IFRS 17 *Insurance Contracts*

Simplified accounting for contracts with short coverage periods

Parts 1 and 2

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IFRS 17 Insurance Contracts

Simplified accounting for contracts with short coverage periods

Part 1 of 2
## IFRS 17 webinars

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### This webinar

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<td>July 2017</td>
<td>Premium Allocation Approach (PAA)</td>
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Premium Allocation Approach: Where does it fit?

Core requirements

Modifications to achieve IFRS 17’s fundamental objectives
- Insurance contracts with direct participation features
- Reinsurance contracts held
- Investment contracts with discretionary participation features

Simplified accounting for contracts with short coverage periods

Further information:
IFRS 17 Basis for Conclusions paragraphs BC288 and BC291
What is the premium allocation approach?

Simplifications to core requirements:
premium allocation approach

- An optional measurement approach for simple eligible contracts that
  - achieves similar outcomes to the core model in a less costly way
  - is similar to currently used “unearned premium” approach in many jurisdictions

Further information:
IFRS 17 Basis for Conclusions paragraphs BC288 and BC291
Today’s topics

Part 1
1. Eligibility
2. Measurement
   – liability for remaining coverage

Part 2
2. Measurement
   – liability for incurred claims
   – onerous contracts and level of aggregation
3. Presentation and disclosures

Further information:
IFRS 17 Basis for Conclusions paragraphs BC288 and BC291
Eligibility
Further information:
IFRS 17 paragraph 53
IFRS 17 Basis for Conclusions paragraph BC291
Further information:
IFRS 17 paragraphs 53(b)
IFRS 17 Appendix A definition:
• coverage period
IFRS 17 Basis for Conclusions paragraph BC291
Determining reasonable approximation

- The ‘reasonable approximation’ criterion is not met if the entity expects significant variability in the fulfilment cash flows before claims are incurred.
- Variability in estimates increases, for example, with:
  - the extent of future cash flows relating to embedded derivatives in the contract
  - the length of the coverage period

Further information:
IFRS 17 paragraphs 53(a) and 54
Measurement
Further information:
IFRS 17 paragraphs 40
IFRS 17 Appendix A definitions:
• liability for incurred claims
• liability for remaining coverage
Further information:
IFRS 17 Appendix A definitions:
• contractual service margin
• fulfilment cash flows
• liability for remaining coverage
• risk adjustment for non-financial risk
IFRS 17 Basis for Conclusions paragraphs BC289 and BC293
Further information:
IFRS 17 paragraphs 55, 56 and B126
IFRS 17 Appendix A definitions:
• financial risk
• insurance acquisition cash flows
• investment component
• liability for remaining coverage
IFRS 17 Basis for Conclusions paragraphs BC290
IFRS 17 Effects Analysis pages 122-123
IFRS 17 Illustrative Examples IE113-IE123
**Further information:**
- IFRS 17 paragraphs 36, 55(b)(iv) and 56
- IFRS 17 Appendix A definition of financial risk
- IFRS 17 Basis for Conclusions paragraphs BC292(a) and BC293
Further information:
IFRS 17 paragraphs 55(a)(ii), 55(b)(iii) and 59(a)
IFRS 17 Appendix A definition
• insurance acquisition cash flows
IFRS 17 Basis for Conclusions paragraph BC292(c)
Further information:
IFRS 17 paragraphs 55, 56 and B126
IFRS 17 Appendix A definitions:
- financial risk
- insurance acquisition cash flows
- investment component
- liability for remaining coverage
IFRS 17 Basis for Conclusions paragraphs BC290
IFRS 17 Effects Analysis pages 122-123
IFRS 17 Illustrative Examples IE113-IE123
IFRS 17 Insurance Contracts

Simplified accounting for contracts with short coverage periods

Part 2 of 2
Further information:
IFRS 17 paragraph 40(b)
IFRS 17 Appendix A definition:
- liability for incurred claims
Liability for incurred claims: measurement

- In line with the core requirements
- In addition, a practical expedient is available

Further information:
IFRS 17 paragraph 59(b)
Liability for incurred claims: present value of future cash flows

Future cash flows are discounted using current discount rates that reflect:

- the time value of money;
- the cash flow characteristics of the insurance contracts; and
- the liquidity characteristics of the insurance contracts.

Further information:
IFRS 17 paragraphs 36 and B72-B85
Further information:
IFRS 17 paragraphs 36 and 59(b)
IFRS 17 Basis for Conclusions paragraph BC294
B

Liability for incurred claims: risk adjustment

What does risk adjustment reflect?
• Non-financial risk
• Measured as the compensation for bearing the uncertainty arising from non-financial risk regarding:
  – the timing; and
  – the amount of the cash flows

How do you measure it?
• Explicitly
• Entity-specific measure
• No technique prescribed

Further information:
IFRS 17 paragraphs 37 and B86-B92
IFRS 17 Appendix A definition:
• risk adjustment of non-financial risk
Measurement: overview

Insurance liability

Liability for remaining coverage
Non-loss component
Loss component

Liability for incurred claims
Onerous contracts

1. Test: do facts and circumstances indicate that a group of contracts is onerous?

2. For measurement consider an example:
   - Carrying amount of the liability for remaining coverage is CU500
   - Fulfilment cash flows (same as for the core requirements) are CU800
   - The entity accounts for the loss as follows:

<table>
<thead>
<tr>
<th>Liability for remaining coverage</th>
<th>CU800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-loss component</td>
<td>CU500</td>
</tr>
<tr>
<td>Loss component (recognised as an expense in profit or loss)</td>
<td>CU300</td>
</tr>
</tbody>
</table>

3. Subsequently, the entity remeasures the loss component until this is zero. The loss component must be zero at the end of the coverage period.

Further information:
IFRS 17 paragraphs 18, 57 and 58
IFRS 17 Basis for conclusions paragraph BC292(b)
Further information:
IFRS 17 paragraphs 14
IFRS 17 Appendix A definition:
- portfolio of insurance contracts
### Further information:
IFRS 17 paragraphs 16–24
IFRS 17 Appendix A definition of group of insurance contracts
Presentation and disclosures
## Changes to balance sheet presentation

<table>
<thead>
<tr>
<th>IFRS 4*</th>
<th>IFRS 17</th>
<th>Key changes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<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>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>Insurance contract assets</td>
<td></td>
</tr>
<tr>
<td>Value of business acquired</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance contracts liabilities</td>
<td>Insurance contract liabilities</td>
<td>- Simplified presentation is consistent with the economics</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>Reinsurance contract liabilities</td>
<td></td>
</tr>
<tr>
<td>Claims payable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Common presentation in the balance sheet applying IFRS 4

**Further information:**
- IFRS 17 paragraph 78
- IFRS 17 Basis for Conclusions paragraphs BC328-BC329
- IFRS 17 Effects Analysis page 72-79
Changes to the presentation of performance

<table>
<thead>
<tr>
<th>IFRS 4*</th>
<th>IFRS 17</th>
<th>Key changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>Insurance revenue</td>
<td>- Two drivers of profit</td>
</tr>
<tr>
<td>Investment income</td>
<td>Incurred claims and expenses</td>
<td>- Fewer key changes compared to life insurers</td>
</tr>
<tr>
<td>Incurred claims and expenses</td>
<td>Insurance service result</td>
<td></td>
</tr>
<tr>
<td>Profit or loss</td>
<td>Insurance finance expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net financial result</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Profit or loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance finance expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(optional)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total comprehensive income</td>
<td></td>
</tr>
</tbody>
</table>

(*) Common presentation in the statement of comprehensive income applying IFRS 4

Further information:
IFRS 17 paragraphs 80, 83-85 and 87-88, 90
IFRS 17 Basis for Conclusions paragraphs BC331
IFRS 17 Effects Analysis page 80-88
Presentation in other comprehensive income (OCI)

- OCI option for the liability for incurred claims includes:
  - in profit or loss: systematic allocation of total insurance finance expenses\(^{(A)}\) to the period
  - in OCI: the effect of discount rate changes

### New look to the statement of financial performance\(^{(B)}\)

<table>
<thead>
<tr>
<th>Category</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance revenue</td>
<td></td>
</tr>
<tr>
<td>Incurred claims and other expenses</td>
<td>X</td>
</tr>
<tr>
<td>Insurance service result</td>
<td>X</td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
</tr>
<tr>
<td>Insurance finance expenses</td>
<td>X</td>
</tr>
<tr>
<td>Net financial result</td>
<td></td>
</tr>
<tr>
<td>Profit or loss</td>
<td>X</td>
</tr>
<tr>
<td>Other comprehensive income:</td>
<td></td>
</tr>
<tr>
<td>Insurance finance expenses</td>
<td>X</td>
</tr>
<tr>
<td>Fair value movements on FVOCI assets</td>
<td>X</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>X</td>
</tr>
</tbody>
</table>

\(^{(A)}\)Using locked-in rate at the date of incurred claims (x%)

\(^{(B)}\)For all the changes to the statement of financial performance and changes to the statement of financial position please see slides 15-16 of the 'core requirements: scope of IFRS 17' webinar.

### Further information:

IFRS 17 paragraphs 88, B133, B72(d) and B72(e)(iii)

IFRS 17 Basis for Conclusions BC294-BC295 and BC340-BC342
Further information:
IFRS 17 paragraphs 97–100, 102–105, 110 and 114–132
IFRS 17 Basis for conclusions BC347-BC356, BC364 and BC369-BC371
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