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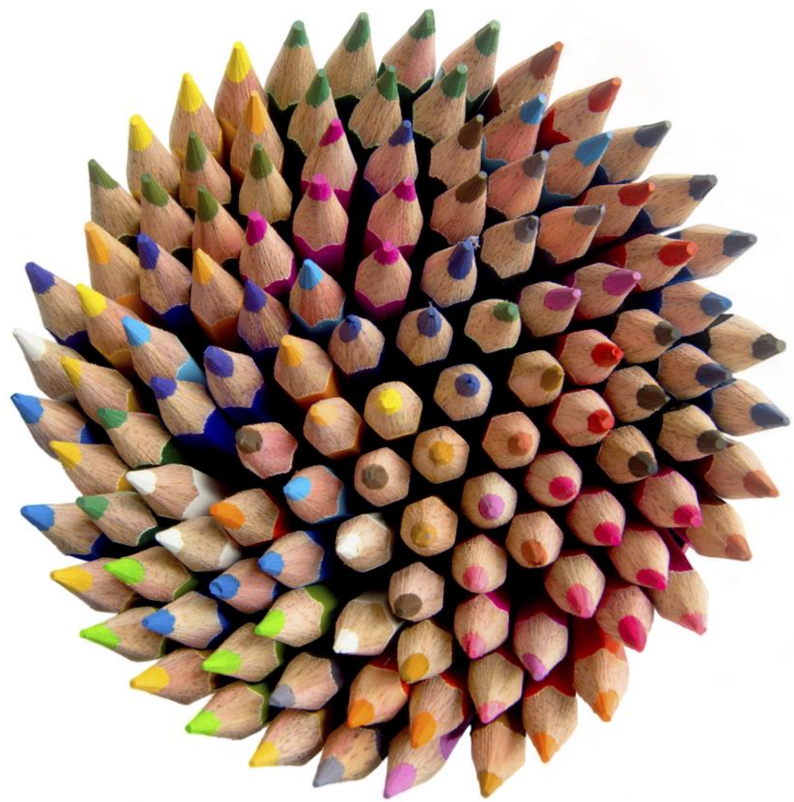

Briefing on IASB TRG papers for 2 May meeting

Key highlights

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Agenda

Summary of the TRG 2 May papers

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AP03 - Cash flows within the contract boundary (1/2)

Practical ability to reprice at the renewal date

Factors that could impact the insurers' practical ability to set a renewal price that fully reflects the risks:

01 Terms of an insurance contract

02 Market competitiveness

03 Commercial considerations

Staff view

- When determining the practical ability to reprice an entity should consider:
  a) Contractual, legal & regulatory restrictions; and
  b) Ignore restrictions that have no commercial substance.

- The term "Practical ability" does not specify the sources of constraints. As such, **market competitiveness and commercial considerations are factors that can be taken into account**.

- A constraint is not equal to making pricing decision and therefore pricing would be subject to further judgment as to whether practical ability is affected or not.

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AP03 - Cash flows within the contract boundary (2/2)

Adding insurance coverage

1

TERMS/PRICE OF THE OPTION IS GUARANTEED

The entity sets the premiums for the additional coverage at inception and cannot reprice the premiums

Staff view

- Measurement of the cash flows (CF's) should reflect the expectation of how options will be exercised.
- **The value of the option is within the contract boundary of the contract**; unless the option constitutes a separate contract.

2

TERMS/PRICE OF THE OPTION IS NOT GUARANTEED

The entity sets the premiums for additional coverage only when the policyholder exercises the option

Staff view

- Does the entity have the **practical ability to reprice the whole contract** when the option is exercised?

  ✓ => The contract should be considered as a new contract

  ✗ => The additional insurance coverage is part of the contract boundary

- If the contract is amended to add a coverage option, the requirements for modification apply (para 72).

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AP04 – Boundary of reinsurance contracts held with repricing mechanisms

View A	The contract boundary reflects the full duration of underlying contracts.
View B	The contract boundary should end at the first point at which the reinsurer has the right to increase premium rate.

Staff view

- The Staff agrees with view A.
- The underlying principle is that either a substantive right to receive services **or** a substantive obligation to pay premiums needs to be considered.
- **A right to terminate coverage that is triggered by the reinsurer's decision to reprice the reinsurance contract is not relevant**. Such right is not within the entity's control and therefore the entity would continue to be compelled to pay premiums for the entire contractual term.

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AP06 – Implementation challenges outreach report (1/2)

Level of aggregation

General

- IFRS 17 par 78 requires presentation of groups of insurance contracts issued that are assets and those that are liabilities in the statement of financial position.

- A group of insurance contracts is disaggregated into a liability for remaining coverage and a liability for incurred claims. Both components need to be identified at the level of group of insurance contracts.

Issue 1: Identifying premiums received for each group
Existing systems do not link the systems that register premiums received with the system that generates info to determine the liability for remaining coverage. Also, the reconciliation of receivables vs. premiums received is often performed at a higher level of aggregation.

Issue 2: Identifying the liability for incurred claims
Identifying the liability for incurred claims is not performed at group level and would be inconsistent with actuarial valuation principles.

Staff View

- TRG members are asked whether a change to the credit risk disclosure requirements would result in a loss of information to users of financial statements.

- Applying IFRS 17 par 24, an entity may estimate the fulfilment cash flows at a higher level of aggregation than a group or portfolio.

- The standard does not prescribe the method to identify the premiums received and the liability for incurred claims for each group of insurance contracts.

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AP06 – Implementation challenges outreach report (2/2)

Contracts acquired in their settlement period

General

- When an entity acquires contracts in their settlement period, the entity essentially provides coverage for the adverse development of claims. The period over which the claims could develop extends to the settlement period for the entity that issued the original contract.

- Therefore, for the entity that acquired the contract, contracts acquired in their settlement period will be considered as part of the liability for remaining coverage, instead of liability for incurred claims.

Issue: Differing accounting treatments

- Revenue is recognized for contracts acquired in their settlement period, while revenue is no longer recognized over this period for similar contracts issued.
- The general model is applied for contracts acquired in their settlement period (because the period over which claims could develop is longer than one year); while the PAA may have been applied for similar contracts issued.

Staff View

- There is a similarity to the treatment of contracts that are acquired in a business combination.
- As in such cases, additional disclosures might be necessary to provide information that enables users of financial statements to evaluate the nature and financial effect.

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AP07 – Reporting on other questions submitted
Summary of other questions submitted to TRG

Category	Topic
1. Can be answered applying only the words in IFRS 17	1. Modifications to retrospective application 2. Projected return on assets 3. Insurance contract with direct participation features – adjustment to CSM 4. Discount rates used in the allocation of insurance finance income or expense in P&L 5. Issued adverse loss cover and contracts acquired in their settlement period 6. Level of aggregation – no significant possibility of becoming onerous 7. Projected economic conditions 8. Reflecting minimum guarantees 9. Discount rate for reinsurance contracts held 10. Coverage units for reinsurance contracts held 11. Risk of non-performance of the issuer of a reinsurance contract
2. Do not meet the submission criteria	NA
3. Are being considered through a process other than a TRG discussion (such as a proposed annual improvement)	1. Does IFRS 17 apply to certain types of contracts typically issued by non-insurance entities

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AP01 – Combination of Insurance Contracts

When is it necessary to treat a set or series of insurance contracts as a whole? (para 9)

Potential factors of a set or series of insurance contracts that are in substance a single contract:

01 the contracts are priced as a single risk

02 the lapse of one contract changes the rights and obligations of the other contract(s); and

03 measuring the contracts separately would result in one/some of the contract(s) being onerous whereas when measured as a whole the contract is profitable.

Staff views

- Interdependency of risks is a factor for consideration; i.e. if one risk offset another it could lead to combination of contracts. For example longevity and mortality risk are interdependent.
- When the lapse or maturity of one contract causes the lapse or maturity of another contract; there is a strong indication that the contracts achieve an overall commercial effect; i.e. need to be combined. **The existence of a discount does not in itself achieve an overall commercial effect.**

No single factor is determinative in applying this assessment, significant judgement and careful consideration of all relevant facts and circumstances are required.

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AP02 – Risk adjustment in a group of entities

At which level is the risk adjustment (RA) for non-financial risk required to be determined?

Staff view

Individual financial statements

- Risk diversification at the group level may be taken into account, only if the entity has taken this into account when determining the compensation required for bearing non-financial risk related to insurance contracts issued by the entity.

Consolidated financial statements

- **The RA at the consolidated level is the same as the RA at the individual entity level.**
- The determination of the risk adjustment is a single decision that is made by the entity which chooses the factors to consider; for example the degree to which diversification benefits at the group level are included.

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AP05 - Coverage units (1/2)

What is the quantity of benefits?

Coverage units (CU) reflect the likelihood of insured events occurring if they affect the:

1. **Expected duration of the contracts in the group**
2. **Expected claim amount in the period**
3. **Variability across period in the level of cover?**

Staff view

General observations

- Sources of profit are more than the CSM release. They also include RA release and experience adjustments
- The insurance risk period is not necessarily equal to the insurance coverage period
- The CU's for a group of contracts is based on the sum of the benefits and expected coverage duration for each contract
- Lapse assumptions are included in the CU determination because they affect the expected coverage duration
- CSM allocation to P&L is to reflect services in the period

Contracts without investment components

- Because the CSM allocation to P&L revenue is to reflect services in the period; **different levels of service across periods should be reflected**
- The quantity of benefits depends on the amount that can be claimed by the policyholder (not the entity's expectation).

Possible approaches could uses the following basis:

- Maximum contractual cover
- Entity's expectation of the policyholder's valid claim in each period if an insured event occur

Approaches considered inappropriate would be based on:

- The entity's performance of its assets
- Premiums; unless they are a reasonable proxy
- Expected cash flows; unless they are a reasonable proxy

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AP05 - Coverage units (2/2)

What is the quantity of benefits?

Staff view (cont')

Contracts with investment components

VFA contracts

BC 280 only refers to the coverage period as the insurance services are provided

- Both insurance and investment related services are provided; hence the quantity of benefits + expected coverage duration should refer to both
- **A narrow amendment to IFRS 17 is proposed** to modify the definition of coverage period of VFA contracts such that **the coverage period includes investment-related services.**

General model (indirect par.) contracts

- **The coverage unit only refers to insurance services, and not to investment services**
- The amounts promised to policyholders other then insurance benefits, are a form of financial instrument and not related to service

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