IFRS 17

Insurance Contracts

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March 2023

National Bank of Ukraine

THE WORLD BANK
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Disclaimer

Unless specified otherwise, the accounting requirements that are the subject matter of this presentation are the IFRS Standards as issued by the IASB that are applicable on or after 1 January 2023

The views expressed in this presentation are my own and not necessarily those of any organization with which I am associated.

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Questions and Answers

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Question 1

We have a question regarding the specifics of recognition as units of accounting and receivables and payables subsequent accounting.

See questions 2 and 3

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Question 2

Please explain in more details what receivables and payables directly attributable to insurance services can be recognized and accounted (therefore presented in financial statements) separately from insurance liability after its initial recognition.?

Objective of presentation

» To capture all of rights and obligations arising from a [group of] insurance contracts as a single asset/liability

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Question 2

Scope of cash flows:

» IFRS 17 defines an insurance contract (IFRS 17 definitions)

» IFRS 17.10-12 deal with what to separate out

» IFRS 17.13 states that IFRS 17 is applied to all remaining components of a contract after separating out

» IFRS 17.33 and 34 define the measurement of insurance contracts to include all future cash flows within the boundary, cash flows within the boundary are those that arise from rights and obligations that arise from the contracts

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Question 2 *continued*

Scope of cash flows (continued):

» IFRS 17.B65 provides examples of cash flows within the boundary including:
  » Premiums, claims and benefits ((a),(b) and (c))
  » Claims handling costs, administration and maintenance costs, transaction based taxes and an allocation of fixed and variable overheads ((f), (h), (i) and (l))

» IFRS 17.B66 provides examples of cash flows excluded:
  » Cash flows from reinsurance contracts held;
  » Costs that cannot be directly attributed

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Question 2 *continued*

Liability for incurred claims:

An entity's obligation to:

(a) investigate and pay …… other incurred insurance expenses; and

(b) pay amounts that are not included in (a) and that relate to:

(i) insurance contract services that have already been provided; or….

Scope of IFRS 9 (standard applicable standard for receivables and payables) excludes: para 2.1(e) 'rights and obligations arising under a contract within the scope of IFRS 17 Insurance Contracts'

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Question 2 *continued*
My conclusions

Application to receivables and payables:

» GMM: If receivables and payables relate to cash flows that fall within the definitions of insurance cash flows, then those receivables/payables are future cash flows in the scope of IFRS 17 and should be captured in the measurement of fulfilment cash flows (either LIC or LRC)

» PAA: Is intended as a simplification of GMM. There is no exception to the cash flows to include, my conclusion is therefore as above. The LIC captures all of the incurred expenses.

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Example
Ledger versus presentation

» Insurer incurs legal fees of $10 000 amendment to a group of contracts, fees incurred before year end and paid after:

Journals when incurred	Debit	Credit
Dr Legal expenses: Insurance contracts	10 000	
Cr Accounts payable: Lawyer		10 000

Mapping to financial statements - Dr/(cr)	P&L	Balance sheet
Insurance service expenses	10 000	
Insurance liability (LIC)		(10 000)

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Question 3

Which level of aggregation (1 contact, group of contracts, portfolio) we have to allocate receivables and payables when included in insurance liability?

In theory these expenses should all be allocated at the group level (that is the 'unit of account' for IFRS 17

» However, IFRS 17.24 notes that 'an entity may estimate the fulfilment cash flows at a higher level of aggregation …. provided the entity is able to …. [allocate] such estimates to groups.'

» Under PAA, allocation matters in:

  » determining of a contract is onerous and/or

  » If portfolio is in a net credit or debit

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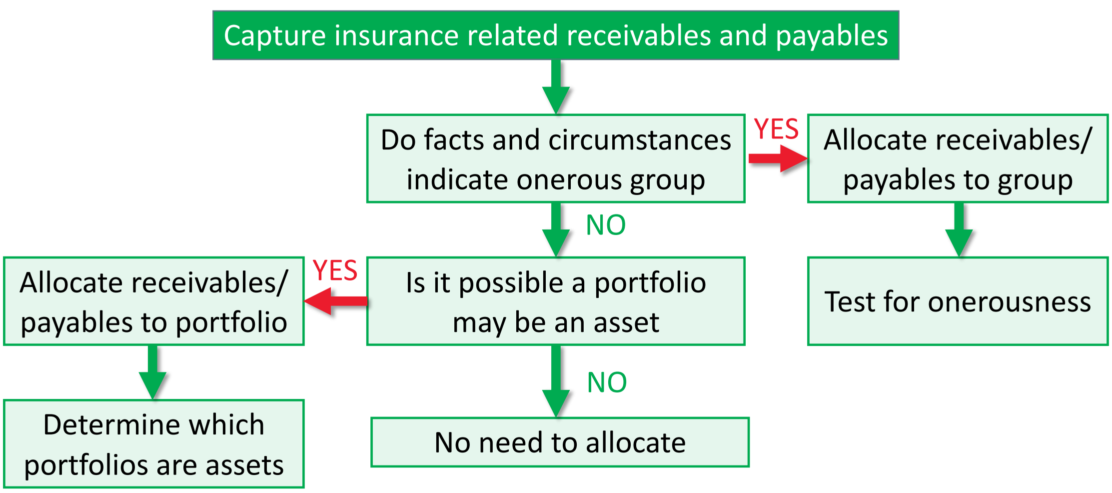
Example: allocation



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Question 4

What expenses are included in LIC except insurance claims?

- IFRS 17.59(b) states that applying PAA and entity should measure LIC applying the GMM, and specifically references IFRS 17.33-37 and B36 to B92
- IFRS 17.33 includes all the future cash flows within the boundary, B65 as discussed earlier gives a list of examples
- Note this has no consequence for expenses that are simultaneously incurred and paid

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Question 5

Could you give examples of salvage and subrogation that are included in insurance liability and that are recognized as separate assets.

- B65 which provides examples of future cash flows to include in measuring IFRS 17 contracts explicitly includes '(k) potential cash flows from recoveries (such as salvage or subrogation)….
- Thus, these cash flows should be included in the LRC/LIC
- However, there is a view that these assets can subsequently 'change their nature', for example a recovered stolen vehicle may be used by the insurer in which case its nature is changed to PPE (asset transfer at fair value)

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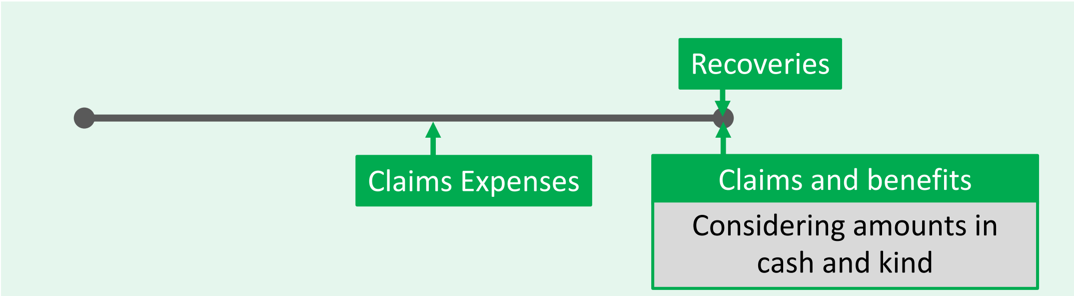
Present value of future cash flows
LIC Cash flows

» **Current estimate** of future expected claims cash flows



» Probability weighted and unbiased

From slide 63

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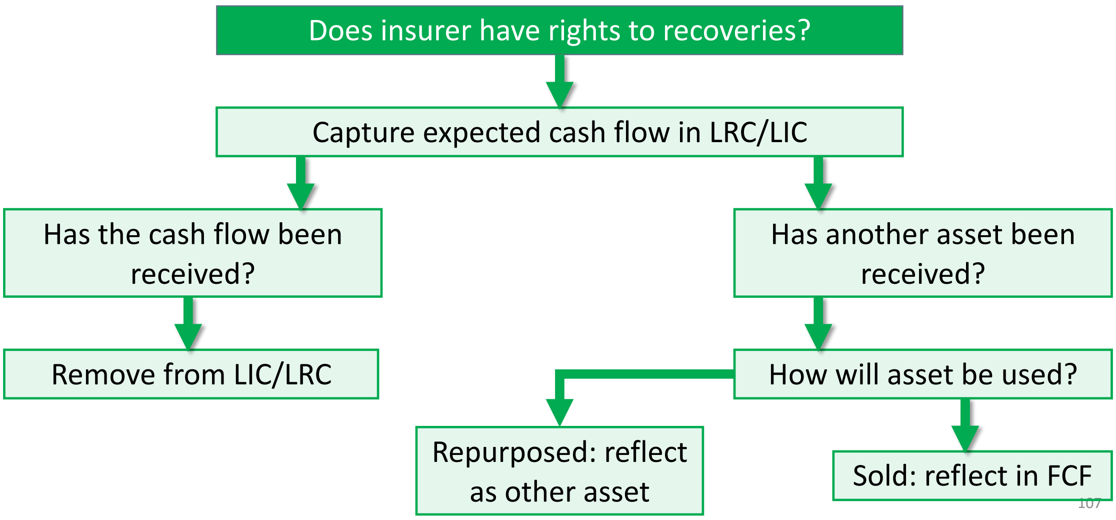
Example
Recoveries: salvage and subrogation



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Question 6

In Ukraine we have some obligatory insurance, when insurer bares risk from the first day of coverage period notwithstanding the premium payments, and with no right to cancel the contract. Sometimes policyholders won't pay premium at all. Does it mean that in such case we still recognize revenue on PAA using the expected premium receipts (not real cash premiums) and recognize loss component?

- Yes. Premium is recognised based on expected provision of service in a period ,at a group level, relative to total expected premium
- In the circumstance described, insurer will provide more service in the first period, but receive the same period through the life

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Example

- Insurer writes 11 one year contracts at a premium of $1 000 per month ea
- Insurer is obliged to provide a 1 month grace period
- On previous experience, it it expects that one contract will never pay a premium

	Month					
	1	2	3	4 - 10	11	12

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Example

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	Month					
	1	2	3	4 - 10	11	12
Premium received	10 000	10 000	10 000	70 000	10 000	10 000

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Example

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	Month					
	1	2	3	4 - 10	11	12
Premium received	10 000	10 000	10 000	70 000	10 000	10 000
Contracts covered	11	10	10	10 x 7	10	10

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Example

- Insurer writes 11 one year contracts at a premium of $1 000 per month ea
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- On previous experience, it it expects that one contract will never pay a premium

	Month					
	1	2	3	4 - 10	11	12
Premium received	10 000	10 000	10 000	70 000	10 000	10 000
Contracts covered	11	10	10	10 x 7	10	10
Revenue recognised	10 909	9 917	9 917	69 421	9 917	9 917

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Question 7

Insurance contact is usually an insurance liability, but sometimes is an insurance asset. If we have to accrue interest on insurance asset, how it will be presented: as minus insurance finance expenses or insurance finance income? The same question but vice versa for reinsurance contacts held (minus insurance finance income or insurance finance expenses).

- The standard is not explicit. I have seen 3 approaches all likely correct:
  - A separate insurance finance income line under “Finance income’
  - A separate insurance finance income line under and offsetting insurance finance expenses
  - A simple net amount of insurance finance expenses *if not material*

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Example
Presentation

Income statement - income	
Finance and investment income	***1 250***
- Investment income	1 000
- Insurance finance income	250
Income statement - expense	
Net insurance finance expense	***750***
- Insurance finance expense	1 000
- Insurance finance income	(250)
Income statement - net	
Net insurance finance expense	***750***

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Thank you

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