The webcasts relating to the activities to support implementation of the Standard have been developed in the context of IFRS 17 as issued in May 2017. IFRS 17 was amended in June 2020. The webcasts relating to the amendments to IFRS 17 provide information to supplement the information in the webcasts developed in the context of IFRS 17 as issued in May 2017.
IFRS 17
Insurance Contracts

Measurement essentials
Parts 1 and 2

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Further information:
IFRS 17 paragraph 29
# IFRS 17 webinars

## Previous webinars

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<td>Understanding IFRS 17</td>
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<tr>
<td>June 2017</td>
<td>Core requirements: scope of IFRS 17</td>
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## This webinar

<table>
<thead>
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<th>Month</th>
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<tr>
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Further information:
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:

- Contractual service margin
- Risk adjustment for non-financial risk
- Fulfilment cash flows
- Financial risk

Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
Today’s topic

- Part 1: Initial measurement
  - Fulfilment cash flows
  - Contractual service margin
- Part 2: Subsequent measurement
  - Fulfilment cash flows
  - Contractual service margin
Part 1
Initial recognition
Overall principles on estimates

- Reflect the entity’s estimates
- However, estimates of any relevant market variables must be consistent with observable market prices for those variables
- For insurance contracts issued—does not reflect issuer’s non-performance risk

Further information:
IFRS 17 paragraphs 33(b), 36(b), 37 and B42-B53
Basis for Conclusions of IFRS 17 paragraphs BC153-BC154
Further information:
IFRS 17 paragraphs 33(c) and B54-B60
Basis for Conclusions of IFRS 17 paragraphs BC155-BC156
Further information:
IFRS 17 paragraphs 34, B61 and B63-B64
Basis for Conclusions of IFRS 17 paragraphs BC159-BC164
**Future cash flows**

**Cash flows**

- Includes cash flows that relate directly to contracts’ fulfilment – all reasonable and supportable information available without undue cost or effort
- Probability weighted and unbiased
- Stochastic modelling for financial options and guarantees, where relevant

**Further information:**
IFRS 17 paragraphs 33 and B61-B71
Basis for Conclusions of IFRS 17 paragraphs BC158-BC184
Discount rates

• Reflect time value of money and financial risks
  – Characteristics of the cash flows
  – Liquidity of the insurance contracts
  – To the extent that the financial risks are not included in the cash flows
• Consistent with observable market prices (if any)
  – Timing
  – Currency
  – Liquidity
• Exclude the effect of factors in the observable market prices not relevant to insurance contracts

Further information:
IFRS 17 paragraphs 36 and B74-B85
IFRS 17 Appendix A definition:
• Financial risk
IFRS 17 Basis for Conclusions paragraphs BC192-BC194
Further information:
IFRS 17 paragraphs 36 and B79-B85
Basis for Conclusions of IFRS 17 paragraphs BC193-BC197 and BC199-BC205
Discount rates

• Use judgement to:
  – Appropriately adjust observable inputs to accommodate differences between the cash flows of observable market instruments and insurance contract cash flows
  – If there is no market data; apply an estimation technique
    – Develop unobservable inputs using best information available in all circumstances
    – Adjust those data to reflect all reasonably available information about market participant assumptions

Further information:
IFRS 17 paragraphs B81-B83
Further information:
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:
• Contractual service margin
• Risk adjustment for non-financial risk
• Fulfilment cash flows
• Financial risk
Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
Risk adjustment

• Explicit, current adjustment for the compensation a company requires for bearing non-financial risk (e.g., insurance risk)

Further information:
IFRS 17 paragraphs 32(a)(iii), 37 and B86-B92
IFRS 17 Appendix A definition:
• Risk adjustment for non-financial risk
• Financial risk

Basis for Conclusions of IFRS 17 paragraphs BC206-BC217
Risk adjustment

- Compensation that makes an entity indifferent between:
  - fulfilling a liability that has a range of possible outcomes; and
  - fulfilling a liability that will generate fixed cash flows with the same expected present value

<table>
<thead>
<tr>
<th>Group A</th>
<th>Probability</th>
<th>Pay-off (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>0.5</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Probability-weighted average: 
\[(0.5 \times 1,000,000) + (0.5 \times 0) = CU500,000\]

<table>
<thead>
<tr>
<th>Group B</th>
<th>Probability</th>
<th>Pay-off (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>500,000</td>
<td></td>
</tr>
</tbody>
</table>

Probability-weighted average: 
\[(1 \times 500,000) = CU500,000\]

Further information:
IFRS 17 paragraph B87
Risk adjustment

• Entity specific measure:
  – Entity’s level of risk aversion
  – Degree of diversification benefit considered
  – Techniques/methods

Further information:
IFRS 17 paragraphs B86-B92
Basis for Conclusions of IFRS 17 paragraphs BC213-BC217
Further information:
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:
• Contractual service margin
• Risk adjustment for non-financial risk
• Fulfilment cash flows
• Financial risk
Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
**Contractual service margin**

- The unearned profit of the group of contracts that relates to future service to be provided
- The amount determined so that no gains are recognised in profit or loss on initial recognition

**Further information:**
IFRS 17 paragraphs 32(b) and 38
IFRS 17 Appendix A definition:
- Contractual service margin

Basis for Conclusions of IFRS 17 paragraphs BC218-BC219
Further information:
IFRS 17 paragraphs 32(b) and 38
Basis for Conclusions of IFRS 17 paragraphs BC218-BC219
Illustrative Examples of IFRS 17 Example 1
Further information:
IFRS 17 paragraphs 27 and 38
Insurance acquisition cash flows

Pre-coverage period

Coverage period

Q4 2020  Q1 2021  Q2 2021  Q3 2021  Q4 2021  Q1 2022

During pre-coverage period:
• Asset (or liability) is recognised for any insurance acquisition cash flows

Further information:
IFRS 17 paragraph 27
IFRS 17 Appendix A definition:
• Insurance acquisition cash flows
• Coverage period
Basis for Conclusions of IFRS 17 paragraphs BC181-BC184
IFRS 17 core requirements

- All insurance contracts measured as the sum of:
  - Fulfilment cash flows (FCF)
    1. Present value of probability-weighted expected cash flows—reflects financial risk
    2. Plus an explicit risk adjustment for non-financial risk (e.g., insurance)
  - Contractual service margin (CSM)
    3. The unearned profit from the contracts

Further information:
IFRS 17 paragraph 32
IFRS 17 Appendix A definitions:
- Contractual service margin
- Risk adjustment for non-financial risk
- Fulfilment cash flows
- Financial risk

Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
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IFRS 17
Insurance Contracts

Measurement essentials
Part 2 of 2

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Today’s topic

• Part 1: Initial measurement
  – Fulfilment cash flows
  – Contractual service margin

• Part 2: Subsequent measurement
  – Fulfilment cash flows
  – Contractual service margin
Part 2
Subsequent measurement
Further information:
IFRS 17 paragraph 32

IFRS 17 Appendix A definitions:
- Contractual service margin
- Risk adjustment for non-financial risk
- Fulfilment cash flows
- Financial risk

Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
**Snapshot on subsequent measurement**

<table>
<thead>
<tr>
<th></th>
<th>Initial measurement</th>
<th>Subsequent measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PV of future cash flows</td>
<td>Current assumptions</td>
</tr>
<tr>
<td>2</td>
<td>Risk adjustment</td>
<td>Current assumptions</td>
</tr>
</tbody>
</table>
| 3 | Unearned profit / Contractual service margin | The amount that results in no gain recognised in profit or loss | Update by reflecting:  
  - Time value of money  
  - Adjustments related to future service  
  - Allocation of the amount earned for services provided |

**Further information:**
IFRS 17 paragraphs 40, 44, 45 and B54  
Basis for Conclusions of paragraphs BC20, BC155 and BC220-BC221
### Snapshot on how changes show up in performance

<table>
<thead>
<tr>
<th>Line item</th>
<th>Which changes are included in line item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance service result</td>
<td>* cash flows and risk adjustment that relate to current and past service + allocation of contractual service margin for services provided</td>
</tr>
<tr>
<td>Investment income</td>
<td>* Returns on financial assets (IFRS 9)</td>
</tr>
<tr>
<td>Insurance finance expenses</td>
<td>* Effect of time value of money and financial risk (eg discount rates) **</td>
</tr>
<tr>
<td>Net financial result</td>
<td></td>
</tr>
<tr>
<td>Profit or loss</td>
<td></td>
</tr>
</tbody>
</table>

* Changes in cash flows and changes in risk adjustment that relate to future service adjusts the contractual service margin
** Option to present some of these effects in other comprehensive income

---

**Further information:**
IFRS 17 paragraphs 41-42, 80-81, 83-85 and 87-89
Basis for Conclusions of IFRS 17 paragraphs BC24
Further information:
IFRS 17 paragraphs 43-44 and B96-B100
Basis for Conclusions of IFRS 17 paragraphs BC22-BC24 and BC220-BC224
### Contractual Service Margin

**Subsequent measurement**

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accretion of interest</td>
<td>• Discount rate at inception—nominal cash flows that do not vary based on returns on underlying items</td>
</tr>
<tr>
<td>Changes relating to future service</td>
<td>• Changes in the present value of cash flows relating to future service determined using discount rate at inception applicable to FCF</td>
</tr>
<tr>
<td></td>
<td>• Changes in the risk adjustment relating to future service</td>
</tr>
<tr>
<td>Insurance service provided—recognised in P&amp;L</td>
<td>• Based on coverage units</td>
</tr>
<tr>
<td></td>
<td>– Quantity of benefits</td>
</tr>
<tr>
<td></td>
<td>– Expected coverage period</td>
</tr>
</tbody>
</table>

**Further information:**
IFRS 17 paragraphs 43-44, B96-B100 and B119
**Contractual Service Margin**

*Subsequent measurement*

<table>
<thead>
<tr>
<th>Adjustments to the CSM</th>
<th>Where is the adjustment recognised?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accretion of interest</td>
<td>• Insurance finance income and expenses—profit or loss</td>
</tr>
<tr>
<td>Changes relating to future service</td>
<td>• Fulfilment cash flows—balance sheet</td>
</tr>
<tr>
<td>Profit recognised—insurance service provided</td>
<td>• Insurance service result—profit or loss</td>
</tr>
</tbody>
</table>

**Further information:**
IFRS 17 paragraphs 44, 83 and 87
A simple example
Subsequent measurement

After one year, the insurer revises the expected risk-adjusted discounted cash outflows and the change relates to future service:

- CSM at beginning of year 1 is CU400
- CSM adjusted by CU300, ie remaining CSM is CU100
- Insurer recognises CSM of CU100 over the coverage period

Further information:
IFRS 17 paragraphs 44 and 48-49
Illustrative Examples of IFRS 17 Example 2
Onerous contracts—loss component
Consider a group of contracts, risk adjustment = CU750 and PV of future cash outflows = CU4,250

- Contracts onerous at inception
- Day-one loss CU1,500 recognised in profit or loss [CU4,250+CU750-CU3,500]. No CSM.
- The total liability for remaining coverage is CU5,000 [CU4,250+CU750] comprising of
  - Non-loss component of CU3,500
  - Loss component of CU1,500

Further information:
Illustrative Examples of IFRS 17 Example 1
What adjusts the loss component?

1. Any increase/decrease in estimates relating to future service
   – Cash flows determined using the discount rate applicable for those cash flows at initial recognition
   – Risk adjustment

2. All other subsequent changes in estimates of the fulfilment cash flows of the liability for remaining coverage must be systematically allocated between:
   – Non-loss component
   – Loss component

Further information:
IFRS 17 paragraphs 50-51
Loss component

- The adjustments must result in the loss component equalling zero by end of the coverage period.
- If decreases in estimates of fulfilment cash flows relating to future coverage exceed the loss component:
  - they are allocated to the loss component to reduce it to zero, and
  - the excess of the decrease establishes a contractual service margin.

Further information:
IFRS 17 paragraphs 50-52
## Snapshot on how changes show up in performance for onerous contracts

<table>
<thead>
<tr>
<th>Line item</th>
<th>Which changes are included in line item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance service result</td>
<td><strong>cash flows</strong> and <strong>risk adjustment</strong> that relate to future, current and past service *</td>
</tr>
<tr>
<td>Investment income</td>
<td><em>Returns on financial assets (IFRS 9)</em></td>
</tr>
<tr>
<td>Insurance finance expenses</td>
<td>effect of time value of money and financial risk (eg discount rates)**</td>
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<td>Net financial result</td>
<td></td>
</tr>
<tr>
<td>Profit or loss</td>
<td></td>
</tr>
</tbody>
</table>

* To the extent that changes in cash flows and risk adjustment that relate to future service decrease the loss component to zero. Further changes establishes a contractual service margin.

** Option to present some of these effects in other comprehensive income.

---

**Further information:**
- IFRS 17 paragraphs 41-42, 49-51, 80-81, 83-85, 87-89 and 103(b)(iv)
- Basis for Conclusions of IFRS 17 paragraph BC24
**Further information:**
IFRS 17 paragraph 32

IFRS 17 Appendix A definitions:

- Contractual service margin
- Risk adjustment for non-financial risk
- Fulfilment cash flows
- Financial risk

Basis for Conclusions of IFRS 17 paragraphs BC16-BC21
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