

IFRS 17 Insurance Contracts

PRESENTATION TO THE NETWORK OF CONSULTING ACTUARIES UK

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Background

- The **IFRS Foundation** was established in 2001 to bring transparency, accountability and efficiency to financial markets around the world
- **IFRS Standards** are set by the **International Accounting Standards Board**
- Funded by jurisdictions (53%), accounting firms (26%) and self generated income (21%)
- International headquarters is in London, Cannon Street.
- 83% of 147 assessed jurisdictions require the use of IFRS Standards for all or most publicly accountable companies
- 15 of the G20 countries have adopted IFRS including the UK. Exceptions are,
- **Japan** permits IFRS Standards on a voluntary basis.
- **China, India & Indonesia** have national standards that are substantially in line with IFRS Standards
- **United States** permits foreign securities issuers to use IFRS Standards

Insurance

- **IFRS 4 Insurance Contracts** was issued in 2004 as an interim IFRS Standard
 - Permitted companies to continue using their existing jurisdictional accounting practices
 - Lack of comparability between insurers, non-uniform within groups, inconsistent with other industries
 - Lack of useful information and a lack of transparency about profitability
- **IFRS 17 Insurance Contracts**, previously referred to as IFRS 4 Phase II, is to be the replacement

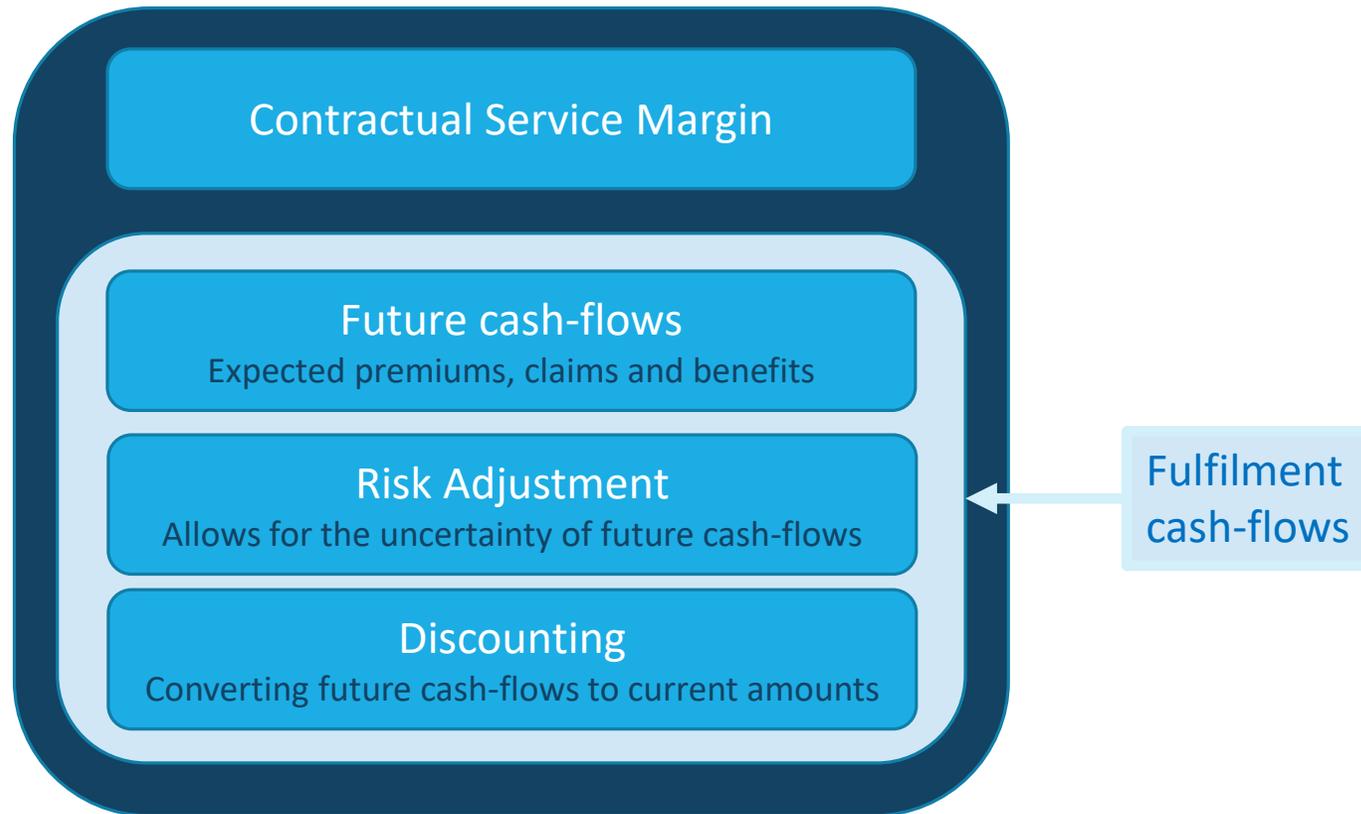


- The following slides consider the Revised Exposure Draft and related feedback and deliberations

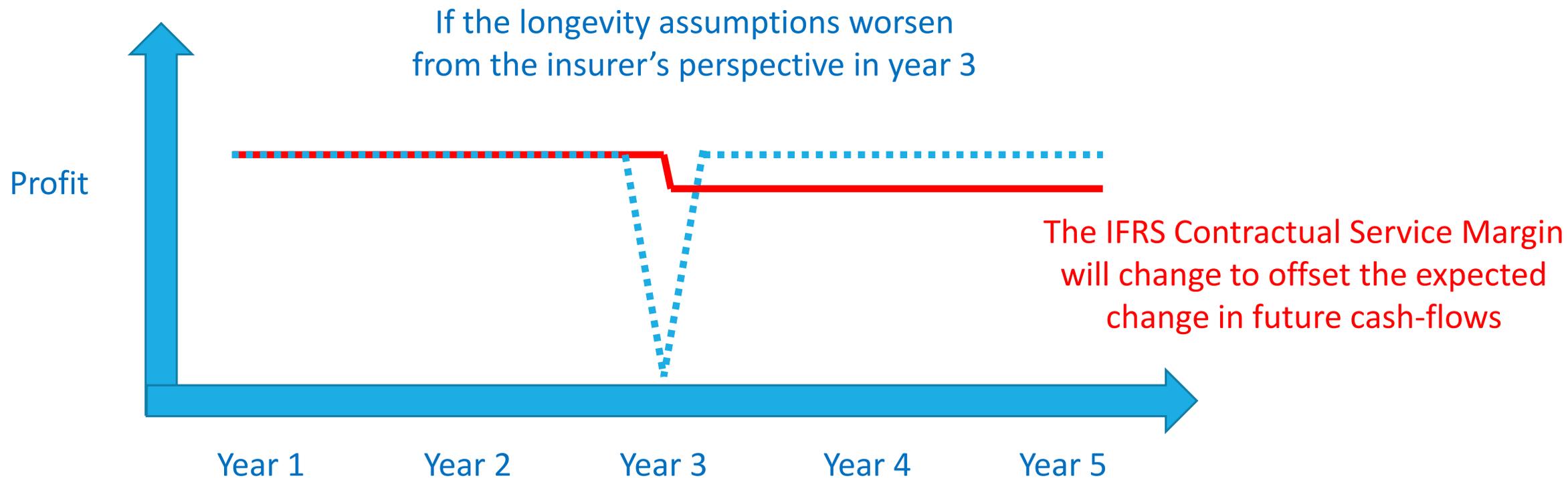
Models

- **General Model**
- **Variable Fee Approach**
 - For contracts with direct participation features
 - Changes in the estimates of the fees the company expects to earn are adjusted in the CSM.
- **Premium Allocation Approach**
 - For contracts with either a coverage period of less than one year, or no significant expected changes in estimates before the claims are incurred.
 - This reduces the implementation costs of IFRS 17 for simpler contracts, e.g. short term non-life contracts

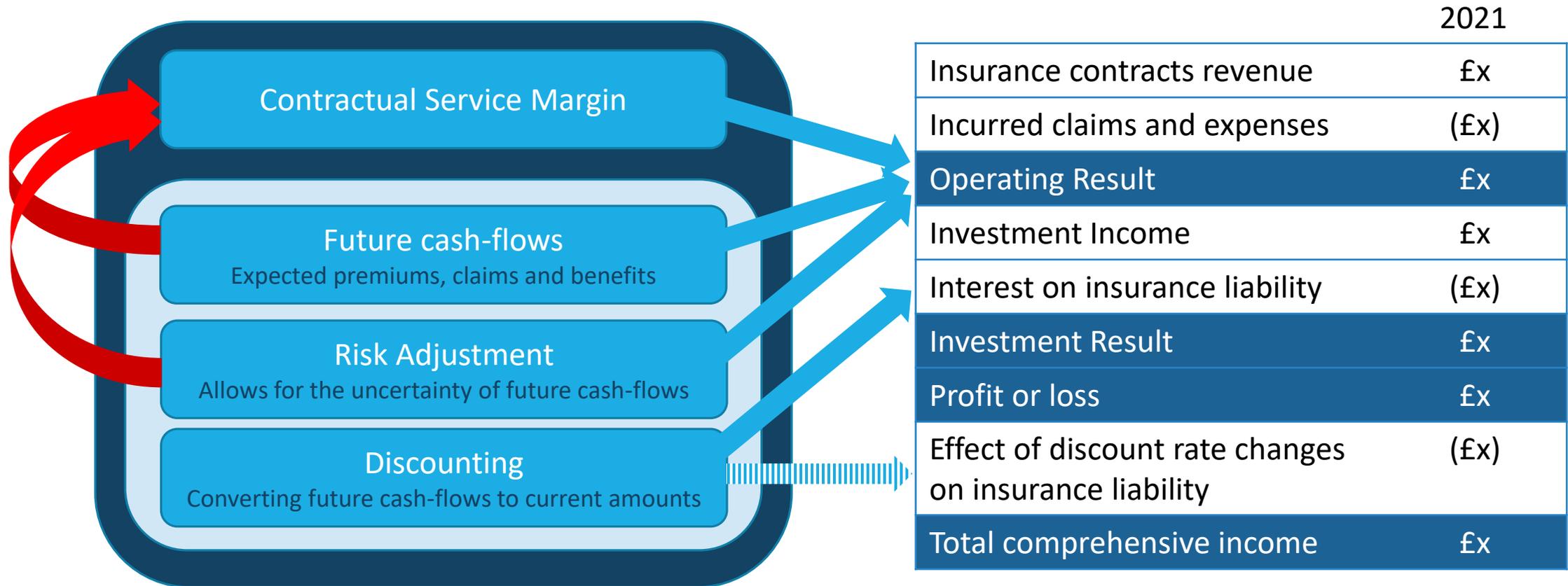
Net contract asset or liability



Profit recognition



Statement of Comprehensive Income



Level of Aggregation

A portfolio of contracts (i.e. a group with similar risks and managed together)

Onerous contracts at inception

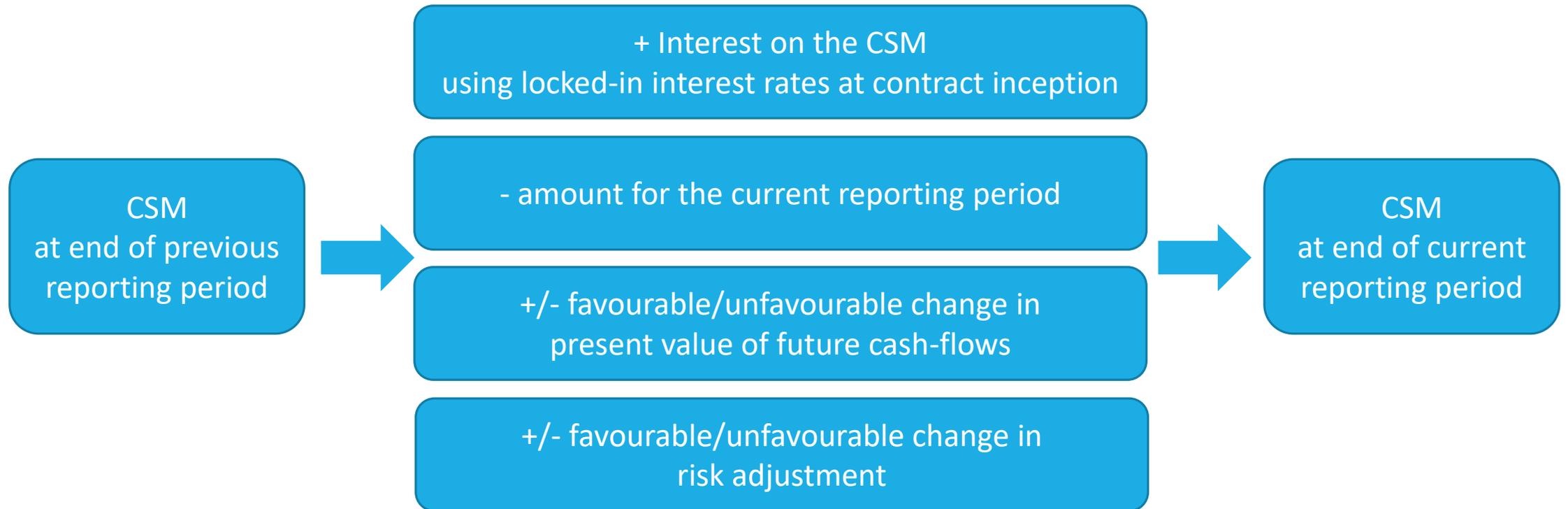
Non-onerous contracts at inception
No significant risk of becoming onerous

Non-onerous contracts at inception
Other possible contracts

The Contractual Service Margin is recognised as a liability and is released over time.

Annual cohorts of these groups.
The CSM is released based on coverage units.

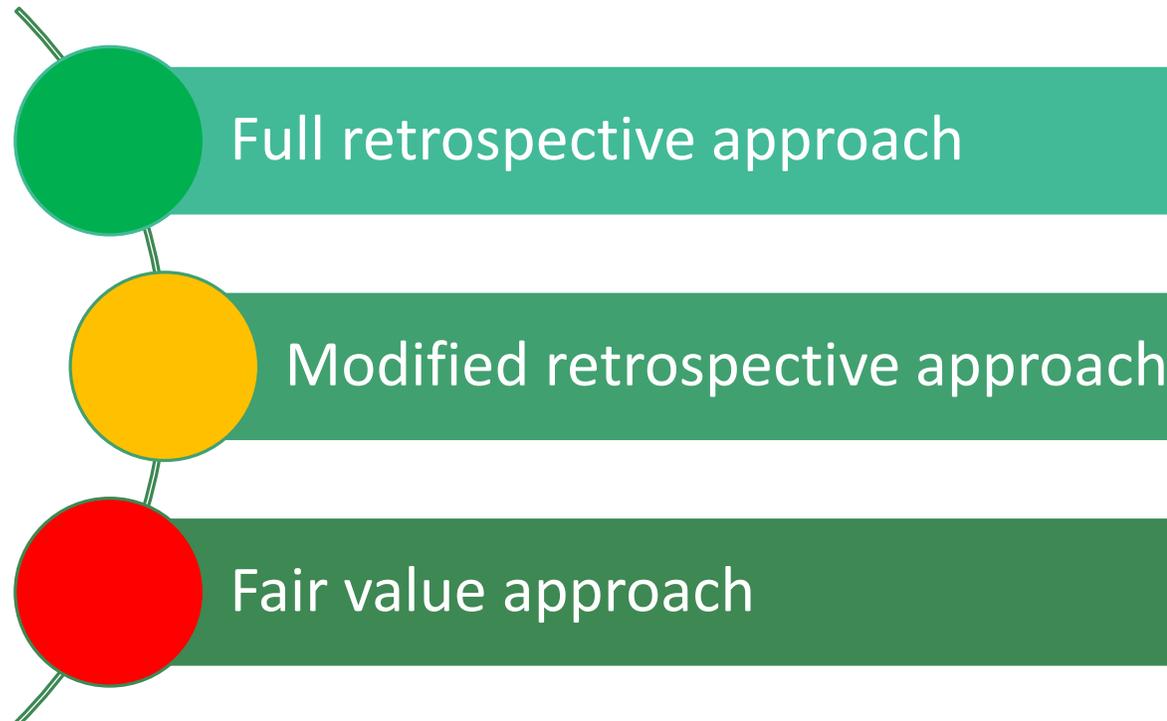
Contractual Service Margin



An entity shall recognise the remaining contractual service margin in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of services that are provided under the contract.

Transitional arrangements

- The transitional method is to be decided for each group of contracts



Challenges

- Determining the Contractual Service Margin for the first time
- Storing prior actuarial assumptions
- Systems development
- Choices (Risk Adjustment method, whether to put changes in discount rates in OCI)
- Impact on taxation
- Impact on product design
- Reporting and disclosure requirements (amounts, judgements and risks)
- Managing market expectations
- Optional early use of IFRS 17
 - provided IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers also applied
- Other impacts, such as hedging strategy, reinsurance.

Discussion and questions

