IFRS 17
Insurance contracts
(replacing IFRS 4 starting 1 January 2021)

1. Objective

IFRS 17 establishes principles for the recognition, measurement and presentation of insurance (and reinsurance) contracts within the scope of the Standard and disclosure of financial information in the notes to the financial statements.

2. Scope

The Standard defines an insurance contract as a legally binding contract under which the insurer accepts insurance risk from the policyholder by agreeing to compensate the policyholder if an uncertain future event specified in the insurance policy adversely affects the policyholder.

Risk is the fundamental characteristic involved in an insurance contract.

IFRS 17 does not apply to certain cases which are referred to specifically in other Standards, such as warranties provided for manufactured goods (IFRS 15), residual value guarantees when they are embedded in a lease (IFRS 15 and IFRS 16), employers' assets and liabilities from employee benefit plans generating retirement benefit obligations under defined benefit plans (IAS 19).

IFRS 17 provides a definition of terms specific to the insurance field, such as:

- portfolio of insurance contracts: contracts subject to similar risks and managed together;
- contractual service margin: unearned profit the entity will recognise as it provides services under the insurance contracts in the future;
- insurance risk: risk, other than financial risk, transferred from the holder of a contract to the issuer;
- fulfilment cash flows: estimate of net future cash outflows that will arise as the entity fulfils the insurance contracts;
- risk adjustment for non-financial risk: compensation an insurer requires for bearing the uncertainty of non-financial risks.

3. Accounting impact

3.1 Separating components from an insurance contract

Some insurance contracts may include:

- an investment component (of a financial nature), which will be subject to the application of IFRS 9,
- a service component, calling for the application of IFRS 15.

3.2 Dividing portfolios of contracts into groups

IFRS 17 provides for three groups of contracts:

- contracts that are onerous at initial recognition,
- contracts that at initial recognition have no significant possibility of becoming onerous subsequently,
- remaining contracts, if any.

3.3 Recognition

Entities must recognise a group of insurance contracts they issue from the earliest of the following dates:

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

3.4 Measurement

The issuing entity must initially recognise the commitment resulting from a group of insurance contracts as the total of the fulfilment cash flows (estimates of future cash flows, adjustment to reflect the time value of money and the related financial risks and a risk adjustment for non-financial risk), together with its contractual service margin.

Discounting of future cash flows must reflect changes in the time value of money. The discount rates applied must be consistent with observable current market prices for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts. They must exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

For the purposes of subsequent measurement, the carrying amount of groups of contracts must be recognised as a debt constituted by the sum of:

- the liability for remaining coverage,
- the liability for incurred claims.

The Premium Allocation Approach (PAA) does offer certain simplification measures, including in particular the possibility of not discounting cash flows expected to be paid or received in one year and recognising the cost of purchase as an expense.

If the terms of an insurance contract are substantially modified, entities must derecognise the original contract and recognise the modified contract as a "new contract" separately.

3.5 Presentation

For the purposes of presentation in the statement of financial position, entities must present the following items separately for each of the three groups of contracts:

- insurance contracts (and reinsurance contracts) issued or held that are assets,
- insurance contracts (and reinsurance contracts) issued or held that are liabilities.

4. Disclosure

In terms of information to be given, the significant judgements, and changes in those judgements made when applying IFRS 17 must be disclosed (in addition of course to information on the amounts recognised for insurance contracts). Likewise, the nature and extent of the risks covered by insurance contracts issued must also be disclosed.