

Level of aggregation

IFRS 17 *Insurance Contracts*

Part 1 of 2

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IFRS 17 webcasts

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This webcast

January 2017 Level of aggregation

Previous webcasts

May 2017	Introducing IFRS 17
May 2017	Understanding IFRS 17
June 2017	Core requirements: scope of IFRS 17
July 2017	Core requirements: measurement essentials of IFRS 17
August 2017	Simplified accounting for contracts with short coverage periods
September 2017	Reinsurance contracts held
November 2017	Core requirements: recognition and derecognition
December 2017	Transition to IFRS 17



Further information:

go.ifrs.org/IFRS-17-implementation and

IFRS 17 webcasts YouTube playlist:

<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

IFRS 17 Effects Analysis available at <http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-effects-analysis.pdf>

IFRS 17 Project Summary available at <http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-project-summary.pdf>

IFRS 17 Feedback Statement available at <http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-feedback-statement.pdf>

Part 1

- Why are insurance contracts grouped?
- How are insurance contracts grouped?

Part 2

- Recognition and derecognition
- Other topics
 - Disclosures

Why are insurance contracts grouped?

IFRS 17 level of aggregation

Why are insurance contracts grouped?

Other industries and IFRS contract accounting



Typically, recognise and measure at individual contract level

Insurance and IFRS 17 contract accounting



- Insurance activities often rely on issuing a number of similar contracts to reduce risk
- Measuring profitability on an individual contract may not reflect this
- However, if profitability is measured on a collection contracts that have been aggregated at too high a level then useful information is lost because profit and loss are treated asymmetrically in IFRS 17

Further information:

Basis for Conclusions for IFRS 17 BC115–BC139

What does grouping affect?

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- IFRS 17 does not require or restrict grouping for determining fulfilment cash flows
 - It allows an entity to estimate the fulfilment cash flows at whatever level of aggregation is most appropriate
- Fulfilment cash flows are treated symmetrically:
 - Include all future cash flows weighted for probability, irrespective of whether they are inflows or outflows
 - Risk adjustment is measured to reflect the compensation required for bearing uncertainty, the treatment is the same whether changes are increases or decreases



Further information:

IFRS 17 paragraph 24

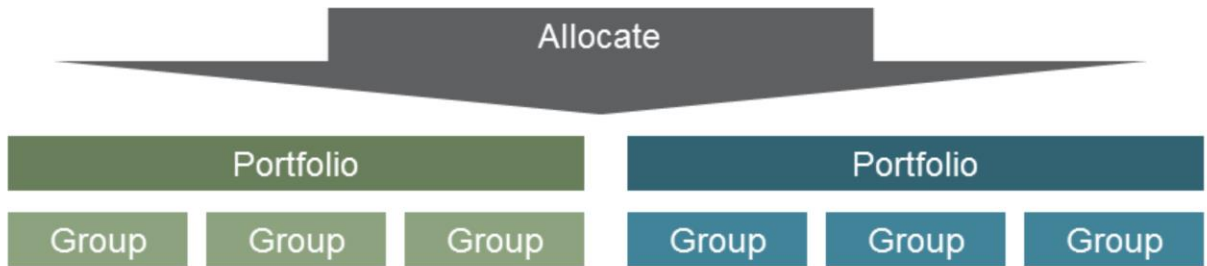
Basis for Conclusions for IFRS 17 BC115–BC118

What does grouping affect?

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- Fulfilment cash flows are required to be allocated to groups of insurance contracts so that the resulting fulfilment cash flows of the group comply with requirements of IFRS 17

Estimate fulfilment cash flows at whatever level is most appropriate



 IFRS

Further information:

IFRS 17 paragraph 24

Basis for Conclusions for IFRS 17 BC115–BC118

Why are insurance contracts grouped?

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- Example 1 why contracts are aggregated – fact sheet (1/3)



Contract 1



Contract 2



Contract 3

At inception

- Contracts are the same
- Equal probability of claim of 33.3%

Subsequently

- The probability of Contract 3 claiming increases, onerous if measured individually
- The probability of Contracts 1 and 2 claiming decreases

Overall, no change in the expected probability of claim

 IFRS

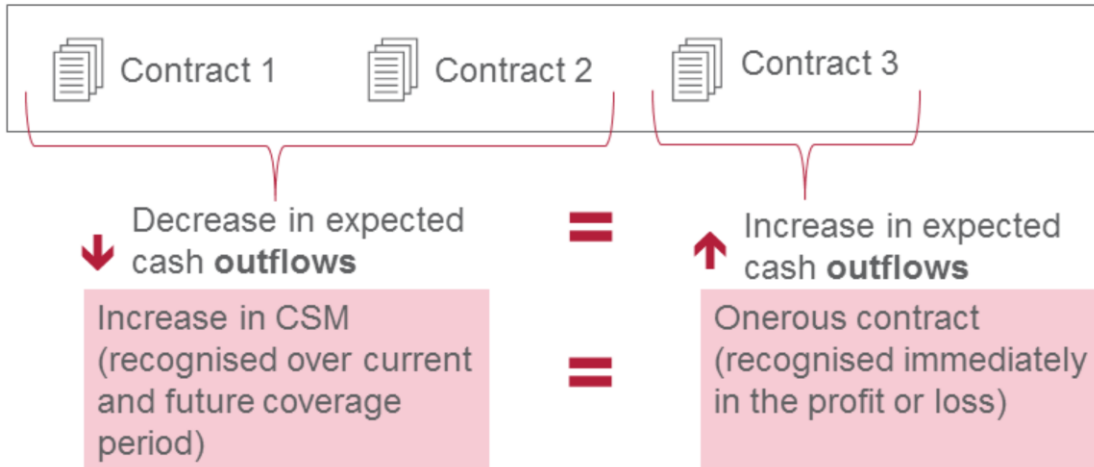
Further information:

Basis for Conclusions for IFRS 17 BC116

Why are insurance contracts grouped?

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- Example 1 – if measured individually (2/3)



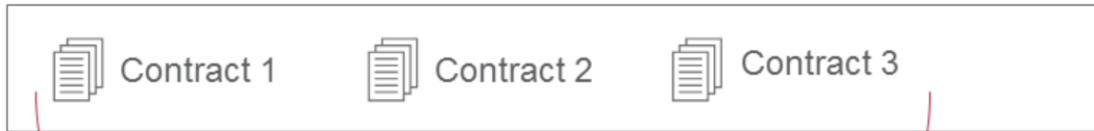
Further information:

Basis for Conclusions for IFRS 17 BC116

Why are insurance contracts grouped?

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- Example 1 – if measured as a group (3/3)



— No change in expected cash outflows
— CSM is unaffected (continue to recognise over current and future coverage periods)

Further information:

Basis for Conclusions for IFRS 17 BC116

Why aren't insurance contracts grouped at the highest level?

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- Example 2 – why contracts aren't aggregated at too high a level

Issued
in 20X1

Contracts with characteristic
A on Day 1 are expected to
be onerous



Contracts without
characteristic A on Day 1 are
expected to be profitable



If measured
separately:

Loss CU50 recognise
immediately

Profit CU200 recognise over
coverage period

If measured
together:

- Profit CU150 recognise over coverage period
- Less useful information than when the measured separately

Further information:

Basis for Conclusions for IFRS 17 BC116 and BC119

How are insurance contracts grouped?

IFRS 17 level of aggregation

How are insurance contracts grouped?

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- 1: Identify portfolios of insurance contracts

Portfolio 1	Portfolio 2	Portfolio 3
Eg whole-life insurance	Eg annuities	Eg car insurance
		
<div>✓ Similar risks ✓ Managed together</div>	<div>✓ Similar risks ✓ Managed together</div>	<div>✓ Similar risks ✓ Managed together</div>

Further information:
IFRS 17 paragraph 14

How are insurance contracts grouped?

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- **2:** Divide a portfolio into a minimum of

Onerous at initial recognition*



Remaining contracts in the portfolio*



At initial recognition, no significant possibility of becoming onerous*



* If any

Further information:

IFRS 17 paragraphs 16 and 21

Basis for Conclusions for IFRS 17 BC124(a), BC126–BC128 and BC135

How are insurance contracts grouped?

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- Level at which to perform grouping assessment
 - An entity may assess a set of contracts if reasonable and supportable information enables it to conclude the contracts will be in the same group
 - Otherwise, groups are determined by considering individual contracts
 - Multiple sets or an individual contract can form a group



Further information:

IFRS 17 paragraph 17

Basis for Conclusions for IFRS 17 BC129

Onerous assessment

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* Early recognition if facts and circumstances indicate that contracts might form an onerous group before typical recognition. Simplification provided for contracts accounted for applying the premium allocation approach



Further information:

IFRS 17 paragraphs 17 and 47–52

Basis for Conclusions for IFRS 17 BC130

Webcast IFRS 17 *Core requirements: Recognition and derecognition* at

go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

Assessment if not onerous

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- If not onerous at initial recognition, assess whether there is no significant possibility of becoming onerous depending on the likelihood of changes in assumptions*
- Use internal reporting information about estimates



*Simplification provided for contracts accounted for under the premium allocation approach



Further information:

IFRS 17 paragraph 19

Basis for Conclusions for IFRS 17 BC130

How are insurance contracts grouped?

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- 2: Divide a portfolio into a minimum of



* If any



Further information:

IFRS 17 paragraphs 16 and 21

Basis for Conclusions for IFRS 17 BC124(a), BC126–BC128 and BC135

- Contracts restricted by law or regulation
 - If contracts fall into different groups (eg some fall into an onerous group and some do not) only because of legal or regulatory constraints on ability to set a different price or level of benefit for policyholders with different characteristics
 - Then under IFRS 17, an entity may include these contracts in the same group
 - All other IFRS 17 grouping requirements still apply

Further information:

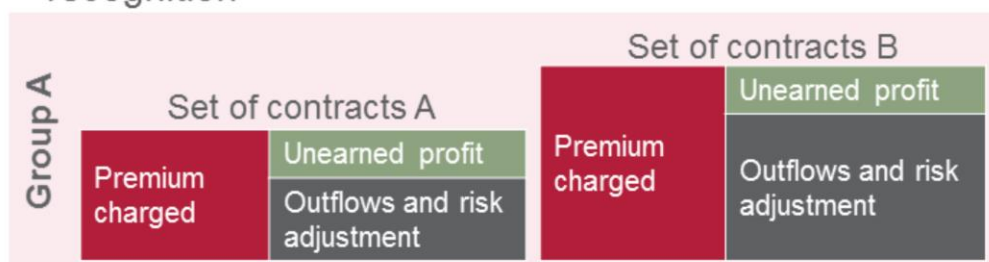
IFRS 17 paragraph 20

Basis for Conclusions for IFRS 17 BC131–BC135

Law and regulation – policyholder characteristics

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- Example 3A: contracts *not* restricted by law or regulation (1/2)
 - Insurer issues 2 sets of insurance contracts, set A and set B subject to similar risk and managed together
 - Set B policyholders have higher risk characteristics than set A, and thus are charged a higher premium to be profitable
 - Neither set has a significant possibility of becoming onerous at initial recognition



Further information:

IFRS 17 paragraph 19

Basis for Conclusions for IFRS 17 BC134

Law and regulation – policyholder characteristics

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- Example 3B: contracts *not* restricted by law or regulation (2/2)
 - Set B policyholders have higher risk characteristics but *the insurer chooses* to set the premium at the same level as set A, causing set B to be onerous
 - Set A is profitable and set B is onerous, they cannot be grouped together

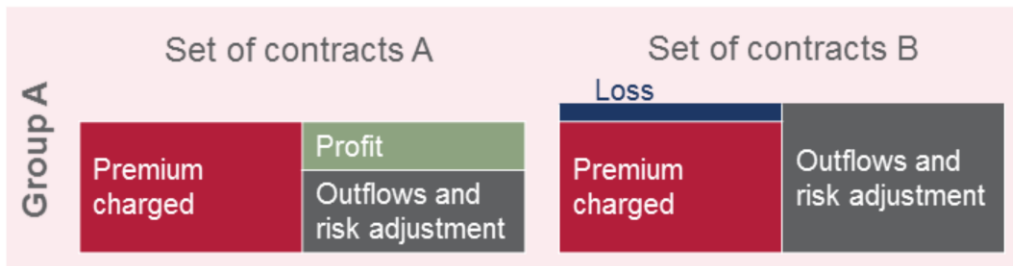


Further information:

IFRS 17 paragraph 19

Basis for Conclusions for IFRS 17 BC134

- Example 4: contracts restricted by law or regulation
 - Set B has higher risk but *regulatory restrictions require the insurer* to set the premium at the same level as set A, causing set B to become onerous
 - Because set B is only onerous due to regulatory restrictions, the entity is permitted to include set A and set B in the same group



Further information:

IFRS 17 paragraph 20

Basis for Conclusions for IFRS 17 BC131–BC135

Premium allocation approach

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- Assume no contracts are onerous at initial recognition *unless* facts and circumstances indicate otherwise



- Assessment of whether an individual or a set of contracts belongs to those group is based on the likelihood of changes in applicable facts and circumstance



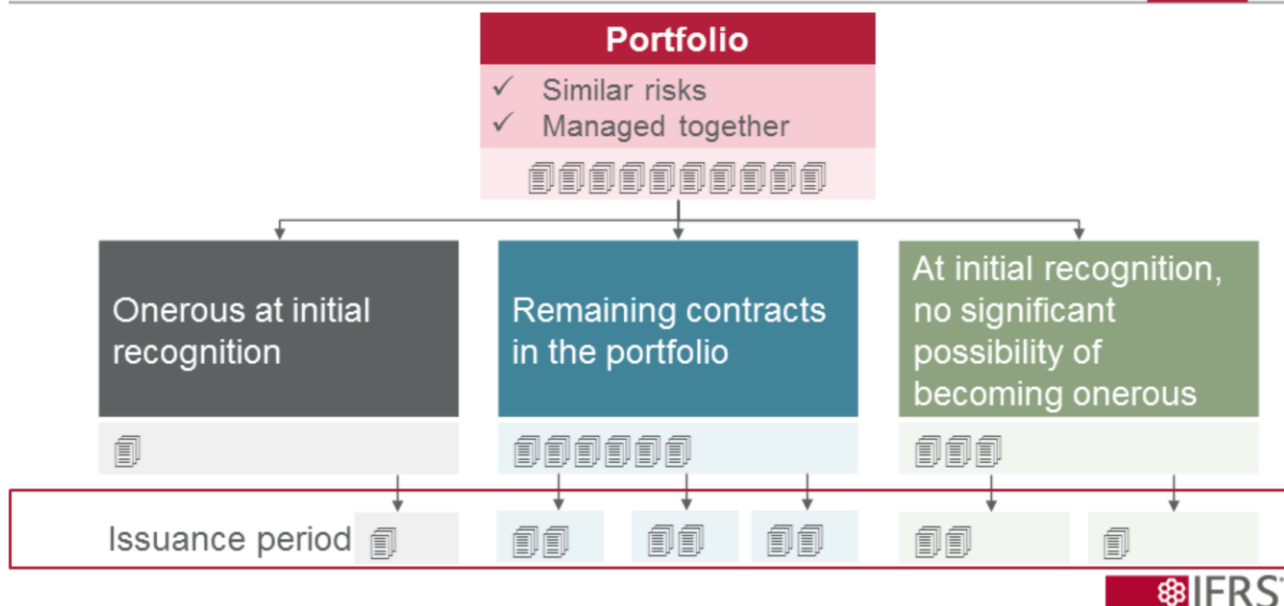
Further information:

IFRS 17 paragraph 18

Basis for Conclusions for IFRS 17 BC292(b)

How are insurance contracts grouped?

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Further information:

IFRS 17 paragraphs 14–24

Basis for Conclusions for IFRS 17 BC119–BC139

Grouping by issuance period

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- Do not include contracts issued more than one year apart in the same group
 - If necessary, further divide groups to achieve this
 - Each group can include contracts issued over any length of time up to one year
 - For example, if an entity manages contracts in quarterly cohorts it could choose to have groups issued within a quarter



Further information:

IFRS 17 paragraphs 22, C10 and C23

Basis for Conclusions for IFRS 17 BC136–BC138

Grouping by issuance period – with and without

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- Example 5 – different generations of the same product

Contracts issued 1 Jan 20X1



- 2 period coverage
- Contracts provide the same level of cover per year

Day 1 unearned profit CU600

Contracts issued 1 Jan 20X2



- 2 period coverage
- Contracts provide the same level of cover per year as those issued in 20X1

Day 1 unearned profit CU150

Exact same level of cover provided but contracts issued this period are less profitable

Assumption:

- Interest accretion at 0%



Further information:

IFRS 17 paragraphs 22, C10 and C23

Basis for Conclusions for IFRS 17 B119 and BC136–BC138

Grouping by issuance period – with and without

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Example 5

20X1

20X2

20X3

1. IFRS 17: Grouping considering issuance date

Profit recognised

CU300

CU375

CU75

Profit recognised in appropriate periods of service

2. Ignoring issuance date

Profit recognised

CU300

CU300

CU150

Includes unearned profit from 20X1 contracts which are no longer in force

IFRS

Further information:

IFRS 17 paragraphs 22, C10 and C23

Basis for Conclusions for IFRS 17 B119 and BC136–BC138

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Appendix— IFRS 17: Grouping by issuance period

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Example 5	20X1	20X2	20X3	Total
Contracts issued in 20X1				
Coverage units	1	1		
Profit recognised	CU300	CU300		CU600
Contracts issued in 20X2				
Coverage units		1	1	
Profit recognised		CU75	CU75	CU150
Total profit recognised in P&L	CU300	CU375	CU75	CU750



Further information:

IFRS 17 paragraphs 22, C10 and C23

Basis for Conclusions for IFRS 17 B119 and BC136–BC138

Appendix— Grouping ignoring issuance period

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Example 5	20X1	20X2	20X3	Total
Coverage units	1	2	1	

Total CSM allocated to P&L	CU300	CU300	CU150	CU750
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Relates to contracts issued in period 1 only (CSM CU600 / 2 coverage units)

Relates to contracts issued in periods 20X1 & 20X2 (CU300+CU150) * 2/3 coverage units

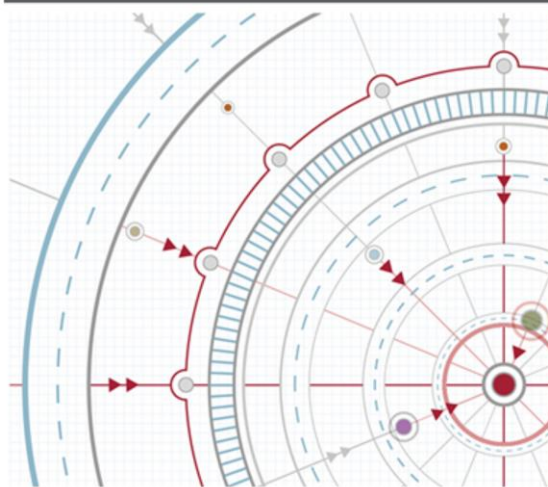
Includes unearned profit from contracts issued in period 20X1 which is no longer inforce



Further information:

IFRS 17 paragraphs 22, C10 and C23

Basis for Conclusions for IFRS 17 B119 and BC136–BC138



Level of aggregation

IFRS 17 *Insurance Contracts*

Part 2 of 2

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- Recognition and derecognition
- Other topics
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Recognition and derecognition

IFRS 17 level of aggregation

Recognition

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- Recognition date for a group of insurance contracts
 - The **earliest date** of any of the following:

Typical recognition

the beginning
of the
coverage
period of a
group of
contracts

when first
payment due
from a
policyholder in
the group

Early recognition

when a group
of contracts
becomes
onerous*

* If facts and circumstances indicate that some contracts might form an onerous group before typical recognition



Further information:

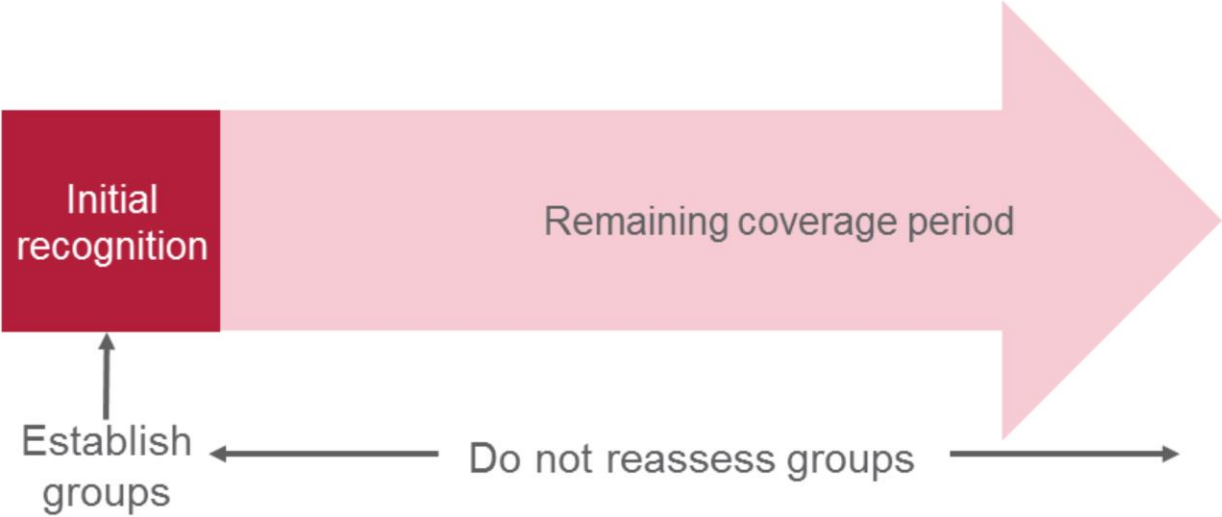
IFRS 17 paragraphs 25–28

Basis for Conclusions for IFRS 17 paragraphs BC139–BC144

Webcast IFRS 17 *Core requirements: Recognition and derecognition* at

go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

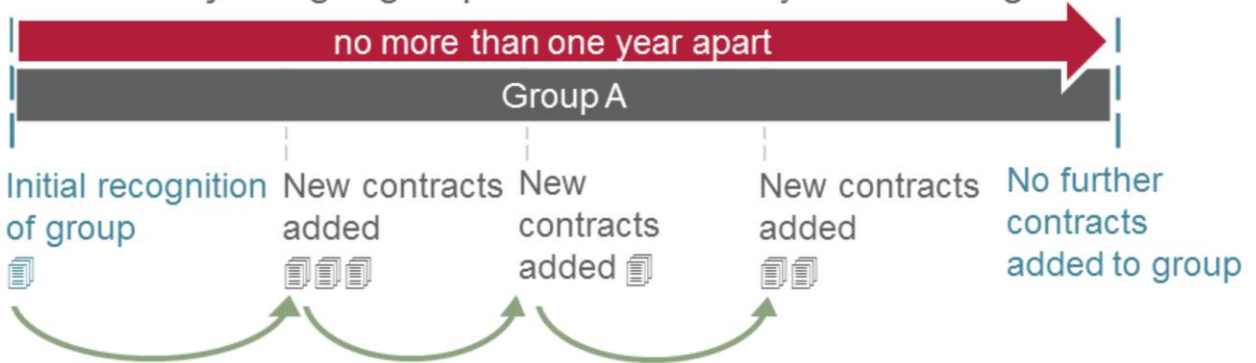


Further information:
IFRS 17 paragraph 24
Basis for Conclusions for IFRS 17 BC139

Recognition

6

- Contracts joining a group that has already been recognised



Prospectively:

- Adjust fulfilment cash flows
- Adjust contractual service margin / loss component
- Revise discount rates at initial recognition
- Revise number of coverage units



Further information:

IFRS 17 paragraph 28

Basis for Conclusions for IFRS 17 paragraph BC139

Webcast IFRS 17 *Core requirements: Recognition and derecognition* at

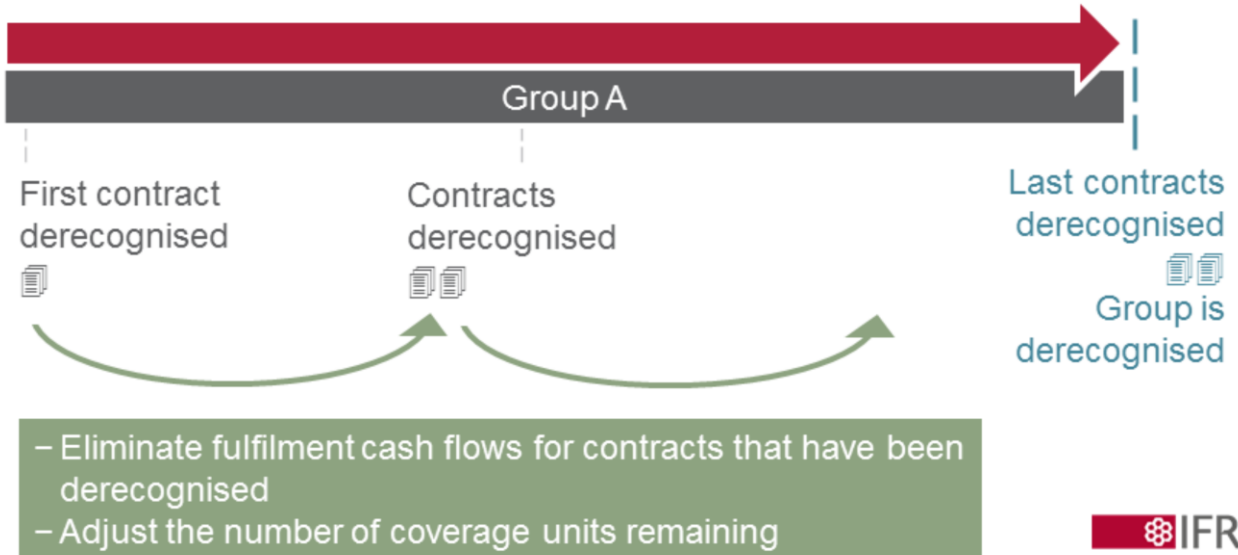
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<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

Derecognition

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- Contracts in the group expiring over time



Further information:

IFRS 17 paragraphs 74–77

Basis for Conclusions for IFRS 17 paragraphs BC321–BC322

Webcast IFRS 17 *Core requirements: Recognition and derecognition* at

go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

- Derecognise an insurance contract when:

A

all rights and obligations
are extinguished

OR

B

specified modifications
of the terms of the
contract

- A** Existence of a reinsurance contract does not constitute a derecognition event
- B** The exercise of a right included in the terms of a contract is not a modification

Further information:

IFRS 17 paragraphs 72–77

IFRS 17 Basis for Conclusions paragraphs BC316–BC317 and
BC321–BC322

Other topics

IFRS 17 level of aggregation

- Usual disclosure principles apply to IFRS 17
 - An entity shall consider the level of detail necessary to satisfy the IFRS 17 disclosure objective
 - Aggregate or disaggregate information so that useful information is not obscured
- Specific IFRS 17 disclosure requirement:
 - The opening and closing balance of insurance contract roll forwards is split to show amounts for:
 - Group(s) of contracts that are assets
 - Group(s) of contracts that are liabilities

Further information:

IFRS 17 paragraphs 93–95 and 99

Basis for Conclusions for IFRS 17 paragraphs BC347–BC362

IAS 1 *Presentation of Financial Statements* paragraphs 29–31

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