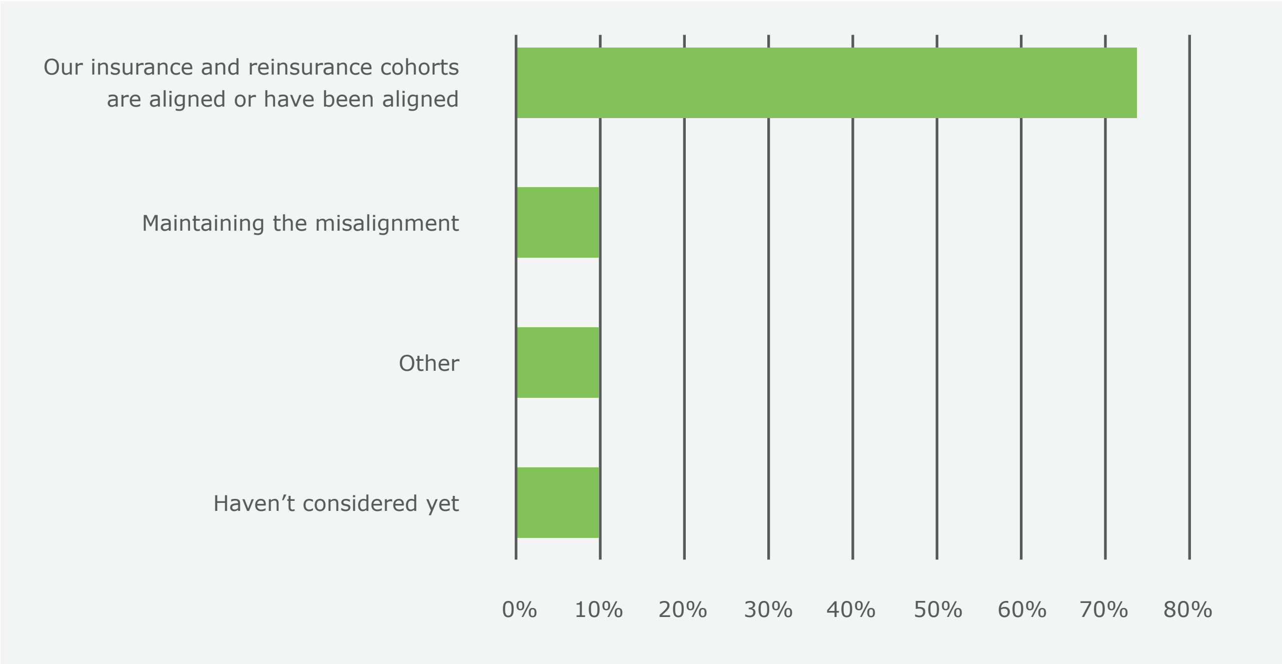
In 2023, over half of all respondents are setting their groups and cohorts so that the need to perform this calculation is avoided. Others are projecting future new business based on a function of recent new business or existing business plans.

12 Respondents

Alignment of Reinsurance Groups

Q How are you dealing with reinsurance group cohorts that are not aligned to your insurance group cohorts (e.g. due to the combination of inception dates of reinsurance treaties and cancellation periods)?

ALIGNMENT OF INSURANCE AND REINSURANCE GROUP COHORTS



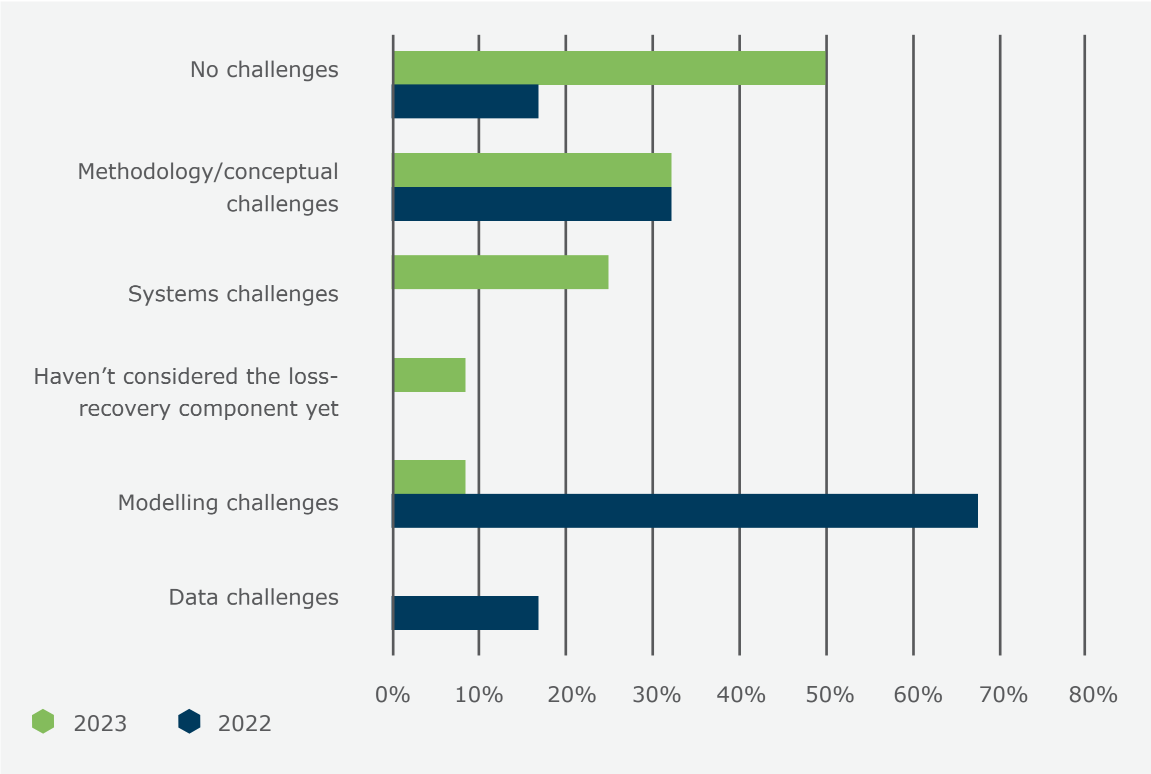
More than 70% of respondents reported that their insurance and reinsurance cohorts were aligned or had been aligned retrospectively. Many of these respondents retrospectively aligned the boundaries of their insurance and reinsurance cohorts from initial recognition. They were able to do so based on arguments of materiality. One respondent opted to maintained the misalignment. The respondent who selected "other" said that they have forced alignment between their transition reinsurance groups and insurance groups to maintain consistency in terms of inception year, locked-in rate, etc.

11 Respondents

Loss-recovery Component Challenges

Q Are you experiencing challenges in accounting for the loss-recovery component for the purpose of valuing reinsurance contracts held?

LOSS-RECOVERY COMPONENT CHALLENGES



The introduction of the loss-recovery component introduced additional challenges for insurers, from conceptual challenges to modelling and systems challenges.

Since 2022, respondents have made progress in accounting for the loss-recovery component, with half of the respondents experiencing no challenges.

12 Respondents

Loss-recovery Component Challenges (Contd.)

When asked to elaborate on their answer, some common themes arose:

Which cash flows should lead to changes in the loss-recovery component?

- There's been discussion within insurers and with auditors on whether the changes in the loss-recovery component need to differentiate between whether losses on underlying contracts have arisen from claims type experience (i.e. "covered" cash flows) or others, like expenses.
- Some respondents have not made this distinction due to the complexity and have argued it's immaterial, others do plan to treat these cash flows differently.

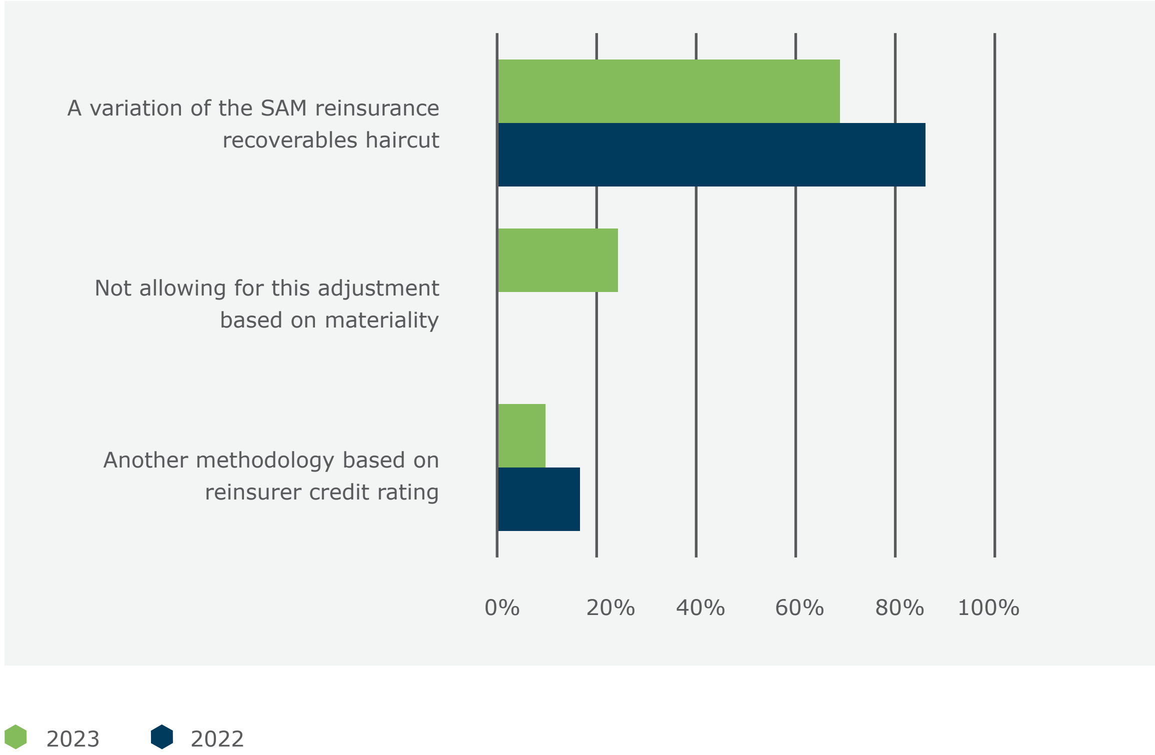
Systems challenges

- Insurers are getting to grips with their newly acquired IFRS 17 systems and their capabilities.
- Some insurers reported that their current systems require workarounds to calculate the loss-recovery component accurately

Risk of Non-performance of Reinsurers

Q Which methodology are you using to quantify the risk of non-performance of the reinsurer?

RISK OF NON-PERFORMANCE METHODOLOGY



Paragraph 63 of the Standard says that "the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract."

Two-thirds of the respondents are employing a methodology similar to the reinsurance recoverables haircut calculated for SAM. One respondent is using another methodology based on reinsurer credit rating. The remaining respondents are not allowing for risk of non-performance based on materiality.

12 Respondents

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7.

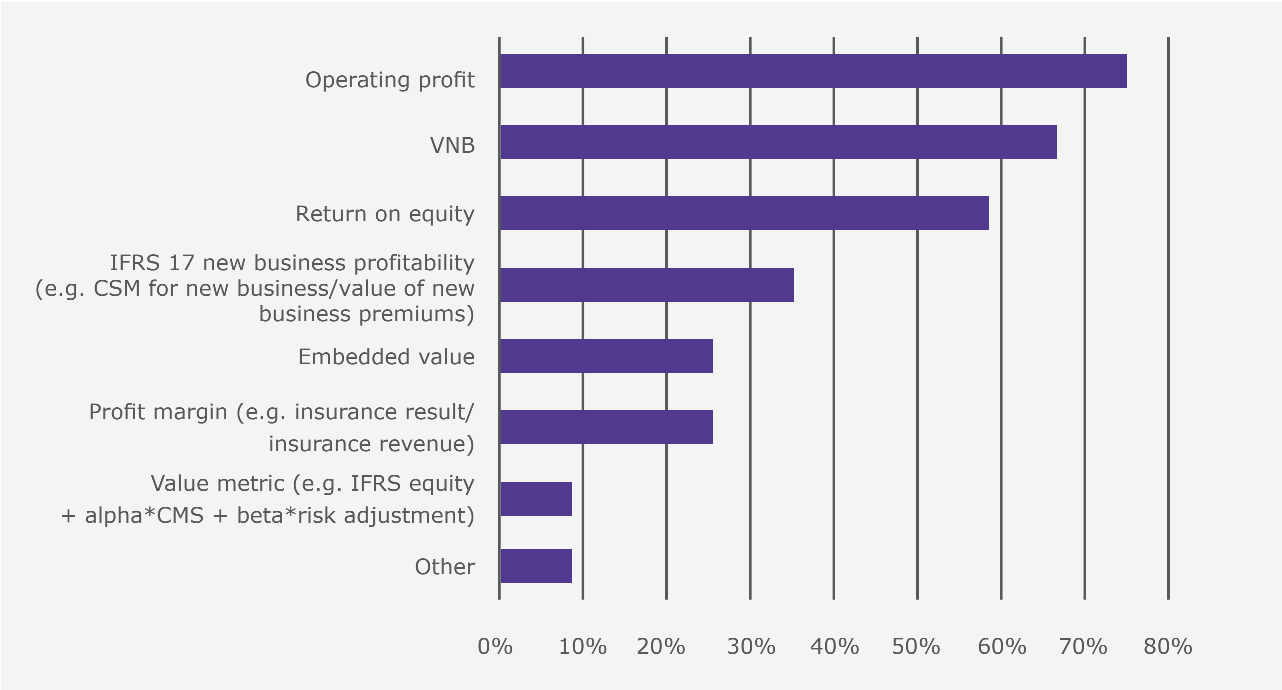
KPIs, EV & Business Planning

7. KPIs, EV and Business Planning

KPIs under IFRS 17

Q Which KPIs do you intend to measure under IFRS 17?

KPIs MEASURED UNDER IFRS 17



IFRS 17 will change the way insurance accounting works, with new financial statements and methodology for profit emergence. For many insurers, this may mean new KPIs.

Most respondents to our survey foresee Operating Profit, Return on Equity and VNB being their top KPIs under IFRS 17. These are generally the same KPIs they focused on before, so insurers will measure them under IFRS 17 and explain the differences from IFRS 4.

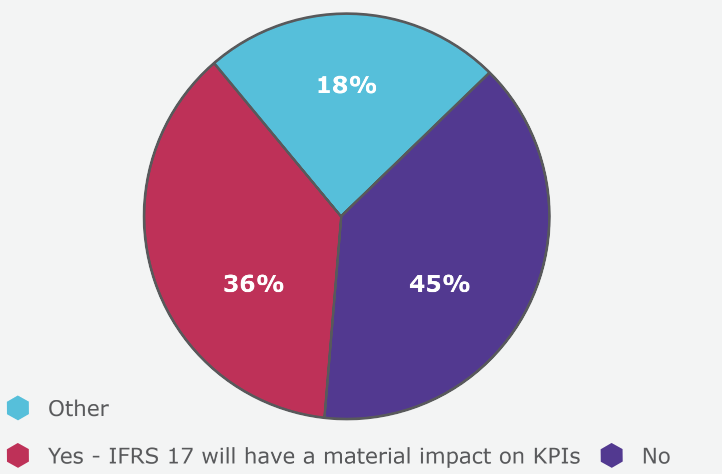
12 Respondents

Impact Assessment of IFRS 17 on KPIs

Q Have you conducted an impact assessment of IFRS 17 on your KPIs?

Even if the same KPIs are used in an IFRS 17 environment, the numbers will be different because of the differences in IFRS 17 methodology compared to IFRS 4. Insurers are therefore likely to require an impact assessment to understand these differences and be able to explain them.

IMPACT ASSESSMENT OF IFRS 17 ON KPIs



Forty-five percent of respondents have not yet conducted an impact assessment of IFRS 17 on their KPIs. Of the respondents who answered "other", one has started to consider the impact of IFRS 17 on KPIs but still needs to do full scale impact assessment. Another has seen material differences on some KPIs (i.e. EV) and not on others (i.e. VNB). The remaining respondents have seen material impacts on their KPIs following an impact assessment.

11 Respondents

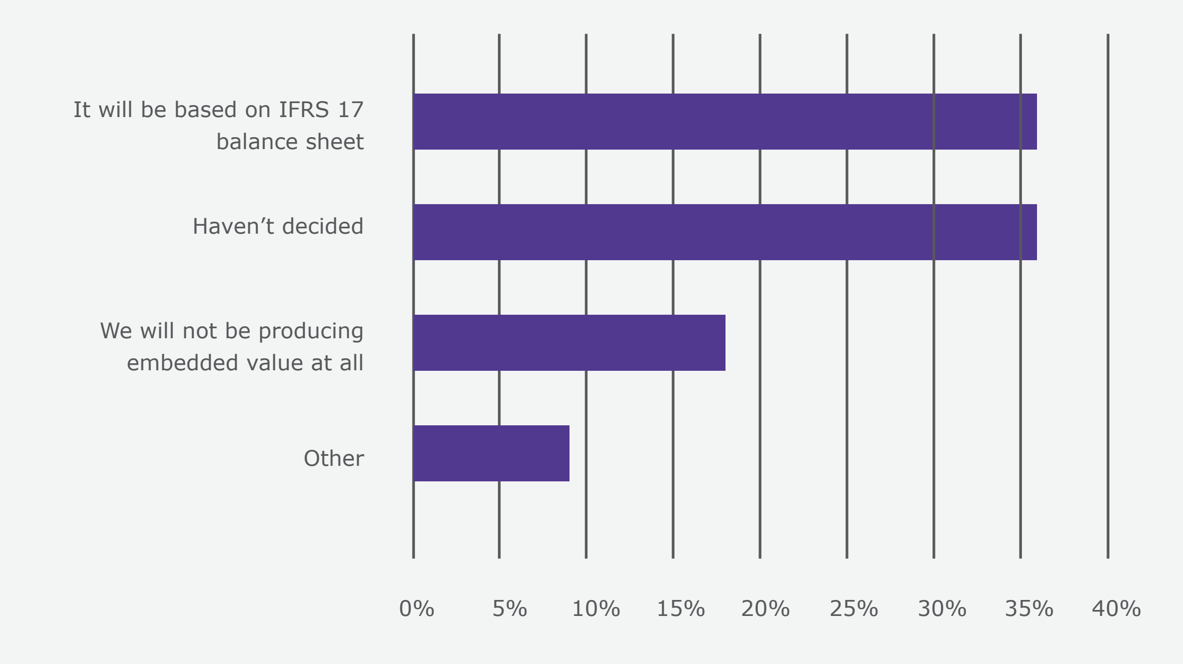
If you answered yes to the question above, what value have you derived from your impact assessment?

For the respondents who had conducted an impact assessment, there were no clear trends in terms of value derived from the exercise, with only two respondents mentioning benefits like identification of levers for optimisation and facilitation of engagement with the Board and management. The remainder derived no clear value from the exercise.

Calculation of EV and VNB Under IFRS 17

Q How will you calculate embedded value and VNB under IFRS 17?

CALCULATION OF EV AND VNB UNDER IFRS 17



Similarities between embedded value (EV) and IFRS 17 have led some insurers to explore the possibility of doing away with EV reporting after IFRS 17 is implemented. Profitability of new business under IFRS 17, for example, may be measured according to CSM, not VNB. This question sought to understand whether the future of South African life insurance reporting includes EV and, if so, how it will change.

11 Respondents

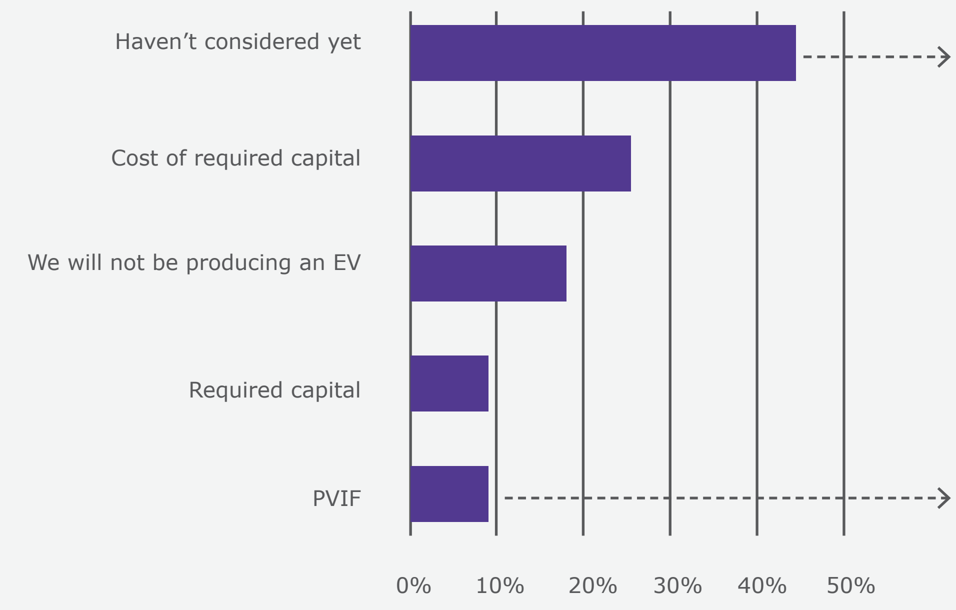
Over 70% of the respondents have either decided to base EV and VNB calculations on the IFRS 17 balance sheet or have not yet decided.

Two respondents will not be producing EV at all. The respondent who said "other" will only be producing VNB (based on the IFRS 17 balance sheet), but not EV. Of the three respondents that will not be producing EV, two are reinsurers that did not do EV reporting under IFRS 4 either. The other is an insurer that has decided to drop EV reporting.

Components of EV That May Pose Challenges

Q Which component(s) of the EV pose(s)/do you foresee posing the greatest conceptual/computational challenge?

COMPONENTS OF EV THAT MAY POSE CHALLENGES



"Need to decide on approach: leveraging off SAM CoC or some other approach more specific to IFRS17"

"Models are not built to project the CSM and risk adjustment"

Of the respondents who plan to continue with EV reporting and have considered it in detail, most expect the cost of required capital component of EV to pose a challenge.

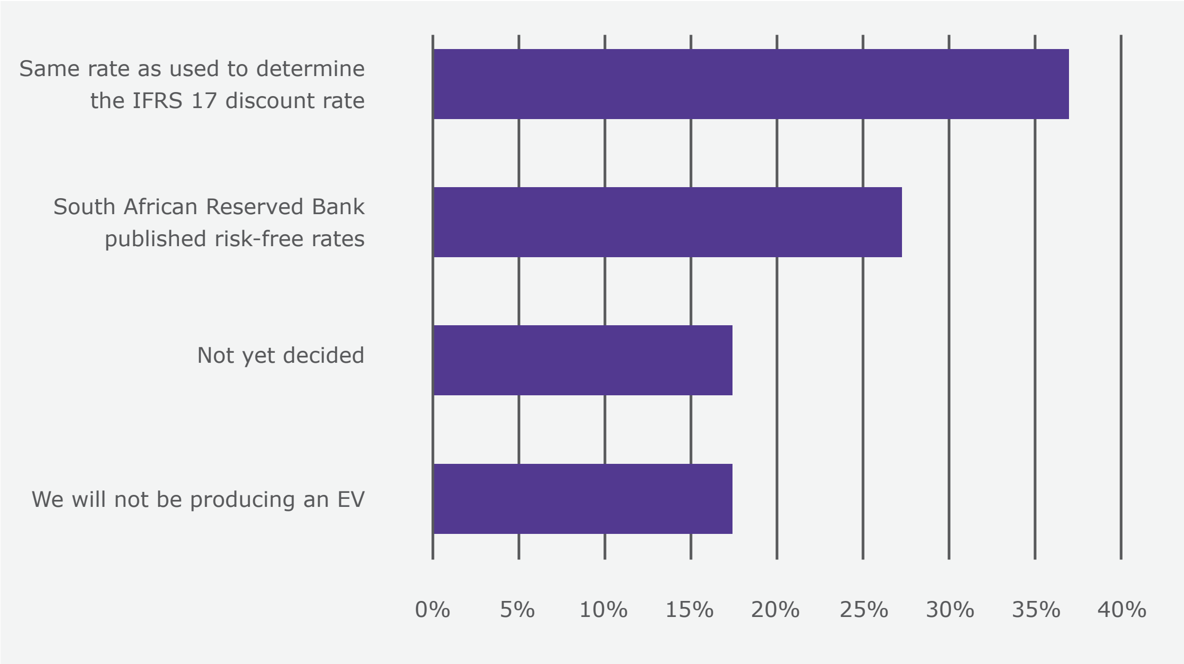
11 Respondents

*Respondents who selected "We will not be producing embedded value at all" were not included in this graph

Risk-free Rate Used in EV Risk Discount Rate Calculation

Q Which risk-free rate will you use in your EV risk discount rate calculation?

RISK-FREE RATE USED IN EV RISK DISCOUNT RATE CALCULATION



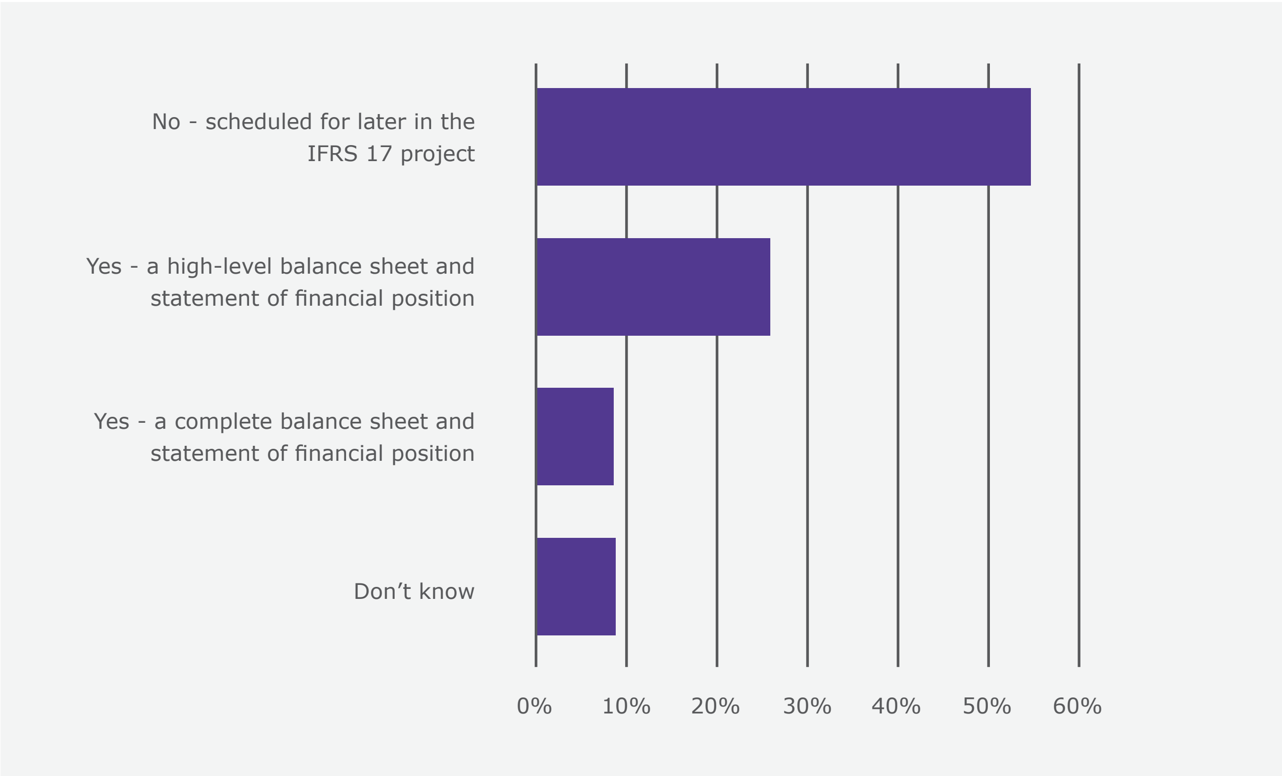
Respondents who intend to continue embedded value reporting seem to desire consistency either with their IFRS 17 financial reporting, or their SAM regulatory reporting. Those who have decided on a risk-free rate will either use the same risk-free rate in the EV risk discount rate calculation as used to determine the IFRS 17 discount rate or the South African Reserve Bank published risk-free rates (used for SAM).

11 Respondents

Preparation of BP under IFRS 17

Q **Has your company prepared a business plan based on IFRS 17?**

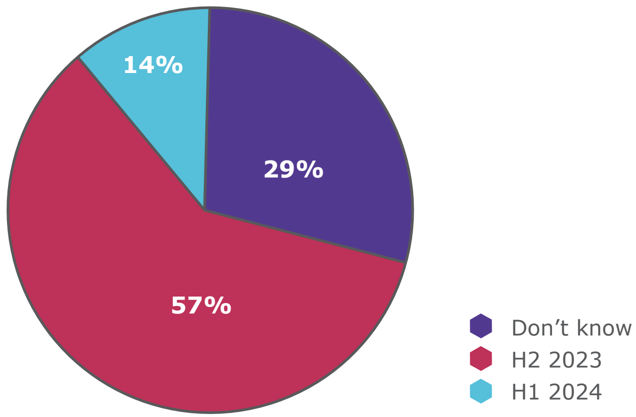
BUSINESS PLAN PREPARED ON IFRS 17



More than 90% of the respondents have either performed some kind of business plan or plan to do so within the next year.

WHEN WILL A BUSINESS PLAN BASED ON IFRS 17 BE PREPARED?

If you answered no to the previous question, when does your company intend to do so?

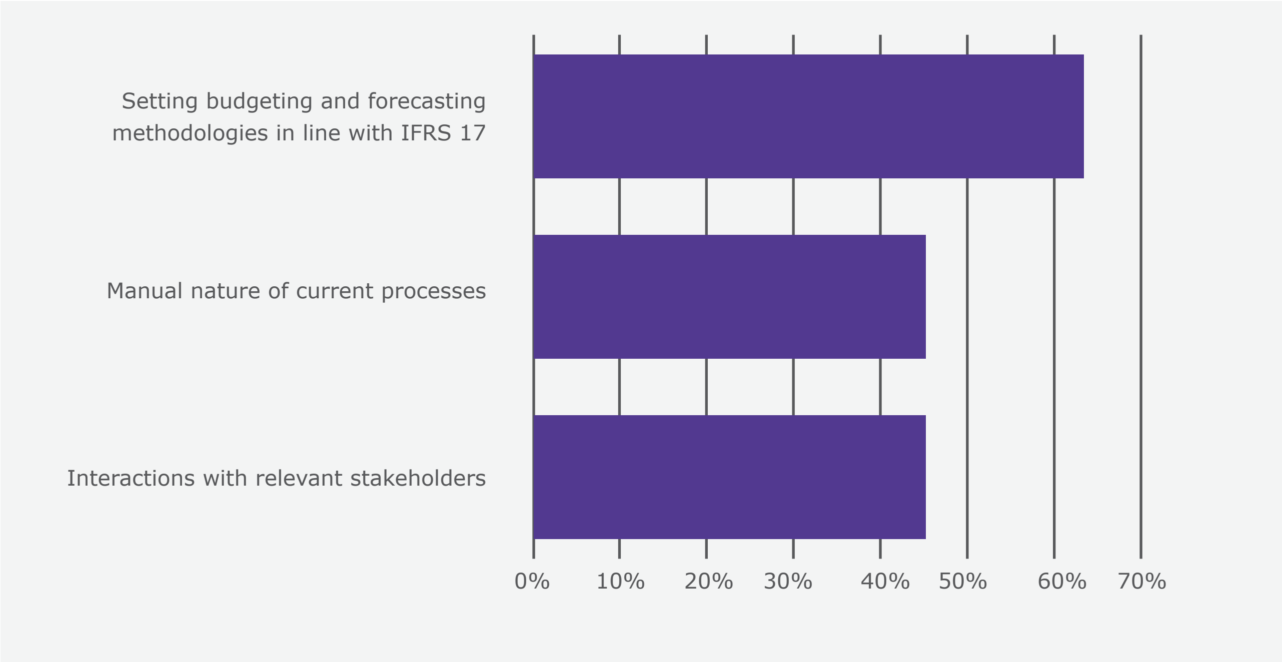


11 Respondents

Challenges in Implementing BP Under IFRS 17

Q What do you see as the greatest challenge(s) in implementing business planning under IFRS 17?

CHALLENGES IN IMPLEMENTING BP UNDER IFRS 17



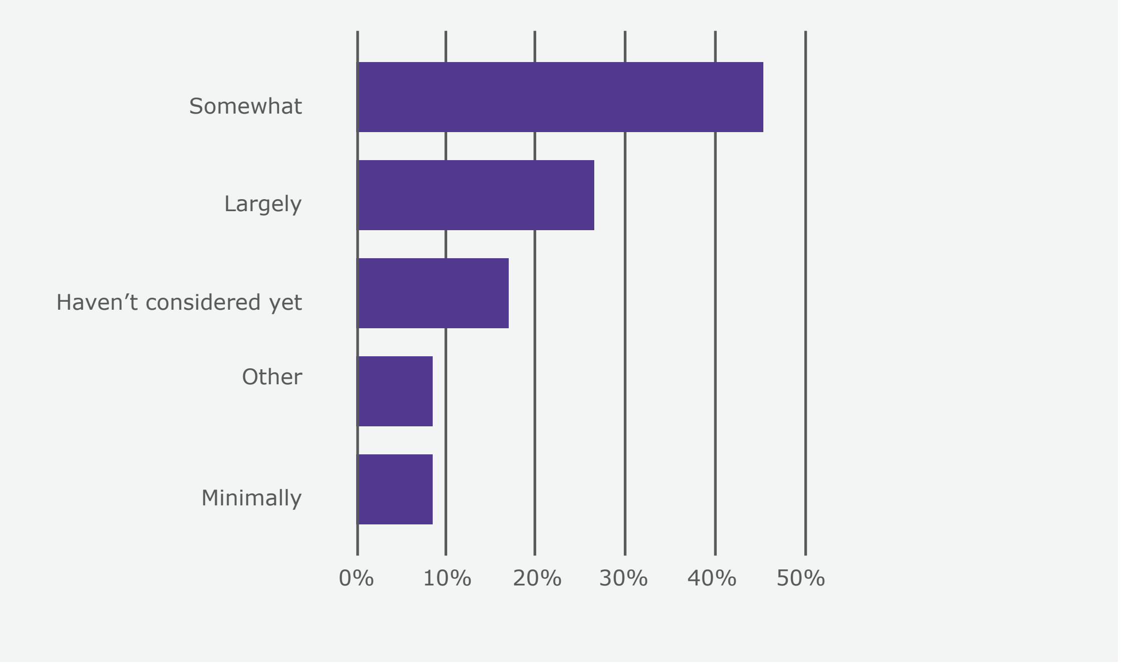
Most respondents view the changes due to the IFRS 17 standard itself as the major challenge in implementing business planning, rather than challenges around existing or future processes.

11 Respondents

Use of Existing BP Tools and Methodologies

Q To what extent will you be able to use your existing business planning tools and methodologies in an IFRS 17 environment?

EXTENT TO WHICH ABLE TO USE EXISTING BUSINESS PLANNING TOOLS AND METHODOLOGIES



Most respondents expect to be able to reuse existing business planning tools and methodologies in an IFRS 17 environment to at least some extent. The respondent who said "other" expects business planning to be largely performed on the US GAAP basis with IFRS 17 being a local regulatory requirement.

Ways in which existing business planning tools and methodologies will be reused

- "Some portions will be used others will need to be revamped."
- "We will largely use our existing processes, but the mechanism for projecting CSM will pose challenges if we continue to use a detailed projection approach."
- "Existing tools are based in spreadsheets with inputs from Prophet, therefore these spreadsheets can be reused and inputs changed."
- "Business planning uses the same models to produce IFRS 17 numbers, however the templates that are used are different."

11 Respondents

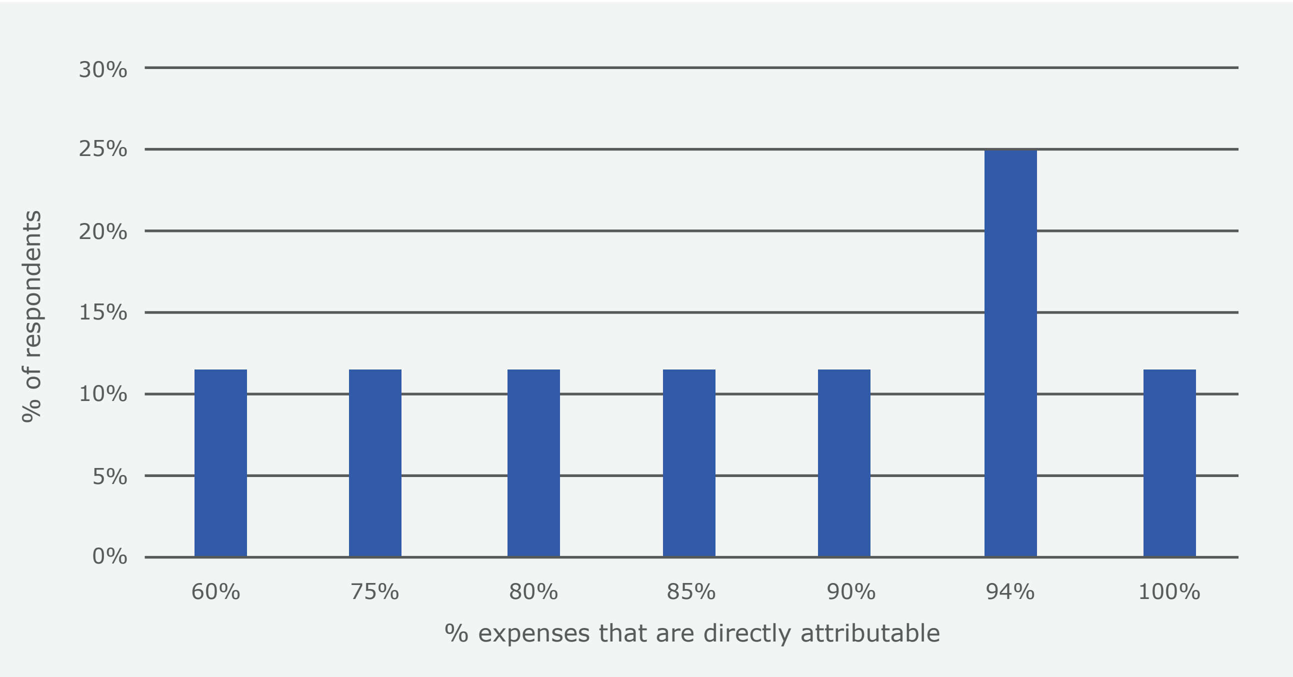
8. Respondents' Choice

Expenses Directly Attributable Under IFRS 17

Q **What proportion of your expenses (between 0% and 100%) are expected to be directly attributable under IFRS 17?**

Most respondents are expecting a relatively high proportion of expenses to be classified as directly attributable, with about three quarters of respondents classifying at least 80% of expenses as directly attributable.

PROPORTION OF EXPENSES DIRECTLY ATTRIBUTABLE UNDER IFRS 17



Most respondents view the changes due to the IFRS 17 standard itself as the major challenge in implementing business planning, rather than challenges around existing or future processes.

8 Respondents

Changes in Expense Allocation Process and Measure Used

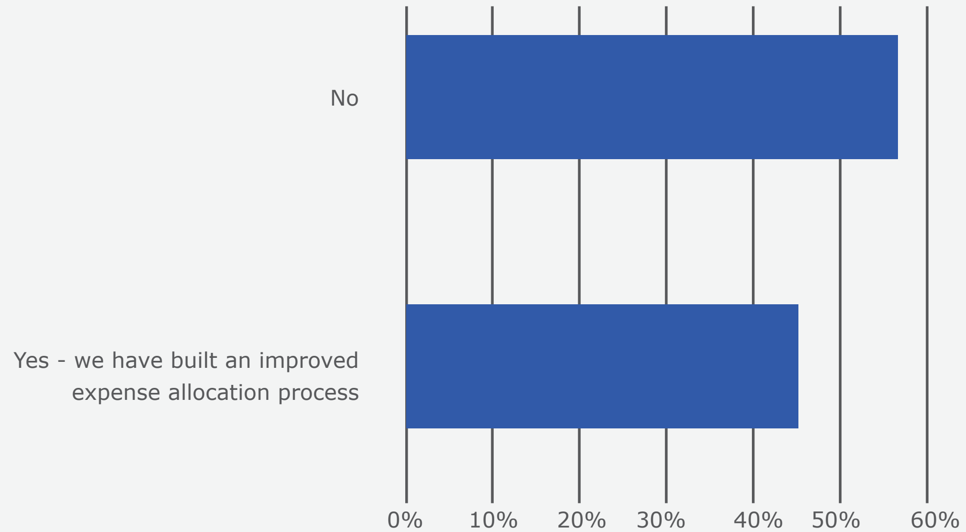
Q Have your expense allocation methodology and process changed from IFRS 4 to IFRS 17?

Most respondents had not made any changes in their expense allocation methodology and process from IFRS 4 to IFRS 17. The remainder made use of the opportunity to improve their expense allocation process.

Which measure are you using to allocate expenses to contract level?

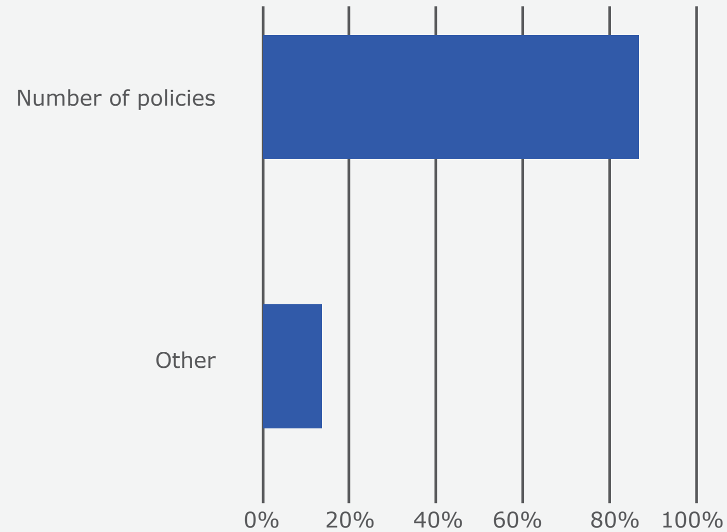
More than 80% of respondents are using number of policies as a measure to allocate expenses to contract level. One respondent is splitting their expenses between claims or premium related expenses and then allocating to contracts in proportion to the claims or premiums received in the period.

CHANGE IN EXPENSE ALLOCATION METHODOLOGY AND PROCESS



7 Respondents

MEASURE USED FOR EXPENSE ALLOCATION



7 Respondents

Asset for Insurance Acquisition Cash Flows

Q

How are you allocating the asset for insurance acquisition cash flows to future groups? Have you formulated a methodology for impairment testing of the asset for insurance acquisition cash flows, specifically the requirement in B35D(b)?

The IFRS 17 Standard makes provision for the allocation of insurance acquisition cash flows to future groups of insurance contracts. Specifically, insurance acquisition cash flows that are directly attributable to groups of insurance contracts need to be allocated to groups of newly issued contracts and any future groups that are expected to arise from expected renewals of the newly issued contract.

(Re)insurers must recognise as an asset insurance acquisition cash flows paid or incurred before the related group of insurance contracts is recognised. The (re)insurer must then derecognise the asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts.

Furthermore, (re)insurers are required to assess the recoverability of the asset at the end of each reporting period if facts and circumstances indicate the asset may be impaired, applying two levels of impairment tests.

These requirements introduce complexity to (re)insurers' financial reporting processes. We asked respondents the following questions with respect to the asset for insurance acquisition cash flows:

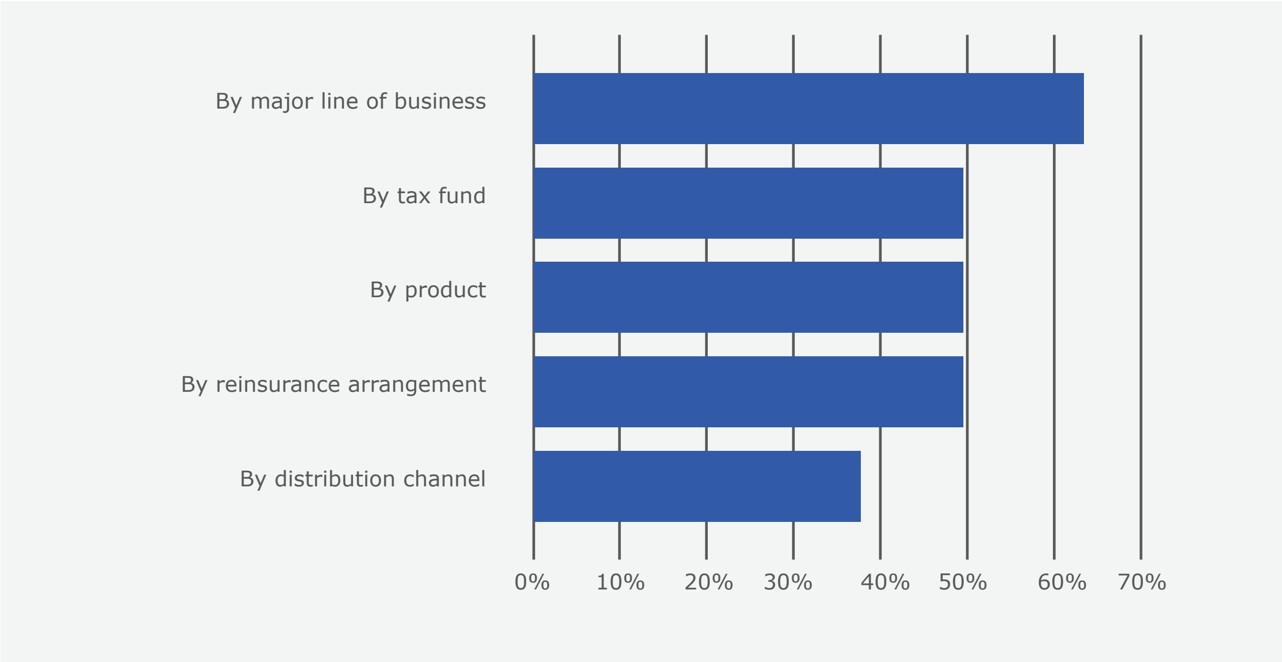
More than 80% of respondents (who answered this question) indicated that none of their products result in the establishment of an asset for insurance acquisition cash flows (AIACF). They therefore do not need to allocate an AIACF or test it for impairment. The remainder had not yet considered this requirement.

6 Respondents

Contract Grouping for Internal Reporting

Q Beyond the groupings at which CSM is calculated, which of the following distinct contract grouping will your company use to support internal management reporting?

CONTRACT GROUPING FOR INTERNAL REPORTING



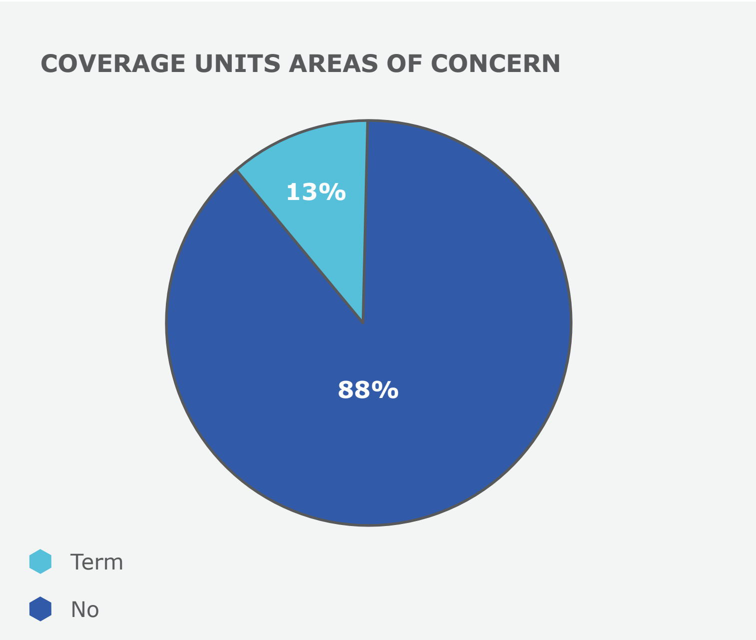
In addition to the minimum grouping requirements at least half of respondents will also be reporting their results by major line of business, by tax fund, by product and by reinsurance arrangement.

8 Respondents

Coverage Unit Concerns

Q **Are there any products for which your company is concerned about the appropriate definition of coverage units?**

With regard to the definition of coverage units, the IASB has intentionally left numerous areas to the judgement of the company (with a requirement to disclose these areas of judgement). Explicit judgement must be used when identifying a coverage unit which can be used as a proxy for the given service, which may not always be an obvious decision, especially for complex products that may incorporate both insurance and investment components.



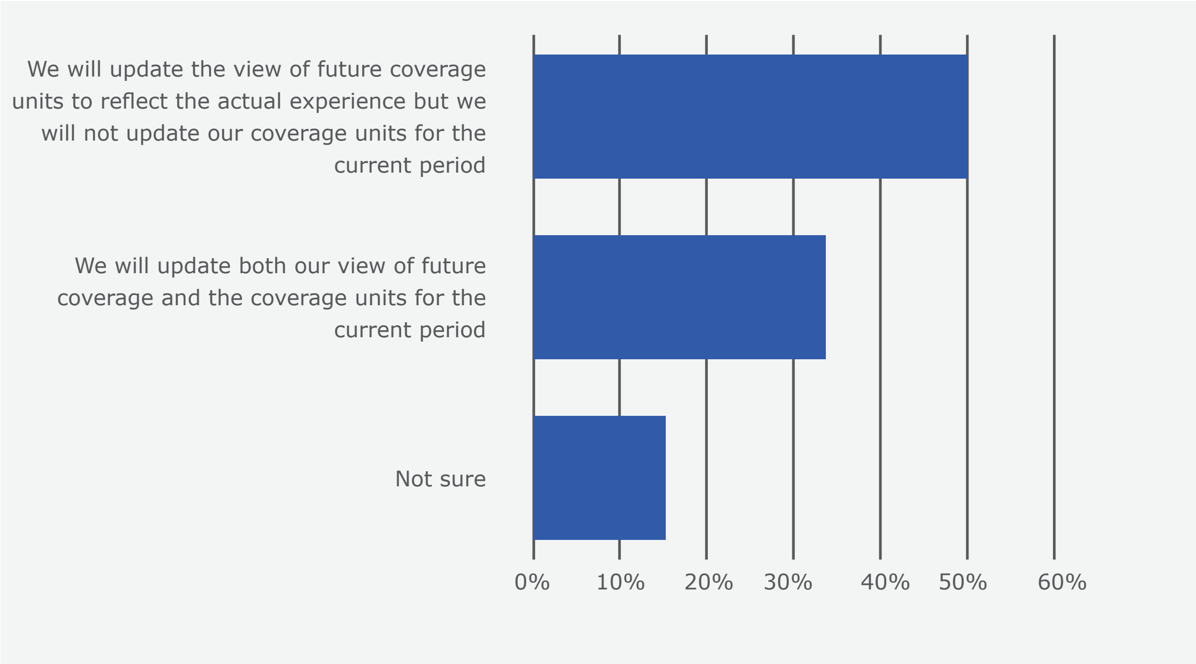
8 Respondents

All but one of the respondents are not concerned about the appropriate definition of coverage units. One respondent is concerned about the coverage units used for their term assurance products.

Adjustment of Coverage Units

Q How will you adjust coverage units to allow for actual experience?

ADJUSTMENT OF COVERAGE UNITS



As a result of the long-term nature of insurance contracts, an entity's expected experience does not always align with its actual experience. Therefore, expected future coverage units defined in previous reporting periods may need to be revised to account for a difference in experience. The entity will need to choose the extent to which they will reflect this revision of coverage units and whether this revision should apply at the start of reporting period or at the end of it.

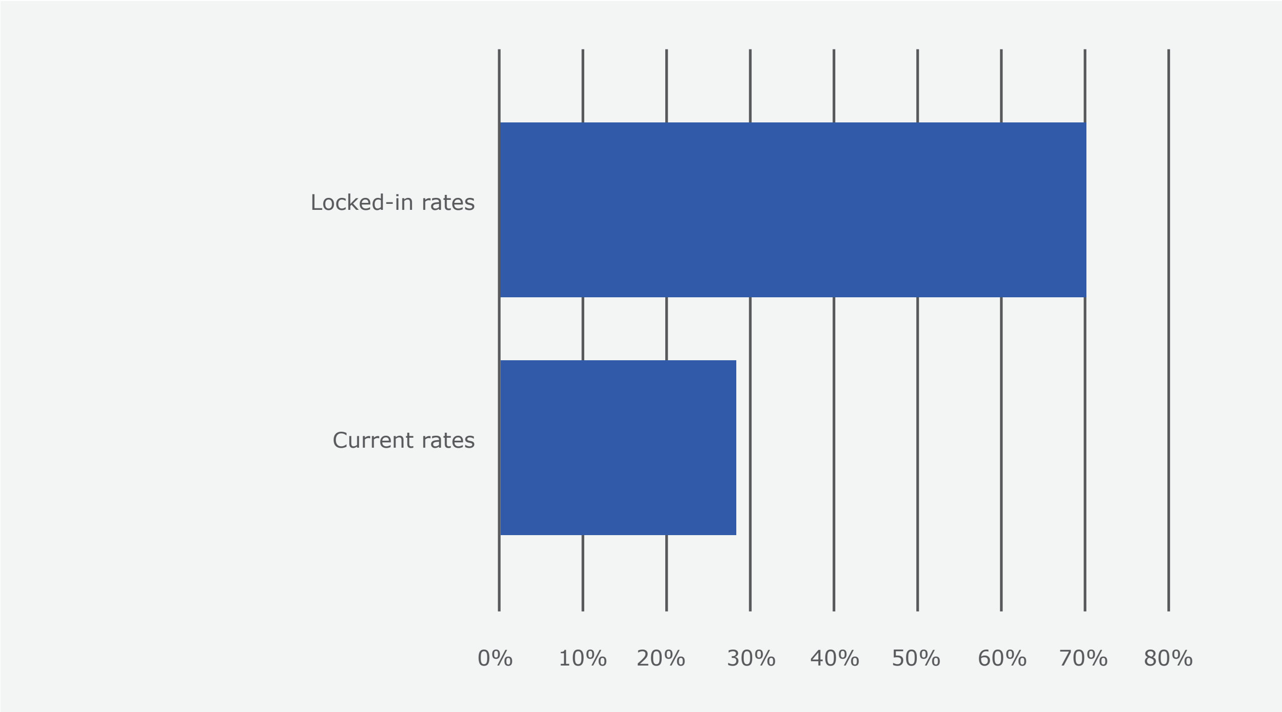
6 Respondents

50% of the respondents will update their view of future coverage units to reflect their actual experience, but will not update their coverage units for the current period.

Interest Rates Used to Adjust Loss Component

Q Which interest rates will you use to value changes in fulfilment cash flows that adjust the loss component?

INTEREST RATES USED TO VALUE CHANGES IN FULFILMENT CASH FLOWS



The loss component needs to be tracked, adjusted and reduced to zero over time, using either locked-in interest rates or current rates – the Standard is not clear about which to use. There are pros and cons associated with either method. Companies using locked-in rates will not have to justify their choice if a CSM needs to be re-established. On the other hand, entities using current interest rates, will be able to reconcile the loss component to the current difference between income and outgo fulfilment cash flows more easily.

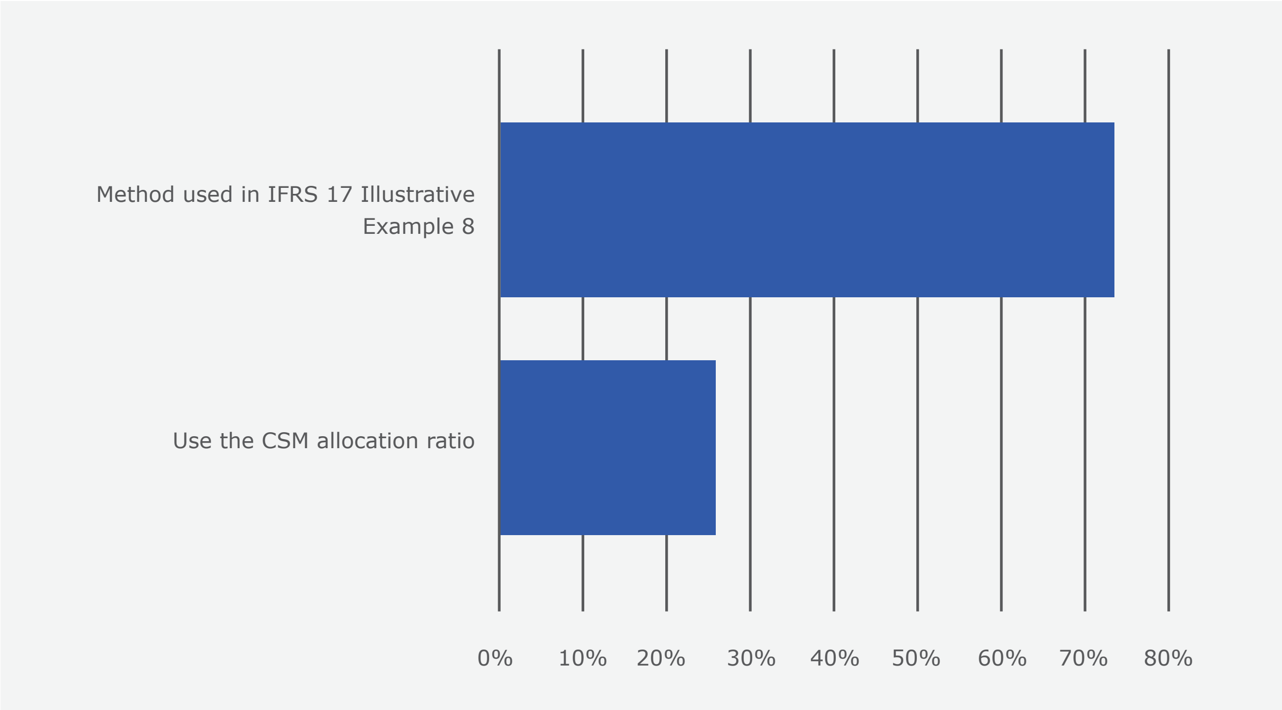
7 Respondents

More than 70% of the respondents are using locked-in interest rates to calculate adjustments to the loss component.

Method Used for Reversal of Loss Component

Q Which method will you use for the reversal of the loss component?

METHOD FOR REVERSAL OF LOSS COMPONENT



With regard to the reversal of loss components, the IASB has left the approach used up to the judgement of the entity. There are a few requirements, i.e., the basis on which the loss component is reversed should be systematic and must be connected to specific items in the profit and loss of a given reporting period.

8 Respondents

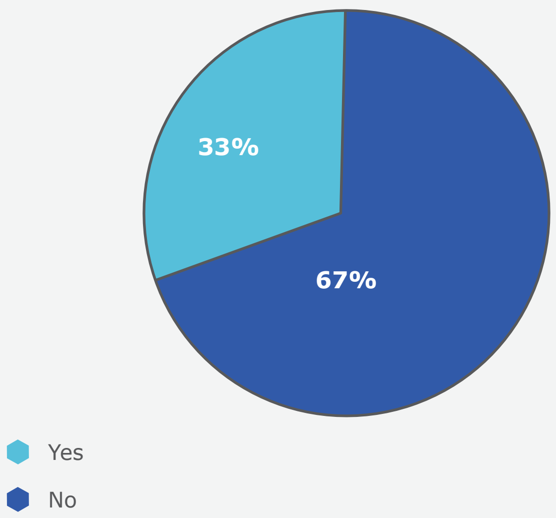
More than 70% of the respondents are using the method illustrated in IFRS 17 Example 8 for the reversal of the loss component, i.e. dividing the loss component at the beginning of the reporting period by the sum of the PV of cash outflows and the risk adjustment. The remainder will use the same ratio as is used for the release of CSM into P&L.

OCI Option

Q Do you plan to take up the OCI option?

Under IFRS 17, entities can choose whether to include the impact of changes in financial assumptions in the insurance finance result, therefore impacting the P&L, or through OCI. Taking up the OCI option allows insurers to smooth the volatility of their P&L over time.

OCI OPTION TAKE-UP



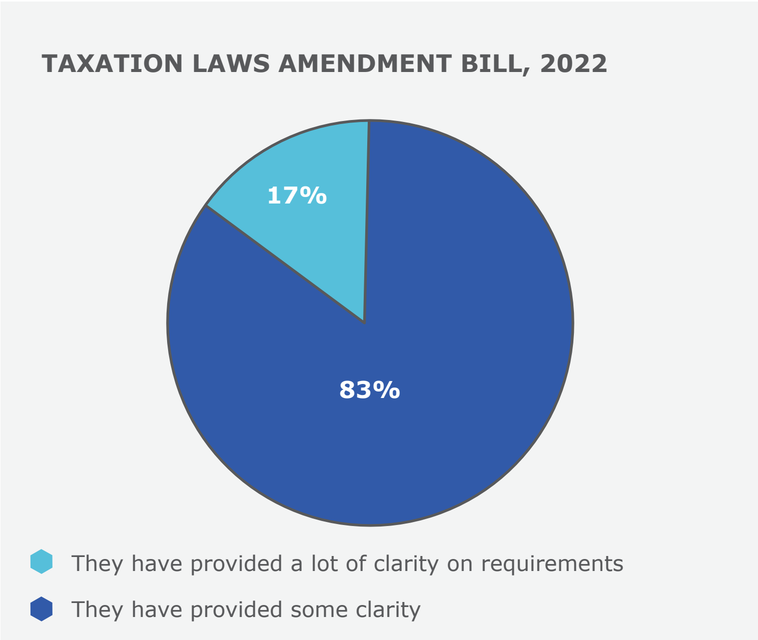
9 Respondents

Of the respondents who answered this question, one third are planning to take up the OCI option.

Taxation Laws Amendment Bill of 2022

Q What are your thoughts on the amendments relating to IFRS 17 included in the Taxation Laws Amendment Bill, 2022 (TLAB)?

Some amendments made in the TLAB are: the phasing-in amount calculation, insurance revenue inclusions and taxable income.



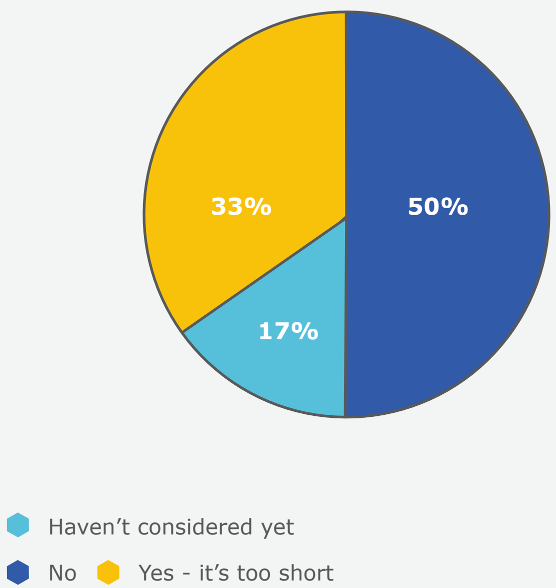
6 Respondents

All respondents who answered the question said that the amendments relating to IFRS 17 in the TLAB bring a degree of clarity, with 75% stating that the amendments have provided some clarity and the remainder stating that they have provided a lot of clarity on requirements.

Proposed Phasing-in Period

Q Are you concerned about the proposed six-year phasing-in period?

CONCERNED ABOUT THE PHASING-IN PERIOD?



The 2022 TLAB proposes a phasing-in period of six years that will provide for the "phasing-in amount" to be deducted from (or included in) the income of the corporate fund. The amount that has been deducted as a "phasing-in amount" will be included in the income of the corporate fund in the following year of assessment.

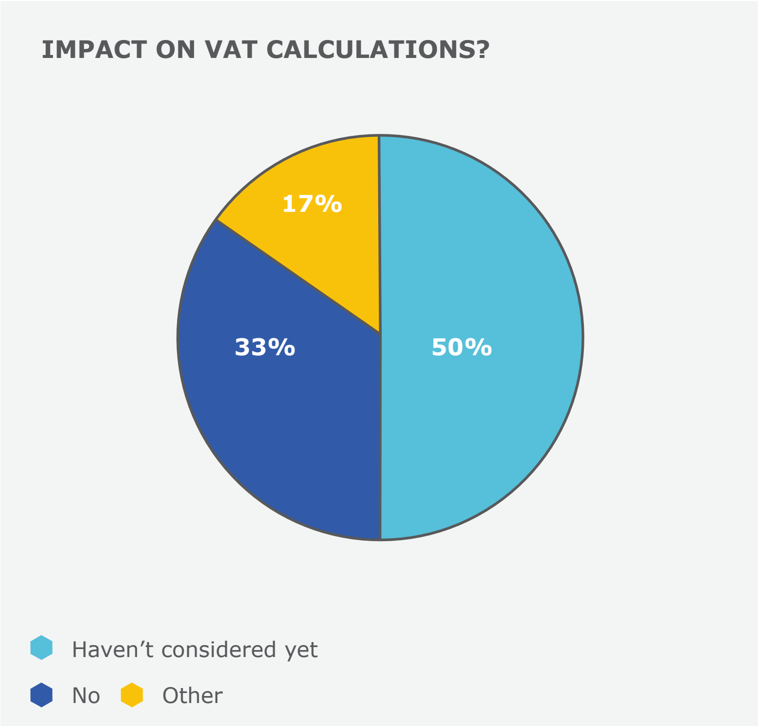
The proposed six-year phasing-in period may be considered to be too short for life insurers (the United Kingdom, for example, will have a ten-year phasing-in period).

6 Respondents

Of the respondents who answered this question, 50% are not concerned about the proposed six-year phasing-in period, 33% think its too short and the remainder have not yet considered the implications thereof.

Impact on VAT Calculations

Q Do you expect IFRS 17 to have an impact on your VAT calculations?



The introduction of IFRS 17 is likely to have indirect impact on VAT as a result of inputs used in VAT calculations that are affected by IFRS 17 or changes in VAT operational procedures.

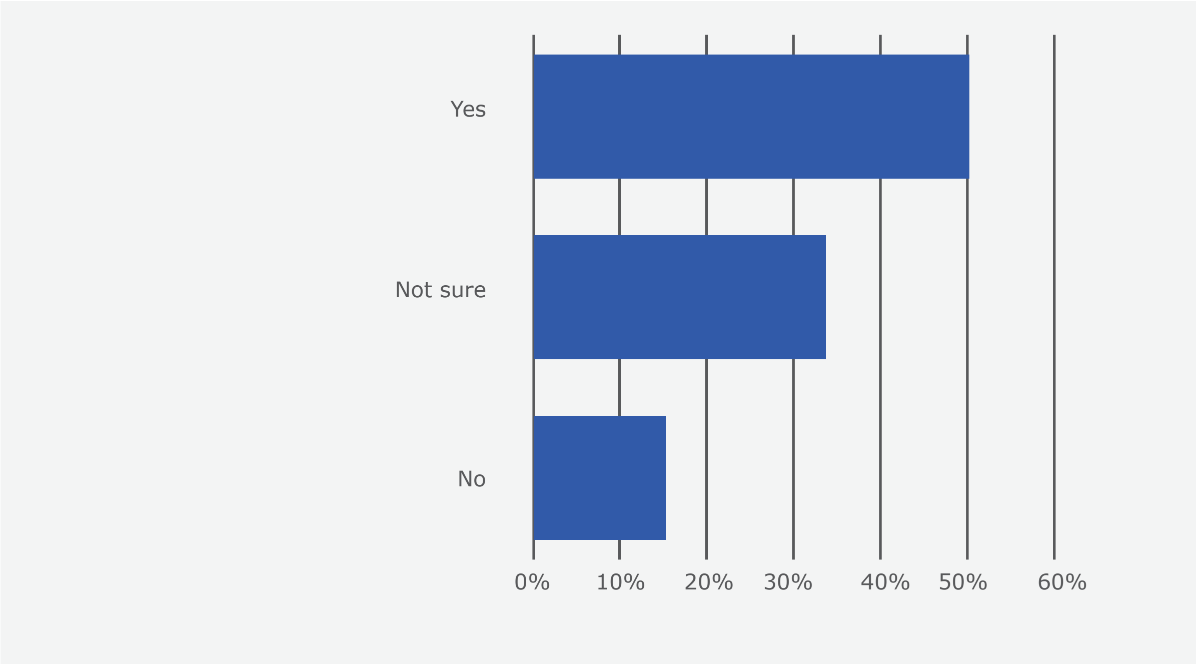
7 Respondents

Those who have considered this question do not expect IFRS 17 to have an impact on their VAT calculation. The respondent who selected "other" said that while they currently do not expect an impact on VAT results, there may be an impact on operations (depending on granularity of disclosure requirements).

Additional Tax on Opening IFRS 17 Balance

Q Do you currently expect to pay additional tax on the IFRS 17 transitional opening balance adjustment?

ADDITIONAL TAX EXPECTED



IFRS 17 requires a completely retrospective transition. Therefore, the differences between the IFRS 4 and IFRS 17 balance sheets at the time of transition may result in differences to the income tax amounts payable.

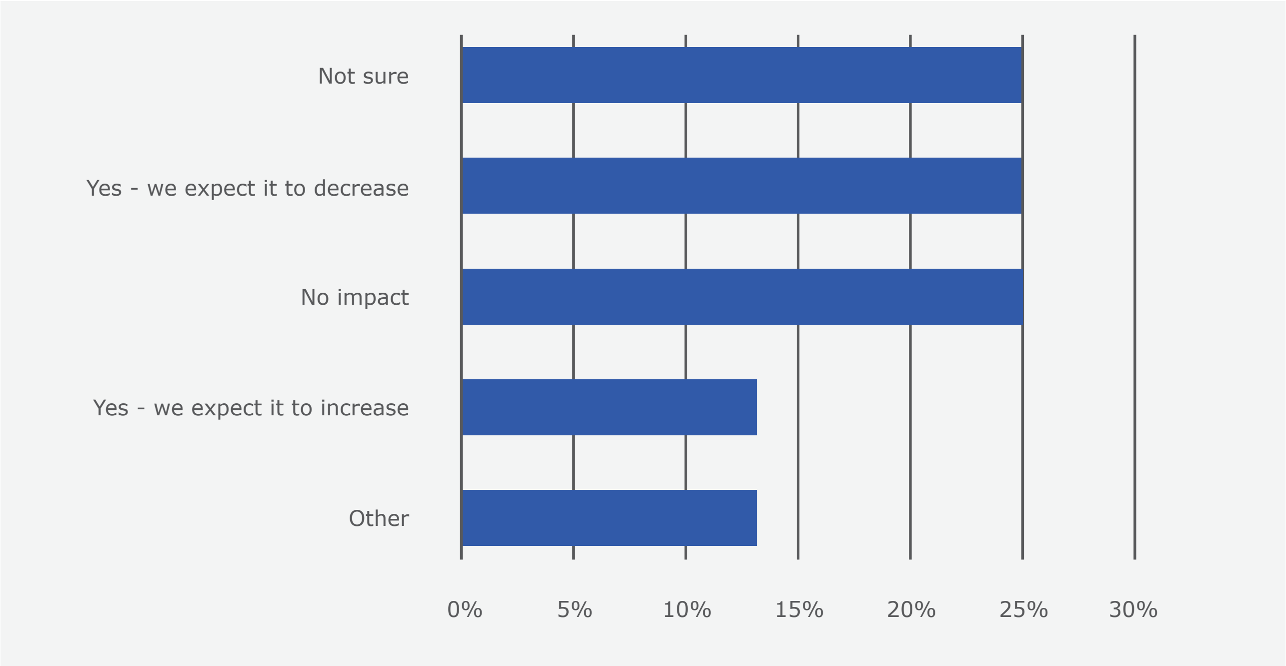
6 Respondents

From those who responded, three are expecting to pay additional tax on the IFRS 17 transitional opening balance adjustment. One respondent is not expecting to pay additional tax and two respondents are not sure. Generally, those respondents expecting to pay additional tax also indicated that they expect an increase in equity on transition, and vice versa.

SAM Deferred Tax Asset

Q Do you expect IFRS 17 to have an impact on your SAM Deferred Tax asset?

IMPACT ON SAM DEFERRED TAX ASSET



The introduction of IFRS 17 will result in changes to the carrying value of the insurance assets and liabilities in the IFRS financial statements. Consequently, the deferred taxes raised on a SAM balance sheet are also expected to change.

8 Respondents

Responses are more or less equally spread among all options. The respondent who replied "other" is expecting a change in the SAM DTA but is not yet sure of the direction.