



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 2: Combination and Contract
Boundary

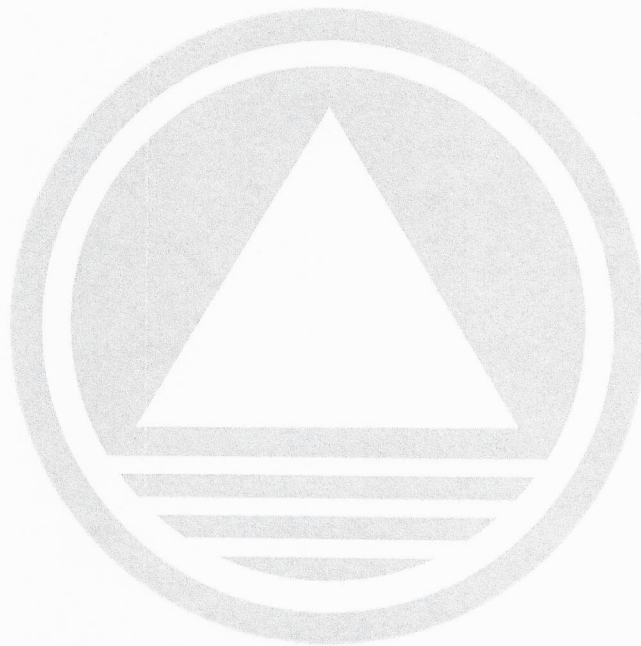
30 September 2021

Disclaimer

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

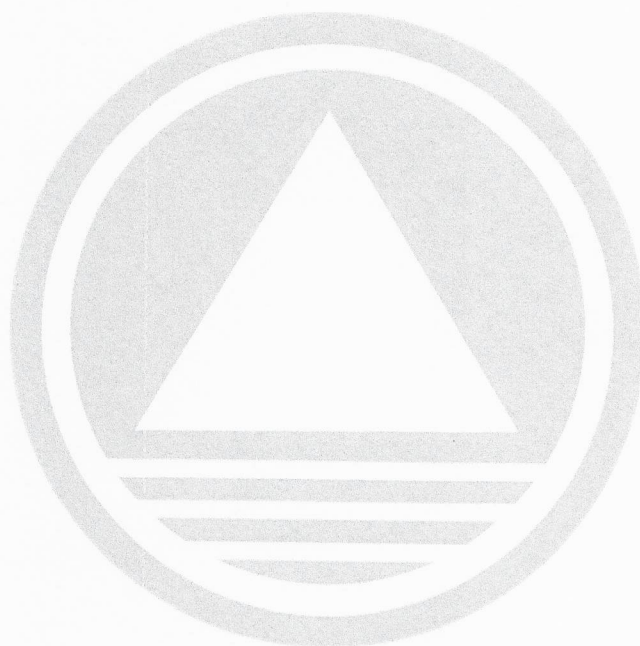
The IFRS is principles-based, therefore this guide aims to provide illustrative examples on how to apply the standards by IASB.

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.



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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).

The standard requires an entity to include in the measurement of all the future cash flows within the specific contract boundary of each contract in the group. The modelling of future cash flows start from initial recognition (a.k.a time zero). For the end point of future cash flows, we model the future cash flows until the contract boundary, which is not necessary the contract expiry date. Coverage period terminology shall not be used interchangeably with coverage term.

The IASB proposes different ways to assess whether or not cash flows are to be taken into account and therefore within the boundary of the contract:

- a. Pre-screening - If they (the cash flows) arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums; or
- b. If pre-screening fails - If they (the cash flows) arise from substantive rights and obligations that exist during the reporting period in which the entity has a substantive obligation to provide the policyholder with services.

The definition of the end of a substantive obligation to provide the policyholder with services is also detailed, it happens when:

- a. (IFRS17.34a) The entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- b. Both the following criteria are satisfied :
 - The entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

In general insurance, the entity usually has a unilateral cancellation clause included in the contract terms, therefore the implication of such clause on IFRS17 shall be discussed in the industry forum.

The results of the assessment for the topic 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
Combination of insurance contracts	9
Estimates of future cash flows	33, 34, 35, 71, B36
Cash flows within the contract boundary	B61 – B71

Insurance Contracts

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.

Combination of insurance contracts

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.

Separating components from insurance contracts (paragraphs B31 – B36)

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.

Estimates of future cash flows (paragraphs B36–B71)

33 An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:

- (a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.
- (b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).
- (c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).
- (d) be explicit—the entity shall estimate the adjustment for nonfinancial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

- (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- (b) both of the following criteria are satisfied:
 - (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - (ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

35 An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

Investment contracts with discretionary participation features

71 An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

- (a) the date of initial recognition (see paragraphs 25 and 28) is the date the entity becomes party to the contract.
- (b) the contract boundary (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.
- (c) the allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Estimates of future cash flows (paragraphs 33–35)

B36 This section addresses:

- (a) unbiased use of all reasonable and supportable information available without undue cost or effort (see paragraphs B37–B41);
- (b) market variables and non-market variables (see paragraphs B42–B53);
- (c) using current estimates (see paragraphs B54–B60); and
- (d) cash flows within the contract boundary (see paragraphs B61–B71).

Cash flow within the contract boundary (paragraph 34)

B61 Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

B62 Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts. The measurement of a group of insurance contracts shall reflect, on an expected value basis, the entity's current estimates of how the policyholders in the group will exercise the options available, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour. This requirement to determine the expected value applies regardless of the number of contracts in a group; for example it applies even if the group comprises a single contract. Thus, the measurement of a group of insurance contracts shall not assume a 100 per cent probability that policyholders will:

- (a) surrender their contracts, if there is some probability that some of the policyholders will not; or
- (b) continue their contracts, if there is some probability that some of the policyholders will not.

B63 When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

- (a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.
- (b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).
- (c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.
- (d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).
- (e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.
- (f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).
- (g) costs the entity will incur in providing contractual benefits paid in kind.
- (h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.
- (i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.
- (j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.
- (k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.
- (l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.
- (m) any other costs specifically chargeable to the policyholder under the terms of the contract.

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

- (a) investment returns. Investments are recognised, measured and presented separately.
- (b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.
- (c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35).
- (d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.
- (e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.
- (f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying IAS 12 Income Taxes.
- (g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.
- (h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

B67 Some insurance contracts affect the cash flows to policyholders of other contracts by requiring:

- (a) the policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items; and
- (b) either:
 - (i) the policyholder to bear a reduction in their share of the returns on the underlying items because of payments to policyholders of other contracts that share in that pool, including payments arising under guarantees made to policyholders of those other contracts; or
 - (ii) policyholders of other contracts to bear a reduction in their share of returns on the underlying items because of payments to the policyholder, including payments arising from guarantees made to the policyholder.

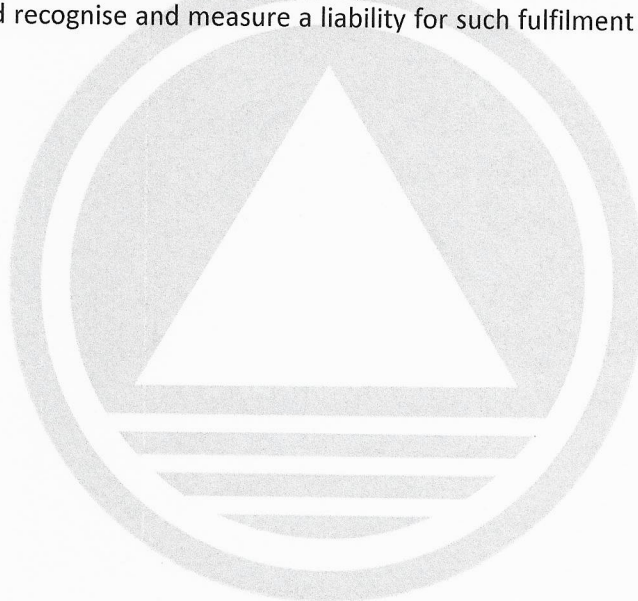
B68 Sometimes, such contracts will affect the cash flows to policyholders of contracts in other groups. The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:

- (a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and
- (b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.

B69 For example, to the extent that payments to policyholders in one group are reduced from a share in the returns on underlying items of CU350 to CU250 because of payments of a guaranteed amount to policyholders in another group, the fulfilment cash flows of the first group would include the payments of CU100 (ie would be CU350) and the fulfilment cash flows of the second group would exclude CU100 of the guaranteed amount.

B70 Different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.

B71 After all the coverage has been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.



3.0 Practical Guidance

3.1 Combination of Insurance Contracts

In certain scenarios, the requirement for separation of insurance components from one legal contract applies in reverse where an entity must combine two or more legal contracts into one IFRS 17 insurance contract.

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. 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 at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

Below are some considerations that might be relevant in the assessment of whether a set or series of insurance contracts achieve, or are designed to achieve, an overall commercial effect:

- a. the rights and obligations are different when looked at together compared to when looked at individually (for example, the rights and obligations of one contract negate the rights and obligations of another contract)
- b. the entity is unable to measure one contract without considering the other. This may be the case where there is interdependency between the different risks covered in each contract and the contracts lapse together. When cash flows are interdependent, separating them can be arbitrary.

The IASB staff observe that while no single factor is determinative in applying this assessment, when the lapse or maturity of one contract causes the lapse or maturity of another contract, there is a strong indication that the contracts were designed to achieve an overall commercial effect.

Example of Contract Combination:

The common example is the coinsurance outward arrangement between the insurers. In the coinsurance clause, the policyholder is informed that the primary insurer will sign the coinsurance slip on behalf of another insurer for their undertaking of the risk, in this case the coinsurance clause must be viewed together as one contract. Hence the system record of the coinsurance outward shall be measured together with the original contract to achieve, an overall commercial effect of the portion of risk retained by the primary insurer (lead insurer). The coinsurance inward of another party is recognized as direct business instead of reinsurance contract issued in this instance.

Example of Co-insurance Clause

It is hereby declared and agreed that insurers named hereunder severally agree and accept the following for the proportion set against its name:

- 1. In event of any claim being admissible by the insurer towards the liability, to pay or make good to the insured the value of the property at the time of the happening of its loss or destruction or the amount of such damage thereto as provided for under the policy and/or*
- 2. To indemnify the insured against liability at law or damage to any property or injuries to persons as provided for under the policy*

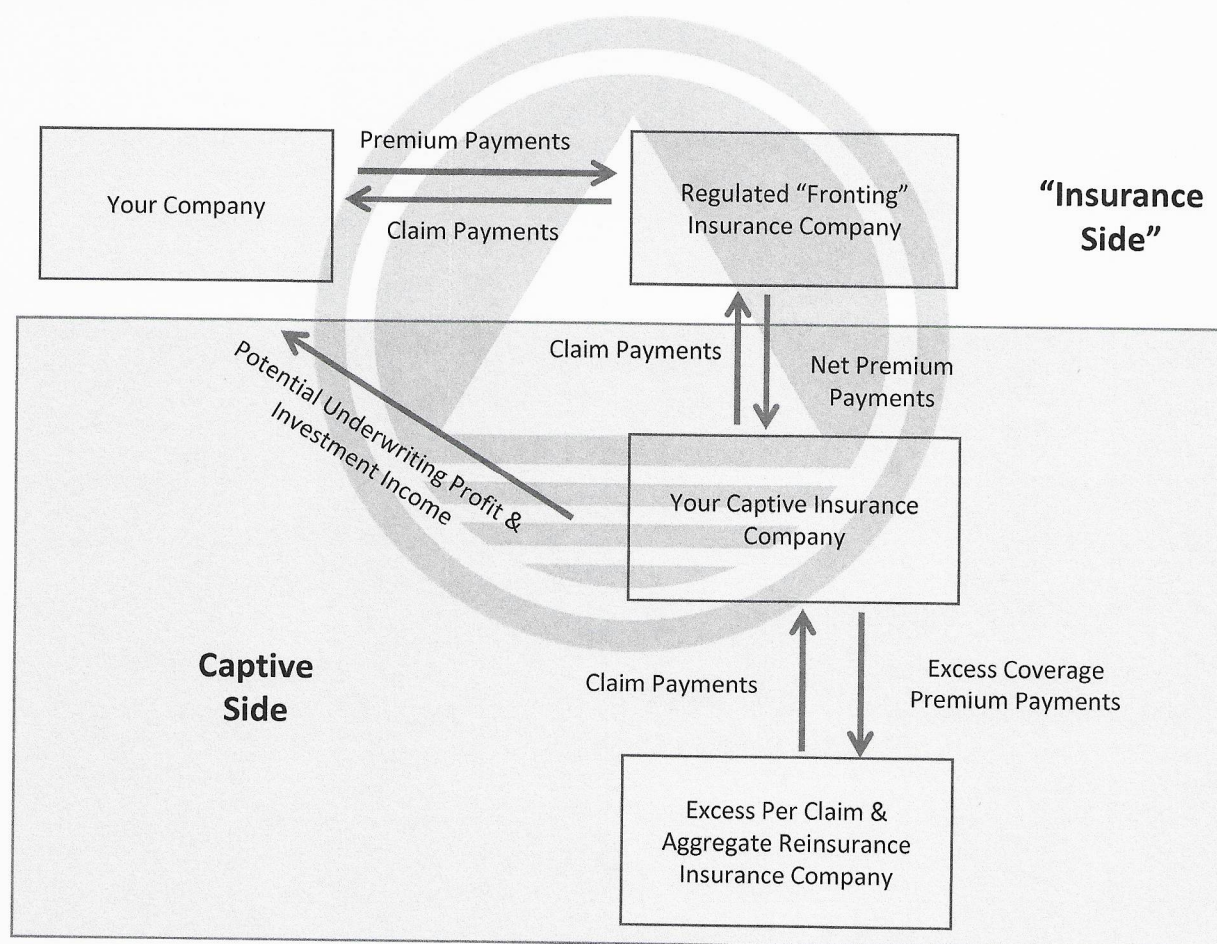
The name of the insurers are named in the policy schedule. In practice, the lead insurer pays 100% of the assessed loss, the following coinsurer/s shall remit their share of the loss to the lead insurers. Lead insurer's declaration that the claim and the amount there of was in accordance with terms and conditions of the policy issued are considered sufficient by the co-insurers for the purpose of remitting their share of the loss to the lead insurer.

The co-insurers forming part of this agreement shall be entitled to demand and obtain from the lead insurer/intermediaries copies of all policies, endorsements or other claim related documents relevant to this coinsurance clause.

Example of Contract Combination:

An example for non-Life would be a fronting arrangement where insurer reinsures to a captive of the insured. If it is deemed as a straight pass through arrangement i.e. insuring entity only pays to the insured entity once the payment from the captive entity has been received and therefore does not retain any credit risk, then it is in effect one insurance contract and must be combined. The fronting arrangement back to a captive of insured will be considered as a pass through arrangement and is not affected by the fronting percentage at all, as long the captive is backed by the same policyholder. In a case which the GWP of the insurance contract is RM10 mil, and the ceded portion to its captive offshore is RM 9 mil, the insurance revenue to be presented in the P&L will be RM 1 mil throughout the entire coverage period of the contract.

The graphic below illustrates how captive insurance companies work and the flow of money between the parent, the fronting company, the captive, and the reinsurance company. As you can see, the “fronting” company is just a pass through and the captive – like a typical insurance company – uses a reinsurance company to provide excess coverage for unexpected and/or high claim losses.

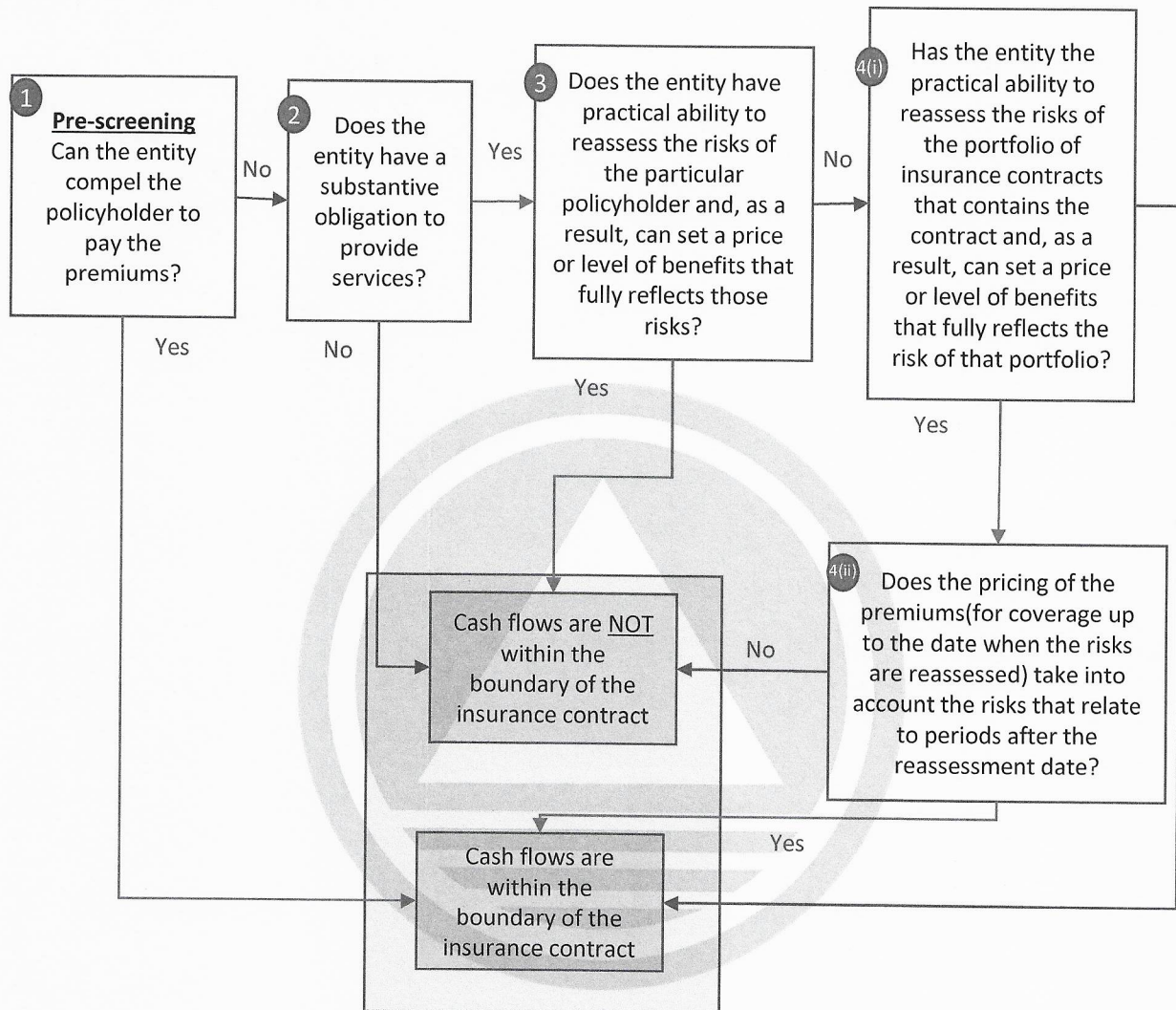


Source: <https://www.afterinc.com/>

Captive Insurance 101: Everything You Need to Know About Captive Insurance by Paul Swenson | Oct 22, 2019

3.2 Decision Tree

The following decision tree allows to determine the boundary of contracts to be applied according to the contract features. Each step is detailed in the following parts.



Step 1: Ability to compel the policyholder to pay the premiums

Future premiums are taken into account if the entity can unilaterally constrain the policyholder to pay the premium whatever is the type (e.g. regular or flexible) and the amount of the premium.

An entity has the ability to compel a policyholder to pay a premium only if the policyholder's payment is legally enforceable. A right or obligation is enforceable if a party obligated to an act can be forced or ordered to comply with the legal process

Step 2: Obligation to provide services

If the entity is able to reject future premiums or cancel the contract, then these cash flows are not within the contract boundaries. In particular, the measurement of a group of insurance contracts shall reflect, on an expected value basis, the current estimates of how likely the policyholders will exercise options available. Only if all cash flows belonging to the contract can be unconditionally rejected, the contract cashflows are outside of the contract boundary as a result of no remaining substantive right and obligation.

Whenever the entity has any limitation to reject future premiums or cancel the contract, it shall assume that these restrictions have an effect on the economics of the transaction (i.e. a commercial substance) and then entity will keep the substantive obligation to provide services. However, it is a matter of judgement, this working assumption can be refuted if the entity can prove that the limitation has no commercial substance, meaning that the entity has no obligation to provide services.

Step 3: Practical ability to reassess the risks of the particular policyholder

Re-pricing is possible at a “particular policyholder level” when a contract terms can be re-priced or re-underwrite independently from others contracts. If the entity can re-price the premiums or adjust the benefits attached to the premiums to be paid to fully reflect the change in insured risks at a particular policyholder level, those premiums and related cash flows should be excluded from the boundary of contracts. The granularity considered for the “particular policyholder level” refers to the individual or the company, depending on the unit of account applied in identification.

If the re-pricing cannot be done at a particular policyholder level, then the conditions 4(i) and 4(ii) have to be checked. Similarly, if an entity can prove that the limitation has no commercial substance, meaning that the entity has no obligation to provide services.

Examples & remarks:

Whenever the re-pricing of the contract is framed by contractual restrictions, the entity shall assume that these restrictions have an effect on the economics of the transaction (i.e. a commercial substance) and that the re-pricing cannot fully reflect the risk individually.

However this working assumption can be refuted if the entity can prove that the restriction has no commercial substance, meaning that the entity is able to demonstrate that the re-pricing can always fully reflect the risk individually.

In the case of regulatory constraints, the entity shall treat them the same way they do for contractual restrictions (mentioned above). For instance, in some countries, regulatory constraints consists of a right of review from the regulators. In such a case, regulator's objective is mainly to be kept informed of the re-pricing undertaken by the entities to avoid unjustified increases and in practice, this has no commercial substance since they don't really prevent entities from re-pricing. In such a situation, entities shall consider that in the presence of such constraints the re-pricing can still fully reflect the risks at the individual level.

Step 4: Practical ability to reassess the risks of the portfolio of insurance contracts

In this step, the premium is in the boundary of the contract when any of the conditions below are met:

- The premium cannot be re-priced neither at the contract level nor at the portfolio of contracts level.
- The premium can be re-priced only at the portfolio of contracts level but the amount of the premium corresponding to coverage up to the date of the reassessment was taking into account risks related to periods after the reassessment date (e.g., level premium).

It is asked if premiums being charged anticipate future risks after the reassessment date. For example, by definition level premiums are premiums which remain stable during the coverage period therefore they are calculated considering risks after the reassessment date. In the other hand stepped premiums (premiums that increase when the risk rises, for example, when the policyholder gets older) do not take future risks into account.

Examples & remarks:

Whenever the re-pricing of the portfolio of contracts is framed by contractual restrictions, the entity shall assume that these restrictions have an effect on the economics of the transaction (i.e. a commercial substance) and that the re-pricing cannot fully reflect the risks.

However, this working assumption can be refuted if the entity can prove that the restriction has no commercial substance, meaning that the entity is able to demonstrate that the re-pricing can always fully reflect the risk, e.g. unconditional portfolio withdrawal clause.

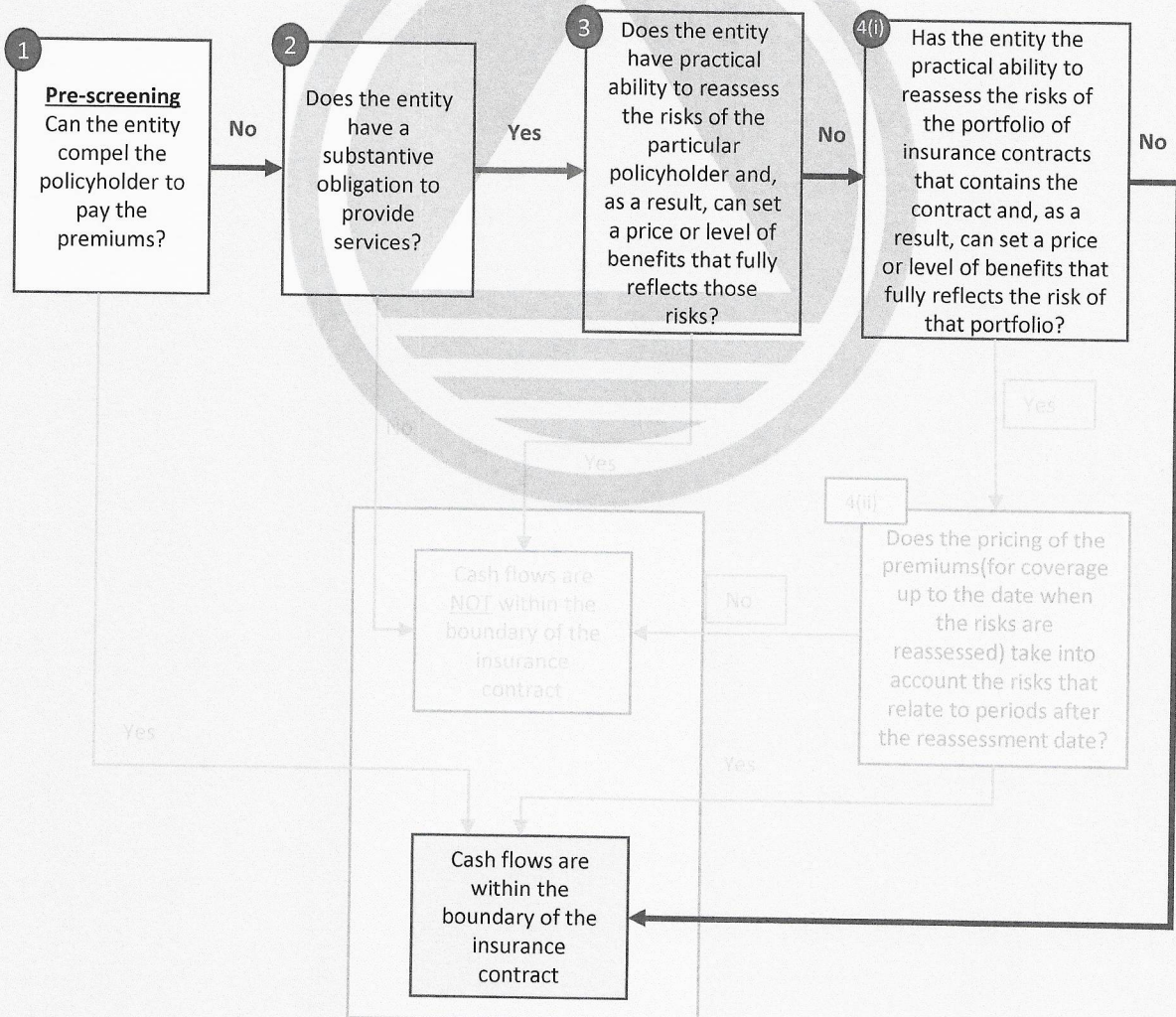
In case of regulatory constraints, the entity shall consider the constraints the same way they do for contractual restrictions. For instance, regulators may require to control and validate the re-pricing, in a way to avoid unjustified increases. If the regulators right has no commercial substance, entities shall consider the re-pricing still fully reflect the risks at the portfolio level.

It is not the intention of this guidance notes to specify the periods after the reassessment date for standardization of coverage period for guaranteed yearly renewable medical products in Thailand as it should reviewed on a case-to-case basis.

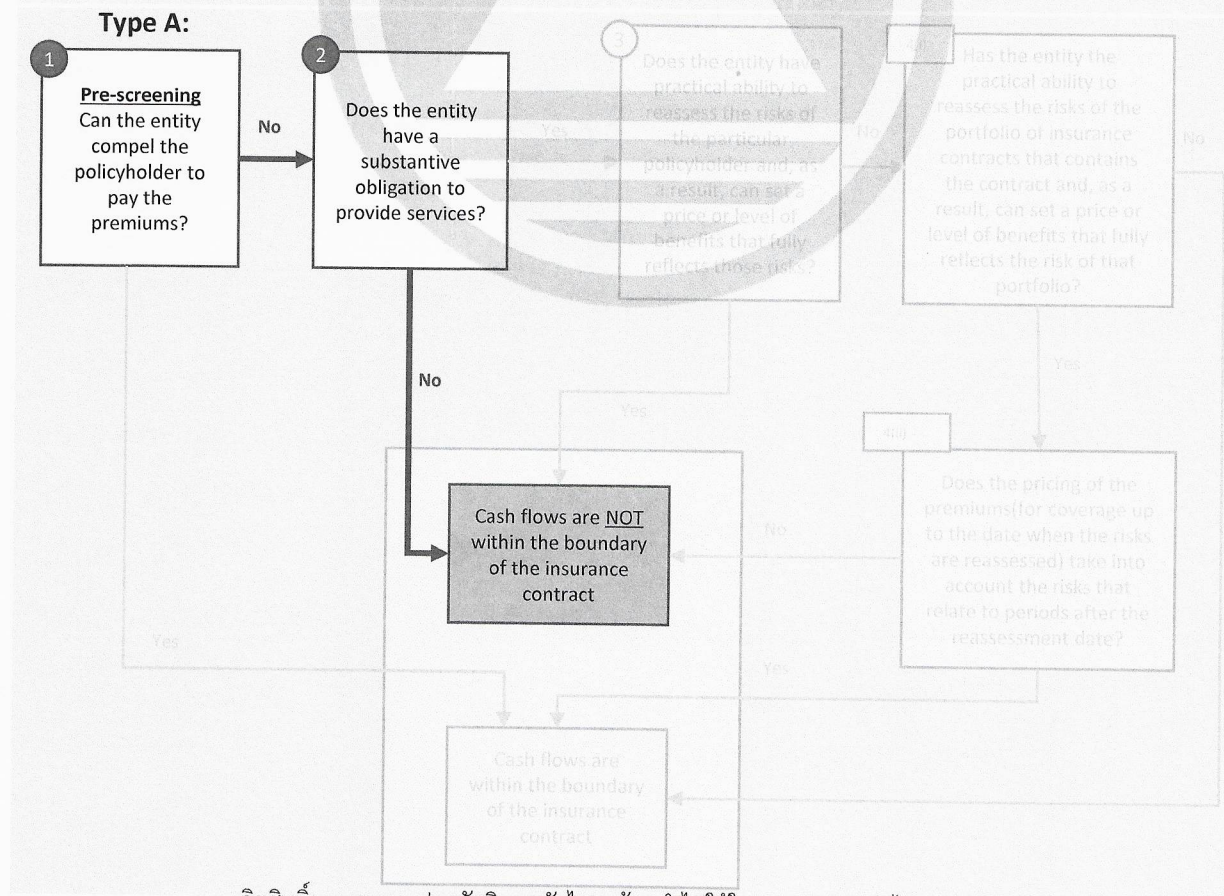
4.0 Illustrations

4.1 Common Insurance Products

Type	Description	Conclusion
1. Coverage during maintenance period i.e., Engineering Contractor All-risks (CAR)	For engineering contracts, coverage is still provided during construction and maintenance period. End of contract boundary is at the point whereby the entity is no longer required to provide coverage. Example: Construction period: 3 August 2025 to 31 March 2028 Maintenance period: 1 April 2028 to 31 March 2030	The CAR product features are generic in the industry. The entity is liable for the claim arises during the maintenance period despite the coverage term ends at construction period. The policy coverage term despite is stipulated in the policy schedule until 31 March 2028, the coverage period is expected to last until 31 March 2030 as the cash flows would arise from the premium paid by the policyholder.



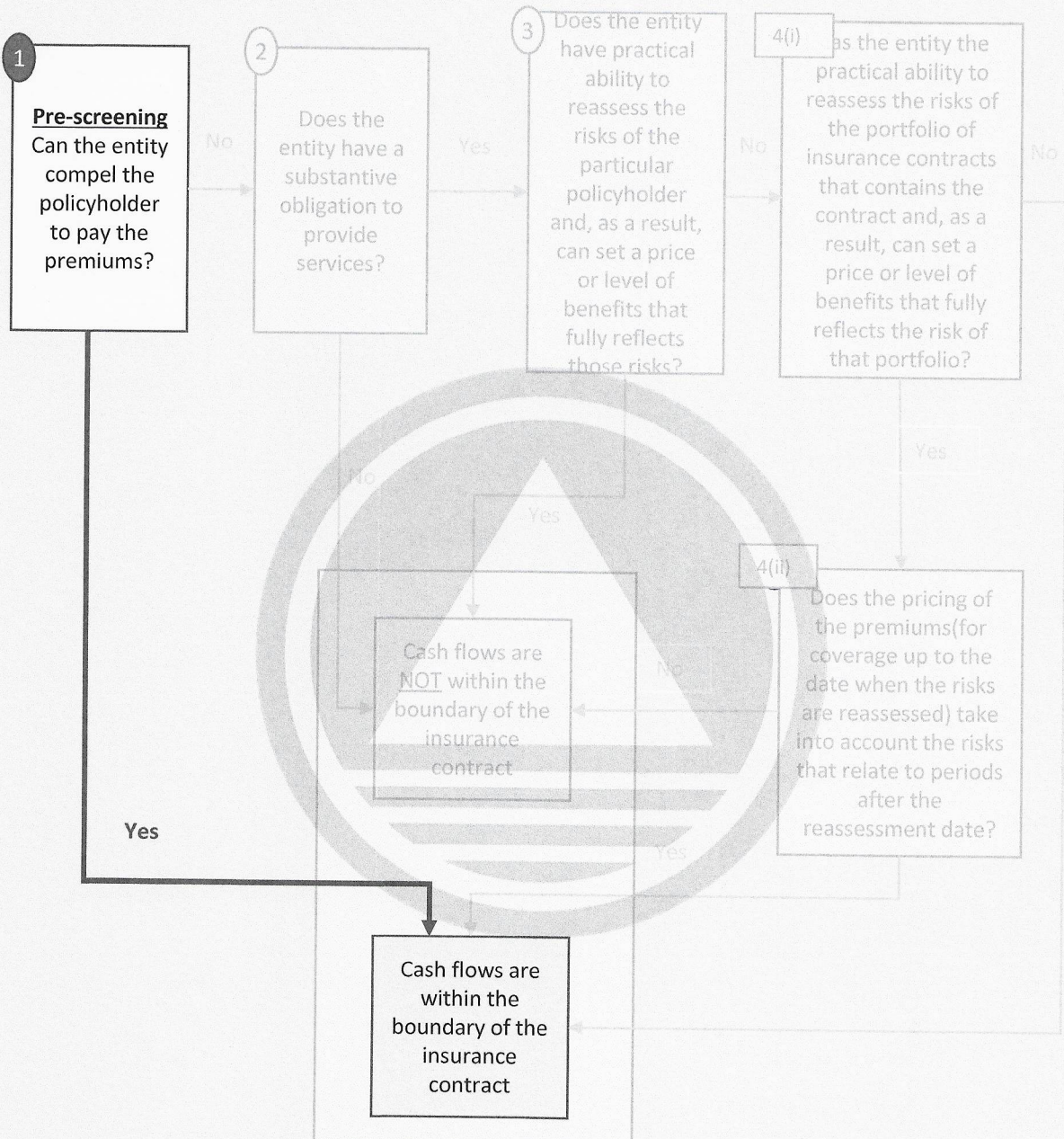
Type	Description	Conclusion
2. Medical and health insurance products with guaranteed renewal	Guaranteed renewal clause is commonly found in health/medical products. The end of contract boundary is at the point whereby the entity has the practical ability to reprice or reset the features. Type A The contract doesn't allow the entity to compel the policyholder to pay premium for each anniversary. Type B The contract allows the entity to compel the policyholder to pay premium for each anniversary. Sample Renewal Clause for type B: This Policy shall become effective as for the date stated in the Schedule. The Policy Anniversary shall be one year after the effective date and annually thereafter. On each such anniversary, this Policy is renewable at the premium rates in effect at that time as notified by the Company.	For type A, it is obviously the renewal is not further reviewed. For type B, the conclusion could vary from company to company. Typically, if the company has exercised their right of repricing the medical portfolio in the past, it is an indication of the practical ability of repricing of the same portfolio. However, the practical ability is a matter of judgement, it could vary from company to company depending on the facts as presented to their respective external auditor, e.g. unconditional portfolio withdrawal clause. Hence no general conclusion could be drawn for type B.



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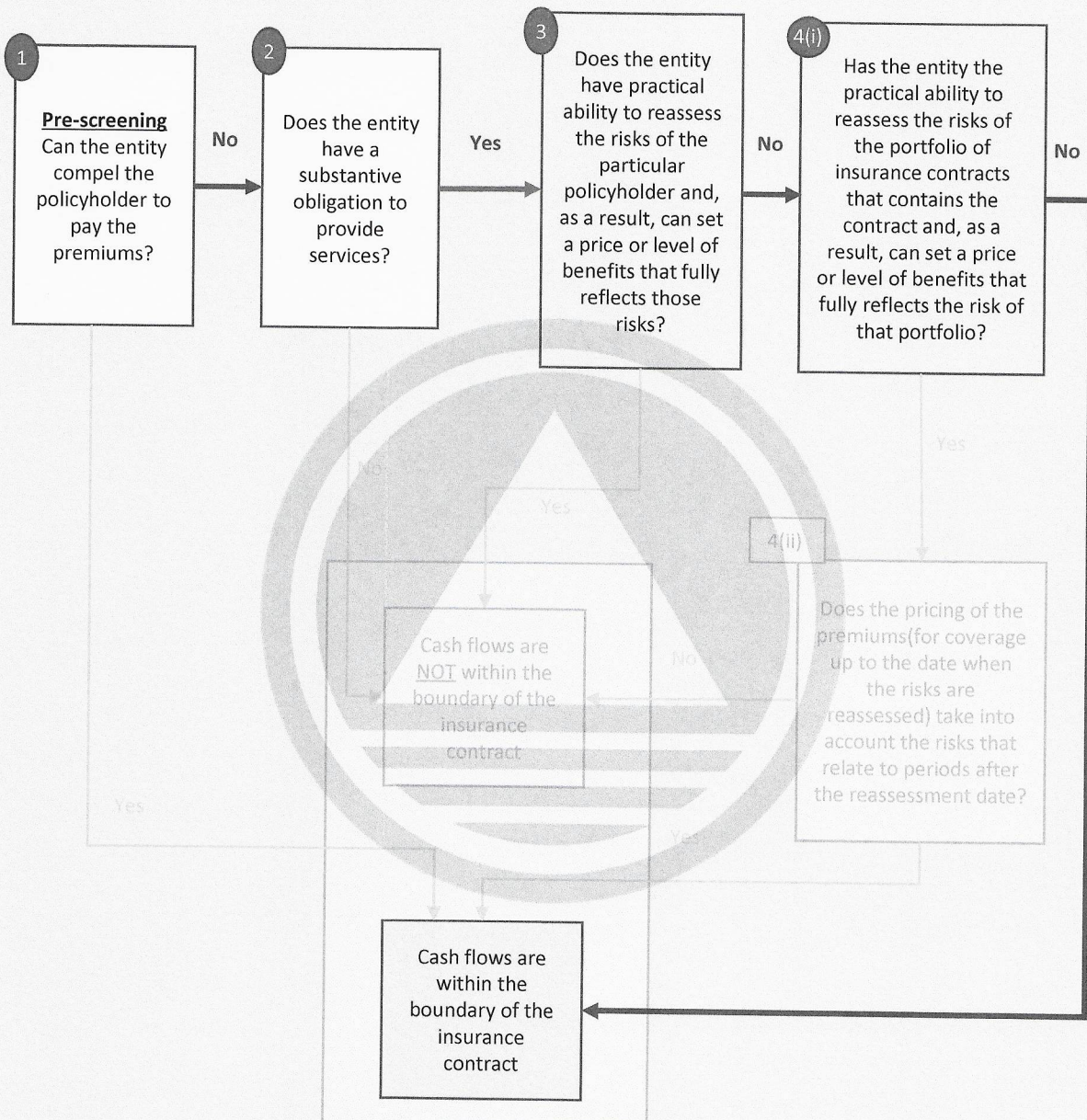
Type	Description	Conclusion
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Type B: contract has neither portfolio withdrawal nor repricing clauses

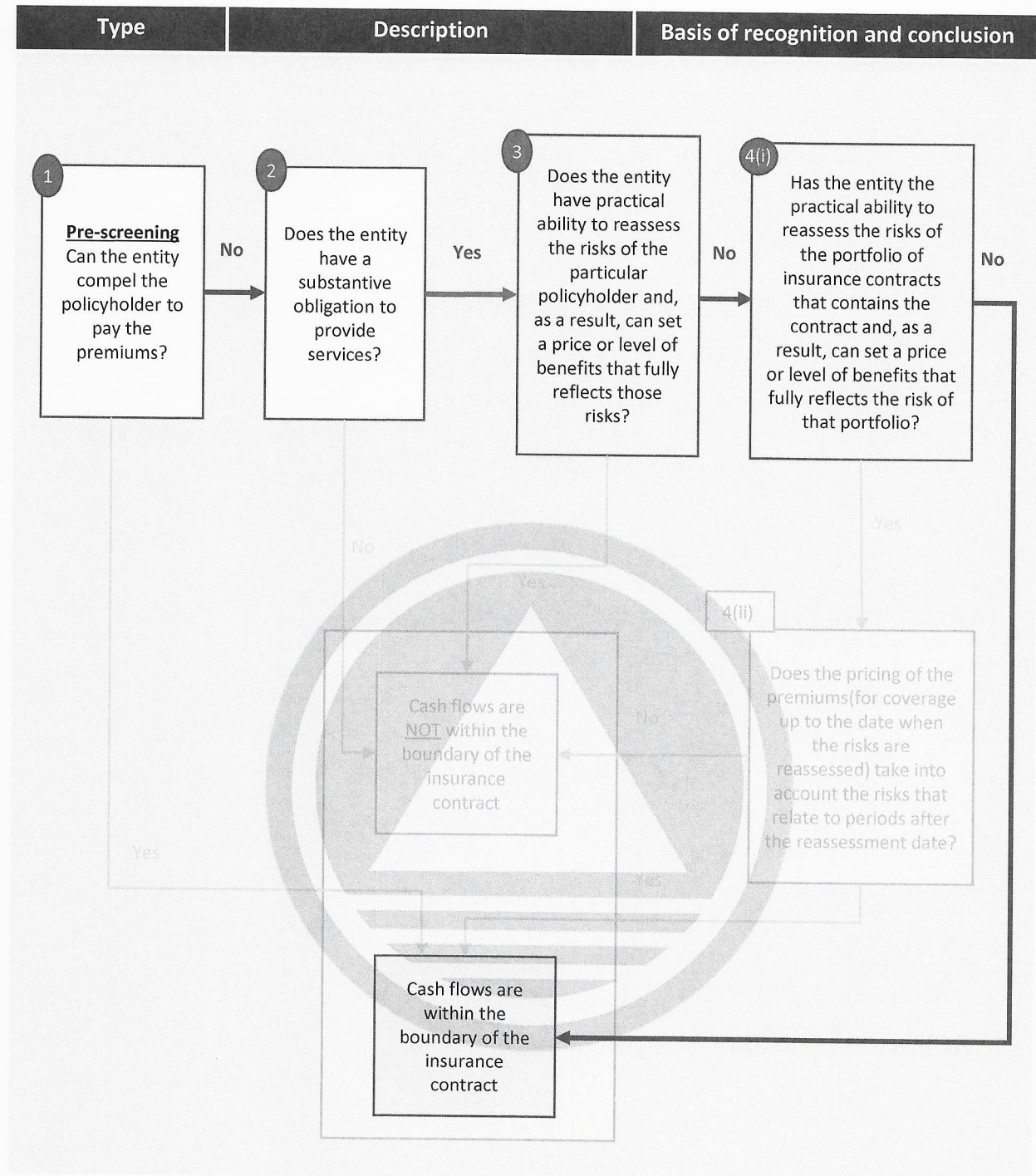


Type	Description	Basis of recognition and conclusion
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Type B: contract has either portfolio withdrawal or repricing clauses



Type	Description	Basis of recognition and conclusion
3. Insurance products with cancellation/termination clauses or break/review clauses	Both parties have right to terminate policies. These rights are either conferred contractually or via local regulations. Having an unrestricted right to terminate the contract will limit the contract boundary to the requisite notice period to the policyholder. Example: Contract period: 1 July 2024 to 30 June 2028. The insurers and the insured are respectively entitled to terminate this insurance at any time by giving the reason. Such notification of termination shall be made in writing by registered letter by the party who requests the termination to the other party at their latest known correspondence address. The insurer is released from all liabilities under this Policy within thirty (30) calendar days from the dispatch date of the notification. Should there be any termination of insurance, a refund premium shall be made on pro rata basis for the unexpired insurance period, after being deducted by the insurers' acquisition cost. However, in case this insurance terminated by the insured whereas during the insurance period already lapsed because there be a claim exceeding the premium stated in the policy schedule, the insured shall not be entitled to any premium refund for the unexpired insurance period.	Company may decide that this termination clause is deemed to have no commercial substance if it is never/rarely exercised in line with IFRS 17 BC164, and hence the contract boundary will then be from 1 July 2024 to 30 June 2028 instead of any earlier date.



5.0 Frequently Asked Questions

5.1 Prepaid Premiums on Cancellable Contracts

Background

It is common in the general insurance industry in this region, for insurers to issue a contract with a contractually stated term (e.g. 1 year) and requires an initial premium for the entire term as pre-condition for commencing of coverage, but the contract also includes a unilateral cancellation right of the insurer at certain interim dates (e.g. right to cancel monthly). Such rights can be established by contract or by law. If the insurer cancels the insurance contract before the end of the stated contract term the policyholder is entitled to a premium refund calculated pro rata for the period between the cancellation date and the end of the stated contract term.

Question 1:

Where the entire premium is initially due (i.e. GWP) as pre-condition for commencing of coverage and the insurer has a monthly cancellation right with 10 days prior notice, how does this impact the contract boundary and resulting accounting for a resulting premium refund?

View A:

The annual premium (GWP) due initially relates entirely to the first monthly component of the contract and not to the future components because it was due in order to receive the coverage of the first component. The subsequent 11 months has no premium receipts.

View B:



The upfront premium received relates to all components, initial and future. Only the initial component of the contract is recognised (GWP/12) as premium receipt. The remaining premium receipts are considered remaining coverages (11 x GWP/12). The future components are recognized simultaneously as LRC with the first component because the premium related to them was due and paid.

View C:

The upfront premium received relates to all components, initial and future. Only the initial component of the contract is recognised (GWP/12) as premium receipt. The remaining premium receipts are considered future contracts (11 x GWP/12). Unlike view B, the portion that relates to future components is recognised as a premium received in advance asset, not part of the LRC.

Explanation

View B

It is a judgement that legal right to exercise the monthly cancellation clause has discernible commercial effect due to the insignificant likelihood.

Question 2:

Where the contract is considered multiple components, which is the recognition date for the subsequent components chosen for the cohorting of each subsequent component?

View A: legal contract's issue date ☒

View B: recognition date of individual component

Explanation

View A

Under this view all components are deemed to have been issued on the same day i.e. the day the legal contract was issued. The implication of this is that, even if the components fall across a calendar year/reporting year, they can still be allocated to the same annual cohort in accordance with IFRS 17.22, IFRS17.24 and IFRS17.28.

Question 3:

There is a 1 year motor policy which the insured was required to pay 20% premium in advance (6 months before policy inception) and the entity promise that the premium will not be changed even if there is a claim. When does contract boundary start?

View A: On the policy issuance date (6 months before policy inception). ☒

View B: On the policy/ risk inception date

Explanation

The contract boundary should start as soon as the policy is issued despite the risk inception date, which is 6 months later, although the insurance revenue will be recognized 6 months later.

Question 4:

There is a 1 year motor policy which the insurer issues 1st year and 2nd year policy in a close time frame, will the 2nd year policy be considered within the contract boundary, assuming the 2 policies are issued separately and the 1st policy doesn't bind the policyholder to renew the 2nd policy with the company?

View A: Yes

View B: No ☒

Explanation

If 2 policies are issued separately, there is no reason why it should be considered together with the first policy.

Question 5:

If there is a 1 year motor policy which the insurer issues 1st year policy and promises to issue 2nd year when it is close to the end of 1st year, will the 2nd policy be considered within the contract boundary, assuming legally, the 1st policy doesn't bind the policyholder to renew the 2nd policy with the company?

View A: Yes

View B: No



Explanation

If the first policy mentions nothing about the second policy, there is no reason why the second policy should be considered together with the first policy

Question 6:

If there is an Extended Warranty policy for which the insurance contract will start after the car reach the earlier of 100,000 km mileage or 3 years of car age, and the premium is paid now at time zero, when does the contract boundary start?

View A: On the policy issuance date (time zero). ☒

View B: On the policy/ risk inception date

Explanation

The contract boundary should start as soon as the policy is issued. Insurance revenue shall be recognized at any time before the third year, which is an accounting estimate.

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