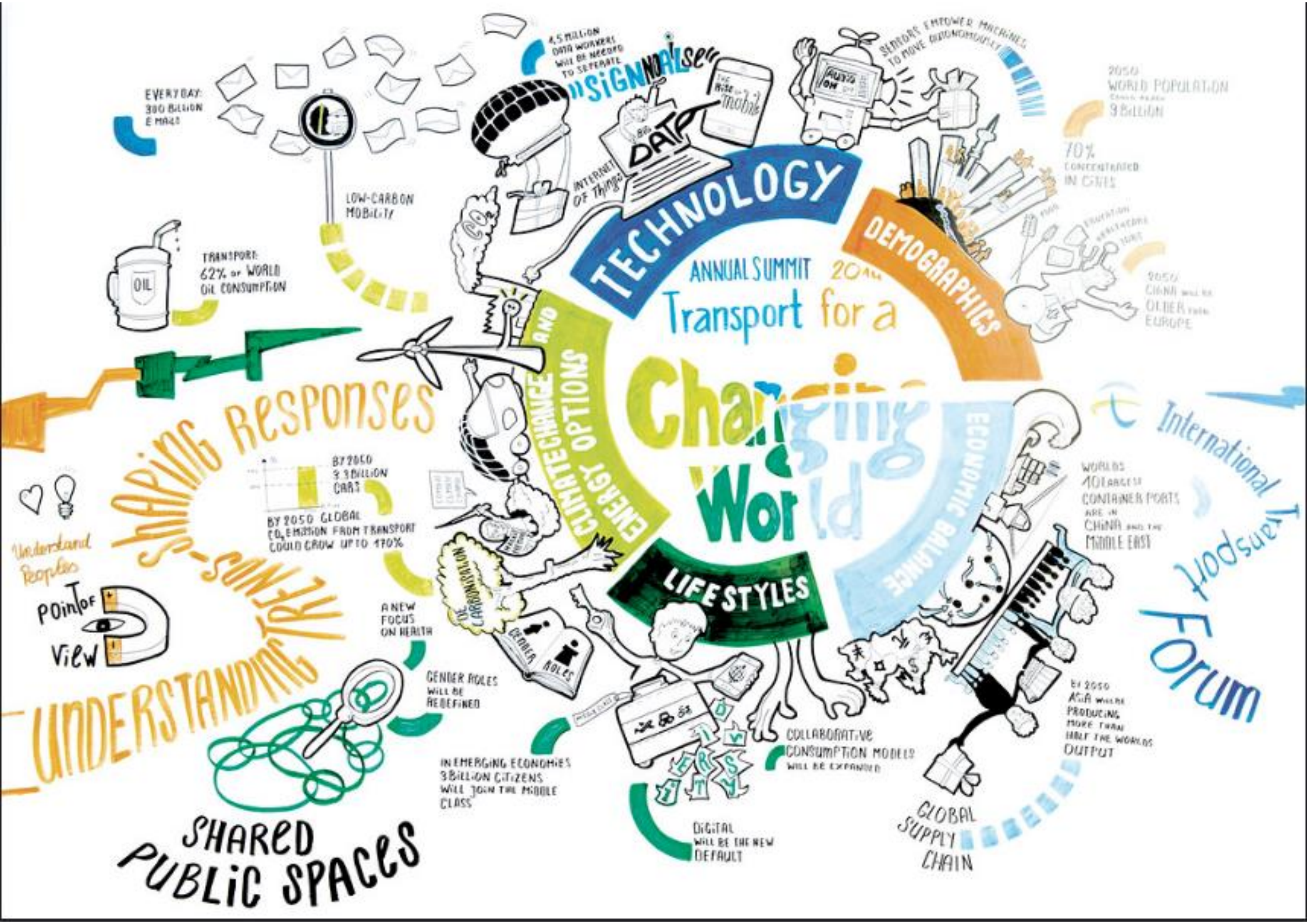
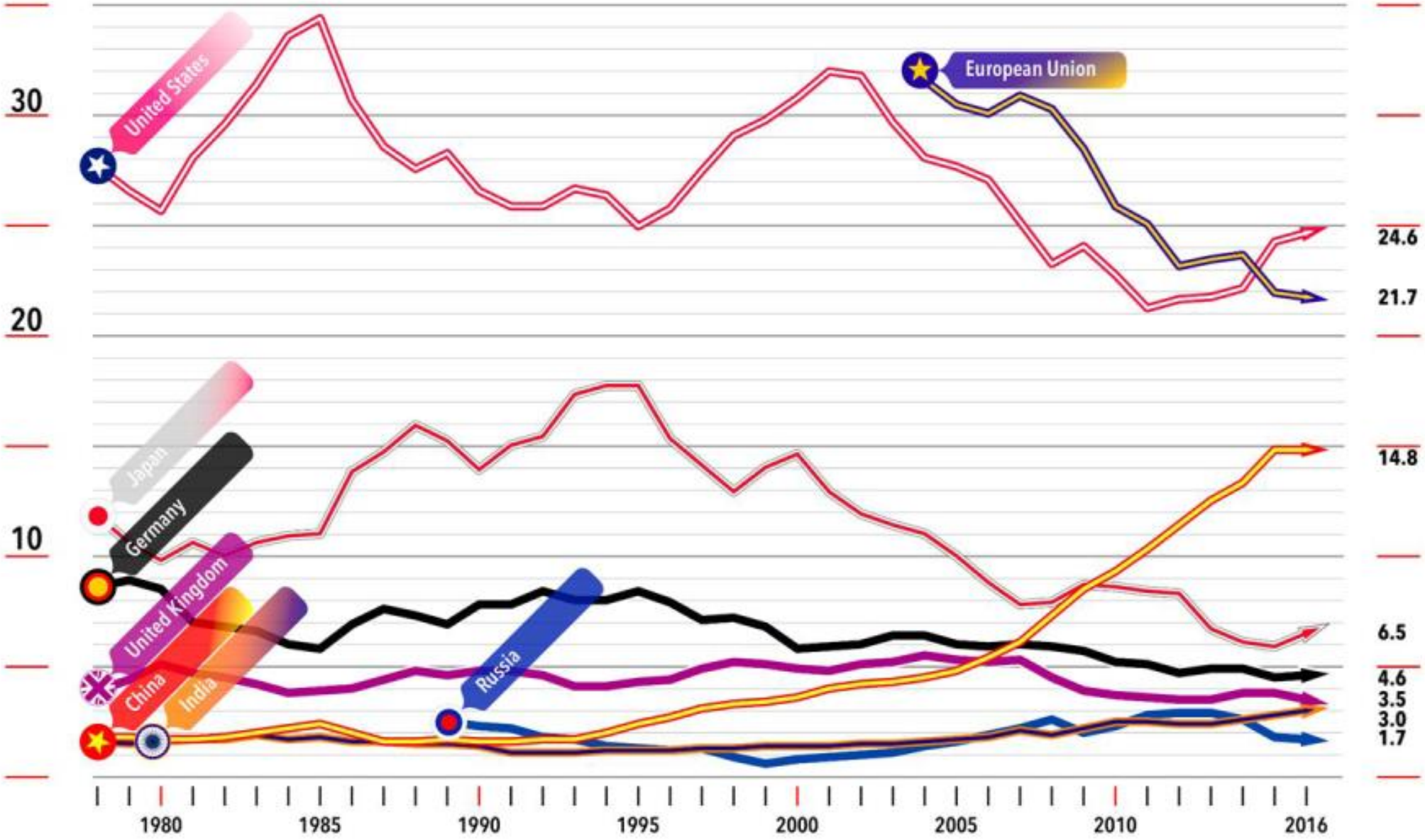
JOURNEY TO IFRS 17



ANNUAL SUMMIT 20AM
Transport for a Changing World
TECHNOLOGY
DEMOGRAPHICS
ECONOMIC BALANCE
LIFESTYLES
CLIMATE CHANGE AND ENERGY OPTIONS
SHAPING RESPONSES
UNDERSTANDING TRENDS
International Transport Forum
EVERYDAY: 300 BILLION E MAILS
LOW-CARBON MOBILITY
TRANSPORT: 62% OF WORLD OIL CONSUMPTION
OIL
4.5 MILLION DATA WORKERS WILL BE NEEDED TO SEPERATE
"SIGNALS"
DATA
INTERNET OF Things
SENSORS EMPOWER MACHINES TO MOVE AUTONOMOUSLY
2050 WORLD POPULATION
9 BILLION
70% CONCENTRATED IN CITIES
2050 CHINA WILL BE OLDER THAN EUROPE
BY 2050 3.3 BILLION CARS
BY 2050 GLOBAL CO_2 EMISSION FROM TRANSPORT COULD GROW UP TO 170%
Understand Peoples
POINT OF VIEW
A NEW FOCUS ON HEALTH
GENDER ROLES WILL BE REDEFINED
IN EMERGING ECONOMIES 3 BILLION CITIZENS WILL JOIN THE MIDDLE CLASS
DIGITAL WILL BE THE NEW DEFAULT
COLLABORATIVE CONSUMPTION MODELS WILL BE EXPANDED
WORLDS 10 LARGEST CONTAINER PORTS ARE IN CHINA AND THE MIDDLE EAST
BY 2050 ASIA WILL BE PRODUCING MORE THAN HALF THE WORLDS OUTPUT
GLOBAL SUPPLY CHAIN
SHARED PUBLIC SPACES

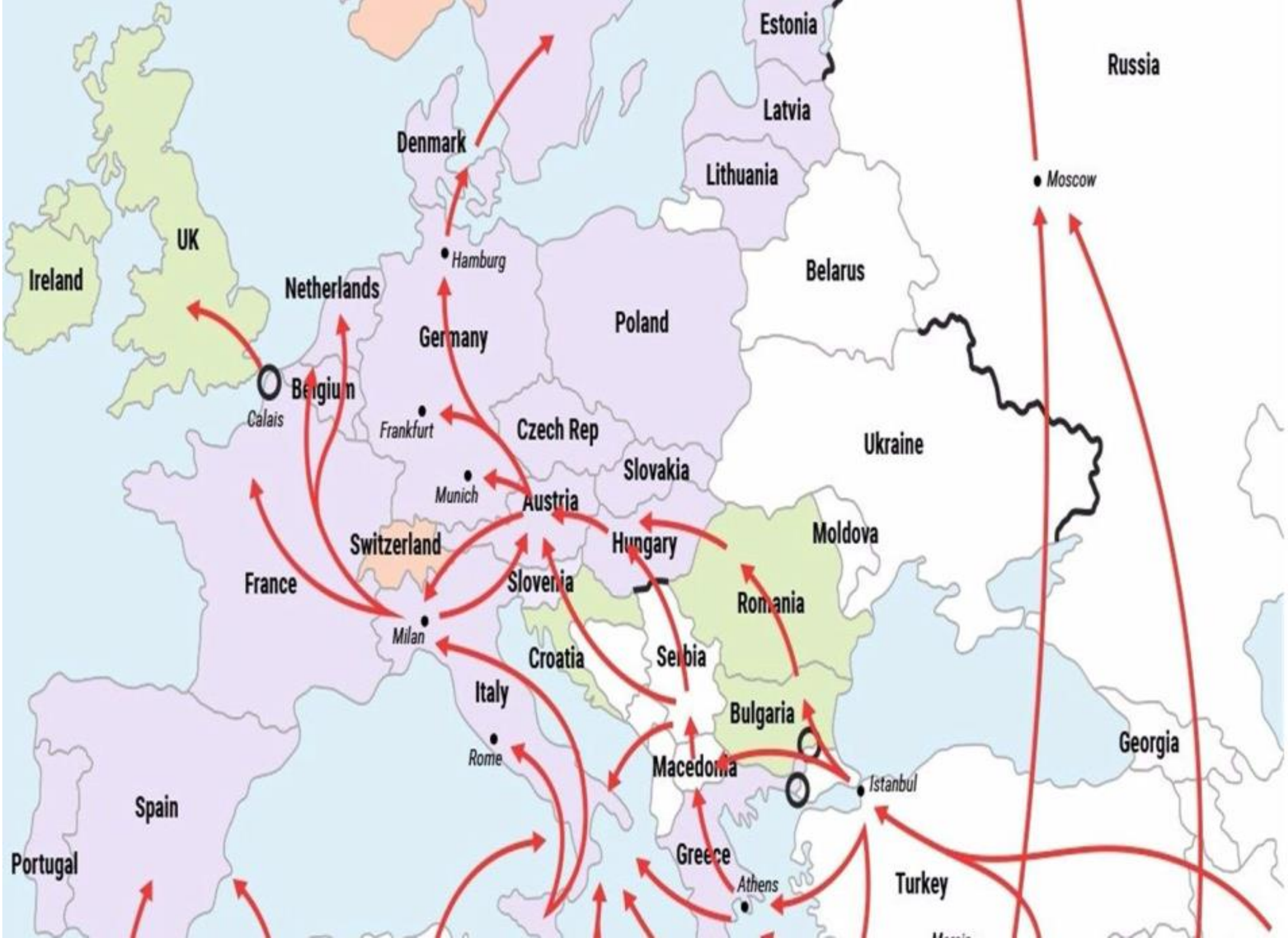
Great Powers and the World Economy

National Share of World GDP
%

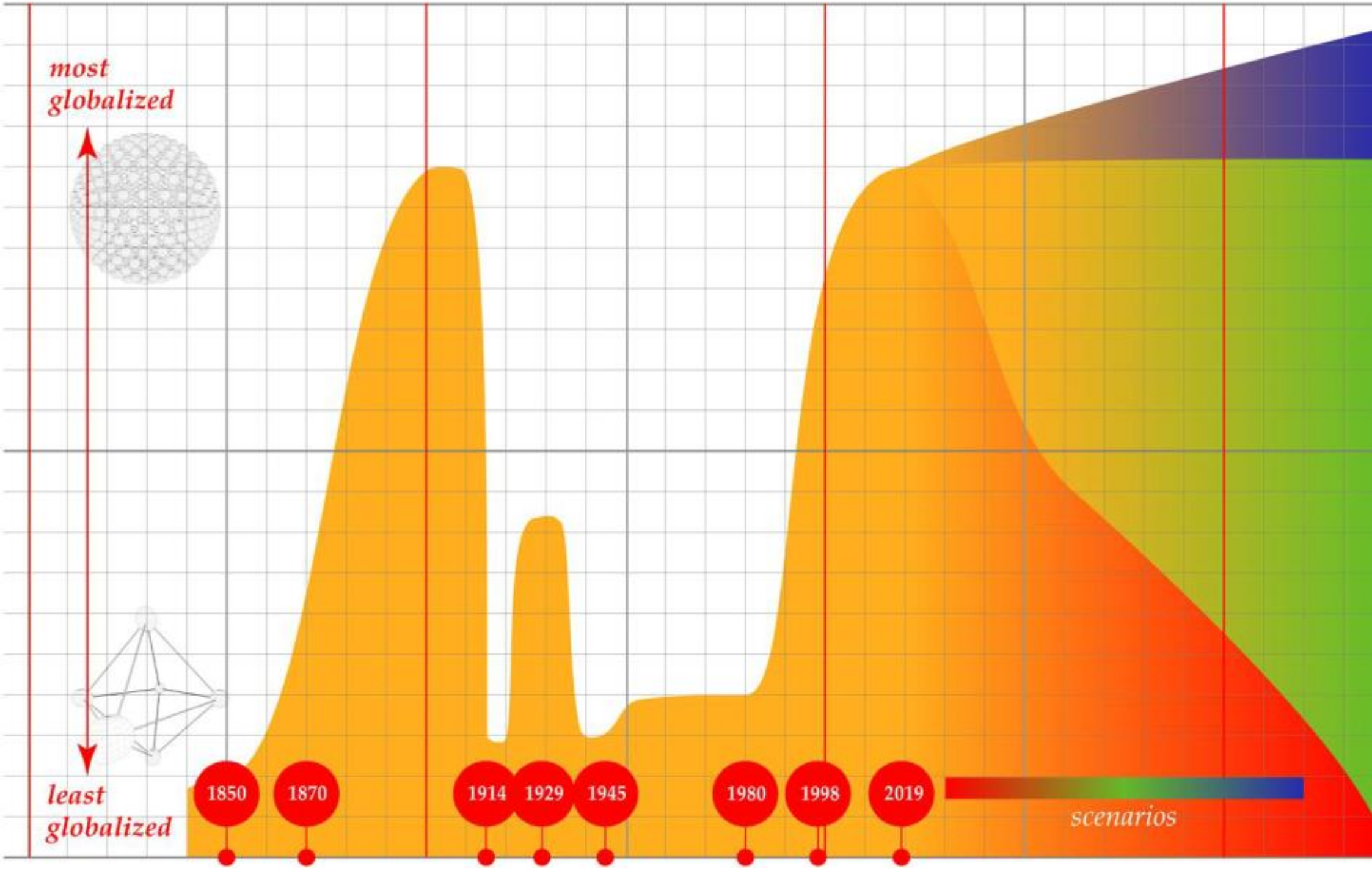


Source: Calculated based on data from "World Development Indicators," *The World Bank*, accessed in November of 2017.

Note: Underlying GDP data reflect current U.S. dollars.

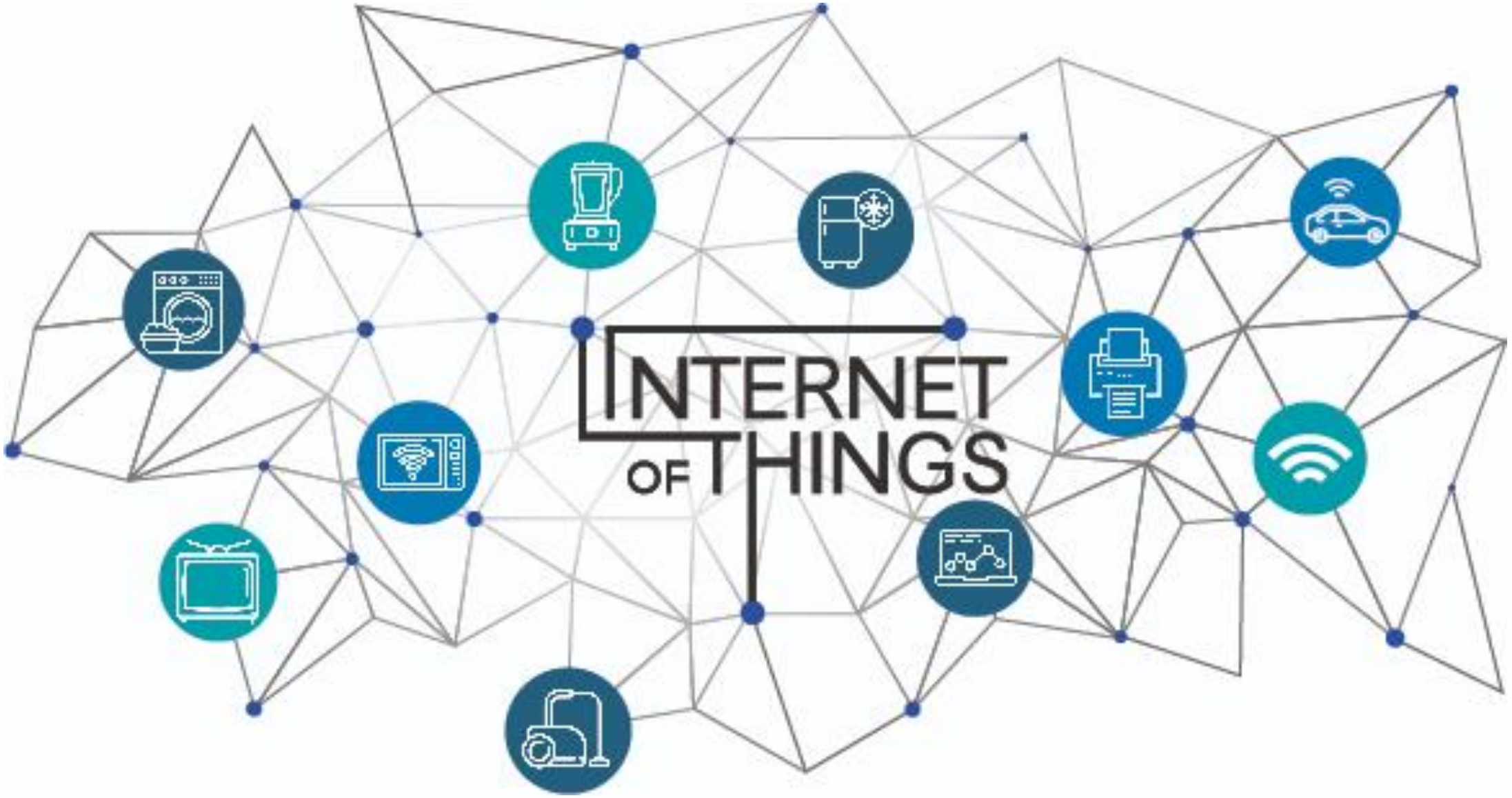

Estonia
Russia
Latvia
Denmark
Lithuania
Moscow
UK
Ireland
Hamburg
Belarus
Netherlands
Poland
Germany
Belgium
Calais
Frankfurt
Czech Rep
Ukraine
Slovakia
Munich
Austria
Switzerland
Hungary
Moldova
France
Slovenia
Romania
Milan
Croatia
Serbia
Italy
Bulgaria
Rome
Georgia
Macedonia
Istanbul
Spain
Portugal
Greece
Athens
Turkey

Globalization in History

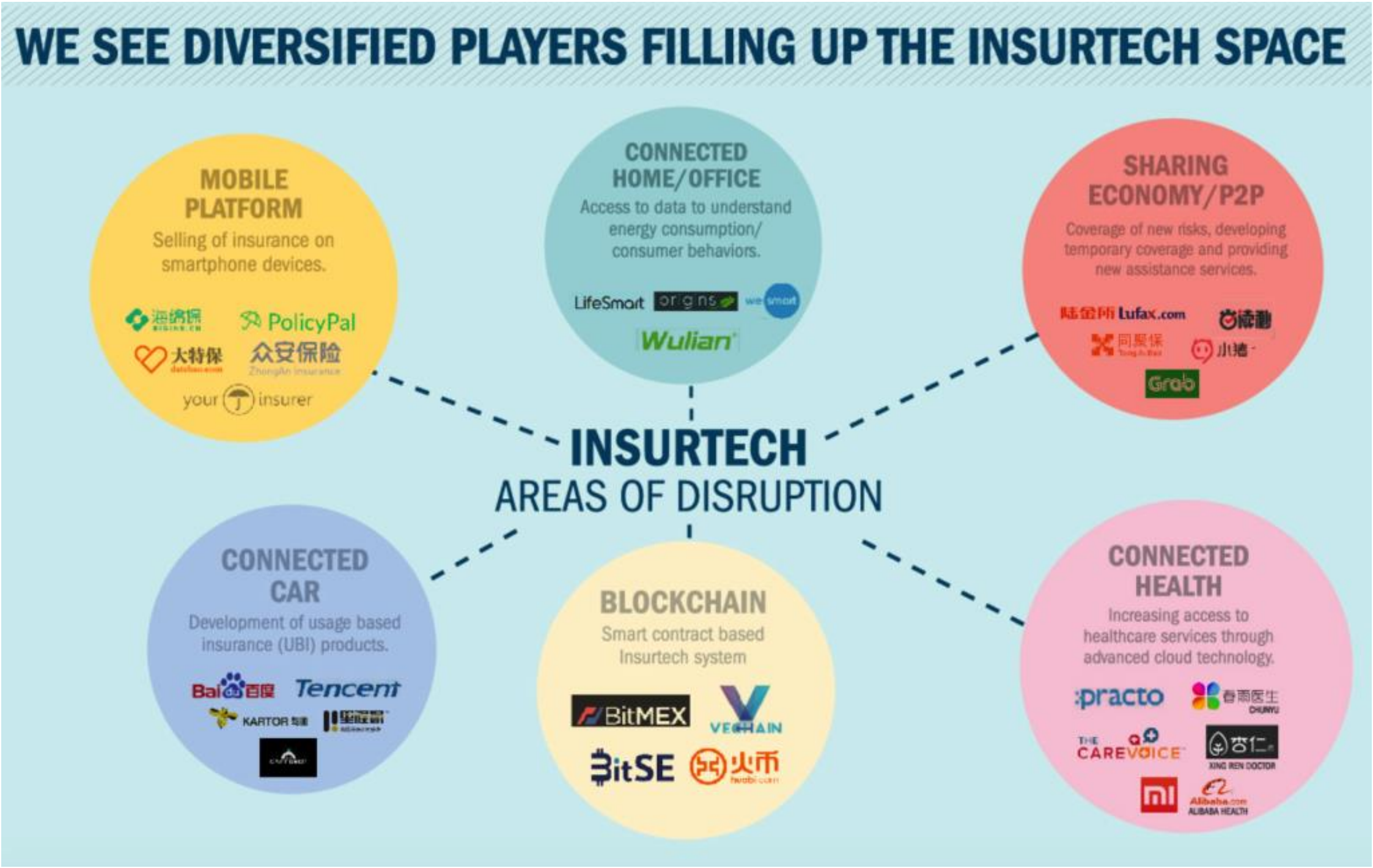


ALSO
BIG
DATA
TOOLS
DISK
TARGET
EXAMPLES
APPLIED
SENSOR
SHARED
DEFINITION
CURRENT
MAY
MOVING
RECONSIDER
WITHIN
ZETTABYTES
PRACTITIONERS
CAPTURE
THOUGHT
BUSINESS
INTERNET
DISTRIBUTED
SETS
GENOMICS
DESCRIBING
RADIO-FREQUENCY
COMPLEXITY
MANAGEMENT
TERABYTES
CASE
ABILITY
PETABYTES
INCLUDE
FC
ELAPSED
FORMS
SYSTEMS
TOLERABLE
SIZE
STORAGE
MPP
PARALLEL
SAN
QUALITIES
SINCE
MASSIVELY
GROW
EVERY
CONNECTOMICS
ORGANIZATIONS
SET
USE
RELATIONAL
LARGER
CONTINUES
SOCIAL
INDEXING
TENS
COMPLEX
CITATION
ANALYTICS
NOW
BIOLOGICAL
PROCESSING
UBIQUITOUS
CAPACITY
BURIED
WORLD'S
HUNDREDS
DESKTOP
RECORDS
NETWORKS
DATABASES
SEARCH
SOLID
TYPES
CURRENTLY
GARTNER
OPPORTUNITIES
WORKING
AMOUNT
DIFFICULTY

FINTECH
Blockchain
Payment
Exchange
Research
Digital Money
Online Banking
Investment
Crowdfunding


INTERNET
OF THINGS

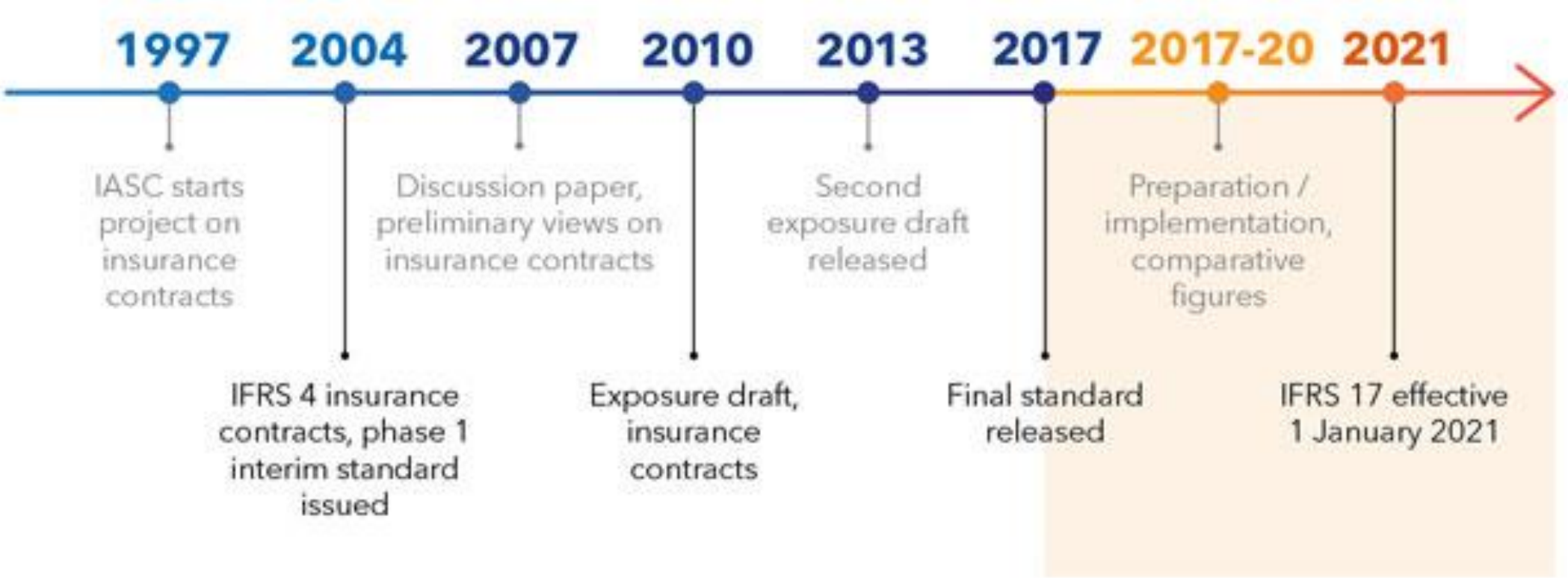
WE SEE DIVERSIFIED PLAYERS FILLING UP THE INSURTECH SPACE



IFRS 17
Insurance Contracts

IASB

IFRS™



WHY
OH
WHY

Why is IFRS 17 needed?

Improved comparability

1. Lack of comparability between insurers
2. Non-uniform reporting of products within groups
3. Inconsistency with other industries

- Worldwide objective to harmonise insurance accounting practices across jurisdictions
- New framework replaces a huge variety of accounting treatments
- Revenue reflects the services provided

Improved quality of financial information

1. Lack of useful information
2. Lack of transparency about profitability

- Discount rate will reflect characteristics of the insurance contract
- Additional metrics to evaluate performance will be available

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Why is IFRS 17 needed?

1) שיטת מדידה של התחייבויות, ופריסת רווחים, "טובה" יותר

- ריביות והנחות עדכניות ומיטביות
- מרווח (RA) לפי כללים מחושבים המתייחס לרמת הסיכונים השונה בין מוצרים שונים
- פריסת רווחים בצורה מחושבת וסבירה
- מחזור ללא רכיב חיסכון וללא תלות בפריסת הפרמיה
- מנגנון לספיגת ופריסת השפעת השינויים בהנחות

- תלות גדול בהערכות סובייקטיביות*

המכה	***התרופה***
• ריבית	הפרדת רווח חיתומי ופיננסי, OCI
• הנחות	פריסת חלק גדול מהשינויים

* טוב או לא טוב?

2) עקביות בין ענפים ומוצרים

- רגישות לשינויים בריבית
- רגישות לשינויים בהנחות
- מרווחים
- פריסת רווחים
  - היום נגזרת של
    - גובה העתודה/צבירה וגביית דמי ניהול
    - שיטות שונות ומשונות של רזרבות
    - תזמון הפרמיה
- מחזור
  - רכיבי השקעה
  - אלמנטרי וחיים
  - פרמיה קבועה ומשתנה

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מידע חדש בדו"ח הכספי

היום	
	מגזר XXX
פרמיה	104,666
תביעות וגידול בעתודה	(96,476)
הוצאות ועמלות	(4,040)
הכנסות מהשקעות	5,641
רווח	**9,792**

היום			IFRS17	
	מגזר XXX			מגזר XXX
פרמיה	104,666		מחזור	26,167
תביעות וגידול בעתודה	(96,476)		הוצאות ביטוח	(14,840)
הוצאות ועמלות	(4,040)		**רווח חיתומי**	**11,327**
הכנסות מהשקעות	5,641		הכנסות מהשקעות	5,641
רווח	**9,792**		הוצאות פיננסיות	(3,423)
			רווח פיננסי	**2,218**
			רווח	**13,545**
			רווח כולל אחר	(3,753)
			רווח כולל	**9,792**

השפעת שינוי בריבית

On the other hand…

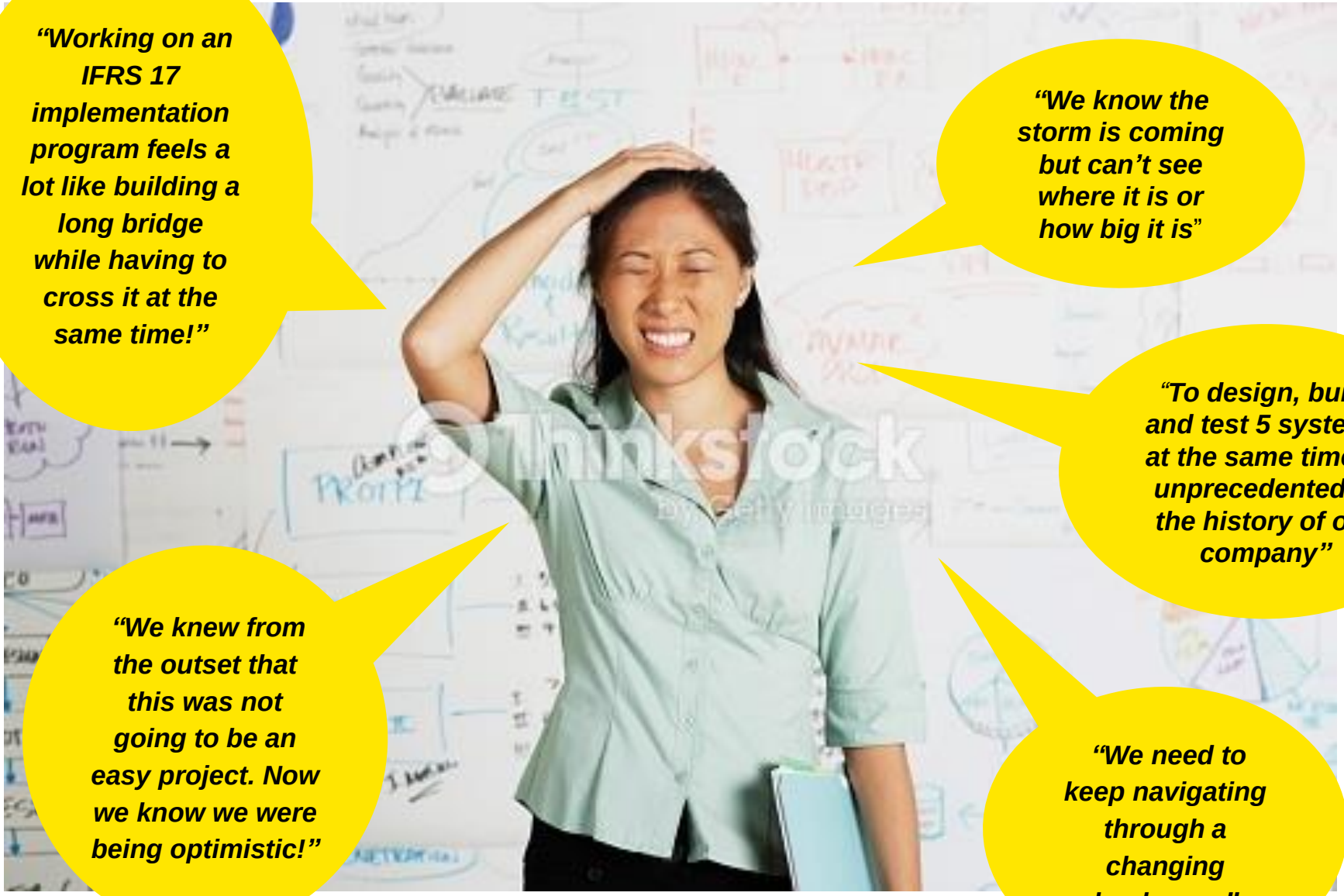
- Board of a large multi-national company put the whole IFRS17 project on hold to re-asses the implementation plan and budget, after the costs exploded above the expected amount (above $300 M).
- Small company initiates strategy to sell its Life portfolio in order to avoid having to implement IFRS17.
- Outsourcing of financial reporting process under IFRS17, including managed services.
- In market with many small companies, and compulsory IFRS reporting for insurers, talking about “Survival of the Fittest”.

Do Regulatory Detours Disrupt or Build your Insurance Future?

The better the question. The better the answer.
The better the world works.

Building a better working world

Comments from key IFRS17 project staff at an Asian Insurance Company



"Working on an IFRS 17 implementation program feels a lot like building a long bridge while having to cross it at the same time!"

"We know the storm is coming but can't see where it is or how big it is"

"To design, build and test 5 systems at the same time is unprecedented in the history of our company"

"We knew from the outset that this was not going to be an easy project. Now we know we were being optimistic!"

"We need to keep navigating through a changing landscape"

Confidential – for discussion purposes only

What does the IFRS17 implementation journey include?

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The better the world works.

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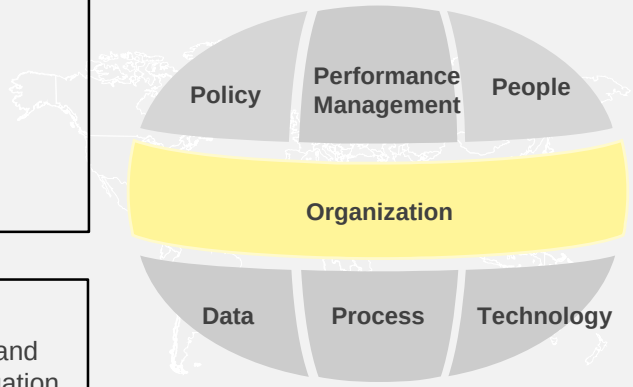
Operational implications of IFRS 17 – the big picture

1. Policy
- New accounting policies/procedures and control documentation
- IFRS 17 methodology guidance and reporting instructions
- GL Chart of Accounts changes and account mappings
- Assumptions setting (modeling)
- Investment policy changes (IFRS 9)

2. Performance Management
- Changes in MI reports and KPI's
- Planning, budgeting and forecasting processes need to be adjusted
- VBM, scorecards and incentive schemes

3. People
- Training
- Cross functional collaboration (especially for Finance & Risk)
- Project resourcing & budget
- Managing change fatigue



4. Organization
- Roles and responsibilities between Actuarial and Finance departments
- Technical Provisions Assumptions/ Expert Judgement Committee
- Impact on outsourcing contracts

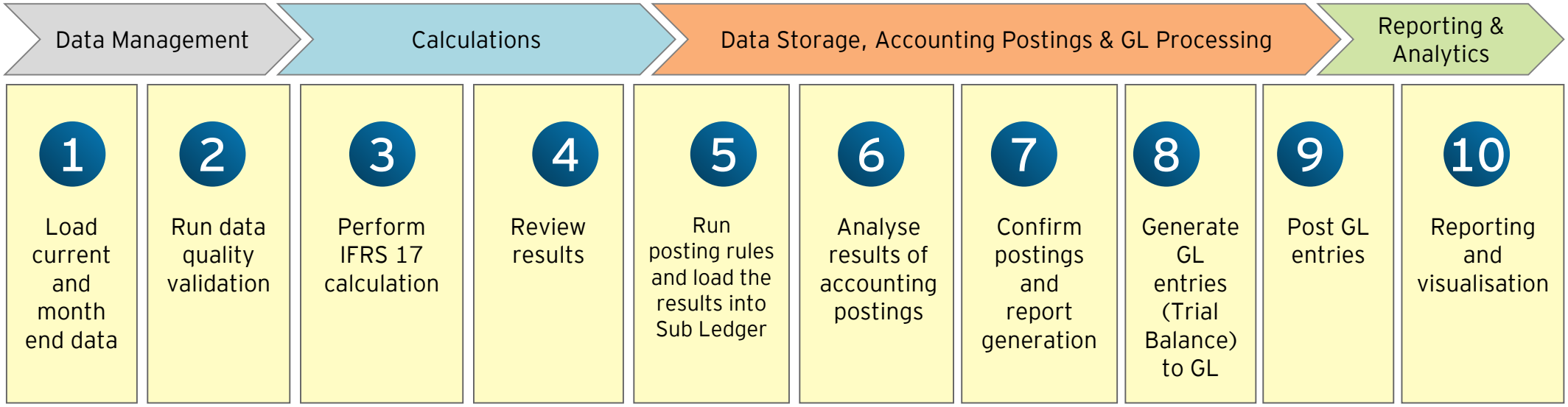
5. Data
- Refinement, upgrading, conversion and migration of (complex) actuarial valuation models
- New financial reporting data requirements (input/output)
- Data reconciliations at different levels
- Data quality, storage and archiving
- Data security & controls
- Data governance and master data management

6. Processes
- Materiality concepts/guidelines
- Updating closing and reporting processes, planning processes, actuarial processes, risk management etc.
- Internal and external reporting templates including group reporting packages
- Internal controls and audit trail

7. Technology
- Core systems, investment system, actuarial systems, pricing systems, etc.
- Posting logic/engines
- General Ledger, consolidation and reporting systems
- System interfaces
- Current system capacities & capabilities (agile technology)
- New functionalities/features

Indicative IFRS 17 Process and Data Flow

IFRS 17 will completely change the way data is extracted, handled and stored on its journey from source systems, through the calculations and postings to GL



Data Management

- Source Data extraction and adjustments
- Assumptions Management
- Data Quality Validation
- Generic Level of Aggregation
- Data Integration & Management

Calculations

- CSM calculations
- Risk Adjustment
- CSM allocation, unwind
- Liability Accounting model (GMM, VFA PPA)
- Cash flow projections
- Profitability/ Onerous Test
- Separation of Investment components

Data Storage, Accounting Postings & GL Processing

- Data Mapping & Data Storage
- Posting Generator
- Account Posting Rules
- New Secondary Ledger for IFRS 17
- New Chart of Accounts lines

Reporting & Analytics

- Financial Statements
- Visualisation and Disclosures
- Analytics

Project life-cycle – the steps to go live

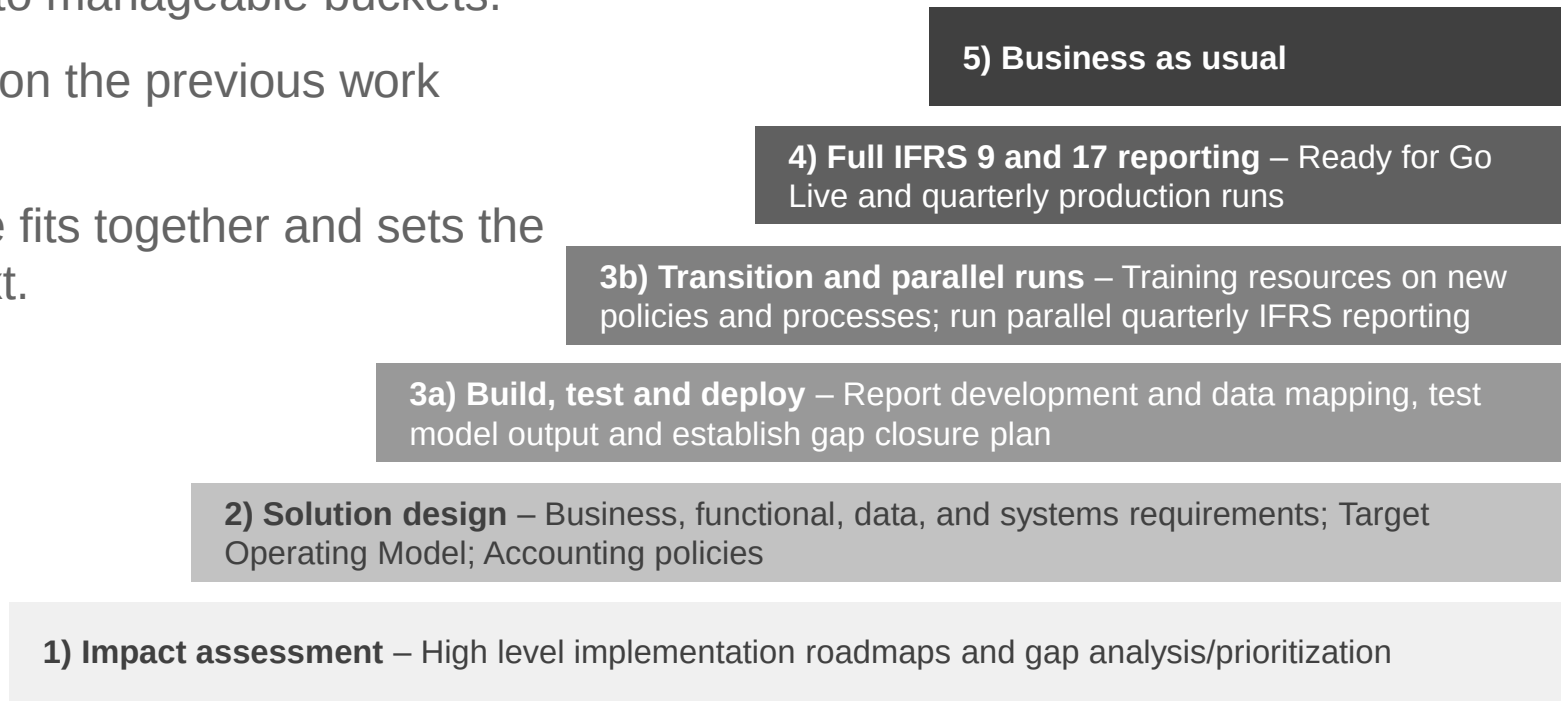
See the full picture and build a comprehensive plan to reach the goal – going live with full 17 reporting.

Organize the work needed to into phases,

… and each phase into manageable buckets.

Each phase builds upon the previous work completed.

Know how each piece fits together and sets the foundation for the next.



Project Roadmap - example

— Key points of IFRS 17 implementation

Apologies

Company specific – Cannot be publicly shared

LOGO DELETED

Project Roadmap Example - 4 Workstreams

Considerations and Approaches to IFRS17 implementation

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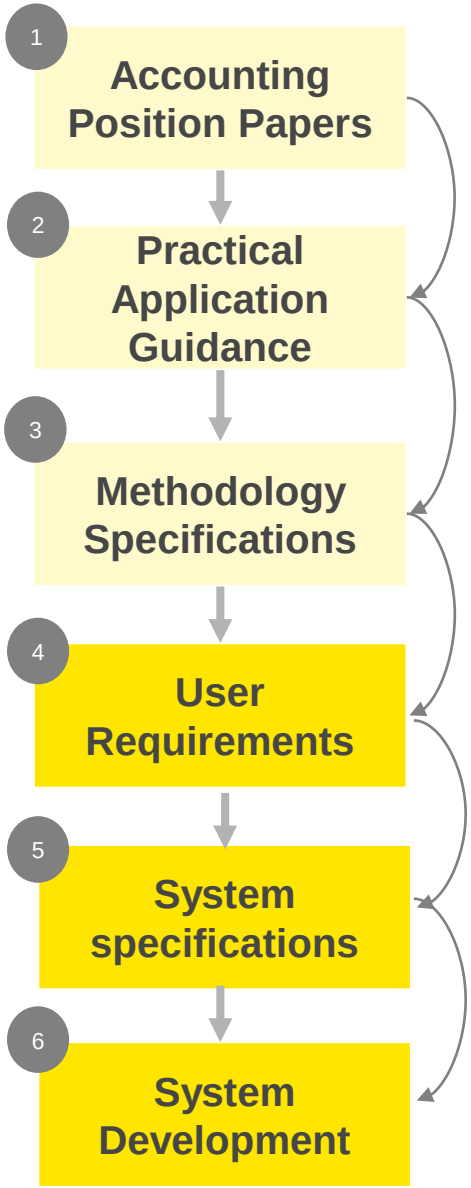
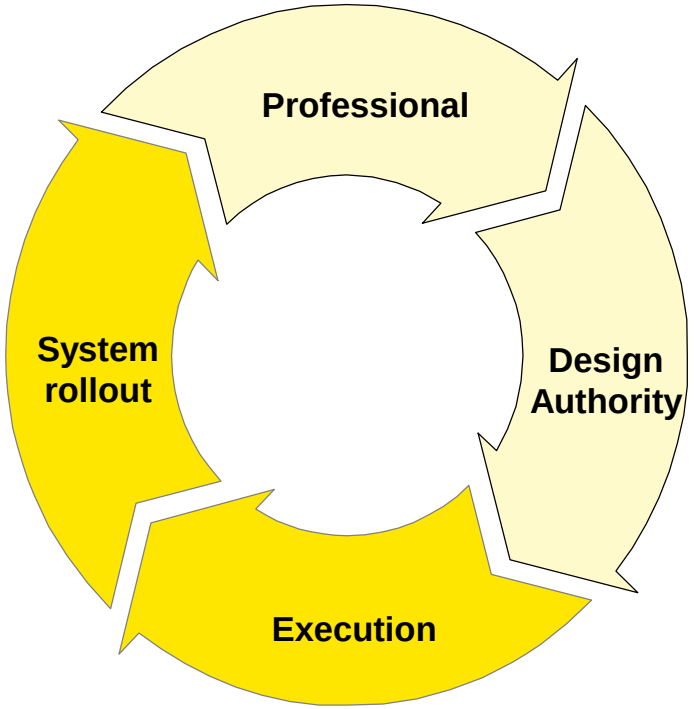
Waterfall or Agile

Classic waterfall approach



Agile implementation approach

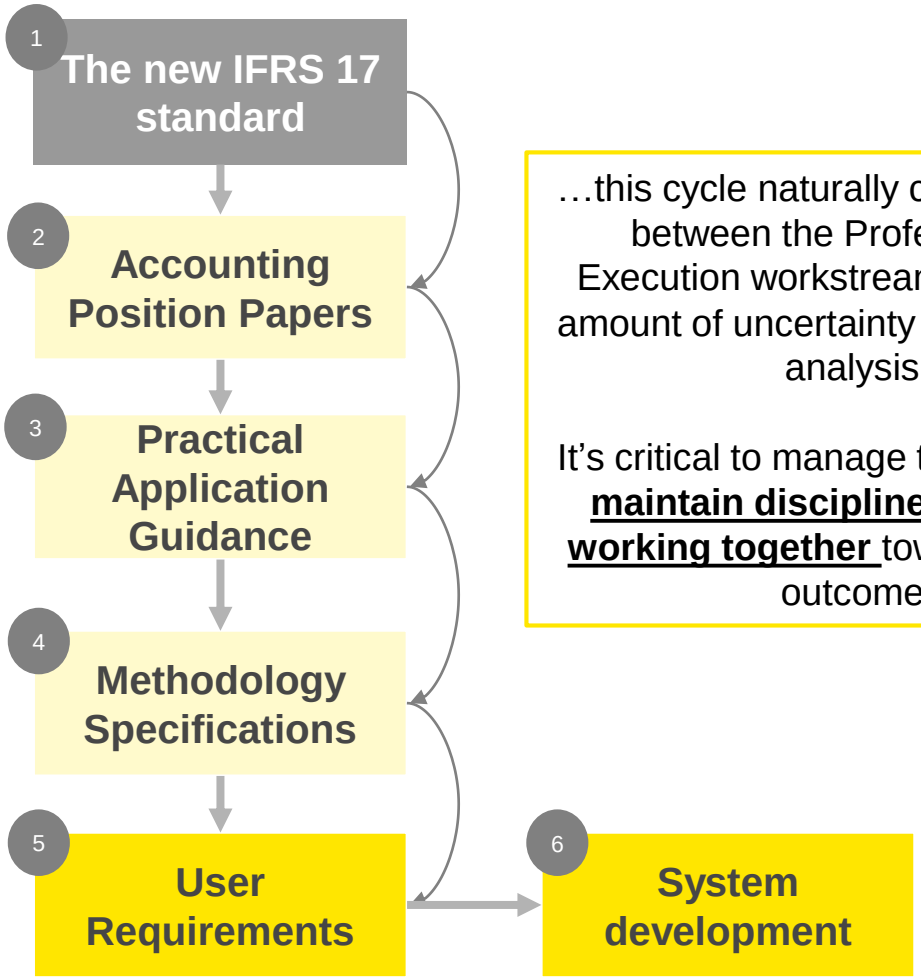


Close alignment and understanding of workstream interdependencies is critical

1. Each time there is a change, from the IASB, local regulator or industry practice, there is a knock on impact to each aspect of chain to incorporate any updates and changes…

2. Professional workstreams have to consider and re-work the documents each time a decision is re-visited, …

3. Execution Workstreams & IT wait at the bottom of the chain for the requirements to stabilize, before moving into system development. However, they're faced with upcoming deadlines to develop, test and deploy…



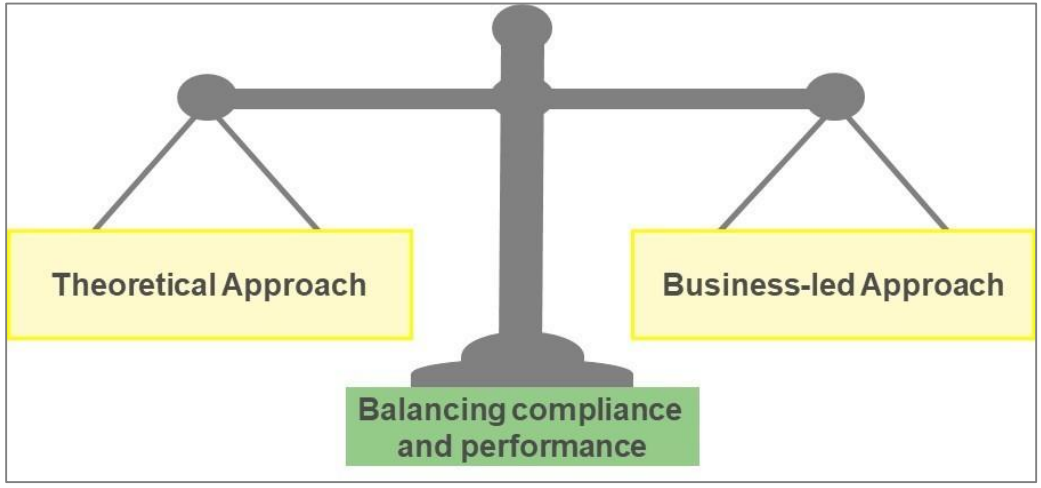
…this cycle naturally causes tension between the Professional & Execution workstreams due to the amount of uncertainty and additional analysis.

It's critical to manage this effectively, **maintain discipline and focus, working together** towards the end outcome.

Theoretical-Professional or Business-Execution
Need for balance

95% believe there is room to improve the connection between Professional Workstream & Execution Workstream

"Design Authority could play a stronger role to reduce tension between Professional and Execution workstreams"



Project Management

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Need to improve project management capabilities

"Meetings have been arranged without consideration of people's calendars. As a result, people are quite frequently double or triple booked"

11% rated project execution discipline, delivering on timely basis and to the expected quality, as very strong.

95% think that meetings are not highly effective and achieving all objectives.

Lack strong PM / Execution delivery skills at leadership level, we need people that are firm with decisions to keep everyone in line.

"In practice, workstreams do their own thing"

"There are a lot of people in meetings without a clear purpose and / or engagement"

"I don't have visibility if workstreams follow their plan or not"

"People see deadlines as optional"

Project Management Roadmap

IFRS 17 will need a dedicated Programme Management 'spine' to ensure effective planning and manage scope, schedule and budget, and help to manage the Change across the organisation

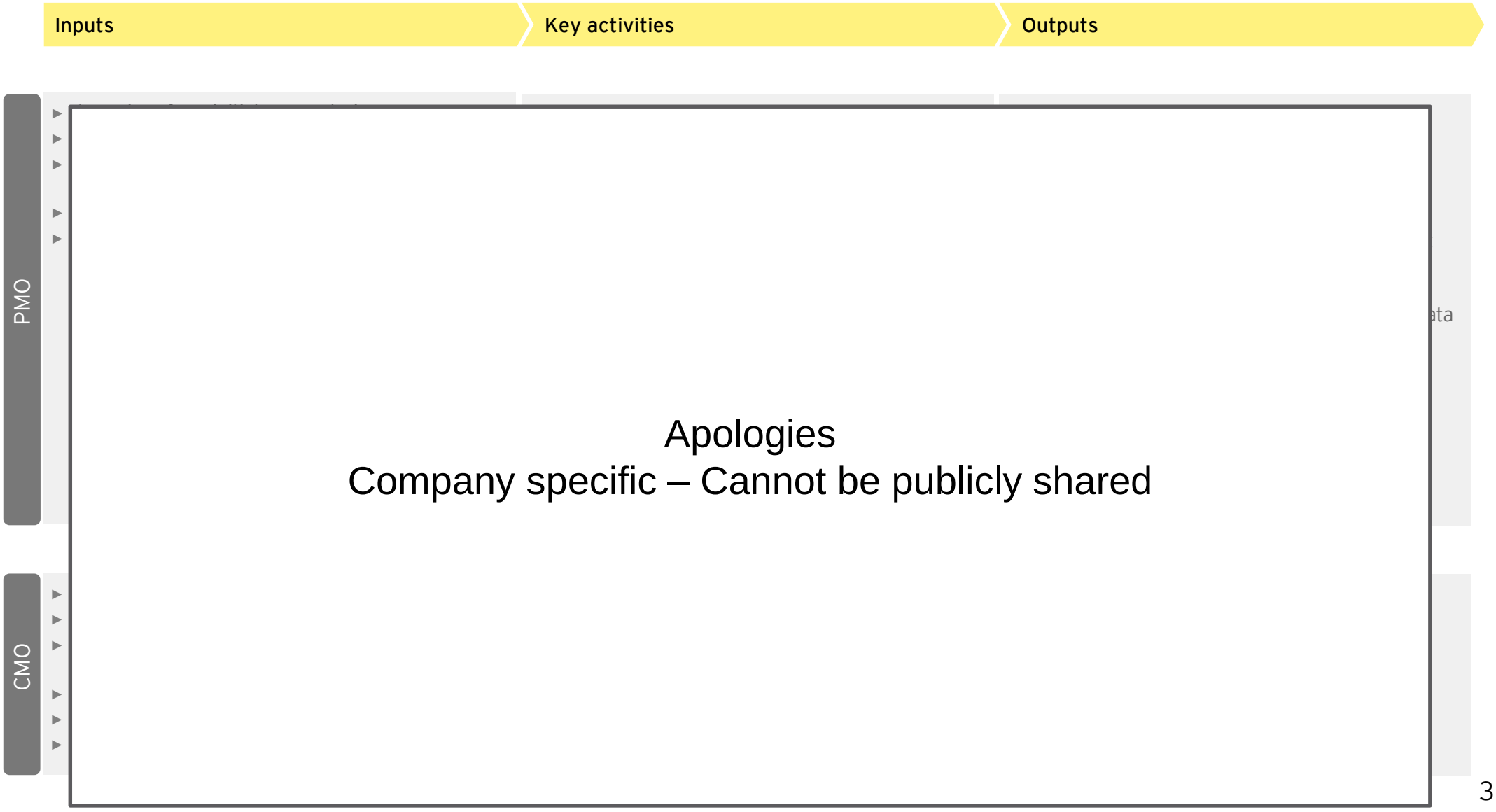
PMO

Change Management

Apologies

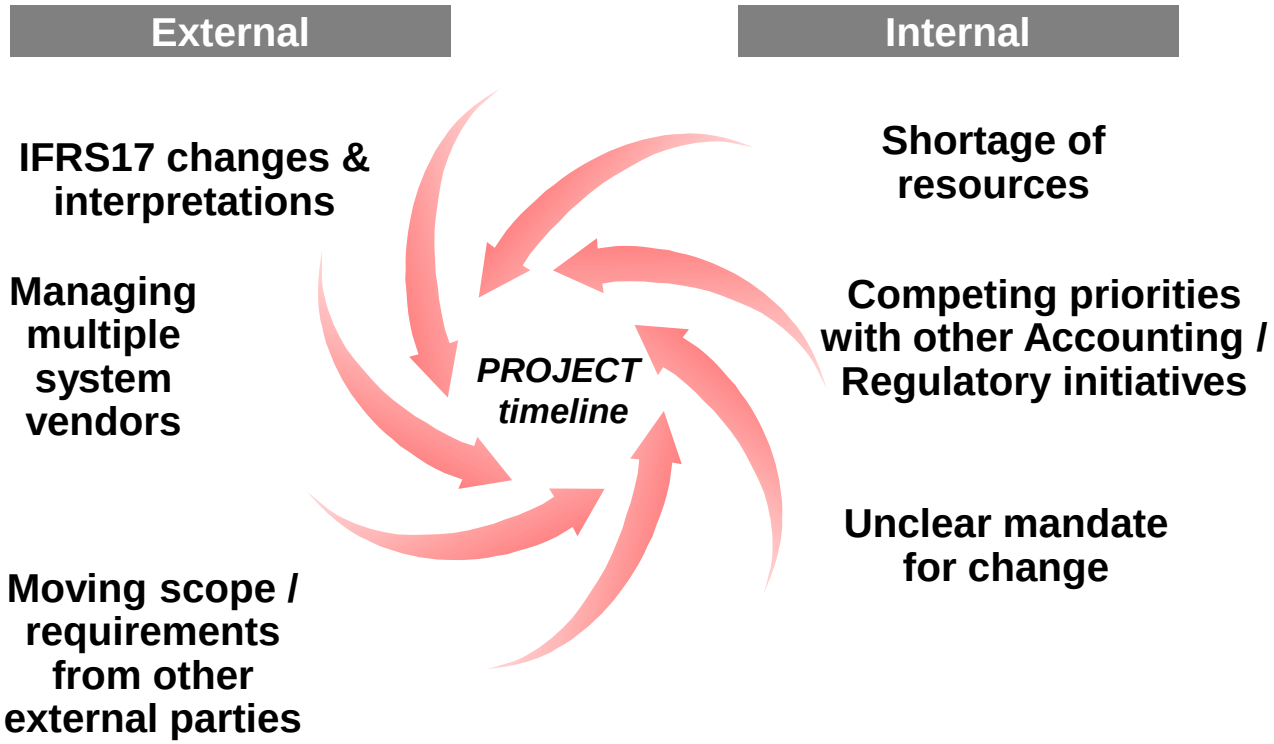
Company specific – Cannot be publicly shared

Programme and Change Management Workstream



Project Timeline Problems

Pressure due to both external and internal forces…



Company Survey:

Only 24% **of survey respondents believe that the current project timeline is realistic and all respondents who believe it is realistic, are from Group HQ.**

Processes

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Map Financial Reporting Process

Including Controls and manual interventions

Identify Changes Required

…. to systems and data which will impact the valuation and reporting processes
Reduction of manual effort will be key to meeting the Group Reporting timetable

#	Process Node	Changes required
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Apologies
Company specific – Cannot be publicly shared

IT – Data & Systems

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The better the world works.

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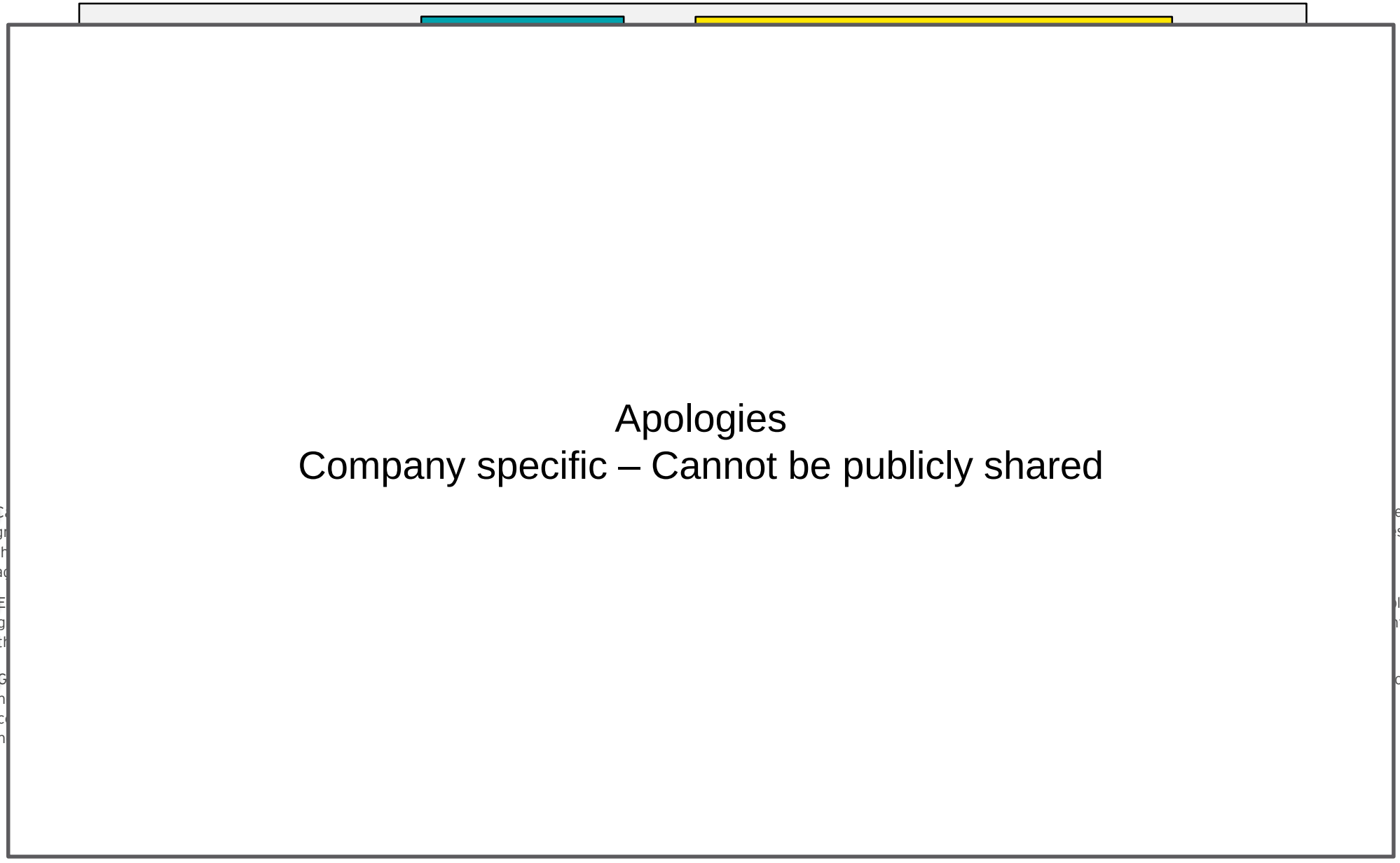
Impact on for Data and Systems

Requirement to store higher volumes of data at a lower level of granularity, handling of the measurement calculations, and ability to interrogate accounting movements



System Components & System Selection – Options

Depends on Company's ST and LT Strategy, and resources available (time, money, people)

	Minimum Compliance	Integrated IFRS 17 Solution	Finance Transformation
Workflow / Process Automation			
IFRS 17 Calculations			n
Accounting Rules / Sub-ledger			tool
Report Generator & Analytics			
Data			ce
Pros			7
Cons			

Apologies

Company specific – Cannot be publicly shared

System Components & System Selection – Action Items

Need to engage in vendor assessment and lock down target architecture very soon to increase chances that the Systems and Data workstream will complete on time

Stage 1	Stage 2

▸ Operational gap analysis / impact study
▸ Identify what additional software and systems and data solutions are required to deliver (for example):
  ▸ IFRS 17 calculations
  ▸ Sub-ledger & accounting rules engine
  ▸ Extracts, interfaces and data flows
  ▸ Data Storage
  ▸ Workflow and Process Automation
  ▸ Reporting, visualisation and advanced analytics
▸ Initial high-medium level review of software solutions available
▸ Consider company and external resources available, and decide what existing systems will be used and what system changes will be carries out internally
▸ Conclusions and Decisions for next stage
	▸ High-level solution design with both COMPANY IT and Group Architecture teams
	▸ Agree vendor selection process with IT and Procurement
	▸ Short-list vendors
	▸ Draft vendor brief
	▸ Invite vendors for dedicated design workshops
	▸ Invite vendor proposals
	▸ Proposal assessment and vendor presentations – possibly POC
	▸ Vendor selection and contract negotiation
	▸ Lock down target architecture based on agreed vendor and solution landscape
	▸ Refine Systems and Data roadmap
	▸ Initiate internal system changes

Some Actuarial Specific components

The better the question. The better the answer.
The better the world works.

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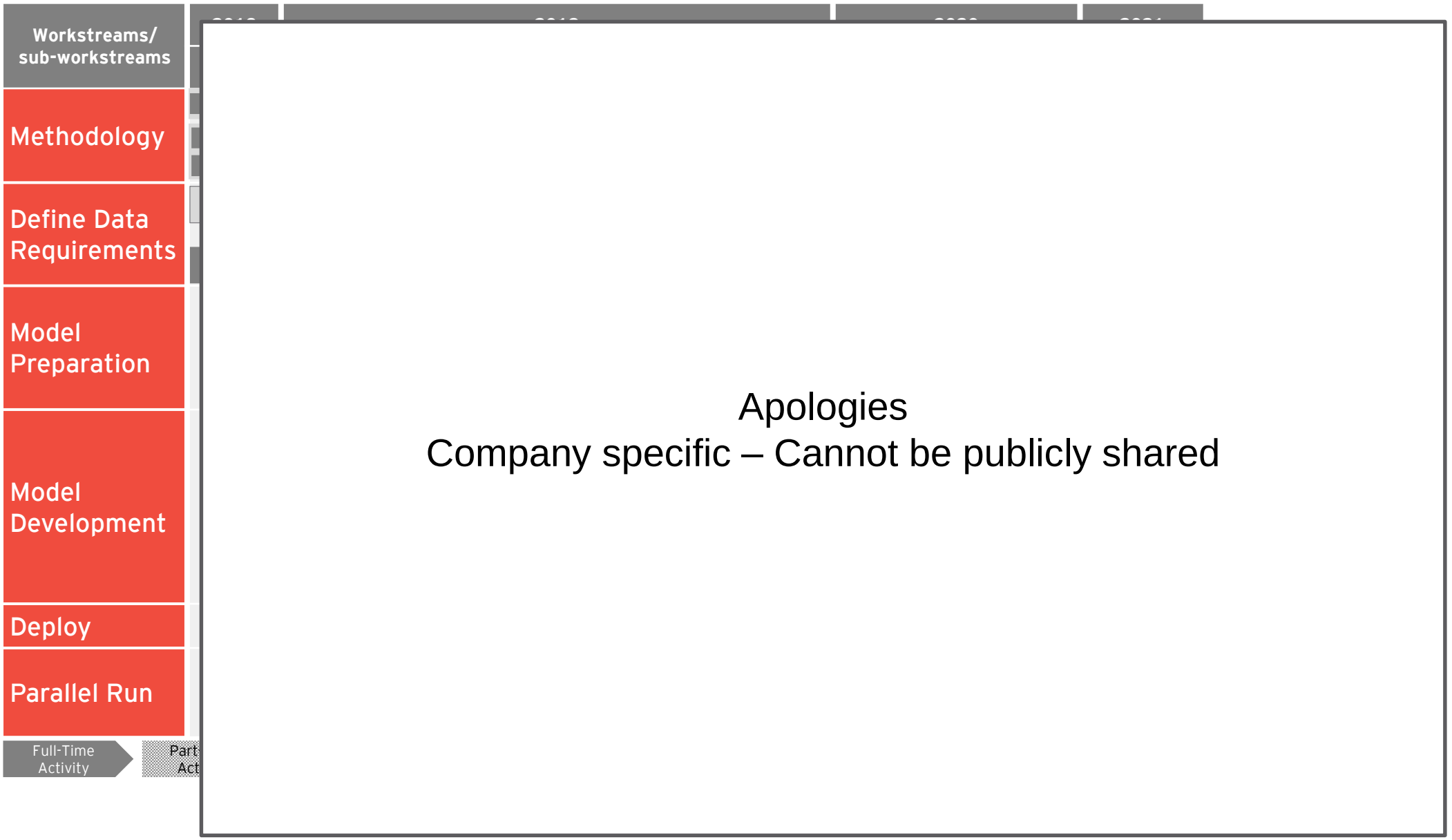
Example Actuarial Roadmap (extract)

Define methodology, model requirements, process & model build, testing, full parallel run

DR – Discount Rate RA – Risk Adjustment	LoA – Level of Aggregation CSM – Contract Service Margin	EXP – Expenses (Att & Non Att) CF - Future Cash Flows	MD - Modification & Derecognition OC – Onerous Contracts	TR – Transition REI – Reinsurance	VFA – Variable Fee Approach DIS – Disaggregation



Some Key Lessons

The better the question. The better the answer.
The better the world works.

Building a better working world

General lessons learnt so far

1. IFRS17 is much more than an accounting change, it has a major impact on the entire organization (front-, middle- and back-office)

2. If you think the IFRS17 standard is difficult, wait till you try to implement this in real life!

3. Don't underestimate the amount of time it takes to find the required data to fulfil the extensive IFRS17 primary financials and disclosure requirements

4. The biggest amount of work sits in the end-to-end Data, Systems & Process (DSP) changes – need to make sure IT does not become the bottleneck!

5. Follow a proven IFRS implementation methodology (with structured and centrally prepared input templates)

6. Important to emphasize both the content and process skills needed to get the job done (difficult to find people who master both skills equally well)

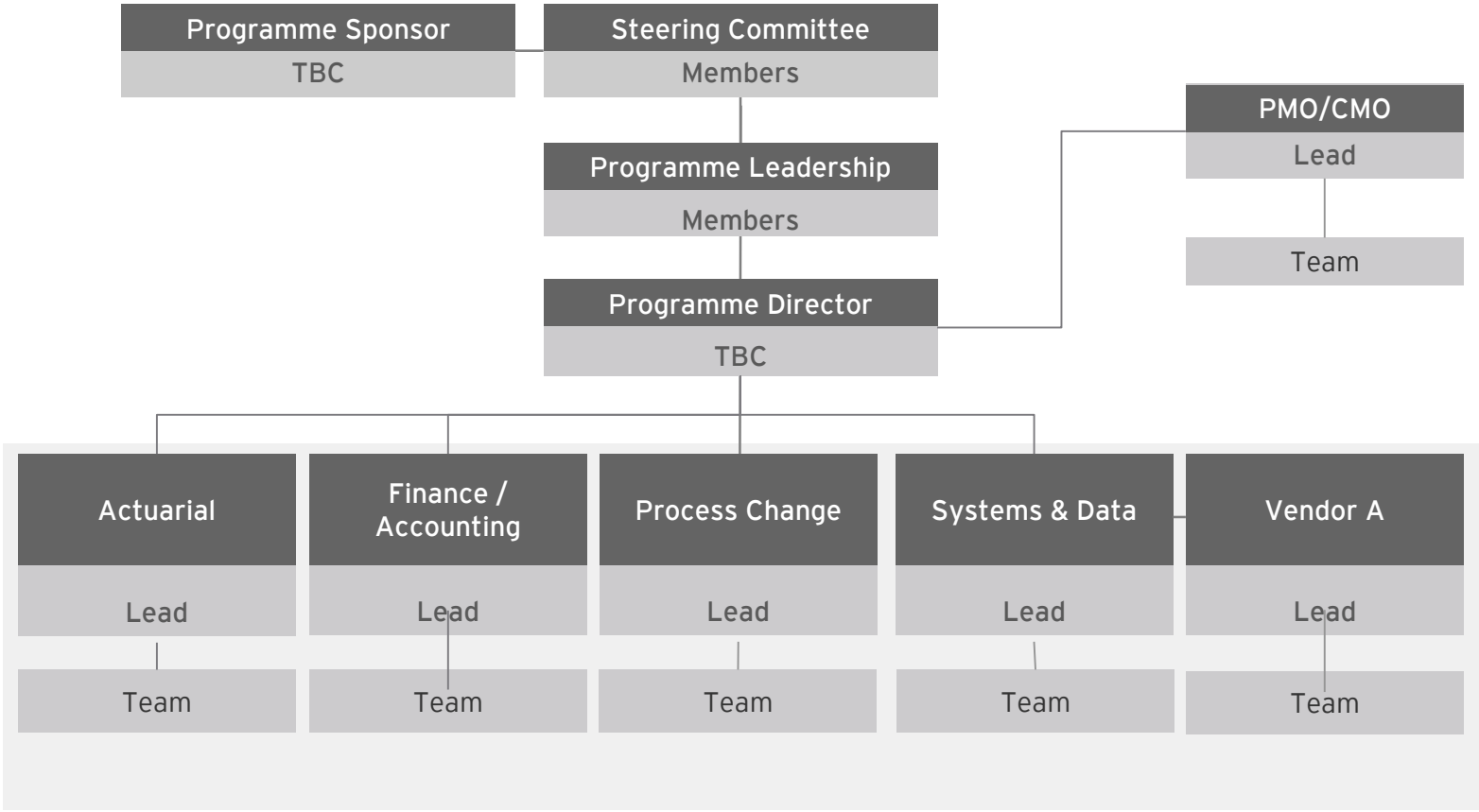
7. Need to appoint a separate **accounting lead** (IFRS17 specialist), **actuarial lead** (financial & business impact models), **systems lead** (ERP/EPM) and **conversion project lead** (finance change specialist) to jointly manage the IFRS17 conversion

Communication

Scoping & Planning

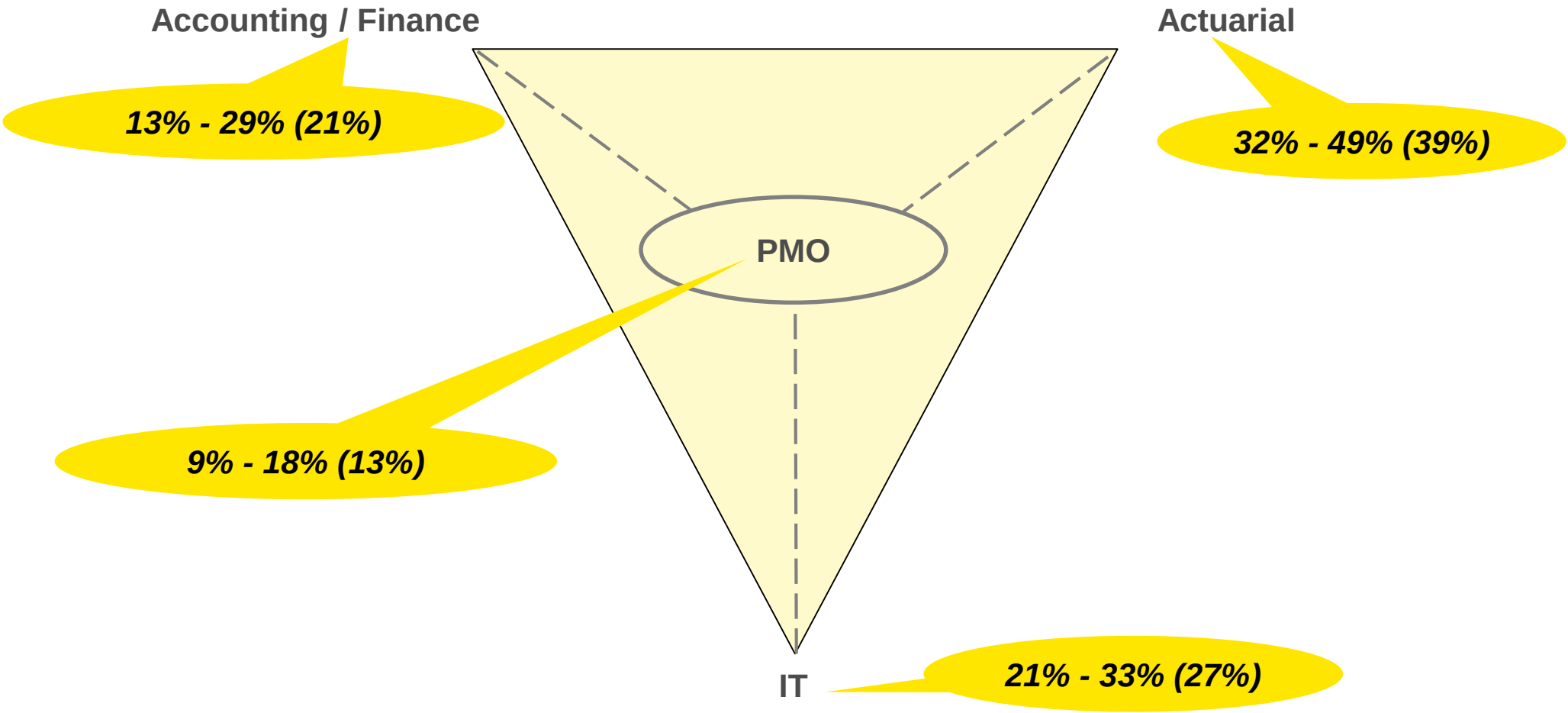
Project Governance Structure

IFRS 17 requires key decisions, has tight timelines, and companies have on going BAU challenges. The right Governance structure is crucial to ensure Project delivery



Programme Sponsor	Project funding and key project related decisions impacting costs/benefits/scope
Steering Committee	Monitors the Program's progress and provides a forum for including relevant stakeholders in the process of making programme decisions
Programme Leadership	Business and project representatives making solution design decisions

Optimise the project structure (and budget) to ensure that well balanced decisions can be made, taking into account multiple perspectives while delivering a compliant and sustainable outcome



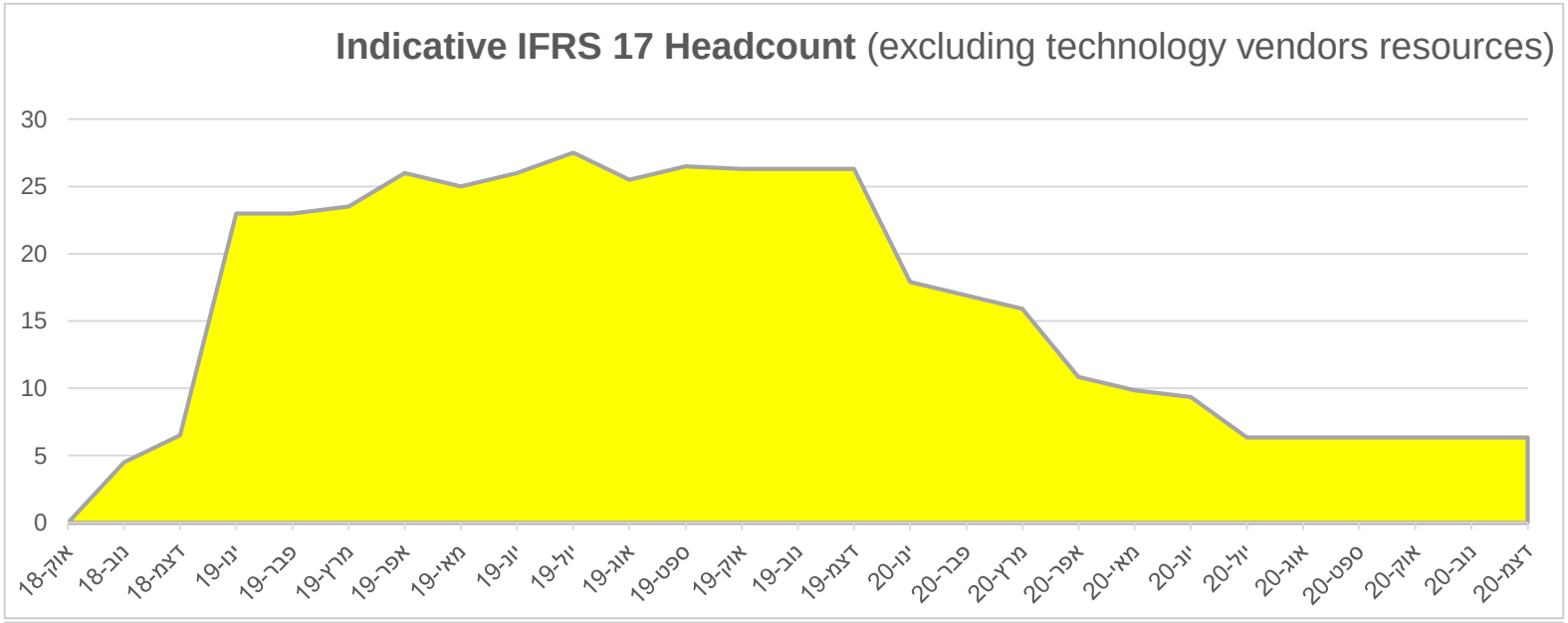
Resources Required

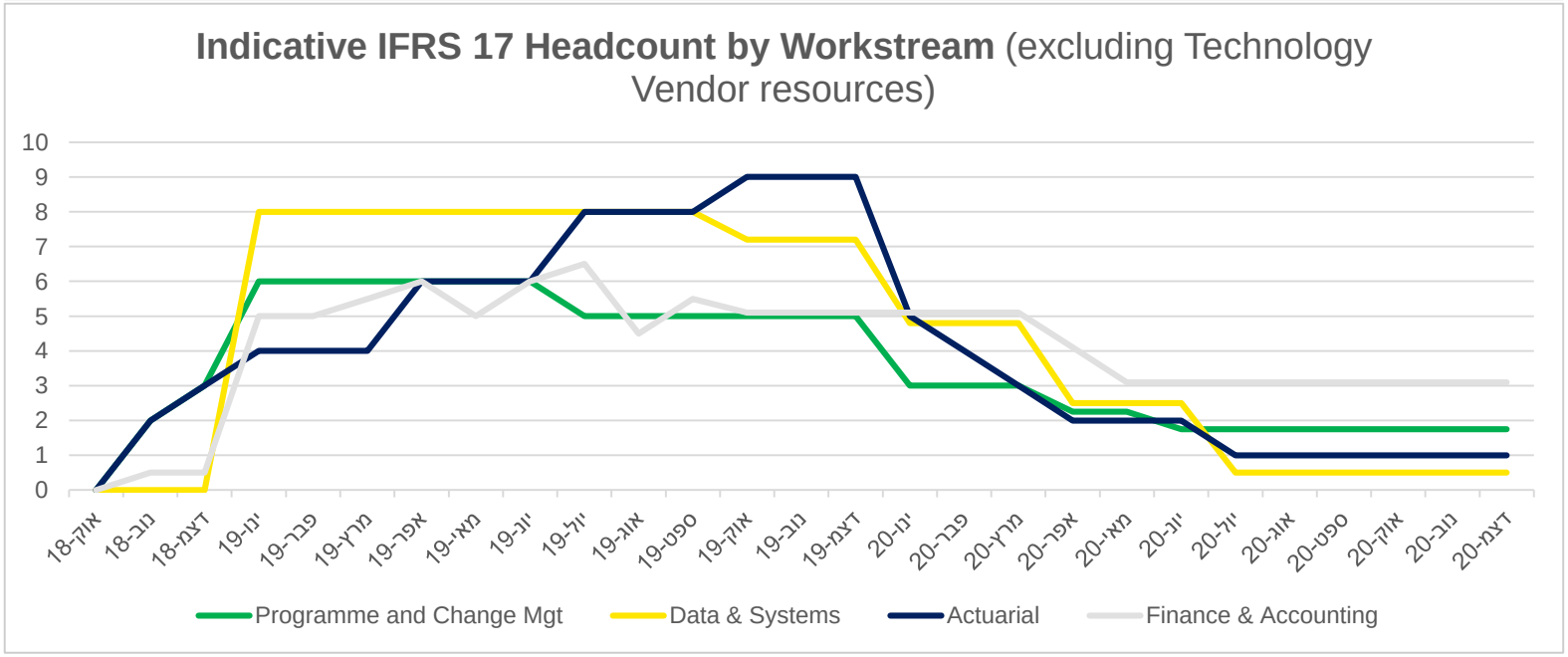
The better the question. The better the answer.
The better the world works.

Building a better working world

Example IFRS 17 Headcount (Single medium sized Life only company)

A core implementation team ramping up to c. 25 resources will comprise resources with Actuarial, Accounting, Programme Management, Data, Systems and Process Change skillsets





* Excluding resources provided by Technology vendors.

Estimated Implementation Costs – Example (Small Life Company)

Total implementation cost is expected to land between 18 and 41 million NIS, with the variance impacted largely by the sophistication of the Actuarial solution and choice of sub-ledger vendor / solution.

Workstream	EFFORT (man days)		COST		
	Low	High	Low	Mid	High
Implementation Team					
Programme and Change Mgt					
Data and systems					
Actuarial					
Finance and Accounting					
Total (Internal)					
Total (External)					
Vendors, SW, HW					
Vendor Team (Actuarial)					
Vendor Team (Sub-Ledger)					
Vendor Team (Integration)					
Licensing (Up Front)					
Hardware (estimate)					
Total inc VAT					
Total Implementation					
Recurring Licence TOTAL					

Apologies
Company specific – Cannot be publicly shared

Is it Possible?

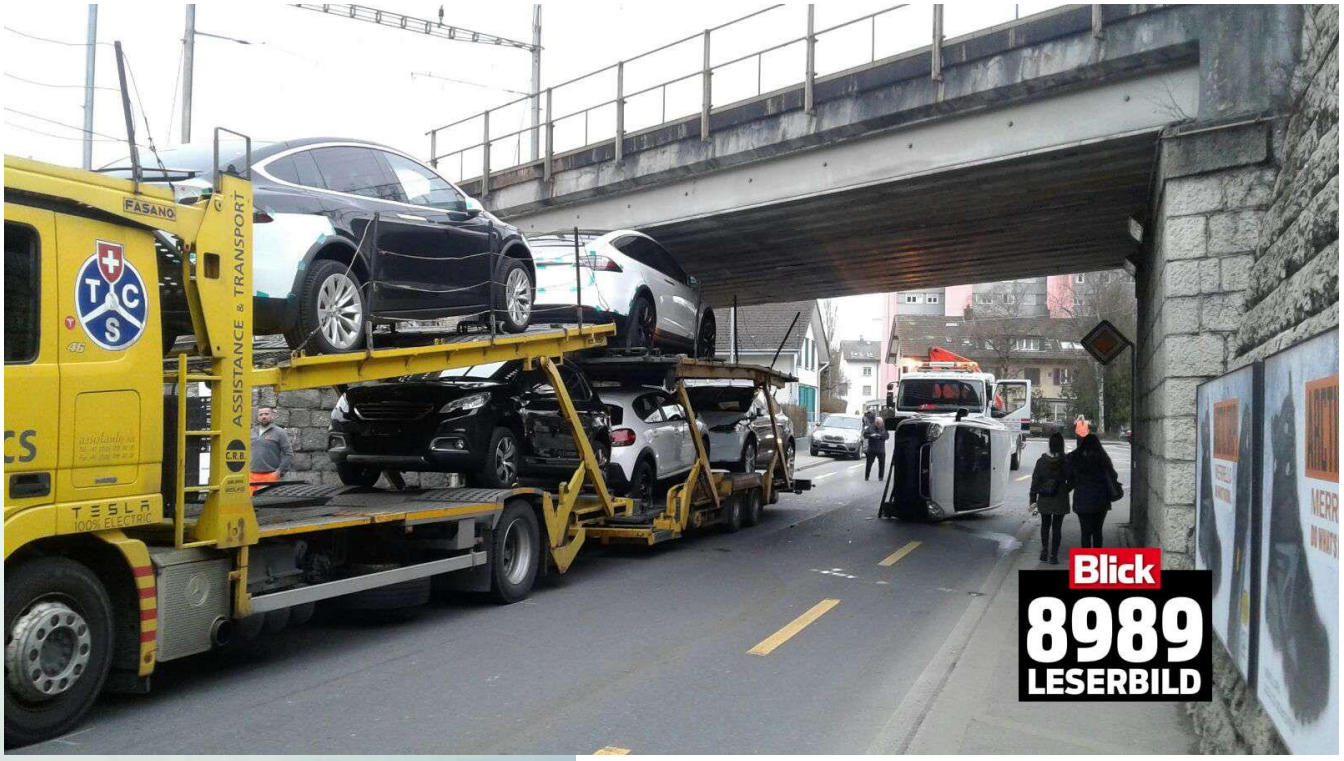
The better the question. The better the answer.
The better the world works.

Building a better working world

“Working on an IFRS 17 implementation program feels a lot like building a long bridge while having to cross it at the same time!”

Confidential – for discussion purposes only

Bridge failures



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Late specification of target or moving target

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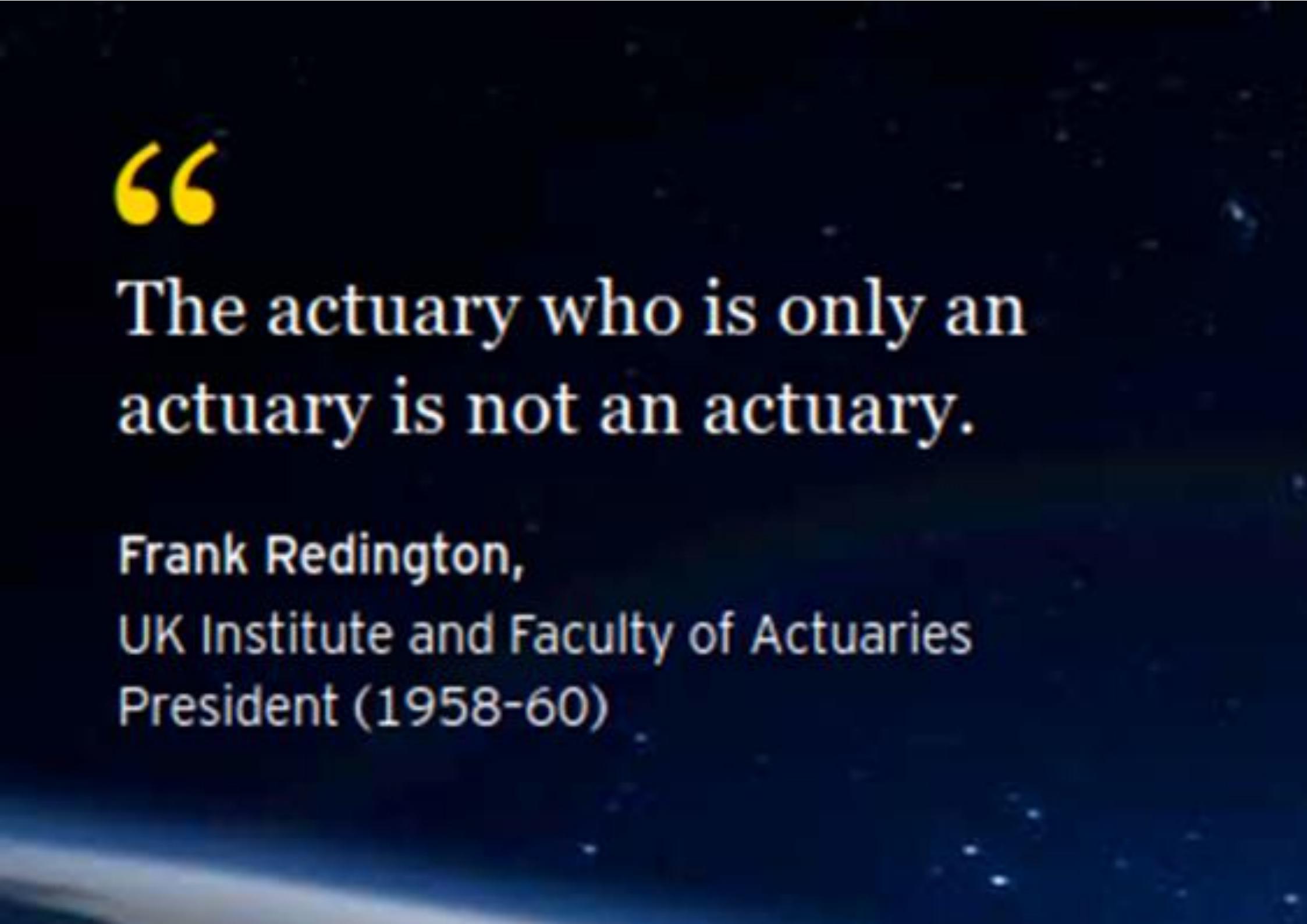
“
The actuary who is only an actuary is not an actuary.
Frank Redington,
UK Institute and Faculty of Actuaries
President (1958-60)