Proposed amendments to IFRS 17—making it easier for insurers to explain their results

Nick Anderson

Nick Anderson, a member of the International Accounting Standards Board (Board), offers insight into the new disclosures the Board is proposing as part of a package of targeted amendments to IFRS 17 *Insurance Contracts*.

Getting ready to apply the new insurance contracts Standard, IFRS 17, is a big challenge for insurers. To help them, the Board is proposing targeted amendments to:

- reduce the cost and effort of preparing for IFRS 17; and
- make it easier for insurers to explain their financial results to investors.

In this *Investor Perspectives* article, we discuss two proposed amendments that would make explaining financial results to investors easier for some insurers. The proposed amendments are new measurement requirements and accompanying new disclosures relating to:

- commissions paid on short-term insurance contracts with expected renewals; and
- profit recognition on long-term insurance contracts with investment returns.

More time to get ready

As part of the amendments package, the Board is proposing to defer the start date of IFRS 17 to 1 January 2022, giving insurers an extra year to get ready.

Deferring the start date by one year reflects a careful balance between:

- the urgent need for investors to have better information about the financial performance of insurers; and
- giving insurers certainty about their IFRS 17 project timelines, in the light of the Board's decision to consider amending the Standard.

❶ Commissions paid on short-term insurance contracts with expected renewals

Often an insurer pays an agent commissions for selling insurance contracts on its behalf. An insurer that sells short-term insurance contracts, for example, annual motor insurance, may pay a commission higher than the annual premium the insurer will receive from the customer. The insurer expects to recover the cost and make profits through some customers renewing the contract at the end of the year, and perhaps renewing many more times after that.

Proposed amendment to IFRS 17

Applying IFRS 17, as issued in 2017, some commissions on new insurance contracts are allocated in full to the measurement of those contracts, and not to expected renewals, resulting in a loss being recognised in some cases. The proposed amendment would allow insurers to allocate a portion of the commissions to expected renewals. This amendment would make it easier for some insurers to explain to investors why they pay commissions higher than premiums on new insurance contracts.

Practical implications

- Fewer insurance contracts would be loss making.
- Assets for acquisition costs, such as commissions, would last longer and would be subject to an impairment test.
- New disclosures about assets for acquisition costs would be required.

Example—implications of proposed amendment[1]

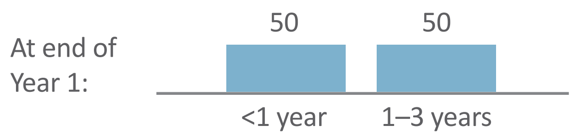
	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
IFRS 17 as issued in 2017			
Premium	100	100	100
Claim	–	–	–
Commission	(150)	–	–
Profit/(loss)	**(50)**	**100**	**100**
IFRS 17 with proposed amendment			
Premium	100	100	100
Claim	–	–	–
Commission	(50)	(50)	(50)
Profit/(loss)	**50**	**50**	**50**
Asset for acquisition costs	**100**	**50**	**–**

New proposed disclosures[1]

1. Asset for acquisition costs roll forward

	Asset
Year 1 opening balance	–
Amounts paid in the period	150
Amounts included in measurement of insurance contracts	(50)
Year 1 closing balance	**100**

2. When the insurer expects to derecognise an asset for acquisition costs



1 The purpose of the examples and disclosures in this article is to illustrate the implications of the proposed amendments. The examples and disclosures are simplified. Assumptions have been applied that may not be relevant in all facts and circumstances.

❷ Profit recognition on long-term insurance contracts with investment returns

Some insurers offer customers insurance coverage and investment service, bundled in a single contract. For example, some deferred annuities provide investment returns during the accumulation period, followed by insurance coverage during the annuity period.

Proposed amendment to IFRS 17

Applying IFRS 17, as issued in 2017, profit is recognised over the insurance coverage period, reflecting the pattern of insurance coverage. Other services, such as investment service, are not considered when determining the pattern and period over which profit is recognised. For insurance contracts that are substantially investment-related service contracts, however, profit is recognised reflecting the pattern of both insurance coverage and investment service.

The proposed amendment would require insurers to recognise profit reflecting the pattern of both insurance coverage and investment service for more contracts, including for some deferred annuities, if specified criteria are met indicating that an investment service exists.

Practical implications

- The timing of profit recognition would change for some long-term insurance contracts.
- New disclosures about how profit is recognised would be required.

Example—implications of proposed amendment[1]

	Period 1 (accumulation period)	Period 2 (annuity period)
Timeline	Premium invested in an accumulating account balance Customer pays premium	Customer receives a fixed income each year until death Balance converted into annuity
IFRS 17 as issued in 2017		
Service	–	Insurance coverage
Profit	–	120
IFRS 17 with proposed amendment		
Service	Investment service	Insurance coverage
Profit	40	80

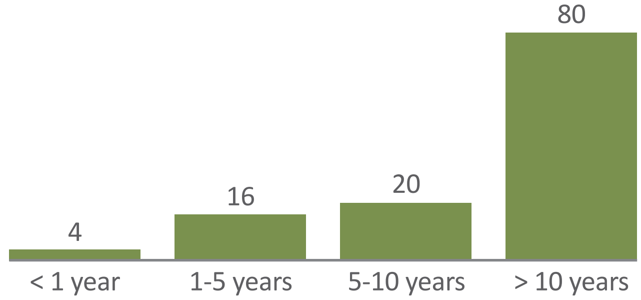
Note: this example assumes that the criteria for the existence of an investment service in the accumulation period are met. Not all deferred annuities provide investment service.

New proposed disclosures[1]

1. Approach to determining the weighting of benefits provided by insurance coverage and investment service

> **Significant judgements and estimates**
>
> …
>
> Deferred annuities provide an investment service during the accumulation period and insurance coverage during the annuity period. The relative weighting of benefits provided by each service is determined by…

2. When the insurer expects to recognise remaining unearned profit as revenue



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Find out more

For an overview of all proposed amendments to IFRS 17, read our snapshot or watch our webinar available on the project page.

Send us your views

The Exposure Draft of proposed amendments to IFRS 17 is open for public comment until 25 September 2019. Submit your comments here.

Get in touch

If you would like to discuss this topic or other areas of accounting, please contact Fred Nieto, Head of Investor Engagement, at fnieto@ifrs.org.

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