In brief

A look at current financial reporting issues

Release Date: 25 June 2020

Amendments to IFRS 17, ‘Insurance contracts’

At a glance

The IASB issued the amendments to IFRS 17, ‘Insurance contracts’, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB’s targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17.

IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and the amendments should be applied at the same time.

What is the issue?

IFRS 17 was issued by the IASB (the ‘Board’) on 18 May 2017. IFRS 17 introduces consistent accounting requirements for insurance contracts and will replace the accounting requirements in IFRS 4, ‘Insurance Contracts’.

The Board recognised that IFRS 17 introduces fundamental changes to existing insurance accounting practices and that implementing the new accounting requirements involves significant operational costs, including system development costs. Following the issuance of IFRS 17, the Board engaged in a variety of activities with stakeholders to follow its implementation. In that outreach, the Board heard concerns and implementation challenges from many stakeholders.

In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17,simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway. Following the Board’s consultation process during 2019 and 2020, the Board has now concluded its project by issuing the amended standard.

What is the impact and for whom?

The amendments to IFRS 17 affect all companies that issue insurance contracts in all jurisdictions that apply IFRS standards, including entities outside the insurance industry that issue such contracts. The amendments to IFRS 17 include:

- **Effective date**

  The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- **Expected recovery of insurance acquisition cash flows**

  An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- **Contractual service margin attributable to investment services**

  Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- **Reinsurance contracts held - recovery of losses**

  When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- **Other amendments to IFRS 17 include:**

  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts.
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups.
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss.
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17.
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows.
  - Selected transition reliefs and other minor amendments.

When does it apply?

The amended IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Where do I get more details?

The amendments, together with a project summary and feedback statement, are available from the IASB website. For more information, please contact your local engagement team or Gail Tucker (gail.l.tucker@pwc.com), Andrea Pryde (andrea.pryde@pwc.com), Satya Beekarry (satyajeet.beekarry@pwc.com) or Gerda Burger (gerda.b.burger@pwc.com).
