



IFRS 17 Insurance Contracts for non- insurers

19 NOVEMBER 2020

This webinar will commence shortly

Introduction

Sally Baker
Technical manager
ICAEW



Today's presenters



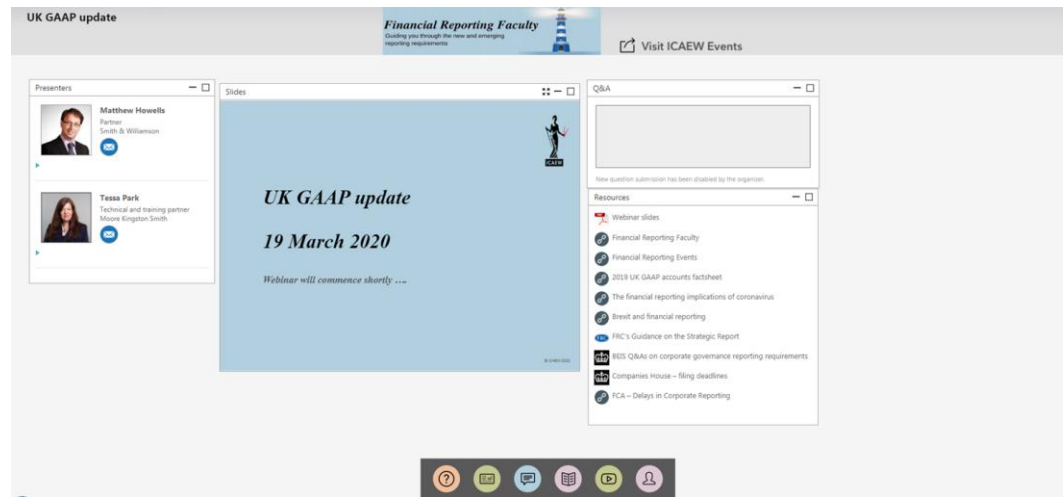
Satya Beekarry
Director
PwC



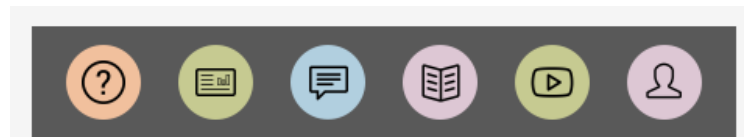
Rich Brown
Senior Manager
PwC

Customise your screen

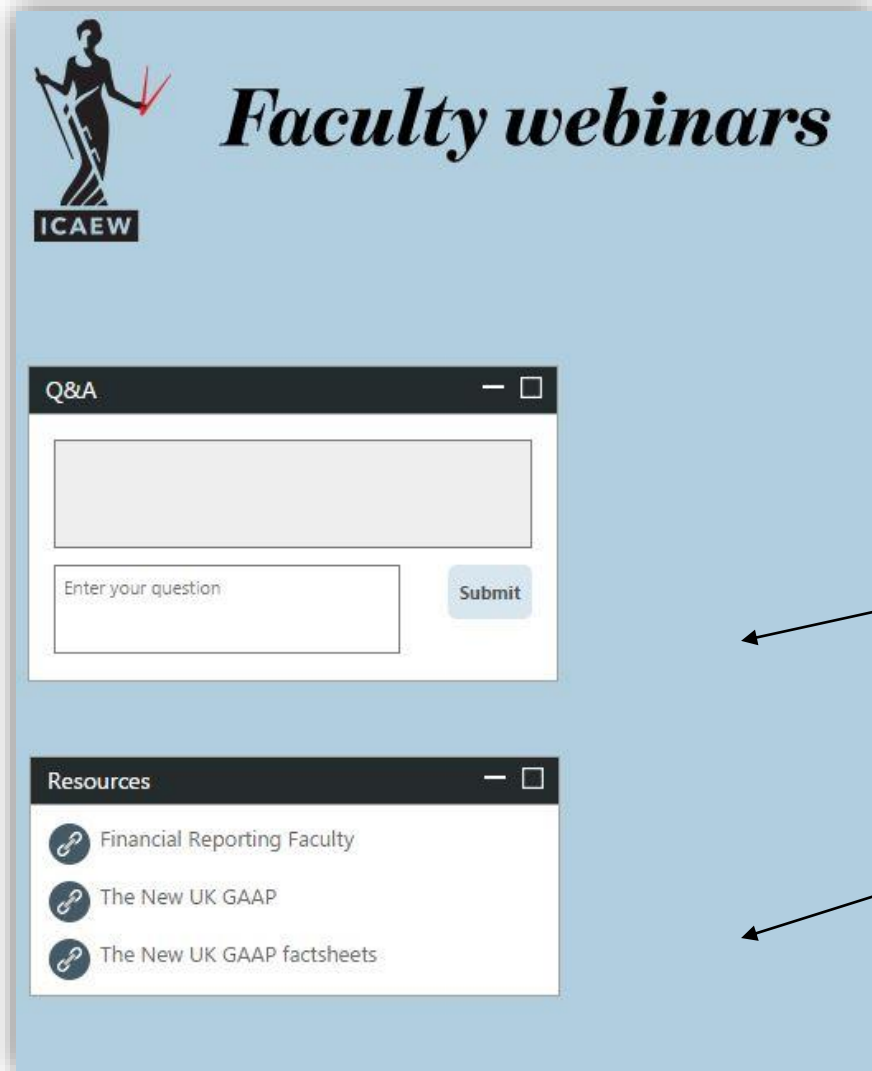
- You can customise the webinar console by moving and resizing the widgets



- You can also minimise and maximise the widgets by clicking on the icons located in the dock at the bottom of the console



Ask a question and access resources



Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

Ask a question

Type your question into the box, then click submit.

Download resources

Access related resources, including the presentation slides

Agenda

High-level summary
of IFRS 17
Insurance Contracts

1

Scope of IFRS 17
Insurance
Contracts

2

Does a scope
exclusion apply?

2.1

Does the uncertain
event adversely
affect the holder?

2.2

Is financial risk the
only risk
transferred?

2.3

Is the non-financial
(insurance) risk
significant?

2.4

Recent
amendments

3

Practical
implementation

4

Q&A

5

Poll Question – What industry sector is most relevant to your organisation and/or your clients?

Retail

Manufacturing

Banking and finance

Insurance

Technology

Energy

Other

1

High-level summary of IFRS 17 Insurance Contracts

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Objectives of the Standard

1

Single measurement approach for similar insurance contract liabilities and revenue, allowing **greater comparability** amongst insurance companies

2

Insurance contracts **measured at current value** and estimated future payments will be reported on a **discounted basis**

3

Information about different **components of current and future profitability** will be provided

4

Insurance **revenue** will be reported on an earned basis

Objectives of the Standard

	Current IFRS/GAAP	Building block approach (General measurement model)	Premium allocation approach
Unexpired risk = Liability for remaining coverage (LFRC)	Unearned premiums (UPR) less deferred acquisition costs (DAC)	Contractual service margin Risk adjustment Discounting Best estimate of fulfilment cash flows	Premium (less acquisition costs) received and unearned
Expired risk = Liability for incurred claims (LFIC)	Undiscounted reserves for past claims (including IBNR)	Risk adjustment Discounting Best estimate of fulfilment cash flows	Risk adjustment Discounting Best estimate of fulfilment cash flows

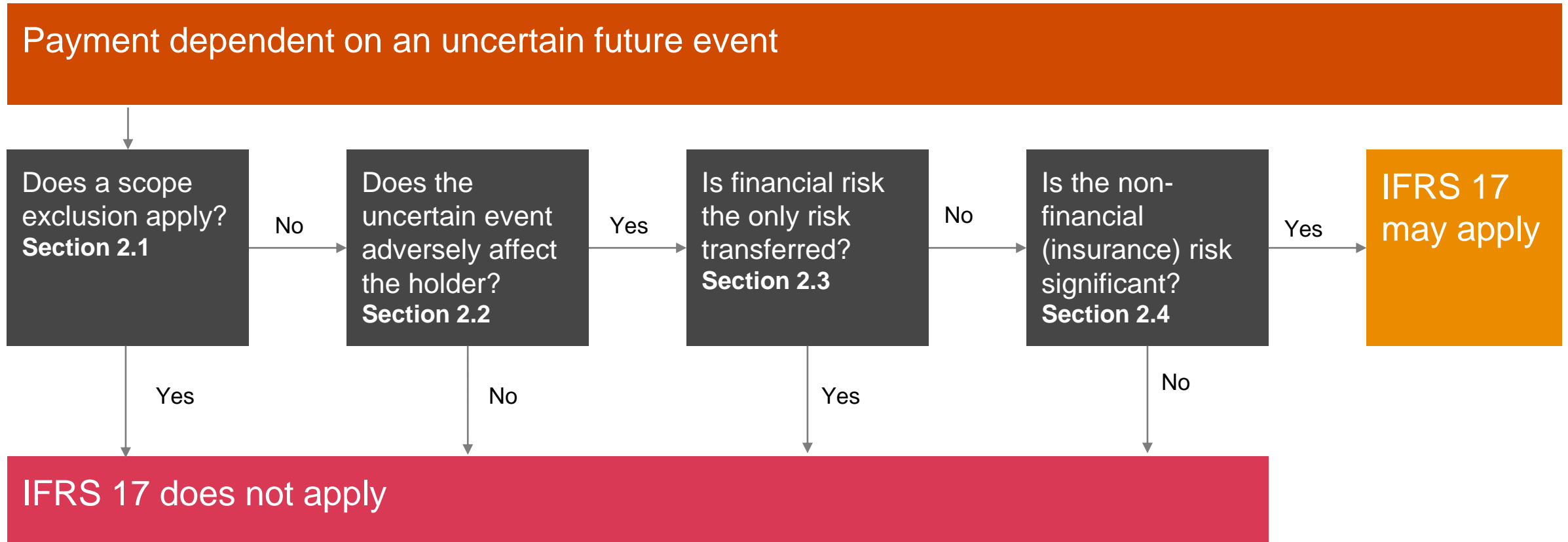
Poll Question - Are you expecting IFRS 17 to have an impact on your organisation and/or clients?

- Yes - Significant impact
- Yes - Some impact
- Not sure yet
- No impact – I'm listening for interest

2

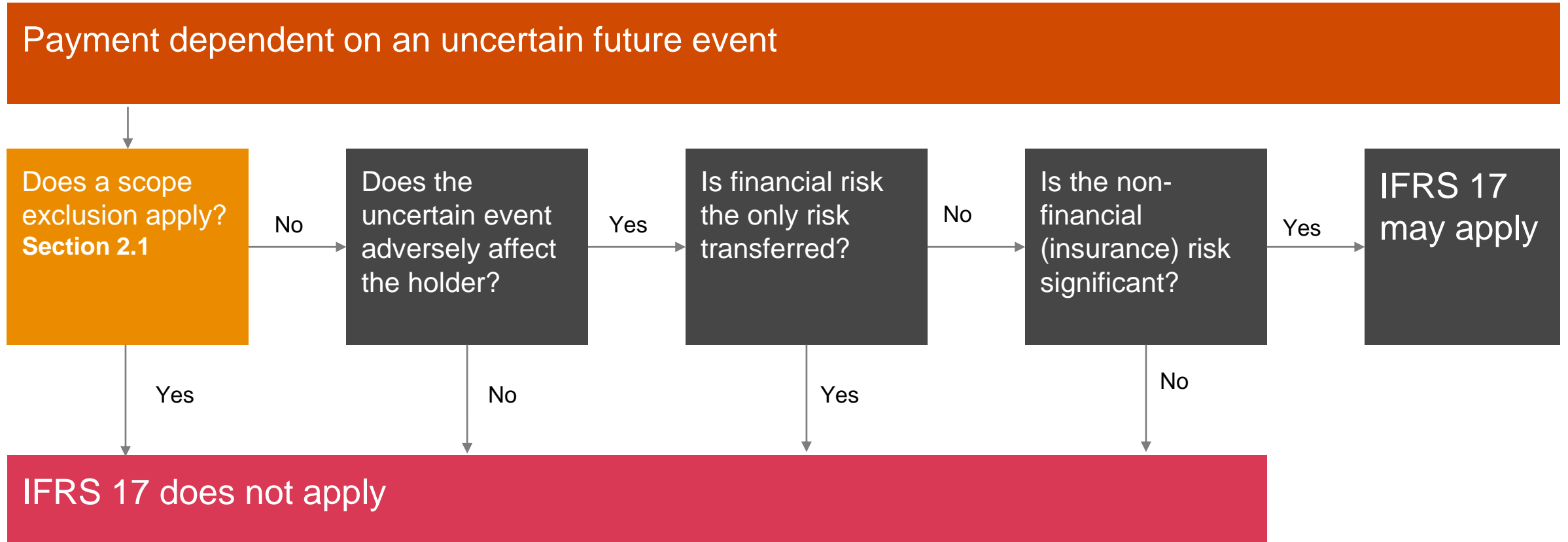
Scope of IFRS 17 Insurance Contracts

Scope of IFRS 17 Insurance Contracts



Scope of IFRS 17 Insurance contracts

2.1 – Does a scope exclusion apply?



Scope of IFRS 17 Insurance contracts

2.1 – Does a scope exclusion apply?

Contracts in the scope of other standards (if certain criteria are met)

Type of contract	Relevant standard
Product warranties – from manufacturers, retailers and dealers in connection with sale of its products	IFRS 15/IAS 37
Employee benefit plans	IFRS 2/IAS 19/IAS 26
Rights or obligations contingent on future use of a non-financial item	IFRS 15/IFRS 16 IAS 38
Residual value guarantees – from manufacturers, retailers and dealers	IFRS 15
Residual value guarantees – embedded in leases for lessees	IFRS 16
Contingent consideration in a business combination	IFRS 3
Insurance contracts held (unless they are reinsurance)	IAS 8 (no specific standard)

Scope of IFRS 17 Insurance contracts

2.1 – Does a scope exclusion apply?

Product warranties

- An entity provides its customers with a 1 year 'free' standard product warranty at point of sale
- Customer can purchase a further 2 year extended warranty, which is issued through the group's warranty subsidiary.

Question 1: Do these two warranty products meet the scope exclusion from IFRS 17 at the consolidated group level?

Question 2: Does the extended warranty meet the scope exclusion from IFRS 17 at the warranty subsidiary level?

Scope of IFRS 17 Insurance contracts

2.1 – Does a scope exclusion apply?

Contracts which might be in the scope of other standards

Type of contract	Relevant standard
Loans with death waivers	IFRS 9
Financial guarantee contracts	IFRS 9
Credit cards and other payment arrangements	IFRS 9
Fixed-fee contracts	IFRS 15

Scope of IFRS 17 Insurance contracts

2.1 – Does a scope exclusion apply?

Fixed-fee contracts

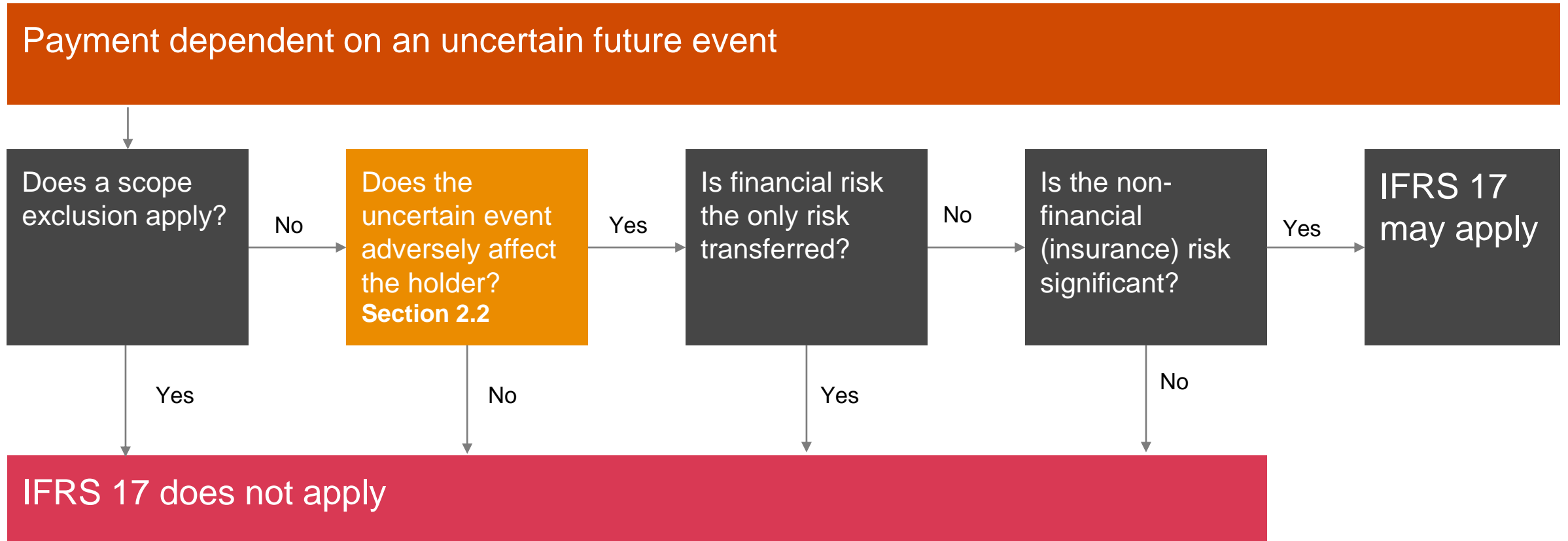
An entity can choose to apply IFRS 15 only if all of the following criteria are met; otherwise IFRS 17 must be applied:

- The price of the contract does not reflect an assessment of the risk with an individual customer;
- The contract compensates the customer by providing a service; and
- The insurance risk arises primarily from the customer's use of services rather than from uncertainty over the cost of the service.



Scope of IFRS 17 Insurance contracts

2.2 – Does the uncertain event adversely affect the holder?



Scope of IFRS 17 Insurance contracts

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Weather derivatives

A farmer in Punjab, a State in India, relies on a good monsoon that would favourably impact on its earnings for the season.

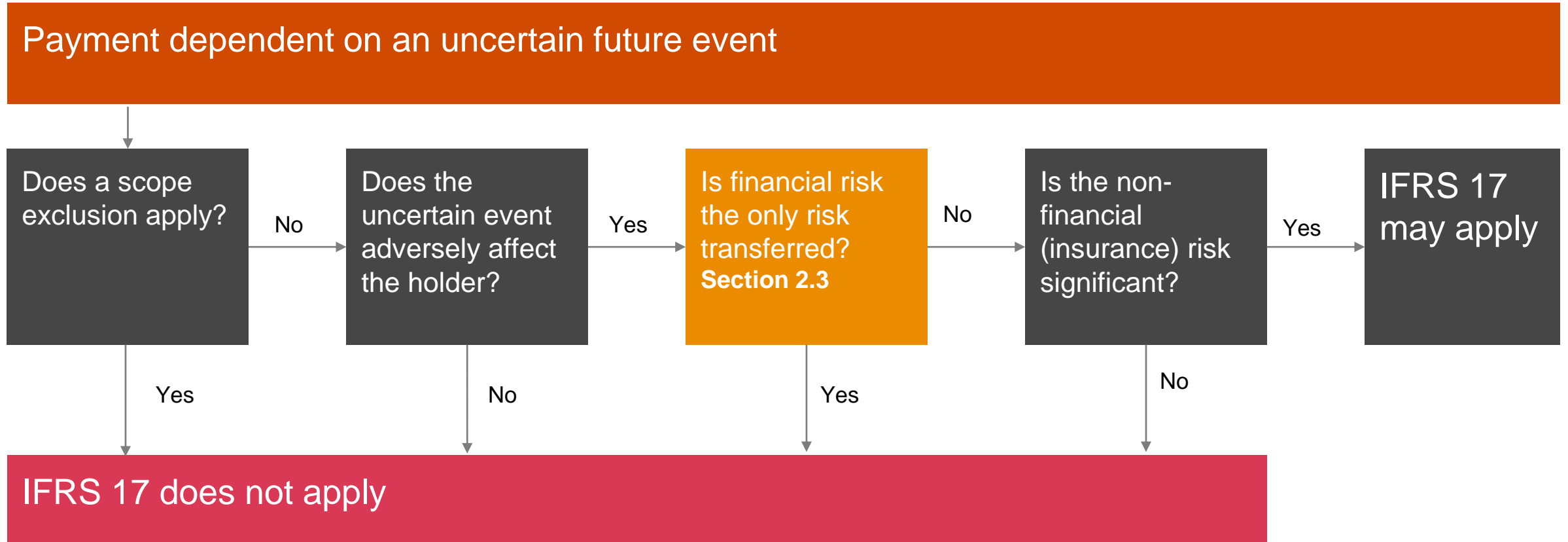
An entity enters into a contract that would pay the farmer if the farmer suffers loss due to poor production caused by below-average rainfall during the monsoon months.

Question: Could this be an insurance contract?



Scope of IFRS 17 Insurance contracts

2.3 – Is financial risk the only risk transferred?



Scope of IFRS 17 Insurance contracts

2.3 – Is financial risk the only risk transferred?

Insurance risk is any risk other than financial risk transferred from the holder of the contract to the issuer.

Financial risk means ‘the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract’.



Scope of IFRS 17 Insurance contracts

2.3 – Is financial risk the only risk transferred?

Performance guarantee

Entity A enters into a contract to construct a building for Entity B. Entity A provides Entity B with a performance guarantee through Entity C, an unrelated third party. If Entity A ceases trading, or fails to complete construction by a specified date, then Entity C will complete the construction for no additional consideration.

Question: Does the contract transfer insurance risk to Entity C?



Scope of IFRS 17 Insurance contracts

2.3 – Is financial risk the only risk transferred?

Equity release mortgage

An entity issues an equity release mortgage (also commonly referred to as 'lifetime' or 'reverse' mortgage) secured against the borrower's property with a 'no negative equity' guarantee.

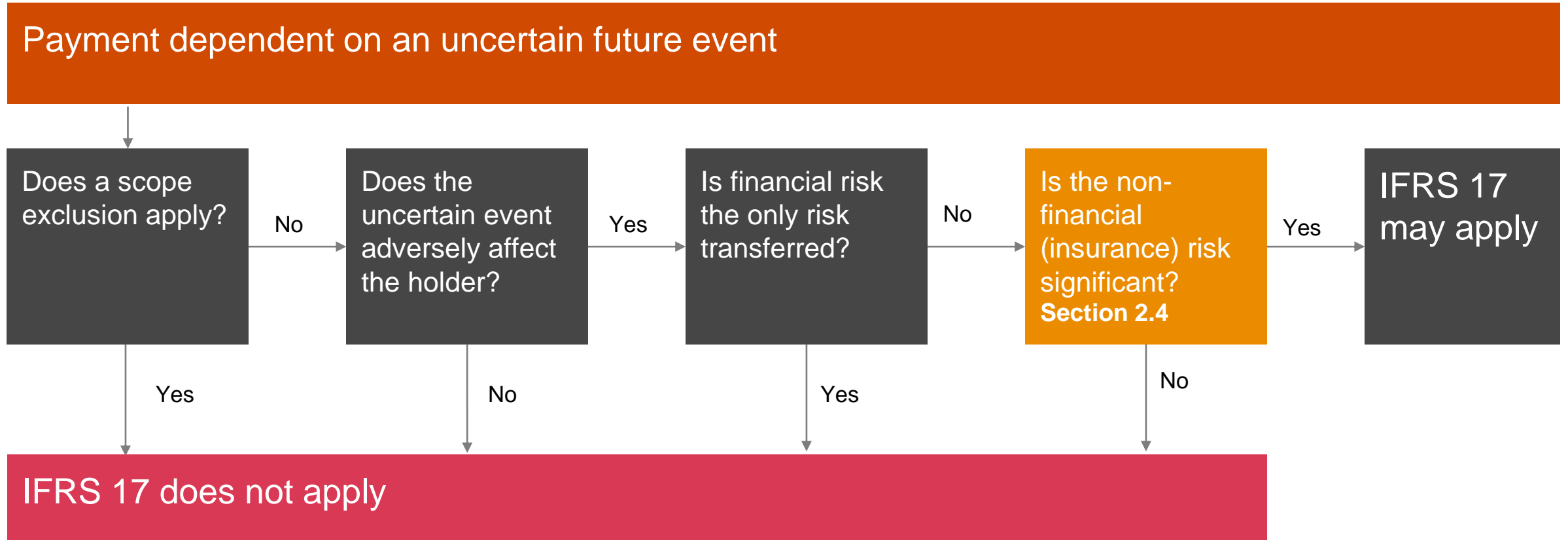
- Interest is accrued but principal and accrued interest are payable when the borrower dies or moves into long-term care.
- The property is then sold and the proceeds used to repay the mortgage balance (including any accrued interest).
- The borrower keeps any excess, and the entity bears any shortfall (i.e. the entity provides a 'no negative equity' guarantee).

Question: Does the contract transfer insurance risk?



Scope of IFRS 17 Insurance contracts

2.4 – Is the non-financial (insurance) risk significant?



Scope of IFRS 17 Insurance contracts

2.4 – Is the non-financial (insurance) risk significant?

Hurricane insurance

An entity has a contract which requires it to compensate a property owner if the property is damaged by a hurricane. The likelihood of a hurricane damaging the building is low (although the scenario has commercial substance), but the payment by the insurer would be substantial.

If the property is not damaged by a hurricane, no compensation is payable.

Question: Is the insurance risk significant?



3

Recent amendments

Amendment to IFRS 17 – June 2020

In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 Insurance Contracts. The fundamental principles introduced when the Board first issued IFRS 17 in May 2017 remain unaffected. The amendments, which respond to feedback from stakeholders, are designed to:

Reduce cost by simplifying some requirements



Ease transition by deferring the effective date of the Standard to 2023



Extend temporary exemption from IFRS 9 for insurers

Scope exclusions

Expected recovery
of insurance
acquisition cash
flows

Contractual service
margin attributable
to investment
services

Reinsurance
contracts held –
recovery of losses

**Recent
amendments
to IFRS 17**

Presentation in
statement of
financial position

Applicability of the
risk mitigation option

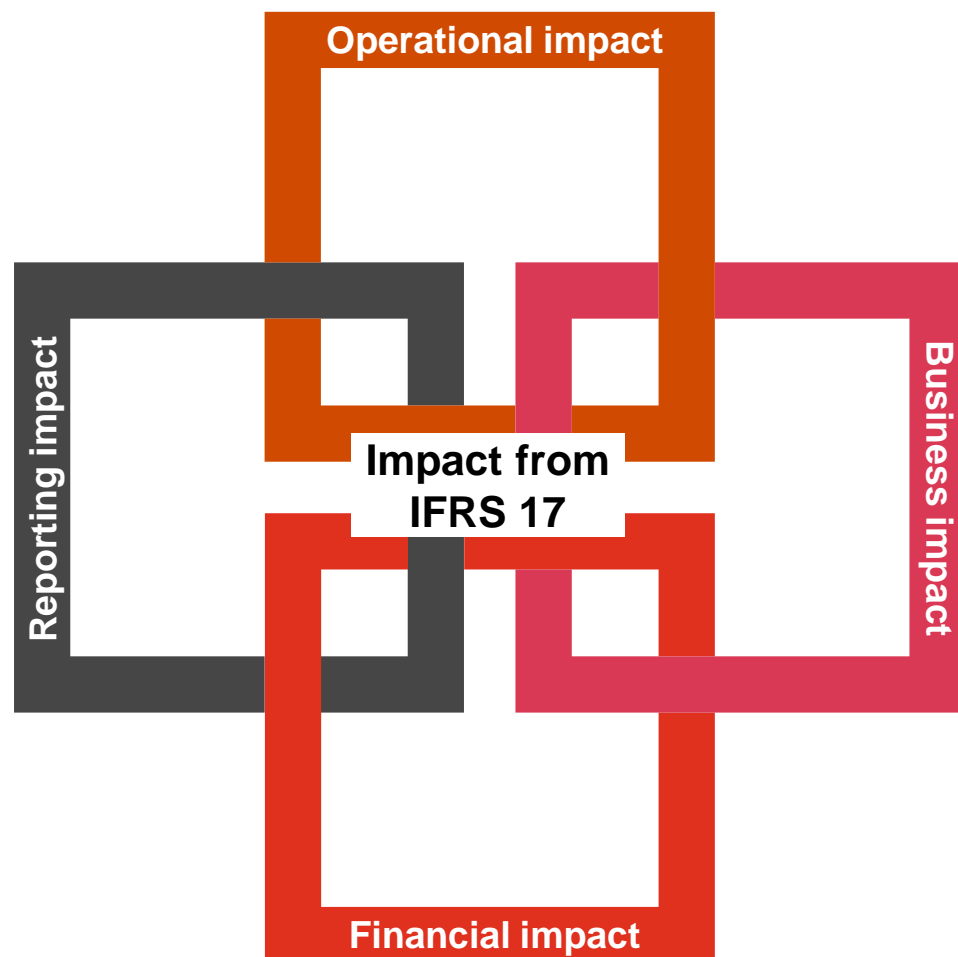
Effective date

Transition reliefs

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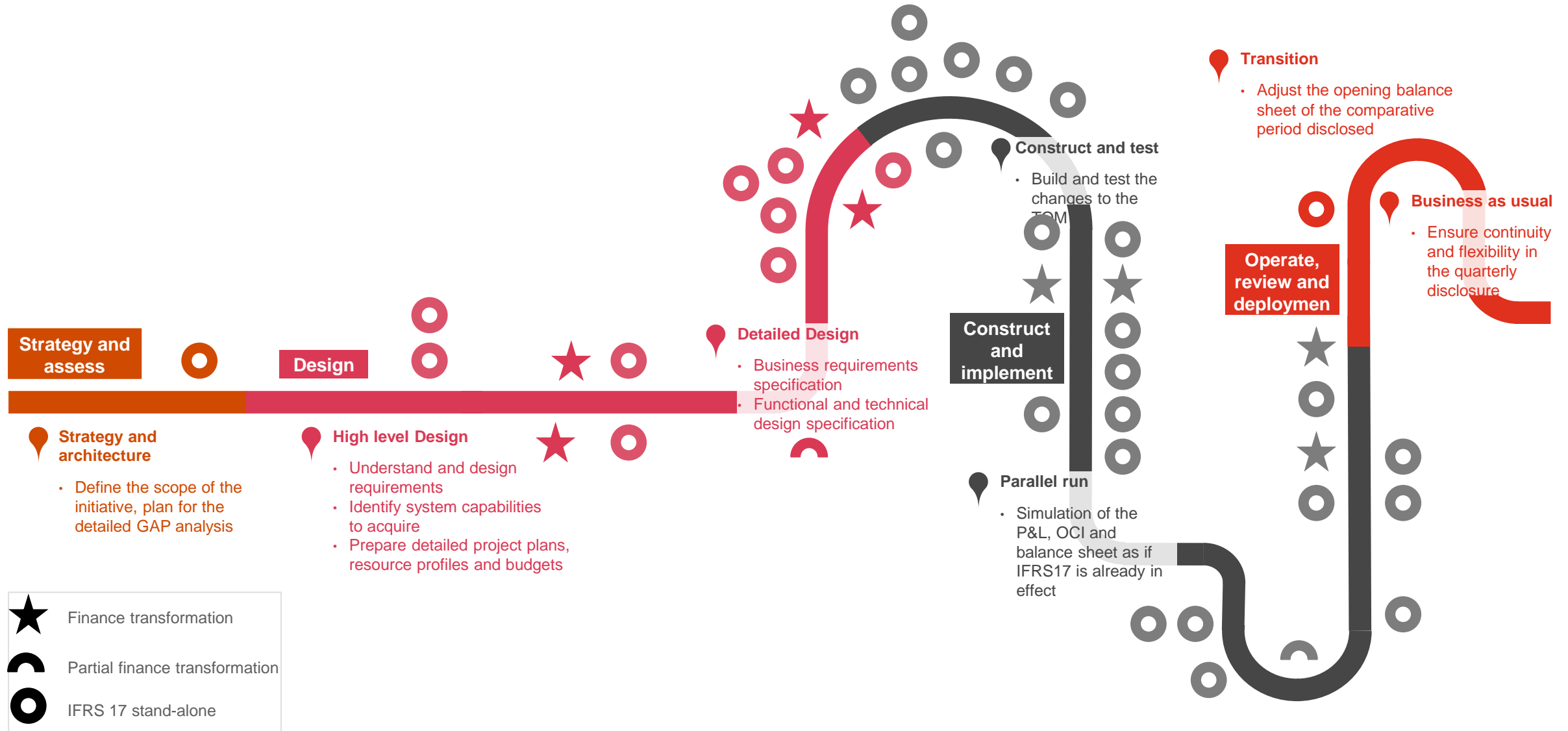
Practical
implementation

Selected impact points



- Insurance liability includes risk adjustment and CSM
- New format of balance sheet and income statement
- Significant impact on IT infrastructure, data, financial and actuarial systems, processes and controls (particularly if current reporting timelines are to be retained)
- Key financial metrics change, with all its implications for business management
- Requires significant resources and broadly skilled teams
- New profit patterns, where timing is predominantly determined by CSM release
- No gains (but losses) at inception
- Transitional choices will determine future profit volumes and one-time equity effect

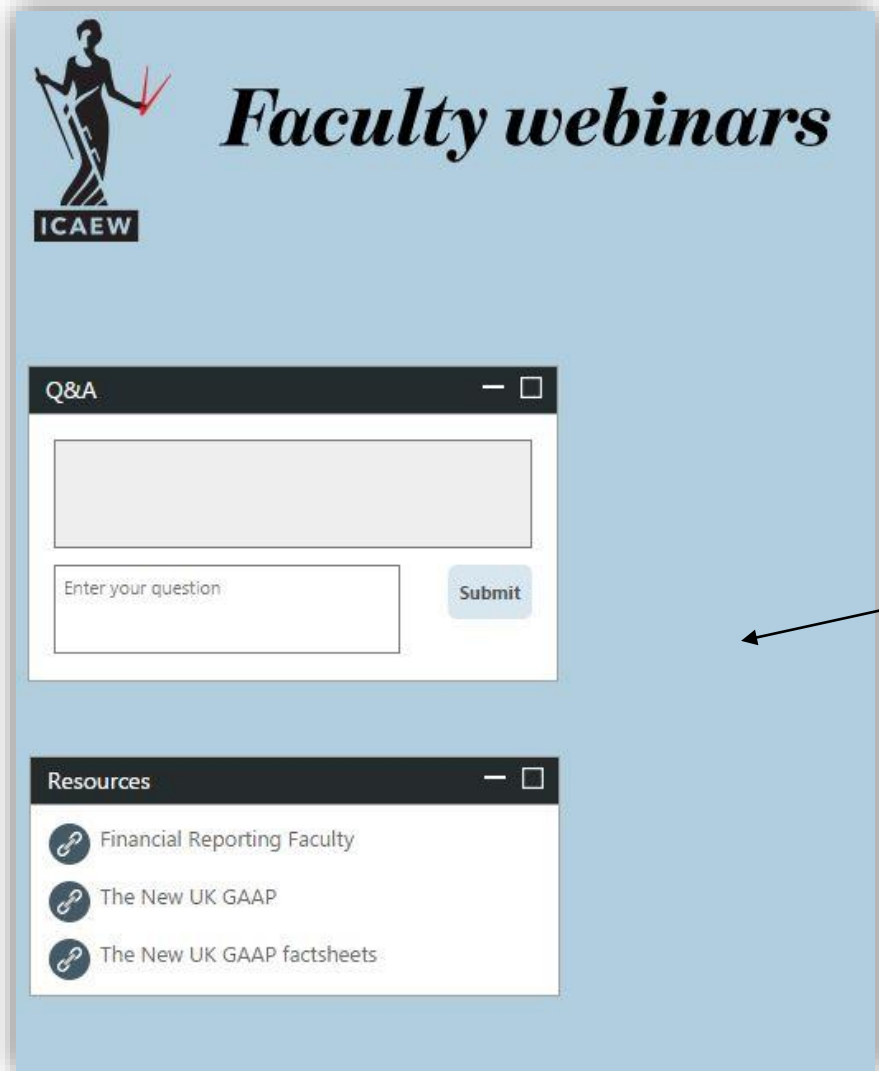
Where are preparers in implementation?



Poll Question - Are you expecting IFRS 17 to have an impact on your organisation and/or clients?

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Ask a question



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Ask a question

Type your question into the box, then click submit.

Faculty resources

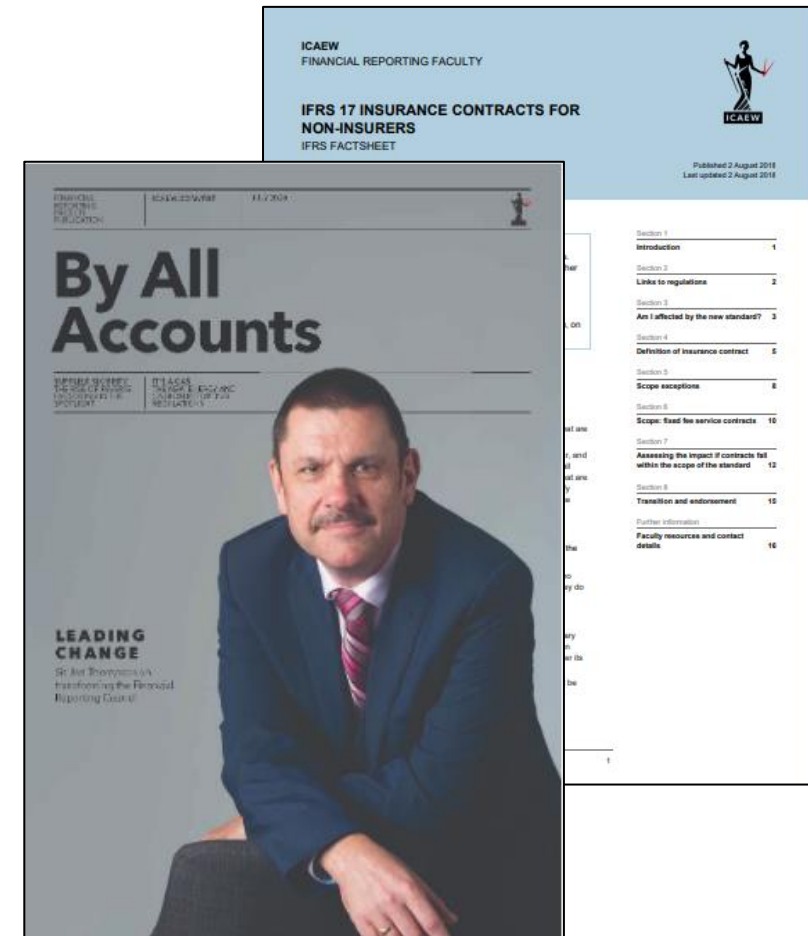
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Financial Reporting Faculty members

- Factsheets
 - IFRS 17 Insurance Contracts
 - 2020 IFRS Accounts
- By All Accounts icaew.com/byallaccounts
 - Insurance contracts for non-insurers (Jan 2021)
 - Accounting for insurance (Jan 2018)
- Join the faculty icaew.com/joinfrf

PwC publication on IFRS 17 for non-insurers

- Coming soon at pwc.com/ifrs17



Future events

For details, please visit icaew.com/frfevents



Bitesize Briefings
COVID-19 series



Webinars

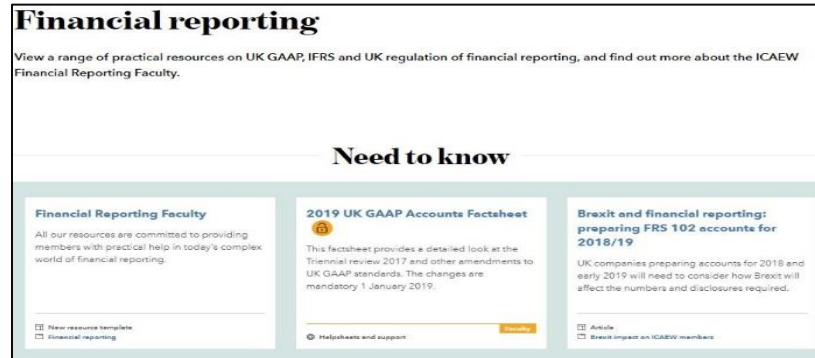
7 December: Preparing for the 2020/21 reporting season
17 December: Contract modifications under IFRS



2020 Members' event – recordings available

Going concern and resilience: lessons learned from COVID-19
icaew.com/goingconcernevent

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Questions



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Rich Brown
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Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



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