IFRS 17

Insurance contracts

High-level overview

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Introduction: IFRS 17 Insurance Contracts

IFRS 17

- replaces an interim Standard—IFRS 4
- requires consistent accounting for all insurance contracts, based on a current measurement model
- will provide useful information about profitability of insurance contracts

Effective 2021

- one year restated comparative information
- early application permitted

Further information:

IFRS 17 paragraphs 1, C1 and C34

IFRS 17 Basis for Conclusions paragraphs BC1-BC15 and BC402-BC404
Today’s topics

- Scope of IFRS 17
- What is a contract for the purposes of IFRS 17?
- Overview of the IFRS 17 current measurement model
Scope of IFRS 17
What is an insurance contract?

- Significant insurance risk
- Compensates on the occurrence of an insured event

IFRS 17 and IFRS 4—same definition

IFRS 17 two minor changes to guidance but no expected changes in assessments for majority of contracts

Further information:

IFRS 17 Appendix A definitions:
- Insurance contract
- Insurance risk
- Insured event
- Policyholder

IFRS 17 paragraphs 1, 6 and B2-B30

Basis for conclusions of IFRS 17 paragraphs BC63-BC81
Scope exclusions

- Some insurance contracts remain in the scope of other IFRS Standards and not IFRS 17
  - No change from IFRS 4
- For example:
  - Warranties issued by manufacturers
  - Retirement benefit obligations
  - Insurance contracts held by an entity, unless those contracts are reinsurance contracts

Further information:
IFRS 17 paragraph 7(a)-7(d) and 7(f)-7(g)
IFRS 17 Basis for conclusions paragraphs BC66, BC87 and BC89-BC90
Options for some insurance contracts

Two options to account for some insurance contracts using IFRS 17 or other IFRS Standards

• Financial guarantee contracts—IFRS 17 or IFRS 9 *Financial Instruments*
  
  ↔ No change from IFRS 4

• Specified fixed-fee service contracts—IFRS 17 or IFRS 15 *Revenue from Contracts with Customers*

✓ Change from IFRS 4

Further information:

IFRS 17 paragraphs 7(e), 8 and B29-B30

IFRS 17 Basis for Conclusions paragraphs BC65(b) and BC91-BC97
Scope

- IFRS 17 scope includes reinsurance contracts held

| Issuer: Reinsurer issues an insurance contract | Significant insurance risk | Policyholder: Entity holds reinsurance contract |
| Compensates for claims arising from insurance contract(s) issued by the entity |

↔ Same definition as IFRS 4
✓ IFRS 17 two minor changes to guidance but no expected changes in assessments for majority of contracts

Further information:
IFRS 17 paragraphs 3(b), 29(b) and 60-70
IFRS 17 Appendix A definitions:
• Insurance contract
• Reinsurance contract
IFRS 17 Basis for Conclusions paragraphs BC296-BC315
Scope (continued)

• IFRS 17 scope includes investment contracts with discretionary participation features issued by an entity that issues an insurance contract:
  – A financial instrument with discretionary payments
✔ Change from IFRS 4

Further information:
IFRS 17 paragraphs 3(c), 29(c) and 71
IFRS 17 Appendix A definition:
• Investment contracts with discretionary participation features
IFRS 17 Basis for Conclusions paragraphs BC82-BC86
What is a ‘contract’?

- Substantive rights and obligations—contract, law or regulation
- A contract is an agreement between two or more parties that creates enforceable rights and obligations
- Enforceability is a matter of law
- Contractual terms include all explicit or implied terms, including law or regulation
- Disregard terms that have no commercial substance

Further information:
IFRS 17 paragraph 2
What is measured under IFRS 17?

For measurement purposes, an insurance contract is the cash flows remaining after non-insurance components are separated.

Measure separated components under other IFRS Standards:
- Specified embedded derivatives—IFRS 9
- Distinct investment components—IFRS 9
- Distinct goods or non-insurance services—IFRS 15

Further information:
IFRS 17 paragraphs 10-13 and B31-B35
IFRS 17 Basis for Conclusions paragraphs BC98-BC114
IFRS 17 Illustrative Examples paragraphs IE42-IE55
IFRS 17 core requirements

- Insurance contracts measured as the sum of:
  - Fulfilment cash flows
    1. Present value of probability-weighted expected cash flows—reflects financial risk
    2. Plus an explicit risk adjustment for insurance risk
  - Contractual service margin
  3. The unearned profit from the contracts

Further information:
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:
- Fulfilment cash flows
- Contractual service margin
- Risk adjustment for non-financial risk
IFRS 17 Basis for Conclusions paragraphs BC16-BC21
Further information:
IFRS 17 paragraph 29
# Changes to balance sheet presentation

<table>
<thead>
<tr>
<th>IFRS 4*</th>
<th>IFRS 17</th>
<th>Key changes</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
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<tr>
<td>Reinsurance contract assets</td>
<td>Reinsurance contract assets</td>
<td>- Contracts that are assets are separately presented from those that are liabilities</td>
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<tr>
<td>Deferred acquisition costs</td>
<td>Insurance contract assets</td>
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<td>Value of business acquired</td>
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<td>Policy loans</td>
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<td><strong>Liabilities</strong></td>
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<tr>
<td>Insurance contracts liabilities</td>
<td>Insurance contract liabilities</td>
<td>- Simplified presentation consistent with the economics</td>
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<tr>
<td>Unearned premiums</td>
<td>Reinsurance contract liabilities</td>
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<td>Claims payable</td>
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(*) Common presentation in the balance sheet in applying IFRS 4

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**Further information:**

IFRS 17 paragraph 78

IFRS 17 Basis for Conclusions paragraphs BC328-BC329

IFRS 17 Effects Analysis page 77
## Changes to the presentation of performance

<table>
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<tr>
<td>Premiums</td>
<td>Insurance revenue</td>
<td>- Two drivers of profit</td>
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<td>Investment income</td>
<td>Incurred claims and expenses</td>
<td>- Insurance revenue and expenses are recognised as earned or incurred</td>
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<tr>
<td>Incurred claims and expenses</td>
<td>Insurance service result</td>
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<td>Change in insurance contract liabilities</td>
<td>Investment income</td>
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<td>Profit or loss</td>
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<td>Net financial result</td>
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<td>Profit or loss</td>
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<td>Insurance finance expenses (\textit{optional})</td>
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<td>Total comprehensive income</td>
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(*) Common presentation in the statement of comprehensive income in applying IFRS 4

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**Further information:**
- IFRS 17 paragraphs 80, 83-85 and 87
- IFRS 17 Basis for Conclusions paragraphs BC331-BC346
- IFRS 17 Effects Analysis page 83
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