TECHNICAL REPORT

FINDINGS OF THE PRUDENTIAL AUTHORITY SURVEY ON THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 17: INSURANCE CONTRACTS

FOR INSURERS SUPERVISED BY THE BANKING, INSURANCE, CO-OPERATIVE FINANCIAL INSTITUTIONS AND FINANCIAL MARKET INFRASTRUCTURE DEPARTMENT

SOUTH AFRICAN RESERVE BANK
Prudential Authority

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For further information, please email the PA IFRS 17 team at: IFRS17@resbank.co.za.

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Abbreviations

CSM	contractual service margin
GMM	general measurement model
IASB	International Accounting Standards Board
IFRS 17	International Financial Reporting Standard 17: *Insurance Contracts*
IT	information technology
OCI	other comprehensive income
PA	Prudential Authority
PAA	premium allocation approach
PAD	provision for adverse deviation
RA	risk adjustment
SARS	South African Revenue Service
SCR	solvency cover ratio
VFA	variable fee approach

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1. Executive summary

In June 2021, the Prudential Authority (PA) issued a survey to the small- and medium-sized insurers supervised by the Banking, Insurance, Co-operative Financial Institutions and Financial Market Infrastructure Supervision Department of the PA as part of the flavour-of-the-year topic engagements on International Financial Reporting Standards 17: *Insurance Contracts* (IFRS 17 or the standard). The survey questions were aimed at gaining insights into the progress and state of the implementation of IFRS 17 for these insurers.

The survey asked insurers to indicate the stage of completion of their IFRS 17 implementation projects. The stages were as follows:

1. Planning: the initial stage of the project where plans, responsibilities and timelines are defined.
2. Implementation: a more advanced stage wherein some of the planned items are actioned.
3. Testing: where the implemented actions are tested.
4. Other: covers stages that were not listed, in the opinion of the insurer.

The results showed that at the time of the survey, most of the respondents (45%) were still in the planning stage of their IFRS 17 implementation projects and 6% had not yet started. Only 15% of the respondents were already in the testing stage. On further analysis, most of the life and non-life insurers were in the planning stage, whereas most of the composite reinsurers were in the testing stage. With the effective date of IFRS 17 fast approaching on 1 January 2023, the PA urges the boards of directors of all insurers to ensure that the necessary priority is given to the implementation of IFRS 17.

While at the time of the survey most projects were not far advanced, most of the respondents (57%) had project plans in place that had been approved by their audit committees and indicated that the projects were on track in terms of the project timelines. Respondents described the governance structures they had set up for the implementation of IFRS 17 and most indicated that they had formed steering committees which reported periodically to the audit and/or risk committees of the insurer.

Most respondents (63%) indicated that their risk/actuarial and finance functions were primarily responsible for the IFRS 17 project, which confirms the collaborative effort required in the implementation of the standard.

While most of the respondents believed that they had the necessary accounting (68%) and actuarial (57%) expertise in-house for the implementation of IFRS 17, the shortage of resources remains a challenge for many insurers. Respondents indicated that the skills gap was being addressed by using external consultants. However, the PA notes that IFRS 17 remains the responsibility of the insurer and therefore encourages insurers to make all efforts to, where possible, transfer the necessary IFRS 17 skills in-house, and at a minimum to understand the work of the consultants.

As expected, most of the life insurers indicated that they would follow the general measurement model.[1] However, some life insurers and most of the non-life insurers indicated that they would apply the premium allocation approach[2] (PAA) for a proportion of their business respectively. Some respondents had not made this determination as they were in the planning stage of the project. Decisions around the determination of contract boundaries, discount rates and risk adjustments were largely in progress due to the stage of completion of the insurers at the time of the survey.

Respondents found the level of aggregation to be the most challenging technical aspect of the standard and were anticipating that the availability of data would be the most challenging practical aspect going forward.

Regarding the expected impact of IFRS 17 on information technology (IT) systems, people, processes and profit emergence, respondents were required to rate the impact in terms of the following categories:

1. IT systems:
    a. Low: majority of the current IT landscape unchanged;
    b. Medium: some changes made to the current IT landscape to cater for IFRS 17; and
    c. High: complete change and transformation of the IT landscape.

[1] Refer to section 4.1 in the technical aspects section for an explanation of the general measurement model.

[2] Refer to section 4.1 in the technical aspects section for an explanation of the premium allocation approach.

2. People (including accounting and actuarial resources):
    a. Low: minor changes made to the staff complement;
    b. Medium: some changes made to the staff complement; and
    c. High: significant changes to the staff complement; new roles and new processes.

3. Processes (including internal controls):
    a. Low: processes have somewhat remained the same;
    b. Medium: some processes have changed to accommodate IFRS 17; and
    c. High: complete change of processes.

4. Profit emergence:
    a. Low: insignificant change in profit recognition patterns;
    b. Medium: moderate change in profit recognition patterns; and
    c. High: significant change in profit recognition patterns when compared to existing accounting policies.

Most respondents expected IFRS 17 to have a medium impact on IT systems, people and processes, whereas most (86%) were yet to assess the impact on profit emergence.

Almost half (46%) of the respondents had already identified the required IFRS 17 changes to their respective IT landscape. Insurers indicated that they had experienced various challenges relating to IT. Some of the respondents had challenges with the interpretation of the IFRS 17 requirements. Only 14% of the respondents had made changes to the general ledger to accommodate the IFRS 17 reporting requirements, 41% indicated that this was in progress and 45% had not made any changes.

As IFRS 17 is a complex standard, technical training and preparedness are essential for its successful implementation. It is therefore of critical importance that sufficient training is provided to all relevant staff members and those charged with governance. The survey results show that most of the insurers' staff (67%) had received training, while for the boards of directors only 41% had been provided with training.

Insurers were asked whether they anticipated any changes to product offerings as a result of the implementation of IFRS 17. Most of the respondents (73%) indicated that there would be no changes, while only 3% were anticipating changes and 24% were yet to determine

the impact on product offerings. On the expectation of any changes in product pricing as a result of IFRS 17, only 1% of the respondents said they do anticipate a change, while 67% expected no change. The remaining 32% indicated that this had not been determined.

Some of the major challenges insurers anticipate that they would be facing in the coming months in preparing to adopt IFRS 17 are the availability of historical data, availability of new system solutions, uncertainty over the interpretation of IFRS 17 requirements, and the availability of qualified resources.

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2. Introduction

Every year, the PA considers whether there are any developments affecting regulated institutions at an industry level that are of such significant importance that they would require additional focus from a supervisory perspective. The topic(s) selected are communicated to regulated institutions at the beginning of that year and are referred to as 'flavour-of-the-year' topics.

The insurance industry was informed through Prudential Communication 2 of 2021[3] that the PA had determined insurers' implementation of IFRS 17 as the flavour-of-the-year topic for the 2021 calendar year.

IFRS 17 was issued on 18 May 2017 by the International Accounting Standards Board (IASB) and was subsequently amended in June 2020. The implementation of the standard will be effective for financial periods beginning on or after 1 January 2023. IFRS 17 provides consistent principles for accounting for insurance contracts and aims to enhance comparability. The complex standard allows for a degree of optionality as well as the use of estimates in the application of its principles.

The approach followed, as detailed in Prudential Communication 2 of 2021, was that the PA would issue a survey to insurers supervised by its Banking, Insurance, Co-operative Financial Institutions and Financial Market Infrastructure Supervision Department to collect information about the insurers' implementation of IFRS 17. The PA would analyse the responses, and these would inform additional supervisory interventions where necessary. This report contains the results of this survey. It should be noted that this report does not contain the findings of IFRS 17 implementation for insurers supervised by the Financial Conglomerate Supervision Department, whose review was conducted through discussions held with the boards of directors of the various insurers.

The flavour-of-the-year topic is part of a series of IFRS 17 engagements that the PA embarked on with the insurance industry in the lead up to the standard's effective date.

[3] https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2021/Prudential%20Communication%202%20Flavour%20of%20the%20year%20topic%20of%20insurers.pdf

2.1 Overview of the survey

The survey contained questions on the following aspects of IFRS 17:

- project management and governance;
- technical aspects;
- impact assessment;
- data and information technology (IT);
- financial reporting; and
- training and preparation.

The detailed survey questions are included as Annexure 1.

The survey was issued to all 102 insurers under the supervision of the Banking, Insurance, Co-operative Financial Institutions and Financial Market Infrastructure Supervision Department at the beginning of June 2021, with a due date of 30 July 2021. The reference date for the completion of the survey was 31 May 2021 (i.e., insurers were required to indicate their progress as at 31 May 2021). However, only 89 responses were received – 53 from non-life insurers, 32 from life insurers, and 4 from composite reinsurers. Of the non-responders, 11 linked life insurers were out of the scope of IFRS 17, one insurer was in the process of winding up, and one did not offer a response.

2.2 Survey findings

The survey findings are detailed in the following sections. The sections are arranged according to the questions posed in the survey. Note that insurer class refers to the following categories: life, non-life and composite, whereas insurer type refers to captive, cell captive, controlling company, Lloyd's, microinsurer, primary and reinsurer.

The results presented are based on responses from the insurers and have not been individually verified.

3. Project management and governance

IFRS 17 is a significant accounting change that will impact an insurer's processes and systems. As such, the IFRS 17 implementation project should be planned and managed appropriately. The survey included questions on the IFRS 17 project management and governance to gain insight on how insurers were managing and progressing with the implementation project. To gauge this, questions on project plan and timelines, project governance, skills and resources, and budget were included.

3.1 Stage of completion of the IFRS 17 implementation project

With the effective date for the implementation of IFRS 17 being financial years beginning on or after 1 January 2023, it means that insurers do not have much time left to implement the standard. The requirement for comparative information to be restated in the financial year of initial application also imposes additional challenges on the implementation timeframes.

Figure 1: Overall, how would you describe the stage of completion of the IFRS 17 implementation project?

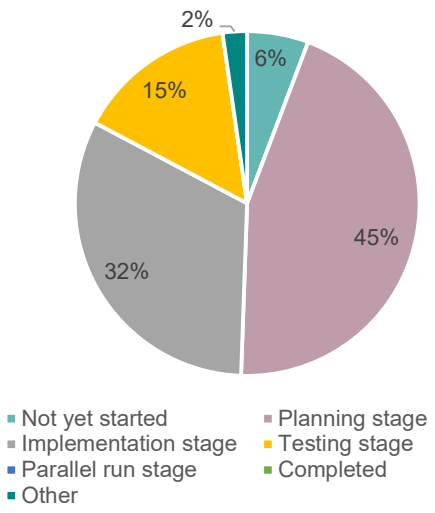


Figure 1 illustrates the stage of completion of the insurers at the reference date. The planning stage is the initial stage of the project where plans, responsibilities and timelines are defined; the implementation stage is a more advanced stage wherein some of the planned items are actioned; the testing stage is where the implemented actions are tested; and the other stage covers stages that were not listed, in the opinion of the insurer.

Almost half (45%) of the respondents were in the planning stage at the time of the survey, 32% were in the implementation stage and 15% in the testing stage. Only 2% of the insurers indicated that they were in other stages, stating that they were still performing a gap analysis and working on the design and build. This indicates that they were also in the planning stages of the project.

Overall, therefore, 47% of the respondents were in the planning stage.

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As depicted in Figure 2, most life and non-life insurers were in the planning stage, whereas most of the composite insurers were already in the testing stage of the project. From the responses, it appears that composite insurers were ahead of the life and non-life insurers at the time of the survey. The composite insurers are all reinsurers.

Figure 2: Stage of completion by insurer class

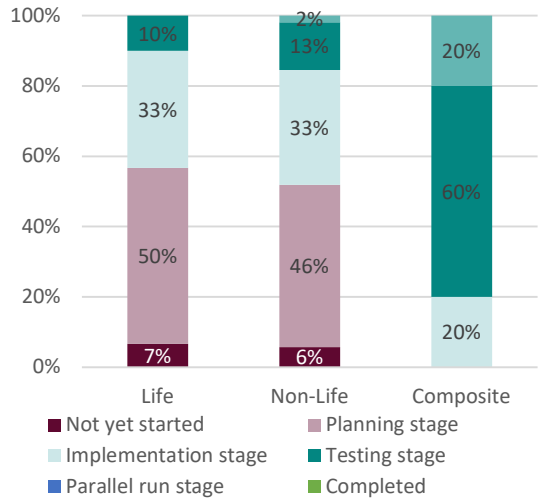


Figure 3 represents the stage of completion by insurer type. As depicted, only 9% of the reinsurers[4] were in the planning stage, while the rest were at more advanced stages. Almost half (47%) of the primary insurers, 100% of the microinsurers, 80% of the captive and 25% of the cell captive were in the planning stages of their respective implementation projects.

Figure 3: Stage of completion by insurer type

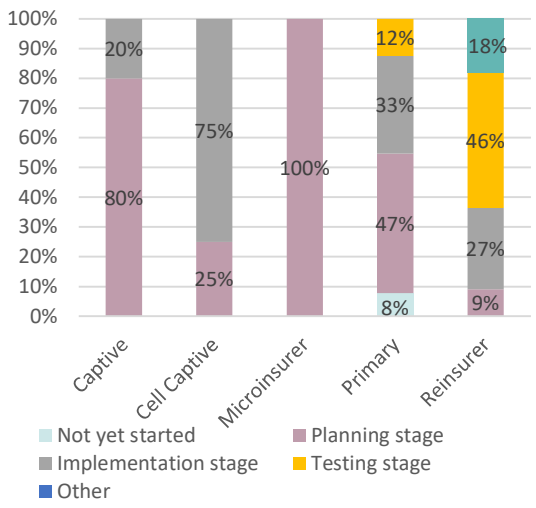
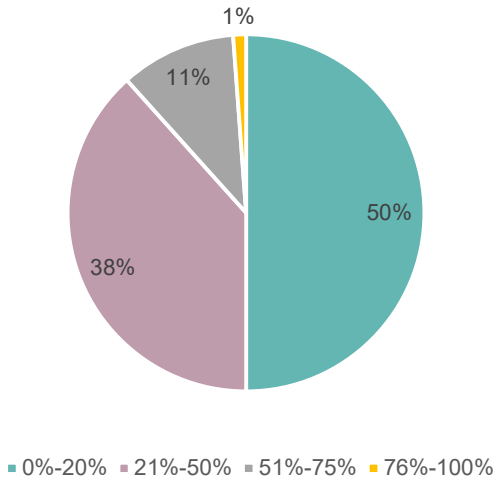


Figure 4 represents the stage of completion of the IFRS 17 implementation project at the reference date, with the percentage of completion referenced to the budgeted project hours.

Figure 4: How would you describe the percentage of completion of the IFRS 17 implementation project at the reference date? Please measure the percentage of completion by reference to the budgeted project hours.



[4] Figure 3 represents all reinsurers, including those that provide either life or non-life reinsurance only, whereas Figure 2 only represents composite reinsurers.

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Considering that most of the respondents were in the planning stage of their IFRS 17 implementation projects or had not started with their implementation, it is therefore not surprising that 50% of the respondents described their percentage of completion, with reference to budgeted hours, at the 0%–20% stage. Fewer respondents were at more advanced stages, with 11% in the 51%–75% stage and only 1% in the 76%–100% stage.

Analysing the same information by insurer class, Figure 5[5] indicates that most of the life (61%) and non-life insurers (47%) were in the 0%–20% stage of completion. Three quarters (75%) of the composite insurers were at the 51%–75% stage of completion and only 2% of the non-life insurers were at the 76%–100% stage of completion.

Figure 5: Percentage of completion by insurer class

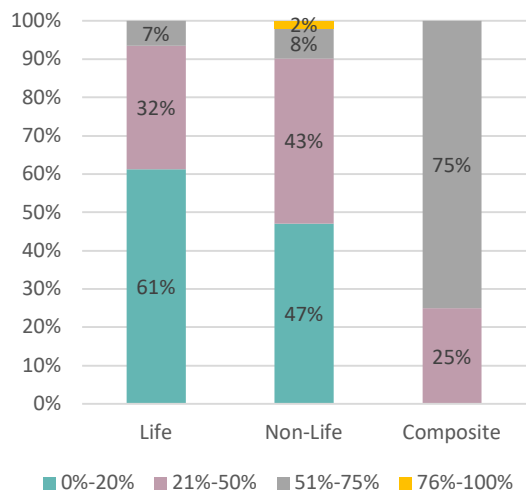
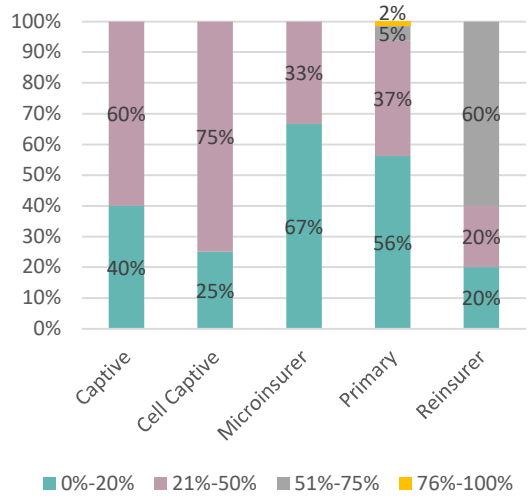


Figure 6 represents the responses by insurer type.

Figure 6: Percentage of completion by insurer type



3.2 Project plan and timelines

For a project to be successfully executed, it is important for a project plan to be in place. More than half (57%) of the respondents had a project plan in place that had been approved by their Audit Committee, the Board of Directors or

[5] Figure 6 represents all reinsurers, including those that provide either life or non-life reinsurance only, whereas Figure 5 only represents composite reinsurers.

similar governance structures, while 43% of the respondents did not have an approved project plan in place. This could be attributed to the fact that some of the respondents were in the planning stage and thus working towards putting a project plan in place.

The survey further asked whether the project was on track in terms of the respective insurers' project plan timelines. Four-fifths (80%) of the respondents indicated that their projects were on track, while the rest were not.

Most of the life (81%), non-life (80%) and composite insurers (75%) indicated that they were on track in terms of project plan timelines. The reasons provided that indicated that the respondents were not on track suggested that there was no project plan in place, the project plan had not been approved, or the respondents were still considering a gap analysis, which supported earlier responses that the insurers were still in the early stages of the project. Other reasons that were provided for not tracking project plan timelines were complexities that were introduced by IFRS 17, such as challenges with the level of data required and changes in the interpretation of the standard.

All the respondents stated that they believed that they would be able to produce IFRS 17 compliant financial statements when the standard becomes effective. This is encouraging as it speaks to the insurers' confidence in their plans and actions, even though a majority were still in the early stages of implementation and despite challenges that resulted in some of the projects not being on track. The PA will continue to monitor the implementation of IFRS 17 through its supervisory interventions.

3.3 Branches of foreign reinsurers and insurers with operations in other jurisdictions

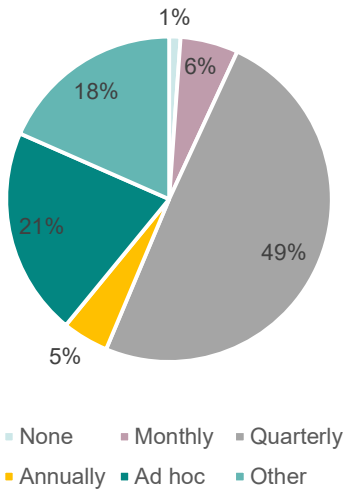
Only 3% of the respondents were branches of foreign reinsurers (branches), which are non-life and composite reinsurers. These branches indicated that the IFRS 17 implementation project was driven by their respective head offices in the foreign jurisdictions. Just over 10% of the South African respondents – both life and non-life insurers – also have operations outside of South Africa. Of these, 93% of the projects are driven by the South African head office, while 7% are managed in-country. Regarding the alignment between the South African and other jurisdictions' IFRS 17 implementation, respondents indicated that head office is responsible for the overall governance of the project and for the alignment of the IFRS 17 implementation project through a global model to which the entire group must adhere as well as regular information sharing between the insurers within the group.

3.4 Project governance

Project governance is an important aspect of project management to achieve a successful outcome for any project. A few respondents indicated that they were still in the planning stage and that governance structures had not yet been put in place. However, most respondents had already set up steering committees that reported to their Audit and/or Risk Committee and had clear governance structures in place.

Figure 7 illustrates the frequency of reporting to the Audit and/or Risk Committee (or equivalent) on the IFRS 17 implementation project. Almost half (49%) of the respondents indicated that they reported to the Audit and/or Risk Committee on a quarterly basis. Of the 18% that responded 'other', most stated that reporting happened half-yearly or at every Board meeting, and some indicated that this was still to be defined.

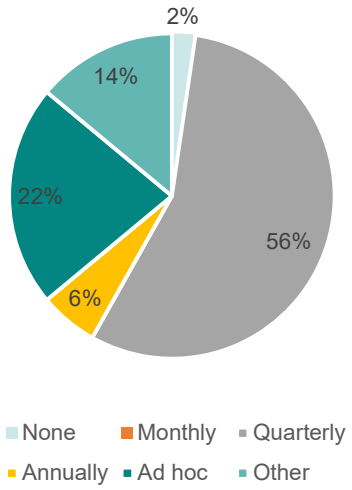
Figure 7: What is the frequency of reporting to the Audit and/or Risk Committee (or equivalent) on the IFRS 17 implementation project?



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Figure 8 shows the frequency of reporting to the Board of Directors on the IFRS 17 implementation project. Most (56%) of the respondents reported on a quarterly basis, while 2% did not report at all. On further analysis, the respondents that did not report at all were found to be in the planning stage of the project and, as such, it can be deduced that the reporting to their Board of Directors will be done at a later stage. The reason stated for the 'other' (14%) response was because reporting happens three or four times a year at Board meetings.

Figure 8: What is the frequency of reporting to the Board of Directors on the IFRS 17 implementation project?



IFRS 17 implementation requires a collaborative effort between the financial, actuarial and risk functions. Almost two-thirds (63%) of the respondents indicated that both the risk/actuarial and finance functions are primarily responsible for the IFRS 17 implementation project, reinforcing the observation that IFRS 17 requires a collaborative effort. Of the remaining 37% of respondents, 36% indicated that the finance function is primarily responsible for the IFRS 17 implementation project, as they usually drive the accounting changes within the organisation, and 1% stated that the risk/actuarial function is responsible for the implementation of the standard. The latter is interesting to note but not surprising as IFRS 17 is an accounting standard with significant actuarial components.

IFRS 17 introduces a significant accounting change and, as such, the PA's expectation is that insurers will treat the implementation project as a high priority within their organisations. Most of the respondents (74%) indicated that the implementation of IFRS 17 is regarded as a high priority, while 23% regarded it as a medium priority, and 3% indicated that it is a low priority within their organisations. Upon further analysis, the insurers that regarded IFRS 17 as a low priority were the same insurers that had stated that they were in the planning stage of their implementation projects.

The reasons provided range from resourcing constraints to the further postponement of the effective date for IFRS 17. Another reason given is that the impact of IFRS 17 is not expected to be

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significant for some of the insurers. A noteworthy reason for the low priority rating is the COVID-19 pandemic with which insurers had to deal. This took precedence over other projects. The PA notes that most of the insurers are treating the IFRS 17 implementation seriously as they had rated it as medium to high.

3.5 Skills and resources

The PA has, through various interactions with the industry, noted that insurers are experiencing challenges regarding the relevant skilled resources required for the IFRS 17 implementation project.

At the reference date, 68% of the respondents believed that they had the necessary accounting expertise in-house for the implementation of IFRS 17. Just under half (48%) of the life insurers and 25% of the non-life insurers indicated that they did not have the necessary accounting expertise in-house.

Insurers that indicated that they did not have the necessary accounting expertise were asked about the actions they had taken or will take to address this. Most stated that they would make use of external consultants. Other remedial actions listed were the provision of training, the creation and advertising of dedicated IFRS 17 technical accounting positions, and the utilisation of expertise at a group level, where applicable.

A total of 43% of the respondents believed they did not have the necessary actuarial expertise in-house for the implementation of IFRS 17, while 61% of the life insurers and 38% of the non-life insurers believed that they did not have enough actuarial expertise in-house. This indicates that the lack of actuarial expertise is an industry-wide challenge. Most of the respondents stated that they had addressed this issue by outsourcing the function. Some insurers indicated that they had created senior actuarial positions and had planned training.

Other than the use of consultants due to the lack of in-house expertise, there could be other reasons for utilising consultants. Overall, most (69%) of the respondents noted that they would be making use of external consultants in implementing IFRS 17. Of the remaining 31%, 13% indicated they were still deciding as they were in the early stages of implementation and 18% stated that they would not be making use of consultants.

Insurers were also asked to indicate how the consultants had been or would be used. From the responses – ranked from the highest to the lowest based on the

count of responses received – the following services would be provided by consultants:

- gap analysis;
- actuarial matters;
- development of accounting policies and controls;
- development of IT systems and controls; and
- other.

The respondents that indicated that they used consultants for other services explained that these services included programme management, development of the new general ledger and chart of accounts, financial impact assessment, project set up, transition methodology guidance, assurance, review of product classification, general implementation support, and training.

On whether their external auditors were involved in the project, 56% of the respondents indicated that their external auditors were involved, which is encouraging as it contributes to the robust interpretation and implementation of the standard and ensures alignment between the insurers and the auditors as early as possible. Notably, 40% of the respondents indicated that the external auditors had not been involved. This could be attributed to the fact that many insurers were in the early stages of their implementation projects. Regarding the nature of the external auditors' involvement, most of the respondents (72%) indicated that the external auditors were reviewing accounting policies, while 28% of the respondents indicated that they were involved in other ways such as in reviewing the gap analysis, the provision of IFRS 17 training and accounting advisory work.

Insurers were also asked if the internal audit function was involved in the implementation of IFRS 17 and only 24% of the respondents indicated that this was the case. Insurers whose internal audit function was involved with the project indicated that – ranked from the highest to the lowest based on the count of responses received – the involvement was in the following areas:

- review of IFRS 17 project management;
- testing IFRS 17 manual internal controls;
- testing of completeness and accuracy of data;
- testing of IFRS 17 IT controls; and
- other.

The respondents that indicated that internal audit was involved in other ways explained that the internal audit function had been included in the planning phase

of the IFRS 17 implementation project, as well as the selection of external software providers. In some cases, internal audit was involved in testing processes regarding the IFRS 17 implementation. There were a few insurers that indicated that it was still early in the process and internal audit would be involved at a later stage.

3.6 Project budget

Most (57%) of the respondents had approved budgets in place for the IFRS 17 implementation project. Budgeting usually happens during the planning stage, and this could still be in progress for some of the insurers.

Insurers were asked if the actual costs to date were in line with the budget and 84% responded affirmatively. One respondent stated that the reasons for variances were that the progress of the project had been slower than expected and, as such, actual costs to date were less than expected. In contrast, another respondent stated that the project was running at about 20% above the original budget due to the project's complexity, which was leading to more effort than initially anticipated.

3.7 Conclusion and recommendations

Overall, 47% of the respondents were in the planning stage at the reference date of the survey. This was concerning to the PA, and although this could in some instances be justifiable given the size, nature and complexity of the respondents, the PA urges the boards of directors of all insurers to ensure that the necessary priority is given to the implementation of IFRS 17. The PA furthermore urges all insurers to ensure that adequate governance processes are in place for the implementation of the standard, including that an approved project plan is in place that covers, among other matters, timelines and the allocation of responsibilities. These project plans should be reviewed and approved, and performance against them regularly monitored by the appropriate governance structures. The survey found that 6% of the respondents had not started with the IFRS 17 implementation project. Although a small proportion, it is concerning to the PA that some insurers have not commenced with the project.

A significant 80% of respondents indicated that their projects were on track, while the rest were not. It is interesting to note that most of the respondents were in the early

stages of their implementation projects, yet most indicated that the projects were on track. This raises concerns for the PA on whether the projects will be completed on and adequately tested in time for implementation.

It was encouraging to note that most of the insurers frequently reported on IFRS 17 to their governance structures. The PA encourages insurers that are not reporting to the governance structures to include this in their implementation plans and action accordingly. Insurers are reminded to ensure that the services provided by external auditors do not impair their independence.

The PA has noted from various interactions with the industry, including this survey, that many insurers' internal audit function is not sufficiently involved in the IFRS 17 implementation, and urges insurers to involve this crucial function, even during the early stages of the project.

4. Technical aspects

IFRS 17 introduces three measurement models, namely the general measurement model (GMM), the premium allocation approach (PAA) and the variable fee approach (VFA)[6]

Under the GMM (IFRS 17.32), on initial recognition, groups of insurance contracts are measured at the total of:

- the fulfilment cash flows, which comprise estimates of future cash flows and adjustments to reflect the time value of money and the financial risks related to the cash flows as well as a risk adjustment for non-financial risk; and
- the contractual service margin (CSM), which is defined as a component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides services under the insurance contracts in the group.

The PAA (IFRS 17.53) is a simplified approach and can only be applied if, at the inception of the group:

- the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the GMM; or
- the coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary) is one year or less.

Under the PAA, the liability on initial recognition is equal to the premiums, if any, received, minus any insurance acquisition cash flows (unless the entity chooses to recognise the payments as an expense), plus or minus amounts arising from the derecognition of the asset or liability recognised for insurance acquisition cash flows.

The VFA applies to investment contracts with discretionary participation features (IFRS 17.71). An investment contract with discretionary participation features is a financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:

[6] For a summary of the measurement models, see: https://www.ifrs.org/content/dam/ifrs/project/insurance-contracts/ifrs-standard/ifrs-17-accounting-model-a3-jan-2018.pdf

- that are expected to be a significant portion of the total contractual benefits;
- for which the timing or amount are contractually at the discretion of the issuer; and
- that are contractually based on:
  - the returns on a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the entity or fund that issues the contract (IFRS 17 Appendix A).

An investment contract with discretionary participation features does not include a transfer of significant insurance risk and, as such, the requirements of IFRS 17 are modified. Modifications include the date of initial recognition, contract boundary and the allocation of the CSM (IFRS 17.71).

4.1 Overall measurement model

The responses to the survey confirmed the expectation that most life insurers would most likely follow the GMM, as their products typically have contract boundaries of more than one year. Although this is the case for most products, there are some life insurers that indicated that they expected to follow the PAA for a proportion of their business. A few life insurers will follow the VFA for most of their contracts, while some life insurers indicated that they had not yet determined which method they would use. This is most likely to be attributed to the fact that they were still in the early stages of the project.

Most of the non-life insurers will follow the PAA for their insurance contracts, with most of them indicating that they expected 100% of their insurance contracts to follow the PAA. Notably, two of the non-life insurers indicated that they had determined that 100% of their insurance contracts were expected to be on the GMM. None of the non-life insurers will follow the VFA. Almost all the composite insurers had determined that they expect to follow the GMM for 100% of their insurance contracts.

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4.2 Level of aggregation

IFRS 17.14 states that an entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and would therefore be expected to be in the same portfolio if they are managed together. Slightly over half (51%) of the respondents indicated that they had defined portfolios, while 20% indicated that this was in progress and 29% stated that they had yet to define portfolios, as illustrated in Figure 9. Figure 10 shows this by insurer class. As many insurers were in the early stages of their implementation at the reference date, it makes sense that 49% of the respondents had not identified portfolios or had not finalised this step.

Figure 9: Have you defined portfolios based on similar risks that are managed together as required by IFRS 17?

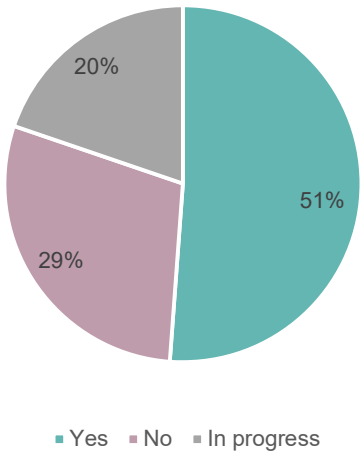
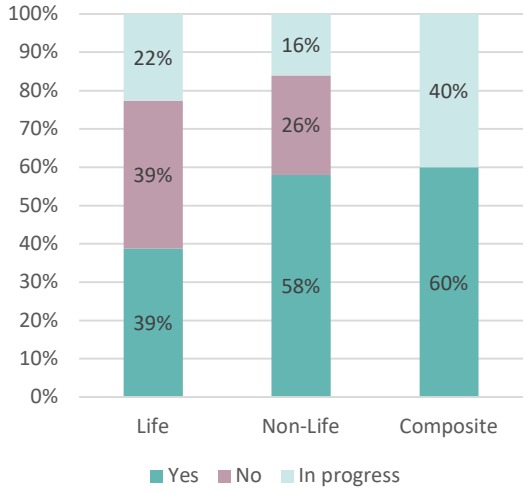


Figure 10: Portfolios by insurer class



The respondents that indicated that they had not yet defined their portfolios provided the following reasons for not having done so:

- they were in the process of performing a gap analysis;
- the process had started with the implementation partner;
- the project was still in the planning stage; and
- they had not commenced with the project.

The non-life insurers appear to use product lines to define portfolios, such as property, accident and health, aviation, vehicle, gap cover, business insurance, fire, theft, travel, marine, motor, nuclear, spacecraft as well as the type of clients

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and risk lines, such as binders, branches, corporate, tax risk, and so forth. The portfolios of life insurers, such as individual life, funeral, credit life, and so on, also appear to be established by product line. Consistently, composite insurers described portfolios as professional liability, aviation, marine cargo, group business, group disability and care, engineering annual risk, and so forth.

IFRS 17 requires portfolios to be divided into three groups:

1. a group of contracts that are onerous at initial recognition;
2. a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
3. a group of remaining contracts in the portfolios.

Most insurers indicated that they had not made this determination as they were in the early stages of implementation. However, they indicated that the following information would be used in this determination:

- The three groups would be determined based on the current profitability of the underlying contracts.
- They would use estimation of long-term profitability based on probability-weighted cash flows of the portfolio.
- Onerous contracts would be identified based on the expected loss ratios at pricing stage.

From interactions with industry, including this survey, the PA has noted that some insurers would most likely not have the onerous contract category as they appeared to have concluded that their insurance contracts were profitable and, as such, at initial recognition have no significant possibility of becoming onerous subsequently.

IFRS 17.22 states that an entity shall not include contracts issued more than one year apart in the same group. As represented by Figure 11, most (80%) of the respondents will use annual cohorts as described by IFRS 17, while 2% will use half-yearly cohorts and 18% stated that they will use others such as monthly or quarterly cohorts. Figure 12 illustrates this by insurer class.

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Figure 11: Will you use annual, half-yearly or other cohorts?

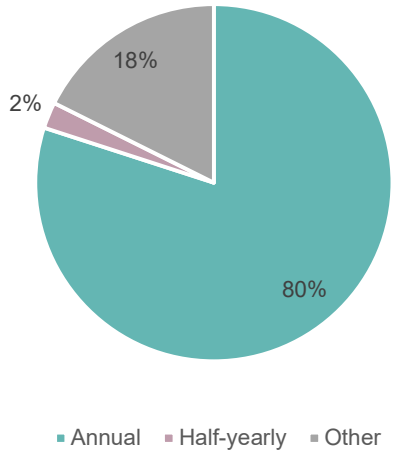
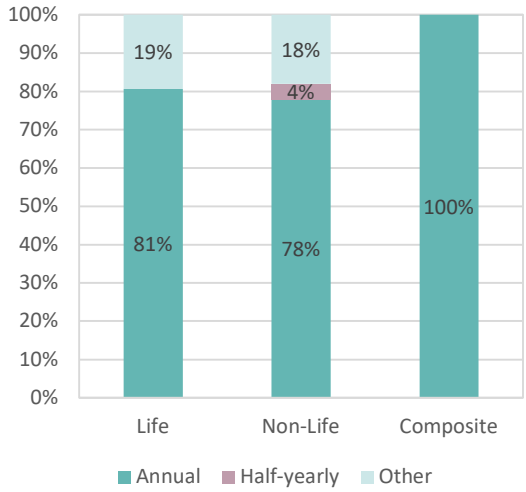


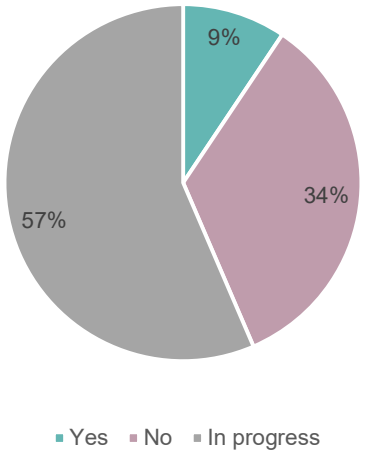
Figure 12: Will you use annual, half-yearly or other cohorts? By insurer class



4.3 Future cash flows

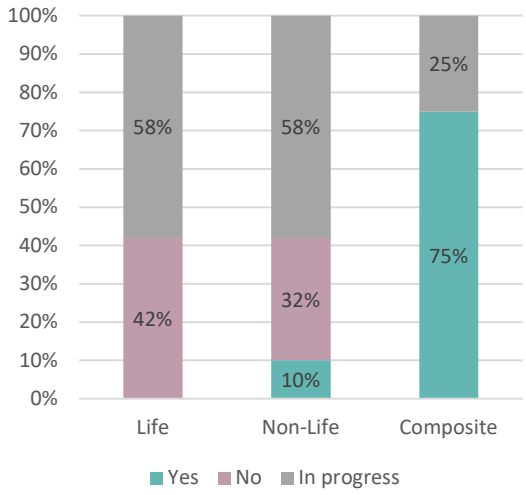
Insurers were asked if they had determined the cash flows that relate directly to the fulfilment of the insurance contracts, and as represented in Figure 13, only 9% of the respondents had made the determination. As stated previously, many of the insurers were still in the planning stage and, as such, had not reached this stage of the process. Figure 14 shows the responses by insurer class. At the time of the survey, none of the life insurers and only 10% of the non-life insurers had determined the future cash flows relating to the insurance contracts. In contrast, 75% of the composite insurers had already determined the directly attributable cash flows.

Figure 13: Have you determined the cash flows that relate directly to the fulfilment of the insurance contracts?



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Figure 14: Cash flows that relate directly to the fulfilment of the insurance contracts – by insurer class



4.4 Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- both of the following criteria are satisfied:
  - The entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio.
  - The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date (IFRS 17.34).

Insurers were asked if they had determined the contract boundaries for all their products, and as depicted

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in Figure 15, only 50% of the respondents had made this determination. Contract boundaries are important as they are used in the measurement of a group of insurance contracts as well as in determining which measurement model or approach to follow. Figure 16 represents the contract boundary determination by insurer class for those insurers that had already made the decisions.

Figure 15: Have you determined the contract boundaries for all your products?

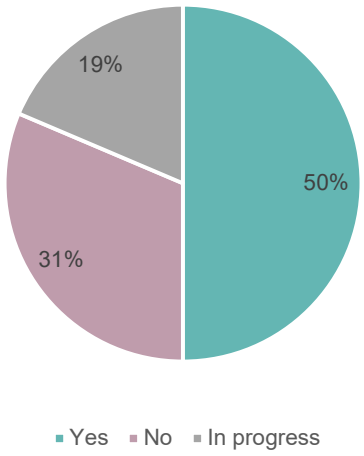
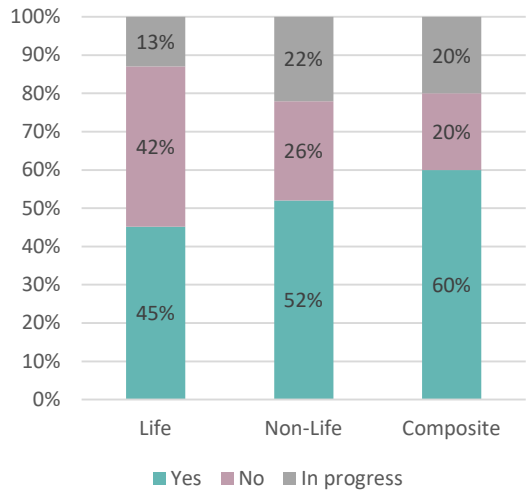


Figure 16: Contract boundary by insurer class



Insurers that responded that they had not determined the contract boundaries were asked to provide reasons. As with previous questions, respondents indicated that they were still in the early stages of the project, and this would be determined at a later stage.

Loyalty programmes can affect the determination of contract boundaries of insurance contracts. Almost a quarter (22%) of the respondents have loyalty programmes, such as cash-back bonuses, as part of their product offerings.

Insurers that have loyalty programmes were asked to give a brief description of the programme and how this had been considered in determining contract boundaries.

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These responses were noted; however, due to the proprietary nature of such, they have not been discussed further in this report.

However, most of the respondents with loyalty programmes indicated that these would not affect contract boundaries.

4.5 Discount rates

As depicted in Figure 17, only 28% of the respondents had made the accounting policy choice with regard to the discount rates (i.e., whether to use a top-down or bottom-up approach to determine discount rates). Discount rates are determined, under the bottom-up approach, by adjusting a liquid, risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts. The top-down approach entails that the discount rate is determined based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets. The yield curve is adjusted to eliminate any factors that are not relevant to the insurance contracts but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio (IFRS 17.B81). A total of 41% of the respondents indicated that they had not made this decision and 31% indicated that this was in progress. Figure 18 shows this by insurer class.

Figure 17: Have you chosen an option regarding the determination of discount rates (i.e., will a top-down or bottom-up approach be used)?

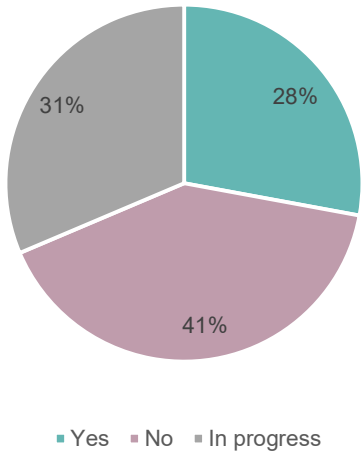
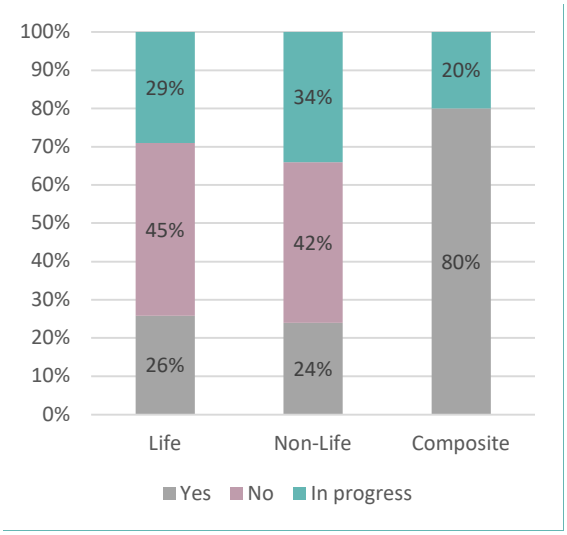


Figure 18: Discount rates by insurance class



It was interesting to note that most insurers that had made the decision regarding discount rates indicated that they would be

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using a bottom-up discount rate. Insurers that responded 'in progress' were asked to describe the most likely outcome at this stage and 65% of the respondents indicated that they would likely use the bottom-up approach.

From the above, it appears that the bottom-up approach for determining discount rates is the preferred option. It should be noted that the optionality provided by the standard with regard to discount rates could lead to some inconsistency in application. Insurers that had not determined the discount rates stated that they were still in the planning stage or the gap analysis stage of their implementation project and this would be determined at a later stage. Some insurers stated that discounting was not applicable as their contracts were less than 12 months in duration.

4.6 Risk adjustment for non-financial risk

IFRS 17.34 states that an entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The risk adjustment (RA) is defined as the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the entity fulfils insurance contracts. IFRS 17 does not specify the estimation technique(s) for the determination of the RA.

As represented in Figure 19, most (42%) of the respondents had not decided how to determine the risk adjustment, while 37% were still in progress and 21% had already decided on the methodology for determining the RA. Figure 20 illustrates this by insurer class. Insurers indicated that they would use the following methods in determining the RA:

- confidence level, which indicates the probability with which the estimation of a parameter is also true for the population;
- cost of capital, which is the cost of funding or financing (i.e., equity and debt);
- margins via the Provision for Adverse Deviation (PAD) approach – this approach measures the difference between the actual results of a calculation and the corresponding result using best estimate assumptions; or
- value at risk, which is a measure of the risk of a loss or worst-case scenario.

Insurers that responded that they were in the process of determining the RA methodology were asked to describe the most likely outcome at this stage, and consistent with the other insurers the following methods were described:

- margins (PAD) approach;
- confidence level; or
- cost of capital.

Consistent with earlier observations, insurers that responded 'no' stated that they were still in the planning stage, and that the RA methodology would be determined later.

Figure 19: Have you decided how to determine the risk adjustment?

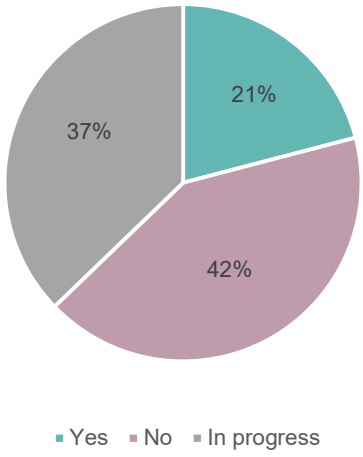
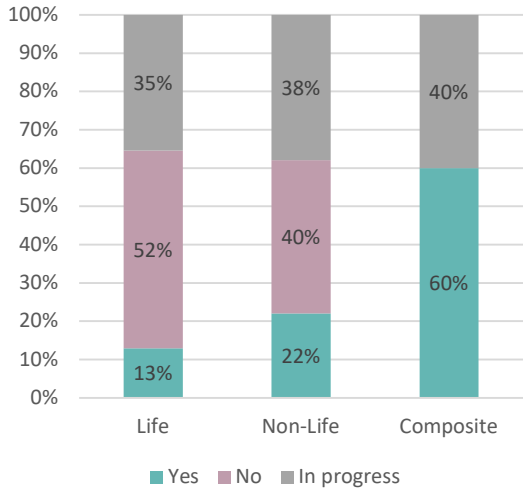


Figure 20: Risk adjustment by insurer class



4.7 Coverage units

An amount of the CSM for a group of insurance contracts is recognised in profit or loss in each period to reflect the services provided under the group of insurance contracts in that period (IFRS 17.B119). The CSM is defined as a component of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides services under the insurance contracts in the group (IFRS 17 Appendix A). The CSM amount to be recognised in profit or loss is determined by using coverage units. The number of coverage units in a group is determined by considering for each contract the quantity

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of the benefits provided (e.g., sum assured) and its expected coverage duration.

Only 25% of the respondents had decided on which coverage units to use for each portfolio at the time of the survey and 53% had not started with the decision process. Only 16% of the life and non-life insurers had made the decision with regard to coverage units, compared with 80% of the composite insurers who had made their decision. Some of the reasons respondents gave for their 'no' response included that the insurers would be using the PAA and, as such, coverage units were not applicable and that they were still in the early stages of their implementation projects. Insurers were asked to describe their coverage units and the following responses were received for life insurers:

- sum assured;
- passage of time;
- present value of death and maturity benefit;
- premium-based; and
- cover amount released in the period as a proportion of total cover expected to be released over the contract boundary term.

Non-life insurers described their coverage units as follows:

- release of the CSM is expected to be linear;
- passage of time; and
- sum insured.

Composite insurers described their coverage units as follows:

- present value of claims;
- passage of time;
- number of policies in force;
- sum at risk; and
- earning pattern.

Insurers were further asked if the coverage units would be discounted, to which only 48% of the respondents indicated this to be the case. IFRS 17 does not prescribe whether to discount the coverage units or not and this is an area of judgement which will affect the release of the CSM.

4.8 Acquisition cash flows

Insurance acquisition cash flows are defined as cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. IFRS 17.27 states that an entity shall recognise an asset or liability for

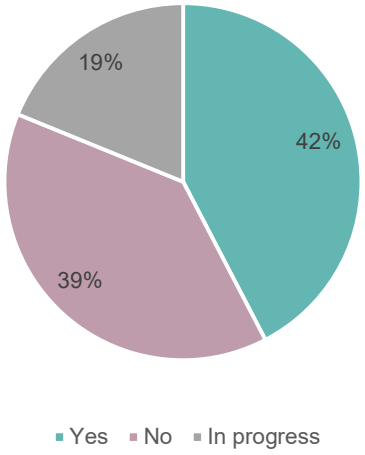
insurance acquisition cash flows relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income. Insurers were asked if they had made their accounting policy choice regarding acquisition cash flows (i.e., whether to capitalise or to expense). Only 25% had made the choice. Insurers were further asked which approach they would follow in this regard, to which 55% of the respondents stated that they would defer the acquisition cash flows (i.e., capitalise) and 45% indicated that they would expense.

Insurers that answered 'no' to this question indicated that they were still in the planning stage or the gap analysis stage and that this decision was still being deliberated.

4.9 Reinsurance contracts held

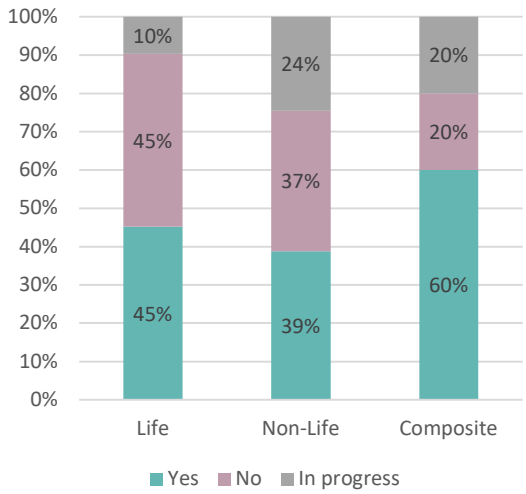
Reinsurance contracts are defined as insurance contracts issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts). Reinsurance contracts held are included in the scope of IFRS 17. As depicted in Figure 21, only 42% of the respondents had determined the contract boundary for their reinsurance contracts held. Figure 22 represents this by insurer class.

Figure 21: Have you determined the contract boundaries for your reinsurance contracts?



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Figure 22: Reinsurance contract boundaries by insurer class



Insurers were further asked if they would be renegotiating terms with their reinsurers as a result of IFRS 17, and only 8% of the respondents indicated that they would. For example, an insurer indicated that annual renewal dates could be changed to align to the annual cohorts of the underlying business.

4.10 Insurance finance income or expenses

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money;
- the effect of financial risk and changes in financial risk; and
- excluding such changes for groups of insurance contracts with direct participation features.

An entity shall make an accounting policy choice between including the insurance finance income or expenses for the period in profit or loss or disaggregating the insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts (IFRS 17.88). In this case, the difference between the total insurance finance income or expenses and that of the period is recognised in other comprehensive income (OCI), and therefore does not impact net profit for the period.

Just over a fifth (22%) of the respondents had made the accounting policy choice regarding disaggregating insurance finance income or expenses for the period between profit or loss and OCI, while 40% had not started the process and 38% were still deciding. Of those insurers who had already made the accounting policy choice, most indicated that they would be

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allocating to profit or loss. A few insurers indicated that it would be allocated to OCI for most of the life business where changes in financial risk assumptions do not have a substantial impact on payments to policyholders.

4.11 Transition

From industry engagements, it has become clear that the transition approach chosen by the insurers would be highly dependent on the availability of data. IFRS 17 provides for three possible approaches to be selected on transition. The fully retrospective approach requires historic data, whereas the modified and fair value approaches are less data intensive. The fully retrospective approach entails that at transition date an entity shall identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied, derecognise any existing balances that would not exist had IFRS 17 always applied, and recognise any resulting net differences in equity. If it is impracticable for an entity to apply the fully retrospective approach, then the entity can apply the modified retrospective approach and/or the fair value approach. The objective of the modified retrospective approach is to achieve the closest possible outcome to retrospective application, using reasonable and supportable information available without undue cost or effort. To apply the fair value approach, an entity shall determine the CSM or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date (IFRS 17 Appendix C). Insurers were asked what proportion of the insurance business (stated as a percentage and measured by reference to the carrying value of total insurance contract liabilities) they would expect to apply the fully retrospective approach, modified retrospective approach or the fair value approach. Most of the life insurers were still deciding on which transition approach to use. Of the ones that had decided, most will apply the fully retrospective approach. There were only two respondents that stated that they would fully apply the modified retrospective approach and two expected to use the fair value approach. Similarly, most of the non-life insurers were still deciding on the transition approach. Most that have decided will apply the fully retrospective approach. All the composite insurers were still deciding on the approach to be selected.

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4.12 Other questions relating to technical matters

Insurers ranked the following aspects from the most challenging technical aspect of IFRS 17 to the least challenging aspect:

- level of aggregation;
- risk adjustment;
- other;
- determination of contract boundaries;
- determination of coverage units; and
- reinsurance.

Other aspects of IFRS 17 that insurers listed as being very challenging were best estimate of fulfilment cash flows, expense attribution, treatment of the CSM, data availability, presentation of financial statements, determining if investment components exist within reinsurance contracts with profit share features, and consolidation and consideration of the impact of the underlying cell captives.

When asked about any other IFRS 17 technical matters that they would like to bring to the attention of the PA, insurers indicated that IFRS 17 had not been developed with certain models in mind, which complicated the interpretation of most parts in the standard. They also sought industry guidance on determining a market consistent discount rate within the South African context and the treatment of tax. They further indicated that there would be additional work to align IFRS 17 to solvency reporting and that the treatment of attributable costs for start-ups might lead to cohorts of business being classified as onerous, which could lead to complicated messaging and loss reversals in the future when the company becomes profitable.

4.13 Conclusion and recommendations

The PA acknowledges that IFRS 17 is complex and requires judgement and recommends that insurers design and implement governance procedures and controls for all the IFRS 17 components. As most of the insurers are in the planning stage of the project, the PA urges insurers to involve the necessary skills in applying judgements and making accounting policy choices. Insurers should ensure that necessary governance procedures are in place for the review or sign-off of any decisions made regarding accounting policy choices.

5. Impact assessment

5.1 IT systems

Figure 23 represents the expected impact of IFRS 17 on IT systems. Insurers could rate the impact as follows:

- Low: majority of the current IT landscape unchanged;
- Medium: some changes made to the current IT landscape to cater for IFRS 17; or
- High: complete change and transformation of the IT landscape.

The survey found that 41% of the respondents rated the expected impact of IFRS 17 on IT systems to be 'medium', while 14% had not yet assessed this impact.

Figure 23: How would you rate the expected impact of IFRS 17 on IT systems?

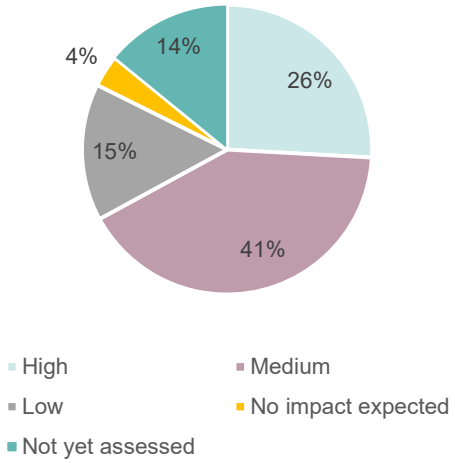
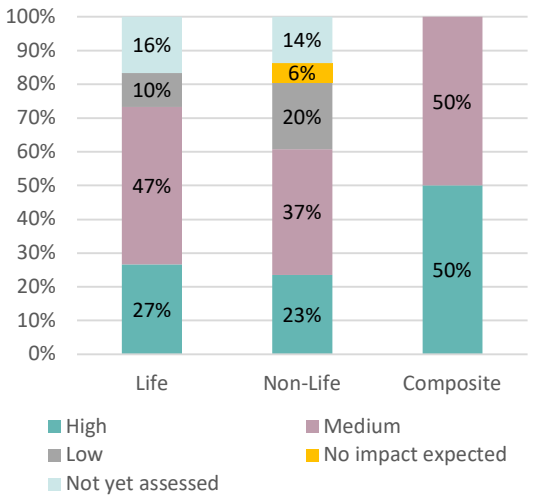


Figure 24: Impact of IFRS 17 on IT systems – by insurer class



5.2 People

Figure 25 shows the expected impact on people. Insurers could rate the impact as follows:

- Low: minor changes made to the staff complement;
- Medium: some changes made to the staff complement; or

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- High: Significant changes to the staff complement; new roles and new processes.

The survey found that 40% of the respondents indicated that IFRS 17 would have a medium impact on their people, including accounting and actuarial resources, while 28% expected the standard to have a low impact and 13% indicated it would have a high impact. Figure 26 presents this by insurer class.

Figure 25: How would you currently rate the expected impact of IFRS 17 on the people?

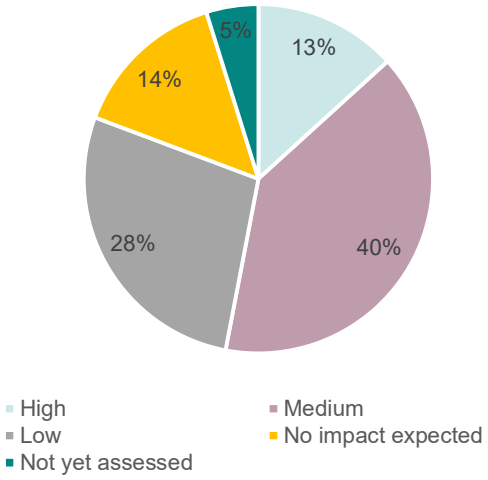
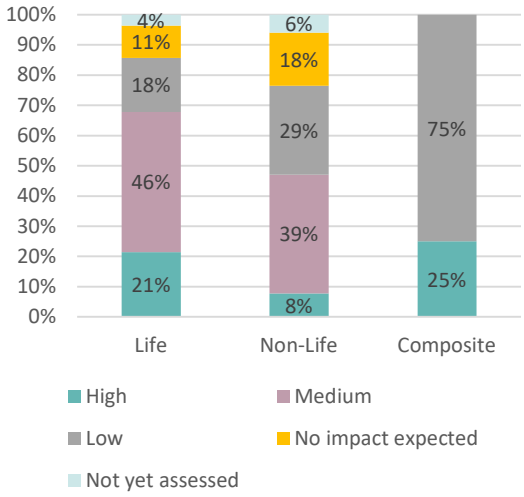


Figure 26: Impact of IFRS 17 on people – by insurer class



5.3 Processes

Figure 27 depicts the expected impact that IFRS 17 is expected to have on insurers' processes, including internal controls. Insurers could rate the impact as:

- Low: processes have somewhat remained the same;
- Medium: some processes have changed to accommodate IFRS 17; or
- High: complete change of processes.

More than half (52%) of the respondents rated the impact of IFRS 17 on processes to be medium, 23% rated the impact as high, 9% rated the impact as low and 5%

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indicated that no impact was expected. Figure 28 shows this by insurer class.

Figure 27: How would you currently rate the expected impact of IFRS 17 on the processes?

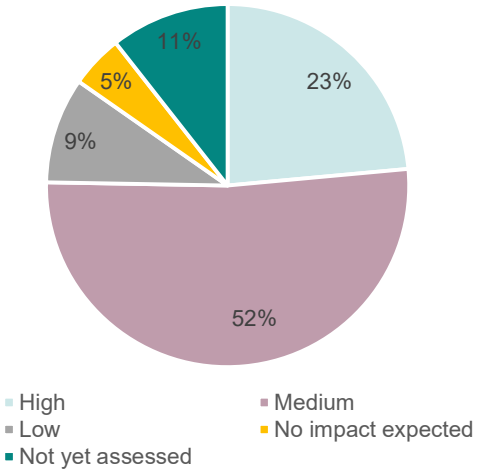
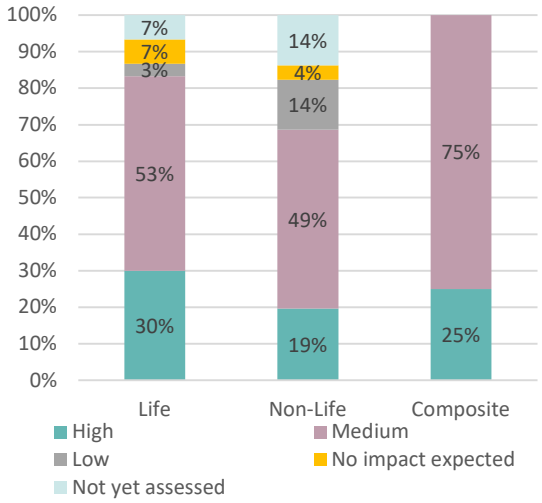


Figure 28: IFRS 17 impact on processes – by insurer class



5.4 Profit emergence

One of the main objectives of IFRS 17 is to eliminate the premature recognition of profits which occurred under the previous accounting standard (IFRS 4). As such, the impact of IFRS 17 on profit emergence of insurers is an aspect that should be explored. Profit emergence is the pattern over which profit is released from the CSM and recognised in profit or loss. Figure 29 represents the ratings on the expected impact of IFRS 17 on profit emergence. Insurers could rate the impact as follows:

- Low: insignificant change in profit recognition patterns;
- Medium: moderate change in profit recognition patterns; or
- High: Significant change in profit recognition patterns when compared to existing accounting policies.

Almost a quarter (24%) of the respondents rated the expected impact to be low, 18% indicated the impact to be medium, 15% to be high and 7% indicated that they were expecting no impact. More than a third (36%) of the respondents had not yet assessed this aspect. Notably, the responses confirm that IFRS 17 is expected to affect profit emergence, especially for life and composite insurers, as shown in Figure 30.

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Figure 29: How would you currently rate the expected impact of IFRS 17 on profit emergence?

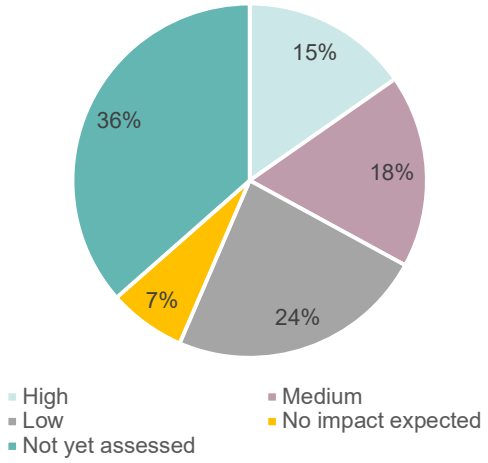
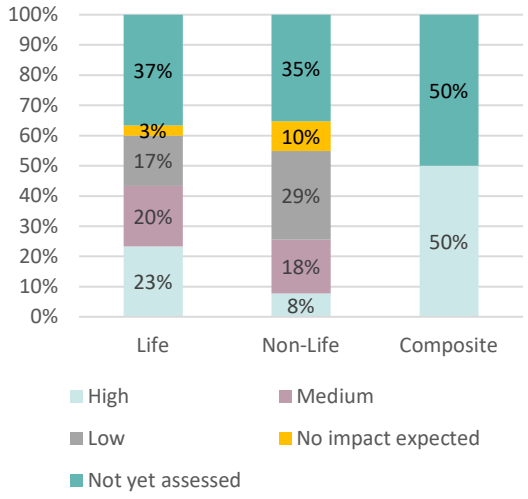


Figure 30: Impact of IFRS 17 on profit emergence – by insurer class



5.5 Solvency cover ratio

While the calculation of the solvency cover ratio (SCR) for insurers is not based directly on IFRS, it is important for the PA to understand whether insurers expect that IFRS 17 would affect their SCR in any way. Most of the respondents (58%) had not yet determined the impact on SCR and at the time of the survey only 5% expected a change.

5.6 Preliminary quantitative impact assessment

Most (86%) of the respondents had not performed a preliminary quantitative impact assessment of the standard.

5.7 Conclusion and recommendations

The PA had noted previously from interactions with the industry that IT systems would have to be updated to cater for IFRS 17. The responses to the survey are consistent with this understanding, as the expected impact on IT systems had been rated medium to high by 67% of the respondents. A challenge that was highlighted by the industry was obtaining and retaining sufficient and necessary skills for IFRS 17 implementation and, as such, insurers were expected to make some changes to their staffing complement to address this.

6. IT landscape

Data and IT form an integral part of the implementation of IFRS 17. Figure 31 illustrates that 46% of the respondents had already identified the required IFRS 17 changes to their respective IT landscape[7] at the survey's reference date. Figure 32 illustrates this by insurer class. Most of the life and non-life insurers had not identified the required changes to the IT landscape.

Figure 31: Have you identified the required IFRS 17 changes to the IT landscape?

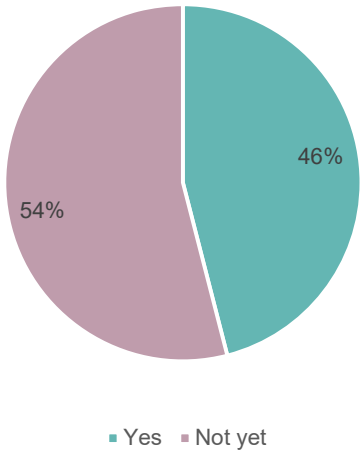
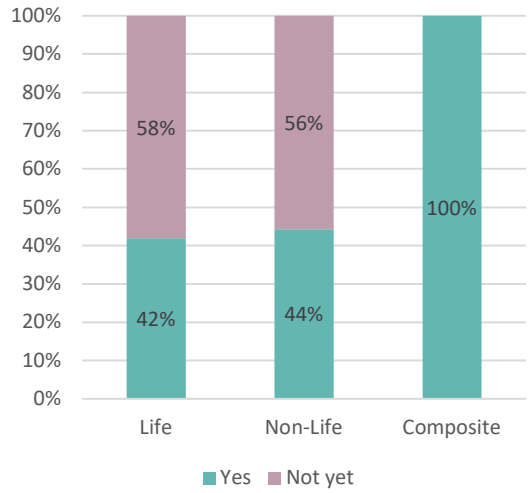


Figure 32: Identification of changes to IT landscape by insurer class



Insurers indicated that they experienced various challenges relating to IT. Some of the respondents had challenges with the interpretation of the IFRS 17 requirements as the standard is complex and the extent of the detailed calculations requires all actuarial and financial reporting processes to be integrated. Some of the respondents noted that they faced challenges with aligning all relevant systems and the acquisition of data at the required granularity, and some indicated that they experienced challenges with the implementation of the new software. Similar to previous observations, some insurers indicated that they were still in the process of performing a gap analysis and

[7] The IT landscape is defined by IGI Global as a set of hardware, software and facility elements, arranged in a specific configuration, which serves as a fabric to support the business operation of an enterprise. The IT landscape includes systems.

were in the early stages and, as such, changes to their IT landscape would be determined at a later stage.

The insurers were asked whether they would use off-the-shelf vendor IT solutions or whether systems would be developed in-house. As illustrated in Figure 33, 23% of the respondents indicated that they would be using an in-house IT solution, 24% of the respondents indicated that they would be using an off-the-shelf IT solution, 28% indicated that they would be using a combination of in-house and off-the-shelf, while the remaining 25% were still deciding on this matter. It is of concern to the PA that at the time of the survey, one in four respondents had not made a decision yet with regard to systems as the implementation date is drawing closer, and data and IT are such an integral part of the implementation. Figure 34 illustrates the results by insurer class.

Figure 33: Will you use off-the-shelf vendor IT solutions, or will this be developed in-house?

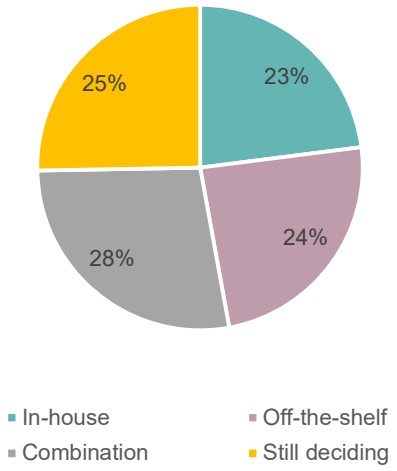
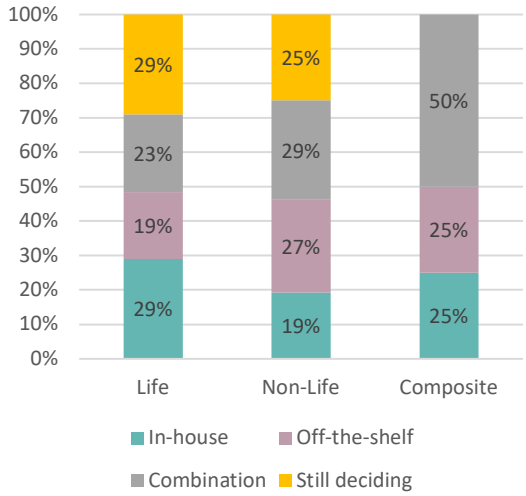


Figure 34: In-house or vendor solutions by insurer class



A total of 98% of the respondents indicated that they believed that they had or would have access to data required to implement IFRS 17 successfully.

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7. Financial reporting

As part of the IFRS 17 implementation, it is important that the reporting systems are aligned with the new standard requirements as and when the standard is implemented. The respondents were asked whether they had made any changes to the general ledger to accommodate IFRS 17 reporting requirements. Only 14% of the respondents indicated that they had made changes, 41% indicated that this was in progress and 45% had not yet made any changes.

It is concerning that a significant number of the respondents were yet to make changes to their general ledger systems at the time of the survey; however, this was not completely surprising as most of the respondents were in the planning stage of their implementation project at that time. As the IFRS 17 implementation date draws nearer, the insurers will need to conduct parallel runs, which may be difficult to achieve if there is a delay in updates on the general ledger systems to accommodate the IFRS 17 reporting requirements. The PA is concerned that sufficient time may not be allocated to parallel runs or testing by those respondents that were in the early stages of their implementation projects.

The respondents were further asked if they had incorporated the IFRS 17 disclosure requirements into their respective financial reporting systems and only 7% of the respondents had done so. IFRS 17 introduces extensive disclosure requirements and insurers are encouraged to ensure that they prepare the necessary information to meet the disclosure requirements.

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8. IFRS 17 training

As IFRS 17 is a complex standard, it is important that sufficient training is provided to all relevant staff members and those charged with governance. Technical training and preparedness are essential for the successful implementation of IFRS 17. Most of the insurers' staff (67%) had received training, while 33% had not. This is encouraging as it indicates that training is receiving the necessary attention by most insurers and staff should be well trained and prepared by the standard's implementation date. Figure 35 shows this by insurer class.

Respondents that indicated that staff had received training were asked to indicate the type and level of training provided. This is depicted in Figure 36. It is encouraging to note that 94% of the respondents provided high-level IFRS 17 training, 73% on the detailed requirements, 75% on the impact of IFRS 17 and 24% on the system use, while 21% indicated that they provided other types of training, such as training on systems testing.

Figure 35: Provision of IFRS 17 training by insurer class

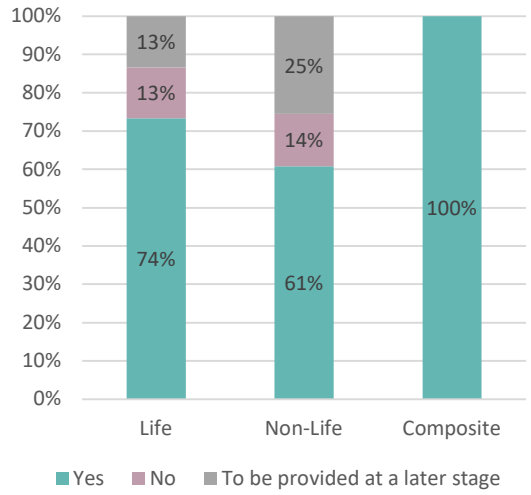
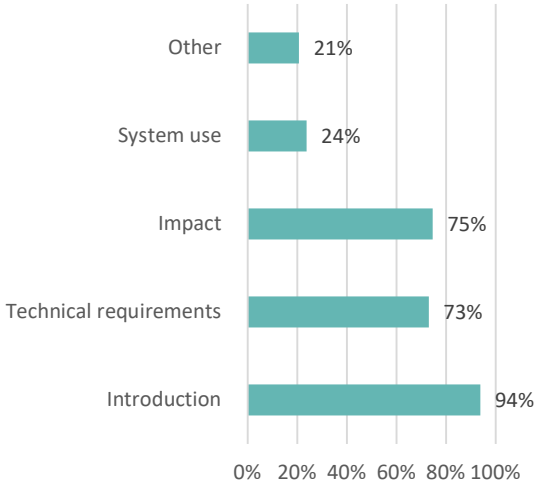
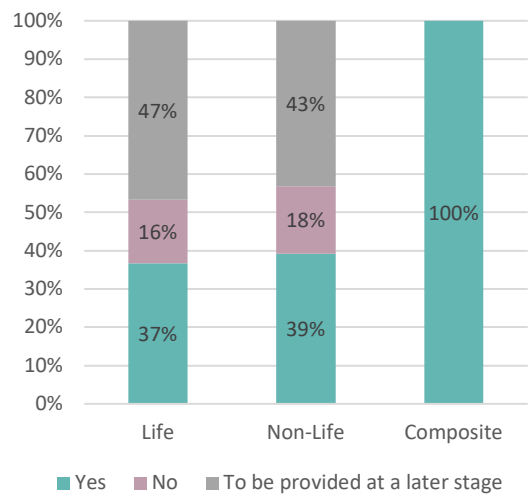


Figure 36: Level of staff training provided



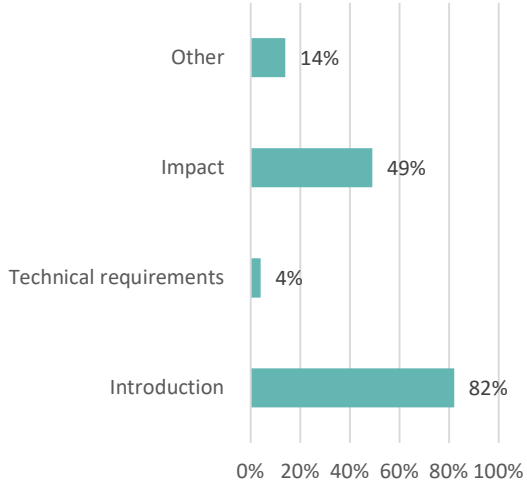
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Figure 37: Board training by insurer class



The respondents were also asked if their Board of Directors had received IFRS 17 training. Of the respondents, 41% indicated that the Board had received training, whereas 59% had not. Figure 37 shows this by insurer class. It is important for the boards of directors, as a critical governance function, to understand IFRS 17. The respondents that indicated that they had provided training were further asked about the level of training, as represented in Figure 38. The majority (82%) had provided training on the high-level introduction of IFRS 17 and 49% on the impact of the standard. Only 4% had provided training on the detailed technical requirements. The respondents that indicated that 'other' training was provided elaborated that regular updates were provided to their Board of Directors, which included technical matters, impact assessment, risks and challenges. Some respondents indicated that training would be provided at a later stage.

Figure 38: Level of training provided to the Board of Directors



Insurers were further asked if they were planning on providing more training to their staff and Board of Directors on the requirements of IFRS 17 and its application to the insurer, to which 98% responded 'yes'.

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9. Other matters

Insurers were asked whether they anticipated any changes to product offerings as a result of the implementation of IFRS 17. Most of the respondents (73%) indicated that there would be no changes and only 3% of the respondents answered that they were anticipating changes to product offerings. The following changes were anticipated:

- Different requirements are expected for direct insurers and reinsurers, such as contract boundaries.
- The need to set up a separate reinsurance CSM may result in the product offering by reinsurers being adapted to support and synchronise with the accounting items of the direct insurers.
- The terms of performance guarantees may have to change or alternatively stop being offered.

Opportunities to support clients with IFRS 17 challenges via reinsurance of their portfolios are also anticipated.

Furthermore, respondents were asked whether they were anticipating any changes in product pricing as a result of IFRS 17. Only 1% of the respondents responded 'yes', 67% responded 'no', while the remaining 32% indicated that this had not been determined.

The respondents were asked if they were anticipating changes to policy wording as a result of IFRS 17. Most (59%) of the respondents indicated that no policy wording would be changed, while only 6% indicated that there would be changes. The rest (35%) indicated that this was still to be determined. Of the insurers anticipating that changes would be made, one insurer stated that reinsurance product pricing may change if the reinsurers were required to change the reviewable terms on its products due to the possible alignment of contract boundaries with direct insurers.

The respondents were additionally asked if they anticipated any changes in the business strategy as a result of IFRS 17. Most of the respondents (60%) indicated that there would not be any changes to strategy, compared with 7% of respondents that stated that there would be changes. The anticipated changes were as a result of access to heightened granularity of data which would allow detailed product analysis in terms of premium and expense distribution. One insurer indicated that there may be adjustments or adaptions to the strategy in

certain areas, such as the rollout of reinsurance financing support to direct writers requiring this support. Another insurer stated that the different profit recognition pattern would impact projected profits, key performance areas, targeted product mix and volumes. Some indicated that this would be determined at a later stage.

The impact of IFRS 17 on income tax rules and the resulting amendments thereto are yet to be determined. More than a quarter (27%) of respondents indicated that they were aware of the tax implications the adoption of IFRS 17 could have on their business, while 73% indicated that they were not aware of any tax implications. Respondents elaborated on their responses as follows:

- Owing to the recognition pattern of revenue changing with IFRS 17 with regard to premiums received versus CSM released, this would have tax implications on income earned. At this stage it was unclear what the tax implications would be on the restatement of transitional balances.
- An impact is expected but it would depend on the final tax base approved by the South African Revenue Service (SARS).
- With cashback products, there is an ambiguous value-added tax (VAT) implication that is prominent depending on the IFRS 17 application. Additionally, the delayed recognition of profits would likely have tax implications.
- As the insurance tax has closely followed accounting for insurance contracts in the past, the significant change in disclosure and profitability would impact taxation.
- The initial expectation is that the implementation would lead to a reduction in liabilities which would result in an increase in tax.
- Potential temporary differences would result in deferred tax.
- Changes in technical provisions would result in changes to taxable income.

Insurers were asked to rank the challenges they believed they would be facing in the coming months in preparing to adopt IFRS 17 – from most significant to least significant. Based on the responses received, the challenging areas were ranked as follows:

1. availability of historical data;
2. availability of new system solutions;
3. uncertainty over the interpretation of IFRS 17 requirements;
4. availability of qualified resources;
5. impact of COVID-19;
6. other; and
7. budget constraints.

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Other challenges insurers noted included group-wide change management, understanding the IFRS 17 reporting world given fundamental changes in data collection, accounting policies, disclosures and underlying calculations, a change in the presentation of annual financial statements and the potential impact on management reporting, local specifics (i.e. uncertainty around specific local/industry topics, for example, tax), commitment and support from affected parties to ensure continued compliance with IFRS 17 requirements post implementation, and the disruption of other financial and accounting operating activities.

Insurers were asked if they had started raising awareness of IFRS 17 to investors and stakeholders and 78% indicated that they had done so. Other considerations were whether insurers were part of any IFRS 17 industry working groups. This is particularly important as the insurers may gain helpful insights and guidance from industry peers in the working groups. A total of 34% of the respondents indicated that they formed part of industry working groups, while 66% indicated that they did not form part of any groups. Of the respondents who indicated that they were part of working groups, 94% further indicated that they found the groups to be useful.

Respondents also raised the following additional items for the attention of the PA:

- It would be useful for the PA to organise industry-level workshops on the PA's expectations on insurers.

The PA's response: The PA will use the existing supervisory instruments and/or interventions to communicate expectations with insurers.

- Mandatory audit firm rotation: The date of implementation coincides with the effective date of implementing IFRS 17. This is causing unnecessary disruption in providing assurance on the IFRS 17 projects and creating pressure on management in engaging on a tender process.

The PA's response: Mandatory audit firm rotation is mandated by the Independent Regulatory Board for Auditors (IRBA) and, as such, is out of the PA's mandate. However, this has been brought to the attention of the IRBA by the PA and the PA encourages further engagement by the industry with the IRBA on this matter.

- Uncertainty regarding SARS adoption of IFRS 17 as tax base. Late changes to systems and data to meet SARS requirements would be costly.

The PA's response: The PA is aware of the insurance industry's engagement with

National Treasury and SARS and agrees that it is important that tax guidance is issued in a timely manner.

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10. Conclusion

The survey results have demonstrated that, as at 31 May 2021, almost half of the insurers were still in the planning stage of their implementation project. As a result, some of the technical aspects, data and IT landscape matters, and impact and financial reporting considerations had not progressed. The PA urges insurers to ensure that the IFRS 17 implementation project receives the necessary priority within their organisations. However, it is noted that there are some insurers that have advanced well with their project and this is commendable. Overall, composite reinsurers appear to be further advanced than the rest of the sector.

Challenges such as the lack of relevant accounting and actuarial resourcing and skills were highlighted. However, all the respondents believe that they would be able to implement IFRS 17 in time. This is encouraging as it indicates that insurers are confident in their abilities and project plans. Nevertheless, from the survey it appears that there is still a lot of work to be done to reach this goal. The PA is concerned about insurers that are in the early stages of the implementation project, as adequate time might not be allocated to the project, including parallel runs or testing. Insurers should ensure that they allocate sufficient time for parallel runs or testing.

The PA would like to express its appreciation to all insurers who participated in this survey. It has provided the PA with valuable insights into the readiness of the industry with regard to the implementation of IFRS 17, which is an important and far-reaching change in the insurance industry. Robust implementation of IFRS 17 is in the interest of all industry participants. The PA would also like to thank other role players such as the audit profession, Actuarial Society of South Africa and the South African Institute of Chartered Accountants for their continued support with the implementation of IFRS 17.

The PA will continue its engagements with insurers and other relevant stakeholders on the IFRS 17 implementation journey and welcomes any feedback from insurers and other interested parties.

Annexure 1: Survey questions

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International Financial Reporting Standard (IFRS) 17 Survey

Introduction and Instructions

1. This survey should be completed by all insurers (including branches of foreign reinsurers) supervised by the Banking, Insurance and Financial Market Infrastructure Supervision Department of the Prudential Authority. It is intended to assess the insurers' readiness to transition to IFRS 17 for financial reporting purposes and forms part of the PA's "flavour-of-the-year" discussion on IFRS 17, as communicated to industry in Prudential Communication 2 of 2021.

2. Groups: the survey must be completed and submitted for each insurer in the group separately. Where the IFRS 17 project is implemented centrally and is the same for all insurers within the group, the following sections of the survey may be completed once, in one of the submissions (in that case, please indicate in your submission to which insurers the sections relate):
-Part B: Project management and governance - questions 3 to 18(d)
-Part E: Data and IT
-Part F: Financial Reporting
-Part G: Training and preparation
-Part H: Other

3. Supporting documentation may be attached to the survey submission where it can provide additional information to the PA, however such documentation should not be a substitute for responding to the survey question.

4. The reference date for completion of the survey is 31 May 2021. This means all questions should be answered as at the end of May 2021 unless otherwise stated.

5. Responses should be submitted in MS Excel format via e-mail to the following e-mail address: IFRS17@resbank.co.za

6. Responses should reach the PA no later than **30 July 2021**.

7. The survey must be completed by the insurer and approved by the insurer's Chief Executive Officer (CEO). The attached sign-off sheet should be signed by the CEO and submitted with the survey. The ultimate responsibility for the survey rests with the insurer's CEO.

8. Part A: please fill in the insurer's information.

9. Part B: is intended to gather information on the insurer's project management and governance of the IFRS 17 project as well as the progress of the project.

10. Part C: contains questions on the technical aspects of IFRS 17 and is intended to assess the insurer's decisions and accounting policy choices and progress.

11. Part D: is intended to gather information about the impact of IFRS 17 on the insurer's operations and high-level quantitative impact.

12. Part E: seeks to gather information about the changes to the Information Technology environment and the data requirements of IFRS 17.

13. Part F: contains questions on the financial reporting process.

14. Part G: contains questions to assess whether the staff and Board of Directors have received IFRS 17 training.

15. Part H: contains questions that are not covered in the other sections of the survey.

16. Cell colour legend

	Dropdown - select your response from the options provided
	Open - type in your response
	No response required

For any questions relating to this survey please send an email to: ifrs17@resbank.co.za

Reference date for completion of survey: 31 May 2021

A) Insurer information	Response
Insurer name	
Insurer class	
Financial year-end of institution	
Retained earnings as at previous financial year-end in terms of IFRS	
Total assets as at previous financial year-end in terms of IFRS	
Total liabilities as at previous financial year-end in terms of IFRS	
Total insurance liabilities as at previous financial year-end in terms of IFRS	
Do you issue investment contracts with discretionary participation features?	
If Yes: do you also issue insurance contracts as defined by IFRS 17?	
If the answer to the previous question is "no", please confirm that IFRS 17 will not be applicable to the insurer and that investment contracts with discretionary participation features will be treated in terms of IFRS 9. (If IFRS 17 is not applicable then survey does not have to be completed).	

Question No.	B) Project management and governance	Response					
1(a)	Overall, how would you describe the stage of completion of the IFRS 17 implementation project at the reference date?						
1(b)	If Other, provide an explanation.						
2	In addition, how would you describe the percentage of completion of the IFRS 17 implementation project at the reference date? Please measure the percentage of completion by reference to the budgeted project hours.						
3	Do you have an IFRS 17 project plan in place that has been approved by the Audit Committee or the Board of Directors?						
4(a)	Is the project on track in terms of the project plan timelines?						
4(b)	If No, specify areas that are not on track and provide reasons.						
5(a)	Do you believe the insurer will be able to produce annual financial statements in accordance with IFRS 17 for the financial year beginning on or after 1 January 2023?						
5(b)	If No or Maybe please elaborate.						
6(a)	Are you a branch of a foreign reinsurer?						
6(b)	If Yes, is the project mainly driven by the branch or by Head Office?						
6(c)	If Head Office, in which country is this office located?						
7(a)	Are you a South African insurer with operations in other jurisdictions?						
7(b)	If Yes, who is responsible for IFRS 17 implementation in the other jurisdictions?						
7(c)	Please explain how alignment is achieved between the South African and other jurisdiction operations' IFRS 17 implementation.						
8	Please describe the governance structure that is in place for the IFRS 17 project and the reporting lines?						
9(a)	What is the frequency of reporting to the Audit and/or Risk Committee (or equivalent) on the IFRS 17 project?						
9(b)	If Other, please specify.						
10(a)	What is the frequency of reporting to the Board of Directors on the IFRS 17 project?						
10(b)	If Other, please specify.						
11	Which function has primary responsibility for the implementation of IFRS 17?						
12(a)	How would you rate the level of priority that the IFRS 17 implementation has within the insurer?						
12(b)	If Medium or Low priority, please elaborate.						
13(a)	Do you believe that you currently have the necessary accounting expertise in-house for the implementation of IFRS 17?						
13(b)	If No, please explain what actions you have taken or will take to address this.						
14(a)	Do you believe that you currently have the necessary actuarial expertise in-house for the implementation of IFRS 17?						
14(b)	If No, please explain what actions you have taken or will take to address this.						
15(a)	Are you making use of a consultant for the implementation of IFRS 17?						
15(b)	If Yes, please provide the name of the consulting firm.						
15(c)	If Yes was selected for question 15(a), please indicate how the consultant has been/will be used (select options that are applicable by selecting Yes or Not applicable in the next row under the provided options).	Gap analysis	Development of Accounting Policies and Controls	Development of IT systems and controls	Actuarial matters	Other	
15(d)	If Other was selected for question 15(c), please elaborate.						
16(a)	Are your external auditors involved in the implementation of IFRS 17?						
16(b)	If Yes, what is the nature of their involvement?						
16(c)	If Other, please elaborate. Where an external auditors' plan for the audit of IFRS 17 has been approved by the Audit Committee or submitted to the Audit Committee for noting, please attach this plan as part of the survey response.						
17(a)	Is the internal audit function involved in the implementation of IFRS 17?						
17(b)	If Yes, what is the nature of involvement? (select options that are applicable by selecting Yes or Not applicable in the next row under the provided options).	Review of accounting policies?	Review of IFRS 17 project management	Testing IFRS 17 manual internal controls	Testing of IFRS 17 IT controls	Testing of completeness and accuracy of data	Other
17(c)	If Other, please elaborate.						
18(a)	Do you have a budget for the IFRS 17 implementation project that has been approved by the Board of Directors?						
18(b)	If Yes, what is the current total approved budget for the implementation of IFRS 17?						
18(c)	Are the actual costs to date in line with budget?						
18(d)	If No, please provide the reasons for variances.						

Question No.	C) Technical Aspects 1	Response					
1	What proportion of the business (stated as a % and measured by reference to the carrying value of total insurance contract liabilities) is expected to be accounted for using? (please type in the percentage in the next row, under the applicable approach).	General Measurement Model	Premium Allocation Approach	Variable Fee Approach	Not yet determined		
2	***Level of aggregation (IFRS17, par. 14 to par. 24)***						
2(a)	Have you defined portfolios based on similar risks that are managed together as required by IFRS 17?						
2(b)	If Yes or In progress, please indicate the portfolios by filling in Column B of the Technical Aspects 2 tab.						
2(c)	If No, please elaborate.						
2(d)	Please describe how you will determine the three groups as described by IFRS 17, include what information you will use in this determination.						
2(e)	If No, please elaborate.						
2(f)	Will you use annual, half-yearly or other cohorts?						
2(g)	If Other, please elaborate.						
3	***Future cash flows (IFRS17, par. 32(a)(1) and par. 33 to par. 35)***						
3(a)	Have you determined the cash flows that relate directly to the fulfilment of the insurance contracts?						
3(b)	If Yes or In progress, what percentage of the insurer's total expenses are expected not to be attributable to the fulfilment of insurance contracts?						
3(c)	If No, please elaborate.						
4	***Contract boundaries (excluding reinsurance)***						
4(a)	Have you determined the contract boundaries for all your products?						
4(b)	If Yes or In progress, please fill in Columns C and D of the Technical Aspects 2 tab.						
4(c)	If No, please elaborate.						
4(d)	Do you have any loyalty programs such as cash back bonuses as part of your product offering?						
4(e)	If yes, give a brief description of the loyalty programme and how this been considered in determining contract boundaries?						
5	***Discount rates (IFRS17, par. 36 and par B72 - B85)***						
5(a)	Have you chosen an option with regard to the determination of discount rates? i.e. will a top-down or bottom-up approach be used?						
5(b)	If Yes, fill in Column E of the Technical Aspects 2 tab.						
5(c)	If In progress, describe what is the most likely outcome at this stage of the discussion.						
5(d)	If No, please elaborate.						
6	***Risk Adjustment for non-financial risk (IFRS17, par. 37 and par. B86 - B92)***						
6(a)	Have you decided how to determine the Risk Adjustment?						
6(b)	If Yes, fill in Columns F and G of the Technical Aspects 2 tab.						
6(c)	If In progress, describe what is the most likely outcome at this stage of the discussion.						
6(d)	If No, please elaborate.						
7	***Coverage units (IFRS17, par. B119)***						
7(a)	Have you decided on which coverage units to use for each portfolio?						
7(b)	If Yes or In progress, fill in Column H of the Technical Aspects 2 tab.						
7(c)	If No, please elaborate.						
7(d)	Will the coverage units be discounted (where applicable)?						
8	***Acquisition cash flows (IFRS17 par. B35A - B36D and par. 59(a))***						
8(a)	Have you made the accounting policy choice with regard to acquisition cash flows?						
8(b)	If Yes, what approach will you follow?						
8 (c)	If No, please elaborate.						
9	***Reinsurance contracts held (IFRS17, par.61 - par70A)***						
9(a)	Have you determined the contract boundaries for your reinsurance contracts?						
9(b)	Are you renegotiating any terms of your reinsurance contracts?						
9(d)	If Yes, describe which aspects you are or will be renegotiating.						
10	***Insurance contract with direct participation features (answer this section if its applicable) (IFRS17, par.B113(b) and par. B115)***						
10(a)	Have you decided if you will recognise a change in the contractual service margin to reflect some or all of the changes in the effect of the time value of money and financial risk on the entity's share of the underlying items or the fulfilment cash flows set out in paragraph B115?						
10(b)	Please elaborate on your answer.						
11	***Insurance finance income or expenses (IFRS17, par.87 to par. 92)***						
11(a)	Have you made the accounting policy choice with regard to disaggregating insurance finance income or expenses for the period between profit or loss and other comprehensive income?						
11(b)	If Yes, please elaborate on your answer.						
11(c)	If No, please elaborate.						
12	***Transition (IFRS 17, Appendix C)***						
12(a)	On transition, for what proportion of the insurance business (stated as a % and measured by reference to the carrying value of total insurance contract liabilities) does the entity expect to apply (please type in the percentage in the next row, under the applicable approach).	Fully retrospective	Modified retrospective	Fair value	Not yet determined		
12(b)	For which groups will the modified retrospective transition approach be applied (if applicable)?						
12(c)	For which groups will the fair value transition approach be applied (if applicable)?						
13	***Other***						
13(a)	Please rank the following aspects in order of most challenging technical aspect of IFRS 17 when it comes to implementation to the lease challenging aspect? Please rank them from 1 (most challenging) to 6 (least challenging) in the next row under all the aspects.	Level of aggregation	Reinsurance	Risk Adjustment	Determination of contract boundaries	Determination of coverage units	Other
13(b)	Please elaborate on your answer and specify what constitutes "other".						
13(c)	Are there any other IFRS 17 technical matters that you would like to bring to the attention of the PA?						

C) Technical Aspects 2

Please describe the portfolios identified below [Note 1]	Contract boundaries		Discount rate (top-down or bottom up)	Risk adjustment		Describe the coverage units that will be used to release the Contractual Service Margin.
	Contract boundary (in months) [Note 2]	Reason for contract boundary decision		What estimation technique does the institution expect to use when determining the risk adjustment for non-financial risk	If Other, in column F, please specify	
Portfolio 1						
Portfolio 2						
Portfolio 3						
Portfolio 4						

Add additional rows if necessary

Note 1 - Portfolio as defined by IFRS 17. You may provide this information at an aggregated level, i.e. product lines.
Note 2 - or indicate whole-of life if applicable

Question No.	D) Impact assessment	Response
1	How would you currently rate the expected impact of IFRS 17 on the following:	
1(a)	> IT Systems	
1(b)	> People (including accounting and actuarial resources)	
1(c)	> Processes, including internal controls	
1(d)	> Profit emergence	
2(a)	Do you expect an impact on the Solvency Coverage Ratio (SCR)?	
2(b)	Please elaborate on your answer above	
3(a)	Have you performed a preliminary quantitative impact assessment as yet?	
3(b)	If Yes, what is the expected overall quantitative impact on opening retained earnings and any other relevant components of equity of the transition to IFRS 17?	

Question No.	E) Data and Information Technology (IT)	Response			
1	Have you identified the required IFRS 17 changes to the IT landscape?				
2	What challenges are you experiencing that relate to IT?				
3	Will you use off-the-shelf vendor IT solutions or will this be developed in house?				
4	If off-the shelf, has a decision been made with regard to which service provider will be used and has the system already been acquired?				
5	If in-house developed, has the development started?				
6	Do you believe you have or will have access to data required to implement IFRS 17?				
7	If No, how will this challenge be resolved?				

Question No.	F) Financial reporting	Response
1(a)	Have you made changes to the general ledger system to accommodate the IFRS 17 reporting requirements?	
1(b)	If No, please elaborate.	
2(a)	Have you incorporated the IFRS 17 disclosure requirements in your financial reporting system?	
2(b)	If No, please elaborate.	

Question No.	G) Training and preparation	Response					
1	Has staff received IFRS 17 training?						
2	If yes, what was the level of training? (select options that are applicable by selecting Yes or No in the next row under the provided options).	High-level introduction	Detailed technical requirements	Impact of IFRS 17	System user	Other	
3	If Other, please elaborate.						
3	Has the Board of Directors received IFRS 17 training?						
4	If yes, what was the level of training? (select options that are applicable by selecting Yes or No in the next row under the provided options).	High-level introduction	Detailed technical requirements	Impact of IFRS 17	Other		
5	If Other, please elaborate.						
6	Are you planning on providing more training to the staff and the Board on the requirements of IFRS 17 and its application to the insurer?						

Question No.	H) Other	Response						
1(a)	Are you anticipating any changes to product offerings as a result of IFRS 17?							
1(b)	If Yes, please elaborate.							
2(a)	Are you anticipating any changes to product pricing as a result of IFRS 17?							
2(b)	If Yes, please elaborate.							
3(a)	Are you anticipating any changes to policy wording as a result of IFRS 17?							
3(b)	If Yes, please elaborate.							
4(a)	Are you anticipating any changes to the business strategy as a result of IFRS 17?							
4(b)	If Yes, please elaborate.							
5	Are you aware of any tax implications the adoption of IFRS 17 could have for your business?							
6	If Yes, please elaborate.							
7	Please rank biggest challenge you believe you face in the coming months in preparing to be ready to adopt IFRS 17 from most significant to least significant (select 1 (most significant) to 7 (least significant) by selecting the appropriate number in the next row, under the applicable option).	Data	Availability of new systems solutions	Availability of qualified resources	Budget	Impact of Covid-19	Uncertainty over interpretation of IFRS 17 requirements	Other
8	If Other, please elaborate							
9	Have you started with raising awareness of IFRS 17 to your investors or shareholders or stakeholders?							
10	Are you part of any IFRS 17 industry working groups?							
11	If Yes, do you find these useful.							
12	Are there other items you would like to bring to the PA's attention?							