Korea's Experience with Implementation of IFRS 17

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※ The views expressed in this presentation are those of the presenters. Official positions of the KASB on accounting matters are determined only after extensive due process and deliberation.

Contents

1. IFRS 17 & 9 in South Korea, before and after adoption

2012 AOSSG Communiqué (in Nepal)

- The key issues discussed at the meeting included:

  - ✓ the advantages and disadvantages of two potential **presentations of premiums** when using the building block approach;
  - ✓ the proposed **presentation in 'other comprehensive income' (OCI)** of changes in insurance liabilities due to changes in discount rates and the tentative IASB decision that the impact of changes in interest-sensitive cash flow assumptions should be treated in the same manner as the impact of other changes to the liability; and
  - ✓ **unlocking of residual margins**, the accretion of interest on residual margins and the relevant journal entries to deal with unlocking and interest accretion.

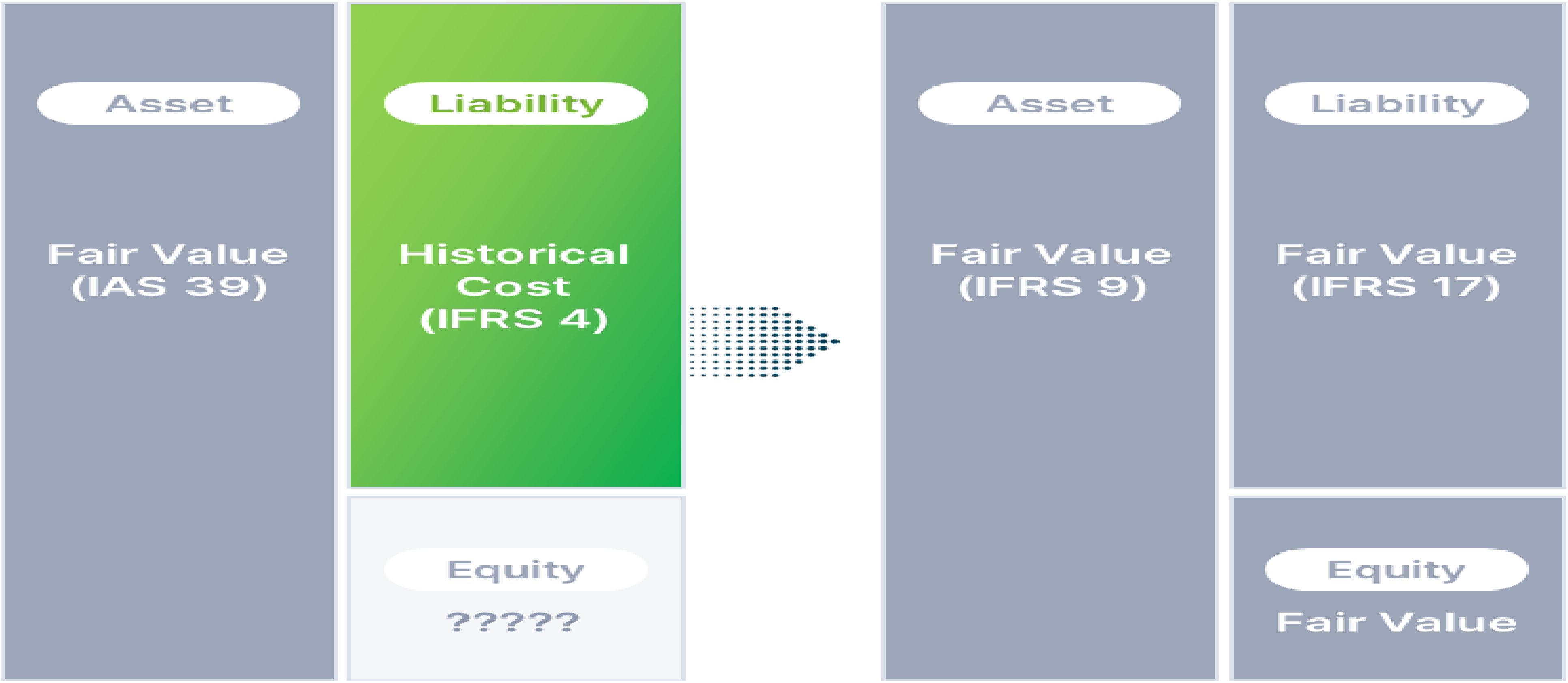
➢ **Time flies, doesn't it?**

- **Korean insurers are now celebrating the adoption of IFRS 17 & 9.**
  - In 2015, arguments against adoption (struggling with low interest rates)
  - In 2020, pushed to postpone implementation (difficulty in building systems, cost, etc.)
  - In 2022 , required early adoption (P&L simulation could be performed after system was implemented)
  - In 2023, began to apply IFRS 17 and IFRS 9 simultaneously for the first time
  - In 2024, started to disclose financial statements ***with profits more than doubling***

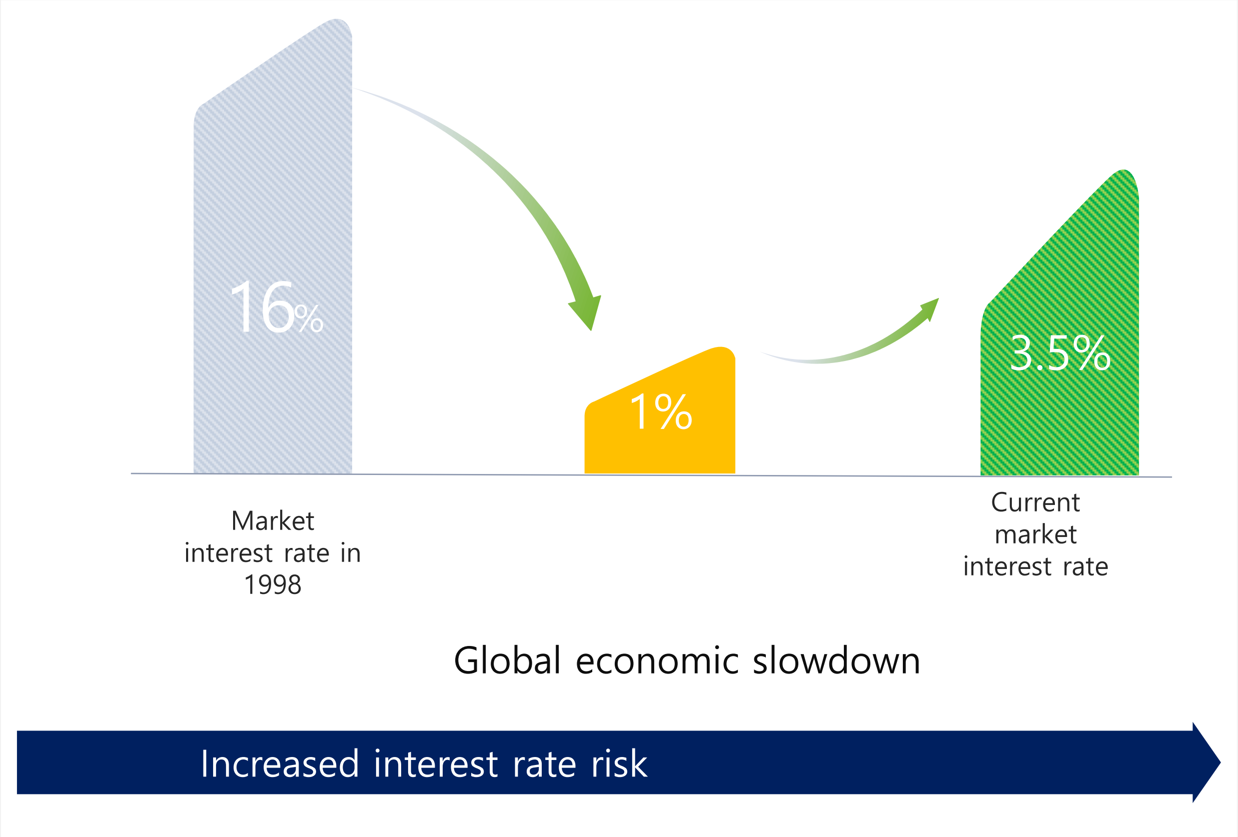
➢ **Today I'd like to talk about why Korean insurers have come to embrace IFRS17 after being so opposed to it, and why they even say that IFRS17 has revived their business.**

2. Why has the Korean insurance industry's attitude towards IFRS 17 changed?

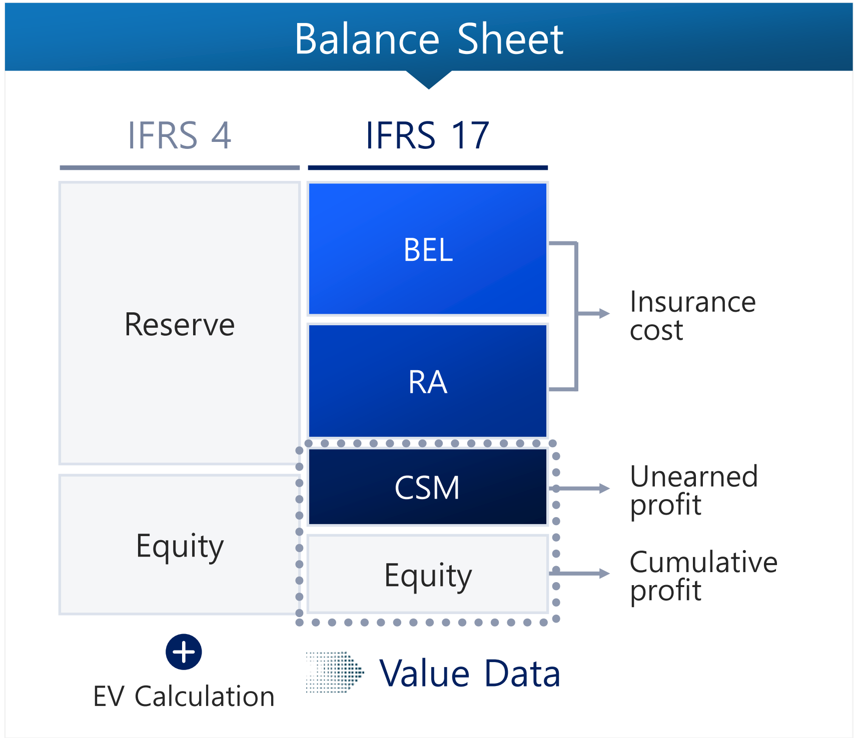
The simultaneous application of IFRS 17 & IFRS 9 resolves the distortion in net asset presentation and contributes to a successful AML



As interest rates began to rise in the 2020s, the pressure on the reverse margins of the higher-rate fixed insurance products sold in the past began to ease.



IFRS 17 F/S represents a clearer picture of different sources of earnings, which provides richer information that will be more relevant and comparable

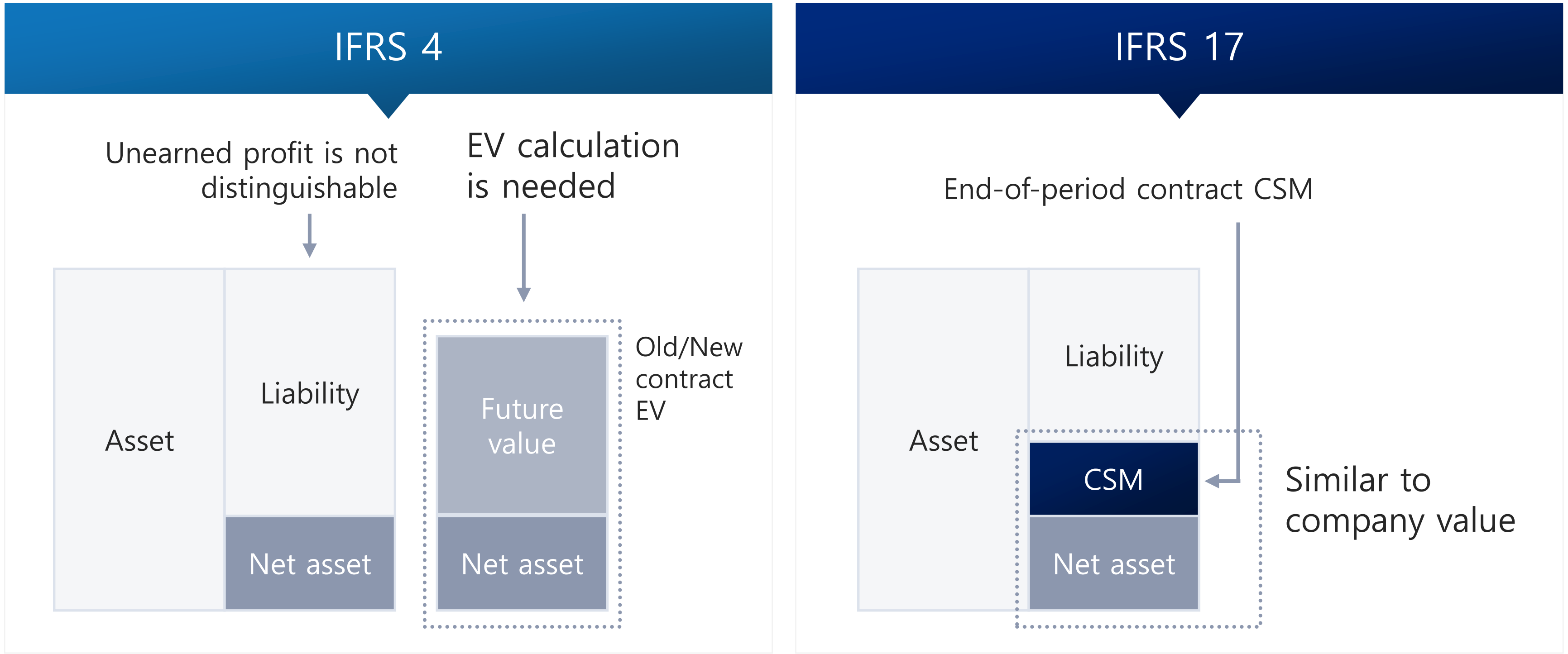


Income Statement

IFRS 4	IFRS 17
Premium received	Insurance revenue
Investment results	Insurance service expenses
Incurred claims and expenses	Insurance service result
Change in insurance contract liabilities	Investment income
	Insurance finance expenses
	Finance result
Profit or loss	Profit or loss

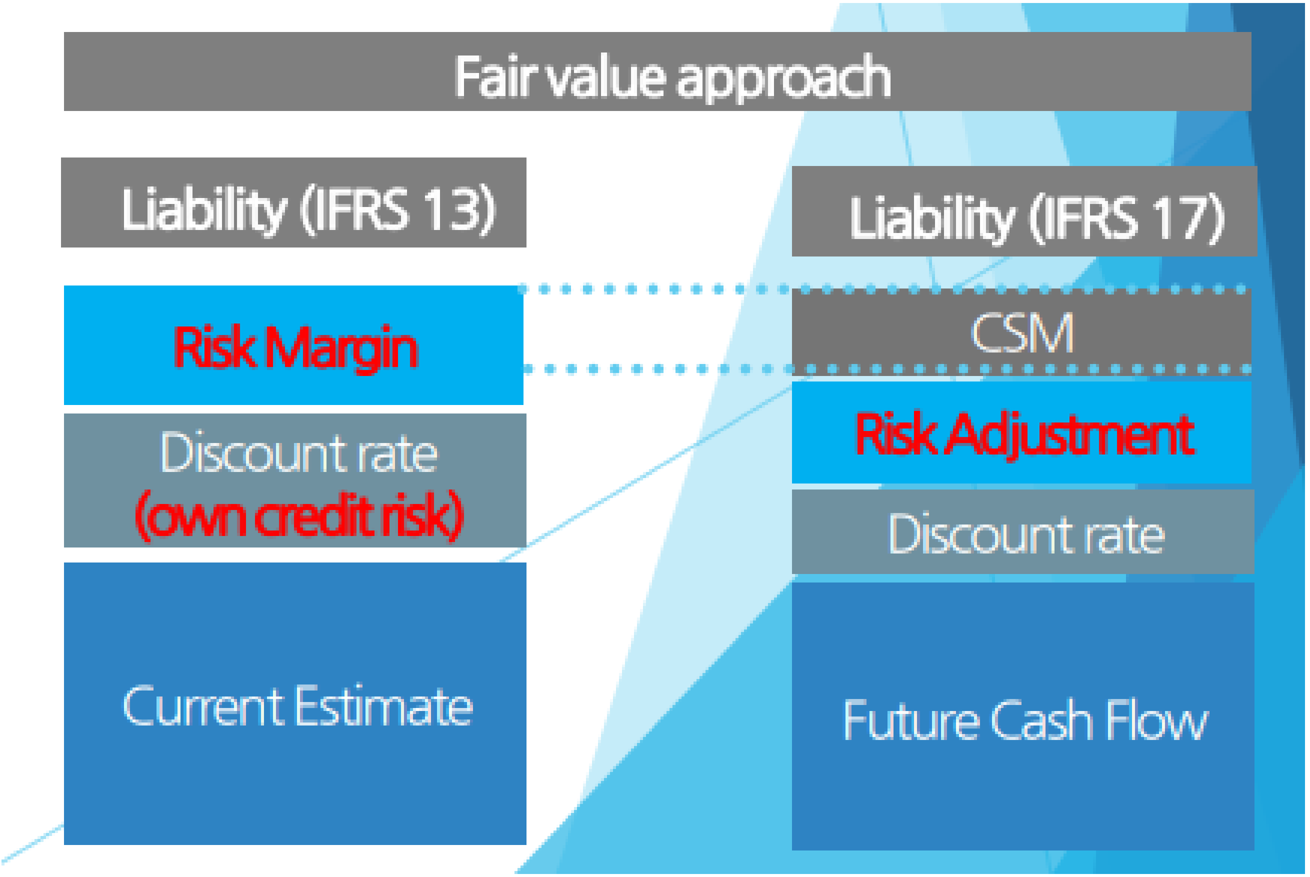
- Disclosing CSM encourages value-based management and enhances the meaningfulness of the balance sheet.
- Insurance reserve liability, which was previously presented as a single line item, is now displayed from top to bottom in profit or loss statement, thereby resulting in an increase in the usefulness of accounting information.

Direct comparisons of value(CSM) are expected to accelerate value-oriented management



- In the past, EV (Embedded Value) was calculated and disclosed separately from financial statements.
- Under IFRS 17, companies will be required to directly disclose the CSM (Contractual Service Margin) that corresponds to the company's value.

Regulators, the insurance industry and auditors formed a task force to develop uniform transition rules to improve comparability across insurers.



- ➢ **Difference between fair value in IFRS 13 and fulfilment value in IFRS17 results in CSM.**

02 Why has the Korean insurance industry's attitude towards IFRS 17 changed?

In the past, financial statements based on statutory accounting were TOO conservative for regulatory purposes. As a result, IFRS 17 began to expose insurers' *hidden profits* through the FV methodology.

Generally Accepted Accounting Principle (GAAP)

IFRS 17

- Provides general purpose financial reporting that external information users need to make decisions
- Fully adopts IFRS

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Statutory Accounting Principle (SAP)

Insurance Law

- Used for supervisory purposes to maintain financial integrity and protect policyholders
- Enacted by a supervisory authority

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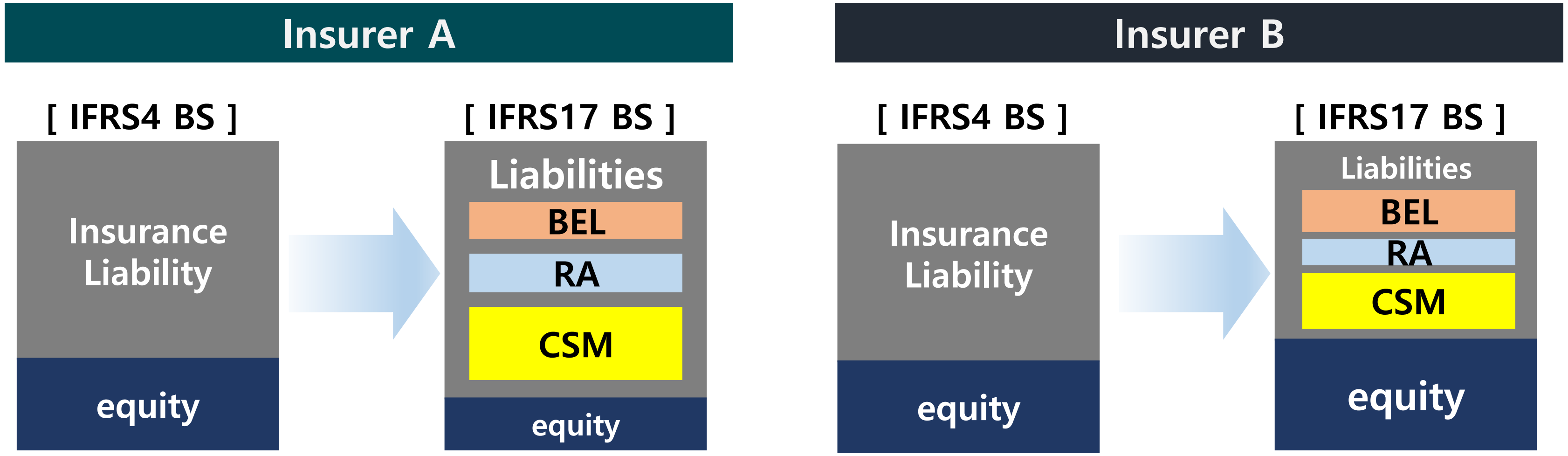
Prudential Accounting Principle (PAP)

K-ICS

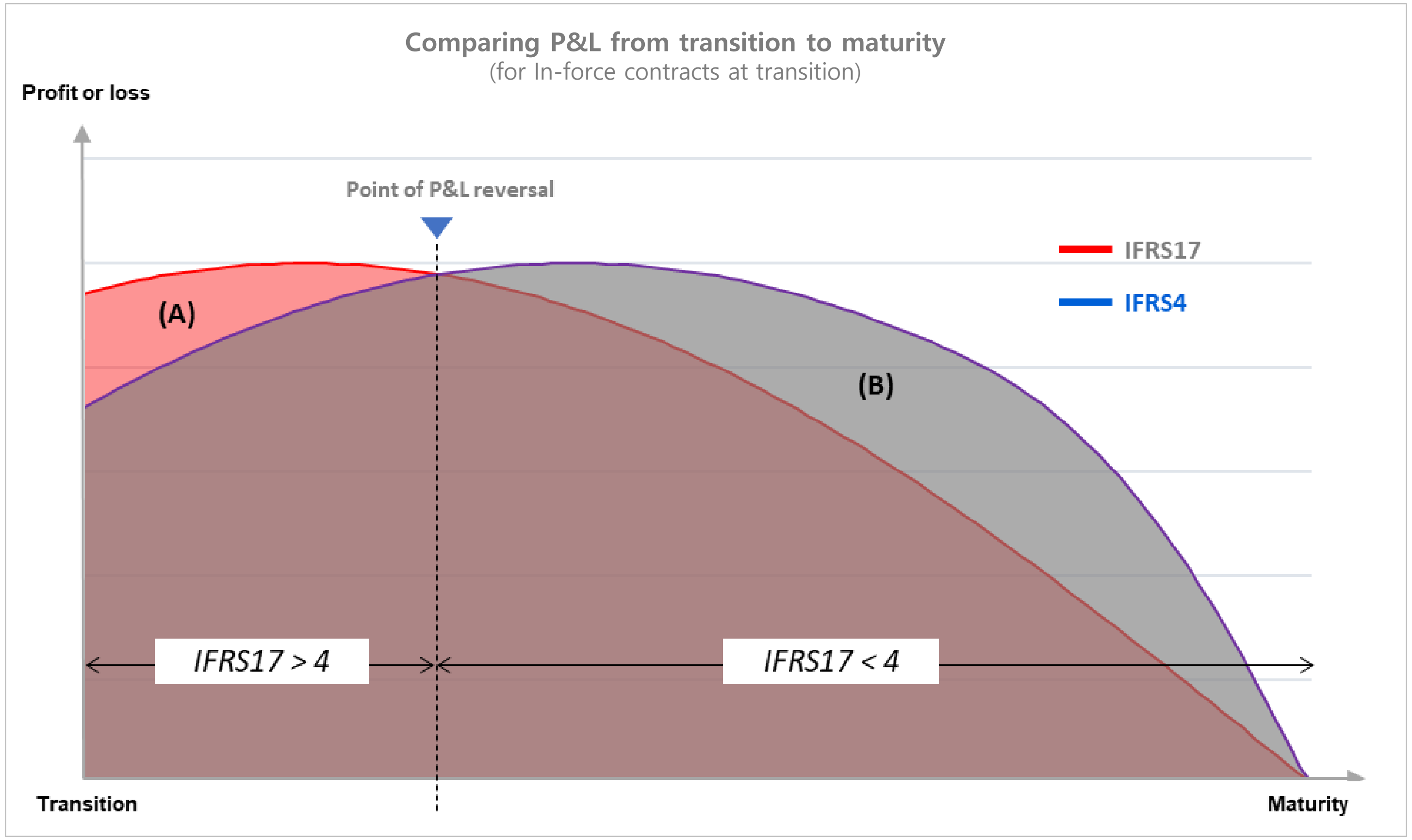
- Used to calculate solvency, a financial health metric
- Requires full mark-to-market valuation of assets and liabilities

3. What CEOs need to consider after IFRS 17 & 9

Insurers will have different financial impacts from adopting IFRS 17 and will need to determine the best transition methodology for their companies



Initially, the IFRS 17 profit tends to be higher than the current profit or loss after the transition to IFRS 17, but this will reverse after a certain point unless the volume of new contracts is sustained.



Why does P&L reversal happen?

- **Higher proportion of *<u>the retrospective approach</u>* at transition leads to higher profit.**
  - ➢ Increase in FV → Lower future profit levels & lack of CSM for deteriorating future assumptions

- **Insurance finance expenses for insurance liabilities tend to increase gradually**
  - ➢ IFRS 17 Discount rate structure impact (Rf+LP+UFR)

- **Under IFRS 4, early expensing of acquisition costs in the first five years**
  - ➢ Recognition of ∆10% of total profits in the period

- **Under IFRS 17, 25% of profit or loss (CSM amortisation) recognised in the first five years**
  - ➢ 40% amortisation of CSM in the first 5 years

→ Korean insurers expect huge profit increase in first five years under IFRS 17, despite no material change in the insurance business

03 What CEOs need to consider after IFRS 17 & 9

The introduction of IFRS 17 does not change the essence of business management, but it requires the establishment of a sophisticated system that can process the information in IFRS 17 to meet the needs of the CEO.

Feedback

Plan Biz Planning

Do Managerial accounting

See Analysis

"The role of business management, including planning, performance analysis, performance evaluation and business improvement, will remain unaffected by the change in accounting."

IFRS4	IFRS17
Are you producing information for management accounting purposes in the IFRS4 framework?	**Can the IFRS17 system produce information that is relevant for management purposes?**

4. Key Takeaways to report to CEOs

Key Takeaways to report to CEO

1. Accounting used to be a discipline that recorded transactions that occurred in a company afterwards, but IFRS 17 feels like an accounting standard developed in line with business practices in developed countries such as Europe, resulting in a situation where **Korean companies have to adapt to European business practices to a certain extent.**

2. Between GAAP, SAP and Managerial Accounting, it is important to consider which accounting standard will be used for the internal reporting purposes in the company.

- ✓ IFRS 17 (= GAAP) was intended to be the accounting standard for global insurers that are parent companies. ※ What former IASB board member, Martin Edelmann (the chair of the TRG for IFRS 17) said
- ✓ SAP is an accounting standard developed by national regulators to prioritise comparability among insurers in their respective countries. ※ Korean privately held small and medium-sized companies submit only SAP
- ✓ Managerial Accounting is based on IFRS 17 but has been adapted for internal performance evaluation, etc.

※ For example, unit of account granularity from group to individual contract, or even more granularity

3. If you are required to adopt IFRS17, careful and deliberate strategy is required as **the transition methodology and discount rate setting** will determine future profits and equity