Agenda

01. Current status of the IFRS 17 standard
02. Key areas of impact for General insurers
03. IFRS 17 Financial Statements
04. Transition approach
Current status of the IFRS 17 standard
IASB aims for IFRS 17 to bring:
- Consistent accounting
- Comparability
- Updated information
- Increased transparency

What IFRS 17 requires:
- Measurement model for insurance contracts based on:
  - expected future cash flows;
  - discounted to reflect time value of money; and
  - a risk adjustment to reflect the compensation the insurer requires to bear risk
- The expected profit in a contract is measured on day one and released over the coverage period
- Early recognition of potential loss making contracts
- Increased disclosure requirements
Key areas of impact for General insurers
Key areas of impact for General Insurers

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<tbody>
<tr>
<td>1</td>
<td>Financial Statements presentation and disclosure. New and more granular balance sheet presentation</td>
</tr>
<tr>
<td>2</td>
<td>Measurements models. Introduction of more complex measurement model (GM). Simplified model (PAA) eligibility</td>
</tr>
<tr>
<td>3</td>
<td>Changes to measurement and/or presentation of risk adjustment, discounting and inflation, onerous contracts</td>
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<tr>
<td>4</td>
<td>New accounting rules for ceding commissions and reinstatement premiums on inwards and outwards reinsurance</td>
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<td>5</td>
<td>Contracts acquired in their claims settlement period (i.e. acquisition and portfolio transfers)</td>
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<tr>
<td>6</td>
<td>Changes to expense allocation and disclosure</td>
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Working on the IFRS 17 implementation project we have been focussing on identifying and solutioning the key areas of impact for general insurers.
Measurement models
Overview of measurement models

BALANCE SHEET MEASUREMENT: INSURANCE CONTRACT ASSET / LIABILITY

GENERAL MODEL (GM)
- Contractual service margin (CSM)
- Risk adjustment
- PV of future cash flows

PREMIUM ALLOCATION APPROACH (PAA)
- IFRS 17 PAA:
  - Premiums received
  - Less DAC
  - Equivalent to PAA LfRC
- AASB 1023:
  - Unearned premium (UEP)
  - Less Premium receivables
  - Less DAC
  - PAA LfRC

Simplification that may be applied if PAA eligibility criteria is met.

BALANCE SHEET MEASUREMENT: INSURANCE CONTRACT ASSET / LIABILITY

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### PAA WORKED EXAMPLE

**FACT PATTERN**

- An entity issues an insurance contract on **1 July 20X1**
- The premium charged is **$1,200** due at the end of each quarter in arrears
- The coverage period is **1 year** (1 July 20X1 – 30 June 20X2)
- Insurance acquisition cash flows of **CU180** are paid on **1 July 20X1**
- The insurance contract is not onerous.

### Overview of measurement models

#### Current accounting – unexpired coverage

<table>
<thead>
<tr>
<th>Payment made</th>
<th>1 July 20X1</th>
<th>30 Sep 20X1</th>
<th>31 Dec 20X1</th>
<th>31 Mar 20X2</th>
<th>30 June 20X2</th>
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</thead>
<tbody>
<tr>
<td>Premium receivables</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>0</td>
</tr>
<tr>
<td>Unearned premium reserve (UPR)</td>
<td>(1,200)</td>
<td>(900)</td>
<td>(600)</td>
<td>(300)</td>
<td>0</td>
</tr>
<tr>
<td>Deferred acquisition cost (DAC)</td>
<td>180</td>
<td>135</td>
<td>90</td>
<td>45</td>
<td>0</td>
</tr>
<tr>
<td>Sum of insurance line items on the balance sheet (overall asset position)</td>
<td>180</td>
<td>435</td>
<td>690</td>
<td>945</td>
<td>0</td>
</tr>
<tr>
<td>Earned premiums in each period</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
</tbody>
</table>

#### IFRS 17 accounting – unexpired coverage (liability for remaining coverage)

<table>
<thead>
<tr>
<th>1 July 20X1</th>
<th>30 Sep 20X1</th>
<th>31 Dec 20X1</th>
<th>31 Mar 20X2</th>
<th>30 June 20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>0</td>
<td>180</td>
<td>435</td>
<td>690</td>
</tr>
<tr>
<td>Premium received</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amounts recognised as insurance revenue (earned premiums)</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Insurance acquisition cash flows</td>
<td>180</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Amortisation of insurance acquisition cash flows</td>
<td>(45)</td>
<td>(45)</td>
<td>(45)</td>
<td>(45)</td>
</tr>
<tr>
<td>Closing balance of insurance contract asset / (liability)</td>
<td>180</td>
<td>435</td>
<td>690</td>
<td>945</td>
</tr>
<tr>
<td>Insurance revenue in each period</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
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</tbody>
</table>
Coverage units
Coverage units

How to recognise the CSM in P&L using coverage units

How to determine the pattern of coverage units

Note

- **Applicable to GM contracts only:** Coverage units is not applicable when measuring contracts that apply the premium allocation approach (PAA) as there is no requirement to recognise and measure CSM.

- **Relevant for PAA eligibility testing:** The determination of coverage units is relevant when performing the calculation of the GM LiRRC for the purposes of the PAA eligibility assessment.

What is a coverage unit and why is it important

How to recognise the CSM in P&L using coverage units

How to determine the pattern of coverage units

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CSM (unearned profit)

Insurance asset/liability measurement on initial recognition applying the general model (GM)

PV of future cash flows

Risk adjustment

CSM is recognised in P&L over the coverage period in a pattern that reflects the services provided – this pattern is derived through ‘coverage units’

Liability for remaining coverage (unexpired coverage)
Coverage units provide the basis for determining the amount of the CSM to be recognised in P&L in each period.

**Steps to determine the amount of CSM to be recognised in P&L in each period:**

1. Identify the number of coverage units over the current and expected remaining coverage period
2. Allocate the CSM balance at the end of the period equally to each coverage unit
3. Recognise in P&L the amount of CSM allocated to coverage units related to the current period

Example

An entity issues 100 insurance contracts with a coverage period of 3 years. CSM at inception = CU300

*Interest accretion is ignored for simplicity. Assume that there are no changes in assumptions of future cash flows.*

All contracts provide the same level of cover. The level of cover provided is consistent in each year of coverage. There is therefore, an equal allocation of coverage units to each period of coverage – each contract represents 1 coverage unit.

*Note: determining the pattern of coverage units (i.e. how the coverage units should be allocated to each period) [Step 1] is covered in the next page*

<table>
<thead>
<tr>
<th>Coverage period = 3 years</th>
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<tbody>
<tr>
<td><strong>Coverage units</strong></td>
</tr>
<tr>
<td><strong>Year 1</strong></td>
</tr>
<tr>
<td><strong>Year 2</strong></td>
</tr>
<tr>
<td><strong>Year 3</strong></td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>100</td>
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<tr>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSM in profit or loss (earned profit as service is provided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CU100(^{(1)})</td>
</tr>
<tr>
<td>CU100</td>
</tr>
<tr>
<td>CU100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CSM (unearned profit) in balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>CU300</td>
</tr>
<tr>
<td>CU200(^{(1)})</td>
</tr>
<tr>
<td>CU100</td>
</tr>
<tr>
<td>CU0</td>
</tr>
</tbody>
</table>

\(^{(1)}\) At the end of Year 1, recognise 100/300 [current / (current + remaining) coverage units] x CU300 CSM in profit or loss
Coverage units

HOW TO DETERMINE THE PATTERN OF COVERAGE UNITS

Coverage units is determined by considering for each contract:

- Quantity of benefits provided under a contract
- Expected coverage duration

- P/holder benefits from the entity standing ready to meet valid claims.
- The amount that can be claimed affects the quantity of benefits provided. Quantity of benefits must take into account p/holder insurable interests and their capacity to make valid claims.

Example of possible methods

**Contractual maximum cover**

E.g. A home insurance policy provides cover for 3 years with a policy limit of CU30k claims per year.

Coverage units will reflect the constant maximum limit of CU30k resulting in a straight line recognition of CSM in P&L.

**Value of insured asset / insurable interest**

In some cases, contractual maximum cover would not reflect the p/holder’s insurable interest and therefore, their ability to make a valid claim up to that level. E.g. construction contract – there is likely to be little or no insured asset in the early part of the coverage period and therefore, no potential for a valid claim or p/holder benefit. Straight line recognition of CSM would therefore, not be appropriate for those facts and circumstances.

The accounting guidance sets out other possible methods and includes practical examples based on real products.

- The pattern of coverage is not the same as the pattern of incidence of risk.

• The period over which the CSM on a group of contracts is recognised in profit or loss.
• Coverage duration over which to release the CSM might be shorter than the coverage period because it:
  - begins from when the p/holder can benefit from the insurance contract (i.e. make valid claims under the insurance contract)
  - takes into account expectations of lapses and cancellations of contracts.

E.g. in Extended Warranty contracts, the insurer’s obligations to provide cover begins after expiry of the manufacturer’s original warranty. The expected coverage duration for recognising CSM in P&L therefore begins after expiry of the manufacturer’s warranty.
PAA eligibility
LIABILITY FOR REMAINING COVERAGE (LFRC) (UNEXPIRED COVERAGE) UNDER THE TWO MEASUREMENT MODELS

GENERAL MODEL (GM)
Unearned profit element which needs to be separately identified and tracked.
- Run-off pattern based on ‘coverage units’
- Need inception discount rate to accrete interest

- Contractual service margin (CSM)
- Risk adjustment
- PV of future cash flows

Need to estimate future cash flows in relation to claims not yet incurred and update in each reporting period.

* Significant additional disclosure requirements for general model

PREMIUM ALLOCATION APPROACH (PAA)
Simplification to the GM but eligibility criteria need to be met

- Premiums received Less DAC
- Equivalent to

Revenue is based on expected premium receipts allocated to P&L based on the passage of time, or expected timing of incurred service expenses – similar to earned premiums

AASB 1023

Unearned premium (UEP) Less Premium receivables

Less DAC
What is the coverage period of the contracts? [Refer to the Contract Boundary slides]

- One year or less:
  - Automatically eligible to apply the PAA. No further analysis required

- More than one year:
  - PAA eligibility assessment required

Eligibility criteria: Measurement of the PAA LfRC will not materially differ from the GM LfRC

Factors that may lead to differences between PAA and GM LfRC:
- Long coverage period
- Significant cash flow variability
- High profitability
- Pattern of revenue recognition – PAA vs coverage units

Apply PAA if the eligibility criteria are met
Contract boundary
Determination of contract boundary

Within the contract boundary

WHAT IS THE COVERAGE PERIOD AND WHY DOES IT MATTER?

Driver of profit recognition
- Premiums are earned over this period

Implications for PAA eligibility
- Coverage period ≤ 1 year automatically eligible
- Becomes more difficult to pass PAA eligibility test the longer the coverage period

SCOPE

Beginning of contract boundary: when to recognise contracts?

End of contract boundary: when do contracts end?

Treatment of options to extend coverage

When does the contract boundary need to be reassessed?
INSURANCE AND REINSURANCE CONTRACTS ISSUED (DIRECT INSURANCE AND INWARDS REINSURANCE CONTRACTS)

BEGINNING OF CONTRACT BOUNDARY: WHEN TO RECOGNISE CONTRACTS?

Earliest of when:

1. Coverage begins
2. First premium payment due
3. Contracts become onerous (based on facts and circumstances)

No payment due date?: when first premium received

Examples of when first payment due/receipt date may trigger contract recognition prior to coverage start date:

- **Travel policies purchased online** – no premium due date as payment has to be made at time of purchase (generally before the start of coverage)
- **Auto-renewed policies** – automatically renewed unless non-renewal notice received from p/holders. No premium due date and premiums collected before the start of coverage

Will only trigger contract recognition before (1) and (2) if:

- **Bound but not incepted business (BBNI):**
  - binding offer has been issued
  - coverage is yet to start
  - premiums are not yet due

- **Facts and circumstances** indicate the contract would be onerous – e.g. priced as loss leaders
Determination of contract boundary

END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?

1 year

Original insurance contract
Annual renewal of original insurance contract
Annual renewal of original insurance contract

1 year

Is the coverage period of the original insurance contract 1 year or longer?
i.e. are the renewals part of the original contract or treated as new contracts to be issued in the future?

Is the coverage period of the insurance contract indefinite?

IT DEPENDS...

Practical ability to reprice for reassessed risks
Restrictions to ability to reprice?
Commercial substance of any restrictions

Repricing and termination rights
Options to add coverage

Separate contract in substance?
When is the price of the option set?
Determination of contract boundary

INSURANCE AND REINSURANCE CONTRACTS ISSUED (DIRECT INSURANCE AND INWARDS REINSURANCE CONTRACTS)

END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?

Contract boundary decision points

Practical ability to reassess the risks of the individual policyholder and set a price or level of benefits that fully reflects those risks?

Are both the following conditions met?:

- Practical ability to reprice for reassessed risks?
- What if the contract provides options to add coverage?
- Do we need to reassess our contract boundary decisions?

No

Contract boundary extends beyond the reassessment date and will end when the entity cannot compel the policyholder to pay premiums

Yes

Contract boundary ends at the reassessment date. Cash flows relating to premiums beyond that point are considered part of a future contract.

INCLUDED IN CONTRACT BOUNDARY

END OF CONTRACT BOUNDARY

Pricing of premiums for coverage up to the reassessment date do not take into account risks that relate to periods after the reassessment date (i.e. no cross subsidisation between years)
Determination of contract boundary

**INSURANCE AND REINSURANCE CONTRACTS ISSUED (DIRECT INSURANCE AND INWARDS REINSURANCE CONTRACTS)**

END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?

**Practical ability to reprice for reassessed risks**
- Absence of constraints/restrictions to repricing
  - **Examples of constraints/restrictions**
    - Contractual terms that fix premiums for a number of years (including on renewals)
    - Regulation that specify limitations to renewal rate increases (e.g. CTP)
  - Disregard restrictions with no commercial substance – i.e. no discernible effect on the economics of the contract
  - Disregard restrictions that equally applies to pricing new and existing (e.g. renewals) contracts
    - E.g. Market pressures that equally restricts pricing of new contracts and renewals – e.g. pressure to remain competitive in the market

**Treatment of options to extend or renew coverage**
- Is the option a separate contract in substance?
- If not, are cash flows relating to the option outside the contract boundary of the existing contract?
  - Depends on whether the whole contract (incl. the option) can be repriced to fully reflect the reassessed risk when the option is exercised.

**Pricing of premiums take into account risks that relate to periods after the reassessment date**
- E.g. Premiums charged are constant each year even though the insurance risk is expected to increase over the term. Premiums in earlier years subsidise risks in later years.

**Reassessment of contract boundary**
- At the end of each reporting period reassess the contract boundary for changes in circumstances
  - **E.g. restrictions determined to have no commercial substance in one period subsequently take on commercial substance in the next reporting period.**
- Implications of contract boundary reassessment should be considered when assessing PAA eligibility
Level of aggregation
Level of aggregation

Contracts that are of similar risks and managed together.

Each portfolio needs to be divided into groups of contracts that are:
- onerous (if any);
- have no significant possibility of becoming onerous (if any); and
- remaining contracts

Groups cannot include contracts issued more than one year apart. Therefore, each underwriting year cohort will represent separate groups.

Groups are set at inception and not subsequently changed for those incepted contracts. New groupings may be set for new contracts written / renewals.

LEVEL OF AGGREGATION FOR BALANCE SHEET PRESENTATION

ONENTIOUS CONTRACTS IDENTIFIED AND ACCOUNTED FOR AT THIS LEVEL BASED ON “FACTS AND CIRCUMSTANCES”
IFRS 17 “Portfolios”

**SIMILAR RISKS?**

Reference to “product lines”

- IFRS 17 states that different “product lines” are not expected to have similar risks – no definition of product line under IFRS 17.
- Example provided in IFRS 17: single premium fixed annuities (investment and longevity risk) vs regular term life assurance (mortality risk) – primary distinguishing feature is the investment risk - implies that many GI products can be aggregated.

Noting that IFRS 17 covers a wide range of insurance contracts (ie life, health, general insurance (GI), investment and non investment risk) it is considered appropriate to take a pragmatic view of the level to which GI risks need to be further sub split.

**MANAGED TOGETHER?**

Key factor in the determination of portfolios

- At what level are business decisions made? E.g. the level that KPIs and key MI are reviewed by key decision makers eg the CEO, CFO & CUO.

**Current trends within GI**

- Entities are trying to achieve a high level of aggregation and achieve as much alignment as possible with their current management reporting.
- Number of portfolios generally scales up with number of countries the entity operates in
- Large domestic insurers c. 4-10 range
Onerous contracts
IFRS 17 requires identification and measurement of onerous losses at a more granular level than the current LAT test. The onerous contracts must be monitored on an ongoing basis and will be subject to fluctuation. Once identified and accounted for the loss component is effectively released on a "systematic basis". This will be a critical disclosure to the market on application of IFRS 17 and before that as part of ASIC disclosure requirements.

PORTFOLIOS

Contracts that are managed together and of similar risks

Split into groups of:
- Onerous contracts
- Contracts that have no significant possibility of being onerous
- Other

For PAA contracts, can assume no onerous groups unless facts and circumstances indicate otherwise.

Are there facts and circumstances that may indicate the existence of onerous groups within the portfolio? Some examples of facts and circumstances:

- Observable market information that indicate adverse trends
- Management reporting e.g. a segment with over 100% loss ratio on new basis
- High level strategy / planning includes identification of loss leaders
- Law or regulation constrain the practical ability to set a different price or benefits for policyholders with different characteristics?

No need to sub-group portfolio into onerous vs non-onerous groups

Measure onerous loss component. How and how frequently?
Discounting and inflation
Discounting

Discounting is relevant for:
- Measuring the liability for incurred claims (LIC) - both PAA and GM
- Measuring the liability for remaining coverage (LfRC) for contracts applying the GM and when testing for PAA eligibility (comparison with GM)

IFRS 17 provides a choice of methods for determining discount rates

**Bottom-up approach**
- Risk free rate
- Illiquidity premium
- Discount rate
- Market rate on reference portfolio of assets
- Less risk not inherent in liabilities
- Discount rate

**Top down approach**
- Illiquidity premium
- Discount rate

**Illiquidity premium** to reflect the fact that insurance liabilities cannot generally be liquidated by policyholders without incurring significant costs.
Discounting

EFFECT OF DISCOUNTING: PRESENTATION IN THE P&L

Claims and reinsurance recoveries within the Insurance service result (equivalent to Underwriting result) exclude the effect of discounting.

The effect of discounting will be disclosed outside of the insurance service result.
Fulfilment cash flows will reflect the impact of inflation where relevant. Claims cash flows within the liability for incurred claims (LIC) is expected to be most significantly impacted.

Impacts of inflation are treated as relating to financial risk if assumption about inflation is based on an index.

IASB April 2019 TRG staff view: does not have to be contractually linked to a specified index to be considered financial risk.

Implications:

- Impacts of inflation based on an index are presented outside of the Insurance service result
- Impacts from other factors, including inflation based on entity’s expectation of specific price changes are presented as part of the Insurance service result

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<tr>
<th>Insurance contract revenue</th>
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<tr>
<td>Reinsurance contract expense</td>
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<tr>
<td>Insurance service expenses</td>
</tr>
<tr>
<td>Reinsurance recoveries revenue</td>
</tr>
<tr>
<td><strong>Insurance service result</strong></td>
</tr>
<tr>
<td>Administrative expenses</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td>Other income</td>
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<tr>
<td><strong>Insurance operating result</strong></td>
</tr>
<tr>
<td>Insurance finance income/(expenses)</td>
</tr>
<tr>
<td>Investment Income</td>
</tr>
<tr>
<td>Investment Expenses</td>
</tr>
<tr>
<td><strong>Investment result</strong></td>
</tr>
</tbody>
</table>
Risk adjustment
The risk adjustment reflects the **compensation required for bearing non-financial risk**.

**Estimation technique**

IFRS 17 does not mandate a method to estimate the Risk Adjustment.

**Diversification benefits**

Diversification benefits considered by the entity “when determining the compensation it requires” should be reflected in Risk Adjustment.

**IASB MAY 2019 TRG**

- Diversification benefit is reflected in the individual entity risk adjustment **to the extent it is considered by the entity**

- Two views expressed by TRG members:
  1) Consolidated risk adjustment is the aggregate of subsidiary risk adjustments
  2) Consolidated risk adjustment need not be the aggregate of subsidiary risk adjustments but would reflect the Group’s view of the risk adjustment, which may be different from the aggregate of subsidiary risk adjustment

The IASB did not propose to amend IFRS 17 to clarify a single interpretation – allows for flexibility in application.

Along lines of current approach to deriving the PoA under AASB 1023, but a number of differences need to be considered:

- Gross and Ceded Risk Adjustments are required, rather than just Net Risk Adjustments
- Where the GM is applied, a risk adjustment is required for the unexpired cashflows as well as the incurred risks
**IAST APRIL 2019 TRG CLARIFICATION:** Risk adjustment of issued contracts will reflect the effect of reinsurance (i.e. availability and cost of reinsurance) if it is considered when determining the compensation required for bearing non-financial risk.

**What does this mean? And how should reinsurance be reflected in the measurement of the “gross” risk adjustment?**

Currently being discussed by the Australian industry via a working group of the AASB TRG

Three possible outcomes:

- Risk adjustment on inwards contracts a pure gross risk adjustment.
- Risk adjustment on inwards contract reflects a gross risk adjustment adjusted for arbitrage available in reinsurance market.
- Risk adjustment on inwards contracts a net risk adjustment (similar to today).
Reinsurance held
Reinsurance contracts held (outwards reinsurance) are treated as separate contracts to the underlying insurance contracts issued. This means that the accounting treatment of the reinsurance contracts held is determined separately from the underlying insurance contracts issued.

IFRS 17 terminology
Reinsurance held = Outwards reinsurance
Reinsurance issued = Inwards reinsurance

- **Proportionate coverage** = reinsurance recoveries are proportionate to the underlying claims

- **CONTRACT BOUNDARY** is assessed independently for the underlying contracts issued and reinsurance contracts held, which means that the reinsurance contracts held could have a different coverage period to the underlying contracts they cover.

- **PAA ELIGIBILITY** is assessed independently for the underlying contracts issued and reinsurance contracts held. This means that the reinsurance contracts held could adopt a general model when underlying contracts adopt the simplified approach.

- **LEVEL OF AGGREGATION** for reinsurance held is determined separately (and possibly differently) to the underlying contracts issued.

- **MEASUREMENT** of the reinsurance contract held on initial recognition will need to include expected cash flows in relation to all underlying contracts, including those not yet issued – impact for GM contracts only. No impact for PAA contracts.
Determination of contract boundary (Reinsurance held)

CONTRACT BOUNDARY OF REINSURANCE CONTRACTS HELD

BEGINNING OF CONTRACT BOUNDARY: WHEN TO RECOGNISE CONTRACTS?

PROPORTIONATE COVERAGE
E.g. quota share which will pay in recoveries 20% of claims on each underlying contract

Later of:
(1) beginning of coverage of group of reinsurance contracts and
(2) initial recognition of the underlying contracts

NON-PROPORTIONATE COVERAGE
E.g. excess of loss contract which will pay in recoveries the amount of underlying claims that exceed CU25m

Beginning of coverage period of the group of reinsurance contracts
Determination of contract boundary (Reinsurance held)

END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?

Same principles as for issued (direct/inwards) contracts but adapted for reinsurance held.

What features will have implications for the coverage period of reinsurance contracts held?

- Reinsurer's right to reprice
- Reinsurer's ability to terminate
- Cedant's ability to terminate
- Repricing and termination rights
- Type of cover
- Options to add coverage
- RISKS ATTACHING
- LOSSES OCCURRING
- RETROSPECTIVE COVERS
Determination of contract boundary (Reinsurance held)

**CONTRACT BOUNDARY OF REINSURANCE CONTRACTS HELD**

**END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?**

**TYPE OF COVER**

- **Losses occurring**
  - Coverage period likely to be the same as the contract period
  - Subject to the existence of repricing and termination rights and options to add coverage

- **Risks attaching**
  - Coverage period likely to be longer than the contractual term as it will be based on the contract term plus the coverage period of the last underlying contract expected to attach to the reinsurance contract. **Example:**

- **Retrospective covers**
  - Coverage period is deemed to be the period to the determination of the ultimate cost of claims, which is usually the settlement of those claims

Reinsurance contract term = 1 year

1 year underlying contract

1 year underlying contract

1 year underlying contract

1 year underlying contract

1 year underlying contract

Reinsurance coverage period = 2 years

QBE
Determination of contract boundary (Reinsurance held)

CONTRACT BOUNDARY OF REINSURANCE CONTRACTS HELD

END OF CONTRACT BOUNDARY: WHEN DO CONTRACTS END?

REPRICING AND TERMINATION RIGHTS

Both the reinsurer’s and the cedant’s rights need to be considered.

1. Can the reinsurer reprice or terminate the contract before the end of the contract term?

2. Does the cedant also have an unconditional right to terminate the contract at that point, i.e. not only triggered by the reinsurer’s decision to reprice?

Example: A losses occurring inwards reinsurance contract has a contract term of 10 years. At the end of each year, the reinsurer has the ability to reprice (with no restrictions) the remaining coverage of the contract for reassessed risks at that point.

At the end of each year, reinsurer can reprice remaining coverage for reassessed risks

1 year

10 year reinsurance contract term

↑ ↑ ↑ ↑ ↑ ↑ ↑ ↑ ↑

The coverage period for the cedant is 1 year if the cedant also has an unconditional right to terminate the reinsurance contract at the end of each year.

Restrictions to repricing?

Coverage period ends at the point of repricing only if there are no constraints or restrictions to repricing.
Measurement of reinsurance contracts held

Same principles as for issued (direct/inwards) contracts but adapted for reinsurance held.

**GENERAL MODEL (GM)**

- Contractual service margin (CSM)
- Risk adjustment
- PV of future cash flows

**Expired coverage**

- Risk adjustment
- PV of future cash flows

Net cost or net gain always recognised on the balance sheet (i.e. not immediately recognised in P&L) unless:

- Retrospective reinsurance
- Proportionate reinsurance covering onerous underlying contracts

Should reflect all expected future cash flows including in respect of **underlying contracts not yet written**

- Should reflect the **risk of non-performance by the reinsurer**
- Should be measured using **consistent assumptions** as those used to measure the underlying contracts to the extent relevant
Measurement of reinsurance contracts held

TREATMENT OF REINSURANCE CONTRACTS COVERING ONEROUS UNDERLYING CONTRACTS

INITIAL RECOGNITION

ONEROUS UNDERLYING CONTRACTS ISSUED

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums</td>
<td>80</td>
</tr>
<tr>
<td>Claims</td>
<td>(100)</td>
</tr>
<tr>
<td>Loss</td>
<td>20</td>
</tr>
</tbody>
</table>

To the extent covered by reinsurance, can we also recognise a corresponding gain on reinsurance in P&L to offset the loss?

It depends on the type of reinsurance cover...

Proportionate reinsurance vs Non-proportionate reinsurance

Reinsurance recoveries are proportionate to underlying claims – e.g. 20% of each underlying claim.

Other ceded cash flows (e.g. premiums, commissions) do not need to be proportionate to the underlying cash flows.

Will include proportional covers – e.g. Quota share

Recognise corresponding reinsurance gain in P&L when losses are recognised

Non proportional covers – e.g. excess of loss (XOL)

No reinsurance recognised in P&L when losses are recognised

Recognised immediately in P&L

Tentative decision
TREATMENT OF REINSURANCE CONTRACTS COVERING ONEROUS UNDERLYING CONTRACTS

CHANGES TO EXPECTATIONS OF ONEROUSNESS AFTER INITIAL RECOGNITION OF THE REINSURANCE CONTRACTS

Will apply when:

- Underlying contracts that were expected to be profitable on initial recognition become onerous
- Underlying contracts that were expected to be onerous on initial recognition become more or less onerous

UNDERLYING CONTRACTS ISSUED

Changes in the underlying cash flows will be reflected in P&L as an onerous loss or a reversal of onerous losses previously recognised

REINSURANCE CONTRACTS HELD

Corresponding changes in reinsurance cash flows will also be reflected in P&L

Applies to ALL reinsurance held – including non-proportional covers
Ceding commissions and reinstatement premiums (inwards and outwards reinsurance)
Ceding commissions on inwards and outwards reinsurance

Volume-based commissions – e.g. based on % of GWP of underlying contracts or % of RWP

These are treated as an adjustment to reinsurance premiums.

Reinsurance commissions (on both inwards and outwards reinsurance) will need to be split between commissions contingent on claims and those not contingent on claims:

- Commissions not contingent on claims (volume based) will be presented as part of insurance revenue / reinsurance expense.
- Commissions contingent on claims will be presented as part of insurance service expense / reinsurance recoveries.

Data will be required to separately identify commissions that are contingent on claims and those that are not contingent on claims.

E.g. profit commissions, sliding scale commissions based on loss ratio or claims
These are treated as part of reinsurance recoveries.

- Investment components are amounts the reinsurer is required to pay to the cedant in all circumstances (including contract termination) even if an insured event does not occur. It is the minimum amount that the cedant will always receive from the reinsurers, whether as commissions or as recoveries.

- Commissions contingent on claims may have investment components.

- Investment components are balance sheet amounts only and are excluded from P&L.

Entities will need the ability to identify the amount of investment component (which will not necessarily equal the amount of the commissions) in order to exclude from P&L.
Reinstatement premiums on inwards and outwards reinsurance

Reinstatement is compulsory and the cedant does not have the option not to pay the reinstatement premium if triggered.

**Treated as part of reinsurance recoveries (not premiums)**

**IASB SEPTEMBER TRANSITION RESOURCE GROUP (TRG) DISCUSSION**

IASB staff considered that there is a distinction in economic substance between mandatory and voluntary reinstatement premiums.

**OPERATIONAL IMPLICATION**

Will need the ability to separately identify mandatory and voluntary reinstatement premiums in order to book them to the relevant premiums / recoveries accounts.

01  
Mandatory reinstatement premiums

02  
Voluntary reinstatement premiums

The cedant can decide not to pay the reinstatement premium and terminate the coverage instead.

**Treated as part of reinsurance premiums**
Acquired insurance contracts
Acquired insurance contracts

Measurement of insurance and reinsurance contracts **acquired** as part of:

- **Business combinations**
  For a transaction to constitute a business combination, the assets acquired and liabilities assumed must constitute a business as defined in AASB 3

- **Transfers of insurance contracts** (that are not business combinations)
  All loss obligations (and responsibility to the policyholder in respect of claims) are transferred from the transferring insurer to the accepting insurer (acquirer).

  **Loss transfers**
  Acquirer assumes primary contractual responsibility for the **unpaid claims incurred** (**expired policies**) by the transferring insurer.

  **Premium transfers**
  Acquirer assumes primary contractual responsibility for a portfolio of in-force business (unexpired policies) written by the transferring insurer.

**EXCLUDES REINSURANCE TRANSACTIONS** where the responsibility in relation to claims on ‘transferred business’ remains with the transferring insurer

The guidance sets out the accounting treatment from the perspective of the **acquirer**.
DETERMINATION OF THE COVERAGE PERIOD

Insurance contracts acquired are treated as if they had been **issued at the date of acquisition**. The acquirer therefore, determines the coverage period from the date of acquisition (not the original inception date) of the contracts.

**Original inception date**
Entity A (seller) issues a group of contracts which have a coverage period of 3 years.

**Acquisition date**
Entity B (acquirer) acquires the group of contracts from Entity A.

From the perspective of Entity B, coverage period = 1 year

Contracts acquired in their claims settlement period
i.e. contracts that comprise only of expired liabilities at the date of acquisition, i.e. no unexpired coverage (unearned premiums), only claims incurred.

The coverage period is the period from the acquisition date to when the financial effect of the claims are expected to become certain.
Acquired insurance contracts

CONTRACTS ACQUIRED IN THEIR CLAIMS SETTLEMENT PERIOD
Contracts that comprise only of expired liabilities at the date of acquisition, i.e. no unexpired coverage (unearned premiums), only claims incurred.

COVERAGE PERIOD
Period from the acquisition date to when the financial effect of the claims (cost of the claims) are expected to become certain.

- In most cases, this is expected to be the period to the expected settlement of the claims.
- May be shorter if certainty around the amounts to be paid under the claims is expected to be achieved prior to the actual payment of the claims.

Unexpired coverage (1 year)
Claims settlement (3 years)

From the perspective of Entity B, coverage period = 2 years

PAA ELIGIBILITY
If remaining term to settlement of the claims > 1 year, PAA eligibility assessment is required. Will not be automatically eligible to apply the PAA under the 1 year rule.

MEASUREMENT – GROSS UP OF REVENUE AND EXPENSES
The insurance asset/liability that relates to claims incurred that have not yet been settled is treated as A/LfRC (i.e. relating to unexpired coverage). Will result in the recognition of revenue over the period to settlement of the claims.
Acquired insurance contracts

CONTRACTS ACQUIRED IN THEIR CLAIMS SETTLEMENT PERIOD: Measurement implications

An entity acquires a book of expired insurance policies at 1 Jan 20X1. At the date of acquisition (1 Jan 20X1), there is an outstanding claims balance of $200k which is expected to be settled over 5 years.

Assume that there is no gain or loss on the acquisition (consideration received equals the outstanding claims – risk adjustment and discounting is ignored).

<table>
<thead>
<tr>
<th>Year</th>
<th>Settlement ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>80</td>
</tr>
<tr>
<td>2</td>
<td>70</td>
</tr>
<tr>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 1

At 1 Jan 20X1

Insurance contract liability 200

SUBSEQUENT MEASUREMENT

BS: The insurance liability is run-off as the claims are settled over the 5 year period to 20X5.

P&L: As the claims are settled, insurance revenue will be recognised to reflect the release of the liability due to settled claims. Insurance expense will also be recognised to reflect the actual claims settlement.

Assuming actual claims settlement equals initial expectation per Table 1 (all amounts expressed in $'000):

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>20X1</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contract liability</td>
<td>(120)</td>
<td>(50)</td>
<td>(10)</td>
<td>(2)</td>
<td>0</td>
</tr>
<tr>
<td>Cash</td>
<td>(80)</td>
<td>(70)</td>
<td>(40)</td>
<td>(8)</td>
<td>(2)</td>
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</tbody>
</table>

Profit or loss

<table>
<thead>
<tr>
<th>Insurance revenue</th>
<th>80</th>
<th>70</th>
<th>40</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Insurance expense</td>
<td>(80)</td>
<td>(70)</td>
<td>(40)</td>
<td>(8)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net P&amp;L impact</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: This example assumes that amounts actually settled equals the expected amounts. Where amounts settled differ from expected amounts, there will be a net P&L impact amounting to the difference between the two as the insurance expense will reflect actual settled amounts whilst the revenue is just the release of the amount estimated in the reserve (insurance liability).
Acquired insurance contracts

MEASUREMENT ON INITIAL RECOGNITION

TRANSFERS OF INSURANCE CONTRACTS

Proxy for premiums received = Consideration paid/received for the group of contracts

Fulfilment cashflows > Consideration?

No

• CSM established (GM only)
  • PAA measurement based on consideration as proxy for premiums received

Profiable group

Yes

Recognise onerous loss as an expense in P&L at initial recognition

Onerous group

LOSS COMPONENT OF THE LfRC ESTABLISHED ON THE BALANCE SHEET

BUSINESS COMBINATIONS

Proxy for premiums received = Fair value of the group of contracts at the acquisition date

Fulfilment cashflows > Fair value?

No

• CSM established (GM only)
  • PAA measurement based on FV as proxy for premiums received

Profitable group

Yes

Difference is recognised as an adjustment to goodwill or gain from a bargain purchase

Onerous group

LOSS COMPONENT OF THE LfRC ESTABLISHED ON THE BALANCE SHEET

Note: Subsequent measurement of acquired insurance and reinsurance contracts will follow the measurement requirements applicable to insurance contracts issued/reinsurance contracts held.
### Acquired insurance contracts

**CONTRACTS ACQUIRED IN THEIR CLAIMS SETTLEMENT PERIOD: Measurement implications and transition relief**

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<td>1,813</td>
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<tr>
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<tr>
<td><strong>Other expenses</strong></td>
<td>–</td>
</tr>
<tr>
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<td>5</td>
</tr>
<tr>
<td><strong>Insurance operating result</strong></td>
<td>424</td>
</tr>
<tr>
<td><strong>Insurance finance income/(expenses)</strong></td>
<td>61</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td>559</td>
</tr>
<tr>
<td><strong>Investment Expenses</strong></td>
<td>(17)</td>
</tr>
<tr>
<td><strong>Investment result</strong></td>
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</tr>
<tr>
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</tr>
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<td><strong>Amortisation and impairment of intangibles</strong></td>
<td>(80)</td>
</tr>
<tr>
<td><strong>Profit (loss) before income tax from continuing operations</strong></td>
<td>627</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>(72)</td>
</tr>
<tr>
<td><strong>Profit (loss) after income tax from continuing operations</strong></td>
<td>555</td>
</tr>
<tr>
<td><strong>Loss after income tax from discontinued operations</strong></td>
<td>(177)</td>
</tr>
<tr>
<td><strong>Profit (loss) after income tax</strong></td>
<td>378</td>
</tr>
</tbody>
</table>

**TRANSITION RELIEF – Amendment proposed in March 2019 IASB Board meeting (tentative decision subject to new Standard being issued)**

To the extent it is impracticable to apply the full retrospective approach, entities may treat the claims settlement period of contracts acquired in their claims settlement period as relating to liability for **incurred claims** (LfIC / expired coverage) instead of liability for remaining coverage (LfRC).
Expenses
ATTRIBUTABLE EXPENSES are included within the measurement of the fulfilment cash flows.

PAA liability for remaining coverage includes explicit measurement of ACQUISITION COSTS (DAC). Other attributable expenses are not explicitly included – implicit within the UEP component.
## Expenses

### ATTRIBUTABLE VS NON-ATTRIBUTABLE EXPENSES

**Attributable expenses**
- Expenses that relate directly to the fulfilment of the insurance contracts
  - Acquisition costs
    - Cost of selling, underwriting and starting insurance contracts
  - Other attributable expenses
    - Includes:
      - Claims handling costs
      - Policy administration and maintenance costs
      - Other attributable overheads – e.g. rent, depreciation, utilities

**Non-attributable expenses**
- Costs that cannot be directly attributed to the insurance contracts
  - Examples:
    - Product development, training costs, abnormal amounts of wasted labour, non-attributable overheads

---

### Insurance Expenses 2018 (US$M)

<table>
<thead>
<tr>
<th>Item</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contract revenue</td>
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<td>5</td>
</tr>
<tr>
<td>Insurance operating result</td>
<td>424</td>
</tr>
</tbody>
</table>

---

**What expenses should be included in the underwriting result?**
**How will these decisions impact key ratios and metrics?**
IFRS 17 Financial Statements
### IFRS 17 financial statements (FS) – Balance sheet highlights

#### 2018

<table>
<thead>
<tr>
<th><strong>Assets</strong></th>
<th><strong>US$M</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>863</td>
</tr>
<tr>
<td>Investments</td>
<td>21,989</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>176</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>461</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>75</td>
</tr>
<tr>
<td>Insurance contracts issued that are assets (1)</td>
<td>-</td>
</tr>
<tr>
<td>Reinsurance contracts held that are assets (2)</td>
<td>6,856</td>
</tr>
<tr>
<td>Other assets</td>
<td>11</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>533</td>
</tr>
<tr>
<td>Defined benefit plan surpluses</td>
<td>36</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>196</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>442</td>
</tr>
<tr>
<td>Investment properties</td>
<td>35</td>
</tr>
<tr>
<td>Investment in associates</td>
<td>28</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,800</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>34,501</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities</strong></th>
<th><strong>US$M</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative financial instruments</td>
<td>208</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>663</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>31</td>
</tr>
<tr>
<td>Liabilities held for sale</td>
<td>453</td>
</tr>
<tr>
<td>Insurance contracts issued that are liabilities (1)</td>
<td>21,374</td>
</tr>
<tr>
<td>Reinsurance contracts held that are liabilities (2)</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>137</td>
</tr>
<tr>
<td>Defined benefit plan deficits</td>
<td>26</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>21</td>
</tr>
<tr>
<td>Borrowings</td>
<td>3,188</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>26,101</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net assets</strong></th>
<th><strong>US$M</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>8,400</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Equity</strong></th>
<th><strong>US$M</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>7,830</td>
</tr>
<tr>
<td>Treasury shares held in trust</td>
<td>(7)</td>
</tr>
<tr>
<td>Reserves</td>
<td>(1,363)</td>
</tr>
<tr>
<td>Retained profits</td>
<td>1,921</td>
</tr>
<tr>
<td>Shareholders' funds</td>
<td>8,381</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>8,400</strong></td>
</tr>
</tbody>
</table>

---

#### (1) INSURANCE CONTRACTS ISSUED THAT ARE LIABILITIES

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned premium</td>
<td>6,212</td>
</tr>
<tr>
<td>Outstanding claims</td>
<td>19,579</td>
</tr>
<tr>
<td>Deferred gross commission</td>
<td>(1,014)</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>(354)</td>
</tr>
<tr>
<td>Premium receivable</td>
<td>(1,903)</td>
</tr>
<tr>
<td>Unclosed premium</td>
<td>(1,146)</td>
</tr>
</tbody>
</table>

**Insurance contracts issued that are liabilities** 21,374

Insurance contract assets/liabilities is the total of all gross insurance balances.

---

#### (2) REINSURANCE CONTRACTS HELD THAT ARE ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance and other recoveries on outstanding claims</td>
<td>5,551</td>
</tr>
<tr>
<td>Deferred reinsurance premium</td>
<td>357</td>
</tr>
<tr>
<td>Unearned reinsurance commission</td>
<td>(63)</td>
</tr>
<tr>
<td>Reinsurance and other recoveries</td>
<td>1,675</td>
</tr>
<tr>
<td>Trade payables</td>
<td>(664)</td>
</tr>
</tbody>
</table>

**Reinsurance contracts held that are assets** 6,856

Reinsurance contract assets/liabilities is the total of all outwards reinsurance balances.

---

**RETRO – FIT TO GENERAL INSURANCE**

Commonly used GI measures are removed from Balance Sheet disclosures but still required for the business such as UEP, DAC, Premiums receivable, Outstanding claims.

Common industry approach is to maintain this information in the GL, and then aggregate the data to achieve the IFRS 17 requirements.

---

**SEPARATE PRESENTATION OF ASSETS AND LIABILITIES ON THE BALANCE SHEET**

GI will be required to disaggregate on the balance sheet ‘portfolios’ of contracts that are in an asset position from those in a liability position.

This disaggregation will need to be performed for both insurance contracts issued and reinsurance contracts held.
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<td><strong>Income tax expense</strong></td>
<td>(72)</td>
</tr>
<tr>
<td><strong>Profit (loss) after income tax from continuing operations</strong></td>
<td>555</td>
</tr>
<tr>
<td><strong>Loss after income tax from discontinued operations</strong></td>
<td>(177)</td>
</tr>
<tr>
<td><strong>Profit (loss) after income tax</strong></td>
<td>378</td>
</tr>
</tbody>
</table>

### (1) Insurance Contract Revenue

- Gross earned premium revenue under AASB 1023: 13,601
- Less: commissions paid on inwards reinsurance not contingent on claims (volume based): ?
- Less: mandatory reinstatement premiums received on inwards reinsurance: ?
- Plus: revenue gross up on acquired claims liabilities: ?

### (2) Insurance Service Expenses

- Gross claims expense (discounted) under AASB 1023: (8,931)
- Remove effect of discounting: (83)
- Remove effect of inflation based on an index: ?
- Add: gross commission expense (commissions paid on inwards reinsurance contingent on claims – e.g. profit commissions): (2,222)
- Less: investment components (if any): ?
- Less: Mandatory reinstatement premiums received on inwards reinsurance: ?
- Attributable expenses (e.g. Claims settlement costs, premium billing costs): ?
- Onerous losses expense: ?
- Expense gross up on acquired claims liabilities: ?

### (3) Reinsurance Contract Expense

- Outwards reinsurance premium expense per AASB 1023: (1,961)
- Less: Commissions received on outwards reinsurance not contingent on claims (volume based): ?
- Less: mandatory reinstatement premiums paid on outwards reinsurance contracts: ?

### (4) Reinsurance Recoveries Revenue

- Reinsurance and other recoveries revenue (discounted): 1,526
- Remove effect of discounting: 22
- Remove effect of inflation based on an index: ?
- Reinsurance commission revenue (commissions received on outwards reinsurance contingent on claims – e.g. profit commission): 265
- Less investment components (if any): ?
- Less: Mandatory reinstatement premiums paid on outwards reinsurance: ?

### (5) Administrative Expenses

- Underwriting and other expenses: (1,798)
- Less attributable expenses that should be recognised within the insurance service result: ?

### GWP no longer allowed to be shown on the face of the P&L.
Transition approaches
Transition approaches

Decide transition method by group of contract

Full retrospective approach (IAS 8)

If impracticable

Modified retrospective approach
- Objective is to achieve closest outcome to retrospective application
- Prescribed modifications available if necessary given reasonable and supportable information
- Maximise use of information needed for full retrospective approach

Fair value approach
- Determine CSM at date of initial application as the difference between:
  - Fair value of insurance contract
  - Fulfilment cash flows

Definition of “impracticable” is in IAS 8: “when the entity cannot apply it after making every reasonable effort to do so”.

Impracticability arises if insurers cannot produce objective estimates based on:
- Management’s intent in prior periods,
- Circumstances that existed at the time of the transactions, and
- Information that would have been available at the time of the prior financial statements.
Transition approaches

Adjustments on Day 1 are expected to relate to:

- Recognition of onerous losses
- Profit recognition for the contracts measured under the general model
- Impact of adjusting discount rates for illiquidity premium
- Risk adjustment for non-financial risk
- Treatment of contracts acquired in their settlement period
- Commissions which are an investment component
Thank you