



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 5: Attributable Insurance Expenses

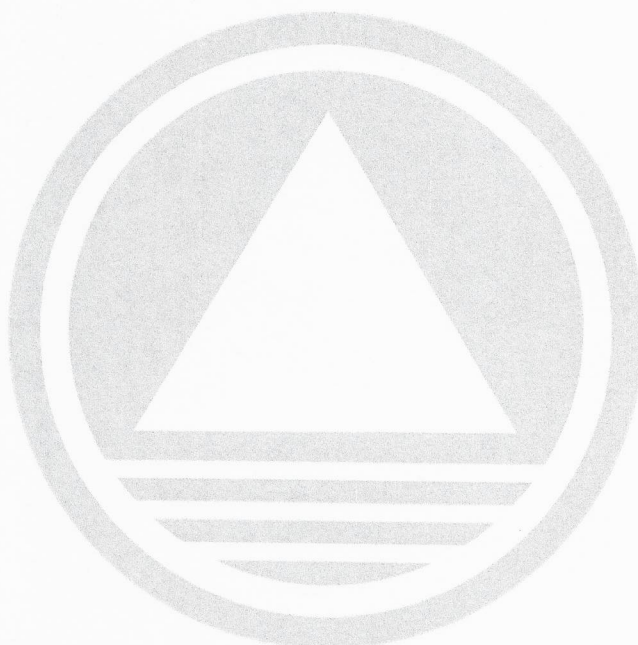
30 September 2021

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 IFRS 17.B65 lists cash flows that are within the contract boundary of an insurance contract. These include premiums, claim payments and various other cash inflows and outflows. IFRS 17.B65 states the following related to attributable insurance expenses. We append below extraction of those cash flows items relevant for non-life insurance practical guidance:

Cash flows within the contract boundary are those related directly to the fulfilment of insurance contracts including cash flows for which the entity has discretion over the amount or timing. The cash flows (identifiable by allocation basis, cash basis or incurring basis) 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).

...(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

...(f) claim handling costs (i.e. 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).

...(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.

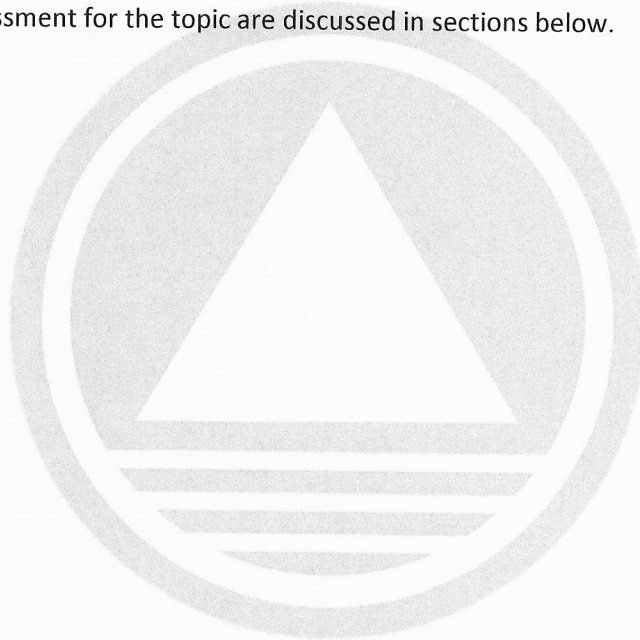
In addition, IFRS 17.B66 states that certain cash flows should not be included when estimating the cash flows that will arise as the entity fulfils an existing contract. These include those costs should be accounted consistently with other accounting standards:

(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.

More specifically, expenses must be related directly to the fulfilment of insurance contracts in order for them to be considered as cash flows of an insurance contract. These are expenses that are directly related to insurance policy activities. These cash flows would generally include direct costs (such as claim settlements, commissions, etc.) as well as indirect costs (such as an allocation of overheads) as long as these costs can be allocated to insurance policy activities necessary for fulfilling insurance contracts.

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:

Topics	Reference in IFRS 17 (Paragraph)
	Appendix A Defined Terms 28A-28F, B35A-B35D, B65-B66, B66A, BC175, BC178, BC179, BC182-BC183, BC184A-BC184N.

Appendix A Defined terms

This appendix is an integral part of IFRS 17 Insurance Contracts.

contractual service margin	A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.
coverage period	The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract.
experience adjustment	A difference between: (a) for premium receipts (and any related cash flows such as insurance acquisition cash flows and insurance premium taxes)—the estimate at the beginning of the period of the amounts expected in the period and the actual cash flows in the period; or (b) for insurance service expenses (excluding insurance acquisition expenses)—the estimate at the beginning of the period of the amounts expected to be incurred in the period and the actual amounts incurred in the period.
financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

(cont'd) **Appendix A**
Defined terms

group of insurance contracts	A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts issued within a period of no longer than one year and that, at initial recognition: (a) are onerous, if any; (b) have no significant possibility of becoming onerous subsequently, if any; or (c) do not fall into either (a) or (b), if any.
Insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.
insurance contract	A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
insurance contract services	The following services that an entity provides to a policyholder of an insurance contract: (a) coverage for an insured event (insurance coverage); (b) for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and (c) for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).
insurance contract with direct participation features	An insurance contract for which, at inception: (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items; (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.
insurance contract without direct participation features	An insurance contract that is not an insurance contract with direct participation features.
insurance risk	Risk, other than financial risk, transferred from the holder of a contract to the issuer.
insured event	An uncertain future event covered by an insurance contract that creates insurance risk.

(cont'd) Appendix A
Defined terms

investment component	The amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.
investment contract with discretionary participation features	A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts: (a) that are expected to be a significant portion of the total contractual benefits; (b) the timing or amount of which are contractually at the discretion of the issuer; and (c) that are contractually based on: (i) the returns on a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the entity or fund that issues the contract.
liability for incurred claims	An entity's obligation to: (a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and (b) pay amounts that are not included in (a) and that relate to: (i) insurance contract services that have already been provided; or (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.
liability for remaining coverage	An entity's obligation to: (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and (b) pay amounts under existing insurance contracts that are not included in (a) and that relate to: (i) insurance contract services not yet provided (ie the obligations that relate to future provision of insurance contract services); or (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.
policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.
portfolio of insurance contracts	Insurance contracts subject to similar risks and managed together.

(cont'd) **Appendix A**
Defined terms

reinsurance contract	An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).
risk adjustment for non-financial risk	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
underlying items	Items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

Insurance acquisition cash flows (paragraphs B35A– B35D)

28A An entity shall allocate insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method applying paragraphs B35A– B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognize such an asset for each related group of insurance contracts.

28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).

28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph B35C.

28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph B35D). If an entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in profit or loss.

28F An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Insurance acquisition cash flows (paragraphs 28A–28F)

B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

- (a) insurance acquisition cash flows directly attributable to a group of insurance contracts:
 - (i) to that group; and
 - (ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.
- (b) insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.

B35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph B35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph B35C).

B35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

B35D To apply paragraph 28E:

- (a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).
- (b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:
 - (i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and
 - (ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

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.
- (ka) costs the entity will incur:
 - (i) performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.
 - (ii) providing investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B).
 - (iii) providing investment-related service to policyholders of insurance contracts with direct participation features.
- (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 or that are not specifically chargeable to the policyholder under the terms of the contract.
- (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).

B66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another IFRS Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the IFRS Standard occurred at the date of initial recognition of the group of insurance contracts.

BC175 Entities often incur significant costs to sell, underwrite and start new insurance contracts. These costs are commonly referred to as ‘insurance acquisition cash flows’. Insurance contracts are generally priced to recover those costs through premiums or through surrender charges, or both.

BC 178 In many cases, insurance acquisition cash flows occur at the beginning of the coverage period of a group of insurance contracts, before any coverage or other service has been provided. Because insurance revenue is recognised in the same pattern as changes in the liability for remaining coverage, this would mean that some of the insurance revenue would be recognised when the insurance acquisition cash flows are paid, often at the beginning of the coverage period.

BC179 The Board was concerned that recognising insurance revenue at the beginning of the coverage period would be inconsistent with the principles in IFRS 15 because, at the beginning of the coverage period, the entity has not satisfied any of the obligations to the policyholder under the contract. In contrast, IFRS 15 requires an entity to recognise as revenue the consideration received from the customer as it satisfies its performance obligations under the contract. Accordingly, the Board decided to include an exception in IFRS 17 for the treatment of insurance acquisition cash flows so that the premium related to insurance acquisition cash flows is not recognised as revenue when the insurance acquisition cash flows occur, but is separately identified and recognised over the coverage period. IFRS 17 also requires the insurance acquisition cash flows to be recognised as an expense over the same period.

BC182 However, the Board noted that:

- (a) including only insurance acquisition cash flows that are incremental at a contract level would mean that entities would recognise different contractual service margins and expenses depending on the way they structure their acquisition activities. For example, there would be different liabilities reported if the entity had an internal sales department rather than outsourcing sales to external agents. In the Board’s view, differences in the structure of insurance acquisition activities would not necessarily reflect economic differences between insurance contracts issued by the entities.
- (b) an entity typically prices insurance contracts to recover not only incremental costs, but also other direct costs and a proportion of indirect costs incurred in originating insurance contracts—such as costs of underwriting, medical tests and inspection, and issuing the policy. The entity measures and manages these costs for the portfolio, rather than for the individual contract. Accordingly, including insurance acquisition cash flows that are incremental at the portfolio level in the fulfilment cash flows of the insurance contracts would be consistent with identification of other cash flows that are included in the measurement of the contracts.

BC183 The Board also considered whether to restrict insurance acquisition cash flows to be included in the measurement of a group of insurance contracts to those cash flows related directly to the successful acquisition of new or renewed insurance contracts. The approach in IFRS 17 to the measurement of a group of insurance contracts is to estimate the profit expected to be generated over the duration of the group. In this context, excluding some insurance acquisition cash flows that relate to issuing a portfolio of contracts would result in an understatement of the fulfilment cash flows and an overstatement of the contractual service margins of groups in the portfolio. In addition, the Board wanted to avoid measuring liabilities and expenses at different amounts depending on how an entity structures its insurance acquisition activities, as described in paragraph BC182(a).

Amendments to IFRS 17—insurance acquisition cash flows (paragraphs 28A–28F and B35A–B35D of IFRS 17)

BC184A In June 2020, the Board amended IFRS 17 to require an entity to use a systematic and rational method to allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

(a) to that group; and

(b) to groups that will include insurance contracts that are expected to arise from renewals of insurance contracts in that group (see paragraph B35A of IFRS 17).

BC184B Before the amendment, an entity was required to allocate insurance acquisition cash flows directly attributable to a group to only that group. In contrast, insurance acquisition cash flows directly attributable to a portfolio of insurance contracts but not directly attributable to a group of insurance contracts are systematically and rationally allocated to groups of insurance contracts in the portfolio.

BC184C Stakeholders said an entity that issues an insurance contract with a short coverage period, such as one year, might incur high up-front costs, such as commissions to sales agents, relative to the premium the entity will charge for the contract. The entity agrees to those costs because it expects that some policyholders will renew their contracts. Often, those costs are fully directly attributable to the initial insurance contract issued because those costs are non-refundable and are not contingent on the policyholder renewing the contracts.

BC184D In some circumstances, such commissions are higher than the premium charged and applying IFRS 17 before it was amended would have resulted in the initial insurance contract being identified as onerous. In the Board's view, an entity recognising a loss in that circumstance would provide useful information to users of financial statements. The information would reflect that the entity does not have a right to either oblige policyholders to renew the contracts, or to reclaim the commissions from sales agents if policyholders choose not to renew the contracts.

BC184E However, the Board was persuaded that an amendment to IFRS 17 requiring an entity to allocate insurance acquisition cash flows to expected renewal contracts (expected renewals) would also provide useful information to users of financial statements. Such a requirement depicts the payment of up-front costs such as commissions as an asset that an entity expects to recover through both initial insurance contracts issued and expected renewals. The asset reflects the right of an entity to not pay again costs it had already paid to obtain renewals. The Board noted that the information resulting from the amendment is comparable to the information provided by IFRS 15 for the incremental costs of obtaining a contract.

BC184F The Board concluded it did not need to develop requirements to specify how to allocate insurance acquisition cash flows to expected renewals. It concluded that requiring a systematic and rational method of allocation, consistent with paragraph B65(I) of IFRS 17, is sufficient.

BC184G The Board noted that if an entity allocates assets for insurance acquisition cash flows to groups expected to be recognised across more than one reporting period in the future, an entity would need to update its allocation at the end of each reporting period to reflect any changes in assumptions about expected renewals. The Board also decided to clarify that an entity must apply a consistent method across reporting periods by referring in the requirements to a systematic and rational method (rather than a systematic and rational basis).

BC184H Amending IFRS 17 to require an entity to allocate insurance acquisition cash flows to expected renewals creates assets for insurance acquisition cash flows that will be recognised for longer than assets would have been recognized applying the requirements before the amendment. The amendment will therefore increase the carrying amount of assets for insurance acquisition cash flows. Accordingly, the Board considered whether it should specify requirements for:

- (a) accretion of interest on assets for insurance acquisition cash flows. The Board decided against specifying such requirements because doing so would be inconsistent with IFRS 15.
- (b) assessments of the recoverability of assets for insurance acquisition cash flows. The Board decided to specify such requirements for the reasons set out in paragraphs BC184I–BC184K.

BC184I When the Board issued IFRS 17 in May 2017, it concluded that requiring an entity to assess the recoverability of an asset for insurance acquisition cash flows would be unnecessary. The asset was typically of relatively short duration and any lack of recoverability would be reflected on a timely basis when the asset was derecognised and the insurance acquisition cash flows were included in the measurement of a group of insurance contracts (see paragraph BC180). As a result of the June 2020 amendment set out in paragraph BC184A, the Board concluded that it needed to require an entity to assess the recoverability of an asset for insurance acquisition cash flows at the end of each reporting period if facts and circumstances indicate the asset may be impaired.

BC184J Consistent with the impairment test in paragraph 101 of IFRS 15, an entity recognises an impairment loss in profit or loss and reduces the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount does not exceed the expected net cash inflow for the related group.

BC184 K The Board noted that an entity measures an asset for insurance acquisition cash flows at the level of a group of insurance contracts. An impairment test at a group level compares the carrying amount of an asset for insurance acquisition cash flows allocated to a group with the expected net cash inflow of the group. That net cash inflow includes cash flows for contracts unrelated to any expected renewals but expected to be in that group. The Board therefore decided to require an additional impairment test specific to cash flows for expected renewals. This additional impairment test results in the recognition of any impairment losses when the entity no longer expects the renewals supporting the asset to occur, or expects the net cash inflows to be lower than the amount of the asset. Without the additional impairment test, cash flows from contracts unrelated to any expected renewals might prevent the recognition of such an impairment loss.

Paragraphs BC184L–BC184N and the heading above paragraph BC184L are added. For ease of reading new text is not underlined.

Amendments to IFRS 17—pre-recognition cash flows other than insurance acquisition cash flows (paragraphs 38, B66A and B123A of IFRS 17)

BC184L In June 2020, the Board amended IFRS 17 to address the treatment of assets or liabilities for cash flows related to a group of insurance contracts that have been recognised before the group of insurance contracts is recognised. Such assets and liabilities might have been recognised before the group of insurance contracts is recognised because the cash flows occur or because a liability is recognised applying another IFRS Standard. Cash flows are related to a group of insurance contracts if they would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date.

BC184M The Board agreed with feedback that such cash flows should be included in the determination of the contractual service margin and insurance revenue for the group of insurance contracts. These cash flows should affect profit and revenue in the same way as the fulfilment cash flows regardless of their timing (or of the timing of their recognition as a liability).

BC184N The amendment requires an entity to derecognise any asset or liability for such cash flows when the entity recognises the related group of insurance contracts to the extent that the asset or liability would not have been recognised separately from the group of insurance contracts if the cash flows (or the event that triggered their recognition as a liability) had occurred at the date of initial recognition of the group of insurance contracts. In addition the Board concluded that, to be consistent with the recognition of insurance revenue and incurred expenses required by IFRS 17, to the extent that an asset is derecognised when the entity recognises the related group of insurance contracts, insurance revenue and expenses should be recognised. In contrast, no insurance revenue or expenses arise on the derecognition of a liability at that date. The derecognition of a liability results either in the amounts expected to settle the liability being included in the fulfilment cash flows or the performance obligation depicted by the liability being subsumed within the recognition of the group of insurance contracts. For example, an entity that recognised a liability for premiums received in advance of the recognition of a group of insurance contracts would derecognise that liability when the entity recognises a group of insurance contracts to the extent the premiums relate to the contracts in the group. The performance obligation that was depicted by the liability would not be recognised separately from the group of insurance contracts had the premiums been received on the date of the initial recognition of the group. No insurance revenue arises on the derecognition of the liability.

3.0 Practical Guidance

3.1 Accounting for Expenses

Expenses are currently booked in the general ledger typical go by the nature of expenses and the category of expenses to certain extend driven by the statistical submission to the regulator or management, broadly split in the current financial statement captions by the following:

- a. Claims
- b. Commission and brokerages
- c. Other underwriting expenses
- d. Operating expenses
 - Personnel expenses which do not relate with the underwriting and loss adjustment
 - Premises and equipment expenses which do not relate with the underwriting and loss adjustment
 - Taxes and duties
 - Bad debt and doubtful accounts expenses
 - Other operating expenses

IFRS 17 Guidance	Relevant sources in the current income statement	Relevant sources in the current balance sheet
Paragraph B65 (b), B65 (k) {cash basis}		
• Incurred claims (both reported and unreported)	• Claims	• Insurance Claim liabilities
Paragraph B65 (f) {incurring basis}		
• Legal and loss adjustors' fees	• Claims	
• Internal costs of investigating claims and processing claims payments	• Other underwriting expenses	Not applicable
Paragraph B65 (h) {incurring basis}		
• Policy administration and maintenance costs	• Other underwriting expenses	Not applicable
• Cost of billing premiums		
• Cost of handling policy changes (reinstatements, endorsement)		
Paragraph B65 (l) & B65 (m) {incurring basis}		
An allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts		
• Accounting	• Operating expenses	Not applicable
• Human resources		
• Information technology and support		
• Building depreciation		
• Rent		
• Maintenance		
• Utilities		
Paragraph B65 (e) {allocation basis}		
• An allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs	• Commission and brokerages • Other underwriting expenses	• Agent balance
Paragraph B65 (i), B65 (j) {incurring basis}		
• Transactional based taxes	• Taxes and duties	Not applicable
• Levies		
• Policyholder taxes		

Identification of expenses for insurance policy activities (internal expense study)

Expenses that are directly attributable to groups or policies are mainly claims, commission and brokerages. These amounts refer to the commissions and profit commissions and the brokerages paid or payable on direct business or received from reinsurer for the reinsurance held. In this case, minimal effort is expected on expense allocation as the entity should attempt to identify the insurance contracts to which individual contracts or groups of insurance contracts.

Expenses that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio. In this case, company is required to undertake an internal expense study for each account of the overheads such as other underwriting expenses and operating expenses, whether the nature and relevant drivers of these expenses is related to the portfolio of insurance contracts.

Systematic allocation of expenses that are directly attributable to the portfolio of insurance contracts (expense allocation)

In most circumstances, expense recorded by general ledger account together with the cost centers or profit centers will provide more information of the attributes. Claim handling expenses (CHE) are also known as the unallocated loss adjustment expenses are expenses incurred for activities related to handling claim registration, investigation, settlement and communication while the claim status is still active or reopen. For the policy administration costs (PAC), are expenses incurred for activities related to handling policy endorsement, servicing and communication while the policy are still active.

For the purpose of actual allocation of CHE and PAC incurred, actual allocation of insurance acquisition cash flows and setting assumptions for cash flows projections, there are commonly two examples of allocation drivers in the insurance industry:

Method 1: allocation by statistical ratios for each group

- a. statistical ratio for CHE incurred is expected claim paid cash flows over the total expected claim paid cash flows.
- b. statistical ratio for PAC incurred is actual earned premium over total expected earned premium.
- c. statistical ratio for allocation insurance acquisition cash flows is ratio of gross written premium issued over total gross written premium.

The statistical ratios could be calculated from the premium register and claim register currently captured in administration system (if any) at premium class level. However, significant effort is expected to prepare the data on monthly basis, especially if the entity uses different legacy systems.

Method 2: allocation by expected cost assumptions for each group

Following internal expenses study, the following unit cost assumptions should be concluded for estimation of expected expenses:

- a. expected unit cost assumption for claim handling expenses x expected claim paid cash flows
- b. expected unit cost assumption for direct maintenance expenses x expected earned premium.
- c. expected unit cost assumption for acquisition cost for expenses x expected gross written premium issued.
- d. Difference of allocated expense estimates and actual expenses should be identified as other expenses instead of insurance service expenses.

Where estimates of expenses related cash flows are determined at the portfolio level or higher, they will need to be allocated to groups of contracts on a systematic and rational basis such as Method 1. Once the method of allocation/cost driver for allocation for a specific type of expense has been determined, it needs to be consistently applied to allocate expenses of a similar nature.

This method is pragmatic because the allocation is driven by the assumption set up front. However, this method will pose a risk of outdated expected cost assumption being used actual financial reporting. It is recommended that frequent updates to the expected cost assumptions to reflect the actual attributes of those expenses incurred by the entity.

3.2 Insurance Acquisition Cash Flows

Insurance acquisition cash flows are defined (see Appendix A of IFRS 17) as:

“The costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or group of insurance contracts within the portfolio.”

Commission and brokerages

Commission and brokerages are identifiable by policy or group of insurance contracts. The amount payable is also regulated by the regulator.

Commission is deferrable because the IASB intends to prevent a spike in revenue recognition (as per IFRS17.BC179). Commission falls under the category of services provided, so by considering initial commission as an acquisition expense, there would not be a disconnect between the cash flow pattern and its corresponding service period. In the standard issued, the definition of insurance acquisition cash flows have also been updated to include *cash flows arising from the cost of selling, underwriting and starting a group of insurance contracts issued or expected to be issued.*

However, the case is not the same for entities that issue reinsurance contracts. For reinsurers, ceding commissions and profit commissions are likely deemed as investment component or refund of premium. To follow this thought process, it would be helpful to recall the definitions of these cash flows. Ceding commissions are the fees paid by a reinsurer to a ceding company to cover administrative costs, underwriting, and business acquisition expenses. On the other hand, profit commissions in reinsurance refer to the profit-sharing payments that the ceding company pays out to reinsurers. Under IFRS 17, investment component is defined as the amounts that the reinsurance contract issued requires the reinsurer to repay to the ceding company in all circumstances. Taken together, this implies that commissions from the reinsurer's point of view are considered as an investment component or refund of premium.

Other Underwriting Expenses

Other underwriting expenses are not identifiable by policy or group of insurance contracts.

As noted in BC182, IFRS 17 requires an insurer to capitalise internal, as well as external, costs arising from selling, underwriting and starting a group of insurance contracts. Insurance acquisition costs to be capitalised are those directly attributable to the portfolio. Costs are considered "directly attributable to the portfolio" is not clearly defined in IFRS 17.

In Thailand, the main expenses are as follows:

- a. Internal costs : overhead expenses of underwriting, paramedics and business development.
- b. External costs : overriding commission, Road Accident Victim Protection contributions and OIC contributions.

"BC181 The Board considered whether only insurance acquisition cash flows that are incremental at a contract level should be included in the measurement of an insurance contract. Those cash flows can be clearly identified as relating specifically to the contract. Including cash flows that relate to more than one contract requires a more subjective judgement to identify which cash flows to include."

"BC182 However, the Board noted that:

- (a) an entity typically prices insurance contracts to recover not only incremental costs, but also other direct costs and a proportion of indirect costs incurred in originating insurance contracts—such as costs of underwriting, medical tests and inspection, and issuing the policy. The entity measures and manages these costs for the portfolio, rather than for the individual contract. Accordingly, including insurance acquisition cash flows that are incremental at the portfolio level in the fulfilment cash flows of the insurance contracts would be consistent with identification of other cash flows that are included in the measurement of the contracts."*

BC182(b) suggests that acquisition costs that are "incremental at the portfolio level" would be directly attributable. Hence, acquisition costs that are "incremental at the portfolio level" may be interpreted as those that would not be incurred if the entity had neither issued nor attempted to sell any contracts within the given portfolio.

Incremental at the portfolio level

Based on the interpretation above, expenses that *does not* meet the requirements of the definition of insurance acquisition cash flows are listed below. If an entity inclines to capitalise such expenses as acquisition costs, a detailed analysis may need to be performed and documented to justify the position taken.

- Advertising (unless related to sales / renewals of policies)
- Events
- Media and internal communication
- Memberships
- Other marketing expenses
- Print/Electronic publications
- Seminars
- Sponsorship / Donations

Costs not restricted to successful efforts

IFRS 4 restricts capitalisation of acquisition costs to those "related directly to the successful acquisition of new or renewal insurance contracts". In contrast, as noted in BC183, IFRS 17 does not have this restriction and so, acquisition costs attributable to the portfolio must be capitalised, regardless of whether they relate to the successful acquisition of contracts.

"BC183 The Board also considered whether to restrict insurance acquisition cash flows to be included in the measurement of a group of insurance contracts to those cash flows related directly to the successful acquisition of new or renewed insurance contracts. The approach in IFRS 17 to the measurement of a group of insurance contracts is to estimate the profit expected to be generated over the duration of the group. In this context, excluding some insurance acquisition cash flows that relate to issuing a portfolio of contracts would result in an understatement of the fulfilment cash flows and an overstatement of the contractual service margins of groups in the portfolio. In addition, the Board wanted to avoid measuring liabilities and expenses at different amounts depending on how an entity structures its insurance acquisition activities, as described in paragraph BC182(a)."

Special considerations

A few considerations that should be noted when performing an expense allocation:

- Training costs are deemed as non-attributable cash flows. However, training costs in relation to underwriting and sales are deemed as attributable cash flows.
- The product development costs or work in progress incurred prior to the launching of the product are deemed as non-attributable expenses (as these are usually general, non-product specific development costs) whereas product development cost relating to the activities subsequent to the launching of the product or amortization of the work in progress are deemed as attributable expenses.
- For costs relating to management and administration activities, it will be categorised according to the core function of the department/division/unit. For example, if finance department is deemed as the cost centre that are attributable to the cash flows of the insurance contracts, those cost incurred for management and administration (e.g. cash management and credit control) within finance department will also be deemed as attributable cash flows.

The insurance acquisition costs once capitalised is also known as insurance acquisition cash flows in the IFRS17 standard. An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts. It is the intention of the standard to recognise the pre-contractual cash flows in the financial statement for future groups, this is currently practiced in other accounting standards such as inventory, goodwill, fixed asset and work in progress.

An entity shall allocate insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).

3.3 Asset for Insurance Acquisition Cash Flows (IACFs)

There are two aspects regarding the asset for insurance acquisition cash flows, as introduced by the IASB in its June 2020 amendments to IFRS 17. These two aspects are:

- a. Which IACFs qualify for recognition as an asset
- b. Impairment tests of assets for acquisition cash flows – considerations of interpretations of the two tests for the below scenario.

Which IACFs qualify for recognition as an asset

IFRS 17 para 28A-B (including related Appendix B paragraph):

28A An entity shall allocate insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method applying paragraphs B35A-B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

(a) insurance acquisition cash flows directly attributable to a group of insurance contracts:

(i) to that group; and

(ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

[...]

28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.

IFRS 17 refers to cash flows and payment throughout, but in case of IACFs and B65(f)-(h) and (ka) it clarifies that this refers to cost incurred in case of cash flows not effectively paid to policyholders. The definition of IACF refers as well to cost, but not mentioning “incurred”. But cost are allocations of the consumption of resources to periods, i.e. they arise (incur) when they are consumed, not when a cash flow incurs. Hence, the phrase “IACFs paid” should be interpreted to be the cost for acquisition arising (incurring) in the period. The allocation of a consumption of a resource to a period is determined by other IFRSs or by general accounting principles. That is in line with IFRS 17.28B since the notion in brackets there should be understood to support this view, based on the definition of IACFs in IFRS 17.A. Such a notion in brackets should not necessarily be understood to be all-inclusive than an indication that the phrase before could have a wider meaning than it might appear. But that is already indicated by defining that IACFs are not actually cash flows but cost. It does not make sense to assume here that the notion in brackets is all-inclusive since e.g. cost cannot only be allocated to periods by recognizing a liability (e.g. a payment liability to an agent) but as well by depreciating an asset, e.g. equipment used by the agent. Those costs arising from the equipment are IACFs according to the definition and are therefore covered already by “IACFs paid”.

Allocation of IACFs

Consider this example assuming IACFs (asset) of THB74mil related to a portfolio of insurance contracts with first contracts issued in 20x1, measured as at 31 December 20x4, with past annual groups from which these insurance acquisition cash flows relating to renewals have been allocated as columns and future groups to be recognised as rows:

Past groups/ Future groups	20x1	20x2	20x3 THB' mil	20x4	Total
20x5	4	5	6	7	22
20x6	3	4	5	6	18
20x7	2	3	4	5	14
20x8	1	2	3	4	10
20x9	0	1	2	3	6
20v0	0	0	1	2	4
20v1	0	0	0	1	1
Outstanding @ 31/12/20x4	10	15	21	28	74

3.4 Impairment Tests of Assets for IACFs

Test (a) as per IFRS 17.B35D(a)

Regarding the first impairment test – Test (a) as per IFRS 17.B35D(a)

(a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).

Consider testing date is 31 December 20x4. Looking at the future group 20x7 for example, the testing the recoverability of THB14mil in outstanding IACFs asset from all contract renewals in the 20x7 group of insurance contracts of contracts issued in 20x4 or earlier (i.e. contracts still in force at the end of 20x4) and also expected new (non-renewal) contracts issued. Specifically, when estimating the future cash flows of the 20x7 group, the following cash flows should be included:

- renewals of contracts issued in the past (ie 20x4 and before) – those to which the IACFs relate.
- future renewals of contracts still to be issued (ie renewals of new business from 20x5, 20x6)
- pure new business premium written during 20x7

Past groups/ Future groups	20x1	20x2	20x3 THB' mil	20x4	Total
20x5	4	5	6	7	22
20x6	3	4	5	6	18
20x7	2	3	4	5	14
20x8	1	2	3	4	10
20x9	0	1	2	3	6
20x0	0	0	1	2	4
20x1	0	0	0	1	1
Outstanding @ 31/12/20x4	10	15	21	28	74

However, if an entity has no reliable and supportable information whether the level of IACFs related to (b) and (c) will be the same or will deviate from the current contracts as well regarding their profitability, it would not change the outcome if the entity considers only (a), but saves a lot of work.

Test (b) as per IFRS 17.B35D(b)

Regarding the second impairment test – Test (b) as per IFRS 17.B35D(b)

(b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:

(i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and

(ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Consider testing date is 31 December 20x4. All IACFs allocated to future renewals as one aggregated amount – i.e., THB74mil.

The wording in B35D indicates that test (a) is a test of an asset for IACFs and that test (b) is for related assets. Since the test (a) is test of a row, then following the wording, test (b) would be a test of all rows (i.e., one test at the aggregated level covering all related assets). This method is consistent with paragraph A10 of the example in the IASB staff paper, which performs the ‘renewal test’ for the future groups together.

Test (b) as per IFRS 17.B35D(b) (cont'd)

Past groups/ Future groups	20x1	20x2	20x3 THB' mil	20x4	Total
20x5	4	5	6	7	22
20x6	3	4	5	6	18
20x7	2	3	4	5	14
20x8	1	2	3	4	10
20x9	0	1	2	3	6
20v0	0	0	1	2	4
20v1	0	0	0	1	1
Outstanding @ 31/12/20x4	10	15	21	28	74

Alternatively, the IACFs allocated to future groups originating from each past group separately where renewal costs have been allocated – so for instance, the 20x3 past group would have THB21mil of IACFs allocated to future groups.

Past groups/ Future groups	20x1	20x2	20x3 THB' mil	20x4	Total
20x5	4	5	6	7	22
20x6	3	4	5	6	18
20x7	2	3	4	5	14
20x8	1	2	3	4	10
20x9	0	1	2	3	6
20v0	0	0	1	2	4
20v1	0	0	0	1	1
Outstanding @ 31/12/20x4	10	15	21	28	74

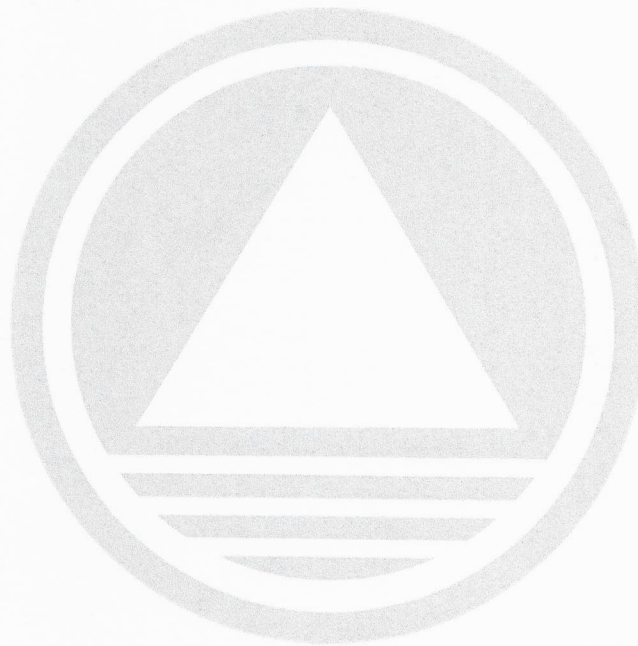
IFRS 17.B35D(b) refers to when an entity allocated IACFs to future groups applying IFRS 17.B35A(a)(ii). This would be done at each past group level, and as such this second test should mirror it.

IFRS 17.B35D(b) refers to the moment “when an entity allocates IACFs”. That occurs at least in the period where the cost incurred and need to be allocated according to IFRS 17.28A to the contracts issued in the current period and their future renewals. That indicates that the test is to be applied on that basis, i.e. for each column in the table above, it is tested whether the IACFs incurred in one period allocated to the originally issued contracts in that period and its renewals are recoverable from those renewals. That is supported as well by the reference to IFRS 17.B35A(a)(ii) which refers to the IACFs only which are directly attributable to the original group as referred to in IFRS 17.B35A(a)(i).

Test (b) as per IFRS 17.B35D(b) (cont'd)

That interpretation could cause that the test is to be applied only once, when the IACFs of a period are allocated initially to the current contracts and their future renewals. However, IFRS 17.B35B requires a reallocation at the end of each reporting periods on the basis of the IACFs incurred in one period and allocated to a sequence of contracts starting in that period. That reallocation would be seen as well as an allocation in the sense of IFRS 17.B35D(b).

As AP2B December 2019 para. 34 indicates, the test in IFRS 17.B35D(a) refers mainly to the fact that the asset allocated to the group present in the current period is recoverable before it is derecognized and allocated to the individual contracts in their initial measurement. In all cases related to future groups, IFRS 17.B35D(b), referring only to future renewals, is stronger, except if the entity expects that future groups include future new policyholder's contracts which are, including their IACFs, less profitable than they do not recover together with the renewals the allocated IACFs.



4.0 Illustrations

4.1 Identifying Expense Incurred and Cash Flows Paid

Outgo Item	Category				
	Attributable- Acquisition ¹	Attributable- Maintenance (CHE) ²	Attributable- Maintenance (PAC) ²	Other Expenses ³	Tax expense ⁴
Claims	-	✓	-	-	-
Commission and brokerages	✓	-	-	-	-
Other underwriting expenses	Expense study and expense allocation are required				
Personnel expenses	Expense study and expense allocation are required				
Premises and equipment expenses	Expense study and expense allocation are required				
Taxes and duties	-	-	-	-	✓
Bad debt and doubtful accounts expenses	Expense study and expense allocation are required				
Other operating expenses	-	-	-	✓	-

1 Insurance acquisition cash flows paid are deferrable and as such, the cash flows paid will be allocated and will be part of the fulfilment cash flows (liability for remaining coverage). The acquisition costs deferred are amortised and released to profit or loss over the passage of time as part of insurance service expense. However, if PAA is adopted and coverage period is one year or less, an entity may choose to expense these acquisition costs when incurred.

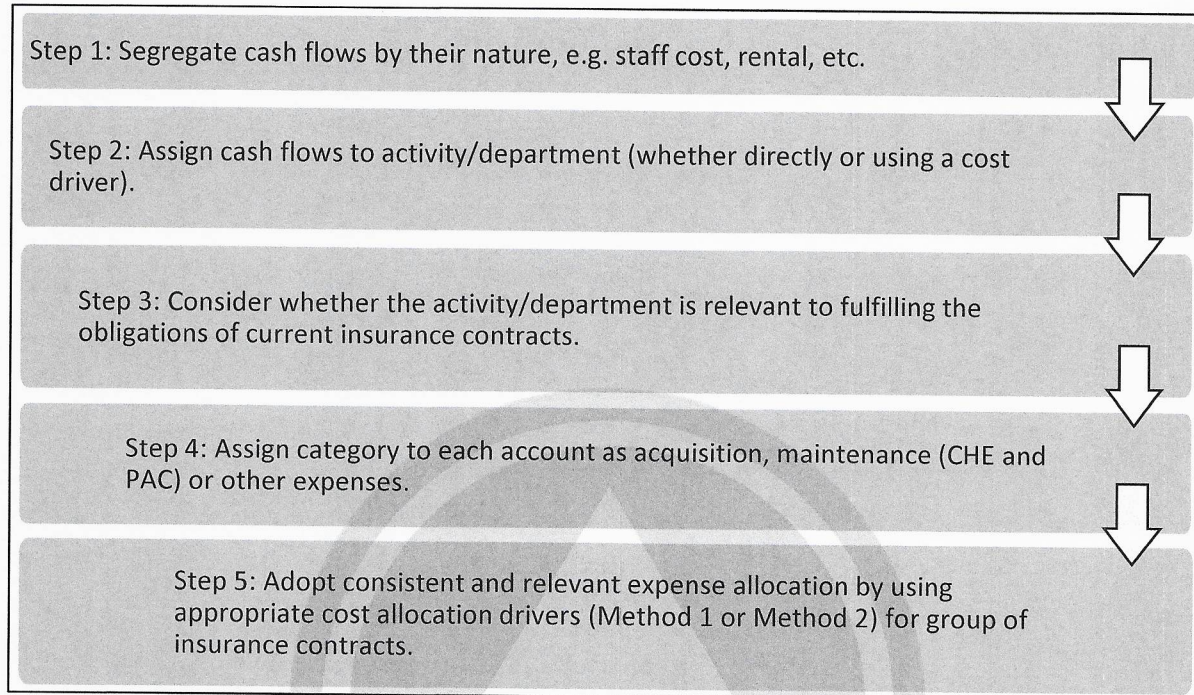
2 Attributable maintenance (PAC & CHE) will be recognized as insurance service expense when incurred.

3 Other Expenses ("OE") are expensed to profit or loss as other expense when incurred.

4 Tax expenses on behalf of policyholders are included in scope for IFRS17 (a.k.a. policyholder's tax), corporate tax is accounted in a different account standard. Policyholder's tax due will be mapped to insurance service expenses, the insurance contract asset/liability will only capture the timing difference of the late settlement to the tax collector/authority.

4.2 Allocation of Expenses Directly Attributable to Portfolios

The figure below illustrates the process of assigning expenses incurred or insurance acquisition cash flows from overhead expenses:



4.3 Asset for Insurance Acquisition Cash Flows (IACFs)

Whilst the Standard refers to ‘renewals’ in the context of contract boundaries and IACFs, the IASB has not defined the term within the Standard or in other discussions. Whilst the Standard refers to ‘renewals’ in the context of contract boundaries and IACFs, the IASB has not defined the term within the Standard or in other discussions.

Renewal is the continuation of an existing contract retaining all its terms and conditions except the termination date, i.e., a pure prolongation of the provision of unchanged services at an unchanged price. This would include both:

- legally the same contract which is just due to a repricing right of the insurer a separate unit of account under IFRS 17; and
- a legally separate contract.

Examples of possible “renewal”	
Example 1	A general insurance contract: - the contract that has an automatic prolongation clause. If no parties cancel, the contract is extended for another year with no other changes to the terms and conditions of the contract. - the insurer combines a cancellation with an offer with a new (higher) price and the policyholder accepts. - the policyholder, who married and had a child during the coverage period of the original contract, cancels the contract and replaces it with a family insurance contract offered by the same insurer, with a different price and slightly different terms. - the policyholder, who is in the meantime covered by the spouse’s insurance due to the marriage, cancels the contract but obtains another insurance with the insurer.
Example 2	An insurance contract that has its coverage extended for another year without any changes to the contract while the insurer determined a new premium.
Example 3	A medical contract with no end date but can be repriced annually and has a termination clause for the insurer so has a contract boundary of 1 year. When the contract is not terminated at the end of the year but is repriced.
Example 4	A reinsurance contract that has different clauses for new and existing business.
Example 5	A reinsurance contract on a risk attached basis covers, in addition to existing underlying contracts, underlying contracts newly issued within a year. This is an extension to include as well underlying contracts newly issued in the next year if both parties agree to do so at different terms.

5.0 Frequently Asked Questions

5.1 Allocation of IACFs and Other Fulfilment Cash Flows

Background

IFRS 17.B65(e) includes the following statement, *'an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs'*.

Similarly, IFRS 17.A defines these cash flows as *'cash flows...that are directly attributable to the portfolio of insurance contracts'*.

Question 1:

Are fixed and variable overheads included within insurance acquisition cash flows and if yes, what is the attribution hurdle they need to meet?

View A:

No - Insurance acquisition cash flows do not include fixed and variable overheads.

View B:

Yes - Insurance acquisition cash flows should include fixed and variable overheads if they are directly attributable to the portfolio of insurance contracts in which the groups belong.

View C:



Yes - Insurance acquisition cash flows should include fixed and variable overheads as long as they are directly attributable to fulfilling insurance contracts and can be allocated to a portfolio using one of the systematic allocation methods.

Explanation

View C

Following this approach might be thought to be less likely to result in some insurance acquisition overheads being recognised immediately in profit or loss but, as IFRS17.BC184 notes, IFRS 17 automatically recognises as an expense any insurance acquisition cash flows that cannot be recovered from the cash flows of the portfolio of contracts, because such cash flows reduce the contractual service margin below zero and must therefore be recognised as an expense.

Question 2:

Is the recurring commission for the renewal-year policy one of the example of “An allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs” (IFRS 17.B65.e)? Is it only referred to all the costs related to the new business written?

Explanation

It is best to distinguish the difference between **recurring commission** and **renewal commission** in the context of IFRS 17 contract boundary. The commission paid on installment premium in general insurance is deemed as recurring commission.

If insurance acquisition cash flows are expected to be paid after the related group is recognized (**recurring commission**), then they are included as part of the item (B65.e) or item (B65.h) fulfilment cash flows of that group within the contract boundary. It is a choice of methodology by the preparer of financial statement based on the current industry practice.

If insurance acquisition cash flows are paid or the liability to pay the insurance acquisition cash flows is incurred at the date of initial recognition of the group (**renewal commission**), then they are included as part of the item (B65.e) fulfilment cash flows of that group, in effect deducted from the CSM at that date. Renewal commission includes commission that is payable outside the contract boundary of the existing group, when re-recognise a new group.

In the case of PAA application for contract within a year, there is no CSM, therefore the DAC is computed when transaction (**either recurring or renewal commission**) happens, otherwise a company can choose to expense the insurance acquisition cash flows as they are incurred.

Question 3:

Why is the recurring commission, which is a cash flow within the contract boundary treated as the “policy administration and maintenance” (IFRS 17.B65.h) cost category?

Explanation

As explained in question 2, “recurring commission” is different from “renewal commission”, where renewal commission refers to commissions expected to be paid to intermediaries if the policyholder continues paying premiums beyond the boundary of the insurance contract.

Sometimes, it can also be said that the renewal commission is a cash flows that may arise from future insurance contracts (e.g. those outside the boundary of existing insurance contracts).

The common understanding of policy administration and maintenance costs include recurring commissions expected to be paid to intermediaries if the policyholder continues paying premiums within the boundary of the insurance contract.

Question 4:

Is the Third Party Administration (TPA) cost an example of the “*claims handling costs*” (IFRS 17.B65.f) in which the cash flows is within the contract boundary?

Explanation

TPA costs could be broad in application. For medical claim, the TPA cost is usually charged by TPA to the entity on per member basis with active status, therefore not related to claims handling cost (B65.h). TPA fee collected from the policyholder usually includes a markup, will be recognized as premium received (B65.a).

For motor/fire claim, independent loss adjuster is usually paid per claim file and it varies by claim size, therefore it is related to claims handling costs (B65.f).

Question 5:

The cash flow within the contract boundary under “*potential cash inflows from recoveries*” (IFRS 17.B65.k) category refer to both past claims and future claims. Are such recoveries include any reinsurance transaction? If so, should the profit sharing from agreed loss performance/sliding scales of commission be included?

Explanation

Transaction from reinsurance held recoveries is not included in the item (B65.k) for insurance contract issued. These recoveries refer to salvage and subrogation in insurance. Similarly, in the case of reinsurance issued, the retrocession is not relevant too (B65.k).

Fulfilment cash flows in measurement refer to both past claims (LFIC) and future claims (LFRC).

Profit sharing from agreed loss performance/sliding scales of commission should be included as fulfilment cash flows in the measurement of reinsurance held and/or reinsurance issued, which is not included in the measurement of insurance contract the entity issues.

Question 6:

IFRS 17.B66.d sets out the example of “...some product development and training cost” are relating to costs that cannot be directly attributed to the portfolio of insurance contract.

The question next is whether business development (BD) staff cost belongs to his category?

Explanation

The item (B66.d) should be read with IFRS 3 where this costs are possibly work in progress and therefore intangible assets are recognized for it.

The BD staff is considered overhead cost and it can be recognized as fulfilment cash flows in measurement. The entity shall document the rationale of why the BD cost/breakdown is attributable to insurance activities.

Question 7:

Any example for “cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract” (IFRS 17.B66.e) cost category?

Explanation

In the case of company which has not achieved its critical mass, the labour cost if not efficient shall be recognized as other operating expenses. Similarly other resources such as retained earning will be used to cover the cost of abnormal amounts.

In the event IACF if not allocated to the renewal contracts or new contract issued due to recoverability issues, it is also considered wasted.

Question 8:

Is it the same effort to use unit cost assumption of “difference of allocated expense estimates and actual expenses should be identified as other expenses instead of insurance service expenses” in “allocation by statistical ratios for each group method” (method 1) as compared to “allocation by expected cost assumptions for each group method” (method 2) to identify the difference for other expense recognition?

Explanation

Method 1 is more appropriate for company that has achieved the critical mass. Method 2 is the only choice if the company is experiencing expense overrun (actual expenses exceeded the optimum pricing allowance).

In method 1, the company will exclude those cost centers or types of expenses not attributable to insurance activities. Those statistical ratios will only be multiplied on those remaining incurred expenses related to CHE, PAC and allocated IACFs respectively.

Whereas in Method 2, the company will solely use the expected cost assumption (optimized) to derive the insurance service expenses (ISE) for reporting. The remaining incurred expenses will therefore be deemed as not optimal (wastage).

Question 9:

As per insurers’ point of view, why is the ceding commission/profit sharing treated as investment component? If the insurers can prove for the risks transfer, why is not treated as part of insurance coverage?

Explanation

Despite the reinsurance contract can prove the risk transfer, the investment component is non distinct according to the decision tree and therefore it should be valued together with the insurance component.

In the presentation of reinsurance recoveries and reinsurance allocated premium, the non distinct investment component shall not inflate the presentation. Refer to Practical Example in Topic 9: Reinsurance Treatment for an illustration of revenue correction.

Question 10:

For costs relating to management and administration activities, any possibility to have both direct/indirect costs under the same department/cost center? If so, the direct costs could be identified as part of cash flow and the indirect would be gone through P&L as other expenses?

Explanation

Yes, it is possible when the GL account is too broad/generic in its scope. However, based on the implementation experience, additional GL account (COA) should be created by finance operation to streamline the expense allocation when such doubt arises during the planning stage.

Expenses that are not attributable to insurance activities shall be presented in other operating expenses in the PnL.

Question 11:

Any example for the cost category under “payment by insurers in fiduciary capacity to meet tax obligation” (IFRS 17 B65.j)?

Explanation

Collection of stamp duty paid to the Revenue Department of the Thai Ministry of Finance for each policy/certificate issuance.

5.2 Impairment Test of Assets for IACFs

Question 12:

“Impairment test of assets for IACFs” topic discusses the renewal of contracts issued in the past, future renewals (by assumption of renewal ratio?) and pure new business premium.

Is the pure new business premium also extend the future eligible period for allocation of IACFs?

Explanation

Yes, renewal is projected using assumptions. Company shall ensure the past groups when projected into the next contract boundaries remain profitable and can recoup the IACFs allocated.

Future renewal and pure new business are optional but difficult to implement in practice.

Question 13:

“Impairment test of assets for IACFs” topic discusses the renewal of contracts issued in the past, future renewals (by assumption of renewal ratio?) and pure new business premium.

Is this the cash flow for considering the impairment / part of insurance cash flow / both?

Explanation

Yes. However, it is mentioned that item (b) future renewals of contracts still to be issued and item (c) pure new business premium are optional.

The CFs applicable for impairment testings (Test (a) and Test (b)) shall be insurance related. Refer to the following impairment testing for 20x7 group originally issued in 20x4 as at year end 20x4:

Example 1: Actuarial projection without item (b) and item (c)

PV of future premium = THB20mil

PV of future claim&expenses = THB10mil

PV of renewal commissions = THB2mil

Allocated IACFs = THB5mil

THB20mil (inflow) > THB17m (outflow)

Conclusion: allocated IACFs is recoverable.

Example 2: Actuarial projection with item (b) and item (c)

PV of future premium = THB40mil

PV of future claim&expenses = THB18mil

PV of renewal commissions = THB4mil

Allocated IACFs + expected IACFs = THB5mil + THB5mil

THB40mil (inflow) > THB32m (outflow)

Conclusion: allocated IACFs is recoverable.

*Test (a) is referring to the test in the impairment test of assets for IACFs topic in this paper, as per IFRS 17.B35D(a)

*Test (b) is referring to the test in the impairment test of assets for IACFs topic in this paper, as per IFRS 17.B35D(b)

5.3 Identifying Expense Incurred and Cash Flows Paid

Question 14:

Tax expenses on behalf of policyholders is one of the expense incurred and cash flows paid under IFRS 17. Which types of tax is it referred to (eg. VAT on premium / VAT on commission paid to brokers/agents for A&H products)?

Explanation

As a general rule of thumb, B65(i) or B65(j), the taxes must be incurred by the policyholders or the existing insurance contract, fulfilment cash flows for corporate tax expenses is not accounted if it is incurred by the entity. The legal taxpayer for VAT on premium is obviously the policyholder, therefore B65(i) transaction-based taxes applies.

The real/legal taxpayer for VAT on commission is the broker/agent itself. Assuming the commission before withholding tax of 0.3% is THB1000 as recorded by the company

Dr 1000 commission (PnL)

Cr 1000 agent/broker (BS)

The THB1000 commission expenses (on incurring basis) will be accounted in the fulfilment cash flows. Under the incurring basis, incurred amount is deemed as paid. The balance sheet item (for the timing of settlement) for unpaid item i.e. the withholding tax is other payable and VAT on commission (if any) for registered agent is also other payable.

5.4 Bancassurance Access Fee Payments and Definition of Insurance Acquisition Cash Flows

Background

Before the June 2020 Final Amendment to IFRS 17, this accounting of the upfront payment for the bank access fee as an intangible asset was expected to continue when IFRS 17 is effective.

This was because the scoping of IAS 38, as amended by IFRS 17 (as issued in 2017) read as follows:

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to: ... (g) contracts within the scope of IFRS 17 Insurance Contracts.

However, the June 2020 Final Amendments further changed the wording of IAS 38 and the scoping paragraph was changed to as follows:

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to: ... (g) contracts within the scope of IFRS 17 Insurance Contracts and any assets for insurance acquisition cash flows as defined in IFRS 17.

It is now not as clear whether the upfront fee paid for the bank access can meet the definition of an intangible asset to be measured under IAS 38.

Question 15:

Does the upfront payment for the bancassurance access deal meet the definition of an insurance acquisition cash flows as defined in IFRS 17?

View A:

Yes, the upfront payment for the bancassurance agreement meets the definition of an insurance acquisition cash flows.

View B:



No, the definition of an insurance acquisition cash flows is not met but any subsequent amortisation expense can meet the definition of an insurance acquisition cashflow

View C:

No, the upfront payment and any subsequent amortisation expense does not meet the definition of an insurance acquisition cash flows

Explanation

View B

In this region, insurers pay a fee to obtain exclusive rights to distribute their insurance product for a limited period of time. For example, an insurer pays an amount to a bank in exchange for its exclusive right to sell the insurance products for 10 years. This one-time access fee is sometimes recognised as an intangible asset within the scope of IAS 38, and it is amortised over the life of the contract, based on a specified method reflecting the consumption of expected future economic benefits. The one-time access fee is not a payment under the insurance contract, and so it is not within the scope of IFRS 17. It is a purchase of an intangible asset under IAS 38. However, the insurance contracts would not have been issued if the insurer had not consumed (used) the intangible asset for that purpose. Therefore, the annual charge (that is, the amortisation of the one-time access fee), rather than the entire intangible asset, would meet the definition of an acquisition cash flow that is directly attributable to the portfolio of the contracts issued.

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Question 16:

The accounting of the upfront payment for the bank access fee as an intangible asset was expected to continue when IFRS 17 is effective, and it states the rights (paying at once) to sell the insurance policies for no. of years.

Is it possible to pay annually (eg. for 10 years) according to the agreement; substantially should be capitalized as assets for the whole 10 years per IAS38? Then amortized into insurance acquisition CF as per IFRS17

Explanation

An intangible asset must be recognised if (and only if):

1. It is probable that future economic benefits specifically attributable to the asset will flow to the company; and,
2. The cost of the asset can be measured reliably.

If the insurer has an arrangement with the bank to pay the fee on installment basis (e.g., for 10 years), the initial recognition and measurement shall still follow the requirement of IAS38 because there is no involvement of insurance contract at all. Further elaboration is not included in this paper whether the intangible asset is eligible or not under IAS38.

In practice, it will lead to two scenarios:

1. If the intangible asset is eligible to be capitalized under IAS38, the amortization of the intangible asset can be directly capitalised to IACFs or expensed as per IFRS17.
2. If the intangible asset is not eligible to be capitalized under IAS38, the installment of the access fee can be directly capitalised to IACFs or expensed as per IFRS17.

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