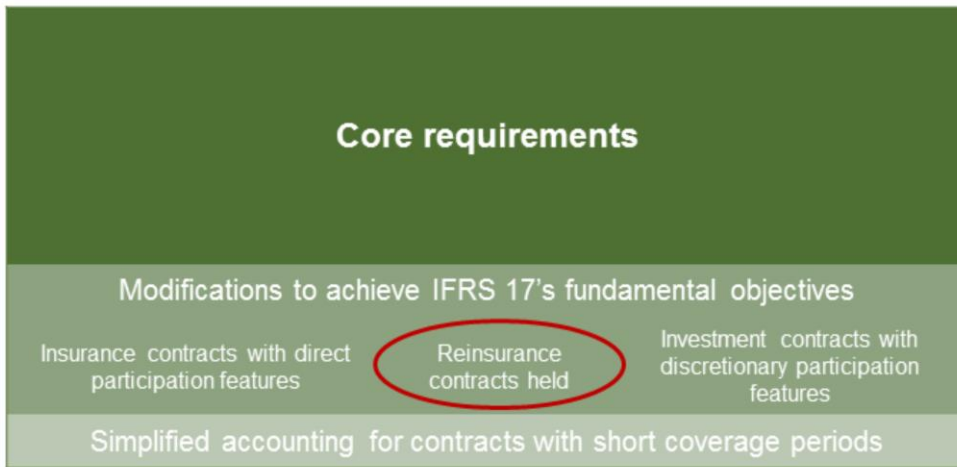


IFRS 17 *Insurance Contracts*

Reinsurance contracts held

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Further Information:

IFRS 17 paragraphs 3(b), 5 and 60–70


IFRS 17 webinars

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Previous webinars

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

This webinar

September 2017		Reinsurance contracts held
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Today's topics

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- Reinsurance contracts
- Reinsurance contracts held
 - Recognition
 - Measurement
 - Eligibility for the simplified accounting for contracts with short coverage periods — premium allocation approach
 - Presentation and disclosure

Reinsurance contracts

Reinsurance contracts held

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IFRS 17 scope includes reinsurance contracts held



*underlying contracts



Further information:

IFRS 17 paragraph 3(b)

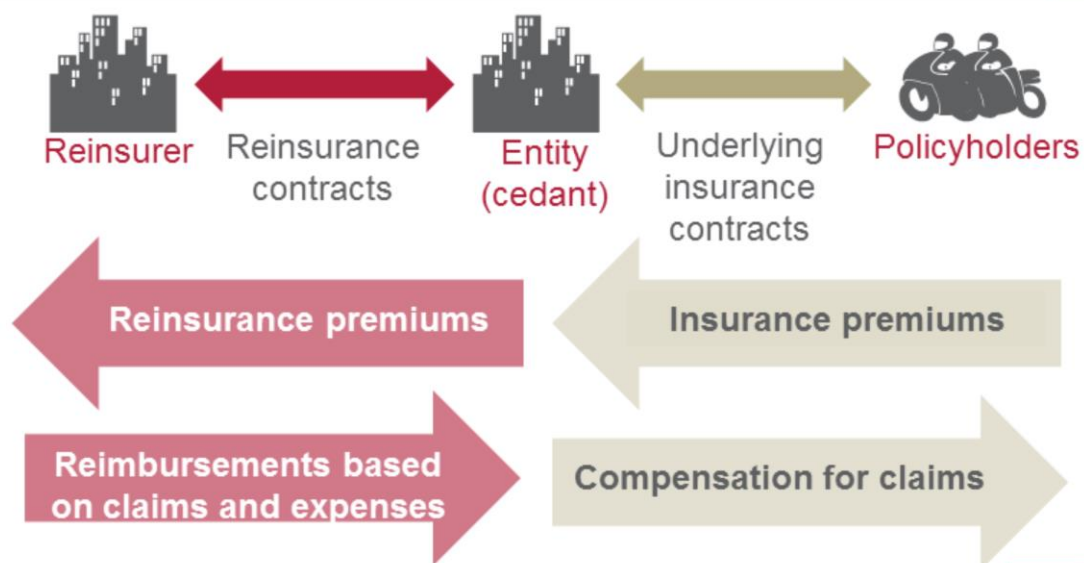
IFRS 17 Appendix A definitions:

- Insurance contract
- Reinsurance contract

Basis for Conclusions on IFRS 17 paragraphs BC296–BC298

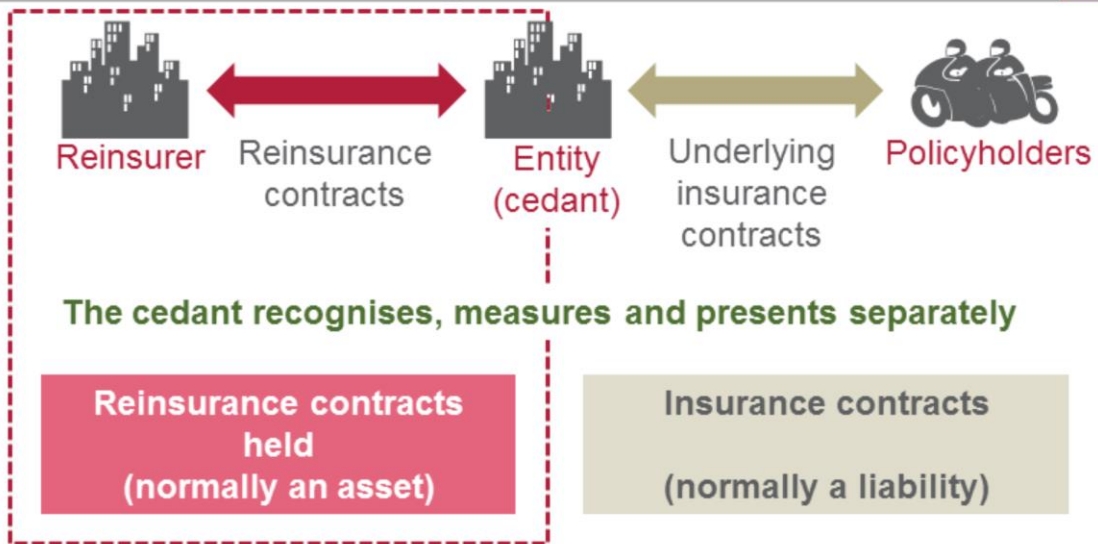
Reinsurance contracts

7



Cedant's accounting

8



Further Information:

Basis for Conclusions on IFRS 17 paragraph BC298

Recognition

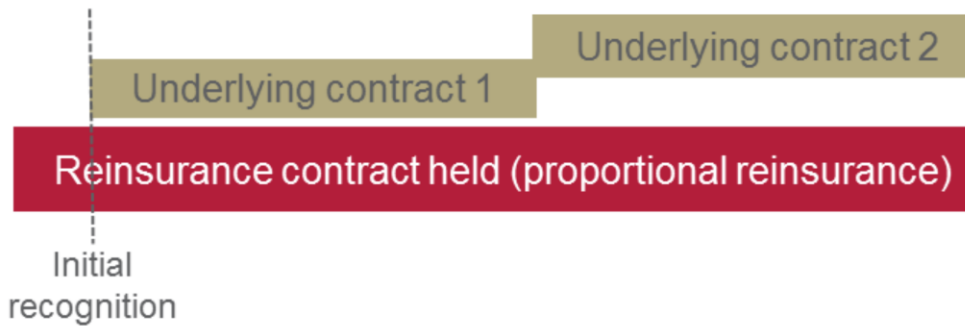
Reinsurance contracts held

Recognition: reinsurance contracts held

10

Proportional reinsurance — later of:

- 1) beginning of coverage period of group of reinsurance contracts
- or
- 2) initial recognition of any underlying insurance contract



Further Information:

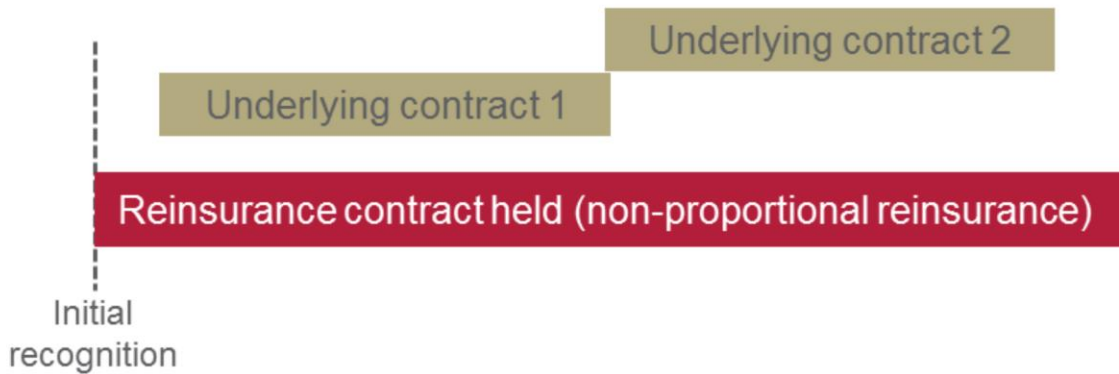
IFRS 17 paragraph 62

Basis for Conclusions on IFRS 17 paragraphs BC296–BC298 and
BC304–BC306

Recognition: reinsurance contracts held

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In other cases, beginning of the coverage period of group of reinsurance contracts



Further Information:

IFRS 17 paragraph 62

Basis for Conclusions on IFRS 17 paragraphs BC296–BC298 and
BC304–BC306

Measurement

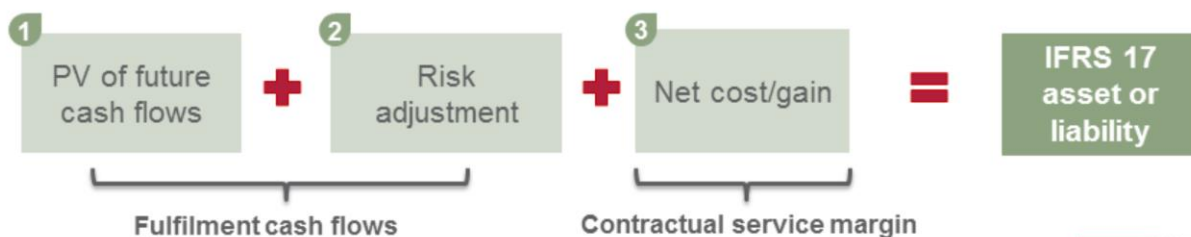
Reinsurance contracts held

IFRS 17 core requirements

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Reinsurance contracts held measured as the sum of:

- **Fulfilment cash flows (FCF)**
 1. Present value of probability-weighted expected cash flows—reflects financial risk
 2. Plus an explicit risk adjustment for non-financial risk (eg insurance)
- **Contractual service margin (CSM)**
 3. Net cost or net gain on purchasing reinsurance



Further information:

IFRS 17 paragraphs 32 and 60–68

IFRS 17 Appendix A definition:

- Fulfilment cash flows

Basis for Conclusions of IFRS 17 paragraphs BC307–BC315

1 Fulfilment cash flows

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Expected cash flows

- Consistent assumptions with the underlying insurance contracts to estimate cash flows of reinsurance contract
- Forecast cash flows within reinsurance contract boundary
 - For example, expected cash flows for reinsurance contracts may relate to underlying contracts an entity expects to issue in the future that will be protected by the reinsurance contract
- Measure non-performance risk of reinsurer



Further Information:

IFRS 17 paragraph 63

Basis for Conclusions on IFRS 17 paragraphs BC307–BC308

1 2 Fulfilment cash flows (continued)

15

Discount rate

- Reflects the nature and timing of cash flows and the liquidity characteristics of the reinsurance contracts held

Risk adjustment

- The amount of risk transferred to the reinsurer by the entity



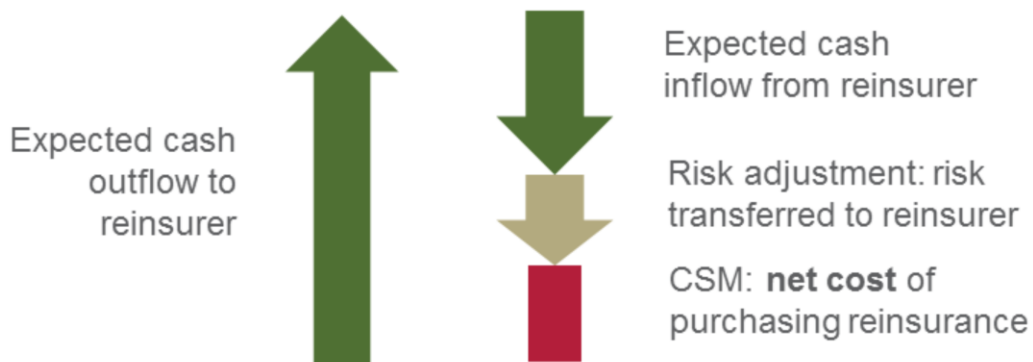
Further Information:

IFRS 17 paragraph 64

3 Contractual service margin (CSM) at initial recognition

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- Expected cash outflows to reinsurer exceed sum of expected inflows and the risk adjustment:
CSM represents a **net cost** of purchasing reinsurance



Further Information:

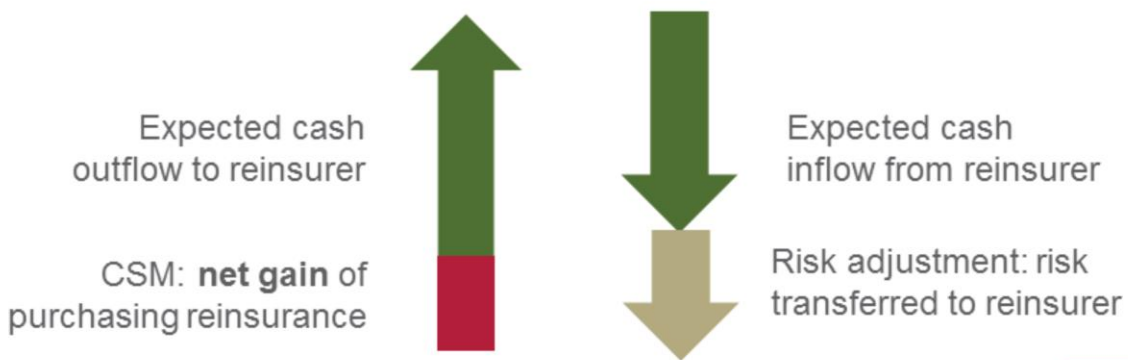
IFRS 17 paragraph 65(a)

Basis for Conclusions on IFRS 17 paragraph BC310

3 Contractual service margin (CSM) at initial recognition

17

- Expected cash inflows from reinsurer plus the risk adjustment exceed expected outflows:
CSM represents a **net gain** of purchasing reinsurance



Further Information:

IFRS 17 paragraph 65(a)

Basis for Conclusions on IFRS 17 paragraphs BC310 and BC311

3 CSM at initial recognition— a simple example

18

Consider a reinsurance contract held, risk adjustment = CU750 and PV of future cash inflows = CU4,250

If premiums
paid CU5,500

- $\text{CSM} = \text{CU}500 [\text{CU}5,500 - \text{CU}750 - \text{CU}4,250]$
- CSM = net cost of purchasing reinsurance

If premiums
paid CU4,700

- $\text{CSM} = -\text{CU}300 [\text{CU}4,700 - \text{CU}750 - \text{CU}4,250]$
- CSM = net gain of purchasing reinsurance

The net cost or net gain of purchasing reinsurance contracts is recognised over the coverage period—the period reinsurance services are received*



*Exception described in the next slide.

Further information:

IFRS 17 paragraphs 32(b), 38 and 65

Basis for Conclusions of IFRS 17 paragraphs BC218–BC219 and
BC310–BC313

Illustrative Examples of IFRS 17 Example 11

3 CSM at initial recognition— Retroactive reinsurance

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Exception to reinsurance contracts held requirements for the measurement of the CSM at initial recognition

- Some reinsurance contracts cover events that have already occurred but effect is still uncertain
- Net cost of reinsurance coverage that relates to events that occurred before purchase is recognised immediately in profit or loss as an expense at initial recognition



Further Information:

IFRS 17 paragraph 65(b)

Basis for Conclusions on IFRS 17 paragraph BC312

- The portfolio or group may be a single contract
- If the portfolio is > 1 contract, divide portfolio into groups at initial recognition:
 1. net gain of purchasing reinsurance (ie net inflow)
 2. net cost of purchasing reinsurance (ie net outflow) with no significant possibility of becoming a net gain
 3. other net cost of purchasing reinsurance (ie net outflow)
 - not allowed to group contracts purchased more than a year apart
 - groups are not reassessed

Further Information:

IFRS 17 paragraphs 61 and 68

Snapshot on subsequent measurement

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	Initial measurement	Subsequent measurement
1 PV of future cash flows	Current assumptions	Current assumptions
2 Risk adjustment*	Current assumptions	Current assumptions
3 Contractual service margin	The amount that represents the net cost or net gain of purchasing reinsurance*	Update by reflecting: <ul style="list-style-type: none"> • Time value of money • Adjustments related to future service* • Allocation for services

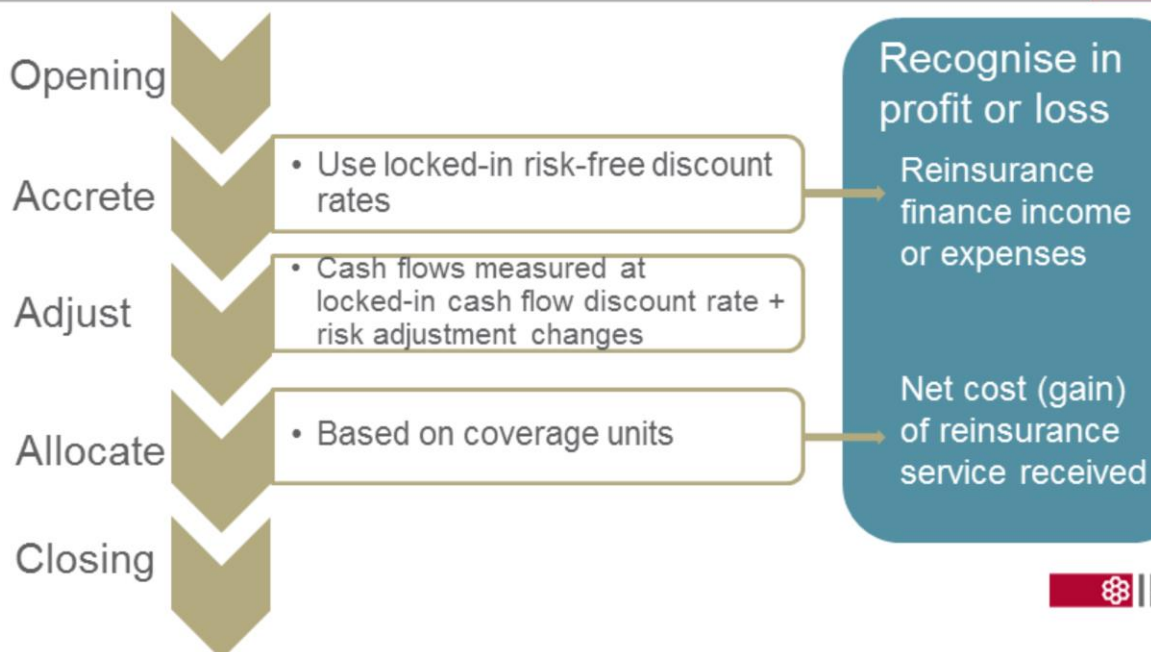
*Exception for specific adjustments. See slide 24.



Further information:
IFRS 17 paragraphs 66

Subsequent measurement of CSM

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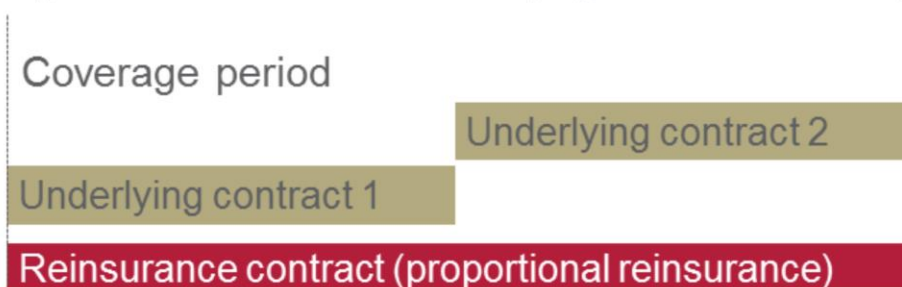
Further Information:

IFRS 17 paragraphs 66, B72 and B119

Coverage period

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- The period during which the holder of the reinsurance contract receives services
 - For example, a proportional reinsurance treaty that protects an entity for claims arising from contracts it issues in a year
 - Reinsurance contract held may have a coverage period that is longer than the individual underlying contracts an entity issues



IFRS

Further Information:

IFRS 17 paragraph 66(e)

IFRS 17 Appendix A definitions:

- Coverage period

Basis for Conclusions on IFRS 17 paragraph BC312

Subsequent measurement of reinsurance contracts held

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Where to recognise changes in fulfilment cash flows:

General principle

Current or past service	Profit or loss (P/L)
Future service	Contractual Service Margin
The effect of the time value of money and financial risk	Profit or loss or profit or loss and OCI

Exception to general principle

Future service	When the related change in the underlying contracts is recognised in P/L	Profit or loss
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Further Information:
IFRS 17 paragraphs 3, 5 and 66(c)

Simplified accounting

Reinsurance contracts held



Further Information:

IFRS 17 paragraph 69

- Assessment of eligibility for the premium allocation approach (PAA) is separate from the assessment of whether underlying contracts issued are eligible for the optional PAA
- Criteria for eligibility for the PAA is the same for reinsurance contracts held and insurance contracts issued
- A group of contracts is eligible PAA for if:
 - coverage period of each contract in the group is one year or less; or
 - entity reasonably expects the resulting measurement would not differ materially from the result of applying the core requirements

Further Information:

IFRS 17 paragraphs 69 and 70

Presentation and disclosure

Reinsurance contracts held

- Reinsurance contracts held are presented separately from insurance contracts issued on the face of:
 - statement of financial position
 - statements of financial performance

Further Information:

IFRS 17 paragraph 78(c)–(d)

Basis for Conclusions on IFRS 17 paragraph BC298

Presentation of income or expenses from reinsurance contracts held

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Net presentation	OR	Gross presentation
Insurance revenue		Insurance revenue
Incurred claims and expenses		Incurred claims and expenses
		Amounts recovered from reinsurers
		An allocation of reinsurance premiums
Net income or expense from reinsurance contracts held		Net income or expense from reinsurance contracts held
Insurance service expenses		Insurance service expenses
Insurance service result		Insurance service result



Further Information:

IFRS 17 paragraph 86

Basis for Conclusions on IFRS 17 paragraph BC346

Gross presentation— reinsurance recoveries and premiums paid

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- If an entity chooses gross presentation:
 - reinsurance recoveries (amounts recovered from the reinsurer) include cash flows contingent on underlying insurance contract's claims
 - the allocation of reinsurance premiums paid includes amounts from reinsurer that are **not** contingent on underlying insurance contract's claims
eg some forms of ceding commission
 - the allocation of reinsurance premiums paid as a reduction in revenue is prohibited



Further Information:

IFRS 17 paragraph 86

Basis for Conclusions on IFRS 17 paragraph BC346

- Presentation of finance income or expenses from reinsurance contracts held in:
 - Profit or loss
 - Disaggregated between profit or loss and other comprehensive income
- Presentation in statement of financial position
 - A group or groups of reinsurance contracts held that are assets
 - A group or groups of reinsurance contracts held that are liabilities
- Disclosures
 - Separate roll forward analyses for reinsurance contracts held

Further Information:

IFRS 17 paragraphs 78(c)–(d) and 98

Basis for Conclusions on IFRS 17 paragraph BC351

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