INTERNATIONAL FINANCIAL REPORTING STANDARD 17
insurance contracts

Basis for Conclusions

CONTENTS **Paragraph**

Objective

1 **IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of *insurance contracts* within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.**

2 An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

Scope

3 An entity shall apply IFRS 17 to:

(a) insurance contracts, including *reinsurance contracts*, it issues;

(b) reinsurance contracts it holds; and

(c) *investment contracts with discretionary participation features* it issues, provided the entity also issues insurance contracts.

4 All references in IFRS 17 to insurance contracts also apply to:

(a) reinsurance contracts held, except:

(i) for references to insurance contracts issued; and

(ii) as described in paragraphs 60–70A.

(b) investment contracts with discretionary participation features as set out in paragraph 3(c), except for the reference to insurance contracts in paragraph 3(c) and as described in paragraph 71.

5 All references in IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held.

6 Appendix A defines an insurance contract and paragraphs B2–B30 of Appendix B provide guidance on the definition of an insurance contract.

7 An entity shall not apply IFRS 17 to:

(a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see IFRS 15 *Revenue from Contracts with Customers*).

(b) employers' assets and liabilities from employee benefit plans (see IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payment*) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

(c) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items: see IFRS 15, IAS 38 *Intangible Assets* and IFRS 16 *Leases*).

(d) residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see IFRS 15 and IFRS 16).

(e) financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The issuer shall choose to apply either IFRS 17 or IAS 32 *Financial Instruments: Presentation*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.

(f) contingent consideration payable or receivable in a business combination (see IFRS 3 *Business Combinations*).

(g) insurance contracts in which the entity is the *policyholder*, unless those contracts are reinsurance contracts held (see paragraph 3(b)).

(h) credit card contracts, or similar contracts that provide credit or payment arrangements, that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the *insurance risk* associated with an individual customer in setting the price of the contract with that customer (see IFRS 9 and other applicable IFRS Standards). However, if, and only if, IFRS 9 requires an entity to separate an insurance coverage component (see paragraph 2.1(e)(iv) of IFRS 9) that is embedded in such a contract, the entity shall apply IFRS 17 to that component.

8 Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply IFRS 15 instead of IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

(a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;

(b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and

(c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

8A Some contracts meet the definition of an insurance contract but limit the compensation for *insured events* to the amount otherwise required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). An entity shall choose to apply either IFRS 17 or IFRS 9 to such contracts that it issues unless such contracts are excluded from the scope of IFRS 17 by paragraph 7. The entity shall make that choice for each *portfolio of insurance contracts*, and the choice for each portfolio is irrevocable.

Combination of insurance contracts

9 A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

Separating components from an insurance contract (paragraphs B31–B35)

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a component for services other than *insurance contract services* (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

(a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.

(b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component unless it is an investment contract with discretionary participation features within the scope of IFRS 17 (see paragraph 3(c)).

12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer to a policyholder distinct goods or services other than insurance contract services, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall:

(a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or services other than insurance contract services; and

(b) attribute the cash outflows between the insurance component and any promised goods or other than insurance contract services, accounted for applying IFRS 15 so that:

(i) cash outflows that relate directly to each component are attributed to that component; and

(ii) any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

13 After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).

Level of aggregation of insurance contracts

14 An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example, single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.

15 Paragraphs 16–24 apply to insurance contracts issued. The requirements for the level of aggregation of reinsurance contracts held are set out in paragraph 61.

16 An entity shall divide a portfolio of insurance contracts issued into a minimum of:

(a) a group of contracts that are onerous at initial recognition, if any;

(b) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and

(c) a group of the remaining contracts in the portfolio, if any.

17 If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may measure the set of contracts to determine if the contracts are onerous (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.

18 For contracts issued to which an entity applies the premium allocation approach (see paragraphs 53–59), the entity shall assume no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–54), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(a) based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous.

(b) using information about estimates provided by the entity's internal reporting. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(i) an entity shall not disregard information provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but

(ii) an entity is not required to gather additional information beyond that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.

20 If, applying paragraphs 14–19, contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. The entity shall not apply this paragraph by analogy to other items.

21 An entity is permitted to subdivide the groups described in paragraph 16. For example, an entity may choose to divide the portfolios into:

(a) more groups that are not onerous at initial recognition — if the entity's internal reporting provides information that distinguishes:

(i) different levels of profitability; or

(ii) different possibilities of contracts becoming onerous after initial recognition; and

(b) more than one group of contracts that are onerous at initial recognition — if the entity's internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.

22 An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.

23 A *group of insurance contracts* shall comprise a single contract if that is the result of applying paragraphs 14–22.

24 An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition and add contracts to the groups applying paragraph 28. The entity shall not reassess the composition of the groups subsequently. To measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Recognition

25 An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) the beginning of the *coverage period* of the group of contracts;

(b) the date when the first payment from a policyholder in the group becomes due; and

(c) for a group of onerous contracts, when the group becomes onerous.

26 If there is no contractual due date, the first payment from the policyholder is deemed to be due when it is received. An entity is required to determine whether any contracts form a group of onerous contracts applying paragraph 16 before the earlier of the dates set out in paragraphs 25(a) and 25(b) if facts and circumstances indicate there is such a group.

27 [Deleted]

28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts that individually meet one of the criteria set out in paragraph 25 and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may include more contracts in the group after the end of a reporting period, subject to paragraphs 14–22. An entity shall add a contract to the group in the reporting period in which that contract meets one of the criteria set out in paragraph 25. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which new contracts are added to the group.

Insurance acquisition cash flows (paragraphs B35A–B35D)

28A An entity shall allocate *insurance acquisition cash flows* to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a).

28B An entity not applying paragraph 59(a) shall recognise as an asset insurance acquisition cash flows paid (or insurance acquisition cash flows for which a liability has been recognised applying another IFRS Standard) before the related group of insurance contracts is recognised. An entity shall recognise such an asset for each related group of insurance contracts.

28C An entity shall derecognise an asset for insurance acquisition cash flows when the insurance acquisition cash flows are included in the measurement of the related group of insurance contracts applying paragraph 38(c)(i) or paragraph 55(a)(iii).

28D If paragraph 28 applies, an entity shall apply paragraphs 28B–28C in accordance with paragraph B35C.

28E At the end of each reporting period, an entity shall assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired (see paragraph B35D). If an entity identifies an impairment loss, the entity shall adjust the carrying amount of the asset and recognise the impairment loss in profit or loss.

28F An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised applying paragraph 28E and increase the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Measurement (paragraphs B36–B119F)

29 An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of IFRS 17, with the following exceptions:

(a) for groups of insurance contracts meeting either of the criteria specified in paragraph 53, an entity may simplify the measurement of the group using the premium allocation approach in paragraphs 55–59.

(b) for groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70A. Paragraph 45 (on *insurance contracts with direct participation features*) and paragraphs 47–52 (on onerous contracts) do not apply to groups of reinsurance contracts held.

(c) for groups of investment contracts with discretionary participation features, an entity shall apply paragraphs 32–52 as modified by paragraph 71.

30 When applying IAS 21 *The Effects of Changes in Foreign Exchange Rates* to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the *contractual service margin*, as a monetary item.

31 In the financial statements of an entity that issues insurance contracts, the fulfilment cash flows shall not reflect the non-performance risk of that entity (non-performance risk is defined in IFRS 13 *Fair Value Measurement*).

Measurement on initial recognition (paragraphs B36–B95F)

32 On initial recognition, an entity shall measure a group of insurance contracts at the total of:

(a) the fulfilment cash flows, which comprise:

(i) estimates of future cash flows (paragraphs 33–35);

(ii) an adjustment to reflect the time value of money and the *financial risks* related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows (paragraph 36); and

(iii)-a *risk adjustment for non-financial risk* (paragraph 37).

(b) the contractual service margin, measured applying paragraphs 38–39.

Estimates of future cash flows (paragraphs B36–B71)

33 **An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:**

(a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.

(b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).

(c) be current — the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).

(d) be explicit — the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

(a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or

(b) both of the following criteria are satisfied:

(i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

(ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

35 An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

Discount rates (paragraphs B72–B85)

36 **An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall:**

(a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;

(b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and

(c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk adjustment for non-financial risk (paragraphs B86–B92)

37 **An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.**

Contractual service margin

38 **The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides insurance contract services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) or paragraph B123A (on insurance revenue relating to paragraph 38(c)(ii)) applies, results in no income or expenses arising from:**

(a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32–37;

(b) any cash flows arising from the contracts in the group at that date;

(c) the derecognition at the date of initial recognition of:

(i) **any asset for insurance acquisition cash flows applying paragraph 28C; and**

(ii) **any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.**

39 For insurance contracts acquired in a transfer of insurance contracts or in a business combination within the scope of IFRS 3, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95F.

Subsequent measurement

40 The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

(a) **the *liability for remaining coverage* comprising:**

(i) **the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92;**

(ii) **the contractual service margin of the group at that date, measured applying paragraphs 43–46; and**

(b) **the *liability for incurred claims*, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.**

41 An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for remaining coverage:

(a) **insurance revenue — for the reduction in the liability for remaining coverage because of services provided in the period, measured applying paragraphs B120–B124;**

(b) **insurance service expenses — for losses on groups of onerous contracts, and reversals of such losses (see paragraphs 47–52); and**

(c) **insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.**

42 An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for incurred claims:

(a) **insurance service expenses — for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;**

(b) **insurance service expenses — for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and**

(c) **insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.**

Contractual service margin (paragraphs B96–B119B)

43 The contractual service margin at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss because it relates to the future service to be provided under the contracts in the group.

44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates specified in paragraph B72(b);

(c) the changes in fulfilment cash flows relating to future service as specified in paragraphs B96–B100, except to the extent that:

(i) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); or

(ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

45 For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) the change in the amount of the entity's share of the fair value of the *underlying items* (see paragraph B104(b)(i)), except to the extent that:

(i) paragraph B115 (on risk mitigation) applies;

(ii) the decrease in the amount of the entity's share of the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) the increase in the amount of the entity's share of the fair value of the underlying items reverses the amount in (ii).

(c) the changes in fulfilment cash flows relating to future service, as specified in paragraphs B101–B118, except to the extent that:

(i) paragraph B115 (on risk mitigation) applies;

(ii) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

46 Some changes in the contractual service margin offset changes in the fulfilment cash flows for the liability for remaining coverage, resulting in no change in the total carrying amount of the liability for remaining coverage. To the extent that changes in the contractual service margin do not offset changes in the fulfilment cash flows for the liability for remaining coverage, an entity shall recognise income and expenses for the changes, applying paragraph 41.

Onerous contracts

47 An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in profit or loss for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.

48 A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

(a) unfavourable changes relating to future service in the fulfilment cash flows allocated to the group, arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk; and

(b) for a group of insurance contracts with direct participation features, the decrease in the amount of the entity's share of the fair value of the underlying items.

Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in profit or loss to the extent of that excess.

49 An entity shall establish (or increase) a loss component of the liability for remaining coverage for an onerous group depicting the losses recognised applying paragraphs 47–48. The loss component determines the amounts that are presented in profit or loss as reversals of losses on onerous groups and are consequently excluded from the determination of insurance revenue.

50 After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

(a) the subsequent changes in fulfilment cash flows of the liability for remaining coverage specified in paragraph 51 on a systematic basis between:

(i) the loss component of the liability for remaining coverage; and

(ii) the liability for remaining coverage, excluding the loss component.

(b) solely to the loss component until that component is reduced to zero:

(i) any subsequent decrease relating to future service in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk; and

(ii) any subsequent increases in the amount of the entity's share of the fair value of the underlying items.

Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

51 The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are:

(a) estimates of the present value of future cash flows for claims and expenses released from the liability for remaining coverage because of incurred insurance service expenses;

(b) changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk; and

(c) insurance finance income or expenses.

52 The systematic allocation required by paragraph 50(a) shall result in the total amounts allocated to the loss component in accordance with paragraphs 48–50 being equal to zero by the end of the coverage period of a group of contracts.

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

(a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or

(b) the coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

54 The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of contracts.

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(a) on initial recognition, the carrying amount of the liability is:

(i) the premiums, if any, received at initial recognition;

(ii) minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and

(iii) plus or minus any amount arising from the derecognition at that date of:

1. any asset for insurance acquisition cash flows applying paragraph 28C; and
2. any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A.

(b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

(i) plus the premiums received in the period;

(ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);

(iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);

(iv) plus any adjustment to a financing component, applying paragraph 56;

(v) minus the amount recognised as insurance revenue for services provided in that period (see paragraph B126); and

(vi) minus any investment component paid or transferred to the liability for incurred claims.

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year.

57 If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:

(a) the carrying amount of the liability for remaining coverage determined applying paragraph 55; and

(b) the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and B36–B92. However, if, in applying paragraph 59(b), the entity does not adjust the liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment.

58 To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage.

59 In applying the premium allocation approach, an entity:

(a) may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.

(b) shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

Reinsurance contracts held

60 The requirements in IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70A.

61 An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

Recognition

62 Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held from the earlier of the following:

(a) the beginning of the coverage period of the group of reinsurance contracts held; and

(b) the date the entity recognises an onerous group of underlying insurance contracts applying paragraph 25(c), if the entity entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

62A Notwithstanding paragraph 62(a), an entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

Measurement

63 In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

64 Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts.

65 The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned profit but instead a net cost or net gain on purchasing the reinsurance. Hence, unless paragraph 65A applies, on initial recognition the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of:

(a) the fulfilment cash flows;

(b) the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held;

(c) any cash flows arising at that date; and

(d) any income recognised in profit or loss applying paragraph 66A.

65A If the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts held, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense.

66 Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin, measured at the discount rates specified in paragraph B72(b);

(ba) income recognised in profit or loss in the reporting period applying paragraph 66A;

(bb) reversals of a loss-recovery component recognised applying paragraph 66B (see paragraph B119F) to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;

(c) changes in the fulfilment cash flows, measured at the discount rates specified in paragraph B72(c), to the extent that the change relates to future service, unless:

(i) the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts; or~~.~~

(ii) the change results from applying paragraphs 57–58 (on onerous contracts), if the entity measures a group of underlying insurance contracts applying the premium allocation approach.

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised in profit or loss because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119.

66A An entity shall adjust the contractual service margin of a group of reinsurance contracts held, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see paragraphs B119C–B119E).

66B An entity shall establish (or adjust) a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses recognised applying paragraphs 66(c)(i)–(ii) and 66A. The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer (see paragraph B119F).

67 Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not relate to future service and shall not adjust the contractual service margin.

68 Reinsurance contracts held cannot be onerous. Accordingly, the requirements of paragraphs 47–52 do not apply.

Premium allocation approach for reinsurance contracts held

69 An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example, the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

(a) the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or

(b) the coverage period of each contract in the group of reinsurance contracts held (including insurance coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

70 An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of reinsurance contracts held.

70A If an entity measures a group of reinsurance contracts held applying the premium allocation approach, the entity shall apply paragraph 66A by adjusting the carrying amount of the asset for remaining coverage instead of adjusting the contractual service margin.

Investment contracts with discretionary participation features

71 An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

(a) the date of initial recognition (see paragraphs 25 and 28) is the date the entity becomes party to the contract.

(b) the contract boundary (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

(c) the allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Modification and derecognition

Modification of an insurance contract

72 If the terms of an insurance contract are modified, for example, by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:

(a) if the modified terms had been included at contract inception:

(i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8A;

(ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which IFRS 17 would have applied;

(iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or

(iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24.

(b) the original contract met the definition of an *insurance contract with direct participation features*, but the modified contract no longer meets that definition, or vice versa; or

(c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.

73 If a contract modification meets none of the conditions in paragraph 72, the entity shall treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows by applying paragraphs 40–52.

Derecognition

74 An entity shall derecognise an insurance contract when, and only when:

(a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or

(b) any of the conditions in paragraph 72 are met.

75 When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. For example, when an entity buys reinsurance, it shall derecognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished.

76 An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in IFRS 17:

(a) the fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);

(b) the contractual service margin of the group is adjusted for the change in fulfilment cash flows described in (a), to the extent required by paragraphs 44(c) and 45(c), unless paragraph 77 applies; and

(c) the number of coverage units for expected remaining insurance contract services is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in profit or loss in the period is based on that adjusted number applying paragraph B119.

77 When an entity derecognises an insurance contract because it transfers the contract to a third party or derecognises an insurance contract and recognises a new contract applying paragraph 72, the entity shall instead of applying paragraph 76(b):

(a) adjust the contractual service margin of the group from which the contract has been derecognised, to the extent required by paragraphs 44(c) and 45(c), for the difference between (i) and either (ii) for contracts transferred to a third party or (iii) for contracts derecognised applying paragraph 72:

(i) the change in the carrying amount of the group of insurance contracts resulting from the derecognition of the contract, applying paragraph 76(a).

(ii) the premium charged by the third party.

(iii) the premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

(b) measure the new contract recognised applying paragraph 72 assuming that the entity received the premium described in (a)(iii) at the date of the modification.

Presentation in the statement of financial position

78 An entity shall present separately in the statement of financial position the carrying amount of portfolios of:

(a) insurance contracts issued that are assets;

(b) insurance contracts issued that are liabilities;

(c) reinsurance contracts held that are assets; and

(d) reinsurance contracts held that are liabilities.

79 An entity shall include any assets for insurance acquisition cash flows recognised applying paragraph 28B in the carrying amount of the related portfolios of insurance contracts issued, and any assets or liabilities for cash flows related to portfolios of reinsurance contracts held (see paragraph 65(b) in the carrying amount of the portfolios of reinsurance contracts held.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

80 Applying paragraphs 41 and 42, an entity shall disaggregate the amounts recognised in the statement(s) of profit or loss and other comprehensive income (hereafter referred to as the statement(s) of financial performance) into:

(a) an insurance service result (paragraphs 83–86), comprising insurance revenue and insurance service expenses; and

(b) insurance finance income or expenses (paragraphs 87–92).

81 An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.

82 An entity shall present income or expenses from reinsurance contracts held separately from the expenses or income from insurance contracts issued.

Insurance service result

83 An entity shall present in profit or loss insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs B120–B127 specify how an entity measures insurance revenue.

84 An entity shall present in profit or loss insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in paragraph 103(b).

85 Insurance revenue and insurance service expenses presented in profit or loss shall exclude any investment components. An entity shall not present premium information in profit or loss if that information is inconsistent with paragraph 83.

86 An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70A), other than insurance finance income or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:

(a) treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer;

(ba) treat amounts recognised relating to recovery of losses applying paragraphs 66(c)(i)–(ii) and 66A–66B as amounts recovered from the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

Insurance finance income or expenses (see paragraphs B128–B136)

87 Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:

(a) the effect of the time value of money and changes in the time value of money; and

(b) the effect of financial risk and changes in financial risk; but

(c) excluding any such changes for groups of insurance contracts with direct participation features that would adjust the contractual service margin but do not do so when applying paragraphs 45(b)(ii), 45(b)(iii), 45(c)(ii) or 45(c)(iii). These are included in insurance service expenses.

87A An entity shall apply:

(a) paragraph B117A to insurance finance income or expenses arising from the application of paragraph B115 (risk mitigation); and

(b) paragraphs 88 and 89 to all other insurance finance income or expenses.

88 In applying paragraph 87A(b), unless paragraph 89 applies, an entity shall make an accounting policy choice between:

(a) including insurance finance income or expenses for the period in profit or loss; or

(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts, applying paragraphs B130–B133.

89 In applying paragraph 87A(b), for insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:

(a) including insurance finance income or expenses for the period in profit or loss; or

(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held, applying paragraphs B134–B136.

90 If an entity chooses the accounting policy set out in paragraph 88(b) or in paragraph 89(b), it shall include in other comprehensive income the difference between the insurance finance income or expenses measured on the basis set out in those paragraphs and the total insurance finance income or expenses for the period.

91 If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:

(a) it shall reclassify to profit or loss as a reclassification adjustment (see IAS 1 *Presentation of Financial Statements*) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).

(b) it shall not reclassify to profit or loss as a reclassification adjustment (see IAS 1) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).

92 Paragraph 30 requires an entity to treat an insurance contract as a monetary item under IAS 21 for the purpose of translating foreign exchange items into the entity's functional currency. An entity includes exchange differences on changes in the carrying amount of groups of insurance contracts in the statement of profit or loss, unless they relate to changes in the carrying amount of groups of insurance contracts included in other comprehensive income applying paragraph 90, in which case they shall be included in other comprehensive income.

Disclosure

93 The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, statement(s) of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements for contracts within the scope of IFRS 17 (see paragraphs 97–116);

(b) the significant judgements, and changes in those judgements, made when applying IFRS 17 (see paragraphs 117–120); and

(c) the nature and extent of the risks from contracts within the scope of IFRS 17 (see paragraphs 121–132).

94 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 97–132, are not enough to meet the objective in paragraph 93, an entity shall disclose additional information necessary to meet that objective.

95 An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

96 Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:

(a) type of contract (for example, major product lines);

(b) geographical area (for example, country or region); or

(c) reportable segment, as defined in IFRS 8 *Operating Segments*.

Explanation of recognised amounts

97 Of the disclosures required by paragraphs 98–109A, only those in paragraphs 98–100, 102–103, 105–105B and 109A apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:

(a) which of the criteria in paragraphs 53 and 69 it has satisfied;

(b) whether it makes an adjustment for the time value of money and the effect of financial risk applying paragraphs 56, 57(b) and 59(b); and

(c) the method it has chosen to recognise insurance acquisition cash flows applying paragraph 59(a).

98 An entity shall disclose reconciliations that show how the net carrying amounts of contracts within the scope of IFRS 17 changed during the period because of cash flows and income and expenses recognised in the statement(s) of financial performance. Separate reconciliations shall be disclosed for insurance contracts issued and reinsurance contracts held. An entity shall adapt the requirements of paragraphs 100–109 to reflect the features of reinsurance contracts held that differ from insurance contracts issued; for example, the generation of expenses or reduction in expenses rather than revenue.

99 An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of financial performance. To comply with this requirement, an entity shall:

(a) disclose, in a table, the reconciliations set out in paragraphs 100–105B; and

(b) for each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for portfolios of contracts that are assets and a total for portfolios of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100 An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

(a) the net liabilities (or assets) for the remaining coverage component, excluding any loss component.

(b) any loss component (see paragraphs 47–52 and 57–58).

(c) the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70A has been applied, an entity shall disclose separate reconciliations for:

(i) the estimates of the present value of the future cash flows; and

(ii) the risk adjustment for non-financial risk.

101 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 also disclose reconciliations from the opening to the closing balances separately for each of:

(a) the estimates of the present value of the future cash flows;

(b) the risk adjustment for non-financial risk; and

(c) the contractual service margin.

102 The objective of the reconciliations in paragraphs 100–101 is to provide different types of information about the insurance service result.

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to services, if applicable:

(a) insurance revenue.

(b) insurance service expenses, showing separately:

(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.

(c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are presented as part of the cash flows in the period described in paragraph 105(a)(i)).

104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to services, if applicable:

(a) changes that relate to future service, applying paragraphs B96–B118, showing separately:

- (i) changes in estimates that adjust the contractual service margin;
- (ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and
- (iii) the effects of contracts initially recognised in the period.

(b) changes that relate to current service, ie:

- (i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;
- (ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and
- (iii) *experience adjustments* (see paragraphs B97(c) and B113(a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).

(c) changes that relate to past service, ie changes in fulfilment cash flows relating to incurred claims (see paragraphs B97(b) and B113(a)).

105 To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to services provided in the period, if applicable:

(a) cash flows in the period, including:

- (i) premiums received for insurance contracts issued (or paid for reinsurance contracts held);
- (ii) insurance acquisition cash flows; and
- (iii) incurred claims paid and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.

(b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;

(c) insurance finance income or expenses; and

(d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

105A An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. An entity shall aggregate information for the reconciliation at a level that is consistent with that for the reconciliation of insurance contracts, applying paragraph 98.

105B An entity shall separately disclose in the reconciliation required by paragraph 105A any impairment losses and reversals of impairment losses recognised applying paragraph 28E–28F.

106 For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:

(a) the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing:

- (i) the insurance service expenses incurred during the period as specified in paragraph B124(a);
- (ii) the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b);
- (iii) the amount of the contractual service margin recognised in profit or loss because of the transfer of insurance contract services in the period, as specified in paragraph B124(c); and
- (iv) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service as specified in paragraph B124(d).

(b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows (see paragraph B125).

107 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 the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:

(a) the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows;

(b) the estimates of the present value of future cash inflows;

(c) the risk adjustment for non-financial risk; and

(d) the contractual service margin.

108 In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from:

(a) contracts acquired from other entities in transfers of insurance contracts or business combinations; and

(b) groups of contracts that are onerous.

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.

109A An entity shall disclose quantitatively, in appropriate time bands, when it expects to derecognise an asset for insurance acquisition cash flows applying paragraph 28C.

Insurance finance income or expenses

110 An entity shall disclose and explain the total amount of insurance finance income or expenses in the reporting period. In particular, an entity shall explain the relationship between insurance finance income or expenses and the investment return on its assets, to enable users of its financial statements to evaluate the sources of finance income or expenses recognised in profit or loss and other comprehensive income.

111 For contracts with direct participation features, the entity shall describe the composition of the underlying items and disclose their fair value.

112 For contracts with direct participation features, if an entity chooses not to adjust the contractual service margin for some changes in the fulfilment cash flows, applying paragraph B115, it shall disclose the effect of that choice on the adjustment to the contractual service margin in the current period.

113 For contracts with direct participation features, if an entity changes the basis of disaggregation of insurance finance income or expenses between profit or loss and other comprehensive income, applying paragraph B135, it shall disclose, in the period when the change in approach occurred:

(a) the reason why the entity was required to change the basis of disaggregation;

(b) the amount of any adjustment for each financial statement line item affected; and

(c) the carrying amount of the group of insurance contracts to which the change applied at the date of the change.

Transition amounts

114 An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–C19A) or the fair value approach (see paragraphs C20–C24B) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

(a) insurance contracts that existed at the transition date to which the entity has applied the modified retrospective approach;

(b) insurance contracts that existed at the transition date to which the entity has applied the fair value approach; and

(c) all other insurance contracts.

115 For all periods in which disclosures are made applying paragraphs 114(a) or 114(b), to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts, an entity shall explain how it determined the measurement of insurance contracts at the transition date.

116 An entity that chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income applies paragraphs C18(b), C19(b), C24(b) and C24(c) to determine the cumulative difference between the insurance finance income or expenses that would have been recognised in profit or loss and the total insurance finance income or expenses at the transition date for the groups of insurance contracts to which the disaggregation applies. For all periods in which amounts determined applying these paragraphs exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive income for financial

assets measured at fair value through other comprehensive income related to the groups of insurance contracts. The reconciliation shall include, for example, gains or losses recognised in other comprehensive income in the period and gains or losses previously recognised in other comprehensive income in previous periods reclassified in the period to profit or loss.

Significant judgements in applying IFRS 17

117 An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

(a) the methods used to measure insurance contracts within the scope of IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.

(b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.

(c) to the extent not covered in (a), the approach used:

- (i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);
- (ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;
- (iii) to determine discount rates;
- (iv) to determine investment components; and
- (v) to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or by insurance coverage and investment-related service (see paragraphs B119–B119B).

118 If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.

119 An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.

120 An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.

Nature and extent of risks that arise from contracts within the scope of IFRS 17

121 An entity shall disclose information that enables users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from contracts within the scope of IFRS 17. Paragraphs 122–132 contain requirements for disclosures that would normally be necessary to meet this requirement.

122 These disclosures focus on the insurance and financial risks that arise from insurance contracts and how they have been managed. Financial risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

123 If the information disclosed about an entity's exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, the entity shall disclose that fact, the reason why the period-end exposure is not representative, and further information that is representative of its risk exposure during the period.

124 For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) the exposures to risks and how they arise;

(b) the entity's objectives, policies and processes for managing the risks and the methods used to measure the risks; and

(c) any changes in (a) or (b) from the previous period.

125 For each type of risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the entity's key management personnel.

(b) the disclosures required by paragraphs 127–132, to the extent not provided applying (a) of this paragraph.

126 An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees. If an entity applies paragraph 20 in determining the groups of insurance contracts to which it applies the recognition and measurement requirements of IFRS 17, it shall disclose that fact.

All types of risk — concentrations of risk

127 An entity shall disclose information about concentrations of risk arising from contracts within the scope of IFRS 17, including a description of how the entity determines the concentrations, and a description of the shared characteristic that identifies each concentration (for example, the type of insured event, industry, geographical area, or currency). Concentrations of financial risk might arise, for example, from interest-rate guarantees that come into effect at the same level for a large number of contracts. Concentrations of financial risk might also arise from concentrations of non-financial risk; for example, if an entity provides product liability protection to pharmaceutical companies and also holds investments in those companies.

Insurance and market risks — sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk variables arising from contracts within the scope of IFRS 17. To comply with this requirement, an entity shall disclose:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk variables that were reasonably possible at the end of the reporting period:

(i) for insurance risk — showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and

(ii) for each type of market risk — in a way that explains the relationship between the sensitivities to changes in risk variables arising from insurance contracts and those arising from financial assets held by the entity.

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.

129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk variables and uses that sensitivity analysis to manage risks arising from contracts within the scope of IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and

(b) an explanation of the objective of the method used and of any limitations that may result in the information provided.

Insurance risk — claims development

130 An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).

Credit risk — other information

131 For credit risk that arises from contracts within the scope of IFRS 17, an entity shall disclose:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period, separately for insurance contracts issued and reinsurance contracts held; and

(b) information about the credit quality of reinsurance contracts held that are assets.

Liquidity risk — other information

132 For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose:

(a) a description of how it manages the liquidity risk.

(b) separate maturity analyses for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59 and paragraphs 69–70A. The analyses may take the form of:

(i) an analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or

(ii) an analysis, by estimated timing, of the estimates of the present value of the future cash flows.

(c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related portfolios of contracts, if not disclosed applying (b) of this paragraph.

Appendix A
Defined terms

This appendix is an integral part of IFRS 17 Insurance Contracts.

contractual service margin

A component of the carrying amount of the asset or liability for a **group of insurance contracts** representing the unearned profit the entity will recognise as it provides **insurance contract services** under the **insurance contracts** in the group.

coverage period

The period during which the entity provides **insurance contract services**. This period includes the **insurance contract services** that relate to all premiums within the boundary of the **insurance contract**.

experience adjustment

A difference between:

(a) for premium receipts (and any related cash flows such as **insurance acquisition cash flows** and insurance premium taxes) — the estimate at the beginning of the period of the amounts expected in the period and the actual cash flows in the period; or

(b) for insurance service expenses (excluding insurance acquisition expenses) — the estimate at the beginning of the period of the amounts expected to be incurred in the period and the actual amounts incurred in the period.

financial risk

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.

fulfilment cash flows

An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils **insurance contracts**, including a **risk adjustment for non-financial risk**.

group of insurance contracts

A set of **insurance contracts** resulting from the division of a **portfolio of insurance contracts** into, at a minimum, contracts issued within a period of no longer than one year and that, at initial recognition:

(a) are onerous, if any;

(b) have no significant possibility of becoming onerous subsequently, if any; or

(c) do not fall into either (a) or (b), if any.

insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a **group of insurance contracts** (issued or expected to be issued) that are directly attributable to the **portfolio of insurance contracts** to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or **groups of insurance contracts** within the portfolio.
insurance contract	A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder**.
insurance contract services	The following services that an entity provides to a **policyholder** of an **insurance contract**: (a) coverage for an **insured event** (insurance coverage); (b) for **insurance contracts without direct participation features**, the generation of an investment return for the policyholder, if applicable (investment-return service); and (c) for **insurance contracts with direct participation features**, the management of underlying items on behalf of the **policyholder** (investment-related service).
insurance contract with direct participation features	An **insurance contract** for which, at inception: (a) the contractual terms specify that the **policyholder** participates in a share of a clearly identified pool of **underlying items**; (b) the entity expects to pay to the **policyholder** an amount equal to a substantial share of the fair value returns on the **underlying items**; and (c) the entity expects a substantial proportion of any change in the amounts to be paid to the **policyholder** to vary with the change in fair value of the **underlying items**.
insurance contract without direct participation features	An **insurance contract** that is not an **insurance contract with direct participation features**.
insurance risk	Risk, other than **financial risk**, transferred from the holder of a contract to the issuer.
insured event	An uncertain future event covered by an **insurance contract** that creates **insurance risk**.
investment component	The amounts that an **insurance contract** requires the entity to repay to a **policyholder** in all circumstances, regardless of whether an **insured event** occurs.
investment contract with discretionary participation features	A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts: (a) that are expected to be a significant portion of the total contractual benefits; (b) the timing or amount of which are contractually at the discretion of the issuer; and (c) that are contractually based on: (i) the returns on a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the entity or fund that issues the contract.

liability for incurred claims

An entity's obligation to:

(a) investigate and pay valid claims for **insured events** that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and~~.~~

(b) pay amounts that are not included in (a) and that relate to:

- (i) **insurance contract services** that have already been provided; or
- (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that are not in the **liability for remaining coverage**.

liability for remaining coverage

An entity's obligation to:

(a) investigate and pay valid claims under existing **insurance contracts** for **insured events** that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and~~.~~

(b) pay amounts under existing **insurance contracts** that are not included in (a) and that relate to:

- (i) **insurance contract services** not yet provided (ie the obligations that relate to future provision of **insurance contract services**); or
- (ii) any **investment components** or other amounts that are not related to the provision of **insurance contract services** and that have not been transferred to the **liability for incurred claims**.

policyholder

A party that has a right to compensation under an **insurance contract** if an **insured event** occurs.

portfolio of insurance contracts

Insurance contracts subject to similar risks and managed together.

reinsurance contract

An **insurance contract** issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more **insurance contracts** issued by that other entity (underlying contracts).

risk adjustment for non-financial risk

The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils **insurance contracts**.

underlying items

Items that determine some of the amounts payable to a **policyholder**. **Underlying items** can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

Appendix B
Application guidance

This appendix is an integral part of IFRS 17 Insurance Contracts.

B1 This appendix provides guidance on the following:

(a) definition of an insurance contract (see paragraphs B2–B30);

(b) separation of components from an insurance contract (see paragraphs B31–B35);

(ba) asset for insurance acquisition cash flows (see paragraphs B35A–B35D);

(c) measurement (see paragraphs B36–B119F);

(d) insurance revenue (see paragraphs B120–B127);

(e) insurance finance income or expenses (see paragraphs B128–B136); and

(f) interim financial statements (see paragraph B137).

Definition of an insurance contract (Appendix A)

B2 This section provides guidance on the definition of an insurance contract as specified in Appendix A. It addresses the following:

(a) uncertain future event (see paragraphs B3–B5);

(b) payments in kind (see paragraph B6);

(c) the distinction between insurance risk and other risks (see paragraphs B7–B16);

(d) significant insurance risk (see paragraphs B17–B23);

(e) changes in the level of insurance risk (see paragraphs B24–B25); and

(f) examples of insurance contracts (see paragraphs B26–B30).

Uncertain future event

B3 Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:

(a) the probability of an insured event occurring;

(b) when the insured event will occur; or

(c) how much the entity will need to pay if the insured event occurs.

B4 In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if that loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides insurance coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

Payments in kind

B6 Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either IFRS 17 or IFRS 15 *Revenue from Contracts with Customers*.

The distinction between insurance risk and other risks

B7 The definition of an insurance contract requires that one party accepts significant insurance risk from another party. IFRS 17 defines insurance risk as 'risk, other than financial risk, transferred from the holder of a contract to the issuer'. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

B8 The definition of financial risk in Appendix A refers to financial and non-financial variables. Examples of non-financial variables not specific to a party to the contract include an index of earthquake losses in a particular region or temperatures in a particular city. Financial risk excludes risk from non-financial variables that are specific to a party to the contract, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the fair value of a non-financial asset is not a financial risk if the fair value reflects changes in the market prices for such assets (ie a financial variable) and the condition of a specific non-financial asset held by a party to a contract (ie a non-financial variable). For example, if a guarantee of the residual value of a specific car in which the policyholder has an insurable interest exposes the guarantor to the risk of changes in the car's physical condition, that risk is insurance risk, not financial risk.

B9 Some contracts expose the issuer to financial risk in addition to significant insurance risk. For example, many life insurance contracts guarantee a minimum rate of return to policyholders, creating financial risk, and at the same time promise death benefits that may significantly exceed the policyholder's account balance, creating insurance risk in the form of mortality risk. Such contracts are insurance contracts.

B10 Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided that the payment contingent on the insured event could be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because the payment is triggered by an uncertain future event — the survival of the person who receives the annuity. The link to the price index is a derivative, but it also transfers insurance risk because the number of payments to which the index applies depends on the survival of the annuitant. If the resulting transfer of insurance risk is significant, the derivative meets the definition of an insurance contract, in which case it shall not be separated from the host contract (see paragraph 11(a)).

B11 Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.

B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes 'new for old' insurance coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased's dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

B13 Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying financial or non-financial variable correlated with the cash flows from an asset of the entity, the derivative is not an insurance contract because the payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. The definition of an insurance contract refers to an uncertain future event for which an adverse effect on the policyholder is a contractual precondition for payment. A contractual precondition does not require the entity to investigate whether the event actually caused an adverse effect, but it does permit the entity to deny the payment if it is not satisfied that the event did cause an adverse effect.

B14 Lapse or persistency risk (the risk that the policyholder will cancel the contract earlier or later than the issuer had expected when pricing the contract) is not insurance risk because the resulting variability in the payment to the policyholder is not contingent on an uncertain future event that adversely affects the policyholder. Similarly, expense risk (ie the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in the costs associated with insured events) is not insurance risk because an unexpected increase in such expenses does not adversely affect the policyholder.

B15 Consequently, a contract that exposes the entity to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the entity to significant insurance risk. However, if the entity mitigates its risk by using a second contract to transfer part of the non-insurance risk to another party, the second contract exposes the other party to insurance risk.

B16 An entity can accept significant insurance risk from the policyholder only if the entity is separate from the policyholder. In the case of a mutual entity, the mutual entity accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

Significant insurance risk

B17 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs B7–B16 discuss insurance risk. Paragraphs B18–B23 discuss the assessment of whether the insurance risk is significant.

B18 Insurance risk is significant if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance (ie no discernible effect on the economics of the transaction). If an insured event could mean significant additional amounts would be payable in any scenario that has commercial substance, the condition in the previous sentence can be met even if the insured event is extremely unlikely, or even if the expected (ie probability-weighted) present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from the insurance contract.

B19 In addition, a contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis. However, even if a reinsurance contract does not expose the issuer to the possibility of a significant loss, that contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts.

B20 The additional amounts described in paragraph B18 are determined on a present-value basis. If an insurance contract requires payment when an event with uncertain timing occurs and if the payment is not adjusted for the time value of money, there may be scenarios in which the present value of the payment increases, even if its nominal value is fixed. An example is insurance that provides a fixed death benefit when the policyholder dies, with no expiry date for the cover (often referred to as whole-life insurance for a fixed amount). It is certain that the policyholder will die, but the date of death is uncertain. Payments may be made when an individual policyholder dies earlier than expected. Because those payments are not adjusted for the time value of money, significant insurance risk could exist even if there is no overall loss on the portfolio of contracts. Similarly, contractual terms that delay timely reimbursement to the policyholder can eliminate significant insurance risk. An entity shall use the discount rates required in paragraph 36 to determine the present value of the additional amounts.

B21 The additional amounts described in paragraph B18 refer to the present value of amounts that exceed those that would be payable if no insured event had occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and assessment costs, but exclude:

(a) the loss of the ability to charge the policyholder for future service. For example, in an investment-linked life insurance contract, the death of the policyholder means that the entity can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the entity does not result from insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of a client. Consequently, the potential loss of future investment management fees is not relevant when assessing how much insurance risk is transferred by a contract.

(b) a waiver, on death, of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, their waiver does not compensate the policyholder for a pre-existing risk. Consequently, they are not relevant when assessing how much insurance risk is transferred by a contract.

(c) a payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay CU1 million 1 if an asset suffers physical damage that causes an insignificant economic loss of CU1 to the holder. In this contract, the holder transfers the insignificant risk of losing CU1 to the issuer. At the same time, the contract creates a non-insurance risk that the issuer will need to pay CU999,999 if the specified event occurs. Because there is no scenario in which an insured event causes a significant loss to the holder of the contract, the issuer does not accept significant insurance risk from the holder and this contract is not an insurance contract.

(d) possible reinsurance recoveries. The entity accounts for these separately.

B22 An entity shall assess the significance of insurance risk contract by contract. Consequently, the insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.

B23 It follows from paragraphs B18–B22 that, if a contract pays a death benefit that exceeds the amount payable on survival, the contract is an insurance contract unless the additional death benefit is not significant (judged by reference to the contract itself rather than to an entire portfolio of contracts). As noted in paragraph B21(b), the waiver on death of cancellation or surrender charges is not included in this assessment if that waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life-contingent payments are insignificant.

Changes in the level of insurance risk

B24 For some contracts, the transfer of insurance risk to the issuer occurs after a period of time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the same rates the entity charges other new annuitants at the time the policyholder exercises that option. Such a contract transfers insurance risk to the issuer only after the option is exercised, because the entity remains free to price the annuity on a basis that reflects the insurance risk that will be transferred to the entity at that time. Consequently, the cash flows that would occur on the exercise of the option fall outside the boundary of the contract, and before exercise there are no insurance cash flows within the boundary of the contract. However, if the contract specifies the annuity rates (or a basis other than market rates for setting the annuity rates), the contract transfers insurance risk to the issuer because the issuer is exposed to the risk that the annuity rates will be unfavourable to the issuer when the policyholder exercises the option. In that case, the cash flows that would occur when the option is exercised are within the boundary of the contract.

B25 A contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (ie discharged, cancelled or expired), unless the contract is derecognised applying paragraphs 74–77, because of a contract modification.

Examples of insurance contracts

B26 The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:

(a) insurance against theft or damage.

(b) insurance against product liability, professional liability, civil liability or legal expenses.

(c) life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).

(d) life-contingent annuities and pensions, ie contracts that provide compensation for the uncertain future event — the survival of the annuitant or pensioner — to provide the annuitant or pensioner with a level of income that would otherwise be adversely affected by his or her survival. (Employers' liabilities that arise from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans are outside the scope of IFRS 17, applying paragraph 7(b)).

(e) insurance against disability and medical costs.

(f) surety bonds, fidelity bonds, performance bonds and bid bonds, ie contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building.

(g) product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of IFRS 17. However, product warranties issued directly by a manufacturer, dealer or retailer are outside the scope of IFRS 17 applying paragraph 7(a), and are instead within the scope of IFRS 15 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(h) title insurance (insurance against the discovery of defects in the title to land or buildings that were not apparent when the insurance contract was issued). In this case, the insured event is the discovery of a defect in the title, not the defect itself.

(i) travel insurance (compensation in cash or in kind to policyholders for losses suffered in advance of, or during, travel).

(j) catastrophe bonds that provide for reduced payments of principal, interest or both, if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk; for example, if the event is a change in an interest rate or a foreign exchange rate).

(k) insurance swaps and other contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

B27 The following are examples of items that are not insurance contracts:

(a) investment contracts that have the legal form of an insurance contract but do not transfer significant insurance risk to the issuer. For example, life insurance contracts in which the entity bears no significant mortality or morbidity risk are not insurance contracts; such contracts are financial instruments or service contracts — see paragraph B28. Investment contracts with discretionary participation features do not meet the definition of an insurance contract; however, they are within the scope of IFRS 17 provided they are issued by an entity that also issues insurance contracts, applying paragraph 3(c).

(b) contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses. For example, some financial reinsurance contracts or some group contracts return all significant insurance risk to the policyholders; such contracts are normally financial instruments or service contracts (see paragraph B28).

(c) self-insurance (ie retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. Thus, if an entity issues an insurance contract to its parent, subsidiary or fellow subsidiary, there is no insurance contract in the consolidated financial statements because there is no contract with another party. However, for the individual or separate financial statements of the issuer or holder, there is an insurance contract.

(d) contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, the event to adversely affect the policyholder. However, this does not exclude from the definition of an insurance contract contracts that specify a predetermined payout to quantify the loss caused by a specified event such as a death or an accident (see paragraph B12).

(e) derivatives that expose a party to financial risk but not insurance risk, because the derivatives require that party to make (or give them the right to receive) payment solely based on the changes in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or a credit index or any other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract.

(f) credit-related guarantees that require payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due; such contracts are accounted for applying IFRS 9 *Financial Instruments* (see paragraph B29).

(g) contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).

(h) contracts that provide for reduced payments of principal, interest or both, that depend on a climatic, geological or any other physical variable, the effect of which is not specific to a party to the contract (commonly referred to as catastrophe bonds).

B28 An entity shall apply other applicable Standards, such as IFRS 9 and IFRS 15, to the contracts described in paragraph B27.

B29 The credit-related guarantees and credit insurance contracts discussed in paragraph B27(f) can have various legal forms, such as that of a guarantee, some types of letters of credit, a credit default contract or an insurance contract. Those contracts are insurance contracts if they require the issuer to make specified payments to reimburse the holder for a loss that the holder incurs because a specified debtor fails to make payment when due to the policyholder applying the original or modified terms of a debt instrument. However, such insurance contracts are excluded from the scope of IFRS 17 unless the issuer has previously asserted explicitly that it regards the contracts as insurance contracts and has used accounting applicable to insurance contracts (see paragraph 7(e)).

B30 Credit-related guarantees and credit insurance contracts that require payment, even if the policyholder has not incurred a loss on the failure of the debtor to make payments when due, are outside the scope of IFRS 17 because they do not transfer significant insurance risk. Such contracts include those that require payment:

(a) regardless of whether the counterparty holds the underlying debt instrument; or

(b) on a change in the credit rating or the credit index, rather than on the failure of a specified debtor to make payments when due.

Separating components from an insurance contract (paragraphs 10–13)

Investment components (paragraph 11(b))

B31 Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:

(a) the investment component and the insurance component are not highly interrelated.

(b) a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

B32 An investment component and an insurance component are highly interrelated if, and only if:

(a) the entity is unable to measure one component without considering the other. Thus, if the value of one component varies according to the value of the other, an entity shall apply IFRS 17 to account for the combined investment and insurance component; or

(b) the policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply IFRS 17 to account for the combined investment component and insurance component.

Promises to transfer distinct goods or services other than insurance contract services (paragraph 12)

B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or services other than insurance contract services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service other than insurance contract services to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34 A good or service other than an insurance contract service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

B35 A good or service other than an insurance contract service that is promised to the policyholder is not distinct if:

(a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and

(b) the entity provides a significant service in integrating the good or service with the insurance components.

Insurance acquisition cash flows (paragraphs 28A–28F)

B35A To apply paragraph 28A, an entity shall use a systematic and rational method to allocate:

(a) insurance acquisition cash flows directly attributable to a group of insurance contracts:

(i) to that group; and

(ii) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

(b) insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, other than those in (a), to groups of contracts in the portfolio.

B35B At the end of each reporting period, an entity shall revise amounts allocated as specified in paragraph B35A to reflect any changes in assumptions that determine the inputs to the method of allocation used. An entity shall not change amounts allocated to a group of insurance contracts after all contracts have been added to the group (see paragraph B35C).

B35C An entity might add insurance contracts to a group of insurance contracts across more than one reporting period (see paragraph 28). In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

B35D To apply paragraph 28E:

(a) an entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of an asset for insurance acquisition cash flows so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group of insurance contracts, determined applying paragraph 32(a).

(b) when an entity allocates insurance acquisition cash flows to groups of insurance contracts applying paragraph B35A(a)(ii), the entity shall recognise an impairment loss in profit or loss and reduce the carrying amount of the related assets for insurance acquisition cash flows to the extent that:

(i) the entity expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals, determined applying paragraph 32(a); and

(ii) the excess determined applying (b)(i) has not already been recognised as an impairment loss applying (a).

Measurement (paragraphs 29–71)

Estimates of future cash flows (paragraphs 33–35)

B36 This section addresses:

(a) unbiased use of all reasonable and supportable information available without undue cost or effort (see paragraphs B37–B41);

(b) market variables and non-market variables (see paragraphs B42–B53);

(c) using current estimates (see paragraphs B54–B60); and

(d) cash flows within the contract boundary (see paragraphs B61–B71).

Unbiased use of all reasonable and supportable information available without undue cost or effort (paragraph 33(a))

B37 The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions (see paragraph B41). Information available from an entity's own information systems is considered to be available without undue cost or effort.

B38 The starting point for an estimate of the cash flows is a range of scenarios that reflects the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Consequently, the objective is not to develop a most likely outcome, or a more-likely-than-not outcome, for future cash flows.

B39 When considering the full range of possible outcomes, the objective is to incorporate all reasonable and supportable information available without undue cost or effort in an unbiased way, rather than to identify every possible scenario. In practice, developing explicit scenarios is unnecessary if the resulting estimate is consistent with the measurement objective of considering all reasonable and supportable information available without undue cost or effort when determining the mean. For example, if an entity estimates that the probability distribution of outcomes is broadly consistent with a probability distribution that can be described completely with a small number of parameters, it will be sufficient to estimate the smaller number of parameters. Similarly, in some cases, relatively simple modelling may give an answer within an acceptable range of precision, without the need for many detailed simulations. However, in some cases, the cash flows may be driven by complex underlying factors and may respond in a non-linear fashion to changes in economic conditions. This may happen if, for example, the cash flows reflect a series of interrelated options that are implicit or explicit. In such cases, more sophisticated stochastic modelling is likely to be necessary to satisfy the measurement objective.

B40 The scenarios developed shall include unbiased estimates of the probability of catastrophic losses under existing contracts. Those scenarios exclude possible claims under possible future contracts.

B41 An entity shall estimate the probabilities and amounts of future payments under existing contracts on the basis of information obtained including:

(a) information about claims already reported by policyholders.

(b) other information about the known or estimated characteristics of the insurance contracts.

(c) historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted to reflect current conditions, for example, if:

    (i) the characteristics of the insured population differ (or will differ, for example, because of adverse selection) from those of the population that has been used as a basis for the historical data;

    (ii) there are indications that historical trends will not continue, that new trends will emerge or that economic, demographic and other changes may affect the cash flows that arise from the existing insurance contracts; or

    (iii) there have been changes in items such as underwriting procedures and claims management procedures that may affect the relevance of historical data to the insurance contracts.

(d) current price information, if available, for reinsurance contracts and other financial instruments (if any) covering similar risks, such as catastrophe bonds and weather derivatives, and recent market prices for transfers of insurance contracts. This information shall be adjusted to reflect the differences between the cash flows that arise from those reinsurance contracts or other financial instruments, and the cash flows that would arise as the entity fulfils the underlying contracts with the policyholder.

Market variables and non-market variables

B42 IFRS 17 identifies two types of variables:

(a) market variables — variables that can be observed in, or derived directly from, markets (for example, prices of publicly traded securities and interest rates); and

(b) non-market variables — all other variables (for example, the frequency and severity of insurance claims and mortality).

B43 Market variables will generally give rise to financial risk (for example, observable interest rates) and non-market variables will generally give rise to non-financial risk (for example, mortality rates). However, this will not always be the case. For example, there may be assumptions that relate to financial risks for which variables cannot be observed in, or derived directly from, markets (for example, interest rates that cannot be observed in, or derived directly from, markets).

Market variables (paragraph 33(b))

B44 Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall maximise the use of observable inputs and shall not substitute its own estimates for observable market data except as described in paragraph 79 of IFRS 13 *Fair Value Measurement*. Consistent with IFRS 13, if variables need to be derived (for example, because no observable market variables exist) they shall be as consistent as possible with observable market variables.

B45 Market prices blend a range of views about possible future outcomes and also reflect the risk preferences of market participants. Consequently, they are not a single-point forecast of the future outcome. If the actual outcome differs from the previous market price, this does not mean that the market price was 'wrong'.

B46 An important application of market variables is the notion of a replicating asset or a replicating portfolio of assets. A replicating asset is one whose cash flows *exactly* match, in all scenarios, the contractual cash flows of a group of insurance contracts in amount, timing and uncertainty. In some cases, a replicating asset may exist for some of the cash flows that arise from a group of insurance contracts. The fair value of that asset reflects both the expected present value of the cash flows from the asset and the risk associated with those cash flows. If a replicating portfolio of assets exists for some of the cash flows that arise from a group of insurance contracts, the entity can use the fair value of those assets to measure the relevant fulfilment cash flows instead of explicitly estimating the cash flows and discount rate.

B47 IFRS 17 does not require an entity to use a replicating portfolio technique. However, if a replicating asset or portfolio does exist for some of the cash flows that arise from insurance contracts and an entity chooses to use a different technique, the entity shall satisfy itself that a replicating portfolio technique would be unlikely to lead to a materially different measurement of those cash flows.

B48 Techniques other than a replicating portfolio technique, such as stochastic modelling techniques, may be more robust or easier to implement if there are significant interdependencies between cash flows that vary based on returns on assets and other cash flows. Judgement is required to determine the technique that best meets the objective of consistency with observable market variables in specific circumstances. In particular, the technique used must result in the measurement of any options and guarantees included in the insurance contracts being consistent with observable market prices (if any) for such options and guarantees.

Non-market variables

B49 Estimates of non-market variables shall reflect all reasonable and supportable evidence available without undue cost or effort, both external and internal.

B50 Non-market external data (for example, national mortality statistics) may have more or less relevance than internal data (for example, internally developed mortality statistics), depending on the circumstances. For example, an entity that issues life insurance contracts shall not rely solely on national mortality statistics, but shall consider all other reasonable and supportable internal and external sources of information available without undue cost or effort when developing unbiased estimates of probabilities for mortality scenarios for its insurance contracts. In developing those probabilities, an entity shall give more weight to the more persuasive information. For example:

(a) internal mortality statistics may be more persuasive than national mortality data if national data is derived from a large population that is not representative of the insured population. This might be because, for example, the demographic characteristics of the insured population could significantly differ from those of the national population, meaning that an entity would need to place more weight on the internal data and less weight on the national statistics.

(b) conversely, if the internal statistics are derived from a small population with characteristics that are believed to be close to those of the national population, and the national statistics are current, an entity shall place more weight on the national statistics.

B51 Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

B52 In some cases, an entity may conclude that market variables vary independently of non-market variables. If so, the entity shall consider scenarios that reflect the range of outcomes for the non-market variables, with each scenario using the same observed value of the market variable.

B53 In other cases, market variables and non-market variables may be correlated. For example, there may be evidence that lapse rates (a non-market variable) are correlated with interest rates (a market variable). Similarly, there may be evidence that claim levels for house or car insurance are correlated with economic cycles and therefore with interest rates and expense amounts. The entity shall ensure that the probabilities for the scenarios and the risk adjustments for the non-financial risk that relates to the market variables are consistent with the observed market prices that depend on those market variables.

Using current estimates (paragraph 33(c))

B54 In estimating each cash flow scenario and its probability, an entity shall use all reasonable and supportable information available without undue cost or effort. An entity shall review the estimates that it made at the end of the previous reporting period and update them. In doing so, an entity shall consider whether:

(a) the updated estimates faithfully represent the conditions at the end of the reporting period.

(b) the changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, shifting the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all newly available evidence, giving more weight to the more persuasive evidence.

B55 The probability assigned to each scenario shall reflect the conditions at the end of the reporting period. Consequently, applying IAS 10 *Events after the Reporting Period*, an event occurring after the end of the reporting period that resolves an uncertainty that existed at the end of the reporting period does not provide evidence of the conditions that existed at that date. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike during the remaining six months of an insurance contract. After the end of the reporting period but before the financial statements are authorised for issue, a major storm strikes. The fulfilment cash flows under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the cash flows included in the measurement include the 20 per cent probability apparent at the end of the reporting period (with disclosure applying IAS 10 that a non-adjusting event occurred after the end of the reporting period).

B56 Current estimates of expected cash flows are not necessarily identical to the most recent actual experience. For example, suppose that mortality experience in the reporting period was 20 per cent worse than the previous mortality experience and previous expectations of mortality experience. Several factors could have caused the sudden change in experience, including:

(a) lasting changes in mortality;

(b) changes in the characteristics of the insured population (for example, changes in underwriting or distribution, or selective lapses by policyholders in unusually good health);

(c) random fluctuations; or

(d) identifiable non-recurring causes.

B57 An entity shall investigate the reasons for the change in experience and develop new estimates of cash flows and probabilities in the light of the most recent experience, the earlier experience and other information. The result for the example in paragraph B56 would typically be that the expected present value of death benefits changes, but not by as much as 20 per cent. In the example in paragraph B56, if mortality rates continue to be significantly higher than the previous estimates for reasons that are expected to continue, the estimated probability assigned to the high-mortality scenarios will increase.

B58 Estimates of non-market variables shall include information about the current level of insured events and information about trends. For example, mortality rates have consistently declined over long periods in many countries. The determination of the fulfilment cash flows reflects the probabilities that would be assigned to each possible trend scenario, taking account of all reasonable and supportable information available without undue cost or effort.

B59 Similarly, if cash flows allocated to a group of insurance contracts are sensitive to inflation, the determination of the fulfilment cash flows shall reflect current estimates of possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of fulfilment cash flows shall reflect the probabilities for each inflation scenario in a way that is consistent with the probabilities implied by the market interest rates used in estimating the discount rate (see paragraph B51).

B60 When estimating the cash flows, an entity shall take into account current expectations of future events that might affect those cash flows. The entity shall develop cash flow scenarios that reflect those future events, as well as unbiased estimates of the probability of each scenario. However, an entity shall not take into account current expectations of future changes in legislation that would change or discharge the present obligation or create new obligations under the existing insurance contract until the change in legislation is substantively enacted.

Cash flows within the contract boundary (paragraph 34)

B61 Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

B62 Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts. The measurement of a group of insurance contracts shall reflect, on an expected value basis, the entity's current estimates of how the policyholders in the group will exercise the options available, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour. This requirement to determine the expected value applies regardless of the number of contracts in a group; for example, it applies even if the group comprises a single contract. Thus, the measurement of a group of insurance contracts shall not assume a 100 per cent probability that policyholders will:

(a) surrender their contracts, if there is some probability that some of the policyholders will not; or

(b) continue their contracts, if there is some probability that some of the policyholders will not.

B63 When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining service. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

(a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).

(c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.

(d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).

(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

(f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).

(g) costs the entity will incur in providing contractual benefits paid in kind.

(h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.

(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.

(j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.

(k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

(ka) costs the entity will incur:

(i) performing investment activity, to the extent the entity performs that activity to enhance benefits from insurance coverage for policyholders. Investment activities enhance benefits from insurance coverage if the entity performs those activities expecting to generate an investment return from which policyholders will benefit if an insured event occurs.

(ii) providing investment-return service to policyholders of insurance contracts without direct participation features (see paragraph B119B).

(iii) providing investment-related service to policyholders of insurance contracts with direct participation features.

(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.

(m) any other costs specifically chargeable to the policyholder under the terms of the contract.

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

(a) investment returns. Investments are recognised, measured and presented separately.

(b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.

(c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35).

(d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.

(e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.

(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity or that are not specifically chargeable to the policyholder under the terms of the contract.

(g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.

(h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).

B66A Before the recognition of a group of insurance contracts, an entity might be required to recognise an asset or liability for cash flows related to the group of insurance contracts other than insurance acquisition cash flows either because of the occurrence of the cash flows or because of the requirements of another IFRS Standard. Cash flows are related to the group of insurance contracts if those cash flows would have been included in the fulfilment cash flows at the date of initial recognition of the group had they been paid or received after that date. To apply paragraph 38(c)(ii) an entity shall derecognise such an asset or liability to the extent that the asset or liability would not be recognised separately from the group of insurance contracts if the cash flow or the application of the IFRS Standard occurred at the date of initial recognition of the group of insurance contracts.

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

B67 Some insurance contracts affect the cash flows to policyholders of other contracts by requiring:

(a) the policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items; and

(b) either:

(i) the policyholder to bear a reduction in their share of the returns on the underlying items because of payments to policyholders of other contracts that share in that pool, including payments arising under guarantees made to policyholders of those other contracts; or

(ii) policyholders of other contracts to bear a reduction in their share of returns on the underlying items because of payments to the policyholder, including payments arising from guarantees made to the policyholder.

B68 Sometimes, such contracts will affect the cash flows to policyholders of contracts in other groups. The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:

(a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and

(b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.

B69 For example, to the extent that payments to policyholders in one group are reduced from a share in the returns on underlying items of CU350 to CU250 because of payments of a guaranteed amount to policyholders in another group, the fulfilment cash flows of the first group would include the payments of CU100 (ie would be CU350) and the fulfilment cash flows of the second group would exclude CU100 of the guaranteed amount.

B70 Different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.

B71 After all insurance contract services have been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying IFRS 17:

(a) to measure the fulfilment cash flows — current discount rates applying paragraph 36;

(b) to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features — discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

(c) to measure the changes to the contractual service margin applying paragraphs B96(a)–B96(b) and B96(d) for insurance contracts without direct participation features — discount rates applying paragraph 36 determined on initial recognition;

(d) for groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56 — discount rates applying paragraph 36 determined on initial recognition;

(e) if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see paragraph 88), to determine the amount of the insurance finance income or expenses included in profit or loss:

(i) for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131 — discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

(ii) for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying paragraph B132(a)(i) — discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; and

(iii) for groups of contracts applying the premium allocation approach applying paragraphs 59(b) and B133 — discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.

B73 To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

B74 Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example:

(a) cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability;

(b) cash flows that vary based on the returns on any financial underlying items shall be:

   (i) discounted using rates that reflect that variability; or

   (ii) adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made.

(c) nominal cash flows (ie those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and

(d) real cash flows (ie those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.

B75 Paragraph B74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items.

B76 Cash flows that vary with returns on underlying items with variable returns, but that are subject to a guarantee of a minimum return, do not vary solely based on the returns on the underlying items, even when the guaranteed amount is lower than the expected return on the underlying items. Hence, an entity shall adjust the rate that reflects the variability of the returns on the underlying items for the effect of the guarantee, even when the guaranteed amount is lower than the expected return on the underlying items.

B77 IFRS 17 does not require an entity to divide estimated cash flows into those that vary based on the returns on underlying items and those that do not. If an entity does not divide the estimated cash flows in this way, the entity shall apply discount rates appropriate for the estimated cash flows as a whole; for example, using stochastic modelling techniques or risk-neutral measurement techniques.

B78 Discount rates shall include only relevant factors, ie factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the appropriate rates. IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall:

(a) maximise the use of observable inputs (see paragraph B44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph B49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables.

(b) reflect current market conditions from the perspective of a market participant.

(c) exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.

B79 For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.

B80 Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

B81 Alternatively, an entity may determine the appropriate discount rates for insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any factors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.

B82 In estimating the yield curve described in paragraph B81:

(a) if there are observable market prices in active markets for assets in the reference portfolio, an entity shall use those prices (consistent with paragraph 69 of IFRS 13).

(b) if a market is not active, an entity shall adjust observable market prices for similar assets to make them comparable to market prices for the assets being measured (consistent with paragraph 83 of IFRS 13).

(c) if there is no market for assets in the reference portfolio, an entity shall apply an estimation technique. For such assets (consistent with paragraph 89 of IFRS 13) an entity shall:

(i) develop unobservable inputs using the best information available in the circumstances. Such inputs might include the entity's own data and, in the context of IFRS 17, the entity might place more weight on long-term estimates than on short-term fluctuations; and

(ii) adjust those data to reflect all information about market participant assumptions that is reasonably available.

B83 In adjusting the yield curve, an entity shall adjust market rates observed in recent transactions in instruments with similar characteristics for movements in market factors since the transaction date, and shall adjust observed market rates to reflect the degree of dissimilarity between the instrument being measured and the instrument for which transaction prices are observable. For cash flows of insurance contracts that do not vary based on the returns on the assets in the reference portfolio, such adjustments include:

(a) adjusting for differences between the amount, timing and uncertainty of the cash flows of the assets in the portfolio and the amount, timing and uncertainty of the cash flows of the insurance contracts; and

(b) excluding market risk premiums for credit risk, which are relevant only to the assets included in the reference portfolio.

B84 In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach. An entity is not required to reconcile the discount rate determined under its chosen approach with the discount rate that would have been determined under the other approach.

B85 IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying paragraph B81. However, fewer adjustments would be required to eliminate factors that are not relevant to the insurance contracts when the reference portfolio of assets has similar characteristics. For example, if the cash flows from the insurance contracts do not vary based on the returns on underlying items, fewer adjustments would be required if an entity used debt instruments as a starting point rather than equity instruments. For debt instruments, the objective would be to eliminate from the total bond yield the effect of credit risk and other factors that are not relevant to the insurance contracts. One way to estimate the effect of credit risk is to use the market price of a credit derivative as a reference point.

Risk adjustment for non-financial risk (paragraph 37)

B86 The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph B14).

B87 The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:

(a) fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and

(b) fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

For example, the risk adjustment for non-financial risk would measure the compensation the entity would require to make it indifferent between fulfilling a liability that — because of non-financial risk — has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110, and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows.

B88 Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:

(a) the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and

(b) both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.

B89 The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as general operational risk.

B90 The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for non-financial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.

B91 IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for non-financial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:

(a) risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;

(b) for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;

(c) risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;

(d) the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and

(e) to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.

B92 An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.

Initial recognition of transfers of insurance contracts and business combinations (paragraph 39)

B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination within the scope of IFRS 3, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 (relating to demand features).

B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 and 69–70A applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition.

B95A If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination within the scope of IFRS 3, or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

B95B For a group of reinsurance contracts held to which paragraphs 66A–66B apply, an entity shall determine the loss-recovery component of the asset for remaining coverage at the date of the transaction by multiplying:

(a) the loss component of the liability for remaining coverage of the underlying insurance contracts at the date of the transaction; and

(b) the percentage of claims on the underlying insurance contracts the entity expects at the date of the transaction to recover from the group of reinsurance contracts held.

B95C The entity shall recognise the amount of the loss-recovery component determined applying paragraph B95B as part of goodwill or gain on a bargain purchase for reinsurance contracts held acquired in a business combination within the scope of IFRS 3, or as income in profit or loss for contracts acquired in a transfer.

B95D Applying paragraphs 14–22, at the date of the transaction an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous contracts not covered by the group of reinsurance contracts held. To apply paragraph B95B in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

Asset for insurance acquisition cash flows

B95E When an entity acquires insurance contracts issued in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3, the entity shall recognise an asset for insurance acquisition cash flows at fair value at the date of the transaction for the rights to obtain:

(a) future insurance contracts that are renewals of insurance contracts recognised at the date of the transaction; and

(b) future insurance contracts, other than those in (a), after the date of the transaction without paying again insurance acquisition cash flows the acquiree has already paid that are directly attributable to the related portfolio of insurance contracts.

B95F At the date of the transaction, the amount of any asset for insurance acquisition cash flows shall not be included in the measurement of the acquired group of insurance contracts applying paragraphs B93–B95A.

Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features (paragraph 44)

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c).

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c).

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable.

(ca) differences between any loan to a policyholder expected to become repayable in the period and the actual loan to a policyholder that becomes repayable in the period. Those differences are determined by comparing (i) the actual loan to a policyholder that becomes repayable in the period with (ii) the repayment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable.

(d) changes in the risk adjustment for non-financial risk that relate to future service. An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk and (ii) the effect of the time value of money and changes in the time value of money. If an entity makes such a disaggregation, it shall adjust the contractual service margin for the change related to non-financial risk, measured at the discount rates specified in paragraph B72(c).

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk. These effects comprise:

   (i) the effect, if any, on estimated future cash flows;

   (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and

   (iii) the effect of a change in discount rate.

(b) changes in estimates of fulfilment cash flows in the liability for incurred claims.

(c) experience adjustments, except those described in paragraph B96(a).

B98 The terms of some insurance contracts without direct participation features give an entity discretion over the cash flows to be paid to policyholders. A change in the discretionary cash flows is regarded as relating to future service, and accordingly adjusts the contractual service margin. To determine how to identify a change in discretionary cash flows, an entity shall specify at inception of the contract the basis on which it expects to determine its commitment under the contract; for example, based on a fixed interest rate, or on returns that vary based on specified asset returns.

B99 An entity shall use that specification to distinguish between the effect of changes in assumptions that relate to financial risk on that commitment (which do not adjust the contractual service margin) and the effect of discretionary changes to that commitment (which adjust the contractual service margin).

B100 If an entity cannot specify at inception of the contract what it regards as its commitment under the contract and what it regards as discretionary, it shall regard its commitment to be the return implicit in the estimate of the fulfilment cash flows at inception of the contract, updated to reflect current assumptions that relate to financial risk.

Changes in the carrying amount of the contractual service margin for insurance contracts with direct participation features (paragraph 45)

B101 Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).

B102 An entity shall assess whether the conditions in paragraph B101 are met using its expectations at inception of the contract and shall not reassess the conditions afterwards, unless the contract is modified, applying paragraph 72.

B103 To the extent that insurance contracts in a group affect the cash flows to policyholders of contracts in other groups (see paragraphs B67–B71), an entity shall assess whether the conditions in paragraph B101 are met by considering the cash flows that the entity expects to pay the policyholders determined applying paragraphs B68–B70.

B104 The conditions in paragraph B101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

(a) the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and

(b) a variable fee (see paragraphs B110–B118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:

(i) the amount of the entity's share of the fair value of the underlying items; less

(ii) fulfilment cash flows that do not vary based on the returns on underlying items.

B105 A share referred to in paragraph B101(a) does not preclude the existence of the entity's discretion to vary the amounts paid to the policyholder. However, the link to the underlying items must be enforceable (see paragraph 2).

B106 The pool of underlying items referred to in paragraph B101(a) can comprise any items, for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity, as long as they are clearly identified by the contract. An entity need not hold the identified pool of underlying items. However, a clearly identified pool of underlying items does not exist when:

(a) an entity can change the underlying items that determine the amount of the entity's obligation with retrospective effect; or

(b) there are no underlying items identified, even if the policyholder could be provided with a return that generally reflects the entity's overall performance and expectations, or the performance and expectations of a subset of assets the entity holds. An example of such a return is a crediting rate or dividend payment set at the end of the period to which it relates. In this case, the obligation to the policyholder reflects the crediting rate or dividend amounts the entity has set, and does not reflect identified underlying items.

B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) interpret the term 'substantial' in both paragraphs in the context of the objective of insurance contracts with direct participation features being contracts under which the entity provides investment-related services and is compensated for the services by a fee that is determined by reference to the underlying items; and

(b) assess the variability in the amounts in paragraphs B101(b) and B101(c):

(i) over the duration of the insurance contract; and

(ii) on a present value probability-weighted average basis, not a best or worst outcome basis (see paragraphs B37–B38).

B108 For example, if the entity expects to pay a substantial share of the fair value returns on underlying items, subject to a guarantee of a minimum return, there will be scenarios in which:

(a) the cash flows that the entity expects to pay to the policyholder vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items do not exceed the fair value return on the underlying items; and

(b) the cash flows that the entity expects to pay to the policyholder do not vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items exceed the fair value return on the underlying items.

The entity's assessment of the variability in paragraph B101(c) for this example will reflect a present value probability-weighted average of all these scenarios.

B109 Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of IFRS 17.

B110 For insurance contracts with direct participation features, the contractual service margin is adjusted to reflect the variable nature of the fee. Hence, changes in the amounts set out in paragraph B104 are treated as set out in paragraphs B111–B114.

B111 Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items (paragraph B104(a)) do not relate to future service and do not adjust the contractual service margin.

B112 Changes in the amount of the entity's share of the fair value of the underlying items (paragraph B104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

B113 Changes in the fulfilment cash flows that do not vary based on the returns on underlying items (paragraph B104(b)(ii)) comprise:

(a) changes in the fulfilment cash flows other than those specified in (b). An entity shall apply paragraphs B96–B97, consistent with insurance contracts without direct participation features, to determine to what extent they relate to future service and, applying paragraph 45(c), adjust the contractual service margin. All the adjustments are measured using current discount rates.

(b) the change in the effect of the time value of money and financial risks not arising from the underlying items; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), adjust the contractual service margin, except to the extent that paragraph B115 applies.

B114 An entity is not required to identify the adjustments to the contractual service margin required by paragraphs B112 and B113 separately. Instead, a combined amount may be determined for some or all of the adjustments.

Risk mitigation

B115 To the extent that an entity meets the conditions in paragraph B116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of the time value of money and financial risk on:

(a) the amount of the entity's share of the underlying items (see paragraph B112) if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and

(b) the fulfilment cash flows set out in paragraph B113(b) if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held.

B116 To apply paragraph B115, an entity must have a previously documented risk-management objective and strategy for mitigating financial risk as described in paragraph B115. In applying that objective and strategy:

(a) an economic offset exists between the insurance contracts and the derivative, non-derivative financial instrument measured at fair value through profit or loss, or reinsurance contract held (ie the values of the insurance contracts and those risk mitigating items generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated). An entity shall not consider accounting measurement differences in assessing the economic offset.

(b) credit risk does not dominate the economic offset.

B117 The entity shall determine the fulfilment cash flows in a group to which paragraph B115 applies in a consistent manner in each reporting period.

B117A If the entity mitigates the effect of financial risk using derivatives or non-derivative financial instruments measured at fair value through profit or loss, it shall include insurance finance income or expenses for the period arising from the application of paragraph B115 in profit or loss. If the entity mitigates the effect of financial risk using reinsurance contracts held, it shall apply the same accounting policy for the presentation of insurance finance income or expenses arising from the application of paragraph B115 as the entity applies to the reinsurance contracts held applying paragraphs 88 and 90.

B118 If, and only if, any of the conditions in paragraph B116 cease to be met an entity shall cease to apply paragraph B115 from that date. An entity shall not make any adjustment for changes previously recognised in profit or loss.

Recognition of the contractual service margin in profit or loss

B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

(a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage period.

(b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.

(c) recognising in profit or loss the amount allocated to coverage units provided in the period.

B119A To apply paragraph B119, the period of investment-return service or investment-related service ends at or before the date that all amounts due to current policyholders relating to those services have been paid, without considering payments to future policyholders included in the fulfilment cash flows applying paragraph B68.

B119B Insurance contracts without direct participation features may provide an investment-return service if, and only if:

(a) an investment component exists, or the policyholder has a right to withdraw an amount;

(b) the entity expects the investment component or amount the policyholder has a right to withdraw to include an investment return (an investment return could be below zero, for example, in a negative interest rate environment); and

(c) the entity expects to perform investment activity to generate that investment return.

Reinsurance contracts held — recognition of recovery of losses on underlying insurance contracts (paragraphs 66A–66B)

B119C Paragraph 66A applies if, and only if, the reinsurance contract held is entered into before or at the same time as the onerous underlying insurance contracts are recognised.

B119D To apply paragraph 66A, an entity shall determine the adjustment to the contractual service margin of a group of reinsurance contracts held and the resulting income by multiplying:

(a) the loss recognised on the underlying insurance contracts; and

(b) the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

B119E Applying paragraphs 14–22, an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraphs 66(c)(i)–(ii) and paragraph 66A in such cases, the entity shall apply a systematic and rational method of allocation to determine the portion of losses recognised on the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

B119F After an entity has established a loss-recovery component applying paragraph 66B, the entity shall adjust the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts (see paragraphs 50–52). The carrying amount of the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Insurance revenue (paragraphs 83 and 85)

B120 The total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity:

(a) adjusted for a financing effect; and

(b) excluding any investment components.

B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

(a) amounts related to the provision of services, comprising:

(i) insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk included in (ii) and any amounts allocated to the loss component of the liability for remaining coverage;

(ia) amounts related to income tax that are specifically chargeable to the policyholder;

(ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and

(iii) the contractual service margin.

(b) amounts related to insurance acquisition cash flows.

B122 Insurance revenue for a period relating to the amounts described in paragraph B121(a) is determined as set out in paragraphs B123–B124. Insurance revenue for a period relating to the amounts described in paragraph B121(b) is determined as set out in paragraph B125.

B123 Applying IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) changes that do not relate to services provided in the period, for example:

(i) changes resulting from cash inflows from premiums received;

(ii) changes that relate to investment components in the period;

(iia) changes resulting from cash flows from loans to policyholders;

(iii) changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));

(iv) insurance finance income or expenses;

(v) insurance acquisition cash flows (see paragraph B125); and

(vi) derecognition of liabilities transferred to a third party.

(b) changes that relate to services, but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage (see paragraphs 47–52).

B123A To the extent that an entity derecognises an asset for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of insurance contracts (see paragraphs 38(c)(ii) and B66A), it shall recognise insurance revenue and expenses for the amount derecognised at that date.

B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

(a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:

(i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);

(ii) repayments of investment components;

(iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));

(iv) insurance acquisition expenses (see paragraph B125); and

(v) the amount related to the risk adjustment for non-financial risk (see (b)).

(b) the change in the risk adjustment for non-financial risk, excluding:

(i) changes included in insurance finance income or expenses applying paragraph 87;

(ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and

(iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).

(c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).

(d) other amounts, if any, for example, experience adjustments for premium receipts other than those that relate to future service (see paragraph B96(a)).

B125 An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of insurance contract services:

(a) on the basis of the passage of time; but

(b) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

B127 An entity shall change the basis of allocation between paragraphs B126(a) and B126(b) as necessary if facts and circumstances change.

Insurance finance income or expenses (paragraphs 87–92)

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of the time value of money and financial risk and changes therein. For the purposes of IFRS 17:

(a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk;

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk; and

(c) changes in the measurement of a group of insurance contracts caused by changes in the value of underlying items (excluding additions and withdrawals) are changes arising from the effect of the time value of money and financial risk and changes therein.

B129 Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

B130 If paragraph 88(b) applies, an entity shall include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance income or expenses of a group of insurance contracts over the duration of the group that:

(a) is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance income or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group.

(b) results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive income at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

B131 For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rates specified in paragraph B72(e)(i).

B132 For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

(a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:

(i) using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; or

(ii) for contracts that use a crediting rate to determine amounts due to the policyholders — using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.

(b) a systematic allocation for the finance income or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

(c) a systematic allocation for the finance income or expenses arising from the contractual service margin is determined:

(i) for insurance contracts that do not have direct participation features, using the discount rates specified in paragraph B72(b); and

(ii) for insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

B133 In applying the premium allocation approach to insurance contracts described in paragraphs 53–59, an entity may be required, or may choose, to discount the liability for incurred claims. In such cases, it may choose to disaggregate the insurance finance income or expenses applying paragraph 88(b). If the entity makes this choice, it shall determine the insurance finance income or expenses in profit or loss using the discount rate specified in paragraph B72(e)(iii).

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the separately presented items being nil.

B135 An entity may qualify for the accounting policy choice in paragraph 89 in some periods but not in others because of a change in whether it holds the underlying items. If such a change occurs, the accounting policy choice available to the entity changes from that set out in paragraph 88 to that set out in paragraph 89, or vice versa. Hence, an entity might change its accounting policy between that set out in paragraph 88(b) and that set out in paragraph 89(b). In making such a change an entity shall:

(a) include the accumulated amount previously included in other comprehensive income by the date of the change as a reclassification adjustment in profit or loss in the period of change and in future periods, as follows:

(i) if the entity had previously applied paragraph 88(b) — the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 88(b) based on the assumptions that applied immediately before the change; and

(ii) if the entity had previously applied paragraph 89(b) — the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 89(b) based on the assumptions that applied immediately before the change.

(b) not restate prior period comparative information.

B136 When applying paragraph B135(a), an entity shall not recalculate the accumulated amount previously included in other comprehensive income as if the new disaggregation had always applied; and the assumptions used for the reclassification in future periods shall not be updated after the date of the change.

The effect of accounting estimates made in interim financial statements

B137 If an entity prepares interim financial statements applying IAS 34 *Interim Financial Reporting*, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.

Appendix C
Effective date and transition

This appendix is an integral part of IFRS 17 Insurance Contracts*.*

Effective date

C1 An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. If an entity applies IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies IFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

C2A *Initial Application of IFRS 17 and IFRS 9—Comparative Information*, issued in December 2021, added paragraphs C28A–C28E and C33A. An entity that chooses to apply paragraphs C28A–C28E and C33A shall apply them on initial application of IFRS 17.

Transition

C3 Unless it is impracticable to do so, or paragraph C5A applies, an entity shall apply IFRS 17 retrospectively, except that:

(a) an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) an entity shall not apply the option in paragraph B115 for periods before the transition date. An entity may apply the option in paragraph B115 prospectively on or after the transition date if, and only if, the entity designates risk mitigation relationships at or before the date it applies the option.

C4 To apply IFRS 17 retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure each group of insurance contracts as if IFRS 17 had always applied;

(aa) identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always applied (except that an entity is not required to apply the recoverability assessment in paragraph 28E before the transition date);

(b) derecognise any existing balances that would not exist had IFRS 17 always applied; and

(c) recognise any resulting net difference in equity.

C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):

(a) the modified retrospective approach in paragraphs C6–C19A, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C20–C24B.

C5A Notwithstanding paragraph C5, an entity may choose to apply the fair value approach in paragraphs C20–C24B for a group of insurance contracts with direct participation features to which it could apply IFRS 17 retrospectively if, and only if:

(a) the entity chooses to apply the risk mitigation option in paragraph B115 to the group of insurance contracts prospectively from the transition date; and

(b) the entity has used derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held to mitigate financial risk arising from the group of insurance contracts, as specified in paragraph B115, before the transition date.

C5B If, and only if, it is impracticable for an entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:

(a) the modified retrospective approach in paragraphs C14B–C14D and C17A, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C24A–C24B.

Modified retrospective approach

C6 The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

(a) use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.

(b) maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

C7 Paragraphs C9–C19A set out permitted modifications to retrospective application in the following areas:

(a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;

(b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;

(c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and

(d) insurance finance income or expenses.

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19A only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

C9 To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C9A To the extent permitted by paragraph C8, an entity shall classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

C10 To the extent permitted by paragraph C8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

C11 To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16C.

C12 To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

C13 To the extent permitted by paragraph C8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

(a) using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85, if such an observable yield curve exists.

(b) if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and B72–B85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

C14 To the extent permitted by paragraph C8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

C14A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine the contractual service margin or loss component at the transition date as if the entity had not prepared interim financial statements before the transition date.

C14B To the extent permitted by paragraph C8, an entity shall use the same systematic and rational method the entity expects to use after the transition date when applying paragraph 28A to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date (excluding any amount relating to insurance contracts that ceased to exist before the transition date) to:

(a) groups of insurance contracts that are recognised at the transition date; and

(b) groups of insurance contracts that are expected to be recognised after the transition date.

C14C Insurance acquisition cash flows paid before the transition date that are allocated to a group of insurance contracts recognised at the transition date adjust the contractual service margin of that group, to the extent insurance contracts expected to be in the group have been recognised at that date (see paragraphs 28C and B35C). Other insurance acquisition cash flows paid before the transition date, including those allocated to a group of insurance contracts expected to be recognised after the transition date, are recognised as an asset, applying paragraph 28B.

C14D If an entity does not have reasonable and supportable information to apply paragraph C14B, the entity shall determine the following amounts to be nil at the transition date:

(a) the adjustment to the contractual service margin of a group of insurance contracts recognised at the transition date and any asset for insurance acquisition cash flows relating to that group; and

(b) the asset for insurance acquisition cash flows for groups of insurance contracts expected to be recognised after the transition date.

C15 If applying paragraphs C12–C14D results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

(a) if the entity applies C13 to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and

(b) to the extent permitted by paragraph C8, determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see paragraph B119).

C16 If applying paragraphs C12–C14D results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14D and using a systematic basis of allocation.

C16A For a group of reinsurance contracts held that provides coverage for an onerous group of insurance contracts and was entered into before or at the same time that the insurance contracts were issued, an entity shall establish a loss-recovery component of the asset for remaining coverage at the transition date (see paragraphs 66A–66B). To the extent permitted by paragraph C8, an entity shall determine the loss-recovery component by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C16B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C16A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C16C If an entity does not have reasonable and supportable information to apply paragraph C16A, the entity shall not identify a loss-recovery component for the group of reinsurance contracts held.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

(a) the total fair value of the underlying items at that date; minus

(b) the fulfilment cash flows at that date; plus or minus

(c) an adjustment for:

(i) amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.

(ii) amounts paid before that date that would not have varied based on the underlying items.

(iii) the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

(iv) insurance acquisition cash flows paid (or for which a liability has been recognised applying another IFRS Standard) before the transition date that are allocated to the group (see paragraph C17A).

(d) if (a)–(c) result in a contractual service margin — minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

(e) if (a)–(c) result in a loss component — adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

C17A To the extent permitted by paragraph C8, an entity shall apply paragraphs C14B–C14D to recognise an asset for insurance acquisition cash flows, and any adjustment to the contractual service margin of a group of insurance contracts with direct participation features for insurance acquisition cash flows (see paragraph C17(c)(iv)).

Insurance finance income or expenses

C18 For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:

(a) an entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative amount either by applying paragraph C19(b) or:

(i) as nil, unless (ii) applies; and

(ii) for insurance contracts with direct participation features to which paragraph B134 applies, as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19 For groups of insurance contracts that do not include contracts issued more than one year apart:

(a) if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative amount:

(i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131 — if the entity applies paragraph C13 to estimate the discount rates at initial recognition — using the discount rates that applied at the date of initial recognition, also applying paragraph C13;

(ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132 — on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, ie as nil;

(iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133 — if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently) — using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and

(iv) for insurance contracts with direct participation features to which paragraph B134 applies — as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19A Applying paragraph B137, an entity may choose not to change the treatment of accounting estimates made in previous interim financial statements. To the extent permitted by paragraph C8, such an entity shall determine amounts related to insurance finance income or expenses at the transition date as if it had not prepared interim financial statements before the transition date.

Fair value approach

C20 To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of IFRS 13 *Fair Value Measurement* (relating to demand features).

C20A For a group of reinsurance contracts held to which paragraphs 66A–66B apply (without the need to meet the condition set out in paragraph B119C), an entity shall determine the loss-recovery component of the asset for remaining coverage at the transition date by multiplying:

(a) the loss component of the liability for remaining coverage for the underlying insurance contracts at the transition date (see paragraphs C16 and C20); and

(b) the percentage of claims for the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

C20B Applying paragraphs 14–22, at the transition date an entity might include in an onerous group of insurance contracts both onerous insurance contracts covered by a group of reinsurance contracts held and onerous insurance contracts not covered by the group of reinsurance contracts held. To apply paragraph C20A in such cases, an entity shall use a systematic and rational basis of allocation to determine the portion of the loss component of the group of insurance contracts that relates to insurance contracts covered by the group of reinsurance contracts held.

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109;

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100; and

(d) whether an investment contract meets the definition of an investment contract with discretionary participation features within the scope of IFRS 17, applying paragraph 71.

C22 An entity may choose to determine the matters in paragraph C21 using:

(a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or

(b) reasonable and supportable information available at the transition date.

C22A In applying the fair value approach, an entity may choose to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3.

C23 In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

C24 In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date:

(a) retrospectively — but only if it has reasonable and supportable information to do so; or

(b) as nil — unless (c) applies; and

(c) for insurance contracts with direct participation features to which paragraph B134 applies — as equal to the cumulative amount recognised in other comprehensive income from the underlying items.

Asset for insurance acquisition cash flows

C24A In applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

(a) recoveries of insurance acquisition cash flows from premiums of insurance contracts issued before the transition date but not recognised at the transition date;

(b) future insurance contracts that are renewals of insurance contracts recognised at the transition date and insurance contracts described in (a); and

(c) future insurance contracts, other than those in (b), after the transition date without paying again insurance acquisition cash flows the entity has already paid that are directly attributable to the related portfolio of insurance contracts.

C24B At the transition date, the entity shall exclude from the measurement of any groups of insurance contracts the amount of any asset for insurance acquisition cash flows.

Comparative information

C25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying IFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

C26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

C27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

C28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Entities that first apply IFRS 17 and IFRS 9 at the same time

C28A An entity that first applies IFRS 17 and IFRS 9 at the same time is permitted to apply paragraphs C28B–C28E (classification overlay) for the purpose of presenting comparative information about a financial asset if the comparative information for that financial asset has not been restated for IFRS 9. Comparative information for a financial asset will not be restated for IFRS 9 if either the entity chooses not to restate prior periods (see paragraph 7.2.15 of IFRS 9), or the entity restates prior periods but the financial asset has been derecognised during those prior periods (see paragraph 7.2.1 of IFRS 9).

C28B An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The entity shall use reasonable and supportable information available at the transition date (see paragraph C2(b)) to determine how the entity expects the financial asset would be classified and measured on initial application of IFRS 9 (for example, an entity might use preliminary assessments performed to prepare for the initial application of IFRS 9).

C28C In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements in Section 5.5 of IFRS 9. If, based on the classification determined applying paragraph C28B, the financial asset would be subject to the impairment requirements in Section 5.5 of IFRS 9 but the entity does not apply those requirements in applying the classification overlay, the entity shall continue to present any amount recognised in respect of impairment in the prior period in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Otherwise, any such amounts shall be reversed.

C28D Any difference between the previous carrying amount of a financial asset and the carrying amount at the transition date that results from applying paragraphs C28B–C28C shall be recognised in opening retained earnings (or other component of equity, as appropriate) at the transition date.

C28E An entity that applies paragraphs C28B–C28D shall:

(a) disclose qualitative information that enables users of financial statements to understand:

(i) the extent to which the classification overlay has been applied (for example, whether it has been applied to all financial assets derecognised in the comparative period);

(ii) whether and to what extent the impairment requirements in Section 5.5 of IFRS 9 have been applied (see paragraph C28C);

(b) only apply those paragraphs to comparative information for reporting periods between the transition date to IFRS 17 and the date of initial application of IFRS 17 (see paragraphs C2 and C25); and

(c) at the date of initial application of IFRS 9, apply the transition requirements in IFRS 9 (see Section 7.2 of IFRS 9).

Redesignation of financial assets

C29 At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.

C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

(a) the previous carrying amount of those financial assets; and

(b) the carrying amount of those financial assets at the date of initial application.

C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

(a) if paragraph C29(a) applies — its basis for determining eligible financial assets;

(b) if any of paragraphs C29(a)–C29(e) apply:

(i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and

(ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.

(c) if paragraph C29(b) applies — the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and

(c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.

C33A For a financial asset derecognised between the transition date and date of initial application of IFRS 17, an entity may apply paragraphs C28B–C28E (classification overlay) for the purpose of presenting comparative information as if paragraph C29 had been applied to that asset. Such an entity shall adapt the requirements of paragraphs C28B–C28E so that the classification overlay is based on how the entity expects the financial asset would be designated applying paragraph C29 at the date of initial application of IFRS 17.

Withdrawal of other IFRS Standards

C34 IFRS 17 supersedes IFRS 4 *Insurance Contracts*, as amended in 2020.

Illustrative Examples

These examples accompany, but are not part of, IFRS 17. They illustrate aspects of IFRS 17 but are not intended to provide interpretative guidance.

Introduction

IE1 These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IFRS 17 to particular aspects of the accounting for contracts within the scope of IFRS 17 based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific product illustrated. Although some aspects of the examples may be presented in actual fact patterns, fact patterns in those examples are simplified and all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 17.

IE2 These examples address specific requirements in IFRS 17:

(a) main features of the accounting for insurance contracts (see Examples 1–3); and

(b) specific requirements in IFRS 17 (see Examples 4–18).

IE3 In these examples:

(a) credit amounts are presented as positive and debit amounts are presented as negative (in brackets);

(b) amounts are denominated in currency units (CU);

(c) all paragraph numbers are related to IFRS 17, unless specified otherwise;

(d) some numbers include a rounding difference; and

(e) the insurance contracts are assumed to meet the conditions in paragraphs 14–23 to be assessed together and to be combined into a group on initial recognition. It is assumed that applying paragraph 24, the entity:

(i) establishes the groups on initial recognition of the contracts, and does not reassess the composition of the groups subsequently; and

(ii) may estimate the fulfilment cash flows at a higher level of aggregation than the group, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group by allocating such estimates to groups of contracts.

IE3A In June 2020, the International Accounting Standards Board (Board) amended IFRS 17 and made the following amendments to these examples:

(a) Example 12C was added;

(b) Examples 4, 6, 7, 9, 11, 12, 13, 14 and 16 were amended; and

(c) some amendments were made to improve the explanations in Examples 2B, 3B, 6, 8 and 9.

Key features of accounting for groups of insurance contracts

Example 1 — Measurement on initial recognition (paragraphs 32, 38 and 47)

IE4 This example illustrates how an entity measures a group of insurance contracts on initial recognition that is onerous on initial recognition, and a group of insurance contracts that is not onerous on initial recognition.

Assumptions

IE5 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued. It is assumed, for simplicity, that no contracts will lapse before the end of the coverage period.

IE6 The entity expects to receive premiums of CU900 immediately after initial recognition; therefore, the estimate of the present value of the future cash inflows is CU900.

IE7 The entity estimates the annual cash outflows at the end of each year as follows:

(a) in Example 1A, the annual future cash outflows are CU200 (total CU600). The entity estimates the present value of the future cash flows to be CU545 using a discount rate of 5 per cent a year that reflects the characteristics of those cash flows determined applying paragraph 36.

(b) in Example 1B, the annual future cash outflows are CU400 (total CU1,200). The entity estimates the present value of the future cash flows to be CU1,089 using a discount rate of 5 per cent a year that reflects the characteristics of those cash flows determined applying paragraph 36.

IE8 The entity estimates the risk adjustment for non-financial risk on initial recognition as CU120.

IE9 In this example all other amounts are ignored, for simplicity.

Analysis

IE10 The measurement of the group of insurance contracts on initial recognition is as follows:

	Example 1A		**Example 1B**	
	CU		**CU**	
Estimates of the present value of future cash inflows	(900)		(900)	
Estimates of the present value of future cash outflows	545		1,089	
Estimates of the present value of future cash flows	(355)		189	
Risk adjustment for non-financial risk	120		120	
Fulfilment cash flows (a)	(235)		309	
Contractual service margin	235	(b)	–	(c)
Insurance contract (asset) / liability on initial recognition (d)	–		**309**	(c)

	=====		=====	
The effect on profit or loss on initial recognition is as follows:				
Insurance service expenses	–		(309)	(c)
Loss recognised in the year	**–**	(b)	**(309)**	
	=====		=====	

IE11 Immediately after initial recognition, the entity receives the premium of CU900 and the carrying amount of the group of insurance contracts changes as follows:

	Example 1A		**Example 1B**	
	CU		**CU**	
Estimates of the present value of future cash inflows	–		–	
Estimates of the present value of future cash outflows	545		1,089	
Estimates of the present value of future cash flows	545		1,089	
Risk adjustment for non-financial risk	120		120	
Fulfilment cash flows	665		1,209	
Contractual service margin	235		–	
Insurance contract (asset) / liability immediately after initial recognition	**900**		**1,209**	
	=====		=====	

Example 2 — Subsequent measurement (paragraphs 40, 44, 48, 101 and B96–B97)

IE12 This example illustrates how an entity subsequently measures a group of insurance contracts, including a situation when the group of insurance contracts becomes onerous after initial recognition.

IE13 This example also illustrates the requirement that an entity discloses a reconciliation from the opening to the closing balances of each component of the liability for the group of insurance contracts in paragraph 101.

Assumptions

IE14 Example 2 uses the same fact pattern as Example 1A on initial recognition. In addition:

(a) in Year 1 all events occur as expected and the entity does not change any assumptions related to future periods;

(b) in Year 1 the discount rate that reflects the characteristics of the cash flows of the group remains at 5 per cent a year at the end of each year (those cash flows do not vary based on the returns on any underlying items);

(c) the risk adjustment for non-financial risk is recognised in profit or loss evenly in each year of coverage; and

(d) the expenses are expected to be paid immediately after they are incurred at the end of each year.

IE15 At the end of Year 2 the incurred expenses differ from those expected for that year. The entity also revises the fulfilment cash flows for Year 3 as follows:

(a) in Example 2A, there are favourable changes in fulfilment cash flows and these changes increase the expected profitability of the group of insurance contracts; and

(b) in Example 2B, there are unfavourable changes in fulfilment cash flows that exceed the remaining contractual service margin, creating an onerous group of insurance contracts.

Analysis

IE16 On initial recognition, the entity measures the group of insurance contracts and estimates the fulfilment cash flows at the end of each subsequent year as follows:

	Initial recognition	**Year 1**	**Year 2**	Year 3
	CU	**CU**	**CU**	**CU**
Estimates of the present value of future cash inflows	(900)	–	–	–
Estimates of the present value of future cash outflows	545	372	191	–
Estimates of the present value of future cash flows	(355)	372	191	–
Risk adjustment for non-financial risk	120	80	40	–
Fulfilment cash flows	(235)	452	231	–
Contractual service margin	235			
Insurance contract (asset) / liability on initial recognition	–			
	=====			

IE17 At the end of Year 1, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format of the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows							

			Risk adjustment for non-financial risk		Contractual service margin		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	–		–		–		–	
Changes related to future service: new contracts	(355)		120		235	(a)	–	
Cash inflows	900		–		–		900	
Insurance finance expenses	27	(b)	–	(c)	12	(d)	39	
Changes related to current service	–		(40)	(c)	(82)	(e)	(122)	
Cash outflows	(200)		–		–		(200)	
Closing balance	**372**		**80**		**165**		**617**	
	=====		=====		=====		=====	

Example 2A — Changes in fulfilment cash flows that increase future profitability

Assumptions

IE18 At the end of Year 2, the following events occur:

(a) the actual claims of CU150 are CU50 lower than originally expected for this period;

(b) the entity revises the estimates of future cash outflows for Year 3 and expects to pay CU140, instead of CU200 (the present value is CU133 instead of CU191, a decrease in the present value of CU58); and

(c) the entity revises the risk adjustment for non-financial risk related to estimates of future cash flows to CU30 instead of the initially estimated CU40.

Analysis

IE19 Thus, the estimates of the revised fulfilment cash flows at the end of Year 2 are as follows (the fulfilment cash flows for Year 1 and Year 3 are provided for comparison):

	Initial recognition	Year 1	Year 2	Year 3
	CU	CU	CU	CU
Estimates of the present value of future cash inflows				

	(900)	–	–	–
Estimates of the present value of future cash outflows	545	372	133	–
Estimates of the present value of future cash flows	(355)	372	133	–
Risk adjustment for non-financial risk	120	80	30	–
Fulfilment cash flows	**(235)**	**452**	**163**	**–**
	=====	=====	=====	=====

IE20 At the end of Year 2, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format of the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	372		80		165		617	
Insurance finance expenses	19	(a)	–		8	(a)	27	
Changes related to future service	(58)		(10)		68	(b)	–	
Changes related to current service	(50)	(c)	(40)		(121)	(a)	(211)	
Cash outflows	(150)		–		–		(150)	
Closing balance	**133**		**30**		**120**		**283**	
	=====		=====		=====		=====	

IE21 At the end of Year 3 the coverage period ends, so the remaining contractual service margin is recognised in profit or loss. In this example, all claims are paid when incurred; therefore, the remaining obligation is extinguished when the revised cash outflows are paid at the end of Year 3.

IE22 At the end of Year 3, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format of the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	133		30		120		283	
Insurance finance expenses	7	(a)	–		6	(a)	13	
Changes related to current service	–		(30)		(126)	(a)	(156)	
Cash outflows	(140)		–		–		(140)	
Closing balance	–		**–**		**–**		**–**	
	=====		=====		=====		=====	

IE23 The amounts recognised in the statement of financial position and the statement of profit or loss summarise the amounts analysed in the tables above as follows:

Statement of financial position	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Cash (a)	(700)		(550)		(410)			
Insurance contract liability	617		283		–			
Equity	83		267		410			
Statement of profit or loss (b)								
Changes related to current service	122		211		156		489	

Insurance finance expenses	(39)		(27)		(13)		(79)	
Profit	**83**		**184**		**143**		**410**	
	=====		=====		=====		=====	

Example 2B — Changes in fulfilment cash flows that create an onerous group of insurance contracts

IE24 At the end of Year 2, the following events occur:

(a) the actual claims of CU400 are CU200 higher than originally expected in this period.

(b) the entity revises its estimates of the future cash outflows for Year 3 to CU450, instead of CU200 (an increase in the present value of CU238). The entity also revises the risk adjustment for non-financial risk related to those future cash flows to CU88 at the end of Year 2 (CU48 higher than the originally expected CU40).

IE25 Thus, the estimates of the revised fulfilment cash flows at the end of Years 2 and 3 are as follows (the fulfilment cash flows for Year 1 are provided for comparison):

	Initial recognition	**Year 1**	**Year 2**	Year 3
	CU	**CU**	**CU**	**CU**
Estimates of the present value of future cash inflows	(900)	–	–	–
Estimates of the present value of future cash outflows	545	372	429	–
Estimates of the present value of future cash flows	(355)	372	429	–
Risk adjustment for non-financial risk	120	80	88	–
Fulfilment cash flows	**(235)**	**452**	**517**	**–**
	=====	=====	=====	=====

IE26 At the end of Year 2, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format of the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	

	CU		**CU**		**CU**		**CU**	
Opening balance	372		80		165		617	
Insurance finance expenses	19	(a)	–		8	(a)	27	
Changes related to future service	238		48		(173)	(b)	113	
Changes related to current service	200		(40)		–	(c)	160	
Cash outflows	(400)		–		–		(400)	
Closing balance	**429**		**88**		**–**		**517**	
	=====		=====		=====		=====	

IE27 At the end of Year 3, the coverage period ends and the group of contracts is derecognised. Applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format of the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	429		88		–		517	
Insurance finance expenses	21	(a)	–		–		21	
Changes related to current service	–		(88)		–		(88)	
Cash outflows	(450)		–		–		(450)	
Closing balance	**–**		**–**		**–**		**–**	
	=====		=====		=====		=====	

IE28 The amounts recognised in the statement of financial position and the statement of profit or loss summarise the amounts analysed in the tables above as follows:

Statement of financial position	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Cash (a)	(700)		(300)		150			
Insurance contract liability	617		517		–			
Equity	83		(217)		(150)			
Statement of profit or loss (b)								
Changes related to current service	122		(160)		88		50	
Changes related to future service: loss on onerous group of contracts	–		(113)		–		(113)	
Insurance finance expenses	(39)		(27)		(21)		(87)	
Profit / (loss)	**83**		**(300)**		**67**		**(150)**	
	=====		=====		=====		=====	

Example 3 — Presentation in the statement of profit or loss (paragraphs 49–50(a), 84–85, 100 and B120–B124)

IE29 This example illustrates how an entity could present the insurance service result, comprising insurance revenue minus insurance service expenses, in the statement of profit or loss.

IE30 This example also illustrates the disclosure requirements in paragraph 100 to reconcile the carrying amount of the insurance contracts: (a) from the opening to the closing balances by each component and (b) to the line items presented in the statement of profit or loss.

Assumptions

IE31 The illustrations of presentation requirements in Examples 3A and 3B are based on Examples 2A and 2B respectively.

IE32 In both Example 3A and Example 3B, the entity estimates in each year that an investment component of CU100 is to be excluded from insurance revenue and insurance service expenses presented in profit or loss, applying paragraph 85.

Example 3A — Changes in fulfilment cash flows that increase future profitability

Analysis

IE33 At the end of Year 1, the entity provided the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss, separately for the liability for remaining coverage and the liability for incurred claims. A possible format for that reconciliation for Year 1 is as follows:

	Liability for remaining coverage		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**	
Opening balance	–		–		–	
Cash inflows	900		–		900	
Insurance revenue	(222)	(a)	–		(222)	
Insurance service expenses	–		100	(b)	100	
Investment component	(100)	(c)	100	(c)	–	
Insurance finance expenses	39	(d)	–		39	
Cash outflows	–		(200)		(200)	
Closing balance	**617**		**–**		**617**	
	=====		=====		=====	

IE34 In Year 2, the actual claims of CU150 are lower than expected. The entity also revises its estimates relating to the fulfilment cash flows in Year 3. Consequently, the entity recognises in profit or loss the effect of the revised claims relating to Year 2, and adjusts the contractual service margin for changes in the fulfilment cash flows for Year 3. This change is only related to incurred claims and does not affect the investment component.

IE35 A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

	Liability for remaining coverage		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**	
Opening balance	617		–		617	
Insurance revenue	(261)	(a)	–		(261)	
Insurance service expenses	–		50	(b)	50	
Investment component	(100)		100		–	
Insurance finance expenses	27	(c)	–		27	
Cash flows	–		(150)		(150)	
Closing balance	**283**		**–**		**283**	

	=====		=====		=====	

IE36 In Year 3, there is no further change in estimates and the entity provides a possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 3 as follows:

	Liability for remaining coverage		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**	
Opening balance	283		–		283	
Insurance revenue	(196)	(a)	–		(196)	
Insurance service expenses	–		40	(b)	40	
Investment component	(100)		100		–	
Insurance finance expenses	13	(c)	–		13	
Cash flows	–		(140)		(140)	
Closing balance	**–**		**–**		**–**	
	=====		=====		=====	

IE37 The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

Statement of profit or loss	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Insurance revenue	222		261		196		679	(a)
Insurance service expenses	(100)		(50)		(40)		(190)	
Insurance service result	**122**		**211**		**156**		**489**	
Investment income (b)	–		–		–		–	
Insurance finance expenses	(39)		(27)		(13)		(79)	
Finance result	**(39)**		**(27)**		**(13)**		**(79)**	

Profit	83		184		143		410	
	=====		=====		=====		=====	

Example 3B — Changes in fulfilment cash flows that create an onerous group of insurance contracts

Analysis

IE38 This example uses the same assumptions for Year 1 as those in Example 3A. Consequently, the analysis of Year 1 is the same as for Example 3A. The presentation requirements for Year 1 are illustrated in Example 3A and are not repeated in Example 3B.

IE39 A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

	Liability for remaining coverage, excluding loss component		**Loss component of the liability for remaining coverage**		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	617		–		–		617	
Insurance revenue	(140)	(a)	–		–		(140)	
Insurance service expenses	–		113	(b)	300	(c)	413	
Investment component	(100)		–		100		–	
Insurance finance expenses	27	(d)	–		–		27	
Cash outflows	–		–		(400)		(400)	
Closing balance	**404**		**113**		**–**		**517**	
	=====		=====		=====		=====	

IE40 A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 3 is as follows:

	Liability for remaining coverage,		**Loss component of the liability for remaining coverage**					

	excluding loss component				Liability for incurred claims		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	404		113		–		517	
Insurance finance expenses	16		5	(b)	–		21	(d)
Insurance revenue	(320)	(a)	–		–		(320)	
Insurance service expenses	–		(118)	(b)	350	(c)	232	
Investment component	(100)		–		100		–	
Cash flows	–		–		(450)		(450)	
Closing balance	**–**		**–**		**–**		**–**	
	=====		=====		=====		=====	

IE41 The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

Statement of profit or loss	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Insurance revenue	222		140		320		682	(a)
Insurance service expenses	(100)		(413)		(232)		(745)	
Insurance service result	**122**		**(273)**		**88**		**(63)**	
Investment income (b)	–		–		–		–	
Insurance finance expenses	(39)		(27)		(21)		(87)	

Finance result	**(39)**		**(27)**		**(21)**		**(87)**	
Profit / (loss)	**83**		**(300)**		**67**		**(150)**	
	=====		=====		=====		=====	

Separating components from an insurance contract (paragraphs B31–B35)

IE42 The following two examples illustrate the requirements in paragraphs B31–B35 for separating non-insurance components from insurance contracts.

Example 4 — Separating components from a life insurance contract with an account balance

Assumptions

IE43 An entity issues a life insurance contract with an account balance. The entity receives a premium of CU1,000 when the contract is issued. The account balance is increased annually by voluntary amounts paid by the policyholder, increased or decreased by amounts calculated using the returns from specified assets and decreased by fees charged by the entity.

IE44 The contract promises to pay the following:

(a) a death benefit of CU5,000 plus the amount of the account balance, if the insured person dies during the coverage period; and

(b) the account balance, if the contract is cancelled (ie there are no surrender charges).

IE45 The entity has a claims processing department to process the claims received and an asset management department to manage investments.

IE46 An investment product that has equivalent terms to the account balance, but without the insurance coverage, is sold by another financial institution.

IE47 The entity considers whether to separate the non-insurance components from the insurance contract.

Analysis

Separating the account balance

IE48 The existence of an investment product with equivalent terms indicates that the components may be distinct, applying paragraph B31(b). However, if the right to death benefits provided by the insurance coverage either lapses or matures at the same time as the account balance, the insurance and investment components are highly interrelated and are therefore not distinct, applying paragraph B32(b). Consequently, the account balance would not be separated from the insurance contract and would be accounted for applying IFRS 17.

Separating the claims processing component

IE49 Claims processing activities are part of the activities the entity must undertake to fulfil the contract, and the entity does not transfer a good or service to the policyholder because the entity performs those activities. Thus, applying paragraph B33, the entity would not separate the claims processing component from the insurance contract.

Separating the asset management component

IE50 The asset management activities, similar to claims processing activities, are part of the activities the entity must undertake to fulfil the contract, and the entity does not transfer a good or service other than insurance contract services to the policyholder because the entity performs those activities. Thus, applying paragraph B33, the entity would not separate the asset management component from the insurance contract.

Example 5 — Separating components from a stop-loss contract with claims processing services

Assumptions

IE51 An entity issues a stop-loss contract to an employer (the policyholder). The contract provides health coverage for the policyholder's employees and has the following features:

(a) insurance coverage of 100 per cent for the aggregate claims from employees exceeding CU25 million (the 'stop-loss threshold'). The employer will self-insure claims from employees up to CU25 million.

(b) claims processing services for employees' claims during the next year, regardless of whether the claims have passed the stop-loss threshold of CU25 million. The entity is responsible for processing the health insurance claims of the employees on behalf of the employer.

IE52 The entity considers whether to separate the claims processing services. The entity notes that similar services to process claims on behalf of customers are sold on the market.

Analysis

Separating the claims processing services

IE53 The criteria for identifying distinct non-insurance services in paragraph B34 are met in this example:

(a) the claims processing services, similar to the services to process the employees' claims on behalf of the employer, are sold as a standalone service without any insurance coverage; and

(b) the claims processing services benefit the policyholder independently of the insurance coverage. Had the entity not agreed to provide those services, the policyholder would have to process its employees' medical claims itself or engage other service providers to do this.

IE54 Additionally, the criteria in paragraph B35 that establishes if the service is not distinct are not met because the cash flows associated with the claims processing services are not highly interrelated with the cash flows associated with the insurance coverage, and the entity does not provide a significant service of integrating the claims processing services with the insurance components. In addition, the entity could provide the promised claims processing services separately from the insurance coverage.

IE55 Accordingly, the entity separates the claims processing services from the insurance contract and accounts for them applying IFRS 15 *Revenue from Contracts with Customers*.

Subsequent measurement

Example 6 — Additional features of the contractual service margin (paragraphs 44, 87, 101, B96–B99 and B119–B119B)

IE56 This example illustrates adjustments to the contractual service margin of insurance contracts without direct participation features for:

(a) the changes in discretionary cash flows for insurance contracts that give an entity discretion over the cash flows expected to be paid to the policyholder, including determination of changes in those cash flows separately from changes in financial assumptions;

(b) the adjustments related to the time value of money and financial risks in a situation when the interest rate changes; and

(c) the amount recognised in profit or loss for the services provided in the period in a situation when the entity expects contracts in a group to have different durations.

Assumptions

IE57 An entity issues 200 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued.

IE58 The contracts in this example:

(a) meet the definition of insurance contracts because they offer a fixed payment on death. However, to isolate the effects illustrated in this example, and for simplicity, any fixed cash flows payable on death are ignored.

(b) do not meet the criteria for insurance contracts with direct participation features applying paragraph B101(a) because a pool of assets is not specified in the contracts.

(c) provide an investment-return service applying paragraph B119B.

(d) provide both insurance coverage and investment-return service evenly over the coverage period of three years.

IE59 The entity receives a single premium of CU15 at the beginning of the coverage period. Policyholders will receive the value of the account balance:

(a) if the insured person dies during the coverage period; or

(b) at the end of the coverage period (maturity value) if the insured person survives to the end of the coverage period.

IE60 The entity calculates the policyholder account balances at the end of each year as follows:

(a) opening balance; plus

(b) premiums received at the beginning of the period (if any); minus

(c) an annual charge of 3 per cent of the sum of the account balances at the beginning of the year and premium received if any; plus

(d) interest credited at the end of the year (the interest credited to the account balances in each year is at the discretion of the entity); minus

(e) the value of the remaining account balances paid to policyholders when an insured person dies or the coverage period ends.

IE61 The entity specifies that its commitment under the contract is to credit interest to the policyholder's account balance at a rate equal to the return on an internally specified pool of assets minus two percentage points, applying paragraph B98.

IE62 On initial recognition of the group of contracts, the entity:

(a) expects the return on the specified pool of assets will be 10 per cent a year.

(b) determines the discount rate applicable to nominal cash flows that do not vary based on the returns on any underlying items is 4 per cent a year.

(c) expects that two insured people will die at the end of each year. Claims are settled immediately.

(d) estimates the risk adjustment for non-financial risk to be CU30 and expects to recognise it in profit or loss evenly over the coverage period. Applying paragraph 81, the entity does not disaggregate the changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

IE63 In Year 1, the return on the specified pool of assets is 10 per cent, as expected. However, in Year 2 the return on the specified pool of assets is only 7 per cent. Consequently, at the end of Year 2, the entity:

(a) revises its estimate of the expected return on the specified pool of assets to 7 per cent in Year 3.

(b) exercises its discretion over the amount of interest it will credit to the policyholder account balances in Years 2 and 3. It determines that it will credit interest to the policyholder account balances at a rate equal to the return on the specified pool of assets, minus one percentage point, ie the entity forgoes spread income of one percentage point a year in Years 2 and 3.

(c) credits 6 per cent interest to the policyholder account balances (instead of the initially expected 8 per cent).

IE64 In this example all other amounts are ignored, for simplicity.

Analysis

IE65 On initial recognition, the entity measures the group of insurance contracts and estimates the fulfilment cash flows at the end of each subsequent year as follows:

	Initial recognition	**Year 1**	**Year 2**	Year 3
	CU	**CU**	**CU**	**CU**
Estimates of the present value of future cash inflows	(3,000)	–	–	–
Estimates of the present value of future cash outflows (a)	2,596	2,824	3,074	–
Estimates of the present value of future cash flows	(404)	2,824	3,074	–
Risk adjustment for non-financial risk	30	20	10	–
Fulfilment cash flows	(374)	2,844	3,084	–
Contractual service margin	374			
Insurance contract (asset) / liability on initial recognition	–			
	=====			

IE66 Applying paragraphs B98–B99, to determine how to identify a change in discretionary cash flows, an entity shall specify at inception of the contract the basis on which it expects to determine its commitment under the contract, for example, based on a fixed interest rate, or on returns that vary based on specified asset returns. An entity uses this specification to distinguish between the effect of changes in assumptions that relate to financial risk on that commitment (which does not adjust the contractual service margin) and the effect of discretionary changes to that commitment (which adjusts the contractual service margin).

IE67 In this example, the entity specified at inception of the contract that its commitment under the contract is to credit interest to the policyholder account balances at a rate equal to the return on a specified pool of assets minus two percentage points. Because of the entity's decision at the end of Year 2, this spread decreased from two percentage points to one percentage point.

IE68 Consequently, at the end of Year 2, the entity analyses the changes in the policyholder account balances between the result of changes in financial assumptions and the exercise of discretion, as follows:

Policyholder account balances		**As expected on initial recognition**			**Revised for changes in financial assumptions**			**Revised for changes in financial assumptions and the exercise of discretion**	
		CU			**CU**			**CU**	
Balance at the beginning of Year 1		–			–			–	
Premiums received		3,000			3,000			3,000	
Annual charge (a)	*3%*	(90)		*3%*	(90)		*3%*	(90)	
Interest credited (b)	*8%*	233		*8%*	233		*8%*	233	
Death benefits (c)	2/200	(31)		2/200	(31)		2/200	(31)	
Balance carried forward to Year 2		**3,112**			**3,112**			**3,112**	
Annual charge (a)	*3%*	(93)		*3%*	(93)		*3%*	(93)	
Interest credited (b)	*8%*	242		*5%*	151		*6%*	181	
Death benefits (c)	2/198	(33)		2/198	(32)		2/198	(32)	
Balance carried forward to Year 3		**3,228**			**3,138**			**3,168**	
Annual charge (a)	*3%*	(97)		*3%*	(94)		*3%*	(95)	
Interest credited (b)	*8%*	250		*5%*	152		*6%*	184	
Death benefits (c)	2/196	(35)		2/196	(33)		2/196	(33)	
Balance at the end of Year 3 (maturity value)		**3,346**			**3,163**			**3,224**	

	=====		=====		=====	

IE69 The entity summarises the estimates of future cash flows for Years 2 and 3 in the table below.

	As expected on initial recognition		Revised for changes in financial assumptions		Revised for changes in financial assumptions and the exercise of discretion	
	CU		**CU**		**CU**	
Payment on deaths in Year 2	33		32		32	
Payment on deaths in Year 3	35		33		33	
Maturity value paid in Year 3	3,346		3,163		3,224	
Estimates of the future cash flows at the beginning of Year 2	**3,414**		**3,228**		**3,289**	
	=====		=====		=====	

IE70 Applying paragraphs B98–B99, the entity distinguishes between the effect of changes in assumptions that relate to financial risk and the effect of discretionary changes on the fulfilment cash flows as follows:

Changes in the estimates of future cash flows in Year 2	**Estimates of future cash flows**		**Estimates of the present value of future cash flows**	
	CU		**CU**	
Beginning of Year 2 (present value discounted at 10%)	3,414	(a)	2,824	(b)
The effect of changes in financial assumptions (and interest accretion)	(186)	(c)	195	(d)
Revised for changes in financial assumptions (present value discounted at 7%)				

	3,228	(a)	3,019	(b)
The effect of the exercise of discretion (present value discounted at 7%)	61	(e)	57	
Revised for changes in financial assumptions and the exercise of discretion (present value discounted at 7%)	3,289	(a)	3,076	(b)
Payment of cash flows	(32)	(a)	(32)	
End of Year 2	**3,257**		**3,044**	
	=====		=====	

IE71 A possible format for the reconciliation of the insurance contract liability required by paragraph 101 for Year 2 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	2,824		20		258		3,102	
Insurance finance expenses	197	(a)	–		10	(b)	207	
Changes related to future service: exercise of discretion	55	(c)	–		(55)	(c)	–	
Changes related to current service								

	–		(10)		(107)	(d)	(117)	
Cash outflows	(32)		–		–		(32)	
Closing balance	**3,044**		**10**		**106**		**3,160**	
	=====		=====		=====		=====	

Example 7 — Insurance acquisition cash flows (paragraphs 106, B65(e) and B125)

IE72 This example illustrates the determination of insurance acquisition cash flows on initial recognition and the subsequent determination of insurance revenue, including the portion of premium related to the recovery of the insurance acquisition cash flows.

IE73 This example also illustrates the requirement to disclose the analysis of the insurance revenue recognised in the period applying paragraph 106.

Assumptions

IE74 An entity issues a group of insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued.

IE75 On initial recognition, the entity determines the following:

(a) estimates of future cash inflows of CU900, paid immediately after initial recognition;

(b) estimates of future cash outflows, which comprise:

(i) estimates of future claims of CU600 (CU200 incurred and paid each year); and

(ii) acquisition cash flows of CU120 (of which CU90 are cash flows directly attributable to the portfolio to which the contracts belong), are paid at the beginning of the coverage period.

(c) the risk adjustment for non-financial risk is CU15 and the entity expects to recognise the risk adjustment for non-financial risk in profit or loss evenly over the coverage period.

IE76 In this example for simplicity, it is assumed that:

(a) all expenses are incurred as expected;

(b) no contracts will lapse during the coverage period;

(c) there is no investment component;

(d) the insurance acquisition cash flows directly attributable to the portfolio to which the contracts belong of CU90 are directly attributable to the group of contracts to which the contracts belong and no renewals of those contracts are expected; and

(e) all other amounts, including the effect of discounting, are ignored for simplicity.

Analysis

IE77 On initial recognition, the entity measures the group of insurance contracts and estimates the fulfilment cash flows at the end of each subsequent year as follows:

	Initial recognition		**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**		**CU**	
Estimates of the present value of future cash inflows	(900)		–		–		–	

Estimates of the present value of future cash outflows	690	(a)	400		200		–	
Estimates of the present value of future cash flows	(210)		400		200		–	
Risk adjustment for non-financial risk	15		10		5		–	
Fulfilment cash flows	(195)		410		205		–	
Contractual service margin	195							
Insurance contract (asset) / liability on initial recognition	–							
	=====							

IE78 The entity recognises the contractual service margin and insurance acquisition cash flows in profit or loss for each year as follows:

Recognised in profit or loss each year	**Year 1**	**Year 2**	**Year 3**	Total
	CU	**CU**	**CU**	**CU**
Contractual service margin (a)	65	65	65	195
Insurance acquisition cash flows (b)	30	30	30	90

IE79 The entity recognises the following amounts in profit or loss:

Statement of profit or loss	**Year 1**	**Year 2**	**Year 3**	Total
	CU	**CU**	**CU**	**CU**
Insurance revenue (a)	300	300	300	900
Insurance service expenses (b)	(230)	(230)	(230)	(690)
Insurance service result	70	70	70	210
Other expenses (c)	(30)	–	–	(30)
Profit	40	70	70	180
	=====	=====	=====	=====

IE80 A possible format for the analysis of the insurance revenue required by paragraph 106 is as follows:

	Year 1	Year 2	Year 3	Total
	CU	**CU**	**CU**	**CU**
Amounts relating to the changes in the liability for remaining coverage:				
– Insurance service expenses incurred (a)	200	200	200	600
– Contractual service margin recognised in profit or loss	65	65	65	195
– Change in the risk adjustment for non-financial risk caused by the release from risk	5	5	5	15
Allocation of recovery of insurance acquisition cash flows	30	30	30	90
Insurance revenue (b)	**300**	**300**	**300**	**900**
	=====	=====	=====	=====

Example 8 — Reversal of losses in an onerous group of insurance contracts (paragraphs 49–50 and B123–B124)

IE81 This example illustrates how, for an onerous group of insurance contracts, an entity reverses losses from the loss component of the liability for remaining coverage when the group becomes profitable.

Assumptions

IE82 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued and the services are provided evenly over the coverage period. It is assumed, for simplicity, that no contracts will lapse before the end of the coverage period.

IE83 The entity expects to receive premiums of CU800 immediately after initial recognition, therefore, the estimates of the present value of cash inflows are CU800.

IE84 The entity estimates annual future cash outflows to be CU400 at the end of each year (total CU1,200). The entity estimates the present value of the future cash outflows to be CU1,089, using a discount rate of 5 per cent a year that reflects the characteristics of nominal cash flows that do not vary based on the returns on any underlying items, determined applying paragraph 36. The entity expects claims will be paid when incurred.

IE85 The risk adjustment for non-financial risk on initial recognition equals CU240 and it is assumed the entity will be released from risk evenly over the coverage period of three years.

IE86 In this example all other amounts, including the investment component are ignored, for simplicity.

IE87 On initial recognition, the entity measures the group of insurance contracts and estimates the fulfilment cash flows at the end of each subsequent year as follows:

	Initial recognition	**Year 1**	**Year 2**	Year 3

	CU	CU	CU	CU
Estimates of the present value of future cash inflows	(800)	–	–	–
Estimates of the present value of future cash outflows	1,089	743	381	–
Estimates of the present value of future cash flows	289	743	381	–
Risk adjustment for non-financial risk	240	160	80	–
Fulfilment cash flows	529	903	461	–
Contractual service margin	–			
Insurance contract liability	**529**			
	=====			

IE88 In Year 1 all events occur as expected on initial recognition.

IE89 At the end of Year 2, the entity revises its estimates of future cash outflows for Year 3 to CU100, instead of CU400 (a decrease in the present value of CU286). The risk adjustment for non-financial risk related to those cash flows remains unchanged.

IE90 In Year 3, all events occur as expected at the end of Year 2.

Analysis

IE91 At the end of Year 1, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin. Using this information, a possible format for the reconciliation of the insurance contract liability required by paragraph 101 is as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	–		–		–		–	
Changes related to future service: new contracts	289		240		–		529	

Cash inflows	800		–		–		800	
Insurance finance expenses	54	(a)	–	(b)	–		54	
Changes related to current service	–		(80)	(b)	–	(c)	(80)	
Cash outflows	(400)		–		–		(400)	
Closing balance	**743**		**160**		**–**		**903**	
	=====		=====		=====		=====	

IE92 A possible format for a reconciliation between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 1 required by paragraph 100 is as follows:

	Liability for remaining coverage, excluding loss component		**Loss component of the liability for remaining coverage**		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	–		–		–		–	
Cash inflows	800		–		–		800	
Insurance service expenses: loss on onerous contracts	–		529	(a)	–		529	
Insurance finance expenses	33		21	(b)	–		54	(c)
Insurance revenue	(289)	(b)	–		–		(289)	
Insurance service expenses: incurred expenses	–		(191)	(b)	400		209	

Cash outflows	–		–		(400)		(400)	
Closing balance	**544**		**359**		**–**		**903**	
	=====		=====		=====		=====	

IE93 Applying paragraph 50(a), the entity allocates specified subsequent changes in fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. The table below illustrates the systematic allocation of the changes in fulfilment cash flows for the liability for remaining coverage in Year 1.

	Liability for remaining coverage, excluding loss component		**Loss component of the liability for remaining coverage**		**Total**	
	CU		**CU**		**CU**	
Release of expected insurance service expenses for the incurred claims for the year	(241)		(159)	(a)	(400)	
Change in the risk adjustment for non-financial risk caused by the release from risk	(48)		(32)	(a)	(80)	
Insurance revenue	(289)	(b)	–			
Insurance service expenses	–		(191)			

IE94 At the end of Year 2, applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin, as follows:

	Estimates of the present value of future cash flows		**Risk adjustment for non-financial risk**		**Contractual service margin**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	743		160		–		903	

Insurance finance expenses	37	(a)	–		–		37	
Changes related to future service	(286)	(b)	–		103	(b)	(183)	
Changes related to current service	–		(80)		(52)	(c)	(132)	
Cash outflows	(400)		–		–		(400)	
Closing balance	**94**		**80**		**51**		**225**	
	=====		=====		=====		=====	

IE95 A possible format for a reconciliation between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 required by paragraph 100 is as follows:

	Liability for remaining coverage, excluding loss component		**Loss component of the liability for remaining coverage**		**Liability for incurred claims**		**Insurance contract liability**	
	CU		**CU**		**CU**		**CU**	
Opening balance	544		359		–		903	
Insurance finance expenses	22		15	(a)	–		37	(b)
Insurance revenue	(341)	(a)	–		–		(341)	
Insurance service expenses: incurred expenses	–		(191)	(a)	400		209	
Insurance service expenses: reversal of loss on onerous contracts								

	–		(183)	(c)	–		(183)	
Cash flows	–		–		(400)		(400)	
Closing balance	**225**		**–**		**–**		**225**	
	=====		=====		=====		=====	

IE96 The table below illustrates the systematic allocation of the changes in fulfilment cash flows for the liability for remaining coverage in Year 2.

	Liability for remaining coverage, excluding loss component		**Loss component of the liability for remaining coverage**		**Total**	
	CU		**CU**		**CU**	
Release of expected insurance service expenses for the incurred claims for the year	(241)		(159)	(a)	(400)	
Change in the risk adjustment for non-financial risk caused by the release from risk	(48)		(32)	(a)	(80)	
Contractual service margin recognised in profit or loss for the year	(52)		–		(52)	
Insurance revenue	(341)	(b)	–			
Insurance service expenses	–		(191)			
Insurance finance expenses	22	(b)	(15)	(a)		

IE97 At the end of Year 3, the coverage period ends and the group of insurance contracts is derecognised. Applying paragraphs B96–B97, the entity analyses the source of changes in the fulfilment cash flows during the year to decide whether each change adjusts the contractual service margin, as follows:

			Risk adjustment for non-financial risk					

	Estimates of the present value of future cash flows				Contractual service margin		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	94		80		51		225	
Insurance finance expenses	5	(a)	–		3	(b)	8	
Changes related to current service	–		(80)		(54)	(c)	(134)	
Cash outflows	(100)		–		–		(100)	
Rounding difference	1		–		–		1	
Closing balance	**–**		**–**		**–**		**–**	
	=====		=====		=====		=====	

IE98 A possible format for a reconciliation between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 3 required by paragraph 100 is as follows:

	Liability for remaining coverage, excluding loss component		Loss component of the liability for remaining coverage		Liability for incurred claims		Insurance contract liability	
	CU		CU		CU		CU	
Opening balance	225		–		–		225	
Insurance revenue	(233)	(a)	–		–		(233)	
Insurance service expenses	–		–		100		100	
Insurance finance expenses	8	(b)	–		–		8	

Cash flows	–		–		(100)		(100)	
Closing balance	**–**		**–**		**–**		**–**	
	=====		=====		=====		=====	

Measurement of groups of insurance contracts with direct participation features

Example 9 — Measurement on initial recognition and subsequently of groups of insurance contracts with direct participation features (paragraphs 45 and B110–B114)

IE99 This example illustrates the measurement of groups of insurance contracts with direct participation features.

Assumptions

IE100 An entity issues 100 contracts that meet the criteria for insurance contracts with direct participation features applying paragraph B101. The coverage period is three years and starts when the insurance contracts are issued.

IE101 An entity receives a single premium of CU150 for each contract at the beginning of the coverage period. Policyholders will receive either:

(a) CU170, or the account balance if it is higher, if the insured person dies during the coverage period; or

(b) the value of the account balance at the end of the coverage period if the insured person survives until the end of the coverage period.

IE102 The entity calculates the account balance for each contract (the underlying items) at the end of each year as follows:

(a) opening balance; plus

(b) premiums received (if any); plus

(c) the change in fair value of a specified pool of assets; minus

(d) an annual charge equal to 2 per cent of the value of the account balance at the beginning of the year plus the change in fair value; minus

(e) the value of the remaining account balance when the insured person dies or the coverage period ends.

IE103 The entity purchases the specified pool of assets and measures the assets at fair value through profit or loss. This example assumes that the entity sells assets to collect annual charges and pay claims. Hence, the assets that the entity holds equal the underlying items.

IE104 On initial recognition of the contracts, the entity:

(a) expects that the fair value of the specified pool of assets will increase by 10 per cent a year;

(b) determines the discount rate that reflects the characteristics of the nominal cash flows that do not vary based on returns on any underlying items is 6 per cent a year;

(c) estimates the risk adjustment for non-financial risk to be CU25 and expects to recognise it in profit or loss in Years 1–3 as follows: CU12, CU8 and CU5;

(d) estimates the time value of the guarantee inherent in providing a minimum death benefit; 1 and

(e) expects that one insured person will die at the end of each year and claims will be settled immediately.

IE105 During the coverage period, there are changes in the time value of the guarantee and changes in the fair value returns on underlying items, as follows:

(a) in Year 1, the fair value of the specified pool of assets increased by 10 per cent, as expected on initial recognition;

(b) in Year 2, the increase in fair value was lower than expected on initial recognition and equals 8 per cent; and

(c) in Year 3, the increase in fair value goes back to the initially expected 10 per cent.

IE106 In this example all other amounts are ignored, for simplicity.

Analysis

IE107 On initial recognition, the entity measures the group of insurance contracts and estimates the fulfilment cash flows at the end of each subsequent year as follows:

	Initial recognition			

		Year 1	Year 2	Year 3
	CU	CU	CU	CU
Estimates of the present value of future cash inflows	(15,000)	–	–	–
Estimates of the present value of future cash outflows (a)	14,180	15,413	16,757	–
Estimates of the present value of future cash flows	(820)	15,413	16,757	–
Risk adjustment for non-financial risk	25	13	5	–
Fulfilment cash flows	(795)	15,426	16,762	–
Contractual service margin	795			
Insurance contract (asset) / liability on initial recognition	–			
	======			

IE108 Applying paragraphs 45 and B110–B114, to account for the contractual service margin of the insurance contracts with direct participation features (see the table after paragraph IE111 for the reconciliation of the contractual service margin), the entity needs to:

(a) calculate the fair value of the underlying items in which the policyholders participate to adjust the contractual service margin for those changes; and

(b) analyse the changes in fulfilment cash flows to decide whether each change adjusts the contractual service margin.

IE109 The entity determines the fair value of the underlying items at the end of each reporting period as follows:

Underlying items (a) (the policyholder account balances)	**Year 1**	**Year 2**	**Year 3**	Total
	CU	**CU**	**CU**	**CU**
Opening balance (A)	–	16,008	16,772	N/A
Cash inflows: premiums	15,000	–	–	15,000
Change in fair value (B = 10% × A in Years 1 and 3, 8% × A in Year 2)	1,500	1,281	1,677	4,458

Annual charge (C = 2% × (A + B))	(330)	(346)	(369)	(1,045)
Cash outflows: payments for death claims (1/100, 1/99, 1/98 × (A + B + C))	(162)	(171)	(184)	(517)
Cash outflows: payments on maturity of contracts	–	–	(17,896)	(17,896)
Closing balance	**16,008**	**16,772**	**–**	**N/A**
	=====	=====	=====	=====

IE110 The entity determines the changes in the fulfilment cash flows as follows:

Fulfilment cash flows	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Opening balance	–		15,426		16,461		N/A	
Change related to future service: new contracts	(795)		–		–		(795)	
Effect of the time value of money and financial risks and the changes therein (a)	1,403		1,214		1,624		4,241	
Change related to current service: release from risk	(12)		(8)		(5)		(25)	
Cash flows (b)	14,830		(171)		(18,080)		(3,421)	
Closing balance	**15,426**	(c)	**16,461**	(c)	**–**		**N/A**	
	=====		=====		=====		=====	

IE111 Applying paragraph 45, the entity determines the carrying amount of the contractual service margin at the end of each reporting period as follows:

Contractual service margin	**Year 1**	**Year 2**	**Year 3**	Total
	CU	**CU**	**CU**	**CU**
Opening balance	–	592	328	N/A
Changes related to future service: new contracts	795	–	–	795
Change in the variable fee (a):				

– change in the fair value of the underlying items	1,500	1,281	1,677	4,458
– effect of the time value of money and financial risks and the changes therein	(1,403)	(1,214)	(1,624)	(4,241)
Change related to current service: recognition in profit or loss (b)	(300)	(331)	(381)	(1,012)
Closing balance	**592**	**328**	**–**	**N/A**
	=====	=====	=====	=====

IE112 The amounts recognised in the statement of profit or loss for the period are as follows:

Statement of profit or loss (a)	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Insurance revenue	320	(a)	339		386		1,045	(b)
Insurance service expenses (c)	(8)		–		–		(8)	
Insurance service result	**312**		**339**		**386**		**1,037**	
Investment income (d)	1,500		1,281		1,677		4,458	
Insurance finance expenses (e)	(1,500)		(1,281)		(1,677)		(4,458)	
Finance result	**–**		**–**		**–**		**–**	
Profit (f)	**312**		**339**		**386**		**1,037**	
	=====		=====		=====		=====	

Measurement of groups of insurance contracts using the premium allocation approach

Example 10 — Measurement on initial recognition and subsequently of groups of insurance contracts using the premium allocation approach (paragraphs 55–56, 59, 100 and B126)

IE113 This example illustrates the premium allocation approach for simplifying the measurement of the groups of insurance contracts.

Assumptions

IE114 An entity issues insurance contracts on 1 July 20x1. The insurance contracts have a coverage period of 10 months that ends on 30 April 20x2. The entity's annual reporting period ends on 31 December each year and the entity prepares interim financial statements as of 30 June each year.

IE115 On initial recognition the entity expects:

(a) to receive premiums of CU1,220;

(b) to pay directly attributable acquisition cash flows of CU20;

(c) to incur claims and be released from risk evenly over the coverage period; and

(d) that no contracts will lapse during the coverage period.

IE116 Furthermore, in this example:

(a) facts and circumstances do not indicate that the group of contracts is onerous, applying paragraph 57; and

(b) all other amounts, including the investment component, are ignored for simplicity.

IE117 Subsequently:

(a) immediately after initial recognition the entity receives all the premiums and pays all the acquisition cash flows;

(b) for the six-month reporting period ending on 31 December 20x1 there were claims incurred of CU600 with a risk adjustment for non-financial risk related to those claims of CU36;

(c) for the six-month reporting period ending on 30 June 20x2 there were claims incurred of CU400 with a risk adjustment for non-financial risk related to those claims of CU24;

(d) on 31 August 20x2, the entity revises its estimates related to all claims and settles them by paying CU1,070; and

(e) for simplicity, the risk adjustment for non-financial risk related to the claims incurred is recognised in profit or loss when the claims are paid.

IE118 The group of insurance contracts qualifies for the premium allocation approach applying paragraph 53(b). In addition, the entity expects that:

(a) the time between providing each part of the coverage and the related premium due date is no more than a year. Consequently, applying paragraph 56, the entity chooses not to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk (therefore no discounting or interest accretion is applied).

(b) the claims will be paid within one year after the claims are incurred. Consequently, applying paragraph 59(b), the entity chooses not to adjust the liability for incurred claims for the time value of money and the effect of financial risk.

IE119 Further, applying paragraph 59(a), the entity chooses to recognise the insurance acquisition cash flows as an expense when it incurs the relevant costs.

Analysis

IE120 The effect of the group of insurance contracts on the statement of financial position is as follows:

Statement of financial position	**Dec 20x1**		**Jun 20x2**		**Dec 20x2**	
	CU		**CU**		**CU**	
Cash	(1,200)	(a)	(1,200)		(130)	(b)
Insurance contract liability (c)	1,124		1,060		–	
Equity	76		140		130	

IE121 Applying paragraph 100, the entity provides the reconciliation:

(a) between the amounts recognised in the statement of financial position and the statement of profit or loss separately for the liability for remaining coverage and the liability for incurred claims; and

(b) of the liability for incurred claims, disclosing a separate reconciliation for the estimates of the present value of the future cash flows and the risk adjustment for non-financial risk.

IE122 A possible format of the reconciliation required by paragraph 100 is as follows:

	Dec 20x1	Dec 20x1		Jun 20x2	Jun 20x2		Dec 20x2	Dec 20x2	
	CU	**CU**		**CU**	**CU**		**CU**	**CU**	
Liability for remaining coverage									
Opening balance		–			488			–	
Cash inflows		1,220			–			–	
Insurance revenue		(732)	(a)		(488)			–	
Closing balance		**488**	(b)		**–**			**–**	
		======			======			======	
Liability for incurred claims									
Estimates of the present value of future cash flows	–			600			1,000		
Risk adjustment for non-financial risk	–			36			60		
Opening balance		**–**			**636**			**1,060**	
Estimates of the present value of future cash flows	600			400			70		
Risk adjustment for non-financial risk	36			24			(60)		
Insurance service expenses		**636**	(c)		**424**	(d)		**10**	(e)
Estimates of the present value of future cash flows	–			–			(1,070)		

Cash outflows		**–**			**–**			**(1,070)**
Closing balance		**636**			**1,060**			**–**
		======			======			======

IE123 The amounts included in the statement of profit or loss are as follows:

Statement of profit or loss	**Dec 20x1**		**Jun 20x2**		**Dec 20x2**	
For the 6 months ended	**CU**		**CU**		**CU**	
Insurance revenue	732	(a)	488	(a)	–	
Insurance service expenses	(656)	(b)	(424)	(b)	(10)	(b)
Profit / (loss)	**76**		**64**		**(10)**	
	======		======		======	

Measurement of groups of reinsurance contracts held

Example 11 — Measurement on initial recognition of groups of reinsurance contracts held (paragraphs 63–65A)

IE124 This example illustrates the measurement on initial recognition of a group of reinsurance contracts that an entity holds.

Assumptions

IE125 An entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the underlying insurance contracts.

IE126 The entity measures the underlying group of insurance contracts on initial recognition as follows:

	Initial recognition	
	CU	
Estimates of the present value of future cash inflows	(1,000)	
Estimates of the present value of future cash outflows	900	
Estimates of the present value of future cash flows	(100)	
Risk adjustment for non-financial risk	60	
Fulfilment cash flows	(40)	
Contractual service margin	40	
Insurance contract (asset) / liability on initial recognition	–	
	======	

IE127 Applying paragraph 23, the entity establishes a group comprising a single reinsurance contract held. In relation to this reinsurance contract held:

(a) applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the group of the underlying insurance contracts. Consequently, the estimates of the present value of the future cash inflows are CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the underlying group of insurance contracts of CU900);

(b) applying paragraph 64, the entity determines the risk adjustment for non-financial risk to represent the amount of risk being transferred by the holder of the reinsurance contract to the issuer of this contract. Consequently, the entity estimates the risk adjustment for non-financial risk to be CU18 because the entity expects that it can transfer 30 per cent of the risk from underlying contracts to the reinsurer (30 per cent × CU60); and

(c) the single reinsurance premium paid to the reinsurer is:

(i) in Example 11A — CU260; and

(ii) in Example 11B — CU300.

IE128 In this example the risk of non-performance of the reinsurer and all other amounts are ignored, for simplicity.

Analysis

IE129 The measurement of the reinsurance contract held is as follows:

	Example 11A Reinsurance contract asset		**Example 11B Reinsurance contract asset**	
	CU		**CU**	
Estimates of the present value of future cash inflows (recoveries)	(270)		(270)	
Estimates of the present value of future cash outflows (premium paid)	260		300	
Estimates of the present value of future cash flows	(10)		30	
Risk adjustment for non-financial risk	(18)		(18)	
Fulfilment cash flows	(28)		12	
Contractual service margin of the reinsurance contract held (a)	28		(12)	
Reinsurance contract asset on initial recognition	–		–	
	=====		=====	
The effect on profit or loss will be:				
Profit / (loss) on initial recognition	–		–	

	=====		=====	

Examples 12A and 12B — Measurement subsequent to initial recognition of groups of reinsurance contracts held (paragraph 66)

IE130 This example illustrates the subsequent measurement of the contractual service margin arising from a reinsurance contract held, when the underlying group of insurance contracts is not onerous and, separately, when the underlying group of insurance contracts is onerous.

IE131 This example is not a continuation of Example 11.

Assumptions

IE132 An entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the underlying insurance contracts (the entity assumes that it could transfer 30 per cent of non-financial risk from the underlying insurance contracts to the reinsurer).

IE133 In this example the effect of discounting, the risk of non-performance of the reinsurer and other amounts are ignored, for simplicity.

IE134 Applying paragraph 23, the entity establishes a group comprising a single reinsurance contract held.

IE135 Immediately before the end of Year 1, the entity measures the group of insurance contracts and the reinsurance contract held as follows:

	Insurance contract liability		**Reinsurance contract asset**	
	CU		**CU**	
Fulfilment cash flows (before the effect of any change in estimates)	300		(90)	
Contractual service margin	100		(25)	(a)
Insurance contract liability / (reinsurance contract asset) immediately before the end of Year 1	**400**		**(115)**	
	=====		=====	

IE136 At the end of Year 1 the entity revises its estimate of the fulfilment cash outflows of the underlying group of insurance contracts as follows:

(a) in Example 12A — the entity estimates there is an increase in the fulfilment cash flows of the underlying group of insurance contracts of CU50 and a decrease in the contractual service margin by the same amount (the group of underlying insurance contracts is not onerous).

(b) in Example 12B — the entity estimates there is an increase in the fulfilment cash flows of the underlying group of insurance contracts of CU160. This change makes the group of underlying insurance contracts onerous and the entity decreases the contractual service margin by CU100 to zero and recognises the remaining CU60 as a loss in profit or loss.

Analysis

Example 12A — Underlying group of insurance contracts is not onerous

IE137 At the end of Year 1 the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		**Reinsurance contract asset**	

	CU		**CU**	
Fulfilment cash flows (including the effect of the change in estimates)	350		(105)	(a)
Contractual service margin	50		(10)	(b)
Insurance contract liability / (reinsurance contract asset) at the end of Year 1	**400**		**(115)**	
The effect of the change in estimates on profit or loss will be:	=====		=====	
Profit / (loss) at the end of Year 1	–		–	
	=====		=====	

Example 12B — Underlying group of insurance contracts is onerous

IE138 At the end of Year 1 the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability		**Reinsurance contract asset**	
	CU		**CU**	
Fulfilment cash flows (including the effect of the change in estimates)	460		(138)	(a)
Contractual service margin	–		5	(b)
Insurance contract liability / (reinsurance contract asset) at the end of Year 1	**460**		**(133)**	
The effect on profit or loss will be:	=====		=====	
Profit / (loss) at the end of Year 1	**(60)**		**18**	(b)
	=====		=====	

Example 12C — Measurement of a group of reinsurance contracts held that provides coverage for groups of underlying insurance contracts, including an onerous group (paragraphs 66A–66B and B119C–B119F)

IE138A This example illustrates the initial and subsequent measurement of reinsurance contracts held when one of the groups of underlying insurance contracts is onerous.

Assumptions

IE138B At the beginning of Year 1, an entity enters into a reinsurance contract that in return for a fixed premium covers 30 per cent of each claim from the groups of underlying insurance contracts. The underlying insurance contracts are issued at the same time as the entity enters into the reinsurance contract.

IE138C In this example for simplicity it is assumed:

(a) no contracts will lapse before the end of the coverage period;

(b) there are no changes in estimates other than that described in paragraph IE138J; and

(c) all other amounts, including the effect of discounting, the risk adjustments for non-financial risk, and the risk of non-performance of the reinsurer are ignored.

IE138D Some of the underlying insurance contracts are onerous on initial recognition. Thus, applying paragraph 16, the entity establishes a group comprising the onerous contracts. The remainder of the underlying insurance contracts are expected to be profitable and, applying paragraph 16, in this example the entity establishes a single group comprising the profitable contracts.

IE138E The coverage period of the underlying insurance contracts and the reinsurance contract held is three years starting from the beginning of Year 1. Services are provided evenly across the coverage periods.

IE138F The entity expects to receive premiums of CU1,110 on the underlying insurance contracts immediately after initial recognition. Claims on the underlying insurance contracts are expected to be incurred evenly across the coverage period and are paid immediately after the claims are incurred.

IE138G The entity measures the groups of underlying insurance contracts on initial recognition as follows:

	Profitable group of insurance contracts		**Onerous group of insurance contracts**		**Total**	
	CU		**CU**		**CU**	
Estimates of present value of future cash inflows	(900)		(210)		(1,110)	
Estimates of present value of future cash outflows	600		300		900	
Fulfilment cash flows	(300)		90		(210)	
Contractual service margin	300		–		300	
Insurance contract liability on initial recognition	**–**		**90**		**90**	
	=========		=========		=========	
Loss on initial recognition	**–**		**(90)**		**(90)**	
	=========		=========		=========	

IE138H Applying paragraph 61, the entity establishes a group comprising a single reinsurance contract held. The entity pays a premium of CU315 to the reinsurer immediately after initial recognition. The entity expects to receive recoveries of claims from the reinsurer on the same day that the entity pays claims on the underlying insurance contracts.

IE138I Applying paragraph 63, the entity measures the estimates of the present value of the future cash flows for the group of reinsurance contracts held using assumptions consistent with those used to measure the estimates of the present value of the future cash flows for the groups of underlying insurance contracts. Consequently, the estimate of the present value of the future cash inflows is CU270 (recovery of 30 per cent of the estimates of the present value of the future cash outflows for the groups of underlying insurance contracts of CU900).

IE138J At the end of Year 2, the entity revises its estimates of the remaining fulfilment cash outflows of the groups of underlying insurance contracts. The entity estimates that the fulfilment cash flows of the groups of underlying insurance contracts increase by 10 per cent, from future cash outflows of CU300 to future cash outflows of CU330. Consequently, the entity estimates the fulfilment cash flows of the reinsurance contract held also increase, from future cash inflows of CU90 to future cash inflows of CU99.

Analysis

IE138K The entity measures the group of reinsurance contracts held on initial recognition as follows:

	Initial recognition	
	CU	
Estimates of present value of future cash inflows (recoveries)	(270)	
Estimates of present value of future cash outflows (premiums)	315	
Fulfilment cash flows	**45**	
Contractual service margin of the reinsurance contract held (before the loss-recovery adjustment)	(45)	
Loss-recovery component	(27)	(a)
Contractual service margin of the reinsurance contract held (after the loss-recovery adjustment)	**(72)**	(b)
Reinsurance contract asset on initial recognition	**(27)**	(c)
	======	
Income on initial recognition	**27**	(a)
	======	

IE138L At the end of Year 1, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				Reinsurance contract asset	
	Profitable group of insurance contracts		**Onerous group of insurance contracts**			
	CU		**CU**		**CU**	
Estimates of present value of future cash inflows (recoveries)	–		–		(180)	
Estimates of present value of future cash outflows (claims)	400		200		–	
Fulfilment cash flows	400		200		(180)	
Contractual service margin	200		–		(48)	(a)
Insurance contract liability	**600**		**200**			
Reinsurance contract asset					**(228)**	

	======		======		======	

IE138M At the end of Year 2, the entity measures the insurance contract liability and the reinsurance contract asset as follows:

	Insurance contract liability				**Reinsurance contract asset**	
	Profitable group of insurance contracts		**Onerous group of insurance contracts**			
	CU		**CU**		**CU**	
Estimates of present value of future cash inflows (recoveries)	–		–		(99)	(a)
Estimates of present value of future cash outflows (claims)	220	(a)	110	(a)	–	
Fulfilment cash flows	220		110		(99)	
Contractual service margin	90	(b)	–		(21)	(e)
Insurance contract liability	**310**		**110**			
Reinsurance contract asset					**(120)**	
	======		======		======	
Recognition of loss and recovery of loss			**(10)**	(c)	**3**	(d)
	======		======		======	

IE138N A possible format of the reconciliation required by paragraph 100 between the amounts recognised in the statement of financial position and the statement of profit or loss for Year 2 is as follows:

	Asset for remaining coverage, excluding loss-recovery component		**Loss-recovery component of the asset for remaining coverage**		**Asset for incurred claims**		**Reinsurance contract asset**	
	CU		**CU**		**CU**		**CU**	
Opening balance	(210)		(18)	(b)	–		(228)	
Allocation of reinsurance premiums paid (a)	102	(c)	–		–		102	

Amount recovered from the reinsurer (a)	–		6	(d)	(90)		(84)	
Cash flows	–		–		90		90	
Closing balance	**(108)**		**(12)**		**–**		**(120)**	
	======		======		======		======	

IE138O The amounts presented in the statement of profit or loss corresponding to the amounts analysed in the tables above are:

Statement of profit or loss	**Year 1**		**Year 2**		**Year 3**		**Total**	
	CU		**CU**		**CU**		**CU**	
Insurance revenue	370		360		380		1,110	
Insurance service expenses	(360)		(280)		(290)		(930)	
Insurance contracts issued total	**10**	**(b)**	**80**	**(d)**	**90**	**(f)**	**180**	
Allocation of reinsurance premiums paid (a)	(105)		(102)		(108)		(315)	
Amount recovered from reinsurer (a)	108		84		87		279	
Reinsurance contracts held total	**3**	**(c)**	**(18)**	**(e)**	**(21)**	**(g)**	**(36)**	
Insurance service result	**13**		**62**		**69**		**144**	
	======		======		======		======	

Measurement of insurance contracts acquired (paragraphs 38 and B94–B95A)

Example 13 — Measurement on initial recognition of insurance contracts acquired in a transfer from another entity

IE139 This example illustrates the initial recognition of a group of insurance contracts acquired in a transfer that is not a business combination.

Assumptions

IE140 An entity acquires insurance contracts in a transfer from another entity. The seller pays CU30 to the entity to take on those insurance contracts.

IE141 Applying paragraph B93 the entity determines that the insurance contracts acquired in a transfer form a group applying paragraphs 14–24, as if it had entered into the contracts on the date of the transaction.

IE142 On initial recognition, the entity estimates the fulfilment cash flows to be:

(a) in Example 13A — net outflow (or liability) of CU20; and

(b) in Example 13B — net outflow (or liability) of CU45.

IE143 The entity does not apply the premium allocation approach to the measurement of the insurance contracts.

IE144 In this example all other amounts are ignored, for simplicity.

Analysis

IE145 Applying paragraph B94, the consideration received from the seller is a proxy for the premium received. Consequently, on initial recognition, the entity measures the insurance contract liability as follows:

	Example 13A		**Example 13B**	
	CU		**CU**	
Fulfilment cash flows	20		45	
Contractual service margin	10	(a)	–	(b)
Insurance contract liability on initial recognition	**30**	(c)	**45**	(b)
The effect on profit or loss will be:	=====		=====	
Profit / (loss) on initial recognition	**–**		**(15)**	(b)
	=====		=====	

Example 14 — Measurement on initial recognition of insurance contracts acquired in a business combination

IE146 This example illustrates the initial recognition of a group of insurance contracts acquired in a business combination within the scope of IFRS 3 *Business Combinations.*

Assumptions

IE147 An entity acquires insurance contracts as part of a business combination within the scope of IFRS 3 and it:

(a) determines that the transaction results in goodwill applying IFRS 3.

(b) determines, applying paragraph B93, that those insurance contracts form a group consistent with paragraphs 14–24, as if it had entered into the contracts on the date of the transaction.

IE148 On initial recognition, the entity estimates that the fair value of the group of insurance contracts is CU30 and the fulfilment cash flows are as follows:

(a) in Example 14A — outflow (or liability) of CU20; and

(b) in Example 14B — outflow (or liability) of CU45.

IE149 The entity does not apply the premium allocation approach to the measurement of the insurance contracts.

IE150 In this example all other amounts are ignored, for simplicity.

Analysis

IE151 Applying paragraph B94, the fair value of the group of insurance contracts is a proxy for the premium received. Consequently, on initial recognition, the entity measures the liability for the group of insurance contracts as follows:

	Example 14A		Example 14B	
	CU		**CU**	
Fulfilment cash flows	20		45	
Contractual service margin	10	(a)	–	(b)
Insurance contract liability on initial recognition	**30**	(c)	**45**	(d)
The effect on profit or loss will be:	=====		=====	
Profit / (loss) on initial recognition	**–**		**–**	(b)
	=====		=====	

Insurance finance income or expenses

Example 15 — Systematic allocation of the expected total insurance finance income or expenses (paragraphs B130 and B132(a))

IE152 Paragraph 88 allows an entity to make an accounting policy choice to disaggregate insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts.

IE153 This example illustrates the two ways of systematically allocating the expected total insurance finance income or expenses for insurance contracts for which financial risk has a substantial effect on the amounts paid to the policyholders as set out in paragraph B132(a).

Assumptions

IE154 An entity issues 100 insurance contracts with a coverage period of three years. Those contracts:

(a) meet the definition of insurance contracts because they offer a fixed payment on death. However, to isolate the effects illustrated in this example, and for simplicity, any fixed cash flows payable on death are ignored.

(b) do not meet the criteria for insurance contracts with direct participation features applying paragraph B101.

IE155 On initial recognition of the group of insurance contracts:

(a) the entity receives a single premium of CU15 for each contract (the total for the group is CU1,500).

(b) the entity invests premiums received in fixed income bonds with a duration of two years and expects a return of 10 per cent a year. The entity expects to reinvest the proceeds from the maturity of the bonds in similar financial instruments with a return of 10 per cent a year.

(c) the entity expects to pay the policyholders CU1,890 at the end of Year 3 (a present value of CU1,420). This amount is calculated on the basis of the entity's policy for the return paid to the policyholders, as follows:

(i) in Example 15A the entity expects to pay 94.54 per cent of the accumulated value of the invested assets at the end of the coverage period; and

(ii) in Example 15B the entity expects to increase the account balances of the policyholders by 8 per cent each year (the expected crediting rate).

IE156 At the end of Year 1, the market interest rate falls from 10 per cent a year to 5 per cent a year and the entity revises its expected future cash flows to be paid in Year 3.

IE157 In this example all other amounts, including the risk adjustment for non-financial risk, are ignored for simplicity.

IE158 Applying paragraph 88, the entity chooses to disaggregate insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the contracts, as follows:

(a) in Example 15A, the entity uses a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate, applying paragraph B132(a)(i); and

(b) in Example 15B, the entity uses an allocation based on the amounts credited in the period and expected to be credited in future periods, applying paragraph B132(a)(ii).

Analysis

Example 15A — Effective yield approach

IE159 Applying paragraph B132(a)(i), the entity uses a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate (an 'effective yield approach'). The effective yield approach is not the same as the effective interest method as defined in IFRS 9 *Financial Instruments*.

IE160 The constant rate at the date of initial recognition of the contracts of 10 per cent a year is calculated as $(CU1{,}890 \div CU1{,}420)^{1/3} - 1$. Consequently, the estimates of the present value of the future cash flows included in the carrying amount of the insurance contract liability at the end of Year 1 are CU1,562, calculated as CU1,420 × 1.1.

IE161 At the end of Year 1, the market interest rate falls from 10 per cent a year to 5 per cent a year. Consequently, the entity revises its expectations about future cash flows as follows:

(a) it expects to achieve a return of 5 per cent in Year 3 (instead of 10 per cent) after reinvesting the maturity proceeds of the fixed income securities that mature at the end of Year 2;

(b) the fixed income securities it expects to acquire at the end of Year 2 will generate CU1,906 at the end of Year 3; and

(c) it will pay policyholders CU1,802 at the end of Year 3 (94.54% × CU1,906).

IE162 At the end of Year 1 the entity revises the constant rate used to allocate expected insurance finance income or expenses to reflect the expected reduction in the future cash flows at the end of Year 3 from CU1,890 to CU1,802:

(a) the entity uses the revised constant rate to accrete the estimates of the present value of the future cash flows included in the carrying amount of the insurance contract liability at the end of Year 1, ie CU1,562, to the revised cash outflow at the end of Year 3 of CU1,802; and

(b) the revised constant rate of 7.42 per cent a year is calculated as $(1{,}802 \div 1{,}562)^{1/2} - 1$.

IE163 The effect of the change in discount rates on the carrying amounts of the estimates of the present value of the future cash flows, included in the carrying amount of the insurance contract liability, is shown in the table below:

	Initial recognition		**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**		**CU**	
Estimates of the future cash flows at the end of Year 3	1,890		1,802		1,802		1,802	
	=====		=====		=====		=====	
Estimates of the present value of future cash flows at current discount rates (A)	1,420		1,635	(a)	1,716		1,802	
Estimates of the present value of future cash flows at the constant rate (B)								

	1,420		1,562	(b)	1,678		1,802	
Amount accumulated in other comprehensive income (A – B)	–		**73**		**38**		–	
	=====		=====		=====		=====	

IE164 The insurance finance income and expenses, arising from the fulfilment cash flows, included in profit or loss and other comprehensive income are as follows:

Insurance finance income and expenses arising from the fulfilment cash flows	**Year 1**		**Year 2**		**Year 3**	
	CU		CU		CU	
In profit or loss	(142)	(a)	(116)		(124)	
In other comprehensive income	(73)	(b)	35		38	
In total comprehensive income	**(215)**	(c)	**(81)**		**(86)**	
	======		======		======	

Example 15B — Projected crediting rate approach

IE165 Applying paragraph B132(a)(ii), the entity uses an allocation based on the amounts credited in the period and expected to be credited in future periods (a 'projected crediting rate approach'). In addition, applying paragraph B130(b), the entity needs to ensure that the allocation results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling to zero. In order to do so, the entity calculates a series of discount rates applicable to each reporting period which, when applied to the initial carrying amount of the liability equals the estimate of future cash flows. This series of discount rates is calculated by multiplying the expected crediting rates in each period by a constant factor (K).

IE166 On initial recognition the entity expects to achieve a return on underlying items of 10 per cent each year and to credit the policyholder account balances by 8 per cent each year (the expected crediting rate). Consequently, the entity expects to pay policyholders CU1,890 at the end of Year 3 (CU1,500 × 1.08 × 1.08 × 1.08 = CU1,890).

IE167 In Year 1, the entity credits the policyholder account balances with a return of 8 per cent a year, as expected at the date of initial recognition.

IE168 At the end of Year 1, the market interest rate falls from 10 per cent a year to 5 per cent a year. Consequently, the entity revises its expectations about cash flows as follows:

(a) it will achieve a return of 5 per cent in Year 3 after reinvesting the maturity proceeds of the bonds that mature at the end of Year 2;

(b) it will credit the policyholder account balances 8 per cent in Year 2, and 3 per cent in Year 3; and

(c) it will pay policyholders CU1,802 at the end of Year 3 (CU1,500 × 1.08 × 1.08 × 1.03 = CU1,802).

IE169 The entity allocates the remaining expected finance income or expenses over the remaining life of the contracts using the series of discount rates calculated as the projected crediting rates multiplied by the constant factor (K). The constant factor (K) and the series of discount rates based on crediting rates at the end of Year 1 are as follows:

(a) the product of the actual crediting rate in Year 1 and expected crediting rates in Years 2 and 3 equals 1.20 (1.08 × 1.08 × 1.03);

(b) the carrying amount of the liability increases by a factor of 1.269 over three years because of the interest accretion (CU1,802 ÷ CU1,420);

(c) consequently, each crediting rate needs to be adjusted by a constant factor (K), as follows: 1.08K × 1.08K × 1.03K = 1.269;

(d) the constant K equals 1.0184 calculated as $(1.269 \div 1.20)^{1/3}$; and

(e) the resulting accretion rate for Year 1 is 10 per cent (calculated as 1.08 × 1.0184).

IE170 The carrying amount of the liability at the end of Year 1 for the purposes of allocating insurance finance income or expenses to profit or loss is CU1,562 (CU1,420 × 1.08 × 1.0184).

IE171 The actual crediting rates for Years 2 and 3 are as expected at the end of Year 1. The resulting accretion rate for Year 2 is 10 per cent (calculated as (1.08 × 1.0184) – 1) and for Year 3 is 4.9 per cent (calculated as (1.03 × 1.0184) – 1).

	Initial recognition		**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**		**CU**	
Estimates of future cash flows at the end of Year 3	1,890		1,802		1,802		1,802	
	=====		=====		=====		=====	
Estimates of the present value of future cash flows at current discount rates (A)	1,420		1,635		1,716	(a)	1,802	
Estimates of the present value of future cash flows at discount rates based on projected crediting (B)	1,420		1,562		1,718	(b)	1,802	
Amount accumulated in other comprehensive income (A – B)	–		**73**		**(2)**	(c)	–	
	=====		=====		=====		=====	

IE172 The insurance finance income and expenses included in profit or loss and other comprehensive income are as follows:

Insurance finance income and expenses arising from fulfilment cash flows	**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**	
In profit or loss	(142)	(a)	(156)		(84)	

In other comprehensive income	(73)	(b)	75		(2)	
In total comprehensive income	**(215)**	(c)	**(81)**		**(86)**	
	======		======		======	

Example 16 — Amount that eliminates accounting mismatches with finance income or expenses arising on underlying items held (paragraphs 89–90 and B134)

IE173 This example illustrates the presentation of insurance finance income or expenses when an entity applies the approach in paragraph 89(b) ('the current period book yield approach'). This approach applies when an entity holds the underlying items for insurance contracts with direct participation features.

Assumptions

IE174 An entity issues 100 insurance contracts with a coverage period of three years. The coverage period starts when the insurance contracts are issued.

IE175 The contracts in this example:

(a) meet the definition of insurance contracts because they offer a fixed payment on death. However, to isolate the effects illustrated in this example, and for simplicity, any fixed cash flows payable on death are ignored.

(b) meet criteria for insurance contracts with direct participation features applying paragraph B101.

IE176 The entity receives a single premium of CU15 for each contract at the beginning of the coverage period (total future cash inflows of CU1,500).

IE177 The entity promises to pay policyholders on maturity of the contract an accumulated amount of returns on a specified pool of bonds minus a charge equal to 5 per cent of the premium and accumulated returns calculated at that date. Thus, policyholders that survive to maturity of the contract receive 95 per cent of the premium and accumulated returns.

IE178 In this example all other amounts, including the risk adjustment for non-financial risk, are ignored for simplicity.

IE179 The entity invests premiums received of CU1,500 in zero coupon fixed income bonds with a duration of three years (the same as the returns promised to policyholders). The bonds return a market interest rate of 10 per cent a year. At the end of Year 1, market interest rates fall from 10 per cent a year to 5 per cent a year.

IE180 The entity measures the bonds at fair value through other comprehensive income applying IFRS 9 *Financial Instruments*. The effective interest rate of the bonds acquired is 10 per cent a year, and that rate is used to calculate investment income in profit or loss. For simplicity, this example excludes the effect of accounting for expected credit losses on financial assets. The value of the bonds held by the entity is illustrated in the table below:

Bonds held	**Initial recognition**		**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**		**CU**	
Fair value	(1,500)		(1,811)		(1,902)		(1,997)	
Amortised cost	(1,500)		(1,650)		(1,815)		(1,997)	
Cumulative amounts recognised in other comprehensive income	**–**		**161**		**87**		**–**	
	=====		=====		=====		=====	
Change in other comprehensive income								

			161		(74)		(87)	
Investment income recognised in profit or loss (effective interest rate)			150		165		182	

IE181 Applying paragraph 89(b), the entity elects to disaggregate insurance finance income or expenses for each period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held.

Analysis

IE182 Applying paragraphs 45 and B110–B114 to account for the insurance contracts with direct participation features, the entity needs to analyse the changes in fulfilment cash flows to decide whether each change adjusts the contractual service margin (see the table after paragraph IE184 illustrating the reconciliation of the contractual service margin).

IE183 Applying paragraphs B110–B114, the entity analyses the source of changes in the fulfilment cash flows as follows:

Fulfilment cash flows (a)	**Year 1**	**Year 2**	Year 3
	CU	**CU**	**CU**
Opening balance	–	1,720	1,806
Change related to future service: new contracts	(75)	–	–
Change in the policyholders' share in the fair value of the underlying items (b)	295	86	90
Cash flows	1,500	–	(1,896)
Closing balance	**1,720**	**1,806**	**–**
	=====	=====	=====

IE184 Applying paragraph 45, the entity determines the carrying amount of the contractual service margin at the end of each reporting period as follows:

Contractual service margin	**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**	
Opening balance	–		61		33	
Change related to future service: new contracts	75		–		–	
Change in the amount of the entity's share of the fair value of the underlying items (a)	16		5		5	

Change related to current service: recognition in profit or loss for the service provided	(30)	(b)	(33)		(38)	
Closing balance	**61**		**33**		**–**	
	=====		=====		=====	

IE185 The amounts recognised in the statement(s) of financial performance for the period are as follows:

Statement(s) of financial performance	**Year 1**		**Year 2**		**Year 3**	
	CU		**CU**		**CU**	
Profit or loss						
Contractual service margin recognised in profit or loss for the service provided (a)	30		33		38	
Insurance service result	**30**		**33**		**38**	
Investment income	150		165		182	
Insurance finance expenses	(150)	(b)	(165)		(182)	
Finance result	–		–		–	
Profit	**30**		**33**		**38**	
	=====		=====		=====	
Other comprehensive income						
Gain / (loss) on financial assets measured at fair value through other comprehensive income	161		(74)		(87)	
Gain / (loss) on insurance contracts	(161)	(b)	74		87	
Total other comprehensive income	–		–		–	
	=====		=====		=====	

Transition

Example 17 — Measurement of groups of insurance contracts without direct participation features applying the modified retrospective approach (paragraphs C11–C15)

IE186 This example illustrates the transition requirements for insurance contracts without direct participation features for which retrospective application is impracticable and an entity chooses to apply the modified retrospective transition approach.

Assumptions

IE187 An entity issues insurance contracts without direct participation features and aggregates those contracts into a group applying paragraphs C9(a) and C10. The entity estimates the fulfilment cash flows at the transition date applying paragraphs 33–37 as the sum of:

(a) an estimate of the present value of the future cash flows of CU620 (including the effect of discounting of CU(150)); and

(b) a risk adjustment for non-financial risk of CU100.

IE188 The entity concludes that it is impracticable to apply IFRS 17 retrospectively. As a result, the entity chooses, applying paragraph C5, to apply the modified retrospective approach to measure the contractual service margin at the transition date. Applying paragraph C6(a), the entity uses reasonable and supportable information to achieve the closest outcome to retrospective application.

Analysis

IE189 The entity determines the contractual service margin at the transition date by estimating the fulfilment cash flows on initial recognition applying paragraphs C12–C15 as follows:

	Transition date		**Adjustment to initial recognition**		**Initial recognition**	
	CU		**CU**		**CU**	
Estimates of future cash flows	770		(800)		(30)	(a)
Effect of discounting	(150)		(50)		(200)	(b)
Estimates of the present value of future cash flows	620		(850)		(230)	
Risk adjustment for non-financial risk	100		20		120	(c)
Fulfilment cash flows	**720**		**(830)**		**(110)**	
	=====		=====		=====	

IE190 The contractual service margin at the transition date equals CU20 and is calculated as follows:

(a) the contractual service margin measured on initial recognition is CU110, an amount that would have resulted in no income or expenses arising from the fulfilment cash flows that would have been estimated on initial recognition of CU110 (see the table after paragraph IE189); minus

(b) the contractual service margin that would have been recognised in profit or loss before the transition date of CU90, estimated applying paragraph C15.

IE191 As a result, the carrying amount of the insurance contract liability at the transition date equals CU740, which is the sum of the fulfilment cash flows of CU720 and the contractual service margin of CU20.

Example 18 — Measurement of groups of insurance contracts with direct participation features applying the modified retrospective approach (paragraph C17)

IE192 This example illustrates the transition requirements for insurance contracts with direct participation features when retrospective application is impracticable and an entity chooses to apply the modified retrospective transition approach.

Assumptions

IE193 An entity issued 100 insurance contracts with direct participation features five years before the transition date and aggregates those contracts into a group, applying paragraphs C9(a) and C10.

IE194 Under the terms of the contracts:

(a) a single premium is paid at the beginning of the coverage period of 10 years.

(b) the entity maintains account balances for policyholders and deducts charges from those account balances at the end of each year.

(c) a policyholder will receive an amount equal to the higher of the account balance and the minimum death benefit if an insured person dies during the coverage period.

(d) if an insured person survives the coverage period, the policyholder receives the value of the account balance.

IE195 The following events took place in the five year period prior to the transition date:

(a) the entity paid death benefits and other expenses of CU239 comprising:

(i) CU216 of cash flows that vary based on the returns on underlying items; and

(ii) CU23 of cash flows that do not vary based on the returns on underlying items; and

(b) the entity deducted charges from the underlying items of CU55.

IE196 Applying paragraphs 33–37, the entity estimates the fulfilment cash flows at the transition date to be CU922, comprising the estimates of the present value of the future cash flows of CU910 and a risk adjustment for non-financial risk of CU12. The fair value of the underlying items at that date is CU948.

IE197 The entity makes the following estimates:

(a) based on an analysis of similar contracts that the entity issues at transition date, the estimated change in the risk adjustment for non-financial risk caused by the release from risk in the five-year period before the transition date is CU14; and

(b) the units of coverage provided before the transition date is approximately 60 per cent of the total coverage units of the group of contracts.

Analysis

IE198 The entity applies a modified retrospective approach to determine the contractual service margin at the transition date, applying paragraph C17 as follows:

	CU	
Fair value of the underlying items at the transition date (paragraph C17(a))	948	
Fulfilment cash flows at the transition date (paragraph C17(b))	(922)	
Adjustments:		
– Charges deducted from underlying items before the transition date (paragraph C17(c)(i))	55	
– Amounts paid before the transition date that would have not varied based on the returns on underlying items (paragraph C17(c)(ii))	(23)	
– Estimated change in the risk adjustment for non-financial risk caused by the release from risk before the transition date (paragraph C17(c)(iii))	(14)	
Contractual service margin of the group of contracts before recognition in profit or loss		

	44	
Estimated amount of the contractual service margin that relates to services provided before the transition date	(26)	(a)
Estimated contractual service margin at the transition date	**18**	
	======	

IE199 Consequently, the carrying amount of the insurance contract liability at the transition date equals CU940, which is the sum of the fulfilment cash flows of CU922 and the contractual service margin of CU18.

Footnotes

1 CU denotes currency unit.

(a) Paragraph 32 requires that the fulfilment cash flows comprise estimates of future cash flows, adjusted to reflect the time value of money and the financial risk related to those future cash flows and a risk adjustment for non-financial risk.

(b) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows. Consequently, the contractual service margin equals CU235.

(c) Applying paragraph 47, the entity concludes that these insurance contracts on initial recognition are onerous because the fulfilment cash flows on initial recognition are a net outflow. Applying paragraph 16(a), the entity will group those contracts separately from contracts that are not onerous. The entity recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows, and the contractual service margin of the group being zero.

(d) Applying paragraph 32, the entity measures the group of insurance contracts on initial recognition at the total of the fulfilment cash flows and the contractual service margin.

(c) Applying paragraph 47, the entity concludes that these insurance contracts on initial recognition are onerous because the fulfilment cash flows on initial recognition are a net outflow. Applying paragraph 16(a), the entity will group those contracts separately from contracts that are not onerous. The entity recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows, and the contractual service margin of the group being zero.

(c) Applying paragraph 47, the entity concludes that these insurance contracts on initial recognition are onerous because the fulfilment cash flows on initial recognition are a net outflow. Applying paragraph 16(a), the entity will group those contracts separately from contracts that are not onerous. The entity recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows, and the contractual service margin of the group being zero.

(b) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows. Consequently, the contractual service margin equals CU235.

(a) Applying paragraph 44(a), the entity adjusts the contractual service margin of the group of contracts with any new contracts added to the group.

(b) In this example, insurance finance expenses of CU27 are calculated by multiplying CU545 (the difference between the estimates of the present value of the future cash flows at initial recognition of CU(355) and the cash inflows of CU900 received at the beginning of Year 1) by the current discount rate of 5 per cent, determined applying paragraphs 36 and B72(a).

(c) Applying paragraph 81, the entity chooses not to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, therefore the entity presents the entire change in the risk adjustment for non-financial risk as part of the insurance service result in the statement of profit or loss.

(d) Applying paragraphs 44(b) and B72(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU12 by multiplying the opening balance of CU235 by the discount rate of 5 per cent. That rate is applicable to nominal cash flows that do not vary based on the returns on any underlying items, determined on initial recognition of the group of insurance contracts.

(c) Applying paragraph 81, the entity chooses not to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, therefore the entity presents the entire change in the risk adjustment for non-financial risk as part of the insurance service result in the statement of profit or loss.

(e) Applying paragraphs 44(e) and B119, the entity recognises in profit or loss in each period an amount of the contractual service margin for the group of insurance contracts to reflect the services provided under the group of insurance contracts in that period. The amount is determined by identifying the coverage units in the group. These coverage units reflect the quantity of benefits provided under each contract in the group and its expected coverage duration. The entity allocates the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future, and recognises in profit or loss the amount allocated to the coverage units provided in the period. In this example, the service provided in each period for the group of contracts is the same because all contracts are expected to provide the same amount of benefits for all three periods of coverage. Consequently, the amount of the contractual service margin recognised in profit or loss in the period of CU82 is CU247 (CU235 + CU12) divided by three periods of coverage.

The entity could achieve the objective of the recognition of the contractual service margin on the basis of the coverage units using a different pattern. For example, the entity could allocate equally in each period the contractual service margin including the total interest expected to be accreted over the coverage period. In this example, the allocation pattern using this method would equal CU86 in each period calculated as CU86 = CU235 × 1.05 ÷ (1 + 1 ÷ 1.05 + 1 ÷ 1.05^{2}) instead of the increasing pattern of CU82 in Year 1, CU86 in Year 2 and CU91 in Year 3.

Example 6 illustrates the allocation of the contractual service margin in a situation when the entity expects contracts in a group to have different durations.

(a) For the method of calculation, see Year 1.

(a) For the method of calculation, see Year 1.

(b) Applying paragraph 44(c), the entity adjusts the contractual service margin of the group of insurance contracts for changes in fulfilment cash flows relating to future service. Applying paragraph B96, the entity adjusts the contractual service margin for changes in estimates of the present value of the future cash flows measured at the discount rate determined on initial recognition of the group of insurance contracts of CU58 and changes in the risk adjustment for non-financial risk that relate to future service of CU10. Example 6 illustrates the accounting for changes in the estimates of the present value of the future cash flows when there is a change in discount rate after initial recognition of a group.

(c) Applying paragraph B97(c), the entity does not adjust the contractual service margin for the experience adjustment of CU50 defined as the difference between the estimate at the beginning of the period of insurance service expenses expected to be incurred in the period of CU200 and the actual insurance service expenses incurred in the period of CU150. Applying paragraph 104, the entity classifies those changes as related to current service.

(a) For the method of calculation, see Year 1.

(a) For the method of calculation, see Year 1.

(a) For the method of calculation, see Year 1.

(a) For the method of calculation, see Year 1.

(a) In Year 1, the amount of cash of CU(700) equals the receipt of premiums of CU(900) and the payment of claims of CU200. There are additional payments of claims: CU150 in Year 2 and CU140 in Year 3. For simplicity, there is no interest accreted on the cash account.

(b) This example illustrates the amounts recognised in the statement of profit or loss. Example 3A illustrates how these amounts could be presented.

(a) For the method of calculation, see Year 1.

(a) For the method of calculation, see Year 1.

(b) Applying paragraph 44(c), the entity adjusts the contractual service margin for the changes in the fulfilment cash flows relating to future service, except to the extent that such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss. Applying paragraph 48, the entity recognises this loss in profit or loss. Consequently, the entity accounts for the changes in the fulfilment cash flows related to future service of CU286 (estimates of the present value of the future cash outflows of CU238 plus the change in the risk adjustment for non-financial risk of CU48) as follows:

(i) the contractual service margin is adjusted by CU173, which reduces the contractual service margin to zero; and

(ii) the remaining change in the fulfilment cash flows of CU113 is recognised in profit or loss.

(c) Applying paragraph 44(e), the entity does not recognise any contractual service margin in profit or loss for the year because the remaining balance of the contractual service margin (before any allocation) equals zero (CU0 = CU165 + CU8 – CU173).

(a) For the method of calculation, see Year 1.

(a) In Year 1, the cash of CU(700) equals the receipt of premiums of CU(900) and the payment of claims of CU200. In Year 2 and Year 3, there is a payment of claims of CU400 and CU450 respectively. For simplicity, there is no interest accreted on the cash account.

(b) This example illustrates the amounts recognised in the statement of profit or loss. Example 3B illustrates how these amounts could be presented.

(a) Insurance revenue of CU222 is:

(i) determined by the entity applying paragraph B123 as the change in the liability for remaining coverage, excluding changes that do not relate to services provided in the period, for example changes resulting from cash inflows from premiums received, changes related to investment components and changes related to insurance finance income or expenses.

Thus, in this example insurance revenue is the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU617, excluding insurance finance expenses of CU39, cash inflows of CU900 and the investment component of CU100 (CU222 = CU0 – CU617 + CU39 + CU900 – CU100).

(ii) analysed by the entity applying paragraph B124 as the sum of the changes in the liability for remaining coverage in the period that relate to services for which the entity expects to receive consideration. Those changes are:

1 insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding repayments of investment components;

2 the change in the risk adjustment for non-financial risk, excluding changes that adjust the contractual service margin because they relate to future service ie the change caused by the release from risk; and

3 the amount of contractual service margin recognised in profit or loss in the period.

Thus, in this example insurance revenue is the sum of insurance service expenses of CU100, the change in the risk adjustment for non-financial risk caused by the release from risk of CU40 and the contractual service margin recognised in profit or loss of CU82 (CU222 = CU100 + CU40 + CU82).

(b) Applying paragraph 84, the entity presents insurance service expenses of CU100 as the claims incurred in the period of CU200 minus the investment component of CU100.

(c) Applying paragraph 85, the entity presents insurance revenue and insurance service expenses in profit or loss excluding amounts related to an investment component. In this example, the investment component equals CU100.

(c) Applying paragraph 85, the entity presents insurance revenue and insurance service expenses in profit or loss excluding amounts related to an investment component. In this example, the investment component equals CU100.

(d) Insurance finance expenses are the same as in Example 2. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred (see the assumptions in Example 2).

(a) Insurance revenue of CU261 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU334 (CU617 – CU283), excluding insurance finance expenses of CU27 and the investment component of CU100 (CU261 = CU334 + CU27 – CU100); and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU50 adjusted for the experience adjustment of CU50, the change in the risk adjustment for non-financial risk caused by the release from risk of CU40 and the contractual service margin recognised in profit or loss of CU121 (CU261 = CU50 + CU50 + CU40 + CU121).

(b) Applying paragraph 84, the entity presents insurance service expenses of CU50 as the claims incurred in the period of CU150 minus the investment component of CU100.

(c) Insurance finance expenses are the same as in Example 2A. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(a) Insurance revenue of CU196 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU283 (CU283 – CU0), excluding insurance finance expenses of CU13 and the investment component of CU100 (CU196 = CU283 + CU13 – CU100); and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU40, the change in the risk adjustment for non-financial risk caused by the release from risk of CU30 and the contractual service margin recognised in profit or loss of CU126 (CU196 = CU40 + CU30 + CU126).

(b) Applying paragraph 84, the entity presents insurance service expenses of CU40 as the claims incurred in the period of CU140 minus the investment component of CU100.

(c) Insurance finance expenses are the same as in Example 2A. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(a) Applying paragraph B120, the entity calculates the total insurance revenue for the group of insurance contracts of CU679 as the amount of premiums paid to the entity of CU900 adjusted for the financing effect of CU79 and excluding the investment component of CU300 (CU100 a year for 3 years) ie CU679 = CU900 + CU79 – CU300.

(b) For the purpose of this example, these numbers are not included because they are accounted for applying another Standard.

(a) Insurance revenue of CU140 is:

(i) determined by the entity applying paragraph B123 as the change in the liability for remaining coverage, excluding:

1 changes that do not relate to services provided in the year, for example changes resulting from cash inflows from premiums received, changes related to investment components and changes related to insurance finance income or expenses; and

2 changes that relate to services but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage.

Thus, in this example insurance revenue is the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU213 (CU617 – CU404), excluding insurance finance expenses of CU27 and the repayment of the investment component of CU100, ie CU140 = CU213 + CU27 – CU100.

(ii) analysed by the entity applying paragraph B124 as the sum of the changes in the liability for remaining coverage in the year that relate to services for which the entity expects to receive consideration. Those changes are:

1 insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding amounts allocated to the loss component of the liability for remaining coverage and excluding repayments of investment components;

2 the change in the risk adjustment for non-financial risk, excluding changes that adjust the contractual service margin because they relate to future service and amounts allocated to the loss component ie the change caused by the release from risk; and

3 the amount of contractual service margin recognised in profit or loss in the period.

Thus, in this example insurance revenue is the sum of the insurance service expenses of CU300 including experience adjustments of CU200 and the change in the risk adjustment for non-financial risk caused by the release from risk of CU40, ie CU140 = CU300 – CU200 + CU40.

(b) The entity revises the estimates of fulfilment cash flows for Year 3. The increase in fulfilment cash flows exceeds the carrying amount of the remaining contractual service margin, creating a loss of CU113 (see the table after paragraph IE26). Applying paragraph 49, the entity establishes the loss component of the liability for remaining coverage for an onerous group depicting that loss. The loss component determines the amounts presented in profit or loss as reversals of losses on onerous groups that are consequently excluded from determination of insurance revenue.

(c) Applying paragraph 84, the entity presents insurance service expenses of CU300 as the claims incurred in the period of CU400 minus the investment component of CU100.

(d) Insurance finance expenses are the same as in Example 2B. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(b) Applying paragraph 50(a), the entity allocates on a systematic basis the subsequent changes in the fulfilment cash flows of the liability for remaining coverage between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

(i) insurance finance expenses of CU5 are determined by multiplying the total insurance finance expenses of CU21 by 22 per cent. The allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113).

(ii) the change of the loss component of CU118 is the sum of:

1 the estimates of the future cash flows released from the liability for remaining coverage for the year of CU94, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU350 by 27 per cent; and

2 the change in the risk adjustment for non-financial risk caused by the release from risk of CU24, calculated by multiplying the total such change of CU88 by 27 per cent.

The allocation of the amounts described in 1 and 2 to the loss component of CU118 is determined after the insurance finance expenses and investment component have been allocated. The insurance finance expenses are allocated as described in (i). The investment component is allocated solely to the liability for remaining coverage excluding the loss component, because it is not included in insurance revenue or insurance service expenses. After those allocations, the loss component of the liability for remaining coverage is CU118 (CU113 + CU5) and the liability for remaining coverage excluding the investment component is CU438 (CU517 + CU21 – CU100). Hence, the allocations in (ii) are determined as the ratio of CU118 to CU438, which is 27 per cent.

See Example 8 for a more detailed calculation of losses in a group of insurance contracts subsequent to initial recognition.

(d) Insurance finance expenses are the same as in Example 2B. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(a) Insurance revenue of CU320 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU404 (CU404 – CU0), insurance finance expenses of CU16 and the repayment of the investment component of CU100, ie CU320 = CU404 + CU16 – CU100.

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU350 and the change in the risk adjustment for non-financial risk caused by the release from risk of CU88, excluding CU118 allocated to the loss component of the liability of remaining coverage, ie CU320 = CU350 + CU88 – CU118.

(b) Applying paragraph 50(a), the entity allocates on a systematic basis the subsequent changes in the fulfilment cash flows of the liability for remaining coverage between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

(i) insurance finance expenses of CU5 are determined by multiplying the total insurance finance expenses of CU21 by 22 per cent. The allocation is based on the 22 per cent proportion of the loss component of the liability for remaining coverage of CU113 to the total liability for remaining coverage of CU517 (CU404 + CU113).

(ii)-the change of the loss component of CU118 is the sum of:

1 the estimates of the future cash flows released from the liability for remaining coverage for the year of CU94, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU350 by 27 per cent; and

2 the change in the risk adjustment for non-financial risk caused by the release from risk of CU24, calculated by multiplying the total such change of CU88 by 27 per cent.

The allocation of the amounts described in 1 and 2 to the loss component of CU118 is determined after the insurance finance expenses and investment component have been allocated. The insurance finance expenses are allocated as described in (i). The investment component is allocated solely to the liability for remaining coverage excluding the loss component, because it is not included in insurance revenue or insurance service expenses. After those allocations, the loss component of the liability for remaining coverage is CU118 (CU113 + CU5) and the liability for remaining coverage excluding the investment component is CU438 (CU517 + CU21 – CU100). Hence, the allocations in (ii) are determined as the ratio of CU118 to CU438, which is 27 per cent.

See Example 8 for a more detailed calculation of losses in a group of insurance contracts subsequent to initial recognition.

(c) Applying paragraph 84, the entity presents insurance service expenses of CU350 as the claims incurred in the period of CU450 minus the investment component of CU100.

(a) Applying paragraph B120, the entity calculates the total insurance revenue for the group of insurance contracts of CU682 as the amount of premiums paid to the entity of CU900 adjusted for the financing effect of CU82 (insurance finance expenses of CU87 minus CU5 related to the loss component) and excluding the investment component of CU300 (CU100 per year for 3 years) ie CU682 = CU900 + CU82 – CU300.

(b) For the purpose of this example, these numbers are not included because they are accounted for applying another Standard.

(a) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate of 10 per cent that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a).

(a) The annual charge equals the percentage of the balance at the beginning of each year (including premiums received at the beginning of the year). For example, in Year 1 the annual charge of CU90 is 3% × CU3,000.

(b) Interest credited each year equals the percentage of the balance at the beginning of each year minus the annual charge. For example, in Year 1 the interest credited of CU233 is 8% × (CU3,000 – CU90).

(c) The death benefit equals the percentage of the balance at the beginning of each year minus the annual charge plus interest credited. For example, in Year 1 the death benefit of CU31 is 2/200 × (CU3,000 – CU90 + CU233).

(a) The annual charge equals the percentage of the balance at the beginning of each year (including premiums received at the beginning of the year). For example, in Year 1 the annual charge of CU90 is 3% × CU3,000.

(b) Interest credited each year equals the percentage of the balance at the beginning of each year minus the annual charge. For example, in Year 1 the interest credited of CU233 is 8% × (CU3,000 – CU90).

(c) The death benefit equals the percentage of the balance at the beginning of each year minus the annual charge plus interest credited. For example, in Year 1 the death benefit of CU31 is 2/200 × (CU3,000 – CU90 + CU233).

(a) The annual charge equals the percentage of the balance at the beginning of each year (including premiums received at the beginning of the year). For example, in Year 1 the annual charge of CU90 is 3% × CU3,000.

(b) Interest credited each year equals the percentage of the balance at the beginning of each year minus the annual charge. For example, in Year 1 the interest credited of CU233 is 8% × (CU3,000 – CU90).

(c) The death benefit equals the percentage of the balance at the beginning of each year minus the annual charge plus interest credited. For example, in Year 1 the death benefit of CU31 is 2/200 × (CU3,000 – CU90 + CU233).

(a) See the table after paragraph IE69.

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows — other than the death benefit payable at the end of Year 2 — are payable at the end of Year 3.

(c) The change in estimates of future cash flows of CU186 equals the difference between the estimates of the future cash flows revised for changes in financial assumptions of CU3,228 minus the estimates of the future cash flows before the change in financial assumptions of CU3,414. Hence, it reflects only the change in financial assumptions.

(d) The change in estimates of the present value of the future cash flows of CU195 is the difference between the estimates of the present value of the future cash flows at the end of Year 2 (revised for changes in financial assumptions) of CU3,019 and the estimates of the present value of the future cash flows at the beginning of Year 2 (before changes in financial assumptions) of CU2,824. Hence, it reflects the effect of the interest accretion during Year 2 and the effect of the change in financial assumptions.

(a) See the table after paragraph IE69.

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows—other than the death benefit payable at the end of Year 2—are payable at the end of Year 3.~~See the table after paragraph IE69.~~

(e) The effect of the exercise of discretion of CU61 equals the difference between the estimates of the future cash flows revised for the exercise of discretion of CU3,289 and the estimates of the future cash flows before the effect of the exercise of discretion of CU3,228.

(a) See the table after paragraph IE69.

(b) The entity calculates the estimates of the present value of the future cash outflows using a current discount rate that reflects the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). All the cash flows—other than the death benefit payable at the end of Year 2—are payable at the end of Year 3.~~See the table after paragraph IE69.~~

(a) See the table after paragraph IE69.

(a) Applying paragraph B97, the entity does not adjust the contractual service margin for a group of contracts for changes in fulfilment cash flows related to the effect of the time value of money and financial risk and changes therein, comprising (i) the effect, if any, on estimated future cash flows; (ii) the effect, if disaggregated, on the risk adjustment for non-financial risk; and (iii) the effect of a change in discount rate~~)~~. This is because such changes do not relate to future service. Applying paragraph 87, the entity recognises those changes as insurance finance expenses. Consequently, the insurance finance expenses of CU197 are the sum of:

- (i) the effect of interest accretion and the effect of the change in financial assumptions of CU195 (see the table after paragraph IE70); and
- (ii) the effect of the change in the assumptions related to financial risk on the change in the discretionary cash flows of CU2, which equals:
  - 1 CU57 of the present value of the effect of the change in discretion discounted using the current rate (see the table after paragraph IE70); minus
  - 2 CU55 of the present value of the change in discretion discounted using the rate determined on initial recognition of the group of insurance contracts (see footnote (c)).

(b) Applying paragraphs 44(b) and B72(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU10 by multiplying the opening balance of CU258 by the discount rate of 4 per cent determined on initial recognition of the group of insurance contracts. That rate is applicable to nominal cash flows that do not vary based on the returns on any underlying items.

(c) Applying paragraphs 44(c) and B98, the entity regards changes in discretionary cash flows as relating to future service, and accordingly adjusts the contractual service margin. Applying paragraphs B96 and B72(c), the adjustment to the contractual service margin is calculated by discounting the change in the future cash flows of CU61 using the discount rate of 10 per cent, which reflects the characteristics of the cash flows determined on initial recognition of the group of insurance contracts. Consequently, the amount of discretionary cash flows that adjusts the contractual service margin of CU55 is CU61 ÷ (1 + 10%).

(c) Applying paragraphs 44(c) and B98, the entity regards changes in discretionary cash flows as relating to future service, and accordingly adjusts the contractual service margin. Applying paragraphs B96 and B72(c), the adjustment to the contractual service margin is calculated by discounting the change in the future cash flows of CU61 using the discount rate of 10 per cent, which reflects the characteristics of the cash flows determined on initial recognition of the group of insurance contracts. Consequently, the amount of discretionary cash flows that adjusts the contractual service margin of CU55 is CU61 ÷ (1 + 10%).

(d) Applying paragraphs 44(e) and B119, the entity recognises in profit or loss the amount of contractual service margin determined by allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future, as follows:

(i) the amount of the contractual service margin immediately before allocation to profit or loss is CU213 (opening balance of CU258 plus interest of CU10 minus the change related to future service of CU55);

(ii) the number of coverage units in this example is the total of the number of contracts in each period for which coverage is expected to be provided (because the quantity of benefits provided for each contract is the same). Hence, there are 394 coverage units to be provided over the current and final year (198 contracts in Year 2 and 196 contracts in Year 3);

(iii) the contractual service margin per coverage unit is CU0.54 (CU213 ÷ 394 coverage units); and

(iv) the contractual service margin recognised in profit or loss in Year 2 of CU107 is CU0.54 of contractual service margin per coverage unit multiplied by the 198 coverage units provided in Year 2.

(a) Applying paragraph B65(e), estimates of the present value of the future cash flows of CU690 comprise expected claims of CU600 and an allocation of insurance acquisition cash flows directly attributable to the portfolio to which the contracts belong of CU90.

(a) Applying paragraphs 44(e) and B119, the entity recognises in profit or loss in each period an amount of the contractual service margin for a group of insurance contracts to reflect the transfer of services provided in that period. The amount recognised in each period is determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage periods. In this example, the coverage provided in each period is the same because the number of contracts for which the coverage is provided in each period is the same. Consequently, the contractual service margin of CU195 is allocated equally in each year of coverage (ie CU65 = CU195 ÷ 3 years).

(b) Applying paragraph B125, the entity determines the insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relates to recovering those cash flows to each accounting period in a systematic way on the basis of the passage of time. The entity recognises the same amount as insurance service expenses. In this example, the coverage period of the contracts is three years, therefore the expenses recognised in profit or loss each year are CU30 (CU90 ÷ 3 years).

(a) See the table after paragraph IE80 for more details on the components of insurance revenue.

(b) Applying paragraph 84, the entity presents insurance service expenses as incurred claims of CU200 in each year plus insurance acquisition cash flows of CU30 allocated to each year.

(c) Other expenses include acquisition cash flows that are not directly attributable to the portfolio of insurance contracts to which the contracts belong. They are calculated as the difference between the acquisition cash flows of CU120 and directly attributable insurance acquisition cash flows of CU90.

(a) Applying paragraph B124, the entity measures those amounts as expected at the beginning of the year.

(b) This example illustrates the analysis of insurance revenue required by paragraph 106. See Example 3 for how to determine insurance revenue.

(a) In this example, insurance finance expenses of CU54 are CU1,089 (the sum of the estimates of the present value of the future cash flows on initial recognition of CU289 and the cash inflows of CU800 received at the beginning of Year 1) multiplied by the current discount rate of 5 per cent a year, applying paragraphs 36 and B72(a).

(b) Applying paragraph 81, the entity chooses not to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses; therefore, the entity includes the entire change in the risk adjustment for non-financial risk as part of the insurance service result in the statement of profit or loss.

(b) Applying paragraph 81, the entity chooses not to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses; therefore, the entity includes the entire change in the risk adjustment for non-financial risk as part of the insurance service result in the statement of profit or loss.

(c) Applying paragraph 44(e), the entity does not recognise any contractual service margin in profit or loss for the year because the contractual service margin (before any allocation) equals zero.

(a) Applying paragraph 49, the entity establishes the loss component of the liability for remaining coverage for an onerous group of contracts. The loss component determines the amounts presented in profit or loss as reversals of losses on onerous groups that are consequently excluded from the determination of insurance revenue.

(b) Changes in fulfilment cash flows are allocated between the liability for remaining coverage excluding the loss component and the loss component of the liability for remaining coverage. See the table after paragraph IE93 and footnotes to that table for the calculation.

(c) See the table after paragraph IE91 for the calculation. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(b) Changes in fulfilment cash flows are allocated between the liability for remaining coverage excluding the loss component and the loss component of the liability for remaining coverage. See the table after paragraph IE93 and footnotes to that table for the calculation.

(b) Changes in fulfilment cash flows are allocated between the liability for remaining coverage excluding the loss component and the loss component of the liability for remaining coverage. See the table after paragraph IE93 and footnotes to that table for the calculation.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in the fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. In this example the systematic allocation is based on the proportion of 39.8 per cent, calculated on initial recognition of the insurance contracts as the loss component of the liability for remaining coverage of CU529 relative to the total estimate of the present value of the future cash outflows plus risk adjustment for non-financial risk of CU1,329 (CU1,089 + CU240). Consequently, the entity allocates subsequent changes in the fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

- (i) the estimates of the future cash flows released from the liability for remaining coverage for the year of CU159, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU400 by 39.8 per cent;
- (ii) the change in the risk adjustment for non-financial risk caused by the release from risk of CU32, calculated by multiplying the total such change of CU80 by 39.8 per cent; and
- (iii) the insurance finance expenses of CU21, calculated by multiplying the total insurance finance expenses of CU54 by 39.8 per cent.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in the fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage excluding the loss component. In this example the systematic allocation is based on the proportion of 39.8 per cent, calculated on initial recognition of the insurance contracts as the loss component of the liability for remaining coverage of CU529 relative to the total estimate of the present value of the future cash outflows plus risk adjustment for non-financial risk of CU1,329 (CU1,089 + CU240). Consequently, the entity allocates subsequent changes in the fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

- (i) the estimates of the future cash flows released from the liability for remaining coverage for the year of CU159, calculated by multiplying the expected insurance service expenses for the incurred claims for the year of CU400 by 39.8 per cent;
- (ii) the change in the risk adjustment for non-financial risk caused by the release from risk of CU32, calculated by multiplying the total such change of CU80 by 39.8 per cent; and
- (iii) the insurance finance expenses of CU21, calculated by multiplying the total insurance finance expenses of CU54 by 39.8 per cent.

(b) Insurance revenue of CU289 is:

- (i) determined by the entity applying paragraph B123, as the change in the liability for remaining coverage, excluding:
  - 1 changes that do not relate to services provided in the period, for example changes resulting from cash inflows from premiums received and changes related to insurance finance income or expenses; and
  - 2 changes that relate to services but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage.

  Thus, in this example insurance revenue of CU289 is the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU544 (CU0 – CU544) excluding insurance finance expenses of CU33 and cash inflows of CU800, ie CU289 = (CU544 – CU800 – CU33).
- (ii) analysed by the entity applying paragraph B124, as the sum of the changes in the liability for remaining coverage in the year that relate to services for which the entity expects to receive consideration. Those changes are:
  - 1 insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding amounts allocated to the loss component of the liability for remaining coverage;
  - 2 the change in risk adjustment for non-financial risk, excluding changes that adjust the contractual service margin because they relate to future service and amounts allocated to the loss component ie the change caused by the release from risk; and
  - 3 the amount of the contractual service margin recognised in profit or loss in the period.

Thus, in this example insurance revenue of CU289 is the sum of the insurance service expenses for the incurred claims for the year of CU400 and the change in the risk adjustment for non-financial risk caused by the release from risk of CU80, minus amounts allocated to the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU289 = CU400 + CU80 – CU191.

(a) In this example, insurance finance expenses of CU37 are the estimates of the present value of the future cash flows of CU743 at the beginning of Year 2 multiplied by the current discount rate of 5 per cent, determined applying paragraphs 36 and B72(a).

(b) Applying paragraph 50(b), an entity allocates any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of the future cash flows relating to future service of CU286 solely to the loss component until that component is reduced to zero (the decrease in fulfilment cash flows of CU183 was allocated to the loss component to reduce it to zero, see the table after paragraph IE95). An entity adjusts the contractual service margin only for the excess of the decrease in fulfilment cash flows over the amount allocated to the loss component of CU103 (CU286 – CU183).

(b) Applying paragraph 50(b), an entity allocates any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of the future cash flows relating to future service of CU286 solely to the loss component until that component is reduced to zero (the decrease in fulfilment cash flows of CU183 was allocated to the loss component to reduce it to zero, see the table after paragraph IE95). An entity adjusts the contractual service margin only for the excess of the decrease in fulfilment cash flows over the amount allocated to the loss component of CU103 (CU286 – CU183).

(c) Applying paragraph B119(b), the entity allocates the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future. Applying paragraph B119(c), the entity recognises in profit or loss the amount allocated to coverage units provided in the period of CU52, which is CU103 divided by two years.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. See the table after paragraph IE96 and footnotes to that table for more detailed calculations.

(b) See the table after paragraph IE94 for the calculation. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. See the table after paragraph IE96 and footnotes to that table for more detailed calculations.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. See the table after paragraph IE96 and footnotes to that table for more detailed calculations.

(c) Applying paragraph 50(b), the entity allocates any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service of CU286 (see the table after paragraph IE94) solely to the loss component until that component is reduced to zero. IFRS 17 does not specify the order in which an entity allocates the fulfilment cash flows in footnote (a) (applying paragraph 50(a)) and the allocation in this footnote (applying paragraph 50(b)). This example illustrates the result of making the allocation required by paragraph 50(a) before the allocation required by paragraph 50(b).

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in the fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example, the systematic allocation is based on the proportion of 39.8 per cent as the opening balance of the loss component of the liability for remaining coverage of CU359, relative to the total of the estimates of the present value of the future cash outflows plus risk adjustment for non-financial risk of CU903 (CU743 + CU160). Consequently, the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

(i) the estimates of the future cash flows released from the liability for remaining coverage for the year of CU159, calculated by multiplying the insurance service expenses for the incurred claims for the year of CU400 by 39.8 per cent;

(ii) the change in the risk adjustment for non-financial risk caused by the release from risk of CU32, calculated by multiplying the total such change of CU80 by 39.8 per cent; and

(iii) the insurance finance expenses of CU15, calculated by multiplying the total insurance finance expenses of CU37 by 39.8 per cent.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in the fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example, the systematic allocation is based on the proportion of 39.8 per cent as the opening balance of the loss component of the liability for remaining coverage of CU359, relative to the total of the estimates of the present value of the future cash outflows plus risk adjustment for non-financial risk of CU903 (CU743 + CU160). Consequently, the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

(i) the estimates of the future cash flows released from the liability for remaining coverage for the year of CU159, calculated by multiplying the insurance service expenses for the incurred claims for the year of CU400 by 39.8 per cent;

(ii) the change in the risk adjustment for non-financial risk caused by the release from risk of CU32, calculated by multiplying the total such change of CU80 by 39.8 per cent; and

(iii) the insurance finance expenses of CU15, calculated by multiplying the total insurance finance expenses of CU37 by 39.8 per cent.

(b) Insurance revenue of CU341 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU319 (CU544 – CU225), further excluding insurance finance expenses of CU22, ie CU341 = CU319 + CU22; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU400, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the amount of the contractual service margin recognised in profit or loss in the period of CU52 minus the reversal of the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU341 = CU400 + CU80 + CU52 – CU191.

(b) Insurance revenue of CU341 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU319 (CU544 – CU225), further excluding insurance finance expenses of CU22, ie CU341 = CU319 + CU22; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses for the incurred claims for the year of CU400, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the amount of the contractual service margin recognised in profit or loss in the period of CU52 minus the reversal of the loss component of the liability for remaining coverage of CU191 (CU159 + CU32), ie CU341 = CU400 + CU80 + CU52 – CU191.

(a) Applying paragraph 50(a), the entity allocates the subsequent changes in the fulfilment cash flows of the liability for remaining coverage on a systematic basis between the loss component of the liability for remaining coverage and the liability for remaining coverage, excluding the loss component. In this example, the systematic allocation is based on the proportion of 39.8 per cent as the opening balance of the loss component of the liability for remaining coverage of CU359, relative to the total of the estimates of the present value of the future cash outflows plus risk adjustment for non-financial risk of CU903 (CU743 + CU160). Consequently, the entity allocates subsequent changes in fulfilment cash flows to the loss component of the liability for remaining coverage as follows:

(i) the estimates of the future cash flows released from the liability for remaining coverage for the year of CU159, calculated by multiplying the insurance service expenses for the incurred claims for the year of CU400 by 39.8 per cent;

(ii) the change in the risk adjustment for non-financial risk caused by the release from risk of CU32, calculated by multiplying the total such change of CU80 by 39.8 per cent; and

(iii) the insurance finance expenses of CU15, calculated by multiplying the total insurance finance expenses of CU37 by 39.8 per cent.

(a) In this example, insurance finance expenses of CU5 are the estimates of the present value of the future cash flows of CU94 at the beginning of Year 3 multiplied by the current discount rate of 5 per cent, determined applying paragraphs 36 and B72(a).

(b) Applying paragraph 44(b), the entity calculates interest accreted on the carrying amount of the contractual service margin of CU3 by multiplying the opening balance of CU51 by the discount rate of 5 per cent determined applying paragraphs 44(b) and B72(b).

(c) The full contractual service margin is recognised in profit or loss because Year 3 is the last year of coverage.

(a) Insurance revenue of CU233 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage, excluding changes related to the loss component of CU225 (CU225–CU0), further excluding insurance finance expenses of CU8, ie CU233 = CU225 + CU8; and

(ii) analysed by the entity applying paragraph B124 as the sum of the insurance service expenses of CU100, the change in the risk adjustment for non-financial risk caused by the release from risk of CU80 and the contractual service margin recognised in profit or loss of CU54, ie CU233 = CU100 + CU80 + CU54 – CU1 rounding difference.

(b) See the table after paragraph IE97 for the calculation. The whole amount of insurance finance expenses is related to the liability for remaining coverage because the liability for incurred claims is paid immediately after the expenses are incurred.

1. <u>There is no prescribed method for the calculation of the time value of a guarantee, and a calculation of an amount separate from the rest of the fulfilment cash flows is not required.</u>

(a) The entity calculates the estimates of the present value of the future cash outflows using current discount rates that reflect the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). The estimates of the present value of the future cash outflows include an estimate of the time value of the guarantee inherent in providing a minimum death benefit, measured consistently with observable market prices for the guarantee.

(a) In this example, the underlying items equal the assets the entity holds. IFRS 17 defines underlying items as the items that determine some of the amounts payable to a policyholder. Underlying items could comprise any items; for example, a reference portfolio of assets.

(a) The effect of the time value of money and financial risks and the changes therein includes:

(i) the changes in the time value of the guarantee inherent in providing a minimum death benefit; and

(ii) the effect of changes in the obligation to the policyholder because of the change in the fair value of the underlying items in Years 2 and 3.

(b) In Year 1, the entity receives premiums of CU15,000 and pays claims on death of CU170 (CU162 from the account balances and CU8 from the entity's account). In Year 2, the entity pays claims of CU171 only from the account balances because the value of the account balances is higher than the guaranteed amount of CU170. In Year 3, the entity pays claims on death of CU184 from the account balance and amounts at maturity of contracts of CU17,896 (see the table after paragraph IE109 for amounts paid from the account balances).

(c) The entity determines the estimates of the present value of the future cash outflows using current discount rates that reflect the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). The estimates of the present value of the future cash outflows include an estimate of the time value of the guarantee inherent in providing a minimum death benefit, measured consistently with observable market prices for the guarantee.

(c) The entity determines the estimates of the present value of the future cash outflows using current discount rates that reflect the characteristics of the future cash flows, determined applying paragraphs 36 and B72(a). The estimates of the present value of the future cash outflows include an estimate of the time value of the guarantee inherent in providing a minimum death benefit, measured consistently with observable market prices for the guarantee.

(a) Applying paragraphs B110–B113, the entity adjusts the contractual service margin for the net of changes in:

(i) the amount of the entity's share of the fair value of the underlying items; and

(ii) the fulfilment cash flows that do not vary based on the returns on underlying items related to future service, determined applying paragraph B96, plus the effect of the time value of money and financial risks and changes therein not arising from the underlying items.

Paragraph B114 permits the entity not to identify each adjustment to the contractual service margin separately, but rather to combine them. In addition, in this example there are no changes in the fulfilment cash flows that do not vary based on the returns on underlying items determined applying paragraph B96. Consequently, the entity could estimate the net adjustment to the contractual service margin as the net of changes in:

(iii) the fair value of the underlying items (equals (i) plus the obligation to pay to the policyholder an amount equal to the fair value of the underlying items); and

(iv) the fulfilment cash flows related to the effect of the time value of money and financial risks and the changes therein (equals (ii) plus the obligation to pay to the policyholder an amount equal to the fair value of the underlying items).

Consequently, in this example, the adjustment to the contractual service margin for changes related to future service is the net of the change in fair value of the underlying items and changes in the fulfilment cash flows related to the effect of the time value of money and financial risks and the changes therein.

(b) Applying paragraphs 45(e) and B119, the entity recognises in profit or loss the amount of contractual service margin determined by allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future, as follows:

(i) in Year 1, the amount of the contractual service margin immediately before recognition in profit or loss is CU892 (the change related to the new contracts of CU795 plus the net change related to the variable fee of CU97 (CU1,500 – CU1,403));

(ii) the entity has provided coverage for 100 contracts in Year 1, and expects to provide coverage for 99 contracts in Year 2 and 98 contracts in Year 3 (total coverage units of 297); thus

(iii) the entity recognises CU300 of the contractual service margin in profit or loss in Year 1 (calculated as the contractual service margin of CU892 multiplied by 100 of the coverage units provided in Year 1 divided by 297 of the total coverage units).

The entity used the same methodology to calculate the amounts recognised in profit or loss in Years 2 and 3. Example 6 illustrates the recognition of the contractual service margin in profit or loss in more detail.

(a) The detailed description of the method of the calculation of the insurance revenue is provided in the table after paragraph IE33. For Year 1, insurance revenue of CU320 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU(16,018), excluding premiums received of CU15,000, insurance finance expenses of CU1,500 and the investment component of CU162 (CU320 = CU(16,018) + CU15,000 + CU1,500 – CU162). The change in the carrying amount of the liability for remaining coverage in Year 1 of CU(16,018) is the opening balance of CU0 minus the closing balance of CU16,018 (the fulfilment cash flows at the end of Year 1 of CU15,426 plus the contractual service margin at the end of Year 1 of CU592). In this example, the liability for remaining coverage equals the total insurance liability because the liability for incurred claims is zero; and

(ii) analysed by the entity applying paragraph B124 as the sum of the expected insurance service expenses for the period of CU8, the change in the risk adjustment for non-financial risk caused by the release from risk of CU12 and the contractual service margin recognised in profit or loss of CU300 (CU320 = CU8 + CU12 + CU300).

(a) The detailed description of the method of the calculation of the insurance revenue is provided in the table after paragraph IE33. For Year 1, insurance revenue of CU320 is:

(i) determined by the entity applying paragraph B123 as the difference between the opening and closing carrying amounts of the liability for remaining coverage of CU(16,018), excluding premiums received of CU15,000, insurance finance expenses of CU1,500 and the investment component of CU162 (CU320 = CU(16,018) + CU15,000 + CU1,500 – CU162). The change in the carrying amount of the liability for remaining coverage in Year 1 of CU(16,018) is the opening balance of CU0 minus the closing balance of CU16,018 (the fulfilment cash flows at the end of Year 1 of CU15,426 plus the contractual service margin at the end of Year 1 of CU592). In this example, the liability for remaining coverage equals the total insurance liability because the liability for incurred claims is zero; and

(ii) analysed by the entity applying paragraph B124 as the sum of the expected insurance service expenses for the period of CU8, the change in the risk adjustment for non-financial risk caused by the release from risk of CU12 and the contractual service margin recognised in profit or loss of CU300 (CU320 = CU8 + CU12 + CU300).

(b) Applying paragraph B120, the entity calculates the total insurance revenue of CU1,045 as the amount of premiums paid to the entity of CU15,000 adjusted for the financing effect of CU4,458 (which in this example equals insurance finance expenses) and excluding the investment component paid from the account balances of CU18,413 (CU517 + CU17,896). In this example, total insurance revenue equals the total charges deducted from the policyholder account balances.

(c) Insurance service expenses of CU8 equals the amounts payable to the policyholder in the period of CU170 minus the investment component paid from the account balances of CU162. In Years 2 and 3, insurance service expenses are zero because all the amounts due to the policyholder are paid from the account balance (ie they are repayments of the investment component).

(d) Investment income related to the assets the entity holds is accounted for applying a different Standard.

(e) Applying paragraph B111, changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items do not relate to future service and do not adjust the contractual service margin. Applying paragraph 87, the entity recognises those changes as insurance finance income or expenses. For example, in Year 1 the change in fair value of the underlying items is CU1,500.

(f) This example assumes that the entity chooses to include all insurance finance income or expenses for the period in profit or loss, applying paragraph 89.

(a) The amount of cash at the end of December 20x1 of CU(1,200) equals the premium received of CU(1,220) on 1 July 20x1 plus the acquisition cash flows paid of CU20 on 1 July 20x1.

(b) The amount of cash at the end of December 20x2 of CU130 equals the net cash inflow on 1 July 20x1 of CU1,200 minus claims paid on 31 August 20x2 of CU1,070.

(c) The insurance contract liability is the sum of the liability for remaining coverage and the liability for incurred claims as illustrated in the table after paragraph IE122.

(a) See the table after paragraph IE123 for the calculation of insurance revenue.

(b) Applying paragraph 55, the entity measures the liability for remaining coverage at the end of December 20x1 of CU488 as premiums received in the period of CU1,220 minus the insurance revenue of CU732. The entity does not include acquisition cash flows in the liability for remaining coverage because it chooses to expense them when incurred applying paragraph 59(a).

(c) Insurance service expenses of CU636 for the period July 20x1 to December 20x1 comprise the incurred claims of CU600 and a risk adjustment for non-financial risk of CU36.

(d) Insurance service expenses of CU424 for the period January 20x2 to June 20x2 comprise the incurred claims of CU400 and a risk adjustment for non-financial risk of CU24.

(e) Insurance service expenses of CU10 comprises:

(a) a gain of CU60 — the risk adjustment for non-financial risk related to the liability for incurred claims recognised in profit or loss because of the release from risk; and

(b) a loss of CU70 — the difference between the previous estimate of claims incurred of CU1,000 and the payment of those claims of CU1,070.

(a) Applying paragraph B126, the entity recognises insurance revenue for the period as the amount of expected premium receipts allocated to the period. In this example, the expected premium receipts are allocated to each period of coverage on the basis of the passage of time because the expected pattern of the release of risk during the coverage period does not differ significantly from the passage of time. Consequently, insurance revenue equals CU732 (60 per cent of CU1,220) for the six months ended December 20x1; and CU488 (40 per cent of CU1,220) for the four months ended April 20x2.

(a) Applying paragraph B126, the entity recognises insurance revenue for the period as the amount of expected premium receipts allocated to the period. In this example, the expected premium receipts are allocated to each period of coverage on the basis of the passage of time because the expected pattern of the release of risk during the coverage period does not differ significantly from the passage of time. Consequently, insurance revenue equals CU732 (60 per cent of CU1,220) for the six months ended December 20x1; and CU488 (40 per cent of CU1,220) for the four months ended April 20x2.

(b) See the table after paragraph IE122 for the calculation of insurance service expenses. For the six months ended December 20x1 insurance service expenses comprise CU636 of the amounts recognised from the change in the liability for incurred claims and CU20 of acquisition cash flows recognised in profit or loss as an expense, applying paragraph 59(a).

(b) See the table after paragraph IE122 for the calculation of insurance service expenses. For the six months ended December 20x1 insurance service expenses comprise CU636 of the amounts recognised from the change in the liability for incurred claims and CU20 of acquisition cash flows recognised in profit or loss as an expense, applying paragraph 59(a).

(b) See the table after paragraph IE122 for the calculation of insurance service expenses. For the six months ended December 20x1 insurance service expenses comprise CU636 of the amounts recognised from the change in the liability for incurred claims and CU20 of acquisition cash flows recognised in profit or loss as an expense, applying paragraph 59(a).

(a) Applying paragraph 65, the entity measures the contractual service margin of the reinsurance contract held at an amount equal to the sum of the fulfilment cash flows and any cash flows arising at that date. For reinsurance contracts held there is no unearned profit as there would be for insurance contracts but instead there is a net cost or net gain on purchasing the reinsurance contract.

(a) In this example, the difference between the contractual service margin for the reinsurance contract held of CU(25) and 30 per cent of the underlying group of insurance contracts of CU30 (30% × CU100) arises because of a different pricing policy between the underlying group of insurance contracts and the reinsurance contract held.

(a) The entity increases the fulfilment cash flows of the reinsurance contract held by 30 per cent of the change in fulfilment cash flows of the underlying group of insurance contracts (CU15 = 30% of CU50).

(b) Applying paragraph 66, the entity adjusts the contractual service margin of the reinsurance contract held by the whole amount of the change in the fulfilment cash flows of this reinsurance contract held of CU15 from CU(25) to CU(10). This is because the whole change in the fulfilment cash flows allocated to the group of underlying insurance contracts adjusts the contractual service margin of those underlying insurance contracts.

(a) The entity increases the fulfilment cash flows of the reinsurance contract held by CU48, which equals 30 per cent of the change in fulfilment cash flows of the underlying group of insurance contracts (CU48 = 30% of CU160).

(b) Applying paragraph 66, the entity adjusts the contractual service margin of the reinsurance contract held for change in fulfilment cash flows that relate to future service to the extent this change results from a change in fulfilment cash flows of the group of underlying insurance contracts that adjusts the contractual service margin for that group. Consequently, the entity recognises the change in fulfilment cash flows of the reinsurance contract held of CU48 as follows:

(i) by adjusting the contractual service margin of the reinsurance contract held for CU30 of the change in the fulfilment cash flows. That CU30 is equivalent to the change in the fulfillment cash flows that adjusts the contractual service margin of the underlying contracts of CU100 (CU30 = 30% × CU100). Consequently, the contractual service margin of the reinsurance contract held of CU5 equals the contractual service margin on initial recognition of CU25 adjusted for the part of the change in the fulfilment cash flows of CU30 (CU5 = CU(25) + CU30).

(ii) by recognising the remaining change in the fulfilment cash flows of the reinsurance contract held of CU18 immediately in profit or loss.

(b) Applying paragraph 66, the entity adjusts the contractual service margin of the reinsurance contract held for change in fulfilment cash flows that relate to future service to the extent this change results from a change in fulfilment cash flows of the group of underlying insurance contracts that adjusts the contractual service margin for that group. Consequently, the entity recognises the change in fulfilment cash flows of the reinsurance contract held of CU48 as follows:

(i) by adjusting the contractual service margin of the reinsurance contract held for CU30 of the change in the fulfilment cash flows. That CU30 is equivalent to the change in the fulfillment cash flows that adjusts the contractual service margin of the underlying contracts of CU100 (CU30 = 30% × CU100). Consequently, the contractual service margin of the reinsurance contract held of CU5 equals the contractual service margin on initial recognition of CU25 adjusted for the part of the change in the fulfilment cash flows of CU30 (CU5 = CU(25) + CU30).

(ii) by recognising the remaining change in the fulfilment cash flows of the reinsurance contract held of CU18 immediately in profit or loss.

(a) Applying paragraph 66A, the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D, the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the percentage of claims the entity expects to recover).

(b) The contractual service margin of CU45 is adjusted by CU27, resulting in a contractual service margin of CU72, reflecting a net cost on the reinsurance contract held.

(c) The reinsurance contract asset of CU27 comprises the fulfilment cash flows of CU45 (net outflows) and a contractual service margin reflecting a net cost of CU72. Applying paragraph 66B, the entity establishes a loss-recovery component of the asset for remaining coverage of CU27 depicting the recovery of losses recognised applying paragraph 66A.

(a) Applying paragraph 66A, the entity adjusts the contractual service margin of the reinsurance contract held and recognises income to reflect the loss recovery. Applying paragraph B119D, the entity determines the adjustment to the contractual service margin and the income recognised as CU27 (the loss of CU90 recognised for the onerous group of underlying insurance contracts multiplied by 30 per cent, the percentage of claims the entity expects to recover).

(a) Applying paragraphs 66(e) and B119, the entity determines the amount of the contractual service margin recognised in profit or loss for the service received in Year 1 as CU24, which is calculated by dividing the contractual service margin on initial recognition of CU72 by the coverage period of three years. Consequently, the contractual service margin of the reinsurance contract held at the end of Year 1 of CU48 equals the contractual service margin on initial recognition of CU72 minus CU24.

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(a) The entity increases the expected remaining cash outflows of the groups of underlying insurance contracts by 10 per cent for each group (CU30 in total) and increases the expected remaining cash inflows of the reinsurance contract held by 10 per cent of the expected recoveries of CU90 (CU9).

(b) Applying paragraph 44(c), the entity adjusts the carrying amount of the contractual service margin of CU200 by CU20 for the changes in fulfilment cash flows relating to future service. Applying paragraph 44(e), the entity also adjusts the carrying amount of the contractual service margin by CU90 for the amount recognised as insurance revenue ((CU200 – CU20) ÷ 2). The resulting contractual service margin at the end of Year 2 is CU90 (CU200 – CU20 – CU90).

(e) Consequently, the contractual service margin of the reinsurance contract held of CU21 equals the contractual service margin at the end of Year 1 of CU48 adjusted by CU6 and by CU21 of the contractual service margin recognised in profit or loss for the service received in Year 2 (CU21 = (CU48 – CU6) ÷ 2).

(c) Applying paragraph 48, the entity recognises in profit or loss an amount of CU10 for the changes in the fulfilment cash flows relating to future service of the onerous group of underlying insurance contracts.

(d) Applying paragraph 66(c)(i), the entity adjusts the contractual service margin of the reinsurance contract held for the change in fulfilment cash flows that relate to future service unless the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for that group. Consequently, the entity recognises the change in the fulfilment cash flows of the reinsurance contract held of CU9 by:

(i) recognising immediately in profit or loss CU3 of the change in the fulfilment cash flows of the reinsurance contract held (30 per cent of the CU10 change in the fulfilment cash flows of the onerous group of underlying insurance contracts that does not adjust the contractual service margin of that group); and

(ii) adjusting the contractual service margin of the reinsurance contract held by CU6 of the change in the fulfilment cash flows (CU9 – CU3).

(b) The loss-recovery component of CU18 at the beginning of Year 2 is calculated as the loss-recovery component of CU27 on initial recognition less the reversal of the loss-recovery component of CU9 in Year 1.

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(c) The allocation of reinsurance premiums paid of CU102 is:

(i) determined applying paragraph B123 as the difference between the opening and closing carrying amount of the asset for remaining coverage of CU102, ie CU210 – CU108.

(ii) analysed applying paragraph B124 as the sum of the recoveries for the incurred claims of the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held recognised in profit or loss in the period of CU21 (see the table after paragraph IE138M), ie CU102 = CU90 – CU9 + CU21.

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(d) The amount recovered from the reinsurer relating to the loss-recovery component of CU6 is the net of the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3. Applying paragraph 86(ba), amounts recognised relating to the recovery of losses are treated as amounts recovered from the reinsurer.

(b) For Year 1, the profit of CU10 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU370, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU100 recognised in profit or loss in the period (CU370 = CU270 + CU100); minus

(ii) insurance service expenses of CU360, which are the sum of the loss component of the onerous group of CU90 and the claims incurred in the period of CU300 minus the reversal of the loss component of CU30 (CU360 = CU90 + CU300 – CU30).

(d) For Year 2, the profit of CU80 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU360, which is analysed as the sum of the insurance service expenses from the claims incurred of CU270 (CU300 minus the reversal of the loss component of CU30) and the contractual service margin of CU90 recognised in profit or loss in the period (CU360 = CU270 + CU90); minus

(ii) insurance service expenses of CU280, which are the sum of the increase in the loss component resulting from the changes in the fulfilment cash flows of the onerous group of CU10 and the claims incurred of CU300 minus the reversal of the loss component of CU30 (CU280 = CU10 + CU300 – CU30).

(f) For Year 3, the profit of CU90 from the groups of underlying insurance contracts is calculated as follows:

(i) insurance revenue of CU380, which is analysed as the sum of the insurance service expenses from the claims incurred of CU290 (CU330 minus the reversal of the loss component of CU40) and the contractual service margin of CU90 recognised in profit or loss in the period (CU380 = CU290 + CU90); minus

(ii) insurance service expenses of CU290, which are the claims incurred of CU330 minus the reversal of the loss component of CU40 (CU290 = CU330 – CU40).

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(a) Applying paragraph 86, the entity decides to present separately the amounts recovered from the reinsurer and an allocation of the premiums paid.

(c) For Year 1, the income of CU3 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU105, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contracts held of CU24 recognised in profit or loss in the period (CU105 = CU90 – CU9 + CU24); and

(ii) the amounts recovered from the reinsurer of CU108, which are the income of CU27 on initial recognition and the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 (CU108 = CU27 + CU90 – CU9).

(e) For Year 2, the expense of CU18 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU102, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 less the reversal of the loss-recovery component of CU9 and the contractual service margin of the reinsurance contract held of CU21 recognised in profit or loss in the period (CU102 = CU90 – CU9 + CU21); and

(ii) the amounts recovered from the reinsurer of CU84, which are the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU90 minus the reversal of the loss-recovery component of CU9 and the additional loss-recovery component of CU3 (CU84 = CU90 – CU9 + CU3).

(g) For Year 3, the expense of CU21 from the reinsurance contract held is the net of:

(i) the allocation of reinsurance premiums paid of CU108, which is the sum of the recoveries for the incurred claims from the underlying insurance contracts of CU99 less the reversal of the loss-recovery component of CU12 and the contractual service margin of the reinsurance contracts held of CU21 recognised in profit or loss in the period (CU108 = CU99 – CU12 + CU21); and

(ii) the amounts recovered from the reinsurer of CU87, which are the recoveries for the incurred claims from the underlying insurance contracts of CU99 minus the reversal of the loss-recovery component of CU12 (CU87 = CU99 – CU12).

(a) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows and any cash flows arising from the contracts in the group at that date. On initial recognition, the fulfilment cash flows are a net inflow (or asset) of CU10 (proxy for the premiums received of CU30 minus the fulfilment cash flows of CU20). Consequently, the contractual service margin is CU10.

(b) Applying paragraphs 47 and B95A, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(c) Applying paragraph 32, on initial recognition the entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Consequently, the entity recognises an insurance contract liability of CU30 as the sum of the fulfilment cash flows of CU20 and the contractual service margin of CU10.

(b) Applying paragraphs 47 and B95A, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(b) Applying paragraphs 47 and B95A, the entity concludes that the group of insurance contracts is onerous on initial recognition. This is because the total of the fulfilment cash flows of a net outflow of CU45 and cash flows arising at that date (proxy for the premiums of net inflow of CU30) is a net outflow of CU15. The entity recognises a loss in profit or loss for the net outflow of CU15, resulting in the carrying amount of the liability for the group of CU45 being the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(a) Applying paragraph 38, the entity measures the contractual service margin on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from the initial recognition of the fulfilment cash flows and any cash flows arising from the contracts in the group at that date. On initial recognition, the fulfilment cash flows are a net inflow (or asset) of CU10 (proxy for the premiums received of CU30 minus the fulfilment cash flows of CU20). Consequently, the contractual service margin equals CU10.

(b) Applying paragraphs 38 and 47, the entity recognises the contractual service margin as zero because the sum of fulfilment cash flows and cash flows at the date of initial recognition is a net outflow of CU15. Applying paragraph B95A, the entity recognises the excess of CU15 of the fulfilment cash flows of CU45 over the consideration received of CU30 as part of the goodwill on the business combination.

(c) Applying paragraph 32, the entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Consequently, the entity recognises an insurance contract liability of CU30 on initial recognition as the sum of the fulfilment cash flows (a net outflow) of CU20 and the contractual service margin of CU10.

(d) Applying paragraph 32, the entity measures a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. Consequently, the entity recognises an insurance contract liability of CU45 on initial recognition as the sum of the fulfilment cash flows of CU45 and the contractual service margin of zero.

(b) Applying paragraphs 38 and 47, the entity recognises the contractual service margin as zero because the sum of fulfilment cash flows and cash flows at the date of initial recognition is a net outflow of CU15. Applying paragraph B95A, the entity recognises the excess of CU15 of the fulfilment cash flows of CU45 over the consideration received of CU30 as part of the goodwill on the business combination.

(a) CU1,635 equals the estimates of the future cash flows at the end of Year 3 of CU1,802 discounted at the current market rate of 5 per cent a year, ie CU1,802 ÷ 1.05^2 = CU1,635.

(b) CU1,562 equals the estimates of the future cash flows at the end of Year 3 of CU1,802 discounted at the constant rate of 7.42 per cent a year, ie CU1,802 ÷ 1.0742^2 = CU1,562.

(a) Applying paragraph B132(a)(i), the entity will recognise in profit or loss the insurance finance expenses calculated as the change in estimates of the present value of the future cash flows at the constant rate. In Year 1, the finance expenses of CU142 is the difference between the estimates of the present value of the future cash flows at the original constant rate of 10 per cent at the end of Year 1 of CU1,562 and the corresponding amount at the beginning of the period of CU1,420.

(b) Applying paragraph B130(b), the entity includes in other comprehensive income the difference between the amount recognised in total comprehensive income and the amount recognised in profit or loss. For example, in Year 1 the amount included in other comprehensive income of CU(73) is CU(215) minus CU(142). In Years 1–3, the total other comprehensive income equals zero (CU0 = CU(73) + CU35 + CU38).

(c) The entity recognises in total comprehensive income the change in estimates of the present value of the future cash flows at the current discount rate. In Year 1, the total insurance finance expenses of CU(215) is the difference between the estimates of the present value of the future cash flows at the current discount rate at the beginning of Year 1 of CU1,420 and the corresponding amount at the end of Year 1 of CU1,635.

(a) CU1,716 equals the estimates of the future cash flows at the end of Year 3 of CU1,802 discounted at the current market rate of 5 per cent a year, ie CU1,802 ÷ 1.05 = CU1,716.

(b) CU1,718 equals the estimates of the future cash flows at the end of Year 3 of CU1,802 discounted at the projected crediting rate of 4.9 per cent a year, ie CU1,802 ÷ 1.049 = CU1,718.

(c) There is an amount of CU2 accumulated in other comprehensive income at the end of Year 2 because the discount rate based on projected crediting of 4.9 per cent a year (1.03 × K) is different from the current discount rate of 5 per cent a year.

(a) Applying paragraph B132(a)(ii), the entity will recognise in profit or loss the insurance finance expenses calculated as the change in the estimates of the present value of the future cash flows at the projected crediting rate. In Year 1, the insurance finance expenses of CU142 is the difference between the estimates of the present value of the future cash flows at the original crediting rate of 10 per cent at the end of Year 1 of CU1,562 and the corresponding amount at the beginning of the period of CU1,420.

(b) Applying paragraph B130(b), the entity includes in other comprehensive income the difference between the amount recognised in total comprehensive income and the amount recognised in profit or loss. For example, in Year 1 the amount included in other comprehensive income of CU(73) is CU(215) minus CU(142). In Years 1–3, the total other comprehensive income equals zero (CU0 = CU(73) + CU75 + CU(2)).

(c) The entity recognises in total comprehensive income the change in estimates of the present value of the future cash flows at the current discount rate. In Year 1, the total insurance finance expenses of CU(215) is the difference between the estimates of the present value of the future cash flows at the current discount rate at the beginning of Year 1 of CU1,420 and the corresponding amount at the end of Year 1 of CU1,635.

(a) Fulfilment cash flows are the estimate of the present value of the future cash inflows and the estimate of the present value of the future cash outflows (in this example all cash outflows vary based on the returns on underlying items). For example, at initial recognition the fulfilment cash flows of CU(75) are the sum of the estimates of the present value of the future cash inflows of CU(1,500) and the estimates of the present value of the future cash outflows of CU1,425 (the policyholders' share of 95 per cent of the fair value of the underlying items at initial recognition of CU1,500).

(b) The change in the policyholders' share in the fair value of the underlying items is 95 per cent of the change in fair value of the underlying items. For example, in Year 1 the change in the policyholders' share in the underlying items of CU295 is 95 per cent of the change in fair value in Year 1 of CU311 (CU1,811 – CU1,500). Applying paragraph B111, the entity does not adjust the contractual service margin for the change in the obligation to pay policyholders an amount equal to the fair value of the underlying items because it does not relate to future service.

(a) Applying paragraph B112, the entity adjusts the contractual service margin for the change in the amount of the entity's share of the fair value of the underlying items because those changes relate to future service. For example, in Year 1 the change in the amount of the entity's share of the fair value of the underlying items of CU16 is 5 per cent of the change in fair value of the underlying items of CU311 (CU1,811 – CU1,500). This example does not include cash flows that do not vary based on the returns on underlying items. For more details about the changes related to future service that adjust the contractual service margin see Example 10.

(b) Applying paragraphs 45(e) and B119, the entity determines the amount of contractual service margin recognised in profit or loss by allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss) equally to each coverage unit provided in the current period and expected to be provided in the future. In this example, the coverage provided in each period is the same; hence, the contractual service margin recognised in profit or loss for Year 1 of CU30 is the contractual service margin before allocation of CU91 (CU75 + CU16), divided by three years of coverage.

(a) This example illustrates the amounts recognised as part of the insurance service result and not presentation requirements. For more details on the presentation requirements see Examples 3 and 9.

(b) Applying paragraph B111, the entity does not adjust the contractual service margin for the changes in the obligation to pay the policyholders an amount equal to the fair value of the underlying items because those changes do not relate to future service. Consequently, applying paragraph 87(c), the entity recognises those changes as insurance finance income or expenses in the statement(s) of financial performance. For example, in Year 1 the change in fair value of the underlying items is CU311 (CU1,811 – CU1,500).

Furthermore, applying paragraphs 89–90 and B134, the entity disaggregates the insurance finance expenses for the period between profit or loss and other comprehensive income to include in profit or loss an amount that eliminates accounting mismatches with the income or expenses included in profit or loss on the underlying items held. This amount exactly matches the income or expenses included in profit or loss for the underlying items, resulting in the net of the two separately presented items being zero. For example in Year 1 the total amount of the insurance finance expenses of CU311 is disaggregated and the entity presents in profit or loss the amount of CU150 that equals the amount of finance income for the underlying items. The remaining amount of insurance finance expenses is recognised in other comprehensive income.

(b) Applying paragraph B111, the entity does not adjust the contractual service margin for the changes in the obligation to pay the policyholders an amount equal to the fair value of the underlying items because those changes do not relate to future service. Consequently, applying paragraph 87(c), the entity recognises those changes as insurance finance income or expenses in the statement(s) of financial performance. For example, in Year 1 the change in fair value of the underlying items is CU311 (CU1,811 – CU1,500).

Furthermore, applying paragraphs 89–90 and B134, the entity disaggregates the insurance finance expenses for the period between profit or loss and other comprehensive income to include in profit or loss an amount that eliminates accounting mismatches with the income or expenses included in profit or loss on the underlying items held. This amount exactly matches the income or expenses included in profit or loss for the underlying items, resulting in the net of the two separately presented items being zero. For example in Year 1 the total amount of the insurance finance expenses of CU311 is disaggregated and the entity presents in profit or loss the amount of CU150 that equals the amount of finance income for the underlying items. The remaining amount of insurance finance expenses is recognised in other comprehensive income.

(a) Applying paragraph C12, the entity estimates the future cash flows at the date of initial recognition of the group of insurance contracts to be the sum of:

(i) the estimates of future cash flows of CU770 at the transition date; and

(ii) cash flows of CU800 that are known to have occurred between the date of initial recognition of the group of insurance contracts and the transition date (including premiums paid on initial recognition of CU1,000 and cash outflows of CU200 paid during the period). This amount includes cash flows resulting from contracts that ceased to exist before the transition date.

(b) The entity determines the effect of discounting at the date of initial recognition of the group of insurance contracts to equal CU(200) calculated as the discounting effect on estimates of the future cash flows at the date of initial recognition calculated in footnote (a). Applying paragraph C13(a), the entity determines the effect of discounting by using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85. The entity estimates this amount to equal CU50 reflecting the fact that the premium was received on initial recognition, hence, the discounting effect relates only to the estimate of future cash outflows.

(c) Applying paragraph C14, the entity determines the risk adjustment for non-financial risk on initial recognition of CU120 as the risk adjustment for non-financial risk at the transition date of CU100 adjusted by CU20 to reflect the expected release of risk before the transition date. Applying paragraph C14, the entity determines the expected release of risk by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

(a) Applying paragraph C17(d), the entity determines the contractual service margin that relates to service provided before the transition date of CU26 as the percentage of the coverage units provided before the transition date and the total coverage units of 60 per cent multiplied by the contractual service margin before recognition in profit or loss of CU44.
