SLFRS 17 IMPLEMENTATION EFFECT ON COMPANY'S FINANCIAL STATEMENTS

EFFECTS ON THE STATEMENT OF FINANCIAL POSITION

MEASUREMENT OF INSURANCE CONTRACTS

SCENARIO			EXPECTED EFFECTS OF SLFRS 17: Insurance contract liabilities	Equity
Current or historical Assumptions	Currently used discount rate (i.e. historical rate)	If historical rate is lower than current rate	Decrease	Increase
		If historical rate is higher than current rate	Increase	Decrease
Risk Margins	Currently used Risk margin	If risk margin is higher than risk adjustment in SLFRS 17	Decrease	Increase
		If risk margin is lower than risk adjustment in SLFRS 17	Increase	Decrease
Financial options and guarantees	Current value of minimum interest rate guarantees	If doesn't fully reflect in measurement of insurance contracts	Increase	Decrease
		If fully reflects in measurement of insurance contracts	Low effect	Low effect
Acquisition Cost	Existing treatment on acquisition costs	If expensed as incurred (i.e. the current treatment)	Decrease	Increase
			Depends	Depends

General model (Building Block Approach - BBA)	Complex: requiring calculation of a Unearned Premium at a granular level at inception and tracked over life of the contract	Default approach for the measurement of insurance contracts
Premium allocation approach (PAA)	Simplified: similar to current accounting but with liability valued based a model which is similar to discounting and risk margin	Generally, used for the contracts with duration of less than 12 months
Variable fee approach (VFA)	Similar to the general model, but with an obligation to pay policyholders an amount equal to the fair value of underlying items, less an insurer's fee which is variable.	Used for the contracts with direct participation features

PRESENTATION OF INSURANCE CONTRACTS

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 Statement of Financial Position
	Reinsurance contract liabilities	Net with reinsurance contract assets	
X	Deferred acquisition costs	Present separately	Include under Insurance contract liabilities and provide a reconciliation from the opening to closing balances of insurance acquisition cash flows (CFS) as a disclosure note.
	Value of business acquired		Include in the measurement of insurance contracts and 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 and 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 and 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 and disclose claims paid in a reconciliation from the opening to closing balances of insurance contracts.

◄► Line items unchanged (for presentation purposes) ✓ Expected 'new' line items X Line items not required by either SLFRS 4 or SLFRS 17

EFFECTS ON THE STATEMENT OF COMPREHENSIVE INCOME

		SLFRS 4	SLFRS 17
Presentation of Premium	Deposit component	Include within premiums (as income) and within change in insurance contract liabilities (as expense)	Exclude from insurance revenue and from incurred claims and other expenses
	Insurance Revenue	Gross written premium represents the insurance revenue	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 deferment)
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.
Recognition of the contractual service margin and risk adjustment	Contractual Service Margin	Release with change in insurance contract liabilities	Recognise 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.
	Risk Adjustment	Include an implicit risk margin and release it with change in insurance contract liabilities	Include an explicit risk adjustment which reflects company's own assessment of risk and release as a part of insurance revenue.

Amount recognised in the Profit or Loss

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 cash flows

Effects of changes in estimation of fulfilment CFs	Initial Recognition	Subsequent Measurement
Results net outflow (onerous contracts)	Charge loss immediately to the Profit or Loss (P&L)	Recognise additional losses to the P&L
Results net inflow (Profitable and contracts can become onerous subsequently)	Recognise the contractual service margin and releases it to the P&L based on coverage units over the period.	Adjust contractual service margin and if it becomes zero, recognise the additional charge to P&L.

Illustration of Financial Statements

SLFRS 4	
Premiums	xx
Investment income	xx
Incurred claims and expenses	(xx)
Change in insurance contract liabilities	xx
Profit or loss for the year	xx
Other comprehensive income	xx
Total comprehensive income	xx

SLFRS 17	
Insurance revenue	xx
Incurred claims and expenses	(xx)
Insurance service result	xx
Investment income	xx
Insurance finance expenses	xx
Net financial result	xx
Profit or loss for the year	xx
Other comprehensive income	xx
Total comprehensive income	xx

EFFECTS ON DISCLOSURE NOTES

EXPLANATION ON AMOUNT RECOGNISED IN FINANCIAL STATEMENTS

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	New disclosure
Insurance Finance Income or Expense (IFI or IFE)	
Explanation of the relationship between insurance finance income or expenses and the investment return on assets	New disclosure
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	New disclosure
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	New disclosure
Direct participating contracts	
• The composition of underlying items and their fair values • 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)	New disclosure
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 P&L and OCI, a reconciliation of the cumulative amounts included in OCI for related financial assets at FVOCI	New disclosure

SIGNIFICANT JUDGEMENTS MADE WHEN APPLYING SLFRS 17

Disclosure requirements	What's new?
Estimation techniques	
• Methods used to measure insurance contracts and processes for estimating the inputs to those methods • Any changes in methods and processes for estimating inputs used to measure contracts, the reason for each change and the type of contracts affected • Approach used to identify changes in discretionary cash flows for contracts without direct participation features	Expanded requirement
• If IFI or IFE are disaggregated between P&L and OCI, an explanation of the methods used to determine the amounts recognised in P&L. • If a technique other than the confidence level technique is used to determine the risk adjustment for non-financial risk (RANFR), disclosure of the technique used and the confidence level that corresponds to the results of that technique	New disclosure
Assumptions	
• Determine the risk adjustment for non-financial risk, including whether changes therein are disaggregated into an insurance service component and an insurance finance component • Determine discount rates • Determine investment components	Expanded requirement
• Determine the relative weighting of the benefits provided by insurance coverage and investment services	New disclosure
Inputs	
Yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items	New disclosure
Confidence level used to determine the risk adjustment for non- financial risk	New disclosure

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

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	New disclosure
Information about risk concentrations	Existing requirement
For each type of risks: • 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 the reinsurance	Existing requirement
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	Expanded requirement

Disclosure requirements	What's new?
Insurance risk	
Claims development – i.e. actual claims compared with previous estimates of the undiscounted amount of the claims	Existing requirement
Credit risk	
The entity's maximum exposure to credit risk	Existing requirement
Information about the credit quality of reinsurance contract assets	
Liquidity risk	
A description of how liquidity risk is managed	Existing requirement
Maturity analyses that show, as a minimum, net cash flows for each of the first five years after the reporting date and in aggregate beyond the first five years, which may be based on the estimated timing of: • The remaining contractual undiscounted net cash flows; or • The estimates of the present value of the future cash flows	Expanded requirement
Amounts that are payable on demand and their relationship with the carrying amounts of the related portfolios of contracts	New disclosure

New disclosure ● Existing requirement ●

Expanded requirement - Similar disclosure more detailed or specific under SLFRS 17 ●

EFFECTS ON KEY FINANCIAL METRICS

	Metric	Common method of calculation	Effects - SLFRS 17	Explanation
Volume Metrics	Earned premiums (SLFRS 4) and insurance revenue (SLFRS 17)	As reported in financial statements (measurement methods vary when applying SLFRS 4)	Depends	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)	No change	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	No change	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.
Profitability Metrics	Contractual service margin added from new contracts	Contractual service margin initially recognised in the period	New metric	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	New metric	This will be a new metric comprising insurance revenue less insurance service expenses.
	Profit or loss	As reported applying SLFRS Standards	Depends	Depends on the existing insurance accounting practices applied by a company.
	Return On Equity (ROE)	Profit or loss / Equity	Depends	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	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	New metric	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	Depends	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	Depends	Incurred claims will be reported discounted and adjusted for risk. The change in ratio will depend on particular facts and circumstances.
Liquidity Metrics	Net operating cash flow	Various methods—cash flow from operating activities does not include cash related to equity and borrowing	Depends	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.

▲ New metric ■ No change ✹ Depends

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