IFRS 17 Insurance Contracts

August 2021 Note: IFRS 17 is effective for annual periods beginning on/after Jan 1, 2023. Words that have been presented in ***bold italics*** are defined in Appendix A of IFRS 17.

SCOPE

Apply IFRS 17 to:

- ***Insurance contracts***, including ***reinsurance contracts***, issued.
- ***Insurance contracts*** acquired in a transfer of such contracts or a business combination.
- ***Reinsurance contracts*** held; and
- ***Investment contracts with discretionary participation features*** issued, provided entity also issues ***insurance contracts***.

IFRS 17 does not apply to:

- Warranties of a manufacturer, dealer, or retailer in connection with the sale of goods or services to a customer (see IFRS 15)
- Employers' assets and liabilities from employee benefit plans (see IAS 19 & IFRS 2) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26)
- Contractual rights/obligations contingent on the future use of, or right to use, a non-financial item (e.g. some license fees, royalties, variable and other contingent lease payments) (see IFRS 15, IAS 38, IFRS 16)
- Residual value guarantees provided by a manufacturer, dealer, or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 & IFRS 16)
- Financial guarantee contracts (see IAS 32, IFRS 7 & IFRS 9), unless the issuer has previously asserted explicitly that it regards such contracts as *insurance contracts* and has used accounting applicable to *insurance contracts*. Such an issuer shall choose to apply IFRS 17 or IAS 32, IFRS 7 & IFRS 9 to such contracts. The choice may be made by contract but is irrevocable.
- Contingent consideration payable or receivable in a business combination (see IFRS 3)
- ***Insurance contracts*** in which the entity is the ***policyholder***, unless those contracts are ***reinsurance contracts*** held.

When an issued ***insurance contract*** has the primary purpose of provisioning services for a fixed fee, entities may choose to apply IFRS 15 if:

- The price that is set does not reflect an assessment of the risk associated with an individual customer.
- The contract compensates the customer by providing services rather than making cash payments; and
- The ***insurance risk*** transferred by the contract arises primarily from the customer's use of services rather than from the uncertainty over the cost of those services.

This choice may be made by contract but is irrevocable.

SEPARATING COMPONENTS OF CONTRACTS

Insurance contracts may contain components that must be separated and accounted for under another standard, as follows:

- **Step 1**: Apply IFRS 9 to any embedded derivatives.
- **Step 2**: Separate from a host ***insurance contract an investment component*** if it is distinct and apply IFRS 9 to account for it (see IFRS 17.B31-B32).
- **Step 3**: Separate from a host ***insurance contract*** any promise to transfer distinct goods or non-insurance services to a ***policyholder*** (see IFRS 15.07). On initial recognition:
  - Apply IFRS 15 to attribute cash inflows between the insurance component and promises to provide distinct goods or non-insurance services; and
  - Attribute cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that:
    - Cash outflows that relate directly to each component are attributed to that component; and
    - Any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows expected to arise if the component were a separate contract.
- **Step 4**: Apply IFRS 17 to all remaining components not separated from the host ***insurance contract***.

MEASUREMENT

Apply the general measurement model to all groups of ***insurance contracts*** except for:

- Those for which the entity can use if the ***simplified premium allocation approach*** (see IFRS 17.53-59) is met, at inception of the group of insurance policies:
  - The entity reasonably expects that a measurement of the ***liability for remaining coverage*** would not differ materially under the ***premium allocation approach*** compared to the ***general measurement model***; or
  - The ***coverage period*** of each contract in the group is one year or less.
- Groups of ***investment contracts with discretionary participation features*** (see IFRS 17.71).

There are certain modifications to the general measurement model for groups of ***reinsurance contracts*** held, including that the guidance for ***insurance contracts with direct participation features*** and onerous contracts does not apply (see IFRS 17.60-70).

IFRS 17 Insurance Contracts

August 2021 Note: IFRS 17 is effective for annual periods beginning on/after Jan 1, 2023. Words that have been presented in ***bold italics*** are defined in Appendix A of IFRS 17.

AGGREGATING INSURANCE CONTRACTS

Required to identify ***portfolios of insurance contracts*** issued, which comprise contracts subject to similar risks and managed together, to define the level of aggregation to be used for measuring insurance contract liabilities and related profitability. The portfolios must be divided, at a minimum, into the following buckets:

1) A group of contracts that are onerous at initial recognition, if any.
2) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
3) A group of the remaining contracts in the portfolio, if any.

Groups are established at initial recognition, and not subsequently reassessed, by applying one of the following approaches based on whether reasonable and supportable information is available to conclude that a set of contracts will all be in the same group (or the lowest supportable level).

a) A top-down approach (i.e., portfolio of contracts level) if reasonable and supportable information is available.
b) A bottom-up approach (i.e., individual contract level) if no reasonable and supportable information is available.

- Under the premium allocation approach, assume no contracts fall into the first bucket unless facts and circumstances indicate otherwise.
- Cannot include contracts issued more than one year apart in the same group; therefore, you are required to divide the portfolio. This will also have to be completed on an annual basis.

RECOGNITION

Recognize a ***group of insurance contracts*** issued from the earliest of:

- The beginning of the ***coverage period*** of the group of contracts.
- The date when the first payment from a ***policyholder*** in the group becomes due; and
- For a group of onerous contracts when the group becomes onerous.

If there is no contractual due date, the first payment from a ***policyholder*** is deemed to be due when it is received.

Recognize an asset or liability for any paid or received ***insurance acquisition cash flows*** relating to a group of issued ***insurance contracts*** not yet recognized, unless choosing to recognize them on ***deferred policy acquisition costs***.

- Any such asset/liability is derecognized when the group of contracts is recognized.

In recognizing a ***group of insurance contracts*** in a reporting period, include only contracts issued by the end of the reporting period and make estimates for the discount rates at the date of initial recognition and the coverage units provided in the reporting period.

- Subsequently issued contracts are added to the group in the reporting period issued, which may change estimates of the discount rates → apply revised rates from the start of the reporting period in which the new contracts are added to the group.

DERECOGNITION & MODIFICATIONS

Derecognize an ***insurance contract*** when, and only when:

- It is extinguished (i.e., when the obligation specified in the ***insurance contract*** expires, is discharged, or cancelled); or
- When a modification of the contract results in derecognition.

The modification of a contract results in derecognition of the original contract, and recognition of a new modified contract, if any of the following conditions are met:

- If the modified terms had been included at contract inception:
  - The modified contract would have been excluded from the scope of IFRS 17.
  - The entity would have separated different components from the host ***insurance contract***, resulting in a different ***insurance contract*** to which IFRS 17 would apply.
  - The modified contract would have had a substantially different contract boundary (see IFRS 17.34); or
  - The modified contract would have been included in a different group of contracts.
- The original contract met the definition of an ***insurance contract with direct participation features***, but the modified contract no longer meets that definition (or vice versa); or
- The entity applied the premium allocation approach, but the modifications result in the contract no longer meeting the eligibility criteria for that approach.

If none of the above conditions are met, the changes in cash flows resulting from the modification of terms are treated as changes in estimates of ***fulfilment cash flows***.

An entity derecognizes an ***insurance contract*** from within a group of contracts by adjusting:

- The ***fulfilment cash flows*** allocated to the group to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations derecognized from the group.
- The number of coverage units for expected remaining coverage to reflect the coverage units derecognized from the group. The amount of the ***contractual service margin*** recognized in profit/loss for the period is based on that adjusted number.
- The ***contractual service margin*** of the group for the change ***in fulfilment cash flows*** described above, unless the derecognition results from transfer to a third party or contract modification, in which case:
  - For contracts transferred to a third party, the difference between the change in the carrying amount of the group of insurance contracts resulting from derecognition, and the premium charged by the third party; or
  - For contracts derecognized due to modification of contract terms, the premium the entity would have charged to enter into a contract with equivalent terms as the new contract at the date of modification, less any premium charged for modification. For new contracts recognized as a result of the modification, assume the premium described above has been received by the entity as the date of modification.

IFRS 17 Insurance Contracts

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Initial Measurement of a Group of Contracts | GENERAL MEASUREMENT MODEL

Initial Measurement of a Group of Insurance Contracts

Contractual service margin – represents unearned profit an entity will recognize as it provides services. (see IFRS 17.38)

\+

Fulfilment cash flows

(a) Estimates of all future cash flows (see IFRS 17.33-.35)

\+ (b) Adjustment for time value of money and ***financial risks*** related to future cash flows not already included in (a) above (see IFRS 17.36)

\+ (c) Risk adjustment for ***non-financial risk*** (see IFRS 17.37)

Liability for remaining coverage

Remaining contractual service margin

\+ Fulfilment cash flows related to future service:

- Estimates of future cash flows
- Adjustment for time value of money and ***financial risk***
- Risk adjustment for ***non-financial risk***

\+ Liability for incurred claims - consisting of ***fulfilment cash flows*** related to past service

- Measurement of the ***contractual service margin*** on initial recognition of a group of ***insurance contracts*** results in no income or expense arising from:
  - o The initial recognition of an amount for ***fulfilment cash flows***
  - o The derecognition of any asset/liability for ***insurance acquisition cash flows***; and
  - o Any cash flows arising at that date.
- The ***fulfilment cash flows*** may be estimated at a higher level of aggregation than the group/portfolio so long as they can be allocated to groups of insurance contracts.

Subsequent Measurement of a Group of Insurance Contracts (At the End of Each Reporting Period)

- o The effect of any new contracts added.
- o Interest accreted during the period.
- o Changes in ***fulfilment cash flows*** related to future service.
- o The effect of any currency exchange differences.
- o Insurance revenue from the transfer of services in the period
- For ***insurance contracts with direct participation*** features, adjust the ***contractual service margin*** at each reporting date for:
  - o The effect of any new contracts added.
  - o Entity's share of the change in the fair value of the ***underlying items***.
  - o Changes in ***fulfilment cash flows*** relating to future service.
  - o The effect of any currency exchange differences.
  - o Insurance revenue from the transfer of services in the period
- Recognize income/expenses for changes in the carrying amount of the liability for remaining coverage as follows:
  - o Insurance revenue – reduction in liability for remaining coverage from services provided in the period.
  - o Insurance service expenses – losses on groups of onerous contracts and reversals of such losses.
  - o Insurance finance income/expenses – the effect of the time value of money and effect of financial risk.
- Recognize income/expenses for changes in the carrying amount of the liability for incurred claims as follows:
  - o Insurance service expenses – increase in liability due to claims and expenses incurred in the period, excluding investment components.
  - o Insurance service expenses – subsequent changes in ***fulfilment cash flows*** relating to incurred claims and expenses.
  - o Insurance finance income or expenses – the effect of the time value of money and effect of financial risk.

IFRS 17 Insurance Contracts

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MODIFICATIONS TO THE GENERAL MEASUREMENT MODEL
REINSURANCE CONTRACTS HELD

Recognize a group of ***reinsurance contracts*** held:
- o If the ***reinsurance contracts*** held provides proportionate coverage, at the beginning of the coverage period of the group of reinsurance contracts or at the initial recognition of any underlying contract, whichever is later; and
- o In all other cases, from the beginning of the coverage period of the group *of* ***reinsurance contracts*** held.

- Consistent assumptions must be used when estimating cash flows for both groups of ***reinsurance contracts*** held and underlying contracts. Must also include effect of non-performance risk by issuer of the ***reinsurance contract***.
- ***Risk adjustment for non-financial risk*** reflects risk transferred by the holder of the group of ***reinsurance contracts*** to the issuer of those contracts, rather than compensation for bearing uncertainty.
- ***Contractual service margin*** represents net gain/cost on purchasing reinsurance, rather than unearned profit. Recognition of ***contractual service margin*** still results in no income or expense, unless net cost of reinsurance relates to events occurring before purchase, in which case immediately recognize such a cost as an expense.
- ***Contractual service margin*** is adjusted for changes in fulfilment cash flows related to future service, unless the change results from a chance in ***fulfilment cash flows*** allocated to a group of underlying ***insurance contracts*** that does not adjust the ***contractual service margin*** of those underlying ***insurance contracts***.
- ***Contractual service margin*** is adjusted for the amount recognized in profit or loss, rather than insurance revenue.
- Changes in ***fulfilment cash flows*** that result from changes in risk of non-performance by the issuer of the ***reinsurance contract*** held do not relate to future service, and so do not adjust the ***contractual service margin***.
- The premium allocation approach may be applied (adapted to reflect the features of ***reinsurance contracts*** held) if:
  - o The entity reasonably expects resulting measurement would not differ materially from applying the general measurement model; or
  - o The coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary) is one year or less.

MODIFICATIONS TO THE GENERAL MEASUREMENT MODEL
INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES

- Cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. If the entity has practical ability to set a price for the promise to deliver the cash that reflects amount of cash promised and related risks, there is no substantive obligation.
- The allocation of the ***contractual service margin*** is modified so that it is recognized over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

PREMIUM ALLOCATION APPROACH

Initial Measurement of the Liability for REMAINING

	Premiums (if any) received at initial recognition
-	***Insurance acquisition cash flows*** (unless elected to expense – see IFRS 17.59(a))
+/-	Amounts from the derecognition of the ***insurance acquisition cash flows*** asset/liability

Subsequent Measurement of the Liability for Remaining Coverage

	Carrying amount at beginning of period
-	***Insurance acquisition cash flows*** (unless elected to expense – see IFRS 17.59(a))
-	Insurance revenue for coverage provided during period
-	***Investment components*** paid/transferred to the liability ***for incurred claims***
+	Premiums received during period
+	Amortization of ***insurance acquisition cash flows*** (unless elected to expense – see IFRS 17.59(a))
+	Adjustment to financing components, if any, for time value of money and effect of ***financial risk***

IFRS 17 Insurance Contracts

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MNP

KEY TERMS AND ABBREVIATIONS

General Measurement Model

- An ***insurance contract*** is onerous at initial recognition if ***fulfilment cash flows*** allocated to the contract; any previously recognized acquisition cash flows; and any cash flows arising from the contract at the date of initial recognition; in total are a net outflow.
- Recognize net outflow as a loss for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the ***fulfilment cash flows***, and the ***contractual service margin*** of the group is zero.
- A ***group of insurance contracts*** becomes (more) onerous if the following amounts exceed the carrying amount of ***contractual service margin***:
  - o Unfavorable changes in the ***fulfilment cash flows*** allocated to the group arising from changes in estimates of future cash flows relating to future service; and
  - o For a group of ***insurance contracts with direct participation features***, the entity's share of a decrease in the fair value of the ***underlying items***.
- A loss is recognized in profit/loss to the extent of that excess.

- A loss component is established/increased for losses recognized on onerous contracts. The loss component determines the amounts presented in profit/loss as reversals of losses on onerous groups, and consequently excluded from insurance revenue.
- After a loss has been recognized on an onerous ***group of insurance contracts***, allocate:
  - a) Subsequent changes in ***fulfilment cash flows*** of the ***liability for remaining coverage*** on a systematic basis between:
    - ▪ The loss component of the ***liability for remaining coverage***; and
    - ▪ The ***liability for remaining coverage***, excluding the loss component.
  - b) Subsequent decreases in ***fulfilment cash flows*** allocated to the group arising from changes in future cash flows relating to future service and any subsequent increases in the entity's share in the fair value of ***underlying items*** are allocated solely to the loss component until it is reduced to zero. The ***contractual service margin*** is adjusted only for the excess of the decrease over the amount allocated to the loss component.
- The subsequent changes in ***fulfilment cash flows*** to be allocated are:
  - o Estimates of the present value of future cash flows for claims and expenses released from the ***liability for remaining coverage*** because of incurred insurance service expenses.
  - o Changes in the ***risk adjustment for non-financial risk*** recognized in profit/loss because of the release from risk; and
  - o Insurance finance income/expenses.
- This systematic allocation results in the total amounts allocated to the loss component being equal to zero by the end of the ***coverage period*** for a group of contracts.

Premium Allocation Model

- If during the ***coverage period***, facts and circumstances indicate that a ***group of insurance contracts*** is onerous, calculate the difference between:
  - o The carrying amount of the ***liability for remaining coverage***; and
  - o The ***fulfilment cash flows*** that relate to remaining coverage of the group, excluding any adjustment for the time value of money and the effect of ***financial risk*** if the ***liability for incurred claims*** does not include such an adjustment.
- To the extent ***fulfilment cash flows*** exceed the carrying amount, recognize a loss in profit/loss and increase the ***liability for remaining coverage***.

PRESENTATION AND DISCLOSURE

Statement of Financial Position

Present separately the carrying amount of groups of ***insurance contracts*** issued that are assets, ***insurance contracts*** issued that are liabilities, ***reinsurance contracts*** held that are assets, and ***reinsurance contracts*** held that are liabilities.

Statement(s) of Profit and Loss

- Disaggregate amounts recognized in the statement(s) of profit/loss and other comprehensive income/loss into:
  - o An insurance service result (see IFRS 17.83-86) which comprises insurance revenue and insurance service expenses; and
  - o Insurance finance income or expenses (see IFRS 17.87-92).
- Present income/expenses from ***reinsurance contracts*** held separately from the expenses or income from ***insurance contracts*** issued.

- Must make an accounting policy choice to:
  - o Present insurance finance income/expenses for the period in profit/loss; or
  - o Disaggregate insurance finance income/expenses for the period to include in profit/loss:
    - ▪ For ***insurance contracts with direct participation features*** where the entity holds the *underlying items*, an amount that eliminates accounting mismatches with income/expenses on the ***underlying items*** held, with the remainder presented in other comprehensive income ("OCI").
    - ▪ For all other ***groups of insurance contracts***, an amount determined by a systematic allocation of expected total insurance finance income/expenses over the duration of the group of contracts, with the remainder presented in OCI.
- If an entity transfers a ***group of insurance contracts*** or derecognizes an insurance contract due to modification of its contractual terms, amounts previously recognized in OCI as a result of the above-noted accounting policy choice are reclassified to profit/loss unless they relate to ***insurance contracts with discretionary participation features*** where the entity holds the ***underlying items***.

Disclosure

Must disclose qualitative and quantitative information about:

- Amounts recognized in the financial statements for contracts within the scope of IFRS 17 (see IFRS 17.97-116).
- Significant judgments, and changes in those judgments, made when applying IFRS 17 (see IFRS 17.117-120); and
- The nature and extent of the risks from contracts within the scope of IFRS 17 (see IFRS 17.121-132).

As Defined by IFRS 17 Appendix A

Insurance contract
A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Portfolio of insurance contracts
Insurance contracts subject to similar risks and managed together.

Contractual service margin
A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the entity will recognize as it provides services under the insurance contracts in the group.

Insurance risk
Risk, other than financial risk, transferred from the holders of a contract to the issuer.

Fulfilment cash flows
An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows less the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

Risk adjustment for non-financial risk
The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risk as the entity fulfils insurance contracts.

Separating components from an insurance contract
An insurance contract may contain one or more components that would be within the scope of another standard if they were separate contracts. For example, an insurance contract may include an investment component or a service component (or both). [IFRS 17.10]

The standard provides the criteria to determine when a non-insurance component is distinct from the host insurance contract.

An entity shall: [IFRS 17.11-.12]

- (a) Apply IFRS 9 Financial Instruments to determine whether there is an embedded derivative to be separated and, if there is, how to account for such a derivative.
- (b) Separate from a host insurance contract an investment component if, and only if, that investment component is distinct. The entity shall apply IFRS 9 to account for the separated investment component.
- (c) After performing the above steps, separate any promises to transfer distinct non-insurance goods or services. Such promises are accounted under IFRS 15 Revenue from Contracts with Customers.

Level of aggregation
IFRS 17 requires entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. [IFRS 17.14]. Each portfolio of insurance contracts issues shall be divided into a minimum of: [IFRS 17.16]

A group of contracts that are onerous at initial recognition, if any; A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and A group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. [IFRS 17.22] If contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. [IFRS 17.20]

Recognition

An entity shall recognize a group of insurance contracts it issues from the earliest of the following: [IFRS 17.25]

(a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous.

Measurement

On initial recognition, an entity shall measure a group of insurance contracts at the total of: [IFRS 17.32]

(a) the fulfilment cash flows ("FCF"), which comprise:
(b) estimates of future cash flows; and an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows; and (iii) a risk adjustment for non-financial risk
(c) the contractual service margin ("CSM").

An entity shall include all the future cash flows within the boundary of each contract in the group. The entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. [IFRS 17.33]

The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing and uncertainty of those future cash flows. They should reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices. [IFRS 17.33]

Discount rates

The discount rates applied to the estimate of cash flows shall: [IFRS 17.36]

(a) reflect the time value of money (TVM), the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
(b) be consistent with observable current market prices (if any) of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and
(c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk adjustment for non-financial risk

The estimate of the present value of the future cash flows is adjusted to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. [IFRS 17.37]

Contractual service margin

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from: [IFRS 17.38]

(a) the initial recognition of an amount for the FCF;
(b) the derecognition at that date of any asset or liability recognized for insurance acquisition cash flows; and
(c) any cash flows arising from the contracts in the group at that date.

Subsequent measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of: [IFRS 17.40]

(a) the liability for remaining coverage comprising:
(b) the FCF related to future services and the CSM of the group at that date;
(c) the liability for incurred claims, comprising the FCF related to past service allocated to the group at that date.

Onerous contracts

An insurance contract is onerous at initial recognition if the total of the FCF, any previously recognized acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. An entity shall recognize a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero. [IFRS 17.47]

On subsequent measurement, if a group of insurance contracts becomes onerous (or more onerous), that excess shall be recognized in profit or loss. Additionally, the CSM cannot increase, and no revenue can be recognized, until the onerous amount previously recognized has been reversed in profit or loss as part of a service expense. [IFRS 17.48-.49]

Premium allocation approach

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group: [IFRS 17.53]

(a) the entity reasonably expects that this will be a reasonable approximation of the general model, or
(b) the coverage period of each contract in the group is one year or less.

Where, at the inception of the group, an entity expects significant variances in the FCF during the period before a claim is incurred, such contracts are not eligible to apply the PAA. [IFRS 17.54]

Using the PAA, the liability for remaining coverage shall be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims. [IFRS 17.55]

Practical expedients available under the PAA

If insurance contracts in the group have a significant financing component, the liability for remaining coverage needs to be discounted, however, this is not required if, at initial recognition, the entity expects that the time between providing each part of the coverage and the due date of the related premium is no more than a year. [IFRS 17.56]

In applying PAA, an entity may choose to recognize any insurance acquisition cash flows as an expense when it incurs those costs, provided that the coverage period at initial recognition is no more than a year. [IFRS 17.59a]

The simplifications arising from the PAA do not apply to the measurement of the group's liability for incurred claims, measured under the general model. However, there is no need to discount those cash flows if the balance is expected to be paid or received in one year or less from the date the claims are incurred. [IFRS 17.59b]

Investment contracts with a DPF

An investment contract with a DPF is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the standard only if the issuer also issues insurance contracts. The requirements of the Standard are modified for such investment contracts. [IFRS 17.71]

Reinsurance contracts held

The requirements of the standard are modified for reinsurance contracts held.

In estimating the present value of future expected cash flows for reinsurance contracts, entities use assumptions consistent with those used for related direct insurance contracts. Additionally, estimates include the risk of reinsurer's non-performance. [IFRS 17.63]

The risk adjustment for non-financial risk is estimated to represent the transfer of risk from the holder of the reinsurance contract to the reinsurer. [IFRS 17.64]

On initial recognition, the CSM is determined similarly to that of direct insurance contracts issued, except that the CSM represents net gain or loss on purchasing reinsurance. On initial recognition, this net gain or loss is deferred, unless the net loss relates to events that occurred before purchasing a reinsurance contract (in which case it is expensed immediately). [IFRS 17.65]

Subsequently, reinsurance contracts held are accounted similarly to insurance contracts under the general model. Changes in reinsurer's risk of non-performance are reflected in profit or loss, and do not adjust the CSM. [IFRS 17.66-.67]

Modification and derecognition

Modification of an insurance contract

If the terms of an insurance contract are modified, an entity shall derecognize the original contract and recognize the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria. [IFRS 17.72]

The modification is substantive if any of the following conditions are satisfied:

(a) if, had the modified terms been included at contract's inception, this would have led to: exclusion from the Standard's scope; (ii) unbundling of different embedded derivatives; (iii) redefinition of the contract boundary; or (iv) the reallocation to a different group of contracts; or

(b) if the original contract met the definition of a direct par insurance contracts, but the modified contract no longer meets that definition, or vice versa; or

(c) the entity originally applied the PAA, but the contract's modifications made it no longer eligible for it.

Derecognition

An entity shall derecognize an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met. [IFRS 17.74]

Presentation in the statement of financial position

An entity shall present separately in the statement of financial position the carrying amount for the group of insurance contracts: [IFRS 17.78]

(a) insurance contracts issued that are assets;

(b) insurance contracts issued that are liabilities;

(c) reinsurance contracts held that are assets; and

(d) reinsurance contracts held that are liabilities.

Recognition and presentation in the statement(s) of financial performance

An entity shall disaggregate the amounts recognized in the statement(s) of financial performance into: [IFRS 17.80]

(a) an insurance service result, comprising insurance revenue and insurance service expenses; and

(b) insurance finance income or expenses.

Income or expenses from reinsurance contracts held shall be presented separately from the expenses or income from insurance contracts issued. [IFRS 17.82]

Insurance service result

An entity shall present in profit or loss revenue arising from the groups of insurance contracts issued, and insurance service expenses arising from a group of insurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Revenue and insurance service expenses shall exclude any investment components. An entity shall not present premiums in the profit or loss, if that information is inconsistent with revenue presented. [IFRS 17.83-85]

Insurance finance income or expenses

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from: [IFRS 17.87]

(a) the effect of the time value of money and changes in the time value of money; and

(b) the effect of changes in assumptions that relate to financial risk; but

(c) excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM.

An entity has an accounting policy choice between including all of insurance finance income or expense for the period in profit or loss or disaggregating it between an amount presented in profit or loss and an amount presented in other comprehensive income ("OCI"). [IFRS 17.88-90]

Under the general model, disaggregating means presenting in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. On derecognition of the groups amounts remaining in OCI are reclassified to profit or loss. [IFRS 17.88, .91a]

Under the VFA, for direct par insurance contracts, only where the entity holds the underlying items, disaggregating means presenting in profit or loss as insurance finance income or expenses an amount that eliminates the accounting mismatches with the finance income or expenses arising on the underlying items. On derecognition of the groups, the amounts previously recognized in OCI remain there. [IFRS 17.89, .91b]

Disclosures

An entity shall disclose qualitative and quantitative information about: [IFRS 17.93]

(a) the amounts recognized in its financial statements that arise from insurance contracts;
(b) the significant judgements, and changes in those judgements, made when applying IFRS 17; and
(c) the nature and extent of the risks that arise from insurance contracts.

Effective date

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. [IFRS 17.C1]

Transition

An entity shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach. [IFRS 17.C3, C5]

Under the modified retrospective approach, an entity shall utilize reasonable and supportable information and maximize the use of information that would have been used to apply a full retrospective approach but need only use information available without undue cost or effort. Under this approach the use of hindsight is permitted if that is the only practical source of information for the restatement of prior periods. [IFRS 17.C6-.C7]

Under the fair value approach, an entity determines the CSM at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date. Using this approach, on transition there is no need for annual groups. [IFRS 17.C21, .C24]

At the date of initial application of the Standard, those entities already applying IFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the Standard. [IFRS 17.C30-.C31]. Entities can choose not to restate IFRS 9 comparatives with any difference between the previous carrying amount of those financial assets and the carrying amount at the date of initial application recognized in the opening equity at the date of initial application. Any restatements of prior periods must reflect all the requirements of IFRS 9. [IFRS 17.C31].