Australian Government
Australian Accounting Standards Board

AASB Transition Resource Group for AASB 17 *Insurance Contracts*
Submission form for potential implementation question

In addition to the form, attachments (such as memos) may be included with the submission.

Any public discussion of issues submitted will be without the identification of the submitter's name. Although the submission forms will remain private, please do not include any confidential information in your submission.

Email a PDF of the completed (including any attachments) form to standards@aasb.gov.au.

Submission date	18/09/2020
Name	Victoria Smith
Title	Group Head of Financial Reporting
Organisation	QBE
Address	8 Chifley Square Sydney
Telephone	02 9375 4055
Email address	victoria.smith@qbe.com
Stakeholder group	Preparer
Do you wish to present to the TRG?	Yes

Potential implementation question

Are expected cash flows relating to premium receivables for expired coverage included in measuring the liability for remaining coverage or the liability for incurred claims under AASB 17 Insurance Contracts?

Paragraph of IFRS 17 *Insurance Contracts*

Various, including, in particular: AASB 17 Appendix A definitions of 'liability for incurred claims' and 'liability for remaining coverage'; paragraphs 53 and 55.

Analysis of the question
The analysis of the question should include a detailed description of the different ways the new Standard may be applied, resulting in possible diversity in practice.

Please refer to attachment [16 pages]

Is the question pervasive?
Explain whether the question is expected to be relevant to a wide group of stakeholders.

Premium receivables for expired coverage arise for many classes of business (probably more commonly general insurers) and there accounting treatment has the potential to affect presentation and disclosure and, therefore a wide range of industry stakeholders.

Attachment to TRG September 2020 meeting paper
Premiums receivable for expired coverage

For the purposes of discussion, three main views are identified involving premiums received and/or receivable that relate to coverage that has already been provided.

While the focus of this Paper is on premium inflows, the same principles would apply for reinsurance premiums not yet ceded for coverage that has already been received.

View 1 Premiums receivable would always be cash inflows used in measuring the liability for remaining coverage, whether they relate to coverage already provided or future coverage.

View 2 Premiums receivable would be cash inflows that are included in measuring:

(a) the liability for remaining coverage to the extent they relate to future coverage; and

(b) the liability for incurred claims to the extent they relate to expired coverage.

This would mean that, as coverage expires, any premiums receivable for that expired coverage would be transferred from the liability for remaining coverage to the liability for incurred claims.

View 3 Premiums receivable would be cash inflows that are included in measuring:

(a) the liability for remaining coverage when there remains at least some future coverage for the group of contracts; and

(b) the liability for incurred claims only when coverage has fully expired for the group of contracts.

This would mean that, as coverage expires, any premiums receivable for that expired coverage would remain in the liability for remaining coverage provided there remains any coverage for the group of contracts. Premiums receivable would only be transferred to the liability for incurred claims once all the coverage has expired for all contracts within the group.

View 4 View 1, View 2 and View 3 are all acceptable approaches under IFRS 17. The focus of the definitions is on 'obligations' and the main purpose for distinguishing between the liability for remaining coverage and the liability for incurred claims is to achieve the recognition of premium revenue in the relevant periods. The application of View 1, View 2 or View 3 has no profit or loss impact.

Section 5 of this Paper sets out how View 1, View 2 and View 3 would apply when premiums receivable for expired coverage are to be settled net of claims.

Depending on the view adopted, the amounts recognised as insurance liabilities and assets might differ and the related presentation and disclosures might differ.

Background

The June 2020 version of IFRS 17 includes revised definitions. The marked-up text shows the changes from the May 2017 version of IFRS 17, and emphasis has been added:

liability for incurred claims	An entity's obligation to: (a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and 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

(ii) any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.

liability for remaining coverage

An entity's obligation to:

(a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage ~~period~~); and

(b) **pay amounts** under existing insurance contracts that are not included in (a) and **that relate to**:

(i) **insurance contract services not yet provided** (ie the obligations that relate to future provision of insurance contract services); or

(ii) any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.

The changes shown above in bold have led some stakeholders to conclude that, once insurance services have been provided, any related future cash flows should be recognised in the liability for incurred claims. Based on this view, all expected premium cash inflows would initially be included in measuring the liability for remaining coverage and, as coverage is provided, and premiums remain outstanding, the expected premium cash inflows would be transferred from the liability for remaining coverage to the liability for incurred claims.

The following extracts from the Basis for Conclusions to the June 2020 version of IFRS 17 are provided to assist in the discussion:

BC6B To maintain the benefits of IFRS 17, the Board decided that any amendments to IFRS 17 must not:

(a) result in a significant loss of useful information for users of financial statements compared with the information that would have resulted from applying IFRS 17 as issued in May 2017; or

(b) unduly disrupt implementation already under way.

A footnote is added to the end of paragraph BC25(a). For ease of reading new text is not underlined.

In June 2020, the Board amended the definition of a liability for remaining coverage to include amounts for which an entity will provide investment-return service or investment-related service (see paragraphs BC283A–BC283J).

BC283A In June 2020, the Board amended IFRS 17 to: …

(e) expand the definitions of a liability for remaining coverage and a liability for incurred claims to reflect an entity's obligation to provide insurance contract services and any other obligations arising from insurance contracts.

Based on agenda paper 2 for the May 2020 IASB meeting, aside from explicitly including investment services in the liabilities, the IASB's main motivating factor for amending the definitions seems to have been to make sure the definitions include all obligations arising from insurance contracts issued by an entity, such as premium refunds. Please refer to Appendix B.

View 1 Premiums receivable would always be cash inflows used in measuring the liability for remaining coverage

1.1 It seems intuitive that premiums relate to coverage, not incurred claims. The actual timing of premium cash flows should not change that perspective. Timing is taken into account by measuring fulfilment cash flows at discounted present values.

1.2 It would be misleading to include premiums receivable in the liability for incurred claims because they do not relate to claims. If they were included in the liability for incurred claims, it would artificially reduce that liability and assets for incurred claims would be more likely to arise.[1]

1.3 The future **receipt** of premium does not involve an insurer having an obligation to "**pay amounts** … that relate to insurance contract services that have already been provided". This reference in the revised definition of 'liability for incurred clams' to '**pay** amounts' must be a reference to claims or premium refunds[2].

Specific measurement requirements of IFRS 17

1.4 When the general model is applied, generic references are made to 'estimates of future cash flows' in measuring 'insurance contracts' [for example, IFRS 17.32, 33, 36, 48 and 50] and no requirements specifically address the classification of premium receivables as liability for remaining coverage or liability for incurred claims.

1.5 The premium allocation approach (PAA) is a simplified approach that is intended to approximate the general model measure of the liability for remaining coverage.[3] Accordingly, the requirements under the PAA are a potential indicator about whether premiums receivable should be associated with the liability for remaining coverage or liability for incurred claims.

1.6 IFRS 17.55 says (in part, emphasis added):

> 55 Using the premium allocation approach, an entity shall measure the **liability for remaining coverage** as follows:
>
> (a) on initial recognition, the carrying amount of the liability is:
>
> (i) the premiums, if any, received at initial recognition; …
>
> (b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:
>
> (i) plus the **premiums received in the period**;
>
> (ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);
>
> (iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);
>
> (iv) plus any adjustment to a financing component, applying paragraph 56;
>
> (v) **minus the amount recognised as insurance revenue for services provided in that period** (see paragraph B126); and
>
> (vi) minus any investment component paid or transferred to the liability for incurred claims.

1.7 IFRS 17.55 requires the PAA liability for remaining coverage to be measured based on premiums that are 'actually received'[4], even if that occurs after coverage has expired. Applying View 2 would result in a measurement of the PAA liability for remaining coverage

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1 Although cash inflows for items such as salvage are included in the liability for insured claims, these cash inflows are caused by claims and are in the nature of off-setting cash inflows, unlike premiums which are not caused by claims.

2 See Appendix B extract from the May 2020 agenda paper 2C, paragraph 27.

3 IFRS 17.53 (emphasis added): An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach…if and only if, at the inception of the group:

(a) the entity reasonably expects that such a simplification would produce a measurement of the liability for remaining coverage for the group that **would not differ materially from the one that would be produced applying the** [general model] requirements…

4 **Agenda paper 6 *Implementation challenges outreach report* for the IFRS 17 TRG meeting in May 2018** clarifies that (emphasis added):

> A14 … '**Premiums, if any, received**' as included in paragraphs 55(a)(i) and 55(b)(i) of IFRS 17 **means premiums actually received** at the reporting date. It does not include premiums due or premiums expected.

that is not equal to 'premiums received', which is contrary to the requirements of IFRS 17.55 – refer to Example 1 in Appendix A.

1.8 There is no indication the IASB intended that the application of IFRS 17.55 under the PAA would be an exception to the definitions of liability for remaining coverage and liability for incurred claims in IFRS 17, Appendix A. The requirement in IFRS 17.53 that the liability for remaining coverage under the PAA should not differ materiality from the liability for remaining coverage under the general model supports the view that the treatment of premium receivables should be applied consistently for the PAA and general model.

1.9 Applying View 1 results in a measurement of the general model liability for remaining coverage that is consistent with the outcomes required for the PAA liability for remaining coverage under IFRS 17.55. Accordingly:

- If View 2 is considered to be applicable for measuring the liability for remaining coverage under both the general model and PAA, it would result in a PAA liability measurement that is not compliant with IFRS 17.55.
- If View 2 is considered only applicable where the general model is applied (i.e. not applicable to the PAA), it is likely to lead to a differential being created between the PAA and general model liabilities for remaining coverage where premiums are not received in advance of coverage. It seems highly unlikely that this would be an intended outcome of IFRS 17 – see paragraphs 1.7 and 1.8 above.

Practical implications

1.10 View 1 represents the most practical approach because View 2 and View 3 would involve having to closely monitor the extent to which premiums not yet received relate to expired versus future coverage (which is not the same as past due versus not yet due) and to transfer amounts from one liability to the other. In particular, View 2 could pose a significant operational burden on insurers, especially for multi-year contracts, due to the constant need to:

(a) track premium receivables based on whether they relate to expired or unexpired coverage; and

(b) track premium receivables by group of contracts (not only by portfolio).

Monitoring past due premiums

1.11 Insurers need to be monitoring premium receivables for collectability, including distinguishing between premiums that are past due versus not past due. A receivable could be past due but relate to either past or future coverage or not be past due but relate to either past or future coverage. Accordingly, under View 2 and View 3, there could be a mix of premiums that are past due or not past due in both the liability for remaining coverage and liability for insured claims that would add a level of complexity to credit monitoring and accounting processes.

1.12 In the event that there are past due premiums accounted for in a provision (loss allowance), under View 1, in order to manage them in the accounting system, there would be a need for only provision (loss allowance), which would relate to the liability for remaining coverage. Under View 2 and View 3, there may need to be two provisions (loss allowances) – one in respect of past due premiums for unexpired coverage in the 'liability for remaining coverage' and another in respect of past due premiums for expired coverage in the 'liability for incurred claims'.

1.13 In the event that premiums were received that had previously been provided for (included in a loss allowance), under View 2 and View 3, it may be difficult to determine which of the potentially two provisions (loss allowances) that should be adjusted.

Monitoring cash flows at the 'group of contracts' versus 'portfolio' level

1.14 View 2 or View 3 would require an insurer to monitor premium cash flows at the 'group of contracts' level. In the context of the original IFRS 17 (May 2017) presentation requirements, the IASB has already agreed this would impose an operational cost burden that would outweigh any related benefits. This is explained in the Basis for Conclusions to the revised IFRS 17 (June 2020) [BC115 to BC139T] and underpins the IASB's decision to amend IFRS 17 to require presentation of insurance assets and liabilities at the portfolio level (not the group of contracts level).[5]

1.15 It would defeat the purpose of this change to the IFRS 17 presentation requirements to interpret the revised definitions of 'liability for incurred claims' and 'liability for remaining coverage' as requiring an insurer to remain burdened with the operational costs of monitoring premium receivables at the group of contracts level.

View 2 Premiums receivable would be cash flows used in measuring the liability for incurred claims when they relate to expired coverage

2.1 A literal reading of the amended wording for the definition of 'liability for remaining coverage' is that its cash flows relate only to insurance contract services not yet provided. Since premiums receivable for expired coverage relate to services already provided, they should not be included in the liability for remaining coverage.

2.2 Correspondingly, a literal reading of amended wording for the definition of 'liability for incurred claims' is that its cash flows relate only to insurance contract services that have already been provided. Since premiums receivable for expired coverage relate to services that have already been provided, they should be included in the liability for incurred claims.

2.3 The revised wording indicates that the IASB's intention is for cash flows related to future coverage to be included in the liability for remaining coverage; and for the cash flows related to expired coverage to be included in the liability for incurred claims.

2.4 It seems intuitive that, as the coverage period expires, there would be no need for expected cash flows associated with that coverage to be recognised within a liability for remaining coverage. Accordingly, it is appropriate for fulfilment cash flows that relate to any premiums receivable to be transferred to the liability for incurred claims as the coverage expires.

2.5 Technically, the liability for remaining coverage and the liability for incurred claims can each include both cash inflows and cash outflows. Accordingly, there is nothing inherently wrong with including premiums receivable for expired coverage in the liability for incurred claims in the context of IFRS 17.

View 3 Premiums receivable would be cash flows used in measuring the liability for incurred claims only when coverage has fully expired for that group of contracts

3.1 The matters raised in respect of View 2 are also relevant here, except View 3 recognises that the key unit of account under IFRS 17 for applying the general model or PAA is a 'group of insurance contracts'. Under IFRS 17, coverage is determined for a group of contracts, not individual contracts within a group.

3.2 Once the coverage period for the group of contracts has expired, the liability for remaining coverage for that group should be nil. Accordingly, it is appropriate for

5 Consistent with IASB December 2019 agenda paper 2A, the IASB agreed to change the presentation requirements to a portfolio unit of account for the cost-benefit reasons outlined in the Basis for Conclusions to ED/2019/7.

fulfilment cash flows that relate to any premiums receivable to be transferred to the liability for incurred claims once all coverage has expired.

3.3 There would be fewer practical problems with View 3 (compared with View 2). This is because premium receivables that were initially included in measuring the liability for remaining coverage:

(a) would only need to be transferred to the liability for incurred claims when coverage for the whole group of contracts is fully expired; whereas

(b) under View 2, as coverage expires, any related premiums receivable would continually need to be transferred from the liability for remaining coverage to the liability for incurred claims (or at least at every relevant reporting date).

3.4 View 3 would not lead to an artificial differential being created between the PAA and general model liabilities for remaining coverage for the purposes of applying IFRS 17.53. This is because, under View 3, by the time premiums receivable in respect of expired coverage are transferred to the liability for incurred claims, the liability for remaining coverage for the group of contracts would be derecognised under both the PAA and the general model.

3.5 A possible flaw in View 3 (compared with View 2) is that the amount of unexpired coverage for a group of contracts may be very small, while the premium receivables might relate to a large portion of coverage for the group of contracts. However, this is no different from the requirement in IFRS 17 that other components of liability for remaining coverage are accounted for based on groups of contracts, including, for example, the contractual service margin, which is recognised in a pattern based on coverage units for the group of contracts not individual contracts within the group.[6]

View 4 View 1, View 2 and View 3 are all acceptable

4.1 The focus of the definitions of 'liability for remaining coverage' and 'liability for incurred claims' is on 'obligations', not on revenue recognition. However, the key reason for distinguishing between the two liabilities is to help ensure the recognition of premium revenue to the relevant coverage periods. (In the context of the 'general model' which uses the same discounted fulfilment cash flow measure for both liabilities, facilitating a relevant pattern of premium recognition is the only reason for distinguishing between the two liabilities).

4.2 The adoption of either View 1, View 2 or View 3 would not affect the recognition of premium revenue and, therefore, all of these Views are acceptable under IFRS 17.

4.3 For some products, after the coverage period for group of contracts has expired, there are still adjustments to be made to premium (for example, based on ultimate claims experience) and this may indicate that, to help ensure relevant premium recognition, View 1 should be preferred in these cases.

5. Application of Views 1, 2 and 3 to premiums settled net of claims

5.1 In some circumstances, premiums and claims may be settled on a net basis, with the insurer receiving/paying the balancing amount.

6 IFRS 17 Transition Resource Group Meeting Summary for 2 May 2018, paragraph 35.

5.2 Example 3 in Appendix A illustrates how each of the Views would be applied in those circumstances.

5.3 Under all three Views, where premiums and claims may be settled on a net basis, the relevant amount of premiums receivable would no longer be considered ‘receivable’ from when the equivalent amount of claims are incurred because those amounts are no longer ‘due to be received’ from the policyholder. This is because of being set off with the insurer’s obligation to pay the same amount in incurred claims. Conversely, the amount of claims incurred that offsets the premium receivable amount is no longer ‘due to be paid’ by the insurer to the policyholder. Therefore, the amounts that offset (e.g. $100 of premium receivables offset against $100 of claims incurred) will no longer be included in either the liability for remaining coverage or liability for incurred claims as they are deemed ‘received’ and ‘paid’ respectively and are therefore no longer ‘expected future cash flows’.

5.4 Where the net amount to be settled is claims payable, this should be in the liability for incurred claims – e.g. where $100 of premium receivables is set off against $120 of claims incurred, the net balance of $20 is effectively claims incurred.

5.5 Where the net amount is premiums receivable – e.g. where $120 of premium receivables is set off against $100 of claims incurred – then whether that net premium receivable balance is part of the liability for remaining coverage or liability for incurred claims could differ depending on whether View 1, View 2 or View 3 is applied.

Applying View 1

5.6 If View 1 is applied, a net balance that is a premium receivable will always be recognised as part of the liability for remaining coverage.

Applying View 2

5.7 When there is net settlement of premiums for expired coverage that has given rise to claims, the net premiums should be considered an adjustment to the liability for incurred claims where they relate to expired coverage.

5.8 Taken to its logical extreme and as a practical expedient, it may be implied that all net settled amounts should be accounted for within the liability for incurred claims, regardless of whether coverage has expired (which would be inconsistent with the definitions of ‘liability for remaining coverage’ and ‘liability for incurred claims’).

Applying View 3

5.9 Net premiums receivable would be cash flows used in measuring the liability for incurred claims only when coverage has fully expired for the group of contracts.

Appendix A – Examples

Facts applicable to all examples

- Insurer X reports annually as at 31 December
- Insurer X issues 100 contracts on 1 December 20X0 with a coverage period ending on 30 November 20X1
- Service coverage and claims are each expected to be even over the contract period
- Each contract is expected to give rise to $90 of claims (total claims = $9,000) – no claims are actually paid until 30 January 20X2
- Assume no acquisition costs or other cash flows and no discounting

Debits are expressed as unbracketed amounts, Credits are expressed as (bracketed) amounts

Example 1: Premiums receivable in arrears

Facts

- Total premiums of $12,000 ($120 per contract) receivable by 15 January 20X2 (after the end of the coverage)
- All policyholders are expected to pay their premiums on the due date

Initial measurement – all Views

A.3 The initial asset/(liability) for remaining coverage (A/(L)fRC) would be measured as follows.

General model

Premiums expected to be received	$12,000
Claims expected to be incurred	($9,000)
Contractual Service Margin (CSM)	($3,000)
Total A/(L)fRC	**$nil**

Premium allocation approach

Premiums, if any, received	$nil
Total A/(L)fRC	**$nil**

Subsequent measurement – View 1

A.4 Asset/(liability) for remaining coverage:

General model	***31 Dec 20X0***		***31 Dec 20X1***
Premiums expected to be received	$12,000		$12,000
Claims expected to be incurred	($8,250)	$900 x 11/12 months	$nil
CSM	($2,750)	$3,000 x 11/12 months	$nil
Total A/(L)fRC	**$1,000**		**$12,000**

PAA	*31 Dec 20X0*		*31 Dec 20X1*
Premiums received	$nil		$nil
Amounts recognised in insurance revenue in the period	$1,000	$12,000 x 1/12 months	$12,000 (fully earned)
Total A/(L)fRC	**$1,000**		**$12,000**

A.5 (Liability) for incurred claims – same under both measurement models

	31 December 20X0		*31 December 20X1*	
Claims incurred	($750)	$9,000 x 1/12 month	($9,000)	$9,000 x 12/12 months
Total LfIC	($750)		($9,000)	

Subsequent measurement – View 2

A.6 Asset/(liability) for remaining coverage

General model	*31 December 20X0*		*31 December 20X1*	
Premiums expected **unexpired coverage**	$11,000	$12,000 x 11/12 months	$nil	Coverage expired
Claims expected	($8,250)	$9,000 x 11/12 months	$nil	Coverage expired
CSM	($2,750)	$3,000 x 11/12 months	$nil	Coverage expired
Total A/(L)fRC	$nil		$nil	

PAA	*31 December 20X0*		*31 December 20X1*	
'Premiums received' **unexpired coverage***	($1,000)*	Entries to recognise portion of premium receivables relating to past service in LfIC: Dr LfIC $1,000 Cr LfRC $1,000 (Equivalent to UEP (before earning) of $12,000 less premium receivables relating to **unexpired coverage** of $11,000).	$nil	Coverage expired
Amounts recognised in insurance revenue in the period	$1,000		$nil	Coverage expired
Total A/(L)fRC	$nil		$nil	

*Applying View 2 will result in a liability for remaining coverage that does not equal premiums received contrary to the requirements in IFRS 17.55. The portion of premium receivables that relate to past coverage (and moved to LfIC) is effectively deemed 'received' within the liability for remaining coverage.

A.7 Asset/(liability) for incurred claims – same under both measurement models

	31 December 20X0		***31 December 20X1***	
Claims incurred	($750)	$9,000 x 1/12 month	($9,000)	$9,000 x 12/12 months
Premiums expected **expired coverage**	$1,000	$12,000 x 1/12 month	$12,000	Coverage expired, therefore total premium receivables relate to past coverage
Total LfIC	$250		$3,000	

Subsequent measurement – View 3

A.8 Asset/(liability) for remaining coverage

General model	***31 Dec 20X0***		***31 Dec 20X1***	
Premiums expected to be received	$12,000		$nil	Moved to LIC once coverage expires
Claims expected to be incurred	($8,250)	$900 x 11/12 months	$nil	
CSM	($2,750)	$3,000 x 11/12 months	$nil	
Total A/(L)fRC	**$1,000**	**Same as View 1 until coverage expires**	**$nil**	

PAA	***31 Dec 20X0***		***31 Dec 20X1***	
Premiums received	$nil		($12,000)	Receivables moved to LIC once coverage expires – Dr LIC; Cr LfRC therefore, effectively deemed 'received' within the LfRC
Amounts recognised in insurance revenue in the period	$1,000	$12,000 x 1/12 months	$12,000 (fully earned)	
Total A/(L)fRC	**$1,000**		**$nil**	

A.9 Asset/(liability) for incurred claims – same under both measurement models

	31 December 20X0		***31 December 20X1***	
Claims incurred	($750)	100 contracts x $90 x 1/12 month	($9,000)	100 contracts x $90 x 12/12 months
Premiums expected **expired coverage**	$nil	Group of contracts still has unexpired coverage	$12,000	100 contracts x $120
Total LfIC	($750)		$3,000	

Example 2: Premiums receivable past due

A.10 The liability for remaining coverage and incurred claims amounts shown in Example 1 above would be the same even if the facts were modified so that total premiums were due in advance of coverage (1 December 20X0) but not actually received until 15 January 20X2 (after the end of the coverage).

Example 3: Premiums settled net of claims

Facts

- Total premiums of $12,000 ($120 per contract) is settled net of any claims incurred. Any remaining amounts receivable (after deducting claims) are due by 15 January 20X2 (after the end of the coverage).

Initial measurement – all Views

A.11 The initial asset/(liability) for remaining coverage (A/(L)fRC) would be measured as follows.

General model

Premiums expected to be received	$12,000
Claims expected to be incurred	($9,000)
Contractual Service Margin (CSM)	($3,000)
Total A/(L)fRC	**$nil**

Premium allocation approach

Premiums, if any, received	$nil
Total A/(L)fRC	**$nil**

Same as in Example 1 above

Subsequent measurement – View 1

A.12 Asset/(liability) for remaining coverage:

General model	***31 Dec 20X0***		***31 Dec 20X1***	
Premiums expected to be received	$11,250	Total receivable of $12,000 less claims incurred $750 (i.e. $750	$3,000	Total receivable of $12,000 less claims incurred $9,000 (i.e.

		deemed received)		$9,000 deemed received)
Claims expected to be incurred	($8,250)	$900 x 11/12 months	$nil	
CSM	($2,750)	$3,000 x 11/12 months	$nil	
Total A/(L)fRC	**$250**		**$3,000**	

PAA	***31 Dec 20X0***		***31 Dec 20X1***	
Premiums received	($750)	$750 deemed received as settled net of claims (i.e. no longer receivable)	($9,000)	$9,000 deemed received as settled net of claims (i.e. no longer receivable)
Amounts recognised in insurance revenue in the period	$1,000	$12,000 x 1/12 months	$12,000 (fully earned)	
Total A/(L)fRC	**$250**		**$3,000**	

A.13 (Liability) for incurred claims – same under both measurement models

	31 December 20X0		***31 December 20X1***	
Claims incurred	$nil	Claims incurred of $750 deemed paid (as settled net of premium receivables)	$nil	Claims incurred of $9,000 deemed paid (as settled net of premium receivables)
Total LfIC	$nil		$nil	

Subsequent measurement – View 2

A.14 Asset/(liability) for remaining coverage

General model	***31 December 20X0***		***31 December 20X1***	
Premiums expected **unexpired coverage**	$11,000	$12,000 x 11/12 months	$nil	Coverage expired
Claims expected	($8,250)	$9,000 x 11/12 months	$nil	Coverage expired
CSM	($2,750)	$3,000 x 11/12 months	$nil	Coverage expired
Total A/(L)fRC	$nil		$nil	

PAA	***31 December 20X0***		***31 December 20X1***	
'Premiums received'	($1,000)*	Entries to recognise portion of premium receivables relating	$nil	Coverage expired

unexpired coverage*		to past service in LIC: Dr LIC 1000 Cr LfRC 1000 (Equivalent to UEP (before earning) of $12,000 less premium receivables relating to **unexpired coverage** of $11,000).		
Amounts recognised in insurance revenue in the period	$1,000		$nil	Coverage expired
Total A/(L)fRC	$nil		$nil	

Same as in Example 1 above.

A.15 Asset/(liability) for incurred claims – same under both measurement models

	31 December 20X0		***31 December 20X1***	
Claims to be paid	$nil	Deemed paid as netted off premium receivable	$nil	Deemed paid as netted off premium receivable
Premiums expected to be received **expired coverage**	$250	($12,000 x 1/12 month) less $750 claims	$3,000	Total premium receivables $12,000 less claims $9,000
Total LfIC	$250		$3,000	

Subsequent measurement – View 3

A.16 Asset/(liability) for remaining coverage

General model	***31 December 20X0***		***31 December 20X1***	
Premiums expected	$11,250	Same as View 1	$nil	Same as View 2
Claims expected	($8,250)	Same as View 1	$nil	Same as View 2
CSM	($2,750)	Same as View 1	$nil	Same as View 2
Total A/(L)fRC	**$250**		$nil	

PAA	***31 December 20X0***		***31 December 20X1***	
'Premiums received'	($750)	Same as View 1	$nil	Same as View 2
Amounts recognised in insurance revenue in the period	$1,000	Same as View 1	$nil	Same as View 2
Total A/(L)fRC	**$250**		$nil	

A.17 Asset/(liability) for incurred claims – same under both measurement models

	31 December 20X0		***31 December 20X1***	
Claims to be paid	$nil	Deemed paid as netted off premium receivable	$nil	Deemed paid as netted off premium receivable
Premiums expected to be received **expired coverage**	$nil		$3,000	Total premium receivables $12,000 less claims $9,000 – recognised in LIC as coverage fully expired
Total LfIC	$nil		$3,000	

Appendix B – Extracts from IASB agenda paper 2C (May 2020) and the May 2020 *IASB Update*

B.1 The IASB last considered the definitions of ‘liability for incurred claims’ and ‘liability for remaining coverage’ at its May 2020 meeting.

B.2 The following are extracts from the May 2020 agenda paper 2C.

D—Definitions of the liability for remaining coverage and the liability for incurred claims

Sweep issue

25. During the Board’s redeliberations, the staff noted that some respondents to the Exposure Draft *Amendments to IFRS 17* had raised comments or questions regarding the definitions of the liability for remaining coverage and the liability for incurred claims, and that the staff would consider those comments in drafting the final amendments.

26. The definitions, amended as proposed in the Exposure Draft, are as follows:

> **Liability for incurred claims**
>
> An entity’s obligation to:
>
> (a) investigate and pay valid claims for insured events that have already occurred, including events that have already occurred but for which claims have not been reported, and other incurred insurance expenses; and
>
> (b) pay amounts under existing insurance contracts that are not included in (a) for which an entity no longer provides an investment-return service or an investment-related service.
>
> **Liability for remaining coverage**
>
> An entity’s obligation to:
>
> (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and
>
> (b) pay amounts under existing contracts that are not included in (a) for which an entity will provide an investment-return service or an investment-related service.

27. Some respondents said that the proposed definitions reflect some, but not all, of an entity’s obligations arising from insurance contracts. For example, an entity might have an obligation to pay other amounts relating to the provision of insurance contract services—such as refunds of premiums to the policyholder or expenses payable to third parties. In addition, an entity might have an obligation to pay amounts not related to the provision of insurance contract services—such as some types of investment components. The carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability for incurred claims, and the measurement reflects all of an entity’s obligations arising from the group of insurance contracts (see paragraph 40 of IFRS 17). Some respondents suggested the Board amend the definitions of the liability for remaining coverage and the liability for incurred claims for completeness to reflect all obligations arising from insurance contracts issued by an entity, consistent with the requirements for measuring those liabilities.

Staff analysis and recommendation

28. The staff agree that the definitions of the liability for remaining coverage and the liability for incurred claims do not provide a complete list of all obligations giving rise to cash flows that are included in the measurement of the insurance contract liability.

29. Therefore, the staff recommend the Board amend IFRS 17 to include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity. Appendix A to this paper sets out recommended drafting for that recommended amendment.

Question 4 for Board members
Do you agree that the Board should amend IFRS 17 to include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity?

B.3 The following are extracts from the May 2020 *IASB Update*.

Amendments to IFRS 17 *Insurance Contracts* (Agenda Papers 2 and 2A)

The Board met on 20 May 2020 to discuss the sweep issues identified during the balloting process of the amendments to IFRS 17 *Insurance Contracts*.

The Board tentatively decided to: …

e. include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity; …

All 14 Board members agreed with the decisions described in (a)–(b) and (d)–(e). …