



## 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

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# IFRS 17 webcasts

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## This webcast

March 2018    Recognising the contractual service margin in profit or loss

## Previous webcasts

May 2017    Introducing IFRS 17  
May 2017    Understanding 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    Core requirements: Recognition and derecognition  
December 2017    Transition to IFRS 17  
January 2018    Level of aggregation



### Further information:

[go.ifrs.org/IFRS-17-implementation](https://go.ifrs.org/IFRS-17-implementation) and  
IFRS 17 webcasts YouTube playlist:

<https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh3csegFwYn>

## Basic overview

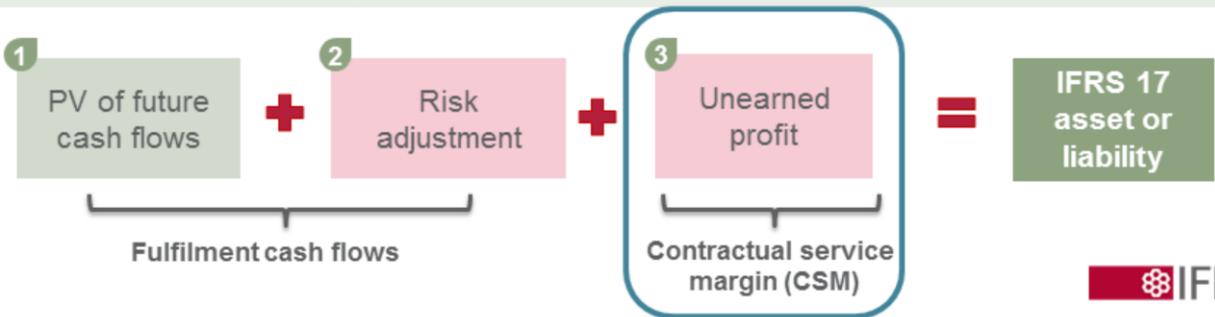
- The objective of the allocation of the contractual service margin
- Allocating the contractual service margin
- Other topics
  - Considering the time value of money when allocating the contractual service margin (CSM)

# The objective of the allocation of the contractual service margin

# Reminder: IFRS 17 core requirements

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- 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



## 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](https://go.ifrs.org/IFRS-17-implementation) and IFRS 17 youtube playlist:

[https://www.youtube.com/playlist?list=PLrLeeuMbuUeLNX7Qoqlq7Oh\\_3csegFwYn](https://www.youtube.com/playlist?list=PLrLeeuMbuUeLNX7Qoqlq7Oh_3csegFwYn)

# Reminder: Insurance service result = CSM + risk adjustment

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<b>Statement of profit or loss</b>
Insurance revenue
Incurred claims and expenses
<b>Insurance service result</b>
Investment income
Insurance finance expenses
<b>Net financial result</b>
<b>Profit or loss</b>

## CSM

- Reflects service provided during current period
- Systematic allocation to P&L

## Risk adjustment

- Reflects the bearing of risk during the current period for liability for remaining overage and liability for incurred claims
- Explicitly measured



### Further information:

IFRS 17 paragraphs 83-85 and B120-B124

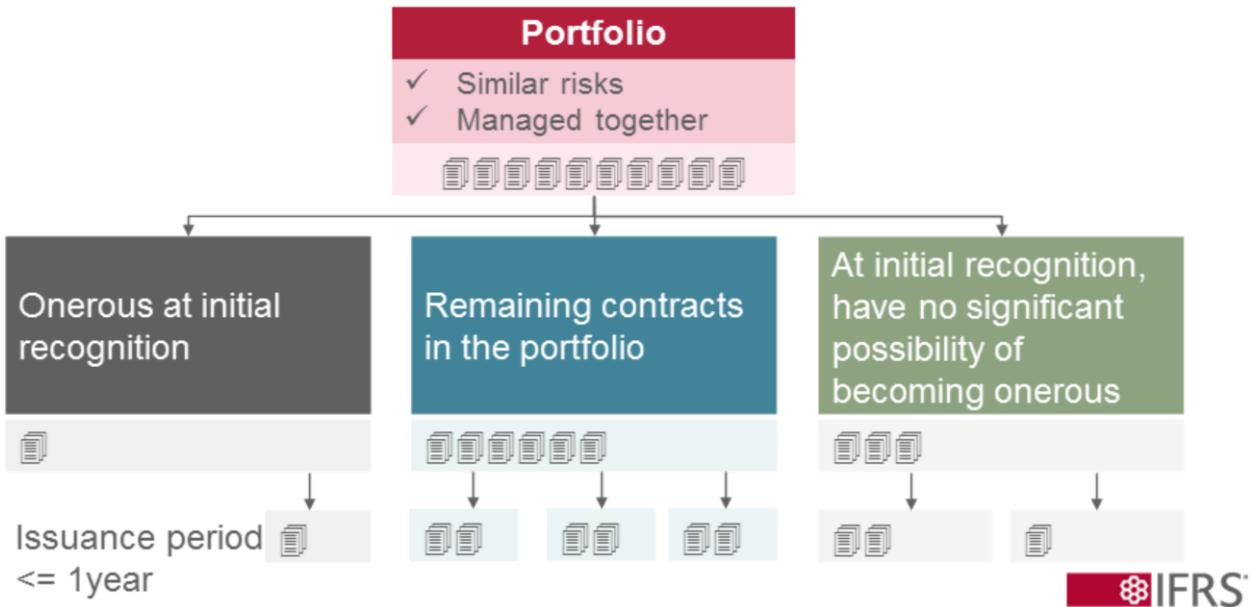
Basis for Conclusions on IFRS 17 paragraphs BC35-BC37, BC222-BC223 and BC279(a)

Webcast *Core requirements: measurement essentials of IFRS 17*

at [go.ifrs.org/IFRS-17-implementation](https://go.ifrs.org/IFRS-17-implementation) and IFRS 17 youtube playlist:

[https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh\\_3csegFwYn](https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh_3csegFwYn)

# Reminder: Grouping of insurance contracts



**Further information:**

IFRS 17 paragraphs 14-24

Basis for Conclusions on IFRS 17 paragraphs BC115-BC139

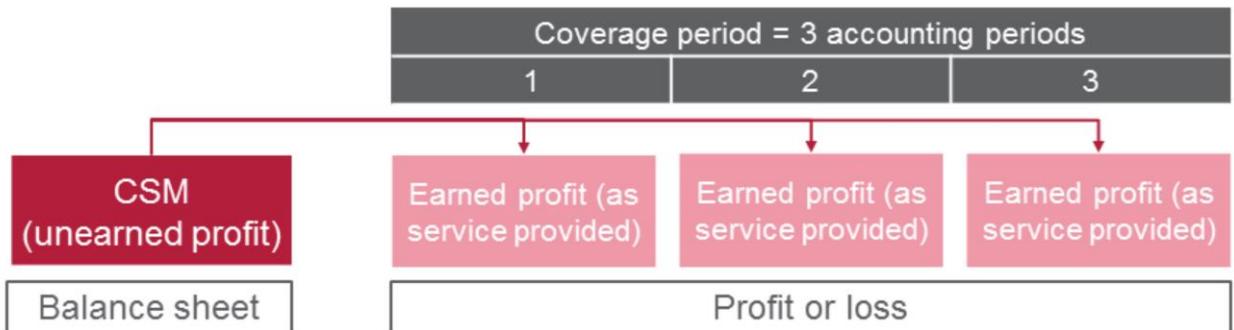
Webcast IFRS 17 *Level of Aggregation (Part 1)* at [go.ifrs.org/IFRS-17-implementation](http://go.ifrs.org/IFRS-17-implementation) and IFRS 17 YouTube playlist

<https://www.youtube.com/playlist?list=PLrLeeuMbuUeLNX7Qoqlq7Oh3csegFwYn>

# Allocation of profit for a group of contracts

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- Grouping contracts means profit is not identified with each individual contract
- Coverage units provides basis for systematic allocation of unearned profit of a group to each period that represents service provided



## Further information:

IFRS 17 paragraphs 43, 44(e), 45(e) and B119

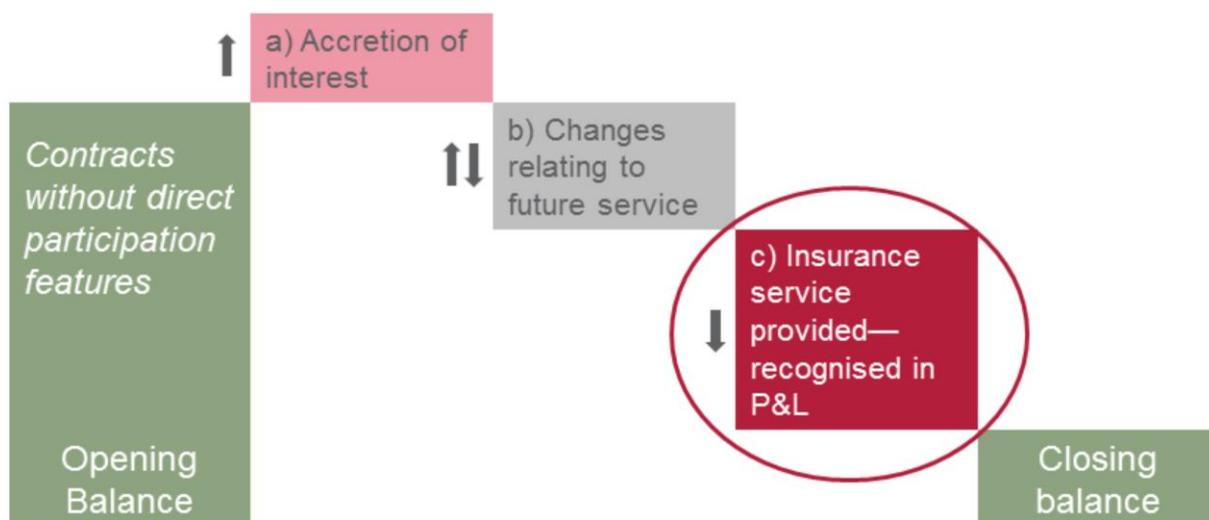
Basis for Conclusions on IFRS 17 paragraphs BC118, BC120 and BC279 – BC283

# Allocating the contractual service margin

# Reminder: Contractual Service Margin

## *Subsequent measurement*

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For simplicity, foreign currency differences and adjustments relating to contracts joining the group are not illustrated



### **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](https://go.ifrs.org/IFRS-17-implementation) and IFRS 17 youtube playlist:

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## Recognising CSM in profit or loss

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- 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

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- 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>

- 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](http://go.ifrs.org/IFRS-17-implementation) and IFRS 17 youtube playlist:

[https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh\\_3csegFwYn](https://www.youtube.com/playlist?list=PLrLeeuMbuaUeLNX7Qoqlq7Oh_3csegFwYn)

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>

# Simplified base example

- Recognition at the end of period 1
  - A group with expected duration of 3 coverage periods
  - Identical quantity of benefit in each period
  - Day 1 CSM of CU150

	Period 1	Period 2	Period 3
Coverage units	10	10	10
CSM in P/L	CU50		
CSM in B/S	CU150	CU100	

- 10/30 (current/(current + remaining) coverage units)
- Recognise 1/3 x CU150 CSM in profit or loss



Assumptions: interest is accreted on the CSM at 0% and no changes occur

**Further information:**

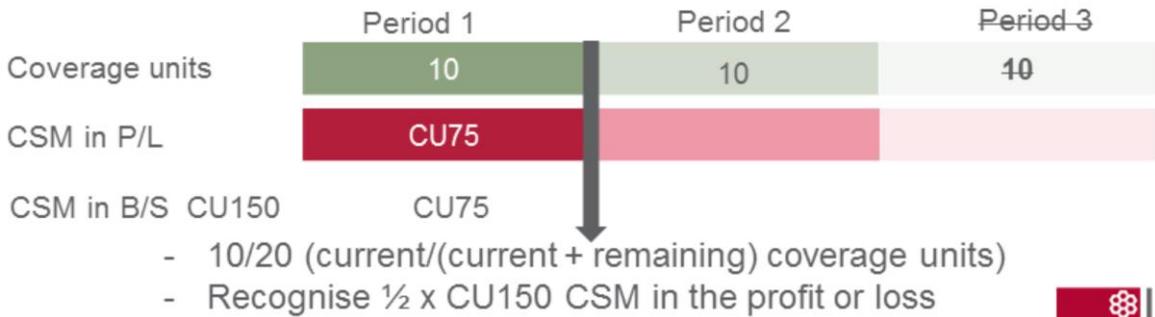
IFRS 17 paragraph B119

Basis for Conclusions on IFRS 17 paragraphs BC279, BC282 and BC283

# Example – decrease in coverage duration

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- 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 (eg quantity of benefit of CSM)



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

## Example – increase in coverage duration

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- Recognition at the end of period 3
  - Same scenario as base example (slide 13), expect that in period 3 it becomes known that expected coverage will continue longer than originally expected (for 4 periods)
  - No other changes (eg quantity of benefit of CSM)

	Period 1	Period 2	Period 3	Period 4
Coverage units	10	10	10	10
CSM in P/L	CU50	CU50	CU25	
CSM in B/S CU150	CU100	CU50	CU25	

-  $10/20$  (current/(current + remaining) coverage units)  
 - Recognise  $1/2 \times \text{CU50}$  CSM in the profit or loss



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

# Other topics

Coverage units

## Considering time value of money when allocating the CSM

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- 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

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## Without reflecting the timing of coverage

Nominal coverage units provided in current period  
*divided by*

Nominal coverage units provided in the current period + remaining expected duration

## Reflecting the timing of coverage\*

Present value coverage units provided in current period  
*divided by*

Present value of coverage units provided in current period + remaining expected duration

\*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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# Appendix A

## Example - time value of money when allocating the CSM

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- Fact sheet:
  - Day 1 CSM of CU500
  - Discount rate of 10%
  - Expected coverage duration of 5 periods
  - Identical coverage units provided in each period
  - Assume no changes



### **Further information:**

IFRS 17 paragraphs 44(e), 45(e) and B119

Basis for Conclusions on IFRS 17 paragraph BC282

# Appendix A

## Allocation without reflecting the timing of coverage

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CSM \ Period *	1	2	3	4	5
Opening Balance	CU500	CU440	CU363	CU266	CU146
Accretion—interest	CU50	CU44	CU36	CU27	CU15
Allocated to P&L	CU110	CU121	CU133	CU146	CU161
Closing balance	CU440	CU363	CU266	CU146	CU0
<b>Nominal</b>					
Coverage units	1	1	1	1	1
Coverage units provided	1	1	1	1	1
Coverage units provided and over remaining periods	5	4	3	2	1
Coverage units allocation	1/5	1/4	1/3	1/2	1/1

\* Rounded for presentation



### 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

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CSM \ Period *	1	2	3	4	5
Opening Balance	CU500	CU418	CU328	CU229	CU120
Accretion—interest	CU50	CU42	CU33	CU23	CU12
Allocated to P&L	CU132	CU132	CU132	CU132	CU132
Closing balance	CU418	CU328	CU229	CU120	CU0
Nominal coverage units	1	1	1	1	1
PV coverage units provided	1	1	1	1	1
PV coverage units provided and over remaining periods	4.17	3.49	2.74	1.91	1
Coverage units allocation	1/4.17	1/3.49	1/2.74	1/1.91	1/1

\*Rounded for presentation

For simplicity, coverage is assumed to be provided at the end of the period



### Further information:

IFRS 17 paragraphs 44(e), 45(e) and B119

Basis for Conclusions on IFRS 17 paragraph BC282