Knowledge Sharing

“IFRS”

Nov 9, 2017

ACCOUNTING STANDARDS UPDATE

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Timeline

1 Jan 2019

Start of TFRS 9 adoption with 2 options for insurance companies

- Overlay approach
- Deferral approach

1 Jan 2021

Start of comparative reporting period

1 Jan 2022

Start of TFRS 9 & TFRS17 adoption reporting period

2019-2021: Adopt IFRS 4 with **the Guidance** of Financial Instruments

2021: Comparative reporting period

2022: First year of TFRS 9 & TFRS 17 adoption

IFRS 9: Financial Instruments

IASB project on Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments on 24 July 2014 covering 3 areas below.

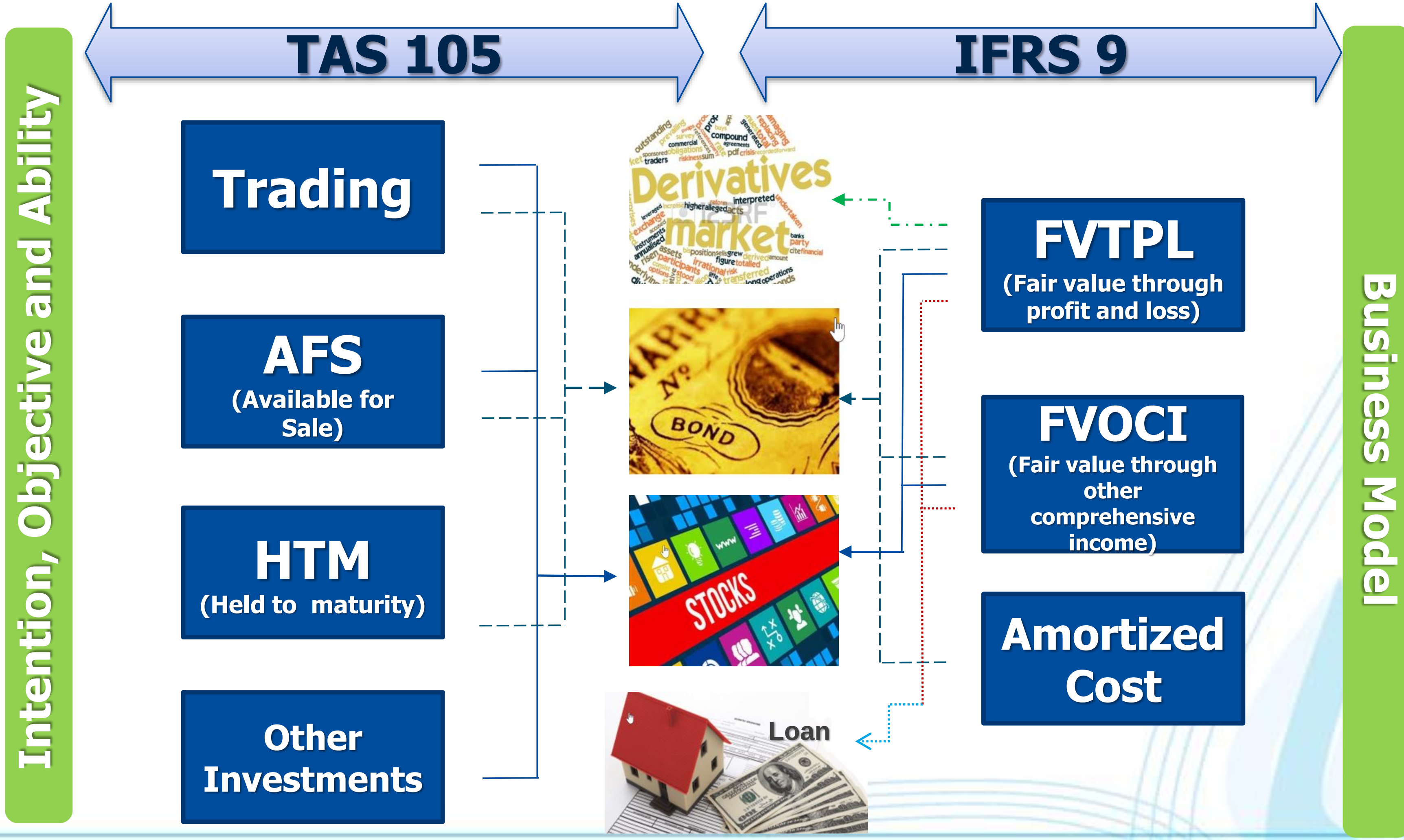
Macro hedge accounting is a separate project and still in process.

Classification and Measurement	
Impairment	
General Hedge Accounting	
Macro Hedge Accounting	Separate project

Source: IFRS

Classification

- Consider business model and contractual cash flow, not intention of holding
- Extend the scope of asset (from Investment assets to Financial instruments)



Measurement

- FV base
- SPPI Test
- Policy choice for ALM

- Non recycling to profit and loss for equity instrument which classified as FVOCI

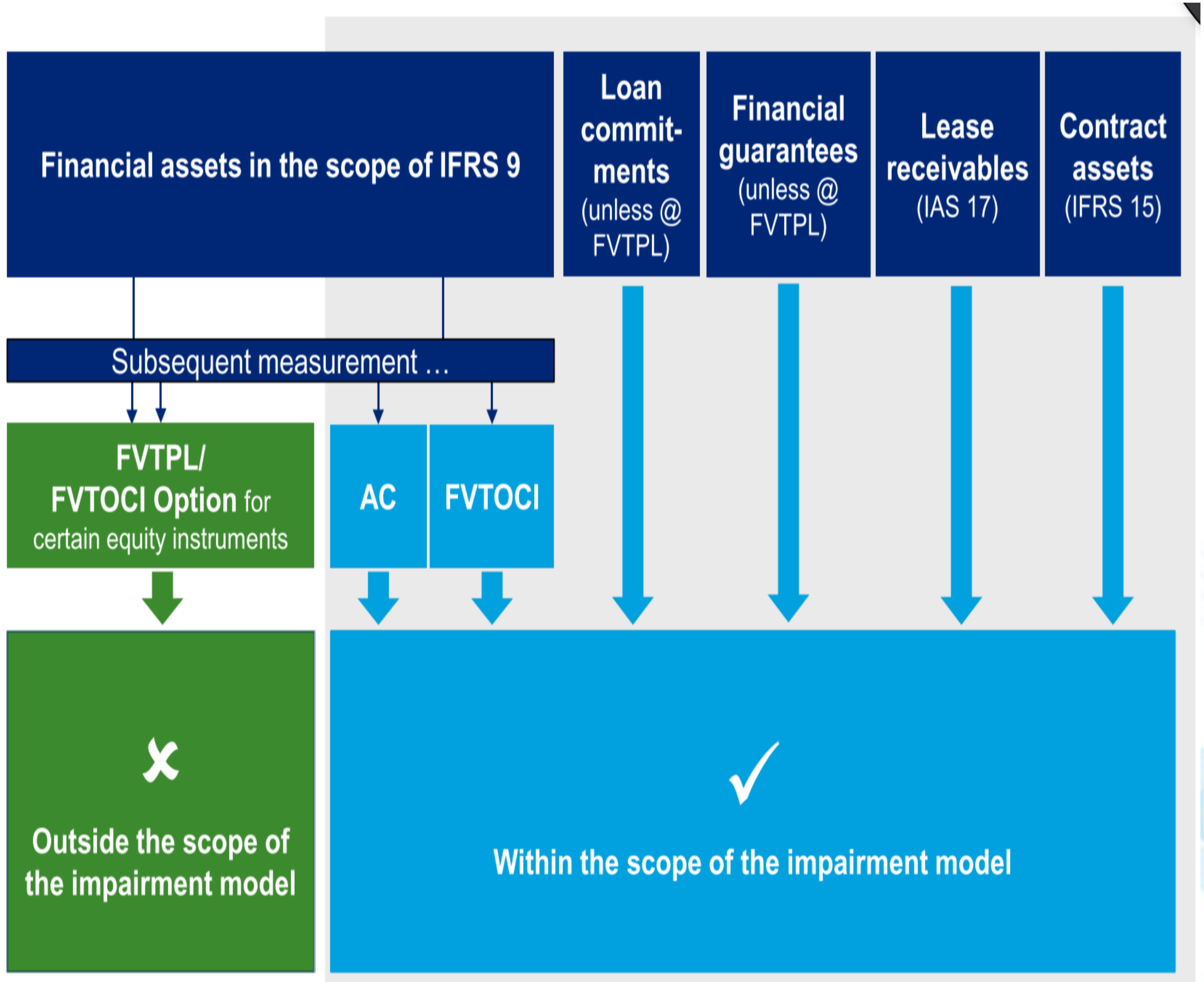
- Taxable income reconciliation for non-recycling of equity

- Tax treatment for unrealized gain/loss of FVTPL

TAS 105			IFRS 9	
Gain => Non Taxable Loss => Taxable	Trading	FV changed in PL	FVTPL	Need to be finalized
Taxable		Realized Gain/ loss from sale		Taxable
Not subject to income	AFS	FV changed in OCI	FVOCI	Not subject to income tax
Recycling and Taxable		Realized Gain/loss from sale: Debt		Recycling and Taxable
Recycling and Taxable		Realized Gain/loss from sale: Equity		Non-Recycling but Taxable
Taxable	HTM	Premium/ Discount Amortization	Amortized Cost	Taxable
Taxable		Realized Gain/ loss from sale		Taxable

Impairment

- Single standard for impairment for Financial assets
- No impairment for equity instrument classified as FVOCI
- Financial assets classified as FVTPL are not in the scope of impairment



Source: Deloitte

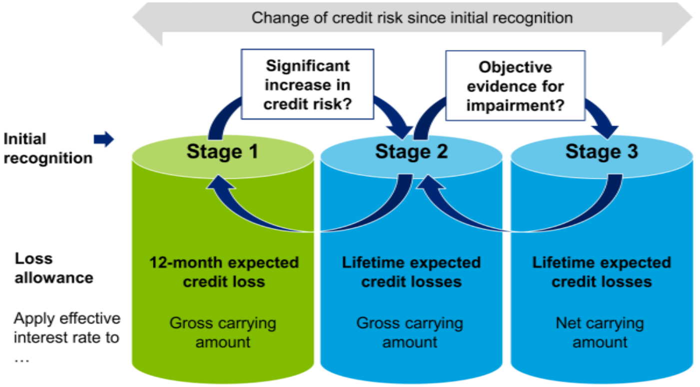
Impairment

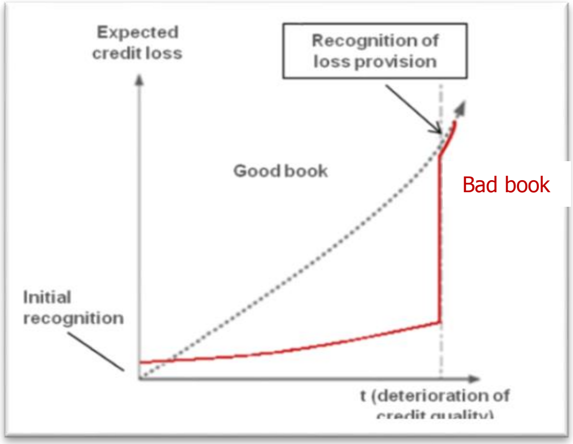
- Changing to "Expected loss" concept
- Day one impact to financial statements
- Expected loss concept is not in line with tax rule.

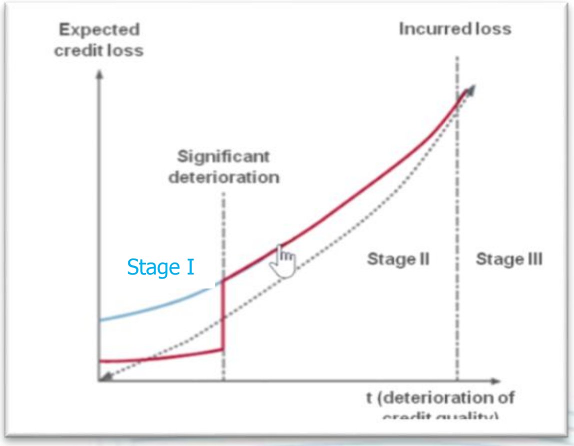
Incurred loss

Financial assets	Impairment criteria
Debt: HTM	It is probable that the investor will be unable to collect amounts due according to the contractual terms of a debt security.
Debt/Equity: AFS	The impairment should be supported by evidence, for example, the issuer's creditworthiness.
Equity: Other investment	Referred to TAS 36
Loan	Referred to TAS 101 which is based on loss experience

Expected loss







Impairment is treated as taxable expense according to the criteria of Ministerial Regulations (กฎกระทรวง) No. 186

Tax treatment needs to be finalized

Hedge Accounting

- Single principle for recording hedge transactions
- Decreased volatility in recording hedge transaction
- Hedge accounting is not in line with tax rule (mid rate vs. bid:asset/ask:liability).

Various practice

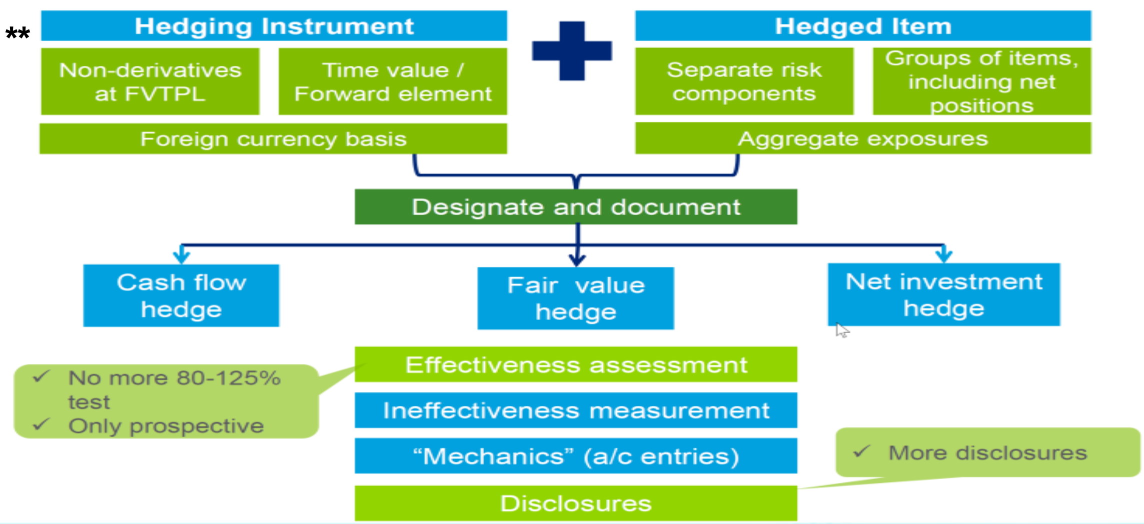
In Thailand, we currently do not have accounting standard related to hedge accounting. Each company decided to select one of the following choices.

IAS 39	Accrual basis (In line with tax rule)	No record

Accrual Basis:
Gain/loss on exchange is treated as taxable income/ expense according to the criteria of Por. 68

(This rule causes gap between bid/offer spread.)

IFRS 9



Tax treatment needs to be finalized.

Source: **Deloitte

IFRS 17: Insurance contracts

The changes could significantly affect insurer's

- Profitability patterns
- Volatility of financial results and equity
- Level of transparency about profit drivers
- Equity levels

1 IFRS 17 *Insurance Contracts*

One
accounting model for all insurance contracts in all IFRS jurisdictions

2 Who is affected?

450
listed insurers using IFRS Standards

$13 trillion
total assets of those listed insurers

3 When?

2021
mandatory effective date of the new Standard

3.5
years for companies to implement the new requirements

4 What changes?

More
useful and transparent information

Better
information about profitability

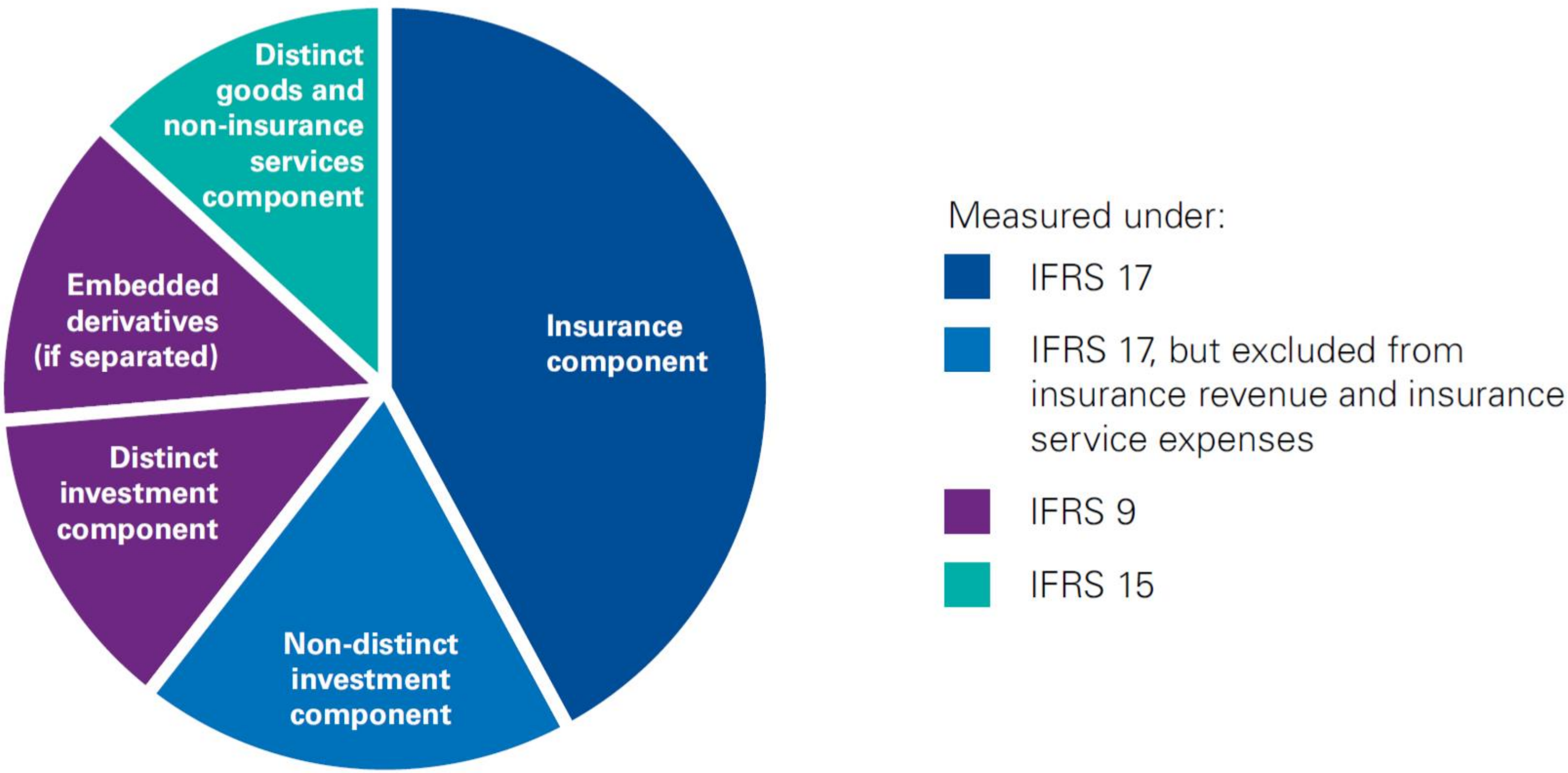
5 How did we get feedback?

600
comment letters

900
meetings, roundtables and discussion forums

Source: IFRS fact sheet / KPMG

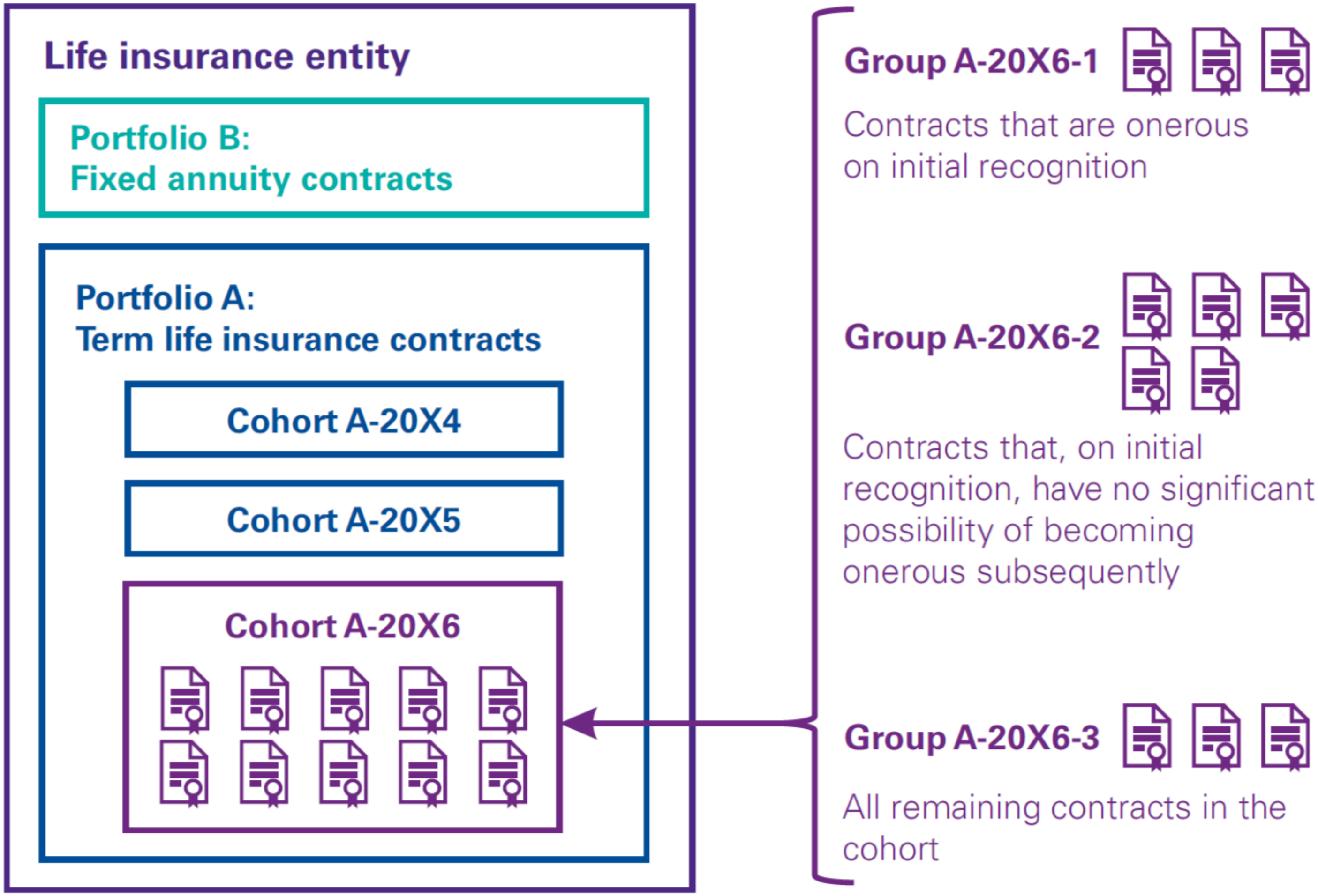
Separate component of insurance contract



Source: IFRS 17 First impression, KPMG

Unit of account

Level of aggregation



Source: IFRS 17 First impression, KPMG

Measurement model
Insurance contracts

Building Block Approach: BBA	Default approach (General model)	Majority of our life insurance product
Premium Allocation Approach: PAA	Optional for short-term product (Simplified model)	Allow for rider
Variable Fee Approach: VFA	Benefits are tied to underlying item (Required if certain criteria are met)	PAR / Investment-linked product

Building Block Approach ('BBA')

Overview measurement at inception

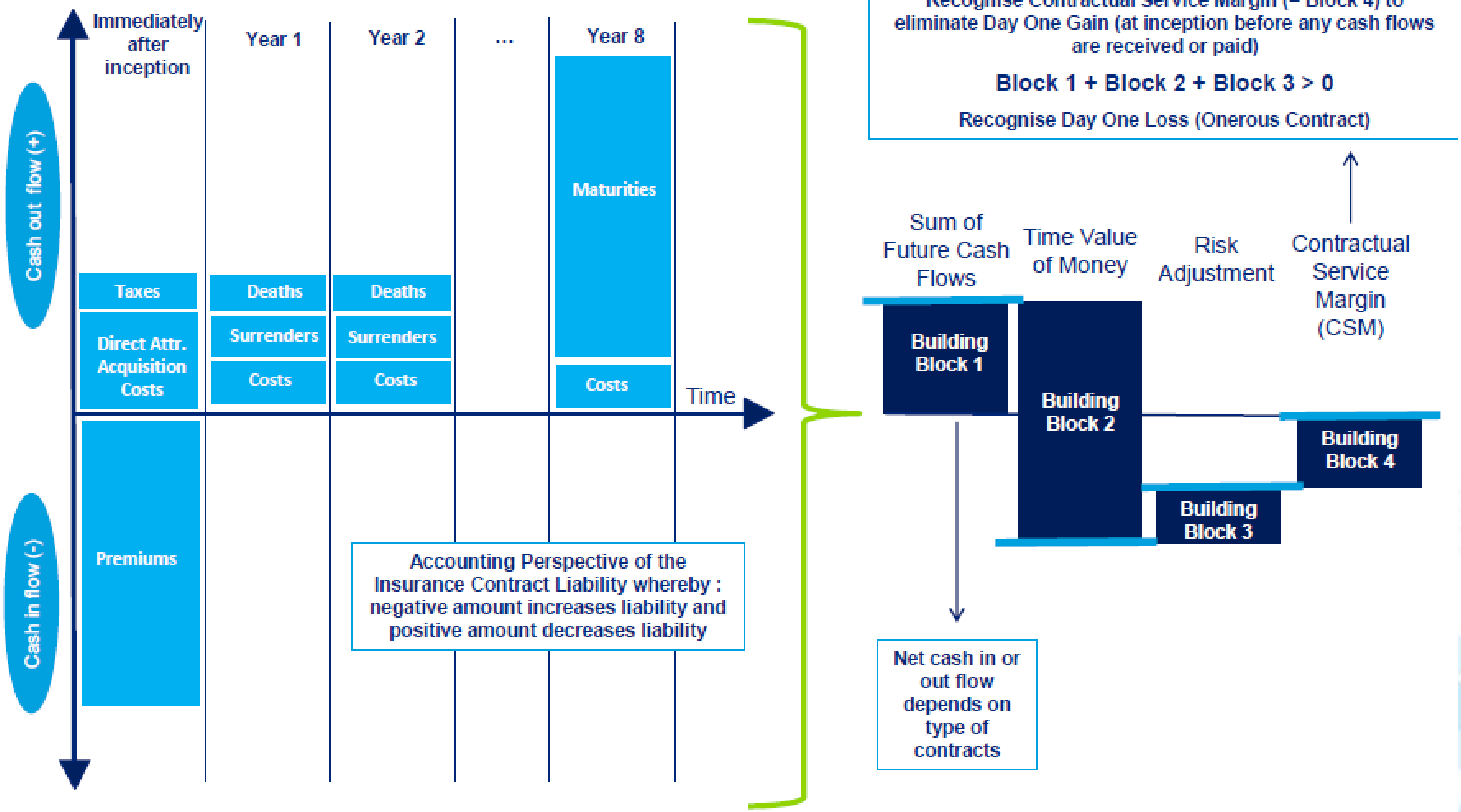
Balance Sheet Liability

Block 1 + Block 2 + Block 3 < 0

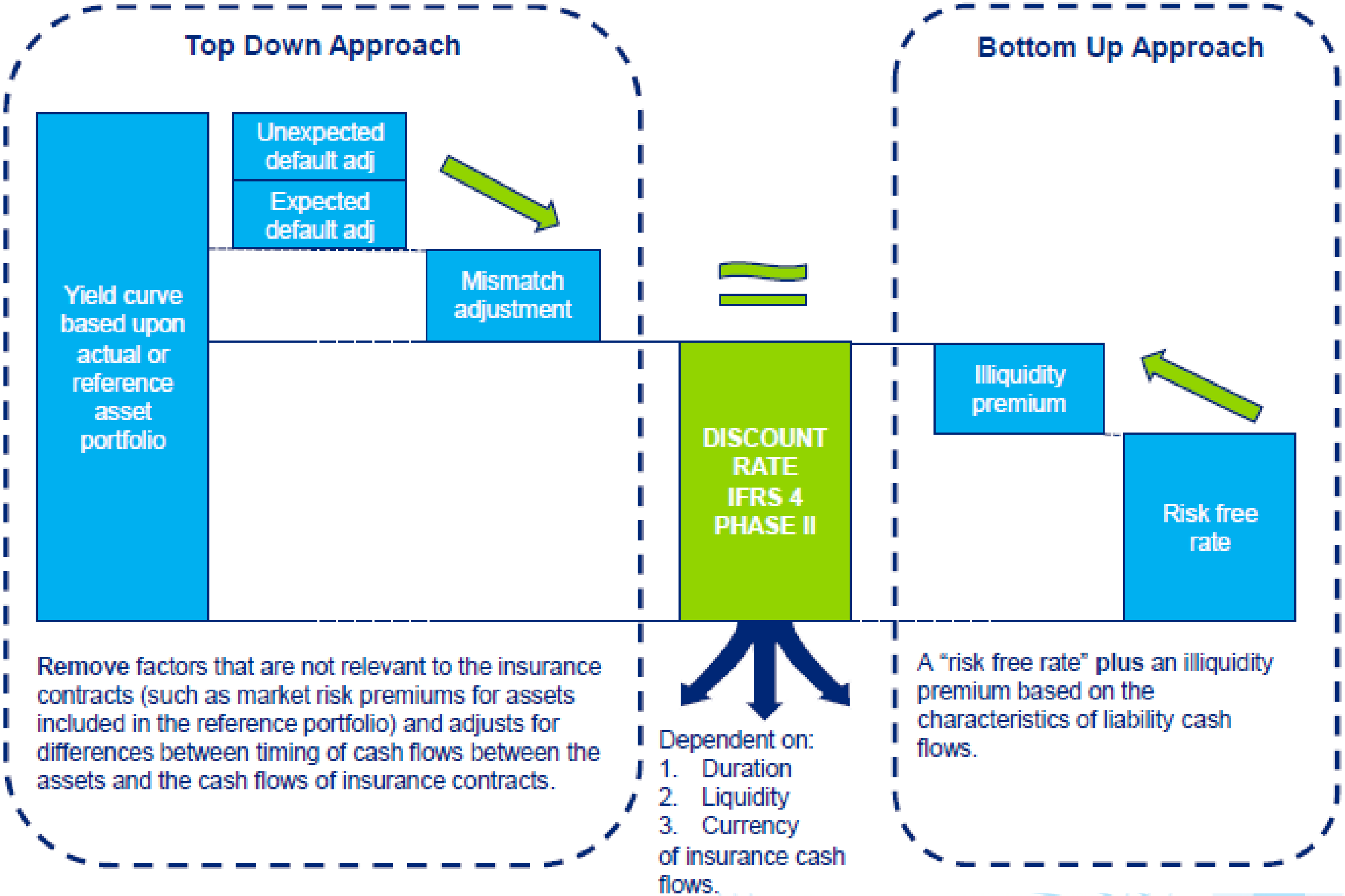
Recognise Contractual Service Margin (= Block 4) to eliminate Day One Gain (at inception before any cash flows are received or paid)

Block 1 + Block 2 + Block 3 > 0

Recognise Day One Loss (Onerous Contract)

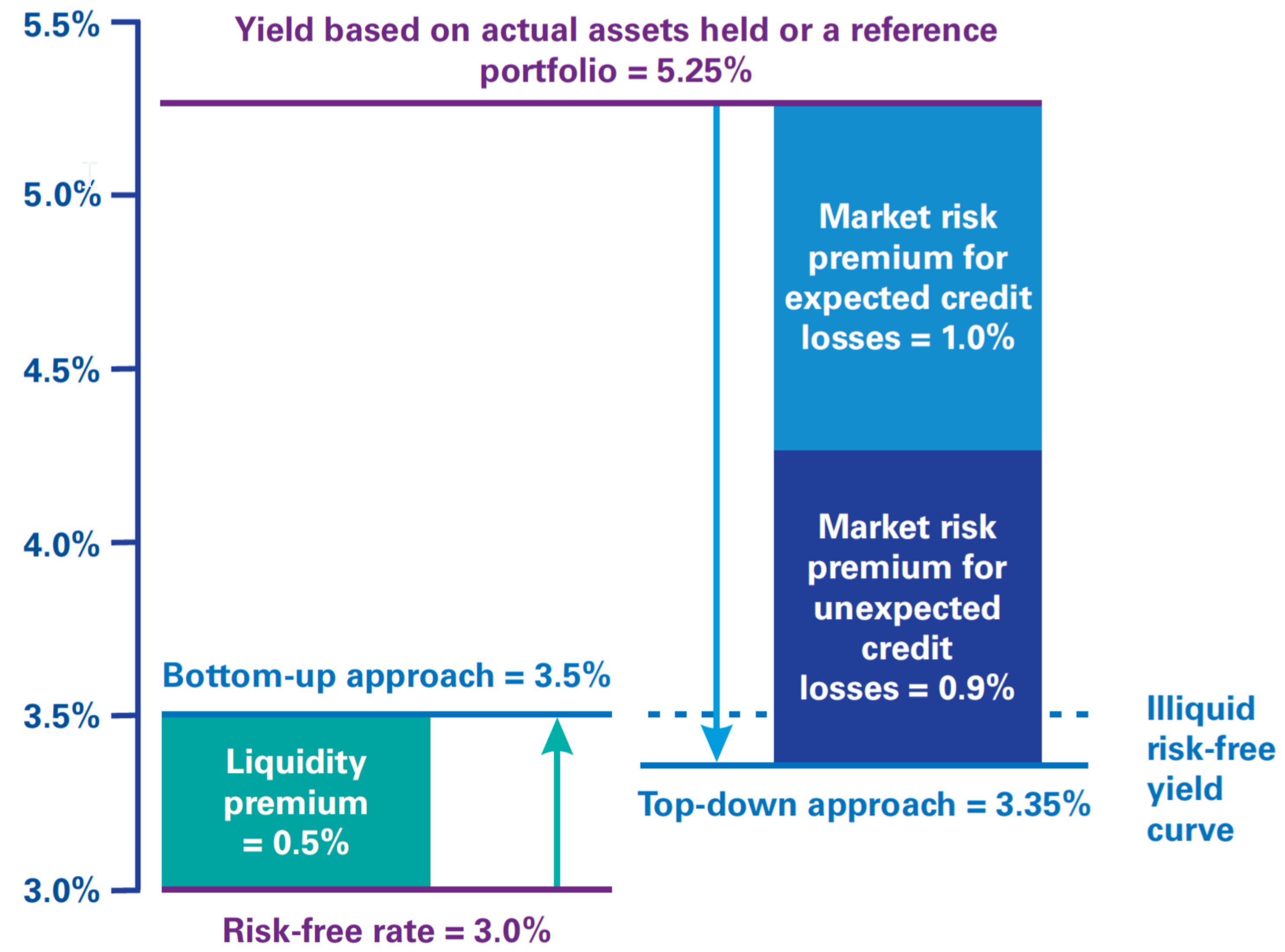


Top Down & Bottom up approach



Source: IFRS 4 (Phase II) for Insurance contract, Deloitte

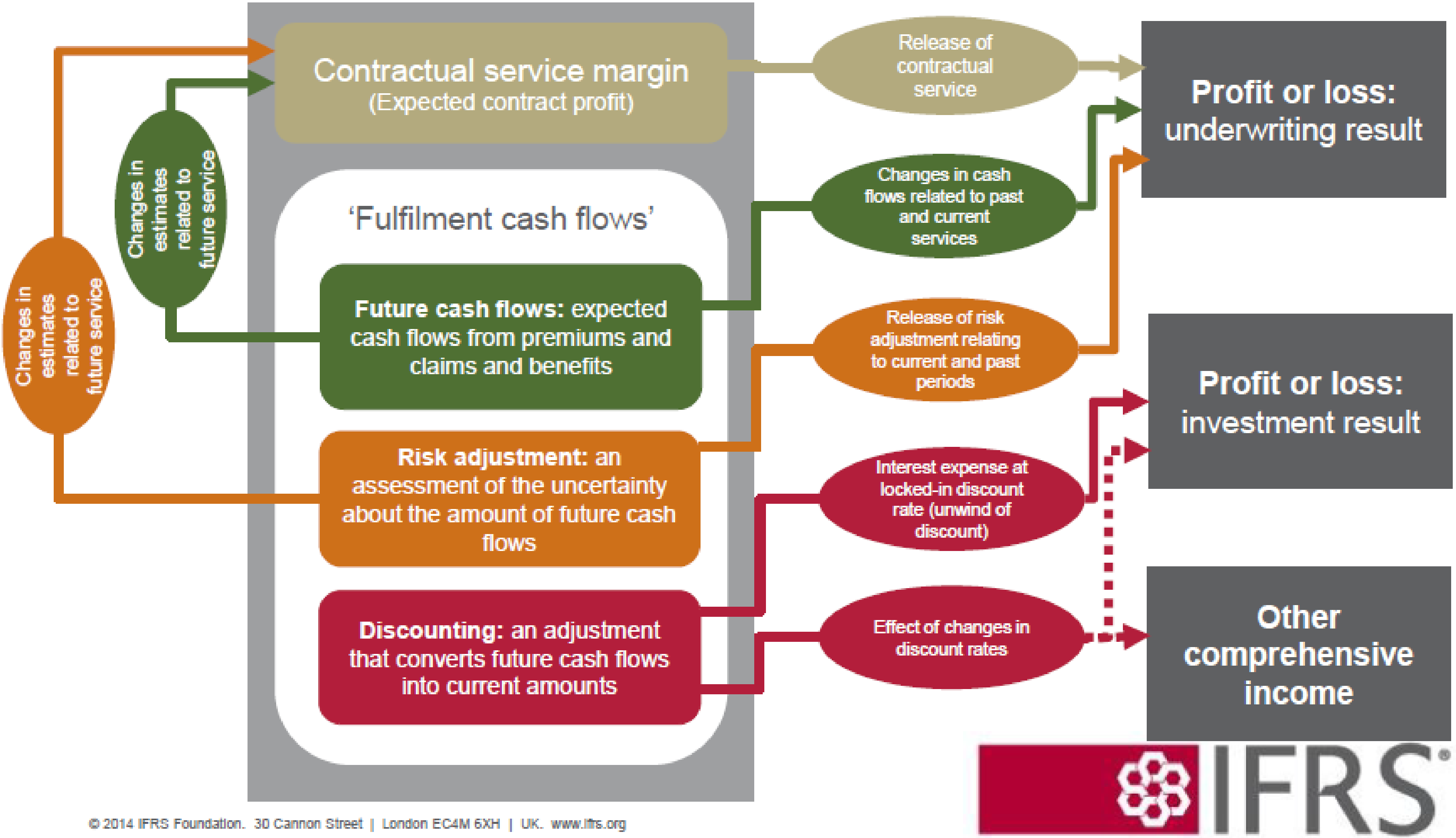
Example bottom-up and top-down approach



Source: IFRS 17 First impression, KPMG

Changes in estimates

Non-participating contracts



Significant change in PL

- No premium reporting in PL but disclosed in notes to financial statements
- Separately present the insurance margin and finance margin
- More transparency of profit and better information for source of profit

IFRS 4	IFRS 17	Key changes
Premiums	Insurance revenue	- Insurance revenue excludes deposits - Revenue and expense are recognised as earned or incurred - Insurance finance expense is excluded from insurance service result and is presented (i) fully in P/L or (ii) in P/L and OCI, depending on accounting policy - Written premiums disclosed in the notes
Investment income	Incurred claims and expenses	
Incurred claims and expenses	**Insurance service result**	
Change in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expense	
	Net financial result	
	Profit or loss	
	Discount rate changes on insurance liability *(optional)*	
	Total comprehensive income	

Source: KPMG

PL Illustration between IFRS 4 & 17

- Premium (IFRS 4) is not equal to Insurance revenue (IFRS 17) due to the effect of time value of money.
- The effect of discounting is reported as 'Insurance finance expense' (IFRS 17) rather than within 'change in reserve' (IFRS 4). This will provide the clearer depiction of the effects of investment and the market interest rate.
- New standard cannot apply the up to 65% of net premium rule for taxation purpose (no premium, no reserve and separate recognition of insurance finance expense).

IFRS 4	Year 1	Year 2	Year 3	Years 4-19	Year 20	Total
Premiums	5,000	-	-	-	-	**5,000**
Investment income	250	236	223	2,124	86	**2,919**
Incurred claims	(520)	(504)	(487)	(4,605)	(36)	**(6,152)**
Change in insurance contract liabilities	(4,644)	354	351	3,901	38	**-**
Profit or loss	**86**	**86**	**87**	**1,420**	**88**	**1,767**
Other comprehensive income	-	-	-	-	-	**-**
Comprehensive income	**86**	**86**	**87**	**1,420**	**88**	**1,767**

This table illustrates a common method of presentation in the statement of comprehensive income for a group of contracts when applying IFRS 4. Because of the wide variety of practices to account for insurance contracts when applying IFRS 4, the presentation in this table might not be representative of any specific practice of a company or jurisdiction.

IFRS 17	Year 1	Year 2	Year 3	Years 4-19	Year 20	Total
Insurance revenue	550	534	516	4,946	39	**6,585**
Incurred claims and other expenses	(520)	(504)	(487)	(4,605)	(36)	**(6,152)**
Insurance service result	**30**	**30**	**29**	**341**	**3**	**433**
Investment income	250	236	223	2,124	86	**2,919**
Insurance finance expenses	(191)	(177)	(163)	(1,052)	(2)	**(1,585)**
Net financial result	**59**	**59**	**60**	**1,072**	**84**	**1,334**
Profit or loss	**89**	**89**	**89**	**1,413**	**87**	**1,767**
Other comprehensive income	-	-	-	-	-	**-**
Comprehensive income	**89**	**89**	**89**	**1,413**	**87**	**1,767**

Source: IFRS (Effect analysis: May 2017)

Presentation

Presentation

Illustrative example

IFRS STATEMENT OF PROFIT OR LOSS AND OCI	1	2	3	4	5	6	7	8
Insurance contract revenue	91.512	88.673	85.854	83.337	80.003	76.982	73.963	70.950
Expected claims	10.348	9.700	9.031	8.330	8.235	7.392	6.513	5.601
Allocation of the premium to recover directly acquisition costs	28.595	27.508	26.452	25.426	24.430	23.462	22.521	21.606
Allocation of the premium to recover fulfilling contract costs	9.795	9.593	9.396	9.202	9.871	9.647	9.427	9.211
Provided services (release of the contractual service margin)	41.621	40.723	39.828	39.235	36.325	35.341	34.364	33.393
Change in risk adjustment	1.153	1.150	1.147	1.144	1.142	1.140	1.139	1.139
Incurred claims	-10.348	-9.700	-9.031	-9.163	-8.235	-7.392	-6.513	-5.601
Unexpected change in insurance liability (profit sharing)	4.218	4.420	4.168	4.666	2.559	1.418	626	0
Losses at initial recognition and changes of onerous contracts	0			0				
Operational cost	-39.390	-38.101	-36.848	-36.527	-35.301	-34.108	-32.947	-31.817
Directly attributable acquisition costs	-28.595	-27.508	-26.452	-25.426	-24.430	-23.462	-22.521	-21.606
Other directly attributable costs	-9.795	-9.593	-9.396	-10.101	-9.871	-9.647	-9.427	-9.211
Non-attributable costs	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
UNDERWRITING RESULT	**45.992**	**45.292**	**44.143**	**42.313**	**39.025**	**36.900**	**35.130**	**33.532**

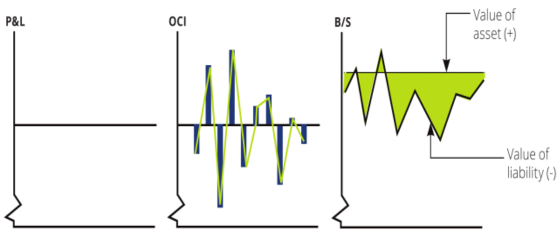
Source: IFRS 4 (Phase II) for Insurance contract, Deloitte

IFRS 9 & IFRS 17

Accounting choice for Asset-Liability Management to manage volatility resulting from the market interest rate

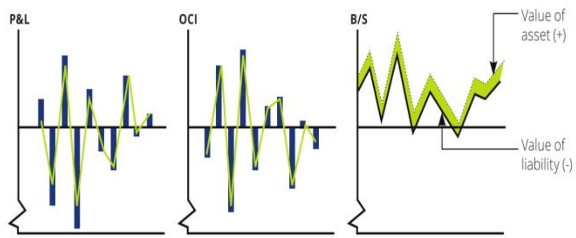
1 Amortised cost (assets) /OCI option (liabilities)

- Value of liability changes as a result of impact of changes in interest rate on the discount rate (change goes through OCI)
- Account value of asset not affected by interest rate movements (although impacted by amortisation/impairment)



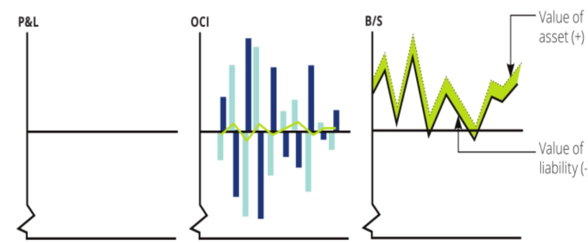
2 Fair value through P&L (assets)/ OCI option (liabilities)

- Change in value of asssets (as a result of changing interest rates) to P&L
- Change in the value of liabilities (discount rate) to OCI
- Impacts largely offset in balance sheet, but mismatch in P&L and OCI



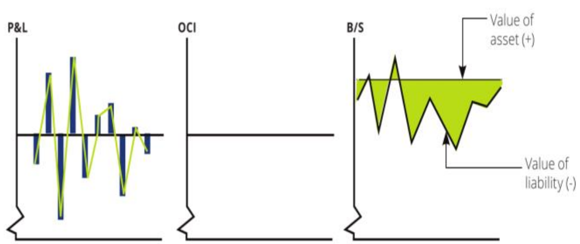
3 Fair value through OCI (assets)/OCI option (liabilities)

- Change in value of asssets (as a result of changing interest rates) to OCI
- Change in the value of liabilities (discount rate) to OCI
- Impacts largely offset in balance sheet and OCI, minimal mismatch



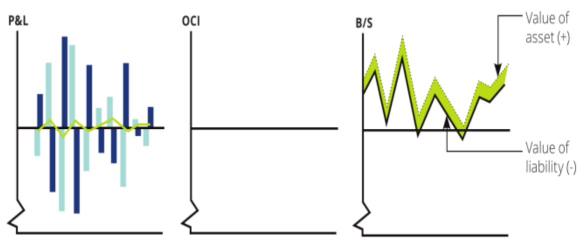
4 Amortised cost (assets)/P&L option (liabilities)

- Value of liability changes as a result of impact of changes in the interest rate on the discount rate (change goes through P&L)
- Accounting value of asset not affected by interest rate movements (although impacted by amortision/impairment)



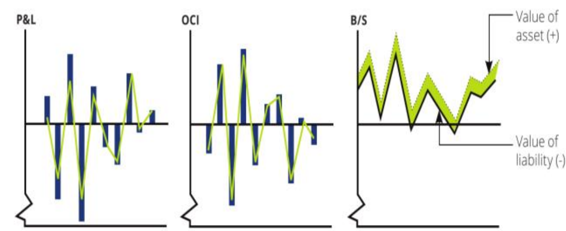
5 Fair value through P&L (assets)/ P&L option (liabilities)

- Change in value of assets (as a result of changing interest rates) to P&L
- Change in the value of liabilities (discount rate) to P&L
- Impacts largely offset in P&L and balance sheet, minimal mismatch



6 Fair value through OCI (assets)/P&L option (liabilities)

- Change in value of assets (as a result of changing interest rates) to OCI
- Change in the value of liabilities (discount rate) to P&L
- Impacts largely offset in balance sheet, but mismatch in P&L and OCI



Source: Deloitte (IFRS 17 & IFRS 9 I Bridging the GAP)

IFRS 17 Balance sheet

- Most of items are required to include for presenting in the single line of insurance contract assets and liabilities.
- Separately present reinsurance contract assets and liabilities
- Require more and more disclosure

Presentation of insurance contracts				
	IFRS 4		IFRS 17	
⇔	**Insurance contract liabilities**	Typically presented separately	**Insurance contract liabilities**	No change in presentation compared with IFRS 4
⇔	**Reinsurance contract assets**	Typically presented separately	**Reinsurance contract assets**	No change in presentation compared with IFRS 4
✓	**Insurance contract assets**	Typically netted with insurance contract liabilities	**Insurance contract assets**	Presented separately on the balance sheet
✓	**Reinsurance contract liabilities**	Typically netted with reinsurance contract assets	**Reinsurance contract liabilities**	Presented separately on the balance sheet
✗	**Deferred acquisition costs**	Presented separately in some cases	**Insurance contract assets and liabilities**	Acquisition cash flows are included in the measurement of insurance contracts and are disclosed in the notes[75]
✗	**Value of business acquired**	Presented separately in some cases	**Insurance contract assets and liabilities**	The value of new business is included in the measurement of insurance contracts and is disclosed in the notes[76]
✗	**Premiums receivable**	Typically presented separately as financial assets	**Insurance contract assets and liabilities**	Premiums are included in the measurement of insurance contracts and are disclosed in the notes[77]
✗	**Policy loans**	Presented separately in some cases	**Insurance contract assets and liabilities**	Policy loans are included in the measurement of insurance contracts and potentially disclosed in the notes[78]
✗	**Unearned premiums**	Typically presented separately for non-life insurance contracts	**Insurance contract assets and liabilities**	Unearned premiums are included in the measurement of insurance contracts and are disclosed in the notes[77]
✗	**Claims payable**	Typically presented separately as financial liabilities	**Insurance contract assets and liabilities**	Claims payable are included in the measurement of insurance contracts and are disclosed in the notes[79]

⇔ line items unchanged (for presentation purposes) ✓ expected 'new' line items ✗ line items not required by either IFRS 4 or IFRS 17

Source: IFRS (Effect analysis: May 2017)

ขอบคุณ
THANK YOU

กรุงเทพประกันชีวิต
ชีวิตที่มีความสุขมากกว่า