

IFRS 17


Insurance Contracts

Application of IFRS 17
in Emerging Economies

Emerging Economies Group Meeting
Sao Paulo, Brazil, 6 December 2017


The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.

Copyright © 2017 IFRS Foundation. All rights reserved



One

accounting model for all insurance contracts in all IFRS jurisdictions—replaces IFRS 4



Who is affected?



450
listed insurers
using IFRS
Standards



\$13 trillion
total assets of
those listed
insurers

When?



2021
mandatory
effective date of
IFRS 17

What changes?



More
useful and
transparent
information



Better
information
about profitability

Today's agenda

3

		Pages
1	Why has IFRS 17 been developed	5-6
2	Scope of IFRS 17	8-13
3	What changes	15-16
4	Who is affected by the change	18-22
5	How does IFRS 17 work in practice	24-34
6	Optional simplified accounting for some contracts	36-40
7	Applying IFRS 17 for the first time	42-43
8	IASB activities to support implementation of IFRS 17	45-50

1—Why has IFRS 17 been developed

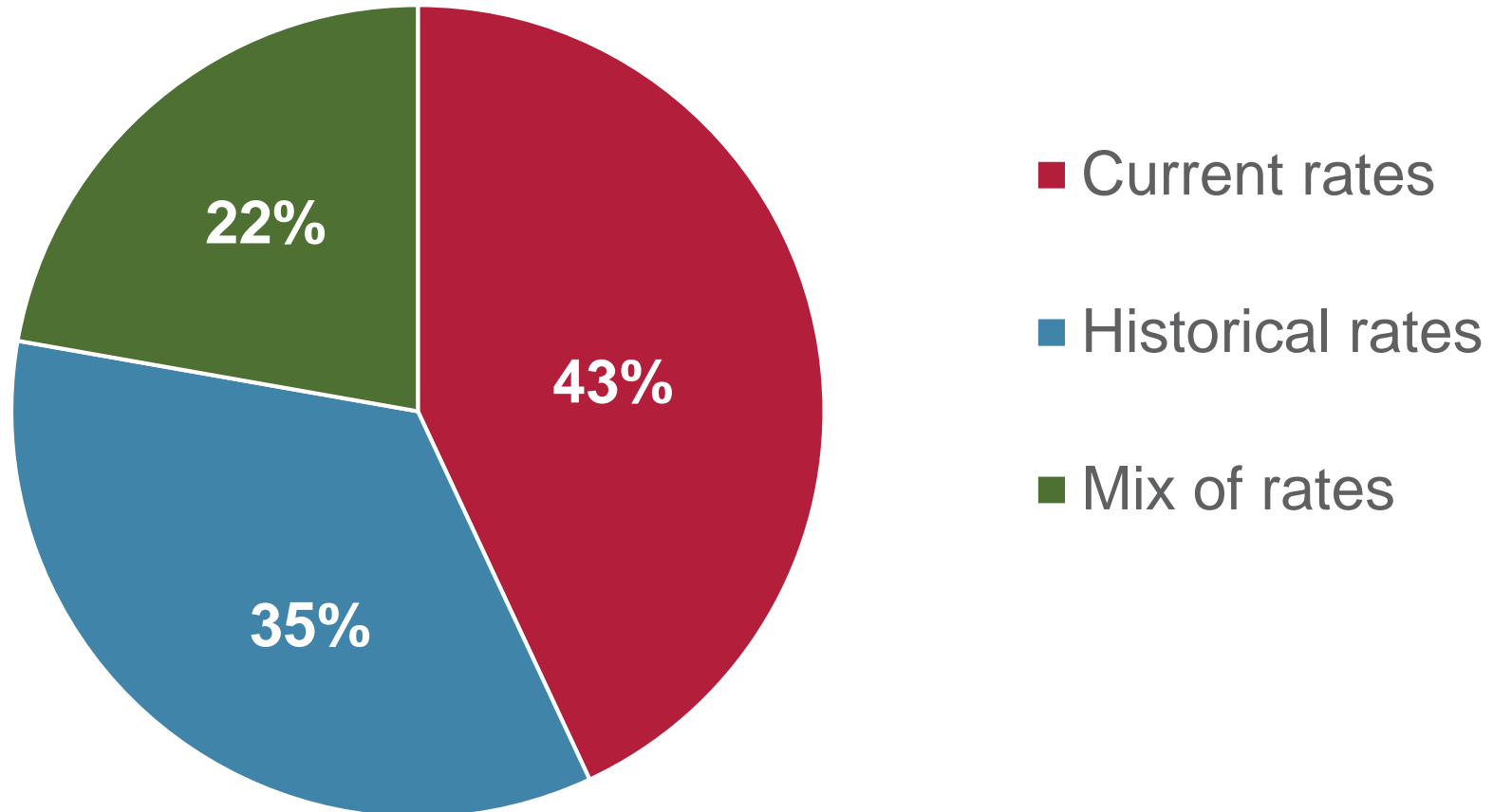
Insurance accounting today

- Same insurer—two different GAAP

(in millions of currency units)	GAAP 1	GAAP 2	Difference	
Revenue	9,010	11,244	(2,234)	-25%
Operating income	1,606	748	858	53%
Total equity	10,375	4,567	5,808	56%

IFRS insurers—discount rates used today

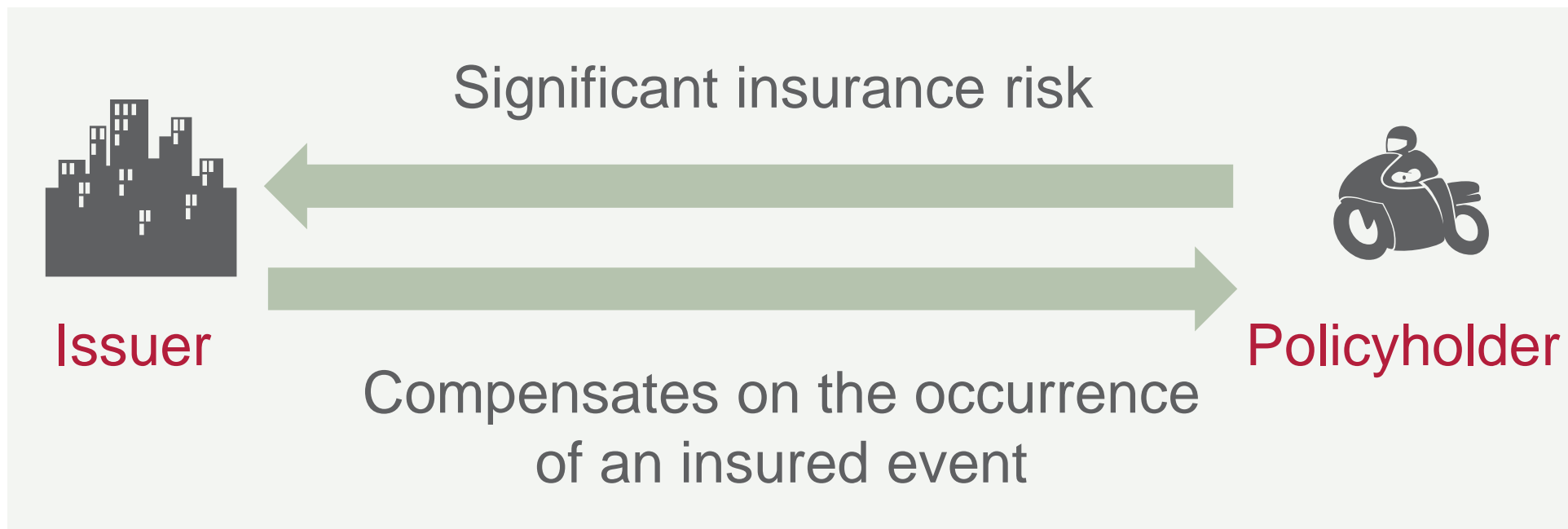
6



Discount rates used for a sample of life insurers (2015)
Source: Effects Analysis on IFRS 17

2—Scope of IFRS 17

What is an insurance contract?



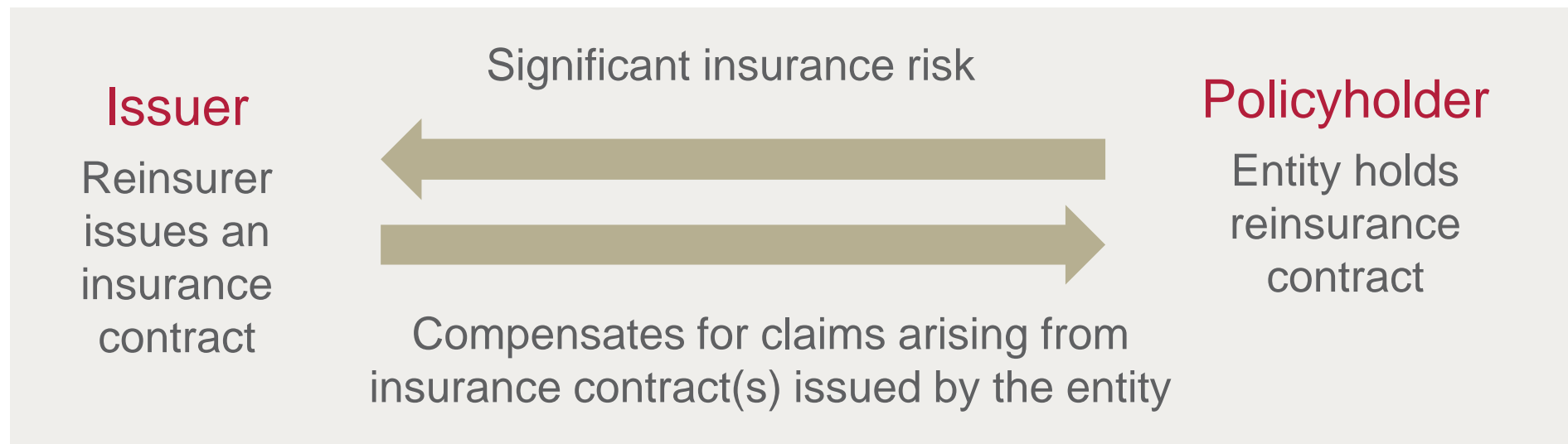
- ↔ IFRS 17 and IFRS 4—same definition
- ↔ IFRS 17 two minor changes to guidance but no expected changes in assessments for majority of contracts

- 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

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

- IFRS 17 scope includes reinsurance contracts held

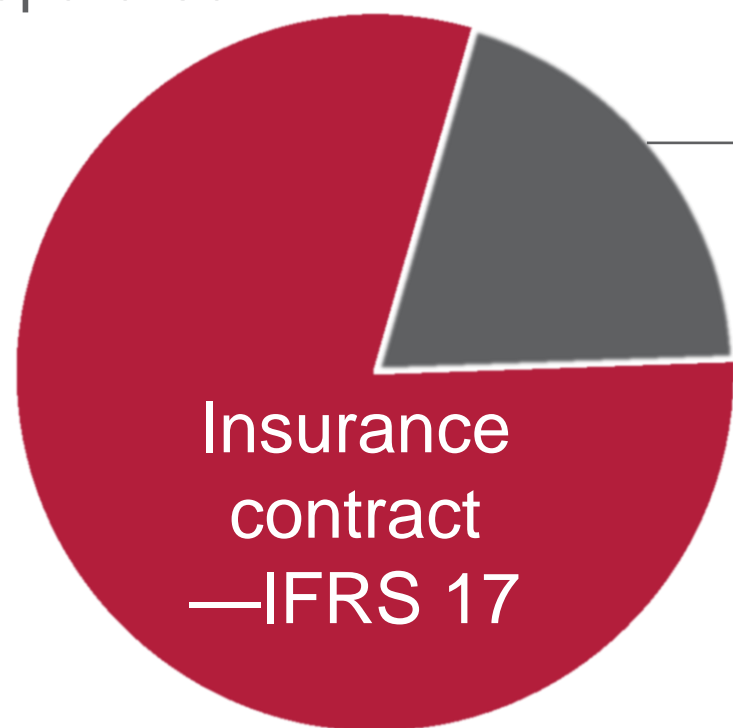


- ↔ Same definition as IFRS 4
- ↔ IFRS 17 two minor changes to guidance but no expected changes in assessments for majority of contracts

- 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

What is measured under IFRS 17?

For measurement purposes, an insurance contract is the cash flows remaining after specified 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

3—What changes

Main improvements introduced

15

More useful
and
transparent
information

- Current assumptions regularly updated
- Options and guarantees fully reflected
- Discount rates reflect characteristics of the insurance liability

Consistent
recognition of
revenue and
profits for
insurance
services

- Revenue recognition more consistent with other IFRS Standards
- Profits recognised as the insurance coverage is provided
- Additional metrics to evaluate performance

Improved performance reporting

IFRS 4*
Premiums
Investment income
Incurred claims and expenses
Change in insurance contract liabilities
Profit or loss



Cash based and includes collection of deposits. Inconsistent with other industries



Confusing adjustment that incorporates multiple factors

IFRS 17	
Insurance revenue	9,856
Incurred claims and expenses	(8,621)
Insurance service result	1,235
Investment income	7,787
Insurance finance expenses	(7,391)
Net financial result	396
Profit or loss	1,631
Other comprehensive income	
Investment income	2,115
Insurance finance expenses (<i>optional</i>)	(1,917)
Total other comprehensive income	198
Comprehensive income	1,829



Recognised when earned. Excludes deposits




Two drivers of profits presented separately



Changes in financial assumptions do not affect insurance service result

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

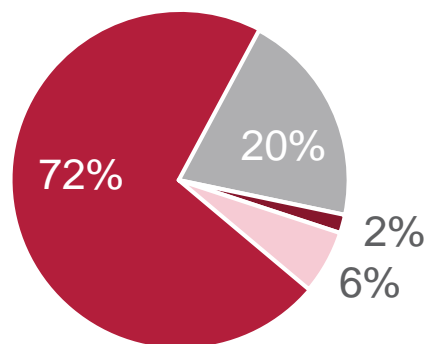


4—Who is affected by the change

Listed insurers

18

Geographical region	Listed insurers		Of which using IFRS Standards	
	Number of companies	Total assets (US\$ trillions)	Number of companies	Total assets (US\$ trillions)
Europe	95	8.6	87	8.24
Asia Pacific	191	7.2	156	3.05
North America	110	5.8	10	1.69
Africa and Middle East	184	0.3	176	0.30
Latin America	46	0.2	20	0.05
Total	626	22.1	449	13.3



- IFRS Standards
- US GAAP
- Japanese GAAP
- Other national GAAP

Data based on information in 2015 annual reports for the majority of companies
 Source: Effects Analysis on IFRS 17

Accounting policies applied under IFRS 4

19

Top-20 listed insurers using IFRS Standards

Accounting policies applied to insurance contracts issued	Number of companies	Total assets (US\$ trillions)
Based on guidance in:		
• a mix of national GAAP	8	4.1
• US GAAP	3	1.6
• Canadian GAAP	4	1.4
• other national GAAP	5	2.0
Total	20	9.1

Source: Effects Analysis on IFRS 17

Likely effects by type of business

20

Primary business	Likely effects of IFRS 17
Property and casualty	<ul style="list-style-type: none">• No significant change in revenue• Liabilities for claims discounted• Explicit risk
Life and health	<ul style="list-style-type: none">• Changes in insurance contract liabilities for companies that did not use current assumptions or did not fully consider options and guarantees• Reduction in revenue and expenses for companies that report repayments of deposits as expenses and corresponding premiums as revenue
Multi-line	<ul style="list-style-type: none">• Depend on the mix of insurance contracts they issue
Reinsurance	<ul style="list-style-type: none">• Depend on the mix of reinsurance contracts they issue

- Representative and reliable financial information about unlisted insurers is difficult to obtain
- Use of IFRS Standards for unlisted insurers in 46 jurisdictions*

12

jurisdictions
require IFRS
Standards
for **all**
unlisted insurers

7

jurisdictions
require IFRS
Standards
for **some**
unlisted insurers

18

jurisdictions
permit IFRS
Standards
for **some**
unlisted insurers

9

jurisdictions
neither require
nor permit IFRS
Standards for
unlisted insurers

* Analysis based on the requirements at the time of publication of IFRS 17 for jurisdictions representing 98% of premiums written in 2015

Non-insurers potentially affected

22

Banks

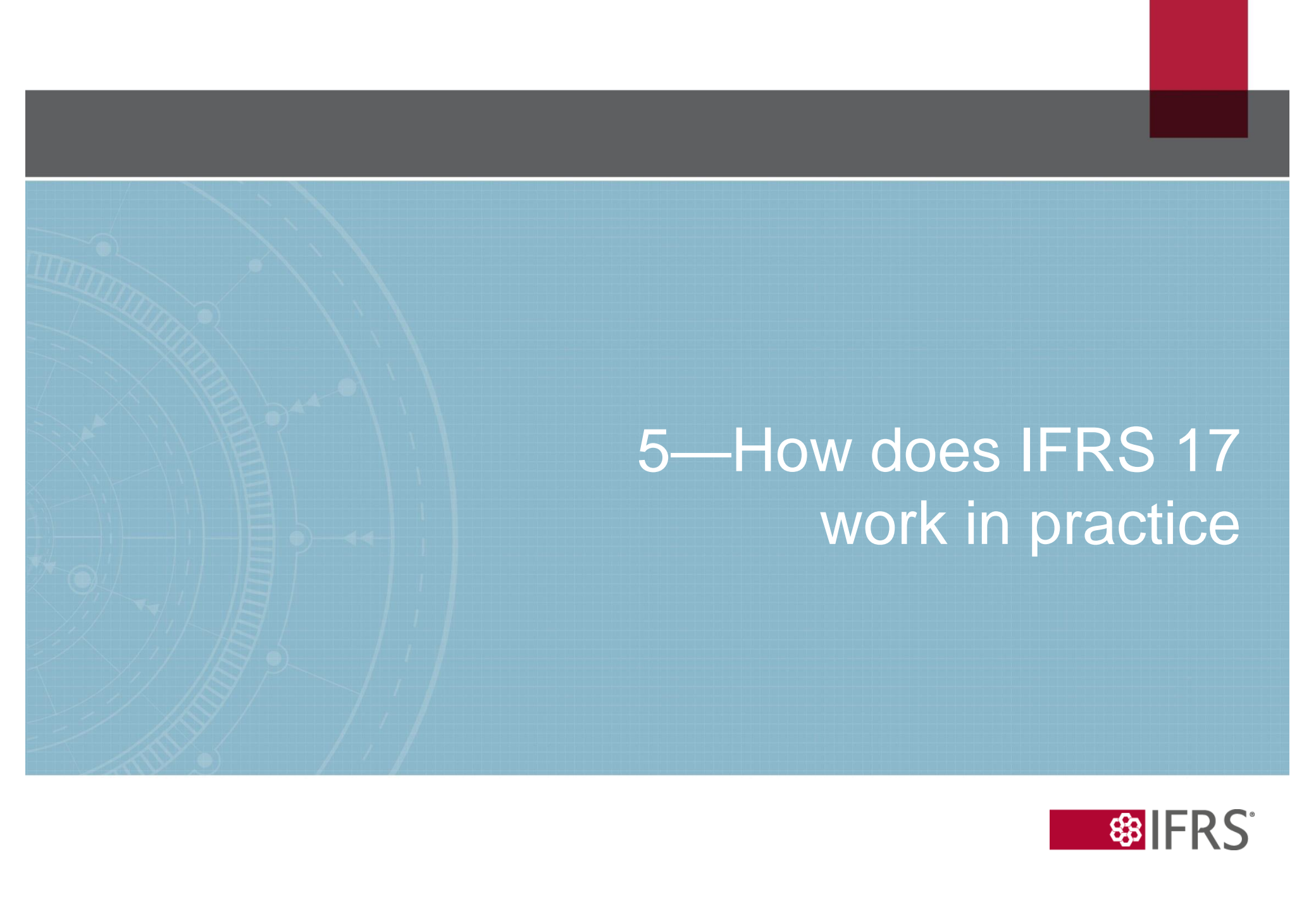
- Banks are expected to apply IFRS 9 to their financial guarantee contracts
- Most common banking agreements do not typically transfer significant insurance risk

Investment companies

- Issue contracts that are similar to some insurance contracts
- Indirectly affected by IFRS 17 because of the increased comparability between industries

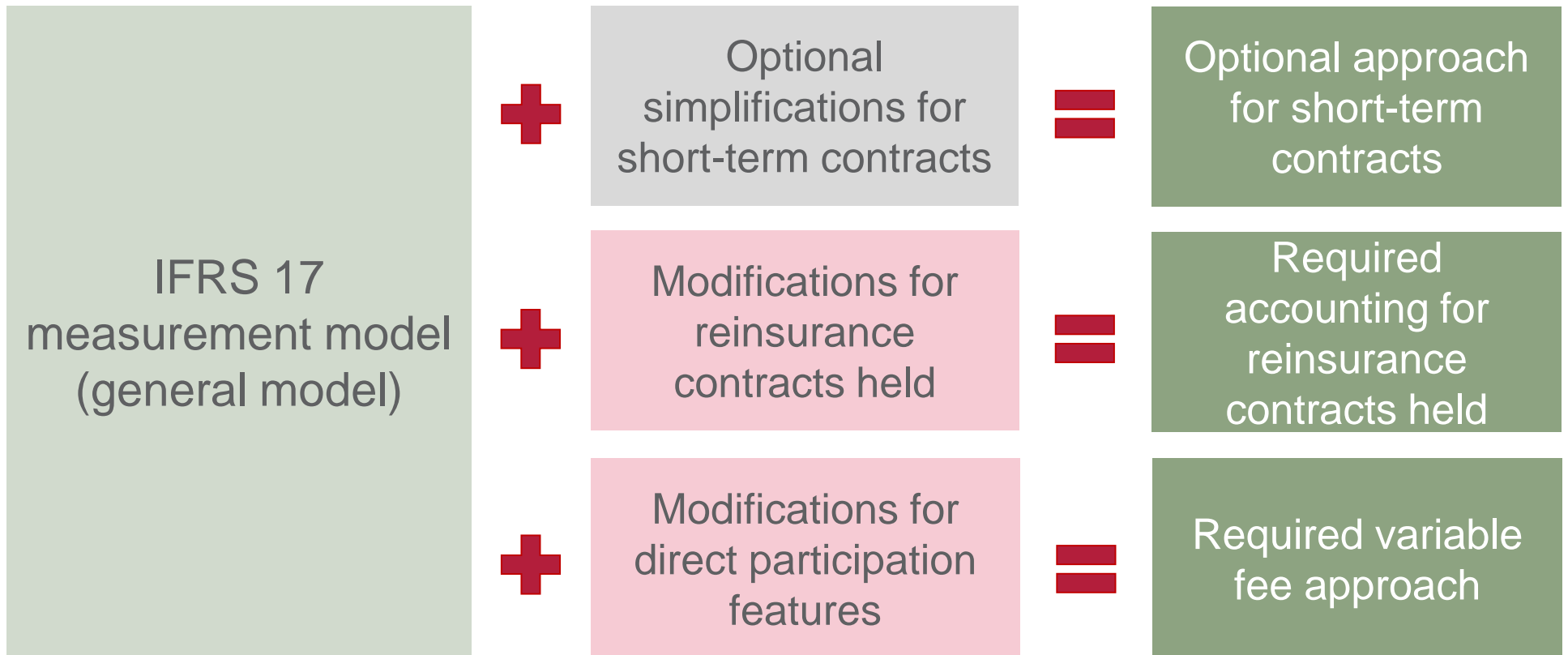
Non-financial companies

- IFRS 17 will affect only those non-financial companies providing insurance coverage by issuing insurance contracts
- IFRS 17 does not apply to product warranties issued by a manufacturer, dealer or retailer
- Option to apply IFRS 15 to some fixed-fee service contracts



5—How does IFRS 17 work in practice

One measurement model



Typical existing Balance Sheet

25

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Deferred acquisition costs	8,083	8,941
Premiums receivable	2,798	2,582
Other assets	34,467	31,293
Total assets	271,645	239,516
Insurance contract liabilities	211,010	185,545
Unearned premiums	5,595	4,796
Other liabilities	30,859	26,823
Equity	24,181	22,352
Total liabilities and equity	271,645	239,516

Multiple line items, inconsistent terminology and inconsistent measurement, difficult to understand changes

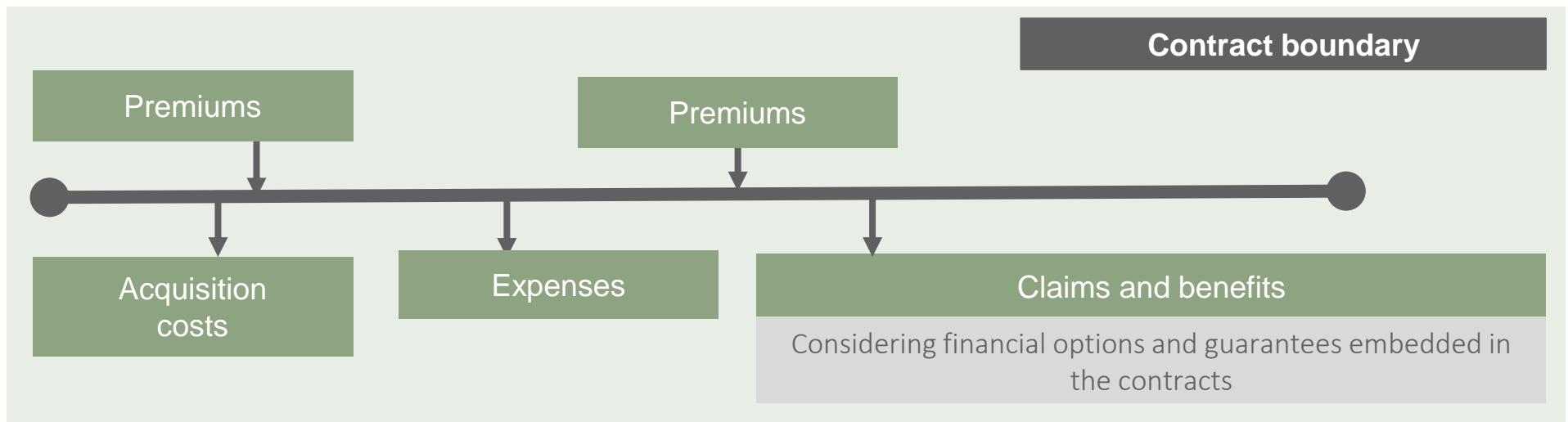
IFRS 17 Balance Sheet

26

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Other assets	34,467	31,293
Total assets	260,764	227,993
Insurance contract liabilities	205,724	178,818
Other liabilities	30,859	26,823
Equity	24,181	22,352
Total liabilities and equity	260,764	227,993



- Current estimates of future cash flows within the contract boundary



- Probability weighted and unbiased
- Stochastic modelling for financial options and guarantees, where relevant

Reflect time value of money and financial risks

- Characteristics of the cash flows
- Liquidity of the insurance contracts
- To the extent that the financial risks are not included in the cash flows

Consistent with observable market prices (if any)

Timing

Currency

Liquidity

Exclude the effect of factors in the observable market prices not relevant to insurance contracts

- Explicit, current adjustment for the compensation a company requires for bearing non-financial risk (eg insurance risk)
- Compensation that makes a company indifferent between:
 - fulfilling a liability that has a range of possible outcomes; and
 - fulfilling a liability that will generate fixed cash flows with the same expected present value

Group A	
Probability	Pay-off (CU)
0.5	1,000,000
0.5	0

$$(0.5 \times 1,000,000) + (0.5 \times 0) \\ = \text{CU}500,000$$

Group B	
Probability	Pay-off (CU)
1	500,000

$$(1 \times 500,000) \\ = \text{CU}500,000$$

Probability-weighted average

The unearned profit of the group of contracts that relates to future service to be provided

The amount determined so that no gains are recognised in profit or loss on initial recognition

Example—Consider a group of contracts with PV of future cash flows of CU4,250 and risk adjustment of CU750

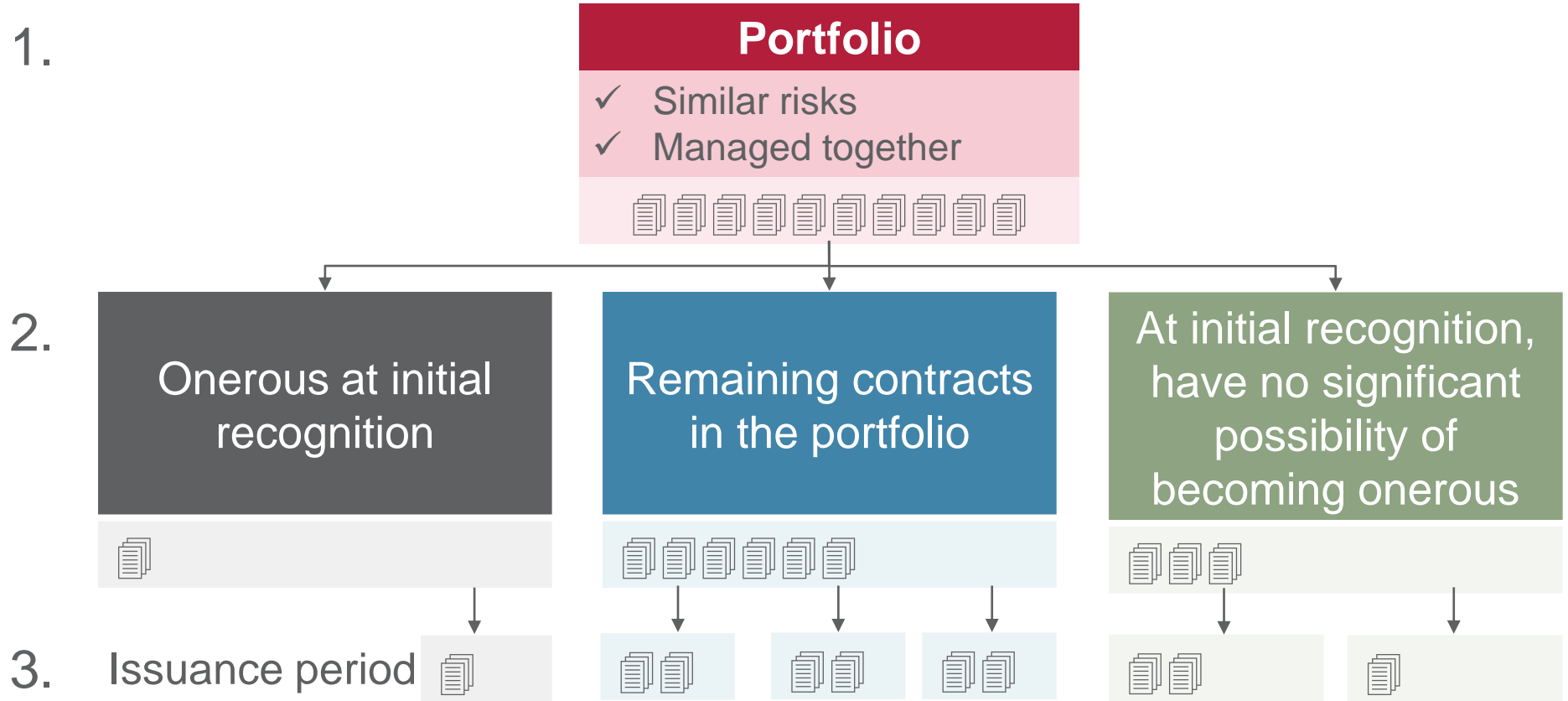
If premiums
CU5,500

- Contracts profitable at inception
- $CSM = CU500 [CU5,500 - CU750 - CU4,250]$

If premiums
CU3,500

- Contracts onerous at inception
- Day-one loss CU1,500 recognised in profit or loss $[CU3,500 - CU750 - CU4,250]$. No CSM.

How are insurance contracts grouped?

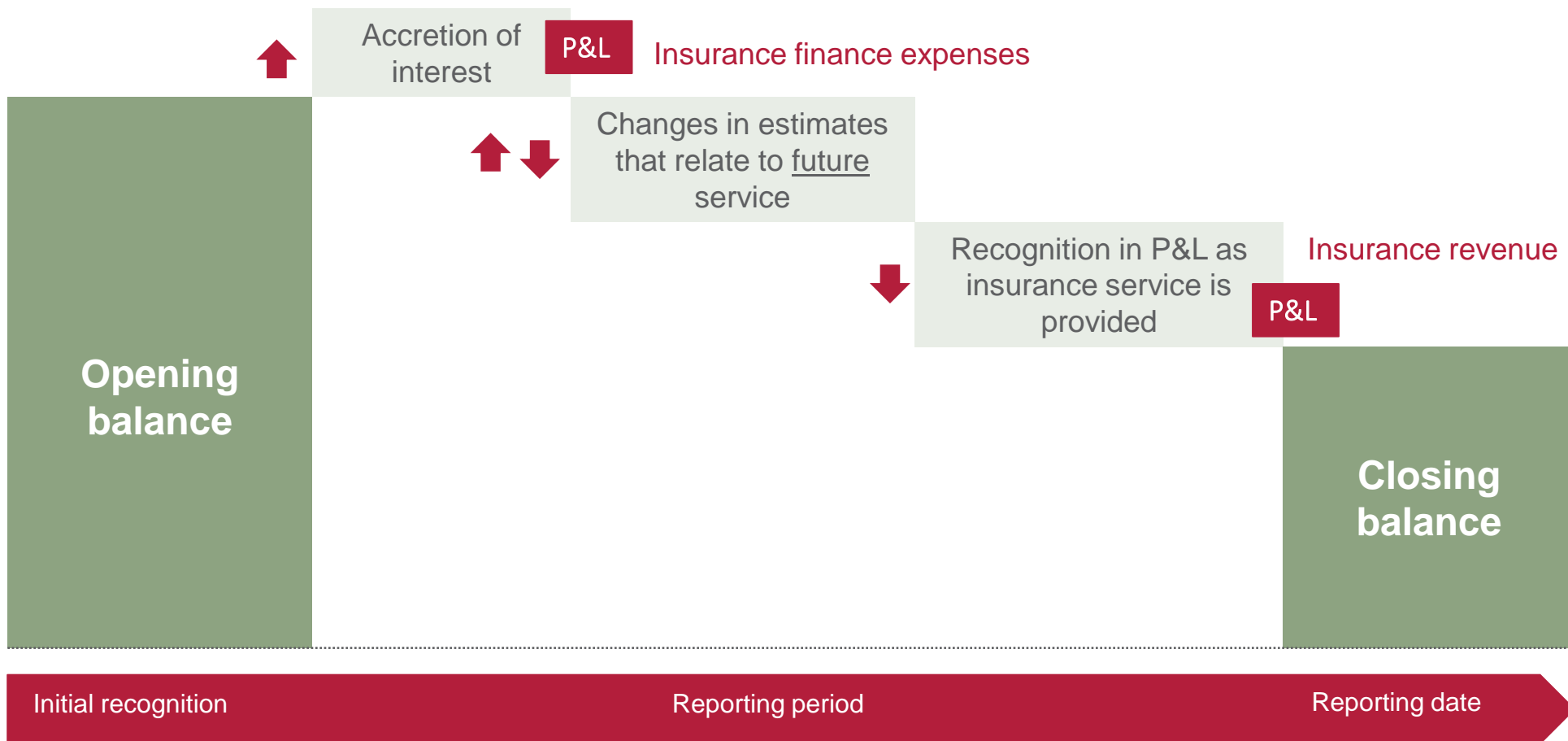


Subsequent measurement

32

	Initial measurement	Subsequent measurement
1 PV of future cash flows	Current assumptions	Current assumptions
2 Risk adjustment	Current assumptions	Current assumptions
3 Unearned profit—contractual service margin	The amount that results in no gain recognised in profit or loss	Update by reflecting: <ul style="list-style-type: none">• Time value of money• Adjustments related to future service• Allocation of the amount earned for services provided

Contractual service margin—subsequent measurement




The contractual service margin balance cannot be negative

Insurance contract liability roll forward

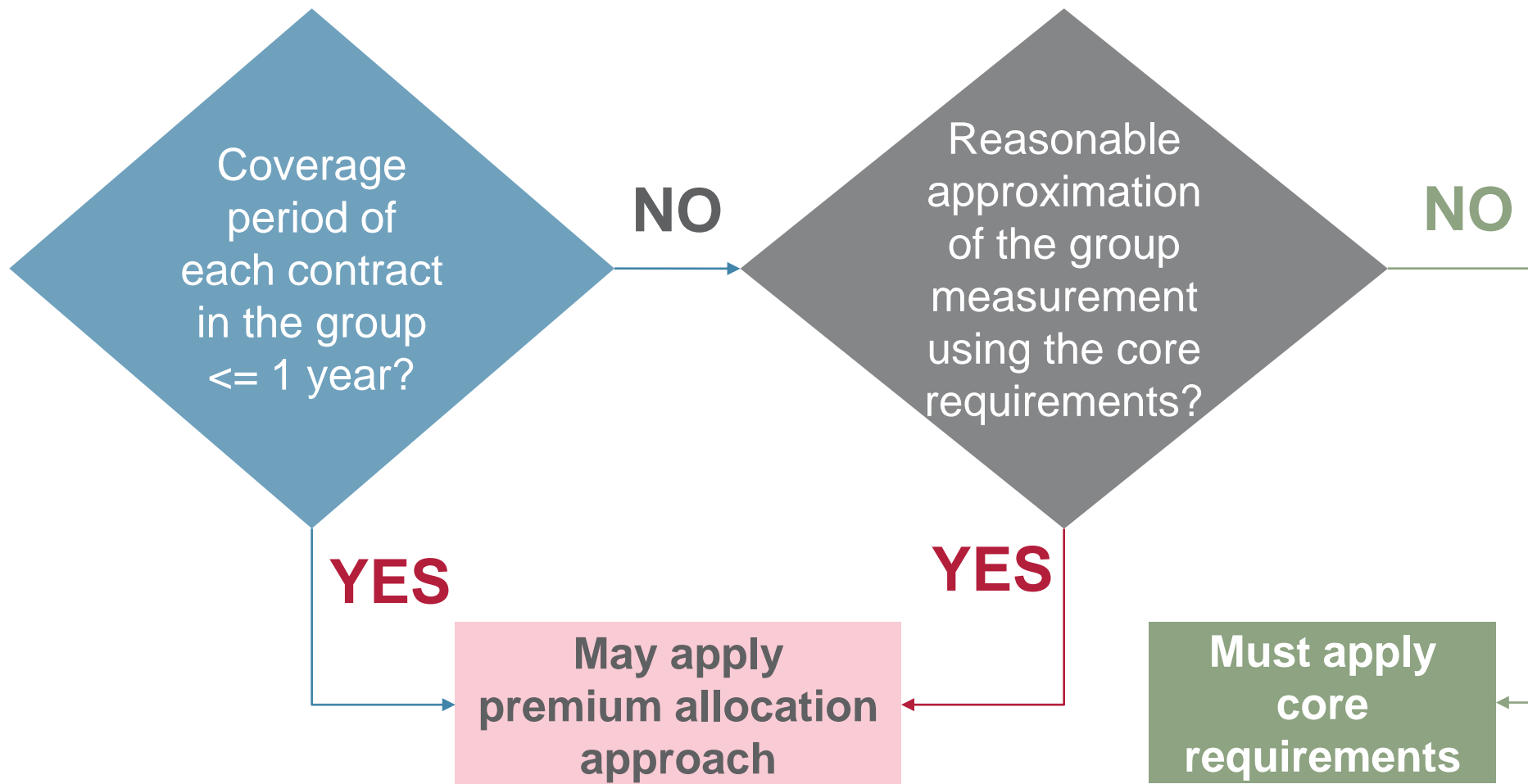
34

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
<i>Changes related to:</i>				
① - Future service yet to be provided	(784)	1,117	(116)	217
② - Current service provided in the period	35	(604)	(923)	(1,492)
③ - Past service adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)
④ Insurance finance expenses	9,087	-	221	9,308
TOTAL CHANGES IN P&L and OCI	8,385	506	(818)	8,073
⑤ CASH FLOWS	18,833	-	-	18,833
END OF PERIOD	191,180	6,504	8,040	205,724



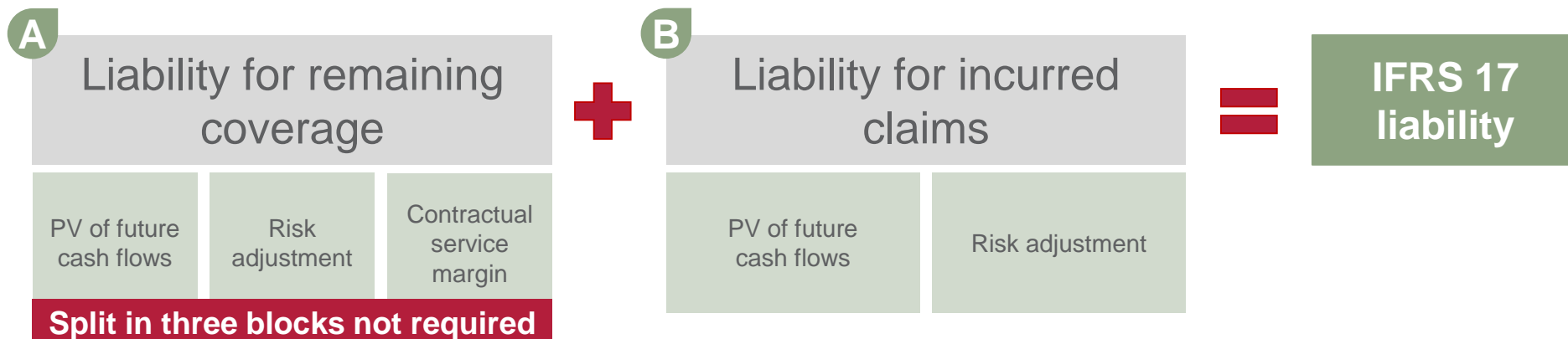
6—Optional simplified accounting for some contracts

The premium allocation approach



Simplifications for short-term contracts

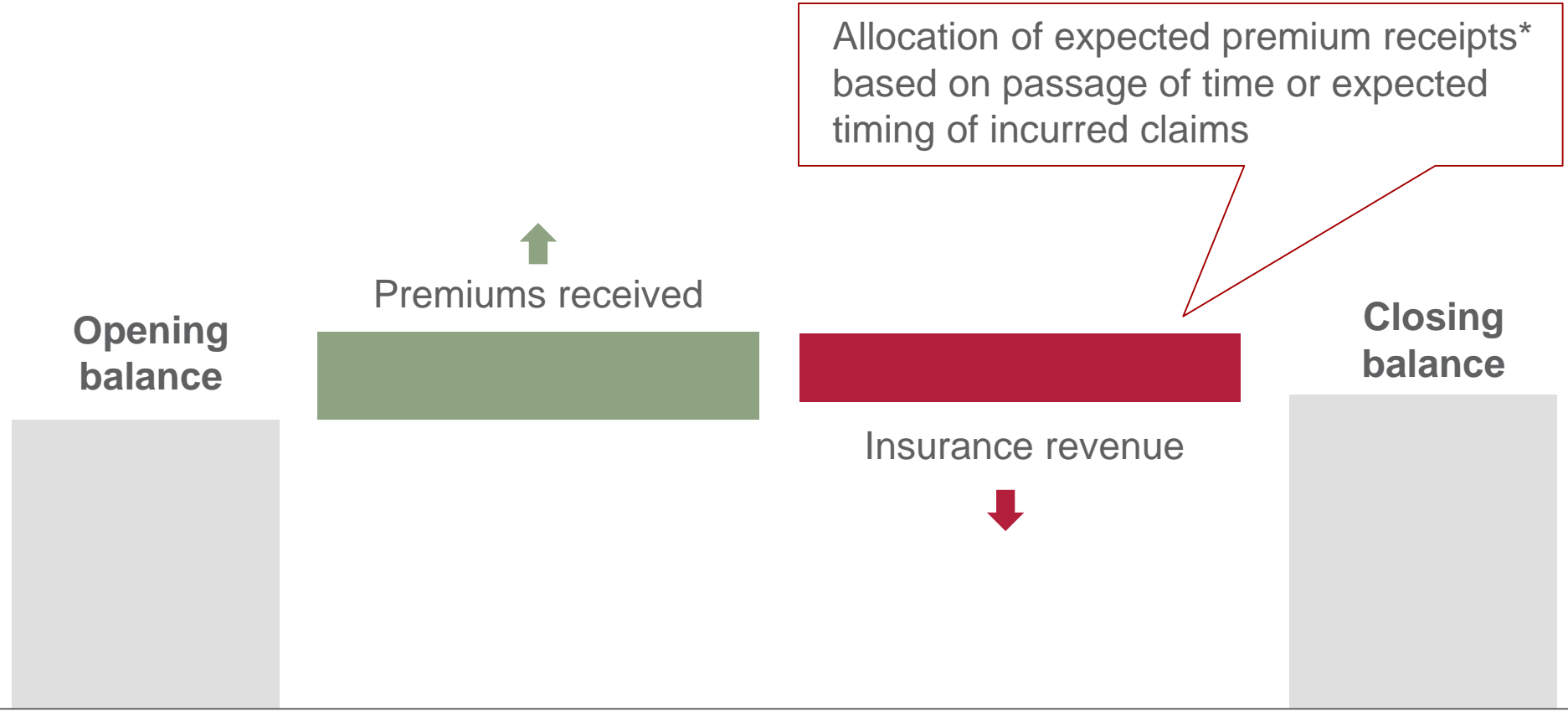
37



A Simplified measurement

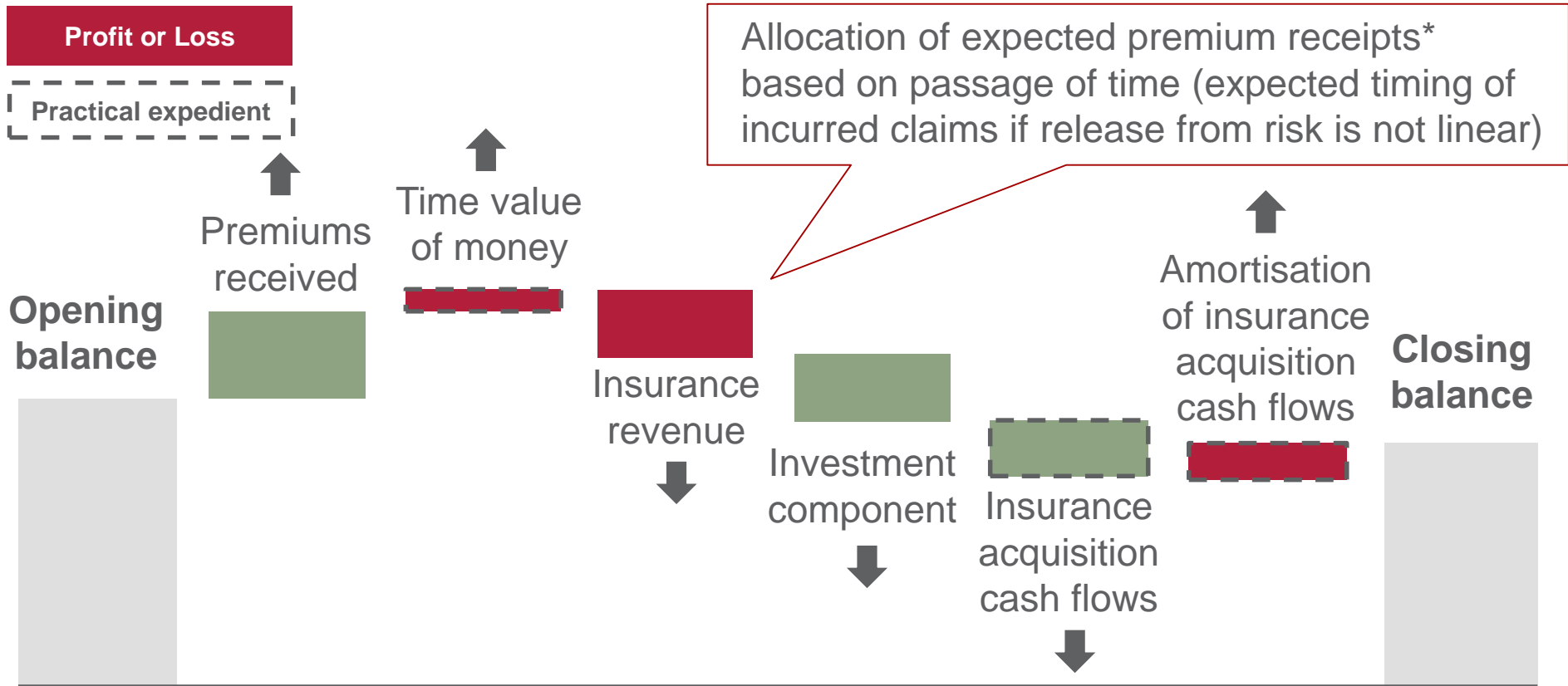
B Measurement using the core requirements, but a practical expedient is available

A Measurement of the liability for remaining coverage—simplest case



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

A Measurement of the liability for remaining coverage—overview



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

B Measurement of the liability for incurred claims

40

Liability for incurred claims

1

PV of future cash flows

2

Risk adjustment

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

1 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

7—Applying IFRS 17 for the first time

Applying IFRS 17 for the first time

42

	1	2	3
	PV of future cash flows	Risk adjustment	Unearned profit
Existing contracts (eg contracts written before 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✗ Transitional measures
New business (eg contracts written after 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

- Transitional measures (by group of contracts)
 - Full retrospective approach
 - Modified retrospective approach—proxy of full retrospective approach
 - Fair value approach
- Separate disclosures for each transition method

DETERMINE TRANSITION METHOD BY GROUP OF CONTRACTS

1

Full retrospective approach (apply IAS 8)

if impracticable

2

Modified retrospective approach

- Modifications available if necessary given reasonable and supportable information
- Maximise the use of the information needed for full retrospective approach

Insufficient reasonable and supportable information available

OR

3

Fair value approach

8—IASB activities to support implementation of IFRS 17



Webinars



Articles and other materials



Conferences



Transition Resource Group



Education for

- investors
- regulators
- standard-setters

Informal technical discussions with

- regulators
- standard-setters
- accounting firms

Board and IFRS Interpretations Committee discussions



Dedicated website page



Webinars for general audience

May 2017	■	Introducing 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	■	Recognition and derecognition

Webinars for investors and standard-setters

May 2017	■	Understanding IFRS 17
July 2017	■	IFRS 17 for investors

Visit: <http://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-17/#webcasts>



Public
forum for
discussion

- Meetings webcast
- Papers and summaries publicly available

Limited life during
the transition
period to the new
requirements

- Membership announced in September 2017
- First meeting on 13 November 2017

Helps the Board
to determine
whether actions
needed to
address questions

- Educative material from TRG discussions
- Very high hurdle for amendments



Education for investors

- IFRS 17 introduces fundamental changes to existing accounting practices for some companies
- Investors and analysts need to assess the implications for their analyses of the changes in reporting
- In addition to informative materials, ongoing discussions to illustrate the information that IFRS 17 will provide to investors and analysts compared to today

55 meetings*

22 sell side, 18 buy side,
11 mixed groups,
4 credit rating agencies

301 investors and analysts*

33% Europe, 26% Global,
26% Asia Pacific, 8% Africa,
7% North America

* Between May and October 2017

Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures
- Transparency

Areas of concern

- Company-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability

IFRS 17 implementation—timeline

May 2017	3.5 years			2021
Issue of IFRS 17	Support implementation			Mandatory effective date of IFRS 17
	2017 - Early 2019	Late 2019	2020	
	Some entities begin implementation process General questions Contentious / specific implementation questions	Entities are finalising implementation		

Objective: monitor and proactively support implementation	Objective: provide period of calm for implementation
--	---

Supporting materials: - articles - webinars Transition Resource Group, IFRS Interpretations Committee and/or Board discussions	Mostly monitor Light touch on implementation / educational activities
--	---

Keep up to date



@IFRSFoundation



IFRS Foundation



www.ifrs.org



IFRS Foundation

Comment on our work



go.ifrs.org/comment

Appendix

1 Future service—incl. new business

53

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
<i>Changes related to:</i>				
- <i>Future service yet to be provided*</i>	(784)	1,117	(116)	217
<i>New profitable contracts recognised</i>	(2,344)	969	1,375	-
<i>Estimate changes - profitable contracts</i>	1,452	39	(1,491)	-
<i>New onerous contracts recognised</i>	15	108	-	123
<i>Estimate changes - onerous contracts</i>	93	1	-	94
- <i>Current service provided in the period</i>	35	(604)	(923)	(1,492)
- <i>Past service – adjustment to past claims</i>	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)

Etc ...

* Note: Positive number in total column = increase in liability = loss in P&L

② Current service—profit recognised

54

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
<i>Changes related to:</i>				
- Future service yet to be provided	(784)	1,117	(116)	217
- Current service provided in the period	35	(604)	(923)	(1,492)
Contractual service margin earned	-	-	(923)	(923)
Release from risk	-	(604)	-	(604)
Experience loss	35	-	-	35
- Past service – adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)

Etc ...

3 Past service—adjusting past claims

55

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
<i>Changes related to:</i>				
- Future service yet to be provided	(784)	1,117	(116)	217
- Current service provided in the period	35	(604)	(923)	(1,492)
- Past service – adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)

Etc ...

4 Insurance finance expenses

- Discount unwind plus effect of changes in discount rates and other financial assumptions
- Recognise as gain or loss in period; option to present part in OCI

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Etc ...				
Insurance finance expenses	9,087	-	221	9,308
<i>Accretion at historical rate – P&L</i>	<i>7,170</i>	-	<i>221</i>	<i>7,391</i>
<i>Assumption changes (P&L or OCI)</i>	<i>1,917</i>	-	-	<i>1,917</i>
Etc ...				

5 Cash flows

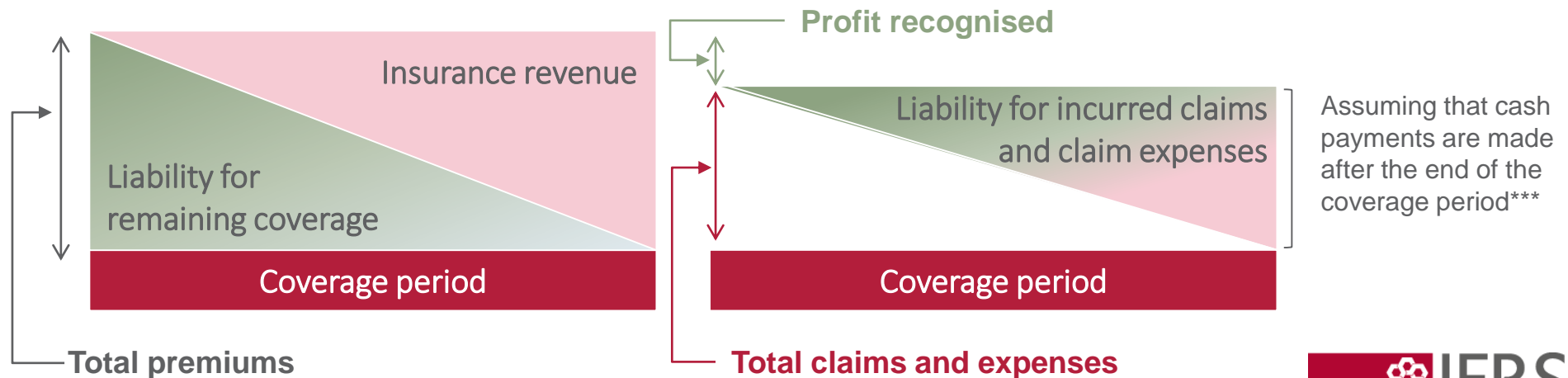
- Gross premiums received still reported as part of the liability roll-forward
 - But not in profit and loss as ‘revenue’

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Etc ...				
Cash flows	18,833			18,833
<i>Premiums received</i>	33,570			33,570
<i>Claims, benefits and other expenses paid</i>	(14,336)			(14,336)
<i>Insurance acquisition cash flows</i>	(401)			(401)
END OF PERIOD	191,180	6,504	8,040	205,724

Presentation of the service result

58

- The insurance service result reflects changes in the insurance liability, but it is presented in P&L as
 - insurance revenue, less
 - insurance service expenses (eg claim expenses)
- Requires the total insurance liability to be split into
 - Liability for remaining coverage
 - Liability for incurred claims



*** Cash payments reduce the liability for incurred claims to zero sometime after the end of the coverage period

Revenue and expenses reconciliation

59

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding onerous contracts component	Onerous contracts component		
Insurance contract liabilities 20X0	161,938	15,859	1,021	178,818
Insurance revenue	(9,856)			(9,856)
Insurance service expenses				
Claims incurred in the period			7,985	7,985
Onerous contracts losses and (reversals)		(623)		(623)
Insurance acquisition costs expensed	1,259			1,259
Investment components	(6,465)		6,465	0
Insurance service result	(15,062)	(623)	14,450	(1,235)
Insurance finance expenses	8,393	860	55	9,308
Total changes in the statement of comprehensive income	(6,669)	237	14,505	8,073
Cash flows				
Premiums received	33,570			33,570
Claims, benefits and other expenses paid			(14,336)	(14,336)
Insurance acquisition cash flows	(401)			(401)
Total cash flows	33,169	-	(14,336)	18,833
Insurance contract liabilities 20X1	188,438	16,096	1,190	205,724