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STAFF PAPER

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Project	**Transition Resource Group for IFRS 17 *Insurance Contracts***		
Paper topic	Implementation challenges outreach report		
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Introduction

1. This paper reports comments from members of the Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG) in response to staff outreach about implementation concerns that arise in applying the following requirements in IFRS 17:

   (a) presentation of groups of insurance contracts in the statement of financial position;

   (b) premiums received applying the premium allocation approach (PAA); and

   (c) subsequent treatment of insurance contracts acquired in their settlement period.

   This paper does not reflect the full responses received from each TRG member for each topic.

2. The outreach was performed following the discussion at the February 2018 meeting of the TRG. TRG members indicated that implementation challenges

arising because of the requirements listed in paragraph 1 would cause significant changes from existing practice (see Appendices A and B to this paper).

3. The focus of the outreach, and therefore the focus of this paper, is the implementation challenges identified in applying the requirements of IFRS 17. This paper also reports information provided by TRG members about what they think would be useful information for users of financial statements.

4. The staff ask TRG members whether the report appropriately reflects their comments.

5. The staff will provide this report to the International Accounting Standards Board (Board) at a future meeting.

Structure of the paper

6. This paper includes the following sections:

   (a) level of aggregation:

      (i) applying the requirements of IFRS 17;

      (ii) applying existing practice;

      (iii) implementation challenges in identifying premiums received related to groups of insurance contracts;

      (iv) implementation challenges in identifying the liability for incurred claims related to groups of insurance contracts; and

      (v) supporting materials.

   (b) treatment of contracts acquired in their settlement period:

      (i) applying the requirements of IFRS 17;

      (ii) applying existing practice;

      (iii) implementation challenges identified as a result of the change from existing practice; and

      (iv) additional notes.

7. There are three appendices to this paper:

   (a) Appendix A—Relevant extracts from Agenda Paper 7 and the meeting summary of the February 2018 TRG meeting

   (b) Appendix B—Questions sent to TRG members in performing the outreach

   (c) Appendix C—Examples of the PAA mechanics (with comparison to the accounting under existing practice)

Level of aggregation

Applying the requirements of IFRS 17

8. Paragraph 78 of IFRS 17 requires an entity to present separately in the statement of financial position the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. This requirement applies both when a group of contracts is measured using the general model, or when measured using the PAA.

9. A group of insurance contracts (either asset or liability) is disaggregated into a liability for remaining coverage and a liability for incurred claims. Both components need to be identified at the level of a group of insurance contracts.

10. The receipt of premiums during each reporting period affects the measurement of the liability for remaining coverage, as follows:

    (a) applying the general model in paragraphs 33–37 of IFRS 17, the liability for remaining coverage of each group is measured using the fulfilment cash flows, which reflects the current estimate of future cash flows, and the contractual service margin (CSM) for each group. In other words, the measurement excludes the premiums already received and includes premiums that are due but that have not been received.

    (b) applying the PAA, the liability for remaining coverage is measured based on the premiums received less those that have been recognised as revenue.

11. Accordingly, the requirements in IFRS 17 would require entities to identify premiums received for a group of insurance contracts.

12. In contrast, the revenue recognised in each reporting period is not based on actual receipts of premium at each reporting period (see Appendix C to this paper), both applying the requirements of the general model in paragraphs 83 and B120–B125 of IFRS 17 and the requirements of the PAA in paragraphs 55(b)(v) and B126–127 of IFRS 17.

13. TRG members observed that to identify the premiums received for a group of insurance contracts, amounts that they previously presented aggregated as line items (see paragraph 15 of this paper) would need to be disaggregated into groups of insurance contracts that are assets and groups of insurance contracts that are liabilities.

14. A few TRG members suggested that IFRS 17 should be amended to require aggregation at a portfolio or entity level for presentation purposes.

Applying existing practice

15. TRG members explained that under existing practice, line items of the statement of financial position reflect a relatively high level of aggregation of insurance contracts (for example, at an entity level) however, they are disaggregated in a manner that is consistent with the way that entities manage their operations and systems. For example, these line items identify separately:

    (a) insurance receivables—produced by cash management/credit management systems. These represent the amounts due to be received, including overdue amounts and invoiced that are outstanding.

    (b) unearned premium reserve (UPR) and other insurance reserves that relate to future coverage—produced by the policy administration system or an earning engine. The UPR is the amount that reflects the contract premium received or due to be received that has yet to be recognised as revenue. It is primarily used for non-life contracts.

    (c) liability for incurred claims, including incurred but not reported claims (IBNR)—based on claims management systems and actuarial models. This represents the obligation to pay claims that have been incurred but not paid at the reporting date.

    (d) deferred acquisition costs—based on commission administration systems or general cost administration system.

16. A few TRG members explained that under their existing practice for non-life contracts and some protection life contracts, the presentation in the statements of financial position reflects a gross presentation of the premiums invoiced to the policyholders and a liability that reflects the unearned premium. This method of presentation is illustrated in the examples in Appendix C to this paper.

17. TRG members explained that the presentation of these disaggregated line items at an entity level under existing practice reflects critical measures used for both internal and external users of financial statements. In particular, they regard the following as key management metrics for non-life contracts and some protection life contracts:

    (a) premiums receivable—provides information about the entity's exposure to credit risk; and

    (b) UPR—provides information about the entity's obligation to fulfil the contracts.

18. Some TRG members expressed concern that this information would be lost in applying IFRS 17. Furthermore, some TRG members noted that in their view, users of financial statements may consider the information provided by the requirement to present groups of insurance contracts that are assets separately from groups of contracts that are liabilities less relevant. Additionally, in their view, users of financial statements may misinterpret this information.

19. In addition:

    (a) some TRG members stated that since the actual receipt of premiums affects the measurement of the group of contracts, a group can change from asset position to liability position over time;

    (b) a few TRG members noted that they believe that investors and prudential regulators are likely to demand information that is based on existing practice and that preparers would continue producing this information for management purposes;

(c) a few TRG members suggested that the existing practice reflects the information on an accrual basis, whereas they believe the requirements of IFRS 17 are on cash basis and therefore provide less transparent information; and

(d) a few TRG members suggested that IFRS 17 should be amended to bring premiums receivables into the scope of IFRS 9 *Financial Instruments* instead of IFRS 17.

Implementation challenges in identifying premiums received related to groups of insurance contracts

20. TRG members stated that a significant implementation challenge results from the need to identify premiums received with each group of contracts. TRG members explained that the challenge is primarily due to a need for new systems or a significant change to existing systems because existing systems do not link the system that registers premiums received and the system that generates the information necessary to determine the liability for remaining coverage. The latter processes information based on the assumption that premiums were received or are received when due.

21. In addition, TRG members noted that, under existing practice, information is managed using systems based on different granularity levels that reflect the manner in which an entity operates its business. For example, some TRG members noted that the system that registers premiums received, which is focused on the collection of premiums receivable and the management of credit risk, generally aggregates contracts by distribution network (for example, contracts may be aggregated by a broker or an agent).

22. A few TRG members noted that insurers reconcile the receivables generated from the system that registers the premiums received with the information included in the general accounting systems as part of the overall control framework that insurers have developed around their working capital cycle and the close of the

financial reporting. However, this is performed at a higher level of aggregation than a group of contracts.

23. Some TRG members suggested that the challenge of identifying premiums received relating to groups of contracts is equally relevant to life and non-life contracts. Other TRG members suggested that this challenge would be more relevant to non-life contracts mainly because:

    (a) for most life contracts the amounts identified as premiums due to be received are less significant than for non-life contracts. For non-life contracts the beginning of the coverage period and the premium due date are contractually defined independently from whether the premium has been paid (a few TRG members noted that this is also relevant to health and protection business). Conversely, for most life insurance contracts with an investment component the contract only begins when the premium is paid.

    (b) it is expected that an immaterial number of groups of life contracts would switch between asset and liability positions due to the long-term coverage.

24. TRG members suggested that to integrate a system solution that would provide entities with the capabilities to identify premiums received with groups of insurance contracts is likely to be complex and costly. The demands come from a greater need for memory storage, computational capabilities and from the work necessary for this new/upgraded technology to be integrated with the legacy systems of insurers.

25. TRG members noted a concern that, in their view, the costs related to the implementation challenges would be higher than the benefit related to presenting information in the statement of financial position based on groups of insurance contracts.

26. A few TRG members observed that an alternative solution may be to apply an approximation approach for allocating premium receipts amongst the groups of insurance contracts, noting that paragraph 24 of IFRS 17 allows for reasonable

approximations to allocate fulfilment cash flow components to groups of contracts. It was observed that challenges in achieving consistency, reacting to changes in policyholder payment behaviour and validation of the allocation method may arise.

Implementation challenges in identifying the liability for incurred claims related to groups of insurance contracts

27. TRG members stated that a significant implementation challenge results from the need to identify the liability for incurred claims for each group of insurance contracts. They regarded this basis as inconsistent with actuarial valuation principles and stated that it would result in significant implementation costs.

28. TRG members explained that claims are managed and administrated in separate, independent systems (claims administration systems) that are not linked to the system that generates the information necessary to determine the liability for remaining coverage. TRG members also noted that the information about the liability for incurred claims is managed at a granularity level that reflects the manner in which an entity operates its business. For example, some TRG members observed that typically claims are actuarially managed on an accident year claim basis or underwriting year contract basis in order to most appropriately reflect specific characteristics and actuarial principles. TRG members explained that information based at this level of aggregation is a necessary basis for the calculation of the liability for incurred claims including IBNR.

29. A few TRG members noted that, applying IFRS 17, there are other expenses an insurance entity incurs to fulfil the insurance contract obligations that are a level higher than the group of insurance contracts—for example, insurance acquisition cash flows—and that an allocation to groups of insurance contracts would be required regardless of the presentation requirements of IFRS 17. Some of these members expected that the guidance in paragraph 24 of IFRS 17 would be used.

30. Some TRG members suggested that the challenge of identifying the liability for incurred claims with groups of contracts is equally relevant to life and to non-life

contracts. Other TRG members suggested that this challenge would be more relevant to non-life contracts where contracts tend to have a long settlement period.

Supporting materials

31. Based on the responses received from the TRG members, the staff have identified a few areas that the staff believe would benefit from the development of additional supporting materials. The topics that are expected to form the base for these materials, including an illustrative example, are provided below and in Appendix C to this paper. These materials could be useful in facilitating a better understanding of the requirements of the Standard and may be helpful in mitigating some of the implementation concerns expressed by preparers. The topics are the following:

    (a) entities should consider the disclosure requirements included in paragraphs 121–132 of IFRS 17 to provide information about the entity's exposure to insurance and financial risks arising from insurance contracts. In particular, the disclosures related to credit risk that arises from insurance contracts may be relevant in considering whether there is a loss of information that TRG members view as useful to users of financial statements.

    (b) the requirements in IFRS 17 specify the amounts to be reported, not the methodology to be used to determine those amounts.

    (c) paragraph 24 of IFRS 17 states that an entity may estimate the fulfilment cash flows at a higher level of aggregation than a group or portfolio, provided it is able to include the appropriate fulfilment cash flows in the measurement of the group by way of allocation. Paragraph 33(a) of IFRS 17 specifies that the estimates of future cash flows shall incorporate all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. An allocation that incorporates all reasonable and supportable information without undue cost or effort may provide an alternative approach to identifying the premiums received and the liability for incurred claims for each group of insurance contracts.

(d) in a few of the responses received, there may be a misunderstanding of the mechanics of the PAA. The staff have developed a few examples based on a fact pattern provided by a TRG member to illustrate the mechanics of the PAA approach together with the accounting under existing practice. The staff think it would be helpful to communicate these examples as supporting material (see Appendix C to this paper).

Treatment of contracts acquired in their settlement period

Applying the requirements of IFRS 17

32. Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. Paragraph B5 of IFRS 17 states that for these contracts the insured event is the determination of the ultimate cost of the claim.

33. When an entity acquires contracts in their settlement period, the entity essentially provides coverage for the adverse development of claims. The period over which the claims could develop extends to the settlement period for the entity that issued the original contract. Thus, the settlement period for the entity that issued the original contract becomes the coverage period for the entity that acquires the contracts. Therefore, contracts acquired in their settlement period will be considered part of the liability for remaining coverage for the entity that acquired the contract and not part of the liability for incurred claims.

34. This results in entities accounting differently for similar contracts depending on whether those contracts are issued by the entity or whether the entity acquired those contracts in their settlement period. The most notable outcomes of this distinction include:

    (a) an entity applies the general model for the contracts acquired in their settlement period (because the period over which claims could develop is longer than one year) while entities expect to apply the PAA for similar contracts they issue; and

    (b) an entity recognises revenue for the contracts acquired in their settlement period over the period the claims can develop, while revenue is no longer recognised over this period for similar contracts issued.

Applying existing practice

35. TRG members noted that applying these requirements reflects a significant change from existing practice and this change results in implementation

challenges and costs. Most members noted their concern is primarily relevant to entities that expect to account for all the contracts they issue using the PAA, which include mainly non-life and health contracts.

36. TRG members explained that, applying existing practice, contracts acquired in their settlement period are accounted for as liability for incurred claims of the acquirer.

37. Some TRG members observed that, in their view, users of financial statements could consider the information provided applying the requirements of IFRS 17 to be misleading or counterintuitive as it distinguishes similar contracts based on whether they have been issued by the entity or acquired by it in their settlement period.

38. A few TRG members suggested that revenue recognition for contracts acquired in their settlement period could affect the incentive or pricing of business combination transactions in the market place. They state that this is because revenue for the same contract would be recognised twice; once by the issuer of the contract, and again (not necessarily the same amount) by the acquirer of the claims that result from that contract. The different accounting under US GAAP was also noted.

Implementation challenges identified as a result of the change from existing practice

39. TRG members noted that entities that expect to apply the PAA for all contracts they issue would need to develop systems to support the accounting for contracts acquired in their settlement period applying the general model of IFRS 17.

40. A few TRG members commented on the uncertainty involved with estimating cash flows that relate to the ultimate settlement of such contracts and the challenges in determining the coverage units for CSM allocation.

Additional notes

41. There is some similarity to the treatment of some contracts that are acquired in a business combination when the transaction is accounted for differently by the entity that issued the contract and the reporting entity after the business combination. As in such cases, additional disclosures might be necessary to provide information that enables users of financial statements to evaluate the nature and financial effect of a business combination according to paragraph 59 of IFRS 3 *Business Combinations*. These disclosures, together with those required by IFRS 17, may mitigate some of the concerns raised above.

Appendix A—Relevant extracts from Agenda Paper 7 and the meeting summary of the February 2018 TRG meeting

Topic 1—Presentation of groups of insurance contracts in the statement of financial position

S03—Presentation of groups of insurance contracts in the statement of financial position

A.1 Question—The submission asks whether the requirement in paragraph 78 of IFRS 17 to present separately in the statement of financial position groups of insurance contracts issued that are assets and groups of insurance contracts that are liabilities is appropriate and whether presentation at a portfolio level would be more appropriate considering groups share similar risks and are managed together. The submission notes that as a result of implementation of paragraph 78 of IFRS 17 preparers will provide information which will not add value to users of financial statements and will be produced at significant cost for preparers on and after transition.

A.2 Response—The submission acknowledges the IFRS 17 requirements for the separate presentation of groups of insurance contracts that are assets and groups of insurance contracts that are liabilities. A group of insurance contracts is the unit of account applying IFRS 17. The *Conceptual Framework for Financial Reporting* states:

> Offsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but combines them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

The requirements in IFRS 17 are therefore consistent with the *Conceptual Framework.*

A.3 Summary note—The requirements in IFRS 17 are clear. Applying these requirements reflects a significant change from existing practice and this change results in implementation complexities and costs.

Topic 2—Premiums received applying the premium allocation approach

S23—Premiums received applying the premium allocation approach

A.4 Question—The submission questions what is meant by 'premiums, if any, received' in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 with respect to the measurement of the liability for remaining coverage applying the premium allocation approach. The submission considers three interpretations. The first based on a literal reading of the Standard refers to premiums actually received. The other interpretations are broader and include premiums due and premiums expected.

A.5 Response—'Premiums, if any, received' as included in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 means premiums actually received at the reporting date. It does not include premiums due or premiums expected.

We have received, very recently, a separate submission (#27 in the submissions log) that raises a question that relates to this submission. This new submission will be assessed for a future TRG discussion.

A.6 Summary note—The requirements in IFRS 17 are clear. Applying these requirements reflects a significant change from existing practice and this change results in implementation complexities and costs.

S27—Premiums received applying the premium allocation approach

A.7 Question—The submission states that paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 appear to preclude the recognition of future premiums already invoiced but not yet paid and future premiums not yet invoiced in the measurement of the liability for remaining coverage applying the premium allocation approach. The submission asks whether this interpretation is correct and states that some preparers are looking to interpret the requirements of IFRS 17 to permit the inclusion of premiums receivable because they consider it would provide more transparent information and because of practical difficulties and costs in identifying premiums received on a group of insurance contracts basis. The submission requests that the Board amend IFRS 17 to allow the recognition of premiums receivable when measuring the liability for remaining coverage applying the premium allocation approach. The submission requests that, if the Board does not amend IFRS 17, further examples and guidance of applying this treatment are provided.

A.8 Response—The question raised in this submission is related to submission S23. This new submission will be assessed for a future TRG discussion.

Topic 3—Subsequent treatment of contracts acquired in their settlement period

S04—Subsequent treatment of contracts acquired in their settlement period

A.9 Question—The submission asks how insurance revenue and insurance service expenses should be presented for insurance contracts acquired in conjunction with a business combination or similar acquisition in their settlement period. More specifically, whether revenue would reflect the entire expected claims or not.

A.10 Response—Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. Paragraph B5 of IFRS 17 states that for these contracts the insured event is the determination of the ultimate cost of the claim. Therefore, acquiring contracts in their settlement period is essentially providing coverage for the adverse development of claims.

The subsequent treatment for the liability for remaining coverage is set out in paragraph 41 of IFRS 17. Accordingly, revenue would reflect the entire expected claims. If some cash flows meet the definition of an investment component, those cash flows will not be reflected in revenue or expenses.

A.11 Summary note—The requirements in IFRS 17 are clear. Applying these requirements reflects a significant change from existing practice and this change results in implementation complexities and costs.

Appendix B—Questions sent to TRG members in performing the outreach

Topic 1—Presentation of groups of insurance contracts in the statement of financial position (S03 in Agenda Paper 7 of the February 2018 TRG meeting)

B.1 Please describe any specific implementation challenges that you have identified as a result of applying the presentation requirement in paragraph 78 of IFRS 17.

B.2 Do these challenges apply to the presentation aspect alone (paragraph 78 of IFRS 17) or any other aspects of the measurement of insurance contracts?

B.3 Are these challenges relevant equally for life and non-life contracts issued?

Topic 2—Premiums received applying the premium allocation approach (S23 in Agenda Paper 7 of the February 2018 TRG meeting)

B.4 Please describe any specific implementation challenges that you have identified as a result of applying the measurement requirements in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17.

B.5 Are your observations relevant equally for life and non-life contracts issued?

B.6 Are your observations relevant equally in applying the general measurement model instead of the optional premium allocation approach?

B.7 If those challenges arise from identifying amounts actually received for each contract, please explain how you currently identify those amounts at each reporting date.

Topic 3—Subsequent treatment of contracts acquired in their settlement period (S04 in Agenda Paper 7 of the February 2018 TRG meeting)

B.8 Please describe any specific implementation challenges that you have identified as a result of applying the requirements in IFRS 17 for contracts acquired in their settlement periods.

B.9 Do your observations apply equally for life and non-life contracts acquired?

B.10 Please specify whether your comments relate to measuring such contracts or determining the amount of insurance revenue and insurance service costs related to such contracts or both.

Appendix C—Examples of the PAA mechanics (with comparison to the accounting under existing practice)

Fact pattern[1]

C.1 A contract is issued with a period of insurance coverage 1 July 20X1–30 June 20X2. The contractually agreed premium is CU1,200. Insurance acquisition cash flows of CU180 are paid on 1 July 20X1.

C.2 The premium is paid at different timing in the three scenarios:

(a) Scenario 1—Premium paid up front;

(b) Scenario 2—Premium paid at the end of the coverage period; and

(c) Scenario 3—Premium paid on a monthly basis.

C.3 The example illustrates the accounting for the contract applying the PAA at each interim reporting period. The example:

(a) is simplified, however it illustrates that the timing of premium receipts do not directly affect the revenue recognition pattern applying IFRS 17;

(b) assumes, for simplicity, that no claims are incurred (the liability for incurred claims is part of the insurance contract liability or asset); and

(c) illustrates the presentation of items on the statement of financial position applying existing practice and applying IFRS 17.

[1] The fact pattern and accounting under existing practice is based on examples provided by a TRG member.

Scenario 1—Premium paid up front

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2
Existing practice—insurance line items on the statement of financial position and revenue reported					
Premium receivable	0	0	0	0	0
Unearned premium reserve (UPR)	(1200)	(900)	(600)	(300)	0
Deferred acquisition cost (DAC)	180	135	90	45	0
Sum of insurance line items on the statement of financial position (overall liability position)	**(1020)**	**(765)**	**(510)**	**(255)**	**0**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported					
Opening balance	0	(1020)	(765)	(510)	(255)
55(a)(i) Premium received on initial recognition	(1200)				
55(a)(ii) Insurance acquisition cash flows	180				
55(b)(i) Premiums received in the period		0	0	0	0
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**
Closing balance of insurance contract asset / (liability)	**(1020)**	**(765)**	**(510)**	**(255)**	**0**

IFRS 17 PAA—journal entries

At initial recognition - 01.07.X1

Receipt of premiums	Dr	Cash	1200
	Cr	Insurance contract liability	1200
Insurance acquisition cash flows	Dr	Insurance contract liability	180
	Cr	Cash	180

At each reporting date (30.09.X1, 31.12.X1, 31.03.X1 and 30.06.X1)

Amortisation of insurance acquisition cash flows	Dr	Insurance service expenses	45
	Cr	Insurance contract liability	45
Insurance revenue	Dr	Insurance contract liability	300
	Cr	Insurance revenue	300

[2] Expected premium receipts allocated to coverage periods (CU1200 / 4 periods = CU300)

Scenario 2—Premium paid at the end of the coverage period

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2
Existing practice—insurance line items on the statement of financial position and revenue reported					
Premium receivable	1200	1200	1200	1200	0
Unearned premium reserve (UPR)	(1200)	(900)	(600)	(300)	0
Deferred acquisition cost (DAC)	180	135	90	45	0
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**435**	**690**	**945**	**0**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported					
Opening balance	0	180	435	690	945
55(a)(i) Premium received on initial recognition	0				
55(a)(ii) Insurance acquisition cash flows	180				
55(b)(i) Premiums received in the period		0	0	0	(1200)
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**
Closing balance of insurance contract asset / (liability)	**180**	**435**	**690**	**945**	**0**

IFRS 17 PAA—journal entries

At initial recognition - 01.07.X1

Insurance acquisition cash flows	Dr	Insurance contract asset	180
	Cr	Cash	180

At each reporting date (30.09.X1, 31.12.X1, 31.03.X1 and 30.06.X1)

Amortisation of insurance acquisition cash flows	Dr	Insurance service expenses	45
	Cr	Insurance contract asset	45
Insurance revenue	Dr	Insurance contract asset	300
	Cr	Insurance revenue	300

At the end of the coverage period (30.06.X1)

Receipt of premium[3]	Dr	Cash	1200
	Cr	Insurance contract asset	1200

[3] Entities should consider the disclosure requirements included in paragraphs 121–132 of IFRS 17 to provide information about the entity's exposure to credit risk that arises from insurance contracts.

Scenario 3—Premium paid on a monthly basis

Reporting date	01.07.X1	30.09.X1	31.12.X1	31.3.X2	30.6.X2
Existing practice—insurance line items on the statement of financial position and revenue reported					
Premium receivable	1200	900	600	300	0
Unearned premium reserve (UPR)	(1200)	(900)	(600)	(300)	0
Deferred acquisition cost (DAC)	180	135	90	45	0
Sum of insurance line items on the statement of financial position (overall asset position)	**180**	**135**	**90**	**45**	**0**
Revenue for each period (change in UPR)		**300**	**300**	**300**	**300**
IFRS 17 PAA—insurance contract asset / (liability) on the statement of financial position and revenue reported					
Opening balance	0	180	135	90	45
55(a)(i) Premium received on initial recognition	0				
55(a)(ii) Insurance acquisition cash flows	180				
55(b)(i) Premiums received in the period		(300)	(300)	(300)	(300)
55(b)(iii) Amortisation of insurance acquisition cash flows		(45)	(45)	(45)	(45)
55(b)(v) Insurance revenue applying B126[2]		**300**	**300**	**300**	**300**
Closing balance of insurance contract asset / (liability)	**180**	**135**	**90**	**45**	**0**

IFRS 17 PAA—journal entries

At initial recognition - 01.07.X1

Insurance acquisition cash flows	Dr	Insurance contract asset	180
	Cr	Cash	180

At each reporting date (30.09.X1, 31.12.X1, 31.03.X1 and 30.06.X1)

Receipt of premiums	Dr	Cash	300
	Cr	Insurance contract asset	300
Amortisation of insurance acquisition cash flows	Dr	Insurance service expenses	45
	Cr	Insurance contract asset	45
Insurance revenue	Dr	Insurance contract asset	300
	Cr	Insurance revenue	300