

IFRS 17

Insurance Contracts—

A brief history of IFRS 17

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

What is our Mission Statement?

To develop IFRS[®] Standards that bring **transparency, accountability** and **efficiency** to financial markets around the world.

Our work serves the public interest by fostering **trust, growth** and **long-term financial stability** in the global economy.

What is IFRS 17?



One

accounting model for all insurance contracts in all IFRS jurisdictions
–replaces IFRS 4



84%

126 of 150 jurisdictions require IFRS Standards for all or most publicly accountable companies

What is IFRS 17?

Who is affected?



450
listed insurers using
IFRS Standards



\$13 trillion
total assets of those
listed insurers

When?

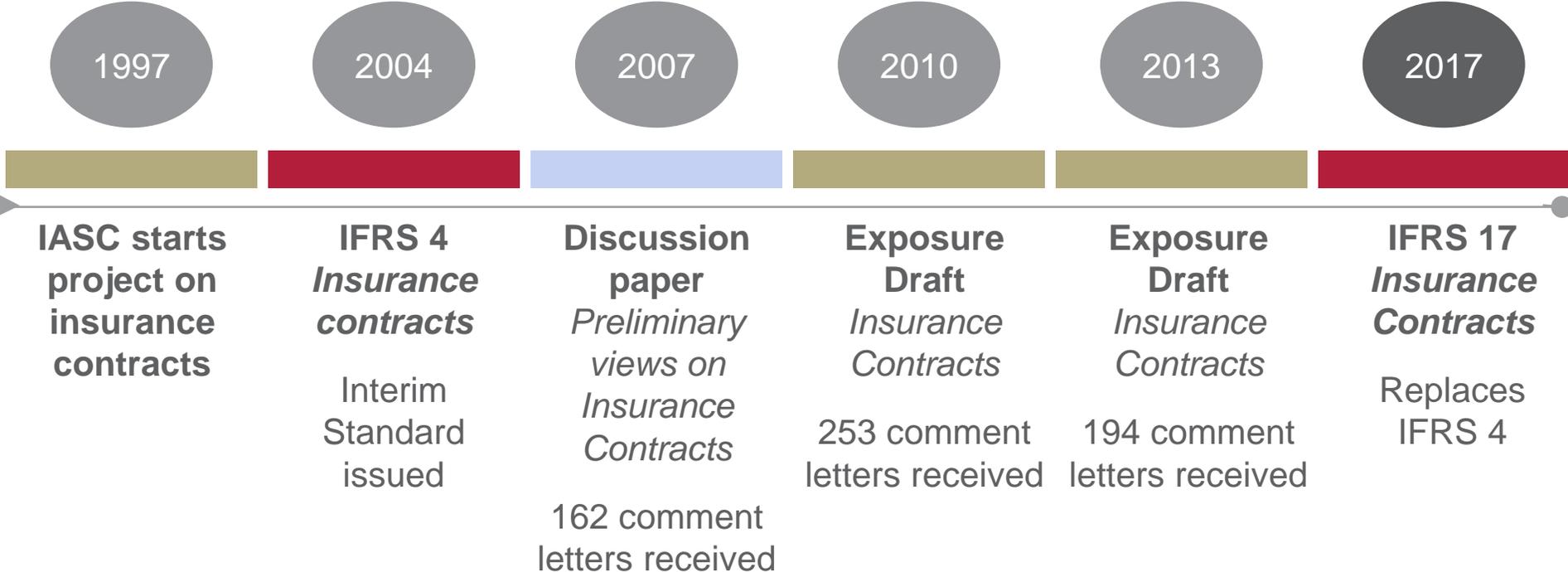


2021
mandatory effective date
of the new Standard
-One year comparative
information



3.5
years for companies
to implement the new
requirements

Extensive consultation process



A summary box containing three statistics about the consultation process. Each statistic is accompanied by an icon: three speech bubbles for meetings, a pen writing on a document for comment letters, and a magnifying glass for fieldwork and testing.

- 900** meetings, round-tables and discussion forums
- 600** comment letters
- 4** rounds of fieldwork and testing



Why has IFRS 17 been developed?

IFRS 4: lack of comparability

Top-20 listed insurance companies using IFRS Standards

Accounting policies applied to insurance contracts issued	Number of companies	Total assets (US\$ trillions)
Based on guidance in:		
• a mix of national GAAP*	8	4.1
• US GAAP	3	1.6
• Canadian GAAP	4	1.4
• other national GAAP	5	2.0
Total	20	9.1

* These companies had subsidiaries in different jurisdictions. They accounted for the insurance contracts they issued in different jurisdictions using accounting policies based on requirements of national GAAP for each jurisdiction.

Source: Effects Analysis on IFRS 17

Same company, different pictures

(in millions of currency units)	Year 1			
	GAAP 1	GAAP 2	Difference	
Revenue	8,263	10,979	(2,716)	(33%)
Operating income	1,416	633	783	55%
Net income	965	337	628	65%
Total equity	8,977	3,872	5,105	57%

Source: Effects Analysis on IFRS 17

To improve financial information

IFRS 4—little transparent or useful information	IFRS 17—more transparent and useful information
<p>Lack of useful information about insurance obligations</p> <ul style="list-style-type: none">• Use of old or outdated assumptions• Options and guarantees not fully reflected in measurement of insurance contracts• Time value of money not considered when measuring liabilities for incurred claims• Use of ‘expected return on assets held’ as discount rate	<ul style="list-style-type: none">• Current assumptions regularly updated• Options and guarantees fully reflected• Estimated future payments to settle incurred claims reported on a discounted basis.• Discount rate reflect characteristics of the insurance liability - risks not matched by assets will be reflected in the accounts
<p>Lack of transparency about profitability</p> <ul style="list-style-type: none">• Revenue recognised on a cash basis• Use of many non-GAAP measures	<ul style="list-style-type: none">• Unearned profit recognised as the insurance coverage is provided• Additional metrics to evaluate performance will be available

To improve comparability

IFRS 4—a lack of comparability	IFRS 17—a consistent framework
<p>Lack of comparability among insurers</p> <ul style="list-style-type: none">• IFRS companies report insurance contracts using different practices <p>Non-uniform reporting within groups</p> <ul style="list-style-type: none">• Insurance contracts of subsidiaries are consolidated using different practices	<ul style="list-style-type: none">• A new framework will replace huge variety of accounting treatments
<p>Inconsistency with other industries</p> <ul style="list-style-type: none">• Revenue include deposits• Revenue reported on a cash basis	<ul style="list-style-type: none">• Revenue will reflect the services provided, and exclude deposits, like any other industry

Typical existing profit or loss statement

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P&L	20X1	20X0
Gross premiums	16,321	13,567
Premiums ceded to reinsurers	(816)	(678)
Investment income	9,902	9,030
Total income	25,407	21,919
Gross claims, benefits and expenses	(13,827)	(12,012)
Claims and expenses ceded to reinsurers	368	351
Acquisition costs amortisation	(1,259)	(1,150)
Change in insurance contract liabilities	(9,308)	(8,377)
Total expenses	(24,026)	(21,188)
Profit before tax	1,381	731

➔ Cash based and includes collection of deposits.
Inconsistent with other industries

➔ Includes repayment of deposits

➔ Confusing adjustment that incorporates multiple factors

➔ Inconsistent measurement reduces comparability

‘Source of earnings’ difficult to identify

Example of IFRS 17 statement of comprehensive income

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	Statement of comprehensive income	20X1
1	Insurance revenue	9,856
	Insurance service expenses	(8,621)
2	Insurance service result	1,235
	Investment income	7,787
3	Insurance finance expenses	(7,391)
	Net financial result	396
	Profit or loss	1,631
	Other comprehensive income	
	Investment income	2,115
3	Insurance finance expenses (<i>optional</i>)	(1,917)
	Total other comprehensive income	198
	Comprehensive income	1,829

Two drivers of profit presented separately



Insurance coverage



Investment activities

Different measures of the activity in the period

① New business

- Expected cash inflows, cash outflows and profit
- IFRS 17: disclosure

② Cash

- Cash inflows and cash outflows
- IFRS 17: disclosure

③ Service provided

- **Insurance revenue** and insurance service expenses
- IFRS 17: present in profit or loss

Typical existing Balance Sheet

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Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Deferred acquisition costs	8,083	8,941
Premiums receivable	2,798	2,582
Reinsurance contract assets	20,572	17,882
Other assets	36,002	31,293
Total assets	293,752	257,398
Insurance contract liabilities	211,010	185,545
Unearned premiums	5,595	4,796
Other liabilities	51,431	44,705
Equity	25,716	22,352
Total liabilities and equity	293,752	257,398

**Multiple line items, inconsistent terminology
and inconsistent measurement, difficult to
understand changes**

Example of IFRS 17 balance sheet

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Balance sheet	20X1	20X0
Financial assets at fair value through profit or loss	185,152	160,936
Financial assets at fair value through OCI	41,145	35,764
Other assets	34,467	31,293
Total assets	260,764	227,993
Insurance contract liabilities	205,724	178,818
Other liabilities	30,859	26,823
Equity	24,181	22,352
Total liabilities and equity	260,764	227,993

Amounts	Judgements	Risk
<ul style="list-style-type: none">• Expected PV of future cash flows• Risk and the contractual service margin• New contracts written in the period	<ul style="list-style-type: none">• Estimating inputs and methods• Effects of changes in the methods and inputs used• Reason for change, identifying the type of contracts affected	<ul style="list-style-type: none">• Nature and extent of risks arising• Extent of mitigation of risks arises from reinsurance and participation• Quantitative data about exposure to credit, market and liquidity risk

Compared to IFRS 4, additional disclosures relating to the amounts reported in the financial statements

For example: Insurance contract liability reconciliation

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	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
<i>Changes related to:</i>				
- Future service yet to be provided	(784)	1,117	(116)	217
- Current service provided in the period	35	(604)	(923)	(1,492)
- Past service adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)
Insurance finance expenses	9,087	-	221	9,308
TOTAL CHANGES IN P&L AND OCI	8,385	506	(818)	8,073
CASH FLOWS	18,833	-	-	18,833
END OF PERIOD	191,180	6,504	8,040	205,724



Supporting implementation

1. Accompanying materials to IFRS 17
 - Basis for Conclusions
 - Illustrative Examples
2. Supporting implementation materials available on the website
 - 6 webinars as at 31 August
 - Publications
 - Effects analysis
 - Project summary
3. Transition resource group IFRS 17 (TRG)
 - Publically available TRG papers and discussion

Further information about implementation support is available at go.ifrs.org/IFRS-17-implementation.

4. Dedicated implementation questions mechanism available via the website
 - Criteria for questions:
 - relate to, or arise from, IFRS 17
 - indicate that IFRS 17 can be applied in different ways that are expected to result in diversity in practice
 - are expected to be relevant to a wide range of stakeholders
 - Submitted questions will be evaluated to assess whether further support might be needed. For example:
 - Webinar
 - Discussing the question at a future transition resource group meeting

IASB implementation support—overview

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May 2017	3.5 years			2021
Issue of IFRS 17	Support implementation			Mandatory effective date of IFRS 17
	2017 - Early 2019	Late 2019	2020	
	Some entities begin implementation process General questions Contentious / specific implementation questions	Entities are finalising implementation		

Objective: monitor and proactively support implementation	Objective: provide period of calm for implementation
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Supporting materials: - articles - webinars	TRG, IFRS IC and/or Board discussions	Mostly monitor Light touch on implementation / educational activities
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