NON-BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY

IFRS 17 DIGITAL TRAINING MODULE

COURSE CONTENT

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FOUNDATIONS

TERMS AND ABBREVIATIONS

TERM	DEFINITION
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.

TERM	DEFINITION
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: a) the returns on a specified pool of contracts or a specified type of contract; b) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or c) the profit or loss of the entity or fund that issues the contract.
Liability for Incurred Claims	An entity's obligation to: i. 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 ii. pay amounts that are not included in (a) and that relate to: a) insurance contract services that have already been provided; or

TERM	DEFINITION
	b) 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: i. 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 ii. pay amounts under existing insurance contracts that are not included in (a) and that relate to: a) insurance contract services not yet provided (ie the obligations that relate to future provision of insurance contract services); or b) 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.

IFRS STANDARDS

STANDARD	NAME	DESCRIPTION
IFRS 1	**First-time Adoption of International Financial Reporting Standards**	Provides guidance for entities adopting IFRS for the first time.
IFRS 2	**Share-based Payment**	Deals with the accounting for share-based payment transactions.
IFRS 3	**Business Combinations**	Prescribes the accounting treatment for business combinations.
IFRS 4	**Insurance Contracts**	Interim standard for insurance contracts prior to IFRS 17.
IFRS 5	**Non-current Assets Held for Sale and Discontinued Operations**	Covers accounting for assets held for sale and discontinued operations.
IFRS 6	**Exploration for and Evaluation of Mineral Resources**	Accounting for exploration and evaluation of mineral resources.
IFRS 7	**Financial Instruments: Disclosures**	Requires disclosures relating to financial instruments.
IFRS 8	**Operating Segments**	Requires disclosure of financial performance by operating segments.
IFRS 9	**Financial Instruments**	Deals with classification, measurement, and impairment of financial instruments.
IFRS 10	**Consolidated Financial Statements**	Provides requirements for consolidated financial statements.
IFRS 11	**Joint Arrangements**	Describes accounting for joint ventures and joint operations.
IFRS 12	**Disclosure of Interests in Other Entities**	Outlines disclosure requirements for interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities.
IFRS 13	**Fair Value Measurement**	Defines fair value and sets out a framework for measuring fair value.
IFRS 14	**Regulatory Deferral Accounts**	Permits first-time adopters to continue recognizing regulatory deferral account balances.

STANDARD	NAME	DESCRIPTION
IFRS 15	**Revenue from Contracts with Customers**	Provides a comprehensive framework for revenue recognition.
IFRS 16	**Leases**	Outlines accounting for leases by lessees and lessors.
IFRS 17	**Insurance Contracts**	Provides comprehensive guidance on the recognition, measurement, presentation, and disclosure of insurance contracts.

IAS STANDARDS

STANDARD	NAME	DESCRIPTION
IAS 1	**Presentation of Financial Statements**	Sets out overall requirements for financial statements, including structure and content.
IAS 2	**Inventories**	Provides guidance on the accounting treatment for inventories.
IAS 7	**Statement of Cash Flows**	Prescribes how to present information about changes in cash and cash equivalents.
IAS 8	**Accounting Policies, Changes in Accounting Estimates and Errors**	Provides criteria for selecting and changing accounting policies.
IAS 10	**Events After the Reporting Period**	Deals with events occurring after the reporting period.
IAS 12	**Income Taxes**	Prescribes the accounting treatment for current and deferred tax.
IAS 16	**Property, Plant and Equipment**	Provides guidance on accounting for tangible fixed assets.
IAS 19	**Employee Benefits**	Covers accounting for all employee benefits, including pensions.
IAS 20	**Accounting for Government Grants and Disclosure of Government Assistance**	Deals with accounting for, and disclosure of, government grants.
IAS 21	**The Effects of Changes in Foreign Exchange Rates**	Prescribes how to account for foreign currency transactions and operations.
IAS 23	**Borrowing Costs**	Prescribes the accounting for borrowing costs.
IAS 24	**Related Party Disclosures**	Requires disclosure of related party relationships and transactions.
IAS 26	**Accounting and Reporting by Retirement Benefit Plans**	Specifies the reporting requirements for retirement benefit plans.
IAS 27	**Separate Financial Statements**	Deals with accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

STANDARD	NAME	DESCRIPTION
IAS 28	**Investments in Associates and Joint Ventures**	Prescribes the accounting for investments in associates and joint ventures.
IAS 29	**Financial Reporting in Hyperinflationary Economies**	Provides guidance on financial reporting in hyperinflationary environments.
IAS 32	**Financial Instruments: Presentation**	Establishes principles for presenting financial instruments.
IAS 33	**Earnings per Share**	Prescribes principles for determining and presenting earnings per share.
IAS 34	**Interim Financial Reporting**	Prescribes the content of an interim financial report.
IAS 36	**Impairment of Assets**	Prescribes the procedures to ensure assets are not carried at more than their recoverable amount.
IAS 37	**Provisions, Contingent Liabilities and Contingent Assets**	Addresses accounting for provisions and contingencies.
IAS 38	**Intangible Assets**	Prescribes the accounting for intangible assets not dealt with in other standards.
IAS 40	**Investment Property**	Covers the accounting for investment property.
IAS 41	**Agriculture**	Deals with the accounting for agricultural activity.

MODULE 1: INTRODUCTION & SCOPE OF IFRS 17

Module Objective

This module gives an overview of the introduction and scope of IFRS 17, as outlined in **Paragraphs 1–8** of the Standard.

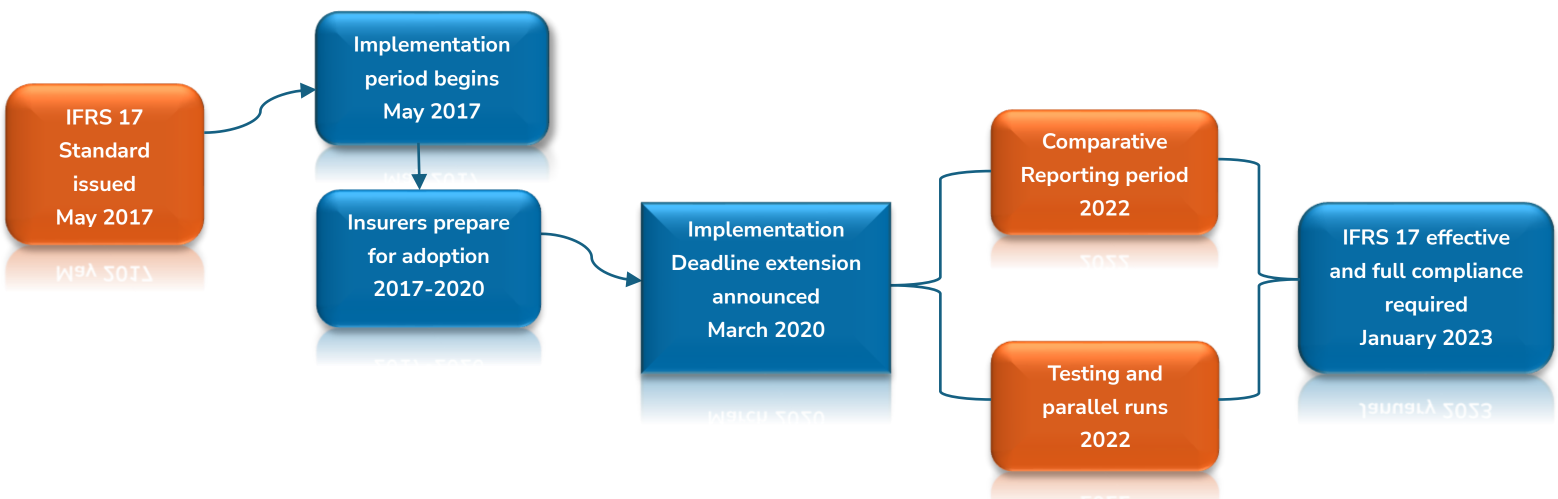
Introduction

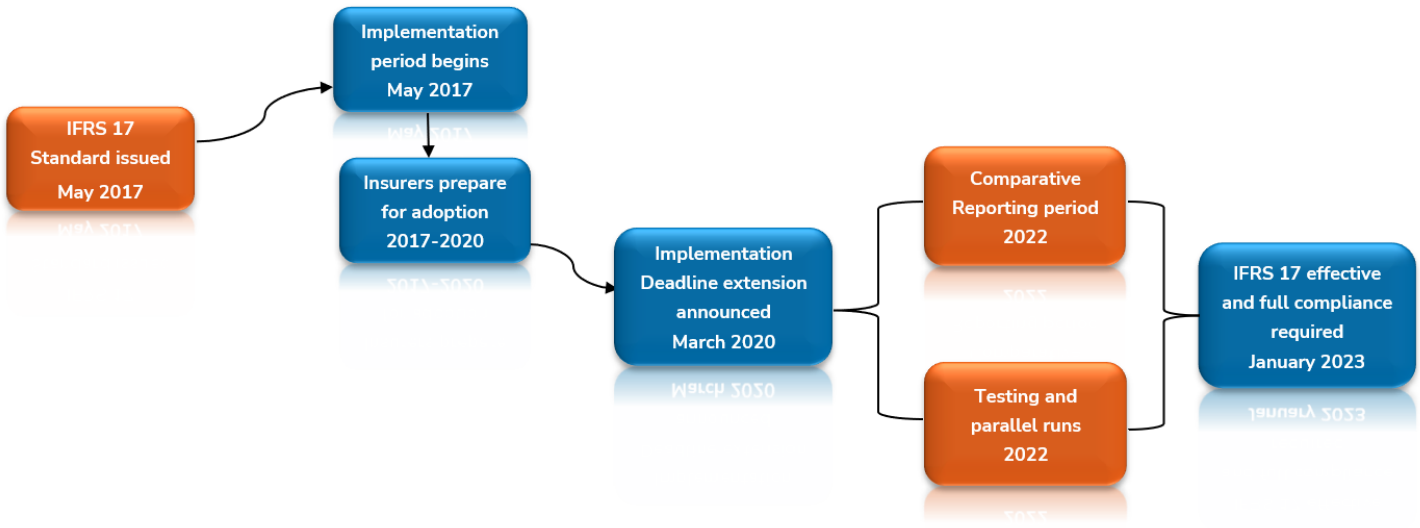
The International Accounting Standards Board (IASB) introduced IFRS 17 Standard in May 2017 to replace IFRS 4, which had served as an interim standard. IFRS 17 establishes a consistent and detailed framework for the **recognition, measurement, presentation, and disclosure** of insurance contracts, aiming to enhance transparency and comparability in financial reporting.

Initially set to become effective on **1 January 2022**, the standard's implementation was deferred in **March 2020** to allow insurers more time to prepare. The revised effective date was **1 January 2023**, with **1 January 2022** designated as the transition date. During this period, insurers were expected to conduct **parallel runs** and system testing to ensure a smooth shift to the new standard.

IFRS 17 became effective on **1 January 2023**, where full compliance was required for all entities issuing insurance contracts.

IFRS 17 Timeline





Scope of IFRS 17

An insurer must apply the Standard to the following:

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.

Insurance contracts under IFRS 17

A contract is considered an insurance contract under IFRS 17 if:

- It involves an **uncertain future event** (the insured event), and
- It transfers **significant insurance risk** which requires the insurer to compensate the policyholder for adverse impacts.

Contracts outside the scope of IFRS 17

Certain contracts, although they may appear similar to insurance in nature, fall outside the scope of IFRS 17 and are addressed under other accounting standards:

i. **Product warranties**, typically provided by manufacturers or retailers as part of a sale, are not treated as insurance contracts and are accounted for under **IFRS 15**.

ii. **Employee benefit obligations**, such as pensions or share-based payments, are governed by **IAS 19**, **IFRS 2**, and **IAS 26**, reflecting their role as employer-employee arrangements rather than insurance.

iii. Contracts involving the **right to use non-financial assets** (e.g. licenses or leased equipment) are excluded and instead addressed under **IFRS 15**, **IFRS 16**, or **IAS 38**, depending on their nature.

iv. **Residual value guarantees**, often embedded within leasing or sales arrangements, are accounted for under **IFRS 15** or **IFRS 16**, as they do not meet the definition of insurance risk.

v. **Financial guarantee contracts** typically fall under **IFRS 9** (and **IFRS 7** for disclosure), unless the issuer irrevocably elects to treat them as insurance under IFRS 17.

vi. In **business combinations**, contingent consideration that becomes payable or receivable is scoped under **IFRS 3**.

vii. Contracts where the entity is the **policyholder**, such as when insurance is purchased, rather than issued, do not fall within IFRS 17, unless they represent **reinsurance held**, which is explicitly included in the standard.

Service-based contracts accounted for under IFRS 15

Some contracts, while technically insurance contracts, are primarily meant to provide services for a fixed fee, and maybe accounted for under IFRS 15 if the conditions below exist:

a) The pricing does not vary based on the individual risk profile of the customer.
b) Compensation provided is in the form of services, not cash payments.
c) The insurance risk arises mainly from the customer's use of services, rather than the uncertainty about service costs.

Practice Questions

1. Which of the following best describes the purpose of IFRS 17?

   A. To prescribe lease accounting principles for lessors and lessees

   B. To standardize accounting for insurance contracts across entities and jurisdictions

   C. To classify and measure financial assets

   D. To consolidate group insurance financials

✅ **Correct Answer: B**- IFRS 17 was developed to bring consistency and comparability to insurance contract accounting worldwide.

2. What is the transition date under IFRS 17 for most insurers adopting the standard in 2023?

   A. 31 December 2022

   B. 1 January 2022

   C. 1 January 2023

   D. 31 December 2023

✅ **Correct Answer: B-** The transition date is 1 January 2022, which is used to prepare comparative figures for the first year of IFRS 17 application.

3. Which of the following is not considered an insurance contract under IFRS 17?

   A. A health insurance policy

   B. A product warranty issued by a manufacturer

   C. A life insurance contract

   D. A reinsurance contract issued

✅ **Correct Answer: B-** Product warranties issued directly by manufacturers are generally within the scope of IAS 37, not IFRS 17.

4. Under IFRS 17, what characteristic must a contract have to be within scope?

A. Investment guarantees

B. Transfer of insurance risk

C. Premium collection

D. Asset management services

✅ **Correct Answer: B-** A contract must transfer insurance risk from the policyholder to the issuer to be within IFRS 17 scope.

5. Under what conditions might a contract that appears to transfer insurance risk be accounted for under IFRS 15 instead of IFRS 17?

A. When the contract includes a financial guarantee

B. When the issuer is not a licensed insurer

C. When compensation is provided through services, pricing is fixed, and risk depends on service use

D. When the contract involves pooling of investment returns

✅ **Correct Answer: C** – IFRS 15 may apply if the contract is service-based, pricing is not risk-adjusted, and benefits are delivered through services rather than cash, even if some insurance-like risk exists.

6. Which of the following would trigger the application of IFRS 17 to an investment contract?

A. It includes an embedded derivative

B. It carries no guaranteed benefits

C. It has discretionary participation features and is issued by an insurer

D. It is backed by financial instruments

✅ **Correct Answer: C**- Investment contracts with discretionary participation features fall under IFRS 17 only if issued by entities that also issue insurance contracts.

7. Which of the following would likely be excluded from IFRS 17 scope, even if issued by an insurer?

A. Group annuity

B. Property cover with risk pooling

C. Credit card insurance

D. Service contract with no significant insurance risk

✅ **Correct Answer: D**- A contract that does not transfer significant insurance risk is excluded, even if issued by an insurer.

8. Which contract is explicitly included in IFRS 17 scope?

A. Reinsurance contracts held

B. Employment benefits

C. Derivatives on mortality rates

D. Financial guarantee contract under IFRS 9

✅ **Correct Answer: A**- Reinsurance contracts held are clearly within the scope of IFRS 17, as they involve risk transfer between insurers.

9. What determines whether a contract qualifies as an insurance contract under IFRS 17?

A. Whether it's regulated by an insurance authority

B. The presence of an underwriting process

C. The existence of a pool of assets

D. Transfer of risk due to uncertain future insured events

✅ **Correct Answer: D**- The defining characteristic of an insurance contract under IFRS 17 is the transfer of insurance risk due to uncertain future events.

10. Which of the following scenarios would be clearly outside the scope of IFRS 17?

A. A reinsurer assuming risk from a direct insurer

B. A government grant for primary healthcare services

C. An insurer issuing a policy with both investment and insurance components

D. A life insurance company issuing participating contracts

✅ **Correct Answer: B** – Government grants for non-insurance services (like healthcare subsidies) do not meet the definition of an insurance contract under IFRS 17 and typically fall under **IAS 20** or **IPSAS** frameworks.

MODULE 2: COMBINATION AND SEPARATION OF INSURANCE CONTRACTS

Overview

Paragraphs 9 to 13 of IFRS 17 provide clear guidance on when insurance contracts should be combined or separated, ensuring that financial reporting reflects the economic substance of contractual arrangements rather than their legal form.

Key Areas Covered:

i) **Combination of Contracts**: Contracts must be combined when they are designed to achieve an overall commercial effect, such as when pricing is interdependent or one contract offsets the risk of another.

ii) **Pricing Dependencies**: The standard recognizes that interdependent pricing structures may indicate that multiple contracts should be treated as a single arrangement.

iii) **Separation of Components**: IFRS 17 requires insurers to identify and separate components within a contract that would fall under other IFRS standards if issued independently.

iv) **Cross-Standard Application**: The standard outlines how to apply **IFRS 9** and **IFRS 15** to specific components embedded within insurance contracts.

Related Standards

i) IFRS 9 – the financial reporting standard that governs the classification, measurement, and recognition of financial assets and liabilities.
ii) IFRS 15 – the financial reporting standard that provides a framework for recognizing revenue from contracts involving the transfer of goods or services.

Embedded Derivatives

Embedded derivatives within insurance contracts must be evaluated in accordance with IFRS 9 to determine whether they require separation. These are financial features embedded in the contract that modify cash flows based on external variables such as interest rates, equity prices, or inflation indices. While not standalone instruments, they are integral components of the insurance contract and may need to be accounted for separately if their economic characteristics are not closely related to the underlying insurance risk.

Investment Components and their Treatment Under IFRS 17 and IFRS 9

Under IFRS 17, an investment component embedded within an insurance contract must be assessed to determine whether it is distinct. If it meets the criteria for distinctness, it must be separated and accounted for under IFRS 9, unless it qualifies as a discretionary participation feature, in which case IFRS 17 applies.

What Is a Distinct Investment Component?

A component is considered distinct if:

- It is not highly interrelated with the insurance component of the contract, and
- A contract with similar terms could be sold separately in the same market.

In such cases, the contractual amount is payable to the policyholder even if the insured event does not occur for example, in savings or investment linked benefits. These cash flows are not contingent on an insured event, and thus fall under the scope of IFRS 9.

When Is an Investment Component Not Distinct?

An investment component is not distinct—and therefore remains within the scope of IFRS 17—when it is highly interrelated with the insurance component. This occurs when:

- The investment component cannot be separated from the insurance coverage without altering the terms of the contract
- The policyholder cannot benefit from the investment component independently of the insurance coverage
- The cash flows of the investment component are significantly influenced by the insurance component, making them not separately identifiable

In Summary

Condition	Treatment
Investment component is distinct and separable	Account under IFRS 9
Investment component qualifies as a discretionary participation feature	Account under IFRS 17
Investment component is not distinct (highly interrelated)	Remain within IFRS 17

Non-insurance Services

When an insurance contract includes additional services such as wellness subscriptions or health-related benefits, these must be assessed for separability under IFRS 17. If the services are distinct, meaning they can be provided independently of the insurance coverage, they must be accounted for under IFRS 15. This standard also governs the allocation of consideration between insurance and non-insurance components, ensuring that financial statements reflect the economic substance of the arrangement rather than its legal bundling.

How Pricing Dependencies Influence Contract Treatment Under IFRS 17

Under IFRS 17, the decision to combine or separate insurance contracts hinges on their economic interdependence and commercial intent. The presence or absence of pricing and risk dependencies plays a critical role in determining the appropriate accounting treatment.

When Contracts Should Be Combined

Contracts must be combined and treated as a single arrangement when they exhibit the following characteristics:

i. Interdependent Pricing: If multiple contracts are priced together or structured as a bundled package, they are considered economically linked and may require combined reporting.
ii. Risk Neutralization: When one contract offsets or eliminates the financial exposure of another, the contracts are viewed as interrelated and should be accounted for together.
iii. Unified Commercial Effect: Contracts designed to function collectively to achieve a specific financial or risk outcome must be reported as a single unit. This reflects the true economic substance of the arrangement rather than its legal form.

"Commercial effect" refers to the overall economic impact of a group of contracts that are structured to work in tandem.

When Contracts Should Be Separated

Contracts should be accounted for separately when the following conditions are met:

i. Independent Pricing: If each contract is priced on its own without reference to the others, they are considered distinct for reporting purposes.
ii. Standalone Risk Profiles: Contracts that carry separate and unrelated insurance risks should be treated independently.
iii. Unrelated Policyholder Benefits: If the contracts serve different purposes and do not interact financially or operationally, they should remain separate in financial reporting.

Components Requiring Separation Under IFRS 17

IFRS 17 mandates separation of the following components when they meet the criteria for distinctness and would otherwise fall under a different IFRS standard:

Component	Applicable Standard	Condition for Separation
Embedded Derivatives	IFRS 9	If not closely related to the insurance risk
Investment Components	IFRS 9	If distinct and not contingent on an insured event
Non-Insurance Services	IFRS 15	If they provide distinct goods or services that can be delivered independently

IFRS 4 vs IFRS 17

"The table below compares how IFRS 4 and IFRS 17 address the combination and separation of insurance contracts.

Aspect	IFRS 4	IFRS 17
Combination of Insurance Contracts	No explicit guidance; treatment based on local GAAP or regulatory practice	Requires combination if contracts are designed to achieve an overall commercial effect
Embedded Derivatives	Limited direction: separation permitted under IFRS 9 in some instances	Must be separated and accounted for under IFRS 9 if not closely related to insurance risk
Investment Components	Typically included within the insurance contract	Must be separated and reported under IFRS 9 if they are distinct and independently sellable
Non-Insurance Services	Commonly bundled within insurance contracts	Must be separated and accounted for under IFRS 15 if they represent distinct goods or services

Practice Questions

1) An insurance company issues two contracts simultaneously to the same policyholder. Contract X provides insurance coverage, while Contract Y fully offsets the financial risk associated with Contract X. Under IFRS 17, how should the insurer account for these contracts?

   A) Account for the contracts as a single arrangement due to their combined commercial substance

   B) Present each contract separately, treating them as distinct insurance arrangements

   C) Recognize only Contract X, as it represents the initial insurance obligation

   D) Apply IFRS 9 to both contracts and include them only in the financial disclosures

   Correct Answer: A – Since Contract Y nullifies the financial exposure of Contract X, the two together do not transfer significant insurance risk, which is a key criterion for IFRS 17 applicability. Therefore, they must be considered together to reflect their true economic substance, not just their legal form.

2) An insurer structures a package of interrelated insurance contracts for a corporate client. The package includes policies that provide coverage and others that hedge specific risks, with pricing designed to reflect their interdependence. Under IFRS 17, how should the insurer account for these bundled contracts?

   A) Assess and report each contract separately, regardless of their interrelated features

   B) Treat the bundled contracts as a single contract if they collectively represent a unified commercial arrangement

   C) Separate the contracts based solely on differences in contract duration

   D) Report each contract based strictly on its legal form, not its economic substance

   Correct Answer: B – IFRS 17 requires the insurer to consider the economic substance and account for the contracts as a single arrangement if they are structured to achieve a unified commercial purpose.

3) Which of the following situations would not require combining contracts under IFRS 17?

   A) Two insurance contracts issued at the same time to the same policyholder, with pricing structured to work together

   B) A reinsurance contract that fully offsets the risk of an insurance policy issued by the same insurer

   C) An insurance contract and a separate investment product sold independently with no pricing or risk interdependence

   D) A life insurance policy bundled with a rider that nullifies the main policy's coverage

   E) A life insurance contract and a rider that cancels all coverage in the main policy

   Correct Answer: C – Under IFRS 17 paragraph 9, contracts should be combined only if they are designed to achieve an overall commercial effect for example, when:

   - One contract negates the rights or obligations of another
   - The contracts are priced as a single risk
   - The lapse or maturity of one affects the other

   In Option C, the insurance and investment products are:

   - Sold separately
   - Not priced together
   - Not interdependent in risk or cash flows

   Therefore, they do not meet the criteria for combination under IFRS 17 and should be accounted for independently.

4) A life insurer offers a bundled product that includes both insurance coverage and an investment feature. The investment component is capable of generating returns independently and could be sold separately in the same market. How should this arrangement be treated under IFRS 17?

   A) Account for the entire package as a single insurance contract

   B) Apply IFRS 9 to the full contract since it includes an investment element

   C) Separate the investment component only if it exceeds 50% of the total premiums

   D) Separate the investment component if it is distinct and can be sold independently

   Correct Answer: D – According to IFRS 17 paragraph 11(b) and paragraphs B31–B32: An investment component must be separated from the insurance contract only if it is distinct. A component is distinct if:

   - It is not highly interrelated with the insurance component.
   - It could be sold separately in the same market or jurisdiction.

   In this case, since the investment feature:

   - Can exist independently of the insurance coverage, and
   - Could be sold separately under equivalent terms,

   it qualifies as a distinct investment component and must be accounted for under IFRS 9, not IFRS 17.

5) An insurer issues two separate policies to a corporate client—one covering property damage and the other covering business interruption losses tied to that property. The premiums are interdependent and structured as a bundled solution. How should the insurer account for these contracts under IFRS 17?

   A) Always report the contracts separately regardless of structure

B) Combine the contracts if their pricing is interdependent and they form a unified risk solution

C) Account for both contracts under IFRS 9 due to their financial nature

D) Combine the contracts only if the policyholder explicitly requests it

Correct Answer: B – According to IFRS 17 paragraph B24, contracts should be combined when:

- They are issued to the same or related counterparty,
- They are designed to achieve an overall commercial effect, and
- Their pricing or risk structure is interdependent.

In this case:

- The property damage and business interruption policies are linked in purpose and pricing.
- The business interruption coverage depends on the occurrence of property damage, making them economically interrelated.

Therefore, the insurer should combine the contracts to reflect their substantive commercial reality, not just their legal form.

6) An insurance contract includes an embedded derivative that modifies cash flows based on a financial index. According to IFRS 17, how should this embedded derivative be treated?

A) It must always remain part of the insurance contract

B) It should be ignored unless the insurer requests separation

C) It must be reported only in the contract disclosures

D) It must be separated and accounted for under IFRS 9 if required

Correct Answer: D – According to IFRS 17 paragraph 11(a) and IFRS 9 section 4.3.3, an embedded derivative must be separated from the host insurance contract and accounted for under IFRS 9 if:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host insurance contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The host contract is not measured at fair value through profit or loss.

In this case, since the embedded feature alters cash flows based on a financial index, it likely introduces financial risk unrelated to insurance risk and therefore must be separated if the above criteria are met.

7) An insurer issues a contract that includes both insurance coverage and an investment feature. The investment component is capable of being sold independently in the same market. How should the investment component be treated under IFRS 17?

A) It should remain embedded in the insurance contract

B) It should be accounted for under IFRS 15

C) It must be separated only if it is distinct

D) It should be reported only if the policyholder requests separate treatment

Correct Answer: C – According to IFRS 17 paragraph 11(b): "An entity shall separate from a host insurance contract an investment component if, and only if, that investment component is distinct."

An investment component is distinct if:

- It is not highly interrelated with the insurance component, and
- It could be sold separately in the same market or jurisdiction (IFRS 17 B31–B32).

In this scenario, since the investment feature:

- Can exist independently, and
- Could be sold separately,

Therefore, it qualifies as a distinct investment component and must be separated and accounted for under IFRS 9.

8) An insurer offers a health insurance policy that also includes access to wellness services such as gym memberships and nutritional consultations. These services are provided as an add-on to the insurance coverage. Under IFRS 17, how should the insurer account for the wellness component?

A) Include it within the insurance contract and account for it under IFRS 17

B) Separate it and apply IFRS 15 if it qualifies as a distinct non-insurance service

C) Reclassify it as an investment component and apply IFRS 9

D) Only disclose it in the notes to the financial statements without separate recognition

Correct Answer: B – According to IFRS 17 paragraph 12, if a contract includes a promise to deliver non-insurance goods or services, such as wellness programs, the insurer must:

- Separate the component if it is distinct, and
- Account for it under IFRS 15 (Revenue from Contracts with Customers).

A component is considered distinct if:

- The policyholder can benefit from it on its own or with other readily available resources, and
- It is not highly interrelated with the insurance coverage.

In this case, wellness services like gym access and nutrition consultations are non-insurance services and may be distinct especially if they are also sold separately in the market.

MODULE 3: LEVEL OF AGGREGATION

Module Objective

This module introduces the principles behind how insurance contracts are grouped for measurement and reporting purposes in accordance with IFRS 17.

What is Aggregation in IFRS 17?

In IFRS 17, aggregation involves organizing insurance contracts that exhibit similar risk profiles and are managed collectively. This structure supports appropriate timing of profit recognition and early identification of losses

Under IFRS 17, aggregation refers to the grouping of insurance contracts that share similar risks and are managed together. This helps ensure accurate loss recognition and profit timing in financial reporting

The grouping of these contracts follows the process below:

Step 1: Establishing Portfolios

Contracts must first be allocated into portfolios. A portfolio consists of contracts that:
a) Share common features – e.g., health insurance, life products
b) Are overseen under the same management or operational strategy

Step 2: Subdivision of Portfolios

Subdivision of Portfolios into Groups

No.	Group	Explanation
1	Onerous Contracts at Initial Recognition	contracts expected to incur a loss from inception
2	Contracts with no minimal risk of becoming onerous	contracts projected to generate a profit or break even
3	Other Contracts ('Resilient')	not considered onerous immediately but may carry some risk

Step 3: Creation of Annual Cohorts

Once contracts have been grouped based on profitability, contracts must further be divided based on the year they are issued.
All contracts issued within a calendar year must form a distinct cohort. Contracts from different years cannot be grouped together.

Use of Premium Allocation Approach (PAA)

When applying the PAA, it is generally assumed that contracts are not onerous at initial recognition unless evidence suggests otherwise.

Insurers must regularly reassess these assumptions and evaluate whether changing circumstances or risks could make contracts onerous over time.

Contracts Outside the Premium Allocation Approach

For contracts not using the PAA, even those not considered onerous at initial recognition must be assessed for the risk of becoming onerous. This should be based on:

a) Possible changes in assumptions that could lead to a loss
b) Information derived from the entity's internal reporting systems.

Consistency and Grouping Duration

Contracts issued more than 12 months apart must not be included in the same group.

Once contracts are grouped at initial recognition, the composition of the group is fixed and cannot be changed later.

Practice Questions

1. What is the primary objective of aggregation under IFRS 17?

    A) Maximize premium income

    B) Organize insurance contracts for taxation purposes

    C) Group contracts with similar risk profiles for financial reporting

    D) Simplify customer service operations

Correct Answer: C

Explanation: IFRS 17 aggregation aims to group contracts with similar risks to ensure accurate loss recognition and profit timing.

2. According to IFRS 17, contracts in a portfolio must:

    A) Share common features and be under the same management strategy

    B) Have similar geographical locations

    C) Be managed by the same investor

    D) Be issued by the same insurance agent

Correct Answer: A

Explanation: Portfolios include contracts with similar features and managed under the same operational strategy.

3. How are insurance contracts first grouped under IFRS 17?

    A) By insurer location

    B) Into portfolios

    C) By premium size

    D) By policyholder's age

Correct Answer: B

Explanation: The first step in grouping under IFRS 17 is establishing portfolios.

4. What is the purpose of creating annual cohorts?

    A) Divide grouped contracts based on the year they were issued

    B) Simplify reinsurance procedures

    C) Classify contracts by region

    D) Separate high-risk and low-risk contracts

Correct Answer: A

Explanation: Annual cohorts ensure that contracts from different years are not grouped together.

5. Contracts issued in the same calendar year:

   A) Must be grouped in one portfolio

   B) Form a distinct cohort

   C) Must be re-evaluated monthly

   D) Cannot be grouped under IFRS 17

Correct Answer: B

Explanation: Contracts from the same year form a distinct annual cohort..

6. What assumption is made when applying the Premium Allocation Approach (PAA)?

   A) Contracts are always onerous

   B) All contracts are short-term

   C) Contracts must be reinsured

   D) Contracts are not onerous at initial recognition

Correct Answer: D

Explanation: PAA assumes non-onerous contracts unless evidence suggests otherwise.

7. What must be assessed for contracts outside the PAA?

   A) Tax compliance

   B) Policyholder credit score

   C) Risk of becoming onerous

   D) Employee performance

Correct Answer: C

Explanation: Contracts outside the PAA need to be evaluated for the risk of becoming onerous..

8. What could trigger a contract to be considered onerous later?

   A) Change in marketing team

   B) Changes in assumptions leading to losses

   C) Policyholder complaints

   D) Reduced customer engagement

Correct Answer: B

Explanation: New assumptions that indicate losses may lead to reclassification as onerous,

9. Which of the following supports assessment of onerous contracts?

   A) Customer feedback surveys

   B) Competitor sales reports

   C) Social media data

   D) Internal reporting systems

Correct Answer: D

Explanation: Internal systems provide data used to assess the risk of contracts becoming onerous.

10. What is stated about grouping duration under IFRS 17?

    A) Contracts can be grouped at any time

    B) Contracts from different years can be combined

    C) Contracts issued over 12 months apart must not be in the same group

    D) Contracts should be grouped every quarter

Correct Answer: C

Explanation: Contracts issued more than 12 months apart cannot be grouped together.

MODULE 4: RECOGNITION

Module Objective

This module explains how insurance contracts are initially recognized under IFRS 17, specifically referring to the guidance found in paragraphs 25 to 28.

The module outlines the timing, criteria, and related considerations that insurers must follow when bringing groups of contracts onto the financial statements.

Recognition in IFRS 17

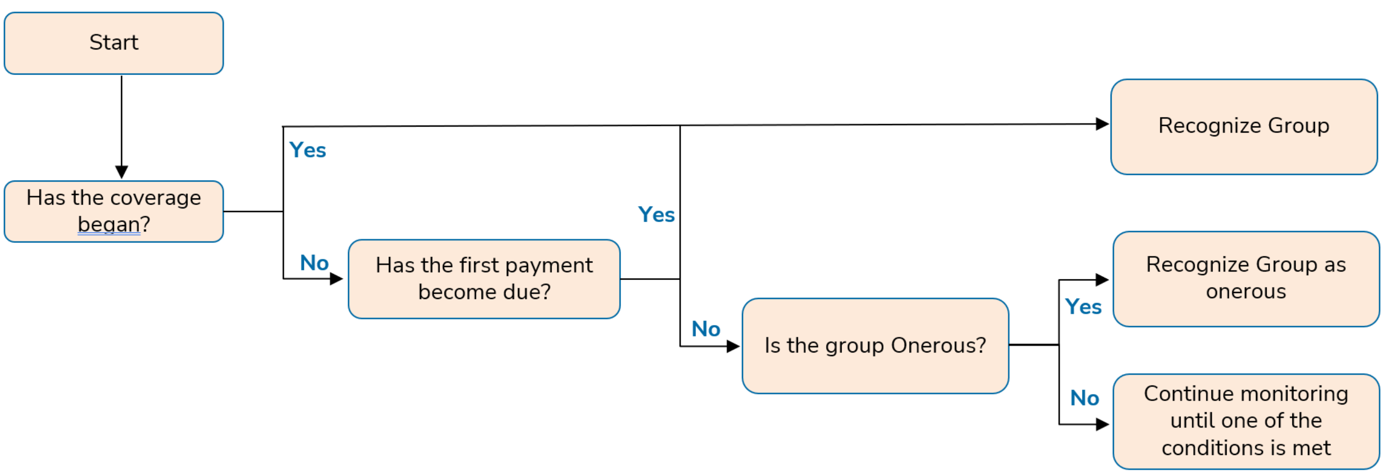
IFRS 17 establishes clear rules for when and how insurance contracts should be recognized. The goal is to provide a reliable representation of financial performance, particularly in relation to insurance risk and the cost of acquiring contracts.

Below is a summary of the key recognition principles, including when and how a group of contracts should be accounted for.

1. Initial Recognition

A group of insurance contracts must be recognized on the earliest of the following three events:

- The beginning of the coverage period for any contract in the group
- The date when the first payment from a policyholder becomes due
- When the group becomes onerous (i.e., expected to generate a loss), if this occurs before the other two events



This ensures timely reporting, particularly when contracts start to impact the entity's financial position.

2. Assessing Onerous Contracts before recognition

Before officially recognizing a group, insurers are required to check whether any contracts within the group are onerous.

This assessment must be performed before the earlier of:

- The start date of the coverage period, or
- The due date of the first premium payment.

Any contract expected to result in a loss at inception must be identified as onerous and recognized immediately.

This early recognition ensures that losses are reported promptly, preventing their deferral to future reporting periods.

3. Insurance Acquisition Cash Flows (IACFs)

Insurance acquisition cash flows refer to the costs associated with acquiring insurance contracts — such as commissions to brokers or agents.

When these acquisition costs are paid or received before the group of contracts is formally recognized, they are initially recorded as an asset or liability, depending on the nature of the cash flow.

These amounts are only temporary on the balance sheet and are to be reclassified once the group is recognized.

Once they are recognized, the acquisition costs are added to the group's measurement as part of the fulfilment cash flows, and the initial asset or liability is derecognized.

This approach ensures that acquisition costs are properly matched to the group of contracts they relate to.

4. Contracts included in a group

Only contracts that are issued on or before the reporting date can be included in a recognized group.

When recognizing the group, entities must also:

a) Determine the discount rate that will be applied to adjust expected future cash flows to present value
b) Estimate the pattern of insurance service delivery, so that revenue can be appropriately allocated over the coverage period

Although contracts issued after the reporting date cannot be included retroactively, they may be added in a future period, but only in the period they are actually issued.

If this occurs, the insurer must:

a) Reassess and update the discount rate used,
b) Apply the revised rate retrospectively from the start of the reporting period in which the new contracts are added.

Practice Questions

1. When must a group of insurance contracts be recognized at the latest?

   A) When the group becomes onerous, if earlier than other conditions

   B) When the financial statements are finalized

   C) After the coverage period ends

   D) At the insurer's discretion

Correct Answer: A

Explanation: Recognition occurs at the earliest of (i) start of coverage period, (ii) first payment due date, or (iii) when the group becomes onerous.

2. Which is not one of the conditions triggering initial recognition of a group of contracts?

   A) Beginning of coverage period

   B) First premium payment due

   C) End of coverage period

   D) When the group is onerous

Correct Answer: C

Explanation: Initial recognition happens before or at the start of the coverage period, not after it ends.

3. What happens if a contract is identified as onerous at inception?

   A) Recognition can be delayed

   B) It must be recognized immediately

   C) The contract is canceled

   D) No special accounting is needed

Correct Answer: B

Explanation: Onerous contracts must be recognized immediately to avoid deferring losses.

4. What are Insurance Acquisition Cash Flows (IACFs)?

   A) Costs of acquiring insurance contracts, e.g., commissions

   B) Premiums paid by policyholders

   C) Future claim payments

D) Reinsurance recoveries

Correct Answer: A

Explanation: IACFs cover acquisition costs like broker commissions

5. How are IACFs treated before group recognition?

   A) Expensed immediately

   B) Ignored until contract matures

   C) Added to premiums

   D) Recorded as asset or liability

Correct Answer: D

Explanation: They are temporarily recorded as assets or liabilities until group recognition..

6. What happens to IACFs once the group is recognized?

   A) They remain on the balance sheet

   B) They are derecognized and included in fulfilment cash flows

   C) They are converted to revenue

   D) They are written off

Correct Answer: B

Explanation: On recognition, IACFs become part of the fulfilment cash flows.

7. Which contracts can be included in a group for reporting purposes?

   A) Only those issued after the reporting date

   B) All contracts, regardless of issuance date

   C) Only those issued before or on the reporting date

   D) Only those with premiums already received

Correct Answer: C

Explanation: Only contracts issued up to the reporting date can be included.

8. Why is the discount rate important in recognition?

   A) It determines the insurer's profit

   B) It calculates taxes

C) It sets premium levels

D) It adjusts expected cash flows to present value

Correct Answer: D

Explanation: The discount rate ensures future cash flows are stated at present value.

9. If contracts are issued after the reporting date, when are they added to a group?

   A) Only in the period they are issued

   B) Retroactively to the prior period

   C) When premiums are fully paid

   D) At the insurer's discretion

Correct Answer: A

Explanation: New contracts can only be added in the period they are issued.

10. What must happen if new contracts are added to a group after reporting?

   A) Recognize them as separate contracts

   B) No changes required

   C) Reassess discount rate and apply retrospectively from start of period

   D) Ignore the change

Correct Answer: C

Explanation: Discount rate must be updated and applied from the start of period.

MODULE 5: MEASUREMENT ON INITIAL RECOGNITION

Module Objective

This module introduces the principles for identifying and valuing insurance contracts upon initial recognition, based on **IFRS 17 (Paragraphs 32–52)**.

It explains how entities should determine the initial liability or asset for a group of insurance contracts using either the General Measurement Model (GMM) or the Premium Allocation Approach (PAA), depending on the nature of the contract.

Recognition Criteria

An insurance contract is recognized at the earliest of the following:

a) The beginning of the coverage period;

b) When the first premium becomes due; or

c) When it is determined that a group of contracts will be onerous.

Measurement Approaches Overview

General Measurement Model(GMM)

- Standard model for long-duration contracts
- Based on FCF, discounting, Risk Adjustment, and Contractual Service Margin

Premium Allocation Approach (PAA)

- Optional for short-duration contracts
- Simplified model; no exlpicit CSM required

Variable Fee Approach (VFA)

- For participating contracts with asset links
- CSM is sensitive to changes in asset-based fees

Components of Measurement at Initial Recognition

General Measurement Model (GMM)

Under the General Measurement Model (GMM), the initial measurement of a group of insurance contracts is the sum of:

I. Fulfilment Cash Flows (FCF)

a) Future Cash Flows-Projections of inflows (premiums) and outflows (claims, benefits, and expenses)

b) Discounting- Adjustment to reflect the time value of money and financial risks.

c) Risk Adjustment- Adjustment for uncertainties in non-financial assumptions (e.g., lapse rates)

II. Contractual Service Margin (CSM)

a) Represents the unearned profit that the entity will recognize as it provides insurance contract services over the duration of the contract.

b) It ensures that **no day-one gain** is recognized in profit or loss.

c) If the cash fulfilment flows result in a **net cost** (i.e., a loss), the group of contracts is considered **onerous,** and the loss is recognized immediately in profit or loss. No CSM is recognized in such cases.

d) CSM= Present value of expected inflows – (present value of expected outflows + risk adjustment).

e) If the resulting value is negative, the contract is considered **onerous,** and a loss is immediately recognized in profit or loss.

Illustration:

i. Expected premiums: BWP 3,000

ii. Expected claims & expenses: BWP 2,100

iii. Risk Adjustment: BWP 150

iv. Discounting impact: BWP 250

Calculation:

i. Fulfilment Cash Flows (FCF)= BWP 3,000 – BWP 2,100 – BWP 250 – BWP 150 = **BWP 500**

ii. **CSM= BWP 500** which is to be released over the coverage period.

Treatment of Onerous Contracts

When the total of expected cash outflows and the risk adjustment exceeds the expected cash inflows, the contract is deemed onerous.

a) In such cases, no Contractual Service Margin (CSM) is recognized, since the CSM cannot be negative.

b) Instead, a loss component is recognized to reflect the immediate financial loss.

c) This loss is immediately recorded in the profit or loss statement

Illustration:

i. Expected future cash inflows (Premiums): BWP 9,000

ii. Expected future cash outflows (Claims and expenses): BWP 10,000

iii. Risk Adjustment for non-financial risk: BWP 500

iv. Effect of discounting: BWP (200)

v. Acquisition costs: BWP 300

Calculation:

i. FCF=Expected outflows + Risk Adjustment + Discounting Adjustment= 10,000+500-200= **BWP 10,300**

ii. Since the fulfilment cash flows (liability) of BWP 10,300 exceed the expected premiums (inflows) of BWP 10,300, this group is **onerous.**

iii. Onerous Loss = 10,300 -9,000 = BWP 1,300

iv. The entity recognizes a **loss of BWP 1,300** immediately in the profit or loss.

v. No Contractual Service Margin (CSM) is recognized.

vi. The initial liability for the group of contracts is BWP 10,300

Premium Allocation Approach (PAA)

According to paragraph 53 of the standard, the Premium Allocation Approach (PAA) is intended for insurance contracts with a coverage period of one year or less, or in cases where it can be shown that applying the PAA would produce results that are not materially different from those under the General Measurement Model (GMM).

At initial recognition:

a) The liability is measured as: premiums received (or due) less insurance acquisition cash flows

b) Acquisition costs are treated based on the entity's accounting policy, they may either be deferred or expensed immediately in Profit and Loss.

KEY TAKEAWAYS

a) A group of insurance contracts must be recognized at the earliest of:

   I. The start of the coverage period

   II. The due date of the first premium

   III. The date the group becomes onerous

b) Initial Measurement includes expected future cash flows, discounting for time value of money, risk adjustment, unallocated loss adjustment expenses (ULAE), and a CSM (under the GMM).

c) CSM plays a key role in ensuring that profits are deferred and recognized only as insurance services are provided. Adjustments to CSM are made only for changes relating to future service.

d) Onerous contracts lead to an immediate recognition of loss, with no CSM created.

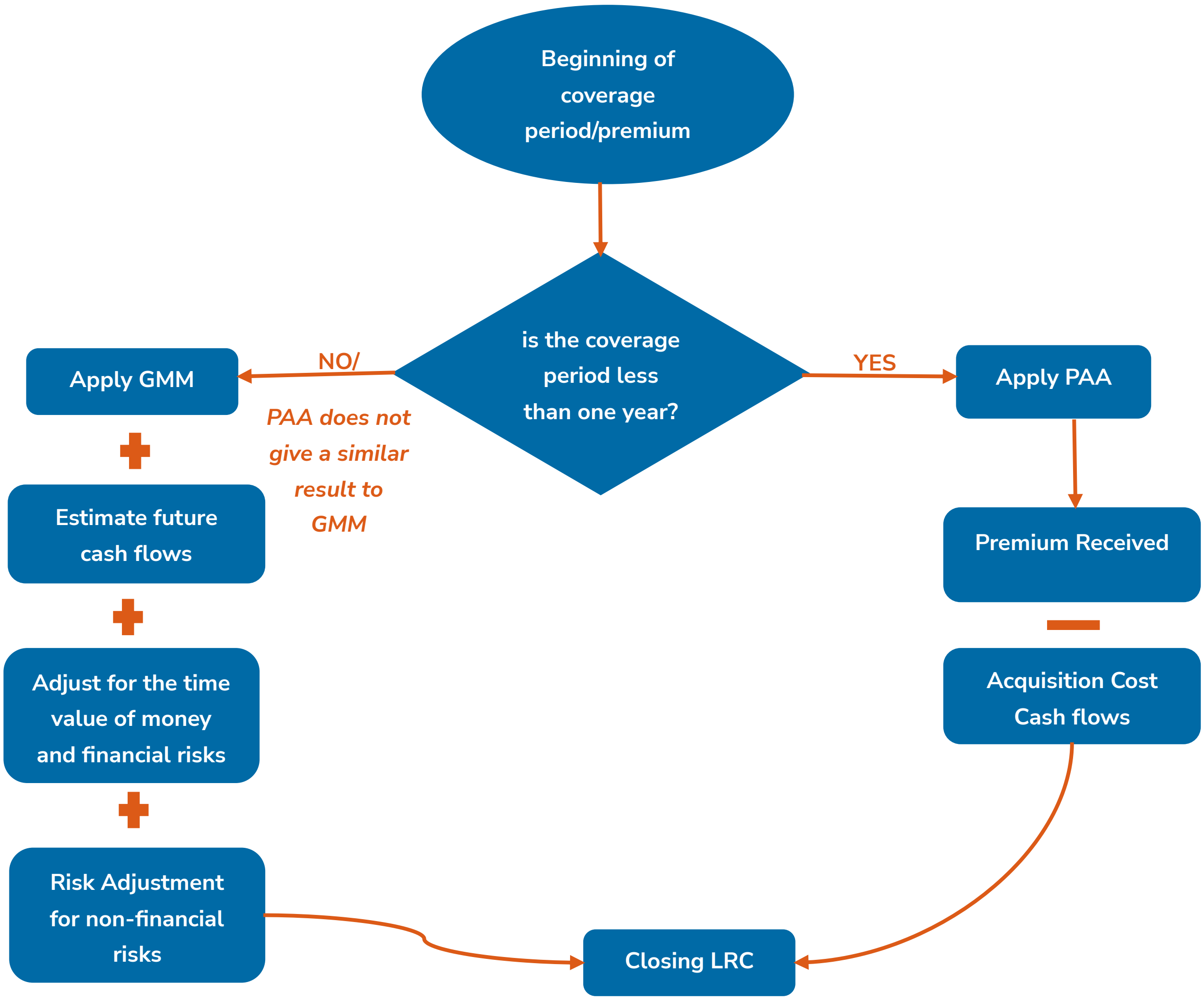
e) Choosing between GMM and PAA depends on the duration of the insurance contracts and whether the PAA yields results that are not materially different from GMM.

f) Acquisition costs are treated differently depending on the model:

   I. Under GMM and VFA, they are included in the fulfilment cash flows.

   II. Under PAA, they may either be deferred or immediately expensed, based on the entity's accounting policy.

Summary of Measurement of Liability for Remaining Coverage at Initial Recognition



**LRC – Liability for Remaining Coverage*
**PAA- Premium Allocation Approach*
**GMM- General Measurement Model*

Practice Questions

1. Under IFRS 17, the fulfilment cash flows represent the building blocks for measuring insurance contract liabilities. These flows must include all expected cash flows that are directly attributable to fulfilling the insurance contract. Which of the following would **NOT** be included as part of the fulfilment cash flows when measuring an insurance contract liability?

A. Probabilistic estimates of future premiums, claims, and benefits expected under the contract terms
B. The discount rate applied to reflect the time value of money and financial risks not accounted for elsewhere
C. A risk adjustment reflecting the compensation the entity requires for bearing non-financial uncertainty in cash flows
D. A commission-based staff bonus pool linked to overall company sales targets for the year

Correct Answer: D

Explanation: The commission bonus pool tied to general sales targets is not considered a component of fulfilment cash flows under IFRS 17. Only cash flows that are **directly attributable to the insurance contract** are included. These include expected premiums and claims, acquisition cash flows that are incremental and directly related to contract issuance, risk adjustment, and discounting. Staff bonuses based on company-wide performance do not meet this criterion and are treated as administrative overhead.

2. Which of the following cash flows should be included when measuring an insurance contract at the point of initial recognition?

A. Expected future premiums and claims
B. Only historical claim amounts
C. Cash flows arising from investment income
D. Marketing expenses

Correct Answer: A

Explanation: At initial recognition, fulfilment cash flows should include expected future premiums and claim payments that are directly related to the insurance contract. These are essential for determining the contract's liability. Marketing expenses, investment income, and past claims not related to future obligations are excluded

3. What action does IFRS 17 require if the fulfilment cash flows result in a negative amount?

A. Postpone recognition of the shortfall
B. Immediately record a loss
C. Establish a Contractual Service Margin (CSM)
D. Adjust the asset balance downward

Correct Answer: B

Explanation: A negative fulfilment cash flow indicates that the contract is onerous. In such cases, IFRS 17 requires the loss to be recognized immediately in the profit or loss statement, as the CSM cannot be negative.

4. How does IFRS 17 require entities to account for a gain that arises on the initial recognition of an insurance contract (commonly referred to as a Day-1 gain)?

A. Recognized immediately in the statement of profit or loss
B. Recorded in Other Comprehensive Income (OCI)
C. Deferred as part of the Contractual Service Margin (CSM) and released over time
D. Credited directly to retained earnings in equity

Correct Answer: C

Explanation: Under IFRS 17, any gain identified at the initial recognition of an insurance contract (when the total expected inflows exceed fulfilment cash outflows) is not recognized immediately as income. Instead, it is deferred through the Contractual Service Margin (CSM). The CSM represents unearned profit and is systematically recognized in profit or loss as the insurer provides services over the coverage period. This ensures revenue aligns with the transfer of insurance risk to the policyholder, enhancing comparability and preventing front-loading of profits.

5. What is the main reason for applying discounting to future cash flows under IFRS 17?
A. To inflate the value of liabilities
B. To account for the time value of money
C. To minimize fluctuations in financial reporting
D. To meet IFRS 9 requirements

Correct Answer: B

Explanation: Discounting adjusts future cash flows to their present value, ensuring they accurately reflect the time value of money, which is a key principle in the measurement of insurance contract liabilities under IFRS 17

6. Under IFRS 17, how is the discount rate determined for valuing insurance contract liabilities at the point of initial recognition?
A. Based on a zero-coupon government bond rate only
B. It is locked in at the date the insurance contract is initially recognized and used consistently for related measurements
C. Based on an average of short-term and long-term market rates
D. Derived from the central bank's prime lending rate at year-end

Correct Answer: B

Explanation: IFRS 17 requires the use of a discount rate that reflects the characteristics of the liability (such as currency, duration, and liquidity) and is fixed at the date of initial recognition. This locked-in rate is crucial for discounting fulfilment cash flows and is also applied in calculating interest accretion on the Contractual Service Margin (CSM). Although financial market conditions may change later, the initial rate remains constant for unwinding the CSM over the contract's coverage period.

7. Which of the following costs is excluded from the initial measurement of insurance contract liabilities under IFRS 17?
A. Acquisition expenses that are directly linked to the contract
B. Anticipated claims and benefits
C. Overhead and general administrative expenses
D. Adjustment for non-financial risk

Correct Answer: C

Explanation: Indirect administrative costs, such as general overheads, are not included in the initial measurement. Only costs that are directly attributable to the issuance of insurance contracts, like acquisition costs and expected claims, are considered part of the fulfilment cash flows

8. What is the result when the FCF = BWP 1,000 and outflows (including risk and acquisition) = BWP 750?
A. CSM = BWP 250
B. CSM = BWP 1,000
C. Immediate loss of BWP 750
D. No CSM, contract is onerous

Correct Answer: A

Explanation: CSM = BWP 1,000 – BWP 750 = BWP 250.

9. An insurer writes short-term travel insurance contracts lasting six months. Given the nature and duration of the coverage, the company elects to apply the Premium Allocation Approach (PAA). During measurement, the actuary notes that no Contractual Service Margin (CSM) is recorded. Why is this acceptable under IFRS 17?
A. Because CSM only applies to long-term health policies
B. Because the PAA does not require explicit CSM recognition for non-onerous short-term contracts
C. Because all insurance contracts under IFRS 17 are measured without CSM
D. Because travel insurance is exempt from IFRS 17 requirements

Correct Answer: B

Explanation: Under the PAA, which is a simplified approach suited for short-duration contracts, the CSM is typically not recognized unless the group of contracts is onerous. This is aligned with IFRS 17's intent to reduce complexity where detailed modeling under the GMM is unnecessary.

10. An insurer issues a one-year motor insurance contract with no significant financing component. The insurer is considering whether to use the Premium Allocation Approach (PAA) or the General Measurement Model (GMM). Analysis shows that using PAA yields very similar liability estimates to GMM. What justifies using the PAA in this case?

A. PAA always leads to a higher CSM.
B. The contract includes profit-sharing features
C. The measurement outcome under PAA is not materially different from GMM
D. PAA automatically excludes all acquisition costs

Correct Answer: C

Explanation: The PAA can be applied when the measurement of liabilities is not materially different from the GMM. This simplification is commonly used for short-duration contracts, such as one-year motor insurance, provided it meets eligibility criteria (e.g., no significant financing component).

MODULE 6: SUBSEQUENT MEASUREMENT

Module Objective

This module outlines the requirements for subsequent measurement of insurance contracts, as detailed in **paragraphs 40–52 of IFRS 17**.

It explains how insurers revise the carrying amount of insurance contracts over time, including updates to fulfilment cash flows, changes to the Contractual Service Margin (CSM), and the recognition of insurance-related revenue and expenses

Overview of Subsequent Measurement

After initial recognition, insurance contract liabilities must be updated to reflect:

i. Changes in estimates of future cash flows;

ii. Release of CSM based on coverage units

iii. Changes in discount rates;

iv. Claims incurred and paid.

v. Experience adjustments and risk changes

vi. Amortization of insurance acquisition cash flows

Liability for Remaining Coverage (LRC)

The LRC reflects the insurer's obligation to provide coverage in the future. At each reporting date, it is updated for:

a) **Premiums received**

b) **Release of CSM** as services are rendered

c) **Changes in fulfilment cash flows** relating to future service

d) **Adjustments to risk adjustment**

Note*: The CSM is adjusted only for changes that relate to future service.*

General Measurement Model (GMM)

The General Measurement Model (GMM) and the Variable Fee Approach (VFA) both determine insurance contract liabilities using fulfilment cash flows and a Contractual Service Margin (CSM). However, the VFA is specifically designed for contracts with direct participation features and modifies the CSM to capture changes in the insurer's share of the underlying items

The LRC will be adjusted as follows:

a) Opening LRC balance: Starting point for the period.

b) Changes due to claims and expenses

c) Time value of money and financial risks:

d) Risk adjustment for non-financial risk

e) Contractual Service Margin (CSM)

f) Loss Component: Optional adjustments for losses in the loss component.

Adjusting the Contractual Service Margin (CSM)

The CSM is adjusted for:

a) Changes in fulfilment cash flows related to future service

b) Accretion of interest using the locked-in rate

c) Release to profit or loss based on the coverage units

It is **not adjusted** for:

a) Changes related to past or current service

b) Experience variances from prior periods

Illustration:

a) Opening CSM: BWP 200,000

b) Interest accretion: BWP 8,000

c) Adjustment from change in future cash flows: BWP –25,000

d) Release based on service provided: BWP 30,000

Calculation:

a) Adjusted CSM = BWP 200,000 + BWP 8,000 – BWP 25,000 – BWP 30,000 = **BWP 153,000**

b) If the adjustments for changes in expected future cash flows related to future coverage exceed the available CSM (after accounting for interest accretion), the excess is treated as a **loss** and is immediately recognized in the **Profit or Loss statement**.

Treatment of Onerous contracts

Under IFRS 17, a contract becomes onerous when the updated fulfilment cash flows (FCF) exceed the carrying amount of the Liability.

a) In subsequent measurement, an entity must:

   i. Reduce the CSM to zero if it is insufficient to absorb unfavorable changes in future cash flows.

   ii. Recognize the excess as a loss in the profit or loss statement

iii. Establish or increase the loss component of the Liability for Remaining Coverage (LRC).

b) The Loss component ensures that future revenue is correctly allocated and tracked against the loss already recognized.

c) Once a group of contracts is classified as **onerous,** this classification remains fixed even if the future estimates improve.

d) If the expected cash flows improve in subsequent periods:

i. No new CSM is created

ii. The Loss component is reversed through profit or loss to reflect the improvement

Premium Allocation Approach (PAA)

For contracts measured under the PAA, an entity shall measure the Liability for Remaining Coverage at the end of each subsequent reporting period as follows:

a) Opening LRC balance

b) Add: Premium Received in the period

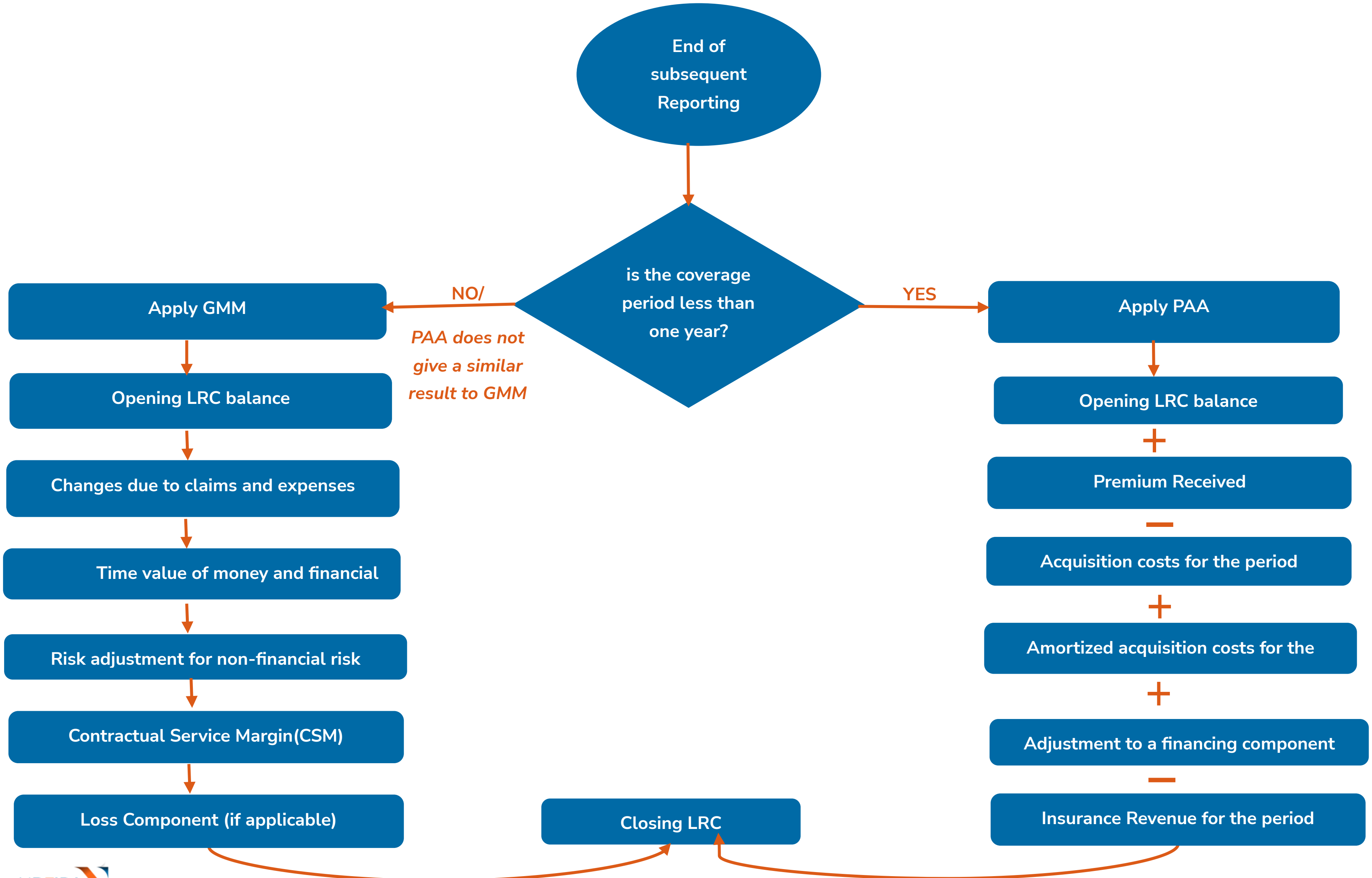
c) Less: Insurance acquisition cash flows

d) Add: any amounts relating to the amortization of insurance acquisition cash flows recognised as an expense in the reporting period.

e) Add: any adjustment to a financing component

f) Less: Insurance Revenue recognised for coverage provided during the period

Subsequent measurement for Liability for Remaining Coverage



Liability for Incurred Claims (LIC)

The LIC reflects the insurer's obligation for claims arising from past coverage that have been incurred but not yet paid. Updates to LIC include:

a) Claims incurred

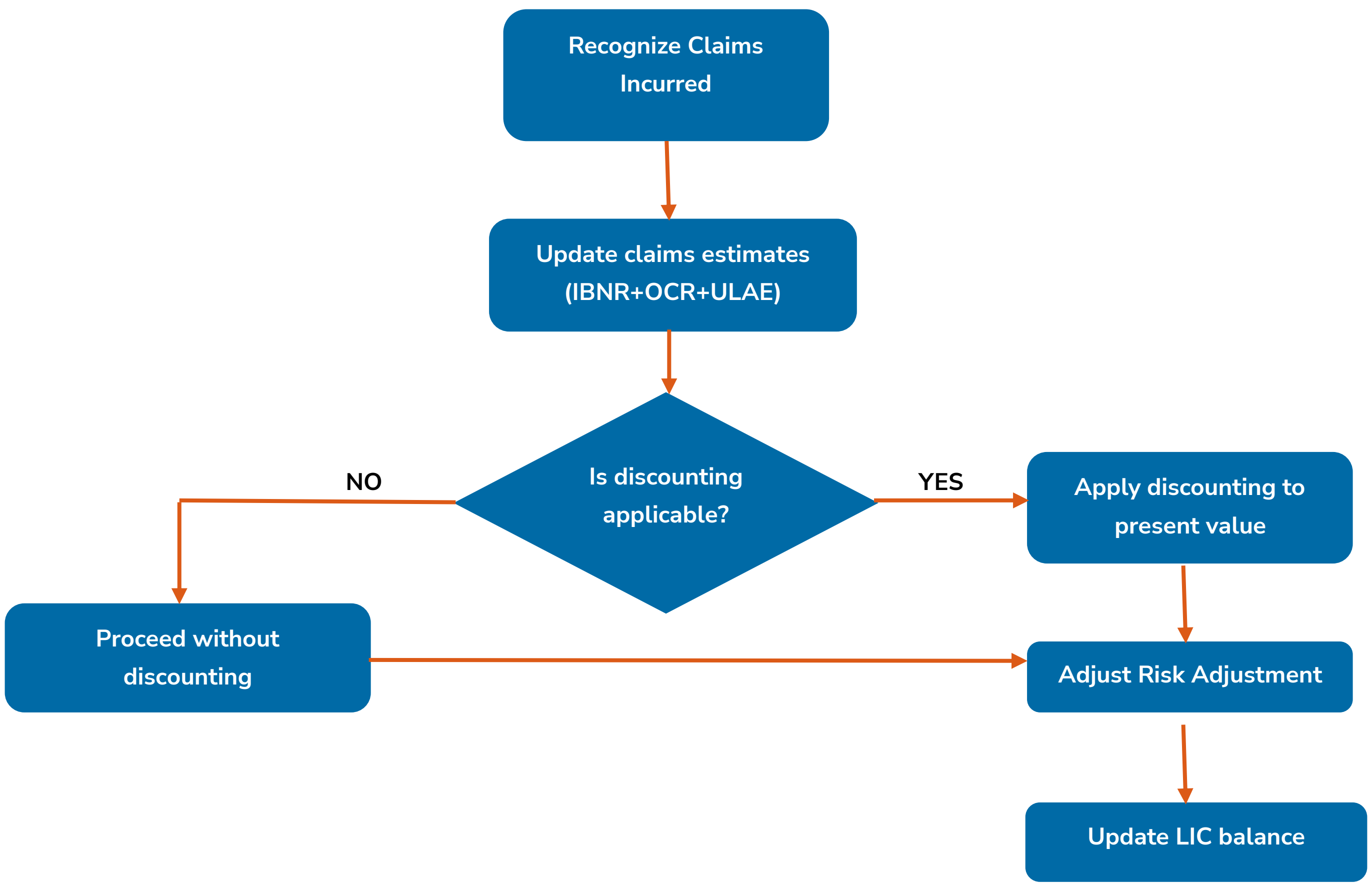
b) Changes in estimates for reported and unreported claims (e.g., IBNR, OCR)

c) Application of discounting if payment is expected more than 12 months after the reporting date

d) Risk adjustment for non-financial risk

e) Unallocated Loss Adjustment Expenses (ULAE): These are internal costs (not directly linked to individual claims but expected to be incurred in settling claims. ULAE must be estimated, included in the fulfilment cash flows, and discounted if appropriate

Subsequent measurement for Liability for Incurred Claims



KEY TAKEWAYS

a) Subsequent measurement ensures that insurance liabilities reflect up-to-date expectations regarding future services and obligations already incurred.

b) The Liability for Remaining Coverage (LRC) and the Liability for Incurred Claims (LIC) are regularly updated as new data and experience emerge.

c) The Contractual Service Margin (CSM) is essential for deferring and allocating profit recognition over the duration of insurance coverage.

d) Ongoing assessments are performed to identify onerous contracts, which can shift between profitable and loss-making over time; however, their classification remains fixed from initial recognition.

e) Unallocated Loss Adjustment Expenses (ULAE) must be included in fulfilment cash flows for both claims incurred and the LRC, as they are part of the expected claim-related outflows and should be estimated using robust actuarial methods.

Practice Questions

1. An insurer initially recognized a group of health insurance contracts with projected cash outflows of BWP 1,200. Six months later, actual claims experience and revised assumptions suggest the outflows will increase to BWP 1,350. What IFRS 17 process does this update represent?

A. Premium verification

B. Subsequent measurement of insurance liabilities

C. Recognition of new contracts

D. Adjustment of reinsurance assets

Correct Answer: B

Explanation: This situation illustrates subsequent measurement under IFRS 17. The insurer is required to revise the value of the insurance liabilities to reflect updated assumptions and experience, ensuring the reported liability remains current and accurate.

2. A Botswana-based insurer issues a 3-year agricultural insurance contract. Based on expected seasonal risk patterns, the insurer determines that 50% of insurance services will be provided in year 1, 30% in year 2, and 20% in year 3. The Contractual Service Margin (CSM) at initial recognition is BWP 6,000. Assuming no changes in estimates or modifications, how much CSM revenue should be recognized each year?

A. BWP 3,000 in year 1, BWP 1,800 in year 2, BWP 1,200 in year 3

B. BWP 2,000 per year for 3 years

C. BWP 6,000 immediately at inception

D. No CSM revenue is recognized under IFRS 17

Correct Answer: A

Explanation: The CSM is released to profit or loss based on the coverage units provided in each period. If services are not provided evenly, the release must reflect the relative value of coverage. Here, the release reflects 50%, 30%, and 20% of BWP 6,000 respectively, i.e., BWP 3,000, 1,800, and 1,200.

3. Under IFRS 17, when must an entity revise its estimates of fulfilment cash flows?

A. Only when there is a change in accounting policy

B. On a fixed annual schedule

C. At each financial reporting date

D. Only during contract inception and termination

Correct Answer: C

Explanation: IFRS 17 requires entities to update the fulfilment cash flows at each reporting date using current and updated assumptions to reflect the latest expectations about future cash flows and conditions.

4. When an insurer settles a claim for a loss event that has already occurred, how is this transaction reflected under IFRS 17?

A. As a reduction of the Contractual Service Margin (CSM)

B. Through Other Comprehensive Income (OCI)

C. As an adjustment to the fulfilment cash flows for future coverage

As an expense in the profit or loss statement

Correct Answer: D

Explanation: Claims for past insured events are recognized as expenses in the statement of profit or loss. This reflects the insurer's fulfillment of obligations under the contract and does not impact the CSM or future service liabilities.

5. Which is a cause of change in risk adjustment?

A. Change in interest rates

B. Increase in past claims

C. Changes in uncertainty of future service

D. Movement in capital reserves

Correct Answer: C

Explanation: Changes in the level of uncertainty about future cash flows affect the risk adjustment.

6. Which changes are excluded from adjusting the CSM?
A. Future service estimates
B. Time value updates
C. Risk of lapses
D. Policyholder behavior assumptions

Correct Answer: B

Explanation: Changes due to the passage of time (e.g., interest accretion) do not adjust the CSM ,they affect finance income/expense.

7. What component directly impacts the measurement of the Liability for Incurred Claims (LIC) under IFRS 17?
A. Premiums for future coverage
B. Reinsurance commission income
C. Claims that have been incurred but not yet settled
D. Expected future profit from the contract

Correct Answer: C

Explanation: The Liability for Incurred Claims (LIC) reflects the insurer's obligation for claims that have already occurred but are not yet paid. It does not include future service components or profit-related elements.

8. At initial recognition, a Botswana insurer issues a 2-year home insurance contract. The expected future claims and expenses (fulfilment cash flows) are estimated at BWP 30,000, and the Contractual Service Margin (CSM) is calculated to be BWP 10,000. What is the amount of the Liability for Remaining Coverage (LRC) to be reported on the balance sheet?
A. BWP 30,000 only (just the fulfilment cash flows)
B. BWP 40,000 (BWP 30,000 FCF + BWP 10,000 CSM)
C. BWP 10,000 only (just the CSM)
D. BWP 0 (no liability until claims arise)

Correct Answer: B

Explanation: The Liability for Remaining Coverage (LRC) under IFRS 17 includes both the expected future fulfilment cash flows and the unearned portion of the CSM. In this case, the LRC is BWP 30,000 + BWP 10,000 = BWP 40,000.

9. What does LIC capture?
A. Claims that may occur in the future
B. Earned premiums
C. Deferred acquisition cost
D. Claims already incurred

Correct Answer: D

Explanation: LIC reflects the insurer's obligation for claims incurred not yet settled.

10. In the context of IFRS 17, how does the risk adjustment for non-financial risk influence the valuation of insurance contract liabilities during subsequent measurement?
A. It directly reduces expected future cash inflows
B. It creates a deferred tax asset for timing differences
C. It represents the compensation an entity requires for bearing the uncertainty of non-financial risks and is updated at each reporting date
D. It excludes the impact of future inflation assumptions

Correct Answer: C

Explanation: The risk adjustment under IFRS 17 accounts for the uncertainty related to non-financial risks, such as claims volatility or lapse behavior. It reflects the compensation an entity requires for bearing that uncertainty. During subsequent measurement, the risk adjustment is updated using current estimates to ensure the liability reflects the latest risk profile. This makes it a dynamic component, distinct from discounting or financial risks.

11. An insurer has ongoing claims on a group of insurance contracts and estimates that it will incur BWP 500,000 in salaries and operational costs for its claims handling department over the next reporting period. These costs are not linked to specific claims but are expected to support overall claims management. How should these expected costs be treated under IFRS 17?

A. Expensed immediately in full
B. Included in the liability for incurred claims (LIC) and updated at each reporting period
C. Ignored unless individually linked to a claim
D. Deferred until claim settlement is completed

Correct Answer: B

Explanation: These costs are considered Unallocated Loss Adjustment Expenses (ULAE), they are not tied to specific claims but are part of the overall effort to settle incurred claims. Under IFRS 17, ULAE must be included in the liability for incurred claims and reassessed at each reporting date based on updated expectations.

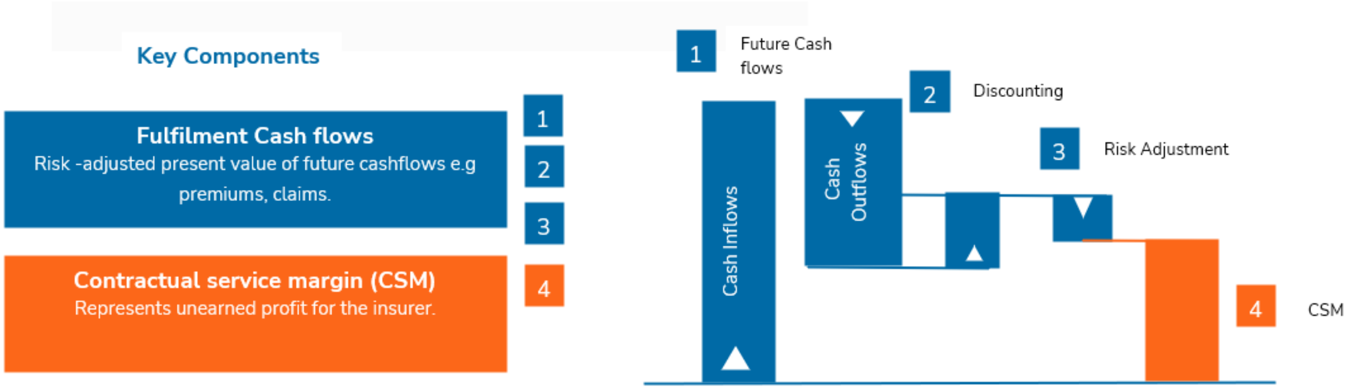
MODULE 7: DISCOUNTING, CONTRACTUAL SERVICE MARGIN & RIKS ADJUSTMENT

This module provides an overview of Discounting, Contractual Service Margin (CSM) and Risk Adjustment (RA) under IFRS 17.

Fulfilment Cash flows

At initial recognition, an entity is required to measure a group of insurance contracts as the sum of:

- Fulfilment Cash Flows (FCF), which include:
  - Estimates of future cash inflows and outflows.
  - A discount adjustment to reflect the time value of money and financial risks tied to those cash flows, plus a risk adjustment for non-financial uncertainty.
- Contractual Service Margin (CSM), representing the unearned profit from the contracts.



Discounting

This sub-module introduces the key principle of discounting in IFRS 17, highlighting the need to adjust future cash flows to account for the time value of money. This process ensures that projected future payments and receipts are presented in today's terms, leading to a more accurate valuation of insurance liabilities.

Specifically:

1. Paragraph 36 includes discounting as part of the fulfilment cash flows.
2. Paragraphs 38–39 outline the key characteristics that discount rates must reflect.
3. Paragraphs 44(b) and 47 explain how interest is accreted on the Contractual Service Margin (CSM) using the original discount rate set at contract inception.
4. Appendix B72–B85 provides detailed guidance on selecting appropriate discount rates and constructing yield curves.

What is Discounting?

Discounting is the process of converting future cash flows into present values; based on the principle that a sum of money held now is more valuable than the same amount received later — this is known as the **time value of money**.

The discount rate used should capture features such as liquidity, inflation expectations, and how the cash flows are influenced by any underlying items.

Discounting Approaches

IFRS 17 outlines two methods insurers can use to determine appropriate discount rates:

a) Bottom-Up Approach

How It Works:

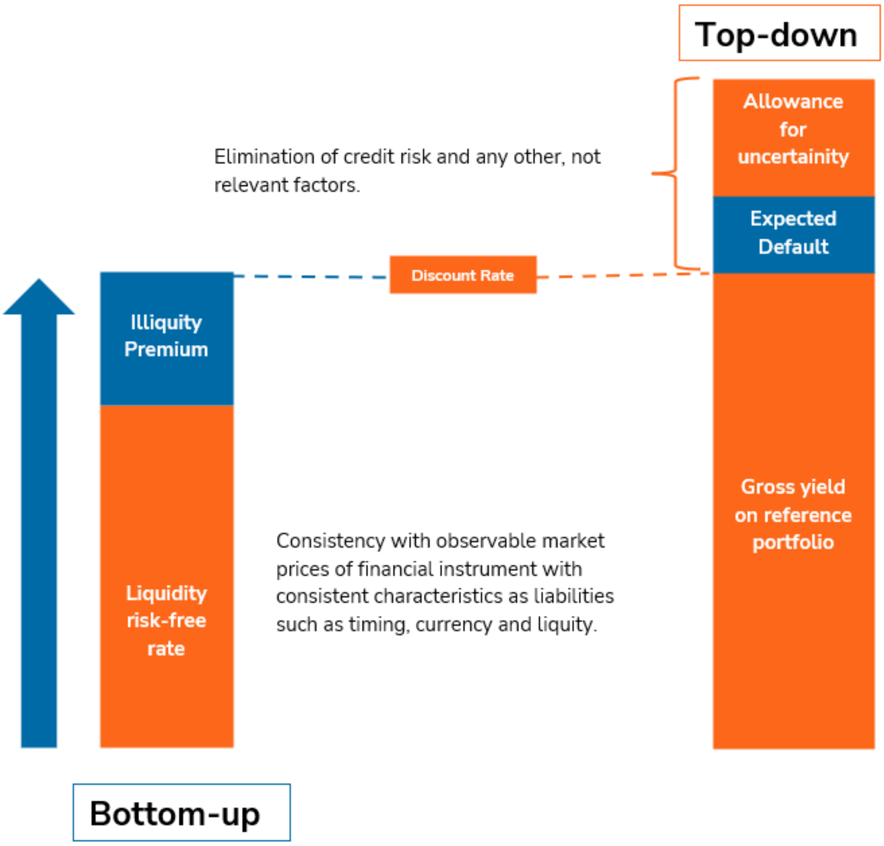
- **A.** Begins with a risk-free yield curve (such as government bond rates)
- **B.** Add a liquidity premium if the insurance contracts are not easily tradable (i.e., illiquid)

b) Top-down Approach

How It Works:

1. Start with the total yield of a reference asset portfolio
2. Deduct elements unrelated to insurance contract cash flows (e.g., credit risk, other market risks)

IFRS 17 requires that discount rates exclude any market variables that don't impact on the insurance cash flow, even if such factors are reflected in asset prices. This helps ensure the liability measurement reflects the true economics of the contract.



Contractual Service Margin

This sub-module gives a clear summary of how the Contractual Service Margin (CSM) is calculated, adjusted over time, and released into profit or loss under IFRS 17.

CSM represents the unearned profit an insurance company expects to earn as it provides coverage over the life of an insurance contract. It is part of the Liability for Remaining Coverage (LRC).

Under IFRS 17, the following paragraphs and appendix cover CSM:

1. Paragraphs 38–39 – Define fulfilment cash flows, which form the basis for measuring the CSM
2. Paragraph 43 – States that no gain is recognised at initial recognition; any positive fulfilment cash flows are absorbed into the CSM
3. Paragraphs 44–45 – Explain how the CSM is adjusted over time, including:
    - Interest accretion
    - Release of the CSM as service is provided
    - Changes in estimates related to future service

- Paragraph 46 – Describes treatment for onerous contracts, where the CSM is set to zero and a loss component is established
- Paragraph 47 – Requires that interest on the CSM be accreted using the locked-in discount rate from initial recognition
- Appendix B94–B96 – Provide guidance on allocating the CSM across coverage periods in a way that reflects the insurance services provided
- Appendix B97–B100 – Detail how to adjust the CSM when there are changes in estimates or when contracts are derecognized.

CSM at initial recognition

At the time a group of insurance contracts is initially recognised—typically when the contracts begin—IFRS 17 requires the calculation of a Contractual Service Margin (CSM), provided the contracts are expected to generate a profit.

Contractual Service Margin = Present Value of Future Inflows - Present Value of Future outflow - Risk Adjustment for Non-fincial Risk

If the result is positive → this becomes the initial CSM (unearned profit). If the result is negative → the contract is onerous and no CSM is recognised. Instead, a loss component is created.

CSM at Subsequent Measurement

After the initial Contractual Service Margin (CSM) is established, it is regularly updated to reflect changes over time. These updates include:

- **Interest Accretion –** The CSM increases using the discount rate locked in at initial recognition, reflecting the passage of time.
- **Release of Profit** – As the insurer delivers coverage, a portion of the CSM is recognised as revenue. This is typically spread evenly unless another method better represents the service provided.
- **Changes in Future Estimates –** If expectations about future cash flows improve (e.g. fewer claims), the CSM is adjusted—but only if the group is not onerous.
- **Onerous Contracts –** If a group becomes loss-making, the CSM is reduced to zero, and a loss component is recorded to reflect the deficit.

This loss component can be reversed in later periods if future cash flows improve and the contracts are no longer considered onerous.

Risk Adjustment

This sub-module focuses on the Risk Adjustment, a critical element in calculating insurance contract liabilities under IFRS 17.

- Paragraph 37 identifies the Risk Adjustment as a part of the fulfilment cash flows.
- Paragraph 44 requires disclosure of the methods used and the confidence level (or equivalent).
- Appendix B86–B92 provides detailed guidance on its principles, methodologies, and influencing factors.

What is Risk Adjustment in IFRS 17?

The Risk Adjustment for non-financial risk represents the amount an insurer charges for bearing the uncertainty around timing and amount of future cash flows, stemming from risks such as mortality, morbidity, lapse, and expenses.

While expected cash flows capture the average outcome, the risk adjustment reflects variability and uncertainty around those expectations. It ensures liabilities include not just a neutral estimate, but also a margin that aligns with the insurer's risk appetite and capacity to bear risk.

Factors That Influence the Risk Adjustment

The Risk Adjustment for non-financial risk reflects the level of compensation the insurer requires for bearing the uncertainty around cash flows. According to IFRS 17 Appendix B88–B91, key influencing factors include:

- **Degree of Uncertainty**

Greater uncertainty in the timing or amount of future cash flows leads to a higher risk adjustment.

- **Duration of Contracts**

Longer coverage periods increase the risk exposure over time, resulting in a higher risk adjustment due to more future uncertainty.

- **Amount of Claims**

Higher potential variability in future claim amounts contributes to a greater need for compensation.

- **Policyholder Characteristics & Options**

Contracts with features such as lapse options, guarantees, or uncertain policyholder behaviour increase complexity and raise risk adjustment.

- **Quality of Data and Estimations**

Less credible or incomplete data increases estimation uncertainty, resulting in a higher risk adjustment.

- **Diversification**

Portfolios with higher diversification benefits may require lower aggregate risk adjustments, as risks offset each other.

- **Reinsurance Impact**

When risk is transferred through reinsurance, the risk adjustment is recognized separately for the cedant and the reinsurer, reflecting the risk retained and assumed.

Methods of determining Risk Adjustment

IFRS 17 does not mandate a specific calculation method for the risk adjustment. However, it sets out the principles that any method must meet:

1. The RA must reflect the compensation an entity requires for bearing uncertainty from non-financial risks.
2. It must be explicitly and separately disclosed from other fulfilment cash flow components.
3. The method chosen must be consistent with the entity's own risk assessment — it should reflect how the entity would internally price and manage non-financial risk.

The 3 most common approaches:

1. Confidence Level Approach (Quantile Method)

Sets the Risk Adjustment based on a selected confidence level — e.g., determining the value of future cash flows such that the entity is 75% or 90% confident it can meet its obligations.

2. Cost of Capital Method

Estimates the RA as the cost of holding capital to support non-financial risk over the lifetime of the contract.

Components typically include:

- **Risk capital amount (e.g. based on Value at Risk)**
- **Capital holding period**
- **Cost of capital rate (e.g. 6%)**

3. Conditional Tail Expectation (CTE)

Also known as Tail Value at Risk, this method looks at the average loss beyond a selected confidence level, capturing extreme outcomes.

Practice Questions

1. Which of the following is not a requirement when determining the Contractual Service Margin (CSM) under IFRS 17?

A. Adjusting for the time value of money using current discount rates
B. Including all acquisition cash flows, regardless of recoverability
C. Recognizing the CSM over the coverage period based on services provided
D. Ensuring no day-one profit is recognized

Correct Answer is B:
Only directly attributable and recoverable acquisition cash flows are included in the measurement of the insurance contract. Non-recoverable acquisition costs are expensed immediately

2. Which of the following is not a requirement when determining the discount rates under IFRS 17?

A. Reflect the time value of money
B. Be consistent with observable current market prices
C. Be based on the entity's internal cost of capital
D. Reflect characteristics of the cash flows of the insurance contracts

Correct Answer: C
Explanation:
Under IFRS 17, the discount rate used to adjust future cash flows must:

1. Reflect the time value of money
2. Be consistent with observable, current market prices
3. Reflect the characteristics of the cash flows, including liquidity

The entity's internal cost of capital is not a requirement or appropriate basis for determining the discount rate under IFRS 17.

3. **When determining discount rates under IFRS 17, which of the following best reflects how market variables should be considered?**

A. Market variables should be incorporated if they influence the expected cash flows of the insurance contract.
B. Market variables should be considered only if they are contractually guaranteed.
C. Only risk-free rates should be used, excluding any market variables.
D. Market variables are not relevant for insurance contracts measured using the Premium Allocation Approach (PAA).

Correct Answer: A
Under IFRS 17, discount rates must reflect the time value of money and financial risks related to the cash flows of the insurance contracts. If market variables (like interest rates, inflation, or equity prices) are expected to influence the amount or timing of those cash flows, they must be reflected in both the estimates of the cash flows and in the discount rate applied.

4. **Under IFRS 17, which of the following best distinguishes the top-down approach from the bottom-up approach in deriving discount rates?**

   A. The top-down approach uses market yield curves, while the bottom-up approach starts with historical claims data.
   B. The bottom-up approach derives discount rates from observable illiquid liabilities, while the top-down adjusts for asset characteristics.
   C. The bottom-up approach always results in lower discount rates than the top-down approach.
   D. The top-down approach starts with reference portfolio yield and deducts non-insurance risks, while the bottom-up builds up from risk-free rates plus illiquidity premium.

   Correct Answer: D
   The top-down approach starts with asset returns and deducts non-insurance risks, while the bottom-up builds up from risk-free rates plus illiquidity premium.

5. **Under IFRS 17, how is the liquidity characteristic of insurance contract cash flows addressed in the top-down approach for setting discount rates?**

   A. Liquidity adjustments are not permitted in the top-down approach.
   B. The liquidity premium is added directly to the risk-free rate.
   C. The insurer deducts elements like credit risk and market risk from asset yields to isolate a rate consistent with the liquidity of insurance cash flows.
   D. A standard liquidity adjustment of 100 basis points is applied regardless of the contract type.

   Correct Answer: C
   The insurer deducts elements like credit risk and market risk from asset yields to isolate a rate consistent with the liquidity of insurance cash flows.

6. **Goobe Insurance is expected to pay the following future cash flows at the end of each year for the next 3 years:**

Year	Expected Cash Flow $ '000
1	$500
2	$700
3	$600
4	$400

The risk-free yield curve applicable to Goobe's Insurance liabilities is as follows:

Year	Discount Rate (%)
1	9%
2	10%
3	11.5%
4	13%

i) What is the present value of the Year 1 cash flow using the yield curve provided?

A. $ 455,734

B. $ 472,546

C. $ 512,789

D. $ 458,716

Correct Answer: D

Explanation: PV = 500,000 / $(1 + 9\%)^1$ = 500,000 / 1.09 = $ 458,716

ii) What is the total present value of all 4 years of expected cash flows, using the respective yield curve rates?

A. $ 1,713,700

B. $ 1,877,500

C. $ 1,845,000

D. $ 1,925,489

Correct Answer: A

Explanation:

Year 1: 500,000 / 1.09 = 458,716

Year 2: 700,000 / $(1.10)^2$ = 700,000 / 1.21 = 578,512

Year 3: 600,000 / $(1.115)^3$ = 600,000 / 1.3886 = 432,257

Year 4: 400,000 / $(1.13)^4$ = 400,000 / 1.635 = 244,215 **Total PV** = $ 1,713,700

iii) Which of the following best describes the effect of using a steeper yield curve on long-term liabilities?

A. It increases the present value of long-term liabilities

B. It reduces the present value of long-term liabilities

C. It has no effect on valuation

D. It only affects assets, not liabilities

Correct Answer: B

Explanation:

Higher discount rates applied to future cash flows result in lower present values. A steeper yield curve means higher rates for long-term cash flows, reducing their present value more significantly.

iv) If the illiquidity premium for the cash flows is estimated at 0.5% per year, how would the bottom-up discount rate for Year 3 change?

A. It would increase from 11.5% to 12.0%

B. It would decrease to 11.0%

C. It would remain at 11.5%

D. It would reduce to 10.5%

Correct Answer: A

Explanation:

In the bottom-up approach, the discount rate starts from a risk-free rate, then adds a liquidity premium. Therefore, adding a 0.5% premium increases the rate to: ~ 11.5% + 0.5% = **12.0%**

7. **Which of the following events after initial recognition would result in the immediate recognition of a loss in profit or loss due to CSM adjustment under IFRS 17?**

A. An increase in the number of policies sold

B. A favorable change in discount rates

C. An increase in expected claims that causes fulfilment cash flows to exceed the CSM

D. The release of CSM due to services provided in the period

Correct Answer: C

Explanation: If expected future claims increase significantly, this raises the fulfilment cash flows. If the CSM is no longer sufficient to absorb the increase, the group becomes onerous. IFRS 17 requires the CSM to be reduced to zero, and the excess loss is recognized immediately in profit or loss via a loss component.

8. **Under IFRS 17, which of the following scenarios would lead to a reversal of a previously recognised loss component?**

A. An increase in incurred claims in the current period

B. A reduction in fulfilment cash flows that makes the group no longer onerous

C. A change in the coverage period of the contracts

D. A release of the Contractual Service Margin due to services provided

Correct Answer: B

Explanation: If future expected cash flows decrease (due to favorable claims development or assumption changes), and the group becomes profitable again, IFRS 17 allows the reversal of the loss component but only to the extent that the group is no longer onerous. This means future profits can be recognised, and the loss component is reduced accordingly.

9. **When a group of insurance contracts becomes onerous and the Contractual Service Margin (CSM) is reduced to zero, what does the Liability for Remaining Coverage (LRC) consist of under IFRS 17?**

A. Only the present value of future cash inflows

B. Only the expected claims incurred to date

C. The fulfilment cash flows and the established loss component

D. The risk adjustment and unearned portion of the premium.

Correct Answer: C

Explanation: Under IFRS 17, when the CSM is nil (usually because the contract is onerous), the LRC comprises:

a) The present value of future cash outflows (including acquisition and claims costs)
b) The risk adjustment, and
c) The loss component which represents losses that couldn't be absorbed by the CSM.

10. **Under IFRS 17, which of the following best describes how interest is accreted on the Contractual Service Margin (CSM)?**

A. Interest is accreted using the current risk-free rate each reporting period

B. Interest is not accreted on the CSM after initial recognition

C. Interest is accreted using the locked-in discount rate determined at initial recognition

D. Interest is accreted using the effective interest rate of the insurer's asset portfolio

Correct Answer: C

Explanation: IFRS 17 requires that the CSM be accreted with interest over time using the discount rate locked in at initial recognition of the group of contracts. This ensures that changes in market rates after initial recognition do not affect the CSM.

11. **Monalisa Assurance issues a group of 5-year insurance contracts on 1 January 2025. The expected fulfilment cash flows at initial recognition are:**

a) Present value of future cash inflows: USD 9,000,000
b) Present value of future cash outflows (claims, expenses, etc.): USD 7,200,000
c) Risk adjustment for non-financial risk: USD 300,000
d) The discount rate applicable to the CSM for accretion is 6% per annum. The CSM is released evenly over the coverage period, unless stated otherwise.

i) What is the Initial CSM at 1 January 2025?

A. USD 2,100,000

B. USD 1,800,000

C. USD 1,500,000

D. USD 900,000

Correct Answer: C

Explanation:

Initial CSM = Present value of inflows – (Outflows + Risk adjustment)

= 9,000,000 – (7,200,000 + 300,000)

= USD 1,500,000

ii) What is the CSM balance at the end of Year 1 (after accretion and release)?

Assume:
Accrete interest at 6% on opening CSM.
Release 1/5th of original CSM per year (straight-line).

A. USD 1,116,000

B. USD 1,116,000

C. USD 1,290,000

D. USD 1,152,000

Correct Answer: C

Explanation:

Opening CSM = 1,500,000

Interest accretion = 1,500,000 × 6% = 90,000

CSM before release = 1,500,000 + 90,000 = 1,590,000

Release for Year 1 = 1,500,000 ÷ 5 = 300,000

Closing CSM = 1,590,000 – 300,000 = 1,290,000

iii) In which year will the CSM become nil, assuming no changes in estimates?

A. End of Year 4

B. End of Year 5

C. End of Year 3

D. CSM never becomes nil

Correct Answer: B

Explanation:

The CSM is released evenly over 5 years: 360,000 per year. Even after accreting interest, the release continues until the entire CSM is exhausted. By the end of Year 5, the balance is nil, assuming no changes in assumptions.

iv) What would the CSM balance be at the end of Year 3?

A. USD 831,444

B. USD 1,100,000

C. USD 1,000,000

D. USD 800,000

Correct Answer: A

Computation:

Monalisa Assurance Company			
Component	Year 1	Year 2	Year 3
Opening	1,500,000	1,290,000	1,067,400
Interest (6%)	90,000	77,400	64,044
Release	300,000	300,000	300,000
Closing	1,290,000	1,067,400	831,444

12. **According to IFRS 17, which of the following groups of contracts would most likely require a lower risk adjustment?**

A. Contracts with highly uncertain claim amounts and long settlement periods

B. Contracts with stable, predictable claims and short coverage durations

C. Contracts covering catastrophe events with volatile outcomes

D. Contracts with significant lapse uncertainty and biometric risk

Correct answer: B

Explanation: The risk adjustment under IFRS 17 reflects the compensation the insurer requires for bearing non-financial risk e.g., claims variability, timing risk, lapse risk, and uncertainty in cash flows. The more uncertain or volatile the outcomes, the higher the risk adjustment. Stable and predictable contracts with short durations pose lower uncertainty, hence a lower risk adjustment..

13. **Which of the following is not reflected in the risk adjustment for non-financial risk under IFRS 17?**

A. Uncertainty in timing and amount of future insurance claims

B. Expense risk related to servicing insurance contracts

C. Lapse risk related to policyholder behavior

D. Interest rate volatility affecting the value of future cash flows

Correct Answer: D

Explanation:

IFRS 17 defines the risk adjustment as the compensation the entity requires for bearing non-financial risk.

This includes risks like:

a) Claim variability
b) Expense risk
c) Lapse and persistency risk

However, financial risks such as interest rate, inflation, currency, or market volatility are excluded from the risk adjustment. These financial risks are instead captured in the discounting of cash flows and other valuation components.

14. Which of the following methods is not generally accepted for quantifying the risk adjustment under IFRS 17?

A. Confidence level approach

B. Conditional tail expectation (CTE) approach

C. Cost of capital approach

D. Historical cost method

Correct Answer: D

Explanation:

IFRS 17 allows flexibility in the quantification of the risk adjustment, and common methods include:

a) Confidence level approach (e.g., Value-at-Risk at a percentile)
b) Conditional Tail Expectation (CTE) or Tail VaR, which considers the average of the worst-case outcomes
c) Cost of capital approach, where the insurer estimates the cost of holding capital to support non-financial risks

The historical cost method is not used for measuring the risk adjustment it's an accounting concept for asset/liability valuation, not risk compensation.

15. Sahara Life, a life insurer, estimates the present value of future cash outflows for a group of contracts at USD 8,000,000. They want to calculate the risk adjustment for non-financial risk using the confidence level approach.

Assumptions:

i. Expected cash outflows (mean) = USD 8,000,000
ii. Standard deviation of the distribution = USD 600,000
iii. Desired confidence level = 75%
iv. Z-score at 75% confidence = 0.674

(a) What is the value at risk (VaR) at 75% confidence level?

A. USD 8,404,400

B. USD 8,300,000

C. USD 8,000,000

D. USD 8,100,000

Correct Answer: A

Explanation:

$VaR_{@75\%}$ = Mean + z * Standard Deviation ~8,000,000 + 0.674 * 600,000 = 8,404,400

This represents the value the insurer would need to be 75% confident it can meet future obligations a key principle under the confidence level method for risk adjustment.

(b) What is the Risk Adjustment under the confidence level approach at 75% confidence?

A. USD 304,400

B. USD 600,000

C. USD 404,400

D. USD 8,404,400

Correct Answer: C

Explanation:

Risk adjustment = VaR – mean expected value: ~ 404,400

This is the explicit compensation the entity requires for bearing non-financial risk such as lapse or claims variability in line with IFRS 17.

(c) If the insurer now changes the confidence level to 85% (Z = 1.036), what will the new risk adjustment be?

A. USD 621,600

B. USD 500,000

C. USD 404,400

D. USD 360,000

Correct Answer: A

Explanation:

New liability value at 85% confidence:

=8,000,000 + 1.036 * 600,000 -8,000,000 ~ 621,600

This shows how increasing confidence levels leads to higher risk adjustments, reflecting greater caution and compensation for uncertainty in cash flows.

MODULE 8: ONEROUS CONTRACTS

Introduction

This module gives a detailed summary of onerous contracts as outlined in **paragraphs 47–52 of the standard.**

An onerous contract refers to an insurance contract (or a group of such contracts) where the anticipated total outgoing such as payments for claims, associated costs, and the risk adjustment—are greater than the premiums charged. Meaning, the expected cash payments exceed the expected cash receipts.

At Initial Recognition

If contracts are onerous at initial recognition IFRS 17 requires the insurer to;

a) Immediately report the financial loss in the profit and loss statement.

b) Group them separately from contracts that are expected to be generate profits.

c) Record the entire expected cost as a liability on the balance sheet.

d) Set the Contractual Service Margin (CSM) to zero, reflecting that no unearned profit exists.

e) Create a Loss Component to monitor and account for the recognized loss over time.

At Subsequent Measurement

When do contracts become (more) onerous?

A group of contracts becomes onerous, or increasingly so, after initial recognition if certain unfavorable developments occur, such as:

a) A rise in anticipated future claims or servicing costs, often due to deteriorating assumptions or;

b) In the case of contracts with direct participation features, there is a decline in the expected investment return.

When this occurs, IFRS 17 requires the entity to:

a) First, utilize any remaining Contractual Service Margin (CSM) to absorb the loss.

b) Record any excess loss directly in the profit and loss account.

c) Reflect the loss within the liability for remaining coverage by either increasing or establishing a Loss Component.

The Loss Component is a specific element within the liability for remaining coverage that captures losses already recognized in profit or loss.

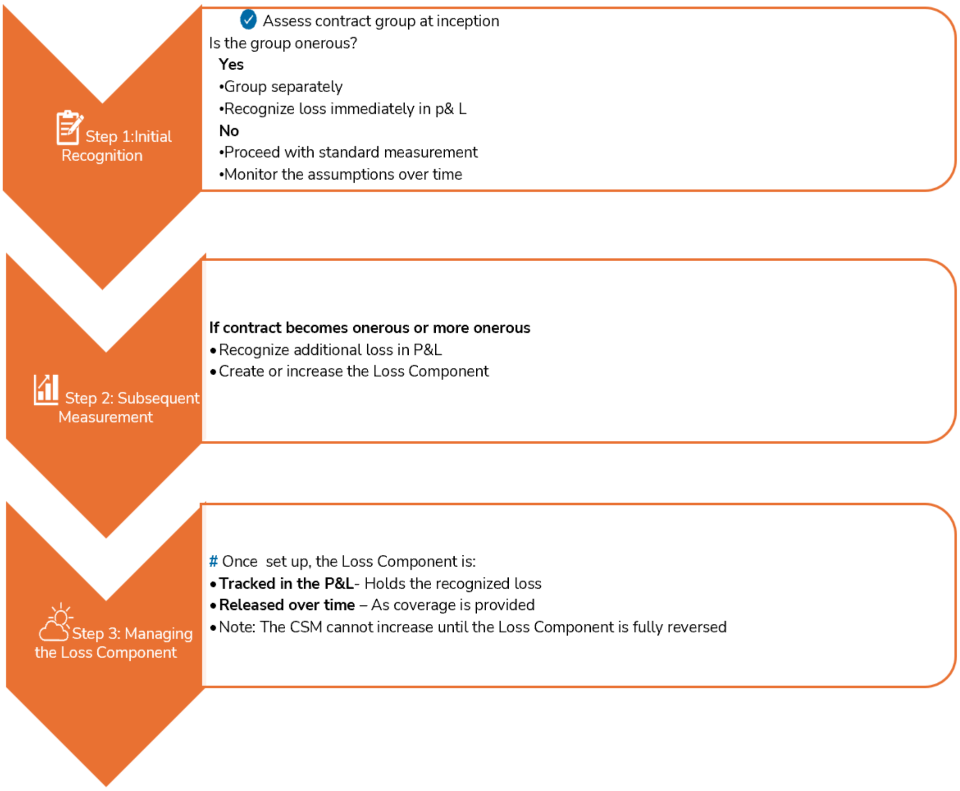
Its key purpose is to:

a) Track losses that have been recognized in the Profit or Loss statement

b) Ensure losses are gradually released overtime as insurance services are provided

c) Reflect the improvement in future assumptions by reducing the Loss Component if expected losses decrease

Point to note: ***The CSM cannot be increased until the entire Loss Component has been fully reversed.***



Assessing Onerous Contracts and Impact of Assumption Changes

When assumptions such as future claims, operating costs, or risk margins change, the resulting impact is split proportionally between the loss component and the remaining part of the liability for remaining coverage.

This approach ensures that the loss component is gradually reduced and fully released by the end of the contract's coverage duration.

An insurer will classify a group of insurance contracts as onerous if the projected combined ratio for the portfolio goes above 100%. The combined ratio is determined as follows:

$$Combined\ ratio = \frac{Insurance\ service\ expenses}{Insurance\ revenue} * 100$$

The insurance service expenses include:

a) Incurred claims and other directly attributable outflows

b) Adjustments made to the Liability for Incurred Claims (LIC)

c) Recognized losses related to onerous contracts

d) Amortization of Insurance acquisition cash flows

In making this assessment, insurers also review combined ratios from earlier cohorts. This historical view helps provide context and identify trends in portfolio performance.

Practice Questions

1. How is an insurance contract identified as onerous at initial recognition?
   A. If the policy is likely to be cancelled before its coverage ends
   B. If the contract does not include a Contractual Service Margin (CSM)
   C. If the contract is expected to generate a loss for the insurer
   D. If the contract does not transfer significant insurance risk

Answer: C

Explanation: An insurance contract is considered onerous when the expected fulfilment cash outflows, such as claims and expenses, are greater than the expected inflows, such as premiums. This results in an immediate loss, which must be recognized in the profit or loss statement.

2. What is required when a contract is identified as onerous at initial recognition?
   A. Delay recognition until claims are paid
   B. Recognize a loss in profit or loss and continue standard measurement
   C. Group the contract with profitable contracts
   D. Recognize the loss immediately and create a Loss Component

Answer: D

Explanation: At initial recognition, if a group of contracts is onerous, the loss to be recognized immediately in the profit or loss statement.

3. What triggers a contract to become onerous after initial recognition?
   A. Reduction in acquisition expenses
   B. A deterioration in future assumptions, such as higher claims or lower returns
   C. A decrease in expected claims
   D. An increase in investment income

Answer: B

Explanation: A contract becomes onerous or more onerous after initial recognition if expected future costs rise (e.g., higher claims or expenses), or in the case of direct participation contracts, if expected investment returns decline. This worsens the fulfilment cashflows, possibly leading to a loss that must be recognized.

4. What happens if a group of insurance contracts becomes more onerous after initial recognition?
   A. Reverse the previously recognized loss
   B. Ignore the change until coverage ends
   C. Recognize additional loss and increase the Loss Component
   D. Increase the CSM to offset the loss

Answer: C

Explanation: If a contract becomes more onerous after initial recognition — for example, due to worsening assumptions— then an additional loss must be recognized in profit or loss.

5. What is the purpose of the Loss Component ?
   A. To track losses recognized in P&L and manage their release over time
   B. To offset unearned premiums
   C. To hold investment income
   D. To reduce insurance acquisition costs

Answer: A

Explanation: The Loss Component represents the portion of the liability for remaining coverage that relates to losses already recognized in profit or loss. Its role is to:

- Track recognized losses
- Ensure these losses are gradually released as services are provided
- Prevent increases to the CSM until the full reversal of the loss

This provides an accurate picture of future service obligations and profitability.

6. What happens to the Contractual Service Margin (CSM) at initial recognition if a contract is classified as onerous?
   A. It is set to zero, and the full loss is recognized immediately
   B. It is used to offset expected future profits
   C. It is deferred and recognized over the coverage period
   D. It is added to the liability for incurred claims

Answer: A

Explanation: When a contract is identified as onerous at initial recognition, the CSM is set to zero because the contract is expected to produce a loss rather than a profit.

7. What happens to the Contractual Service Margin (CSM) when a contract becomes onerous?
   A. It continues to be amortized normally
   B. It is used (to the extent available) to offset the loss before setting up a Loss Component
   C. It is increased to offset the loss
   D. It is ignored and a new CSM is created

Answer: B

Explanation: When a contract becomes onerous, any remaining CSM is used to offset the loss. If the loss exceeds the CSM, a Loss Component is created or increased.

8. How is the Loss Component released?
   A. When investment returns improve
   B. All at once when coverage ends
   C. When a new contract is issued
   D. Over time, insurance services are provided

Answer: D

Explanation: The Loss Component is released gradually over the coverage period as the insurer provides services. This means that as the policyholder receives coverage, a portion of the recognized loss is moved from liabilities to the income statement, reducing the loss over time.

9. Which of the following statements is true about the CSM and the Loss Component ?
   A. The CSM cannot increase until the Loss Component is fully reversed
   B. The CSM can increase as long as premiums are received
   C. The CSM and the Loss Component can be increased simultaneously
   D. The Loss Component offsets insurance acquisition cash flows

Answer: A

Explanation: Once a Loss Component exists, no increase in the CSM is allowed until the Loss Component is completely reversed.

10. What is the combined ratio used for in assessing whether contracts are onerous?
    A. To measure the profitability of investment income
    B. To determine the adequacy of acquisition costs
    C. To evaluate if expected insurance expenses exceed insurance revenue
    D. To calculate the CSM at initial recognition

Answer: C

Explanation: The combined ratio is calculated as:

Combined Ratio = (Insurance Service Expenses ÷ Insurance Revenue) × 100

If this ratio exceeds 100%, the group of contracts is considered potentially onerous, as the expenses outweigh revenue, indicating likely losses.

MODULE 9: PREMIUM ALLOCATION APPROACH

Introduction

This module provides a comprehensive overview of the Premium Allocation Approach (PAA) as per **IFRS 17** paragraphs 53 to 59**.**

The Premium Allocation Approach (PAA) is a simplified method for measuring insurance contract liabilities under IFRS 17.

It is primarily applied to short-term contracts, usually those with coverage periods of 12 months or less such as motor, travel, health, and various general insurance policies.

Conceptually, the PAA resembles the unearned premium reserve (UPR) approach previously used under IFRS 4

Contracts must initially be grouped into portfolios that share similar risk characteristics and are managed under the same strategy. Each portfolio is then classified into the following categories

- Onerous at inception
- No significant risk of becoming onerous
- Profitable contracts

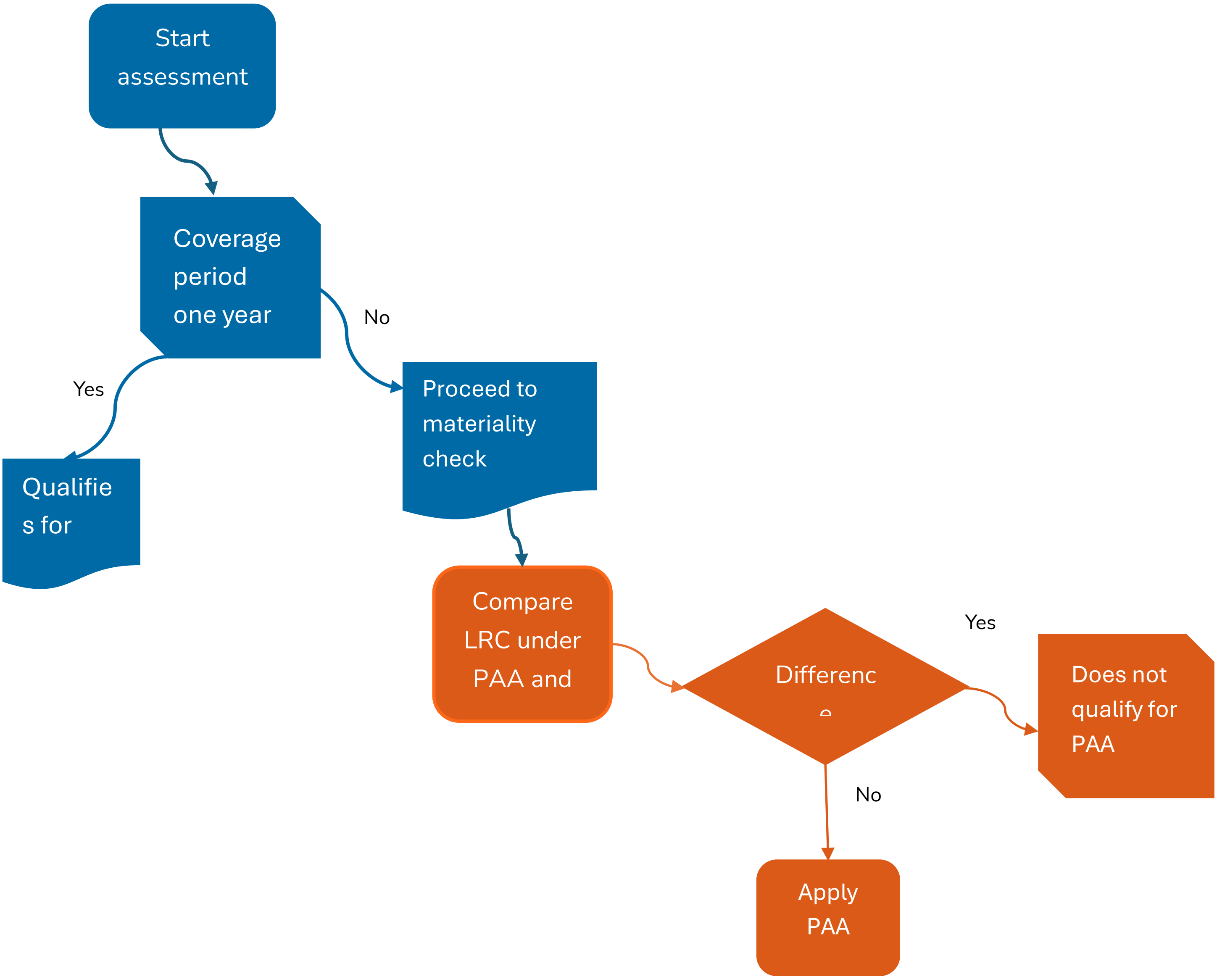
Contracts issued more than 12 months apart cannot be grouped together**.**

Eligibility Criteria

According to the standard, PAA can be applied if either of the following conditions is met:

a) If the coverage period for each contract within the group is no longer than one year; or

b) If the entity reasonably expects that applying the PAA would result in a measurement of the liability for remaining coverage (LRC) that is not materially different from that produced by the General Measurement Model (GMM).


Start assessment
Coverage period one year
No
Yes
Qualifie s for
Proceed to materiality check
Compare LRC under PAA and
Differenc e
Yes
Does not qualify for PAA
No
Apply PAA

Measurement Under PAA

There are two primary components of liability to consider:

A. Liability for Remaining Coverage (LRC)

This reflects the portion of premiums that pertains to future periods of coverage, adjusted for acquisition costs.

a) Opening LRC balance: The starting balance at the beginning of the period.

b) Add: Premium Received: Additional premiums collected during the period.

c) Less: Amortization of Insurance Time value of money and financial risks: Amortized acquisition costs deducted.

d) Less**:** Insurance Revenue: Revenue recognized over time as insurance services are provided.

1) LRC = Opening LRC + Premium received – Earned Premium – Change in Deferred Acquisition Costs (DAC)

2) Where Premium received = Gross Written Premium (GWP) + Prior premium receivables – Current premium receivables.

B. Liability for Incurred Claims (LIC)

This is measured in a manner similar to the General Measurement Model (GMM:

a) Present value of future cash flows

b) Risk adjustment for non-financial risk

Treatment of Acquisition cash flows

Entities have the option to either expense acquisition costs immediately when the coverage period of the contracts is one year or less, or to defer and amortize these costs over the coverage period if it exceeds one year.

Deferring acquisition costs reduces the Liability for Remaining Coverage (LRC), but this may lead to a higher recognition of losses for onerous contracts.

Discounting and Risk Adjustment

Discounting of the LRC is not required unless there is a significant delay between the receipt of premiums and the provision of insurance services.

Risk adjustment applies solely to the Liability for Incurred Claims (LIC) and not to the LRC.

Onerous Contracts

Even under PAA, entities must assess whether contracts are onerous at initial recognition or subsequently.

If a contract is deemed onerous, a loss component must be recognized immediately in the profit or loss statement.

Revenue Recognition

Revenue is recognized over the coverage period in line with the pattern of service delivery, which is typically on a straight-line basis.

Comparison of PAA and GMM

Feature	PAA	GMM
Complexity	Low	High
Intended for	Short-term contracts	All types
Discounting	Not required for LRC	Required
Risk adjustment	For incurred claims	Required for all liabilities
Onerous contract test	Required	Required

Disclosure Requirements

IFRS 17 mandates the following disclosures:

a) A transparent presentation of revenue, incurred claims, and movements in insurance liabilities.

b) Disclosure of confidence levels used in measuring liabilities.

c) An option to present changes in discount rates through Other Comprehensive Income (OCI).

Practical Application Examples

Ideal for group life, group credit, and general insurance with short coverage.

It may also be applied to reinsurance contracts held, provided they meet the same eligibility criteria.

Practice Questions

1. Under the PAA, which of the following components is NOT included when calculating the Liability for Remaining Coverage (LRC)?
    - **A.** Opening LRC balance
    - **B.** Risk adjustment for non-financial risk
    - **C.** Premiums received
    - **D.** Insurance revenue recognized

Correct Answer: B- Under PAA, risk adjustment for non-financial risk applies only to the Liability for Incurred Claims (LIC), not the Liability for Remaining Coverage (LRC).

2. Which contracts are generally suitable for the application of PAA?
    - **A.** Contracts with coverage period exceeding 5 years
    - **B.** Long-term life insurance contracts
    - **C.** Short-duration contracts such as travel insurance
    - **D.** Investment contracts without discretionary participation features

Correct Answer: C- The PAA is designed for short-duration insurance contracts, typically 12 months or less, such as travel, motor, and health insurance.

3. What happens if the PAA measurement materially differs from the General Measurement Model (GMM) and the coverage period exceeds 12 months?
    - **A.** The entity must use GMM
    - **B.** PAA remains applicable
    - **C.** Only LIC is adjusted
    - **D.** Deferred costs are written off

Correct Answer: A- PAA can only be used if its outcome does not materially differ from GMM when the coverage period exceeds 12 months; otherwise, GMM is required.

4. When discounting the LRC under PAA, what is the determining factor for applying discounting?
    - **A.** If the contract is life insurance
    - **B.** If there is a significant financing component
    - **C.** If reinsurance contracts are involved
    - **D.** If premiums are received quarterly

Correct Answer: B- Discounting of LRC is required only if there is a significant financing component, meaning a material time difference between receipt of premium and the provision of service.

5. Acquisition costs under PAA can be treated in what way for contracts of less than 12 months coverage?
    - **A.** Must always be deferred
    - **B.** Can be expensed immediately
    - **C.** Must be capitalized over 5 years
    - **D.** Must be refunded to the policyholder

Correct Answer: B- For short-term contracts, acquisition costs can be expensed immediately or deferred at the insurer's discretion.

6. In measuring LIC under PAA, what adjustments are included?
    - **A.** Only expected claims without risk adjustment
    - **B.** Expected claims discounted with risk adjustment
    - **C.** Future premiums and claims without discounting
    - **D.** Only acquisition costs

Correct Answer: B- LIC includes the present value of expected future cash flows plus a risk adjustment for non-financial risk.

7. Which is NOT a required disclosure under IFRS 17 for entities using PAA?
   A. Revenue recognized
   B. Confidence level of risk adjustment
   C. Discount rate changes in OCI (if applicable)
   D. Fair value of investment properties

Correct Answer: D- IFRS 17 focuses on insurance liabilities and does not require disclosure of the fair value of investment properties in this context.

8. How are contracts grouped under PAA for measurement purposes?
   A. Based on customer demographics
   B. According to similar risk characteristics and management practices
   C. By geographical region only
   D. By policyholder nationality

Correct Answer: B- Contracts must be grouped into portfolios based on similar risk characteristics and managed similarly.

9. When assessing onerous contracts under PAA, which of the following is TRUE?
   A. The assessment is not required under PAA
   B. The test must be done both at inception and subsequently
   C. Onerous contracts can be offset by profitable ones
   D. Only required if acquisition costs are high

Correct Answer: B- IFRS 17 requires entities to assess whether contracts are onerous at initial recognition and subsequently, regardless of the model used.

10. Which of the following best describes the 'Fulfilment Cash Flows' under IFRS 17?
   A. Past incurred claims
   B. Future expected cash inflows and outflows, discounted and adjusted for risk
   C. Only the expected claims amount
   D. Premiums received but not yet earned

Correct Answer: B- Fulfilment Cash Flows include future cash flows (both inflows and outflows) discounted to present value and adjusted for risk.

MODULE 10: REINSURANCE CONTRACTS HELD

Introduction

This module provides an in-depth overview of the Reinsurance contracts held as per **IFRS 17** paragraphs 60 to 70.

A reinsurance contract held refers to an arrangement where one entity (the cedant) receives compensation from another entity (the reinsurer) for one or more claims arising from insurance contracts that the cedant has issued.

Reinsurance contracts held are measured separately from the underlying insurance contracts issued.

The "mirroring approach" previously applied under IFRS 4 is no longer used. Under IFRS 17, reinsurance contracts held require an independent assessment.

We account for reinsurance contracts held to;

a) Reflect the risk mitigation effect in financial statements.

b) Ensure consistent measurement with the related underlying insurance contracts.

c) Recognize gains or losses on risk transfer at initial recognition.

Measurement of Reinsurance contracts held

Initial Recognition

At initial recognition, the reinsurance contract is measured using the General Measurement Model (GMM) unless the Premium Allocation Approach (PAA) is applied and meets the eligibility criteria.

The measurement components includes:

a) Fulfilment cash flows, which are the expected present value of future inflows and outflows related to the reinsurance contract, adjusted for the time value of money and the risk of counterparty default.

b) A risk adjustment, which reflects the uncertainty in the amount and timing of the cash flows from the reinsurer.

c) A Contractual Service Margin (CSM), which is recognized if the present value of future inflows from the reinsurer exceeds the ceded premiums; this CSM represents an unearned gain that is deferred and released as income over the coverage period.

d) Loss-recovery component which is applicable if the underlying contracts are onerous.

Subsequent measurement

Following initial recognition, reinsurance contracts held are remeasured at each reporting date. The measurement continues to apply the General Measurement Model (GMM), or the Premium Allocation Approach (PAA) where applicable, and requires updates to the following key components:

a) Fulfillment cashflows

b) Risk adjustment

c) CSM

d) Loss-recovery component

e) Experience adjustments

f) Changes in discount rates

If a group of underlying insurance contracts is onerous and a related reinsurance contract exists, the cedant recognizes a recovery asset referred to as the loss-recovery component.

Presentation in financial statements

Assets and liabilities from reinsurance contracts are presented separately from insurance contracts issued.

Similarly, income and expenses related to reinsurance are disclosed separately in the statement of profit or loss.

IFRS 17 requires that all income and expenses from reinsurance be distinctly shown apart from insurance contracts issued.

Disclosures

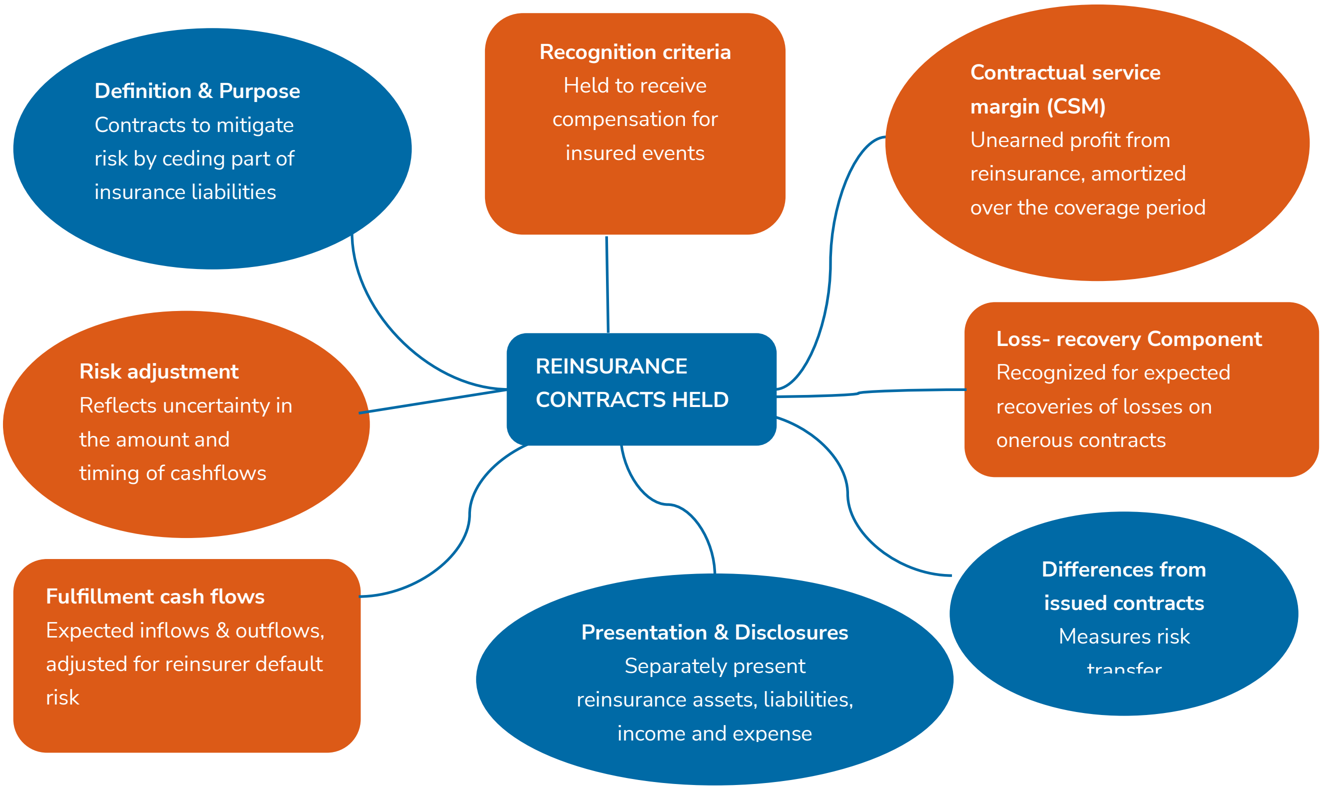
Entities are required to disclose;

a) A description of how reinsurance contracts impact amounts reported in the financial statements.

b) Key judgments made in applying IFRS 17 to reinsurance contracts.

c) Reconciliations of the opening and closing balances of related assets and liabilities.

Illustration of reinsurance contracts held.



Practice Questions

1. What is the purpose of holding a reinsurance contract under IFRS 17?
   - **A.** To increase the insurer's liability
   - **B.** To transfer and reduce insurance risk
   - **C.** To provide investment returns
   - **D.** To cover policyholder dividends

   Correct Answer: B- The main purpose is to transfer and reduce the insurer's risk exposure to claims.

2. Under IFRS 17, how is the reinsurance contract held measured?
   - **A.** Together with the underlying insurance contracts
   - **B.** Separately from the underlying insurance contracts
   - **C.** Using the reinsurer's financial statements
   - **D.** Using IFRS 4 guidelines

   Correct Answer: B- IFRS 17 requires that reinsurance contracts held be measured independently of the underlying insurance contracts.

3. What replaces the "mirroring approach" from IFRS 4 in IFRS 17 for reinsurance contracts?
   - **A.** Aggregation method
   - **B.** Separate stand-alone measurement
   - **C.** Asset-based approach
   - **D.** Direct debit method

   Correct Answer: B- IFRS 17 eliminates the mirroring approach and mandates separate stand-alone valuation.

4. What component of measurement reflects the uncertainty in future cash flows from the reinsurer?
   - **A.** Loss-recovery component
   - **B.** Contractual Service Margin
   - **C.** Risk Adjustment
   - **D.** Discount rate

   Correct Answer: C- The risk adjustment represents uncertainty in the timing and amount of reinsurance cash flows.

5. What is the Contractual Service Margin (CSM) for reinsurance contracts held?
   - **A.** liability for claims incurred
   - **B.** The unearned profit from the reinsurance contract
   - **C.** An expense item
   - **D.** The reinsurer's fee

   Correct Answer: B- The CSM represents unearned profit, recognized over the period of coverage.

6. When is the loss-recovery component recognized?
   - **A.** When the underlying insurance contracts are profitable
   - **B.** Only when the reinsurer fails to pay
   - **C.** When the underlying insurance contracts are onerous
   - **D.** When premiums are overdue

   Correct Answer: C- The loss-recovery component arises when the underlying insurance contracts are loss-making (onerous).

7. What happens to the CSM of a reinsurance contract held over time?
   - **A.** It increases automatically
   - **B.** It is released as services are received
   - **C.** It becomes part of equity
   - **D.** It is expensed immediately

Correct Answer: B- The CSM is gradually released to profit or loss as the reinsurance services are provided.

8. Which of the following is NOT included in fulfilment cash flows?
   - **A.** Risk adjustment
   - **B.** Discounted expected cash flows
   - **C.** Reinsurer's profitability forecasts
   - **D.** Credit risk of the reinsurer

   Correct Answer: C- The reinsurer's own profitability forecasts are not part of the cedant's fulfilment cash flows.

9. How should assets and liabilities from reinsurance contracts be presented?
   - **A.** Net with insurance liabilities
   - **B.** Separately from insurance contracts issued
   - **C.** Offset against claims reserves
   - **D.** As part of investment property

   Correct Answer: B- IFRS 17 requires separate presentation of reinsurance contracts held.

10. How are experience adjustments in reinsurance contracts handled?
    - **A.** Deferred to the end of the contract
    - **B.** Ignored in measurement
    - **C.** Included in the remeasurement at each reporting date
    - **D.** Treated as financing costs

    Correct Answer: C- Experience adjustments affect the remeasurement of reinsurance contracts.

MODULE 11: INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES

Introduction

This module provides an overview on the treatment of investment contracts with discretionary participation features (DPF) under IFRS 17.

Investment contracts with discretionary participation features are financial instruments where investors receive additional benefits, in addition to guaranteed amounts, based on the issuer's discretion and the performance of a specified pool of assets or contracts. These benefits are not fixed and are determined by the issuer, impacting the overall investment return.

These contracts can contain both insurance-related and non-insurance elements, and their valuation often requires considerable judgment due to the discretionary nature of some expected cash flows. Where eligible, the Variable Fee Approach (VFA) may apply—this approach treats the insurer's compensation as a variable amount tied to returns from underlying assets.

The underlying items refer to elements that influence the amounts owed to policyholders. These may include a reference portfolio, the insurer's net assets, or external benchmarks such as indices—not just tangible assets. IFRS 17 requires that these items be explicitly defined and unchangeable after contract inception; altering them retrospectively would breach this requirement.

Participating investment contracts and participating insurance contracts are often backed by the same underlying pool of assets. Applying a consistent accounting approach to both provides more meaningful and comparable information to financial statement users while also reducing complexity.

Although one is classified as an investment product and the other as insurance, these contracts frequently share key features such as:

- Long durations (maturities),
- Recurring premium payments, and
- High acquisition costs.

Under IFRS 17, the following refences cover on Investment Contracts with Discretionary Participation Features:

Reference	Section	Content Summary
Para 3(c)	Scope	IFRS 17 applies to investment contracts with DPFs if issued by insurers (i.e., entities also issuing insurance contracts).
Appendix A	Definitions	Defines investment contracts with DPFs and sets three key criteria: discretion, significance, and performance linkage.
Para 71	Recognition & Measurement	Modifications for DPFs: - Recognize when the entity becomes party to the contract - Contract boundary: based on substantive investment services - CSM allocated to reflect investment service (not insurance coverage)
BC83–BC86	Basis for Conclusions	Justifies including investment contracts with DPFs under IFRS 17: - Economic substance is similar to insurance contracts - Ensures consistent accounting treatment across products
Para 88–89	Contractual Service Margin (CSM)	Explains systematic allocation of CSM for DPF contracts based on the transfer of investment service
Para B73–B75	Implementation Guidance	Provides guidance on investment services and how to allocate CSM accordingly

Investment Contract with Discretionary Participation Features (DPF)

An Investment Contract with DPF is a contract that:

A. Does not involve significant insurance risk,

B. But grants the policyholder a contractual right to receive additional benefits that are:

- Material in value,
- Discretionary (the issuer has some freedom in determining them),
- Linked to the performance of a pool of underlying items.

IFRS 17 requires that such contracts be accounted for, but with some modifications, only if the issuer also issues insurance contracts.

Examples of Investment Contract with Discretionary Participation Features:

A. With-profits savings policies

Offers bonuses tied to fund performance, with no insurance coverage.

B. Deferred annuities (investment only)

Value grows over time; discretionary bonuses apply, but no guaranteed returns or insurance elements.

C. Participating in deposit contracts

Provide a basic return plus a discretionary bonus derived from company profits.

D. Group savings plans

Contributions pooled and invested; participants receive discretionary bonuses based on investment outcomes.

Direct Participation Contracts and Investment Contracts with DPFs

	Direct Participation Contracts	Investment Contracts with DPFs
Definition	Insurance contracts where policyholders share in the results of clearly defined assets.	Financial contracts (not classified as insurance) offering variable returns based on asset performance.
Standard	Fully covered by IFRS 17 and measured using the Variable Fee Approach (VFA).	Also covered by IFRS 17, with specific adjustments—but only if the issuer also sells insurance contracts.
Purpose	Combines insurance protection with shared investment outcomes.	Offers investment-type returns with discretionary bonuses, without transferring insurance risk.

Key Characteristics Comparison

Feature	Direct Participation Contracts (DPCs)	Investment Contracts with DPFs
Insurance Risk Present?	✓ Yes	✗ No
Participation in Underlying Items?	✓ Yes (clearly identified)	✓ Yes
Discretionary Participation?	✓ Yes	✓ Yes
Measurement Approach	Variable Fee Approach (VFA) under IFRS 17	General Model with modifications under IFRS 17
Eligibility Criteria	Must meet 3 conditions: 1. Share in underlying items 2. Substantial share of fair value returns 3. Payments vary with fair value changes	Must provide discretionary returns + issued by insurer that also issues insurance contracts
Discounting	Uses current rates for cash flows not based on underlying items	Similar, but less focus on variability in fees
CSM Adjustment for Financial Risk?	✓ Yes, using current interest rates	✗ No, uses locked-in rate unless modified

Practice Questions

1. **Under IFRS 17, which of the following most accurately distinguishes insurance contracts with direct participation features (DPF) from investment contracts with discretionary participation features?**

A. Only investment contracts with DPF can be measured under the general measurement model.
B. Insurance contracts with DPF require application of IFRS 9 instead of IFRS 17.
C. Insurance contracts with DPF may qualify for the variable fee approach (VFA), while investment contracts with DPF do not.
D. Both contract types are excluded from IFRS 17 and measured under IFRS 9.

Correct Answer: C

Explanation:
Insurance contracts with direct participation features can be measured using the Variable Fee Approach (VFA) under IFRS 17 this is designed to reflect the insurer's share in the returns from underlying items. Investment contracts with discretionary participation features (often issued by insurers) are not insurance contracts, but are still within IFRS 17's scope however, they do not qualify for the VFA and are measured using the general measurement model or PAA, if applicable.

2. **Which of the following best describes a contract that would typically be classified as an investment contract with discretionary participation features under IFRS 17?**

A. A unit-linked insurance policy where the insurer bears no investment risk.
B. A pure investment product with profit sharing, issued by an insurer, that does not transfer significant insurance risk.
C. A group life contract with guaranteed death benefits and profit sharing.
D. A reinsurance contract held with profit participation.

Correct Answer: B
Explanation:
Investment contracts with DPF under IFRS 17:

a) Are not insurance contracts (i.e., they do not transfer significant insurance risk),
b) Are issued by insurers, and
c) Contain discretionary participation features, such as bonus declarations or profit-sharing based on performance of underlying items.

3. **According to IFRS 17, the coverage period of a direct participation contract extends until:**

A. The policyholder stops making regular premium payments.
B. The underlying items reach their maximum market value.
C. The entity is no longer obligated to provide asset management services.
D. The discretionary bonuses have been declared.

Correct Answer: C
Explanation:
For direct participation contracts (which may follow the Variable Fee Approach), the coverage period goes beyond traditional insurance risk coverage it includes the period during which the insurer provides asset management services related to the underlying items. This is because the insurer's obligation includes sharing returns with the policyholder based on those underlying items.

4. **Under IFRS 17, which of the following is the most accurate description of an underlying item in the context of a direct participation contract?**

   A. A reinsurance asset that reduces the liability for remaining coverage.
   B. A financial or non-financial item whose fair value determines the returns shared between the insurer and policyholder.
   C. A fixed interest rate used to discount future cash flows in a participating insurance contract.
   D. A liability component separated from the insurance contract due to embedded derivatives.

   Correct Answer: B
   Explanation:
   An underlying item under IFRS 17 is any reference item (like a portfolio of assets or other investments) whose fair value or returns are shared between the insurer and the policyholder a key concept in direct participation contracts.
   It is central to contracts measured using the Variable Fee Approach (VFA).

5. **Which of the following conditions must be met for a policyholder's participation in a pool of underlying items to qualify a contract as a Direct Participation Contract?**

   A. The policyholder has guaranteed access to fixed investment returns.
   B. The policyholder's returns are based on an insurer-declared bonus, not linked to any specific asset.
   C. The policyholder receives a substantial share of returns from clearly identified underlying items, and the insurer's fee is variable.
   D. The insurer retains all upside risk but shares downside losses with the policyholder.

   Correct Answer: C
   Explanation:
   For a contract to be classified as a Direct Participation Contract (DPC) under IFRS 17 (and eligible for the Variable Fee Approach), three key criteria must be met:
   1. There are clearly identified underlying items.
   2. The policyholder is entitled to a substantial share of the returns on these items.
   3. The insurer's compensation is a variable fee based on those returns.

6. **Which of the following scenarios is least likely to meet IFRS 17's requirement of having a clearly identified pool of underlying items for classification as a Direct Participation Contract?**

   A. A unit-linked policy where policyholder returns depend directly on the value of specified mutual fund units.
   B. A with-profits contract where the policyholder's benefits are based on the performance of a segregated asset portfolio.
   C. A universal life product with returns based on the insurer's general account performance, without disclosing specific assets.
   D. An investment-linked policy where the insurer clearly identifies and manages a portfolio of bonds backing the contract.

   Correct Answer: C
   Explanation:
   IFRS 17 requires that underlying items be clearly identified for a contract to qualify as a Direct Participation Contract (DPC). Option C lacks transparency: since the insurer's general account is used and specific underlying assets are not disclosed, it fails the "clearly identified" requirement.

7. **According to IFRS 17, when should an insurer determine whether an insurance contract qualifies as a Direct Participation Contract?**

   A. At initial recognition of the contract, based on its contractual terms.
   B. When the insurer prepares the first set of financial statements including the contract.
   C. At the time the policyholder exercises their option to participate in surplus.
   D. Annually, based on actual investment returns shared with policyholders

Correct Answer: A

Explanation:
IFRS 17 requires that the classification of a contract including whether it qualifies as a Direct Participation Contract (DPC) be assessed at initial recognition, not later. The determination is based on the substance of the contract's terms, especially whether the policyholder participates in a clearly identified pool of underlying items.

8. **Which of the following statements is TRUE regarding the use of discounting in the measurement of Direct Participation Contracts (DPCs) under IFRS 17?**

   A. Discounting is not required for DPCs, as cash flows are based on underlying items.
   B. Discount rates for DPCs must be based on observable market yields only.
   C. The effect of changes in financial assumptions is recognized in profit or loss for all DPCs.
   D. For DPCs measured under the Variable Fee Approach, discounting reflects the characteristics of the underlying items.

Correct Answer: D
Explanation:
Under IFRS 17, Direct Participation Contracts (DPCs) that meet the criteria for the Variable Fee Approach (VFA) must be measured using discount rates that are consistent with the underlying items. This ensures that the financial effects of changes in those underlying items (which affect both asset and liability sides) are reflected appropriately.

9. **Under IFRS 17, how does the treatment of changes in financial assumptions differ between contracts with and without direct participation features when adjusting the Contractual Service Margin (CSM)?**

   A. Only contracts without direct participation features adjust the CSM for changes in discount rates.
   B. Contracts with direct participation features adjust the CSM for changes in financial risks even if they do not relate to future service.
   C. Contracts with direct participation features adjust the CSM only for non-financial risks.
   D. Both types of contracts adjust the CSM only when the change affects past service.

Correct Answer: B
Explanation:
For contracts with direct participation features, IFRS 17 (under the Variable Fee Approach) allows CSM to absorb changes in financial variables, such as interest rates and asset returns even if they do not relate to future service. This differs from contracts without direct participation features (measured under the General Measurement Model), where only changes that affect future service adjust the CSM.

10. **What is the required treatment when a contract previously classified as a Direct Participation Contract (DPC) is modified and no longer meets the criteria for DPC classification?**

A. The modification is accounted for as a change in estimate, and no reclassification is made.
B. The contract is retrospectively remeasured using the General Measurement Model (GMM).
C. The existing contract is derecognised, and a new contract is recognised under the appropriate measurement model.
D. The change is applied prospectively, and the CSM is adjusted to remove the variable fee.

Correct Answer: C
Explanation:
IFRS 17 requires derecognition and recognition of a new contract when a modification results in a fundamental change such as when a DPC no longer meets the criteria (i.e., no longer provides a variable fee based on underlying items). This is treated as an extinguishment and replacement, not just an adjustment..

11. **Which of the following qualifies as an investment contract with discretionary participation features?**

A. A deposit contract with fixed, non-discretionary interest payments and no investment-linked return.
B. A financial instrument offering returns based solely on a fixed yield over time.
C. A contract that provides significant additional benefits determined by the issuer, linked to the performance of a specified pool of assets.
D. A traditional life insurance policy with guaranteed death benefits only.

Correct Answer: C
Explanation:
IFRS 17 defines an investment contract with discretionary participation features (DPF) as one that:

a) Does not transfer significant insurance risk,
b) Provides contractual rights to discretionary returns, and
c) These returns are based on the performance of underlying assets or entity's profit.

C fits this description the additional amounts are contractually discretionary and performance-based..

MODULE 12: MODIFICATION & DERECOGNITION

Introduction

This module provides a detailed overview of the requirements for modifying and derecognizing insurance contracts, as per **IFRS 17 (paragraphs 72–77)**.

Modification refers to a change in the contractual terms of an insurance contract after it has been initially recognized. Such changes may result either from a mutual agreement between the insurer and the policyholder or as a result of changes in regulation.

When a Contract is Derecognized.

According to IFRS 17, an insurance contract must be **derecognized and replaced with a new contract only if** one or more of the following conditions are met:

a) The modified contract now contains distinct non-insurance components, such as separate goods or services.

b) The contract is no longer eligible to be measured using the (PAA).

c) The contract either acquires or loses the variable fee features.

d) The contract included modification terms when the contract was initially issued.

e) The contract no longer falls within the scope of IFRS 17.

f) There are substantial changes to the contract boundary.

g) The contract must be transferred to a different group — for example, a new cohort, portfolio, or due to it becoming onerous.

Changes that do not meet the specified conditions are treated as updates to expected future cash flows and are accounted for in line with IFRS 17 subsequent measurement requirements.

When is a contract derecognized?

a) Any of the above derecognition criteria are met, or

b) The insurer has fully discharged, cancelled, or the obligations to the policyholder have expired, or

Accounting Treatment for Derecognition

a) Derecognition of a Contract Within a Group

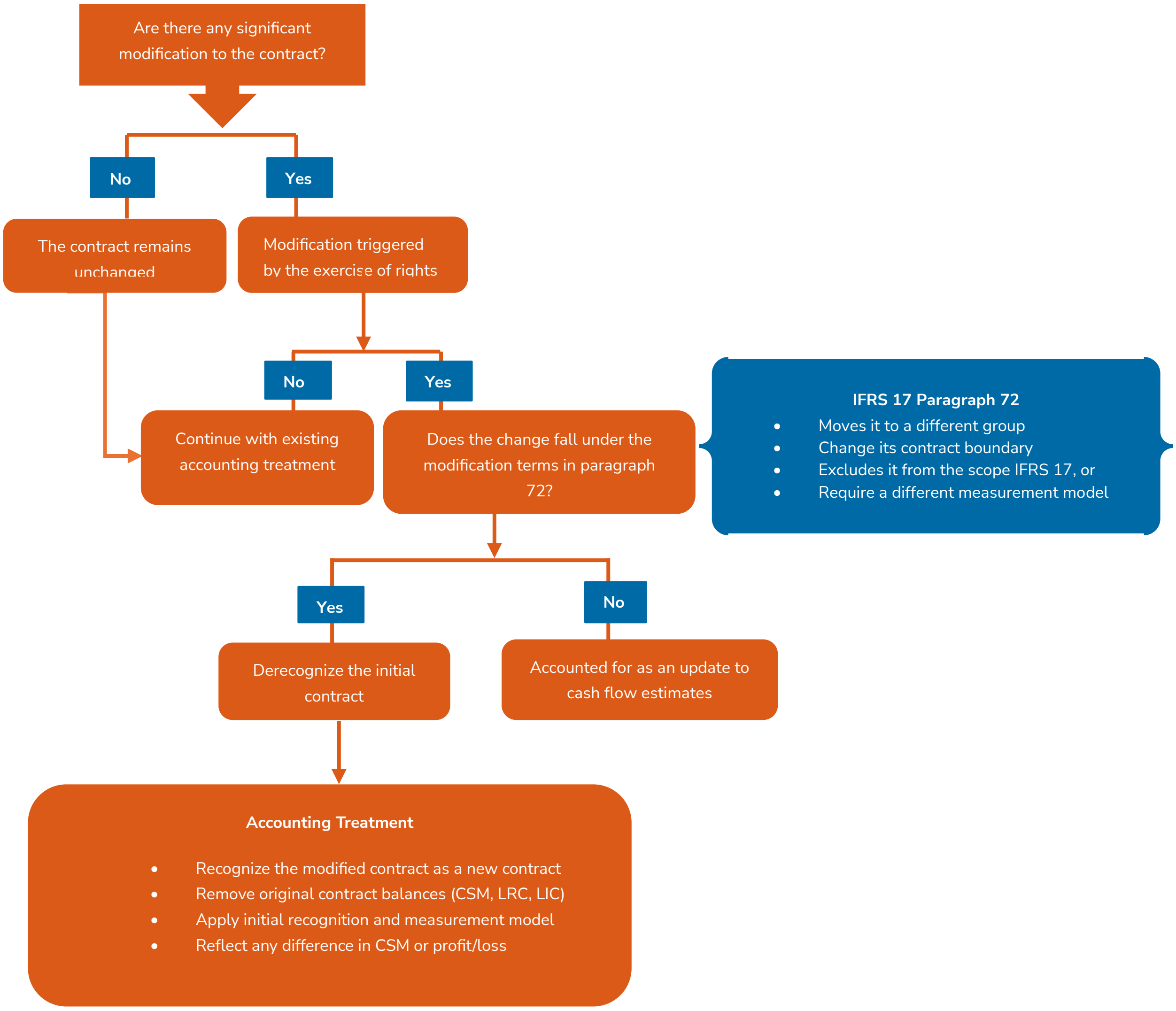
When a contract is removed from a group (e.g. due to expiry or cancellation), the insurer must:

- Eliminate the contract's portion of the present value of future cash flows and the associated risk adjustment.
- Recalculate coverage units and revise profit recognized, based on the updated number of contracts in the group.
- Reflect the change in fulfilment cash flows by updating the Contractual Service Margin (CSM), where applicable.

b) Derecognition Due to Modification or Transfer

If derecognition results from a modification or a transfer to another entity:

- The CSM must be updated to reflect the difference between:
  - The change in the carrying amount of the contract, and
  - Either the premium set by a third party (for a transfer), or
  - The premium the insurer would have required if issuing the modified contract as new.
- Account for the modified contract as if this premium had been received on the modification date.



Practice Questions

1. Under what conditions should a modified insurance contract be derecognized and replaced with a new contract?
    A. If the policyholder changes their payment frequency
    B. If there are substantial changes to the contract terms affecting scope, boundary, or group classification
    C. If the policyholder changes their preferred mode of communication
    D. If the contract experiences delays in premium payment

Answer: B
Explanation: A modified insurance contract must be derecognized and replaced under IFRS 17 if the changes are substantial—such as those that affect the scope of IFRS 17, the contract boundary, group classification, or measurement model (e.g., PAA eligibility).

2. What must be done if a modified contract is recognized as a new contract?
    A. Recognize it as if issued on the date of modification
    B. Use the same measurement model as the old one
    C. Record a retrospective adjustment
    D. Keep the original contract in the books

    Answer: A
    Explanation: The new contract is recognized as if issued on the date of modification, using applicable IFRS 17 rules.

3. What is the correct accounting treatment when a contract is derecognized due to modification?
    A. The existing balances are carried forward to the new contract
    B. Only the Contractual Service Margin (CSM) is retained
    C. The original contract balances (CSM, LRC, LIC) are removed and the modified contract is recognized as new
    D. No changes are made in accounting

Answer: C
Explanation: When a contract is derecognized due to modification, removing the original contract balances (like the CSM, Liability for Remaining Coverage, and Liability for Incurred Claims) and recognizing the modified contract as a new one.

4. What happens if a change in an insurance contract does not meet the derecognition criteria?
    A. The change is ignored for accounting purposes
    B. The contract is still derecognized as a precaution
    C. The change is reflected as a change in cash flow estimates
    D. The insurer must issue a new contract

Answer: C
Explanation: If the modification does not meet any of the criteria for derecognition, the contract is not derecognized. Instead, the changes are treated as an update to expected future cash flows and are reflected in the standard measurement approach.

5. Which of the following changes would NOT trigger derecognition of an insurance contract?
    A. The policyholder switches to a different communication language
    B. The contract boundary is significantly changed
    C. The contract is modified to include distinct non-insurance components
    D. The contract is moved to a different group due to becoming onerous

Answer: A
Explanation: Only substantial modifications—such as changes to scope, contract boundary, group classification, or inclusion of non-insurance components—lead to derecognition. Administrative or cosmetic changes, like language preference, do not require derecognition.

6. Which condition would lead to derecognition of a contract even without modification?
    A. Policyholder requests fewer policy documents

B. Insurer no longer has obligations to the policyholder
C. Policyholders update their address
D. The insurer upgrades internal systems

Answer: B
Explanation: A contract is derecognized if it expires, is fully settled, or the insurer has no remaining obligations.

7. What does Paragraph 72 of IFRS 17 NOT include as a reason for derecognition?
   A. Exclusion from IFRS 17 scope
   B. Change in contract boundary
   C. Movement to a different group
   D. Change in payment currency

Answer: D
Explanation: Paragraph 72 outlines derecognition criteria. Currency changes alone don't trigger derecognition.

8. What must an insurer do when removing a contract from a group due to expiry or cancellation?
   A. Recalculate coverage units and revise profit
   B. Transfer the contract to a suspense account
   C. Add a new policy to replace it
   D. Record a gain immediately

Answer: A
Explanation: Upon derecognition, the insurer must eliminate related balances, adjust CSM, and update coverage units.

9. When derecognizing a contract due to modification, how should the adjustment to the CSM be calculated?
   A. Based on the claims already paid
   B. As the difference between the old carrying amount and the premium for the modified or transferred contract
   C. Using the historical premium received
   D. Based on market value of the policy

Answer: B
Explanation: IFRS 17 requires the CSM to be adjusted based on the difference between the carrying amount of the original contract and the premium a third party would charge (or would have been charged for a newly issued modified contract).

10. What is the key difference in accounting when a contract modification requires derecognition versus when it does not?
   A. The risk adjustment is recalculated in both cases
   B. The insurer retains the original fulfilment cash flows in both cases
   C. In derecognition, the original contract is removed; in non-derecognition, only future cash flows are updated
   D. Both cases require reporting to the insurance supervisor

Answer: C
Explanation: If derecognition is required, the original contract is removed from the books. If not, the contract remains and only estimates of future cash flows are updated under the standard measurement model.

MODULE 13: PRESENTATION IN THE STATEMENT OF FINANCIAL POSITION

Introduction

This module provides an overview of the key changes in the presentation of the statement of financial position under IFRS 17 compared to IFRS 4. This is covered under paragraphs 78 – 82.

IFRS 17 requires insurance companies to present insurance and reinsurance contracts separately in their financial statements. In the balance sheet (statement of financial position), insurers must clearly show:

a) Insurance contracts they issued that are assets

b) Insurance contracts they issued that are liabilities

c) Reinsurance contracts they hold that are assets

d) Reinsurance contracts they hold that are liabilities

If a group of insurance contracts is expected to pay out more than it will receive (i.e., expected outflows are greater than inflows), it must be shown as a liability. The same applies to onerous contracts, which are expected to make a loss, and to outstanding claims, which are amounts the insurer still owes.

Acquisition costs, like commissions paid to agents, should be included in the total value of the contracts on the balance sheet. These costs are not shown separately and including them gives a fuller picture of the insurer's financial position.

In the income statement (statement of profit or loss), two main things must be shown:

- Insurance service result – income and expenses from providing insurance services, not including investment-related amounts.
- Insurance finance income or expenses – the effect of interest rates and time on expected future cash flows.

An insurer 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 the insurer 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.

IFRS 17 also requires insurers to review their figures at each reporting date to ensure they still reflect their true financial situation.

Presentation in the Statement of Financial Position

Aspect	IFRS 4	IFRS 17
Presentation of Insurance Contracts	Insurers often presented a **net position** (e.g., premiums receivable net of claims payable), leading to a lack of transparency in the true financial exposure of the insurer. There were no specific rules on separate presentation.	Requires a **clear split** between insurance contract assets and insurance contract liabilities. This ensures **greater clarity** on whether an entity is in a net asset or net liability position for each group of contracts.
Level of Aggregation	Presentation was typically at a **portfolio or product line level**, with limited guidance on how to group contracts. This resulted in inconsistent practices.	Contracts must be grouped by **issue year** and **expected profitability** into three categories: (i) onerous, (ii) no significant possibility of becoming onerous, and (iii) remaining contracts. Presentation is at the **group of contracts** level.
Contractual Service Margin (CSM)	CSM was not recognised. Profits were often front-loaded or deferred through unearned premium reserves or DAC.	The **CSM is a core liability component** under IFRS 17. It represents the **unearned profit** and is amortised over the coverage period, ensuring profit is recognised as services are provided.
Acquisition Costs (DAC)	Acquisition costs could be **capitalised** and presented as a **Deferred Acquisition Cost** asset, separate from insurance liabilities.	These costs are **included in fulfilment cash flows**, which affect the CSM. DAC is no longer a separate balance sheet item, aligning recognition more closely with the insurance liability.
Onerous Contracts	There was **no explicit requirement** to identify or account separately for onerous contracts, allowing insurers to smooth losses.	**Onerous groups must be identified at initial recognition.** Any loss is **recognised immediately** in profit or loss and the group is shown as a liability in the SFP.
Risk Adjustment	Not required. There was no standardised way to reflect uncertainty or risk in the liability valuation.	A **risk adjustment for non-financial risk** must be included in the measurement of insurance liabilities. This adds a **buffer** for the uncertainty in fulfilment cash flows.
Reinsurance Contracts	Often **netted against underlying insurance contracts**, or presented inconsistently across companies.	Reinsurance contracts are presented **separately** as **assets or liabilities** and measured independently from underlying insurance contracts, improving transparency.
Transparency & Comparability	Low comparability across insurers due to different local GAAPs and inconsistent application. Diverse presentation reduced the usefulness of financial statements.	High comparability. IFRS 17 enforces a **uniform structure**, with disclosures enhancing comparability across insurers and jurisdictions.

Aspect	IFRS 4	IFRS 17
Measurement Basis	Frequently relied on **historic assumptions**, such as unadjusted premium cash flows and static reserves. Assumptions were not updated regularly.	Based on **current estimates** of future cash flows, updated at each reporting date. This includes changes in assumptions and discounting, improving **relevance and reliability**.
Offsetting Allowed?	Offsetting was common (e.g., premiums receivable net of claims payable), reducing the visibility of gross exposures.	**Offsetting is prohibited.** This rule enhances **balance sheet clarity**.

IFRS 4 vs IFRS 17 Balance Sheet

The diagram below shows the transition between the IFRS 4 Balance Sheet and the IFRS 17 Balance Sheet.

IFRS 4		IFRS 17	
ASSETS		**ASSETS**	
Reinsurance Contract Assets	(1)	Insurance contract assets	(2), (3)
Deferred acquisition costs	(2)	Reinsurance contract assets	(1), (4)
Insurance receivable	(3)	Other assets	(5)
Reinsurance receivables	(4)		
Other assets	(5)		
Total Assets	xx	**Total Assets**	xx
EQUITY		**EQUITY**	
Share capital	(1)	Share capital	(1)
Statutory reserves	(2)	Statutory reserves	(2)
General reserves	(3)	General reserves	(3)
Retained earnings	(4)	Retained earnings	(4)
Total Equity	xx	**Total Equity**	xx
LIABILITIES		**LIABILITIES**	
Insurance contract liabilities	(1)	Insurance contract liabilities	(1), (4)
Deferred Commission Income	(2)	Reinsurance contract liabilities	(2), (3), (5)
Reinsurance deposits retained	(3)	Other Liabilities	(6)
Payable arising out of insurance arrangements	(4)		
Payable arising out of reinsurance arrangements	(5)		
Other Liabilities	(6)		
Total Liabilities	xx	**Total Liabilities**	xx

Practice Questions

1 How are changes in the risk adjustment presented if not disaggregated?

- **A.** In other comprehensive income
- **B.** Fully within the insurance service result
- **C.** As a deferred liability
- **D.** As finance income

Correct Answer: B – If an entity does not choose to disaggregate changes in the risk adjustment, the full change is presented within the insurance service result as per IFRS 17 guidance.

2 How should an entity present a group of contracts with a net obligation (i.e., expected outflows exceed inflows) in the statement of financial position?

- **A.** As an asset
- **B.** As a liability
- **C.** Under equity
- **D.** Offset against premiums receivable

Correct Answer: B – Under IFRS 17, if the fulfilment cash flows of a group of insurance contracts result in a net obligation (i.e., expected outflows exceed inflows), the group is presented as a liability in the statement of financial position.

3 How should an entity present insurance contracts issued in the statement of financial position?

- **A.** Only when the contracts are profitable
- **B.** Combined with acquisition cash flows only
- **C.** As either assets or liabilities, depending on the net fulfilment cash flows
- **D.** Net of reinsurance recoverables

Correct Answer: C – Insurance contracts are presented based on whether the net fulfilment cash flows result in an asset or liability. This provides clarity on the insurer's financial position.

4 What drives the distinction between insurance revenue and insurance finance income/expenses?

- **A.** Time value of money and discount rates
- **B.** Policy type
- **C.** Underwriting year
- **D.** Geographical spread

Correct Answer: A – Revenue reflects service delivery, while finance components reflect economic effects from interest and time.

5 What is the appropriate presentation of acquisition costs related to a group of reinsurance contracts held?

- **A.** Expensed immediately
- **B.** Included in insurance service expenses
- **C.** Reported under administrative expenses
- **D.** Included in the carrying amount of reinsurance contracts held

Correct Answer: D – IFRS 17 requires acquisition cash flows related to reinsurance contracts held to be included in the carrying amount of the related group of reinsurance contracts, ensuring proper matching of expenses and benefits.

6 Which of the following would most likely be presented as an insurance liability?

- **A.** Deferred acquisition costs
- **B.** Accrued interest income
- **C.** Outstanding claims reserves
- **D.** Expected future premium inflows

Correct Answer: C – Outstanding claims reserves represent obligations the insurer owes and are presented as part of insurance contract liabilities.

7 Under IFRS 17, how are insurance contract assets and liabilities presented in the Statement of Financial Position?

A. Offset against each other
B. Presented separately for each group of contracts
C. Presented net at the entity level
D. Combined and shown as a single line item

Correct Answer: B – IFRS 17 requires insurance contract assets and liabilities to be presented separately for each group of contracts, not netted at the entity level.

8 What is the treatment of a group of onerous contracts in the SFP?

A. Recognized as a liability
B. Included under reinsurance
C. Recognized as an asset
D. Deferred to future periods

Correct Answer: A – Onerous contracts result in a loss and are therefore recognized as a liability.

9 Which IFRS 17 paragraph outlines the presentation requirements for the SFP?

A. IFRS 17.32
B. IFRS 17.109
C. IFRS 17.42
D. IFRS 17.78

Correct Answer: A – IFRS 17.78 requires separate presentation of insurance contract assets and liabilities.

10 Which of the following is *not* shown separately in IFRS 17 SFP presentation?

A. Insurance contract liabilities
B. Insurance contract assets
C. Deferred acquisition costs
D. Reinsurance contract assets

Correct Answer: C – IFRS 17 does not require DAC to be shown separately — it's included in the measurement of fulfilment cash flows.

MODULE 14: INSURANCE SERVICE RESULT

Introduction

This module outlines the components and treatment of the insurance service result as specified in IFRS 17 paragraphs 83 to 86.

Presentation in the Statement of Financial Performance

IFRS 17 separates an insurer's profit into:

a) **Insurance Service Result**

b) **Insurance Finance Income or Expenses**

Insurance Service Result

The Insurance Service Result (before considering reinsurance) represents the operational profit an insurer makes from its primary activity and is derived as:

Insurance Service Revenue - Insurance Service Expenses.

Insurance Service revenue reflects the amount the insurer earns for providing insurance coverage over a specific period. It excludes any investment components (like savings elements in some policies) and is recognized as the service is provided.

Under the **Premium Allocation Approach (PAA)**, insurance revenue is often similar to the earned premium over the coverage period.

Under the **General Measurement Model (GMM)**, the Insurance service revenue includes;

i) Expected claims and expenses for the coverage provided in the period

ii) Risk adjustment for non-financial risk

iii) The release of the contractual service margin

iv) Recovery of insurance acquisition cash flows

Insurance Service Expenses represents all costs linked to fulfilling insurance contract obligations. It includes;

i) Incurred claims and other incurred insurance service expenses;

ii) Amortization of insurance acquisition cash flows;

iii) Changes that relate to past service, i.e., changes in fulfilment cash flows relating to the liability for incurred claims; and

iv) Changes that relate to future service, i.e., losses on onerous groups of contracts and reversals of such losses.

Insurance service revenue and insurance service expenses presented in profit or loss shall **exclude any investment components.**

Reinsurance Contracts Held

IFRS 17 requires separate presentation of reinsurance contracts held. An entity may choose either of the following :

Option 1: Net Presentation

Present a net amount (i.e., the total income or expense from a group of reinsurance contracts held) Show a single net amount representing:

SAMPLE INCOME STATEMENT	
Insurance revenue (from direct insurance contracts issued)	X
Insurance service expenses (from direct insurance contracts issued)	(X)
Net income (expense) from reinsurance contracts held	X
Insurance Service Result	**XX**
Finance income (expenses) from insurance contracts issued	X
Finance income (expenses) from reinsurance contracts held	X
Net Insurance Finance Income (Expenses)	**XX**
Net investment income	X
Net financial result	**XX**
Profit before tax	**XXX**
Income tax expense	(X)
Profit for the year	**XXXX**

Option 2

Present separately the amounts:

a) Recovered from the reinsurer, and

b) An allocation of the premiums paid to the reinsurer, resulting in the same net effect.

SAMPLE INCOME STATEMENT	
Insurance revenue (from direct insurance contracts issued)	X
Less: Insurance service expenses (from direct insurance contracts issued)	(X)
Insurance Service Result before reinsurance	**X**
Recoveries from reinsurers for incurred claims	X
Allocation of premiums paid to reinsurers	(X)
Net effect of reinsurance contracts held on insurance service result	**X**
Insurance Service Result	**XX**
Finance income (expenses) from insurance contracts issued	X
Finance income (expenses) from reinsurance contracts held	X
Net Insurance Finance Income (Expenses)	**XX**
Net investment income	X
Net financial result	**XX**
Profit before tax	**XXX**
Income tax expense	(X)
Profit for the year	**XXXX**

Practice Questions

1. What is the primary objective of separating the Insurance Service Result from Insurance Finance Income or Expenses under IFRS 17?

   A. To complicate financial reporting for insurers.
   B. To align with previous accounting standards.
   C. To provide a clearer and more transparent view of an insurer's operational performance versus financial market impacts.
   D. To reduce the overall profit reported by insurers.

Correct Answer: C

Explanation: IFRS 17 aims for enhanced transparency. By segregating the insurance service result (core underwriting profit) from finance income/expenses (impact of discount rates, investment returns), users can better understand the profitability of the insurance business itself, distinct from volatile financial market effects.

2. Which of the following components is NOT generally included in Insurance Service Revenue under the General Measurement Model (GMM)?

   A. Expected claims and expenses for the coverage provided in the period.
   B. Release of the contractual service margin.
   C. Investment components that do not transfer significant insurance risk.
   D. Recovery of insurance acquisition cash flows.

Correct Answer: C

Explanation: IFRS 17 explicitly states that insurance revenue shall exclude any investment components (paragraph 84). These components are viewed as financial liabilities or assets and are accounted for separately, as they do not relate to the provision of insurance service.

3. How should reinsurance contracts held be presented in the financial statements?

   A. Together with insurance contracts issued
   B. Separately from insurance contracts issued
   C. Only in other comprehensive income
   D. As a deferred liability

Correct Answer: B

Explanation: Results from reinsurance contracts must be shown separately from those of insurance contracts issued (Paragraph 85).

4. Under IFRS 17, the Insurance Service Result represents?

   A. The total investment return of the insurance company
   B. The difference between premiums received and claims paid
   C. The finance income from investment contracts
   D. The operational profit from insurance services

Correct Answer: D

Explanation: The Insurance Service Result represents the operational profit from the insurer's core insurance services — i.e., the difference between Insurance Service Revenue and Insurance Service Expenses.

5. Insurance Service Expenses include which of the following?

   A. Investment income

B. Incurred claims and changes in fulfilment cash flows
C. Premiums received from policyholders
D. Recovered amounts from reinsurers

Correct Answer: B

Explanation: Insurance Service Expenses include incurred claims, amortization of acquisition costs, and changes in fulfilment cash flows related to both past and future services.

6. When an entity does not disaggregate the change in risk adjustment, how is it treated?

A. Entire amount is included in the insurance service result
B. Must be split between finance and service result
C. Cannot be included in any result
D. Classified under insurance finance income

Correct Answer: C

Explanation: If disaggregation isn't done, the full change is recognized in the insurance service result (Paragraph 82).

7. How can entities present reinsurance contracts held in the financial statements?

A. Either as a net total or split into recoveries and premium allocations
B. As part of investment income
C. Only as a single combined amount
D. Only as separate line items

Correct Answer: A

Explanation: Reinsurance may be shown net or as separate elements, provided they reconcile (Paragraph 85).

8. Which of the following may not be reported in profit or loss if inconsistent with IFRS 17?

A. Income from reinsurance contracts
B. Risk adjustments
C. Premium details not aligned with Paragraph 83
D. Insurance service expenses

Correct Answer: C

Explanation: Disclosures that misrepresent how revenue is earned (per Paragraph 83) are not allowed in profit or loss.

9. When using the Premium Allocation Approach (PAA), Insurance service revenue is often similar to?

A. Contractual Service Margin Release
B. Written premium
C. Total premiums received
D. Earned premium over the coverage period

Correct Answer: D

Explanation: Under PAA, insurance revenue is generally similar to earned premium over the coverage period.

10. If a group of insurance contracts transitions from profitable to onerous (i.e., expected to make a loss), how is this loss recognized in the Insurance Service Result under IFRS 17?

A. The entire expected loss is deferred and recognized over the remaining contract period
B. The loss is recognized immediately in the Insurance Service Expenses in the period the contracts become onerous.
C. The loss is added to the Contractual Service Margin

D. The loss is presented in Other Comprehensive Income (OCI)

Correct Answer: B

Explanation: IFRS 17 requires immediate recognition of losses on onerous contracts. This ensures that any expected future losses are recognized as soon as the contracts are determined to be onerous, impacting the insurance service result of that period.

11. Losses on onerous groups of contracts and reversals of such losses are components of Insurance Service Expenses related to?

A. Incurred claims
B. Amortization of acquisition cash flows
C. Risk adjustment
D. Future service

Correct Answer: D

Explanation: Losses on onerous contracts are part of insurance service expenses as they relate to future service obligations.

12. What does IFRS 17 aim to achieve by separating service result and finance result?

A. Enhanced transparency and comparability
B. Compliance with local GAAP
C. Tax optimization
D. Maximizing investment returns

Correct Answer: A

Explanation: IFRS 17 aims to enhance transparency and comparability by clearly separating insurance services from financial effects.

13. What does "operational profit" in the context of Insurance Service Result refer to?

A. Profit generated from selling investment products
B. Profit derived directly from the core business of providing insurance coverage
C. Profit before deducting any financial expenses
D. Profit from non-insurance related activities

Correct Answer: B

Explanation: "Operational profit" in this context refers to the profit from the "primary activity" of an insurer, which is providing insurance coverage

14. If an entity reverses a previous loss on onerous contracts, which impact will this have?

A. Increase in insurance finance income
B. Reduction in insurance service revenue
C. Decrease in liabilities and increase in insurance service result
D. Increase in insurance acquisition costs

Correct Answer: C

Explanation: A reversal of losses on onerous contracts reduces liabilities and increases the insurance service result (Paragraph 84(c))

MODULE 15: INSURANCE FINANCE INCOME OR EXPENSES

Introduction

This module focuses on insurance finance income or expenses as defined under IFRS 17 paragraphs 87 to 92.

Definition

Insurance finance income or expenses refer to changes in the carrying amount of insurance contract liabilities (or assets) due to:

a) **The Time Value of Money (Discounting)**- This represents the accretion of interest on insurance contract liabilities, as future cash flows are discounted to their present value. As time progresses, this discount unwinds, impacting the financial results.

b) **Changes in Financial Assumptions**- This includes the impact of movements in key financial variables, such as:

   i. **Interest Rates**: Fluctuations in market interest rates directly affect the present value of future cash flows.

   ii. **Inflation**: If inflation is a factor in future cash flows, changes in inflation assumptions will also be reflected here.

What's Excluded from Insurance Finance Income or Expenses?

Not all changes in financial assumptions are classified as insurance finance income or expenses. In particular, changes are excluded when:

a) The contract possesses direct participating features (meaning policyholders share directly in the returns of underlying items held by the insurer), and

b) The change would ordinarily adjust the Contractual Service Margin (CSM), but specific IFRS 17 rules prevent this adjustment.

In such specific scenarios, these changes are instead recognized as insurance service expenses to ensure appropriate matching.

How to Present Insurance Finance Income or Expense

IFRS 17 offers insurers two primary accounting policy choices for presenting insurance finance income or expenses, depending on the characteristics of the insurance contract:

A. For Non-Participating Contracts (Contracts without Direct Participation Features):

These are contracts where the policyholder's returns are not directly linked to the returns of specific underlying assets held by the insurer.

a) Option 1 – Include all insurance finance income or expenses for the period entirely in Profit or Loss (P&L)

b) Option 2 – Split Between P&L and OCI:

   i. **In P&L:** A systematic and expected amount of insurance finance income or expense is recognized. This is typically calculated using the discount rate "locked-in" at the inception of the contract.

   This provides a more stable and predictable measure of the core financial performance.

   ii. **In OCI:** The remaining portion, representing the difference between the total actual insurance finance income or expense and the systematic amount recognized in P&L, is presented in Other Comprehensive Income. This mitigates the volatility in P&L that can arise from significant fluctuations in current market discount rates.

B. For Participating Contracts (Contracts with Direct Participation Features):

These are contracts where policyholders directly participate in the returns of underlying assets held by the insurer (e.g., unit-linked policies).

a) Option 1 – Similar to non-participating contracts, all insurance finance income or expenses for the period can be recognized entirely in the Profit or Loss statement.

b) Option 2 – Match Underlying Items:

i. In P&L: Show an amount that matches the investment returns on the underlying items (to avoid mismatches).

ii. In OCI: The rest of the financial result (the part that doesn't match the assets)

Foreign Currency Translation

Insurance contracts are treated as **monetary items** under IAS 21(The Effects of Changes in Foreign Exchange Rates).

Any exchange differences (due to currency changes) go to P&L, unless they relate to amounts already in OCI.

Option 1

STATEMENT OF COMPREHENSIVE INCOME	
Insurance revenue	XX
Insurance service expenses (excluding finance expenses)	(XX)
Net income/expense from reinsurance contracts held	XX
Insurance service result	**XX**
Insurance finance income or expenses (recognized entirely in P&L)	
Interest accretion on insurance liabilities	XX
Effect of changes in financial assumptions (e.g., discount rates)	(XX)
Exchange differences on insurance contract liabilities	XX
Effect of changes in financial risk	XX
Total insurance finance income or expenses	**XX**
Net income from investments (other than insurance finance)	XX
Other income / expenses	XX
General and administrative expenses	(XX)
Profit before tax	**XX**
Income tax expense	(XX)
Profit for the year	**XXXX**
Other Comprehensive Income (OCI)	
(No specific IFRS 17 insurance finance items appear here under Option 1 for non-participating contracts)	
Other OCI items (e.g., re-measurement gains/losses on financial instruments at FVOCI, if applicable)	XX
Total Other Comprehensive Income for the year (net of tax)	XX
Total Comprehensive Income for the year	**XXXX**

***FVOCI- Fair Value Through Other Comprehensive Income**

Option 2

STATEMENT OF COMPREHENSIVE INCOME	
Insurance revenue	XX
Insurance service expenses (excluding finance expenses)	(XX)
Net income/expense from reinsurance contracts held	XX
Insurance service result	**XX**
Insurance finance income or expenses recognized in profit or loss (allocated amount)	
Systematic allocation of expected finance income/expenses (e.g., using locked-in rates)	XX
Exchange differences on insurance contract liabilities (P&L portion)	XX
Total insurance finance income or expenses recognized in profit or loss	**XX**
Net income from investments (other than insurance finance)	XX
Other income / expenses	XX
General and administrative expenses	(XX)
Profit before tax	**XX**
Income tax expense	(XX)
Profit for the year	**XXXX**
Other Comprehensive Income (OCI)	
Items that may be reclassified subsequently to profit or loss:	
Exchange differences on retranslation of foreign operations	XX
Re-measurement gains/(losses) on debt instruments at FVOCI	XX
Insurance finance income or expenses recognised in OCI (difference) for non-participating contracts	XX
Exchange differences on insurance contract liabilities (OCI portion – non-participating)	XX
Items that will not be reclassified subsequently to profit or loss:	
Insurance finance income or expenses recognised in OCI (difference) for direct participating contracts	XX
Re-measurement gains/(losses) on equity instruments at FVOCI	XX
Exchange differences on insurance contract liabilities (OCI portion – direct participating contracts)	XX
Other OCI items not reclassified to P&L	XX
Total Other Comprehensive Income for the year (net of tax)	XX
Total Comprehensive Income for the year	**XXXX**

Practice Questions

1. Insurance finance income or expenses refer to changes in the carrying amount of insurance contract liabilities (or assets) due to which two main factors?

- **A.** Premium collection and claims payment.
- **B.** Time Value of Money (Discounting) and Changes in Financial Assumptions
- **C.** Investment performance and operational efficiency
- **D.** Acquisition costs and contract renewals

Correct Answer: B

Explanation: Insurance finance income or expenses reflect the impact of discounting (time value of money) and changes in financial assumptions like interest rates or inflation.

2. A change in market interest rates affects insurance finance income by?

- **A.** Modifying service revenue
- **B.** Adjusting the CSM
- **C.** Changing the present value of future cash flows
- **D.** Triggering immediate premium refunds

Correct Answer: C

Explanation: Interest rate movements impact the discounting of expected future cash flows.

3. When changes in financial assumptions are excluded from IFIE because the contract has direct participating features and IFRS 17 rules prevent CSM adjustment, these changes are recognized in which part of the financial statements?

- **A.** Directly in equity
- **B.** In a separate reserve account
- **C.** As part of investment income
- **D.** As insurance service expenses

Correct Answer: D

Explanation: In such specific scenarios, these changes are instead recognized as insurance service expenses to ensure appropriate matching.

4. For non-participating contracts, if an entity chooses to split IFIE between P&L and OCI, the portion recognized in OCI is specifically designed to mitigate volatility arising from which factors?

- **A.** Unexpected claims events
- **B.** Significant fluctuations in current market discount rates
- **C.** Changes in policyholder lapse rates
- **D.** Administrative cost overruns

Correct Answer: B

Explanation: This mitigates the volatility in P&L that can arise from significant fluctuations in current market discount rates..

5. How should IFIE recorded in OCI be treated when a group of insurance contracts is transferred or derecognized (per paragraph 91)?

- **A.** They are reversed in the next period
- **B.** They are transferred to equity
- **C.** They are reclassified to P&L if Option 2 under paragraph 88 was applied
- **D.** They remain in OCI permanently

Correct Answer: C

Explanation: If the disaggregation under paragraph 88(b) was used, the remaining OCI balance is reclassified to P&L as a reclassification adjustment.

6. According to IAS 21, insurance contracts are classified as?

   A. Non-monetary items
   B. Monetary items
   C. Equity instruments
   D. Derivatives

Correct Answer: A

Explanation: Under IAS 21, insurance contracts are monetary items. Exchange differences are included in P&L, except when they relate to amounts in OCI (then they stay in OCI).

7. Which of the following best illustrates the time value of money in the context of IFRS 17?

   A. Claims development
   B. Risk adjustment for non-financial risk
   C. Accretion of interest on discounted future cash flows
   D. Amortization of acquisition costs

Correct Answer: C

Explanation: Time value of money is captured through interest accretion on discounted liabilities, showing how value changes with time.

8. Under IFRS 17, how should an entity handle IFIE if the underlying items are measured at fair value through OCI?

   A. Present IFIE fully in equity
   B. Present IFIE fully in P&L
   C. Present IFIE in OCI to match the measurement of the underlying items
   D. Do not recognize IFIE

Correct Answer: C

Explanation: Presenting IFIE in OCI aligns with the treatment of underlying items and avoids mismatches.

9. What is the effect on the profit or loss statement when a group of contracts with OCI-disaggregated IFIE is derecognized?

   A. P&L remains unaffected by OCI balances
   B. P&L shows a spike in IFIE
   C. P&L includes cumulative OCI
   D. P&L shows a reversal of finance expenses

Correct Answer: A

Explanation: Since OCI amounts are retained in equity and not recycled, they have no impact on profit or loss.

10. If an entity is exposed to equity risk, how would this risk typically manifest within IFIE?

   A. Through changes in policyholder behavior
   B. Through fluctuations in foreign exchange rates
   C. Through unexpected increases in operational expenses
   D. Through its impact on discount rates, which affect the present value of liabilities

Correct Answer: D

Explanation: Equity risk affects IFIE by influencing discount rates, which in turn change the present value of insurance liabilities.

11. Which of the following is not a valid reason for choosing to disaggregate IFIE between P&L and OCI?

    A. To eliminate the need for tracking changes in financial assumptions
    B. To improve the comparability of financial statements over time
    C. To reflect the impact of market changes in OCI instead of P&L
    D. To match the reporting of liabilities with asset valuation

Correct Answer: A

Explanation: Even with disaggregation, entities must track changes in financial assumptions—disaggregation doesn't remove this requirement.

12. Which of the following contract types is most directly affected by the accounting policy choice in IFRS 17 paragraph 88?

    A. Contracts with direct participation features
    B. Non-participating insurance contracts
    C. Reinsurance held
    D. Investment contracts without Direct Participation Features

Correct Answer: B

Explanation: Paragraph 88 applies to non-participating insurance contracts, giving the option to disaggregate IFIE.

13. If an entity chooses to recognize all IFIE in P&L, why is the impact on OCI considered neutral?

    A. Because all recognition of IFIE occurs within the P&L, leaving no component to affect OCI
    B. Because OCI is only affected by non-cash items
    C. Because IFIE are always considered immaterial for OCI
    D. Because the impact is offset by other comprehensive income items

Correct Answer: A

Explanation: If all IFIE are recognized in P&L, there is no effect on OCI.

14. Why is disaggregation between profit or loss and OCI particularly relevant for contracts with direct participation features?

    A. To increase reported profit margins
    B. To reflect fair value changes in liabilities linked to market movements
    C. To simplify accounting for non-financial risks
    D. Because they are exempt from IFRS 17 disclosures

Correct Answer: B

Explanation: For direct participation contracts, market movements affect both assets and liabilities. Disaggregation allows better reflection of these changes in financial statements.