IFRS

STAFF PAPER

July 2022

IASB® meeting

Project	**Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)**
Paper topic	Finalisation of agenda decision

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Purpose of the meeting

1. At its June 2022 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission on IFRS 17 *Insurance Contracts*. The Committee instead decided to finalise an agenda decision.

2. The purpose of this meeting is to ask IASB members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. The Committee received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

4. In March 2022, the Committee discussed the request and decided to publish a tentative agenda decision, having concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the

contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

Overview of the feedback on the tentative agenda decision

5. The Committee received 28 comment letters on its tentative agenda decision.

6. As reported further in Agenda Paper 7 for the Committee's June 2022 meeting (June 2022 Committee paper), some respondents agreed with the Committee's technical analysis and conclusions in the tentative agenda decision, while many respondents disagreed with aspects of the analysis and conclusions. Some respondents said aspects of the explanatory material in the tentative agenda decision went beyond the requirements in IFRS 17 and suggested that standard-setting would be required to reach the conclusions in that tentative decision.

7. At its June 2022 meeting, the Committee considered this feedback and the staff proposals for refining the analysis in the tentative agenda decision. The Committee confirmed the analysis and conclusions in the tentative agenda decision and approved the staff proposals for refining the analysis. The Committee observed that refining the analysis did not change either the conclusions in the tentative agenda decision, or any of the arguments supporting those conclusions. That refinement is, however, responsive to concerns that the explanatory material in the tentative agenda decision might go beyond the requirements in IFRS 17.

8. Almost all respondents also commented on the possible consequences of publishing an agenda decision less than a year before IFRS 17 is in effect. These respondents said finalising the agenda decision may:
   (a) cause operational and financial reporting complexity; and
   (b) take time to implement any change.

9. Because of the possible consequences on IFRS 17 implementation activities, some respondents suggested that the Committee not respond to questions submitted when a new Accounting Standard or amendment is close to its effective date and possibly for some time thereafter. Other respondents suggested that the IASB address any

application questions that arise in this period as part of the Post-implementation Review (PIR) of IFRS 17.

10. After considering all the feedback, 12 of the 13 Committee members present voted to finalise the agenda decision. One member was absent. The appendix to this paper includes the wording of the agenda decision, approved by the Committee.

Questions for the IASB

Questions for the IASB
Do you object to the Committee's: (a) decision not to add a standard-setting project to the work plan; or (b) conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its meeting in June 2022.

Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)

The Committee received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.

Fact pattern

The request described a group of annuity contracts under which the policyholder of each contract:

a. pays the premium up front and has no right to cancel the contract or seek a refund;
b. receives a periodic payment from the start of the annuity period for as long as the policyholder survives (for example, a fixed amount of CU100 for each year that the policyholder survives); and
c. receives no other services under the contract (for example, no other types of insurance coverage or investment-return service).

The fact pattern referred to groups of contracts for which the annuity period starts immediately after contract inception ('immediate annuity') and also those for which the annuity period starts on a specified date after contract inception ('deferred annuity')—for example, a contract entered into in 2022 for which the annuity period starts in 2042.

Applicable requirements in IFRS 17

Paragraph 44(e) of IFRS 17 requires an entity to adjust the carrying amount of the contractual service margin for the amount recognised as insurance revenue because of the transfer of insurance contract services in the period. The entity determines this amount by allocating the contractual service margin over the current and remaining coverage period applying paragraph B119 of IFRS 17.

Paragraph B119 of IFRS 17 states that an entity recognises in profit or loss in each period an amount of the contractual service margin to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

a. identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.
b. allocating the contractual service margin at the end of the period equally to each coverage unit provided in the current period and expected to be provided in the future.
c. recognising in profit or loss the amount allocated to coverage units provided in the period.

The definition of insurance contract services in Appendix A to IFRS 17 describes insurance coverage as 'coverage for an insured event'. An insured event is defined as 'an uncertain future event covered by an insurance contract that creates insurance risk'.

Methods for applying the requirements to the fact pattern

The request sets out two methods of determining, for each contract in the group, the quantity of the benefits of insurance coverage provided in the current period and expected to be provided in the future.

Method 1

Current period	**Expected to be provided in the future**
Determined based on the annuity payment the policyholder is able to validly claim in the current period.	Determined based on the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).

Method 2

Current period	**Expected to be provided in the future**
Determined based on the total of: (i) the annuity payment the policyholder is able to validly claim in the current period, and (ii) the present value of the annuity payments the policyholder is expected to be able to validly claim in the future until the end of the coverage period (the balance of the expected future annuity payments as at the end of the current period).	Determined based on the present value of the balances of the expected future annuity payments as at the beginning of each future period, until the end of the coverage period.

Applying paragraph B119 of IFRS 17

Applying paragraph B119(a) of IFRS 17, an entity:

a. identifies the insurance contract services to be provided under the group of contracts. In the fact pattern described in the request, insurance coverage for survival is the only insurance contract service provided under the group of contracts.

b. considers the expected coverage period for each contract in the group. In the fact pattern described in the request, the expected coverage period would reflect the entity's expectations of how long the policyholder will survive.
c. considers the quantity of the benefits provided under each contract in the group.

IFRS 17 does not prescribe a method for determining the quantity of the benefits provided under a contract. Instead, an entity is required to use a method that meets the principle in paragraph B119 of reflecting the insurance contract services provided in each period. In selecting a method that meets that principle, an entity considers (a) the benefits provided to the policyholder under a contract with respect to the insurance contract services provided, and (b) when those benefits are provided. Different methods may achieve the principle depending on the facts and circumstances.

In the fact pattern described in the request, the terms of the annuity contract provide the policyholder with the right to claim a periodic amount (CU100 in the example) from the start of the annuity period for as long as the policyholder survives. Consequently, the Committee observed that:

a. the benefits provided to the policyholder under the contract with respect to the insurance coverage for survival are the policyholder's right to claim a periodic amount for as long as they survive. The policyholder also benefits from transferring to the entity the risk related to the uncertainty about how long they will survive. However, IFRS 17 requires an entity to account for that insurance risk in the risk adjustment for non-financial risk, separately from the contractual service margin.
b. the benefits of being able to claim a periodic amount are provided to the policyholder in each year of the policyholder's survival from the start of the annuity period:
    i. the policyholder has no right to claim an amount for surviving in periods before the start of the annuity period. The entity accepts insurance risk from inception of the contract but provides no benefits to the policyholder in the form of amounts that can be claimed until the annuity period starts. Paragraphs BC140-BC141 of the Basis for Conclusions on IFRS 17 explain

that an entity can accept insurance risk before it is obliged to perform an insurance coverage service.

ii. survival in one year does not provide the policyholder with the right to claim amounts that compensate the policyholder for surviving in future years; that is, the policyholder's right to claim amounts in future years is contingent on the policyholder surviving in those future years.

The Committee's conclusion

The Committee concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on:

a. the amount of the annuity payment the policyholder is able to validly claim (Method 1) meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by:
    i. assigning a quantity of the benefits only to periods in which an insured event (survival of the policyholder) can occur, resulting in a policyholder having a right to make a valid claim; and
    ii. aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim if an insured event occurs in that period.
b. the present value of expected future annuity payments (Method 2) does not meet the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period because it would:
    i. assign a quantity of the benefits to periods in which no insured event occurs (for example, to the deferral period of a deferred annuity contract); and
    ii. misrepresent the quantity of the benefits provided in a period by considering amounts the policyholder is able to claim and benefit from only in future periods.

The request asked only about the recognition of the contractual service margin in profit or loss. For the annuity contracts described in the request, the entity accepts insurance risk related to the uncertainty about how long the policyholder will survive. The Committee noted that the entity would apply other requirements in IFRS 17 to recognise in profit or loss—separately from the contractual service margin—the risk adjustment for non-financial risk. The risk adjustment for non-financial risk represents the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk. The Committee did not discuss these other requirements.

Under a group of annuity contracts, an entity could provide other insurance contract services to policyholders in addition to insurance coverage for survival—for example, insurance coverage for death in a deferral period or an investment-return service. The conclusion in this agenda decision applies to insurance coverage for survival, regardless of other services provided. If the contracts provide other insurance contract services, the entity would also need to consider the pattern of transfer of these services to the policyholder.

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an issuer of a group of annuity contracts as described in the request to determine the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period. Consequently, the Committee decided not to add a standard-setting project to the work plan.