



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 7: Discount Rates

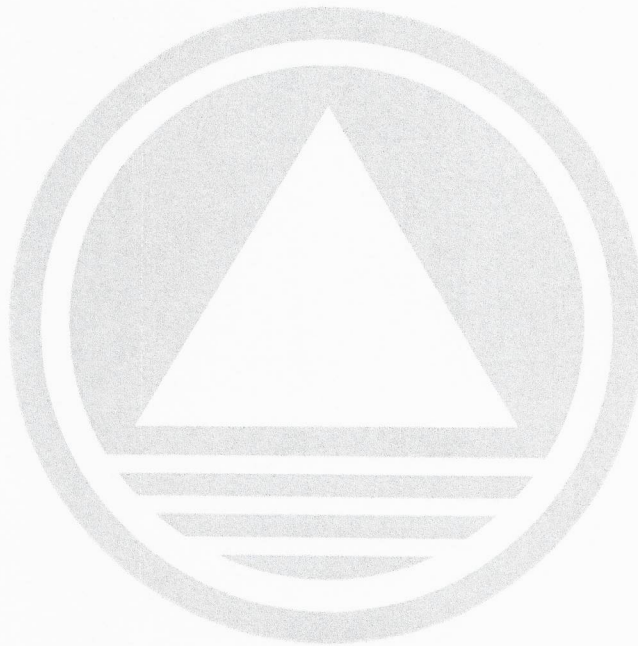
30 September 2021

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 time value of money should be taken into account in the IFRS 17 liability calculations. The main features linked to this subject are presented below:

- a. for groups of contracts under PAA that have a significant financing component, to adjust the carrying amount of the LRC, discount rates determined on initial recognition, should be used;
- b. for groups of contracts under PAA, 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;
- c. The FCF should be measured with current discount rates;
- d. The interest to accrete on the CSM for insurance contracts without direct participation features, should be measured with 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;
- e. The changes to the CSM for insurance contracts without direct participation features should be measured with discount rates determined on initial recognition;
- f. if an entity chooses to disaggregate insurance finance income or expenses between P&L and OCI, to determine the amount of the insurance finance income or expenses included in P&L.

The estimation has to be market consistent and exclude the effect of any factors that are not relevant to the cash flows of the insurance contracts. The Standard does not require a particular estimation technique. Two approaches are mentioned as acceptable methods:

- a. The top-down approach consists in starting with expected return on a reference asset portfolio and adjusting by the factors which are not relevant to the liability;
- b. The bottom-up approach consists in starting with a risk-free rate and adjusting by the illiquidity premium.

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)
	36, 56, 59, B72 – B74, B78 – B85

Discount rates (paragraphs B72–B85)

36 An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall:

- (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
- (b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and
- (c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

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.

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.

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;
- (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.

B73 To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

B74 Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example:

- (a) cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability;
- (b) cash flows that vary based on the returns on any financial underlying items shall be:
 - (i) discounted using rates that reflect that variability; or
 - (ii) adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made.
- (c) nominal cash flows (ie those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and
- (d) real cash flows (ie those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.

B78 Discount rates shall include only relevant factors, ie factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the appropriate rates. IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall:

- (a) maximise the use of observable inputs (see paragraph B44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph B49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables.
- (b) reflect current market conditions from the perspective of a market participant.
- (c) exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.

B79 For cash flows of insurance contracts that do not vary based on the returns cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rates reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.

B80 Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

B81 Alternatively, an entity may determine the appropriate discount rates for insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any factors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.

B82 In estimating the yield curve described in paragraph B81:

- (a) if there are observable market prices in active markets for assets in the reference portfolio, an entity shall use those prices (consistent with paragraph 69 of IFRS 13).
- (b) if a market is not active, an entity shall adjust observable market prices for similar assets to make them comparable to market prices for the assets being measured (consistent with paragraph 83 of IFRS 13).
- (c) if there is no market for assets in the reference portfolio, an entity shall apply an estimation technique. For such assets (consistent with paragraph 89 of IFRS 13) an entity shall:
 - (i) develop unobservable inputs using the best information available in the circumstances. Such inputs might include the entity's own data and, in the context of IFRS 17, the entity might place more weight on long-term estimates than on short term fluctuations; and
 - ii) adjust those data to reflect all information about market participant assumptions that is reasonably available.

B83 In adjusting the yield curve, an entity shall adjust market rates observed in recent transactions in instruments with similar characteristics for movements in market factors since the transaction date, and shall adjust observed market rates to reflect the degree of dissimilarity between the instrument being measured and the instrument for which transaction prices are observable. For cash flows of insurance contracts that do not vary based on the returns on the assets in the reference portfolio, such adjustments include:

- (a) adjusting for differences between the amount, timing and uncertainty of the cash flows of the assets in the portfolio and the amount, timing and uncertainty of the cash flows of the insurance contracts; and
- (b) excluding market risk premiums for credit risk, which are relevant only to the assets included in the reference portfolio.

B84 In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach.

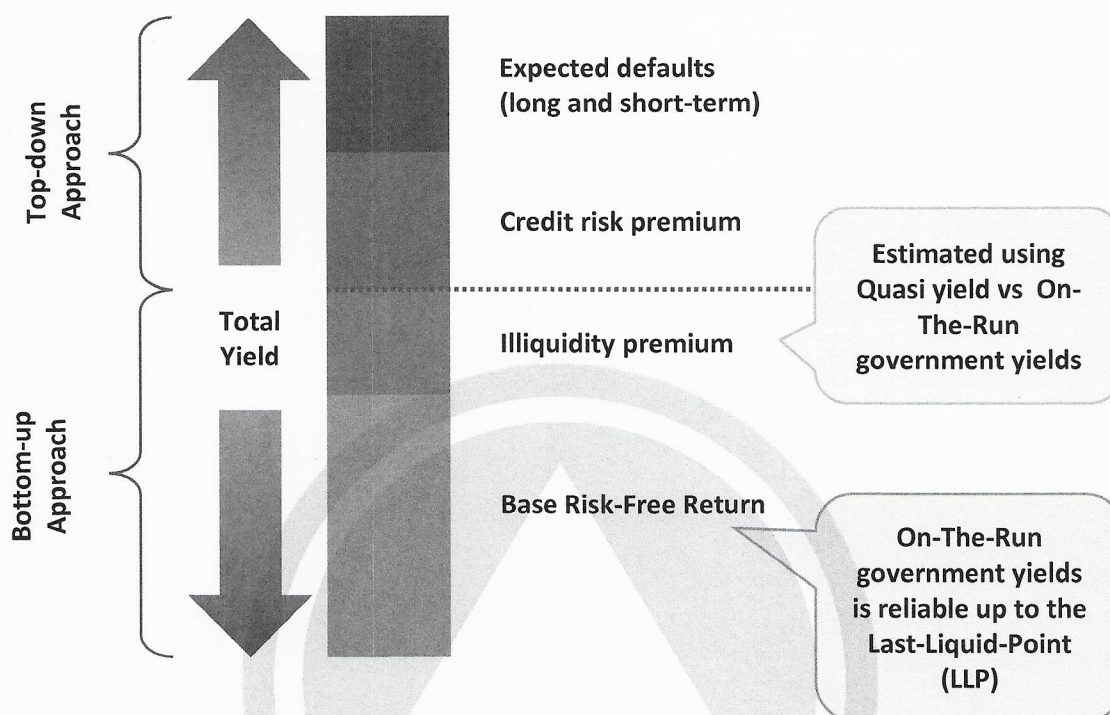
An entity is not required to reconcile the discount rates determined under its chosen approach with the discount rates that would have been determined under the other approach.

B85 IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying paragraph B81. However, fewer adjustments would be required to eliminate factors that are not relevant to the insurance contracts when the reference portfolio of assets has similar characteristics. For example, if the cash flows from the insurance contracts do not vary based on the returns on underlying items, fewer adjustments would be required if an entity used debt instruments as a starting point rather than equity instruments. For debt instruments, the objective would be to eliminate from the total bond yield the effect of credit risk and other factors that are not relevant to the insurance contracts. One way to estimate the effect of credit risk is to use the market price of a credit derivative as a reference point.

3.0 Practical Guidance

3.1 IFRS 17 Discount Rates

Although most insurers seem likely to choose bottom-up approach, an insurer might use different approaches in different jurisdictions and for business with different durations.



Guidelines for setting the bottom-up discount rates

The appropriate discount rates to be used in the calculation of cash flow in accordance with IFRS 17 consists of the following yield rate:

- 1) The risk-free rate of return, which is the portion that reflects the time value of money and without risk. Usually in the form of yields on government bonds or treasury bills.
- 2) The portion of the rate of return that compensates the insured's incapacity to convert from the insurance contract to cash (illiquidity Premium), which is not a commonly used method of consideration. Therefore, estimating the degree of contract inconsistency requires the discretion of the discount rates setter.

As mentioned above, it can be seen that the determination of the discount rates under the "Bottom-Up" approach requires the risk-free rate of return and the compensation rate for the insured's inability to convert from the insurance contract to Cash (illiquidity premium), so entity can set the steps for setting the discount rates under the Bottom-Up approach in 3 sub-steps as follows:

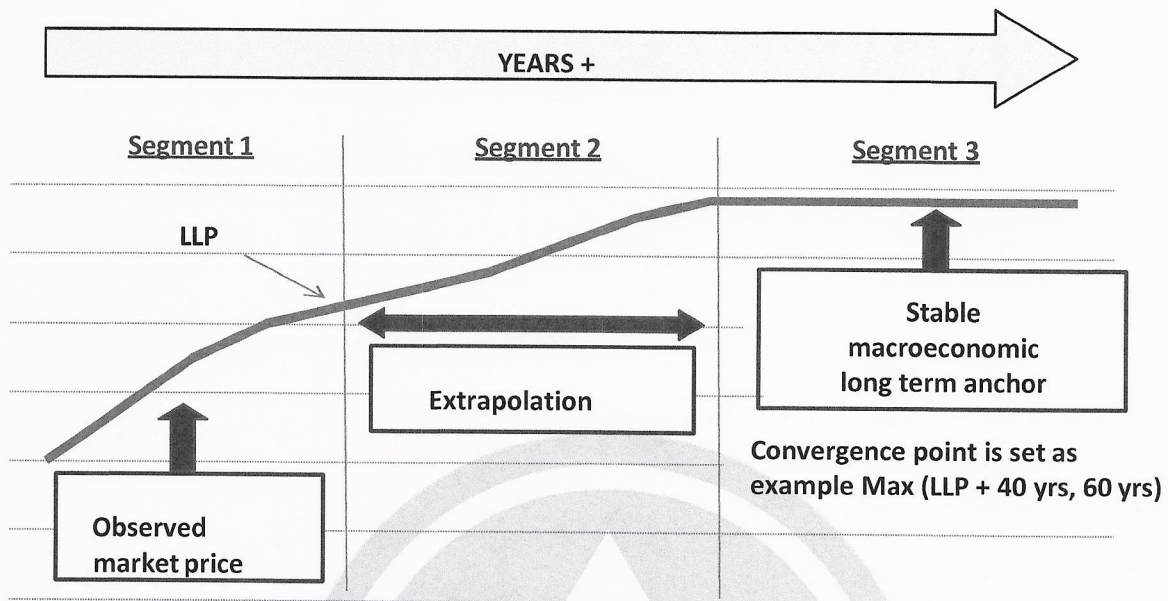
Step 1: Create a risk-free rate curve using government bond yield data. The Practice Guidance will cover 3 segments of base risk-free yield curve.

Step 2: Estimate the compensation rate for illiquidity premium using corporate bond trading data.

Step 3: Create the total discount rates that is risk-free and compensates for illiquidity (discount rates = risk-free + illiquidity premium).

3.2 Segments of Base Risk-free Yield Curve

Risk-free rate term structure extrapolation required from the last liquid point until the convergence point.



Segment	Durations Covered	Methodology
1	Up to the LLP	Rates set based on zero-coupon spot yield of government paper with matching duration, where available. Where market information is not available, the rates are to be interpolated using the Smith-Wilson method. The rates should be obtained from a recognised bond pricing agency. Even though the Standard requires the maximum use of observable market data. However, it is not uncommon that market data that doesn't meet the deep, liquid and transparent criteria will be censored before reaching market participants.
2	After the LLP but less than 60 years	Rates extrapolated from Segment 1 using the interpolation techniques. Most popular choice is Smith- Wilson method which is adopted in European Union countries and Singapore. The alpha parameter, which determines the speed of convergence between the LLP and the long- term forward rate (LTFR) is the only parameter required.
3	60 years or more	The long-term rate of return (LTRR) could be set as the sum of an expected real rate and an expected inflation rate.

Reference could be made to the report published by the Thai BMA or the European Insurance and Occupational Pensions Authority for Thai and foreign currencies liabilities respectively.

Risk-free interest rate term structures publication EIOPA was used for broadly for calculation of technical provisions across Europe so if any Thailand company has liabilities denominated in foreign currencies, reference could be made to this publication. For foreign liabilities, member can refer to the RFR_spot_no_VA & RFR_spot_with_VA for the respective country.

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3.3 Setting the Discount Rates under the Bottom-up Approach in 3 Sub-steps

Step 1 : Create a risk-free rate curve for Thai Baht denominated liabilities

Although IFRS 17 does not explicitly state how it can generate a risk-free rate of return., but in general, the risk-free rate of return that is used to determine the discount rates should be qualified with low credit risk, highly liquid, and cover a broad range of maturities. The rate of return on such a qualifying financial instrument can be obtained in Thailand is government bond. Thai Bond Market Association or ThaiBMA is the center of information on the bond market and is the provider of risk-free rate curve data, where discount rates setters can access the information from the website. <http://www.thaibma.or.th/EN/Market/YieldCurve/Zero.aspx> An example of the risk-free yield calculation using the historical yield on government bonds at the end of the quarter is shown in the following example.

Table 1

Yield date		Yield rate (%)
		(1)
31/3/2011		3.30
30/6/2011		3.76
30/9/2011		3.57
31/12/2011		3.12
31/3/2012		3.49
30/6/2012		3.27
30/9/2012		3.20
31/12/2012		2.94
31/3/2013		2.90
30/6/2013		3.03
30/9/2013		3.21
31/12/2013		2.97
31/3/2014		2.62
30/6/2014		2.61
30/9/2014		2.65
31/12/2014		2.31
31/3/2015		2.05
30/6/2015		1.74
30/9/2015		1.79
31/12/2015		1.74
31/3/2016		1.38
30/6/2016		1.57
30/9/2016		1.62
31/12/2016		1.85
31/3/2017		1.72
30/6/2017		1.61
30/9/2017		1.56
31/12/2017		1.63
31/3/2018		1.61
30/6/2018		1.85
30/9/2018		2.09
31/12/2018		1.92
31/3/2019		1.84
30/6/2019		1.79
30/9/2019		1.37
31/12/2019		1.21
31/3/2020		0.91

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Step 2: Estimate the compensation rate for illiquidity premium.

Estimating the illiquidity premium is a challenging step for rate setters. This is because IFRS 17 states that the discount rates used to estimate future cash flows should reflect the characteristics of an insurance contract that is illiquid in converting from insurance contracts to cash due to conversion costs. Each contract (Or each contract group) has different degrees of liability illiquidity.

In estimating the degree of inactivity of an insurance contract, it should be based on the type of insurance contract in each contract group, for example whether each group has a different transaction cost, penalty cost, or not. However, IFRS 17 does not specify a method for determining inconvertibility. And in addition, the above guidelines do not have a common method of consideration. Therefore, estimating the degree of contract illiquidity is mainly based on the judgment of the discount rates setter.

In practice, the discount rates setter may estimate illiquidity premium by using information on the trading of corporate bonds in the market as a proxy, using the assumption that investors want an additional rate of return, known as spread, from investing in bonds of private companies in order to compensate the illiquidity spread and credit spread of the private company issuing the bonds. It may be written in a simple equation form as follows.

Equation 1: Corporate Bond Spread = Illiquidity Premium + Credit Risk Premium

The discount rates setter can find yield curves on private corporate bonds from the Thai Bond Market Association (ThaiBMA), a center of information on the bond market and is a provider of yield curve information on corporate bond yield curve. Discount rates setters able to access this information from the website. <http://www.thaibma.or.th/EN/Market/YieldCurve / Corporate.aspx> The discount rates setter may use the average private corporate bond investment yield for duration that is consistent with the company's projected cash flow.

The estimation of compensation for liquidity deficit is based on the judgment of the discount rates setter. Generally, the discount rates setter may use the credit default swap (CDS) derivatives trading data to calculate the liquidity compensation rate. By taking the rate of return from investing in corporate bond yields, deducting the yield calculated from derivatives trading, hedging from the debtor's default risk (CDS yield), which such method requires information on derivatives trading to prevent the risk of default on debt of the debtor. Since the trading of such derivatives is over the counter (OTC), discount rates setters are unable to easily find such information. Therefore, the discount rates setter may choose to use the method of determining the compensation rate from illiquidity specified by the OIC, such as the criteria for determining the compensation rate for illiquidity under the liability adequacy test (LAT) or may use information from the website. <https://www.ibond.thaibma.or.th/> To determine the compensation rate for illiquidity by calculating the compensation rate for illiquidity according to Equation 1, the two methods of calculations can be shown as follows:

Table 2: Compensation rate for illiquidity under the OIC's debt sufficiency test method

Maturity (years)	Rate of return based on Step 1 risk free spot rate	Rate of return based on Step 1's forward rate	Rate of return + compensation rate for illiquidity as a forward rate	Rate of return + compensation rate for illiquidity as a spot rate
	(1)	(2)	(3)	(4)
1	1.1780%	1.1780%	1.5024%	1.5024%
2	1.2365%	1.2950%	1.6194%	1.5609%
3	1.3111%	1.4604%	1.7847%	1.6354%
4	1.4064%	1.6930%	2.0173%	1.7308%
5	1.4857%	1.8035%	2.1279%	1.8101%
6	1.6035%	2.1946%	2.5190%	1.9279%
7	1.6953%	2.2480%	2.5723%	2.0197%
8	1.7701%	2.2951%	2.6195%	2.0945%
9	1.8371%	2.3745%	2.6989%	2.1615%
10	1.8754%	2.2212%	2.5455%	2.1998%
...	...	...	...	...
46	3.0180%	2.5902%	2.9145%	3.3424%
47	3.0399%	4.0514%	4.3758%	3.3643%

Example of calculation of table 2

(1) Government bond yields for 3 years as of 31/03/2020, spot rate

= 1.3111%

(2) 3-year government bond yields as of 31/03/2020, forward rate

= $(1 + 1.3111\%)^3 / (1 + 1.2365\%)^2 - 1 = 1.4604\%$

(3) 3-year government bond yield as of 31/03/2020, combined with the forward rate of liquidity compensation rate.

= $1.4604\% + \text{MIN}(\text{MAX}(\text{the difference in yield on bonds of the private companies selected for use} * 40\%, 0.2\%), 1.5\%)$

= $1.4604\% + \text{MIN}(\text{MAX}(0.8109\% * 40\%, 0.2\%), 1.5\%) = 1.4604\% + 0.3244\% = 1.7847\%$

Where the difference in the rate of return on investment in the bonds of the selected private companies (corporate bond spread) is determined from the difference of the return on investment in the bonds of private companies at the credit level A with the remaining maturity not more than 3 Year as of 31/03/2020 (refer to Table 3)

(4) 3-year government bond yield as of 31/03/2020 with the compensation rate from liquidity spot rate.

= $((1 + 1.5024\%) * (1 + 1.6194\%) * (1 + 1.7847\%))^{(1/3)} - 1$

= 1.6354%

Table 3: The difference of return on investment in bonds of private companies

Group	Averaged Spread (bp)			Standard Deviation (bp)			Averaged Maturity		
	<=3 Yrs.	3 – 5 Yrs.	>5 Yrs.	<=3 Yrs.	3 – 5 Yrs.	>5 Yrs.	<=3 Yrs.	3 – 5 Yrs.	>5 Yrs.
AAA	51.913757	95.311848	90.848177	20.048125	43.727786	12.255519	1.413587	4.157991	6.221461
AA	64.293373	88.300975	127.18623	40.846653	27.984916	27.525361	1.549315	3.912785	7.944938
A	81.091825	112.51469	144.89823	40.249673	40.270059	39.646473	1.394249	3.864788	8.123848
BBB	198.8108	277.16172	334.68211	47.389058	37.737114	52.707203	1.436784	3.866175	5.302739

Source: <http://www.thaibma.or.th/EN/Market/YieldCurve/Corporate.aspx>

Table 4: Compensation rates for illiquidity from Private Bond Investments according to the information from the Thai Bond Market Association (ThaiBMA)

Maturity (years)	Compensation rate for illiquidity from private equity bonds By credit rating (bps)								
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
0	0.0000	0.0000	0.1594	16.9930	16.9930	16.9930	1.9433	0.0000	10.3944
1	4.0239	4.9065	5.0659	21.8995	21.0169	21.0169	5.9672	4.0239	14.4184
2	6.3778	7.7766	7.9361	24.7696	23.3708	23.3708	8.3211	6.3778	16.7722
3	8.0479	9.8130	9.9725	26.8060	25.0409	25.0409	9.9912	8.0479	18.4423
5	10.4017	12.6831	12.8426	29.6761	27.3947	27.3947	12.3450	10.4017	20.7962
7	12.0718	14.7195	14.8790	31.7125	29.0648	29.0648	14.0151	12.0718	22.4663
10	13.9206	16.9737	17.1332	33.9667	30.9135	30.9135	15.8638	13.9206	24.3150

Source: <https://www.ibond.thaibma.or.th/>

Table 5: Compensation rates for illiquidity from private equity bonds according to the data from the Thai Bond Market Association (ThaiBMA) average by credit level group

Maturity (years)	Compensation rate for illiquidity from private equity bonds By credit rating (bps)			
	AAA	AA	A	BBB
	(1)	(2)	(3)	(4)
0	0.0000	5.7175	11.9764	5.1972
1	4.0239	10.6240	16.0004	9.2212
2	6.3778	13.4941	18.3542	11.5750
3	8.0479	15.5305	20.0243	13.2451
5	10.4017	18.4006	22.3782	15.5990
7	12.0718	20.4370	24.0482	17.2691
10	13.9206	22.6912	25.8970	19.1178

Example of calculation of table 5

(3) Compensation rate due to lack of liquidity from investment in bonds of private companies for a period of 3 years for credit class A as of 31/03/2020.

= Simple average of liquidity compensation rates from credit levels A +, A and A-.

= $(25.0409 + 25.0409 + 9.9912) / 10,000 = 0.200\%$

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4.0 Illustrations

4.1 Weighted Average Locked In Yield Curve

The monthly yield curves may be obtained from the yield curves published by Thai BMA (Thai's liabilities) or EIOPA (foreign liabilities), for the beginning of the month. Locked in yield curve should be determined based on the yield curves obtained at each month.

Locked in yield curve is only used upon your 'official reporting period'. The official reporting period is up to your internal company reporting. This means that your official reporting period could be quarterly or annually.

The method shown below is a simple average yield curve.

Yield date	Yield rate (%)	Average of return for the past 2 years	Average of return for the past 3 years	Average of return for the past 5 years
	(1)	(2)	(3)	(4)
31/3/2011	3.30			
30/6/2011	3.76			
30/9/2011	3.57			
31/12/2011	3.12			
31/3/2012	3.49			
30/6/2012	3.27			
30/9/2012	3.20			
31/12/2012	2.94	3.33		
31/3/2013	2.90	3.28		
30/6/2013	3.03	3.19		
30/9/2013	3.21	3.15		
31/12/2013	2.97	3.13	3.23	
31/3/2014	2.62	3.02	3.17	
30/6/2014	2.61	2.94	3.08	
30/9/2014	2.65	2.87	3.00	
31/12/2014	2.31	2.79	2.93	
31/3/2015	2.05	2.68	2.81	
30/6/2015	1.74	2.52	2.69	
30/9/2015	1.79	2.34	2.57	
31/12/2015	1.74	2.19	2.47	2.81
31/3/2016	1.38	2.03	2.34	2.72
30/6/2016	1.57	1.90	2.22	2.61
30/9/2016	1.62	1.78	2.09	2.51
31/12/2016	1.85	1.72	1.99	2.45
31/3/2017	1.72	1.68	1.92	2.36
30/6/2017	1.61	1.66	1.84	2.28
30/9/2017	1.56	1.63	1.75	2.19
31/12/2017	1.63	1.62	1.69	2.13
31/3/2018	1.61	1.65	1.65	2.06
30/6/2018	1.85	1.68	1.66	2.00
30/9/2018	2.09	1.74	1.69	1.95
31/12/2018	1.92	1.75	1.70	1.90
31/3/2019	1.84	1.76	1.74	1.86
30/6/2019	1.79	1.79	1.76	1.82
30/9/2019	1.37	1.76	1.74	1.75
31/12/2019	1.21	1.71	1.68	1.70
31/3/2020	0.91	1.62	1.62	1.64

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Example of calculation

(1) 3-Year Government Bond Yield As of 31/03/2020
= 0.91%

(2) Simple Average Rate of Return on Government Bonds for 3 Years as of 31/03/2020 for the past 2 years

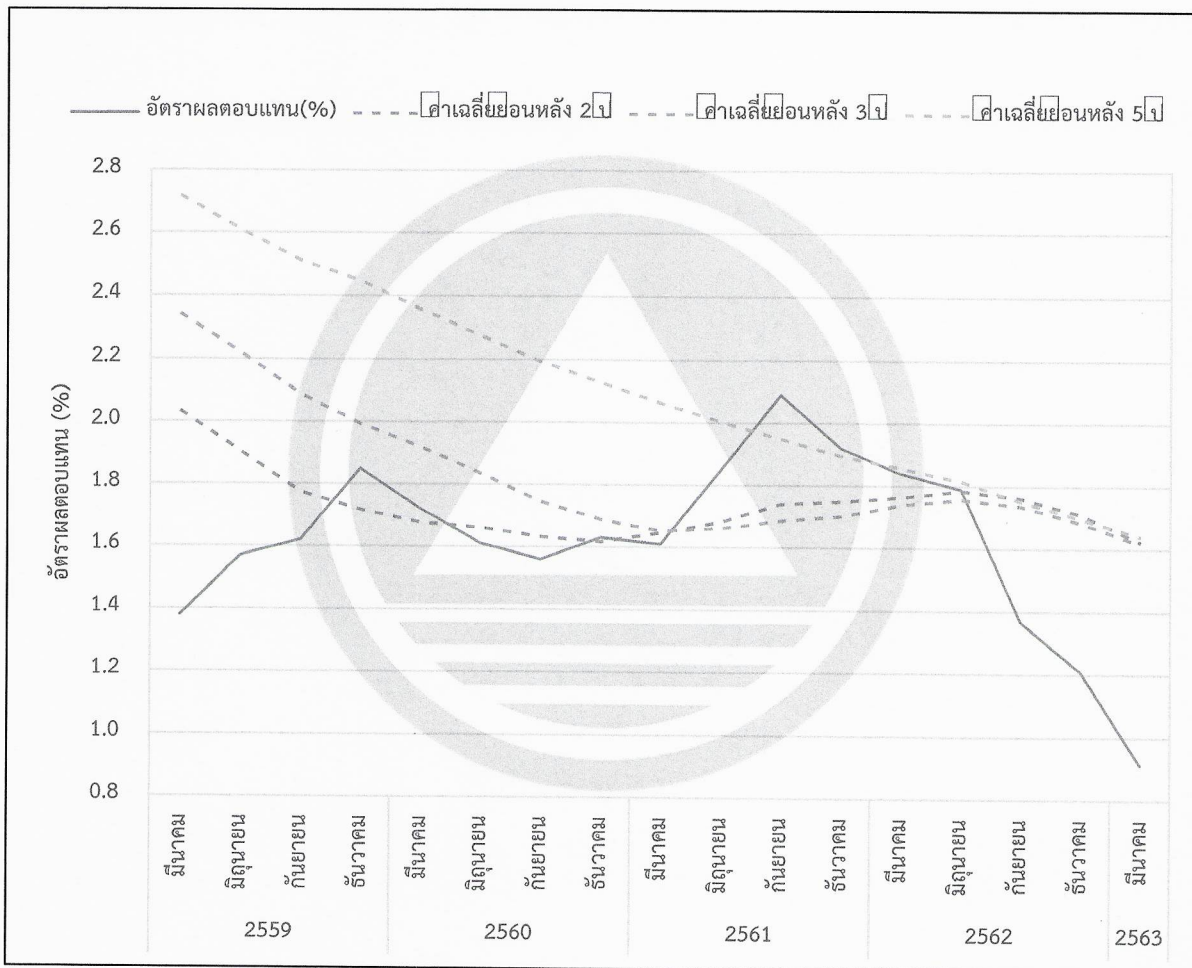
$$= (0.91\% + 1.21\% + \dots + 2.09\% + 1.85\%) / 8 = 1.62\%$$

(3) Simple average yield on 3-year government bonds as of 31/03/2020 for the past 3 years

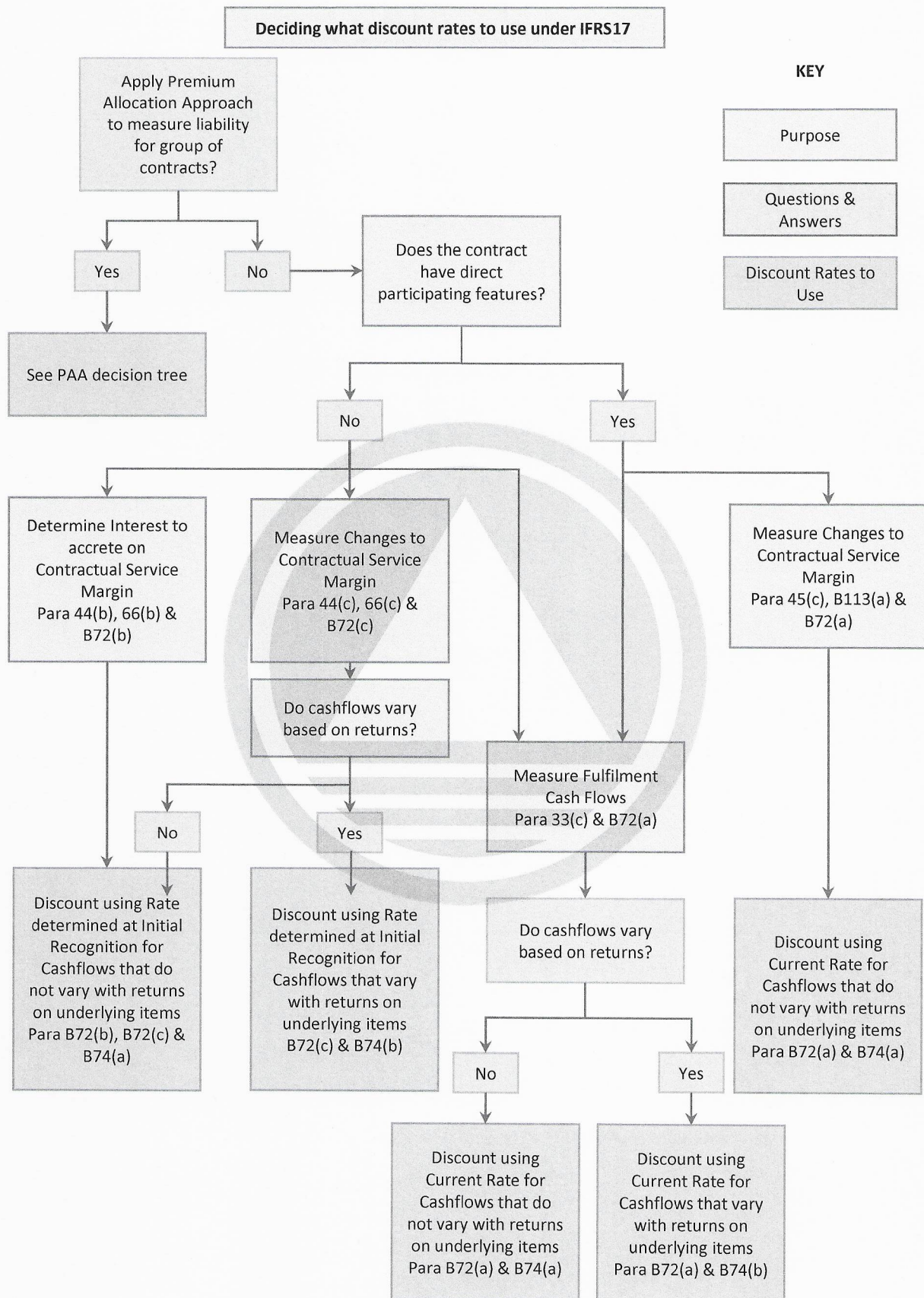
$$= (0.91\% + 1.21\% + \dots + 1.56\% + 1.61\%) / 12 = 1.62\%$$

(4) Simple average yield on 3-year government bonds as of 31/03/2020 for the past 5 years

$$= (0.91\% + 1.21\% + \dots + 1.79\% + 1.74\%) / 12 = 1.64\%$$



4.2 Discount Rates under GMM



Source: AASB 17 Insurance Contracts Information Note Version 2.0 (November 2019)

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4.3 Discount Rates under PAA

Discount Rates	When to use?
Not Using OCI Accounting Policy Choice	
Undiscounted (Optional)	- Measure LRC <u>without</u> significant financing component - Measure LIC <u>expected</u> to be paid/received in less than one year, otherwise see below
Discount Rates at Initial Recognition	Measure LRC <u>with</u> significant financing component (IFRS 17.B72(d))
Current discount rates	Measure LIC <u>not expected</u> to be paid/received in less than one year

Discount Rates	When to use?
Using OCI Accounting Policy Choice – Amount Reflected in Profit or Loss	
Undiscounted (Optional)	- Measure FCF <u>without</u> significant financing component - Measure LIC <u>expected</u> to be paid/received in less than one year Otherwise see below
Discount Rates at Initial Recognition	Measure LRC <u>with</u> significant financing component
Discount Rates at Date of Incurred Claim	Measure LIC <u>not expected</u> to be paid/received in less than one year
Using OCI Accounting Policy Choice – Amount Reflected in OCI	
Reflect difference in Total Finance Income or Expenses on basis that OCI option not taken and amount recognised in profit or loss	

5.0 Frequently Asked Questions

5.1 Loss Component

Question 1:

Which discount rates should be applied for the establishment of the LC and its subsequent adjustments?

View A: LIDR – Locked-in discount rates is used for the establishment of the LC and all adjustments (i.e. LC functions as a negative CSM).

View B: Current – Current discount rates is used for the establishment of the LC and all adjustments (i.e. LC functions as an allocation of fulfilment cash flows).

View C: Hybrid – Locked-in discount rates are used for establishment of the LC and 100% allocated adjustments while current rates are used for all other adjustments (i.e. a hybrid approach).

Explanation

Any of the views presented is acceptable as long as the total LRC is measured using current discount rates.

5.2 Interest on Insurance Acquisition Cash Flows

Background

The question arises on which discount rates should be applied to insurance acquisition cash flows that occur on or before initial recognition in the CSM (if the entity elects to accrete interest on these cash flows) as there is no explicit guidance under IFRS 17.B72. This was a deliberate decision by the IASB.

Question 1:

Where an entity elects to accrete interest on insurance acquisition cash flows that occur on or before initial recognition, which discount rates should be used?

View A: A current discount rates should be used that is the same as the one used to discount insurance acquisition cash flows expected to occur after initial recognition.

View B: A current discount rates should be used, but one that is different from the one used to discount insurance acquisition cash flows expected to occur after initial recognition.

View C: A locked-in discount rates should be used.

View D: A rate reflecting a proxy for the actual additional financing costs for the entity

View E: The entity has a choice to use either a current discount rates or a locked-in discount rates as there is no explicit guidance provided on insurance acquisition cash flows that occur on or before initial recognition.



Explanation

View E

Given the lack of guidance in the standard on accretion of interest on insurance acquisition cash flows that occur on or before initial recognition, multiple different approaches could be supportable.

5.3 Discount Rates

Background

IFRS17.B73

To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

Question 1:

Which of the following methods is acceptable for determining the discount rates at the date of initial recognition of a group of contracts issued over the course of one year? (more than one answer possible)

View A: A weighted-average discount rates

View B: The rate at the start of the year

View C: A representative quarter-end rate

View D: Any other approach proposed discount rates as there is no explicit guidance provided on insurance acquisition cash flows that occur on or before initial recognition. ☒

Explanation

All views are acceptable as long as they are representative of interest rate conditions during the period.

A technical interpretation of IFRS 17.B72 might be that the date of initial recognition applies to the date of recognition for each contract in the group. This would imply discounting individual contracts within the group using discreet interest rates (and adjusting the CSM individually for each contract). There is a trade-off between accuracy and complexity. There are relevant operational considerations for determining the appropriate rate at initial recognition, such as ensuring that the adjustments to the CSM are internally consistent.

Question 2:

Under PAA, there are several simplifications allowed regarding discounting. For LRC, it is not necessary to apply discounting unless there is significant financing component. For LIC, cash flows do not have to be discounted if they are expected to be paid within one year. Should the entity apply discounting on a group of insurance contracts when PAA is eligible?

View A: Yes. ☒

View B: No, if the period between premiums being due and the provision of coverage is one year or less (for LRC), or if the incurred claims cashflows are expected to be paid within one year.

View C: The entity has a choice to apply discounting on LRC and LIC cashflows.

Explanation

View A

The Standard is based on the present value of future cash flows. In general, most GI contracts offer provision of coverage that is one year or less but the duration of claims settlement usually spans more than one year and over the medium term. Hence, adopting the simplifications regarding discounting under PAA will significantly impact the information presented in the financial statements.

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