IFRS 17 – Insurance Contracts, Scope and Recognition

Welcome to this series of accounting insights covering IFRS 17, Insurance Contracts. We will run this series from November through to December 2021 delving into the different aspects of the standard

Introduction to IFRS 17, Insurance Contracts

Scope

IFRS 17, Insurance Contracts is set to replace IFRS 4, Insurance Contracts and is mandatory and effective for annual reporting periods beginning on or after 1 January 2023.

IFRS 17, Insurance Contracts establish principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard.The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

IFRS 17 applies to:

- insurance contracts that an entity issues;
- all reinsurance contracts (that is, those an entity issues and those an entity holds); and
- investment contracts with discretionary participation features, provided that an entity also issues insurance contracts.

The standard applies to all companies that issue insurance contracts that meet the definition of ‘insurance contract’ and not just insurance companies.

IFRS 17 defines insurance contracts as contracts under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

pwc

Recognition

Companies shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together.

On initial recognition, companies shall be required to further disaggregate the portfolios into the following groups:

- onerous at initial recognition;
- profitable, with no significant risk of subsequently becoming onerous; and
- profitable, with a significant risk of subsequently becoming onerous or simply the remaining contracts in the portfolio.

Companies shall recognise a group of insurance contracts it issues from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group becomes due; and
- for a group of onerous contracts, when the group becomes onerous.

Other considerations

IFRS 17, introduces fundamental and complex changes in accounting for insurance contracts, specifically in the two areas below:

- profitability recognition; and
- liability measurement.

IFRS 17 will not change the amount of profit insurers make over the lifetime of their products, but has the potential to massively shift the trajectory of profits.

How does this impact companies?

Insurance companies or companies that issue insurance contracts, should by now have set out key strategic priorities of a company's IFRS 17 implementation plan, some of which are outlined below:

- Understanding the implications of IFRS 17
- Detailing an activity plan and implementation roadmap
- Identifying how KPIs may change
- Explaining the new KPIs to different stakeholders within the business
- Understanding the system and process changes that will result from the adoption of IFRS 17

Contacts

Martin Bamukunde
Partner, Assurance

+260 211 334 000
martin.x.bamukunde@pwc.com

Andrew Sikwanda
Associate Director

+260 211 334 000
andrew.s.sikwanda@pwc.com