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## **IFRS 17 Insurance Contracts**

### **Appendix I**

#### **How the issues have been addressed**

- 1 The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents insurance contracts. This information is intended to provide a basis for users of financial statements to assess how insurance contracts affect an entity's financial position, financial performance, and cash flows.
- 2 Under IFRS 17, insurers will apply a consistent accounting framework to all insurance contracts. The aim is to increase comparability:
  - (a) among insurers as many differences relating to the accounting for insurance contracts will be removed
  - (b) with other industries as, for example, ~~for example,~~ IFRS 17 aligns the accounting ~~for deposits between the insurance and the banking industries for deposit~~ components in insurance contracts with the deposits classified as financial instruments, and
  - (c) multinational companies that currently consolidate their subsidiaries using non-uniform accounting policies for insurance contracts will apply consistent accounting policies.

#### **What has changed?**

- 3 Because the current standard, IFRS 4, permits a range of accounting practices, the major change brought by IFRS 17 is to set out requirements for the recognition, measurement, presentation and disclosures of insurance contracts.

#### *Grouping of insurance contracts*

- 4 Most insurers do not manage their contracts on an individual basis. IFRS 17 requires insurers to identify portfolios of contracts that are subject to similar risks and that are managed together. For example, contracts within a product line would be expected to have similar risks and in the same portfolio if they are managed together. However, contracts in different product lines (such as single premium fixed annuities compared to regular term life assurance) would not be expected to have similar risks and therefore would be expected to be in different portfolios. Further division of the portfolios into groups of (i) onerous contracts at initial recognition, if any, (ii) contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently ~~have a significant possibility of becoming onerous~~, if any and (iii) remaining contracts in the portfolio, if any, is aimed at providing information about:
  - (a) trends in the entity's profits from insurance contracts over time,
  - (b) timely recognition of profit on profitable contracts so that all profit has been recognised by the end of the coverage period,

- (c) timely recognition of losses on onerous contracts.

A group of contracts cannot include contracts issued more than one year apart.

- 5 Situations occur when law or regulation constrains the insurer's practical ability to set a different price or level of benefits for contracts or policyholders with different characteristics. IFRS 17 permits an exception to the overall grouping requirements, in that, when law or regulation constrains the insurer's practical ability to set a different price or level of benefits for contracts or policyholders with different characteristics, insurers can include such contracts in the same group.
- 6 Existing insurance practices on grouping of insurance contracts vary depending on jurisdiction, type of contracts and the underlying purpose of the grouping. Practices range from individual contract level to groupings that are broader than the grouping allowed by IFRS 17.

#### *Measurement of insurance liabilities*

##### *Introduction: general measurement model*

##### Initial recognition

- 7 IFRS 17 prescribes principles for the measurement of groups of insurance contracts. One of the key principles of IFRS 17 is that an insurer recognises and measures groups of insurance liabilities (often referred to as "technical provisions" under current accounting) as the sum of:
- (a) the fulfilment cash flows, which are a current unbiased risk-adjusted probability weighted estimate of the present value of the future cash flows that incorporates all available information about those cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); **and**
  - (b) the contractual service margin (CSM), which is an amount representing the unearned profit in the group of contracts.
- 8 The fulfilment cash flows themselves are composed of the following building blocks:
- (a) Estimates of future cash flows that will arise as the insurer fulfils the contracts. This will include only the cash flows inside the contract boundary, i.e. the cash flows that relate to existing contracts rather than future insurance contracts. These cash flows include those to future policyholders if they arise from existing contracts. The contract boundary can change over time as it is assessed at each reporting date. IFRS 17 requires the use of current estimates based on the most up-to-date information available and disclosure of relevant assumptions. This measurement basis is entity-specific, e.g. the client portfolios of one insurer are often not the same as another insurer, and the expected lapse rate of clients of insurer A may differ from the expected lapse rate of clients of insurer B.  
  
Currently, some insurers use estimates that are not updated or not fully updated after contract inception.
  - (b) An adjustment that reflects the time value of money (discounting). IFRS 17 requires an insurer to discount the cash flows from insurance contracts using discount rates that reflect the characteristics of the cash flows arising from the insurance contract liability and are consistent with observable current market prices where relevant.  
  
Currently, some insurers discount the future cash flows from insurance contracts using discount rates that are based on the expected return on assets backing the insurance contract liability. Other insurers use a discount rate specified by law or regulation. A few insurers use a risk-free discount rate whilst others do not discount their future cash flows; and

- (c) An explicit risk adjustment for non-financial risk that represents the compensation the insurer requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk.

Currently, insurers follow different approaches to reflecting risk: risk margins can be implicit or explicit; they can be applied to some but not all insurance contracts, or only used for regulatory purposes.

#### Financial options and guarantees

- 9 IFRS 17 requires an insurer to include all financial options and guarantees to the extent that those options and guarantees are not separated from the insurance contract in the measurement of the fulfilment cash flows, in a way that is consistent with observable market prices for such options and guarantees. This includes all possible outcomes as a probability-weighted mean.
- 10 Current accounting for financial options and guarantees embedded in insurance contracts differs between insurers. In some cases, embedded financial options and guarantees are not recognised until current rates fall below the guaranteed minimum. In other cases, embedded financial options and guarantees are recognised and their measurement reflects the current value and the possibility that they might become worthy of exercising (i.e. it reflects both intrinsic value and time value).

#### Consistent treatment of acquisition costs

- 11 IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts all fulfilment cash flows, including directly attributable acquisition cash flows (including contracts that are expected to arise from renewals of existing contracts in that specific group). Where such acquisition cash flows relate to future renewals, this amount is recognised as an asset and is tested for recoverability if facts and circumstances indicate the asset may be impaired.
- 12 Under the premium allocation approach ('PAA'), preparers may elect to expense all these costs immediately if certain conditions are met (for further information about PAA refer to paragraphs 25 to 28).
- 13 Currently, many insurers recognise deferred acquisition costs as assets for costs associated with writing new insurance contracts. Other insurers recognise acquisition costs as an expense as they are incurred.

#### Consistency with other IFRS Standards

- 14 The measurement required by IFRS 17 results in the liability for a group of insurance contracts relating to performance obligations for remaining service being measured broadly consistently with IFRS 15 *Revenue from Contracts with Customers*. However, the major differences from IFRS 15 are that:
- (a) the unit of account for IFRS 15 is generally an individual contract or performance obligation whereas for IFRS 17 it is a group as described in paragraph 29;
  - (b) the measurement is updated for changes in financial assumptions;
  - (c) the scope and definition of acquisition costs under the two standards differ, with IFRS 17 including a wider range of expenses compared to IFRS 15<sup>1</sup>;

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<sup>1</sup> For contract costs, IFRS 15 refers to incremental costs compared to costs that are directly attributable under IFRS 17. IFRS 17 also includes costs not directly attributable to individual contracts or groups of insurance contracts within a portfolio e.g. cash flows related to both successful and unsuccessful acquisition activities which is not the case under IFRS 15.

- (d) the liability often includes an investment component typically not found in contracts within the scope of IFRS 15; and
- (e) the measurement of onerous contracts in accordance with the measurement requirements set out in paragraph 36 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

*Subsequent measurement*

- 15 Subsequent to initial recognition, the total liability of a group of insurance contracts comprises:
- (a) A liability for remaining coverage that represents the portion of the fulfilment cash flows relating to coverage that will be provided under the contracts in future periods, plus the remaining CSM, if any; and
  - (b) A liability for incurred claims that represents the fulfilment cash flows for claims and expenses already incurred but not yet paid.
- 16 The CSM is updated to reflect changes in fulfilment cash flows that relate to future service, the time value of money (at the discount rate at inception) and amounts recognised in profit or loss as services have been provided.

*Changes or simplifications to the general measurement model*

- 17 To accommodate specific types of contracts, changes to the general measurement model are made for:
- (a) insurance contracts with direct participation features, acknowledging the specific characteristics of these contracts (referred to as the 'variable fee approach');
  - (b) reinsurance contracts held, reflecting that these represent a service that has been purchased;
  - (c) investment contracts with discretionary participation features which are covered by IFRS 17 even if these contracts do not transfer significant insurance risk; and
  - (d) short-term contracts or contracts where the measurement of the insurance liability would not differ materially from application of the general requirements (referred to as the 'premium allocation approach' or PAA).

Insurance contracts with direct participation features (variable fee approach)

- 18 Insurance contracts with direct participation features are insurance contracts for which, at inception (i) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items; (ii) the insurer expects to pay to the policyholder an amount equal to a substantial share of the fair value returns from the underlying items; and (iii) the insurer expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. For these contracts, the following measurement approach applies:
- (a) Similar to the general measurement model, the CSM is updated to reflect changes in fulfilment cash flows that relate to future service as well as amounts recognised in profit or loss as services have been provided. The CSM is also adjusted for the variable fee earned by the insurer and for the effects of changes in financial risks<sup>2</sup> other than those arising from the

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<sup>2</sup> Financial risk is the risk of a possible future 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.

underlying items, for example the effect of financial guarantees. As a result, the CSM is remeasured at each reporting period and consequently based on current discount rates.

- (b) There is no accretion of interest on the CSM as CSM is remeasured when it is adjusted for changes in financial risks.

Reinsurance contracts held

- 19 With the aim of reflecting the extent to which reinsurance contracts depend on the insurance contracts they are covering; insurers use consistent assumptions in measuring the future cash flows of reinsurance contracts held. Also, the effect of non-performance of the reinsurer is considered. The risk adjustment for a group of reinsurance contracts held represents the amount of risk being transferred by the cedant to the reinsurer.
- 20 For these contracts, the CSM on initial recognition represents a net cost or net gain from the purchase of the reinsurance.
- 21 Entities are allowed to adjust the CSM of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group.
- 22 An entity is not permitted to measure reinsurance contracts held (and issued) in accordance with the variable fee approach.

Investment contracts with discretionary participation features

- 23 These contracts do not transfer significant insurance risk but are within the scope of IFRS 17 if the entity also issues insurance contracts. The general measurement model is modified for these contracts as follows:
  - (a) the date of initial recognition is the date the entity becomes party to the contract;
  - (b) 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; and
  - (c) the CSM is recognised over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.
- 24 These contracts may qualify for the variable fee approach. Otherwise, the general measurement model will apply.

Premium allocation approach

- 25 An insurer may simplify measurement by using the PAA if at inception of the group of contracts:
  - (a) The insurer reasonably expects that the measurement of the liability for remaining coverage would be the same as similar ~~than~~ if the general measurement model were to be applied; or
  - (b) The coverage period of each contract in the group is one year or less.
- 26 Under this approach the insurance liability for remaining coverage is measured at initial recognition as the difference between the premiums received and insurance acquisition cash flows at that date (unless the insurer has chosen to recognise the insurance acquisition cash flows as an expense).

- 27 Subsequently, the carrying amount of the insurance liability is the carrying amount at the start of the reporting period:
- (a) plus the premiums received in the period;
  - (b) minus insurance acquisition cash flows, unless the insurer chooses to recognise these payments as an expense when incurred;
  - (c) plus the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period, unless the insurer chooses to recognise insurance acquisition cash flows as an expense when incurred;
  - (d) plus any adjustment to a financing component;
  - (e) minus the amount recognised as insurance revenue for coverage provided in that period; and
  - (f) minus any investment component paid or transferred to the liability for incurred claims.
- 28 The liability for incurred claims for contracts under the PAA is measured in the same way as under the general measurement model. However, when the insurer expects that cash flows are to be paid or received less than one year from the date the claim is incurred, an insurer may choose not to reflect the impact of the time value of money and the effect of financial risks.

*Other issues*

- 29 Other topics that will require changes in current practice are:
- (a) Scope exclusions;
  - (b) Separating components from an insurance contract;
  - (c) Onerous contracts;
  - (d) Release of the CSM;
  - (e) Contract boundary;
  - (f) Accounting policy choices;
  - (g) Treatment of an investment component;
  - (h) Risk mitigation;
  - (i) Reinsurance contracts issued and held;
  - (j) Sharing of risks;
  - (k) Presentation and disclosure;
  - (l) Transition;
  - (m) Business combinations; and
  - (n) Interim reporting.

*Scope exclusions*

- 30 Particular contracts are excluded from the scope of IFRS 17. Amongst others;
- (a) Some contracts that meet the definition of an insurance contract limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall make an irrevocable choice to apply either IFRS 17 or IFRS 9 *Financial Instruments* to each portfolio of such contracts that it issues.

- (b) Credit card contracts that meet the definition of an insurance contract if and only if the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

*Separating components from an insurance contract*

- 31 When an insurance contract contains distinct components that would be within the scope of another standard if they were separate contracts (for example investment or service components), IFRS 17 requires the separation of such components from the host insurance contract. Furthermore, IFRS 9 should be applied to determine whether the contract contains an embedded derivative that has to be separately recognised and measured.
- 32 Under existing requirements, insurers may already apply “unbundling” of deposit components to their insurance contracts, however the detailed requirements in applying it differ from the IFRS 17 requirements. Voluntary unbundling is no longer allowed under IFRS 17.

*Onerous contracts*

- 33 One effect of the grouping requirements in IFRS 17 is that expected losses on contracts that are onerous at initial recognition are recognised immediately in profit or loss to achieve timely recognition of losses. Subsequently, the insurer is required to regularly update the fulfilment cash flows:
  - (a) for existing groups of onerous contracts, to recognise any additional losses for groups of onerous contracts in profit or loss or to reverse previously recognised losses where expectations change; and
  - (b) for groups of contracts that become onerous during the reporting period, to recognise:
    - (i) changes in CSM to the extent that CSM exists; and
    - (ii) changes for additional expected outflows in profit or loss.
- 34 Under existing requirements, insurers may assess onerous contracts at a higher level of aggregation using a liability adequacy test which is aimed at measuring the sufficiency of the insurance liability. The level at which the testing is done, allows loss-making contracts to be offset against profit-making contracts. Therefore, losses may be recognised only when the losses on this level of aggregation exceed the profits. Also, under current practice there is generally no identification of onerous contracts on initial recognition.

*Release of the CSM*

- 35 The CSM represents the unearned profit at inception of a group of insurance contracts. That unearned profit is released to profit or loss reflecting the expected duration and quantity of benefits provided by contracts in the group. The release pattern is determined by using coverage units. For contracts with direct participation features this is determined by looking at both insurance cover and investment related service. Contracts without direct participation features can, in addition to insurance coverage, also provide an investment return service, subject to particular conditions.
- 36 Existing practices for recognising unearned profit on insurance contracts vary. Annex 2 in Appendix III provides an overview of some local gaaps regarding presentation of components of revenue.

*Contract boundary*

- 37 In accordance with IFRS 17, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the insurer can compel the policyholder to pay the premiums or in which the insurer has a substantive obligation to provide the policyholder with services. The contract boundary ends when the insurer has the practical ability to reassess the risks of the underlying insurance contract or the portfolio that contains that insurance contract and as a result can set a price or level of benefits that fully reflects the risk of that portfolio.
- 38 Current requirements differ. Some local GAAPs prescribe which contractual cash flows are to be considered when calculating the liability, other local GAAPs and practices have no equivalent for the contract boundary under IFRS 17.

*Accounting policy choices*

Presentation of insurance finance income or expenses

- 39 Both for contracts with and without participating features, IFRS 17 offers an accounting policy choice for dealing with insurance finance income or expenses. This accounting policy choice allows insurers to recognise insurance finance income or expenses either in profit or loss entirely or disaggregating it between other comprehensive income and profit or loss. The policy choice is on a portfolio by portfolio basis, but when making the choice, the insurer also needs to consider the assets related to the liability and the accounting for those assets.
- 40 Existing practices with respect to discounting vary (see paragraph 8(b)).

Own debt or equity instruments as underlying items

- 41 IFRS 17 amends IFRS 9 and IAS 32 *Financial Instruments: Presentation* by providing an irrevocable accounting policy choice on an instrument-by-instrument basis, when, and only when, the insurer holds its own debt or treasury shares as underlying items for a group of direct participating contracts or similar investment funds.
- 42 In the case of own debt instruments, an insurer may elect not to derecognise its financial liability that is included in such a fund or is an underlying item. Instead, the insurer may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if the instrument were a financial asset and measure it at fair value through profit or loss.
- 43 In the case of treasury shares, the insurer may elect to continue to account for treasury shares as equity or to account for the reacquired equity instrument as if it were a financial asset measured at fair value through profit or loss.
- 44 This option was not available under IFRS 9 and IAS 32, prior to the issuance of IFRS 17.

*Treatment of an investment component*

- 45 An entity shall separate from a host insurance contract an investment component, if and only if, that investment component is distinct. I.e. the investment component is not highly interrelated with the insurance component and a contract with equivalent terms is or could be sold separately in the market. An entity applies IFRS 9 to a separated investment component. IFRS 4 referred to deposit components (i.e. a contractual component that is not accounted for as a derivative under IFRS 9 and would be within the scope of IFRS 9 if it were a separate instrument) rather than investment components. Under IFRS 4 in certain cases, such a component had to be separated in certain limited circumstances and was allowed to be separated otherwise except if the deposit component could not be measured separately.



*Risk mitigation*

- 46 For contracts with direct participation features, an entity insurer may choose not to recognise in CSM but in profit or loss some or all of the changes in the effect of financial risk on the insurer's share of underlying items when the financial risk is mitigated by a derivative, a reinsurance contract held or a non-derivative financial instrument measured at fair value through profit or loss. The documentation requirement for this option is analogous to that for hedge accounting in IFRS 9. This risk mitigation requirement is to be applied prospectively from the transition date of the standard. An entity is allowed to apply the fair value approach to such a group of insurance contracts when meeting the requirements for risk mitigation.
- 47 IFRS 4 allows to apply shadow accounting to avoid volatility in OCI and profit or loss when insurers meet the conditions to apply it.

*Reinsurance contracts issued and held*

- 48 IFRS 17 requires entities that issue reinsurance contracts to apply the same recognition and measurement approach as they do for any other insurance contract.
- 49 IFRS 17 requires a reinsurance contract held to be accounted for using the same principles, but separately from the related underlying insurance contracts. This will require a change to current practices as many insurers measure reinsurance contracts held based on the measurement of the insurance contracts underlying the reinsurance contract.
- 50 Consistent with IFRS 4, IFRS 17 does not allow net presentation of underlying contracts and related reinsurance contracts held in either the profit or loss or the statement of financial position. This is because an insurer that holds a reinsurance contract does not normally have a right to reduce the amounts it owes to the underlying policyholder by the amounts it expects to receive from the reinsurer.
- 51 Reinsurance contracts held and issued cannot be measured under the variable fee approach

*Sharing of risks*

- 52 Some insurance contracts affect the cash flows to policyholders of other contracts by requiring those policyholders to share with existing or future policyholders of other contracts the returns on the same specified pool of underlying items. Therefore, one of the policyholder groups may bear a reduction in their share of the returns because of payments to other policyholder groups. IFRS 17 requires the measurement of the cash flows of each group to reflect the extent to which it is affected.
- 53 ~~IFRS 17 mandates the sharing of risks is not captured explicitly in some current accounting of insurance contracts at requirements. However, as a level of aggregation that is greater than the single contract. This is to reflect the pooling of risks that is the economic foundation of issuing insurance contracts. In addition, IFRS 17 specifies that the presence of sharing of risks among policyholders must be reflected in the measurement of the fulfilment cash flows. This is similar to certain common practices for practice it is considered in the calculation of the insurance liabilities grandfathered under IFRS 4 (but usually at a higher level of aggregation than permitted under required by IFRS 17).~~

*Presentation and disclosure*

Presentation in the statement of financial position

- 54 Insurance contracts are presented in the statement of financial position, on portfolio level, as insurance contract liabilities or as insurance contract assets.

Presentation in the statement of financial performance

- 55 IFRS 17 requires the income statement to separately present the insurance service result (including insurance revenue and insurance service expenses) and insurance finance income and expenses.

*Insurance service result*

- 56 The insurance service result reflects changes in the insurance liability, and it is presented as insurance revenue less insurance service expenses.
- 57 Under IFRS 17, insurance revenue is determined and presented consistently with the approach in IFRS 15 for the recognition of revenue from contracts with customers. Therefore, insurance revenue depicts the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the insurer expects to be entitled in exchange for those services.
- 58 Revenue for insurance services arises from the:
- (a) Allocation of the CSM;
  - (b) Release of the risk adjustment for non-financial risk;
  - (c) Insurance service expenses expected; and

- 59 IFRS 17 requires an insurer to report as insurance revenue the consideration for services as they are provided. Therefore, insurance revenue excludes investment deposit components which represent policyholders' investments rather than consideration for services provided. Under current practice, some insurers recognise all premiums (including any deposit component) as revenue.

- 60 Insurance service expenses includes incurred claims; other incurred service expenses; amortisation of insurance acquisition cash flows; changes relating to past services; and changes that relate to future service, i.e. losses on onerous groups of contracts and reversals of such losses. As for insurance revenue, this excludes repayment of investment deposit components which represent policyholder investments.

*Insurance finance expenses or income*

- 61 IFRS 17 requires an insurer to report separately insurance finance income or expenses. This comprises the investment return on assets, the effect of the time value of money on the investments as well as the insurance liability and the effect of changes in financial assumptions (for example, changes in discount rates).

Disclosures

- 62 To enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance, and cash flows of an insurer, IFRS 17 requires disclosure of qualitative and quantitative information about:
- (a) the amounts recognised in its financial statements from insurance contracts;
  - (b) the significant judgements, and changes in those judgements, made when applying IFRS 17;
  - (c) detailed reconciliations of opening and closing balances; and
  - (d) the nature and extent of the risks from contracts within the scope of IFRS 17.

*Business combinations*

- 63 Following the general accounting principles for business combinations, the insurance contracts issued, and reinsurance contracts held and which are acquired in a business combination are treated as if issued by the acquirer at the acquisition

date. On acquisition, the acquirer will have to assess whether the contracts at that date meets the definition of an insurance contract or not. If contracts fall within IFRS 17, the level of aggregation requirements are applied and the CSM determined as well as relevant assumptions reset (e.g. discount rate and coverage period). The fair value of the contracts at the date of acquisition is regarded as consideration received or paid (and hence the amount of premium received that is considered when determining the CSM).

- 64 When applying IFRS 17 for the first time, an entity that previously was an acquirer in a business combination shall classify a liability for settlement of claims as a liability for remaining coverage if the entity acquired the insurance contract during the claims settlement period and, at the acquisition date, the amount of claims is still uncertain.
- 65 When an entity is not able to apply the previous requirement retrospectively, an entity may:
- (a) classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired (when applying the modified retrospective approach); or
  - (b) apply the fair value approach to classify such a liability as a liability for incurred claims.

*Interim reporting*

- 66 When applying IFRS 17 in subsequent interim financial statements or in the annual reporting period, an entity has an accounting policy choice, at entity level, as to whether to change the treatment of accounting estimates made in previous interim financial statements.

*Transition*

- 67 An insurer is required to account for its insurance and reinsurance contracts as if IFRS 17 had always been applied unless this is impracticable (for example, if, after making every reasonable effort, the insurer is unable to gather historical data for contracts issued certain years before). When retrospective application is impracticable, an insurer can measure existing insurance contracts when it first applies IFRS 17 using either:
- (a) a modified retrospective approach - which can be used only if reasonable and supportable information is available; or
  - (b) fair value approach.
- 68 For the transition requirements, the date of initial application is the start of the annual reporting period in which an insurer first applies IFRS 17, and the transition date is the beginning of the period immediately preceding the date of initial application. On transition, an insurer should restate the numbers for the comparative period, i.e. from the transition date.
- 69 Specific transition reliefs are being addressed under the headings that relate to those reliefs (e.g. risk mitigation or business combinations).

**When does IFRS 17 become effective?**

- 70 An insurer shall apply IFRS 17 for annual periods beginning on or after 1 January 2023. An insurer can choose to apply IFRS 17 before that date, but only if it, at the same time, also applies IFRS 9.

## Annex 1: What would these changes look like in practice?

- 1 At the issuance of IFRS 17, the IASB highlighted the impact of some of the changes and what it would look like in educational material (link [here](#)). The following are extracts to help stakeholders visualise the changes.
- 2 A simplified profit and loss under IFRS 4<sup>3</sup>:

P&L	20X1	20X0	
Gross premiums	16,321	13,567	→ Cash based and includes collection of deposits. Inconsistent with other industries
Premiums ceded to reinsurers	(816)	(678)	
Investment income	9,902	9,030	
<b>Total income</b>	<b>25,407</b>	<b>21,919</b>	
Gross claims, benefits and expenses	(13,827)	(12,012)	→ Includes repayment of deposits
Claims and expenses ceded to reinsurers	368	351	
Acquisition costs amortisation	(1,259)	(1,150)	
Change in insurance contract liabilities	(9,308)	(8,377)	→ Confusing adjustment that incorporates multiple factors
<b>Total expenses</b>	<b>(24,026)</b>	<b>(21,188)</b>	
<b>Profit before tax</b>	<b>1,381</b>	<b>731</b>	→ Inconsistent measurement reduces comparability

- 3 Under IFRS 17, it would look as follows:

P&L	20X1	20X0
Insurance revenue	9,856	8,567
Insurance service expenses	(9,069)	(8,489)
<i>Incurring claims and insurance contract expenses</i>	<i>(7,362)</i>	<i>(7,012)</i>
<i>Insurance contract acquisition costs</i>	<i>(1,259)</i>	<i>(1,150)</i>
<i>Gain or (loss) from reinsurance</i>	<i>(448)</i>	<i>(327)</i>
<b>Insurance service result</b>	<b>787</b>	<b>78</b>
Investment income	9,902	9,030
Insurance finance expenses	(9,308)	(8,377)
<b>Net financial result</b>	<b>594</b>	<b>653</b>
<b>Profit before tax</b>	<b>1,381</b>	<b>731</b>

- 4 **Insurance revenue** consists of CSM allocation, risk margin allocation and expected claims.
- 5 **Insurance service result** under IFRS 17 broadly reflects the CSM allocation, risk margin allocation and experience adjustments related to claims and expenses.

<sup>3</sup> This example has not been updated for the IFRS 17 amendment related to insurance acquisition cash flows.

6 A typical statement of financial position under IFRS 4 often looks as follows:

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Deferred acquisition costs	8,083	8,941
Premiums receivable	2,798	2,582
Reinsurance contract assets	20,572	17,882
Other assets	36,002	31,293
<b>Total assets</b>	<b>293,752</b>	<b>257,398</b>
Insurance contract liabilities	211,010	185,545
Unearned premiums	5,595	4,796
Other liabilities	51,431	44,705
Equity	25,716	22,352
<b>Total liabilities and equity</b>	<b>293,752</b>	<b>257,398</b>

7 Under 17, it would look like this:

Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Reinsurance contract assets*	20,572	17,882
Other assets	36,002	31,293
<b>Total assets</b>	<b>282,871</b>	<b>245,875</b>
Insurance contract liabilities**	205,724	178,818
Other liabilities	51,431	44,705
Equity	25,716	22,352
<b>Total liabilities and equity</b>	<b>282,871</b>	<b>245,875</b>

8 \* Portfolios of reinsurance assets and insurance liabilities in an asset position is presented separately from those in a liability position.

9 \*\* Acquisition cost cash flows that, premiums receivable and unearned premiums are included in the measurement of insurance contracts. This does not yet portray the amendment related to acquisition costs where acquisition costs related to renewals are not included in the liability.