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EDITORIAL NOTE

IFRS 17 *Insurance Contracts* was issued in May 2017 and it establishes the recognition, measurement, presentation and disclosure principles for insurance contracts. It replaces IFRS 4 , Insurance Contracts.The effective date of IFRS 17 is 1 January 2023.

IFRS 17 Insurance contracts

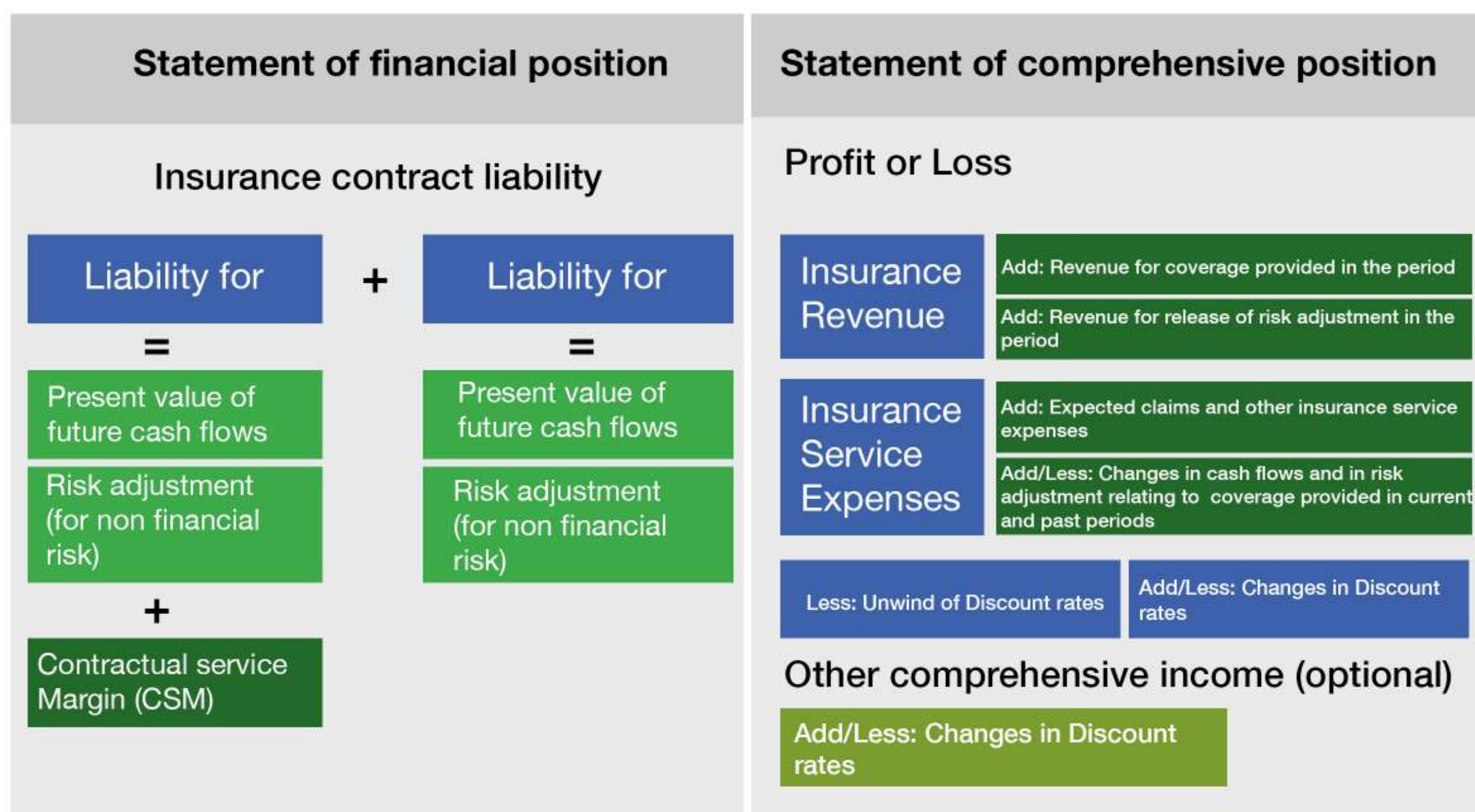
The Table 1 summarises the key differences between IFRS 4 and IFRS 17:

	IFRS 4	IFRS 17
Comparability for insurers	Under IFRS 4, insurers operating in different countries applied varying approaches in accounting for insurance contracts.	IFRS 17 introduces 3 measurement models with which all insurance contracts will be measured. This will require companies to apply consistent accounting for all insurance contracts.
Disclosure requirements	IFRS 4 required disclosures such as Reconciliations of insurance contract liabilities analysed by liability for remaining coverage (LRC) and liability for incurred claims (LIC).	IFRS 17 expands on existing disclosures and introduces concepts such as insurance revenue. The standard requires a disclosure on the analysis of insurance revenues reported. IFRS 17 requires other new disclosures like the impact of contracts initially recognised in the period, expected recognition of Contractual Service Margin (CSM), explanation of insurance finance income & expenses, effects of risk mitigation for contracts measured under the variable fee approach and lots more.
Significant judgements	IFRS 4 contains some guidance on processes and policies used for assumptions in measuring insurance contracts	IFRS 17 requires a lot more judgement around inputs, assumptions and estimation techniques. It establishes new areas that require management judgement such as; methods used to disaggregate insurance finance income or expenses, confidence level for determining risk adjustment for non-financial risk and more

The Table 2 provides an overview of the measurement approaches under IFRS 17:

General Approach	Applied to all insurance contracts unless: • direct participation features exists and are, therefore, in the scope of the Variable Fee Approach; or • the contract meets the criteria for, and the entity elects to apply, the Premium Allocation Approach
Variable Fee Approach	• Applied to insurance contracts with direct participation features • Deals with participating business where payments to policyholders are contractually linked and vary substantially with the underlying items • This approach cannot be used for the measurement of reinsurance contracts* **Reinsurance contracts are insurance contracts issued by a reinsurer to compensate an insurer for claims arising from one or more insurance contracts issued by the insurer*
Premium Allocation Approach	• **Optional** simplification for the measurement of the liability for remaining coverage for insurance contracts with **short-term coverage** • Does not affect the liability for incurred items - this liability is measured using the General Approach

TheFigure 1 highlights the various components of the accounting model and how these components are presented on the financial statements:



Amendments to IFRS 17 - What you need to know

On 25 June 2020, the International Accounting Standards Board (IASB) issued 'Amendments to IFRS 17'. The aim of these amendments was to address implementation challenges that were identified after IFRS 17 Insurance Contracts (IFRS 17) was published in May 2017. The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, the same date as the effective date for IFRS 17.

A summary of the amendments is as follows:

Recovery of insurance acquisition cash flows

Entities are now required to allocate part of the acquisition costs to related expected contract renewals. These costs should be recognised as an asset until the entity recognises the contract renewals.

Entities are also required to assess the recoverability of the asset at each reporting date and must disclose specific information about the asset in the notes to the financial statements.

Contractual service margin (CSM) attributable to investment services

Coverage units that are used to amortise the CSM should be identified considering:

- The quantity of benefits; and
- The timing of both insurance coverage and investment services (under the Variable Fee Approach); or
- The timing of both insurance coverage and any investment-return services (under the General Model)

Costs related to investment activities should be included as cash flows within the boundary of the insurance contract but only to the extent that the entity performs the investment activities to enhance benefits from insurance coverage for the policy holder.

Recovery of losses on reinsurance contracts held

When an entity recognises a loss on initial recognition of an onerous group of insurance contracts that are covered by a reinsurance contract or adds further onerous contracts to the group, the entity should adjust the CSM of the related group of reinsurance contracts held and recognise a gain.

The amount of the loss recovered from a reinsurance contract held is determined as follows:

The loss recognised on underlying insurance contracts

multiplied by

The % of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held

This is only applicable when the reinsurance contract held is recognised before, or at the same time as, the loss on the underlying insurance contracts.

Other amendments

Other amendments include:

- Scope exclusions for credit card (or similar) contracts providing insurance coverage and loan contracts that limit compensation;
- Relief relating to aggregation which allows for the presentation of insurance contract assets and liabilities in portfolios rather than groups;
- Extension of the scope of the risk mitigation option to reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
- An accounting policy choice on whether to change the estimates made in previous interim financial statements; and
- Inclusion of income tax payments and receipts (specifically chargeable to the policyholder) in the fulfilment cash flows.