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.
Recognising the contractual service margin in profit or loss

Basic overview
**IFRS 17 webcasts**

<table>
<thead>
<tr>
<th>This webinar</th>
<th>Previous webcasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2018 Recognising the contractual service margin in profit or loss</td>
<td>May 2017 Introducing IFRS 17</td>
</tr>
<tr>
<td></td>
<td>May 2017 Understanding IFRS 17</td>
</tr>
<tr>
<td></td>
<td>June 2017 Core requirements: scope of IFRS 17</td>
</tr>
<tr>
<td></td>
<td>July 2017 Core requirements: measurement essentials of IFRS 17</td>
</tr>
<tr>
<td></td>
<td>August 2017 Simplified accounting for contracts with short coverage periods</td>
</tr>
<tr>
<td></td>
<td>September 2017 Reinsurance contracts held</td>
</tr>
<tr>
<td></td>
<td>November 2017 Core requirements: Recognition and derecognition</td>
</tr>
<tr>
<td></td>
<td>December 2017 Transition to IFRS 17</td>
</tr>
<tr>
<td></td>
<td>January 2018 Level of aggregation</td>
</tr>
</tbody>
</table>

**Further information:**
go.ifrs.org/IFRS-17-implementation and IFRS 17 webcasts YouTube playlist:
https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn
Today’s topics

Basic overview
• The objective of the allocation of the contractual service margin
• Allocating the contractual service margin
• Other topics
  – Considering the time value of money when allocating the contractual service margin (CSM)
The objective of the allocation of the contractual service margin
**Reminder: IFRS 17 core requirements**

- All insurance contracts measured as the sum of:
  - Fulfilment cash flows (FCF)
    1. Present value of probability-weighted expected cash flows—reflects financial risk
    2. Plus an explicit risk adjustment for non-financial risk (eg insurance)
  - Contractual service margin (CSM)
    3. The unearned profit from the contracts

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**Further information:**
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:
- Contractual service margin
- Risk adjustment for non-financial risk
- Fulfilment cash flows
- Financial risk

Basis for Conclusions on IFRS 17 paragraphs BC16-BC21
Webcast Core requirements: measurement essentials of IFRS 17
at go.ifrs.org/IFRS-17-implementation and IFRS 17 youtube playlist:
https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn
## Reminder: Insurance service result = CSM + risk adjustment

<table>
<thead>
<tr>
<th>Statement of profit or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance revenue</td>
</tr>
<tr>
<td>Incurred claims and expenses</td>
</tr>
</tbody>
</table>

**Insurance service result**

<table>
<thead>
<tr>
<th>CSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reflects service provided during current period</td>
</tr>
<tr>
<td>Systematic allocation to P&amp;L</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reflects the bearing of risk during the current period for liability for remaining overage and liability for incurred claims</td>
</tr>
<tr>
<td>Explicitly measured</td>
</tr>
</tbody>
</table>

### Further information:
- IFRS 17 paragraphs 83-85 and B120-B124
- Basis for Conclusions on IFRS 17 paragraphs BC35-BC37, BC222-BC223 and BC279(a)
- Webcast Core requirements: measurement essentials of IFRS 17
  - at go.ifrs.org/IFRS-17-implementation and IFRS 17 youtube playlist: https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn
Further information:
IFRS 17 paragraphs 14-24
Basis for Conclusions on IFRS 17 paragraphs BC115-BC139
Webcast IFRS 17 Level of Aggregation (Part 1) at go.ifrs.org/IFRS-17-implementation and IFRS 17 YouTube playlist
https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn
Further information:
IFRS 17 paragraphs 43, 44(e), 45(e) and B119
Basis for Conclusions on IFRS 17 paragraphs BC118, BC120 and BC279 – BC283
Allocating the contractual service margin
Further information:
IFRS 17 paragraphs 43-44 and B96-B100
Basis for Conclusions on IFRS 17 paragraphs BC22-BC24 and BC220-BC224
Webcast Core requirements: measurement essentials of IFRS 17
at go.ifrs.org/IFRS-17-implementation and IFRS 17 youtube playlist:
https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn
Recognising CSM in profit or loss

- An amount of CSM for a group of insurance contracts is recognised in profit or loss (P/L) in each accounting period:
  1. **Determine** the amount of the CSM to be allocated
  2. **Recognise** the amount of CSM in P/L determined by allocation
     - Identify number of coverage units over the current and expected remaining coverage period
     - Allocate the CSM balance equally to each coverage unit
     - Recognise in P/L the amount of CSM allocated to coverage units provided in that period

**Further information:**
IFRS 17 paragraphs 44(e), 45(e) and B119
Basis for Conclusions of IFRS 17 paragraphs BC220, BC221 and BC279-BC283
Identify the number of coverage units

- The total number of coverage units of a group is the quantity of coverage provided by contracts in the group over the expected coverage period

- Coverage units are determined based on*:  
  a) quantity of benefits provided by contracts in the group  
  b) expected coverage duration of contracts in the group  
  c) likelihood of insured events occurring only to extent that they affect expected duration of contracts in the group

* discussed at February 2018 meeting of the TRG for IFRS 17

Further information:
IFRS 17 paragraph B119  
Basis for Conclusions on IFRS 17 paragraphs BC279, BC282 and BC283  
Discussed at the February 2018 meeting of the Transition Resource Group on IFRS 17 Insurance Contracts - Agenda Paper 5 http://www.ifrs.org/groups/transition-resource-group-for-insurance-contracts/#meetings
Assessment of coverage units

- Coverage units are assessed
  - at each reporting period
  - prospectively
- Accordingly, an entity shall assess for contracts in the group:
  - expected coverage duration
  - quantity of benefit provided
- During the period, coverage units may be impacted by:
  - new contracts joining the group
  - derecognised contracts

Further information:
IFRS 17 paragraph B119
Basis for Conclusions on IFRS 17 paragraph BC279
Webcast IFRS 17 Core requirements: Recognition and derecognition at
go.ifrs.org/IFRS-17-implementation and IFRS 17 youtube playlist:
https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoql7Oh3csegFwYn
Discussed at the February 2018 meeting of the Transition Resource Group on IFRS 17 Insurance Contracts - Agenda Paper 5 http://www.ifrs.org/groups/transition-resource-group-for-insurance-contracts/#meetings
Further information:
IFRS 17 paragraph B119
Basis for Conclusions on IFRS 17 paragraphs BC279, BC282 and BC283
Example – decrease in coverage duration

• Recognition at the end of period 1
  – Same scenario as basic example (slide 14), except that in period 1 coverage is expected to end earlier than originally expected (at the end of period 2 instead of period 3)
  – No other changes (e.g., quantity of benefit of CSM)

<table>
<thead>
<tr>
<th>Coverage units</th>
<th>Period 1</th>
<th>Period 2</th>
<th>Period 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>10</td>
<td>40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSM in P/L</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CSM in B/S</td>
<td>CU150</td>
<td>CU75</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10/20 (current/(current + remaining) coverage units)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognise ½ x CU150 CSM in the profit or loss</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumption: interest is accreted on the CSM at 0% and there are no adjustments for CSM

Further information:
IFRS 17 paragraph B119
Basis for Conclusions on IFRS 17 paragraphs BC279, BC282 and BC283
Further information:
IFRS 17 paragraph B119
Basis for Conclusions on IFRS 17 paragraphs BC279, BC282 and BC283
Other topics

Coverage units
Considering time value of money when allocating the CSM

• IFRS 17 does not specify whether to reflect the timing of the expected provision of coverage in determining the equal allocation of the CSM to the coverage units provided
  – Entity’s judgement
• This does not affect the CSM determined at initial recognition of a group of contracts

Further information:
IFRS 17 paragraphs 44(e), 45(e) and B119
Basis for Conclusions on IFRS 17 paragraph BC282
## Considering time value of money when allocating the CSM

### Without reflecting the timing of coverage

<table>
<thead>
<tr>
<th>Nominal coverage units provided in current period divided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal coverage units provided in the current period + remaining expected duration</td>
</tr>
</tbody>
</table>

### Reflecting the timing of coverage*

<table>
<thead>
<tr>
<th>Present value coverage units provided in current period divided by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of coverage units provided in current period + remaining expected duration</td>
</tr>
</tbody>
</table>

*See Appendix for a simplified example

### Further information:
- IFRS 17 paragraphs 44(e), 45(e) and B119
- Basis for Conclusions on IFRS 17 paragraph BC282
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- IFRS Foundation

Comment on our work
- go.ifrs.org/comment
Further information:
IFRS 17 paragraphs 44(e), 45(e) and B119
Basis for Conclusions on IFRS 17 paragraph BC282
Further information:
IFRS 17 paragraphs 44(e), 45(e) and B119
Basis for Conclusions on IFRS 17 paragraph BC282
### Appendix A
Allocation reflecting the timing of coverage

<table>
<thead>
<tr>
<th>CSM \ Period *</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>CU500</td>
<td>CU418</td>
<td>CU328</td>
<td>CU229</td>
<td>CU120</td>
</tr>
<tr>
<td>Accretion—interest</td>
<td>CU50</td>
<td>CU42</td>
<td>CU33</td>
<td>CU23</td>
<td>CU12</td>
</tr>
<tr>
<td>Allocated to P&amp;L</td>
<td>CU132</td>
<td>CU132</td>
<td>CU132</td>
<td>CU132</td>
<td>CU132</td>
</tr>
<tr>
<td>Closing balance</td>
<td>CU418</td>
<td>CU328</td>
<td>CU229</td>
<td>CU120</td>
<td>CU0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>1</th>
<th>1</th>
<th>1</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal coverage units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV coverage units provided</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>PV coverage units provided and over remaining periods</td>
<td>4.17</td>
<td>3.49</td>
<td>2.74</td>
<td>1.91</td>
<td>1</td>
</tr>
<tr>
<td>Coverage units allocation</td>
<td>1/4.17</td>
<td>1/3.49</td>
<td>1/2.74</td>
<td>1/1.91</td>
<td>1/1</td>
</tr>
</tbody>
</table>

*Rounded for presentation
For simplicity, coverage is assumed to be provided at the end of the period

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**Further information:**
IFRS 17 paragraphs 44(e), 45(e) and B119
Basis for Conclusions on IFRS 17 paragraph BC282