IFRS 17
NEWSLETTER

KEY TAKE AWAYS

Amendments to reduce Implementation cost

-Contracts to which IFRS17 applies

-Balance Sheet Presentation

-The effect of previous interim reports

Amendments to make the results easier to explain

-Treatment of Acquisition Costs

-Reinsurance Contracts Held

-Profit Recognition & Use of Risk Mitigation Option

Amendments to ease Transition

-Effective Date of Implementation & Temporary Exemption from IFRS9

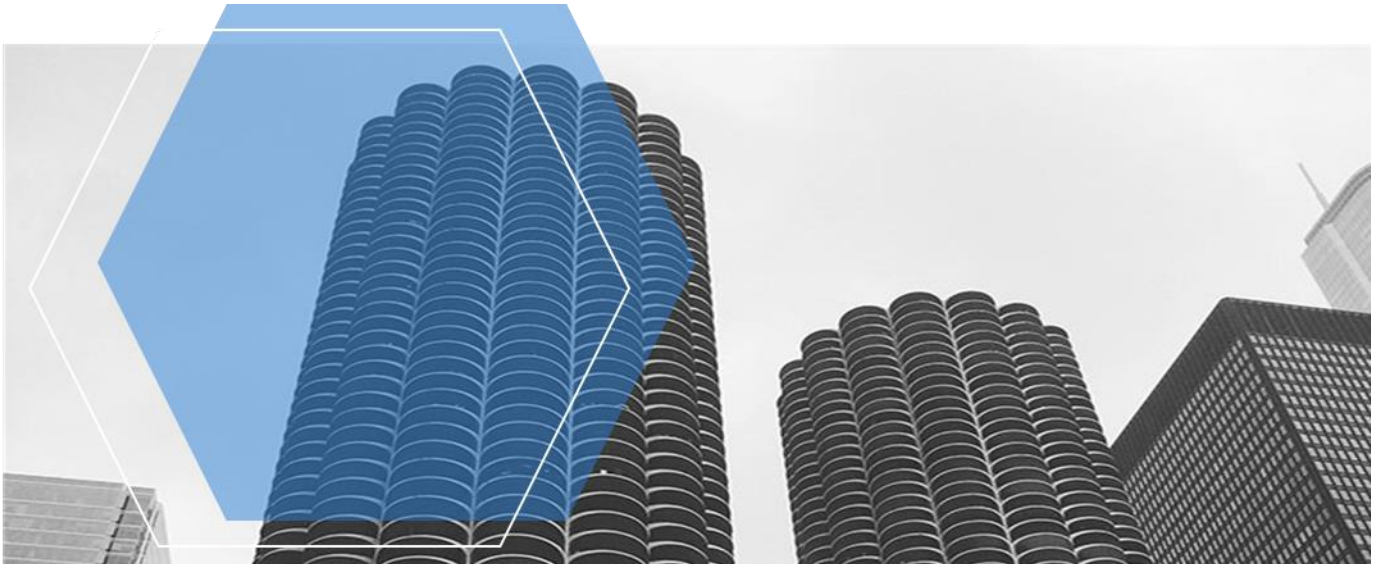
-Investment Contracts with DPF

-Contracts acquired before Transition

AMENDMENTS TO IFRS 17 – JUNE 2020

Issued in May 2017, IFRS 17 sets out the measurement and reporting requirements for a company writing insurance/reinsurance contracts including reinsurance/retrocession contracts it holds. In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 Insurance Contracts.

The new Standard, which replaces IFRS 4-Insurance Contracts, is applicable from annual reporting periods beginning on or after 1 January 2023.

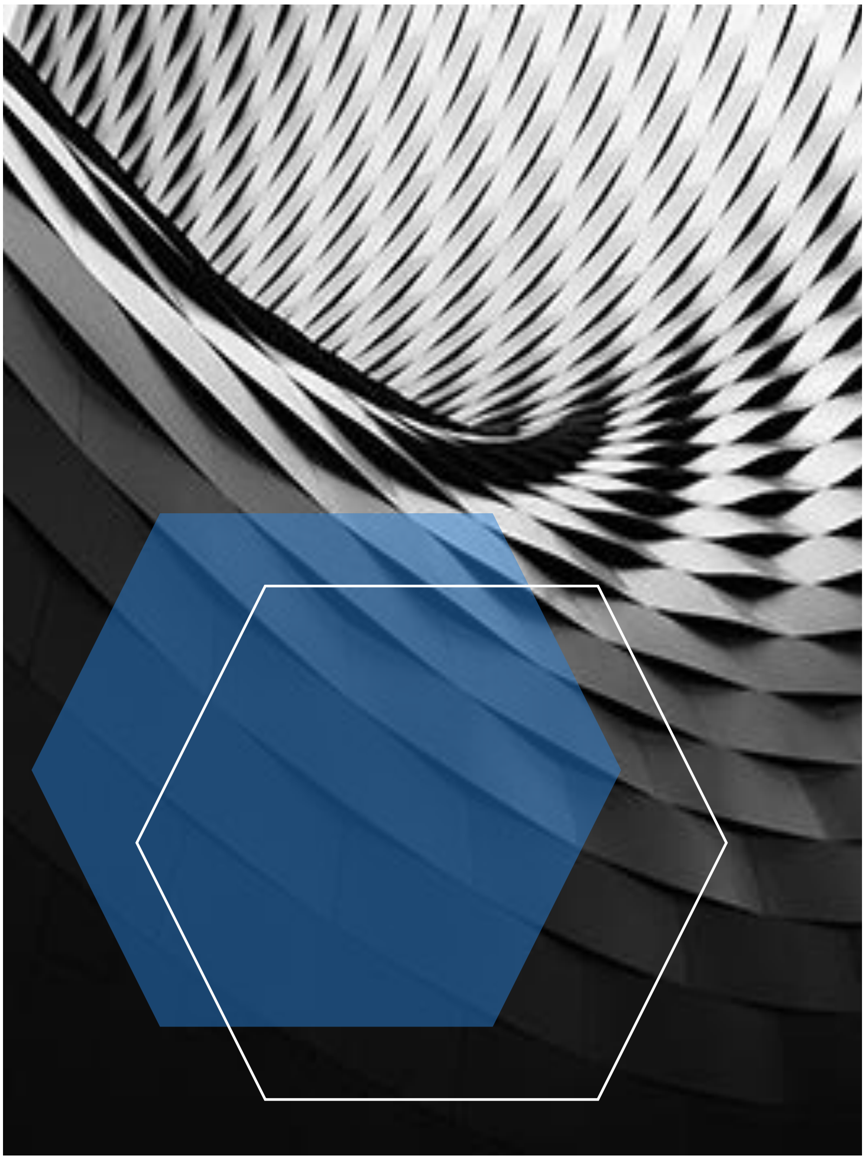


Topic	IFRS 17 Existing Standard	Amendments	Likely Effects
SCOPE OF CONTRACT	IFRS 17 applies to all insurance contracts with some specific exclusions. Certain contracts such as credit cards or loan contracts may also include significant insurance risk and to that extent, the applicability of IFRS 17 to such contracts was not fully clear.	The amendment provides clarity on the applicability of IFRS 17 to such contracts, including in certain cases providing: • Exclusion from applying IFRS 17; or • permitting a Company to apply either IFRS 17 or IFRS 9 to certain contracts (such as loan contracts with waiver on death).	Some companies will avoid incurring IFRS 17 implementation costs by applying IFRS 9 and other applicable IFRS Standards to account for some loans, credit cards and similar contracts, while still providing useful information to users of financial statements.
THE EFFECT OF PREVIOUS INTERIM REPORTS	IFRS 17 as originally issued prohibited a company from changing the estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim or annual reporting periods	The Board amended IFRS 17 to allow an entity to make an accounting policy choice on whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or annual reporting. The entity should apply this choice consistently to all insurance contracts issued and reinsurance contracts held.	The amendment helps to address the practical issue in determination of CSM for interim financial reporting and subsequently for annual financial reporting on a year to date basis. It also helps address issues in CSM determination for large Groups where the external reporting frequency may vary between the Group and its various subsidiaries.
TREATMENT OF ACQUISITION COSTS	IFRS 17 as originally issued required a company to allocate fully and immediately to a group of contracts, acquisition costs directly attributable to the contracts, even when a part of these costs may relate to expected future renewal of such contracts.	The amendment allows Companies to: • Allocate, on a systematic basis, part of the acquisition cost to future groups expected to arise from renewal of current contracts. • Recognize asset in respect of above costs until the company recognizes the related group. • Assess the recoverability of the assets at each reporting date and where facts and circumstances indicate, the asset may be impaired in full or in part;	• Results in the recognition of longer-lived assets for acquisition costs; and • Prevents some insurance contracts from being categorized as onerous or loss making, as the acquisition costs on these may exceed the premium of the initial contract on the expectations of future renewal of such contracts.

Topic	IFRS 17 Existing Standard	Amendments	Likely Effects
REINSURANCE CONTRACTS HELD	For insurance contracts that at initial recognition are expected to be loss making or Onerous, IFRS 17 requires a company to recognize losses immediately in profit or loss. IFRS 17, as originally issued, required a company to recognize any recoveries of those losses from reinsurance contracts held in profit or loss over time as the company receives reinsurance coverage.	The amendment requires a company that recognizes losses on insurance contracts on initial recognition to recognize at the same time expected recoveries of those losses from reinsurance contracts held provided they are proportionate treaties that the company has entered into before or at the same time as the loss-making insurance contracts were recognized.	• Results in offsetting of losses from insurance contracts issued to the extent recovery from proportional reinsurance contracts is expected. • Makes it easier to explain accounting for reinsurance contracts to investors.
PROFIT RECOGNITION	IFRS 17 specifies how to recognize profit — the contractual service margin — over the life of a group of insurance contracts. The General Model in the Standard applies to insurance contracts without direct participation features, for which IFRS 17 as originally issued required a company to recognize profit as the company provides insurance coverage. This posed a concern to many users since many insurance products also provided an element of investment services along with insurance coverage.	The amendment requires a company that issues insurance contracts without direct participation features to recognize profit when the company provides insurance coverage or any service relating to investment activities (investment-return service).	The amendment is expected to ease the provision of coverage units especially where the investment component is indistinct in a contract along with a change in the pattern of profit recognition to better align it with the provision of different services when a company provides investment services along with insurance services.
USE OF THE RISK MITIGATION OPTION	IFRS 17 permits a company to apply the risk mitigation option when it uses derivatives to mitigate financial risks arising from insurance contracts with direct participation features.	The amendment enables a company to also apply the risk mitigation option when mitigating financial risks using: • reinsurance contracts held; or • non-derivative financial instruments measured at fair value through profit or loss.	The amendment is expected to reduce accounting mismatches and make it easier to explain the accounting for insurance contracts to investors.
EFFECTIVE DATE OF IMPLEMENTATION	The effective date of IFRS 17 as originally issued was annual reporting periods beginning on or after 1 January 2021	Companies are now required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023	The deferral of the effective date of IFRS 17 by two years is intended to allow time for an orderly adoption of the amended IFRS 17 by jurisdictions. Implementation at the same time will benefit investors, insurers, and other stakeholders.
EXTENSION OF THE TEMPORARY EXEMPTION FROM APPLYING IFRS 9 BY TWO YEARS	Companies have been required to apply IFRS 9 since annual reporting periods beginning on or after 1 January 2018. However, IFRS 4 has allowed some insurers to defer the application of IFRS 9	The exemption from applying IFRS 9 has been extended by two years. It will expire for annual reporting periods beginning on or after 1 January 2023	The further delay in implementing IFRS 9 for some insurers will enable them to apply IFRS 17 and IFRS 9 at the same time. Doing so is expected to reduce IFRS 9 implementation costs and reduce accounting mismatches for Insurers.
TRANSITION APPROACHES: Contracts Acquired Before Transition	In some cases, a company applying IFRS 17 treats a liability for claims settlement as a 'liability for remaining coverage' for contracts it	The amendment permits a company, in some circumstances, to account for a liability for claims settlement of a contract acquired before the date of transition to IFRS 17 as a liability for	The Board introduced this additional relief in response to stakeholder concerns that it may be impracticable on transition to distinguish

	acquired and as a 'liability for incurred claims' for contracts it issued.	incurred claims, instead of as a liability for remaining coverage.	between claims liabilities that arose from acquired contracts and those arising from initiated contracts.
TRANSITION APPROACHES: Risk mitigation option at transition	IFRS 17 prohibits a company from applying the risk mitigation option retrospectively	Two amendments relate to this requirement. • The first amendment permits a company to apply the risk mitigation option prospectively for VFA contracts from the beginning of the comparative period—a year earlier than previously permitted. • The second amendment permits a company, where an entity holds reinsurance contracts or non-derivative financial instruments, to use the fair value transition approach to measure a group of insurance contracts at transition	Helps in comparative information, the effects of risk mitigation when first applying IFRS 17. The effects of risk mitigation in place before the date of transition to IFRS 17 consistently in equity at transition and in future profitability.
TRANSITION APPROACHES: Investment contracts with Discretionary Participation Features	To first apply IFRS 17 a company needs to identify the contracts to which IFRS 17 applies using the information available at inception / initial recognition of contract.	From a transition perspective, the amendment permits a company using Modified Retrospective Approach or Fair Value Approach to use the information available at the date of transition (instead of at inception or initial recognition of a contract) to assess whether a contract is an investment contract with discretionary participation features.	The amendment is expected to ease transition to IFRS 17 for companies.
SIMPLIFIED PRESENTATION OF INSURANCE CONTRACTS IN THE STATEMENT OF FINANCIAL POSITION	IFRS 17 requires a company to aggregate contracts at a sub-portfolio level, referred to in the Standard as a group. IFRS 17 as originally issued required a company to present on the balance sheet groups of insurance contracts that are assets separately from groups of insurance contracts that are liabilities.	The amendment requires a company to present insurance contract assets and liabilities on the balance sheet in portfolios instead of in groups i.e. at a higher level of aggregation as a portfolio consists of several groups.	The amendment has reduced the exhaustiveness of the requirements for integration of systems solely for the purpose of presenting insurance contracts on the balance sheet at the level of a group of contracts. As well as reducing costs, the amendment will reduce the amount of insurance contract assets presented on the balance sheet.

- **These changes shall require Insurers to reassess the implementation efforts and likely to incur additional costs to re-evaluate their position with respect to data requirements, system design & configuration, modelling changes and accounting policy decisions.**
- **Several other topics such as "Annual cohorts"; liabilities acquired in their settlement period for acquisitions after the transition date were not amended by the IASB. It seems that "Annual Cohorts" will remain as a serious concern for stakeholders across geographies particularly for Participating Business.**
- **Nonetheless, deferral of effective date of standard will be a respite for many insurers to effectively plan IFRS 17 implementation while stay focused to address the key business concerns amidst the Pandemic – COVID 19 and expected recessionary meltdown.**



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