

IFRS 17

Scope, Separation, Level of aggregation

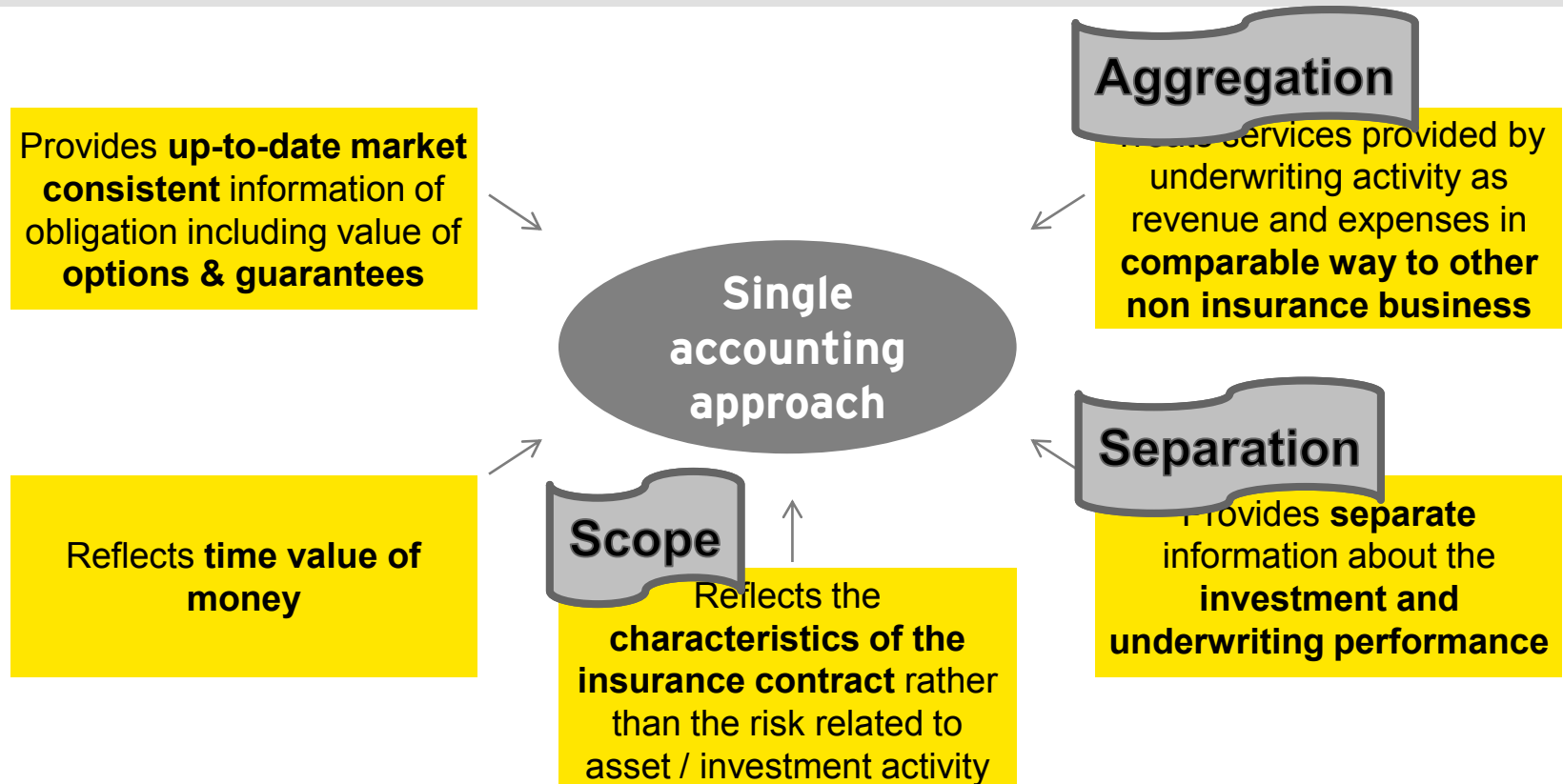
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SLASPO, 28.11.2017, Bratislava

Agenda

- Introduction
- Scope of IFRS 17
- Separation of investment component
- Unit of account
 - Level of aggregation
 - Contract boundary and unbundling
- Summary

A Standard that better meets the needs of financial statements users

Existing insurance accounting is inconsistent, non uniform and non transparent.



The new standard is expected to improve financial reporting by providing more transparent and comparable information.

Agenda

- Introduction
- **Scope of IFRS 17**
- Separation of investment component
- Unit of account
 - Level of aggregation
 - Contract boundary and unbundling
- Summary

Relevant areas (1/15)

3

- ▶ An entity shall apply IFRS 17 to:
 - (a) insurance contracts, including **reinsurance contracts**, it issues;
 - (b) reinsurance contracts it holds; and
 - (c) **investment contracts with discretionary participation features** it issues, provided the entity also issues insurance contracts.

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).
 - ...
 - (g) insurance contracts in which the entity is the **policyholder**, unless those contracts are reinsurance contracts held (see paragraph 3(b)).

Relevant areas (2/15)

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.

Relevant areas (3/15)

10

- ▶ An insurance contract may **contain one or more components** that would be within the scope of **another Standard if they were separate contracts**. For example, an insurance contract may include an **investment component** or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11

- ▶ An entity shall:
 - (a) apply IFRS 9 to determine whether there is an **embedded derivative** to be separated and, if there is, how to account for that derivative.
 - (b) **separate** from a host insurance contract an **investment component if, and only if**, that investment component **is distinct** (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.

Relevant areas (4/15)

12

- ▶ **After applying paragraph 11** to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall **separate** from the host insurance contract any **promise to transfer distinct goods or non-insurance services to a policyholder**, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall:
 - (a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and
 - (b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that:
 - (i) cash outflows that relate directly to each component are attributed to that component; and
 - (ii) any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

Relevant areas (5/15)

13

- ▶ **After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract.** Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to **investment components that have not been separated** from the host insurance contract (except those references in paragraphs B31–B32).

Relevant areas (6/15)

B31

- ▶ Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An **investment component is distinct if**, and only if, both the following conditions are met:
 - (a) the investment component and the insurance component **are not highly interrelated**.
 - (b) a **contract with equivalent terms is sold, or could be sold**, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. **The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.**

B32

- ▶ An investment component and an insurance component **are highly interrelated if**:
 - (a) the **entity is unable to measure one component without considering the other**. ...; or
 - (b) the **policyholder is unable to benefit from one component unless the other is also present**. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component.

Relevant areas (7/15)

B33

- ▶ Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or non-insurance services to a policyholder. For the purpose of separation, an **entity shall not consider activities that an entity must undertake to fulfil a contract** unless the entity transfers a good or service to the policyholder as those activities occur. For example, an **entity may need to perform various administrative tasks to set up a contract**. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34

- ▶ A **good or non-insurance service** promised to a policyholder is **distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder**. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

Relevant areas (8/15)

B35

- ▶ A **good or non-insurance service** that is promised to the policyholder **is not distinct if**:
 - (a) the cash flows and risks associated with the good or service **are highly interrelated** with the cash flows and risks associated with the insurance components in the contract; and
 - (b) the entity provides a **significant service** in integrating the good or non-insurance service with the insurance components.

BC82

- ▶ The Board decided that issuers of **investment contracts with discretionary participation features should apply IFRS 17** to those contracts provided that **the issuer also issues insurance contracts**. Because investment contracts with discretionary participation features do not transfer insurance risk, the requirements of **IFRS 17 are modified for such contracts**.

BC84

- ▶ Accordingly, the Board decided that entities that issue insurance contracts should apply IFRS 17 to account for investment contracts with discretionary participation features.

Relevant areas (9/15)

BC86

- ▶ Because investment contracts with discretionary participation features transfer no significant insurance risk, IFRS 17 made the following **modifications to the general requirements** for insurance contracts (see paragraph 71 of IFRS 17) for these contracts:
 - (a) the **date of initial recognition is the date the entity becomes party to the contract**, because there is no pre-coverage period and hence the practical concerns noted in paragraph BC141 do not arise;
 - (b) the **contract boundary principle builds on the defining characteristic, namely the presence of the discretionary participation features, rather than on the existence of insurance risk**; and
 - (c) the requirement for the recognition of the **contractual service margin** in profit or loss **refers to the pattern of the provision of investment related services**.

Relevant areas (10/15)

72

- ▶ If the **terms of an insurance contract are modified**, for example by agreement between the parties to the contract or by a change in regulation, an entity **shall derecognise the original contract and recognise the modified contract as a new contract**, applying IFRS 17 or other applicable Standards **if, and only if, any of the conditions in (a)–(c) are satisfied**. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:
 - (a) if the modified terms had been included at contract inception:
 - (i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8;
 - (ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which IFRS 17 would have applied;
 - (iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or
 - (iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24.
 - (b) the original contract met the definition of an **insurance contract with direct participation features**, but the modified contract no longer meets that definition, or vice versa; or
 - (c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.

Relevant areas (11/15)

73

- ▶ If a contract modification meets none of the conditions in paragraph 72, the entity shall treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows by applying paragraphs 40–52.

74

- ▶ An entity shall **derecognise an insurance contract** when, and only when:
 - (a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or
 - (b) any of the conditions in paragraph 72 are met.

Relevant areas (12/15)

B26

- ▶ The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:
 - (a) insurance against theft or damage.
 - (b) insurance against product liability, professional liability, civil liability or legal expenses.
 - (c) life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).
 - (d) life-contingent annuities and pensions, ie contracts that provide compensation for the uncertain future event—the survival of the annuitant or pensioner—to provide the annuitant or pensioner with a level of income that would otherwise be adversely affected by his or her survival. (Employers' liabilities that arise from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans are outside the scope of IFRS 17, applying paragraph 7(b)).
 - (e) insurance against disability and medical costs.
 - (f) surety bonds, fidelity bonds, performance bonds and bid bonds, ie contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building.

Relevant areas (13/15)

B26 (cont'd)

(g) product warranties. Product warranties **issued by another party** for goods sold by a manufacturer, dealer or retailer are within the scope of IFRS 17. However, product warranties issued directly by a manufacturer, dealer or retailer are outside the scope of IFRS 17 applying paragraph 7(a), and are instead within the scope of IFRS 15 or IAS 37 **Provisions, Contingent Liabilities and Contingent Assets**.

(h) title insurance (insurance against the discovery of defects in the title to land or buildings that were not apparent when the insurance contract was issued). In this case, the insured event is the discovery of a defect in the title, not the defect itself.

(i) travel insurance (compensation in cash or in kind to policyholders for losses suffered in advance of, or during, travel).

(j) catastrophe bonds that provide for reduced payments of principal, interest or both, if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk; for example, if the event is a change in an interest rate or a foreign exchange rate).

(k) insurance swaps and other contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

Relevant areas (14/15)

B27

► The following are examples of items that are not insurance contracts:

(a) **investment contracts that have the legal form of an insurance contract but do not transfer significant insurance risk to the issuer.** For example, life insurance contracts in which the entity bears no significant mortality or morbidity risk are not insurance contracts; such contracts are financial instruments or service contracts—see paragraph B28.

Investment contracts with discretionary participation features do not meet the definition of an insurance contract; however, they are within the scope of IFRS 17 provided they are issued by an entity that also issues insurance contracts, applying paragraph 3(c).

(b) **contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses.** For example, some financial reinsurance contracts or some group contracts return all significant insurance risk to the policyholders; such contracts are normally financial instruments or service contracts (see paragraph B28).

(c) **self-insurance** (ie retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. Thus, if an entity issues an insurance contract to its parent, subsidiary or fellow subsidiary, there is no insurance contract in the consolidated financial statements because there is no contract with another party. However, for the individual or separate financial statements of the issuer or holder, there is an insurance contract.

Relevant areas (15/15)

B27 (cont'd)

(d) contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, the event to adversely affect the policyholder. However, this does not exclude from the definition of an insurance contract contracts that specify a predetermined payout to quantify the loss caused by a specified event such as a death or an accident (see paragraph B12).

(e) derivatives that expose a party to financial risk but not insurance risk, because the derivatives require that party to make (or give them the right to receive) payment solely based on the changes in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or a credit index or any other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract.

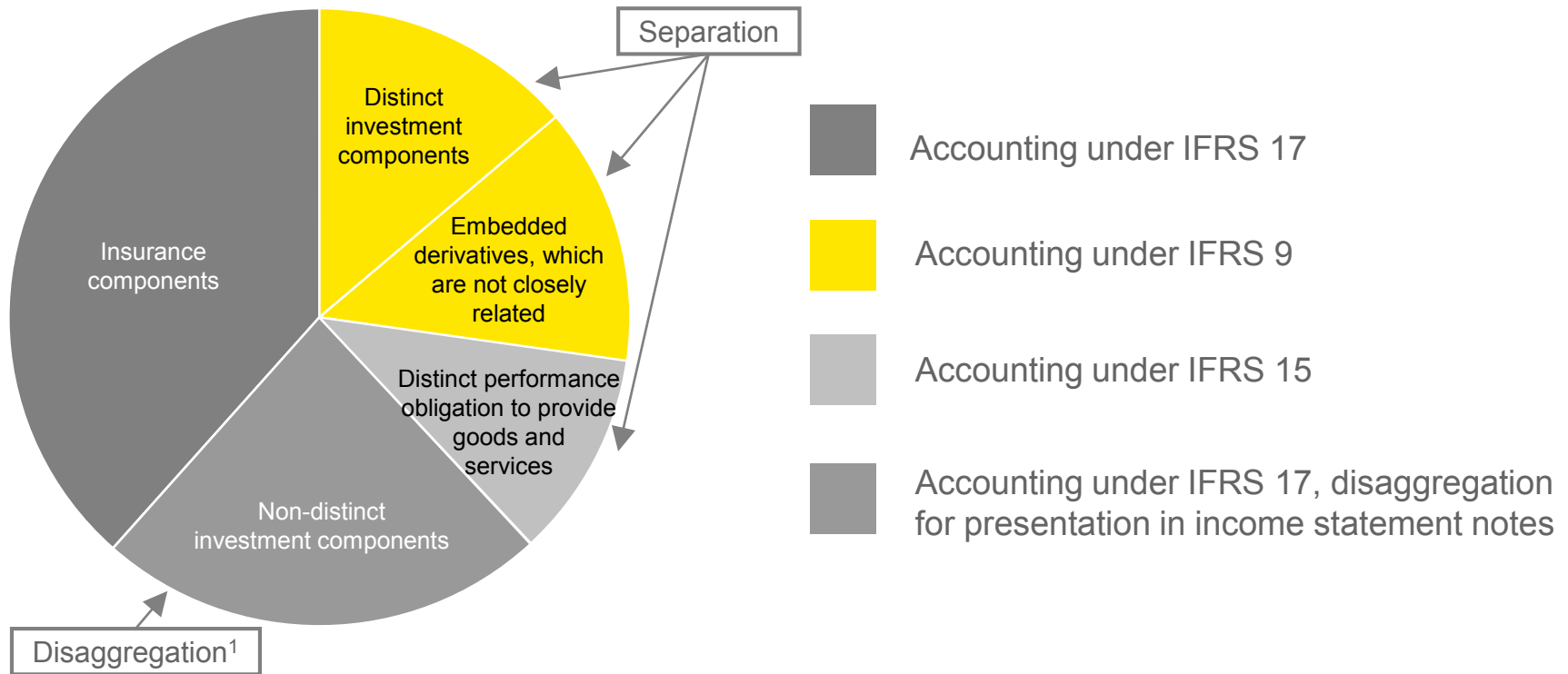
(f) credit-related guarantees that require payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due; such contracts are accounted for applying IFRS 9 Financial Instruments (see paragraph B29).

(g) contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).

(h) contracts that provide for reduced payments of principal, interest or both, that depend on a climatic, geological or any other physical variable, the effect of which is not specific to a party to the contract (commonly referred to as catastrophe bonds).

Some other relevant paragraphs (4, 5, B29-30, BC64-65, BC87-88, BC98-114)

Scope



¹ **Disaggregation** is the exclusion of an unseparated investment component from insurance contracts revenue

Example for separation - Definition (Illustrative Example 4)

- ▶ Portfolio of life insurance contracts with account balance
- ▶ Single premium **CU1000 paid at inception**
- ▶ **Death benefit is CU5000 + account balance**
- ▶ Surrender benefit is account balance (**without surrender charge**)
- ▶ Account is increased by p/h by **voluntary payments**, increased by return of corresponding asset and decreased by defined charged fees
- ▶ An investment product that has **equivalent** terms to the **account balance**, but without the insurance coverage, **is sold by another financial institution.**
- ▶ Entity has claims handling department and assets management department to maintain this portfolio

Question: Should entity separate some non-insurance components?

Example for separation - Solution (Illustrative Example 4)

Claims handling and asset management departments

- ▶ Both are necessary to fulfil contract liabilities
- ▶ Entity does not transfer goods or service to policyholder
- ▶ Based on paragraph B33 these component should not be separated

Account balance

- ▶ There is equivalent investment product being sold standalone
- ▶ However, if the right to death benefits provided by the insurance coverage either lapses or matures at the same time as the account balance, the insurance and investment components are highly interrelated and are therefore not distinct, applying paragraph B32(b).
- ▶ Consequently, the account balance would not be separated from the insurance contract and would be accounted for applying IFRS 17.

Example for separation - Definition (Illustrative Example 5)

- ▶ A stop-loss contract issued to an employer (the policyholder) providing health coverage for employees
- ▶ Contract's coverage is **100%** for the aggregate claims from employees exceeding **CU25 million** (the 'stop-loss threshold')
- ▶ Employer will **self-insure claims up to CU25 million**
- ▶ **Entity is responsible for processing** the health insurance claims of the employees on behalf of the employer **regardless exceeding the threshold**
- ▶ Similar services to process claims on behalf of customers are sold on the market

Question: Should entity separate some non-insurance components?

Example for separation - Solution (Illustrative Example 5)

Claims processing services

- ▶ Based on paragraph B34 it meets criteria of non-insurance services
 - ▶ It is sold on a standalone basis without any insurance coverage
 - ▶ It is benefit the policyholder independently of insurance coverage
- ▶ Based on paragraph B35 it doesn't meet criteria for non-distinct services
 - ▶ Its CF isn't highly interrelated with CF of insurance coverage
 - ▶ Its integration with insurance components does not provide a significant service
 - ▶ It can be provided separately from the insurance coverage
- ▶ The entity should separate the claims handling from the insurance contract (should apply IFRS 15)

Summary - Scope

- ▶ Definition of insurance contract almost **the same** as in IFRS 4 (same list of exclusions)
- ▶ Possibility to account specified fixed fee service contracts applying IFRS 17 or IFRS 15 (**no change**)
- ▶ Possibility to account financial guarantee contracts applying IFRS 9 or IFRS 15 (**change from IFRS 4**)
- ▶ **Newly** Investment contracts with DPF under IFRS 17
- ▶ Separation of specified embedded derivatives, distinct investment components and distinct goods or non-insurance services from insurance contract and accounting applying another IFRS standard

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Relevant areas (1/7)

Separation (10-13, B31-B35, BC98-BC114)

10

- ▶ An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an **investment component** or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11

- ▶ An entity shall:
 - (a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.
 - (b) **separate** from a host insurance contract an **investment component if, and only if**, that investment component **is distinct** (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.

Relevant areas (2/7)

13

- ▶ **After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract.** Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to **investment components that have not been separated** from the host insurance contract (except those references in paragraphs B31–B32).

42

- ▶ An entity shall recognise income and expenses for the following changes in the carrying amount of **the liability for incurred claims**:
 - (a) insurance service expenses—for the increase in the liability because of claims and expenses incurred in the period, **excluding any investment components**;
 - (b), (c)

55 – similar for PAA

85 (+84)

- ▶ **Insurance revenue and insurance service expenses** presented in profit or loss **shall exclude any investment components**. An entity shall not present premium information in profit or loss if that information is inconsistent with paragraph 83.

Relevant areas (3/7)

103, 117, B96, B120, B126 – subsequent measurement and exclusion of investment component

B31

- ▶ Paragraph 11(b) requires an entity to **separate a distinct investment component** from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:
 - (a) the investment component and the insurance component are **not highly interrelated**.
 - (b) a contract with equivalent terms is sold, or **could be sold, separately in the same market or the same jurisdiction**, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

B32

- ▶ An investment component and an insurance component **are highly interrelated if, and only if:**
 - (a) **the entity is unable to measure one component without considering the other**. Thus, if the value of one component varies according to the value of the other, an entity shall apply IFRS 17 to account for the combined investment and insurance component; or
 - (b) **the policyholder is unable to benefit from one component unless the other is also present**. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component.

Relevant areas (4/7)

BC98

- ▶ Insurance contracts create rights and obligations that work together to generate cash inflows and cash outflows. Some insurance contracts may:
 - (a) contain embedded derivatives that, if bifurcated, would be within the scope of IFRS 9;
 - (b) **contain investment components** that, if they were provided under separate contracts, would be within the scope of IFRS 9; or
 - (c) provide goods and non-insurance services that, if they were provided under separate contracts, would be within the scope of IFRS 15.

BC99

- ▶ **Separating such non-insurance components from an insurance contract can improve comparability.** Accounting for such components using other applicable IFRS Standards makes them more comparable to similar contracts that are issued as separate contracts, and allows users of financial statements to better compare the risks undertaken by entities in different businesses or industries.

BC100

- ▶ However, separating components also has limitations. **Separating** a single contract into components **could result in complex accounting that does not provide useful information** for **interdependent** cash flows attributable to the components. Furthermore, when cash flows are interdependent, separating the cash flows for each component can be arbitrary, particularly if the contract includes cross-subsidies between components or discounts. Also, as noted in paragraph BC10(a), when separation ignores interdependencies between components, the sum of the values of the components may not always equal the value of the contract as a whole, even on initial recognition.

Relevant areas (5/7)

BC101

- ▶ The Board **originally proposed** that an entity **separate a component not closely related to the insurance coverage** specified in the contract and identified some common examples of such components. The term ‘closely related’ is used in IFRS 9 in the criteria that determine whether embedded derivatives must be bifurcated. However, stakeholders indicated that some were **unsure how to interpret the term closely related** for non-insurance components embedded in insurance contracts. The Board noted that the principles for separating embedded derivatives were long-established in IFRS 9 (and previously in IAS 39 Financial Instruments: Recognition and Measurement). However, IFRS 17 clarifies the principles for the separation of other non-insurance components from an insurance contract based on the principles developed in IFRS 15.

BC102

- ▶ Hence, IFRS 17 includes requirements for the separation of the following non-insurance components:
 - (a) embedded derivatives (see paragraphs BC104–BC107);
 - (b) **investment components** (see paragraphs BC108–BC109); and
 - (c) goods and non-insurance services (see paragraphs BC110–BC113).

BC103

- ▶ The **criteria for separating** such non-insurance components from insurance components **differ to reflect the different characteristics of the non-insurance components**. This is consistent with applying different accounting models to the equivalent contracts accounted for on a stand-alone basis.

Relevant areas (6/7)

BC108

- ▶ **An investment component is the amount an insurance contract requires the entity to repay to the policyholder even if an insured event does not occur.** Many insurance contracts have an implicit or explicit investment component that would, if it were a separate financial instrument, be within the scope of IFRS 9. As explained in paragraph BC10(a), the Board decided that it would be difficult to routinely separate such investment components from insurance contracts. Accordingly, IFRS 17 requires an entity to:
 - (a) **separate only any distinct investment components** from insurance contracts. An investment component is distinct if the cash flows of the insurance contract are not highly interrelated with the cash flows from the investment component. Separating such components does not create the problems noted in paragraph BC10(a).
 - (b) account for all **investment components with cash flows that are highly interrelated** with the insurance contract by **applying IFRS 17, but**, as explained in paragraphs BC33–BC34, **eliminate any investment components from insurance revenue and insurance service expenses** reported in accordance with paragraph 85 of IFRS 17.

BC109

- ▶ IFRS 17 requires the cash flows allocated to a **separated investment component to be measured on a stand-alone basis** as if the entity had issued that investment contract separately. This requirement is consistent with the objective of separation, which is to account for a separated component the way stand-alone contracts with similar characteristics are accounted for. The Board concluded that, in all cases, entities would be able to measure the stand-alone value for an investment component by applying IFRS 9.

Relevant areas (7/7)

BC114

- ▶ The Board **considered whether to permit an entity to separate** a non-insurance component when not required to do so by IFRS 17; for example, **some investment components with interrelated cash flows**, such as policy loans. Such components may have been separated when applying previous accounting practices. However, the **Board concluded that it would not be possible to separate in a non-arbitrary way a component that is not distinct** from the insurance contract nor would such a result be desirable. Permitting an entity to separate such components would mean that the entity measures the components in the contract on an arbitrary basis. The Board also noted that when separation ignores interdependencies between insurance and non-insurance components, the sum of the values of the components may not always equal the value of the contract as a whole, even on initial recognition. **That would reduce the comparability of the financial statements across entities.**

Investment component

- ▶ The amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur.

Example of non-distinct investment component

Fact pattern:

1 year reinsurance contract accounted for under PAA. Total Expected premium CU 100m. Expected loss ratio 56%. 31% provisional commission paid to cedant on net written premiums. At end of each year, an adjustment is made to the commission as follows:

- ▶ If loss ratio is 56% or higher, no adjustment is made and commission remains at 31%
- ▶ If loss ratio is less than 56%, then the 31% commission is increased by $\frac{3}{4}$ of the difference in percentage between 56% and the loss ratio, up to a maximum of 40% commission (at a loss ratio of 44% or lower).
- ▶ At the end of the first year CU 100m of premium is ceded. Assume loss ratio is a) 56% b) 44%

Solution – Accounting by reinsurer

Investment component is amount that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur. The minimum amount that the reinsurer will pay is the maximum commission if no claim is incurred (ie. CU 40m). Therefore:

- ▶ a) Premium received by Global Reinsurer in Year = 100m less payment of 31m commission. However Revenue = CU 100-40m = CU 60m. Claims = CU 56m+(31m-40m)=CU 47m. Insurance service income = CU 13m. Both claims and revenue exclude CU 40m investment component.
- ▶ B) Premium received by Global Reinsurer in Year = 100m less payment of 40 commission. Revenue =100m-40m = CU 60m. Claims = CU 44m+(40-40) = CU 44m. Insurance service income = CU 16m. Claims and revenue exclude CU 40m investment component.

Example on disclosure of non-distinct investment component

- ▶ Assume 900 CU single premium, expected annual claims 200 CU
- ▶ Risk adjustment set to 120, 80 and 40 for years 1,2 and 3, respectively
- ▶ Entity estimates in each year that an investment component of CU100 is to be excluded from insurance revenue and insurance service expenses presented in profit or loss, applying paragraph 85
- ▶ See below the impact of identification of such component

Year	Disclosed investment component			No investment component		
	1	2	3	1	2	3
Premium	900,0	-	-	900,0	-	-
Claims	(200,0)	(200,0)	(200,0)	(200,0)	(200,0)	(200,0)
PV Premiums	900,0	-	-	900,0	-	-
PV Claims	(544,6)	(371,9)	(190,5)	(544,6)	(371,9)	(190,5)
Risk adjustment	(120,0)	(80,0)	(40,0)	(120,0)	(80,0)	(40,0)
CSM	235,4			235,4		
Insurance contract revenue	222,4	226,5	230,8	322,4	326,5	330,8
Insurance service expenses	(100,0)	(100,0)	(100,0)	(200,0)	(200,0)	(200,0)
Insurance service results	122,4	126,5	130,8	122,4	126,5	130,8
Investment results	(39,0)	(26,8)	(13,8)	(39,0)	(26,8)	(13,8)
Profit and loss	83,4	99,7	117,0	83,4	99,7	117,0

Summary – Investment component

- ▶ Distinct investment component probably not very often in typical portfolios
- ▶ Non-distinct investment component to be disaggregated from insurance services

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Relevant areas (1/8)

9

- ▶ **A set or series of insurance contracts** with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it **may be** necessary to treat the set or series of contracts **as a whole**. ...

14

- ▶ An entity shall identify portfolios of insurance contracts. A portfolio comprises **contracts subject to similar risks and managed together**. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.

16

- ▶ An entity shall divide a portfolio of insurance contracts issued into a minimum of:
 - (a) a group of contracts that are **onerous** at initial recognition, if any;
 - (b) a group of contracts that at initial recognition have **no significant possibility of becoming onerous** subsequently, if any; and
 - (c) a group of the **remaining contracts** in the portfolio, if any.

Relevant areas (2/8)

17

- ▶ If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may **measure the set of contracts to determine if the contracts are onerous** (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.

18

- ▶ For contracts issued to which an entity applies the **premium allocation approach** (see paragraphs 53–59), the entity shall **assume no contracts in the portfolio are onerous** at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

Relevant areas (3/8)

19

- ▶ For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–59), an **entity shall assess** whether contracts that are not onerous at initial recognition have **no significant possibility of becoming onerous**:
 - (a) based on the **likelihood of changes in assumptions** which, if they occurred, would result in the contracts becoming onerous.
 - (b) **using information** about estimates **provided by the entity's internal reporting**. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:
 - (i) an entity **shall not disregard information** provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but
 - (ii) an entity is **not required to gather additional information beyond** that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.

20

- ▶ **If**, applying paragraphs 14–19, **contracts** within a portfolio would **fall into different groups only because law or regulation** specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity **may include those contracts in the same group**. **The entity shall not apply this paragraph by analogy to other items.**

Relevant areas (4/8)

21

- ▶ An **entity is permitted to subdivide the groups** described in paragraph 16. For example, an entity may choose to divide the portfolios into:
 - (a) **more groups that are not onerous** at initial recognition—if the entity’s internal reporting provides information that distinguishes:
 - (i) different levels of profitability; or
 - (ii) different possibilities of contracts becoming onerous after initial recognition;
 - and
 - (b) **more than one group of contracts that are onerous** at initial recognition—if the entity’s internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.

22

- ▶ An **entity shall not include contracts issued more than one year apart in the same group**. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.

23

- ▶ A group of insurance contracts shall comprise a single contract if that is the result of applying paragraphs 14–22.

Relevant areas (5/8)

24

- ▶ An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts issued determined by applying paragraphs 14–23. An entity shall **establish the groups at initial recognition, and shall not reassess** the composition of the groups **subsequently**. To measure a group of contracts, an **entity may estimate the *fulfilment cash flows* at a higher level of aggregation than the group or portfolio**, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by **allocating such estimates to groups of contracts**.

Relevant areas (6/8)

33

- ▶ An **entity shall include in the measurement** of a group of insurance contracts **all the future cash flows within the boundary** of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:
 - (a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.
 - (b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).
 - (c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).
 - (d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

Relevant areas (7/8)

61

- ▶ An entity shall divide portfolios of **reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition.** For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

95

- ▶ An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

96

- ▶ Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:
 - (a) type of contract (for example, major product lines);
 - (b) geographical area (for example, country or region); or
 - (c) reportable segment, as defined in IFRS 8 Operating Segments.

BC115-139

Definitions summary

Insurance contract

- ▶ A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Set or series of insurance contracts

- ▶ **A set or series of insurance contracts** with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it **may be** necessary to treat the set or series of contracts **as a whole**

Portfolio of insurance contracts

- ▶ Insurance contracts subject to similar risks and managed together.

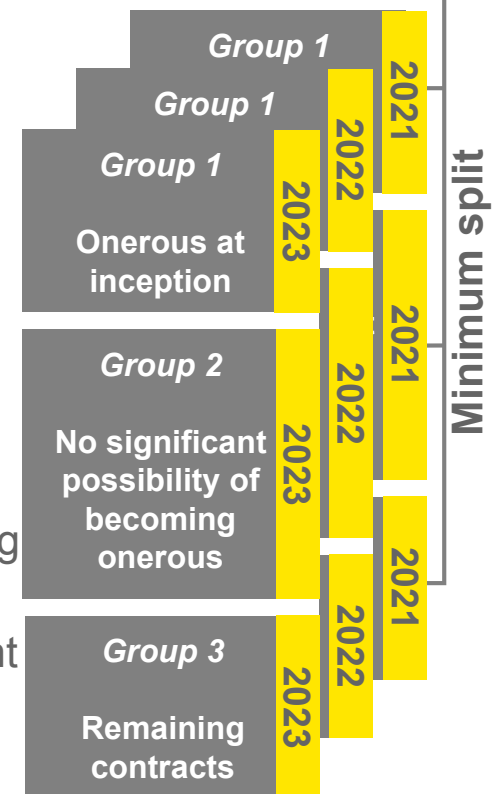
Group of insurance contracts

- ▶ A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, **at a minimum**, contracts written within a period of no longer than one year and that, at initial recognition:
 - (a) are onerous, if any;
 - (b) have no significant possibility of becoming onerous subsequently, if any; or
 - (c) do not fall into either (a) or (b), if any.

Aggregation of the contracts



- ▶ A **portfolio** comprises contracts that are subject to **similar risks and managed together**.
- ▶ The groups are established at the inception of the contracts, not reassess the composition of the groups subsequently
- ▶ A group shall comprise a **single contract**
- ▶ To measure a group of contracts, **estimation of the fulfilment cash flows might be at a higher level of aggregation than the group or portfolio**
 - ▶ the entity is able to include the appropriate fulfilment cash flows in the measurement of the group by allocating such estimates to groups of contracts.
- ▶ **Contracts issued more than one year apart** in the different group



Example 1: Loss vs. profitable contract

Problem	Proposed solution
<p>An entity issues 100 contracts with identical obligations to policyholders.</p> <p>However, the premium charged to 25 policyholders is lower than the risk-adjusted expected present value of the cash flows expected from the contract (i.e. the contracts are onerous).</p> <p>The premium charged to each of the other 75 policyholders, which exceeds the risk-adjusted present value of the cash flows expected from the contract, is such that the profitability of each of those contracts is the same.</p> <p>The entity expects to make a profit from the 100 contracts as a whole.</p>	<p>The entity has two groups:</p> <ul style="list-style-type: none">- the 25 onerous contracts together; and- the 75 profitable contracts.

Conclusion:

Groups of contracts that are onerous at inception should not be grouped with groups of contracts that are profitable at inception.

Example 2: Different response to risk

Problem	Proposed solution
<p>An entity issues 100 contracts with identical obligations to policyholders and charges the same margin for each contract.</p> <p>For all contracts, the risk of an insured event occurring is affected by risk factor A.</p> <p>However, 60 of the contracts are more sensitive to changes in risk factor A than the remaining 40 contracts, such that:</p> <ul style="list-style-type: none">- A 10% increase in risk factor A leads to a 80% increase in the cash outflows for the 60 contracts that are more sensitive to risk factor A- A 10% increase in risk factor A leads to a 10% increase in the cash outflows for the 40 contracts that are less sensitive to risk factor A.	<p>The entity divides the contracts into two groups comprising the 60 contracts that are sensitive to risk factor A and the remaining 40 contracts.</p>

Conclusion:

Groups of contracts that have a greater risk of being onerous after inception should not be grouped with groups of contracts that are at a lower risk of being onerous after inception.

Summary – Level of aggregation

- ▶ Annual cohorts not necessary on transition
- ▶ Consideration of regulatory constraints
- ▶ Different level of aggregation for measurement and recognition
- ▶ Portfolio definition (Non-life Lobs, Life Unbundling)
- ▶ Higher granularity possible (time cohorts, profitability, risk homogeneity)
- ▶ Onerous contracts test
- ▶ Definition of criteria for level of aggregation (accounting policy)

Agenda

- Introduction
- Scope of IFRS 17
- Separation of investment component
- **Unit of account**
 - Level of aggregation
 - **Contract boundary and unbundling**
- Summary

Relevant areas (1/7)

34

- ▶ **Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period** in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). **A substantive obligation to provide services ends when:**
 - ▶ (a) the **entity has the practical ability to reassess the risks** of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
 - ▶ (b) **both of the following criteria are satisfied:**
 - (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - (ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

35

- ▶ An **entity shall not recognise** as a liability or as an asset **any amounts** relating to expected premiums or expected claims **outside the boundary of the insurance contract**. Such amounts relate to future insurance contracts.

Relevant areas (2/7)

71

- ▶ An **investment contract with discretionary participation features** does not include a transfer of significant insurance risk. Consequently, the requirements in IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:
 - ▶ (a) the date of initial recognition (see paragraph 25) is the date the entity becomes party to the contract.
 - ▶ (b) the **contract boundary** (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a **substantive obligation** of the entity to deliver cash at a present or future date. The entity has **no substantive obligation** to deliver cash if it has the **practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks**.
 - ▶ (c) the allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

B61

- ▶ Estimates of cash flows in a scenario shall include **all cash flows within the boundary of an existing contract and no other cash flows**. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

Relevant areas (3/7)

B63

- ▶ When an issuer of an insurance contract is required by the contract to **renew or otherwise continue the contract, it shall apply paragraph 34** to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64

- ▶ Paragraph 34 refers to an entity's **practical ability to set a price at a future date** (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from **setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge.**

Similarly, an entity has that practical ability to set a price **when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder.** When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

Relevant areas (4/7)

BC86

- ▶ Because **investment contracts with discretionary participation features** transfer no significant insurance risk, IFRS 17 made the following modifications to the general requirements for insurance contracts (see paragraph 71 of IFRS 17) for these contracts:
 - (a) the date of initial recognition is the date the entity becomes party to the contract, because there is no pre-coverage period and hence the practical concerns noted in paragraph BC141 do not arise;
 - (b) the contract boundary principle builds on the defining characteristic, namely the **presence of the discretionary participation features**, rather than on the existence of insurance risk; and
 - (c) the requirement for the recognition of the contractual service margin in profit or loss refers to the pattern of the provision of investment related services.

BC160

- ▶ The essence of a contract is that it binds one or both of the parties. If both parties are bound equally, the boundary of the contract is generally clear. Similarly, if neither party is bound, it is clear that no genuine contract exists. Thus:
 - (a) **the outer limit** of the existing contract is the point at which the entity is **no longer required to provide coverage and the policyholder has no right of renewal**. Beyond that outer limit, neither party is bound.
 - (b) the entity is no longer bound by the existing contract at the point at which the contract confers on the entity the practical ability to reassess the risk presented by a policyholder and, as a result, the **right to set a price that fully reflects that risk**. Thus, any cash flows arising beyond that point occur beyond the boundary of the existing contract and relate to a future contract, not to the existing contract.

Relevant areas (5/7)

BC161

- ▶ However, **if an entity has the practical ability to reassess the risk** presented by a policyholder, **but does not have the right to set a price that fully reflects the reassessed risk**, the contract still binds the entity. Thus, that point would lie within the boundary of the existing contract, unless the restriction on the entity's ability to reprice the contract is so minimal that **it is expected to have no commercial substance** (ie the restriction has no discernible effect on the economics of the transaction). In the Board's view, a restriction with no commercial substance does not bind the entity.

BC162

- ▶ However, it may be more difficult to decide the contract boundary if the contract binds one party more tightly than the other. For example:
 - (a) an entity may **price a contract so that the premiums charged in early periods subsidise the premiums charged in later periods**, even if the contract states that each premium relates to an equivalent period of coverage. This would be the case if the contract charges level premiums and the risks covered by the contract increase with time. **The Board concluded that the premiums charged in later periods would be within the boundary** of the contract because, after the first period of coverage, the policyholder has obtained something of value, namely the ability to continue coverage at a level price despite increasing risk.
 - (b) an insurance contract might bind the entity, but not the policyholder, by **requiring the entity to continue to accept premiums and provide coverage but permitting the policyholder to stop paying premiums**, although possibly incurring a penalty. In the Board's view, the premiums the entity is required to accept and the resulting coverage it is required to provide fall **within the boundary of the contract**.

Relevant areas (6/7)

BC162 (cont.)

- ▶ (c) an insurance contract may permit an entity to **reprice the contract on the basis of general market experience** (for example, mortality experience), **without permitting the entity to reassess the individual policyholder's risk profile** (for example, the policyholder's health). In this case, the insurance contract binds the entity by requiring it to provide the policyholder with something of value: continuing insurance coverage without the need to undergo underwriting again. Although the terms of the contract are such that the policyholder has a benefit in renewing the contract, and thus the entity expects that renewals will occur, the contract does not require the policyholder to renew the contract. The Board originally decided that ignoring the entity's expectation of renewals would not reflect the economic circumstances created by the contract for the entity. Consequently, the Board **originally proposed** that if the entity can reprice an existing contract for general but not individual-specific changes in policyholders' risk profiles, the **cash flows resulting from the renewals repriced in this way lie within the boundaries of the existing contract.**

Relevant areas (7/7)

BC163

- ▶ Many stakeholders suggested that the original proposal in paragraph BC162(c) resulted in some cash flows for which the entity was not bound being included within the boundary of some contracts. Even when an entity is prevented from repricing an existing contract using an individual policyholder's risk assessment, the entity may nonetheless be able to reprice a portfolio to which the contract belongs with the result that the price charged for the portfolio as a whole fully reflects the risk of the portfolio. As a result, these stakeholders argued that in such cases the entity is no longer bound by the existing portfolio of contracts and that any cash flows that arise beyond that repricing point should be considered to be beyond the boundary of the existing contract. To the extent that an entity would not be able to charge a price that fully reflects the risks of the portfolio as a whole, it would be bound by the existing contract. **The Board was persuaded by this view and modified the contract boundary so that such cash flows are considered to be outside the contract boundary**, provided the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods subsequent to the reassessment date.

BC164

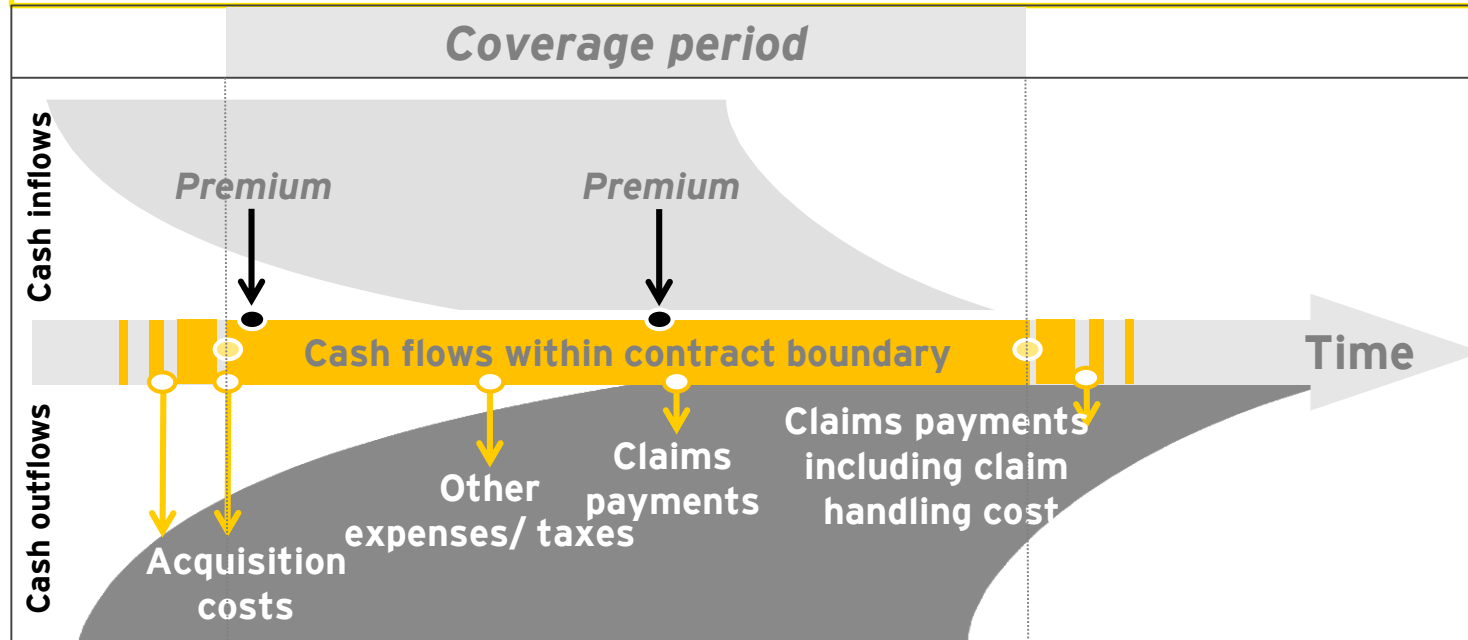
- ▶ Because the entity updates the measurement of the group of insurance contracts to which the individual contract belongs and, hence, the portfolio of contracts in each reporting period, **the assessment of the contract boundary is made in each reporting period**. For example, in one reporting period an entity may decide that a renewal premium for a portfolio of contracts is outside the contract boundary because the restriction on the entity's ability to reprice the contract has no commercial substance. However, if circumstances change so that the same restrictions on the entity's ability to reprice the portfolio take on commercial substance, the entity may conclude that future renewal premiums for that portfolio of contracts are within the boundary of the contract.

Measurement on initial recognition

Cash flows and contract boundary

The estimates of CFs used to determine the fulfilment CFs shall include all cash inflows and outflows that relate directly to the fulfilment of the contract:

- ❑ Current and explicit (separate from discount rate and risk adjustment)
- ❑ Incorporate all available information in an unbiased manner (including trends)
- ❑ Include all CFs within contract boundary
- ❑ Perspective of the entity (provided that market variables are consistent with observable prices)



Example – Contract boundary

- ▶ Annual premium 100 CU,
- ▶ Annual claims 60 CU,
- ▶ Acquisition costs 150 CU
- ▶ Discount rate 1% p.a.
- ▶ 5 year coverage period with annual renewal
 - ▶ Case 1: Contract boundary set to 5 years
 - ▶ Case 2: Contract boundary set to 1 year
- ▶ Assume no lapses, risk adjustment and other elements
- ▶ Everything happens as expected (no subsequent changes)

Example – Contract boundary

Case 1

► Case 1: contract boundary 5 years

	Present value	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	490,2	100,0	100,0	100,0	100,0	100,0
Claims	(294,1)	(60,0)	(60,0)	(60,0)	(60,0)	(60,0)
Acq costs	(150,0)					
CSM / Loss	46,1					

CSM BoP	46,1	37,2	28,2	19,0	9,6	
Accretion	0,5	0,4	0,3	0,2	0,1	
Release to P&L	(9,3)	(9,4)	(9,5)	(9,6)	(9,7)	
CSM EoP	37,2	28,2	19,0	9,6	-	
Profit / Loss	46,1	9,3	9,4	9,5	9,6	9,7

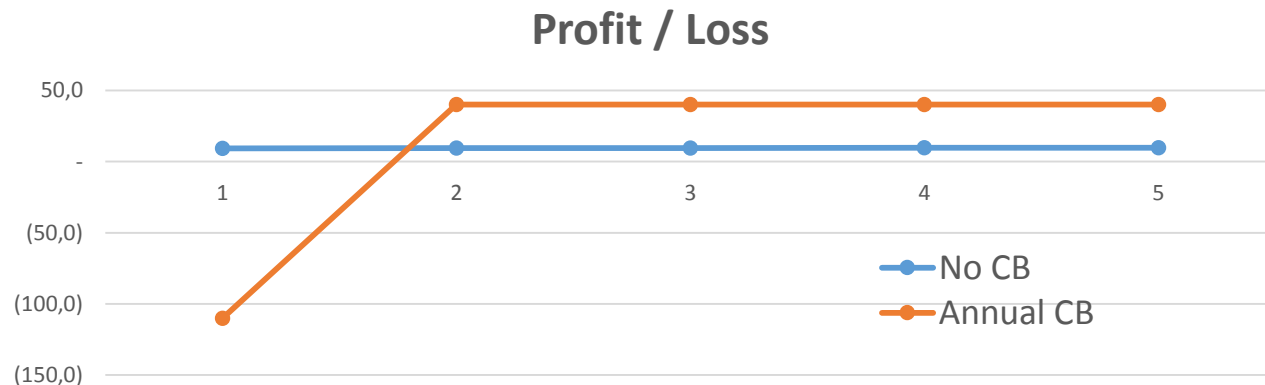
Example – Contract boundary

Case 2

► Case 2: Annual CB

	Present value	Year 1	Year 2	Year 3	Year 4	Year 5
Premiums	100,0	100,0				
Claims	(60,0)	(60,0)				
Acq costs	(150,0)					
CSM / Loss	(110,0)					

NB Premiums			100,0	100,0	100,0	100,0
NB Claims			(60,0)	(60,0)	(60,0)	(60,0)
Future profits			40,0	40,0	40,0	40,0
Profit / Loss		46,1	(110,0)	40,0	40,0	40,0



Example – Unbundling Life

- ▶ Annual premium 100 CU on main tariff and 500 CU on riders,
- ▶ Annual claims 95 CU on main tariff and 200 on riders,
- ▶ Acquisition costs 800 CU
- ▶ Discount rate 1% p.a.
- ▶ 5 year coverage period
- ▶ Treatment of these policies:
 - ▶ Case 1: Whole policy together – no unbundling
 - ▶ Case 2: Riders managed together separately from main tariff – unbundling as in Solvency II
- ▶ Assume no lapses, risk adjustment and other elements
- ▶ Everything happens as expected (no subsequent changes)
- ▶ In Case 2 Acquisition costs split proportionally to premium

Example – Unbundling Life Case 1

► Case 1: No unbundling

	Present value	Year 1	Year 2	Year 3	Year 4	Year 5
Premium - Death	490,2	100,0	100,0	100,0	100,0	100,0
Premium - Rider	2 451,0	500,0	500,0	500,0	500,0	500,0
Claims - Death	(465,7)	(95,0)	(95,0)	(95,0)	(95,0)	(95,0)
Claims - Rider	(980,4)	(200,0)	(200,0)	(200,0)	(200,0)	(200,0)
Acquisition Costs	(800,0)					
CSM / Loss	695,1					

CSM BoP		695,1	561,6	425,4	286,5	144,7
Accretion		7,0	5,6	4,3	2,9	1,4
Release to P&L		(140,4)	(141,8)	(143,2)	(144,7)	(146,1)
CSM EoP		561,6	425,4	286,5	144,7	-
Profit / Loss	695,1	140,4	141,8	143,2	144,7	146,1

Example – Unbundling Life Case 2

► Case 2: Unbundling of main tariff and riders

	Present value	Year 1	Year 2	Year 3	Year 4	Year 5
Premium - Death	490,2	100,0	100,0	100,0	100,0	100,0
Claims - Death	(465,7)	(95,0)	(95,0)	(95,0)	(95,0)	(95,0)
Acq Costs - Death	(133,3)					
CSM / Loss - Death	(108,8)					
Profit / Loss - Death	(108,8)	(108,8)				
Premium - Rider	2 451,0	500,0	500,0	500,0	500,0	500,0
Claims - Rider	(980,4)	(200,0)	(200,0)	(200,0)	(200,0)	(200,0)
Acq Costs - Rider	(666,7)					
CSM / Loss - Rider	803,9					
CSM BoP		803,9	649,6	492,0	331,3	167,3
Accretion		8,0	6,5	4,9	3,3	1,7
Release to P&L		(162,4)	(164,0)	(165,7)	(167,3)	(169,0)
CSM EoP		649,6	492,0	331,3	167,3	-
Profit / Loss - Rider	803,9	162,4	164,0	165,7	167,3	169,0
Total Profit / Loss	695,1	53,6	164,0	165,7	167,3	169,0

Example – Unbundling Nonlife

- ▶ One-year contract covering MTPL and Casco starting 01 June

MTPL

- ▶ Annual premium 3500 CU received on initial recognition
- ▶ Annual claims 2625 CU (75% LR)
- ▶ Acquisition costs + other expenses 1050 CU (30% ER)

Casco

- ▶ Annual premium 6000 CU received on initial recognition
 - ▶ Annual claims 3900 CU (65% LR)
 - ▶ Acquisition costs + other expenses 1800 CU (30% ER)
-
- ▶ Entity chose not to expense Acq costs as incurred
 - ▶ Risk adjustment, discounting and other elements not considered
 - ▶ Everything happens as expected (no subsequent changes)

Example – Unbundling Nonlife

Assume no unbundling

Initial	
Premium - MTPL&Casco	9 500,0
Claims – MTPL&Casco	(6 525,0)
Costs	(2 850,0)

Onerous contracts test	-
------------------------	---

	31.12.	1.6.
LFRC	4 750,0	0,0

	31.12.	1.6.	Total
Revenue	4750,0	4750,0	9500,0
LFIC	3262,5	3262,5	6525,0
Change in Loss component	0,0	0,0	0,0
Costs	1425,0	1425,0	2850,0
P&L	62,5	62,5	125,0

Example – Unbundling Nonlife

Assume unbundling (MTPL)

Initial	
Premium - MTPL	3 500,0
Claims - MTPL	(2 625,0)
Costs	(1 050,0)

Onerous contracts test	(175,0)
------------------------	---------

	31.12.	1.6.
LFRC	1 837,5	0,0

	31.12.	1.6.	Total
Revenue	1750,0	1750,0	3500,0
LFIC	1312,5	1312,5	2625,0
Change in Loss component	87,5	-87,5	0,0
Costs	525,0	525,0	1050,0
P&L	-175,0	0,0	-175,0

Example – Unbundling Nonlife

Assume unbundling (Casco)

Initial	
Premium - Casco	6 000,0
Claims - Casco	(3 900,0)
Costs	(1 800,0)

Onerous contracts test	-
------------------------	---

	31.12.	1.6.
LFRC	3 000,0	0,0

	31.12.	1.6.	Total
Revenue	3000,0	3000,0	6000,0
LFIC	1950,0	1950,0	3900,0
Change in Loss component	0,0	0,0	0,0
Costs	900,0	900,0	1800,0
P&L	150,0	150,0	300,0

Example – Unbundling Nonlife Summary

	31.12.	1.6.	Total
Total P&L non-unbundling	62,5	62,5	125,0
Total P&L unbundling	-25,0	150,0	125,0

- ▶ Entity still needs to comply with aggregation requirements, i.e. split the contract by annual cohorts, to split them by profitability etc.
- ▶ Possible split based on profitability in Casco and MTPL:
 - ▶ Young drivers may not be in the same group as older ones
 - ▶ Different geographical zones
 - ▶ Different cars manufacturer, color
 - ▶ ...

Summary – Contract boundary and unbundling

- ▶ Contract boundary definition and differences from S2 definition (practical ability)
- ▶ “Unbundling” as in S2 not defined in IFRS 17
- ▶ Possibility to reassess risk(s) – All, One?

Agenda

- Introduction
- Scope of IFRS 17
- Separation of investment component
- Unit of account
 - Level of aggregation
 - Contract boundary and unbundling
- **Summary**

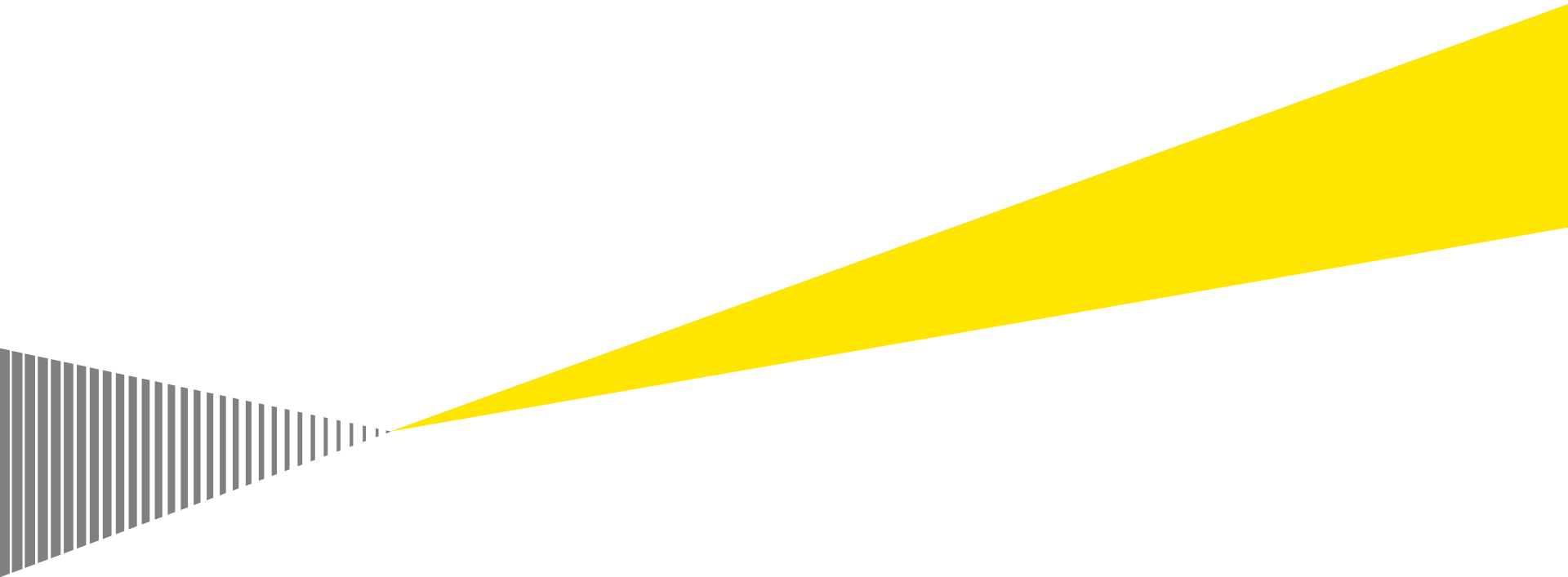
Summary

- ▶ Scope very similar as in current IFRS 4
- ▶ Special requirements for disclosure of investment component
- ▶ Aggregation on annual cohorts and profitability level considering portfolio (Lob) segmentation similar to current IFRS 4
- ▶ Contract boundary definition may be different from S2 definition (practical ability)
- ▶ “Unbundling” as in S2 not defined in IFRS 17

Final Q&As



Thank you for your attention!



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