International Financial Reporting Standard

Amendments to IFRS 17 *Insurance Contracts*

June 2020

ILLUSTRATIVE EXAMPLES – AMENDMENTS

[IFRS 17]

[Related to AASB 2020-5]

Amendments to Illustrative Examples on IFRS 17

Paragraph IE3A is added. New text is underlined.

Introduction

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IE3A In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 and made the following amendments to these examples:

(a) Example 12C was added;

(b) Examples 4, 6, 7, 9, 11, 12, 13, 14 and 16 were amended; and

(c) some amendments were made to improve the explanations in Examples 2B, 3B, 6, 8 and 9.

Footnote (b) to the table after paragraph IE28 is amended. New text is underlined and deleted text is struck through.

Example 2B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE28 ...

...

(b) This example illustrates the amounts recognised in the statement of profit or loss. Example 3B~~3A~~ illustrates how these amounts could be presented.

The table after paragraph IE40 and the related footnote are amended. New text is underlined and deleted text is struck through.

Example 3B—Changes in fulfilment cash flows that create an onerous group of insurance contracts

...

IE40 ...

	Liability for remaining coverage, excluding loss component		Loss component of the liability for remaining coverage		Liability for incurred claims		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	404		113		–		517	
Insurance finance expenses	16		5	(b)	–		21	(d)
Insurance revenue	(320)	(a)	–		–		(320)	
Insurance service expenses	–		(118)	(b)	350	(c)	232	
Investment component	(100)		–		100		–	
~~Insurance finance expenses~~	~~16~~		~~5~~	~~(b)~~	~~–~~		~~21~~	~~(d)~~
Cash flows	–		–		(450)		(450)	
Closing balance	**–**		**–**		**–**		**–**	

(a) ...

(b) Applying paragraph 50(a), the entity allocates on a systematic basis the subsequent changes in the fulfilment cash flows of the liability for remaining coverage between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example ~~the allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113). Consequently,~~ the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

continued...

...continued

(i) insurance finance expenses of CU5 are determined by multiplying the total insurance finance expenses of CU21 by 22 per cent. The allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113).

(ii)~~(i)~~ the change of the loss component of CU118 is the sum of:

1 the estimates of the future cash flows released from the liability for remaining coverage for the year of CU94~~CU99~~, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU350 by 27 per cent~~plus the investment component of CU450 (CU350 + CU100) by 22 per cent~~; and

2 the change in the risk adjustment for non-financial risk caused by the release from risk of CU24~~CU19~~, calculated by multiplying the total such change of CU88 by 27~~22~~ per cent.

The allocation of the amounts described in 1 and 2 to the loss component of CU118 is determined after the insurance finance expenses and investment component have been allocated. The insurance finance expenses are allocated as described in (i). The investment component is allocated solely to the liability for remaining coverage excluding the loss component, because it is not included in insurance revenue or insurance service expenses. After those allocations, the loss component of the liability for remaining coverage is CU118 (CU113 + CU5) and the liability for remaining coverage excluding the investment component is CU438 (CU517 + CU21 – CU100). Hence, the allocations in (ii) are determined as the ratio of CU118 to CU438, which is 27 per cent.

~~(ii)~~ ~~the insurance finance expenses of CU5 is determined by multiplying the total insurance finance expenses of CU21 by 22 per cent.~~

See Example 8 for a more detailed calculation of losses in a group of insurance contracts subsequent to initial recognition.

...

Paragraph IE50 is amended. New text is underlined and deleted text is struck through.

Example 4—Separating components from a life insurance contract with an account balance

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Separating the asset management component

IE50 The asset management activities, similar~~similarly~~ to claims processing activities, are part of the activities the entity must undertake to fulfil the contract, and the entity does not transfer a good or service other than insurance contract services to the policyholder because the entity performs those activities. Thus, applying paragraph B33, the entity would not separate the asset management component from the insurance contract.

The title of Example 6, paragraphs IE58 and IE62 and the tables after paragraphs IE70 and IE71 and the related footnotes are amended. New text is underlined and deleted text is struck through.

Example 6—Additional features of the contractual service margin (paragraphs 44, 87, 101, B96–B99 and B119–B119B)

...

IE58 The contracts in this example:

(a) ...

(b) do not meet the criteria for insurance contracts with direct participation features applying paragraph B101(a) because a pool of assets is not specified in the contracts.

(c) provide an investment-return service applying paragraph B119B.

(d) provide both insurance coverage and investment-return service evenly over the coverage period of three years.

...

IE62 On initial recognition of the group of contracts, the entity:

...

(d) estimates the risk adjustment for non-financial risk to be CU30 and expects to recognise it in profit or loss evenly over the coverage period. Applying paragraph 81, the entity does not disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

...

IE70 ...

Changes in the estimates of future cash flows in Year 2	Estimates of future cash flows		Estimates of the present value of future cash flows~~(a)~~	
	CU		CU	
Beginning of Year 2 (present value discounted at 10%~~ for 2 years~~)	3,414	(a)~~(b)~~	2,824	(b)
The effect of changes in financial assumptions (and interest accretion)	(186)	(c)	195~~193~~	(d)
Revised~~End of Year 2, revised~~ for changes in financial assumptions (present value discounted at 7%~~ for 1 year~~)	3,228	(a)~~(b)~~	3,019~~3,017~~	(b)
The effect of the exercise of discretion (present value discounted at 7%~~ for 1 year~~)	61	(e)	57	
Revised~~ in Year 2~~ for changes in financial assumptions and the exercise of discretion (present value discounted at 7% ~~for 1 year~~)	3,289	(a)~~(b)~~	3,076~~3,074~~	(b)
Payment of cash flows	(32)	(a)~~(b)~~	(32)	
End of Year 2	**3,257**		**3,044~~3,042~~**	

(a) See the table after paragraph IE69.~~The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a).~~

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows—other than the death benefit payable at the end of Year 2—are payable at the end of Year 3.~~See the table after paragraph IE69.~~

(c) ...

(d) The change in estimates of the present value of the future cash flows of CU195~~CU193~~ is the difference between the estimates of the present value of the future cash flows at the end of Year 2 (revised for changes in financial assumptions) of CU3,019~~CU3,017~~ and the estimates of the present value of the future cash flows at the beginning of Year 2 (before changes in financial assumptions) of CU2,824. Hence, it reflects the effect of the interest accretion during Year 2 and the effect of the change in financial assumptions.

(e) ...

IE71 ...

	Estimates of the present value of future cash flows		Risk adjustment for non-financial risk	Contractual service margin		Insurance contract liability
	CU		CU	CU		CU
Opening balance	2,824		20	258		3,102
Insurance finance expenses	197~~195~~	(a)	–	10	(b)	207~~205~~
Changes related to future service: exercise of discretion	55	(c)	–	(55)	(c)	–
Changes related to current service	–		(10)	(107)	(d)	(117)
Cash outflows	(32)		–	–		(32)
Closing balance	**3,044~~3,042~~**		**10**	**106**		**3,160~~3,158~~**

(a) Applying paragraph B97, the entity does not adjust the contractual service margin for a group of contracts for changes in fulfilment cash flows related to the effect of the time value of money and financial risk and changes therein, comprising ~~(being~~(i) the effect, if any, on estimated future cash flows; (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and (iii) the effect of a change in discount rate~~)~~. This is because such changes do not relate to future service. Applying paragraph 87, the entity recognises those changes as insurance finance expenses. Consequently, the insurance finance expenses of CU197~~CU195~~ are the sum of:

(i) the effect of interest accretion and the effect of the change in financial assumptions of CU195~~CU193~~ (see the table after paragraph IE70~~IE69~~); and

(ii) ...

...

Paragraph IE76 is amended. New text is underlined and deleted text is struck through.

Example 7—Insurance acquisition cash flows (paragraphs 106, B65(e) and B125)

...

IE76 In this example for simplicity, it is assumed that:

...

(c) there is no investment component;~~ and~~

(d) the insurance acquisition cash flows directly attributable to the portfolio to which the contracts belong of CU90 are directly attributable to the group of contracts to which the contracts belong and no renewals of those contracts are expected; and

(e)~~(d)~~ all other amounts, including the effect of discounting, are ignored for simplicity.

Paragraph IE82 and the tables after paragraphs IE94–IE98 and the related footnotes are amended. New text is underlined and deleted text is struck through.

Example 8—Reversal of losses in an onerous group of insurance contracts (paragraphs 49–50 and B123–B124)

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IE82 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued and the services are provided evenly over the coverage period. It is assumed, for simplicity, that no contracts will lapse before the end of the coverage period.

...

IE94 ...

	Estimates of the present value of future cash flows		Risk adjustment for non-financial risk	Contractual service margin		Insurance contract liability
	CU		CU	CU		CU
Opening balance	743		160	–		903
Insurance finance expenses	37	(a)	–	–		37
Changes related to future service	(286)	(b)	–	103	(b)	(183)
Changes related to current service	–		(80)	(52)~~–~~	(c)	(132)~~(80)~~
Cash outflows	(400)		–	–		(400)
Closing balance	**94**		**80**	**51~~103~~**		**225~~277~~**

...

(c) Applying paragraph B119(b), the entity allocates the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future. Applying paragraph B119(c), the entity recognises in profit or loss the amount allocated to coverage units provided in the period of CU52, which is CU103 divided by two years.

IE95 ...

	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
	CU	CU	CU	CU
Opening balance	544	359	–	903
Insurance finance expenses	22	15 [a]	–	37 [b]
Insurance revenue	(341)~~(289)~~ [a]	–	–	(341)~~(289)~~
Insurance service expenses: incurred expenses	–	(191) [a]	400	209
Insurance service expenses: reversal of loss on onerous contracts	–	(183) [c]	–	(183)
Cash flows	–	–	(400)	(400)
Closing balance	**225~~277~~**	**–**	**–**	**225~~277~~**

...

IE96 ...

	Liability for remaining coverage, excluding loss component	Loss component of the liability for remaining coverage	Total
	CU	CU	CU
Release of expected insurance service expenses for the incurred claims for the year	(241)	(159) [a]	(400)
Change in the risk adjustment for non-financial risk caused by the release from risk	(48)	(32) [a]	(80)
Contractual service margin recognised in profit or loss for the year	(52)	–	(52)
Insurance revenue	(341)~~(289)~~ [b]	–	
Insurance service expenses	–	(191)	
Insurance finance expenses	22 [b]	(15) [a]	

(a) ...

continued...

...continued

(b) Insurance revenue of CU341~~CU289~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU319 (CU544 – CU225)~~CU267 (CU544 – CU277)~~, further excluding insurance finance expenses of CU22, ie CU341 = CU319 + CU22~~CU289 = CU267 + CU22~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU400~~, and~~ the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the amount of the contractual service margin recognised in profit or loss in the period of CU52 minus the reversal of the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU341~~CU289~~ = CU400 + CU80 + CU52 – CU191.

IE97 ...

	Estimates of the present value of future cash flows		Risk adjustment for non-financial risk	Contractual service margin		Insurance contract liability
	CU		CU	CU		CU
Opening balance	94		80	51~~103~~		225~~277~~
Insurance finance expenses	5	(a)	–	3~~5~~	(b)	8~~10~~
Changes related to current service	–		(80)	(54)~~(108)~~	(c)	(134)~~(188)~~
Cash outflows	(100)		–	–		(100)
Rounding difference	1		–	–		1
Closing balance	–		–	–		–

(a) ...

(b) Applying paragraph 44(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU3~~CU5~~ by multiplying the opening balance of CU51~~CU103~~ by the discount rate of 5 per cent determined applying paragraphs 44(b) and B72(b).

(c) ...

IE98 ...

	Liability for remaining coverage, excluding loss component		Loss component of the liability for remaining coverage	Liability for incurred claims	Insurance contract liability
	CU		CU	CU	CU
Opening balance	225~~277~~		–	–	225~~277~~
Insurance revenue	(233)~~(287)~~	(a)	–	–	(233)~~(287)~~
Insurance service expenses	–		–	100	100
Insurance finance expenses	8~~10~~	(b)	–	–	8~~10~~
Cash flows	–		–	(100)	(100)
Closing balance	**–**		**–**	**–**	**–**

(a) Insurance revenue of CU233~~CU287~~ is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU225 (CU225–CU0)~~CU277 (CU277– CU0)~~, further excluding insurance finance expenses of CU8~~CU10~~, ie CU233 = CU225 + CU8~~CU287 = CU277 + CU10~~; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU100, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the contractual service margin recognised in profit or loss of CU54~~CU108~~, ie CU233~~CU287~~ = CU100 + CU80 + CU54~~CU108~~ – CU1 rounding difference.

(b) ...

Paragraph IE99 is moved to after the title of Example 9. Paragraphs IE104 and IE105, and footnote (a) to the table after paragraph IE111 are amended. New text is underlined and deleted text is struck through.

Measurement of groups of insurance contracts with direct participation features

~~IE99~~ ~~This example illustrates the measurement of groups of insurance contracts with direct participation features.~~

Example 9—Measurement on initial recognition and subsequently of groups of insurance contracts with direct participation features (paragraphs 45 and B110–B114)

IE99 This example illustrates the measurement of groups of insurance contracts with direct participation features.

...

IE104 On initial recognition of the contracts, the entity:

...

(c) estimates the risk adjustment for non-financial risk to be CU25 and expects to recognise it in profit or loss in Years 1–3 as follows: CU12, CU8 and CU5;~~ and~~

(d) estimates the time value of the guarantee inherent in providing a minimum death benefit;[1] and

(e)~~(d)~~ expects that one insured person will die at the end of each year and claims will be settled immediately.

IE105 During the coverage period, there are changes in the time value of the guarantee and changes in the fair value returns on underlying items, as follows:

...

IE111 ...

...

(a) Applying paragraphs B110–B113, the entity adjusts the contractual service margin for the net of changes in:

(i) the amount of the entity's share of~~in~~ the fair value of the underlying items; and

...

1 There is no prescribed method for the calculation of the time value of a guarantee, and a calculation of an amount separate from the rest of the fulfilment cash flows is not required.

The title of Example 11 is amended. New text is underlined and deleted text is struck through.

Example 11—Measurement on initial recognition of groups of reinsurance contracts held (paragraphs 63–<u>65A</u>~~65~~)

...

The title of Example 12 is amended. New text is underlined and deleted text is struck through.

<u>Examples 12A and 12B</u>~~Example 12~~—Measurement subsequent to initial recognition of groups of reinsurance contracts held (paragraph 66)

...

Paragraphs IE138A–IE138O and their related headings are added. For ease of reading, this new example is not underlined.

Example 12C—Measurement of a group of reinsurance contracts held that provides coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE138A This example illustrates the initial and subsequent measurement of reinsurance contracts held when one of the groups of underlying insurance contracts is onerous.

Assumptions

IE138B At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the same time as the entity enters into the reinsurance contract.

IE138C In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE138J; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE138D Some of the underlying insurance contracts are onerous on initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and, applying paragraph 16, in this example the entity establishes a single group comprising the profitable contracts.

IE138E The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Services are provided evenly across the coverage periods.

IE138F The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE138G The entity measures the groups of underlying insurance contracts on initial recognition as follows:

	Profitable group of insurance contracts	Onerous group of insurance contracts	Total
	CU	CU	CU
Estimates of present value of future cash inflows	(900)	(210)	(1,110)
Estimates of present value of future cash outflows	600	300	900
Fulfilment cash flows	(300)	90	(210)
Contractual service margin	300	–	300
Insurance contract liability on initial recognition	**–**	**90**	**90**
Loss on initial recognition	**–**	**(90)**	**(90)**

IE138H Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held. The entity pays a premium of CU315 to the reinsurer immediately after initial recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE138I Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE138J At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

Analysis

IE138K The entity measures the group of reinsurance contracts held on initial recognition as follows:

	Initial recognition CU	
Estimates of present value of future cash inflows (recoveries)	(270)	
Estimates of present value of future cash outflows (premiums)	315	
Fulfilment cash flows	**45**	
Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment)	(45)	
Loss-recovery component	(27)	(a)
Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)	**(72)**	(b)
Reinsurance contract asset on initial recognition	**(27)**	(c)
Income on initial recognition	**27**	(a)

(a) Applying paragraph 66A, the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D, the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the percentage of claims the entity expects to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B, the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A.

IE138L At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		Reinsurance contract asset	
	Profitable group of insurance contracts	Onerous group of insurance contracts		
	CU	CU	CU	
Estimates of present value of future cash inflows (recoveries)	–	–	(180)	
Estimates of present value of future cash outflows (claims)	400	200	–	
Fulfilment cash flows	400	200	(180)	
Contractual service margin	200	–	(48)	(a)
Insurance contract liability	**600**	**200**		
Reinsurance contract asset			**(228)**	

(a) Applying paragraphs 66(e) and B119, the entity determines the amount of the contractual service margin recognised in profit or loss for the service received in Year 1 as CU24, which is calculated by dividing the contractual service margin on initial recognition of CU72 by the coverage period of three years. Consequently, the contractual service margin of the reinsurance contract held at the end of Year 1 of CU48 equals the contractual service margin on initial recognition of CU72 minus CU24.

IE138M At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				Reinsurance contract asset	
	Profitable group of insurance contracts		Onerous group of insurance contracts			
	CU		CU		CU	
Estimates of present value of future cash inflows (recoveries)	–		–		(99)	(a)
Estimates of present value of future cash outflows (claims)	220	(a)	110	(a)	–	
Fulfilment cash flows	220		110		(99)	
Contractual service margin	90	(b)	–		(21)	(e)
Insurance contract liability	**310**		**110**			
Reinsurance contract asset					**(120)**	
Recognition of loss and recovery of loss			**(10)**	(c)	**3**	(d)

continued...

...continued

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 – CU20) ÷ 2). The resulting contractual service margin at the end of Year 2 is CU90 (CU200 – CU20 – CU90).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future service of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(i), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

    (i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of that group); and

    (ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 – CU3).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU21 equals the contractual service margin at the end of Year 1 of CU48 adjusted by CU6 and by CU21 of the contractual service margin recognised in profit or loss for the service received in Year 2 (CU21 = (CU48 – CU6) ÷ 2).

IE138N A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

	Asset for remaining coverage, excluding loss-recovery component		Loss-recovery component of the asset for remaining coverage		Asset for incurred claims	Reinsurance contract asset
	CU		CU		CU	CU
Opening balance	(210)		(18)	(b)	–	(228)
Allocation of reinsurance premiums paid[a]	102	(c)	–		–	102
Amount recovered from the reinsurer[a]	–		6	(d)	(90)	(84)
Cash flows	–		–		90	90
Closing balance	**(108)**		**(12)**		**–**	**(120)**

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) The loss-recovery component of CU18 at the beginning of Year 2 is calculated as the loss-recovery component of CU27 on initial recognition less the reversal of the loss-recovery component of CU9 in Year 1.

(c) The allocation of reinsurance premiums paid of CU102 is:

(i) determined applying paragraph B123 as the difference between the opening and closing carrying amount of the asset for remaining coverage of CU102, ie CU210 – CU108.

(ii) analysed applying paragraph B124 as the sum of the recoveries for the incurred claims of the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held recognised in profit or loss in the period of CU21 (see the table after paragraph IE138M), ie CU102 = CU90 – CU9 + CU21.

(d) The amount recovered from the reinsurer relating to the loss-recovery component of CU6 is the net of the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3. Applying paragraph 86(ba), amounts recognised relating to the recovery of losses are treated as amounts recovered from the reinsurer.

IE138O The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

Statement of profit or loss	Year 1		Year 2		Year 3		Total
	CU		CU		CU		CU
Insurance revenue	370		360		380		1,110
Insurance service expenses	(360)		(280)		(290)		(930)
Insurance contracts issued total	**10**	(b)	**80**	(d)	**90**	(f)	**180**
Allocation of reinsurance premiums paid[(a)]	(105)		(102)		(108)		(315)
Amount recovered from reinsurer[(a)]	108		84		87		279
Reinsurance contracts held total	**3**	(c)	**(18)**	(e)	**(21)**	(g)	**(36)**
Insurance service result	**13**		**62**		**69**		**144**

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(b) For Year 1, the profit of CU10 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU370, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU100 recognised in profit or loss in the period (CU370 = CU270 + CU100); minus

(ii) insurance service expenses of CU360, which are the sum of the loss component of the onerous group of CU90 and the claims incurred in the period of CU300 minus the reversal of the loss component of CU30 (CU360 = CU90 + CU300 – CU30).

(c) For Year 1, the income of CU3 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU105, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contracts held of CU24 recognised in profit or loss in the period (CU105 = CU90 – CU9 + CU24); and

(ii) the amounts recovered from the reinsurer of CU108, which are the income of CU27 on initial recognition and the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 (CU108 = CU27 + CU90 – CU9).

continued...

...continued

(d) For Year 2, the profit of CU80 from the groups of underlying insurance contracts is calculated as follows:

  (i) insurance revenue of CU360, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU90 recognised in profit or loss in the period (CU360 = CU270 + CU90); minus

  (ii) insurance service expenses of CU280, which are the sum of the increase in the loss component resulting from the changes in the fulfilment cash flows of the onerous group of CU10 and the claims incurred of CU300 minus the reversal of the loss component of CU30 (CU280 = CU10 + CU300 – CU30).

(e) For Year 2, the expense of CU18 from the reinsurance contract held is the net of:

  (i) the allocation of reinsurance premiums paid of CU102, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held of CU21 recognised in profit or loss in the period (CU102 = CU90 – CU9 + CU21); and

  (ii) the amounts recovered from the reinsurer of CU84, which are the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3 (CU84 = CU90 – CU9 + CU3).

(f) For Year 3, the profit of CU90 from the groups of underlying insurance contracts is calculated as follows:

  (i) insurance revenue of CU380, which is analysed as the sum of the insurance service expenses from the claims incurred of CU290 (CU330 minus the reversal of the loss component of CU40) and the contractual service margin of CU90 recognised in profit or loss in the period (CU380 = CU290 + CU90); minus

  (ii) insurance service expenses of CU290, which are the claims incurred of CU330 minus the reversal of the loss component of CU40 (CU290 = CU330 – CU40).

continued...

...continued

(g) For Year 3, the expense of CU21 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU108, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU99 less the reversal of the loss-recovery component of CU12 and the contractual service margin of the reinsurance contracts held of CU21 recognised in profit or loss in the period (CU108 = CU99 – CU12 + CU21); and

(ii) the amounts recovered from the reinsurer of CU87, which are the recoveries for the incurred claims from the underlying insurance contracts of CU99 minus the reversal of the loss-recovery component of CU12 (CU87 = CU99 – CU12).

The heading above Example 13 and footnote (b) to the table after paragraph IE145 are amended. New text is underlined and deleted text is struck through.

Measurement of insurance contracts acquired (paragraphs 38 and B94–B95A~~B95~~)

Example 13—Measurement on initial recognition of insurance contracts acquired in a transfer from another entity

...

IE145 ...

...

(b) Applying paragraphs 47 and B95A~~B95~~, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(c) ...

Paragraphs IE146 and IE147 and footnotes (a) and (b) to the table after paragraph IE151 are amended. New text is underlined and deleted text is struck through.

Example 14—Measurement on initial recognition of insurance contracts acquired in a business combination

IE146 This example illustrates the initial recognition of a group of insurance contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations*.

Assumptions

IE147 An entity acquires insurance contracts as part of a business combination within the scope of IFRS 3 and it:

(a) determines~~estimates~~ that the transaction results in goodwill applying IFRS 3~~ *Business Combinations*~~.

(b) ...

...

IE151 ...

...

(a) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows and any cash flows arising from the contracts in the group at that date. On initial recognition, the fulfilment cash flows are~~is~~ a net inflow (or asset) of CU10 (proxy for the premiums received of CU30 minus the fulfilment cash flows of CU20). Consequently, the contractual service margin equals CU10.

(b) Applying paragraphs 38 and 47, the entity recognises the contractual service margin as zero because the sum of fulfilment cash flows and cash flows at the date of initial recognition is a net outflow of CU15. Applying paragraph B95A~~B95~~, the entity recognises the excess of CU15 of the fulfilment cash flows of CU45 over the consideration received of CU30 as part of the goodwill on the business combination.

...

The table after paragraph IE184 and the related footnote are amended. New text is underlined and deleted text is struck through.

Example 16—Amount that eliminates accounting mismatches with finance income or expenses arising on underlying items held (paragraphs 89–90 and B134)

...

IE184 ...

Contractual service margin	Year 1		Year 2	Year 3
	CU		CU	CU
Opening balance	–		61	33
Change related to future service: new contracts	75		–	–
Change in the amount of the entity's share of~~in~~ the fair value of the underlying items[(a)]	16		5	5
Change related to current service: recognition in profit or loss for the service provided	(30)	(b)	(33)	(38)
Closing balance	**61**		**33**	**–**

(a) Applying paragraph B112, the entity adjusts the contractual service margin for the change in the amount of the entity's share of the fair value of the underlying items because those changes relate to future service. For example, in Year 1 the change in the amount of the entity's share of the fair value of the underlying items of CU16 is 5 per cent of the change in fair value of the underlying items of CU311 (CU1,811 – CU1,500). This example does not include cash flows that do not vary based on the returns on underlying items. For more details about the changes related to future service that adjust the contractual service margin see Example 10.

(b) ...

