

SLFRS 17 IMPLEMENTATION EFFECT ON COMPANY'S FINANCIAL STATEMENTS

EFFECTS ON THE STATEMENT OF FINANCIAL POSITION

SCENARIO			EXPECTED EFFECTS OF SLFRS 17	
			Insurance contract liabilities	Equity
Current or historical Assumptions	Discount rate currently used	Historical rate, lower than current rate	↓ Decrease	↑ Increase
		Historical rate, higher than current rate	↑ Increase	↓ Decrease
Risk Margins	Risk margin currently used	Risk margin higher than risk adjustment in SLFRS 17	↓ Decrease	↑ Increase
		Risk margin lower than risk adjustment in SLFRS 17	↑ Increase	↓ Decrease
Financial options and guarantees	Current value of minimum interest rate guarantees	Not fully reflect in measurement of insurance contracts	↑ Increase	↓ Decrease
		Fully reflect in measurement of insurance contracts	↔ Low effect	↔ Low effect
Acquisition Cost	Existing treatment of acquisition costs	Expense as incurred	↓ Decrease	↑ Increase
		Deferred and amortised	Depend	Depend

Indicator	Caption	SLFRS 4	SLFRS 17
↔	Insurance contract liabilities	Present separately	• Present separately
	Reinsurance contract assets		
✓	Insurance contract assets	Net with insurance contract liabilities	• Present separately on the balance sheet
	Reinsurance contract liabilities	Net with reinsurance contract assets	
	Deferred acquisition costs		• Include under Insurance contract liabilities & provide a reconciliation from the opening to closing balances of insurance acquisition cash flows (CFS) as a disclosure note.
	Value of business acquired	Present separately	• Include in the measurement of insurance contracts & disclose value of contracts acquired on initial recognition. Subsequently, this value will be included within the contractual service margin.
	Policy loans		• Include in the measurement of insurance contracts & disclose if they are a key metric for the company financial statement users.
✗	Premiums receivable	Present separately as financial assets	• Include in the measurement of insurance contracts & disclose premiums received for insurance contracts issued in a reconciliation from the opening to closing balances of insurance contracts.
	Unearned premiums	Present separately for non-life insurance contracts	• Include in the measurement of insurance contracts and are disclosed as specified in premium receivable.
	Claims payable	Present separately as financial liabilities	• Include in the measurement of insurance contracts & disclose claims paid in a reconciliation from the opening to closing balances of insurance contracts.

Indicator	Line items unchanged (for presentation purposes)	Expected 'new' line items	Line items not required by either SLFRS 4 or SLFRS 17
↑ Increase RE	• Acquisition costs are currently expensed as incurred.	• Insurance contracts are currently measured using historical interest rates that are lower than market rates when first applying SLFRS 17.	• Risk margins currently used are higher than risk adjustments used to apply SLFRS 17.
↓ Decrease RE	• Profits are currently recognised at contract inception.	• Aggregation of onerous and profitable contracts is currently permitted.	• Value of guaranteed rates (ie both time value and intrinsic value) is currently not fully included in the measurement of insurance contract liabilities.
	• Insurance contracts are currently measured using historical interest rates that are higher than market rates when first applying SLFRS 17.	• Risk margins currently used are lower than risk adjustments used to apply SLFRS 17.	

EFFECTS ON THE STATEMENT OF COMPREHENSIVE INCOME

Category	SLFRS 4	SLFRS 17
The Presentation of Premium	<ul style="list-style-type: none"> Deposit component: Include within premiums (as income) and within 'change in insurance contract liabilities' (as expense) Insurance Revenue: Gross written premium represents the insurance revenue 	<ul style="list-style-type: none"> Exclude from insurance revenue and from incurred claims and other expenses Insurance revenue including components of: Allocation of CSM, release of risk adjustment for non-financial risk, release of expected CFS, recovery of insurance Acquisition CFS (if available based on deferral)
The presentation of insurance finance expense	Time value of money: When relevant, include within 'change in insurance contract liabilities'	Accretion of interest on insurance contract liabilities include within insurance finance expenses and maybe a part record in OCI based on accounting policy choice.
The recognition of the contractual service margin and risk adjustment	<ul style="list-style-type: none"> Contractual Service Margin: Release with 'change in insurance contract liabilities.' Risk Adjustment: Include an implicit risk margin and release it with 'change in insurance contract liabilities.' 	<ul style="list-style-type: none"> Recognize the contractual service margin in profit or loss over the coverage period based on the coverage units, reflecting the expected duration and size of the contracts benefits in the group. Include an explicit risk adjustment which reflects company's own assessment of risk and release as a part of insurance revenue.

Changes to the financial assumptions		
Effects of changes in discount rates	Scenarios	
	Increase in risk-free rate	Increase in asset default risk
Value of financial assets measured at fair value	↓ Decrease	↓ Decrease
Value of insurance contract liabilities	↓ Decrease	↔ No change
Effect on profit—SLFRS 4	↓ Decrease	↓ Decrease
Effect on profit—SLFRS 17	↔ No effect if matched	↓ Decrease

Treatment for estimation changes in fulfillment CFS		
Effects of changes in estimation of fulfillment CFS	Initial Recognition	Subsequent Measurement
Results Net Outflow (Onerous contracts)	Charge loss immediately to the Profit or Loss (P&L)	Recognize additional losses to the Profit or Loss (P&L)
Results net inflow (Profitable & contracts can become onerous subsequently)	Recognise a Contractual Service Margin releases it to the P&L based on coverage units over the period.	Adjust contractual service margin and if it becomes zero, additional charge recognise to Profit or Loss (P&L).

SLFRS 4		SLFRS 17	
Premiums	xx	Insurance revenue	xx
Investment income	xx	Incurred claims and other expenses	(xx)
Incurred claims	(xx)	Insurance service result	xx
Change in insurance contract liabilities	xx	Investment income	xx
Profit or loss	xx	Insurance finance expenses	xx
Other comprehensive income	-	Net financial result	xx
Comprehensive income	xx	Profit or loss	xx
		Other comprehensive income	-
		Comprehensive income	xx

Financial Statement Illustration

EFFECTS ON DISCLOSURE NOTES

Disclosure requirements	What's new?
Insurance Contract Liabilities Reconciliation of the net carrying amounts of contracts analysed by: • The net liabilities (assets) for remaining coverage excluding the loss component • Any loss component • The liabilities for incurred claims • The estimates of the present value of the future cash flows • The risk adjustment for non-financial risk • The CSM	•
Insurance Finance Income or Expense (IFI or IFE) Explanation of the relationship between insurance finance income or expenses and the investment return on assets	•
Assets for insurance acquisition cash flows Reconciliation of assets for insurance acquisition cash flows including: • Recognition of impairment losses and reversals • Quantitative disclosure of when the entity expects to derecognise an asset for insurance acquisition cash flows in appropriate time bands	•
Contracts not measured under the PAA • An analysis of insurance revenue • An analysis of the effect of contracts initially recognised in the period • Quantitative disclosure of when the entity expects to recognise the remaining CSM in profit or loss in appropriate time bands	•
Direct participating contracts • The composition of underlying items and their fair value • The effect of the risk mitigation option • For any change in the basis for disaggregating IFI or IFE (Why change is required, amount of adjustment, impact on carrying amount)	•
Transition amounts For contracts measured under the modified retrospective approach or the fair value approach • Reconciliation of the CSM • Amounts of insurance revenue separately under each approach • How the entity determined the measurement of the contracts at the date of transition • If IFI or IFE are disaggregated between profit or loss (P&L) and OCI, a reconciliation of the cumulative amounts included in OCI for related financial assets at FVOCI	•

Disclosure requirements	What's new?
Information about the effect of the regulatory frameworks if contracts are included within the same group as a result of law or regulation	•
Information about risk concentrations For each type of risk: • The exposures to risks, how they arise and changes therein • The entity's objectives, policies and processes for managing the risks, methods used to measure the risks and changes therein • Summary quantitative information about exposure to the risk at the reporting date, based on information provided internally to key management personnel or, when this is not provided, based on the specific disclosure requirements provided	•
Insurance and market risks For insurance risk, a sensitivity analysis that shows the effect for insurance contracts issued, before and after risk mitigation by reinsurance Methods and assumptions used in preparing the sensitivity analyses, changes therein and the reasons for such changes If an entity discloses an alternative sensitivity analysis in place of any of those specified above, explanations of the method used and its objective, the main parameters and assumptions, and any limitations that may result in the information provided For each type of market risk, a sensitivity analysis that explains the relationship between the sensitivities from insurance contracts and those from financial assets	•

NEW AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

Information about the effect of the regulatory frameworks if contracts are included within the same group as a result of law or regulation

Information about risk concentrations

For each type of risk:

- The exposures to risks, how they arise and changes therein
- The entity's objectives, policies and processes for managing the risks, methods used to measure the risks and changes therein
- Summary quantitative information about exposure to the risk at the reporting date, based on information provided internally to key management personnel or, when this is not provided, based on the specific disclosure requirements provided

Insurance and market risks

For insurance risk, a sensitivity analysis that shows the effect for insurance contracts issued, before and after risk mitigation by reinsurance

Methods and assumptions used in preparing the sensitivity analyses, changes therein and the reasons for such changes

If an entity discloses an alternative sensitivity analysis in place of any of those specified above, explanations of the method used and its objective, the main parameters and assumptions, and any limitations that may result in the information provided

For each type of market risk, a sensitivity analysis that explains the relationship between the sensitivities from insurance contracts and those from financial assets

EFFECTS ON KEY FINANCIAL METRICS

Metric	Common method of calculation	Effects - SLFRS 17	Explanation
Earned premiums (SLFRS 4) and insurance revenue (SLFRS 17)	As reported in financial statements (measurement methods vary when applying SLFRS 4)	•	Depends on existing insurance accounting practices. For companies that currently include within earned premiums any deposit component on long-term insurance contracts, when they apply SLFRS 17, insurance revenue is expected to be significantly lower.
Gross premiums (or premiums written)	Premiums expected to be collected over the contracts' duration (ie not only premiums already received)	■	This metric could be disclosed in the notes to the financial statements, but is not permitted to be presented on the face of the statement of comprehensive income as a measure of insurance revenue.
Premiums due	Invoiced or receivable premiums, which are unconditionally due to the insurer	■	The premiums due metric is similar to the premiums received in a period. When applying SLFRS 17, premiums received for insurance contracts issued are required to be disclosed in the notes to the financial statements, but are not permitted to be presented on the face of the statement of comprehensive income as a measure of insurance revenue.
Contractual service margin added from new contracts	Contractual service margin initially recognised in the period	▲	This will be a new metric provided by all insurers in a consistent manner. SLFRS 17 requires its disclosure in the notes to the financial statements. This metric is similar to the value added from new business, a metric provided by some insurers within their embedded value reporting.
Insurance service result	As reported applying SLFRS 17	▲	This will be a new metric comprising insurance revenue less insurance service expenses.
Profit or loss	As reported applying SLFRS Standards	•	Depends on the existing insurance accounting practices applied by a company.
Return On Equity (ROE)	Profit or loss / Equity	•	Depends on the effects on profit or loss and on equity, which depend on the existing insurance accounting practices applied by a company.
Earnings Per Share (EPS)	Profit or loss / Number of shares outstanding	•	Depends on the effects on profit or loss, which depend on the existing insurance accounting practices applied by a company. SLFRS 17 does not change the denominator.
Net investment return	Investment return less insurance finance expenses	▲	The investment margin earned in the period will be presented in the statement of comprehensive income and will provide an important new profitability measure.
Operating profit and underlying profit	Various methods—earnings from ordinary activities before income taxes, excluding earnings from investments	•	The effects of applying SLFRS 17 will depend on the existing insurance accounting practices applied by a company and on the nature of the adjustments made to profit or loss reported applying SLFRS Standards.
Combined ratio	Incurred claims and other expenses / Earned premiums	•	Incurred claims will be reported discounted and adjusted for risk. The change in ratio will depend on particular facts and circumstances.
Net operating cash flow	Various methods—cash flow from operating activities does not include cash related to equity and borrowing	•	Insurers are expected to review the cash flow classification in their operating, financing and investing activities in the light of the changes introduced by SLFRS 17 in the presentation of information about insurance contracts in the statement of comprehensive income.

THE ESSENTIAL INSURANCE JARGONS					
SLFRS 4	SLFRS 17	SLFRS 4	SLFRS 17	SLFRS 4	SLFRS 17
Claim or loss reserves	Liability for incurred claims-LIC	Value in force-VIF	Contractual service margin-CSM	Unearned premium reserves-UPR	Liability for remaining coverage-LRC
Underwriting profit	Insurance service result	New business profit	Contractual service margin-CSM	Experience variances -life	Experience adjustments and change in estimates
Earned premiums	Insurance revenue	Premiums due	Premiums received	Premiums written	Present value of new business premiums

▲ New metric ■ No change • Depends

• New disclosure • Existing requirement • Expanded requirement - Similar disclosure more detailed or specific under SLFRS 17 •