

DISCLOSURES

2017 Insurance IFRS Seminar

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Session 22



Disclosures overview

An entity shall disclose **qualitative** and **quantitative** information about:

1. Explanation of recognised amounts

The amounts recognised in F/S that arise from insurance contracts

New IFRS 17 requirements

2. Significant judgements

The significant judgements, and their changes

Some requirements brought forward from IFRS 4

3. Risks

The nature and extent of risks that arise from insurance contracts

Most requirements brought forward from IFRS 4

More on these three areas later...

Disclosures

Examples of disaggregation bases that might be appropriate are:

- Type of contract (e.g. major product lines/portfolios); or
- Geographical area (e.g. country or region)
- Reportable segment, as defined in IFRS 8 Operating Segments

1. Explanation of recognised amounts

Reconciliation overview

1. Explanation
of recognized
amounts

2. Significant
judgements

3. Risks

The purpose of disclosing **reconciliations** is to show **how the net carrying amounts** of contracts **changed** during the period

- **Separate** reconciliations shall be disclosed for **direct** business and **reinsurance**
- Provide reconciliations in **tables**
- Present at beginning and end of period, **disaggregated** into **assets and liabilities**

1. Explanation of recognised amounts

Insurance contract liability breakdown

The following disclosure provides **movements** and further breakdown of **insurance contract liability**:

- Reconciliations from opening to closing separately for each of:
 - a) **net liabilities** (or assets) for **remaining coverage**, excluding loss component
 - b) **loss component***
 - c) **liabilities for incurred claims**

Para 100



The common language is negative CSM

1. Explanation of recognised amounts

P&L breakdown

The following disclosure provides **breakdown of P&L** amounts related to insurance services:

- a) **insurance revenue.**
- b) **insurance service expenses**, showing separately:
 - i. **incurred claims** (excluding investment components) and other incurred insurance service expenses;
 - ii. **amortisation of insurance acquisition CF**;
 - iii. changes that relate to past service
 - i.e. **changes** in fulfilment CF **relating to incurred claims**;
 - iv. **changes** that relate to future service
 - i.e. **losses on onerous groups** of contracts **and reversals**.
- c) **investment components excluded** from insurance revenue and insurance service expenses.

1. Explanation of recognised amounts

Amounts not related to insurance services

Relationship
between B/S
and P&L

1. Explanation
of recognized
amounts

2. Significant
judgements

3. Risks

For items not related to insurance services, disclose them separately to show the big picture:

- a) CF in the period, including:
 - i. **premiums received** (or paid for reinsurance);
 - ii. **insurance acquisition CF**;
 - iii. **incurred claims and other insurance service expenses paid** (or recovered from reinsurance), excluding insurance acquisition CF.
- b) the effect of **changes in the risk of non-performance by reinsurer**;
- c) **insurance finance income or expenses**; and
- d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

Para 105

1. Explanation of recognised amounts

Table 2—movements in insurance contract liabilities analysed between liabilities for remaining coverage and incurred claims

B/S

SCI

1. Explanation of recognised amounts

Relationship between B/S and P&L

2. Significant judgements

3. Risks

Para 103	Para 100		Liabilities for incurred claims
	Excluding onerous contracts component	Onerous contracts component	
Insurance contract liabilities 20X0¹¹⁴	161,938	15,835	1,021
Insurance revenue¹¹⁵	(9,856)		
Insurance service expenses	1,259	(623)	7,985
Incurred claims and other expenses		(840)	7,945
Acquisition expenses	1,259		
Changes that relate to future service: losses on onerous contracts and reversals of those losses		217	
Changes that relate to past service: changes to liabilities for incurred claims			40
Investment components	(6,465)		6,465
Insurance service result	(15,062)	(623)	14,450
Insurance finance expenses	8,393	860	55
Total changes in the statement of comprehensive income	(6,669)	237	14,505
Cash flows			
Premiums received	33,570		
Claims and other expenses paid			(14,336)
Acquisition cash flows paid	(401)		
Total cash flows	33,169	-	(14,336)
Insurance contract liabilities 20X1	188,438	16,096	1,190

Para 105

Source IASB Effects Analysis

1. Explanation of recognised amounts

Building blocks breakdown

- A reconciliation showing **source of profit** would provide useful information for users of F/S
- The following disclosure provides **movement** of the **insurance contract liability** in terms of **different building blocks**
- Disclose reconciliations from opening to closing separately for each of:
 - estimate of the PV of future CF;
 - RA for non-financial risk; and
 - CSM

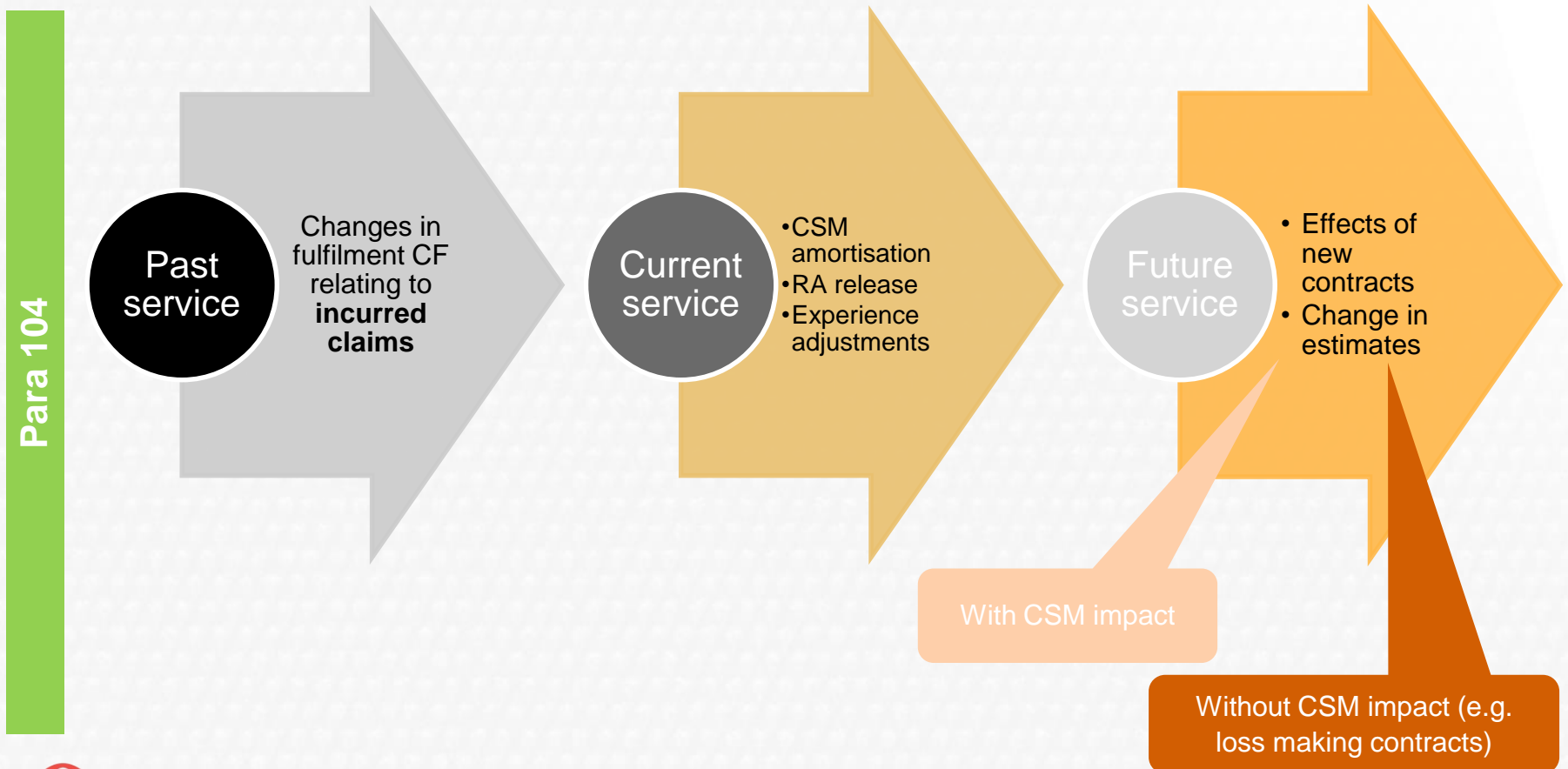
Para 101



1. Explanation of recognised amounts

Future/current/past service

- Another dimension of disclosure for changes related to future/current/past service



1. Explanation of recognised amounts

Table 3—movements in insurance contract liabilities analysed by components

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Para 104	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin
Insurance contract liabilities 20X0¹¹⁷	163,962	5,998	8,858
Changes that relate to current service	35	(604)	(923)
Contractual service margin recognised for service provided			(923)
Risk adjustment recognised for the risk expired		(604)	
Experience adjustments	35		
Changes that relate to future service	(784)	1,117	(116)
Contracts initially recognised in the period ¹¹⁸	(2,329)	1,077	1,375
Changes in estimates reflected in the contractual service margin ¹¹⁹	1,452	39	(1,491)
Changes in estimates that result in onerous contract losses	93	1	
Changes that relate to past service	47	(7)	
Adjustments to liabilities for incurred claims	47	(7)	
Insurance service result	(702)	506	(1,039)
Insurance finance expenses¹²⁰	9,087	-	221
Total changes in the statement of comprehensive income	8,385	506	(818)
Cash flows¹²¹	18,833		
Insurance contract liabilities 20x1	191,180	6,504	8,040

Source IASB Effects Analysis

1. Explanation of recognised amounts

Analysis of insurance revenue

The following disclosure provides useful information about the **drivers of insurance revenue** and assists users to understand how insurance revenue relates to more familiar metrics

- a) the amounts relating to the **changes in the liability for remaining coverage**, separately disclosing:
- i. **insurance service expenses expected to be incurred** during the period;
 - ii. **change in RA**; and
 - iii. **amortisation of CSM**
- b) allocation of premiums that relate to the **recovery of insurance acquisition CF (CSM gross-up)**

Para 106



1. Explanation of recognised amounts

SCI

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

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Table 5—analysis of insurance revenue

	20X1
Amounts related to liabilities for remaining coverage	8,597
Expected incurred claims and other expenses ¹²²	7,070
Contractual service margin for the service provided	923
Risk adjustment for the risk expired	604
Recovery of acquisition cash flows	1,259
Insurance revenue	9,856

Source IASB Effects Analysis

1. Explanation of recognised amounts

Effect at initial recognition

This disclosure requirement gives information on **business growth**. This is important when assessing an entity's future prospects.

Disclose the effect on balance sheet separately for direct business and reinsurance that are initially recognised in the period:

- Para 107
- a) estimates of **PV of future cash outflows**, showing separately the amount of the insurance acquisition CF;
 - b) Estimates of PV of future cash inflows
 - c) **RA** for non-financial risk; and
 - d) **CSM**.

Para 108

Separately disclose amounts resulting from:

- a) contracts **acquired from other entities**; and
- b) groups of contracts that are **onerous**.



1. Explanation of recognised amounts

Para 107

Para 108

Table 4—analysis of contracts initially recognised in the period

Contracts initially recognised in 20X1		Of which contracts acquired	Of which onerous contracts
Estimates of the present value of future cash inflows	(33,570)	(19,155)	(1,716)
Estimates of the present value of future cash outflows			
Insurance acquisition cash flows	401	122	27
Claims payable and other expenses	30,840	17,501	1,704
Risk adjustment	1,077	658	108
Contractual service margin	1,375	896	-
Total	123	22	123

Source IASB Effects Analysis

1. Explanation of recognised amounts

CSM release pattern

Disclosing when the CSM is expected to be recognised in P&L in future periods would be helpful in assessing **future profitability**

- Disclose an explanation of when the insurer expects to recognise the CSM remaining at the end of the reporting period in P&L
- Such information shall be provided separately for direct business and reinsurance

1. Explanation of recognised amounts

Insurance finance income or expenses

Insurance finance income or expenses are expected to have a significant effect on the **performance** of an insurer, particularly if it issues long-duration contracts

- Disclose and explain the total amount of insurance finance income or expenses in the period. In particular, explain the **relationship between insurance finance income or expenses and the investment return** on its assets
- The basis for any disaggregation of the total between amounts recognised in P&L and OCI

2. Significant judgements

Inputs, assumptions and estimation techniques

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

- **Methods used to measure insurance contracts** and the processes estimating the inputs, with quantitative information:

- changes in estimates of future CF arising from the exercise of **discretion** from other changes in estimates (indirect par contracts),
- **RA** for non-financial risk, including whether changes in RA are disaggregated into an insurance service component and finance component or presented in full in the insurance service result,
- **Discount rates**,
- **Investment components** that are not unbundled.

Any changes in the methods and processes as noted above, the **reason** for each change, and the **type of contracts** affected.

New in IFRS 17

Similar to IFRS 4

2. Significant judgements

Inputs, assumptions and estimation techniques (cont'd)

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

New in IFRS 17

- If an entity **chooses the OCI option**, disclose an **explanation of the methods** used to determine the insurance finance income or expenses recognised in P&L.
- Disclose the **confidence level (CI)** used to determine RA. If the entity uses a technique other than CI, it shall disclose the **technique used and corresponding CI**.
- Disclose the **yield curve** (or range of yield curves) used to discount CF that do not vary based on the returns on underlying items.

OCI option

RA

Indirect par

Non-par



3. Risks

Exposure and uncertainty

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

Similar to IFRS 4

- Disclose information to evaluate the **nature, amount, timing** and uncertainty of future CF, e.g.
 - a) risk **exposures** and how they arise;
 - b) objectives, policies, processes, and methods for managing risks;**
 - c) changes** in a) or b) from the previous period.
- Risk exposure: period-end vs. during the period
- If risk exposure at the end of period is not representative of its exposure during the period, disclose this fact, the **reason**, and further information that is representative of its risk exposure during the period



3. Risks

Exposure and uncertainty (cont'd)

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

Similar to IFRS 4

For each type of risk, disclose:

- Summary **quantitative** information of risk **exposure** at the end of period, based on information provided internally to key management personnel
- Description of how to determines **risk concentrations**, and the shared characteristic that identifies each concentration (e.g., type of insured event, industry, geographical area, currency)

3. Risks

Regulatory matters

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

New in IFRS 17

- Effect of each **regulatory framework** in which the entity operates; e.g., minimum capital requirements or required interest rate guarantees.
- Disclose the fact if **regulation** specifically constrains the entity's **practical ability** to set a different price or level of benefits for policyholders with different characteristics, and the entity chooses to include these contracts in the same group

3. Risks

Sensitivity analysis

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

Similar to IFRS 4

- a) Shows how **P&L and equity** would have been **affected** by changes in risk exposures at the end of period:
 - i. for **insurance risk**—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance;
 - ii. for each type of **market risk**—explains the relationship between the sensitivities to changes in risk exposures arising from insurance contracts and from financial assets held.
- b) **Methods and assumptions** used;
- c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.
- d) An explanation of the objective of the method used and of any limitations that may result in the information provided.



3. Risks

Claims development

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

Similar to IFRS 4

- **Disclose actual claims compared with previous estimates** of the undiscounted amount of the claims (i.e. **claims development**).
- Start with the period when the earliest material claim(s) arose and there is still uncertainty about the amount and timing of the claims payments at the end of period; but **need not more than 10 years**.
- No need to disclose claims development if uncertainty is resolved within 1 year.
- **Reconcile** claims development **with aggregate carrying amount of the groups of insurance contracts**.

3. Risks

Credit risk and liquidity risk

1. Explanation of recognized amounts

2. Significant judgements

3. Risks

Similar to IFRS 4

Credit risk

- The amount that best represents the entity's **maximum credit risk exposure** at end of period, separately for direct business and reinsurance; and
- **Credit quality of reinsurance contract assets.**

Liquidity risk

- How the entity **manages liquidity risk**;
- Separate **maturity analyses** that shows the net CF that result from groups insurance contracts (and reinsurance contracts) for each of the **first 5 years** after the reporting date and in **aggregate beyond the first 5 years**; and
- Amounts that are **payable on demand**, explaining the relationship between such amounts and the carrying amount of the related groups of contracts.

4. Specific additional disclosures

B/S

Variable fee approach

- Describe the **composition of the underlying items** and disclose their **fair value**
- If an entity uses **derivatives to mitigate financial risk** and chose not to adjust CSM for some changes in FCF, disclose the **effect to the CSM** in the current period. The idea is to **reduce lack of comparability**

4. Specific additional disclosures

VFA (cont'd)

SCI

In order to prevent an entity from including or excluding gains/losses permanently in P&L simply by choosing to buy or sell underlying items:

- If an entity **changes the basis of disaggregation** of insurance finance income or expenses between P&L and OCI, disclose:
 - a) **reason** why the entity was required to change the basis (e.g. change in whether it holds the underlying items);
 - b) **amount of any adjustment for each F/S line item** affected;
 - c) **carrying amount of the groups of insurance contracts** to which the change applied at the date of the change.

4. Specific additional disclosures

Premium allocation approach

If the entity adopts PAA, also disclose:

- a) Which of the PAA criteria it has satisfied;
- b) Whether it makes an adjustment for the time value of money and the effect of financial risk
- c) The method it has chosen to recognise insurance acquisition CF (deferral or expensed as incurred)

4. Specific additional disclosures

B/S

Transition (1/2)

With regards to transition, an entity shall disclose:

Reconciliation of the opening to closing CSM, and amount of insurance revenue, separately for:

- a) insurance contracts that existed on 1/1/2020 to which the entity has applied the **modified retrospective approach**;
- b) insurance contracts that existed on 1/1/2020 to which the entity has applied the **fair value approach**; and
- c) all other insurance contracts

For all periods in which disclosures are made applying the modified retrospective approach or the fair value approach, **explain** how it determined the **measurement** of insurance contracts on 1/1/2020.

4. Specific additional disclosures

Transition (2/2)

SCI

Disclosure on the OCI option

- If adopt the OCI option, disclose how to determine the **cumulative difference** between the insurance finance income or expenses recognised in **P&L** and the **total insurance finance income or expenses** on 1/1/2020.
- For all periods in which OCI option is adopted, disclose a **reconciliation** from opening to closing balance of the **cumulative amounts included in OCI for financial assets measured at FVOCI** related to the groups of insurance contracts.
- The reconciliation shall include gains/losses recognised in OCI in the period and gains/losses previously recognised in OCI and recycled to P&L in the current period.

Disclosures

Recap

