AN INTRODUCTION TO IFRS 17

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RHIAN SAUNSBURY
GEOFF ROONEY

PURPOSE

High Level	• A high level introduction to IFRS 17 to get you up to speed for the FSAA IFRS 17 Conference • Introduces key concepts
One Hour	• Content designed to be presented in one hour including some time for questions and discussion

AGENDA

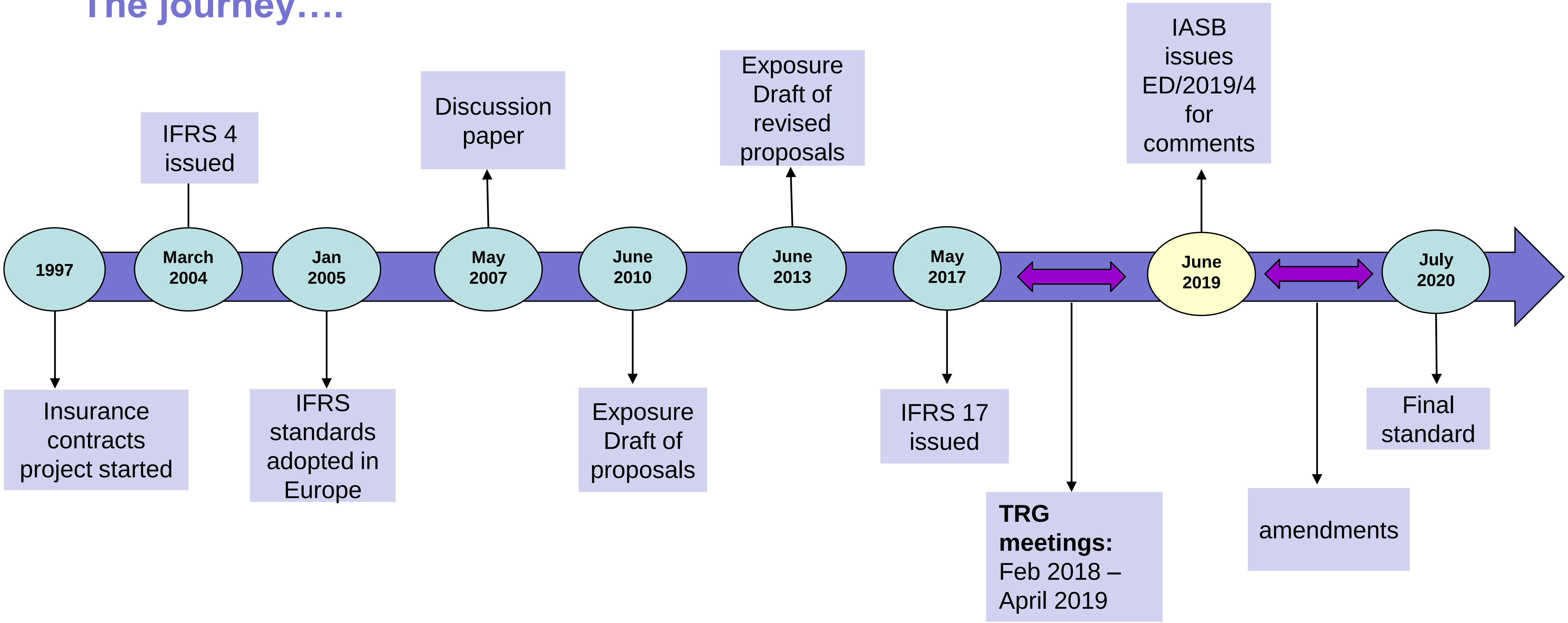
Item	Time Allocation
What, Why, When?	10 mins
IFRS 17 key concepts and practical considerations	30 mins
Balance sheet and Income statement presentation	10 mins
Q&A	10 mins

Background on IFRS 17

What is IFRS 17?

- The new accounting standard for **insurance contracts**, Issued on 18th May 2017 – adopted by AASB in July 2017 as AASB 17
- It applies to all insurance companies reporting under IFRS – 186 countries
- Replaces IFRS 4/ AASB 1023/ AASB 1038

The journey….



1997
Insurance contracts project started
March 2004
IFRS 4 issued
Jan 2005
IFRS standards adopted in Europe
May 2007
Discussion paper
June 2010
Exposure Draft of proposals
June 2013
Exposure Draft of revised proposals
May 2017
IFRS 17 issued
TRG meetings: Feb 2018 – April 2019
June 2019
IASB issues ED/2019/4 for comments
amendments
July 2020
Final standard

Background on IFRS 17

Why?

Consistency

One set of reporting across different insurance industries and across countries

Comparability

Similar P/L layout and concepts facilitating comparability to other industries

Transparency

Separate presentation of insurance and reinsurance results gross of financing impacts

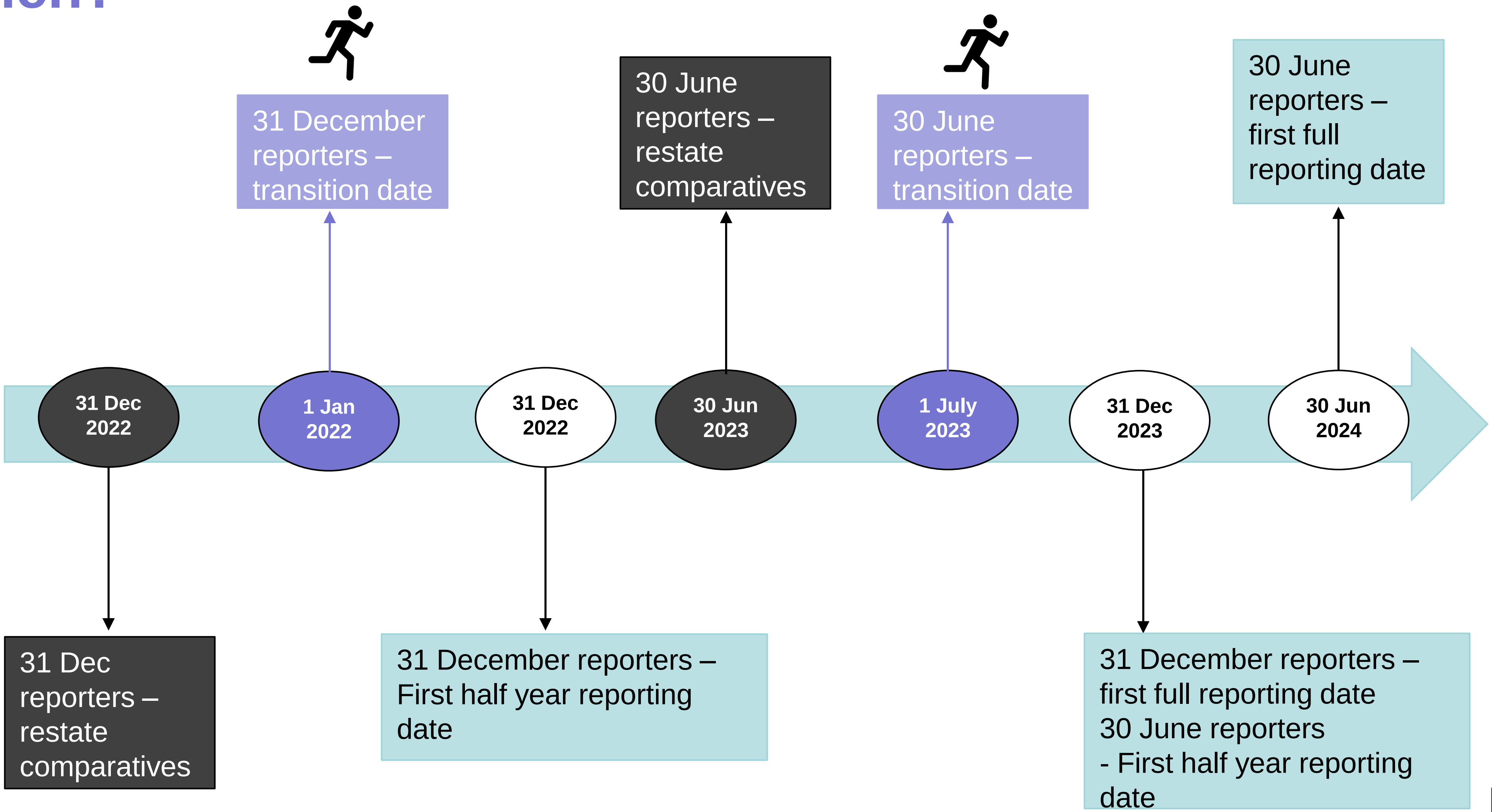
Early recognition of losses

AASB 1023/1038 VS IFRS 17

AASB 1023/ 1038	IFRS 17
An accounting standard for **insurance entities (**i.e.: a company that is a life or general insurer)	An **insurance contracts standard**, applicable to any entity which issues insurance contracts.
the time value of money is generally measured using risk-free discount rates.	Companies will be required to apply an illiquidity premium to the discount rates used to reflect the fact that insurance contracts are not risk-free.
Under AASB 1023 an entity will apply a **risk margin** to the central estimate of outstanding claims to reflect the inherent uncertainty in the central estimate	Requires the inclusion of a risk-adjustment to reflect the compensation the entity requires for taking on the risk.
Liability adequacy test to determine any deficiencies and losses to be recognized after the benefit of reinsurance held	Onerous contract test, performed independently of the benefit of reinsurance contracts held. However if certain scenarios, can take the corresponding gain to p/l from reinsurance contracts held.
Many companies provide **non-GAAP/IFRS measures**.	Companies and users of financial statements may need to use **fewer non-GAAP/IFRS measures**.

Background on IFRS 17

When?



Transition

Approach	December 2022 in December 2023	December 2023	Date of equity adjustment
Full Retrospective	**IFRS 17**	**IFRS 17**	**1 January 2022**
Modified retrospective (PE)	**IFRS 17**	**IFRS 17**	**1 January 2022**
Fair value (PE)	**IFRS 17**	**IFRS 17**	**1 January 2022**

- IFRS 17 is effective for periods beginning on or after 1 January 2023 but requires some form of restatement..

Amendments to IFRS 17

The following amendments have been confirmed as proposed in the 2019 exposure draft.

Area of IFRS 17	Implementation Concern	Amendment
Scope	Contracts for which the only insurance in the contract is for the settlement of some or all of the obligation created by the contract.	Election at portfolio level to be accounted for under IFRS 17/IFRS 9.
Presentation of insurance contracts	IFRS 17's requirement to present separately groups of insurance contracts that are assets from groups that are liabilities which has significant implications on some insurers' premium, cash and claims management systems.	Amend IFRS 17's presentation requirements such that the presentation of insurance contracts would be at a portfolio level, rather than based on groups of contracts.
Risk mitigation option – reinsurance contracts held	IFRS 17 allows an entity to recognize changes in the underlying financial risks in profit or loss using the VFA approach for certain derivatives. This is not permitted for reinsurance contracts used to mitigate financial risk.	IFRS 17 now will include the use of reinsurance contracts in the scope of the risk mitigation exception for insurance contracts with direct participation features (VFA approach).

Amendments to IFRS 17 (cont'd..)

The following amendments have been confirmed as proposed in the 2019 exposure draft.

Area of IFRS 17	Implementation Concern	Amendment
Transition – classification of insurance liabilities	IFRS 17's requirement to classify liabilities arising from the entity's obligation to settle claims that occurred before an insurance contract may be very complex in practice.	Able to measure these as liabilities for incurred claims
Transition – risk mitigation option.	IFRS 17 only permits an entity that uses the risk mitigation option in the variable fee approach to use the fair value transition approach if the full retrospective approach cannot be performed.	Amend IFRS 17 to modify the transition requirements for groups of contracts where the risk mitigation option is used under the variable fee approach.

IFRS 17 - Key concepts

Key IFRS 17 to cover

- What are we accounting for under IFRS 17?
- Measurement models
- Level of aggregation
- Onerous contracts
- Contract boundary
- Reinsurance

What are we accounting for under IFRS 17?

Identify the contract features

- How long is it?
- What are the rights and obligations?
- Performance criteria
- Services being provided
- Cancellation/ extension clauses?

Does it meet the definition of insurance contract?

- Is there a transfer of insurance risk? (not solely financial risk)
- Option to apply IFRS 9 or 17 to financial guarantees
- Some exceptions allowable for credit card related insurance

Any embedded derivatives/ investment/service components?

- Embedded derivatives & distinct investment components – separate – measure IFRS 9
- Non-distinct investment component stays and measured IFRS 17
- Distinct service components – IFRS 15

IFRS 17 measurement models

		General Measurement model (GMM)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
1	Why is it needed?	Default model for all insurance contracts (unless meet eligibility criteria for PAA)	A simplified measurement model for short term contracts or contracts with little variability	Deals with insurance contracts with direct participation features
2	Mandatory?	Mandatory	Optional if eligibility criteria are met	Mandatory if eligibility criteria are met
3	Reinsurance contracts?	Mandatory	Optional if eligibility criteria are met	Prohibited (both held and issued)
4	Liability for remaining coverage	Fulfilment cash flows, CSM ('Locked in') and risk adjustment	Based on premiums received (GWP- Premiums receivable) less directly attributable expenses paid (DAC – payables)	Fulfilment cash flows, CSM ('current') and risk adjustment
5	Liability for incurred claims	Fulfilment cash flows and risk adjustment – current assumptions	Fulfilment cash flows and risk adjustment – current assumptions	Fulfilment cash flows and risk adjustment – current assumptions
6	Types of contracts	• Long-term and whole life insurance, protection business • Certain annuities • US style universal life • Certain reinsurance written • Certain general insurance contracts	• Most general insurance contracts • Most short-term life and certain group contracts	• Unit-linked contracts, US variable annuities and equity index-linked contracts • Continental European 90/10 contract • UK with profits contracts

FSAA

IFRS 17 measurement models - continued

	Current IFRS/ GAAP	General measurement model	Premium Allocation Approach (PAA)
Unexpired risk = Liability for remaining coverage (LFRC)	UPR less DAC	Contractual service margin	Premium (less acquisition costs) unearned
		Risk adjustment	
		Discounting	
		Best estimate of fulfilment cash flows	
Expired risk = Liability for incurred claims (LIC)	Risk margin*	Risk adjustment	Risk adjustment
	Discounting	Discounting	Discounting
	Undiscounted reserves for past claims (including IBNR)	Best estimate of fulfilment cash flows	Best estimate of fulfilment cash flows

IFRS 17 Definitions

Contractual Service Margin = Unearned profits recognised over coverage period

Risk adjustment = Compensation entity requires for uncertainty. Quantifies the value difference between certain and uncertain liability

Discounting = Discounting future cash flows using 'top-down' or 'bottom-up' approach for discount rates to reflect characteristics of the liabilities

Best estimate cash flows – explicit, unbiased and probability weighted estimate of fulfilment cash flows

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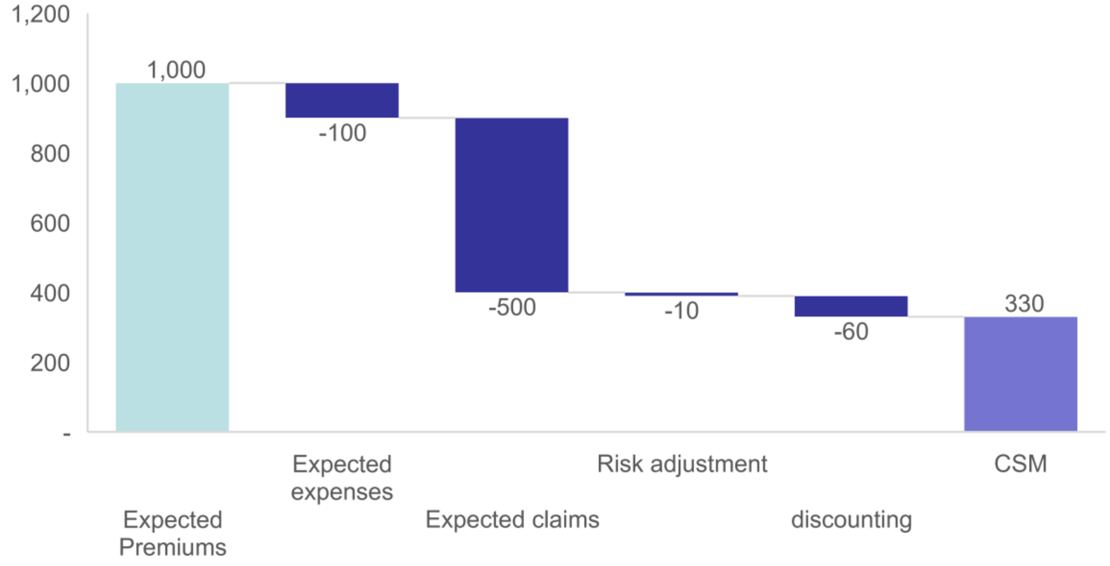
IFRS 17 measurement models
Liability for remaining coverage - GMM



- Upon initial recognition of a contract under the GMM, a Contractual Service Margin ("CSM") is set so that no profit is recognised up front
- Once the CSM has been established, it is then "earned" (i.e. the profit is released) in accordance with the services provided
  - In this simple* example (one year contract), the $330 will "earn" out over 12 months at $27.50 per month (assuming even coverage units)

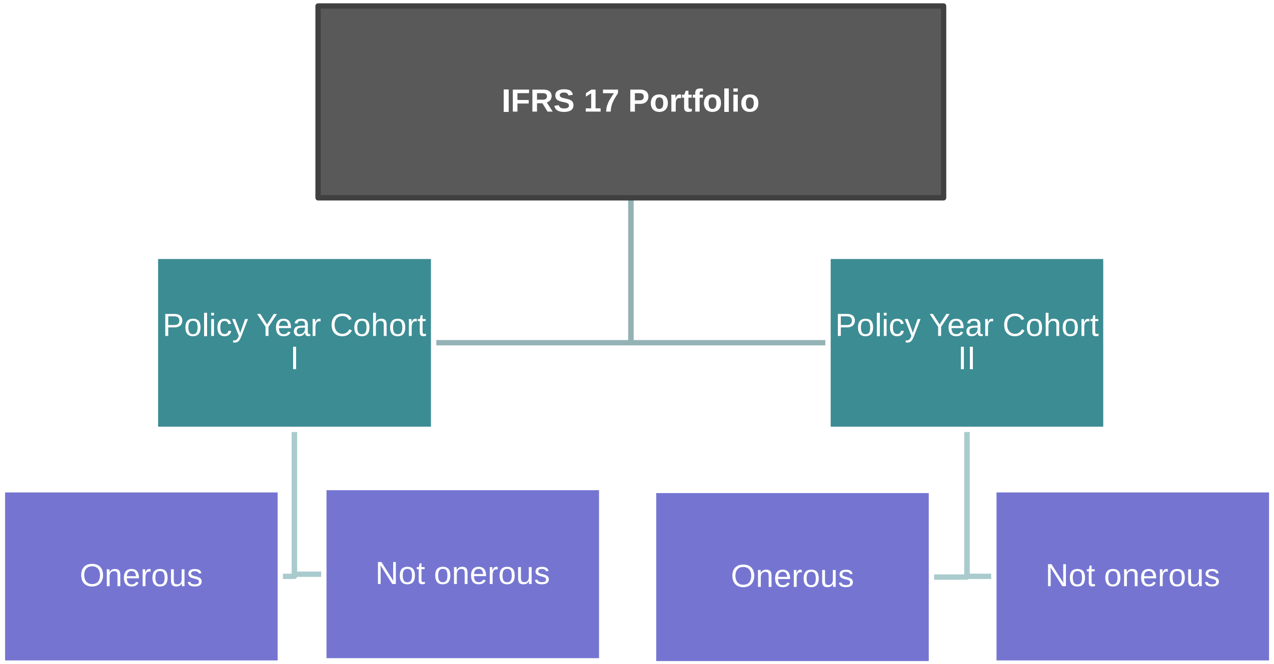
Level of aggregation
Determines the level of account

IFRS 17 portfolios are determined where there are similar risks which are managed together

Steps

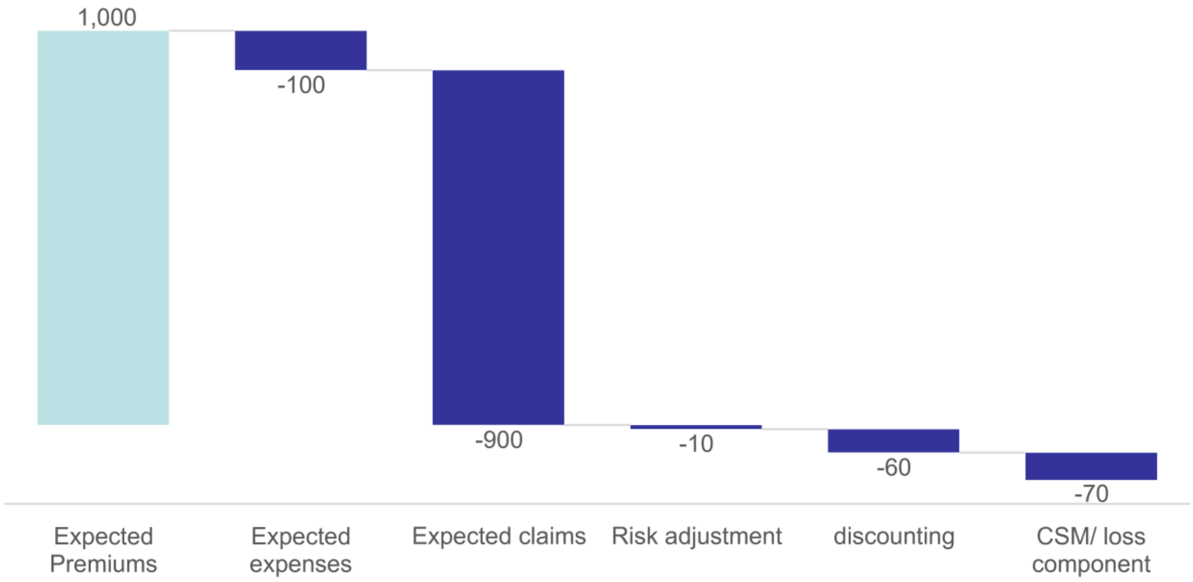
1. Start with **portfolios** of "contracts subject *to similar risks* and *managed together*"
2. Disaggregate into **cohorts** of policies issued *no more than one year apart*
3. Disaggregate further based on ***initial assessment of profitability***
4. The result is **Groups of Insurance Contracts (GICs)**

   - the "unit of account"



IFRS 17 measurement models
Onerous contracts

Onerous contracts – expected net cash outflow at either initial recognition or subsequent measurement



GMM

- CSM cannot be negative – if negative, take total loss to p/l and recognise a loss component which then amortised over time as claims/ expenses incur
- If the expected loss increases, take to the p/l and increase the loss component
- If expected loss decreases on subsequent measurement and becomes profitable – reinstate CSM

PAA

- Model assumes that the contracts are profitable
- Need to consider **'facts & circumstances'** as to whether there are indicators that the contracts are onerous
- If there are, need to compare LRC under PAA to future expected cashflows and if negative recognise a loss component and P/L impact

IFRS 17 key terms: Contract boundary

Determines what cashflows should be included for the purposes of measurement and recognition of the insurance contracts.

Defined by ***"substantive rights and obligations"*** compelling:

* the policyholder to pay premiums, or

* the insurer to provide insurance contract services

Ends (i.e.: substantive obligation end), when the entity has the practical ability to reassess the risks and set a price to reflect those risks

For reinsurance contracts held – the rights and obligations are more important to consider than pricing, as the pricing is not in the control of the entity

Considerations;

- Cancellation clauses
- Risk-attaching vs losses occurring
- Yearly renewable terms (YRT)

IFRS 17 key terms: reinsurance contracts held modifications

Consider losses occurring vs risks attaching

- Separate measurement & presentation from gross insurance contracts issued (no right of offset)
- Contract boundary can vary to gross, dependent on R&O

Modified to reflect that reinsurance contracts held are not to make profit but to protect a Company's balance sheet and reduce P/L losses and volatility

If underlying contracts are onerous, can take a portion of the ri csm (i.e.: gain) to the p/l at the same time and recognise a loss recovery component

CSM can be negative – representing the net cost, therefore LoA requirements are modified dependent on the likelihood of a net gain

Need to adjust cashflows for the risk of default
Risk adjustment reflects the risk transferred from the insurer to the reinsurer

Can use PAA or GMM, normal PAA eligibility rules apply.

Can't use variable fee approach – the insurer does not receive investment-related services from the reinsurer

IFRS 17 - Presentation

IFRS 17 Financial Statements: Statement of profit or loss

Income Statement Now and Then….

Terminology and Profit components are different

AASB 1023

	P&L	20X1
	Earned premiums	16,321
A	Reinsurance and other recoveries	368
	Reinsurance commission revenue	163
	Investment income	9,902
	Total income	26,754
	Reinsurance expense	(816)
B	Claims expense	(13,827)
	Underwriting expenses	(1,259)
	Total expenses	(15,902)
	Profit before tax	10,852
	Notes:	
A	Reinsurance and other recoveries received	360
	movement in reserve;	
	undiscounted	10
	discounted	(2)
	Total	368
B	Claims paid	(13,000)
	movement in reserve;	
	undiscounted	(832)
	discounted	5
	Total	(13,827)

IFRS 17

P&L	20X1
Insurance revenue	16,321
Insurance service	(15,091)
Insurance service result	1,230
Reinsurance recoveries	370
Reinsurance expenses	(653)
Reinsurance result	(283)
Net insurance result	947
Insurance finance expense/ income	5
Reinsurance finance expense/ income	(2)
Net finance expense/ income	3
Investment income	9,902
Net financial result	9,905
Profit before tax	10,852

IFRS 17 Financial Statements: Balance sheet

Balance Sheet Now and Then….

Terminology and components are different

AASB 1023

Balance Sheet	20X1
Financial Assets	226,297
Deferred acquisition costs	8,083
Deferred reinsurance expense	200
Premiums receivable	2,798
Reinsurance recoveries on outstanding claims	400
Other assets	4,000
Total Assets	**241,778**
Outstanding claims liabilities	1,500
Unearned premiums liabilities	5,595
Other liabilities	54,431
Total liabilities	**61,526**
Net assets	**180,252**
Equity	**180,252**

IFRS 17

Balance Sheet	20X1
Financial Assets	226,297
Insurance contract assets	4,042
Reinsurance contract assets	600
Other assets	4,000
Total Assets	**234,939**
Insurance contract liability	256
Other liabilities	54,431
Total liabilities	**54,687**
Net assets	**180,252**
Equity	**180,252**

IFRS 17 Glossary

Acronym	Long-form	Definition
LIC	Liability for incurred claims	Part of the overall insurance contract liability. Represents the obligation to pay claims or claims related payments for insured events that have occurred
LFRC	Liability for remaining coverage	The obligation that relates to the unexpired portion of the coverage period, can include insurance contract services that have not yet been provided and the future claims expected to be paid but which have not yet incurred.
CSM	Contractual service margin	Unearned discounted expected profit of the insurance contract or group of insurance contracts.
Onerous contract		A contract which is expected to be loss making.
GMM	General measurement model	Default measurement model for IFRS 17 – expected cashflow model. Also referred to as the building block approach
PAA	Premium allocation approach	Also referred to as the simplified approach. Can be used if contract boundary is </= 1 year or difference between GMM and PAA is proved to be not material.
VFA	Variable fee approach	Model under IFRS 17 to be used for contracts with direct participation features
NDIC	Non-distinct investment component	Investment component – an amount that the entity is required to pay back to the policyholder in all circumstances, regardless if a claim occurs. It is non-distinct if it is dependent on other insurance related cashflows.
LoA	Level of aggregation	The level at which portfolios of contracts are aggregated on the Balance sheet into asset and liability position. A portfolio comprises contracts which are subject to similar risks and managed together.
GIC	Group of insurance contracts	This is at which an entity recognises and measures contracts. Portfolios of insurance contracts are subdivided into groups based on expected profitability being; onerous, not onerous, potentially onerous.

THANK YOU
QUESTIONS?

Appendix

WORKED EXAMPLE

Illustrative Example

Microsoft Excel Worksheet

IFRS 17 Insurance Contracts

Effective Date
Periods beginning on or after 1 January 2021

Definitions

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

Financial risk – The risk of a possible change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract

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.

Reinsurance contract – An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts)

Group of insurance contracts – A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts written within a period of no longer than one year and that at initial recognition:

(a) Are onerous, if any;

(b) Have no significant possibility of becoming onerous subsequently, if any; or

(c) Do not fall into either (a) or (b), if any.

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

Fulfilment cash flows - An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows minus 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

Investment contract with discretionary participation features – A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts:

(a) That are expected to be a significant portion of the total contractual benefits;

(b) The timing or amount of which are contractually at the discretion of the issuer; and

(c) That are contractually based on

- (i) The returns on a specified pool of contracts or a specified type of contract;
- (ii) Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- (iii) The profit or loss of the entity or fund that issues the contract.

IFRS 4 VS IFRS 17

IFRS 4	IFRS 17
Some companies measure insurance contracts using **out-of-date assumptions**.	Companies will measure insurance contracts at **current value using updated assumptions and information to reflect economic changes**.
Some companies **do not consider the time value of money** when measuring insurance contract balances.	Companies will report estimated insurance contract balances on a **discounted basis**.
Some companies use the '**expected return on assets held**' as the discount rate to measure insurance contracts.	Companies will use a discount rate that **reflects the characteristics of the insurance future cash flows.**
Some companies do not provide standardized information about the **sources of profit** recognised from insurance contracts.	Companies are required to provide **more granular information about different components** of current and future profitability.
Many companies provide **non-GAAP/IFRS measures**.	Companies and users of financial statements may need to use **fewer non-GAAP/IFRS measures**.

IFRS 17 Insurance Contracts (cont'd..)

Effective Date
Periods beginning on or after 1 January 2021

Definitions (cont'd..)
Liability for incurred claims – An entity's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.
Liability for remaining coverage - An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the coverage period).
Risk adjustment for non-financial risk – The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Mandatory Scope Inclusions	Other Scope Inclusions
IFRS 17 applies to: (a) Insurance contracts and reinsurance contracts issued; (b) Reinsurance contracts held; and (c) Investment contracts with discretionary participation features if the entity also issues insurance contracts.	**IFRS 17 <u>may</u> apply to:** (a) Financial guarantee contracts if the entity has asserted it regards such contracts as insurance contracts (otherwise such contracts are within the scope of IFRS 9); and (b) Some service contracts, such as separately priced warranties on consumer goods that are serviced by third parties rather than the manufacturer (otherwise such contracts are within the scope of IFRS 15);

IFRS 17 Insurance Contracts (cont'd..)

Effective Date
Periods beginning on or after 1 January 2021

Unit of Account	Models for Application of the Requirements
IFRS 17 is applied at the level of groups of insurance contracts and not individual insurance contracts (though it is possible for groups of insurance contracts to consist of only a single contract). The composition of the group is not subsequently reassessed. At a minimum, contracts written within a period of no longer than one year are sub-divided at initial recognition into groups that contain contracts that are: (a) Onerous, if any; (b) Have no significant possibility of becoming onerous subsequently, if any; and (c) Do not fall into either (a) or (b), if any. An insurance contract is onerous if the fulfilment cash flows, any previously recognised acquisition cash flows and any cash flows arising from the contract are a net outflow.	**General model** – applies to all insurance contracts in the scope of IFRS 17, except for those covered by the premium allocation approach and the variable fee approach. The general model is also modified for reinsurance contracts held. **Premium allocation approach ("PAA")** – a method that simplifies the measurement of the liability for remaining coverage. The PAA is available for groups of contracts where the coverage period for all contracts is one year or less or if the entity reasonably expects that the PAA would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the general model. **Variable fee approach ("VFA")** - insurance contract liability is measured based on the obligation to pay the policyholder an amount equal to the value of the underlying items, net of consideration charged for the contract ("a variable fee"). Approach applies to direct participating contracts, based on policyholders being entitled to a significant share of the profit from a clearly identified pool of underlying items.

IFRS 17 Insurance Contracts (cont'd..)

Effective Date
Periods beginning on or after 1 January 2021

		General Model			
		Component	**Initial Measurement**	**Subsequent Measurement**	**Effect on Comprehensive Income**
Insurance Contract Assets / Liabilities	Liability of Remaining Coverage	**Present value of future cash flows** – estimate of all cash flows within the boundary of each contract in the group (e.g. premiums, acquisition cash flows, claims payments, claims handling costs, etc.). If certain requirements are met, fulfilment cash flows may be estimated at a higher level and then allocated to individual groups.	Estimate must be unbiased, reflect the perspective of the entity and be a current measure using all reasonable and supportable information available without undue cost or effort, discounted to reflect the time value of money.	Updated at each reporting period based on information available, with the effect of the discount unwinding over time.	Accretion of the discount reflected in profit or loss (or OCI -> see Discounting).
		Risk adjustment for non-financial risk – The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.	The risk adjustment must be an explicit estimate and will be entity-specific, which should be the amount of compensation an entity would require to make itself indifferent between a fixed series of cash flows and uncertain cash flows in the group of contracts.	Updated at each reporting period based on information available, with the effect of the discount unwinding over time. The release from risk may occur evenly over time or not depending on the nature of the risks insured.	Release of risk over time is reflected as insurance revenue, unless accounting policy choice is elected to reflect the accretion of the discount in insurance finance expense (see Discounting).
		Contractual service margin ("CSM") – represents the unearned profit the entity will recognise as it provides services under the insurance contracts in the group.	The CSM is set at an amount that makes a group of insurance contracts zero at the time of initial recognition (i.e. offsets fulfilment cash flows). If the fulfilment cash flows are negative (i.e. an onerous group of contracts exists), the loss is recognised immediately and no CSM exists.	CSM is updated for the effect of the discount unwinding and the unwinding of the CSM as services are provided in the period based on the allocation of the CSM over the current and remaining coverage period.	Accretion of the discount reflected in profit or loss (or OCI -> see Discounting), with the movement related to services provided reflected as insurance revenue.

IFRS 17 Insurance Contracts (cont'd..)

Effective Date
Periods beginning on or after 1 January 2021

		General Model			
Insurance Contract Assets / Liabilities	Liability for Incurred Claims	**Component**	**Initial Measurement**	**Subsequent Measurement**	**Effect on Comprehensive Income**
		Present value of future cash flows – once a loss event occurs, the best estimate of the cash flows required to settle the claim, including investigation, handling and settlement costs.	Same methodology as liability for remaining coverage.	Same methodology as liability for remaining coverage.	Accretion of the discount reflected in profit or loss (or OCI -> see Discounting). The effects of changes in estimates are recorded in insurance services expenses.
		Risk adjustment for non-financial risk – same methodology as liability for remaining coverage.	Same methodology as liability for remaining coverage.	Same methodology as liability for remaining coverage.	The effects of changes in estimate are reflected in insurance services expenses.

IFRS 17 Insurance Contracts (cont'd..)

Effective Date
Periods beginning on or after 1 January 2021

<table>
<tr><th rowspan="2"></th><th rowspan="2"></th><th colspan="2">Premium Allocation Approach</th><th rowspan="2">Variable Fee Approach</th></tr>
<tr><th>Measurement at Initial Recognition</th><th>Subsequent Measurement</th></tr>
<tr><td rowspan="2">Insurance Contract Liabilities</td><td>Remaining Coverage</td><td>If certain conditions are met, simplified measurement equal to:
(a) Premiums received at initial recognition
(b) Minus insurance acquisition cash flows *; plus
(c) Plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows
*May elect to expense acquisition cash flows as incurred. Conditions required to be met:
(a) There is a reasonable expectation that the measurement of the liability will not be materiality different from measurement using the full model in IFRS 17; and
(b) The coverage period of each contract in the group is one year or less.</td><td>If certain conditions are met, simplified measurement equal to:
(a) Carrying amount at start of period
(b) Plus premiums received in the period
(c) Minus insurance acquisition cash flows*
(d) Plus any amounts relating to the periodic amortisation of insurance acquisition cash flows recognised as an expense
(e) Plus adjustment for financing component
(f) Minus the amount recognised as insurance revenue **
(g) Minus any investment component paid or transferred
*May expense acquisition cash flows as incurred
**Expected premiums are allocated to revenue on the basis of the passage of time unless the expected pattern of release of risk during the coverage period differs significantly from the passage of time.</td><td>Similar to the general model, except that changes in estimates relating to the future fees an entity expects to earn from direct participating contract policyholders are adjusted against the contractual service margin.
The contractual service margin on direct participating contracts is recognised in profit or loss as part of insurance service results on the basis of the passage of time.
The accretion of interest relating to the contractual service margin is based on a current rate included in balance sheet measurements of specific assets, rather than a locked in rate as required in the general model.</td></tr>
<tr><td>Incurred Claims</td><td colspan="2">Measurement is consistent with the general model. However, discounting is not required if the cash flows on incurred claims are expected to be paid in one year or less from the date the claims are incurred.</td><td>Measurement is consistent with the general model.</td></tr>
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IFRS 17 Insurance Contracts (cont'd..)

Investment Contracts With Discretionary Participation Features	General model is modified as follows: a) the date of initial recognition is the date the entity becomes party to the contract. b) the contract boundary is modified so that 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. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks. c) the allocation of the CSM is modified so that it is recognised over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.
Reinsurance Contracts Held	General model is modified as follows: Group of reinsurance contracts held recognised: a) Proportionate coverage: later of the beginning of the coverage period of the group or at initial recognition of the underlying contract; b) All other cases: the beginning of the coverage period of the group of reinsurance contracts held. The net cost or net gain from a group of reinsurance contracts is deemed to be the CSM, unless the net cost relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, the cost is recognised immediately.

The CSM is subsequently measured as the previous carrying amount adjusted for:

a) The effect of any new contracts;
b) Interest accrued on the CSM;
c) Changes in the fulfilment cash flows;
d) The effect of any foreign exchange; and
e) The allocation of the CSM.

Changes in fulfilment cash flows that result from changes in the risk of non-performance by the issuer of the reinsurance contracts held do not relate to future service and therefore do not adjust the CSM.

The premium allocation approach may be used for reinsurance contracts held if certain criteria are met.

IFRS 17 Insurance Contracts (cont'd..)

Discounting	Modifications	Derecognition
For components of insurance contracts that must be discounted, the discount rate must: a) reflect the time value of money; b) be consistent with observable market prices for an instrument with cash flows whose characteristics are consistent with 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. Entities may elect to reflect in profit or loss only the finance expense related to a systematic allocation of the expected total finance expense over the duration of the group of insurance contracts. The other impact of the discount on the insurance contracts being a current measure is reflected in other comprehensive income.	Derecognise original contract only if any of the following apply: a) Had the modified terms been included at contract inception: i. It would have been outside the scope of IFRS 17; ii. Different components would have been separated from the host contract; iii. It would have had a substantially different contract boundary; or iv. It would have been included in a different group of insurance contracts. b) The original, but not modified, contract met the definition of an insurance contract with direct participation features (or vice versa). c) The premium allocation approach was applied to the original contract, but the eligibility criteria for that approach is not met for the modified contract. If none of the above apply, do not derecognise the contract and instead treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.	Derecognise only when: a) It is extinguished, i.e. when the obligation expires, is discharged or cancelled; or b) A modification meets any of the conditions for the insurance contract to be derecognised. The purchase of reinsurance results in the derecognition of the underlying insurance contract(s) only when the underlying insurance contract(s) is (or are) extinguished. Accounting for the derecognition of of insurance contract from within a group of contracts requires an adjustment to fulfilment cash flows, and contractual service margin of the group and remaining coverage units. Specific requirements apply to the accounting on the derecognition of an insurance contract arising from either: • A modification that meets any of the conditions for the insurance contract to be derecognised; or • The transfer of the insurance contract to a third party.

IFRS 17 Insurance Contracts (cont'd..)

<table>
<tr><th>Presentation</th><th>Disclosure</th><th>Transition</th></tr>
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<td>Separately for both insurance contracts issued and reinsurance contracts held, by group:

<u>Statement of Financial Position</u>

a) Insurance contracts issued that are assets;
b) Insurance contracts issued that are liabilities.

<u>Statement of Financial Performance</u>

a) Insurance revenue;
b) Insurance service expenses (e.g. incurred claims, other incurred insurance service expenses, amortisation of acquisition cash flows, etc.)
c) Insurance finance income or expenses.

The difference between (a) and (b) comprises the insurance service result which must be presented in the statement of financial performance.</td>
<td>Overall objective is to disclose sufficient information to gives a basis for users to assess the effect that insurance contracts have on an entity.

Disclosure requirements are significant and include both quantitative and qualitative disclosures about the amounts recognised in the statements of financial position, performance and cash flows, including reconciliations of amounts and the components comprising insurance contract assets and liabilities and significant judgments concerning their recognition and valuation.

For entities applying the premium allocation approach, some disclosure simplifications exist, however, disclosure requirements concerning the liability for incurred claims remain extensive, including the level used to determine the risk adjustment, the yield curve used for discounting, and the nature and extent of risks by major groups of contracts.</td>
<td>Effective for periods beginning on or after January 1, 2021. Early adoption is permitted; however, entities must also adopt IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

IFRS 17 must be applied retrospectively unless it is impracticable, with the net effect of adoption being recognised in equity as at the beginning of the comparative period.

If it is impracticable for an entity to adopt IFRS 17 retrospectively, it may apply:

a) Modified retrospective approach: several simplifications relating to the initial application are offered (e.g. CSM, insurance finance expense, etc.); or
b) Fair value approach: determine the CSM (or loss component) at the date of initial application as the difference between the fair value of a group of contracts and the fulfilment cash flows.</td>
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