IFRS 17
Insurance Contracts

March 2023
Addis Ababa

WORLD BANK GROUP

AABE
Accounting and Audit Board of Ethiopia
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Disclaimer

Unless specified otherwise, the accounting requirements that are the subject matter of this presentation are the IFRS Standards as issued by the IASB that are applicable on or after 1 January 2023

The views expressed in this presentation are my own and not necessarily those of any organization with which I am associated.

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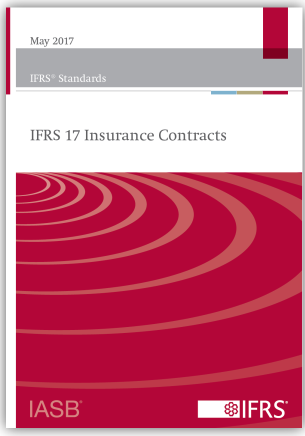
Introduction
IFRS 17 Insurance Contracts



- IFRS 17
  - replaces an interim Standard—IFRS 4
  - requires consistent accounting for all insurance contracts based on a current measurement model
  - will provide useful information about profitability of insurance contracts
- Effective 2023
  - one year restated comparative information
  - early application permitted

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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)
Session 7	Reinsurance
Session 8	Transition

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Transition

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Transition

- Applying IFRS 17 for the first time
- Full retrospective approach
- Alternative approaches
  - Modified retrospective approaches
  - Fair value approach
- Process of determining the approach
- Other topics

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Core Requirements

Reminder: '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 + (3) Unearned profit = **IFRS 17 liability**

$\underbrace{\text{PV future cash flows + Risk adjustment}}_{\text{Fulfilment cash flows}}$ + $\underbrace{\text{Unearned profit}}_{\text{CSM}}$

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Applying IFRS 17 for the first time

	(1) PV of future cash flows	(2) Risk adjustment	(3) CSM
Existing contracts (eg contracts written before 2022)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✗ Transitional requirements
New business (eg contracts written after 2022)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

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IFRS 9 and IFRS 17

	2017	2018	……	2022	2023
Financial Instruments	IAS 39	IFRS 9			
Insurance contracts	IFRS 4	IFRS 4 as amended			IFRS 17

Overlay approach	Temporary exemption from IFRS 9
Available to all issuers of insurance contracts	Available to companies whose activities are predominantly connected with insurance
Available until IFRS 17 is applied	Available until IFRS 17 is applied
Recognises in OCI, instead of P&L, volatility that could arise when IFRS 9 is applied before IFRS 17 (for assets moved to FVPL)	• IAS 39 is applied rather than IFRS 9 • Additional disclosures provided to enable comparisons with companies using IFRS 9

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Applying IFRS 17 for the first time

Annual reporting periods **beginning** in:

2022	2023
Transition date Beginning of immediate preceding period	**Date of initial application (DIA)** Start of annual period entity first applies 17
Activities • Measure each group of contracts applying IFRS 17 • Derecognise existing balances as if IFRS 17 always applied • Recognise net difference in equity	**Activities** • Publish first IFRS 17 financial statements • Restate at least one-year of comparatives

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Applying IFRS 17 for the first time

Determine transitional method by group of contracts

1 Fully retrospective Approach

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1 Fully retrospective approach

- A full retrospective approach measures in-force contracts on the transition date as if an entity had always applied IFRS 17
- The principle of retrospective application is set out in IAS 8 Accounting policies, Changes in Accounting Estimates and Errors
- An entity will need to assess
  - The type of contract and which model to apply
  - What group the contract would have been allocated to
- Depending on the applicable model

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Fully retrospective approach

Determine	General Model	PAA	VFA	Reinsurance
CSM	✓	✗	✓	✓
Loss component	✓	✓	✓	✗[1]
Discretionary cash flows	✓	✗	✗	✗
Accumulated OCI	✓	✓	✓	✓
Risk mitigation	✗	✗	✓	✗

[1] A loss component doesn't normally arise for reinsurance contracts held although an onerous contract loss and a loss component can arise for reinsurance of events that occurred before purchase of reinsurance.

Fully retrospective approach

1. Assess

Initial recognition	Each intervening reporting period	Transition date
• Which model to apply? • Which groups do contracts that exists at transition belong to? • Definition of discretionary cash flows	• No further action after initial assessment	• No further action after initial assessment

Fully retrospective approach

1. Determine the CSM or loss component

Initial recognition	Each intervening reporting period	Transition date
Calculate CSM/Loss comp	Calculate CSM/Loss comp	Calculate CSM/Loss comp
• Identify all contracts in each group • For each group, determine inception: • Cash flows • Discount rates • Risk adjustment To get opening balance	Adjust opening balance for changes in: • Cash flows • Risk adjustment • Accretion of interest • Allocation to P/L • To determine closing balance	Opening balance

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Applying IFRS 17 for the first time

Determine transitional method by group of contracts

Fully retrospective Approach

If Impracticable

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Applying IFRS 17 for the first time

Determine transitional method by group of contracts

1 Fully retrospective Approach

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

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Applying IFRS 17 for the first time

Determine transitional method by group of contracts

1 Fully retrospective Approach

If Impracticable

2 Modified retrospective approach **OR** 3 Fair value 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

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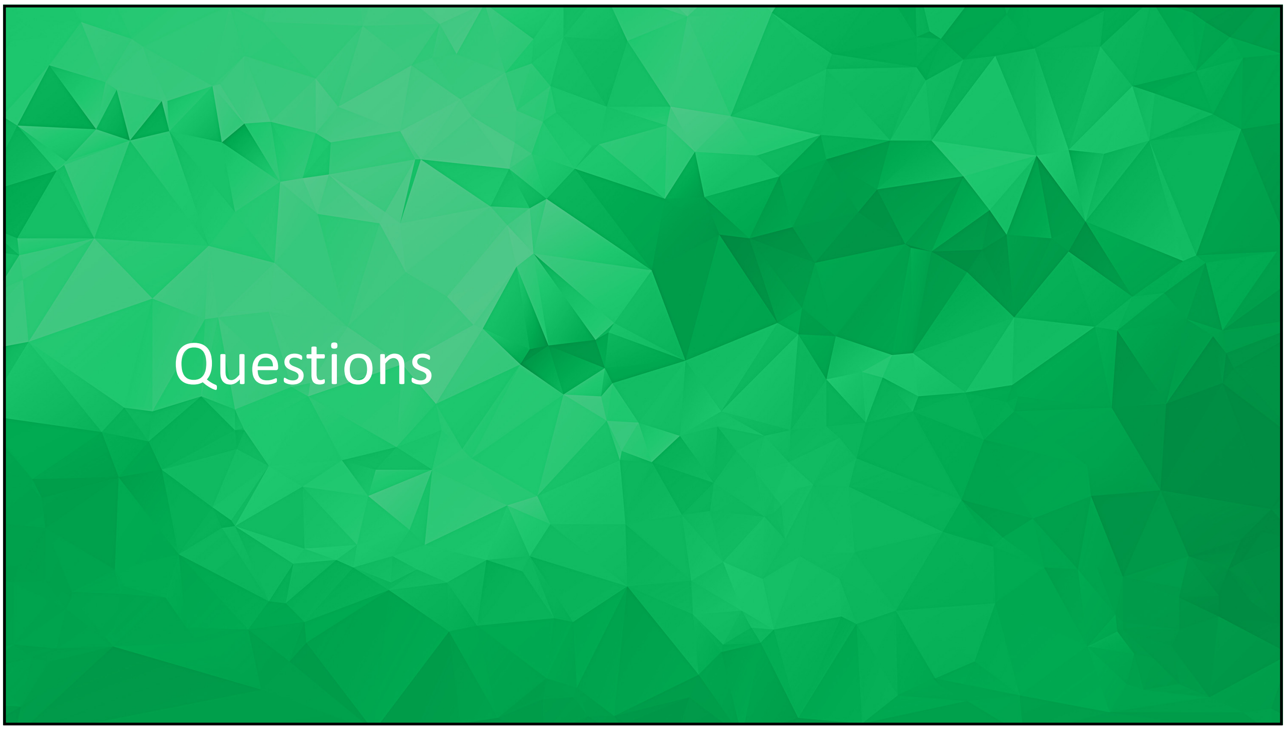

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