EXECUTIVE SUMMARY

COGNITUS

HAMILTON

Accounting Automation Engine

Hamilton IFRS 17 Comply

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Currently, in insurance industries, recognition of revenue is taken mainly from gross premium, hence the performance of the company roughly can be measured by looking at their gross premium in the income statement. Under IFRS 17, this distinction no longer applies to insurance industries. Through the new provisions, all insurance contracts revenue must be calculated using three given approaches, such as General Measurement Model (GMM), Premium Allocation Approach (PAA), and Variable Fee Approach (VFA). Under the commonly used model, GMM, the insurance contracts must recognize Contractual Service Margin (CSM) through subtracting the PV of Cashflow by the Risk Adjustment and Deferred Acquisition Cost (DAC) on the balance sheet. Later, these CSM will be amortized slowly in each reporting period to be recognized as revenue. This new implementation will have a big impact because the main sources of revenue recognition are shifted from gross premium to CSM. This might result in the performance of insurance companies all over the world will seem a decrease in their financial reporting. The key difference from this new reporting standard implementation is the calculation of amortization and readjustment of CSM that need to be done every reporting period. Its already takes a big effort to calculate the initial CSM through many considerations and judgement of future risk. Hence, with only using human labour alone might seems impossible to recalculate the adjustment of CSM based on the changing risk factor and claim development that in every period.

"*Deloitte expects that implementing these new IFRS 17 requirements will entail major changes to insurance companies' actuarial and finance reporting processes, systems and data. This effort will likely generate implementation costs for many insurers as large as those incurred in the European Union for the adoption of the Solvency II regulations*" -***Pert Pruner, Partner, Deloitte Romania***

Challenges to Overcome

Hamilton engine provides a comprehensive, integrated, and complete solution for IFRS 17 use cases and its mandatory quantitative disclosures.

Key features and benefits:

■ Simplicity. IFRS 17 is inherently complex, Hamilton engine pushes this complexity to the machine and simplicity to the users, hence adopting IFRS 17 compliance with ease.

■ Adaptability. Regulations and business requirements are evolving. Hamilton engine with its unique use-case driven approach and framework can be extended to address evolving requirements and act as a foundation for future finance transformation.

■ Predictive Accounting Engine. It enables a holistic simulation of business events in the future and provides a better understanding of the unbiased future numbers which is the key to success in this competitive era. All the processes inside the engine are designed and configured using predictive accounting engine, with primary objective to achieve the end goals: Reports and Disclosures.

■ It is a one stop solution for IFRS 9, IFRS 15, IFRS 16 and IFRS 17.

■ Total cost of ownership (TCO) is arguably the lowest in the market for IFRS 17 solution.

Consequences of Non-Compliance

■ Non-compliance could cause problems with company audits.

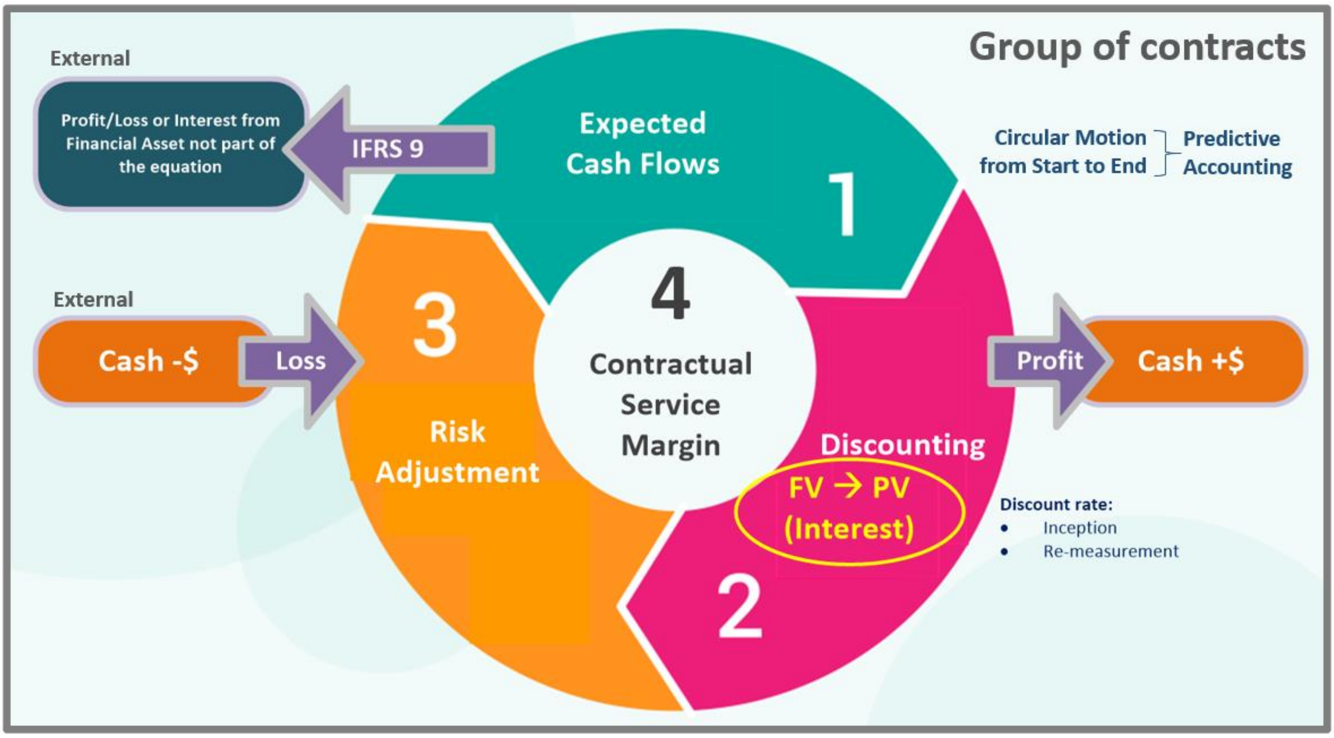
■ Ability to source credit lines and find investors will be slim to none.

■ Delaying could mean more complexity and very costly.

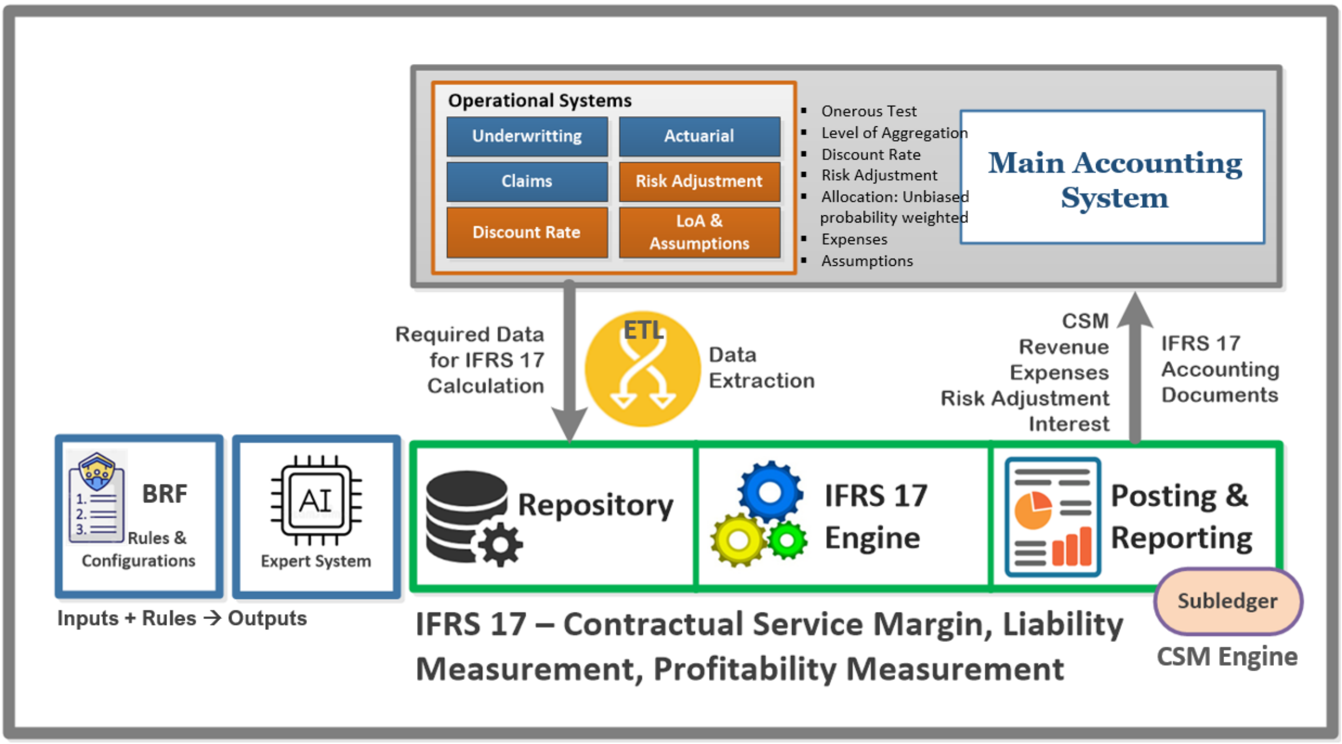
■ Implementation is a time-consuming exercise.

■ Outdated key performance indicators.

Predictive Accounting: Building Block Approach in Circular Motion



Hamilton CSM Engine



Key Functionalities:

IFRS™ 17

- Process & System Integration
- Scope identification (1-9)
- Separation of components (10-13)
- Level of Aggregation (14-24)
- General Model (29-32)
- CSM Engine (38-39)
- Risk Adjustment (37)
- Time Value of Money (36)
- Estimated Future Cash Flows (33-35)
- Revenue/Expenses recognised over time
- Reinsurance (60-62)
- Subsequent Measurement (40-46)
- Onerous Contracts (47-52)
- Financial Performance and separation of information between investment and underwriting performance (80-92)
- Insurance Service Results (83-86)
- Insurance Finance Income (87-92)
- Modification (72)
- Derecognition (74-77)
- Premium Allocation Approach (53-39)
- Variable Fee Approach (71)
- Disclosures (97-116)
- Transition
- Significant Judgements (117-120)

HAMILTON

- ETL Technology for System Integration
- Rules (BRF) & Configurations
- Expert System (AI) for scope identification
- Portfolio Type
- Classification and Dimensions
- Predictive Accounting
- Adaptability
- User Experience
- Time Value of Money
- Use Cases (UC Driven Approach):
  - GMM
  - PAA
  - VFA
  - Time Value of Money
  - Risk Adjustment
  - DAC
  - Other expenses
  - Re-insurance
  - Subsequent Measurement
  - Onerous Contracts
  - Modification
  - Derecognition
- Projection of financial statement
- Financial Position Movement (Roll Forward)
- Time Bucketing
- Additional Reports/disclosures
- Transition
- Control and Traceability

Supported by TAPP

Technical Accounting Position Paper