IFRS 17
Insurance Contracts

Darrel Scott

March 2023

National Bank of Ukraine

1

Disclaimer

This course contains copyright material of the IFRS® Foundation in respect of which all rights are reserved. Reproduced by Darrel Scott with the permission of the IFRS Foundation. No permission granted to third parties to reproduce or distribute. For full access to IFRS Standards and the work of the IFRS Foundation please visit http://eifrs.ifrs.org

The International Accounting Standards Board® (IASB), the IFRS Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting or refraining from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Unless specified otherwise, the accounting requirements that are the subject matter of this presentation are the IFRS Standards as issued by the IASB that are applicable on or after 1 January 2023

The views expressed in this presentation are my own and not necessarily those of any organization with which I am associated.

2

Questions and answers

95

Question 1

- IAS 39, IFRS 9 generally excludes from its scope contracts meeting the definition of an insurance contract
- If the contracts are in the scope of IFRS 17, then they will be excluded altogether from the requirements of IFRS 7, IFRS 9 and IAS 32
- It means that impairment of insurance (reinsurance) assets is excluded from the scope of IFRS 9
- But an insurer has to present the insurance (reinsurance) assets in the balance sheet after the appropriate impairment on a net basis

96

96

Question 1(a)

How shall an insurer calculate and charge impairment loss provisions (reserves) for the insurance (reinsurance) assets derived from concluded insurance (reinsurance) contracts?

- Under the GMM model, IFRS 17.63 requires insurer include:
  - The effect of any risk of non-performance by the re-insurer in the present value of the future cash flows for LIC and LRC
  - including the effects of collateral and losses from disputes
- Under the PAA model, IFRS 17.63 applies to measurement of LIC

Expected impairment losses are captured directly in PV of cash flows

97

Question 1(b)

How shall an insurer calculate and charge impairment loss provisions (reserves) for receivables of regresses to other insurers or other persons?

- Similarly, under the GMM model, IFRS 17.33(a) requires an insurer:
  - Includes in the measurement of cash flows all information about the amount, timing and uncertainty of those cash flows
  - This is valid for both LIC and LRC
- Under the PAA model, IFRS 17.33(a) applies to measurement of LIC

Expected impairment losses are captured directly in PV of cash flows

98

Example
Impairment losses

Claim against reinsurer (discount rate of 5%)	Present value	Probability Weighting	Weighted value
1. Claim ($5 000 in 6 months)	4 880	10%	488
2. Claim ($5 000 in 12 months)	4 762	10%	476
3. No claim	0	80%	0
Gross expected cash flow			964
Impairment loss (expected loss)		5%	-48
Credit adjusted present value of future cash flows			916

99

99

Question 1(c)

Could you please tell a few words about how an insurer shall impair capitalized acquisition costs in balance sheet?

- Under the GMM or PAA model, if already captured in measurement of insurance liability:
  - A result of past cash flows, so no probability weighting applies
  - When incorporated, it decreased the liability
  - Subject therefore only to onerous contract measurement

100

100

Initial measurement
Impairment of Acquisition costs in FCF

Simple example: pre recognition acquisition costs 50, no risk margin, immediate premiums of 1 400, claims 1 000, expenses 250

	GMM		PAA	
Journals	Debit	Credit	Debit	Credit
Cash	1 400		1 400	
Insurance liability (claims)		1 000		
Insurance liability (other)		250		1 350
Acquisition expense asset		50		50
Insurance liability (CSM)		100		
Recognition of insurance contract				

101

101

Initial measurement
Impairment of Acquisition costs in FCF

Simple example: p… 50, no risk margin,
immediate premi… nses 250

DAQ has been subsumed into insurance liability, no further impairment considerations

	GMM		PAA	
Journals	Debit	Credit	Debit	Credit
Cash	1 400		1 400	
Insurance liability (claims)		1 000		
Insurance liability (other)		250		1 350
Acquisition expense asset		50		50
Insurance liability (CSM)		100		
Recognition of insurance contract				

102

102

Initial measurement
Impairment of Acquisition costs in FCF

Simple example: pre recognition acquisition costs 250, no risk margin, immediate premiums of 1 400, claims 1 000, expenses 250

	GMM		PAA	
Journals	Debit	Credit	Debit	Credit
Cash	1 400		1 400	
Insurance liability (claims)		1 000		1 000
Insurance liability (other)		250		250
Acquisition expense asset		250		250
Profit or loss	100		100	
Recognition of insurance contract				

103

103

Initial measurement
Impairment of Acquisition costs in FCF

In effect, the whole contract has been impaired, but this impairment takes account of DAQ

Simpl... ition costs 250, no risk margin, imme... 000, expenses 250

	GMM		PAA	
Journals	Debit	Credit	Debit	Credit
Cash	1 400		1 400	
Insurance liability (claims)		1 000		1 000
Insurance liability (other)		250		250
Acquisition expense asset		250		250
Profit or loss	100		100	
Recognition of insurance contract				

104

104

Question 1(c)

Could you please tell a few words about how an insurer shall impair capitalized acquisition costs in balance sheet?

- Under the GMM or PAA model, if already captured in measurement of insurance liability:
  - A result of past cash flows, so no probability weighting applies
  - When incorporated, it decreased the liability
  - Subject therefore only to onerous contract test
- If not yet incorporated into insurance contract liability, then see next slides

105

105

Acquisition cash flow asset
Recognition

- Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.
- Acquisition cash flow asset or liability is recognised when incurred, and derecognised when the group of insurance contracts to which the cash flows are allocated is recognised

IFRS 17 definition, IFRS 17.25 to 28

106

106

Acquisition cash flow asset
Subsequent accounting

» Allocation of part of the insurance acquisition cash flows to expected contract renewals

» Recognition of those cash flows as assets until the company recognises renewals

» Assessment of the recoverability of the assets at each reporting date

107

107

Example
Subsequent accounting

Insurer pays commission of $1 750 on 1 January 2023 for a group of one year contracts, contracts recognised on 1 February 2023, insurer expects 50% will renew in 2024 and 50% of that will renew in 2025

1/1/2023	1/2/2023	1/2/2024	1/2/2025
DAQ Asset $1 750	Insurance liability $1 000 DAQ asset $1 750 - $1 000	Cumulative insurance liability $1 500 $750- $500	Cumulative insurance liability $1 750

108

108

Example
Subsequent accounting - impairment

Insurer pays commission of $1 750 on 1 January 2023 for a group of one year contracts, contracts recognised on 1 February 2023, insurer expects 50% will renew in 2024 and 50% of that will renew in 2025

1/1/2023	1/2/2023	1/2/2024	1/2/2025
DAQ Asset $1 750	Insurance liability $1 000	Cumulative insurance liability $1 500	Cumulative insurance liability $1 750
	DAQ asset $1 750 - $1 000	$750- $500	

109

109

Example
Subsequent accounting - impairment

Insurer pays commission of $1 750 on 1 January 2023 for a group of one year contracts, contracts recognised on 1 February 2023, insurer expects 50% will renew in 2024 and 50% of that will renew in 2025

1/1/2023	1/2/2023	1/2/2024	1/2/2025
DAQ Asset $1 750	DAQ asset $750	$250	

Assets subject to impairment test

110

110

Acquisition cash flow asset
Subsequent accounting - impairment

» Assess recoverability of assets if facts and circumstances indicate the asset may be impaired

» If impairment loss identified, adjust carrying amount and recognise impairment loss in profit or loss

» If impairment conditions subsequently reverse, recognise reversal in profit or loss

IFRS 17.28E and 28F

111

Example
Subsequent accounting - impairment

» If facts and circumstances indicate there may be an impairment, eg
  » Pricing anomalies
  » Claims and persistency experience in initial period
  » Renewals experience

» Test the expected (as yet unwritten) contract groups (including their share of DAQ) for onerousness

» To the extent onerous, impair the DAQ asset

112

Example
Subsequent accounting – impairment

- At inception, entity expects 50% renewals in year 2, expected cash flows:
  - On renewal: premiums 2 500, claims 1 750, share of DAQ 500
  - Subsequently entity expects that only 20% will renew revised cash flows: premiums of 1 000, claims of 700, share of DAQ 500

Income $2 500 | DAQ $500 | Claims $1 750

Inception assumptions

Income $1 000 | DAQ $500 | Claims $700

Revised assumptions

113

113

Example
Subsequent accounting – impairment

- At inception, entity expects 50% renewals in year 2, expected cash flows:
  - On renewal: premiums 2 500, claims 1 750, share of DAQ 500
  - Subsequently entity expects that only 20% will renew revised cash flows: premiums of 1 000, claims of 700, share of DAQ 500

Expected profit ($250) No action

Expected loss ($200) Impair DAQ

Income $2 500 | DAQ $500 | Claims $1 750

Inception assumptions

Income $1 000 | DAQ $500 | Claims $700

Revised assumptions

114

114

Question 2(a)
Salvages

After a car accident, an insurance company knows that it will receive compensation from the person responsible for the accident before paying out the claim. At what moment we are going to recognize that compensation and where (LIC or separate item according to another standard)?

For both PAA and GMM

- » Cash in and outflows arise from the insurance contract
- » The expected compensation is triggered by the claim (which triggers LIC)
- » It reduces the net cash outflow arising from the claim
- » Therefore accounted for as a contra cash flow in LIC

Question 2(b)
Salvages

Sometimes insurance companies provide their debtors (people who need to pay salvages) different conditions of salvages. For example, if you pay now it will cost 100c.u., if you pay during the some period, you will pay more, that is 100c.u.+%. How we account it (separately or as part of insurance liability)? What we have to do with interest, if we use the practical expedient not to accrue interest under PAA?

- » For both PAA and GMM: Accounted for as part of the LIC
- » For PAA with interest expedient: Accounted for as expected cash that will be received, then experience adjustment taken to P&L

Question 3(a)
Excess regulatory reserves

Just to clarify. All the reserves created within the scope and measurement techniques of IFRS 17, will be accounted and presented as part of insurance liability.

Yes, that is exactly right

The difference between the IFRS 17 insurance reserves and the reserves calculated on regulatory requirements is accounted and presented in financial statements as general reserves in capital. Yes or no?

- » Yes, with one small clarification of terminology:
  - » IFRS = Equity
  - » Prudential + Capital

117

117

Question 3(a)
Excess regulatory reserves

Does IFRS 17 contain an exhaustive list of insurance reserves that can be created according to IFRS 17? What are those reserves?

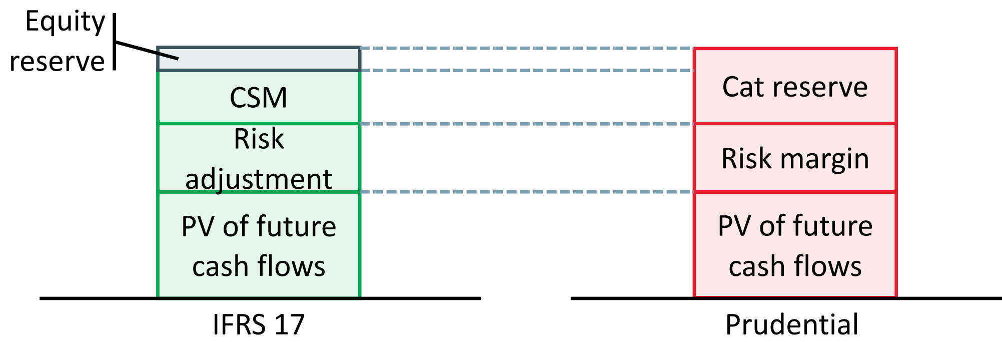
- » To some extent
- » The liability allowed under IFRS 17 is:
  - » The unbiased future expected cash flows, plus
  - » The risk adjustment for non-financial risk (may include catastrophe)
    - » entity specific (compensation approach)
    - » Must be consistently applied
  - » The unearned profit

118

118

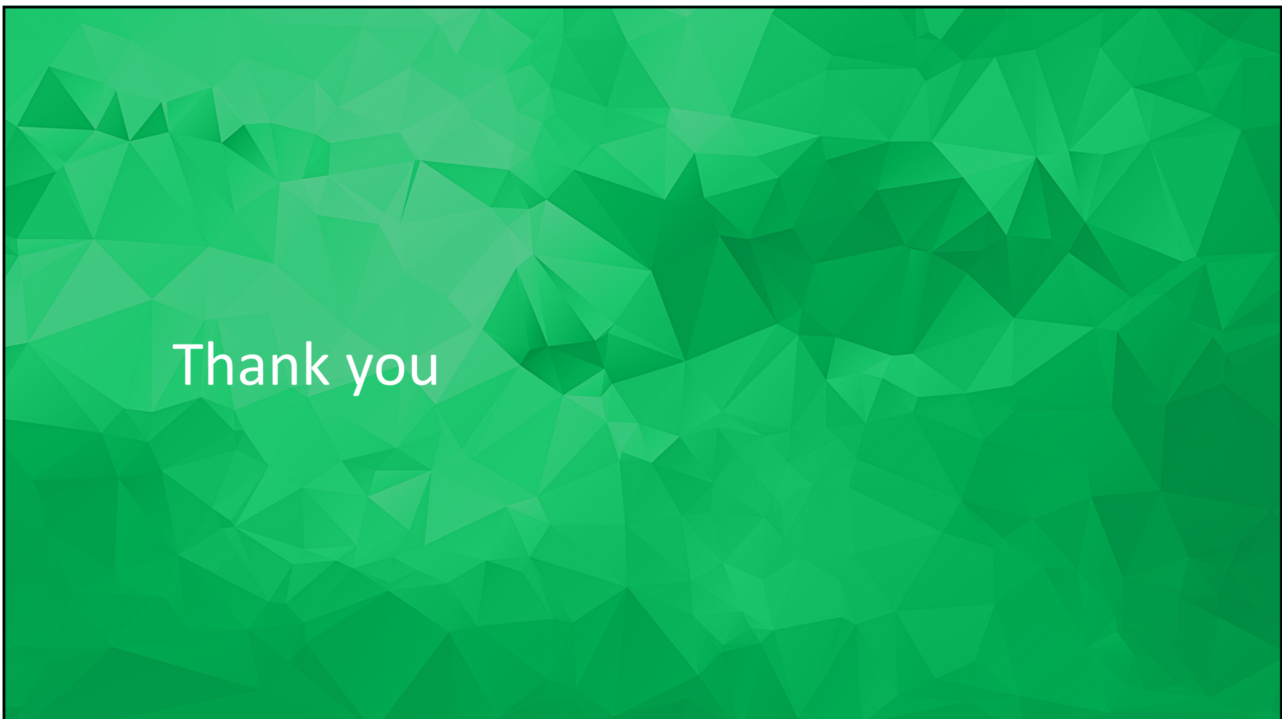
Question 3(a)
Excess regulatory reserves

Does IFRS 17 contain an exhaustive list of insurance reserves that can be created according to IFRS 17? What are those reserves?



119

119



120