

IFRS 17

Practical examples

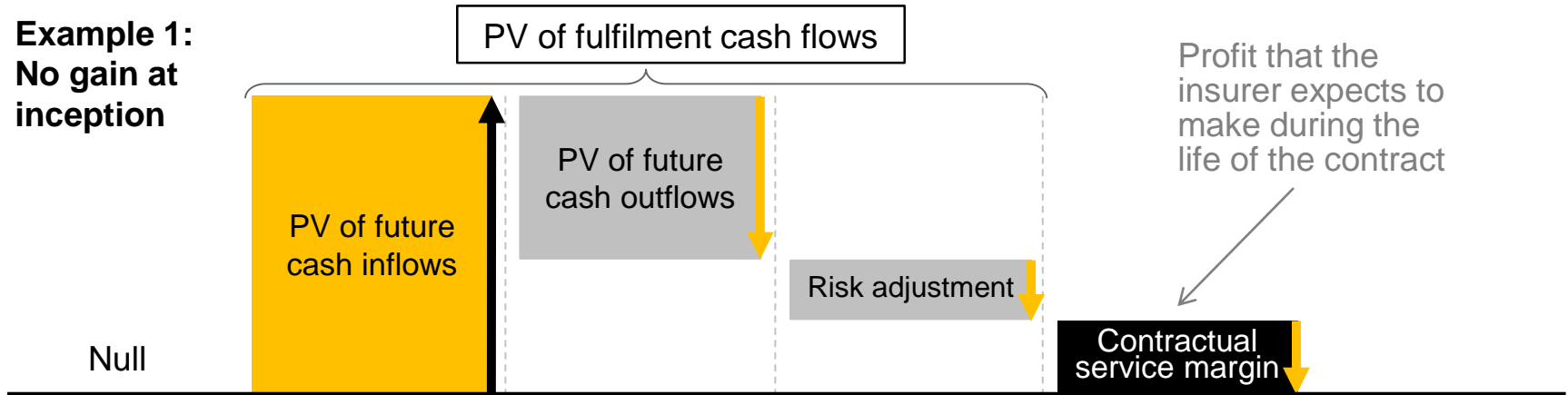
Petr Sotona, Jiří Thomayer
SLASPO, 28.11.2017, Bratislava

Agenda

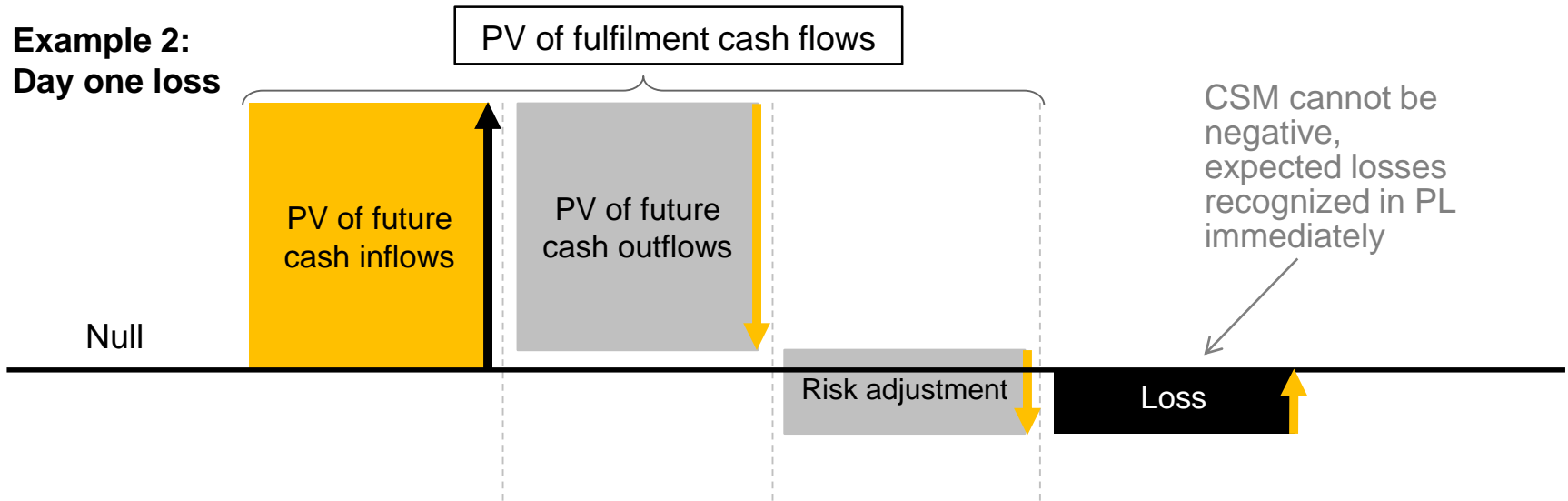
- General model
 - Initial measurement
 - Subsequent measurement
 - Comparison of IFRS 4 and IFRS 17
- Premium allocation approach
- Variable fee approach

Measurement on initial recognition

Example 1: No gain at inception



Example 2: Day one loss



Examples on initial measurement - Definition (Illustrative examples 1a, 1b)

- ▶ **100** insurance contracts with a coverage period of **three years**
- ▶ It is assumed, for simplicity, that **no contracts will lapse** before the end of the coverage period and **all other amounts are ignored**
- ▶ The entity estimates the **risk adjustment** for non-financial risk on initial recognition as **CU120**
- ▶ **Total single premium is CU900**

- ▶ Annual **cash outflows** at end of period equal to **CU200** (Example 1a)
- ▶ Annual **cash outflows** at end of period equal to **CU400** (Example 1b)

Examples on initial measurement - Solution (Illustrative examples 1a, 1b)

Example 1a:

- ▶ Fulfillment cash flows = 235
- ▶ Contractual service margin = 235

Year	1	2	3
Premiums (BOP)	900,0	-	-
Claims (EOP)	(200,0)	(200,0)	(200,0)
PV Premiums	900,0		
PV Claims	(544,6)		
Risk adjustment	(120,0)		
CSM	235,4		

Example 1b:

- ▶ Fulfillment cash flows = -309
- ▶ Contractual service margin = 0
- ▶ Initial loss = 309

Year	1	2	3
Premiums (BOP)	900,0	-	-
Claims (EOP)	(400,0)	(400,0)	(400,0)
PV Premiums	900,0		
PV Claims	(1 089,3)		
Risk adjustment	(120,0)		
Loss (No CSM)	(309,3)		

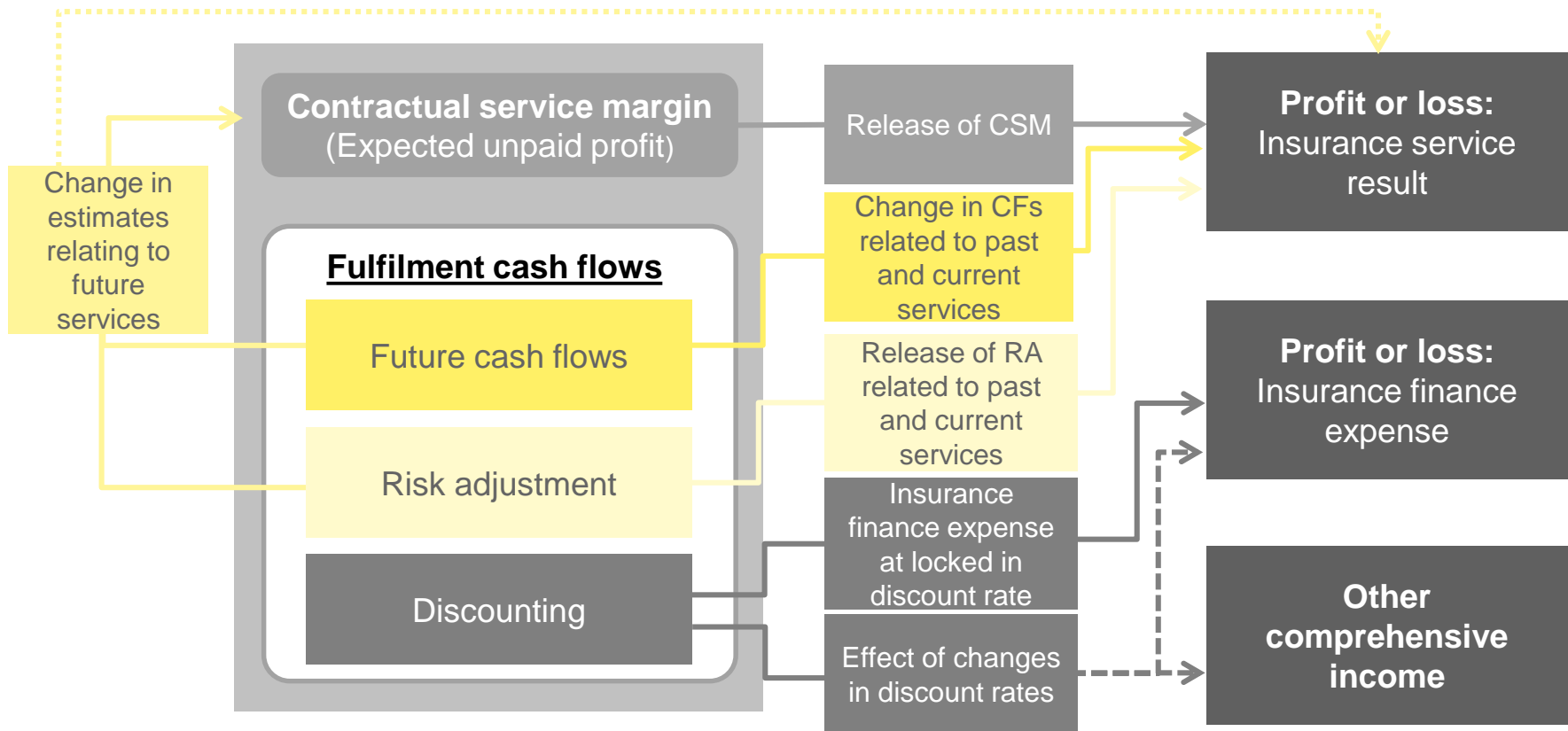
Agenda

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Subsequent measurement

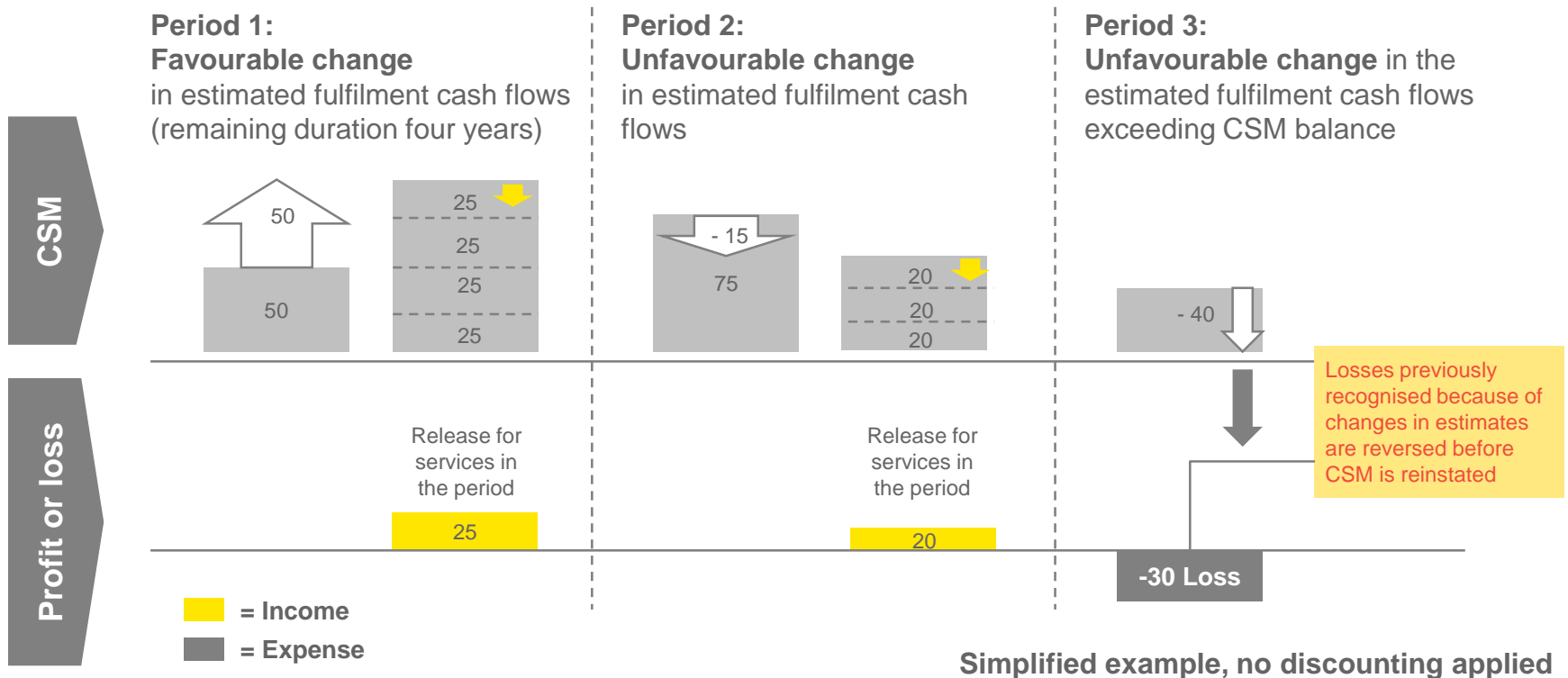
Presentation of changes - overview

The IASB proposed to disaggregate changes in the measurement of the insurance contracts in different line items of the financial statements, depending on the sources of the changes.



Contractual Service Margin

Illustration of unlocking



Example on subsequent measurement (Illustrative example 2a)

Initial information (same as 1a):

- ▶ **100** insurance contracts with a coverage period of **three years**
- ▶ It is assumed, for simplicity, that **no contracts will lapse** before the end of the coverage period and **all other amounts are ignored**
- ▶ The entity estimates the **risk adjustment** for non-financial risk on initial recognition as **CU120**
- ▶ **Total single premium is CU900**
- ▶ Annual **cash outflows** at end of period equal to **CU200**

Subsequent information:

- ▶ **Actual** annual cash **outflows** in **year 2** of **CU150**
- ▶ **New estimation** of cash **outflows** for **year 3** of **CU140**
- ▶ **RA estimate** lowered from CU40 to **CU30** for **year 3**

Example on subsequent measurement (Illustrative example 2a)

- ▶ Immediate impact of experience variance AND difference in future assumptions

Year	Initial measurement			Subsequent measurement		
	1	2	3	1	2	3
Premiums (BOP)	900,0	-	-	900,0	-	-
Claims (EOP)	(200,0)	(200,0)	(200,0)	(200,0)	(150,0)	(140,0)
PV Premiums	900,0	-	-	900,0	-	-
PV Claims	(544,6)	(371,9)	(190,5)	(447,5)	(269,8)	(133,3)
Risk adjustment	(120,0)	(80,0)	(40,0)	(120,0)	(80,0)	(30,0)
CSM	235,4					
Insurance contract revenue	322,4	326,5	330,8	322,4	360,1	296,1
Insurance service expenses	(200,0)	(200,0)	(200,0)	(200,0)	(150,0)	(140,0)
Insurance service results	122,4	126,5	130,8	122,4	210,1	156,1
Investment results	(39,0)	(26,8)	(13,8)	(39,0)	(26,8)	(12,7)
Profit and loss	83,4	99,7	117,0	83,4	183,2	143,4

Example on subsequent measurement (Illustrative example 2b)

Initial information (same as 1a):

- ▶ **100** insurance contracts with a coverage period of **three years**
- ▶ It is assumed, for simplicity, that **no contracts will lapse** before the end of the coverage period and **all other amounts are ignored**
- ▶ The entity estimates the **risk adjustment** for non-financial risk on initial recognition as **CU120**
- ▶ **Total single premium is CU900**
- ▶ Annual **cash outflows** at end of period equal to **CU200**

Subsequent information:

- ▶ **Actual** annual cash **outflows** in **year 2** of **CU400**
- ▶ **New estimation** of cash **outflows** for **year 3** of **CU450**
- ▶ **RA estimate** increased from CU40 to **CU88** for **year 3**

Example on subsequent measurement (Illustrative example 2b)

- ▶ Immediate impact of experience variance AND difference in future assumptions
- ▶ Insurance service expense contains Loss component of CU113

Year	Initial measurement			Subsequent measurement		
	1	2	3	1	2	3
Premiums (BOP)	900,0	-	-	900,0	-	-
Claims (EOP)	(200,0)	(200,0)	(200,0)	(200,0)	(400,0)	(450,0)
PV Premiums	900,0	-	-	900,0	-	-
PV Claims	(544,6)	(371,9)	(190,5)	(942,0)	(789,1)	(428,6)
Risk adjustment	(120,0)	(80,0)	(40,0)	(120,0)	(80,0)	(88,0)
CSM	235,4					
Insurance contract revenue	322,4	326,5	330,8	322,4	240,0	420,2
Insurance service expenses	(200,0)	(200,0)	(200,0)	(200,0)	(513,1)	(332,2)
Insurance service results	122,4	126,5	130,8	122,4	(273,1)	88,0
Investment results	(39,0)	(26,8)	(13,8)	(39,0)	(26,8)	(21,4)
Profit and loss	83,4	99,7	117,0	83,4	(299,9)	66,6

Agenda

- General model
 - Initial measurement
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 - Comparison of IFRS 4 and IFRS 17
- Premium allocation approach
- Variable fee approach

Practical example – IFRS 4 vs IFRS 17

Fact pattern at inception

- ▶ 100 identical term insurance policies with 10 years durations
- ▶ Commence on 1 January
- ▶ Expect 1 death per year at the end of each year
- ▶ Single premium = CU 150,000 per policy
- ▶ Sum assured = CU 1,000,000 per policy
- ▶ Acquisition costs = CU 5,000 per policy
- ▶ Maintenance costs = CU 600 per policy per year
- ▶ Discount rate = 2%
- ▶ Risk adjustment = CU 10,000 per policy at inception (for comparison we assume 20% prudence in mathematical reserve under IFRS 4)

Practical example – IFRS 4 vs IFRS 17

CSM at inception

Item	CU
Premiums	15,000,000
Present value of death outgo	(8,982,585)
Acquisition expenses	(500,000)
Present value of maintenance expenses	(525,894)
Risk adjustment	(1,000,000)
Present value of fulfilment cash flows	3,991,521
Contractual service margin at inception (liability)	(3,991,521)

Practical example – IFRS 4 vs IFRS 17

CSM Roll forward to year-end (actual=expected)

Roll forward of CSM	CU
CSM BoP	-
Impact of new business	(3,991,521)
Accretion of interest (locked in rate)	(79,830)
CSM recognised for services provided (release to P&L)*	444,362
CSM EoP	(3,626,990)

*Coverage provided in year (death outgo) = 1,000,000 (A)

Discounted value of future coverage = 8,162,237 (B)

$(A) / [(A) + (B)] = 10.9\%$

$- 10.9\% \times [(3,991,521) + (79,830)] = 444,362$

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Revenue calculation (year 1) (actual = expected)

Insurance Revenue calculation	CU	Insurance Expenses calculation	CU
Expected claims	1,000,000	Actual claims	(1,000,000)
Expected maintenance expenses	60,000	Maintenance expenses	(60,000)
Release of risk adjustment	109,000	Allocation of acquisition expenses*	(55,663)
Release of CSM	444,362	Insurance service expenses	(1,115,653)
Allocation of acquisition expenses*	55,663		
Insurance contract revenue	1,669,025		

Some components will come from actuarial cash flow models.

Revenue in first year no longer = premium.

*Acquisition expenses:

An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Financial income (year 1) (actual = expected)

IFRS 17	
Statement of comprehensive income	CU
Insurance revenue	1 669 025
Insurance service expense	(1 115 663)
Insurance service result	553 362
Investment income	288 800
Insurance finance income and expenses	(268 800)
Net financial result	20 000
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	573 362
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	573 362

IFRS 4	
Profit and loss account	CU
Net earned premiums	15 000 000
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	(500 000)
Interest, dividend and other investment income	288 800
Change in provisions	(9 794 684)
Other income, expenses	(60 000)
Taxes (ignored for simplicity)	
Net result for the period	3 934 116
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	3 934 116

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0	-	-	-	-
Changes that relate to current services	-	109 000	444 362	553 362
Contractual service margin recognised for services provided			444 362	444 362
Risk adjustment recognised for the risk expired		109 000		109 000
Experience adjustments				
Changes that relate to future services	4 991 521	(1 000 000)	(3 991 521)	-
Contracts initially recognised in the period	4 991 521	(1 000 000)	(3 991 521)	-
Changes in estimates reflected in the contractual service margin				
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	4 991 521	(891 000)	(3 547 159)	553 362
Insurance finance expenses	(188 970)		(79 830)	(268 800)
Total changes in the statement of comprehensive income	4 802 552	(891 000)	(3 626 990)	284 562
Cash flows	(13 440 000)			(13 440 000)
Insurance contract liabilities 20X1	(8 637 448)	(891 000)	(3 626 990)	(13 155 438)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X0	-	-	-	-
Insurance revenue	1 669 025			1 669 025
Insurance service expenses	(55 663)		(1 060 000)	(1 115 663)
Incurred claims and other expenses			(1 060 000)	(1 060 000)
Amortisation of insurance acquisition cash flows	(55 663)			(55 663)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 613 362		(1 060 000)	553 362
Insurance finance expenses	(268 800)			(268 800)
Total changes in the statement of comprehensive income	1 344 562		(1 060 000)	284 562
Cash flows				
Premiums received	(15 000 000)			(15 000 000)
Claims and other expenses paid			1 060 000	1 060 000
Insurance acquisition cash flows	500 000			500 000
Total cash flows	(14 500 000)		1 060 000	(13 440 000)
Insurance contract liabilities 20X1	(13 155 438)		-	(13 155 438)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Updated fact pattern at end of first year

- ▶ Actual = expected, except maintenance expenses = CU 800 per policy instead of CU 600 (and for upcoming years still assuming CU 600 per policy)
- ▶ Assume that discount rates change to 1% pa since year 2 (i.e. no change in discount rates in year 1)

Practical example – IFRS 4 vs IFRS 17

Financial income (year 1 update)

IFRS 17	
Statement of comprehensive income	CU
Insurance revenue	1 669 025
Insurance service expense	(1 135 663)
Insurance service result	533 362
Investment income	288 400
Insurance finance income and expenses	(690 859)
Net financial result	(402 459)
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	130 903
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	130 903

IFRS 4	
Profit and loss account	CU
Net earned premiums	15 000 000
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	(500 000)
Interest, dividend and other investment income	288 400
Change in provisions	(9 794 684)
Other income, expenses	(80 000)
Taxes (ignored for simplicity)	
Net result for the period	3 913 716
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	3 913 716

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0	-	-	-	-
Changes that relate to current services	(20 000)	109 000	444 362	533 362
Contractual service margin recognised for services provided			444 362	444 362
Risk adjustment recognised for the risk expired		109 000		109 000
Experience adjustments	(20 000)			(20 000)
Changes that relate to future services	4 991 521	(1 000 000)	(3 991 521)	-
Contracts initially recognised in the period	4 991 521	(1 000 000)	(3 991 521)	-
Changes in estimates reflected in the contractual service margin				
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	4 971 521	(891 000)	(3 547 159)	533 362
Insurance finance expenses	(611 029)		(79 830)	(690 859)
Total changes in the statement of comprehensive income	4 360 492	(891 000)	(3 626 990)	(157 497)
Cash flows	(13 420 000)			(13 420 000)
Insurance contract liabilities 20X1	(9 059 508)	(891 000)	(3 626 990)	(13 577 497)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X0	-	-	-	-
Insurance revenue	1 669 025			1 669 025
Insurance service expenses	(55 663)	-	(1 080 000)	(1 135 663)
Incurred claims and other expenses			(1 080 000)	(1 080 000)
Amortisation of insurance acquisition cash flows	(55 663)			(55 663)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 613 362	-	(1 080 000)	533 362
Insurance finance expenses	(690 859)			(690 859)
Total changes in the statement of comprehensive income	922 503		(1 080 000)	(157 497)
Cash flows				
Premiums received	(15 000 000)			(15 000 000)
Claims and other expenses paid			1 080 000	1 080 000
Insurance acquisition cash flows	500 000			500 000
Total cash flows	(14 500 000)		1 080 000	(13 420 000)
Insurance contract liabilities 20X1	(13 577 497)		-	(13 577 497)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Fact pattern in second year

- ▶ Mortality/longevity assumption changed:
- ▶ Assume 5 deaths in year 3, instead of 1
- ▶ Assume 0 deaths in years 4-7, instead of 1

- ▶ Actuarial projection was based on smoothing and new actuary wants to be more precise (same number of expected deaths in years 3-10 but different timing)

- ▶ Future assumption change ‘unlocks’ the CSM

Practical example – IFRS 4 vs IFRS 17

Roll forward of CSM in year 2

Roll forward of CSM	CU
CSM BoP	(3 626 990)
Impact of new business	-
Accretion of interest (locked in rate)	(72 540)
Adjustment due to future cash flows (locked in rate)	182 733
CSM recognised for services provided (release to P&L)*	413 061
CSM EoP	(3 103 735)

*Coverage provided in year (death outgo) = 1,000,000 (A)

Discounted value of future coverage = 7,513,983 (B) – updated for new assumptions

$(A) / [(A) + (B)] = 11.7\%$

$- 11.7\% \times [(3,626,990) + (72,540) + 182,733] = 413,061$

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Financial income (year 2 update)

IFRS 17	
Statement of comprehensive income	CU
Insurance revenue	1 633 892
Insurance service expense	(1 113 831)
Insurance service result	520 061
Investment income	136 490
Insurance finance income and expenses	(70 989)
Net financial result	65 501
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	585 562
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	585 562

IFRS 4	
Profit and loss account	CU
Net earned premiums	-
Insurance claims and benefits (net)	(1 000 000)
Movement in deferred acquisition costs	-
Interest, dividend and other investment income	136 490
Change in provisions	1 004 106
Other income, expenses	(59 400)
Taxes (ignored for simplicity)	
Net result for the period	81 196
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	81 196

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X1	(9 059 508)	(891 000)	(3 626 990)	(13 577 497)
Changes that relate to current services	-	107 000	413 061	520 061
Contractual service margin recognised for services provided			413 061	413 061
Risk adjustment recognised for the risk expired		107 000		107 000
Experience adjustments				
Changes that relate to future services	(182 733)	-	182 733	-
Contracts initially recognised in the period				
Changes in estimates reflected in the contractual service margin	(182 733)		182 733	-
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	(182 733)	107 000	595 794	520 061
Insurance finance expenses	1 550		(72 540)	(70 989)
Total changes in the statement of comprehensive income	(181 183)	107 000	523 255	449 072
Cash flows	1 059 400			1 059 400
Insurance contract liabilities 20X2	(8 181 290)	(784 000)	(3 103 735)	(12 069 025)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X1	(13 577 497)			(13 577 497)
Insurance revenue	1 633 892			1 633 892
Insurance service expenses	(54 431)	-	(1 059 400)	(1 113 831)
Incurred claims and other expenses			(1 059 400)	(1 059 400)
Amortisation of insurance acquisition cash flows	(54 431)			(54 431)
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	1 579 461	-	(1 059 400)	520 061
Insurance finance expenses	(70 989)			(70 989)
Total changes in the statement of comprehensive income	1 508 472		(1 059 400)	449 072
Cash flows				
Premiums received	-			-
Claims and other expenses paid			1 059 400	1 059 400
Insurance acquisition cash flows	-			-
Total cash flows	-		1 059 400	1 059 400
Insurance contract liabilities 20X2	(12 069 025)		-	(12 069 025)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Fact pattern in third year

- ▶ Mortality/longevity assumption changed again
- ▶ Assume 1 death in years 4 - 7 instead of 0

- ▶ Because in year 3 there was 5 deaths, the assumption about 0 deaths in upcoming 4 years was too aggressive

- ▶ Future assumption change ‘unlocks’ the CSM

Practical example – IFRS 4 vs IFRS 17

Roll forward of CSM in year 3

Roll forward of CSM		CU
CSM BoP		(3 103 735)
Impact of new business		-
Accretion of interest (locked in rate)		(62 075)
Adjustment due to future cash flows (locked in rate)*		3 165 810
CSM recognised for services provided (release to P&L)		-
CSM EoP		-

*Impact of assumption change on future cash flows at locked in rate = (3,797,769)

Amount available for offset in CSM = 3,165,810

Balance to loss component = (631,959)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Financial income (year 3 update)

IFRS 17	
Statement of comprehensive income	CU
Insurance revenue	5 373 622
Insurance service expense	(5 872 581)
Insurance service result	(498 959)
Investment income	127 267
Insurance finance income and expenses	(237 128)
Net financial result	(109 861)
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	(608 820)
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	(608 820)

IFRS 4	
Profit and loss account	CU
Net earned premiums	-
Insurance claims and benefits (net)	(5 000 000)
Movement in deferred acquisition costs	-
Interest, dividend and other investment income	127 267
Change in provisions	(2 321 772)
Other income, expenses	(58 800)
Taxes (ignored for simplicity)	
Net result for the period	(7 253 305)
Other comprehensive income	
Investment income	
Total other comprehensive income	
Total comprehensive income	(7 253 305)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Measuring insurance obligations

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X2	(8 181 290)	(784 000)	(3 103 735)	(12 069 025)
Changes that relate to current services	-	133 000	-	133 000
Contractual service margin recognised for services provided			-	-
Risk adjustment recognised for the risk expired		133 000		133 000
Experience adjustments				
Changes that relate to future services	(3 797 769)	-	3 165 810	(631 959)
Contracts initially recognised in the period				
Changes in estimates reflected in the contractual service margin	(3 165 810)		3 165 810	-
Changes in estimates resulting in onerous contract losses/(reversal)	(631 959)			(631 959)
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	(3 797 769)	133 000	3 165 810	(498 959)
Insurance finance expenses	(175 053)		(62 075)	(237 128)
Total changes in the statement of comprehensive income	(3 972 822)	133 000	3 103 735	(736 087)
Cash flows	5 058 800			5 058 800
Insurance contract liabilities 20X3	(7 095 313)	(651 000)	0	(7 746 313)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Analysis of insurance obligations

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X2	(12 069 025)			(12 069 025)
Insurance revenue	5 373 622			5 373 622
Insurance service expenses	(181 822)	(631 959)	(5 058 800)	(5 872 581)
Incurred claims and other expenses			(5 058 800)	(5 058 800)
Amortisation of insurance acquisition cash flows	(181 822)			(181 822)
Losses on onerous contracts and reversals of those losses		(631 959)		(631 959)
Changes to liabilities for incurred claims				
Investment components				
Insurance service result	5 191 800	(631 959)	(5 058 800)	(498 959)
Insurance finance expenses	(237 128)			(237 128)
Total changes in the statement of comprehensive income	4 954 672	(631 959)	(5 058 800)	(736 087)
Cash flows				
Premiums received	-			-
Claims and other expenses paid			5 058 800	5 058 800
Insurance acquisition cash flows	-			-
Total cash flows	-		5 058 800	5 058 800
Insurance contract liabilities 20X3	(7 114 353)	(631 959)	-	(7 746 313)

There may be rounding differences in this table

Practical example – IFRS 4 vs IFRS 17

Key take aways

- ▶ Changes in current period directly in P&L (same as now)
- ▶ Changes in future financial assumptions immediately in P&L (**before it happens**)
- ▶ Changes in future operating assumptions impact CSM and then indirectly P&L (proportionally to relative release of CSM in current period)
- ▶till there is still CSM... when CSM is fully released then immediate loss in P&L with explicit monitoring in financial statements

Agenda

- General model
 - Initial measurement
 - Subsequent measurement
 - Comparison of IFRS 4 and IFRS 17
- Premium allocation approach
- Variable fee approach

IFRS 17 proposed accounting model

	Liability for remaining coverage	Liability for Incurred claims
General model	Expected future cash flows	Expected future cash flows
	Time value of money	Time value of money
	Risk adjustment	Risk adjustment
	Contractual Service margin	

- ▶ CSM = 0 at the end of coverage period

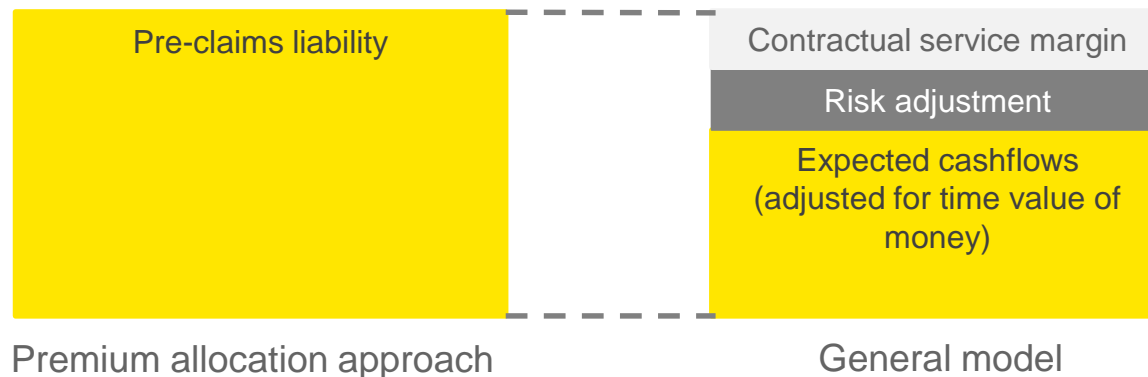
	Liability for remaining coverage	Liability for Incurred claims
Premium allocation approach (PAA)	Pre-claims liability (unearned premium)	Expected future cash flows
		Time value of money
		Risk adjustment

Premium Allocation Approach

- ▶ It is not mandatory approach, only optional replacement of the General model
 - ▶ Current expectation is that most general insurers would use the PAA, where possible

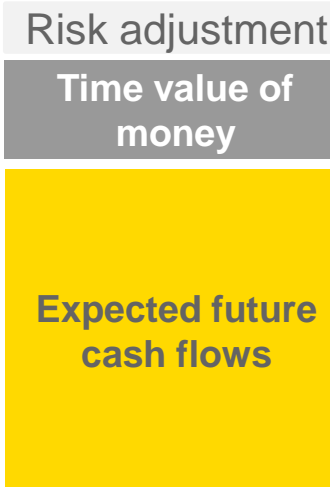
The PAA can be used if:

- ▶ Contract coverage period is one year or less, **or**
- ▶ PAA produces a reasonable approximation of the general model:
 - ▶ at contract inception, expects **no significant variability** in the fulfilment cash flows of the contract, during the period **before a claim is incurred**.
 - ▶ variability in the fulfilment cash flows **increases** with the extent to which CFs relate to **options and guarantees**, and with the **length of the coverage period**



Liability for incurred claims

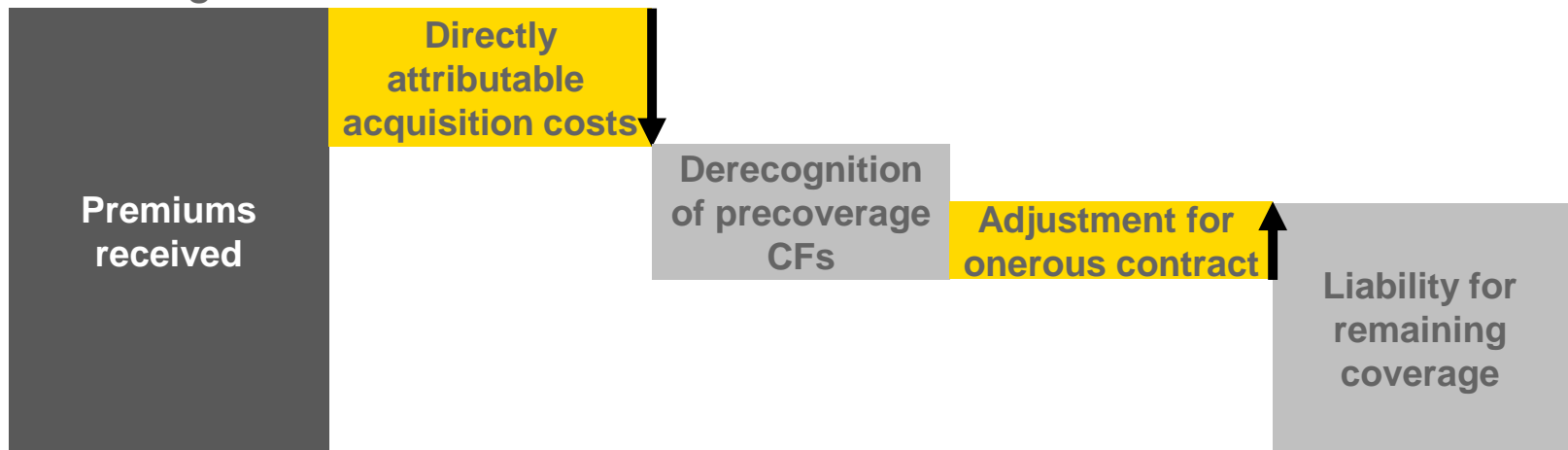
- ▶ Using standard General model approach with the (optional) exception:
 - ▶ If future cash-flows are expected to be paid/received in one year time horizon, they need not be adjust for time value of money
- ▶ Locked-in discount rates (determined at the date of the incurred claim), if an entity chooses to disaggregate insurance finance income or expenses between P&L and OCI
- ▶ If not, at least storage of last period FCFs and discount rate for unwinding and change of discount rate impact
- ▶ Risk adjustment (same as for General model) shall be calculated explicitly, shall take into account the diversification effect and entity's risk appetite



Liability for remaining coverage

Initial measurement

- ▶ Approach similar to the existing UPR approach
- ▶ An initial estimate is made of the remaining coverage obligation on day one of writing the contract



- ▶ Revenue for the period is the amount of the expected premiums receipts allocated over time in line with release of coverage („earned premium“)
 - ▶ On the basis of passage of time („pro-rata temporis“), unless pattern of risk release is significantly different
- ▶ Retrospective approach -> onerous contract test necessary („LAT“)

Liability for remaining coverage

Subsequent measurement

- ▶ At the end of each subsequent reporting period, the carrying amount of liability for remaining coverage is calculated as follow:



- ▶ There are another (optional) exceptions:
 - ▶ It is not required to adjust the liability for remaining coverage (initial and subsequent measurement), if the entity expects that the **time between** providing each part of the **coverage** and the related **premium due** date is **no more than a year** (no significant financing component)
 - ▶ In other words the contract with at least annual premiums can be **measured without discounting effect** even if the contract has **coverage period longer than 1 year**
 - ▶ For contracts with coverage period up to one year, acquisition costs can be recognized as a expense when occurred instead of being deducted from the liability

Example – PAA

- ▶ The entity's annual reporting period ends on **31 December** each year and the entity prepares interim financial statements as of **30 June** each year.

Initial information

- ▶ An entity issues insurance contracts on 1 July 2021 ending on 30 June 2022. At initial recognition the entity **receives premiums of CU2500** and to pays directly attributable **acquisition cash flows of CU500**.
- ▶ During the coverage period, the facts and circumstances indicate that the insurance contract **is not onerous**.

Additional information

- ▶ The entity chooses **not to recognize** the insurance **acquisition cash flows as an expense** when it **incurs**.
- ▶ The claims **are expected to be paid within one year** after the claims are incurred (however discounting is used).
- ▶ The contract **does not have** a significant financing component.

Example – PAA

- ▶ The entity's annual reporting period ends on **31 December** each year and the entity prepares interim financial statements as of **30 June** each year.

Subsequent information

- ▶ 1. During period ending on 31 December 2021 there were **claims incurred of CU600 (CU579 discounted)** with a **risk adjustment** for non-financial risk related to those claims **of CU36**.
- ▶ 2. For the six-month reporting period ending on 30 June 2022 there were **claims incurred of CU400 (CU386 discounted with no change to discount rate from previous period)** with a **risk adjustment** for non-financial risk related to those claims **of CU24**.
- ▶ 3. On 31 August 2022, the entity revises its estimates related to **all claims** and settles them **by paying CU1070**.

Example – PAA

IFRS 17	31.12.2021	30.6.2022	31.12.2022
Liability for remaining coverage			
Opening balance	0	1125	0
Premium received	2500	0	0
Insurance revenue	-1250	-1250	0
Amortization of acquisition costs	125	125	0
Insurance acquisition cash flows	-250	0	0
Closing balance	1125	0	0
Liability for incurred claims			
Opening balance	0	615	1025
Insurance service expenses	615	410	45
Estimates of present value of future cash flows	579	386	105
Risk adjustment for non-financial risk	36	24	-60
Claims and other expenses paid	0	0	-1070
Closing balance	615	1025	0

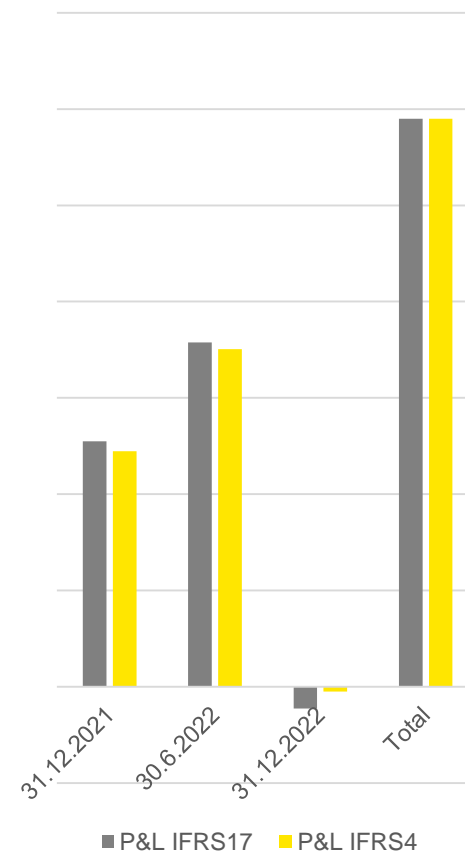
IFRS 4	31.12.2021	30.6.2022	31.12.2022
Liability for remaining coverage			
Opening balance	0	1125	0
Premium written	2500	0	0
Premium earned	1250	1250	0
DAC	125	0	0
Receivables	0	0	0
Closing balance	1125	0	0
Liability for incurred claims			
Opening balance	0	636	1060
Liability for incurred claims	636	424	10
Estimates of claims reserves	600	400	70
<i>implicit risk adjustment</i>	36	24	-60
Claims and other expenses paid	0	0	-1070
Closing balance	636	1060	0

Example – PAA

P&L IFRS 17	31.12.2021	30.6.2022	31.12.2022	Total
Insurance revenue	1250	1250	0	2500
Incurred claims	-615	-389	-10	-1014
Acquisition costs	-125	-125	0	-250
Onerous contracts	0	0	0	0
Insurance service result	510	736	-10	1236
Investment income	0	0	0	0
Insurance finance income and expenses	0	-21	-35	-56
Net financial result	0	-21	-35	-56
P&L	510	715	-45	1180

P&L IFRS 4	31.12.2021	30.6.2022	31.12.2022	Total
Premium earned	1250	1250	0	2500
Change in provision	-636	-424	1060	0
Claims and other expenses paid	0	0	-1070	-1070
Movement in DAC	-125	-125	0	-250
URR reserve	0	0	0	0
Interest, dividend and other investment income	0	0	0	0
P&L	489	701	-10	1180

P&L Comparison



Agenda

- General model
 - Initial measurement
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- Premium allocation approach
- Variable fee approach

What is a participating contract

What are participating contracts?

Contracts that have a feature by which the entity shares additional risks and rewards with the policyholder, in some contracts subject to discretion of the entity

- ▶ Profit sharing may be based on specific assets, groups of assets and liabilities, the profit made by a fund or company or an index
- ▶ These are referred to as '**underlying items**'

Examples of contracts that typically are participating contracts:

- ▶ Unit linked contracts
- ▶ With-profit contracts
- ▶ Continental European participating contracts („German“ type)
- ▶ Universal life contracts
- ▶ Index-linked contracts
- ▶ Variable annuity contracts

Measurement of Participating contracts

IASB view on shareholder's share in underlying items: Variable fee for investment-related services

- ▶ Obligation under the contract to pay the policyholder an amount equal to the value of underlying items less a variable fee
- ▶ Variable fee = shareholder's share less any expected cash flows that do not vary directly with the underlying items (e.g. expenses, O&G), included in CSM unlocking
- ▶ CSM release on the basis of passage of time
- ▶ VFA applicable only for direct participating contracts
- ▶ Applicable if three criteria are met:

1

The contractual terms specify that the policyholder participates in a share of a **clearly identified pool** of underlying items (assets or other profit sources)

2

The entity expects to pay to the policyholder an amount equal to a **substantial share** of the fair value returns on the underlying items

3

The entity expects a **substantial proportion** of any change in the amounts to be paid to the policyholder to **vary** with the change in fair value of the underlying items

Clearly identified pool of underlying items does not exist when:

Paragraph B106:

“...return that generally reflects the entity's overall performance and expectations, or the performance and expectations of a subset of assets the entity holds....”

Variable fee approach vs. General model

Simple comparison

- ▶ Fact pattern:
 - ▶ Contract A is in scope of VFA,
 - ▶ Contract B is measured using general model
 - ▶ 90% of investment returns shared with policyholder
 - ▶ The fair value of investments changes with CU 100, liabilities fully duration-matched by investments

Effect on insurance liabilities and Comprehensive Income:

Contract	Fulfilment Cash flows	CSM	Insurance Liability	Comprehensive Income
A	+/-90	+/-10	+/-100	–
B	+/-90	–	+/-90	+/-10

Example – VFA measurement

Fact pattern

- ▶ Single premium contract with premium CU 50,000
- ▶ Duration of contract 3 years
- ▶ Premium invested in fund, Shareholder entitled to 10% of return
- ▶ Expected investment returns at inception = 5% p.a. (also discount rate)
- ▶ Surrender value = current value
- ▶ Payment on death = 120% of current fund value
- ▶ Ignore expenses, risk adjustment, tax
- ▶ CSM released evenly to P&L each year

Example – VFA measurement

Initial measurement - CF

► Projection of fund and cash flows

Year	1	2	3
Fund BoP		51 727,5	53 514,7
Premium	50 000,0		
Investment returns	2 500,0	2 586,4	2 675,7
Shareholder share	(250,0)	(258,6)	(267,6)
Death claims - unit	(522,5)	(540,6)	(559,2)
Maturity value			(55 363,6)
Fund EoP	51 727,5	53 514,7	-
Death claims – non-unit	(104,5)	(108,1)	(111,8)

Example – VFA measurement

Initial measurement - CSM

- ▶ View 1: Consideration of all CF as in general model

CSM at inception	
PV premium	50 000,0
PV maturity value	(47 825,2) (55,363.6) disc @ 5% for 3 years
PV death claims U	(1 471,0)
PV death claims NU	(294,2)
PV FCFs	409,6
CSM	(409,6) Liability shown as negative

- ▶ View 2: Shareholder's share less expenses

Year	1	2	3
Shareholder share	(250,0)	(258,6)	(267,6)
Sum of PV of s/h share	703,8		
PV of death claims NU	(294,2)		
PV FCFs	409,6		
CSM	(409,6)		

Example – VFA measurement

Subsequent measurement - CF

Situation at the end of year 1:

- ▶ Actual return in year 1 = 10%
 - ▶ No change in assumption about future returns
-
- ▶ Actual values at the end of year 1 and projection of fund and cash flows

Year	1	2	3
Fund b/f		53 955,0	55 819,1
Premium	50 000,0		
Investment returns	5 000,0	2 697,8	2 791,0
Shareholder share	(500,0)	(269,8)	(279,1)
Death claims U	(545,0)	(563,8)	(583,3)
Maturity value			(57 747,7)
Fund c/f	53 955,0	55 819,1	-
Death claims NU	(109,0)	(112,8)	(116,7)

Example – VFA measurement

Subsequent measurement - CSM

- ▶ View 1: Consideration of all CF as in general model

CSM development during Year 1	
CSM BoP (A) – from new business	(409,6)
Change in Underlying Items (B)	5 000,0
Change in Fulfilment Cash Flows (C):	(4 721,8)
PV at inception of FCFs	409,6
PV at end of year 1 of FCFs	(53 658,1)
Movement due to cash flows	(49 346,0)
Net impact (D = B + C)	278,2 Allocated to increase CSM
CSM before release to P&L (A - D)	(687,9)
Release to P&L	229,3 1/3 x above balance
CSM EoP	(458,6)

Example – VFA measurement

Subsequent measurement - CSM

► View 2: Shareholder's share less expenses

Year	1	2	3
S/h share at end of year 1	500,0	269,8	279,1
PV of s/h share at end of year 1	1 010,1		
PV of s/h share at inception	703,8		
Increase in value of s/h share	306,2		
Death claims NU	(109,0)	(112,8)	(116,7)
PV death claims NU at end of year 1	(322,2)		
PV death claims NU at inception	(294,2)		
Increase in value death claims NU	(28,0)		
Net impact s/h share less death claims	278,2		

Example – VFA measurement

Subsequent measurement - Revenue

► Calculation of insurance revenue

Revenue calculation at ath end of year 1	CU
Expected claims	109,0 Non-unit death claims ONLY
Expected maintenance expenses	-
Release of risk adjustment	-
Release of CSM	229,3
Allocation of acquisition expenses	-
Insurance revenue	338,3

Example – VFA measurement

Subsequent measurement – P&L

- ▶ Preparation of the Statement of comprehensive income at the end of year 1

Statement of comprehensive income	CU
Insurance revenue	338,3
Insurance service expense	(109,0)
Insurance service result	229,3
Investment income	5 000,0
Insurance finance income and expenses	(5 000,0)
Net financial result	-
Other income, expenses, taxes (ignored for simplicity)	
Profit after tax	229,3
Other comprehensive income	
Investment income	
Insurance finance income and expenses	
Total other comprehensive income	
Total comprehensive income	229,3

Example – VFA measurement

Subsequent measurement – Liabilities

► Insurance contract liabilities roll forward analysis (building blocks)

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0	-	-	-	-
Changes that relate to current services	-	-	229,3	229,3
Contractual service margin recognised for services provided			229,3	229,3
Risk adjustment recognised for the risk expired				-
Experience adjustments				
Changes that relate to future services	687,9	-	(687,9)	-
Contracts initially recognised in the period	409,6		(409,6)	-
Changes in estimates reflected in the contractual service margin	278,2		(278,2)	-
Changes in estimates resulting in onerous contract losses/(reversal)				
Changes that relate to past services	-	-	-	-
Adjustments to liabilities for incurred claims				
Insurance service result	687,9	-	(458,6)	229,3
Insurance finance expenses	(5 000,0)	-	-	(5 000,0)
Total changes in the statement of comprehensive income	(4 312,1)	-	(458,6)	(4 770,7)
Cash flows	(49 346,0)			(49 346,0)
Insurance contract liabilities 20X1	(53 658,1)	-	(458,6)	(54 116,7)

Example – VFA measurement

Subsequent measurement – Liabilities

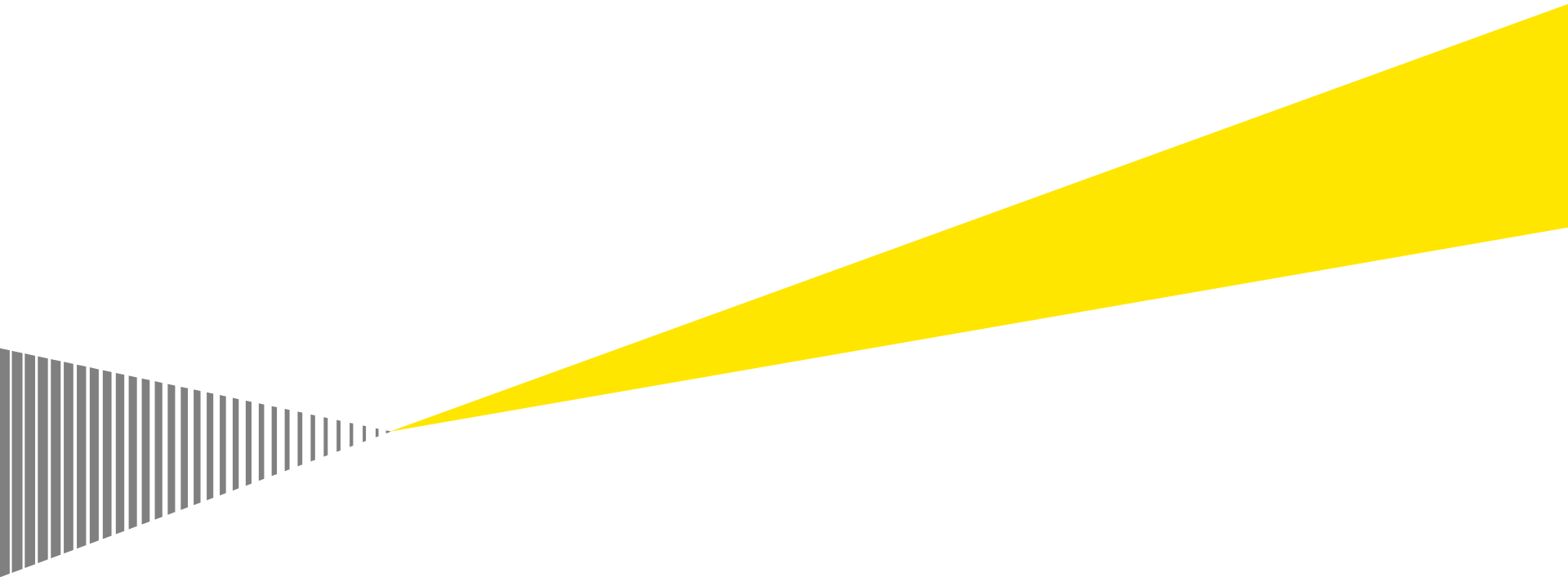
- ▶ Insurance contract liabilities roll forward analysis (type of liabilities)

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
Insurance contract liabilities 20X0	-	-	-	-
Insurance revenue	338,3			338,3
Insurance service expenses	-	-	(109,0)	(109,0)
Incurred claims and other expenses			(109,0)	(109,0)
Amortisation of insurance acquisition cash flows				
Losses on onerous contracts and reversals of those losses				
Changes to liabilities for incurred claims				
Investment components	545,0		(545,0)	-
Insurance service result	883,3	-	(654,0)	229,3
Insurance finance expenses	(5 000,0)			(5 000,0)
Total changes in the statement of comprehensive income	(4 116,7)		(654,0)	(4 770,7)
Cash flows				
Premiums received	(50 000,0)			(50 000,0)
Claims and other expenses paid			654,0	654,0
Insurance acquisition cash flows				-
Total cash flows	(50 000,0)		654,0	(49 346,0)
Insurance contract liabilities 20X1	(54 116,7)	-	-	(54 116,7)

Final Q&As



Thank you for your attention!



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