



# IFRS 17 Insurance Contracts

A new perspective on insurance accounting

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# Greater comparability and transparency

“IFRS 17 will give users of financial statements a whole new perspective. For the first time, insurers will be on a level footing internationally. It will open up the ‘black box’ of current insurance accounting.”

“The ways in which analysts interpret and compare companies will change. Increased transparency will give users more insight into an insurer’s financial health than ever before.”



**Joachim Kölschbach,**  
**KPMG’s global IFRS**  
**insurance leader**

# What's the issue?

Analysts currently have to **adjust** insurance companies' financial positions and performance to be able to compare them



IFRS 17 increases **transparency** about profitability and will add **comparability**



# The changes could significantly affect insurers'...



**Profitability patterns**



**Volatility of financial results and equity**



**Level of transparency about profit drivers**



**Equity levels**



**The magnitude of the accounting change for life and non-life insurers will be different**

# A new, comprehensive accounting model

**IFRS 17's general measurement model (GMM) is based on a fulfilment objective and uses current assumptions**

**It introduces a single, revenue recognition principle to reflect services provided**

**And is modified for certain contracts**





# The general measurement model

# Initial recognition

## Key components

### Fulfilment cash flows

Risk-adjusted present value  
of future cash flows – e.g. premiums, claims

1

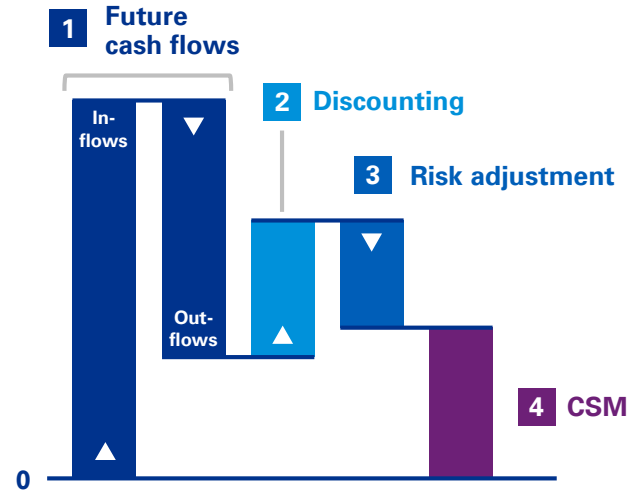
2

3

### Contractual service margin (CSM)

Represents unearned profit –  
results in no gain on initial recognition

4



**Net cash outflows result in no CSM – a loss is recognised immediately**

# Subsequent measurement – Composition

## Total liability of a group of insurance contracts

### Liability for remaining coverage (LRC)

**Fulfilment cash flows** related to future services, plus  
**CSM (unearned profit)** remaining

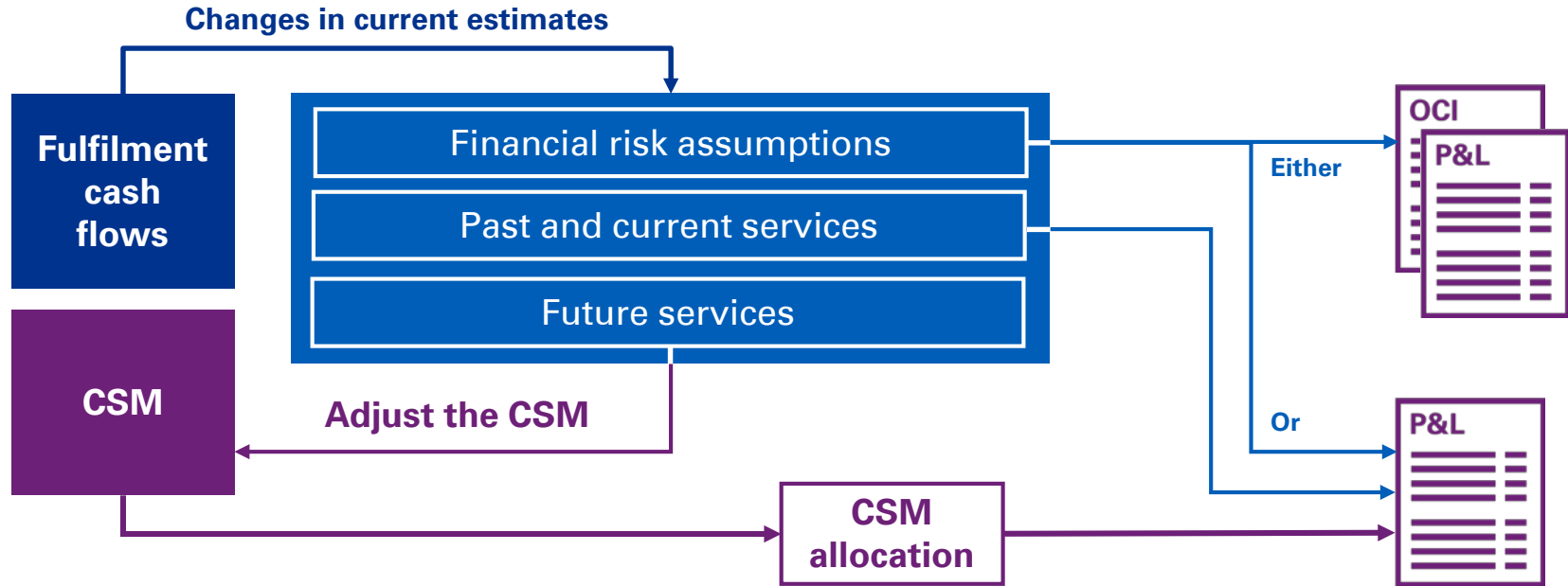


### Liability for incurred claims (LIC)

**Fulfilment cash flows** for claims incurred, but not yet paid



# Subsequent measurement



# Recognising insurance revenue

**Insurance revenue is derived from the changes in the LRC for each reporting period, covering...**

**Expected  
insurance claims  
and expenses**

**Risk adjustment**

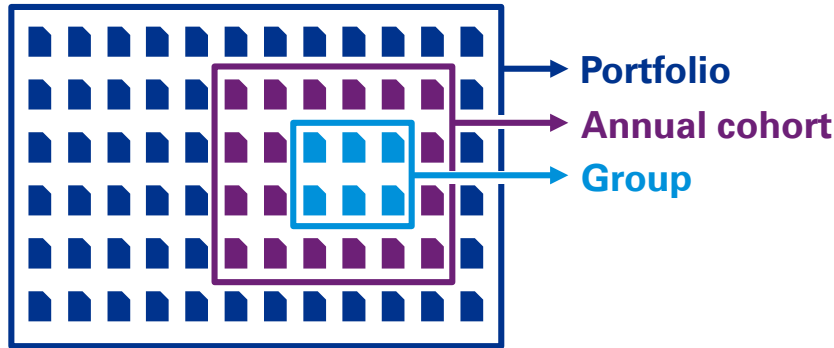
**CSM allocation**

**Acquisition cash  
flows**

**These items represent a company's consideration for providing services**

# Level of aggregation

The **CSM** is determined for **groups** of insurance contracts



Insurers will need to account for their business performance at a more granular level



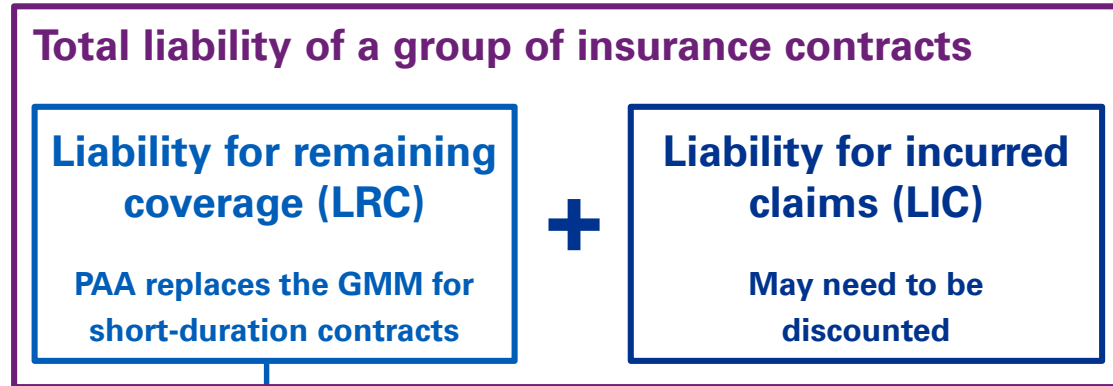
**IFRS 17 limits  
offsetting of  
onerous contracts  
against profitable  
ones**



# Modifications to the GMM

# Premium allocation approach (PAA)

The PAA is an **optional**, simplified model for measuring the LRC



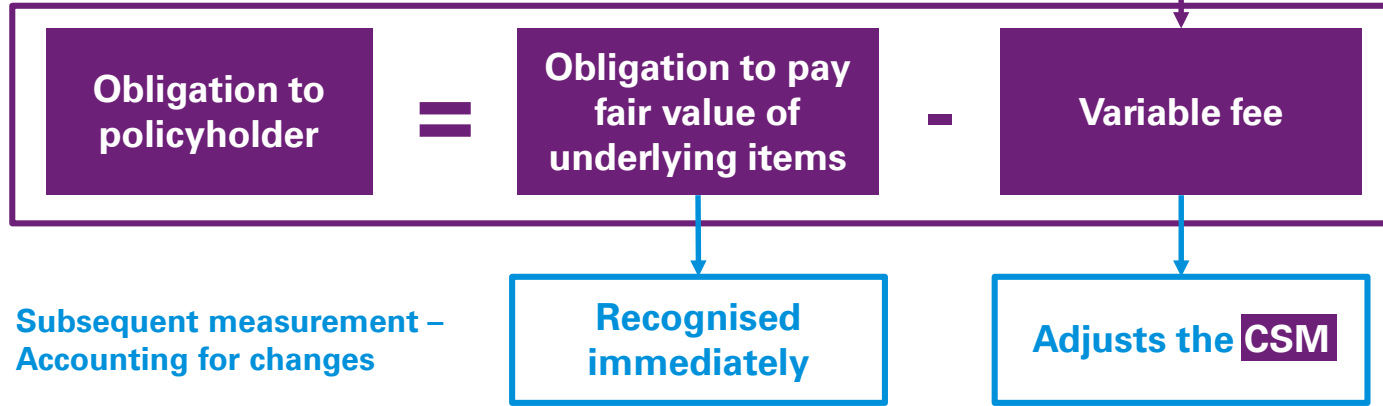
Premium is recognised **over time** as revenue unless release of risk follows a **different pattern**



While unearned premium is a familiar concept, the revenue recognition pattern could differ

# Variable fee approach (VFA)

The approach considers the **variable fee** associated with direct participating contracts



The VFA reduces the volatility of net results

# For reinsurance contracts held...

The **GMM** and **PAA** still apply, with modifications

The reinsurance contract held is accounted for separately from the underlying direct contract

Reinsurance gain or loss is recognised as reinsurance services are received





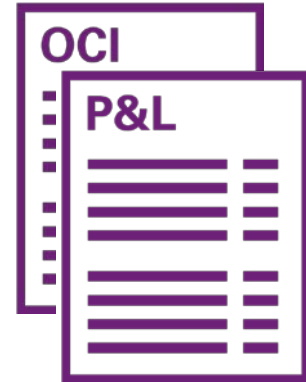
# Presentation and disclosures



# Presentation

**Investment components are excluded from insurance revenue and service expenses**

**Entities can choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI to reduce volatility**

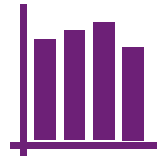


# Disclosures

Information should be disclosed at a **level of granularity** that helps users assess the effects contracts have on...



**Financial  
position**



**Financial  
performance**



**Cash flows**

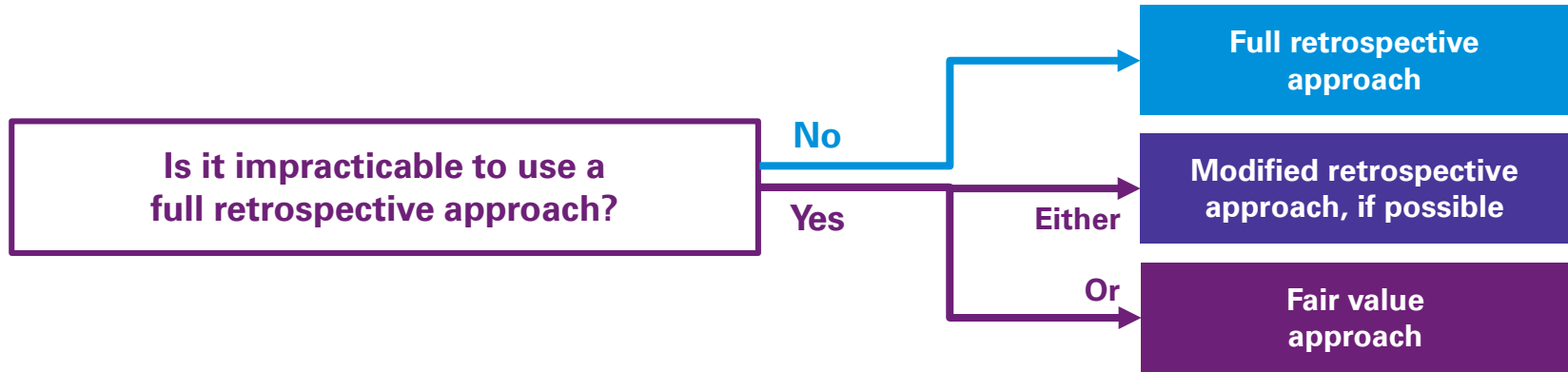
New disclosures relate to **expected profitability and attributes of new business**



# Transition

# Full retrospective approach is required...

... but **expedients can be used**



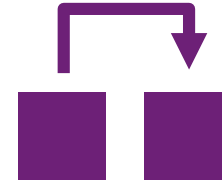
**A company can apply different approaches for different groups**

# Making the transition

**Comparative information is restated**



**Limited ability to redesignate some financial assets on initial application**





# Potential accounting changes for insurers

# Life insurers

**Significant accounting changes are almost certain to occur under the new standard**

**Sources of complexity include...**



**Use of current estimates**



**Disaggregating changes in LRC**



**Tracking the CSM at a group level**

# Non-life insurers

Accounting for non-life insurers may have **similarities to current practice**

But **major impacts** may arise around...



**Qualifying for  
the PAA**



**LIC  
discounting**



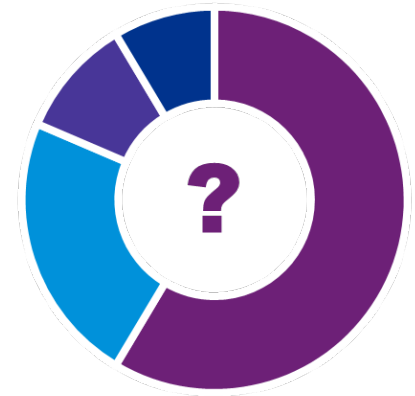
**Onerous  
contracts**



# Other things to think about

**Accounting mismatches may occur but accounting policy choices and transition provisions could reduce them**

**More consistency and transparency for options and guarantees**





# Effective date and next steps

# Get ready

**Fundamental operational challenges lie ahead and there isn't much time**

**You need to...**

- Complete an initial assessment**
- Review your contracts**
- Plan your accounting policy decisions**
- Determine your needs for systems, processes and resources**

**Effective date**



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