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The IFRS 17 Financial Statements

How to read the new key elements

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The IFRS 17 Financial Statements
How to read the new key elements

- The overall change
- Information about the profitability of insurance companies
  - **Insurance service result**
  - **Net finance result**
  - **P&L and OCI**
  - **The impact of transition on reported profits**
- Information about the financial position of insurance companies
  - **Two main angles to “slice” the balance sheet: building blocks and unexpired coverage**
  - **Important CSM disclosures**
- Conclusion and Q&A

The adoption of IFRS 17 in over 100 countries in the world from 1 January 2023 will offer a “fresh start” to all insurance companies to present their performance and financial position in a way that benefits from both the consistency and transparency required under IFRS 17

The overall change

- A consistent way of producing financial reports available to the insurance industry on a scale that has no precedent in its history
  - **Consistency**
  - **Transparency**
    - Only industry to report its expected profit from the main products sold (CSM)
    - Only industry to adopt a consistent configuration for an "operating profit" definition
    - Only industry to handle financial risk volatility systematically
- Focus shifts from balance sheet to P&L

Which of the new P&L disclosures with IFRS 17 will have the greatest impact on users of financial statements compared to IFRS 4? (single choice)

1. Insurance revenue and associated disclosures
2. Insurance service expenses and associated disclosures
3. A globally consistent insurance service result sub-total
4. The possibility to present a net finance result sub-total

Information about the profitability of insurance companies

Insurance service result ("ISR")

- Mandatory sub-total – this makes the insurance industry the only industry to adopt a consistent configuration for an "operating profit" definition
- The ISR depicts the profit from insurance activities before the impact of financial variables
  - **Insurance revenue**
  - **Less – insurance service expenses ("ISE")**
  - **Effect of reinsurance contracts held**
- The ISR is common across life and non-life companies
- It represents the underwriting result for the period
- Rich disclosures on the composition of the ISE

(i) incurred claims (excluding investment components) and other incurred insurance service expenses;

(ii) amortisation of insurance acquisition cash flows;

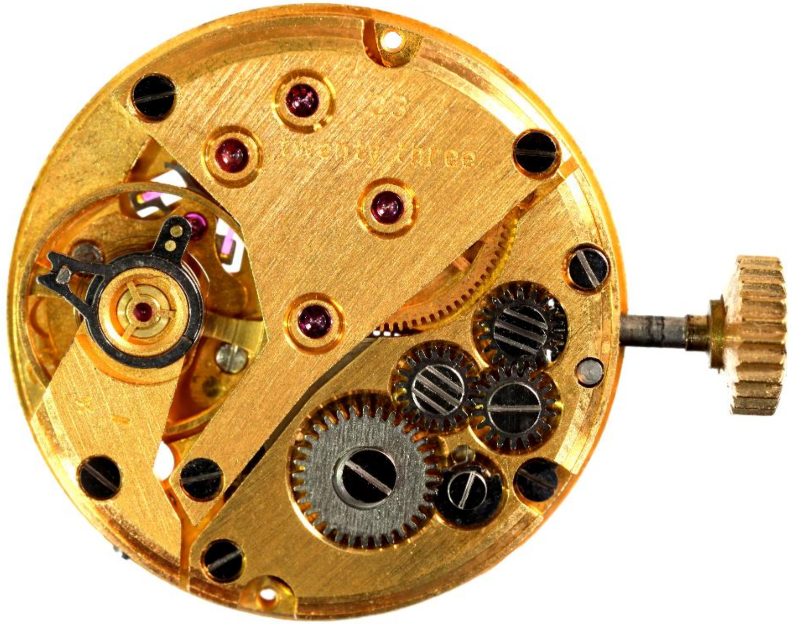
(iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and

(iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.

Information about the profitability of insurance companies

Net finance result ("NFR")

- The ISR mandates the separation of the effects of financial variables from the insurance profit or loss
- The effects of financial variables fall in a single P&L line: "Insurance Finance Income or Expenses" ("IFIE")
- The IFIE includes four main elements:
  - **Unwind of the time value of money at locked-in rates;**
  - **Revaluation of the time value of money to current interest rates;**
  - **Foreign exchange gains and losses; and**
  - **Effect of changes in fair value of underlying items under the VFA**
- Many insurers are planning to voluntarily introduce a NFR sub-total that would include the IFIE and the return made from the financial assets held



Information about the profitability of insurance companies

P&L and OCI

- Entities can elect, on a portfolio-by-portfolio basis, the accounting policy that splits the IFIE between P&L and OCI (“Other Comprehensive Income”)
- The insurance companies under IFRS 17 will be the only ones to handle the reporting of financial risk volatility systematically
- The OCI option moves the financial volatility out of the P&L while maintaining a market consistent balance sheet
- Combined with the IFRS 9 accounting of fair value through OCI for bonds, insurers can split the NFR between a P&L sub-total and an OCI sub-total
- FX gains and losses would follow the P&L/OCI presentation choice

Information about the profitability of insurance companies

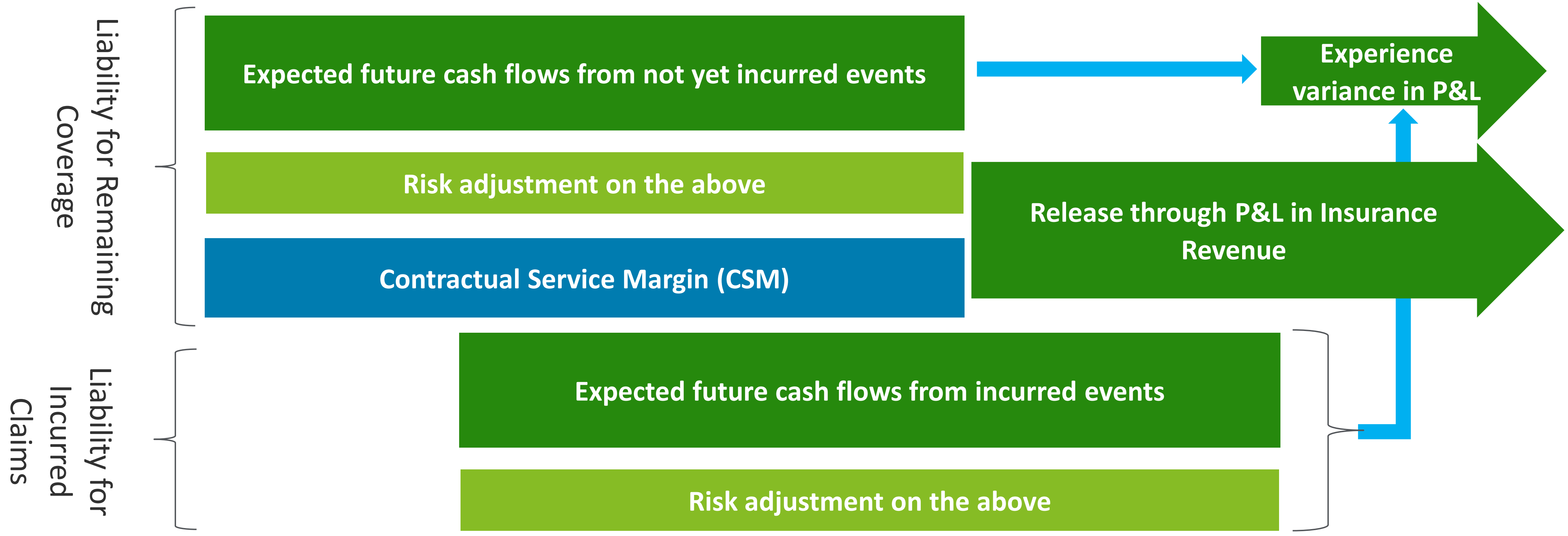
The impact of transition on reported profits

- The restatement of the transition balance sheet as at 1 January 2022 creates a major break between old and new accounting
- This creates a major impact on both life and non-life insurance companies future reported profits
  - **The net impact on equity: accretive to future ROE or dilutive?**
    - No single answer can be gauged – IFRS 4 is different country by country
    - Claims liabilities may need to release to equity implicit prudence replaced by a smaller calculated risk adjustment
    - Some life insurance IFRS 4 accounting may be more aggressive than IFRS 17 (reduction of equity at transition) or less (increase of equity at transition)
  - **For life insurance there could be three separate CSM amounts at transition**
    - Fully Restated, Modified Restated and Fair Value Restated CSM
    - All need to be reported till reduce to immaterial amounts

Information about the financial position of insurance companies

Two main angles to “slice” the balance sheet: building blocks and unexpired coverage

- The balance sheet transparency of IFRS 17 is extensive through disclosure that links directly to P&L



Information about the profitability of insurance companies

Important CSM disclosures

- The core of the new accounting under IFRS 17 is that the insurance companies will be the only IFRS entities to report their expected profit from the main products sold (CSM)
- This is of paramount importance in the life insurance sector in particular
- IFRS 17 provides extensive disclosures to explain how CSM contributes to an insurer's profit or loss. Two are key:
  - **CSM roll-forward table**
  - **CSM multi-year release table**

Information about the profitability of insurance companies

Important CSM disclosures: CSM roll-forward table

Table 3—movements in insurance contract liabilities analysed by components[116]

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Insurance contract liabilities 20X0[117]	163,962	5,998	8,858	178,818
Changes that relate to current service	**35**	**(604)**	**(923)**	**(1,492)**
Contractual service margin recognised for service provided			(923)	(923)
Risk adjustment recognised for the risk expired		(604)		(604)
Experience adjustments	35			35
Changes that relate to future service	**(784)**	**1,117**	**(116)**	**217**
Contracts initially recognised in the period[118]	(2,329)	1,077	1,375	123
Changes in estimates reflected in the contractual service margin[119]	1,452	39	(1,491)	-
Changes in estimates that result in onerous contract losses	93	1		94
Changes that relate to past service	**47**	**(7)**		**40**
Adjustments to liabilities for incurred claims	47	(7)		40
Insurance service result	(702)	506	(1,039)	(1,235)
Insurance finance expenses[120]	9,087	-	221	9,308
Total changes in the statement of comprehensive income	8,385	506	(818)	8,073
Cash flows[121]	18,833			18,833
Insurance contract liabilities 20x1	191,180	6,504	8,040	205,724

Source: IASB "IFRS 17 Effects Analysis", 2017 © IFRS Foundation

Information about the profitability of insurance companies

Important CSM disclosures: CSM multi-year release table

- The illustration in the previous page shows CU 923 being released from CSM to Insurance Revenue in the year
- IFRS 17 requires all insurers to report their expected full run-off of the CSM balance:

> 109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss quantitatively, in appropriate time bands. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

Information about the profitability of insurance companies

Important CSM disclosures: CSM multi-year release table

- Illustration of a possible comparative analysis based on the CSM multi-year release table

Company 1									
$ millions	Prior period	Current period	CSM at the end of current period	Next year	Year 2-5	Year 5-10	Year 10-15	Year 15-20	Over 20 years
CSM in P&L	$154	$165	$1,833	$175	$554	$678	$411	$213	$376
Company 2									
CSM in P&L	$177	$193	$1,756	$175	$489	$591	$378	$299	$288
Company 3									
CSM in P&L	$144	$181	$1,902	$201	$644	$567	$432	$112	$431

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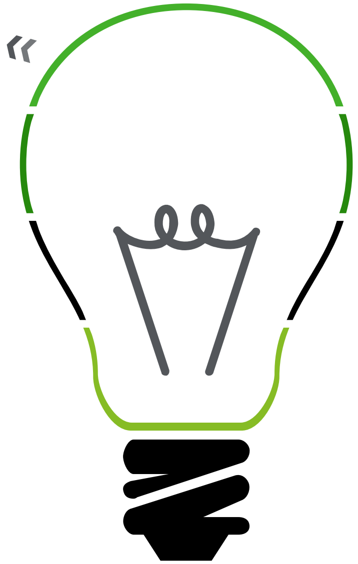
What improvement of balance sheet information that will be coming with IFRS 17 will have a more positive impact? (single choice)

1. Considering the balance sheet line items and shifting the emphasis on the disclosures
2. Focusing disclosures on the building blocks and on the unexpired / expired coverage
3. Reconciling balance sheet movements to the P&L and the cash flows statement
4. Aggregation level: type of contract, geographical area, reportable segment



Conclusion and Q&A

- Strong focus on sources of profit
  - **ISR (Insurance Revenue and ISE)**
  - **NFR (IFIE)**
- Comprehensive reconciliation of balance sheet to P&L via roll forward tables
- Single consistent option to handle the reporting of financial volatility
- Major disclosure focus on CSM and the in-force embedded profit
- Sharp focus on the effects on transition at “go-live” and in subsequent periods
- Fundamental financial analysis for insurance companies (life in particular) will be enhanced materially

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