

IFRS 17 *Insurance Contracts*

How IFRS 17 works and
what this means

IFRS Advisory Council, October 2017


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Today's agenda


- What changes
- How IFRS 17 works
- Applying IFRS 17 for the first time
- Investors reactions to IFRS 17
- Appendix—insurance service result

What changes



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

Main improvements introduced

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

Insurance liabilities properly measured

Transparent costs of options and guarantees

Updated information on risk margins

Immediate recognition of onerous contracts

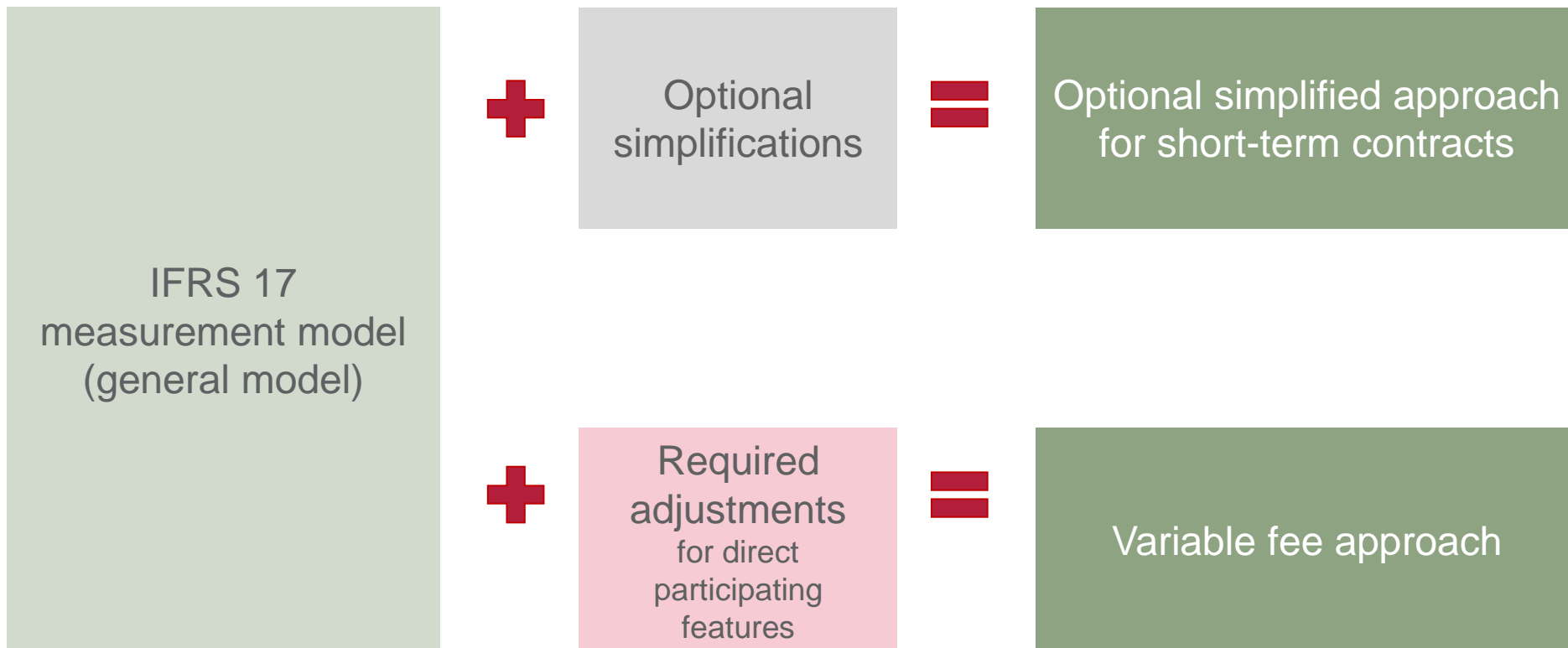
Ends up-front profit taking

Better information on profitability trends



How IFRS 17 works

One measurement model



Typical existing Balance Sheet

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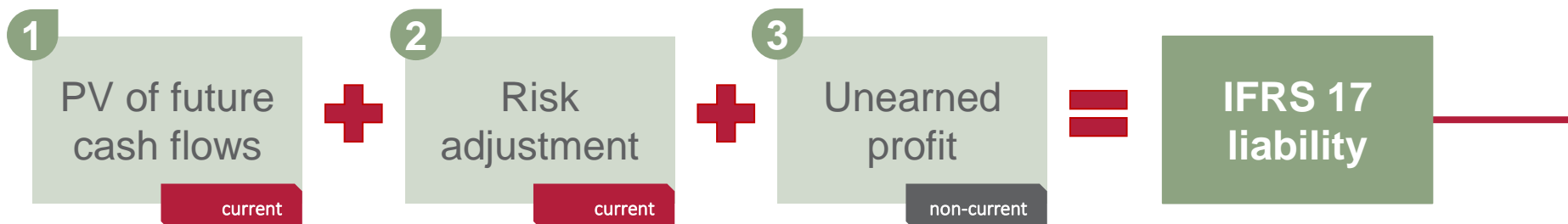
Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Deferred acquisition costs	8,083	8,941
Premiums receivable	2,798	2,582
Other assets	34,467	31,293
Total assets	271,645	239,516
Insurance contract liabilities	211,010	185,545
Unearned premiums	5,595	4,796
Other liabilities	30,859	26,823
Equity	24,181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

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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



Insurance contract liability roll forward

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	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

1 Future service—incl. new business

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	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
<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
- 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 ...

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

② Current service—profit recognised

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	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

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	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



Applying IFRS 17 for the first time

Applying IFRS 17 for the first time

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	1 PV of future cash flows	2 Risk adjustment	3 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



Investors reactions to IFRS 17

What investors think about IFRS 17

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45 meetings

19 sell side, 12 buy side, 10 mixed groups, 4 credit rating agencies

250 investors and analysts

31% Global, 31% Asia Pacific, 30% Europe, 8% North America,

Areas of support

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

Areas of concern

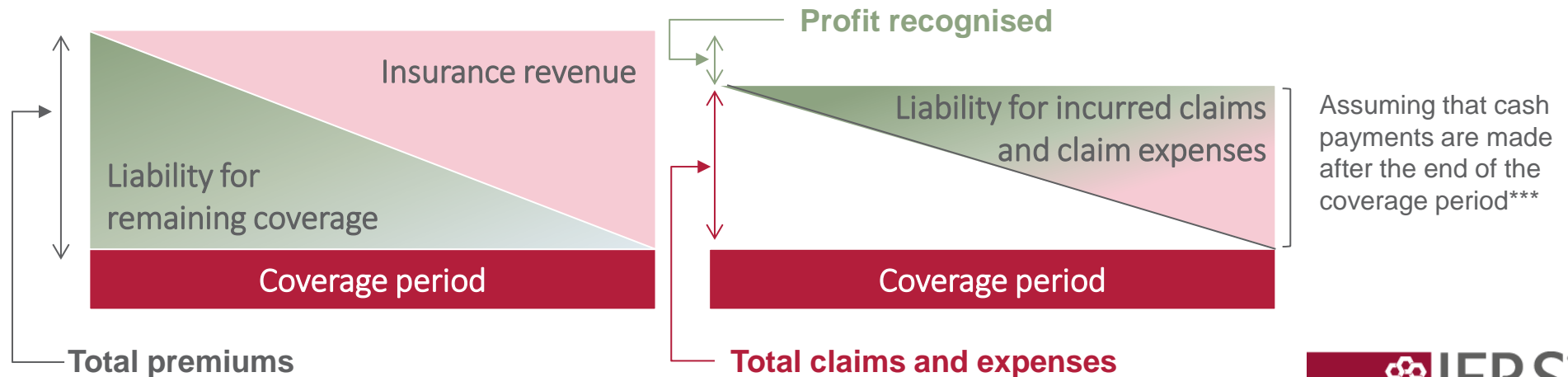
- Company-specific judgements
- Options

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

Appendix

Presentation of the service result

- 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

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	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

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