IFRS 17 – Status quo & implications of the new accounting standard

2nd July 2019

pwc

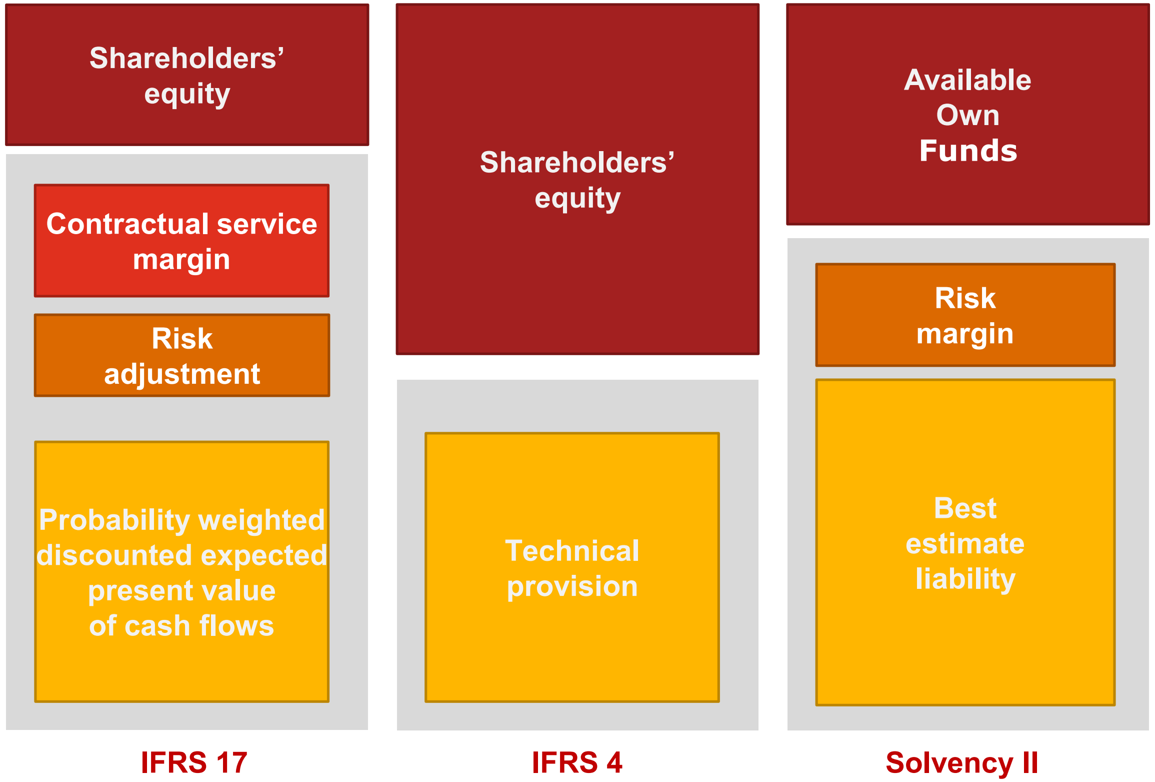
IFRS 17 – Status quo & implications

Agenda

1

Introduction to the IFRS 17 accounting approach

IFRS 17 principle understanding –comparison with other metrics



Impact

Complex reconciliation between metrics, e.g.

Multiple differences:

- Discount rates applied
- Risk adjustment or risk margin added to provisions
- Expected future profits in own funds (Solvency II) or in liabilities (IFRS 17 CSM)
- IFRS 17 and Solvency II: different goals for the measurement: own financial position and P&L focus versus prudential supervision and MVBS focus

Composition of the liability side of the balance sheet will change

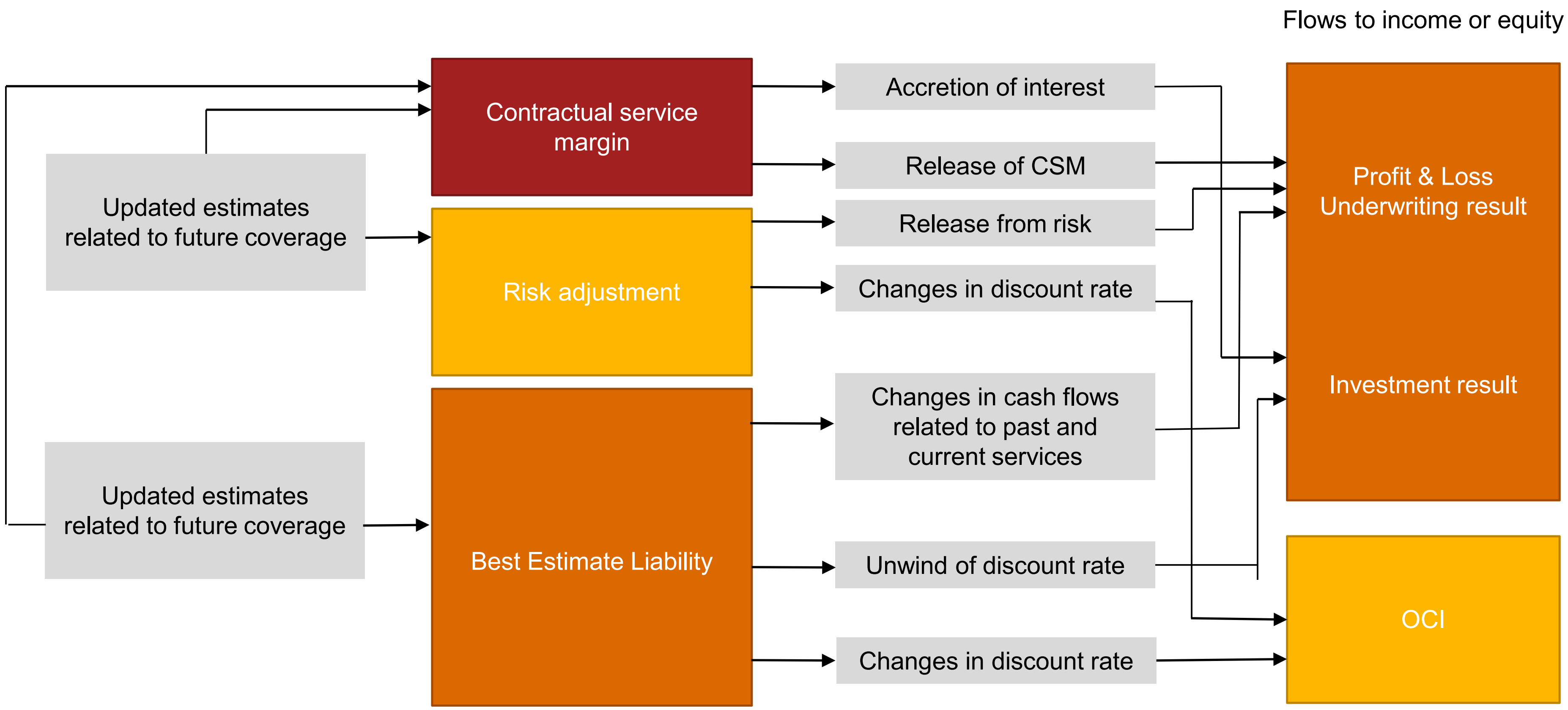
- As a result of the items above, the balance sheet amounts will change
- Detailed reconciliation (calculation steps) for preparation of P&L needed

Further specifications of the IFRS 17 measurement approaches

	General Approach (GA)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
Why is it needed?	**Default model** for all insurance contracts.	To **simplify for short term contracts** with little variability.	To deal with **participating business** where payments to policyholders are linked to underlying items like assets.

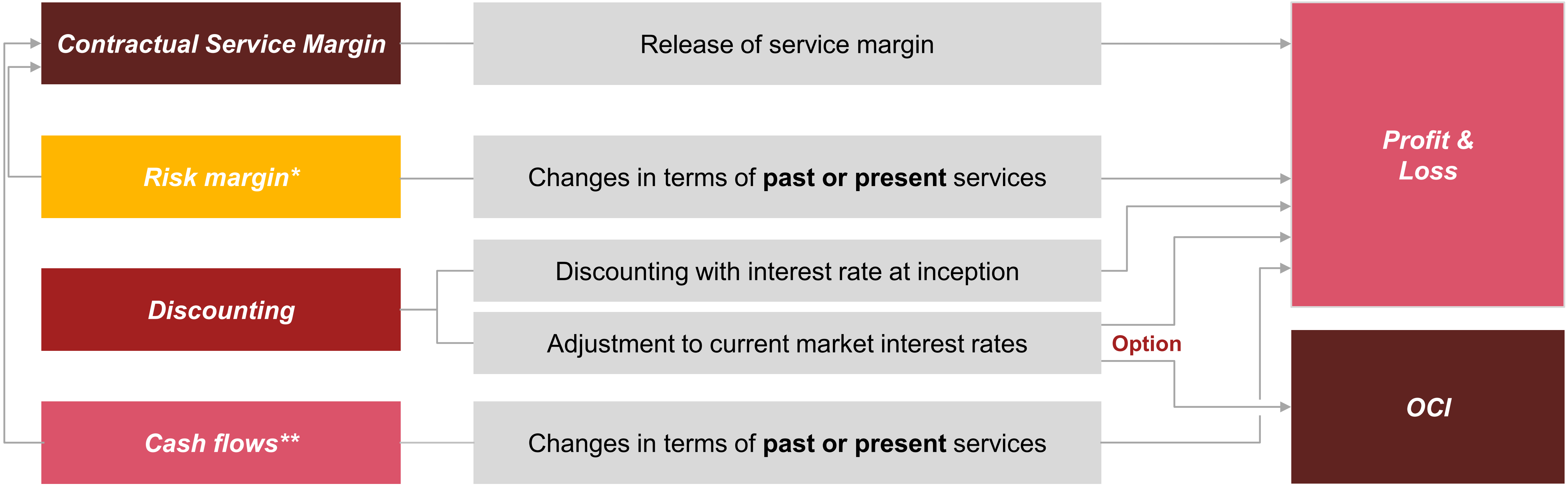
Types of contract	• Long-term and whole life insurance, protection busin.
	• Certain annuities
	  • inflation-linked annuity contracts
	  • fixed immediate annuity payments
	• Reinsurance written
	• Certain general insurance contracts
	
	Further specifics for so called “**indirect participating**” contracts
	(no substantial share of the PH in the underling investments)
		• General insurance, short term.
		• Short-term life and certain group contracts.
		• Reinsurance written and ceded (short term).
			• Unit-linked contracts, US variable annuities and equity index-linked contracts
			• Continental European 90/10 contract
			• UK with profits contracts

General Approach – How does it work?



IFRS 17 accounting in the General Model -
Processing of changes in the following valuation (-- for illustration--)

Subsequent valuation



* Adjustment of the service margin to changes of the risk margin, which affects <u>future</u> insurance coverage
** Adjustment of the service margin to changes of expected cash flows, which affects <u>future</u> insurance coverage

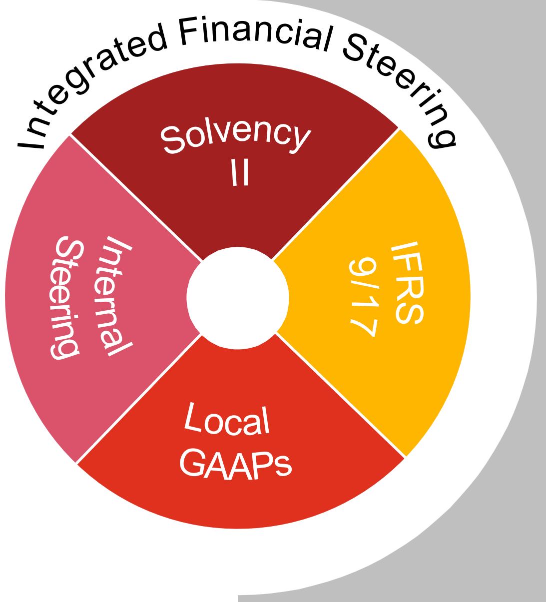
2

Financial key ratios and steering

Financial Key Ratios and steering under IFRS 17

Talk to your stakeholders (analysts, investors, public), what do they base their decisions on?

What internal steering approach is needed for the group? And locally?



Fine-tune YOUR leading key performance indicators, e.g.

Profitability	Coverage	New business	Leverage	Liquidity	Value at Risk

Drill-down to more granular levels, e.g.

Business segments	Regional segments	Products/ Portfolios	Risks	Sensitivities

Align with YOUR IFRS 17 implementation approach

Disclosures/ Reporting	Actuarial/ Asset Data	Systems	Local Fore-cast/Planning	Sensitivities

Examples of new IFRS 9/17 KPIs

- New business CSM of the period
- Average CSM per contract
- CSM/equity
- (CSM + RA)/equity
- Economic combined ratio
- OCI FI/OCI IC

What other KPIs, incl. non-GAAP measures, are YOU thinking about?

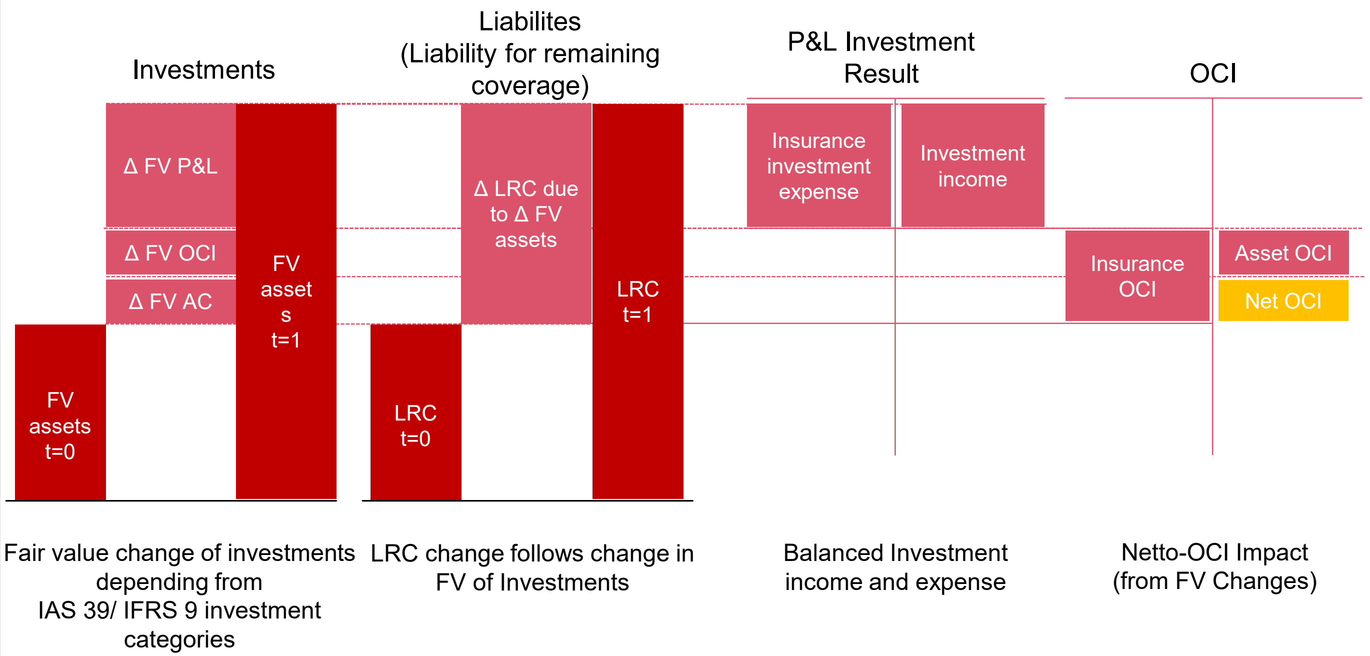
3

Variable Fee Approach

Understanding mechanics of the VFA

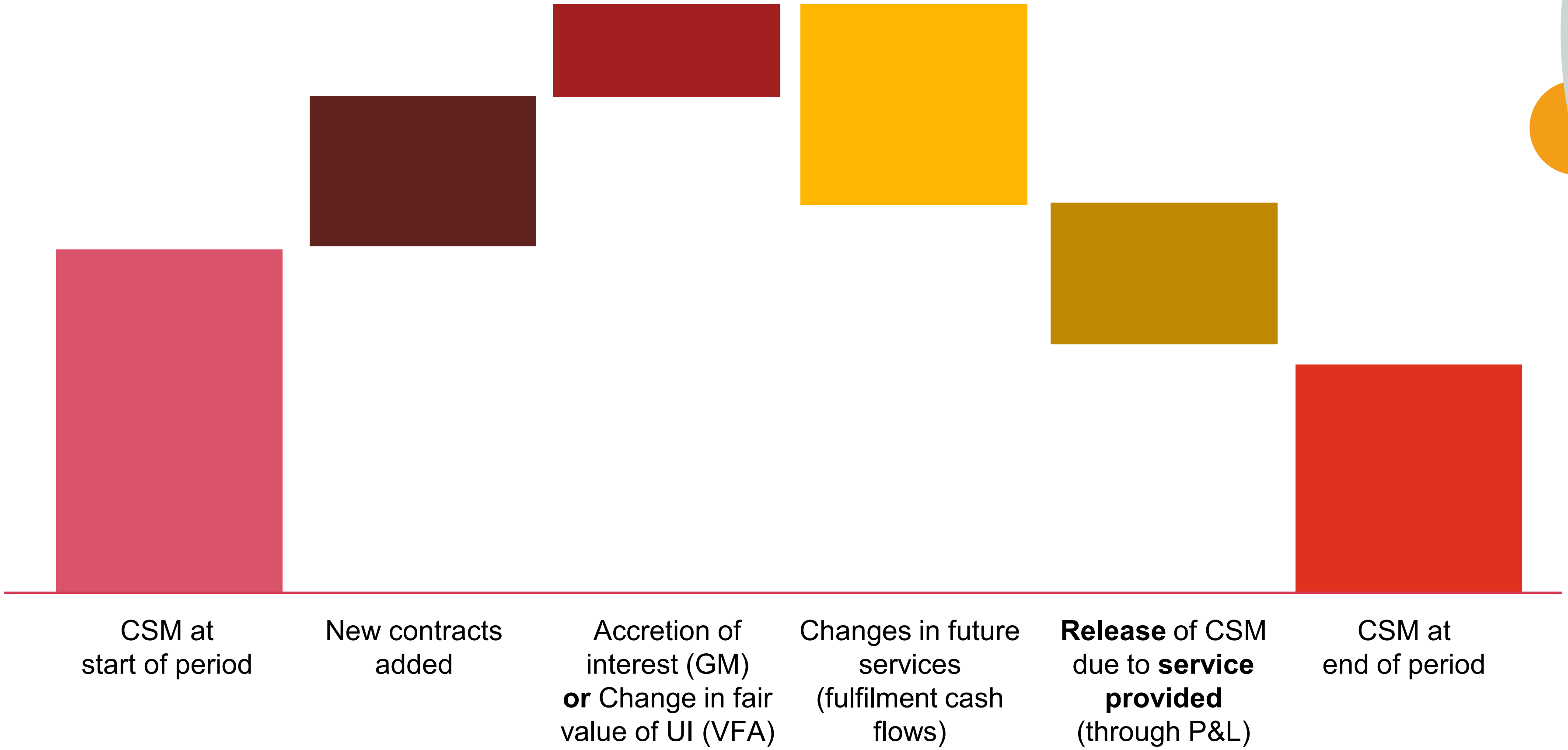
„Current Period Book Yield Approach“

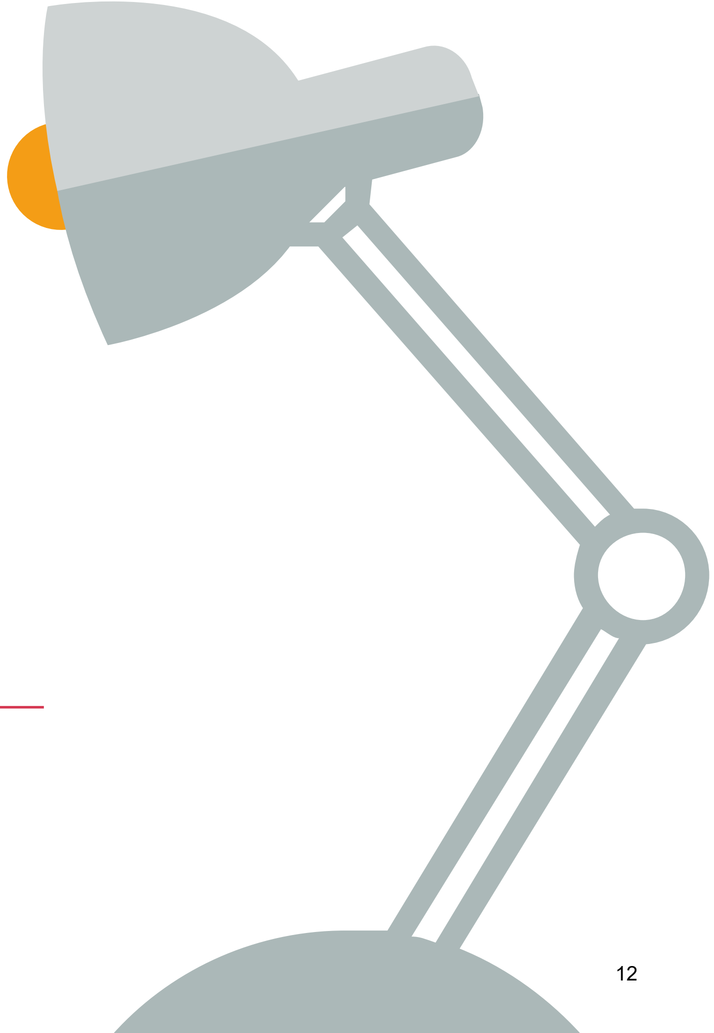
The Variable Fee Approach – Current Period Book Yield



CSM Roll Forward

Release of CSM and CSM Unlocking need to be understood in total





Release of Contractual Service Margin, it looks so simple, but …

How to measure the service provided during a period?

- Coverage units?
- Equal allocation?
- Expected coverage duration?
- Quantity of benefits provided?
- Reflection of transfer of service(s)?

How to operationalize? Different approaches are currently evolving …

Amortization according to …

- **Volume-based** release pattern (sum at risk, number of policies, local GAAP reserve, …)
- **Mixture** of different pattern
- **Profit/surplus-based** release pattern (gross surplus, annual net income, …) -- not accepted in general

Challenges & things to consider carefully

- Linkage between the amount of the CSM release and the reflection of service provided?
- Volatility generated by the underlying coverage unit (group-of contract view)?
- How are different services and product characteristics considered adequately when determining the CSM release approach (weighting of drivers, transparency and comprehensibility of the CSM release for stakeholders?
- In case of a profit-based pattern: Sustainability, sensitivity and discretion of management of the pattern?

"How to define an appropriate underlying coverage unit for the CSM release?"

Common understanding of the VFA for German business is still work in progress

Topic	Generic understanding & interpretation	Market view / observations
Underlying Item	• Appendix A defines UI as „Items that determine some of the amounts payable to a policyholder“ • IFRS 17.B106 provides more details and examples: Reference portfolio of investments • Net assets as long as clearly identified by the insurance contracts	• On-balance sheet item relating to UI: Investments relating to participating business (local GAAP based) • Other not investment related margins included in the business leading to future profit participation
Change of Fair Value of the Underlying Item	• Fair Value according to principles under IFRS 13 • Challenge in the German business: FV of the part of the UI that does not refer to the investment side	• This is often not yet defined in a strict manner • In a simplified view often only reference to the change of fair value of investments • Further change in future service already considered in CSM (according to GMM)
Service & coverage units	• Benefits provided to the policyholder • Insurance business related service • Investment related service • Service components linked with each other; no separate economic impact available	• In the concepts there is often not yet a complete picture described of what is the service • Needs to be understood that the service under the contract does not depend on uncertainty of risk / incurance of risk (TRG Paper May 2018)
Variable Fee	• Fee relating to the Underlying item for providing the service • Definition in IFRS 17.B104: Entity's share of the fair value less fulfilment cash flows that do not vary based on the returns on UI	• In the concepts there is often not yet a complete picture described of what is the service

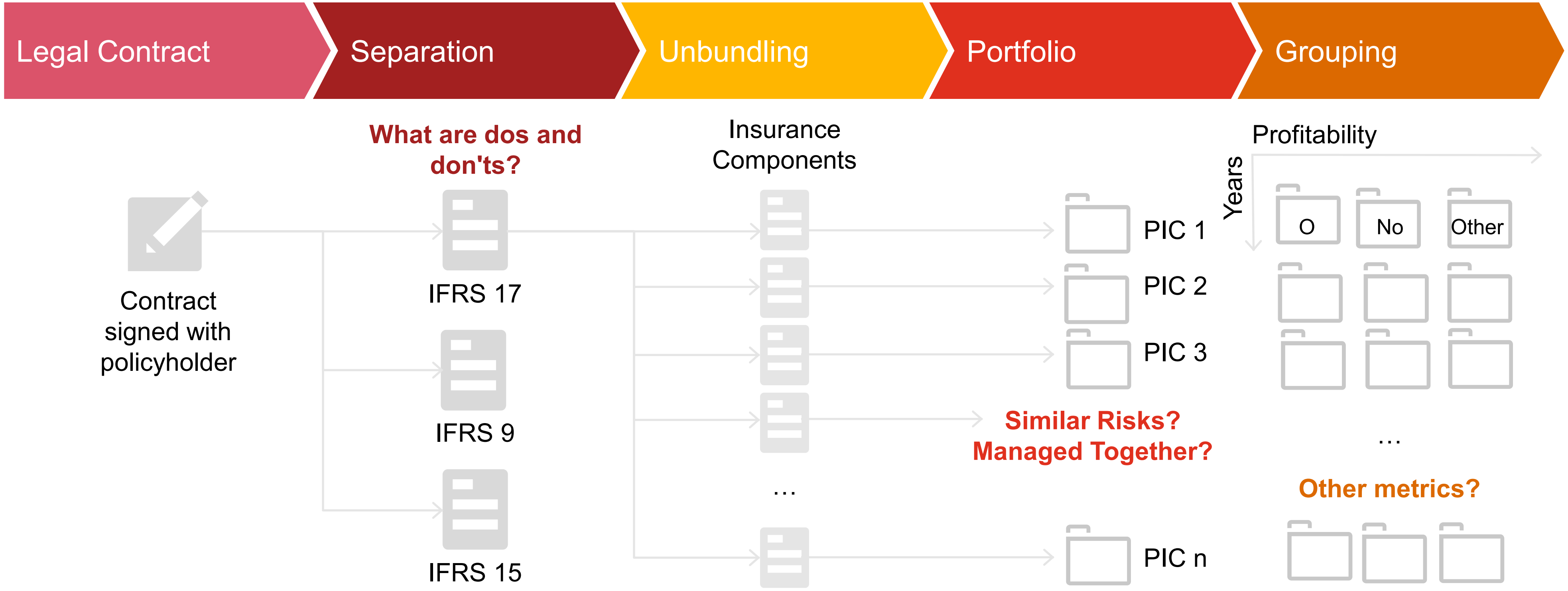
Common understanding of the VFA for German business is still work in progress

Topic	Generic understanding & interpretation	Market view / observations
Mutualisation	• Complex interaction of cash flows between group of contract level • Including interaction of new business of the year and existing business • Explicit modelling on CF level considered as beeing very complex	• Cornerstones of mutualization often not yet defined • If one GIC would lead to a loss and others bear benfit, can munualization be more than just avoiding a loss? • Approximations required
Experience Adjustments (Entities Share)	• Fluctuation of assumptions for cash flows (company share) relating to future service already included as a separate CSM roll fwd item in the GMM • Avoid double counting	• Therefore remaining changes of the Underlying item (entity share) often refers only to the investment related share of the UI
CSM Release & coverage units	• CSM Release relates to the service • Principles based definition von Coverage Units in IFRS 17.B119 • CSM Release needs to be adequate on GIC level • Annual cohorts to b considered	• Volume based approach (as illustrated by the standard setter) versus earnings based approach (not accepted in general) • Use of combined metrix to take into consideration the investment related services • CSM release refers to the level of CSM before release (thus after fluctuation)
(Non-distinct) Investment Component	• Non-distinct investment components: No equivalent non-insurance contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction • Criteria of being repaid / 100% flow-back in any case • Intension: “Pure” savings characteristics should not be presented as income or expense (but in the balance sheet items)	• Most important examples for German Life business: Surrender value and policyholder deposits

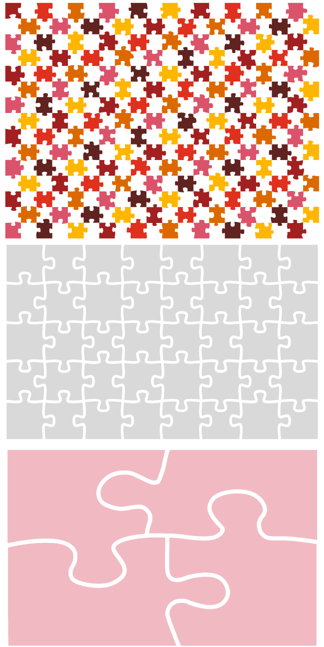
4

CSM release, level of aggregation and challenges (P&C)

Set the Level of Aggregation for Life, Health and P&C business … but just cut the Gordian knot …



How should the book of business looks like under IFRS?



Level of aggregation
Why is it so important?

Profit Emergence

For general model and VFA groupings, CSM release needs to be adequate on the group level. For PAA groupings, profit emergence considers seasonality within a group. Therefore, the level of aggregation is one of the key drivers of profit emergence.

Enhanced granularity could have adverse financial impacts resulting in potentially more onerous contracts. Losses on onerous contracts are recognized immediately in P&L.

Losses due to unfavorable assumption updates could be recognized faster under IFRS 17 than under IFRS 4. IFRS 4 allows a higher level of aggregation for Liability Adequacy Testing (LAT).

Operational Considerations

Level of aggregation requirements will result in operational challenges for adopters. New capabilities and enhancements to the data and systems architecture will be required to store and process large volumes of data.

Maximizing the number of contract groupings that qualify for PAA can reduce operational complexity

Financial Reporting and Steering Impacts

Decisions on the level of aggregation will impact valuation, but also financial reporting and disclosure requirements.

The appropriate level of aggregation will result in better information on performance, profitability and drivers of change providing management the ability to make well informed decisions.

P&C business granularities … some room for judgement

Top-down approach:
Start at portfolio level (similar risks, managed together)

3 groups at inception:
- Onerous;
- Profitable with no significant risk of becoming onerous; and
- Other profitable contracts

Risk of contracts becoming onerous:
- Internal reporting
- Sensitivity of fulfilment cash flows

Requires that a group shall not include contracts issued more than one year apart

Some market constraints prevent insurers from pricing for certain risk indicators

If a law or regulation specifically constrains
- insurer's practical ability to set a different price or level of benefits for policyholders with different characteristics
- then ignore that characteristic for grouping (eg male or female drivers)

- How granular is the reserving segment level? Does the company want to use the OCI option?
- What is the structure and characteristics of bundle products?
- What (reliable) information on business profitability is available to the management?
- How does the pricing & product strategy differ between different sales channels?

PAA makes life easier but PAA eligibility criteria are not so simple

Expected to apply to most property/casualty contracts and annual health contracts

- Simplification that may be applied when the entity **reasonably expects** that it would produce a measurement of the liability for remaining coverage for the group that **would not materially differ** from the general model or when the coverage period on the product is one year or less

Similar to traditional existing unearned premium approaches, but

- Use of "mean" rather than "best estimate" for incurred claims
- Discounting of incurred claims is generally required at a rate reflective of the underlying liabilities-a risk-free rate with an adjustment for liquidity
- Inclusion of "risk adjustment" to reflect uncertainty in amount/timing of unpaid claims
- Revenue pattern based on the passage of time or expected timing of incurred insurance service expenses, if the expected pattern of release from risk differs from the passage of time)

Key decisions required in order to determine PAA eligibilty include

How to determine materiality?	What means reasonable expects?	How is significant variability measured?
1	2	3

Some comments:

- **Materiality:** Absolute vs relative?
- How do **seasonality** and **premium payment** structure impact difference between PAA and GMM measurement?
- Where is **the outcome of variability** observable? LFRC, P&C, OCI (only)?

IFRS 17 challenges for accounting of reinsurance
(focus: P&C)

Topic	Selected key challenges	Market view / observations
Contract boundaries	• Multi-year RI coverages need to be accounted: What is the basis for accounting? • RI coverages on UWY basis might be open for multiple accident years; • RI contract clause might be considered in another way compared to Solvency II	• Basis for accounting is the RI contract and relating expectation of incoming business • RI cancellation clauses need to be assessed w.r.t economic substance
Group of contract	• Separation of contracts with multiple insurance coverages • IFRS 17 is silent on the separation of different insurance components within one legal contract	• The TRG discussed this topic and acknowledged that the lowest unit of account in IFRS 17 is the contract • However, there might be certain facts and circumstances where legal form does not reflect the substance and separation is required
PAA eligibilty	• Possible challenge to prove PAA eligibility for some facultative coverages, multi-year coverages comprising more than one accident year and treaties covering seasonal CAT business	• No consistent accounting model observed within the market: PAA is not the only dominant approach • Diversity of practice observed in definitions of materiality and reasonably expects
Onerous Contracts (Reinsurance held)	• Reflection of onerous underlying contracts on initial and subsequent measurement of reinsurance held	• Recent amendment to IFRS 17 allows for recognition of gains at inception on proportional held reinsurance when the underlying contracts are onerous

IFRS 17 challenges for accounting of reinsurance
(focus: P&C)

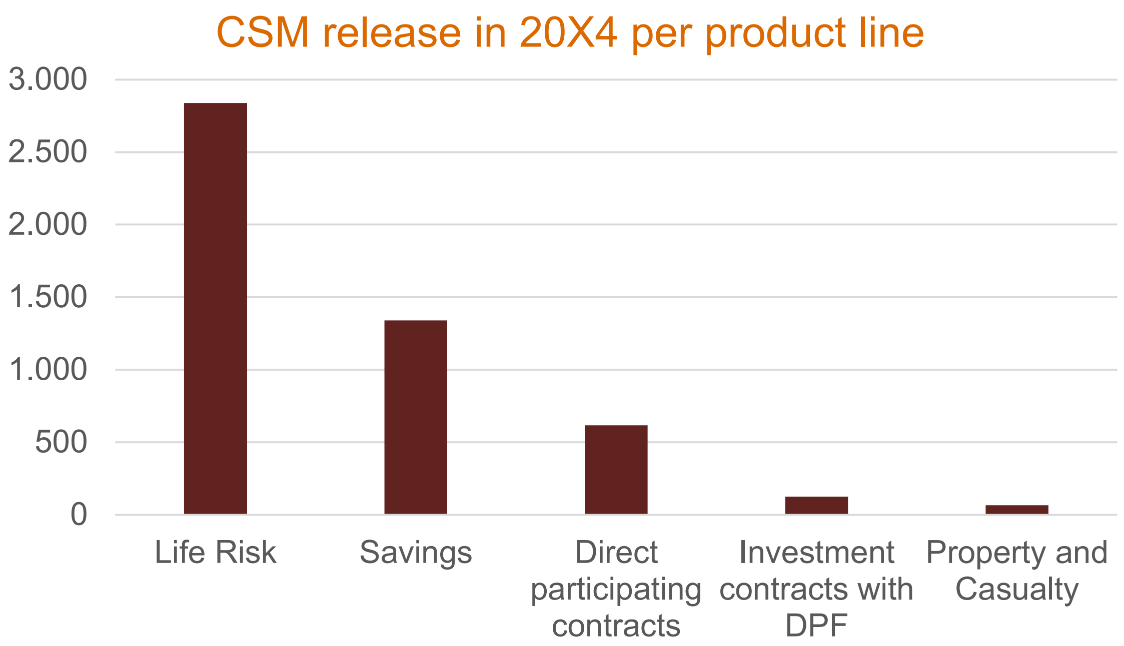
Topic	Selected key challenges	Market view / observations
Discount rate	• Insurance contracts are considered as monetary items • For RI contracts there might be a specific challenge that more than one material currency within a Group of contracts	• Split for measurement within one group of contracts versus use of one GIC currency
Risk Adjustment	• Specific models & calibrations might be used • An issuing entity may use a mix of methods to derive the RA. • Non-proportional held reinsurance may require RA methodology based on direct measurement rather than scaling factors	• The entity shall disclose the different methods and assumptions (subject to materiality) • Some companies propose the use of scaling factors to determine ceded risk adjustment
(Non-distinct) Investment Components	• Profit-sharing agreements and ceding commissions might need to be considered as non-distinct investment components	• Individual assessment of economic substance required • Measurement non-distinct investment components creates significant implementation challenges
Non-Performance Risk (Reinsurance held)	• Is non-performance risk of reinsurer measured as part of ceded fulfillment cash flows or can it be considered as part of ceded risk adjustment? • How are changes in non-performance risk reflected in financial statements?	• Changes in non-performance risk of the reinsurer should not impact CSM (goes directly to P&L)

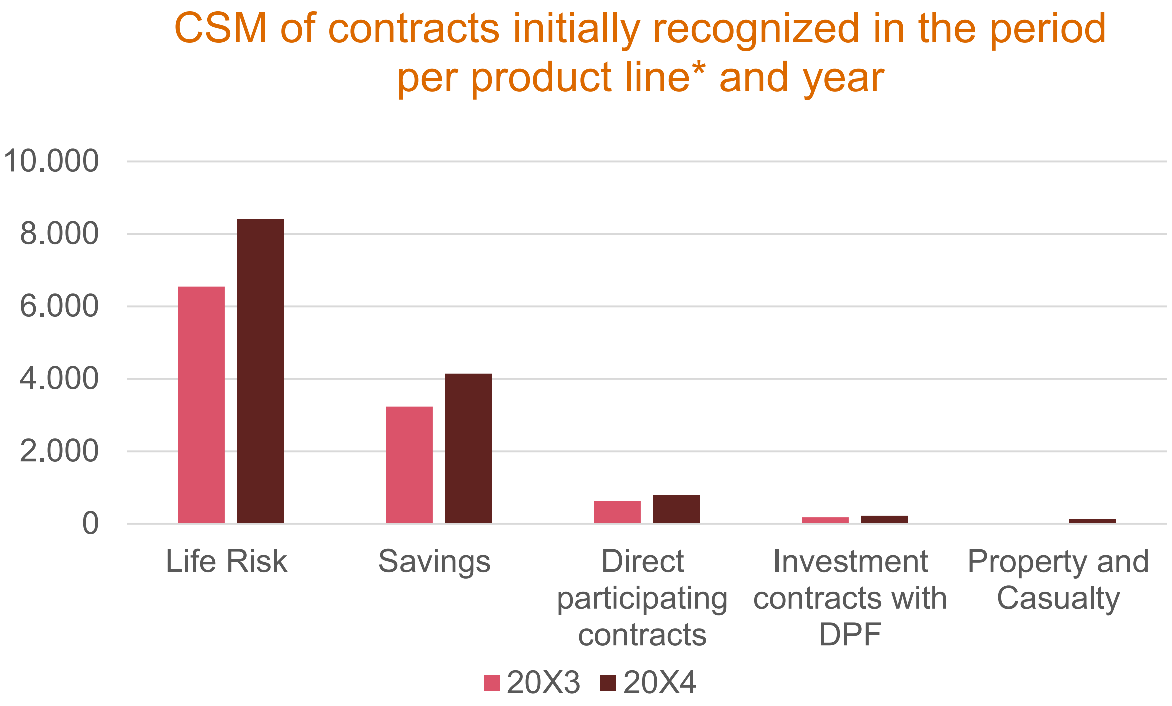
5

Disclosures

Comprehensive presentation and disclosures

Value Insurance Group Plc – Key figures





The CSM release to profit or loss over time is significant in explaining the performance of Value Insurance Group Plc. The Life Risk category is responsible for the highest CSM release, followed by Savings and Direct Participating Contracts.

Compared to 20X3, the CSM of new contracts has increased in 20X4. This is applicable for all product groups. Life Risk is responsible for the largest amount of CSM, followed by Savings and Direct Participating Contracts.

* Please note that the CSM under the P&C product line is from the run-off business acquired in January 20X4. The acquired business is measured under the GMM whereas the remaining product line is measured under PAA with no CSM.

Statement of Profit or loss (20x3 and 20x4)

Statement of profit or loss

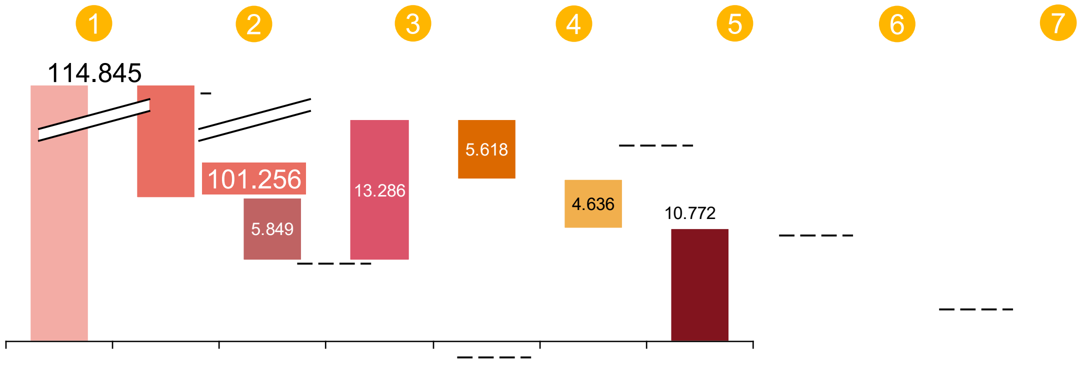
		Note	20X4	20X3
			Year ended 31 December	
1	Insurance revenue	2.4.1	114,845	93,252
2	Insurance service expenses	2.4.1	(101,256)	(81,959)
3	Net expenses from reinsurance contracts held	2.4.1	(5,849)	(3,859)
	Insurance service result		**7,740**	**7,434**
	Interest revenue from financial assets not measured at FVTPL	3.5	2,696	2,321
	Net gains on FVTPL investments	3.5	11,129	8,214
	Net gains on investments in debt securities measured at FVOCI reclassified to profit or loss on disposal	3.5	78	51
	Net change in investment contract liabilities	3.4, 3.5	(756)	(672)
	Net gains from the derecognition of financial assets measured at AC	3.5	22	13
	Net gains from fair value adjustments to investment properties	3.5	157	552
	Net credit impairment losses	3.5, 3.7	(40)	(31)
4	**Net investment income**		**13,286**	**10,448**
	Finance expenses from insurance contracts issued	3.5	(7,228)	(3,804)
	Finance income from reinsurance contracts held	3.5	1,610	501
5	**Net insurance finance expenses**		**(5,618)**	**(3,303)**
	Net insurance and investment result		**15,408**	**14,579**
	Asset management services revenue		1,133	888
6	Other finance costs		(2,283)	(1,962)
	Other operating expenses	5	(3,949)	(3,099)
	Share of profit of associates and joint ventures accounted for using the equity method		463	365
7	**Profit before income tax**		**10,772**	**10,771**
	Income tax expense		3,155	3,087
	Profit for the year		**7,617**	**7,684**

Source: page 8, Consolidated statement of profit or loss

20X4 developments

In 20X4, the Group continued to experience significant growth in its Life Risk and Savings product lines.

A corresponding increase in insurance contract balances and investment assets was a primary driver for increased net investment income in insurance and investment product lines, and an increase in net insurance finance expenses compared to 20X3.



Statement of Profit or loss – commentary

Statement of profit or loss

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Source: page 8, Consolidated statement of profit or loss

PwC commentary - Insurance service result

1 Insurance revenue reflects the consideration to which the insurer expects to be entitled in exchange for the services provided on an earned basis. Insurance revenue under IFRS 17 is no longer equal to the premium received in the period. IFRS 17 makes it clear that an insurer should not present premium information in profit or loss if that information is not in line with the definition of insurance revenue.

2 Only items that reflect insurance service expenses (i.e. incurred claims and other insurance service expenses arising from insurance contracts the Group issues) are reported as insurance expenses. As a result, when applying IFRS 17, repayment of non-distinct investment components is not presented as an insurance expense but rather as a settlement of an insurance liability.

Source: page 9, Consolidated statement of profit or loss

Insurance revenue & expense

Statement of profit or loss

20X4	Life Risk	Savings	Partcipating Direct participating contracts	Partcipating Investment contracts with DPF	Property and Casualty	Total
Note	2.5	2.6	2.7	2.7	2.8	
Insurance revenue						
Contracts not measured under the PAA						
Amounts relating to the changes in the LRC						
- Expected incurred claims and other expenses after loss component allocation	61,859	15,827	187	98	3,039	81,010
- Change in the risk adjustment for non-financial risk for the risk expired after loss component allocation	6,545	1,675	20	10	347	8,597
- CSM recognised in profit or loss for the services provided	2,838	1,341	618	127	66	4,990
Insurance acquisition cash flows recovery	2,061	996	132	34	-	3,223
Insurance revenue from contracts not measured under the PAA	73,303	19,839	957	269	3,452	97,820
Insurance revenue from contracts measured under the PAA	-	-	-	-	17,025	17,025
Total insurance revenue	**73,303**	**19,839**	**957**	**269**	**20,477**	**114,845**
Insurance service expenses						
Incurred claims and other directly attributable expenses	(63,229)	(16,167)	(189)	(98)	(14,525)	(94,208)
Changes that relate to past service - adjustments to the LIC	-	-	-	-	(469)	(469)
Losses on onerous contracts and reversal of those losses	(36)	-	-	-	-	(36)
Insurance acquisition cash flows amortisation	(2,061)	(996)	(132)	(34)	(3,320)	(6,543)
Total insurance service expenses	**(65,326)**	**(17,163)**	**(321)**	**(132)**	**(18,314)**	**(101,256)**

638

1226

453

1

2

PwC commentary

Presentation of assets and liabilities in the order of liquidity: IAS 1 allows the presentation of assets and liabilities on the balance sheet in the order of liquidity without segregating by current and non-current.

Groups of insurance contracts in an asset position are presented separately from those in a liability position (no offsetting). Groups of insurance contracts issued are presented separately from groups of reinsurance contracts held.

Separate disclosure for reinsurance held

Participating contracts – Overall information

The product

The Participating segment offers a variety of direct participating contracts and investment contracts with DPF where an insurer shares the performance of underlying items with policyholders. All contracts issued have single premiums invested for five to ten-year terms.

Direct participating contracts include fixed and guaranteed death benefits for the first five years of the contract term and also provide an investment return to policyholders.

Investment contracts with DPF provide policyholders with an exposure to foreign bond markets combined with guarantees protecting the amount invested. Investment contracts with DPF do not have significant insurance risk but provide policyholders with investment returns at the discretion of the Group, supplementary to returns not subject to the Group's discretion.

Participating

Offers contracts with single premiums for 5-10 year terms:

- Direct participating contracts with fixed and guaranteed death benefits the first 5 years of contract term + investment return.
- Investments contracts with discretionary participation features (DPF)
- Investment contracts without DPF.

Detailed reconciliations – VFA (direct participating only)

	20X4			
	Present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Opening insurance contract liabilities	47,828	98	3,295	51,221
Opening insurance contract assets	-	-	-	-
Net balance as at 1 January	**47,828**	**98**	**3,295**	**51,221**
Changes that relate to current service				
CSM recognised in profit or loss for the services provided	-	-	(618)	(618)
Change in the risk adjustment for non-financial risk for the risk expired	-	(20)	-	(20)
Experience adjustments	2	-	-	2
	2	**(20)**	**(618)**	**(636)**
Changes that relate to future service				
Changes in estimates that adjust the CSM	(277)	-	277	-
Changes in estimates that result in onerous contract losses or reversal of losses	-	-	-	-
Contracts initially recognised in the period	(816)	26	790	-
	(1,093)	**26**	**1,067**	**-**
Changes that relate to past service				
Changes that relate to past service - adjustments to the LIC	-	-	-	-
Insurance service result	**(1,091)**	**6**	**449**	**(636)**
Finance expenses from insurance contracts issued recognised in profit or loss	2,194	3	-	4 2,197
Finance expenses from insurance contracts issued recognised in OCI	457	-	-	457
Finance expenses from insurance contracts issued	**2,651**	**3**	**-**	**2,654**
Total amounts recognised in comprehensive income	**1,560**	**9**	**449**	**2,018**

PwC commentary

For the direct participating contracts measured under the VFA, the Group holds the underlying items and has applied the OCI option.

The amount reflected in profit or loss eliminates the accounting mismatch with the income or expenses included in profit or loss on the underlying investment assets.

The Group separately included amounts of finance expenses from insurance contracts issued recognised in profit or loss and amounts reflected in OCI.

Total amounts recognised in comprehensive income	**1,829**	**-**	**189**	**2,018**
Investment components	(3,072)	-	3,072	-
Other changes	-	-	-	-
Cash flows				
Premiums received	11,362	-	-	11,362
Claims and other directly attributable expenses paid	-	-	(3,261)	(3,261)
Insurance acquisition cash flows	(227)	-	-	(227)
Total cash flows	**11,135**	**-**	**(3,261)**	**7,874**
Net balance as at 31 December	**61,113**	**-**	**-**	**61,113**
Closing insurance contract liabilities	61,113	-	-	61,113
Closing insurance contract assets	-	-	-	-
Net balance as at 31 December	**61,113**	**-**	**-**	**61,113**

Detailed reconciliations – VFA (direct participating only)

	20X4			
	LRC			
	Excluding loss component	Loss component	LIC	Total
Opening insurance contract liabilities	51,221	-	-	51,221
Opening insurance contract assets	-	-	-	-
Net balance as at 1 January	**51,221**	**-**	**-**	**51,221**
Insurance revenue	**(957)**	**-**	**-**	**(957)**
Insurance service expenses				
Incurred claims and other directly attributable expenses	-	-	189	189
Changes that relate to past service - adjustments to the LIC	-	-	-	-
Losses on onerous contracts and reversal of those losses	-	-	-	-
Insurance acquisition cash flows amortisation	132	-	-	132
Insurance service expenses	**132**	**-**	**189**	**321**
Insurance service result	**(825)**	**-**	**189**	**(636)**
Finance expenses from insurance contracts issued recognised in profit or loss	2,197	-	-	2,197
Finance expenses from insurance contracts issued recognised in OCI	457	-	-	457
Finance expenses from insurance contracts issued	**2,654**	**-**	**-**	**2,654**
Total amounts recognised in comprehensive income	**1,829**	**-**	**189**	**2,018**
1 Investment components	(3,072)	-	3,072	-
Other changes	-	-	-	-
Cash flows				
Premiums received	11,362	-	-	11,362
Claims and other directly attributable expenses paid	-	-	(3,261)	(3,261)
Insurance acquisition cash flows	(227)	-	-	(227)
Total cash flows	**11,135**	**-**	**(3,261)**	**7,874**
Net balance as at 31 December	**61,113**	**-**	**-**	**61,113**
Closing insurance contract liabilities	61,113	-	-	61,113
Closing insurance contract assets	-	-	-	-
Net balance as at 31 December	**61,113**	**-**	**-**	**61,113**

Source: page 77, Participating reconciliations

Investment components

1 **Investment components (comprising account values) that are expected to become payable in the current period are included in the LRC at the beginning of the period.**

However, actual payments of account values to policyholders are reflected in the LIC column.

That is why the line ‘Investment components’ is required in the reconciliation to show the transfer of the account value amounts that are payable in the current period from the LRC to the LIC column.

Source: page 76 Investment components,

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Latest developments

IASB decisions and Staff proposals (PwC's view in May 2019)

- 1 Effective date: 1/1/2022
- 0 Temporary exemption from applying IFRS 9
- 4 Coverage units in general model
- 2 IFRS 17 scope – loans
- 5 Limited applicability of risk mitigation exception
- 3 Acquisition cash flows for renewals
- 6 Reinsurance held: Accounting mismatches
- 7 Separate presentation of groups of assets and groups of liabilities
- 8 Transition, modified retrospective approach: further modifications

Next steps

- Expected for endo of June 2019: Exposure Draft of the amendments to IFRS 17
- Short Comment period (90 Days)
- Discussion of comments
- Finalisation of amendments

Accepted

Rejected

Declinded by IASB but intended to re-discuss by stakeholders)

- Level of Aggregation
- Presentation Requirements
- Transition Reliefs

- Locked-in rate for CSM
- Reinsurance held: contract boundary
- Discount rates and risk adjustment
- Presentation: premiums receivable
- Risk adjustment in a group (diversification)
- PAA: premiums received
- Business combination: classification of contracts
- Insurance contract with direct par features
- Business combination: contracts acquired in settlement
- OCI option for insurance finance income or expenses
- Interims: accounting estimates
- Comparative information
- Reinsurance held: ineligibility for VFA
- Transition: optionality
- Transition, FV approach: OCI on related financial assets

Exposure Draft (2019): Amendments to IFRS 17


June 2019

IFRS® Standards
Exposure Draft ED/2019/4

Amendments to IFRS 17

Comments to be received by 25 September 2019

IASB®

IFRS®

1. Deferral of the effective date from 2021 to 2022
2. Additional scope exclusions
3. Allocation of acquisition costs to expected contract renewals
4. Attribution of profit to service relating to investment activities
5. Extension of the risk mitigation option
6. Reduced accounting mismatches for reinsurance
7. Simplified balance sheet presentation
8. Additional transition reliefs

Exposure Draft (2019): Amendments to IFRS 17


June 2019

IFRS® Standards
Exposure Draft ED/2019/4

Amendments to IFRS 17

Comments to be received by 25 September 2019

IASB

IFRS

Proposals in this Exposure Draft

This Exposure Draft proposes targeted amendments to IFRS 17 relating to the following topics:

(a) scope exclusions – credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30);

(b) expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A – 105C, B35A–B35C and BC31–BC49);

(c) contractual service margin attributable to investment-return service and investment-related service (paragraphs 44-45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66);

(d) reinsurance contracts held – recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90);

(e) presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100);

(f) applicability of the risk mitigation option (paragraphs B116 and BC101–BC109);

(g) effective date of IFRS 17 and the IFRS 9 *Financial Instruments* temporary exemption in IFRS 4 (paragraph C1, [Draft] Amendments to IFRS 4 and paragraphs BC110–BC118);

(h) transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146); and

(i) minor amendments (see paragraphs BC147–BC163).

The Basis for Conclusions explains the Board's rationale for the proposed amendments in this Exposure Draft. The Basis for Conclusions also explains the Board's rationale for other amendments the Board considered and decided not to propose (paragraphs BC164–BC220). Paragraph BC221 of the Basis for Conclusions summarises the likely costs and benefits of the proposed amendments.

Who would be affected by the proposals in this Exposure Draft?

The proposed amendments could affect any entity that issues insurance contracts within the scope of IFRS 17.

When would the proposals be effective?

This Exposure Draft proposes that entities would be required to apply the amended Standard for annual reporting periods beginning on or after 1 January 2022.

Next steps

The Board will consider comments it receives on the Exposure Draft before 25 September 2019 and will decide whether to proceed with the proposed amendments to IFRS 17. The Board plans to publish any resulting amendments to IFRS 17 in mid-2020.

Although further implementation issues could arise, the Board expects that any further issues would be unlikely to lead to further standard-setting. Stakeholders have had a significant amount of time since the issuance of IFRS 17 to identify substantive implementation issues and the Board expects any such issues to have already been identified. In addition, recognising that any further changes to IFRS 17 are more likely to disrupt rather than help the implementation process, the Board is reluctant to propose further amendments until after the Post-implementation Review of IFRS 17.

EU Endorsement?

Expected timeline

IFRS 17 expected timeline

18 May 2017	26 June 2019	25 September 2019	Mid-2020	January 2022
IFRS 17 issued	Exposure Draft of proposed amendments to IFRS 17 issued	Deadline for comments on proposed amendments to IFRS 17	Expected finalisation of amendments to IFRS 17	Effective date (IFRS 17 including proposed amendments)

CFO Forum (Juni 2019)

The CFO Forum demands further changes beside the Exposure Draft

1. Level of Aggregation

The CFO Forum proposed to remove the requirement to group contracts by annual cohorts. This change was proposed as the current prohibition to aggregate contracts issued more than one year apart results in groupings that are inconsistent with the way firms manage their business and introduces significant implementation efforts and undue costs.

Considering the strong views at the IASB, we have now, in the interest of finding compromise solutions, limited the proposed amendments to:

(a) business where conceptually annual cohorts are most inconsistent with how the business is managed, i.e. VFA business with mutualisation

(b) the largest operational impact for other businesses, i.e. no annual cohorts at transition for in-force business (but no change for new business)

2. Transition

(a) The CFO Forum is proposing to extend the relief available to enable more wide spread capability to use the modified retrospective model.

(b) The CFO Forum proposes to extend the 'matching' of cumulative OCI on assets and liabilities that already exists in IFRS 17 for VFA to the General Model.

(c) Insurance contracts that were issued by the reporting entity are treated differently from insurance contracts that were acquired in a business combination. This introduces significant complexities for the in force business at transition to IFRS 17 if that is a mix of issued and acquired businesses. The CFO Forum proposes to remove the need to distinguish, at the transition to IFRS 17, contracts acquired in historical business combination from own issued contracts.

(d) The CFO Forum also proposed in its earlier solutions to remove the prohibition to apply the "risk mitigation option" retrospectively. Although the IASB has tentatively decided not to resolve this issue in the upcoming ED, we understand that the IASB is open to reconsider this issue. Therefore, we have included it in the proposed solutions.

3. Presentation

The CFO Forum proposes changes in 2 areas. These are items which do not impact the consolidated results (neither shareholders' equity nor net result, neither at transition nor going forward) of insurance groups, but would:

(a) eliminate differences between solo statutory IFRS 17 results and the results included in the Group consolidation that are solely caused by different reporting frequencies (quarterly, semi-annual, annual), hence eliminating the need for dual accounting processes; and

(b) provide additional implementation time by not having to restate the comparative information for IFRS 17 in the first audited financial statements (similar to the existing relief in IFRS 9).

Current view of the IASB?

Although further implementation issues could arise, the Board expects that any further issues would be unlikely to lead to further standard-setting. Stakeholders have had a significant amount of time since the issuance of IFRS 17 to identify substantive implementation issues and the Board expects any such issues to have already been identified. In addition, recognising that any further changes to IFRS 17 are more likely to disrupt rather than help the implementation process, the Board is reluctant to propose further amendments until after the Post-implementation Review of IFRS 17.

http://cfoforum.eu/downloads/CFO-Forum-IFRS17-Priorities-14Jun2019.pdf