Caveats to IFRS 17 webcasts

The webcasts relating to the activities to support implementation of the Standard have been developed in the context of IFRS 17 as issued in May 2017. IFRS 17 was amended in June 2020. The webcasts relating to the amendments to IFRS 17 provide information to supplement the information in the webcasts developed in the context of IFRS 17 as issued in May 2017.
IFRS 17 Insurance Contracts

Simplified accounting for contracts with short coverage periods

Parts 1 and 2
# IFRS 17 webinars

### Previous 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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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
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
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
Liability for remaining coverage: practical expedients (2/2)

- 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

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**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

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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: measurement

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

Further information:
IFRS 17 paragraph 59(b)
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
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:

     | 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

- Entity identifies portfolios of contracts (1st step)
  - insurance contracts subject to similar risks and managed together, e.g. based on product lines

- Entity divides each portfolio of contracts into groups (2nd step)

<table>
<thead>
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<th>Portfolio 1</th>
<th>Portfolio 2</th>
<th>Portfolio 3</th>
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<td>Pet insurance</td>
<td>Workers’ compensation</td>
<td>Car insurance</td>
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See next slide about the division of the portfolios of contracts into groups

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

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<td>Assets</td>
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<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>
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<tr>
<td>Deferred acquisition costs</td>
<td>Insurance contract assets</td>
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<td>Value of business acquired</td>
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<td>Premiums receivable</td>
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<td>Policy loans</td>
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<td>Liabilities</td>
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<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>
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<td>Claims payable</td>
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(*) 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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<td>- Two drivers of profit</td>
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<td>Investment income</td>
<td>Incurred claims and expenses</td>
<td>- Fewer key changes compared to life insurers</td>
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<tr>
<td>Incurred claims and expenses</td>
<td>Insurance service result</td>
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<td><strong>Profit or loss</strong></td>
<td>Investment income</td>
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<td>Insurance finance expenses</td>
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<td>Profit or loss</td>
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<td>Insurance finance expenses (optional)</td>
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<td><strong>Total comprehensive income</strong></td>
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(*) Common presentation in the statement of comprehensive income applying IFRS 4

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**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
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