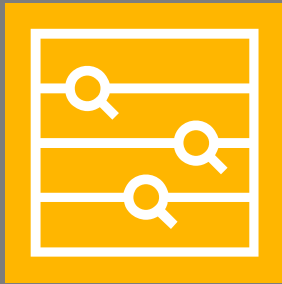


IFRS 17 market readiness

Snapshot on the Bulgarian
insurance market
December 2019



Content



I. Operational considerations



II. Normative considerations

Technical background of the survey

Survey taken

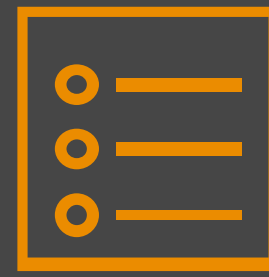
November 2019

Participating insurance companies

- 15 single entities
- more than 50% of the total Bulgarian GWP from insurance companies

Approach

Questionnaire

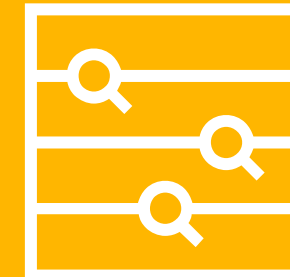


1. Operational considerations



Survey - Operational considerations

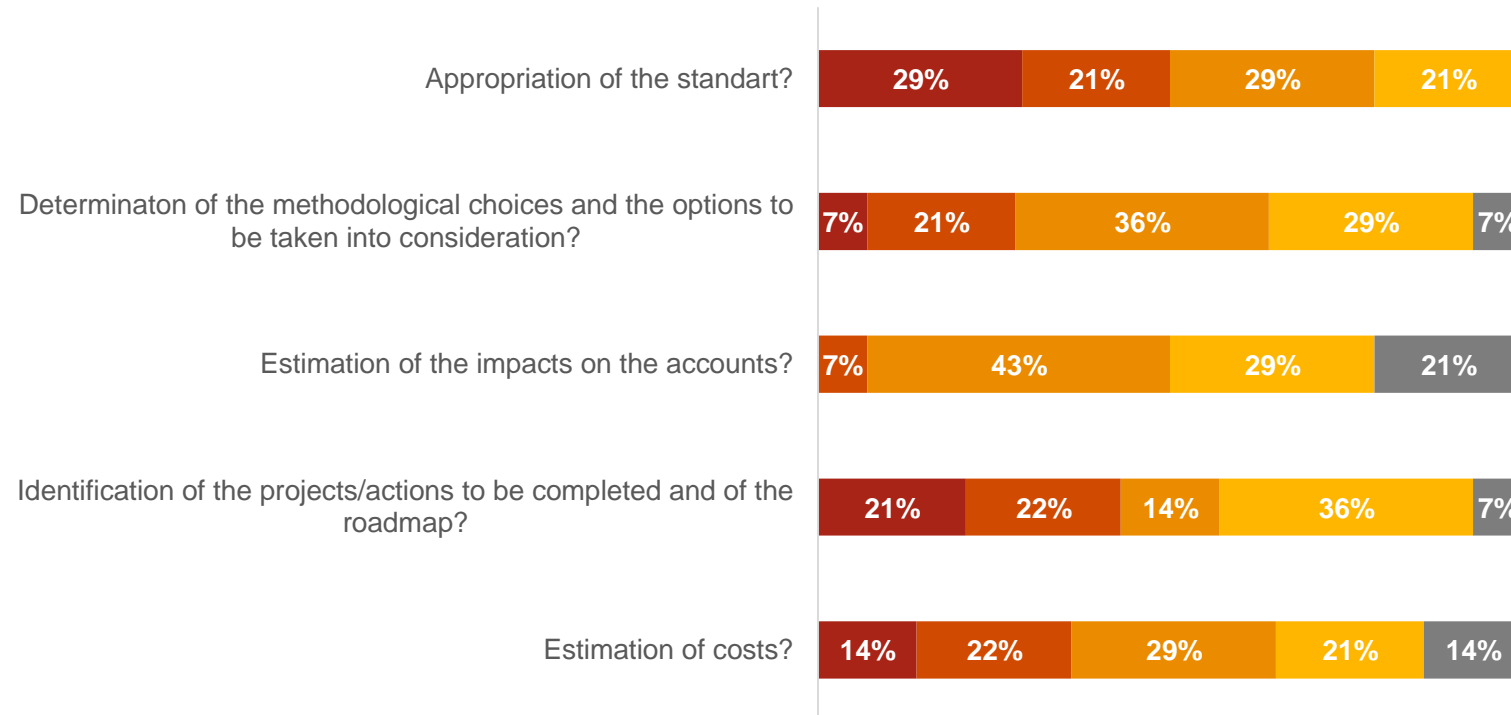
Scope of IFRS17 project



47%

**have been able to
finalize and define the
scope of the project**

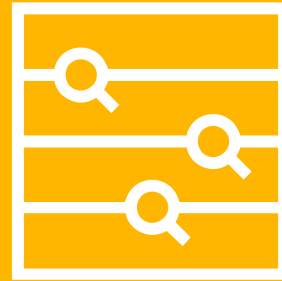
Do you think that this scoping phase enabled you to meet your objectives in term of:



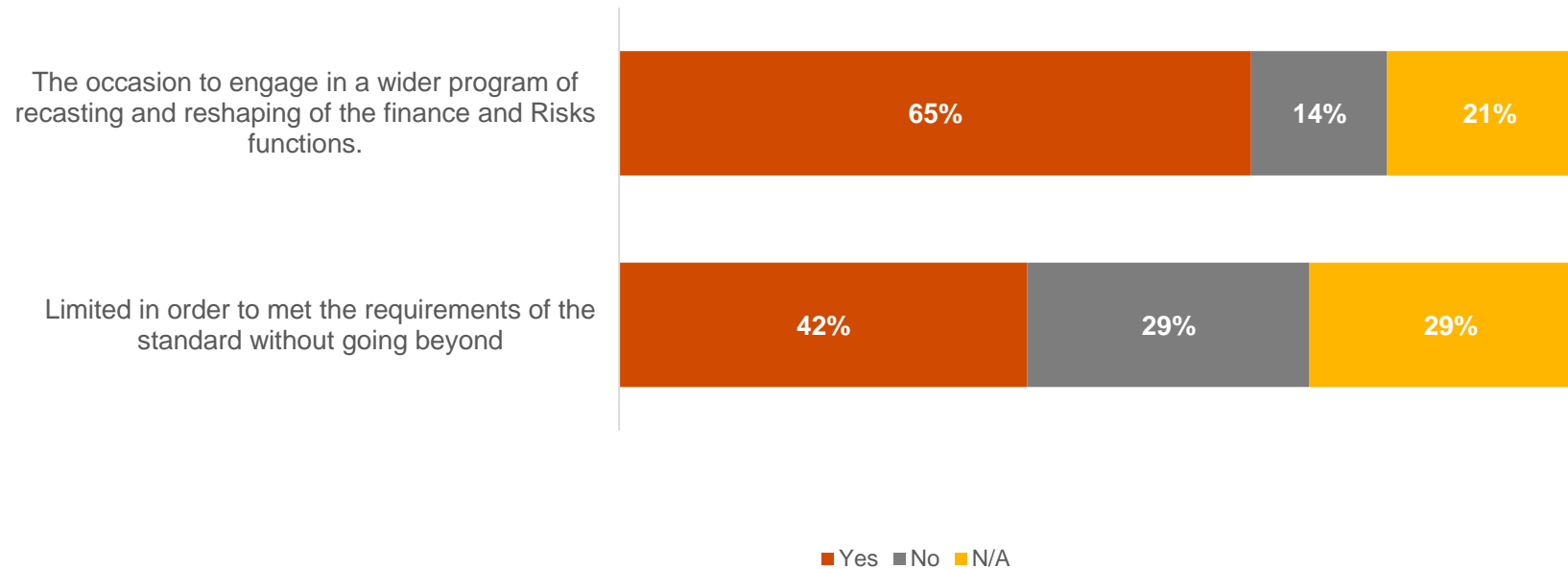
■ Totally ■ Partially ■ Moderately ■ Not completely ■ Not at all

Survey - Operational considerations

Implementation of IFRS17 in general

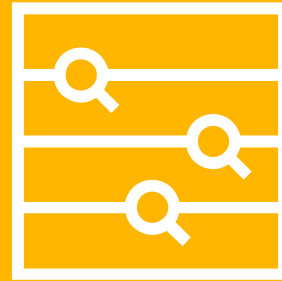


The implementation tasks of the standard IFRS 17 will be:

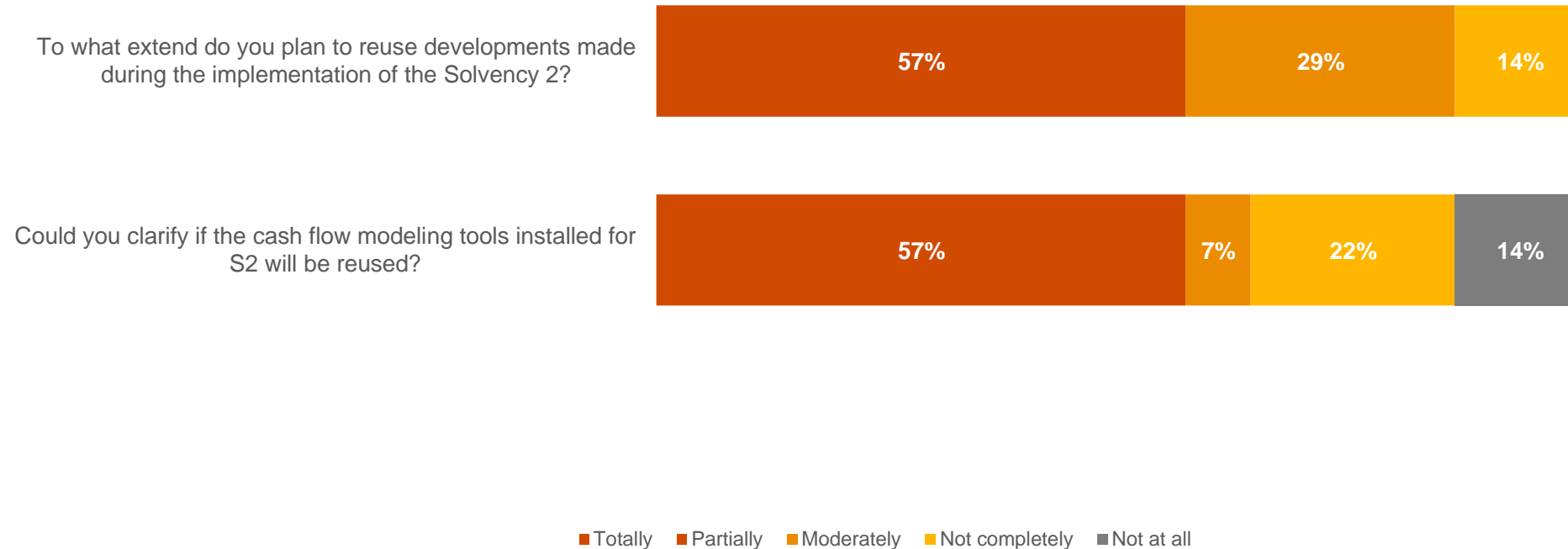


Survey - Operational considerations

Implementation of IFRS17 in general

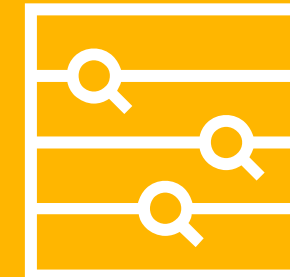


Reuse of S2

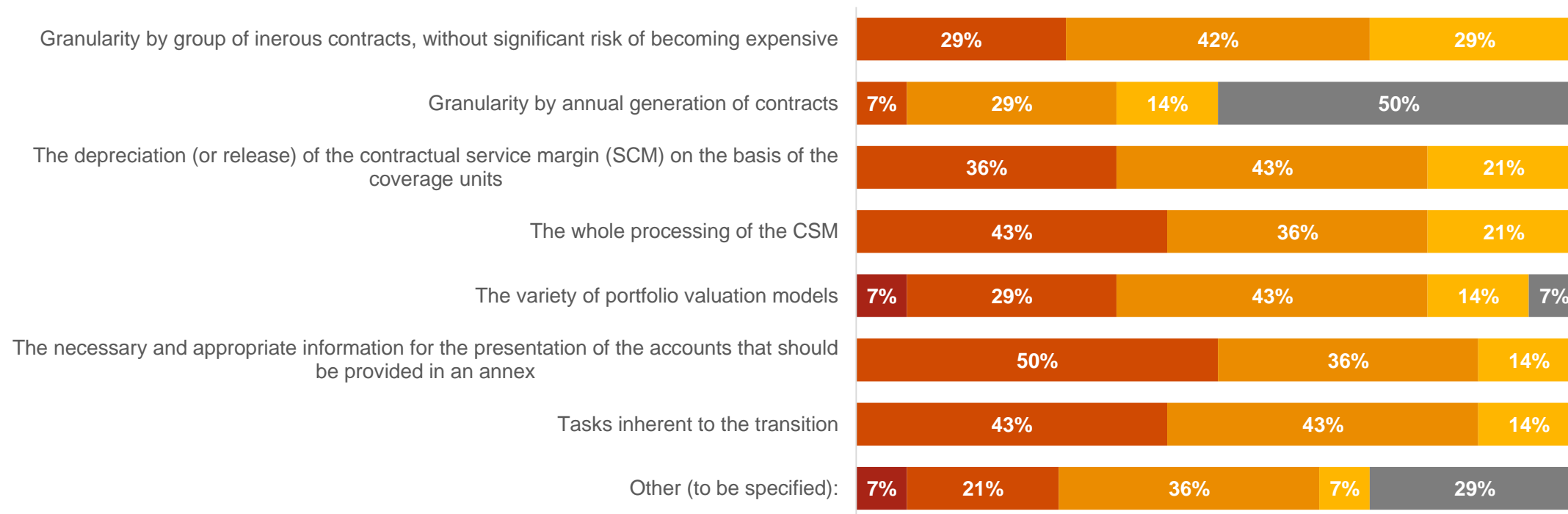


Survey - Operational considerations

Implementation of IFRS17 in general

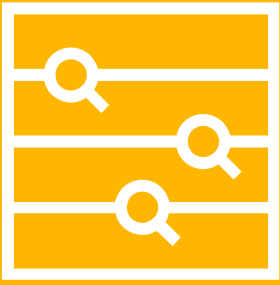


Among the requirements of the standard listed below, how would you assess the level of difficulty in terms of implementation?

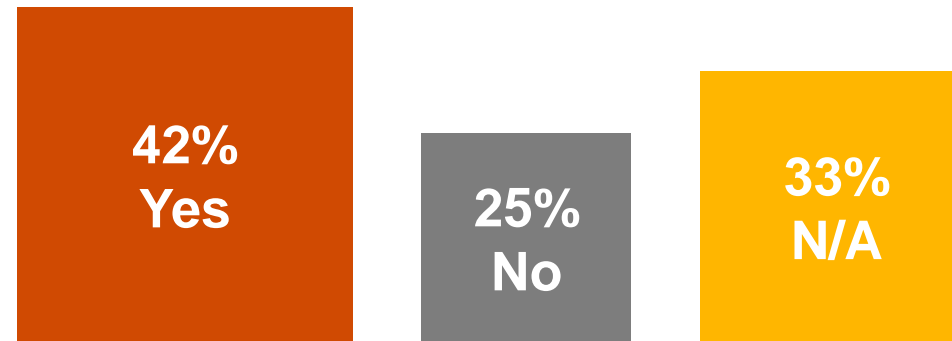


Survey - Operational considerations

IFRS17 Software solutions

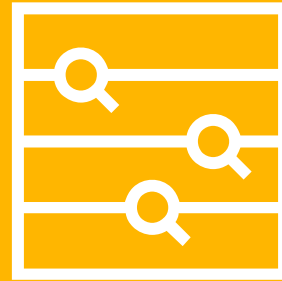


Do you think that the solutions presented by the software suppliers are sufficiently advanced to allow you to make a choice?

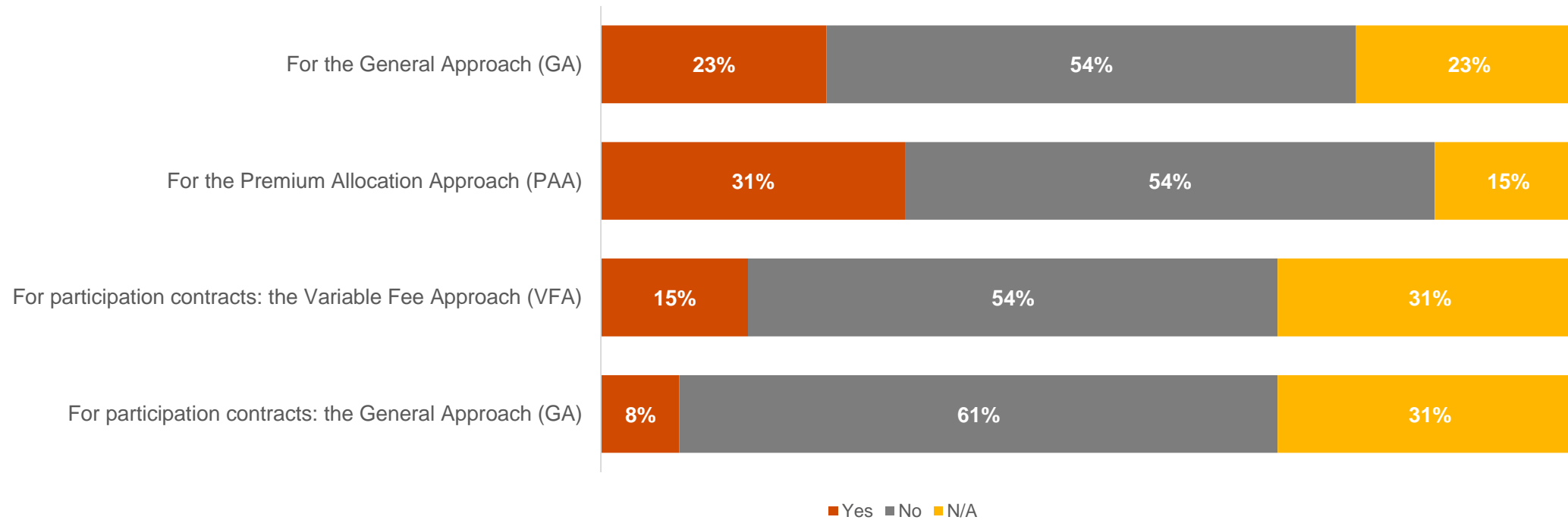


Survey - Operational considerations

Simulations under IFRS17

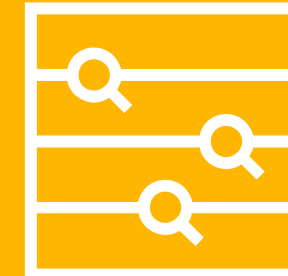


Have you performed simulations for the application of the standard on representative portfolios?

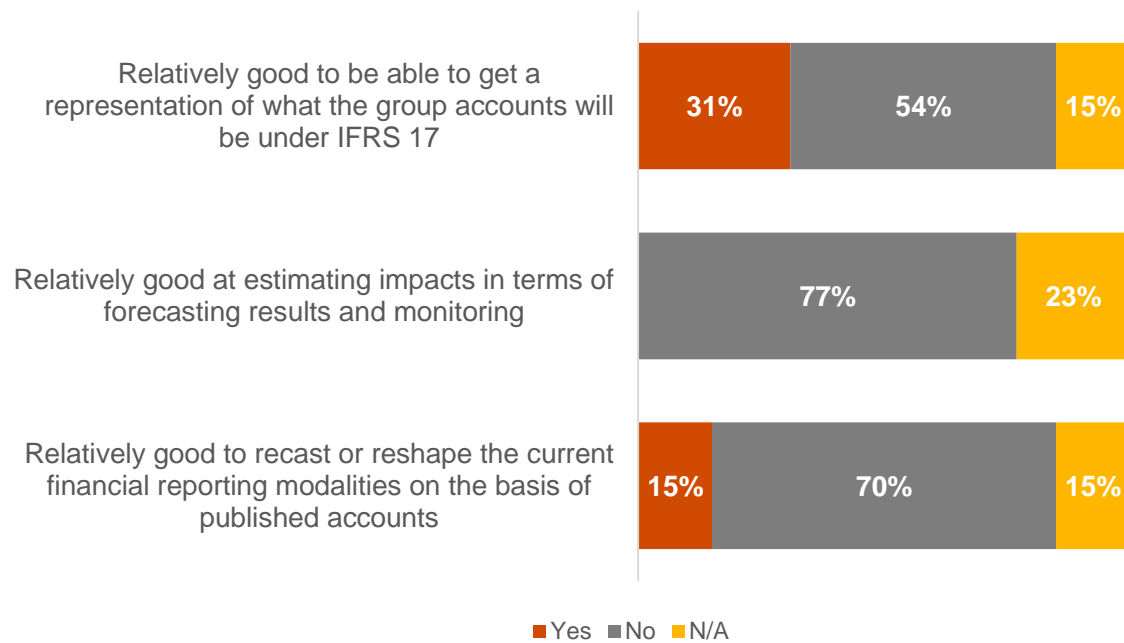


Survey - Operational considerations

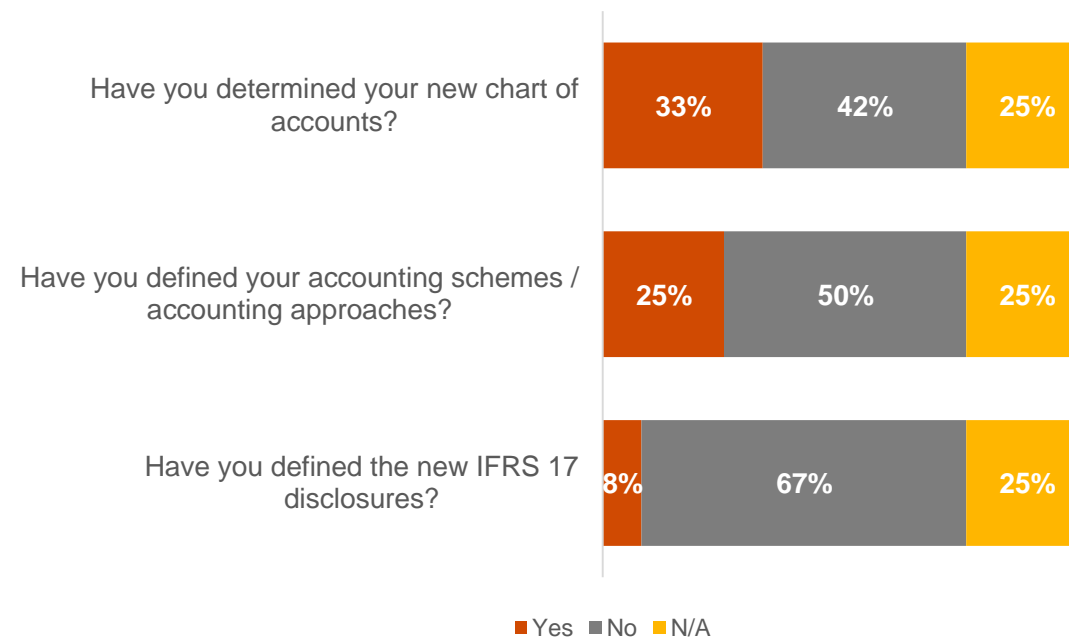
Financial statements under IFRS17



Based on the simulation performed, do you consider that you have sufficient understanding of all issues regarding the presentation of the balance sheet and results under IFRS 17?

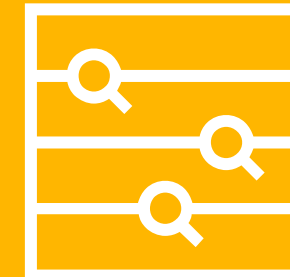


How advanced are you in preparing the new financial statements?

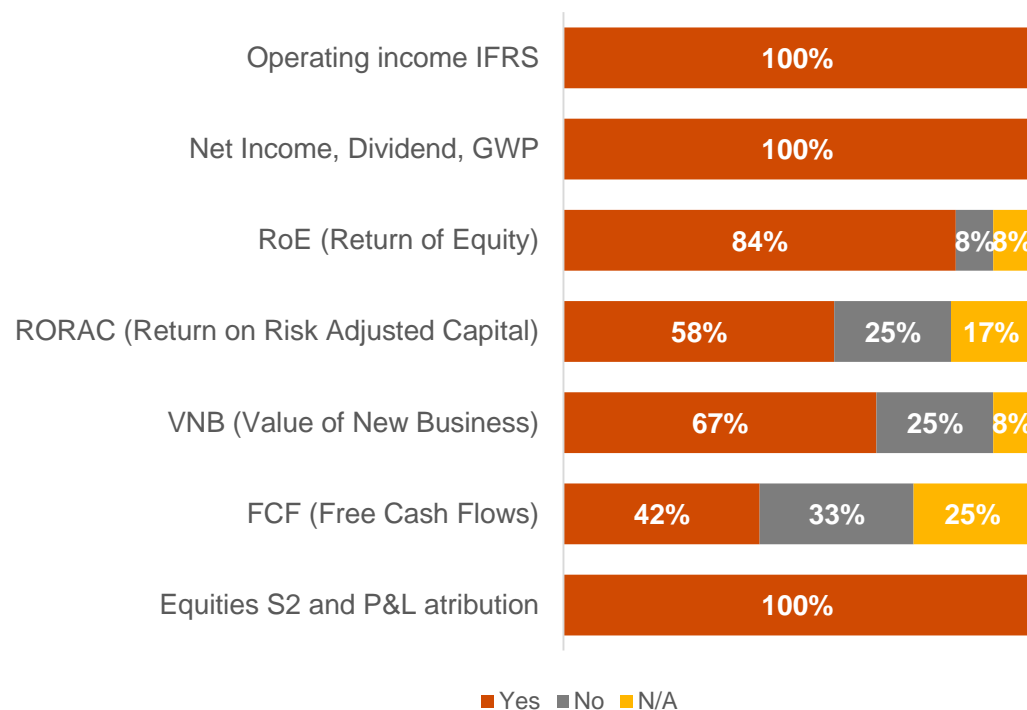


Survey - Operational considerations

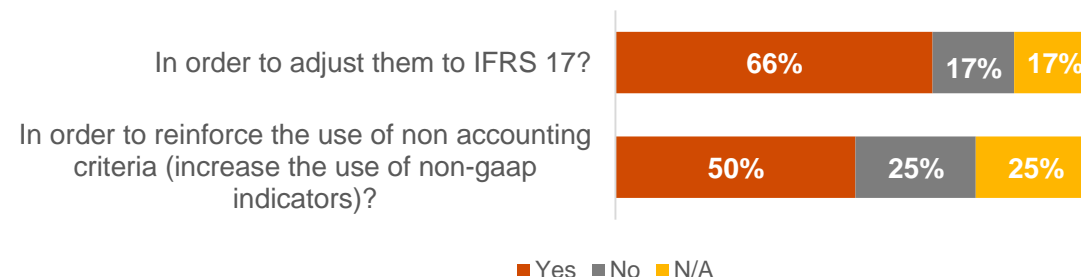
Communication of financial performance under IFRS17



What key performance indicators do you use today?

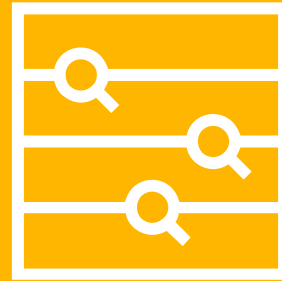


Do you think that the implementation of IFRS 17 will lead you to modify all aspects of communicating financial results:

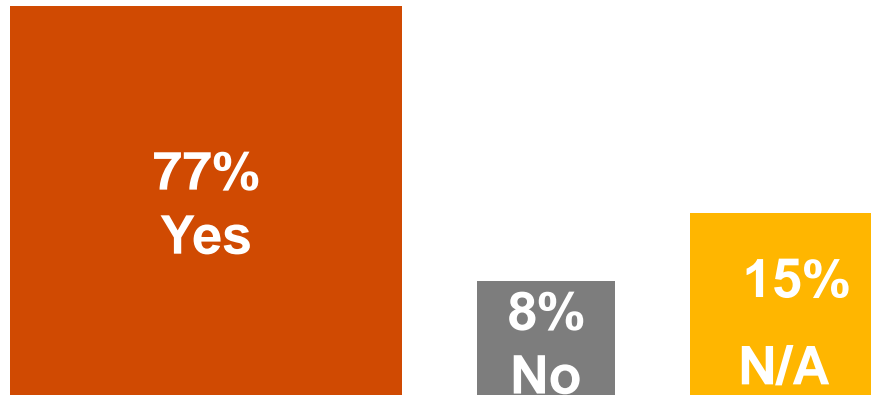


Survey - Operational considerations

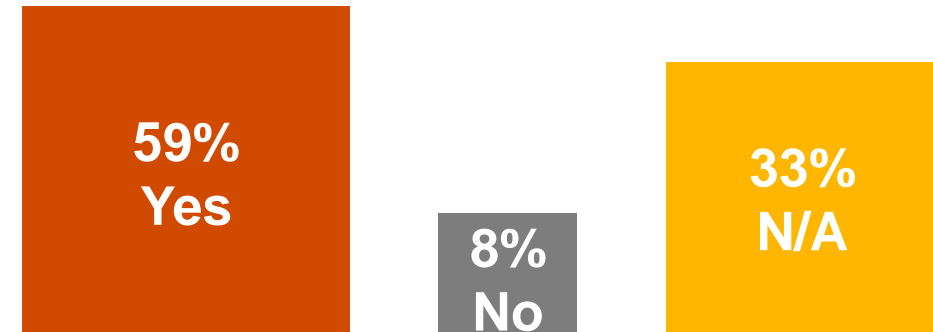
Internal monitoring under IFRS17



Do you consider that the implementation of IFRS 17 will lead you to develop new internal monitoring methods in order to ensure the ability to achieve the objectives?

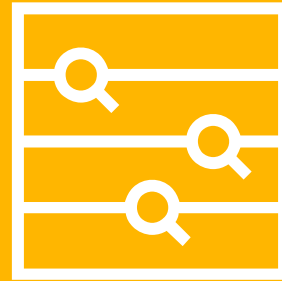


Do you think that these changes will be a source of improvement in risk management and performance monitoring (Performance management)?

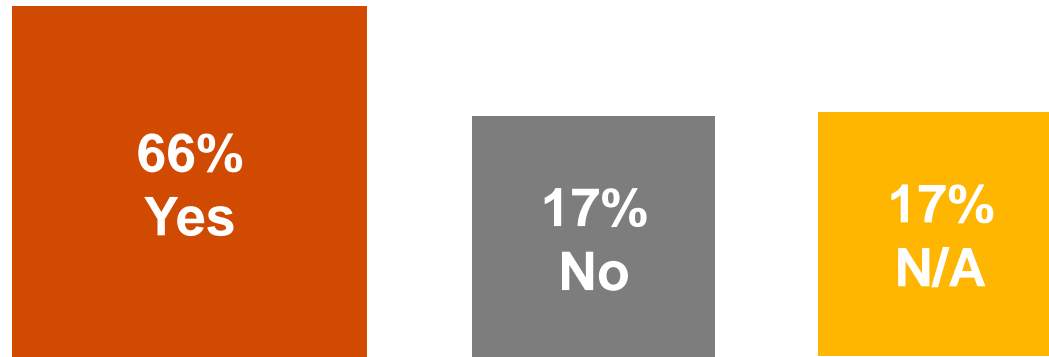


Survey - Operational considerations

Organisational changes under IFRS17

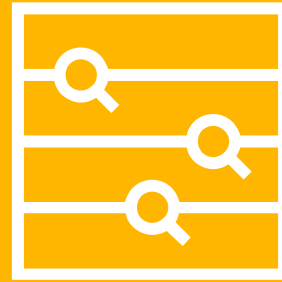


Do you consider that the implementation of IFRS 17 will have a significant impact on the organization of Finance and Risks functions, hence requiring a redefinition of functions and responsibilities / means and resources?

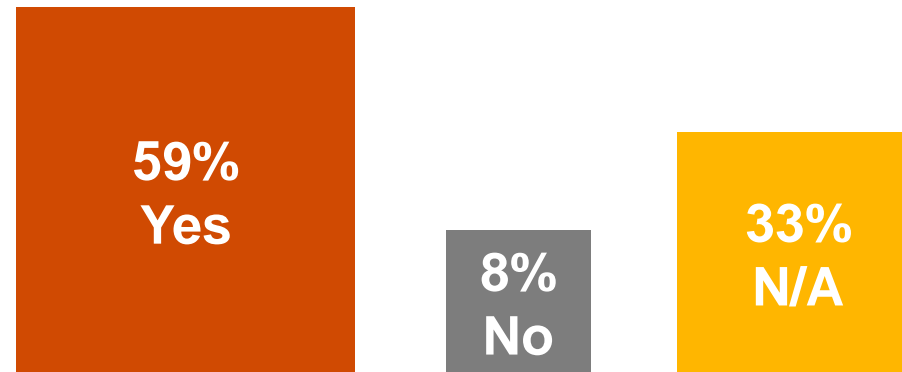


Survey - Operational considerations

Impacts of IFRS17 on product design

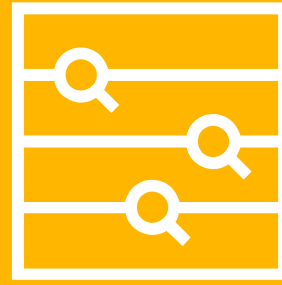


Does IFRS 17 have an impact on the products design and pricing?

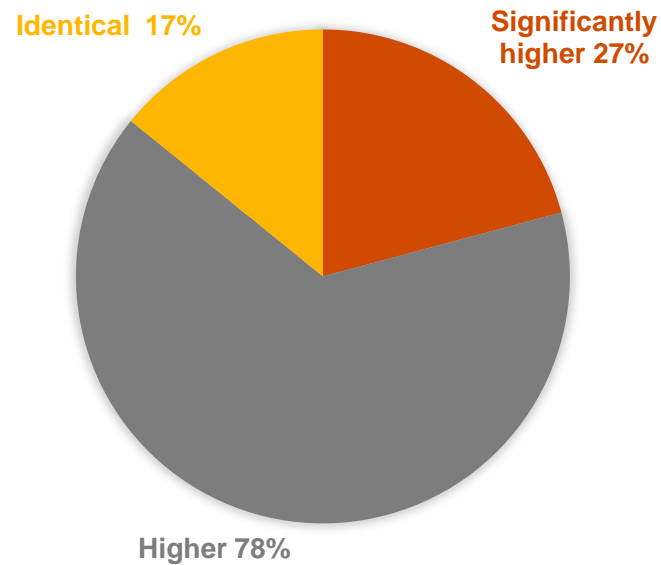


Survey - Operational considerations

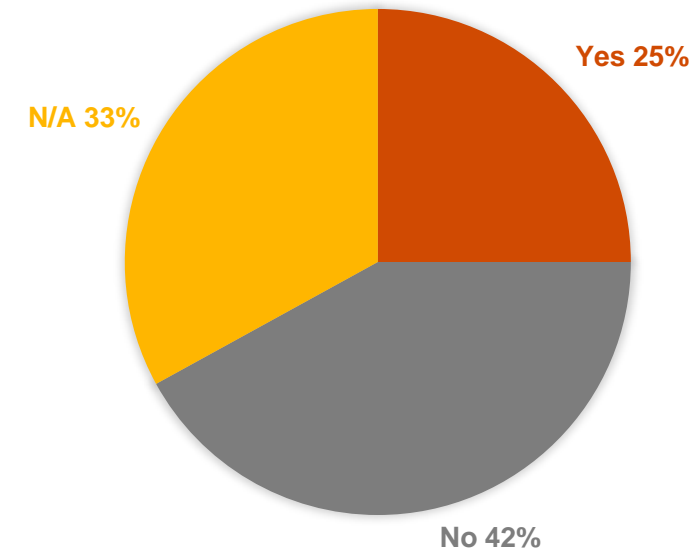
Costs of IFRS17 adoption



How do you currently estimate the final cost of IFRS 17 compared to S2?

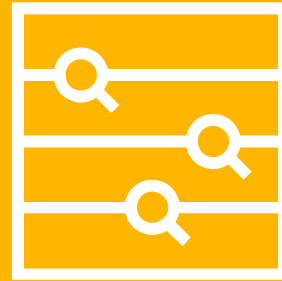


Have you operated some trade-offs/arbitrage with your initial project structure after the scope definition phase due to the difficulties or costs that are higher than the originally projected?

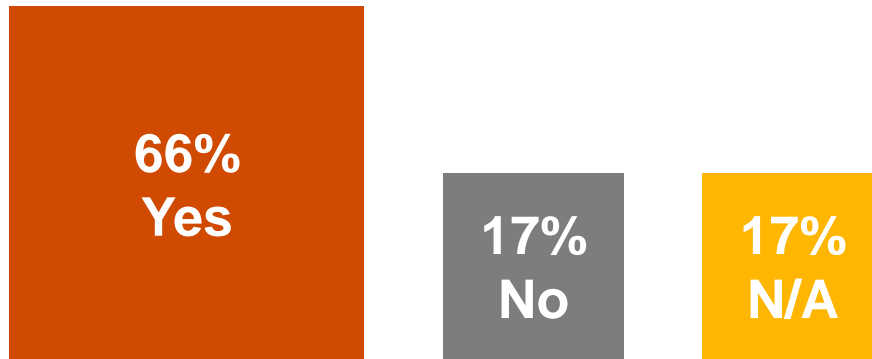


Survey - Operational considerations

Timing and resources for IFRS17 adoption



Do you think that you will be ready within the allowed time?



Do you think that you have the sufficient and necessary resources to:

Conduct the implementation project of IFRS 17 within the given deadlines?



To manage the Finance and Risks functions under IFRS 17?



■ Yes ■ No ■ N/A

2. Normative considerations

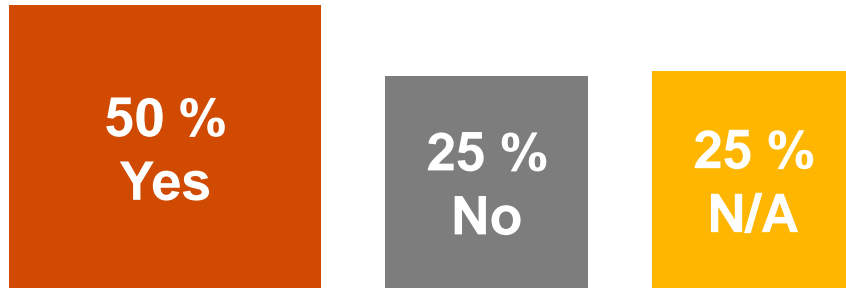


Measurement - The state of normative reflections

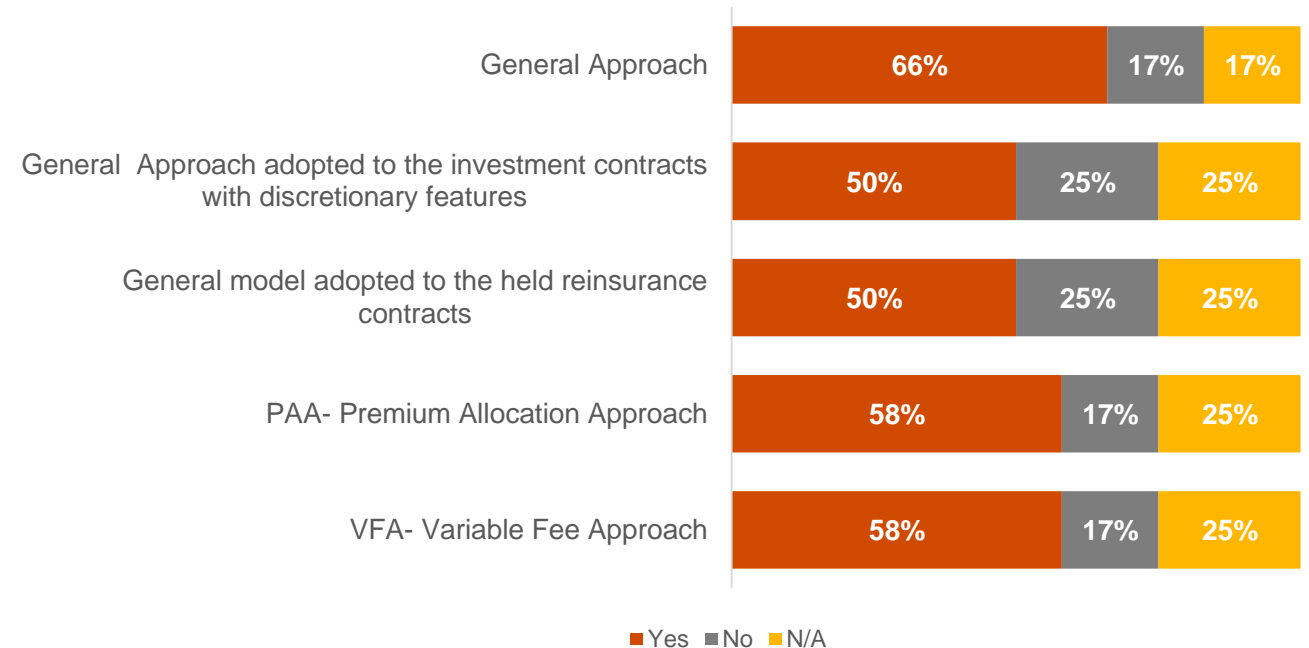
Measurement approaches



Have you finalized the classification of your contracts as per different measurement approaches?



Have you considered the possibility of using the following measurement approaches?

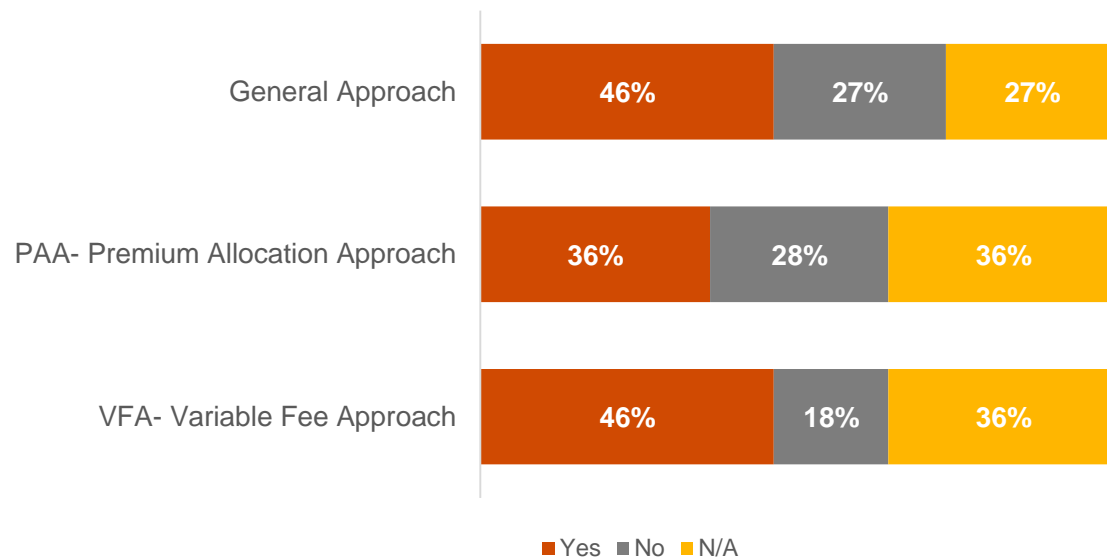


Methodology - IFRS 17 proposes different options

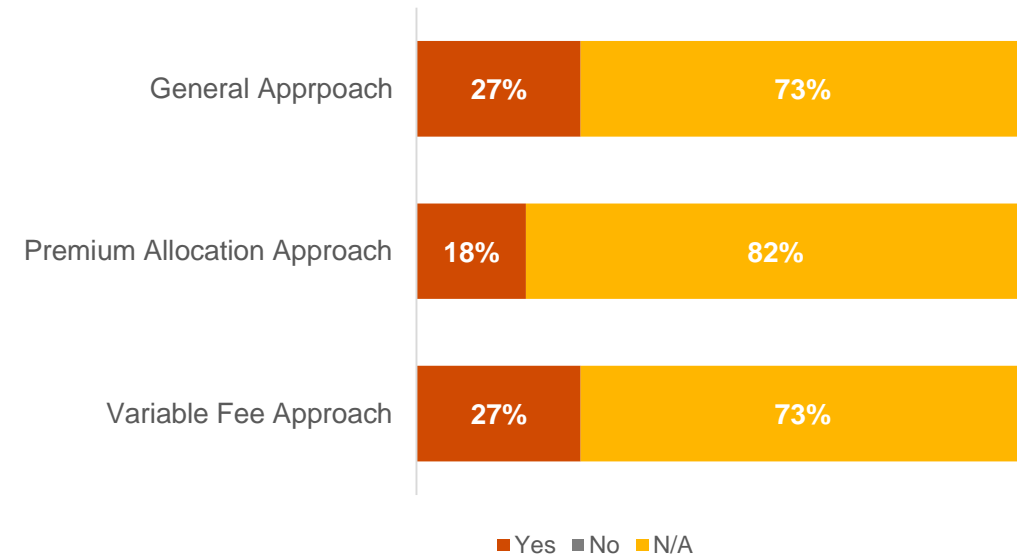
Other Comprehensive Income option



Have you considered using the Other Comprehensive Income (OCI) option for liabilities for contracts valued according to the following models?



If you are considering using the OCI option for liabilities, is the option considered for all portfolios valued using the following models?

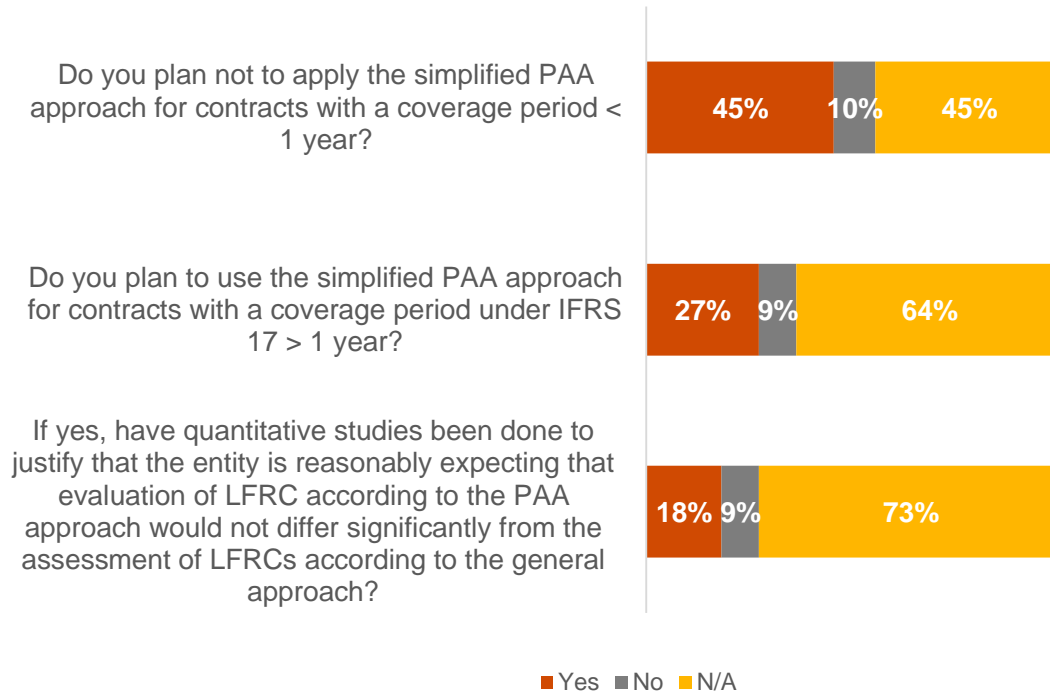


Methodology - IFRS 17 proposes different options

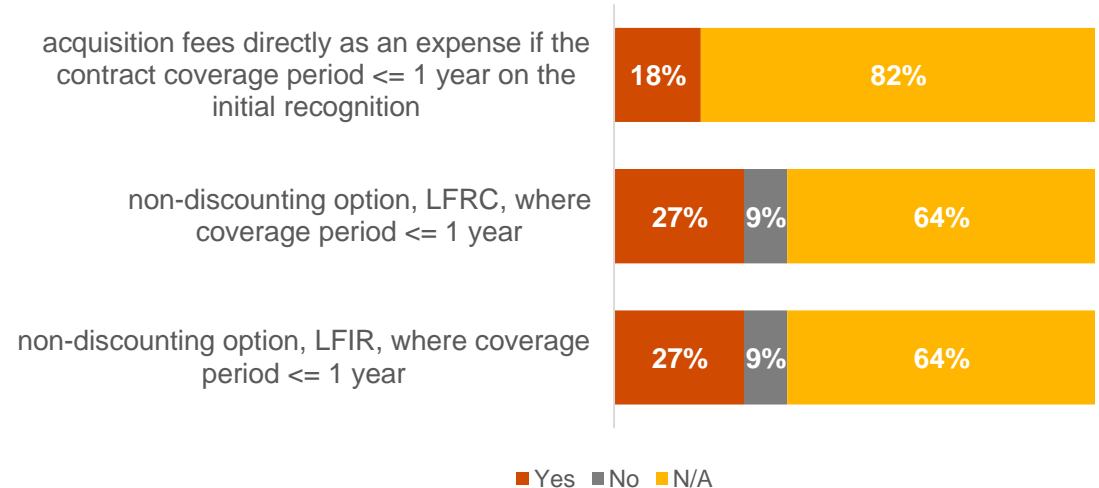
PAA approach



PAA approach



PAA approach - option choices

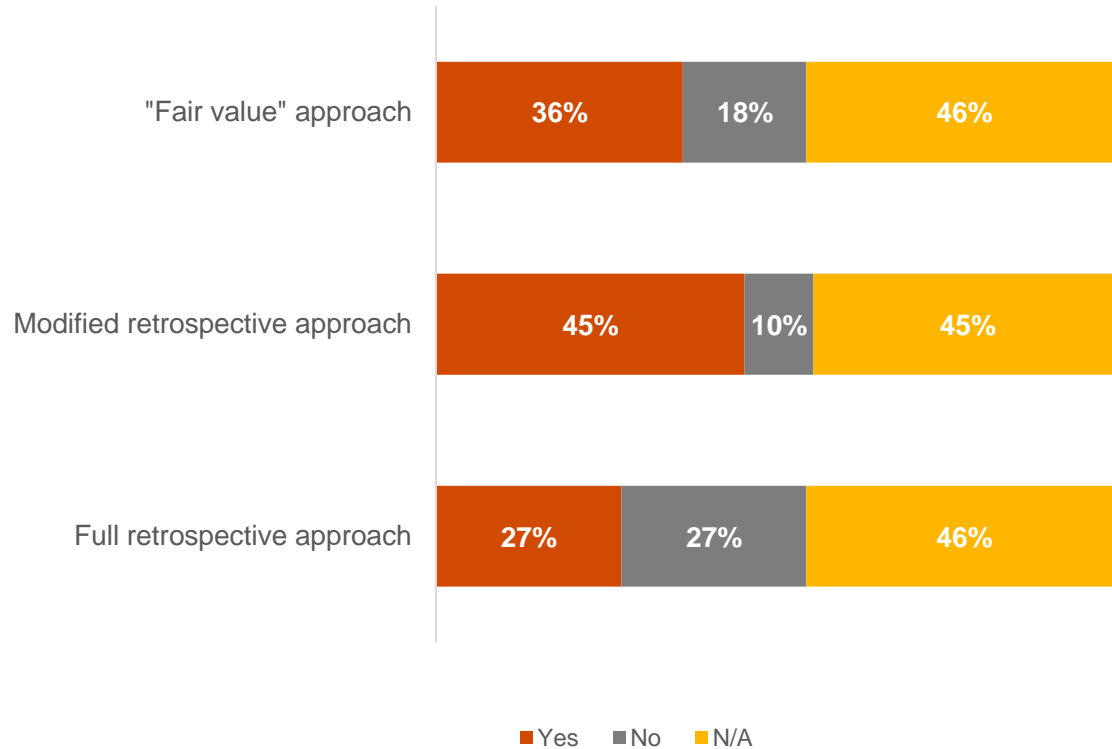


Methodology - IFRS 17 proposes different options

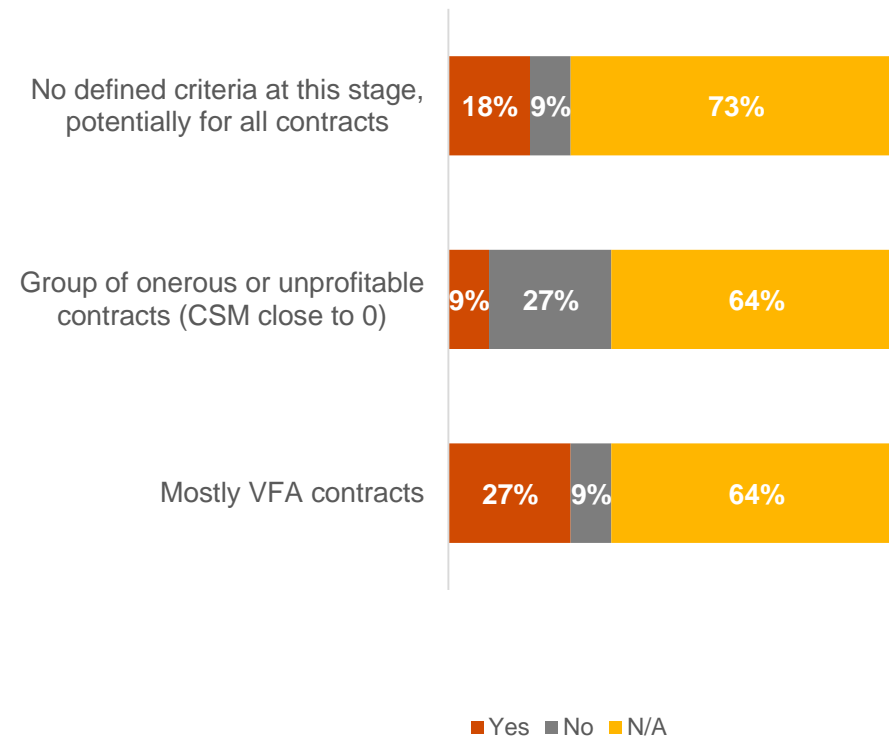
Transition



Transition : Have you considered to use the following approaches?



Transition : If the Fair Value approach is applied, for which type of contracts would it be?

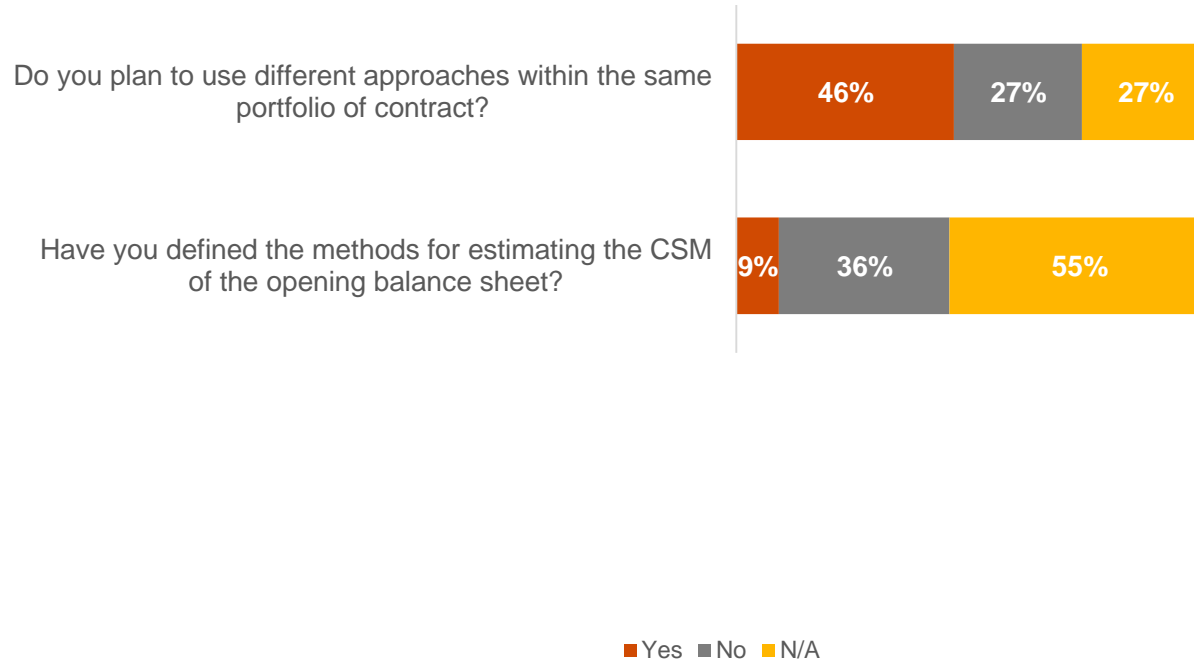


Methodology - IFRS 17 proposes different options

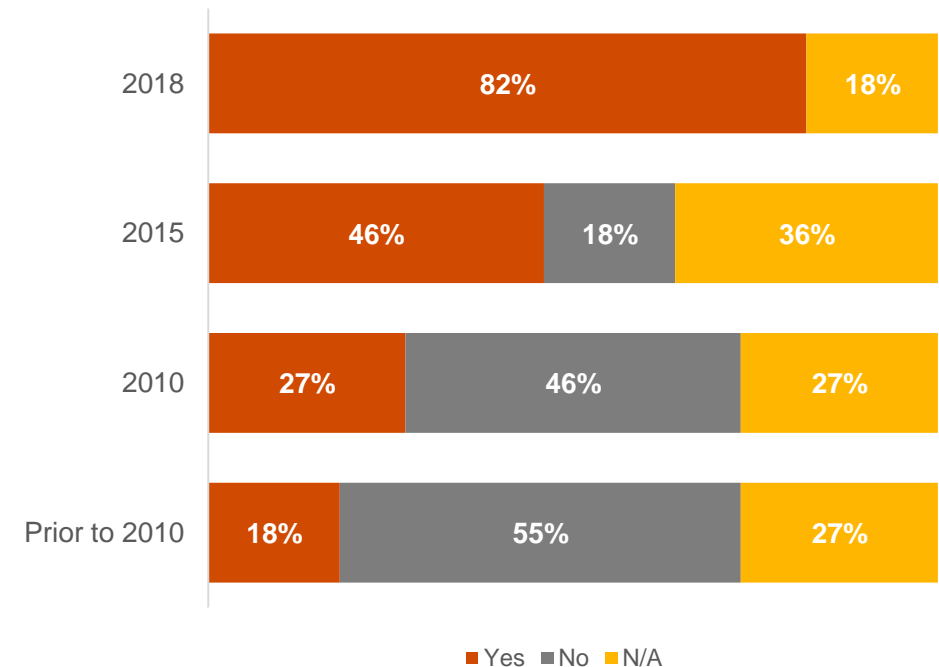
Transition



Transition



Up to which generation of contracts do you have sufficient data to apply a retrospective approach?

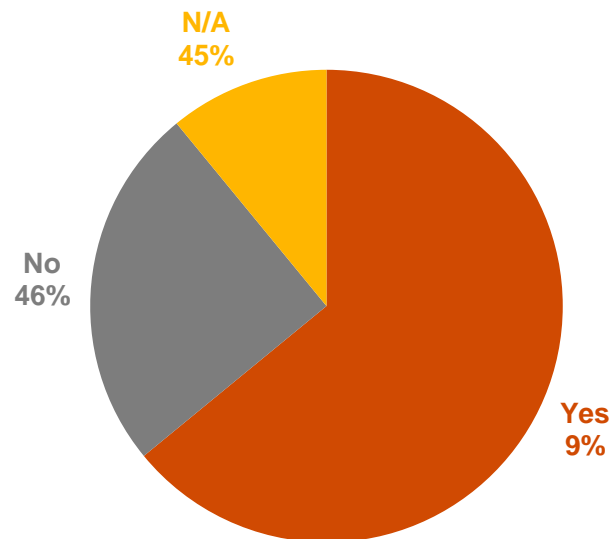


Methodology must be defined

VFA approach



For the classification of your contracts according to VFA model, have you carried out quantitative analysis to assess the criteria of "substantial share" of the returns and the change in value of the underlying items?



Does paragraph B107(b) of IFRS 17 require the analysis of the paragraph B101 criteria to be done at the group (of insurance contract) level (or could this be done at a broader level)?

Answer: No, the standard does not require the paragraph B101 analysis to be performed at the 'group of insurance contracts' level. When performing the paragraph B101 analysis, the criteria should be applied at the level at which the contract specifies that returns on underlying items are shared, which might include sharing with policyholders of contracts in other groups, including both current and future policyholders.

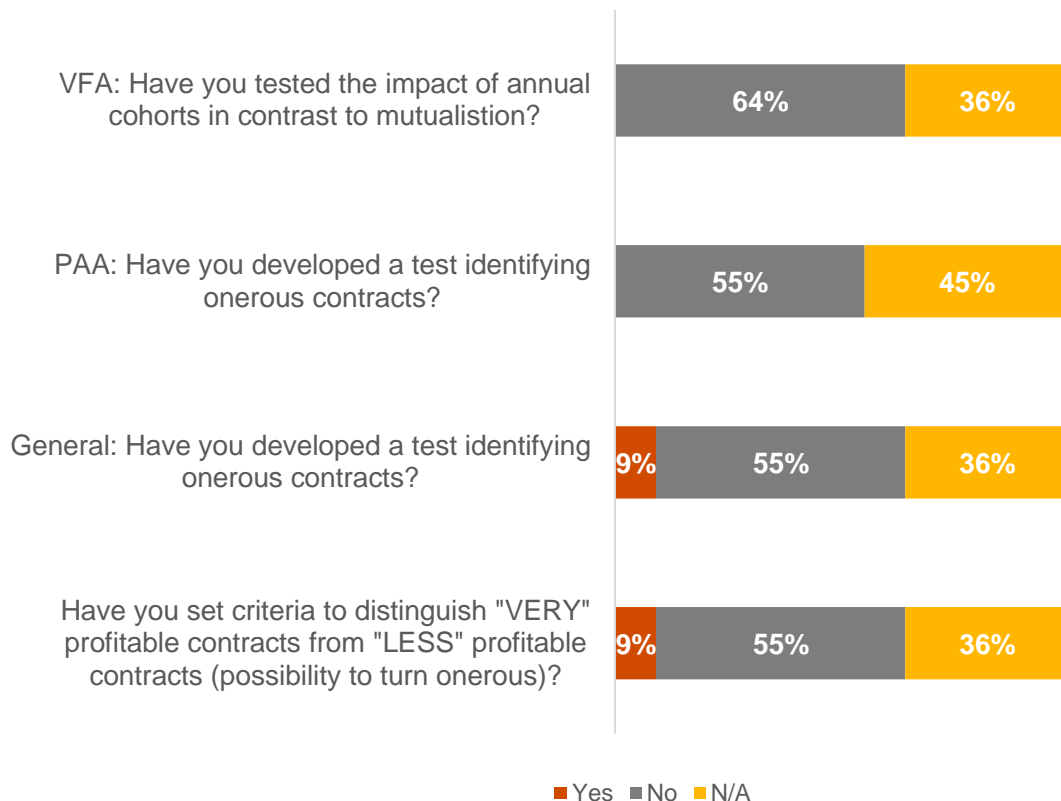
<https://inform.pwc.com/>

Methodology must be defined

Aggregation of contracts



Aggregation



At what level should the profitability of insurance contracts be assessed when determining which group a contract falls into at initial recognition?

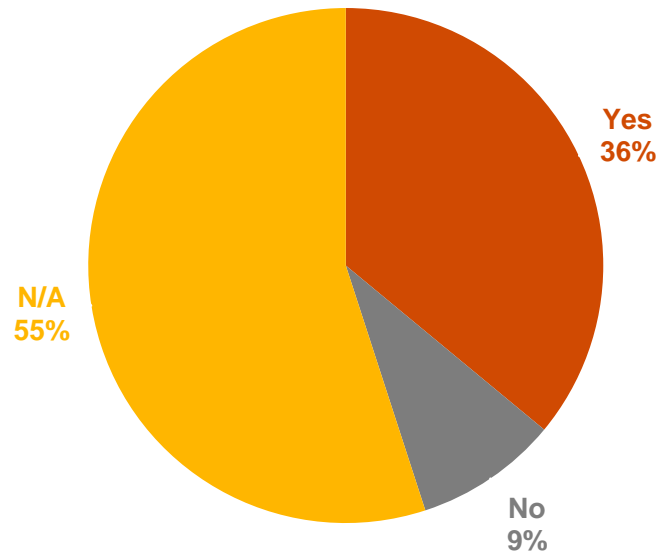
Answer: An entity cannot use information about insurance contracts in a portfolio, a group or a set for contracts on an aggregate basis if the insurance contracts are not sufficiently homogeneous.

Methodology must be defined

Contract boundaries



Have you identified contracts for which the contract boundaries will not be aligned between Solvency II and IFRS 17?



What costs can be included as acquisition cash flows under IFRS 17, and how are they recognized?

Answer: The IASB decided not to distinguish between the following types of costs, all of which should be included in the measurement of insurance contracts, provided that they meet the definition of insurance acquisition cash flows:

- (a) Successful and unsuccessful efforts
- (b) Direct costs and indirect costs that can be directly attributed to a portfolio of insurance contracts

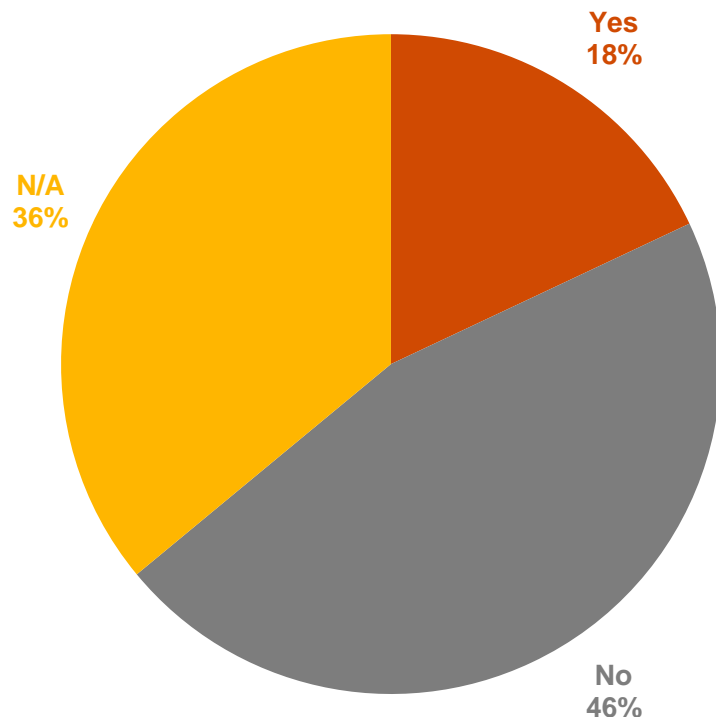
<https://inform.pwc.com/>

Methodology must be defined

Coverage units



Have you defined the coverage units used for the amortization/ release of the CSM?



How could the release pattern of the contractual service margin be calculated?

Answer: CU is the „Maximum amount payable to the policyholder if insured event occurs”.

<https://inform.pwc.com/>

Do such terms as ‘premium waiver’ in a contract represent a pre-existing risk of the policyholder transferred to the entity (and hence insurance risk) or a new risk created by the contract (and hence not insurance risk)?

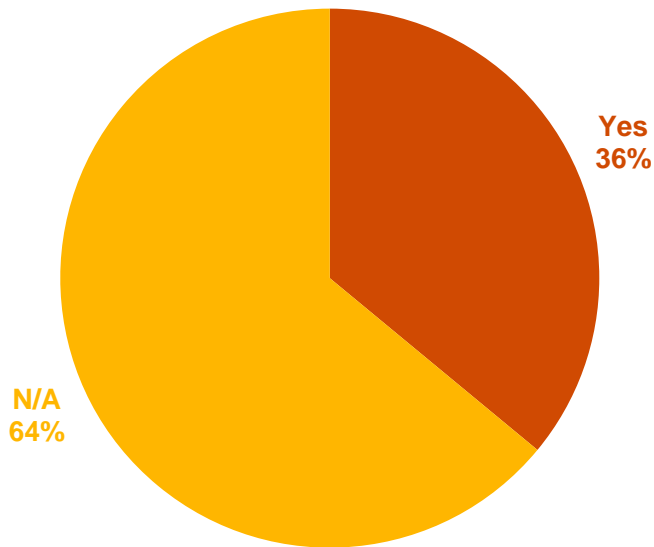
Answer: The existence of a premium waiver in insurance contracts (for example, a term life insurance policy with a premium waiver on disability) is likely to result in multiple coverage units, and it could also impact the coverage period to the extent that the coverage period for the waiver differs from that of the base insurance contract.

Methodology - IFRS 17 proposes different options

Risk adjustment



Do you plan to use the option of not isolating changes in the RA between the result of insurance activities and the insurance financial income and expenses (i.e. not presenting the accretion effect in the financial results)?



Why is an explicit risk adjustment for non-financial risk included, and what should be considered in its estimation?

Answer: Incorporating an explicit risk adjustment into the measurement model is consistent with the **pricing** of insurance contracts.

The significance of the challenge for entities to reliably and consistently measure the risk adjustment **will vary by territory, depending on the experience** in that territory and whether risk adjustment techniques are used for capital management or solvency requirements.

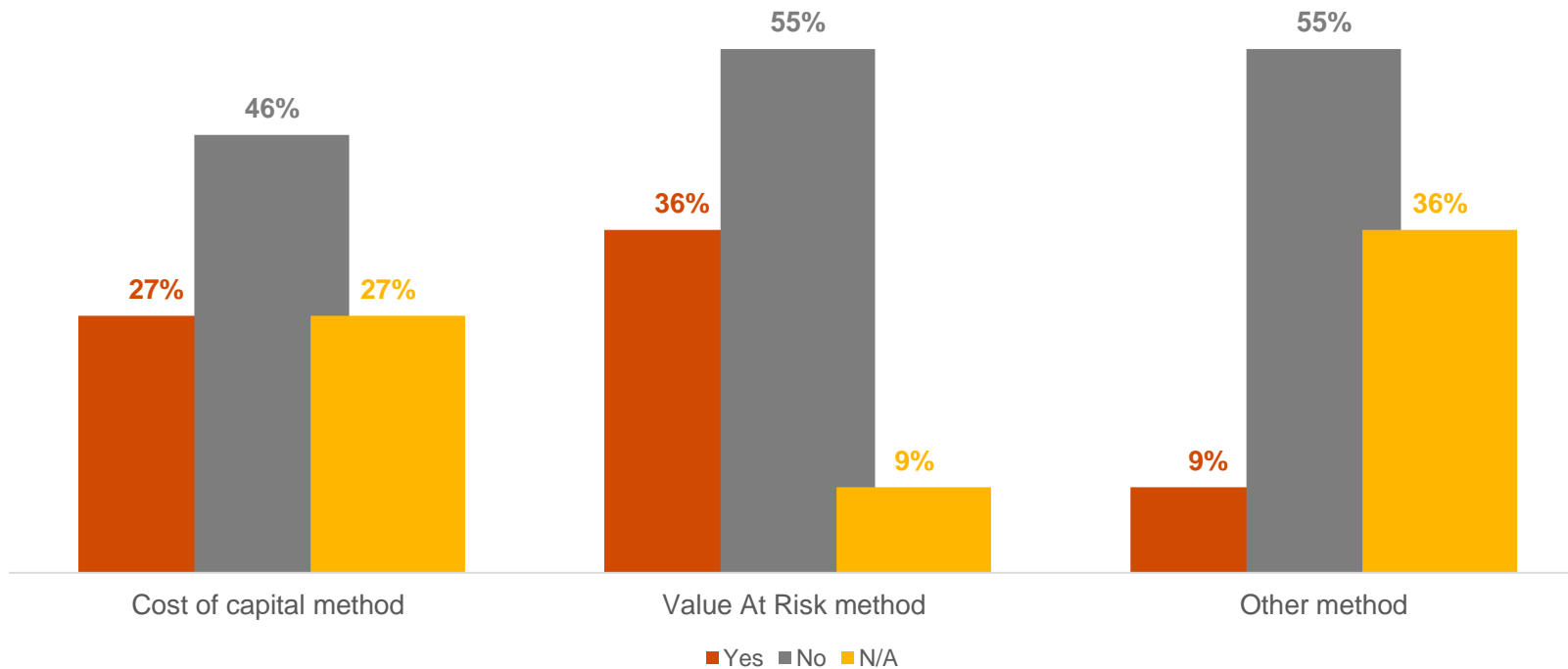
The time value of money is independent from the estimate of future cash flows, so the risk of changes in **discount rates is not part of the risk adjustment**. For example, reinvestment rates for long-term bonds to determine an appropriate discount rate for liabilities will not affect the amount of the risk adjustment.

Methodology must be defined

Risk adjustment



Have you considered using the following methods for assessing risk adjustment?

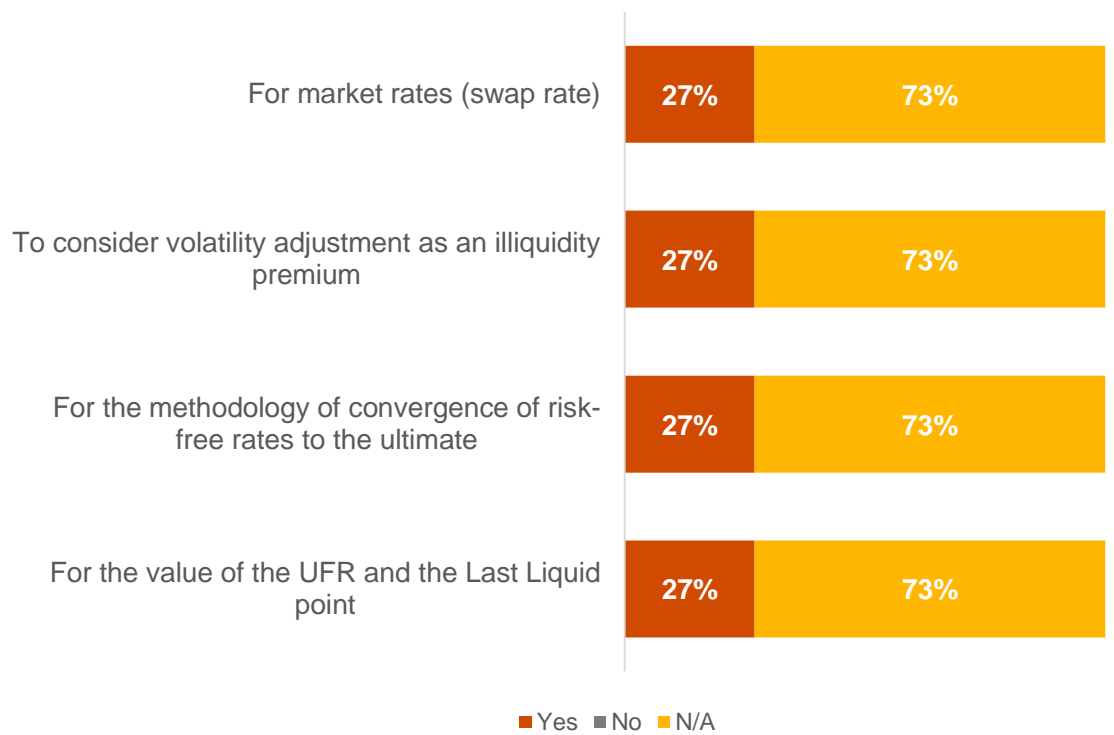


Methodology must be defined

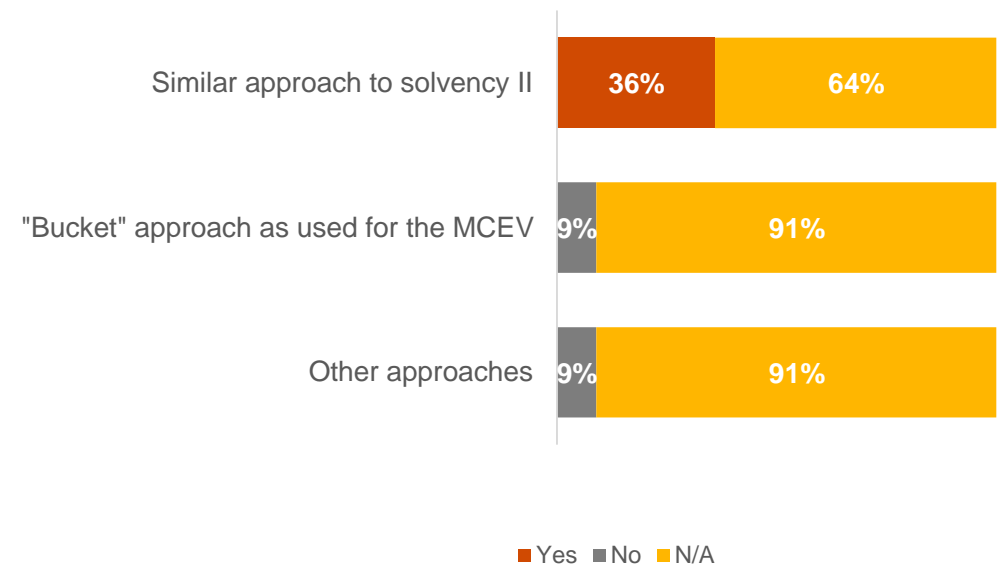
Discount rate



In the case of the bottom-up approach, you consider the methodology used in the Solvency II context as appropriate:



What approach is being considered to determine the illiquidity premium?



Methodology must be defined

Discount rate



Can an asset-based discount rate be used?

Answer: IFRS 17 does not permit the use of an asset-based discount rate if the asset returns do not affect the cash flows of the insurance contracts. However, depending on the characteristics of the liabilities, the assets held by the entity could be the starting point for determining a permissible discount rate.

Should a yield curve or single discount rate be applied?

Answer: IFRS 17 does not specify whether an entity should use a yield curve or a single discount rate. The terms 'yield curve' and 'discount rate' are used interchangeably in IFRS 17. For some measurements, such as discounting of future cash flows, entities might need to use a yield curve; for others, such as accretion of interest on the contractual service margin using locked-in discount rates, entities are likely to use a single discount rate instead of a yield curve. Entities should ensure that the single discount rate or yield curve used for measurement fits the purpose of measurement and complies with the requirements of IFRS 17.

What is the impact of negative interest rates on the estimation of a discount rate?

Answer: The use of a 0% floor is not appropriate.

<https://inform.pwc.com/>

Thank you!



© 2019 PricewaterhouseCoopers Audit OOD. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

