

# IFRS 17

## *Insurance Contracts*

How IFRS 17 works and  
what this means

Paris, 19 October 2017

The views expressed in this presentation are those of the presenter,  
not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.



## One

accounting model for all insurance contracts in all IFRS jurisdictions—replaces IFRS 4



### Who is affected?



**450**  
listed insurers  
using IFRS  
Standards



**\$13 trillion**  
total assets of  
those listed  
insurers

### When?



**2021**  
mandatory  
effective date of  
IFRS 17

### What changes?



**More**  
useful and  
transparent  
information



**Better**  
information  
about profitability

# Today's agenda

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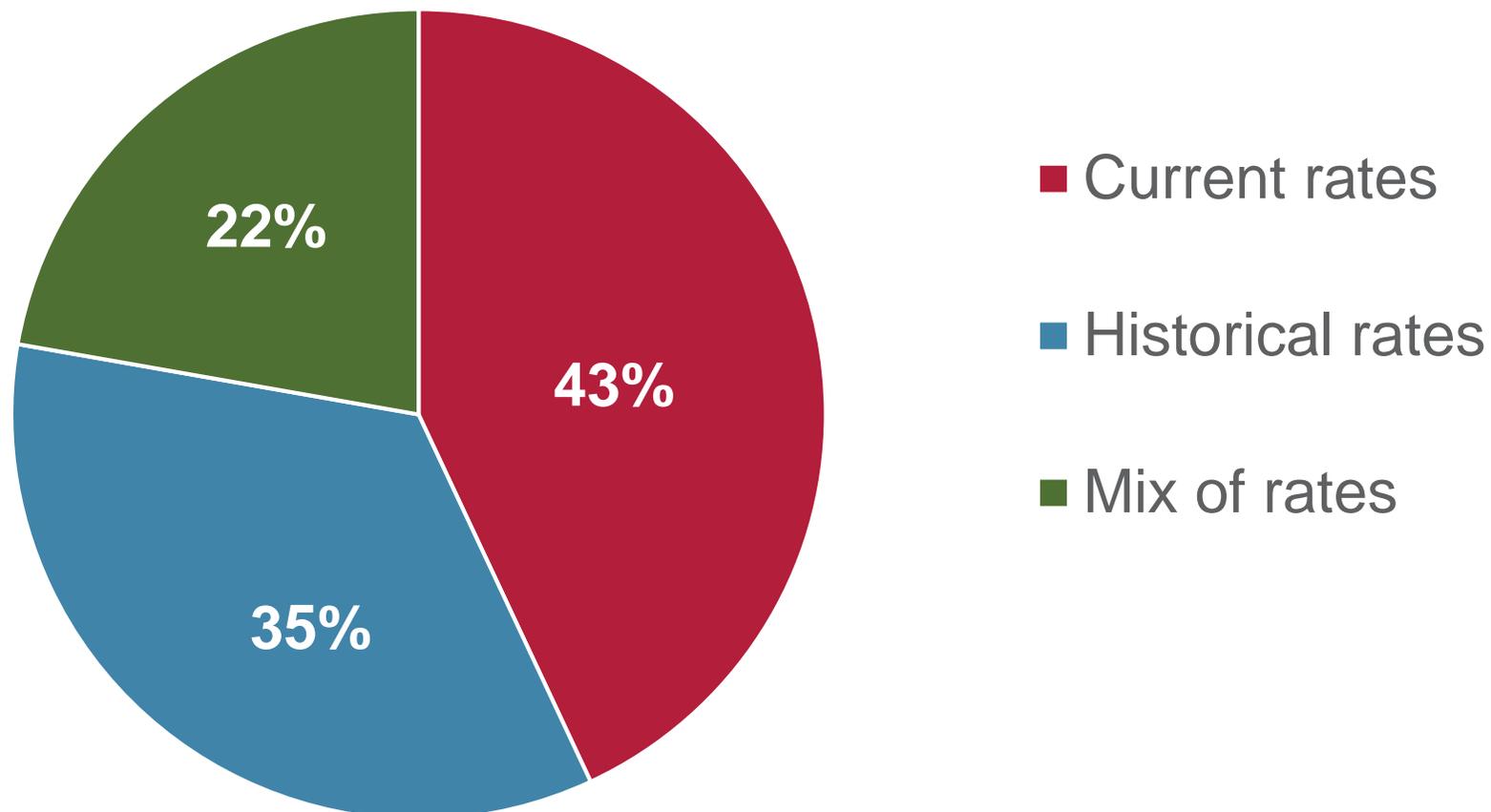
- Why has IFRS 17 been developed
- What changes
- How IFRS 17 works
- Hot topics:
  - level of aggregation and other topics
  - applying IFRS 17 for the first time
- Investor reactions to IFRS 17
- Appendix



# Why has IFRS 17 been developed

# IFRS insurers—discount rates used today

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Discount rates used for a sample of life insurers (2015)  
Source: Effects Analysis on IFRS 17

# Insurance accounting today

- Same insurer—two different GAAP

| (in millions of currency units) | GAAP 1 | GAAP 2 | Difference |      |
|---------------------------------|--------|--------|------------|------|
| <b>Revenue</b>                  | 9,010  | 11,244 | (2,234)    | -25% |
| <b>Operating income</b>         | 1,606  | 748    | 858        | 53%  |
| <b>Total equity</b>             | 10,375 | 4,567  | 5,808      | 56%  |

# Accounting policies applied under IFRS 4

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## Top-20 listed insurers using IFRS Standards

| Accounting policies applied to insurance contracts issued | Number of companies | Total assets (US\$ trillions) |
|---|---------------------|-------------------------------|
| <b>Based on guidance in:</b>                              |                     |                               |
| • a mix of national GAAP                                  | 8                   | 4.1                           |
| • US GAAP   | 3                   | 1.6                           |
| • Canadian GAAP   | 4                   | 1.4                           |
| • other national GAAP                                     | 5                   | 2.0                           |
| <b>Total</b>  | <b>20</b>           | <b>9.1</b>                    |

Source: Effects Analysis on IFRS 17

# What changes

# Main improvements introduced

More useful  
and  
transparent  
information

- Current assumptions regularly updated
- Options and guarantees fully reflected
- Discount rates reflect characteristics of the insurance liability

Consistent  
recognition of  
revenue and  
profits for  
insurance  
services

- Revenue recognition more consistent with other IFRS Standards
- Profits recognised as the insurance coverage is provided
- Additional metrics to evaluate performance

# Improved performance reporting

| IFRS 4*                                  |
|--|
| Premiums                                 |
| Investment income                        |
| Incurred claims and expenses             |
| Change in insurance contract liabilities |
| <b>Profit or loss</b>                    |



Cash based and includes collection of deposits. Inconsistent with other industries



Confusing adjustment that incorporates multiple factors

| IFRS 17  |              |
|--|--------------|
| Insurance revenue                              | 9,856        |
| Incurred claims and expenses                   | (8,621)      |
| <b>Insurance service result</b>                | <b>1,235</b> |
| Investment income                              | 7,787        |
| Insurance finance expenses                     | (7,391)      |
| <b>Net financial result</b>                    | <b>396</b>   |
| <b>Profit or loss</b>                          | <b>1,631</b> |
| <b>Other comprehensive income</b>              |              |
| Investment income                              | 2,115        |
| Insurance finance expenses ( <i>optional</i> ) | (1,917)      |
| <b>Total other comprehensive income</b>        | <b>198</b>   |
| <b>Comprehensive income</b>                    | <b>1,829</b> |



Recognised when earned. Excludes deposits



Two drivers of profits presented separately



Changes in financial assumptions do not affect insurance service result

(\*) Common presentation in the statement of comprehensive income in applying IFRS 4

Insurance liabilities properly measured

Transparent costs of options and guarantees

Updated information on risk margins

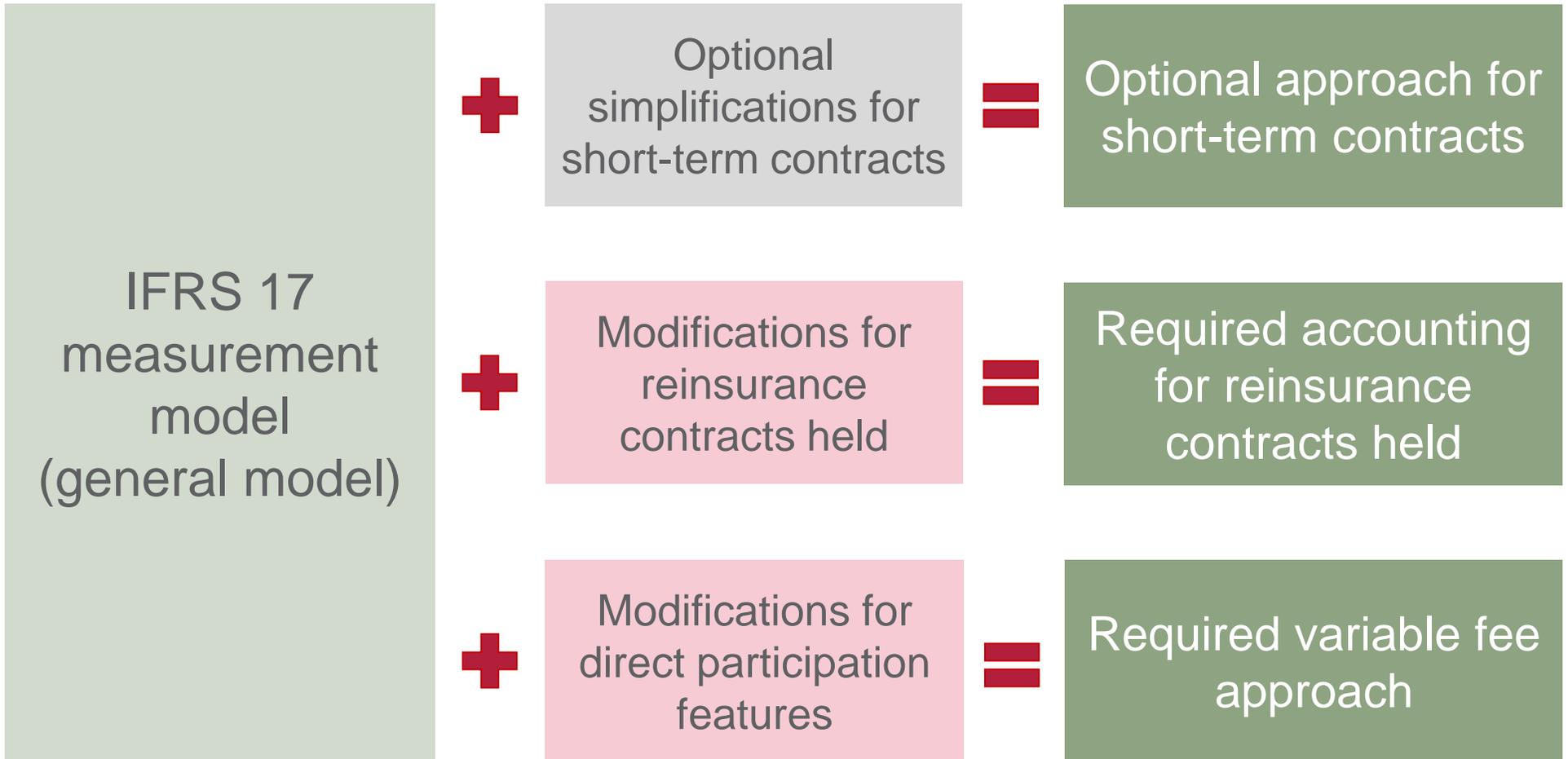
Immediate recognition of onerous contracts

Ends up-front profit taking

Better information on profitability trends

# How IFRS 17 works

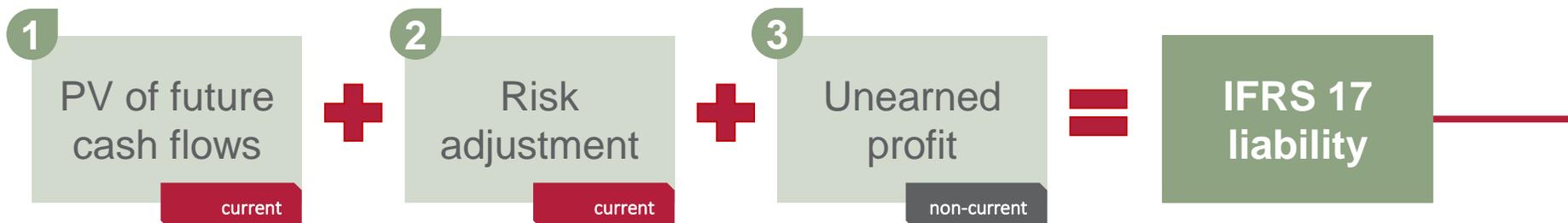
# One measurement model



# IFRS 17 Balance Sheet

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| Balance sheet                       | 20X1           | 20X0           |
|-------------------------------------|----------------|----------------|
| Financial assets                    | 226,297        | 196,700        |
| Other assets                        | 34,467         | 31,293         |
| <b>Total assets</b>                 | <b>260,764</b> | <b>227,993</b> |
| Insurance contract liabilities      | 205,724        | 178,818        |
| Other liabilities                   | 30,859         | 26,823         |
| Equity                              | 24,181         | 22,352         |
| <b>Total liabilities and equity</b> | <b>260,764</b> | <b>227,993</b> |

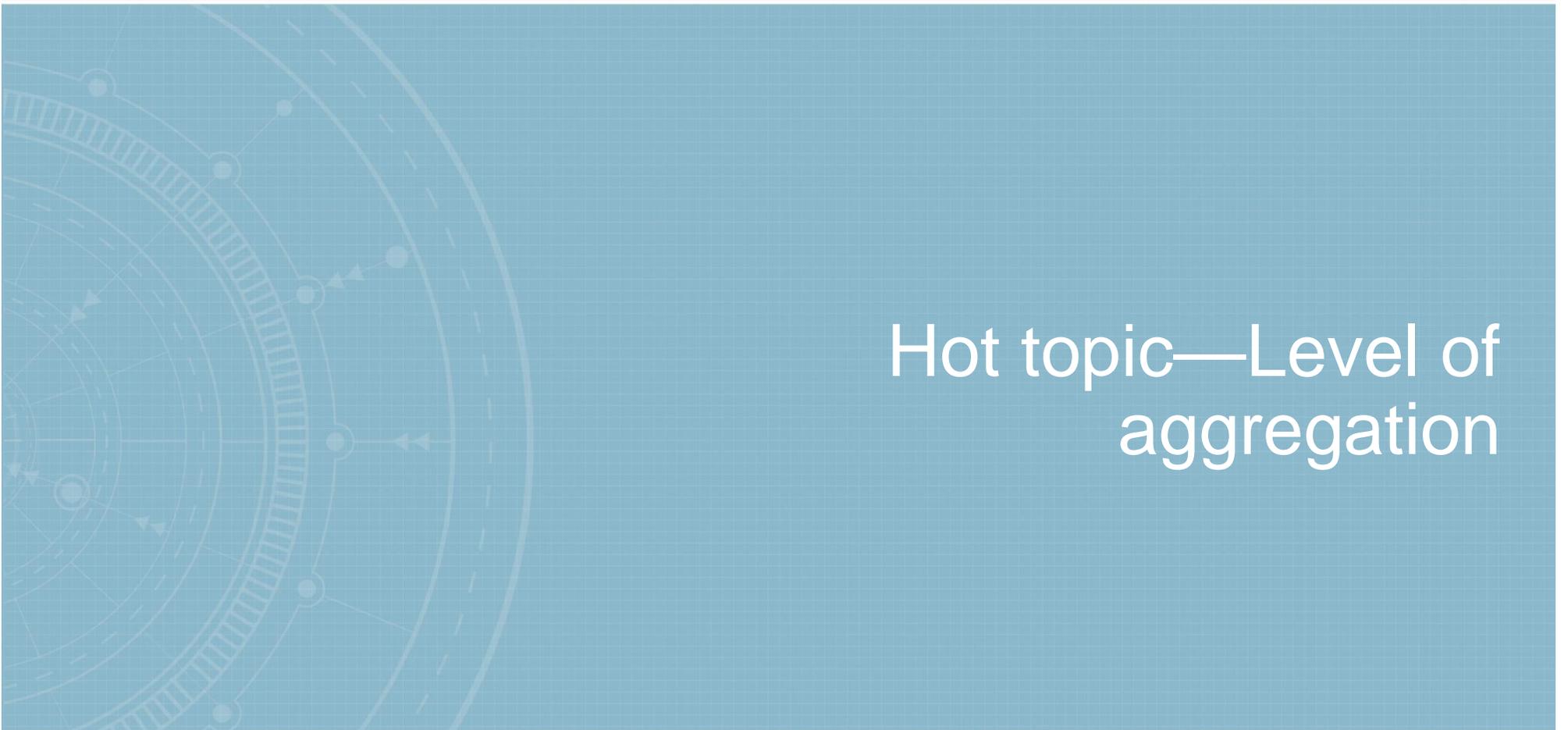


# Insurance contract liability roll forward

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|  | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability |
|--|---|-----------------|----------------------------|-----------|
| BEGINNING OF PERIOD                        | 163,962   | 5,998           | 8,858                      | 178,818   |
| <i>Changes related to:</i>                 |   |                 |                            |           |
| ① - Future service yet to be provided      | (784)   | 1,117           | (116)                      | 217       |
| ② - Current service provided in the period | 35  | (604)           | (923)                      | (1,492)   |
| ③ - Past service adjustment to past claims | 47  | (7)             | -                          | 40        |
| Insurance service result                   | (702)   | 506             | (1,039)                    | (1,235)   |
| ④ Insurance finance expenses               | 9,087   | -               | 221                        | 9,308     |
| TOTAL CHANGES IN P&L and OCI               | 8,385   | 506             | (818)                      | 8,073     |
| ⑤ CASH FLOWS                               | 18,833  | -               | -                          | 18,833    |
| END OF PERIOD                              | 191,180   | 6,504           | 8,040                      | 205,724   |

See slides 28-32 for further information



# Hot topic—Level of aggregation

# Unit of account—overview

- Each portfolio is divided into groups

|                |  |
|----------------|--|
| <b>Group 1</b> | Profitable contracts that at initial recognition have <b>no significant possibility of becoming onerous</b> subsequently, if any |
| <b>Group 2</b> | <b>Other profitable</b> contracts, if any  |
| <b>Group 3</b> | Contracts that are <b>onerous</b> at initial recognition, if any   |

- To provide trend information about the profitability of contracts written in different periods, each group can contain only contracts issued within the same year

# Why annual cohorts?

## Example 1

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- Timely recognition of losses

| Y1 | Y2 | Y3 | Y4 | Y5 | Total profit |
|----|----|----|----|----|--------------|
|----|----|----|----|----|--------------|

### With annual cohorts

|                         |           |           |             |          |          |           |
|-------------------------|-----------|-----------|-------------|----------|----------|-----------|
| Contracts written in Y1 | 30        | 30        | (20)*       | 0        | -        | 40        |
| Contracts written in Y2 | -         | 9         | 9           | 9        | 9        | 36        |
|                         | <b>30</b> | <b>39</b> | <b>(11)</b> | <b>9</b> | <b>9</b> | <b>76</b> |

### Without annual cohorts

|                                |           |           |          |          |          |           |
|--------------------------------|-----------|-----------|----------|----------|----------|-----------|
| Contracts written in Y1 and Y2 | <b>30</b> | <b>36</b> | <b>4</b> | <b>4</b> | <b>2</b> | <b>76</b> |
|--------------------------------|-----------|-----------|----------|----------|----------|-----------|

\* Due to changes in expectations

# Why annual cohorts?

## Example 2

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- Preventing phantom profit\*

| Y1 | Y2 | Y3 | Y4 | Y5 | Total profit |
|----|----|----|----|----|--------------|
|----|----|----|----|----|--------------|

### With annual cohorts

|                         |           |           |           |           |          |            |
|-------------------------|-----------|-----------|-----------|-----------|----------|------------|
| Contracts written in Y1 | 30        | 30        | 30        | 30        | -        | 120        |
| Contracts written in Y2 | -         | 9         | 9         | 9         | 9        | 36         |
|                         | <b>30</b> | <b>39</b> | <b>39</b> | <b>39</b> | <b>9</b> | <b>156</b> |

### Without annual cohorts

|                                |           |           |           |           |           |            |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|------------|
| Contracts written in Y1 and Y2 | <b>30</b> | <b>36</b> | <b>36</b> | <b>36</b> | <b>18</b> | <b>156</b> |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|------------|

\* Profit on contracts already expired

# Hot topic—Other topics

## Scope of the variable fee approach

- Principle-based approach based on nature of contract
- Requires judgement as to contractual obligations and expected outcomes

## Risk mitigation activities

- Reinsurance contracts measured using consistent assumptions with underlying contracts (ceded contracts)
- Insurers use various tools to manage risk
- IFRS 17 permits modifications to variable fee to be unwound where some mitigation exists
- IFRS 9 (and IAS 39) provides hedge accounting in some circumstances



# Hot topic—Applying IFRS 17 for the first time

## DETERMINE TRANSITION METHOD BY GROUP OF CONTRACTS

**1** Full retrospective approach (apply IAS 8)

if impracticable

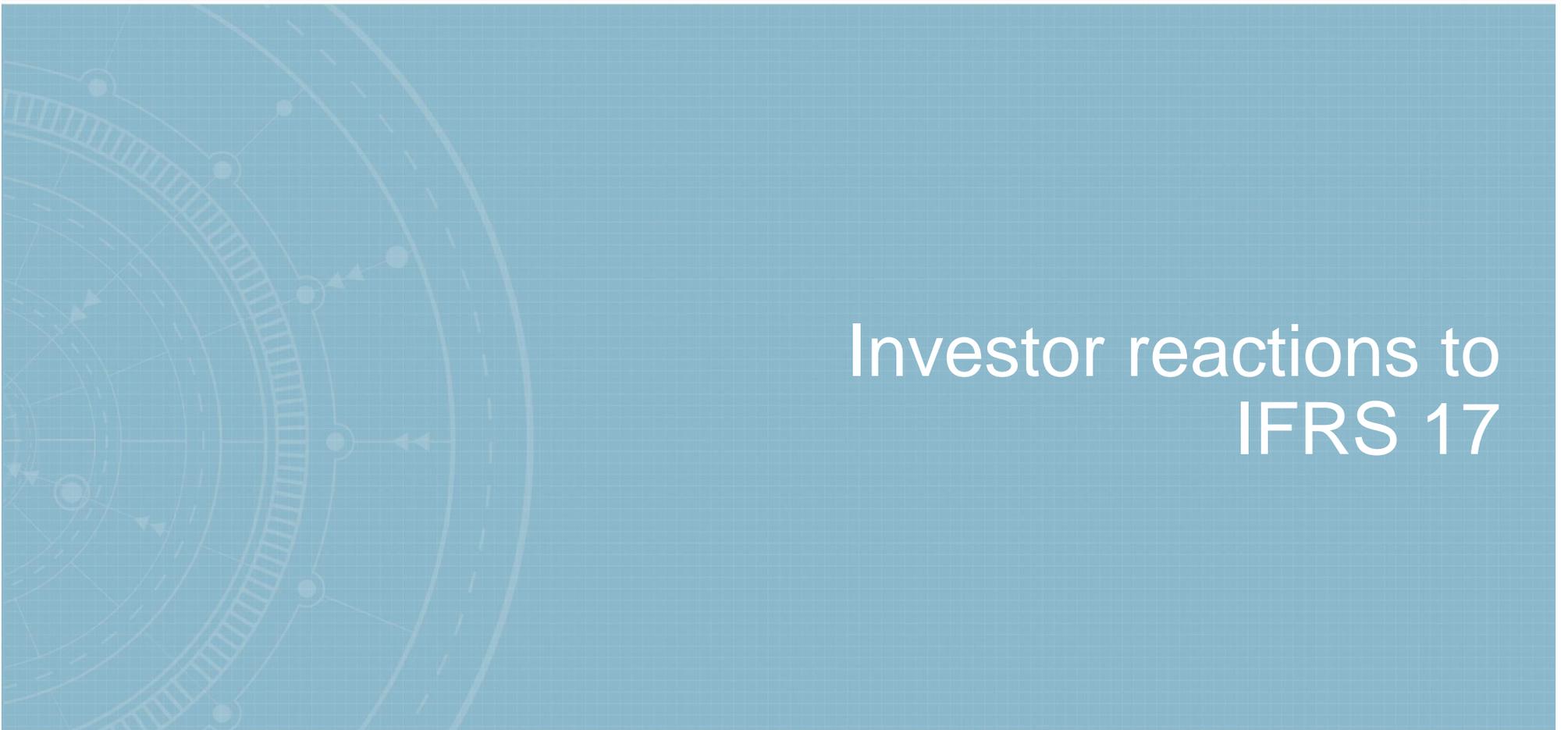
**2** Modified retrospective approach

- Modifications available if necessary given reasonable and supportable information
- Maximise the use of the information needed for full retrospective approach

**Insufficient reasonable and supportable information available**

OR

**3** Fair value approach



# Investor reactions to IFRS 17

# What investors think about IFRS 17

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## 45 meetings

19 sell side, 12 buy side, 10 mixed groups, 4 credit rating agencies

## 250 investors and analysts

31% Global, 31% Asia Pacific, 30% Europe, 8% North America,

## Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures

## Areas of concern

- Company-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability

## Keep up to date



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## Comment on our work



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# Appendix A—Insurance contract liability roll forward

# 1 Future service—incl. new business

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|   | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability      |
|---|---|-----------------|----------------------------|----------------|
| BEGINNING OF PERIOD                               | 163,962   | 5,998           | 8,858                      | 178,818        |
| <i>Changes related to:</i>                        |   |                 |                            |                |
| - <i>Future service yet to be provided*</i>       | (784)   | 1,117           | (116)                      | 217            |
| <i>New profitable contracts recognised</i>        | (2,344)   | 969             | 1,375                      | -              |
| <i>Estimate changes - profitable contracts</i>    | 1,452   | 39              | (1,491)                    | -              |
| <i>New onerous contracts recognised</i>           | 15  | 108             | -                          | 123            |
| <i>Estimate changes - onerous contracts</i>       | 93  | 1               | -                          | 94             |
| - <i>Current service provided in the period</i>   | 35  | (604)           | (923)                      | (1,492)        |
| - <i>Past service – adjustment to past claims</i> | 47  | (7)             | -                          | 40             |
| <b>Insurance service result</b>                   | <b>(702)</b>  | <b>506</b>      | <b>(1,039)</b>             | <b>(1,235)</b> |

Etc ...

\* Note: Positive number in total column = increase in liability = loss in P&L

## 2 Current service—profit recognised

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|  | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability |
|--|---|-----------------|----------------------------|-----------|
| BEGINNING OF PERIOD                        | 163,962   | 5,998           | 8,858                      | 178,818   |
| <i>Changes related to:</i>                 |   |                 |                            |           |
| - Future service yet to be provided        | (784)   | 1,117           | (116)                      | 217       |
| - Current service provided in the period   | 35  | (604)           | (923)                      | (1,492)   |
| Contractual service margin earned          | -   | -               | (923)                      | (923)     |
| Release from risk                          | -   | (604)           | -                          | (604)     |
| Experience loss                            | 35  | -               | -                          | 35        |
| - Past service – adjustment to past claims | 47  | (7)             | -                          | 40        |
| Insurance service result                   | (702)   | 506             | (1,039)                    | (1,235)   |

Etc ...

### 3 Past service—adjusting past claims

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|  | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability |
|--|---|-----------------|----------------------------|-----------|
| BEGINNING OF PERIOD                        | 163,962   | 5,998           | 8,858                      | 178,818   |
| <i>Changes related to:</i>                 |   |                 |                            |           |
| - Future service yet to be provided        | (784)   | 1,117           | (116)                      | 217       |
| - Current service provided in the period   | 35  | (604)           | (923)                      | (1,492)   |
| - Past service – adjustment to past claims | 47  | (7)             | -                          | 40        |
| Insurance service result                   | (702)   | 506             | (1,039)                    | (1,235)   |

Etc ...

## 4 Insurance finance expenses

- Discount unwind plus effect of changes in discount rates and other financial assumptions
- Recognise as gain or loss in period; option to present part in OCI

|   | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability    |
|---|---|-----------------|----------------------------|--------------|
| Etc ...                                       |   |                 |                            |              |
| Insurance finance expenses                    | 9,087   | -               | 221                        | 9,308        |
| <i>Accretion at historical rate – P&amp;L</i> | <i>7,170</i>  | <i>-</i>        | <i>221</i>                 | <i>7,391</i> |
| <i>Assumption changes (P&amp;L or OCI)</i>    | <i>1,917</i>  | <i>-</i>        | <i>-</i>                   | <i>1,917</i> |
| Etc ...                                       |   |                 |                            |              |

## 5 Cash flows

- Gross premiums received still reported as part of the liability roll-forward
  - But not in profit and loss as ‘revenue’

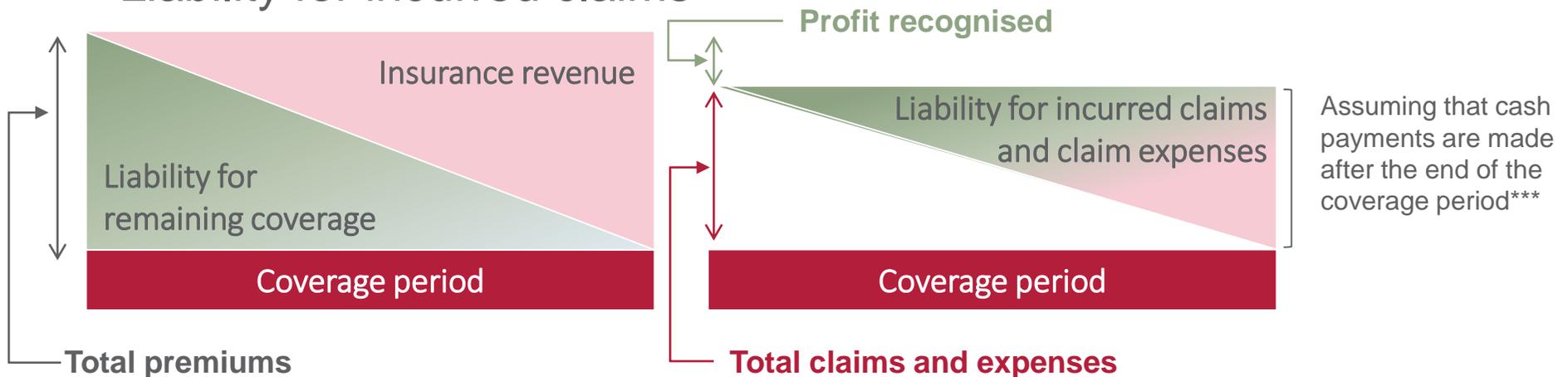
|   | Estimates of the present value of future cash flows | Risk adjustment | Contractual service margin | Liability       |
|---|---|-----------------|----------------------------|-----------------|
| Etc ...   |   |                 |                            |                 |
| <b>Cash flows</b>                               | <b>18,833</b>                                       |                 |                            | <b>18,833</b>   |
| <i>Premiums received</i>                        | <i>33,570</i>                                       |                 |                            | <i>33,570</i>   |
| <i>Claims, benefits and other expenses paid</i> | <i>(14,336)</i>                                     |                 |                            | <i>(14,336)</i> |
| <i>Insurance acquisition cash flows</i>         | <i>(401)</i>  |                 |                            | <i>(401)</i>    |
| <b>END OF PERIOD</b>                            | <b>191,180</b>                                      | <b>6,504</b>    | <b>8,040</b>               | <b>205,724</b>  |



# Appendix B—Insurance service result

# Presentation of the service result

- The insurance service result reflects changes in the insurance liability, but it is presented in P&L as
  - insurance revenue, less
  - insurance service expenses (eg claim expenses)
- Requires the total insurance liability to be split into
  - Liability for remaining coverage
  - Liability for incurred claims



\*\*\* Cash payments reduce the liability for incurred claims to zero sometime after the end of the coverage period

# Revenue and expenses reconciliation

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|  | Liabilities for remaining coverage    |                             | Liabilities for incurred claims | Total    |
|--|---------------------------------------|-----------------------------|---------------------------------|----------|
|  | Excluding onerous contracts component | Onerous contracts component |                                 |          |
| Insurance contract liabilities 20X0                    | 161,938                               | 15,859                      | 1,021                           | 178,818  |
| <b>Insurance revenue</b>                               | (9,856)                               |                             |                                 | (9,856)  |
| <b>Insurance service expenses</b>                      |                                       |                             |                                 |          |
| Claims incurred in the period                          |                                       |                             | 7,985                           | 7,985    |
| Onerous contracts losses and (reversals)               |                                       | (623)                       |                                 | (623)    |
| Insurance acquisition costs expensed                   | 1,259                                 |                             |                                 | 1,259    |
| Investment components                                  | (6,465)                               |                             | 6,465                           | 0        |
| Insurance service result                               | (15,062)                              | (623)                       | 14,450                          | (1,235)  |
| Insurance finance expenses                             | 8,393                                 | 860                         | 55                              | 9,308    |
| Total changes in the statement of comprehensive income | (6,669)                               | 237                         | 14,505                          | 8,073    |
| <b>Cash flows</b>                                      |                                       |                             |                                 |          |
| Premiums received                                      | 33,570                                |                             |                                 | 33,570   |
| Claims, benefits and other expenses paid               |                                       |                             | (14,336)                        | (14,336) |
| Insurance acquisition cash flows                       | (401)                                 |                             |                                 | (401)    |
| Total cash flows                                       | 33,169                                | -                           | (14,336)                        | 18,833   |
| Insurance contract liabilities 20X1                    | 188,438                               | 16,096                      | 1,190                           | 205,724  |