

# IFRS 17

## Insurance Contracts

March 2023  
Addis Ababa



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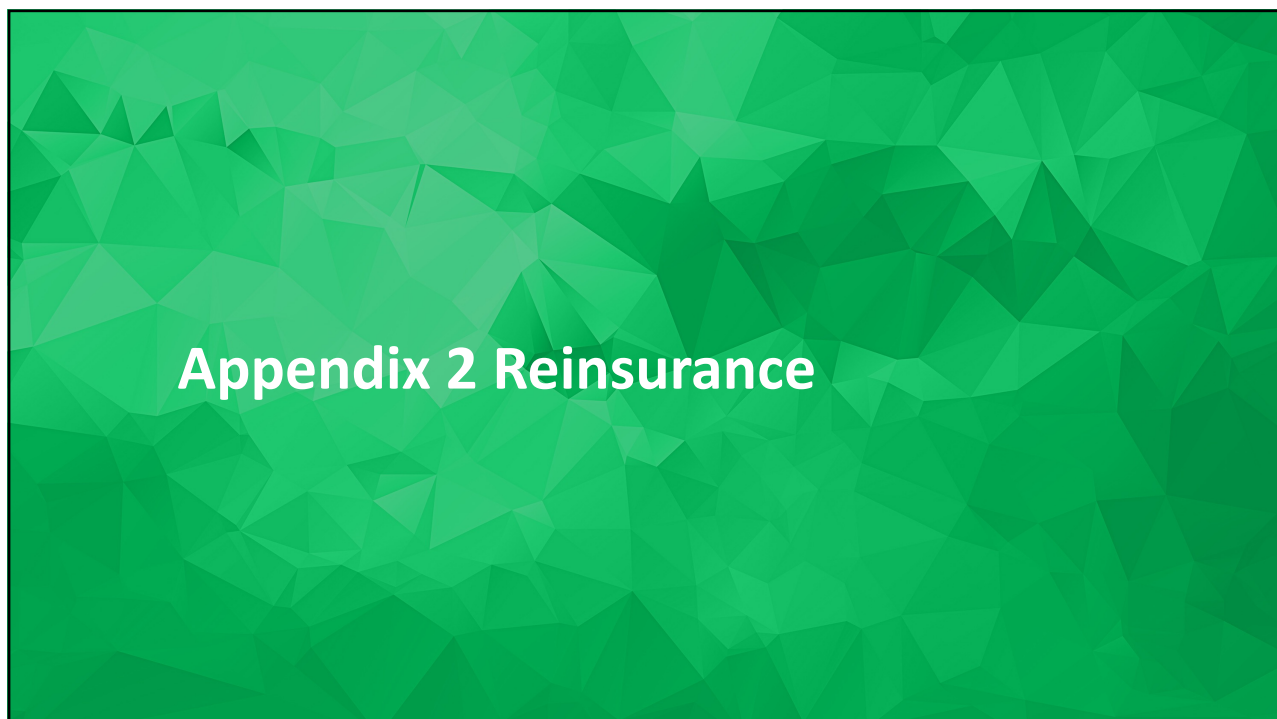
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IFRS 17 Programme	
Session 1 & 2	Introduction to IFRS 17 and Important concepts
Session 3 & 4	Measurement of contracts (general approach)
Session 5 & 6	Measurement of contracts (premium allocation approach)
<b>Session 7</b>	<b>Reinsurance</b>
Session 8	Transition

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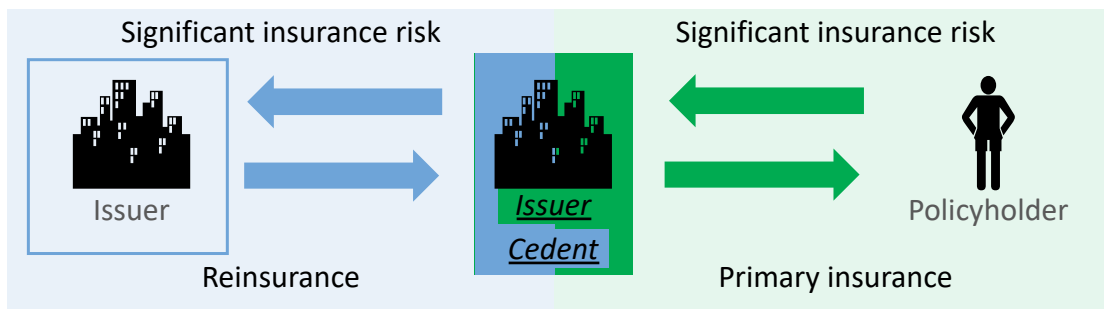


Reinsurance issued

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**Scope**  
*Reinsurance contracts issued*



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## Reinsurance contracts issued

- » *Reinsurance contract: An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).*
- » *An entity shall apply IFRS 17 to insurance contracts including reinsurance contracts it issues (para 3)*
- » A reinsurance contract issued is an insurance contract issued, therefore
  - » No special requirements for reinsurance contracts issued
  - » Treated the same an insurance contract issued,
  - » **Except** that a reinsurance contract cannot apply the VFA (17.B109)

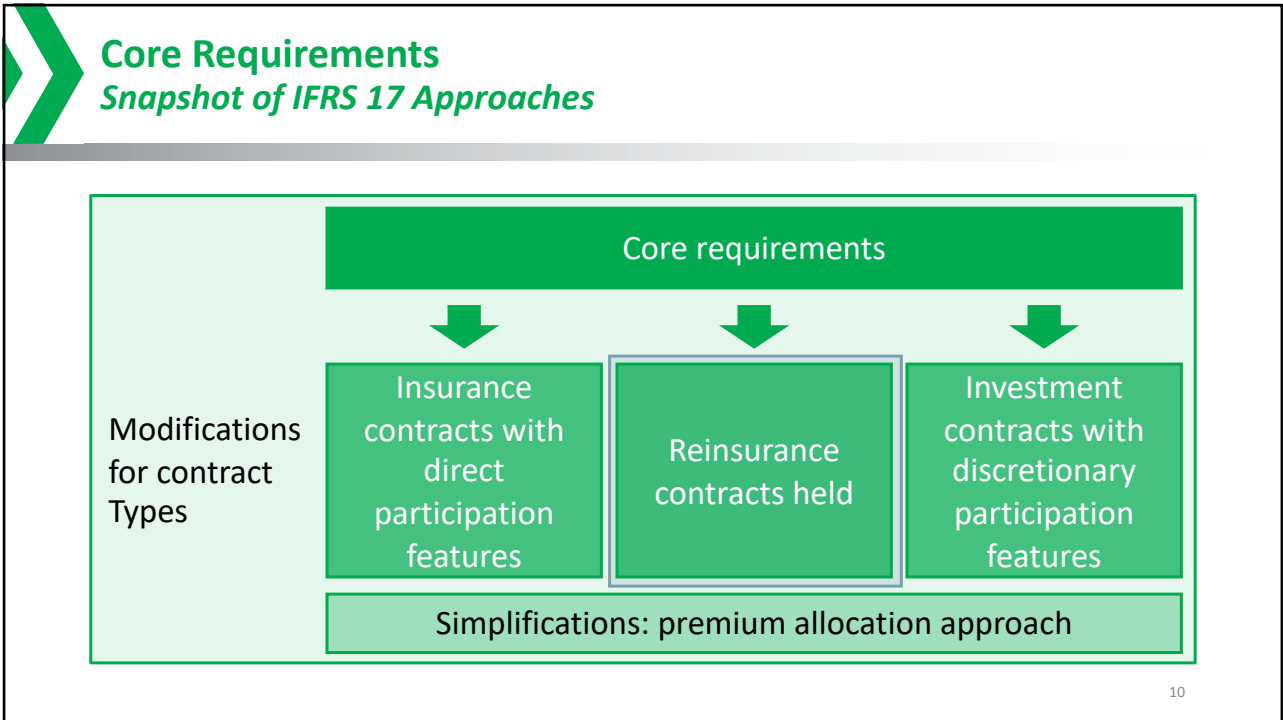
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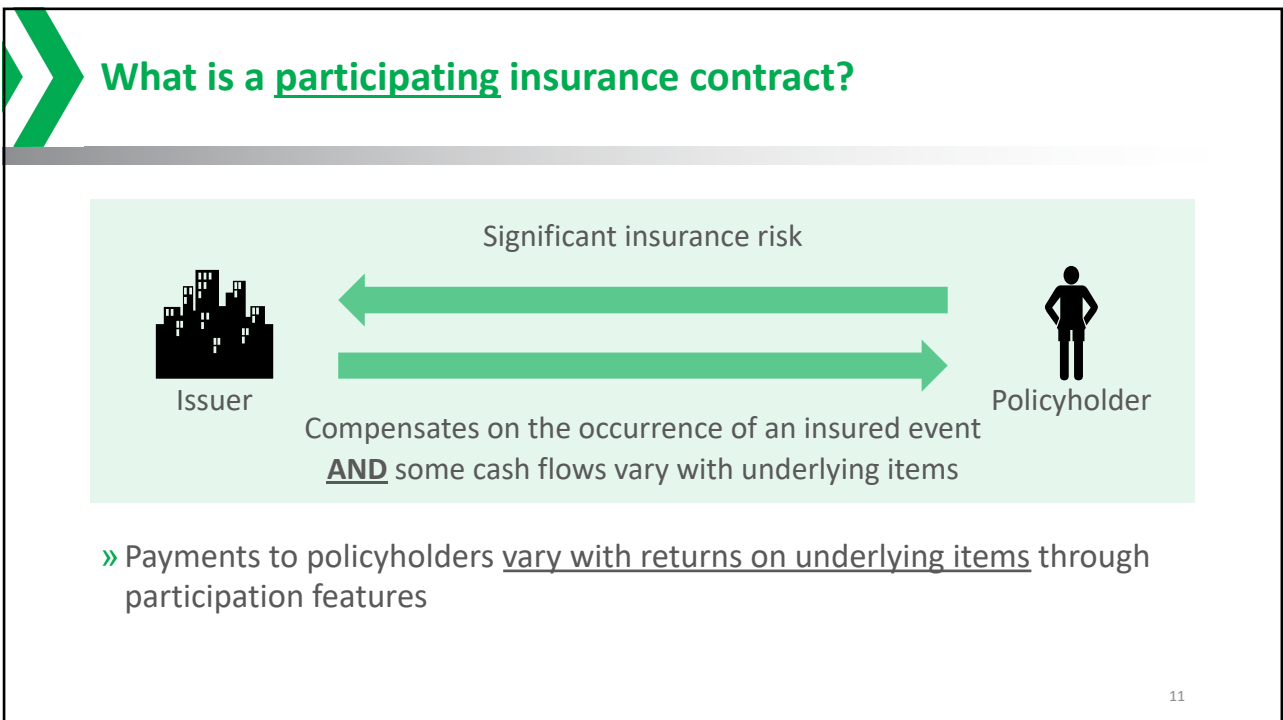


## Reinsurance held

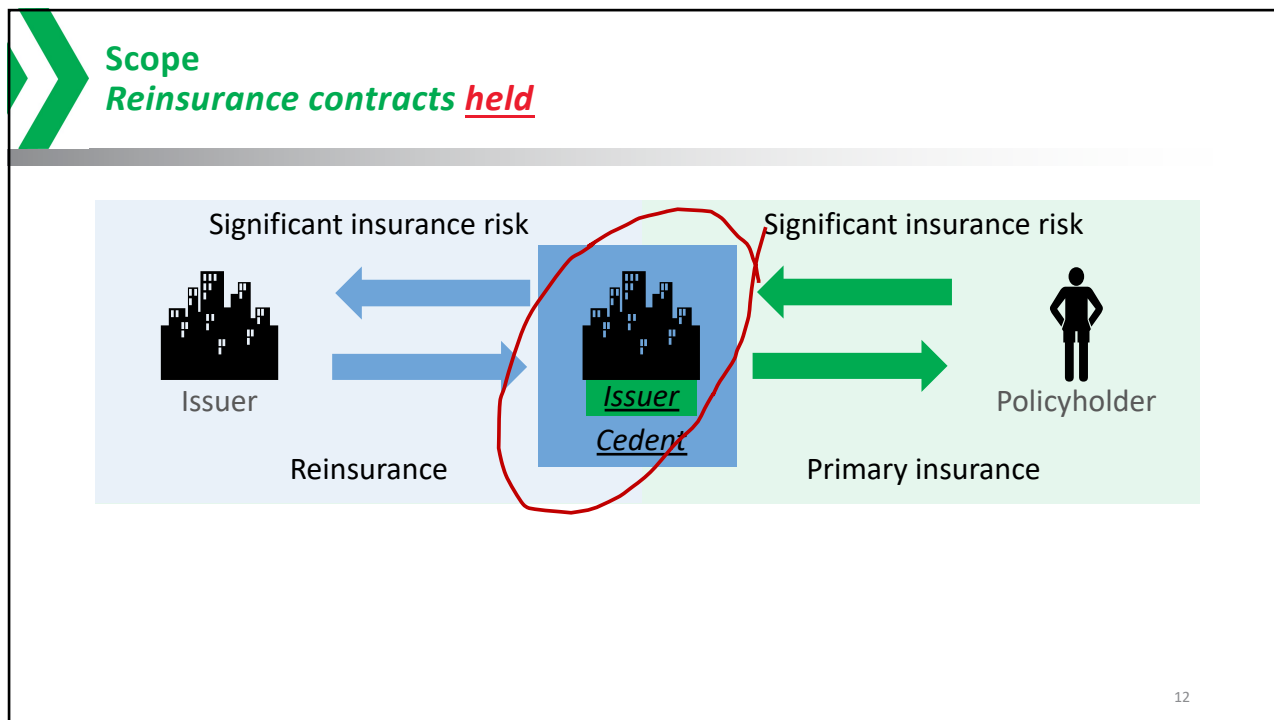
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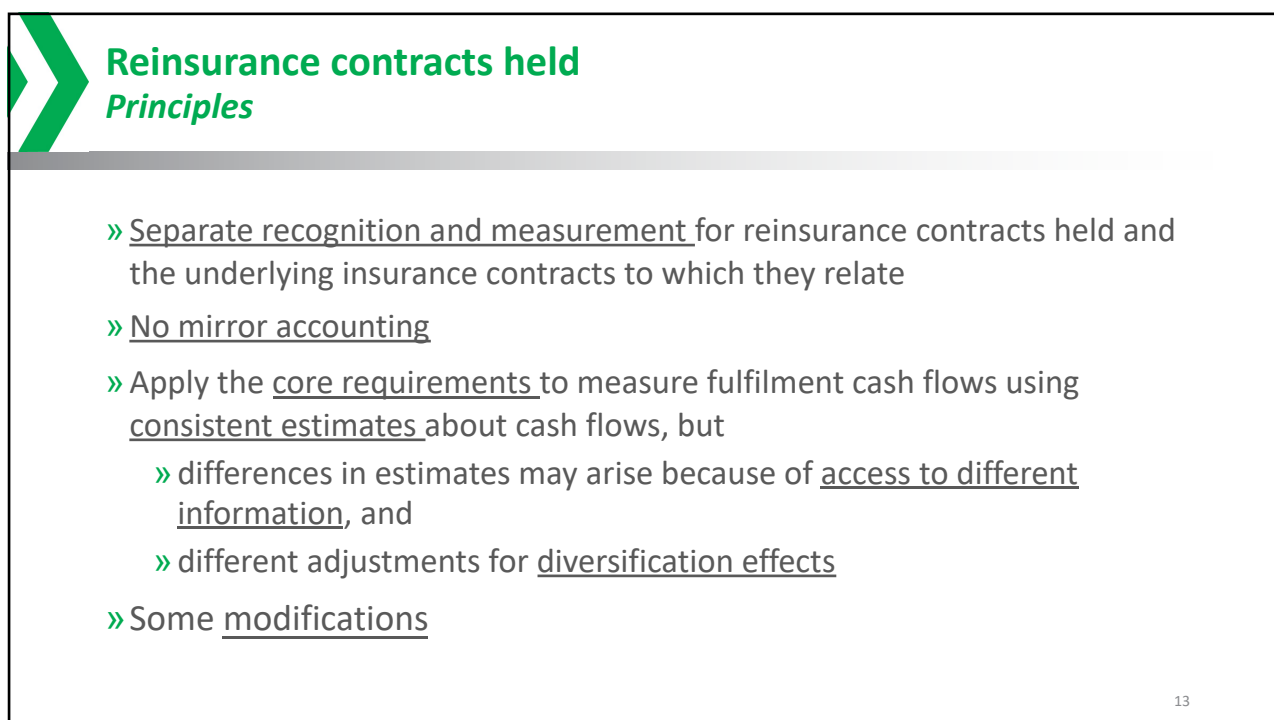
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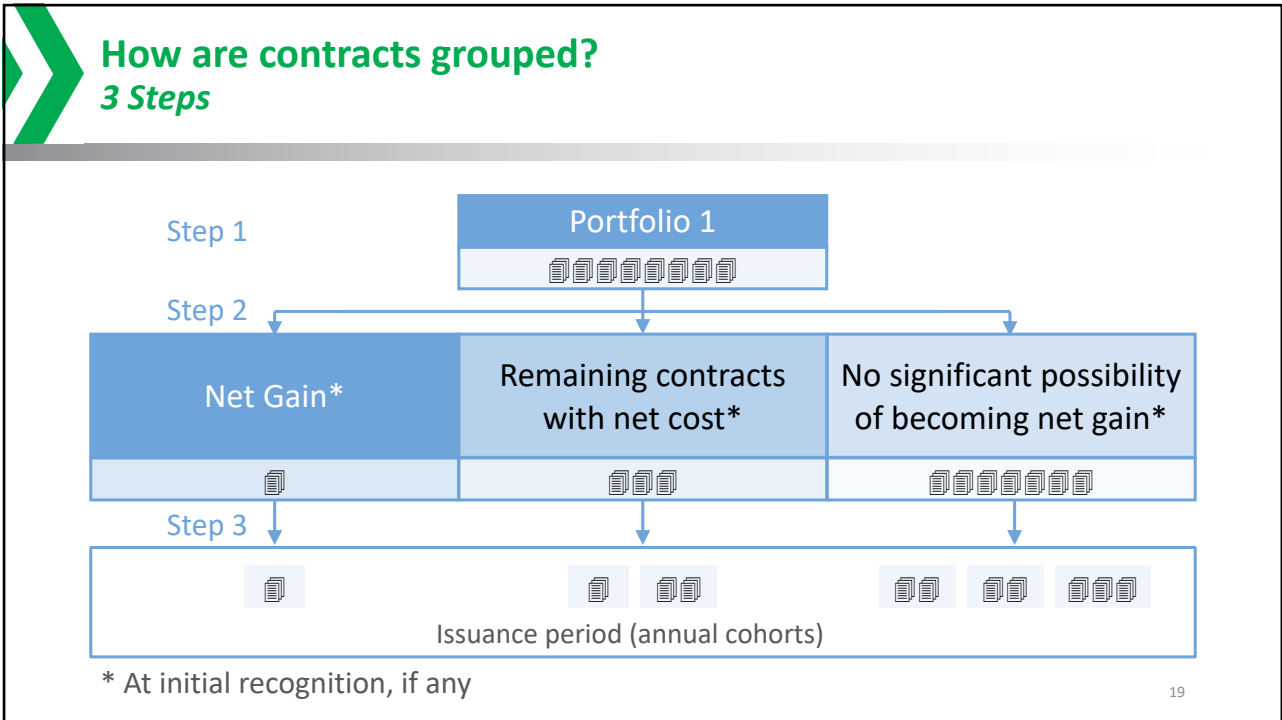
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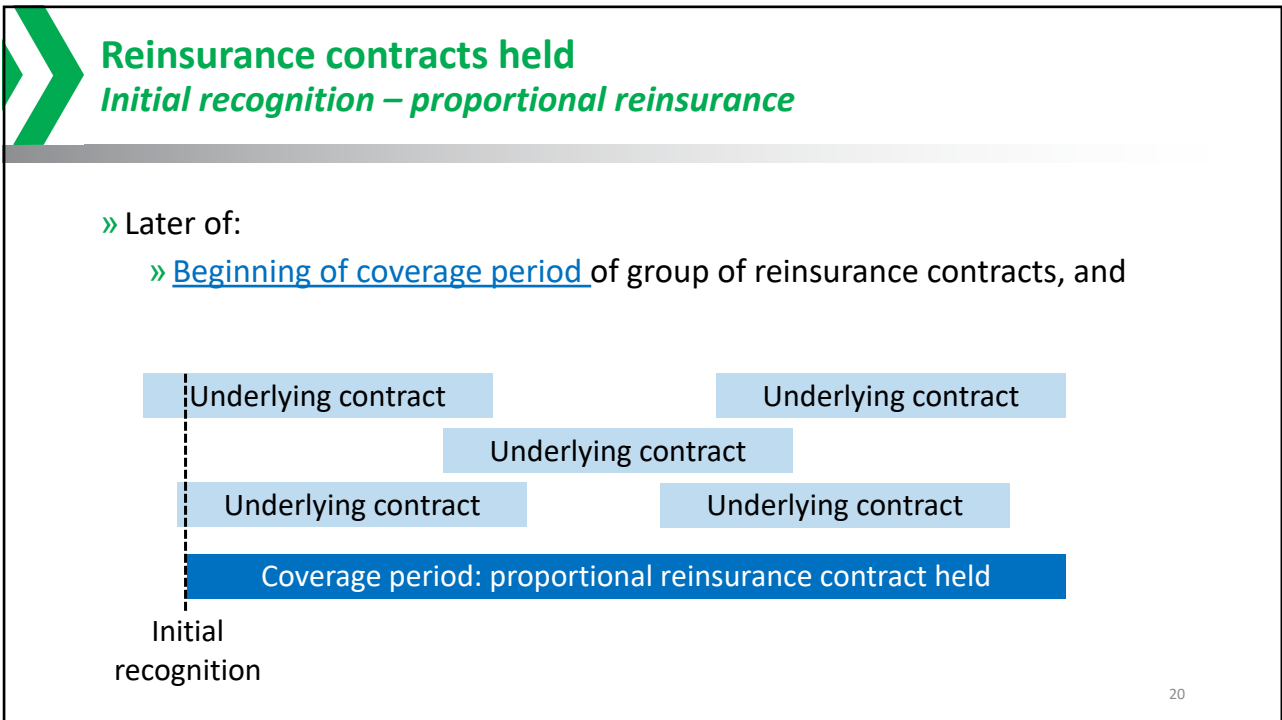
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### Reinsurance contracts held

*Initial recognition – proportional reinsurance*

- » Later of:
  - » Beginning of coverage period of group of reinsurance contracts, and
  - » Initial recognition of underlying contract

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### Reinsurance contracts held

*Initial recognition – Other reinsurance*

- » Beginning of coverage period of group of reinsurance contracts

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### Core Requirements *'Building block Approach'*

All insurance contracts measured as the sum of:

- » Fulfilment cash flows (FCF)
  1. Present value of probability-weighted expected cash flows
  2. Plus an explicit risk adjustment for non-financial risk (eg insurance risk)
- » Contractual service margin (CSM)
  3. The unearned profit from the contracts

1 PV future cash flows + 2 Risk adjustment = Fulfilment cash flows

3 Unearned profit = CSM

Fulfilment cash flows + CSM = IFRS 17 liability

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### Initial Measurement *Fulfilment cash flows - Expected cash flows*

- » Consistent assumptions with underlying contract(s)
- » Measure non-performance risk of reinsurer
- » Forecast cash flows within reinsurance contract boundary

Initial recognition

Contract Boundary

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## Initial Measurement

### Fulfilment cash flows - Expected cash flows

BUT

- » Depends on the terms of the contract
- » Some reinsurance contracts cover contracts based on issue date

The diagram illustrates the timing of underlying contracts and a reinsurance contract. Two vertical dashed lines mark the 'Initial recognition' and 'Contract Boundary'. A blue bar at the bottom indicates the 'Coverage period: proportional reinsurance contract held'. Above this, several horizontal bars represent 'Underlying contract' periods, some in purple and some in blue, showing they span across the initial recognition and contract boundary.

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## Initial Measurement

### Fulfilment cash flows - Discount rate and risk

- » Discount rate
  - » Reflects the characteristics of the reinsurance cash flows
  - » Consistent with core model
- » Risk adjustment
  - » Amount of risk transferred by the entity to the reinsurer
  - » Reflects the extent to which risk previously measured on underlying has been transferred
  - » Consistent with core model BUT based on underlying

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**Initial Measurement**  
*CSM – ‘loss’ making contracts*

- » Modification to core model for CSM of ‘loss making’ contracts
- » Negative CSM represents cost of purchasing reinsurance:

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**Initial Measurement**  
*CSM – initial recognition*

- » No modification to core model for CSM of ‘surplus making’ contracts
- » Positive CSM represents gain on purchasing reinsurance:

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## Onerous underlying contracts

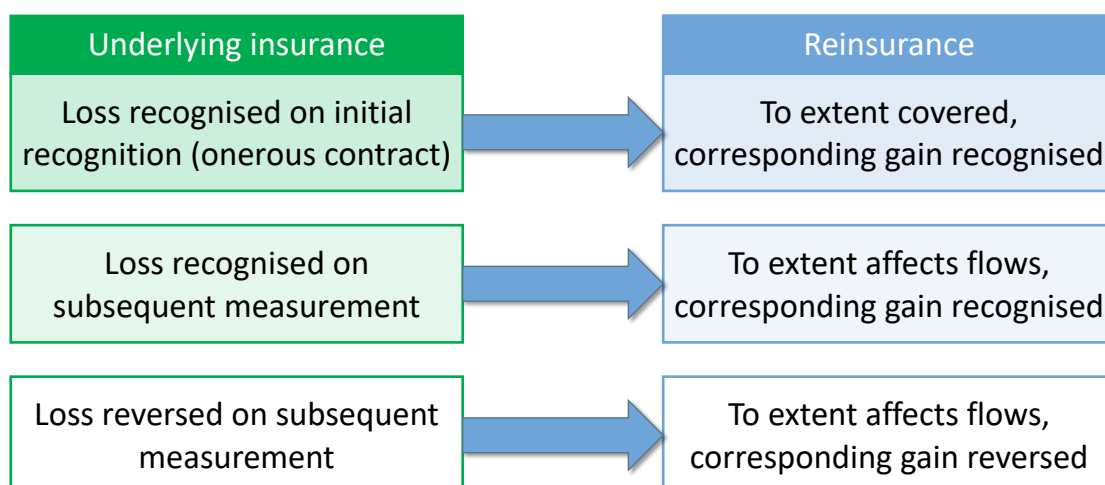
- » Income is recognised (and CSM adjusted), a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group\
- » Changes to fulfilment cash flows or reinsurance contract that relate to future service adjust CSM, unless:
  - » the corresponding change in the underlying contracts is taken to profit or loss (onerous contract or reversals of onerous contracts)

IFRS 17.66c and 66A

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## Onerous underlying contracts



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**Measurement**  
*Premium allocation approach*

- » Assessment is separate from assessment done on underlying contracts
- » However criteria is the same
- » A group of reinsurance contracts held is eligible for PAA if:
  - » Coverage period is one year or less, or
  - » Entity reasonable expects resulting measurement would not differ materially from applying the core requirements

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**Measurement**  
*Premium allocation approach*

- » Otherwise measurement follows the identical approach to the PAA calculation.

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