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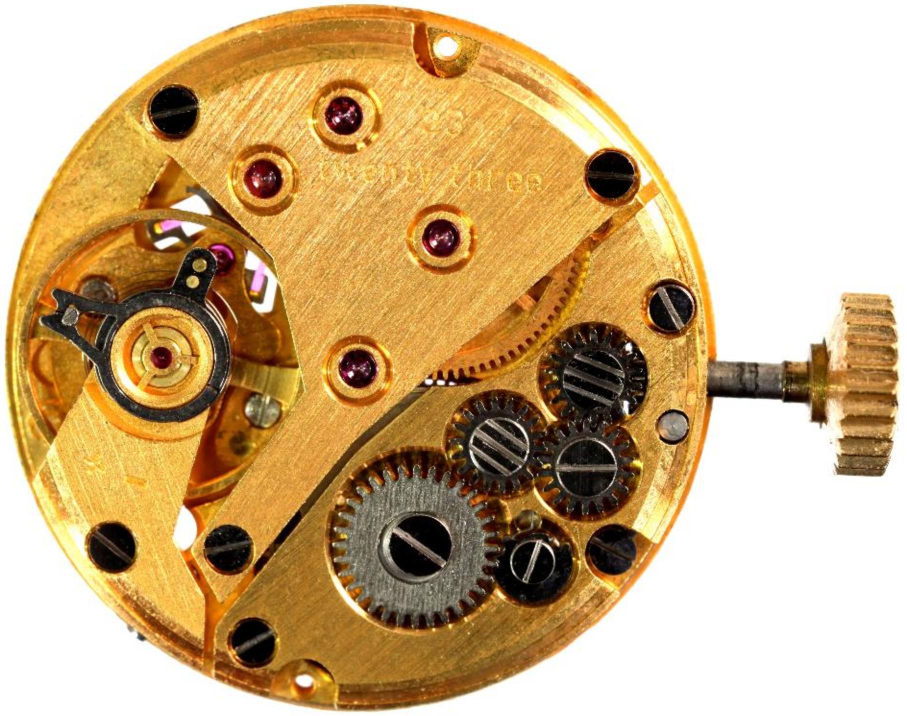


The IASB publishes Amendments to IFRS 17 *Insurance Contracts*
An overview of the key amendments

Francesco Nagari, Deloitte Global IFRS Insurance Leader | July 2020

Agenda

- Why the IASB amended IFRS 17
- Key amendments to IFRS 17
    - New effective date for IFRS 17
    - New accounting for insurance acquisition cash flows
    - New CSM allocation relating to investment services
    - Substantial improvement of the accounting for reinsurance held (cedant’s accounting)
    - Substantial improvement of the risk mitigation option (a.k.a. VFA* hedge accounting)
- Other amendments impacting several areas of IFRS 17
    - VFA* classification moves to an individual contract basis
- Additional information on the *Amendments to IFRS 17*

*variable fee approach

Why the IASB amended IFRS 17

The targeted amendments to IFRS 17 have three main purposes.

Why?	How?	What?
To reduce implementation costs	• By simplifying some requirements	• Contracts to which IFRS 17 applies • Balance sheet presentation of insurance contract assets and liabilities • The effect of previous interim reports
To make results easier to explain	• By revising some requirements generating results difficult to explain in some circumstances	• Acquisition cash flows • Reinsurance contracts held • Profit recognition • Use of the risk mitigation option
To ease transition	• By extending the implementation period • By providing additional transition reliefs	• Effective date of IFRS 17 • Contracts acquired before transition, risk mitigation option at transition

Source: IASB Webcast on Introducing Amendments to IFRS 17 and Project Summary and Feedback Statement (published June 2020)

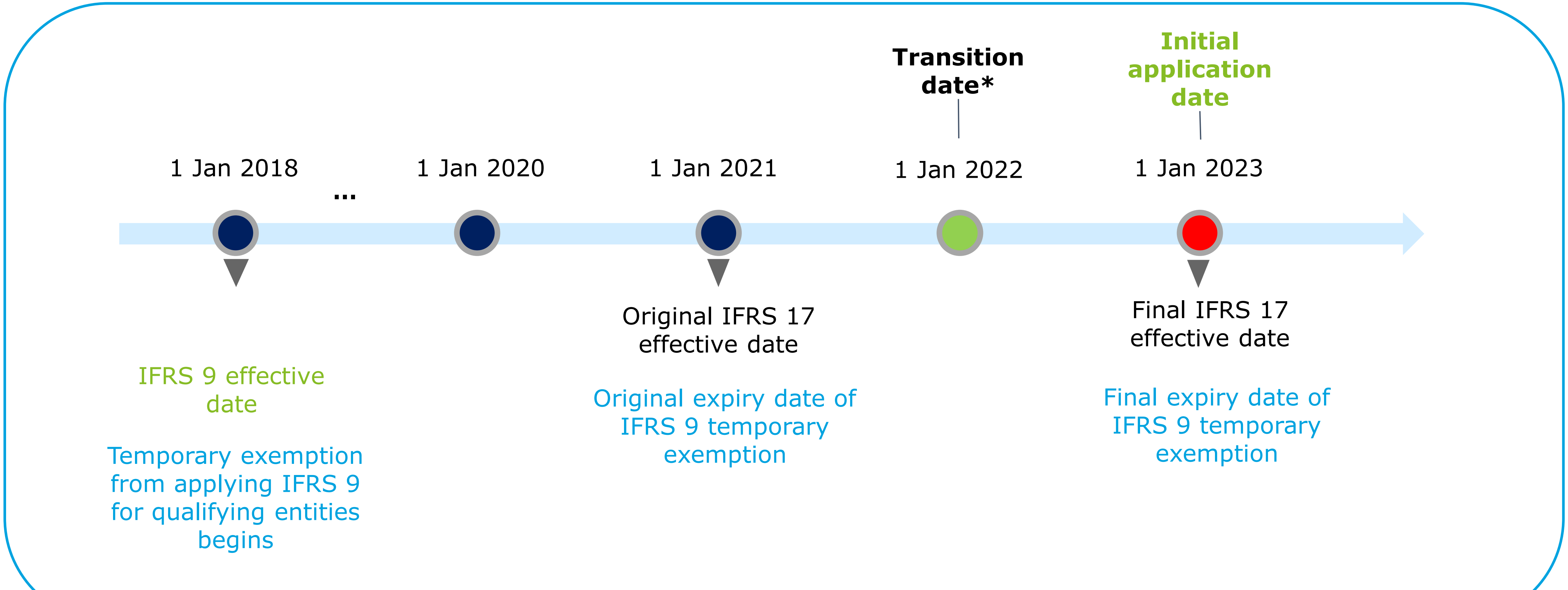
Key amendments to IFRS 17

Effective date	**Deferral of the effective date from 1 January 2021 to 1 January 2023**
Insurance acquisition cash flows	**Insurance acquisition cash flows can now be allocated to expected contract renewals by recognising a pre-coverage asset**
CSM allocation	**Investment services must be considered when determining coverage units**
Reinsurance contract held day 1 gain	**Gains from reinsurance contracts held must be taken to profit or loss when initially recognising an underlying onerous group of contracts**
Risk mitigation option	**Use of instruments other than derivatives as risk mitigating instruments and additional transition provisions**

New effective date for IFRS 17

Deferral for two years from original effective date

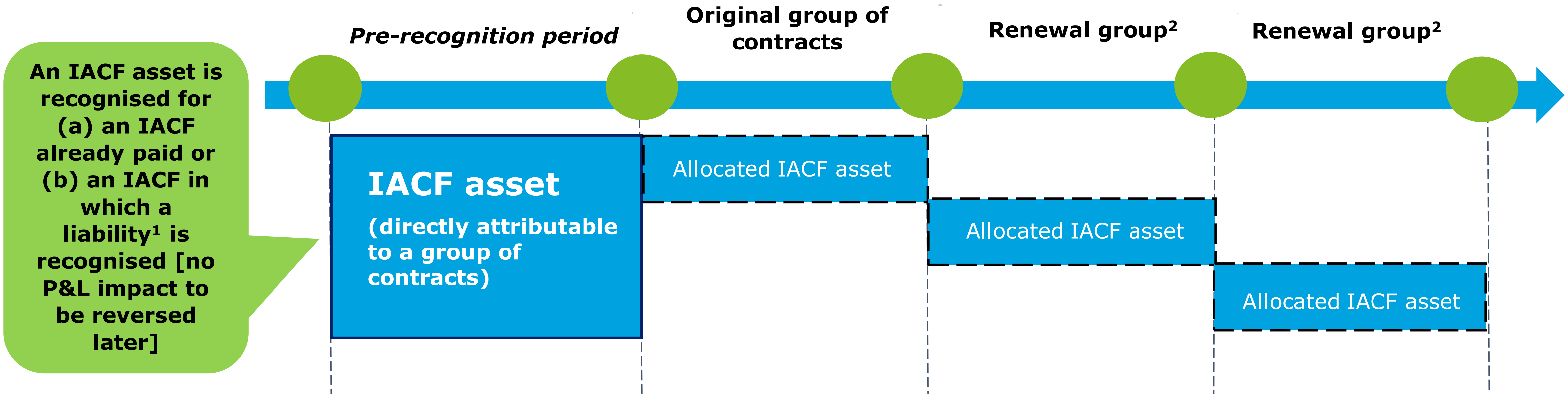
- IFRS 17 effective date is now 1 January 2023. Early application permitted, as before.
- The temporary exemption from applying IFRS 9, as provided in IFRS 4, has also been extended to 1 January 2023.



*assuming one year comparative period

Accounting for insurance acquisition cash flows

Recognition and allocation to related group of contracts



- Using a **systematic and rational allocation method**, insurance acquisition cash flows (IACF) assets are allocated to (a) groups of contracts in a portfolio and (b) to groups that will include the contracts that are expected to arise from renewals of the insurance contracts in a group that had generated IACF directly attributable to the contracts in that group.

- At each reporting period end, the amounts allocated to the group are **revised** for any changes in assumptions used in the allocation method. Once **all contracts have been added to the group**, the IACF amount allocated to that group **cannot be changed subsequently**.

1 Liability recognised applying another IFRS standard.
2 The illustration assumes that the renewal groups have the same composition of contracts with that of the original group.

Accounting for insurance acquisition cash flows

Impairment test on IACF asset

- Required at the end of reporting period **if facts and circumstances indicate** that the asset may be impaired.
- Any **impairment loss** is recognised in profit or loss.
- **Impairment loss reversal** is recognised in profit or loss when the impairment conditions **no longer exist** or **have improved.**

Two-step impairment test

Step 1: Group level impairment test

Impairment loss is recognised under B35D(a):
if A < total IACFs related to a group of contracts

where A = recoverable amount, i.e. the expected net inflows from related group which includes the cash flows for contracts unrelated to any expected renewals but expected to be in that portfolio

Total IACFs

Multi-year commission-based IACFs IFRS 17:B35A(b)

All other IACFs (e.g. marketing costs)

IFRS 17:B35A(a)

Step 2: Additional impairment test

Additional impairment amount[1] under B35D(b):
if B < total multi-year commission-based IACFs

where B = recoverable amount which is equal to net inflows from expected renewals only.

1- excludes any amount already recognised as a result of the group level impairment test

Accounting for insurance acquisition cash flows
Disclosure requirements

1 Reconciliation from the opening to the closing balance of IACF asset

Insurance acquisition cash flows asset	20YY	20XX
Opening balance	**x**	**X**
Additions	x	x
Amount derecognised during the period due to allocation to the related group of contracts	(x)	(x)
Impairment losses	(x)	(x)
Reversal of impairment losses	x	x
Ending balance	**x**	**x**

For illustration purposes only.

2 Quantitative information relating to the expected timing of derecognition of **IACF asset** and inclusion in the measurement of the **group** of insurance contracts to which they are allocated.

	20YY	20XX
Within one year	x	x
In 1-3 years	x	x
In 4-5 years	x	x
Beyond 5 years	x	x
Ending balance	**x**	**x**

For illustration purposes only.

Accounting for insurance acquisition cash flows

Transition requirements

Full Retrospective Approach

- As if IFRS 17 had **always been applied**.

Modified Retrospective Approach

- Use of **same allocation method** for IACF occurring pre-transition period as that used for IACF after transition date.
- Where there is **no reasonable and supportable information** to make the allocation, a **nil amount** is recognised at transition date for:
  - the adjustment to the CSM of groups that are recognised at the transition date and any IACF asset relating to that group; and
  - the IACF asset for groups of insurance contracts that are expected to be recognised after the transition date.

Fair Value Approach

- **Recognise** an IACF asset at an amount equal to the IACF that the entity **would incur** at the transition date if the entity had not already paid those IACF to obtain the rights to:
  - a) **Recover** IACF from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date; or
  - b) **Obtain** future contracts, including the expected renewals, after the transition date without paying again IACF the entity has already paid.

Restatement of impairment testing is not required for IACF asset in prior periods

CSM allocation relating to investment services

Additional guidance

CSM allocation considerations

- For direct participating insurance contracts (under the variable fee approach) and for indirect participating insurance contracts (under the general model), the **CSM allocation** is now based on coverage units determined considering the **quantities of benefits** and **expected period** of both **insurance coverage** and **investment services**.

Cash flows within the contract boundary

- **Inclusion** within the **fulfilment cash flows** of costs the entity will incur relating to performing an investing activity to enhance benefits from insurance contracts and costs for provisions of investment services.

Additional disclosures

- Approach used to assess **relative weighting of benefits provided** by insurance coverage and investment services.

CSM allocation relating to investment services

Additional guidance

- In determining the coverage units for “indirect” participating contracts, an entity **needs to identify** whether an **investment-return service exists.**
- An investment-return service exists when **ALL** of these three criteria are met:

1
The contract **contains** either:
(a) an investment component, or
(b) the policyholder has a right to withdraw an amount

2
Such component or amount includes an **investment return**

3
The entity expects to **perform investment activity** to generate such return.

Recovery of losses from underlying insurance contracts through reinsurance contracts held

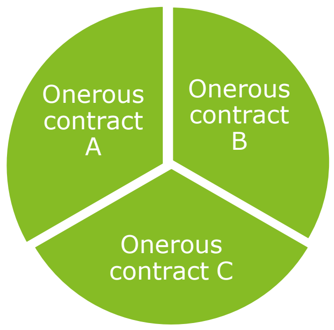
Recognition of recovery of losses

- Recognition of a gain in profit or loss at initial recognition if the reinsurance contracts held are entered into **before** or at the **same time** as the onerous underlying contracts are recognised.

- Loss recovery is calculated as an amount equivalent to:

loss recognised on the underlying insurance contracts x % of claims on underlying insurance contracts expected to be recovered from the RI held

- Where a reinsurance contract held covers only a portion of the group of underlying onerous contracts:



Only Contract B is covered by the reinsurance contract

Use a **systematic and rational allocation** method to determine the portion of losses of the onerous group that relates to the underlying insurance contracts

A group of onerous contracts

Risk mitigation option

Additional risk mitigating instruments permitted and additional transition provisions

Risk mitigating instruments

Additional instruments that can be used to mitigate financial risks:

(a) Reinsurance contracts held

(b) Non-derivative financial instruments at fair value through profit or loss (FVTPL)

Fair value transition approach

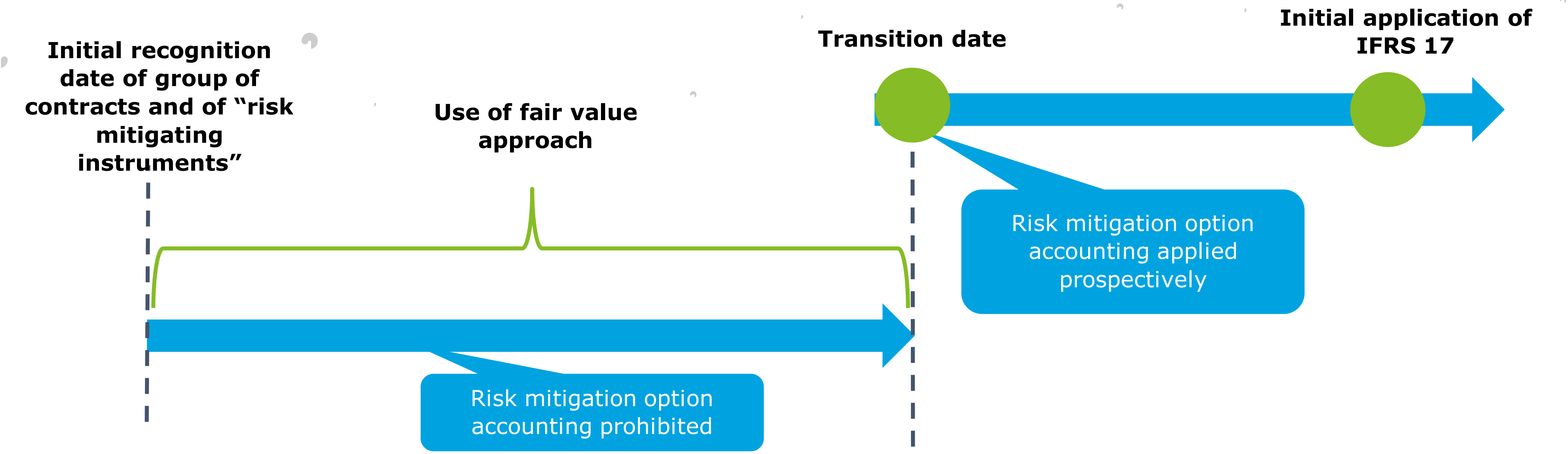
Use the fair value transition approach for a group of direct participating contracts if specified criteria are met.

Transition relief

Apply risk mitigation option prospectively from the IFRS 17 transition date, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date.

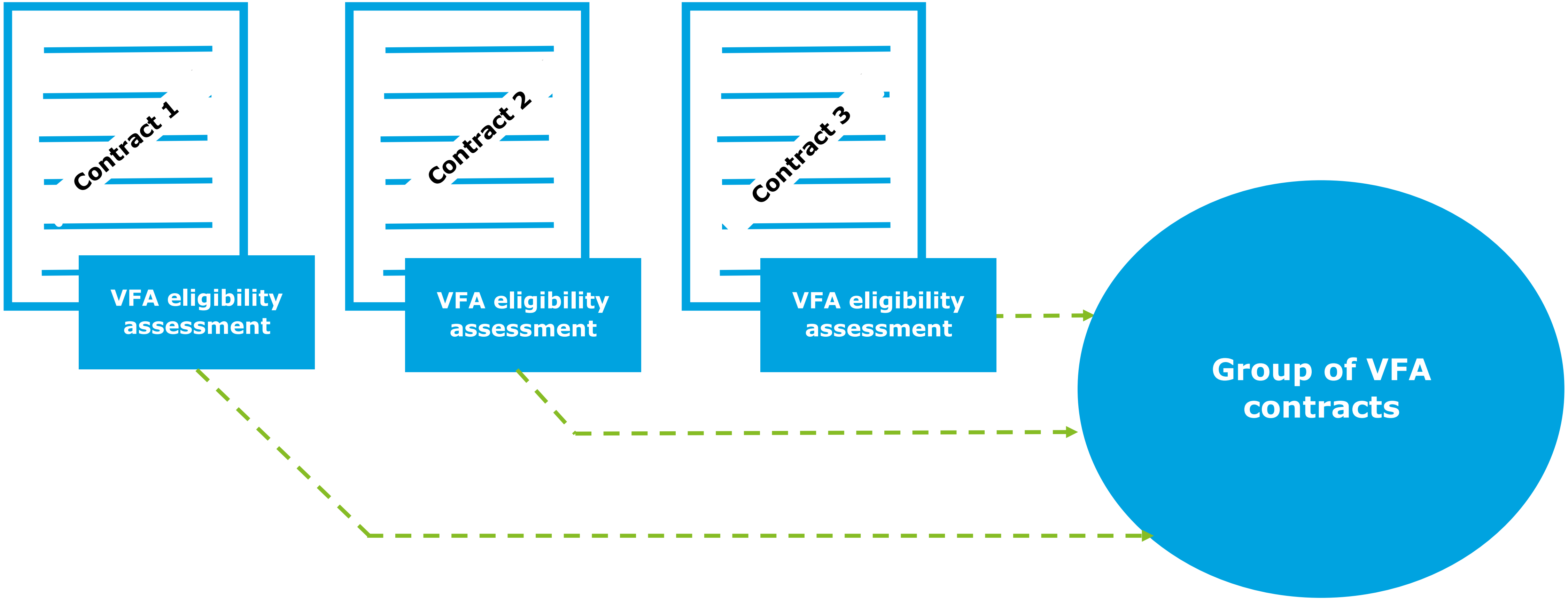
Risk mitigation option
Transition provisions

- Use the **fair value approach** for a group of direct participating contracts if, and only if, the entity:
  - can apply IFRS 17 **retrospectively** to the group;
  - **chooses** to apply the risk mitigation option to the group prospectively from the transition date; and
  - has used **qualifying risk mitigating instruments** to mitigate financial risk arising from the group **before the transition date.**



Other amendments
VFA eligibility assessment at individual contract level

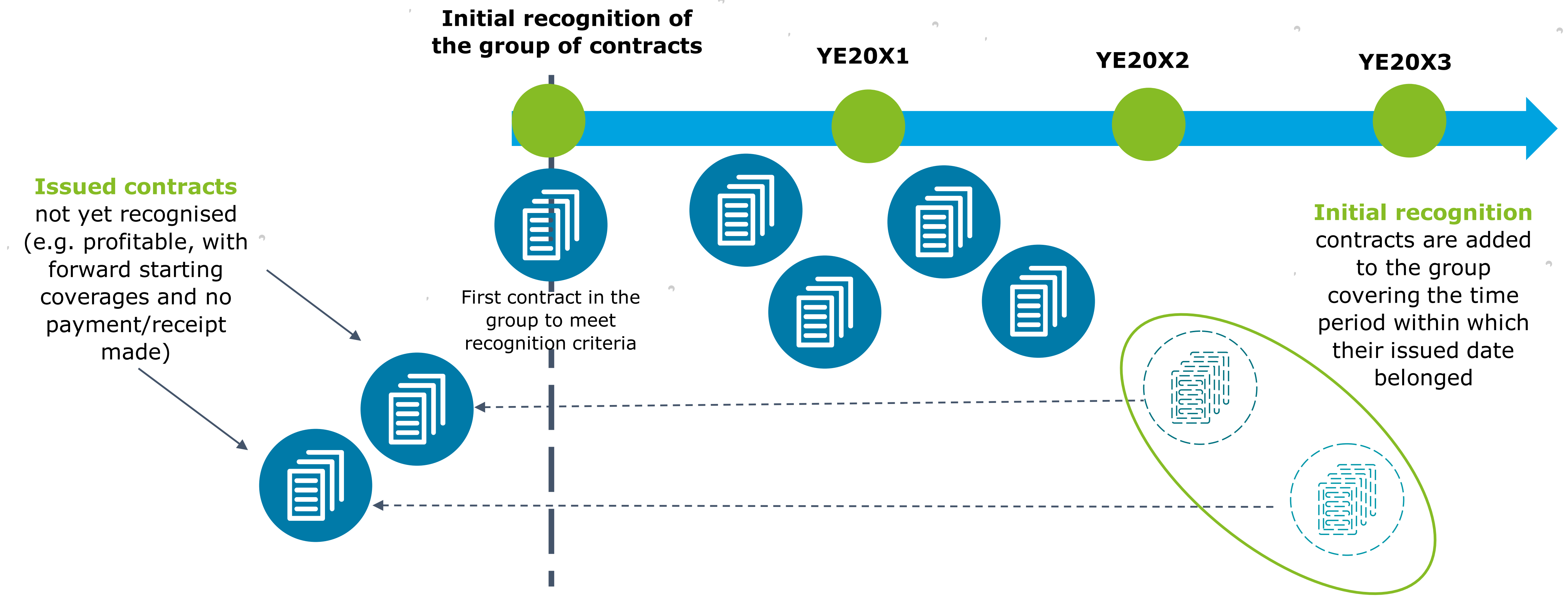
- Application of the criteria for the scope of variable fee approach (VFA) in IFRS 17:B101 at the **individual contract level, using entity's expectations at inception of an individual contract.**



Other amendments

Recognition of contracts into a group

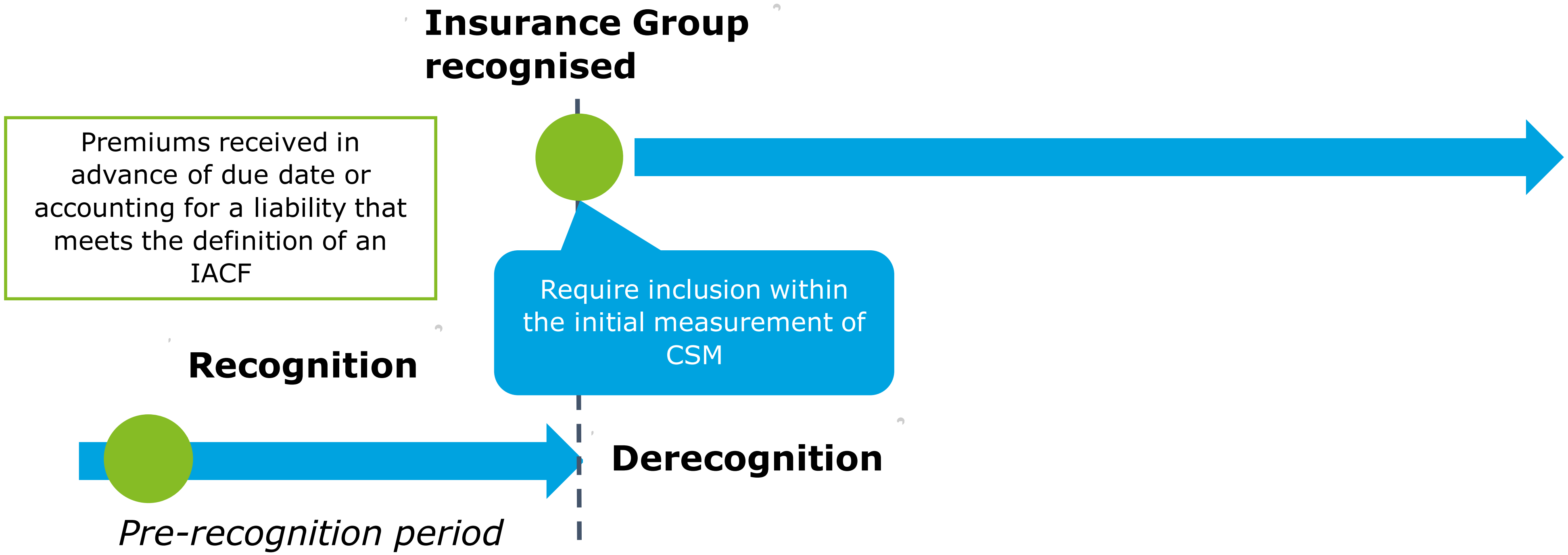
- Clarification that insurance contracts are **added to a group** when these contracts meet the **recognition criteria**, regardless of when they were issued.



Other amendments

Accounting for pre-recognition assets, liabilities and cash flows other than IACF

- **Inclusion in the initial measurement of the CSM** of a group of insurance contracts the effect of the **derecognition of any asset or liability** previously recognised for cash flows related to that group and accounted for before the group is recognised.



Other amendments

Inclusion of other amounts within the analysis of insurance revenue

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
Others	X
Amounts related to recovery of insurance acquisition cash flows	**X**
Total insurance revenue	**X**

*For illustration purposes only.

Inclusion as part of insurance revenue: other amounts such as **experience adjustments** relating to premium receipts (other than for future service).

Other amendments
Selected other minor amendments

The below list includes some of the minor amendments, among others.

IFRS 17 Key Topics	Amendments
Definition of terms	• **Investment component** - Clarification on the definition of investment component, being an amount repayable **in all circumstances**. • **Liability for remaining coverage** and **liability for incurred claims – Expanded definitions** to include **all obligations** arising from insurance contracts issued by an entity.
Scope	• **Scope exclusion** for **qualifying credit card contracts** and other similar contracts that provide insurance coverage • **Optional scope exclusion** for loan contracts that transfer significant insurance risk.
Presentation	• [IFRS 17:79] **Simplified presentation** in the statement of financial position of insurance contract assets and liabilities determined at the **portfolio** level.

Other amendments
Selected other minor amendments

The below list includes some of the minor amendments, among others.

IFRS 17 Key Topics	Amendments
Measurement	• [IFRS 17: B96] **Exclusion** from the **adjustment to the CSM** of changes between the expected and actual repayment of an investment component or loan to a policyholder because they relate to the time value of money and financial risk. • [IFRS 17:B66(f)] Inclusion in the fulfilment cash flows of the income tax payments and receipts that are **specifically chargeable to the policyholder** under the terms of an insurance contract. • [IFRS 17:B123(a)] Changes resulting from cash flows of amounts lent to customers and waivers of amounts lent to customers are **excluded from insurance revenue**.
Interim Financial Statements	• [IFRS 17:B137] An **accounting policy choice at the reporting entity level** as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual reporting period.

Additional information on the *Amendments to IFRS 17*

- Deloitte's **IFRS in Focus: IASB issues amendments to IFRS 17 *Insurance Contracts*** - provides detailed discussions on the recent amendments to IFRS 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB) in June 2020. Please also refer to this Deloitte publication in conjunction with this webcast.

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IFRS in Focus

IASB issues amendments to IFRS 17 *Insurance Contracts*

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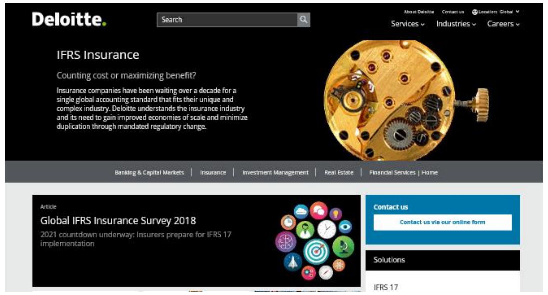

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