

IFRS 17

Insurance contracts

Transition to IFRS 17
Part 1 of 2: overview

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- Applying IFRS 17 for the first time
- Fully retrospective approach
- When fully retrospective application is impracticable*
- Other reliefs and disclosures

* For more detail see webcast *Transition to IFRS 17 Part 2 of 2: transition reliefs deep dive*



Further information:

Webcast *Transition to IFRS 17 Part 2 of 2* at go.ifrs.org/IFRS-17-implementation
and IFRS 17 YouTube playlist

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

IFRS 17 webcasts

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This webcast

December 2017 Transition to IFRS 17

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



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/-](http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-feedback-statement.pdf)

[/media/project/insurance-contracts/ifrs-standard/ifrs-17-feedback-statement.pdf](http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-feedback-statement.pdf)

Reminder of IFRS 17 effective date

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- Required for annual reporting periods commencing on or after 1 January 2021 with prior comparatives for one year
- Early application is permitted for entities that also apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*



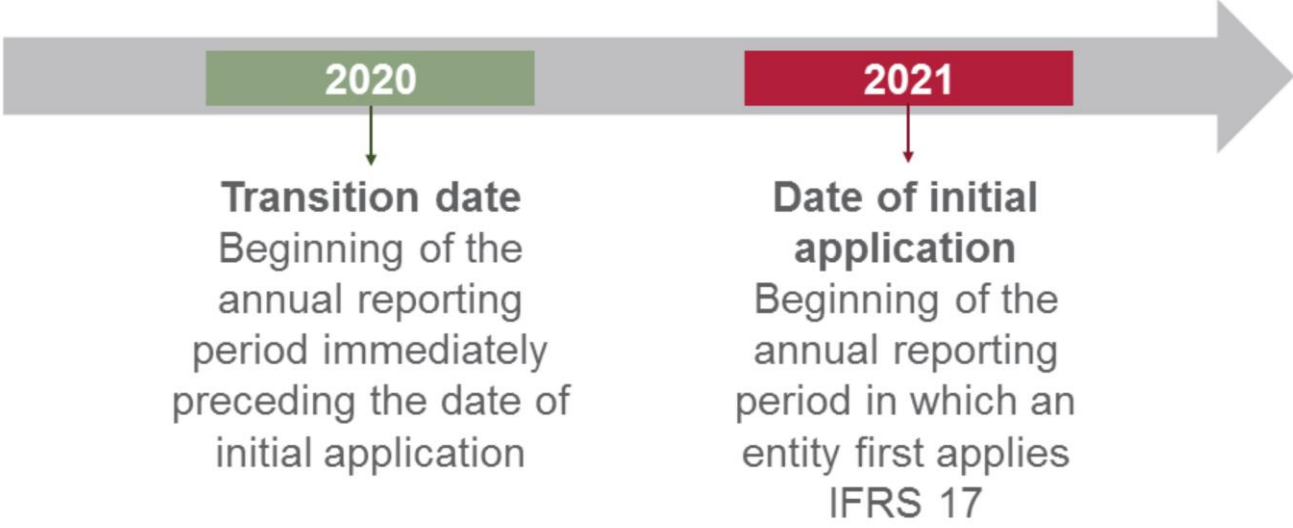
Further information:

IFRS 17 paragraphs C1–C2

Basis for Conclusions for IFRS 17 BC402–BC406

Mandatory dates: Example

5



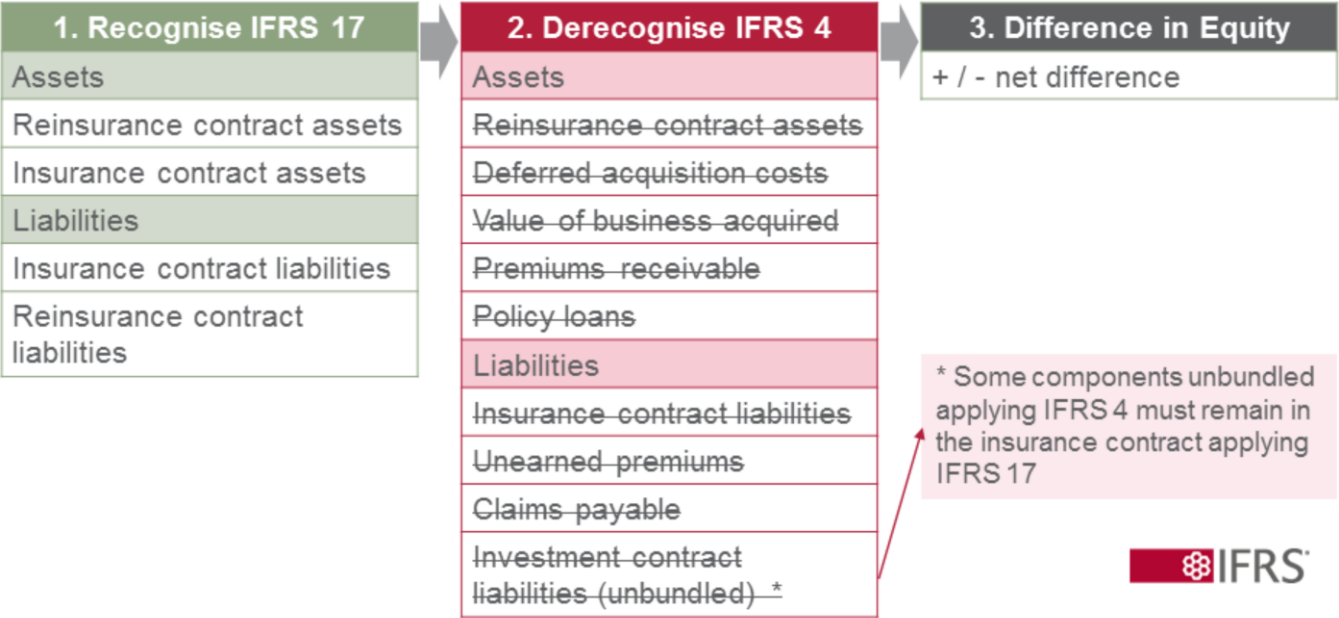
Assumption: the entity presents only one comparative period in its annual financial statements



Further information:
IFRS 17 paragraph C2

At the transition date

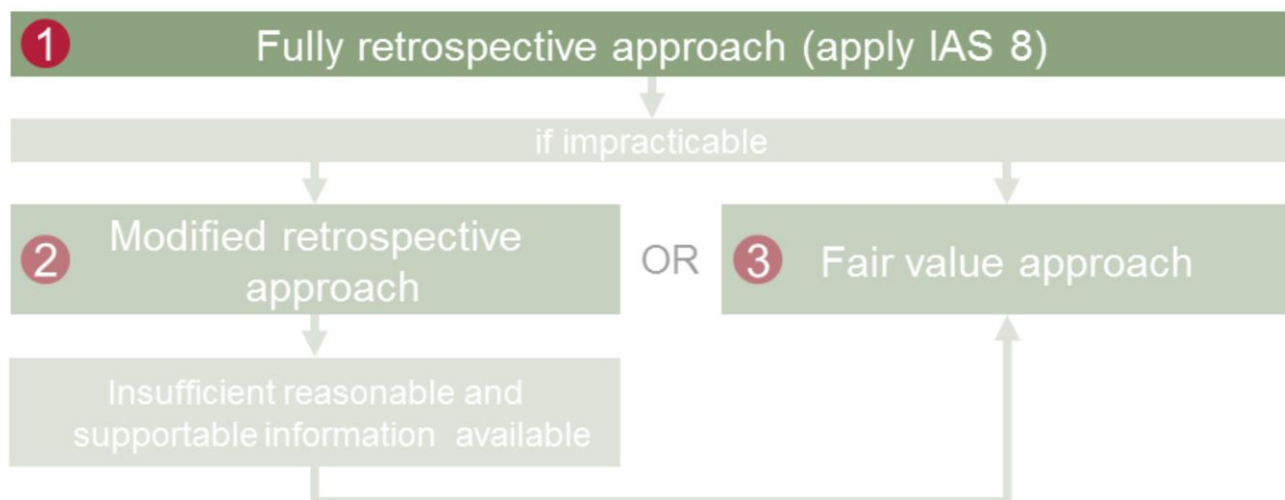
6



Further information
IFRS 17 paragraph C4
Basis for Conclusions of IFRS 17 BC374

Transition approach by group of contracts

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Further information:

IFRS 17 paragraph C4

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraphs 5 and 23

1 Fully retrospective approach

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- Measures in-force contracts on the transition date as if an entity had always applied IFRS 17
- Consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*



Further information:

IFRS 17 paragraph C3

Basis for Conclusions for IFRS 17 paragraph BC372

IAS 8 paragraphs 5 and 23

IFRS 17 Effects Analysis page 70

1 Applying IFRS 17 at the transition date

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- Transition to IFRS 17 requires the use of both current and past information about contracts in-force at the transition date

Current information

- Fulfilment cash flows
 - Estimated PV of future cash flows
 - Risk adjustment

Past information

- 1.1 Initial assessments (eg grouping)
- 1.2 Contractual service margin (CSM) or loss component at transition date
- 1.3 Applying the OCI option*

* When an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI)



Further information:

IFRS 17 paragraphs 14–39 and 87–92

Basis for Conclusions for IFRS 17 paragraphs BC375–BC378

Webcast *IFRS 17 Measurement essentials* at go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeUMbuaUeLNX7Qoqlq7Oh3csegFwYn>

1.1 Initial assessments

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- For example:
 - determining a group(s) of contracts
 - Identify insurance contracts with direct participation features
 - For an insurance contract without direct participation features, identify discretionary cash flows



Further information:

IFRS 17 paragraphs 32–39 and B36–B95

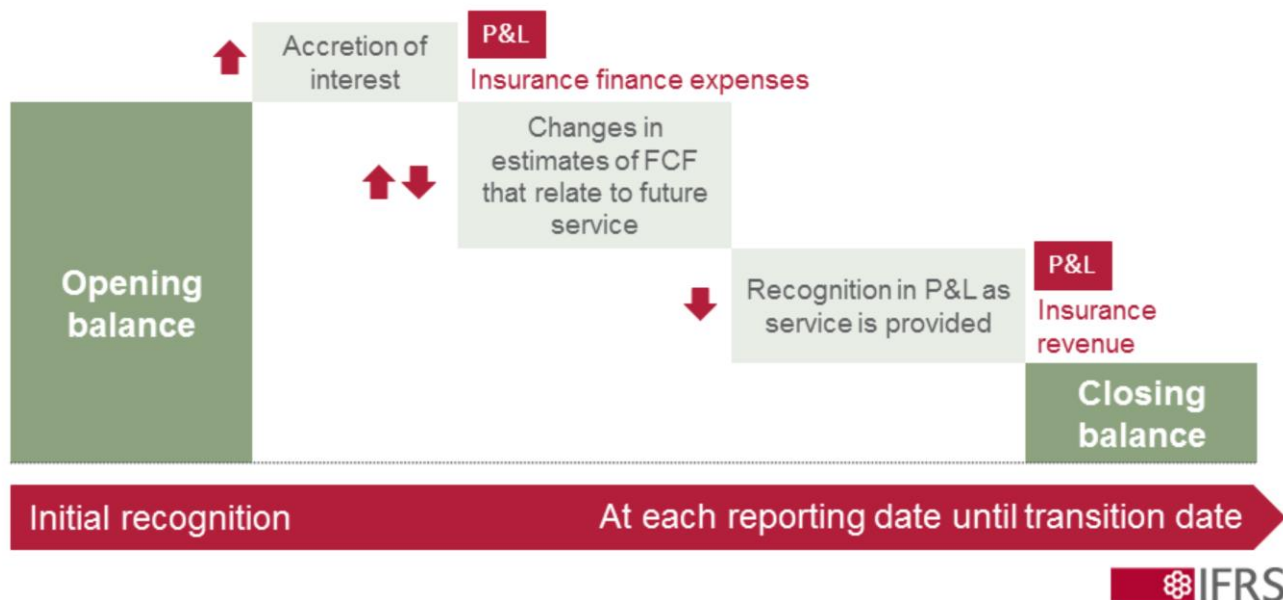
Webcast *IFRS 17 Core requirements: Recognition and derecognition* at

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

1.2 CSM at transition date

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Further information:

IFRS 17 paragraph 44 and paragraphs B96–B100

Webcast *IFRS 17 Measurement essentials* at go.ifrs.org/IFRS-17-implementation

and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeUMbuaUeLNX7Qoqlq7Oh3csegFwYn>

1.3 Applying OCI option

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- Total insurance finance expenses
(carrying amount based on *current information* for fulfilment cash flows):
 - in profit or loss: systematic allocation of total insurance finance expenses (using *past information*)
 - in OCI: the remaining balance

Statement of financial performance

Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income	X
Insurance finance income or expenses	(X)
Net financial result	X
Profit or loss	X
Other comprehensive income:	
Insurance finance income or expenses	(X)
Fair value movements on FVOCI assets	X
Total comprehensive income	X



Further information:

IFRS 17 paragraphs 87–92 and B128–B136

When retrospective application is

1 impracticable

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- Retrospective application required unless it is impracticable as defined within IAS 8
 - For example, historical data for contracts issued many years ago is not available and/or would require the use of hindsight

Past information

- 1.1 Initial assessments (eg grouping)
- 1.2 Contractual service margin (CSM) or loss component at transition date
- 1.3 Applying the OCI option

~~Normal IFRS 17 measurement (retrospective application)~~

Impracticable

Transition reliefs



Further information:

IFRS 17 paragraphs 14–39 and 87–92

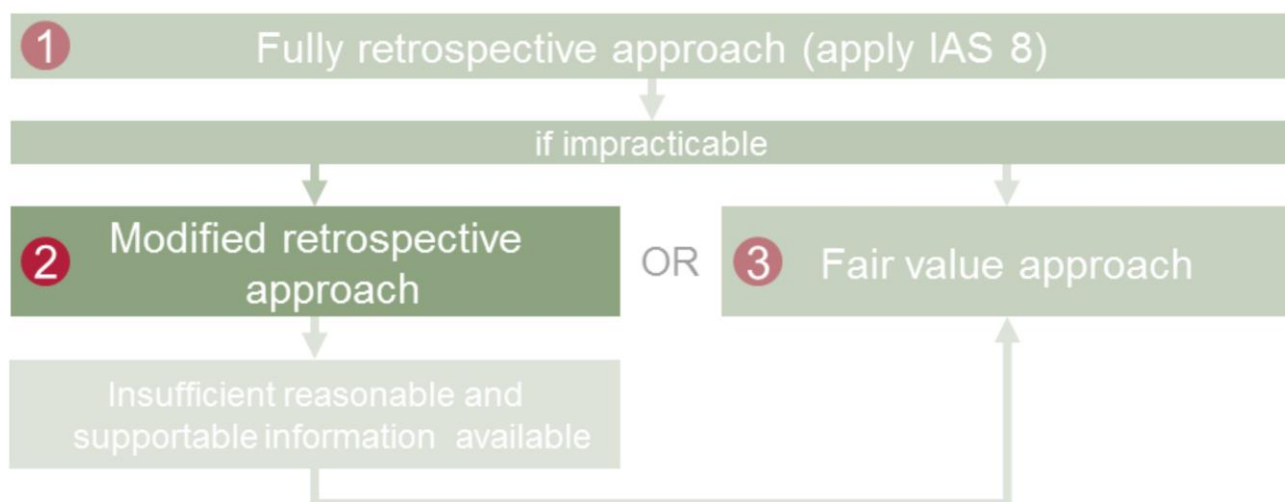
Basis for Conclusions for IFRS 17 paragraphs BC375–BC378

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Transition approach by group of contracts

14



Further information:

IFRS 17 paragraph C5(a)

IAS 8 paragraphs 5 and 23

② Modified retrospective approach

15

Objective: to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort

Use reasonable and supportable information

Maximise the use of information that would have been used to apply the fully retrospective approach, but need only use information available without undue cost or effort

An entity is permitted to use each modification only to the extent that the entity does not have reasonable and supportable information to apply a retrospective approach



Further information:

IFRS 17 paragraphs C6 and C8

Basis for Conclusions for IFRS 17 paragraphs BC373 and BC379

2 Modifications permitted

16

- a) Initial assessments
- b) Contractual service margin or loss component at the transition date without direct participation features
- c) Contractual service margin or loss component at the transition date with direct participation features
- d) Applying OCI option

For more detail see webcast *Transition to IFRS 17 Part 2 of 2: transition reliefs deep dive*



Further information:

IFRS 17 paragraphs C7–C8

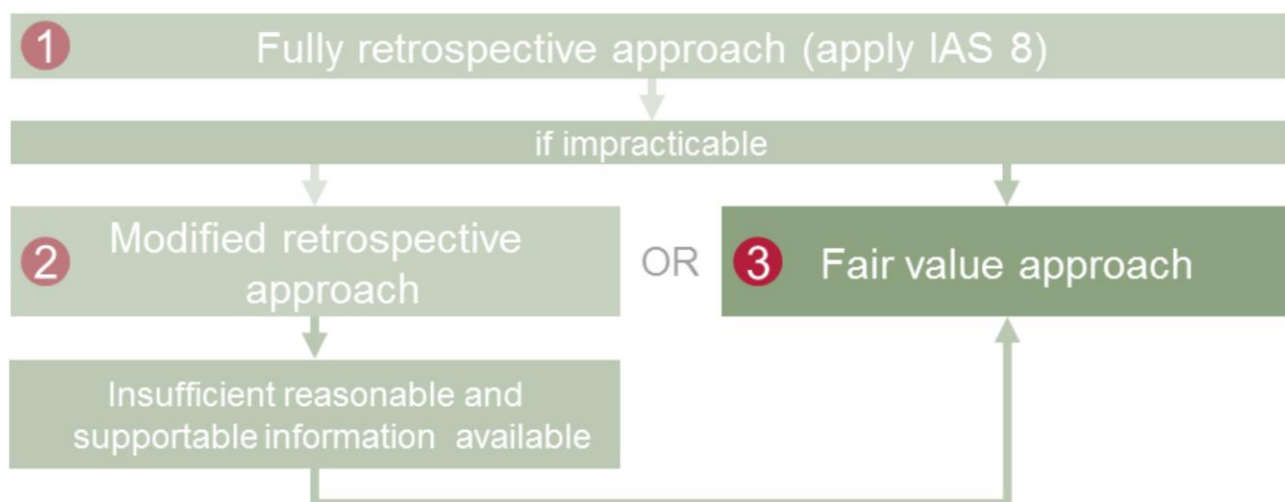
Basis for Conclusions for IFRS 17 paragraph BC380

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Transition approach by group of contracts

17



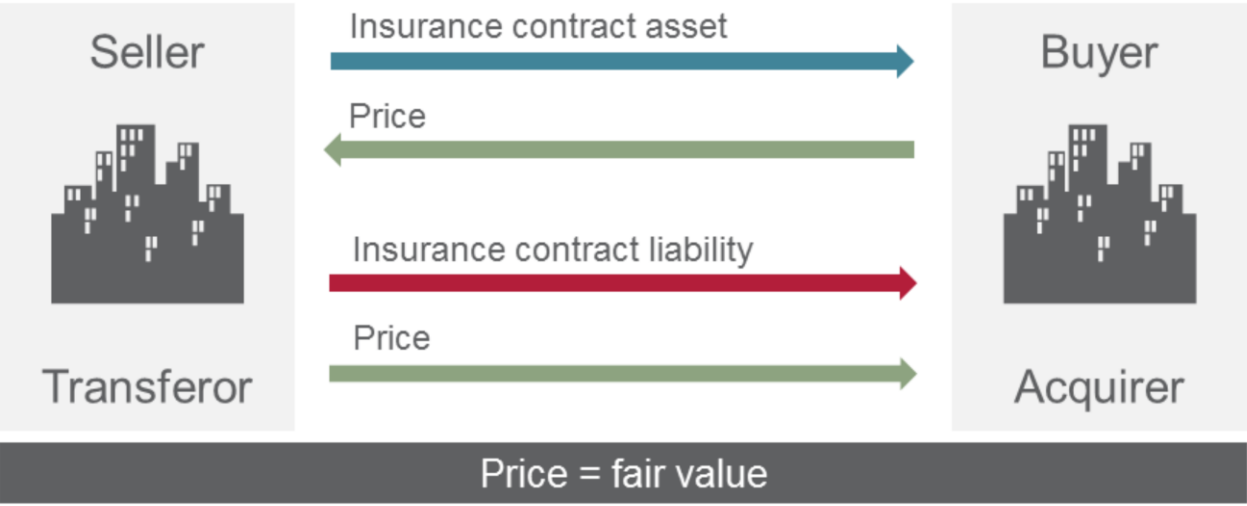
Further information:

IFRS 17 paragraph C5(b)

Basis for Conclusions for IFRS 17 paragraphs BC373 and BC385–BC386

③ Fair value of a group of insurance contracts

18



Further information:
IFRS 17 paragraph C20
Basis for Conclusions for IFRS 17 paragraph BC385
IFRS 13 *Fair Value Measurement* paragraph 25

③ IFRS 13 *Fair Value Measurement*

19

Not a liquidation price or forced sale

Exit price

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Current price

Market-based view

IFRS 17: do not apply the IFRS 13 requirement of a deposit floor



Further information:

IFRS 17 paragraph C20

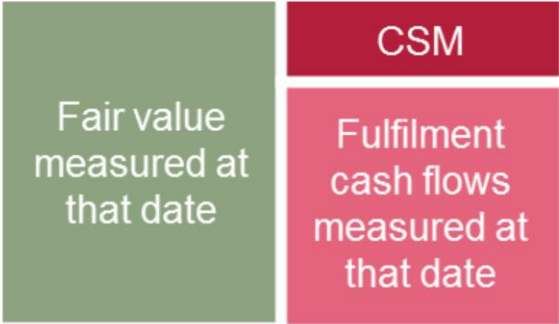
Basis for Conclusions for IFRS 17 paragraph BC385

IFRS 13 paragraphs 2 and 16

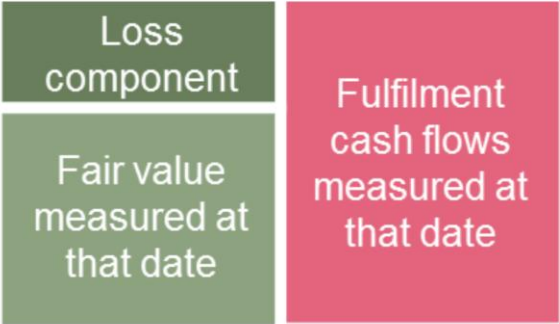
3 Fair value approach

- At transition date for a group of insurance contracts:

Group A (profitable)



Group B (onerous)



Further information:
IFRS 17 paragraph C20
Basis for Conclusions for IFRS 17 paragraph BC385

③ Fair value approach

21

For more detail see webcast *Transition to IFRS 17 Part 2 of 2: transition reliefs deep dive*

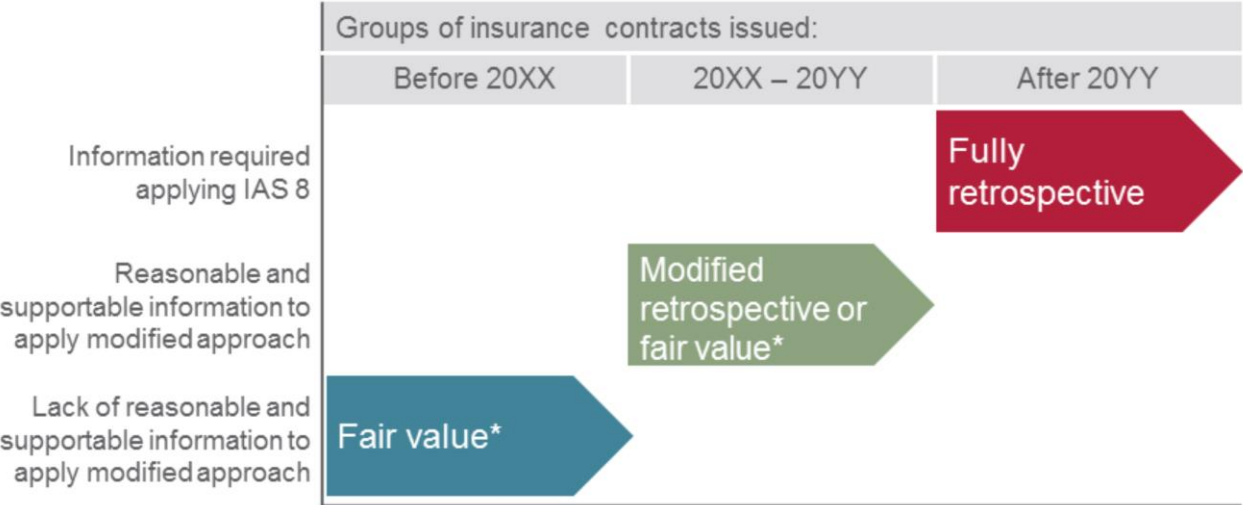


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Different generations of the same product



* At the transition date

Further information:
IFRS 17 paragraphs C3 and C5–C6
Basis for Conclusions for IFRS 17 paragraphs BC372 and BC373

Transition requirements

Insurance contract asset / liability	Existing contracts (unless impracticable) and new business	Existing contracts if retrospective application is impracticable
CSM (Unearned profit)	Normal IFRS 17 measurement	Transition reliefs
Risk adjustment	Normal IFRS 17 measurement	Normal IFRS 17 measurement
PV of future cash flows	Normal IFRS 17 measurement	Normal IFRS 17 measurement



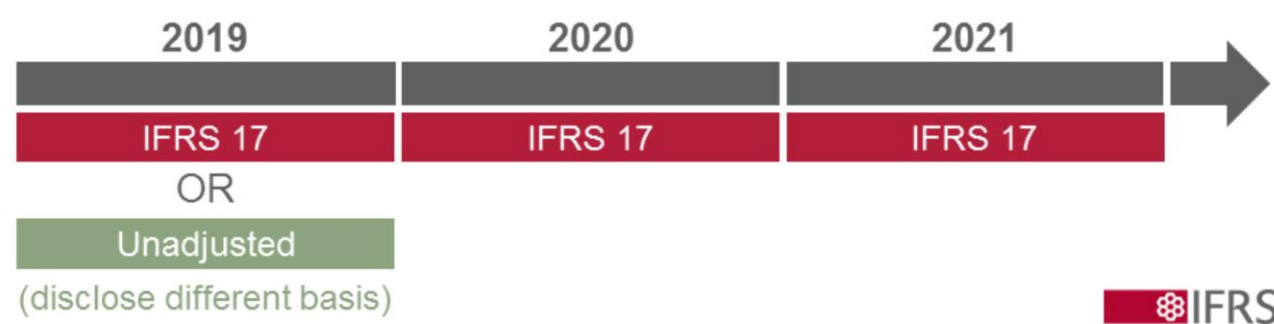
Further information:
Basis for Conclusions for IFRS 17 paragraphs BC375–BC378
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Other reliefs and disclosures

Transition to IFRS 17

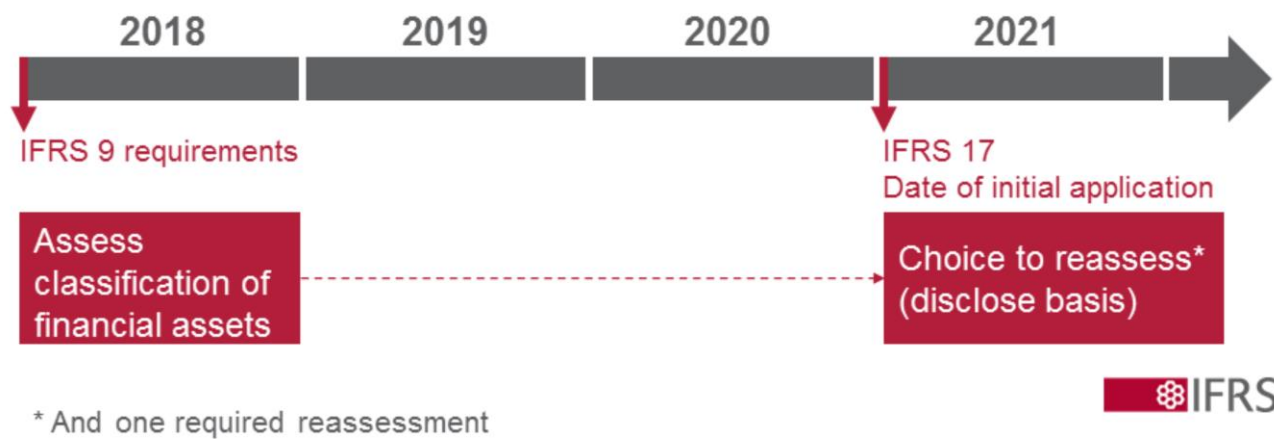
Comparative information

- An entity must restate the comparative period immediately before the annual reporting period it first applies IFRS 17
- If an entity chooses to present more than one comparative annual reporting period IFRS 17 permits a choice of presentation
 - Example for 31 December 2021 year-end:



Further information:
IFRS 17 paragraphs C25–C28
Basis for Conclusions for IFRS 17 BC387–B389

- If IFRS 9 is applied first
- IFRS 17 enables, but does not require, insurers to reassess the classification of eligible financial assets when first applying IFRS 17



Further information:
IFRS 17 paragraphs C29 – C33
IFRS 17 Effects Analysis page 70 and pages 96–100
Basis for Conclusions for IFRS 17 BC394–BC398

- If applying modified retrospective or fair value approach:
 - Explanation of methods used and disaggregated information
 - For example, separate reconciliations of contractual service margin


Contractual service margin reconciliation		
Fully retrospective	Modified retrospective	Fair value
Existing contracts (unless impracticable) and new business	Existing contracts if retrospective application is impracticable	Existing contracts if retrospective application is impracticable


- If OCI option is applied:
 - Information about financial assets FVOCI that are related to insurance contracts





Further information:
IFRS 17 paragraphs 114–116
Basis for Conclusions for IFRS 17 BC399–BC401

Keep up to date


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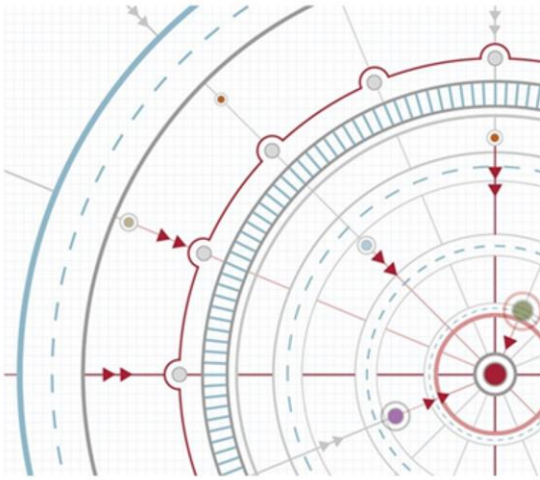
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IFRS 17

Insurance contracts

Transition to IFRS 17
Part 2 of 2: transition reliefs deep dive

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- When retrospective application is impracticable*:
 - Modifications permitted applying the modified retrospective transition approach
 - Choices permitted applying the fair value transition approach

* For overview see webcast *Transition to IFRS 17 Part 1 of 2: overview*



Further information:

Webcast *Transition to IFRS 17 Part 1 of 2* at go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist
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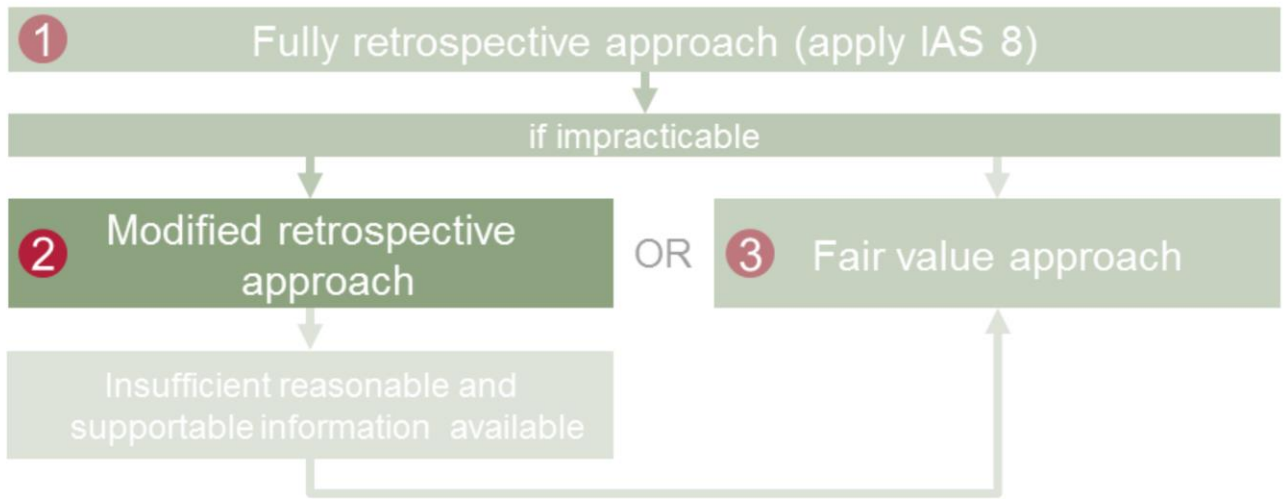
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IFRS 17 Feedback Statement available at <http://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-feedback-statement.pdf>

Transition approach by group of contracts

4



Further information:

IFRS 17 paragraph C5(a)

Basis for Conclusions for IFRS 17 paragraphs BC373 and BC379–BC384

② Modified retrospective approach

5

Reminder

Objective: to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort

An entity is permitted to use each modification only to the extent that the entity does not have reasonable and supportable information to apply a retrospective approach



Further information:

IFRS 17 paragraphs C6 and C8

Basis for Conclusions for IFRS 17 paragraphs BC373 and BC379

2 Modifications permitted

6

- a) Initial assessments
- b) Contractual service margin(CSM) or loss component at the transition date without direct participation features
- c) Contractual service margin or loss component at the transition date with direct participation features
- d) Applying OCI option*

*When an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI)

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraphs C7–C8

Basis for Conclusions for IFRS 17 paragraph BC380

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2A Initial assessments

7

In order to:

- Identify insurance contracts with direct participation features
- For an insurance contract without direct participation features, identify discretionary cash flows
- Determine a group(s)

Use reasonable and supportable information available
at the **transition date**

Apply each modification only to the extent that the entity does not have
reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C9

Basis for Conclusions for IFRS 17 paragraphs BC381 and BC382

2A Initial assessments

8

- Grouping contracts

IFRS 17 requirement

An entity shall not include contracts issued more than one year apart in the same group



If reasonable and supportable information is not available

Modification

An entity shall include contracts issued more than one year apart in the same group

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraphs 22 and C10

② Modifications permitted

9

- a) Initial assessments
- b) Contractual service margin or loss component at the transition date without direct participation features
- c) Contractual service margin or loss component at the transition date with direct participation features
- d) Applying OCI option

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraphs C7–C8

Basis for Conclusions for IFRS 17 paragraph BC380

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2B Determining CSM or loss component

10

- i. Without direct participation features
- Modifications to determine the contractual service margin or loss component for a group of insurance contracts at the transition date:

Future cash flows	➡	Modification (slide 11)
Discount rates	➡	Modification (slides 12 - 14)
Risk adjustment	➡	Modification (slide 15)
Allocation of CSM / loss component	➡	Modification (slide 16)

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C11

Basis for Conclusions for IFRS 17 paragraph BC383

IFRS 17 Illustrative Example 17

2B Modification: future cash flows

11

Expected future cash flows at the transition date
(or earlier date, if it can be determined retrospectively)

Adjust for cash flows known to have occurred resulting from:

Contracts in-force
at transition

+

Contracts
expired

=

Contracts in-force at
initial recognition



Estimated future cash flows at initial recognition

Apply each modification only to the extent that the entity does not have
reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C12

Basis for Conclusions for IFRS 17 paragraph BC383(a)

2B Modification: discount rates

12

Estimating the discount rate estimate at the initial recognition date (or subsequently)

a) Does an observable yield curve that approximates the IFRS 17 yield curve estimate exist? (slide 13)

YES

NO

Use observable yield curve

b) Apply an average spread on an observable yield curve (slide 14)

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C13

Basis for Conclusions for IFRS 17 paragraph BC383(c)

2B Modification: discount rates

13

- a) Use an observable yield curve if it approximates the yield curve estimated under the full retrospective approach for *at least* three years immediately before the transition date

(1) IFRS 17 yield curve	(2) Observable yield curve	Does (2) approximate (1)?	Modification
T-1, T-2, T-3	T-1, T-2, T-3	✓	Use the observable yield curve

T = transition date

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C13(a)

Basis for Conclusions for IFRS 17 paragraph BC383(c)

2B Modification: discount rates

14

- b) If an observable yield curve is not approximate to the yield curve estimated under the full retrospective approach, determine the average spread and apply the spread to the observable yield curve

$$\begin{array}{|c|} \hline \text{Observable} \\ \text{yield curve} \\ \text{T-1, T-2, T-3} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Full retro} \\ \text{yield curve} \\ \text{T-1, T-2, T-3} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Average spread to} \\ \text{apply to observable} \\ \text{yield curve} \\ \hline \end{array}$$

T = transition date

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraph C13(b)

Basis for Conclusions for IFRS 17 paragraph BC383(c)

2B Modification: risk adjustment

15

Risk adjustment at transition date (or subsequently)

Adjust for: expected release of risk adjustment
(by reference to similar insurance contracts the entity
issues at the transition date)

Estimated risk adjustment at initial recognition

Apply each modification only to the extent that the entity does not have
reasonable and supportable information to apply the retrospective approach



Further information:

- IFRS 17 paragraph C14
- Basis for Conclusions for IFRS 17 paragraph BC383(b)

2B Modification: allocation of CSM or loss component

16

Contractual service margin

Allocate CSM to profit or loss based on the number of coverage units remaining at transition compared to coverage units provided before transition

Loss component

Determine amounts allocated to the loss component before the transition date using a systematic basis

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

- IFRS 17 paragraphs C15–C16
- Basis for Conclusions for IFRS 17 paragraph BC383(d)

② Modifications permitted

17

- a) Initial assessments
- b) Contractual service margin or loss component at the transition date without direct participation features
- c) Contractual service margin or loss component at the transition date with direct participation features
- d) Applying OCI option

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraphs C7–C8

Basis for Conclusions for IFRS 17 paragraph BC380

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2C Contracts with direct participation features

18

- Modification for determining CSM at the transition date

	Total fair value of underlying items	Step 1
-	Fulfilment cash flows	
+	Charges to the policyholders prior to transition (including amounts deducted from underlying items)	Step 2
-	Payments made prior to transition that would not have varied with underlying items	
-	Estimated reduction in risk adjustment for non-financial risk prior to transition	
=	Total CSM	Step 3
-	CSM that relates to the period before the transition date	if profitable
=	Total CSM at transition date	

IFRS

Further information:

IFRS 17 paragraph C17(a)–(d)

IFRS 17 Illustrative Example 18

2C Contracts with direct participation features

19

- Modification for determining loss component at the transition date

	Total fair value of underlying items		Step 1
-	Fulfilment cash flows		
+	Charges to the policyholders prior to transition (including amounts deducted from underlying items)		Step 2
-	Payments made prior to transition that would not have varied with underlying items		
-	Estimated reduction in risk adjustment for non-financial risk prior to transition		
=	Total loss component (negative)		Step 3
+	Adjustment to reduce loss component to nil		if onerous
=	Nil loss component at transition date		



Further information:

IFRS 17 paragraph C17(a)–(d)

IFRS 17 Illustrative Example 18

2 Modifications permitted

20

- a) Initial assessments
- b) Contractual service margin or loss component at the transition date without direct participation features
- c) Contractual service margin or loss component at the transition date with direct participation features
- d) Applying OCI option
 - i. Groups of contracts not issued more than 1 year apart
 - ii. Groups of contracts issued more than 1 year apart

Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

IFRS 17 paragraphs C7–C8

Basis for Conclusions for IFRS 17 paragraph BC380

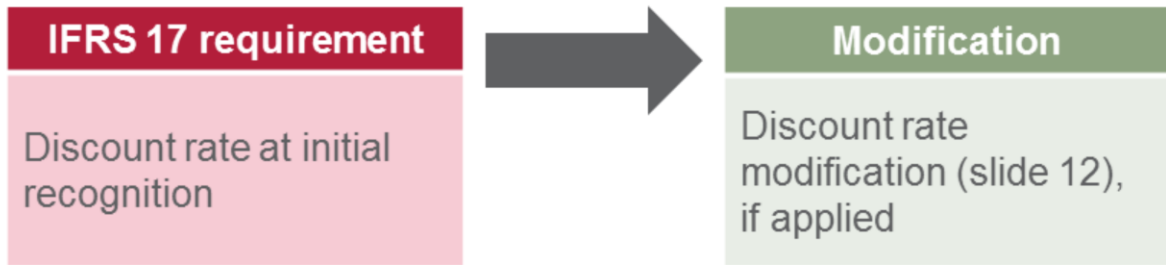
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2D Applying OCI option

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- Groups of contracts not issued more than 1 year apart (normal IFRS 17 treatment)
- The systematic allocation in P&L for specified contracts applying OCI option and the subsequent determination of CSM



Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



Further information:

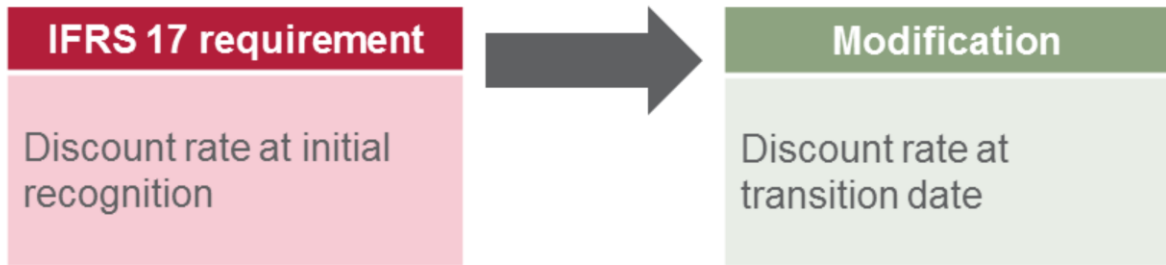
IFRS 17 paragraphs 22, C10 and C19

Basis for Conclusions for IFRS 17 paragraph BC384

2D Applying OCI option

22

- Groups of contracts issued more than 1 year apart (modification)
- The systematic allocation in P&L for specified contracts under OCI option and the subsequent determination of CSM



Apply each modification only to the extent that the entity does not have reasonable and supportable information to apply the retrospective approach



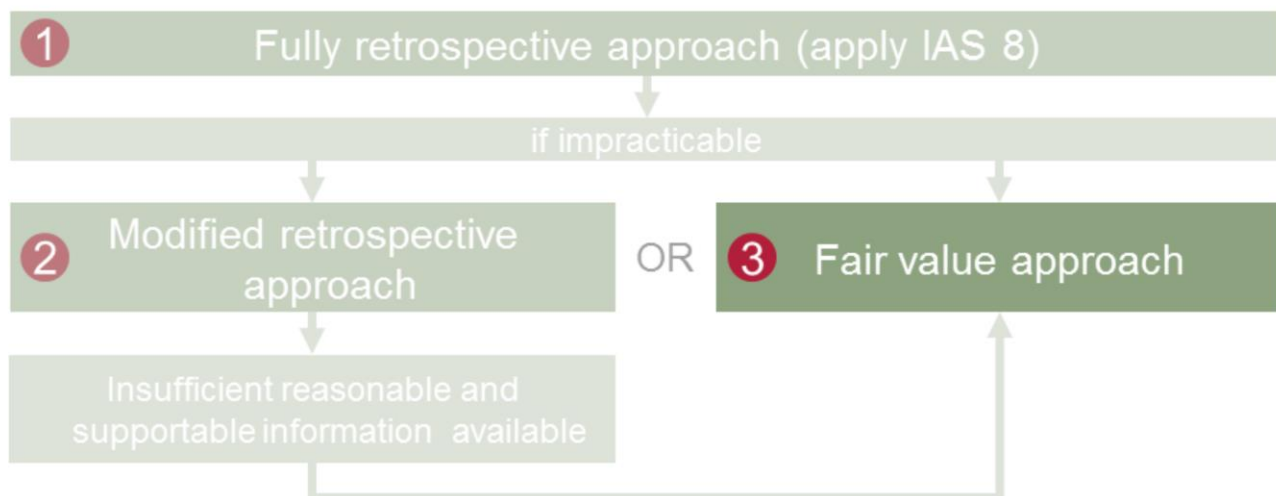
Further information:

IFRS 17 paragraphs 22, C10 and C18

Basis for Conclusions for IFRS 17 paragraph BC384

Transition approach by group of contracts

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Further information:

IFRS 17 paragraph C5(b)

Basis for Conclusions for IFRS 17 paragraphs BC373 and BC385–BC386

3 Initial assessments

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In order to:

- Identify insurance contracts with direct participation features
- For an insurance contract without direct participation features, identify discretionary cash flows
- Determine a group(s)

Reasonable and supportable information available at:



Inception date or
initial recognition

OR



Transition date

Further information:

IFRS 17 paragraphs C21–C22

Basis for Conclusions for IFRS 17 paragraph BC386

③ Initial assessments

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- Grouping contracts applying the fair value approach
- An entity may choose to:

Include contracts
issued no more than
one year apart in the
same group*

OR

Include contracts
issued more than one
year apart in the same
group

*Only if there is reasonable and supportable information to do so



Further information:

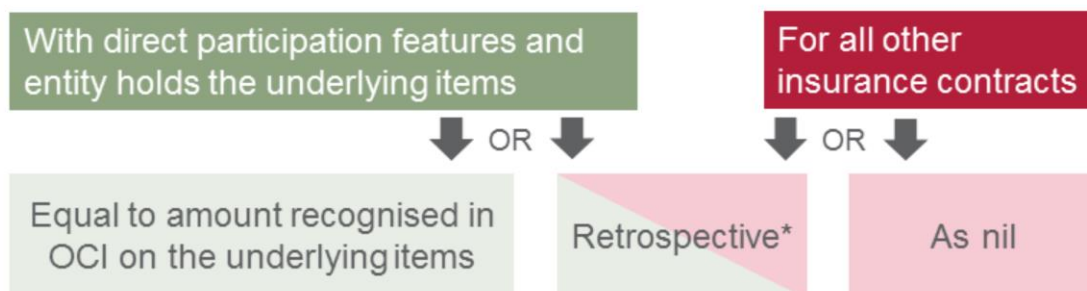
IFRS 17 paragraphs 22 , C10 and C23

Basis for Conclusions for IFRS 17 paragraph BC386(a)

3 Applying OCI option

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- If OCI option is applied - determine the cumulative insurance finance income or expenses in OCI at the transition date
- Choice permitted for insurance contracts:



* If reasonable and supportable information is available



Further information:

IFRS 17 paragraph C24 and B134


Basis for Conclusions for IFRS 17 paragraph BC386(b)

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