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Nicholas Actuarial Solutions

IFRS 17 Webinar 2021 – Persatuan Aktuaris Indonesia

Measurements in IFRS 17 – General Insurance

Session 1 : Liability for Incurred Claims

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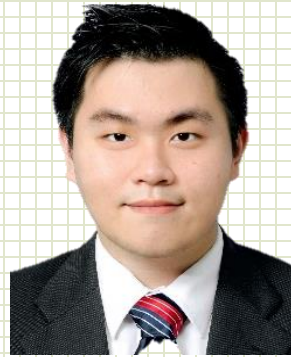
Presenters

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All Sessions

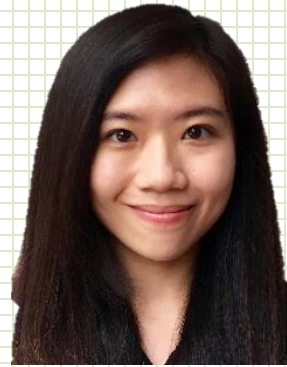


Nicholas Yeo
FIA FASM FSA FSAS
Founder & Actuary



Billy Tanuwijaya
Actuarial Analyst

Session 1



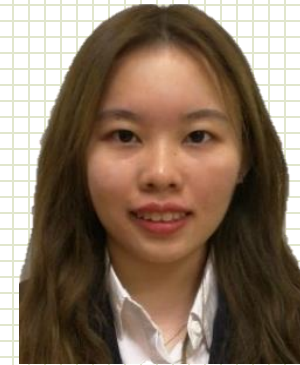
Kok Ming Wei
Actuarial Analyst

Session 2



Chong Wai Chung
Actuarial Analyst

Session 3

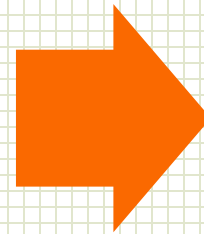


Jessie Leong
Actuarial Analyst

IFRS 17 (PSAK 74 Objective)

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“Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts”



Replace the currently implemented IFRS 4 (PSAK 62) starting in 2025

Comparing IFRS 4 & IFRS 17

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Current (IFRS 4)	
Asset	Liability
Investment	Benefits reserve
Deferred acquisition costs	Unearned premium reserves
Insurance receivables (net of provision for insurance doubtful debts)	Claim liabilities
Reinsurance assets	Other payables

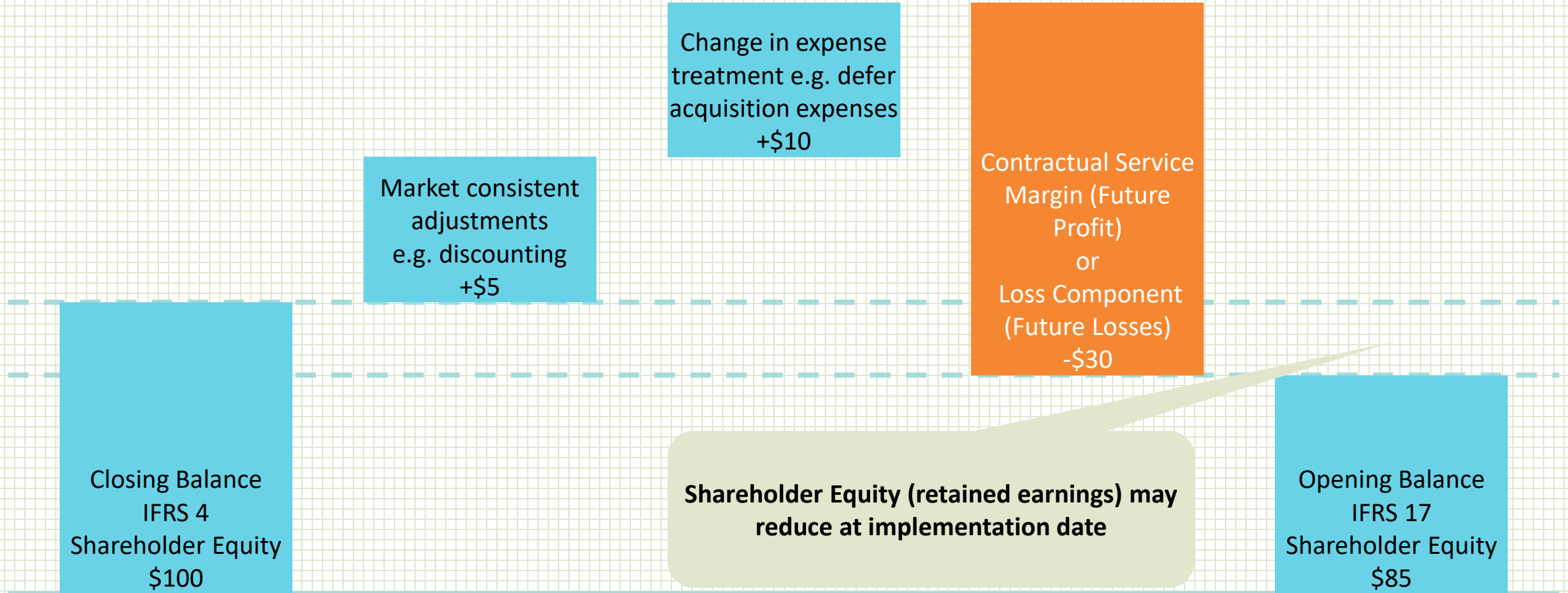
Future (IFRS 17)	
Asset	Liability
Investment	Liabilities for remaining coverage
Reinsurance contract assets	Liabilities for incurred claims
	Payables

IFRS 17 introduces single, revenue recognition principle to reflect insurance services provided/received (layman's term).

*This is an abridged version of Statement of Financial Position

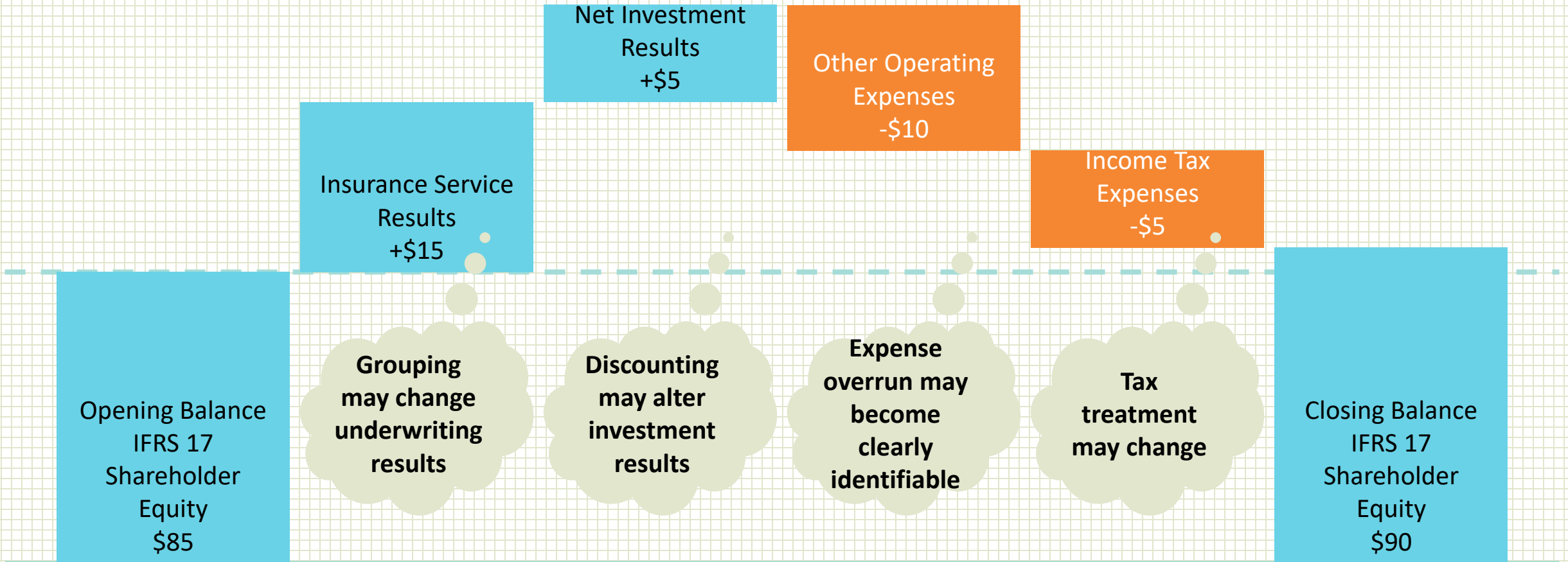
What will happen in Day 1?

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What will happen in Year 1?

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IFRS 17 Scope

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Webinar
Focus



Combination &
Separation

- Combining several related contracts into 1 set of insurance contract OR separating components of an insurance contract and measuring them separately (e.g. investment/service component)

Level of Aggregation

- Division of a portfolio of insurance contracts by profitability (onerous/profitable) and issued year (1 year apart)

Recognition

- When to start recognizing insurance contracts for measurement

Measurement

- Measure the liability of insurance contracts (liability of incurred claims + liability of remaining coverage)

Modification &
Derecognition

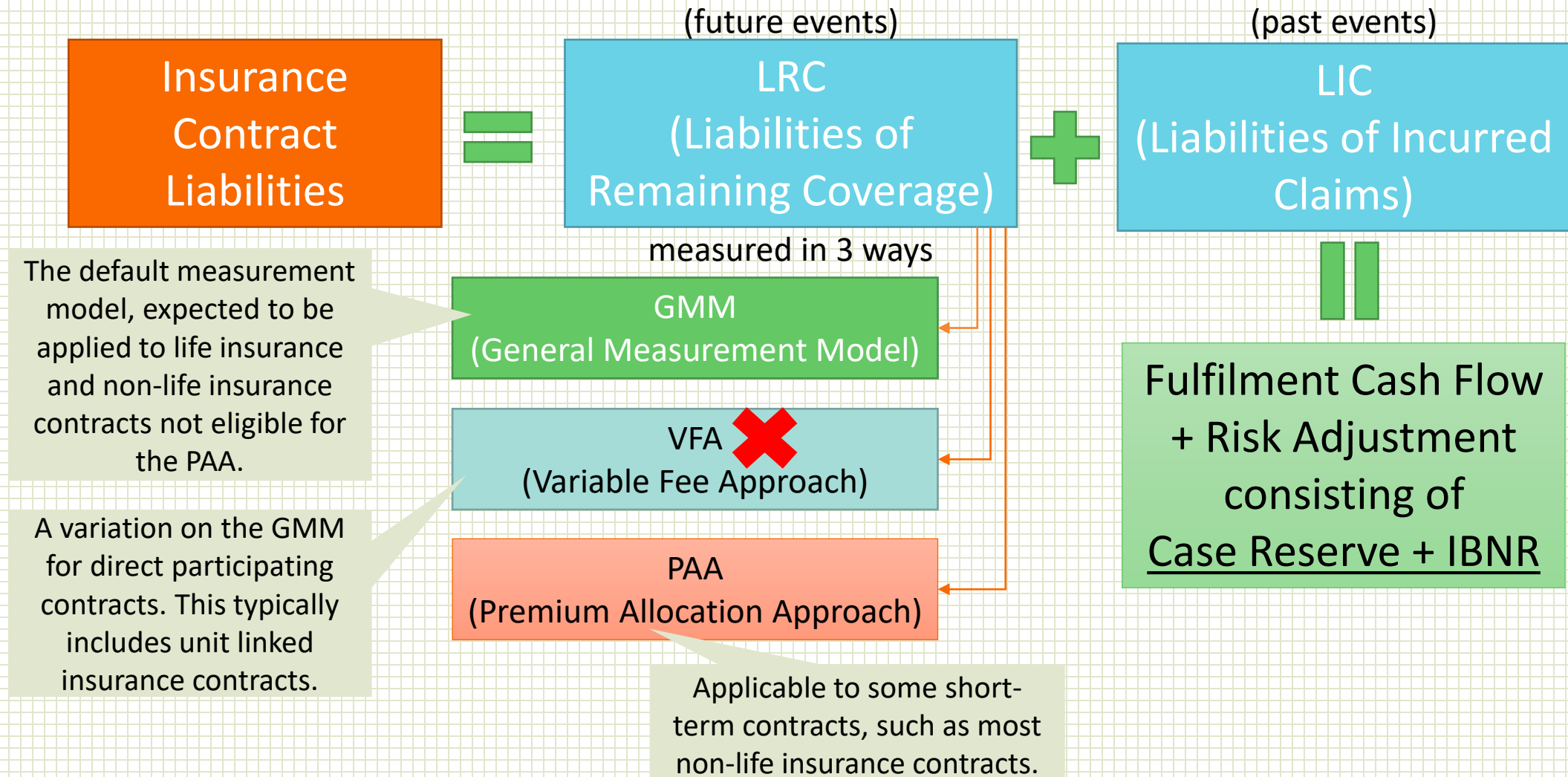
- How to treat an insurance contract with modified term AND how & when to derecognize an insurance contract

Presentation &
Disclosure

- Present the measurement result & disclose the details in the financial statement

Insurance Contract Liabilities Component

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Measurement Components

Measurement Components	Session 1 LIC	Session 2 LRC GMM	Session 3 LRC PAA
Present Value of Future Cash Flow (PVFCF)	✓	✓	
Risk Adjustment (RA)	✓	✓	
Contractual Service Margin (CSM)		✓	
Loss Component (LC)		✓	✓
Insurance Revenue (IR)		✓	✓
Insurance Service Expense (ISE)	✓	✓	✓
Insurance Finance Income/Expense (IFIE)	✓	✓	✓

Learning Outcome

At the end of the webinar courses, participants shall be able to:

1. Calculate LIC

2. Prepare LIC Account

Session 1

3. Calculate LRC using GMM

4. Prepare LRC Account using GMM

Session 2

5. Calculate LRC using PAA

6. Perform PAA eligibility test

7. Prepare LRC Account using PAA

Session 3

Spreadsheet Samples (1)

LIC Account for 1 Transaction Entry

Scenario 1 : No claim is reported between t=0 and t=1 of the coverage period.

Premium Register		Ultimate Loss Ratio		60%		LIC account (as at 30.6.2021)		LIC account (as at 31.12.2021)	
Entry	Premium	Journal Entry				LIC Opening Balance	0	LIC Opening Balance	0
Date	1/1/2021	Account Type	Description	Debit	Credit	Insurance Service Expense		Insurance Service Expense	
Amount	100					Current Claims Unpaid		Current Claims Unpaid	
		As at 30.06.2021 :				Change in Past Future Claims		Change in Past Future Claims	
		Expenses	Insurance Service Expense - Current	0	0	Cashflow		Cashflow	
		Liability	LIC	0	0	Claims paid		Claims paid	
		As at 31.12.2021 :				LIC Closing Balance	0	LIC Closing Balance	0
		Expenses	Insurance Service Expense - Current	0	0				
		Liability	LIC	0	0				
		AND							
		Expenses	Insurance Service Expense - Past	0	0				
		Liability	LIC	0	0				
		AND							
		Asset	Cash	0	0				
		Liability	LIC	0	0				

Spreadsheet Samples (2)

LIC Account for Whole Portfolio

Prepare the LIC Account

1. Start with the Opening Balance from the Closing Balance of the previous period.
2. Fill up the Current Service with results from Step 6.
3. Fill up the Change in Past Service with results from Step 4.
4. Fill up the Interest Accretion with results from Step 3.
5. Fill up the Change in Discount Rate with results from Step 2.
6. Fill up the Cash Flows with results from Step 5.
7. Fill up the Closing Balance with results from Step 1.
8. Sum the entries for PVFCF and RA to check against the Closing Balance (Reconciliation)

Prepare the Journal Entries and Postings

1. Prepare the journal entries using the calculations from steps 1 to 6.
2. Post the journal entries into the income statement and balance sheet

LIC Account (as at 31.12.2020)								
Accident Year	2014	2015	2016	2017	2018	2019	2020	Total
LIC Opening Balance	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-
Insurance Service Expense	-	-	-	-	-	-	-	-
Current Service	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-
Change in Past Service	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-
Insurance Finance Income or Expense	-	-	-	-	-	-	-	-
Interest Accretion	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-
Change in Discount Rate	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-
Cash Flows	-	-	-	-	-	-	-	-
Claims								-
LIC Closing Balance	-	-	-	-	-	-	-	-
Present Value Future Cash Flows								-
Risk Adjustment								-

Journal Entry				
Account Type	Description	Description 2	Debit	Credit
1.1.2020 to 31.12.2020 :				
Expenses	Insurance Service Expense	Current Service PVFCF		
Liability	LIC	Current Service PVFCF		
Expenses	Insurance Service Expense	Current Service RA		
Liability	LIC	Current Service RA		
Expenses	Insurance Service Expense	Change in Past Service PVFCF		
Liability	LIC	Change in Past Service PVFCF		
Expenses	Insurance Service Expense	Change in Past Service PVFCF		
Liability	LIC	Change in Past Service PVFCF		
Expenses	Insurance Finance Expense	Interest Accretion PVFCF		
Liability	LIC	Interest Accretion PVFCF		
Expenses	Insurance Finance Expense	Interest Accretion RA		
Liability	LIC	Interest Accretion RA		
Expenses	Insurance Finance Expense	Change in Discount Rate PVFCF		
Liability	LIC	Change in Discount Rate PVFCF		
Expenses	Insurance Finance Expense	Change in Discount Rate RA		
Liability	LIC	Change in Discount Rate RA		
Asset	Cash	Claims Paid		
Liability	LIC	Claims Paid		

Income Statement (01.01.2020 to 31.12.2020)		
Expenses		Revenue
Insurance Service Expense		Insurance Revenue
Current Service		
Past Service		
Insurance Finance Expense		
Interest Accretion		
Change in Discount Rate		
Other Expenses		Other Income
Total Expenses	-	Total Revenue
Profit / (Loss)	-	

Balance Sheet (as at 31.12.2020)		
Assets		Liabilities
Cash		LIC

Liability for Incurred Claims

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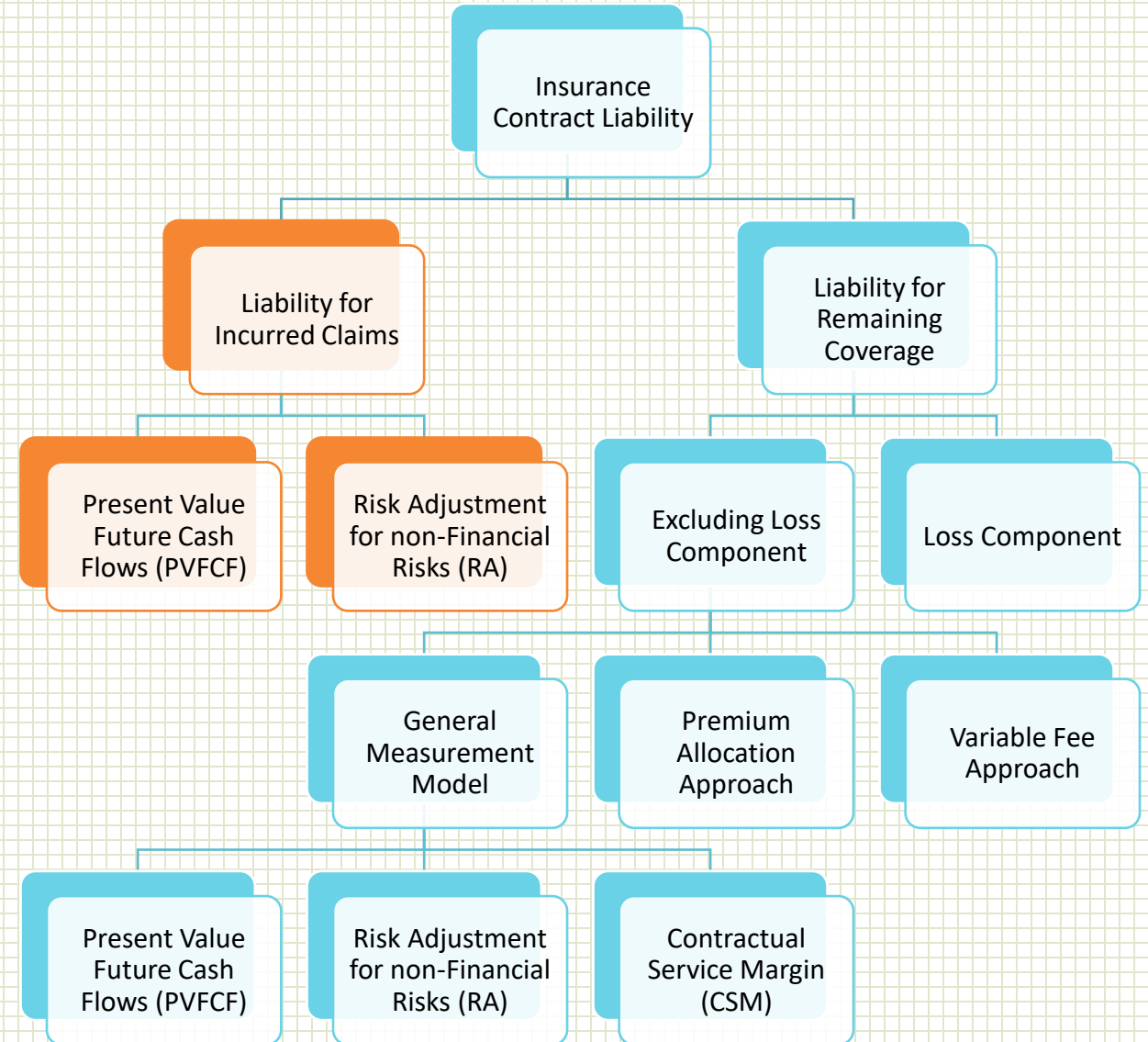
Future cash flows – explicit, unbiased, probability weighted, current estimates of future cash outflows minus future cash inflows

Risk adjustment – uncertainty about the amount and timing of the cash flows from non-financial risk

Present value – discounting at current interest rates (if settlement is within one year, can opt for no discounting)

Disclosure requirements include:

- Split by PVFCF and RA
- Split by current service and past service
- Insurance finance income and expenses (interest accretion and change in discount rate, especially if the OCI option is selected)
- Cash flows



Definition of LIC from IFRS 17

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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.

Subsequent Measurement for LIC

Paragraph 42 of IFRS 17

An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for incurred claims:

- a. insurance service expenses—for the **increase in the liability because of claims and expenses incurred in the period**, excluding any investment components;
- b. insurance service expenses—for any **subsequent changes in fulfilment cash flows** relating to incurred claims and incurred expenses; and
- c. insurance finance income or expenses—for the effect of the **time value of money and the effect of financial risk** as specified in paragraph 87.