Industry Meeting on Quantitative Impact Study 2022

Long Term Life Insurers

May 2022

LifeWorks

Background


New IFRS for insurance effective 1 Jan 2023
Statutory Financial Reporting including Capital Adequacy based on IFRS
Therefore…..
Regulatory Capital Adequacy framework needs to be revised

Objectives of the Quantitative Impact Study (QIS)

- Evaluate the impact of IFRS 17 & IFRS 9 on long term insurers
- Consider allowance for operational risk and diversification in the capital calculation
- QIS to be done on a “best efforts” basis
- Recommend changes needed to capital standards for the new IFRSs based on analysis of the QIS results

  Note: The final capital framework may be different from Company submitted QIS results!

QIS Approach

December 2021 Capital Adequacy as reported

- In Excel format

Revised Capital Adequacy based on IFRS 17 financials

- Capital required for asset risks based on IFRS 9 asset values
- Capital required for liability risks based on IFRS 17 liability values
- Addition of operational risk and diversification

Components of the Capital Adequacy calculation

Available Capital	• Capital Available – Branch • Capital Available - Domestic
Asset Risk	• Asset Default Risk • Off Balance Sheet Risk • Asset Liability Mismatch Risk • Foreign Currency Mismatch Risk
Liability Risks	• Mortality / Longevity • Morbidity • Lapse • Interest Margin Pricing Risk
New Components	• Operational Risk • Diversification Credit

Available Capital

Same as current Capital Adequacy framework except…

- Based on IFRS 17 balance sheet
- Contractual Service Margin (CSM) included as Tier 1 capital
- Cash Surrender Value Deficiency (CSVD) based on fulfilment cashflows and calculated within IFRS17 product groupings
- Best estimate negative reserves

Asset Risks

Credit (Asset Default) Risk

- Risk factor applied to asset values net of IFRS 9 provisions
- Disclosure of total IFRS 9 provision
- Factors for assets impacted by IFRS 9 will be reviewed as part of the study

Asset Risks

Foreign Exchange Risk

- Risk factor unchanged; applied to net open FX position, converted to BAH$
- IFRS 9 assets and IFRS 17 liabilities used to determine net open position

Asset Risks

Asset Liability Mismatch Risk

- 10% of the change in the liability after a 100bp shock to valuation interest rates or
- Absolute change in liabilities less absolute change in assets when both shocked by 100bps
- Liability = net of reinsurance fulfillment cash flows (i.e. incorporating risk adjustments but excluding CSM)

LifeWorks

Liability Risks

Mortality Risk

- All individual and group life business exposed to mortality risk
- Capital requirement = Exposure * factor
- Factors unchanged
- Exposure based on policy liabilities
- Policy liabilities = net of reinsurance IFRS 17 liabilities including the risk adjustment but excluding CSM

LifeWorks

Liability Risks

Morbidity Risk

- Personal Accident Disability Waiver and Health Insurance business
- New Claims risk = % annual earned premiums
- Continuing Claims risk = % of reserves
  - Factors unchanged
  - Policy reserves = net of reinsurance IFRS 17 liabilities including the risk adjustment but excluding CSM

Liability Risks

Lapse Risk

- All individual life business
- Capital requirement = Change in policy liabilities with adjusted lapse margins
- Lapse margin adjustments unchanged (7.5% / 15%)
- Policy reserves = net of reinsurance IFRS 17 liabilities including the risk adjustment but excluding CSM

Liability Risks

Interest Margin Pricing Risk

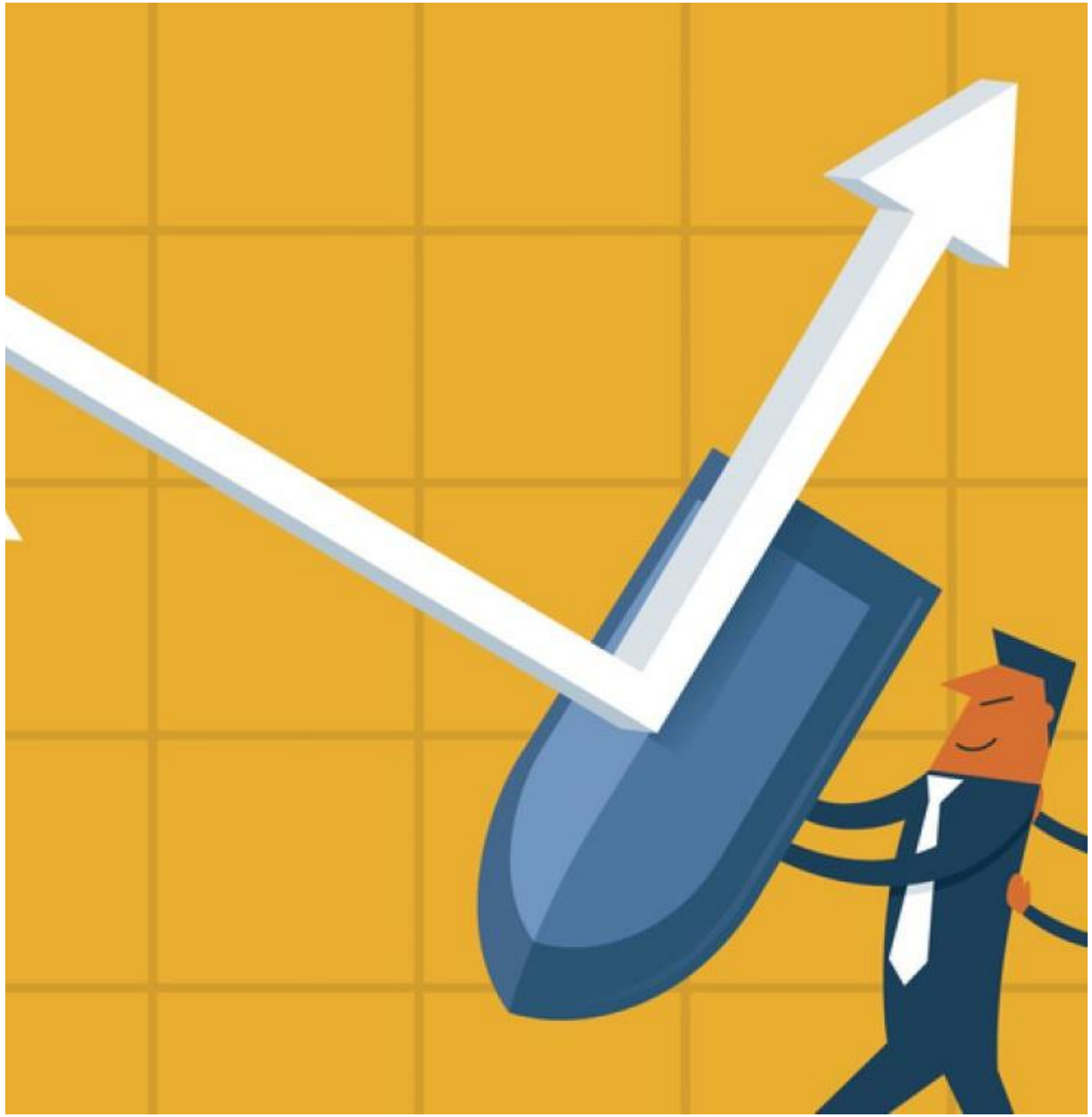
- Capital requirement = Policy liabilities x Factor
- Factors unchanged
- Policy liabilities = net of reinsurance IFRS 17 liabilities including the risk adjustment but excluding CSM

LifeWorks

New Components

Operational Risk

- Risk arising from inadequate / failed internal processes / systems, personnel, external events
- Capital requirement = 10% of the total required capital in respect of the other risks



New Components

Diversification Credit

- Risks are not perfectly correlated
- Total required capital is reduced by a diversification credit
- Diversification credit assumes a 50% correlation between asset and insurance risks
  - $(A + I) – (A^2 + I^2 + 2 * 50\% * A * I)^{1/2}$

Regulatory Capital Ratio

- Still calculated as

$$\frac{\text{Total Available Capital}}{\text{Total Required Capital}}$$

- Total Available Capital based on IFRS 17 financials
  - ➢ CSM included as available capital

- Total required capital calculated based on liabilities measured as per IFRS 17, assets as per IFRS 9
  - ➢ Including new operational risk requirement
  - ➢ Reduced by diversification credit

Required Disclosures

- Reconciliation of actuarial liabilities IFRS4 -> IFRS17
- Actuarial liabilities, risk adjustment, CSM etc. split by product portfolio
- IFRS 17 Balance sheet
- IFRS 17 Discount rates
- Reconciliation of the assets included in the required capital calculation with the IFRS 17 balance sheet

Long Term Life Insurer submission by June 30, 2022

RCR calculations based as at YE 2021 based on reported financials

RCR calculations as at YE 2021 based on IFRS 17 financials

Thank You