

# Proposed amendments to IFRS 17 *Insurance Contracts*

Sydney, 22 August 2019

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

# Today's agenda

IASB stakeholder engagement and implementation support

Overview of proposed amendments to IFRS 17

Discussion points

What happens next

Primary Financial Statements project

Appendix—Materials available on IFRS Foundation website

# Endorsement of IFRS 17 so far

## Endorsed



Australia



New Zealand



Canada



Hong Kong



South Africa



Malaysia



Switzerland



Russia



Singapore

## In process



South Korea



China\*



European Union

*This is not a complete list of endorsement activities in all IFRS jurisdictions*

*\*Note: China is in the process of full convergence with IFRS 17*

# IASB support for IFRS 17 implementation

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A comprehensive programme of stakeholder engagement and implementation support



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

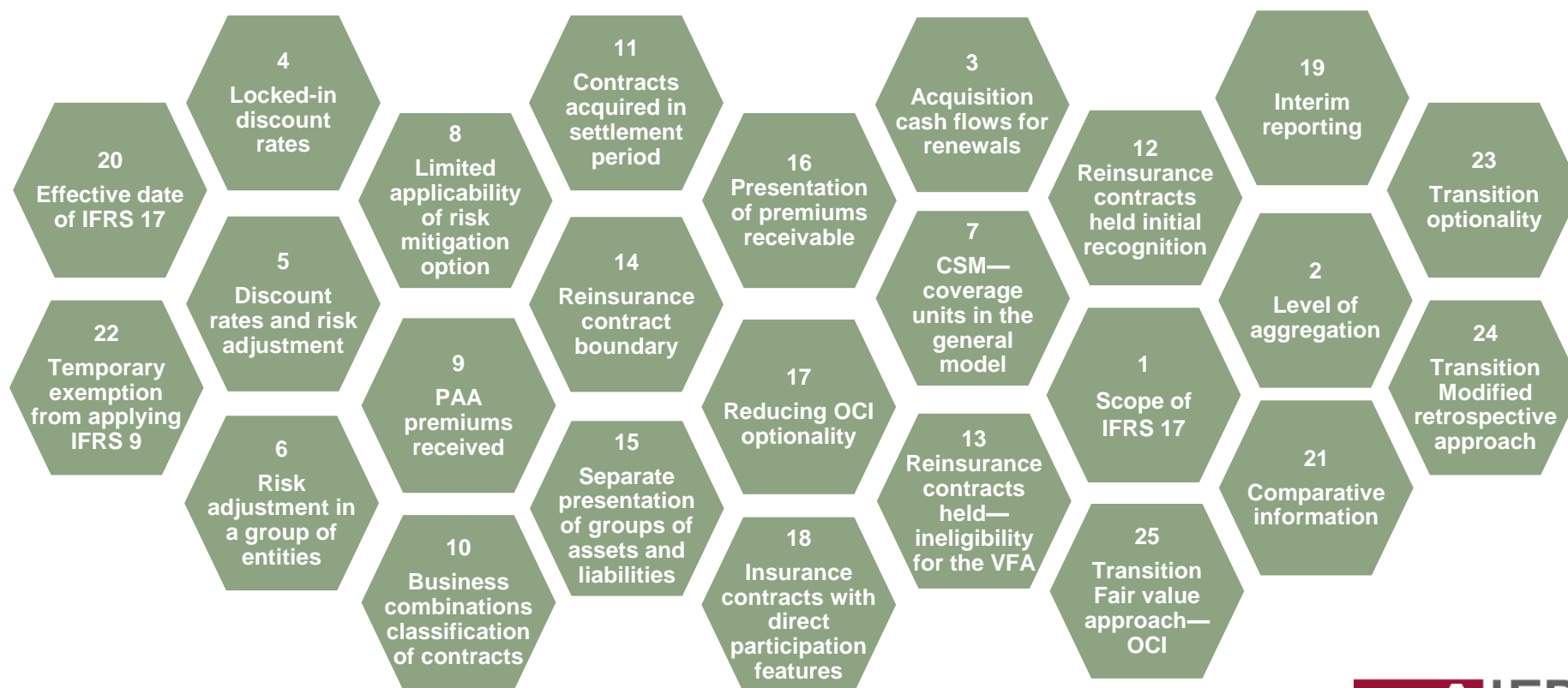
- regulators
- standard-setters
- preparers
- auditors



Over 300 meetings with stakeholders

# Concerns and challenges raised

- 25 topics brought to IASB's attention
- IASB considered each topic and where it could ease implementation, if necessary, by making targeted refinements to IFRS 17 requirements that are meaningful to companies



# Criteria for evaluating possible amendments

- Making amendments to a recently issued Standard carries a risk of disruption to implementation already under way
- Need to demonstrate an amendment is justified
- Need to consider only possible amendments that meet the following criteria

## 1 Avoid significant loss of useful information for investors

Relevance and faithful representation

Comparability

Consistency

Understandability / Complexity

## 2 Not unduly disrupt implementation under way

Not risk undue delays in the effective date of IFRS 17

# Not all possible amendments meet the criteria

Change not justified

or

Significant loss of information

or

Unduly disrupt implementation

Reinsurance contract boundary

Excluding cash flows of reinsurance contracts held relating to underlying contracts not yet issued would go against the fundamental principle in IFRS 17 that all future cash flows are reflected in the measurement of an insurance contract

Level of aggregation

Suggested amendments could result in:

- loss of information about trends in an insurer's profitability
- delayed recognition of losses on onerous contracts / profit on profitable contracts

Reducing OCI optionality

Requiring, rather than permitting, insurance finance income or expenses to be presented either entirely in profit or loss or partly in other comprehensive income (OCI) to improve comparability could require significant rework for insurers

# Objectives of the proposed amendments

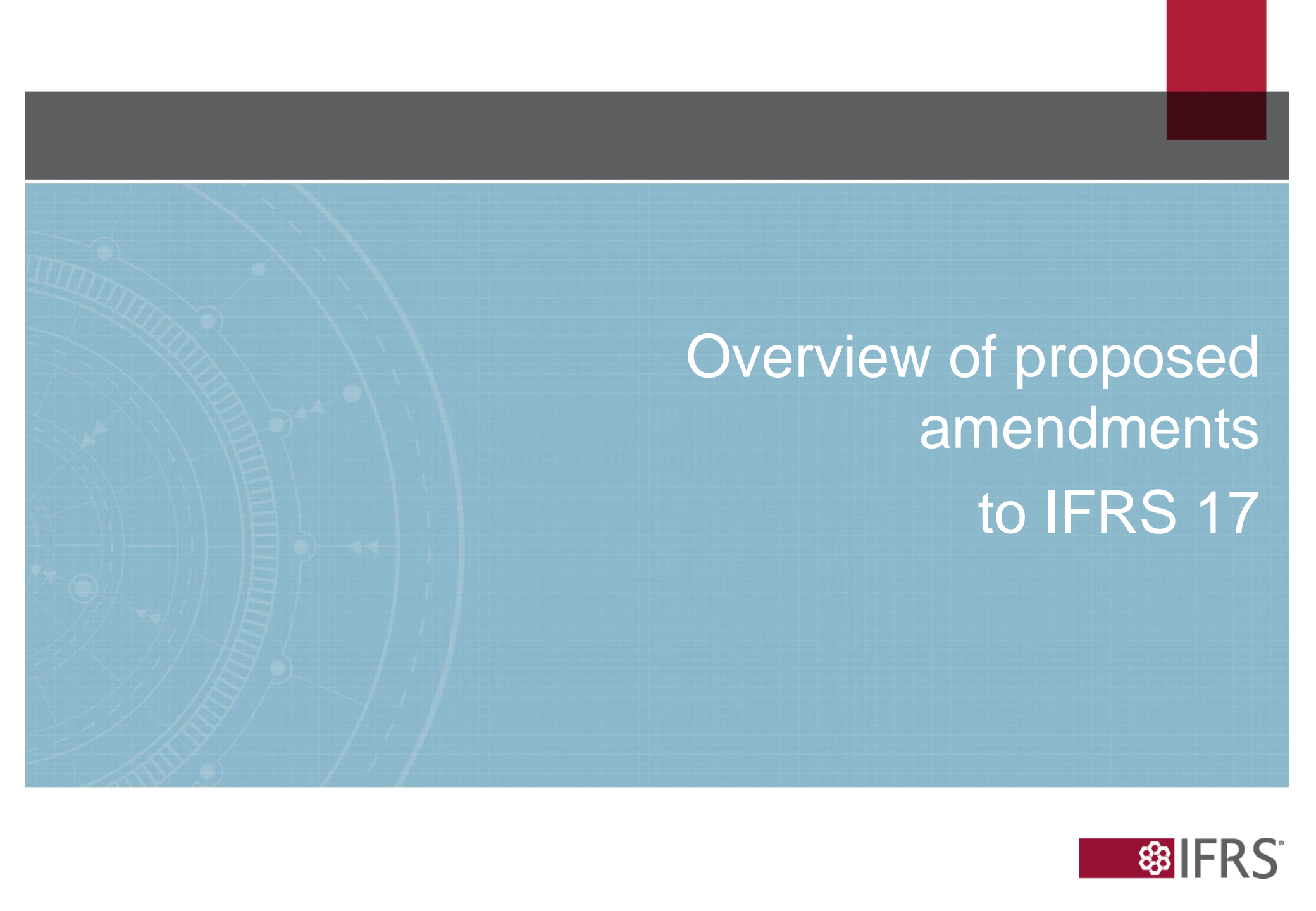
## Maintain IFRS 17 improvements

- The targeted amendments
  - do not change the fundamental principles of the Standard
  - will not result in a significant loss of useful information for investors
  - refine the requirements for some topics, in the light of insurers' experience in implementation

## Aid implementation

- The targeted amendments
  - are narrow in scope but provide meaningful support and address a number of concerns raised by insurers
  - will ease IFRS 17 implementation, without unduly disrupting implementation
  - will make it easier for insurers to explain the results of applying IFRS 17





# Overview of proposed amendments to IFRS 17

# 12 targeted amendments in 8 areas

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## Additional scope exclusions

Credit cards  
Loans

1

## Allocation of acquisition costs to expected contract renewals

2

## Attribution of profit to service relating to investment activities

3

## Reduced accounting mismatches for reinsurance

4

## Simplified balance sheet presentation

5

## Extension of risk mitigation option

6

## Deferral of effective date by one year

IFRS 17  
IFRS 9

7

## Additional transition reliefs

Business combinations  
Risk mitigation from the transition date  
Risk mitigation and fair value approach

8

# 1 Additional scope exclusions

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## IASB proposals



- Two additional scope exclusions
- Requirement to apply IFRS 9 to some **credit cards** that meet the definition of an insurance contract
  - for example, credit cards that provide insurance coverage for free
- Option to apply IFRS 9 or IFRS 17 to some **loans** that meet the definition of an insurance contract
  - for example, loans with death waivers

## Discussion points



- Do you agree that the proposed amendments would reduce implementation costs for companies?
- Do you agree that applying IFRS 9 to the credit cards and loans that would be captured by the proposed two additional scope exclusions would provide relevant information to investors?



## IASB proposals

- **Allocation** of part of the insurance acquisition cash flows to expected contract renewals
- Recognition of those cash flows as an **asset** until the company recognises renewals
- Assessment of the **recoverability** of the asset at each reporting date
- **Disclosures**
  - reconciliation of asset changes
  - expected timing of recognition of renewals

## Discussion points



- Do you agree that the benefits of the proposed amendment (eg reducing the number of loss-making contracts at initial recognition) would outweigh costs (eg need to assess recoverability of the asset and to provide additional disclosures)?
- What insurance contracts do you expect will be affected by the proposed amendment (eg short-term contracts)?

## 2 Acquisition costs—example

- Non-refundable commissions paid for new contracts expected to be renewed
- Sometimes the commission exceeds premiums for the initial contract because the insurer expects the commission will be recovered from renewals

### IFRS 17 (as originally issued)

Cash flows	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
<b>Premium</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Claim</b>	-	-	-
<b>Commission</b>	<b>(150)</b>	-	-
<b>Expected (loss) / unearned profit</b>	<b>(50)</b>	<b>100</b>	<b>100</b>

### Proposed amendment

Cash flows	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
<b>Premium</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Claim</b>	-	-	-
<b>Commission</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
<b>Expected unearned profit</b>	<b>50</b>	<b>50</b>	<b>50</b>
<b>Asset for acquisition costs</b>	<b>(100)</b>		

# 3 Attribution of profit to service relating to investment activities

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## IASB proposals

- Recognition of the contractual service margin **both** when insurance **coverage** and any **services** relating to investment activities are provided over time
- **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

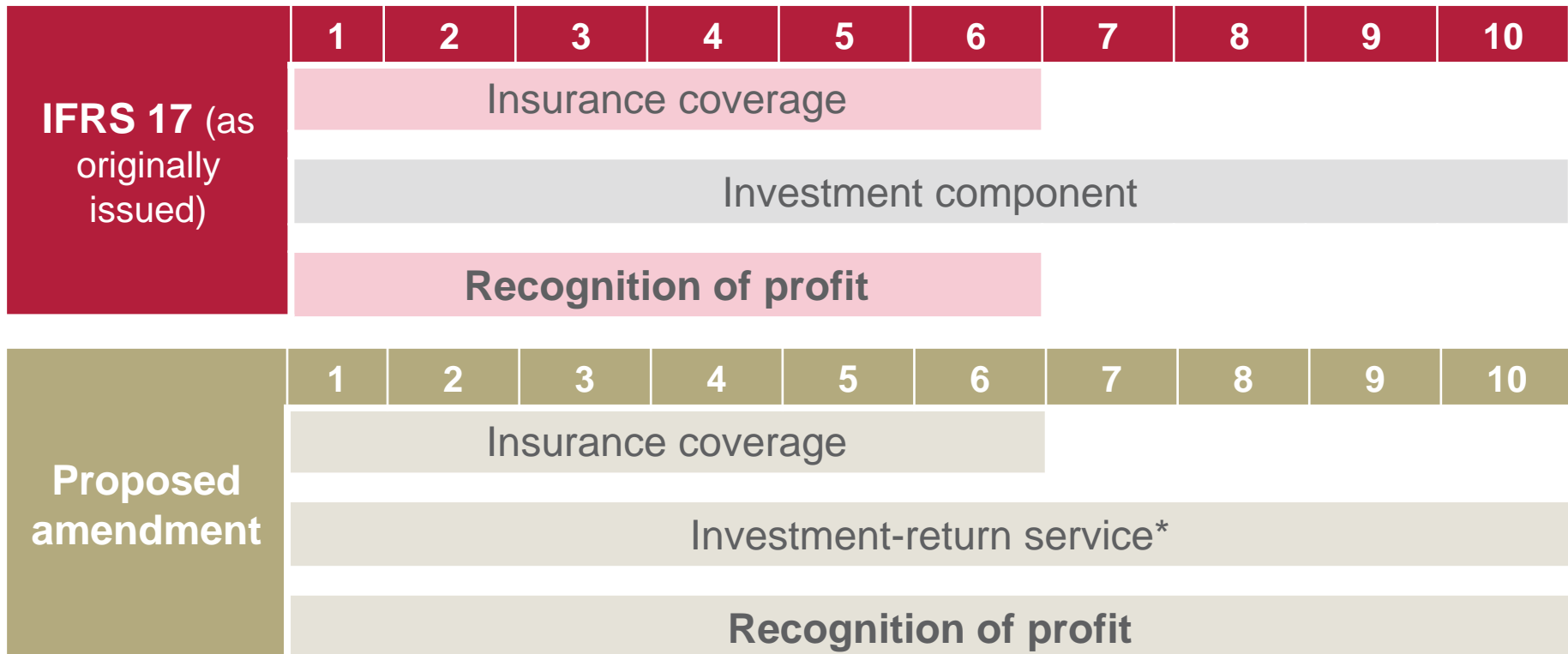
## Discussion points



- Do you agree with the proposed amendment?
- Do you agree with the proposed additional disclosures?
- What insurance contracts do you expect will be affected by the proposed amendment (eg deferred annuities)?

# 3 Attribution of profit—example

- 10-year contract with an investment component providing insurance coverage for the first 6 years



\* Not all insurance contracts with an investment component provide investment-return service



## IASB proposals

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

## Discussion points



- Do you agree with the proposed amendment?
- Do you agree that the proposed amendment would make it easier for companies to explain the results of applying IFRS 17 to investors and others?



Insurance contracts issued	
Premiums	100
Claims	(150)
<b>Expected loss</b> (recognised immediately)	<b>(50)</b>

### IFRS 17 (as originally issued)

Proportionate reinsurance contracts held	
Reinsurance premiums	(125)
Claims recovered from reinsurance (80%)	120
<b>Net cost</b> (recognised over time)	<b>(5)</b>

**Total cost recognised immediately (50)**

Insurance contracts issued	
Premiums	100
Claims	(150)
<b>Expected loss</b> (recognised immediately)	<b>(50)</b>

### Proposed amendment

Proportionate reinsurance contracts held	
Reinsurance premiums	(125)
Claims recovered from reinsurance	120
of which:	
- recovery of loss	40
- remaining claims	80
<b>Net cost</b>	<b>(5)</b>
of which:	
- gain recognised immediately (*)	40
- adjusted net cost recognised over time	(45)
<b>Total cost recognised immediately</b>	<b>(10)</b>

(\*) Gain on reinsurance contracts held of 40 is equal to the expected loss of the underlying insurance contracts multiplied by the fixed percentage of claims the insurer has a right to recover from the reinsurer ( $50 \times 80\% = 40$ )

# 5 Simplified balance sheet presentation

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## IASB proposals

- Presentation of insurance contract assets and insurance contract liabilities on the balance sheet determined using **portfolios** of insurance contracts rather than groups of insurance contracts

## Discussion points



- Do you agree with the proposed amendment?
- Do you agree that the proposed amendment would reduce IFRS 17 implementation costs for companies?

# 6 Extension of risk mitigation option



## IASB proposals

- Extension of risk mitigation option to when a company uses **reinsurance contracts held** to mitigate financial risks

Variable  
fee  
approach

Insurance  
contracts with  
direct  
participation  
features

## Discussion points



- Do you agree with the proposed amendment?
- Do you agree that the proposed amendment would reduce accounting mismatches and make the accounting for insurance contracts more understandable to investors?



## IASB proposals

- One-year deferral of the effective date of **IFRS 17**
  - to provide certainty about the effective date
  - to require application of IFRS 17 as soon as possible
  - to limit the increase in workload and costs for companies that are at an advanced stage of implementation
- Extension to 2022 of the expiry date for the temporary exemption from applying **IFRS 9** (for some insurers)

## Discussion points



- Do you agree with the proposed amendment to defer the effective date of IFRS 17 by one year?
- Do you agree with the proposed amendment to continue to enable some insurers to first apply IFRS 17 and IFRS 9 at the same time? How important is this alignment to you?

# 8 Additional transition reliefs



## IASB proposals

- Liabilities for claims settlement acquired in a **business combination** before transition could be classified as ‘liability for incurred claims’ in some circumstances
- Risk mitigation option
  - possible use of the option **prospectively** from the date of transition to IFRS 17
  - possible use of the **fair value approach** for groups of contracts that would otherwise be required to be accounted for retrospectively

## Discussion points



- Do you agree with the proposed amendments to the transition requirements?
- Do you agree that the proposed amendments would ease implementation and reduce its costs?

# Other comments



Do you have any other comments on the matters addressed in the Exposure Draft?



What happens next

# Next steps



Proposed amendments set out in an Exposure Draft  
Comments welcomed from all stakeholders



90 day comment period (deadline 25 September 2019)  
Outreach to obtain additional feedback



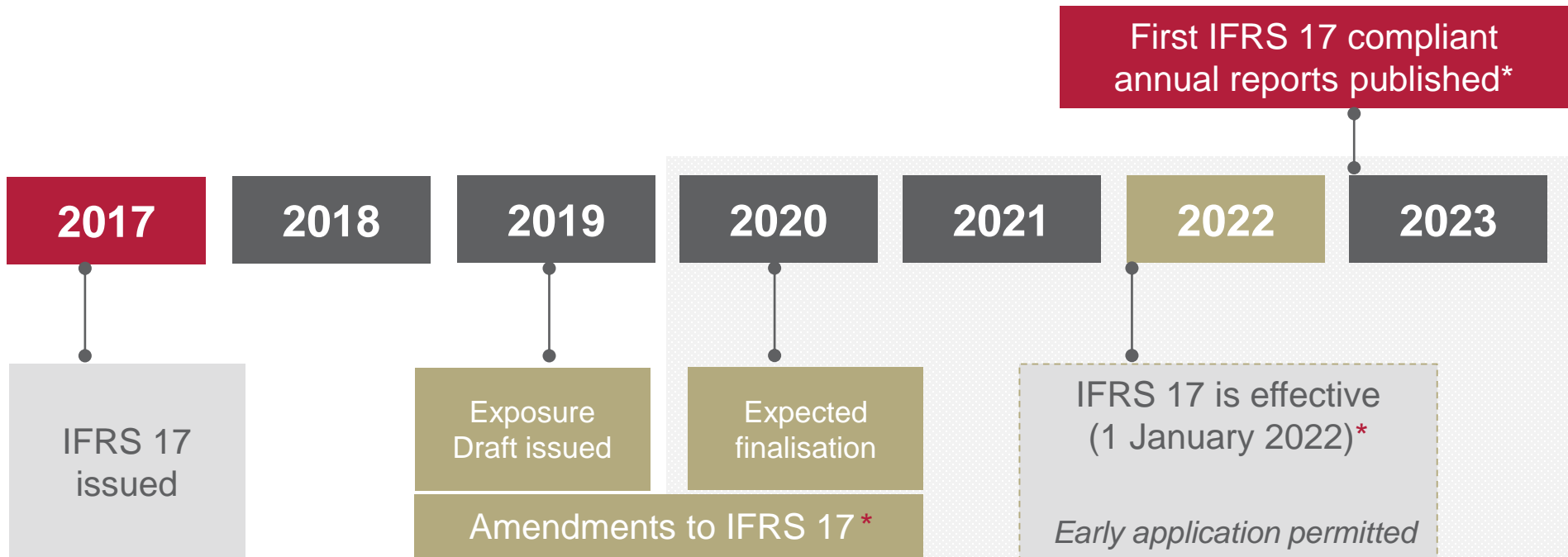
Visit: <https://www.ifrs.org/projects/open-for-comment>  
Send email comments to: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)



IASB will finalise amendments to IFRS 17 considering  
the feedback on the Exposure Draft



# IFRS 17 timeline



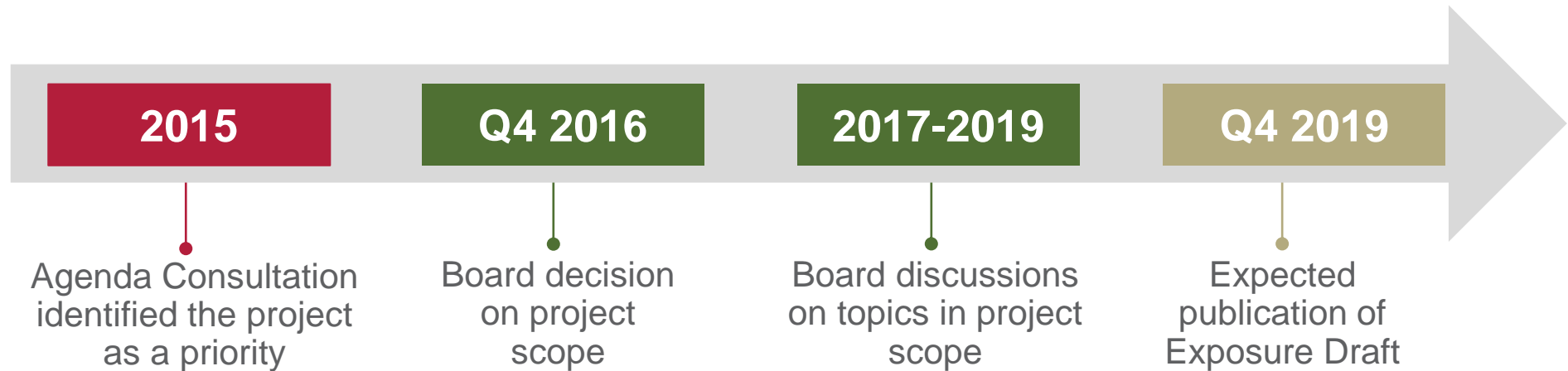
IASB support for IFRS 17 implementation

\* proposed deferral of effective date to 2022 and other amendments are subject to public consultation



# Primary Financial Statements project

# Timeline and issues the project is addressing



### What users say

- Statements of financial performance are not sufficiently comparable between different companies
- Non-GAAP measures can provide useful information, but transparency and discipline need to be improved
- Level of disaggregation does not always provide the information I need

### Board's response

- Introduce **required and defined subtotals** in the statement(s) of financial performance
- Introduce disclosure of **Management Performance Measures (MPMs)**
- Introduce **requirements to improve disaggregation**

# P&L classification for insurers

## Extract from statement(s) of financial performance

Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income*	X
Impairment of investments	(X)
Insurance finance expenses	(X)
Net financial result	X
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Profit before (non-customer) financing and income tax	X
Expenses from financing activities (interest on financial debt)	(X)
Profit before tax	X

Income (expenses) from **investments** that are made in the course of the entity's **main business activity** are included in operating profit

**Income from cash and cash equivalents** is included in operating profit as investment income.

**Insurance finance expenses (income)** is included in operating profit, whereas **interest on financial debt** is presented below operating profit.

\*Includes income from cash and cash equivalents. Interest revenue calculated using the effective interest method would be presented as a separate line item (IAS 1.82(a)(i))

# Management performance measures (MPMs)

## Disclosure in the notes of measures of profit not defined by IFRS Standards

**Complements** IFRS-defined totals or subtotals and in management's view **communicates** an entity's **performance**

Same measure must be used in public communications with users **outside financial statements**

Must **faithfully represent** the financial performance of the entity to the users

Accompanied by disclosures to **enhance transparency**, in a **single note**—including a **reconciliation** to the closest IFRS-defined total or subtotal



# Appendix

Materials available on  
IFRS Foundation website

# Materials published in June 2019



**Exposure Draft *Amendments to IFRS 17***—specifies the proposed amendments to IFRS 17 for the accounting for insurance contracts



**Basis for Conclusions on the Exposure Draft**—summarises the Board's considerations in developing the proposed amendments



**Snapshot of Amendments to IFRS 17**—provides an overview of the proposed amendments to IFRS 17



**Version of IFRS 17 incorporating the proposed amendments**

# Get involved

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