

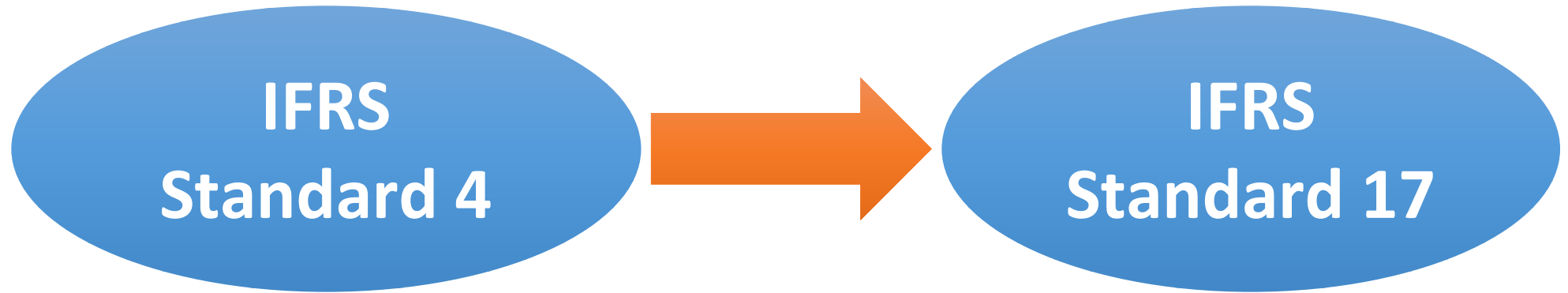


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Passport to IFRS®

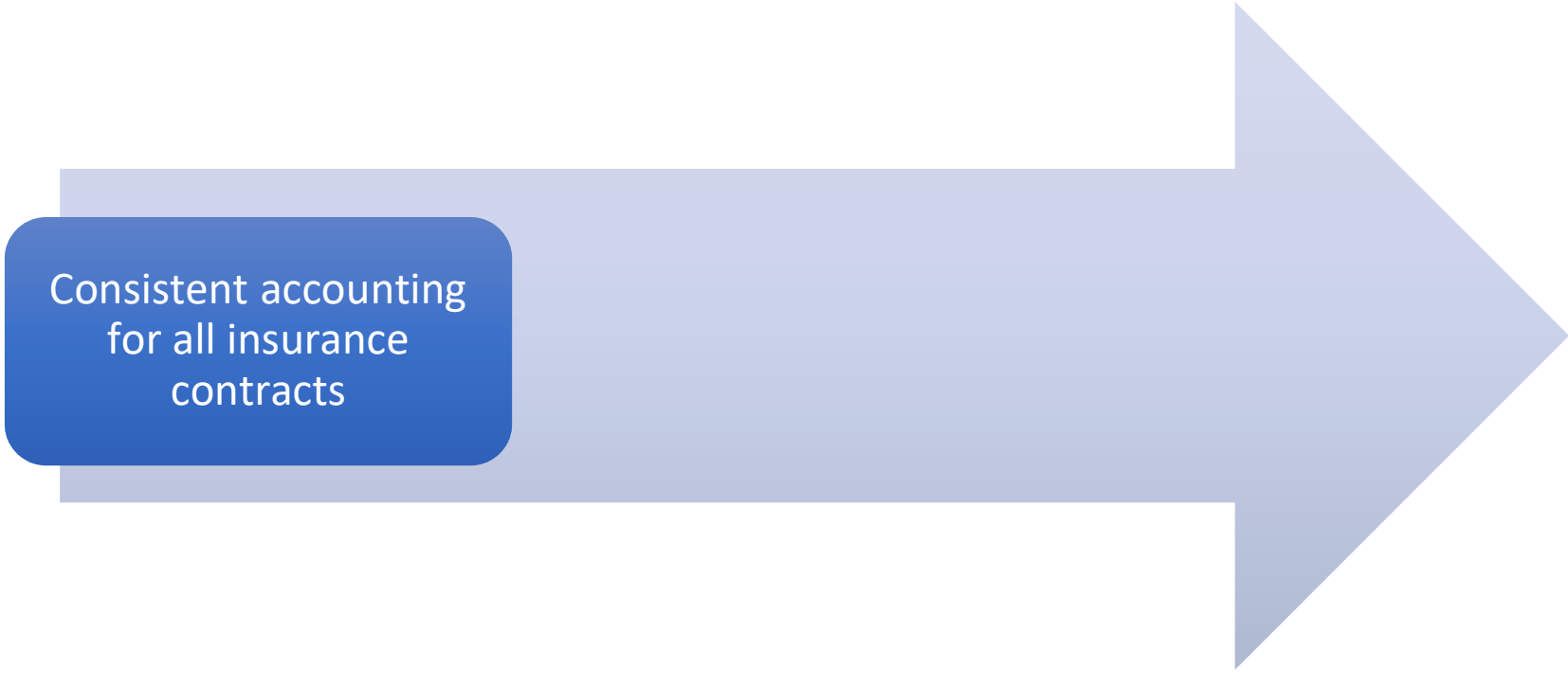
IFRS® Standard 17 Insurance Contracts






THE OBJECTIVE OF THE STANDARD

MAIN PURPOSES OF IFRS STANDARD 17



Consistent accounting
for all insurance
contracts


MAIN PURPOSES OF IFRS STANDARD 17



Consistent accounting
for all insurance
contracts

Updated information
about obligations, risks
and performance of
insurance contracts

MAIN PURPOSES OF IFRS STANDARD 17



Consistent accounting
for all insurance
contracts

Updated information
about obligations, risks
and performance of
insurance contracts

Increased transparency
in financial information
reported by insurance
companies

All insurance contracts, including reinsurance contracts that are issued

Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

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KEY DEFINITIONS

Insurance
Contract

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Insurance
Contract



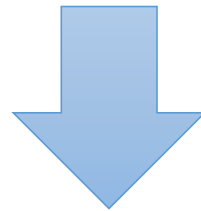
An agreement under which a customer transfers significant insurance risk to an insurer

KEY DEFINITIONS

Contractual
Service Margin

KEY DEFINITIONS

Contractual
Service Margin



The unearned profit component of the insurance contract liability presented in the statement of financial position and recognized in the statement of profit or loss as a company provides services under insurance contracts

KEY DEFINITIONS

Fulfilment Cash
Flows

KEY DEFINITIONS

Fulfilment Cash
Flows



Estimates of amounts that the insurer expects to collect from premiums and payout for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts

KEY DEFINITIONS

Insurance Risk

KEY DEFINITIONS

Insurance Risk



Risk, other than financial risk, transferred from the policyholder to the insurer

KEY DEFINITIONS

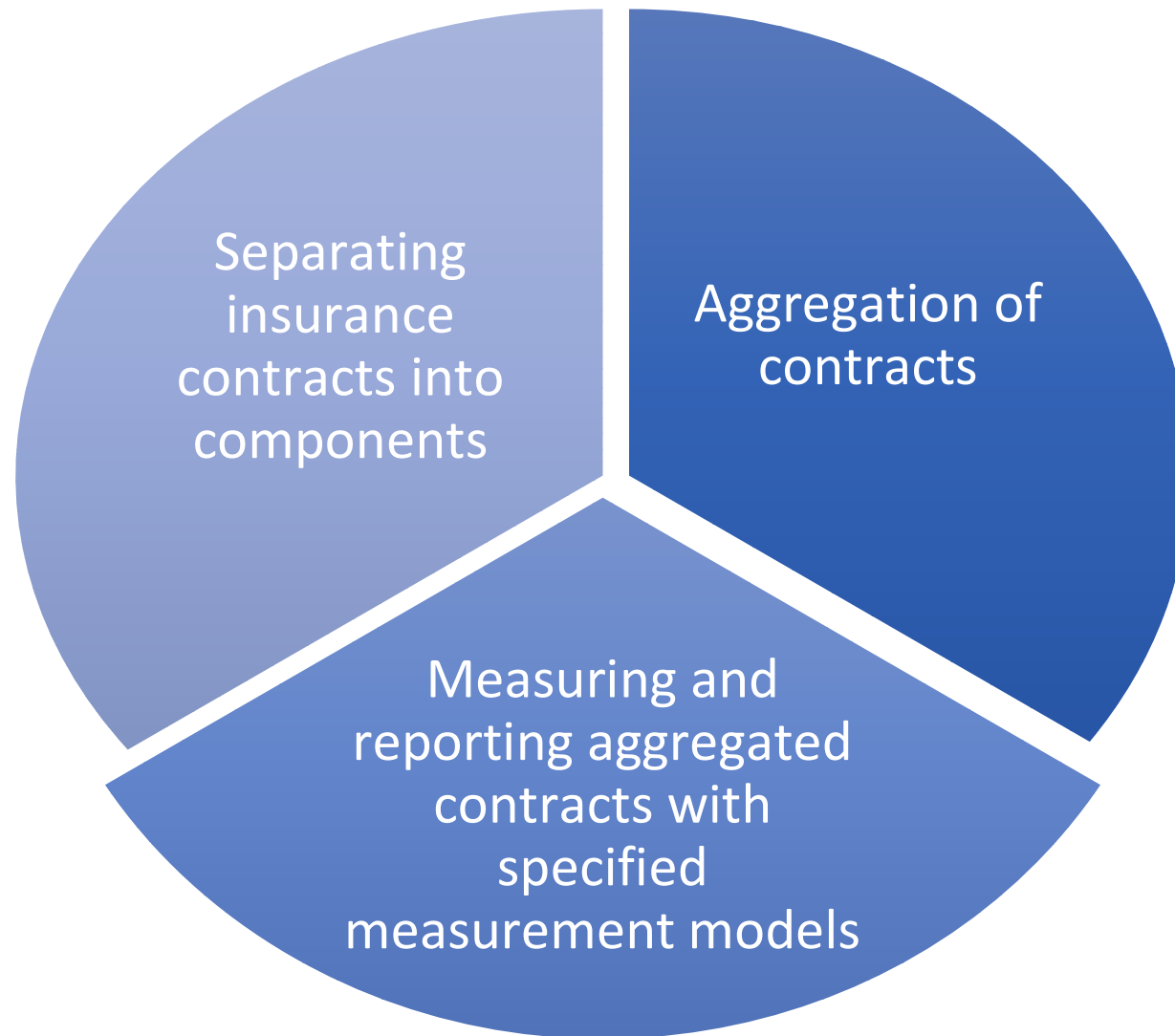
Investment
Component

KEY DEFINITIONS

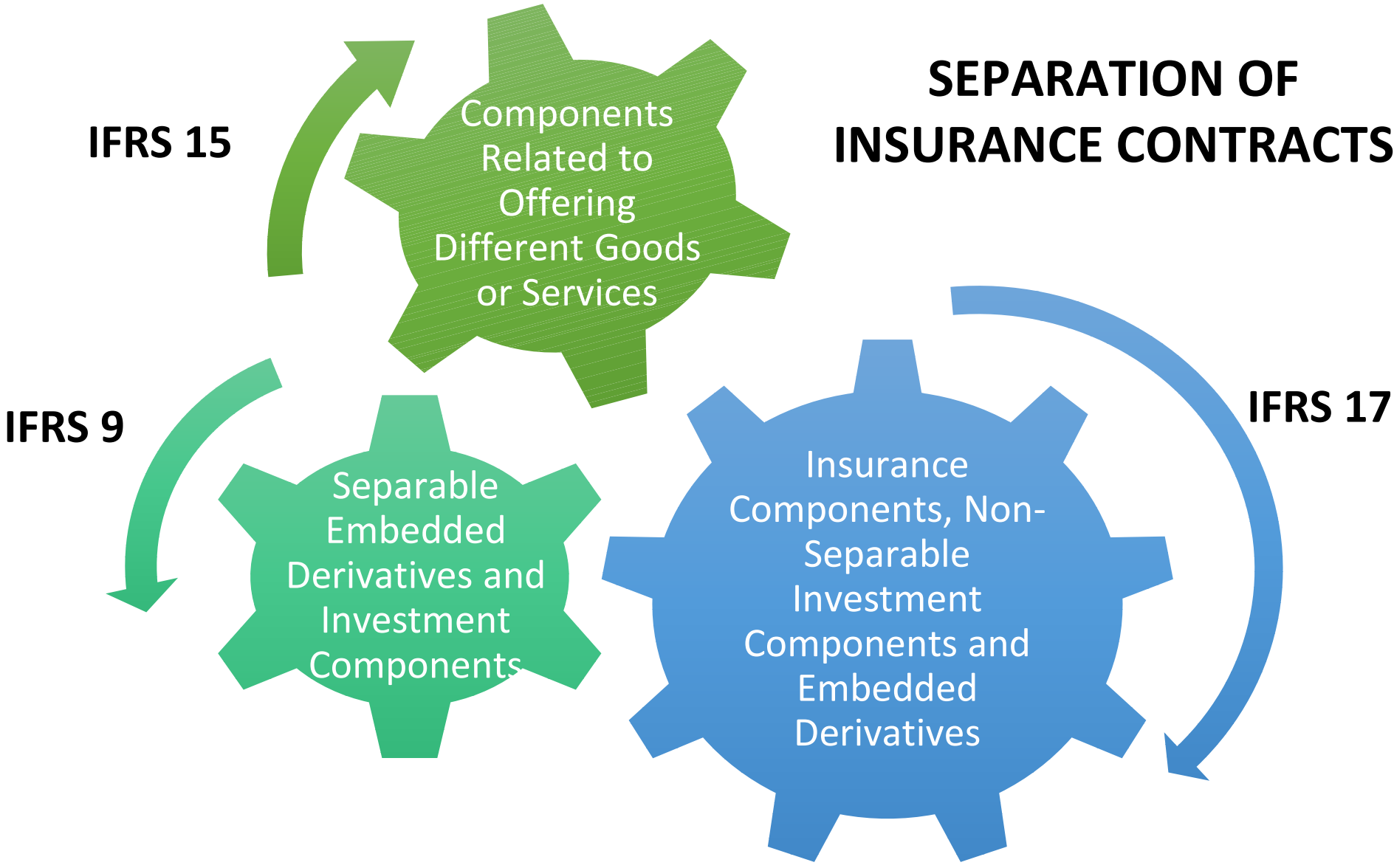
Investment
Component



Amounts that the entity expects to reimburse the policyholder even if the insured event does not occur



SEPARATION OF INSURANCE CONTRACTS



AGGREGATION OF INSURANCE CONTRACTS

Grouping can be done as follows:

	Group A	Group B
Onerous contracts	Contracts 3, 5	Contracts 1, 4
No possibility of becoming onerous	Contracts 8, 9, 10	Contracts 2, 6
Other profitable contracts	Contracts 7, 12	Contracts 11, 13, 14

RECOGNITION



**Profitability
Recognition**



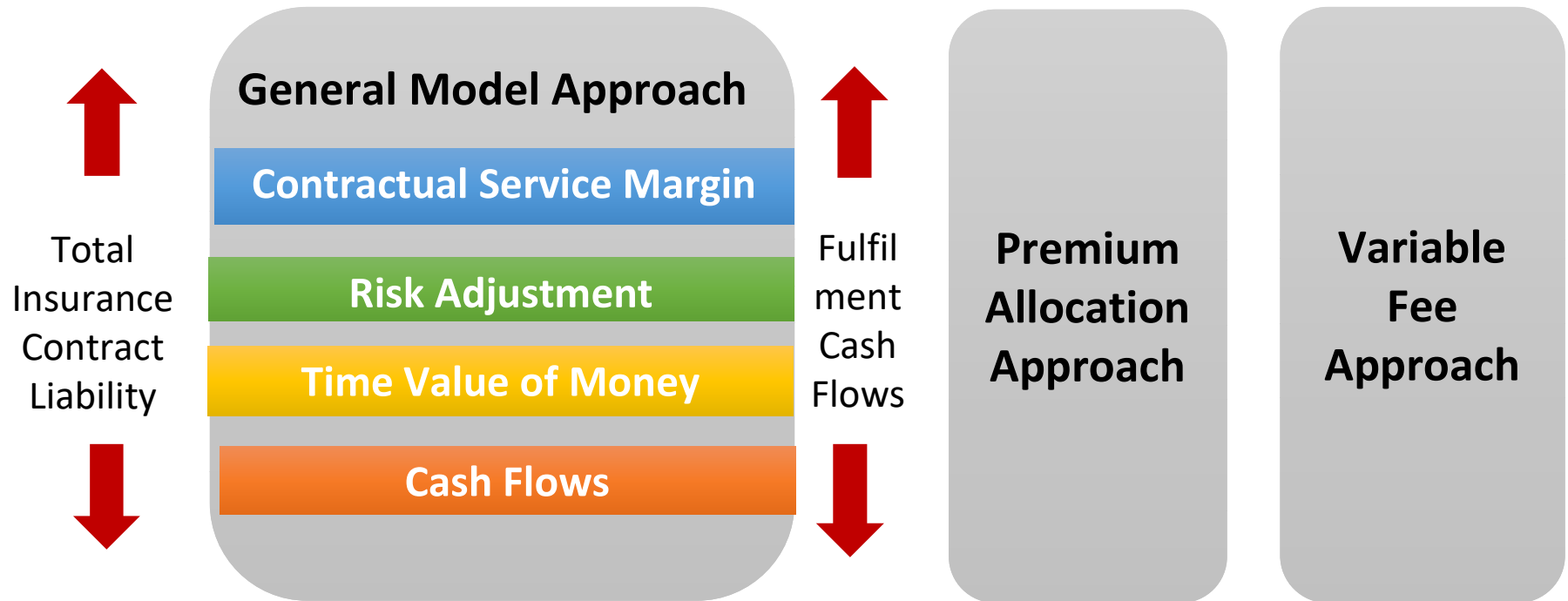
**Liability
Measurement**

Starting date of the coverage period of the contract group

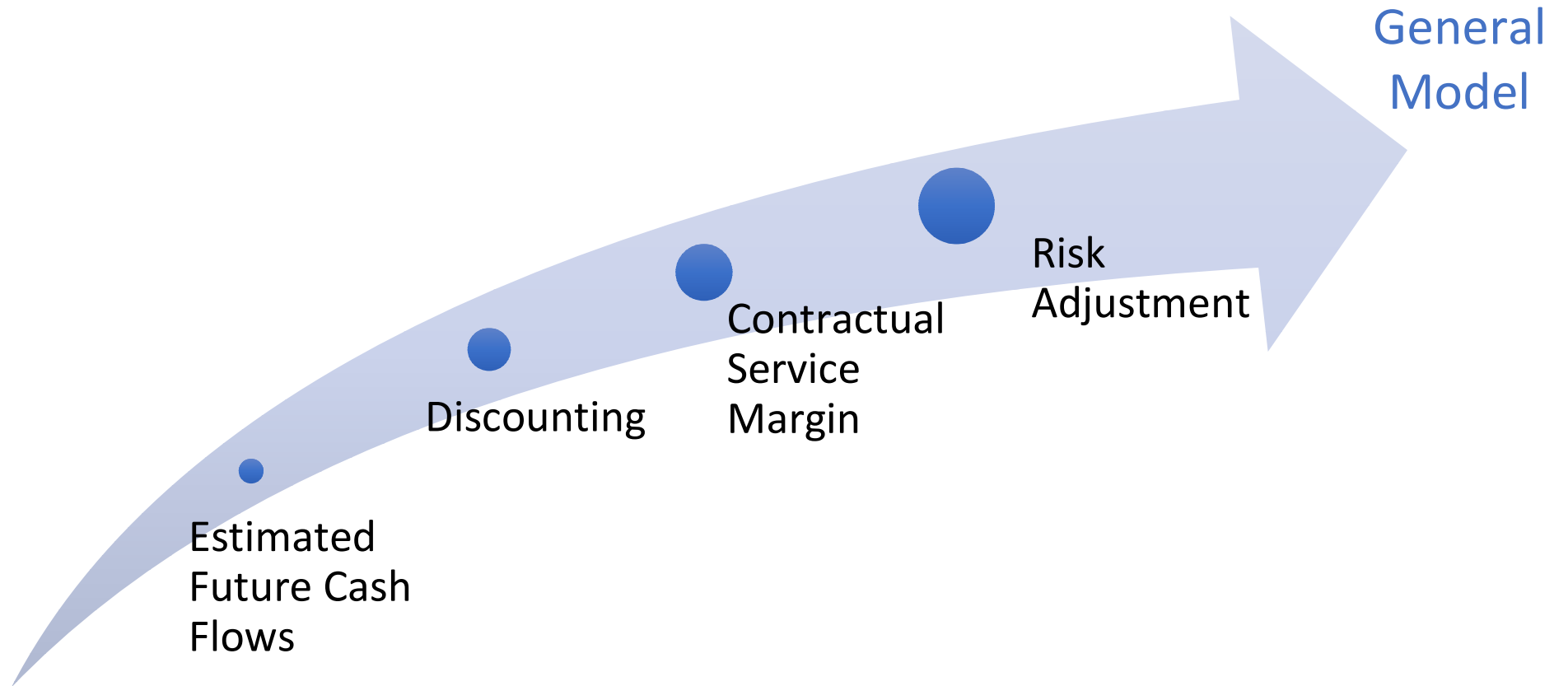
The date on which the first payment to be made by the insured in the group is due

The date the group became onerous for an economically onerous group of contracts

MEASUREMENT



General Model Approach



Initial Recognition and Measurement



**Contractual
Service
Margin**

Initial Recognition and Measurement



**Future Cash
Flows**

Initial Recognition and Measurement



Discounting

Initial Recognition and Measurement



EXAMPLE

ENTITY MD



A group of insurance contracts for 2 years

Expected premium: CU2,000

Claims: CU1,000

Miscellaneous Expenses: CU200

(No contracts will expire before the end of the coverage period)

EXAMPLE

Estimates of future cash inflows (CU 2,000)

EXAMPLE

Estimates of future cash inflows (CU 2,000)

Estimates of future cash outflows:

Claims
CU 1,000

Expenses

CU

200

EXAMPLE

Estimates of future cash inflows CU (2,000)

Estimates of future cash outflows:

Claims

CU 1,000

Expenses

CU 200

Net fulfilment cash flows

(CU 800)

EXAMPLE

Estimates of future cash inflows	CU (2,000)	
Estimates of future cash outflows:		
Claims		
CU 1,000		
Expenses	CU 200	
<u>Net fulfilment cash flows</u>		(CU 800)
<u>Contractual service margin</u>	CU 800	
<u>Insurance contract liability</u>	---	
Loss on initial recognition		---

Subsequent Measurement



**How Should The Subsequent
Measurement Be?**



**Insurance
Income**



**Insurance
Income**

**Insurance
Service
Expenses**

**Insurance
Finance
Income/
Expenses**

Insurance service expenses related to the increase in liability arising from losses and expenses incurred during the period

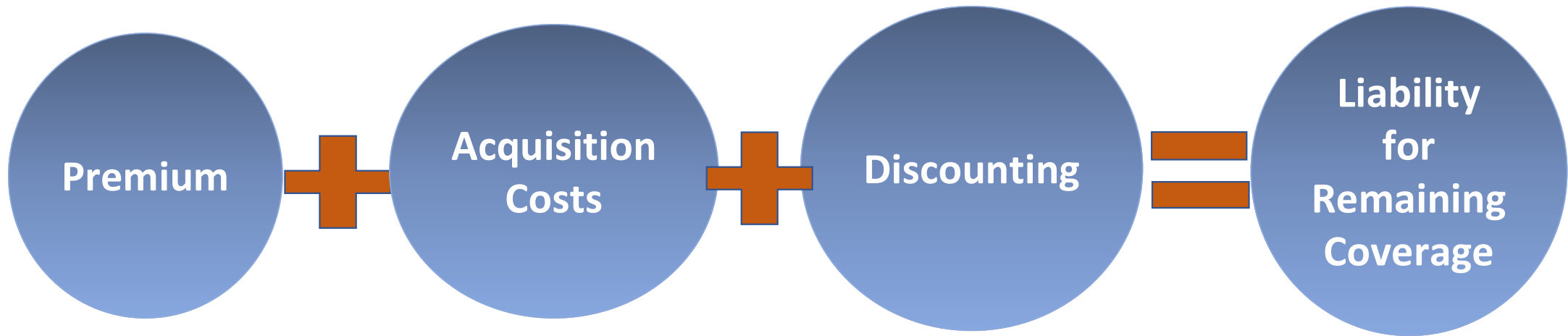
Insurance service expenses for subsequent changes in fulfillment cash flows related to incurred claims and expenses incurred

Insurance finance income or expenses for the effect of the time value of money and the effect of financial risk

Premium Allocation Approach



Premium Allocation Approach



EXAMPLE

AU Insurance Entity



50 policies with a term of 1 year

Policies cover only inpatient treatment costs

The premium amount per policy: CU 300

Acquisition cost: CU 100

The amount of compensation: < CU3,000

Estimated guarantee: CU 8,000

EXAMPLE

Estimated cash inflows: $\text{CU } 300 \times 50 = \text{CU } 15,000$

EXAMPLE

Estimated cash outflows: CU 8,000

EXAMPLE

Acquisition Cost: CU 100

EXAMPLE

AU Insurance Entity
“Statement of Profit or Loss and Other Comprehensive Income”
December 31st, 2022

Insurance Revenue	CU 15,000
Insurance Service Expenses	(CU 8,100)
Insurance Financial Expenses	-
Investment Revenues	-
Profit or Loss for the Period	CU 6,900
Comprehensive Income	CU 6,900

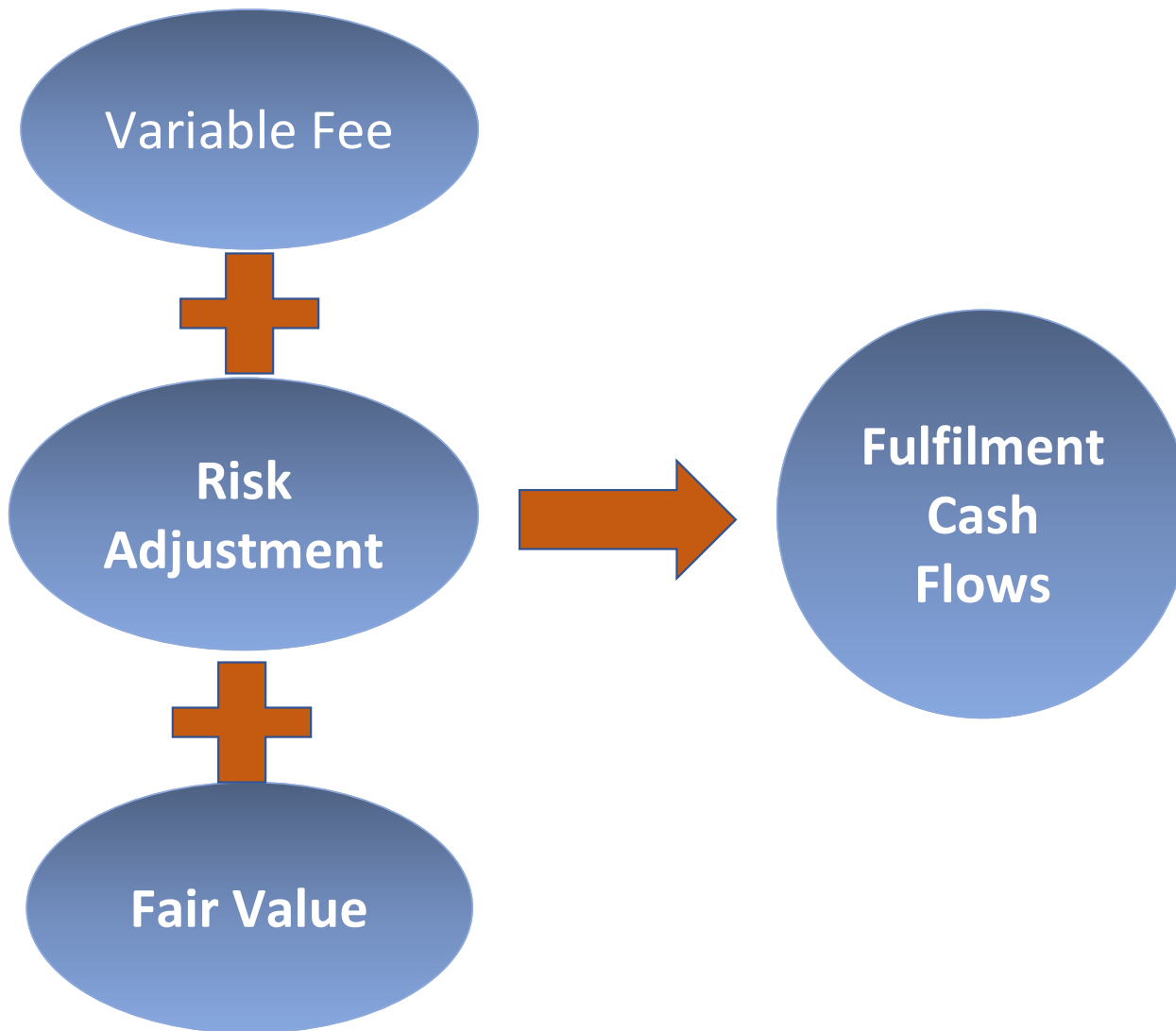
Variable Fee Approach

Insurance contracts with
direct participation
features

The insured participates in a clearly identifiable pool of underlying items

The insurance company expects to pay an amount equal to its share of the return on the underlying items

The amounts payable to the insured vary according to the changes in the fair value of the underlying items



EXAMPLE

Entity UA



Cumulative life insurance contracts for 3 years
The premium amount for the portfolio: CU50,000
The portfolio has a total of 50 policies
The amount payable: CU4,000 (If an insured die)
The fund, which consists of premiums is valued by bonds with an annual yield of 10%
The annual management fee charged on the portfolio return: 1%.

EXAMPLE

Total Premium:

CU 50,000

3-year sum of returns: $(\text{CU } 50,000 \times 0.1) + (\text{CU } 55,000 \times 0.1) + (\text{CU } 60,500 \times 0.1) =$ CU
16,550

Agent commissions (for the insurance production costs): $(\text{CU } 40 \times 50 \times 3) =$
CU 6,000

Estimated cash inflows:

CU 72,550

EXAMPLE

Total Guaranteed :

(CU 66,550)

$[CU50,000 + (CU50,000 \times 0.1) + (CU55,000 \times 0.1) + (CU60,500 \times 0,1)]$

Share received on return:

(CU 165.5)

$(CU 5,000 \times 0.01) + (CU 5,500 \times 0.01) + (CU 6,050 \times 0,01)$

Estimated cash outflows:

(CU 66,715.5)

Total Premium:

CU 50,000

3-year sum of returns:

CU 16,550

$(\text{CU } 50,000 \times 0.1) + (\text{CU } 55,000 \times 0.1) + (\text{CU } 60,500 \times 0.1)$

Production cost deduction:

CU 6.000

$(\text{CU } 40 \times 50 \times 3)$

Estimated cash inflows:

CU 72,550

Total Savings:

(CU 66,550)

$[\text{CU}50,000 + (\text{CU}50,000 \times 0.1) + (\text{CU}55,000 \times 0.1) + (\text{CU}60,500 \times 0.1)]$

Share received on return:

(CU 165 5)

DERECOGNITION



EXAMPLE

DM Life Insurance Entity



100 2-year insurance policies

Single premium: CU 10,000

Acquisition Cost: CU 400

The amount of coverage per policy: CU 600

Estimated Repay: 5 policies per year

Non-financial Risk: 5%

Financial Risk Adjustment: %3

Contracts will not be terminated until the end of the coverage period

EXAMPLE

Estimated Cash Inflows: CU10,000

EXAMPLE

Estimated Cash Outflows: $\text{CU } 600 \times 5 = \text{CU } 3,000$

The Net Present Value Of Estimated Cash Outflows:

1. Year $\text{CU } 3,000 / (1 + 0.03) = \text{CU } 2,913$

2. Year $\text{CU } 3,000 / (1 + 0.03)^2 = \text{CU } 2,828$

EXAMPLE

The Net Present Value Of Acquisition Cost:

1. Year $\text{CU } 400 / (1 + 0.03) = \text{CU } 388$
2. Year $\text{CU } 400 / (1 + 0.03)^2 = \text{CU } 377$

EXAMPLE

	January 1 st , 2022
Present value of future cash inflows	(CU 10,000)
Present value of future cash outflows	CU 5,741
Present value of contract acquisition cost	CU 765
Present value of future cash flows	(CU 3,494)

EXAMPLE

The risk adjustment: $\text{CU } 3,494 \times 0.05 = \text{CU } 175$

Cash Flows Regarding the Fulfilment of the Contract:
 $\text{CU } 3,494 - \text{CU } 175 = \text{CU } 3,319$

EXAMPLE

	January 1, 2022
Present value of future cash inflows	(CU 10,000)
Present value of future cash outflows	CU 5,741
Present value of contract acquisition cost	CU 765
Present value of future cash flows	(CU 3,494)
Risk adjustment for non-financial risk	CU 175
Cash Flows Regarding the Fulfilment of the Contract	(CU 3,319)
Contractual Service Margin	CU 3,319
Insurance contract asset/liability at initial recognition	0



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