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

Reinsurance contracts held
Further Information:
IFRS 17 paragraphs 3(b), 5 and 60–70
# IFRS 17 webinars

## Previous webinars

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## This webinar

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<td>September 2017</td>
<td>Reinsurance contracts held</td>
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Today’s topics

- Reinsurance contracts
- Reinsurance contracts held
  - Recognition
  - Measurement
  - Eligibility for the simplified accounting for contracts with short coverage periods — premium allocation approach
  - Presentation and disclosure
Reinsurance contracts
**Further information:**

IFRS 17 paragraph 3(b)

IFRS 17 Appendix A definitions:
- Insurance contract
- Reinsurance contract

Basis for Conclusions on IFRS 17 paragraphs BC296–BC298
Further Information:

Basis for Conclusions on IFRS 17 paragraph BC298
Recognition
Reinsurance contracts held
Further Information:

IFRS 17 paragraph 62

Basis for Conclusions on IFRS 17 paragraphs BC296–BC298 and BC304–BC306
Recognition: reinsurance contracts held

In other cases, beginning of the coverage period of group of reinsurance contracts

- Underlying contract 1
- Underlying contract 2
- Reinsurance contract held (non-proportional reinsurance)

Further Information:
IFRS 17 paragraph 62
Basis for Conclusions on IFRS 17 paragraphs BC296–BC298 and BC304–BC306
Measurement
Reinsurance contracts held
Further information:

IFRS 17 paragraphs 32 and 60–68
IFRS 17 Appendix A definition:

• Fulfilment cash flows

Basis for Conclusions of IFRS 17 paragraphs BC307–BC315
Fulfilment cash flows

Expected cash flows

• Consistent assumptions with the underlying insurance contracts to estimate cash flows of reinsurance contract

• Forecast cash flows within reinsurance contract boundary
  – For example, expected cash flows for reinsurance contracts may relate to underlying contracts an entity expects to issue in the future that will be protected by the reinsurance contract

• Measure non-performance risk of reinsurer

Further Information:
IFRS 17 paragraph 63
Basis for Conclusions on IFRS 17 paragraphs BC307–BC308
Fulfilment cash flows (continued)

Discount rate
• Reflects the nature and timing of cash flows and the liquidity characteristics of the reinsurance contracts held

Risk adjustment
• The amount of risk transferred to the reinsurer by the entity

Further Information:
IFRS 17 paragraph 64
Contractual service margin (CSM) at initial recognition

- Expected cash outflows to reinsurer exceed sum of expected inflows and the risk adjustment:
  CSM represents a **net cost** of purchasing reinsurance

Further Information:

IFRS 17 paragraph 65(a)

Basis for Conclusions on IFRS 17 paragraph BC310
Further Information:

IFRS 17 paragraph 65(a)

Basis for Conclusions on IFRS 17 paragraphs BC310 and BC311
Further information:

IFRS 17 paragraphs 32(b), 38 and 65

Basis for Conclusions of IFRS 17 paragraphs BC218–BC219 and BC310–BC313

Illustrative Examples of IFRS 17 Example 11
CSM at initial recognition—Retroactive reinsurance

Exception to reinsurance contracts held requirements for the measurement of the CSM at initial recognition

- Some reinsurance contracts cover events that have already occurred but effect is still uncertain
- Net cost of reinsurance coverage that relates to events that occurred before purchase is recognised immediately in profit or loss as an expense at initial recognition

Further Information:
IFRS 17 paragraph 65(b)
Basis for Conclusions on IFRS 17 paragraph BC312
Level of aggregation

• The portfolio or group may be a single contract
• If the portfolio is > 1 contract, divide portfolio into groups at initial recognition:
  1. net gain of purchasing reinsurance (ie net inflow)
  2. net cost of purchasing reinsurance (ie net outflow) with no significant possibility of becoming a net gain
  3. other net cost of purchasing reinsurance (ie net outflow)
     – not allowed to group contracts purchased more than a year apart
     – groups are not reassessed

Further Information:

IFRS 17 paragraphs 61 and 68
### Snapshot on subsequent measurement

<table>
<thead>
<tr>
<th></th>
<th>Initial measurement</th>
<th>Subsequent measurement</th>
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<tbody>
<tr>
<td>1</td>
<td>PV of future cash flows</td>
<td>Current assumptions</td>
</tr>
<tr>
<td>2</td>
<td>Risk adjustment*</td>
<td>Current assumptions</td>
</tr>
</tbody>
</table>
| 3 | Contractual service margin | The amount that represents the net cost or net gain of purchasing reinsurance* | Update by reflecting:  
  - Time value of money  
  - Adjustments related to future service*  
  - Allocation for services |

*Exception for specific adjustments. See slide 24.

**Further information:**
IFRS 17 paragraphs 66
Further Information:
IFRS 17 paragraphs 66, B72 and B119
Further Information:

IFRS 17 paragraph 66(e)

IFRS 17 Appendix A definitions:

- Coverage period

Basis for Conclusions on IFRS 17 paragraph BC312
### Subsequent measurement of reinsurance contracts held

#### Where to recognise changes in fulfilment cash flows:

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<tr>
<th>General principle</th>
<th>Profit or loss (P/L)</th>
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<tr>
<td>Current or past service</td>
<td></td>
</tr>
<tr>
<td>Future service</td>
<td>Contractual Service Margin</td>
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<tr>
<td>The effect of the time value of money and financial risk</td>
<td>Profit or loss or profit or loss and OCI</td>
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#### Exception to general principle

<table>
<thead>
<tr>
<th>Future service</th>
<th>Profit or loss</th>
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<tr>
<td>When the related change in the underlying contracts is recognised in P/L</td>
<td>Profit or loss</td>
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**Further Information:**

IFRS 17 paragraphs 3, 5 and 66(c)
Simplified accounting
Reinsurance contracts held
Reminder of IFRS 17 measurement

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 paragraph 69
Premium allocation approach

- Assessment of eligibility for the premium allocation approach (PAA) is separate from the assessment of whether underlying contracts issued are eligible for the optional PAA.
- Criteria for eligibility for the PAA is the same for reinsurance contracts held and insurance contracts issued.
- A group of contracts is eligible PAA for if:
  - coverage period of each contract in the group is one year or less; or
  - entity reasonably expects the resulting measurement would not differ materially from the result of applying the core requirements.

Further Information:
IFRS 17 paragraphs 69 and 70.
Presentation and disclosure
Reinsurance contracts held
Presentation and disclosure

- Reinsurance contracts held are presented separately from insurance contracts issued on the face of:
  - statement of financial position
  - statements of financial performance

Further Information:
IFRS 17 paragraph 78(c)–(d)
Basis for Conclusions on IFRS 17 paragraph BC298
### Presentation of income or expenses from reinsurance contracts held

<table>
<thead>
<tr>
<th>Net presentation</th>
<th>OR</th>
<th>Gross presentation</th>
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<tbody>
<tr>
<td>Insurance revenue</td>
<td></td>
<td>Insurance revenue</td>
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<tr>
<td>Incurred claims and expenses</td>
<td></td>
<td>Incurred claims and expenses</td>
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<tr>
<td></td>
<td></td>
<td>Amounts recovered from reinsurers</td>
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<tr>
<td></td>
<td></td>
<td>An allocation of reinsurance premiums</td>
</tr>
<tr>
<td>Net income or expense from reinsurance contracts held</td>
<td></td>
<td>Net income or expense from reinsurance contracts held</td>
</tr>
<tr>
<td>Insurance service expenses</td>
<td></td>
<td>Insurance service expenses</td>
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<td>Insurance service result</td>
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<td>Insurance service result</td>
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**Further Information:**
- IFRS 17 paragraph 86
- Basis for Conclusions on IFRS 17 paragraph BC346
Gross presentation—reinsurance recoveries and premiums paid

- If an entity chooses gross presentation:
  - reinsurance recoveries (amounts recovered from the reinsurer) include cash flows contingent on underlying insurance contract’s claims
  - the allocation of reinsurance premiums paid includes amounts from reinsurer that are **not** contingent on underlying insurance contract’s claims
    - e.g., some forms of ceding commission
  - the allocation of reinsurance premiums paid as a reduction in revenue is prohibited

Further Information:
IFRS 17 paragraph 86
Basis for Conclusions on IFRS 17 paragraph BC346
Presentation and disclosure

• Presentation of finance income or expenses from reinsurance contracts held in:
  – Profit or loss
  – Disaggregated between profit or loss and other comprehensive income

• Presentation in statement of financial position
  – A group or groups of reinsurance contracts held that are assets
  – A group or groups of reinsurance contracts held that are liabilities

• Disclosures
  – Separate roll forward analyses for reinsurance contracts held

Further Information:
IFRS 17 paragraphs 78(c)–(d) and 98
Basis for Conclusions on IFRS 17 paragraph BC351