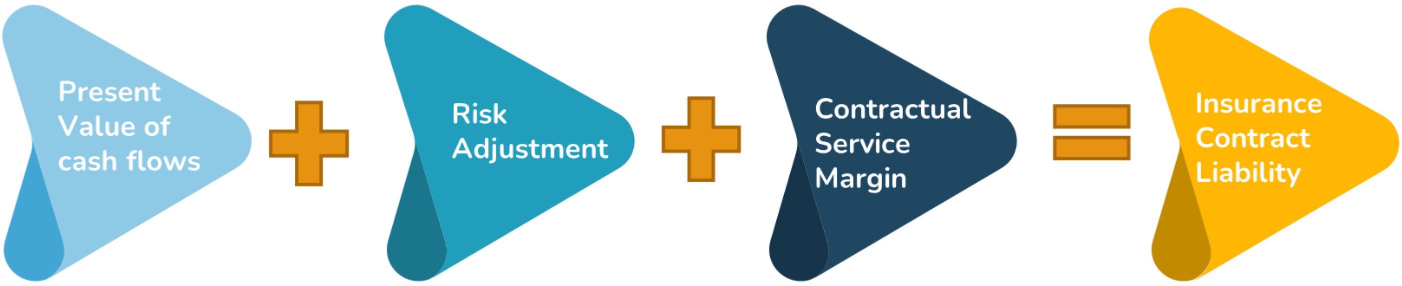
Risk Adjustment in IFRS17

Introduction:

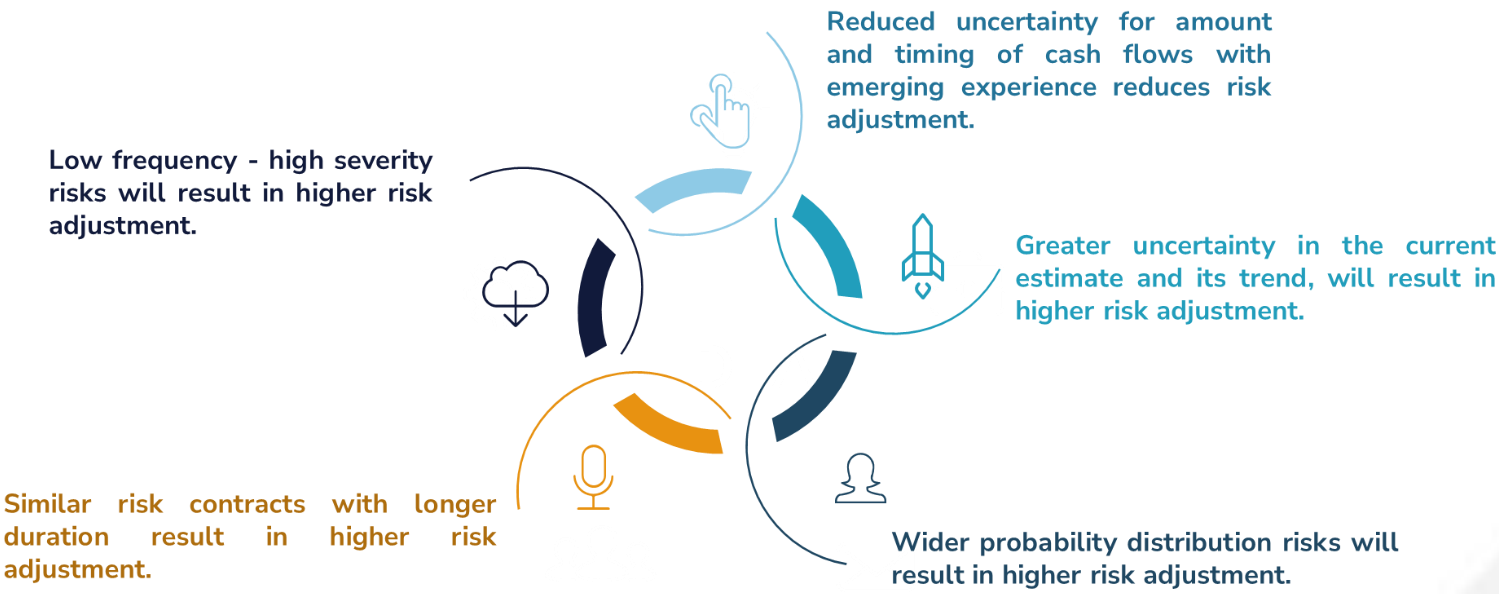
IFRS 17 requires an entity to hold a risk adjustment **reflecting the compensation required for bearing the risk of uncertainty about the amount and timing of cash flows arising from non-financial risks.**

Risk adjustment is one of the main components to compute the total Insurance Contract Liability, as demonstrated below:



Characteristics of Risk Adjustment:

The non-financials risks considered under risk adjustment, have the following characteristics:



K.A. PANDIT

Methods of Calculation:

Risk adjustment can be calculated using different methods, some of the common approaches are:

Cost of Capital (COC) Approach

COC approach is currently used to calculate risk margin under Solvency II. Thus, companies reporting under Solvency II or similar regime may prefer using the COC approach in calculating the risk adjustment under IFRS 17.

Value at Risk (VaR) Approach

The VaR approach is a commonly used method for calculating capital and is used in the Solvency II Standard Formula Method (and even for Internal Model purposes).

Margin for Adverse Deviation (MAD)

The Companies can set the risk adjustment as equal to the difference between the cash flows with MAD and those without MAD.

Entities are required to disclose the method of calculation/technique and the **confidence level** corresponding to the results to which the risk adjustment for non-financial risks corresponds.

To gain more insights on how to set and compute a Risk adjustment under IFRS17 or for any other related discussions, please feel free to reach out to us at kap@ka-pandit.com.

K.A. PANDIT

www.ka-pandit.com kap@ka-pandit.com

CHURCHGATE OFFICE | MUMBAI

2nd Floor, Churchgate House, 32 34 Veer Nariman Road, Fort, Mumbai 400001. Tel: +91 22 42922250

ANDHERI OFFICE | MUMBAI

C/201 Remi Bizcourt, Off. Veera Desai Road, Andheri (W), Mumbai 400058. Tel: +91 22 42922231

AHMEDABAD OFFICE

509, Golden Triangle, Near Sardar Patel Stadium, Navrangpura, Ahmedabad 380014. Tel: +91 79 26460734

We work for you, wherever your business takes you!