CAC (MPI) 1-69

Part and Chapter:	**Part V Claims Incurred**	**Page No.:**	**13**
PUB Approved Issue No:	**10. Claims Forecasting**		
Topic:	**IFRS 17 potential financial impact**		
Sub Topic:			

Preamble to IR:

Page 13 of Part V, CI.2.5 states the following:

"9 IFRS 17 is effective for annual reporting periods on or after January 1, 2023.
10 Accordingly, IFRS 17 will be implemented by MPI for the fiscal year 2023/24. MPI has
11 partnered with an externally-appointed actuary as it continues to work towards fully
12 understanding the potential IFRS 17 impacts, including how the policy liability will be
13 impacted."

QUESTION:

a) Please provide a narrative update on MPI's readiness to implement IFRS 17 effective for annual reporting periods on or after January 1, 2023.

b) Please confirm that the Pro Forma forecasts do not include the potential financial impact of IFRS 17 for forecasts for fiscal years 2023/24 and beyond.

c) Please provide a preliminary potential financial impact IFRS 17 may have on the pro forma forecasts for years 2023/24 and beyond, if available.

d) In the event MPI expects a negative financial impact as a result of IFRS 17, please discuss the funding process MPI expects to follow to mitigate any significant rate shock for the impacted rating year.

RATIONALE FOR QUESTION:

To review MPI's readiness status of IFRS 17 and the potential financial future impact of MPI's financial operations and potential impact on Basic insurance rates.

RESPONSE:

a) The evaluation by MPI of the proposed changes to International Financial Reporting Standards (IFRS) 17 and IFRS 9 continues to progress as the respective governing bodies update the change requirements. The status report in the Annual Financial Statements remains unchanged.

   Collaboration between financial and actuarial functions occurs regularly to ensure that MPI meets IFRS timelines. MPI requires such coordination for tasks such as financial disclosures and methodologies for the valuation of the insurance liability, including discount rate, risk adjustment, and confidence interval. Actuarial modelling, with assistance from external resources, advances to assist with the implementing and testing of key data inputs, as well as to provide technical resources to the actuarial group.

   MPI is currently reviewing mock-up of data requirements for financial statements and note disclosures. Its staff members also meet virtually with representatives of SGI, and ICBC to share their respective experiences and challenges with the implementation of IFRS 17.

   Additionally, ongoing alignment and cooperation with Project NOVA ensures that MPI can identify and develop resolution plans for any interdependency issues.

   MPI communicated working assumptions based on its review of the technical topics and accounting policy choices available. These assumptions, and position papers,

have not yet been approved and finalized by its Board of Directors (BoD). MPI expects that the working assumptions will be approved and finalized once they are validated following further testing and modelling, which will be done during 2021/22.

b) Confirmed. The Pro Forma forecasts do not include the potential financial impact of IFRS 17 for forecasts for fiscal years 2023/24 and beyond. MPI will complete this work once MPI obtains approval of its BoD and alignment with governing bodies for same.

c) IFRS 17 will bring changes in terminology, format and the information that will be required for financial statement presentation and related disclosures, including reinsurance. The presentation of insurance liabilities and the methodology that underlies their calculation will also be modified. Refer to *CAC (MPI) 1-69* *Appendix 1 Financial Statement Presentation IFRS 4 vs. IFRS 17*.

Key changes in presentation and terminology anticipated due to IFRS 17 adoption include:

- **Insurance Revenue (replaces Gross Written Premium)** – Insurance revenue under IFRS 17 is not tied to the premium received and/or written in the period. Insurance revenue should reflect the consideration to which MPI expects to be entitled in exchange for the services provided on an earned basis. Therefore, the presentation is essentially the amount of revenue earned for the period (based on passage of time or seasonal earnings distributions), gross of reinsurance, and excluding other revenue not direct related to insurance contracts such as DVA operations recovery.

- **Insurance Service Expenses** – A single line item on the face of the income statement which reflects the costs incurred in providing insurance services in the period (such as incurred claims, claims expense, commissions related to insurance, premium taxes, and any other costs which are incurred in providing insurance services in the period).

- **Net expenses from reinsurance contracts held** – A single line item on the face of the income statement, with details disclosed in the notes to the financial statements, such as reinsurance expenses, other incurred directly attributable expenses, effect of changes in the risk of reinsurers non-performance, claims recovered, and changes that relate to past service – adjustments to incurred claims.

- **Insurance service result** – a new subtotal on the income statement (there is no longer "Underwriting Income" presented). The insurance service result is calculated prior to the investment income, the insurance finance income and expenses, and the other income/expenses that are not directly related to the underlying insurance contract revenue or expenses.

- **Finance expenses from insurance contracts (and finance income from reinsurance contracts)** – two new line items on the income statement which comprise of the change in the carrying amount of the group of insurance contracts arising from: (i) the effect of the time value of money and changes in the time value of money; and (ii) the effect of financial risk and changes in financial risk. The amount of finance expenses (or income) attributable to reinsurance contracts must be presented separately on the face of the statement of operations. These line items are where the effect of changes to the discount rate to the insurance liabilities will be recorded.

- **Net insurance and investment result** – a new subtotal which is the sum of the following three line items: Insurance service result, Investment income, Net insurance finance expenses.

- **Other income and other expenses** – Under IFRS 17, income and expenses which are not directly attributable to starting, fulfilling, or maintaining the insurance contracts are presented below the net insurance and investment result as other income and other expenses, for example, it is expected that DVA operations (i.e. recovery and related expense portion) would not be considered directly attributable to fulfilling the insurance

contracts that MPI issues. Other operating expenses which are not directly attributable to the insurance contracts would also be included in other income or other expenses.

- **Deferred Policy Acquisition Costs** – Acquisition costs will not be deferred and amortized under IFRS 17, so there will no longer be this line item on the IFRS 17 balance sheet.

- **Reinsurance asset** – A single line item on the IFRS 17 balance sheet accounting for the net reinsurance asset, which will replace the IFRS 4 accounts: due from other insurance companies, reinsurers' share of unearned premiums, reinsurers' share of unpaid claims, and due to other insurance companies. There are required note disclosures (i.e. rollforwards) which will provide more detail on the movement in the reinsurance asset from prior period to current.

- **Insurance contract liability** – A single line item on the IFRS 17 balance sheet, which will replace the IFRS 4 accounts: unearned premiums and fees, and provision for unpaid claims. Any policy related receivables or payables will also be included within this line item. There are detailed note disclosures which will be required to show the movements within the insurance contract liabilities from period to period, and must separately present the movements between the components of the unexpired and expired portion of the liability.

Quantitative Assessment: Note that all financial impacts are presented on a theoretical basis as at a specific point in time and can fluctuate based on changes within key assumptions and/or economic inputs. MPI has identified the following quantitative adjustments upon transition to IFRS 9 and IFRS 17 that will have a financial impact:

- Deferred policy acquisition costs (DPAC) will be written off upon transition to IFRS 17, after which they will be expensed as incurred.

- Non-marketable (MUSH) bonds accounting measurement will change from amortized cost to fair value through profit and loss (meaning that any unrealized gains or losses at transition date will be recognized through retained earnings).

- Actuarial Valuation: new methodology to determine the claims discount rate (using the risk-free discount rate plus a liquidity premium)

- Actuarial Valuation: replace IFRS 4 provision for adverse deviation with IFRS 17 risk adjustment for non-financial risks.

Figure 1 Day one impacts from IFRS 17 and IFRS 9

Line No.	***(in $millions)***	**Assets**	**Liabilities**	**Retained Earnings**	**Input as of**
1	DPAC write off	(63.8)	-	(63.8)	June 2021
2	MUSH @ fair value	70.8	-	70.8	June 2021
3	Claims discount rate	-	(150.0)	150.0	August 2020
4	Risk adjustment	-	TBD	TBD	N/A
5	**Total**	**7.0**	**(150.0)**	**157.0**	

The transitional adjustments in Figure 1 above will impact retained earnings (and the capital of MPI). Currently, MPI expects a positive financial impact as a result of adopting the accounting standard IFRS 17. Subsequent to transition date, and on an ongoing basis, MPI expects there to be negligible impact on rate-setting since rates will continue to be based on Accepted Acturial Practices (and therefore is largely independent of accounting presentation changes).

Any investments reclassified from fair value through other comprehensive income measurement to fair value through profit and loss measurement will transfer any unrealized gains or losses as at transition date from accumulated other comprehensive income (AOCI) to retained earnings. There is no impact to overall capital due to these adjustments, since the transfer is within equity. Using the relevant unrealized gains or losses as at June 30, 2021, this transfer from AOCI to retained earnings would be approximately $142.2 million.

d) MPI does not expect any significant negative financial impact as a result of adopting IFRS 17. However the linkage between assets and liabilities will not be as tight for purposes of asset-liabiliy management of Basic claims and therefore interest rate volatiliiy may increase. As noted above MPI expects there to be negligible impact on rate-setting since rates will continue to be based on Accepted Acturial Practices (and therefore is largely independent of accounting presentation changes).