
IFRS 17 ON WHEELS

A community-based approach to tackle the problem

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AGENDA



1. Introduction and Motivation

Daniel Trzesniak

2. Present Value and Economic Models

Andrea Muolo

3. IFRS 17 Profitability Switch Logic

Davide Colleoni

INTRODUCTION AND MOTIVATION

ABOUT THE TITLE (MY REALITY)

We believe we have the right solution to tackle the problem, but we have always heard...



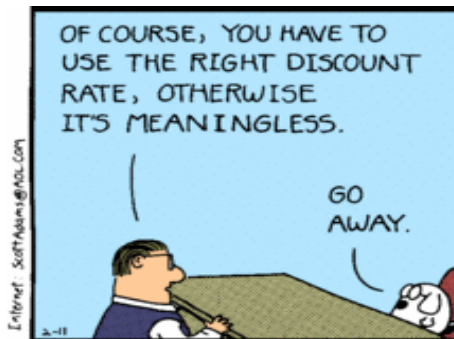
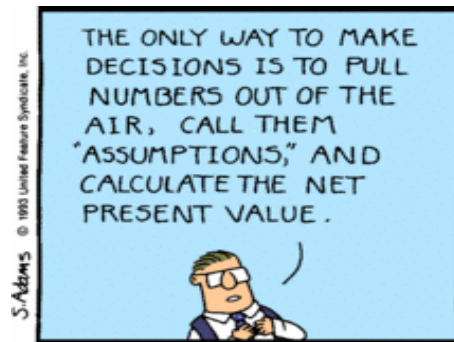
WHAT IS IFRS 17



It is a financial reporting standard replacing IFRS 4 on accounting for insurance contracts

It is a valid initiative to make insurer's financial statements more adequate to evaluate the underlying business

- Fair Measurement: economic valuation of reasonably-grouped insurance portfolios (Group of Contracts, Unit of Account) until run-off
- Analysis of Change (Analysis of Movements, BoP/EoP Walk...): constant reconciliation of opening and closing balances
- Fair Profit Recognition: it stipulates how the profit and loss must be recognized and allocated to each financial period



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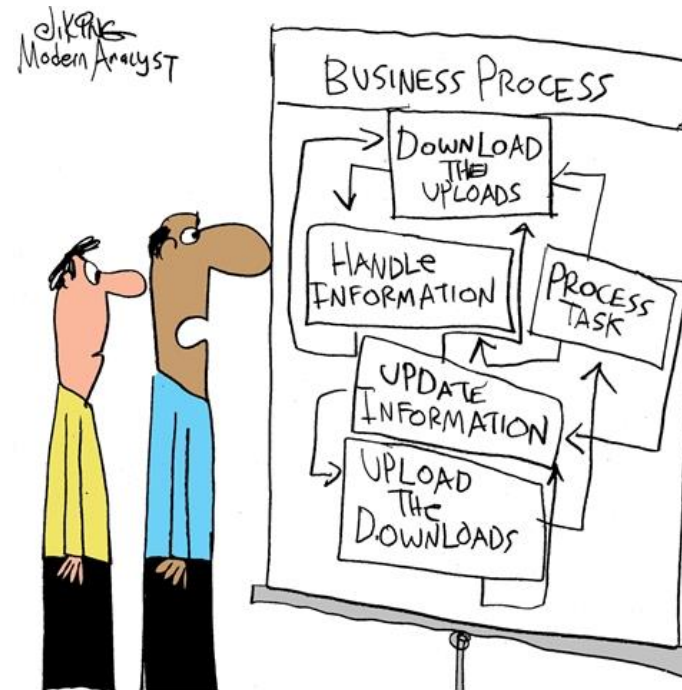
WHY IS IFRS 17 SUCH A BIG PROBLEM



Arguably the biggest and most expensive project the insurance industry has ever experienced

IFRS 17 is a heavy burden on all entities writing insurance contracts

- Business rules can easily become unintelligible (documentation, implementation and maintenance)
- Complex business processes (new and re-design)
- The need to adapt existing systems (data + reporting)



"Charlie, did you really get these details from the customer?"



I HAVE THE DATA YOU ASKED FOR.
AT LEAST I THINK BECAUSE THERE
ARE NO HEADERS AND COMMENTS.

Piotr@Datamedia

HOW HAS IFRS 17 IMPLEMENTATION BEEN APPROACHED



If writing specifications of the standard is not trivial, the implementation is even more complex

- In general, this has been a secret among insurers. There seem to be some hesitation to share information
- Discussions tend to be theoretical and qualitative, with only a few open debates based on real data being disclosed
- There has never been an adequate platform for a more pragmatic and interactive exchange
- The project scope, time and cost pressures make quantitative collaborations even more difficult



"I'll show you mine if you show me yours."



2023... FINALLY YOU ARE IFRS 17 COMPLIANT

And now the bad news...



IT WILL TAKE SEVERAL YEARS TO BECOME ACQUAINTED WITH IFRS 17

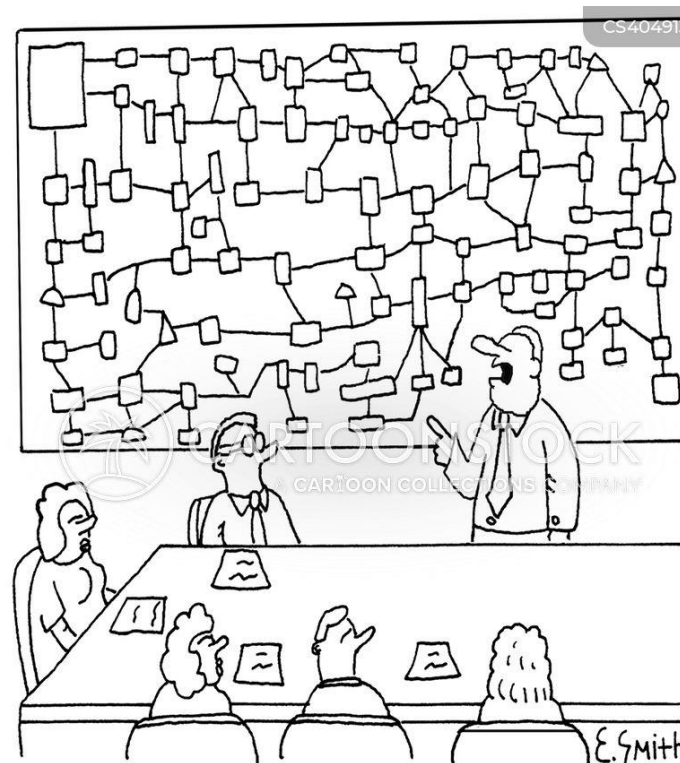


A considerable amount of extra time and effort will be necessary after the effective date

- The publication of the official figures will trigger long debates on how to interpret and compare the different results
- Further adaptations will be required to support the understanding and to optimize the fragmented system landscape built
- Interacting with the data supporting the published numbers is essential to understand how to proceed



*"They've been like this ever since Mary presented her report.
It's the worst case of paralysis by analysis I've ever seen!"*



Now we come to step 86 of how...



PUBLICATIONS AND DATA

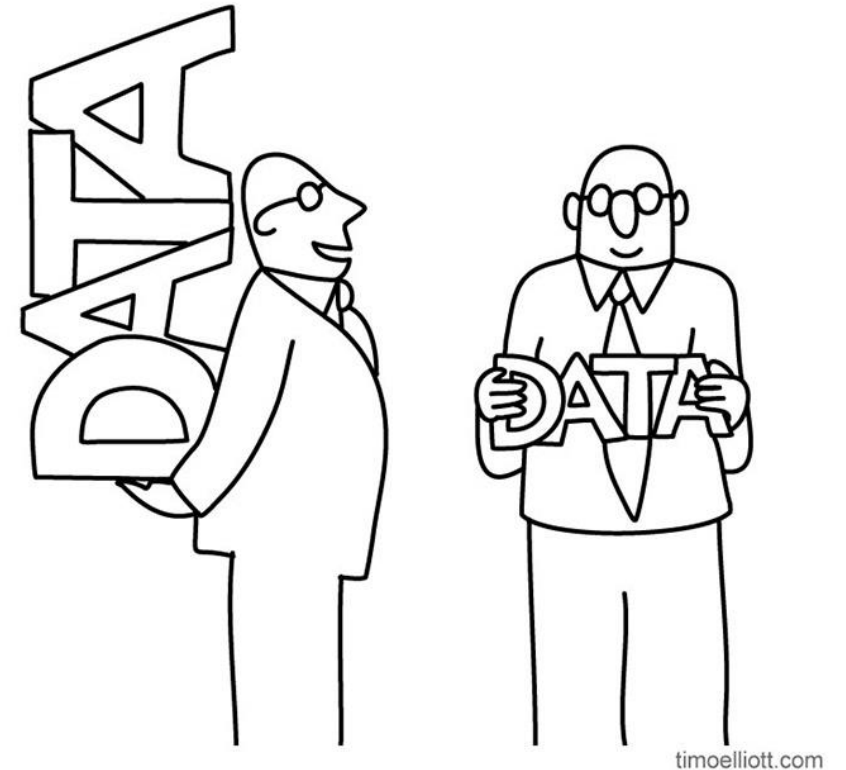
- Swales, A. Finance Transformation: What's beyond IFRS 17 compliance? PWC financial services blog (13.12.2022)
- Bertolotti, A. IFRS 17: A look back on 2022 - where are we now? PWC financial services blog (16.12.2022)
- Owel, B. Insurers' initial views – IFRS 17 and IFRS 9. KPMG Global IFRS Institute (20.12.2022)

RED ALERT, WHAT SHOULD WE DO



It is time to bring collaboration to the next level

- Doing nothing is not a good option
- Companies should learn from their experience and avoid making the same mistakes
- Less secrecy can be expected, as under IFRS 17 insurers will need to also disclose the significant judgements they have made
- The feeling of pressure should decrease and there is an opportunity to evaluate additional support available in the market



"I think you'll find that mine is bigger..."

HOW CAN WE TACKLE THE IFRS 17 PROBLEM

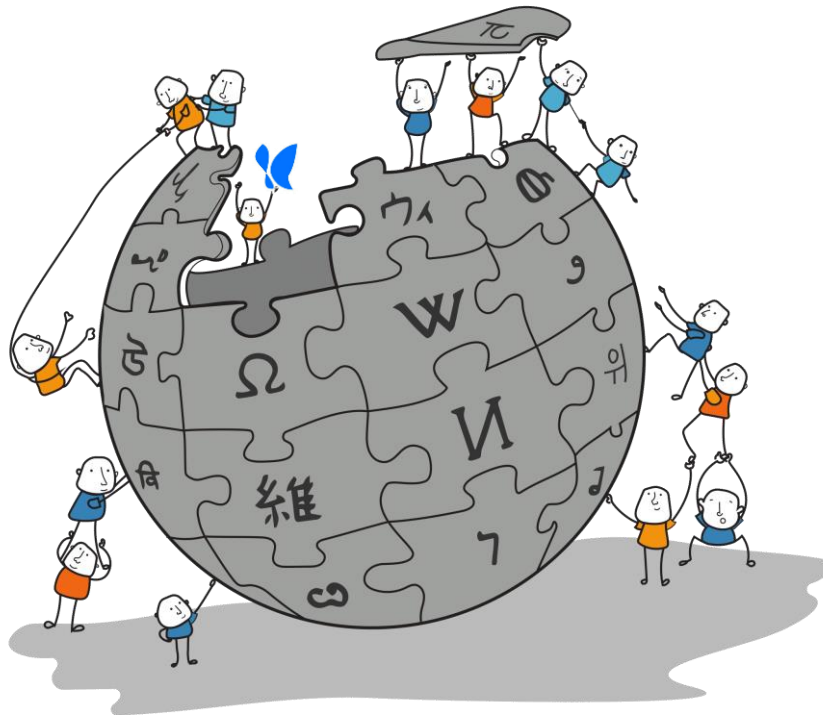


With the power of the community

It is proven that a community-based approach to spread knowledge is very effective

Systemorph has made available an open-source IFRS 17 Calculation Engine to facilitate discussions and collaboration

- The solution provides an intuitive default implementation of the IFRS 17 standard
- It is open for everyone to explore, with examples, tutorials, documentation and the source code
- Anyone can extend and modify the default solution to fulfill any purpose. It can be easily adapted to cover many use cases
- The concept is thought as a solution to encourage pragmatic and interactive ideas exchange



And the best part is, it's open source!

ABOUT THE TITLE (EXPECTATION)

We believe we have the right solution to tackle the problem, and we would like to hear...



SEEING IS BELIEVING

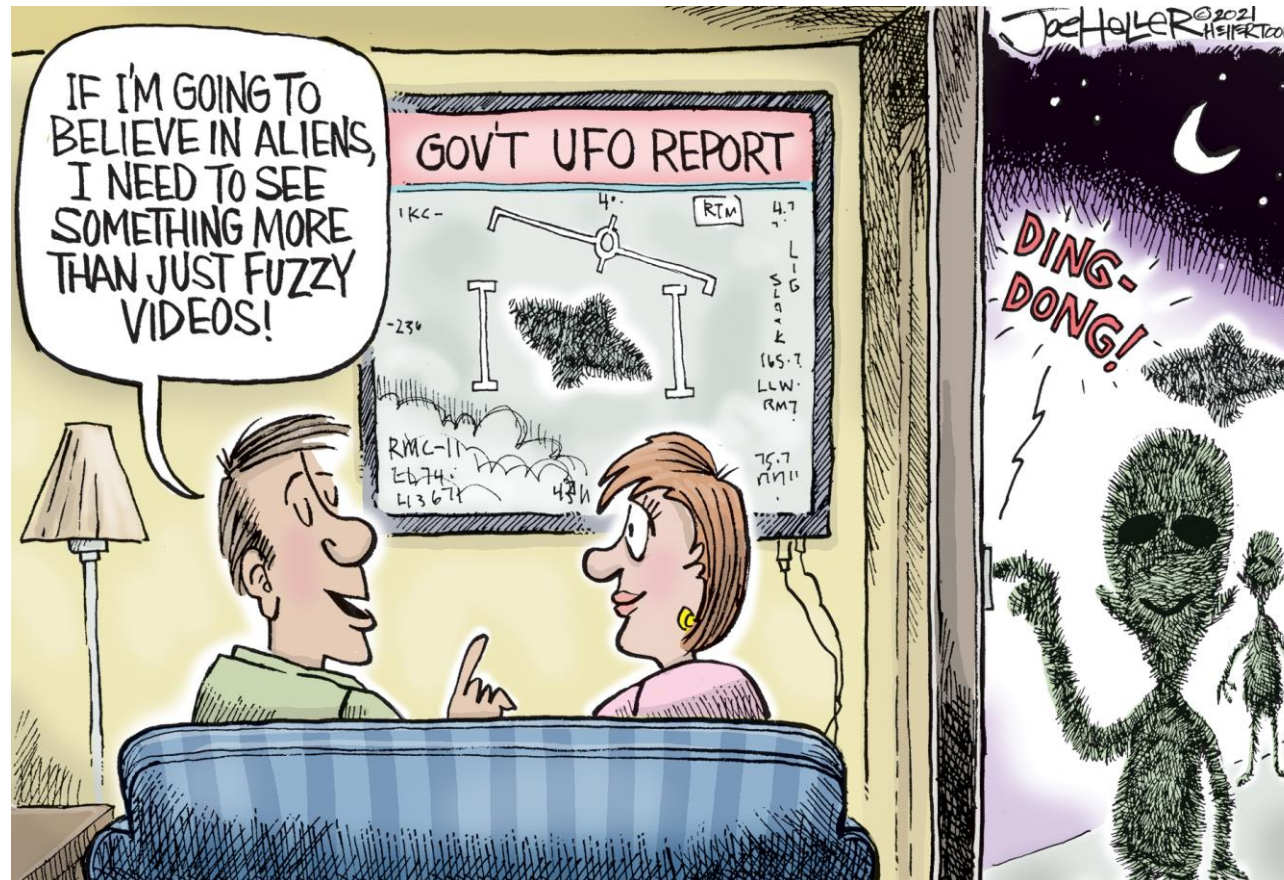


It is time for a demo on how to use “the wheels”

We will show a couple of examples of how we could present use cases in the Systemorph Cloud platform

- Present Value and Economic Models
- IFRS 17 Profitability Switch Logic

We hope we can convince you to bring your IFRS 17 experience to the next level.



PRESENT VALUE AND ECONOMIC MODELS

PRESENT VALUE AND ECONOMIC MODELS



How to apply the IFRS 17 Calculation Engine to value insurance contracts through the Analysis of Change of the Present Values

The picture below is a screenshot, please refer to the links below for the full experience

The screenshot displays the Systemorph Cloud Technology interface. On the left is a blue sidebar with navigation icons and labels: 'OVERVIEW', 'EXPLORER', and 'ENVRS'. The main content area is titled 'How to compute Present Values' in large blue font. Below the title, the text explains that IFRS 17 is the new economic accounting standard for insurance contracts, focusing on the **economic value of insurance products** compared to the previous nominal standard IFRS 4. It states that this means being able to answer the question: *what is the value of an issued insurance contract today?* The text further explains that IFRS 17 is based on computing the Present Value of insurance contracts, which is the money one would pay today for all insurance policies. Calculating present value and understanding its evolution over time is the basis for IFRS 17 financials. The bottom paragraph states the aim of the notebook is to illustrate the IFRS 17 *Present Value* calculation using Systemorph Cloud Technology, where Present Values are the amount of money someone would pay today for contracts up to their run off. The starting point is *Nominal Cash flows*, which express cash and cash equivalents being transferred into and out of a business. Cash flow values are **discounted** according to the *Yield Curve* provided as economic input to account for Interest Accretion, and the discounted figures are **cumulated** to find the **Present Values**.

- Link to the example: <https://portal.systemorph.cloud/project/present-value-of-cash-flows/env/dev/PresentValue%20-%20Episode%202>
- Link to the project: <https://portal.systemorph.cloud/project/present-value-of-cash-flows/env/dev>
- Link to the explanatory video: <https://youtu.be/dhdA3F6ZWbs>

IFRS 17 PROFITABILITY SWITCH LOGIC

IFRS 17 PROFITABILITY SWITCH LOGIC



We use Systemorph Cloud to look at the impact of the Profitability Switch Logic to the Financial Performance and Balance Sheet

The picture below is a screenshot, please refer to the links below for the full experience

OVERVIEW

EXPLORER

ENVRS

SETTINGS

+ CODE

+ TEXT

▶

▶▶

⌘

⌘

CPU: 1

RAM: 4

⏻

▼

Outline

1. Theory

2. Case Study

3. Data Import

4. Fulfilment Cash Flow (FCF)

5. Written Actuals

6. LRC Technical Margin (TM)

7. Contractual Service Margin / Loss Component

8. LRC Actuarial

9. Financial Performance

Contractual Service Margin and Loss Component Switch

Impact of the switch logic to Financial Performance and Balance Sheet

1 Theory

A fundamental concept introduced by IFRS 17 is the Contractual Service Margin (CSM). The CSM represents the unearned profit that an entity expects to earn as it provides services. It is defined at the minimum granularity being the Group of Insurance Contract (Unit Of Account) and it is relevant for all Liability of Remaining Coverage (LRC) approaches with the exception of the Premium Allocation Approach.

The main principles to understand the Contractual Service Margin and Loss Component in IFRS 17 are:

Principle 1: When an insurer writes profitable business, it must not be allowed to recognise the expected profits immediately and instead *must spread those profits over time*.

Principle 2: When an insurer writes loss-making business, it must not be allowed to spread the expected losses for that business over time and instead *must recognise those losses immediately*.

Present value of cash inflows	Contractual Service Margin
	Risk Adjustment
	Present value of cash outflows

Group of profitable contracts

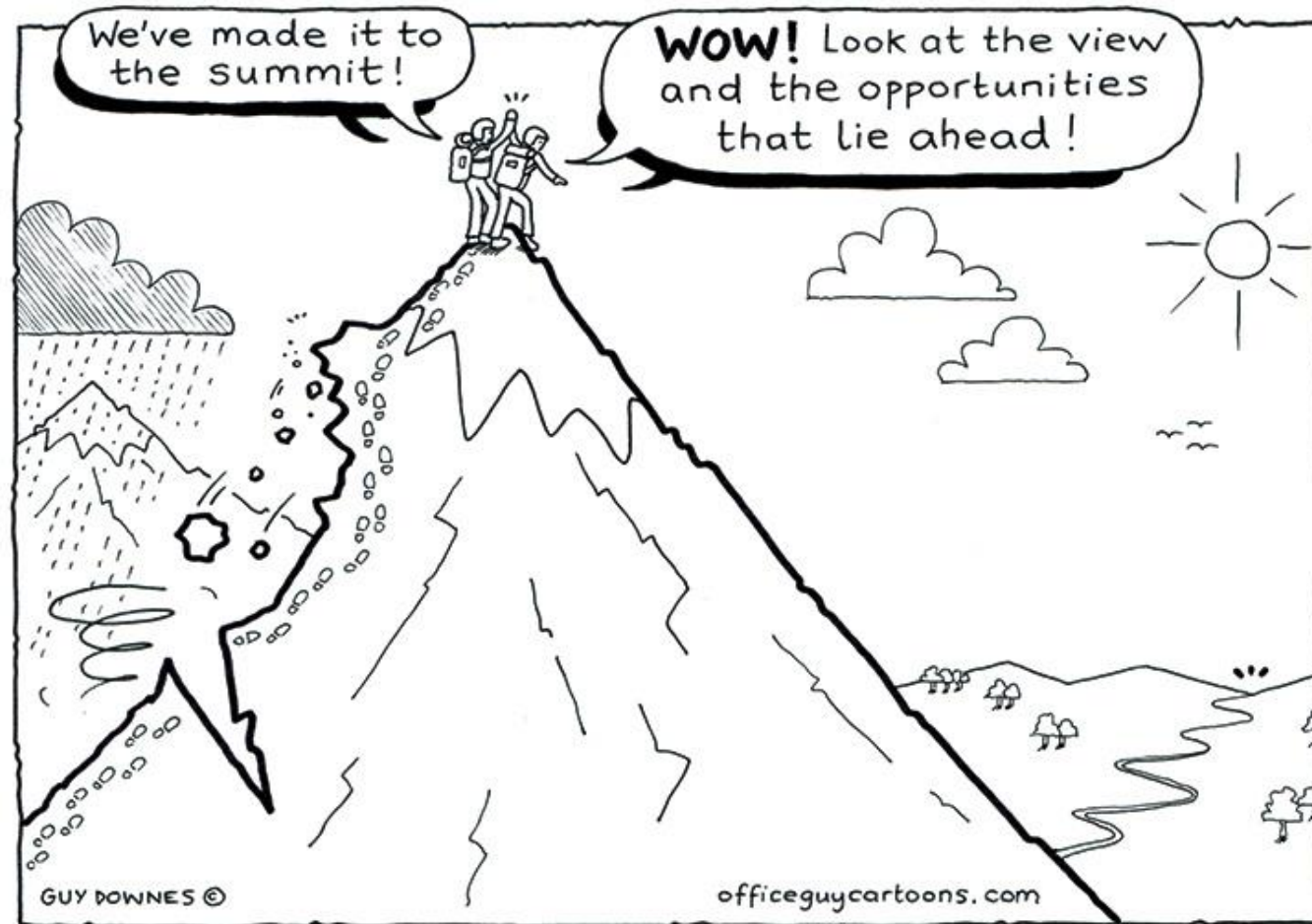
Loss Component	Risk Adjustment
Present value of cash inflows	Present value of cash outflows

Group of loss-making contracts

- Link to the example: <https://portal.systemorph.cloud/project/ifrs17-template/env/dev/PracticalUseCases/SingleVsMultipleCsmSwitch/CsmSwitchReports>

DISCUSSION

Let us know what you think...



- Community Page: <https://systemorph.cloud/community/>
- Systemorph IFRS 17 Calculation Engine: <https://portal.systemorph.cloud/project/ifrs17>

CONTACTS



[Systemorph](#)



[Systemorph Cloud](#)



[Systemorph Cloud Portal](#)