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Accounting for premium repayments

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Agenda

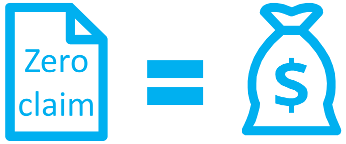
- Premium repayments
- Illustrative examples - accounting for premium repayments
  - Refund of premium
  - No claim bonus
  - Experience refund
- Practical considerations

Premium repayments

Overview

Examples of premium repayments[1] covered in this webcast:

Refund of premium (ROP)



No-claim bonus (NCB)

Experience refund (ER)

IFRS 17 *does not* prescribe any specific treatment for premium repayments that do not meet the definition of a Non-Distinct Investment Component (NDIC).

except →

IFRS 17 guidance

ROP may be included within the reconciliation tables in the disclosure notes:

- by combining ROP with the NDIC amounts; or
- by deducting the amount from the premiums received during the period.

Although ROP can be disclosed together with a NDIC, ROP's do not meet the definition of NDIC because there is at least one circumstance under which the ROP is not due to be repaid to the policyholder.

[1] Do not meet the definition of a Non-Distinct Investment Component

Premium repayment transactions

Relevant IFRS 17 guidance

Liability for remaining coverage (LfRC) includes obligations on:

- Claims for insured events that **have not yet occurred** (i.e. relating to the **unexpired** portion of the insurance coverage)
- Other amounts that relate to:
  - other insurance contract services **not yet provided**
  - investment component or **other amounts** not related to the provision of insurance contract services and that **have not been transferred** to the LIC.

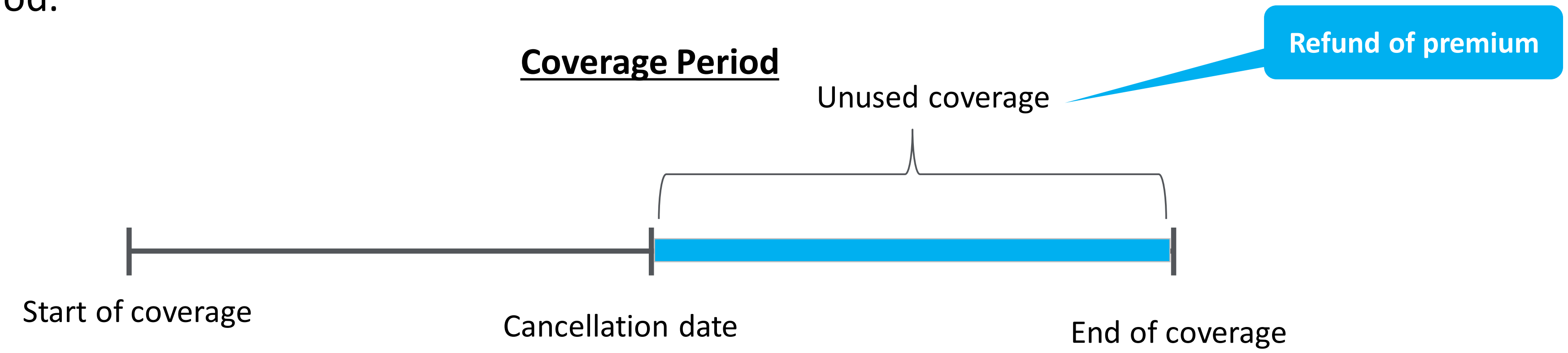
Liability for incurred claims (LIC) includes obligations on:

- Claims for insured events that **have already occurred** including events not yet reported and other incurred insurance expenses
- Other amounts that relate to:
  - insurance contract services **already provided**
  - investment component or other amounts not related to the provision of insurance contract services and **do not form part** of LfRC.

Illustrative example

Refund of premium

Refund of Premium (ROP) is an amount repaid to policyholder on contract cancellation before the end of the coverage period.



Accounting issue:

What is the accounting treatment for a refund of premium where a policyholder is entitled to obtain the ROP if, and only if, the policyholder cancels the policy before a particular point in time within the coverage period?

Illustrative example

Refund of premium

Initial measurement

- ROP is accounted for as an expected reduction of future cash inflows of a group of contracts

Adjustment (before ROP is incurred)

- Any adjustment relates to future services and accounted for in the CSM

When incurred (contract is cancelled)

- Amount of ROP is transferred from LfRC to LIC
- There are no more coverage or obligations related to the coverage

Experience adjustments

- Any experience adjustment before settlement is accounted for in the insurance revenue line item (can be disclosed in "other amounts").

Illustrative example

Refund of premium

The following illustrates how experience adjustments relating to ROP may be disclosed:

Analysis of insurance revenue	
Amounts related to liabilities for remaining coverage	**X**
Expected claims and other insurance service expenses	X
Risk adjustment for non-financial risk for the period	X
Release of CSM	X
Other amounts	X
Total insurance revenue	

Would include experience adjustments from ROP, if any

Illustrative example

No claim bonus

A **no-claim bonus** (“NCB”) repayment that falls within the contract boundary is

- repayable at the end of a specified coverage when no insured event occurred;
- payable irrespective of renewal and is forfeited upon cancellation before the vesting date.

Percentage of premium **OR** Lump sump amount

No claim bonus:

"…a No Claim Bonus will be paid amounting to 25% of the total premiums paid during the policy year provided no claims has been paid out to the policyholder during the said policy year.”

For illustration purposes only.

Accounting issue:

What is the accounting treatment for a refund of premium where a policyholder is entitled to received it only at the end of a specified period and when no insured event occurred?

Illustrative example

No claim bonus

Initial measurement

- The NCB is accounted for as an additional expected cash outflows of a group of contracts.

Adjustment (before NCB is incurred)

- Any adjustment relates to future services and is accounted for in the CSM.

When incurred (NCB vested)

- Expected NCB amount is released from the LfRC and recognised in profit or loss as part of insurance revenue
- Incurred NCB is recognised as part of insurance service expense (ISE) and LIC

Experience adjustment

- Experience adjustments are accounted for as an adjustment to ISE

Illustrative example

No claim bonus

The following illustrates how NCB is presented in the statement of profit or loss:

Would include:
- Incurred NCB and any related experience adjustments

Statement of profit or loss	**Note**
Insurance revenue[1]	X
Insurance service expenses[1]	Y
Insurance service result from insurance contracts issued	

Would include:
- Release of expected NCB when vested

1 In the Sept 2018 Staff Paper AP03 of TRG, it was discussed that repayments that are contingent on claims are part of claims and would therefore be recognised as part of ISE.

Illustrative example

Experience refund

Experience refund is an amount that is paid to the policyholder if the claims experience, either at the product level or at the individual policyholder level, is ***better than expected***.

Consequently, the policyholder is not entitled to the ER if claims experience is worse than expected, or if the policyholder terminates the policy during the coverage period.

Experience refund:

"Insurer B offers policyholder C an experience refund in respect of the policy period of 1 Jan 20x1 to 31 Dec 20x1 equal to 10% of the surplus of premiums over claims paid"

For illustration purposes only.

Accounting issue:

What is the accounting treatment for an experience refund where a policyholder is entitled to a premium repayment if, and only if, the claims experience is better than expected?

Illustrative example

Experience refund

The accounting treatment for ER is similar to NCB repayments:

- At initial recognition, the expected ER is accounted for as an additional expected cash outflow in the LfRC
- Any adjustment before ER is incurred relates to future services and accounted for in the CSM
- When vested, the expected ER is released in the LfRC and recognised as part of insurance revenue and the incurred amount is recognised as part of ISE and with a credit to LIC/Cash
- Subsequent experience adjustment is accounted for as an adjustment to ISE

Illustrative example

Summary

The table below summarises the accounting treatment for the different premium repayment transactions discussed:

	ROP	NCB / ER
Initial measurement	Expected reduction of **inflows**	Additional expected **outflows**
Treatment when incurred	Balance sheet transfer **from LfRC to LIC** with any impact recognised in **insurance revenue**	Recognition of **insurance service expense** and **LIC**
Subsequent changes to the incurred amount / experience adjustments	Adjusted through **insurance revenue**	Adjusted through **insurance service expense**

Additional facts and circumstances may change the accounting treatment one way or the other

Practical considerations

Some practical considerations when implementing the requirements of IFRS 17 on accounting for premium repayments:

- Incorporate within the actuarial model the expected amounts of these premium repayment transactions to correctly capture their impact on the insurance contract liability balance. This is a different accounting treatment from most accounting policies grandfathered under the current IFRS 4.

- The posting rules in the IFRS 17 sub-ledger should be configured to allow the required reclassification between the LfRC and the LIC at the correct reporting date.

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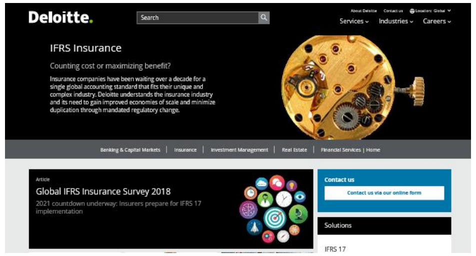

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