

IFRS 17

Insurance Contracts

How IFRS 17 works and
what this means

Paris, 19 October 2017

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



One

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



Who is affected?



450
listed insurers
using IFRS
Standards



\$13 trillion
total assets of
those listed
insurers

When?



2021
mandatory
effective date of
IFRS 17

What changes?



More
useful and
transparent
information



Better
information
about profitability

Today's agenda

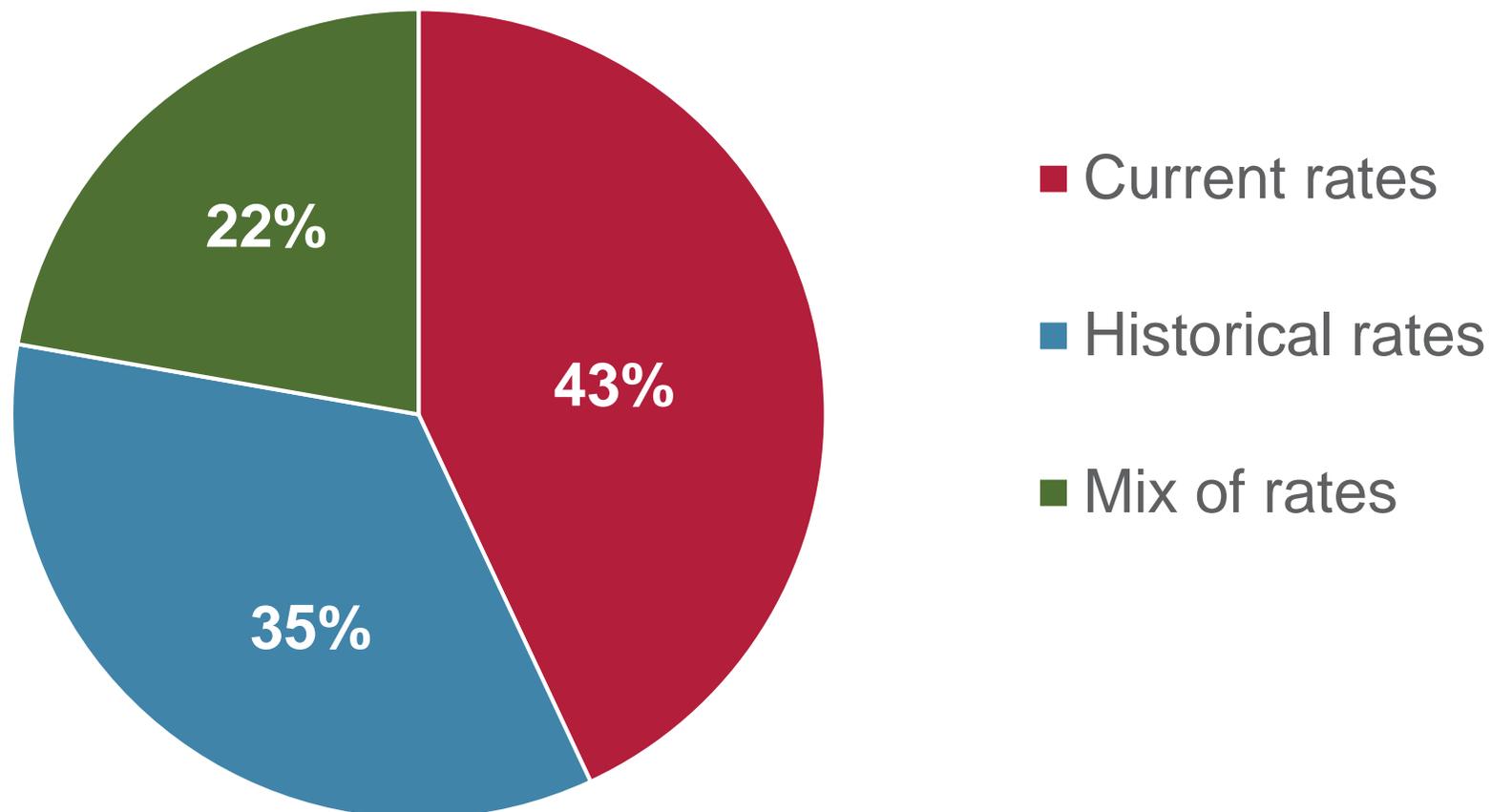
- Why has IFRS 17 been developed
- What changes
- How IFRS 17 works
- Hot topics:
 - level of aggregation and other topics
 - applying IFRS 17 for the first time
- Investor reactions to IFRS 17
- Appendix



Why has IFRS 17 been developed

IFRS insurers—discount rates used today

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Discount rates used for a sample of life insurers (2015)
Source: Effects Analysis on IFRS 17

Insurance accounting today

- Same insurer—two different GAAP

(in millions of currency units)	GAAP 1	GAAP 2	Difference	
Revenue	9,010	11,244	(2,234)	-25%
Operating income	1,606	748	858	53%
Total equity	10,375	4,567	5,808	56%

Accounting policies applied under IFRS 4

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Top-20 listed insurers 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

Source: Effects Analysis on IFRS 17

What changes

Main improvements introduced

More useful and transparent information

- Current assumptions regularly updated
- Options and guarantees fully reflected
- Discount rates reflect characteristics of the insurance liability

Consistent recognition of revenue and profits for insurance services

- Revenue recognition more consistent with other IFRS Standards
- Profits recognised as the insurance coverage is provided
- Additional metrics to evaluate performance

Improved performance reporting

IFRS 4*
Premiums
Investment income
Incurred claims and expenses
Change in insurance contract liabilities
Profit or loss



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



Confusing adjustment that incorporates multiple factors

IFRS 17	
Insurance revenue	9,856
Incurred claims and expenses	(8,621)
Insurance service result	1,235
Investment income	7,787
Insurance finance expenses	(7,391)
Net financial result	396
Profit or loss	1,631
Other comprehensive income	
Investment income	2,115
Insurance finance expenses (<i>optional</i>)	(1,917)
Total other comprehensive income	198
Comprehensive income	1,829



Recognised when earned. Excludes deposits



Two drivers of profits presented separately



Changes in financial assumptions do not affect insurance service result

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

Insurance liabilities properly measured

Transparent costs of options and guarantees

Updated information on risk margins

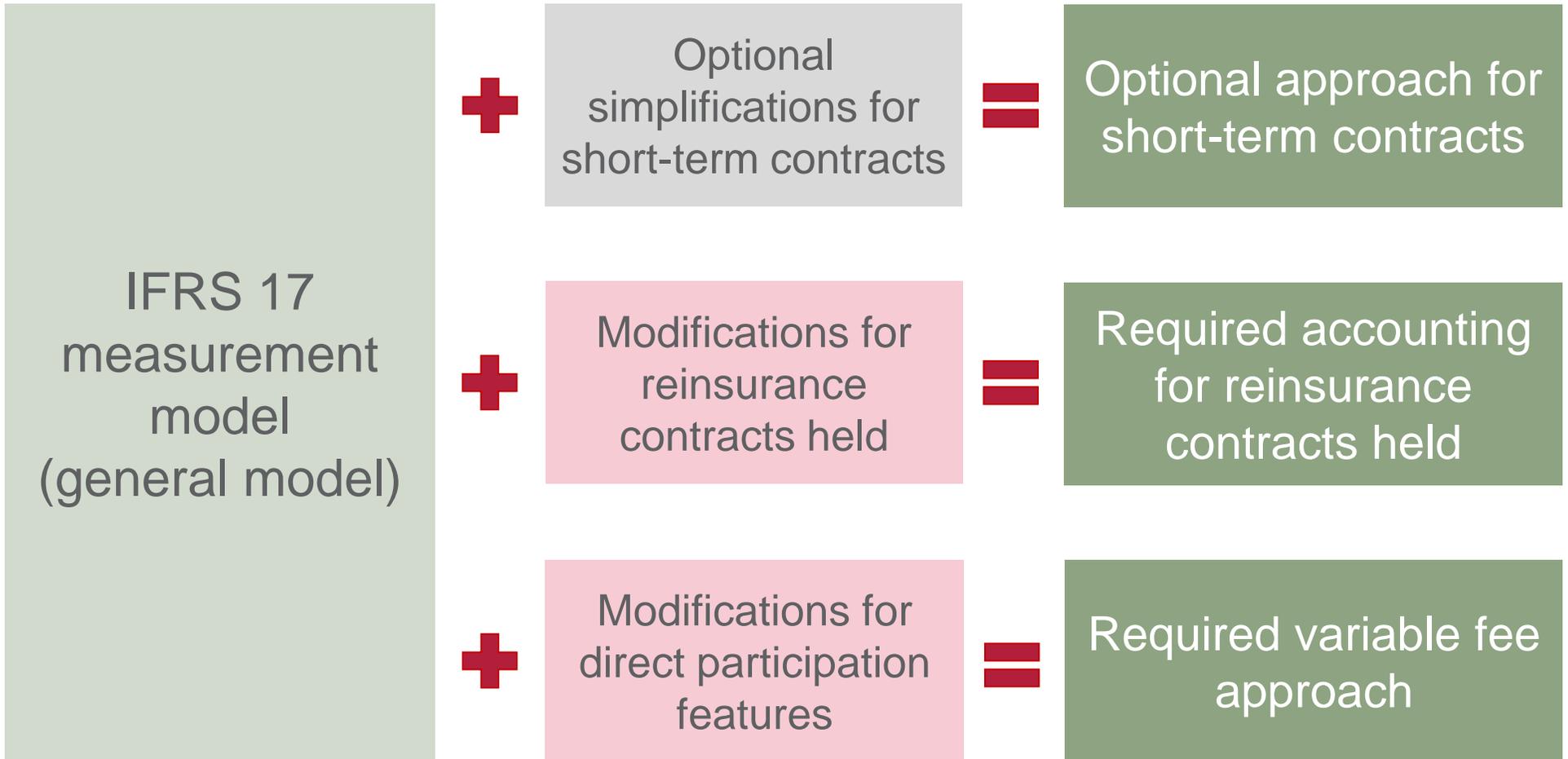
Immediate recognition of onerous contracts

Ends up-front profit taking

Better information on profitability trends

How IFRS 17 works

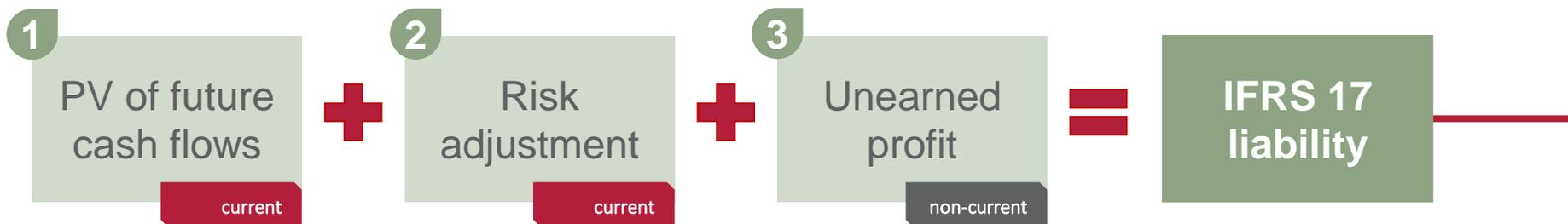
One measurement model



IFRS 17 Balance Sheet

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Balance sheet	20X1	20X0
Financial assets	226,297	196,700
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

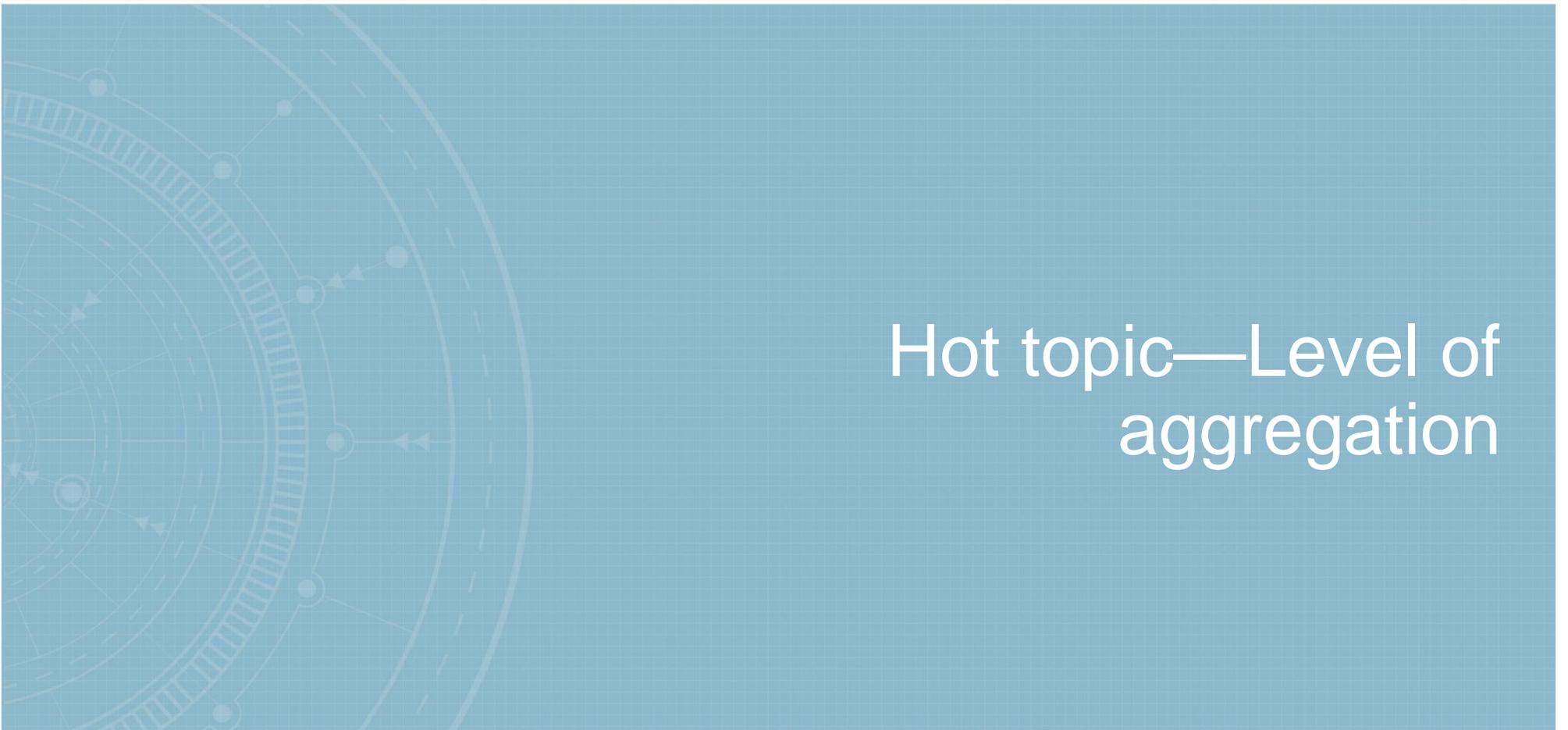


Insurance contract liability roll forward

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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>				
① - Future service yet to be provided	(784)	1,117	(116)	217
② - Current service provided in the period	35	(604)	(923)	(1,492)
③ - Past service adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)
④ Insurance finance expenses	9,087	-	221	9,308
TOTAL CHANGES IN P&L and OCI	8,385	506	(818)	8,073
⑤ CASH FLOWS	18,833	-	-	18,833
END OF PERIOD	191,180	6,504	8,040	205,724

See slides 28-32 for further information



Hot topic—Level of aggregation

Unit of account—overview

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- Each portfolio is divided into groups

Group 1	Profitable contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any
Group 2	Other profitable contracts, if any
Group 3	Contracts that are onerous at initial recognition, if any

- To provide trend information about the profitability of contracts written in different periods, each group can contain only contracts issued within the same year

Why annual cohorts?

Example 1

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- Timely recognition of losses

Y1	Y2	Y3	Y4	Y5	Total profit
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With annual cohorts

Contracts written in Y1	30	30	(20)*	0	-	40
Contracts written in Y2	-	9	9	9	9	36
	30	39	(11)	9	9	76

Without annual cohorts

Contracts written in Y1 and Y2	30	36	4	4	2	76
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* Due to changes in expectations

Why annual cohorts?

Example 2

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- Preventing phantom profit*

Y1	Y2	Y3	Y4	Y5	Total profit
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With annual cohorts

Contracts written in Y1	30	30	30	30	-	120
Contracts written in Y2	-	9	9	9	9	36
	30	39	39	39	9	156

Without annual cohorts

Contracts written in Y1 and Y2	30	36	36	36	18	156
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* Profit on contracts already expired

Hot topic—Other topics

Scope of the variable fee approach

- Principle-based approach based on nature of contract
- Requires judgement as to contractual obligations and expected outcomes

Risk mitigation activities

- Reinsurance contracts measured using consistent assumptions with underlying contracts (ceded contracts)
- Insurers use various tools to manage risk
- IFRS 17 permits modifications to variable fee to be unwound where some mitigation exists
- IFRS 9 (and IAS 39) provides hedge accounting in some circumstances



Hot topic—Applying IFRS 17 for the first time

DETERMINE TRANSITION METHOD BY GROUP OF CONTRACTS

1 Full retrospective approach (apply IAS 8)

if impracticable

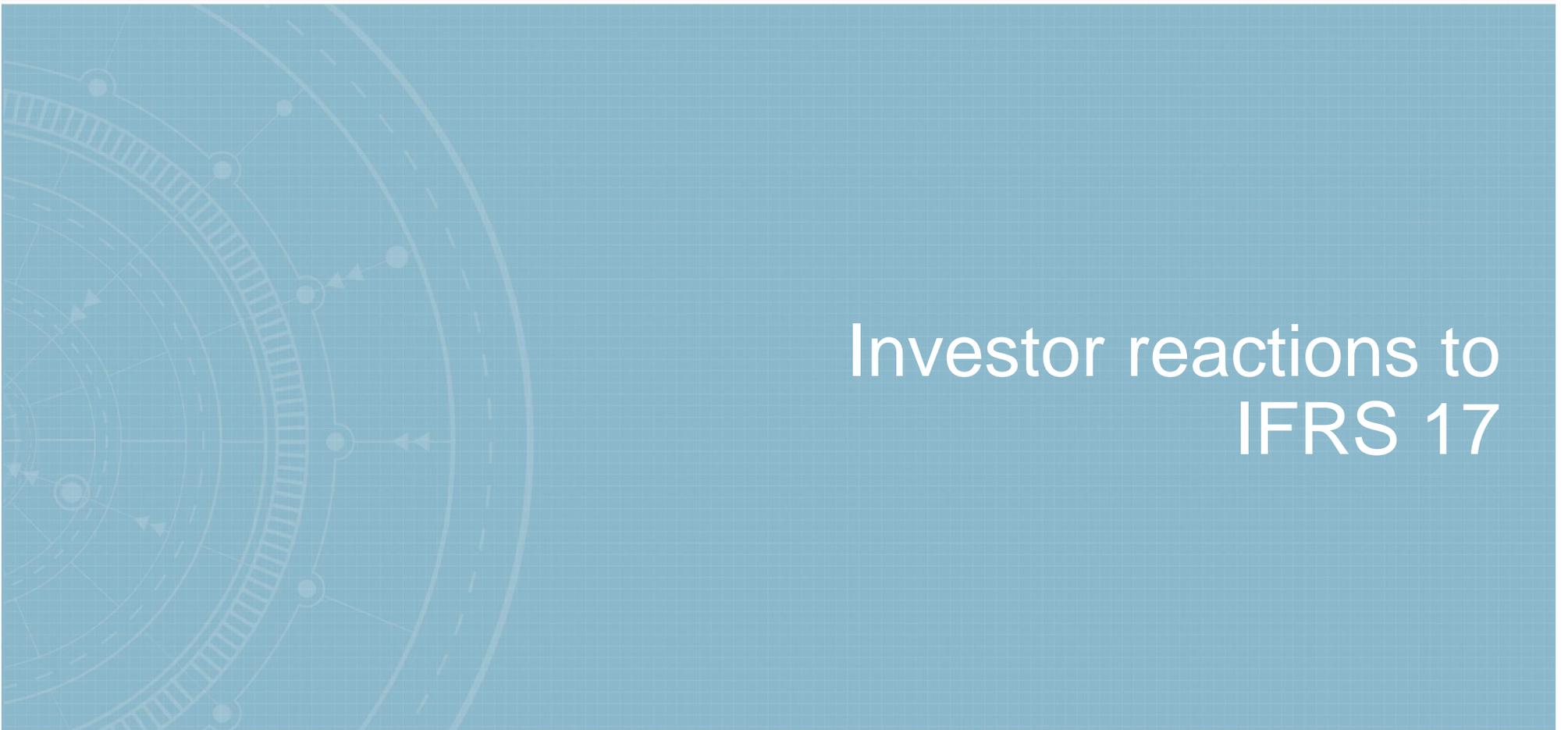
2 Modified retrospective approach

- Modifications available if necessary given reasonable and supportable information
- Maximise the use of the information needed for full retrospective approach

Insufficient reasonable and supportable information available

OR

3 Fair value approach



Investor reactions to IFRS 17

What investors think about IFRS 17

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45 meetings

19 sell side, 12 buy side, 10 mixed groups, 4 credit rating agencies

250 investors and analysts

31% Global, 31% Asia Pacific, 30% Europe, 8% North America,

Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures

Areas of concern

- Company-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability

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Appendix A—Insurance contract liability roll forward

1 Future service—incl. new business

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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>				
- <i>Future service yet to be provided*</i>	(784)	1,117	(116)	217
<i>New profitable contracts recognised</i>	(2,344)	969	1,375	-
<i>Estimate changes - profitable contracts</i>	1,452	39	(1,491)	-
<i>New onerous contracts recognised</i>	15	108	-	123
<i>Estimate changes - onerous contracts</i>	93	1	-	94
- <i>Current service provided in the period</i>	35	(604)	(923)	(1,492)
- <i>Past service – adjustment to past claims</i>	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)

Etc ...

* Note: Positive number in total column = increase in liability = loss in P&L

2 Current service—profit recognised

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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)
Contractual service margin earned	-	-	(923)	(923)
Release from risk	-	(604)	-	(604)
Experience loss	35	-	-	35
- Past service – adjustment to past claims	47	(7)	-	40
Insurance service result	(702)	506	(1,039)	(1,235)

Etc ...

3 Past service—adjusting past claims

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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)

Etc ...

4 Insurance finance expenses

- Discount unwind plus effect of changes in discount rates and other financial assumptions
- Recognise as gain or loss in period; option to present part in OCI

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Etc ...				
Insurance finance expenses	9,087	-	221	9,308
<i>Accretion at historical rate – P&L</i>	<i>7,170</i>	-	<i>221</i>	<i>7,391</i>
<i>Assumption changes (P&L or OCI)</i>	<i>1,917</i>	-	-	<i>1,917</i>
Etc ...				

5 Cash flows

- Gross premiums received still reported as part of the liability roll-forward
 - But not in profit and loss as ‘revenue’

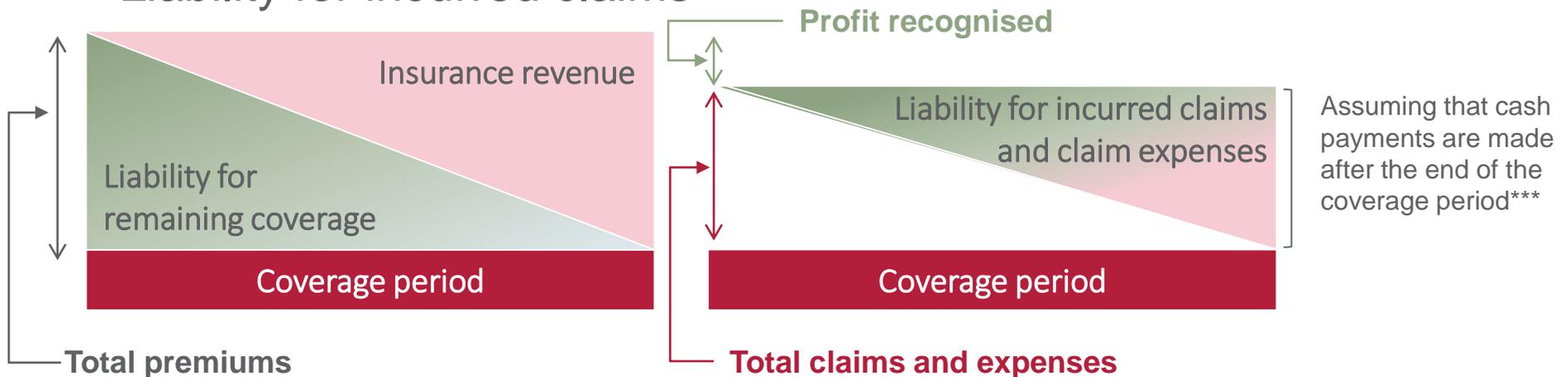
	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Etc ...				
Cash flows	18,833			18,833
<i>Premiums received</i>	33,570			33,570
<i>Claims, benefits and other expenses paid</i>	(14,336)			(14,336)
<i>Insurance acquisition cash flows</i>	(401)			(401)
END OF PERIOD	191,180	6,504	8,040	205,724



Appendix B—Insurance service result

Presentation of the service result

- The insurance service result reflects changes in the insurance liability, but it is presented in P&L as
 - insurance revenue, less
 - insurance service expenses (eg claim expenses)
- Requires the total insurance liability to be split into
 - Liability for remaining coverage
 - Liability for incurred claims



*** Cash payments reduce the liability for incurred claims to zero sometime after the end of the coverage period

Revenue and expenses reconciliation

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	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding onerous contracts component	Onerous contracts component		
Insurance contract liabilities 20X0	161,938	15,859	1,021	178,818
Insurance revenue	(9,856)			(9,856)
Insurance service expenses				
Claims incurred in the period			7,985	7,985
Onerous contracts losses and (reversals)		(623)		(623)
Insurance acquisition costs expensed	1,259			1,259
Investment components	(6,465)		6,465	0
Insurance service result	(15,062)	(623)	14,450	(1,235)
Insurance finance expenses	8,393	860	55	9,308
Total changes in the statement of comprehensive income	(6,669)	237	14,505	8,073
Cash flows				
Premiums received	33,570			33,570
Claims, benefits and other expenses paid			(14,336)	(14,336)
Insurance acquisition cash flows	(401)			(401)
Total cash flows	33,169	-	(14,336)	18,833
Insurance contract liabilities 20X1	188,438	16,096	1,190	205,724