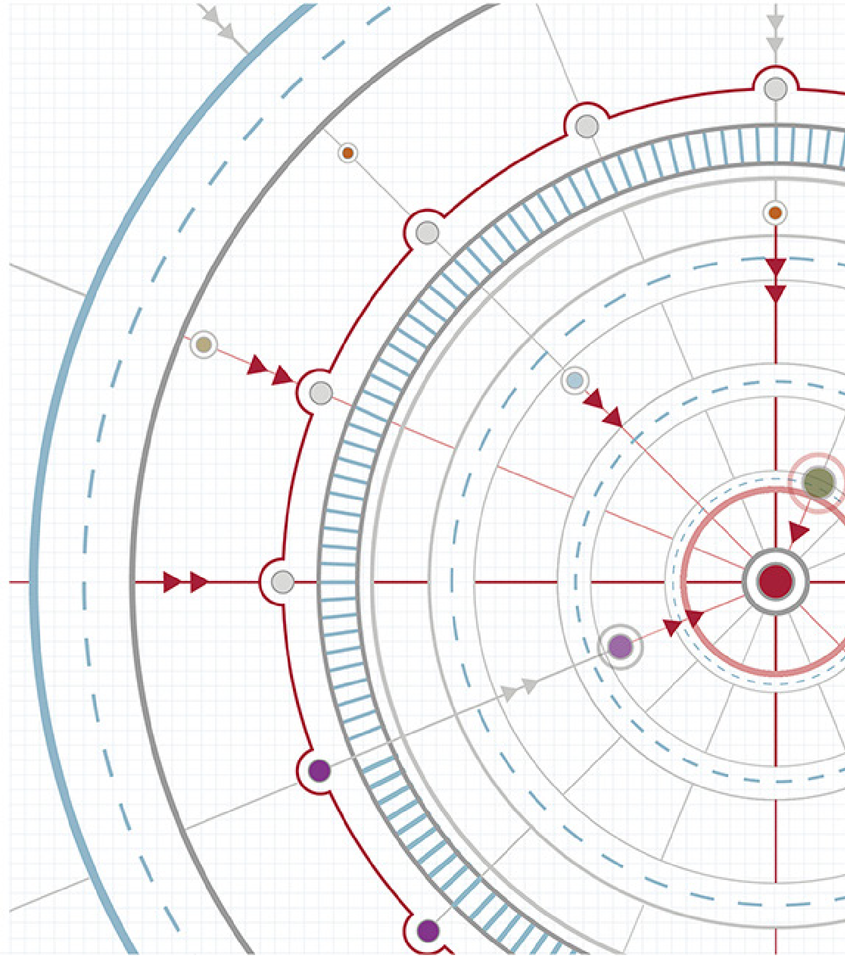

Preparing to regulate the implementation of IFRS 17 *Insurance Contracts*

Vienna, 28 November 2018

Andrea Pryde, Technical Staff
International Accounting Standards Board

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IFRS®

Today's agenda

- Where we are
- Likely effects of IFRS 17
- How IFRS 17 works
- Applying IFRS 17 for the first time
- IASB support for implementation

Where we are

Timing

IFRS 17 timeline

2017

IFRS 17 issued

2018

2019

Disclosure of expected impacts of IFRS 17

Transition Resource Group meetings

2020

Start of IFRS 17 comparative period*

2021

IFRS 17 is effective (1 January 2021)*

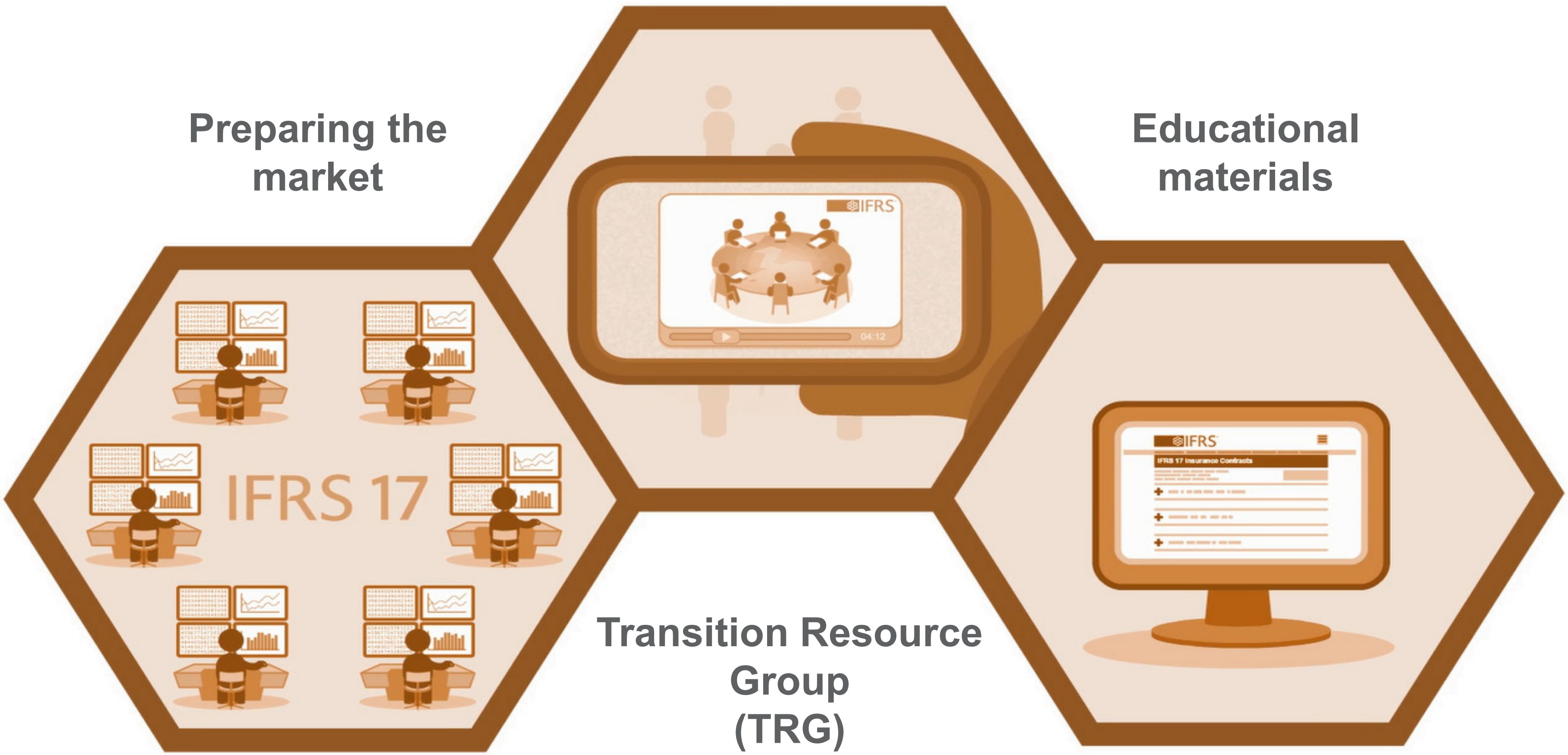
Early application permitted

2022

First IFRS 17 compliant annual reports published*

* proposed deferral to 2022 will be subject to public consultation next year

IASB support for IFRS 17 implementation



What investors think about IFRS 17

Between May 2017 and October 2018

c. 105 meetings	c. 600 investors and analysts
46 buy side, 32 sell side, 19 mixed groups, 8 credit rating agencies	38% Europe, 29% Asia Pacific, 25% Global, 4% Africa, 4% North America

Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures
- Transparency

Areas of concern

- Company-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability

Purpose of the TRG

Public forum for discussion of submitted questions

Helps companies to implement IFRS 17

Helps the Board to identify if more support is needed

3 meetings in 2018

Webcasts, papers and summaries available for each meeting

Next meeting in April 2019

Membership of the TRG

- The members of the TRG include financial-statement preparers and auditors with both practical and direct knowledge of implementing IFRS 17
- An additional three members with observer status represent international security regulators, insurance supervisors and actuarial organisations

9 preparers

- AIA, Allianz, Aviva, AXA
- China Pacific Life, Generali, QBE
- Samsung Life, Sun Life Financial

6 auditors

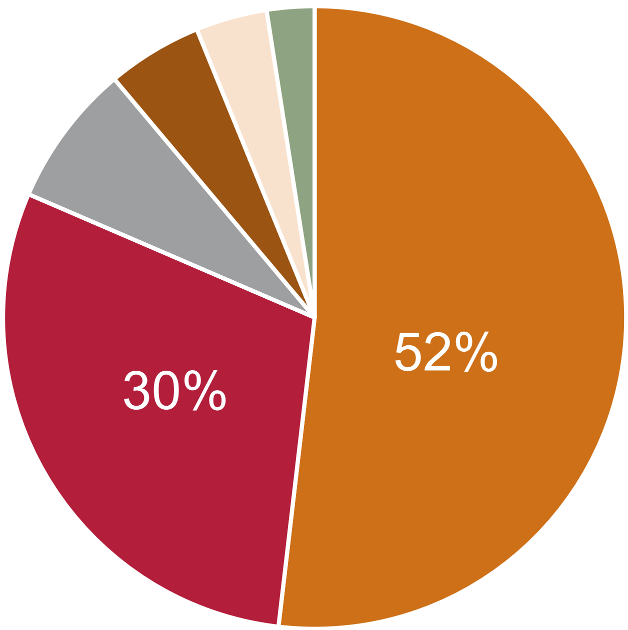
- Deloitte, E&Y, KPMG, PwC
- BDO, Grant Thornton

3 observers

- International Actuarial Association (IAA)
- International Organization of Securities Commissions (IOSCO)
- International Association of Insurance Supervisors (IAIS)

- IASB Board members that attend the TRG are: Martin Edelmann (chair of the TRG), Sue Lloyd and Darrel Scott
- IASB technical staff also participate at the TRG meetings

Overview of submissions received



- 42 - Topic specific TRG papers
- 24 - Answered applying only the words in IFRS 17
- 6 - Did not meet the submission criteria
- 4 - Implementation challenges only
- 3 - Identified annual improvements or editorial corrections
- 2 - Resulted in educational materials

81

submissions as at September 2018

Tools to support implementation

Webinars

Articles and other materials

Conferences

Transition Resource Group (**TRG**)

Education for

- investors
- regulators
- standard-setters

Board discussions

IFRS Interpretations Committee discussions

Informal technical discussions with

- regulators
- standard-setters
- audit firms

Dedicated website page

go.ifrs.org/IFRS-17-implementation

Next steps

- The Board will consider **whether** any concerns and implementation challenges indicate there might be a need to amend IFRS 17. Any amendments would need to meet the following criteria:

1 Avoid significant loss of useful information for users

- Relevance and faithful representation
- Comparability
- Consistency
- Understandability

2 Not unduly disrupt implementation processes under way

Not risk undue delays in the effective date of IFRS 17

Likely effects of IFRS 17

What changes and expected effects

What changes?

More

useful and transparent information

Better

information about profitability

- All insurance contracts measured at current value
- No day-one gain
  - unearned profit presented as part of the insurance contract liability in the balance sheet
  - profit recognised in profit or loss when earned by providing insurance coverage
- Losses recognised in profit or loss as soon as expected

Effects on insurers

Primary business	Likely effects of IFRS 17
Life and health	• Changes in insurance contract liabilities for companies that did not – use current assumptions or – fully consider options and guarantees • Reduction in revenue and expenses for companies that report repayments of deposits as expenses and corresponding premiums as revenue

Effects on insurers (cont.)

Primary business	Likely effects of IFRS 17
Property and casualty	• No significant change in revenue • Liabilities for incurred claims discounted • Explicit risk
Multi-line	• Depends on the mix of insurance contracts
Reinsurance	• Depends on the mix of reinsurance contracts

Other companies potentially affected

Business type	Likely effects of IFRS 17
Banks	• Expected to apply IFRS 9 to financial guarantee contracts • Most common banking agreements do not transfer significant insurance risk
Investment companies	• Issue contracts that are similar to some insurance contracts • Indirectly affected because of the increased comparability between industries
Non-financial companies	• Only affected if issuing insurance contracts • IFRS 17 does not apply to product warranties issued by a manufacturer, dealer or retailer • Option to apply IFRS 15 to some fixed-fee service contracts

How IFRS 17 works

Scope of IFRS 17

1 Insurance contracts

2 Reinsurance contracts held

IFRS 17 and IFRS 4—same definition

IFRS 17 two minor changes to guidance but no expected changes in assessments for majority of contracts

3 Investment contracts with discretionary participation features

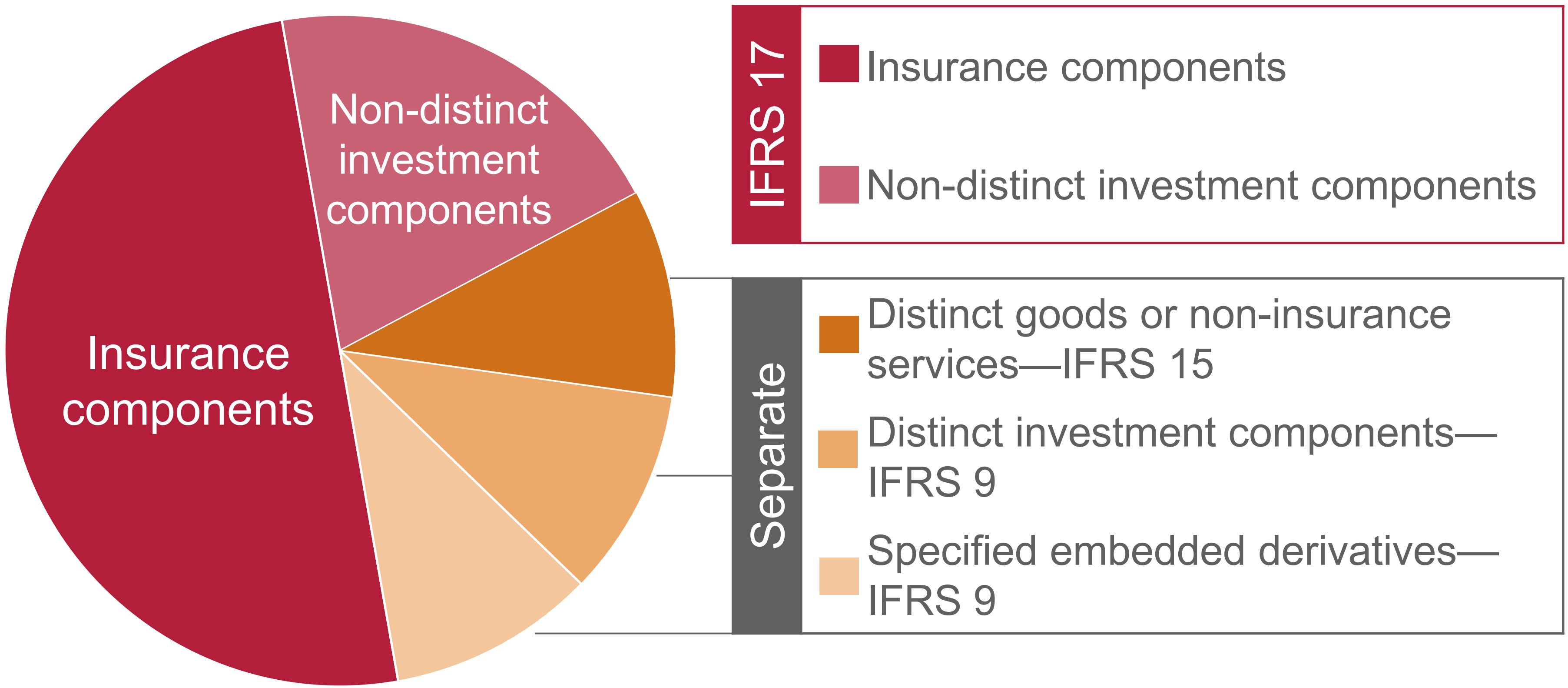
If issued by an entity that issues an insurance contract

Change from IFRS 4

A financial instrument with discretionary payments

What is measured under IFRS 17?

- For measurement purposes, an insurance contract is the cash flows remaining after specified non-insurance components are separated



Implementation hot topic

Does a loan contract that transfers significant insurance risk fall under the scope of IFRS 17?

TRG observations

- A loan contract that transfers significant insurance risk is an insurance contract that contains both a loan and an insurance component
- Applying IFRS 4 some entities account separately for insurance and non-insurance components in such loan contract
- A loan does not meet the definition of an investment component in IFRS 17
- Applying IFRS 17 entities will need to apply IFRS 17 to the contract is its entirety

IFRS 17 accounting model

Balance sheet

Insurance contract liability

Liability for remaining coverage

=

Fulfilment cash flows

Present value of future cash flows	Cash flows
	Discount rates

Risk adjustment

+

Contractual service margin

Profit from coverage to be provided in the *future*

+

Liability for incurred claims

=

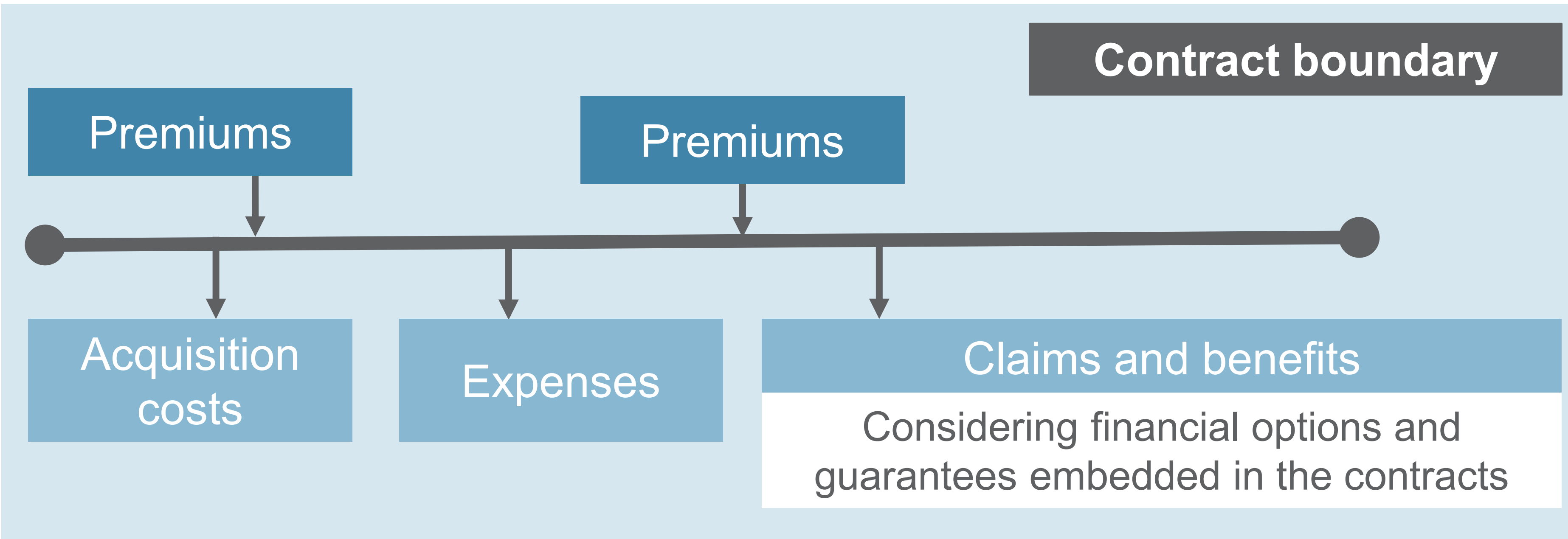
Fulfilment cash flows

Present value of future cash flows	Cash flows
	Discount rates

Risk adjustment

1 Cash flows—the contract boundary

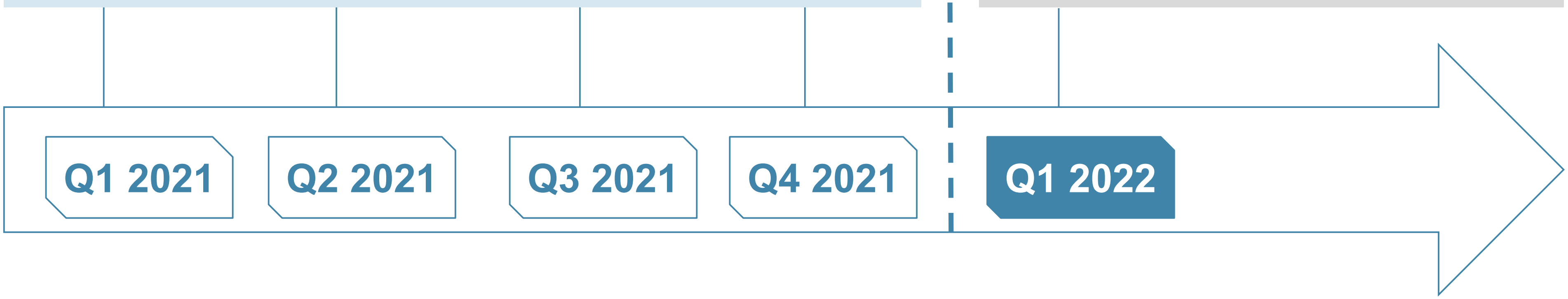
- Current estimates of future cash flows within the contract boundary



1 Determining the contract boundary

Policyholder—right to coverage without any change in premiums (or benefits) or entity—right to collect premiums

Entity—practical ability to reset premiums (or benefits) for 2022(A)



Obligation to settle claims arising from providing coverage in 2021

Cash flows within the contract boundary =
Premiums cash flows for Q1-Q4 2021 +
Claims cash flows arising from providing coverage in 2021

(A) For an assessment at the contract level. An additional criterion must be satisfied when the assessment is at a portfolio level—the pricing of premiums does not take into account risks that relate to periods after the reassessment date.

Implementation hot topic

How should unconditionally paid insurance acquisition cash flows be accounted for when the entity expects future renewals?

TRG observations

- Insurance acquisition cash flows that are directly attributable to individual contracts (or a group) should be included only in the measurement of the group to which the individual contracts belong (or of that group) and not to other groups within the same portfolio
- If a commission is paid unconditionally on the initially written contract it cannot be allocated to future groups recognised on renewal or other groups that do not contain these contracts
  - the commission is included in the measurement of the group to which the initially issued contract belongs

2 Discount rates

Reflect time value of money and financial risks

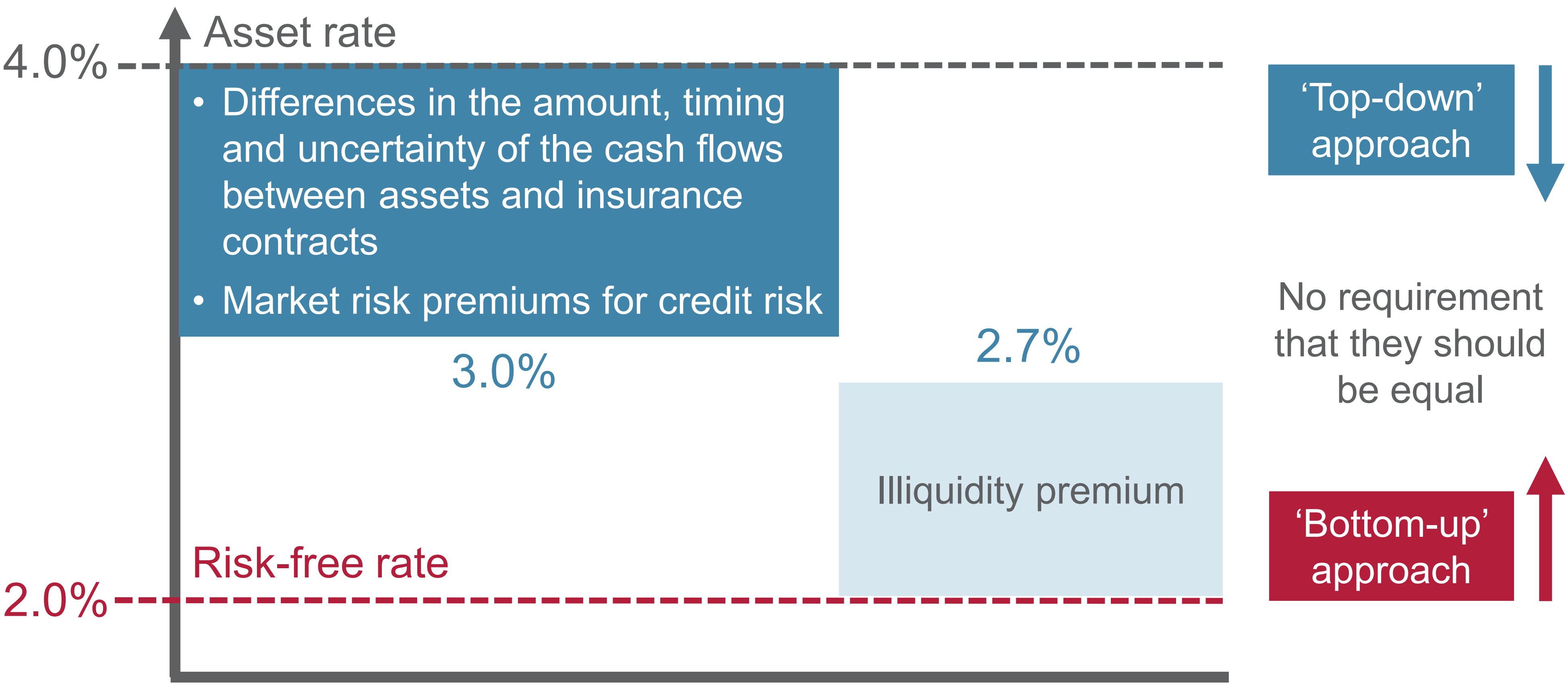
- Characteristics of the cash flows
- Liquidity of the insurance contracts
- To the extent that the financial risks are not included in the cash flows

Consistent with observable market prices (if any)

Timing	Currency	Liquidity

Exclude the effect of factors in the observable market prices not relevant to insurance contracts

Determining discount rates



3 Risk adjustment

- Explicit, current adjustment for the compensation a company requires for bearing non-financial risk (eg insurance risk)
- Compensation that makes a company indifferent between:
  - fulfilling a liability that has a range of possible outcomes; and
  - fulfilling a liability that will generate fixed cash flows with the same expected present value

	Group A		Group B	
	Probability	Pay-off (CU)	Probability	Pay-off (CU)
	0.5	1,000,000	1	500,000
	0.5	0		
Probability-weighted average	(0.5 x 1,000,000) + (0.5 x 0) = **CU500,000**		(1 x 500,000) = **CU500,000**	

Contractual service margin—initial recognition

The unearned profit of the group of contracts that relates to future service to be provided

The amount determined so that no gains are recognised in profit or loss on initial recognition

Example—Consider a group of contracts with PV of future cash flows of CU4,250 and risk adjustment of CU750

If premiums CU5,500	Contracts profitable at inception CSM = CU500 [CU5,500 – CU750 – CU4,250]
If premiums CU3,500	• Contracts onerous at inception • Day-one loss CU1,500 recognised in profit or loss [CU3,500 – CU750 – CU4,250]. No CSM.

Unit of account

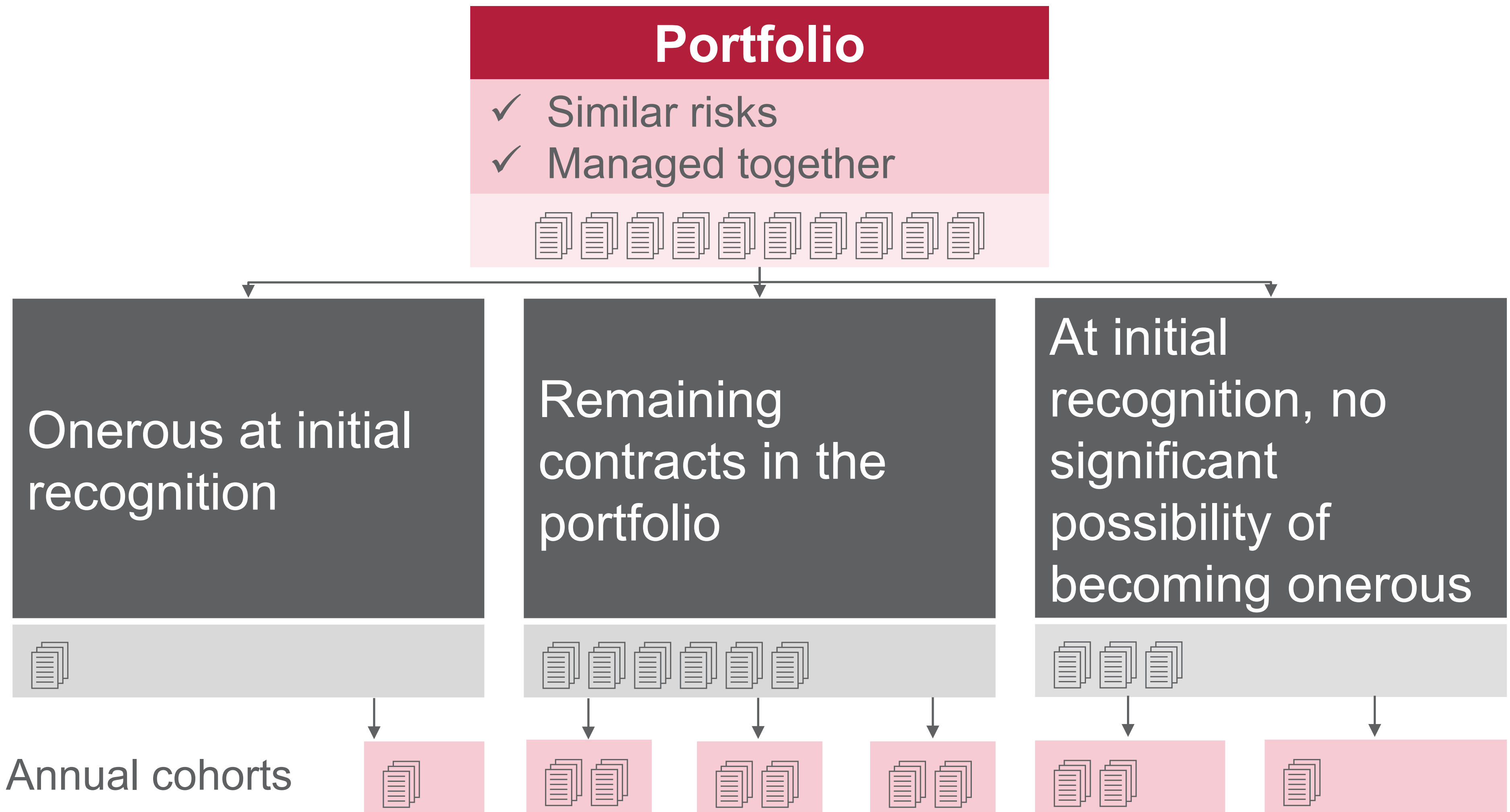
- To determine the fulfilment cash flows expected cash flows can be estimated at any level

Contract level **or** Porfolio level **or** Group level

- Expected cash flows are allocated to different groups of contracts to determine the contractual service margin of each group

The contractual service margin is determined for groups of insurance contracts

How are insurance contracts grouped?



Subsequent measurement

Balance sheet

Insurance contract liability

Liability for remaining coverage + Liability for incurred claims

Liability for remaining coverage =

Fulfilment cash flows[1]
- Present value of future cash flows: Cash flows; Discount rates
- Risk adjustment

+

Contractual service margin
- Profit from coverage to be provided in the *future*[2]

Liability for incurred claims =

Fulfilment cash flows[1]
- Present value of future cash flows: Cash flows; Discount rates
- Risk adjustment[4]

Profit or loss

Insurance service result

Insurance revenue	+	Revenue for coverage provided in the period
	+	Revenue for release of risk adjustment in the period
Insurance service expenses	−	Expected claims and other insurance service expenses
	+/−	Changes in cash flows and in risk adjustment that relate to coverage provided in the *period* and in the *past*[3, 4]

Insurance finance expenses

− Unwind of discount rates

+/− Changes in discount rates[1]

Other comprehensive income *(optional)*

Insurance finance expenses

+/− Changes in discount rates[1]

Notes

[1] The fulfilment cash flows are at current value: cash flows, discount rates and risk adjustment are updated at each reporting date

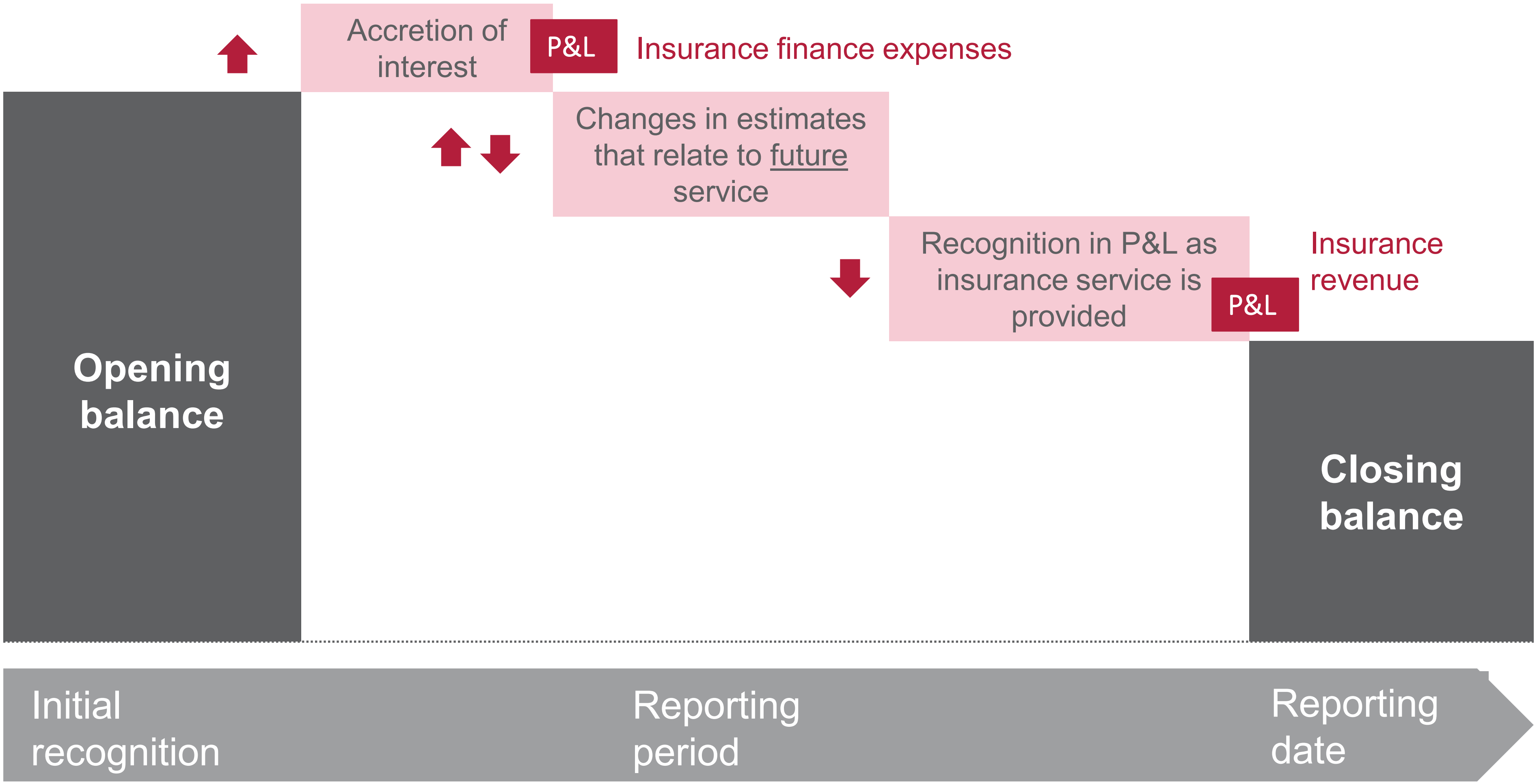
[2] Changes in cash flows and in risk adjustment that relate to coverage to be provided in the *future* adjust the contractual service margin

[3] Changes in cash flows and in risk adjustment that relate to coverage provided in the *period* and in the *past* are recognised in profit or loss

[4] The release of risk adjustment within the liability for incurred claims reduces incurred claims in profit or loss

IFRS

Contractual service margin—subsequent measurement



The contractual service margin balance cannot be negative

Coverage units for allocating the contractual service margin

The recognition in P&L of profits and losses for insurance services is based on **coverage units** in the group

Quantity of benefits

Expected coverage period

Implementation hot topic

How does an entity determine the quantity of benefits for identifying coverage units?

TRG observations

- Judgement and estimates required to best achieve the principle of reflecting the services provided in each period; not an accounting policy choice
- An entity should:
  - reflect different levels of services across periods
  - consider the benefits expected to be received by the policyholder, not the costs of providing those benefits
- Different methods can be used as long as they achieve the objective of reflecting the insurance services provided in each period

Snapshot of IFRS 17 measurement

IFRS 17 measurement model (general model)	+	Modifications for contracts with direct participation features	=	Required variable fee approach
	+	Optional simplifications for short-term contracts	=	Optional premium allocation approach
	+	Modifications for reinsurance contracts held	=	Required accounting for reinsurance contracts held

Variable fee approach

Modifications for contracts with a 'variable fee'

Insurance contract liability

Liability for remaining coverage + Liability for incurred claims

Liability for remaining coverage =

- Fulfilment cash flows
  - Present value of future cash flows
    - Cash flows
    - Discount rates
  - Risk adjustment

\+

- Contractual service margin
  - Profit from coverage to be provided in the *future*
    (including changes in the variable fee)

Liability for incurred claims =

- Fulfilment cash flows
  - Present value of future cash flows
    - Cash flows
    - Discount rates
  - Risk adjustment

- Accounting outcome more consistent with that of asset management contracts
- Scope: contracts that provide a variable fee for investment-related services

1	Policyholder participates in a share of a clearly identified pool of underlying items
2	Insurer expects to pay policyholder a substantial share of the fair value returns on the underlying items
3	Cash flows expect to vary substantially with the change in the fair value of the underlying items

IFRS

Implementation hot topic

How does an entity determine the quantity of benefits for identifying coverage units? (variable fee approach)

TRG observations

- IFRS 17 identifies variable fee approach (VFA) contracts as contracts that provide both insurance services and investment-related services
- For those contracts:

Services	➡	insurance and investment-related services
Benefits	➡	insurance and investment-related benefits
coverage duration	➡	duration of insurance and investment-related services

The Board decided to clarify that coverage period for VFA contracts includes the period in which investment-related services are provided

Premium allocation approach

Simplifications for short-term contracts *(optional)*

Insurance contract liability

Liability for remaining coverage + Liability for incurred claims

Liability for remaining coverage =

Fulfilment cash flows

Simplified measurement based on unearned premiums

Liability for incurred claims =

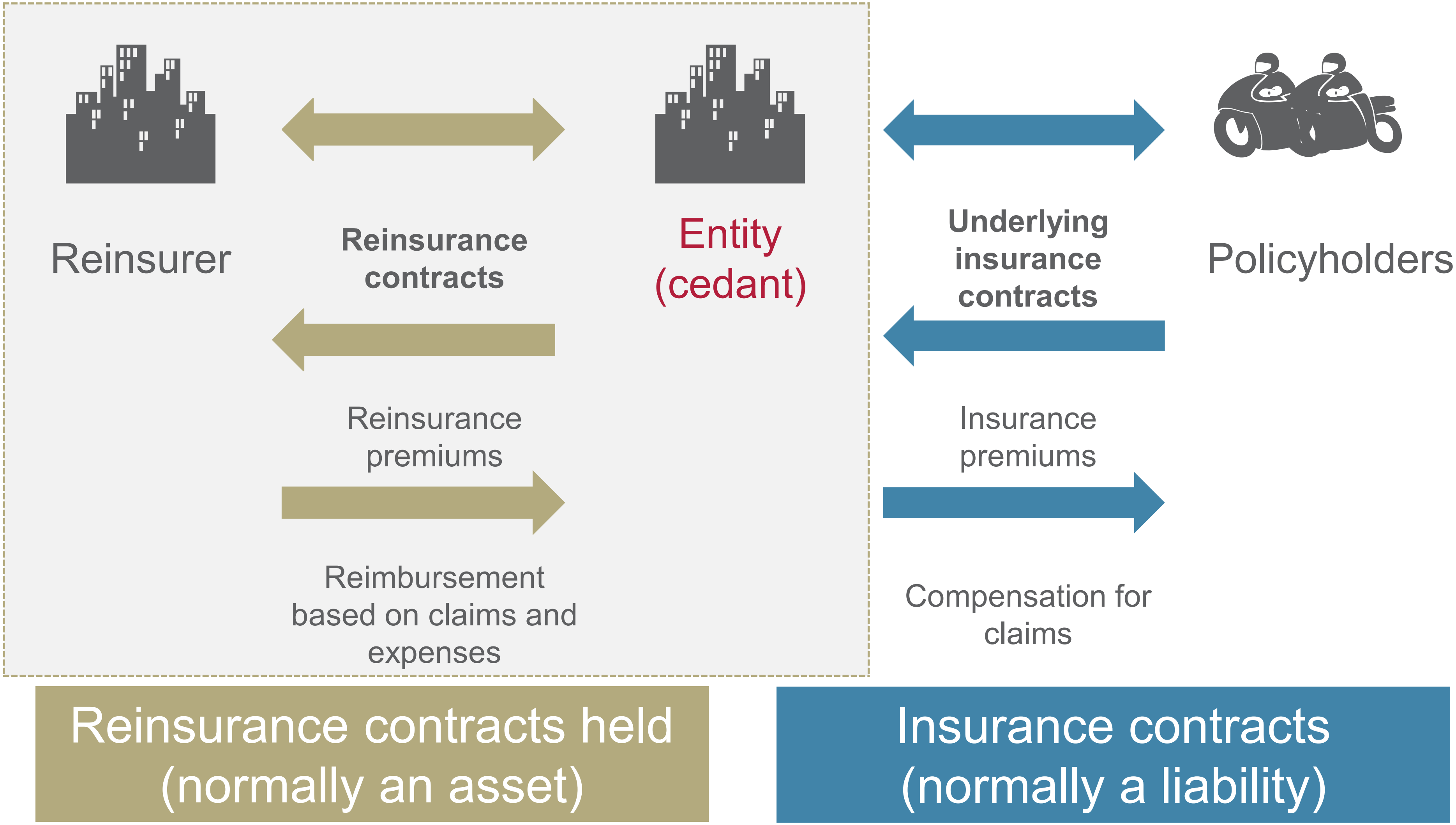
Fulfilment cash flows

Cash flows
(no need to discount if payments of claims due within one year)

Risk adjustment

- Eligibility criteria
  - coverage period of each contract in the group no longer than 1 year; or
  - similar measurement outcome of the general model

Reinsurance contracts held



Reinsurance contracts held—overview

- Separate recognition and measurement for reinsurance contracts held and the underlying insurance contracts to which they relate

- No mirror accounting

- Apply the core requirements to measure fulfilment cash flows
  - use consistent estimates about cash flows, but
  - differences in estimates may arise because of access to different information, and different adjustments for diversification effects

Requirements for reinsurance contracts held

- Reinsurance contracts held are measured separately to the underlying insurance contracts
- Measurement is consistent with insurance contracts
- Measure all expected future cash flows for the reinsurance contract held, including cash flows that relate to underlying insurance contracts that have not been issued yet

Implementation challenge

- Change from common existing practice to ‘mirror’ insurance contracts

Balance sheet presentation

IFRS 4*	IFRS 17
Assets	**Assets**
• Reinsurance contract assets • Deferred acquisition costs • Value of business acquired • Premiums receivable • Policy loans	• Reinsurance contract assets • Insurance contract assets
Liabilities	**Liabilities**
• Insurance contracts liabilities • Unearned premiums • Claims payable	• Insurance contracts liabilities • Reinsurance contract liabilities

(*) Common presentation in the balance sheet in applying IFRS 4

Implementation hot topic

Requirements for balance sheet presentation

- Groups of insurance contracts in an asset position should be presented separately from groups of insurance contracts in a liability position
- To do this, entities need to identify premiums received for each group of insurance contracts

Implementation challenge

- Better IT systems integration is needed:
  - currently, systems that record receivables are separate from systems that record policy information
  - entities can often only identify premiums receivable at an entity level

Performance presentation

IFRS 4*
Premiums
Investment income
Incurred claims and expenses
Change in insurance contract liabilities
Profit or loss

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

Cash based; includes collection of deposits; inconsistent with other industries

Confusing adjustment that incorporates multiple factors

IFRS 17
Insurance revenue
Incurred claims and expenses
Insurance service result
Investment income
Insurance finance expenses
Net financial result
Profit or loss
Insurance finance expenses *(optional)*
Total comprehensive income

Recognised when earned; excludes deposits

Two drivers of profits presented separately

Applying IFRS 17 for the first time

Overview of transition requirements

Applying IFRS 17 for the first time

	PV of future cash flows	Risk adjustment	Unearned profit
Existing contracts (eg contracts written before 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	× Transitional measures
New business (eg contracts written after 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

- Transitional measures (by group of contracts)
  - Full retrospective approach
  - Modified retrospective approach—proxy of full retrospective approach
  - Fair value approach
- Separate disclosures for each transition method

Transition approach by group of contracts

1 Full retrospective approach (apply IAS 8)

if impracticable

2 Modified retrospective approach

- Modifications available if necessary given reasonable and supportable information
- Maximise the use of the information needed for full retrospective approach

Insufficient reasonable and supportable information available

OR

3 Fair value approach

1 Full retrospective approach

- A full retrospective approach measures in-force contracts on the transition date as if an entity had always applied IFRS 17
- The principle of retrospective application is set out in IAS 8

Initial recognition	Each intervening reporting period	Transition date
Calculate the CSM	**Calculate the CSM**	**Calculate the CSM**
• Identify all contracts in each group • For each group determine: – Cash flows – Discount rates – Risk adjustment to calculate opening balance	• Adjust opening balance for changes in – Cash flows – Risk adjustment – Accretion of interest – Allocation to P&L to determine closing balance	• Opening balance

2 Modified retrospective approach

Objective

To achieve an estimate of retrospective application using available reasonable and supportable information

To apply a modified retrospective approach

Use reasonable and supportable information

Maximise use of information that would have been used to apply fully retrospective approach, but need only use information available without undue cost or effort

The extent there is no reasonable and supportable information, use modifications specified

- Assessing contract type, grouping and determining discretionary cash flows
- Determining CSM or the loss component
- Determining cumulative OCI (if an entity chooses OCI presentation)

Implementation hot topic

Requirements for modified retrospective approach

- Maximise use of information that would have been used to apply fully retrospective approach
- The extent there is no reasonable and supportable information, use modifications specified

Implementation challenge

- Modifications specified do not provide enough cost reliefs

3 Fair value approach

- CSM or the loss component of the liability for remaining coverage at transition date is determined as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date

IFRS 13

- Fair value is the price paid to transfer a liability [an exit notion]
- Market (principal, most advantageous market—ie, where an insurer pays less to transfer contracts that are liabilities)
- For the purposes of IFRS 17, fair value measurement is not subject to a deposit floor

Different generations of the same product

Groups of insurance contracts issued:

	Before 20XX	20XX – 20YY	After 20YY
Information required applying IAS 8			Fully retrospective
Reasonable and supportable information to apply modified approach		Modified retrospective or fair value*	
Lack of reasonable and supportable information to apply modified approach	Fair value*		

* At the transition date

IASB support for implementation

Materials available on IFRS Foundation website

Supporting materials on the website

IFRS Foundation website

Supporting materials sorted by Standard

- IFRS Standards
  - IFRS 17
- IFRIC Interpretations
- News and events

go.ifrs.org/IFRS-17-implementation

Series of IFRS 17 webinars and webcasts

2017

1. Introduction to IFRS 17
2. Scope of IFRS 17
3. Measurement essentials of IFRS 17
4. Simplified accounting for contracts with short coverage periods
5. Reinsurance contracts held
6. Recognition and derecognition
7. Transition to IFRS 17

2018

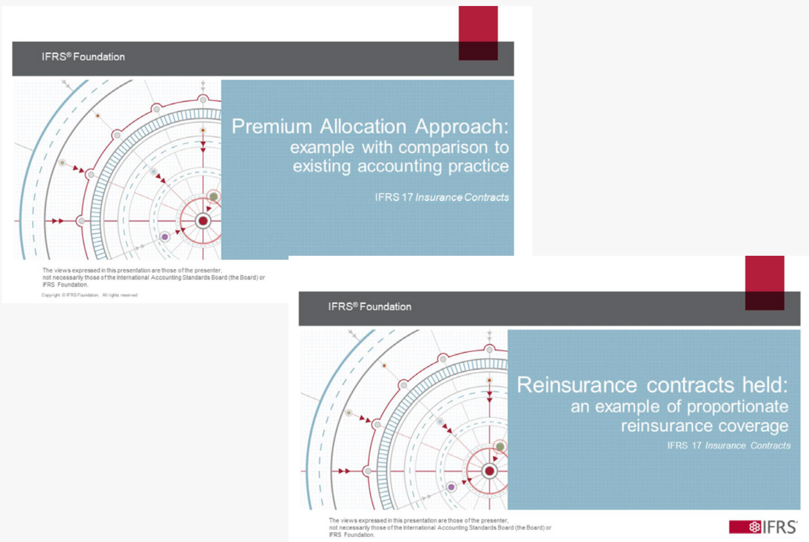
8. Level of aggregation
9. Recognising the contractual service margin in profit or loss
10. Insurance contracts with participation and other features

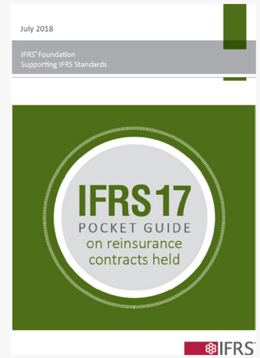
Educational materials June-July 2018

Examples

1 | Premium allocation approach—comparison to existing accounting practice

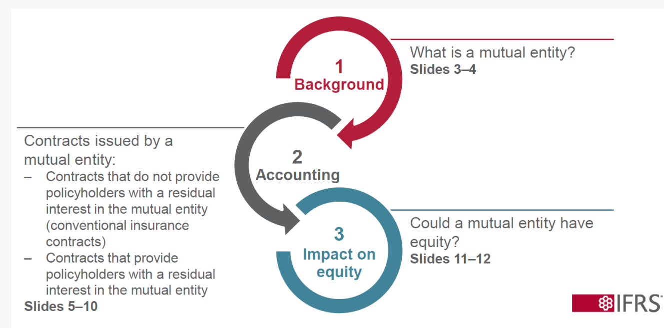
2 | Reinsurance contracts held—proportionate reinsurance coverage





IFRS 17 **pocket guide** on reinsurance contracts held

IFRS 17 and **mutual entities**

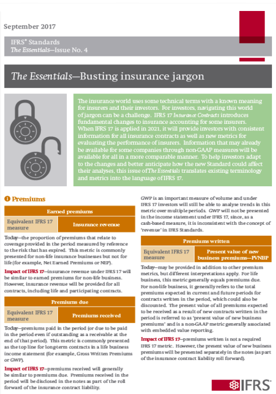


Supporting materials for investors

IFRS 17 for investors

How does IFRS 17 work and what does it mean for investors?

Available on IFRS Foundation website and on IFRS Foundation YouTube channel


September 2017

IFRS Standards
The Essentials—Issue No. 4

The Essentials—Busting insurance jargon

The Essentials for investors—

translates existing terminology and metrics into the language of IFRS 17


April 2018

Investor Perspectives

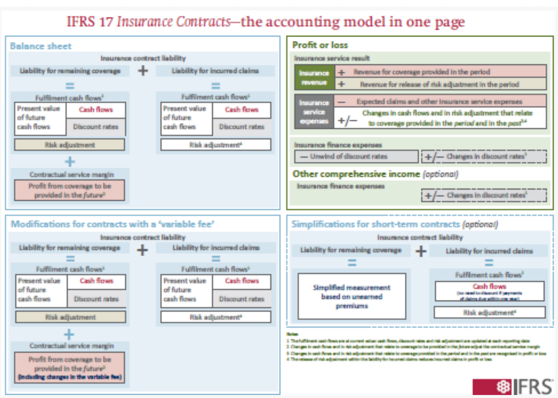
Insurance Contracts
—Accounting to reflect economics

Darrel Scott

Investor Perspectives: Accounting to reflect economics—why the unit of account matters to investors

Other supporting materials

Video explaining three ways the IFRS Foundation supports implementation of IFRS 17

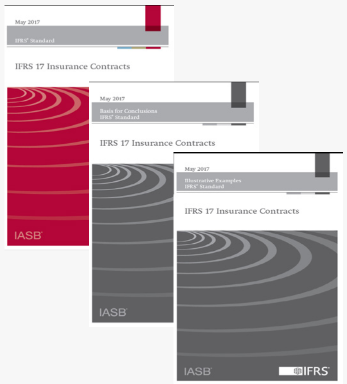


Summary of the IFRS 17 accounting model in **one page**

Board members **articles**

- What investors asks about IFRS 17
- IFRS 17—Help is at hand
- Transitioning to the new IFRS Standard for insurance contracts
- Reducing the gap between insurance and other industries

Materials published in May 2017



- **IFRS 17 Insurance Contracts**—specifies requirements for accounting for insurance contracts
- **Basis for Conclusions on IFRS 17**—summarises the Board's considerations in developing the requirements in IFRS 17
- **Illustrative Examples on IFRS 17**—illustrate aspects of IFRS 17 but provide no interpretative guidance
- **Effects Analysis on IFRS 17**—describes the likely costs and benefits of IFRS 17
- **Project Summary of IFRS 17**—provides an overview of the project to develop IFRS 17
- **Feedback Statement on IFRS 17**—summarises feedback on the proposals that preceded IFRS 17 and explains the Board's response

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