



UNIVERSIDADE CATÓLICA PORTUGUESA

How does the introduction of IFRS 17 impact the measurement of non-life insurance contracts? A case study

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by

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Abstract

The new accounting standard for insurance contracts, IFRS 17, will become effective for accounting periods beginning on or after 1 January 2023. This dissertation aims to understand and assess the impacts that the introduction of this new standard has on the non-life insurance sector. This sector will mainly apply the Premium Allocation Approach (PAA). It is important to understand, how does the introduction of the discount in the measurement of the insurance liabilities affect the overall liabilities presented in the balance sheet? And the overall results of the entity? What is the relation between the risk adjustment (RA) (IFRS 17) and the implicit allowance for risk (IFRS4)? What is the impact of the introduction of a RA in terms of the financial statements? The research developed to answer these questions is exploratory and descriptive. The case study research method is the method used. The results show that the introduction of the discount leads to an increase in the insurance contract liabilities and consequently to a decrease in the equity and to a negative impact on the results disclosed. Regarding the interaction of the two variables, it was possible to conclude that when the risk adjustment is higher than the implicit allowance for risk, the liabilities are expected to be higher. On the other hand, the results are expected to be in line with the ones presented under the actual practice. If the opposite scenario occurs, the RA is lower than the implicit allowance for risk, the effects obtained are symmetric to the ones obtained before except for the results that tend to decrease in this scenario. Finally, regarding the introduction of the RA, the effects obtained showed that the liabilities are expected to increase and that the results follow the same tendency. The impacts of the introduction of IFRS 17 will depend on the actual practices of the entities. Therefore, the impacts are expected to be different from entity to entity.

Keywords: IFRS 17; non-life insurance contracts; balance sheet; income statement; financial statements; liabilities; results

Word count: 8 973

Resumo

O novo normativo contábilístico para contratos de seguro, IFRS 17, irá-se tornar efetivo para períodos a iniciar ou posteriores a 1 de janeiro de 2023. O objetivo desta dissertação é perceber e avaliar os impactos da introdução deste novo normativo no setor de seguros não-vida. Este setor irá aplicar maioritariamente a abordagem de imputação dos prémios. De que forma é que a introdução de uma taxa de desconto na mensuração dos passivos de contratos de seguro impacta o total dos passivos apresentados no balanço? E os resultados da entidade? Qual é a relação entre o ajustamento de risco (AR) (IFRS 17) e a provisão implícita para o risco (IFRS 4)? Qual é o impacto da introdução de um ajustamento de risco nas demonstrações financeiras? A pesquisa desenvolvida tem não só um carácter exploratório, mas também descritivo. A metodologia adotada foi o caso de estudo. Os resultados obtidos revelam que a introdução de uma taxa de desconto leva a um aumento dos passivos e conseqüentemente a uma diminuição do capital próprio e dos resultados divulgados. Relativamente à relação entre as duas variáveis, é possível concluir que quando o ajustamento de risco é superior à provisão implícita para o risco, é esperado que os passivos sejam superiores. No entanto, no que diz respeito aos resultados é esperado que estes estejam em linha com a prática atual. Se o cenário contrário ocorrer, o AR é inferior à provisão implícita para o risco, os efeitos obtidos foram o simétrico dos obtidos anteriormente com exceção dos resultados, que é esperado que diminuam neste cenário. Por último, relativamente à introdução do AR, os efeitos obtidos revelam que os passivos aumentaram e que os resultados seguiram a mesma tendência. Os impactos da introdução da IFRS 17 irão depender das práticas que são atualmente utilizadas pelas empresas. Por essa razão, é esperado que os impactos sejam diferentes de entidade para entidade.

Palavras-chave: IFRS 17, Contratos de seguro não-vida, balanço, demonstração de resultados, demonstrações financeiras

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List of Acronyms

ASF – Autoridade de Supervisão de Seguros e Fundos de Pensões

BC – Basis for conclusions

CU – Currency Units

EFRAG – European Financial Reporting Advisory Group

GMM – General Measurement Model

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

LIC – Liability for incurred claims

LRC – Liability for remaining coverage

P&L – Profit and loss

PAA – Premium Allocation Approach

RA – Risk Adjustment

TRG – Transition Resource Group

VFA – Variable Fee Approach

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Chapter 1. Introduction

The main purpose of this dissertation is to provide an answer to the following research question: How does the introduction of IFRS 17 impact the measurement of non-life insurance contracts? To answer this question, this dissertation is divided into three goals.

Firstly, assess the impact of the introduction of a discount rate to measure the insurance liabilities. Secondly, understand the interaction between the risk adjustment and the implicit allowance for risk. Thirdly, evaluate the impact of the introduction of a risk adjustment to measure the insurance contract liabilities.

The research is not only descriptive but also exploratory. The methodology used to answer the question mentioned before is the case study research method (Yin, 2003). The case study compromised the creation of an example that tries to represent, as much as possible, the actual practices applied by the entities and the future practices that will be applied with the implementation of the new standard.

The new International Financial Reporting Standard (IFRS) for insurance contracts will be implemented in 2023. The insurance entities that report under IFRS will need to adapt their practices and processes to apply the new standard. The affected companies will also need to report their financial statements in line with the IFRS 17 requirements.

IFRS 17 introduces three measurement models: the General Measurement Model (GMM), the Premium Allocation Approach (PAA), and the Variable Fee Approach (VFA). However, the majority of the entities that issue or held non-life insurance contracts, the scope of this dissertation, according to the studies and analysis of the IASB (2017b) and ASF (2021), will adopt the optional model, PAA.

PAA, in comparison to the other models introduced by IFRS 17, is the one that in some cases has more similarities with the actual practices applied by some of

the insurance companies. Nevertheless, this approach demands that when determining the insurance contract liabilities for incurred claims (LIC), an entity must apply a risk adjustment to reflect the uncertainty in the amount and timing of the cash flows associated with the contracts and must compute the present value of future cash flows.

PAA also requires the application of a discount rate to measure the liability for remaining coverage (LRC) when the insurance contracts have a significant financing component or when the entity expects that the time between providing each part of the services and the related premium due date is no more than one year.

Although the differences between IFRS 4 and IFRS 17 can be quite significant for some entities, the literate review regarding the expected impacts of the introduction of IFRS 17 is not extensive. Therefore, this dissertation presents an example where the expected impacts in terms of balance sheet and income statement can be assessed.

This dissertation is organized as follows. Chapter 2 presents the evolutionary process of IFRS 17, clarifies the necessity of implementing a new standard, the entities affected by its implementation as well as the expected impacts in terms of the firm's value and costs according to the literate review. Chapter 3 covers the main definitions and characteristics of IFRS 17 and IFRS 4, in terms of scope, level of aggregation, and measurement models. Chapter 4 focuses on the presentation of the case study research method and on the definition of the variables to be assessed. Throughout, chapter 5 the example developed is presented in detail as well as the results and its discussion. Finally, in chapter 6 the concluding remarks, the limitations of the research, and possible suggestions for future research are presented.

Chapter 2. Literature Review and IFRS 17 evolution

2.1 The evolutionary process of IFRS 17

The evolutionary process of IFRS 17 goes back to 1997. During this year the IASB started to develop a standard for insurance contracts that was eventually issued seven years later, in March 2004. This standard, IFRS 4, explained in the next section, was supposed to be an interim standard for a few years until the IASB could conclude a full insurance accounting standard. Therefore, in the same year, a working group was formed for phase 2 of the IFRS 4 (IASB, 2017c).

During the process of issuing discussion papers, an exposure draft, and the creation of engagement with the interested parties, in May 2017 a new standard was issued, IFRS 17. During 2019 some potential amendments to IFRS 17 were proposed, by the IASB, in an exposure draft. Those amendments were later incorporated into the June 2020 version of the standard (PwC, 2020). IFRS 17 has a mandatory effective date of 1 January 2023 (IFRS 17 § C1).

The standard evolution previously described is systematised in the following figure.



Figure 1.
Evolution of IFRS 17

2.2 The need for a new standard

When IFRS 4 was issued, as an interim standard, it was meant to “*limit changes to existing insurance account practices*”. However, under IFRS 4 entities can use various accounting policies even if they are in the same consolidated group, the estimates used are not regularly updated or are not updated at all and the discount rate, when used, is based on investments and not on the current rate for the liability. These inconsistencies lead to a lack of comparability, low-quality standards, and low transparency levels (IASB, 2017b). The gaps mentioned before can be improved or even mitigated with the consistent framework that IFRS 17 encourages (see figure 2).

The new standard encourages entities to provide information with more quality and transparency, about obligations arising from risks and from variability in insurance contracts so that analysts, investors, and interest parties can make better economic decisions (IASB, 2017b). This purpose of increasing the quality of information is in line with the conclusions developed by Dahiyat & Owais (2021) on the expected impacts of the introduction of IFRS 17. The impact on quality is expected to be significant and positive, mainly in the comparison of financial reports. Regarding transparency, this objective is expected to be more difficult to accomplish as some of the entities are concerned with the number of disclosures that will need to be made and with the valuation methods required by the standard. Besides these concerns, there are mostly positive comments regarding the transparency that is expected to arise with the implementation of IFRS 17 (Mignolet, 2017).

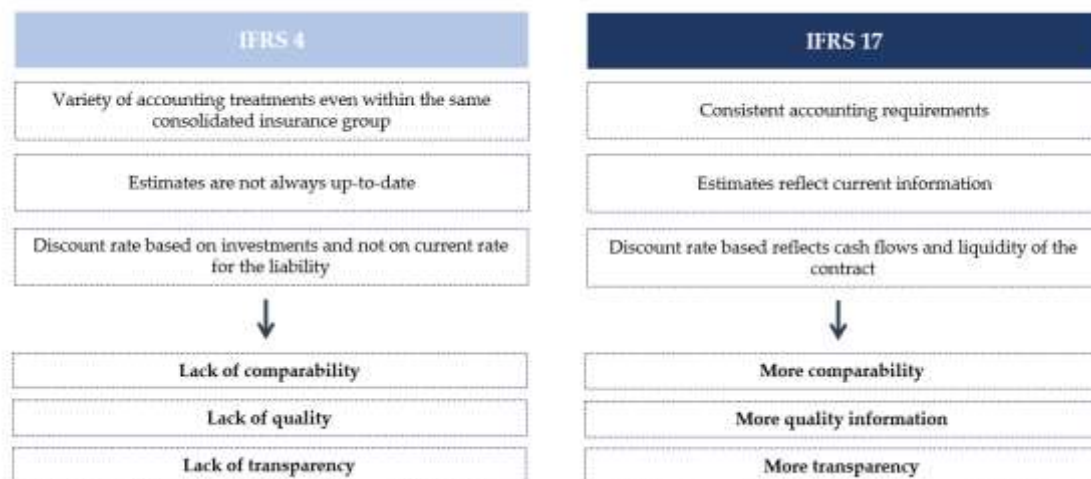


Figure 2.
Comparison between IFRS 4 and IFRS 17

2.3 Companies affected by IFRS 17

IFRS 17 will mainly impact companies that are in the insurance industry and issue contracts that meet the definition of insurance contracts (IASB, 2017b). According to a study developed by IASB (2017b), which consisted of the analysis of 626 listed insurance companies, it was possible to conclude that the majority of companies, approximately 72%, use IFRS Standards as their reporting framework, so all of them will be affected by the implementation of IFRS 17.

IASB (2017b) also sheds some light on the type of business in which the companies operate. The existing insurance accounting policies, in general, are different according to the type of contract. Consequently, entities that have different types of insurance contracts are expected to be affected in different ways by the new standard. The primary business of 150 entities, from the 499 that answered, is “Property and Casualty” or, in other words, non-life insurance contracts. Some examples of non-life products are: self-construction insurance, vehicle insurance, health insurance, or income protection insurance. The non-life insurance is characterised by providing insurance for a relatively short period of time such as one year, although there are multi-year contracts. The annual

contracts may be automatically renewed at the end of each year if not cancelled by one of the parties (IASB, 2017).

Based on this analysis, it is prudent to conclude that the non-life business has relevant expression in the insurance market. Therefore, this sector and its measurement will be the focus of this master thesis.

Table 1.

Insurers - Primary Business

Primary Business	Number of insurance companies
Property and Casualty	150
Life and Health	96
Multi-line	181
Reinsurance	22
Total	449

Source: Adopted from IASB,2017

2.4 Thoughts of the companies affected on IFRS 17

IFRS 17 was first issued in 2017 however, as mentioned before in June 2019 some amendments were proposed to the new standard. According to the comment letters received by the IASB, it is possible to conclude that most of the entities agreed with the changes referring that these changes will have a positive impact namely in terms of cost savings and contribute to more appropriate results.

In the comment letters analysed were also expressed some concerns about the topics in which the IASB did not propose amendments in the June 2019 version of the standard. Of the topics analysed there are two that especially involve the entities' subjectivity, which is the case for the level of aggregation. In Allianz's (2019) point of view, the requirement of the annual cohort¹ is practicable in some

¹ The concept of annual cohort was derived from paragraph 22 of IFRS 17 which refers that "An entity shall not include contracts issued more than one year apart in the same group."

contracts, but in others considers it to be very changeling and “*requires arbitrary allocation, resulting in figures that cannot be explained by economic developments with the portfolios*”. Consequently, Allianz recommend the removal of the annual cohorts’ requirements for such contracts. The EFRAG (2019) and the European Insurance CFO Forum (2019) comment letters were also in line with this approach. However, the IASB did not agree with this methodology and decided not to incorporate it in the June 2020 amendments (IASB, 2020b).

Another relevant topic discussed in the comment letters was related to the risk adjustment for non-financial risk. The standard requires entities to determine it but does not prescribe how an entity should achieve that outcome. Since the entities can choose the methodology that they are going to use to compute this variable, some stakeholders expressed their concern in terms of comparability between companies. Despite this concern, the IASB decided not to prescribe or define a specific methodology to compute the risk adjustment since “*insurance contracts have a variety of forms, terms and conditions*” and “*using a rule-based approach would result in outcomes that are appropriate only in some circumstances*” (IASB, 2019a). As a consequence, the comparability between companies will be affected due to the subjectivity that they need to use.

2.5 Expected impacts on the companies

According to the literature, one of the expected impacts of the introduction of IFRS 17 is related to the firm’s value. In terms of the firms’ value according to the study developed by Longoni (2019), which consisted in analysing 427 insurers’ stock returns around sixteen events that have a higher probability of affection the investors’ expectations, the IFRS 17 implementation event is associated with a decrease in the returns for the insurance companies. The negative impact is greater for insurance entities with low growth opportunities and larger insurers.

Even though apparently, the improvements presented throughout this section outweigh the possible disadvantages, IFRS 17 comes with high implementation costs. From the point of view of the shareholders of the IFRS insurers, the costs of adopting IFRS 17 outweigh the benefits (Longoni, 2019). The author also concluded that *“IFRS 17 has a more negative effect on insurers with a high book-to-market ratio.”* This might happen due to the low growth opportunities under IFRS 4, which leads to the shareholders' negative reaction concerning the costs imposed by IFRS 17.

In the next section the new standard, IFRS 17, will be, minutely, presented.

Chapter 3. Detailed analysis of IFRS 17

3.1 IFRS 17 and IFRS 4

3.1.1 Scope

The IFRS 17 scope is identical to IFRS 4, so the majority of contracts that were insurance contracts under IFRS 4 are expected to be insurance contracts under IFRS 17 (IFRS 17 § 4) (IFRS 4 § 2). The relevant definitions to the application of IFRS 17 are included in Appendix A of the standard and will also be included in Appendix A of this thesis, which is the case for insurance contracts. Both standards focus on types of contracts rather than types of entities, as a consequence IFRS 17 will be applied to all entities that issue or held contracts within its scope whether they are regulated as insurance entities or not (KPMG, 2020).

3.1.2 Level of aggregation

The level of aggregation is defined to measure insurance contracts and their related profitability. This is a crucial aspect to identify onerous contracts and to determine the recognition of profit or loss (Ernst&Young, 2021). The level of aggregation of insurance contracts also determines the unit of account to be used when IFRS 17 is applied (EFRAG, 2018).

Nowadays, with the existing insurance accounting practices, IFRS 4, the majority of the insurers do not need to specify whether or on what basis insurance contracts are being aggregated for measurement purposes. Consequently, insurers have the possibility of offsetting the losses arising from some insurance contracts with the gains arising from others (IASB, 2017) – shadow accounting (IFRS 4 § 30). Based on the responses given by the EFRAG

Insurance Accounting Working Group to a questionnaire developed by the EFRAG Secretariat, it was clear that *“the majority of the respondents use the individual contract as the unit of account for different insurance contract types”* (EFRAG, 2017b). Specifically, for the non-life business according to the questions developed by EFRAG Technical Expert Group (EFRAG, 2017a) insurers tend to use the individual contract level to measure the insurance liabilities.

To mitigate these inconsistencies, IFRS 17 requires a level of granularity much more demanding. Under IFRS 17 a portfolio of insurance contracts *“comprises contracts subject to similar risks and managed together”* (IFRS 17 § 14). A portfolio shall be divided at least into three groups:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that, at inception, have no significant possibility of becoming onerous subsequently;
- a group of the remaining contracts in the portfolio (IFRS 17 § 16).

A contract is considered onerous if *“at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow”* (IFRS 17 § 47). However, if an entity decides to adopt the premium allocation approach, it *“shall assume no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise”* (IFRS 17 § 18). It is also important to mention that an entity is not able to include a contract issued more than a year apart in the same group (IFRS 17 § 22). This means that each contract will be disaggregated into annual cohorts consisting of periods of less than one year.

It is relevant to refer that subsequently, the entity shall not reassess the composition of the portfolios (IFRS 17 § 24).

An entity will use the groups of contracts determined, taking into consideration all the topics mentioned above, in the recognition and measurement process (Ernst&Young, 2021).

Specifically, for the non-life insurance contracts, the insurers are expected to aggregate the contracts considering the existing branches namely: Accidents & Health, Fire and Other Damage, Motor, Aviation, Marine & Transportation, etc.

3.1.3 Measurement Models

3.1.3.1 General Overview

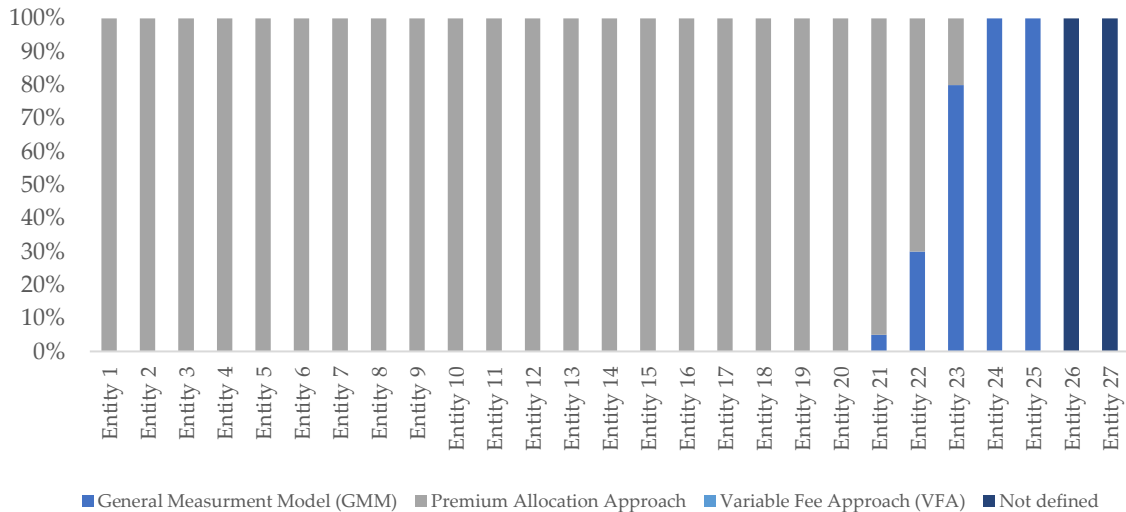
IFRS 4 does not have specific requirements for most aspects of the recognition and measurement of insurance contracts. As a consequence, entities applying IFRS Standards, have been developing and applying accounting policies for insurance contracts based on the requirements of the national GAAP that already existed when IFRS 4 was introduced, in 2004 (IASB, 2017b).

IFRS 17 foresees three possible models to measure insurance contracts, the General Measurement Model (GMM), the Premium Allocation Approach (PAA), and the Variable Fee Approach (VFA). However, since this master thesis focuses on the non-life business, it is important to understand which of these three models will be used by many of the entities that issue or held contracts in this sector.

According to IASB (2017b), it is expected that most of the companies in the non-life business will apply the simplified approach, PAA, to the majority of their contracts. The Board also foresees that the application of the PAA will substantially be less costly than the GMM and that the loss of useful information will be minimal.

A study developed by the Insurance and Pension Funds Supervisory Authority – ASF (2021), in Portugal, is in line with the IASB's expectations. The study consisted in developing a qualitative questionnaire, related to IFRS 17 so that the 38 companies under the ASF's supervision could give some feedback about the implementation process of the standard. One of the topics covered was

the measurement model that the companies are going to use for non-life products. The majority of the entities, from the ones that have this business segment, will adopt the PAA.



Graph 1
 Non-Life Insurance Contracts - Measurement Models
 Source: ASF (2021)

Since the PAA is the most likely approach to be adopted by the non-life business, the focus of the next subchapter will be the comparison between the actual accounting practices under IFRS 4 and PAA.

3.1.3.2 PAA – Eligibility Criteria

The measurement of the group of contracts can be simplified by using the PAA if, at inception one of these criteria is met:

- the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage (LRC) for the group that would not differ materially from the one that would be produced applying GMM;

- the coverage period of each contract in the group is one year or less. (IFRS 17 § 53).

The second condition will be automatically met if all contracts in the group have a coverage period of one year or less. However, for insurance contracts with a coverage period greater than one year, the entity will need to apply some judgment to define the meaning of “not differ materially” (Ernst&Young, 2021).

The first criterion mentioned above is not met if “*at inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the LRC during the period before the claim is incurred*”. The variability increases with:

- “*the extent of the future cash flows relating to any derivative embedded in the contract; and*
- *the length of the coverage period of the group of contracts.*” (IFRS 17 § 54)

According to an answer given by the Transition Resource Group (TRG) members (2019b) with the log S123 to a question asked by the public “*the eligibility criteria are assessed at inception therefore the standard does not require or permit a reassessment of the eligibility criteria or the election to apply the approach.*”

3.1.3.3 Initial Recognition

The liability for remaining coverage, at inception, is measured as follows (IFRS 17 § 55 (a)):

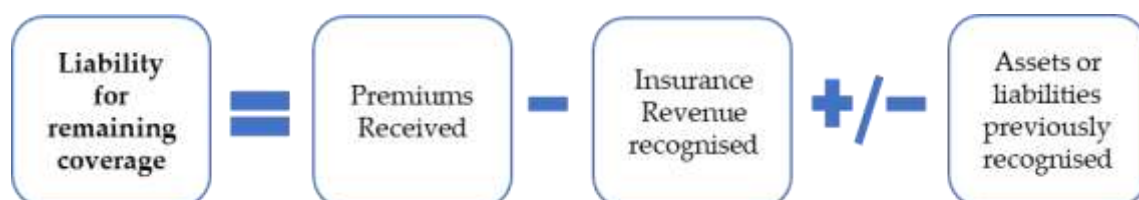


Figure 3.
Liability for Remaining Coverage - Initial Recognition
Source: Adopted from KPMG (2020)

The LRC needs to be adjusted to reflect the time value of money and the effect of financial risk using discount rates as determined on initial recognition if insurance contracts in the group have a significant financing component. Otherwise, LRC does not need to be adjusted by the two components mentioned before if the entity expects that the time between providing each part of the services and the related premium due date is no more than one year (IFRS 17 § 56).

IFRS 17 does not provide guidance on how to determine whether there is a significant financing component. Therefore, the principles defined in IFRS 15 may be applied by analogy. A significant financing component may exist when the policyholder makes a payment significantly before or significantly after the insurer's performance (PwC, 2021).

According to a response given by the TRG members (2018b), with the log S23, the premiums in the formula above refer to premiums actually received at the reporting date. Consequently, premiums due or premiums expected do not have relevance to the computation of the LRC. From the point of view of the entity who made the question, the inclusion of premiums receivable would result in more transparent information. It also mentioned that by using the IAS's approach there would be "*practical difficulties and costs in identifying premiums received on a group of insurance contracts basis*". However, the Board did not agree with this view, therefore the standard was not emended. (IASB, 2018a)

Under IFRS 4, the distinction between premiums received and receivable does not exist for measurement purposes. Sometimes the premiums receivable are treated as financial assets (IASB, 2017b).

Regarding the acquisition cash flows, the entity has two options. The first one is to recognise cash flows within the LRC (meaning that the cash flows are amortised during the coverage period) as shown in the formula above (IFRS 17 § 55(a)) or to recognise the acquisition cash flows as an expense when incurred (IFRS 17 BC292 (c))(IFRS 17 § 59 (a)). If the insurance acquisition cash flows are recognised as an expense when incurred, the LRC increases therefore there is a

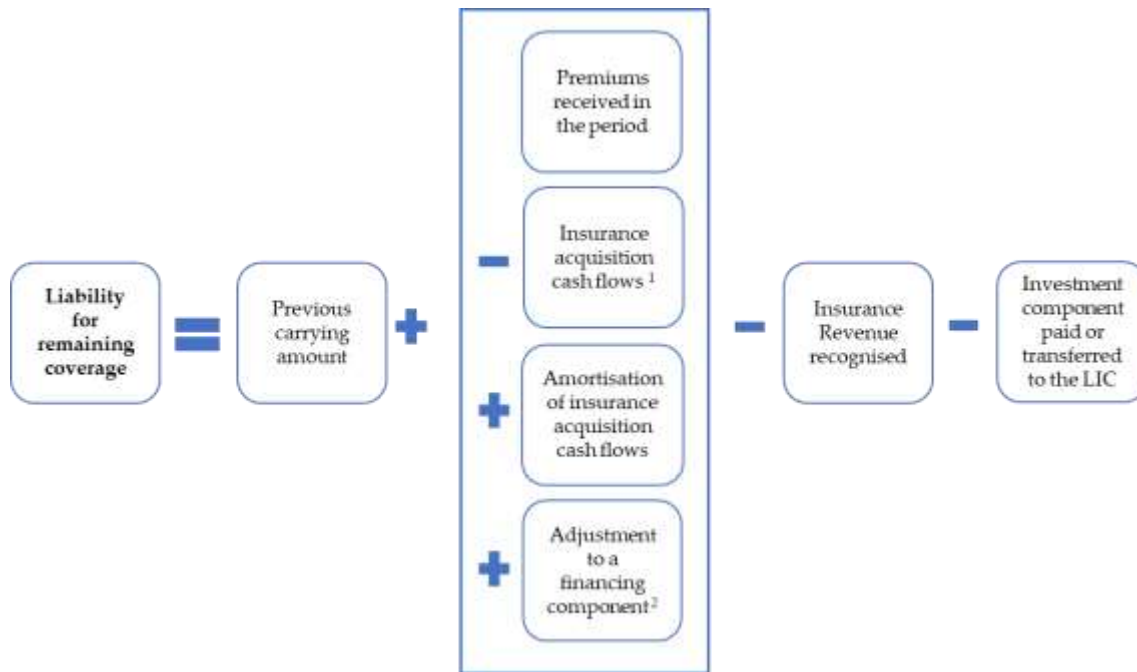
reduction in the likelihood of any subsequent onerous contract loss. The profit or loss expense would increase at the date the expense is incurred (it may be before the initial recognition of the contract) followed by an increase in profit released from LRC over the coverage period (Ernst&Young, 2021).

Nowadays, under IFRS 4, these acquisition costs are, sometimes, treated as an intangible asset (IASB, 2017b).

It is also relevant to refer that, at inception, the standard does not effectively require an assessment of whether a group of insurance contracts is onerous, so the entity shall assume that no contracts in the portfolio are onerous. IFRS 17 only requires this assessment if facts and circumstances indicate that the group is onerous (IFRS 17 § 57).

3.2.3.4 Subsequent Measurement

Under PAA the LRC, at each subsequent reporting date, is measured as follows (IFRS 17 § 55 (b)):



¹ In the case the entity does not recognise the acquisition cash flows as expenses when incurred.

² When applicable

Figure 4.
Liability for Remaining Coverage - Subsequent Measurement
Source: Adopted from KPMG (2020)

The insurance revenue for the period, under this approach, is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable) allocated to the period. Therefore, an entity should “*allocate the expected premium receipts to each period of insurance contract services:*

(a) *on the basis of the passage of time; but*

(b) *if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected” (IFRS 17 § B126).*

The standard allows the entity to change the basis of the allocation if facts and circumstances change (IFRS 17 § B127).

Currently, under IFRS 4, insurers use a variety of methods to recognise revenue, the most used approach is to recognise all premiums receive or due in the period as revenue – on a cash basis (IASB, 2017b).

An entity shall measure the liability for incurred claims, under PAA, using the fulfilment cash flows relating to incurred claims applying GMM, so taking into consideration the present value of future cash flows and the risk adjustment for non-financial risk (IFRS 17 § 33). The risk adjustment represents the “*compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows*” (IFRS 17 § 37). The entity does not need to discount the LIC if expects the claims to be settled in a year or less (IFRS 17 § 59 (b)). The impact of discounting for payments occurring in less than a year is expected to be immaterial (IASB, 2017b). The LIC on initial recognition should usually be zero (Ernst&Young, 2021).

Under IFRS 4, non-life insurers may report the LIC either on a discount or an undiscounted basis (IASB, 2017b). Some entities also use an implicit allowance for risk to reflect the uncertainty associated with the cash flows. This consideration of the risk is made by increasing the best estimate of claims.

IFRS 4, at each reporting date, just requires a liability adequacy test. The objective of this test is to understand if the insurance contract liability reported is equal to or greater than the current estimates of all contractual cash flows and related cash flows such as claims handling costs and cash flows resulting from embedded options and guarantees. If a deficiency is identified, the liability is not adequate, and it is recognised in profit or loss (IFRS 4 § 16). It is important to mention that the adequacy test is applied at the level of aggregation specified in the test (IFRS 4 § 18). As mentioned before, for the non-life business, the level of aggregation normally used is the contract level.

According to IASB (2017b), the way the entities apply the adequacy test may impact the overall effect of IFRS 17 for measurement purposes. If the test is not being applied properly, the insurance liabilities are being underestimated under IFRS 4, so when IFRS 17 is first applied their value is expected to increase.

Chapter 4. Method, results presentation and discussion

In this chapter, the academic example developed is going to be presented in detail. The methodology used to develop it is going to be clarified. The results obtained as well as its analysis will also be carefully described.

4.1 The case study method

The application of the case study method has peculiar advantages when applied to situations where the following three conditions are met. The first one is related to the way the research question is posed. Especially, when the research questions are formulated with “how” or “when”. So, case studies are the preferred strategy to use to answer descriptive or explanatory questions. Secondly, the study that is being done does not require control of behavioral events. And the last factor, the study focuses on contemporary events instead of historical ones (Yin, 2003). Applying the requirements mentioned before to this specific case, all of them are verified. The first one is verified since the research question is “how does the introduction of IFRS 17 impact the measurement of non-life insurance contracts?”, the second one is verified as well because there is no influence or control over the introduction/implementation process of IFRS 17. The third requirement is also met since the information that is going to be used to develop the case comes from an analysis of the entity’s practices.

The method to develop a case study, according to the same author, has 3 phases: (1) Define & design; (2) Prepare, collect & analyse and (3) analyse and conclude.

The purpose of the study case developed in this dissertation is clear: to understand the impact that the implementation of IFRS 17 will have on the measurement of non-life insurance contracts. The impact will be assessed at the

level of the insurance contract liabilities and equity (balance sheet) and at the level of the results (statement of comprehensive income). To assess this impact three variables were identified as being crucial to analyse, namely:

1. The use of a discount rate to measure the insurance liabilities;
2. The implicit allowance for risk and its interaction with the risk adjustment;
3. The adoption of the risk adjustment.

Since IFRS 17 is still being implemented by the entities, it is not possible to assess the impacts just by comparing the financial statements before the implementation and after the implementation. Consequently, an academic example was developed to analyse and assess the impacts. Although the developed example is an academic example, it tries to reflect as much as possible the reality of an entity that issues or holds insurance contracts. The sources used to gather the information that allowed the proximity between the example and the actual practice will be discussed below.

Commonly, six sources of information can be used to do a case study: documentation, archival records, interviews, direct observations, participant observations, and physical artifacts. In this case study are going to be applied two qualitative sources of the ones mentioned above: documentation and archival records.

4.2 Overview of the example developed

Following the analysis of documents and archival records, it was possible to develop an example taking into consideration not only the actual practices used by the entities but also the future practices that will, mandatorily, be implemented with the introduction of IFRS 17 in 2023.

As mentioned before under IFRS 4, entities can adopt various methodologies to measure and present their insurance contracts. So, to analyse the impacts of the IFRS 17 implementation, two methodologies used in the insurance market

were taken into consideration. In one the liabilities for incurred claims are not discounted, but an implicit allowance for risk is used to reflect the uncertainty associated with the insurance risk, and in the other one the liabilities for incurred claims are not discounted and an implicit allowance for risk is not used.

Of all the types of insurance contracts, the product chosen to develop this case was the self-build construction. This choice was based on the fact that in these types of contracts the claims, normally, are not expected to be settled in a year or less, so the liabilities for incurred claims need to be discounted. Therefore, it was considered a period of seven years, where the first year corresponds to the coverage period.

In order to assess the impacts of the IFRS 17 implementation, four scenarios were created. The first scenario is the scenario where the risk adjustment under IFRS 17 is equal to the implicit allowance for risk under IFRS 4. In this scenario, it will be possible to analyse the impact of the introduction of the discount on the liabilities. In the second and third scenarios, it will be possible to understand the interaction between the implicit allowance for risk and the risk adjustment. The fourth scenario was created to assess the impact that the non-use of an implicit allowance for risk under IFRS 4 will have in the future.

Other general considerations that need to be highlighted, because they are common throughout all the scenarios, are as follows:

- The group of insurance contracts only has contracts with a coverage period of 1 year (PAA can be applied);
- The group of insurance contracts is not onerous;
- The premiums are received at inception, representing 12 000 CU;
- At inception the acquisition cash flows are 400 CU. These costs are recognised as an expense when incurred;
- The claims pattern/best estimate of claims is: 2 000 CU in year 2; 1 500 CU in year 3; 1 500 CU in year 4; 1 000 CU in year 5; 500 CU in year 6 and 250 CU in year 7;

- The other expenses allocated to claims correspond to 8% of the claims incurred in the period;
- The claims occurred at the end of one-year coverage, so the cash outflows associated with those claims are paid in the subsequent years. The estimations did not change since inception;
- The premiums received, net of expenses, are invested in financial assets that generate a return of, approximately, 1.5%/year. Those assets are measured at fair value through P&L. The gains from the previous year are reinvested in the following period;
- The finance expenses are also recognised in P&L;
- The LRC does not have any interest accretions since the contracts do not have a significant financing component.

Table 3 summarizes these assumptions. In the following sections, each scenario and the respective impacts will be described in detail.

Table 2.
General overview of the assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Opening balance		11 774	9 758	8 260	6 740	5 745	5 283
<i>Insurance contract cash flows</i>							
Premiums	12 000						
Claims		(2 000)	(1 500)	(1 500)	(1 000)	(500)	(250)
Commission expense	(400)						
Other expenses allocated to claims		(160)	(120)	(120)	(80)	(40)	(20)
<i>Financial assets cash flows</i>							
Investment Income	174	144	122	100	85	78	75
Closing balance	11 774	9 758	8 260	6 740	5 745	5 283	5 088

4.3 Scenario 1 - Impact of the introduction of the discount

This scenario was created with the objective of assessing the impact of the introduction of the discount in the liabilities for incurred claims, that under IFRS 17, is mandatory if the entity does not expect the claims to be settled in a year or less.

In addition to the assumptions mentioned before for this specific scenario, it is important to note that:

Under IFRS 17:

- The risk adjustment will correspond to 5% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are discounted;
- The discount rate is 2%.

Under IFRS 4:

- The implicit allowance for risk will correspond to 5% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are not discounted.

In line with all this information the financial statements, under IFRS 4 and IFRS 17, were developed and are presented below.

Table 3.
Balance Sheet IFRS 4 - Scenario 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(8 165)	(5 830)	(3 985)	(2 140)	(910)	(283)	-	1
Equity	3 609	3 928	4 275	4 600	4 835	5 000	5 088	2

Table 4.
Balance Sheet IFRS 17 - Scenario 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 803)	(5 606)	(3 860)	(2 082)	(889)	(277)	-	3
Present value of future cash flows	(6 928)	(4 906)	(3 385)	(1 832)	(789)	(265)	-	
Risk adjustment	(875)	(700)	(475)	(250)	(100)	(13)	-	
Equity	3 971	4 152	4 401	4 658	4 856	5 006	5 088	4

Comparing the financial statements, in particular the balance sheet, it is possible to conclude that the insurance contract liabilities under IFRS 17 (3), correspond to the sum of the “present value of future cash flows” with the “risk adjustment”, are lower than the insurance contract liabilities under IFRS 4 (1).

Consequently, since the assets are equal to the liabilities plus equity, under IFRS 17 the equity (4) is higher than in IFRS 4 (2). This effect was expected due to the fact that under IFRS 17 the liabilities are being discounted to reflect their present value.

Table 5.
Income Statement IFRS 4 - Scenario 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Earned premiums	12 000							
Claims and expense	(8 165)	175	225	225	150	88	13	5
Acquisition costs	(400)							
Investment income	174	144	122	100	85	78	75	
Profit or loss	3 609	319	347	325	235	166	88	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 609	319	347	325	235	166	88	6

Table 6.
Income Statement IFRS 17 - Scenario 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Insurance revenue	12 000							
Incurring claims and other expenses	(7 803)	175	225	225	150	88	13	7
Acquisition costs	(400)							
Insurance service result	3 797	175	225	225	150	88	13	
Investment income	174	144	122	100	85	78	75	
Insurance finance expenses	-	(139)	(98)	(68)	(37)	(16)	(5)	
Net financial result	174	6	24	32	48	62	70	
Profit or loss	3 971	181	249	257	198	150	82	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 971	181	249	257	198	150	82	8

In the income statement, it is important to mention that the lines “Claims and expense” (5) and “Incurring claims and other expenses” (7) reflect the variations in the implicit allowance for risk and in the risk adjustment respectively. The lines have different names, but the content and the methodology of the calculations are exactly the same. The values registered in these lines depend on the claims pattern and also on the weighting of the year in which it occurs. In this case, the variations are similar because the variables have the same value, 5%.

The comprehensive income under IFRS 4 (6) is higher, which means that the insurers are disclosing more positive results. However, with the implementation of IFRS 17, the results will be lower (8) due to the discount factor that is reflected in the line “Insurance Finance Expenses”.

In the next two scenarios, the interaction between the implicit allowance for risk and risk adjustment will be evaluated.

4.4 Scenario 2 - Risk adjustment higher than the implicit allowance for risk

The aim of this scenario, as mentioned before, is to assess the relationship between two variables, namely the implicit allowance for risk and risk adjustment. This scenario is, in everything, similar to the previous one. Although, it is going to be considered that the percentage of the risk adjustment is going to be higher than the percentage of the implicit allowance for risk. So, the assumptions considered are:

Under IFRS 17:

- The risk adjustment will correspond to 6% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are discounted;
- The discount rate is 2%.

Under IFRS 4:

- The implicit allowance for risk will correspond to 4% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are not discounted.

The financial statements, according to these assumptions are as follows.

Table 7.
Balance Sheet IFRS 4 - Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 990)	(5 690)	(3 890)	(2 090)	(890)	(280)	-	1
Equity	3 784	4 068	4 370	4 650	4 855	5 003	5 088	2

Table 8.
Balance Sheet IFRS 17 - Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 978)	(5 746)	(3 955)	(2 132)	(909)	(280)	-	3
Present value of future cash flows	(6 928)	(4 906)	(3 385)	(1 832)	(789)	(265)	-	
Risk adjustment	(1 050)	(840)	(570)	(300)	(120)	(15)	-	
Equity	3 976	4 012	4 306	4 608	4 836	5 003	5 088	4

According to this scenario, if the percentage of the risk adjustment, that is going to be used and computed under IFRS 17, is higher than the implicit allowance for risk actually applied to the undiscounted claims, the insurance contract liabilities will increase with the implementation of IFRS 17 (1)(3). This means that the entity will be more prudent since it is considering a higher percentage to bear the uncertainty associated with the amount and timing of the cash flows.

Accordingly, the equity under IFRS 17 will decrease in comparison to the values registered under IFRS 4 (2)(4).

Table 9.
Income Statement IFRS 4 - Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Earned premiums	12 000							
Claims and expense	(7 990)	140	180	180	120	70	10	5
Acquisition costs	(400)							
Investment income	174	144	122	100	85	78	75	
Profit or loss	3 784	284	302	280	205	148	85	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 784	284	302	280	205	148	85	6

Table 10.
Income Statement IFRS 17 - Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Insurance revenue	12 000							
Incurred claims and other expenses	(7 978)	210	270	270	180	105	15	7
Acquisition costs	(400)							
Insurance service result	3 622	210	270	270	180	105	13	
Investment income	174	144	122	100	85	78	75	
Insurance finance expenses	-	(139)	(98)	(68)	(37)	(16)	(5)	
Net financial result	174	6	24	32	48	62	70	
Profit or loss	3 976	216	294	302	228	167	85	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 976	216	294	302	228	167	85	8

In line with what was mentioned in scenario 1, the line “Claims and other expenses” will vary according to the implicit allowance for risk used. In this scenario the implicit allowance for risk is lower than before, so the values registered in this line are also lower (5). The opposite happens to the “Incurred claims and other expenses” (7). The risk adjustment increased by 1% (from 5% in scenario 1 to 6% in scenario 2), therefore the values registered in this line are higher. It is important to highlight that this comparison between scenarios can be made because the claims pattern is exactly the same. So, with the implementation of IFRS 17, if the value for the risk adjustment is higher than the implicit allowance for risk that was being used under IFRS 4, the line “Incurred claims and other expenses” will have higher values than the line “Claims and expense”.

The results under IFRS 17, in accordance with this example, are not expected to be significantly different from the ones that are being actually disclosed when IFRS 4 is applied (6)(8). This means that the effect of applying different percentages for the risk margin and for the risk adjustment is similar to the effect of the discount on the insurance contract liabilities.

4.5 Scenario 3 - Risk adjustment lower than the implicit allowance for risk

This scenario was developed considering all the assumptions mentioned in scenario 2. However, contrarily to what happened previously, in this scenario the implicit allowance for risk will be higher than the risk adjustment. The impacts, in the balance sheet, are expected to be opposite of the ones registered in the previous scenario. The values used in the calculations, that resulted in the financial statements presented below were:

Under IFRS 17:

- The risk adjustment will correspond to 4% of the outstanding undiscounted claims for each year until its expected settlement;

- The liabilities for incurred claims are discounted;
- The discount rate is 2%.

Under IFRS 4:

- The implicit allowance for risk will correspond to 6% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are not discounted.

Table 11.
Balance Sheet IFRS 4 - Scenario 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(8 340)	(5 970)	(4 080)	(2 190)	(930)	(285)	-	1
Equity	3 434	3 788	4 180	4 550	4 815	4 998	5 088	2

Table 12.
Balance Sheet IFRS 17 - Scenario 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 628)	(5 466)	(3 765)	(2 032)	(869)	(275)	-	3
Present value of future cash flows	(6 928)	(4 906)	(3 385)	(1 832)	(789)	(265)	-	
Risk adjustment	(700)	(560)	(380)	(200)	(80)	(10)	-	
Equity	4 146	4 292	4 496	4 708	4 876	5 008	5 088	4

As expected, if the entities apply, under IFRS 4, an implicit allowance for risk that is higher than the risk adjustment that is going to be introduced with IFRS 17, the insurance contract liabilities will decrease under IFRS 17 (1)(3). This means that under the new standard, the compensation that the entity requires for the

uncertainty associated with the amounts and the timings of the cash flows would be lower than in IFRS 4. As a consequence, the equity under IFRS 17 is higher than in IFRS 4 (2) (4).

Table 13.

Income Statement IFRS 4 - Scenario 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Earned premiums	12 000							
Claims and expense	(8 340)	210	270	270	180	105	15	5
Acquisition costs	(400)							
Investment income	174	144	122	100	85	78	75	
Profit or loss	3 434	354	392	370	265	183	90	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 434	354	392	370	265	183	90	6

Table 14.

Income Statement IFRS 17 - Scenario 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Insurance revenue	12 000							
Incurring claims and other expenses	(7 628)	140	180	180	120	70	10	7
Acquisition costs	(400)							
Insurance service result	3 972	140	180	180	120	70	10	
Investment income	174	144	122	100	85	78	75	
Insurance finance expenses	-	(139)	(98)	(68)	(37)	(16)	(5)	
Net financial result	174	6	24	32	48	62	70	
Profit or loss	4 146	146	204	212	168	132	80	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	4 146	146	204	212	168	132	80	8

Analyzing this scenario, and contrarily to what happens in the second scenario, the values registered in “Incurred claims and other expenses” will be lower with the introduction of IFRS 17 (5) (7).

However, the results disclosed under IFRS 17 in this case and specifically in the subsequent period will be lower than the ones presented under IFRS 4 (6)(8). Meaning that the effect of the differences between the implicit allowance for risk and the risk adjustment is not identical to the effect of the discount in the insurance contract liabilities.

4.6 Scenario 4 - Impact of the introduction of the risk adjustment

This last scenario was created to represent another actual practice that the entities also use to measure their insurance contracts. In the previous scenarios, it was always considered a value for the implicit allowance for risk. However, under IFRS 4 the entities do not, necessarily, have to adjust their best estimate to reflect the uncertainty associated with the cash flows. Therefore, the assumptions under this scenario are:

Under IFRS 17:

- The risk adjustment will correspond to 5% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are discounted;
- The discount rate is 2%.

Under IFRS 4:

- The implicit allowance for risk will correspond to 0% of the outstanding undiscounted claims for each year until its expected settlement;
- The liabilities for incurred claims are not discounted.

The financial statements developed taking into account these assumptions are presented below.

Table 15.
Balance Sheet IFRS 4 - Scenario 4

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 290)	(5 130)	(3 510)	(1 890)	(810)	(270)	-	1
Equity	4 484	4 628	4 750	4 850	4 935	5 013	5 088	2

Table 16.
Balance Sheet IFRS 17 - Scenario 4

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Financial assets	11 774	9 758	8 260	6 740	5 745	5 283	5 088	
Insurance contract liabilities	(7 803)	(5 606)	(3 860)	(2 082)	(889)	(277)	-	3
Present value of future cash flows	(6 928)	(4 906)	(3 385)	(1 832)	(789)	(265)	-	
Risk adjustment	(875)	(700)	(475)	(250)	(100)	(13)	-	
Equity	3 971	4 152	4 401	4 658	4 856	5 006	5 088	4

Under IFRS 4 the insurance contract liabilities recognized in the balance sheet are lower than the ones that will be presented under IFRS 17 (1)(3). This occurs because under the actual practice the liabilities are not being discounted and the best estimate of claims is not being increased to reflect the uncertainty associated with cash flows. As a consequence, the equity under 17 is expected to be lower than in IFRS 4 (2)(4).

Table 17.
Income Statement IFRS 4 - Scenario 4

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Earned premiums	12 000							
Claims and expense	(7 290)	-	-	-	-	-	-	5
Acquisition costs	(400)							
Investment income	174	144	122	100	85	78	75	
Profit or loss	4 484	144	122	100	85	78	75	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	4 484	144	122	100	85	78	75	6

Table 18.
Income Statement IFRS 17 - Scenario 4

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Insurance revenue	12 000							
Incurred claims and other expenses	(7 803)	175	225	225	150	88	13	7
Acquisition costs	(400)							
Insurance service result	3 797	175	225	225	150	88	13	
Investment income	174	144	122	100	85	78	75	
Insurance finance expenses	-	(139)	(98)	(68)	(37)	(16)	(5)	
Net financial result	174	6	24	32	48	62	70	
Profit or loss	3 971	181	249	257	198	150	82	
Other comprehensive income	-	-	-	-	-	-	-	
Comprehensive income	3 971	181	249	257	198	150	82	8

The line “Claims and expense” in IFRS 4 does not have values registered in the subsequent period, since there is no implicit allowance for risk (5). The

corresponding line in IFRS 17 “Incurred claims and other expenses” will have values, as under the standard it is mandatory to consider the uncertainty related to the cash flows in scenarios like this one (7).

The results under IFRS 4 after the first year only reflect the income that comes from the investment in the financial assets (6). Under IFRS 17 the income mentioned before is considered as well, however, the variations of the risk adjustment impact positively (7) the results. Therefore, the result disclosed under IFRS 17 (8) are higher than the ones presented under IFRS 4.

4.7 Overview of the expected impacts

All the expected impacts assessed in terms of the financial statements were compiled into the following two tables in order to facilitate its visualization and comprehension.

Table 19.
Expected Impacts – Balance Sheet









Expected impacts of the implementation of IFRS 17 (balance sheet)		
Scenario	Insurance contract liabilities	Equity
Scenario 1 (introduction of a discount rate to measure the insurance contract liabilities)		
Scenario 2 (the risk adjustment- IFRS 17- is higher than the implicit allowance for risk- IFRS 4)		
Scenario 3 (the risk adjustment- IFRS 17- is lower than the implicit allowance for risk- IFRS 4)		
Scenario 4 (introduction of a risk adjustment to measure the insurance contract liabilities)		

Table 20.
Expected Impacts – Income Statement

Expected impacts of the implementation of IFRS 17 (Income Statement)		
Scenario	Claims and related expenses	Comprehensive Income
Scenario 1 (introduction of a discount rate to measure the insurance contract liabilities)	= (Equal in the subsequent years)	↘
Scenario 2 (the risk adjustment- IFRS 17- is higher than the implicit allowance for risk – IFRS 4)	↗	= (in line with the actual practice)
Scenario 3 (the risk adjustment- IFRS 17- is lower than the implicit allowance for risk– IFRS 4)	↘	↘
Scenario 4 (introduction of a risk adjustment to measure the insurance contract liabilities)	↗	↗

Chapter 6. Conclusion

The aim of this dissertation was to answer the following pre-defined objectives related to the measurement of non-life insurance contracts: assess the impact of the introduction of a discount rate to measure the insurance liabilities, understand the interaction between the implicit allowance for risk and the risk adjustment and evaluate the impact of adopting the risk adjustment. The research was exploratory. A case study method was used to answer the questions mentioned above. The case study was created considering the accounting practices, currently, used by the entities under IFRS 4 and the requirements presented in IFRS 17, that correspond to the practices that will need to be, mandatorily, implemented by the entities.

Regarding the introduction of a discount rate to measure the insurance contract liabilities, the results show that, in the balance sheet, the insurance contract liabilities are expected to be higher under IFRS 17 and consequently the equity will be lower. In the income statement, the values registered in terms of claims are similar under both standards since all the other variables considered in the analysis were similar. The comprehensive income is expected to decrease due to the discount factor.

In what concerns the interaction between the implicit allowance for risk and the risk adjustment, analysing the results it is possible to conclude that if the risk adjustment required under IFRS 17 is higher than the implicit allowance for risk under the current practice, the insurance contract liabilities are expected to be higher, therefore the equity is expected to decrease. In terms of the income statement, if this scenario occurs and as a result of the increase in the risk adjustment, the claims recognised are expected to be higher. However, the results are not expected to be significantly different from the ones presented nowadays. On the other hand, if the opposite scenario occurs, the risk adjustment is lower than the implicit allowance for risk, the insurance contract liabilities are

expected to be lower in the future, so the values registered in the equity will be higher. Analysing the income statement for this scenario, the claims and the related expenses are expected to be lower, and the results registered will also follow this tendency with the implementation of IFRS 17.

The results showed that when an entity starts to adopt a risk adjustment, the insurance contract liabilities tend to increase, and therefore the equity decreases. The claims are expected to be higher due to variations of the risk adjustment applied and the results presented are expected to be higher than the ones that are being currently presented under IFRS 4.

At this point, the companies affected by IFRS 17 are still improving their systems, analysing the standard requirements, transposing them to their reality, and assessing the (expected) impacts of the introduction of the standard. Thus, the case study presented could not be created with real inputs from an insurer/entity, and this can be considered a limitation to this dissertation.

From the point of view of the entities, particularly the ones that issue or hold non-life insurance contracts, the results obtained contribute to the understanding that the impacts of the introduction of IFRS 17 will mainly depend on the accounting policies choices that they made in the past. Based on that choice, there are entities that are going to be more impacted by the new standard, since they need to make more updates and reframe their entire processes, and there are entities that are going to be less affected because their current practice is more in line with IFRS 17. Therefore, they just need to make adjustments in accordance with the standard.

The literature review regarding the expected impacts of the introduction of IFRS 17 is not extensive. Thus, a suggestion for future research may be to assess the impacts once the standard is totally implemented in the entities affected. The research could start by understanding the practices that the entity was applying under IFRS 4 and then assess the impacts of the implementation of the new

standard. The valuation process will be slightly different since real data, real cash flows, and financial statements can be used.

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Appendix

Appendix 1 – Defined terms

Coverage period - The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract

Insurance contracts - 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

Liability for incurred claims - An entity's obligation to: (a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and (b) pay amounts that are not included in (a) and that relate to: (i) insurance contract services that have already been provided; or (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage

Liability for remaining coverage - An entity's obligation to: (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (ie the obligation that relates to the unexpired portion of the insurance coverage); and (b) pay amounts under existing insurance contracts that are not included in (a) and that relate to: (i) insurance contract services not yet provided (ie the obligations that relate to future provision of insurance contract services); or (ii) any investment components or other amounts that are not related

to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.

Risk adjustment for non-financial risk - The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.