

Industry Training Session for Long Term Insurers



**INSURANCE COMMISSION
OF THE BAHAMAS**

Agenda

June 28, 2023

1. Introductions and Agenda
2. Risk Based Capital Quantitative Impact Study
3. Quarterly Reporting Forms
4. Questions

Presenters:

Simone Balkissoon FIA

Sekayi Campbell FCIA

Risk Based Capital Quantitative Impact Study



Background



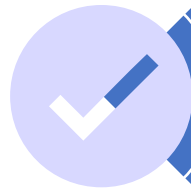
Objectives of the Quantitative Impact Study (QIS)



Evaluate the impact of IFRS 17 & IFRS 9 on long term insurers



Consider allowance for operational risk and diversification in the capital calculation

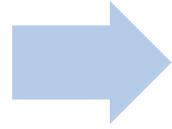


Recommend changes needed to capital standards for the new IFRSs based on analysis of the QIS results

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

December 2022 Capital Adequacy as reported

- In Excel format



Revised Capital Adequacy based on IFRS 17 financials

QIS
Approach

Components of the Capital Adequacy calculation

Available Capital 

Available Capital

Largely the same approach as before

- Domestic insurers: sum of Tier 1, Tier 2A and Tier 2B Capital less deductions
- Foreign insurers: Initial deposit, statutory funds held in trust, plus any excess assets in The Bahamas less the total liabilities* and reserves required in The Bahamas
- The amount of capital reported in an insurer's Statement of Financial Position (balance sheet) will be impacted by the changes to the accounting standard.



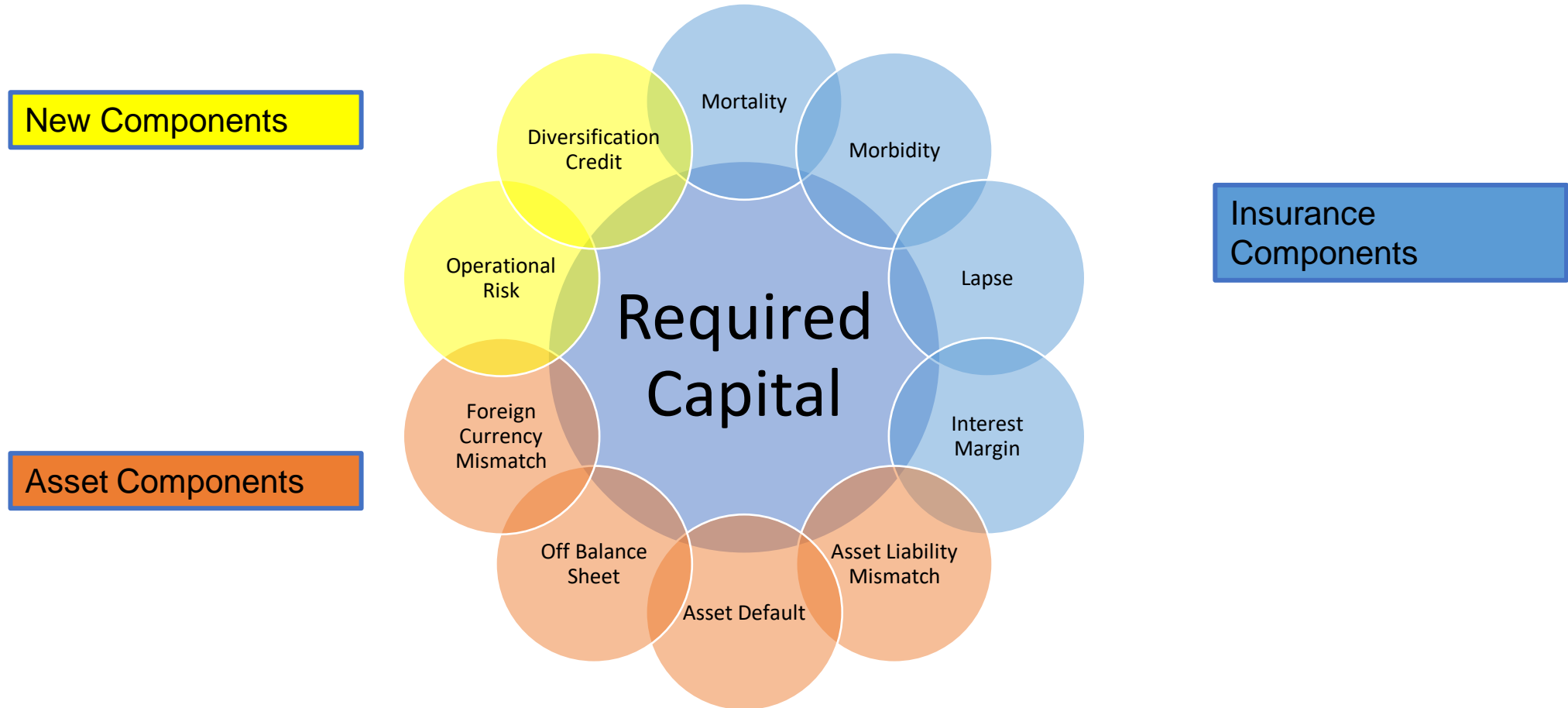
Available Capital

Largely the same approach as before

- 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



Required Capital Components



Asset Risks

Credit (Asset Default) Risk



Asset Risks

Foreign Exchange Risk

Asset Risks

Asset Liability Mismatch Risk

Liability Risks

Mortality Risk

Liability Risks

Morbidity Risk

Liability Risks

Lapse Risk

Liability Risks

Interest Margin Pricing Risk

New Components

Operational Risk

New Components

Diversification Credit

Regulatory Capital Ratio

- Calculated as
$$\frac{\text{Total Available Capital} + \text{Risk Adjustment}}{\text{Total Required Capital}}$$



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 August 31, 2023

RCR calculations
based as at YE
2022 based on
reported
financials



RCR calculations
as at YE 2022
based on IFRS
17 financials



Quarterly Reporting Forms



Quarterly Reporting Forms

- Financial Statements

| Form | | Comments |
|---------------|---------|---|
| Balance Sheet | Amended | <p>Separate forms for Assets and Liabilities & Equity</p> <p>Addition of the following items: Asset for Insurance Acquisition Cash Flows Insurance Contract Assets Reinsurance Contract Held Assets</p> <p>Removal of Insurance related receivables and Policy Loans</p> <p>Replacement of existing payables and provisions with: Insurance Contract Liabilities Reinsurance Contract Held Liabilities Investment Contract Liabilities</p> <p>Investment Details moved to a new form</p> |

Quarterly Reporting Forms

- Financial Statements

| Form | | Comments |
|-----------------------------------|---------|--|
| Statement of Profit or Loss | Amended | Radically changed for IFRS 17 including replacement of prior line items with: Insurance Service Result Net Investment Result Other Income and Expenses |
| Notes to the Financial Statements | New | Allows the entry of qualitative information to supplement data included in other tabs. |

Quarterly Reporting Forms

- Assets, Liabilities and Equity

| Form | | Comments |
|------------------------------------|-----|---|
| Investment Summary | New | Includes asset classification categories and disclosure of Expected Credit Losses under IFRS 9 |
| 10 Largest Mortgage Loans | New | Details of 10 largest commercial and 10 largest residential mortgages |
| Foreclosures in Process | New | Reporting of foreclosures split by Commercial and Residential |
| Receivable From Payable To | New | Includes amounts receivable from/payable to subsidiaries, associates and joint ventures including amounts that are included in the insurance liability. |
| Reinsurance Contracts Held Summary | New | Includes details the total amounts of all contracts held with each reinsurer |

Quarterly Reporting Forms

- Assets, Liabilities and Equity

| Form | | Comments |
|-------------------------------------|---------|---|
| Statement of Changes in Equity | Amended | Minor changes to align column headings (equity items) with balance sheet |
| Insurance and Reinsurance Contracts | New | Discloses components of insurance and reinsurance contract assets and liabilities |

Quarterly Reporting Forms

- Income and Expenses

| Form | | Comments |
|---|-----------|---|
| P&L by Line of Business | Amended | Aligns with IFRS 17 presentation requirements |
| Investment Return | New | Aligns with IFRS 17 presentation requirements |
| Insurance Service and Other Operating Expense | New | Aligns with IFRS 17 presentation requirements |
| Policyholder Benefits | Unchanged | |
| Net Expenses from Reinsurance Contracts Held | New | Aligns with IFRS 17 presentation requirements |
| Revenue and Premium Tax Report | Unchanged | |

Quarterly Reporting Forms

- Miscellaneous

| Form | | Comments |
|---|---------|--|
| Risk Free Rates – Bottom Up Risk Free Rates – Top Down | New | Disclosure of IFRS 17 discount rates in respect of Bahamas \$ cashflows that do not vary with underlying assets. |
| EWT Ratios | Amended | Updated to reflect IFRS 17 metrics |
| Error Validation | Amended | |

Questions



Thank you

Sekayi Campbell
Principal Actuary

Simone Balkissoon
Principal Actuary