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Understanding Financial Statements after the adoption of IFRS 17

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Agenda

- Understanding the IFRS 17 financial statements
- Statement of profit or loss
- Statement of financial position
- Conclusion

Understanding the IFRS 17 Financial Statements

Overview

- IFRS 17 introduces a consistent way of producing financial reports available to the insurance industry on a scale that has no precedent in history.
- Two key expected benefits:
 - **Enhanced comparability**
 - among insurers across different jurisdictions
 - between insurers and other companies from different industries
 - between insurers issuing the same type of insurance contracts
 - of return on equity between general insurers and life insurers
 - **Transparency**
 - Only industry to report its expected profit from the main products sold (i.e., the contractual service margin – 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 statement of profit or loss

Understanding the IFRS 17 Financial Statements

Information about the profitability of insurers

The two main sections of the IFRS 17 statement of profit or loss (P&L):

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.

Net finance result (“NFR”)

- The ISR mandates the separation of the effects of financial variables in the P&L
- The effects of financial variables fall in a single P&L line: “Insurance Finance Income or Expenses” (“IFIE”)
- The IFIE line 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**

- 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.

Statement of Profit or Loss*

Key principles

	31/12/ 2023	31/12/ 2022
	CU	CU
Insurance revenue	XX	XX
Insurance service expenses	(XX)	(XX)
Insurance service result from insurance contracts issued	XX	XX
Allocation of reinsurance premiums paid	(XX)	(XX)
Amounts recovered from reinsurance contracts	XX	XX
Net expenses from reinsurance contracts held	(XX)	(XX)
Insurance service result	XX	XX
Net investment income	XX	XX
Insurance finance income or expenses from insurance contracts issued	XX	XX
Finance income or expenses from reinsurance contracts held	XX	XX
Net insurance and investment result	XX	XX
Other income and expenses	XX	XX
Profit before tax	XX	XX

*Illustrative example only

Key principles:

- Insurance revenue** arising from the groups of insurance contracts issued depicts the **amount of consideration** to which the entity expected to be **entitled in exchange for insurance contract services** provided during the period.
- The sum of insurance revenue from a group of insurance contracts across all financial years over which the insurance services are rendered reconciles to **the amount of premiums paid** to the entity:
 - adjusted for the financing effect; and
 - excluding any non-distinct investment components.
- ISR is **presented separately** from NFR.
- Premium information is not permitted to be presented in the statement of profit or loss if such information is inconsistent with insurance revenue.

Statement of Profit or Loss*

Insurance revenue

	31/12/ 2023	31/12/ 2022
	CU	CU
Insurance revenue	XX	XX
Insurance service expenses	(XX)	(XX)
Insurance service result from insurance contracts issued	XX	XX
Allocation of reinsurance premiums paid	(XX)	(XX)
Amounts recovered from reinsurance contracts	XX	XX
Net expenses from reinsurance contracts held	(XX)	(XX)
Insurance service result	XX	XX

Insurance revenue comprises:

	CU
Contracts not measured under the PAA	XX
<i>Amounts relating to changes in liabilities for remaining coverage</i>	
Expected incurred claims and other insurance service expenses	XX
Changes in risk adjustment for non-financial risk for risk expired	XX
CSM recognised for services provided	XX
Other amounts	XX
Recovery of insurance acquisition cash flows	XX
Contracts measured under the PAA	XX
Total insurance revenue	XX

Earned profit for the reporting period

“Other amounts” line includes, for example, experience adjustments not related to future service

Portion of premium allocated to recovering IACF. An equal amount is recognised as part of insurance service expense

*Illustrative example only

Statement of Profit or Loss*

Insurance service expenses

	31/12/ 2023	31/12/ 2022
	CU	CU
Insurance revenue	XX	XX
Insurance service expenses	(XX)	(XX)
Insurance service result from insurance contracts issued	XX	XX
Allocation of reinsurance premiums paid	(XX)	(XX)
Amounts recovered from reinsurance contracts	XX	XX
Net expenses from reinsurance contracts held	(XX)	(XX)
Insurance service result	XX	XX

Insurance service expenses is comprised of:

- Incurred claims and other incurred insurance services expenses;
- Amortisation of insurance acquisition cash flows;
- Changes relating to past service, i.e. changes in fulfilment cash flows relating to liability for incurred claims; and
- Changes relating to future service, i.e. losses on onerous groups of contracts and reversals of such losses.

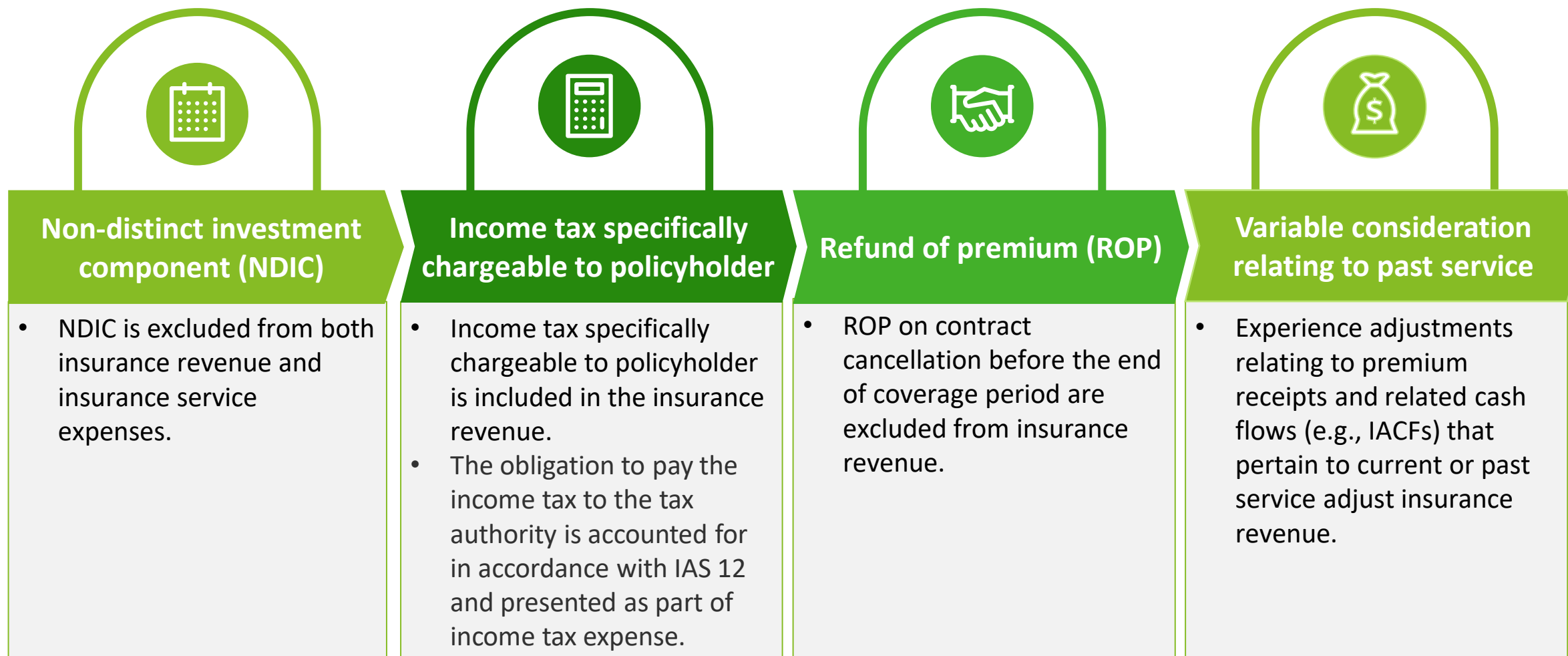
Includes the systematic release of loss component for services provided during the period

Equal and opposite amount to the Recovery of insurance acquisition cash flows included in revenue

*Illustrative example only

Statement of Profit or Loss

Contractual terms and their impact on insurance revenue and insurance service expenses



Statement of Profit or Loss

Contractual terms and their impact on insurance revenue and insurance service expenses



Premium waivers

- Premiums waived resulting from the occurrence of an insured event are accounted for as a claim. Thus, the amount of waived premium is reported in both insurance revenue and insurance service expense.



Net settlement arrangement

- Regardless of the cash settlement arrangement, the insurance revenue should reflect the value of the services rendered. Where there is a notional/non-cash amount that is equivalent to a sum repayable in all circumstances, such amount is excluded from insurance revenue and insurance service expenses.



Amounts contingent or not contingent on claims

- Amounts not contingent on claims (e.g., profit commissions) are treated as reduction of premiums.
- Amounts contingent on claims are treated as part of claims.

Statement of Profit or Loss*

Net income or expenses from reinsurance contracts held

	31/12 2023	31/12 2022
	CU	CU
Insurance revenue	XX	XX
Insurance service expenses	(XX)	(XX)
Insurance service result from insurance contracts issued	XX	XX
Allocation of reinsurance premiums paid	(XX)	(XX)
Amounts recovered from reinsurance contracts	XX	XX
Net expenses from reinsurance contracts held	(XX)	(XX)
Insurance service result	XX	XX

*Illustrative example only

IFRS 17 allows entities to present income or expenses from a group of reinsurance contracts held in two ways:

As a single amount
("Net presentation")

OR

Two-line presentation in
insurance service result ("Gross
presentation")

- The immediate recognition of net cost of purchasing insurance coverage held relating to events that have already occurred is included in this line
- Includes amounts that are not contingent on claims on underlying contracts

- Effect of changes in default risk of reinsurer is presented as part of insurance service result, not IFIE.
- Includes amounts relating to the loss-recovery component and reversal of loss-recovery component.

Statement of Profit or Loss

Insurance finance income or expenses – IFIE

	31/12/2023	31/12/2022
	CU	CU
Insurance service result	XX	XX
Net investment income	XX	XX
Insurance finance income or expenses from insurance contracts issued	XX	XX
Finance income or expenses from reinsurance contracts held	XX	XX
Net insurance and investment result	XX	XX
Other income and expenses	XX	XX
Profit before tax	XX	XX

Key principles:

- IAS 1.82(bb) and IAS 1.82(bc) require the **separate presentation** of finance income or expenses from insurance contracts issued and reinsurance contracts held.
- IFRS 17 provides an accounting policy choice applied at the portfolio level to disaggregate IFIE between P&L and OCI.
- When insurers apply the single currency denomination approach for group of contracts with cash flows in different currencies, the exchange differences arising from translating original currencies to the currency of the group are recognised in the IFIE line.
- When an entity applies the risk mitigation option for direct participating contracts to present some or all of the impact of the risk mitigation in P&L, the amount will be part of the IFIE line item.

Statement of Financial Position*

Key principles

Presented below is an illustration of the statement of financial position (“SoFP”)

	31/12/2023 CU	31/12/2022 CU
Assets		
Cash and bank balances		
Trade and other receivables		
Investments in financial assets		
Insurance contract assets		
Reinsurance contract assets		
Property, plant and equipment		
Intangible assets		
Deferred tax assets		
Other assets		
Total assets		
Liabilities		
Current tax liabilities		
Trade and other payables		
Insurance contract liabilities		
Reinsurance contract liabilities		
Borrowings		
Deferred tax liabilities		
Other liabilities		
Total liabilities		

Key principles:

1. Insurance contracts issued **are presented separately** from reinsurance contracts held.
2. Insurance contracts issued are presented in the statement of financial position at a **portfolio level** of aggregation.
3. Portfolios of insurance contracts issued that are in an asset position **are presented separately** from portfolios of insurance contracts issued that are in a liability position.

- Insurance contract liabilities** line item is comprised of:
- Liability for remaining coverage
 - Liability for incurred claims
 - Asset for insurance acquisition cash flows

*Illustrative example only

Premiums receivable from intermediary**

- Accounting policy choice to account under IFRS 17 or IFRS 9. If accounted for under IFRS 9, the amount is recognised outside insurance contracts assets/liabilities line item in the SoFP.

**Based on the Tentative Agenda Decision *Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)* published on March 2023.

Conclusion

- Strong focus on sources of profit
 - Insurance service result (Insurance Revenue and ISE)
 - Net financial result (IFIE)
- Single consistent option to handle the reporting of financial volatility
- Fundamental financial analysis for insurance companies (life in particular) will be enhanced materially





Contact details

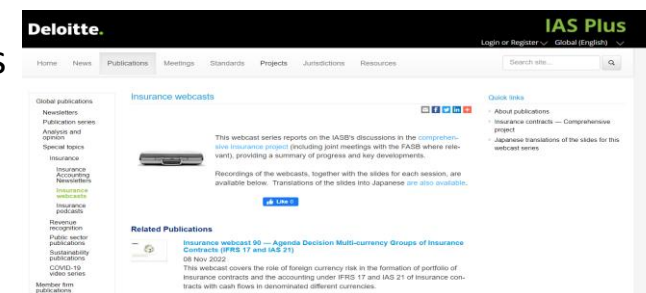
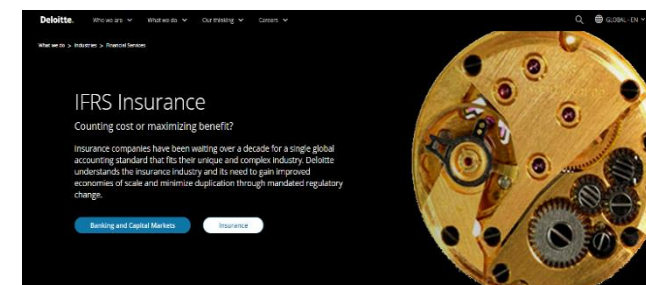
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