

IFRS 17

Insurance contracts

High-level overview

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IFRS 17

- replaces an interim Standard—IFRS 4
- requires consistent accounting for all insurance contracts, based on a current measurement model
- will provide useful information about profitability of insurance contracts

Effective 2021

- one year restated comparative information
- early application permitted



Further information:

IFRS 17 paragraphs 1, C1 and C34

IFRS 17 Basis for Conclusions paragraphs BC1-BC15 and BC402-BC404

Today's topics

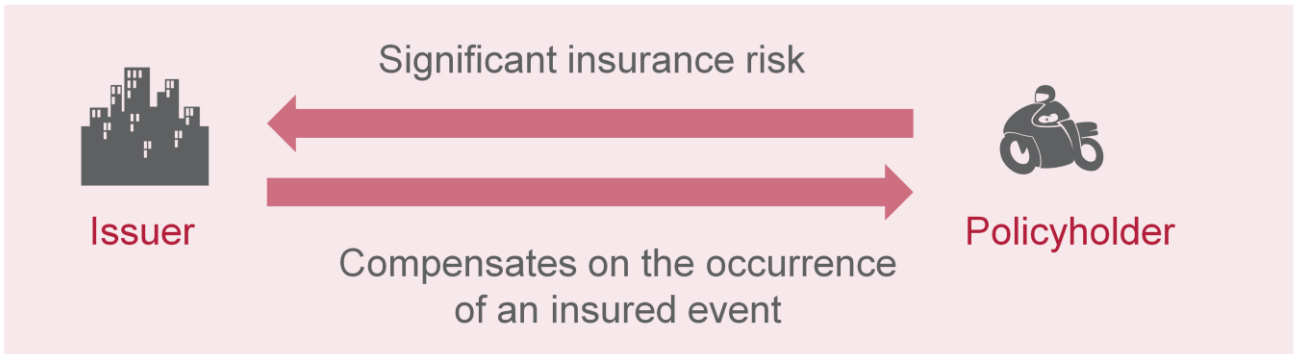
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- Scope of IFRS 17
- What is a contract for the purposes of IFRS 17?
- Overview of the IFRS 17 current measurement model

Scope of IFRS 17

What is an insurance contract?

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↔ IFRS 17 and IFRS 4—same definition

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



Further information:

IFRS 17 Appendix A definitions:

- Insurance contract
- Insurance risk
- Insured event
- Policyholder

IFRS 17 paragraphs 1, 6 and B2-B30

Basis for conclusions of IFRS 17 paragraphs BC63-BC81

- Some insurance contracts remain in the scope of other IFRS Standards and not IFRS 17
 - ↔ No change from IFRS 4
- For example:
 - Warranties issued by manufacturers
 - Retirement benefit obligations
 - Insurance contracts held by an entity, unless those contracts are reinsurance contracts

Further information:

IFRS 17 paragraph 7(a)-7(d) and 7(f)-7(g)

IFRS 17 Basis for conclusions paragraphs BC66, BC87 and BC89-BC90

Two options to account for some insurance contracts using IFRS 17 or other IFRS Standards

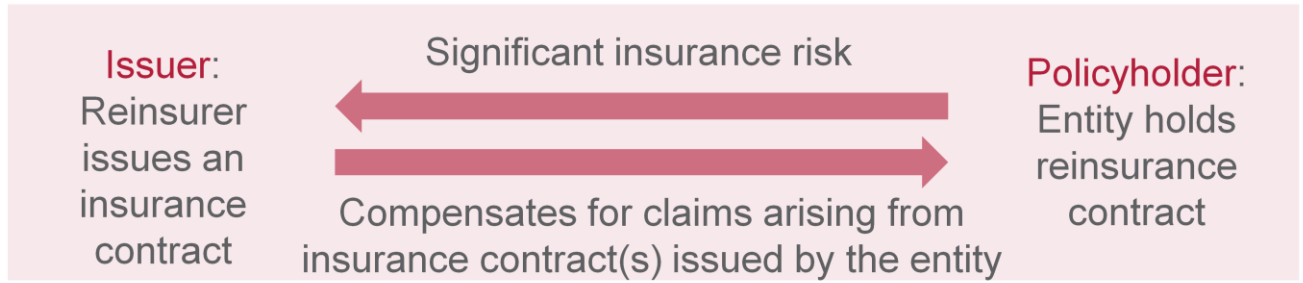
- Financial guarantee contracts—IFRS 17 or IFRS 9 *Financial Instruments*
 - ↔ No change from IFRS 4
- Specified fixed-fee service contracts—IFRS 17 or IFRS 15 *Revenue from Contracts with Customers*
 - ↗ Change from IFRS 4

Further information:

IFRS 17 paragraphs 7(e), 8 and B29-B30

IFRS 17 Basis for Conclusions paragraphs BC65(b) and BC91-BC97

- IFRS 17 scope includes reinsurance contracts held



↔ Same definition as IFRS 4

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

Further information:

IFRS 17 paragraphs 3(b), 29(b) and 60-70

IFRS 17 Appendix A definitions:

- Insurance contract
- Reinsurance contract

IFRS 17 Basis for Conclusions paragraphs BC296-BC315

- IFRS 17 scope includes investment contracts with discretionary participation features issued by an entity that issues an insurance contract:
 - A financial instrument with discretionary payments
 - ✚ Change from IFRS 4

Further information:

IFRS 17 paragraphs 3(c), 29(c) and 71

IFRS 17 Appendix A definition:

- Investment contracts with discretionary participation features

IFRS 17 Basis for Conclusions paragraphs BC82-BC86

What is a 'contract'?

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- Substantive rights and obligations—contract, law or regulation
- A contract is an agreement between two or more parties that creates enforceable rights and obligations
- Enforceability is a matter of law
- Contractual terms include all explicit or implied terms, including law or regulation
- Disregard terms that have no commercial substance



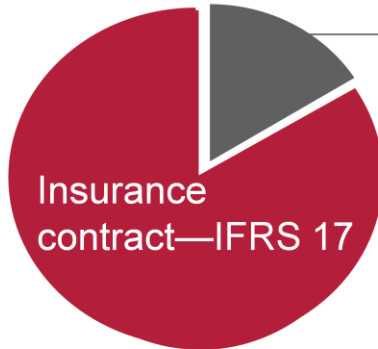
Further information:

IFRS 17 paragraph 2

What is measured under IFRS 17?

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



Measure separated components under other IFRS Standards:

- Specified embedded derivatives—IFRS 9
- Distinct investment components—IFRS 9
- Distinct goods or non-insurance services—IFRS 15



Further information:

IFRS 17 paragraphs 10-13 and B31-B35

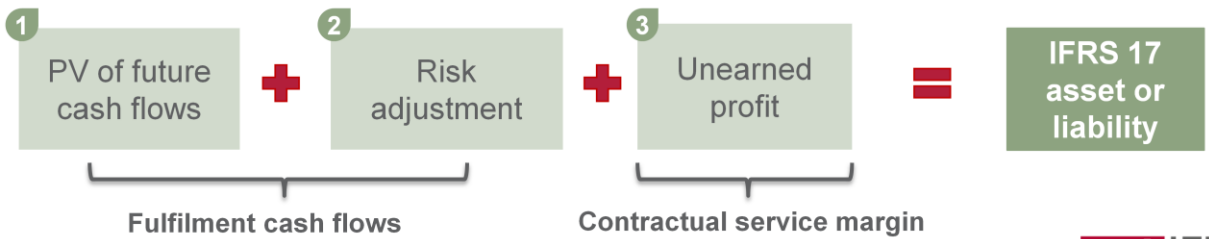
IFRS 17 Basis for Conclusions paragraphs BC98-BC114

IFRS 17 Illustrative Examples paragraphs IE42-IE55

Measurement requirements

High-level overview

- Insurance contracts measured as the sum of:
 - **Fulfilment cash flows**
 1. Present value of probability-weighted expected cash flows—reflects financial risk
 2. Plus an explicit risk adjustment for insurance risk
 - **Contractual service margin**
 3. The unearned profit from the contracts



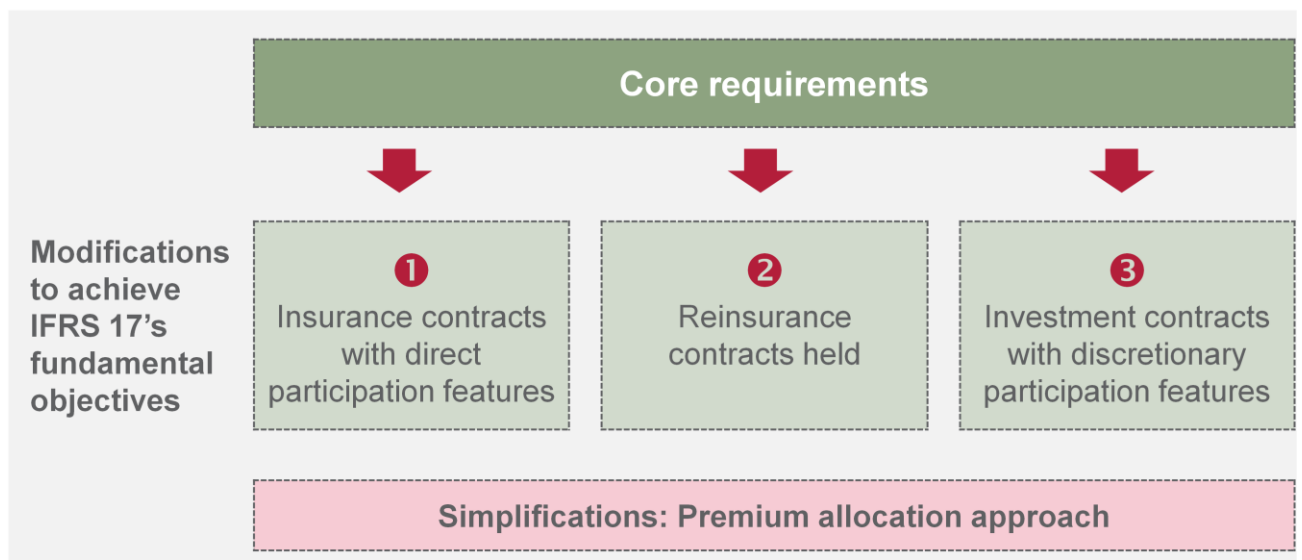
Further information:

IFRS 17 paragraph 32

IFRS 17 Appendix A definitions:

- Fulfilment cash flows
- Contractual service margin
- Risk adjustment for non-financial risk

IFRS 17 Basis for Conclusions paragraphs BC16-BC21



Further information:

IFRS 17 paragraph 29

Changes to balance sheet presentation

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IFRS 4*	IFRS 17	Key changes
Assets		<ul style="list-style-type: none"> - Contracts that are assets are separately presented from those that are liabilities - Simplified presentation consistent with the economics
Reinsurance contract assets	Reinsurance contract assets	
Deferred acquisition costs	Insurance contract assets	
Value of business acquired		
Premiums receivable		
Policy loans		
Liabilities		
Insurance contracts liabilities	Insurance contract liabilities	
Unearned premiums	Reinsurance contract liabilities	
Claims payable		

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



Further information:

IFRS 17 paragraph 78

IFRS 17 Basis for Conclusions paragraphs BC328-BC329

IFRS 17 Effects Analysis page 77

Changes to the presentation of performance

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IFRS 4*	IFRS 17	Key changes
Premiums	Insurance revenue	- Two drivers of profit
Investment income	Incurred claims and expenses	
Incurred claims and expenses	Insurance service result	- Insurance revenue and expenses are recognised as earned or incurred
Change in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expenses	
	Net financial result	
	Profit or loss	
	Insurance finance expenses <i>(optional)</i>	
	Total comprehensive income	

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



Further information:

IFRS 17 paragraphs 80, 83-85 and 87

IFRS 17 Basis for Conclusions paragraphs BC331-BC346

IFRS 17 Effects Analysis page 83

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