Questions and answers

83

Questions 1a

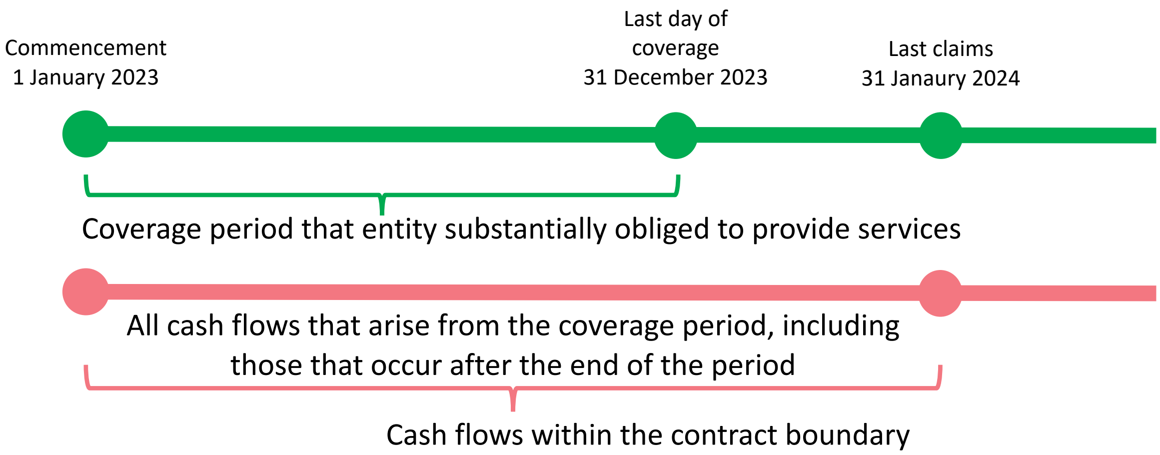
Question regarding the contract boundaries. Please specify in which cases the contract boundary exceed the duration of coverage:

a. When the coverage is valid for 12 months without the option of automatic renewal, with an additional period of 30 days after the end of coverage for submitting applications for the settlement of insurance events that occurred during the coverage period;

84

84

Example Timelines



85

85

Questions 1a

Question regarding the contract boundaries. Please specify in which cases the contract boundary exceed the duration of coverage:

a. When the coverage is valid for 12 months without the option of automatic renewal, with an additional period of 30 days after the end of coverage for submitting applications for the settlement of insurance events that occurred during the coverage period;

» Cash flows within the contract boundary are those that arise from the unavoidable right and obligations within the contract

» Coverage period is the 'period during which the the insurer provides coverage for insured events' that arise from cash flows within the contract boundary

» Cash flows include those arising after the end of the contract boundary

86

86

Questions 1b

Question regarding the contract boundaries. Please specify in which cases the contract boundary exceed the duration of coverage:

b Condition (3) from the Addis Insurance example is met (coverage valid for 12 months with auto-renewal option, however a new price is set by the insurer), but with a grace period without penalties (termination of the contract) for the next

- If the grace period is at:
  - The existing premium,
  - Or can be paid retrospectively (after event has occurred)
- then the coverage period is likely 13 months days.

Questions 2

In the case of applying the GMM model to the calculation of LRC, the insurer does ~~not~~ have an option to not apply discounting for the calculation of LIC with a short (less than 12 months) settlement period of insurance events, do it? Can discounting be neglected due to its immateriality in the case of life insurance where settlement is quick and there is no uncertainty in the sum assured?

- Applying the PAA model, if the claim period is expected to be less then 12 months, then entity can elect not to apply discounting *¶59(b)*
- Applying the GMM model, there is no such relief,
  - If an amount is immaterial, then the calculation is unnecessary
  - However, immateriality would need to be proven at each reporting date

Questions 3

Is the sign on slide 63 (3rd example, the premium is paid at the end of the period) of the closing balance of the period 09.30.2023 correct?

89

89

TRG Example
IFRS 17 (premium paid at end of period)

Reporting Date	01.07.23	30.09.23	31.12.23	31.03.24	30.06.24
Opening balance	0	1 800	4 350	6 900	9 450
Premium on initial recognition[1]	0				
Insurance acquisition cash flow[2]	1 800				
Premiums received in period[3]		0	0	0	(12 000)
Amortisation of acq. cash flow[4]		(450)	(450)	(450)	(450)
Insurance revenue applying[5]		3 000	3 000	3 000	3 000
Closing balance	1 800	4 350	6 900	9 450	0

[1] Paragraph IFRS 17.55(a)(i), [2] Para 17.55(a)(ii), [3] Para 17.55(b)(i), [4] Para 17.55(b)(iii), [5] Para 17.55(b)(v) and 17.B126

Refer slide 63

90

90

Questions 4

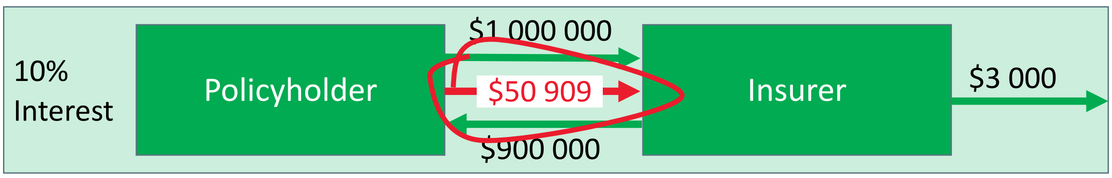
Slide 8 and 37 deals with risk premium and risk margin (in video). On the slide 37 risk margin was used as synonym for risk adjustment for non-financial risk. Does it means the same for the slide 8? Or otherwise what does the red arrow with risk premium means? Is this the real separate cash flow or a part of incoming cash flows included in $1 mln.?

91

91

Example

» Insurer writes 100 car contracts and expects that:
  - » Interest rate is 10%
  - » It pays $3 000 in car inspection costs on 1 January for all contracts
  - » Policyholders pay an annual premium of $10 000 each on 2 January
  - » Total risk premium is $50 909
  - » Insurer expects claims of $75 000 per month ($900 000 in total)



Refer slide 8

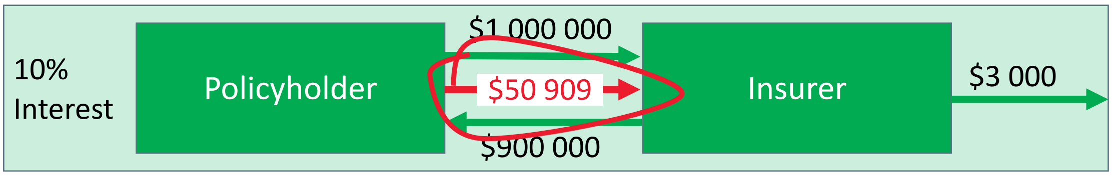
92

92

Example
Balance sheet at 2 January 2022

Dr/(cr)	Cash	Acq asset	Insure liab.
Acquisition cost paid	-3 000	3 000	
Premium received	1 000 000		-1 000 000
Acquisition cost subsumed		-3 000	3 000
2 January Total	**997 000**	**0**	**-997 000**

No entry necessary for Risk margin



Refer slide 37

56

93

Questions 4

Slide 8 and 37 deals with risk premium and risk margin (in video). On the slide 37 risk margin was used as synonym for risk adjustment for non-financial risk. Does it means the same for the slide 8? Or otherwise what does the red arrow with risk premium means? Is this the real separate cash flow or a part of incoming cash flows included in $1 mln.?

- The red arrow is intended to refer explicitly to the risk adjustment for non financial risk
- The red arrow is not a real cash flow, instead it refers to the value of non financial risk value transferred under the contract.
  - Because it is defined as the compensation demanded for risk by the insurer, it is implicitly included in the pricing and therefore the $1m

94

94

Questions 5

B123A deals with the derecognition rules for asset cash flows (only asset) other that acquisition cash flows at the date of initial recognition (with the recognition of insurance revenue and expenses for the amount derecognized at that date). &B66A and 38(c)(ii) deals with an asset and liability for cash flows related to the group of insurance contracts other that acquisition cash flows. On the slide 35 there are journals for the derecognition of such assets for PAA without recognition of insurance revenue and expenses for the amount derecognized at that date. The questions are:

- Is the model for derecognition of assets and liabilities other than acquisition cash flows the same for GMM and PAA?

95

95

Other assets or liabilities

» Other assets or liabilities recognised applying other IFRSs
  » For example, if insurer pays annually a lawyer an annual retainer in advance for claims management; or
  » Incurs but does not pay a liability eg for printing of blank contracts
» The journal would be similar as for acquisition expenses:

	Debit	Credit
Prepaid expense asset (retainer) – 1 January	3 000	
Cash		3 000
Insurance contract liability (2 January)	3 000	
Prepaid expense asset		3 000

Refer slide 35

96

96

Questions 5a

Is the model for derecognition of assets and liabilities other than acquisition cash flows the same for GMM and PAA?

	GMM	PAA
Initial recognition	Derecognise assets and liabilities and record in insurance liability (liabilities likely LIC)	
Subsequent recognition	Record asset in revenue and expense *¶123A*	Record asset in revenue and expense *¶123A and ¶B126*
Subsequent recognition	CSM reduced to reflect expanse related to liability *¶38(c)(ii)*	Transfer to LIC triggers expense, revenue calculated under *¶B126*

97

97

IFRS 17

B125 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.

B123A To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.

98

98

Questions 5b and c

- If for the first question the answer is yes, how it matches with the rule in & B123A?
- B123A deals only with the derecognition rules for asset cash flows other than acquisition cash flows. How to derecognize liabilities for cash flows other than acquisition cash flows?

99

99

Assets and liabilities derecognised at initial recognition

	Acquisition costs	Other assets	Other liabilities
Initial recognition	Transfer asset to insurance liability *¶55(a)(iii)(1)*	Transfer asset to insurance liability *¶55(a)(iii)(2) and ¶B66A*	Transfer liability to insurance liability *¶55(a)(iii)(2) and B66A*
Subsequent recognition	Allocate to expenses and revenue over time *¶B125*	Allocate to expenses and revenue on initial recognition *¶123A*	Allocated to LIC when for service already provided*, expensed at that time 55(b)(vi)

LIC: An entities obligation to … pay amounts that relate to insurance contract services that have already been provided

100

100

Questions 5d

Please provide an example of such asset and liability for cash flows related to the group of insurance contracts other that acquisition cash flows.

- Examples of non-acquisition assets:
  - Prepayment for any directly related expenses eg payment to a broker managing the client
  - Expenses paid in advance for multiple groups
- Examples of liabilities
  - Incurred obligation to pay any expenses including those that also result in asset eg account from broker above that is due and payable

101

Example
Other assets

	Debit	Credit
Prepaid expense asset (retainer) – 1 January	3 000	
Cash		3 000
Insurance contract liability (2 January)	3 000	
Prepaid expense asset		3 000
Insurance service expense	3 000	
Insurance contract liability (2 January)		3 000

Refer slide 35

102

Example
Liabilities

	Debit	Credit
Prepaid expense asset (retainer) – 1 January	3 000	
Creditor (lawyer)		3 000
Insurance contract liability (LCC)	3 000	
Prepaid expense asset		3 000
Creditor (lawyer)	3 000	
Insurance contract liability LIC		3 000
Insurance service expense	3 000	
Insurance contract liability (LCC)		3 000
Insurance contract liability (LIC)	3 000	
Cash		3 000

Refer slide 35

103

Questions 6

In the last version of IFRS 17 there are no liabilities for acquisition cash flows, only assets. I think there must be only assets for acquisition cash flows on the slide 28

Correct, however there can be a pre-recognition liability eg the liability to pay for broker fees

55. Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

 (a) on initial recognition, the carrying amount of the liability is: …(iii) plus or minus any amount arising from the derecognition at that date of: ….2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

104

Questions 7

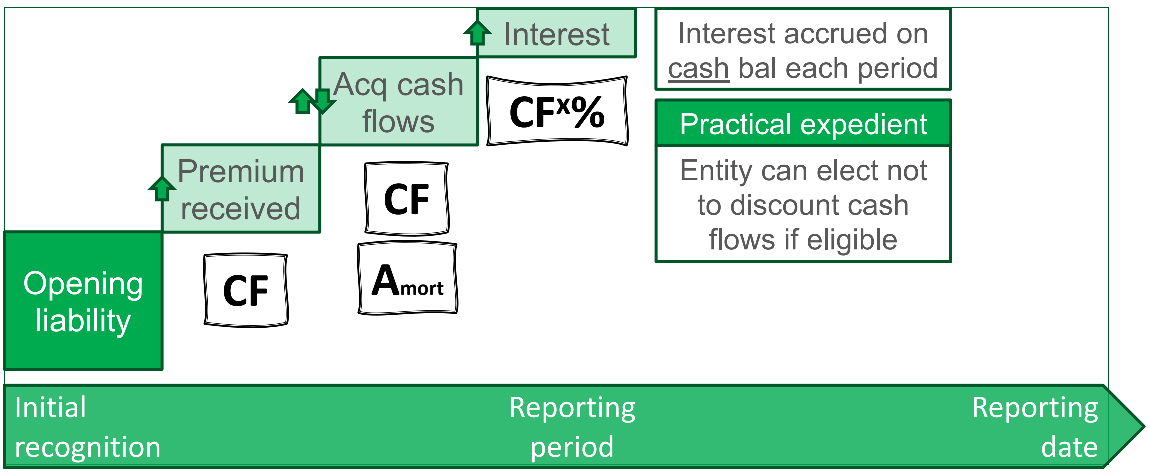
Slide 42. "Interest accrued on cash bal each period". What cash do you mean: premiums or ACF or both? If both, accrual on ACF is financial income by itself. Should we offset it with accrual on premiums, which is financial costs? Where we should present the result (financial costs or income) if the premium is not yet received, but we have already paid ACF.

105

105

Premium allocation approach

Simplifications - subsequent measurement



Refer slide 42

106

106

Questions 7

Slide 42. "Interest accrued on cash bal each period". What cash do you mean: premiums or ACF or both? If both, accrual on ACF is financial income by itself. Should we offset it with accrual on premiums, which is financial costs? Where we should present the result (financial costs or income) if the premium is not yet received, but we have already paid ACF.

» Interest if calculated is applied to the composite balance of the insurance liability

» If interest is applied then amounts need to be corrected for time value of money, eg for annual premium received at inception of $1million, the time value of money effect is $54 991, thus premium received will be reflected as $1 054 991 and interest expense would be reflected as $54 991 (see next slide)

107

107

Example
Interest accrual

» Insurer receives premium of $1 million in advance on a 12 month contract.

» Monthly balance roll forward from contract inception (1 January):

	1 Jan	31 Jan	28 Feb	31 Mar
Opening balance	1 000 000	1 000 000	920 417	840 172
Interest	-	8 333	7 670	7 001
Revenue recognised	-	-87 916	-87 916	-87 916
	30 Sep	**31 Oct**	**30 Nov**	**31 Dec**
Opening balance	344 458	259 412	173 658	87 189
Interest	2 870	2 162	1 447	727
Revenue recognised	-87 916	-87 916	-87 916	-87 916

108

108

Questions 8

Slide 43. Why journals 0, not 42617?

109

Example
6 months to June on one year contract

» Interest is at 10%, amounts to $42 617 for the 6 months

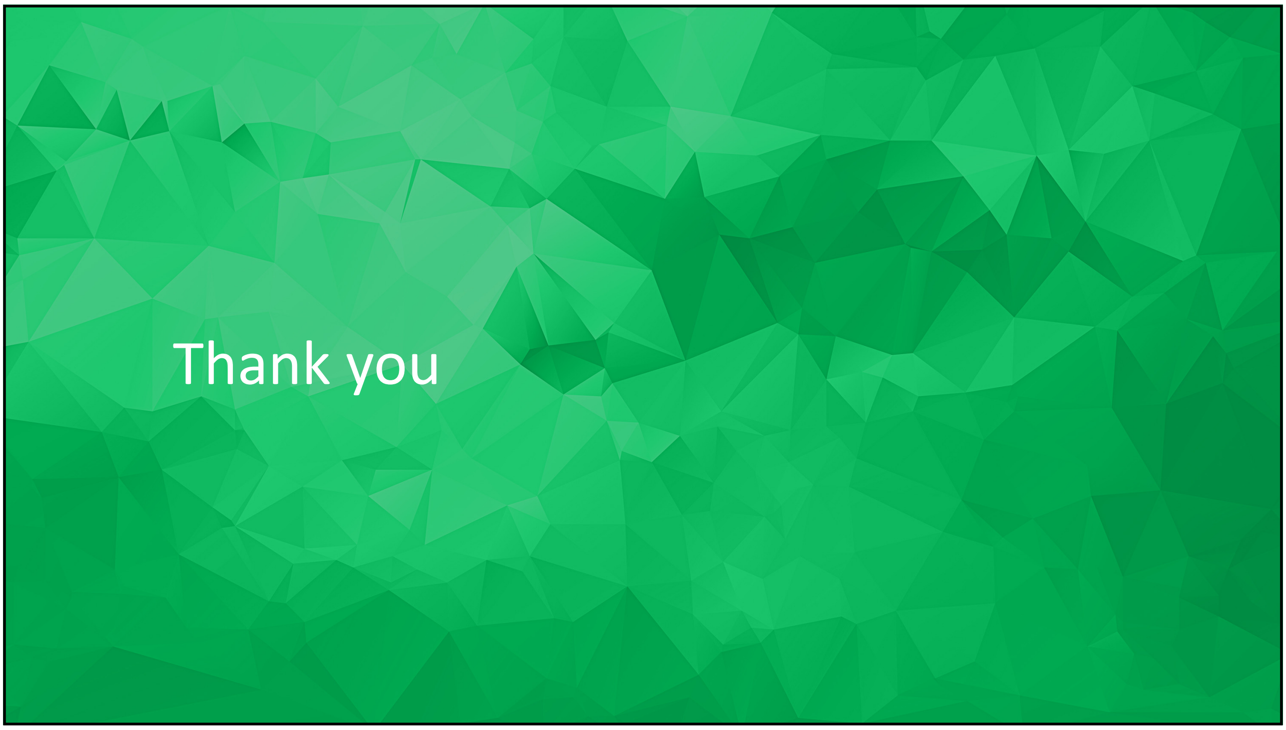
	Debit	Credit
Interest paid	0	
Insurance liability		0

	Debit	Credit
Interest paid	42 617	
Insurance liability		42 617

What is the Journal for 1st half interest expense?

Refer slide 43

110



111