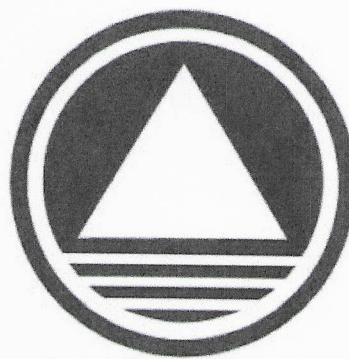




Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 10: Transition Approach

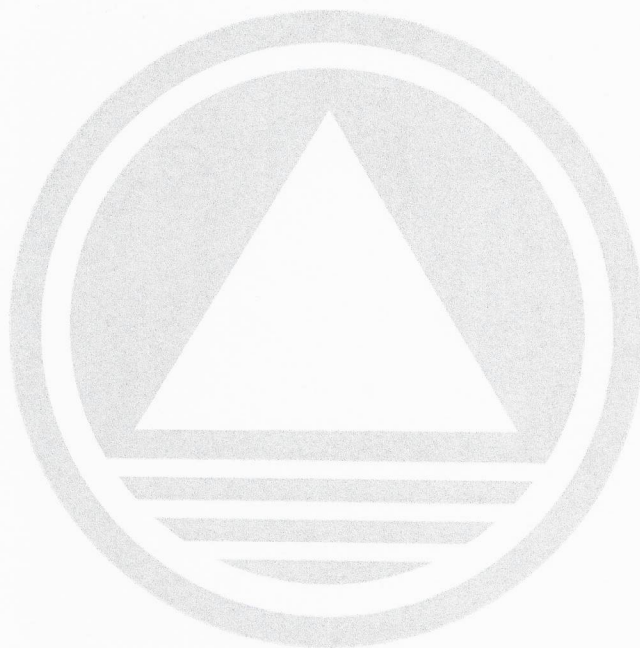
30 September 2021

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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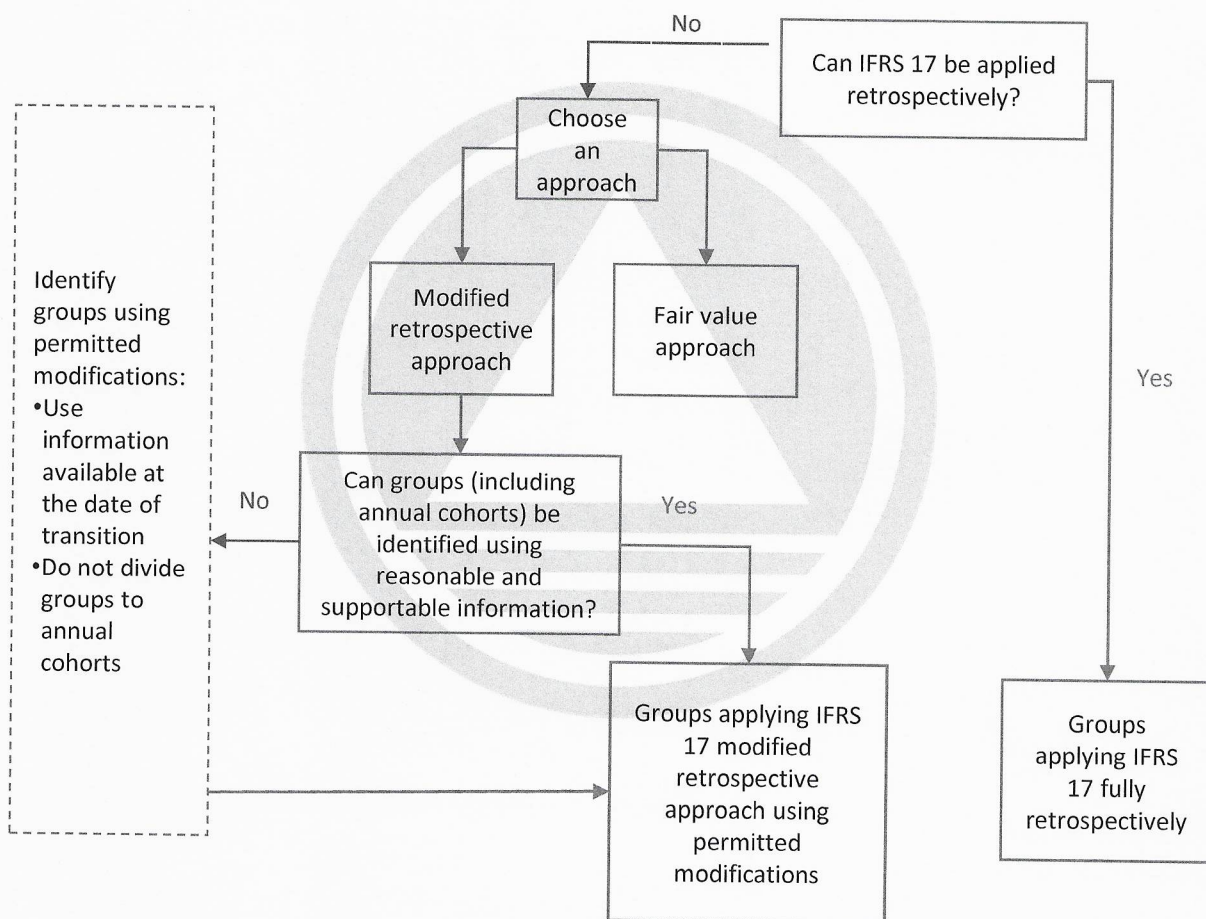
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1.0 Executive Summary

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

The transition date is beginning of the annual reporting period immediately preceding the date of initial application, i.e., 1 January 2023. Entities will start adopting IFRS 17 for annual reporting periods beginning on 1 January 2024.

The default approach for transition to IFRS17 is the full retrospective approach however practical expedient (e.g., modified retrospective approach and fair value approach) is permissible. Decision could be made at group level for direct and reinsurance held.



The technical paper intend to guide the members on assessment of impracticability for an entity to apply paragraph C3 for a group of insurance contracts. It is not the intention to scope in various techniques of estimating fair value consistent with the requirement set out in IFRS13.

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)
Effective date	C1 – C2
Transition	C2 – C33

Effective date

C1 An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. If an entity applies IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply IFRS 9 Financial Instruments on or before the date of initial application of IFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

- (a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17; and
- (b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Transition

C3 Unless it is impracticable to do so, or paragraph C5A applies, an entity shall apply IFRS 17 retrospectively, except that:

- (a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- (b) an entity shall not apply the option in paragraph B115 for periods before the transition date. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

C4 To apply IFRS 17 retrospectively, an entity shall at the transition date:

- (a) identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied;
- (aa) identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);
- (b) derecognise any existing balances that would not exist had IFRS 17 always applied; and
- (c) recognise any resulting net difference in equity.

C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):

- (a) the modified retrospective approach in paragraphs C6–C19A, subject to paragraph C6(a); or
- (b) the fair value approach in paragraphs C20–C24B.

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C5A Notwithstanding paragraph C5, an entity may choose to apply the fair value approach in paragraphs C20–C24B for a group of insurance contracts with direct participation features to which it could apply IFRS 17 retrospectively if, and only if:

- (a) the entity chooses to apply the risk mitigation option in paragraph B115 to the group of insurance contracts prospectively from the transition date; and
- (b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph B115, before the transition date.

C5B If, and only if, it is impracticable for an entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:

- (a) the modified retrospective approach in paragraphs C14B–C14D and C17A, subject to paragraph C6(a); or
- (b) the fair value approach in paragraphs C24A–C24B.

Modified retrospective approach

C6 The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

- (a) use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.
- (b) maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

C7 Paragraphs C9–C19A set out permitted modifications to retrospective application in the following areas:

- (a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;
- (b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;
- (c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and
- (d) insurance finance income or expenses.

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19A only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

C9 To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

- (a) how to identify groups of insurance contracts, applying paragraphs 14–24;
- (b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;
- (c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and
- (d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C9A To the extent permitted by paragraph C8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

C10 To the extent permitted by paragraph C8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

C11 To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16C.

C12 To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

C13 To the extent permitted by paragraph C8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

- (a) using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85, if such an observable yield curve exists.
- (b) if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and B72–B85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

C14 To the extent permitted by paragraph C8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

C14A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.

C14B To the extent permitted by paragraph C8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:

- (a) groups of insurance contracts that are recognised at the transition date; and
- (b) groups of insurance contracts that are expected to be recognised after the transition date.

C14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C and B35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.

C14 D If an entity does not have reasonable and supportable information to apply paragraph C14B, the entity shall determine the following amounts to be nil at the transition date:

- (a) the adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and
- (b) the asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.

C15 If applying paragraphs C12–C14D results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

- (a) if the entity applies C13 to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and
- (b) to the extent permitted by paragraph C8, determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see paragraph B119).

C16 If applying paragraphs C12–C14D results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14D and using a systematic basis of allocation.

C16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph C8, an entity shall determine the loss-recovery component by multiplying:

- (a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and
- (b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held. C14D

C16C If an entity does not have reasonable and supportable information to apply paragraph C16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

- (a) the total fair value of the underlying items at that date; minus
- (b) the fulfilment cash flows at that date; plus or minus
- (c) an adjustment for:
 - (i) amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.
 - (ii) amounts paid before that date that would not have varied based on the underlying items.
 - (iii) the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.
 - (iv) insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date that are allocated to the group (see paragraph C17A).
- (d) if (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or
- (e) if (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

C17A To the extent permitted by paragraph C8, an entity shall apply paragraphs C14B–C14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph C17(c)(iv)).

Insurance finance income or expenses

C18 For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:

- (a) an entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.
- (b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative amount either by applying paragraph C19(b) or:
 - (i) as nil, unless (ii) applies; and
 - (ii) for insurance contracts with direct participation features to which paragraph B134 applies, as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19 For groups of insurance contracts that do not include contracts issued more than one year apart:

- (a) if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and
- (b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative amount:
 - (i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;
 - (ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, ie as nil;
 - (iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and
 - (iv) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine amounts related to insurance finance income or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

Fair value approach

C20 To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 Fair Value Measurement (relating to demand features).

C20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph B119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

- (a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and
- (b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

- (a) how to identify groups of insurance contracts, applying paragraphs 14–24;
- (b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;
- (c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and
- (d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C22 An entity may choose to determine the matters in paragraph C21 using:

- (a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or
- (b) reasonable and supportable information available at the transition date.

C22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

C23 In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e) (iii) at the transition date instead of at the date of initial recognition or incurred claim.

C24 In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date:

- (a) retrospectively—but only if it has reasonable and supportable information to do so; or
- (b) as nil—unless (c) applies; and
- (c) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income from the underlying items.

Asset for insurance acquisition cash flows

C24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

- (a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;
- (b) future insurance contracts that are renewals of insurance contracts recognised at the transition date and insurance contracts described in (a); and
- (c) future insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows the entity has already paid that are directly attributable to the related portfolio of insurance contracts.

C24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Comparative information

C25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying IFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

C26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

C27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

C28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Redesignation of financial assets

C29 At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

- (a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.
- (b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.
- (c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.
- (d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.
- (e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.

C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

- (a) the previous carrying amount of those financial assets; and
- (b) the carrying amount of those financial assets at the date of initial application.

C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

- (a) if paragraph C29(a) applies—its basis for determining eligible financial assets;
- (b) if any of paragraphs C29(a)–C29(e) apply:
 - (i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and
 - (ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.
- (c) if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

- (a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;
- (b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and
- (c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.

3.0 Practical Guidance

3.1 Full Retrospective Approach

Objective

An entity shall apply IFRS 17 retrospectively unless impracticable, except that:

- a. an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- b. an entity shall not apply the option in paragraph B115 for periods before the date of initial application of IFRS 17.

To apply IFRS 17 retrospectively, an entity shall at the transition date:

- a. identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied;
- b. derecognise any existing balances that would not exist had IFRS 17 always applied; and
- c. recognise any resulting net difference in equity.

Since premium allocation approach is applicable to profitable group of insurance contracts, the historical cost measurement basis would require all information transaction on premium and claim to be complete at least for policies still in force on transition date. If the measurement is required at current value measurement basis e.g. fulfilment value of LIC or LRC - loss component computation, historical transaction is not relevant.

3.2 Modified Retrospective Approach

Objective

The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

- a. use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.
- b. maximize the use of information that would have been used to apply a fully retrospective approach but need only use information available without undue cost or effort.

Paragraphs C9–C19 set out permitted modifications to retrospective application in the following areas:

- a. assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;
- b. amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;
- c. amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and
- d. insurance finance income or expenses.

To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

- a. how to identify groups of insurance contracts, applying paragraphs 14–24;
- b. whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and
- c. how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

To the extent permitted by paragraph C8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16.

To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

To the extent permitted by paragraph C8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

- a. using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85, if such an observable yield curve exists.
- b. if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and B72–B85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

To the extent permitted by paragraph C8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

If applying paragraphs C12–C14 results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

- a. if the entity applies C13 to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and
- b. to the extent permitted by paragraph C8, determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see paragraph B119).

If applying paragraphs C12–C14 results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14 and using a systematic basis of allocation.

Insurance finance income and expenses

For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:

- a. an entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.
 - b. if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative difference either by applying paragraph C19(b) or:
 - as contracts with direct participation features to which nil, unless (ii) applies; and
 - for insurance paragraph B134 applies, as equal to the cumulative amount recognised in other comprehensive income on the underlying items.
- For groups of insurance contracts that do not include contracts issued more than one year apart:
- a. if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and
 - b. if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference:
 - for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;
 - for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, i.e. as nil;
 - for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and
 - for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

3.3 Fair Value Approach

Objective

To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 Fair Value Measurement (relating to demand features).

In applying the fair value approach, an entity may apply paragraph C22 to determine:

- a. how to identify groups of insurance contracts, applying paragraphs 14–24;
- b. whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and
- c. how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

An entity may choose to determine the matters in paragraph C21 using:

- a. reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or
- b. reasonable and supportable information available at the transition date.

In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date:

- a. retrospectively—but only if it has reasonable and supportable information to do so; or
- b. as nil—unless (c) applies; and
- c. for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income from the underlying items.

It is not common that the fair value approach is applied to the general insurance companies for the following reasons:

- a. the contract is short term in nature, hence the contracts could be relatively easier to be measured on other transition approaches.
- b. the general measurement model is usually not applicable to the general insurance companies unless the contract has long coverage period.
- c. fair value approach is usually applicable to onerous contracts as a matter of accounting choice if full retrospective approach is not practical.
- d. relatively late in the implementation cycle if fair value approach is elected because early preparation may not be relevant on transition date due to change in circumstances on transition date.

3.3.1 Re-designation of financial assets

At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

- a. may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.
- b. shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.
- c. may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.
- d. may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.
- e. may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.

An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

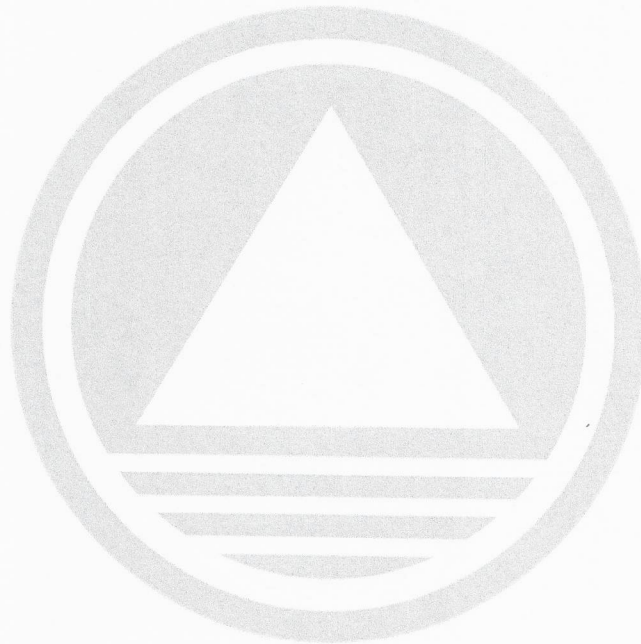
- a. the previous carrying amount of those financial assets; and
- b. the carrying amount of those financial assets at the date of initial application.

When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

- a. if paragraph C29(a) applies—its basis for determining eligible financial assets;
- b. if any of paragraphs C29(a)–C29(e) apply:
 - the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and
 - the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.
- c. if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

- a. how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;
- b. the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and
- c. why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.



3.4 Assessment of Impracticability

On transition, the company should apply FRA unless it is “impracticable” to do so. The MRA of FVA will allow to apply in this circumstances.

To develop the principles which can be applied for the assessment of ‘impracticability’, we must go back to the basic IAS 8 principles. A full retrospective approach is impracticable if the following material restrictions apply:

- a. The effect of the retrospective application is not determinable.
- b. The retrospective application requires assumptions about what management’s intent would have been in that period; or
- c. The retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and
 - would have been available when the financial statements for that prior period were authorized for issue from other information.

Judgement will have to be applied in assessing these criteria. The concept of materiality should be applied in assessing whether the FRA can be applied.

Our interpretation is that for the purpose of transition to IFRS17, the following guidance is useful:

- a. The BC of IAS 8 specifies that hindsight should not be used when applying a new accounting policy to a prior period, either in making assumptions about what management’s intentions would have been in a prior period or estimating the amounts in a prior period.
- b. Especially the use of estimates increases the risk of using hindsight. The fact that estimates were made on a different basis compared to the estimates made on transition to IFRS 17 does not in itself mean that hindsight is used. The key question is whether objective data is available for determining the estimates at historic dates.
- c. The use of hindsight is prohibited under the FRA and therefore data and assumptions at historical dates need to be based on management’s and market estimates that would have been available at that point in time. If it is not possible to gather historical data and develop historical assumptions without the use of hindsight for material items, an FRA is will be impracticable.
- d. An important consideration is whether historical transactions involving policyholder premiums and claims can be determined when this is a material component of the estimates on transition.
- e. The effects are not determinable if data is not available to determine the retrospective impact of IFRS 17 elements, such as FCF and CSM (applicable to GMM) at initial recognition, every reporting date up to the transition date and for the CSM roll forward up to the transition date. Examples could be:
- f. Assumptions or other data that were not documented or tracked and cannot be recreated reliably
 - Assumptions or other data are not available at the appropriate level of granularity.
 - Assumptions or other data are not available at a sufficient quality.

The common approach for non-life is FRA because the premium and claim register are well kept for the purpose of PAA application. For the long-term contracts, the MRA is common. The MRA includes various explicit modifications where an entity has no reasonable and supportable information. By providing these modifications, the IASB has implicitly acknowledged that an FRA is challenging in these circumstances and this is a strong indicator that the lack of such reasonable and supportable information in this area would make applying the FRA impracticable.

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These situations are:

1. Assessment at inception or initial recognition

2. Annual cohorts' requirement

- Not being able to divide groups into annual cohorts.

3. Determining the CSM or loss component at the transition date

Not being able to determine (without the use of hindsight):

- The actual cash flows that have occurred between the initial recognition date and transition date
- The yield curves between the initial recognition date and transition date
- The risk adjustment at the initial recognition date and release of risk each subsequent period
- The cumulative amount of insurance finance income or expense recognized in OCI (if the OCI option is selected)

4. Additional modifications from IASB redeliberation

Not being able to determine at inception

- Whether a reinsurance contract held was acquired after the underlying insurance contracts and determine any loss-recovery component representing the recovery of expected initial losses on the related underlying contracts.

And

- For entities that make an accounting policy choice to apply IFRS 17.B137 – Whether entities can apply the choice not to change the treatment of past accounting estimates made in all previous interim financial statements between the initial recognition date and the transition date to determine the contractual service margin (CSM), the loss component and amounts related to insurance finance income or expenses, at the transition date.

The pros and cons for each methodology is listed as followed:

Approach	Pro	Con
FRA	a. Less ambiguity and uncertainty on the choices of estimates and impact on retained earnings b. Favorable approach for profitable contract. c. Earlier preparation and bookkeeping are possible.	a. Costly and it requires a complete set of data and assumptions without use of hindsight.

These situations are:

Situation	Reason of FRA approach being impracticable
1. Assessment at inception or initial recognition	At inception and is not being able to: • Perform grouping of contracts (setting portfolios, profitability groups and annual cohorts) • Assess whether a contract meets the VFA criteria • Identify discretionary cash flows for GMM contracts
2. Annual cohorts' requirement	Not being able to divide groups into annual cohorts.
3. Determining the CSM or loss component at the transition date	Not being able to determine (without the use of hindsight): • The actual cash flows that have occurred between the initial recognition date and transition date • The yield curves between the initial recognition date and transition date • The risk adjustment at the initial recognition date and release of risk each subsequent period • The cumulative amount of insurance finance income or expense recognized in OCI (if the OCI option is selected)
4. Additional modifications from IASB redeliberation	Not being able to determine at inception • Whether a reinsurance contract held was acquired after the underlying insurance contracts and determine any loss-recovery component representing the recovery of expected initial losses on the related underlying contracts. And • For entities that make an accounting policy choice to apply IFRS 17.B137 – Whether entities can apply the choice not to change the treatment of past accounting estimates made in all previous interim financial statements between the initial recognition date and the transition date to determine the contractual service margin (CSM), the loss component and amounts related to insurance finance income or expenses, at the transition date.

The pros and cons for each methodology is listed as followed:

Approach	Pro	Con
FRA	a. Less ambiguity and uncertainty on the choices of estimates and impact on retained earnings b. Favorable approach for profitable contract. c. Earlier preparation and bookkeeping are possible.	a. Costly and it requires a complete set of data and assumptions without use of hindsight.

3.5 Disclosure upon Transition

Approach	Pro	Con
MRA	a. Practical expedient for company without complete set of assumption and data. Reduce cost.	a. Increase ambiguity and uncertainty when transition impact is assessed by the external auditor. b. Earlier preparation and bookkeeping is not possible.
FVA	a. Most economical solution. b. Favorable approach for onerous contracts because the fair value of liability would likely floor at the fulfilment value.	a. Increase ambiguity and uncertainty when transition impact is assessed by the external auditor. b. Results on be volatile and it swings according to the market assumption applicable on the transition date.

Transition amounts

An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–C19) or the fair value approach (see paragraphs C20–C24) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

- insurance contracts that existed at the transition date to which the entity has applied the modified retrospective approach;
- insurance contracts that existed at the transition date to which the entity has applied the fair value approach; and
- all other insurance contracts.

For all periods in which disclosures are made applying paragraphs 114(a) or 114(b), to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts, an entity shall explain how it determined the measurement of insurance contracts at the transition date.

An entity that chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income applies paragraphs C18(b), C19(b), C24(b) and C24(c) to determine the cumulative difference between the insurance finance income or expenses that would have been recognised in profit or loss and the total insurance finance income or expenses at the transition date for the groups of insurance contracts to which the disaggregation applies.

For all periods in which amounts determined applying these paragraphs exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive income for financial assets measured at fair value through other comprehensive income related to the groups of insurance contracts. The reconciliation shall include, for example, gains or losses recognised in other comprehensive income in the period and gains or losses previously recognised in other comprehensive income in previous periods reclassified in the period to profit or loss.

Comparative information

Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying IFRS 17 for any earlier periods presented but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

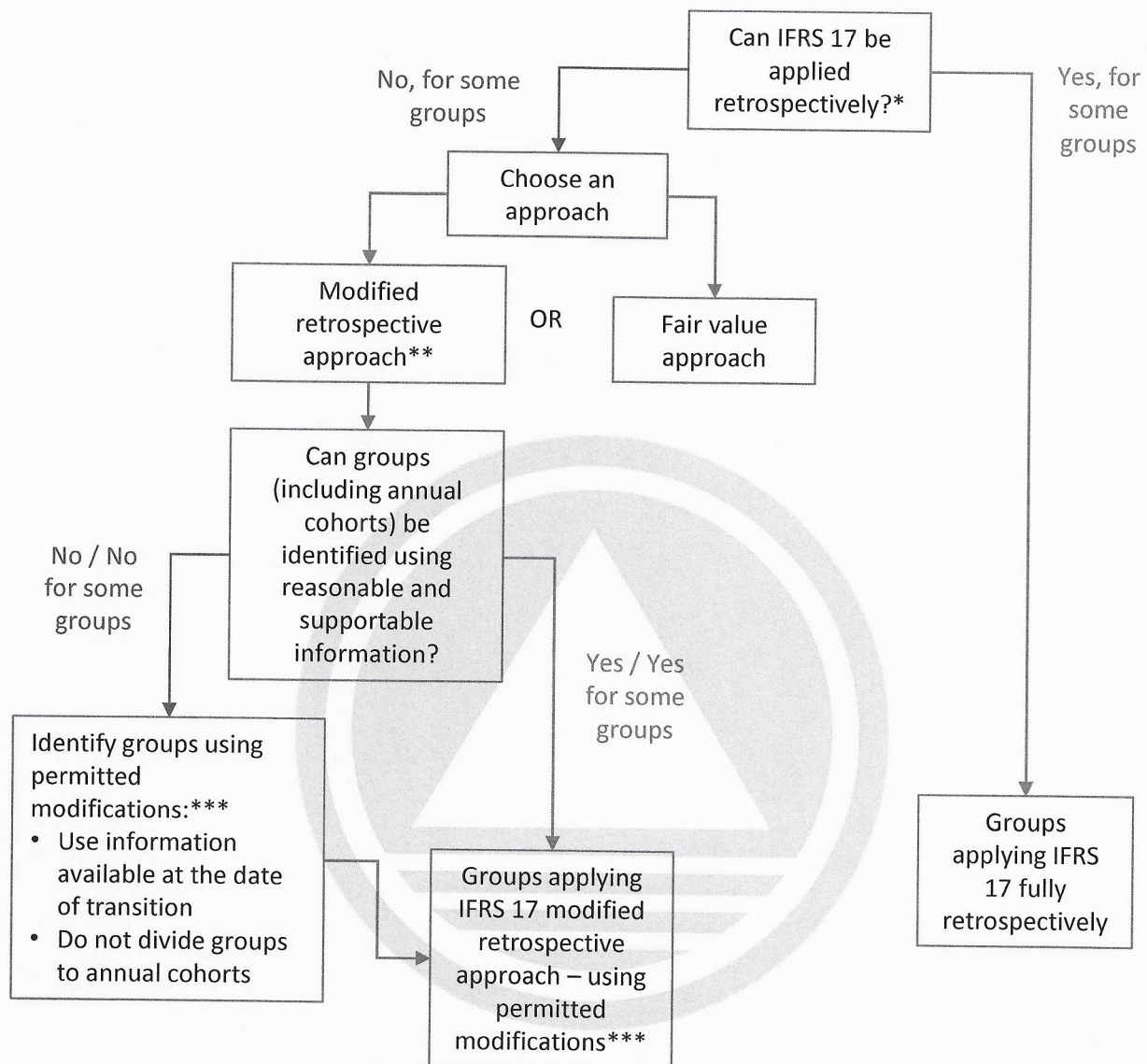
An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

4.0 Illustrations

4.1 Decision Tree - Modified Retrospective Approach



Notes:

* Retrospective application of IFRS17 is required, unless impracticable.

** If an entity cannot obtain reasonable and supportable information to apply the modified retrospective approach, then it applies the fair value approach.

*** Using permitted modifications only to the extent reasonable and supportable information is not available to apply a retrospective approach.

The entity will need to assess for each simplification provided under the MRA whether reasonable and supportable information is available to apply the methodology under FRA.

The assessment will need to be done for its GMM group of insurance contracts to determine the approach that will be easiest to apply.

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Assuming all simplifications under the MRA are applied on the basis that reasonable and supportable information does not exist, the following are the data requirement differences from the FRA:

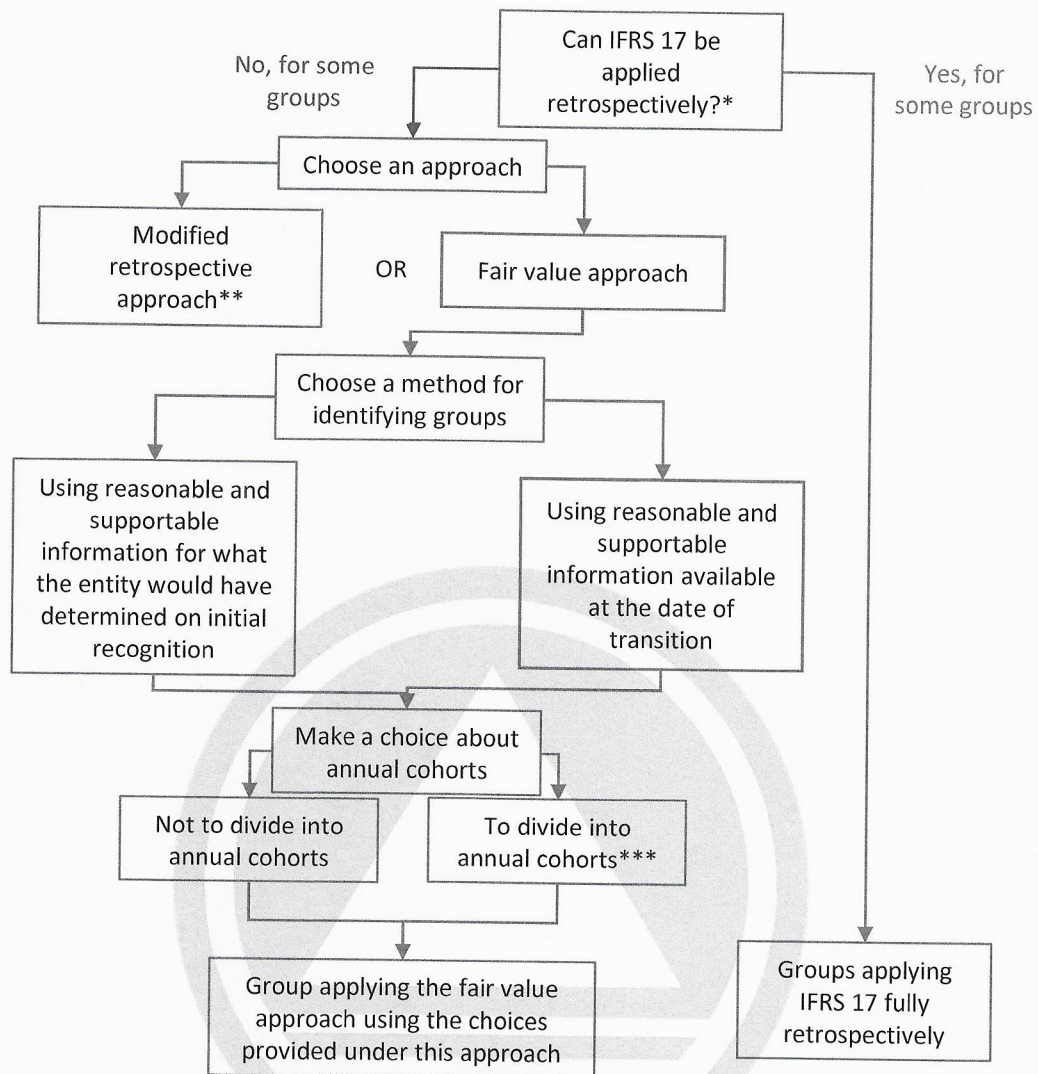
Data Category (source)	FRA Requirement	MRA Requirement	Data Impacts
Aggregation (premium register and claim register)	Groups divided into annual cohorts.	Groups not divided into annual cohorts.	Issuance year – required for both. Otherwise, aggregation of contracts will differ.
	Define Groups based on information at inception date (for example, onerous contract test based on assumptions at inception date).	Define Groups based on information at transition date (for example, onerous contract test based on assumptions at transition date).	Same type and granularity of data, just at a different point in time.
Future Cash Flows (premium register)	Future cash flows at inception date based on assumptions at inception date.	Estimate the future cash flows at inception as future cash flows at transition date adjusted for the cash flows known to have occurred between the inception date and transition date (for example, cash flow from contracts ceased before transition date).	Estimates of historical actual data, assumptions, etc. as opposed to actual historical details.
Discount Rate (actuarial modelling)	Discount rates at the inception date and subsequent periods.	Discount rates at inception date and subsequent periods approximated by using an observable yield curve for at least 3 years prior to transition date, OR Applying an average spread to the observable yield curve.	Start collecting data on discount rates from 2021.
Risk Adjustment (premium register and claim register)	The Risk Adjustment at inception date should reflect the risk that arises from non-financial risk at inception.	Risk Adjustment at inception date and subsequent periods is determined as the Risk Adjustment at the transition date adjusted for expected release of risk before the transition date.	Risk Adjustment at transition date less Estimate of risk already released as opposed to actual historical Risk Adjustment.

Assuming all simplifications under the MRA are applied on the basis that reasonable and supportable information does not exist, the following are the data requirement differences from the FRA:

Data Category (source)	FRA Requirement	MRA Requirement	Data Impacts
CSM / Loss Component (premium register)	Determine CSM at inception date and subsequently	Determine CSM at inception date and subsequently by: o Accreting interest based on discount rate defined above o Reflect the transfer of service before the date of transition by comparing the remaining coverage units at the transition date to the coverage units provided under the group of insurance contracts before the transition date.	Estimate of historical rates based on a proxy yield curve vs. actual yield curve. Estimate of coverage units at inception vs. actual coverage units at inception. Coverage units at transition vs. actual coverage units transferred before transition date.

Data Category (source)	FRA Requirement	MRA Requirement	Data Impacts
Insurance Finance Income or Expenses – Groups with contracts issued more than 1 year apart (actuarial modelling)	Discount rates at the inception date and subsequent periods determined If OCI option elected, cumulative OCI adjustment is determined For PAA contracts, using discount rates as of the date of the incurred claim	Discount rates at the inception date and subsequent periods determined based on information at transition date. If OCI option elected, cumulative OCI adjustment is zero.	Estimates of historical discount rates based on a proxy yield curve vs. actual yield curve. Simplified determination of cumulative OCI at transition as opposed to applying method of systematic allocation at historical point in time.

4.2 Decision Tree - Fair Value Approach



Notes:

* Retrospective application of IFRS17 is required, unless impracticable.

** If an entity cannot obtain reasonable and supportable information to apply the modified retrospective approach, then it applies the fair value approach.

*** Only if reasonable and supportable information is available to do so.

The fair value approach is used to determine the CSM or loss component at the transition date as the difference, measured at that date, between the fair value of the group of insurance contracts and the fulfilment cash flows. The entity may not need to go for this route if the coverage periods of contracts are short.

Generally, two valuation approaches can be used to determine the FV of a group of insurance contracts upon transition:

- Discounted cash flow approach (in-house modelling, use internal information)
- An actuarial appraisal approach (independent modelling by outsider, use industry information)

The entity should assess the information available for its GMM group of insurance contracts to determine the approach that will be easiest to apply.

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5.0 Frequently Asked Questions

5.1 Insurance Acquisition Cash Flow (IACFs) Asset on Transition

Background

Fact Pattern:

An entity pays a single upfront fee before the date of transition which is assumed to meet the definition of “insurance acquisition cash flows”. This paid fee can impact all groups of contracts from the date of payment onwards. The entity’s approach is to derecognise the IACFs to all the related groups based on expected CSM production as a driver, and if one group cannot be properly allocated to, then all groups cannot be properly allocated to.

This fact pattern is commonplace in Asia where significant unconditional payments are still made in relation to multi-year bancassurance arrangements. For example, a number of insurers entered into / renewed bancassurance arrangements with durations of typically ten years. This means that on the date of transition an insurer which entered into a ten-year agreement in e.g., 2019 would have:

- Groups of contracts from sales made under the agreement between 2019 to 2022. Setting aside implications related to the allocation of IACFs between 2019 and 2022, some of these groups of contracts may be measured under the fair value approach and some groups may have combined annual cohorts.
- An IACFs on the opening balance sheet representing the amount of the payment made in 2019 which was not allocated to groups of contracts recognised between 2019 and 2022 and whose recoverability is based on the margin on sales expected from 2023 to 2028.

Question 1 :

On transition, should the same impracticability principles be applied to the measurement of the IACFs as applied to the measurement of the CSM of a group of contracts?

View A:



Same impracticability principle applies.

View B:

No, different principles apply and the standard entitles a preparer to take a broader view of permitted estimates when determining the value of the IACFs on the opening balance sheet than that permitted when determining the CSM of groups of contracts in-force at the same date.

Question 2 :

Do you agree that if the IACFs measurement is impracticable then does it also mean the measurement of the CSM group is impracticable?

View A:

Yes, because the IACFs to be recognised into the group of insurance contracts is part of the CSM measurement.

View B:

No

Explanation

Under this view, IACFs and CSM of a group are interdependent because the IACFs to be recognised into the group of insurance contracts is part of the CSM measurement according to IFRS 17.28C. Therefore, if the determination of the IACFs measurement on initial recognition of the group of contracts is impracticable, then it also means that the measurement of the CSM for that group of contracts becomes impracticable. It is because the entity is required to measure the IACFs from its inception including how the assets have been derecognised and included in the measurement of groups of insurance contracts on initial recognition.

The FRA could not be applied.

Question 3 :

Can the transition approach of the IACFs and the in force contracts on transition be different?

View A: Yes**View B: No**

5.2 Disclosure

Question 4:

Can the company use different transition approach for each product category? Does each approach has different disclosure?

View A: Yes



View B: No

Explanation:

Yes, an entity can use mixed approaches. MRA and FRA approaches requires CSM disclosure in separate line. Please refer to the skeleton financial statement of "Presentation chart of account and disclosure" paper for the example.

5.3 Transition Methods

Question 5:

For MRA, do the company able to apply the yield curve at transition date, not backward 3 year of yield curve?

View A: Yes ☒

View B: No

Explanation:

Yes, especially even annual cohort is not possible.

Question 6:

For MRA, do the standard defined how much historical data is at least required?

View A: Yes

View B: No ☒

Explanation:

The standard doesn't mention how much historical data is required. However, from practitioner's view, it is expected that historical premium register is the minimum requirement to apply MRA approach..

Question 7:

Can the company choose to use the FVA for entire portfolio without assessing whether there are enough data for the FRA and MRA?

View A: Yes



View B: No

Explanation:

Yes. However, this rare for non-life companies

5.4 Fair Value of LIC on Transition**Background**

The issue relates to the application of the fair value approach on transition as outlined in IFRS 17.C20:

“To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 Fair Value Measurement (relating to demand features).”

The question raised is whether the LIC component of a group of insurance contracts should be included in the fair value when applying the fair value approach (FVA) for determining the CSM at transition.

Question 1 :

When applying IFRS 17.C20 (the fair value approach), at transition date, should the entity be required to determine the transition CSM amount of a group of insurance contracts including any LIC components at transition date? In other words, should the LIC components of a group of insurance contracts be included in the fair value of the group of contracts when determining the CSM at transition date.

View A: Yes



View B: No

Question 2 :

When applying IFRS 17.C20 (the fair value approach), at transition date, should the entity be required to LIC separately from LRC?

View A: Yes



View B: No

5.5 Example for Measuring A Group of Contracts Without Direct Participation Features at Transition

Fact pattern

Entity A has an annual reporting date of 31 December and initially applies IFRS 17 on 1 January 2024 – i.e. the date of initial application. The beginning of the earliest period presented is 1 January 2023 – i.e. the date of transition. Entity A has a portfolio of long term dread disease contracts. It concludes that it can apply a full retrospective approach at the date of transition to newer groups of contracts in the portfolio.

However, it is impracticable to apply a full retrospective approach at the date of transition for the older groups of contracts included in the portfolio. For these groups, entity A chooses to apply a modified retrospective approach using available reasonable and supportable information.

Applying the permitted modifications to these groups, entity A identifies several groups of insurance contracts within the portfolio, based on information that is available on the date of transition. Entity A has reasonable and supportable information to include contracts that were issued no more than one year apart in each group, and therefore identifies the groups on this basis. One of these groups is Group 2020. The estimates of fulfilment cash flows for Group 2020 at the date of transition are as follows.

Expected cash flows (outflows)	7,700
Discounting effect	(1,500)
Risk adjustment	1,000
Fulfilment cash flows estimated at transition (outflows)	7,200

Analysis

Under the modified retrospective approach, entity A estimates the CSM of Group 2020 on initial recognition based on the following.

Permitted modifications applied for initial recognition	Estimates
<u>Net expected cash inflows</u> <i>The expected cash outflows at transition of 7,700 are adjusted for the cash inflows that are known to have occurred between initial recognition and the date of transition of 8,000.</i>	(300)
<u>Time value of money</u> <i>Adjusted by 500 for the effect of discounting on initial recognition applying an observable yield curve that approximates the yield curve determined under IFRS 17 for at least three years before the date of transition, to the expected cash flows above.</i>	(2,000)
<u>Risk adjustment for non-financial risk</u> <i>The estimated risk adjustment at transition is grossed up by 200 for the release of non-financial risk between initial recognition and the date of transition with reference to release patterns for similar contracts issued at the date of transition.</i>	1,200
Fulfilment cash flows on initial recognition	(1,100)
CSM on initial recognition	1,100

Analysis

To determine the CSM at transition, entity A adjusts the CSM on initial recognition of 1,100 for the estimate of the CSM that would have been recognised in profit or loss before the date of transition of 900 and arrives at a CSM of 200.

As a result, the carrying amount of the insurance contract liability of Group 2020 at the date of transition is as follows.

Fulfilment cash flows	7,200
CSM	200
Insurance contract liability at date of transition	7,400

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