

# IFRS 17

## *Insurance Contracts*

UK Endorsement Webinar

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

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Overview and timeline of IFRS 17

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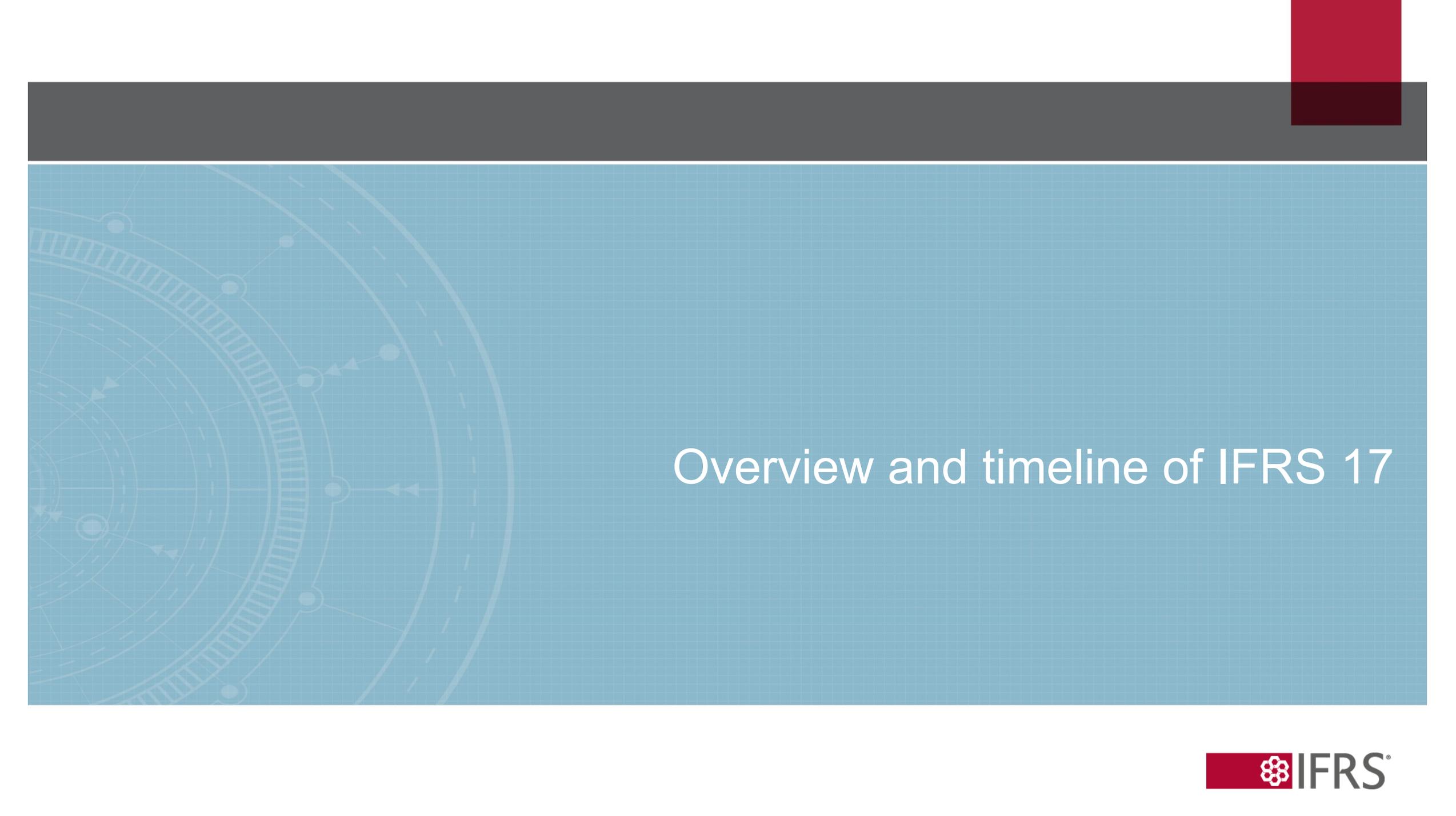
Targeted amendments to IFRS 17  
(with focus on issues raised by UK stakeholders)

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Amendments considered but not made  
(with focus on issues raised by UK stakeholders)

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Update on IASB support for implementation



# Overview and timeline of IFRS 17



## More

useful and transparent information

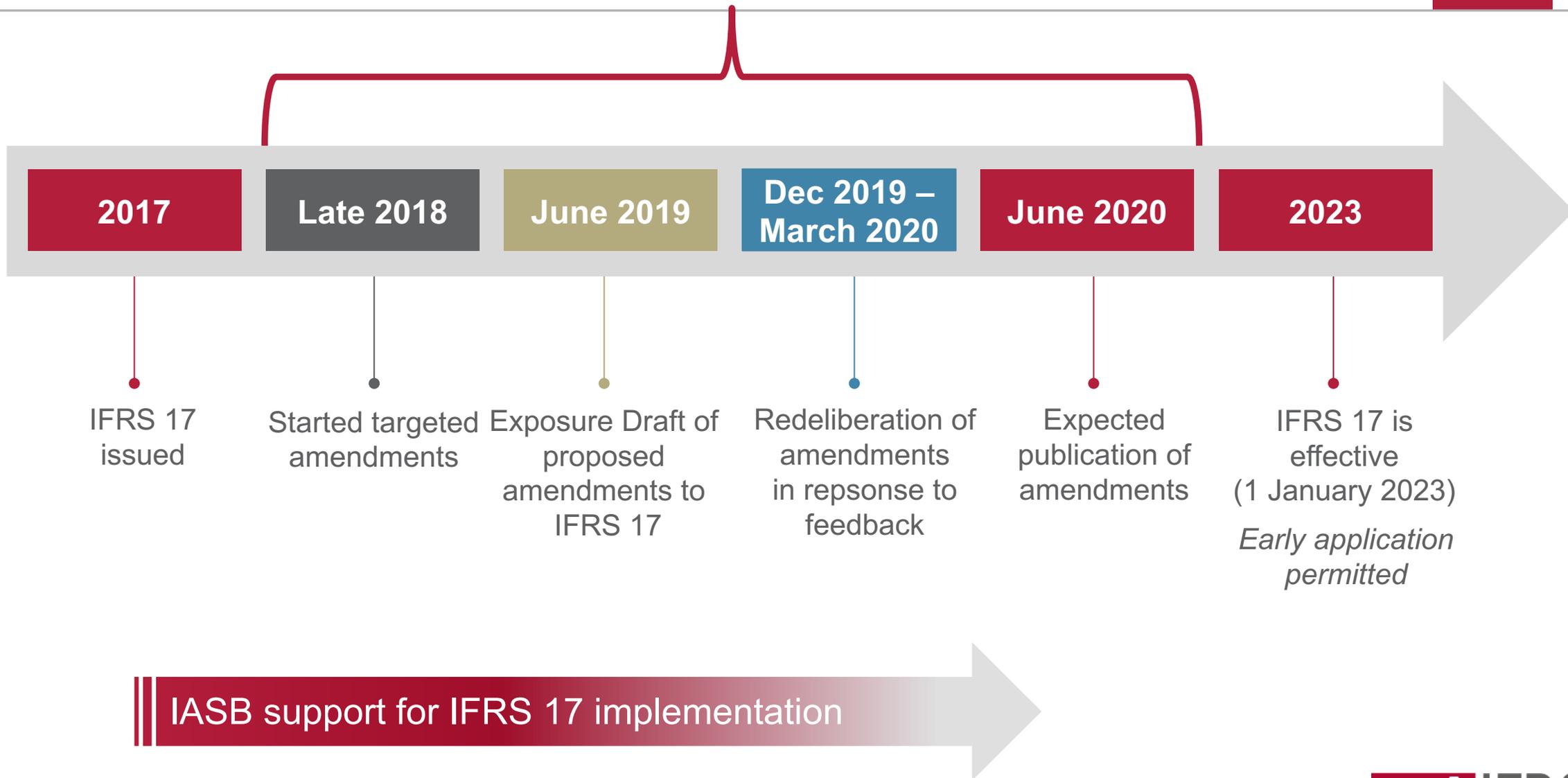


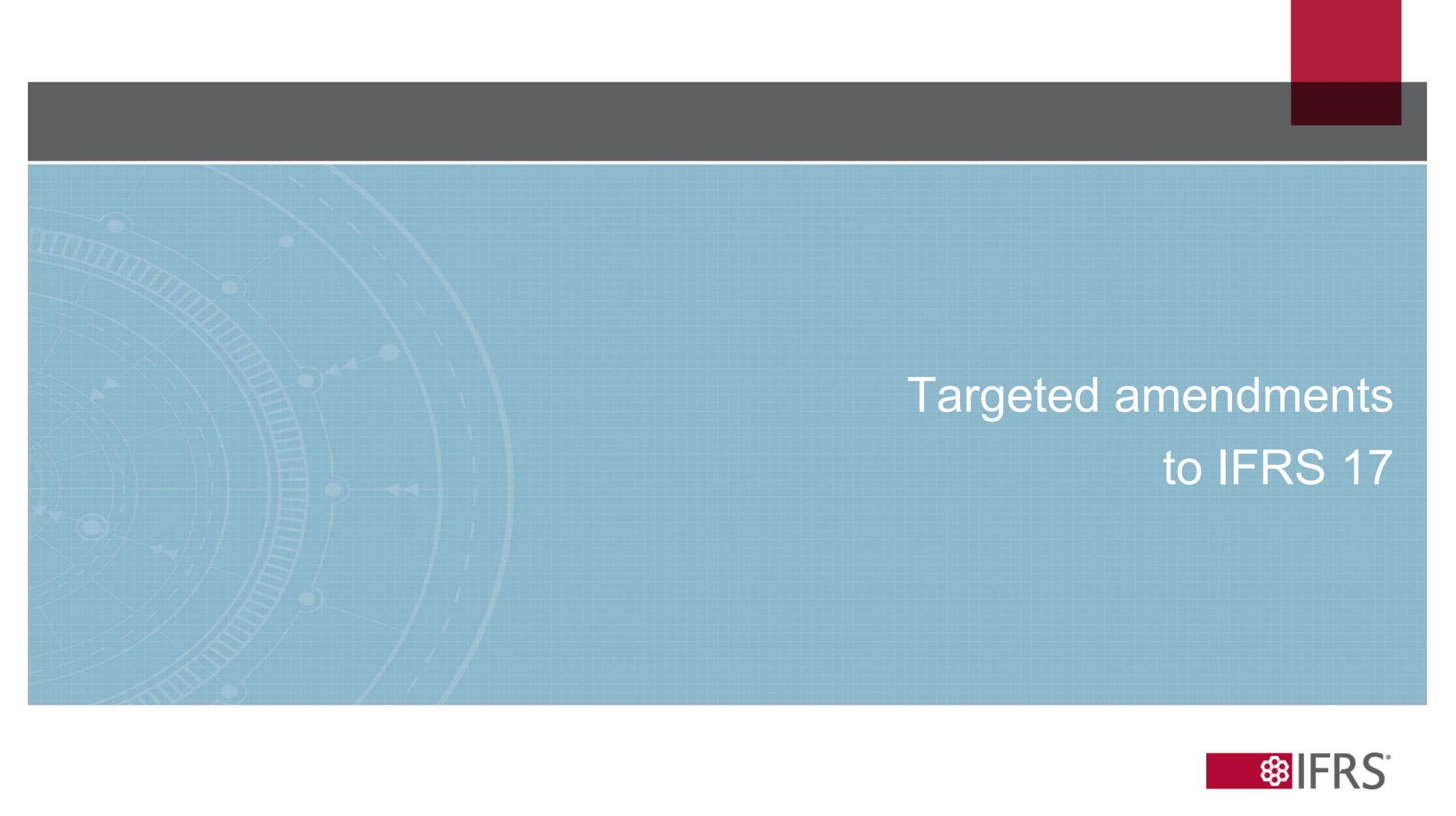
## Better

information about profitability

- Requires **consistent accounting** for all insurance contracts
- Based on a **current measurement** model
- Provides useful information about the **profitability** of insurance contracts
- Presents **comparable** data across companies
- Assists investors to fulfil **stewardship** responsibilities

# IFRS 17 timeline





# Targeted amendments to IFRS 17

# Why is IASB amending IFRS 17?



To aid companies implementing the new requirements

## The targeted amendments

**address** many of the **concerns and challenges** raised by companies implementing IFRS 17

**reduce** IFRS 17 application **costs** for companies and **make it easier** for companies to **explain the results** of applying IFRS 17

# Overall feedback on the Exposure Draft

8

Overall support for IASB considering concerns and challenges raised since IFRS 17 was issued and proposing targeted amendments to IFRS 17

Some stakeholders think IASB should extend the scope of some of the proposed amendments

Some stakeholders commented on

- some areas IASB considered and for which amendments to IFRS 17 were not proposed in the Exposure Draft
- new implementation challenges specific to transactions / jurisdictions



Outreach  
July – September 2019

70 meetings in  
14 jurisdictions



123  
comment letters

# Key Amendments\*

## Amendments finalised as proposed

Scope exclusion for Loan contracts

1

Coverage units for VFA contracts

2

## Proposed amendments finalised with some changes

Scope exclusion for credit card contracts and similar contracts

3

Coverage units for general model contracts, disclosures, terminology

4

Reinsurance covering loss-making contracts

5

## Additional amendments

Choice relating to interim financial statements

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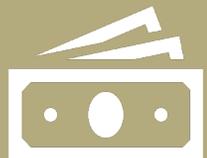
Policyholder's tax

7

\* Focus on issues raised by UK stakeholders

# Amendments finalised as proposed

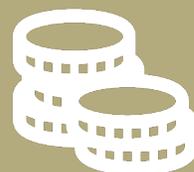
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## Scope exclusion for some loans

1

- Permitted to apply **either IFRS 17 or IFRS 9** to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract
- Insurers that invest in **equity release mortgages** can continue to apply IFRS 9 accounting to these investments



## Coverage units for VFA contracts

2

- For insurance contracts with direct participation features, recognise the contractual service margin in profit or loss considering both **insurance coverage** and **investment-related service**



### Proposed amendment

- Requirement to **apply IFRS 9 to credit cards** that meet the definition of an insurance contract **if the company does not reflect an assessment of the insurance risk** associated with an individual customer in setting the price of the contract with that customer
  - for example, credit cards that provide insurance coverage for free

### Supporting arguments

- ✓ General agreement that the scope exclusion would **reduce implementation costs**

### Findings and suggestions

- ✗ Extend to **other banking products**
- ✗ Concerns that when the insurance is contractual credit cards **may not meet SPPI**

### IASB decision

- Extend exclusion to **similar contracts**
- Separate **contractual insurance** and apply IFRS 17 to it

# 4 Coverage units

## *General model contracts, disclosures, terminology*

12



### Proposed amendment

- **Recognition** of CSM **both** when insurance coverage and **any services relating to investment activities** are provided
- **Disclosures**
  - **timing** of expected recognition in profit or loss of remaining contractual service margin
  - **judgement used to determine the profit** generated by any service relating to investment activities, in addition to the insurance coverage

### Supporting arguments

- ✓ General agreement that **services related to investment activities** need to be considered

### Findings and suggestions

- ✗ Criteria for investment-return service **too narrow**
- ✗ Complexity of **multiple service contracts**

### IASB decision

- Confirm proposals, but refer to 'investment return'
- Include **investment activity costs** in fulfilment cash flows even if no investment-return service

# 5 Reinsurance covering loss-making contracts



## Proposed amendment

- Recognition of a **gain** on reinsurance contracts held **to the extent**:
  - Entity **recognises losses** on onerous insurance contracts **at initial recognition**
  - the reinsurance contracts
    - cover the losses of **underlying contracts on proportionate basis** (ie fixed % of claims is recovered)
    - are **entered into before or at the same time** the onerous underlying contracts are issued

## Supporting arguments

- ✓ Support for the **direction** of the amendment to **reduce accounting mismatches**

## Findings and suggestions

- ✗ Request to **extend the population** of reinsurance contracts to which the amendment would apply
- ✗ Concerns that the amendment might be **open to abuse**

## IASB decision

- Extend amendment to **all reinsurance contracts held**

## 6 Interim financial statements

### Exposure Draft

- Considered **concerns/challenges** arising from treatment of accounting estimates made in previous interim financial statements (period to period)
- However, **no change proposed** in the Exposure Draft

### Feedback

- Significant **implementation/application costs** from:
  - maintaining two sets of accounting estimates, or
  - changing practice (year-to-date to period-to-period)

### IASB decision

- Make **accounting policy choice**

## 7 Policyholder's tax

### Exposure Draft

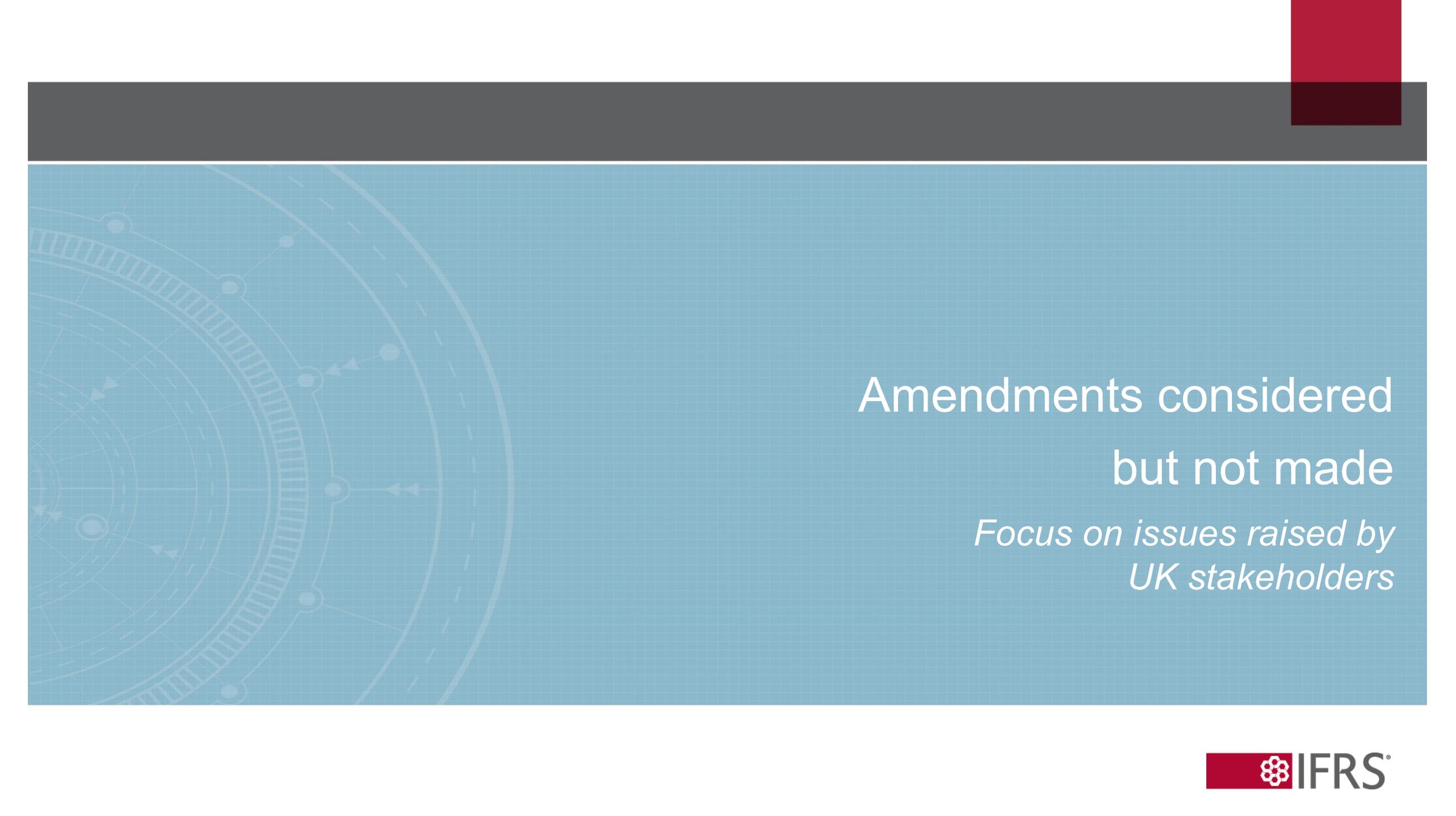
- **No change proposed** in Exposure Draft
- Entity excludes income tax payments and receipts **not** paid or received in a fiduciary capacity from fulfilment cash flows (FCF)

### Feedback

- Some income tax payments and receipts, although not paid or received in a fiduciary capacity, are **costs specifically chargeable** to the policyholder under terms of contract

### IASB decision

- Amended to **exclude** income tax payments or receipts **not specifically chargeable to policyholder** from FCF



# Amendments considered but not made

*Focus on issues raised by  
UK stakeholders*

# Discount rate used to adjust the CSM

17

## IFRS 17 requirement

- **General model** contracts:
  - **fulfilment cash flows** measured at **current discount rate**
  - resulting adjustment to **CSM** (for changes related to future service) measured at **locked-in discount rate**

## Concerns / views

- **Gain or loss**—difference between change to FCF and change to CSM—**difficult to explain**
- Some consider current discount rate would **reduce operational burden** and would be **conceptually appropriate**

## IASB rationale

- **Both** locked-in rates and current rates **have complexities**
- Use of **locked-in rate provides a faithful representation** of revenue earned as a company provides services

## IFRS 17 requirement

- Entity **prohibited from applying risk mitigation option** for periods **before the date of transition** to IFRS 17
- As amended, entity **can use fair value approach** in some circumstances

## Concerns / views

- Concerns regarding possible **distortion affect**
- Disagreement with Board **cost-benefit analysis**
- Suggest '**all or nothing approach**'

## IASB rationale

- Risk of the **use of hindsight and cherry picking**
- '**All or nothing approach**' **unachievable** in most cases
- Board's previous **cost-benefit analysis holds**

## IFRS 17 requirement

- Contracts where **event has already occurred** but financial effect still uncertain: **insured event is** determination of cost of claims
- Liability for claims settlement of contracts acquired is classified as liability for remaining coverage until ultimate cost is known

## Concerns / views

- Entities that typically issue contracts under premium allocation approach **need to develop general model systems**
- Different treatment for contracts acquired and contracts issued

## IASB rationale

- IFRS 17 **gives useful information** about the contract the acquirer entered into **at acquisition date**
- An exception to definition of insured event **would be a fundamental change**

# Contracts that change their nature over time

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## IFRS 17 requirement

- **Classification** of contracts is not reassessed subsequently
- General model or variable fee **approach applies for the entire duration** of the contract

## Concerns / views

- Accounting **mismatches could arise** for contracts that change their nature (for eg due to policyholder exercising an option)
- **Suggestions to optionally reassess** contract, or to **exclude cash flows** from contract boundary, or **separate components**

## IASB rationale

- Suggestions would **significantly reduce comparability** and **increase complexity** of IFRS 17
- Most mismatches **can be reduced/eliminated** applying IFRS 17



# Update on IASB support for implementation

# IASB support for IFRS 17 implementation

A comprehensive programme of stakeholder engagement and implementation support to date



Webinars



Articles and other materials



Conferences



Transition Resource Group (TRG)

4 meetings

127 implementation questions

Education for

- investors
- regulators
- standard-setters
- preparers



Over 100 meetings with investors

Informal technical discussion with

- regulators
- standard-setters
- preparers
- auditors



Over 300 meetings with stakeholders

Targeted amendments to

- ease implementation
- reduce implementation costs
- respond to concerns and implementation challenges



123 comment letters  
70 meetings

June 2020



## Issuance of the final amendments to IFRS 17

Going forward



### Implementation support

- **No further** TRG meetings scheduled
- TRG has **not been disbanded** and is available for consultation by IASB if needed
- Stakeholders can **make IASB aware of implementation questions** via email to [insurancecontracts@ifrs.org](mailto:insurancecontracts@ifrs.org)
- **Educational materials have been developed** in the context of IFRS 17 as originally issued
- Stakeholders should **consider information in educational materials in the context of** the forthcoming amendments

# Get involved

Find out more: [www.ifrs.org](http://www.ifrs.org)

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