

IFRS 17 *Insurance Contracts*

Simplified accounting for contracts
with short coverage periods

Parts 1 and 2

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Part 1 of 2

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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

This webinar

July 2017	Premium Allocation Approach (PAA)
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Premium Allocation Approach: Where does it fit?



Further information:
IFRS 17 Basis for Conclusions paragraphs BC288 and BC291

What is the premium allocation approach?

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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

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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



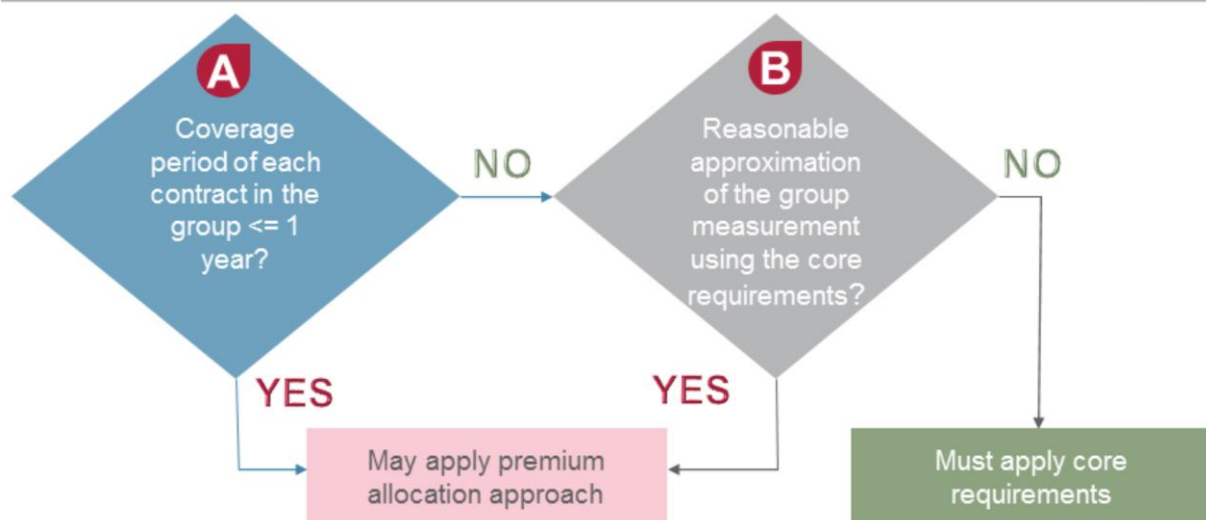
Further information:

IFRS 17 Basis for Conclusions paragraphs BC288 and BC291

Eligibility

What are the eligibility criteria?

8



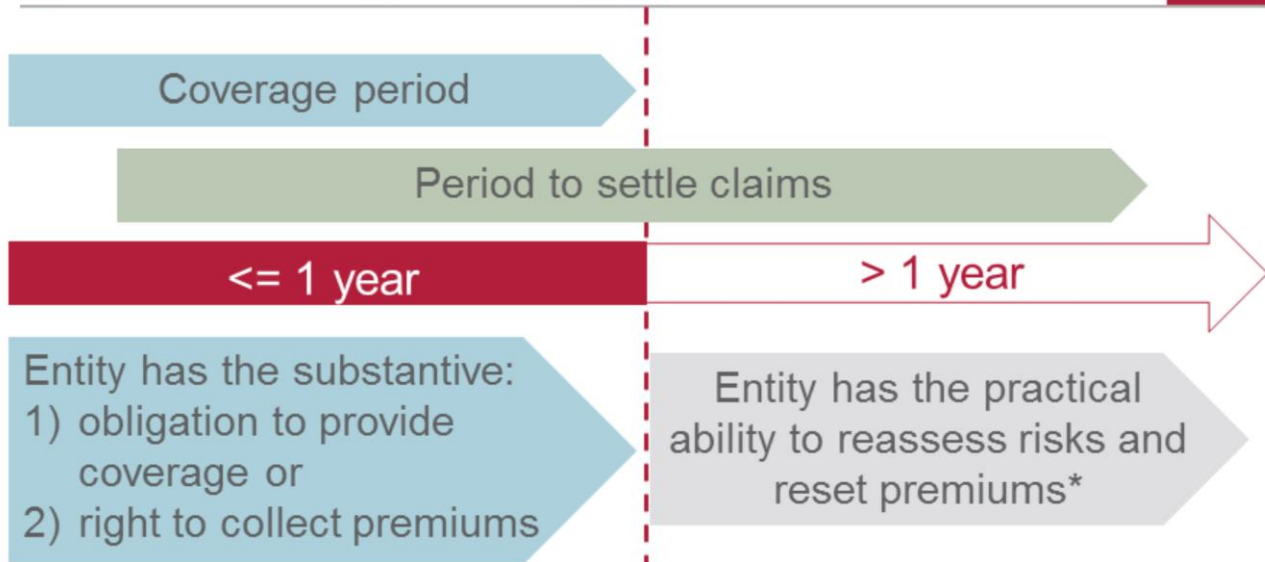
Further information:

IFRS 17 paragraph 53

IFRS 17 Basis for Conclusions paragraph BC291

A Determining coverage period

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*For an assessment at the contract level. An additional criterion must be satisfied when the assessment is at a portfolio level—the pricing of premiums does not take into account risks that relate to periods after the reassessment date



Further information:

IFRS 17 paragraphs 53(b)

IFRS 17 Appendix A definition:

- coverage period

IFRS 17 Basis for Conclusions paragraph BC291

B Determining reasonable approximation

10

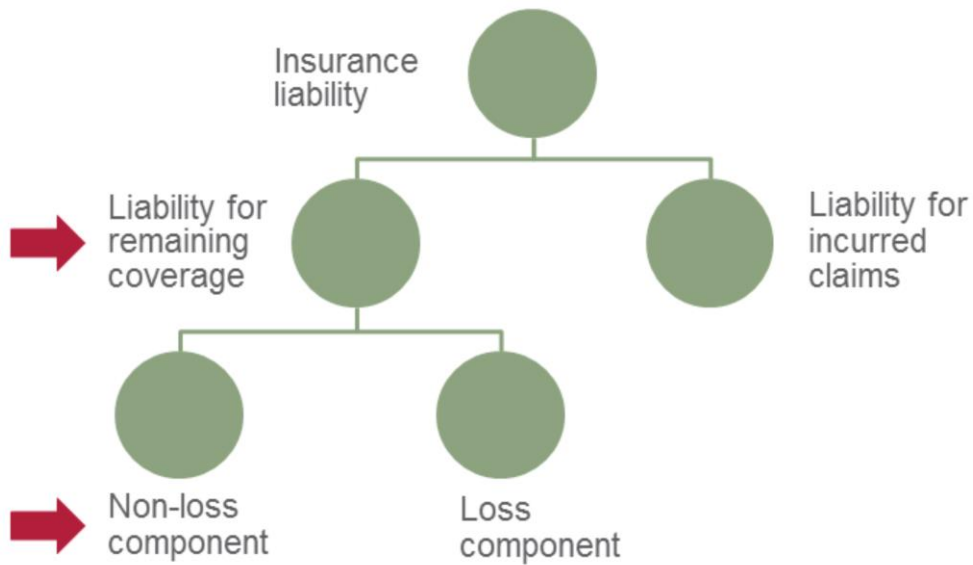
- The 'reasonable approximation' criterion is not met if the entity expects significant variability in the fulfilment cash flows before claims are incurred.
- Variability in estimates increases, for example, with:
 - the extent of future cash flows relating to embedded derivatives in the contract
 -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



Further information:

IFRS 17 paragraphs 53(a) and 54

Measurement



Further information:

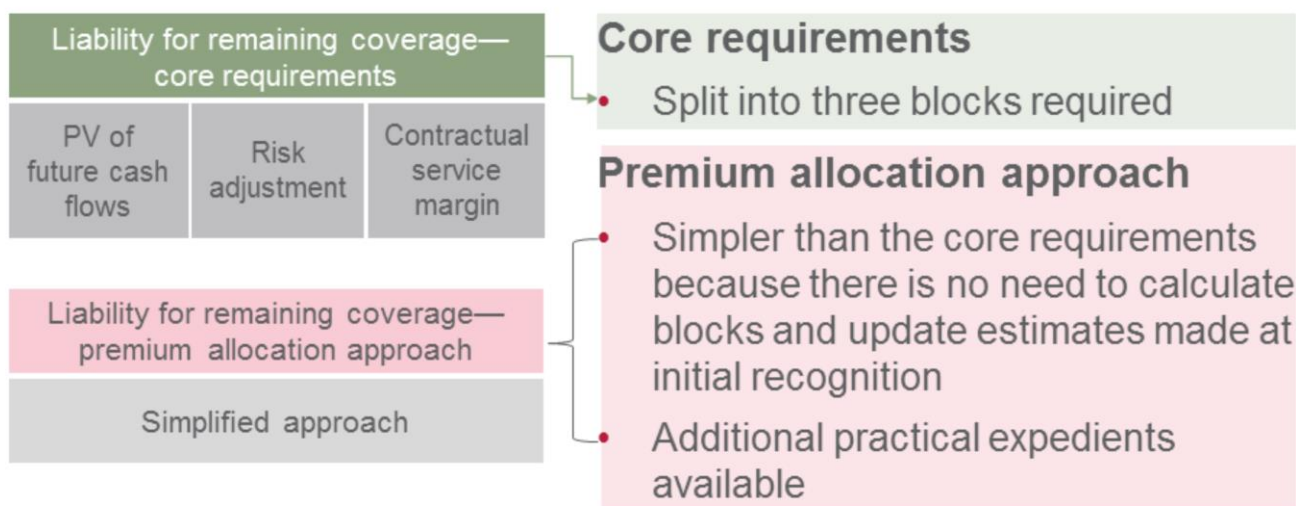
IFRS 17 paragraphs 40

IFRS 17 Appendix A definitions:

- liability for incurred claims
- liability for remaining coverage

Liability for remaining coverage: simplified approach

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Further information:

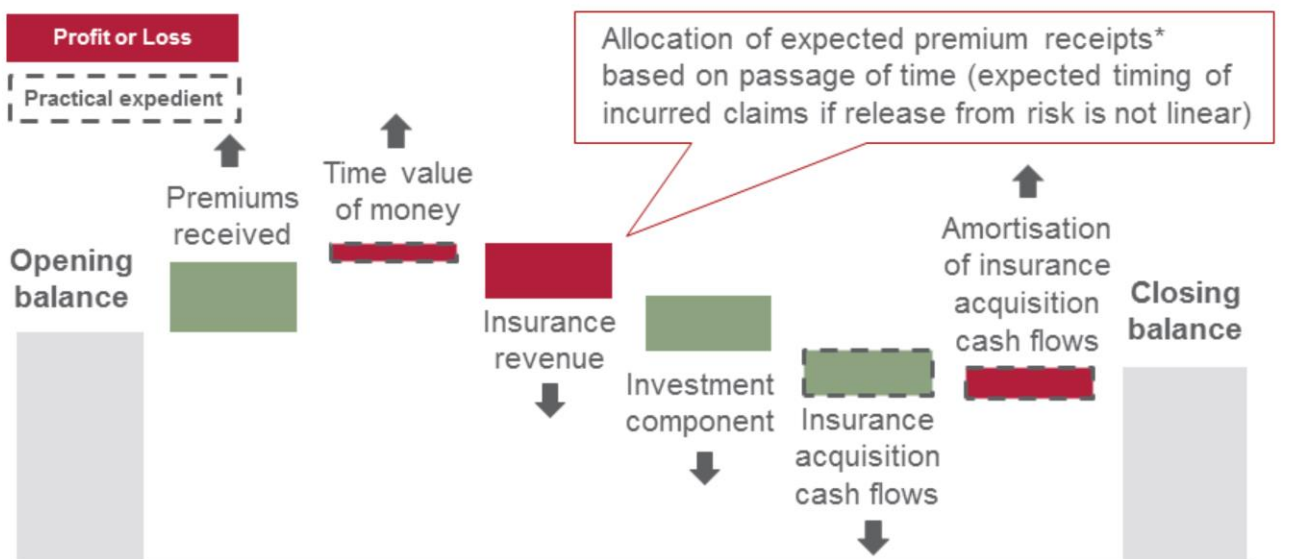
IFRS 17 Appendix A definitions:

- 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

Liability for remaining coverage: measurement

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* Expected premium receipts exclude investment component and are adjusted for the time value of money if applicable.

IFRS

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

Liability for remaining coverage: practical expedients (1/2)

15

1

Time value
of money

- Accrete interest using discount rate locked in at the date the contracts are initially recognised **UNLESS**
- **Practical expedient:**
If coverage period no more than one year, no need to accrete interest



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

2

Insurance
acquisition
cash flows

- Decrease the liability for remaining coverage when cash paid and amortise subsequently as an expense UNLESS
- **Practical expedient:**
If coverage period no more than one year, recognise cash flows as expenses when incurred

Further information:

IFRS 17 paragraphs 55(a)(ii), 55(b)(iii) and 59(a)

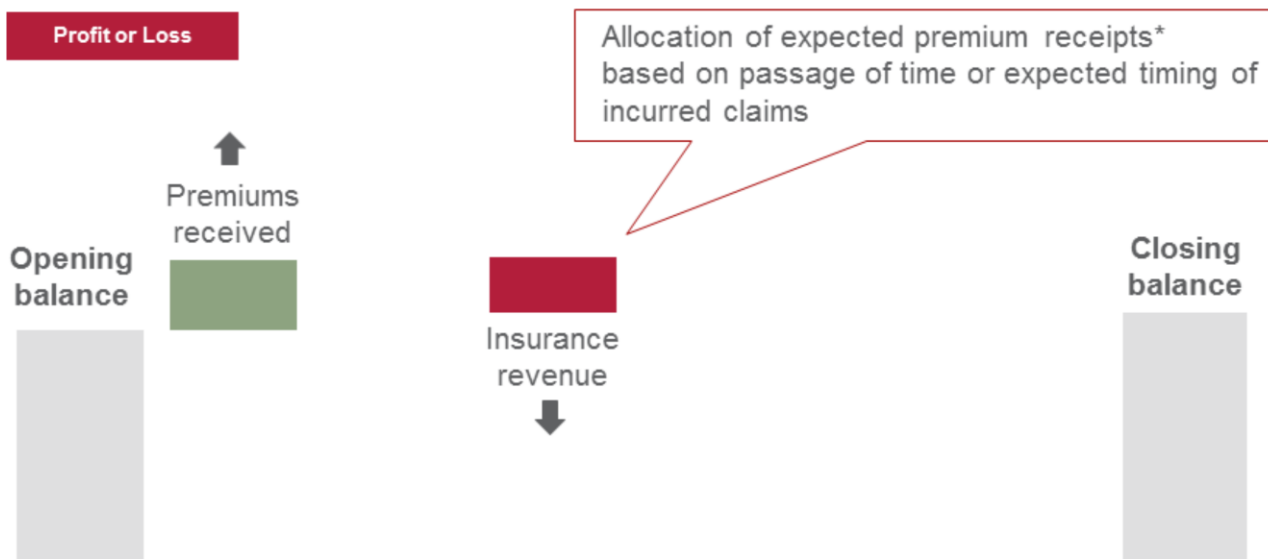
IFRS 17 Appendix A definition

- insurance acquisition cash flows

IFRS 17 Basis for Conclusions paragraph BC292(c)

Liability for remaining coverage: measurement: simplest case

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* Expected premium receipts exclude investment component and are adjusted for the time value of money if applicable.



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

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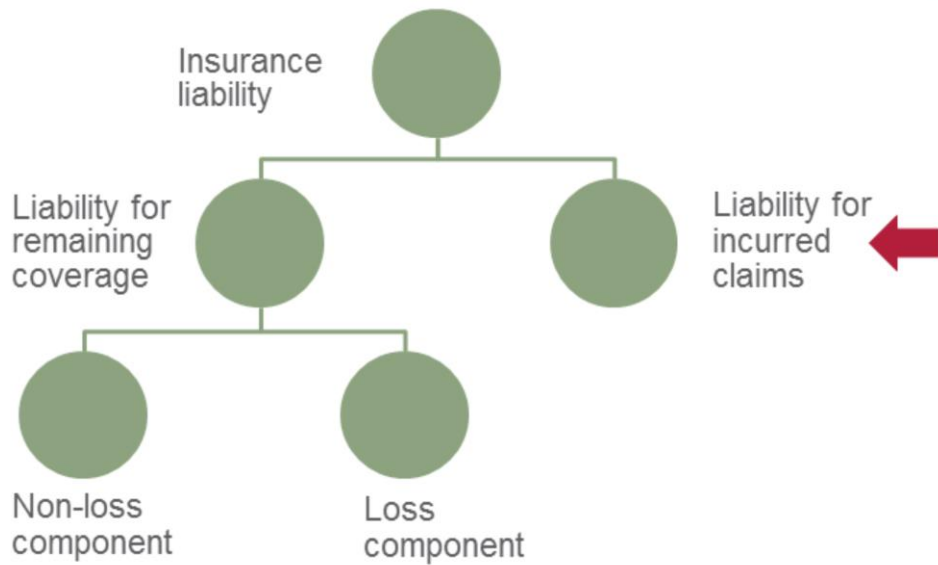
Part 2 of 2

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Measurement



Further information:

IFRS 17 paragraph 40(b)

IFRS 17 Appendix A definition:

- liability for incurred claims

Liability for incurred claims

A

PV of future
cash flows

B

Risk
adjustment

- 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

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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



Time value
of money

- Discount incurred claims using current discount rate UNLESS
- **Practical expedient:**
If settlement expected in no more than one year, no need to discount incurred claims

Further information:

IFRS 17 paragraphs 36 and 59(b)

IFRS 17 Basis for Conclusions paragraph BC294



Liability for incurred claims: risk adjustment

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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

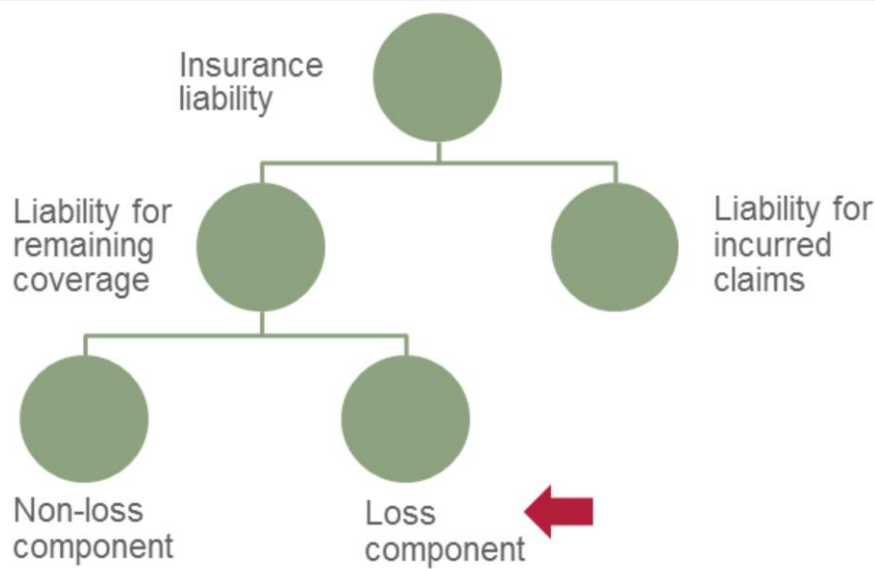


Further information:

IFRS 17 paragraphs 37 and B86-B92

IFRS 17 Appendix A definition:

- risk adjustment of non-financial risk



- 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:

Liability for remaining coverage	CU800
Non-loss component	CU500
Loss component (recognised as an expense in profit or loss)	CU300

- 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.

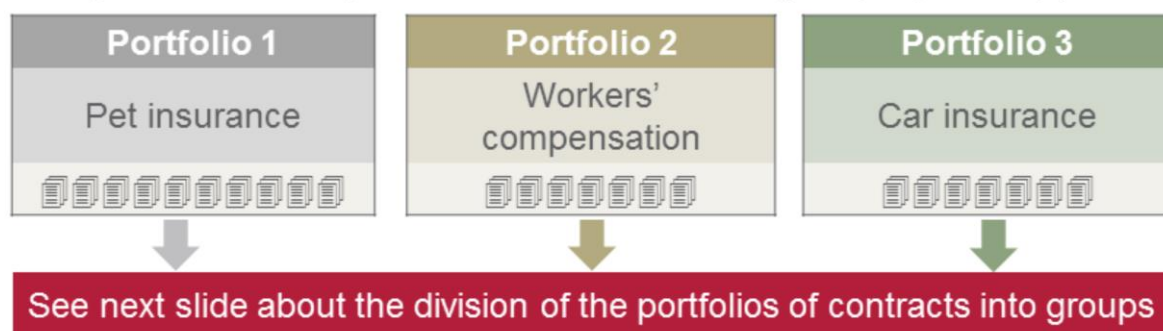


Further information:
IFRS 17 paragraphs 18, 57 and 58
IFRS 17 Basis for conclusions paragraph BC292(b)

1st step: portfolios—aggregation based on risks

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- Entity identifies portfolios of contracts (1st step)
 - insurance contracts subject to similar risks and managed together, eg based on product lines
- Entity divides each portfolio of contracts into groups (2nd step)



Further information:


IFRS 17 paragraphs 14

IFRS 17 Appendix A definition:

- portfolio of insurance contracts

2nd step: groups—aggregation based on profitability and issuance date




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Portfolio 3
Car insurance




Entity divides each portfolio into groups

- Consistent with internal reporting
- Exemption for regulatory pricing
- Group not reassessed after inception
- Contracts issued no more than a year apart

Minimum requirements	Non-onerous contracts	Group A 	Contracts that at inception have no significant possibility of becoming onerous subsequently, if any
		Group B 	Other profitable contracts, if any
	Onerous contracts	Group C 	If facts and circumstances indicate onerous groups of insurance contracts, contracts may be onerous, if any



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

IFRS 4*	IFRS 17	Key changes
Assets		<ul style="list-style-type: none">- Contracts that are assets are separately presented from those that are liabilities- Simplified presentation is consistent with the economics
Reinsurance contract assets	Reinsurance contract assets	
Deferred acquisition costs	Insurance contract assets	
Value of business acquired		
Premiums receivable		
Policy loans		
Liabilities		
Insurance contracts liabilities	Insurance contract liabilities	
Unearned premiums	Reinsurance contract liabilities	
Claims payable		

(*) 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

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

(*) 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

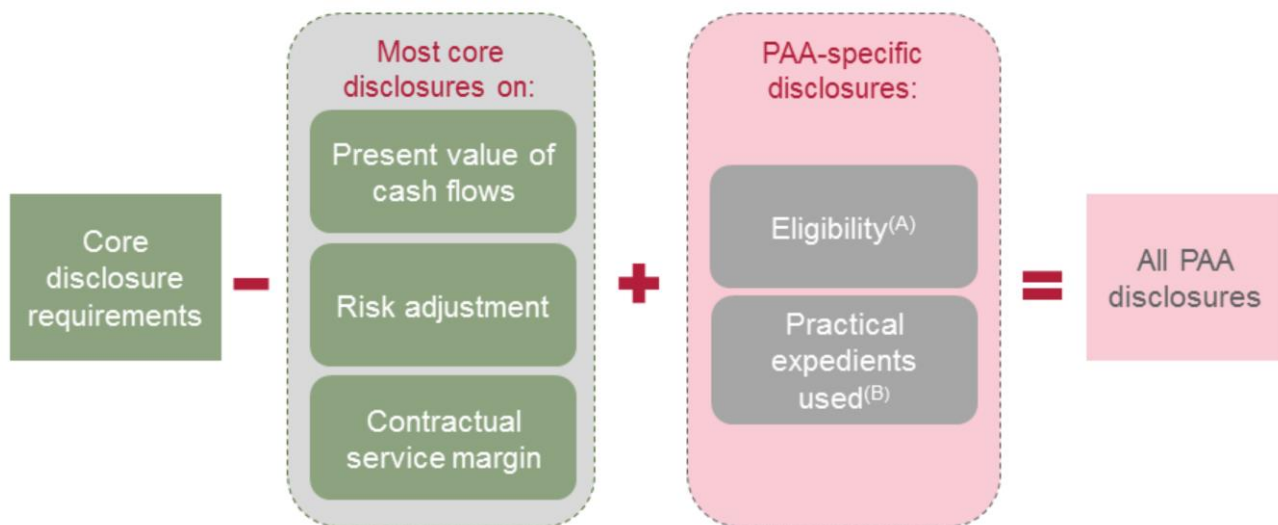
- OCI option for the liability for incurred claims includes:
 - in profit or loss: systematic allocation of total insurance finance expenses^(A) to the period
 - in OCI: the effect of discount rate changes

New look to the statement of financial performance ^(B)	
Insurance revenue	X
Incurred claims and other expenses	(X)
Insurance service result	X
Investment income	X
Insurance finance expenses	(X)
Net financial result	X
Profit or loss	X
Other comprehensive income:	
Insurance finance expenses	(X)
Fair value movements on FVOCI assets	X
Total comprehensive income	X

^(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



^(A) See slides 7–9.

^(B) See slides 14–15 and 19.

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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