

Coverage Units in IFRS 17

Introduction:

IFRS 17 introduced **Coverage Units** to achieve an appropriate allocation of the contractual service margin (CSM) of a group that contains contracts of different sizes.

An amount of the CSM for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

Identifying the coverage units in the group. It is the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.

Allocating the CSM at the end of the period equally to each coverage unit provided in the current period.

Recognising the amount allocated to coverage units provided in Profit and Losses.

Important Considerations:

The determination of coverage units is often based on judgement and some important considerations are as below:



- Determining the coverage by testing/checking how much benefit is provided to all the policies in the group
- Difference between the coverage needs to be estimated with policy term i.e., coverage at time 1 – coverage at time 2. Release in the last year within the contract boundary for a group should be 100%
- Coverage units should be reassessed at the end of each reporting period based on the coverage provided in the period and to be provided in the future
- Factors such as variability across periods in the level of cover and the likelihood of an insured event occurring should be considered in determining the benefit
- Expectations of lapse rate/cancellation rate of contracts should also be included in the determination of coverage units

To gain more insights on IFRS17 or for any other related discussions, please feel free to reach out to us at kap@ka-pandit.com.



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