

IFRS 17 & Solvency II Workshop

Illustrative examples of the Premium Allocation Approach

Carlos Arocha, FSA

CNseg—Confederação Nacional das Empresas de Seguros

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Agenda

Monday, 15 July

- Recap of IFRS 17 Background
- General Measurement Model
- Reinsurance Held and Contracts Acquired
- Considerations for the Implementation of IFRS 17

Tuesday, 16 July

- Measurement of direct participation contracts
- **Illustrative examples of the Premium Allocation Approach**
- Presentation of IFRS 17 Results
- Data management and calculation engines
- Background and Scope of Solvency II
- Quantitative Aspects of Solvency II

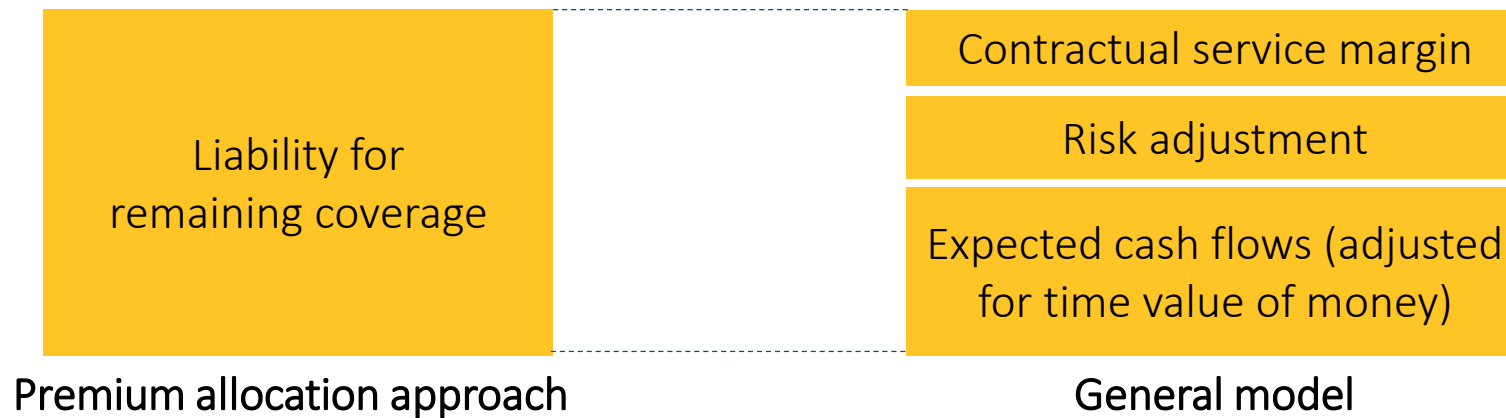
Wednesday 17 July

- Quantitative Aspects of Solvency II (cont'd)
- Governance under Solvency II
- The Risk Management & Reporting Processes

When can the premium allocation approach be used?

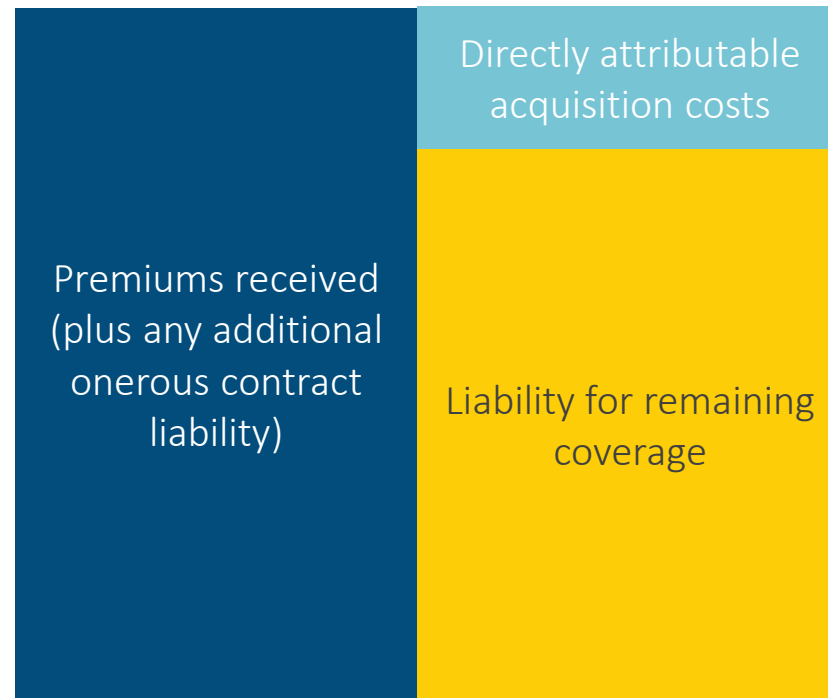
The PAA can be used when

- (1) the resulting liability for the group will be similar to that produced by the general model;
 - this condition is not met if significant variability of the cash flows is expected
- (2) the contract coverage period is one year or less



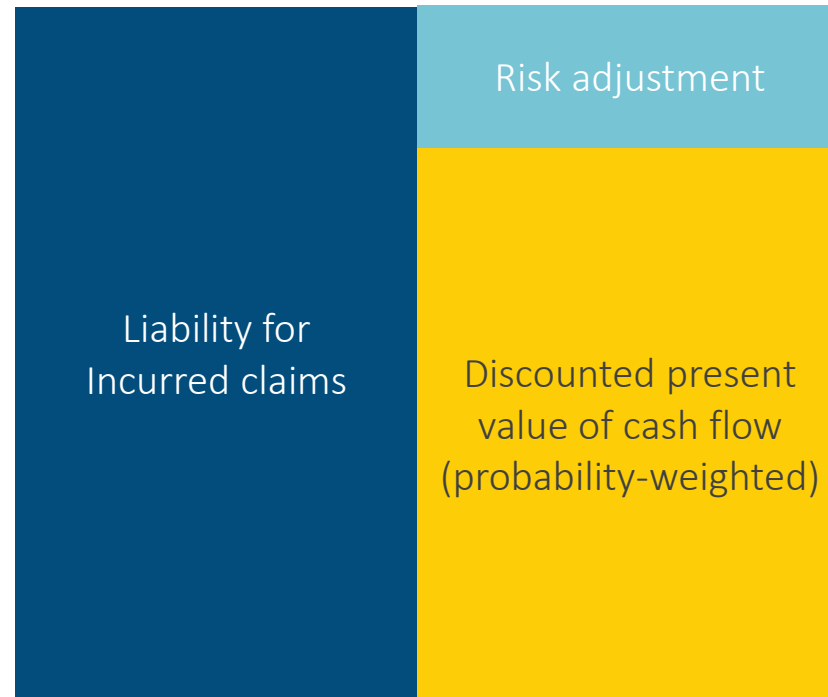
Liability for remaining coverage

- The liability for remaining coverage is similar to an unearned premium reserve, but net of
 - deferred acquisition costs
 - premium receivables



Liability for incurred claims

- The liability for incurred claims is analogous to a claims reserve



Illustrative example

An entity issues 100 insurance contracts with the following features:

| Group features | |
|-----------------------|-----------------------------|
| Coverage period: | 9 months |
| Dates of coverage: | 1 July 2019 – 31 March 2020 |
| Total premium: | 15,000 |
| Acquisition expenses: | 500 |
| Group classification: | non-onerous |

Subsequently:

- There were claims incurred of **7,500** during the second half of 2019, and of **5,000** during the first half of 2020 (the corresponding risk adjustments were **450** and **300**, respectively)
- On 30 June 2020, the entity revises its estimates related to all claims and settles them by paying **13,400**

Effect on the statement of financial position

The effect of the group of contacts on the statement of financial position is:

| Statement of financial position | 31/12/2019 | 30/06/2020 | 31/12/2020 |
|---------------------------------|------------|------------|------------|
| Cash and cash equivalents | 14,500 | 14,500 | 1,100 |
| Insurance contract liability | 12,950 | 13,250 | - |
| Equity | 2,050 | 1,750 | 1,100 |

← 14,500 is the premiums net of acquisition expenses (not included in the liability for remaining coverage because the entity expensed them when incurred, following paragraph 59(a))

1,100 is the excess of premiums over claims

Summary of paragraph 59(a)

An entity may choose to recognize any insurance acquisition expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.

Changes in the insurance contract liability

| Liability for remaining coverage | 31/12/2019 | 30/06/2020 | 31/12/2020 |
|----------------------------------|--------------|------------|------------|
| Opening balance | - | 5,000 | - |
| Cash inflows | 15,000 | - | - |
| Insurance revenue | -10,000 | -5,000 | - |
| Closing balance | 5,000 | - | - |

← Insurance revenue is determined by the portion of the premium that has been earned at the reporting date

| Liability for incurred claims | 31/12/2019 | 30/06/2020 | 31/12/2020 |
|--|--------------|---------------|----------------|
| PV cash flows | - | 7,500 | 12,500 |
| Risk adjustment for non-financial risk | - | 450 | 750 |
| Opening balance | - | 7,950 | 13,250 |
| PV cash flows | 7,500 | 5,000 | 900 |
| Risk adjustment for non-financial risk | 450 | 300 | -750 |
| Insurance service expenses | 7,950 | 5,300 | 150 |
| Cash outflows | - | - | -13,400 |
| Closing balance | 7,950 | 13,250 | - |

← The present value of cash flows considers claims received at the reporting date. Time-value of money is ignored.

| | | | |
|-------------------------------------|---------------|---------------|----------|
| Insurance contract liability | 12,950 | 13,250 | - |
|-------------------------------------|---------------|---------------|----------|

Effect on the statement of profit or loss

The amounts included in the statement of profit or loss are as follows:

| Statement of profit or loss | 31/12/2019 | 30/06/2020 | 31/12/2020 |
|-----------------------------|--------------|------------|-------------|
| Insurance revenue | 9,000 | 6,000 | - |
| Insurance service expenses | -7,950 | -5,300 | -150 |
| Profit / (loss) | 1,050 | 700 | -150 |

← The accumulated profit of 1,600 is the excess of premiums over claims



Carlos Arocha
ca@ArochaAndAssociates.ch

