[F203] IFRS 17

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Key differences from prudential reporting

IFRS 17 Liabilities: Generally higher due to inclusion of CSM on profitable contracts.

Day-One Profits:

Prudential Reporting: Recognizes profit immediately in own funds.

IFRS 17: Defers profit recognition over the coverage period via CSM.

GMM - Generalised Measurement Model

Default Model for most insurance contracts.

Discounting Required when it materially affects provisions or as mandated by legislation.

Need to disclose liability before discounting, and the assumptions used

Consider for discount rate:

Reflects the assets backing the liabilities

Excluded assets - premium debtors

Taxation - tax deductible

Variability

Performance Timing: Affects the timing of profit emergence, not actual performance.

Building blocks

Building Blocks

Best Estimate Future Cashflows (BEL)

Includes: All cashflows within the contract boundary.

Contract Boundary

Period where the insurer is obligated to provide coverage.

Ends when the insurer can reassess risk and reprice.

Differences from Prudential Reporting:

Best Estimate Future Cashflows (BEL) (cont)

Includes acquisition and maintenance expenses.

Different discount rates and contract boundaries.

Includes tax-related flows.

Requires unbundling certain contracts.

Risk Adjustment (RA)

Compensation for uncertainty in amount and timing of cashflows.

Similar to: Risk margin in prudential reporting.

Methodology: Not prescribed; confidence level must be disclosed.

Release: Recognized in profit as risk expires over time.

Contractual Service Margin (CSM)

Represents unearned future profits on a group of contracts.

Initial Recognition:

For profitable contracts: CSM = -(BEL + RA) to make initial liability zero.

For onerous contracts: CSM = 0; losses recognized immediately.

Release Pattern

Based on coverage units (e.g., benefit-weighted policies)

Recognized in profit over the coverage period.

Discounting

Adjusts cashflows to present value using appropriate discount rates.

PAA - Premium Allocation Approach

Simplified Model for short-duration contracts.

Eligibility Criteria

Contracts where: PAA measurement ≈ GMM measurement (not materially different)

And Coverage period ≤ one year.

Key Features

Similar to: Unearned Premium Reserve (UPR).

No Explicit: CSM or RA (implicit in the unearned premium).

Onerous Contracts: Loss component recognized at inception, similar to an unexpired risk reserve