Objective

- Transparent & comparable (useful)
- Steps:
  1. Identify insurance contracts. [Scope]
  2. Separate components [Separating components]
  3. Divide the contracts into groups. [Level of aggregation]
  4. Recognises and measures groups of insurance contracts at: [Recognition & measurement]
     a. Fulfilment of cash flows (Plus)
     b. Contractual service margin
  5. Recognises profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is expected to be onerous (i.e., loss-making) over the remaining coverage period, an entity recognises the loss immediately.
  6. Presents insurance revenue, insurance service expenses and insurance finance income or expenses separately. [Presentation]
  7. Discloses information on an entity's financial position, financial performance and cash flows. [Disclosure]

Scope

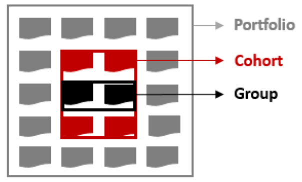
- Applicable to all insurance contracts.
- What is an insurance contract?
  - A contract under which one party (issuer) accepts **significant insurance risk** from another party (policyholder) by agreeing to **compensate** the policyholder if a specified **uncertain future event** (insured event) **adversely affects** the policyholder.
- An entity shall apply IFRS 17 to:
  - Insurance contracts, including reinsurance contracts, it **issues**;
  - Reinsurance contracts it **holds**; and
  - Investment contracts with discretionary participation features it **issues**, provided the entity also issues insurance contracts.
  - Insurance contracts issued acquired by entity in transfer of insurance contracts/business combination other than reinsurance contracts held.

Separate components

- Some insurance contracts may contain other components (investment, non-insurance, etc.) that if separated would fall within scope of other IFRS, accounting for such components separately using other applicable IFRS's makes them more comparable.
- It also offers users of financial statements a better way to compare the risks of similar contracts issued by entities in different businesses or industries.
- Components:
  - Insurance component – IFRS 17
  - Distinct investment component (e.g. pure deposits) – IFRS 9
    - Distinct if:
      - Investment & insurance component are not highly inter-related:
        - Cannot benefit from 1 component without other being present
        - Cannot measure 1 component without considering the other
      - Contract with equivalent terms is sold/could be sold separately in same market/jurisdiction.
  - Embedded derivative (if separated) (e.g. interest rate options) – IFRS 9
    - Separate when:
      - Economic characteristics & risks of derivative are NOT closely related to host contract
  - Distinct goods & non-insurance services (e.g. asset management) – IFRS 15
    - Distinct if policyholder can benefit from goods & services either:
      - On their own; or
      - With resources that are readily available to policyholder
  - Non-distinct investment component – IFRS 17 (but included under Financial result and not insurance services result)

Level of aggregation

- All insurance contracts are aggregated into groups that limits the offsetting of profitable contracts against onerous (aggregate cost required to fulfil the agreement is higher than the economic benefit to be obtained from it) ones.
- Identify **portfolios** of insurance contracts:
  - similar risks and
  - managed together.
- Prohibited from grouping contracts issued more than one year apart (**cohorts**).
- IFRS 17 then requires an entity to divide the contracts in each portfolio on initial recognition into the following **groups** (minimum):
  - Contracts that are onerous at initial recognition
  - Contracts that have no significant possibility of becoming onerous subsequently
  - Remaining contracts in the portfolio
- Groups of contracts are established on initial recognition and are not reassessed.



Recognition

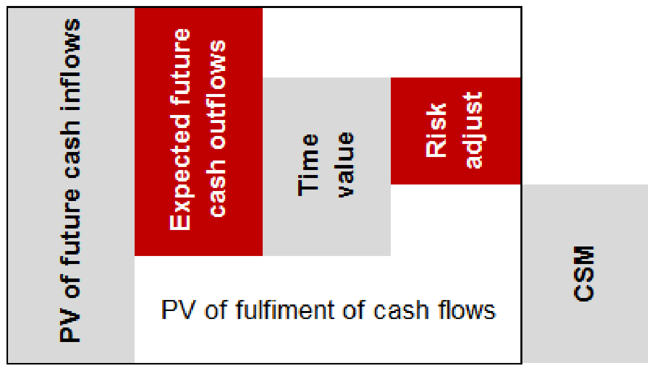
- An entity shall recognise a group of insurance contracts it issues from the **earliest** of the following:
  - the beginning of the coverage period of the group of contracts;
  - date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; and
  - for a group of onerous contracts, when the group becomes onerous, if facts and circumstances indicate that the group is onerous.

Measurement

- There are 3 measurement approaches under IFRS 17:

	General model	Premium allocation	Variable fee
Needed	Default model	Simplified model	Direct participating
Examples	Whole-life	Personal car	Unit-linked
Mandatory	Mandatory	Optional	Mandatory

- Measured as the sum of:
  - Fulfilment cash flows
    1. PV of probability-weighted expected cash flows (financial risk)
    2. Plus: explicit risk adjustment for insurance risk
  - Contractual service margin
    3. Unearned profit from the contracts



Presentation – Changes in performance

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**	
Changes in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expenses	- Insurance revenue
	Net financial result	& expenses are
	Profit or loss	recognised as:
	Insurance finance expenses (optional)	> earened or
	Total comprehensive income	> incurred

Presentation – Changes to balance sheet

IFRS 4	IFRS 17	Key changes
Assets		- Contracts that are
Reinsurance contract assets	Reinsurance contracts assets	assets are separately
Deferred acquisition costs	Insurance contract assets	presented from those
Value of business acquired		that are liabilities
Premium receivable		
Policy loans		- Simplified
Liabilities		presentation
Insurance contracts liabilities	Insurance contract liabilities	consistent with the
Unearned premiums	Reinsurance contracts liabilities	economics
Claims payable		

Disclosure

- Disclosure of qualitative and quantitative information:
  - Amounts recognised in its financial statements for contracts within the scope of IFRS 17
  - Significant judgements, and changes in those judgements, when applying IFRS 17
  - The nature and extent of risks arising from contracts within the scope of IFRS 17

Transition

1. Recognise IFRS 17
Assets
Reinsurance contracts assets
Insurance contract assets
Liabilities
Insurance contract liabilities
Reinsurance contracts liabilities

2. Derecognise IFRS 4
Assets
Reinsurance contract assets
Deferred acquisition costs
Value of business acquired
Premium receivable
Policy loans
Liabilities
Insurance contracts liabilities
Unearned premiums
Claims payable
Investement contract liabilities (unbundled)

3. Difference in Equity
+/- net difference

Some components unbundled in IFRS 4 must remain in IFRS 17

* Information from IFRS 17 Standard and IFRS Webcast