INSURANCE REGULATORY AUTHORITY

IFRS 17 DIGITAL TRAINING MODULE

COURSE CONTENT

IRA

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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.

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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: i. the returns on a specified pool of contracts or a specified type of contract; ii. realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or iii. the profit or loss of the entity or fund that issues the contract.
Liability for Incurred Claims	An entity’s obligation to: a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and b) pay amounts that are not included in (a) and that relate to:

TERM	DEFINITION
	i. insurance contract services that have already been provided; or ii. any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage
Liability for Remaining Coverage	An entity's obligation to: a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and b) pay amounts under existing insurance contracts that are not included in (a) and that relate to: i. insurance contract services not yet provided (ie the obligations that relate to future provision of insurance contract services); or ii. any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.
Policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.
Portfolio of Insurance Contracts	Insurance contracts subject to similar risks and managed together.
Reinsurance Contract	An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).
Risk Adjustment for Non-Financial Risk	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
Underlying Items	Items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

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 aims to provide an overview of the introduction and scope of IFRS 17, as outlined in **Paragraphs 1–8** of the Standard.

Introduction

International Accounting Standards Board (IASB) introduced IFRS 17 Standard in May 2017 to replace IFRS 4.

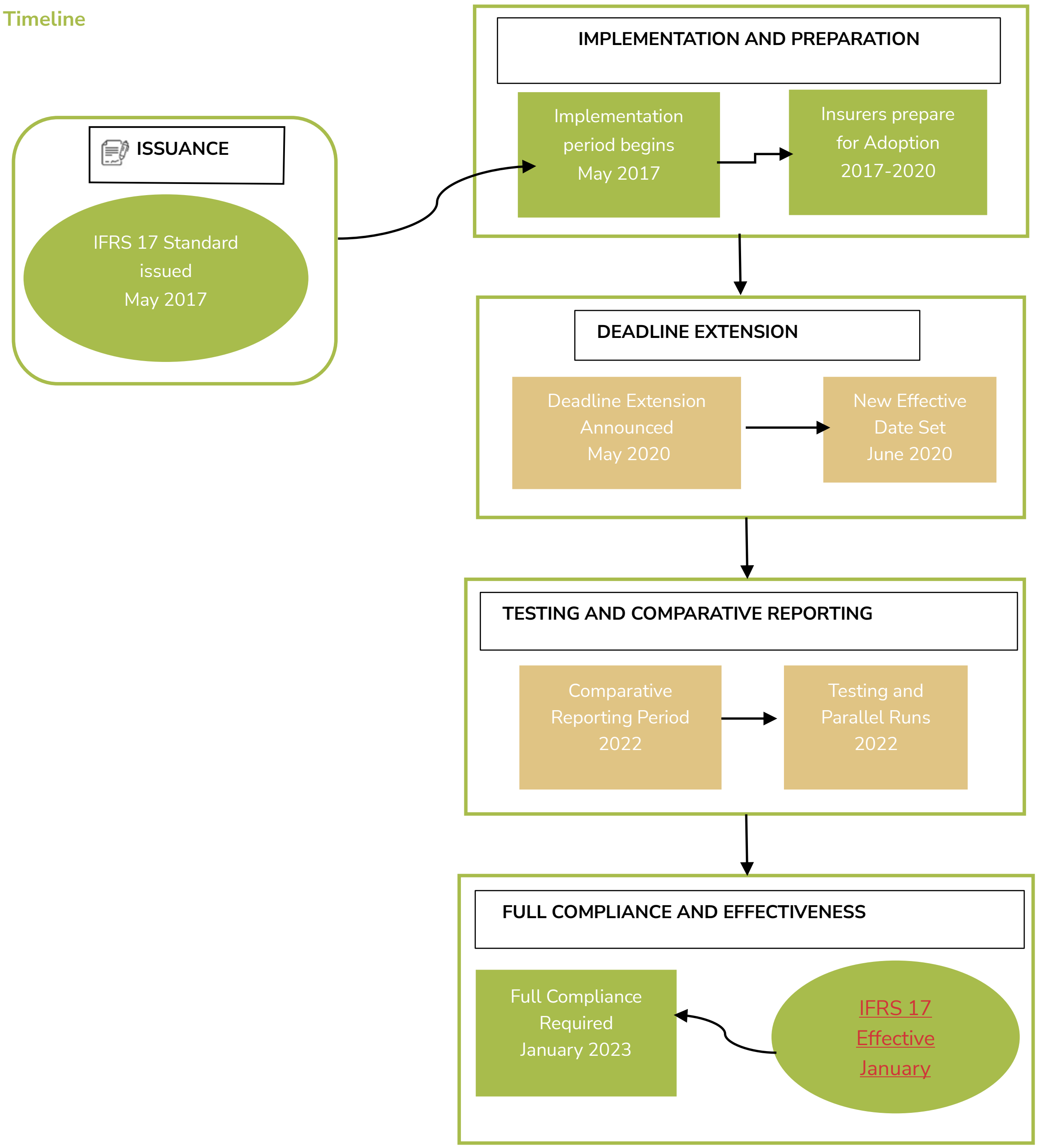
The Standard sets out comprehensive requirements for the **recognition, measurement, presentation,** and **disclosure** of insurance contracts. It aims to ensure that an entity provides relevant information that faithfully represents those contracts.

In March 2020, IASB extended the implementation deadline from **1st January 2022** to **1st January 2023.**

Insurers adopted the IFRS 17 reporting standard with the transition date being **1st January 2022**, and date of initial application being **1st January 2023.** Companies were expected to carry out testing and parallel runs of IFRS 17 processes and systems.

IFRS 17 became effective on **1st January 2023**, and full compliance in financial reporting was required.

IFRS 17 Timeline



Scope of IFRS 17

An insurer is required to 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.

Discretionary participation features give policyholders the right to receive additional benefits at the discretion of the insurer. *For example, bonuses added to participating life insurance policies based on the insurer's investment performance*.

Under IFRS 17, an insurance contract must involve an uncertain future event and significant insurance risk.

A key requirement is the transfer of risk, where the insurer must compensate the policyholder if the insured event has a negative impact on them

Contracts outside the scope of IFRS 17

Excluded Contract Type	Description	Treated Under
Product warranties	Warranties provided by a manufacturer, dealer, or retailer linked to a sale	**IFRS 15**
Employee benefits	Employer obligations under benefit plans for example pensions	**IAS 19, IFRS 2, IAS 26**
Use of non-financial items	Rights/obligations based on future use of non-financial items, such as, license fees, lease contingents	**IFRS 15, IFRS 16, IAS 38**
Residual value guarantees	Often part of leasing or sales contracts	**IFRS 15, IFRS 16**
Financial guarantee contracts	Unless the issuer opts to treat them as insurance	**IFRS 9, IFRS 7 IAS 32**
Business Combinations	Contingent consideration receivable/payable	**IFRS 3**
Policyholder Contracts	Insurance contracts where the entity is the policyholder, unless it's reinsurance held	

Description of various standards have been provided in the List of IFRS & IAS Standards

Some contracts may meet the definition of insurance contracts but are mainly meant to provide services for a fixed fee. An entity can apply IFRS 15 instead of IFRS 17 to these contracts if the conditions below exist:

a) The price set is not based on the risk of each individual customer.
b) The contract provides compensation in the form of services, not cash payments.
c) The insurance risk arises primarily from the customer's use of services, and not the uncertainty about service costs.

Practice Questions

1. What is the primary objective of IFRS 17?

   A. To standardize insurance accounting globally
   B. To replace IFRS 16
   C. To define financial instruments
   D. To measure investment property

Correct Answer: A- IFRS 17 aims to create a consistent accounting framework for insurance contracts to improve transparency and comparability.

2. What does IFRS 17 replace?

   A. IAS 37
   B. IFRS 4
   C. IFRS 9
   D. IAS 40

Correct Answer: B- IFRS 17 replaced IFRS 4, which was an interim standard.

3. What was the official date of initial application for IFRS 17?

   A. 1st January 2022
   B. 31st December 2022
   C. 1st January 2023
   D. 1st January 2021

Correct Answer: C- The initial application date for IFRS 17 was 1st January 2023.

4. IFRS 17 applies to?

   A. All insurance entities only
   B. Any entity issuing insurance contracts
   C. Reinsurers only
   D. Investment banks only

Correct Answer: B- Option B is correct because it reflects IFRS 17's definition or scope requirement.

5. How does IFRS 17 define an insurance contract?

   A. Contract transferring insurance risk
   B. Contract transferring investment risk
   C. Contract transferring liquidity risk
   D. Contract for investment advice

Correct Answer: A- Option A is correct because it captures the essential risk transfer element of insurance.

6. How does IFRS 17 define 'insurance risk'?

   A. The risk of policyholder default
   B. The risk of future investment losses
   C. The risk transferred from the policyholder to the insurer due to uncertain future events
   D. Exchange rate risk

Correct Answer: C- Insurance risk under IFRS 17 arises from uncertainties about future insured events that may trigger payments.

7. Which of the following contracts falls under the scope of IFRS 17?

   A. Product warranty issued by a retailer
   B. Lease contract under IFRS 16
   C. Financial guarantee contract under IFRS 9
   D. Reinsurance contract held by an insurer

Correct Answer: D- Reinsurance contracts held are explicitly within IFRS 17, unlike warranties, leases, and most financial guarantees.

8. Which contracts are only within IFRS 17 if the issuer also issues insurance contracts?

   A. Leases
   B. Derivatives
   C. Term Deposits
   D. Investment contracts with discretionary participation features

Correct Answer: D- These investment contracts are within IFRS 17 only when issued by entities that also issue insurance contracts.

9. Are product warranties issued by a retailer within IFRS 17?

   A. Yes, always
   B. No, they fall under IAS 37
   C. Only for 12-month terms
   D. Yes, if embedded in insurance

Correct Answer: B- Such warranties are not treated as insurance contracts and are covered by IAS 37.

10. What type of contract is explicitly excluded from IFRS 17 scope?

   A. Group life insurance
   B. Reinsurance contracts
   C. Insurance-linked investments
   D. Financial guarantees (under IFRS 9)

Correct Answer: D- Financial guarantee contracts are usually accounted for under IFRS 9 unless designated otherwise.

MODULE 2: COMBINATION AND SEPARATION OF INSURANCE CONTRACTS

Overview

IFRS 17 under paragraphs 9 to 13 has provided requirements for combination and separation of insurance contracts.

These paragraphs in the standard provide guidance on;

- When insurance contracts should be combined under IFRS 17
- Recognition of how pricing dependencies affect contract treatment
- Identification of when components within an insurance contract must be separated under IFRS 17
- How IFRS 9 and IFRS 15 apply to embedded derivatives and non-insurance services

IFRS 9 is an International Financial Reporting Standard (IFRS) that governs the accounting treatment of financial instruments. It took effect on January 1, 2018, replacing IAS 39.

IFRS 15 is the International Financial Reporting Standard that governs revenue recognition from contracts with customers. It took effect on January 1, 2018, replacing IAS 18 (Revenue) and IAS 11 (Construction Contracts).

IFRS 17 requires insurers to separate certain components within an insurance contract when they would fall under other IFRS standards if treated separately.

This applies to

- embedded derivatives,
- investment components, and
- non-insurance services.

Embedded Derivatives

They must be assessed under IFRS 9 to determine whether they should be separated. An embedded derivative is any financial instrument within an insurance contract that alters the cash flows based on external factors, such as interest rates, stock prices, or inflation indices. These derivatives are not separate contracts but are embedded within the insurance agreement itself.

Investment Components

They are separated only if they are distinct. Distinct contracts mean contracts that can exist independently i.e not highly interrelated with the insurance component of the contract and contracts with similar terms can be sold independently in the marketplace. The contractual amount under a distinct investment component is payable to the policyholder even if the insured event does not occur. In this case IFRS 9 applies unless the component qualifies for discretionary participation features under IFRS 17.

Investment components here refer to any cash flow within an insurance contract that is not contingent on an insured event (e.g., savings or investment-linked benefits).

The investment component is not considered distinct when it is highly interrelated with the insurance component of the contract. In this case it is accounted for under IFRS 17 rather than IFRS 9. Such instances include when:

- it cannot be separated from the insurance component without affecting 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 affected by the insurance component, meaning they are not separately identifiable.

Non-insurance Services

The non-insurance services such as wellness subscriptions within medical insurance policies must be separated and accounted for under IFRS 15 if they provide distinct goods or services beyond the insurance contract. IFRS 15 also guides how cash inflows and outflows are allocated between insurance and non-insurance components, ensuring financial reporting reflects the economic reality rather than just legal form.

How do pricing dependencies affect contract treatment?

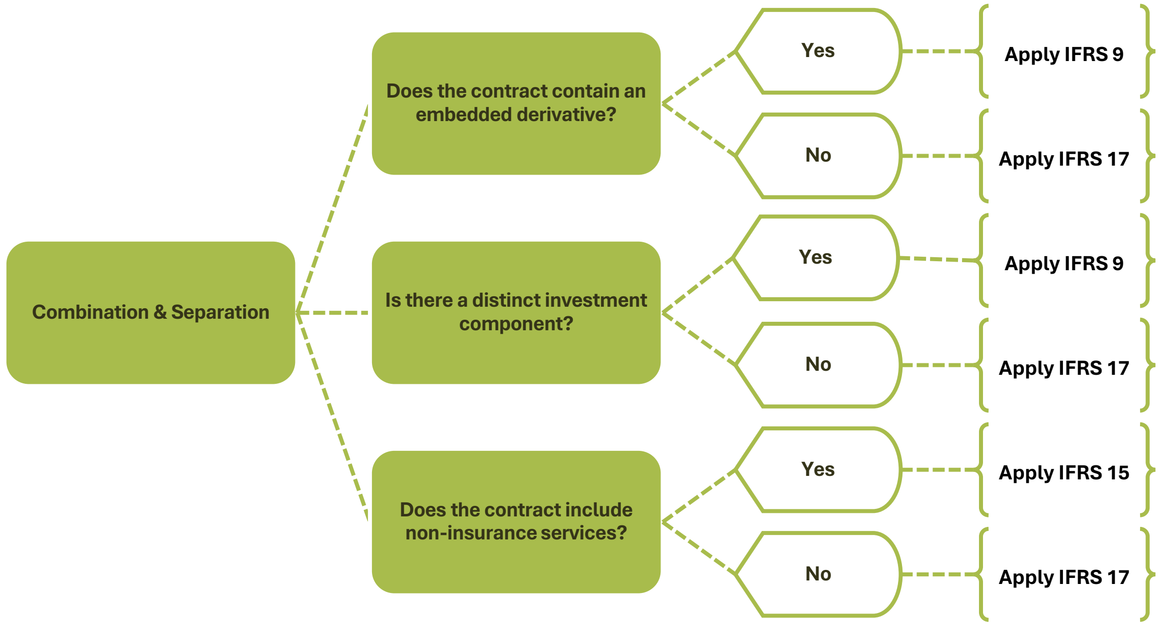
Contracts should be combined when the following characteristics are observed:

i. Interdependent pricing – if multiple contracts are priced together or structured as a package, they may need to be combined for financial reporting.
ii. Risk neutralization – if one contract eliminates the financial exposure of another, IFRS 17 may require treating them as a single arrangement.
iii. Overall commercial effect – contracts designed to work together to achieve a specific financial outcome must be reported as a unit. Commercial effect means the economic impact of a series of insurance contracts put together.

Contracts should be separated when the following characteristics are observed:

i. Distinct pricing – if contracts have independent pricing and do not rely on each other, they can be accounted for separately.
ii. Standalone risk profiles – if each contract carries its own risk without affecting the other, separation is appropriate.
iii. Different policyholder benefits – if contracts serve different purposes and do not interact financially, they remain separate.

Decision Process for Separating Components



IFRS 4 vs IFRS 17

The table below shows how IFRS 4 and IFRS 17 treat the combination and separation of insurance contracts.

Aspect	IFRS 4	IFRS 17
Combination of Insurance Contracts	No specific guidance: insurers followed local policies	Requires contracts to be combined if they achieve an overall commercial effect
Embedded Derivatives	Limited guidance: insurers could apply IFRS 9 in some cases	Must be separated and assessed under IFRS 9 if not closely related to insurance risk
Investment Components	Generally included within insurance contracts	Must be separated and accounted for under IFRS 9 if they are distinct
Non-Insurance Services	Often bundled within insurance contracts	Must be separated and accounted for under IFRS 15 if they provide distinct goods or services

Practice Questions

1) An insurer enters into two separate contracts with the same policyholder at the same time. Contract A provides insurance coverage, while Contract B negates the financial exposure of Contract A entirely. According to IFRS 17, how should the insurer report these contracts?

   A) Treat the contracts as a single arrangement because they achieve an overall commercial effect

   B) Report both contracts separately as independent arrangements

   C) Recognize only Contract A since it was issued first

   D) Disclose both contracts but report them under IFRS 9

   Correct Answer: A – When contracts are designed to achieve an overall commercial effect (such as one negating the obligations of another), IFRS 17 requires treating them as a single arrangement to reflect the economic substance.

2) An insurer bundles multiple policies for a corporate client into a package with interdependent pricing. Some policies provide coverage, while others hedge specific risks associated with the insured entity. Under IFRS 17, how should these contracts be accounted for?

   A) Each contract must be evaluated individually regardless of interdependencies

   B) The bundled contracts should be treated as a single unit if they collectively achieve an overall commercial effect

   C) Contracts should be separated since they have different durations

   D) Each contract should be reported based on legal form rather than economic substance

   Correct Answer: B – IFRS 17 mandates that contracts designed to work together as a package with shared pricing or risk mitigation should be combined to reflect their true economic impact.

3) Which of the following scenarios would **not** require the combination of contracts under IFRS 17?

   A) Two insurance contracts issued simultaneously to the same policyholder, with pricing designed 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 an investment product sold separately with no dependency in pricing or risk

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

Correct Answer: C – If contracts have no interdependent pricing or risk structure, they do not need to be combined under IFRS 17. Separation is appropriate in such cases.

4) A life insurer offers a package where a main policy includes both insurance coverage and an investment component. The investment feature provides financial returns that could exist independently without the insurance portion. How should the insurer treat this arrangement under IFRS 17?

   A) Recognize it as a single insurance contract

   B) Treat the entire contract under IFRS 9

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

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

   Correct Answer: D – IFRS 17 requires separating investment components if they can function independently, ensuring accurate financial reporting.

5) An insurer issues two separate policies to the same corporate client—one covering property damage and another covering business interruption losses linked to that property. The premiums are interdependent and structured as a bundle to provide a cohesive risk solution. What is the appropriate IFRS 17 treatment?

   A) The contracts should always be separated

   B) The contracts should be combined if pricing is interdependent

   C) The contracts must be accounted for under IFRS 9

   D) The contracts should be combined only if policyholders request it

   Correct Answer: B – IFRS 17 requires combining contracts that are designed to function together commercially, particularly if pricing reflects mutual risk dependencies.

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

   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 – IFRS 17 directs insurers to apply IFRS 9 to determine whether an embedded derivative should be separated and how it should be accounted for.

7) An insurer offers a contract that includes both insurance coverage and an investment component that can exist independently in the 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 – Investment components should be separated if they are distinct, meaning they can function independently. IFRS 9 applies unless the investment contract falls under discretionary participation features covered by IFRS 17.

8) An insurance contract includes health coverage and an add-on subscription service for wellness programs, such as gym memberships and nutrition consultations. How should this non-insurance component be accounted for under IFRS 17?

A) It must remain part of the insurance contract under IFRS 17

B) It should be accounted for separately using IFRS 15 if distinct

C) It should be reclassified as an investment component under IFRS 9

D) It must only be disclosed in the insurer's financial statements

Correct Answer: B – IFRS 17 requires separating non-insurance services if they provide distinct goods or services. The insurer must apply IFRS 15 to allocate cash flows and account for them separately.

MODULE 3: LEVEL OF AGGREGATION

Module Objective

This module provides an overview on how insurance contracts are grouped for measurement and reporting as per IFRS 17 paragraph 14 to paragraph 24.

What is Aggregation in IFRS 17?

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 process involves:

Step 1: Grouping by Portfolio

A portfolio consists of insurance contracts that share:

a) Similar characteristics – e.g., motor insurance, term life products
b) Similar management structure

Step 2: Subdividing Portfolios into Groups

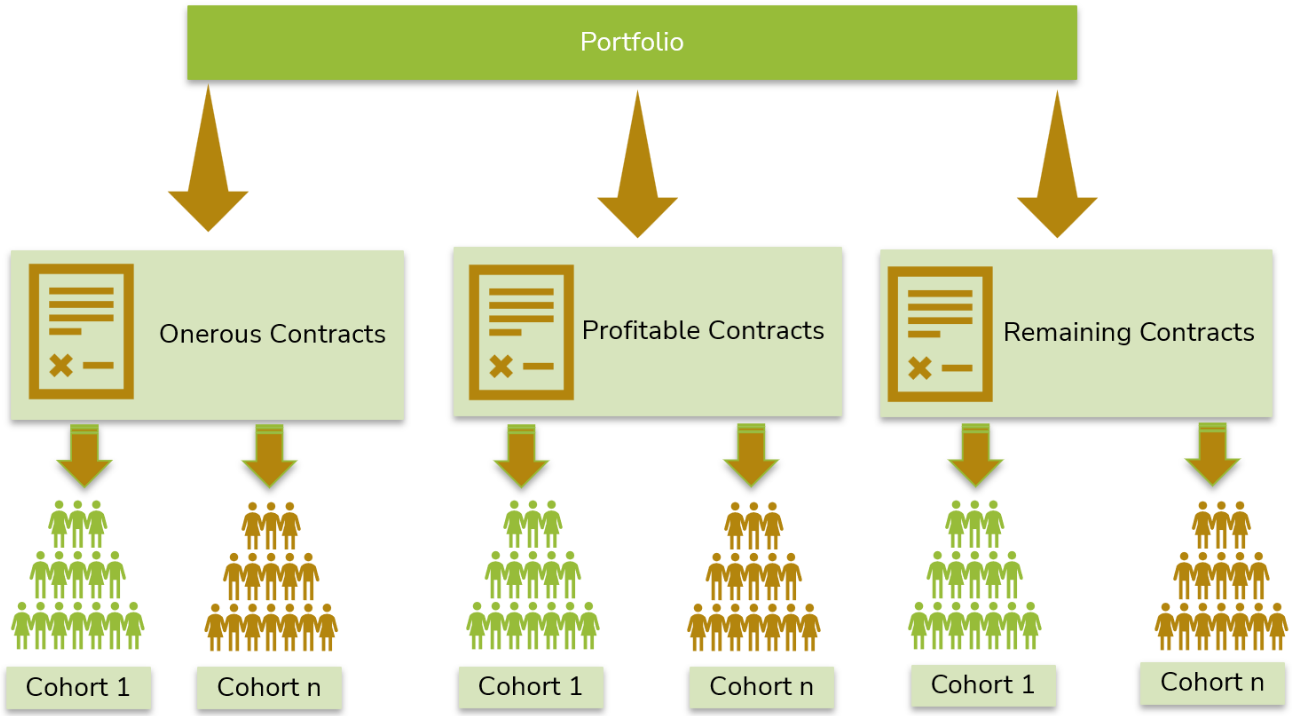
Once portfolios are defined, each must further be split into at least three distinct groups, i.e.

a) **Onerous Contracts at Initial Recognition -** These contracts are expected to generate a loss from the beginning
b) **Contracts with no significant risk of becoming onerous -** These are contracts that are expected to remain profitable or at least break even
c) **Remaining Contracts -** These contracts are not considered loss-making upfront, but there's a possibility they could become onerous over time.

Step 3: Breakdown of Cohorts

After being subdivided, insurance contracts shall be grouped into cohorts based on their issue dates. All contracts issued within the same calendar year shall form a single cohort.

The Grouping Process



Assessing Onerous Contracts under Premium Allocation Approach

Under the Premium Allocation Approach (PAA), it is assumed that no contracts in a portfolio are onerous at initial recognition **unless facts and circumstance indicate otherwise.**

Contracts that are not onerous initially must also be assessed on whether they might become onerous later, by evaluating **potential changes in facts and circumstances**.

For contracts which do not apply the premium allocation approach, the contracts that are not onerous at initial recognition must be assessed whether they have any significant probability of becoming onerous.

This shall be based on:

a) Likelihood of changes in assumptions which may result in the contract becoming onerous

b) Information provided by an entity's internal reporting.

Grouping Timeframe and Consistency

While grouping, contracts issued more than one year apart must not be included in the same group.

Additionally, once contract groupings are determined at initial recognition, they must remain fixed, the composition of groups cannot be reassessed or changed later.

Practice Questions

1. What is the main purpose of aggregation under IFRS 17?

A. To reduce the number of contracts reported

B. To ensure accurate timing of profit and loss recognition

C. To make contract management easier

D. To avoid having to assess individual contracts

Correct Answer: B

Explanation: Aggregation helps ensure that profits and losses are recognized accurately and consistently in financial reporting.

2. Under IFRS 17, contracts grouped into the same portfolio must share:

A. The same inception date

B. The same profit margin

C. The same policyholder

D. Similar risk characteristics and management structure

Correct Answer: D

Explanation: Portfolios are formed based on risk similarity and being managed together.

3. How far apart can contract issuance dates be within the same group?

A. Any number of years

B. Two years

C. Not more than one year

D. Three years if risk is similar

Correct Answer: C

Explanation: IFRS 17 requires that all contracts in a group are issued no more than one year apart.

4. What is the first step in the aggregation process under IFRS 17?

A. Grouping by issuance year

B. Subdividing portfolios

C. Grouping by portfolio

D. Assessing profitability

Correct Answer: C

Explanation: Aggregation begins by forming portfolios based on similar risks and management structures.

5. Under IFRS 17, why are insurers not allowed to reassess contract groups after initial recognition?

A. To maintain consistency and transparency in reporting

B. To reduce workload

C. To allow for more flexibility later

D. Because contracts cannot change after issuance

Correct Answer: A

Explanation: Fixing the groupings at initial recognition supports consistent, unbiased financial reporting over time.

6. How does IFRS 17 recommend handling groups of contracts under the Premium Allocation Approach (PAA)?

A. Assume they are always profitable

B. Assume all contracts are onerous

C. Group them based on product type only

D. Assume none are onerous at initial recognition unless facts suggest otherwise

Correct Answer: D

Explanation: IFRS 17 allows insurers applying the PAA to assume contracts are not onerous at initial recognition, unless evidence indicates otherwise.

7. What additional check must be done for policies eligible for the General Measurement Model (GMM)?

A. Verification of market premium rates

B. Sensitivity testing and internal report reviews

C. Reinsurance matching

D. Underwriter interviews

Correct Answer: B

Explanation: Sensitivity testing and internal reporting are used to confirm profitability assumptions for GMM-eligible contracts.

8. Which of the following best describes a "portfolio" under IFRS 17?

A. A collection of policies sold by one agent

B. Contracts grouped based on risk and management similarity

C. Contracts grouped by coverage period

D. All insurance contracts issued in one year

Correct Answer: B

Explanation: A portfolio consists of contracts that have similar risk characteristics and are managed together.

9. What should an entity use to assess whether a contract might become onerous later?

A. Market interest rates

B. Past claims history only

C. Likelihood of changes in applicable facts and circumstances

D. Broker recommendations

Correct Answer: C

Explanation: Entities must consider whether new or changing circumstances might render a contract onerous in the future.

10. What happens if a contract becomes onerous after initial recognition?

A. The group composition remains unchanged

B. It is moved to the "onerous" group retroactively

C. The contract is cancelled

D. A new group is created

Correct Answer: A

Explanation: Group compositions are fixed at initial recognition, even if a contract's status changes later.

MODULE 4: RECOGNITION

Module Objective

This module provides an overview of how insurance contracts are recognized as per IFRS 17 paragraph 25 to paragraph 28.

Recognition in IFRS 17

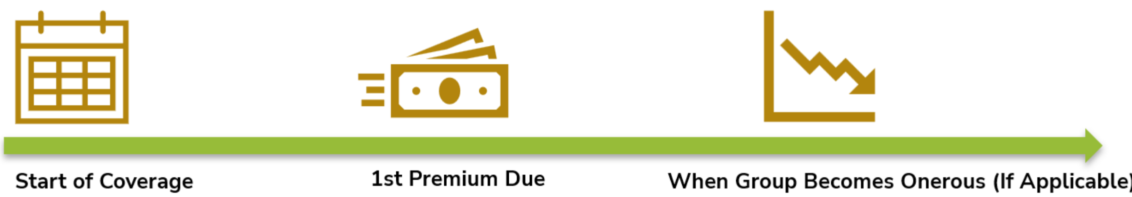
IFRS 17 requires insurers to recognize groups of insurance contracts in a timely and structured manner to ensure accurate financial reporting, especially in reflecting risk and acquisition costs.

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

1. Timing of Initial Recognition

IFRS 17: Initial Recognition Timeline

Recognition occurs at the earliest of the following:



2. Identification of Onerous Contracts before recognition

An entity must assess if any contracts are onerous before the earlier of:

a) The beginning of the coverage period, or
b) The due date of the first payment.

3. Insurance Acquisition Cash Flows (IACFs)

IACFs is the money that is related to the cost of setting up insurance contracts, for example, paying brokers or agents.

Any IACFs paid or received before group recognition is recorded as an asset or liability, unless it is used up immediately.

These amounts stay on the books temporarily. Once the group of contracts starts, this money becomes part of the group's total cost and therefore, the asset or liability can then be derecognized.

4. Contracts included in a group

The group should only include contracts issued by the end of the reporting period.

When the insurer records a group of insurance contracts, they need to figure out the interest rate they'll use to adjust future cash flows to today's value.

They also need to estimate how much insurance services they'll provide during the period, so they can spread the revenue fairly over time.

New contracts may be added to the group after the reporting period, but they are only added in the period they are issued. In the event this happens, the initial discount rate may change, which must then be updated and applied from the start of the reporting period.

Practice Questions

1. When must a group of insurance contracts be recognized under IFRS 17?

   A. At the end of the reporting period

   B. When the last payment is received

   C. When the policyholder signs the contract

   D. At the earliest of the coverage period start, first payment due, or when the group becomes onerous

Correct Answer: D

Explanation: IFRS 17 requires recognition at the earliest of these three trigger events.

2. If there is no contractual due date for the first payment, when is it considered due?

   A. At the end of the month

   B. When it is received

   C. After coverage starts

   D. When billed

Correct Answer: B

Explanation: IFRS 17 states that if no due date is set, the payment is considered due when received.

3. When should an insurer assess if a contract is onerous?

   A. After recognition

   B. Before the earlier of coverage start or payment due

   C. At the end of the financial year

   D. Only when a loss is reported

Correct Answer: B

Explanation: The standard requires a pre-recognition assessment if there's an indication of onerousness.

4. What is the treatment if IACFs are not immediately expensed?

   A. They are recognized as an asset or liability

   B. They are deferred revenue

   C. They are added to the CSM

D. They are amortized over the contract term

Correct Answer: A

Explanation: IACFs are treated separately until the related group is recognized.

5. When is the acquisition asset or liability removed from the books?

   A. When the last premium is received

   B. When the policyholder cancels

   C. When the related group of contracts is recognized

   D. At the year-end

Correct Answer: C

Explanation: The asset or liability is derecognized at the point of group recognition.

6. What is the condition for including a contract in a group?

   A. It must be active

   B. It must be issued by the end of the reporting period

   C. It must be profitable

   D. It must be short-term

Correct Answer: B

Explanation: Only contracts issued by the end of the reporting period are included.

7. What happens if new contracts added to a group affect the discount rate?

   A. The rate must be updated and applied from the start of the reporting period

   B. Nothing changes

   C. It only applies to new contracts

   D. The group must be split

Correct Answer: A

Explanation: The standard requires adjusting the initial discount rate retroactively to the start of the reporting period.

8. Which of the following is TRUE regarding onerous contracts?

   A. They must be recognized immediately

   B. They are ignored under IFRS 17

   C. They are grouped with profitable contracts

D. They are only assessed annually

Correct Answer: A

Explanation: Onerous groups must be recognized as soon as they become onerous.

9. How often can the discount rate be changed for a group?

   A. Monthly

   B. Only if new contracts are added that change it

   C. Once a year

   D. Never

Correct Answer: B

Explanation: The rate is updated only if new contracts added after the reporting period affect it.

10. Why is the initial recognition timing important under IFRS 17?

    A. It determines when revenue and expenses are recorded

    B. It helps identify reinsurers

    C. It is used to calculate tax

    D. It helps with customer satisfaction

Correct Answer: A

Explanation: Proper timing ensures that revenue, risk, and costs are reported accurately.

MODULE 5: MEASUREMENT ON INITIAL RECOGNITION

Module Objective

This module provides an overview of the requirements for measurement on initial recognition of insurance contracts, as set out in **paragraphs 32–52** of the **IFRS 17** standard.

Recognition Criteria

Under IFRS 17, Insurance contracts must be recognized at the earliest of:

a) The beginning of the coverage period;

b) The date when the first premium is due; or

c) The date when the group of contracts becomes onerous.

Measurement Approaches Overview

Measurement Model	Applicability	Key Features
General Measurement Model (GMM)	Default model for long-duration contracts	Includes FCF, Discounting, Risk Adjustment, CSM
Premium Allocation Approach (PAA)	Optional for short-duration contracts	Simplified method, no explicit CSM
Variable Fee Approach (VFA)	For contracts with direct participation features	CSM adjusts based on underlying asset returns

Components of Measurement at Initial Recognition

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:** Best estimates of expected premiums, claims, benefits, and expenses

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

c) **Risk Adjustment:** Compensation for being uncertainty in non-financial risks (e.g. mortality, lapse)

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.

The standard states under paragraph 53 that the PAA is designed for insurance contracts with a coverage period of one year or less, or where it can be demonstrated that using the PAA would not materially differ from applying 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 the Profit and Loss.

Contractual Service Margin (CSM)

The CSM is the key component that defers recognition of profits until insurance services are provided.

At initial recognition:

a) CSM=Discounted cash inflows -discounted cash outflows-risk adjustment.

b) If the result is negative; the contract is **onerous,** and a loss is recognized immediately in profit or loss.

Illustration:

i. Expected premiums: KES 1,200

ii. Expected claims & expenses: KES 900

iii. Risk Adjustment: KES 50

iv. Discounting impact: KES 100

Calculation:

i. Fulfilment Cash Flows = KES 1,200-KES 900-KES 100-KES 50= KES 150

ii. **CSM= KES 150** which is to be released over the coverage period.

Treatment of Onerous Contracts

If the total of expected outflows plus the risk adjustment exceeds the expected inflows, the contract is considered **onerous.**

a) No CSM is recognized , as the CSM cannot be negative.

b) A loss component is established to reflect the immediate loss.

c) The loss is recorded in profit or loss

KEY TAKEWAYS

a) Contracts are recognized when the earliest of:

    i. The beginning of the coverage period

    ii. The date when the first premium is due; or

    iii. The date when the group of contracts becomes onerous

b) Measurement includes **future cash flows, discounting, risk adjustment, ULAE, and CSM (under GMM)**.

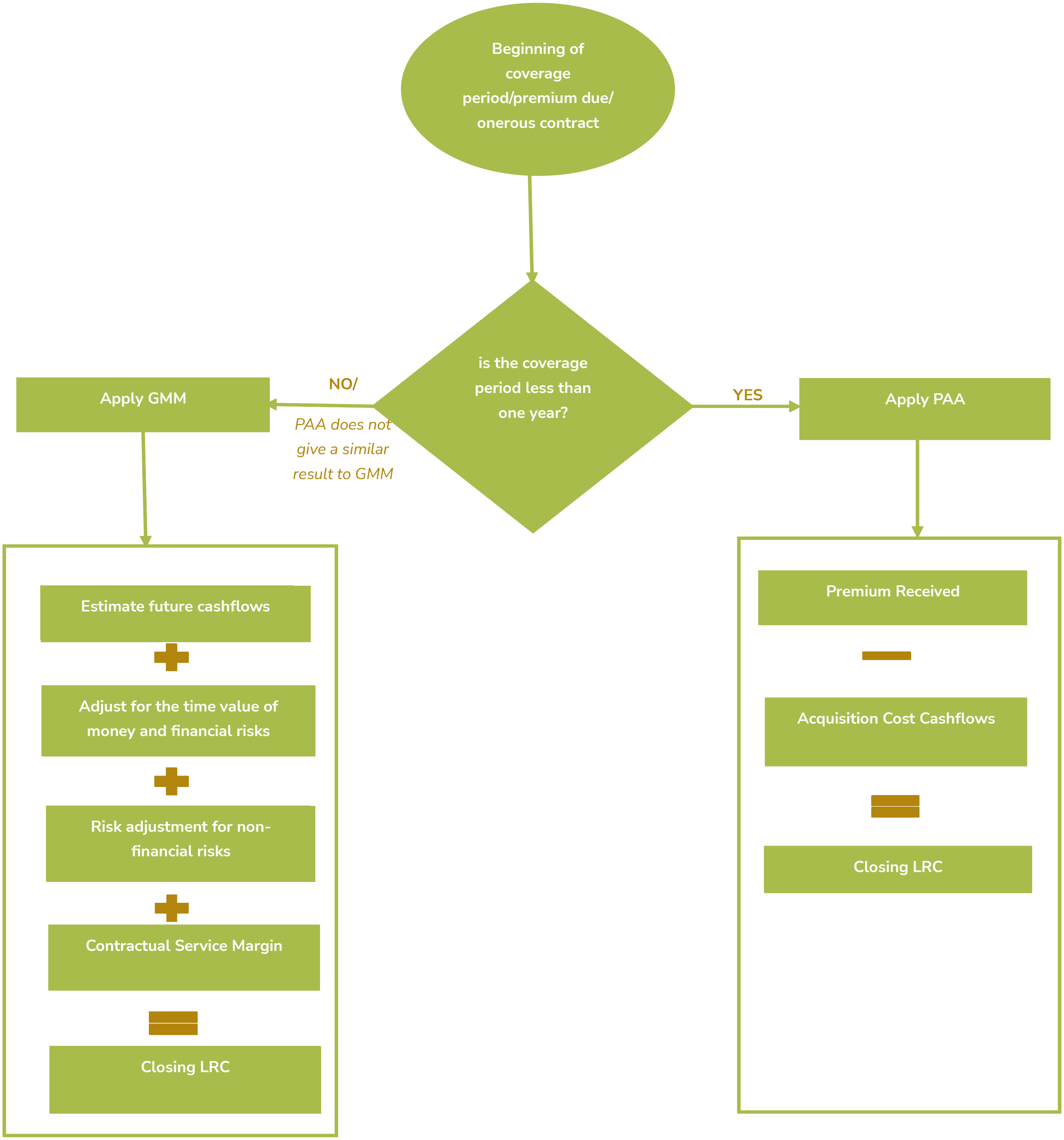
c) The CSM ensures no upfront profit. Is recognised and is adjusted only for changes in future service

d) Onerous contracts result in immediate loss recognition.

e) Choosing between the GMM and PAA depends on contract duration and PAA eligibility test.

f) Acquisition costs are handled differently under GMM and VFA (included in FCFs) and PAA (either deferred or expensed).

Summary of Measurement of Liability for Remaining Coverage at Initial Recognition



**LRC – Liability for Remaining Coverage*PAA*
**PAA- Premium Allocation Approach*

**GMM- General Measurement Model*

Practice Questions

1. Which of the following is **NOT** a component of fulfilment cash flows?
A. Future cash flows
B. Discount rate
C. Risk adjustment
D. Insurance acquisition commission bonus pool
Correct Answer: D

Explanation: The bonus pool is not part of fulfilment cash flows. The correct components are expected cash flows, discounting, and risk adjustment.

2. Which cash flows should be included in the measurement of the contract at initial recognition?
A. Past claims only
B. Cash flows related to investment returns
C. Future premiums and claim payments
D. Marketing expenses
Correct Answer: C

Explanation: Fulfilment cash flows include expected future premiums and claims

3. If the fulfilment cash flows are negative, what does IFRS 17 require?
A. Defer the difference
B. Recognize a loss immediately
C. Recognize a CSM
D. Reduce the asset balance
Correct Answer: B

Explanation: Negative fulfilment cash flows indicate an onerous contract; a loss is recognized in profit or loss.

4. What happens to a day-1 gain under IFRS 17?
A. Deferred in CSM
B. Recognized as revenue
C. Transferred to retained earnings
D. Recorded as OCI
Correct Answer: A

Explanation: CSM defers day-1 gains and recognizes them over the service period.

5. Why is discounting applied to future cash flows?
A. To increase liabilities
B. To reflect time value of money
C. To reduce reporting volatility
D. To comply with IFRS 9
Correct Answer: B

Explanation: Discounting ensures that future cash flows are presented in today's money, reflecting the time value of money

6. Which discount rate is used for initial measurement?
A. Zero-coupon rate
B. Locked-in discount rate
C. Market average rate

D. Prime lending rate

Correct Answer: B

Explanation: The locked-in rate at initial recognition is used to discount fulfilment cash flows and accrete CSM

7. Which cost is not included in initial measurement?

A. Direct acquisition costs

B. Expected claims

C. Indirect administrative costs

D. Risk adjustment

Correct Answer: C

Explanation: Only directly attributable acquisition costs are included. Indirect costs like general admin are excluded

8. Which cost is typically excluded from fulfilment cash flows?

A. Advertising and marketing

B. Future claims

C. Premiums

D. Claim handling costs

Correct Answer: A

Explanation: General marketing expenses are not part of fulfilment cash flows under IFRS 17.

9. Under which model is no CSM typically recognized?

A. GMM

B. PAA

C. VFA

D. Modified GMM

Correct Answer: B

Explanation: PAA does not require a CSM unless the contract is deemed onerous.

10. Which of the following is a valid reason to apply the Premium Allocation Approach (PAA) at initial recognition?

A. It results in higher revenue.

B. The contract has a coverage period of more than one year

C. The simplification does not significantly differ from GMM results

D. It avoids recognition of acquisition costs

Correct Answer: C

Explanation: PAA may be used if it would not materially differ from the GMM measurement. This is especially relevant for short-duration contracts

MODULE 6: SUBSEQUENT MEASUREMENT

Module Objective

This module provides an overview of the subsequent measurement requirements for insurance contracts, as set out in **paragraphs 40–52** of **IFRS 17**.

It covers how entities update the carrying amount of insurance contracts over time, including updates to fulfilment cash flows, adjustments to the contractual service margin (CSM), and the recognition of insurance revenue and expenses

Overview of Subsequent Measurement

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

a) Changes in estimates of future cash flows;

b) Release of CSM based on coverage units

c) Changes in discount rates;

d) Claims incurred and paid.

e) Experience adjustments and risk changes

f) 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.*

The GMM and VFA both measure insurance contract liabilities based on fulfilment cash flows and a contractual service margin; however, VFA applies to contracts with direct participation features and adjusts the CSM to reflect changes in the insurer's share of 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: KES 150,000

b) Interest accretion: KES 5,000

c) Adjustment from change in future cash flows: KES -30,000

d) Release based on service provided: KES 20,000

Calculation:

a) Adjusted CSM = 150,000 + 5,000 - 30,000 - 20,000 = **KES 105,000**

b) If the change in future cash flow estimates and adjustment relating to future coverage exceeded the CSM after allowance of interest accretion and the excess amounts above CSM are recognised as losses in the Profit or Loss.

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

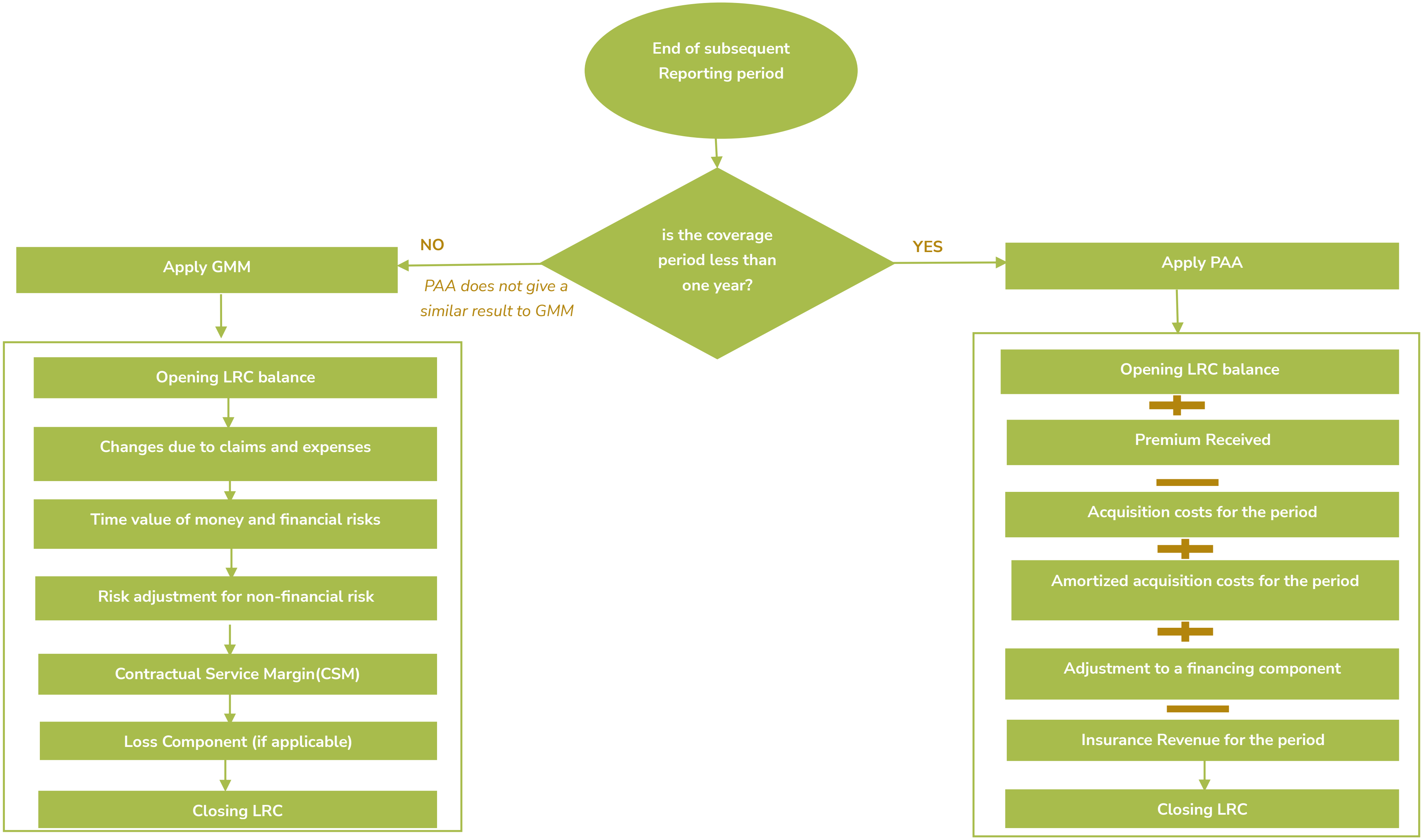
c) Less: Insurance acquisition cash flows

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

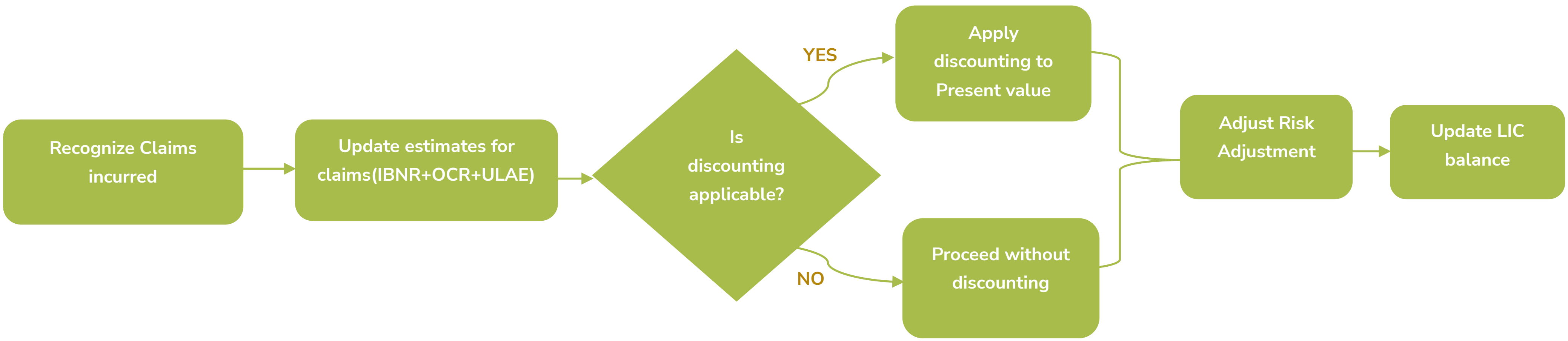
b) Changes in estimates for reported and unreported claims (e.g., IBNR, OCR)

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 liabilities reflect the current expectations of future service and incurred obligations.

b) The LRC and LIC are updated continuously as new information becomes available.

c) The CSM plays a critical role in spreading profit recognition over the service period.

d) Onerous contract assessments continue throughout the life of the contract and may change from profitable to onerous, or vice versa; however, contracts are not reclassified after initial recognition.

e) ULAE should be included in the fulfilment cash flows for incurred claims and for the LRC, as it forms part of the claim-related cash flows and should be estimated using sound actuarial techniques.

Practice Questions

1. What does subsequent measurement refer to under IFRS 17?

A. The reassessment of reinsurance cash flows

B. The update of contract liabilities after initial recognition

C. Only the measurement of incurred claims

D. Determining if premiums are received

Correct Answer: B

Explanation: Subsequent measurement involves updating the carrying amounts of insurance liabilities after initial recognition.

2. An insurance company issues a 4-year term life insurance contract with a total expected Contractual Service Margin (CSM) of $8,000 at initial recognition. The company expects to provide insurance services evenly over the 4 years. How much CSM revenue should be recognized at the end of each year, assuming no changes in estimates or contract modifications?

A. $2,000 per year for 4 years

B. $0 in year 1 and $8,000 in year 4

C. $4,000 in the first year and $1,333 in each of the following years

D. $8,000 immediately at contract inception

Correct Answer: A

Explanation: Since the insurance company expects to provide services evenly over the 4-year coverage period and the total CSM is $8,000, the revenue from CSM should be recognized on a straight-line basis—$2,000 each year. This approach aligns with IFRS 17, which requires that the CSM be released systematically in a manner that reflects the services provided during the period.

3. How often are fulfilment cash flows updated?

A. Once a year

B. Monthly

C. At each reporting date

D. Never after initial recognition

Correct Answer: C

Explanation: Entities must reassess fulfilment cash flows using current estimates at each reporting period.

4. How are claims incurred shown in financials?

A. In CSM

B. In OCI

C. In fulfilment cash flows

D. In profit or loss

Correct Answer: D

Explanation: Claims that relate to past service are recognized directly in the profit or loss statement.

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. Which of the following affects the Liability for Incurred Claims (LIC)?

A. Future service premiums

B. Reinsurance commissions

C. Claims already incurred

D. Profit emergence

Correct Answer: C

Explanation: LIC represents obligations from past events (claims already incurred but not yet paid).

8. What does the Liability for Remaining Coverage (LRC) include?

A. CSM + premiums received

B. Fulfilment cash flows + CSM

C. Only claims paid

D. Gross income

Correct Answer: B

Explanation: LRC includes fulfilment cash flows for future coverage and the CSM.

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 incurred claims not yet settled.

10. What role does the risk adjustment play in subsequent measurement?

A. Reduces cash flows

B. Defers tax

C. Adjusts for uncertainty in non-financial risks

D. Ignores future inflation

Correct Answer: C

Explanation: Risk adjustment reflects uncertainty in cash flows and is re-evaluated each period.

11. How is ULAE treated in subsequent measurement?

A. Expensed in full

B. Included in LIC and updated

C. Ignored unless incurred

D. Deferred to maturity

Correct Answer: B

Explanation: Unallocated Loss Adjustment Expenses (ULAE) are included in LIC and updated regularly.

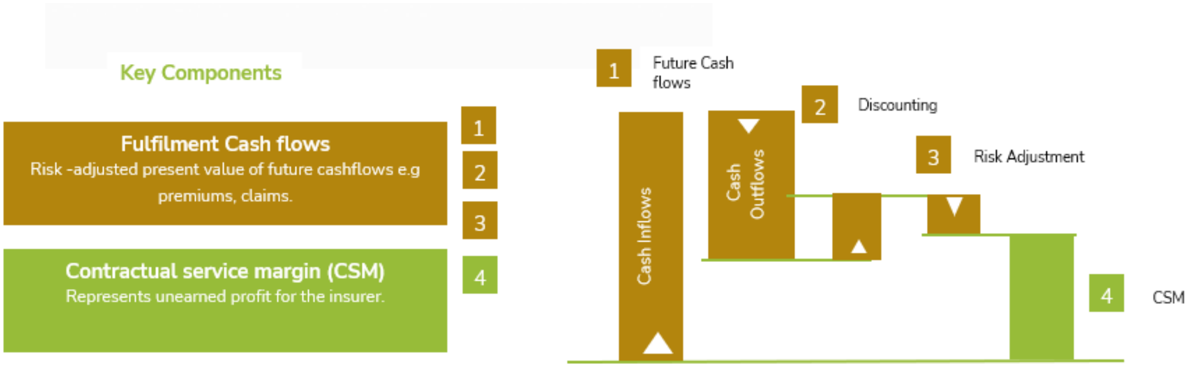
MODULE 7: DISCOUNTING, CONTRACTUAL SERVICE MARGIN & RIKS ADJUSTMENT

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

Fulfilment Cash flows

On initial recognition, an entity must measure a group of insurance contracts as the total of:

- the fulfilment cash flows ("FCF"), which comprise:
    1. estimates of future cash flows;
    2. an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows, and a risk adjustment for non-financial risk.
    3. the contractual service margin ("CSM").



Discounting

This sub-module introduces the fundamental concept of discounting under IFRS 17, emphasizing the importance of adjusting future cash flows to reflect the time value of money. Discounting ensures that the value of expected future payments and receipts are expressed in today's terms, allowing for accurate liability measurement.

Under IFRS 17 standards Paragraph 36 covers discounting as a part of fulfilment cash flow and Paragraph 38-39 covers the characteristics discounting must reflect, and paragraph 44(b) and 47 cover the interest accretion on the CSM using locked-in rates while appendix B72 to B85 cover detailed guidance on determining discount rates and yield curves.

What is Discounting?

Discounting is the process of converting future cash flows into present values. It's based on the idea that money today is worth more than money in the future due to the time value of money.

The discount rate should reflect characteristics like liquidity, inflation, and dependency on underlying items.

Why Are Future Cash Flows Discounted in IFRS 17?

To reflect the time value of money and financial risks not already captured in the estimates.

Purpose:

- Ensure liabilities are shown realistically on the balance sheet.
- Helps compare cash flows that occur at different times.
- Adjusts for liquidity and financial risk.

Discounting Approaches

IFRS 17 has provided two approaches for the determination of discount rates for insurers as follows:

a) Bottom-Up Approach

How It Works:

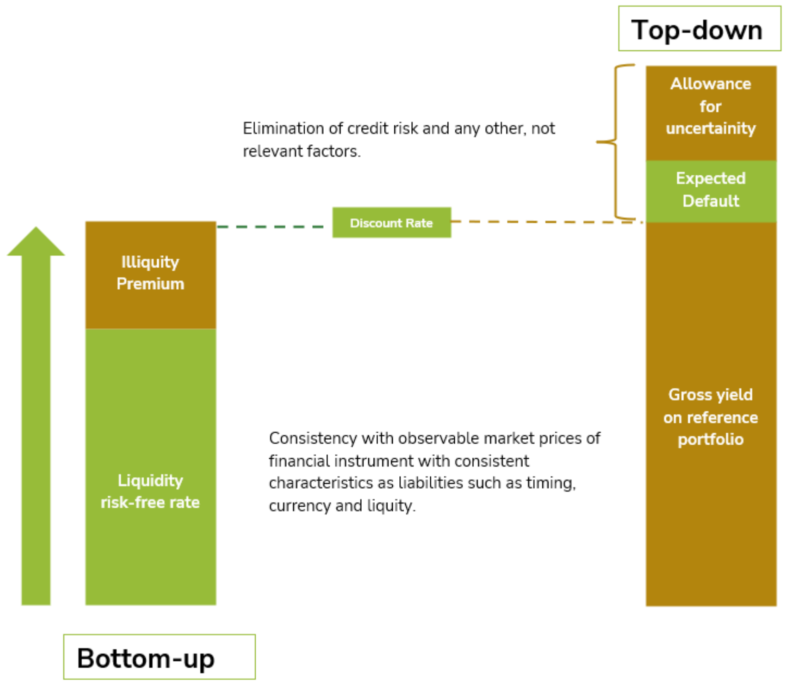
1. Start with a risk-free yield curve (e.g., government bonds)
2. Add a liquidity premium if the insurance contracts are illiquid

b) Top-down Approach

How It Works:

1. Start with the total yield of a reference asset portfolio
2. Eliminates components not relevant to insurance (e.g., credit risk, other market risks)

IFRS 17 requires that discount rates exclude market variables that don't affect the cash flows of the insurance contract, even if these variables are reflected in market prices. This ensures accuracy in aligning economic reality with liability measurement.



Key Discounting Concepts in IFRS 17

Concept	Explanation
Time Value of Money	Money today is more valuable than money tomorrow.
Discount Rate	The rate used to bring future cash flows to the present value.
Bottom-Up Approach	Start with a risk-free rate, then adjust for liquidity.
Top-Down Approach	Start with a portfolio yield, then remove credit and other risks not relevant to the insurance contract.
Liquidity Premium	Adjustment made to a liquid risk-free yield curve to reflect differences between liquidity characteristics of the financial instruments that underlie the risk-free rates and insurance contracts.
Market Consistency	Use observable market data only if it reflects the characteristics of the liability.

Contractual Service Margin

This sub-module provides a comprehensive overview of how the CSM is calculated, adjusted, and released.

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

Paragraph	What It Covers
17.38–39	Fulfilment cash flows (FCF), basis for CSM
17.43	No gain at initial recognition — CSM absorbs positive FCF
17.44–45	CSM changes: interest, release, updates to cash flows
17.46	Onerous contracts: CSM set to zero, loss component created
17.47	Use of locked-in discount rate for interest accretion
B94–B96	Allocation of CSM to coverage periods
B97–B100	Adjustments for changes in estimates or derecognition

What is the Contractual Service Margin (CSM)?

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).

You can think of the CSM like this:

Imagine selling a 4-year gym membership today. The full fee is paid upfront, but you haven't provided the service yet. The profit you're expecting to make is spread over the 4 years – that's your CSM.

CSM at initial recognition

When a group of insurance contracts is first recognised (usually at the point of inception), IFRS 17 requires calculating a "Contractual Service Margin (CSM)" if the contract is expected to be profitable.

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

Once the initial CSM is set up, it's not static. It gets adjusted over time to reflect:

1. **Interest Accretion:** CSM increases over time using the discount rate at initial recognition.
2. **Profit Release (reduction):** CSM is released as revenue as the insurer provides coverage.
   Usually done evenly unless another pattern better reflects the service.
3. **Adjustments for Changes in Estimates:** If assumptions about future cash flows change (e.g. fewer claims expected), the CSM is adjusted, but only if the contract is not onerous.
4. **Onerous Contracts:** If the group becomes loss-making: CSM is set to zero. A loss component is recognised for the shortfall

A loss component can be reversed in subsequent periods if there are favorable changes in the fulfilment cash flows related to future service, indicating that the group of contracts is no longer onerous.

Risk Adjustment

This sub-module look at Risk Adjustment, which is one of the key components in measuring insurance contract liabilities.

IFRS 17 under paragraphs 37 covers risk adjustment as part of fulfilment cash flows and Paragraph 44 covers the disclosure of method and confidence level while appendix B86 to B92 covers the principles, methods and factors affecting risk adjustment.

What is Risk Adjustment in IFRS 17?

The Risk Adjustment for non-financial risk represents the compensation an insurer requires for the uncertainty about the amount and timing of future cash flows from insurance contracts — due to non-financial risks like mortality, morbidity, lapse, and expense risks.

While the fulfilment cash flows reflect expected values, the risk adjustment accounts for the inherent variability and uncertainty in those expectations. It ensures that liabilities are not just a neutral best estimate but also include a margin for risk—aligned with the insurer's own risk appetite and risk-bearing capacity.

Factors That Influence the Risk Adjustment

Under IFRS 17, the Risk Adjustment (RA) is influenced by the degree of uncertainty in non-financial risks. These include:

1. Degree of Uncertainty

More uncertainty is equal to Higher RA
This includes uncertainty about:

- Timing of cash flows
- Amount of future claims
- Claims development

2. Type of Risk

Different non-financial risks contribute differently:

- Morbidity/Mortality Risk: Variability in health/death rates.
- Lapse Risk: Uncertainty in policyholder behavior.
- Expense Risk: Changes in administration costs.

3. Contract Duration

Longer duration = Higher RA

Why? Because longer exposure → more uncertainty → more compensation needed.

4. Quality of Data / Knowledge of Risks

If the insurer has limited data or is less confident about assumptions, the RA is higher.

Less knowledge = higher compensation required for bearing risk.

5. Diversification and Risk Pooling

A larger and more diversified portfolio tends to have lower RA per contract.

Risks that can be pooled or offset across contracts reduce overall uncertainty.

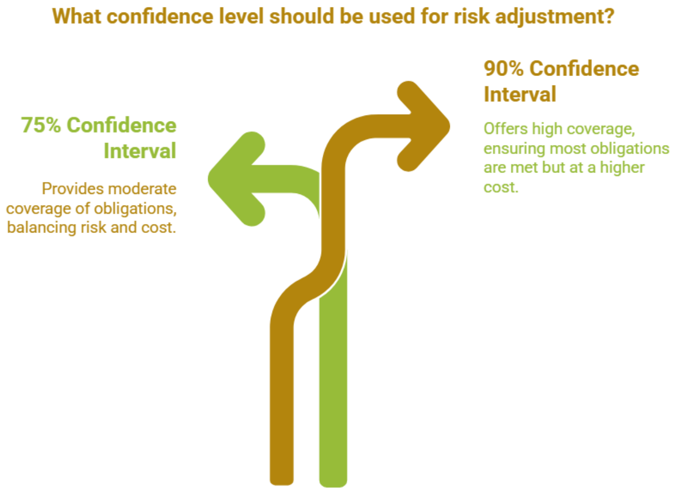
6. Reinsurance

If risk is ceded to a reinsurer, the RA for the cedant is lower.

The reinsurer still carries RA for their accepted portion.

7. Risk Appetite and Confidence Level

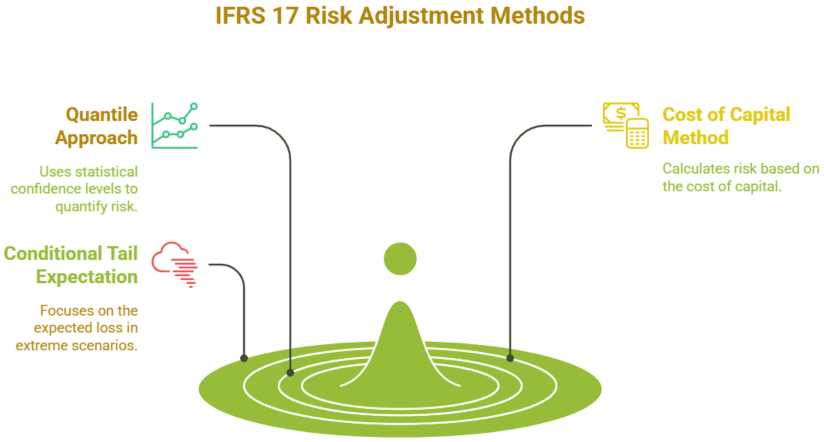
A more risk-averse insurer will choose a higher confidence level, leading to a higher RA.



Methods of determining Risk Adjustment

IFRS 17 does not prescribe a specific method — but it requires the RA to:

- Reflect compensation for non-financial risk uncertainty
- Be explicitly and separately disclosed
- Be consistent with how the entity would assess its own risk preferences



The 3 most common approaches:

1. Confidence Level Approach (Quantile Method)

This method sets the RA so that the present value of future cash flows covers obligations with a given confidence level (e.g., 75%, 90%).

2. Cost of Capital Method

Calculates RA based on the cost of holding capital to support non-financial risks over time.

Key Components:

Required capital amount (e.g. 99.5% VaR)

Holding period (e.g. contract lifetime)

Cost of capital rate (e.g. 6%)

3. Conditional Tail Expectation (CTE)

Also referred to as the tail value at risk; it reflects the average of all worse outcomes beyond a certain threshold.

Practice Questions

1. **Which of the following is NOT a required characteristic of the discount rate under IFRS 17?**

   A) Consistency with observable market prices for similar cash flows

   B) Inclusion of illiquidity premiums to reflect insurance contract liquidity

   C) Use of a single fixed discount rate across all types of contracts

   D) Alignment with other assumptions used in valuation to avoid double counting

Correct Answer: C

Explanation: IFRS 17 does not require or recommend a single fixed discount rate for all contracts. Instead, the discount rate should reflect characteristics like liquidity, inflation, and dependency on underlying items.

2. **Which of the following is a correct interpretation of IFRS 17's guidance on using market data to determine discount rates?**

   A) Discount rates must exclude the effect of market variables that do not impact the insurance contract's cash flows.

   B) Observable market prices should always be used, even if they include factors unrelated to insurance contract cash flows.

   C) Market observable discount rates can be used even if they reflect credit risk not relevant to the insurance liability.

   D) Discount rates should reflect all observable market factors regardless of contract characteristics.

Correct Answer: A

Explanation: IFRS 17 requires that discount rates exclude market variables that don't affect the cash flows of the insurance contract, even if these variables are reflected in market prices. This ensures accuracy in aligning economic reality with liability measurement.

3. **What is the primary distinction between the bottom-up and top-down approaches for deriving discount rates under IFRS 17?**

A) The bottom-up approach starts from asset returns and adjusts for insurance features

B) The top-down approach uses a risk-free curve and adds risk premiums

C) The top-down approach always requires matching the exact liquidity of insurance contracts.

D) The bottom-up approach starts with a liquid risk-free yield curve and adjusts for illiquidity

Correct Answer: D

Explanation: The bottom-up approach starts with a liquid risk-free yield curve, then adjusts it to reflect the characteristics of the insurance contracts.

4. **Which statement is TRUE regarding liquidity adjustments in the top-down approach under IFRS 17?**

A) Liquidity differences between the reference assets and insurance contracts must always be adjusted

B) No liquidity adjustments are allowed under the top-down approach

C) Adjustments are made only if the reference portfolio's liquidity differs significantly from that of the insurance contracts

D) Liquidity risk is already captured in the nominal cash flows, so no adjustments are required

Correct Answer: C

Explanation: IFRS 17 allows flexibility in adjusting for liquidity under the top-down approach, requiring adjustments only if the reference assets' liquidity is not reasonably consistent with that of the insurance contracts.

5. **An insurance contract is expected to pay the following future cash flows at the end of each year for the next 3 years:**

Year	Expected Cash Flow
1	\$1000
2	\$1200
3	\$1500

Assume the following:

- The risk-free interest rate is 2% per annum, compounded annually.
- The liquidity adjustment for the insurance contract is 0.5% per annum.
- Use the bottom-up approach to calculate discount rates.
- Discounting is done from end-of-year values to present value at time 0.

i) What is the total discount rate to be used under the bottom-up approach?

A) 3.0%

B) 2.5%

C) 3.5%

D) 2.0%

Correct Answer: B

Explanation: Under the bottom-up approach, you start with the risk-free rate (2%) and add the liquidity adjustment (0.5%). So, the discount rate = 2% + 0.5% = 2.5%

ii) What is the present value of the expected cash flows using the appropriate discount rate from Part A?

A) 3,506.85

B) 3,477.32

C) 3,599.25

D) 3,423.18

Correct Answer: A

Explanation:

Discount rate = 2.5%

Present value (PV) = 1,000*$(1.025)^{-1}$ + 1,200* $(1.025)^{-2}$ + 1,500 *$(1.025)^{-3}$

≈ 975.61 + 1,142.10 + 1,389.14 = 3,506.85

~ $3,506.85

iii) If instead the top-down approach was used and the yield on the reference portfolio is 4.5%, and credit & non-insurance-related risks account for 2%, what would be the equivalent discount rate?

A) 4.5%

B) 2.5%

C) 2.0%

D) 6.5%

Correct Answer: B

Explanation:

Discount rate = Reference portfolio yield – adjustments

= 4.5% – 2% = 2.5%, which matches the bottom-up rate if all adjustments are equivalent.

iv) What is the impact on the present value if the liquidity adjustment increases to 1.0%, keeping the risk-free rate constant?

A) Present Value increases

B) Present Value decreases

C) Present Value stays the same

D) Present Value becomes negative

Correct Answer: B

Explanation:

An increase in the liquidity adjustment increases the total discount rate, which increases the discount rate applied (to 3.0%), lowering the present value of future cash flows.

6. **When a group of insurance contracts becomes onerous after initial recognition under IFRS 17, what happens to the Contractual Service Margin (CSM)?**

A) It is increased to reflect the higher expected losses.

B) It remains unchanged, as changes are only recognized at initial recognition.

C) It is set to zero, and a loss component is established to reflect the excess of fulfilment cash flows over the expected inflows.

D) It is transferred to the Liability for Incurred Claims (LIC).

Correct Answer: C

Explanation: Under IFRS 17, if a group of insurance contracts becomes onerous after initial recognition, the CSM is set to zero. A loss component is then established to represent the excess of the fulfilment cash flows over the expected inflows, ensuring that the liability reflects the anticipated loss on these contracts.

7. **Can a loss component (LC) established for an onerous group of contracts under IFRS 17 be reversed in subsequent periods?**

A) No, once established, a loss component cannot be reversed.

B) Yes, but only through adjustments to the Risk Adjustment for non-financial risk.

C) Only if the contracts are derecognized.

D) Yes, if future changes in fulfilment cash flows indicate that the group is no longer onerous.

Correct Answer: D

Explanation: A loss component can be reversed in subsequent periods if there are favourable changes in the fulfilment cash flows related to future service, indicating that the group of contracts is no longer onerous. In such cases, the reversal reduces the loss component, and if the reversal exceeds the remaining loss component, a new CSM is established for the excess.

8. **In the context of IFRS 17, what does the Liability for Remaining Coverage (LRC) represent when the Contractual Service Margin (CSM) is nil?**

A) The sum of the fulfilment cash flows and the loss component.

B) Only the present value of future cash flows without any adjustments.

C) The Liability for Incurred Claims (LIC) only.

D) The Risk Adjustment for non-financial risk only.

Correct Answer: A

Explanation: When the CSM is nil, the LRC comprises the fulfilment cash flows and the loss component. The loss component reflects the amount by which the fulfilment cash flows exceed the expected inflows, ensuring that the liability accurately represents the insurer's obligation under the onerous contracts.

9. **Which discount rate is used to accrete interest on the CSM?**

A. The risk-free rate at the reporting date

B. The weighted average discount rate for incurred claims

C. The current market interest rate for government bonds

D. The discount rate at initial recognition of the group of contracts

Correct Answer: D

Explanation: Interest accretion with the CSM is done using the discount rate determined at initial recognition of the group of contracts.

10. **An insurance company issues a group of insurance contracts on 1 January 20X1. The following information is available:**
    - Present Value of Future Cash Inflows: $ 1,200
    - Present Value of Future Cash Outflows (including acquisition costs): $ 1,000
    - Risk Adjustment for Non-Financial Risk: $ 50
    - Discount rate at initial recognition: 5% annually, compounded yearly
    - Coverage period: 4 years, with coverage services evenly provided over time

i) What is the initial CSM at 1 January 20X1?

A. $ 200

B. $ 150

C. $ 250

D. $ 100

Correct Answer: B

Explanation:

Fulfilment Cash Flows (FCF) = PV Inflows - PV Outflows - Risk Adjustment

= 1,200 - 1,000 - 50 = $ 150

Since the group is profitable, CSM is $ 150

ii) What is the CSM balance at 31 December 20X1, before release, assuming a 5% interest rate?

A. $ 150

B. $ 157.5

C. $ 160

D. $ 155

Correct Answer: B

Explanation:

Interest accretion: CSM × (1 + interest rate) = 150 × 1.05 = $ 157.5

iii) If the CSM is released evenly over the 4-year coverage period, what is the CSM balance after release at 31 December 20X1?

A. $ 118.125

B. $ 120

C. $ 130

D. $ 100

Correct Answer: A

Computation: Release amount = 157.5 ÷ 4 = 39.375 CSM after release = 157.5 - 39.375 = $ 118.125

11. **Which of the following characteristics would lead to a higher risk adjustment according to IFRS 17 principles?**

A. High-frequency, low-severity risks

B. Short-duration contracts with predictable claims

C. Risks with narrow probability distributions

D. Contracts where little is known about emerging experience

Correct answer: D

Explanation: Paragraph B91 of IFRS 17 states that less knowledge about current estimates or trends increases uncertainty, leading to higher risk adjustments. High uncertainty means higher compensation is needed.

12. **Which of the following risks is excluded from the IFRS 17 risk adjustment?**

A. Lapse risk

B. Expense risk

C. Financial risk (e.g. interest rate risk)

D. Morbidity risk

Correct Answer: C

Explanation:

The risk adjustment only covers non-financial risks such as lapse, expense, and insurance risks. Financial risks like interest rate or equity risk are included elsewhere — either in the discount rate or cash flow estimates.

13. **Two otherwise identical contracts differ only in duration: Contract A is 5 years; Contract B is 15 years. Which will have the higher risk adjustment, and why?**

    A. Contract A, due to faster runoff

    B. Contract B, due to longer exposure to uncertainty

    C. Both will have the same risk adjustment

    D. Contract A, due to the need for more immediate reserves

Correct Answer: B

Explanation: According to IFRS 17 (B91(b)), longer-duration contracts face more uncertainty and will have a higher risk adjustment to reflect the increased risk over time.

14. **Which method is not typically used to quantify the risk adjustment under IFRS 17?**

    A. Cost of capital method

    B. Conditional Tail Expectation (CTE)

    C. Confidence level

    D. Historical premium rate analysis

Correct Answer: D

Explanation: IFRS 17 suggests quantile methods (e.g. confidence level, CTE) and cost of capital techniques. Historical premium rates may inform assumptions but are not valid standalone methods for calculating the risk adjustment.

15. **An insurer estimates that the present value of future cash outflows from a group of insurance contracts follows a normal distribution with:**
    - Mean (Expected Value): $10,000,000
    - Standard Deviation: $1,500,000
    - The insurer uses a confidence level approach to determine the risk adjustment for non-financial risk.

(a) What is the value of the liability at the 75% confidence level?

Use z = 0.674 for 75% confidence.

A. $10,506,000

B. $11,011,000

C. $11,674,000

D. $12,350,000

Correct Answer: B.

Explanation:

The liability value is calculated as:

Mean + z * Standard Deviation

=10,000,000 + 0.674 * 1,500,000

= 11,011,000

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 for non-financial risk at the 75% confidence level?

A. $674,000

B. $750,000

C. $1,011,000

D. $1,674,000

Correct Answer: C. $1,011,000

Explanation:

Risk adjustment = 75% liability value – mean expected value:

=11,011,000 – 10,000,000

= 1,011,000

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 increases the confidence level to 90%, what is the new risk adjustment? (Use z = 1.282)

A. $1,282,000

B. $1,500,000

C. $1,922,000

D. $2,282,000

Correct Answer: C. $1,922,000

Explanation:

New liability value at 90% confidence:

=10,000,000 + 1.282 *1,500,000

=11,923,000

New Risk Adjustment=11,923,000–10,000,000= $1,923,000

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 provides an in-depth overview of onerous contracts, as set out in **paragraphs 47-52** of **IFRS 17.**

An onerous contract is an insurance contract (or group of contracts) where expected costs (including claims, expenses, and risk margin) exceed the premiums received i.e. cash outflows are greater than cash inflows.

At Initial Recognition

A contract (or group of contracts) is **onerous at initial recognition** if the expected outflows (claims, expenses, risk margin + acquisition costs) **exceed** inflows (premiums)

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

a) **Group them separately** from profitable contracts.

b) **Recognize loss** immediately in the profit and loss.

c) Set the Contractual Service Margin (CSM) to zero.

d) Recognize full expected cost as a liability.

e) Establish a Loss Component to track the loss.

At Subsequent Measurement

A group of contracts becomes onerous, or more onerous, after initial recognition if:

a) The expected future costs or claims increase, e.g. worse assumptions or;

b) For participation contracts, the expected **investment returns decrease**.

If this happens:

a) Recognize additional loss in P&L

b) Use any remaining CSM to offset the loss

c) Increase or add the **Loss Component** in the liability

The loss component is a part of the liability for remaining coverage that represents the recognized losses in the profit or loss.

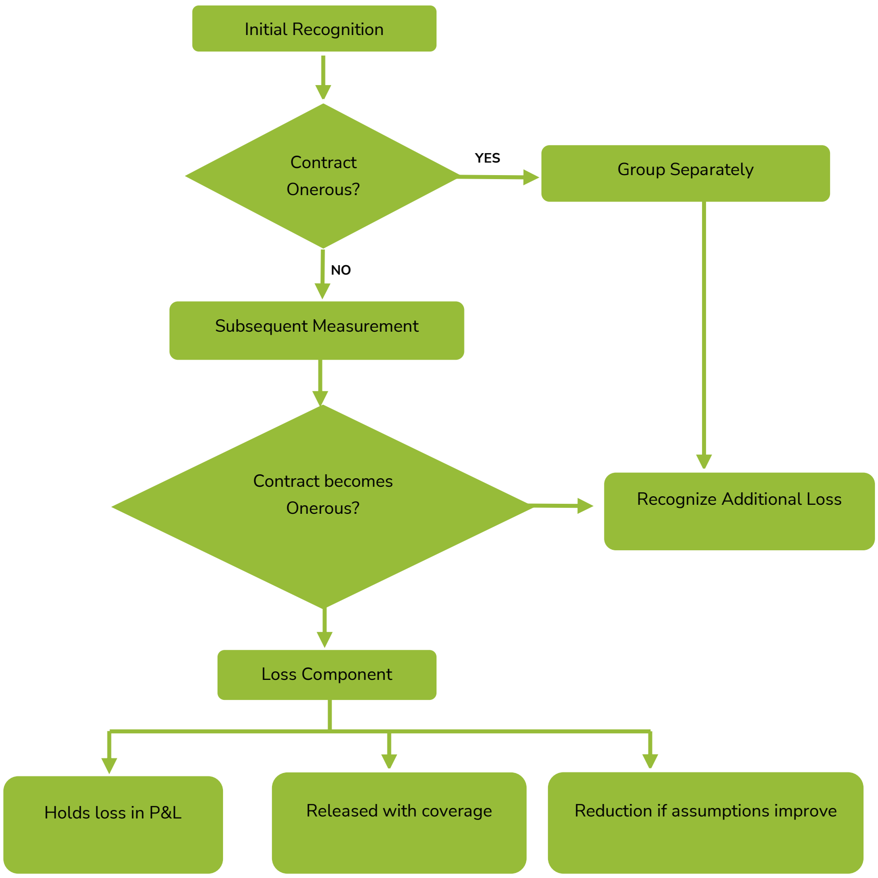
The role of the Loss Component:

a) Holds the loss recognized in the P&L

b) Is **released gradually** as coverage is provided

c) Is **reduced** if future assumptions improve

Note*:* ***The CSM can only increase after the loss component is cleared***



Changes in assumptions (e.g. future claims, expenses, risk margin) are proportionally allocated between the loss component, and the remaining liability for coverage.

The aim is to release the loss component by the end of the coverage period.

The insurer will consider a contract to be onerous if the expected combined ratio for the portfolio exceeds 100%. The combined ratio is calculated as:

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

The insurance service expenses include:

a) Incurred claims and other directly attributable expenses

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

c) Losses on onerous contracts

d) Insurance acquisition cash flows amortization

The assessment will also include consideration of the combined ratios of previous cohorts, providing a historical perspective on performance.

Practice Questions

1. When is a contract classified as an onerous contract under IFRS 17?
   A. When the contract is expected to lapse early
   B. When the contract has no Contractual Service Margin (CSM)
   C. When the contract is expected to incur a loss
   D. When the contract has no insurance risk

   Answer: C

   Explanation: An onerous contract is one where fulfilment cash flows exceed expected premiums, resulting in a loss.

2. How is the CSM treated for onerous contracts?
   A. Deferred
   B. Reversed
   C. Released to profit
   D. Set to zero

   Answer: D

   Explanation: The CSM is set to zero since no future profits are expected.

3. Which component is recognized when a group is onerous at initial recognition?
   A. Contractual Service Margin
   B. Risk Adjustment
   C. Loss Component
   D. Investment Return

   Answer: C

   Explanation: The loss component is set up to represent losses on onerous contracts and is recognized immediately in profit or loss.

4. How is the loss component recognized?
   A. As an asset
   B. Through OCI
   C. As an adjustment to the CSM
   D. In profit or loss

   Answer: D

   Explanation: The loss component is recognized immediately in profit or loss.

5. What happens if cash flow estimates improve?
   A. Loss component is reversed first
   B. CSM increases
   C. Risk adjustment decreases
   D. Premiums are restated

   Answer: A

   Explanation: Improvements first reduce the loss component before adjusting the CSM.

6. When is a contract classified as onerous?
   A. When risk adjustment is high
   B. When expected profit is low
   C. When fulfilment cash flows exceed premiums
   D. When lapse rate is high

Answer: C

Explanation: A contract is onerous when the fulfilment cash flows exceed the expected inflows (e.g., premiums), indicating a net loss.

7. What happens to the CSM if a group of contracts becomes onerous after initial recognition?
   A. It is increased
   B. It is set to zero and loss is recognized
   C. It is locked in
   D. It is recalculated using old assumptions

   Answer: B

   Explanation: If contracts become onerous after initial recognition, the CSM is reduced to zero and any further loss is recognized in profit or loss.

8. Which of the following changes can make a previously profitable contract group onerous?
   A. Increase in administrative expenses
   B. Drop in discount rates
   C. Revised premium allocation method
   D. Change in accounting policy

   Answer: A

   Explanation: Increases in expected expenses can raise fulfilment cash flows, potentially making the group onerous.

9. How does the loss component affect future insurance revenue?
   A. No effect
   B. Increases revenue
   C. It reduces future revenue
   D. It replaces CSM in revenue recognition

   Answer: D

   Explanation: For onerous groups, the loss component replaces the CSM and is released as insurance revenue as coverage is provided.

10. What causes a change in the loss component?
    A. Increase in discount rate
    B. Change in reinsurance treaty
    C. Adverse claims development
    D. Policyholder death
    Answer: C
    Explanation: Any adverse change in fulfilment cash flows increases the loss component.

MODULE 9: PREMIUM ALLOCATION APPROACH

Introduction

This module provides an in-depth overview of the Premium Allocation Approach (PAA) as per **IFRS 17** paragraphs 53 to 59**.**

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

It is typically used for short-duration contracts (generally 12 months or less) such as motor, travel, health, and other general insurance products.

PAA is similar in concept to the unearned premium reserve (UPR) approach under IFRS 4.

Contracts must be grouped into portfolios with similar risk and management practices.

Then further split into:

a) Onerous at inception

b) No significant risk of becoming onerous

c) Profitable contracts

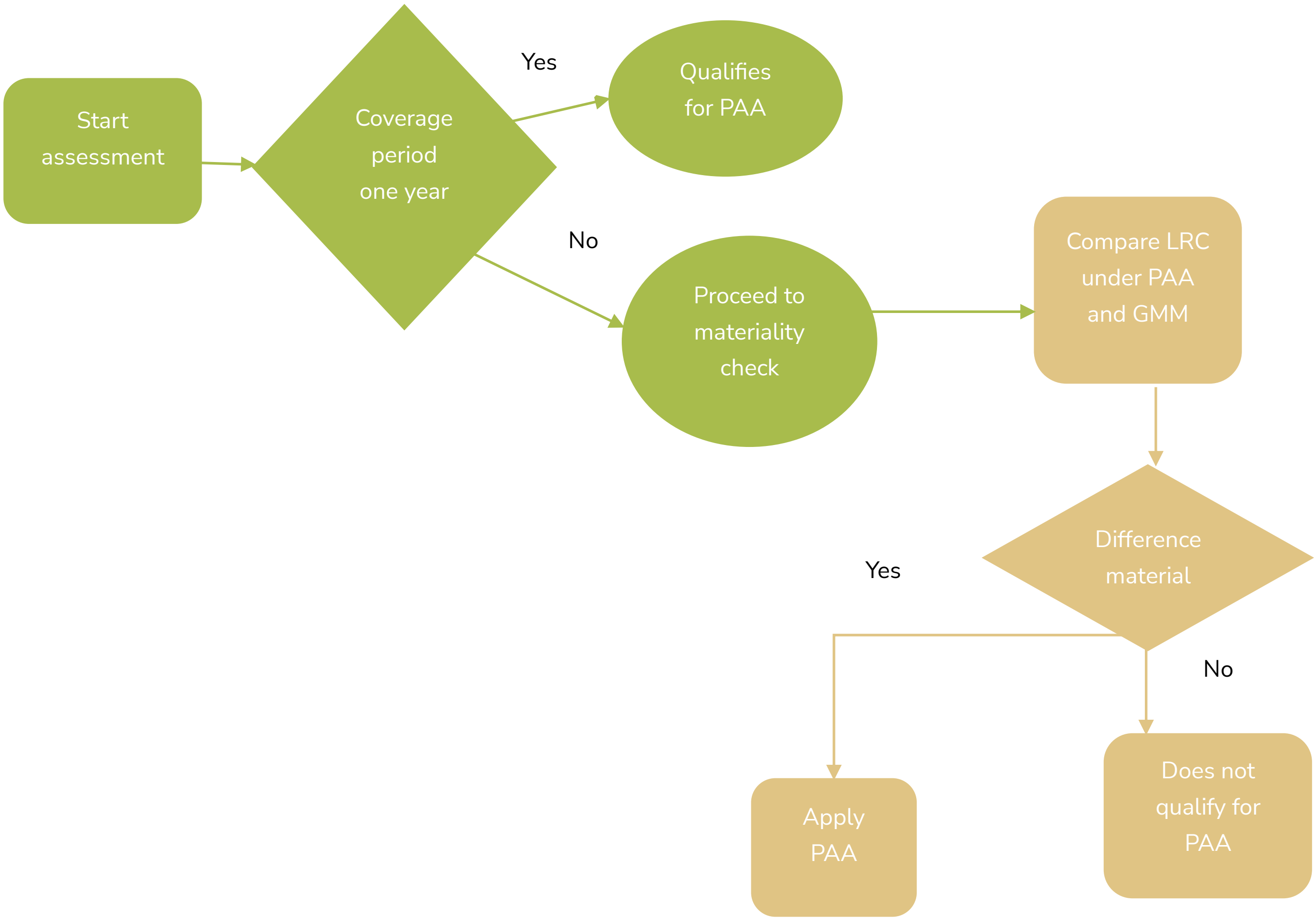
Contracts issued more than 12 months apart cannot be grouped together**.**

Eligibility Criteria

According to the standard, PAA can be applied under these two conditions:

a) If the coverage period of each contract in the group is one year or less, or

b) If the entity reasonably expects that using the PAA would produce a measurement of the liability for remaining coverage (LRC) that does not differ materially from the General Measurement Model (GMM).



Measurement Under PAA

There are two components:

1) Liability for Remaining Coverage (LRC)

a) Opening LRC balance: Starting point for 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.

- LRC = Opening LRC + Premium received – Earned Premium – Change in DAC
- And Premium received = GWP + Prior premium receivables – Current premium receivables.

2) Liability for Incurred Claims (LIC)

a) Measured similarly to GMM:

- Present value of future cash flows
- Risk adjustment for non-financial risk

Acquisition cashflow treatment

Entities can choose to expense acquisition costs immediately if the coverage period of contracts is one year or less.

Otherwise, acquisition costs can be deferred and amortized over the coverage period.

Deferring acquisition costs reduces LRC but may increase loss recognition for onerous contracts.

Discounting and Risk Adjustment

Discounting of LRC is not required unless there is a significant time lag between receiving the premium and providing services.

Risk adjustment is only applicable to the liability for claims incurred, not LRC.

Onerous Contracts

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

If onerous, a loss component must be recognized immediately in P&L.

Revenue Recognition

Revenue is recognized over the coverage period in line with the pattern of transfer of services (typically straight-line).

Comparison of PAA and GMM

Feature	PAA	GMM
Complexity	Low	High
Intended for	Short-term contracts	All types
Discounting	Usually not required for LRC	Required
Risk Adjustment	Only for incurred claims	Required for all liabilities
Onerous contract test	Required	Required

Disclosure Requirements

IFRS 17 requires:

a) Clear presentation of revenue, incurred claims, and movements in liabilities.

b) Disclosure of confidence levels used in measuring liabilities.

c) OCI option for presenting changes in discount rates.

Practical Application Examples

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

Can also apply to reinsurance contracts held, provided the same eligibility rules are met.

Practice Questions

1. When is an entity allowed to apply the Premium Allocation Approach (PAA)?
    - **A.** Only for life insurance contracts
    - **B.** For all investment contracts
    - **C.** If the contract duration is ≤12 months or if results are similar to GMM
    - **D.** For contracts with no risk adjustment

    Correct Answer: C- PAA can be used if the coverage period is 12 months or less, or if using PAA would yield results that are not materially different from the GMM.

2. What does the liability for remaining coverage (LRC) under PAA represent?
    - **A.** Future claims paid
    - **B.** Present value of premiums
    - **C.** The unearned portion of premiums minus acquisition costs
    - **D.** Incurred claims

    Correct Answer: C- LRC under PAA reflects the simplified unearned premium approach, adjusted for acquisition costs.

3. Which of the following requires risk adjustment under PAA?
    - **A.** Liability for incurred claims
    - **B.** Acquisition cost asset
    - **C.** Liability for remaining coverage
    - **D.** Premium receivable

    Correct Answer: A - The risk adjustment is only applied to the liability for claims incurred, to account for non-financial uncertainty.

4. What happens if the liability for remaining coverage is lower than fulfilment cash flows?
    - **A.** Create a contractual service margin
    - **B.** Defer acquisition costs
    - **C.** Recognize a loss
    - **D.** Discount more

    Correct Answer: C - If the fulfilment cash flows exceed the liability, the contract is onerous, and the entity must recognize the difference as a loss.

5. What are fulfilment cash flows made up of?
    - **A.** Future premiums only
    - **B.** Future claims and profits
    - **C.** Expected future inflows and outflows, discounted, plus risk adjustment
    - **D.** Written premium minus expenses

    Correct Answer: C - Fulfilment cash flows under IFRS 17 reflect expected future cash flows adjusted for time value of money and risk.

6. How is insurance revenue recognized under PAA?
    - **A.** All at inception
    - **B.** When claims are paid
    - **C.** Evenly over the coverage period
    - **D.** At contract expiry

    Correct Answer: C- Revenue is recognized over the period during which the insurance service is provided, typically on a straight-line basis unless otherwise justified.

7. Can insurers offset profitable and onerous contracts within a portfolio under PAA?
   A. No, grouping rules prevent offsetting
   B. Only with auditor approval
   C. Yes
   D. Only for reinsurance

Correct Answer: A- IFRS 17 requires insurers to assess and recognize losses at a granular level; profitable contracts cannot offset loss-making ones.

8. What is a key disclosure requirement under IFRS 17 even when using PAA?
   A. No disclosure required
   B. Confidence level of liabilities
   C. Market value of assets
   D. Tax provision for each contract

Correct Answer: B- IFRS 17 requires disclosure of the confidence level used in risk adjustment calculations, even under simplified models.

9. Can PAA be used for reinsurance contracts held?
   A. Yes, if eligibility criteria are met
   B. No, PAA is only for direct contracts
   C. Yes, but only in life insurance
   D. Only if premiums exceed claims

Correct Answer: A- Reinsurance contracts held may use PAA if the contract meets the same eligibility rules (duration or similarity to GMM).

10. What happens when acquisition costs are deferred for an onerous group?
   A. The loss reduces
   B. It offsets the fulfilment cash flows
   C. It increases the recognized loss
   D. It increases future profits

Correct Answer: C- Deferring acquisition costs lowers the LRC, potentially increasing the shortfall compared to fulfilment cash flows — hence increasing the loss.

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.

Reinsurance contract held refers to a contract under which one entity (the cedant) receives compensation from another entity (the reinsurer) for one or more claims arising from insurance contracts it has issued.

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

The "mirroring approach" used under IFRS 4 is no longer applied. Instead, IFRS 17 requires a stand-alone assessment of reinsurance contracts held.

We account for reinsurance contracts held to;

a) Reflect the risk mitigation effect in financial statements.

b) Show consistent measurement with 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 established if the present value of future inflows from the reinsurer exceeds the ceded premiums. This CSM represents the unearned gain and is deferred and recognized as income over the coverage period.

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

Subsequent measurement

After initial recognition, reinsurance contracts held are remeasured at each reporting date. The measurement continues to follow the GMM (or PAA if applicable), which requires updating the key components which include;

a) Fulfillment cashflows

b) Risk adjustment

c) CSM

d) Loss-recovery component

e) Experience adjustments

f) Changes in discount rates

If a group of insurance contracts is onerous and there's a related reinsurance contract, the cedant recognizes a recovery asset known as loss-recovery component.

Presentation in financial statements

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

Revenue and expenses from reinsurance are also presented separately in the statement of profit or loss.

Income and expenses from reinsurance are shown separately from insurance contracts issued per IFRS 17 disclosure requirements.

Disclosures

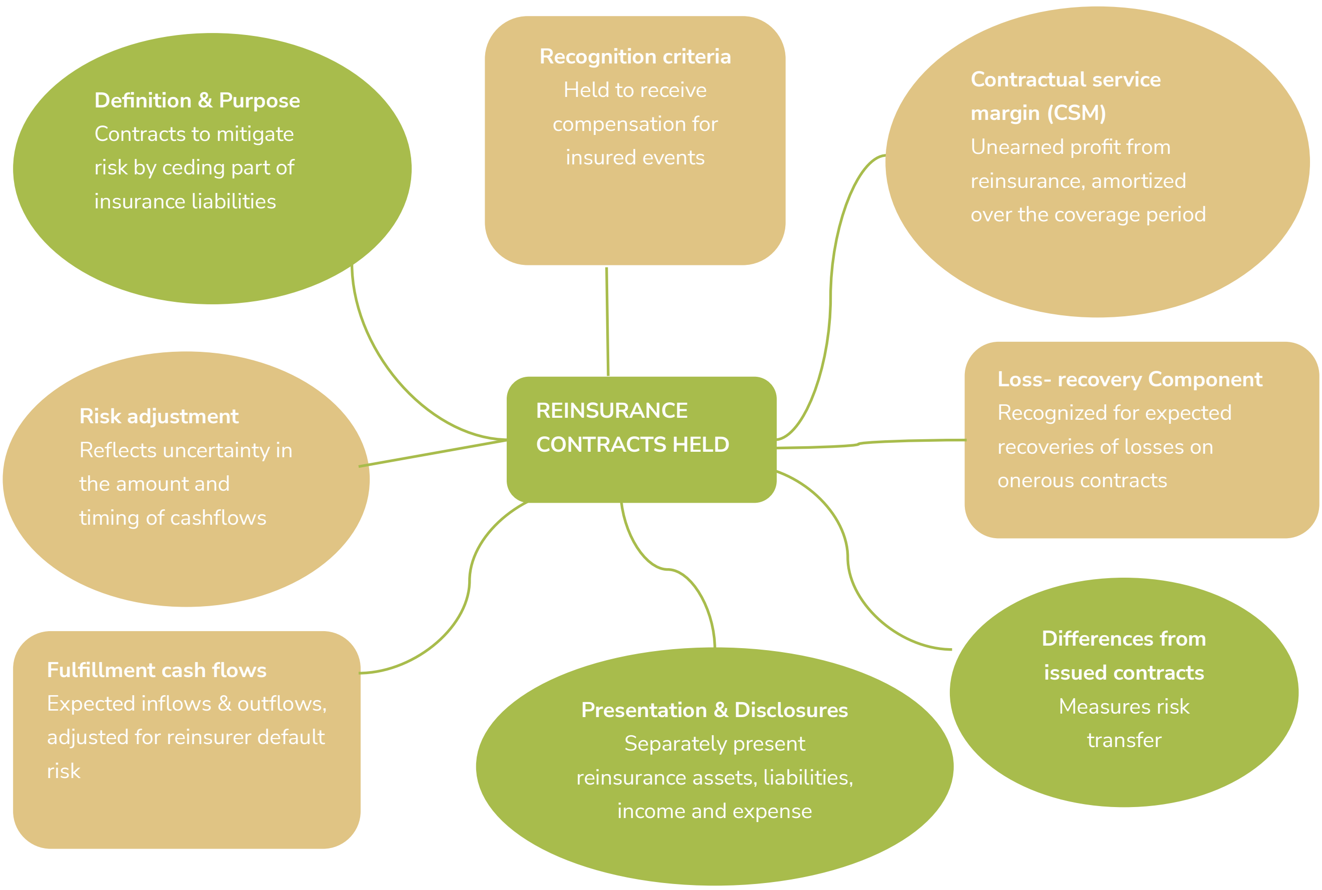
Entities must disclose;

a) An explanation of how reinsurance contracts affect the amounts in financial statements

b) Significant judgments made in applying IFRS 17 to reinsurance.

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

Illustration of reinsurance contracts held.



Practice Questions

1. What is a reinsurance contract held under IFRS 17?
    - **A.** A contract under which an entity receives compensation for claims from a reinsurer
    - **B.** A contract issued to share profits with partners
    - **C.** Contract issued to insure customers
    - **D.** A contract for investment-linked business

    Correct Answer: A- A reinsurance contract held is one where the insurer (cedant) transfers insurance risk and receives compensation from the reinsurer for claims.

2. When should a reinsurance contract held be initially recognized?
    - **A.** When the reinsurer pays a claim
    - **B.** At the start of the underlying insurance contract
    - **C.** At the earlier of coverage start or when underlying contracts are onerous
    - **D.** At the end of the reporting period

    Correct Answer: C- Recognition occurs at the earlier of when coverage begins or when the reinsurance covers a recognized loss from onerous contracts.

3. Can a gain on purchase of reinsurance be recognized immediately?
    - **A.** Yes, it boosts profit
    - **B.** No, it is included in the CSM
    - **C.** Only if the reinsurer agrees
    - **D.** Yes, under PAA

    Correct Answer: B- Gains on purchase are not recognized immediately; they are deferred in the CSM and released over time.

4. Which of the following is NOT included in fulfilment cash flows for reinsurance contracts held?
    - **A.** Future claims recoveries
    - **B.** Discounting
    - **C.** Reinsurer's risk appetite
    - **D.** Risk adjustment

    Correct Answer: C- Fulfilment cash flows include expected recoveries, time value of money, and risk adjustment, but not the reinsurer's risk appetite.

5. What is the impact of reinsurance on the insurer's risk exposure?
    - **A.** Increases risk
    - **B.** No impact
    - **C.** Transfers and reduces risk
    - **D.** Creates an additional liability

    Correct Answer: C- Reinsurance helps the cedant reduce and manage their exposure to insurance risk.

6. How are changes in fulfilment cash flows for reinsurance contracts treated?
    - **A.** Adjust the CSM or go through P&L
    - **B.** Ignore until contract maturity
    - **C.** Expensed as acquisition costs
    - **D.** Deferred indefinitely

    Correct Answer: A- Changes related to future service adjust the CSM; others are recognized in profit or loss.

7. Under the General Model, what happens to the CSM for reinsurance contracts held over time?
    - **A.** It grows with claims paid
    - **B.** It's released based on services received

C. It remains constant
D. It is immediately expensed

Correct Answer: B- The CSM is released over the coverage period in a systematic manner reflecting the receipt of reinsurance services.

8. How are reinsurance recoveries presented in the income statement?
    - **A.** Included in insurance revenue
    - **B.** Included in investment income
    - **C.** Separately from insurance revenue
    - **D.** Net of insurance service expenses

Correct Answer: C- Reinsurance income and expenses must be presented separately from insurance revenue and service expenses

9. How are recoveries for past claims treated under reinsurance contracts held?
    - **A.** Deferred in CSM
    - **B.** Expensed as incurred
    - **C.** Recognized in profit or loss immediately
    - **D.** Deducted from LRC

Correct Answer: C- Recoveries related to past events are immediately recognized in profit or loss.

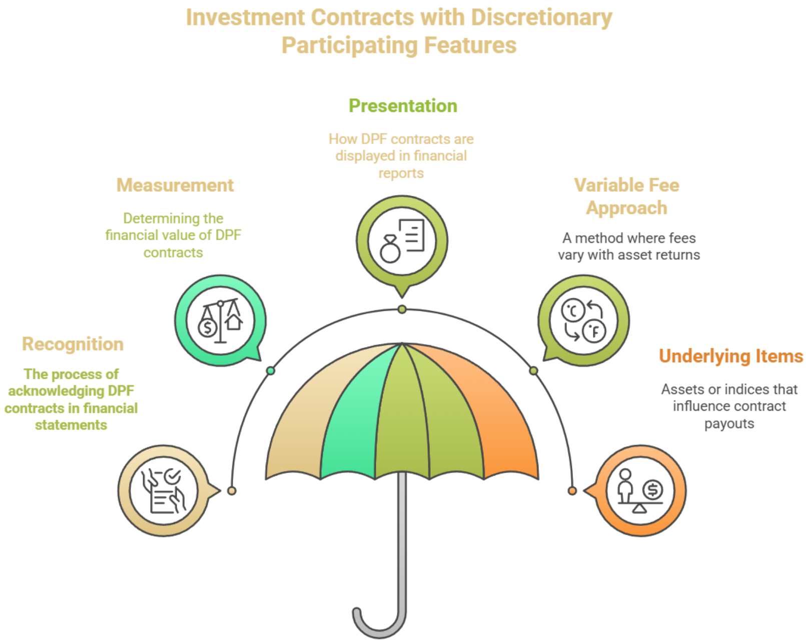
10. What is the impact of a reinsurance CSM being negative?
    - **A.** It represents a loss
    - **B.** It is a liability
    - **C.** It is not allowed
    - **D.** It's treated as an asset, not a liability

Correct Answer: D- For reinsurance contracts held, a negative CSM means the cedant expects to pay more than receive it. It's treated as an asset, not a liability.

MODULE 11: INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES

Introduction

This module explores the treatment of investment contracts with discretionary participation features (DPF) under IFRS 17, focusing on their recognition, measurement, and presentation.



These contracts may include both insurance and non-insurance components, and their measurement often involves significant judgement due to the discretionary nature of certain cash flows. The Variable Fee Approach (VFA) may be applicable for eligible contracts, where the entity's fee is considered to vary with the underlying asset returns. This module also outlines the conditions required for applying the VFA, and sets the stage for understanding how these unique contract types are integrated into IFRS 17's overall framework.

The underlying items are items that determine some of the amounts payable to a policyholder. These can include a reference portfolio, net assets, or even external indices—not limited to physical assets. IFRS 17 requires the pool of underlying items to be fixed and clearly identified—retrospective changes to the pool violate this requirement.

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

What is an Investment Contract with Discretionary Participation Features (DPF)?

An Investment Contract with DPF is a financial contract that:

- Does not transfer significant insurance risk,
- But gives the policyholder a contractual right to receive additional benefits that are:
    1. Significant,
    2. Discretionary (the issuer has some freedom in determining them),
    3. And based on the performance of a pool of underlying items (like assets, other contracts, or profits of the entity).

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:

1. **With-profits savings policies (no insurance risk)**
   Bonuses based on fund performance, no life cover.
2. **Deferred annuities (investment only)**
   Accumulates value, bonuses discretionary, no guarantees.
3. **Participating in deposit contracts**
   Base return + discretionary top-up from profits.
4. **Group savings plans**
   Employees share in pooled investment performance; bonuses are discretionary.

Direct Participation Contracts and Investment Contracts with DPFs

	Direct Participation Contracts	Investment Contracts with DPFs
Definition	A type of insurance contract where the policyholder shares in the performance of clearly identified underlying items.	A financial contract (not insurance) that gives the holder the right to discretionary returns based on performance of a pool of assets.
Standard	Fully within the scope of IFRS 17, using the Variable Fee Approach (VFA).	Also, within the scope of IFRS 17 (with modifications), but only if the issuer also issues insurance contracts.
Purpose	Combines insurance coverage with investment return sharing.	Provides investment-like benefits with discretionary bonuses, but no 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. **Which of the following statements best describes a key difference between insurance contracts with direct participation features and investment contracts with discretionary participation features under IFRS 17?**

   A. Insurance contracts with direct participation features are accounted for under IFRS 9, while investment contracts with discretionary participation features are accounted for under IFRS 17.
   B. Both contract types are accounted for using the Premium Allocation Approach (PAA) under IFRS 17.
   C. Insurance contracts with direct participation features use the Variable Fee Approach (VFA), while investment contracts with discretionary participation features are accounted for under IFRS 17 with minor modifications.
   D. Investment contracts with discretionary participation features involve no discretionary element and must follow IFRS 15.

   Correct Answer: C

   Explanation:
   IFRS 17 differentiates between:
   Insurance contracts with direct participation features (DPCs), which qualify for the Variable Fee Approach (VFA), a variant of the general model.
   Investment contracts with discretionary participation features, which are not insurance contracts, but are still accounted for under IFRS 17 with some modifications, rather than under IFRS 9.

2. **Which of the following contracts would be classified as an "investment contract with discretionary participation features" under IFRS 17?**

   A. A savings contract where the insurer retains discretion over bonus payments and the contract does not transfer significant insurance risk.
   B. A unit-linked investment product with guaranteed returns and no discretionary elements.
   C. A life insurance contract that entitles the policyholder to a share of asset returns and includes significant insurance risk.
   D. A pure term life policy with no investment component or discretionary features.

   Correct Answer: A
   Explanation:
   The definition of an investment contract with discretionary participation features: a contract without significant insurance risk but that provides discretionary returns to policyholders. According to IFRS 17, such contracts fall within its scope (not IFRS 9) and are treated using a variation of the general model.

3. Under IFRS 17, what does the coverage period of a Direct Participation Contract (DPC) include?

A. Only the period during which insurance risk is present.
B. Only the period over which investment returns are credited to the policyholder.
C. Both the investment and insurance service periods under the contract.
D. Only the period where fair value of underlying items increases.

Correct Answer: C

Explanation:

For a DPC, IFRS 17 states that the coverage period implicitly includes both investment services and insurance services. This distinguishes DPCs from other types of contracts where only insurance coverage might be considered.

4. Which of the following best defines an "underlying item" under IFRS 17?

A. Any asset owned by the insurer
B. Any amount guaranteed to the policyholder
C. Any item that determines amounts payable to the policyholder
D. A group of insurance contracts with discretionary returns

Correct Answer: C

Explanation:

According to IFRS 17, the underlying items are items that determine some of the amounts payable to a policyholder. These can include a reference portfolio, net assets, or even external indices—not limited to physical assets.

5. **According to IFRS 17, what makes a policyholder's participation in a pool of underlying items valid for DPC classification?**

    A. The insurer's intention to share profits
    B. A strong historical pattern of bonus declarations
    C. A legally enforceable right to a share of underlying items
    D. Regulatory expectation that profits be distributed fairly

    Correct Answer: C
    Explanation:
    IFRS 17 requires that policyholders' participation must be contractually or legally enforceable, though the insurer may still have discretion on how much is paid. Customary business practices and law can also make obligations enforceable.

6. **Which of the following contracts is most likely NOT to qualify as having a clearly identified pool of underlying items under IFRS 17?**

    A. A unit-linked contract where fund allocation is defined
    B. A with-profits contract tied to a disclosed internal asset pool
    C. A policy linked to an external market index explicitly mentioned in the policy
    D. A universal life contract where the crediting rate is set by the insurer ex post

    Correct Answer: D
    Explanation:
    A crediting rate set at the end of the period and not linked to any identified underlying items is not sufficient to meet the "clearly identified pool" requirement. Under IFRS 17, this structure is an example of a contract that does not qualify as a DPC.

7. **When is the assessment of whether an insurance contract qualifies as a Direct Participation Contract (DPC) performed under IFRS 17?**

    A. At initial recognition and not subsequently repeated
    B. At the date of contract modification
    C. At the end of each reporting period
    D. Annually, based on updated assumptions

    Correct Answer: A

    Explanation:
    The assessment takes place at initial recognition and is not repeated thereafter. Even if future changes make guarantees more "in the money," the contract retains its DPC status unless a modification leads to derecognition and recognition of a new contract.

8. **Which of the following statements is TRUE about discounting in the measurement of Direct Participation Contracts under IFRS 17?**

   A. DPCs use locked-in discount rates for all adjustments
   B. Adjustments to cash flows not based on underlying items are discounted using current rates
   C. DPCs follow a special discounting method unique to these contracts
   D. Discounting is not applicable to DPCs

   Correct Answer: B
   Explanation:
   In IFRS 17, changes in fulfilment cash flows not based on underlying items are discounted using current rates, not locked-in ones. This ensures consistency with fair value-based measurement and reflects time value changes.

9. **How does the adjustment of the Contractual Service Margin (CSM) for financial risks differ between contracts with and without direct participation features under IFRS 17?**

   A. Contracts with direct participation features adjust the CSM for changes in financial risk using the current interest curve, even if unrelated to future service.
   B. Only contracts without direct participation features adjust the CSM for financial risks using the current discount rate.
   C. For both types of contracts, the CSM is adjusted using the locked-in interest rate.
   D. Neither type of contract adjusts the CSM for financial risks unrelated to underlying items.

   Correct Answer: A
   Explanation:
   For contracts with direct participation features (DPCs), the CSM is adjusted for changes in financial risk using the current interest curve, even if those changes do not relate to future service. This differs from contracts without direct participation features, where such changes are generally not reflected in the CSM and instead use a locked-in rate from inception.

10. **What is the appropriate IFRS 17 treatment when a Direct Participation Contract (DPC) is modified such that it no longer meets the definition of a DPC?**

   A. The contract continues to be treated as a DPC until expiry.
   B. The contract is reclassified prospectively without derecognition.
   C. The original contract is derecognised, and a new contract is recognised based on the modified terms.
   D. Only the CSM is adjusted to reflect the modification.

   Correct Answer: C
   Explanation:
   When a DPC is modified in a way that it no longer meets the DPC criteria, IFRS 17 requires that the original contract be derecognised, and a new contract be recognised based on the new terms. This ensures that the accounting treatment aligns with the revised nature of the contract.

11. Which of the following best describes an investment contract with discretionary participation features under IFRS 17?

A. A financial instrument that guarantees fixed returns and is always classified under IFRS 9.
B. A contract that gives the investor a right to additional amounts determined solely by market interest rates.
C. A unit-linked insurance contract with no discretionary elements.
D. A financial instrument providing the investor with a right to receive significant additional benefits that are contractually discretionary and based on returns or performance.

Correct Answer: D
Explanation:
An investment contract with discretionary participation features is defined as a financial instrument where the investor has the contractual right to additional discretionary amounts that are:

Expected to be significant,
At the issuer's discretion, and
Based on returns or performance of a pool of assets, contracts, or the entity itself.
These contracts fall under IFRS 17 only if issued by entities that also issue insurance contracts.

MODULE 12: MODIFICATION & DERECOGNITION

Introduction

This module provides an in-depth overview of the modification and derecognition requirements for insurance contracts, as set out in **paragraphs 72–77** of **IFRS 17**.

Modification is a change in the terms of an insurance contract after it has been initially recognized. These changes may result from mutual agreement between the insurer and policyholder, or as a result of changes in regulation.

When a Contract is Derecognized.

Under IFRS 17, an insurer must **derecognize the original contract** and **recognize a new one** if and only if:

a) Modification terms were included at inception.

b) The contract is no longer within IFRS 17 scope.

c) The contract boundary changes significantly.

d) The contract moves to a different group (e.g., new cohort or portfolio, or becomes onerous).

e) The modified contract now includes distinct non-insurance components (e.g. goods/services).

f) It no longer qualifies for the Premium Allocation Approach (PAA).

g) It gains or loses direct participation features.

If none of the above apply, treat the change as an update to expected cash flows. These changes are accounted for using normal subsequent measurement rules under IFRS 17.

A contract is derecognized if:

a) The insurer has no further obligation to the policyholder (e.g. it expired, was cancelled or fully settled), or

b) The modification criteria for derecognition (above) are met.

Accounting Treatment for Derecognition

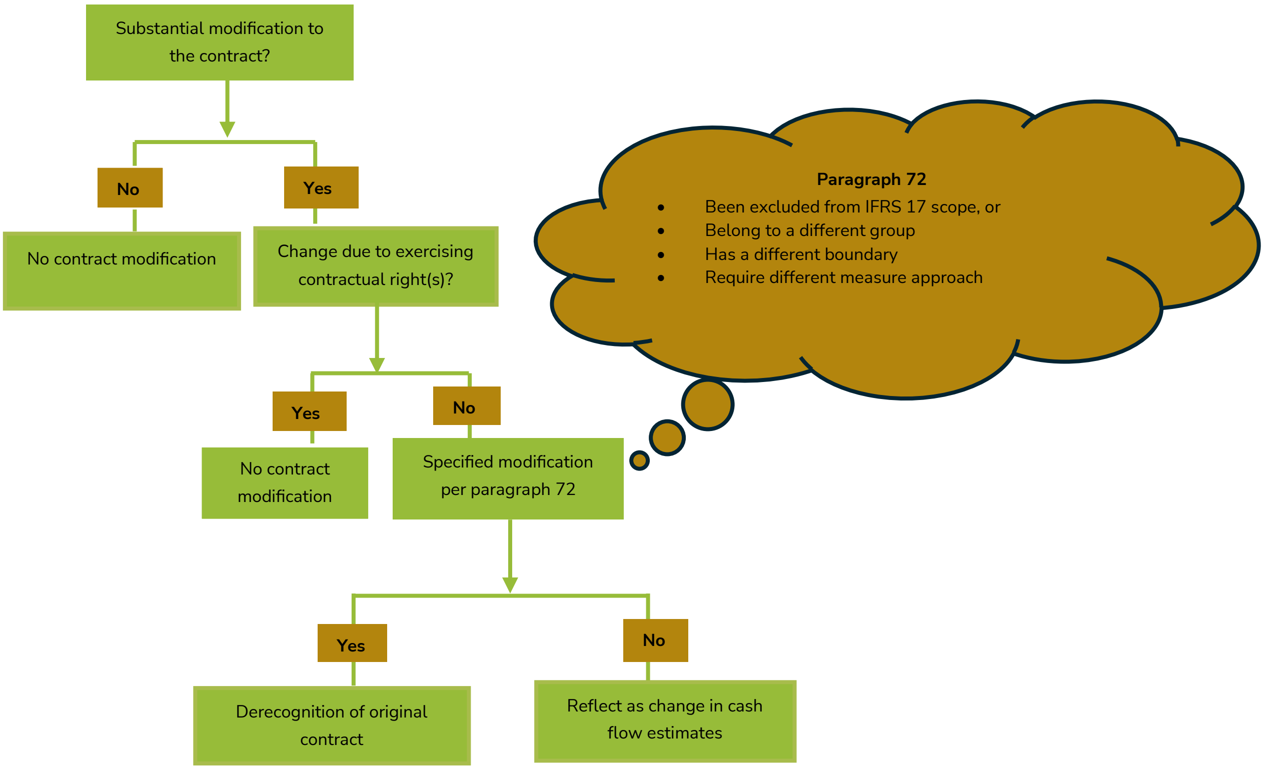
a) Derecognition of a contract from within a group

- Remove the contract's share of present value of future cash flows and risk adjustment.
- Adjust the Contractual Service Margin (CSM), to reflect the resulting change in fulfilment cash flows, where applicable.
- Update the coverage units and profit recognition based on the revised number of units.

b) Derecognition from Modification or Transfer

- Adjust the CSM based on the difference between:
    - The change in carrying amount, and
    - The premium charged by a third party (if transferred), or
    - The premium the insurer would have charged for the modified contract

- Recognize the new contract as if that calculated premium had been received on the modification date.



Practice Questions

1. When is a contract considered modified under IFRS 17?

   A. When it is extended

   B. When contractual cash flows change

   C. When insurer and policyholder agree on new terms

   D. When premiums change

   Correct Answer: B

   Explanation: A contract is modified when the terms of the contract are changed in a way that affects the fulfilment cash flows.

2. What is the first step when assessing a contract modification under IFRS 17?

   A. Recognize as new contract

   B. Adjust the CSM

   C. Assess whether modification is substantial

   D. Update the risk adjustment

   Correct Answer: C

   Explanation: The insurer must first assess whether the modification is substantial or not to determine the correct treatment.

3. If a contract modification results in substantially different terms, what is the accounting treatment?

   A. Adjust liability only

   B. Derecognize old and recognize new contract

   C. Adjust insurance revenue

   D. Disclose in notes only

   Correct Answer: B

   Explanation: A substantial modification requires derecognition of the original contract and recognition of a new one.

4. What is the impact on CSM if a modification is not substantial?

   A. It is reversed

   B. It is remeasured

   C. It is released to profit

   D. It is written off

   Correct Answer: B

   Explanation: The CSM is adjusted to reflect the changes in fulfilment cash flows without derecognition.

5. Under IFRS 17, what causes derecognition of an insurance contract?

   A. Claims payment

   B. Expiry of coverage

   C. Settlement or cancellation

   D. Change in accounting policy

   Correct Answer: C

   Explanation: Derecognition occurs when the obligation is extinguished through expiry, settlement, or cancellation.

6. Which of the following changes is considered substantial?

   A. Adding a new coverage type

   B. Change in billing address

   C. Change in payment date

   D. Update to claims contact

   Correct Answer: A

   Explanation: A new coverage type changes the contract's risk profile, making it substantial.

7. How is the carrying amount of the derecognized contract treated?

   A. It is capitalized

B. It is transferred to reserves
C. It is removed from the balance sheet
D. It is restated
Correct Answer: C
Explanation: Derecognition involves removing the carrying amount of the contract from the statement of financial position.

8. How is a new contract initially recognized?
A. Based on old values
B. Using fair value
C. Using fulfilment cash flows at date of modification
D. Not recognized separately
Correct Answer: C
Explanation: The new contract is measured using fulfilment cash flows at the modification date.

9. How are derecognised contracts due to full settlement treated?
A. CSM is amortized
B. Recognize gain/loss
C. Asset revaluation
D. Insurance revenue restated
Correct Answer: B
Explanation: Derecognition leads to recognition of a gain or loss based on the difference in fulfilment cash flows.

10. What is the primary difference between substantial and non-substantial modifications?
A. Impact on reinsurance
B. Change in timing of premium
C. Need for derecognition
D. Claims experience
Correct Answer: C
Explanation: Substantial modifications require derecognition; non-substantial do not.

11. Which of the following is NOT a reason for derecognition?
A. Contract lapses
B. Contract is modified substantially
C. Policy is cancelled
D. Policyholder pays premium early
Correct Answer: D
Explanation: Early premium payment does not extinguish the contractual obligation.

12. What is the derecognition criteria under IFRS 17 for insurance contract liabilities?
A. Legal cancellation
B. Transfer to another insurer
C. Extinguishment of obligation
D. Policyholder request
Correct Answer: C
Explanation: A liability is derecognized once the insurer's obligation is extinguished.

13. What must be disclosed upon derecognition of a contract?
A. Nothing
B. Reason for derecognition and financial impact
C. Transition adjustments
D. Future premiums
Correct Answer: B
Explanation: IFRS 17 requires entities to disclose derecognition events and their financial effects.

14. Which modification would not be considered substantial?
    A. Adding a new benefit
    B. Removing a major risk cover
    C. Changing claim limits significantly
    D. Changing policyholder address
    Correct Answer: D
    Explanation: Changing a policyholder's address is an administrative change and does not affect the contract terms, so it is not substantial.

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 provides an overview of insurance service result as defined under IFRS 17 paragraphs 83 to 86.

Presentation in the Statement of Financial Performance

As per the standard, insurance companies shall disaggregate (split) their financial results into two main categories parts:

a) Insurance Service Result

b) Insurance Finance Income or Expenses

This breakdown is shown in the statement of profit or loss and other comprehensive income, also called the **statement of financial performance**.

IFRS 17 requires that an entity presents income or expenses from reinsurance contracts held separately from those of insurance contracts issued.

The entity may:

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

b) Present separately the amounts:

   i. Recovered from the reinsurer, and

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

Option 1

SAMPLE INCOME STATEMENT	
Insurance Revenue	X
Insurance Service expenses	(X)
Net income/expense from reinsurance contracts held	X
Insurance service result	**XX**
Insurance finance income or expenses	(X)
Net investment income	X
Net financial result	**XX**
Profit/loss before tax	**XXXX**

Option 2

SAMPLE INCOME STATEMENT	
Insurance Revenue	X
Insurance Service expenses	(X)
Insurance service result (before reinsurance contracts held)	**XX**
Allocation of reinsurance premium	(Y)
Amounts recoverable from reinsurers	Y
Net income/expense from reinsurance contracts held	**YY**
Insurance service result	**XX**
Insurance finance income or expenses	(X)
Net investment income	X
Net financial result	**XX**
Profit/loss before tax	**XXXX**

Insurance Service Result

The Insurance Service Result (before reinsurance contracts held), represents the difference between the **Insurance Service Revenue** and the **Insurance Service Expenses**.

Insurance Service revenue reflects the income for providing coverage and other services.

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 the costs related to claims, services, and insurance contracts management. 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.**

Practice Questions

1. What are the two main components an entity must disaggregate in the statement of financial performance?

   A. Revenue and Expenses
   B. Insurance Profit and Investment Return
   C. Earned Premium and Unearned Premium
   D. Insurance Service Result and Insurance Finance Income or Expenses

Correct Answer: D

Explanation: IFRS 17 requires disaggregation into Insurance Service Result and Insurance Finance Income or Expenses in the statement of financial performance.

2. Which of the following is included in the insurance service result?

   A. Change in risk adjustment for non-financial risk
   B. Insurance revenue and insurance service expenses
   C. Investment income
   D. Premium refunds

Correct Answer: B

Explanation: The insurance service result comprises insurance revenue and insurance service expenses (Paragraph 83).

3. How should an entity present income or expenses from reinsurance contracts held?

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

Correct Answer: A

Explanation: Reinsurance contract results must be presented separately from insurance contracts issued (Paragraph 85).

4. What should insurance revenue reflect?

   A. Premiums received
   B. Claims paid
   C. The consideration expected in exchange for coverage and services
   D. Cash flow timing

Correct Answer: C

Explanation: Insurance revenue should depict the consideration to which the entity expects to be entitled for providing insurance coverage and services (Paragraph 83).

5. Which of the following is NOT included in insurance service expenses?

   A. Incurred claims
   B. Investment components
   C. Other incurred insurance service expenses
   D. Amounts in paragraph 103(b)

Correct Answer: B

Explanation: Insurance service expenses exclude investment components (Paragraph 84).

6. When disaggregating the change in the risk adjustment for non-financial risk, what is required?

   A. Mandatory allocation between finance and service result
   B. No allocation is permitted
   C. Optional disaggregation; otherwise, include fully in the insurance service result
   D. Include entirely in finance income

Correct Answer: C

Explanation: If not disaggregated, the entire change is included in the insurance service result (Paragraph 82)

7. Which component may NOT be presented in profit or loss?

   A. Premium information inconsistent with Paragraph 83
   B. Insurance service expenses
   C. Reinsurance income
   D. Risk adjustment

Correct Answer: A

Explanation: Premium information should not be presented if inconsistent with how revenue is defined under Paragraph 83.

8. What options does an entity have for presenting reinsurance contracts held?

   A. Only as a single net amount
   B. Only as individual line items
   C. Either as a net amount or split into recovered amounts and premium allocations
   D. As part of investment income

Correct Answer: C

Explanation: The entity may present a net amount or separate amounts (recoveries and premium allocations) as long as they total the same net amount.

9. Under the Premium Allocation Approach (PAA), what is insurance revenue generally similar to?

   A. Earned premium
   B. Written premium
   C. Total premiums received
   D. Premium receivable

Correct Answer: A

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

10. Under the General Measurement Model (GMM), which of the following is NOT part of insurance service revenue?

   A. Release of the Contractual Service Margin (CSM)
   B. Investment returns
   C. Risk adjustment for non-financial risk
   D. Recovery of acquisition cash flows

Correct Answer: B

Explanation: Investment returns are excluded; insurance service revenue includes claims, risk adjustment, CSM release, and acquisition cost recovery.

11. What are “losses on onerous contracts” classified as under IFRS 17?

A. Investment finance expenses
B. Deferred income
C. Premium liability
D. Insurance service expenses

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 is the treatment of reinsurance-related cash flows contingent on claims?

A. Deferred revenue
B. Presented as part of claims recoverable
C. Included in insurance finance income
D. Excluded from the financial statements

Correct Answer: B

Explanation: Per paragraph 86(a), such cash flows are part of the expected claims to be reimbursed under the reinsurance contract.

14. What is the effect of the reversal of losses on onerous contracts?

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 provides an overview of insurance finance income or expenses as defined under IFRS 17 paragraphs 87 to 92.

Definition

Insurance finance income or expenses reflect how the value of insurance contract liabilities changes over time due to:

a) Time value of money – the effect of interest over time.

b) Financial risks – changes in interest rates or market movements.

These changes affect how much insurers expect to pay in the future.

What's not included?

Some changes in assumptions (like interest rates) are not treated as finance income or expense if:

a) The contract has direct participating features, and

b) The change would normally adjust the Contractual Service Margin (CSM), but IFRS 17 rules prevent that.

These are instead reported as insurance service expenses.

How to Present Insurance Finance Income or Expense

Companies have **two main options** for showing these amounts in their financial statements, depending on the type of insurance contract:

A. Non-Participating Contracts (no direct link to underlying assets):

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: Show a steady, expected amount based on a fixed ("locked-in") discount rate from when the contract began.

ii. In OCI: Put the difference between actual changes and the expected amount.

B. Participating Contracts (with underlying assets the insurer holds):

a) Option 1 – Include all insurance finance income or expenses for the period entirely in Profit or Loss (P&L)
All finance income/expenses go in the income 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**

IRA

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**

Exchange differences on insurance contract liabilities (P&L portion)- Arise when converting foreign currency balances into the reporting currency.

Exchange differences on retranslation of foreign operations- Arise when translating the financial results of foreign subsidiaries into the group's reporting currency.

Practice Questions

1. What are Insurance Finance Income or Expenses (IFIE)?

   A. Premiums and claims
   B. Acquisition costs and investment income
   C. Changes in non-financial assumptions
   D. Time value of money and financial risk impacts

Correct Answer: D

Explanation: IFIE represent changes in the carrying amount of insurance contracts due to the effect of the time value of money and financial risk, such as interest accretion and changes in discount rates.

2. How can IFIE be presented in the statement of financial performance?

   A. Either fully in P&L or disaggregated between P&L and OCI
   B. Only in Profit or Loss (P&L)
   C. Only in Other Comprehensive Income (OCI)
   D. Only in the notes to the financial statements

Correct Answer: A

Explanation: IFRS 17 allows a policy choice: present all IFIE in P&L or disaggregate them between P&L and OCI, depending on the approach selected.

3. Are there any exceptions to the general treatment of IFIE?

   A. No exceptions
   B. Yes, for reinsurance contracts
   C. Yes, for insurance contracts with direct participation features and certain assumptions that would adjust CSM but don't
   D. Yes, if the policyholder is a related party

Correct Answer: C

Explanation: IFRS 17 excludes from IFIE those changes in financial assumptions that would adjust the contractual service margin (CSM) but do not do so due to application of specific paragraphs (45(b)(ii), etc.).

4. If the entity chooses to disaggregate IFIE between P&L and OCI, how should the disaggregation be made?

   A. Based on actual market returns
   B. Using a locked-in discount rate to allocate a portion to P&L
   C. Arbitrarily
   D. Based on revenue recognition patterns

Correct Answer: B

Explanation: A systematic allocation using a locked-in discount rate at initial recognition is applied. The portion not recognized in P&L is reported in OCI.

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. How should exchange differences on changes in the carrying amount of groups of insurance contracts be treated?

   A. Always in OCI
   B. Always in equity
   C. Not recognized
   D. In P&L unless they relate to OCI-recorded IFIE, in which case they go to OCI

Correct Answer: D

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 component is typically included in the effect of the time value of money under IFIE?

   A. Expected claims
   B. Acquisition costs
   C. Interest accretion on insurance liabilities
   D. Reinsurance asset recoveries

Correct Answer: C

Explanation: Interest accretion reflects the unwinding of the discount on insurance liabilities, part of the time value of money in IFIE.

8. Which of the following best describes the treatment of IFIE for contracts with direct participation features?

   A. Must always be presented in OCI
   B. May be presented to eliminate mismatches with underlying items
   C. Not applicable to participating contracts
   D. Must always be presented in P&L

Correct Answer: B

Explanation: Entities can choose to disaggregate IFIE in a way that eliminates accounting mismatches with underlying items.

9. If a group of contracts is derecognized and IFIE has been disaggregated under paragraph 89(b), what happens to amounts in OCI?

   A. Remain in OCI
   B. Transferred to P&L
   C. Reversed
   D. Transferred to retained earnings

Correct Answer: A

Explanation: Under paragraph 91(b), OCI amounts from paragraph 89(b) are not reclassified to P&L.

10. What type of financial risk would be reflected in IFIE?

    A. Lapse risk
    B. Currency risk
    C. Inflation risk
    D. Equity or interest rate risk impacting discount rates

Correct Answer: D

Explanation: IFIE includes effects of financial risk, such as interest rate or equity risk, which influence the present value of insurance liabilities.

11. Why might an entity choose to disaggregate IFIE between P&L and OCI?

  - **A.** To smooth earnings volatility
  - **B.** To avoid recognizing claims
  - **C.** To increase policyholder bonuses
  - **D.** To reduce insurance liabilities

Correct Answer: A

Explanation: Disaggregation helps reduce volatility in P&L from market-driven movements in discount rates and financial assumptions.

12. Which paragraph of IFRS 17 allows IFIE disaggregation for non-participating contracts?

  - **A.** Paragraph 30
  - **B.** Paragraph 88
  - **C.** Paragraph 45
  - **D.** Paragraph 135

Correct Answer: B

Explanation: Paragraph 88 provides the accounting policy choice for disaggregating IFIE for non-participating contracts.

13. When an entity opts to recognize all IFIE in P&L, the impact on OCI is

  - **A.** Neutral (no impact)
  - **B.** Positive
  - **C.** Negative
  - **D.** Deferred to future periods

Correct Answer: A

Explanation: If all IFIE are recognized in P&L, there is no effect on OCI.

14. Which type of insurance contract is most likely to involve disaggregation based on underlying item performance?

  - **A.** Group term life insurance
  - **B.** Non-participating whole life
  - **C.** Universal life insurance with direct participation features
  - **D.** Reinsurance contracts held

Correct Answer: C

Explanation: Contracts with direct participation features (e.g., universal life tied to asset performance) often use disaggregation aligned with underlying items.