

الموضوع: مشروع المعيار الدولي
للتقرير المالي رقم ١٧ - خطة
التطبيق.

IFRS 17 – SAMA Instructions
for Phase 3 “Implementation
Plan

الرقم: ت.ع.م/٢٠١/٢٠٢٠١٠/٢٠٢٠

التاريخ: ٢٩/١٠/٢٠٢٠ م

المحترم

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سعادة الرئيس التنفيذي

سعادة مدير الالتزام

السلام عليكم ورحمة الله وبركاته،

<p>Reference is made to SAMA Circular # 172 dated 20 December 2018, wherein SAMA rolled out a four-phase approach for transition of Saudi insurance sector to IFRS17.</p> <p>The first two phases have now been completed and SAMA provided its feedback to the insurance sector on the results of each of those two phases through Dear CEO letters dated 12 June 2019 and 31 August 2020 respectively.</p> <p>SAMA now requires all insurance/ reinsurance companies to carry out Phase 3, i.e., design the Implementation Plan.</p> <p>Scope of Work</p>	<p>إشارة إلى تعميم المؤسسة رقم (١٧٢) وتاريخ ٢٠ ديسمبر ٢٠١٨م، الذي تضمن خطة من أربع مراحل لتحويل شركات التأمين و/أو إعادة التأمين العاملة في المملكة لتطبيق المعيار الدولي للتقارير المالية رقم (١٧) "عقود التأمين".</p> <p>وحيث أكملت شركات التأمين و/أو إعادة التأمين المرحلة الأولى "تحليل الثغرات" في الربع الأول من ٢٠١٩م، والمرحلة الثانية "تقييم الأثر المالي" في الربع الثاني من ٢٠٢٠م، وقدمت المؤسسة مرئياتها وملاحظاتها للقطاع من خلال خطاب إلى الرئيس التنفيذي/المدير العام للمرحلتين بتاريخ ١٢ يونيو ٢٠١٩م و ٣١ أغسطس ٢٠٢٠م على التوالي.</p>
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Appendix 1 covers the minimum scope of work for each insurance/ reinsurance company for Phase 3. SAMA encourages each insurance/reinsurance company to endeavor to go beyond the minimum scope in order to design the most appropriate Implementation Plan for the company.

Reporting to SAMA

In order to capture the outputs of this phase, each Company must submit the following documents to SAMA:

a) Report on the Design of Implementation Plan ("Report")

- The Report shall be produced on the Company letter-head and it shall cover at least the minimum scope items mentioned in Appendix 1 (Attached).
- The description of the Implementation Plan in the Report shall be sufficient to ensure that any independent knowledgeable third party would be able to fully understand the Implementation Plan and form a sound judgement on its compliance with the current

عليه، يتعين على الشركات البدء بتنفيذ المرحلة الثالثة من هذا التحول وهي "خطة التطبيق".

نطاق العمل

الملحق رقم (١) يتضمن الحد الأدنى لنطاق عمل للمرحلة الثالثة لكل شركة تأمين و/أو إعادة تأمين. وتشجع المؤسسة قيام الشركات بزيادة النطاق عن الحد الأدنى؛ وذلك من أجل تصميم خطة تطبيق تكون أكثر ملاءمةً وتجانسًا للشركة.

متطلبات المؤسسة

من أجل إتمام مخرجات هذه المرحلة، يجب على كل شركة تقديم المتطلبات الآتية للمؤسسة:

أ. تقرير عن تصميم خطة التطبيق (تقرير)

- يجب أن يكون التقرير مكتوبًا وفقًا لمطبوعات الشركة الرسمية، ويجب أن يغطي على الأقل الحد الأدنى من بنود النطاق المذكورة في الملحق رقم ١ (مرفق).

- يجب أن يكون وصف خطة التطبيق في التقرير كافيًا لضمان أن يكون أي طرف ثالث مستقل على اطلاع وفهم كامل لخطة التطبيق وقادر على تشكيل حكم سليم بشأن امتثالها للتفسير الحالي لمبادئ المعيار الدولي للتقارير المالية رقم (١٧) ومدى ملاءمتها ومناسبتها لعمليات الشركة.

interpretation of IFRS17 principles and its suitability for the Company's operations.

- All technical papers produced and results of quantitative analysis performed to support various design-decisions shall be included as appendices to the Report.
- The Audit Committee shall obtain feedback from the Company's external auditors on the design of Implementation Plan. This feedback shall be included in the Report as a separate appendix.
- The Report shall be signed-off by the Company's Appointed Actuary (for the areas falling under his responsibility only) and the Chief Financial Officer before being approved and signed-off by the Company's Audit Committee. The estimated cost of implementation shall be signed off by the Chairman of the Board of Directors and shall be included in the Report as an appendix.

- يجب أن تتضمن ملاحق التقرير جميع أوراق العمل الفنية التي تم إعدادها ونتائج التحليل الكمي التي تم إجراؤها لدعم قرارات التصميم المختلفة.

- يجب على لجنة المراجعة الحصول على مرئيات مراجعي الحسابات الخارجيين بشأن خطة التطبيق، ويجب تضمين ذلك في التقرير كملحق منفصل.

- يجب أن يتم توقيع التقرير بشكل مشترك من قبل الاكتواري المعين (في النواحي التي تقع تحت مسؤوليته ونطاق عمله) والمدير المالي للشركة؛ وذلك قبل اعتماده من قبل لجنة المراجعة في الشركة. التكلفة المتوقعة للتطبيق يجب أن تُوقع من قبل رئيس مجلس الإدارة ويتم إضافتها إلى التقرير كمرفق.

ب. نموذج المؤسسة (النموذج) – "مرفق"

- الغرض من النموذج هو تسجيل ومعرفة السمات الرئيسية لخطة التطبيق.

<p>b) SAMA Template in MS Excel form (“Template”) - attached</p> <ul style="list-style-type: none">• The purpose of the Template is to capture the key features of the Implementation Plan.• Each insurance/reinsurance company shall strictly adhere to the instructions on filling the Template, which are included within it. <p>Submission The Report and the Template shall be submitted to SAMA at IC.Tec@SAMA.GOV.SA by 31 March 2021</p>	<ul style="list-style-type: none">• يجب على كل شركة تأمين و/أو إعادة تأمين الالتزام بالتعليمات الواردة في النموذج والخاصة بألية تعبئته. <p>التسليم يجب تقديم المتطلبات (التقرير والنموذج) للمؤسسة بتاريخ ٣١ مارس ٢٠٢١ م على العنوان .IC.Tec@SAMA.GOV.SA</p>
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وتقبلوا تحياتنا،

الإدارة العامة للرقابة على التأمين

IFRS17 Phase 3 – ‘Implementation Plan’

Appendix 1 - Minimum Areas to be covered in the Report on the design of ‘Implementation Plan’

Part I - Governance and Controls Framework

1. Description of governance framework applied
 - a. To ensure that the design of Implementation Plan is comprehensive and detailed enough which can be rolled out for implementation immediately upon completion of Phase 3
 - b. To ensure that all design-decisions of Implementation Plan meet the requirements of IFRS17 considering the Company’s current business as well as its immediate business plan
 - c. To ensure that all significant judgements conform to IFRS17 principles
2. For each design-decision and significant judgement, including but not limited to accounting policies, actuarial assumptions and methodologies,
 - a. Identification of the individual with ownership of that design-decision and/or significant judgement; for actuarial assumptions and methodologies, this shall have due consideration for compliance with Actuarial Work Rules, article 50
 - b. Identification of the reviewer (individual or a committee) of that design-decision and/or significant judgement,
 - c. Technical paper produced to support the decision, including (where applicable) a description of quantitative analysis performed and the (range of) results produced
3. Governance framework for future changes to the design of Implementation Plan deemed necessary during the Implementation phase and/or under the ‘go-live’ state
4. Description of governance and controls designed to monitor progress during the next phase (Phase 4 - ‘Implementation & Dry-run’) and for ensuring timely corrective actions
5. Materiality – definition and criteria used by the Company to support its design decisions and significant judgements

Part II - Operational

6. Data
 - a. Data Dictionary, covering at a minimum,
 - i. Internal data items, along with ownership of each data item
 - Clear distinction between insurance and reinsurance data
 - Granularity and frequency of data from outsourced functions (e.g., third party administrator for medical claims)
 - ii. External data items, along with source of each (can be multiple sources, e.g., for reinsurance default probability from rating agencies) and responsibility for procuring the data item
 - b. Data Policy, covering at a minimum,
 - i. Tolerance thresholds

- ii. Reconciliations required to be performed
- iii. Validation checks to be carried out

7. Systems

- a. Detailed architectural design, including flow charts, of systems covering each of the following processes:
 - i. Data preparation
 - ii. Actuarial modelling
 - iii. IFRS 17 Calculations
 - iv. Financial reporting
- b. Detailed plan for vendor onboarding
- c. Detailed plan for
 - i. System installation
 - ii. Deployment
 - iii. Training
 - iv. User Acceptance Testing
- d. Detailed plan for integration of new system or software with existing systems, covering at a minimum, the following systems and models:
 - i. Core IT
 - ii. Underwriting
 - iii. Accounting
 - iv. Actuarial, including where the appointed actuary is external to the Company, identifying the reliance placed on the appointed actuary's systems and tools for each calculation
 - v. Claims
 - vi. Reinsurance

8. Process

- a. Generating fulfilment cash flows (Best Estimate) for Liability for Remaining Coverage (where applicable) and Liability for Incurred Claims
- b. Determination of Risk Adjustment (including process followed for determining level of confidence, etc.)
- c. Discounting
- d. CSM amortization
- e. Onerosity determination
 - i. Including clarity of interaction between underwriting and actuarial functions and the appointed actuary
 - ii. Including an assessment at each subsequent measurement, and where necessary, adjustments to Liability for Remaining Coverage
 - iii. Assessment of facts and circumstances for contracts measured using Premium Allocation Approach
- f. Expected premium determination initially and subsequently
 - i. Including process for allowing for policyholder default

- g. Estimation of reinsurance held premium, where applicable, including consideration for business to be written in the future
 - h. Business plan production
 - i. Experience adjustments at each subsequent measurement
 - j. Expense allocation
 - i. Including frequency of review and update
 - k. Capturing fair value of underlying items (applicable for Variable Fee Approach only)
 - l. For each new cohort, eligibility assessment for Premium Allocation Approach
 - m. End-to-end Financial Statement and Disclosures production process, both quarterly and annual
 - n. Generating and posting accounting entries for general ledger and sub-ledger
 - o. Allocation of bulk receipts/payments to calculate Liability (or Asset) for Remaining Coverage
 - p. Transition process
9. Skills and Resources
- a. Numbers to be recruited
 - i. Accounting
 - ii. Actuarial, including where the appointed actuary is external to the company, this should consider and document the roles and responsibilities for in-house actuarial function and the appointed actuary with due regard for the statutory responsibilities of the appointed actuary as per Actuarial Work Rules 2020
 - iii. IT
 - iv. Others (e.g., internal audit, project management, etc.)
 - b. Trainings and upskilling
 - i. Detailed plan for training and knowledge transfer
 - Board of Directors and Senior management
 - Staff and related parties
 - ii. Plan for assessing the extent and effectiveness of knowledge transfer
10. Timelines for each of the above steps in paras 6-9 above, with due consideration for dry-run exercises planned by SAMA and for parallel run required under IFRS17

Part III - Technical and Financial

11. Contracts within/outside scope of IFRS17
- a. Types of contracts written by company falling within IFRS 17 scope, sub-divided into
 - i. Insurance and reinsurance contract issued by the company
 - ii. Reinsurance contracts held
 - iii. Investment contracts with discretionary participating features issued together with insurance contracts

- b. Distinction between Insurance risk & Other risks
- c. Assessment of 'significance' of insurance risk

12. Combination/Unbundling of Contracts

- a. Definition and identification of 'Related Counterparties'
- b. Determination and separation of 'distinct' components
 - i. Investment component
 - ii. Component for services other than insurance contract services
- c. Determination of applicability of IFRS 9
- d. Determination of applicability of IFRS 15

13. Contract boundaries

- a. Insurance contracts
 - i. Including onerous contracts
- b. Outwards Reinsurance contracts
- c. Identification and recording of individual contracts and/or group of contracts by
 - i. coverage start date and
 - ii. payment due dates, including consideration for advance receipts
 - iii. date of becoming onerous (if applicable)
- d. Assessment of practical ability to reassess the risk
- e. Modifications
 - i. Criteria for de-recognition of original contract and recognition of modified contract, and gain and losses from modification
 - ii. Treatment of modified contracts not meeting the de-recognition & re-recognition criteria

14. Level of Aggregation

- a. Insurance contracts
 - i. Co-insurance
- b. Reinsurance held contracts
 - i. Fronting arrangements

15. Eligibility assessment for Premium Allocation Approach

- a. Approach, including scenarios considered
- b. Materiality threshold used
- c. Criteria for significant variability (art. 54)

16. Measurement model

- a. Insurance contracts
 - i. Including adjustment for onerous contracts
- b. Outwards Reinsurance contracts

17. Actuarial Methodology and Assumptions

- a. Allowance for full range of possible outcomes

- b. Granularity of projections
 - i. Group of contracts level (or policy level for Protection & Saving, where applicable),
 - ii. Higher level of aggregation with allocation to individual groups of contracts (or individual policies for Protection & Saving, where applicable)
- c. Discounting
 - i. Approach for non-linked cash flows
 - Top-down
 - a. Adjustments to yield curve
 - Bottom-up
 - a. Illiquidity premium adjustment
 - Locked in v current rates
 - ii. Approach for cash flows that vary with returns on underlying items
 - Adjustment for variability
- d. Risk adjustment for Liability for Remaining Coverage (where applicable) and Liability for Incurred Claims
 - i. Methodology, including granularity of approach
 - ii. Types of risk considered
 - iii. Diversification between risks
 - iv. Confidence interval and alignment with company's risk appetite
- e. Contractual service margin
 - i. Basis of amortization
 - ii. Order of calculation
- f. Onerous contracts
 - i. Measurement at initial recognition
 - ii. Onerosity assessment at subsequent measurement
 - iii. Basis of amortization for loss component
- g. Reinsurance default
 - i. Probability - Through-the-cycle or Point-in-time
 - ii. Loss-given-default
- h. Insurance Finance Income & Expense
 - i. Forward v Spot rate
- i. Experience adjustments
- j. Valuation of options and guarantees
- k. Impairment assessment for acquisition costs

18. Accounting Policy Choices

- a. Use of Other Comprehensive Income for Insurance Finance Income/Expense
- b. Risk Adjustment unwinding within Insurance Service results or split between Insurance Service Result and Insurance Finance Expense
- c. Where using Premium Allocation Approach, deferral of acquisition cost for life and non-life (pre & post-recognition, current service v future service)
- d. Expense allocation to groups of contracts
- e. Directly Attributable v Other expenses

- f. Discounting contracts of one year or lesser duration for determining Liability for Incurred Claims
- g. Allocation of premium to periods of insurance service (where applicable) by time or by incidence of insurance service expenses
- h. Impact of Financial Risk mitigation
- i. Length of cohorts (e.g., annual, quarterly, monthly, etc.)
- j. Coverage period assessment for onerous contracts subject to cancellation clauses
- k. Allocation of cash flows between loss component and Liability for Remaining Coverage for profitable contracts
- l. Adjustment of cash flows for Contractual Service Margin calculations (quarterly v annual basis)

19. Accounting for Onerous contracts

- a. Adjustment to insurance service result
- b. Adjustment to reinsurance contractual service margin

20. Presentation

- a. Reinsurance as 'Net of income and outgo' or two separate line items
- b. Chart of Accounts, general ledger, sub-ledger
- c. Experience adjustments
 - i. Exclusion of changes that do not relate to services provided in the period
 - ii. Other Exclusions (changes in loss component of liability, repayment of investment components, contractual service margin recognised in profit or loss during the period, etc.)

21. Disclosures

- a. Reconciliation for changes in Liability for Remaining Coverage, Liability for Incurred Claims, and Loss Components
 - i. Insurance contracts
 - ii. Reinsurance contracts held
- b. Analysis of insurance revenue (where applicable)
- c. Effect of new business on the financial statement (where applicable)
 - i. Insurance contracts
 - ii. Reinsurance contracts held
- d. Framework for identification, quantification and management of risks
- e. Framework for Sensitivity Analysis
- f. Disclosures for Transition period
- g. Significant judgements
- h. Claims development

22. Transition

- a. Choice of method (Full retrospective, Modified retrospective, Fair value)
- b. Comparatives (choosing between presenting and not presenting earlier periods' adjusted comparative information)

- c. Identification of Unadjusted information and basis for its preparation
- d. Disclosure of past Claims development

23. Insurance pools

- a. Manafeth
- b. Haj and Umrah
- c. Inherent Defects Insurance

24. Acquisition & Mergers

[This section must be covered by all those companies which are in the process of evaluating merger and acquisition, whether announced publicly or not]

Part IV - Sign-off and Approval of Design of Implementation Plan

The design of IFRS17 Implementation Plan shall

- be signed off by the Appointed Actuary for methodologies and significant judgements whose ownership is with the Appointed Actuary,
- be signed off by the CFO, and
- be approved and signed-off by the Audit Committee before its submission to SAMA.

In this regard, the Audit Committee shall engage with its external auditors for, at a minimum, the following input:

- a. Feedback to the Audit Committee on compliance of the proposed design with the current interpretation of IFRS17 principles and requirements
- b. Feedback to the Audit Committee on the documentary evidence available or expected to be available in order to substantiate decisions currently taken as part of the proposed design, covering the following as a minimum [external auditors to include list of decisions and corresponding evidence they consider critical to the design of Implementation Plan].

The Audit Committee shall agree and clearly document the terms of engagement with the Company's external auditors in advance of commencement of work by the external auditors. The above feedback from the Company's external auditors shall be included in the Report on the design of Implementation Plan submitted to SAMA as an appendix.

The estimated cost of implementation shall also be included in the Report as an appendix. This shall be approved and signed off by the Chairman of the Board of Directors.

Part V - Assurance Plan for IFRS17 Implementation

In addition to the requirements set out in Part IV above with regards to the engagement with the external auditors, the Implementation Plan should also set out the assurance plan for the IFRS17 financial statements. This plan should cover the following at a minimum:

- An assessment of the adequacy and appropriateness of data, systems, processes and methodologies
- An assessment of the effectiveness and completeness of governance and controls framework
- Dry-runs as stipulated by SAMA
- One-off transition efforts
- Go-live financial statements, both quarterly and annual
- Periodic feedback to the Audit Committee on the overall readiness of the solution implementation within timeframes

It is expected that the above assurance plan will be designed such that any concentration of audit activities near to IFRS17 go-live date is avoided, thus minimising the risk of non-compliance or of re-designing the solutions or methodologies. In case if the external auditors are due to be rotated before the audit of Year 2023 financial statements, then this assurance plan should also cover the handover process from the existing external auditors to the new external auditors. This assurance plan shall be included in the Report as an appendix.

SAMA IFRS 17 PHASE 3 - Q&A

SAMA Responses to Questions/Comments raised by Insurance Companies regarding Phase 3 Draft Instructions issued on 15th October 2020

No.	Document Reference	Tab Reference	Topic (e.g., Discount rate, Onerous contract, Reinsurance, etc.)	Insurance Company Comment/ Suggestion	SAMA Response
1	Template	Control	Actuarial Methodology and Assessment	On Control sheet, item 17d there shouldn't be a definition of the probability distributions used (IFRS 17 allows any of them if applicable). Also it's missing the non-parametric approaches and some applicable distributions are missing.	The drop-down list in 17d is non-binding and can be overwritten with the approach selected by the company if different from the given options.
2	Template	Control	Actuarial Methodology and Assessment	On Control sheet, item 17d, it should be asked the cost of capital considered (for example, 6%), on the cost of capital methodology.	This is covered under 17d. Risk Adjustment: Cost of Capital %. We have added a clarification in the relevant cell.
3	Template	Control	Accounting Policy Choices	We don't understand the meaning of 18h, Risk Incidence.	We believe the reference is to 18g which seeks to differentiate between those groups of contracts where risk is linear (e.g., medical, property) and those where risk is non-linear (e.g., engineering, extended warranty, etc.)
4	Template			We don't understand the purpose of the dropdown lists identified.	The purpose is to standardise the insurance companies' responses to the extent possible, while also giving each company the flexibility to tailor its response if none of the given options apply to it.
5	Circular	Deadline	Deadline	The requirement set by SAMA for having the system design ready by Q1 2021 would be challenge due to the following: o The company has hired a specialist IT consultant for assisting with the core system evaluation process which would have IFRS 17 capabilities. The decision for the appropriate core system and its compatible IFRS 17 system module is expected to be concluded by January 2021.	We understand that companies have been working on specifying the details of IT & System requirements system since Q1 2019 when Phase 1 'Gap Analysis' was completed. Since then insurance companies have been providing updates to SAMA regarding their progress with remediating the gaps identified in Phase 1, with IT & Systems being a component of those quarterly updates. Moreover, we believe that Phase 2 'Financial Impact Assessment' has given insurance companies an opportunity to fine-tune the design of their IT & Systems from an informed position. We have also met with a number of IFRS17 system vendors recently, who have confirmed to us that a full design of IT & Systems is achievable by Q1 2021. We are also conscious that deployment and UAT of new systems will likely require a number of iterations/improvements. To avoid any risk to the final delivery, we prefer that companies get on with the implementation of IT and Systems as soon as possible.

No.	Document Reference	Tab Reference	Topic (e.g., Discount rate, Onerous contract, Reinsurance, etc.)	Insurance Company Comment/ Suggestion	SAMA Response
6	Template	Data Dictionary		Our understanding is that the data dictionary template provided is trying to capture IFRS17 data points. As such, this deliverable is dependent on the IFRS 17 system and core system vendor selected by the company, who would be able to produce the required data dictionary.	Partly disagreed. A Data Dictionary enables an insurance company to identify and document all data requirements for implementing IFRS17. The selection of a System should be done such that it meets an insurance company's all data requirements. It is however possible that a given System requires data in a particular form or at a particular level of aggregation/ granularity. Such modifications to Data Dictionary can be made during Phase 4 'Implementation'.
7	Appendix 1 Phase 3 Minimum Scope of work		External Auditors	As part of external auditor engagement, the instructions require the external auditors to provide a list of decisions and corresponding evidence they consider critical to the design phase. We find this to be challenging as external auditors are generally reluctant to provide a list of decisions but rather look at management to provide such a list. Are there any other deliverables expected by SAMA from the external auditors other than the assurance plan.	As per the SAMA Phase 3 instructions, in addition to an Assurance Plan, the Audit Committee shall also obtain the external auditors' feedback on the design of Implementation Plan. This feedback shall form part of Phase 3 Report as an appendix. As regards the list of design decisions, management is responsible for making those decisions. The role of the external auditors is to comment on those design decisions, and where further work is expected to be carried out by company management, specify the type of evidence they would require in the future to fulfill the audit requirements.
8	Circular	Deadline	Deadline	It might be difficult to have System design ready by Q1 2021. At our Company, the SAP implementation was in progress but was halted due to some issues with vendor. However, we are planning to acquire IFRS 17 accelerators developed by reputed IFRS 17 consultants as a backup plan to the SAP implementation for IFRS 17.	Refer to our response in Q5 above
9	Circular		External Auditors	Auditors might be reluctant to provide comprehensive feedback by that time as our initial discussion with auditors reveals that auditors are in process of finalizing scope covering this feedback and acquiring the required expertise.	Representatives of the external auditors are part of SAMA IFRS17 Working Group and are fully aware of the requirements. SAMA is conscious that each insurance company will be spending significant amounts and efforts in implementing IFRS17 solution during Phase 4 covering data, methodology, systems and processes. Not seeking the external auditor's adequate input at Phase 3 can put the entire implementation during Phase 4 at risk. SAMA has no tolerance for this risk. It is therefore imperative for the Audit Committee to liaise with the external auditors at the beginning of Phase 3 to finalise the terms of engagement. The engagement terms shall ensure timely and adequate feedback on the design of Implementation Plan, thus minimising any risk to the implementation of IFRS17 solution. The Audit Committee should also ensure that the external auditors have the necessary IFRS17 expertise to carry out the required task.