Nexia SAB&T Training and Technical

IFRS 17 – Insurance Contracts

May 2017

IFRS 17 *Insurance Contracts* which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts have been issued in May 2017. IFRS 17 supersedes IFRS4 and is effective for annual periods beginning on or after 1 January 2021.

When should the standard be applied?

An entity should apply IFRS 17 to the following:

- Insurance contracts (issued)
- Reinsurance contracts (acquired)
- Investment contracts with discretionary participation features (provided the entity also issues insurance contracts)

IFRS 17 does not apply to insurance contracts in which the entity is the policyholder; the only exception is when those contracts are reinsurance contracts.

What is an insurance contract?

A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The following contracts may be excluded from IFRS17:

- product warranties issued by a manufacturer, dealer or retailer—these contracts are accounted for by applying IFRS 15 and IAS 37;
- financial guarantee contracts—the entity can choose to account for some financial guarantee contracts using the requirements for financial instruments in IFRS 9; and
- fixed-fee service contracts—the company can choose to account for some fixed-fee service contracts using the revenue recognition requirements in IFRS 15.

Requirements of IFRS 17

IFRS 17 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

- the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- the contractual service margin—the expected profit for providing insurance coverage.

Under some circumstances, IFRS 17 requires an entity to:

- separate the non-insurance components from an insurance contract if a separate contract with the same features would be within the scope of another IFRS Standard; and
- account for those non-insurance components applying that other IFRS Standard

Recognition criteria of IFRS 17

An entity should recognise a group of insurance contracts it issues from the earliest of the following:

- the beginning of the coverage period;
- the date on which the first payment from a policyholder is due; and
- for a group of onerous contracts, when the group becomes onerous.

Initial measurement

All insurance contracts are initially measured as the total of:

1. the fulfilment cash flows; and
2. the contractual service margin, unless the contracts are onerous.

The fulfilment cash flows are the current estimates of the amounts that an insurer expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty in those amounts (risk adjustment).

Subsequent measurement

The fulfilment cash flows are measured using current assumptions. Those assumptions are updated at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates

Simplified approach

An entity can use a simplified approach to measure some simpler insurance contracts or contracts for which the coverage period is less than a year. In the simplified approach, a company measures the liability for remaining coverage as follows:

- on initial recognition, the liability for remaining coverage is measured at the premiums received under the contract, less any acquisition cash flows paid.
- subsequently, as the entity provides coverage, the measurement of the liability for the remaining coverage reduces to reflect the coverage provided during the period.

Early adoption: Where an entity chooses to apply IFRS 17 before the effective date it should also apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.