



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 4: Choice of Measurement Model

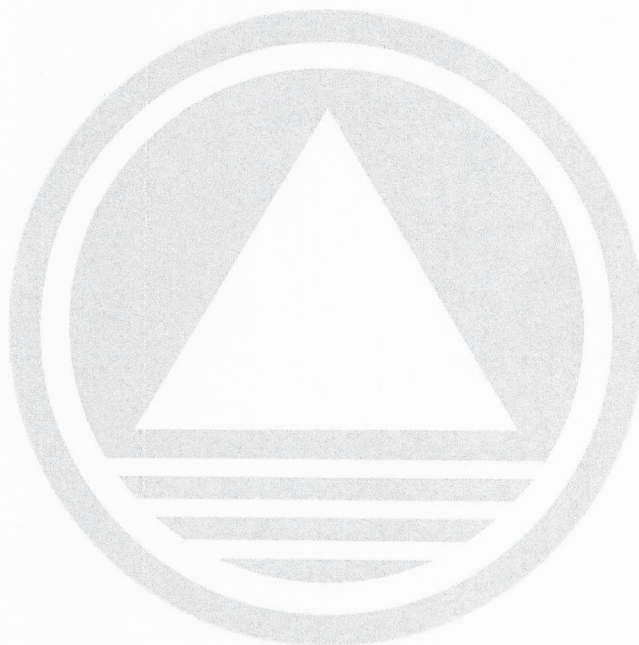
30 September 2021

Disclaimer

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

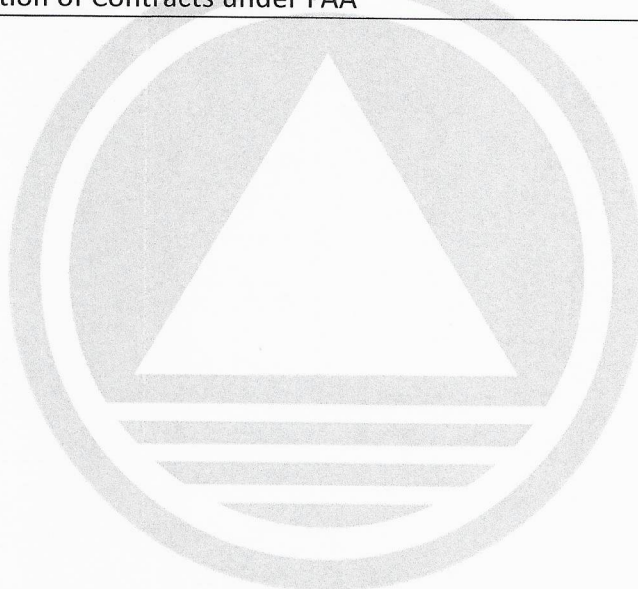
The IFRS is principles-based, therefore this guide aims to provide illustrative examples on how to apply the standards by IASB.

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 insurers' 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 mentions General measurement model (GMM) is the default model for measuring insurance contracts under IFRS 17. However, the Standard allows the measurement to be simplified using the premium allocation approach (PAA) if certain conditions are met. Premium allocation approach is very similar to the model currently used to measure premium liabilities of short-term contracts under IFRS 4.

While groups of contracts with coverage period of one year or less than one year automatically meet the eligibility criteria, groups of contracts that consist of contracts with coverage period of ~~one year~~ or more than one year will need to adopt the general measurement model, unless it can be shown that the liabilities for remaining coverage measured under the general measurement model and premium allocation approach are not materially different.

For longer term contracts, such as reinsurance contract of risk attaching basis, differences in the liability for remaining coverage may arise as premium allocation approach runs off the liability for remaining coverage in line with the incurred claims, while the general measurement model releases the contractual service margin in line with coverage provided. Differences may also arise due to the application of release pattern and discount rates.

There are several questions which arise related to testing contracts for PAA eligibility:

- a. Is a calculation required? A question arises around whether or not a group of contracts can qualify for the PAA by applying a qualitative assessment or whether a quantitative assessment is required.
- b. Interpretation of "reasonably expect": PAA eligibility requirements include that the entity reasonably expects the simplification would produce a measurement of the LRC for the group that would not differ materially from that produced under the GMM. A question arises about how one would interpret the term reasonably expects i.e., how many scenarios does an entity need to consider when looking at the difference in measurement?
- c. Interpretation of "differ materially". The PAA eligibility test refers to the LRC under the PAA not differing materially from the one under the GMM. A question has arisen around how we interpret 'not differ materially'. This question was asked during the comment letter process to the IASB staff, and the response was that they are referring to the definition in the conceptual framework – ie. Referring to financial statements as a whole. In this paper we will explore the interpretation of "differ materially".

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)
Direct contracts issued	53, 54, 55, 56, 57, 58, 59
Reinsurance contract held	69, 70
Discount rates	B72
Insurance revenue	B126, B127

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

- (a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or
- (b) the coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

54 The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

- (a) the extent of future cash flows relating to any derivatives embedded in the contracts; and
- (b) the length of the coverage period of the group of contracts.

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

- (a) on initial recognition, the carrying amount of the liability is:
 - (i) the premiums, if any, received at initial recognition;
 - (ii) minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and
 - (iii) plus or minus any amount arising from the derecognition at that date of:
 - 1. any asset for insurance acquisition cash flows applying paragraph 28C; and
 - 2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

- (b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
 - (i) plus the premiums received in the period;
 - (ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);
 - (iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognize insurance acquisition cash flows as an expense applying paragraph 59(a);
 - (iv) plus any adjustment to a financing component, applying paragraph 56;
 - (v) minus the amount recognised as insurance revenue for services provided in that period (see paragraph B126); and
 - (vi) minus any investment component paid or transferred to the liability for incurred claims.

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year.

57 If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:

- (a) the carrying amount of the liability for remaining coverage determined applying paragraph 55; and
- (b) the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and B36–B92. However, if, in applying paragraph 59(b), the entity does not adjust the liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment.

58 To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage.

59 In applying the premium allocation approach, an entity:

- (a) may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.
- (b) shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

Premium allocation approach for reinsurance contracts held

69 An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

- (a) the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or
- (b) the coverage period of each contract in the group of reinsurance contracts held (including insurance coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

70 An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

- (a) the extent of future cash flows relating to any derivatives embedded in the contracts; and
- (b) the length of the coverage period of the group of reinsurance contracts held.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying IFRS 17:

- (a) to measure the fulfilment cash flows—current discount rates applying paragraph 36;
- (b) to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;
- (c) to measure the changes to the contractual service margin applying paragraphs B96(a)–B96(b) and B96(d) for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;
- (d) for groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56— discount rates applying paragraph 36 determined on initial recognition;

(continues on next page)

- (e) if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see paragraph 88), to determine the amount of the insurance finance income or expenses included in profit or loss:
 - (i) for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;
 - (ii) for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying paragraph B132(a)(i)—discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; and
 - (iii) for groups of contracts applying the premium allocation approach applying paragraphs 59(b) and B133—discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of insurance contract services:

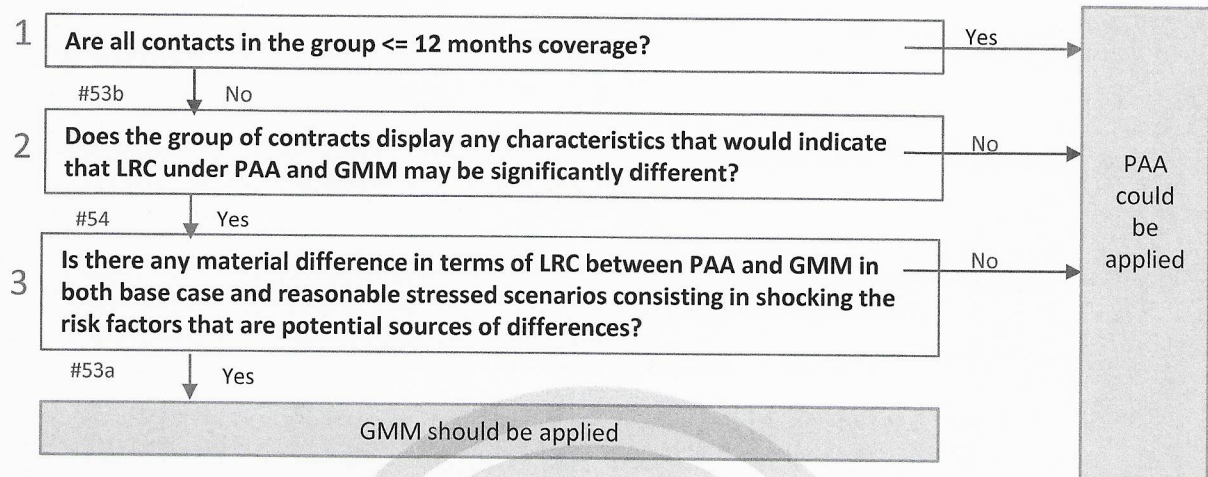
- (a) on the basis of the passage of time; but
- (b) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

B127 An entity shall change the basis of allocation between paragraphs B126(a) and B126(b) as necessary if facts and circumstances change.

3.0 Practical Guidance

3.1 Assessment of PAA Eligibility

Please find below PAA eligibility decision tree to be considered for insurance contract and reinsurance Held:



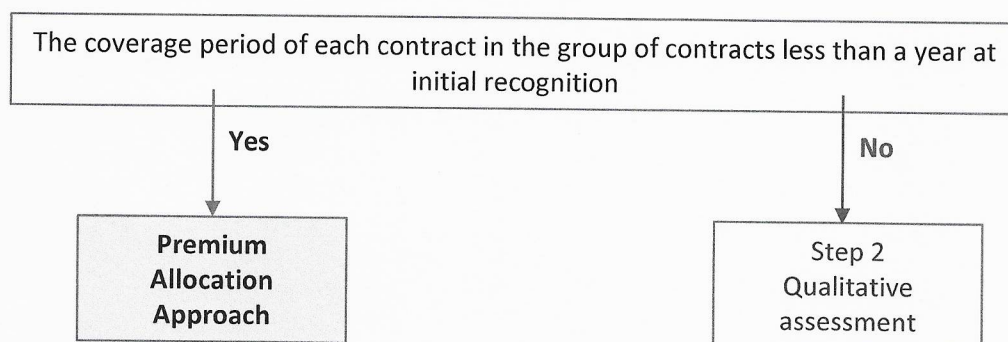
The PAA is eligible for a certain group of contracts, if, at the inception of the group, either the coverage period of the group of contracts is one year or less, or the entity reasonably expects that applying the PAA would produce a measurement of the LRC for the group that would not differ materially from the one produced applying the GMM.

To assess for PAA eligibility, the following decision process is applied on a group of insurance contracts. The first step covers contracts with a coverage period of up to one year. To decide whether the contracts that have a coverage period of more than one year are eligible for PAA, a qualitative assessment needs to be performed for each group of contracts.

The aim is to identify whether at least one critical feature is included in the group of contracts or whether material volatility of financial variables is expected over the coverage period. If this is the case, a quantitative assessment needs to be performed, which aims to identify whether the resulting variability in the fulfilment cash flows is significant and a material deviation between the LRC under the GMM and PAA could exist. Even though IFRS 17.53(a) requires a comparison of the LRC for the group and 53(b) refers to each contract in the group.

Step 1: Coverage period

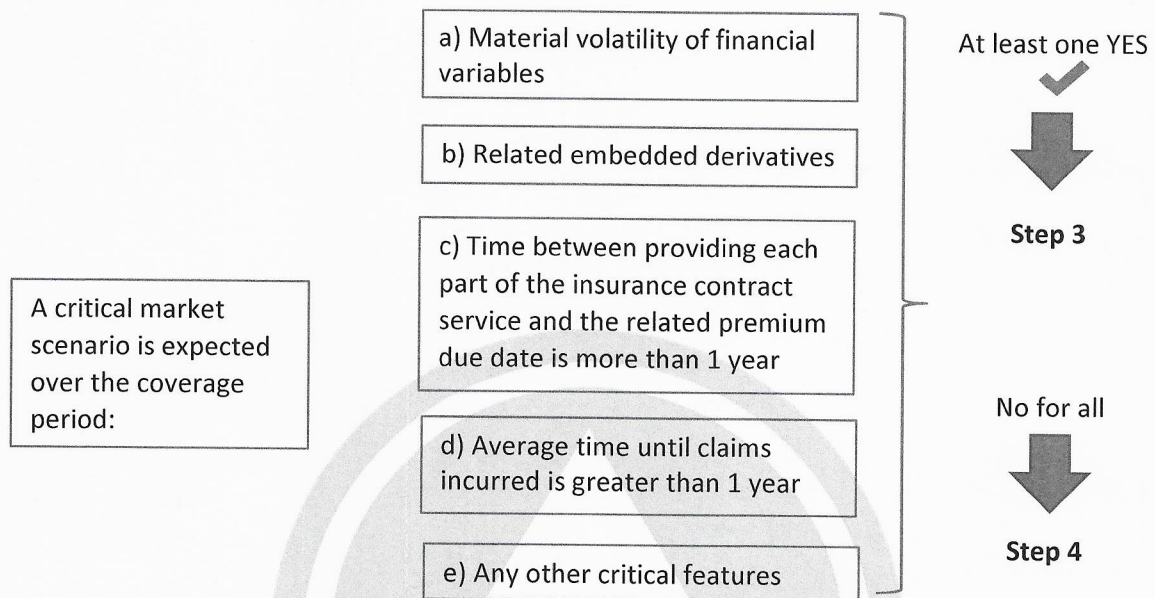
The PAA is eligible, if the group of contracts have a coverage period of up to one year at initial recognition. This means that if the group of contracts have a coverage period of more than 12 months, further assessment is necessary as described in step 2.



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Step 2: Qualitative assessment

If, according to step 1, the coverage period of the group of contracts exceeds one year, a qualitative assessment of the features described below is needed, as they have been identified as features that can cause the measurement of the LRC using the PAA to differ from the one using the GMM. The aim of step 2 is to identify whether at least one of the critical features is included in the group of contracts.

**Critical features and scenarios**

- a. Material volatility of financial variables is expected over the coverage period

Volatility of the interest rate curve underlying the valuation of the insurance liability might cause deviations between the PAA and GMM. Reason for this is that:

- the LRC is discounted with the locked-in interest rate at initial recognition under the PAA, if discounted at all; whereas
- the LRC under the GMM is discounted with the current interest rate for balance sheet presentation.

Consequently, the measurement of the LRC can deviate materially between the PAA and GMM depending on the duration of the cash flows and the entity's expectation on volatility of discount rate curves. For contracts with cash flows paid in a different currency than the functional currency of the issuing entity, also FX changes can have a significant impact on the LRC measurement.

To make sure that the reporting is stable, historical volatilities should be used to estimate future interest rate movements. These estimates should be consistent with other interest rate assumptions of the entity. The impact of the volatility in financial assumptions depends on the coverage period and the time until claims incurred.

Example: This is especially an issue for long duration contracts (e.g. long-term industrial or engineering contracts) as the expected interest rate changes increase for longer time periods.

Step 2: Qualitative assessment**b. The group of contracts contains related embedded derivatives**

If any contract in the group of contracts contains related embedded derivatives that are not separated from the relevant contract, then these could cause significant volatility in the expected cash flows.

The entity needs to identify whether embedded options are included within the individual group of contracts. If yes, further assessment of volatility as described in step 3 is necessary.

It is unlikely for general insurance contracts to contain embedded derivatives.

c. The group of contracts contain contracts where the time between providing each part of the insurance contract service and the related premium due date is more than 1 year

IFRS 17 requires entities to adjust the carrying amount of the liability for remaining coverage under the PAA to reflect the time value of money if insurance contracts in the group of contracts include a significant financing component. If, at contract inception, the entity expects that the time between providing each part of the coverage and the related premium due date is no more than a year, it can be assumed that there is no significant financing component according to IFRS 17.56 and accretion is not required.

A contract would not have a significant financing component if the difference between the time between providing each part of the coverage and the related premium due date arises for reasons other than the provision of finance, e.g. extended warranties. In this case, accretion would not be necessary, but permitted. However, please note that this could cause larger differences between the two measurement methods.

The following table summarizes the LRC balance sheet presentation:

Premium Allocation Approach		General Measurement Model
Contracts do not contain a significant financing component	Accretion is not necessary, but permitted	Accretion is necessary, by using the current interest rate (exception: CSM)
Contracts contain a significant financing component	Accretion is necessary, by using the locked-in interest rate at initial recognition	

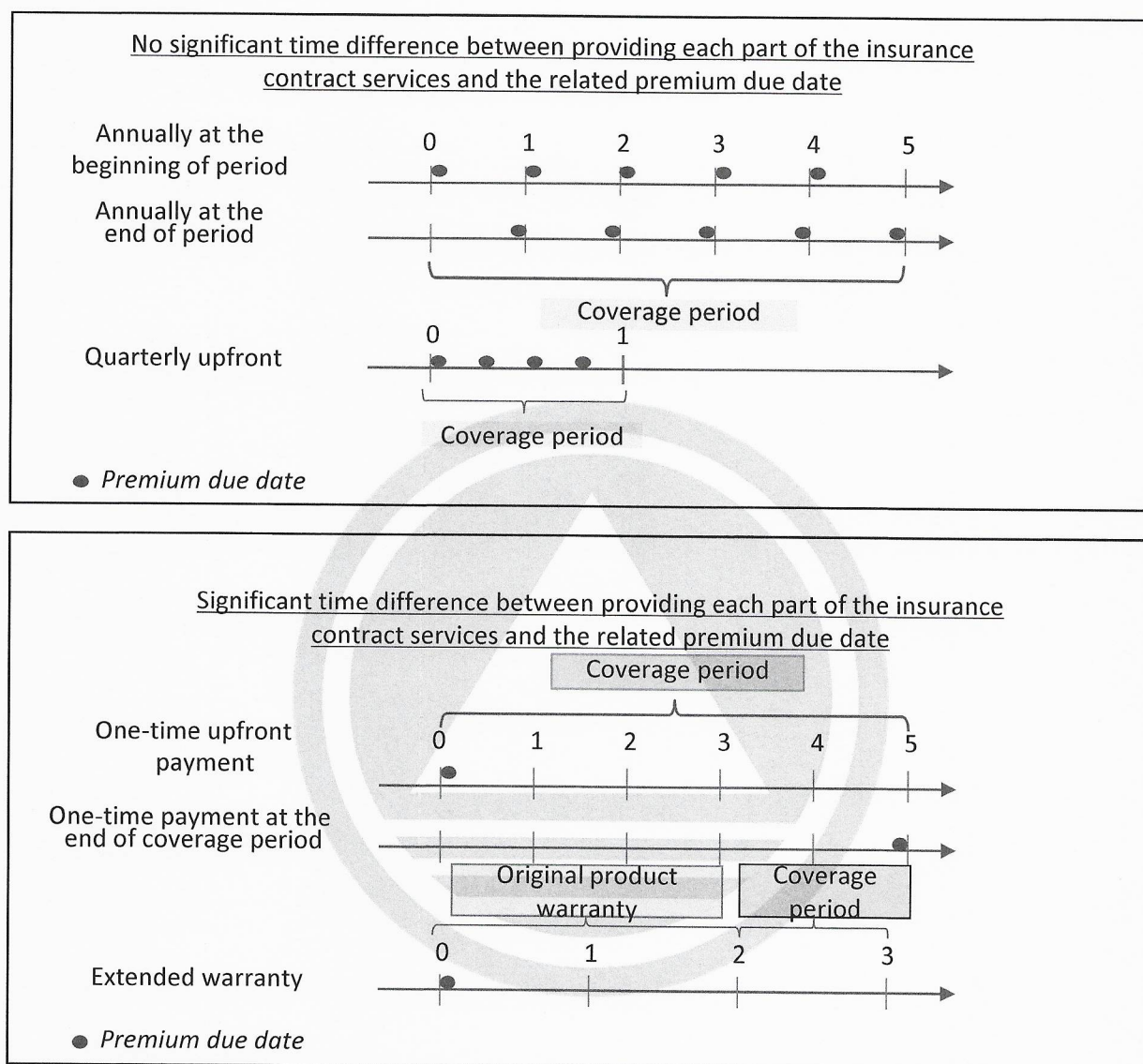
As the GMM is discounted with the current interest rate and the PAA, if at all, with the locked-in interest rate for balance sheet presentation, the impact of the difference between the PAA and GMM depends on the length of the coverage period and on discount rates applied under the GMM.

The longer the time gap between premium payment and coverage, the stronger the impact a change in interest rates would have. Hence, for all contracts with such a time gap, the group of contracts needs to be assessed under step 3.

Examples: One-time upfront premium payment, one-time premium payment at the end of the coverage period, larger timing differences between premium inflow and incurred claims or other financing components.

Step 2: Qualitative assessment**Critical features and scenarios**

- c. The group of contracts contain contracts where the time between providing each part of the insurance contract service and the related premium due date is more than 1 year



- d. The group of contracts contains contracts with an average time until claims incurred greater than one year

As described under a) and c), the GMM (sum of expected cash inflows and outflows and the Risk Adjustment) is discounted with the current interest rate and the PAA, if at all, with the locked-in interest rate for balance sheet presentation. Thus, as the expected cash outflows are discounted with the current interest rate, the greater the time until claims incurred, the higher the discounting effect or impact will be. Therefore, the impact of the difference between the PAA and GMM depends on the length of the coverage period as well as the time until claims incurred and on discount rates applied under the GMM.

- e. The group of contracts contains any other critical features

If the group of contracts includes any other features that would produce a measurement of the LRC that would materially differ from the one produced using the GMM, then the group of contracts needs to be analyzed individually.

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Critical features and scenarios**Step 3: Quantitative assessment for variability**

If the qualitative assessment leads to the conclusion that one or more of the critical features listed above exist, a quantitative assessment under the consideration of the appropriate discount rate assumptions based on the outcome of step 2a is needed.

Thereby, an assessment is necessary, whether the features could result in a significant variability of the underlying cash flows or not and hence a material deviation exists between the LRC under the GMM and the LRC under the PAA.

An approach is to measure variability as the ratio based on the difference between the two measurement models divided by the GWP of the group of contracts:

$$\frac{\text{LRC}_{\text{PAA}} - \text{LRC}_{\text{GMM}}}{\text{GWP}_{\text{group of contracts}}} \leq x\%$$

where $x\%$ is the assumed significance level.

If the resulting variability of the expected cash flows is significant ($> x\%$), the PAA would not be a reasonable approximation of the GMM. Thus, the entity would need to apply the GMM for the measurement of the LRC.

In general, one can expect the difference between the two measurement models to be higher in the first years of coverage, as the different interest rates have the highest impact then compared to the last coverage years. However, the LRC under the PAA should not differ materially from the LRC under the GMM in every year over the whole coverage period. One does not need to consider the sum of the differences over all future periods, as the sum of all future cash flows is already considered in the LRC of each period.

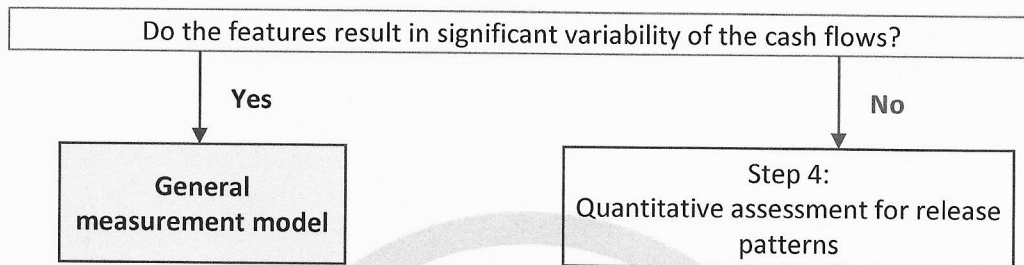
The assessment mainly relates to changes in financial assumptions that do not unlock the CSM. This is because under the GMM, the CSM for a group of contracts is not adjusted (not unlocked) for a change in the present value of future cash flows of the group if they are caused by changes in assumptions that relate to financial risks. However, the CSM is adjusted (unlocked) for changes in estimates of future cash flows caused by a change in non-financial assumptions.

Thus, any variability in the fulfilment cash flows (mainly the discounted best estimate liability) that unlocks the CSM, does not need to be analyzed as the PAA needs to be a reasonable approximation of the GMM as a whole including the CSM. Therefore, only changes in financial variables need to be analyzed.

The quantitative assessment should be done on a base case and under relevant stress scenarios in that the qualitative characteristics identified in step 2 are shocked. The use of stress tests will help the entity to understand the impact of such characteristics in terms of LRC between both measurement models and confirm the results from the base case.

Indicative examples of stress tests are as follows:

- Financial assumption changes: Apply a shock in the discount yield curve corresponding to the risk appetite framework
- Technical assumption changes: Change in ultimate loss ratio of +/-10% (apply at the midpoint unless incidence of risk is not straight line)
- Earning patterns: Change the earning pattern of the LRC (to be applied only if there is uncertainty whether straight line is appropriate)
- Uncertainty on duration of the contract: Change in the duration of the contract (to be applied only if there is uncertainty over contract duration)



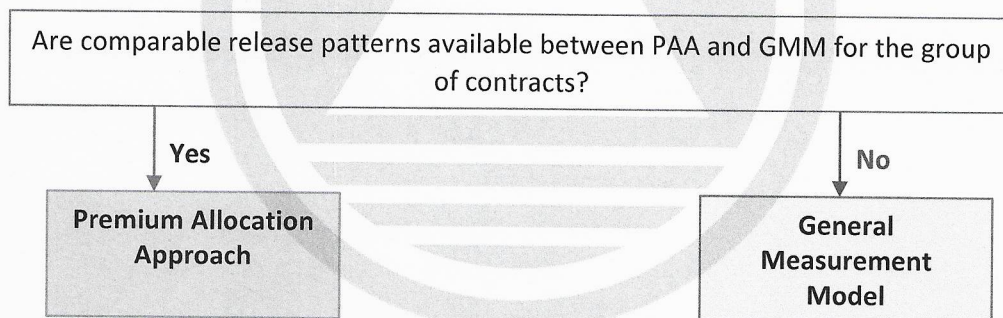
Step 4: Quantitative assessment for release patterns

If no critical contract features exist, no material volatility of market interest rates is expected over the coverage period (from step 2) or if no significant variability is expected in the cash flows (from step 3) then the entity needs to check whether comparable release patterns are available between PAA and GMM.

This is not an issue, if a linear release pattern for the Unearned Premium Reserve is used for current IFRS reporting, as the assumption is that this could in analogy also be assumed for the expected insurance service expenses under IFRS 17. If a non-linear release pattern is used under current IFRS reporting, the entity needs to analyze whether the release patterns under the PAA and GMM create a material difference.

The reasoning behind this, is the following:

- Under the GMM, the LRC is not released uniformly for all components:
 - the CSM release pattern follows the coverage units, which take the size and the duration of the contracts within the group of contracts into account (essentially “passage of time”)
 - the Risk Adjustment is released following the release of risk over the coverage period
 - the release of the Best Estimate Liability follows the expected insurance service expenses at the beginning of the period.
- Under the PAA, the expected premiums are released over the coverage period
 - on the basis of the passage of time, **but**
 - if the expected pattern of release of risk differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses (IFRS 17.B126).



Illustrative example:

A 2-year contract with premium payment of 200 at initial recognition ($t = 0$)

Further assumptions: no acquisition expenses, no interest accretion or discounting effect.

Loss ratio = 90%, therefore the BEL (expected cash outflows) is 180

Expected insurance service expenses: 75% in year 1; 25% in year 2

Risk Adjustment is set at 10

CSM follows linear release

Therefore, CSM = 10 (zero gain at initial recognition), as:

- Expected cash inflows = 200
- Expected cash outflows = 180
- Discount effect = 0
- Risk adjustment = 10
- $CSM = \text{Inflows} - \text{Outflows} + \text{Discount effect} - \text{Risk adjustment} = 200 - 180 + 0 - 10 = 10$

Thus, the LRC = 200 at initial recognition

Risk release follows expected insurance service expenses

Actual claims and cost follow expected expenses: 135 in year 1; 45 in year 2

Under PAA,

PAA	t = 0	t = 1	t = 2
- B/S			
LRC	200	50	0
- P&L			
Revenue		150	50
Insurance service expense		(135)	(45)
Insurance service result		15	5

At $t = 1$: 75% of the premium is released (following expected timing of incurred insurance service expenses) (= 150)

At $t = 2$: 25% of the premium is released (= 50)

Step 4: Quantitative assessment for release patterns**Illustrative example:**

Under GMM,

GMM	t = 0	t = 1	t = 2
- B/S			
CSM	10	5	0
RA	10	2.5	0
PVCF (current estimate)	180	45	0
LRC	200	52.5	0
- P&L			
Revenue		147.5	52.5
Insurance service expense		(135)	(45)
Insurance service result		12.5	7.5

At t = 1: 50% of the CSM is released = 5

At t = 2: 50% of the CSM is released = 5

At t = 1: 75% of the risk adjustment is released = 7.5

At t = 2: 25% of the risk adjustment is released = 2.5

At t = 1: Revenue = Released premium + Released CSM – Released RA = 150 + 5 – 7.5 = 147.5

At t = 2: Revenue = Released premium + Released CSM – Released RA = 50 + 5 – 2.5 = 52.5

Example for the quantitative assessment for variability

$$\frac{LRC_{PAA} - LRC_{GMM}}{GWP_{\text{group of contracts}}} = \frac{|50 - 52.5|}{200} = 1.25\%$$

Comparison of the LRC between PAA and GMM are assessed against GWP as GWP is an intuitive metric used to translate the allocated materiality threshold of a group of contracts. This is an example of how the threshold could be determined.

Assume if the allocated materiality threshold is ฿2.5mil for PAA eligibility assessment. Other relevant facts are as follows:

- according to their business plan, this company is expected to write ฿50mil GWP insurance contracts requires PAA eligibility assessment of IFRS17.53(a) due to contract coverage period exceeds 1 years.
- according to their business plan, this company is expected to write ฿500m GWP in the upcoming cohort.

The calculation for the threshold measure is set at 5% in this case.

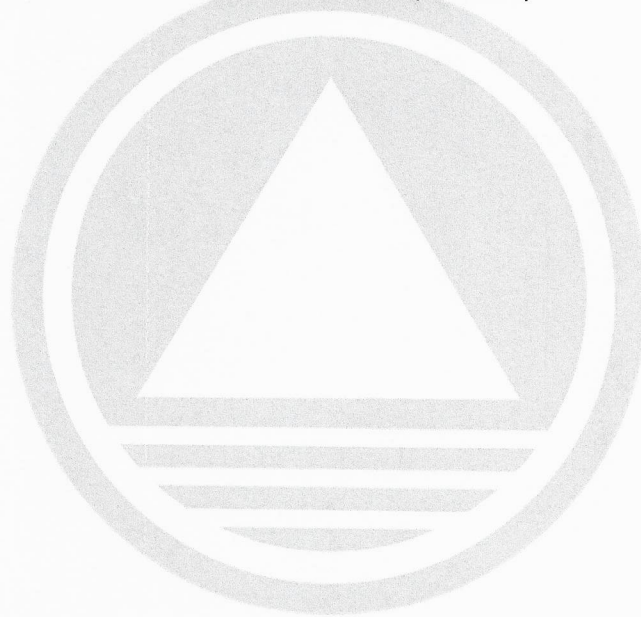
Step 4: Quantitative assessment for release patterns (cont'd)

For those groups that fail the threshold of 5% GWP (or Premium Ceded) at group level, the accounting errors if uncorrected will be aggregated and check against the allocated materiality threshold of ฿2.5mil at entity for the final validation of whether GMM engine is required for the upcoming financial year audit when IFRS17 is effective. Absolute parameter means the accounting errors is not offset

- between positive and negative; and
- between gross and reinsurance.

Nonetheless, entities may decide to use other relevant denominators to best reflect their business. In deriving the percentage [%] of variance, entities are reminded to be mindful and reference should be made back to the Conceptual Framework on Materiality (para 2.11).

In performing quantitative assessment, entities can choose their own approach at their discretion as the standard is not prescriptive. The example is meant to be an illustrated example/measure/threshold, in which companies can adopt literally.



4.0 Illustrations

4.1 Onerous Contract Testing

Fulfilment Cash Flows (FCF)

This method to estimate the fulfilment cash flows is to leverage on the existing URR and PRAD assumptions for premium liabilities. The future cash flows will be discounted, and risk adjustment will be added for the fulfilment cash flows estimate.

The other relevant assumptions include the following:

- expected future claims incurred pattern for the run-off of unexpired policies
- future maintenance expenses for the run-off of unexpired policies
- risk adjustment for the run-off of unexpired policies
- Incurred to paid pattern;
- Future claims handling expenses (CHE);
- discount rates for the quantification of the time value of money and financial risk (effect and changes).

LFRC – excluding loss component (PAA)

LFRC excluding loss component =

LFRC from premiums — LFRC from commissions — LFRC from acquisition costs + LFRC from non collectible premiums + LFRC from non-distinct investment component

Where;

- “LFRC from Premiums” refers to unearned premium reserve (“UPR”) less premium receivables;
- “LFRC from Commissions” refers notional deferred commissions cost paid (“DCC”) less commissions payable;
- “LFRC from Acquisition Costs” refers to the notional deferred acquisition cost paid (“DAC”);
- “LFRC from non collectible premiums” refers to provision arising from the insurance contract based on the impairment rate calculated using a forward-looking assumption of non-collection of premium receivables, otherwise can consider Expected Credit Loss model as proxy; and
- “LFRC from non-distinct investment component” refers to the value of the non-distinct investment component identified within the insurance contract.

The UPR referred in the LFRC from Premiums is broadly consistent with the RBC practice, however, the earning pattern shall reflect the expected pattern of release of risk during the coverage period if it differs significantly from the basis of passage of time.

The notional deferred commissions cost paid and/or notional deferred acquisition cost paid may not be applicable for some entities that elect the accounting policy choice to recognise any insurance acquisition cash flows as expenses when it incurs those costs.

LFRC – loss component

LFRC – Loss component = FCF - LFRC – excluding loss component

The FCF is a requirement consistent with the general measurement model.

4.2 Liability for Remaining Coverage Computation for PAA

General formula

$$\begin{aligned}
 LRC_{EOP} &= LRC_{prior} + Premium\ Received_{current} - IACF_{current} + AC_{current} + \\
 &\quad Financing\ Component_{EOP} - Insurance\ Revenue_{current} - IC\ Refund_{current} + LC_{SOP} + \\
 &\quad LC_{current} [Reversal\ of\ losses] + Effect\ of\ Currency\ Exchange\ Differences_{EOP} \\
 &= UPR_{prior} + IC_{prior} - DAC_{prior} + LC_{prior} - Premium\ Receivables_{prior} + UPR_{SOP} + \\
 &\quad IC_{SOP} - UPR_{exit} - Premium\ Receivables_{current} + DAC_{prior} - DAC_{EOP} + \\
 &\quad Financing\ Component_{current} - UPR_{prior} - UPR_{SOP} + UPR_{exit} + \\
 &\quad UPR_{EOP} - Financing\ Component_{current} - IC_{SOP} - IC_{prior} + IC_{EOP} + LC_{EOP} - \\
 &\quad LC_{prior} + Effect\ of\ Currency\ Exchange\ Differences_{EOP} \\
 &= UPR_{EOP} + IC_{EOP} + LC_{EOP} - Premium\ Receivables_{EOP} \\
 &\quad + Effect\ of\ Currency\ Exchange\ Differences_{EOP} - DAC_{EOP}
 \end{aligned}$$

Key formulas used to simplify the general formula

$$\begin{aligned}
 LRC_{prior} &= LRC\ excl.\ LC_{prior} + LC_{prior} - Premium\ Receivables_{prior} \\
 &= UPR_{prior} + IC_{prior} - DAC_{prior} + LC_{prior} - Premium\ Receivables_{prior} \\
 Premium\ Received_{current} &= GWP\ net\ of\ refund - Premium\ Receivables_{current} \\
 &= UPR_{SOP} + IC_{SOP} - UPR_{exit} - Premium\ Receivables_{current} \\
 DAC_{EOP} &= IACF_{current} + DAC_{prior} - AC_{current} \\
 Financing\ Component_{EOP} &= Interest\ Accretion\ (Investment\ Component\ and\ LRC\ excl.\ LC)_{EOP} + \\
 &\quad Change\ in\ Discount\ Rate_{EOP} \\
 Insurance\ Revenue_{current} &= UPR_{prior} + UPR_{SOP} - UPR_{exit} - UPR_{EOP} + Financing\ Component_{current} \\
 IC\ Refund_{current} [Investment\ Component\ Transfer\ to\ LIC] &= IC_{SOP} + IC_{prior} - IC_{EOP} \\
 LC_{current} [Reversal\ of\ losses] &= LC_{EOP} - LC_{SOP} - LC_{prior}
 \end{aligned}$$

Note: Reversal of losses occur when there is an increase/(decrease) in loss component or change in loss component assumption.

Effect of Currency Exchange Differences_{EOP}

$$\begin{aligned}
 &= (LRC_{prior} + Premium\ Received_{current} - IACF_{current} + AC_{current} - IC\ Refund_{current} + \\
 &\quad Financing\ Component_{EOP} - Insurance\ Revenue_{current} + LC_{SOP} + \\
 &\quad LC_{current} [Reversal\ of\ losses])_{functional\ currency} \times (Start\ Rate - End\ Rate)
 \end{aligned}$$

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Undiscounted approach for LC

$$LC_{EOP} = URR_{EOP} + RA_{EOP} - UPR_{EOP}$$

$$= \%LC_{EOP} * UPR_{EOP}$$

$$\%LC_{EOP} = \left(\frac{URR_{EOP} + RA_{EOP} - UPR_{EOP}}{UPR_{EOP}} \right) \times 100\%$$

$$= \left(\frac{URR_{EOP} + RA_{EOP}}{UPR_{EOP}} - 1 \right) \times 100\%$$

$$LC_{SOP} = \%LC_{SOP} * UPR_{SOP}$$

$$\%LC_{SOP} = \left(\frac{URR_{SOP} + RA_{SOP} - UPR_{SOP}}{UPR_{SOP}} \right) \times 100\%$$

$$= \left(\frac{URR_{SOP} + RA_{SOP}}{UPR_{SOP}} - 1 \right) \times 100\%$$

Note: LC_{SOP} is recalculated using new assumptions

Discounted approach for LC

Note: Do not elect practical expedient IFRS 17.57b, IFRS 17.59b

1. All calculation of URR, RA shall be replaced with fulfilment cashflows calculated using GMM.
2. Future cashflows or premium receipts (receivables are agent balance in non-life insurance) are potentially discounted as well.
3. In some countries, the external auditor excludes balances due from broker in FCF and treat it as other receivable accounted under IFRS 9.

4.3 Actual Cash Flows – Refund of Premiums, NCD, NCB

Background

The IASB staff highlighted in the April 2019 TRG that it is necessary to distinguish between investment component and Refunds of Premiums 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 halfway 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 refunds of premiums. In this section, we will clarify the difference between an investment component and premium refund and determine the appropriate accounting treatment in disclosures.

Refund of Premiums ("RoP")

Insurer A issues a bond insurance contract on 1st September 20x3. In exchange for a premium of ฿ 600,000 and collateral deposit of ฿10,000,000, the contract promises to pay:

- any amount up to ฿50mil if an insured event occurs within a three-year coverage period; or
- in addition to refund of security deposit, a refund of premiums for unused coverage applies if the policyholder terminates the contract within the coverage period, as summarised below.

Timing of termination	Refund amount	Refund of security deposit
Within year 1	฿400,000	฿10,000,000 (refund at expiry date)
Within year 2	฿200,000	
Within year 3	฿0	

Insurer A identifies that this contract does include non-distinct investment component of ฿ 10,000,000. This is because the contract does require payment even when no covered event occurs. Hence the premium of ฿600,000 and collateral deposit are accounted separately from inception. ฿ 600,000 will be accounted as insurance revenue over a period of three years in a straight-line pattern. Let explore the following suggestion on how should the refunds be considered when a claim is made .e.g in year 2 rather than the contract being terminated.

Refund of Premiums ("RoP")

View 1: treat the amount repay to policyholder as investment component

Scenario 1 – No claim	01/09/20x3	01/09/20x4	01/09/20x5	01/09/20x6
Opening balance	0	10,600,000	10,400,000	10,200,000
Premium received on initial recognition	10,600,000	0	0	0
Premium received/refunded during period	0	0	0	0
Insurance revenue applying B126	0	-200,000	-200,000	-200,000
Investment component incurred	0	0	0	-10,000,000
Closing balance	10,600,000	10,400,000	10,200,000	0

Scenario 2 – Claim in second year	01/09/20x3	01/09/20x4	01/09/20x5	01/09/20x6
Opening balance	0	10,600,000	10,400,000	0
Premium received on initial recognition	10,600,000	0	0	0
Premium received/refunded during period	0	0	-200,000	0
Insurance revenue applying B126	0	-200,000	-200,000	0
Investment component incurred	0	0	-10,000,000	0
Closing balance	10,600,000	10,400,000	0	0

Refund of Premiums ("RoP")

View 2: treat the amount repay to policyholder as RoP

Scenario 1 – No claim	01/09/20x3	01/09/20x4	01/09/20x5	01/09/20x6
Opening balance	0	10,600,000	10,400,000	10,200,000
Premium received on initial recognition	10,600,000	0	0	0
Premium received/refunded during period	0	0	0	-10,000,000
Insurance revenue applying B126	0	-200,000	-200,000	-200,000
Investment component incurred	0	0	0	0
Closing balance	10,600,000	10,400,000	10,200,000	0

Scenario 2 – Claim in second year	01/09/20x3	01/09/20x4	01/09/20x5	01/09/20x6
Opening balance	0	10,600,000	10,400,000	0
Premium received on initial recognition	10,600,000	0	0	0
Premium received/refunded during period	0	0	-10,200,000	0
Insurance revenue applying B126	0	-200,000	-200,000	0
Investment component incurred	0	0	0	0
Closing balance	10,600,000	10,400,000	0	0

These two views are aligned to statements made by the IASB staff in the April TRG that they did not intend to have a different treatment between investment component and RoP. This also follows from the updated paragraph in IFRS 17 ED 103(c) which implies that both investment components and RoP should be excluded from the insurance revenue and expenses. However, the preference is View 1 because it presents the Actual Cash Flows in disclosure more accurately. Secondly, the security deposit may accrue interest hence it is not practical to be handled as RoP.

No Claim Discount ("NCD")

Insurer B issues a motorcar insurance contract on 1st September 20x3. Due to good driving record of the risk, agent of Insurer B discounted the original premium of ฿1,000,000 by ฿200,000 at the inception. In exchange for a premium net of NCD of ฿800,000, the contract promises to pay:

- any amount up to ฿50mil if an insured event occurs within a year coverage period; or
- a refund of premiums for unused coverage applies if the policyholder terminates the contract within the coverage period, as summarised below.

Timing of termination	Refund amount	NCD
Within Q1	฿600,000	฿200,000 (discounted upfront)
between Q1 and Q2	฿400,000	
between Q2 and Q3	฿200,000	
After Q3	฿0	

Insurer B determines that this contract **does include non-distinct investment component** of ฿200,000. This is because the contract received discount upfront therefore not contingent on covered event. The discount premium of ฿800,000 will be accounted as insurance revenue over a period of one year in a straight-line pattern.

Let explore the following suggestion on how should the NCD be considered.

View 1: treat the discount to policyholder as investment component

	01/09/20x3	01/12/20x3	01/03/20x4	01/06/20x4	01/09/20x4
Opening balance	0	800,000	600,000	400,000	200,000
Premium received on initial recognition	1,000,000	0	0	0	0
Premium received/refunded during period	0	0	0	0	0
Insurance revenue applying B126	0	-200,000	-200,000	-200,000	-200,000
Investment component incurred	-200,000	0	0	0	0
Closing balance	800,000	600,000	400,000	200,000	0

No Claim Discount ("NCD")

View 2: treat the discount to policyholder as RoP

	01/09/20x3	01/12/20x3	01/03/20x4	01/06/20x4	01/09/20x4
Opening balance	0	800,000	600,000	400,000	200,000
Premium received on initial recognition	800,000	0	0	0	0
Premium received/refunded during period	0	0	0	0	0
Insurance revenue applying B126	0	-200,000	-200,000	-200,000	-200,000
Investment component incurred	0	0	0	0	0
Closing balance	800,000	600,000	400,000	200,000	0

Again, these views are aligned to statements made by the IASB staff in the April TRG that they did not intend to have a different treatment between investment component and RoP. This also follows from the updated paragraph in IFRS 17 ED 103(c) which implies that both investment components and RoP should be excluded from the insurance revenue and expenses. **However, the premium is discounted upfront when the policy is issued, therefore preference is View 2 because it presents the Actual Cash Flows in disclosure more accurately.**

No Claim Bonus ("NCB"), dependent on renewal

Insurer C issues a motorcar fleet insurance contract on 1st September 20x3. Due to high uncertainty of the risk underwritten, Insurer C offers at the policy year end a NCB of ฿200,000 in the event of no claim. In exchange for a premium of ฿1,000,000 the contract promises to pay:

- any amount up to ฿50mil if an insured event occurs within a year coverage period; or
- a refund of premiums for unused coverage applies if the policyholder terminates the contract within the coverage period, as summarised below.

Timing of termination	Refund amount	NCB
Within Q1	฿750,000 + ฿0	฿200,000 (refund at expiry date)
between Q1 and Q2	฿500,000 + ฿0	
between Q2 and Q3	฿250,000 + ฿0	
After Q3	฿0 + ฿200,000	

Insurer C determines that this contract **does include non-distinct investment component** of ฿200,000. This is because the contract does require payment in all circumstances when the contract is endorsed for NCB. However, the premium of ฿1,000,000 is accounted with explicit provision for NCB as in the current practice. ฿1,000,000 will be accounted as insurance revenue over a period of one year in a straight-line pattern. Let explore the following suggestion on how should the NCB that is dependent on renewal be considered.

View 1: treat the NCB repayment to policyholder as investment component

	01/09/20x3	01/12/20x3	01/03/20x4	01/06/20x4	01/09/20x4
Opening balance	0	1,000,000	800,000	600,000	400,000
Premium received on initial recognition	1,000,000	0	0	0	0
Premium received/refunded during period	0	0	0	0	0
Insurance revenue applying B126	0	-200,000	-200,000	-200,000	-200,000
Investment component incurred	0	0	0	0	-200,000
Closing balance	1,000,000	800,000	600,000	400,000	0

Experience Refund ("NCB"), dependent on renewal

View 2: treat the NCB repayment to policyholder as RoP

	01/09/20x3	01/12/20x3	01/03/20x4	01/06/20x4	01/09/20x4
Opening balance	0	1,000,000	750,000	500,000	250,000
Premium received on initial recognition	1,000,000	0	0	0	0
Premium received/refunded during period	0	0	0	0	-200,000
Insurance revenue applying B126	0	-250,000	-250,000	-250,000	-50,000
Investment component incurred	0	0	0	0	0
Closing balance	1,000,000	750,000	500,000	250,000	0

Again, these views are aligned to statements made by the IASB staff in the April TRG that they did not intend to have a different treatment between investment component and RoP. This also follows from the updated paragraph in IFRS 17 ED 103(c) which implies that both investment components and RoP should be excluded from the insurance revenue and expenses. **However, as current practice of NCB repayment is an endorsement to the original contract at year end, therefore the preference is View 1 because it presents the Actual Cash Flows in disclosure more accurately.**

5.0 Frequently Asked Questions

5.1 PAA – Eligibility

Background

IFRS17.53

An entity may apply the premium allocation approach if, and only if:

- a. The entity reasonably expects that such a simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32-52; or
- b. The coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

Paragraphs 32-52 are the requirements in IFRS 17 to measure the fulfilment cash flows under the GMM.

Question 1:

Should entities be required to take a quantitative approach to determine if the group of contracts meets the PAA eligibility test in paragraph 53(a)?

View A:

Yes, a quantitative approach is always required when assessing if a group of contracts is eligible for the PAA. ☒

View B:

No, the approach when determining if a group of contracts meet the PAA eligibility test can be qualitative.

Explanation

View B

However, we think that the small sized companies shall be given a practical expedient to apply qualitative method only if local option is available. We have considered the compliance cost against the benefits, in this regard. Please refer to TGIA discussion with OIC and TFAP for latest position.

Question 2:

In case of a quantitative assessment, how many scenarios should be considered in order to determine to reasonably expect the measurement to not differ materially?

View A: An entity must consider a range of scenarios, in line with paragraph 33(a).

View B: Companies may test only a limited number of scenarios. ☒

Explanation

View B

We think the standard is designed with principles based instead of rule based in its application.

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Question 3:

What threshold should be applied for contracts to be eligible for the PAA?

View A: 5-10% difference between the PAA LRC and GMM LRC

View B: More than 10% difference between the PAA LRC and GMM LRC

View C: Other approaches



Explanation

View C

The entity's audit's materiality limits shall be applied to the calculation and apply judgement on a case to case basis. Similar to the choice of denominator.

Question 4:

Is an entity allowed to test the PAA eligibility for a selection of representative contracts within the group?

View A:

No, the assessment should be performed for the entire group of contracts.

View B:



Yes, but only if certain criteria are met.

Explanation

View B

Even though IFRS 17.53(a) requires a comparison of the LRC for the group and 53(b) refers to each contract in the group, an entity may simplify the assessment if the following criteria are met:

- The individual contracts within the group do not contain a mix of contracts with and without embedded derivatives.
- There are no significant differences between loss/combined ratios of the individual contracts included within the group.
- The contracts within the group are homogenous in the nature of the insurance risks transferred to the policyholder
- There are no significant differences in the length of the coverage period
- Interest rates do not have a significantly different impact on the individual contracts within the group.
- There are no other differences between individual contracts that cause significant differences in variability within the group of contracts

Question 5:

How should “not differ materially” in IFRS 17.53(a) be interpreted?

View A:

Materiality is defined within IAS 1 and should be assessed in light of the financial statements as a whole.

View B:

Materiality should be applied in the context of the comparison of the LRC between the PAA and GMM at the group level.

Explanation

IAS 1.7 defines ‘Material’ as “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

IFRS Practice Statement 2 - Making Materiality Judgements (Practice Statement) provides reporting entities with additional guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. The Practice Statement is non-mandatory guidance developed by the IASB and it is not a Standard. Therefore, its application is not required to state compliance with IFRS Standards.

Materiality must be assessed at the level of the reporting entity. In order to assess materiality at this level, the impacts of all groups must be aggregated and compared with the result using the GMM for all groups to check the result is not materially different.

5.2 PAA – Insurance Revenue

Background

IFRS17.B126

When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of service coverage:

- a. on the basis of the passage of time; but
- b. if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

Question 1:

Do “expected premium receipts” incorporate current assumptions surrounding variable premiums? Variable premiums arise from premium adjustment.

View A:



Yes, “expected premium receipts” should be updated for current assumptions surrounding variable premiums.

View B:

No, “expected premium receipts” should be based on the assumptions at initial recognition.

View C:

The entity has a choice to either update or retain the initial recognition assumptions for “expected premium receipts”.

Explanation

View A

In practice, the premium adjustment is due once endorsement to the existing contract is transacted in the system. However, there are also company who don't process premium adjustment in the system, hence the preference is to recognized the premium adjustment as insurance revenue when it is collected.

Question 2:

Should the insurance revenue be adjusted for the expected pattern of release of risk?

View A: Yes.

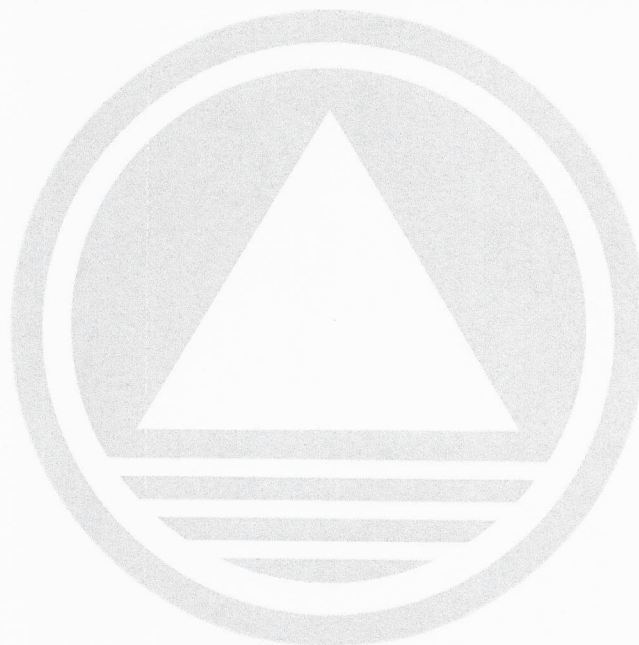


View B: No.

Explanation

View A

The entity should test whether the expected pattern of release of risk during the coverage period differs significantly from the passage of time, in the PAA eligibility test. Alternatively, company can document their qualitative assessment on the expected pattern of release of risk based on historical experience.



5.3 PAA – Release of Risk

Background

Under the premium allocation approach (PAA), IFRS 17.B126 specifies that the allocation of expected premium receipts to each period of service as insurance revenue is:

- on the basis of the passage of time, but
- if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

However, it is not clear from the standard requirements how to evaluate the term “expected pattern of release of risk”.

Question 1:

Does the expected pattern of release of risk during the coverage period differ significantly from the passage of time based on **total exposure** of the group of contracts?

View A:

Yes, pattern of release of risk is determined at the group of contracts level.

View B:



No, pattern of release of risk is determined at the individual contract level.

Explanation

View B

In practice, the direct insurer will process the earned premium in premium register for gross and RI held processed at premium class level.

However, we acknowledge that reinsurer may assume pattern of release of risk determined at the individual reinsurance contract issued level, given its limited access of information at the individual underlying contract level.

5.4 PAA – Subsequent Measurement

Background

IFRS17.55(b)

Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

- plus the premiums received in the period;
- minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);
- plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);
- plus any adjustment to a financing component, applying paragraph 56;
- minus the amount recognised as insurance revenue for insurance contract services coverage provided in that period (see paragraph B126); and
- minus any investment component paid or transferred to the liability for incurred claims.

Question 1:

On subsequent measurement of the PAA loss component, how should “the carrying amount of the liability of remaining coverage applying paragraph 55” (in IFRS 17.57a) be interpreted?

View A:



The liability for remaining coverage should be determined using IFRS 17.55(b) excluding the previously recognised loss component as required in IFRS 17.58.

View B:

The liability for remaining coverage should be determined using IFRS 17.55(b) grossed up to include the previously recognised loss component as required in IFRS 17.58.

Explanation

View A

The requirement of calculating the loss component is simply the difference computed in paragraph 57 in each reporting period. Hence it only requires the sole allocation and reversal, but not the systematic allocation to insurance revenue and insurance finance income and expenses as seen in the general measurement model (IFRS17.50a).

This simplification would greatly reduce the effort required for product that is eligible for premium allocation approach. Our understanding is that the systematic allocation of loss component is tedious, and it requires a movement of insurance contract liability by building block components in the general measurement model e.g. future cash flows, risk adjustment and discounting in a step-by-step run.

Question 2:

When applying the PAA, when should an already onerous contract be remeasured because “facts and circumstances indicated that a group of insurance contracts was onerous”?

View A:

Each reporting period

View B:

When facts and circumstances indicate the group has become more/less onerous

View C:

Both view A or view B are acceptable.

Explanation**View C**

IFRS 17.57 stated “If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:.....”

We interpreted that the standard doesn’t define the minimum frequency to revisit the facts and circumstances. However, it is not acceptable that the preparer will never revisit the facts and circumstances in a year.

Question 3a:

If you agree with View A of Question 2, do you agree that the PAA loss component will be periodically remeasured (and consequentially, reversed) through comparison of the PAA LRC and future FCFs?

View A:

Yes

View B:

No

View C:

Yes, but the FCFs and assumptions determined at initial recognition of the PAA loss component can continue to be used in subsequent periods unless facts and circumstances indicate that a change in assumptions has resulted in an increase to current FCFs.

Explanation**View A**

The remeasurement can take into account of the change in discount rates (if any) and other assumptions. During a turbulence time in underwriting, emerging data may allow the company react gradually and earlier than financial year end so that no major adjustment to accounting estimates is made only at year end.

Question 3b:

If you agree with View B of Question 2, how should the PAA loss component be remeasured (and consequentially, reversed) each reporting period?

View A:

Consistent with the pattern for recognising expected premiums as insurance revenue under 17.B126 (i.e. undiscounted URR approach)

View B: ☒

Through a pattern separate from the pattern for releasing expected premiums as insurance revenue under 17.B126 (i.e. discounted URR approach)

View C:

The entity has a choice at inception whether to remeasure PAA loss component either using the discounted or undiscounted approach subsequently.

Question 4:

Is the adjustment for financing component in LFRC compulsory?

View A: Yes ☒**View B: No****Explanation****View A**

The entity should test whether the financing component is significant in the **PAA eligibility test**. If the entity is not intending to measure PAA with financing component, the interest accretion should be switched off during the PAA eligibility test. Most big four accounting firms automatically switch on the financing component in the PAA eligibility tool.

5 .5 Reinsurance Contracts Held – Measured Applying the PAA**Background*****IFRS17.69***

An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

- the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or
- the coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

Question 1:

How should the acquisition costs be treated under the PAA adapted for reinsurance contracts held?

View A: Treat in similar way as for insurance contracts measured using the PAA.



View B: Always expense when incurred in profit or loss.

View C: Always include the acquisition costs in the measurement of the ARC.

Explanation**View A**

Based on paragraphs 55 and 69, acquisition costs incurred for reinsurance contracts held will be treated according to accounting policy choice, in the same manner as for direct insurance contracts measured using the PAA.

If the coverage period is more than a year or if paragraph 59(a) is not applied (when the coverage period is no more than a year), the insurance acquisition cash flows are recognised as part of the liability for remaining coverage and amortised to profit or loss (paragraph 55) over time.

5.6 Derecognition of Contracts under PAA**Background**

IFRS 17 does not contain guidance on how contracts accounted for under the premium allocation approach (PAA) should be derecognised when the contracts are part of a group. Because the liability for remaining coverage (LRC) under the PAA does not recognise a separate CSM, IFRS 17 is unclear if profit or loss should be impacted when a PAA contract is derecognised. Therefore, arguably, an appropriate application must be determined by entities, considering the requirements applicable to the general model.

Specific issues to consider for a contract accounted for under the PAA are:

- The PAA model does not include an explicit CSM, so there is no CSM that can be identified and adjusted.
- Under the general model, the CSM is maintained (i.e., kept and updated) for the group of contracts, not for individual contracts. The CSM would therefore be updated/adjusted for the measurement of the entire group and not for an individual contract.
- The derecognition (e.g., from lapse, transfer or modification) may have a net effect that will be adjusted against the CSM under the general model. Such net effects could, for example, be the difference between the derecognised fulfilment cash flows and the surrender payment or the difference between the change in the contractual cash flows resulting from derecognition and the premium charged by the third party.

Question 1:

Should any gain or loss on derecognition of contracts measured using the premium allocation approach be recognised in profit or loss immediately?

Facts given

GWP at issued = THB5,000

Coverage period = 5 years

Earning pattern = on the basis of passage of time

UPR before cancellation = THB3,000

Amount refunded on cancellation = THB1,800

View A: Yes, the derecognition gain or loss is recognised in profit or loss immediately.

Year	1	2	3	4	5	Total
Earned Premium	1,000	1,000	1,000	1,000	1,000	5,000
Cancellation Premium			-1,000	-1,000	-1,000	-3,000
Total	1,000	1,000	-	-	-	2,000

View B: No, the derecognition gain or loss is deferred and recognised in profit or loss over the remaining coverage period.

Year	1	2	3	4	5	Total
Earned Premium	1,000	1,000	1,000	1,000	1,000	5,000
Cancellation Premium			-600	-600	-600	-1,800
Total	1,000	1,000	400	400	400	3,200

View C: Accounting policy choice

Explanation**View C**

The Standard is unclear so either View A or View B could be applied.

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