



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 1: Separation of Components

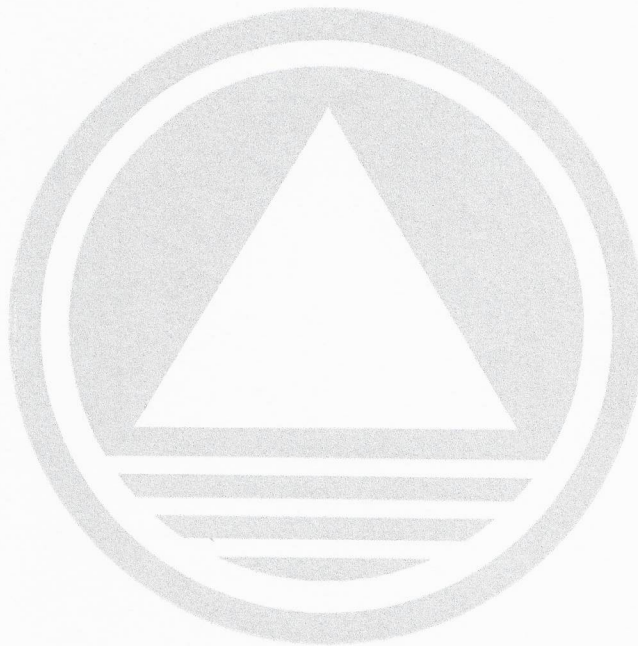
30 September 2021

Disclaimer

This is a Practical Guidance in the application of IFRS 17 Insurance Contracts and is by no means a financial reporting standards.

The IFRS is principles-based, therefore this guide aims to provide illustrative examples on how to apply the standards by IASB.

In the event of any conflict or inconsistency between the IFRS and the Practical Guidance, the IFRS shall prevail, and the accounting treatment should comply with the IFRS. Similarly, should the interpretation of the IFRS results in a contradicted conclusion from the example given in the Practical Guidance, the accounting treatment should observe IFRS.



Contents

1.0	Executive Summary	4
2.0	References	5
3.0	Practical Guidance	11
	3.1 Singular Product	11
	3.2 Packaged Product	12
	3.3 Non-Insurance Components	14
	3.4 Separation of Contract Process Flow	19
4.0	Illustrations	20
	4.1 Singular Product and Packaged Product	20
	4.2 Embedded Derivatives	23
	4.3 Investment Component	25
	4.4 Service Component	29
5.0	Frequently Asked Questions	33
	5.1 Multiple Risk Contract – Separation Requirement	33
	5.2 Premium Refund ‘RoP’	34
	5.3 Investment Component	36
6.0	Appendix	39

1.0 Executive Summary

This report is part of a series of study papers guiding non-life insurances' implementation of the new Thai Financial Reporting Standard 17 for Insurance Contracts ("TFRS 17"), which has a mandatory effective date of 1 January 2024 or later (1 year after IASB effective date for IFRS 17).

An insurance contract has a variety of scope, and it may contain one or more components of which these components would need to be separated to account for them under the relevant IFRS.

1. Insurance component
2. Embedded derivatives
3. Investment components
4. Promises to transfer goods or non-insurance services

After unbundling those non-insurance components, IFRS 17.13 prescribes that the remaining component left from the contract would be the insurance component, which would be accounted for under IFRS 17.

The classification of each component enables the company to determine whether non-insurance components within an insurance contract is required to be separated and measured separately from the host insurance contract under IFRS 17.

1. The IFRS 17 Standard states that the lowest unit of account is contract level unless unbundling is required based on the assessment of the substance of the contract.
2. All insurance components within a contract should be measured as a whole unless the legal form of the contract does not reflect the substance of the rights and obligation.
3. Unbundling of components within a contract (or a package) or combine several contracts.

The assessment in this topic consists of:

- a. a review of the clauses within insurance contracts underwritten and
- b. discussions with non-life companies, the OIC, and TGIA to align on the technical positions to adopt in Thailand as much as possible.

The results of the assessment for the different components are discussed in sections below.

2.0 References

International Financial Reporting Standard 17

The following are references to the IFRS 17 referred to in this Practical Guidance:

Name of the IFRS17 Topics	Reference in IFRS 17 (Paragraph)
Scope of contracts	1-10
Separating components from an insurance contract	10, 11, 12, 13, B31, B32, B33, B34, B35

Scope of an insurance contract (paragraphs 1-10)

Objective

1 IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of *insurance contracts* within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

2 An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

Scope

3 An entity shall apply IFRS 17 to:

- (a) insurance contracts, including reinsurance contracts, it issues;
- (b) reinsurance contracts it holds; and
- (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

4 All references in IFRS 17 to insurance contracts also apply to:

- (a) reinsurance contracts held, except:
 - (i) for references to insurance contracts issued; and
 - (ii) as described in paragraphs 60–70A.
- (b) investment contracts with discretionary participation features as set out in paragraph 3(c), except for the reference to insurance contracts in paragraph 3(c) and as described in paragraph 71.

5 All references in IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held.

6 Appendix A defines an insurance contract and paragraphs B2–B30 of Appendix B provide guidance on the definition of an insurance contract.

7 An entity shall not apply IFRS 17 to:

- (a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see IFRS 15 Revenue from Contracts with Customers).
- (b) employers' assets and liabilities from employee benefit plans (see IAS 19 Employee Benefits and IFRS 2 Share-based Payment) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans).
- (c) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items: see IFRS 15, IAS 38 Intangible Assets and IFRS 16 Leases).
- (d) residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 and IFRS 16).
- (e) financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The issuer shall choose to apply either IFRS 17 or IAS 32 Financial Instruments: Presentation, IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.
- (f) contingent consideration payable or receivable in a business combination (see IFRS 3 Business Combinations).
- (g) insurance contracts in which the entity is the policyholder, unless those contracts are reinsurance contracts held (see paragraph 3(b)).
- (h) credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see IFRS 9 and other applicable IFRS Standards). However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(e)(iv) of IFRS 9) that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

8 Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply IFRS 15 instead of IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

- (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- (b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and
- (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either IFRS 17 or IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of IFRS 17 by paragraph 7. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

9 A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a *service component* (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

**Separating components from an insurance contract
(paragraphs 10-13)**

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

- (a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.
- (b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.

12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall:

- (a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and
- (b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that:
 - (i) cash outflows that relate directly to each component are attributed to that component; and
 - (ii) any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

13 After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).

**Separating components from an insurance contract
(paragraphs B31-B35)**

Investment components (paragraph 11(b))

B31 Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:

- (a) the investment component and the insurance component are not highly interrelated.
- (b) a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

B32 An investment component and an insurance component are highly interrelated if, and only if:

- (a) the entity is unable to measure one component without considering the other. Thus, if the value of one component varies according to the value of the other, an entity shall apply IFRS 17 to account for the combined investment and insurance component; or
- (b) the policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component.

Promises to transfer distinct goods or non-insurance services (paragraph 12)

B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or non-insurance services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34 A good or non-insurance service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

B35 A good or non-insurance service that is promised to the policyholder is not distinct if:

- (a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and
- (b) the entity provides a significant service in integrating the good or non-insurance service with the insurance components.

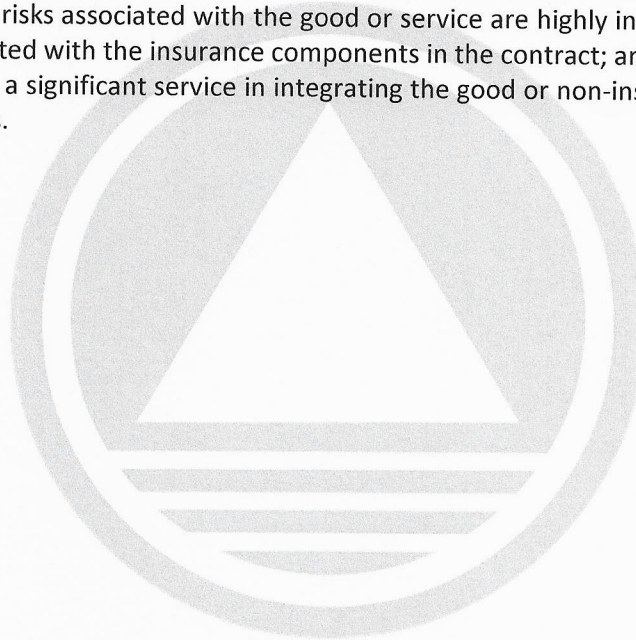
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- (a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and
- (b) the entity provides a significant service in integrating the good or non-insurance service with the insurance components.



3.0 Practical Guidance

3.1 Singular Product

The singular product usually cover a single risk within the contract being issued.

There would be usually no unbundling for singular products (products marketed as one unit/contract). There are also instances where “multiple risks contract” represents a policy contract issued (one product) but it covers various risk classes. For instance, Comprehensive General Liability Insurance can be tailored to meet your specific business needs, covering the client for public and product liabilities in one single product. Another example is motor insurance usually covers property and casualty risks within a contract. The industry in the neighbouring countries usually do not unbundle the “multiple risks contract” into premium class level as we go through the decision factors. The main risk within the “multiple risks contract” shall be the identity of the contract.

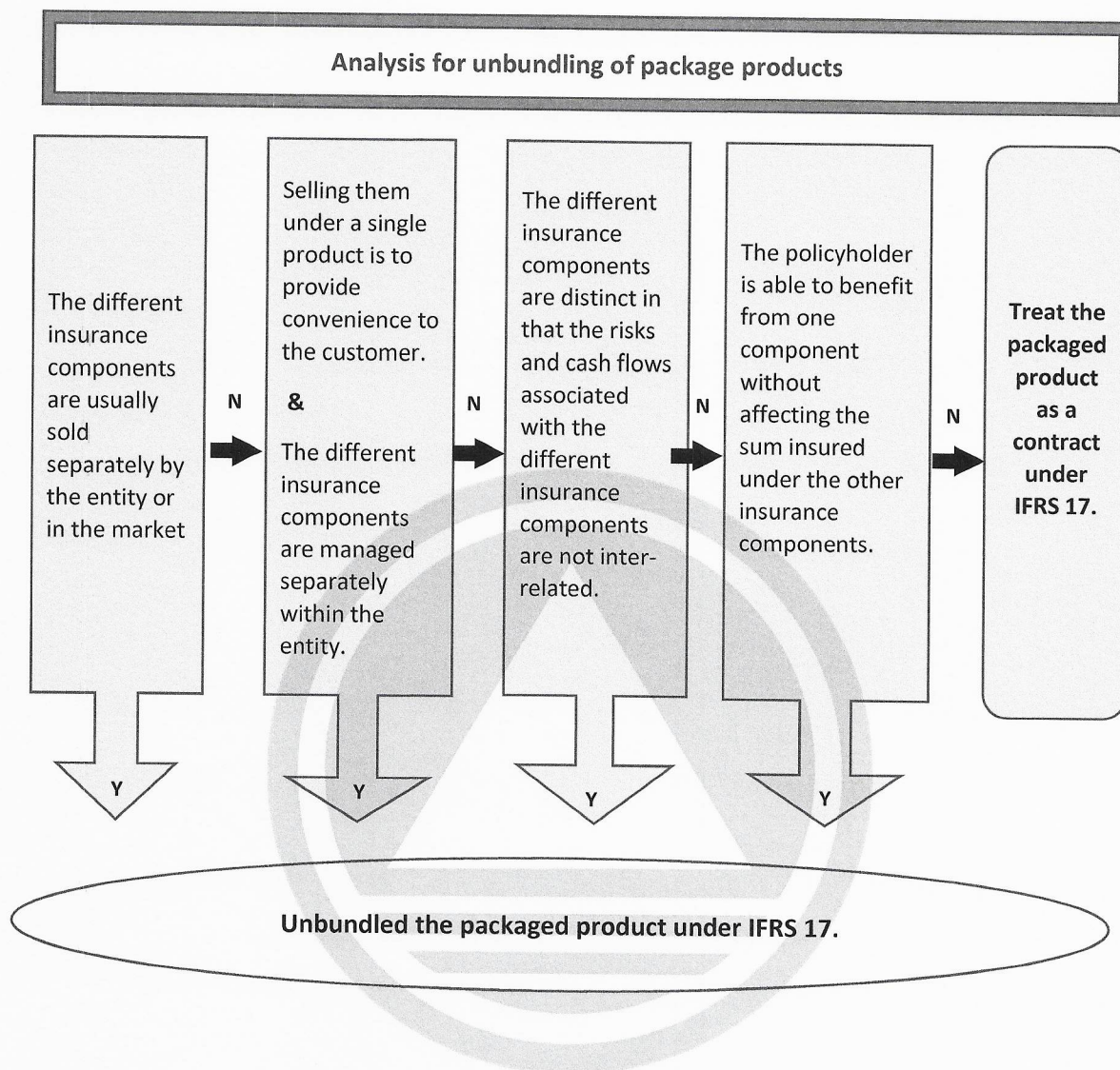
“Multiple risks contract” is different from a package product sold with “multiple singular products” issued to the policyholder from the legal (form) perspective. Multi risks contract is often misread as product with multiple premium classes. Since the legal form of the insurance contract is the most granular unit of account, further split into component by premium class requires assessment of the “substance over form” which need be done strictly and prudently. In the case which general comprehensive liability components are priced separately in this market, that information alone is insufficient to conclude whether a general comprehensive liability policy should be unbundled into components. The decision is still subject to other criteria such as whether the components will lapse together or terminate together upon a claim.

3.2 Package Product

A contract view has to be applied in order to determine whether the package products are considered together as one contract. This view is based on the principle of substance over form (economic over legal), e.g., different contracts of a package are unbundled if each product can economically be bought as a stand-alone contract in the market. There would be usually unbundling for package products if this is the case when we go through the decision tree.

Factors to consider whether to unbundle contracts include:

Factors to consider for unbundling	Example
The different insurance components are usually sold separately by the entity or in the market.	Group Employee Benefits which provide coverage for Group Personal Accident and Group Travel.
Selling them under a single product is to provide convenience to the customer.	The entity designs an all-risk product which provides multiple coverage for different business risks such as personal accident, public liability, fire damage, business interruptions and provide options for policyholders to add on other types of coverage from a selected list. This product is designed based on feedback from customers who wanted something simple to manage their insurance needs instead of having multiple policies with different insurers.
The different insurance components are managed separately within the entity.	Motor coverage are managed by the Motor team whereas personal accident products are managed by the A&H team. The teams are treated as different profit centers within the company when product line profit & loss is prepared.
The different insurance components are distinct in that the risks and cash flows associated with the different insurance components are not inter-related.	A business insurance contract that provides cover for workmen injury compensation, property all risks, group personal accident and professional liability where the cancellation of one risk will not affect the other components.
The policyholder is able to benefit from one component without affecting the sum insured under the other insurance components.	A commercial contract that includes coverage for workers compensation and general liability coverage.



3.3 Non-Insurance Components

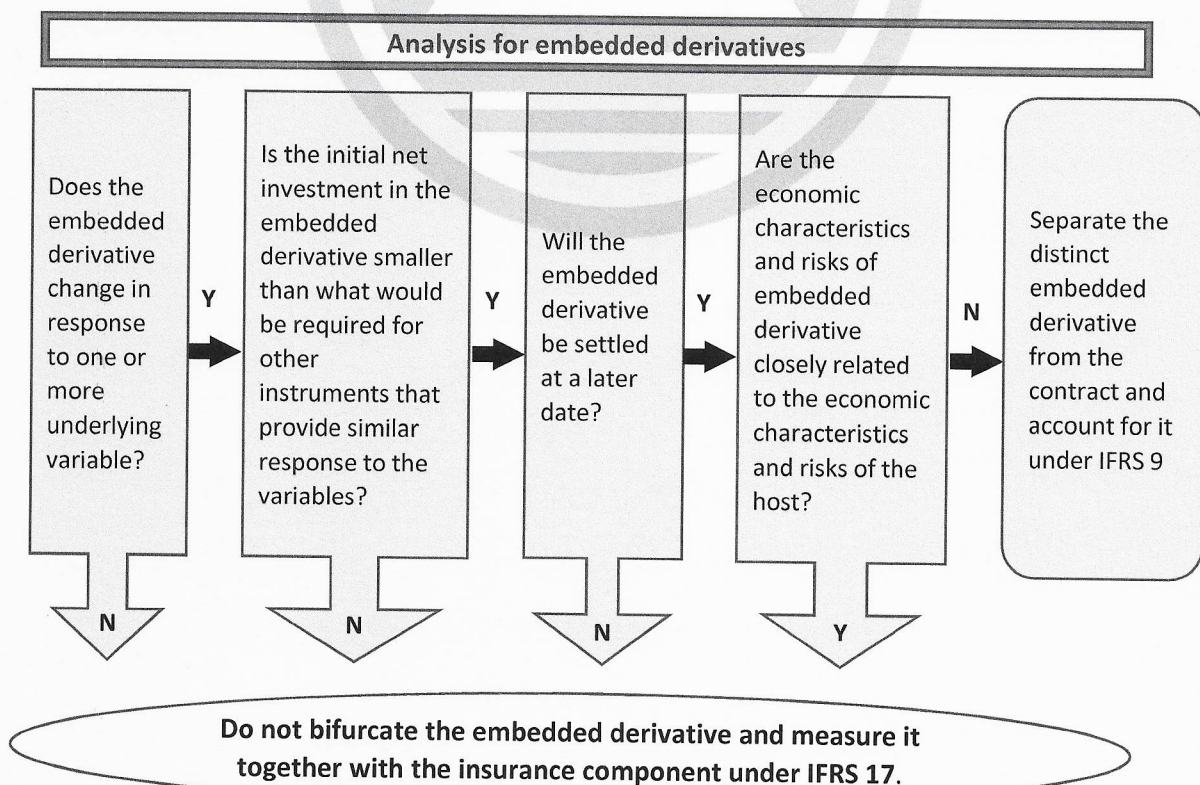
Embedded derivatives

An embedded derivative is defined as a derivative component of a hybrid insurance contract that includes both a non-derivative host contract and one or more embedded derivatives. In accordance with IFRS 17.11, an entity shall apply IFRS 9 when determining if embedded derivatives within insurance contracts require separation.

IFRS 9 defines a derivative as a financial instrument or other contract within the scope of IFRS 9 with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- it is settled at a future date.

Generally, embedded derivatives are not commonly present in non-life/property & casualty insurance contracts. Example of embedded derivatives are credit derivative insurance and weather insurance. However, where an embedded derivative has been assessed to be separated from an insurance contract, IFRS 9 requires the measurement of the embedded derivative to be through fair value through profit or loss ("FVTPL"). FVTPL is used as it is the only measurement basis that provides relevant information about derivatives. If derivatives were measured at cost or at fair value through other comprehensive income, their role in reducing or increasing risk would not be visible. In addition, the value of derivatives often changes disproportionately in response to market movements and fair value is the measurement basis that best captures such non-linear responses to changes in risk. That information is essential to communicate the nature of the rights and obligations inherent in derivatives to users of financial statements.



Investment Component

The Standard defines investment component as “the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs”. An investment component is classified as being either distinct or non-distinct.

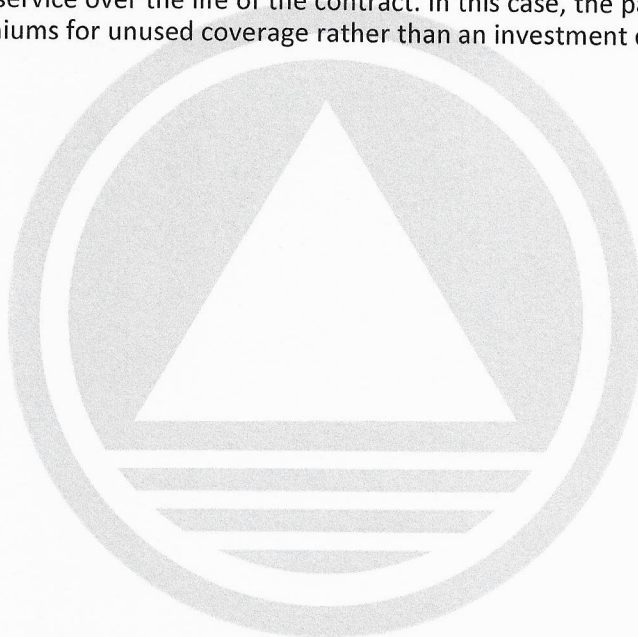
The presence of non-distinct investment components can be an indication for the presence of a financing component in the insurance contract. Non-distinct investment components are accounted for together with the insurance component. However, receipts and payments from these investment components are excluded from insurance contract revenue and insurance service expenses presented in profit or loss (IFRS 17.85).

Determining whether an insurance contract includes an investment component

In determining whether the contract requires the entity to make a payment in all circumstances, the following references in the standard should be considered:

- a. paragraphs 10–13 of IFRS 17 require an entity to assess at inception whether an investment component is separated from an insurance contract. To make that assessment, the entity determines whether the contract includes an investment component at inception.
- b. different events can trigger a payment to a policyholder under an insurance contract. For example, a payment could be due because the policyholder terminates the contract, an insured event occurs, or the contract reaches its expiry. The insurance contract includes an investment component only if a payment would occur in all circumstances. In this regard, entity is required to assess the following three scenarios:
 - i. Policyholder terminates the contract
 - ii. An insured event occurs
 - iii. The contract reaches expiry
- c. paragraph B18 of IFRS 17 states that an entity needs to assess the insurance risk excluding scenarios that have no commercial substance (ie no discernible effect on the economics of the transaction). Hence, for the purpose of determining if an insurance contract includes an investment component the entity needs to assess whether scenarios in which no payments are made have commercial substance. The entity does not consider a scenario for which no payment is made if that scenario has no commercial substance. For example, we do not assume an illogical scenario where the policyholder terminates his contract a month before expiry date because it neither pays for termination nor refund at expiry.

- d. in some scenarios, the amount of the payment could be zero. However, this does not necessarily mean that no investment component exists. For example, an entity would need to consider whether a scenario in which the amount of payment is zero arises from:
 - i. a payment that an entity makes to the policyholder early in the coverage period that might reduce the investment component to zero later in the coverage period.
 - ii. the policyholder's decision to use a payment due from the entity to settle amounts due to the entity. This might be the case when the policyholder decides to terminate a contract early in the coverage period and uses a surrender amount to pay premium due that are equal to or higher than the surrender amount, or when the policyholder has the option to use an experience refund amount to renew the insurance coverage. In these examples, the fact that the policyholder chooses to use a payment it is due to fund payments to the entity does not mean the entity is not required to make payments in all circumstances. This is because settling amounts due on a net or gross basis should not affect the outcome of the assessment of whether an investment component exists.
- e. a payment amount calibrated to reflect outstanding future periods in which a service is provided that may indicate that the policyholder is entitled to a premium refund reflecting its consumption of service over the life of the contract. In this case, the payments may represent a refund of premiums for unused coverage rather than an investment component.



Investment Component

Assessing whether an investment component is distinct

Paragraph 11 of IFRS 17 states:

An entity shall:

[...]

(b) *separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.*

Paragraph BC114 of the Basis for Conclusions on IFRS 17 explains that an entity is prohibited from separating an investment component from an insurance contract when not required to do so by paragraph 11(b) of IFRS 17 (ie when an investment component is not distinct).

Paragraph B31 of IFRS 17 states that an investment component is distinct if, and only if, two conditions are met, as follows:

[...] *An investment component is distinct if, and only if, both the following conditions are met:*

- (a) *the investment component and the insurance component are not highly interrelated.*
- (b) *a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.*

An investment component needs to be separated if and only if the answers to all of the following questions are positive.

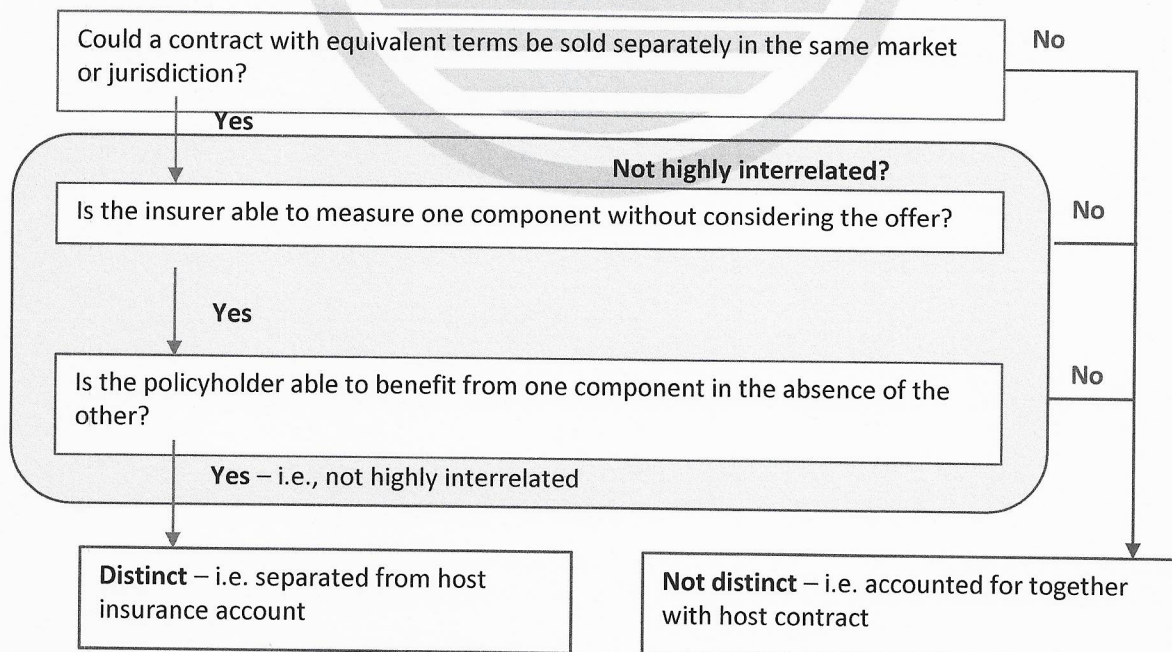


Figure 1: Separation of Investment Component

Service Components

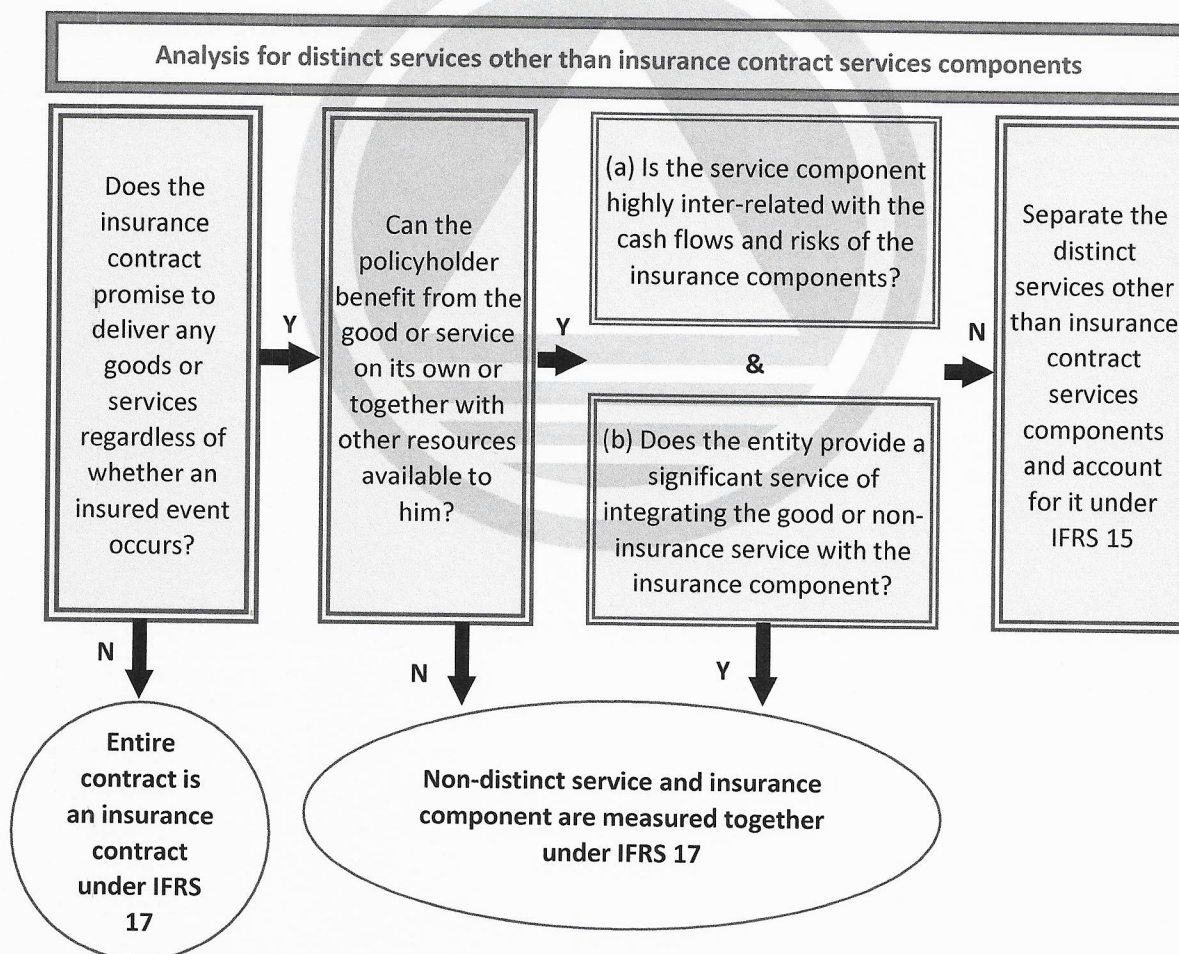
Under the requirements of IFRS 17, an entity would need to identify service components within each premium that it receives. Once such service components are identified, an assessment would be performed to determine whether the service components are required to be separated from the host.

As per IFRS 17.B33 and 17.B34, if the provision of goods or services is distinct, it is to be separated from the insurance contract. Goods or services are considered distinct if the policyholder can benefit from the goods or services either on its own, or with other resources.

In contrast, as stated in IFRS 17.B35, the provision of goods or services is not distinct if the cash flows associated with the good or service are highly interrelated with those of the insurance components, or if the entity provides a significant integration service.

Hence, the criteria for analysis considers whether the components are:

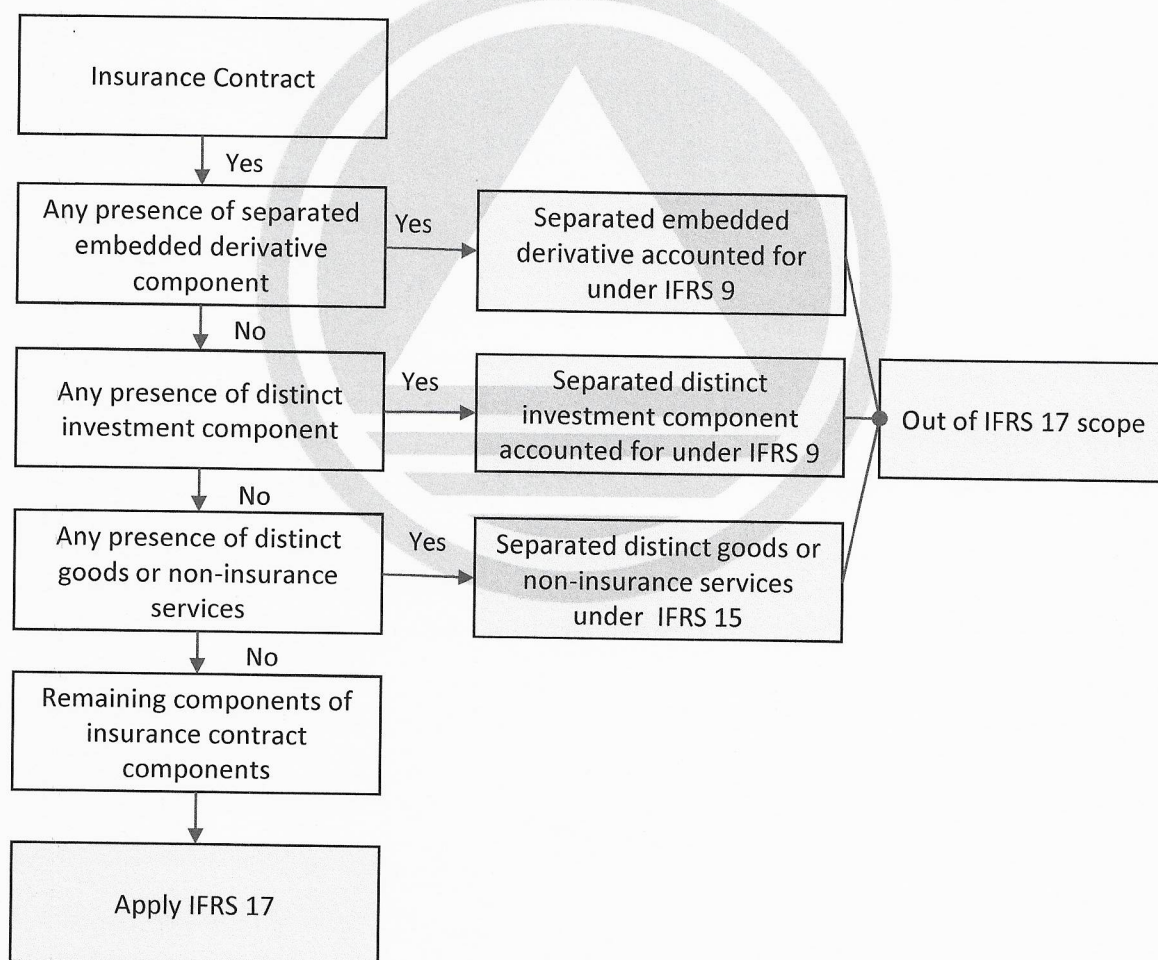
1. Highly inter-related; and
2. If there is a “significant service of integrating” the good and services within the insurance components



Payments in kind (IFRS17.B6) Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind.

For contracts that meet the definition of an insurance contract, but their primary purpose is the provision of service for a fixed fee, an entity can always choose to apply IFRS 17 or IFRS15 regardless whether the service component is distinct or non-distinct. The example of entities that primary purpose provision of service is motor pool administrator provided by MMIP in Malaysia and RVP in Thailand.

3.4 Separation of Contract Process Flow



4.0 Illustrations

4.1 Singular Product and Package Product

Examples of singular products:

Contract features	Analysis	Conclusion
1. Fire product for multiple personal line risks	The different insurance components are not managed separately within the entity. These components are a. Fire, Lightning, Explosion, Water Damage, Aircraft Impact and Vehicle Impact, Windstorm, Smoke, Earthquake b. Burglary, Robbery, Gang Robbery c. Loss of Jewelry and watch due to Burglary, Robbery, and Gang Robbery within premise d. Electrical Injury e. Plate Glass Insurance f. Public Liability Insurance Cancellation of one component may result in the entire policy being cancelled. The policyholder is able to benefit from one component without affecting the sum insured under the other insurance components.	No unbundling because it is not a package product.
2. Motor/Fire add-ons	The different insurance components are not managed separately within the entity. These components (e.g. Class 2+ 3+) are a. Third Party Liability Protection b. Driver and Passenger Protection c. Car Protection Cancellation of one component may result in the entire policy being cancelled. The policyholder is able to benefit from one component without affecting the sum insured under the other insurance components.	No unbundling because it is not a package product.
3. Excess of loss treaties covering multiple lines	The different lines are not managed separately within the entity. The multiple lines are not distinct. The risks and cash flows associated with the different lines not inter-related. The cedant is unable to benefit from one component without affecting the sum insured under the other insurance components.	No unbundling because it is not a package product.

ลิขสิทธิ์ของสมาคมประกันวินาศภัยไทย ห้ามนำไปใช้ในการแสวงหากำไรทางการค้า

Examples of package product: The different insurance components are managed separately within the entity. Cancellation of one component may not result in the entire policy being cancelled. The policyholder is able to benefit from one component without affecting the sum insured under the other insurance components. Limit for each component is separate.

Contract features	Analysis	Conclusion
1. Small Medium Enterprise (SME)	The package is designed to be multi-line. The coverage is provided with a variety of coverage options: a. Property All Risks b. Business Interruption c. Burglary d. Electronic Equipment e. Machinery Breakdown f. Plate Glass g. Money h. Public Liability As we can see the optional coverages comprises of products that ranging from engineering, property and miscellaneous others. For SME, a link is attached as Item 1 in Appendix section as a reference for practical examples of package products.	Unbundling is required for most of the time for SME products as there are different risk classes offered on optional basis. However, not every SME product requires unbundling, as different decision will be made on every distinct SME product depending on the situation. For instance, some companies offer SME "multiple risks contract". It represents a policy contract issued (one product) but it covers various risk classes on a compulsory basis.
2. Condominium insurance - a type of insurance commonly bought by the condominium management for common areas.	The condominium building management would normally insure the building and common areas under a combo fire insurance policy plus an industrial "all-risks" policy. The charge for this insurance is sometimes included in the monthly service fee paid to the condo juristic person, or alternatively paid once a year as a separate item for which the residents would receive a separate invoice for their allocated share.	Unbundling is required for most of the time for condominium products as there are different risk classes offered on an optional basis. However, not every condominium product requires unbundling, as different decision will be made on every distinct condominium product depending on the situation. For instance, some companies offer only one policy contract (one product) but it covers various risk classes on a compulsory basis.

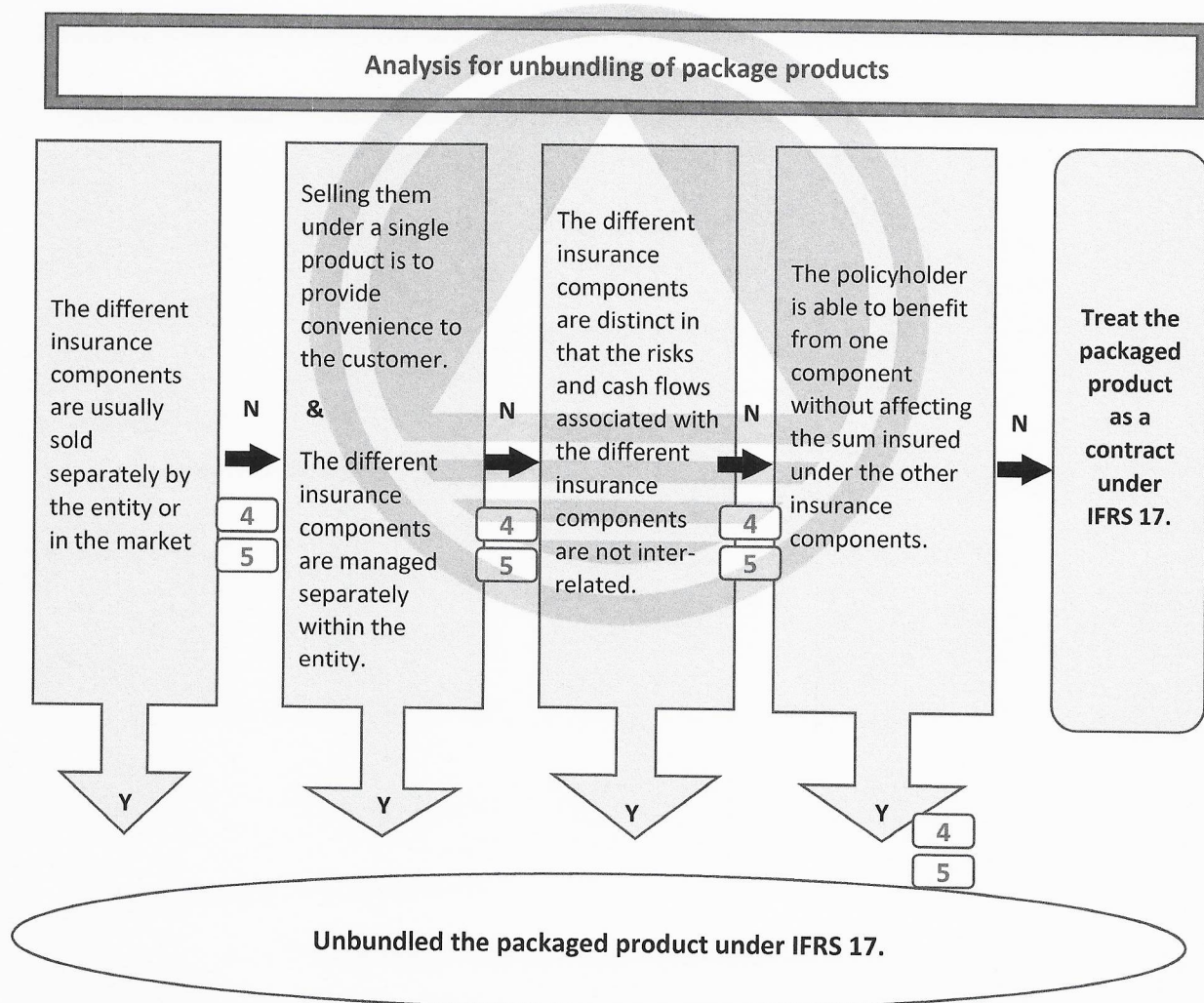
4.0 Illustrations

4.1 Singular Product and Package Product

The analysis below aims to guide the member to apply the principles of the standard with specific examples. Member companies may apply the guidance according to their products terms and conditions.

Legend

- 1 Fire product for multiple personal line risks
- 2 Motor/Fire add-ons
- 3 Excess of loss treaties covering multiple lines
- 4 Small Medium Enterprise (SME)
- 5 Condominium Insurance



Due to the fact that the first three products are singular products, they are not included in the decision tree.

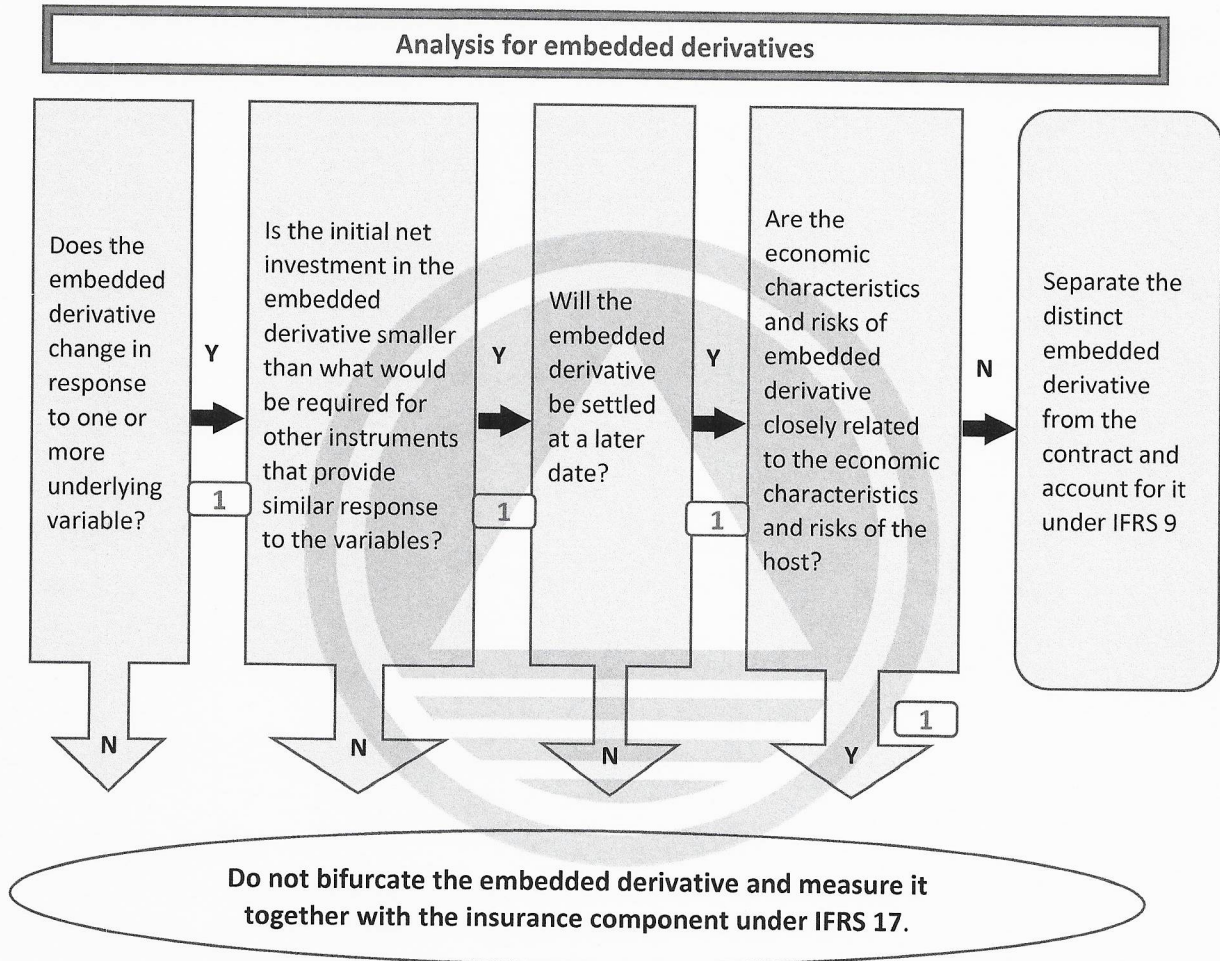
4.2 Embedded Derivatives

Contract feature	Analysis	Conclusion
1. Rates of Exchange Clause <i>"It is hereby noted and agreed that where the Sum Insured is in US, Euro, Swiss Francs, Korean Won, Reminbi and Australian Dollars and a claim is to be settled in Thai Baht, the exchange rate, used in the claim adjustment shall be the same as the exchange rate adopted in charging the premium of the corresponding monthly declaration under the policy. The said exchange rate is the average exchange rate based on the T/T rate of the CitiBank on each working day of the month of the shipment date."</i>	The embedded derivative is a currency cash flow hedge where the policyholder is protected from the fluctuation of currency rate towards its eligible claim amount in functional currency. Given that the embedded derivative is an exposure forex risk, a form of financial guarantee (i.e. pre-agreed currency) on the foreign exchange rate for claims, the economic characteristics is considered to be highly inter-related to the characteristic of the host (i.e. performance of the embedded derivative is closely linked to the performance of the insurance component).	This is an embedded derivative not separated from the host contract. It will be measured together with the insurance component under IFRS 17, hence either PAA or GMM will apply. The effects of financial risks shall be accounted in insurance finance income or expenses when measured using the GMM.

The analysis below aims to guide the member to apply the principles of the standard with specific examples. Member companies may apply the guidance according to their products terms and conditions.

Legend

1 Rates of Exchange Clause



4.3 Investment Component

Examples of Non-Distinct Investment Components ("NDIC") :

Contract features	Analysis	Investment component ? Distinct or non-distinct ?
1. No Claim Bonus (NCB) with contingent on renewal A no claim bonus is a feature whereby the insurer pays a bonus (amount dependent on the contractual terms and conditions of the contract) to the insured if, at the end of the contract, no claims were declared to the insurer.	The features indicated are similar in nature as relate to amounts refunded/paid to policyholders based on the experience of their policy. These features are common for Motor and Marine policies. The NCB could be deemed as a deposit which is available in the market in accordance with B31(b). However, the NCB is highly interrelated with insurance event because if claim ratio is higher than criteria then there will be no NCB which is in accordance with B32(b).	Yes Analysis: Claim ☒ Cancel ☒ Expiry ☒ This does meet the definition of distinct investment component under IFRS 17. Hence features are to be measured together with the insurance component under IFRS 17.
2. No Claim Refund with contingent on renewal The contract promises a no claim refund of 10% of the premiums paid in respect of the preceding Policy year. The bonus is contingent on renewals (i.e. if insured does not renew, no bonus will be paid out)	The same interpretation also applies to No Claims Refund and Experience Refund. It is unique practice in the non-life insurance where the NCB, no claim refund and experience refund will be payable through endorsement of the contract. Had this modification been done on inception, the contract will be measured for the non-distinct investment component. Moreover, the standard requires the assessment of investment component at the policy level, hence those policies with this endorsement would then legally bind the insurer to pay in all circumstances.	Yes Analysis: Claim ☒ Cancel ☒ Expiry ☒ This does meet the definition of distinct investment component under IFRS 17. Hence features are to be measured together with the insurance component under IFRS 17.
3. Experience Refund with contingent on renewal The contract promises a return of premium of 15% to the insured at the end of the contract term if the loss ratio does not exceed 50%. The refund will be calculated 3 months after the date of policy expiry and is subject to renewal.		Yes Analysis: Claim ☒ Cancel ☒ Expiry ☒ This does meet the definition of distinct investment component under IFRS 17. Hence features are to be measured together with the insurance component under IFRS 17.

Examples of Non-Distinct Investment Components ("NDIC") :

Contract features	Analysis	Investment component ? Distinct or non-distinct ?
4. Experience Refund with no contingent on renewal The insured shall be entitled to a premium rebate at the expiry of each period of Insurance if the loss ratio is under a certain threshold.	This is a non-distinct investment component as: 1) The measurement of the investment component depends on the performance of the insurance component; and 2) There are no contingencies on renewals It is unique practice in the non-life insurance where the NCB, no claim refund and experience refund will be payable through endorsement of the contract. Moreover, the standard requires the assessment of investment component at the policy level, hence those policies with this endorsement would then legally bind the insurer to pay in all circumstances.	Yes Analysis: Claim ☒ Cancel ☒ Expiry ☒ This does meet the definition of distinct investment component under IFRS 17. Hence features are to be measured together with the insurance component under IFRS 17.

Examples of Non-Distinct Investment Components ("NDIC") :

Contract features	Analysis	Investment component ? Distinct or non-distinct ?
5. No Claim Bonus with no contingent on renewals - Policyholders are not entitled to pro-rated no claim bonus if the policy is cancelled before the policy expiry date. A no claim bonus is a feature whereby the insurer pays a bonus (amount dependent on the contractual terms and conditions of the contract) to the insured if, at the end of the contract, no claims were declared to the insurer.	If the company distributes a Personal Accident product via bancassurance channel with a no claim bonus contingent on renewal. While it is contractually defined that the no claim bonus is contingent on renewal - in practice, the company pays out the no claim bonus to the policyholder event even if no renewal from the policyholder. If the policy is cancelled mid-term (i.e. between inception and expiry date), the company does not refund any amount related to the no claim bonus to the policyholder. Effectively, the cancellation of the policy during mid-term by the policyholder would result in a forfeiture of the no claim bonus. It is unique practice in the non-life insurance where the no claim bonus will be payable through endorsement of the contract. Had this modification been done on inception, the contract will be measured for the non-distinct investment component. Moreover, the standard requires the assessment of investment component at the policy level, hence those policies with this endorsement would then legally bind the insurer to pay in all circumstances.	Yes Analysis: Claim ☒ Cancel ☒ Expiry ☒ This does meet the definition of distinct investment component under IFRS 17. Hence features are to be measured together with the insurance component under IFRS 17.

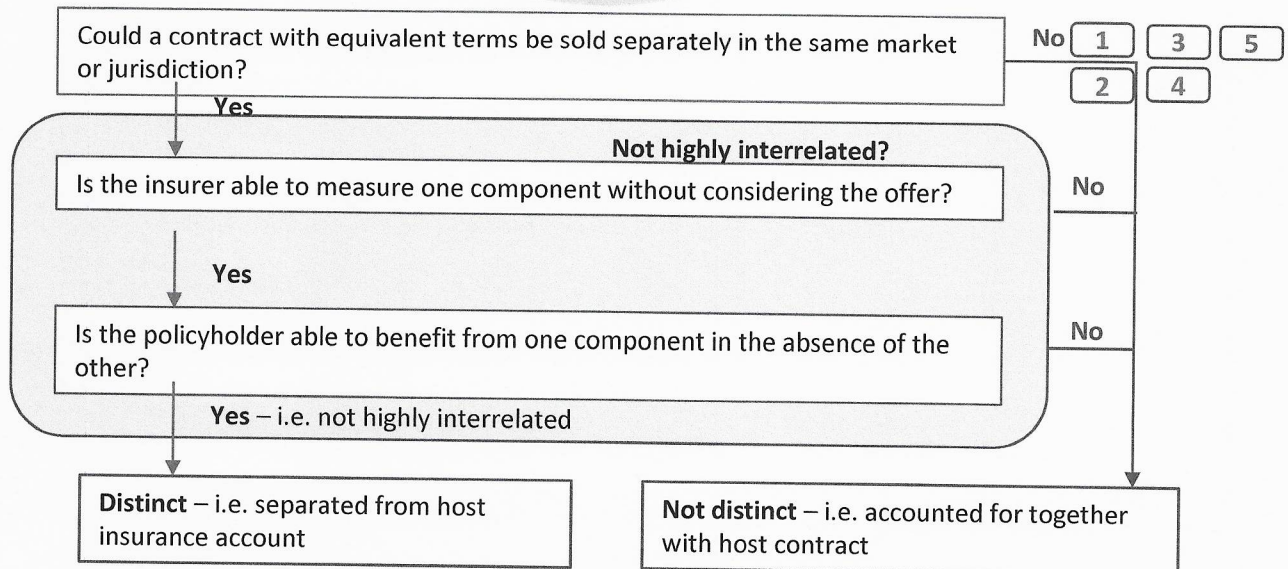
Examples of Non-Distinct Investment Components ("NDIC") :

Contract features	Analysis	Investment component ? Distinct or non-distinct ?
6. Reinsurer's profit commission – For some proportional treaties, profit commission is offered when the treaty is profitable for an accounting period.	Since it is highly dependent on claims occurring on the (re)insurance component, it is a non-distinct investment component. In the event of no claim event occurs, if the reinsurer's profit commission still has an amount refundable to insurer (policyholder of reinsurer), it does meet the definition of an investment component under IFRS 17 for reinsurer. Otherwise it does not meet the definition of repayment in "all circumstances". However, from the insurer perspective, this is not an amount repaid to the policyholder, hence it does not meet the definition of an investment component under IFRS 17 for insurer.	No Analysis: Claim ☒ Cancel ☒ Expiry ☒ This is not a non-distinct investment component for insurer. Refer to Practical Guidance on Reinsurance Treatment for the assessment from the reinsurer perspective.

The analysis below aims to guide the member to apply the principles of the standard with specific examples. Member companies may apply the guidance according to their products terms and conditions.

Legend

- ☐ 1 No Claim Bonus (NCB) with contingent on renewal
- ☐ 2 No Claim Refund with contingent on renewal
- ☐ 3 Experience Refund with contingent on renewal
- ☐ 4 Experience Refund with no contingent on renewal
- ☐ 5 No Claim Bonus with no contingent on renewals
- ☐ 6 Reinsurer's profit commission



Due to the fact that the Reinsurer's profit commission is not an investment component, it is not included in the decision tree.

4.4 Service Component

Contract features ("clauses" in <i>italic</i>)	Analysis	Conclusion
1. Home Assistance <i>"This Policy gives You access to a 24-hour the company Assist Helpline. The company Assist Helpline only provides referral information and arrangement assistance."</i>	The following fact pattern was observed: 1. Helpline is offered not just for claim purpose (insured event) 2. Policyholder can access to home assistance service on its own without claiming benefits 3. Helpline is offered to facilitate claims insured by the benefits. The assistance is mentioned in the insurance contract. This is in accordance with B35.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to the insurance portfolio.
2. Travel Assistance/SOS <i>"The available benefits include (i) Hospital and Related Services, (ii) Increased International Cover, (iii) Overseas Emergency Medical Evacuation, Repatriation and/or Repatriation or Local Burial of Mortal Remains or Local Cremation, (iv) Compassionate Grant, (v) Legal assistance. The Emergency assistance are linked to the benefits under the insurance contract which is not available directly to the policyholder unless an insured event occurs."</i>	The following fact pattern was observed: Travel Assistance/SOS 1. The assistance is offered just for event related to claim purpose (insured event) 2. The assistance is promised when insured event happens 3. The assistance is offered in the insurance benefit. The assistance is mentioned in the insurance contract.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to a group.
3. Dental Appointment Services <i>"The available benefits include (i) Emergency Dental Services Benefits; (ii) Preventive Dental Benefits; (iii) Dental Radiology Benefits; (iv) Conservative Benefits (Fillings); (v) Extraction Benefits (Non-Surgical); and (vi) Endodontic Benefits (Root Canal Treatment) (For VIPs only).</i> <i>As part of the policy, policyholders are also provided with a 24-hour dental assist hotline that provides them with the following services – (i) Policy coverage enquiries; (ii) Locate a contracted dentist; and (iii) Advice on claims procedure for out-of-contract dentist."</i>	Dental Appointment Services 1. The assistance is offered just for claim purpose (insured event) 2. The assistance is promised when insured event happens 3. The assistance is offered in the insurance benefit. The assistance is mentioned in the insurance contract.	

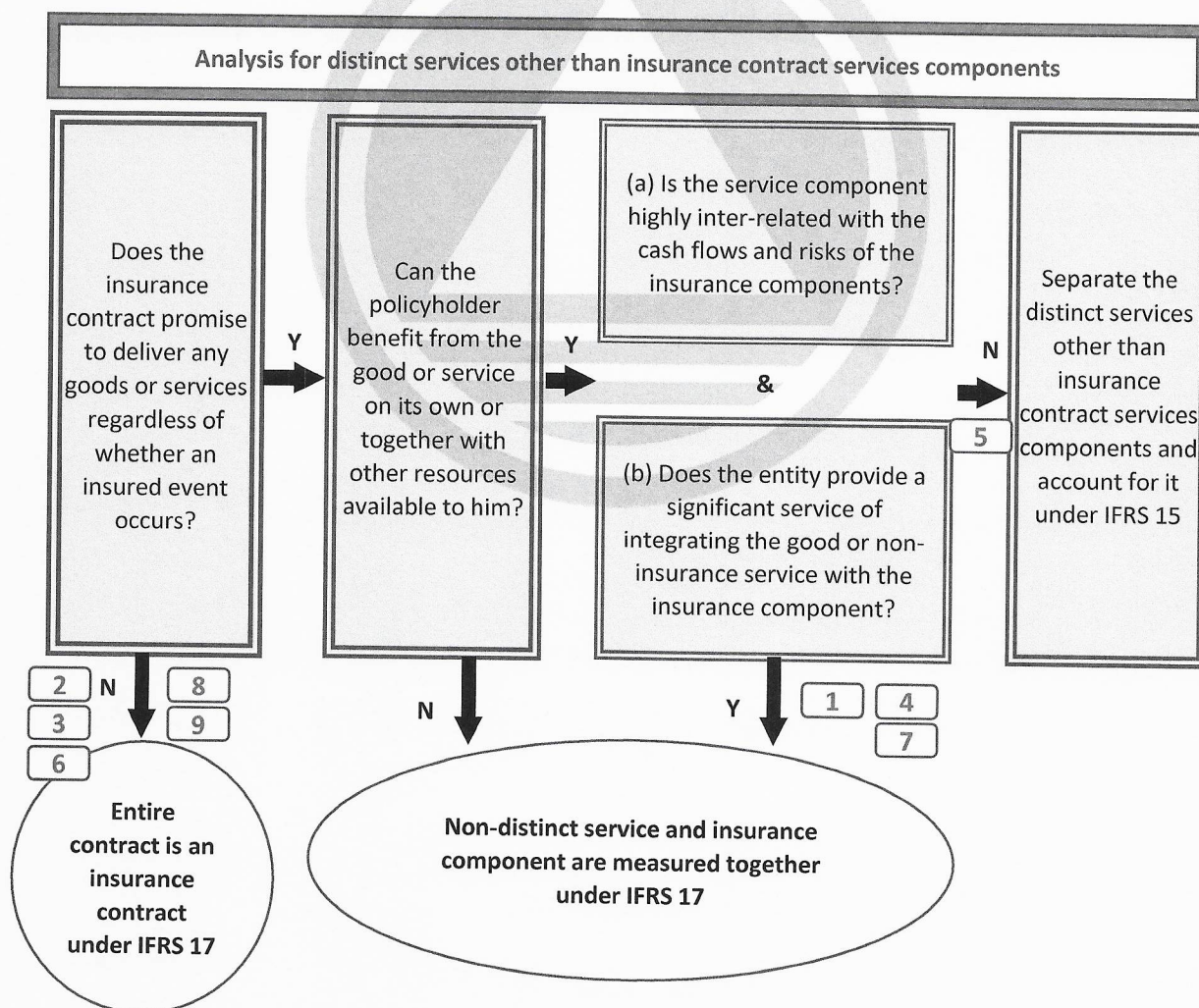
Contract features	Analysis	Conclusion
4. Telematics services / Paramedics <i>"A telematics device is equipped to the insured vehicle providing real time feedback and tips for safer motoring.</i> <i>The telematic device stores information on the behavior of the vehicle (i.e. speed of vehicle, driving patterns etc), and drivers with good drive score will be rewarded with savings on their policy excess and renewal premiums"</i> The telematics services are integrated with the claims payments and will not be available when the insurance component is terminated.	The following fact pattern was observed: 1. Telematics/paramedics is offered not for claim purpose (insured event). 2. Policyholder can access to telematics/paramedics on its own when buying the policy. 3. Telematics/paramedics is offered to facilitate more accurate premium rating by the benefits. The assistance is mentioned in the insurance contract. This is in accordance with B35.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to its the insurance portfolio.
5. Roadside Assistance (1) Services are outsourced and paid to independent suppliers. There are no contractual wordings in the policy, but the company bundles the main product with the service via specific campaigns.	1. The policy holder is able to enjoy the service without insured event occurred eg. towing, fuel refill, locksmith assistance, battery service, etc. Policyholder can access to telematics/paramedics on its own when buying the policy. 2. There is no contract wording. 3. The roadside assistance is available in the market without the insurance policy purchase. (ref definition in B34 for purchase from other entity)	From the analysis, the service features are service components. Materiality (to be determined) at entity level.
6. Roadside Assistance (2) The insurance coverage associated with the roadside assistance: Loss or Damage, Loss or Damage to Windscreen or Window and In-Vehicle Unit (IU) Protection and Removal after Accident, Authority to Repair, 24-hr emergency service.	The following fact pattern was observed: 1. The assistance is offered just for claim purpose (insured event) 2. The assistance is promised when insured event happens 3. The assistance is offered in the insurance benefit. The assistance is mentioned in the insurance contract.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to a group.

Contract features	Analysis	Conclusion
7. Loss Prevention Service / Risk Management Service <i>"The company provides advises to insured how to improve workplace safety, and risk management on insured premise for free of charge. The company employs a safety engineer to perform the service for its own client only. "</i>	The following fact pattern was observed: 1. The advice is offered not just for claim purpose (insured event) 2. Policyholder can advice on its own 3. The service is integrated with insured event the service is provided to minimize risk from insured events. This is in accordance with B35.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to the insurance portfolio.
8. High wealth (Health high-sum ins.) / Doctor Second Opinion) <i>"Provide independent second opinion for serious illnesses from World Leading Medical Centers for members diagnosed with a life-threatening illness."</i>	The following fact pattern was observed: 1. The doctor second opinion is offered just for illness related for claim purpose (insured event) 2. The doctor second opinion is promised when insured event happens 3. The doctor second opinion is offered in the insurance benefit. The assistance is group. mentioned in the insurance contract.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to a group.
9. Health Care Line <i>"Provide service to member for Primary Assistance, Telephone Medical Advice, Medical Service Provider Referral, Arrangement of hospital admission and Medical Tools and Equipment Provider Referral."</i>	The following fact pattern was observed: 1. The health care line is offered just for illness related for claim purpose (insured event) 2. The health care line is promised when insured event happens 3. The health care line is offered in the insurance benefit. The assistance is group. mentioned in the insurance contract.	From the analysis, the features are non-distinct service components. It is a form of expense directly attributable to a group.

The analysis below aims to guide the member to apply the principles of the standard with specific examples. Member companies may apply the guidance according to their products terms and conditions.

Legend

- 1 Home Assistance
- 2 Travel Assistance/SOS
- 3 Dental Appointment Services
- 4 Telematics services / Paramedics
- 5 Roadside Assistance (1)
- 6 Roadside Assistance (2)
- 7 Loss Prevention Service / Risk Management Service
- 8 High wealth (Health high-sum ins.) Doctor Second Opinion)
- 9 Health Care Line



5.0 Frequently Asked Questions

5.1 Multiple Risks Contract – Separation Requirements

Background

The term “multiple risks contract” represents a policy contract issued (one product) but it covers various risk classes on a compulsory basis. For instance, Comprehensive General Liability Insurance can be tailored to meet your specific business needs, covering the client for public and product liabilities in one single product.

This is different from a package with various singular products offered on optional basis. Multiple policies are issued for the package in various singular products.

Question 1:

It is assumed that the public and product liabilities are priced separately in different premium classes, do you think the contract should be separated for the purpose of IFRS17?

View A: Yes

View B: No

View C: No conclusion due to insufficient facts ☒

Explanation

View C

The sum insured is inter-related, e.g. claim of product liability may or may not affect the sum insured of the public liability. The practice may vary from company to company.

Question 2:

Can all risk product (IAR) be unbundled? This is a theoretical question.

View A: Yes ☒

View B: No

Explanation

View A

As an example, Industrial All Risk is a Multi Risk Contract. Its coverage includes not only all the "named perils" of fire insurance but also extends to "accidental damage" usually not listed under the fire insurance.

Multi Risk Contract is often misread as product with multiple premium classes. Since the legal form of the insurance contract is the most granular unit of account, further split into component by premium class requires assessment of the “substance over form” which is rare (but possible) from the view of a practitioner.

5.2 Premium Refund 'RoP'

Background

The IASB staff highlighted in the April 2019 TRG that it is necessary to distinguish between investment component and RoP as for some contracts there are repayments that are clearly not investment components but also are not representing any service e.g. a general insurance contract which is cancelled half way through its term with a pro rata repayment of premium.

Whilst there are accounting requirements in IFRS 17 for investment components, there are no explicit requirements for premium refunds.

Question 1:

Do you agree with the distinction between premium refunds and investment components?

View A: Yes ☒

View B: No

View C: No conclusion due to insufficient facts

Explanation

IASB clearly mentioned in the paper that premium refund due to termination of contract, in itself, is not a non-distinct investment components. The identification process shall begin with assessing three scenarios within contract boundary that can possibly happen to an insurance policy:

1. Insured event happens
2. Policyholder or insurer cancels policy
3. Policy expires

Question 2:

In some circumstances, insurer offer premium refund when claim is made due to non-disclosure by the policyholder, where the policyholder did not disclose the health conditions truthfully when the proposal form was submitted, resulting in claim rejection. How should the premium refund be accounted for when a claim is made (rather than the contract being terminated)?

* The question is asking whether such refund will result in lower insurance revenue or kept it in the insurance service expenses.

View A:

Exclude the premium refund from insurance revenue ☒

View B:

Do not exclude premium refunds from insurance revenue because it is deemed as an insurance claims.

Explanation

Premium refunds should be netted against premium. This is a claim eligible under the insured event.

Question 3 :

How is a difference between the expected premium refunds payable and the actual premium refunds payable accounted for (when applying GMM)?

View A:



A difference between actual and expected premium refund is an experience adjustment arising from premiums received and be reflected in the CSM via under B96(a).

View B:

A difference between actual and expected premium refunds should be treated the same way as investment components and be reflected in the CSM via B96(c).

View C:

A difference between expected premium refunds payable and actual premium refunds payable should not adjust the CSM and should instead be deducted from revenue as a current period experience variance.

Explanation

The explanation is technical in nature, and it should be read together with Practical Guidance on Contractual Service Margin & Coverage Unit; Onerous Contract.

Based on the facts given in the background, the actual premium refunds will affect the active policy count of the period end valuation hence affecting the future servicing insurance cash flows. Hence the difference between the expected premium refunds payable and the actual premium refunds payable should be offset with other changes in fulfilment cash flows for a holistic experience adjustment made to the CSM via under B96(a), B96(b) & B96(d).

5.3 Investment Component

Background

Investment component is the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.

An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a component for services other than insurance contract services (or both).

Question 1:

How to determine whether an investment components exist in the insurance contract?

Explanation

In non-life insurance, the identification process shall begin with assessing three scenarios within contract boundary that can possibly happen to an insurance policy:

1. Insured event happens
2. Policyholder or insurer cancels policy
3. Policy expires

Investment component exists if the insurer is required to pay any amount to policyholder in three scenarios. Scenario that has commercial substance means a decision that will benefit a rationale person (economic effects), e.g. policyholder will not cancel a policy in the last month before expiry date if they can expect a premium refund benefit on expiry.

Below is an illustration of how we can identify the investment component at the policy level:

Facts provided: In a yearly non-life insurance that promises experience refund, it rewards policyholder for favorable claim experience. This amount will be payable through endorsement of the contract when the contract expires. There is a prorated amount of premium if policy is cancelled before the 12th month.

Step 1: Outline the three scenarios for analysis.

1. Insured event happens
2. Policyholder or insurer cancels policy
3. Policy expires

Step 2: Analyse scenario when insured event happens.

Policyholder will receive policy benefits, policy is then terminated.

Step 3: Analyse scenario when policyholder or insurer cancels policy.

Policyholder will receive prorated premium refund if the policy is cancelled before the 12th month. Policyholder will receive policy cancellation refund benefits, policy is then terminated.

Step 4: Analyse scenario when policy expires.

However, policyholder will not receive the experience refund only if claim is made before the expiry date or policy is cancelled before the expiry date.

Step 5: Put together all three scenarios.

We can conclude that the experience refund is an investment component because policyholder will receive an amount from the insurer in any permutation of the three scenarios.

Question 2:

How should the time value of money be taken into account if the investment component is a fixed monetary amount? [paragraph B96(c)]

View A:

The measurement of the investment component should always have regard to the amount included in the fulfilment cash flows and so should take the time value of money into account.

View B:

If the measurement of an investment component is based on a fixed monetary amount identified in the contract, the time value of money should not be taken into account. The investment component should not be discounted for the purpose of determining the adjustment to CSM. The time value of money for the investment component shall be the insurance finance income or expenses (IFIE) for the period.

Explanation

The explanation is technical in nature, and it should be read together with Practical Guidance on Contractual Service Margin & Coverage Unit; Onerous Contract. Below is an illustration of how we can prove the indifference when investment component (NDIC) is not discounted when experience adjustment to CSM is carried out.

Facts provided at the start of the measurement run:

1. Assume weighted average locked-in rate	10% p.a.
2. CSM (BoP)	6,600
3. CSM (EoP) after interest accretion (but before allocation for service provided)	7,260
4. Expected investment component (BoP)	0
5. Expected investment component (BoP+1 year)	1000
6. PVCF (BoP)	100,000
7. PVCF (EoP)	
PVCF (EoP) = PVCF (BoP) x (1+10%) – 1,000	109,000

Facts provided at the end of the measurement run:

8. Actual investment component (BoP)	1000 (undiscounted)
9. Actual investment component (EoP)	0

Analysis

Based on the facts provided at the end of the measurement run, PVCF (BoP), PVCF (EoP) & CSM (EoP) are recomputed based on two methods

Method 1

PVCF (EoP) = (PVCF (BoP) – 1,000) x (1+10%)	108,900
Experience adjustment for PVCF	108,900 – 109,000 = -100
Experience adjustment for NDIC	1,000 – 1,000 = 0
CSM (EoP)	6,600 x (1+10%) -100 = 7,160
IFIE	100

Method 2

Apply interest accretion on actual investment component (BoP) to become actual investment component (EoP)

1100 (discounted)

PVCF (EoP) = PVCF (BoP) $\times$ (1+10%)

109,000

Experience adjustment for PVCF

109,000 – 109,000 = 0

Experience adjustment for NDIC

1,000 – 1,100 = -100

CSM (EoP)

6,600 $\times$ (1+10%) -100 = 7,160

IFIE

100

Conclusion: If the measurement of an investment component is based on a fixed monetary amount identified in the contract, which is method 1, the investment component should not be discounted for the purpose of determining the adjustment to CSM.

In both methods, the time value of money for the investment component shall be the insurance finance income or expenses for the period, both method 2 is operationally more challenging.

Question 3:

Do you agree the amount of the investment components might not be fixed and could change over time?

Explanation

There may be circumstances where the amount of the investment component might not be fixed and could change over time. However, it is rare in the non-life insurance.

Question 4:

How should differences between expected and actual investment components be measured and treated when a claim is incurred?

View A:

The expected investment components are always assumed to be the actual investment components. Hence, there are no differences between expected and actual investment components in a period.

View B:

The expected and actual investment components should always be determined when a claim is incurred.

View C:

Actual investment components may be determined when a claim is incurred, and the expected investment components may be estimated from the actual investment components, or a practical expedient can be applied (the actual investment components may be estimated from the expected investment components, and the expected investment components may be determined when a claim is incurred).

Question 5:

Please explain how expected and actual investment components be measured and treated when a claim is incurred?

Explanation

The explanation is technical in nature, and it should be read together with Practical Guidance on Contractual Service Margin & Coverage Unit; Onerous Contract.

Classification: An entity shall separate from a host insurance contract an investment component if, and only if, that investment component is distinct. The entity shall apply IFRS 9 to account for the separated investment component.

Profit & loss and balance sheet recognition: Insurance revenue and insurance service expenses presented in profit or loss shall exclude any investment components.

P&L		
	Non-Distinct	Distinct
Insurance Revenue	Excluded	Excluded
Insurance Expense	Excluded	Excluded
Investment Result	Included	Excluded

For balance sheet recognition, the future service in relation to the investment return service is included in the fulfilment cashflows and therefore it should be measured under the premium allocation approach or general measurement model, where appropriate.

Balance Sheet		
	Non-Distinct	Distinct
FCF (GMM)	Included	Excluded
CSM (GMM)	Included	Excluded
LRC (PAA)	Included	Excluded
LIC (GMM/PAA)	Included	Excluded

Measurement: For the premium allocation approach applicable to insurance contracts without direct participation features, differences between the expected investment component and the actual investment component, will adjust profit & loss.

For general measurement model applicable to insurance contracts without direct participation features, differences between the expected investment component and the actual investment component, will adjust the CSM except for those related to the effect and changes of the time value of money and financial risk.