ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

IFRS 17 Insurance Contracts for non-insurers

20 October 2022

This webinar will commence shortly ……

Introduction

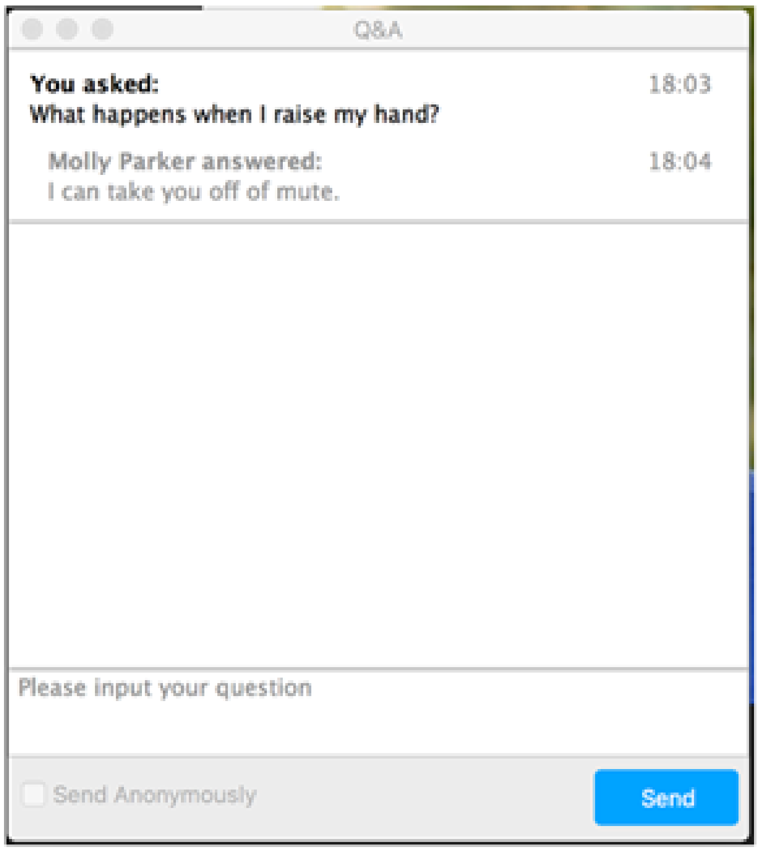
Kate Beeston
Technical Manager
Financial Reporting Faculty, ICAEW

Today's presenters

Timothy Rogerson
EY Partner
Financial Reporting Group

Ayesha Moosa
EY Senior Manager
Financial Reporting Group

Ask a question and access resources



To ask a question

Click on the **Q&A** button in the bottom toolbar to open the question box.

Type in your question and press **send.**

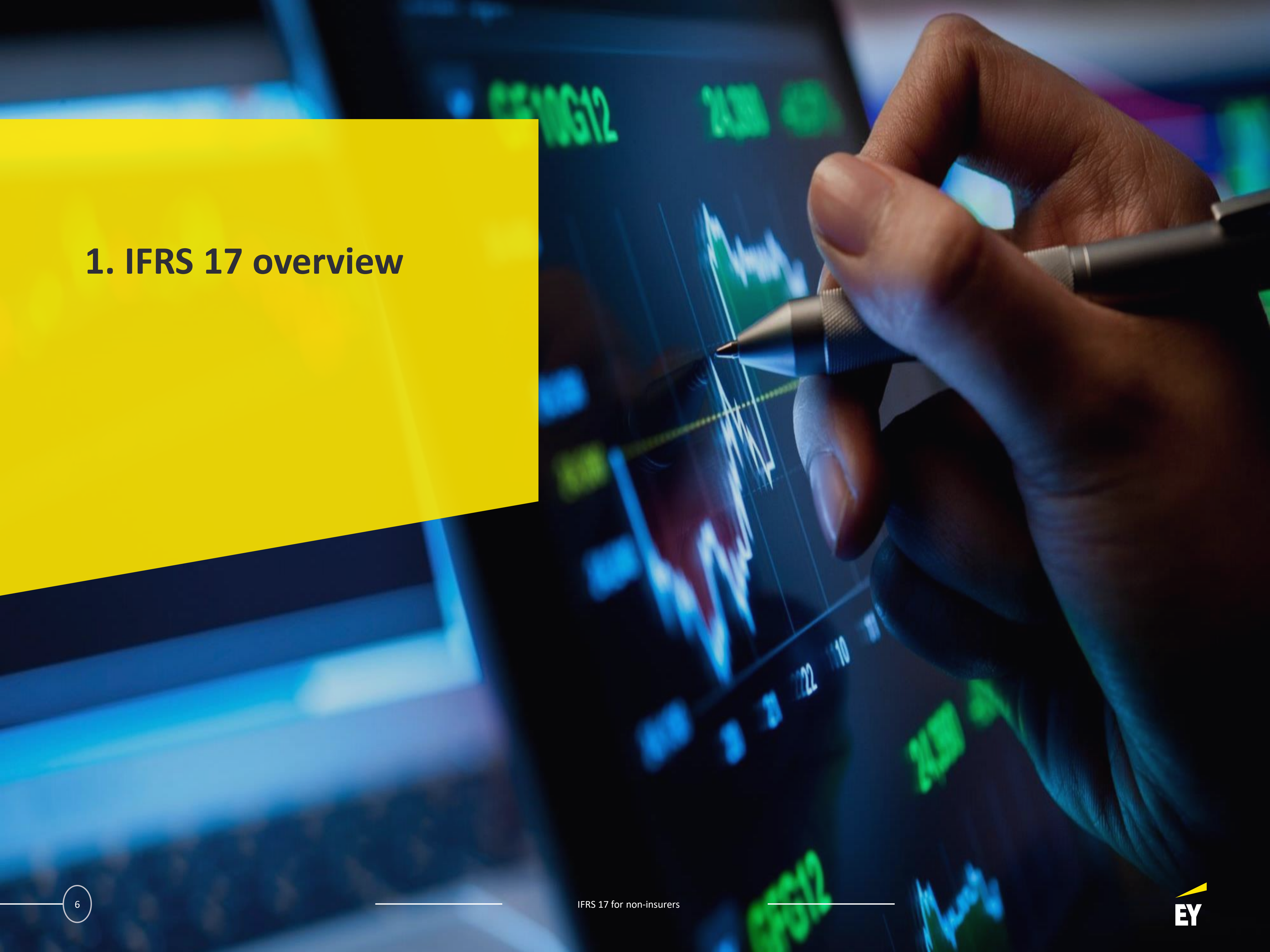
Note: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration on the left.

Download resources

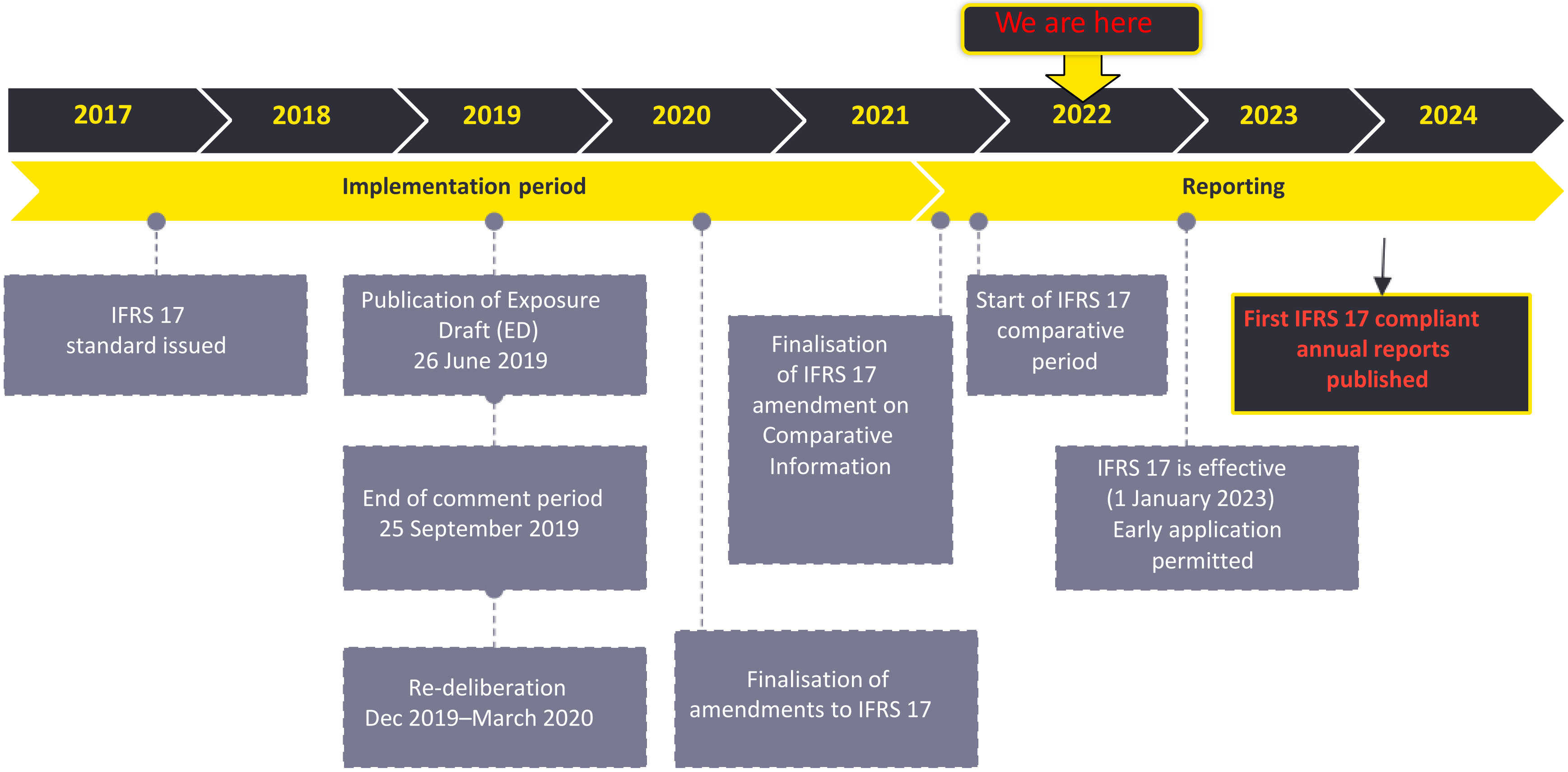
Access related resources, including the presentation slides at icaew.com/frfwebinars

Contents

1. IFRS 17 overview



Timeline


We are here
2017
2018
2019
2020
2021
2022
2023
2024
Implementation period
Reporting
IFRS 17 standard issued
Publication of Exposure Draft (ED) 26 June 2019
End of comment period 25 September 2019
Re-deliberation Dec 2019–March 2020
Finalisation of amendments to IFRS 17
Finalisation of IFRS 17 amendment on Comparative Information
Start of IFRS 17 comparative period
IFRS 17 is effective (1 January 2023) Early application permitted
First IFRS 17 compliant annual reports published

EY

IFRS 17 overview

Type of **contract**

NOT

Type of **entity**

While the definition of an insurance contract has not changed much from IFRS 4, the consequences of qualifying as an insurance contract have changed.

Polling question

Will your entity be required to apply IFRS 17?

1) Yes

2) No

3) Not sure

IFRS 17 overview

- Effective for accounting periods beginning 1 January 2023
- Retrospective adoption (including comparatives)
- Recognition, measurement and disclosure for insurance contracts
- Previous practice of ‘grandfathered’ local GAAP not permitted
- If within scope must follow IFRS 17 unless exemptions or exceptions

2. Definition of an insurance contract

Definition of insurance contract

Overview

An insurance contract is '<u>a contract</u> under which one party <u>(the issuer)</u> accepts significant insurance risk from another party <u>(the policyholder)</u> by agreeing to <u>compensate the policyholder</u> if a specified uncertain future event (the insured event) <u>adversely</u> affects the policyholder'.

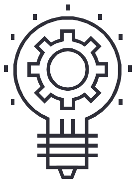
IFRS 17 typically applies to the issuer, and not the holder, of insurance contracts.

Definition of insurance contract

Detailed analysis

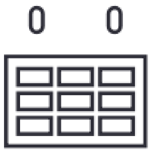
Insurance contract

- Issuer
- Significant insurance risk
- Policyholder
- Specified uncertain future event
- Adversely affects the policyholder
- Right to obtain compensation from the issuer under the contract



Significant insurance risk

- Commercial substance – "a visible economic effect"
- Assessed on a contract-by-contract basis
- Not based on likelihood of event



Specified uncertain future event

- Uncertainty at inception of the contract over at least one of the following:
  - the probability that an insured event will occur;
  - when it will occur; or
  - how much the insurer will need to pay if it occurs

What is insurance risk?

'Insurance risk' is a risk, **other than financial risk**, that is transferred from the policyholder to the issuer of a contract.

Insurance Risk	Financial Risk
• Death	• Interest rates
• Injury	• Prices of financial instruments
• Illness or disability	• Price of gold (or commodities)
• Loss of property due to theft or damage	• Indices of prices or rates
• Damage of property due to weather	• Credit ratings
• Loss of property while travelling	• Foreign currency exchange rates
• Change in a "non-financial variable" in a contract	• Change in any other variable, except for a non-financial variable in a contract

The issuer **accepts** a risk from the policyholder that the policyholder was **already exposed** to.

3. Scope exemptions or exceptions

IFRS 17 scope exemptions or exceptions

- Policyholders (groups)
- Product warranties
- Fixed fee service contracts
- Guarantees/sureties
- Financial guarantee contracts
- Credit card (or similar) contracts that provide insurance coverage
- Loan contracts that transfer insurance risk only on settlement of policyholder’s obligation

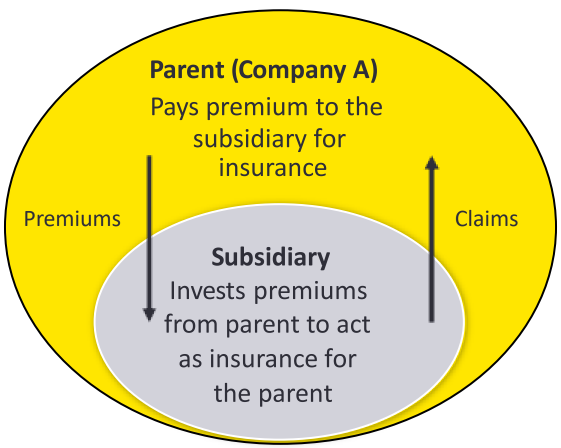
Policyholders

- Accounting by policyholders of direct insurance contracts (e.g. motor, employers liability) is excluded from the scope of IFRS 17.
- Other IFRSs include requirements that may apply, for example:
  - IAS 37 – requirements for reimbursements from insurance contracts held that cover expenditure required to settle a provision
  - IAS 16 – reimbursement under insurance contracts held that provide coverage for the impairment or loss of PPE
  - IAS 8 – hierarchy applies when developing an accounting standard if no specific IFRS applies

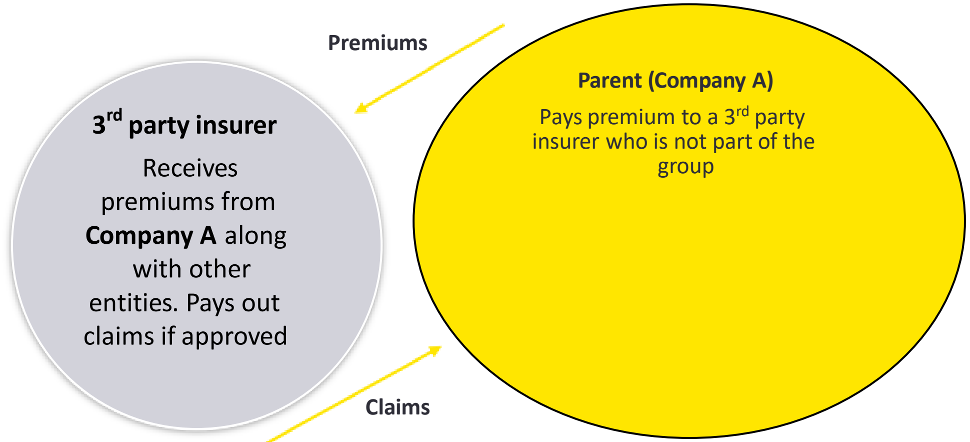
Policyholder accounting – self insurance

IFRS 17 Scope?
Parent seeks to insure the risks of the group (2 scenarios)

1) Group company provides insurance



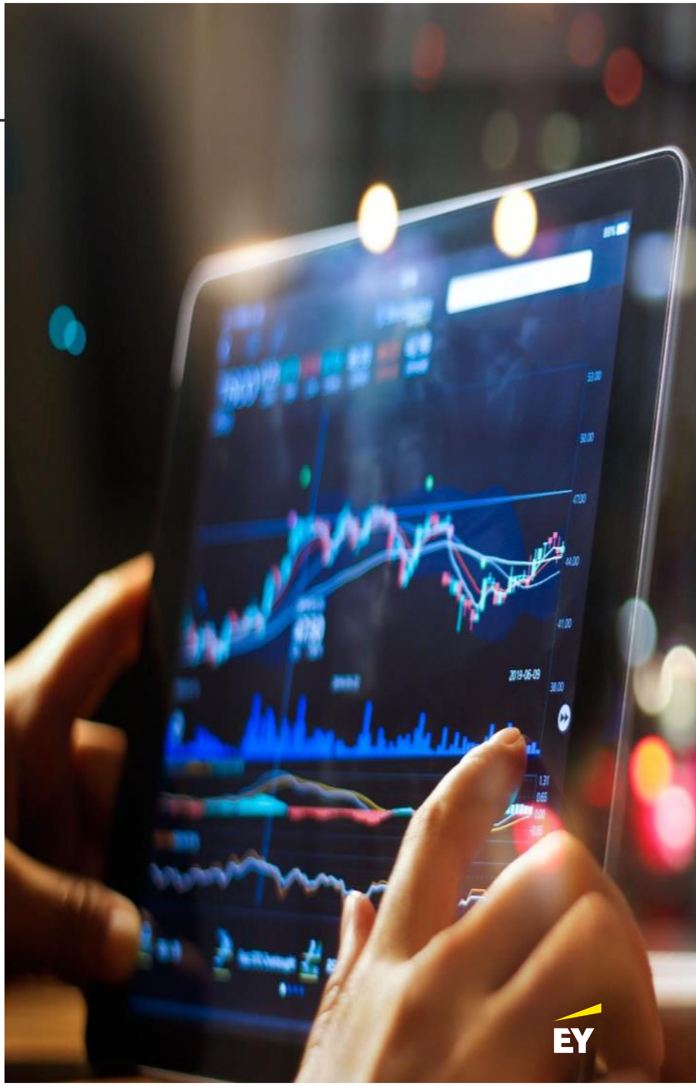
2) Outside party provides insurance



Conclusion (scenario 1):
Group = self insurance, IFRS 17 does **not** apply
Subsidiary separates = IFRS 17 **applies**

Conclusion (scenario 2):
Group = IFRS 17 does **not** apply (policyholder accounting excluded from IFRS 17)
Subsidiary separates = n/a in scenario 2

Product warranties



Product warranties

'Warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer are outside the scope of IFRS 17'

- Judgement may be needed to determine whether the scope exclusion applies:
  - What is considered a manufacturer, dealer or retailer? Since these terms are not defined, it might not be clear whether, for example, a service provider can also apply the scope exclusion to any warranties it provides.
  - How close does the connection to the sale of goods need to be? For example, it is likely that a warranty sold separately at or near the time that the goods or services are provided would be considered 'in connection', but what if the warranty is separately sold at a later date?
  - What if there is more than one party involved in providing the goods or services and the warranty? Assume, for example, that a manufacturer's customer is a retailer for specific goods (i.e., the retailer is the principal for goods sold to end-consumers but it provides warranties to the end-consumers (i.e., the retailer's customers) for which the retailer is an agent. In such a situation, could the manufacturer apply the scope exclusion even if it is provided several months after the initial sale to the retailer?

Warranties – IFRS 15

For warranties within the scope of IFRS 15, while the standard notes that the nature of a warranty can vary significantly across industries and contracts, it identifies two types of warranties:

- Warranties that promise the customer that the delivered product is as specified in the contract (called 'assurance–type warranties')
- Warranties that provide a service to the customer in addition to assurance that the delivered product is as specified in the contract (called 'service–type warranties')

EY

Fixed-fee service contracts

Level of service depends on an uncertain event but fee is fixed. **Definition of an insurance contract met**. However, the **primary purpose** is the provision of services for a fixed fee.

IFRS 17 permits entities a **choice** to apply IFRS 15, **but only if** specified conditions are met.

The conditions are:

Individual customer risk assessment does not influence the price	+	Service, rather than cash payment to customer	+	The insurance risk relates to whether the customer uses the service and not the cost of the service

The entity may make that choice contract by contract, but the choice is irrevocable.

Examples of fixed fee service contracts stated in IFRS 17 are roadside assistance and maintenance contracts in which the service provider agrees to repair specified equipment after a malfunction.

Guarantees or sureties

Performance bonds (also surety bonds)

- They are guarantees that are dependent on an entity's ability to perform a service. Consists of an entity guaranteeing to compensate if another party (e.g. contractor) is unable to perform per the contract.
- These guarantees are commonly seen in the construction and mining industry.

Further examples that may meet the definition of insurance contracts:

- Hotel management services companies often have a guarantee to pay out a minimum income to hotel owners or investors.
- Retail or transport companies have an obligation to compensate the customer in the event of loss or damage to property during transportation.

EBITDA guarantee

The TRG meeting from September 2018 discussed whether IFRS 17 would apply to, among others, service contracts including a form of EBITDA guarantee. (Agenda paper no. 11, Log S33)

- The submission described a specific fact pattern of an entity that provides hotel management services. The service fee that the entity charges is determined as a percentage of gross hotel revenue. The entity also guarantees the hotel owner a specified level of EBITDA. To the extent that the actual hotel EBITDA is below the specified level, the entity is obligated to make payments to the hotel owner. The amount payable under the guarantee may exceed the amount of the service fee receivable. The submission asks whether the guarantee provided by the entity is within the scope of IFRS 17.

- The IASB Staff noted a contract is assessed against the definition of an insurance contract and the scope requirements of IFRS 17. The definition of an insurance contract in IFRS 17 is the same as the definition of an insurance contract in IFRS 4, with clarifications to the related guidance in Appendix B of IFRS 4. When assessing whether the contract meets the definition of an insurance contract, an assessment is made as to whether the contract transfers significant insurance risk. When assessing whether an insurance contract is within the scope of IFRS 17, an assessment is made as to whether any of the scope exclusions of IFRS 17 are applicable. IFRS 17 includes a scope exclusion for warranties provided by a manufacturer, dealer or retailer in connection with the sale of its services to a customer and also excludes contractual obligations contingent on the future use of a non–financial item (for example, contingent payments), as stated in IFRS 17 paragraph 7.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

- These contracts transfer credit risk and may have various legal forms such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract.

- These contracts are excluded from the scope of IFRS 17 unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. If previously asserted that these are insurance contracts, the issuer may apply either IFRS 17 or IAS 32, IFRS 7 and IFRS 9 to such contracts. Irrevocable contract-by-contract election.

Financial guarantee contracts

Consider previous election regarding accounting for financial guarantee contracts (FGC) made under IFRS 4

An entity which had not previously asserted explicitly that it regards such contracts as insurance contracts or which had not previously used IFRS 4, but IAS 39 or IFRS 9 instead may not reconsider its previous election (either implicitly or explicitly made).

Likely that insurers will be able to apply IFRS 17 to FGC

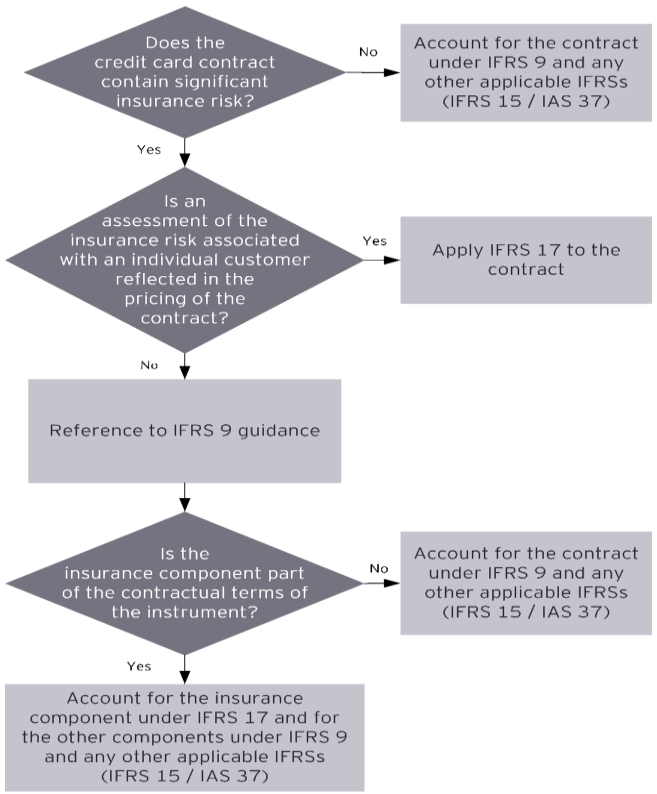
Unlikely that non-insurers will be able to apply IFRS 17 to FGC

Credit card (or similar) contracts that provide insurance coverage

- These are excluded from the scope of IFRS 17 if, and only if, the entity does not reflect an assessment of the insurance risk associated with the individual customer in setting the price. If excluded within the scope of IFRS 9 and other contracts.
- However, if the insurance component is a contractual term of such a financial instrument (rather than, say, required by local legislation) IFRS 9 requires an entity to separate and apply IFRS 17 to the insurance component.
- Example of such a contract that provides insurance coverage is where the entity:
  - Must refund the customer for claims against a supplier in respect of misrepresentation or breach of the purchase agreement (e.g. if goods defective or if supplier fails to deliver) if supplier does not rectify; and
  - Is entitled to be indemnified by the supplier for any loss suffered in satisfying its liability with the customer
- In addition, the customer can claim from entity an amount in excess of the amount paid using the credit card (e.g. full purchase price even though only partly paid on credit card)

EY

Credit card (or similar) contracts that provide insurance coverage



Credit card (or similar) contracts that provide insurance coverage

Examples of other types of insurance coverage:

- Insurance coverage sold by a credit card company as an agent (e.g. travel, roadside assistance)
- Insurance coverage that a credit card issuer sells to its customers as a principal which meets the conditions for a fixed-fee service contract
- Insurance coverage which provides for the settlement of the customer's obligation created by the contract (see next slide)

EY

Loan contracts that transfer insurance risk only on settlement of policyholder’s obligation

IFRS 17 permits an irrevocable accounting policy choice at portfolio level between IFRS 17 and IFRS 9 for such loan contracts.

Examples of such contracts from IASB staff paper:

- Loans (e.g. mortgages) where the outstanding balance is waived on death of the borrower and the consideration for the life cover is part of the overall interest rate charged on the loan
- Lifetime mortgages (e.g. equity release mortgages) where entity’s recourse is limited to the mortgaged property. If the property is sold for less than the mortgage balance (when the customer dies or moves into long-term care) then the loss is borne by the entity
- Student loan contracts where repayments are income and/or life contingent and may not be repaid at all

Other IFRS 17 scope exemptions

- Employers' assets and liabilities arising from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans. IAS 19 applies.
- Contractual rights or obligations contingent on future use of, or right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items). IFRS 15, 16 and IAS 38 apply.
- Residual value guarantees provided by the manufacturer, dealer or retailer and lessees' residual value guarantees embedded in a lease. IFRS 15 and 16 apply. However, stand-alone residual value guarantees that transfer insurance risk are within the scope of IFRS 17.
- Contingent consideration payable or receivable in a business combination. This is measured at fair value at the acquisition date with subsequent measurement of non-equity consideration included in profit of loss. IFRS 3 applies.

4. IFRS 17 Measurement approaches

Measurement

- Overview of the measurement models
- Compare general model to premium allocation approach
- Applicability of the premium allocation approach

Measurement

Measurement models

1 **General model**

Default

2 **Premium allocation (simplified) approach**

Coverage period <=12 months

3 **Variable fee approach**

Direct participation features

! **Each of these models can be complex and has its own detailed measurement and disclosure requirements**

EY

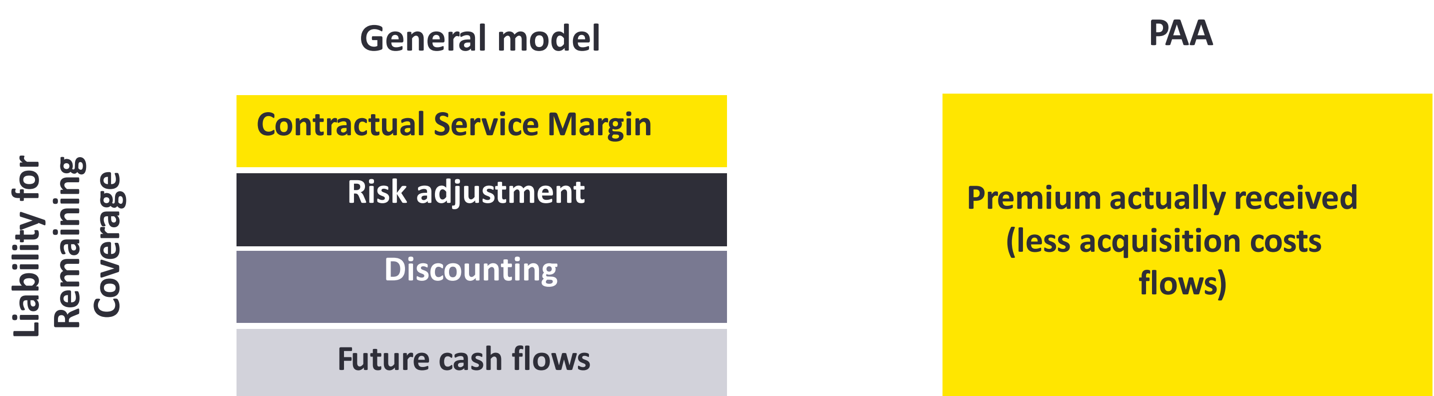
Measurement

General model compared to the simplified PAA

Key points

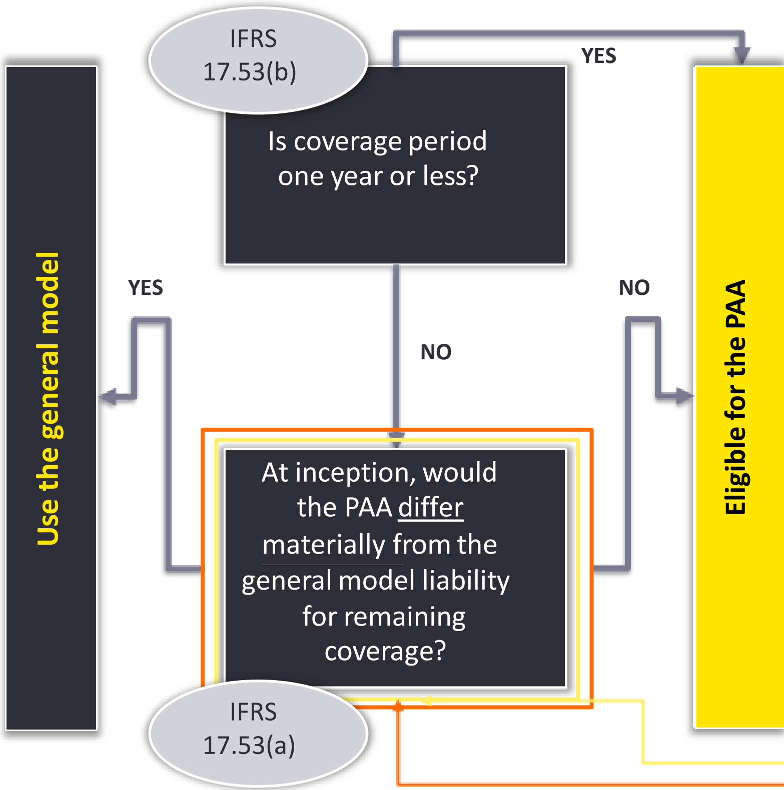
- **Optional for each group** of insurance contracts that **meet the eligibility criteria**
- **No reassessment** of eligibility criteria once determined on inception
- **Main advantage** no separate identification of components (building blocks of the general model)

A comparison of the general model with the premium allocation approach on initial recognition



Premium allocation approach

Eligibility: Who can apply the premium allocation approach?



What does not materially different mean?

- Assessment performed at the **level of the group** of insurance contracts
- Assessment should use a **range of scenarios** that have reasonable possibility of occurring
- Materiality is in relation to the **overall financial statements** (i.e. IAS 1 definition)

Variability in cash flows increases with for example:

- Extent of cash flows relating to any **embedded derivatives** exists
- **Length of coverage** period

5. Transition & 2022 Disclosures

Transition

Approaches [IFRS17.C3]

1 Full retrospective approach

Have to apply FRA, unless impracticable

2 Modified retrospective approach

Apply if, and only if FRA is impracticable to apply

3 Fair value approach

Alternative to MRA if FRA is impracticable to apply

! Transition approach is considered per group of insurance contract + PY must be restated for all 3 approaches

As a result we expect:

1) Diversity across practice in calculating CSM at transition
2) Potentially different releases of the CSM
3) Choice of transition method may result in lack of comparability

Impracticable (IAS 8.5):

"Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so."

IAS 8 Disclosure requirements – 2022 YE

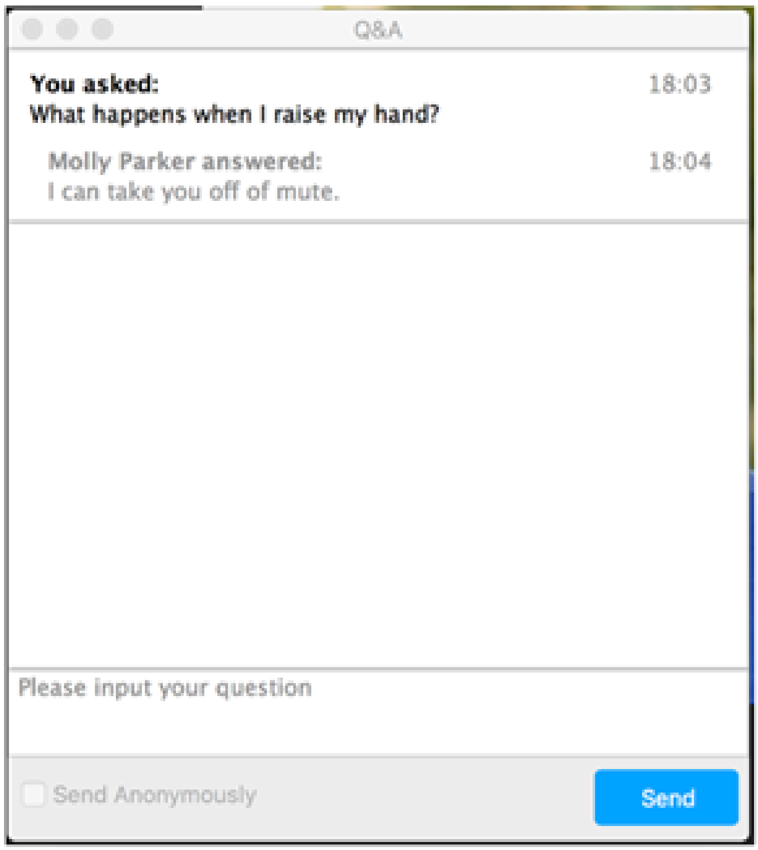
Per IAS 8.31 an entity is required to include a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements

We expect more disclosure for 2022 YE (31 December 2022)

Engagement with auditor is critical!

Impact may include directional disclosures for example "increase in liabilities and decrease in profits" etc, even if the exact quantum is not known.

Ask a question and access resources



To ask a question

Click on the **Q&A** button in the bottom toolbar to open the question box.

Type in your question and press **send.**

Note: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration on the left.

Download resources

Access related resources, including the presentation slides at icaew.com/frfwebinars

Faculty resources

Hub pages

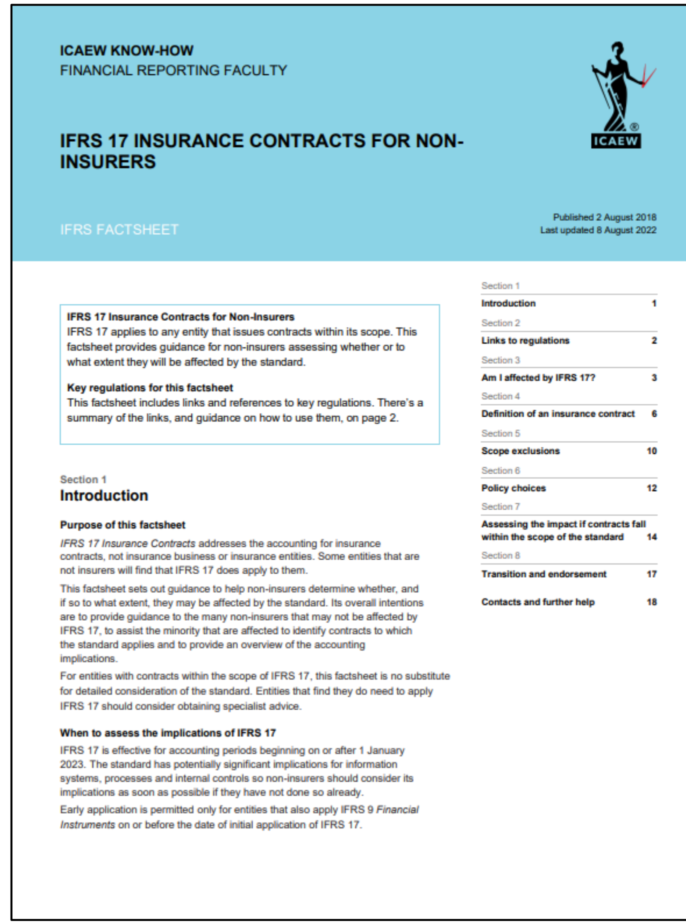
- IFRS (icaew.com/frfifrs)
- IFRS 17 *Insurance Contracts* (icaew.com/ifrs17)

Factsheets (icaew.com/frffactsheets)

- IFRS 17 Insurance Contracts for Non-insurers

By All Accounts (icaew.com/byallaccounts)

- Insurance contracts for non-insurers (Jan 21 edition)



ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

IFRS 17 INSURANCE CONTRACTS FOR NON-INSURERS

IFRS FACTSHEET

Published 2 August 2018
Last updated 8 August 2022

IFRS 17 Insurance Contracts for Non-Insurers
IFRS 17 applies to any entity that issues contracts within its scope. This factsheet provides guidance for non-insurers assessing whether or to what extent they will be affected by the standard.

Key regulations for this factsheet
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1
Introduction

Purpose of this factsheet
IFRS 17 Insurance Contracts addresses the accounting for insurance contracts, not insurance business or insurance entities. Some entities that are not insurers will find that IFRS 17 does apply to them.

This factsheet sets out guidance to help non-insurers determine whether, and if so to what extent, they may be affected by the standard. Its overall intentions are to provide guidance to the many non-insurers that may not be affected by IFRS 17, to assist the minority that are affected to identify contracts to which the standard applies and to provide an overview of the accounting implications.

For entities with contracts within the scope of IFRS 17, this factsheet is no substitute for detailed consideration of the standard. Entities that find they do need to apply IFRS 17 should consider obtaining specialist advice.

When to assess the implications of IFRS 17
IFRS 17 is effective for accounting periods beginning on or after 1 January 2023. The standard has potentially significant implications for information systems, processes and internal controls so non-insurers should consider its implications as soon as possible if they have not done so already.

Early application is permitted only for entities that also apply IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17.

Financial reporting at your fingertips

We are committed to providing members with practical help in today's complex world of financial reporting.

Visit icaew.com/financialreporting for a range of practical resources on UK GAAP, IFRS and UK regulations.

Financial Reporting Faculty Events 2022

Visit icaew.com/frfevents for details of upcoming events from the faculty and others that may be of interest.

Financial reporting news and insights

Highlights of the latest guidance published by the Financial Reporting Faculty as well as news and insights on current developments in financial reporting.

Discover the latest news and insights in financial reporting at icaew.com/frnews

Questions

Timothy Rogerson
EY Partner
Financial Reporting Group

Ayesha Moosa
EY Senior Manager
Financial Reporting Group

Thank you for attending

Please take the time to fill out our short survey.

- Contact the Financial Reporting Faculty .
- Tel: +44 (0)20 7920 8533
- Email: frf@icaew.com
- Web: icaew.com/frfac

This webinar is presented by the Financial Reporting Faculty.

Financial Reporting Faculty membership gives you access to exclusive premium resources including our factsheets, monthly webinars, bitesize recordings, discount on events and conferences and extensive online resources to support your career.

For more information about faculty membership and our latest joining offers, please visit icaew.com/joinfrf or for more information about Faculties Online, please visit icaew.com/subscribefo

ICAEW