Shrnutí diskuse ČSpA pracovní skupiny IFRS 17 k vybraným tématům

- 26.10.2018 ČAP pracovní skupina IFRS 17

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Agenda

1. Level of aggregation
2. Contract boundary
3. Hybrid products

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Level of aggregation

Relevant areas (1/8)

9

- **A set or series of insurance contracts** with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it **may be** necessary to treat the set or series of contracts **as a whole**. …

14

- An entity shall identify portfolios of insurance contracts. A portfolio comprises **contracts subject to similar risks and managed together**. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.

16

- An entity shall divide a portfolio of insurance contracts issued into a minimum of:

  (a) a group of contracts that are **onerous** at initial recognition, if any;

  (b) a group of contracts that at initial recognition have **no significant possibility of becoming onerous** subsequently, if any; and

  (c) a group of the **remaining contracts** in the portfolio, if any.

Relevant areas (2/8)

17

- If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may **measure the set of contracts to determine if the contracts are onerous** (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.

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- For contracts issued to which an entity applies the **premium allocation approach** (see paragraphs 53–59), the entity shall **assume no contracts in the portfolio are onerous** at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

Relevant areas (3/8)

19

- For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–59), an **entity shall assess** whether contracts that are not onerous at initial recognition have **no significant possibility of becoming onerous**:

  (a) based on the **likelihood of changes in assumptions** which, if they occurred, would result in the contracts becoming onerous.

  (b) **using information** about estimates **provided by the entity's internal reporting**. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

    (i) an entity **shall not disregard information** provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but

    (ii) an entity is **not required to gather additional information beyond** that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.

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- **If**, applying paragraphs 14–19, **contracts** within a portfolio **would fall into different groups only because law or regulation specifically constrains** the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, **the entity may include those contracts in the same group**. The entity shall not apply this paragraph by analogy to other items.

Relevant areas (4/8)

21

- An **entity is permitted to subdivide the groups** described in paragraph 16. For example, an entity may choose to divide the portfolios into:

  (a) **more groups that are not onerous** at initial recognition—if the entity's internal reporting provides information that distinguishes:

    (i) different levels of profitability; or

    (ii) different possibilities of contracts becoming onerous after initial recognition; and

  (b) **more than one group of contracts that are onerous** at initial recognition—if the entity's internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.

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- An **entity shall not include contracts issued more than one year apart in the same group**. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.

23

- A group of insurance contracts shall comprise a single contract if that is the result of applying paragraphs 14–22.

Relevant areas (5/8)

24

- An entity shall apply the recognition and measurement requirements of IFRS 17 to the groups of contracts issued determined by applying paragraphs 14–23. An entity shall **establish the groups at initial recognition, and shall not reassess** the composition of the groups **subsequently**. To measure a group of contracts, an **entity may estimate the *fulfilment cash flows* at a higher level of aggregation than the group or portfolio**, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by **allocating such estimates to groups of contracts**.

Relevant areas (6/8)

33

- An **entity shall include in the measurement** of a group of insurance contracts **all the future cash flows within the boundary** of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:

  (a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.

  (b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).

  (c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).

  (d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

Relevant areas (7/8)

61

- An entity shall divide portfolios of **reinsurance contracts held applying paragraphs 14–24**, **except** that the **references to onerous contracts** in those paragraphs **shall be replaced with** a reference to contracts on which there is a **net gain on initial recognition**. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

95

- An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

96

- Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:
  - (a) type of contract (for example, major product lines);
  - (b) geographical area (for example, country or region); or
  - (c) reportable segment, as defined in IFRS 8 Operating Segments.

BC115-139

Relevant areas (8/8)

Portfolio of insurance contracts

- Insurance contracts subject to similar risks and managed together.

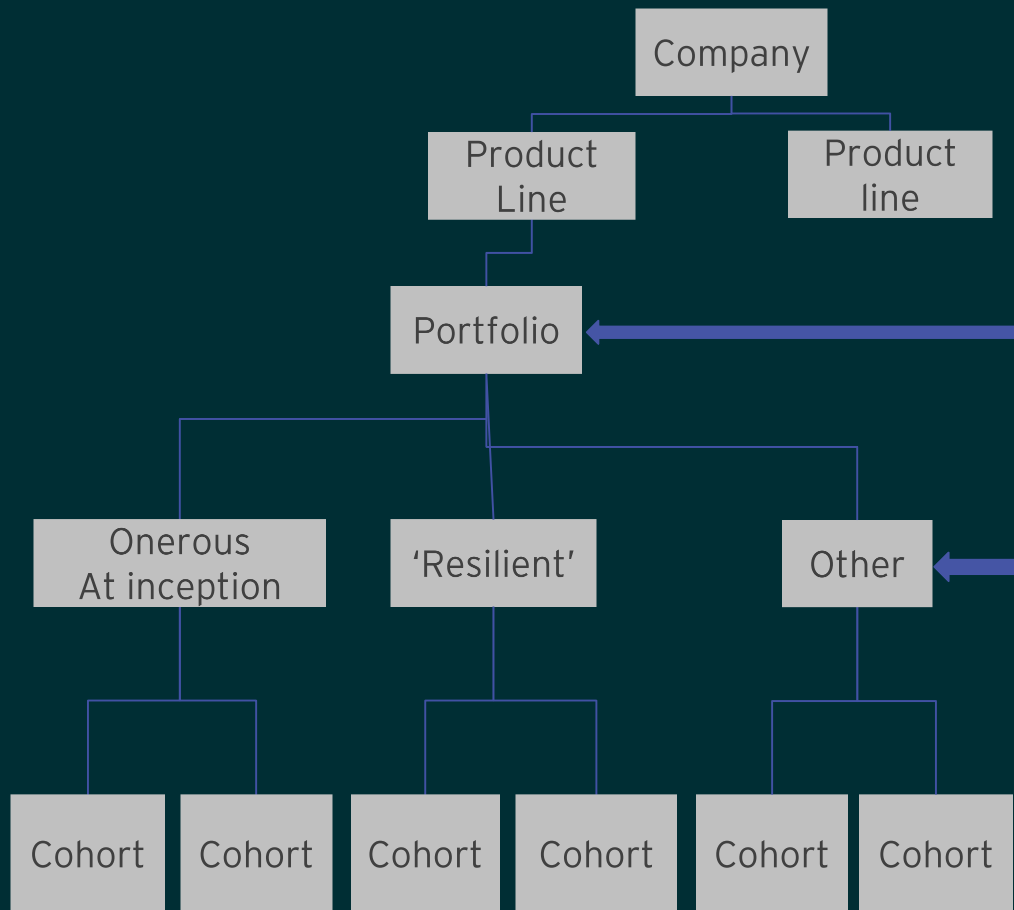
Group of insurance contracts

- A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts written within a period of no longer than one year and that, at initial recognition:
    (a) are onerous, if any;
    (b) have no significant possibility of becoming onerous subsequently, if any; or
    (c) do not fall into either (a) or (b), if any.

Insurance contract

- A contract 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.

Scheme for level of aggregation



Assessment could be top-down for 'sets' of contracts based in reasonable and supportable information, otherwise based on individual contracts.

Contracts subject to similar risks and managed together.
Contracts in different product lines will be in different portfolios, but a product line could have multiple portfolios.

Onerous contracts at inception to be identified separately. Additional disaggregation based on whether there is a significant possibility of becoming onerous subsequently. (No such significant possibility – 'resilient')

Disaggregation based on contracts written no more than a year apart ('cohorts').
Basis for subsequent tracking and releasing of CSM -> 'Group of contracts'

Diskuse pracovní skupiny pod ČSpA (1/2)

- Alespoň zpočátku se bude pravděpodobně reportovat na co nejnižším detailu (co největší agregace)
- Agregace může být odlišná pro výpočet, účtování a prezentování
- IFRS 17 přímo nevyžaduje jednotlivá rizika rozdělovat, ale také to ani nezakazuje
- Obecně převládal názor, že standardně se připojištění oddělovat nemají, ale existují případy, kdy k tomu může vést obchodní model společnosti pro daný produkt
- Výsledem diskuze TRG je, že nejnižší jednotka (unit of account) je obecně pojistná smlouva, nicméně je potřeba zkoumat, zda smlouva reflektuje podstatu smluvních práv a povinností, zejména:
    - Nezávislost jednotlivých komponent
    - Zda nestornuje jedna komponenta v závislosti na druhé
    - Zda jsou pricing, prodej a správa odděleny pro jednotlivé komponenty

Diskuse pracovní skupiny pod ČSpA (2/2)

- **Příklad:** životní pojištění: term life + připojištění, které se může repricovat; připojištění se prodává zvlášť, zřídka byl rušen (jak klientem, tak pojišťovnou), při stornu nebo dožití termu končí i připojištění
  - V tomto případě by se jednotlivé komponenty neoddělovaly
  - Contract boundaries připojištění řídí podle termu (rizika bez možnosti přecenění)
  - Jako důsledek použitý model (PAA/BBA/VFA) připojištění se určuje také podle povahy celkové smlouvy, tj. může se stát, že identické připojištění, které se prodává jednou s tradičním pojištěním a jednou s unit-linkem, se bude počítat jednou podle BBA a jednou podle VFA
- **Příklad:** domácnost + odpovědnost na jedné smlouvě (pouze administrativně, ale de facto to jsou 2 smlouvy, můžou skončit nezávisle na sobě, nezávislý pricing apod). V tomto případě je vhodné rizika oddělovat. Nevylučuje se tím ale možnost, že si pojišťovna najde obhajobu, proč tato rizika neoddělovat, přičemž bere v potaz podstatu smluvních práv a povinností.
- **Příklad:** pojištění aut - smlouvy by se mohly rozdělit na povinné ručení, havarijní pojištění a společné smlouvy povinné ručení + havarijní pojištění.
- Pro životní pojištění je výchozí nastavení „vše na jedné smlouvě dohromady“ vesměs vyhovující
- Pro neživotní pojištění bude cesta oddělování po rizicích přípustná a očekávatelná.
- Výchozí nastavení je neoddělovat, ale když jsou splněny podmínky (viz. TRG), je možné oddělovat. Řídícím kritériem by stále měl být commercial substance a obecné principy agregace (tj. podobná rizika a řízeno dohromady).

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Contract boundary

Relevant areas (1/6)

34

- **Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period** in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). **A substantive obligation to provide services ends when:**
  - (a) the **entity has the practical ability to reassess the risks** of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
  - (b) **both of the following criteria are satisfied**:

    (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

    (ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

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- An **entity shall not recognise** as a liability or as an asset **any amounts** relating to expected premiums or expected claims **outside the boundary of the insurance contract**. Such amounts relate to future insurance contracts.

Relevant areas (2/6)

B61

- Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

B63

- When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64

- Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

Relevant areas (3/6)

BC160

- The essence of a contract is that it binds one or both of the parties. If both parties are bound equally, the boundary of the contract is generally clear. Similarly, if neither party is bound, it is clear that no genuine contract exists. Thus:
  (a) the outer limit of the existing contract is the point at which the entity is no longer required to provide coverage and the policyholder has no right of renewal. Beyond that outer limit, neither party is bound.
  (b) the entity is no longer bound by the existing contract at the point at which the contract confers on the entity the practical ability to reassess the risk presented by a policyholder and, as a result, the right to set a price that fully reflects that risk. Thus, any cash flows arising beyond that point occur beyond the boundary of the existing contract and relate to a future contract, not to the existing contract.

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Relevant areas (4/6)

BC161

- However, if an entity has the practical ability to reassess the risk presented by a policyholder, but does **not** have the right to set a price that **fully reflects the reassessed risk**, the **contract still binds the entity**. Thus, that point would lie within the boundary of the existing contract, unless the restriction on the entity's ability to reprice the contract is so minimal that it is expected to have no commercial substance (ie the restriction has no discernible effect on the economics of the transaction). In the Board's view, a restriction with no commercial substance does not bind the entity.

BC162

- However, it may be more difficult to decide the contract boundary if the contract binds one party more tightly than the other. For example:
  (a) an entity may price a contract so that the **premiums charged in early periods subsidise the premiums charged in later period**s, even if the contract states that each premium relates to an equivalent period of coverage. This would be the case if the contract charges level premiums and the risks covered by the contract increase with time. The Board concluded that the premiums charged in later periods would be within the boundary of the contract because, after the first period of coverage, the policyholder has obtained something of value, namely the ability to continue coverage at a level price despite increasing risk.
  (b) an insurance contract might bind the entity, but not the policyholder, by **requiring the entity to continue to accept premiums and provide coverage but permitting the policyholder to stop paying premiums**, although possibly incurring a penalty. In the Board's view, the premiums the entity is required to accept and the resulting coverage it is required to provide fall within the boundary of the contract.

ACTUARIA

Relevant areas (5/6)

BC162 (cont.)

- (c) an insurance contract may permit an entity to **reprice the contract on the basis of general market experience** (for example, mortality experience), without permitting the entity to reassess the individual policyholder's risk profile (for example, the policyholder's health). In this case, the insurance contract binds the entity by requiring it to provide the policyholder with something of value: continuing insurance coverage without the need to undergo underwriting again. Although the terms of the contract are such that the policyholder has a benefit in renewing the contract, and thus the entity expects that renewals will occur, the contract does not require the policyholder to renew the contract. The Board **originally decided** that ignoring the entity's expectation of renewals would not reflect the economic circumstances created by the contract for the entity. Consequently, the Board originally proposed that if the entity can reprice an existing contract for general but not individual-specific changes in policyholders' risk profiles, the **cash flows resulting from the renewals repriced in this way lie within the boundaries of the existing contract**.

Relevant areas (6/6)

BC163

- Many stakeholders suggested that the original proposal in paragraph BC162(c) resulted in some cash flows for which the entity was not bound being included within the boundary of some contracts. Even when an entity is prevented from repricing an existing contract using an individual policyholder's risk assessment, the entity may nonetheless be able to reprice a portfolio to which the contract belongs with the result that the price charged for the portfolio as a whole fully reflects the risk of the portfolio. As a result, these stakeholders argued that in such cases the entity is no longer bound by the existing portfolio of contracts and that any cash flows that arise beyond that repricing point should be considered to be beyond the boundary of the existing contract. To the extent that an entity would not be able to charge a price that fully reflects the risks of the portfolio as a whole, it would be bound by the existing contract. The **Board was persuaded by this view and modified the contract boundary so that such cash flows are considered to be outside the contract boundary**, provided the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods subsequent to the reassessment date.

BC164

- Because the entity updates the measurement of the group of insurance contracts to which the individual contract belongs and, hence, the portfolio of contracts in each reporting period, **the assessment of the contract boundary is made in each reporting period**. For example, in one reporting period an entity may decide that a renewal premium for a portfolio of contracts is outside the contract boundary because the restriction on the entity's ability to reprice the contract has no commercial substance. However, if circumstances change so that the same restrictions on the entity's ability to reprice the portfolio take on commercial substance, the entity may conclude that future renewal premiums for that portfolio of contracts are within the boundary of the contract.

Diskuse pracovní skupiny pod ČSpA (1/3)

- Obecně došlo ke shodě, že v českém prostředí neočekáváme aplikaci krátké hranice smlouvy na životní připojištění
- BC162 (a) dává návod na určení hranice smlouvy, kde pojišťovna inkasuje pojistné na počátku pojištění vyšší k pokrytí případné ztráty v budoucnu (typické u pojištění kde výše pojistného je konstantní v čase, ale riziko se s časem mění). Pro tyto smlouvy se nejedná o důvodnou změnu posouzení rizika a nejedná se tak o hranici smlouvy.
- BC 162 (b) říká, že možnost přestat platit pojistné neurčuje hranici smlouvy
- BC162 (c) tvoří rozdíl proti S2 definici hranice smlouvy. Při přecenění celého portfolia smluv místo jednotlivých smluv se podle IFRS 17 jedná o okamžik tohoto přecenění je zde hranice smlouvy. V S2 tato situace nesplňuje hranici smlouvy.
- BC164 - Hranice smlouvy by měla mít komerční podstatu (commercial substance). Pojišťovna by měla být prakticky schopná přecenit smlouvu (nejen možnost, kterou z určitých důvodů nevyužije).

Diskuse pracovní skupiny pod ČSpA (2/3)

- Q: Standard používá mn. č. „risks“ – co když každé riziko má jinou hranici na stejné smlouvě? Můžeme aplikovat hranici smlouvy na jednom riziku?
- A: Obecně převládá názor, že hranice smlouvy platí pro celou smlouvu a ne jednotlivá rizika. Dle TRG diskuse se bere nejdelší hranice ze všech rizik. Pokud by společnost separovala rizika, pak lze na takto oddělená rizika aplikovat jinou hranici smlouvy než na ostatní části smlouvy.
- Q: Jaká je hranice smlouvy u dlouhodobého neživotního pojištění, kde je klauzule, že při překročení nějakého škodního poměru má pojišťovna právo přecenit smlouvu?
- A: Je možné, že se contract boundary bude lišit v čase podle současného očekávání škodního poměru na těchto smlouvách – např. na počátku bude dlouhé contract boundary, ale při překročení očekáváného škodního poměru se dle očekávání „přepne“ na krátké contract boundary.
- Pokud pojišťovna možnost změny pojistného nevyužije (např. z tržních důvodů nebo interním rozhodnutím), přičemž ale tuhle možnost má, by nemělo automaticky vést k dlouhým contract boundaries. Tento názor je podpořený i zkušeností z Kanadského trhu.

Diskuse pracovní skupiny pod ČSpA (3/3)

- Je potřeba dále sledovat vývoj možného nesouladu mezi účtováním pojistných a zajistných smluv, kde se má brát v potaz i očekávaný nový business podkladových pojistných smluv do contract boundary zajistné smlouvy, kdežto u účtování pojistných smluv se žádný nový business neuvažuje.
- Je potřeba diskutovat aplikaci omezení „market competiveness and commercial consideration“, což by teoreticky mohlo vést k dlouhým contract boundaries na neživotě.

Hybrid products

Relevant areas (1/8)

Definition (B101):

- Insurance contracts with **direct participation features** are insurance contracts that are **substantially investment-related service** contracts under which an entity promises an **investment return based on underlying items**. Hence, they are defined as insurance contracts for which:
  a) the contractual terms specify that the policyholder participates in a **share of a clearly identified pool of underlying** items (see paragraphs B105–B106);
  b) the entity **expects to pay** to the policyholder an amount equal to a **substantial share of the fair value returns** on the **underlying** items (see paragraph B107); and
  c) the entity **expects a substantial proportion** of any change in the amounts to be paid to the policyholder **to vary with the change in fair value of the underlying** items (see paragraph B107).

Assessment (B102):

- An entity shall assess whether the conditions in paragraph B101 are met **using its expectations at inception** of the contract and shall **not reassess** the conditions afterwards, **unless** the contract is **modified**, applying paragraph 72.

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Relevant areas (2/8)

B103 – reference to allowance for CF from another group

B104

- The conditions in the definition (paragraph B101) ensure that insurance contracts with direct participation features are contracts under which the entity's **obligation to the policyholder** is the **net of**:
  a) the obligation to pay the policyholder an **amount equal to the fair value of the underlying items**; and
  b) a **variable fee** that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:
     i. the entity's share of the fair value of the underlying items; less
     ii. fulfilment cash flows that do not vary based on the returns on underlying items.

B105

- A **share** referred to in paragraph B101(a) does not preclude the existence of the entity's discretion to vary the amounts paid to the policyholder. However, the **link to the underlying items must be enforceable.**

Relevant areas (3/8)

Pool of underlying items (B106)

- **The pool of underlying items** referred to in paragraph B101(a) can **comprise any items**, for example a **reference portfolio of assets**, the **net assets of the entity**, or a **specified subset of the net assets of the entity**, as long as they are **clearly identified by the contract**. An entity **need not** hold the identified pool of underlying items. However, a **clearly identified** pool of underlying items **does not exist** when:
  a) an entity **can change the underlying items** that determine the amount of the entity's obligation **with retrospective effect**; or
  b) there are **no underlying items identified**, even if the policyholder could be provided with a **return that generally reflects the entity's overall performance and expectations, or the performance and expectations of a subset of assets the entity holds**. An example of such a return is a **crediting rate or dividend payment set** at the end of the period to which it relates. In this case, the obligation to the policyholder reflects the crediting rate or dividend amounts the entity has set, and does not reflect identified underlying items.

Relevant areas (4/8)

B107

- Paragraph B101(b) requires that the entity expects a **substantial share** of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a **substantial proportion** of any change in the amounts to be paid to the policyholder **to vary** with the **change in fair value of the underlying items**. An entity shall:
  a) interpret the term '**substantial**' in both paragraphs in the **context of the objective** of insurance contracts with direct participation features being contracts under which the entity provides investment-related services and is compensated for the services by a fee that is determined by reference to the underlying items; and
  b) **assess the variability** in the amounts in paragraphs B101(b) and B101(c):
     i. **over the duration** of the group of insurance contracts; and
     ii. on a **present value probability-weighted average basis**, not a best or worst outcome basis.

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Relevant areas (5/8)

B108

- For example, if the entity **expects to pay a substantial share** of the **fair value returns on underlying items**, subject to a **guarantee of a minimum return**, there will be scenarios in which:
  a) the cash flows that the entity expects to pay to the policyholder **vary with the changes** in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items **do not exceed** the **fair value return** on the underlying items; and
  b) the cash flows that the entity expects to pay to the policyholder **do not vary with the changes** in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items **exceed** the **fair value return** on the underlying items.

  The **entity's assessment of the variability** in paragraph B101(c) for this example will **reflect a present value probability-weighted average** of all these scenarios.

Reinsurance contracts can not be under VFA (B109)

- **Reinsurance contracts** issued and reinsurance contracts held **cannot be** insurance contracts with **direct participation features** for the purposes of IFRS 17.

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Relevant areas (6/8)

CSM -> VFA (B110)

- For insurance contracts with direct participation features, the **contractual service margin** is **adjusted to reflect the variable nature of the fee**. Hence, changes in the amounts set out in paragraph B104 are treated as set out in paragraphs B111–B114.
- (B111) **Changes in the obligation** to pay the policyholder an amount equal to the fair value of the underlying items (paragraph B104(a)) **do not relate to future service** and **do not adjust** the CSM.
- (B112) Changes in the **entity's share of the fair value** of the **underlying items** (paragraph B104(b)(i)) **relate to future service** and **adjust** the CSM, applying paragraph 45(b).
- (B113) **Changes in the fulfilment cash flows** that do **not vary** based on the **returns on underlying items** (paragraph B104(b)(ii)) comprise:
    a) changes in estimates of the fulfilment cash flows **other than those specified in** (b). An entity shall apply paragraphs B96–B97, consistent with insurance contracts without direct participation features, to determine to what extent they relate to future service and, applying paragraph 45(c), adjust the CSM. All the adjustments are measured **using current discount rates.**
    b) the **change in the effect of the time value of money** and **financial risks not arising from the underlying items**; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), **adjust** the CSM, except to the extent that paragraph B115 applies.
- (B114) An entity is **not required to identify** the adjustments to the contractual service margin required by paragraphs B112 and B113 **separately**. Instead, a combined amount may be determined for some or all of the adjustments.

Relevant areas (7/8)

45 – Measurement under VFA

- For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:
  - (a) the effect of any new contracts added to the group (see paragraph 28);
  - (b) the entity's share of the change in the fair value of the underlying items (see paragraph B104(b)(i)), except to the extent that:
    - (i) paragraph B115 (on risk mitigation) applies;
    - (ii) the entity's share of a decrease in the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or
    - (iii) the entity's share of an increase in the fair value of the underlying items reverses the amount in (ii).
  - (c) the changes in fulfilment cash flows relating to future service, as specified in paragraphs B101–B118, except to the extent that:
    - (i) paragraph B115 (on risk mitigation) applies;
    - (ii) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or
    - (iii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).
  - (d) the effect of any currency exchange differences arising on the contractual service margin; and
  - (e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying paragraph B119.

87, 89, 111-113, B115-118, B132, B134, C17, C24 (and other in BC) - other paragraphs with measurement features

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Relevant areas (8/8)

Appendix A (insurance contract with direct participation features)

- An insurance contract for which, at inception:
  - (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
  - (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
  - (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

BC238-249 (like B101-118 with some explanations why IASB decided that way)

Diskuse pracovní skupiny pod ČSpA (1/2)

- Obecná klasifikace produktů na českém trhu:
  - Tradiční pojištění – NE (účastníci PS neznají konkrétní příklad produktu na českém trhu, který by podmínky splnil)
  - Universal Life – NE (účastníci PS neznají konkrétní příklad produktu na českém trhu, který by podmínky splnil)
  - Unit-linked – ANO (obecně ano, otazník u hybridních smluv).
- **Příklad:** pokud existuje UL produkt s připojištěními, které však mají větší váhu, tak se nebude účtovat dle VFA, protože není splněna poslední podmínka.
- Proběhlo několik iterací na téma jak klasifikovat UL s ridery (celkové smlouvy), ale nedošlo k žádnému jednohlasnému rozhodnutí.
  Nabízí se posouzení rozpadu pojistného mezi UL a ostatní rizika, nicméně standard se odvolává přímo na hodnotu závazků, a proto může pojistné vést k odlišným závěrům oproti výsledům projekce CF. Bude potřeba udělat analýzu na konkrétních číslech, abychom dospěli k vhodné míře

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Diskuse pracovní skupiny pod ČSpA (2/2)

- Zdá se, že standard s hybridními produkty nepočítá
- Názor, že by bylo možné rozdělit UL smlouvy na část s UL podílem a část kryjící rizikovou složku (např. v případě, kdy pojišťovna připojištění řídí společně a odděleně od investiční složky)
- Smlouvy pod VFA můžou investiční komponentu brát v potaz při stanovování coverage unit, ale v BBA by se měla brát v potaz pouze pojistná služba. Co ale se smlouvami, které jsou na hraně a jsou hodně podobné VFA smlouvám. TRG ještě bude dále probírat tuto nekonzistenci.
- Stanovení coverage units není účetní volba, ale expertní úsudek.
- Diskuse nad možnostmi účtování hybridních smluv (P&L / OCI): Nejlepší volbou by bylo rozdělení účtování pro Trad a UL složku (možnost 4) v rámci jedné pojistné smlouvy, ale není jasné, zda lze podle standardu tuto metodu použít

Shrnutí

Level of aggregation

- Výchozí je právní forma, možnost zdůvodnit případné odchylky
- Nejedná se o výběr účetních metody, ale expertní úsudek
- Je možná různá agregace pro výpočet FCF, účtování CSM a prezentaci výsledků

Contract boundary

- V ŽP aplikace dlouhých CB, můžou existovat výjimky
- V NŽP aplikace krátkých CB, můžou existovat výjimky
- Posouzení CB se v čase může měnit

Hybrid products

- Není zatím konkrétní postup, jak klasifikovat jednotlivé hybridní smlouvy
- Navržené řešení účtování není ve standardu uvažováno

Děkuji Vám za pozornost.

Petr Sotona – pracovní skupina IFRS 17 pod ČSpA

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Podkladové materiály

TRG 1, AP1: Separation of insurance components of a single contract

- Does IFRS 17 permit the separation of insurance components of a single contract for measurement purposes?

- The IASB staff paper prepared for the meeting directed insurers to look to paragraphs 4.56 and 4.62 of the Conceptual Framework Exposure Draft for **guidance on when a single contract creates two or more sets of rights and obligations** and may need to be accounted for as separate contracts.
- The staff paper also noted that the contract is the lowest unit of account used under IFRS 17 and that overriding the contract unit of account presumption involves significant judgement and careful consideration of all relevant facts and circumstances.
- Combining different types of products or coverages is not, in itself, sufficient to conclude the single contract does not reflect the substance of the contractual rights and obligations.

TRG 1, AP1: Separation of insurance components of a single contract

- TRG members generally supported the view that **separation is not an accounting policy choice**, but that it may be appropriate when a single contract incorporates, in substance, two or more separate contracts.
- TRG members suggested that indications that a document with the form of a single contract, but the substance of two or more separate contracts, includes cases where: (i) **there is no interaction between the claim payments of the components**, (ii**) premiums relating to different investment components were invested in different underlying assets**, (iii) **the components are distinct**, e.g., they do not lapse together, any combined discount is small, etc.
- TRG industry representatives stated that insurers sometimes package together different types of cover into a single document for the convenience of the policyholder, but manage and reserve for the risks separately.
- In response to a query from one TRG member, an IASB Board member stated that the narrative in paragraph 20 of the related IASB Staff Paper stating that a single contract could be separated if the combination of different components was 'artificially constructed', had unintended negative connotations and would not be included in the IASB summary of the meeting.

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TRG 1, AP1: Separation of insurance components of a single contract

- Insurers are likely to welcome an acknowledgement that **IFRS 17 does not prohibit separation** of components of individual insurance contracts for measurement purposes. However, the more difficult judgement is when a single document is, in substance, two or more separate contracts.

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TRG 2, AP1: Combination of insurance contracts

- When would it be necessary to treat a set or series of insurance contracts together as one single contract, applying paragraph 9 of IFRS 17?

- Paragraph 9 of IFRS 17 reads, as follows:
- *" A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist."*

TRG 2, AP1: Combination of insurance contracts

– The IASB staff paper notes the following:
  - The fact that a set, or series, of insurance contracts with the same counterparty are entered into at **the same time is not, in itself, sufficient to conclude** that they achieve, or are designed to achieve, **an overall commercial effect.**
  - Determining whether it is necessary to treat a set, or series, of contracts as a single contract **involves significant judgement** and consideration of all relevant facts and circumstances.
  - While **no single factor is determinative** in applying this assessment, if the lapse or maturity of one contract causes the lapse or maturity of another contract, there is a strong indication that the contracts were designed to achieve an overall commercial effect.
  - It is expected that entities would usually design contracts in a way that reflects their substance, so a **single contract in form is likely to be a single contract in substance**. However, there may be circumstances when they are designed to achieve an overall commercial effect.

TRG 2, AP1: Combination of insurance contracts

– The IASB staff paper notes the following:
  - The **existence of a discount** (e.g., a price reduction offered to a policyholder who purchases more than one insurance contract) **does not in itself mean** that a set or series of contracts achieve **an overall commercial effect**. The overall commercial effect of such contracts looked at in combination may not be any different to the commercial effect when looked at separately if the discount is allocated appropriately to each of the contracts.
  - IFRS 17 does not prescribe how to allocate discounts, but paragraph BC 112 of IFRS 17, which cross-refers to IFRS 15, suggests an approach that an entity could take.

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TRG 2, AP1: Combination of insurance contracts

- TRG members think of the principles for the combination of contracts as the mirror image of those for separating insurance components from a single insurance contract. The existence of a discount does not necessitate the combination of contracts and it should not preclude separation of insurance components that form part of a single contract. Both are subject to the general expectation that entities would usually design contracts in a way that reflect their substance.
- Several members welcomed the staff observation that the existence of a discount did not, in itself, imply that contracts should be combined. Some questioned whether the fact that contracts lapse together should be considered as more convincing evidence that contracts were issued to achieve an overall objective.
- A few members felt that contracts that were required to be combined under paragraph 9 of IFRS 17 **should have been issued reasonably close together** in time. Both the example in the staff paper and that listed in paragraph 9 refer to contracts entered into at the same time. A member noted that a policyholder might purchase an annuity many years after purchasing a life insurance contract; the effect of the contracts might partially offset each other. However, TRG members did not think they should be combined.

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TRG 2, AP1: Combination of insurance contracts

- The guidance provided by the IASB staff, and the TRG's discussion of it, will be helpful in determining when individual contracts should be combined. It is also **in line with the guidance provided in the February TRG for when contracts should be separated** into different insurance components that would, in substance, represent separate contracts.

TRG 1, AP2: Boundary of contracts with annual repricing mechanisms

- What types of ‘risk’ are relevant in applying the criteria in paragraph 34(b) of IFRS 17 to determine the contract boundary of insurance contracts which can be repriced at a portfolio level?

- The related staff paper contained two examples;
- a stepped-rated insurance contract; and,
- a unit-linked contract with a stepped rated insurance rider.

- The paper expressed the view that the requirement in paragraph 34(b) of IFRS 17 that ‘the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date’ **relate only to policyholder risk and not lapse risk or expense risk**.

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TRG 1, AP2: Boundary of contracts with annual repricing mechanisms

- TRG members questioned the IASB staff as to **whether policyholder risk includes financial risk**. The IASB staff stated that 'risks' include insurance risk and financial risk that is transferred from the policyholder to the insurer, but do not include lapse risk or expense risk, because these are not risks a policyholder transfers to the insurer.
- TRG members debated the effect of changes to the examples as presented. However, as the answer depends on the precise terms of a contract, there was limited ability to conclude on alternative scenarios during the meeting. **It was highlighted that the outcome for the contract boundary assessment depends on the precise fact pattern** and there were specific facts in the examples cited in the staff paper that may not apply to other contracts.

TRG 2, AP3: Cash flows within the contract boundary

- How to apply the definition of a contract boundary contained in paragraph 34 of IFRS 17. In particular:
  a. how to interpret the practical ability to set a price at a future date that fully reflects the risk of a contract or portfolio from that date; and
  b. how to consider options to add additional insurance coverage into an existing contract.

- On Question A, the IASB staff paper stated that any constraint that applies equally to new contracts and existing contracts would not limit an entity's ability to reprice existing contracts to fully reflect their reassessed risks. However, **if an entity has the practical ability to reassess the risk presented by the policyholder, but does not have the right to set a price that fully reflects the reassessed risk, then the contract still binds the entity.** An entity must consider contractual, legal and regulatory restrictions and ignore restrictions that have no commercial substance. Sources of constraints **may also include market competiveness and commercial considerations**, but constraints are irrelevant to the contract boundary if they apply equally to new and existing policyholders in the same market.

TRG 2, AP3: Cash flows within the contract boundary

- On Question B, **the IASB staff believe that paragraph B62 is clear** that an option to add insurance coverage is a feature of an insurance contract that is not measured separately.
- Paragraph B62 of IFRS 17 states the following:
  - *" Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts.* ***The measurement of a group of insurance contracts shall reflect****, on an expected value basis, the entity's current estimates of how the policyholders in the group will* ***exercise the options available****, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour …"*

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TRG 2, AP3: Cash flows within the contract boundary

- The options should be measured on an expected value basis. **For options with guaranteed terms, the IASB staff believe it is clear that these are within the contract boundary** because the insurer does not have repricing ability. For **options with non-guaranteed terms**, whether cash flows are within the contract boundary **depends on whether the insurer has the practical ability to reprice the whole contract** (including the option) that fully reflects the reassessed risk. If so, the cash flows from the option are outside the contract boundary.

- TRG members generally agreed with the IASB staff analysis on Question A.
- On Question B, several TRG members commented they had difficulty understanding how a policyholder option to add insurance coverage that an entity could price to fully reflect the policyholder risk at the time the option is invoked could represent a substantive obligation of the entity before the option is exercised. Accordingly, these TRG members had **difficulty accepting that such options would be included within the contract boundary** of an existing contract.

TRG 2, AP3: Cash flows within the contract boundary

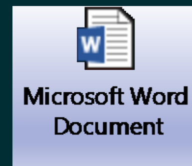
- The IASB staff explained that the paper discussed at this meeting is based on the presence of an option that is assumed to represent a substantive obligation to the entity. **What constitutes substantive rights and obligations from options** for future coverage is a separate matter that, according to the IASB staff, **could usefully be debated by the TRG** at a future meeting.
- The staff also noted that an entity would **first determine whether the option represented, in substance, a separate contract**, applying the guidance on separation of insurance components within a contract from the February 2018 TRG meeting. If that were the case, then the cash flows from that option would not fall within the contract boundary of the existing contract, but would be treated as a separate contract with its own contract boundary.

TRG 2, AP3: Cash flows within the contract boundary

– There was clarification in both the IASB staff paper and the TRG discussion that the boundary of an insurance contract is determined as the point at which the insurer **can reprice the entire contract to fully reflect the risks**. This means that, for contracts with multiple insurance coverages, the boundary is determined by the point at which the entity would have been able to (re) price to fully reflect the risks resulting from the contract in its entirety.

– There was **some concern from TRG members** that the requirement **to include expected cash flows for 'nonguaranteed' options not yet taken up by policyholders** would require a significant amount of estimation, and would not necessarily provide useful information. This is particularly the case if these options were to be entered into at the market price at an uncertain future time, therefore, making them little different from new contracts with new customers. The IASB staff added that this would only apply if the grant of the option conferred substantive rights and obligations, but did not go into further discussion of when rights and obligations under an option would be substantive.

Možnosti účtování hybridních produktů



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