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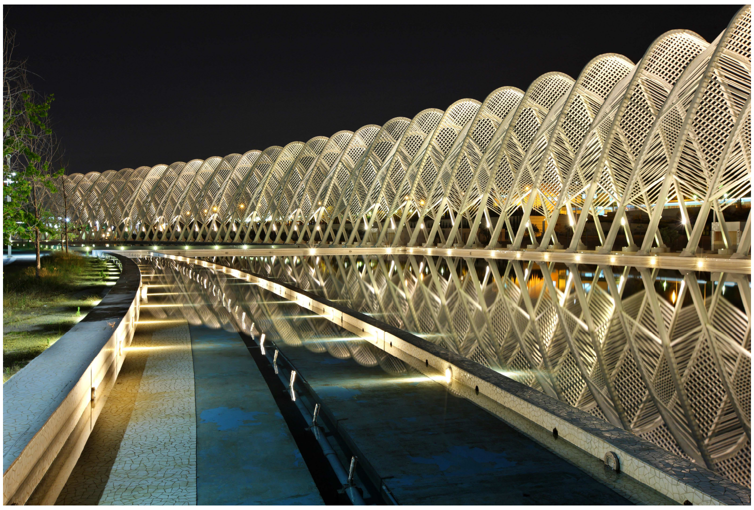
IFRS 17 Insurance Contracts

Thai General Insurance Association

December 1, 2017

Agenda

Introduction



Introduction

Insurance Contracts
Why the need to change accounting requirements

Little or no comparability between entities that write insurance contracts

Insurance contracts often expose entities to long-term and uncertain obligations. However, existing insurance contracts accounting under IFRS does not provide existing and potential investors, lenders and other creditors with the information they need to:

a) understand the financial statements of entities that issue insurance contracts; or

b) make meaningful comparisons between such entities among them and with entities that do not issue insurance contracts.

Insurance Contracts
Why the need to change accounting requirements

Existing insurance contracts accounting does not often reflect economics and risks in a timely manner

a) Long-duration contracts are measured using **outdated information**.

b) Entities **use expected investment returns on assets for discounting the liabilities**, even if the obligation to the policyholder is not dependent on the performance of the investments. This means that **economic risks are not reflected** (for example, from options and guarantees embedded in the insurance contract)

c) The **time value of money is not reflected**, even when cash flows are due in the future.

d) Little information is given about the **sources of profit** reported in the current period, or that is expected to be reported in future periods.

e) Information about underwriting (for example, revenue or expenses) is often **reported on a cash or cash-like basis** even when service is delivered in a different period and such cash receipts often **include deposits**. Current accounting often results in an **opaque 'change in the liability' line item** which is needed to reconcile cash-based amounts to the accruals-based result of the period. This is **not comparable to how other industries** report performance.

IFRS 17 Journey

IFRS 4 Phase II became IFRS 17

IFRS 17 is the first common global insurance accounting standard

- Requires entities to reflect the time value of money on payments expected in the future
- Provides up-to-date market-consistent information about the entity's obligation, including the value of options and guarantees
- Provides separate information about the investment and underwriting performance
- Treats the service provided by the underwriting activity as revenue and expenses in a comparable way to other non-insurance business

IFRS 17 Timeline

- Nov 1998 – Project commenced
- 20 Jun 2013 – ED issued
- 25 Oct 2013 – Comment deadline
- Jan 2014 – Feb 2016 – Board re-deliberations
- 9 Dec 2015 – Proposal on the interaction with IFRS 9 (IFRS 9 "decoupling")
- Feb 2016 – IFRS 4 Phase II deliberations complete, balloting begins
- Sep 2016 – IFRS 9 "decoupling" published
- 18 May 2017 – Publication date
- 1 Jan 2020 – Opening balance sheet for one-year-comparative reports
- 1 Jan 2021 – Effective date

IFRS 17 – General Measurement Model

Building Block Approach

Total IFRS Insurance Liability

- **Block 4: Contractual Service Margin ("CSM")**
- **'Fulfilment cash flows'**
  - **Block 3: Risk Adjustment**
  - **Block 2: Time Value of Money**
  - **Block 1: Expected Future Cash Flows (unbiased probability weighted mean)**

The main features of the IFRS 17 general measurement model are as follows:

- **Expected profit is deferred and aggregated in groups of insurance contracts at initial recognition**
- **Expected profit is recognised over the coverage period**
- **Current and explicit measurement of risk**
- **Reflection of the time value of money**
- **Estimates and assumptions on future cash flows are always current**
- **Maximum use of observable market consistent information**

Key similarities/differences between IFRS 4 and IFRS 17

Contract Definition

- Largely consistent with IFRS 4
- Under IFRS 17, significant insurance risk is assessed on a present value basis.

Acquisition cash flows

- Under IFRS 17, insurance acquisition cash flows are included as a reduction to the insurance liability. No longer permitted to be presented as an asset.

Unbundling

- Under IFRS 4, insurers may unbundle non-insurance components from an insurance contracts in most cases.
- Under IFRS 17, unbundling is prohibited unless the insurer can demonstrate it is necessary to do so.

Discounting

- Under IFRS 4, there is no requirement to discount cash flows. If discounting is applied, discount rates are asset-based rates or risk-free rates.
- Under IFRS 17, discounting is required. Discount rates should reflect characteristics of the insurance contracts. Practical expedients not to discount is permitted where certain criteria is met.

Key similarities/differences between IFRS 4 and IFRS 17

Risk Adjustment

- Under IFRS 17, an explicit risk adjustment is required.

Contractual service margin

- New concept under IFRS 17, which represents unearned profit in a contract.

Onerous contracts

- Under IFRS 17, liability adequacy test is no longer required. The new accounting model is based on the principle of no gain/loss on day 1 and based on current information. Therefore all favourable and unfavourable changes to the cash flows are offset against the contractual service margin (expected profit margin) which removes the need to test the liability for adequacy.

Premium allocation approach

- Similar to the current unearned premium approach for most non-life insurers.

Key similarities/differences between IFRS 4 and IFRS 17

Reinsurance	• Reinsurance contracts held are treated as separate contracts, with separate measurement from the underlying insurance contracts.
Presentation	• New presentation requirements. Insurance revenue is recognized to depict transfer of services to policyholders, and is aligned with revenue recognition under IFRS 15 as applied by other industries.
Disclosures	• IFRS 17 requires more granular and detailed disclosures. New disclosures required to provide explanation of the recognized amounts, e.g. rollforward tables, reconciliation of the balance sheet items and movements to the cash flows and income statement items.
Shadow accounting	• There is no shadow accounting model in IFRS 17. However, IFRS 17 provides insurers an option to report changes in discount rates to P&L or OCI to reduce accounting mismatches with assets backing the insurance liabilities.

Scope of IFRS 17

What is the scope of IFRS 17?

IFRS 17 will apply to a range of different contracts issued by companies, which fall under the following categories:

- **Insurance** and **reinsurance contracts** issued by the company;
- **Reinsurance contracts** that the company holds ("ceded reinsurance"); and
- **Investment contracts with discretionary participation features ("DPF")** that it issues, provided that the entity also issues insurance contracts

Investment components may be present in any of these contract types:

Investment components are those amounts that an insurance contract requires an entity to repay to a policyholder, even if an insured event does not occur.

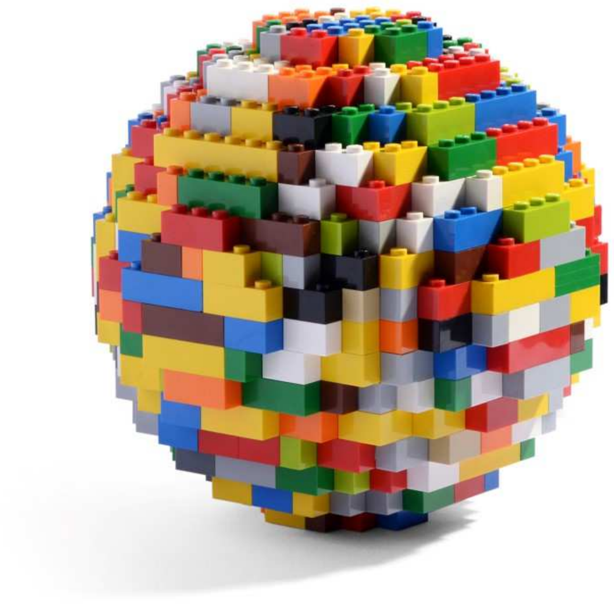
Remaining contracts which are typically issued by insurance companies are those which do not transfer significant insurance risk or have a DPF**,** normally referred to as **investment contracts without DPF**. These are financial instruments accounted for in accordance with IFRS 9.

Scope of IFRS 17
Specific exemptions

IFRS 17 states a number of specific scope exemptions:

- Warranties provided by manufacturers, dealers or retailers
- Employers' assets and liabilities from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans
- Contractual rights or obligations contingent on the future use of, or the right to use, a non-financial item
- Residual value guarantees provided by manufacturers, dealers or retailers, and a lessee's residual value guarantees embedded in a lease
- Financial guarantee contracts (unless the issuer has explicitly asserted that such contracts are insurance contracts)
- Contingent consideration payable or receivable in a business combination
- Insurance contracts in which the company is the policyholder (except reinsurance held)

IFRS 17 Measurement Model



Measurement requirements

The General Model a.k.a. the Building Blocks Approach ("BBA")

Principles

- Measurement uses current estimate assumptions
- Contracts are grouped by portfolio, year of sale and one of the three possible profitability levels
- Profit measured and reported based on the delivery of the "insurance coverage service"
- Deferred profit absorbs assumption changes for future coverage ("Unlocking")
- Discount rates based on market interest rates (currency, duration, liquidity)
- Expected profit from participating contracts revalued based on assets

Total IFRS Insurance Liability

Block 4: Contractual Service Margin ("CSM")

Measured at inception as the expected contract profit to be earned as services are fulfilled. It is **adjusted for changes in non-financial variables** affecting future coverage cash flows. It **accretes interest based on day 1 discount rate** (locked-in rate)

'Fulfilment cash flows'

Block 3: Risk Adjustment

An entity-specific assessment of the uncertainty about the amount and timing of future cash flows

Block 2: Time Value of Money

An adjustment that converts future cash flows into current amounts

Block 1: Expected Future Cash Flows (unbiased probability weighted mean)

Expected (probability-weighted) cash flows from premiums, claims, benefits, expenses and acquisition costs

Scenario 1

Perfect estimation

An entity issues a portfolio of insurance contracts. The coverage period of three years starts when the contract is issued. For simplicity, the example assumes that the time value of money and the risk adjustment are immaterial and that all claims are paid when they are incurred. We also assume lapses are immaterial and each contract carries the same amount of benefits therefore amortisation is approximately straight-line.

At the start of the coverage period, the entity receives the total premiums of $900 (no other premiums are expected) and estimates that the annual expected cash outflows would be $200 (total $600). The actual cash outflows is exactly the same as expected on initial inception.

Questions

1. What is the expected cash flows and CSM on initial inception, year 1, year 2 and year 3?
2. What is the insurance contract liability at the end of each period?
3. What is the profit/loss for each period?

Scenario 1 :: Solution Case 1

	Initial recog $	Yr 1 $	Yr 2 $	Yr 3 $
Expected Cash Flows				
Expected cash outflows	600	400	200	0
Expected cash inflows	(900)	0	0	0
Fulfilment cash flows	(300)	400	200	0
Reconciliation of CSM				
Opening balance	300	300	200	100
Recognised in P&L	0	(100)	(100)	(100)
Change in the estimate of future cash outflows adjusted to margin	0	0	0	0
Closing balance	300	200	100	0
Insurance contract liability	0	600	300	0

Statement of Profit or Loss and Other Comprehensive Income	Total $	Yr 1 $	Yr 2 $	Yr 3 $
Release of CSM	300	100	100	100
Estimated claims	600	200	200	200
Insurance revenue	900	300	300	300
Actual incurred claims	(600)	(200)	(200)	(200)
Amount immediately recognised in P&L	0	0	0	0
Profit / (loss)	300	100	100	100

Statement of Financial Position	Initial recog $	Yr 1 $	Yr 2 $	Yr 3 $
Building Blocks				
Expected CF	(300)	400	200	0
CSM	300	200	100	0
Insurance contract liability	0	600	300	0

Scenario 1 :: Solution Case 1
Accounting entries

Initial recognition
Dr. Insurance contract liability - BEL 300
Cr. Insurance contract liability - CSM 300

Year 1
Dr. Cash 900
Cr. Insurance contract liability - BEL 900
Received premiums

Dr. Insurance contract liability - CSM 100
Cr. Insurance revenue 100
Release of CSM

Dr. Insurance contract liability - BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance service expenses 200
Cr. Cash 200
Settlement of actual claims incurred

Year 2

Dr. Insurance contract liability - CSM 100
Cr. Insurance revenue 100
Release of CSM

Dr. Insurance contract liability - BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance service expenses 200
Cr. Cash 200
Settlement of actual claims incurred

Year 3

Dr. Insurance contract liability - CSM 100
Cr. Insurance revenue 100
Release of CSM

Dr. Insurance contract liability - BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance service expenses 200
Cr. Cash 200
Settlement of actual claims incurred

Scenario 2
Overestimation of expected cash flows

Same facts and assumptions as Scenario 1

However, the actual cash outflows or claim paid for the year 2 is only $150, which is $50 less than expected. As a result, at the end of year 2, the entity revises its estimated cash outflows to $150 for the year 3.

Questions

1. What is the expected cash flows and CSM in year 2 and year 3?
2. What is the insurance contract liability in year 2 and year 3?
3. What is the profit/loss for year 2 and year 3?

Scenario 2 :: Solution Case 1

	Initial recog $	Yr 1 $	Yr 2 $	Yr 3 $
Expected cash flows				
Expected cash outflows	600	400	150	0
Expected cash inflows	-900	0	0	0
Fulfilment cash flows	-300	400	150	0
Reconciliation of CSM				
Opening balance	300	300	200	125
Decrease in the estimate of future cash outflows added to margin	0	0	50	0
Recognised in P&L	0	-100	-125	-125
Closing balance	300	200	125	0
Insurance contract liability	0	600	275	0

Statement of Profit or Loss and Other Comprehensive Income	Total $	Yr 1 $	Yr 2 $	Yr 3 $
Release of CSM	350	100	**125**	**125**
Estimated claims	550	200	200	**150**
Insurance revenue	900	300	**325**	**275**
Actual incurred claims	(500)	(200)	**(150)**	**(150)**
Amount immediately recognised in P&L	0	0	0	0
Profit / (loss)	400	100	**175**	**125**

Statement of Financial Position	Initial recog $	Yr 1 $	Yr 2 $	Yr 3 $
Building Blocks				
Expected CF	(300)	400	**150**	0
CSM	300	200	**125**	0
Insurance contract liability	0	600	**275**	0

Scenario 2 :: Solution Case 1

Accounting entries

Initial recognition
Dr. Insurance contract liability - BEL 300
Cr. Insurance contract liability - CSM 300

Year 1
Dr. Cash 900
Cr. Insurance contract liability - BEL 900
Received premiums

Dr. Insurance contract liability - CSM 100
Cr. Insurance revenue 100
Release of CSM

Dr. Insurance contract liability - BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance service expenses 200
Cr. Cash 200
Settlement of actual claims incurred

Year 2

Dr. Insurance contract liability - CSM 125
Cr. Insurance revenue 125
Release of CSM

Dr. Insurance contract liability – BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance service expenses 150
Cr. Cash 150
Settlement of actual claims incurred

Dr. Insurance contract liability – BEL 50
Cr. Insurance contract liability – CSM 50
Decrease in the estimate of future cash outflows added to CSM

Year 3

Dr. Insurance contract liability - CSM 125
Cr. Insurance revenue 125
Release of CSM

Dr. Insurance contract liability – BEL 150
Cr. Insurance revenue 150
Release of estimated claims

Dr. Insurance service expenses 150
Cr. Cash 150
Settlement of actual claims incurred

Scenario 3

Underestimation of expected cash flows

Same facts and assumptions as Scenario 1

However, the actual cash outflows or claim paid for the year 2 is $450, which is $250 more than expected. As a result, at the end of year 2, the entity revises its estimated cash outflows to $450 for the year 3.

Questions

1. What is the expected cash flows and CSM in year 2 and year 3?
2. What is the insurance contract liability in year 2 and year 3?
3. What is the profit/loss for year 2 and year 3?

Scenario 3 :: Solution Case 1

	Initial recog $	Yr 1 $	Yr 2 $	Yr 3 $
Expected cash flows				
Expected cash outflows	600	400	**450**	0
Expected cash inflows	(900)	0	0	0
Fulfilment cash flows	(300)	400	**450**	0
Reconciliation of CSM				
Opening balance	300	300	200	-
Recognised in P&L	0	(100)	-	-
Increase in the estimate of future cash outflows deducted the margin	0	0	**(200)**	0
Closing balance	300	200	-	0
Insurance contract liability	0	600	**450**	0

Statement of Profit or Loss and Other Comprehensive Income	Total $	Yr 1 $	Yr 2 $	Yr 3 $
Release of CSM	100	100	-	-
Estimated claims	800	200	200	400
Insurance revenue	900	300	200	**400**
Actual incurred claims	(1100)	(200)	**(450)**	**(450)**
Amount immediately recognised in P&L	(50)	0	**(50)**	**0**
Reversal of loss component when claims are incurred	50	0	0	**50**
Profit / (loss)	(200)	100	**(300)**	**0**

Statement of Financial Position	Initial recognition $	Yr 1 $	Yr 2 $	Yr 3 $
Building Blocks				
Expected CF	(300)	400	**450**	0
CSM	300	200	**0**	0
Insurance contract liability	0	600	**450**	0

Scenario 3 :: Solution Case 1
Accounting entries

Initial recognition
Dr. Insurance contract liability - BEL 300
Cr. Insurance contract liability - CSM 300

Year 1
Dr. Cash 900
Cr. Insurance contract liability - BEL 900
Received premiums

Dr. Insurance contract liability – CSM 100
Cr. Insurance revenue 100
Release of CSM

Dr. Insurance contract liability – BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance expense 200
Cr. Cash 200
Settlement of actual claims incurred

Year 2

Dr. Insurance contract liability - CSM 200
Cr. Insurance contract liability – BEL 200
Increase in the estimate of future cash outflows deducted the CSM

Dr. Immediate loss 50
Cr. Insurance contract liability -BEL 50
Increase in the estimate of future cash outflows when CSM reduced to zero already

Dr. Insurance contract liability - CSM 0
Cr. Insurance revenue 0
Release of CSM

Dr. Insurance contract liability – BEL 200
Cr. Insurance revenue 200
Release of estimated claims

Dr. Insurance expense 450
Cr. Cash 450
Settlement of actual claims incurred

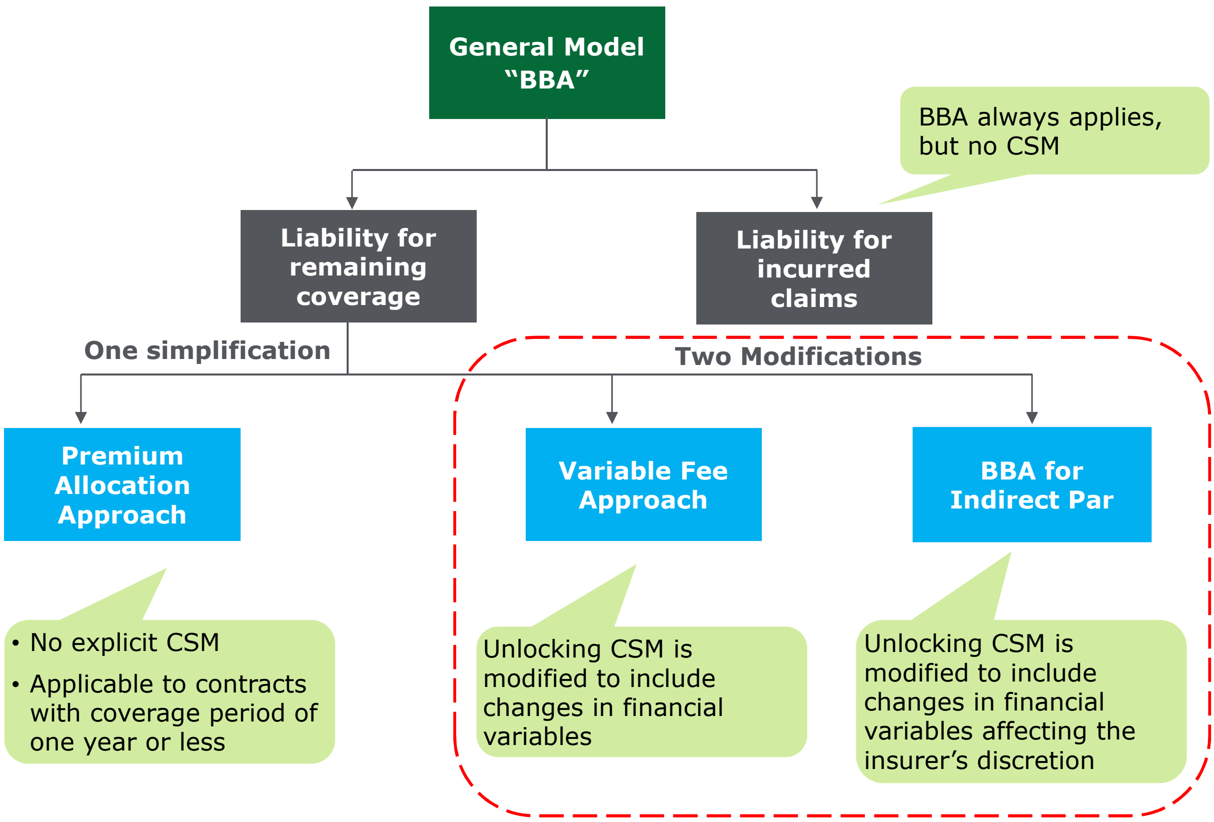
Year 3

Dr. Insurance contract liability – BEL 450
Cr. Insurance revenue 400
Cr. Reversal of loss component 50
Release of estimated claims

Dr. Insurance expense 450
Cr. Cash 450
Settlement of actual claims incurred

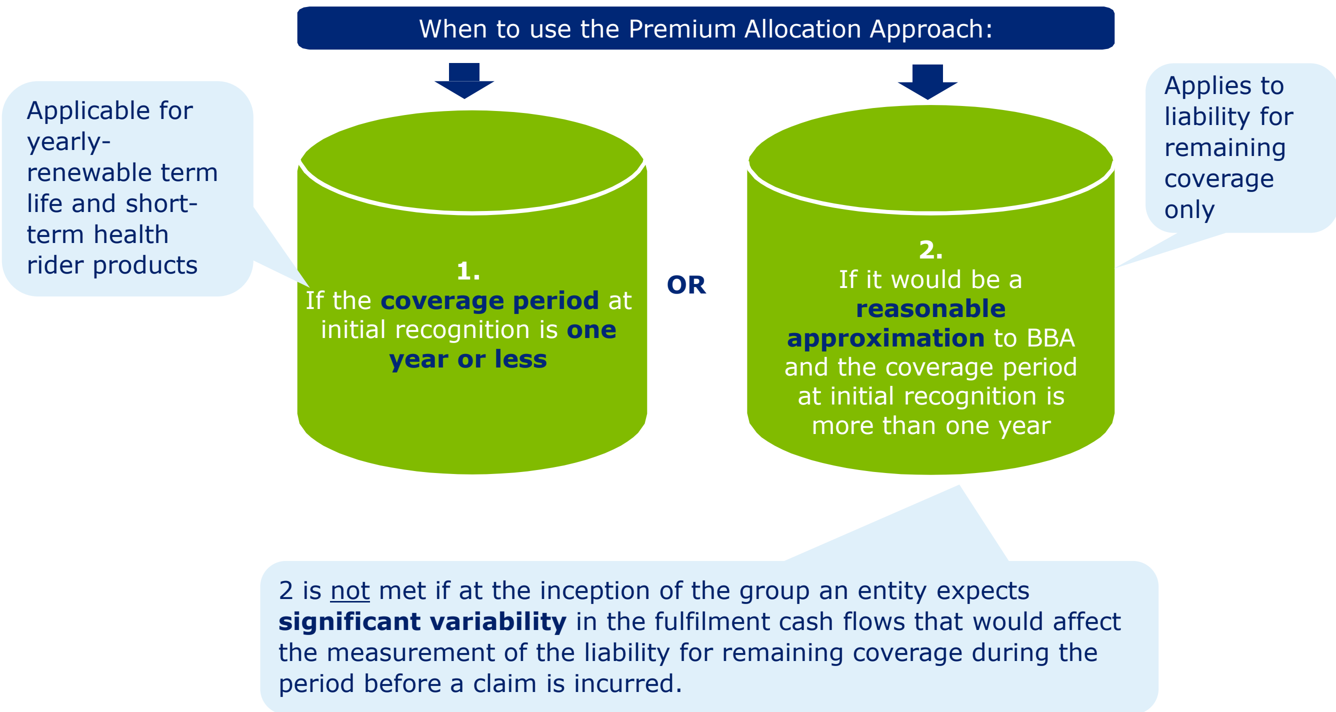
Measurement model (cont.)

Modification and simplification of the general model



Premium Allocation Approach

Criteria



Premium Allocation Approach
Measurement

PAA insurance liability

- Recognise a liability for remaining coverage at **initial recognition** as:
  - \+ the premium, if any, received at initial recognition;
  - \- insurance acquisition cash flows;
  - +/- derecognition of insurance acquisition cash flow asset or liability;
- At the end of each **subsequent reporting period**, the **liability for the remaining coverage ("LRC")** is the **previous liability**:
  - \+ the premiums received in the period;
  - \+ any adjustment to reflect time value of money (if applicable);
  - \- insurance acquisition cash flows;
  - \+ the amount recognised as the amortisation of acquisition cash flows;
  - \- the amount recognised as insurance revenue for coverage provided in that period;
  - \- any investment component paid or transferred to the liability for incurred claims

Premium Allocation Approach
More on measurement – Practical expedients

Time value of money

- Accretion of interest using the **initial recognition discount rate** when there is a **significant financing component**
- The accretion of interest is <u>not</u> required when there is **one year or less** between the **premium due date** and the time when the **coverage** that relates to that premium **occurs**

Directly attributable acquisition costs

- Directly attributable acquisition costs are deferred (as a reduction to the liability recognized at initial recognition) and recognized as an expense in P&L over the coverage period.
- Direct attributable acquisition costs may be **expensed immediately** in P&L (instead of reduction in liability) when the coverage is one year or less (accounting policy choice)

Premium Allocation Approach

More on measurement

Group of onerous contracts

- If facts and circumstances indicate that the group of contracts under PAA could be onerous, a calculation of the liability for remaining coverage using the general measurement model is required
- The difference between this liability and the PAA liability will be reported as a loss component liability

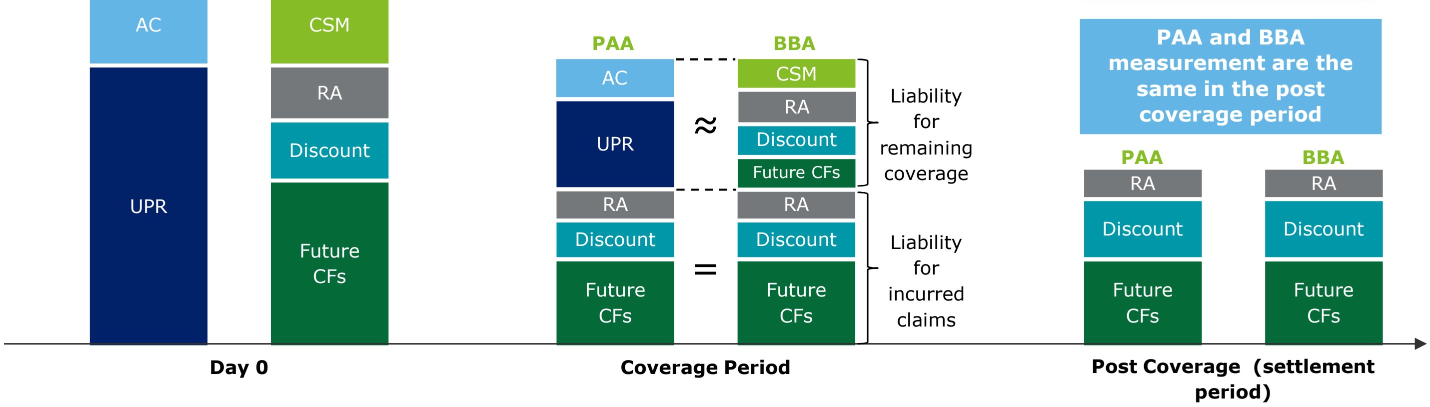
Liability for incurred claims

- Measured consistently with the general measurement model (including a risk adjustment) with no CSM because no remaining coverage relates to this liability
- Discounted if material, 12 months run-off period is deemed immaterial for discounting

Premium Allocation Approach

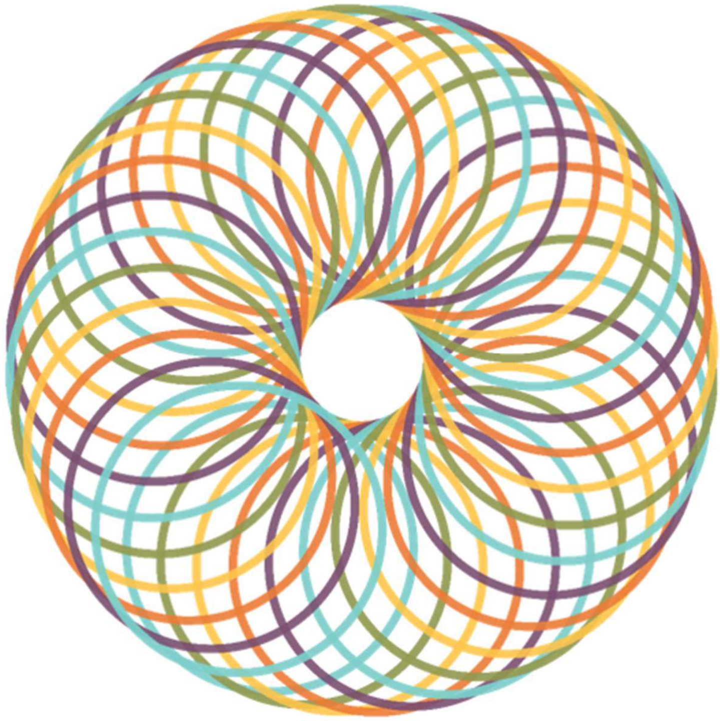
BBA vs PAA: Treatment of unexpired coverage

Acronym Key	
AC	Acquisition costs
UPR	Unearned premium reserve
BBA	Building block approach
PAA	Premium allocation approach
CFs	Cash flows



Coverage Period	Premium Allocation Approach	Building Block Approach
Day 0	Includes concept similar to UPR and DAC (however new definition of directly attributable expenses).	Consists of discounted present value of future cashflows (including premium, claims and expenses), Risk Adjustment and Contractual Service Margin (CSM).
During the coverage period (e.g.: 6 months from inception)	Unexpired risk: consists of UPR and unamortised cost of acquisition cost. Expired Risk: modelled using Building Block Approach	Unexpired Risk: CSM is only applicable for unexpired risk and other elements are same as expired risk. Expired risk: modelled using BBA approach
End of coverage period	No unexpired risk and only future cashflows are modelled using BBA. At this point the technical provisions are equal between PAA and BBA.	No difference as compared to PAA.

Presentation and disclosures



Why is presentation and disclosure important in the IFRS Insurance implementation work?

- The new IFRS Insurance regulations have a very ambitious goal: **make insurance revenue presentation comparable to all other types of revenue under IFRS**
- This results in a brand new set of requirements that will be very expensive to implement for life insurers.
- These requirements have a pervasive effect on insurers because this new presentation is likely to require the re-design of management information reports
- Unlike the IFRS Insurance measurement requirements, the presentation requirements will go deep into the IT architecture and will demand modification at policy administration system level
- On top of the presentation requirements the new IFRS Insurance will impose a much greater set of disclosure requirements than under current IFRS
- Insurers will face a serious data management problem and the external reporting dimension is just the tip of the iceberg

Why is presentation and disclosure important in the IFRS Insurance implementation work?

The top disclosure requirements in terms of new data demand are

- the new detailed **roll-forward tables** that would need to be published as a minimum at operating segment level and
- the **reconciliation of the balance sheet items and movements to the cash flow and the income statements** and in particular the reconciliation of the movements with the new insurance revenue amount

Changes in presentation – Statement of comprehensive income
Current format versus IFRS 17 requirement

Current presentation format

Income	
Gross premium written	XX
Less: Premiums ceded to reinsurers	(XX)
Net premium written	XX
Less: Unearned premium reserves increase	(XX)
Net earned premium	XX
Fee and commission income from reinsurers	XX
Investment income	XX
Profit from investments	XX
Other income	XX
Total income	**XX**
Expenses	
Claim expenses	XX
Less: Claim recovery from reinsurers	(XX)
Claim expenses, net	XX
Commission and brokerage expenses	XX
Other underwriting expenses	XX
Operating expenses	XX
Total expenses	**XX**
Profit before income tax	**XX**

IFRS 17 Presentation

Insurance revenue		**XX**
Insurance service expenses		**XX**
Incurred claims and expenses	XX	
Amortisation of acquisition costs	XX	
Experience adjustment - liability for incurred claims	XX	
Change in estimates - liability for incurred claims	XX	
Amounts recovered from reinsurers	XX	
Allocation of reinsurance premiums	XX	
Insurance service results		**XX**
Investment income	XX	
Insurance finance income or expense	XX	
Finance results		**XX**
Profit or Loss		**XX**
Other comprehensive income - insurance finance income or expense		XX
Total comprehensive income		**XX**

Changes in presentation – Statement of comprehensive income

Current format versus IFRS 17 requirement

Current presentation format

Assets	
Reinsurance assets	XX
Receivables from reinsurance contracts	XX
Liabilities	
Insurance contract liabilities	XX

IFRS 17 Presentation

Asset section	
Insurance contracts in asset position	XX
Reinsurance contracts held	XX
Liability section	
Insurance contract liability for remaining coverage	XX
Loss component - Insurance contract liability for remaining coverage	XX
Incurred claims liability	XX

Disclosures overview

An entity shall disclose **qualitative** and **quantitative** information about:

1. Explanation of recognised amounts	The amounts recognised in F/S that arise from insurance contracts	New IFRS 17 requirements
2. Significant judgements	The significant judgements, and their changes	Some requirements brought forward from IFRS 4
3. Risks	The nature and extent of risks that arise from insurance contracts	Most requirements brought forward from IFRS 4

1. Explanation of recognised amounts
Reconciliation overview

The purpose of disclosing **reconciliations** is to show **how the net carrying amounts** of contracts **changed** during the period

- **Separate** reconciliations shall be disclosed for **direct** business and **reinsurance**
- Provide reconciliations in **tables**
- Present at beginning and end of period, **disaggregated** into **assets and liabilities**

1. Explanation of recognised amounts
Insurance contract liability breakdown

Para 100

The following disclosure provides **movements** and further breakdown of **insurance contract liability**:

Reconciliations from opening to closing separately for each of:

a) **net liabilities** (or assets) for **remaining coverage**, excluding loss component

b) **loss component***

c) **liabilities for incurred claims**

1. Explanation of recognised amounts
P&L breakdown

Para 103

The following disclosure provides **breakdown of P&L** amounts related to insurance services:

a) insurance revenue.

b) insurance service expenses, showing separately:

- **i. incurred claims** (excluding investment components) and other incurred insurance service expenses;
- **ii. amortisation of insurance acquisition CF**;
- iii. changes that relate to past service
  - i.e. **changes** in fulfilment CF **relating to incurred claims**;
- **iv. changes** that relate to future service
  - i.e. **losses on onerous groups** of contracts **and reversals**.

c) investment components excluded from insurance revenue and insurance service expenses.

1. Explanation of recognised amounts
Amounts not related to insurance services

Para 105

For items not related to insurance services, disclose them separately to show the big picture:

a) CF in the period, including:

- **i. premiums received** (or paid for reinsurance);
- **ii. insurance acquisition CF**;
- **iii. incurred claims and other insurance service expenses paid** (or recovered from reinsurance), excluding insurance acquisition CF.

b) the effect of **changes in the risk of non-performance by reinsurer;**

c) insurance finance income or expenses; and

d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

1. Explanation of recognised amounts

Table 2—movements in insurance contract liabilities analysed between liabilities for remaining coverage and incurred claims

Para 100

Para 103

Para 105

	Liabilities for remaining coverage: Excluding onerous contracts component	Liabilities for remaining coverage: Onerous contracts component	Liabilities for incurred claims
Insurance contract liabilities 20X0[114]	161,938	15,859	1,021
Insurance revenue[115]	(9,856)		
Insurance service expenses	1,259	(623)	7,985
Incurred claims and other expenses		(840)	7,945
Acquisition expenses	1,259		
Changes that relate to future service: losses on onerous contracts and reversals of those losses		217	
Changes that relate to past service: changes to liabilities for incurred claims			40
Investment components	(6,465)		6,465
Insurance service result	(15,062)	(623)	14,450
Insurance finance expenses	8,393	860	55
Total changes in the statement of comprehensive income	(6,669)	237	14,505
Cash flows			
Premiums received	33,570		
Claims and other expenses paid			(14,336)
Acquisition cash flows paid	(401)		
Total cash flows	33,169	–	(14,336)
Insurance contract liabilities 20X1	188,438	16,096	1,190

Source IASB Effects Analysis

1. Explanation of recognised amounts

Building blocks breakdown

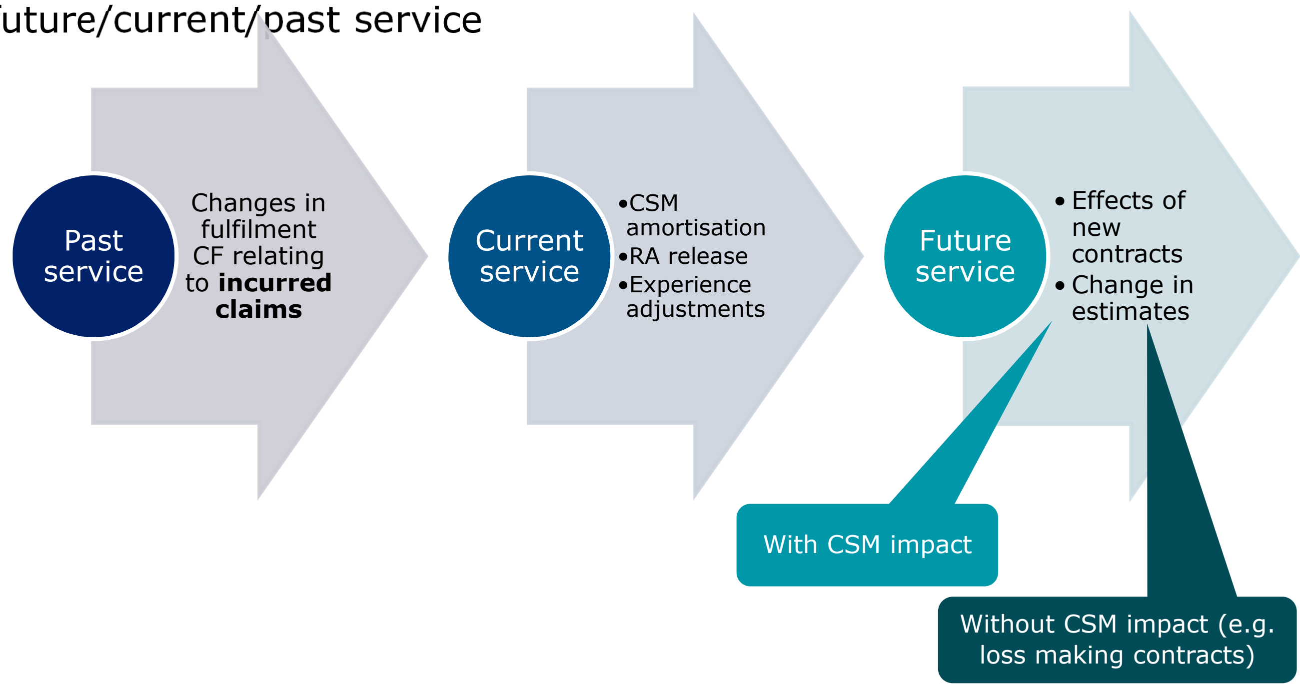
Para 101

- A reconciliation showing **source of profit** would provide useful information for users of F/S
- The following disclosure provides **movement** of the **insurance contract liability** in terms of **different building blocks**
- Disclose reconciliations from opening to closing separately for each of:
  - estimate of the **PV of future CF**;
  - **RA** for non-financial risk; and
  - **CSM**

1. Explanation of recognised amounts
Future/current/past service

Para 104

- Another dimension of disclosure for changes related to future/current/past service



1. Explanation of recognised amounts

Table 3—movements in insurance contract liabilities analysed by components[1]

Para 101

Para 104

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin
Insurance contract liabilities 20X0[117]	163,962	5,998	8,858
Changes that relate to current service	35	(604)	(923)
Contractual service margin recognised for service provided			(923)
Risk adjustment recognised for the risk expired		(604)	
Experience adjustments	35		
Changes that relate to future service	(784)	1,117	(116)
Contracts initially recognised in the period[118]	(2,329)	1,077	1,375
Changes in estimates reflected in the contractual service margin[119]	1,452	39	(1,491)
Changes in estimates that result in onerous contract losses	93	1	
Changes that relate to past service	47	(7)	
Adjustments to liabilities for incurred claims	47	(7)	
Insurance service result	(702)	506	(1,039)
Insurance finance expenses[120]	9,087	-	221
Total changes in the statement of comprehensive income	8,385	506	(818)
Cash flows[121]	18,833		
Insurance contract liabilities 20x1	191,180	6,504	8,040

Source: IASB Effects Analysis

1. Explanation of recognised amounts
Analysis of insurance revenue

Para 106

The following disclosure provides useful information about the **drivers of insurance revenue** and assists users to understand how insurance revenue relates to more familiar metrics

a) the amounts relating to the **changes in the liability for remaining coverage**, separately disclosing:

   i. **insurance service expenses expected to be incurred** during the period;

   ii. **change in RA**; and

   iii. **amortisation of CSM**

b) allocation of premiums that relate to the **recovery of insurance acquisition CF** **(CSM gross-up)**

1. Explanation of recognised amounts
Effect at initial recognition

This disclosure requirement gives information on **business growth**. This is important when assessing an entity's future prospects

Para 107

Disclose the effect on balance sheet separately for direct business and reinsurance that are initially recognised in the period:

a) estimates of **PV of future cash outflows**, showing separately the amount of the insurance acquisition CF;

b) Estimates of PV of future cash inflows

c) **RA** for non-financial risk; and

d) **CSM**.

Para 108

Separately disclose amounts resulting from:

a) contracts **acquired from other entities**; and

b) groups of contracts that are **onerous**.

1. Explanation of recognised amounts

Deloitte.

Para 107

Para 108

Table 4—analysis of contracts initially recognised in the period

Contracts initially recognised in 20X1		Of which contracts acquired	Of which onerous contracts
Estimates of the present value of future cash inflows	(33,570)	(19,155)	(1,716)
Estimates of the present value of future cash outflows			
Insurance acquisition cash flows	401	122	27
Claims payable and other expenses	30,840	17,501	1,704
Risk adjustment	1,077	658	108
Contractual service margin	1,375	896	-
Total	123	22	123

Source: IASB Effects Analysis

1. Explanation of recognised amounts

CSM release pattern

Disclosing when the CSM is expected to be recognised in P&L in future periods would be helpful in assessing **future profitability**

- Disclose an explanation of when the insurer expects to recognise the CSM remaining at the end of the reporting period in P&L
- Such information shall be provided separately for direct business and reinsurance

1. Explanation of recognised amounts
Insurance finance income or expenses

Insurance finance income or expenses are expected to have a significant effect on the **performance** of an insurer, particularly if it issues long-duration contracts

- Disclose and explain the total amount of insurance finance income or expenses in the period. In particular, explain the **relationship between insurance finance income or expenses and the investment return** on its assets
- The basis for any disaggregation of the total between amounts recognised in P&L and OCI

2. Significant judgements
Inputs, assumptions and estimation techniques

New in IFRS 17

Similar to IFRS 4

- **Methods used to measure insurance contracts** and the processes for estimating the inputs, with quantitative information:
  - changes in estimates of future CF arising from the exercise of **discretion** from other changes in estimates (indirect par contracts),
  - **RA** for non-financial risk, including whether changes in RA are disaggregated into an insurance service component and finance component or presented in full in the insurance service result,
  - **Discount rates**,
  - **Investment components** that are not unbundled.
- **Any changes** in the methods and processes as noted above, the **reason** for each change, and the **type of contracts** affected.

2. Significant judgements
Inputs, assumptions and estimation techniques (cont'd)

New in IFRS 17

- If an entity **chooses the OCI option**, disclose an **explanation of the methods** used to determine the insurance finance income or expenses recognised in P&L.
- Disclose the **confidence level (CI)** used to determine RA. If the entity uses a technique other than CI, it shall disclose the **technique used and corresponding CI**.
- Disclose the **yield curve** (or range of yield curves) used to discount CF that do not vary based on the returns on underlying items.

OCI option

RA

Indirect par

Non-par

3. Risks
Exposure and uncertainty

Similar to IFRS 4

Disclose information to evaluate the **nature, amount, timing** and uncertainty of future CF, e.g.

a) risk **exposures** and how they arise;

b) objectives, policies, processes, and methods for managing risks;

c) changes in a) or b) from the previous period.

Risk exposure: period-end vs. during the period

If risk exposure at the end of period is not representative of its exposure during the period, disclose this fact, the **reason**, and further information that is representative of its risk exposure during the period

3. Risks
Exposure and uncertainty

Similar to IFRS 4

For each type of risk, disclose:

- Summary **quantitative** information of risk **exposure** at the end of period, based on information provided internally to key management personnel
- Description of how to determines **risk concentrations**, and the shared characteristic that identifies each concentration (e.g., type of insured event, industry, geographical area, currency)

3. Risks
Regulatory matters

New in IFRS 17

- Effect of each **regulatory framework** in which the entity operates; e.g., minimum capital requirements or required interest rate guarantees.
- Disclose the fact if **regulation** specifically constrains the entity's **practical ability** to set a different price or level of benefits for policyholders with different characteristics, and the entity chooses to include these contracts in the same group

3. Risks
Sensitivity analysis

Similar to IFRS 4

a) Shows how **P&L and equity** would have been **affected** by changes in risk exposures at the end of period:
   i. for **insurance risk**—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance;
   ii. for each type of **market risk**—explains the relationship between the sensitivities to changes in risk exposures arising from insurance contracts and from financial assets held.

b) Methods and assumptions used;

c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

d) An explanation of the objective of the method used and of any limitations that may result in the information provided.

3. Risks
Claims development

Similar to IFRS 4

- **Disclose actual claims compared with previous estimates** of the undiscounted amount of the claims (i.e. **claims development**).
- Start with the period when the earliest material claim(s) arose and there is still uncertainty about the amount and timing of the claims payments at the end of period; but **need not more than 10 years**.
- <u>No need</u> to disclose claims development if uncertainty is resolved within 1 year.
- **Reconcile** claims development **with aggregate carrying amount of the groups of insurance contracts**.

3. Risks

Credit risk and liquidity risk

	Credit risk	Liquidity risk
Similar to IFRS 4	• The amount that best represents the entity's **maximum credit risk exposure** at end of period, separately for direct business and reinsurance; and • **Credit quality of reinsurance contract assets**.	• How the entity **manages liquidity risk**; • Separate **maturity analyses** that shows the net CF that result from groups insurance contracts (and reinsurance contracts) for each of the **first 5 years** after the reporting date and in **aggregate beyond the first 5 years**; and • Amounts that are **payable on demand**, explaining the relationship between such amounts and the carrying amount of the related groups of contracts.

Transition

IFRS 17 – Transition

Three possible approaches to be applied

1. The **retrospective approach** must be applied to all groups of insurance contracts, unless it is **impracticable** or if groups of contracts in force on transition date cannot be identified (e.g. the inception date has been lost).
2. If applying the retrospective approach is impracticable, an entity is then permitted to choose between the **modified retrospective approach** and the **fair value approach**.

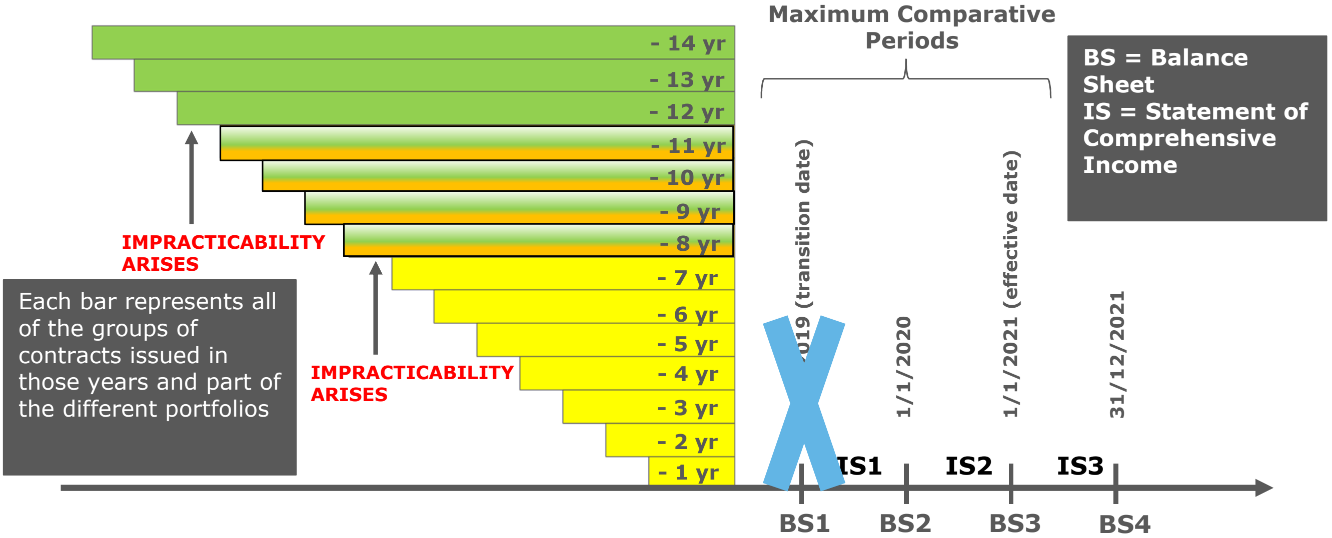
Simplified approaches	Grouping simplifications
Modified retrospective approach	• To achieve the closest outcome to retrospective application possible using reasonable and supportable information • Maximise the use of information that would have been used to apply a fully retrospective approach but need only use such information that is available without undue cost or effort
Fair value approach	• Fair value approach deals with situations where there is also a lack of historical information by using information on 1/1/2020 rather than at initial recognition. • Under this approach, CSM at the transition date is determined as the difference between the fair value of the group of contracts at that date and the fulfilment cash flows measured at that date.

IFRS 17 – Transition

Illustration (effective date: 1/1/2021)

- The objective of the modified retrospective approach is to approximate full restatement
- The use should be only to the extent the entity does not have reasonable and supportable information to restate

Retrospective approach
Modified retrospective approach
Fair value approach



Implications to insurers

Major implications to insurers

Accounting and closing process
Financial reporting will change substantially with IFRS 17, up to 50% of the chart of accounts and financial statement positions will be impacted. Reporting efficiency and improved productivity within finance closing process will be necessary.

Management reporting
Internal KPIs will need to be adapted to new external measurements. Fast close for internal management information (MI) will be under even greater pressure to deliver the new figures efficiently. Consistency across products can spur productivity.

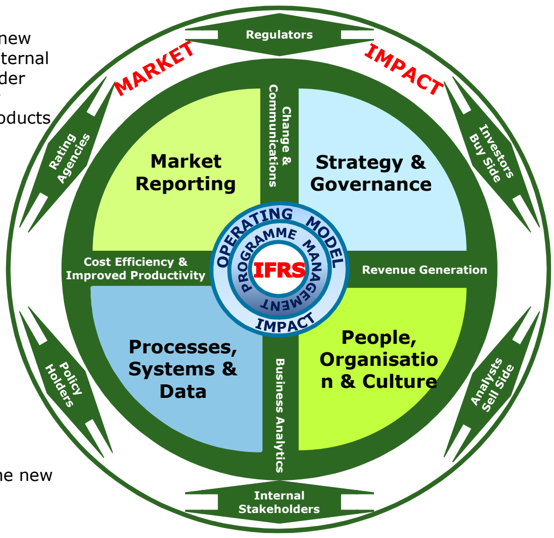
Investor Relations (IR)
Insurers' financial reports will offer better comparability. The IR Director and management need to prepare for analyst/rating agency questions.

Risk

Risk reporting and financial reporting (IFRS) need to be aligned, and the differences need to be reconciled and explained.

Actuarial
Existing models need to be adapted to the new regulations – new data flows/calculations/projections need to be implemented (e.g. new risk adjustment).

Operations and IT
New IFRS requirements need to be designed, implemented, tested, brought into production and maintained and operated. Changes in systems must be planned at an early stage to minimise disruption.



Asset Allocation

Asset-Liability Management (ALM) will be under the spotlight. More active management of dependencies and accounting mismatches is needed. Are any ALM strategies (e.g. based on equity securities for long durations) no longer viable? Are new hedging instruments the response?

Financial Planning & Controlling
Planning / forecast processes have to be adjusted to the new metric arising from IFRS 9 and IFRS 17 earlier than their release in the first public report.

For analysis and planning purposes, it may be useful to perform simulations on the impact of the new IFRSs on KPIs based on IFRS earnings/equity at an early stage.

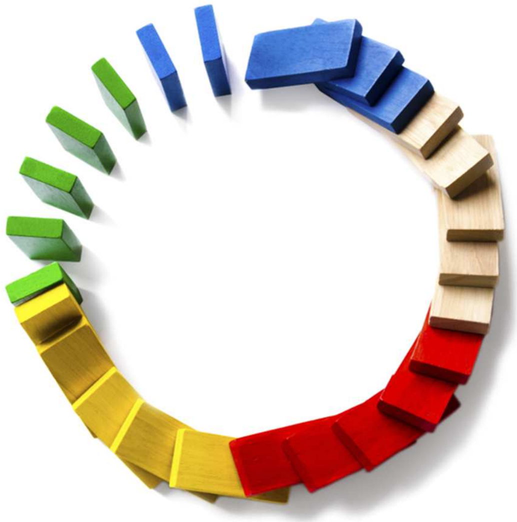
Human Resources

Educating the whole organisation on how the group's success is measured and presented to the market under the new IFRS.

The KPIs used for the incentives and remuneration of employees and sales force will need to be recalibrated.

Control Environment and Organisational Design
Greater external transparency (in aggregate) is expected to demand more detailed audit trail and "historization" of financial and actuarial data. The interaction between finance, risk and actuarial will increase (cross-skills opportunities), offering the opportunity to integrate these functions.

Next steps



Four Key Elements of a successful IFRS Project Delivery

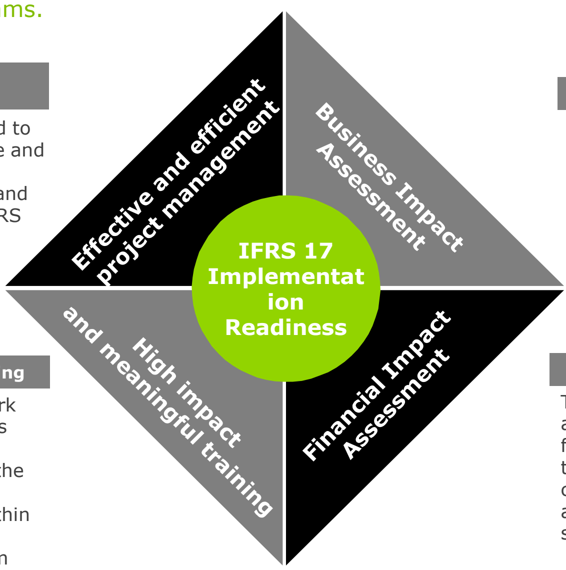
Companies move towards IFRS Insurance implementation with the use of an implementation strategy and roadmap. In addition, companies should work towards the design of an end-to-end infrastructure, as well as perform a financial impact analysis which would include creation of a key prototype model as well as testing the related methodology. Companies should culminate project delivery with a training program that is repeatable and updated periodically; this will include on-site training for local operations as well as advanced topic learning session for core functional teams.

Effective and efficient project management

A PMO function shall be established to work side by side with your finance and actuarial team to establish the appropriate governance structure and seamlessly coordinate efforts of IFRS conversion activities.

Business Impact Assessment

Companies should conduct an analysis to help assess current IFRS reporting environment across local domiciles. Companies should produce a high level plan for the implementation of IFRS 17.



High impact and meaningful training

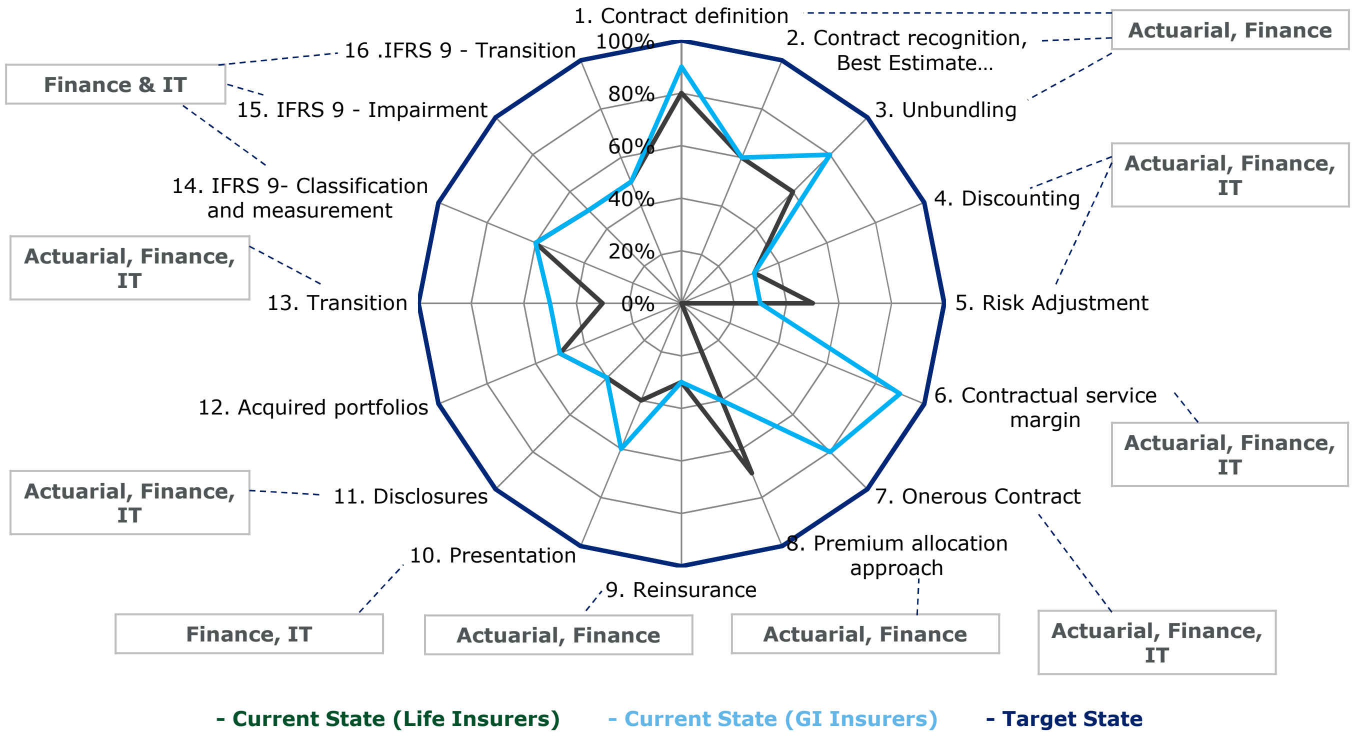
Conduct a tailored training framework to develop an approach that includes robust design and accelerated delivery. The training should assist the company in the creation of the IFRS Insurance competitive workforce within Company that can drive forward implementation plans with maximum use of internal resources.

Financial Assessment

The objective of the financial impact analysis is to quantify the directional financial impacts of IFRS 17 for each of the key products and to highlight the changes of profit emergence patterns and changes of assets/liabilities for selected portfolios.

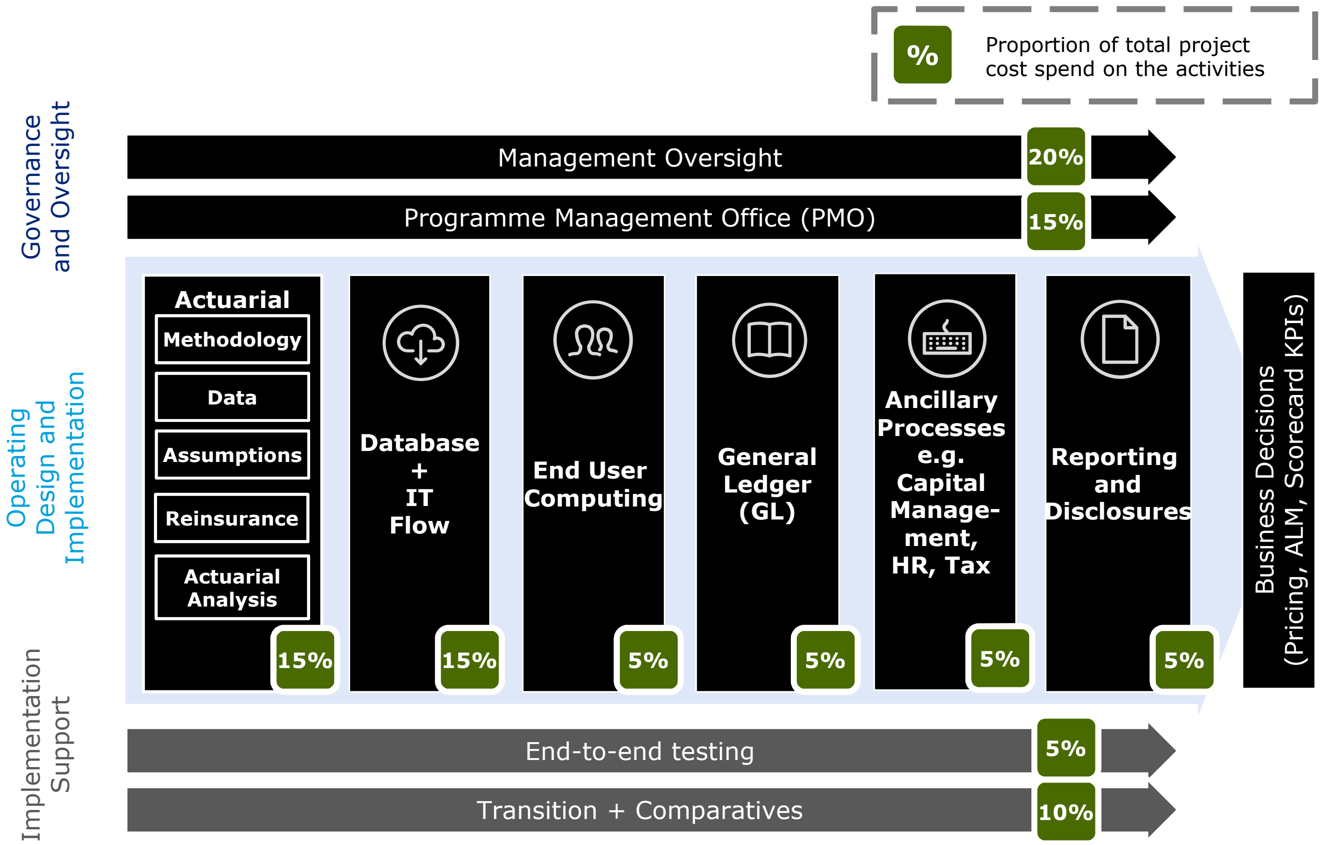
IFRS Insurance

Maturity level of average insurers and Deloitte opportunity



Overall impact: More than actuarial and finance

Estimated effort required across the business



Q&A

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