



Thai General Insurance Association

IFRS 17 Insurance Contracts
Practical Guidance

Topic 12: Accounting Policy Choices

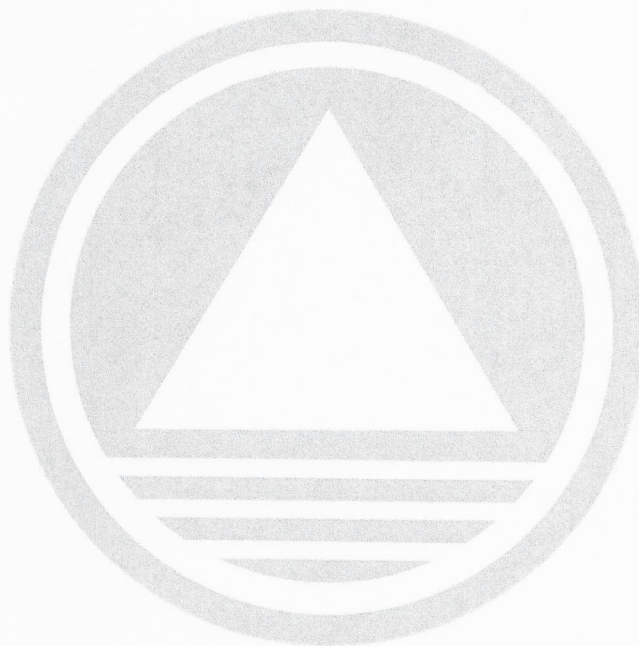
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Disclaimer

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

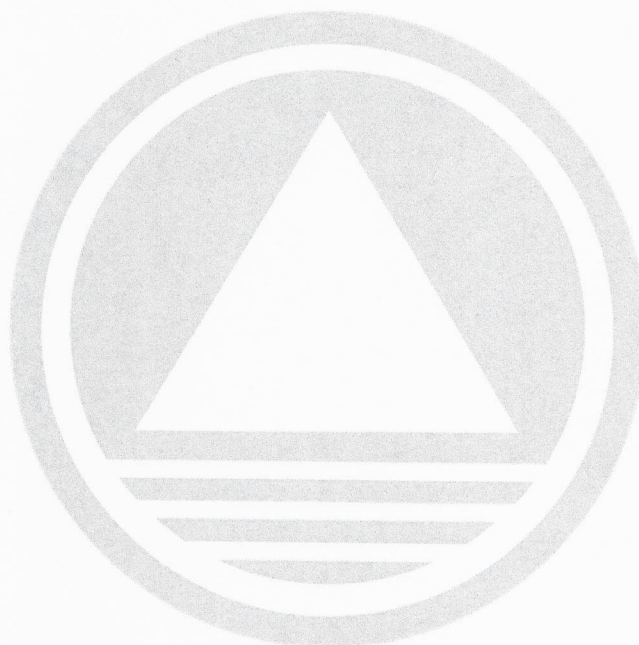
The IFRS is principles-based, therefore this guide aims to provide illustrative examples on how to apply the standards by IASB.

In the event of any conflict or inconsistency between the IFRS and the Practical Guidance, the IFRS shall prevail, and the accounting treatment should comply with the IFRS. Similarly, should the interpretation of the IFRS results in a contradicted conclusion from the example given in the Practical Guidance, the accounting treatment should observe IFRS.



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1.0 Executive Summary

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

IAS 1

IAS 1 Presentation of Financial Statements sets out the requirements for disclosing accounting policies. When disclosing accounting policies, a preparer must disclose:

- a. Judgements (IAS 1.122)
- b. Accounting policies that would assist the user's understanding (IAS 1.119)
- c. Significant accounting policies and other explanatory information (IAS 1.10, 1.117)

Preparer of financial statement uses its judgement to develop and apply accounting policies that results in relevant and reliable information.

When making this judgement, preparer shall refer to and consider the applicability of the following sources (in descending order):

- a. The requirements in IFRSs dealing with similar and related issues
- b. The definitions, recognition criteria, and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework for Financial Reporting
- c. Preparer may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practice, to the extent that these do not conflict with the requirements in IFRSs dealing with similar and related issues, and the Conceptual Framework for Financial Reporting.

IAS 8

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors sets out the requirements for selecting and applying accounting policies, and the use of judgement in developing and applying accounting policies.

Per IAS 8.7, an accounting policy is selected and applied when an IFRS specifically applies to a transaction, other event or condition. An accounting policy choice is not specifically defined in IAS 8. However, an accounting policy choice commonly refers to situations where a preparer has an option to choose between accounting policies.

If there is not a specific IFRS that applies to a transaction, other event or condition, IAS 8.10-12 states that preparer uses its judgement to develop and apply accounting policies that results in information that is relevant and reliable.

Understanding the rationale behind each accounting policy choice and the impact on financial results will enable the preparer to explain financial results to stakeholders and regulator. The accounting policy choices provided above also will be used for planning of transition to IFRS 17, and it is intended to reduce accounting mismatches with RBC reporting in Thailand.

The accounting policy choices by 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 Topics	Reference in IFRS 17 (Paragraph)
Policy choice by contract/group	7(e), 8,53,59, 69, B6, B72, C4-C5,C5B, C22A, C24A, C24B
Policy choice by portfolio	8A, 88-91, 116, 118, B129-B136, C18(b), C19(b), C24, C24(b), C24(c)
Policy choice by preparer	B137, C14A,C19A

7 An entity shall not apply IFRS 17 to:

- (a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see IFRS 15 Revenue from Contracts with Customers).
- (b) employers' assets and liabilities from employee benefit plans (see IAS 19 Employee Benefits and IFRS 2 Share-based Payment) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans).
- (c) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items: see IFRS 15, IAS 38 Intangible Assets and IFRS 16 Leases).
- (d) residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 and IFRS 16).
- (e) financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The issuer shall choose to apply either IFRS 17 or IAS 32 Financial Instruments: Presentation, IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.
- (f) contingent consideration payable or receivable in a business combination (see IFRS 3 Business Combinations).
- (g) insurance contracts in which the entity is the policyholder, unless those contracts are reinsurance contracts held (see paragraph 3(b)).
- (h) credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer (see IFRS 9 and other applicable IFRS Standards). However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(e)(iv) of IFRS 9) that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

8 Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply IFRS 15 instead of IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

- (a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- (b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and
- (c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

8A Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either IFRS 17 or IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of IFRS 17 by paragraph 7. The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

Premium allocation approach

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

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

59 In applying the premium allocation approach, an entity:

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

Premium allocation approach for reinsurance contracts held

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

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

88 In applying paragraph 87A(b), unless paragraph 89 applies, an entity shall make an accounting policy choice between:

- (a) including insurance finance income or expenses for the period in profit or loss; or
- (b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts, applying paragraphs B130–B133.

89 In applying paragraph 87A(b), for insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:

- (a) including insurance finance income or expenses for the period in profit or loss; or
- (b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held, applying paragraphs B134–B136.

90 If an entity chooses the accounting policy set out in paragraph 88(b) or in paragraph 89(b), it shall include in other comprehensive income the difference between the insurance finance income or expenses measured on the basis set out in those paragraphs and the total insurance finance income or expenses for the period.

91 If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:

- (a) it shall reclassify to profit or loss as a reclassification adjustment (see IAS 1 Presentation of Financial Statements) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).
- (b) it shall not reclassify to profit or loss as a reclassification adjustment (see IAS 1) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).

116 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.

118 If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.

Payments in kind

B6 Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either IFRS 17 or IFRS 15 Revenue from Contracts with Customers.

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.

B129 Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 13 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

B130 If paragraph 88(b) applies, an entity shall include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance income or expenses of a group of insurance contracts over the duration of the group that:

- (a) is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance income or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group.
- (b) results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive income at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

B131 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 the policyholder, the systematic allocation is determined using the discount rates specified in paragraph B72(e)(i).

B132 For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

- (a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:
 - (i) using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; or
 - (ii) for contracts that use a crediting rate to determine amounts due to the policyholders—using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.
- (b) a systematic allocation for the finance income or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.
- (c) a systematic allocation for the finance income or expenses arising from the contractual service margin is determined:
 - (i) for insurance contracts that do not have direct participation features, using the discount rates specified in paragraph B72(b); and
 - (ii) for insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

B133 In applying the premium allocation approach to insurance contracts described in paragraphs 53–59, an entity may be required, or may choose, to discount the liability for incurred claims. In such cases, it may choose to disaggregate the insurance finance income or expenses applying paragraph 88(b). If the entity makes this choice, it shall determine the insurance finance income or expenses in profit or loss using the discount rate specified in paragraph B72(e) (iii).

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the separately presented items being nil.

B135 An entity may qualify for the accounting policy choice in paragraph 89 in some periods but not in others because of a change in whether it holds the underlying items. If such a change occurs, the accounting policy choice available to the entity changes from that set out in paragraph 88 to that set out in paragraph 89, or vice versa. Hence, an entity might change its accounting policy between that set out in paragraph 88(b) and that set out in paragraph 89(b). In making such a change an entity shall:

- (a) include the accumulated amount previously included in other comprehensive income by the date of the change as a reclassification adjustment in profit or loss in the period of change and in future periods, as follows:
 - (i) if the entity had previously applied paragraph 88(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 88(b) based on the assumptions that applied immediately before the change; and
 - (ii) if the entity had previously applied paragraph 89(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 89(b) based on the assumptions that applied immediately before the change.
- (b) not restate prior period comparative information.

B136 When applying paragraph B135(a), an entity shall not recalculate the accumulated amount previously included in other comprehensive income as if the new disaggregation had always applied; and the assumptions used for the reclassification in future periods shall not be updated after the date of the change.

The effect of accounting estimates made in interim financial Statements

B137 If an entity prepares interim financial statements applying IAS 34 Interim Financial Reporting, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.

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.

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.

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.

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.

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.

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.

3.0 Practical Guidance

3.1 Accounting Policies

A preparer is required to decide the position for their insurance and reinsurance contracts, This section covered the following IFRS 17 accounting policy choices, and the rationale. The impact on the financial results given a particular choice should be undertaken by the respective preparer.

No.	Accounting Policy Choices	Topic
1	Application of the PAA – whether to apply the PAA for eligible groups of contracts	Measurement
2	Recognition of IACF under the PAA – IACF is either deferred and recognized as an expense over time, or recognized as an expense when incurred	Recognition
3	Discounting of insurance liabilities under the PAA – discounting is not required if certain conditions are met	Measurement
4	Level of aggregation – portfolio, cohort and profitability buckets decision and strategy to arrive at the decision on an ongoing basis.	Recognition
5	Disaggregation of RA – changes in RA can be presented in insurance service result, or can be disaggregated between insurance service result and insurance finance income or expenses	Presentation
6	Presentation of reinsurance contracts held – income or expense from reinsurance contracts held can be presented as a single net amount, or separately	Presentation
7	Presentation of insurance finance income or expenses – insurance finance income or expenses for the period can be included in profit or loss, or disaggregated between profit or loss and OCI	Presentation
8	Treatment of accounting estimates for interim financial reporting – there is a choice between period-to-period measurement or year-to-date measurement if the insurer prepares IAS 34 compliant interim financial statements	Recognition, measurement, presentation
9	Transition approach – there is a choice between using MRA or FVA if the FRA is impracticable	Recognition, measurement, presentation
10	Transition relief – transition relief is available for insurance contracts acquired in their claim settlement period where the FVA is applied	Measurement, presentation

Accounting policy	Accounting policy choice	Rationale (with examples)
1. Application of the premium allocation approach (PAA)	The application of the PAA itself is an accounting policy choice. For each group of contracts eligible for the PAA, entities can choose whether to apply the PAA instead of the GMM. This applies to both groups of insurance contracts issued and groups of reinsurance contracts held.	The PAA is a simplified alternative to the GMM and provides a reasonable approximation to the general requirements of IFRS 17 when the eligibility requirements are met. The requirement is set out in IFRS17.53 and IFRS17.54. A PAA Eligibility Assessment report should be prepared before the respective year end for the full analysis by group. The preparer may apply PAA for all insurance contracts and reinsurance contracts held if the allocated performance materiality thresholds are not exceeded. TGIA will discuss with OIC for local option to waive the PAA Eligibility Assessment report for small sized companies if some conditions are met.
2. Recognition of IACFs under the PAA	Insurance Acquisition Cash Flows (IACFs) are deferred (allocating to groups) and recognized as an expense over time. However, when applying the PAA, a preparer has an accounting policy choice between: - Deferring and recognizing IACFs as an expense over time; or - Recognizing any IACFs as an expense when incurred The preparer may immediately expense IACFs for groups of contracts to profit or loss where the coverage period of each contract in the group at initial recognition is no more than one year. Since this choice may not necessarily apply for all groups of contracts applying the PAA, preparer reserves its right to defer to the IACFs in the future years.	The rationale considered for this accounting policy choice (i.e., allowing immediate expensing of IACFs or some of the IACFs) is to keep the PAA consistent with the Thailand RBC current requirement. This accounting policy choice for IACFs has impact on the timing of when the IACFs is recognized in the P&L, either immediately or deferred over the life of the contract. For a contract/group of contracts with coverage periods of one year or less there is minimal impact. Also, recognizing IACFs as an expense when incurred is operationally simpler than deferring it.

Accounting policy	Accounting policy choice	Rationale (with examples)
3. Discounting of insurance liabilities under the PAA	Under the PAA, for insurance contracts in a group which have a significant financing component, a preparer shall adjust the carrying amount of the LFRC to reflect the time value of money and the effect of financial risk using the discount rate determined on initial recognition. The LFIC is measured at the fulfilment cash flows related to incurred claims. However, if the future cash flows are expected to be paid or received in one year or less from the date the claims are incurred, the entity can choose whether or not to adjust the future cash flows for the time value of money and the effect of financial risk. However, if this is not the case for preparer, therefore future cash flows that are expected to be paid will be discounted. Once the LFIC is discounted, the LFRC will also be discounted.	If a preparer chooses to discount insurance liabilities, the effect of the time value of money and the effect of financial risk are presented as (insurance finance income or expenses) within the statement of financial performance. Therefore, this would affect profit at different times throughout the life of the policy. Alternatively, if a preparer chooses not to discount insurance liabilities, there would not be insurance finance income or expenses as a result. The rationale for this accounting policy choice if chosen is to keep the PAA simple but align the position with RBC reporting in Thailand.

Accounting policy	Accounting policy choice	Rationale (with examples)
4. Level of aggregation <u>Portfolios</u> Contracts which have similar risks and are managed together need to be allocated to the same IFRS 17 portfolio.	Portfolio will be set consistent with the RBC class provided the all risks are similar.	RBC class required by regulator to be reported together. The preparer has been reporting the non-life business as per the RBC classes since inception. It is expected that the practice will remain unless OIC requests for change in their RBC classes. However, company is reminded that if the risks are not similar within the RBC class, further split is expected. Some companies may split the long-term risk and short-term risk in separate portfolio.
<u>Cohorts</u> Since contracts which were issued more than a year apart cannot be grouped together under IFRS 17.22, groups should be further segmented based on the date on which the underlying policies were issued/incepted under IFRS 17.28.	For all contracts that were issued, preparer can choose to group the policies by issuance year or underwriting year. Due to the contract boundary consideration, future cohort and pipeline will also be recognized when the group is onerous or will be incepted. For all non-life insurance contracts that were issued (except Marine Cargo Open Cover), we recommend the cohort will be set based on the effective date of the policy for the entire industry. This is consistent with the underwriting year usually practiced for management reporting. For Marine Cargo Open Cover, the cohort will be set based on the premium due date of each declaration made by the policyholders. This is due to the bulk booking journal if still practiced by the industry. Pipeline premium for insurance and reinsurance premium will be considered for recognition based on their respective contract boundary.	The rationale is to ensure consistent practice in the Thailand general insurance industry. 1. Example for cash before cover: Policy issuance: 23 Dec. 20x1 Policy inception: 20 Feb. 20x2 Assuming the company only has yearly cohort, then the cohort is 20x2 for this policy and the set of reinsurance contract held with proportional cover. 2. Example for late issuance (pipeline): Policy issuance: 23 Jan. 20x2 Policy inception: 20 Sep. 20x1 Assuming the company only has yearly cohort, then the cohort is 20x1 for this policy and the set of reinsurance contract held with proportional cover. 3. Example for Marine Cargo Open Cover: Policy issuance: 23 Jan. 20x1 Risk inception: not captured Declaration date: 21 Feb 20x3 Assuming the company only has yearly cohort, then the cohort is 20x3 for this transaction and the set of reinsurance contract held with proportional cover.

Accounting policy	Accounting policy choice	Rationale (with examples)
4. Level of aggregation (cont'd) <u>Groups</u> Portfolios of insurance contracts should be segmented, based on the level of profitability at initial recognition, into a minimum of three groups of contracts: (1) onerous contracts, (2) contracts which do not have significant possibility to become onerous ("profitable" contracts) and (3) "other" contracts.	Set of contracts will be analysed individually by sub-class maintained by the underwriter. The onerous contract testing will be conducted at this level. Preparer may refer to the results of PAA Eligibility Assessment for the accounting policy choice on measurement methods: 1. Threshold used to determine onerous contract; and 2. Choice of stress scenarios that differentiate the contract do not have significant possibility to become onerous and profitable contracts. 3. contracts. The method of categorizing sub-classes to the respective group varies according to the choice of measurement model. The onerous contract testing will be conducted at the set of insurance contract using assumptions consistent with the initial recognition.	The policies issued under the sub-class is considered homogeneous because it uses the same policy terms and conditions. For example, in Fire class, the possible sub-classes are Commercial Fire, Householder and Business Interruption. For reinsurance held that is proportional, the possible sets of reinsurance contracts are Fire Quota Share, Fire Surplus and Fire Facultative. For PAA, qualitative assessment (based on facts and circumstances) could be applied to determine the sub-classes that are onerous. PAA is unlike GMM, it is not compulsory to analyse individually by sub-class. For GMM, set of contracts will be analysed individually by sub-class maintained by the underwriter, which is a quantitative method same as initial recognition.

Accounting policy	Accounting policy choice	Rationale (with examples)
5. Disaggregation of risk adjustment for non-financial risk	When presenting the changes in RA, entities can: • Present all changes in RA in insurance service result; or • Disaggregate changes in RA between insurance service result and Insurance Finance Income or Expense (insurance finance income or expenses). The earlier option should be selected together for CTE and VaR method chosen for risk adjustment calculation.	Preparer chooses not to disaggregate the change in RA between insurance service result and insurance finance income or expenses, the entire change in the RA is included in the insurance service result because the RA will be estimated using the PAD. The rationale for this accounting policy choice is to keep the PAA simple but align the position with RBC reporting in Thailand.
6. Presentation of reinsurance contracts held	A preparer can choose between presenting the income or expense from reinsurance contracts held as a single net amount, or presenting the income and expense from reinsurance contracts held separately. Even though preparer chooses not to present the income and expense from reinsurance contracts held separately in the statement of financial performance, the preparer still need to disclose the the income and expense from reinsurance contracts held separately in the disclosures.	There is no significant impact on financial results. If the income and expense from reinsurance contracts are presented separately, the sum of the two amounts would give a net amount equal to the single amount. The impact is on the granularity presentation of the results, affect the performance materiality of audit. Preparer should always keep this information as granular possible for disclosures purpose.

Accounting policy	Accounting policy choice	Rationale (with examples)
7. Presentation of insurance finance income and expense (insurance finance income or expenses)	Under the fulfilment cash flows computation, insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from: - the effect of the time value of money and changes in the time value of money; and - the effect of financial risk and changes in financial risk. A preparer has an accounting policy choice between including insurance finance income or expenses for the period in profit or loss, or disaggregating insurance finance income or expenses for the period between profit or loss and OCI ('OCI option'). If a preparer chooses the OCI option, the amount included in profit or loss is determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. The amount included in OCI is the difference between total insurance finance income or expenses and amount included in profit and loss. If the preparer chooses the OCI option for all portfolios e.g. the policy will be applied consistently at the portfolio of insurance contracts and portfolio of reinsurance contract held level. Future changes of the accounting policy choice will follow the procedures in IAS8.	If insurance finance income or expenses is included only in profit or loss, this would prevent accounting mismatches with finance income from assets measured at fair value through profit and loss (FVTPL), since changes in fair value are recognized in profit and loss. However, under IFRS 9 financial assets could be measured at amortized cost or fair value through OCI (FVOCI) in some circumstances. If a financial asset is measured at FVOCI, changes in fair value are recognized in OCI – this would result in an accounting mismatch if insurance finance income or expenses was included in profit or loss. Therefore, there is an option to disaggregate insurance finance income or expenses to avoid potential accounting mismatches. Preparer that prefer less volatility in profit or loss that arises between the insurance liability and assets that support the insurance liability are likely to consider applying the OCI option so that insurance finance income or expenses is disaggregated between profit or loss and OCI, or entities may consider not electing to designate debt financial assets under the FVTPL classification under IFRS 9. The accounting policy choice does not change the total amount of insurance finance income or expenses, but only specifies how total insurance finance income or expenses is allocated to profit or loss and OCI when the OCI option is taken. Generally, preparer will want to align the accounting treatment of their assets and liabilities. If the assets are classified as FVTPL, this would be consistent with not applying the OCI option to the portfolio of insurance contracts. However, if assets are classified as FVOCI or amortised cost, selecting the OCI option may better align results and reduce accounting mismatches and volatility in the statement of financial performance.

Accounting policy	Accounting policy choice	Rationale (with examples)
8. Treatment of accounting estimates for interim financial reporting	If an insurer prepares interim financial statements (in accordance with IAS 34), the insurer has an accounting policy choice to change or not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent periods. This is an accounting policy choice specifically allowed under IFRS 17 which bypasses the general IAS 34 requirements for year-to-date measurement. Preparer chooses the accounting policy choice to change or not change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent periods.	Preparer will apply PAA for all the insurance contracts issued and RI held, therefore the historical cost measurement basis has minimal impact to the presentation in the statement of financial performance, unless the group of insurance contracts is onerous. This is a favorite choice to align the general IAS 34 requirements for year-to-date measurement and simplify the measurement, which means accounting estimates can change for each quarterly financial statements. It is not expected to be volatile because general insurance companies will apply PAA in most circumstances.
9. Transition approach	On transition, IFRS 17 is applied retrospectively. This is referred to as the Full Retrospective Approach (FRA). If the FRA is impracticable, preparer applies the Modified Retrospective Approach (MRA). Measuring some of the amounts needed under the FRA (such as estimates of cash flows from the date of initial recognition) may often be impracticable for some entities. Therefore, two transition approaches are allowed (MRA and FVA) when the FRA is impracticable.	Preparer will apply PAA for all the insurance contracts issued and RI held, therefore the historical cost measurement basis would require complete transactional records on premiums and commission. The objective of the MRA is to achieve the closest outcome to the FRA possible using reasonable and supportable information available without undue cost or effort. This means that there are specific modifications available, only to the extent that the entity does not have reasonable and supportable information to apply the FRA. The impact on financial results would depend on the modifications applied by the preparer.

Accounting policy	Accounting policy choice	Rationale (with examples)
10. Transition Relief for Insurance Contracts Acquired (Accounting policy choice – liability for settlement of claims incurred)	Insurance contracts can be acquired through a business combination within the scope of IFRS 3 or through a transfer of insurance contracts. IFRS 17 provides transition relief for insurance contracts that are acquired in their claim settlement period. If a preparer has acquired an insurance contract in their claim settlement period (either through a business combination or a portfolio transfer) before the IFRS 17 transition date, and is applying the MRA or FVA, the entity can choose to classify claims acquired in the settlement period as a LRC or LIC. After the transition date of the standard, prepare must account for LIC of insurance contracts can be acquired through a business combination within the scope of IFRS 3 as LRC.	Some entities may not have reasonable and supportable information to apply the FRA, and also may not have the information to calculate the LRC for claims acquired in the settlement period. Therefore, IFRS 17 provides transition relief for insurers who are struggling with data. If a preparer chooses to classify claims acquired in the settlement period as a LIC, no LRC is recognized. If a preparer chooses to classify claims acquired in the settlement period as a LRC, a CSM will be recognized.

4. Illustration

IFRS17 shall be implement together with other financial reporting standard to produce the following presentation requirement:

1. statement of financial position,
2. statement of profit or loss,
3. statement of profit or loss and other comprehensive income,
4. statement of changes in equity; and
5. statement of cash flows

IAS 1 Presentation of Financial Statements sets out the requirements for disclosing accounting policies. When disclosing accounting policies, a preparer must disclose:

- a. Judgements (IAS 1.122)
- b. Accounting policies that would assist the user's understanding (IAS 1.119)
- c. Significant accounting policies and other explanatory information (IAS 1.10, 1.117)

To achieve this objective, IFRS 17 requires specific disclosures about:

- amounts recognised in the financial statements;
- significant judgements made when applying IFRS 17; and
- the nature and extent of risks from insurance contracts.

TGIA appended in this document with a *Guide for Annual Financial Statements* in the appendix section. TGIA specially tailor made for the Thailand general insurance industry reference.

Disclaimer

If these specific disclosures are insufficient to meet this objective, then a preparer shall disclose additional information that is necessary to meet the objective. [IFRS 17.94]

5.0 Frequently Asked Questions

Question 1:

Which of the following statements is/are TRUE regarding the accounting policy choices provided by IFRS 17? Select all that apply.

Statement A)

Under the PAA, preparer can choose to defer and recognize IACF as an expense over time, or recognize IACF as an expense when incurred for all groups of contracts.

Statement B)



If a preparer chooses to apply the PAA and applies no discounting to the liability cash flows for its group which have no significant financing component, all of the changes in the effect of the time value of money and financial risk are excluded and not recognized in profit and loss. Applying no discounting may worsen accounting mismatches for the preparer.

Statement C)



If a preparer chooses to disaggregate the change in RA between insurance service result and insurance finance income or expenses, the effect of the time value of money and the changes in the time value of money affecting the RA is reported as insurance finance income or expenses. The amount reported as insurance service revenue is equal to the total change in RA less the amount reported as insurance finance income or expenses.

Statement D)

A preparer has an accounting policy choice between including insurance finance income or expenses for the period in profit or loss, or disaggregating insurance finance income or expenses for the period between profit or loss and OCI. This policy can be applied consistently at the group of insurance contracts level.

Explanation:

Statement A and D are false. Statement B and C are true.

Correct statements

For statement B, the accounting mismatches could be mitigated if the preparer actually apply amortised cost for their investment assets otherwise keep sufficient cash or equivalents for servicing the clients. This situation is probably rare in the real world.

Statement C is also true because if a preparer chooses to disaggregate the RA, the effect of the time value of money and the changes in the time value of money affecting the RA is reported as insurance finance income or expenses, and the insurance revenue excludes the insurance finance income or expenses related to the change in RA.

Incorrect statements

For statement A, while it is true that entities can choose to defer and recognize IACF as an expense over time or recognize IACF as an expense when incurred, this choice is not applicable for all groups of contracts under the PAA. This policy choice only applies for groups of contracts where the coverage period of each contract in the group at initial recognition is no more than one year.

For statement D, while it is true that a preparer has an accounting policy choice between including insurance finance income or expenses for the period in profit or loss, or disaggregating insurance finance income or expenses between profit or loss and OCI, the policy is applied consistently at the portfolio level, not the group level.

Question 2:

Where can the changes in risk adjustment appear in the statement of profit and loss when the policy election to disaggregate the change in risk adjustment applies? Select all that apply.

Statement A)

Under insurance revenue

Statement B)

Under insurance service expenses

Statement C)

Under insurance finance income or expenses

Statement D)

Under the net investment result

Explanation

Statement B is incorrect. Statements A, C and D are correct.

Correct statements

A – When a preparer chooses to disaggregate the changes in risk adjustment, the amounts are presented in insurance revenue within the insurance service result and insurance finance income or expenses [Paragraph B121(a)(ii) of IFRS 17]. Where the entity chooses not to disaggregate the change, the entire amount will be presented under insurance revenue [Paragraph 81 of IFRS 17].

C – When a preparer chooses to disaggregate the changes in risk adjustment, the amounts are presented in insurance revenue within the insurance service result and insurance finance income or expenses [Paragraph B121(a)(ii) of IFRS 17].

D – The investment result includes insurance finance income or expenses, so the disaggregation of the changes in risk adjustment would be reflected in investment result within the insurance finance income or expenses line item. [Paragraph 81 of IFRS 17]

Incorrect statement

B – The changes in risk adjustment are specifically included in insurance revenue as it reflects the transfer of promised services at an amount that reflects the consideration to which the entity expected to be entitled in exchange for those services. The standard specifically states that the changes in risk adjustment are included in this total consideration [Paragraph B121(a)(ii) of IFRS 17].

Question 3:

Under IAS 34, Entity A and Entity B are subsidiaries of parent, Entity C. All entities apply IFRS17 for financial reporting.

Entity A does not issue IAS 34-compliant interim financial statements. Entity B issues half-yearly IAS 34-compliant interim financial statements, and Entity C issues quarterly IAS 34-compliant interim financial statements. What approach can preparer B apply for its subsidiary level IFRS reporting?

Statement A)

Year-to-date reporting only

Statement B)

Half-yearly period-to-period reporting only

Statement C)

Quarterly period-to-period reporting only

Statement D)

Either year-to-date reporting or period-to-period reporting

Explanation

Statement D is correct. Statement A,B,C are incorrect

D- Since Entity B issues IAS 34-compliant interim financial statements, they can apply the IFRS 17 Paragraph B137 policy election to apply year-to-date or period-to-period reporting.

Incorrect options

A – Since Entity B issues IAS 34-compliant interim financial statements, they can apply the Paragraph B137 of IFRS 17 policy election to apply year-to-date or period-to-period reporting. Although Entity B can choose to apply year-to-date reporting, they are not required to select year-to-date reporting.

B – Since Entity B issues quarterly IAS 34-compliant interim financial statements, they can apply the Paragraph B137 of IFRS 17 policy election to apply year-to-date or period-to-period reporting (not limited to period-to-period reporting).

C – Similar to Option B, since Entity B issues half-yearly IAS 34-compliant interim financial statements, they can apply the Paragraph B137 of IFRS 17 policy election to apply year-to-date or period-to-period reporting (not limited to period-to-period reporting). However, if they choose to apply period-to-period reporting instead of year-to-date reporting, it would be based on the frequency of the IAS 34-compliant interim financial statements. The frequency of the parent's IAS 34-compliant interim financial statements is not relevant to the subsidiary level IFRS reporting. However, for the purposes of the parent's IAS 34-compliant interim financial statements, Entity B will need to provide quarterly period-to-period reporting to the parent for the purposes of consolidated group reporting (i.e., parallel books).