Deloitte.

Insurance Breakfast Briefing

27 November 2018

Introduction

Glenn Gillard

Agenda

Agenda Items	Speaker
Introduction	Glenn Gillard
IFRS 17 Project Approach and Implementation insights	David Walsh
TIBER-EU (Threat Intelligence-based Ethical Red Teaming)	Jacky Fox
Tax Updates and Recent Developments	Ronan Connaughton
Regulatory Update	Glenn Gillard
Closing Comments	Glenn Gillard

Deloitte.

IFRS 17 Project Approach and Implementation Insights

David Walsh

IFRS 17 The Journey continues

1 The Story so far

Following the issuance of IFRS 17 in May 2017 there was considerable debate over the proposed effective date of 1 January 2021.

Activities Included:

- Lobbying from industry bodies who support the standard; however issues raised need addressing; standard must be reopened to do so.
- EFRAG field testing completed and EFRAG is currently in the process of preparing draft endorsement advice on IFRS 17 and in this context notes a number of concerns of its constituents.

2 Q4 2018

On 14 November 2018, the IASB deliberated and voted to amend IFRS 17 to defer the effective date by one year unanimously (14 votes in favour) to 1 January 2022.

In addition, the IASB also voted to amend IFRS 4 to allow insurers to defer implementation of IFRS 9 by one year as well (13 votes in favour, one against). This enables insurers to continue with the simultaneous implementation of IFRS 17 and IFRS 9 on the same date.

The IASB vote indicates that the IASB can now proceed with drafting an IASB Exposure Draft (ED) to amend IFRS 17 with the effective date. The ED would also amend IFRS 4 such that the IAS 39 overlay approach is extended by one year.

3 2019

The deferral is not yet effective until the final IASB vote following the due process is complete. The final decision and official IFRS changes to the effective dates is expected to take place in Q1 2019.

The next Transition Resource Group meeting for IFRS 17 will be held on 4 April 2019. The meeting was previously scheduled to be held on 4 December 2018 however a limited number of submissions were received since the 26–27 September 2018 TRG meeting so the meeting was moved to allow further time for stakeholders to submit additional implementation questions.

EFRAG endorsement advice to the EU is currently not expected until Q2 2019.

4 2020 and beyond

While the delay has been welcomed by the industry our view would be that this allows for a better implementation process and should not derail or delay any existing plans companies may have developed.

Keep up to date and find out more on our IAS Plus accounting website and sign up for our IFRS 17 webcasts here

IFRS 17 Impacts & Program Structure

Program Effort

Low Medium High

Results from our IFRS 17 impact assessments have identified the following impacted areas and it is recommended that your program structure reflects same.

Business

- Clear business case and support
- Program sponsor to ensure budget and management buy-in

Actuarial

- Expert knowledge will be required to ensure that the system is capable of meeting the requirements
- Knowledge required to define logic, build models and reconcile

Finance

- Key customer due to implications on Financial Statement returns
- Help to ensure program budget is defined and adhered to

Data and Technology

- Data sourcing and interface
- Data storage / foundation
- Knowledge of Actuarial Modelling software

Target Operating Model

- Integrated Finance, Actuarial, IT and Business delivery model
- Future of Work
- Integrated workflow management

Governance ***PMO*** ***Leadership***

Critical Success Factors

The following critical success factors will ensure a successful IFRS17 project

Critical Success Factors	Realisation of CSFs
Scope & Approach	• Early identification of high level requirements and data discovery • Consistent tracking to high level requirements / traceability matrix • Defined scope management process with robust governance
Plan & Monitor	• Produce integrated plan (including RAID) • Ensure process-drive workstreams • Deliver transparent status reporting
Assign Appropriate Resources and Skills	• Early identification and securement of key project resources • Adopt program structure…not BAU • Proactive engagement and planning with external delivery partners
Design, Build, Test and Change Management	• Early set up of enabling infrastructure (i.e. data, governance, COE) • Prioritise upfront design and data discovery • Follow robust sign-off and change process
Deliver as an Integrated Program	• Operate with an end-to-end program discipline • Set up integrated process tracks • Follow agile, scalable approach

OUTCOMES

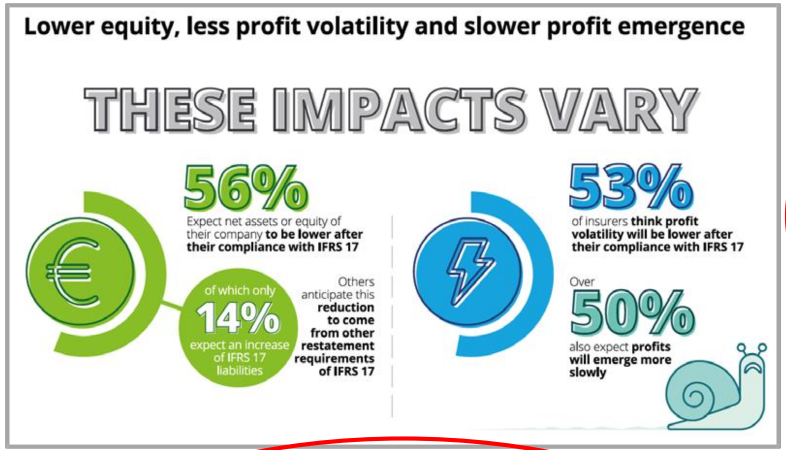
- **On time delivery**
- **Business acceptance**
- **Sustainable solution**

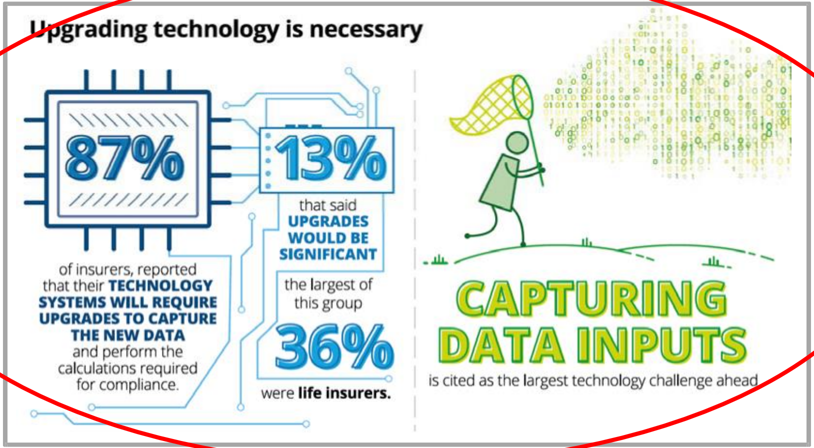
The High Level Roadmap is designed to deliver an integrated IFRS17 solution while minimising implementation risk and cost of ownership

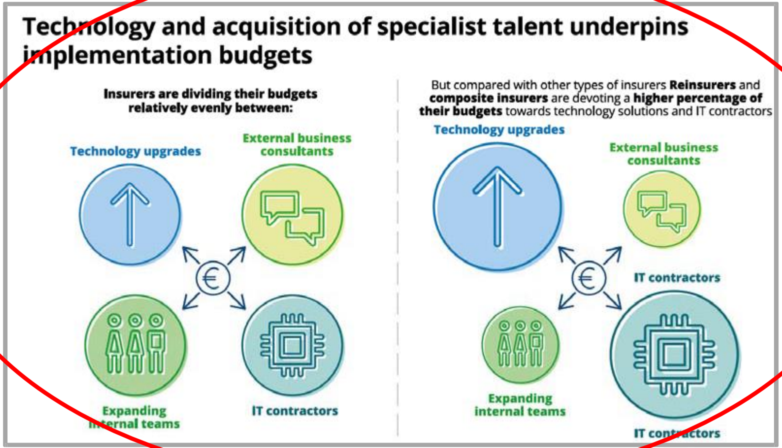
IFRS 17 – What are your peers doing?

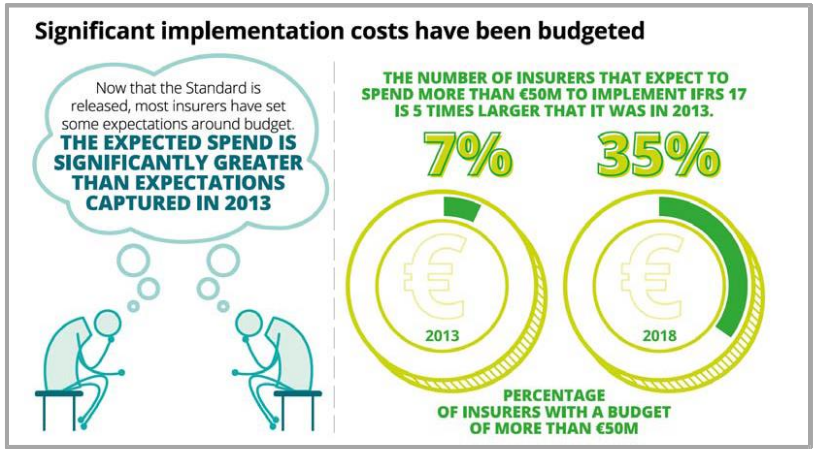
Global Deloitte IFRS 17 Insurance Survey 2018

Below are some key findings from the 2018 insurance survey, specifically calling out system / technology aspects.









Vendor Selection Approach

Here is a high level Vendor Selection Approach to assist you with selecting the most appropriate vendor for your IFRS 17 solution.

Requirements → Process Management → Evaluation & Selection

Refine Requirements → Issue RFP → Evaluate vendor responses → Demonstrations → Cost model → Vendor assessment report

Refine Requirements

- Agree on functional and non-functional scope
- Establish **evaluation criteria** weighting
- Establish and agree evaluation criteria and **scoring methodology**
- Gather and **prioritise requirements**

Issue RFP

- **Finalise vendor short list**
- Prepare **request to vendor providers**
- Issue request to vendor providers
- Prepare scenarios and functional area demo scripts
- Establish and agree demonstration scoring methodology

Evaluate vendor responses

- **Ingest effort** and responses to date
- Facilitate requirements re-prioritisation
- Read and evaluate vendor provider responses
- Facilitate functional and non-functional requirements scoring
- Capture and collate priority, vendor self assessment and scoring for consensus moderation

Demonstrations

- **Schedule and hold demonstrations**
- Capture demonstration scores and comments

Cost model

- Capture vendor **license costs** from RFP
- Refine licence metrics with vendors to improve accuracy
- Compare vendors costs

Vendor assessment report

- Agree vendor scoring result consensus
- **Validate results and recommend** preferred vendor provider
- **Prepare report with findings to the Steering Group**

Deloitte.

TIBER-EU (Threat Intelligence-based Ethical Red Teaming)

Jacky Fox

What is TIBER-EU

- ECB May 2018
- Threat intelligence based ethical red teaming.
- Production systems
- Identify critical functions e.g. payment services, ATMs
- Mimic tactics, techniques and procedures of real actors insiders or external
- Each regulator can decide to use –EU or to localise TIBER-NL
- Input from tiber-nl (November 2017) & CBEST
- Avoid repeated tests from different bodies via mutual recognition
- Don’t give a pass or fail status – just findings to provide insight and improve posture
- Financial stability of greater EU economy
- Oversight mechanism
- The benefit of cross jurisdictional testing accepted across borders by way of mutual recognition

Who is Involved?

- Must be conducted by independent third parties not internal red teams
- A test involves the entity, regulator, external threat intelligence and external red team
- Blue team (who don’t know the test is being conducted)
- White team – internal PM type role
- Financial sector entities definition for TIBER-EU:
- Payment systems, Central Securities depositories, central counterparty clearing houses, trade repositories, credit rating agencies, stock exchanges, securities settlement platforms, banks, payment institutions, insurance companies, asset management companies and other critical service providers.
- Not limited to financial institutions
- The lead authority decides in any jurisdiction who must or should undertake a test

Preparation Phase

- Scope determined and signed off by the board and the regulator
- Critical function identification/confirmation
- Identification of flags
- Qualified Threat Intelligence and Red teams procured? Tender process
- Confidentiality protocols
- Secure document transfer

Risk Management for TIBER-EU?

- Testing on production systems
- Qualifications of TI & RT providers
- Call out of activities that are not allowed during testing e.g. blackmail, bribing, uncontrolled CIA attacks
- Risk and control framework
- Clear escalation procedures and stop button
- Use of code names
- Footprinting risks when mimicking real life attack
- People reconnaissance
- Dark web
- Use of social engineering and under cover

Testing Phase

Threats:

- Generic Threat Landscape (TTPs, Actors & Vulnerabilities) – this can be produced by authorities, other agencies or third party, ISACs etc. and updated annually
- General Threat Landscape of national financial sector threat
- Targeted threat intelligence report to incorporate business overview, threat register & recent attacks
- TTI includes attack surfaces, actors & scenarios
- Estimated effort 5 weeks should be broad and deep input using e.g. OSINT and HUMINT

This feeds into

- The red team test plan to inform the chosen flags and targets
- Reconnaissance –use of TI report and other footprinting
- Weaponisation – selection of tools for targets
- Delivery – launch
- Exploitation – actively breaking in,
- Ownership & lateral movement
- Always time limited so if roadblocks are met hints can be given
- Good governance and comms should be in place during the testing

Tax Updates and Recent Developments

Ronan Connaughton

Setting the scene

Domestic & International Tax Landscape – Key Issues

Domestic Tax Update

- Coffey Review and consultation
- Corporation Tax Roadmap
- Local implementation of international changes

International Developments

- EU ATAD
- BEPS Multilateral Instrument
- EU Tax Intermediaries Directive - DAC 6

Transfer Pricing & Financing Structures

- Non-trading transactions and end of IFLs
- Future of tax efficient external and intragroup financing

Tax Planning & Global ETR

- UK tax rate - 17% by 2020
- US tax rate - now 21%
- More challenging international tax landscape

What's next?

- Pace of change in Tax Policy, Tax Law and increased complexity
- Increased transparency and scrutiny
- Tax controversy and disputes

Setting the scene

EU Anti-Tax Avoidance Directive (EU ATAD) & Future Developments

Controlled Foreign Company Rules

2019

New Exit Tax Regime

2018

30% EBITDA Interest Deductibility

2019/2024

Transfer Pricing Reform

2019/2020

Controlled foreign companies
Outline of Changes

Controlled Foreign Company Rules

2019

What's happening?

- First time introduction of CFC legislation on a mandatory basis in Ireland
- Applies with >50% control where effective tax rate is less than ½ Irish equivalent tax
- Legislation included in Finance Bill 2018 with effect from **1 January 2019**

Outline of change/options

- Two approaches permitted under EU ATAD for inclusion in the domestic tax base

  Ireland has chosen Option B

  Inclusion in the tax base of:

  - undistributed income of the CFC deriving from **non-genuine arrangements** that have been put in place for the **essential purpose of obtaining a tax advantage** in circumstances when a CFC would not have owned the assets/borne the risks if it was not controlled by a company with **"significant people functions"**

  Number of carve outs before CFC charge applies

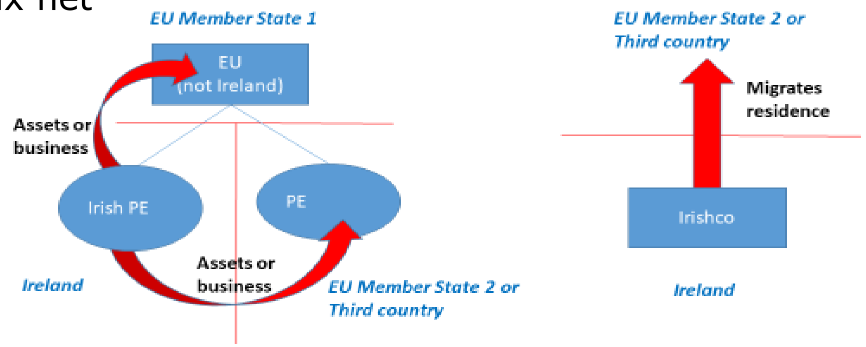
Mandatory exit tax
Outline of Changes

New
Exit Tax
Regime

2018

What's happening?

- EU ATAD mandates the introduction of an exit tax
  - *"A taxpayer shall be subject to tax at an amount equal to the market value of the transferred assets, at the time of exit of the assets, less their value for tax purposes…"*
- Applies broadly on the **migration of the corporate or business** outside the scope of the Irish tax net



- Ireland's existing exit tax did not satisfy the terms of the EU mandate
- Legislation included in Finance Bill 2018 with effect from Budget night

Outline of change/options

- Will apply to any business to the extent assets or corporates are moving outside the scope of the Irish tax net
- Significant focus is on the rate of tax rather than the tax base
- Applies at the 12½% corporation tax rate rather than 33% capital gains tax rate seen as penal and a barrier to future inward investment

30% EBITDA Interest Deductibility
Proposals & timeframe

30% EBITDA Interest Deductibility

2019/2024

What's happening?

- Interest (especially arising under intragroup financing structures) has been a common feature of tax planning – interest tended to be located in countries with higher tax rates
- EU ATAD mandatory provision (which was not an OECD "minimum standard" but regarded as a "common approach")
- Since adoption by the US from 1 January 2018, it may become "minimum standard"
- Ireland has sought to defer implementation until 2024 (instead of 2019)
- Planning for an earlier introduction would be advisable

Outline of change/options

- An alignment of finance costs and business income (with a cap) is regarded as preventing profit shifting
- "**Net borrowing costs**" deductible only to the extent of 30% of EBITDA

Implementation

- Deferral of implementation until 2024 may be challenged by EU

Transfer Pricing Reform

Proposals & timeframe

Transfer Pricing Reform

2019/2020

What's happening?

- The Coffey Review recommended that a number of changes be made in the area of Transfer Pricing
- The Corporation Tax Roadmap as published by the Department of Finance has noted that legislation will be introduced in Finance Bill 2019 to update Ireland's transfer pricing rules with effect from 1 January 2020
- A public consultation may take place in 2019

Outline of change/options

- The proposed changes include:
  - Update Transfer Pricing Legislation to reflect the updated 2017 OECD TP guidelines
  - Application of Transfer Pricing legislation to arrangements the terms of which were agreed before 1 July 2010 (i.e. prior to the introduction of the 2010 OECD TP guidelines)
  - Extension of domestic TP rules to non-trading income and to capital transactions

Other Matters for Consideration

Multilateral Instrument

EU Tax Intermediaries Directive - Mandatory Disclosure

Move to a Territorial Regime?

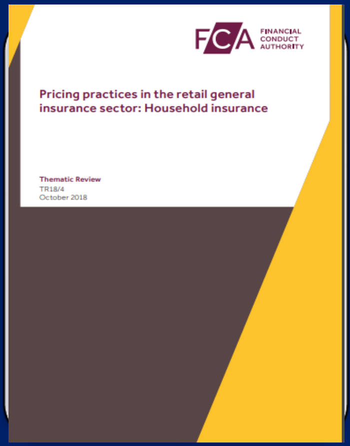
Deloitte.

Regulatory Update

Glenn Gillard

Agenda

Regulatory Update



FCA Thematic Review on Pricing

Central Bank of Ireland paper on Outsourcing in Financial Services Providers

FCA Pricing Review
Background & Context

Background

- 2016 Issues Raised
- Thematic Diagnosis
- Thematic Review - Home Insurance Sector
- Issues financial - October 31, 2018

Issues

- Pricing strategies, governance, control and oversight
- Differential pricing
- Pricing discrimination through risk rating factors

FCA Pricing Review

Findings

Three findings were outlined in detail in the October Thematic report which now form the basis of the Discussion Paper relating to Pricing and the Terms of Reference for follow on reviews. These findings can be summarised as follows:

Pricing Strategy, Governance and Control

- **Pricing objectives and Policy**
- **Governance and Control:**
  - ✓ Board & Exco
  - ✓ Ultimate Responsibility and Accountability
  - ✓ Escalation of pricing decisions
  - ✓ Legacy systems challenges
  - ✓ MI

Differential Pricing (Inertia pricing)

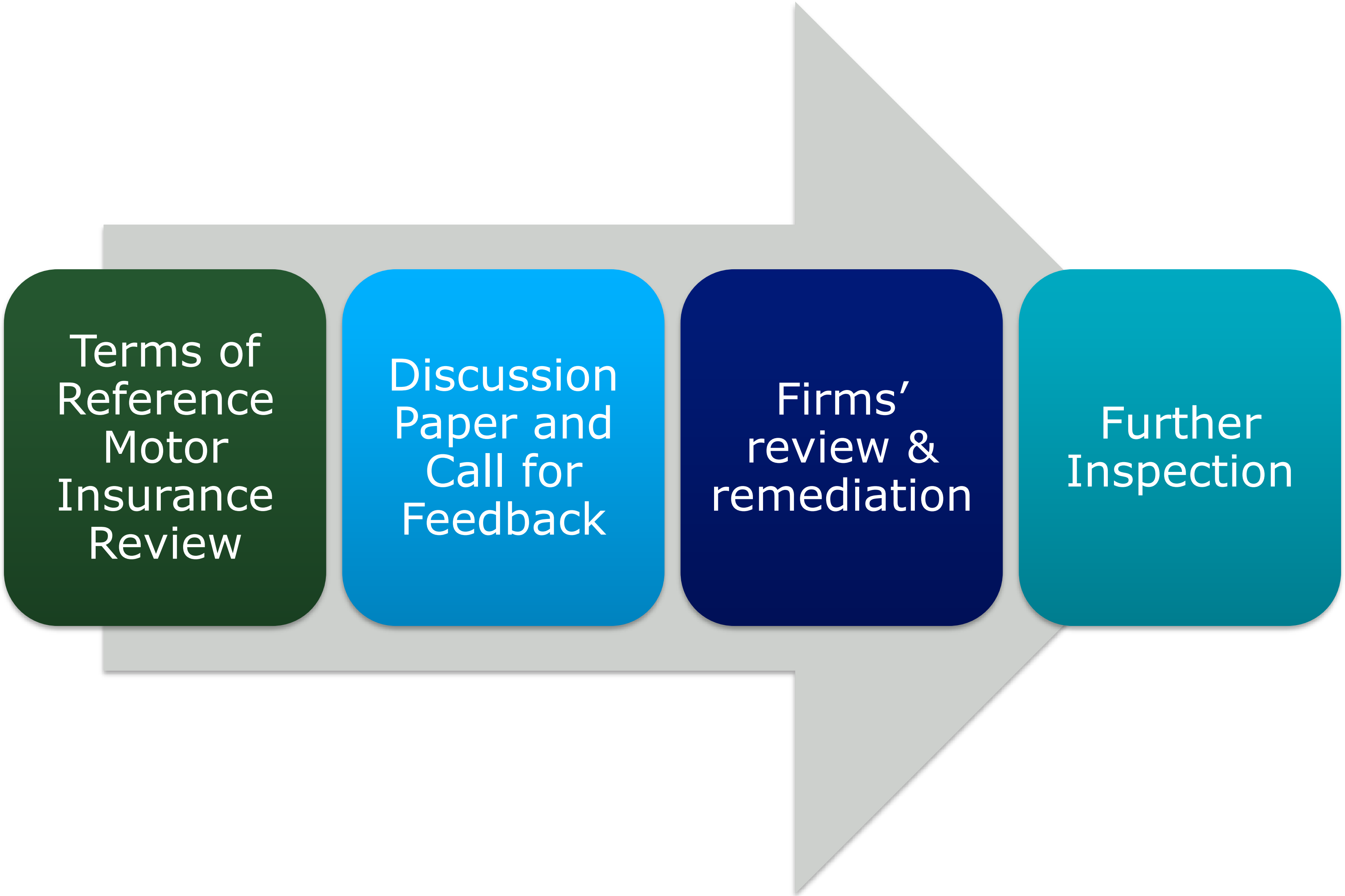
- Evidence of differential pricing through different margins and prices paid by different cohorts of customers in different scenarios
- Viewed as cross-subsidisation of new business through higher margins being applied to renewals
- Most harm to long term renewal customers. For new business many firms looked to break even on new business within 2 to 3 years with sharp premium increases.
- FCA reviewed who were the winners and losers of these scenarios

Discriminatory Pricing

- Risk of use of data sets in pricing which are implicitly based on race and other potential protected criteria
- Firms not clearly communicating to customers in relation to disclosures of spent convictions
- Third party assurance - no discrimination
- Third party due diligence

FCA Pricing Review

Next Steps



Central Bank of Ireland Outsourcing Paper

Background and Context

Context

- Survey issued to 185 firms in relation to outsourcing arrangements currently in place
- Looking to assess the volume of activities; risk & control environment; governance; BCP and outsourcing risk management

Potential Drivers

- Numerous Risk Mitigation Plans imposed relating to Outsourcing findings to date
- Brexit solutions heavily reliant on outsourcing models

Outcome

- A paper was issued by the CBI in November setting out (A) Findings and Expectations in relation to the Survey and (B) Key Outsourcing Risks and Evolving Trends

Central Bank of Ireland Outsourcing Paper

Findings

The following represent the CBI’s findings arising from the review:

Governance

- Board Awareness & Control
- Outsourcing Strategy and Policy
- Responsibility and Oversight
- Contractual Arrangements

Risk Management

- Risk Assessments
- Due Diligence
- Criticality Assessments
- Monitoring & Management
- Skills & Knowledge

BCM

- Business Continuity Plans
- Deficiencies identified in testing outcomes
- Exit strategies

Central Bank of Ireland Outsourcing Paper

Key Risks & Evolving Trends

The following represent, what the CBI have identified as key outsourcing risks and evolving trends:

- Expansion in scale and scope of Outsourcing
- Significant increase of outsourced Risk Management or Internal Control
- More intensive IT outsourcing to Fintechs, Regtechs and CSPs
- Outsourcing involving sensitive data (business and customer)
- Concentration Risk