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Developing Next-Gen ASEAN Insurance Leadership Talent

Strategic
Financial
Management
30 August 2024

Group discussion

In your Group, discuss the Group's expectations/ learning objectives
on today's program



Learning Objectives

- ❖ Appreciate the foundation upon which financial statements are prepared
- ❖ Introduce the components and elements of financial statements
- ❖ Understand specific items on the financial statements of an insurer
- ❖ Appreciate and apply analytics to financial numbers using ratios applicable for an insurer
- ❖ Understand the insurance cycle and correlation between the activities of an insurer and the financial ratios.
- ❖ Appreciate the complexity on IFRS 17 and implications

Agenda

Introduction to Financial Statements

Accounting Standards and Principles

- Accounting Standards
- Underlying Assumptions
- Other Assumptions
- Qualitative Characteristics of Financial Information

Elements of an Insurer's Financial Statements

- Basic Elements of Financial Statements for Generic Entities and Understand the Information Available from these Elements
- Understand the Balance Sheet Structure and the Fundamental Accounting Equation
- Statement of Financial Position, Statement of Comprehensive Income, Statement of Cashflow, disclosure notes of an insurer's financial statements
- Business Flow of an Insurer (General and Life)

Agenda (Continued)

Situations Involving Interpretation of Financial Statements

- Insurance cycle
- Overview of operating cycle
- Qualitative factors

Financial Ratio Analysis

- Use of technical ratio analysis
- Limitations of ratio analysis
- Analysis techniques
- Types of ratios
- Key ratios for insurers

IFRS 17

- Overview and high-level comparison between IFRS 4 and IFRS 17
- Challenges and implications

Case Study – Kurnia Insurans (Malaysia) Berhad

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Introduction

1. Objectives of Financial Statements
2. Basic Components of Financial Statements
3. Users (and uses) of Financial Statements



Objectives of Financial Statements

Provide information about an entity's:

- Financial position
- Financial performance
- Comprehensive income
- Cash flows

To provide useful economic information about a business to help stakeholders make sound financial decisions.

Financial Statements

- Basic components

A complete set of financial statements consists of:

- Statement of financial position (Balance sheet)
- Statement of comprehensive income (Income statement)
- Statement of changes in equity
- Statement of cash flows (Cash flow statement)
- Notes to the financial statements
(summary of accounting policies and other explanatory notes)

Financial Statements

- Users and uses

Used mainly for decision making

Creditors and Potential Creditors

- Understand source of financing and assess entity's ability to pay its debts
- Determine credit rating and credit limits of the enterprises

Financial Advisors, Analysts, and Investors

- Financial advisors – to advise customers on whether to buy, sell or hold shares in companies
- Financial analysts – track companies' performances
- Investors – make their own investment decisions

Managers and employees

- Managers – economic decision making, resource planning, formulating strategies to improve business performance
- Employees – Job security, bonuses, annual wage increments

Government

- Taxes, supervisory and statistical purposes

Customers

- Understand business portfolio, performance and financial strength of companies,
- Assess potential of doing business with
- Ability to pay debts when due

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Accounting Standards and Principles

1. Accounting standards
2. Underlying assumptions
3. Other assumptions
4. Qualitative characteristics of financial information



Accounting Standards

IFRS

— *International Financial Reporting Standards*

US GAAP

— *US Generally Accepted Accounting Principles*

Singapore FRS

— *Singapore Financial Reporting Standards (Singapore GAAP)*

— *Insurance Regulations*

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the annual audited financial statements of the Group and of the Company are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia, Bank Negara Malaysia's Guidelines and the Listing Requirements of Bursa Malaysia Securities Berhad.

Source: AmBank Group Annual Report 2023

Underlying Assumptions

Accrual basis

The effects of *transactions and events* are recognised when they occur, rather than when cash is received or paid, and they are reported in the financial statements of the periods to which they relate.

Going concern

The financial statements assume that an enterprise will *continue in operation in the foreseeable future*. If that assumption is not valid, disclosure is made and a different basis of reporting may be used.

The audited financial statements are prepared on a going concern basis and the directors have ensured that appropriate and relevant accounting policies are applied on a consistent basis and accounting judgements and estimates made are reasonable and fair so as to enable the preparation of the financial statements of the Group and the Company.

Source: AmBank Group Annual Report 2023

Other Assumptions

1. Separate entity

The economic activities of an entity can be accumulated and reported in a manner that assumes the **entity is separate and distinct from its owners** or other business units.

2. Monetary unit

Only transaction data capable of being expressed **in terms of monetary units** should be included in the accounting records of the economy entity.

3. Time period

The economic life of a business can be divided into time periods for the purpose of providing **periodic reports** on the economic activities of the entity - daily, monthly, quarterly, yearly.

Financial information

- Qualitative characteristics

Useful information should possess:

- Understandability
- Relevance & materiality
- Reliability
 - Faithful representation
 - Substance over form
 - Neutrality
 - Prudence
 - Completeness
- Comparability

P o l l i n g Q u e s t i o n : S e l f a s s e s s m e n t

Financial statements can be prepared for:

- A. Sole proprietor
- B. Fund
- C. A department within a company
- D. Not-for profit organisation
- E. Listed group
- F. All of the above

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Elements of an Insurer's Financial Statements

1. Components of Financial Statements
2. Elements of Insurance Financial Statements



Components of Financial Statements

A complete set of financial statements consists of:

- Statement of financial position (Balance sheet)
- Statement of comprehensive income (Income statement)
- Statement of changes in equity
- Statement of cash flows (Cash flow statement)
- Notes to the financial statements (summary of accounting policies and other explanatory notes)

Components of Financial Statements

- **Statement of financial position:**

Statement that reports the financial position of an accounting entity at a point in time.

Traditional Layout

Assets	Liabilities + Equity
Assets Amount owed by the business \$1000	Liabilities Amount owed to creditors, etc \$500 Equity Amount contributed by owners \$500



Accounting standards do not prescribe the order or format in which an entity presents items in the statements. Items which are sufficiently different in nature or function should warrant separate presentation in the statement of financial position.

Components of Financial Statements

- Statement of financial position

????????????????????

Assets	Liabilities + Equity
Assets Amount owed by the business \$1000	Liabilities Amount owed to creditors, etc \$500 Equity Amount contributed by owners \$500

*A **present obligation** of the enterprise arising from **past events**, the **settlement of which** is expected to result in an **outflow** from the enterprise of **resources** embodying economic benefits.*

A **resource** controlled by the enterprise as a **result of past events** and from which **future economic benefits** are expected to flow to the enterprise

Equity is the **residual interest** in the assets of the enterprise after deducting all its liabilities

Components of Financial Statements

Balance Sheet Structure

▶ **Total Assets = Equity + Total Liabilities** →

▶ **Total Assets = 1,000**

Current Assets + Non-Current Assets

▶ **Total Liabilities + Equity = 1,000**

Current Liabilities + Non-Current Liabilities + Equity

Assets	Liabilities + Equity
Non-Current Assets \$600	Equity \$450
Current Assets \$400	Non-Current Liabilities \$250
	Current Liabilities \$300
\$1000	\$1000

Components of Financial Statements

- Elements of the Balance Sheet – Current Assets

Examples of generic assets	Examples of Insurance Specific assets
Cash Cash and cash equivalents (bank deposits and liquid securities)	Accounts receivable Amounts due from reinsurers, Premium receivables
Investments Financial instruments, derivatives	Reinsurer’s share of insurance contract liabilities Unexpired risk reserves, outstanding claims
Accounts receivable Trade receivables, amount due from related parties (trade)	
Others Other short-term assets – prepayments, deposits, amounts due to the company of a short-term non-trading nature	

Assets	Liabilities + Equity
Non-Current Assets \$600	Equity \$450
	Non-Current Liabilities \$250
Current Assets \$400	Current Liabilities \$300
\$1000	\$1000

Components of Financial Statements

- Elements of the Balance Sheet – Non-Current Assets

Examples of generic non-current assets	Examples of Insurance Specific assets
Fixed assets (Property, plant & equipment - PPE) Land and building, plant and equipment, office equipment etc	Reinsurer's share of insurance contract liabilities Unexpired risk reserves, outstanding claims
Intangibles Goodwill, patents, licenses etc.	
Investments Financial instruments	

Assets	Liabilities + Equity	
Non-Current Assets	Equity	\$450
\$600	Non-Current Liabilities	\$250
Current Assets	Current Liabilities	\$300
\$400		
\$1000		\$1000

Components of Financial Statements

- Elements of the Balance Sheet – Current Liabilities

Examples of generic liabilities	Examples of Insurance Specific liabilities
Accounts payable (creditors) Amounts due to creditors	Accounts payables (creditors) Amounts due to agents, claims payables
Short-term loans Bank overdrafts and all other short-term debt	Insurance contract liabilities Unexpired risk reserves, outstanding claims
Others Other short-term liabilities – provisions, accrued payments, interest, current tax and dividends payable	

Assets	Liabilities + Equity	
Non-Current Assets	Equity	\$450
\$600	Non-Current Liabilities	\$250
Current Assets	Current Liabilities	
\$400	\$300	
\$1000	\$1000	

Components of Financial Statements

- Elements of the Balance Sheet – Non-Current Liabilities

Examples of generic liabilities	Examples of Insurance Specific liabilities
Long-term financing Term loans, etc.	Insurance contract liabilities Unexpired risk reserves more than one year Claim liabilities
Others Deferred tax	

Assets	Liabilities + Equity
Non-Current Assets \$600	Equity \$450 Non-Current Liabilities \$250
Current Assets \$400	Current Liabilities \$300
\$1000	\$1000

Components of Financial Statements

• Equity

Issued Shares/Common Stock/ Paid up Capital

- ❖ Nominal value/Paid up
- ❖ Par values?
- ❖ Capital and Other Reserves (fair value, revaluation, translation)

Revenue Reserves

- Surpluses or Retained earnings generated by trading
- Available for **distribution as dividends**
- Tend to become part of **permanent capital**
- Accumulated losses if negative

Other reserves

- **Revaluation** of fixed assets (properties)
- **Premium** on shares in excess of nominal value
- **Foreign Currency** (foreign operations etc)
- **Fair value change** (investments)
- **Share option reserves** (share option schemes)

Assets		Liabilities + Equity	
Non-Current Assets	\$600	Equity	\$450
		Non-Current Liabilities	\$250
Current Assets	\$400	Current Liabilities	\$300
	\$1000		\$1000

Components of Financial Statements

- Working capital

$$\begin{aligned}\text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= \$400 - \$300 = \$100\end{aligned}$$

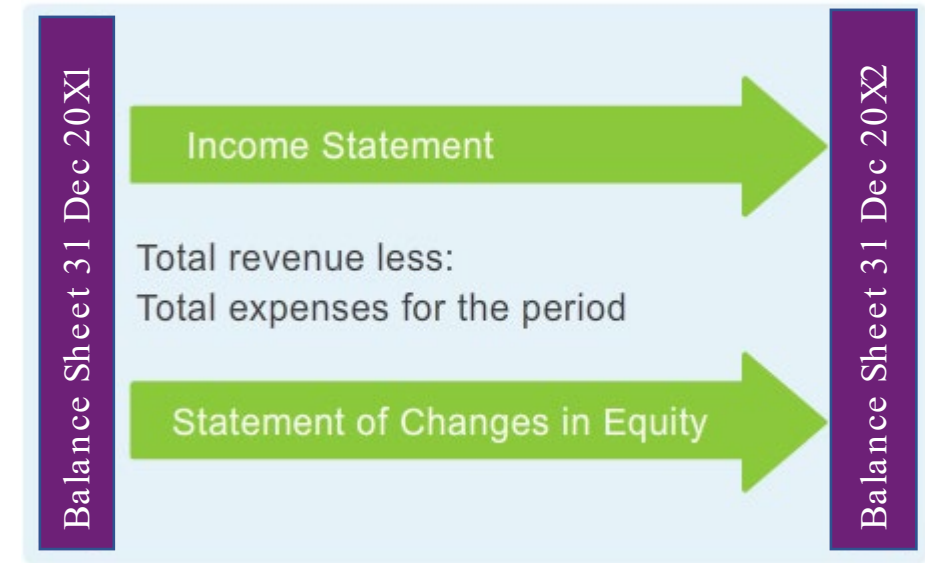
Represents the amount of **day-to-day operating liquidity** available to a business.

Operating liquidity is a term used to describe **cash and near-cash assets** available to meet ongoing cash needs.

Assets	Liabilities + Equity
Non-Current Assets \$600	Equity \$450
Current Assets \$400	Non-Current Liabilities \$250
	Current Liabilities \$300
\$1000	\$1000

Components of Financial Statements

- Income Statement
 - Performance (results of operations) for a time period
- Elements of the Income Statement
 - Income, Expenses
- Income Statement Equation
 - Profit = Revenues - Expenses



Components of Financial Statements

- **Elements of the Income Statement**

- ❖ **Revenue**

- Earned from the sale of goods or performance of services to customers
- Recognised in the period in which goods (risks and rewards) are transferred or;
- When services are performed

Examples of revenue include:

- **Non-insurance**
 - Sales revenue
 - Service revenue (risk management, consulting, claims administration)
 - Investment income (including investment gains and losses)
 - Other income (income from non-core activities)
- **Insurance specific**
 - Policy premiums
 - Reinsurance commissions

Components of Financial Statements

- **Elements of the Income Statement**

- ❖ **Expenses**

- Cost of resources the entity used to earn revenue during the accounting period.

Examples of cost of goods sold or cost of services rendered:

- **Non-insurance**

- Cost of raw materials
- Transportation cost

- **Insurance specific**

- Claims
- Commission expenses
- Underwriting expenses

- ❖ **Operating expenses:**

- Administration cost
- Distribution (marketing) cost
- Financing cost (net of income and expense)

Components of Financial Statements

Income Statement

Principles involved

❖ Revenue recognition

- Record revenue only when measurable, realisable, and earned.

❖ Matching

- When recognizing revenue, the corresponding directly associated costs are recognized simultaneously.

Components of Financial Statements



Components of Financial Statements

- Elements of the Income Statement

Income Statement Terminology

Revenue		\$10,000,000
Costs of good sold		(\$5,000,000)
Gross profit		\$5,000,000
Operating expenses		(\$3,000,000)
Profit before interest and tax	PBIT	\$2,000,000
Interest expenses	To lenders	(\$200,000)
Profit before tax	PBT	\$1,800,000
Tax	To Government	(\$360,000)
Profit after tax	PAT	\$1,440,000

Components of Financial Statements

Cash flow statement

Report inflows and outflows of cash

Three type of activities:

Operating activities: are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long-term assets and other investments that do not pertain to the principal revenue-producing activities.

Financing activities: are activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise.

Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Components of Financial Statements

Relationship between profit and cash flow

Operating cash flow = operating profit + depreciation + non-cash items

Balance Sheet as at 31 Dec 20X1

Assets		Equity + Liabilities	
Vehicle	\$20,000	Capital	\$20,000

Balance Sheet as at 31 Dec 20X2

Assets		Equity + Liabilities	
Vehicle	\$15,000	Capital	\$20,000
Cash	\$8,000	Profit	\$3,000
	\$23,000		\$23,000

Income Statement for 20X2

Sales	\$30,000
Cost	
Petrol	\$4,000
Pay/salaries	\$15,000
Maintenance	\$3,000
Depreciation	\$5,000
Total Cost	\$27,000
Profit	\$3,000

Cash flow working for 20X2

Profit	\$3,000
Depreciation	\$5,000
Total	\$8,000

Breakout: Group exercise

- Exercise 1

In your Group, select balance sheet items from the table on the right to complete the Balance Sheet.

Do refer to and use the excel file for this exercise.

Balance Sheet			
Assets	\$'000	Liabilities and Equity	\$'000
Current Assets		Current Liabilities	
		Total Current Liabilities	-
Total Current Assets	-	Total Liabilities	-
Non-Current Assets		Capital and Reserves	
Total Non-Current Assets	-	Total Equity	-
Total Assets	-	Total Liabilities and Equity	-

Balance Sheet Items	\$'000
1 Accumulated profits	871,908
2 Amount due to associates (trade)	2,237
3 Cash	155,556
4 Currency translation reserves	(15,262)
5 Deferred tax liabilities	2,746
6 Fixed deposits	624,577
7 Goodwill on consolidation	57,515
8 Income tax payable	5,427
9 Intangible assets	17,568
10 Inventories	254,164
11 Investments in associates	24,176
12 Issued capital	484,412
13 Minority interests	8,310
14 Other investments	47,034
15 Other payables and accrued expenses	59,691
16 Other receivables and prepayments	29,752
17 Property, plant and equipment	159,362
18 Short-term bank loans	9,864
19 Trade payables	380,000
20 Trade receivables	439,629

Breakout: Group exercise

- Exercise 2

In your Group, select income statement items from the table on the right to complete the Income Statement.

Do refer to and use the excel file for this exercise.

Income statement	
for the year ended	S\$000
Revenue	3,170,018
Gross Profit	
Profit from operations	
Profit before tax	
Profit after tax but before minority interest	
Net profit attributable to the shareholders	

1 Revenue	3,170,018
2 Depreciation and amortisation expense	(55,930)
3 Factory overheads	(2,289)
4 Foreign currency exchange adjustment loss	(4,999)
5 Income from associates	2,401
6 Income tax expense	(3,613)
7 Interest income (net of interest expense)	21,824
8 Minority interests	(6,147)
9 Other operating expenses	(78,865)
10 Raw materials and consumables used	(2,583,582)
11 Research and development expense	(32,611)
12 Staff costs	(192,095)
13 Impairment of goodwill	(3,095)
14 Loss on disposal of property, plant and equipment	(602)
15 Interest expense	(9,683)

Breakout: Group exercise

- Exercise 3

Cash flow items	\$'000
Impairment of goodwill	3,095
Dividends paid	(18,484)
Income tax paid	(10,504)
Interest income	(12,484)
Interest received	12,484
Loss on disposal of plant and equipment	602
Other payables and accrued expenses	(8,472)
Proceeds from share issuances	153,160
Proceeds from disposal of plant and equipment	1,134
Depreciation expense	55,930

Cash flow statement for the year ended

	\$'000
Cash flows from operating activities:	
Profit before income tax	224,345
Adjustments for:	
Operating profit before working capital changes	
Trade receivables	15,564
Inventories	(35,089)
Trade payables	4,900
Cash generated from operations	
Net cash from operating activities	
Cash flows from investing activities:	
Purchase of property, plant and equipment	(36,778)
Net cash used in investing activities	
Cash flows from financing activities:	
Increase in short-term bank loans	1,021
Net cash from financing activities	
Net increase in cash and cash equivalents	

1

2

3

Insurer's Financial Statements

Illustrative of a General Insurer - Statement of financial position

as at 31 December 20X2

	20X2 \$'000	20X1 \$'000	Equity & Liabilities	20X2 \$'000	20X1 \$'000
Assets					
Non-current Assets			Equity		
Fixed assets	1,352	908	Share capital	40,770	40,770
Long-term investments	12,099	14,262			
Non-current debtors	96	116			
Other long-term deposits	500	500	Reserves:		
Unsecured term loan	36	38	Fair value reserves	14,880	13,880
Reinsurer's share of insurance contract liabilities:			Foreign currency translation reserve	500	610
Unearned premium reserves	11,104	10,784	Retained earnings	41,614	39,074
Outstanding claims	30,560	24,244			
Total non-current assets	55,747	50,852	Total capital and reserves	97,764	94,334
			Non-current liabilities		
			Deferred taxation	357	272
			Insurance contract liabilities:		
			Unearned premium reserves	17,961	18,043
			Outstanding claims	46,169	39,541
			Total non-current liabilities	64,487	57,856
			Current liabilities and provisions		
Current Assets			Amount owing to agents and reinsurers	5,090	4,217
Amount due from clients, agents and reinsurers	2,026	3,346	Non-trade creditors and accrued liabilities	2,205	1,530
Amount retained by ceding companies	182	93	Loan to related company	736	0
Non-traded debtors & accrued interest receivable	763	650	Amounts owing to a related company	83	96
Deferred acquisition cost	0	299	Taxation	2,540	1,711
Amount owing by related companies	148	299			
Investments	75,408	63,041			
Fixed deposit	35,784	38,463			
Cash and bank balance	2,847	2,701			
			Total current liabilities	10,654	7,554
Total current assets	117,158	108,892	Total liabilities	75,141	65,410
Total assets	172,905	159,744	Total liabilities and equity	172,905	159,744

Insurer's Financial Statements

Illustrative General Insurer - Statement of comprehensive income

for the financial year ended 31 December 20X2	\$'000		
		<i>Continued</i>	
Gross premium written	42,269	Other income:	
Reinsurance premium ceded	-29,460	Gross dividends from investments	2,613
Net Premium written	12,809	Interest income from investments	1,765
Movement in net unearned premium reserves	-636	Interest on fixed deposits and bank balances	239
Earned premiums	12,173	Profit / (Loss) on sale of investments	882
			5,499
Gross claim paid	-9,959	Add / (Less):	
Reinsurance claims recoveries	5,767	Management expenses not charged to revenue account	-673
Net claims paid	-4,192	Exchange differences	-27
Change in net outstanding claims	-312	Write-back provision / (Provision) for diminution in value of investments	1,211
Net claims incurred	-4,504	Profit before tax (PBT)	12,264
		Taxation	-2,364
Gross commission	-5,801	Profit after tax (PAT)	9,900
Reinsurance commission	8,420		
Net commission	2,619	Other comprehensive income:	
		Foreign currency translation difference	(110)
Management expenses:		Transfer from retained earnings	1,000
Staff cost	-2,544		890
Rental expenses	-635		
Management fees	-121		
Other operating expenses	-734		
Total expenses	-4,034		
Insurance underwriting profit Transferred to income statement	6,254	Total comprehensive income	10,790

Insurance Financial Statements

Illustrative Life Insurer - Statement of financial position

As at 31 December 20X2					
Assets	20X2 \$'000	20X1 \$'000	Equity & Liabilities	20X2 \$'000	20X1 \$'000
			Share capital and reserves		
Property, plant and equipment	10,610	7,894	Share capital	439,121	438,713
Intangible assets	28,452	26,222	Treasury shares	(14,159)	(14,159)
Investment properties	940,955	1,055,786	Reserves for future distribution	653,712	489,401
Investment in joint venture	96,751	-	Fair value reserve	(30,719)	(2,361)
Investment in associated companies	366,376	301,665	Accumulated deficit of shareholders' fund	(67,357)	(20,380)
Other financial assets	22,846,079	22,342,849	Accumulated surplus of insurance funds		
Loans	1,216,205	869,089	- Life insurance par fund	204,269	170,660
Derivative financial instruments	104,486	297,838	- Other insurance funds	754,105	727,075
Reinsureres' share of insurance contract provisions	35,850	33,488		1,938,972	1,788,949
Insurance and other receivables	272,111	201,513	Non-controlling interest	1,417	1,393
Cash and cash equivalents	1,645,746	1,220,586	Total equity	1,940,389	1,790,342
Total assets	27,563,621	26,356,930	Liabilities		
			Insurance contract provisions	24,837,575	23,631,261
			Investment contract liabilities	243,421	243,654
			Derivative financial instruments	96,812	73,864
			Insurance and other payables	445,424	617,809
			Total liabilities	25,623,232	24,566,588
Total assets	27,563,621	26,356,930	Total liabilities and equity	27,563,621	26,356,930

Insurance Financial Statements

Illustrative Life Insurer - Statement of comprehensive income

for the financial year ended 31 December 20X2	\$'000		
		<i>Continued</i>	
Gross premiums	4,320,566	Net surplus / (deficit) for the year	211,951
Reinsurance premiums	(131,609)		
Net premiums	4,188,957	Other comprehensive income:	
		Financial assets, available-for-sale:	
Fee and other income	19,926	Fair value gain / (loss) through reserve	26,998
Net investment income / (losses) and fair value gains / (losses)	(175,130)	Transfer to reserves for future distribution	(164,311)
Total	4,033,753	Share in other comprehensive loss of associated companies and joint venture	1,079
		Transfer to insurance contract provision	(1,079)
Benefits and claims		Change in liabilities for insurance contracts arising from unrealised available-for-sale net gains	(55,356)
Gross claims, surrenders and annuities	2,492,600	Total comprehensive income	19,282
Bonus to policyholders	292,367		
Increase / (decrease) in insurance contract provisions	800,741	Net surplus / (deficit) for the year excluding non controlling interest	211,927
Less: Reinsurers' share of insurance benefits and claims	(87,639)	Non controlling interest	24
Net insurance benefits and claims	3,498,069		211,951
		Total comprehensive income / (loss) excluding non controlling interest	19,258
Expenses		Non controlling interest	24
Selling expenses	170,782		19,282
Management expenses	164,100		
Total claims and expenses	3,832,951		
Net operating surplus / (deficit)	200,802		
Share of result of associated companies and joint venture	11,149		
Net surplus / (deficit) for the year	211,951		

Insurer's Financial Statements

Illustrative Statement of changes in equity

	Share capital	General reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 20X1	40,770	13,880	610	39,074	94,334
					0
Comprehensive income					
Net profit	–	–	–	9,900	9,900
<i>Other comprehensive income</i>					
Foreign currency translation differences	–	–	-110	–	-110
Transfer from retained profits	–	1,000	–	-1,000	0
Total other comprehensive income	–	1,000	-110	-1,000	-110
Total comprehensive income	–	1,000	-110	8,900	9,790
Transactions with owners					
Dividend for Year 2019	–	–	–	-4,770	-4,770
Dividend for Year 2020	–	–	–	-1,590	-1,590
Total transactions with owners	–	–	–	-6,360	-6,360
Balance at 31 December 20X2	40,770	14,880	500	41,614	97,764

Insurer's Financial Statements

Illustrative Statement of cashflows

For the financial year ended 31 December 20X2	\$'000
Cash flows from operating activities:	
Profit before taxation	12,264
Adjustment for:	
Depreciation	269
(Profit) / loss on sale of investments	(882)
Gross dividends from investments	(2,613)
Interest income from investments	(1,765)
	<u>7,273</u>
Changes in:	
Insurance and other receivables	590
Insurance and other payables	548
Provision for unearned premiums, net	636
Provision for outstanding claims, net	1,998
Cash generated from operations	11,045
Tax paid	(1,450)
Net cash inflow from operating activities	9,595
Cash flows from investing activities	
Proceeds from sale of investments	28,000
Purchase of investments	(36,825)
Gross dividends from investments	2,613
Interest received from investments	1,765
Net Cash (outflow) / inflow from investing activities	(4,447)
Cash flow from financing activities	
Dividend paid	(6,360)
Cash outflow from financing activities	(6,360)
Net (decrease) / increase in cash and cash equivalents	(1,212)
Cash and cash equivalents at the beginning of year	41,164
Cash and cash equivalents at the end of year	39,952

Operating Activities

Investing Activities

Financing Activities

Financial Statements

- Disclosure Notes

1. Insurance Contract Provisions

movement in unearned premium reserve and claims provision

Provision for unearned premiums

	20X2			20X1		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AS	AS	AS	AS	AS	AS
Provision for unearned premiums	338,825	(596,136)	(257,311)	485,833	(924,470)	(438,637)

Movement in provision for unearned premiums:

	20X2			20X1		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AS	AS	AS	AS	AS	AS
At 1 October	485,833	(924,470)	(438,637)	1,457,500	(1,457,500)	-
Movement of provision during the financial year	(147,008)	328,334	181,326	(971,667)	533,030	(438,637)
At 30 September	338,825	(596,136)	(257,311)	485,833	(924,470)	(438,637)

Provision for outstanding claims

	20X2			20X1		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AUD	AUD	AUD	AUD	AUD	AUD
Outstanding claims notified	150,433	(150,433)	-	9,007	(9,007)	-
Outstanding claims incurred but not reported (IBNR)	973,109	-	973,109	1,016,306	-	1,016,306
At 30 September	1,123,542	(150,433)	973,109	1,025,313	(9,007)	1,016,306

Movement in provision for outstanding claims:

	20X2			20X1		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	AUD	AUD	AUD	AUD	AUD	AUD
At 1 October	1,025,313	(9,007)	1,016,306	1,244,764	(356,485)	888,279
Claims (paid)/recovered	(1,302,694)	1,302,694	-	1,255,796	(1,255,796)	-
Claims incurred	1,400,923	(1,444,120)	(43,197)	(1,475,247)	1,603,274	128,027
At 30 September	1,123,542	(150,433)	973,109	1,025,313	(9,007)	1,016,306

Financial Statements

- Disclosure Notes

2. Claims Development Table

Analysis of claims development – gross and net

At 30 September 20X2	2016	2017	2018	2019	2020	20X1	20X2	Total
	AUD	AUD	AUD	AUD	AUD	AUD	AUD	AUD
Estimate of cumulative claims								
- At end of reporting year	376,061	519,243	8,964,339	3,995,772	1,930,907	432,895	450,916	
- one year later	291,538	405,187	6,715,935	4,372,194	1,793,432	315,264		
- two years later	205,062	330,138	6,666,246	4,083,851	119,678			
- three years later	118,585	255,089	6,616,556	3,975,060				
- four years later	73,990	215,308	6,590,568					
- five years later	32,109	215,308						
- six years later	32,109							
Estimate of cumulative claims	32,109	215,308	6,590,568	3,975,060	119,678	315,264	450,916	11,698,903
Cumulative payments to date	(32,109)	(180,040)	(6,566,866)	(3,856,410)	(2,021)	(36,144)	-	(10,673,590)
Gross provision for outstanding claims	-	35,268	23,702	118,650	117,657	279,120	450,916	1,025,313
At end of reporting year	345,911	340,197	238,760	2,964,738	315,982	399,395	450,916	
- one year later	259,429	225,147	149,070	2,841,160	178,506	270,114		
- two years later	172,953	150,098	99,380	2,727,440	119,678			
- three years later	86,476	75,049	49,690	2,618,649				
- four years later	41,881	35,269	23,702					
- five years later	-	35,268						
- six years later	-							
Estimate of cumulative claims	-	35,268	23,702	2,618,649	119,678	270,114	450,916	3,518,327
Cumulative payments to date	-	-	-	(2,500,000)	(2,021)	-	-	(2,502,021)
Net provision for outstanding claims	-	35,268	23,702	118,649	117,657	270,114	450,916	1,016,306

Financial Statements

- Other Disclosure Notes

3. Accounting estimates and judgments in applying accounting policies includes the following:

- Company's process involved in determining provision for claim liabilities e.g. Expected Loss Ratio Method
- Underlying assumptions for the claim liabilities valuations
- Accounting judgments and sensitivities

Questions?



Developing Next-Gen ASEAN Insurance Leadership Talent

Situation Involving Interpretation of Financial Statements

Financial statements

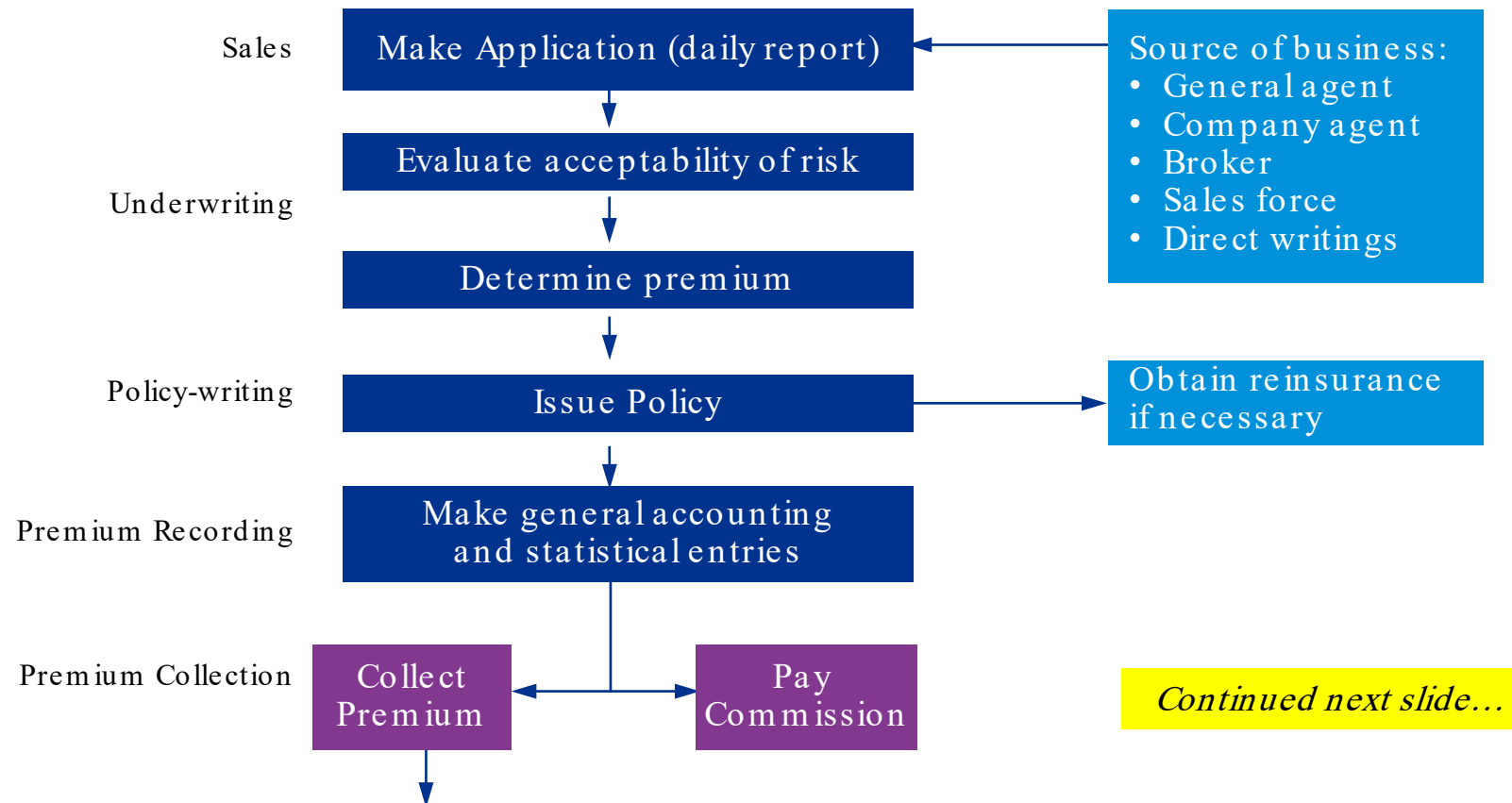
- Situations involving interpretation

- Insurance cycle
- The general insurance industry cycle is characterized by periods of **soft market** conditions (premium rates are stable or falling) and by periods of **hard market** conditions (premium rates rise)
- A dominant factor in the general insurance cycle is **intense competition** within the industry
- Premium rates drop as insurance companies compete vigorously to increase market share. As the market softens to the point that profits diminish or vanish completely, the capital needed to underwrite new business is depleted
- In the **up phase** of the cycle, competition is less intense, underwriting standards become more stringent, the supply of insurance is limited due to the depletion of capital and, as a result, premiums rise. The prospect of higher profits draw more capital into the market place leading to more competition and the inevitable **down phase** of the cycle

Financial statements

- Situations involving interpretation

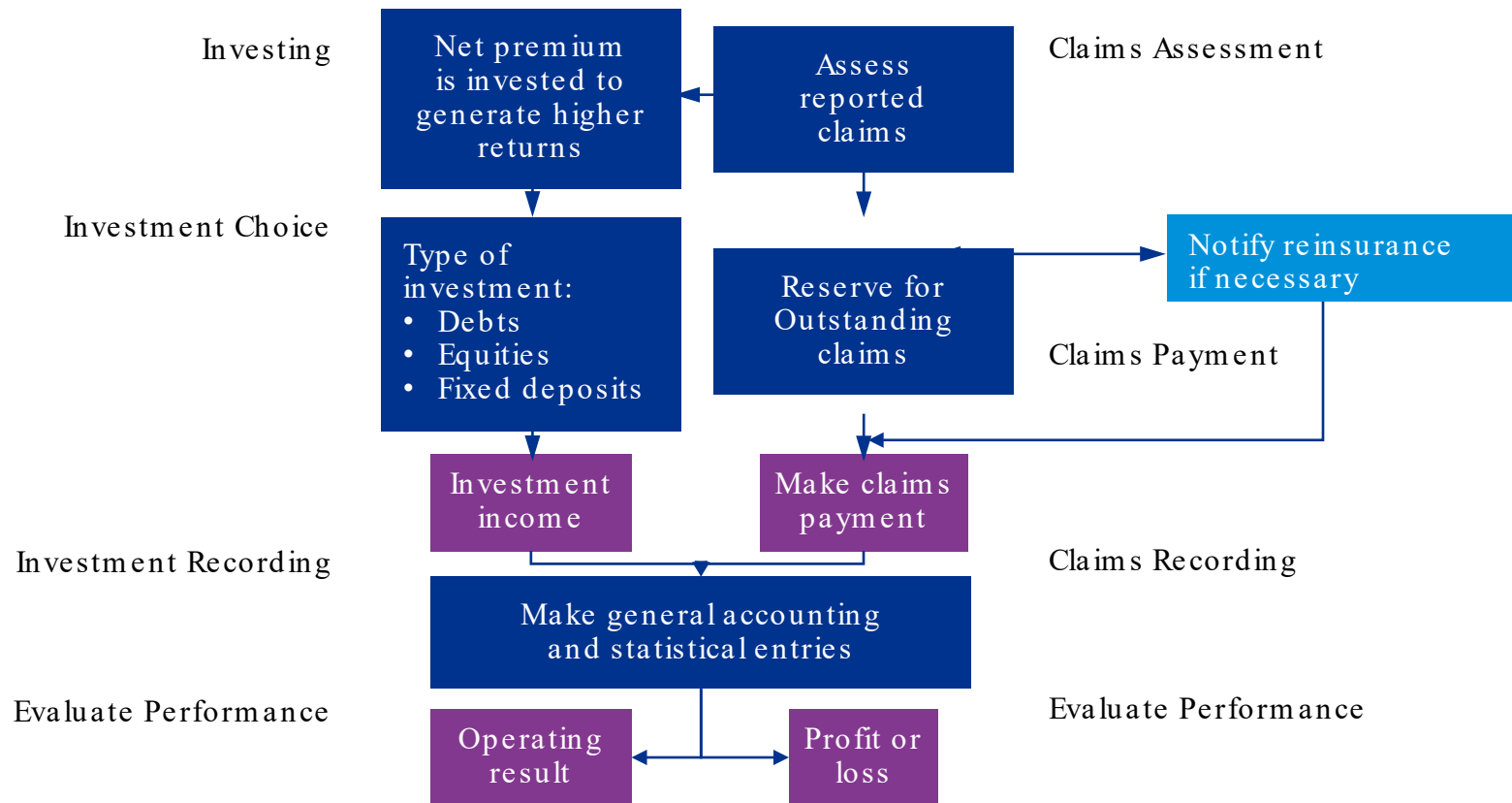
Overview of Operating Cycle



Financial statements

- Situations involving interpretation

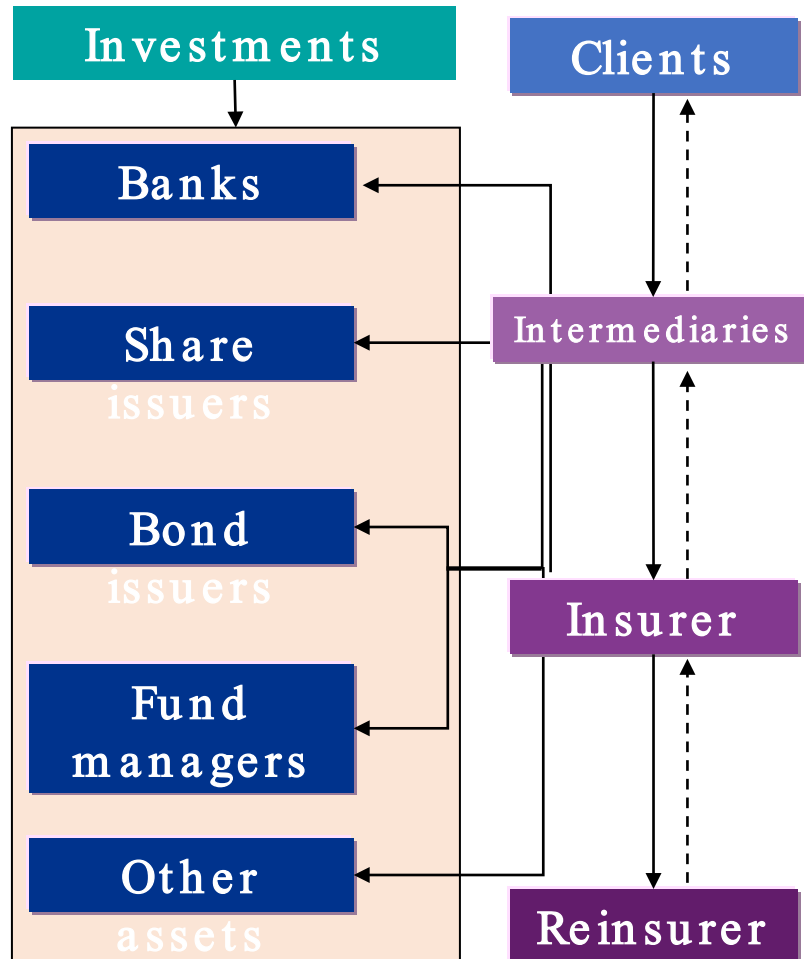
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Financial statements

- Situations involving interpretation

Qualitative factors



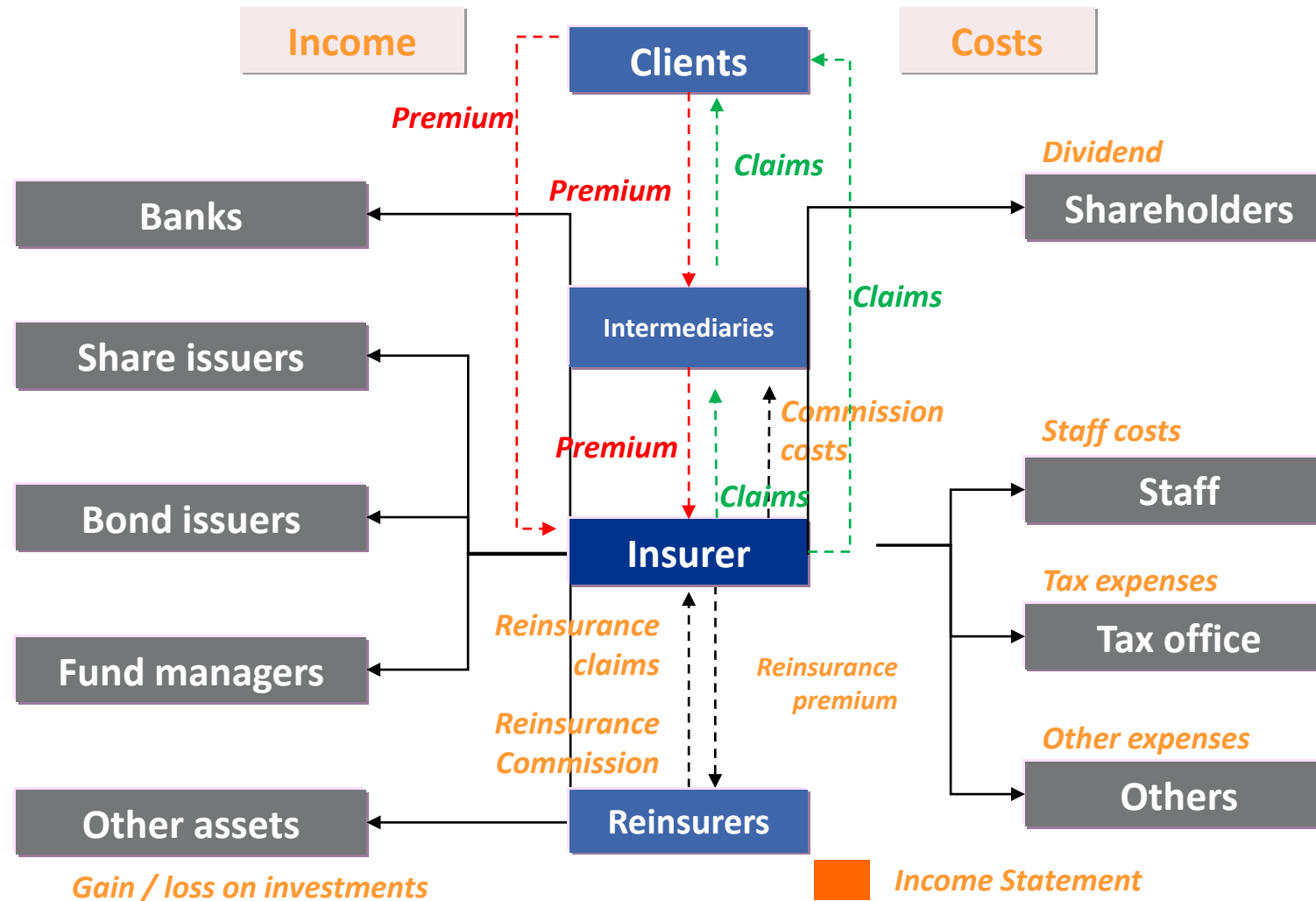
Financial statements do not reflect the qualitative factors of the insurer.

- Quality agents and distribution channel
- Quality management & investment team
- Client portfolio
- Technology & business processes
- Brand and reputation
- Market position
- Committed staff and customer services

In addition to the financial statement analysis, the analysis of the qualitative factors are important to determine the value of insurer.

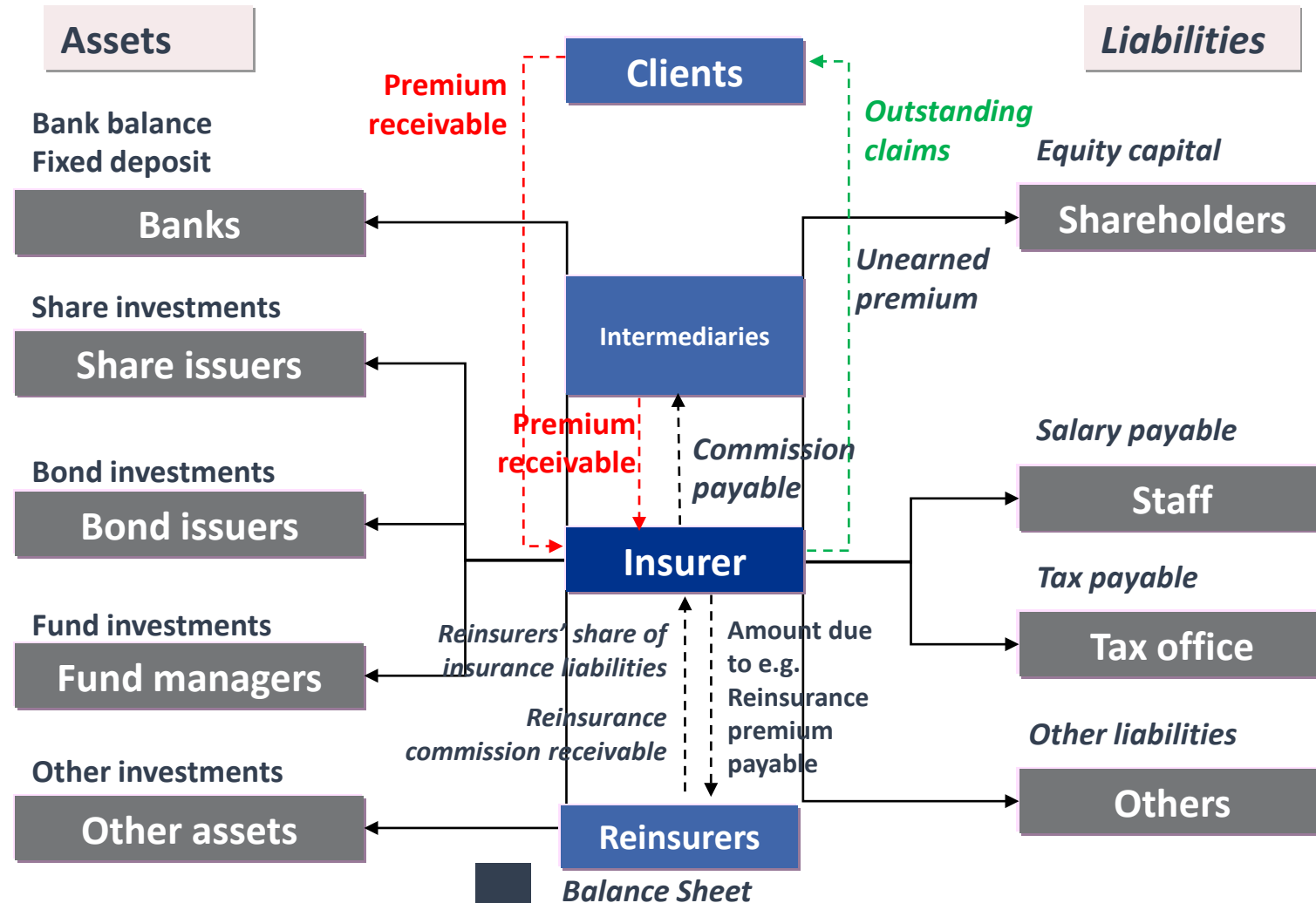
Insurance business impact

- On income statement



Insurance business impact

- On balance sheet



Group exercise

On the right-hand boxes, are the financial captions – “Income Statement” & “Balance Sheet”.
Match each of them to the corresponding Insurance Process.

Insurance Process	Income Statement	Balance Sheet
Underwriting		
Investing		
Reinsurance		
Claims		

A	Net investment income/ (loss) and fair value gains/(losses)
B	Reinsurance premium Fee and other income Increase/decrease in RI's share of insurance contract provisions RI's share of insurance benefits and claims
C	Gross premiums Commission expenses Increase/(decrease) in insurance contract provisions Selling expenses Management expenses
D	Insurance contract provisions - claims Insurance and other payables

E	Other financial assets Insurance and other receivables Other financial liabilities
F	Gross claims, surrenders and annuity Increase/(decrease) in insurance contract provisions
G	Reinsurers' share of insurance contract provisions Insurance and other receivables Insurance and other payables
H	Insurance contract provisions - UPR Insurance and other receivables

Insurance business impact

Linking the insurance process to financial captions

Insurance Process	Income Statement	Balance Sheet
Underwriting	<ul style="list-style-type: none"> ➤ Gross premiums ➤ Commission expenses ➤ Increase/(decrease) in insurance contract provision ➤ Selling expenses ➤ Management expenses 	<ul style="list-style-type: none"> ➤ Insurance contract provisions (e.g. UPR) ➤ Insurance and other receivables
Investing	<ul style="list-style-type: none"> ➤ Net investment income/(losses) and fair value gains/(losses) 	<ul style="list-style-type: none"> ➤ Other financial assets ➤ Insurance and other receivables ➤ Other financial liabilities
Reinsurance	<ul style="list-style-type: none"> ➤ Reinsurance premiums ➤ Fee and other income (e.g. reinsurance commission) ➤ Increase/(decrease) in reinsurers' share of insurance contract provision ➤ Reinsurers' share of insurance benefits and claims 	<ul style="list-style-type: none"> ➤ Reinsurers' share of insurance contract provisions ➤ Insurance and other receivables ➤ Insurance and other payables
Claims	<ul style="list-style-type: none"> ➤ Gross claims, surrenders and annuities ➤ Increase/(decrease) in insurance contract provision 	<ul style="list-style-type: none"> ➤ Insurance contract provisions (e.g. Claims provision) ➤ Insurance and other payables

Developing Next-Gen ASEAN Insurance Leadership Talent

Financial Ratio Analysis

Financial ratio analysis

Use of Financial Ratio Analysis

- To assess the **performance** of a firm in the context of its stated goals and strategy
- To look **at how various line items** in a firm's financial statements relate to one another
 - Helps decision makers identify significant relationships and compare companies more realistically than if only single figures were analysed
- Is applied in different contexts: **credit evaluation, financial distress prediction, security analysis, mergers and acquisitions, corporate financial policy, audits.**

Financial ratio analysis

Limitations of ratio analysis

- Consistency: Changes in accounting policies
- Comparability: The differences in **company structure and accounting policies** make comparisons difficult.
- Historic costs: Financial statements are based on **historic costs** and therefore maybe misleading during periods of inflation.
- Qualitative factors: Economic and political considerations, management's ability, marketing ability, and the human resources of the firm are not measured in the traditional financial statements.
- Timeliness: The **lack of timeliness** of the information make it less useful.

Analysis techniques

Horizontal analysis:

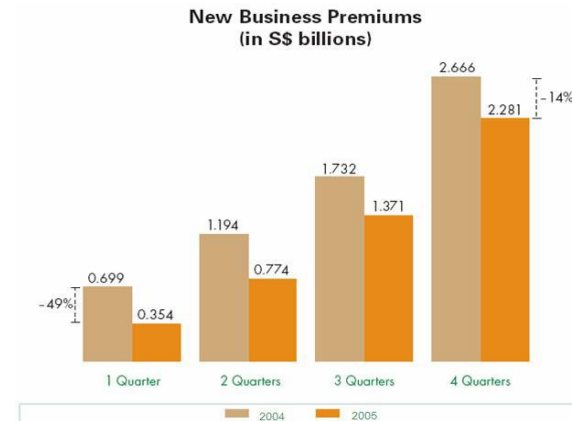
- Comparing the financial ratios of the current year with historical financial ratios to understand the trends in the business.

Vertical analysis:

- Compare each figure on a financial statement to a base or a specified item in the same time period

Cross-sectional analysis:

- Comparison of different firms' financial ratios to those of other firms in its industry or to industry averages (benchmarking).



	\$	\$	Vertical Analysis
Sales		1,200	100%
Materials	(420)		-35%
Labour	(300)		-25%
Factory overheads	(180)		-15%
Costs of good sold		(900)	-75%
Gross Profit		300	25%
Administration expenses	(50)		-4%
Selling expenses	(50)		-4%
Operating expenses		(100)	-8%
PBIT		200	17%
Interest	(50)		-4%
PBT		150	13%
Tax	(50)		-4%
PAT		100	8%
Dividend	(30)		-3%
RE		70	6%

Financial ratio analysis

Types of ratios

A Profitability Ratios

- 1 Profit Margin
- 2 Return on Assets
- 3 Return on Equity
- 4 Earnings Per Share

Measuring a firm's operating success.
How efficient are managers?

B Liquidity Ratios

- 5 Current Ratio
- 6 Quick Ratio
- 7 Net Working Capital Ratio

Measuring a firm's ability to pay its short-term debt.
How likely is critical gap in short-term cash in and outflows?

C Activities Ratios

- 8 Receivable Turnover
- 9 Fixed Assets Turnover
- 10 Total Assets Turnover
- 11 Working Capital Days

How efficiently does the firm use its assets to generate revenue?

D Leverage Ratios

- 12 Total Assets to Equity
- 13 Total Debt to Equity
- 14 Interest Coverage Ratio

Measuring a firm's ability to pay its long-term debt.
How likely is default?

E Market Ratios

- 15 Price Earning Ratio
- 16 Market to Book Ratio
- 17 Earning Yield
- 18 Dividend Yield
- 19 Dividend Payout Ratio

How the market think of the Company's performance and future prospects?

Financial ratio analysis

A. Profitability ratios

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity (or Shareholders' Equity at year end)}}$$

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Income}}{\text{Average number of shares outstanding}}$$

Measure a firm's operating success

How efficient are managers?

ROE:

Tells you how good a company is at rewarding its shareholder for their investments.

The higher the ROE, the better.

ROA:

Tells you how good the company is at using its assets to make money.

The higher the ROA, the better.

ROA is the most important driver of ROE.

Financial ratio analysis

B. Liquidity ratios

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

$$\text{Net Working Capital Ratio} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Total Assets}}$$

Measure a firm's ability to pay its short-term debt

How likely is critical gap in short-term cash in and outflows?

C. Activities ratios

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Average Accounts Receivable}}$$

$$\text{Fixed Assets Turnover} = \frac{\text{Sales}}{\text{Average Fixed Assets}}$$

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Average Total Assets}}$$

$$\text{Working Capital Days} = \text{Inventory Days} + \text{Days of Sales Outstanding (DSO)} - \text{Accounts Payable (A/P) Days}$$

How efficiently does the firm use its assets to generate revenue?

Financial ratio analysis

Operating cycle - working capital days

Working capital days

= Inventory days + Days of sales outstanding (DSO) – Accounts payable (A/P) days

$$\text{Inventory days} = \frac{\text{Average inventory}}{\text{Cost of good sold}} \times 365 \text{ days}$$

$$\text{Days of sales outstanding} = \frac{\text{Average Account Receivable (A/R)}}{\text{Sales}} \times 365 \text{ days}$$

$$\text{Accounts payable days} = \frac{\text{Average Account Payable (A/P)}}{\text{Cost of good sold}} \times 365 \text{ days}$$

Financial ratio analysis

D. Leverage ratios

$$\text{Total Assets to Equity} = \frac{\text{Total Assets}}{\text{Shareholders' Equity}}$$

$$\text{Total Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

$$\text{Interest Coverage ratio} = \frac{\text{PBIT}}{\text{Interest Expenses}}$$

Measure a firm's ability to pay its long-term debt

How likely is default?

E. Market ratios

$$\text{Price Earning (PE) Ratio} = \frac{\text{Market Price Per Share}}{\text{Earnings Per Share}}$$

$$\text{Market to Book Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value of Equity Per Share}}$$

$$\text{Earning Yield} = \frac{\text{Earning Per Share}}{\text{Market Price Per Share}}$$

$$\text{Dividend Yield} = \frac{\text{Annual Dividend Per Share}}{\text{Market Price Per Share}}$$

$$\text{Dividend Payout Ratio} = \frac{\text{Cash Dividend}}{\text{Net Income}}$$

How the market think about the company's performance and future prospects?

Financial ratio analysis

Key ratios for insurers

A Underwriting Ratios

- 1 Loss Ratio
- 2 Commission Ratio
- 3 Management Expenses Ratio
- 4 Combined Ratio
- 5 Reinsurance Ratio
- 6 Retention Ratio

Measuring profitability of an individual insurer and of the insurance business as a whole is an important exercise. The ability to operate profitably ultimately determines whether or not a particular insurance company survives and grows.

B Return Ratios

- 7 Investment Yield
- 8 Return on Assets
- 9 Return on Equity
- 10 Earnings Per Share

Measuring the efficiency and effectiveness of management using resources to generate wealth for shareholders

C Liquidity Ratios

- 11 Cash & Investment/Liabilities
Cash & Investment/Insurance Contract
- 12 Provisions
- 13 Cash & Investment/Total Assets
Cash & Fixed Deposit/Insurance Contract
- 14 Provisions

Liquidity refers to a company's ability to meet obligations as they fall due.

D Capacity Ratios

- 15 Insurance Contract Provisions/Shareholders' Funds
- 16 Shareholders' Fund/Net Premium Written
- 17 Insurance Contract Provisions/Net Premium Written

An insurance company's capacity primarily is determined by the amount of capital it can commit to underwriting a portfolio of risks. Capacity therefore is considered to be a function of capitalisation.

E Growth Data

- 18 Gross Premium
- 19 Total Assets
- 20 Underwriting Profit
- 21 Net Assets Per Share

Measuring the efficiency and effectiveness of growth in premium and assets

Financial ratio analysis

Key profitability ratios for Insurers – Underwriting Ratios

1. Loss Ratio = Claims / Earned Premiums
2. Net Commission Ratio = Net Commission / Earned Premiums
3. Management Expenses Ratio = Management Expenses / Earned Premiums
4. Combined Ratio = (Net Claims + Commission + Management Expenses) / Earned Premiums
5. Reinsurance Ratio = Reinsurance Premium / Gross Premium
6. Retention Ratio = Net Premium Written / Gross Premium

Other metrics

$$\text{Growth ratio (premiums)} = \frac{\text{GWP in period N from app} - \text{GWP in period N-1 from app}}{\text{GWP in period N-1 from app}}$$

$$\text{Growth ratio (No. of policies)} = \frac{\text{No. of policies in force in period N} - \text{No. of policies in force in period N-1}}{\text{No. of policies in force in period N-1}}$$

$$\text{New business growth ratio (life , premium)} = \frac{\text{New business premium in period N} - \text{New business premium in period N-1}}{\text{New business premium in period N-1}}$$

$$\text{New business growth ratio (life , No. of policies)} = \frac{\text{No. of new policies in period N} - \text{No. of new policies in period N-1}}{\text{No. of new policies in period N-1}}$$

Other metrics - mobile app ...

Retention rate	=	$\frac{\text{No. of user who use app in set time period}}{\text{No. of user who use app in a previous time period}}$
Churn rate	=	$1 - \text{Retention rate}$
Monthly active users (MAUs)	=	No. of users who opened app in a month
Daily active users (DAUs)	=	No. of users who opened app in a day
Cost per acquisition (CPA)	=	$\frac{\text{Costs associated with promotion programs}}{\text{No. of user acquisitions}}$

Other metrics - website ...

$$\text{Average time on page} = \frac{\text{Total time on page}}{(\text{Total Pageviews} - \text{Total Exits})}$$

$$\text{Bounce rate} = \frac{\text{Number of one-page visits}}{\text{Number of visits}}$$

$$\text{Conversion rate} = \frac{\text{Number of conversions} \times 100}{\text{Total traffic}}$$

$$\begin{array}{l} \text{No. of unique visitors} \\ \text{(Daily, Weekly, Monthly)} \end{array} = \text{No. of unique visitors during a given time period}$$

$$\begin{array}{l} \text{No. of new visitors (Daily,} \\ \text{Weekly, Monthly)} \end{array} = \text{No. of new visitors during a given time period}$$

$$\begin{array}{l} \text{No. of returning users} \\ \text{(Daily, Weekly, Monthly)} \end{array} = \text{No. of returning users during a given time period}$$

Financial ratio analysis

- Ratios can be compared to industry averages to benchmark the insurer's performance.

Examples:

1. A high **loss ratio** (*net claims/earned premiums*) may indicate the need for stricter underwriting standards, while a relatively low one may indicate good underwriting and loss control.
2. A high **combined ratio** [*(net claims + commission + management expenses)/earned premiums*] indicates inefficiency while a low one indicates profitability. A ratio below (above) 100% shows a profit (loss) is being made; premiums are sufficient (insufficient) to cover claims and expenses.
3. The **retention ratio** (*net premiums written/gross premiums*) shows how much risk is retained after reinsurance.

Developing Next-Gen ASEAN Insurance Leadership Talent

Case Study: Kurnia Insurance (Malaysia) Berhad



Group exercise – 45 mins

– Kurnia Insurance (Malaysia) Berhad

Case Study

Refer to the separate material for the case study on Kurnia Insurans (Malaysia) Berhad and complete the questions.

1. Comment on the underwriting results of Kurnia Insurans (Malaysia) Berhad based on the underwriting ratios.
2. Comment on the operating result of Kurnia Insurans (Malaysia) Berhad based on the return ratios.
3. Calculate the capacity and liquidity of Kurnia Insurans (Malaysia) Berhad based on the capacity and liquidity ratios.

Case Study

– Kurnia Insurance (Malaysia) Berhad

Balance Sheet					
RM'000	FY2011	FY2010	FY2009	FY2008	FY2007
ASSETS					
Property, plant and equipment	228,828	200,666	212,496	231,641	253,600
Investments	1,642,586	1,704,299	1,854,414	1,616,224	1,686,000
Loans (secured)	-	-	11,348	13,469	17,625
Reinsurance assets	534,715	349,402	-	-	-
Receivables	134,026	76,550	68,801	85,797	84,407
Deferred acquisition costs	25,291	36,066	-	-	-
Tax recoverable/ Deferred Tax	22,771	30,613	31,026	33,986	31,889
Cash and deposits	116,586	125,982	25,982	34,607	37,493
Total assets	2,704,803	2,523,578	2,204,067	2,015,724	2,111,014
LIABILITIES					
Insurance contract liabilities	1,665,034	1,639,779	1,557,979	1,870,538	1,660,328
Other financial liabilities	90,630	75,322	-	-	-
Payables	145,618	90,709	86,982	57,633	62,647
Staff retirement benefits	24,854	23,300	19,421	15,461	13,774
Deferred tax liability	-	5,928	-	-	6,954
Total liabilities	1,926,136	1,835,038	1,664,382	1,943,632	1,743,703
SHAREHOLDERS' EQUITY					
Share capital *	600,000	600,000	600,000	200,000	200,000
Reserves	178,667	88,540	-60,315	-127,908	167,311
Total equity	778,667	688,540	539,685	72,092	367,311

Case Study

– Kurnia Insurance (Malaysia) Berhad

Profit & Loss statement

Kurnia Insurans (Malaysia) Berhad					
Insurance Revenue Account					
RM'000	FY2011	FY2010	FY2009	FY2008	FY2007
Gross premium	1,072,684	1,033,726	1,001,453	1,081,897	1,096,376
Less: Reinsurance	-315,325	-203,739	-93,476	-86,072	-80,607
Net premium written	757,359	829,987	907,977	995,825	1,015,769
(Increase)/decrease in unearned premiums	6,843	12,985	59,167	7,419	-600
Earned premium	764,202	842,972	967,144	1,003,244	1,015,169
Net claims incurred	-540,064	-639,872	-636,589	-1,075,381	-874,356
Net commission expense	-68,370	-79,602	-102,521	-98,487	-96,713
Surplus before management expenses	155,768	123,498	228,034	-170,624	44,100
Management expenses	-157,460	-167,644	-206,874	-229,504	-209,571
Underwriting surplus	-1,692	-44,146	21,160	-400,128	-165,471
Investment income	103,679	114,944	83,843	80,628	73,473
Other income/(expenses) - net	-1,452	358	-36,866	11,720	108,341
Amortisation of goodwill	0	0	0	0	0
Profit before taxation	100,535	71,156	68,137	-307,780	16,343
Taxation	-13,916	-12,445	16,000	12,561	-11,095
Profit after tax	86,619	58,711	84,137	-295,219	5,248

Presentation

Case Study: Kurnia Insurance (Malaysia) Berhad



Sharing

Share your learnings for today.



Key takeaways

Don't
Forget



- 1 || Understand the basis that the financials have been prepared is one of the first step in analysing the numbers.
- 2 || Different component and element of a set of financials tell its share of the story.
- 3 || The activities of insurer and its financials are closely related.
- 4 || No single financial ratio reflect the performance (or tell the full story).

Questions?

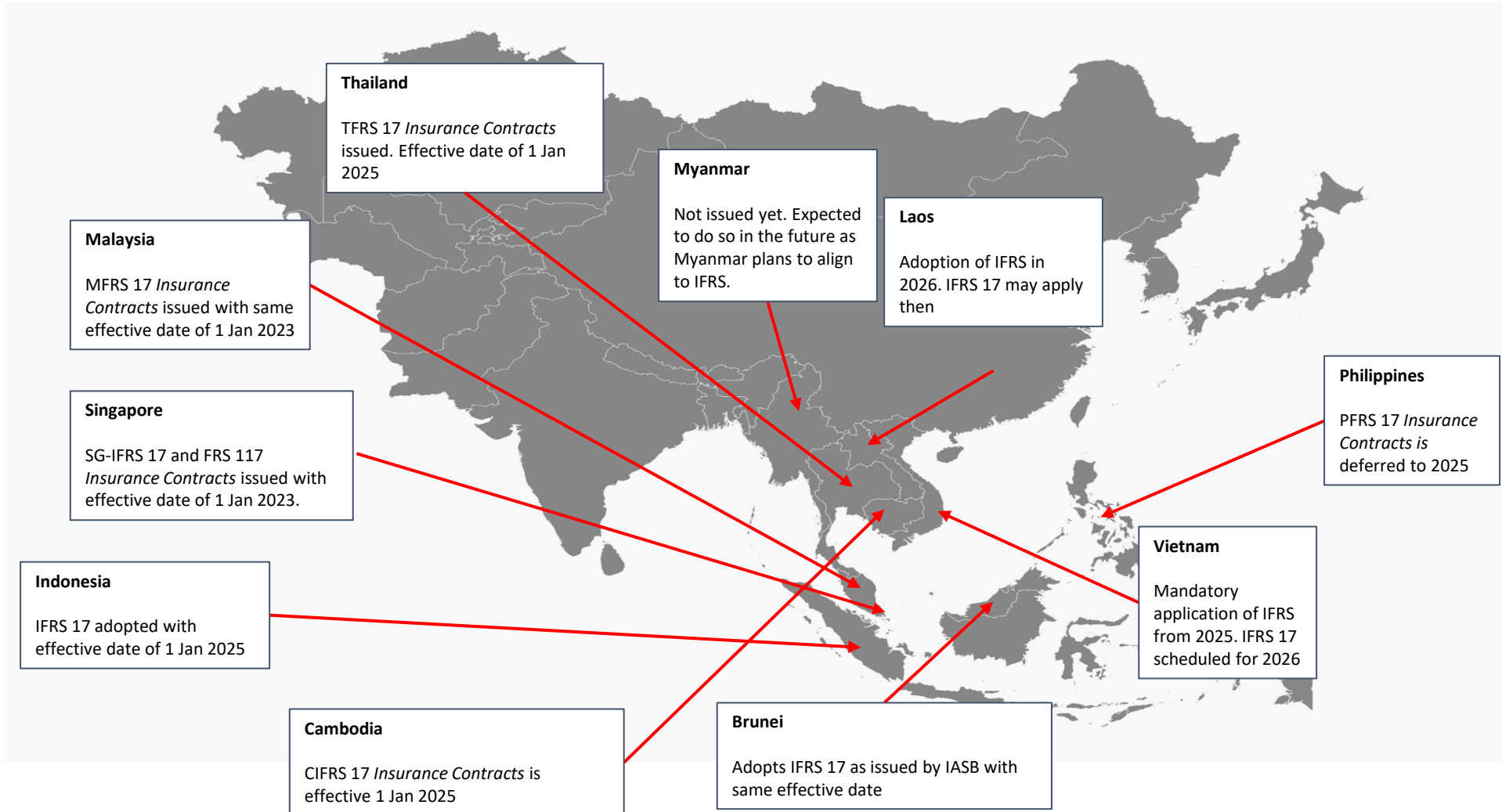


Developing Next-Gen ASEAN Insurance Leadership Talent

IFRS 17

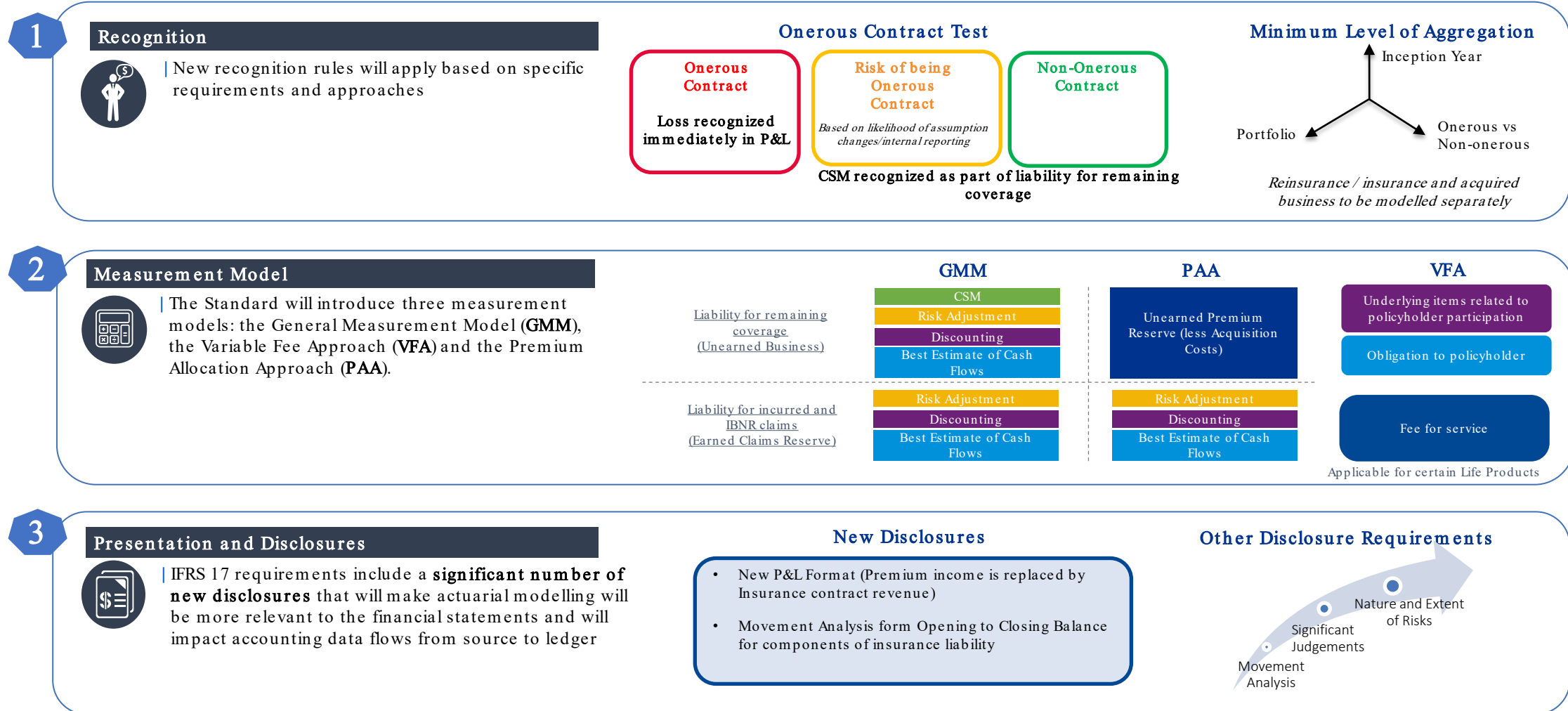
Insurance Contracts

Map of ASEAN adoption

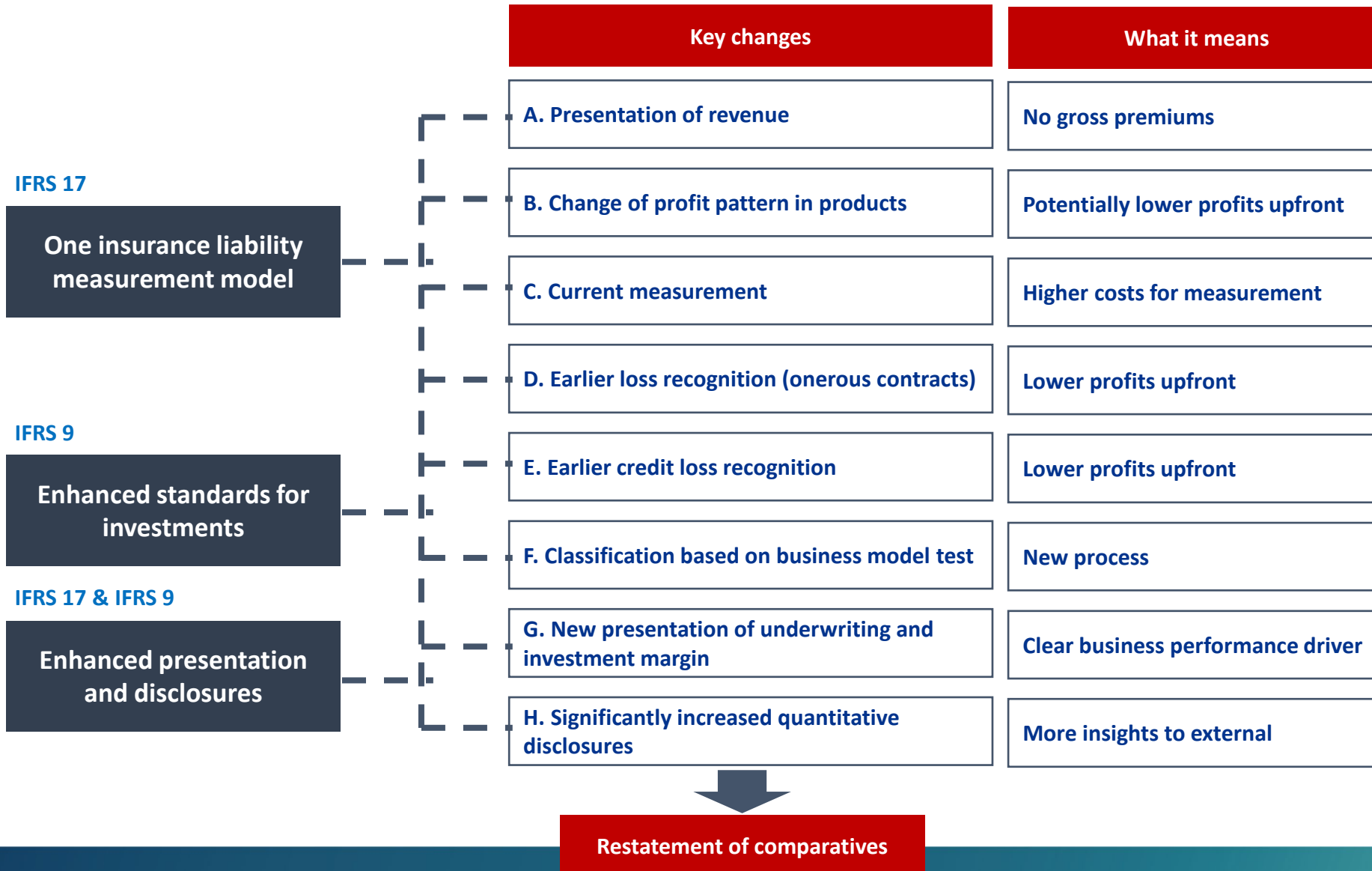


Overview of IFRS 17 Requirements

IFRS 17 intends to enhance comparability between companies, to increase disclosures so movements are clearly understood, and to recognise profits in line with service provision. This introduces new requirements which impact data, systems and processes.



What are the key changes?



How the financials look like?

Presentation: Profit or Loss

IFRS 4

Premium revenue
 Outwards reinsurance premium expense
 Net premium revenue (i)
 Claims expense
 Reinsurance and other recoveries revenue
 Net claims incurred (ii)
 Commission revenue
 Acquisition costs
 Net acquisition costs
 Other underwriting expenses
 Underwriting expenses (iii)
 Underwriting profit (i) + (ii) + (iii)
 Insurance profit
 Investment income
 Fee and other income
 Net foreign exchange (losses)/gains
 Fee based, corporate and other expenses
 Profit before income tax
 Income tax (expense)/credit
 Profit for the year
 Total comprehensive income for the year, net of tax



IFRS 17

Insurance revenue
 Insurance service expenses

Net expenses from reinsurance contracts

Insurance service result

Interest revenue on financial assets not measured at FVTPL
 Other investment revenue
 Net impairment loss on financial assets

Investment return

Net finance expenses from insurance contracts
 Net finance income from reinsurance contracts
 Movement in investment contract liabilities
 Movement in third party interests in consolidated funds

Net investment result

Revenue from investment management services
 Other income
 Other operating expenses
 Other finance costs
 Share of profit of equity-accounted investees, net of tax

Profit before tax

Income tax expense

Profit for the year



What are your key observations of the change?

An entity separates **underwriting and finance** results.

Source: KPMG Illustrative Disclosures for Insurers, page 16

How the financials look like?

Presentation: Balance Sheet

IFRS 4

ASSETS

Cash held for operational purposes

Investments and derivative financial instruments

Premium receivable

Trade and other receivables

Receivables from related bodies corporate

Reinsurance and other recoveries on outstanding claims

Deferred outwards reinsurance expense

Deferred acquisition costs

Current tax assets

Prepayments

Total assets

LIABILITIES

Trade and other payables

Reinsurance premium payable

Unearned premium liability

Derivative financial instruments

Outstanding claims liability

Total liabilities

Net assets



IFRS 17

Assets

Cash and cash equivalents

Financial investments

– Measured at fair value

– Measured at amortised cost

– Transferred under securities lending and repurchase agreements

Receivables

Current tax assets

Insurance contract assets

Reinsurance contract assets

Liabilities

Payables

Derivative liabilities

Current tax liabilities

Investment contract liabilities

Third party interests in consolidated funds

Insurance contract liabilities

Reinsurance contract liabilities

Key observations:

- Insurance/ reinsurance contracts that are assets are presented separately from insurance/ reinsurance contracts that are liabilities.
- Premiums receivable will be considered in the valuation of the insurance contracts
- Investments component will be affected by valuation under IFRS 9.

An entity separately presents:

- portfolio of **insurance** contracts and portfolio of **reinsurance** contracts; and
- portfolio that are **assets** and portfolio that are **liabilities**.

Source: KPMG Illustrative Disclosures for Insurers, pages 18–19

How the financials look like?

Disclosure requirements

IFRS 4

(a) Analysis of movements in provision for unexpired risks

	Gross \$'000	Reinsurance \$'000	Net \$'000
At 1 January	25,369	(9,662)	15,707
Premiums written	61,924	(23,535)	38,389
Premiums earned	(57,531)	21,441	(36,090)
At 31 December	29,762	(11,756)	18,006

(c) Analysis of movements in provision for insurance claims

	Gross \$'000	Reinsurance \$'000	Net \$'000
At 1 January	65,406	(34,298)	31,108
Claims paid	(33,639)	16,759	(16,880)
Claims incurred	40,262	(17,721)	22,541
At 31 December	72,029	(35,260)	36,769

IFRS 17

In millions of euro	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Opening liabilities	67,699	2,571	334	70,604
Changes in the statement of profit or loss and OCI				
Insurance revenue				
Contracts under the modified retrospective approach	(1,895)	-	-	(1,895)
Other contracts	(596)	-	-	(596)
	(2,491)	-	-	(2,491)
Insurance service expenses				
Incurred claims and other insurance service expenses	-	(40)	371	331
Amortisation of insurance acquisition cash flows	696	-	-	696
Losses and reversal of losses on onerous contracts	-	8	-	8
Adjustments to liabilities for incurred claims	-	-	(8)	(8)
	696	(32)	363	1,027
Investment components	(7,374)	-	7,374	-
Insurance service result	(9,169)	(32)	7,737	(1,464)
Net finance expenses from insurance contracts	4,221	166	24	4,411
Effect of movements in exchange rates	(267)	(11)	(12)	(290)
Total changes in the statement of profit or loss and OCI	(5,215)	123	7,749	2,657
Cash flows				
Premiums received	10,073	-	-	10,073
Claims and other insurance service expenses paid	-	-	(7,737)	(7,737)
Insurance acquisition cash flows	(686)	-	-	(686)
Total cash flows	9,387	-	(7,737)	1,650
Closing liabilities	71,871	2,694	346	74,911

Key observations:

- More transparent disclosures for onerous contracts
- Analysis of insurance service expenses
- Investment components excluded from revenue

Source: Illustrative Disclosures for Insurers, pages 136–137

How the financials look like?

Disclosure requirements

IFRS 17

In millions of euro	CSM (see (C))				Total
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under modified retrospective approach	Other contracts	
Opening liabilities	58,795	132	8,730	2,947	70,604
Changes in the statement of profit or loss and OCI					
Changes that relate to current services					
CSM recognised for services provided	-	-	(1,093)	(344)	(1,437)
Change in risk adjustment for non-financial risk for risk expired	-	(12)	-	-	(12)
Experience adjustments	(15)	-	-	-	(15)
Changes that relate to future services					
Contracts initially recognised in the year	(793)	13	-	797	17
Changes in estimates that adjust the CSM	(156)	(6)	12	150	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	(8)	(1)	-	-	(9)
Changes that relate to past services					
Adjustments to liabilities for incurred claims	(7)	(1)	-	-	(8)
Insurance service result	(979)	(7)	(1,081)	603	(1,464)
Net finance expenses from insurance contracts	3,680	-	546	185	4,411
Effect of movements in exchange rates	(241)	(1)	(36)	(12)	(290)
Total changes in the statement of profit or loss and OCI	2,460	(8)	(571)	776	2,657
Cash flows*	1,650	-	-	-	1,650
Closing liabilities	62,905	124	8,159	3,723	74,911

* Cash flows are analysed on pages 136 and 137.

??

Key observations:

- Separation of changes relating to current, future and past services
- Changes in components that affect future profitability
- Clear picture of performance

Source: Illustrative Disclosures for Insurers, pages 138–139

Polling Question: Self assessment

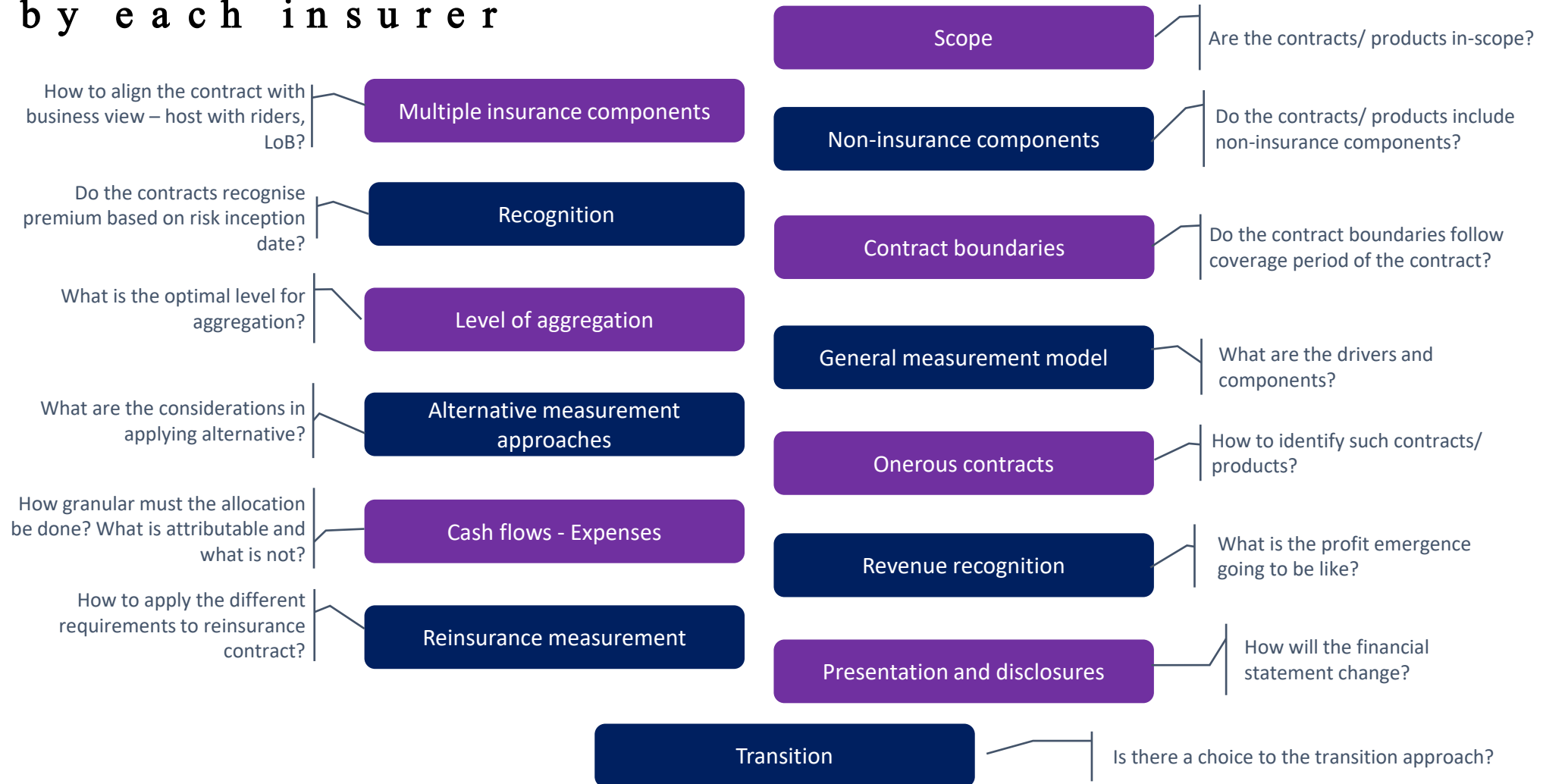
IFRS 17 impacts Finance and Actuarial Functions. My Function has been/will be impacted?

On a scale of 0% - 100%, with 0% being no impact at all:

- A. 0% (This topic will not affect my function);
- B. 1% - 25%;
- C. 25% - 50%;
- D. 51% - 75%;
- E. 76% - 100% (My function will need to be ready for significant change)

Key areas to be addressed

- by each insurer

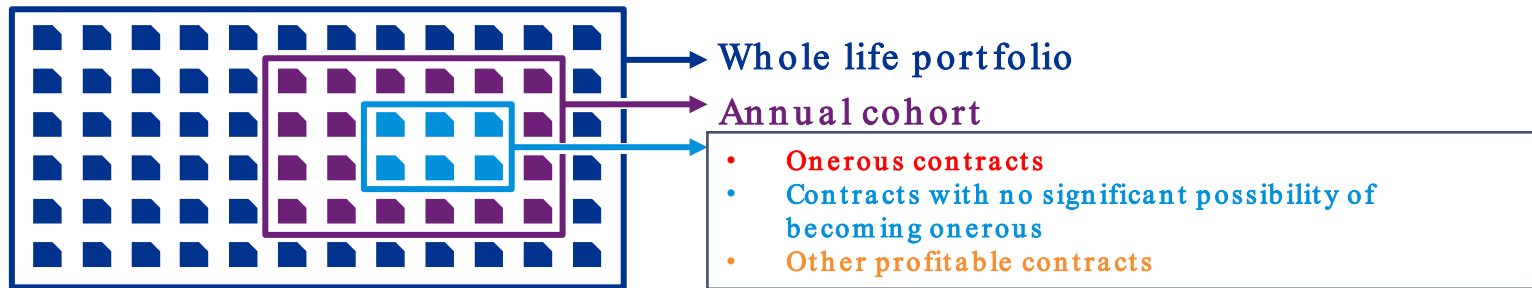


Each insurer may have own desired positions in the above areas

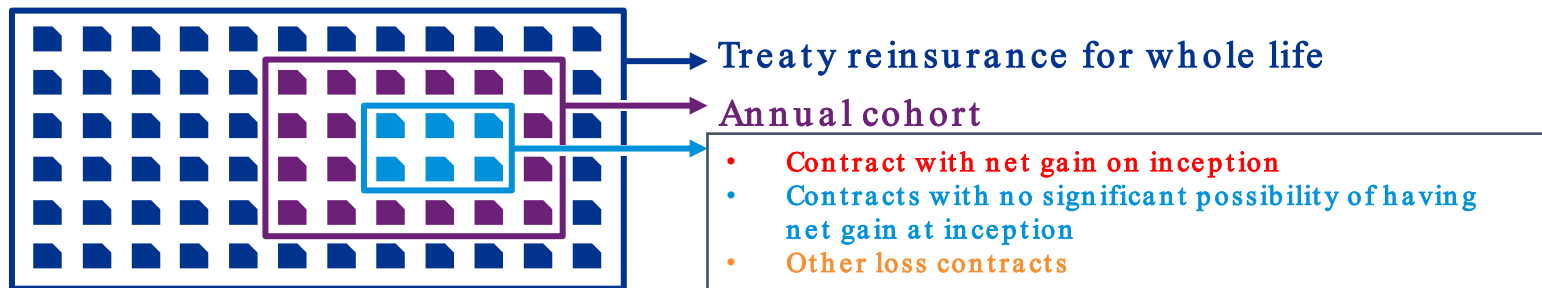
Illustrative key impact

– Level of aggregation

Grouping of insurance contracts for accounting will become more granular.



Grouping of reinsurance contracts held will be required



Insurers' concerns

Will I benefit or not from the more granular grouping of insurance/reinsurance contracts?

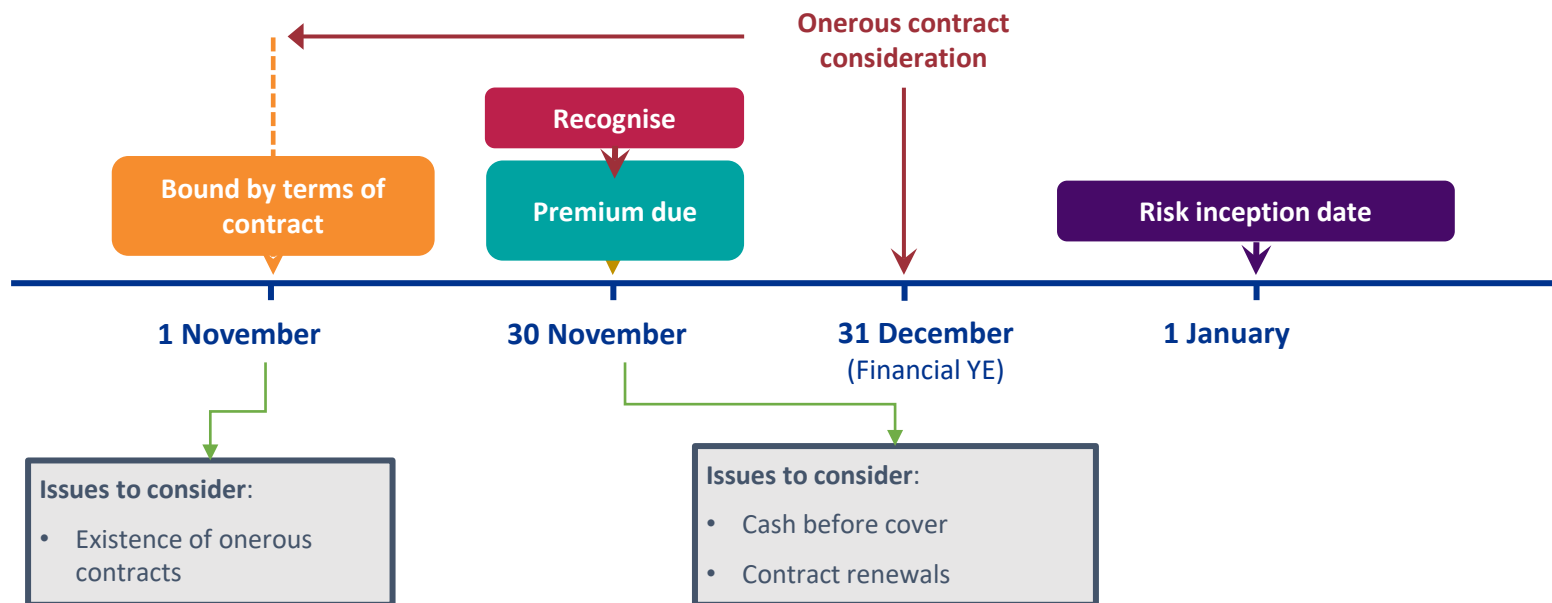
What is the “optimal level of aggregation?”

Illustrative key impact

– Recognition

An insurance contract would be recognised from the earliest of:

- the **beginning of the coverage period (risk inception date)**;
- the date on which **the first payment** from the policyholder **becomes due**; and
- if applicable, the date on which facts and circumstances indicate that the portfolio of insurance contracts to which the contract belongs is **onerous**.



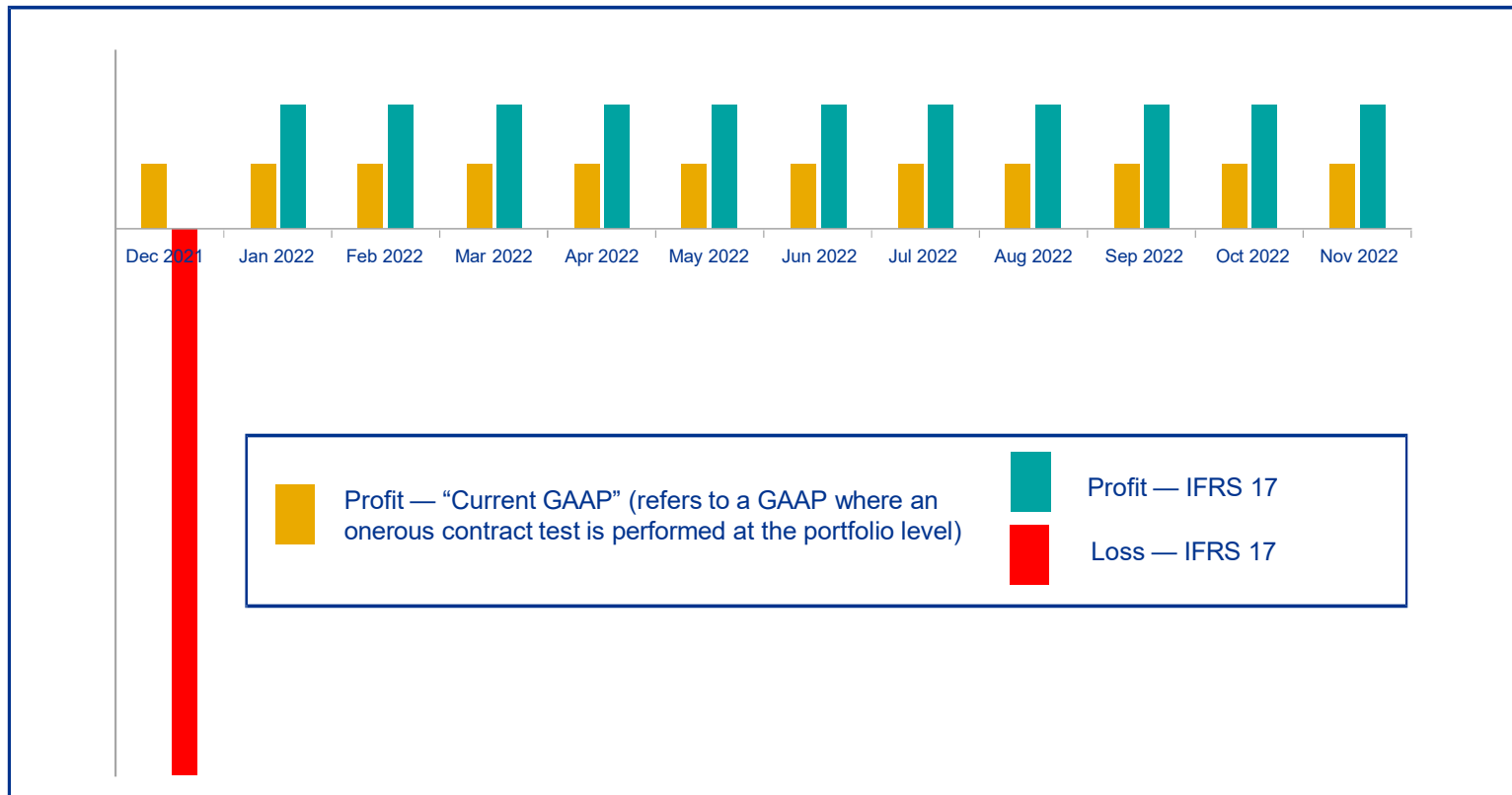
Insurers' concerns

How will this recognition date impact my operations, my financials?

Illustrative key impact

– Onerous contracts

Insurers **writing loss making business** may face **more profit and loss volatility** under IFRS 17 compared to current accounting in most jurisdictions.



Insurers' concerns

Do I have onerous contracts?

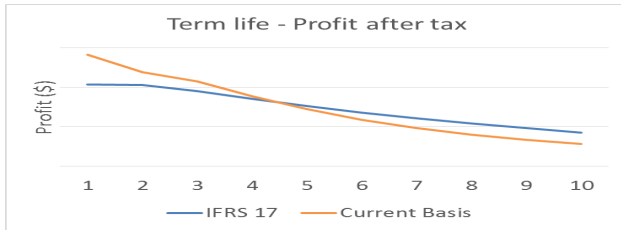
How will my financials be impacted?

Illustrative key impact

– Revenue recognition

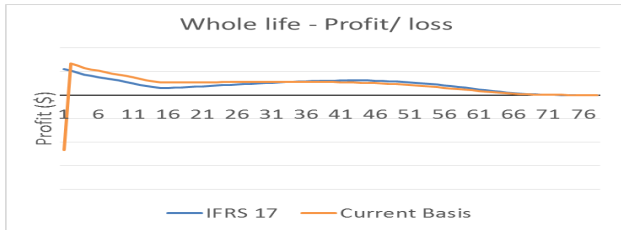
Product features: 10 year regular premium term life with guaranteed death benefit.

Profit pattern of current vs IFRS 17



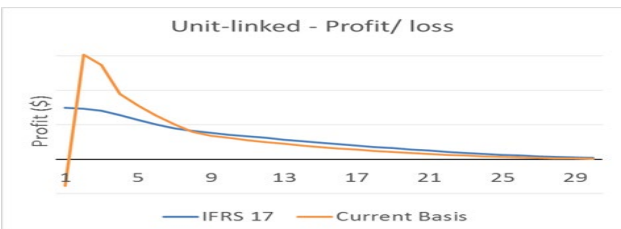
Product features: 15 pay whole life protection with guaranteed death benefit and surrender value.

Profit pattern of current vs IFRS 17



Product features: Single premium Unit-Linked with death benefit and surrender value.

Profit pattern of current vs IFRS 17



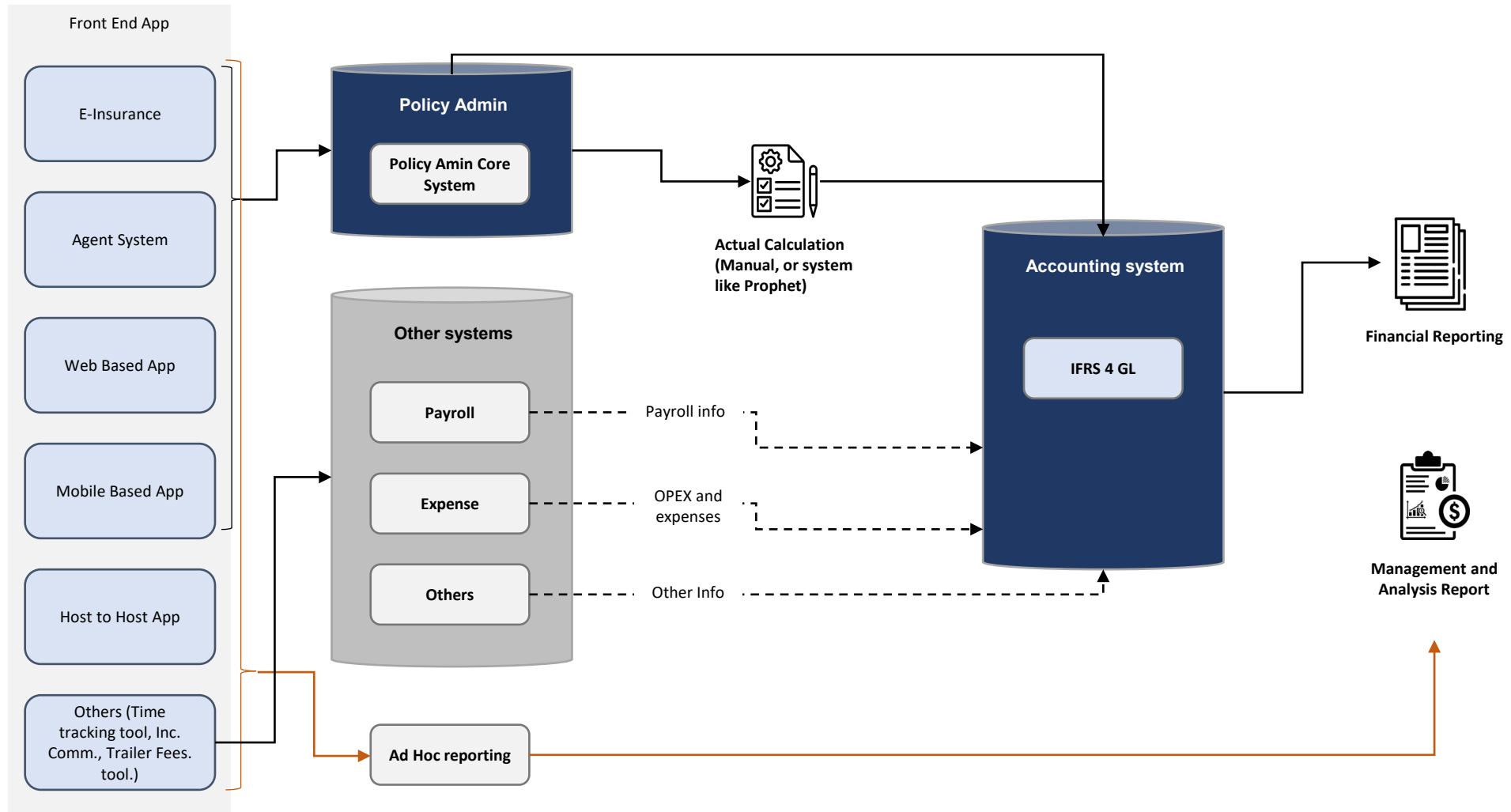
Insurers' concerns

How will my profit pattern change under IFRS 17?

Illustrative impact

– on data flow & systems architecture

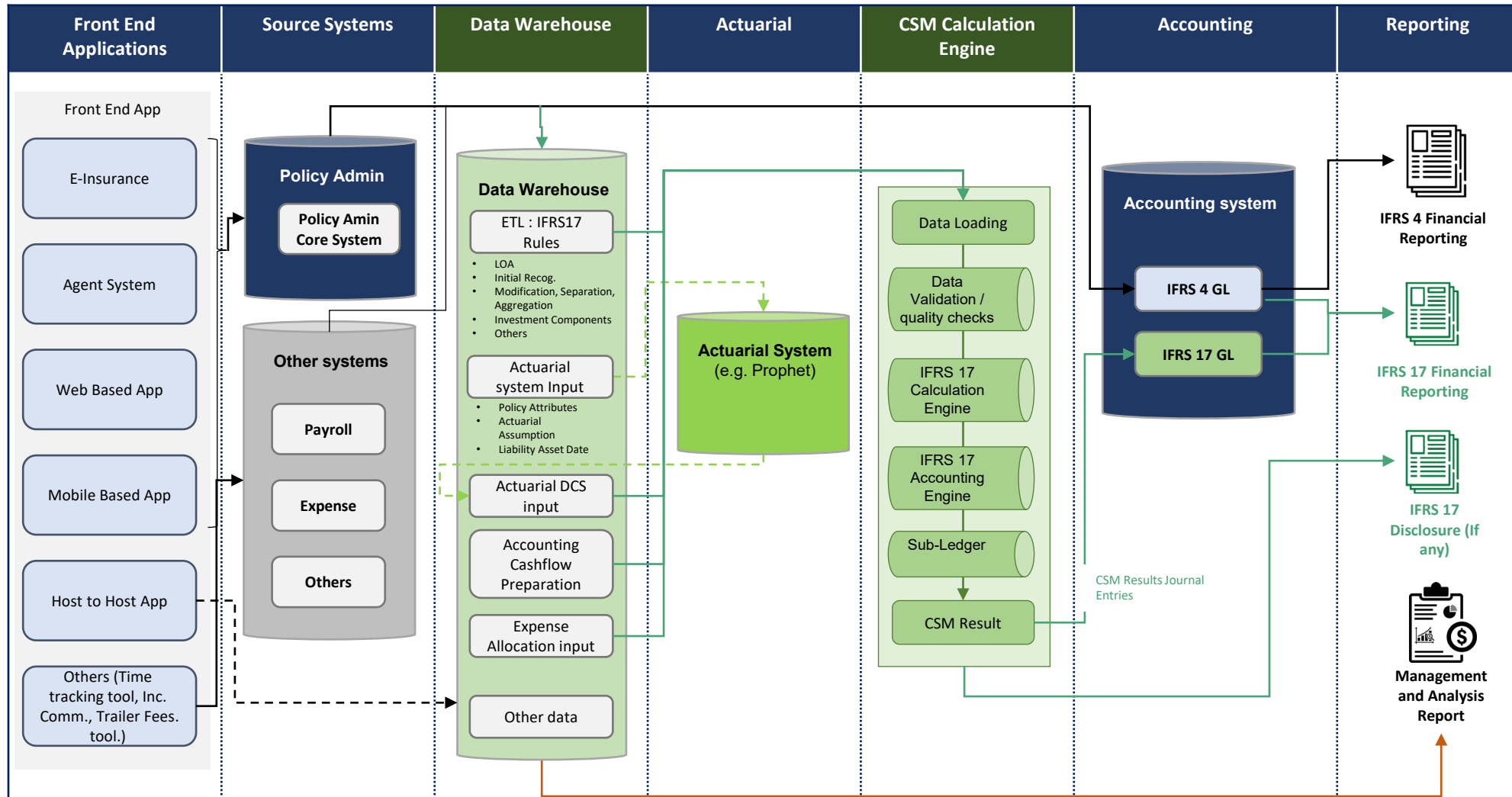
Current



Illustrative impact

– on data flow & systems architecture

End State



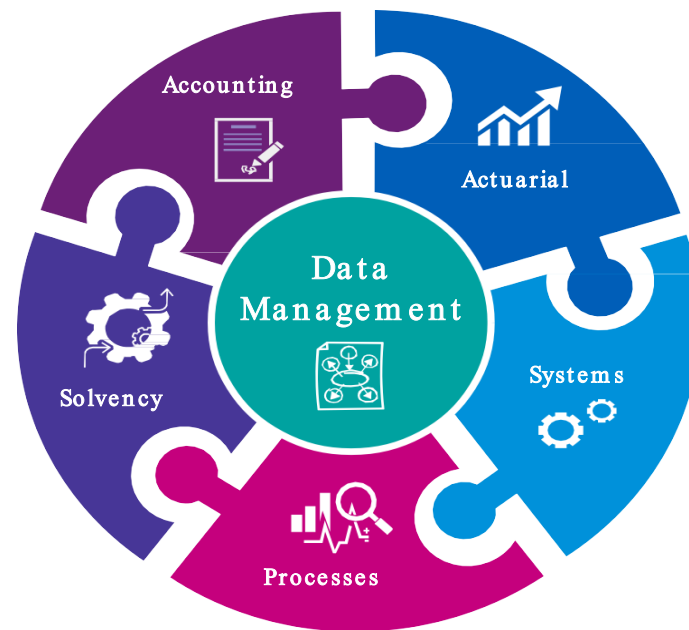
To make IFRS 17 operational

– What is required?

➤➤ *Future financial reporting architecture needs to integrate*

IFRS 17 brings new data requirements and issues:

- Greater data granularity & volume of additional information
- New methodologies/rules
- Different allocations
- Data availability from feeder systems

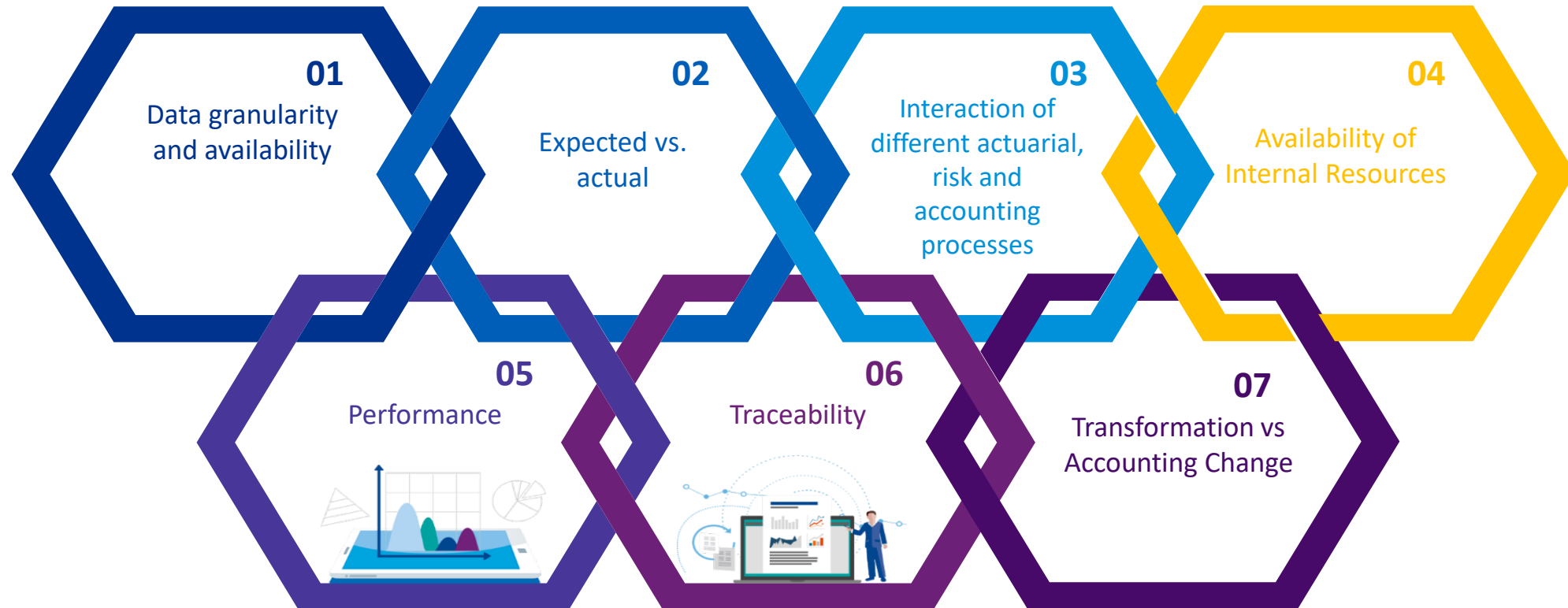


- Major part of the transformation journey
- Drives detailed design and planning
- Integrates all aspects of implementation
- Influences decisions, e.g. transition
- Structure and design can impact future operating model

DATA...at the core of implementation

Major pain points

– For data, systems, processes and possible benefits



What IFRS 17 means for insurers?

Fundamentally different accounting model

Significantly increased disclosures

Different profit profiles, recognition of losses & revenue presentation

Pervasive and significant impact

Process, IT systems and data

Internal and external reporting

Resources and staffing

KPIs

Investment portfolio management

Product pricing and development

The impact is more than compliance

What IFRS 17 means for insurers?

Operational Impact



Ledger, Chart of Accounts, Posting Engine - updates required to CoA and posting mechanisms to reflect new look accounts/disclosures.



Data and system - Implementing International Financial Reporting Standards (IFRS) 17 create a fundamental shift in the way data is collected, stored, and analyzed, and can significantly impact the current systems that are used to collect, store and analyse the data.



Onerous Contract testing process - process to be designed that can identify contracts that are loss making at inception (at a granular level). Closer linkage between reserving and pricing required



Contractual Service Margin Model - depending on the extent of business that is required to be calculated under GMM, a CSM model may need to be built. Potentially two different accounting models run



Financial reporting and actuary process – New finance and actuary process takes place to ensure compliance with new IFRS 17 requirements. New accounting and actuarial policies, procedures and controls need to be developed to cope with the changes in process



Implementation cost and resources - Tremendous time and resources required to implement the IFRS 17 requirements

What IFRS 17 means for insurers?

Financial Impact



Increased volatility of financial results due to 'onerous contracts' requirements and discounting



Greater transparency in profit drivers – detailed analysis of movements in reserves and confidence level and disclosure of lines of business that are loss making at inception



Impact on equity on transition due to reserves on a Best Estimate, less discounting, plus Risk Margin

Business Impact



Product design and pricing – Product features and pricing might be impacted due to the change in measurement and disclosure requirements.

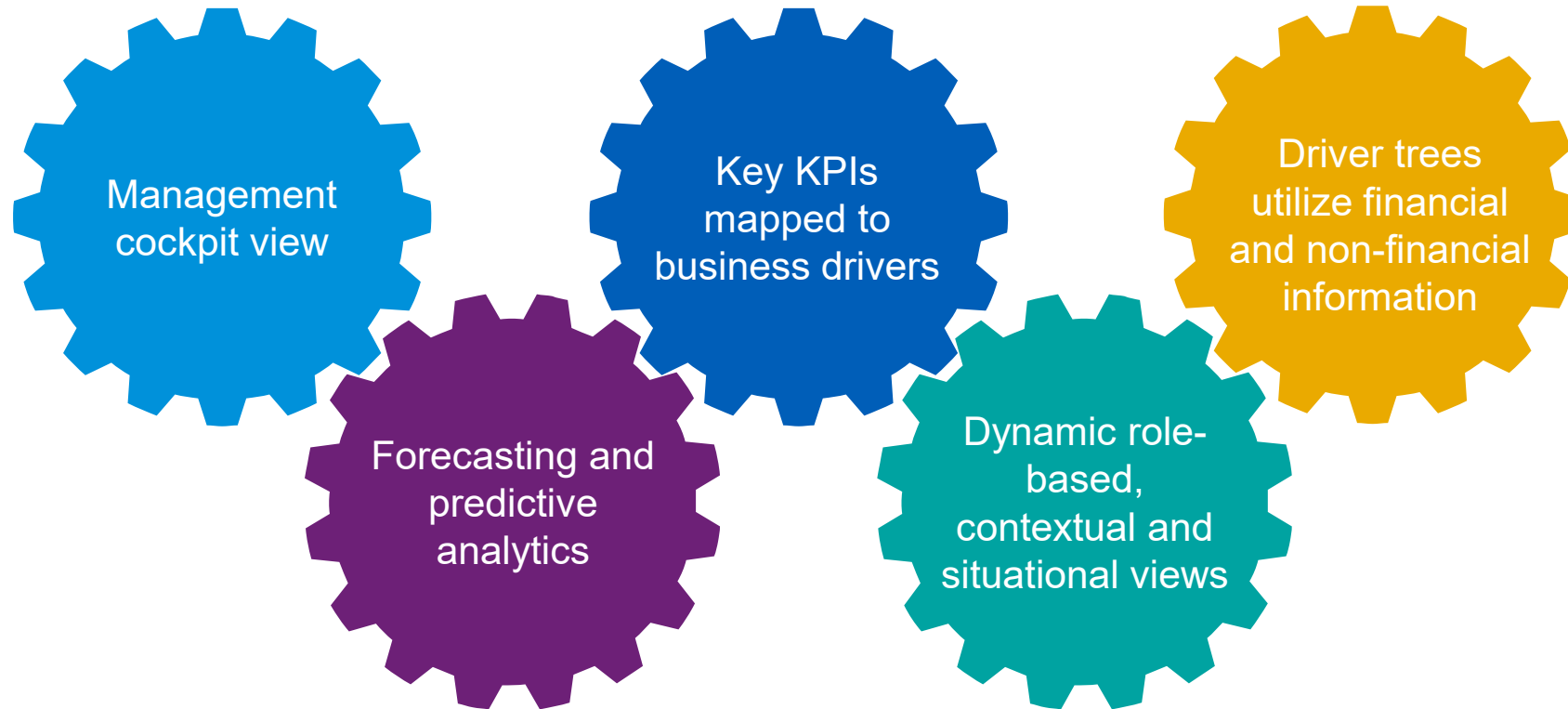


Performance volatility – Re-evaluation of asset-liability management strategies can help reduce volatility

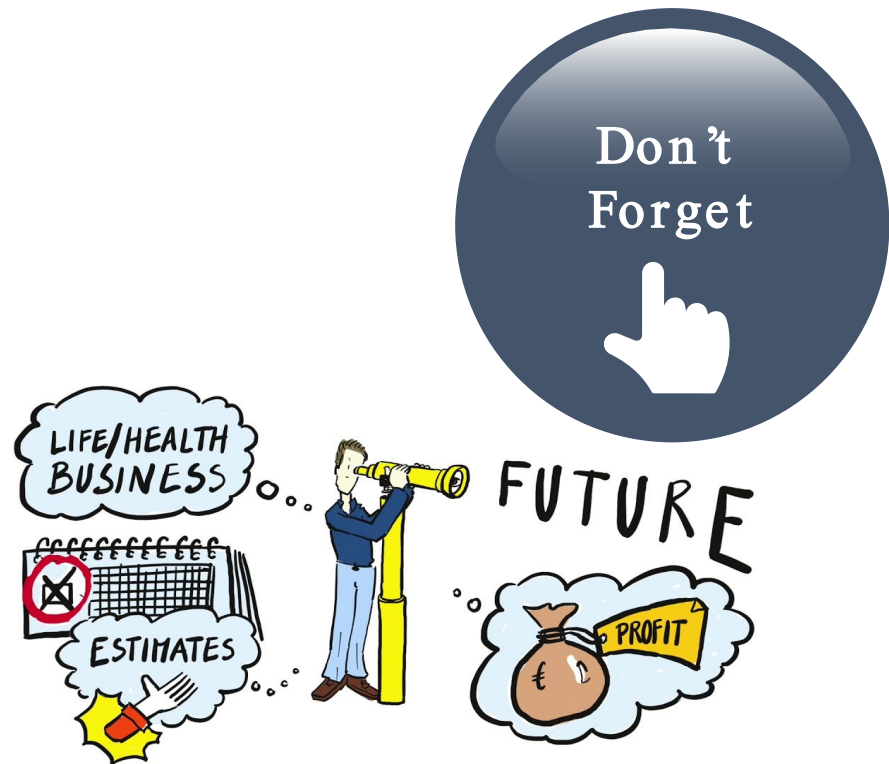


Capital management – Changes to profit emergence will impact how capital is managed and also dividend policy

After compliance: key features



Key takeaways



1 || IFRS 17, when effective, will change how the insurance business performance are measured.

2 || IFRS 17 is a principle-based standard that requires specific application to each insurer's product and contract.

3 || IFRS 17 will have significant impact on how the insurers operate and report.

4 || IFRS 17 implementation program is generally multi-years and the industry expects more guidance to evolve over the years.

Questions?





Developing Next-Gen ASEAN Insurance Leadership Talent

Thank you



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